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TO : DEPARTMENT OF STATE

INFO. : Brasília, Belém, Recife,
São Paulo, Pôrto Alegre

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FROM : AmEmbassy, RIO DE JANEIRO

DATE: August 16, 1968

SUBJECT : Assessment of Current Brazilian Financial Situation
by Former Finance Minister Bulhões

REF :

1. Dr. Otávio Gouveia de Bulhões outlined several key current financial issues confronting Brazil in a talk given before the Commercial Association of Rio. Dr. Bulhões is a professor of economics at the Getulio Vargas Foundation and was Minister of Finance under the Castelo Branco Government. The ~~views~~ views expressed by Dr. Bulhões are significant in that he is one of the architects of Brazil's post-revolution economic policies and is regarded as a competent and careful observer of the Brazilian economic scene. The issues presented to the public by Dr. Bulhões have been the subject of much discussion in informed economic circles during the past several weeks. Dr. Bulhões emphasis on the fiscal deficit and the need to reduce Government personnel was endorsed editorially by the influential "Jornal do Brasil". A brief summary of his main points follows:

a. Inflation Risk Continues: Bulhões poses the persistent Treasury deficit as the main problem threatening to renew inflation. Monetary authorities are confronted with the dual problem of financing the Treasury deficit and furnishing credit to the private sector to meet growing demand for both producer and consumer goods. When bank credit recently tightened the Central Bank came under increasing pressure from the private sector to make credit easier and at last succumbed to these pressures and took a series of measures to make more credit available. Tight credit had bad effects on economic activity; and now liberalization brings undesirable consequences.

b. GOB Budget: Bulhões endorses GOB budget performance in 1968 to date as unquestionably good. Nonetheless, in view of problems posed by

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