

34



Department of State

7N 10-1 Bray
XR 7N 6-1 Bray

TELEGRAM

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SECRET 942

PAGE 01 RIO DE JANEIRO 01 OF 02 171752Z

ACTION COPY

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INFO /030 W

R 170010Z AUG 68
FM AMEMBASSY RIO DE JANEIRO
TO SECSTATE WASHDC 3670

SECRET SECTION 1 OF 2 RIO DE JANEIRO 10958

CORRECTED COPY (TEXT)

SUBJECT: EXCHANGE RATE ISSUE AND 1968 PROGRAM LOAN
FOR MFIVER, PALMER AND FOWLER

EXDIS

A. IT IS OBVIOUS THAT DELFIM NETO IS UNABLE TO LIVE UP TO HIS COMMITMENT TO MOVE TO A MORE FLEXIBLE EXCHANGE RATE POLICY (I.E.) MORE FREQUENT DEVALUATIONS THAN THE YEARLY -- AT LEAST FOR THE TIME BEING. AT THE SAME TIME, HE HAS ATTEMPTED TO FEEL US OUT AS TO WHETHER HE CAN EXPECT THE OCTOBER RELEASE. IT SEEMS TO US THAT WE HAVE THE FOLLOWING ALTERNATIVES:

1. WE CAN TELL DELFIM FLATLY THAT WITHOUT FULFILLMENT OF THE EXCHANGE RATE COMMITMENT THERE CAN BE NO OCTOBER PROGRAM LOAN RELEASE;

2. WE CAN LEAVE DELFIM UNCERTAIN AS TO WHAT OUR DECISION IN OCTOBER WILL BE, STRONGLY SUGGESTING THAT ANY RELEASE PROBABLY WILL HAVE TO BE DELAYED UNTIL HE PERFORMS ON THE EXCHANGE RATE ISSUE, BUT KEEPING OUR OPTIONS OPEN ON THE GROUNDS THAT THE FAILURE TO PERFORM ON THE EXCHANGE RATE SYSTEM WILL HAVE TO BE WEIGHTED AGAINST GOB PERFORMANCE ON OTHER PROGRAM LOAN OBJECTIVES; OR

3. WE CAN TELL DELFIM THAT WE ACCEPT THE

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