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Brazil: Notes On Foreign Investment Flow, 1990

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According to a Salomon Brothers survey, in 1990 about $400 million of foreign private capital flows into Brazil, up from $150 million in 1989. The 1990 total includes an $85 million note issue by Banco Itau, arranged by First Chicago. The transaction involved no new money, but rather a restructuring of old debt, converted into 20-year, floating- rate CDs (certificates of deposit). The transaction was engineered to help First Chicago and other banks reorganize their non-performing loan portfolios. New long-term private investment last year was practically non-existent. The most notable exception was a $50 million financing arranged by JP Morgan for the state-run telephone company EMBRATEL. The deal was secured by long-distance telephone receivables from the US-based AT&T. The transaction marked the first, and as of March this year, the only one of its kind. For the past year, local subsidiaries of multinationals have been able to issue commercial paper abroad, placing the paper directly with parent companies. Through such programs, an estimated $1 billion was raised in 1990, with maturities of up to two years. The Central Bank has imposed a maximum interest rate of LIBOR (London inter-bank rate), plus 0.625% on these issues. Export firms can obtain prepayment for up to a year before shipment of goods, by arrangement with the foreign buyer, a foreign bank or parent company office abroad. The mechanism became available in 1990. Maturities are usually six months to a year, and the Central Bank has imposed a sliding scale of maximum interest rates, ranging from LIBOR plus 0.375% for 90 days or less, to LIBOR plus 1.125% for 270-360 days. In cases where a foreign bank is the counterparty, the actual cost is close to LIBOR plus 2 or 3%, since the banks tack on additional fees. (Basic data from Euromoney, March 1991, p. 82)

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