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FM BRASILIA 081630Z JUL 83

TO PRIORITY FCO

TELEGRAM NUMBER 246 OF 8 JULY

INFO PRIORITY DTI, BANK OF ENGLAND, ECGD, CARACAS, UKDELIMF/IBRD  
INFO SAVING RIO, SAO PAULO, MEXICO CITY

BRAZIL/IMF

1. THE SECOND PHASE OF NEGOTIATIONS BETWEEN BRAZILIAN ECONOMIC MINISTERS AND THE IMF TEAM BEGAN YESTERDAY IN BRASILIA WITH THE RETURN OF WIESNER AND STRUCKMEYER. TALKS WILL CONTINUE TODAY. DESPITE CONTINUING PROBLEMS THERE ARE INDICATIONS THAT A NEW AGREEMENT MAY BE REACHED SOON, PERHAPS NEXT WEEK, INVOLVING A FURTHER LETTER OF INTENT TO THE IMF CONTAINING REVISED TARGETS.

2. AS REPORTED IN MY TELNO 240, GALVEAS HAS BEEN OPTIMISTIC IN PUBLIC ABOUT AN EARLY AGREEMENT. BUT THE TASK OF AGREEING ON WAYS OF MEASURING THE PUBLIC SECTOR DEFICIT AND EVALUATION OF THE BRAZILIAN ECONOMIC PACKAGE HAS TAKEN CONSIDERABLE TIME AND IS STILL NOT CONCLUDED. DESPITE REFLECTION OF OPTIMISTIC OFFICIAL BRIEFING IN THE BRAZILIAN PRESS, IT IS NOT YET CLEAR WHETHER LAROSIERE HAS GIVEN HIS TEAM THE GREEN LIGHT TO ALLOW A REASONABLY GENEROUS REWORKING OF THE BRAZILIAN INFLATION, INTERNAL CREDIT, AND PUBLIC SECTOR TARGETS AND AGREEMENT ON REVISION OF THE INDEXED WAGE LAW SYSTEM. BRAZIL NEEDS THE IMF AGREEMENT BADLY TO PAY BACK THE OVERDUE BIS LOAN AND TO DO SOMETHING ABOUT THE GROWING PAYMENTS ARREARS. IT SHOULD ALSO HELP BRAZIL NEGOTIATE ADDITIONAL FINANCE FOR 1983. NOT ALL THE CARDS ARE IN THE IMF'S HAND: A SENIOR BUT ANONYMOUS BRAZILIAN MINISTER WAS QUOTED IN YESTERDAY'S PRESS AS SAYING "OUR POWER IS IN THE SIZE OF OUR DEBT". BRAZIL'S RECORD TRADE SURPLUS IN JUNE OF US DOLLARS 834 MILLION (REPORTED IN MY TELNO 238) WILL ALSO STRENGTHEN HER HAND.

3. THE BRAZILIAN GOVERNMENT HAS THIS WEEK SIMULTANEOUSLY FIELDDED A VISITING TEAM OF BANKING ECONOMISTS, AND IS EFFECTIVELY BEGINNING A NEW RENEGOTIATION OF ITS FOREIGN DEBT. GALVEAS HAS ADMITTED TO NEEDING FURTHER LOANS OF AT LEAST US DOLLARS 3.5 BILLION IN 1983. MANY COMMERCIAL BANKERS EXPECT THIS FIGURE TO BE HIGHER. (CHAPMAN OF LLOYDS BANK SAID HE WOULD NOT EXPECT BANKS TO BE WILLING TO PROVIDE AS MUCH AS US DOLLARS 3.5 BILLION). BUT THE FRAGILITY OF BANKING CONFIDENCE WAS CLEARLY DEMONSTRATED BY YESTERDAY'S WAVE OF RUMOURS THAT BRAZIL HAD DECLARED A MORATORIUM. REPORTEDLY THE GOLD PRICE AS A CONSEQUENCE ROSE 25 DOLLARS. THESE RUMOURS WERE FORCIBLY DENIED BY GALVEAS AS "ABSURD NONSENSE". HE SAID THAT A MORATORIUM WAS OUT OF THE QUESTION, EXPRESSED CONFIDENCE IN THE NEW BANKERS' COORDINATING COMMITTEE, AND REFERRED TO THE "SATISFACTORY PROGRESS" OF THE TALKS WITH THE IMF MISSION.

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4. THE HEAD OF THE BANCO CENTRAL'S FOREIGN REGISTRATION AND SUPERVISION DEPARTMENT TOLD US YESTERDAY THAT AS SOON AS DISCUSSIONS WERE CONCLUDED WITH THE IMF, BRAZIL WOULD GIVE THE GOVERNOR OF THE BANK OF ENGLAND (AND THE HEADS OF OTHER MAJOR CENTRAL BANKS) A FULL BRIEF ON THE PROJECTED SECOND PHASE OF THE BRAZILIAN FINANCING PLAN. THIS WILL COVER NOT ONLY FINANCING REQUIRED FOR 1983 AND 1984 BUT ALSO LAY DOWN THE BASIS FOR 1985.

5. THE IMF PRESSURES ON BRAZIL TO ADOPT A COHERENT AUSTERITY POLICY WERE REFLECTED IN THE RECENT DOMESTIC ECONOMIC PACKAGE WHICH TOOK 3 WEEKS TO PREPARE AND ISSUE. AS I HAVE REPORTED, THE MEASURES INVOLVED AN END TO WHEAT AND PETROL SUBSIDIES, CUTS IN PUBLIC ENTERPRISE BUDGETS, AND A LIMITED DEGREE OF DISINDEXATION OF THE ECONOMY'S MAIN PRICES. THE DOMESTIC ECONOMIC SITUATION IS NOW MUCH WORSE THAN IT WAS IN DECEMBER 1982: INFLATION IS RUNNING AT 130% P.A., (IN JUNE ALONE IT WAS 12.3%) INTEREST RATES ARE STILL HIGH, AND RECESSION IS WORSENING, BRINGING MORE BANKRUPTCIES AND INCREASED UNEMPLOYMENT. THE PREOCCUPATION WITH THE FOREIGN DEBT HAS LED TO DISTORTIONS AND A TIGHTER SQUEEZE IN THE INTERNAL ECONOMY, WHICH HAS CAUSED ANGUISH TO SAO PAULO INDUSTRIALISTS AND SPARKED OFF A WAVE OF SERIOUS STRIKES AT THE MAIN PETROBRAS REFINERY NEAR CAMPINAS IN SAO PAULO STATE AND AMONG METALLURGICAL WORKERS.

6. I HAVE ASKED TO SEE GALVEAS BEFORE HE LEAVES FOR VENEZUELA ON SUNDAY BUT I RATHER DOUBT WHETHER HE WILL FIND TIME, GIVEN THE IMMENSE PRESSURES ON HIM AND HIS COLLEAGUES IN THE FINANCIAL TEAM. HE WILL TAKE WITH HIM TO CARACAS A LARGE DELEGATION TO DISCUSS EXPANDED BARTER TRADE ON THE LINES OF THE RECENT BRAZIL/MEXICO AGREEMENT: AND HE MAY WELL EXCHANGE VIEWS WITH HIS VENEZEALAN COLLEAGUE ON RESPECTIVE DEBT STRATEGIES.

FCO PLEASE PASS SAVING TO MEXICO CITY

HARDING

[REPEATED AS REQUESTED]

MONETARY  
SAMJ

THIS TELEGRAM  
WAS NOT  
ADVANCED

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