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Impact of the International Debt Problem on Brazil

The debt crises in Mexico and Argentina have greatly increased Brazil's difficulty in obtaining new bank credit. Brazil had a generally good reputation in meeting its payments obligations, although it had to pay high interest spreads because its debt is so large. In addition, Brazil's exports have been hard hit by the continued world recession.

Brazil is likely to try to meet all of its debt service obligations in the near term. It will announce a tough stabilization plan, which will require a big drop in imports, as a means of gaining support from the IMF and the banks.

In the longer term, Brazil's ability to fully meet its obligations is uncertain. Required import cuts would come on top of an already depressed economy. The best hope will be economic recovery in the West and lower interest rates, which would pull up Brazilian exports and reduce expenditures.

Apparently the press announcement concerning the nationalization of Argentina's private foreign debt refers to a statement of the Argentina Central Bank last week. We do not know the details. On balance, creditors would probably be better off than in a situation like Mexico's, where they are low on the totem pole of exchange allocations.

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