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W. Livingston

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CURRENT INTELLIGENCE MEMORANDUM

SUBJECT: Brazil's Balance of Payments Crisis

Brazil's financial crisis has reached a magnitude which can probably be dealt with only by an international consortium including the International Monetary Fund.

The IMF, however, will probably require a stabilization program so rigorous as to be unacceptable to Goulart. Unless the IMF agrees to mere token stabilization, which appears improbable, Goulart would probably refuse its terms and seek to make the US a scapegoat for the ensuing economic collapse. This would commit him finally to the radical left, leaving Brazil the alternatives of political evolution in Castro's footsteps, or intervention by the military to prevent it.

Brazil now is moving rapidly toward financial chaos. By 31 December 1962, Brazil is expected to have exhausted its gold and foreign exchange reserves and to have commercial arrears of more than \$100,000,000. In 1963 Brazil faces an estimated \$900 million deficit in its balance of payments, with no financing in sight for at least \$520 million of it. The estimated 1963 deficit comprises \$650 million due in principal and interest on foreign borrowing, and an expected trade and commercial deficit of \$250 million. Exports in recent years have ranged between \$1.25 billion and \$1.4 billion, but imports have exceeded exports in value by \$100-200 million. (An equivalent deficit for the United States, based on percentage of 1963 exports, would be \$14 billion.)

Probable offsets include PL 480 wheat, remaining disbursements under US and other loans already committed to Brazil, and some new foreign investment. These offsets may total \$250 million, and may be supplemented by some \$130 million in bank credit lines and short term borrowing from foreign investors in Brazil. Even in this event, there would remain a deficit of \$520 million for which no financing is in sight.

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The size of Brazil's financial deficit is such that the United States alone probably cannot provide the required amount, and a consortium including major Western European countries, Japan, and the International Monetary Fund appears necessary. European countries would probably not participate without the IMF, however, and the IMF would undoubtedly insist on a Brazilian economic stabilization program which Brazil would consider harsh and politically impractical.

Brazil has in previous years made commitments for future action on economic stabilization programs but has failed to fulfill these commitments. For this reason, the IMF is likely to require action as well as commitments before consenting to a new financial aid program for Brazil.

As a result in part of US representations to Brazil, the Brazilian Congress on 28 November completed action on a tax reform bill which could be a first step toward economic reform. Press reports indicate, however, that the new budget passed on 30 November provides for expenditures equal to \$1.5 billion and receipts of only \$1 billion. Brazil's willingness to undertake an economic stabilization program satisfactory to the IMF appears doubtful at best.

Without emergency US help, or the large-scale debt postponement and important new financing which could result only from an IMF-approved plan, Brazil will probably have to default on its external obligations in the next few months. Prior to default, Brazil is likely to go through a period of supply breakdowns and shortages severely disrupting the economy and accelerating inflation. (The cost-of-living increase in 1962 is expected to come to about 40 percent in the cities of Rio de Janeiro and Sao Paulo, and substantially more in the cities of the northeast. Brazil does not compile nationwide figures.)

Such a financial crisis would have a serious impact on the entire population, and President Goulart would almost inevitably seek to shift blame from himself to the United States. In this he would have Communist and leftist ultra-nationalist support.

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The likely result would be the final commitment of Goulart to the radical left, an intensification of anti-American sentiment and the polarization of domestic political forces. Goulart recently indicated to the US ambassador that he believes Brazil "has an alternative" to US aid on US terms. He said he might have to accept a recent Soviet offer of project assistance.

If Goulart, impelled by the financial crisis, were to follow such a path to the left, intervention by the Brazilian military would probably be the chief alternative to a political evolution along the lines of Cuba under Goulart or some successor.

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