25X1

Page Denied

Next 1 Page(s) In Document Denied

 25X1

Central Intelligence Agency

Washington, D. C. 20505

DIRECTORATE OF INTELLIGENCE

International Financial Situation Report #29
21 June 1984

Summary

Recent statements by bankers regarding the consideration of a multi-year rescheduling for Mexico at favorable terms — in view of Mexico's substantial progress in adjustment — mark a new stage in bank debt negotiations. Bankers have been reluctant to offer such concessions for fear of setting precedents for other countries. In addition, debtors likely will appeal to official creditors to take steps to ease the debt burden and share some of the costs. Other developments in recent weeks include:

- Latin American foreign and finance ministers are meeting on 21-22 June in Cartagena, Colombia to discuss debt and trade problems facing the region. The conference is unlikely to result in any form of debtors' cartel but likely will produce a joint statement calling for the industrial countries to take action to ease the debt burden.

- Mexican financial authorities are seeking more favorable repayment terms from creditors and soon will open formal discussion on a financial package of over $60 billion of public sector debt. We expect the new round of debt rescheduling negotiations to be difficult and see little chance for a quick agreement.

- Brazil plans to pursue two initiatives in its debt strategy [redacted] 25X1 Foreign Minister Guerreiro will lead a Brazilian delegation to the Cartagena conference to emphasize the need for political action by the industrialized country governments, and the government's economic team is preparing to negotiate separately its own debt rescheduling and new money needs with foreign bankers.

- In early June, while negotiations were still under way with an IMF technical team, Buenos Aires sent the Fund's Managing Director an outline of an adjustment program, widely touted in the press as a letter of intent. The document was described by the US Embassy as a political statement outlining the broad parameters of adjustment and not an economic program designed to obtain Fund approval.

- The Philippines appears to be moving decisively in anticipation of concluding an agreement with the IMF as evidenced by a series of executive orders and presidential decrees dated 5 June. [redacted] 25X1

NOTE: THE NEXT REPORT WILL BE PUBLISHED ON 19 JULY 1984.

This situation report was prepared by analysts of the Intelligence Directorate. Comments are welcome and may be addressed to the Situation Report Coordinator [redacted] 25X1
25X1

GI M 84 10108C
[redacted] 25X1
Copy 72 of 78

25X1

[redacted]

KEY ISSUE

A New Stage in Debt Negotiations

Recent statements by bankers regarding the consideration of a multi-year rescheduling for Mexico at favorable terms — in view of Mexico's substantial progress in adjustment — mark a new stage in creditor negotiations on debt. However, this is only one example of the banks' evolving positions. A recent $15 million loan to Paraguay, co-financed by the World Bank and commercial banks, contains a capping provision whereby the loan's maturity would be extended if LIBOR exceeds 12 percent in the last five years of the ten-year credit. In addition, [redacted] a growing number of bankers are willing to reschedule Venezuela's debt — as long as no new money is required — without a formal IMF-supported program in place, a reversal of their position held for more than a year. [redacted] 25X1 25X1

Banks have been reluctant to offer such concessions for fear of setting precedents for other debtors. For example, the terms of last year's Mexican rescheduling with a lower interest spread and longer repayment period have been the benchmark by which other debtors have set their demands this year. Moreover, the outcome of Argentina's debt negotiations will have major implications for upcoming restructuring efforts. Countries outside of Latin America — including Yugoslavia and the Philippines — also are closely watching the situations involving Latin debtors. [redacted] 25X1

Debtors will continue to press creditors for additional concessions in debt negotiations. Nevertheless, major debtors do not want to jeopardize relations with creditors, and they continue to prefer a case-by-case approach to debt negotiations based on their individual merits. For example, the Latin debtors conference in Cartagena probably will not produce any joint debt negotiation stances. Participants are likely, however, to appeal to official creditors to take steps to ease the debt burden and share some of the costs. [redacted] 25X1

DEVELOPMENTS IN MAJOR COUNTRIES

Mexico

Mexican financial authorities are seeking more favorable repayment terms from creditors and soon will open formal discussion on a financial package of over $60 billion of public sector debt. Earlier this month Mexico's 11-bank steering committee agreed to listen to Mexican proposals in New York during the last week of June. The move follows several months of informal consultations with international bankers and Western monetary authorities. [redacted] 25X1

According to [redacted] Embassy reporting, Mexico probably will request: 25X1

- o Multi-year rescheduling of up to $26 billion in principal on loans not already rescheduled and coming due between 1985 and 1990, with 12-15 years to repay including 7-8 years of grace;
- o Interest rate concessions, including a cap on increases, lower spreads above LIBOR, and dropping of the banks' US prime rate option; and

[redacted] 25X1

 25X1

[redacted]

- Securing of better repayment terms for $26 billion in debt already rescheduled, and for $8.8 billion in new loans made in 1983-84 in conjunction with debt reschedulings. [redacted] 25X1

Given Mexico's good austerity record and growing pressures from other debtors for collective debtor action, we believe Mexican officials see themselves in a strong bargaining position and will press hard for all points. These officials also want to offset criticism from within their government and from opposition politicians — who continue to call for a debt moratorium or repudiation — that they have been too soft with foreign bankers. The pressure of higher world interest rates on Mexico's hard hit economy and the strong endorsement of its tough economic adjustments by major US banks and Western governments have further emboldened Mexico. [redacted] 25X1

We expect the new round of debt rescheduling negotiations to be difficult and see little chance for a quick agreement. [redacted] many bankers — in particular those from US regionals and European banks — are fundamentally opposed to generous concessions on interest and to reconsideration of financial packages set during the past two years. [redacted] incentives from both sides to compromise should lead to an agreement by yearend. [redacted] 25X1 25X1 25X1

Even though government policy remains tough, economic and financial pressures to ease up on austerity are mounting.

- [redacted] Mexico met its first quarter performance criteria, the targets — including public sector deficit limits — are proving more difficult to attain. Inflation continues substantially above the target. 25X1

- Preliminary industrial statistics indicate that the economy may have bottomed out, but there is still no sign of an economic recovery. Imports remain depressed, and capital flight has continued at a high level.

- The small wage hike announced this month, however, will help efforts to maintain tough austerity and strengthen Mexico's position with international bankers in debt rescheduling talks. The June mid-year agreement allowed minimum wages to go up only 20 percent, less than half of what union leaders had demanded. This assures the third consecutive year of sharply falling real wages. [redacted] 25X1

Underscoring President de la Madrid's emphasis on finding pragmatic, collective solutions to regional problems, Mexico is playing an increasingly active but moderating role in Latin American debt negotiations. Although Mexico City believes that cooperation and consultations among Latin American debtor countries provide greater leverage in talks with creditors, de la Madrid supports country-by-country settlements rather than a debtors' cartel or other collective action. Indeed, Mexico has announced publicly that it would oppose any form of debtor cartel that might be discussed at the Cartagena conference. According to Embassy reporting, Mexican officials believe that their relative success in implementing austerity will allow them to secure better bilateral deals than by acting in concert with other Latin American debtors. [redacted] 25X1

[redacted] 25X1

 25X1

[redacted]

Brazil

Brazil plans to pursue two initiatives in its debt strategy, one involving the foreign ministry and the other the economic team. President Figueiredo has asked Foreign Minister Guerreiro [redacted] to lead a Brazilian delegation to the Cartagena conference to emphasize the need for political action by the industrialized country governments to join in a search for a solution to the Latin debt crisis. [redacted] the Brazilian government felt prompted to participate in the debtor conference because of two principal concerns: domestic political discontent with rising US interest rates and the risk that worsening financial crises in neighboring debtors could lead to serious national security risks for Brazil. Although Brasilia would like the Latin debtors to produce specific constructive proposals for dealing with the debt crisis, it has emphasized [redacted] that it is opposed to a debtors' cartel, a debt moratorium, confrontations with creditors, or even development of a joint negotiating position. [redacted] 25X1 25X1 25X1 25X1

Meanwhile, the government's economic team is preparing to negotiate debt rescheduling and new money needs with foreign bankers. [redacted] Central Bank President Pastore recently stated to the press that Brazil will need no additional bank financing in 1984 and will not begin discussion regarding 1985 until this fall when the interest rate picture and next year's financial needs become clearer. [redacted] 25X1 25X1

Argentina

In early June, while negotiations were still under way with an IMF technical team, Buenos Aires sent the Fund's Managing Director an outline of an adjustment program, widely touted in the press as a letter of intent. [redacted] The document was described by the US Embassy as a political statement outlining the broad parameters of adjustment and not an economic program designed to obtain Fund approval. The letter emphasized Argentina's insistence on real wage hikes of 6-8 percent this year and its unwillingness to institute further spending cutbacks. The Embassy reported, however, that specifics of the monetary accounts, exchange rate policy, and trade issues were omitted, providing room for continued discussion. According to the US Embassy, the letter reflects the economic adjustments President Alfonsin believes he can take at this time, especially in view of mounting labor pressures. We also believe that the wide exposure that the letter received in Buenos Aires will make it increasingly difficult for Alfonsin to gain support from the Congress or opposition for austerity measures in the future. [redacted] 25X1 25X1

Argentina has reacted with restraint to the US decision not to extend its $300 million loan guarantee associated with the 30 March rescue loan, and probably hopes to minimize the effect of the US action on ongoing bank negotiations, according to Embassy reporting. We expect the Argentines to again request US financial help once a tentative Fund accord has been reached. [redacted] 25X1

[redacted] 25X1

[redacted] 25X1

[redacted] 25X1

REGIONAL SITUATIONS

Latin America

In Latin America, Chile experienced a strained payments position prior to signing its $780 million loan, Venezuela has made slow progress on paying private sector interest arrearages, the Banco de Colombia initiated refinancing discussions, and Bolivia temporarily suspended all debt service. [redacted] 25X1

Chile

Finance Minister Escobar signed Chile's $780 million loan on 14 June in New York, according to press reports. He overcame bankers' initial resistance to participation in the credit by agreeing to comply with the existing IMF-supported program and reassuring creditors that Santiago would continue its cautious reflationary policies. The new loan carries a nine-year repayment term, including a five-year grace period, with an interest spread of 1.5 percentage points above the US prime — a sharp reduction from the 2.25 spread on last year's credit. According to Embassy reports, Escobar will seek disbursement of the first two tranches — totaling $390 million — by the end of June. [redacted] 25X1
[redacted] 25X1

The delay of the syndication — Santiago expected disbursement of the first $195 million tranche in April — coupled with scheduled debt repayments has strained Chile's cash position. To conserve reserves, Escobar drew down the remaining $250 million of the $550 million BIS credit for 1983-84, according to Embassy reports. Chilean banks and government agencies also have tried tapping unutilized trade credits, but banks have refused. Although these moves could be interpreted as temporary expedients until the new money loan is disbursed, we believe they also portend mounting payments problems. According to the Embassy, Chile's trade surplus was down 12 percent to $372 million for the first four months of 1984 over the same period last year, mainly because of depressed copper prices. Foreign investment inflows probably are declining — the government has recently scaled down its 1984 estimate from $160 million to $100 million — because of political and economic uncertainty. We believe payments pressures will intensify in the second half of 1984 — even with disbursement of the $780 million loan — because of the rise in world interest rates and the threat of restrictions on copper exports. [redacted] 25X1

[redacted] 25X1 The Embassy reports that President Pinochet — angered by rising world interest rates and restrictions on copper — is becoming more willing to adopt radical positions on the debt, such as joining and helping to form a debtors club. In view of this changing political position, we believe Escobar may be building up foreign exchange to finance a politically expedient reactivation program that could push Chile out of compliance with the IMF and shut off further bank credit. [redacted] 25X1

[redacted] 25X1

[redacted] 25X1

Venezuela

[redacted] 25X1 According to Embassy reporting, Financial Minister Azpurua announced that $140 million will soon be made available for payment at preferential exchange rates toward the nearly $1 billion in outstanding private interest arrearages. Under a new decree law, Caracas is attempting to accelerate the approval process by authorizing foreign exchange for interest payments even before debt registration is completed with RECADI, the agency responsible for providing preferential dollars. Azpurua insists $400 million will be approved under the new decree by the end of June, but bankers remain skeptical. According to Embassy reporting, RECADI currently is approving only $20 million in advance payments at its weekly meeting — one-sixth the rate necessary to meet the $400 million goal. In addition, recent efforts to collect interest approved under the decree were rejected by RECADI. [redacted] 25X1

Meanwhile, Caracas is continuing other steps to resolve its financial stalemate with bankers. The government has paid almost $2 billion in public sector principal and interest, including $713 million to official creditors, since the Lusinchi administration took office. [redacted] 25X1 25X1 Caracas hopes that these efforts will persuade banks to refinance the public debt without an IMF-supported program, but we believe any progress realized will be contingent upon settlement of overdue private sector payments. [redacted] 25X1 Venzuela needs to demonstrate progress on private sector interest payments before the end of July to persuade banks to extend the moratorium on public sector principal. [redacted] 25X1

25X1

Peru

An IMF team visited Peru in late May to review its economic program and found that Lima had met performance criteria for the first quarter, according to Embassy reporting. We believe the Belaunde administration will have severe difficulties remaining in compliance with its standby arrangement this year, however, in the face of mounting social unrest and presidential election campaign spending pressures. On 9 June, the Peruvian government imposed a 30-day state of emergency to cope with social unrest caused by worker demands for wage increases to compensate for the rising living costs. Indeed, Embassy reporting indicates that the IMF team leader believes that Peru will have to renegotiate targets in August. A review of current data suggests that the public sector deficit will reach 6.1 percent of GDP, two percentage points above the standby program limit. [redacted] 25X1

The Paris Club met on 4-5 June to reschedule Peru's official debt, according to Embassy and press reporting. Western governments agreed to reschedule over $1 billion of maturities falling due between 1 May 1984 and 31 July 1985. Payments on 90 percent of the total amount will be made over nine years with five years of grace. Of the remaining 10 percent, half will be due as scheduled and the other half due by 31 December 1985. [redacted] 25X1

[redacted] 25X1

Sanitized Copy Approved for Release 2011/04/04 : CIA-RDP85T00287R001200200001-8

25X1 [redacted]

Colombia

The bank advisory committee formed to assist Banco de Colombia met with financial officials in Bogata in late May [redacted] 25X1 The committee proposed that the Colombian government guarantee 25X1 repayment of about $363 million of the $610 million that Banco de Colombia requested be refinanced. Banco de Colombia incurred $160 million in foreign debt for food import financing on behalf of Idema, a government agency, and about $203 million in unregistered loans, largely held by Panamanian affiliates. The Central Bank has already moved, according to Embassy reporting, to refinance Idema, which would reduce the amount of pressure on the Banco de Colombia refinancing. Embassy [redacted] 25X1 reporting indicate that refinancing negotiations for Banco de Colombia probably will take six to nine months. [redacted] 25X1

Meanwhile, international reserves fell less rapidly in May, according to Embassy reporting, as coffee earnings increased. Reserve loss was $107 million compared with an average of $233 million in the first four months of 1984. Gross reserves stood at nearly $2.2 billion as of 25 May, while liquid reserves amounted to a little over 1.5 months of imports. Although reserve loss was expected early this year, the actual numbers were unsettling, according to Embassy reporting, because of the extraordinary measures taken late in 1983 to manage the reserves and because of seasonal factors. [redacted] 25X1

Bolivia

The Bolivian government formally announced suspension of all principal and interest payments to commercial banks, according to Embassy and press reporting. The decision was part of a response to labor demands made by the powerful Bolivian Workers' Central group to end weeks of labor unrest. New Finance Minister Bonifaz stated publicly that Bolivia is continuing to negotiate a restructuring with banks, but it is unable to make any payments until an agreement is reached. Bolivia is now technically in default for failure to pay three months of overdue interest. Since March, Bolivia has owed commercial banks $22.5 million and had agreed to pay $7.5 million every month by 15 June. According to Embassy reporting, this situation will not cause any serious problems for banks because most banks have placed their Bolivian loans on nonperforming status. [redacted] 25X1

Ecuador

Ecuador announced publicly on 4 June that it had suspended principal and interest payments on almost $250 million owed to foreign governments and suppliers, which fall due between 1 June 1984 and 31 December 1985, and was seeking debt relief. The announcement makes public Ecuador's 26 April 1984 request to the Paris Club. Suspension of debt service payments during the consolidation period is usually done by debtors while requesting a Paris Club rescheduling. In addition, Ecuador has reached an agreement in principle with the bank advisory committee on a debt relief package for 1984 [redacted] The agreement calls for rescheduling of 25X1 $353 million of public sector debt and $240 million of private sector debt originally falling due this year over eight years with four years of grace, the delaying of about $150 million in public and private debt maturing in 1984 that was part of the 1983 rescheduling package, and the rollover of $150 million in arrearages on trade-related credits. This restructuring package is conditional on the final disbursement under Ecuador's current IMF standby arrangement that expires on 24 July. The banks have also agreed to start negotiations on a $350 million loan to be disbursed once the newly-elected government of Leon Febres Cordero — who takes office in August — reaches agreement with the IMF for a new standby loan. [redacted] 25X1

[redacted] 25X1

[redacted]

Eastern Europe

In Eastern Europe, Yugoslavia rescheduled its 1984 debt repayments owed to banks and Western governments, and progress has been slow on Poland's Paris Club negotiations. [redacted] 25X1

Yugoslavia

Yugoslavia signed debt rescheduling agreements with Western governments and commercial banks in mid-May. The banks agreed to refinance all 1984 maturities — totaling $1.3 billion — on more favorable terms than those for 1983, including a repayment period of seven years with four years of grace at 1.6 percentage points above LIBOR. The 15 Western governments agreed to refinance $800 million and to carry over nearly $400 million of unused credits from last year's package. [redacted] 25X1

The reschedulings were threatened at the last minute by a dispute between Yugoslavia and the IMF. The Fund suspended disbursement of the first tranche of its 1984 standby program, claiming Yugoslavia violated a requirement to lift its price freeze on 1 May. The Fund specifically objected to Belgrade's insistance that companies give 30 days' notice before raising prices. Yugoslavia finally agreed to lift the 30-day notice by the end of August and is now eligible to draw the first tranche of $100 million by the end of June. [redacted] 25X1

[redacted] 25X1

Belgrade also indicated that they would like to avoid further Paris Club reschedulings [redacted] Such a move, however, could upset bankers who are concerned that all creditors should be treated equally. Some bankers still harbor ill feelings about the 1983 rescue package because they feel the burden fell too heavily on private banks. [redacted] 25X1 25X1

The Yugoslavs apparently are approaching further debt relief with an eye on Latin American debtors. The Embassy reports that extensive press coverage has been given to statements of Latin American debtors and that a recent conversation with a Yugoslav official dealt at some length with Latin American financial problems. We do not believe Belgrade is interested in a debtors' cartel, but rather would insist on more favorable terms should this occur in Latin American reschedulings. [redacted] 25X1

Poland

Progress with the Paris Club has been slowed by Warsaw's delays in meeting the creditors' conditions for resuming debt relief negotiations. Last month, Warsaw agreed to pay all creditors by the end of May 20 percent of the arrearages under the 1981 Paris Club rescheduling agreement as well as all of the unrescheduled debt due the United

[redacted] 25X1

[redacted] 25X1

States in 1981. At a 6 June Paris Club meeting most creditors reported receiving only partial payments, according to Embassy reporting. In addition, Warsaw maintains that it will pay only 20 percent of $34 million in unrescheduled principal and interest due under the 1981 bilateral agreement with the United States. A rambling statement delivered by Poland to the Paris Club creditors on 18 June added to the confusion by reviving earlier Polish requests for new credits and IMF membership, according to Embassy reporting. A Polish official added, however, that Warsaw did not mean to imply that covering the 1981 payments is contingent on fulfillment of these requests. The US Embassy in Paris reports that the French, who chair the Paris Club, support the US position and will not proceed with the scheduled 19 July meeting to begin negotiations for debt relief for 1982 and 1983 unless Warsaw meets its obligations by the week of 9 July. [redacted] 25X1

[redacted] 25X1

East Germany

[redacted] 25X1

East Germany's financial position is improving; last month, the East German foreign trade bank raised a $75 million credit in the Euromarkets. While not large, the credit is East Germany's first medium-term untied loan since late 1981. A second major intra-German loan within a year would further strengthen East Germany's credit prospects. [redacted] 25X1

Hungary

Budapest continues to have success in raising commercial loans and should easily cover its 1984 borrowing target of $1.1 billion. A planned $150 million bankers' acceptance facility eventually reached $210 million when signed in April. In addition, Hungary's effort to arrange a $385 million World Bank co-financing package is progressing well, and the loan is tentatively scheduled for completion by mid-July. [redacted] Budapest probably will reenter the international capital markets this fall in an effort to raise another $200-300 million. [redacted] 25X1 25X1 25X1

Asia

In Asia, the Philippines is progressing towards an agreement with the IMF [redacted] 25X1

[redacted] 25X1

[redacted] 25X1

Philippines

President Marcos appears to be moving decisively in anticipation of concluding an agreement with the IMF. In a series of executive orders and presidential decrees dated 5 June, Marcos announced a float of the peso, a rise in the import surcharge from 8 to 10 percent, a five-percent cut of government budgets, imposition of an excise tax of 10 percent on some foreign exchange sales, and a "windfall" profits tax on export earnings, and prior Presidential approval of future borrowings by government owned or controlled corporations. According to Embassy reporting, the local IMF representative initially was not impressed by the new measures and would adopt a wait-and-see attitude, particularly towards the currency float. In addition to concerns that the Central Bank may be intervening to hold the peso at 18 to the dollar — an effective devaluation of 22 percent — we believe the controls on allocation of foreign exchange for import and export transactions and the import surcharge conflict with the Fund's recent recommendations to reduce dependence on international trade taxes and adopt a flexible exchange rate policy. [redacted] 25X1

Embassy traffic indicates that the Philippines did not have a prior understanding with the IMF that these measures would seal an agreement. [redacted] 25X1
[redacted] the IMF had proposed that a float take place only after all necessary monetary and fiscal measures had been implemented. Earlier efforts to conclude an agreement failed after money growth soared by over 47 percent prior to the May elections. According to Embassy reporting, the Fund will take 6-8 few weeks to assess implementation of the latest series of measures before completing an agreement. According to press reports, the IMF is looking for a cut in imports to $5.5 billion, about 20 percent below last year's level, a 10-percent increase in exports to $5.5 billion, and a limit on the budget deficit to below 1.5 percent of GNP. The Philippines' Paris Club creditors were informed by the IMF that, assuming successful implementation of these measures, the Fund's executive board could meet in early August. [redacted] 25X1

The slow pace of discussions with the Fund has forced the Philippines to request a fourth extension of the 90-day moratorium on principal repayments to the country's estimated 450 commercial creditors. [redacted] 25X1

[redacted] 25X1

[redacted] 25X1

25X1

[redacted]

Africa/Middle East

Nigeria

The Nigerians continue to adhere to their strategy of delaying agreement with the IMF pending favorable developments in the oil markets. [redacted] 25X1 The Embassy notes there is little popular support for the adoption of a Fund program. While a handful of senior Nigerian officials are still going through the motions with the IMF, the preponderance of evidence from the local press [redacted] suggests that Lagos and the Fund are actually drifting apart. [redacted]

Press and Embassy reporting confirms that many Nigerian officials consider increased oil production through the remainder of the year as a realistic alternative. 25X1 Proponents of this view note that the revenue generated by increased oil sales will exceed any likely IMF credits. Nigeria has been seeking up to $2.7 billion under a three-year extended fund facility and probably will be allowed to draw no more than $800 million annually. 25X1 We estimate, however, that every additional 100,000 barrels per day Lagos pumps on an annual basis earns in excess of $1 billion. Given the normal seasonal increase in demand for oil over the second half of the year, we believe Lagos could pump an additional 200,000 barrels per day through December without raising the ire of other OPEC members. We believe that the FMG would not provoke what they perceive to be the domestic consequences of devaluation, an end to petroleum subsidies, and trade liberalization as long as a production increase alternative remains open. [redacted] 25X1

The FMG still has almost $3 billion in arrearages on officially guaranteed trade credits, and almost certainly is coming under increased pressure from various European export credit agencies to move forward in discussions with the IMF. [redacted] 25X1 The Nigerians will be careful to avoid the appearance of a breakdown in discussions because of concern that trade finance lines could dry up. [redacted] 25X1

25X1

[redacted]

25X1

 25X1

[redacted]

ANNEX

The Cartagena Debt Conference

Latin American foreign and finance ministers will meet on 21-22 June in Cartagena, Colombia to discuss debt and trade problems facing the region. [redacted] 25X1 [redacted] the Presidents of the major debtor countries — Brazil, Mexico, 25X1 Argentina, and Venezuela — do not advocate a debtors' cartel, and recognize that such action would jeopardize debt renegotiations and access to funds. [redacted] 25X1

Instead, the conference probably will issue a joint statement aimed at dramatizing the Latins' plight and calling on the industrial countries to take concrete steps to ease their repayment burden. It also seems likely to represent a turning point for the Latin countries, who may increasingly use political pressure to obtain repayment concessions from lenders, a move that could pose dangers for current financial rescue programs. [redacted] 25X1 25X1

Debtor Positions

Argentine President Alfonsin issued the call for the conference in reaction to rising US interest rates. Although initially viewed as a technical meeting of the major debtors, foreign ministers as well as economic officials will attend the meetings.

- <u>Brazil</u>'s acting Foreign Minister recently told US officials that support for the conclave reflects growing Latin criticism of rising interest rates and their threat to stabilization programs, but that Brazilia would not join a debtors' cartel, according to [redacted] Embassy reporting. 25X1

- <u>Mexico</u>'s President de la Madrid has downplayed radical approaches to the debt crisis, according to the US Embassy, in favor of seeking constructive solutions.

- <u>Argentine</u> Foreign Minister Caputo told the US Embassy that Argentina would not do anything irresponsible or excessive at the meeting.

[redacted] 25X1

- <u>Colombian</u> officials favor a low-key approach to persuade the US to lower interest rates [redacted] 25X1

- <u>Chile</u> will not play an active role, according to Finance Minister Escobar, although there is growing support in some Chilean government circles for joint action to improve repayment terms, according to Embassy reporting.

Some of the smaller debtors — such as Bolivia and the Dominican Republic — may push for more radical solutions but they lack influence with the major debtors. [redacted] 25X1

[redacted] 25X1

 25X1

A Formal Cartel Unlikely

Although Western bankers are apprehensive about the potential for joint action, all the major debtor countries recognize such an action would only jeopardize their future access to world money markets and their individual bank renegotiations. Participation by the large debtors is crucial to a cartel because they hold some 60 percent of Latin America's $350 billion external debt. Nonetheless, the conference will put pressure on Latin officials to get tough with bankers in bilateral debt negotiations.

25X1

Latin American political leaders — spurred on by the Argentines — will emphasize the need for a political solution to the debt problem. In our judgement, their joint communique probably will criticize growing protectionism in addition to dissatisfaction over rising intrest rates that are undermining their stabilization programs. They are also likely to call for more flexible IMF conditions and propose measures to ease the repayment burden, such as a ceiling on interest rates. 25X1

Beyond Cartagena

For the longer term, debt management probably will increasingly become a political issue. Latin American leaders will exert more pressure on the industrial countries to take a more active role in easing the repayment burden. Their demands will likely center on the need for official intercession with the IMF to ease austerity measures, and with private banks to extend multi-year debt restructuring packages on easier terms. 25X1

As debt management takes on a greater political dimension, debtor countries will have to carefully weigh the possible impact on new lending flows. Any relaxation of IMF conditions will reduce the willingness of bankers to lend because their financial support is contingent on economic adjustment. At the same time bankers' reluctance to reduce interest rates to levels sought by some debtors is likely to put increased pressure on creditor countries — particularly the United States — to find a solution. 25X1

25X1

Trade Trends in Key Debt-Troubled Countries

Million US Dollars at a Seasonally Adjusted Annual Rate

	Annual		Quarterly					1984			
	1982	1983	83I	83II	83III	83IV	84I	Jan	Feb	Mar	Comment
Argentina											
Exports	7,600	**7,940**	7,720	7,340	7,590	**9,100**	**7,860**	**7,880**	**7,690**	**8,020**	
Imports	5,390	**4,510**	4,350	4,870	4,750	**4,080**	**3,720**	**3,640**	**3,740**	**3,770**	
Balance	2,210	**3,430**	3,370	2,470	2,840	**5,020**	**4,140**	**4,240**	**3,950**	**4,250**	
Brazil											
Exports	20,200	21,850	20,590	23,070	22,320	21,420	**25,010**	22,780	26,380	**25,880**	Embassy reports first quarter exports
Imports	21,080	16,840	17,660	16,360	16,250	17,110	**14,950**	15,120	15,030	**14,700**	of manufactured goods up 40 percent
Balance	-880	5,010	2,930	6,710	6,070	4,310	**10,060**	7,660	11,350	**11,180**	over same period year earlier.
Chile											
Exports	3,810	3,840	3,640	4,170	3,860	3,680	**3,820**	**3,770**	**4,080**	**3,600**	
Imports	3,560	2,750	2,780	2,700	2,660	2,880	**3,460**	**3,370**	**3,660**	**3,350**	
Balance	250	1,090	860	1,470	1,200	800	**360**	**400**	**420**	**250**	
Colombia											
Exports	3,030	3,000	2,990	2,850	3,030	3,120	**2,830**	**2,860**	**2,710**	**2,920**	
Imports	5,480	4,980	5,270	5,220	4,660	4,750	**4,390**	**4,260**	**4,220**	**4,690**	
Balance	-2,450	-1,980	-2,280	-2,370	-1,630	-1,630	**-1,560**	**-1,400**	**-1,510**	**-1,770**	
Ecuador											
Exports	2,150	2,200	2,240	2,310	2,080	2,170	**2,230**	2,190	2,430	**2,080**	
Imports	1,990	1,470	1,530	1,420	1,320	1,620	**1,880**	1,670	2,010	**1,980**	
Balance	160	730	710	890	760	550	**350**	520	420	**100**	
Egypt											
Exports	3,140	**3,220**	2,820	2,780	4,060	**3,230**	**3,340**	**3,890**	**3,180**	**2,940**	
Imports	8,870	**10,740**	10,760	11,210	11,680	**9,310**	**12,160**	**11,230**	**12,190**	**13,070**	
Balance	-5,730	**-7,520**	-7,940	-8,430	-7,620	**-6,080**	**-8,820**	**-7,340**	**-9,010**	**-10,130**	
Indonesia											
Exports	22,140	**22,070**	19,250	20,940	23,360	**24,740**	**21,370**	**20,410**	**21,380**	**22,310**	
Imports	**17,280**	**13,700**	**15,240**	**13,750**	**13,640**	12,160	11,450	10,630	12,060	11,670	
Balance	**4,860**	**8,370**	**4,010**	**7,190**	**9,720**	12,580	9,920	9,780	9,320	10,640	
Ivory Coast											
Exports	2,310	**2,240**	2,380	1,790	2,370	**2,420**	**2,210**	**2,080**	**2,340**	**2,210**	
Imports	2,180	**1,860**	2,020	1,740	1,970	**1,720**	**1,960**	**2,050**	**1,830**	**2,010**	
Balance	130	**380**	360	50	400	**700**	**250**	**30**	**510**	**200**	
Mexico											
Exports	21,580	21,170	20,320	20,980	21,510	21,870	**24,980**	**24,510**	**25,140**	**25,300**	Preliminary first quarter data show a
Imports	15,400	8,180	6,570	8,960	8,720	8,490	**9,520**	**8,220**	**10,650**	**9,680**	45 percent increase of imports over
Balance	6,180	12,990	13,750	12,020	12,790	13,380	**15,460**	**16,290**	**14,490**	**15,620**	year earlier.

 25X1

Trade Trends in Key Debt-Troubled Countries – (continued)
Million US Dollars at a Seasonally Adjusted Annual Rate

	Annual		Quarterly					1984			
	1982	1983	83I	83II	83III	83IV	84I	Jan	Feb	Mar	Comment
Morocco											
Exports	2,060	**2,200**	2,040	2,020	2,080	**2,670**	**2,460**	**2,470**	**2,580**	**2,340**	
Imports	4,310	**3,550**	3,700	3,420	3,750	**3,320**	**3,900**	**3,830**	**3,940**	**3,920**	
Balance	−2,250	**−1,350**	−1,660	−1,400	−1,670	**−650**	**−1,440**	**−1,360**	**−1,360**	**−1,580**	
Nigeria											
Exports	16,480	11,600	8,590	12,580	13,600	11,630	**16,650**	**14,380**	**17,470**	**18,100**	
Imports	**13,230**	**7,860**	**8,790**	**7,110**	7,660	7,880	**7,280**	**8,210**	**6,640**	**7,010**	
Balance	**3,250**	**3,740**	**−200**	**5,470**	**5,940**	**3,750**	**9,370**	**6,170**	**10,830**	**11,090**	
Peru											
Exports	3,270	3,000	2,750	3,250	3,300	2,700	**2,960**	2,860	**3,000**	**3,030**	
Imports	3,610	2,510	2,540	2,420	2,420	2,670	**2,040**	2,040	**2,130**	**1,950**	
Balance	−340	490	210	830	880	30	**920**	820	**870**	**1,080**	
Philippines											
Exports	4,960	4,880	4,700	4,780	4,950	5,090	**4,540**	4,580	**4,450**	**4,580**	The Philippines increased import tariff surcharge from 8 to 10 percent and returned peso to controlled float.
Imports	8,300	7,940	8,330	8,180	7,720	7,540	**6,100**	6,870	5,970	**5,470**	
Balance	−3,340	−3,060	−3,630	−3,400	−2,770	−2,450	**−1,560**	−2,290	**−1,520**	**−890**	
South Korea											
Exports	21,810	24,300	21,170	24,320	24,850	26,840	27,980	29,020	27,400	27,530	Embassy reports annual trade plan effective July will probably lift import restrictions on several hundred items.
Imports	24,280	26,180	25,160	23,740	25,600	30,200	30,170	32,280	28,940	29,300	
Balance	−2,470	−1,880	−3,990	580	−750	−3,360	−2,190	−3,260	−1,540	−1,770	
Venezuela											
Exports	17,480	14,910	14,920	15,920	14,660	14,150	**14,670**	14,610	15,330	**14,060**	Embassy reports preferential dollar import list shortened in late May.
Imports	**12,710**	**6,310**	**8,270**	**5,090**	5,190	6,680	**8,100**	**7,470**	**8,480**	**8,340**	
Balance	**4,770**	**8,600**	**6,650**	**10,830**	**9,470**	**7,470**	**6,570**	**7,140**	**6,850**	**5,720**	
Total											
Exports	152,020	**148,420**	136,120	149,100	153,620	**154,830**	**162,910**	**158,290**	**165,560**	**164,900**	
Imports	**147,670**	**119,380**	**122,970**	**116,190**	**117,990**	**120,410**	**121,080**	**120,890**	**121,490**	**120,910**	
Balance	**4,350**	**29,040**	**13,150**	**32,910**	**35,630**	**34,420**	**41,830**	**37,400**	**44,160**	**43,990**	

Note: Exports f.o.b. and imports c.i.f. are on a customs basis and are derived from IMF International Financial Statistics and other sources.
Imports for Indonesia, Nigeria, and Venezuela are estimated from trade partner data.
Numbers in bold are CIA estimates

25X1

25X1

[redacted] 25X1

SUBJECT: International Financial Situation Report #29 (U) 21 June 1984

Copy No.	Name	Agency
1	Sec. D. T. Regan	Treasury
2	R. T. McNamar	"
3	Beryl Sprinkel	"
4	David Chew	"
5	Robert Cornell	"
6	Thomas Dawson	"
7	Charles Dallara	"
8	Charles Schotta	"
9	Stephen Canner	"
10	Doug Mulholland	"
11	Manuel Johnson	"
12	George Hoguet	"
13	David Mulford	"
14	Sec. George Shultz	State
15	Kenneth Dam	"
16	Hugh Montgomery	"
17	Michael Armacost	"
18	Ralph Lindstrom	"
19	W. Allen Wallis	"
20	Langhorne Motley	"
21	Richard Burt	"
22	Richard McCormack	"
23	Chester Crocker	"
24	Paul Wolfowitz	"
25	Richard Murphy	"
26	J.C. Kornblum	"
27	Byron Jackson	Commerce
28	Lionel Olmer	"
29 (25X1)	[redacted]	NSA
30		"
31	Roger Robinson	NSC
32	Douglas McMinn	"
33	Randall Fort	PFIAB
34	Leo Cherne	PFIAB
35	DCI	
36	ExDir	
37	SA/DDCI	
38	DDI	
39	ADDI	
40	Ch/PES/DDI	
41	David Low, NIO at Large	
42	NIO Economics	
43	[redacted] NIC/AG	
44	DDO	
45	Ch/DDO [redacted]	
46	Ch/DDO/ [redacted]	
47	Ch/DDO/AF	
48	Ch/DDO/EA	
49	Ch/DDO/EUR	
50	Ch/DDO/LA	
51	Ch/DDO/NE	
52	Ch/DDO/SE	
53	IAD/OGC/ENO/PE [redacted]	
54	D/ALA	
55	D/OEA 25X1	
56	D/EURA	
57	Ch/EURA/EE/EW	
58	D/SOVA	
59	D/NESA	
60	DD/OGI, D/OGI	
61	Ch/OGI/SRD	
62	Ch/OGI/ISID	
63	Ch/OGI/GD	
64	Ch/OGI/ECD 25X1	
65-66	Ch/OGI/ECD/IF	
67	Ch/OGI/ECD/IT	
68	[redacted] OGI/CO 25X1	
69	Chief, CPAS/ISS/SA/DA	
70	Ch/OGI/Pub [redacted] 25X1	
71-78	OGI/Pub	

[redacted]

1 - Edwin Truman, Federal Reserve Board
1 - Henry Wallich, Federal Reserve Board
1 -Anthony Solomon, President, Federal Reserve Bank of New York
1 - David Roberts, Federal Reserve, New York
1 - Leo Cherne, PFIAB, New York
1 - Alan Greenspan, PFIAB, New York
2 - Doug Mulholland, Treasury
1 - John Davis, State
1 - Paul McGonagle, State
1 Peter W. Rodman, State
1 - J.D.Bindenagel, State, (for pass to Ambassador Arthur Burns)
1 - Martin Feldstein, CEA
1 - David Wigg, CEA
5 - Byron Jackson, Commerce
1 - Warren E. Farb, Commerce
1 - [redacted] DIA 25X1
1 - Steve Farrar, OMB 25X1
1 - William Isaac, Federal Deposit Insurance Corporation

[redacted] 25X1 25X1

1 - Ch/ECD
1 - Ch/ECD/IF
1 - Ch/ECD/TW
1 - Ch/ECD/EA
1 - Ch/ECD/CM

[redacted] 25X1

Next 17 Page(s) In Document Denied