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CONCERN RENEWED OVER LATIN DEBT

Brazil's Halting of Payments Sharpens Worry on Lack of Long-Term Solution

By ALAN RIDING

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RIO DE JANEIRO, Feb. 21 — More than four years after Mexico raised the curtain on the Latin American debt drama, Brazil's decision Friday to suspend most payments on its huge foreign debt has focused attention anew on the region's failure to recover any degree of financial stability.

Although Western commercial banks have so far not suffered significant losses from successive postponements and restructurings of Latin American payments, debtor countries have spluttered from crisis to crisis, unable to recover the sustained growth necessary to lighten their debt burdens.

"Whenever countries achieve any significant growth, they immediately fall back into debt crises," said Jorge G. Castañeda, a senior associate at the Carnegie Endowment in Washington. "The new Brazilian crisis is confirmation of this."

As has occurred in many other Latin American countries, a burst of economic growth in Brazil last year brought increased imports, lower exports and depleted foreign exchange reserves. As a result, the country has now found itself without the resources to cover interest payments this year.

'Something Must Be Wrong'

Increasingly, independent economists and government officials in Latin America and creditor countries recognize the need for a formula to provide long-term relief for Latin America's $380 billion debt, two-thirds of which is owed by just three countries: Brazil, Mexico and Argentina.

"Because the crises keep being 'resolved' and then coming back, something must be wrong with the strategy," one Brazilian economist noted. "At the moment, we have Mexico, Argentina, Brazil, Chile, Venezuela and a bunch of other countries all negotiating with banks again."

In announcing Brazil's suspension of interest payments on debt owed to foreign commercial banks, President José Sarney echoed statements often heard from other Latin American leaders since the first Mexican crisis of August 1982. Brazil, which owes $108 billion to foreign creditors, is not seeking a confrontation, he said, but it wants upcoming talks with creditor banks to produce "a lasting solution" that permits long-term growth.

Yet to date, there has been no substantive change in the way debt problems have been handled: Governments have been pressured, often by the International Monetary Fund, to accept greater domestic austerity, and commercial banks have been pressured, often by the United States Federal Reserve Board, to provide fresh loans.

Concern About Mexico

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"There have been some small improvements in the region's finances, but not enough to warrant the rosy predictions that are still being heard," said Sally Shelton, a consultant to Bankers Trust who has extensive experience in Latin America.

Further, many countries that were under military rule during the 1982-83 crisis have returned to democracy. As a result new civilian governments face strong political pressure to avoid the austerity measures required by lenders.

President Sarney on Friday recalled his own words at the United Nations 18 months ago, noting that "a debt paid with misery is a bill that will eventually be paid by democracy."

Large Banks Suffer Least

According to financial experts, the growing politicization of the debt issue has had little impact on commercial banks. "Those who are paying for the crisis are the debtor countries in terms of falling living standards and American exporters in terms of lost sales to Latin America," one American banker said. "Those who have not paid a price are the large money-center banks."

Leading American banks have taken measures, such as increasing capital or reserve provisions, that make them less vulnerable to debt defaults. According to a recent issue of World Financial Markets, the nine "money center" banks have reduced the ratio of their third-world debt to their primary capital from 290 percent in 1982 to 190 percent last year.

Bankers who recognize the need for a long-term solution to the debt crisis nonetheless argue that this will have to come from creditor governments, above all the Reagan Administration. Many of the ideas to emerge from debate on the issue have revolved around such formulas as reducing interest rates to below market levels and cancelling part of existing debt.

In contrast, a plan promoted by Treasury Secretary James A. Baker 3d aimed to provide an additional $30 billion in new commercial and world bank credits to 15 major debtor nations in exchange for domestic "structural" reforms. In practice, however, these funds have not always been forthcoming, and many economists now argue that the answer should not be simply to increase the region's debt.