

intact. Concretely, daycare aid for needy children, housing aid for the elderly, food distribution for the hungry, have all suffered drastic cutbacks.

This collapse in income and living standards is directly reflected in a decline of sales in nearly every real economic sector. For example, sale of automobiles fell 51% in the first half of the year, compared with the same period the previous year; electrical and electronic appliance sales fell 38% in the first quarter; telecommunications, machine tools, metals, and transport sector sales fell 12%, and so on.

The situation in agriculture is equally serious. Despite harvesting what the government is calling a super-bumper crop, the price of grains is so far below the cost of production that all Brazilian growers can see in their immediate future is generalized bankruptcy.

Prospects increase for Russian, Ukrainian debt 'default'

by Rachel Douglas

No one has pretended that the Russian Federation might be able to make all of its \$17.5 billion in foreign debt payments, due this year. But, with several large Russian payments due in June and July, European banking sources are publicly expressing nervousness about the size, explosive charge, and worldwide impact of Russian "default." Finalization of International Monetary Fund (IMF) refinancing of one portion of the Russian debt was delayed by the May 12 ouster of the Primakov government, which had made the arrangements. Restructuring of the Soviet-era London Club (commercial) and Paris Club (state-to-state) debt is likewise on hold.

IMF Managing Director Michel Camdessus, who confessed on June 15 to the *Frankfurter Allgemeine Zeitung* about the persisting worldwide lack of preparedness for "systemic crisis," attended the St. Petersburg Economic Forum in Russia the week of June 14. There he again admitted that, since 1997, "the global economy has suffered the greatest threat to its stability in the past half-century." Camdessus also exhibited his terrible political judgment, by lecturing the leading members of the Russian cabinet that they ought to recognize in Alexander Pushkin, the Russian national poet whose bicentennial is this year, an advocate of free trade—a serious misreading of famous ironical verses by Pushkin about Adam Smith.

After talks with Camdessus on June 16, Premier Sergei

Stepashin expressed hopes for Russia to receive "a rather large tranche" of International Monetary Fund aid in July. The package, negotiated by former First Deputy Premier Yuri Maslyukov in April, provides for \$4.5 billion in IMF refinancing, to be used exclusively for the approximately equivalent payments, owed by Russia on IMF loans this year. Roughly \$800 million is due in July. If the IMF conditionalities are not finalized, said Stepashin, with reference to revenue-raising bills currently before the State Duma (lower house of Parliament), "our country could become a world pariah."

The previous week, Prime Minister Stepashin pleaded with the Duma, raising the possibility of his calling a no-confidence vote that would precipitate a new government crisis or dissolution of the Duma. On June 17, the Duma voted 219-101 to reject the most controversial law, a tax levy on gasoline filling stations.

Another \$8.5 billion of 1999 debt service is associated with London Club and Paris Club debt. The Primakov government determined that these payments could not be made, and sought to restructure these debts, writing off as much as 75% of the Paris Club portion. Negotiations on the Soviet-era debt have awaited finalization of the IMF arrangements, as a go-ahead.

Some hedge funds are pushing default

London Club payments, due June 2, of \$855 million on PRINs and IANs notes (previously restructured London Club principal and interest, respectively), were not made by Russia. Despite pressure from a group of Wall Street hedge funds among the London Club creditors, seeking a declaration of default on the entire \$26 billion Russian London Club debt and a chance to grab Russian assets (see *EIR*, June 11, p. 9), it was reported on June 11 that the steering committee of the London Club had granted the six-month reprieve on the PRINs payments, which was sought by the Russians.

The June 14 Eurobond column in the Swiss daily *Neue Zürcher Zeitung* reported growing worries about the possibility of defaults on Eurobond payments by Russia or other East European countries. To date, Russia has made all payments on its post-Soviet, foreign currency-denominated bond issues. The newspaper, however, suggested that declaration of technical default on the London Club debt—for the IANs, only 25% of the holders have to agree to seek a declaration of default—could precipitate a wave of defaults on the Eurobonds.

Even more urgent than Russia's situation, wrote the *Neue Zürcher Zeitung*, is the danger of default by Ukraine. The objections of one large foreign holder of Ukrainian debt, against the Ukrainian government's debt restructuring plan, may cause Ukraine to default on its Eurobond debt of \$2.5 billion. "The dams have not yet broken," said the Swiss banking newspaper, "but they appear to be ever more porous."