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Brazil: Stock Market Closes Down For 24 Hours Result Of Investor's Unpaid Debts

by John Neagle

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On June 13, after a 24-hour suspension of activity, Brazil's stock exchange reopened due to a liquidity crisis stemming from investor Naji Nahas' unpaid debts. An unidentified market trader told AFP that the market was shut down after Nahas wrote up to \$29 million worth of bad checks to cover debt to brokerage firms. The same source said \$300 million worth of options owned by Nahas are due to expire this week, and up to \$150 million worth of those options are expected to go uncovered. Chairperson of the Rio de Janeiro exchange, Sergio Barcellos, has reportedly asked the federal government for an emergency \$227.3 million credit line to cover the shortfall. Unidentified market sources said Rio stock exchange administrators decided to prohibit Nahas and his several firms from trading after discovering that he broke trading regulations by buying and selling at the same time as much as \$29.5 million worth of the same shares. Other sources estimated the amount at \$151.5 million. Next, Brazil's Ministry of Justice has prevented Nahas from leaving the country. An unidentified justice official told AFP Nahas could go to prison for five years for writing bad checks. President Jose Sarney, according to ruling party senator Marcondes Gadelha, has pledged that "the government will not give one cent to help or avoid anybody from going bankrupt." Eduardo da Rocha Azevedo, president of the Sao Paulo stock exchange, said the only one to blame was Brazil's securities regulatory institution, the Commissao de Valores Mobiliarios (CVM), for routinely allowing investors to finance purchases with unsold shares. As interest rates shot up and share values fell recently, Nahas's financiers refused to extend him more credit and the Lebanese-born tycoon sought so-called "hot money" by paying fixed interest rates with shares whose prices fluctuated wildly. (Basic data from AFP, 06/13/89)

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