

Latin American Debt Problems

There are growing fears that the international monetary system is returning to the crisis atmosphere of late 1982. Various Latin American countries continue to face difficult economic situations. Falling oil prices have exacerbated the debt problems of Mexico, Peru, and Venezuela, though the recent stabilization of prices may relieve this burden. Governments sensitive to the increasing political costs of austerity measures will be under more pressure to resist them.

The international financial system has dealt successfully with the initial challenges posed by the debt crisis in Latin America, and we are actively involved in efforts to strengthen the system. The IMF quota increase, the broadening of the General Arrangements to Borrow, and increased consultation with other industrialized countries are part of this strategy. The U.S. believes that a combination of broadening economic growth in the industrialized world, lower interest rates, appropriate adjustment policies, and the type of measures mentioned above will go a long way toward alleviating external indebtedness.

Nevertheless, political needs have led certain governments to seek support for some form of coordinated Latin American action with respect to external indebtedness. Suggestions have included joint negotiations with commercial bank creditors, declarations of unilateral moratoria on the repayment of principal and perhaps interest, or at worst, collective outright repudiations. Mexico does not favor such a debtors' cartel.

At Venezuela's initiative, the OAS has convoked a specialized conference on external financing in Caracas from September 5-9. There is concern that the conference will become the launching pad for a debtor's club. However, many Latin American financial officials, among others, recognize that drastic debtor action, individual or collective, would impose severe costs on the debtors. Credit would dry up, trade would become a near impossibility, and domestic adjustment programs would become more painful and disorderly.

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