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Implications of Mexican Financial Problems

Special National Intelligence Estimate

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THE NATIONAL FOREIGN INTELLIGENCE BOARD CONCURS.

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The Central Intelligence Agency, the Defense Intelligence Agency, the National Security Agency, and the intelligence organization of the Department of State.

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The Assistant Chief of Staff for Intelligence, Department of the Army

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SNIE 81-86

IMPLICATIONS OF MEXICAN FINANCIAL PROBLEMS

Information available as of 24 February 1986 was used in the preparation of this Estimate, approved by the National Foreign Intelligence Board on 20 February 1986.

KEY JUDGMENTS

Mexico's economic outlook has become grim indeed:

— The country's financial position, already shaky, is now made significantly more difficult by the sharp fall in oil prices.

— Mexico City has announced it needs $9 billion in financial relief in 1986; we believe the needs are on the order of $6-9 billion, depending on the level of adjustment undertaken.

— President de la Madrid [redacted] is confronted on all sides by political constraints that sharply limit his ability to take tough adjustment measures.

— Commercial banks are taking a hard line, and we expect many European banks will not want to provide substantial amounts of new money, leaving a larger share of the debt to US interests.

The key variables at present are the price of oil and the nature of the supporting financial package that Mexico receives from outside:

— Should Mexico agree to a financial package in some combination of new money and concessions, we believe the government will promise to undertake economic reforms but, because of domestic political constraints, fall far short of measures needed to prevent future financial problems or significantly improve the performance of the Mexican economy.

— Should the price of oil fall further or substantial financial assistance not be given, we believe Mexico will shortly begin to withhold interest payments selectively and may subsequently take additional unilateral actions.

— In our view, Mexico will implement significant economic reforms only if deteriorating economic conditions convince the ruling Institutional Revolutionary Party (PRI) that its grip on power is threatened. We give such a decision a low probability over the next year, and in any case it will become more difficult to make as the PRI gets closer to the 1988 presidential elections.

If Mexico succeeds in negotiating significant new money and interest rate concessions, other debtors will put strong pressure on banks to match the terms. In the event Mexico takes unilateral action to limit its debt burden, we do not believe other debtors will act immediately in concert to follow the Mexican lead. Even so, because of similar economic pressures affecting other debtors and the precedents for unilateral action, others could decide to follow suit. The prospects for radical action by other debtors would increase if they perceived that Mexico was not suffering as a result of its actions.

[redacted]

Overall, the most likely outcome for the near term will be one of semibailout, minimal Mexican reforms, [redacted] Whether or not such an outcome evolves in coming weeks, the longer term financial outlook for Mexico [redacted] is troubling. Economic conditions within Mexico almost certainly will deteriorate over the next two to three years, and dissatisfaction with the stewardship of the ruling PRI will rise significantly.

This information is ~~Secret~~ [redacted]

[redacted]

DISCUSSION

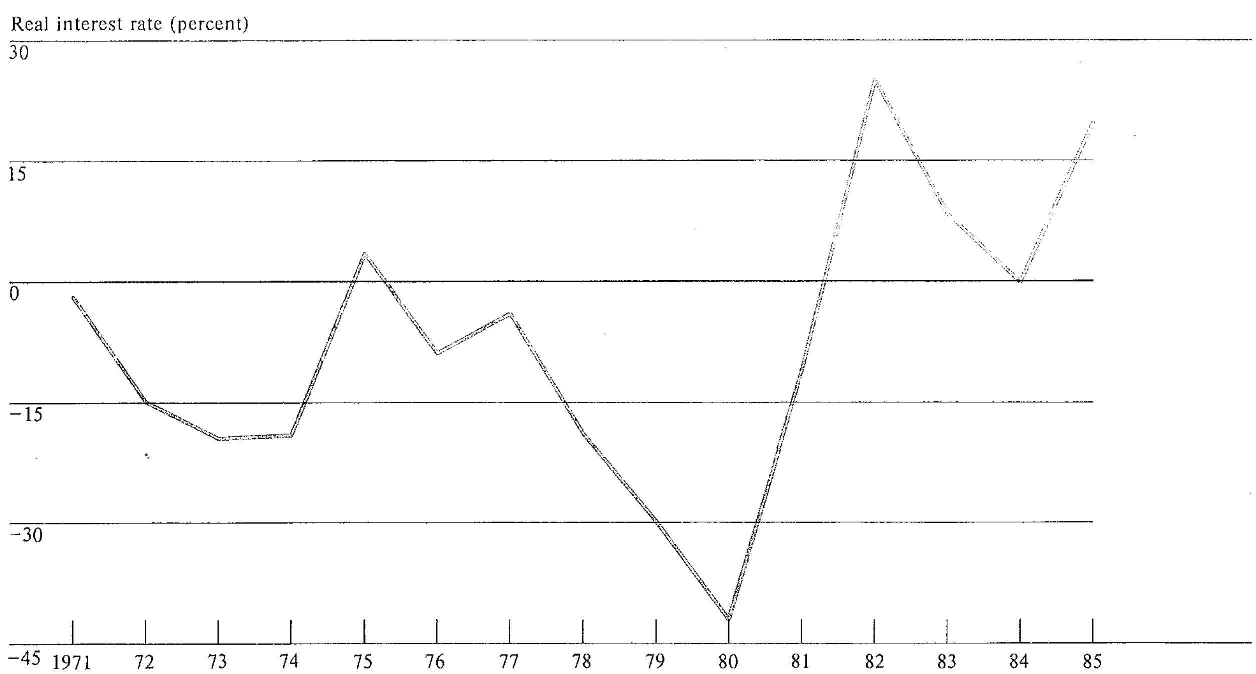
The Current Setting

1. Mexico is facing serious financial problems this year as a result of expansionary economic policies, lower oil prices, and to a much lesser degree the financial burden of the September earthquake. High government spending before elections in July and an accommodative monetary policy caused the public deficit to swell to almost 10 percent of GNP last year, nearly double the rate targeted by the IMF. At the same time, inflation rose to 64 percent, reversing two years in which the rate of price increases had fallen. Moreover, Mexico's trade surplus declined by almost 35 percent in 1985 as a result of domestic growth and an overvalued peso, and capital flight reached an estimated $4-5 billion. [redacted]

2. Against this backdrop, the recent sharp fall in oil prices is acting as a catalyst both to increase the financial burden of Mexico's foreign debt and to stimulate demands for relief on foreign debt servicing charges, which will be roughly $13.5 billion in 1986, including $9.5 billion in interest. At Mexico's current average oil export price of about $15 per barrel, oil revenues will be roughly $5 billion less than initially estimated for 1986. Each additional $1 per barrel decline in the price would result in an additional net $375 million loss [1] in annual receipts at an export level

[1] This net figure includes a $500 million oil revenue loss and a $125 million savings in interest payments. [redacted]

Figure 1
Mexico: Real Interest Rate on External Debt[a]



[a] Real interest rate is defined as the nominal interest rate paid on external debt minus the change in the US dollar export price index for Mexico.

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International Oil Price Outlook

The international oil market is in disarray following several months of high production and OPEC's December decision to defend market share instead of price. Spot oil prices for several key crudes have dropped to below $18 per barrel, down $8 per barrel and 30 percent since the beginning of January. Mexican crude prices have followed these prices downward—the state oil company has retroactively reduced prices several times since December. Mexican crude, which sold at a $1.25-per-barrel discount from average world prices during 1985, has lost ground. Competitive pressures and buyer dissatisfaction with the retroactive pricing scheme have forced the Mexicans to lower their average price to $15 per barrel, about $6 per barrel below the world average. According to press reports, early February export levels may have fallen to as low as 700,000 barrels per day compared with a target level of 1.5 million barrels per day. [redacted]

Despite the already steep slide in oil prices, there is still the potential for substantial price volatility and further price cuts in the months ahead. How fast and how far prices fall will depend, in large part, on the resolve that OPEC producers, particularly Saudi Arabia, show in maintaining their increased market share. Non-OPEC producers so far have not responded to the organization's call for increased cooperation and are unlikely to voluntarily cut output significantly. Problems in selling oil into a glutted market or in pricing oil competitively, however, could lead to production slowdowns in all producing countries. [redacted]

We envision two possible price scenarios for 1986:

— *Price Erosion.* Under this most likely scenario, world oil prices average $20 per barrel for the year, with Mexican crude continuing to sell at a deep discount of at least $5 per barrel below this average. OPEC producers limit their market share target to about 18 million barrels per day (b/d)—about 1 million b/d more than the market needs—and winter oil requirements cause prices to firm in the second half of 1986. Mexico's financial problems give oil buyers additional leverage, and Mexico is forced to continue offering discounted oil to bring exports up to the target level of 1.5 million barrels per day.

— *Price Collapse.* Under a less likely, but still plausible scenario, world oil prices continue to spiral downward and average $15 per barrel for the year. Mexican crude prices tumble to $10 to 12 per barrel or below. In this case, Saudi Arabia and other OPEC countries aggressively stake out an increased market share and attempt to produce 19 million barrels per day for the year. [redacted]

of 1.35 million barrels per day. Petroleum exports in 1985 accounted for about 70 percent of Mexico's export earnings and 45 percent of government revenue. [redacted]

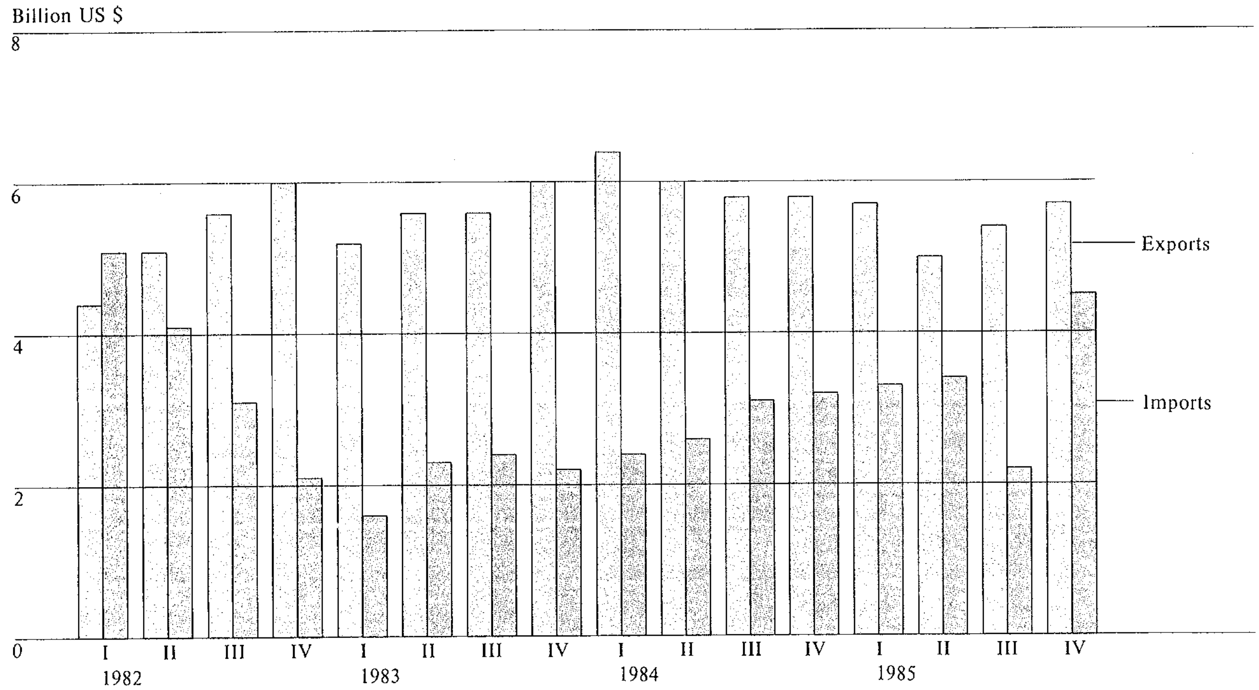
3. On the political front, the pressures from falling oil prices coming on top of the already difficult financial and economic situation have caused increasing debate within the ruling Institutional Revolutionary Party (PRI) and the government over policies required to restore Mexico's economic health. De la Madrid, in our estimation, appears to remain indecisive over what measures to take to satisfy competing economic and political demands with shrinking resources. Although the President's 1986 budget called for reducing the public-sector deficit, most observers believe the government had no intention of following through. [redacted]

Political Conditions

4. [redacted] the government seems to agree for now on using a policy of political statements designed to show the rest of the world that a crisis is imminent. Indeed, Silva Herzog himself, a possible presidential candidate for 1988, has joined in the political rhetoric, announcing at a conference in London in late January that "the limit of the responsibility to our creditors is the responsibility to our people." [redacted]

5. [redacted] President de la Madrid is coming under increasing pressure from interests inside the ruling PRI and, to a lesser extent, outside of it. [redacted] Progovernment unions, which represent 95 percent of organized labor and have supported the administration faithfully, now are publicly demanding more government attention and resources. Leftist political organizations and independent labor groups recently sponsored several peaceful

Figure 2
Mexican Trade



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demonstrations calling for a debt moratorium; the largest has attracted an estimated 50,000 marchers. De la Madrid certainly does not see the recent protests as threatening and could limit them if he chose. Although the government has tolerated the demonstrations so far, we believe there is a chance they could expand significantly, inflamed in part by the government's increasingly harsh rhetoric on the debt. Should the demonstrations increase significantly, take on an anti-government tone, or turn violent, they would become a factor in government policy. [redacted]

6. De la Madrid's stance on the debt is also constrained by the fact that the PRI must contest 13 governerships in 1986, including difficult races in the states of Chihuahua, Durango, and Sinaloa. To the extent that the government and ruling party can avoid economic austerity measures and escape burdensome debt service payments, they will retain greater popular support and have greater resources at their disposal for public works, patronage, and campaigning. [redacted] We see virtually no prospect that the PRI would cede a governorship to an opposition party either in 1986, about which the government is most concerned, or in 1987, when a large number of statehouses will once again be at stake. [redacted]

7. The private sector's influence on debt policy is diluted both by its weakened institutional clout under this administration and divergent views. Firms dealing heavily in foreign trade generally oppose a radical Mexican position that could sever trade lines and cripple operations. Other businessmen are more concerned with dwindling domestic consumption, especially if Mexico City resorted to further economic contraction to make debt payments. The problems austerity has caused for the private sector are a key element in the strength of the opposition National Action Party (PAN), particularly in the north. Although we believe this is of secondary concern to de la Madrid at present, it does make it increasingly difficult for the PRI to retain control of key governorships

[redacted]

Table 1
Mexico's 1986 Balance of Payments

(Million US $)

	1985 Results	Original Mexican Program November 1985 [a]	Mexican Program to Banks 4 February [b]	Tighter Program by Banks 6 February [c]
Current Account	**−427**	**318**	**−4,731**	**−1,325**
Trade Balance	8,235	8,241	3,192	5,700
Exports	21,835	22,449	17,400	17,700
Crude	13,345	12,304	7,650	7,650
Product	1,330	1,295	900	900
Maquila	1,300	1,400	1,400	1,450
Other	5,860	7,450	7,450	7,700
Imports	13,600	14,208	14,208	12,000
Public sector	4,950	5,094	5,094	4,500
Private sector	8,650	9,114	9,114	7,500
Services balance	**−8,662**	**−7,923**	**−7,923**	**−7,025**
Interest payments	−10,047	−10,068	−10,068	−9,500
Tourism	1,200	1,480	1,480	1,550
Investment income	1,900	2,200	2,200	2,200
Transfers	420	445	445	465
Other	−2,135	−1,980	−1,980	−1,740
Capital account		**1,820**	**6,869**	**2,325**
Public sector		**4,000**	**9,049**	**4,505**
Repayments		3,915	3,915	3,915
Long term		3,315	3,315	3,315
Commercial banks		1,200	1,200	1,200
World Bank/IDB		417	417	417
Bilateral and suppliers		554	554	554
Bonds and placements		487	487	487
IMF		129	129	129
Commodity Credit Corporation		528	528	528
Short term		600	600	600

[redacted]

De La Madrid's Views

8. De la Madrid, for his part, has taken a moderate stance on the debt issue in the past, [redacted] his stance could shift with prevailing political currents. He has publicly noted on numerous occasions that Mexico City will honor its international financial obligations. Recently, however, he has stressed that debt payments represent a heavy drain on the economy and that circumstances may arise under which his government, despite its best intentions, may not be able to service its debt. Indicative of de la Madrid's stance has been his position on the US debt initiative announced by Secretary Baker in Seoul. De la Madrid has praised Washington for recognizing that Latin debtor states must have the wherewithal to grow. At the same time, he has maintained that the funds to be made available to debtors under the plan are insufficient and that the conditions associated with it could prove politically onerous. [redacted]

Table 1 (cont'd)

	1985 Results	Original Mexican Program November 1985 [a]	Mexican Program to Banks 4 February [b]	Tighter Program by Banks 6 February [c]
Net private sector		**−2,180**	**−2,180**	**−2,180**
Reinvested dividends		320	320	320
Medium and long term		−300	−300	−300
Short term		−2,200	−2,200	−2,200
Gross borrowing		**7,915**	**12,964**	**8,420**
Net borrowing		**4,000**	**9,049**	**4,505**
Change in reserves		**1,138**	**1,138**	**0**
Errors and omissions/ capital flight		**1000**	**1,000**	**1,000**

[redacted]

[a] *Original Mexican 1986 program*: Assumed Mexican oil export price of $22.50 per barrel, exports at 1.5 million barrels per day.
[b] *Mexico's program presented to banks 4 February*: Assumed Mexican oil export price at $16.00 per barrel, exports at 1.3 million barrels per day; no offsetting adjustment measures.
[c] *Banks' proposal to reduce Mexico's gap*: Assumes Mexican oil export price of $16.00 per barrel, exports at 1.3 million barrels per day; significant adjustment measures: 25-percent maxidevaluation raises nonoil exports 15 percent, reduces imports 12 percent, and raises tourism 30 percent, domestic interest rates are increased to 105 percent, no buildup in currency reserves, and additional unspecified austerity measures that would reduce real GDP 3 to 5 percent.

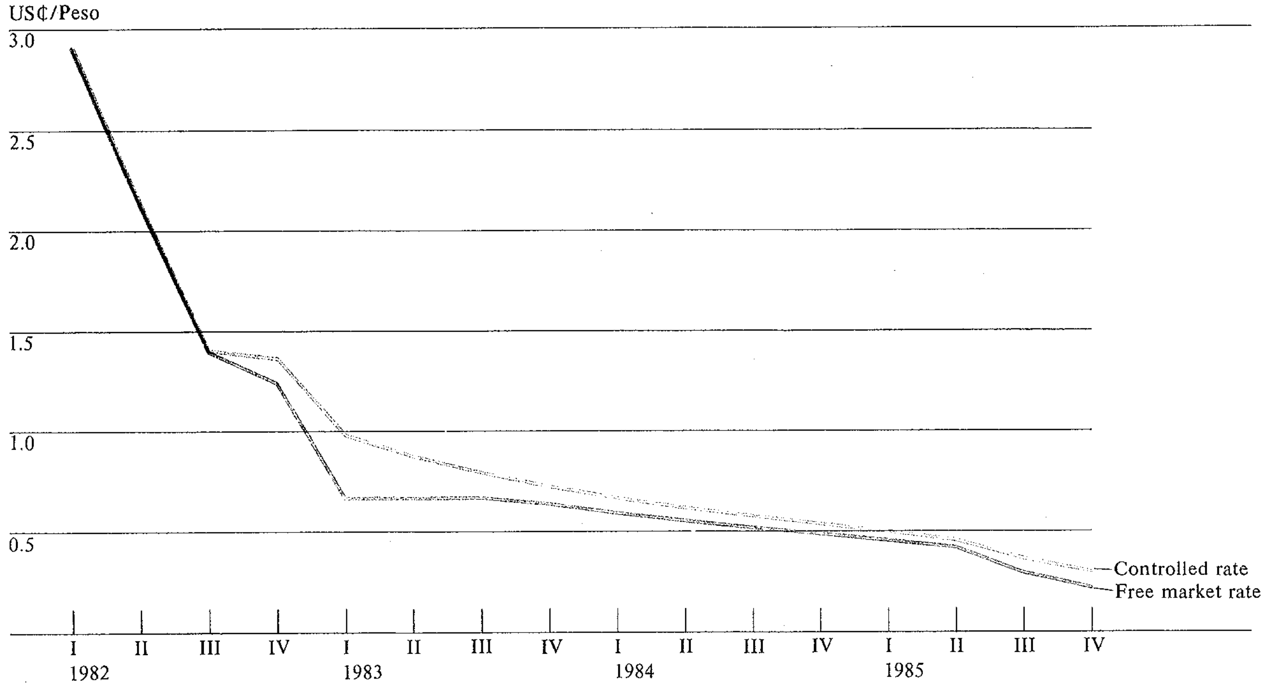
[redacted]

This table is Secret [redacted]

9. De la Madrid's political position will have a key bearing on Mexico's debt policy. [redacted] we expect de la Madrid to display characteristic caution in formulating Mexico's debt policy and to eschew any radical course, such as a unilateral repudiation of Mexican debt, except as a last resort. More likely, in our view, would be a series of Mexican initiatives—moving from posturing through temporary arrearages to capping debt payments—with the President leaving latitude for retreat and reconciliation with creditors at each step along the way. [redacted]

10. Despite de la Madrid's moderate policy predilections and pragmatic bent, he might nonetheless order his government to take strong unilateral action to resolve the debt issue, especially if he perceived Washington and creditors were unresponsive to Mexico's plight. We believe he would make such a decision only after carefully weighing the political and economic benefits of such a move. Also, swaying de la Madrid to embark on such a radical course could be his perception that Mexico's future economic prospects, which are substantially tied to oil prices, were waning and that domestic political imperatives made such a move attractive. In our view, the variables currently entering into de la Madrid's decision still weigh against the radical option. Nonetheless, events that occur in the weeks and months ahead, particularly the path of oil prices and progress in the debt negotiations, could alter the President's thinking and that of key aides. [redacted]

Figure 3
US Dollar/Peso Exchange Rates



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Position of the Banks

11. Mexico's 4 February announcement that this year's financing needs would be $9 billion as a result of falling oil prices surprised creditors, who believed the figure overstated true revenue losses, given oil prices that prevailed at that time. Previously, the Mexicans had requested $4-5 billion in net new financing for 1986 of which roughly $2.5 billion would come from commercial banks. [redacted]

12. Bankers argue that Mexico can reduce its financing needs by $3-4 billion if it implements significant economic reforms, including a sharp devaluation of the peso and an increase in domestic interest rates, designed primarily to improve the trade balance and arrest capital flight. These measures include a 25-percent devaluation, an increase in domestic interest rates to 105 percent, and additional unspecified measures resulting in a 3- to 5-percent drop in real GDP. [redacted] bankers believe that the sharply higher request was designed to pressure them into granting concessions on interest payments. Mexico's actual financing needs depend on the severity of economic measures implemented by the government, including a sharp devaluation of the peso. We believe that, without politically difficult economic adjustment measures, Mexico's actual net financing needs are roughly $8-9 billion, assuming an average Mexican oil price of $15 per barrel. [redacted]

13. Given their views of the Mexican situation, most banks are taking a hard line:

- Major US banks have stated that interest capitalization or interest forgiveness is unacceptable and that, with some new money and economic adjustment, Mexico will not need an interest payment relief scheme.

- Bankers have maintained that a request for new money as high as $9 billion for 1986 is unaccept-

Table 2
US Commercial Bank Exposure to Mexico [a]

Billion US $

Debt held by US banks	
Total	25.2
9 money center banks	14.2
15 other large banks	4.8
All other	6.2
Amount owed by borrowers	
Mexican banks	4.2
Mexican public borrowers	13.3
Mexican private nonbank	7.7
Maturity of distribution	
One year and under	8.2
Over one to five years	10.1
Over five years	6.9

[a] Data as of September 1985.

This table is Unclassified.

able. Private creditors have said that realistically they can raise only $2.5 billion.

— In any case, bankers will demand that the Mexican budget for 1986 be accepted by the IMF before agreeing to raise new medium-term credits. [redacted]

14. Despite their current position, we believe bankers could raise as much as $5-6 billion if Mexico were willing to undertake substantial structural adjustment, but interest payment concessions of any kind would pose major problems for US banks under current regulations. Specifically, deferred interest payments or interest forgiveness would substantially reduce bank profitability and could result in the banks having to write down a portion of the value of their loans. Furthermore, interest concessions granted to Mexico would establish a strong precedent for similar relief to other Latin debtors (see table 2). [redacted]

15. European and Japanese creditors will closely monitor Mexican negotiations and would condemn unilateral action. Despite the exposure of their banks, the governments in these countries believe the burden of dealing with the problems falls on Washington because they view Mexico primarily as a US responsibility. [redacted] many of these banks are not willing to put up substantial new funds for Mexico, given the political climate and the decline in oil prices. European banks, however, would be more willing to entertain an interest capitalization scheme. Although they could suffer financial losses, they are in much better shape than most major US banks because of greater reserves against their troubled loans and a regulatory environment that treats interest payments differently. [redacted]

US/Mexican Ties

- Mexico is the United States' principal foreign supplier of petroleum and third-largest trading partner.
- US banks hold over 35 percent of Mexico's commercial debt, and investment in the country by US firms accounts for over 80 percent of total foreign investment.
- The economies of dozens of cities on both sides of the border are increasingly interdependent and the well-being of their people intertwined.
- The border assembly program, dominated by US firms, is Mexico's fast-growing economic sector and already is the second-largest foreign exchange earner.
- Thousands of US citizens visit Mexico annually, helping make tourism the third-largest foreign exchange earner.

Unclassified

Mexican Negotiating Tactics

16. In our view, Mexico City believes it can yield little in seeking a compromise with its creditors. We believe Mexican officials will resist commitment to serious longer term structural changes that run counter to traditional Mexican political and economic philosophy and would have a negative impact on important interest groups. Government involvement in the Mexican economy is deep seated, with many Mexicans regarding a strong government role as a cornerstone of the PRI. Private-sector autonomy has been sacrificed to co-opt groups such as labor and the left. In return, affected influential businessmen have been compensated by protected markets and appointment to top positions in state-owned enterprises. At the same time, strong Mexican nationalism and a long-held policy of import substitution hinder Mexican policymakers from significantly opening the economy. [redacted]

Long-Term Economic Reform

Longer term structural changes needed to encourage domestic savings and investment and reverse capital flight include:

- Maintaining the peso and domestic interest rates at appropriate levels.
- Reducing the government's role in the economy, especially by reducing the federal budget deficit, liquidating inefficient public enterprises, and returning Mexico's banks to private-sector control.
- Liberalizing trade to promote competition through elimination of import licenses and bureaucratic red tape.
- Encouraging export promotion in the private sector to diversify sources of foreign exchange and reduce vulnerability to volatile oil prices.
- Changing foreign investment policies and laws to acquire capital, create jobs, and modernize industry. [redacted]

17. Should creditors be unwilling to provide continued significant financial assistance to Mexico, then we believe the government will increasingly be forced into the position of having to decide to undertake a moratorium or to begin to undertake more significant economic reforms. At this point, we believe that political conditions in Mexico argue for a debt moratorium, in part because the approach of the 1988 presidential election will make it more difficult for the government to undertake serious reform as time goes on. However, should the PRI conclude that its long-term hold on power is threatened by Mexico's economic problems, we do not rule out the possibility that the government will gradually decide to implement serious structural reforms. [redacted]

18. [redacted] we believe his decisions are influenced by his concerns over foreign reaction to any strong Mexican moves on debt. Even now, foreign banks are taking actions in an attempt to isolate Mexico and try to prevent a spillover from the effects of any radical Mexican actions on other debtors. Indeed, some banks—particularly smaller foreign and US regional institutions—would reduce or cease trade credits and interbank lines to Mexico. Some smaller banks may also decide to take other actions, including attempting to attach Mexican monetary and physical assets. Although such actions would cause serious short-term disruptions—Mexico is dependent on strategic imports and access to the international financial market—we doubt they would have disastrous economic results in the short term. Over the longer term, however, loss of access to foreign loans, particularly trade finance, would make it impossible for Mexico to make any serious headway in improving domestic economic conditions. [redacted]

19. We believe the Mexican Government will continue to debate the options over the next few weeks. At the same time, they will step up pressure publicly and privately for new money and concessions on interest rates. Although the government is currently threatening some bankers with a partial debt moratorium, we believe it more likely that, should the negotiations drag on, the government will begin to selectively withhold interest payments, possibly within the next few weeks, even though Mexico would be able to remain current on interest through April, given current net reserves of $2.4-2.6 billion. Mexico City could, for example, fail to make interest payments on FICORCA debt due on 5 March—a payment made by the government to cover private-sector obligations. The government would see this as a tactic both to put pressure on banks and the US Treasury as well as a means of setting a deadline for agreement—under current regulations loans not receiving interest would be placed on "nonaccrual" status 90 days after the interest payments stopped. [redacted]

20. Should the negotiations drag on, there are a series of moves the Mexican Government could take beyond selectively withholding interest payments but short of declaring a moratorium on all debt. These steps include:

- Refusing to make payments to commercial banks on medium- and long-term credits but honoring other obligations, particularly short-term credits.
- Announcing a scheme that links debt payment to export performance or some other criteria.
- Declaring a moratorium until oil prices stabilize. [redacted]

Reactions of Others to Mexico's Action

21. The outcome of Mexico's dealings with creditors will have an important effect on negotiations with other debtors. Mexico will draw moral support from many Latin American countries in negotiations for interest rate concessions and new funds. Most Latin debtors, including Brazil, Argentina, and Venezuela, recognize that Mexico has little choice but to reduce or suspend its debt service burden. The Cartagena Group

of 11 Latin debtor nations probably will endorse any action taken by Mexico. Should Mexico succeed in negotiating significant concessions, other Latin debtors will put strong pressure on banks to match the terms. At the very least, other debtors will use concessions to Mexico as a benchmark for future negotiations with their individual creditors. [redacted]

22. Should Mexico unilaterally limit its debt burden, we do not believe that other debtors—including the Cartagena Group—would immediately act in concert to follow the Mexican lead. Instead, they would watch closely how the banking system and Western governments responded to any Mexican moves and how the Mexican economy as well as the public reacted to whatever countermeasures were imposed. Moreover, Brazil, Venezuela, and Colombia are in relatively strong financial positions at present, although Caracas also has to be concerned with oil prices prospects. [redacted]

23. [redacted]

24. Debtors outside of Latin America are also likely to seek special treatment or reevaluate their positions in servicing the debt, either in the case Mexico obtains major concessions or unilaterally reduces its debt service payments. Many of these countries are just as hard pressed as is Mexico by declining prices for their exports and economically and politically onerous debt service burdens. (See annex.) [redacted]

25. Should Mexico obtain special treatment, others are likely to try to make the case that they too are beset by world market forces, see no prospects for an improvement in export earnings, and cannot for domestic political reasons make further substantial cuts in imports. Indeed, should Mexico be unable to come to terms and take unilateral action to limit its debt burden, these same fundamental problems could cause some countries to reevaluate their positions on servicing the debt, particularly if they perceived that Mexico was not suffering serious consequences from its actions. [redacted]

26. [redacted]

Bleak Political Outlook

27. De la Madrid and some other Mexican leaders almost certainly are aware that economic conditions within Mexico will deteriorate over the next two to three years, and dissatisfaction with the stewardship of the ruling PRI will rise significantly, in our judgment. They also probably realize that it is in Mexico's long-term interests to undertake fundamental economic reforms. Most PRI officials and other key interest groups, however, fear that this would result in an erosion of their long-term political hegemony. [redacted]

28. Should Mexico City and its creditors reach a negotiated settlement of the current debt question, we believe the de la Madrid administration will publicly commit itself to additional austerity and economic reform. Although Mexico City will promise far more than it will deliver, labor and other key groups will oppose even modest reforms as they are implemented. Moreover, real incomes would decline again in 1986 on top of real wage declines in each of the last three years. We do not expect these conditions to cause serious unrest in the near term. Disgruntlement with government policies and with the President's leadership, however, will grow over time and make it more difficult for the PRI to retain offices in key areas [redacted]

29. Should the negotiations fail and Mexico take some unilateral action on its debt, there may be some short-term political gain. Over the longer term, however, domestic conditions would suffer because of the loss of foreign loans and trade credits and would add to dissatisfaction with the PRI. [redacted]

ANNEX

FINANCIAL PROBLEMS OF OTHER DEBTORS

Although most recent attention has focused on LDC oil exporters, most LDCs that rely heavily on commodity export earnings are in serious financial condition.

- The price of tin, for example, has fallen by some 40 percent since late 1984, with nearly all of the decline coming since the collapse of the tin market late last year.
- Zinc, lead, and phosphate prices have declined sharply over the last year.
- Prices of important LDC agricultural exports, including rice, palm oil, and coconut oil also have dropped over the last 12 months.

Indeed, of some 22 key LDC primary commodity exports, only five have not experienced falling prices over the past year. [redacted]

Collectively, these adverse price trends severely damaged the export performance and debt servicing prospects of debtors in Africa and Asia. Egypt, for example, has been hit not only by falling oil prices, but also by lower prices for cotton, second only to oil as an Egyptian export. Morocco also experienced falling export earnings due largely to the drop in the price of phosphate, which accounts for one-fourth of its exports. While lower oil prices will benefit oil importers like Morocco, the effect of the declines in prices of their export products have, in many cases, been greater. [redacted]

The picture is similar in Asia, with the adverse effects of falling oil prices being accentuated by price trends for other primary commodities that account for the bulk of their nonoil imports. For Malaysia the collapse of the tin market not only means lower prices for its tin exports, but also perhaps having to put up funds to cover the International Tin Council's share of the cost of the collapse. [redacted]

Table 3
Price Changes in Key LDC Commodity Exports

Percent

	Change Since December 1984	Change Since 1980
Coconut oil	−59	−49
Palm oil	−42	−41
Tin	−40	−58
Hides	−36	102
Oil	−29	−35
Zinc	−27	−18
Phosphates	−23	28
Groundnut oil	−22	−17
Lead	−14	−60
Cotton	−14	−36
Silver	−11	−72
Corn	−11	−22
Soybeans	−11	−26
Beef	−9	−11
Rice	−8	−54
Wheat	−3	−17
Lumber	−2	−4
Rubber	1	−43
Cocoa	1	−15
Copper	1	−36
Sugar	15	−86
Coffee	32	−20

This table is Unclassified.

Table 4
Selected Debtors: Debt Servicing Capabilities

	Change in Merchandise Exports for 1985 [a] (percent)	Primary Commodities as Share of Total Merchandise Exports (percent)		Ratio of Reserves [d] to Imports (months)	Interest Payments as Share of Merchandise Exports in 1985 (percent)	Change in Value of Merchandise Imports, 1981 to 1985 (percent)
		Oil [b]	Nonoil [c]			
Argentina	1	4	76	1	63	−55
Brazil	−5	7	45	10	38	−23
Chile	−0	NEGL	65	4	39	−55
Colombia	15	NEGL	66	6	35	−27
Egypt	3	76	16	2	23	25
Indonesia	−9	77	17	4	14	−20
Ivory Coast	10	4	93	1	14	−42
Jamaica	−20	1	49	1	29	−20
Malaysia	−5	27	42	4	15	12
Mexico	−12	70	9	3	46	−67
Morocco	−10	2	59	NEGL	26	−15
Nigeria	3	96	3	1	12	−50
Pakistan	−7	1	18	1	18	7
Peru	−3	21	69	8	20	−46
Philippines	−15	3	48	2	49	−35
Thailand	−5	NEGL	59	3	26	−1
Venezuela	−11	86	6	17	22	−46
Zaire	−9	20	55	2	16	17

[a] Based on exports to OECD.
[b] Fuels.
[c] Foodstuffs plus raw materials.
[d] Total reserves minus gold.

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