

Report from R o by Lorenzo Carrasco Baz a

'Black Thursday' in Brazil

The central bank raised the overnight rate by 50% and unleashed a financial panic; the game nears an end.

The central bank's decision, on the morning of Thursday, Oct. 13, to raise the monthly rate on the so-called overnight market to 50%—a hike of more than 10% in a single day—triggered a wave of panic in financial markets across the country. Although Finance Minister Ma lson da N brega, under intense pressure from other cabinet members, immediately reduced that overnight rate to 42% and turned the central bank public debt director Ju rez Soares into a scapegoat by firing him, he was unable to halt the process of total discrediting of government bonds.

This discrediting of public paper has, in turn, led directly to unbridled flight into "real assets": gold, dollars, real estate, jewels, and even food warehousing.

While Minister da N brega may have tried to wash his hands with the dumping of Ju rez Soares, the government's official policy is high interest rates, as recommended by the international vice president of Citibank, former Brazilian Finance Minister Mario Henrique Simonsen. "It was the end of German hyperinflation in 1923," wrote Simonsen in *Jornal do Brasil* of July 31, "when the central bank became independent. . . . The instrument used by Dr. Schacht [later Hitler's economics minister] . . . was war among the stars, with interest rates that reached 10% a day."

The measure adopted by the central bank—with full knowledge of the federal government—was an attempt to give itself full independence. Thus, there is the rumor that banker and Am-

bassador to the U.S. Marcilio M rques Moreira will be resigning his Washington post to take up the presidency of the central bank, with powers independent of any public agency.

Further, the increase to 50% in the overnight rate, equivalent to a real annual interest rate of 23%, was ordered on the eve of President Jos  Sarney's trip to Moscow, leaving the crisis to explode in the face of Acting President and Congressman Ulyses Guimarat es, a national symbol of the new Brazilian Constitution, which has fixed 12% as the maximum allowable real interest rate.

But, beyond the political manipulations, reality suggests that we are witnessing the explosion of a financial bubble which first began to inflate during the 1981 crisis, when then Finance Minister Delfim Neto delivered control of the central bank over to the banker-creditors of federal public debt bonds. Since then, the government has lost the reins of credit, and the role of the central bank has been limited to rolling over the domestic debt, at daily growing interest rates.

This infernal process exhausted the already meager resources of a federal government committed to paying its foreign debt, triggering fiscal deficits whose origin lies not in excessive spending, as both domestic and foreign bankers insist, but rather lies exclusively with the growing financial costs of the domestic debt.

A clear example of this is the outcome of the Oct. 13 decision. In a single day, trading in treasury bonds (LTFs) at the 50% nominal overnight

rate brought \$250 million into the national coffers. The internal debt grew by that same amount—also in a single day. But not only the holders of those bonds, large bankers and businessmen, proved the beneficiaries of such a measure. The Brazilian press is unanimous in pointing to various associates of central bank president Elmo de Araujo Cam es, who was given the post by virtue of his close relationship with President Sarney. For example, the S o Paulo stock market collapse triggered by the central bank decision proved to be scandalously beneficial to mega-speculator and "ex"-partner of Cam es, Naji Nahas.

But the game is coming to an end. The financial bubble is sustained by public bonds, which are becoming increasingly more difficult to roll over, despite the high interest rates offered by the central bank. According to the calculations of economist Dercio Mu oz, the internal debt is estimated at more than \$100 billion, of which some \$65 billion is in the financial markets. The rest, some \$35 billion, goes to pay daily interest. It is upon this \$35 billion that the speculative overnight bubble sits.

No one believes that the Sarney government can manage the crisis with a 30% monthly inflation rate. Not even former President Janio Quadros, who told *Jornal do Brasil*, "My God, I don't know if we are going to have presidential elections. . . . No one can state that there is a limit to our inflationary process. . . . We expect 28% in October, but it will inexorably reach 29, 30, 32, 35%, and in this way, we are going to end up in the Weimar Republic, responsible for Hitler's ascendancy."

Ironically, it is the unbalanced Quadros who is being seriously considered by such Schacht-admirers as Simonsen to be the next Brazilian President.