SENIOR INTERDEPARTMENTAL GROUP-INTERNATIONAL ECONOMIC POLICY

April 14, 1983
5:00 p.m.
Roosevelt Room

Attendees:

Treasury
Secretary Regan
Beryl Sprinkel
Marc Leland

Office of Vice President
Admiral Daniel Murphy
G. Philip Hughes

State
W. Allen Wallis

Defense
Donald Goldstein

Agriculture
Richard Lyng

Commerce
Lionel Olmer
Olin Wethington

CIA
Henry Rowen

OMB
Joseph Wright
Alton Keel

USTR
Ambassador Brock
Dennis Whitfield

CEA
Martin Feldstein
Paul Krugman

OPD
Roger Porter
Les Denend

NSC
Norman Bailey, Executive Secretary
Roger Robinson
William Martin

The Chairman opened the meeting by saying that only one of the two agenda items would be covered. Secretary Shultz wanted to be present for the long-term grain agreement and was unable to participate in today's meeting. (C)

The Chairman then asked Under Secretary Sprinkel to update the debt situation in Brazil, Argentina, Mexico, Venezuela, Nigeria, Yugoslavia and Poland. Sprinkel summarized the overall situation as a difficult problem, but one which was being managed. Some of the highlights of his presentation included: (C)

Mexico: On March 3, the GOM and over 500 commercial banks signed a $5 billion loan for Mexico. Now the GOM has turned their attention to $20 billion of debt restructuring. Secretaries Shultz, Regan and Baldrige will be in Mexico on April 18 and 19 for a meeting of the U.S.-Mexico Binational Commission. (C)

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Brazil: Brazil received the first $2.5 billion disbursement from commercial banks and its initial disbursements from the IMF in March and has repaid all outstanding swaps to the U.S. Treasury as well as the first installment on its BIS loan. Brazil's major problem appears to be a failure of needed private capital reflows to materialize on schedule. Brazil is implementing its IMF-backed stabilization program. (C)

Venezuela: The GOV has deferred until July payment of principal on financial and nonfinancial public sector short- and medium-term external debt. Foreign reserves have continued to dwindle, adding greater urgency to successful negotiations with banks -- negotiations which are likely to be arduous. Article IV consultations with the IMF appear to have been completed. (C)

Chile: Treasury has advised the Chileans that the Exchange Stabilization Fund credit is not possible at this time as discussed at a recent SIG meeting. The GOC announced an emergency economic program on March 22. Negotiations with private banks are under way, but since the Chileans are having problems in complying with the IMF program, the outcome is uncertain. (C)

Peru: Treasury also advised Peru that ESF credit is not possible at this time. The GOP's talks with commercial banks appear to be proceeding well. (C)

Argentina: The GOA is in serious danger of being out of compliance with its IMF program by mid year. This could jeopardize its negotiations for a $1.5 billion loan agreement with commercial banks. (C)

Yugoslavia: Yugoslavia ended last year with an immediate cash flow program and large current account deficit. Over the past months, a five-part program has been assembled including: assistance from commercial banks, an IMF standby program, BIS short-term credits, credits from governments, and an IBRD structural adjustment loan. (C)

Poland: Credits from the West and talks on rescheduling 1982 debts were terminated with the imposition of martial law in 1981. As a result, in 1982, Poland's economic activity continued to decline, and 1983 is not foreseen to improve the situation. Commercial banks rescheduled the Poles 1982 debt late in the year -- leaving little for other creditors. Others want to reschedule 1982 but will first analyze financial data provided by Poles and meet in Paris in May to decide what should be done about 1982 debt. (C)

Nigeria: Nigeria's economic and financial situation continues to be extremely precarious. Food supplies, for example, have been cut back 40 percent over the last two years. Nigeria refused to make fundamental policy adjustments, preferring to tighten restrictions on imports. Key Nigerian officials have hinted that they would like U.S. financial assistance. Under Secretary Wallis presented a State proposal that $200 million in CCC blended credits be offered immediately. He noted that Nigeria's economic policies were a disaster, but it is a key political ally of the United States. We should consider support for national security reasons. This August, Nigeria will hold national elections. It is critical that these elections go forward in a democratic manner, as planned. Following the election, we would hope that Nigeria could begin a process which would lead to economic discipline and responsibility. He concluded by saying that Nigeria does have some flexibility increasing their oil production, but they have been reluctant to since this may put downward pressure on oil prices. OMB noted that care must be exercised in using CCC for foreign aid purposes. Others voiced their concern that we would want to have assurances that following the election the Nigerians would begin a serious program of economic discipline. Others wondered why we should bail out a country which could increase its oil production and in so doing put downward pressure on world oil prices -- to the benefit of consuming nations. The Chairman asked Marc Leland to convene a working group to review the State proposal to report back to a future SIG-IEP meeting. (C)

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