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Mr. Thomas

Mr. Loehnis

Mr. Barford

Mr. Hall

BANK OF ENGLAND

(12)

Mr. Lavelle

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HMT

Mr. Harding - ECGD

Mr. Owen - DTI

Mr. Cowin - CABINET OFFICE

RC

FM BRASILIA 200330Z OCT 83

TO IMMEDIATE DESKBY 200800Z OCT 83 FCO

TELEGRAM NUMBER 406 OF 20 OCTOBER 1983

AND TO IMMEDIATE IMF/IBRD WASHINGTON, BANK OF ENGLAND, HM TREASURY, ECGD, PARIS, DTI

INFO SAVING RIO DE JANEIRO, SAO PAULO (ACTIONED)

MY TELNO 404: BRAZILIAN DEBT CRISIS

1. TWO IMPORTANT EVENTS HAVE OCCURRED THIS EVENING:

A) THE PRESIDENT, HAS DECREED A MODIFIED STATE OF EMERGENCY IN BRASILIA: AND

B) CONGRESS HAVE, AS EXPECTED, THROWN OUT DECREE LAW 2045, WHICH THE GOVERNMENT WILL REPLACE TOMORROW WITH A SIMILAR BUT AMPLIFIED DECREE LAW.

2. THE SO-CALLED 'EMERGENCY MEASURES' WERE DECIDED UPON THIS EVENING AT AN EMERGENCY MEETING OF THE ARMED FORCES MINISTERS AND THE MINISTER OF JUSTICE. THEY FALL WITHIN THE TERMS OF THE CONSTITUTION AND INCLUDE THE PROHIBITION OF UNAUTHORISED PUBLIC MEETINGS AND THE RIGHT OF HOUSE ARREST WITHIN THE FEDERAL DISTRICT OF THE CAPITAL FOR A PERIOD OF 60 DAYS. THEY DO NOT INCLUDE PRESS CENSORSHIP.

3. THESE MEASURES ARE SAID TO HAVE BEEN TAKEN AT THE REQUEST OF THE ACTING PRESIDENT OF THE CONGRESS, AND APPEAR TO HAVE THE BACKING OF ALL GOVERNMENT PARTY LEADERS. THEY ARE DESIGNED IN PARTICULAR TO FORESTALL PUBLIC DEMONSTRATIONS FOCUSED ON THIS WEEK'S CRUCIAL DEBATES IN CONGRESS, WHICH HAVE ATTRACTED COHORTS OF OPPOSITION SUPPORTERS TO BRASILIA. THEY HAVE UNDERSTANDABLY BEEN GREETED WITH SURPRISE AND ANGER BY OPPOSITION LEADERS WHO HAVE CHARACTERISED THEM AS UNNECESSARY AND ILL-CONSIDERED.
4. THE REJECTION OF DECREE LAW 2045 AND ITS REPLACEMENT BY ANOTHER (NO 2064) UNDERLINES THE GOVERNMENT'S FAILURE TO STITCH TOGETHER IN TIME A COMPROMISE WHICH CONGRESS (INCLUDING ITS OWN REBELS WITHIN THE PDS) COULD ACCEPT. THE DETAILS OF 2064 WILL NOT BE PROMULGATED UNTIL TOMORROW: BUT THEY ARE SAID TO INCLUDE PROVISION OF WAGE RISES EQUIVALENT OF ONE HUNDRED PERCENT OF INFLATION FOR THE LOWEST PAID, SHARPLY DECREASING INCREMENTS FOR MIDDLE RANGE SALARIES AND FREE BARGAINING FOR THE HIGHER PAID. NO CALCULATION OF THE LIKELY IMPACT ON INFLATION AND PUBLIC EXPENDITURE OF THIS REPLACEMENT DECREE LAW, AS COMPARED WITH THAT OF ITS PREDECESSOR, IS YET AVAILABLE: BUT THE GOVERNMENT ARE ALREADY CLAIMING THAT IT WILL 'MEET THEIR REQUIREMENTS' (VIZ THOSE OF THE IMF).
5. AT THE PRICE OF ANTAGONISING CONGRESS THE GOVERNMENT APPEAR TO HAVE REGAINED THE INITIATIVE, AT LEAST TEMPORARILY. THE CRACK OF THE WHIP REPRESENTED BY THE EMERGENCY MEASURES WILL HAVE REASSURED THEIR POLITICAL SUPPORTERS, AND NO LESS IMPORTANT, ELEMENTS IN THE ARMED FORCES WHO HAVE SHOWN RESTLESSNESS OVER THE GOVERNMENT'S RECENT INDECISION. BUT THE CHANCES OF ACHIEVING A CONSENSUS FOR A REVISED ECONOMIC PROGRAMME HAVE UNDOUBTEDLY RECEDED: AND THE POLITICO-ECONOMIC OUTLOOK IS AS PLEAK AS EVER.

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ECGD - HARDING  
DTI - OWEN  
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NNNN