

Report from Rio by Silvia Palacios

Bankers' revenge: hyperinflation

Itamar Franco is trying to appease the bankers' demands, but this will not relieve Brazil from a violent economic contraction.

The international bankers lost Collor de Mello, but have already unleashed their revenge against the Brazilian nation. They are prepared to blow the national economy to bits through a hyperinflationary spiral—not a hard job considering the fragile state of an economy subject to a decade of monetarist manipulations.

Not long ago, when President Collor was about to be impeached, spokesmen for the U.S. State Department such as Brazilian political analyst Alexander Barros, "predicted" that 1993 would begin with an inflationary surge to 40%, and then leap out of control into hyperinflation. The combination of 30% inflation in January and a dramatic increase in the internal debt conforms to the scenario chosen by the international bankers.

The banks' revenge is described in detail by the experts at Chemical Bank in a new report on the future of Brazil's economy. In 1993, they insist, Brazil will have a 1,400% inflation rate. They complain that no concrete measures are coming out of the government that might favor the banks, not even the planned fiscal "adjustment" approved by Congress. As usual, they threaten to use the foreign debt weapon. Finally, the report warns of the existence of a large number of "economic nationalists" who will block continued neo-liberalism.

The Anglo-American bankers, speaking through London's *Financial Times*, have already begun to menace that there will be a hardening of positions on the foreign debt negotiations

planned for the second week of February, just as the Chemical Bank report "predicted."

In a Feb. 1 article, the London daily described as "confused" the recent lengthy presentation by Brazilian debt negotiator Pedro Malan to some 200 New York bankers. The newspaper added, "some bankers believe that the International Monetary Fund (IMF) may have reached the limits of its tolerance with Brazil. . . . The Brazilian letters of intent to the IMF are little more than junk mail." The article claims that in order to meet the \$3.2 billion worth of guarantees on bonds issued as part of the debt agreement signed by Collor's Finance Minister Marcilio Marques Moreira, Brazil is burning up its \$19 billion worth of reserves, the largest in Brazil's history.

In the early weeks of January, there was an outbreak of financial panic triggered by a Central Bank decision to suspend an auction of 150 billion cruzeiros' worth of federal paper. Such a decision has not been taken since August 1961. The daily *O Estado de São Paulo* published an alarmed editorial: "Everything proves the fragility of the Brazilian system; government debt is not very large, but is nonetheless incapable of enduring daily refinancing at an extremely high cost."

This was followed by a flood of press rumors and denials of an imminent government plan, coupled with a public back and forth between President Franco and his economic and planning ministers over what policy

to follow. The resulting uncertainty, heightened by the deliberate media targeting of the government's vulnerability, has set off widespread fear of a repeat of the hyperinflationary surge that marked the last months of the Sarney government.

Finance Minister Paulo Haddad's response to the inflationary threat has been, thus far, to respect the interest rate shock program initiated by the ousted Collor de Mello government. Interest rates in January stood at 42%. The situation is made worse by the fact that President Franco, who had proved reluctant to follow such a suicidal course, has accepted the prescriptions of his financial adviser, showing himself as incapable even of respecting the conviction he expressed during his inaugural address, in which he denounced high interest rates as "savage capitalism."

For now, the Franco government has devoted itself to trying to soften some of the more radical policies of the previous government, hoping in vain that the upcoming debt renegotiation will give the country breathing space for relaunching industrial development. Yet to keep up measures that only manage the death throes of the economy is intolerable in the face of the collapse of the country's productive capacities. The economic forecast for 1993, added to the results of 1992, augurs a somber future for Brazil, unless President Franco wakes up to the fact that there can be no harmony of interests between a sovereign nation and international usury.

According to calculations of the Institute of Applied Economic Research (IPEA), the 1992 ratio of investment to GNP is 14.8%, the lowest of Brazil's postwar industrialization effort. The effect in 1993 will be a negative GNP growth rate of 3.4%, the most violent economic contraction in Brazilian history.