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J G Littler CB
Second Permanent Secretary

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A J Coles Esq
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Prime Minister.

A.J.C. 18/11.

Dear John,

CHOGM

At the Prime Minister's meeting this morning, I offered to let you have a tidier version of a note which I had had prepared for myself on the list of more important Commonwealth countries which we see as being in varying degrees of debt difficulty just at the moment.

I attach a copy of this note. My letter goes also to Ricketts in the FCO and to John Kerr here.

Yours,

Geoffrey

cc P R Ricketts Esq,
Private Secretary
FCO

A. Problem cases

NIGERIA

Nigeria has had serious balance of payments problems since early 1982 when reserves fell to barely one month's imports cover. This had been caused by weak demand for oil coupled with many years of poor economic management. External debt has mounted to $18½bn: not quite in the same league as Brazil, but a serious problem.

2. In April 1982 Nigeria mobilised SDR 0.7bn of relatively unconditional IMF finance. Despite government controls, imports did not fall sufficiently to cope with the shortage of foreign exchange. As a result trade arrears of over $5bn have built up.

3. Negotiations with the IMF about a 3 year EFF programme (worth up to SDR 2.4 bn) seem near completion. It seems reasonably tough, requiring substantial reductions in the budget deficit, abolition of domestic petrol subsidies and disposals of public sector assets as well as improvements in federal control over the states' financial management. Two outstanding difficulties remain. These are the exchange rate, still heavily overvalued, and the backlog of accumulated payments arrears.

4. There could be difficulty about the size of the IMF package. The IMF Board may be reluctant to agree a maximum programme so soon after adopting new limits and resolving not to treat them as targets. And it cannot be taken for granted that a CFF (worth SDR 0.5-0.8 bn) to compensate for export shortfalls would be justified given Nigeria's deliberate reduction in oil production in line with the OPEC quotas.

JAMAICA

5. Jamaica's 3 year EFF programme with the IMF, worth SDR ½ bn) broke down seriously in March. The terms of a waiver were agreed by the IMF

Board, together with performance criteria for the third year of the programme, in June. The programme has again (just) broken down.

6. This is disappointing but not altogether surprising. The programme design was poor, concentrating adjustment toward the end of the three year period. This meant that Jamaica began the third year with mounting commercial payments arrears, low reserves and dwindling commercial confidence. As Jamaica's use of IMF credit is close to the cumulative ceiling, it is important that the present programme (due to expire in December 1984) gets back on track.

7. Jamaica's principal difficulty is its inability to meet its external financing needs. Despite a SAL from the World Bank, commercial bank lending has fallen short of Jamaica's appetite, no doubt partly because of worries about Jamaica's substantial external debt: $2.9 bn, leading to a debt service requirement of nearly 30% of export earnings. Another troublesome area is exchange rate policy: under IMF supervision, there is a three tier exchange rate arrangement in force at present. The IMF wants to unify the rate as quickly as possible, though Jamaica's CARICOM trading partners continue to demand preferential terms.

TANZANIA

8. Negotiations with the IMF for a standby arrangement seem to have broken down, perhaps irretrievably. This is a pity, since Tanzania is desperately short of foreign exchange and badly needs to reschedule its commercial debts and attract new bank loans. Existing debt is high, approaching $2 bn, leading to an unmanageable debt service commitment of nearly 60% of export earnings.

9. The main policy difficulties are the exchange rate for the shilling and the artifically low level of producer prices. Some inadequate steps in the right direction were taken in June, but the IMF is insisting on more. These problems are exacerbated by administrative inefficiency in supplying the necessary data.

GUYANA

10. Following the breakdown of the EFF programme in 1981, IMF staff have been negotiating fruitlessly about a successor programme. A recent routine discussion in the IMF Board offered no hope of early progress.

11. The root difficulty is lack of political will to take the necessary measures. A signficant devaluation of the Guyana dollar (60% or so) together with reorganisation of the bauxite, rice and sugar sectors should be features of any recovery programme. Although external debt, at $660m, is not high by international standards, it is a heavy burden, amounting to about 150% of GDP and absorbing about 20% of export earnings.

ZAMBIA

12. Zambia has obtained some SDR 300m IMF finance this year, enabling Paris Club rescheduling. The programme negotiations were difficult and progress under the programme has not been good. There has already been one suspension. As a result drawings have been backloaded in a fairly punitive fashion.

13. Zambia's difficulties are severe. They will not be over at the end of the present programme, even if it is successful. Foreign debt amounts to some $4½ bn with a 1983 debt service ratio of over 50%.

B. Less pressing problems

KENYA

14. The IMF agreed an 18 month programme for SDR 0.2 bn in March after two breakdowns. So far progress appears satisfactory, though there were some doubts whether the books had not been artifically managed for the first review. The debt burden at $2.9 bn (40% of GDP), is tolerable, leading to debt service at just less than 30% of export earnings.

15. Kenya has already started lobbying for support for a 3 year EFF (worth up to another SDR 0.2 bn) to follow its present programme. This would only be justifiable if Kenya can demonstrate resolve and capabability in carrying out the present programme. That remains to be seen.

GHANA

16. Ghana agreed terms for an IMF package worth SDR 0.35 bn in August after difficult and protracted negotiations. The principal problem was the exchange rate: Ghana is now temporarily operating a multiple rate system with the intention of unification by next summer.

17. Economic prospects against a background of internal power struggles remain bleak. Inflation continues high and coca receipts cocoa have fallen further. Payment arrears are substantial - $\$\frac{1}{2}$ bn. or so; with external debt of $\$1\frac{3}{4}$ bn leading to debt service at about 20% of export earnings.

GRENADA

18. A poorly considered EFF 3 year programme (worth SDR $13\frac{1}{2}$ m) was approved by the IMF Board in August. At \$42 m (40% of GDP), external debt is not a problem; but the prime purpose of the programme seemed to be finance for the new international airport. We supported US moves, with backing from Japan and Germany, to reduce the IMF's commitment to the first year, but without success.

19. Following the US invasion, it remains to be seen whether Grenada will be able to meet the quantitative and December performance criteria on public sector borrowing and foreign assets of state banks. Any breakdown would doubtless provoke US pressure to reinstate the programme.

UGANDA

20. Uganda is currently working under its fourth one year standby arrangement with the Fund. Although it is a very poor country, the austere approach adopted by the authorities has been successful

in reversing economic decline, reducing inflation and rehabilitating the agricultural base. External debt of $0.6 bn gives rise to a barely manageable servicing requirement of 35% of exports. The current account deficit continues high but should improve as the structural measures work their way through. Reunification of the multiple exchange rate is projected by June 1984. A 3 year EFF programme with the IMF might follow if reasonable progress during the current standby arrangement has been achieved.

ZIMBABWE

21. After difficult negotiations Zimbabwe agreed an IMF programme worth SDR 300m in March. Having run substantial external current deficits during the last three years, Zimbabwe needs concessionary finance to help reduce its dependence on short term bank borrowing. External debt is not a problem: at $0.2 bn (30% of GDP) it creates a manageable service requirement of 13% of exports.

22. The IMF programme has already faltered once, in June. Another waiver will be required for the end September performance criteria. It is to be considered by the IMF Board in mid December.