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167281

# OUTGOING TELEGRAM Department of State

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Origin

ACTION: Amembassy RIO DE JANEIRO

Info:

STATE 167281  
JOINT STATE/AID MESSAGE

SUBJECT: GOB Economic Policy and AID Programs  
change in economic field

1. Main discernible ~~economic policy changes~~ under new Brazilian Government appears to be one of emphasizing need to cut ~~and stimulate~~ ~~appear to be in direction cutting~~ back role of public sector and ~~stimulating~~ would greater activity in private sector. While we ~~do~~ not wish discourage GOB ~~to~~ if attitude develops as this/general policy objective, we foresee possible effects on sector and program loan depending on extent this apparent policy change applied.

2. Most direct effect public sector cutback -- ~~partic~~ particularly if applied capital budget as suggested Rio's 9457 -- could be on potential ~~in~~ sector loans where both agriculture and ~~educ~~ education loans would require larger GOB contribution as well as certain policy commitments with cost implications. We appreciate fact that some budgeted projects in public sector may not be of ~~immedi~~ immediate priority, and we hope that any cutbacks will be made selectively so as not to jeopardize GOB contribution potential sector loan programs.

3. By same token, logical extension policy of private sector ~~in~~ emphasis could imply some easing of credit. Our concern here is that if GOB should decide that more private sector credit expansion needed, there should be corresponding offsets in public sector so that overall stabilization target

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set forth in monetary budget not impaired. Additionally, we could not look with favor on any new ~~an~~ approach on private sector credit if it ~~was~~ involved reversing trend toward discouraging coffee production. We have been pointing to the Brazilians and their efforts at diversification away from coffee as an example for the other coffee <sup>surplus</sup> ~~supply~~ countries to follow. We cannot over-emphasize, therefore, importance we must apply coffee policy not only in term Brazil's stabilization and diversification efforts but in context world-wide diversification effort which will be subject increasing stress in all US assistance programs where coffee problem exists.

4. Mission should seek early opportunity to raise foregoing with Finance Minister.

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End.

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