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Message to the Congress Transmitting the Report of the Commodity Credit Corporation
June 15, 1999

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

Message to the Congress Reporting on United States Participation in a Multilateral Guarantee of Credit for Brazil
June 15, 1999

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 Brasil (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 emergency 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 a 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 condition 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 a 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.

Brazil's success to date will make it possible for it to repay a 30 percent portion of its first (December) drawing from the BIS credit facility and the Bank of Japan swap facility. With continued economic improvement, Brazil is likely to be in a position to repay the remainder of its BIS and Bank of Japan obligations relatively soon. However, Brazil has indicated that it would be inadvisable to repay 100 percent of the first BIS and Bank of Japan disbursements at this point, given the persistence of risks and uncertainties in the global economy. The timing of this repayment must take into account the risk that using Brazilian reserves to repay both first drawings in their entirety could harm market confidence in Brazil's financial condition. This could undermine the purpose of our support: protecting financial stability in Brazil and in other emerging markets, which ultimately benefits U.S. exports and jobs. Given that the BIS and Bank of Japan facilities charge a substantial premium over the 6-month Eurodollar interest rate, the Banco Central has an incentive to repay them as soon as is prudent.

The IMF stand-by arrangement and the BIS and Bank of Japan facilities constitute a vital international response to Brazil's financial crisis, which threatens the economic welfare of Brazil's 160 million people and of other countries in the region and elsewhere in the world. Brazil's size and importance as the largest economy in Latin America mean that its financial and economic stability are matters of national interest to the United States. Brazil's industrial output is the largest in Latin America; it accounts for 45 percent of the region's gross domestic product, and its work force numbers approximately 85 million people. A failure to help Brazil deal with its financial crisis would increase the risk of financial instability in other Latin American countries and other emerging market economies.

Such instability could damage U.S. exports, with serious repercussions for our workforce and our economy as a whole.

Therefore, the BIS credit facility is providing a crucial supplement to Brazil's IMF-supported program of economic and financial reform. I believe that strong and continued support from the United States, other governments, and multilateral institutions are crucial to enable Brazil to carry out its economic reform program. In these unique and emergency circumstances, it is both appropriate and necessary to continue to make ESF financing available as needed for more than 6 months to guarantee this BIS credit facility, including any other roll-over or drawing that might be necessary in the future.

WILLIAM J. CLINTON

The White House,
June 15, 1999.

Remarks to the International Labor Organization Conference in Geneva, Switzerland

June 16, 1999

Thank you very much, Director General Somavia, for your fine statements and your excellent work. Conference President Mumuni, Director General Petrovsky, ladies and gentlemen of the ILO, it is a great honor for me to be here today with, as you have noticed, quite a large American delegation. I hope you will take it as a commitment of the United States to our shared vision and not simply as a burning desire for us to visit this beautiful city on every possible opportunity.

I am delighted to be here with Secretary Albright and Secretary of Labor Herman; with my National Economic Adviser, Gene Sperling, and my National Security Adviser, Sandy Berger. We're delighted to be joined by the president of the American Federation of Labor, the AFL–CIO, John Sweeney, and several other leaders of the U.S. labor movement, and with Senator Tom Harkin from Iowa, who is the foremost advocate in the United States of the abolition of child labor. I am grateful to all of them for coming with me and to the First Lady and our daughter for joining us on this trip. And I thank you for your warm reception of her presence here.

It is indeed an honor for me to be the first American President to speak before the ILO in Geneva. It is long overdue. There is no organization that has worked harder to bring people together around fundamental human aspirations and no organization whose mission is more vital for today and tomorrow.

The ILO, as the Director General said, was created in the wake of the devastation of World War I as part of a vision to provide stability to a world recovering from war, a vision put forward by our President, Woodrow Wilson. He said then, "While we are fighting for freedom, we must see that labor is free." At a time when dangerous doctrines of dictatorship were increasingly appealing, the ILO was founded on the realization that injustice produces, and I quote, "unrest so great that the peace and harmony of the world are imperiled."

Over time the Organization was strengthened, and the United States played its role, starting with President Franklin Roosevelt and following through his successors and many others in the United States Congress, down to the strong supporters today, including Senator Harkin and the distinguished senior Senator from New York, Patrick Moynihan.

For half a century, the ILO has waged a struggle of rising prosperity and widening freedom, from the shipyards of Poland to the diamond mines of South Africa. Today, as the Director General said, you remain the only organization to bring together governments, labor unions, and business to try to unite people in common cause: the dignity of work; the belief that honest labor, fairly compensated, gives meaning and structure to our lives; the ability of every family and all children to rise as far as their talents will take them. In a world too often divided, this organization has been a powerful force for unity, justice, equality, and shared prosperity. For all that, I thank you.

Now, at the edge of a new century, at the dawn of the information age, the ILO and its