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Central Intelligence Agency



Washington D C 20505

DIRECTORATE OF INTELLIGENCE

International Financial Situation Report #9
17 February 1983

Summary

The external financial positions of many LDCs continue to deteriorate due to the inability to obtain credit from Western banks. Some US bankers fear that Western banks could rapidly curtail credit to Asian countries should the Philippines require debt relief. Several bankers indicated the need for an official entity — such as the IMF — to encourage bank lending to LDCs before emergency debt relief is required. Major developments in recent weeks include:

- o [redacted]

NOTE: THE NEXT REPORT WILL BE PUBLISHED ON 3 MARCH 1983.

This situation report, the ninth of a biweekly series, was prepared by [redacted] Office of Global Issues, with contributions from regional offices of the Intelligence Directorate. Comments are welcome and may be addressed to Chief, [redacted] Office of Global Issues, [redacted]

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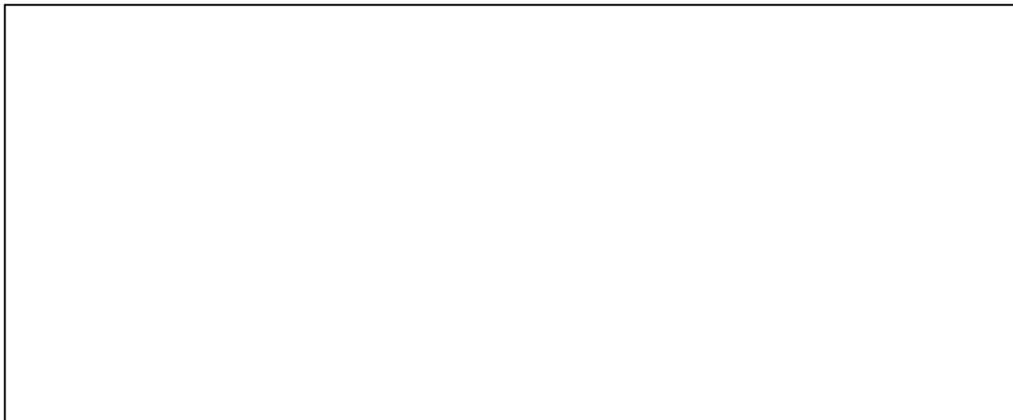
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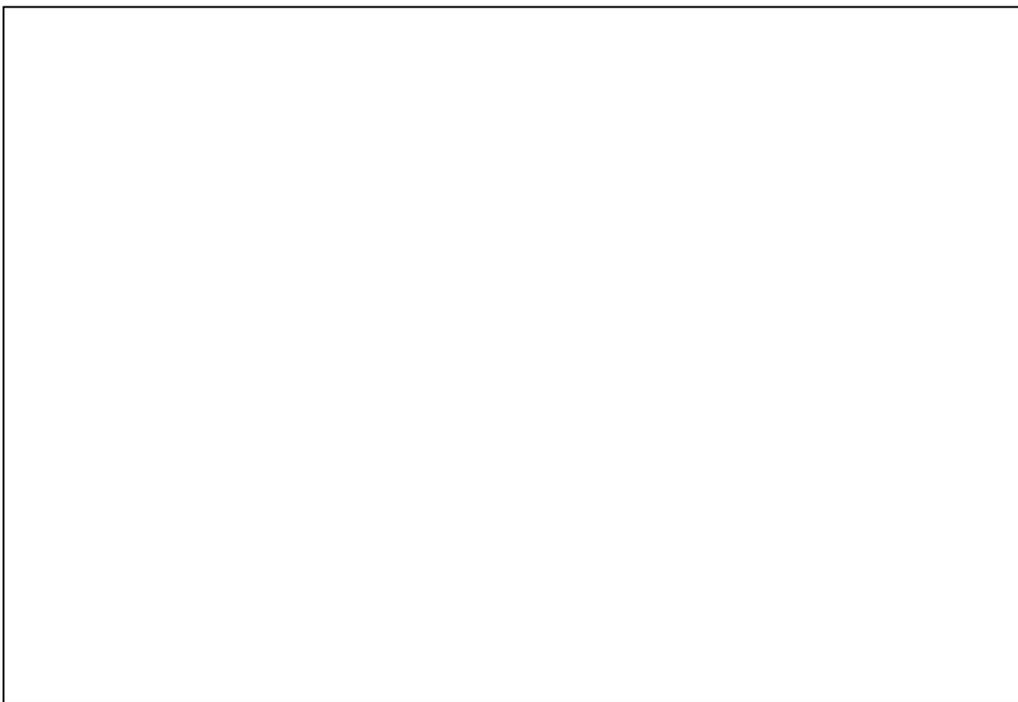
KEY ISSUE

Banks Continue to Curtail Credit



DEVELOPMENTS IN MAJOR COUNTRIES

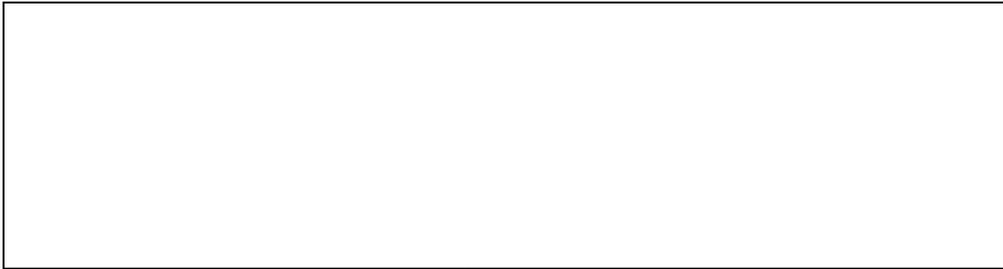
Mexico



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Brazil



Argentina



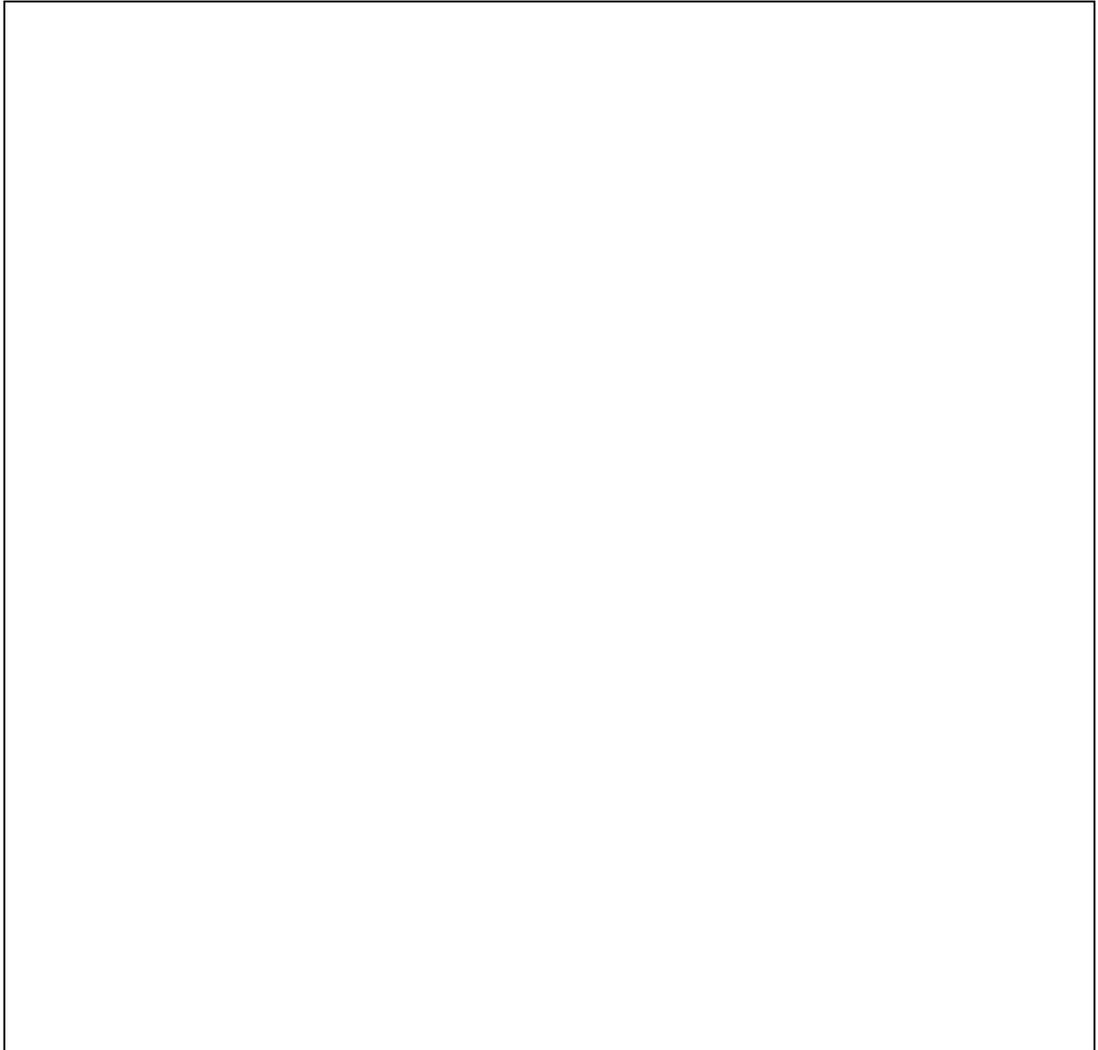
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REGIONAL SITUATIONS

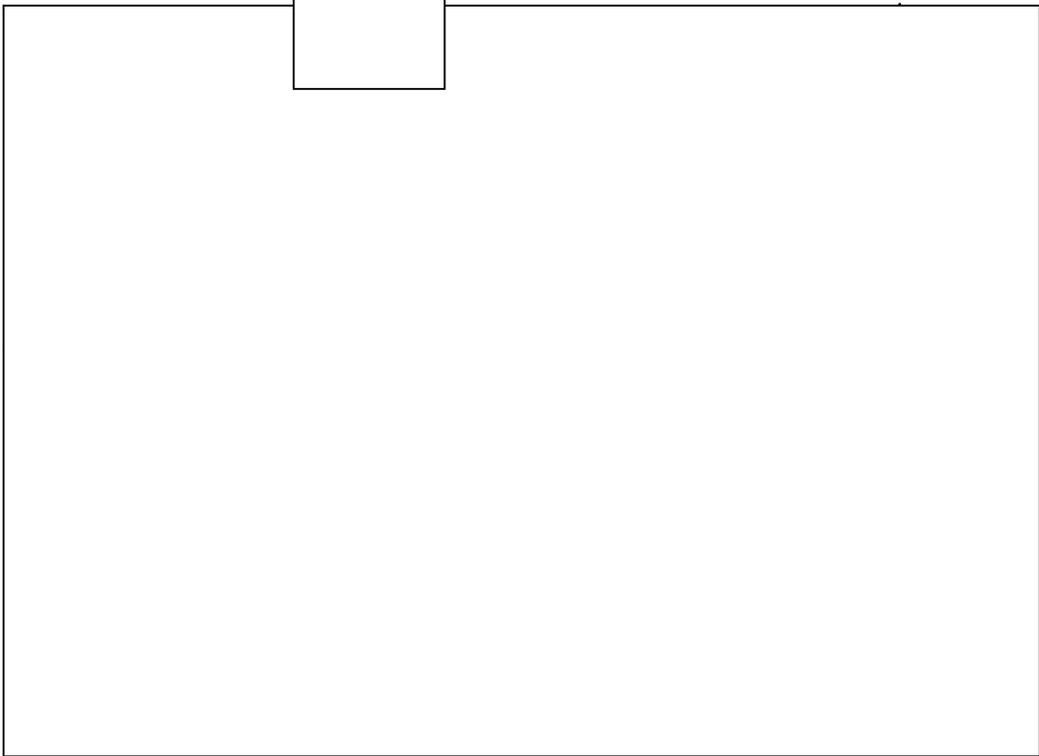
Latin America



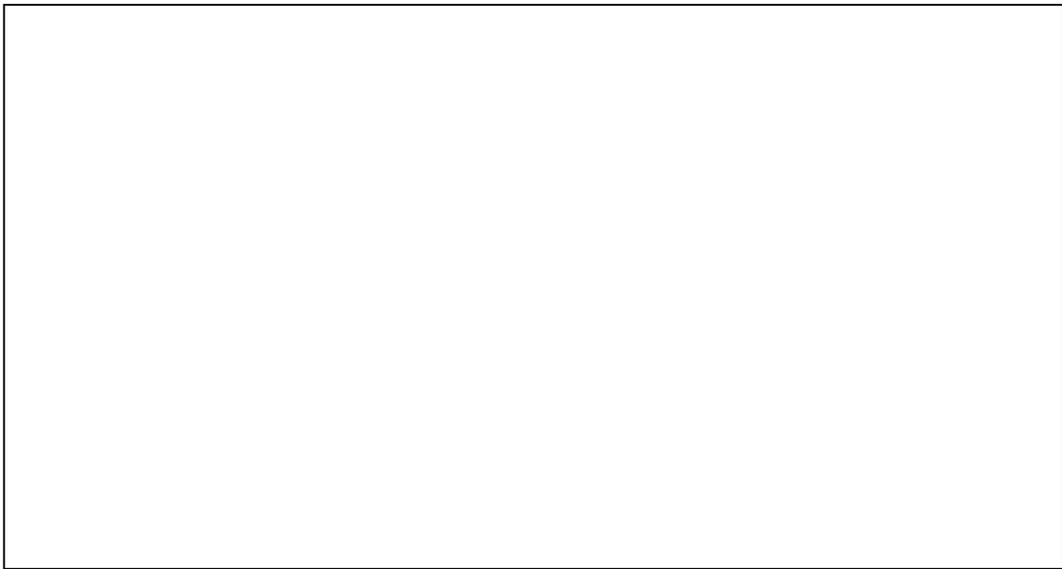
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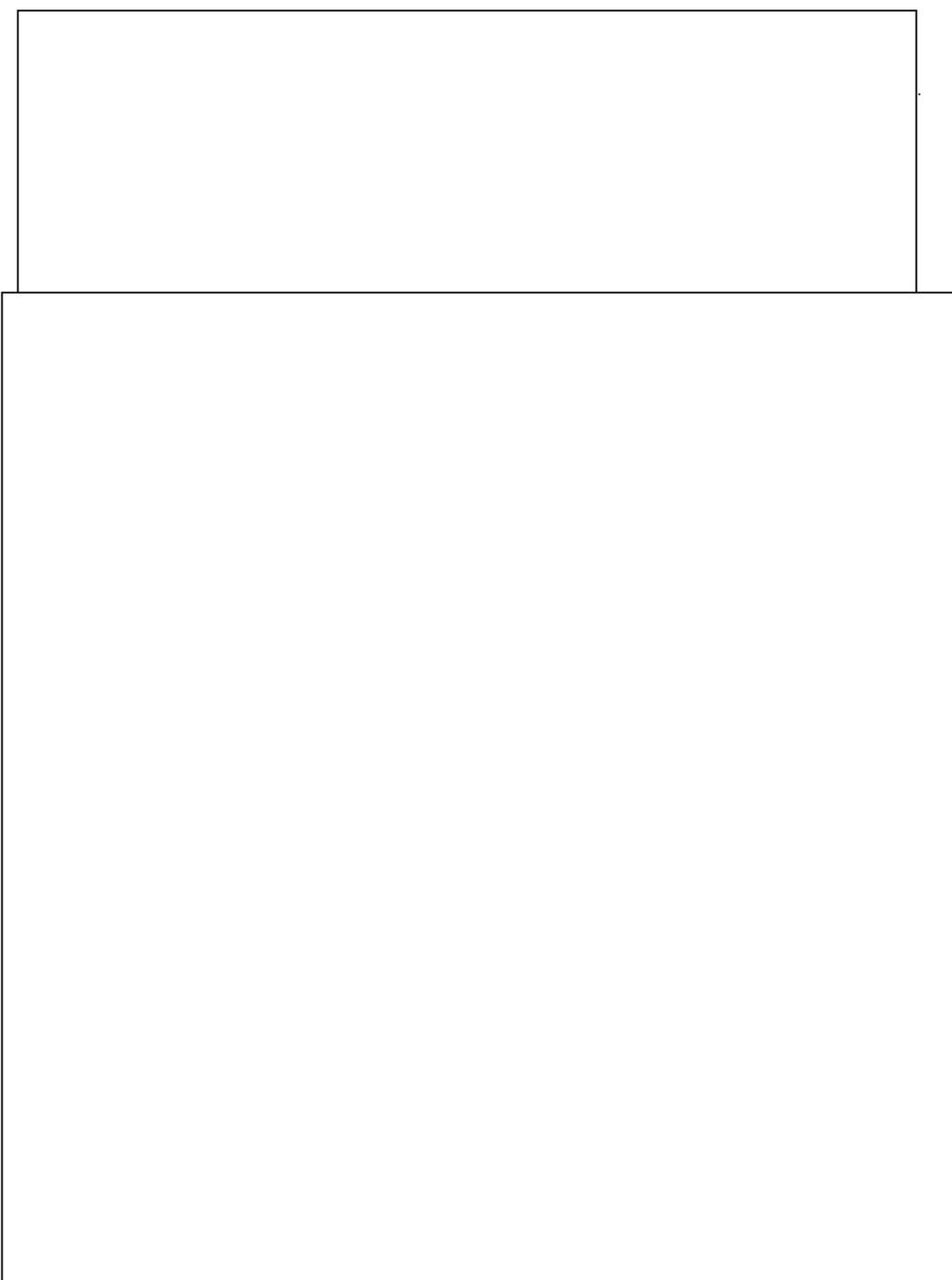
Eastern Europe



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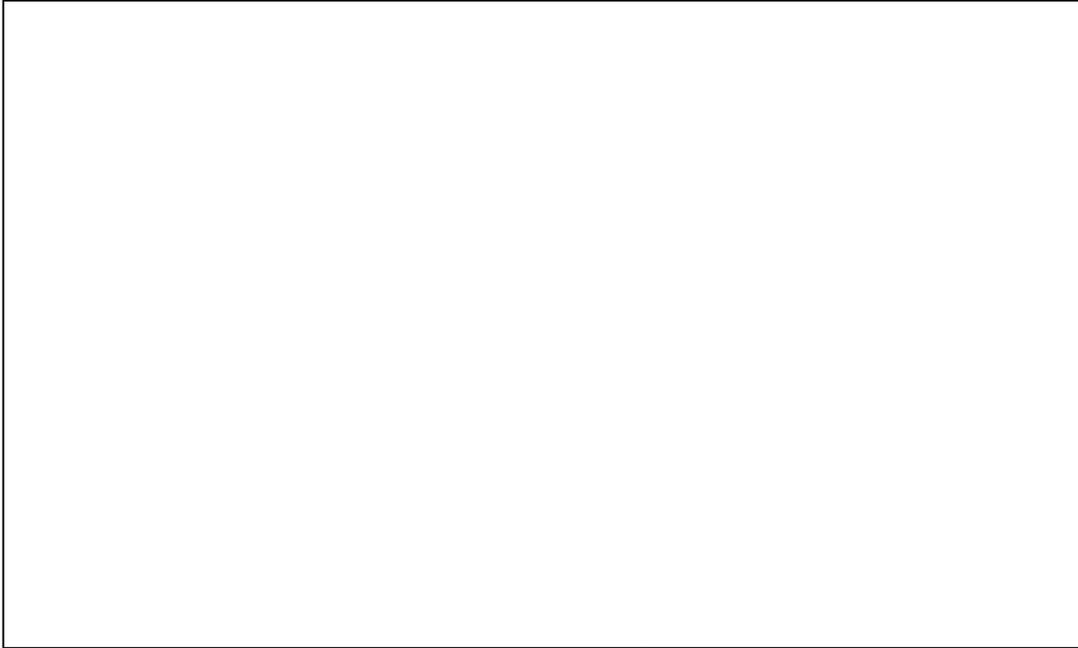


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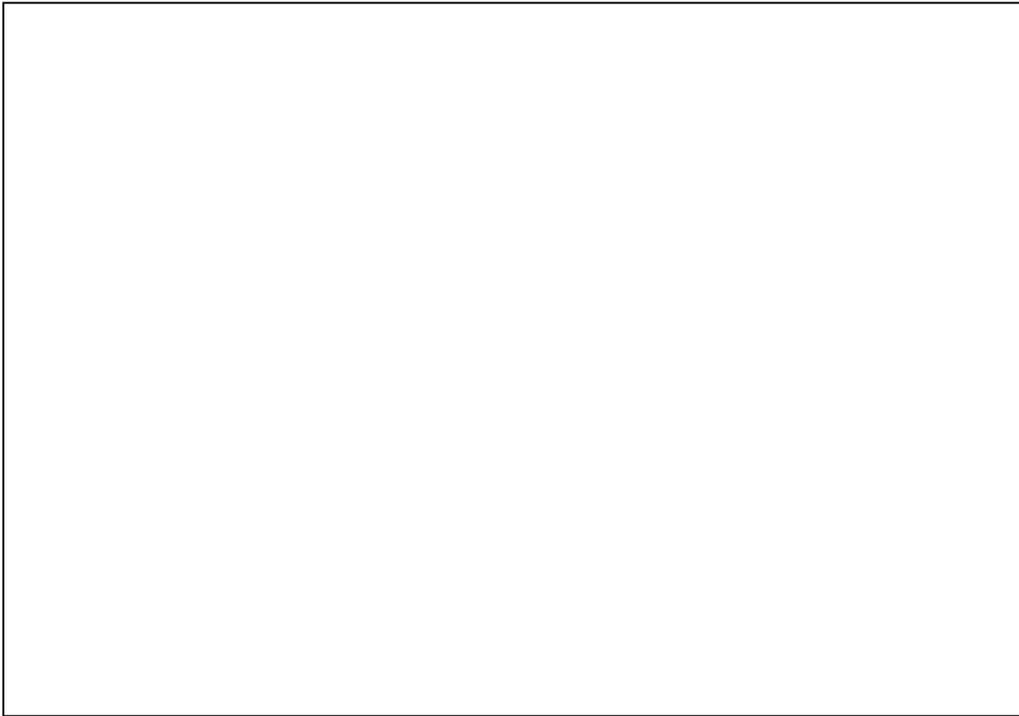
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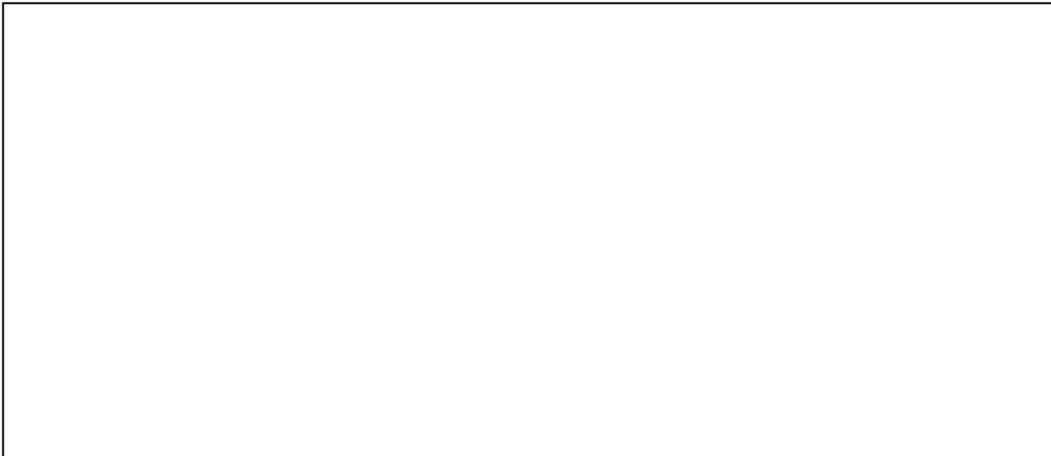
Asia



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Iraq

[redacted] in early February, Iraq began marketing a \$200 million, 90-day bridge loan for balance of payments support. The loan is being organized by Gulf International Bank and UBAF and is being marketed among Arab lenders. [redacted] UBAF officials expect Iraq to be able to draw on the facility by the end of February. Baghdad intends to repay the loan with the funds it receives from a previously marketed \$500 million, five-year loan. [redacted] Arab bankers generally mirror the sentiments of their host governments and, unlike most Western lenders, remain willing to extend credits at favorable rates even though the risk of non-payment is extremely high. [redacted]

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Appendix

Commodity Markets and LDC Debtors*

The steep slide in nonfuel commodity prices that began in 1980 appears to be over. In recent months, most broadly based indexes of mineral and agricultural commodities have leveled off or inched upward in expectation of economic recovery in industrial countries.

Financially troubled LDCs, however, will not be able to bank on a quick upturn in prices to help narrow their external deficits. In contrast to the price recovery following the 1974-75 recession, we expect this one to be neither strong nor rapid unless industrial country economic expansion develops much more momentum than most forecasters now anticipate.

Apart from the uncertainties about the strength of an economic upturn, we believe other factors may delay or weaken a recovery in commodity prices.

- o Rising protectionist pressures in industrial countries are likely to hold down demand for some LDC products.
- o There are large surpluses of most agricultural commodities; large stockpiles and slack capacity afflict most metal and mineral markets.
- o Investment in new plants and equipment in industrial countries will grow little if at all because of excess capacity, high long-term interest rates, and sharply lower profits.
- o Financially strapped LDCs will not contribute to the demand for commodities as they did in the 1970s.
- o Damped inflationary expectations will keep prices down.

In any event, economic recovery will affect LDCs with different timing and intensity.