

C. Andrews

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DESKBY 150900Z

FM UKDEL IMF/IBRD WASHINGTON 150134Z

TO IMMEDIATE F C O

TELNO- 366 OF 14 NOVEMBER 1983,

AND TO IMMEDIATE UKDEL OECD (FOR LITTLER),

INFO BRASILIA.

IMF: BRAZIL

1. THE MANAGING DIRECTOR TOLD G10 DIRECTORS THIS MORNING THAT HE WAS STILL TELLING THE BANKS THAT THE IMF EXECUTIVE BOARD WOULD CONSIDER THE BRAZILIAN PAPER ON FRIDAY, NOVEMBER 18. HE WOULD, HOWEVER, CONCEDE TO G10 DIRECTORS THAT THERE MIGHT BE A FEW DAYS SLIPPAGE, POSSIBLY UNTIL, SAY, WEDNESDAY, NOVEMBER 23, BUT HE WOULD NOT WANT THE BANKS TO KNOW THAT. HIS WEEKEND DISCUSSION WITH DELFIM NETTO AND PASTORE HAD GONE WELL WITH AGREEMENT ON THE MONETARY AND FISCAL CONTENT OF THE PROGRAM. THERE WOULD BE A FURTHER DISCUSSION THIS AFTERNOON ON THE DRAFT LETTER OF INTENT. HIS CONCLUSION NOW AS HE THOUGHT THAT QUOTE AN AGREEMENT WAS SHAPING UP UNQUOTE. (THE MANAGING DIRECTOR SAID THAT THE FUND PAPER WOULD BE TELEXED TO CAPITALS DIRECTLY IT WAS PREPARED).

2. TURNING TO THE OFFICIAL FINANCIAL PACKAGE, THE MD SAID THAT HE WAS MOST CONCERNED THAT NO COUNTRY, EXCEPT THE UNITED STATES, HAD QUANTIFIED ITS CONTRIBUTION TO THE DOLLARS 2.5 BILLION. HE WAS NOT ASKING FOR PRECISE COMMITMENTS, BUT FOR ORDERS OF MAGNITUDE, PERHAPS IN TERMS OF RANGES, OF THE EXPORT CREDIT WHICH THE EXPORT CREDIT AGENCIES WOULD CONTEMPLATE IF THE BRAZILIAN PROGRAM WAS ENDORSED BY THE IMF BOARD AND IF THE HOPED FOR IMPROVEMENT IN THAT COUNTRY'S ECONOMIC SITUATION MATERIALISED. IN SUCH CIRCUMSTANCES, EXPORT CREDIT FACILITIES WOULD BE RESUMED, AS HAD HAPPENED IN THE CASE OF MEXICO. HE HAD COMMITTED HIMSELF TO THE BANKS AND HE NOW NEEDED THE SUPPORT OF MEMBER GOVERNMENTS IF THE BRAZILIAN PACKAGE WAS TO BE SUSTAINED.

3. HE THEN ASKED G10 DIRECTORS TO CONVEY THAT MESSAGE TO THEIR AUTHORITIES. THE DEPUTY MANAGING DIRECTOR, WITH DINI'S AGREEMENT, WOULD BE ATTENDING THE G10 DEPUTIES MEETING IN PARIS ON THURSDAY, NOVEMBER 17. THE MD HOPED THAT THE G10 DEPUTIES COULD INFORM THE DMD OF THEIR CONTRIBUTION DURING THE PARIS DISCUSSION. THIS INFORMATION COULD BE GIVEN BILATERALLY AND NO OTHER PARTY NEED BE TOLD ABOUT EACH COUNTRY'S RESPONSE. THE FUND COULD AGGREGATE RESPONSES, BUT WOULD NOT CIRCULATE THEM IN TABLES. THE MD EMPHASISED THAT THIS PROCEDURE WAS DIFFERENT FROM THE ORIGINAL PLEDGING SESSION APPROACH.

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4. THE ONLY SUBSTANTIVE QUESTION CAME FROM LOVATO (ITALIAN EXECUTIVE DIRECTOR) WHO ASKED ABOUT THE CRITERIA FOR ALLOCATING THE DOLLARS 2 AND ONE HALF BILLION BETWEEN COUNTRIES. THE MD REFERRED TO THE TABLES, DESCRIBED IN MY TELNO 360 OF NOVEMBER 7, WHICH GAVE KEYS BASED ON LEVELS OF TRADE AND BANKS' EXPOSURE. LOVATO SAID THAT HE HAD HEARD THAT SOME COUNTRIES, THOUGH NOT HIS AUTHORITIES, HAD FAVOURED ALLOCATION ACCORDING TO IMF QUOTAS. THE MD, SUPPORTED BY ERB (UNITED STATES ED) DISMISSED THIS APPROACH AND SEEMED TO SUGGEST THAT THE BETTER KEY WAS ONE BASED ON TRADE SHARES ASSESSMENT.

5. I AM SORRY THAT I STILL CANNOT OFFER HARD INFORMATION ON THE FUND PROGRAM WHICH IS EMERGING FROM THE MD'S DISCUSSIONS WITH DELFIM NETTO AND PASTORE. THE SENIOR FUND STAFF ARE CLOSETED IN MEETINGS AND ARE RATHER UNWILLING TO DISCLOSE POSITION IN ADVANCE OF FINAL AGREEMENT. MY UNITED STATES COLLEAGUE (PLEASE PROTECT) TELLS ME THAT FOR THE PURPOSE OF BRIEFING SECRETARY REGAN FOR HIS MEETING WITH DELFIM NETTO THIS AFTERNOON, THE MD HAS TOLD HIM THAT THE FINAL PACKAGE WILL PROBABLY INCLUDE SOME SIDE AGREEMENTS FOR FURTHER FISCAL ACTION. THESE WILL BE KEPT SECRET AND MAY NOT EVEN BE MENTIONED TO THE BOARD.

6. THE ABSENCE OF HARD INFORMATION ON THE FUND PROGRAM MAKES IT DIFFICULT TO GIVE A WORTHWHILE ASSESSMENT. BUT IT IS EVIDENT THAT THE MD IS HAVING TO STEER A COURSE BETWEEN POLITICAL REALITIES IN BRAZIL AND THE REALITIES OF THE MARKET PLACE. HE KNOWS THAT WHATEVER ENDORSEMENT THE FUND GIVES THE BRAZILIAN PROGRAM, THE MARKET, AND IN PARTICULAR BRAZIL'S ABILITY TO COMMAND CONFIDENCE IN INTERNATIONAL FINANCIAL CIRCLES, WILL BE THE FINAL ARBITER OF THAT COUNTRY'S ECONOMIC RECOVERY. AN AGREEMENT ON PAPER BETWEEN THE FUND AND BRAZIL, MIGHT HELP THE BRAZILIAN GOVERNMENT'S IMMEDIATE POLITICAL DIFFICULTY AND MIGHT LET THE FUND OFF THE HOOK. BUT IF THE PROGRAM FELL TO PIECES NEXT YEAR, THIS WOULD BE VERY DAMAGING TO THE IMF'S EFFORTS TO MAINTAIN THE STABILITY OF THE INTERNATIONAL MONETARY SYSTEM AND TO BRAZIL'S OWN MEDIUM-TERM PROSPECTS.

7. ALL THIS WILL BE CLEAR TO THE MD AND I WOULD THEREFORE BE SURPRISED IF HE KNOWINGLY WOULD PUT A LAME-DUCK PROGRAM TO HIS BOARD. BUT MY CONCERN IS THAT THE FUND'S HIGHLY CAPABLE ECONOMISTS MAY STILL HAVE NOT GOT TO GRIPS WITH THE INTRICACIES OF BRAZIL'S HIGHLY COMPLEX ECONOMY SO THAT THE REVISED PROGRAM, LIKE THE EARLIER ONE, MAY NOT BE SOUNDLY BASED. MOREOVER, THE MD MAY BE ONCE AGAIN RATHER TOO READY TO ACCEPT ASSURANCES FROM MR DELFIM NETTO ABOUT FUTURE PROGRESS: THE SUGGESTION THAT THERE MIGHT BE AN UNPUBLISHED SIDE AGREEMENT BETWEEN THE FUND AND BRAZIL DOES NOT, ON THIS ACCOUNT, INSPIRE CONFIDENCE.

8. BUT DESPITE THESE RESERVATIONS, AND SUBJECT TO THE OUTCOME OF THE DOLLARS 2 AND ONE HALF BILLION FINANCING PACKAGE, I THINK THAT WE SHOULD ENDORSE THE RECOMMENDATION FROM THE MD TO SUPPORT A REVISED BRAZILIAN PROGRAM UNLESS THERE ARE FIRM GROUNDS FOR BELIEVING THAT IT WILL BE INEFFECTIVE.

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9. WHATEVER THE SUCCESS OF THE MD'S DISCUSSIONS WITH DELFIM NETTO AND PASTORE, IT IS STILL MOST UNCLEAR WHETHER HE CAN ASSEMBLE THE DOLLARS 2 AND ONE HALF BILLION OFFICIAL FINANCING PACKAGE. MY GERMAN COLLEAGUE (LASKE) TOLD ME TODAY THAT IT IS VERY DIFFICULT, IF NOT IMPOSSIBLE, FOR HIS AUTHORITIES TO GIVE THE SORT OF QUANTIFIED ANSWER WHICH HE IS NOW SEEKING. THE JAPANESE ALTERNATE DIRECTOR (YAMASHITA) SAID THAT HIS GOVERNMENT'S POSITION ON A CONTRIBUTION TO THE DOLLARS 2 AND ONE HALF BILLION WAS STILL AS DESCRIBED IN MY TELNO 357 OF NOVEMBER 3, BUT THE MD'S RETREAT FROM A FORMAL PLEDGING SESSION MIGHT HELP MATTERS. IN SHORT, IT LOOKS AS IF THE MD MAY HAVE MANOEUVRED HIMSELF INTO A BOX ON THE DOLLARS 2 AND ONE HALF BILLION. IT IS, OF COURSE, POSSIBLE THAT G10 DEPUTIES WILL PROVIDE THE DMD WITH QUANTIFIED RANGES, IN HOWEVER VAGUE A FORM, WHICH PERMITS HIM TO GIVE THE BANKS AND THE EXECUTIVE BOARD ASSURANCES THAT THE DOLLARS 2 AND ONE HALF BILLION WILL BE MET. BUT STRAIGHTFORWARD AND HONEST DEALING CLEARLY LIMITS THE DEGREE OF VAGUENESS TOLERABLE HERE. NOTHING HAS EMERGED FROM THE DISCUSSIONS HERE WHICH SUGGESTS THAT A UK CONTRIBUTION IS ESSENTIAL TO THE SUCCESS OF THE OFFICIAL FINANCING PACKAGE.

10. SO FAR AS WE CAN TELL, THERE ARE NO CONTINGENCY PLANS HERE TO DEAL WITH THE EVENT THAT THE DOLLARS 2 AND ONE HALF BILLION IS NOT RAISED.

11. FCO PLEASE ADVANCE TO PS/CHANCELLOR, PS/SOS, LITTLER AND MOUNTFIELD (TREASURY) LOEHNIS AND GILCHRIST (BANK OF ENGLAND) AND APPELYARD (ERD).

WICKS

MONETARY  
SAMD

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MR LOEHNIS }  
MR GILCHRIST } B/ENGLAND