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# WITHDRAWAL SHEET

## Ronald Reagan Library

**Collection Name** EXECUTIVE SECRETARIAT, NSC: MEETING FILE

**Withdrawer**

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ID	Doc Type	Document Description	No of Pages	Doc Date	Restrictions
211922	AGENDA	FOR NSC MEETING	1	6/15/1983	B1
211923	MEMO	ROBINSON TO CLARK THRU BAILEY AND TYSON RE NSC MEETING <b>PAR 9/15/2017 NLR-750-5-3-2-8</b>	2	6/16/1983	B1
211924	BRIEFING	RE INTERNATIONAL ECONOMY <b>PAR 9/15/2017 NLR-750-5-3-2-8</b>	14	5/12/1983	B3

The above documents were not referred for declassification review at time of processing

Freedom of Information Act - [5 U.S.C. 552(b)]

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- B-8 Release would disclose information concerning the regulation of financial institutions [(b)(8) of the FOIA]
- B-9 Release would disclose geological or geophysical information concerning wells [(b)(9) of the FOIA]

C. Closed in accordance with restrictions contained in donor's deed of gift.



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SECRET

SUGGESTED TALKING POINTS FOR MEETING WITH  
NATIONAL SECURITY COUNCIL

- AGREE THAT NUMBER OF UNCERTAINTIES REMAIN CONCERNING THIS PROBLEM. WOULD FEEL MORE COMFORTABLE IF CONTINGENCY MEASURES DEVELOPED WHICH ANTICIPATE POTENTIAL "WORST CASE" DEVELOPMENTS.
- DON, COULD YOU WORK TOGETHER WITH BILL ON THIS AND GET ME SOMETHING THAT ADDRESSES THESE POSSIBLE NEGATIVE SCENARIOS. ONCE IN PLACE, THINK WE HAVE WORKABLE STRATEGY FOR THE DIFFICULT ADJUSTMENT PERIOD AHEAD.

SECRET

DECLASSIFY ON: OADR

Declassified  
Under Executive Order 13526, as amended  
Authority: 48 CFR 1.101(a)(2), 1.102(a)(3)  
BY NARA CA, DATE 9/15/17

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SYSTEM II  
90754

MEMORANDUM

NATIONAL SECURITY COUNCIL

June 16, 1983

~~SECRET~~

ACTION

SIGNED

MEMORANDUM FOR WILLIAM P. CLARK

THROUGH: NORMAN A. BAILEY <sup>NB</sup> / CHARLES P. TYSON <sup>CPT</sup>

FROM: ROGER W. ROBINSON <sup>RWR</sup>

SUBJECT: National Security Council Meeting,  
June 16, 1983, 11:00 a.m., Room 208, OEOB

25X1

Attached (Tab I) is the latest draft of the presentation being given to the President tomorrow by [redacted] (Chief of Global Issues, CIA), Norman Bailey and me. We plan on a final run-through tomorrow morning. Our objective in this session is not only to provide a comprehensive briefing (the dimensions of the problem, how it developed, why the U.S. should be concerned, and what is being done about it) but to stimulate a discussion following the presentation (10-15 minutes) which will result in the President tasking you and Don Regan to coordinate on the formulation of a set of contingency measures to cope with plausible "worse-case" scenarios. This is the key ingredient missing from Treasury's five part strategy. 25X1

Chuck has been key in forging this tactical approach which we believe effectively "bridges" Treasury's traditional sensitivities on the subject and brings them around to recognizing the critical need for the U.S. to be prepared for any eventuality concerning this highly volatile crisis.

This approach involves ending the presentation with a summary of the major unresolved issues and vulnerabilities that can serve as a natural lead-in to your talking points (Tab III) and brief tasking comments by the President (Tab II).

At Tab I is a briefing memo for the President for the meeting.

RECOMMENDATION:

That you explain this strategy and provide the talking points at Tab II to the President prior to the briefing.

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

That you sign the memorandum to the President at Tab I.

Approve \_\_\_\_\_ Disapprove \_\_\_\_\_

NSC review completed.

DECLASSIFIED IN PART  
NLR *Crest*  
BY *CN* DATE *9/15/17*

~~SECRET~~

~~SECRET~~

Attachments

Tab I	Memo to President
	Tab A      Agenda
Tab II	Tasking Comments by the President
Tab III	Clark Talking Points
Tab IV	Copy of Debt Presentation

~~SECRET~~

MR. PRESIDENT, IN OUR JUDGMENT THE MAJOR PROBLEM FACING THE INTERNATIONAL ECONOMY TODAY IS THE INABILITY OF MANY LDC AND EAST EUROPEAN COUNTRIES TO REPAY THEIR DEBTS. WE ARE GOING TO DESCRIBE THE MAGNITUDE OF THE DEBTORS' PLIGHT, HOW IT AROSE OVER THE PAST DECADE, WHY IT IS OF PARTICULAR IMPORTANCE TO THE UNITED STATES, AND WHAT HAS BEEN DONE SO FAR BY ALL CONCERNED PARTIES -- GOVERNMENTS, INSTITUTIONS, LENDERS, AND BORROWERS -- TO ADDRESS THE REPAYMENT PROBLEMS.

BY ANY MEASURE THE AMOUNT OF DEBT OVERHANGING THESE COUNTRIES IS ENORMOUS. AS SHOWN ON THIS GRAPH (SLIDE 2), THE COMBINED MEDIUM AND LONG TERM DEBT OF THE LDCS AND EAST EUROPEAN COUNTRIES GREW FROM ONLY \$55 BILLION IN 1970 TO \$625 BILLION LAST YEAR. NET NEW BORROWING BEGAN TO PICK UP STEAM IN 1973 AND BY 1977 SOME \$50 BILLION OR MORE WAS BEING ADDED TO THESE COUNTRIES' MEDIUM- AND LONG-TERM DEBT BURDEN EACH YEAR. WHILE THE PACE OF EAST EUROPEAN BORROWING LEVELED OFF IN THE LATE 1970S, THE LDCS CONTINUED TO ACQUIRE DEBT RAPIDLY. WE ESTIMATE THAT IN ADDITION TO THIS MEDIUM AND LONG TERM DEBT, THESE COUNTRIES HAVE ABOUT \$150 BILLION IN SHORT TERM DEBT.

THERE IS NOTHING INHERENTLY WRONG WITH DEBT -- INDEED THESE COUNTRIES IN EVEN FAVORABLE CIRCUMSTANCES WOULD NORMALLY NEED TO BORROW IN ORDER TO FINANCE THEIR DEVELOPMENT. BUT IT BECOMES A PROBLEM WHEN THE DEBT CANNOT BE REPAYED. THIS GRAPH (SLIDE 3) SHOWS THE RISE IN DEBT SERVICE PAYMENTS THAT HAS ACCOMPANIED THE GROWING INDEBTEDNESS OF THESE COUNTRIES. IN 1970, DEBT SERVICE AMOUNTED TO ONLY \$9 BILLION, BUT ACCELERATED RAPIDLY IN THE LATE 1970S TO REACH AN ESTIMATED \$140 BILLION IN 1982. AGAIN, THE LARGEST GAINS IN THE DEBT SERVICING BURDEN WERE REGISTERED BY THE LDCS.

DECLASSIFIED IN PART  
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BY CW NARA DATE 9/15/17



WHILE THE DEBT SERVICE BURDEN WAS INCREASING ESPECIALLY RAPIDLY, THE ABILITY OF MANY OF THESE COUNTRIES TO EARN THE FOREIGN EXCHANGE NEEDED TO REPAY BEGAN TO DETERIORATE. AS THIS GRAPH (SLIDE 4) SHOWS, THE REAL PRICES OF THE INDUSTRIAL RAW MATERIALS -- AGRICULTURAL PRODUCTS SUCH AS COFFEE, COCOA, SUGAR, AND METAL AND MINERAL ORES -- FELL RAPIDLY BEGINNING IN 1980. AT THE SAME TIME, OIL PRICES SURGED UPWARD ONCE AGAIN, ADDING TO THE LDCS' IMPORT BILLS. WHILE DEBTORS' ABILITY TO GENERATE THEIR OWN FOREIGN EXCHANGE WAS ERODING, INTERNATIONAL LENDERS WHO PERCEIVED GROWING RISKS IN THE LDCS HAVE HAD A CRISIS OF CONFIDENCE AND CUT BACK DEBTORS' ABILITY TO BORROW FUNDS FOR DEBT SERVICING.

MR. PRESIDENT, THESE AGGREGATE CHARTS OBSCURE THE DEBT SITUATIONS IN INDIVIDUAL COUNTRIES. A SCORE OR MORE COUNTRIES HAVE OUTSTANDING SHORT, MEDIUM, AND LONG TERM DEBT IN EXCESS OF \$5 BILLION. MOST OF THESE ARE CURRENTLY IN FINANCIAL TROUBLE. THIS TABLE (SLIDES 5 AND 1R) LISTS THEIR DEBT, REQUIRED DEBT SERVICE PAYMENTS, AND THE RATIO OF THEIR DEBT SERVICE TO THEIR EXPORT EARNINGS. AS YOU CAN SEE, ARGENTINA HAS HAD TO APPLY THE EQUIVALENT OF ALL ITS EXPORT EARNINGS TO SERVICE ITS DEBT, WHILE TAIWAN AND SOUTH KOREA, WHICH HAVE MANAGED THEIR DEBT BURDEN BETTER, USE ONLY 10-15 PERCENT OF THEIR EXPORTS TO SERVICE DEBT. BY THE WAY, WHILE INDIVIDUAL COUNTRY CIRCUMSTANCES CERTAINLY DIFFER, THE IMF HAS TRADITIONALLY VIEWED A DEBT SERVICE TO EXPORT RATIO HIGHER THAN 20 PERCENT TO BE WORRISOME; FEW OF THESE COUNTRIES HAVE LESS.

BRAZIL, MEXICO, AND ARGENTINA CERTAINLY DOMINATE ANY DISCUSSION OF DEBT. AS THIS NEXT CHART (SLIDES 6 AND 2R BLANK) SHOWS, OVER ONE QUARTER OF TOTAL LDC AND EAST EUROPEAN DEBT IS ACCOUNTED FOR BY THESE COUNTRIES. ONLY 10 COUNTRIES ACCOUNT FOR NEARLY HALF THE DEBT. THREE OF THE TOP TEN DEBTORS ARE OPEC COUNTRIES; VENEZUELA IS ALREADY IN FINANCIAL TROUBLE, AND WHILE INDONESIA IS A RELATIVELY STRONG ECONOMY, ITS ABILITY TO REPAY DEBT WOULD CERTAINLY WORSEN IF OIL PRICES FALL. ALTHOUGH NOT IN THE TOP TEN, NIGERIA IS ALREADY DISCUSSING RESTRUCTURING ITS DEBT. (SLIDE 7 BLANK)

SEVERAL MEASURES SHOW THE INABILITY OF COUNTRIES TO REPAY THEIR DEBT. IN 1975, ONLY 15 COUNTRIES WERE LISTED BY THE IMF AS BEHIND IN PAYING THEIR DEBTS, AND ARREARAGES AMOUNTED TO ONLY \$1 BILLION. BY 1981, 35 COUNTRIES HAD MISSED PAYMENTS THAT YEAR, AND THE AMOUNT OF ARREARS HAD RISEN TO \$7 BILLION. LAST YEAR, 34 COUNTRIES WERE LISTED BUT THE AMOUNT OF THEIR ARREARAGES HAD BALLOONED TO ALMOST \$19 BILLION.

PRIOR TO 1980, AT MOST A HANDFUL OF COUNTRIES FORMALLY RESCHEDULED THEIR DEBT PAYMENTS AND THE TOTAL AMOUNTS WERE TYPICALLY ONLY SEVERAL HUNDRED MILLION DOLLARS. IN 1980 AND 1981 THE NUMBER OF COUNTRIES ROSE TO OVER A DOZEN AND THE AMOUNT RESCHEDULED TO \$10 BILLION. IN 1982, ACCORDING TO THE IMF, THERE WERE 20 RESCHEDULINGS SIGNED OR UNDER DISCUSSION TOTALING OVER \$45 BILLION.

FINALLY, SOME 46 COUNTRIES ARE OPERATING UNDER OR ARE NEGOTIATING IMF ADJUSTMENT PROGRAMS (SLIDES 8 AND 3R). THIS IS ONE-THIRD OF THE FUND'S MEMBERSHIP. THEIR MEDIUM AND LONG TERM DEBT IS APPROXIMATELY \$375 BILLION, OR ABOUT 60 PERCENT OF THE TOTAL MEDIUM AND LONG TERM DEBT OF ALL LDCS AND EAST EUROPEAN COUNTRIES.

WITH THIS LARGE DEBT OVERHANG, THE CRUX OF THE PROBLEM FOR THE UNITED STATES IS TO ENABLE TROUBLED DEBTORS TO ADJUST TO THE REALITY THAT THEY CANNOT CONTINUE TO FINANCE DEFICITS BY BORROWING AS THEY DID IN THE PAST. AND THE ADJUSTMENT, BOTH BY BORROWERS REDUCING THEIR NEEDS AND BY LENDERS MINIMIZING RISKS TO THEIR LOAN PORTFOLIOS, MUST BE GRADUAL. A SUDDEN CUTOFF OF FUNDS TO THE DEBTORS THAT SEVERELY ERODES LIVING STANDARDS WITHOUT ALLOWING ANY PROGRESS ON RESOLVING UNDERLYING ECONOMIC DIFFICULTIES COULD, FOR INSTANCE, CAUSE A BACKLASH AGAINST WESTERN GOVERNMENTS AND FINANCIAL INSTITUTIONS.

IN ADDITION, DEBTORS' FINANCIAL PROBLEMS COULD SLOW THE PACE OF THE ECONOMIC RECOVERY THAT IS JUST UNDERWAY IN THE UNITED STATES AND OTHER INDUSTRIAL COUNTRIES BECAUSE OF ITS ADVERSE IMPACT ON TRADE. FINALLY, CONTINUING FINANCIAL PROBLEMS WOULD INCREASE THE RISK OF POLITICAL INSTABILITY IN ANY NUMBER OF KEY COUNTRIES, ESPECIALLY IN LATIN AMERICA. (SLIDES 9 BLANK AND 4R BLANK)

WITH THAT BACKGROUND, WE WOULD LIKE TO TRACE FOR YOU HOW THE DEBT PROBLEM DEVELOPED SO YOU HAVE A CLEAR UNDERSTANDING OF ITS CAUSES, EFFECTS, AND POSSIBLE CURES.

PART II (RWR)

MR. PRESIDENT, WE WOULD NOW LIKE TO FOCUS ON HOW THE DEBT PROBLEM DEVELOPED. THERE ARE TWO MAJOR REASONS WHY MANY LDC'S ARE TODAY CONFRONTED BY AN UNMANAGEABLE DEBT OVERHANG -- FIRST WAS THE SHIFT IN THE STRUCTURE OF THE DEBT FROM OFFICIAL TO PRIVATE SOURCES OF FINANCING AND SECOND WAS AN ABRUPT AND LARGELY UNEXPECTED CHANGE IN INTERNATIONAL ECONOMIC CIRCUMSTANCES WHICH LESSENED THE ABILITY OF DEBTOR COUNTRIES TO REPAY THEIR OBLIGATIONS.

AS YOU WILL NOTICE IN THIS CHART BETWEEN 1967 AND 1982, NOT ONLY DID THE SIZE OF THE DEBT DRAMATICALLY INCREASE FROM \$34 BILLION TO \$625 BILLION, BUT THE SHARE OF THE OFFICIAL DEBT DECLINED FROM 68% IN 1967 TO ONLY 35% IN 1982. OVER THE SAME PERIOD, PRIVATE DEBT INCREASED FROM 32% TO 65%.

THIS MAJOR SHIFT IN THE COMPOSITION OF LDC DEBT IN FAVOR OF PRIVATE SOURCES IS IMPORTANT [GO BLANK] BECAUSE IT MEANS THAT THE COST OF FINANCING IS GENERALLY HIGHER FOR THE DEBTOR COUNTRY, AS INTEREST RATES ON PRIVATE BANK LOANS ARE USUALLY ADJUSTED PERIODICALLY TO COINCIDE WITH CHANGING INTEREST RATES, WHEREAS OFFICIAL CREDITS GENERALLY CARRY LOWER FIXED INTEREST RATES. IN ADDITION, PRIVATE BANK LOANS HAVE TO BE REPAYED MORE QUICKLY THAN OFFICIAL CREDITS; AND, FINALLY, THE AVAILABILITY OF PRIVATE BANK FINANCING CAN BE SUBSTANTIALLY MORE DIFFICULT DEPENDING ON THE BANKERS' PERCEPTIONS OF THE BORROWER COUNTRY'S CREDITWORTHINESS.

THIS SHIFT FROM OFFICIAL TO PRIVATE FINANCING SOURCES WAS THE RESULT OF A NUMBER OF FACTORS:

-- FIRST, THE WORLD'S LARGE COMMERCIAL BANKS WERE FLUSH WITH OPEC DEPOSITS AFTER THE 1973-74 OIL PRICE INCREASES. THE

LDC'S WERE ENCOURAGED TO BORROW MORE FROM PRIVATE SOURCES, AND THE BANKS COMPETED AGGRESSIVELY AMONG THEMSELVES TO BOOK LOANS AND ATTRACT NEW CUSTOMERS. THE SO-CALLED "RECYCLING" OF PETRO-DOLLARS BY BANKS WAS ALSO SUPPORTED BY THE GOVERNMENTS OF BOTH THE CREDITORS AND BORROWERS.

CHANGE CHART -- (INTEREST)

-- SECOND, LOW REAL INTEREST RATES DURING MUCH OF THE 1970'S FACILITATED INCREASED BORROWING. THIS POINT IS ILLUSTRATED ON THE GRAPH BY THE LEVEL OF THE LONDON INTERBANK OFFER RATE, ALSO KNOWN AS LIBOR, WHICH IS THE INTEREST RATE AGAINST WHICH MOST LDC LOANS ARE CALCULATED.

-- AND THIRD, ON THE DEMAND SIDE, LDC'S NEEDED TO PERIODICALLY BORROW TO COVER INVESTMENT NEEDS AND THE HIGHER COST OF IMPORTED OIL.

HAVING NOW LOOKED AT THE PRIMARY REASONS FOR THE GROWTH IN PRIVATE BANK FINANCING, THE OTHER MAJOR CONTRIBUTOR TO THE PRESENT PROBLEM WAS AN ABRUPT CHANGE IN INTERNATIONAL ECONOMIC CONDITIONS BEGINNING IN ABOUT 1979. [CHART -- LDC/INDUSTRIAL GROWTH]

UP UNTIL THAT TIME, CONDITIONS REMAINED LARGELY FAVORABLE TOWARD THE LDC'S:

-- THEIR ECONOMIES WERE GROWING RAPIDLY, GENERALLY ON THE ORDER OF 5-6% A YEAR. THIS REPRESENTED SUBSTANTIALLY HIGHER GROWTH LEVELS THAN ACHIEVED BY INDUSTRIAL COUNTRIES. [GO BLANK]

-- GLOBAL INFLATION WAS HIGH AND REDUCED THE REAL DEBT BURDEN FOR LDC DEBTOR COUNTRIES.

-- FINALLY, THE PROFITS ASSOCIATED WITH LOANS TO LDC'S WERE ATTRACTIVE FOR THE COMMERCIAL BANKS AND THE RISKS WERE PERCEIVED AS LOW ON CREDITS TO THESE SOVEREIGN BORROWERS.

-- FEW CAUTIONARY SIGNALS WERE PRESENT AT THE TIME TO FORESHADOW WHAT WAS TO COME. [SIDE BY SIDE INTEREST RATES AND INFLATION AND INDEXES OF REAL COMMODITY PRICES]

BEGINNING IN 1979, HOWEVER,

-- OIL PRICES AGAIN SHARPLY INCREASED.

-- THE HEADWAY MADE BY INDUSTRIAL COUNTRIES IN REDUCING INFLATION BOOSTED INTEREST RATES.

-- GLOBAL RECESSION DECREASED DEMAND FOR LDC GOODS AND SENT COMMODITY PRICES DOWNWARD.

EVEN THOUGH THE FINANCIAL CONDITION OF SEVERAL MAJOR LDC'S WAS IN THE PROCESS OF BEING ERODED BY THIS CHANGE IN INTERNATIONAL ECONOMIC CONDITIONS, THESE COUNTRIES INITIALLY RESISTED IMPLEMENTING STRONG DOMESTIC ADJUSTMENT MEASURES.

[GO BLANK]

-- THEY WERE CONFIDENT THAT THIS NEW ROUND OF OIL PRICE HIKES WOULD PLAY OUT SIMILARLY TO THE EARLIER OIL SHOCK AND CONSEQUENTLY EXPECTED ONLY TEMPORARY DIFFICULTIES.

-- THESE COUNTRIES ALSO FOUND IT POLITICALLY DIFFICULT TO CUT PUBLIC SPENDING AND DOMESTIC SUBSIDIES (E.G. THIS IS STILL TRUE IN SOME CASES TODAY EVEN UNDER THE PRODDING OF THE IMF).

-- COMMERCIAL BANKS ATTEMPTED TO PROTECT THEIR PORTFOLIOS BY EXTENDING NEW CREDITS IN THE HOPE OF BRIDGING THESE NEW FINANCING REQUIREMENTS WHILE MAINTAINING THE POSITIVE BANKING RELATIONSHIPS WHICH THEY HAD DEVELOPED WITH THE COUNTRIES.

-- BANKS WERE ALSO UNDER INTERNAL PRESSURE TO MAINTAIN, IF NOT INCREASE, THE PACE OF THEIR LENDING.

-- FINALLY, THESE UNDERLYING TRENDS WERE REINFORCED BY AN OVERESTIMATION ON THE PART OF LENDERS, BORROWERS, AND GOVERNMENTS ALIKE OF THE ABILITY AND PACE WITH WHICH INDUSTRIAL COUNTRIES COULD EMERGE FROM THE RECESSION.

IN MARCH 1981, POLAND'S DECLARATION OF A DEBT MORATORIUM PENDING A RESCHEDULING OF ITS \$28 BILLION OF PRIVATE AND OFFICIAL DEBT TO SOME 500 COMMERCIAL BANKS OF 15 COUNTRIES SENT SHOCK WAVES THROUGH THE WORLD FINANCIAL COMMUNITY. IN AUGUST OF 1982, IT WAS THE MEXICAN LIQUIDITY CRISIS, RAPIDLY FOLLOWED BY A STRING OF OTHER LDC DEBTORS, UNTIL TODAY. AS WE REFERENCED EARLIER, WE FIND SOME 46 COUNTRIES UNDER OR NEGOTIATING IMF EXTENDED FUND FACILITIES.

THE NEXT PART OF OUR PRESENTATION, MR. PRESIDENT, TREATS THE QUESTION OF WHY THE UNITED STATES SHOULD BE CONCERNED BY THIS PROBLEM AND WHAT IS BEING DONE ABOUT IT.

MR. PRESIDENT, THERE ARE FOUR PRINCIPAL REASONS WHY THE INTERNATIONAL DEBT SITUATION IS OF CONCERN TO US.

IN THE FIRST PLACE, THE DOMESTIC COSTS OF ADJUSTMENT IN THE DEBTOR COUNTRIES ARE HIGH AND WILL INCREASE. POPULATIONS USED TO CONTINUOUS GROWTH ARE NOW SUBJECT TO DECLINING STANDARDS OF LIVING AND WILL BE FOR SOME TIME. THE RESULT MAY WELL BE POLITICAL AND SOCIAL INSTABILITY IN THESE COUNTRIES AND THE GROWTH OF RADICAL MOVEMENTS. THERE HAVE ALREADY BEEN RIOTS IN RIO AND SAO PAULO (PICTURE), AND THE PACE OF THE ILLEGAL MEXICAN EMIGRATION TO THE U.S. HAS PICKED UP CONSIDERABLY. (BLANK)

SECONDLY, THERE COULD BE A SUBSTANTIAL NEGATIVE IMPACT ON THE RATE AND SOLIDITY OF THE ECONOMIC RECOVERY IN THE INDUSTRIAL WORLD (CHART). THE DEVELOPED COUNTRIES SOLD \$300 BILLION WORTH OF GOODS AND SERVICES TO THE LDCs IN 1981, UP FROM ONLY \$40 BILLION ELEVEN YEARS EARLIER. THE FINANCIALLY TROUBLED COUNTRIES ALONE PURCHASED ABOUT \$55 BILLION IN MANUFACTURED GOODS FROM THE INDUSTRIAL COUNTRIES IN 1981 (CHART). THE UNITED STATES SOLD ABOUT \$80 BILLION WORTH OF GOODS AND SERVICES IN 1981 TO THE LDC'S, REPRESENTING 37% OF OUR TOTAL EXPORTS, UP FROM 27% IN 1970. FOUR OF OUR TOP TEN LDC CUSTOMERS ARE IN SERIOUS FINANCIAL TROUBLE. (CHART) MEXICO IS OUR SECOND LARGEST EXPORT MARKET IN THE WORLD. COUNTRIES THAT ARE NOW IN FINANCIAL TROUBLE HAVE PROVIDED ABOUT ONE-FIFTH OF THE GROWTH OF U.S. MANUFACTURERS' EXPORTS SINCE THE MID-1970'S. (CHART) AS A RESULT OF THEIR PROBLEMS, THE MAJOR DEBTOR COUNTRIES HAVE CUT BACK SUBSTANTIALLY ON THEIR IMPORTS FROM THE U.S. STARTING IN THE SECOND HALF OF



1982. IF THIS TREND CONTINUES AS IT HAS SO FAR, THE IMPACT ON EMPLOYMENT IN THE UNITED STATES WILL BE SIGNIFICANT.

THIRDLY, MR. PRESIDENT, THE AMERICAN COMMERCIAL BANKS HAVE A MAJOR STAKE IN THE DEBTOR COUNTRIES (CHART). IN 1975, EXPOSURE OF U.S. BANKS TO LATIN AMERICAN, EAST EUROPEAN AND AFRICAN DEBTORS TOTALLED \$37 BILLION, 20% OF A TOTAL FOREIGN EXPOSURE OF \$167 BILLION. (RIGHT CHART) BY 1982, U.S. BANKS HAD LENT \$96 BILLION TO LATIN AMERICA, EASTERN EUROPE AND AFRICA, 28% OF A TOTAL OF \$349 BILLION. OUR BANKS ARE MOST HEAVILY EXPOSED IN LATIN AMERICA, WHERE THE SITUATION IS THE MOST DISTURBING (CHART). AS YOU SEE, BY 1982 THE NINE LARGEST U.S. BANKS HAD LENT 140% OF THEIR TOTAL CAPITAL AND RESERVES TO THE FOUR MAJOR LATIN AMERICAN BORROWERS ALONE, AND OVER THREE TIMES THEIR CAPITAL AND RESERVES TO ALL LDC BORROWERS (CHART). FURTHERMORE, IN RECENT YEARS, HUNDREDS OF MEDIUM TO SMALLER U.S. BANKS HAVE LENT BILLIONS TO THE MAJOR DEBTOR COUNTRIES, ESPECIALLY IN LATIN AMERICA. FOR EXAMPLE, AS THE CHART SHOWS, 26 PERCENT OF U.S. LOANS TO MEXICO WERE MADE BY SMALL BANKS. (BLANK)

FINALLY, MR. PRESIDENT, RISK EXPOSURE IS BECOMING MORE CONCENTRATED. AS THE SMALLER BANKS TRY TO REDUCE THEIR EXPOSURE, MOSTLY THROUGH THE INTERBANK MARKET, SOME OF THE SLACK IS ABSORBED BY THE LARGER BANKS, MAKING THEM EVEN MORE VULNERABLE TO ANY UNEXPECTED SHOCK. AS THE U.S. GOVERNMENT PARTICIPATES IN RESCUE PACKAGES, SOME OF THE PROCEEDS OF WHICH ARE USED TO PAY COMMERCIAL CREDITORS, RISK IN FACT BECOMES ASSUMED TO A GREATER EXTENT BY THE GOVERNMENT AND THUS INDIRECTLY BY THE U.S. TAXPAYER.

MR. PRESIDENT, TO RECAPITULATE, AN ACCUMULATION OF INTERNATIONAL LENDING TO THE LESS DEVELOPED AND EAST EUROPEAN COUNTRIES HAS LED TO A SITUATION WHERE THESE COUNTRIES CAN NO LONGER SERVICE THEIR OBLIGATIONS UNDER THE ORIGINAL TERMS AND THUS ARE HAVING TO REQUEST RESCHEDULING OF THESE DEBTS, WHICH IS PLACING SEVERE STRAINS ON GOVERNMENTS, BANKS AND INTERNATIONAL ORGANIZATIONS.

THE U.S., IN COLLABORATION WITH OTHER GOVERNMENTS, CENTRAL BANKS, COMMERCIAL BANKS AND INTERNATIONAL AGENCIES, ESPECIALLY THE IMF AND THE BANK FOR INTERNATIONAL SETTLEMENTS, ARE TRYING TO DEAL WITH THE SITUATION ON A CASE-BY-CASE BASIS, INVOLVING THE FOLLOWING FIVE ELEMENTS:

-- FIRST, ECONOMIC ADJUSTMENT BY BORROWING COUNTRIES DESIGNED TO STABILIZE THEIR ECONOMIES AND RESTORE SUSTAINABLE EXTERNAL POSITIONS.

-- SECOND (DELETE CHART) AN INTERNATIONAL MONETARY FUND ADEQUATELY EQUIPPED TO HELP BORROWERS DESIGN ADJUSTMENT PROGRAMS AND PROVIDE BALANCE OF PAYMENTS FINANCING ON A TEMPORARY BASIS WHILE ADJUSTMENT PROGRAMS TAKE EFFECT.

-- THIRD, READINESS OF MONETARY AUTHORITIES IN CREDITOR COUNTRIES TO PROVIDE SHORT-TERM LIQUIDITY SUPPORT, WHEN ESSENTIAL TO ASSIST SELECTED BORROWERS THAT ARE FORMULATING ADJUSTMENT PROGRAMS WITH THE IMF.

-- FOURTH, ENCOURAGEMENT TO COMMERCIAL BANKS TO CONTINUE TO PROVIDE PRUDENT LEVELS OF FINANCING TO BORROWING COUNTRIES WHICH ARE IN THE PROCESS OF IMPLEMENTING IMF-SUPPORTED ADJUSTMENT PROGRAMS. THIS CAN TAKE THE FORM OF ROLLING OVER MATURING

LOANS, KEEPING LINES OF CREDIT AVAILABLE AND PROVIDING NEW MONEY WHEN NECESSARY.

-- FIFTH, RESUMPTION OF SUSTAINABLE, NON-INFLATIONARY ECONOMIC EXPANSION AND MAINTENANCE OF ACCESS TO MARKETS, BOTH IN THE INDUSTRIAL COUNTRIES AND IN DEVELOPING COUNTRIES FACING DEBT PROBLEMS.

SO FAR, AS THE STUDY DONE AS A RESULT OF THE ISSUANCE OF NSSD-3 STATES, THE PROGRAM HAS WORKED. HOWEVER, NO QUICK SOLUTIONS ARE POSSIBLE BECAUSE OF THE MAGNITUDE OF THE PROBLEM AND THE NATURE OF THE ADJUSTMENTS NEEDED. MANY QUESTIONS REMAIN:

(TABLE) WE ESTIMATE THAT MORE FUNDS WILL BE REQUIRED THIS YEAR FOR THE SAME DEBTORS, IN THE RANGE OF \$5 BILLION TO \$15 BILLION. IT IS NOT CLEAR WHERE THESE FUNDS WILL COME FROM SINCE ADDITIONAL IMF RESOURCES WILL NOT BE AVAILABLE UNTIL THE END OF THIS YEAR, THE BANK FOR INTERNATIONAL SETTLEMENTS HAS BECOME MORE RELUCTANT TO EXTEND BRIDGING LOANS AND QUESTIONS HAVE ARISEN ABOUT THE APPROPRIATENESS OF THE USE OF OUR OWN EXCHANGE STABILIZATION FUND FOR THIS PURPOSE.

FUNDS ARE CONTINUALLY BEING PULLED OUT OF THE INTERBANK DEPOSIT MARKET, ESPECIALLY BY THE EUROPEAN AND JAPANESE AS WELL AS SOME SMALLER U.S. BANKS AND U.S. BANKS, WHICH MAKES REFUNDING OF DEBT MORE DIFFICULT AND BORROWER LIQUIDITY PROBLEMS MORE ACUTE.

(TABLE) IT IS PROBABLE THAT MANY COUNTRIES WILL BE UNABLE TO PERFORM UNDER THEIR IMF PROGRAMS AND THUS RISK PROLONGED NEGOTIATIONS WITH THE IMF AND FURTHER ANXIETY IN THE MARKETS, LEADING TO A POSSIBLE REDUCTION IN THE WILLINGNESS OF

COMMERCIAL BANKS TO PROVIDE SUFFICIENT ADDITIONAL FUNDS. IN THIS CONNECTION, BRAZIL WAS DECLARED OUT OF COMPLIANCE WITH ITS IMF PROGRAM AND, AS A RESULT, THE IMF DID NOT DISBURSE FUNDS ON MAY 31. NEGOTIATIONS ARE NOW UNDER WAY TO DETERMINE WHAT ADJUSTMENTS IN THE PROGRAM CAN BE AGREED UPON BY BRAZIL AND THE IMF TO PERMIT THE RESUMPTION OF DISBURSEMENTS.

(RIGHT AND LEFT TABLES) MANY BORROWERS HAVE ALREADY TAKEN UNILATERAL ACTIONS TO SUSPEND SOME REPAYMENTS. THERE HAS ALSO BEEN DISCUSSION AMONG SOME OF THE SMALLER DEBTORS OF DECLARING A COORDINATED MULTILATERAL MORATORIUM. ALTHOUGH THERE IS AS YET NO EVIDENCE THAT ANY OF THE LARGE DEBTOR COUNTRIES ARE CONSIDERING FORMING A "CARTEL," SHOULD SOME IMF PROGRAMS COLLAPSE, THESE DEBTORS WOULD ALSO BE MORE RECEPTIVE TO TAKING JOINT ACTION. AN ALL LATIN AMERICAN ECONOMIC MEETING ATTENDED BY HEADS OF GOVERNMENT HAS BEEN SCHEDULED FOR JULY 24 AND 25, AND AN OAS CONFERENCE IS SCHEDULED IN SEPTEMBER TO STUDY, AMONG OTHER TOPICS, A COLLECTIVE APPROACH TO THE REGION'S PRESSING FINANCIAL DIFFICULTIES.

FINALLY, FROM THE STANDPOINT OF NATIONAL SECURITY, AUSTERITY PROGRAMS IN THE DEBTOR COUNTRIES MAY LEAD TO INCREASED SOCIAL AND POLITICAL UNREST IN AREAS HIGHLY SIGNIFICANT TO OUR SECURITY INTERESTS, ESPECIALLY THE CARIBBEAN AND LATIN AMERICA IN GENERAL.

IN SUMMARY, MR. PRESIDENT, WE HAVE IDENTIFIED A NUMBER OF UNCERTAINTIES WHICH, DEPENDING ON THEIR GRAVITY, COULD IMPEDE THE ABILITY OF OUR PRESENT STRATEGY TO MAINTAIN ADEQUATE LIQUIDITY AND THE OVERALL STABILITY OF THE SYSTEM. AMONG THESE UNCERTAINTIES ARE THE SOURCES OF SIGNIFICANT NEW

FINANCING THAT WILL PROBABLY BE REQUIRED FOR THESE LDC DEBTORS, THE ABILITY OF THE DEBTOR COUNTRIES TO MEET IMF ADJUSTMENT TARGETS, THE POSSIBILITY OF FURTHER UNILATERAL OR COLLECTIVE ACTIONS BY DEBTOR COUNTRIES WHICH COULD HAVE DESTABILIZING EFFECTS, THE PACE AND DURATION OF ECONOMIC RECOVERY BY THE INDUSTRIALIZED COUNTRIES WHICH, IN TURN, IMPACTS DIRECTLY ON LDC RECOVERY PROSPECTS, AND FINALLY MAINTAINING AN ADEQUATE LEVEL OF COMMERCIAL BANK FUNDING AND COHESION DURING THIS UNCERTAIN PERIOD.

THANK YOU, MR. PRESIDENT.