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**EXECUTIVE SECRETARIAT**  
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*[Signature]*  
Executive Secretary  
4/27/83  
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April 26, 1983

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(With Confidential Attachment)

MEMORANDUM FOR THE VICE PRESIDENT  
THE SECRETARY OF STATE  
THE SECRETARY OF DEFENSE  
THE SECRETARY OF AGRICULTURE  
THE SECRETARY OF COMMERCE  
THE SECRETARY OF INTERIOR  
THE SECRETARY OF TRANSPORTATION  
THE SECRETARY OF ENERGY  
THE DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET  
CHAIRMAN, COUNCIL OF ECONOMIC ADVISORS  
ASSISTANT TO THE PRESIDENT FOR  
NATIONAL SECURITY AFFAIRS  
ASSISTANT TO THE PRESIDENT FOR POLICY DEVELOPMENT  
UNITED STATES TRADE REPRESENTATIVE  
/ DIRECTOR OF CENTRAL INTELLIGENCE

SUBJECT Senior Interdepartmental Group on International  
Economic Policy (SIG-IEP)

Attached for background is a paper on country debt issues  
for the SIG-IEP meeting to be held on Thursday, April 28,  
4:30 p.m., in Room 4426, Main Treasury Building.

*David E. Pickford*  
David E. Pickford  
Executive Secretary

Attachment

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SENIOR INTERAGENCY GROUP

April 26, 1983

ARGENTINA

- o Argentina and the U.K. have yet to reach an accommodation on the problem of blocked payments of profits and dividends to U.K. firms in Argentina.
  - oo Failure to reach an agreement could jeopardize the continuing efforts to finalize a \$1.5 billion syndicated loan and rescheduling of public sector debt.
  - oo U.K. opposition could also impede the scheduled IMF disbursements in June.
- o We are discussing the issue quietly with both parties but are not overly optimistic at this time.

BRAZIL

- o Brazilian officials met in London on April 18 to discuss the balance of payments and cash-flow outlook for the remainder of 1983.
  - oo Economists of major banks concluded that Brazil's forecasts were too optimistic and that an immediate effort to restore \$1.5 billion in interbank deposits was essential.
  - oo U.S. banks met in New York on April 26 to discuss restoring interbank deposit levels.
- o The first meeting of the U.S.-Brazil Economic Working Group was held Friday, April 22 at the Treasury Department.
  - oo Agreement was reached to undertake studies of the trade-finance links between the two countries for completion later this year.
- o Treasury officials also met privately with Finance Minister Galveas to discuss Brazil's current cash-flow position and outlook.
  - oo Minister Galveas reiterated the position outlined earlier in the week in London by the Central Bank and expressed concern that the Central Bank's negative cash position could deteriorate further to \$-1.5 billion by July from the end-March level of \$-1.0 billion.
- o At present, Brazil's Central Bank owes about \$900 million in foreign exchange to its commercial banks, resulting in late payments on external obligations of about \$600 million.
  - oo No formal "arrearages" exist, however, just "slow-payments" 15-25 days past due.

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CHILE

- o The emergency economic program announced on March 22 by the Government of Chile (GOC) should return Chile to compliance with its two-year IMF stand-by by end-September.
  - oo The plan centers on a debt restructuring program for Chilean borrowers to be financed by the public sector through higher tariff collections.
  - oo Chile's international competitiveness is also to be enhanced through accelerated peso depreciation.
- o The GOC's talks with its 12-bank Advisory Committee are well advanced concerning restructuring of public sector and private financial sector debt maturing in 1983 and 1984.
- o The GOC has also requested about \$1.25 billion in new bank financing, which banks are reluctant to provide while Chile is out of compliance with its IMF program.
- o However, in view of the GOC's emergency economic program, the twelve members of the Advisory Committee are willing to provide \$180 million (\$15 million each) in bridge financing to help get the GOC back on track, if official sources also contribute to the bridging operation.
- o Chile and the BIS are discussing the possibility of a \$300 million arrangement.

MEXICO

- o Secretaries Shultz, Regan and Baldrige visited Mexico on April 18 and 19 for a meeting of the U.S.-Mexico Binational Commission.
  - oo The meetings were friendly and went very well.
  - oo The current Mexican economic situation, future economic prospects, the effect of the drop in oil prices, bilateral trade relations, the world and U.S. economic situations, the prospects for recovery and the Williamsburg Summit were among the topics discussed.
- o The Mexicans said they needed no additional official assistance at this time and do not expect to need further assistance -- commercial bank or official -- unless there were a sharp drop in oil prices.
- o The Mexicans mentioned their interest in a rescheduling of official (including Eximbank) direct and guaranteed credits to the private Mexican sector.
  - oo The U.S.G. is discussing informally with GOM officials the Mexican views on such a rescheduling.

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- °° The U.S. has also sent a cable to other creditor countries reporting on discussions to date.
- °° In addition, U.S. officials plan to meet with other creditor countries in Washington on April 28 or 29 on the fringes of the Development Committee meeting to discuss their views on a rescheduling.
- o Mexican arrears to foreign official institutions have been discussed in the Paris Club in February, March and April.

#### VENEZUELA

- o On March 27, the Government of Venezuela (GOV) modified the three-tier exchange rate system to provide coverage of most private sector external debt, including that of multinational corporations, at the preferential rate of Bs 4.3/\$1.
- o The GOV has deferred until July 1, 1983, payment of principal on financial and nonfinancial public sector short and medium-term financial credits to allow time for refinancing of \$10 billion of short-term debt and \$2 billion of maturing medium and long-term debt.
  - °° The GOV intends to keep current on all interest payments.
- o Negotiations between the GOV and the banks will be arduous.
  - °° Banks are concerned that Venezuela's oil export earnings are likely to fall at least \$2 billion in 1983 to \$13.5 billion.
  - °° Although banks are encouraged by the GOV's recent steps to limit 1983 imports and its decision to expand private sector access to the preferential exchange rate, they are likely to insist upon an IMF stand-by program as a condition.
  - °° Foreign reserves have continued to dwindle, adding greater urgency to successful negotiations with the banks.
- o Article IV consultations with the IMF have been completed.
  - °° Venezuela will probably use its SDR holdings (\$427 million) and IMF reserve tranche (\$817 million) shortly.
- o In a meeting with Secretary Regan on April 21, Finance Minister Sosa said the GOV would like to arrange an IMF standby for end-1983 or early 1984.

#### Peru

- o Finance Minister Rodriguez-Pastor will be in Washington on April 28 and 29 for the Development Committee meetings and will be meeting with Treasury officials.

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- °° Peru may request a Paris Club rescheduling in the near future.

#### NIGERIA

- o An IMF mission returned from Lagos in mid-April with the sense that there is a general willingness in the Government to hold serious discussions, although this is still a long way from hard negotiations.
  - °° The IMF team did not have a mandate to negotiate, having been invited by Nigeria to reiterate previously ignored advice. Fund staff members feel that Nigerian officials were listening attentively this time.
  - °° The Nigerians are still concerned about the August elections, but are considering the public relations aspects of Fund negotiations.
  - °° Further discussions are taking place on the fringes of the April 28-29 Development Committee meetings and may be followed by another IMF mission.
- o A meeting of bankers in London on April 11-12 to discuss Nigeria's debt and arrears ended inconclusively.
  - °° Several British banks made a strong pitch for a restructuring of arrears. This was strongly resisted by other British banks and U.S. banks.
  - °° Sympathetic British banks evidently have indicated to the Nigerian Central Bank that American banks are being un-cooperative.
- o A draft options paper on the possibility of USG bilateral assistance is circulating to SIG agencies for staff level comment prior to future SIG discussion.

#### YUGOSLAVIA

- o The Yugoslavs invited the IMF, banks and governments to a meeting in Switzerland on April 16 to see if impediments to the financial packages could be overcome.
  - °° The meeting concluded on a positive note, and the outcome, though procedural, should get the Yugoslav exercise moving again.
  - °° The governments maintained a solid front and refused to consider reopening their \$1.36 billion package or to negotiate as a group with the banks regarding the content and quality of their package or burdensharing between them and the banks. The banks accepted this.

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- °° The governments agreed to provide information regarding implementation of their pledges to the Swiss for distribution to the IMF and the banks by April 30.
- °° As a result of the positive conclusion of the meeting, the BIS disbursed the government backed portion of its loan (\$300 million) to Yugoslavia on April 20, 1983.
- °° The gold-backed portion (\$200 million) is still in abeyance pending waiver of negative pledges by Kuwait and French Banks.
- °° The Yugoslavs have told the BIS they expect the Kuwaiti problem to be resolved shortly. The BIS has advised the Yugoslavs to talk to the French Government.

POLAND

- o The Paris Club met April 12, 1983 to discuss Polish debt.
  - °° The U.S. delegate reiterated our analysis that Poland would not be able to pay credits close to what it owes, even assuming a reasonable debt rescheduling and the \$800 million in new credits the Poles expect to receive from the west in 1983.
  - °° All countries except Canada and the Netherlands indicated a desire to enter into debt rescheduling discussions with the Poles. The neutrals were the most insistent, feeling that talks should begin now.
  - °° It was decided at the meeting to establish a working group to evaluate Polish performance under the 1981 rescheduling and the status of information on the Polish economy. The working group will report its findings to the Paris Club in May.
  - °° We expect the May meeting to focus on the working group's report and to then consider how to procede.
- o The NSC met on April 8, to discuss a State/NSC options paper on Polish debt rescheduling. It was decided to work out a phased step-by-step approach to a rescheduling that would be linked to political/human rights measures by the Polish Government.
  - °° Treasury and State are jointly working on such an approach. We expect to complete it soon and to circulate it to the SIG-IEP members for their comments.

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