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Brazil Ineligible For Brady Plan Debt Relief; Partial Summary Of Economic Conditions, Debate On Debt Strategy

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With a total foreign debt of about $124 billion, Brazil ranks as the Third World's largest debtor nation. Officials say that in recent weeks they have been informed that Brazil is not eligible for the benefits of the US debt relief initiative, known as the Brady plan. Prior to the inauguration of a new president next year, Brazil is expected to remain incapable of imposing austerity measures considered necessary by creditors to qualify for "debt relief." Sergio Amaral, the Foreign Ministry's secretary of international affairs, told the New York Times: "The Brady plan divided debtor countries into two categories. You cannot expect Brazil, in the last year of a government, to adopt a three-year economic program like Mexico and Venezuela." Amaral and five other Brazilian officials are in Washington and New York this week seeking the release of about $600 million in commercial bank loans that have been withheld this year. Without that money, Brazil is expected to call at least a partial moratorium in September when $2.3 billion in debt service comes due. Economic profile, debt crisis years

* From 1965 to 1980, Brazil's average per capita income growth rate was 6.3% per year. The same average from 1980 to 1987 was 1%. Brazil paid out $50.4 billion in debt service than it received in new loans in the 1980-87 period. * Capital flight by wealthy Brazilians, is expected to rise from $7.5 billion in 1988 to about $12 billion this year. * Brazil's GDP is officially measured at $354 billion. [If so-called "informal sector" enterprises are included, the total could rise to $400 billion.] The ratio of foreign debt to GDP is about 30%. * A large proportion of Brazil's loans was used for productive investments, mainly infrastructural projects and industry run by or supported by the government. In the late 1970s, billions in foreign loans (estimates of the exact quantities depend upon sources) were absorbed in covering government budget deficits and in payments for oil imports. * In the early 1980s, interest rates doubled. In 1983, the government called the first moratorium or temporary suspension of debt service of the modern era. A second moratorium occurred in 1987. * Prior to the debt crisis, Brazil had already become a major exporter of processed and semi-processed foodstuffs, and a host of industrial manufactures, ranging from electronic components and automobiles to aircraft and weaponry. After 1982, Brazil redoubled efforts to accumulate export revenues to pay debt service. In 1988, Brazil's trade surplus totaled $19 billion, the third largest in the world after Japan and West Germany. In contrast to Japan and West Germany, 41% of Brazil's trade surplus was absorbed by debt service payments. In 1982, debt payments were equivalent to 97% of the trade surplus. * Government statistics indicate that for the last 10 years, about two-thirds of Brazilian families have lived below the poverty level, defined as less than the minimum monthly wage of 150 cruzados (about $75). According to UNICEF, Brazil somehow managed to reduce infant mortality at a faster rate during the 1980s than in preceding decades. From 1960 to 1980, deaths of children under five dropped at an annual rate of 2.18%. During the 1980-87 period, the rate improved to 2.38% a year. Despite the improvements, Brazil still has one of the highest infant mortality rates in Latin America. About 300,000 babies die annually before they reach the age of one year. * President Jose Sarney announced in June that foreign debt service accounts for 14% of the national budget, about double the amount spent on health care. Service on
the domestic debt accounts for another 10% of the budget. * Part of Brazil's export surplus is the result of an official policy of containing imports. Import controls, however, are a factor in retarding economic modernization. President Bush is threatening trade sanctions. Some Brazilian officials say they are caught up in an untenable situation. On the one hand, the US government and US exporters insist that Brazil open its borders to more imports. On the other, commercial banks insist on regular interest payments, and thus call on Brasilia to pile up trade surpluses. Four of Brazil's top five commercial bank creditors are US banks: Citicorp, Bank of America, Chase Manhattan and Manufacturers Hanover Trust. * Brazilian debt in secondary financial markets is selling for about 25 cents on the dollar, about half last year's value. * Loan installments from the IMF, the World Bank, and commercial banks were held up this year, result of Brazil's failure to meet IMF austerity targets. One of these targets was to limit the public deficit to 2% of GDP. The deficit is reportedly about 4% of GDP. * Economist Paulo Nogueira Batista Jr. has pointed out that interest rate increases could easily wipe out any savings created under the Brady plan. In the last year, interest rates increased from 7% to 9%, costing Brazil an additional $1.2 billion in annual interest payments. Nogueira said $1.2 billion is about the amount that would be saved under Brady plan debt reductions. The plan calls for reducing medium- and long-term commercial debt by 20% over three years. Commercial debt accounts for about half of Brazil's total foreign debt. Debate on the debt problem * A statement approved in March at a conference on foreign debt sponsored by Brazil's National Council of Christian Churches reads: "The interest paid in 1988 corresponds to 266 million monthly salaries at the minimum wage, or 81,700 school rooms for 60 million students or 7.7 million low-income housing units, enough for 30 million people." Calculating that Brazil paid $176 billion in debt service from 1972 to 1988, the document concluded: "The current foreign debt should not be paid, because it already has been paid." * Economists Paulo Rabello de Castro and Marcio V. Ronci, both described as monetarists, wrote in an essay earlier this month: "The external debt is not the principal cause of the current malaise of the Brazilian economy. The public sector disorganization should be blamed for much of the economy's mess." The economists asserted that 1,000% annual inflation, increasing government regulation, falling tax revenues, and rising government deficits were responsible for the economic crisis. They pointed out that Brazil's ratio of foreign debt to gross domestic product is about 30% lower than that of Australia. * Fernando Collor de Mello, a wealthy former state governor, described by some as a free-market centrist, is currently leading in the polls. About 39% of Brazilian voters say they would elect Collor de Mello as president in the November elections. On the foreign debt problem, Collor de Mello favors removing Brazil's sovereign guarantee backing most debts to commercial banks. Under his plan, public and private debtors would individually renegotiate their debts with foreign creditors. Collor de Mello's major opponents in the presidential race support more radical solutions. Leonel Brizola, a social democrat and former governor of Rio de Janeiro state, says that the entire debt should be subjected to an audit, and that debt service payments be limited to 15% of export revenues. Luis Inacio da Silva, Workers Party (PT) deputy from Sao Paulo state, has proposed a moratorium on debt service and using the savings for an agrarian reform and other social welfare programs. Da Silva has also called for all Latin American debtor nations to join together in negotiations for debt relief with foreign creditors. Brazil, he says, should join forces with its neighbors. (Basic data from New York Times, 07/26/89)