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FM BRASILIA 05:1740Z DEC 83

TO IMMEDIATE FCO

TELEGRAM NUMBER CULL 5 OF 5 DECEMBER

INFO IMMEDIATE UKDEL IMF/IBRD WASHINGTON

YOUR TELS NOS 290 AND 291: BRAZIL FINANCING

SUMMARY

1. FINANCE MINISTER REACTED VERY POSITIVELY TO THE CHANCELLOR'S MESSAGE IN YTUR 290 AND TO THE NEWS THAT ECGD WOULD GRANT UNRESTRICTED SHORT-TERM COVER AND WOULD ALLOW CONTINUED DRAWINGS ON EXISTING MEDIUM-TERM CREDITS. GALVEAS MADE PARTICULARLY FLATTERING COMMENTS ABOUT THE SUPPORT BRAZIL HAD RECEIVED FROM THE BANK OF ENGLAND AND THE BRITISH BANKS AND HE AGREED TO MAKE A SUITABLE STATEMENT TO THE PRESS TO SET THE RECORD STRAIGHT.

DETAIL

2. I CALLED THIS MORNING TO HAND OVER THE TEXT OF THE CHANCELLOR'S REPLY TO THE FINANCE MINISTER, WHO WAS ACCOMPANIED BY SERRANO, DIRECTOR OF THE EXTERNAL AREA AT THE CENTRAL BANK. I SPELLED OUT FULLY THE POINTS IN PARAGRAPH 3 OF YTUR 291. GALVEAS SAID HE WAS WELL AWARE OF THIS CONSTRUCTIVE ROLE AND SAID THAT THE PRESS HAD BEEN UNHELPFUL IN SPECULATING ABOUT THE ATTITUDE OF HMG TOWARDS BRAZIL'S PROBLEMS. I MADE THE POINT THAT CERTAIN OTHER COUNTRIES MIGHT PROMISE MORE BUT DO LESS. GALVEAS SAID THAT THE FRENCH HAD ALREADY PROPOSED A LIST OF PROJECTS WHICH COULD ATTRACT NEW FINANCING BUT BRAZIL WAS NOT IN A POSITION TO UNDERTAKE PUBLIC SECTOR PROJECTS UNTIL THE DEBT BURDEN HAD BEEN REDUCED. HOWEVER, THE QUESTION COULD WELL ARISE AS TO WHETHER NEW FINANCING WOULD BE AVAILABLE FROM BRITAIN IN AREAS OF TRADITIONAL EXPORTS SUCH AS NAVAL AND TRANSPORT EQUIPMENT. AT THIS POINT I TOOK HIM CAREFULLY THROUGH THE WORDING IN PARAGRAPH 6 OF TELNO 291.

3. SERRANO POINTED TO THE ABSENCE IN THE CHANCELLOR'S MESSAGE OF A REFERENCE TO THE US DOLLARS 2.5 BILLION PACKAGE OF OFFICIALLY GUARANTEED CREDITS AND ASKED WHETHER THIS MEANT THAT ECGD WOULD NOT PARTICIPATE. I TOOK HIM AGAIN THROUGH THE WORDING IN PARAGRAPH 6 OF TELNO 211 AND LEFT THEM TO DRAW THEIR OWN CONCLUSIONS. GALVEAS SAID THAT HE UNDERSTOOD THAT IT WAS DIFFICULT FOR ANY COUNTRY TO BE PRECISE ON PARTICIPATION IN THIS PACKAGE. HE NOTED THE CONTINUING COMMITMENT OF ECGD ON EXISTING BUSINESS AND THE LARGE SUM OF MONEY WHICH THIS IMPLIED. I HAD THE IMPRESSION THAT THIS WAS NEWS TO THE BRAZILIANS AND CAST THE BRITISH OFFICIAL PERFORMANCE IN A MORE POSITIVE LIGHT THAN THEY HAD HITHERTO REALISED. AT ALL EVENTS, GALVEAS AGREED

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THAT HIS MINISTRY WOULD PREPARE A LINE FOR THE PRESS SETTING THE RECORD STRAIGHT ON THE BRITISH OFFICIAL CREDIT PARTICIPATION IN THE BRAZILIAN ADJUSTMENT PROGRAMME TO MATCH THE EXTREMELY POSITIVE PERFORMANCE OF THE BANK OF ENGLAND AND THE BRITISH BANKS.

4. AS THE FOREIGN MINISTER IS PRESENTLY OUT OF BRAZIL, MY COUNSELLOR WILL DELIVER A COPY OF THE CHANCELLOR'S MESSAGE AT AN APPROPRIATELY HIGH LEVEL IN THE FOREIGN MINISTRY.

FCO ADVANCE TO:

BANK OF ENGLAND - LOEHNIS, BALFOUR, HALL
HM TREASURY - LAVELLE, MOUNTFIELD, CASE
EGGD - BREACH, HARDING
DTI - OWEN
CABINET OFFICE - COLVIN

HARDING

FINANCIAL D
ERD
SAMD
MR GIFFARD
MR URE

COPIES TO
ADVANCE ADDRESSEES

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