

International Credit by Mark Sonnenblick

Brazil devalues its sovereignty

Central banker propitiates IMF, while issuing 'cries of help' around debt crisis.

Carlos Langoni, the University of Chicago-educated president of Brazil's central bank, sat in Banco do Brasil's New York branch office on Fifth Avenue on Feb. 17, just as he had done during much of the month of February. As it approached 5 p.m., Langoni knew that the Banco do Brasil would not be able to pay \$170 million in debt obligations, despite the usual frantic calls to big New York correspondent banks asking for overnight cover. Langoni later told Brazilian business daily *Gazeta Mercantil* that he went through the debts saying, "Pay this one; don't pay that one."

Thus Brazil went into arrears in the middle of February by amounts rumored to be around \$900 million. The big New York and Chicago banks had been "taking in the laundry" of smaller banks and European banks which were closing out their credit lines to Brazil. Their overnight advances had grown into several billion dollars, which they were rolling over every night to keep their debts to Brazil out of default, while the debt negotiation game continued. While refusing to put up more cash, the major banks raised the interest charges on Brazil's trade financing by 3 percent.

Brazilian planning minister Delfim Netto had ordered Langoni not to set foot in Brazil until the four-part debt renegotiation package they had presented to the foreign bankers on Dec. 20 was signed. But the bankers' cartel had repeatedly postponed signing any parts of the package until Brazil had demonstrated its submission.

The next afternoon, most Brazilians were shocked when the central bank announced a 30 percent "maxi-devaluation" of the cruzeiro.

The only official explanation was an unsigned release issued by the central bank, which argued that "this measure was the result of the adverse situation of international markets and the liquidity crisis which persists in the great financial centers." Brazil achieved a \$155 million trade surplus despite a 5 percent drop in exports only by cutting imports 15 percent. But Brazil has pledged the IMF that it would run average monthly surpluses of \$500 million, no matter what.

Asked how the devaluation would benefit Brazil, Delfim Netto's chief economic adviser, Akihiro Ikeda, replied, "I don't have the slightest idea."

Would it help exports? The Brazilian Exporters Association was practically unanimous in thinking that it would *decrease* Brazilian export income by further undercutting world commodity prices.

Insanity is the evaluation of former central bank president Angelo Calmon de Sa, who now also runs a private bank. Calmon had called his former cabinet partner, Citibank board member Mario Simonsen, a "traitor" for having openly sought to provoke the maxi-devaluation.

Brazilians noted that at the same hour of the devaluation, Langoni had telexed Fritz Leutwiler, head of the Bank for International Settlements, to plea for extending the \$1.2 billion bridge loan granted by the central

banks making up the BIS in early January. "Brazil Cries for Help from Eleven Countries" read the banner headline in the Feb. 20 *Folha de Sao Paulo*, in reference to messages sent at the moment of the maxi-devaluation asking Western governments to force their banks to come up with the funds to complete the debt renegotiations.

At the peak of the crisis, the monetarist *O Estado de São Paulo* published a report echoed around the world by UPI that Brazil's presidency and foreign ministry were preparing the option of "the debt bomb." Referencing Henry Kissinger's warning that the debtors could unite, *O Estado* analyst Carlos Chagas wrote, "Acting politically, in a bloc, they will be able to impose different conditions [from those imposed by the IMF] in case the bilaterally negotiated economic formulas fall through."

Subsequent editorials ripping apart the "debt bomb" concept showed that *O Estado* was warning Kissinger and the banks to sign quickly, while seeking a military muzzle on Foreign Minister Ramiro Saraiva Guerrero's ability to act in concert with other nations at the Feb. 24-25 Cartagena summit.

As Saraiva flew to Cartagena, Delfim Netto and Finance Minister Ernane Galvêas flew to New York to join Langoni for the long-delayed signing of Brazil's debt renegotiations. They are haunted by the reality voiced to the press by Sen. Roberto Saturnino: "Brazil will have to declare a moratorium in months, or even in weeks. Moratoria are either submissive or sovereign acts. A sovereign moratorium requires that we stop all debt service payments until the creditors agree to the terms we propose for rates and dates of payment."

Does the real power in Brazil, the Army High Command, take sovereignty seriously?