International Credit by Renée Sigerson

Central banks' 'hit list' expands

After Argentina, Mexico, and 15 other nations have been targeted by the BIS and the IMF.

Immediately following the secret monthly meeting of the Bank for International Settlements in Basel, Switzerland on April 17-19, the Finance Ministry of Mexico was forced to announce its second major austerity program this year, to the specifications of the BIS and the IMF.

Mexico announced April 20 that it will slash its imports by 25 percent, from $24 billion to $18 billion, and cut a further 5 percent in its 1982 budget expenditure program. On top of the cuts announced after the February devaluation of the Mexican peso, this would make an 8 percent real cut in national spending for development. As a result, Mexican private bankers close to the BIS estimate that the country will be driven from its originally projected 1982 GNP growth rate of 8 percent, to under 2.5 percent.

The IMF, meanwhile, leaked an entire "hit list" of 15 countries to whom lending by the IMF and by commercial banks is to be cut off. Countries included from the East bloc, Romania; from the strife-torn Caribbean, Costa Rica, Honduras, Guyana, Grenada; from Africa, Zaire, Zambia, Uganda, Senegal, Tanzania, Togo, Madagascar, and Morocco; and from South Asia, Bangladesh and Solomon Islands.

According to the *Financial Times* of London, which reported the leak April 20, the 15 will lose almost $5 billion in 1982 disbursements of loans "because they have failed to meet their economic performance targets negotiated as conditionalities" for the loans, i.e. because these countries have failed to heed IMF calls for austerity.

The April 17-19 BIS meeting discussed the need for many countries to take such measures, a New York Federal Reserve official told *EIR*. The U.S. Federal Reserve, the Bank of England, the Swiss National Bank, and the other central bankers who make up the BIS board have for some time asked all commercial bankers to reduce their rates of exposures to almost every LDC nation. At the April BIS meet, they agreed to get tough, and use Argentina as a precedent.

The BIS word is that Argentina, which was the first to have lending frozen on April 2 by the Bank of England, proves that all LDC nations now represent high "political risk," the Fed official stated. "Since the British action against Argentina, bankers are worried about lending anywhere, and have become much more careful," he said. "Because of heightened political risk, lending will slow this year."

"Borrowing by Latin American nations as a whole has virtually dried up since the Argentinians landed on the Falklands. Lending to Mexico, Brazil, Venezuela, and Ecuador has come to a standstill," London bankers told the *Journal of Commerce* April 20. Mexico in particular was refused in a number of attempts to roll over its huge $10 billion short-term debt into long-term loans, bankers told the *Wall Street Journal* the same day.

The measures taken by the Mexican government April 21 are exactly those demanded by the BIS central banks, led by the U.S. Federal Reserve, in interviews published in ***EIR*** right after Mexico's February devaluation. New York Fed official David Willey stated March 23 that Mexico must cut its rate of borrowing. "If they don't cut now," he said, "they will have real balance of payments trouble, and at that point they won't be able to borrow. Period."

The BIS strategy is to force all countries to adhere to the restrictions of the private markets—including those countries which have agreements with the IMF. Up to now, most of the countries announcing lending cuts have been big borrowers like Mexico, who do not have IMF programs to adhere to, but who now "voluntarily" commit themselves to harsh austerity without the IMF even having to be brought in. Mexico's $6 billion import cut, for example, is very close to the $8 billion import cut recommended by the IMF.

Now, the IMF's leak of its own "hit list" will force even some of the poorest and most bankrupt nations to take such harsh steps. As long as Zambia, Zaire, Bangladesh, and others were under IMF conditionality programs, commercial banks lent them some money. Now that the IMF has proclaimed them officially in violation of its conditions, "this will have a very detrimental effect on these countries," a top IMF official said. "Bankers all over the world will shy away from lending to them" until they enforce more austerity.