

Report from Rio by Silvia Palacios

Brazil yields to the bankers, again

Collor de Mello signed an unbelievably bad "debt package" with the Club of Paris—but will he be able to stick to it?

In signing a deal in late February with the Club of Paris (the cartel of government creditors), President Fernando Collor de Mello has placed Brazil on the path of what the monetarists like to call "modernization," following six years of rocky relations with the creditor banks. Entering into the usurers' orbit will oblige the country to pay this year a sum total of \$11 billion in interest charges on its foreign debt.

No one in Brazil has the slightest illusion that the negotiations with the Group of Seven bankers has yielded even the most minimal advantage for their country. The Collor government has committed itself to paying the Paris Club, between now and August 1993, \$4 billion in interest payments. Intransigent club members further succeeded in whittling Brazil's request for an 18-20 year repayment term down to 14 years.

Indeed, the pact was so unexpectedly severe that a depressed Central Bank President Francisco Gros declared Feb. 27, "It was the best agreement possible." He clarified that Brazil was not in the same "situation as Mexico or Argentina," since Brazil is behind in its payments.

In contrast, the Anglo-American banking establishment is fully enjoying the success of its extortion efforts. According to a review of the conditions of the Brazil-Club of Paris debt pact appearing in the daily *O Estado de São Paulo* on Feb. 28, during a single day the London branch of Citibank pulled in \$100 million from the Eurobond market, to be invested in the Brazilian stock exchanges. The

money was attracted primarily by the policy of stratospheric interest rates and free circulation of money, which is a part of the commitment the Collor government has assumed with the International Monetary Fund (IMF).

Despite the fact that the creditor banks have been victorious in obtaining all of their demands, they have continued to treat Brazil with utmost arrogance and contempt. For example, during the eighth U.N. Conference on Trade and Development (Unctad) held in Cartagena, Colombia Feb. 11, IMF Managing Director Michel Camdessus hinted how the Club of Paris bankers, who were readying their negotiating strategy, could drive the South American giant to its knees. Camdessus criticized Brazil because it is a country "with the worst income distribution in the world," such that it is "very difficult to help."

And Brazil had better prepare itself for worse to come, since U.S. Assistant Treasury Secretary David Mulford, otherwise known as "Mr. IMF" in Washington, will be arriving in Brasilia in coming weeks to "help" Economy Minister Marcilio Marques Moreira prepare for June negotiations with Brazil's steering committee of creditor banks.

In order to be able to pay its foreign debt interest arrears, Brazil is applying a program of draconian austerity, which will assuredly be intensified in coming months. Indeed, Minister Marques promised Citibank's William Rhodes in a New York meeting in early March that Brazil would comply with all "the anti-inflationary clauses of the agreement with the IMF."

To that end, Brazil's enormous state companies are being sacrificed on the bankers' scaffold. Perhaps the most dramatic case is that of the energy sector, where one month ago, Minister Marques ordered the accounts of the company Electrobras to be blocked, since it had fallen behind in its foreign debt payments, which currently consume a full 25% of its operating costs. The "Achilles' heel" of the Brazilian economy is precisely the energy sector, primarily due to the internal economic disorganization brought about through nearly constant submission to the IMF since 1982, when the debt crisis first exploded.

Electrobras has now dramatically reduced its commitment to expanding the country's electricity grid. Investments went from \$3.4 billion a year in 1987-89, to \$1.5 billion in 1990-91, leading to the paralysis of dozens of major projects.

Despite the bankers' dementia and the illusion of "democratic stability" upon which the Brazilian government is allegedly founded, reality is proving stronger than the most faithfully applied monetarist dogmas. Numerous press commentaries, both here and abroad, have indicated that Brazil is not expected to be able to *physically* comply with its agreements with the banks.

This forecast intersects the recent developments in Venezuela. A March 7 editorial in *O Estado de São Paulo*, mouthpiece of Brazil's oligarchic elites, commented on the "model" free trade policies being imposed by Venezuelan President Carlos Andrés Pérez. In an obvious message to Brasilia, *O Estado* stated: "Venezuela's economic program was played up as a successful example of combatting excessive regimentation, stagnation, and inflation, and yielding stable growth. . . . That program no longer exists."