**MEMORANDUM FOR:** NIO/LA
DDI/OALA
DDI/EA
DDI/OGI

FYI. This is a useful brief report on LDC debt problems from a NIC consultant, [redacted] [redacted] former chief economist [redacted]

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Maurice Ernst

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NIO/Econ

**Date** 13 June 1983

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NEW YORK

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June 8, 1983

Mr. Maurice Ernst
N.I.O. - Economics
Central Intelligence Agency
Washington, D.C., 20505

Dear Maurice:

Our meeting on Friday, June 3, concentrated on Brazil and Nigeria, as you had requested. I thought it would be most useful if you had an opportunity to interact with staff people [redacted] who are concerned with those areas and hence arranged their presence at lunch. It may be of interest, however, if I set forth a few items here. STAT

I. With regard to Brazil, I should reiterate that the major banks plan to arrange a new loan and the target figure is $3 billion. This would be designed to:

a) make up part of the shortfall on interbank deposits;

b) fill in any gap that mey arise as a result of a smaller trade surplus than targeted; and

c) perhaps provide some funds toward Brazil's 1984 need (although it seems doubtful funds would be available for this.)

The banks also would begin planning for rescheduling debt principal due in 1984. Moreover, to accomplish the foregoing, a larger bank advisory committee would be established, presumably including foreign creditor banks as well as American. Even so, I agree fully with the judgement that Brazil's position remains highly uncertain, depending in part on political developments as well as world economic recovery.

2. On Mexico, the feeling at the moment is too euphoric. Progress has been realized, but the gains will not be as great as the year unfolds or indeed in 1984. The reduction in government expenditures (which

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is helping Mexico meet its IMF target on the public sector deficit) probably can not be maintained at the same level, inasmuch as the cutback to some degree reflects the transition to the new government which has not yet had time to put in place its own programs. Similarly, imports are expected to rise from the extremely low volume of the first quarter, while exports, dominated by oil, will not increase greatly. The current account deficit in 1984 will be larger than in 1983. Meanwhile, inflation is exceeding the target and may be as much as 100% for 1983. Without indexation living standards are being squeezed and the basis laid for political unrest. On the financial side, banks are working on plans to convert private sector short-term debt into longer maturities (6 to 8 years) in accordance with the program announced by the government.

3. Perhaps I should repeat on Nigeria that short-term arrears are estimated to be $6 billion, with about half owed to banks and much of the rest trade paper held by merchants and others. It is expected that the banks will reschedule $1 1/2 billion or more for three years and also provide a grace period on interest. Nigeria also seeks about $200 million of new money. As you heard, with the demand for oil picking up somewhat, the medium term outlook for Nigeria is not too gloomy.

4. A plan for rescheduling Venezuela's public sector debt due this year, as well as part of the 1984 debt, has now been presented. But the banks will insist on some agreement between Venezuela and the IMF, and this could cause trouble. Even if a compensatory financing facility is arranged, the IMF is thought likely to insist on some conditionality. Thus, it is believed the IMF will seek a unification of the existing multiple exchange rate and that Venezuela will oppose this. Venezuela also is unlikely to agree to a reduction in the public sector deficit of the magnitude believed necessary by the IMF. Meanwhile, the banks are expected to extend the existing roll-over on the debt for another 90 days and would probably extend it further if necessary. They will examine the conditionality attached to any compensatory financing arrangement, and if not satisfied may seek to have Venezuela enter into a standby arrangement with the Fund. All this will require time, so that the rescheduling may not occur until late this year.

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5. Chile is progressing better than expected and at this stage it appears the Country may be able to meet the IMF targets in accordance with the revised time-table. The $1.3 billion new loan is lining up, but with regional bank participants laggards. They are concerned about the political outlook. The regionals also are reluctant to reschedule short-term debt as is needed.

6. Peru is faring less well at the moment. Inflation is greatly exceeding the target and there is a shortfall in oil revenue because of problems with the pipeline. Peru seems unlikely to meet its IMF targets, including the reduction of the public sector deficit to 3.8% of GDP (from a revised 8.8% in 1982). The $450 million of new money from foreign banks for 1983 has been oversubscribed. However, the weak link in Peru's financing plan may be failure to receive all the refinancing of amortization and interest being asked of the Paris Club ($340 million), socialist countries ($125 million) and suppliers (amortization of $70 million).

7. Columbia apparently is running into difficulty as a result of a decline in exports, especially to Venezuela and Ecuador, and will try to raise new money through normal market channels. However, it is doubtful that the market will be receptive under current conditions. In such an event, the banks will form a committee to arrange the financing effort.

8. The Philippines are current in debt service and a number of banks have increased their exposure. Improvement in commodity prices is helping the Philippines. No rescheduling of debt is believed at this time to be required.

Sincerely,

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