DH

April 3, 1963

The Honorable Frank J. Lausche
United States Senate
Washington, D.C.

Dear Senator:

This is in reply to your letter of April 2 following up your telephone request of April 1 concerning the recent commitment of $398.5 million in loans to Brazil. I might say parenthetically that Pat Holt telephoned your office Monday afternoon while you were on the Senate floor and left word that he had the information you requested. However, it is more convenient to put it in writing, and I hope the delay has not inconvenienced you.

The history of Brazil's public international borrowings and other financial transactions is long and complicated. Brazil has faced repeated financial crises since 1953. Brazil did not seriously become involved with the International Monetary Fund, however, until October 1957 when it drew $37.5 million of its quota in the fund on the basis of its stated intentions to control foreign exchange expenditures and credit expansion. Such measures as were taken in Brazil to carry out these intentions were ineffectual. Inflation continued internally and payment deficits continued externally. In June 1958, after some weeks of negotiation, the fund authorized further Brazilian drafts of $37.5 million on the basis of a firm statement of Brazil's intentions regarding a stabilization program. This program was to include a reduction in the budgetary deficit, simplification of the exchange rate system, depreciation of the exchange rate to a more realistic level, and restriction of credit expansion, currency in circulation and foreign exchange expenditures. This credit from the fund was followed in August by a balance of payment loan of $100 million from the Export-Import Bank and a loan of $58 million from a group of private U.S. banks.

Following these loans, Brazil did make some progress in simplifying and depreciating exchange rates, but the Brazilian Congress failed to implement a proposed comprehensive stabilization program which the Kubitschek administration sent to it in October.

In May 1960 the IMF extended a credit in various currencies equivalent to $47.7 million for 6 months without any requirement for a new stabilization program. The basis for this credit appears to have been at least in part political because Brazil at that time was entering a national political campaign which culminated in the presidential election in October 1960.

In November 1960 the Export-Import Bank agreed to a moratorium on repayment of debts of between $40-50 million for 6 months after the Quadros inauguration in January of 1961.

In May 1961 a large package aid program for Brazil was worked out by the U.S., the IMF and Brazil's European creditors on the basis of a Quadros stabilization program. The U.S. postponed repayment of $305 million, the IMF postponed repayment of $140 million. In addition, the U.S. extended new credits of $338 million, the IMF extended the equivalent of $160 million. The European creditors consolidated or refinanced over 10 years debts of about $300 million. This was followed in June by the extension of $110 million in standby credits and $50 million in short-term credits from a consortium of private European banks.

Some progress was being made in the stabilization program when Quadros unexpectedly resigned in August. From that time until January of this year, when presidential government was restored by plebiscite, Brazil was in such a state of political paralysis that effective economic measures could not be taken. Disbursement was at first slowed and then suspended on the May 1961 package agreement. About $84 million of the U.S. loan and about $77 million of the European credits remained undisbursed. Meanwhile the Brazilian financial situation deteriorated alarmingly. After the January plebiscite, Quadros insisted he was prepared to move forthrightly and vigorously to carry out a stabilization program. The aid agreement of March 25 is based not only upon these assurances but on several concrete steps which have already been taken.

Among the most important steps are an increase in taxes, the elimination of government subsidies of wheat and petroleum, an increase in rates on government owned railroads and a reduction in budgetary deficits. A long list of other reforms is promised, more specifically than ever before. Aid from the U.S. and the IMF is tied to performance of these promises. The Brazilian government is also seeking further assistance in Western Europe and in Japan.

In answer to the question in your letter from Marjorie J. Meade, the U.S. participation in this aid agreement is a decision by the President on the basis of funds and authority provided under the foreign aid act.

To conclude this involved history, it should perhaps be pointed out that although Brazil has often been in financial trouble, it has never been in default. I think that it is fair to say that both the IMF and the U.S. have been increasingly concerned by Brazil's financial problems and policies during the last 10 years, but the IMF and the U.S. have also been impressed by the fact that, despite everything, Brazil has maintained an annual average growth rate of 7-8% a year.

Sincerely yours,

Carl Marcy

PH:vp