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Preliminary talks on restructuring $60 billion in foreign debt between Brazilian officials and the New York-based committee representing foreign commercial bank creditors took place on Oct. 10-12. Jorio Dauster, chief debt negotiator, holds ambassador status in Brazil's foreign service. Arrears to private banks since July 1989 total about $8 billion, and to foreign governments, $2 billion. Brazilian officials have said their government will not make any debt payments, including symbolic ones, until a comprehensive long-term plan has been worked out with creditors. Economy Minister Zelia Cardoso de Mello and other officials have asserted that any agreement must be premised on payment capacity, determined in part by the size of the fiscal and trade surpluses, and domestic and world market inflation. Dauster told the New York Times during an interview Oct. 5 in Brasilia that since 1983, Brazil has paid $60 billion in interest and principal payments. Meanwhile, he said, the debt increased from $70 billion to $115 billion. In September, International Monetary Fund managing director Michel Camdessus warned that progress on arrears was essential for obtaining IMF approval on a $2 billion loan. Some creditor banks have stepped up pressure on Brasilia by suspending short-term credit lines. Prior to the preliminary talks, the Brazilian government invited six European banks to join the bank negotiating committee. Under the new arrangement, France, which holds about 5% of Brazil's foreign debt, has four banks on the 22-member committee. Japan, with 20% of the debt, has two banks. The US, with about one-third of the debt, has seven banks including Chase Manhattan, Chemical, Citibank, Manufacturers Hanover and BankAmerica. US banks fear that unless Brazil makes payments on arrears, Washington's credit review committee will force them to further increase reserves against losses on loans to Brazil. Dauster told the Times that this is not Brazil's problem. The Brazilian team's proposal consists of strategies similar to those included in the Mexican debt reduction package. For instance, all debt would be transformed into government-backed bonds after face value had been discounted. There are two options. The first, for banks desiring rapid exit, consists of relatively steep discounts on face value of outstanding loans, coupled with market interest rates. The second, for medium-term exit, is comprised of smaller discounts on debt face value, and a lower interest rate. Next, the government proposes that short-term credits which finance operations such as external trade are to be negotiated via voluntary agreements between parties. Interest arrears would be capitalized. (Basic data from EFE, 10/10/90, 10/11/90; New York Times, 10/10/90)

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