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Argentina, Brazil and Uruguay Request Lowered Interest Rates

by LADB Staff

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On May 28 after a mini-summit meeting in Montevideo, the presidents of Brazil, Argentina and Uruguay appealed to the seven major industrial nations to seek ways toward lowering interest rates on the foreign debts of developing countries. The economic summit of the seven major western industrial nations will take place in Venice, June 8-10. In a joint statement, Jose Sarney of Brazil, Raul Alfonsin of Argentina, and Julio Maria Sanguinetti of Uruguay, said the recent increases in interest rates constituted a "serious reverse" in their efforts to address the debt problem. However, they also said they were optimistic about what they asserted were signs that commercial banks were beginning to agree with the demand in Latin America for a "political solution" to the debt crisis.

The presidents emphasized that under current conditions, debt payment is incompatible with efforts to achieve socio-economic development. They reiterated past statements that the protectionist policies implemented by industrial nations, and the continual decline or stagnation of primary product prices on the world market were antithetical to continued debt service payments as well as achieving economic growth.

Uruguayan Foreign Minister Enrique Iglesias, and well-known Latin American economist, said in an interview with the NEW YORK TIMES that there is a growing consensus among the debtor countries that the interest on old debt ought to be fixed at 2% or 3% over the long term. "We're at the point where you may have to change the package involving the debtors and the lenders," he said. In the last five years Latin American nations have paid $130 billion of interest on a total debt of about $370 billion, he said. He suggested all sides were looking for a way to get out of the bind and move forward. Noting the recent decision of Citibank to set aside $3 billion for potential loan losses, he said, "A bank has to have a lot of income to do that." Iglesias added there were indications that some European banks were about to follow suit.

At a news conference, President Alfonsin said he was concerned about the possibility that Citibank's decision might mean less "new money" would be available to debtors. However, he added, the action had fed "our hope that a quota will be fixed for the interest that we have to pay." According to Alfonsin, the fact that Citibank appeared to be preparing for the likelihood it will not collect money owed by developing countries reflected awareness of political factors.

President Sarney said he thought his government's decision in February to suspend interest payments on debt contracted with commercial banks had "profoundly helped" other debtor nations because it had caused bankers and international organizations to be "more flexible and comprehensive in reaching accord with diverse countries around the world." He said that Brazil intended to resume negotiations with foreign banks within 30 days, and that it now expected to receive "just treatment." He said that would mean a pact that "permits debtor countries to pay the debts without suffering and without the collapse of their economies." President Sanguinetti said
he had sent a letter containing the leaders' ideas on the debt to Italian President Amintore Fanfani, for relay to the leaders attending the Venice meeting. He declined to reveal the text of the letter but said that in addition to the issue of interest rates, it expressed concern about protectionist trade measures.

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