

**Memorandum for:** DDI

Bob,

We received a request through [redacted]  
[redacted] this morning to supply [redacted]  
with a broad outline of the debt  
situation in Latin America. The DCI  
had asked for the information as back-  
ground for his meeting tomorrow with  
the President's Economic Advisory Board.



[redacted]

Director,

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Office of Global Issues

MEMORANDUM FOR: Special Assistant to the DCI  
THROUGH : Deputy Director for Intelligence  
FROM :   
Director, Office of Global Issues  
SUBJECT : Latin America Debt Situation

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The attached memorandum responds to your request to the NIO/Economics for information on the debt situation in Latin America. It is our understanding that the DCI may want the information as background for tomorrow's meeting of the President's Economic Advisory Board.

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Attachment:  
As stated

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External Debt Positions in Latin America

By themselves, Latin America's financial problems do not now present an insurmountable burden to the international financial system. Borrowing terms will be tightened to reflect greater risk. In the event of default by even Brazil or Mexico the impact would be most severe on major US banks. The real danger to the financial system as a whole is a combination of adverse events. A simultaneous loss of payments from Argentina, Poland, and a few other large East European or Latin American borrowers would be impossible to manage without official intervention.

I. Key ConcernsA. Magnitude of Debt

1. Three countries — Brazil, Mexico, and Argentina — account for over one-third of all LDC external debt. These LDCs are the most worrisome for international bankers.
2. US banks are heavily exposed in Latin America and have a definite interest in maintaining the financial solvency of these countries.
3. Several countries have experienced a rapid buildup of external debt in the past few years, most notably Argentina, Chile, and Mexico.

B. Difficulties in Generating Repayment

1. Many Latin American countries have high debt service ratios. High global interest rates and depressed demand for their exports make it difficult for these LDCs to meet their debt service requirements.
2. While the larger debtors (Argentina, Brazil, and Mexico) have felt the squeeze, the smaller LDCs are perhaps the hardest hit. Eight countries — Bolivia, Costa Rica, Dominican Republic, El Salvador, Guyana, Haiti, Jamaica, and Nicaragua — were in arrears on their debt payments at yearend 1981.

C. Troublesome Economic Conditions

1. Even prior to the Falklands crisis, the South American economies were feeling the effects of the world recession. Bolivia, Peru, and Uruguay were all being forced to turn to the IMF for assistance.
2. Brazil's austerity measures have improved lender confidence, but its economic performance has been uneven.
3. The two OPEC countries — Ecuador and Venezuela — are suffering from a drop in oil export revenues, which were used to back their large foreign borrowings.

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4. The Central American LDCs are experiencing domestic economic problems that are exacerbated by regional political activity. Costa Rica and Nicaragua have the most serious problems, with El Salvador, Guatemala, and Honduras close behind.
5. Mexico's economic condition is critical. Austerity measures are desperately needed to alleviate a growing debt burden.
6. In the Caribbean, Jamaica has been slow to recover from its economic troubles, while the Dominican Republic and Haiti are headed for harsher times.

D. Possible Reschedulings

1. Several countries have already obtained debt relief in 1982 — Bolivia, Guyana, Jamaica, and Nicaragua.
2. Mexico and Venezuela are already undergoing debt refinancing, and may have to seek formal rescheduling later this year.
3. Countries that will definitely receive debt relief later this year are Costa Rica and the Dominican Republic.
4. Other countries that may have to reschedule include Argentina, El Salvador, Guatemala, Honduras, and Peru.

II Current Borrowing Outlook

A. Mexico

1. Bankers' appraisals of Mexico's creditworthiness have deteriorated over the past six months.
2. With foreign exchange reserves nearly exhausted and \$10 billion in debt service obligations due during the rest of 1982, Mexico will have to pay substantially higher risk premiums to attract sufficient funds.
3. If Mexico fails to implement harsh austerity measures in the near future to curb its current account deficit, a rescheduling is possible later this year.

B. Central America and Caribbean Nations

1. Few additional bank credits will be extended to either Central America or the Caribbean nations.
2. Nicaragua and Costa Rica are currently undergoing debt renegotiations while political instability in the region makes lending to other countries unattractive.
3. Economic problems in Haiti and the Dominican Republic will make it difficult to attract new funds.

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4. Jamaica is in the process of rebuilding its economy and is seeking to get back into the international capital markets.

C. South America

1. The Falklands conflict has heightened bankers' concerns for the credit standing of many South American countries. Some bankers fear that a continuation of the conflict could lead other South American countries to align with Argentina, which may result in a curtailment of European bank lending to the region.
2. While short-term loans and export-related credits from western banks to non-Argentine South American borrowers are continuing, longer-term loans have become more difficult to obtain. Spreads on recent loans to countries in the region have increased on average by .25 percentage points over LIBOR.

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Selected Latin America LDCs: External Debt, 1981

<u>Country</u>	<u>Total Debt*</u> (billion US\$)	<u>Debt Service</u> (billion US\$)	<u>Debt Service Ratio</u> (percent)
Argentina	32.0	6.0	49
Barbados	0.2	0.03	5
Bolivia	2.5	0.4	40
Brazil	62.0	16.0	72
Chile	13.2	2.4	45
Colombia	5.0	0.9	15
Costa Rica	2.5	0.5	40
Dominican Republic	2.0	0.4	25
Ecuador	5.5	2.2	40
El Salvador	0.6	0.1	10
Guatemala	0.8	0.1	7
Guyana	0.6	0.1	35
Haiti	0.4	0.02	7
Honduras	1.2	0.2	20
Jamaica	2.0	0.3	22
Mexico	67.5	14.5	48
Nicaragua	2.7	0.2	30
Panama	3.0	0.7	42
Paraguay	0.9	0.2	20
Peru	9.0	2.2	45
Trinidad & Tobago	0.6	0.1	3
Uruguay	1.5	0.3	17
Venezuela	18.8	5.0	20

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\* Includes known medium- and long-term debt and estimated short-term debt. Short-term debt generally averages about 40 percent of total debt.

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