Report from Rio by Silvia Palacios

Citibank leaves with empty hands

Giving Brazil the ability to resist creditor blackmail is the outgoing Sarney government's primary concern now.

On Jan. 17, President José Sarney announced that Brazil was again postponing payment of $980 million worth of interest on debt owed to the Club of Paris, which had been rolled over to Jan. 2 of this year. At the same time, the Central Bank determined to withhold money—profits and dividends—usually sent abroad by foreign companies.

"We want to keep a high level of reserves, to avoid the exchange crisis that hyperinflation could unleash. Brazil will only pay creditors that which does not compromise the reserves," said Sarney.

Since last September, the Brazilian government began to take various actions that would guarantee at least $8 billion in liquid reserves to its successor, to be able to stand up to the international banks from a position of strength. Since then, it has suspended interest payments to the private banks, while offering staggered payments to the Club of Paris.

The portion that came due Jan. 2 will be paid the same way, according to spokesmen of the Finance Ministry.

The de facto moratorium with the private banks means that until March, when President-elect Fernando Collor de Melo assumes office, the country will not pay out $4.5 billion in interest on the foreign debt, nor $2.5 billion worth of foreign companies' remittances. Last year, a record sum of $7.1 billion in reserves was sent abroad.

The pressures of the creditor bank committee for Brazil to resume payments has been fierce. Citibank, the country's largest private creditor, has been the most intense, effecting direct pressure from abroad and also using the mediation of its national agents. On Nov. 16, one day after the first round of the presidential elections, Citibank's John Reed stopped off in Brasilia following a trip to Argentina, where he met with Finance Minister Maílson da Nóbrega.

Reed returned yet again on Jan. 17, bringing with him the president of the advisory committee of the foreign banks, William Rhodes. The two bankers met with President-elect Collor, thanks to the mediation of former Finance Minister Mario Henrique Simonsen. Simonsen is an international vice president of Citibank, and the bankers are pressuring for Simonsen's appointment to the Finance Ministry under a Collor presidency.

According to Collor's economic adviser Zélia Cardoso, the President-elect made it clear to the bankers that a "hard and sovereign negotiation" over the foreign debt would ensue when he took office.

After meeting with da Nóbrega, the two bankers demanded a "symbolic payment" of $230 million, but the irritated finance minister refused to comply, arguing: "I am not going to disorganize the economy, burning up reserves to sustain the private banks." The "symbolic payment," in fact, would have enabled Citibank to offset the $784 million worth of damage it suffered in the last quarter of 1989, when it was forced to increase its loan-loss reserves by $1 billion to compensate for non-payment by debtors like Brazil and Argentina.

The creditor banks may protest and demand as they please, but the reality is that the Collor government will find it extremely difficult to meet any payments. As of March, when the Collor government takes power, exchange reserves will reach $7.2 billion, precisely the amount that is owed abroad.

Further, based on national security concerns, a decision has been made to keep permanent exchange reserves at the level of three months' worth of imports, or $5.7 billion.

"It is unreasonable for the private banks to believe they are going to receive debt arrears just because the government changed. They know that it would be suicide to pay back debt by sacrificing reserves," declared the director of the Central Bank's department of economic research Silvio Rodrigues on Jan. 22. The bank itself estimates that even with a trade balance of $15 billion for 1990, the new government will need $3-4 billion more from the banks to cover back debt.

In this situation, the best thing the new government can do is to acknowledge what President Sarney has belatedly recognized. In an interview with *Jornal do Brasil* Jan. 17, Sarney said that the debt question will only be resolved by the unity of at least four of Latin America's debtor nations: Brazil, Argentina, Colombia, and Venezuela.

"I am convinced that unity is indispensable, despite the difficulties in achieving it. I don't refer anymore to Mexico, which is sleeping alongside the American giant. We lost the great opportunity to negotiate the debt in 1982, during the so-called Black September," said Sarney. The creditor banks "were negotiating, giving lip-service to the issue and preparing to resist, and today we are without negotiating power."

Brazil, he added, "and all of Latin America could go bankrupt, and the creditor banks wouldn't care."

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