10 DOWNING STREET

Prime Minister

I suggest you skim the covering letter and the first 5 pages of the note up to (X) as well as the page on S. Africa at Flag.

N.L.W.

[illegible]

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Treasury Chambers, Parliament Street, SW1P 3AG
01-233 3000

18 November 1985

Nigel Wicks Esq CBE
10 Downing Street
LONDON SW1

Dear Nigel

INTERNATIONAL FINANCIAL SCENE

I enclose the latest in our regular series of reports on the major debtor countries.

Objectively, the prospects for the majority of debtor countries look a little better than they did two months ago. This is the combined result of the weaker dollar, following the Plaza agreement, and the resulting perceptible weakening, for the time being at least, of Congressional pressure for protectionism. On the other hand the prospect of a lower oil price is bad news for Mexico, Venezuela and Nigeria.

Subjectively, the debt problem, as perceived by the debtors themselves, is significantly eased following the two related initiatives taken by US Treasury Secretary Baker at Seoul, foreshadowed in our last report. The first of these, related to the major debtors, mainly in Latin America, has been fairly well received. It seems for the moment to have stopped the Cartagena Group of debtors in its tracks. We continue to have serious reservations about some aspects of the US move, particularly the way in which it could interfere with the commercial judgement of the banks. But provided that the banks genuinely see it in their own interests to maintain the flow of funds to debtors, we can welcome the US proposals - particularly the renewed emphasis on conditionality and the central role of the IMF alongside an enhanced role for the IBRD.

The second US move couples the release of IMF Trust Fund reflows with increased (or diverted) multilateral and bilateral aid flows to the poorest countries, mainly in Africa. This seems to have been more cautiously received. But it is encouraging to find the US inhibitions over IBRD removed. A US team were in London on 12 November to explain these proposals in detail. They claim that despite its present emphasis on cross-conditionality, there will be support for their scheme from the (mainly African) beneficiaries. A problem for the UK is likely to be in the contribution the Americans hope we will provide from our own bilateral aid

resources. This is an issue which Ministers will have to decide at a later stage.

Turning to the individual debtors the main point to note is perhaps the unexpected and possibly temporary emergence of Argentina as the leading 'model pupil', while Mexico and Brazil, the previous favourites, have dropped lower down the class. It is too early to be satisfied with Alfonsin's ability to go on delivering economic progress, but the measures he has already taken seem well-designed.

The continuing problems with Nigeria and Poland are worth noting too. We should know fairly soon whether Babangida is ready to tackle Nigeria's trade and payments imbalance as part of his December budget. If he does finally swallow his pride and accept the need for an IMF programme (including devaluation), it will allow us to start regularising the enormous arrears of debt which have done such damage to ECGD's finances. By contrast Poland, ECGD's other major debtor, seems to be running into even deeper trouble. It is now seeking renegotiation of the very generous debt rescheduling terms agreed earlier this year.

South Africa is not a normal debt problem. But despite its recently-strong trade performance, capital flight and a sharp reversal of trade lead and lags have exhausted its reserves. There is a small danger of inadvertent default which is probably at its peak between now and January, when the banks will almost certainly have to acquiesce in an extension in time of the present moratorium. The Chancellor continues to watch this situation closely.

Finally he thinks the Prime Minister should know that Egypt (mentioned in the present report for the first time) is also showing signs of serious payments strain. This is worrying because of the large UK export business in that market. The prospects here will be reviewed more fully in the light of the latest IMF study.

I am sending copies of this letter to the private secretaries to the Governor of the Bank of England, the Foreign Secretary, and the Secretary of State for Trade and Industry.

Yours sincerely

Tony Kuczys

A W KUCZYS
Private Secretary

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INTERNATIONAL FINANCIAL SCENE

At the IMF meetings in Seoul, and subsequently in other fora, US Treasury Secretary Baker unveiled a package of new proposals for handling the debt situation. These involve a much enlarged role for the IBRD, which (together with the IDB) should provide an extra $9 bn to debtor countries over the 1986-8 period; the adoption by debtor countries of structural adjustment policies that should provide a framework for sound economic growth; and the provision by the commercial banks of $20 bn of additional money to fifteen selected debtor countries. Many of the details of the proposals have yet to be worked out, and indeed some of the details that have been put forward may well be modified. But the importance of the initiative lies anyway in its indication of a significant shift in US attitudes away from earlier hostility both to further official involvement in international debt problems in general and to an increased role for the IBRD in particular.

Interest now centres on how the various parties will react to these proposals, and how these proposals may be modified in response to these reactions. Sixty commercial banks met in Washington under the auspices of the IIF on October 28 in order to consider the proposals. The reaction was broadly favourable, but the banks wanted to see the extent of government commitments before they would commit actual sums themselves. They were unhappy at the absence of cross default clauses on the proposed new IBRD lending and at the idea of allocating bank lending to debtor countries as a collective entity; but many banks appeared to recognise the impossibility of inducing the smaller banks to participate in the initiative in the same way, and accepted in principle the idea of some form of 'trust fund' through which the small banks might channel a final contribution and then be eliminated from further debt negotiations. In response to questioning from the banks, the US Treasury representative

indicated that Exim Bank was ready to come back on cover immediately for debtors considered to be performing satisfactorily, but suggested that other countries' export credit agencies were dragging their feet. The IIF has now formed a small Steering Group of banks which will meet over the coming weeks in New York and Washington before moving on to Europe. It seems likely that the banks will offer at least nominal acceptance of the Baker initiative, but maybe with some (possibly substantial) suggested modifications.

Meanwhile, the authorities in other creditor countries have declared themselves generally supportive of the thrust of the initiative, although some have expressed concern in a number of areas, including problems of giving implicit official guarantees if banks have to be persuaded to participate, of maintaining the quality of IBRD lending as the quantity of lending increases, of preserving the pressure for adjustment on debtor countries, and of not raising unrealistic expectations amongst debtors. Debtors themselves seem to have suspended judgement, perhaps not surprisingly, as the details of the proposals are not yet clear, but the initiative seems for the moment at least to have broken the momentum of pressure from the debtors which had seemed to be building up after hard-line speeches at the United Nations in September by the Presidents of Brazil and Peru.

In a parallel exercise to his commercial bank initiative, Baker also presented at Seoul a plan for using official funds on a concessional basis to help the poorest countries, many of whom are in Africa. The aim would be to combine reflows from earlier IMF Trust Fund loans with various IBRD resources and perhaps some bilateral funding in order to create a pot of some $6-$7 bn. This would be available over the next five years to make loans to the poorest countries facing protracted balance of payments difficulties and who are willing to undertake programmes of structural reform. The US envisage extremely close Fund/Bank co-operation in this exercise, extending as far as joint missions and papers to the respective Boards. Although it is not clear how much, if any, of the funding of this new Trust Fund is additional, the US ideas are generally to be welcomed as a

recognition of the large and growing problem of the inability among some of the very poor countries to put their economies on a sound and sustainable footing. We are not alone, however, in seeing some specific difficulties - for example the possible use of World Bank profits to provide resources and the extremely mechanistic proposals for tying the Fund and Bank together. It should be possible to achieve greater practical collaboration and also a larger structural element in any programmes while stopping short of formal cross-conditionality which would be likely to alienate potential recipients.

The Baker initiative, and the G5 agreement on exchange rates, took place against developments in the US that were threatening to exacerbate debtor countries' difficulties. First, the dollar's downward trend had been reversed through most of September. Secondly, and not unrelated, over 300 protectionist Bills had been placed before Congress, including Bills directed specifically at some major LDC borrowers, such as Brazil and South Korea. Since the G5 agreement, however, the dollar has fallen by 8% in effective terms, and is now more than 17% below its February peak. Moreover, protectionist pressure appears to have eased somewhat: although the House and Senate have now voted in favour of freezing or reducing textile imports from a number of countries, the majority in favour in both cases was well below the two-thirds needed to overturn the threatened Presidential veto. (Due to procedural technicalities, the Senate measure will need a further vote anyway.) And House Democrats have also unveiled a trade strategy which appears less protectionist than even a short while earlier, and much closer to the Administration's own stance on the issue.

Other recent economic developments have been mixed. Estimates of real GDP growth in Q3 in the US have been revised upwards, to 3.3% (ar), but import volumes into the US rose by only a negligible magnitude over the period and recent economic data suggest that the underlying rate of growth in the economy is not particularly buoyant. Interest rates have remained broadly stable over much of the recent period; it was hoped that changes in sentiment about the dollar after the G5 agreement might permit some falls in

interest rates elsewhere: however, in late October there was a significant rise in interest rates in Japan, possibly as the authorities sought to prevent a reversal of earlier rises by the yen. Whether this upward move in interest rates represents just a temporary reversal, or whether it will be more enduring and have serious knock-on effects elsewhere, remains to be seen.

Economic developments in the debtor countries themselves appear increasingly divergent. Although Brazil continues in many respects along the economic pattern established for many of the debtors over the past three years - ie strong export growth and over-achievement of external targets whilst making very limited progress in tackling inflation and public sector deficits - Argentina seems to be performing well on the domestic side whilst its external sector may be running into difficulties. Mexico's position on both the domestic and the external side gives increasing concern: the recent earthquakes will have added to the deterioration in the country's position, but the subsequent aid and insurance inflows, and the deferral of pre-payments to the banks, will have brought some temporary relief. The political environment, with Presidential elections - at the end of a long run-up period - in 1988, will not remain conducive to getting to grips with intractable economic problems for long. Developments in some other countries, for instance Colombia and Ecuador, continue to be broadly satisfactory.

Attitudes to the IMF too appear to be increasingly divergent. A number of countries (eg Ecuador, Chile, Argentina) have recently activated or re-instated earlier Fund agreements as they managed to bring their programmes back on track or obtain their required new money commitments from the banks. On the other hand, the Philippines is increasingly critical of the approach of the IMF, and its programme has now been formally suspended, whilst Peru is refusing at the moment to deal with the Fund at all and has even threatened to leave the organisation. Nigeria is conducting a vigorous public debate on whether to aproach the Fund (and government advocates seemed for a while to be losing the argument, although the position at the moment is not clear), whilst Brazil is insisting that any Fund programme should be consistent with 5%

real growth per annum and that monitoring should be confined to external indicators only. The commercial banks, for their part, have so far generally insisted on maintaining the conventional role of Fund conditionality, and have not responded to attempts by those countries (Peru, Brazil) that have sought to by-pass the Fund and deal with the banks alone. US regulators at their meeting in October downgraded Peruvian loans to "value-impaired" status, forcing US banks with such loans to set aside mandatory reserves of 15% of exposure. It is the first time the regulators have taken this step with a major Latin American debtor.

South Africa's debt situation is increasingly being recognised as sui generis. At a recent meeting in London with Dr Leutwiler, the mediator between South Africa and the banks, it became clear that the banks would not be willing to sign conventional rescheduling agreements with the country. It seems likely now that the South Africans, while continuing to pay interest on their debt, will unilaterally extend the current moratorium, with the banks seeking to influence what should be included or excluded. A further meeting has been arranged for later this month.

Many debtor countries continue to be adversely affected by the weakness of commodity prices. In the seven weeks ending 22 October the Economist Index of spot commodity prices fell 3.4% in SDR terms (although it remained unchanged against the weaker dollar). Within this index, metals and industrial materials fell fastest (by 7% and 6% respectively) whilst food prices fell only marginally. In SDR terms, the index is now at its lowest level since the beginning of 1983, whilst in dollar terms prices are at about the level of their 1982 trough. Since May 1984 food prices have fallen 22% and agricultural raw materials 16%; industrial raw material prices have fallen by 14%.

(X)

The present crisis in the tin market was prompted by the International Tin Council's decision on 24 October to suspend buffer stock operations until further notice. This led to the suspension of trading in tin on the LME. It is likely that the tin price will fall significantly when trading resumes. The impact of lower tin prices on debtor countries is, however, likely

to be very limited. Bolivia stands alone as being highly dependent on tin exports: in 1984 tin represented 34% of export revenue. The most important members of the International Tin Agreement have reduced their dependence on tin exports in recent years, and do not rely on tin for a major percentage of their export revenue: in 1984 tin accounted for no more than 3% of the exports of Malaysia, Indonesia, and Thailand. Brazil and Chile, who have recently been wooed by ITA members because of their rapid increase in production (Brazil has almost tripled its export revenue from tin since 1980), both earned well under 1% of export revenue from this source in 1984. The crisis in the tin market could however have knock-on effects on the prices of other metals traded on the London Metal Exchange, which could in turn affect other debtor countries.

Borrowers from non-OECD countries have taken just over $2.8 bn from the international capital markets since 1 September, with terms and conditions for most continuing to improve. Particularly large borrowings were a $650 mn FRN for Malaysia, a $500 mn syndicated credit for Iraq and a Yen 70 bn ($290 mn) euroyen loan for Thailand. Hungary continued its use of the markets with borrowings in all sectors, including its first note issuance facility, and with Eastern bloc countries at present the most favoured borrowers in the syndicated credits market, Romania returned for its first loans since June 1981. Poland is now left as the only Eastern bloc country which has not returned to the markets.

Further details on individual countries are given below.

(i) Latin America

Having satisfactorily met the performance criteria of the reinstated SDR 1.4 bn Standby, Argentina made the first conditional purchase under the Standby in September, the proceeds of which were used to repay the balance of the June BIS bridge. The purchase also triggered disbursement of the first $2.2 bn of commercial bank new money ($4.2 bn in total), which was used, inter alia, to repay the $750 mn outstanding from the 1982 bank

bridge and to bring bank interest current to 1 September. On the broader economic front, the radical measures introduced in June appear to be working, at least in regard to inflation: prices rose in October by only 1.9% (cf over 30% in June). Furthermore, the 1985 budget, which will allow the remaining fiscal measures announced in June to be implemented, has now been passed. However, not all developments have been encouraging. First, the monetary base has been growing strongly, which could indicate a future resurgence of inflation. Secondly, although the central government is balancing its books, provincial governments do not seem to have curtailed their spending in line with the authorities' wishes. And thirdly, the export sector appears to be suffering from the fixing of the austral to the US dollar and from the weakness of world prices for Argentina's main commodity exports.

Economic developments in Brazil continue broadly as before. The economy is growing strongly (real GDP could rise by 7% this year), and substantial trade surpluses are being recorded each month. However, inflation remains a major worry. Although price rises declined to 9% in September, the year-on-year rate of inflation remains in excess of 220%. The Brazilians continue to argue that any IMF programme should be consistent with at least 5% real GDP growth per annum, and there is little likelihood of agreement being reached with the IMF in the near future. Indeed, the Brazilians seem instead to be setting their sights on an alternative package - for which there is, as yet, no precedent - which should include a bank MYRA, possibly with $2.5 bn of new money in 1986, backed by enhanced IMF surveillance of external (not domestic) economic indicators, and no more 'Letters of Intent'. There is no indication that the banks will be ready to proceed on this basis, but latest reports indicate that the Brazilians will present a 'non-negotiable' programme to the IMF later this month.

In Mexico, the balance of payments position has continued to deteriorate and the current account is likely to move into deficit this year. The recent earthquakes may have exacerbated this deterioration and, to support the reconstruction effort, the

Mexicans have asked the banks to defer for six months the scheduled $950 mn prepayment of 1983 new money. Looking further ahead, the authorities have now identified a need for $2.5 bn of bank new money in 1986. An IMF team is now in Mexico City to discuss a new programme (probably a 15-month Standby).

Of the other countries in Latin America, Chile has made progress in recent months towards resolving its immediate debt problems. The three-year EFF has now been activated, following the commitment of a 'critical mass' of banks to the $1,085 mn new money request. The new money agreement was signed at the beginning of November; however, the new money will not be disbursed yet as three Italian banks have so far refused to sign Meanwhile, the IBRD Board met on 22 October and approved Chile's request for a $250 mn SAL. Pending receipt of the first drawing of new money, the IMF has granted Chile a waiver of the international reserve performance criterion. The bank Consultative Committee for Colombia still expect signature of the country's proposed $1 bn new money agreement to take place in November or early December, although a number of banks have not yet committed. The replacement of Roberto Junguito by Hugo Palacios as Finance Minister in September is not thought to signify a change in the policy stance, which is regarded as remaining broadly satisfactory.

In Ecuador, purchases under the SDR 105 mn Standby, agreed in March, have resumed, following action taken to transfer the bulk of foreign exchange transactions from the subsidised official exchange rate to the more competitive commercial intervention rate. The $200 mn of bank new money was fully disbursed in September and used mainly to clear arrears on trade debt to the banks. The Ecuadoreans might now approach the markets shortly for a $300 mn acceptance facility for pre-finance of oil exports. Uruguay has successfully negotiated $45 mn of 'voluntary' new money from the banks for the first year of its MYRA. Panama has also signed a debt package, involving a rescheduling of $579 mn of maturities falling due in 1985-6 and $60 mn of new money. But the signing of Venezuela's $21.2 bn MYRA has been put back yet again, and is not expected until the end of this year or the beginning of 1986.

Although Peru was to some extent isolated at the IMF/IBRD annual meetings, the government continues to attack the IMF. Recent expansionary measures take the country away from the path that would be consistent with IMF prescriptions. Ominously, perhaps, arrears to the IMF are building up; the country has also been withdrawing money from commercial banks (including banks in the UK) and building up deposits at the BIS.

(ii) Far East

The IMF programme for the Philippines is now formally suspended, following the country's failure to complete the programme's second review, as the Philippines continues to distance itself from the Fund. As a result, $525 mn still undrawn under the commercial bank new money facilities is now technically frozen. However, a Fund team is now in Manila, and some reports suggest that it may be possible to reach agreement in the not-too-distant future. Meanwhile, restrictions on non-essential imports into South Korea have led to a significant narrowing of the trade and current account deficits over the first nine months of the year, and exports in September appear to have responded well to recent promotion measures. However, with 35% of its exports destined for the US, Korea would be particularly vulnerable if the US introduced significant protectionist restrictions.

In Indonesia falling oil exports, and disappointing growth in other exports, will lead to a widening of the current account deficit from 2% of GDP in FY 1984/85 (ending March) to at least 3.2% of GDP this financial year. Ample reserves and over $2 bn of undrawn credits make it unnecessary for the Indonesians to seek any more commercial loans for the moment, but longer term prospects are perhaps less certain.

(iii) Eastern Europe

Poland has been making efforts to pay 1984 arrears due under the 1981 rescheduling agreement, and as far as the UK is concerned has fully paid the amounts due. The meeting of the Paris Club to discuss rescheduling of 1985 maturities is planned for 19 November. The Poles, who almost certainly will not be able to

meet payments due at the end of the year, have indicated that they will wish to reopen the 1982-84 official Agreement at this meeting, and that they will also be seeking talks with the banks thereafter. Yugoslavia is expected to sign its commercial bank MYRA in early December and begin negotiations with official creditors on its request for a MYRA to cover maturities falling due between mid-May 1986 and end-1988 in January. Romania, which raised a five-year $150 mn syndicated credit last month, has raised a further $150 mn on similar terms. Unlike the earlier loan, this is not tied to any repayment obligations. A $400 mn facility for Hungary, comprising a $150 mn Note Issuance Facility, $150 mn banker's acceptance facility and a $100 mn credit (at Libor + 3/8% - 1/2%) is currently undergoing syndication, while Bulgaria has returned for a further $150 mn at reduced margins (Libor + 1/4% - 3/8%).

(iv) Southern Europe

The Greek government has introduced a major package of measures to tighten economic policy, following a rise in inflation (to 20.1%), a current account deficit of $2.1 bn between January and August (cf target for the year of $2 bn) and an expected fiscal deficit of 19% of GDP. The measures include a 15% devaluation of the drachma, import deposits and a partial dismantling of wage indexation. Despite continuing improvement in inflation and the balance of payments, Portugal's economic outlook still appears uncertain, following the inconclusive general election in October. The recently-formed minority Social Democrat government may find difficulty in tackling the country's structural problems. The IMF team recently in Turkey were reasonably encouraged. Performance in recent months suggests that the budget is under greater control, that domestic demand has been restricted, and that the current-account deficit for 1985 could be reduced to around $1 bn ($1.4 bn in 1984). The authorities do not envisage a new Standby and foresee only modest foreign borrowing over the next year.

(v) Africa

Nigeria seems no closer to resuming contacts with the IMF about a programme. A national debate on the IMF issue is proceeding

vigorously, but an official study committee appointed by the government will not make its recommendation until late November. A decision is expected in the context of the budget discussions due to take place in December. Little progress has been made with rescheduling short-term trade arrears, and the suspicion grows that debt registration difficulties are being deliberately designed to conserve scarce foreign exchange. A further batch of $116 million of promissory notes has been issued to uninsured creditors, and some $40 million of officially insured debts were approved at the same time.

Egypt's external position continues to weaken, and moves to put an IMF programme in place appear to have stalled. A mission was due to visit Cairo in early September, to prepare the ground for a possible Standby, but was cancelled at the request of the Egyptians who were in the midst of a ministerial shuffle. However, the authorities have reaffirmed Egypt's intention to undertake the reforms already promoted by the Fund. The long-awaited signing of Morocco's agreement with the commercial banks to reschedule 1983-84 maturities took place in late October, with the agreement expected to take effect on 12 December.

Economic developments in South Africa have been overshadowed by the consequences of the debt standstill and the continuing debate on sanctions. The first meeting between the South Africans' Standstill Co-ordinating Committee (SCC) and a representative group of creditor banks took place in London on 23 October. At the meeting the South Africans outlined the country's current debt status, and the reasons for the imposition of the standstill, and gave a presentation on the country's recent economic development and medium-term economic outlook. Although no specific proposals were put forward, the banks indicated that they were not prepared to participate in a conventional rescheduling. They will, however, certainly try to influence any arrangements which the South Africans put in place unilaterally. There will be a further meeting between the Standstill Co-ordination Committee and the banks in the last week of November. We understand that the South Africans have asked the IMF for technical assistance, but that the Fund has now withdrawn from its initial inclination to agree.

Sudan's growing arrears to the IMF, and the country's acceptance of the need for adjustment, were discussed in the margins of the annual meetings in Seoul. A timetable for resolving outstanding problems has been drawn up with the aim of putting a new Standby in place by January 1986, although formidable problems, eg payment of IMF arrears, remain to be solved before a new SBA can be agreed. An IMF mission has just left Khartoum, having reportedly narrowly missed reaching agreement. It is not clear what the next step will be.

(vi) Middle East

Monthly inflation in Israel fell to below 4% in both August and September (from 27.5% in July) as a result of the wages and prices freeze introduced in July. Wage and price controls have been extended until June 1986. The $750 mn US supplementary economic assistance was transferred in September.

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4.11.85

INDEBTEDNESS AND BRITISH EXPOSURE

$ billion

	Total external debt	British-owned banks' exposure[1]	ECGD amounts at risk	
	End-Dec 1984	End-June 1985	End-June 1985 [2]	End-June 1985 [3]
Latin America				
Argentina	48	2.5	0.1	0.2
Brazil	100	6.7(0.6)	0.7	1.7
Chile	19	1.3(0.1)	-	0.1
Colombia	12	0.6(0.1)	-	0.2
Ecuador	7	0.6	0.1	0.1
Mexico	97	6.4(0.3)	0.5	1.3
Peru	14	0.3	0.1	0.1
Venezuela	39	2.3(0.1)	-	-
Far East				
Indonesia	35	0.7(0.3)	0.8	1.6
Philippines	26	1.3(0.1)	0.2	
South Korea	43	2.2(0.5)	0.4	0.8
Eastern Europe (convertible currency)				
East Germany	13	0.5(0.1)	0.1	0.1
Hungary	9	0.5(0.1)	-	0.1
Poland	27	0.5	1.1	1.3
Romania	7	0.2	0.2	0.5
Yugoslavia	19	0.9(0.1)	0.7	1.0
Southern Europe				
Greece	16	1.3(0.2)	0.2	0.4
Portugal	15	1.2(0.1)	0.2	0.3
Spain	39	2.4(0.9)	0.1	0.1
Turkey	21	0.4	0.2	0.4
Africa				
Egypt	32*	0.4(0.3)	0.2	0.9
Morocco	12	0.2	0.1	0.2
Nigeria	18	1.3(0.1)	1.9	3.3
South Africa	27[4]	3.9(0.5)[5]	0.8	2.8
Sudan	9	0.0	0.1	0.2
Middle East				
Israel	30	0.5	0.1	0.2

[1] This column now shows exposure defined as consolidated external claims, adjusted for certain inward and outward risk transfers in respect of guaranteed loans, plus any net claims on local residents in local currency.
Amounts in brackets represent total unused commitments adjusted for certain inward and outward risk transfers in respect of guaranteed loans.

[2] Defined as unrescheduled principal disbursed, plus political claims paid and claims under examination.

[3] Defined as guaranteed principal and contractual interest, plus political claims paid and claims under examination.

[4] Total debt estimated at $24 bn at end-August 1985

[5] Data not compatible with those previously shown, because of deconsolidation of subsidiaries which are no longer majority owned.

* current estimate

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4.11.85

NDEBTEDNESS AND BRITISH EXPOSURE

$ billion

	Total external debt	British-owned banks' exposure[1]	ECGD amounts at risk	
	End-Dec 1984	End-June 1985	End-June 1985 [2]	End-June 1985 [3]
Latin America				
Argentina	48	2.5	0.1	0.2
Brazil	100	6.7(0.6)	0.7	1.7
Chile	19	1.3(0.1)	-	0.1
Colombia	12	0.6(0.1)	-	0.2
Ecuador	7	0.6	0.1	0.1
Mexico	97	6.4(0.3)	0.5	1.3
Peru	14	0.3	0.1	0.1
Venezuela	39	2.3(0.1)	-	-
Far East				
Indonesia	35	0.7(0.3)	0.8	1.6
Philippines	26	1.3(0.1)	0.2	
South Korea	43	2.2(0.5)	0.4	0.8
Eastern Europe (convertible currency)				
East Germany	13	0.5(0.1)	0.1	0.1
Hungary	9	0.5(0.1)	-	0.1
Poland	27	0.5	1.1	1.3
Romania	7	0.2	0.2	0.5
Yugoslavia	19	0.9(0.1)	0.7	1.0
Southern Europe				
Greece	16	1.3(0.2)	0.2	0.4
Portugal	15	1.2(0.1)	0.2	0.3
Spain	39	2.4(0.9)	0.1	0.1
Turkey	21	0.4	0.2	0.4
Africa				
Egypt	32*	0.4(0.3)	0.2	0.9
Morocco	12	0.2	0.1	0.2
Nigeria	18	1.3(0.1)	1.9	3.3
South Africa	25[4]	3.9(0.5)[5]	0.8	2.8
Sudan	9	0.0	0.1	0.2
Middle East				
Israel	30	0.5	0.1	0.2

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* current estimate

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Throughout the following notes on individual countries, "exposure" is defined as consolidated gross external claims, adjusted for certain inward and outward risk transfers in respect of guaranteed loans, plus any net claims on local residents in local currency. ECGD amounts at risk exclude claims paid (net of recoveries).

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ARGENTINA

Total external debt was $48 bn at end-1984.

On 30 September, Argentina made its first conditional purchase (SDR 237 mn) under the reinstated SDR 1.4 bn Standby. This was used immediately to repay the $230 mn outstanding from the $460 mn BIS bridge advanced in June. The purchase from the IMF also triggered the disbursement of the first ($2.2 bn) tranche of the $4.2 bn of commercial bank new money agreed in September; the proceeds of this were used to repay the $750 mn outstanding from the 1982 bridge and to reduce bank interest arrears by some $800 mn, thereby bringing interest current to 1 September. A further drawing of $800 mn on the new money facility is scheduled for end-October.

Argentina's radical counter-inflation strategy seems to be working, at least on some of the economic indicators. There was a further reduction in the inflation rate in September, with prices rising by only 2.5%, compared with 3% in August and over 30% in June, the month in which President Alfonsin introduced his economic reforms. Furthermore, the 1985 budget has now been approved, including the enforced savings legislation, and capital has continued to flow back to Argentina. Meanwhile, the authorities have rejected calls for a general wage increase in the run-up to the November elections, which appear to have been won by President Alfonsin's Radical Party. However, there are some less encouraging signs. First, the monetary base has expanded rapidly, which could be an indicator of future inflation. (The increase since the June reforms has been nearly 100%, only half of which can be accounted for by the increase in international reserves.) Secondly, on the fiscal side, a 15% increase in pensions has been introduced and, although central government is now balancing its books, provincial governments have been issuing bonds instead of cutting back their borrowing. Finally, there are worries about Argentina's export performance (for which, unfortunately, no up-to-date figures are yet available).

Although the authorities have reduced some of the export taxes introduced in June, the export sector appears to be suffering from the fixing of the austral to the US dollar in the face of continuing inflation differentials and from low international prices for major commodity exports (notably wheat and beef).

At end-June 1985, ECGD had an estimated $205 mn at risk. At end-June 1985, British-owned banks' exposure to Argentina totalled $2,493 mn and consolidated external claims $2,481 mn, while UK registered banks' exposure was $3,397 mn and consolidated external claims were $3,386 mn.

0061u

BRAZIL

External debt at end-1984 totalled $100 bn.

In recent weeks, there has been a hardening in the Brazilian stance in debt negotiations. Talks with the IMF on a new Standby have been held up owing to policy disagreements, with the Brazilians insisting that any targets agreed with the IMF for the public sector deficit, inflation and the money supply must be "realistic" and consistent with 5% real GDP growth per annum. Some Brazilian spokesmen have begun recently to argue that the IMF should restrict its involvement with the Brazilian economy to balance of payments aspects, and should not concern itself with domestic financial and economic issues. They also suggested to commercial banks in the margins of the IMF/IBRD annual meetings that IMF involvement should be restricted to a form of enhanced surveillance, as in the case of Venezuela. The banks (together with the IMF and the Paris Club) have so far resisted these arguments, arguing that there is a large difference between the economic situation in Brazil and that in Venezuela. Nevertheless, Finance Minister Funaro has announced that, in future, Brazil will no longer submit Letters of Intent to the IMF, but will instead send it details of the government's social and economic programme. These are likely to be submitted later this month.

As regards the Brazilian request that $16 bn of trade and interbank lines be rolled over from 31 August to 17 January 1986, well over 50% of banks have now agreed (85% in the case of trade lines). Only one UK bank has formally refused.

Brazil is now likely to exceed its official $12 bn trade surplus target for 1985. Exports in the first nine months of the year totalled $23.9 bn (cf $22.7 bn in 1984), whilst the trade surplus was $9.14 bn (cf $9.6 bn in 1984). Both exports and the trade surplus reached their highest levels this year in September. However, on the domestic side, inflation and the fiscal deficit

remain of concern. The monthly inflation rate for September declined to 9.1%, from its record 14% level in August, bringing the year-on-year rate to 223% (cf 227% in August). The government is now forecasting 7% real GDP growth this year (cf 4.5% last year).

At end-June 1985 ECGD had an estimated $1,718 mn at risk. At end-June 1985, British-owned banks' exposure to Brazil totalled $6,668 mn and consolidated external claims $6,038 mn, whilst UK-registered banks' exposure was $10,006 mn and consolidated external claims were $9,461 mn.

0062u

CHILE

Total external debt at end-1984 was an estimated $18.6 bn.

Chile has made significant progress in resolving its immediate financing problems. The three-year EFF for SDR 750 mn was activated in September when banks' subscriptions to the $1,085 mn new money loan reached the "critical mass" of 90%; the new money agreement was signed on 1 November although a number of Italian banks refused to sign. The accompanying MYRA, for $5.99 bn of public and private sector debt due 1985-87, is due to be signed by mid-1986. The IBRD Board met on 22 October and approved Chile's request for a $250 mn SAL.

On the economic front, the government appears to be on track for meeting the IMF programme target for the 1985 public sector deficit (3.0% of GDP) and, with a trade surplus of $520 mn in the first eight months of the year, the (revised) 1985 IMF target of $0.8 bn is within reach. However, the improved trade performance has not prevented gross international reserves from falling to $1.5 bn at end-July (cf $2.3 bn at end-1984), and the Chileans now think that the IMF reserves target for 1985 will not be achieved. As for inflation, the price index has risen by 21% in the first nine months of the year and, although prices are now rising more slowly than earlier, the IMF target of 25% for 1985 looks rather ambitious.

Meanwhile, there are growing signs of political tension in Chile; for the first time since Pinochet took over, the non-Communist opposition has united in its call for a speedy transition to full democratic rule. Despite declarations of support for the opposition from many groups both within Chile and outside, Pinochet at present shows no signs of capitulating.

At end-June 1985, ECGD had an estimated $61 mn at risk. At end-June 1985, British-owned banks' exposure to Chile totalled $1,296 mn and consolidated external claims $1,319 mn. UK-registered banks' exposure was $2,082 mn and consolidated claims were $2,116 mn.

0063u

COLOMBIA

Total external debt at end-1984 was $11.5 bn.

There has been some delay in completing the $1 bn new money package, with banks' commitments to the loan having remained at $988 mn since the end of September. Nevertheless, Colombia's Consultative Committee, which met in mid-October, does not apparently foresee any major obstacles to signing the loan by mid-November. Meanwhile, the disbursal has taken place of the first $150 mn tranche of the IBRD export diversification loan approved in May. The disbursal of the second tranche is conditional on the IBRD's assessment of Colombia's economic performance and trade policy in six months' time. Agreement has now been reached on a $410 mn rescheduling of commercial bank debt owed by Banco de Colombia: $320 mn will be rescheduled over 7 (2 1/2 grace) years at LIBOR + 1 5/8% or US Prime + 1 3/8% and $90 mn over 2 years at LIBOR + 1 1/2% or US Prime 1 1/4%.

The Finance Minister, Robert Junguito, resigned in mid-September for personal reasons. His successor is Hugo Palacios, who was in turn succeeded as Governor of the Banco de la Republica by Francisco Ortega, a career central banker. Although Junguito has been seen as the architect of Colombia's recent financial programme, the change is not thought to indicate a shift in policy. Meanwhile, domestic financial indicators continue to look moderately encouraging. The inflation figure for the first nine months of 1985 was 18.7%, so the government's 1985 target of 22% may be within reach. International reserves stood at $1,950 mn (gross) at end-September, up $260 mn from end-June.

At end-June 1985 ECGD had an estimated $184 mn at risk. At end-June 1985, British-owned banks' exposure to Colombia was $590 mn and consolidated external claims $585 mn. UK-registered banks' exposure was $752 mn and consolidated external claims $737 mn.

0064u

ECUADOR

Total external debt at end-1984 was an estimated $7.2 bn.

The $200 bn of commercial bank new money, agreed in August, has been fully disbursed and used mainly to reduce trade debt arrears to the banks. The bank MYRA covering $4.2 bn of maturities falling due in 1985-89 is expected to be signed in November. As for the Paris Club MYRA agreed in May, most of the bilaterals, including the UK's, remain outstanding; they are expected to be completed by end-December.

On 20 September the IMF approved the resumption of purchases under the SDR 105 mn SBA, agreed in March. Purchases under the 18-month arrangement had been suspended in August: although all macroeconomic performance criteria had been met, Ecuador had failed to unify its foreign exchange rates. In September most transactions were transferred to the more competitive rate, and the Ecuadoreans were given a waiver by the IMF to cover the few small transactions being temporarily kept at the subsidised rate.

Ecuador has had talks with OPEC on a proposed increase of 100,000 barrels per day on its official production quota of 183,000 bpd., but OPEC has rejected this request. In response, the government has stated that it will remain in OPEC, but that it will continue to press for a quota increase, arguing that this would have a marginal effect on the world oil market.

Ecuador is exploring the possibility of a $300 mn bankers' acceptance facility on the US and European markets. This would be used to prefinance oil exports and thus improve Ecuador's cash flow. It would also make Ecuador one of the first Latin American countries to return to voluntary borrowing since the debt crisis began.

At end-June 1985 ECGD had an estimated $67 mn at risk. At end-June 1985, British-owned banks' exposure to Ecuador was $594 mn and consolidated external claims were $594 mn. At the same date UK registered banks' exposure was $785 mn and consolidated external claims were $789 mn.

0065u

MEXICO

Total external indebtedness at end-1984 was estimated at $96.6 bn.

Following the earthquakes of 19-20 September, the Finance Ministry has estimated reconstruction costs at around $3 bn. Within the total, foreign currency costs are put at $750 mn, adding $300 mn to the import bill this year, and $450 mn in 1986. Net external financing requirements for 1986 are estimated at $4.8 bn: this assumes that $0.8 bn (net) will be forthcoming from a new IMF programme, while net new money from commercial banks amounts to $2.5 bn (representing an increase in banks' exposure of some 3%). To support the reconstruction effort, Mexico requested that pre-payment to banks of $950 mn of the 1983 new money - which formed part of the MYRA - be deferred for six months. (Mexico is now technically in default on the MYRA on two counts - failing to complete the EFF, and to pay over the $950 mn this year.) An IMF team is now in Mexico City to discuss a new programme (probably a 15-month SBA) ahead of Mexico's 1986 Budget, which is scheduled to be put to Congress in mid-November.

The Mexicans have also produced major revisions to earlier forecasts for the 1985 balance of payments. A trade surplus of only $7 1/4 bn is now predicted (more than $3 bn lower than initially expected), while an original surplus of $2 bn on current account has now been revised to a deficit of $1/2 bn. Reserves are predicted to fall by some $2 1/2 bn over the year (the target under the EFF was a rise of $1/2 bn). The latest forecast for 1986 shows a current account deficit of $1 bn, but a rise in gross reserves of $2 3/4 bn.

At end-June 1985, ECGD had an estimated $1,255 mn at risk. At end-June 1985, British-owned banks' exposure to Mexico totalled $6,408 mn and consolidated external claims $6,309 mn. At the same date, UK-registered banks' exposure was $8,811 mn and consolidated external claims $8,860 mn.

0066u

PERU

Total external debt at end-1984 was an estimated $14 bn.

At the UN General Assembly, and subsequently at the IMF/IBRD annual meetings, the Peruvian government made strong attacks on the IMF (even threatening to leave the organisation), and restated its intention to by-pass the Fund and negotiate directly with the country's creditors. Informal contacts with the authorities suggest that they may, in fact, find some form of indirect IMF involvement acceptable, but it is scarcely conceivable that creditors will accept this in the Peruvian context. Ominously, perhaps, Peru has built up arrears of SDR 27 mn to the Fund.

President Garcia's policy on the IMF, and his insistence that Peru will only devote 10% of export earnings to (medium-term*) public sector debt servicing until end-1986, are continuing to hinder negotiations with the banks. The banks are also unhappy with the Peruvian statement that institutions which are continuing to provide new money (specifically, the IBRD and IADB) will receive priority when interest payments are made. The Advisory Committee met recently to consider a Peruvian request that repayment of maturities due between 1 August and 31 January 1986 be deferred until the latter date. As the Peruvians gave no date for the resumption of interest payments, the Committee issued no formal recommendation to banks. On 22 October the US Interagency Country Exposure Review Committee declared US bank loans to Peru "value-impaired", so that provisioning against Peruvian exposure is now mandatory for US banks. This is the first time a major Latin American debtor has had its loans downgraded to this status.

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* It should be noted that servicing of short-term debt has been continued and is outside the 10% of exports limit.

Peru's net international reserves have risen from $897 mn at end-July to $1.14 bn at end-September, probably reflecting in part the sale of private sector dollar balances in Peru to the authorities. (Since 1 August such balances have been subject to a three-month freeze, but while dollars may not be withdrawn they may be sold for local currency; tight liquidity in Soles may have forced some sales.) Further measures were taken in early October in an effort to stabilise prices and to boost economic activity. Imports of 217 non-essential products were banned, exporters were authorised to retain 20% (previously 15%) of export proceeds in foreign exchange, and the Government stated that there would be no further devaluation of the Sol this year. Other measures included a widening of the price freeze introduced on 1 August to cover all State-produced goods and services, and a further sharp cut in domestic interest rates. Inflation has eased for the time being, with consumer prices rising in September by 3.5% compared with 10.8% in August and 10.3% in July.

At end-June 1985, ECGD had an estimated $135 mn at risk. At end-June 1985, British-owned banks' exposure to Peru totalled $329 mn and consolidated external claims $387 mn. At the same date, UK-registered banks' exposure was $649 mn and consolidated external claims were $707 mn.

0067u

VENEZUELA

Total external debt at end-1984 was an estimated $39 bn.

With continuing delays in reaching formal agreement, Venezuela's $21.2 bn public sector MYRA is now not expected to be signed until the end of this year or the beginning of 1986. One recent cause of delay has been a request from the Venezuelan authorities for the inclusion in the MYRA of a contingency clause, under which the repayments schedule would be altered in the event of sharp increases in international interest rates or decreases in oil prices. The banks' Advisory Committee met informally with Venezuelan officials in the week beginning 14 October to discuss drafts of the thirteen MYRA contracts for the MYRA; they plan to meet formally shortly to finalise approval.

Recent developments concerning private sector debt have been mixed. The exchange controls office, RECADI, has now confirmed that it is unlikely to finish processing all private sector debt ($13.8 bn) before the end of the year; it remains unclear whether this will affect the signing of the MYRA. More positively, progress has reportedly been made in the continuing refinancing negotiations involving several of the major private sector debtors. The finance company, FINALVEN, for instance, expects to refinance $292 mn by means of zero coupon bonds, while provisional terms are reported to have been agreed for the issue of bonds to refinance $230 mn debt of the state-intervened bank, BTV. However, discussions with the creditors of Electricidad de Caracas, the largest private sector debtor, appear, at least temporarily to have reached a stalemate.

On the domestic front, the authorities have reduced their projection for 1985 oil export revenue from $13.6 bn to $12.7 bn. Year-on-year inflation has continued to ease, registering 11.6% at end-September, while the money supply remains

almost stagnant, having grown by 4% in the first nine months of the year (cf an IMF quantitative target of 11.7% growth over the year). In an attempt to make credit more attractive and thereby increase money supply, the Central Bank reduced interest rates for the third time this year on 10 October. The recently-published Central Bank Report shows that real GDP fell by 1.1% in 1984 (IMF preliminary figure: -1.7%).

At end-June 1985, ECGD had an estimated $29 mn at risk. At end-June 1985, British-owned banks' exposure to Venezuela totalled $2,254 mn and consolidated external claims $2,257 mn. UK-registered banks' exposure was $2,817 mn and consolidated external claims were $2,826 mn.

0052u

PHILIPPINES

Total external indebtedness (including short-term liabilities of the banking system) amounted to around $25.4 bn at the end of 1984. Current projections suggest that this figure will have increased to $27.2 bn by the end of this year.

Disenchantment with the IMF programme, both at the Central Bank and on the political level, appears to be growing. At a recent gathering of finance ministers and central bank governors from Latin America, President Marcos publicly criticised IMF prescriptions to the debt crisis as ineffective and unduly severe. Meanwhile, the government has downgraded its estimate of GDP for 1985 as a whole from zero growth to a fall of 2-3% (whilst private analysts are predicting a fall of 5-6%). This follows a 5.3% fall in real GDP in 1984.

Meanwhile, the third tranche under the IMF's Standby facility remains undrawn, as a result of the failure to complete the programme's second review. The authorities appear to be requesting that the target for the 1985 fiscal deficit be widened to 1.5% of GNP (from 0.9% of GNP); for their part, the IMF considers that, without additional measures designed to improve revenue mobilisation and restrain expenditure, the deficit would amount to 2.5% of GNP. The IMF also remains concerned that monopolies operating in the sugar and coconut sectors are not being reformed quickly enough, and Fund staff have remarked privately that the Filipino proposals for tax reforms represent nothing more than further procrastination. With the IMF programme formally suspended for the time being, the Paris Club rescheduling arrangements are technically frozen, as is $525 mn still undrawn under the commercial bank new money facilities.

As regards economic developments, the IMF is known to be happy with a small relaxation in monetary policy given that reserve money figures are well under target and inflation, on an annualised

basis, has fallen from over 60% in October of last year to around 13% currently. Consequently, in early October the Central Bank of the Philippines cut by one percentage point, to 23%, the level of reserves that commercial banks are required to place with it against deposit liabilities, freeing around Ps 1 bn ($55.5 mn).

As at end-June ECGD had an estimated $239 mn at risk. At end-June 1985 British-owned banks' exposure to the Philippines totalled $1,263 mn and consolidated external claims $1,443 mn. At the same date, UK-registered banks' exposure totalled $1,386 mn and consolidated external claims $1,570 mn.

0044u

POLAND

Poland's hard-currency debt at end-May 1985 stood at $27.4 bn.

All official creditors appear now to have received the payments due by end-August (arrears from 1984 under the 1981 Agreement) and are willing to finalise details for the rescheduling of 1985 principal and interest. A meeting with the Poles has been arranged in Paris on 19 November. In addition, the Poles have indicated that they wish to revise the schedule of payments under the 1982-84 Agreement. It is not yet known how official creditors will react to this request when a number of countries have yet to sign the bilateral agreements, although they have for some time been fully aware that the Poles would almost certainly not be able to meet payments due at the end of this year and would face a much larger financing gap in 1986.

The Poles have also said that they envisaged holding talks with the commercial banks after the Paris Club meeting. This is the first indication from the Poles that they will be seeking such talks.

At end-June, ECGD had a commitment of $547 mn (excluding $714 mn already paid). At end-June 1985, British-owned banks' exposure to Poland totalled $480 mn and consolidated external claims $895 mn (compared with $466 mn and $894 mn respectively at end-June 1984). UK-registered banks' exposure at end-June 1985 was $735 mn and consolidated external claims $1,157 mn ($710 mn and $1,146 mn).

0048u

GREECE

Total external debt at end-December 1984 is estimated by the OECD at $13.5 bn (40.5% of GNP) and by the IMF at $12.8 bn (38.4% of GNP).

Following its election victory in June, the Socialist (PASOK) government began to signal that the gradualist approach towards economic adjustment which it had pursued in its first term (1981-85) was being considered. On 11 October a major package of measures was announced including a 15% devaluation of the drachma, a system of import deposits (imposed after consultation with the EC), modification of wage indexation, a temporary profits tax and price controls on imported goods. The government also stated its intention of reducing the public sector deficit by four percentage points in 1986 from the expected outturn of 19% of GDP this year. Greece has not yet made a formal application for a loan from the EC under the Community Loan Mechanism, although Economy Minister Simitis has publicly spoken of the possibility of a loan, and a request for $1.5 bn has been rumoured.

Inflation, which had shown some improvement in recent months, increased to 20.1% in September, and is now expected to reach around 24% year-on-year by December, against an original end-year target of 16%. Provisional data suggest that the growth of broad money (M3), at 32.4% year-on-year in May, is significantly overshooting the target corridor of 22-24%. The current account deficit reached $2.12 bn in the first eight months of the year (cf $2 bn original target for 1985 as a whole), owing to rising imports and a fall in the invisibles surplus. The government now expects a current account deficit of $2.8 bn this year and has announced revised targets of $2 bn for 1986 and $1.6 bn for 1987.

At end-June 1985, British-owned banks' exposure to Greece totalled $1,340 mn and consolidated external claims $1,104 mn. UK-registered banks' exposure totalled $1,866 mn and consolidated external claims $1,489 mn. ECGD had an estimated $379 mn at risk at end-June 1985.

0047u

PORTUGAL

Total external indebtedness at end-1984 was estimated at $14.9 bn.

The inconclusive outcome of the 6 October general election has cast even greater uncertainty over Portugal's economic prospects. Although the Social Democrats emerged as the largest party in Parliament, they failed to secure an absolute majority, and their attempts to form an effective coalition with other political parties have met with little success, so that Portugal will face the challenge of EC accession with a minority government. Despite the improvement in the external position (the current account deficit is now officially projected to fall to $150 mn this year) and declining inflation, the minority government may experience difficulty in maintaining the present degree of tightness in policy. A strong recovery in domestic demand could cause the current account to deteriorate again in the manner of the early 1980s.

At end-June, ECGD had an estimated $271 mn at risk. At that date, British-owned banks' exposure to Portugal totalled $1,186 mn, and consolidated external claims $993 mn. UK-registered banks' exposure totalled $1,539 mn and consolidated external claims $1,257 mn.

0152u

EGYPT

Total external indebtedness is currently estimated at between $30 and $40 bn.

The current account of the balance of payments is causing increasing concern. There have already been delays in both current and capital payments this year, and the authorities have been seeking actively both a programme with the IMF and a rescheduling of some trade credit and military debt.

Egypt and the IMF have not enjoyed the best of relationships in recent years, but following a number of policy changes earlier this year (including the reform and simplification of Egypt's multi-tier exchange rate system, the devaluation of the Egyptian pound and a reduction in a number of state subsidies), the chances of putting a medium-term programme in place looked more reasonable.

However, a mission from the Fund, which was to have visited Cairo in early September to prepare the ground for a possible Standby, was called off by the Egyptians at the last minute as it coincided with the appointment of a new Prime Minister, Dr Ali Lutfi. Nevertheless, President Mubarak has since re-affirmed his commitment to further reforms - including those recommended by the Fund on eliminating state subsidies and liberalising the exchange rate regime. The President has also instructed government authorities to stop foreign borrowing except for projects which are export-oriented. No new Fund mission has yet been announced.

The Reagan Administration has welcomed Mubarak's statements, but the indications are that Mubarak returned empty handed from Washington in September, as he did last January when he requested some bilateral rescheduling. Nevertheless, substantial aid continues to flow from the US under existing agreements and,

despite the awkwardness caused by the Achille Lauro incident, this source will continue to be relied upon.

Debt service payments are currently estimated at $3.6 bn per annum, assuming that short-term debt is rolled over. However, the Fund has been unable to establish to what extent reported amortization payments (a) do not include interest payments and (b) do include payments on military debt.

ECGD's total amount at risk to Egypt at end-June 1985 was $850 mn. At end-June 1985, British-owned bank's exposure to Egypt totalled $367 mn and consolidated claims $513 mn. At the same date, UK-registered banks' exposure was $682 mn while consolidated claims amounted to $829 mn.

0034u

MOROCCO

Total external indebtedness at end-1984 was around $12.4 bn.

The Moroccans agreed a $1.5 bn rescheduling package with the steering committee of the commercial banks in early February. However, following numerous technical difficulties with the documentation, the agreement has only just been signed by all the banks; latest information suggests that it will be effective from 12 December. As part of this package, a total of $535 mn of medium and long-term maturities in 1983/84 is to be rescheduled over eight years, with four years' grace, at 1 3/4% above LIBOR as from September 1983; $750 mn of trade credit is being rolled over and $200 mn of new trade credit extended on similar terms. The Moroccans are now seeking a further agreement relating to about $850 mn of 1985/86 debt obligations and in addition are believed to be requesting some new credit to help close a projected financing gap of SDR 450 mn next year. Judging by the precedent of the 1983/84 agreement, it is thought that the negotiations over the question of new credit could not only disrupt short-term trade credit lines but also require the provision of a further letter of comfort from the Central Bank, which itself could seriously delay the rescheduling.

On 12 September the Fund Board approved a new SDR 200 mn Standby to expire at end-February 1987 as well as an SDR 115.1 mn CFF. Drawings under the Standby are, however, limited to SDR 10 mn pending agreement, at the first review in November, upon both commercial bank rescheduling of maturities up to end-1986 and upon a suitable programme to cover fully the remaining projected financing gap for 1986 of SDR 450 mn.

On 17 September, the Paris Club agreed terms for rescheduling of official and of officially guaranteed medium and long-term debt totalling about $1 bn. The agreement covered arrears of principal and interest outstanding at 31 August 1985 as well as principal and interest falling due between 1 September 1985 and

28 February 1987, but it also includes a goodwill clause agreeing to consider further rescheduling on appropriate conditions.

ECGD's total amount at risk to Morocco at end-June 1985 was $213 mn. At end-June 1985, British-owned banks' exposure to Morocco totalled $152 mn and consolidated claims $201 mn. At the same date, UK registered banks' exposure was $293 mn while consolidated claims amounted to $377 mn.

0032u

NIGERIA

Total external indebtedness at end-1984 was around $18 bn (including just under $7 bn of arrears).

On 2 October President Babangida declared a state of economic emergency for the next 15 months. This was accompanied by a package of measures which included an overhaul of the import licensing system, a ban on maize and rice imports, a speeding up of the issue of promissory notes (although only fully documented debts would be admitted) and a ban on countertrade deals involving consumer goods. The measures were announced without the knowledge of Finance Minister Kalu who was abroad at the time.

On the economic side, a good harvest has for the moment helped to keep food prices down but, in the absence of an IMF programme, increasing economic difficulties are likely when import shortages spread as banks continue cutting back confirmation lines. No recent economic data are available. In 1984 the budget deficit was cut to $5.2 bn, from $9.2 bn in 1983 (equivalent to 5.2% and 11% of GDP, respectively), and the current account deficit reduced, on IMF estimates, to $1.2 bn, from $4.8 bn in the same period. But the economy suffered a combination of recession (real GDP fell by 0.6% in 1984), high and rising inflation (reaching 40% in 1984), increasing underutilisation of industrial capacity, and unemployment.

The benefits which would accrue from reaching agreement with the IMF were stressed by Sir Geoffrey Howe during his visit to Lagos in early September and repeated in later discussions in Seoul. This message is to be reinforced further in a letter from Sir Geoffrey to the Nigerian Foreign Minister. Nigeria's internal IMF Study Committee has hitherto been receiving memoranda and organising debate; an interim report is expected to be submitted to the government in late November. The national debate has been lively, particularly in the Lagos press, with considerable opposition to the prospect of devaluation, trade liberalisation and removal of trade subsidies. Should it become

widely known that Fund drawings would probably be limited to some $600 mn for a one-year Standby - rather than the $2.5 bn for a three-year programme anticipated in Nigeria - the opposition would, no doubt, intensify.

Nigeria's creditors are becoming increasingly frustrated by slow progress on rescheduling short-term trade arrears. After well over a year, only 35-40% of creditors' claims (by value) have been reconciled with submissions from importers, and only about half of these reconciled claims have been dealt with, either as promissory note issues or official debt confirmations. As regards unmatched claims, the Central Bank of Nigeria has refused to release copies of debtors' submissions to creditors and, instead, has sent out new forms to both parties for the purpose of resubmitting data, extending the deadline for receipt of amended claims by just one month, to 15 November. The CBN's intransigence, and Babangida's recent statement that Nigeria would accept responsibility only for debts "incontrovertibly established", are grounds for suspicion that only the arrears so far reconciled will ultimately be honoured and a large number of valid debts will be excluded in order to conserve scarce foreign exchange. A further small batch of promissory notes, worth $116 mn, was issued to uninsured creditors on 20 September under the terms of the April 1984 agreement, bringing the total of note issues to date to $984 mn.

Official credit agencies remain insistent that a restructuring of insured trade arrears should be negotiated within a multilateral framework, and be conditional on agreement being reached with the IMF. Although the Nigerians are paying interest back-dated to 1 January 1984 on reconciled insured arrears, this will not affect the form of the full settlement which will only follow eventual agreement with the IMF. The total of reconciled insured arrears is believed now to stand at about $330 mn. ECGD's claims position is deteriorating as delays on short-term payments lengthen.

At end-June 1985, ECGD's total amount at risk was $3,307 mn. At end-June 1985, British-owned banks' exposure to Nigeria totalled $1,258 mn and consolidated external claims $2,122 mn. UK-registered banks' exposure at end-June 1985 amounted to $1,559 mn and consolidated external claims $2,549 mn.

0073u

SOUTH AFRICA

Total external debt at end-August 1985 is estimated at $24 bn.

On 1 September the South African Government announced a four-month moratorium on external debt repayments, including funds borrowed in the interbank market. Certain types of debt are exempt, and interest payments are continuing to be met. In the breathing space provided by this standstill the South African authorities hope to reach agreement with their creditors to reschedule some of their short-term debt, which is currently estimated at some $14 bn out of total external debt of $24 bn.

The South African Standstill Co-ordinating Committee (SCC) has sent out questionnaires to all South African residents with outstanding foreign liabilities, asking for details of their foreign indebtedness in order to identify authoritatively external debts outstanding at 31 August. Provisional data currently available indicate that, at end-August, external debt could be broken down as:

US $ bn

Public Sector	12
SARB	1.3
Banking Sector	8.7
Private Sector	4.7
	26.7
Less double counting	2.8
	23.9

On 23 October, a meeting was held in London between the SCC and the major creditor banks under the Chairmanship of the independent mediator, Dr Fritz Leutwiler. Only banks with claims on the South African public and/or banking sector of over US $100 mn were invited to the meeting - some 30 banks, compared to the 400 with claims on the country. The pattern of the negotiations is likely to be rather different from that of a conventional rescheduling.

For political reasons, the banks are unwilling to be seen to negotiate a formal rescheduling but instead may try to steer the discussions so that any further unilateral declarations will be acceptable to all parties. It was not intended to present any positive proposals at this stage, but the banks envisage an extension of the moratorium. A further meeting is scheduled for 26 November.

Corporate lenders were not represented at the meeting, and no specific arrangements have been made for communication with non-bank creditors; it is possible that such creditors may lose patience and issue writs. However, in the UK at least, the major banks are prepared, if necessary, to talk to any disaffected creditor about what was said at the meeting and, if appropriate, would put such creditors directly in touch with Dr Leutwiler's office.

As yet, there is no evidence that interest payments are not being made (as provided for under the terms of the standstill). However, a combination of capital flight and leads and lags seems to be more than offsetting the current account surplus and preventing the authorities rebuilding depleted foreign exchange reserves.

ECGD's total amount at risk to South Africa at end-June 1985 was $2,802 mn. At end-June 1985 British-owned banks' exposure to South Africa totalled $3,972 mn and consolidated claims $4,247 mn. At the same date, UK registered banks' exposure was $4,313 mn while consolidated claims amounted to $4,529 mn. These figures are not compatible with data previously given.

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SUDAN

Total external indebtedness is currently estimated at around $9 bn.

Teams from the IMF visited Khartoum throughout the summer to discuss measures which, if implemented, might pave the way for the negotiation of a new Standby arrangement and be commended to official donors as grounds for increased aid.

The managing director of the Fund held a meeting of the G5 plus the Netherlands and Saudi Arabia in the margins of the annual meetings in Seoul, on 9 October. The Fund Staff believe, with some reservations, that the new regime is prepared to adopt the economic reforms required (including exchange rate adjustment) to enable a new programme to be put in place. However, the danger of political instability remains (a counter-coup was put down the week before) as does the problem of getting donors to clear Sudan's growing arrears to the Fund (currently SDR 160 mn) and to agree to closing the $2.8 bn external financing gap which is projected for 1986.

A further staff mission should have already left for Khartoum, charged with drafting the necessary Standby documents for circulation in late November ahead of a Board discussion in mid-December. If arrears can be cleared and a Standby can be drawn up then a meeting of the Paris Club and other donors will be encouraged in late December/early January (we believe that the Fund remain in contact with the "steering committee" of the Arab donor nations who have so far failed to agree upon a further package amongst themselves).

However, agreement has been reached on re-rescheduling Sudan's unguaranteed commercial bank debt and an $800 mn package became effective on 27 September. Debt outstanding under the 1981 rescheduling agreement was divided into two tranches. Tranche-A comprised some $555 mn of debt rescheduled in 1981 and tranche-B

some $245 mn of interest accrued but unpaid between 5 April 1982 and 27 September 1985. Repayments under the re-rescheduling will begin in April 1988 and be in 17 equal principal instalments over four years, with tranche-A carrying interest at 1 3/4% above LIBOR and tranche-B 1 1/4%. A further modest amount of new credit, extended between 1981 and 1985, is to be rescheduled in parallel arrangements.

ECGD's total amount at risk to Sudan at end-June 1985 was $153 mn. At end-June 1985, British-owned banks' exposure to Sudan totalled $29 mn and consolidated claims $32 mn. At the same date, UK-registered banks' exposure was $107 mn while consolidated claims amounted to $110 mn.