BLANCHARD
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BULLETIN

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## The Lull Before The Storm

### Renewed Inflation Guaranteed

Contrary to the American mass media, the Reagan Administration, and even most major brokerage firms and institutions, inflation is not under control.

With the June Consumer Price Index (CPI) increase of only 0.2%, the American public is unaware that we are right now in the midst of a lull before one of the most powerful inflationary storms in American history. The unexpected strength of the present business recovery and the unprecedented size of the federal budget deficits, guarantee a resurgence of inflation at a rate which is likely to shock even the most pessimistic observers.

### Government Commission Projects $2.5 Trillion in Deficits

Three years ago, our forecasts of a $150-200 billion annual budget deficit were largely ignored or met with skepticism. In fact, the deficits have turned out to be even larger.

The Presidential commission chaired by J. Peter Grace predicts annual budget deficits will reach $600 billion by the year 1990, and even more shocking an almost inconceivable $2.5 trillion annual deficit by the year 2000 . . . that's only 17 years away. The commission explained that the root of the problem is transfer payments and interest on the public debt, which will soon account for 80% of the budget. It's unlikely either one of these areas will decrease substantially over the coming years. That's why the Grace commission analysis is probably quite conservative and has hyper-inflationary implications for the U.S. dollar.

### Administration Insiders Admit to Inflationary Bail-Out

We were recently privy to a remarkable story from a top Reagan Administration official. A long time associate, who is a major contributor to the Republican party, told me about a recent conversation with top Presidential aide Ed Meece. When asked about his opinion of the world debt crisis, Meece's response was that a major bail-out of the Western world's banking system had already been decided upon and in fact the Administration had no choice but to pursue a bail-out. Bail-out is no longer even an open question . . . it's the only politically feasible option.

Americans, even the major members of the business community, do not understand how severe the world debt problem really is. World monetary authorities have all painted themselves into a corner. An inflationary bail-out is the lesser of two evils. The alternative is unthinkable . . . a deflationary collapse, destroying the western banking establishment and the entire trading system of the western world . . . encouraging communism, as one country after another falls into economic chaos.



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## WIDENING CRACKS IN THE INTERNATIONAL BANKING SYSTEM

Donald McAlvany on the Latin American Debt Pyramid: "Brazil - the world's largest debtor, with inflation at 110%, owes $90 billion, is currently $1 billion in arrears and will need another $3 billion in new loans for the balance of 1983, and $5 billion in 1984. The IMF is withholding $411 million in new loans (at this writing) because Brazil has not followed through with the IMF austerity measures. If the IMF doesn't force compliance, then Mexico, Argentina and Venezuela will follow Brazil's lead. Austria's Creditanstalt Bank has just suspended all lines of credit to Brazilian banks. Brazil has already borrowed against most (95%) of its 2.15 million ounces of gold. Sentiment is growing in Brazil for a total debt default or moratorium rather than the nation going further into debt. Brazil is on the brink!

"Venezuela - has $28 billion in international debt with $16 billion coming due in 1983, and 1984. As OPEC's largest debtor, Venezuela will see her oil export earnings drop by 40% (ie. $5 billion) in 1983, and her current account deficits rise to $3.6 billion due to OPEC enforced production cutbacks and oil price reductions. Venezuela has refused to accept any IMF austerity demands, wants to reschedule its $16 billion in short-term debts (due in '83 and '84) and is asking for new IMF loans of $2.8 billion this year. Several Venezuelan banks have recently refused to repay current foreign loans and the Venezuelan government has had its overseas assets in several countries attached to force overdue debt payments. Venezuela is currently the most dangerous financial basketcase in Latin America with a major financial crisis expected within the next few months and no later than December. A total foreign debt moratorium is very possible.

"Chile - with total foreign debt of $17 billion, has requested $1.5 billion in new loans and a rescheduling of all debt due in 1983 and 1984. A high official in the now very unpopular Chilean government said recently that 'future Chilean governments would not feel bound by the country's high foreign debt.'

"Mexico - inflation is running at 117%, the largest union is demanding a 50% wage increase, and Mexico will need another $3 billion by year end.

"(Editor's Note: It is now estimated that the major Latin American countries will need $20-30 billion in new funds for the balance of 1983 and $30 billion in 1984. The alternative is default or moratorium. They will get it, but from whom?)

"In recent weeks, the Bank for International Settlements, which has provided up to $5 billion of bridging loans in the past 10 months,