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NIGERIAN DEBT

There has been a rush of activity on Nigeria this week. I think you should have a brief note on it before the holiday break, during which there may well be occasional press reports, although we are not expecting further substantive action until early in the New Year.

2. Nigeria has for some time been marked as a potential serious debt problem, and we have known that the UK position would be difficult, because we stand as the major creditor (political connections and long-standing trade links). The essence of the problem is that Nigeria built up on its oil earnings of a few years ago a level of expenditure and imports which cannot now be sustained.

3. The main action is on two fronts:-

(a) IMF discussions. We are of course encouraging agreement on a satisfactory programme, but there is still some way to go. Any other action must in our view be contingent on a satisfactory IMF agreement.

(b) Rescheduling or restructuring of debt, and for the moment primarily we are concerned with officially guaranteed debt (negotiations with bankers are going on separately).

4. The recent activity has been concerned with officially guaranteed debt. The Nigerian authorities have approached us to attempt a preliminary negotiation. They have plainly wanted to pick off the creditors one by one, and have hoped that the Commonwealth connection would induce us to react sympathetically and set a helpful pattern.

5. We have had some contact with French, German and American colleagues who share our views, but understandably in view of our position as main creditor would be very ready to accept ~~our taking the lead in~~

coordinating a multilateral operation of the Paris Club type. (The French usually - but not invariably - take the lead, and put their resources at the disposal of the Group if there is some other Chairmanship). I think we shall probably find it difficult, given the Commonwealth connection, our own leading creditor position, and pressure from Nigeria, to resist taking the lead on this particular case. There will be an opportunity at a meeting with other creditor countries in Paris early in January to settle suitable arrangements.

6. The scale of the operation is bound to be substantial. As far as the UK is concerned, ECGD is exposed to a little over £1 billion of short-term debt falling due in 1984, and a high percentage of the total will have to be rescheduled or refinanced. ECGD also have exposure of some £2.5 billion on medium-term credit, but this is for later payments and not part of our immediate problem. The whole pattern of Nigerian debt is rather different from that of some other countries, because until about 1980 they tended to pay cash rather than take credit at all. Other creditors are likely to reflect a similar pattern.

7. I have mentioned both rescheduling and refinancing, which are alternative approaches. My own view, and I think this will be shared by other departments, is that we should try for refinancing, which extends the ECGD guarantee, but minimises the immediate cash claim on them. It will not be inappropriate by past standards, and the advantage in protecting the PSBR next year will be considerable.

#### Conclusion

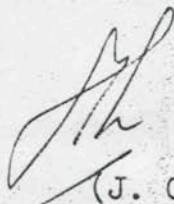
8. Three points to conclude:

- Nigeria is now very much an active debtor problem and one in which there will be strong pressure, which we probably should not resist, for the UK to take the coordinating lead among creditors;
- the Prime Minister is already aware in general terms of the Nigerian problem (Mr. Kerr's recent periodic reporting letter on international debt); in case of press stories, it might be sensible for Mr. Kerr to mention to Mr. Turnbull

the likely pressures for the UK to take the lead;

- we shall want to be very cautious about any new credit for Nigeria until prospects are clearer, and will be writing to departments to put this on record.

We will let you have a more detailed report early in the New Year, in which I hope we shall be able to include some more figuring about the relative positions of different creditors.



(J. G. LITTLER)