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25 November 1983

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New Andrew,

**BRAZIL**

The Prime Minister might like to see a summary of developments on Brazil since her meeting on 16 November.

The two main developments were reported by telegram:-

- on 22 November the IMF Board agreed to a revised economic and financial programme and hence to further drawings by Brazil. This was on the basis that additional financial support from rescheduling of official debt, new commercial bank loans, and additional official export credit, would all be forthcoming;
- rescheduling of official and officially-guaranteed debt was agreed at a meeting of the Paris Club on 22/23 November. The original estimate by the IMF based on Brazilian sources was that the amount involved could be around \$2 billion. In the event, some \$3.8 billion proved to be under discussion. I understand that a discrepancy of this kind is not surprising or unusual, when knowledge available to creditors is added to knowledge available to the government of the debtor country, although the size of the discrepancy this time is unusually large. You may recall that the UK component, which we had previously reported as being about £200 million, and which is currently identified by us as \$331 million, was originally reported from the IMF as only about \$200 million. A very large difference emerged for Japan, and substantial ones for many other countries. Within the framework of the Paris Club agreement, details will now be negotiated bilaterally. In our case the technique will, as the Prime Minister knows, mainly be that of refinancing, which minimises the costs falling on the PSBR and ECGD trading accounts this year and next (and, if the refinanced debts are repaid on the new schedule, avoids costs to the PSBR completely). The benefit to the Brazilians is, as noted in your letter, identical with that of rescheduling.

You saw a report by Geoffrey Littler of talks in Paris last week about the question of additional export credit from governments. The result of the soundings carried out by the Deputy Managing Director of the IMF (Dale) was that the IMF asserted confidently that they would raise the target of \$2.5 billion





of new export credit. We do not know the details by country - it was a key feature of the deal that the IMF took soundings bilaterally and in confidence. But we have some picture of how the total may have been built up.

The United States will certainly have offered \$1.25 billion, and may have been pushed a little higher. In private conversation, we learned that Germany may be thinking in terms of \$250 million (apparently they have a good deal of continuing business in the pipeline). From French reactions when their officials and ours together heard of this, we infer that the French contribution might be of the order of \$100 million. Our impression is that the Japanese will have wanted to keep close to Germany, and offer about the same. The IMF were hoping for something from Saudi Arabia, Brazil's main oil supplier, and there would be bits and pieces from other countries. At the end of the day, the indicated total would probably fall a little short of the target, and need to be rounded up. Indeed, this thought is supported by the fact that, without seeking a commitment from us, the Deputy Managing Director told Nigel Wicks that he had included a token \$10-20 million for the UK - a somewhat generous interpretation of what he was told by Littler. But the Chancellor does not propose to instruct Wicks to challenge it: it is the IMF's figure, and in no way commits us.

We are not under any pressure from the IMF, or from other creditor countries - or indeed from British banks - to change our public position. The only complaint seems to be from Brazil, and particularly some critical articles in the Brazilian press. But the facts are that we have treated Brazil generously; we are significant contributors through the IMF; British banks are taking a substantial share in commercial support; we are contributing fully in the rescheduling operation; and we have, of course, at no stage attempted to frustrate the package as a whole. In the Chancellor's view, these facts need to be got across in Brazil.

Finally, there is the question of whether we should in practice now take on new export credit. The Chancellor considers it prudent for the present not to do so. It would be very unusual to extend new credit while the details of our Paris Club refinancing are still under discussion. And, inevitably, there is a good deal of uncertainty about whether Brazil will actually implement the programme agreed with the IMF. If they fail to do so, any new export credit we would have given in the interval would simply have increased our exposure, and ECGD's potential loss. If, in a few months' time, it seems that matters are progressing more satisfactorily, we can review the matter.

Copies of this letter go to Brian Fall (FCO), Callum McCarthy (DTI), and John Bartlett (Bank of England).

*Just use,  
John Kerr.*

J O KERR  
Principal Private Secretary

\* What Littler told Dale was "You would be lucky to get into double figures in millions of dollars".



Elon for: Indebtedness

My

28 JULY 1983

