

## MESSAGE FROM THE PRESIDENT

A message from the President of the United States was communicated to the Senate by Mr. Williams, one of his secretaries.

## EXECUTIVE MESSAGE REFERRED

As in executive session the Presiding Officer laid before the Senate a message from the President of the United States submitting a withdrawal which was referred to the Committee on Finance.

(The withdrawal received today is printed at the end of the Senate proceedings.)

## REPORT OF THE COMMODITY CREDIT CORPORATION FOR FISCAL YEAR 1997—MESSAGE FROM THE PRESIDENT—PM 37

The PRESIDING OFFICER laid before the Senate the following message from the President of the United States, together with an accompanying report; which was referred to the Committee on Agriculture, Nutrition, and Forestry.

*To the Congress of the United States:*

In accordance with the provisions of section 13, Public Law 806, 80th Congress (15 U.S.C. 714k), I transmit herewith the report of the Commodity Credit Corporation for the fiscal year ending September 30, 1997.

WILLIAM J. CLINTON,

THE WHITE HOUSE, June 15, 1999.

## REPORT RELATIVE TO THE EXCHANGE STABILIZATION FUND—MESSAGE FROM THE PRESIDENT—PM 38

The PRESIDING OFFICER laid before the Senate the following message from the President of the United States, together with an accompanying report; referred jointly, pursuant to 31 United States Code 5302, to the Committee on Appropriations, to the Committee on Banking, Housing, and Urban Affairs, and to the Committee on Foreign Relations.

*To the Congress of the United States:*

On November 9, 1998, I approved the use of the Exchange Stabilization Fund (ESF) to provide up to \$5 billion for the U.S. part of a multilateral guarantee of a credit facility for up to \$13.28 billion from the Bank for International Settlements (BIS) to the Banco Central do Brazil (Banco Central). Eighteen other central banks and monetary authorities are guaranteeing portions of the BIS credit facility. In addition, through the Bank of Japan, the Government of Japan is providing a swap facility of up to \$1.25 billion to Brazil under terms consistent with the terms of the BIS credit facility. Pursuant to the requirements of 31 U.S.C. 5302(b), I am hereby notifying the Congress that I have determined that unique or emer-

gency circumstances require the ESF financing to be available for more than 6 months.

The BIS credit facility is part of a multilateral effort to support an International Monetary Fund (IMF) stand-by arrangement with Brazil that itself totals approximately \$18.1 billion, which is designed to help restore financial market confidence in Brazil and its currency, and to reestablish conditions for long-term sustainable growth. The IMF is providing this package through normal credit tranches and the Supplemental Reserve Facility (SRF), which provides short-term financing at significantly higher interest rates than those for credit tranche financing. Also, the World Bank and the Inter-American Development Bank are providing up to \$9 billion in support of the international financial package for Brazil.

Since December 1998, international assistance from the IMF, the BIS credit facility, and the Bank of Japan's swap facility has provided key support for Brazil's efforts to reform its economy and resolve its financial crisis. From the IMF arrangement, Brazil has purchased approximately \$4.6 billion in December 1998 and approximately \$4.9 billion in April 1999. On December 18, 1998, the Banco Central made a first drawing of \$4.15 billion from the BIS credit facility and also drew \$390 million from the Bank of Japan's swap facility. The Banco Central made a second drawing of \$4.5 billion from the BIS credit facility and \$423.5 million from the Bank of Japan's swap facility on April 9, 1999. The ESF's "guarantee" share of each of these BIS credit facility drawings is approximately 38 percent.

Each drawing from the BIS credit facility or the Bank of Japan's swap facility matures in 6 months, with an option for additional 6-month renewals. The Banco Central must therefore repay its first drawing from the BIS and Bank of Japan facilities by June 18, 1999, unless the parties agree to the roll-over. The Banco Central has informed the BIS and the Bank of Japan that it plans to request, in early June, a roll-over of 70 percent of the first drawing from each facility, and will repay 30 percent of the first drawing from each facility.

The BIS's agreement with the Banco Central contains conditions that minimize risks to the ESF. For example, the participating central banks or the BIS may accelerate repayment if the Banco Central has failed to meet any conditions of the agreement or Brazil has failed to meet any material obligation to the IMF. The Banco Central must repay the BIS no slower than, and at least in proportion to Brazil's repayments to the IMF's SRF and to the Bank of Japan's swap facility. The Government of Brazil is guaranteeing the performance of the Banco Central's

obligations under its agreement with the BIS, and, pursuant to the agreement, Brazil must maintain its gross international reserves at a level no less than the sum of the principal amount outstanding under the BIS facility, the principal amount outstanding under Japan's swap facility, and a suitable margin. Also, the participating central banks and the BIS must approve any Banco Central request for a drawing or roll-over from the BIS credit facility.

Before the financial crisis that hit Brazil last fall, Brazil had made remarkable progress toward reforming its economy, including reducing inflation from more than 2000 percent 5 years ago to less than 3 percent in 1998, and successfully implementing an extensive privatization program. Nonetheless, its large fiscal deficit left it vulnerable during the recent period of global financial turbulence. Fiscal adjustment to address that deficit therefore formed the core of the stand-by arrangement that Brazil reached with the IMF last December.

Despite Brazil's initial success in implementing the fiscal reforms required by this stand-by arrangement, there were some setbacks in passing key legislation, and doubts emerged about the willingness of some key Brazilian states to adjust their finances. Ultimately, the government secured passage of virtually all the fiscal measures, or else took offsetting actions. However, the initial setbacks and delays eroded market confidence in December 1998 and January 1999, and pressure on Brazil's foreign exchange reserves intensified. Rather than further deplete its reserves, Brazil in mid-January first devalued and then floated its currency, the real, causing a steep decline of the real's value against the dollar. As a consequence, Brazil needed to prevent a spiral of depreciation and inflation that could have led to deep financial instability.

After the decision to float the real, and in close consultation with the IMF, Brazil developed a revised economic program for 1999–2001, which included deeper fiscal adjustments and transparent and prudent monetary policy designed to contain inflationary pressures. These adjustments will take some time to restore confidence fully. In the meantime, the strong support of the international community has been and will continue to be helpful in reassuring the markets that Brazil can restore sustainable financial stability.

Brazil's experience to date under its revised program with the IMF has been very encouraging. The exchange rate has strengthened from its lows of early March and has been relatively stable in recent weeks; inflation is significantly lower than expected and declining; inflows of private capital are resuming; and most analysts now believe that the economic downturn will be less severe than initially feared.