Directorate of Intelligence

22 Jan 88

Top Secret

NOFORN-NOCONTRACT-PROPIN-ORCON

Handle via COMINT Channels

CIA/OGI 87-20200C

International Financial Situation Report (U)

Issue 71

17 December 1987

Top Secret

GI M 87-20200C
SC 04097/87
17 December 1987

Copy 72

13

Warning Notice — This Document Not To Be Reproduced
Intelligence Sources or Methods Involved
(WN)

National Security Information — Unauthorized Disclosure
Subject to Criminal Sanctions

Dissemination Control Abbreviations

NOFORN (NF)	Not releasable foreign nationals
NOCONTRACT (NC)	Not releasable to contractors or contractor/consultants
PROPIN (PR)	Caution—proprietary information involved
ORCON (OC)	Dissemination and extraction of information controlled by originator
REL...	This information has been authorized for release to...
WN	WNINTEL—Intelligence sources or methods involved

The *International Financial Situation Report* is prepared by analysts of the Directorate of Intelligence. Comments are welcome and may be addressed to the Situation Report Coordinator on 482-1888 or secure 51505.

Classified by 0561424
Declassify: OADR
Derived from multiple sources

Abbreviations for compartmented codewords are:
M – MORAY S – SPOKE U – UMBRA

This page is Confidential.
Handle via COMINT channels

TOP SECRET UMBRA
NOFORN NOCONTRACT PROPIN ORCON
Central Intelligence Agency

Washington, D.C. 20505

DIRECTORATE OF INTELLIGENCE

International Financial Situation Report #71
17 December 1987

Summary

The joint communique issued by the presidents of eight Latin American countries following their summit meeting in Mexico on 27-28 November included a unified position on debt, but did not indicate any radical joint debt actions would be taken. More noteworthy, than the communique itself were the behind-the-scenes debates that led to the joint declaration. Peru, Brazil, and Argentina reportedly pushed for radical debt initiatives, including limitations on interest payments. In other developments:

- Many international banks are girding for a suspension of payments on Argentina's foreign debt, which they believe is inevitable and could occur as early as this month, according to a reliable source. We believe a mid-December $500 million loan from international banks will bring Argentine reserves to about $1.1 billion and should forestall a moratorium this month. To avert radical debt action in 1988, however, Buenos Aires will require at least $1.6 billion in yet-to-be-negotiated new money coupled with quiescence from the IMF. Meanwhile, President Alfonsin's economic team appears to be losing control over the economy and has discussed resigning en masse in January or February.

- Brazil's $4.5 billion bridge loan to cover 1987 interest obligations was signed on 15 December and the initial $1.5 billion tranche will be made in three disbursements within the next month. Negotiations began on 1 December on the term sheet for a debt rescheduling and new money package but, so far, little progress has been made. The Brazilian delegation returned to the bargaining table with essentially the same proposals it brought when negotiations began on 25 September, which the banks rejected as unrealistic and vague. The negotiating atmosphere will likely become even more contentious in January if—as is likely—Brasilia does not resume scheduled interest payments.

- The Mexican Government announced on 15 December new economic measures designed to fight record inflation over the longer term and lower the bloated federal budget deficit, while increasing workers' wages to help counter rapidly rising consumer prices. The move apparently stops short of the strong medicine needed to significantly reduce inflation, but some slowing is likely. Nonetheless, the austere nature of many of the new measures may be a political liability for the government during the runup to next summer's presidential election. (S NF NC OC)

NOTE: REPORT #72 WILL BE PUBLISHED ON 14 JANUARY 1988

TOP SECRET UMBRA
NOFORN NOCONTRACT PROPIN ORCON
HANDLE VIA COMINT CHANNELS

SC 04097/87

KEY ISSUE

The Latin American Summit Meeting

The joint communique issued by the presidents of eight Latin American countries following their summit meeting in Acapulco on 27-28 November included a unified position on debt, but did not suggest any radical joint debt actions. According to the press, the presidents essentially appealed for more creditor cooperation to find a just and permanent solution to the Latin American debt problem and proposed various mechanisms for achieving that objective. More noteworthy than the communique itself were the behind-the-scenes debates that led to the joint declaration. According to a generally reliable source and US Embassy reporting, the debt talks were difficult and contentious. Peru, Brazil, and Argentina reportedly pushed for radical debt initiatives, including limitations on interest payments. By contrast, Colombia and Uruguay apparently opposed a joint declaration that expressed a hardline debt position because of the potential damage it could inflict on their own relatively favorable negotiating positions with banks. Generally reliable sources and US Embassy reporting indicate that Mexico effectively played the role of moderator and influenced the phrasing of the final declaration, which confined the most radical measures—such as ceilings on interest rates, devaluation of debt through secondary market discounts, or linking debt servicing to export market access—to "proposals" and emphasized that all such steps were subject to negotiation with creditors. (S NF NC OC)

DEVELOPMENTS IN MAJOR COUNTRIES

Argentina

Many international banks are girding for a suspension of payments on Argentina's foreign debt, which they believe is inevitable and could occur as early as this month, according to a reliable source. We believe a mid December $500 million loan from international banks will bring Argentine reserves to about $1.1 billion and should forestall a moratorium this month. To avert radical debt action in 1988, however, Buenos Aires will require at least $1.6 billion in yet-to-be-negotiated new money coupled with quiescence from the IMF. Both commercial banks and the Fund, however, are becoming increasingly disillusioned with the slow pace of economic reform and are ill-disposed to increase lending to Buenos Aires. (S NF NC OC)

President Alfonsin's economic team appears to be losing control over the economy. Its October reform measures—whose cornerstone, a tax package designed to halve the fiscal deficit, is languishing in Congress—have failed to regain the confidence of the Argentine public. Treasury Secretary Brodersohn admitted that the team has no short-term plans, and that its only long-term goals are those that the IMF has imposed, according to a reliable source. Brodersohn added that he is unable to reduce government spending, and that the Central Bank's recent decision to print 900 million australes to fund unanticipated Treasury expenditures will merely accelerate inflation, which reached 180 percent during the first 11 months of 1987. (S NF NC OC)

Exasperated by their inability to stem Argentina's economic decline, the President's top economic advisors have discussed resigning en masse in January or February, according to the same source. The press reports that Foreign Minister Caputo and former Interior Minister Troccoli are frontrunners to replace Economy Minister Sourrouille. As politicians rather than economists, we believe that both men would concentrate on selling Alfonsin's economic policies to the public. A Caputo- or Troccoli-

led team might be tempted to announce radical debt action and a new economic plan simultaneously, in the hope that a moratorium would deflect domestic criticism from the austerity measures. (S NF NC OC)

Brazil

Brazil's $4.5 billion bridge loan to cover 1987 interest obligations was signed on 15 December and the initial $1.5 billion tranche will be made in three disbursements within the next month. The remaining $3 billion will be disbursed in June provided:

- A term sheet for a debt rescheduling and new money package is negotiated with the Bank Advisory Committee by 15 January 1988.
- A "critical mass" of banks—probably 90 percent of the more than 700 banks with loans to Brazil—sign onto the agreement by 15 March 1988.
- The agreement becomes effective by 16 June 1988. (S NF NC)

Negotiations began on 1 December for the term sheet but, so far, little progress has been made, according to a generally reliable source. The Brazilian delegation returned to the bargaining table with essentially the same proposals it brought when negotiations began on 25 September, which the banks rejected as unrealistic and vague. Although Brasilia agreed to seek an IMF program, it is not expected to begin negotiations with the Fund before next year, and it refuses to link economic performance targets to commercial bank disbursements. Moreover, it insists on an interest capitalization scheme and new money equivalent to about half of its interest obligations in 1988-89. With less than one month before the 15 January deadline and the two sides far apart on the most basic issues, the deadline will likely be pushed back. The negotiating atmosphere will likely become even more contentious in January if—as is likely—Brasilia does not resume scheduled interest payments. Bankers contend that Brasilia promised during negotiations for the bridge loan to resume payments, but Finance Minister Bresser has said Brasilia will only do so when it is assured of receiving the concessions it is seeking from banks. We expect the moratorium to drag on well into 1988. (S NF NC)

Meanwhile, the economy continues its downward slide. Consumer demand remains weak despite recent large wage increases, and investment is expected to drop to only 16 percent of GDP this year. Economic growth will fall to 2 percent—down from over 8 percent per year in 1985-86 and well below the 6 percent needed annually to employ new entrants to the labor force. Inflation in November was nearly 13 percent and is expected to exceed 16 percent this month to finish 1987 with a record 360 percent. The Finance Ministry has recommended a fiscal package, but President Sarney already has overruled certain tax hikes and Congress is likely to oppose major tax increases. Moreover, Sarney has consistently failed to implement promised spending cuts, personally authorizing billions of dollars for pet projects. Although a fiscal program may be announced soon, with a presidential election almost certain next year, it is unlikely that Brasilia will follow through with any plan to reduce the public sector's borrowing requirements, which will exceed 35 percent of GDP in 1987. As inflation continues to spiral, Brasilia probably will resort to another price freeze early next year. (C NF)

Mexico

The Mexican Government announced on 15 December new economic measures designed to fight record inflation over the longer term and lower the bloated federal budget deficit, while increasing workers' wages to help counter rapidly rising consumer

prices. The program includes cuts in government programmable expenditures, lower import tariffs to foster competition, and increased prices on government-supplied goods. The government also negotiated with the private sector to grant Labor an immediate 15 percent wage increase and another 20 percent increase on 1 January 1988. According to the US Embassy, Mexican officials expect inflation to soar much higher this month and next but believe they can almost halve this year's expected annual rate of about 150 percent by December 1988. The Bank of Mexico devalued the controlled peso—which accounts for about two-thirds of all transactions—by 18 percent to bring it in line with the free market rate. (C NF)

The move by Mexico City apparently stops short of the strong medicine needed to significantly reduce inflation, but some slowing is likely. The provision increasing workers' wages was welcomed by organized labor and averted the general strike planned for 18 December. Nonetheless, the austere nature of many of the new measures may be a political liability for the government during the runup to next summer's presidential election. (C NF)

Other Latin American Countries

The Government of Peru devalued its currency on 14 December while Panamanian banks are again suffering serious liquidity problems. (S NF NC OC)

Peru

Peru devalued the official exchange rate 40 percent against the dollar Monday in an effort to stem foreign exchange losses, but rising inflation and a stagnant economy continue to undermine President Garcia's sagging popularity. Lima had devalued the official rate by 20 percent in late October but, according to the US Embassy, this failed to stem a $40 million-a-week reserve loss that continued into November. Only 38 percent of Lima's inhabitants approved of Garcia's overall performance in a poll conducted in November. (C NF)

The devaluation, which should boost exports and slow both imports and capital flight, will ease pressures on Peru's reserves. Higher import costs, however, will add to Peru's 110-percent inflation, fueling greater labor discontent. The stagnating economy, which is plagued by lagging private investment and rapidly growing government borrowing, is likely to remain a major problem for Garcia. (S NF)

Panama

A senior government banking official stated in early December that, following six weeks of slow improvement, Panamanian banks are again suffering serious liquidity problems caused by a heavy seasonal withdrawal of deposits. The official stated that all Panamanian-owned banks—including the National Bank of Panama—are in precarious financial positions and some fear that the failure of even one bank could trigger a panic large enough to topple the country's banking structure, according to a generally reliable source. Meanwhile, the government estimates that its budget deficit—which totaled $185 million from January to September—will approach $250 million for 1987 or 4.9 percent of GDP, according to US Embassy reporting. The fiscal deficit is expected to worsen next year, with the National Bank of Panama estimating it could grow to $600 million if the government decides to resume debt payments. In an attempt to finance and reduce this deficit, Panama probably will ask its commercial creditors for $100 million in new money and is considering a 10 percent across-the-board spending reduction, including salary cuts and a hiring freeze. Because foreign banks are unlikely

to grant new financing, Panama may be forced to enact politically unpopular spending cuts and continue to default on debt payments to governments and banks next year. (S NF NC OC)

USSR/Eastern Europe

Soviet international gold sales have risen and Soviet Foreign Trade Bank officials reportedly believe the rapid growth of Soviet hard currency indebtedness over the past two years is drawing to a close. In Eastern Europe, recent criticism of Belgrade's anti-inflation program has increased the chance that the regime's economic program will be in disarray when talks with Western creditors open early next year, and Belgrade announced it will seek an agreement with the IMF. (TS U S NF)

Soviet Union

The Soviet Union has recently been a heavy seller in the international gold market, prompted by higher gold prices and the need to finance major grain purchases, according to various sources. According to special intelligence, Soviet spot bullion activity rose by almost 60 percent between September and October, with sales reaching $315 million. The USSR, along with other international gold producers, took advantage of higher gold prices resulting from the increases in gold demand that followed the global stock market crash, according to a generally reliable source. In addition, the USSR plans to increase gold sales during the rest of 1987 and the first quarter of next year to help finance major grain purchases, according to another generally reliable source. Soviet gold sales are likely to reach 250 tons this year. Although this would be one-fourth less than the volume sold last year, gold earnings—because of higher prices—might approach last year's level of $4 billion. Another senior Soviet banking official reportedly stated that Vneshtorgbank (VTB), the Soviet Foreign Trade Bank, would seek to become an official international gold depository in 1988. The Soviets are also holding discussions with a French brokerage firm and an Italian bank to set up bullion trading relations, according to special intelligence. (TS U S NF NC PR OC)

Meanwhile, a US Embassy source reports that VTB officials believe the rapid growth of Soviet hard currency indebtedness over the past two years is coming to a close. The source also reported that VTB's current chairman, who has been in the position since 1969, will retire at the end of the year and be replaced by a Foreign Economic Commission official. Finally, he stated VTB has yet to receive its borrowing instructions for 1988, prompting confusion and uncertainty among bank officials. (S NF)

Yugoslavia

Criticism of the government's anti-inflation program at the Yugoslav Communist Party plenum last week increased the chance that the regime's economic program will be in disarray when talks with Western creditors open early next year. Although the plenum apparently gave the Mikulic program pro forma backing, the discussions aired considerable opposition to wage and other state economic controls. As a result, worker demands for wage hikes will jeopardize the anti-inflation effort. Party actions in support of workers that undercut Mikulic's program increase the chances—already about even—that his government will fall in the next six months. Meanwhile, Belgrade recently announced its intention to seek an agreement with the IMF, but failed to specify what type of arrangement—standby, extended, or another type of arrangement—it will attempt to negotiate with the Fund. (C NF)

Asia

In Asia, the Philippine Government will not take radical actions if the remaining seven creditor banks fail to sign the commercial bank accord by 22 December, Indonesia's foreign exchange reserves have dropped from $10 billion to no more than $6 billion as of mid October, and Japan will lower interest rates on loans made under the $2 billion ASEAN-Japan Development Fund. (S NF NC OC)

Philippines

The Philippine Government does not intend to take radical action if the remaining seven of its 283 creditor banks fail to sign the $13.2 billion commercial debt accord by 22 December, according to Manila press reports. Finance Minister Jayme reportedly rejected a proposal by Economic Planning Secretary Monsod to place interest payments in escrow to exert pressure on the intransigent banks. According to the US Embassy, Jayme is confident that the agreement will be wrapped up in time and intimated that members of Manila's Bank Advisory Committee may opt to buy out the recalcitrant banks' relatively small exposures to complete the accord. Budget Secretary Guillermo, however, did not rule out a second extension of the deadline. Failure to finalize the accord by 22 December or failure to reach agreement on an extension of the deadline would cancel a key clause backdating lower interest rates to 1 January 1987, costing the country about $93 million in additional interest payments. (C NF)

Indonesia

The Indonesian Center for Policy Studies (CPS), a private firm, estimates that sluggish exports, depressed oil prices, rising international interest rates, and the depreciation of the US dollar against the Japanese yen will push Indonesia's foreign debt to over $50 billion by 1990, compared with about $43 billion today, according to an untested source with access. Its study indicates that unless export revenues double during the next few years, an unlikely event in our view, given Jakarta's slow movement in reforming the economy and stimulating exports, the share of export earnings required by interest payments and principal repayments will remain above the dangerously high level of 35 percent. As a result, the CPS says that Jakarta will be forced to seek short-term relief, including additional concessional financing, debt rescheduling, or a currency devaluation. Meanwhile, Indonesian officials from the Ministry of Finance (MOF) and Bank Indonesia are concerned about the depletion of Indonesia's foreign exchange reserves, which reportedly dropped from $10 billion to no more than $6 billion as of mid October, according to a generally reliable source. Although reserves are adequate to cover about six months of imports, Jakarta probably will soon reenter the syndicated loan market. For example, an untested source reports MOF officials recently approached a Japanese bank for a new $400 million loan. (S NF NC OC)

Japan

Prime Minister Takeshita announced at the ASEAN summit meeting that Tokyo will lower interest rates on loans made under the $2 billion ASEAN-Japan Development Fund (AJDF). According to the US Embassy, Japan's Ministry of Finance bowed under extreme pressure and agreed to lower by 0.5 percentage point the interest rates on loans from the Overseas Economic Cooperation Fund (OECF). In addition, the Japan Export-Import Bank (JEXIM) agreed to reduce the rates on its ADJF loans. As a result of these concessions, Tokyo expects to come under intense pressure from both internal and external forces to engineer a general rate reduction for all official development assistance, according to the US Embassy. China and South Korea reportedly already

contacted the Ministry of Foreign Affairs seeking rate reductions on their OECF and JEXIM loans. Although Tokyo probably will claim that the AJDF is a unique loan program, it probably will be forced, at minimum, to offer the same low rates on all the loans it extends under the general $20 billion capital recycling program. (C NF NC)

Africa/Middle East

In Africa, Nigeria signed its $4.2 billion commercial bank refinancing package and and Zambian officials have met with the World Bank and IMF to discuss its economic recovery program. The IMF and World Bank are displeased with Egypt's delay in completing the first IMF review by 30 November. (C NF)

Nigeria

Lagos signed a $4.2 billion commercial bank refinancing package on 23 November, ending 18 months of negotiations. Under the terms of the agreement, Lagos will receive a $320 million new money facility comprised of an eight-year loan carrying an interest rate of 1.25 percentage points above LIBOR and a four-year grace period. The rescheduling covers 1986-87 maturities—$1.5 billion in medium-term loans and $2.3 billion in trade credits—and carries the same interest rate as the money facility. In addition, Lagos is finalizing arrangements for a 14 January meeting in London with its promissory note holders, according to the US Embassy. Lagos proposed on 22 September new payment terms and interest rate capitalization on the roughly $3.2 billion in reconciled promissory notes. Although Lagos has rejected about $1.8 billion in claims of a total estimated at $9 billion, it has hinted that it might allow direct negotiations on some unreconciled claims, but would not delay the 31 December deadline for completing all work on its promissory notes. (C NF)

Egypt

Cairo and international lending institutions disagree on the progress of Egypt's economic adjustment under the IMF standby arrangement. According to the US Embassy, the Egyptian Government claims that it is in compliance with several elements of its economic program—such as unifying commercial bank exchange rates, reducing subsidies, and lowering the budget deficit. The IMF and World Bank, however, are displeased with Cairo's delay in completing the first review by 30 November. The IMF also believes that Cairo is stalling by not completing other key aspects of its economic program—including devaluing the official exchange rate and raising interest rates and then permitting these rates to respond to market forces. In addition, the World Bank is considering canceling the sector programs, which are not being fully utilized, and instead combining them into a structural adjustment loan. In our view, Cairo risks losing the confidence of international institutions and the subsequent loss of financial resources if it does not make a greater effort to meet adjustment deadlines and achieve its program's objectives for sustainable economic growth. Meanwhile, on 8 December, Egypt signed its Paris Club bilateral agreement with West Germany and will receive about $480 million in export credits from Bonn. (C NF)

Zambia

Lusaka's economic recovery package has been the subject of policy discussions with the World Bank and IMF. Negotiations focused on several of the program's key policy areas—prices, interest rates, the exchange rate, money supply growth, and the budget deficit. According to the US Embassy, the institutions expect President Kaunda to announce the abolishment of most existing price controls—except for essential consumer

products—the adjustment of interest rates, and the devaluation of the kwacha in his January budget speech. Kaunda is also expected to discuss the 1988 goals for the economy, including expenditure controls and revenue increases to lower the budget deficit to 5 percent of GDP, and steps to limit inflation to 25 percent as well as flexibility in making debt service payments, currently limited to 10 percent of net export earnings. The ceiling is a major obstacle to reaching a formal agreement with the IMF. The World Bank plans a working level mission in early January to continue negotiations. Despite this progress, however, these institutions fear that the plan could fall apart if it fails to quickly achieve support of the party or general public. Success of the plan also depends on Government of Zambia elimination of its arrears to the World Bank—about $80 million is due in February—and the raising of net external financing of about $250 million above debt service obligation of $750 million. The resumption of debt service payments would signal a major shift in Zambia's relations with creditors and review project assistance. World Bank officals are hopeful it would further be sufficient to prompt a Paris Club scheduling. (C NF)

FINANCIAL BRIEFS

International

The **IMF's** enhanced structural adjustment facility (SAF) probably will not be operational by yearend, as previously planned ... several issues remain unresolved including burden-sharing among creditors, protection of the lender in the event LDCs do not repay SAF loans, and who should subsidize interest rates on the loans ... according to special intelligence, the IMF hoped to have about $7.7 billion in new loan commitments to the SAF from member countries before 31 December. (TS U NF NC)

Americas

Colombia's $1 billion loan has been fully subscribed ... expect loan will be signed by end December. (S NF NC OC)

Costa Rican Central Bank President Lizano stated that the foreign exchange target for its IMF arrangement will not be met because of a shortfall in capital inflows and increase in imports ... San Jose has yet to reach agreement with commercial banks but maintains a commitment to have accord in place by 30 June 1988. (C NF)

New legislation has been proposed for **Honduran** debt-equity program ... payment is to be made in long-term, non-guaranteed government bonds instead of local currency ... proposal unacceptable to foreign investors and banks ... Congress failed to vote on legislation before 4 December recess. (S NF NC PR OC)

Venezuela disappointed by slow investor response to its debt-equity swap program that was approved last April ... studying ways to ease foreign exchange controls and restrictions on profit repatriation. (C NF)

Africa/Middle East

The December **OAU** debt summit concluded by calling on the international community to grant addition debt relief ... wants creditors to convert past official loans to grants, suspend debt service payments for 10 years, reduce real interest rates, and accept partial repayment with domestic currency ... foreign creditors unlikely to fully accept these proposals. (C NF)

A 3-4 December Paris meeting of the World Bank and major creditor governments pledged $6.2 billion in quick disbursing financing for 17 low-income **African countries** undertaking adjustment programs ... due consideration will be given to the social aspects of economic adjustment, especially the impact of policy measures on the poor and the need to maintain social programs ... some creditors will provide their cofinancing as grants, while others will use highly concessional terms. (C NF)

Turkey reduced the interest rate it charges **Iraq** on outstanding loans from 1 percentage point above LIBOR to the LIBOR rate ... a major concession for Baghdad because Iraq pays 6 or 7 percentage points above LIBOR on its international loans. (S NF NC OC)

Kenya and the IMF completed negotiations on a $200 million standby arrangement and structural adjustment facility ... package reportedly includes devaluation, austerity, monetary and credit expansion limits, and sectoral reforms ... despite disbursements, IMF expects little long-term improvement in the economy. (C NF)

Malawi concluded negotiations with IMF for 15 month, $25 million standby arrangement in early December ... also working on structural adjustment facility ... commercial arrears have been reduced, payments are now current through the end of August 1987. (C NF)

Paris Club rescheduled $80 million of **Senegal's** official debts in mid November ... covers all principal and interest on maturities due between November 1987 and October 1988 ... Dakar received lengthened repayment period of 16 years with a six year grace period. (C NF)

South Africa made $130 million payment to the IMF in late November, last installment of $1 billon 1982 loan ... with payment, 30 November foreign exchange reserves fell to $240 million ... also made $130 million payment to commercial banks this month ... Reserve Bank Governor De Kock said that Pretoria was relieved to have paid loan off. (C NF)

Syrian foreign exchange holdings remain extremely low ... Central Bank and Commercial Bank of Syria both have little liquid funds available ... Damascus forced to rely on Arab aid and liberal financing from Arab banks and development funds to prop up reserve levels. (TS U NF)

Zaire is likely to miss the 31 December fiscal deficit target established in the March 1987 IMF standby arrangement ... Kinshasa projects a $90 million deficit, double that of accord ... despite missed target, the Fund is expected to field a mission in February to complete formal review, update policy framework paper for structural adjustment facility, and conduct annual Article IV consultations. (S NF NC OC)

Europe

Romanian President Ceausescu fired Finance Minister Babe over high interest rate payments to World Bank ... has since backed off threat to suspend World Bank debt payments ... probably reviewing debt payment strategy in wake of Brasov riots ... no sign of change in rapid debt repayment policy. (C NF)

Asia

The World Bank reversed Bank policy on loans to **China**, according to special intelligence ... will refrain from financing projects that would increase China's capacity to produce steel ... decision prompted by political pressures from Japan, US, and several European countries. (S S NF)

Buoyed by its increasing current account surplus, **South Korea** for the first time offered loans to LDCs, according to press reports ... approved $10 million loan to Nigeria, $13 million loan to Indonesia, and plans to increase loans next year ... hopes to improve diplomatic relations and facilitate access to LDC markets. (C NF)

Malaysia made a loan prepayment of $400-$500 million to commercial creditors ... commodity price increases boosted its foreign exchange reserves to over $7 billion, making the prepayment possible, according to untested source ... despite signs of recovery, economy still extremely vulnerable to external shocks. (S NF NC)

TOP SECRET UMBRA
NOFORN NOCONTRACT PROPIN ORCON

SUBJECT: International Financial Situation Report #71 (U) 17 December 1987

Copy No.	Name	Agency
1	Sec. James Baker	Treasury
2	M. Peter McPherson	"
3	David Mulford	"
4	James W. Conrow	"
5	Robert Cornell	"
6	Thomas J. Berger	"
7	Charles Schotta	"
8	James A. Griffin	"
9	Randall M. Fort	"
10	Sec. George Shultz	State
11	John C. Whitehead	"
12	Michael Armacost	"
13	W. Allen Wallis	"
14	Morton I. Abramowitz	"
15	Elliot Abrams	"
16	Douglas McMinn	"
17	Gaston Sigur	"
18	Richard Murphy	"
19	Chester Crocker	"
20	Rozanne Ridgway	"
21	Jerome H. Kahan	"
22	Donald Cohen	"
23	Charles Siegman	FED
24	Stephen Danzansky	NSC
25	Steve Farrar	"
26	Leo Cherne	PFIAB
27	Nina Stewart	"
28	S. Bruce Smart	Commerce
29	Kim Fitzgerald	"
30	Louis Baer	NSA
31-32	Nancy Fournier	"
33	David Wigg	DOD
34	DCI	
35	ExDir	
36	SA/DDCI	
37	DDI	
38	ADDI	
39	Ch/PES/DDI	
40	NIO Economics	
40	NIC/AG	
42	DDO	
43	Ch/DDO/EPDS	
44	Ch/DDO/NCD	
45	Ch/DDO/AF	
46	Ch/DDO/EA	
47	Ch/DDO/EUR	
48	Ch/DDO/LA	
49	Ch/DDO/NE	
50	Ch/DDO/SE	
51	D/ALA	
52	Ch/ALA/SAD	
53	D/OEA	
54	D/EURA	
55	Ch/EURA/EE/EREI	
56	D/SOVA	
57	D/NESA	
58	DD/OGI, D/OGI	
59	Ch/OGI/SRD	
60	Ch/OGI/FSIC	
61	Ch/OGI/ECD	
62-63	Ch/OGI/ECD/IF	
64	C/OGI/Pub	
65	OGI/PO	
66-68	OGI/Pub	
69	CPAS/ISS/SA/DA	
70-75	CPAS/IMC/CB	

SECRET NOFORN NOCONTRACT PROPIN ORCON
version distribution:

1 - Manuel H. Johnson, Vice Chairman, Federal Reserve System
1 - H. Robert Heller, Federal Reserve Board
2 - Edwin Truman, Federal Reserve Board
1 - E. Gerald Corrigan, President, Federal Reserve Bank, New York
1 - David Roberts, Federal Reserve, New York
1 - Leo Cherne, PFIAB, New York
1 - John Bohn, Chairman, ExIm Bank
2 - Randall M. Fort, Treasury
1 - Ambassador Richard McCormack, State
1 - Martin A. Wenick, State
1 - Nicholas Burakow, State
1 - Peter W. Rodman, State
1 - Pierre Shostal, State
1 - Rick Tropp, A/AID
5 - Kim Fitzgerald, Commerce
1 - Warren E. Farb, Commerce
1 - Col. David Montague, DIA
1 - Ron Silverman, OMB
1 - Beryl Sprinkel, CEA
1 - Eugene McAllister, EPC
1 - NCD/IS/ECON
1 - NCD/New York (via IMS/PSB)
1 - Ch/ECD
1- Ch/ECD/IF
1 - Ch/ECD/T
1 - Ch/ECD/ES
1 - Ch/ISID/FI

TOP SECRET UMBRA
NOFORN NOCONTRACT PROPIN ORCON
HANDLE VIA COMINT CHANNELS

SC 04097/87