

FOREIGN INDEBTEDNESS TO THE UNITED STATES

HEARING
BEFORE THE
SUBCOMMITTEE ON TAXATION AND
DEBT MANAGEMENT GENERALLY
OF THE
COMMITTEE ON FINANCE
UNITED STATES SENATE
NINETY-FIFTH CONGRESS
SECOND SESSION

—
JANUARY 23, 1978
—

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FOREIGN INDEBTEDNESS TO THE UNITED STATES

MONDAY, JANUARY 23, 1978

U.S. SENATE,
COMMITTEE ON FINANCE,
SUBCOMMITTEE ON TAXATION,
AND DEBT MANAGEMENT GENERALLY,
Washington, D.C.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2221, Dirksen Senate Office Building, the Honorable Harry F. Byrd, Jr. (chairman of the subcommittee) presiding.

Present: Senator Byrd.

[The committee press release announcing this hearing follows:]

[Press Release, January 9, 1978]

FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT SETS HEARINGS ON FOREIGN INDEBTEDNESS TO THE UNITED STATES

Senator Harry F. Byrd, Jr., Chairman of the Subcommittee on Taxation and Debt Management of the Senate Committee on Finance announced today that the Committee will hold hearings on January 23, 1978 on the status of foreign debts owed to the United States.

The hearings will begin at 10:00 A.M. in Room 221 of the Dirksen Senate Office Building. Witnesses to testify as a panel are John L. Moore, President and Chairman of the Board of the Export-Import Bank, C. Fred Bergsten, Assistant Secretary of the Treasury for International Affairs, and Robert Hormats, Senior Deputy Assistant Secretary of States for Economic and Business Affairs.

Senator Byrd noted that in February 1976 he conducted similar Subcommittee hearings and, at that time, foreign debt owed the United States was approximately \$60 billion.

"It is important for the Congress to know the current status of this debt and the prospects for its repayment. Also, during the past year, a great deal of attention was focused upon the accumulation of public and private debt by less-developed countries. The Congress should consider the extent to which the American government, directly and indirectly, is involved in lending abroad."

Witnesses who desire to testify at the hearings should submit a written request to Michael Stern, Staff Director, Committee on Finance, Room 2227 Dirksen Senate Office Building, Washington, D.C. 20510 by no later than the close of business on January 16, 1978.

Legislative Reorganization Act.—Senator Byrd stated that the Legislative Reorganization Act of 1946, as amended, requires all witnesses appearing before the Committee of Congress "to file in advance written statements of their proposed testimony, and to limit their oral presentations to brief summaries of their argument.

Witnesses scheduled to testify should comply with the following rules:

(1) A copy of the statement must be filed by noon the day before the day the witness is scheduled to testify.

(2) All witnesses must include with their written statement a summary of the principal points included in the statement.

(3) The written statements must be typed on letter-size paper (not legal size) and at least 75 copies must be submitted by the close of business the day before the witness is scheduled to testify.

(4) Witnesses are not to read their written statements to the Committee, but are to confine their ten-minute oral presentations to a summary of the points included in the statement.

(5) Not more than ten minutes will be allowed for oral presentation.

Written testimony.—Senator Byrd stated that the Subcommittee would be pleased to receive written testimony from those persons or organizations who wish to submit statements for the record. Statements submitted for inclusion in the record should be typewritten, not more than 25 double-spaced pages in length and mailed with five (5) copies by February 28, 1978, to Michael Stern, Staff Director, Committee on Finance, Room 2227, Dirksen Senate Office Building, Washington, D.C. 20510.

Senator Byrd. The Subcommittee on Taxation and Debt Management Generally of the Finance Committee will conduct hearings on the status of foreign debts owed to the United States.

Similar subcommittee hearings were held in early 1976. At that time, the total indebtedness was in round figures \$58 billion. As of June 30, 1975, exclusive of World War I debts, \$34.5 billion was owed to the United States. The figures I have given do not include loan guarantees through the Export-Import Bank and other contingent liabilities of the U.S. Government through its participation in international financing institutions.

It is now time to examine again the current status of foreign debt owed to the United States and the prospects for repayment. The working men and women of our Nation pay for the money which our Government lends abroad. We must be continually alert to the purposes and manner in which this money is spent and the actions taken to insure that it is repaid.

We have asked officials of the Treasury Department, the State Department, and the Export-Import Bank to provide us with their views about this debt and factual information in regard to it, and also to inform us as to what steps are being taken to collect the moneys owed by the United States. I might say at this point that there is very little sex appeal, of course, in this subject.

I remember that after one of the previous hearings on this subject, one of the witnesses from the State Department, the Assistant Secretary of State, was interviewed by newspaper reporters, and he said he found the hearing very boring. Well, the next day, he called me on the phone, and said that Secretary Kissinger had raised hell with him for making such a statement, and he called up to apologize.

I said, don't worry about that at all. It didn't bother me a bit. As a matter of fact, it dramatizes to me the basic problem here in Washington. It is very exhilarating and creates enthusiasm and to give away American tax funds, but when it comes to trying to protect the American taxpayers, then it becomes boring to many officials in Washington. I said, I am sending your statement all over the State of Virginia. I think it is a very fine statement, and it dramatizes a point that I have in mind.

I thought this morning that we would first hear Mr. Moore, the president of the Export-Import Bank, because Export-Import Bank debts are a different situation from the other debts owed to our Government.

Mr. Moore, welcome to the committee. I want to say that I spent much of yesterday going over your statement in order to conserve time this morning. I think you have an excellent statement. You may proceed as you wish, but I would suggest that perhaps you might want to proceed with the abbreviated statement. The full text of your expanded statement would be included in the record, but you may proceed as you wish, Mr. Moore, and we appreciate your being here.

**STATEMENT OF JOHN L. MOORE, JR., PRESIDENT AND CHAIRMAN
OF THE BOARD OF THE EXPORT-IMPORT BANK**

Mr. MOORE. Mr. Chairman, it is very good to be here, and I will do exactly that. Let me give the summarized statement and submit the fuller statement for the record.

The Eximbank was established to aid in financing and facilitate exports of U.S. goods and services. Eximbank supplements financing from the private sector for those exports sold on commercial terms customary in international trade. While Eximbank has a congressional mandate to offer financing for American exporters which is competitive with that being provided to foreign exporters by their official export financing agencies, Eximbank does not and cannot offer concessionary or aid type financing.

Eximbank is a self-sustaining institution, receiving no appropriated funds. In fact, since its inception, Eximbank has paid \$981 million in dividends to the U.S. Treasury.

As of November 30, 1977, Eximbank's total exposure worldwide was \$25,162,534,000, and Mr. Chairman, I might just interpose here that the figures we give are exposure, that is, disbursed and undisbursed portions of loans authorized by Eximbank, as well as the full value of Eximbank guarantees and insurance outstanding which would require disbursements by Eximbank only in the event of default on the private financing which Eximbank has guaranteed or incurred. I believe the Treasury reports to you on the basis of disbursed figures, so to the extent there is a difference in the figures used, that is the reason for it.

Senator BYRD. Well, your figure then, the \$25 billion, would be higher than the Treasury figure?

Mr. MOORE. Yes, by some \$3 billion.

Senator BYRD. Thank you.

Mr. MOORE. Of this \$25 billion, \$14,257,228,578 was under the direct loan program; \$4,721,912,000 was under the financial guaranty program; \$238,588,000 was under the cooperative financing facility program; \$1,075,766,000 was under the commercial bank guaranty program; \$3,979,969,000 was under the exporter credit insurance program; and \$919,353,000 was under the discount loan program.

The nature of Eximbank's exposure varies from program to program. In the direct loan and cooperative financing facility programs, Eximbank lends directly to a foreign public or private buyer.

It should be noted that the funds which Eximbank lends to foreign buyers do not leave the United States because they are paid to the U.S. exporters. The foreign borrowers repay the loans plus interest and fees in U.S. dollars to Eximbank.

Under the guaranty and insurance programs, Eximbank does not lend money, but rather insures the private commercial bank which finances the export or the exporter himself against nonpayment by a foreign buyer for commercial or political reasons.

Eximbank is required by the Eximbank Act to find a reasonable assurance of repayment in any transaction for which it extends financing support. Eximbank makes credit judgments after careful analysis on both the micro, or project level, and at the macro, or country level.

Since its inception, Eximbank's credit reviews and guarantor policy have kept Eximbank's losses to a minimum. We are proud of the fact that even though we have authorized \$40 billion of direct credit since 1934, only \$3.8 million, or one one-hundredth of 1 percent, have been written off as losses. During this period, \$1.4 billion, or 3.5 percent of our loans, have been rescheduled.

I would like to leave you with a word of encouragement and optimism. The international monetary system as a whole is capable of dealing with the massive debt servicing needs that have arisen in recent years. Eximbank is particularly well positioned to absorb any debt difficulties that may arise. I believe that this view is substantiated by the following data.

Eximbank's outstanding loan to equity ratio stands at roughly 4 to 1, which is 2 or 3 times lower than the 10 to 15 to 1 average ratio of the internationally involved U.S. commercial banks, and only slightly above the 2.6 to 1 ratio of the World Bank.

Eximbank's present capital of \$2.8 billion and our policy of keeping our lending rate at 75 basis points above our marginal cost of funds, would enable us to absorb sharp fluctuations in interest rates and substantial unforeseen losses without affecting our ability to continue generating positive annual net income.

As of September 30, 1977, Eximbank had current arrearages of 90 days or more of \$14,217,700, constituting less than six one-hundredths of 1 percent of Eximbank's worldwide exposure.

I might just end my brief statement, Mr. Chairman, informally by saying that we at Eximbank take a great deal of interest in the collecting of our loans, and quite agree with you that this is a very intriguing and interesting subject.

Senator BYRD. Thank you, President Moore. Would you, just for the record, give your background, how long you have been at the Export-Import Bank, and so forth?

Mr. MOORE. Yes, sir, I was sworn in last May 2 as the ninth president and chairman of the Export-Import Bank.

Senator BYRD. What was your position prior to that time?

Mr. MOORE. I was a partner of a law firm in Atlanta, Ga., where I specialized in financial transactions, both corporate and real estate financing projects.

Senator BYRD. Thank you. I think this is a fine statement, and as I mentioned earlier, your more detailed statement will be made a part of the record. I have a few questions.

I think the Export-Import Bank over the years, almost 44 years now, has a rather remarkable record. Would you explain what you mean by our lending rate at 75 basis points above our marginal cost of funds?

Mr. MOORE. In setting the interest rate we charge to borrowers under our direct loan program, we look—under the statute, we are directed to look at our average cost of portfolio borrowings. In point of practice, we try to look at the marginal cost, that is, what would be the cost if we borrowed through the Federal financing bank from the public today, for 10-year funds or funds over the approximate length of time we would be relending, and if the rate at which we would borrow is 7 percent, then we would try to have a minimum payment rate back to us at 7.75, or 75 basis points above the marginal cost.

Senator BYRD. What is a basis point, one-tenth of 1 percent? Or one-hundredth of 1 percent?

Mr. MOORE. One one-hundredth, I believe. Yes.

Senator BYRD. One one-hundredth of 1 percent.

Now, you mentioned loans that have been rescheduled in page 2 of your abbreviated statement. I quote: "During this period, \$1.4 billion, or 3.5 percent of our loans, have been rescheduled." Is that during the entire period since 1934?

Mr. MOORE. Yes, sir.

Senator BYRD. As I understand it, the Export-Import Bank was capitalized at \$1 billion, and it has received no additional funds since then?

Mr. MOORE. That is correct. We have earned by retained earnings or kept retained earnings of an additional \$1.8 billion, so that our total capital in retained earnings or reserve as we call it is \$2.8 billion. In addition, we paid \$981 million of dividends to the Treasury.

Senator BYRD. But you receive no additional moneys from the Treasury other than the \$1 billion sale of securities?

Mr. MOORE. That is correct. We have not received any appropriated funds. We borrow through the Treasury from the public.

Senator BYRD. But your borrowing is an obligation of the government?

Mr. MOORE. Yes, sir, and we do occasionally borrow on a short-term basis directly from the Treasury, but that is on a very short-term basis, and stays in very small figures.

Senator BYRD. In our longer statement, in which page 2 seems to be missing, on page 1 you begin: "This program," namely, The Export-Import Bank, "offers five basic programs to assist American exporters." You continue on page 3, and I quote beginning on the top of page 3: "funds and takes the credit risk on the entire transaction. This program supports small- and medium-sized U.S. export sales by assisting foreign buyers."

Now, what do you regard as medium-sized?

Mr. MOORE. Roughly below \$5 million. That is not an immutable rule, but that is our rule of thumb.

Senator BYRD. On page 6 of your longer statement, you say, "At the micro level, current certified financial statements are relied on heavily by Eximbank analysts in assessing the financial condition and prospects of the foreign purchasers."

Now, in that connection, what current certified financial statements does the Bank have in regard to its loan to Russia, or loans to Russia?

Mr. MOORE. I don't specifically know the answer to that, Mr. Chairman. Those loans were, of course, extended before I was at the Bank,

and since 1974 the Bank has not been able to enter into any new transaction. My guess is that the statements from Russia would be whatever the Russian Government chose to give us, and that they would not have been certified.

However, if you will allow me the privilege, I will answer that correctly and in detail to you by letter.

Senator BYRD. Yes, I wish you would answer it for the record.

[The material referred to follows:]

Certified (audited) financial statements are Eximbank's principal tool in evaluating the creditworthiness of private foreign buyers. Such statements are generally neither available nor required when the foreign buyer is a government or government agency. In public buyer transactions, Eximbank bases its credit judgment on its economic analysis of the country as a whole.

Such is the case with Eximbank's loans to the USSR. The Foreign Trade Bank (Vneshtorgbank) of the USSR acts as the borrower on all Eximbank loans to that country.

The Government of the USSR acts as a guarantor of repayment on all Eximbank loans.

Eximbank has consistently sought the fullest possible information from all possible sources about the creditworthiness of countries to which it is lending. These sources include information from all U.S. agencies, the IMF and IBRD, the UN, private financial institutions, and academic sources. The Bank also solicits information directly from foreign government where it determines necessary, and has done so with the USSR. Eximbank has made no credit judgments involving any countries—including the USSR—unless it was fully satisfied that it had sufficient economic information to support a determination of creditworthiness.

Senator BYRD. In that connection, what is the total amount of outstanding loans to the Soviet Union? What do they total?

Mr. MOORE. The total amount in direct loans is \$468,955,000.

Senator BYRD. Just a minute. I would like to make a note of that. Would you give that figure again?

Mr. MOORE. \$468,955,000.

Senator BYRD. Now, the Senate several years ago adopted the Byrd amendment, which put a limit of \$300 million on loans to Russia. Now, that \$300 million was on top of then existing loans to Russia, so I assume that that is why you have \$468 million now.

Specifically what I am getting at is, since that amendment was passed, have the additional loans to Russia from that time exceeded \$300 million?

Mr. MOORE. Mr. Chairman, I believe there have been none, because I think at the same time that you passed the Byrd amendment you also passed the Jackson-Vanick amendment, which precluded Eximbank's doing any business with the Soviet Union, I believe there has been none, and the figures I am giving you were loans authorized prior to both amendments, if they were indeed both passed at the same time.

Senator BYRD. I think you are quite right on that. So, there have been no loans to Russia since about—do you recall the date—1973?

Mr. MOORE. I think the amendments were passed at the end of 1974, and so there have been none since then, although we are still disbursing some of the loans that were authorized prior to that time, and probably will be doing so for another year or so.

Senator BYRD. Would that be included in the \$468 million figure?

Mr. MOORE. I believe so.

Senator BYRD. At one time I know the Government had in mind making billions of dollars in loans to Russia.

Mr. MOORE. Apparently so. I see from my figures, Mr. Chairman, that we have disbursed just over \$405 million in loans to Russia, which would leave some \$63 million for future disbursement. The figure I gave you earlier included the total authorized loans.

Senator BYRD. Thank you. Now, what about the East European countries? How much is owed by the East European countries, or the Communist satellites?

Mr. MOORE. In the case of Poland, we have outstanding \$316,428,000. In the case of Romania, \$163,841,000, and I am not sure whether you include Yugoslavia in that group. Do you?

Senator BYRD. Yes, for this purpose, let's include Yugoslavia.

Mr. MOORE. Right, \$1,449,091,000.

Senator BYRD. Now, are payments being currently made on those obligations?

Mr. MOORE. Yes, sir, on all of them.

Senator BYRD. Is Russia meeting its commitments on time?

Mr. MOORE. Yes, sir.

Senator BYRD. Now, on page 7 of your statement, "A small team of Eximbank country economists monitors economic, political, and social developments as well as Government policy in all countries in which Export-Import Bank has exposure. In addition to following closely the countries on a day-to-day basis, the country economists periodically report on the country's recent balance of payments record and future outlook."

Does that apply to the East European countries and to Russia also?

Mr. MOORE. Yes; Mr. Chairman. Now, in the case of Russia, and the others to some degree, we do not have all figures that we might have in other markets, because they do not report to us the soft currency debts they have. They tend to report only the hard currency, the Western European and U.S. debts.

Senator BYRD. I assume that the Bank could require that before making a loan to the Russian Government or to any of the other governments.

Mr. MOORE. Yes, since we are not making new loans to Russia, it is very hard to get it there, but in the other cases, I agree with you, and they have been furnishing better and better data all the time.

Senator BYRD. Now, could you list the loans that have been rescheduled? I don't mean to go back to 1934 when the Bank began. You state that "During that period (from 1934) \$1.4 billion, or 3.5 percent of our loans, have been rescheduled." What rescheduling has been done in the last 2 or 3 years, 3 to 4 years, say?

Mr. MOORE. I have a list here which I will be glad to submit for the record if you would like, which I did submit to Senator Stevenson at hearings in September, giving the list of our rescheduled loans from the fiscal year 1973 through September 30, 1977.

Senator BYRD. It will be included in the record.

[The material referred to follows:]

RESCHEDULED LOANS, FISCAL YEAR 1973 THROUGH SEPT. 30, 1977

Credit No.	Country	Original interest rate	Rescheduled interest rate
2250	Ethiopia	5½ percent	6 percent.
2430	Mexico	6 percent	Do.
1181	Pakistan	5¾ percent	Do.
1298	do	do	Do.
1978	do	do	Do.
1984-A	do	do	Do.
1984-B	do	do	Do.
1984-C	do	do	Do.
1984-E	do	do	Do.
1984-F	do	5½ percent	Do.
2359	do	do	Do.
2537	do	6 percent	Do.
2627	do	do	Do.
2792	do	do	Do.
2617	Philippines	do	Do.
3641	Greece	do	Do.
1226	Liberia	5¾ percent	6 and 7 percent.
1984-B	Pakistan	do	6 percent.
374	Chile	4 and 6 percent	Do.
808	do	5½ and 5¾ percent	Do.
809	do	5½ percent	Do.
1172	do	do	Do.
1299	do	5¾ percent	Do.
1340	do	do	Do.
2139	do	do	Do.
2152	do	5½ percent	Do.
2183	do	do	Do.
2187	do	6 percent	Do.
2196	do	5½ percent	Do.
2221	do	do	Do.
2381	do	6 percent	Do.
2382	do	do	Do.
2383	do	do	Do.
2393	do	do	Do.
2416	do	do	Do.
2418	do	do	Do.
2435	do	do	Do.
2436	do	do	Do.
2437	do	do	Do.
2471	do	do	Do.
2486	do	do	Do.
2551	do	do	Do.
2601	do	do	Do.
2609	do	do	Do.
R-9	do	do	Do.
2422	Antigua	4, 5½, and 5¾ percent	Do.
3350	Australia	6 percent	Do.
2981	Nicaragua	do	Do.
2850	Argentina	do	8½ percent.
E-3406	Venezuela	do	Do.
2336	Thailand	5½ and 6 percent	10½ percent.¹
3358	do	6 percent	Do.¹
808	Chile	5½ and 5¾ percent	7 percent.
1172	do	5½ percent	Do.
1299	do	5¾ percent	Do.
1340	do	do	Do.
2139	do	do	Do.
2187	do	6 percent	Do.
2381	do	do	Do.
2382	do	do	Do.
2383	do	do	Do.
2393	do	do	Do.
2416	do	do	Do.
2418	do	do	Do.
2435	do	do	Do.
2436	do	do	Do.
2437	do	do	Do.
2471	do	do	Do.
2486	do	do	Do.
2551	do	do	Do.
2601	do	do	Do.
2609	do	do	Do.
2850	Argentina	do	8½ percent.
3350	do	do	6 percent.
6028	do	13½ percent	13½ percent.

See footnotes at end of table.

RESCHEDULED LOANS, FISCAL YEAR 1973 THROUGH SEPT. 30, 1977—Continued

Credit No.	Country	Original interest rate	Rescheduled interest rate
E-3282	Central African Empire.....	6 percent.....	8½ percent on principal, 8 percent on interest
5475	do.....	7 percent.....	Do.
5993	Mexico.....	8 percent.....	8½ percent.
2939	Zaire.....	6 percent.....	8½ percent.
2958	do.....	do.....	Do.
3171	do.....	do.....	Do.
3185	do.....	do.....	Do.
3213	do.....	do.....	Do.
E-3390	do.....	do.....	Do.
4048	do.....	do.....	Do.
4400	do.....	do.....	Do.
4539	do.....	do.....	Do.
4585	do.....	do.....	Do.
4684	do.....	6 and 9½ percent.....	Do.
4733	do.....	6 percent.....	Do.
10681	do.....	do.....	Do.
11064	do.....	do.....	Do.
11260	do.....	do.....	Do.
11520	do.....	do.....	Do.
11524	do.....	do.....	Do.
12574	do.....	7 percent.....	Do.
12583	do.....	do.....	Do.

¹ Interest rate on 236 and 3358, Thailand, varies and is subject to change on an annual basis.

Senator BYRD. What are the major ones?

Mr. MOORE. Let me just name the countries, and then you would—

Senator BYRD. Fine.

Mr. MOORE. There are in many instances quite a lot of loans in particular countries: Ethiopia, Mexico, Pakistan, Philippines, Greece, Liberia, Pakistan, Chile, Antigua, Australia, Nicaragua, Argentina, Venezuela, Thailand, Central African Republic, and Zaire.

I might say, Mr. Chairman, that we would include in these, private credit loans of private buyers. For example, the one in Australia surely was that. By naming the countries, I don't mean to give any indication unless you look at it in more detail that the countries themselves had to reschedule.

Senator BYRD. Yes. In regard to Australia, it was not a loan to the Australian Government, as I understand it.

Mr. MOORE. The data here doesn't tell me that definitively, but I am almost certain that would be the case.

Senator BYRD. I am wondering about Venezuela, which is the richest country in South America.

Mr. MOORE. I am certain that was private credit also. It has very good credit, so I imagine that was a private rescheduling.

Senator BYRD. Now, on page 9 of your statement, you say about \$14 billion of today's \$25 billion Export-Import Bank exposure relates to developing countries in Africa, Asia, and Latin America, and represents less than 10 percent of the total LDC debt outstanding as of the end of 1976. Do you have a breakdown by countries?

Mr. MOORE. I do.
 Senator BYRD. Would you—
 Mr. MOORE. I would be glad to submit it for the record.
 Senator BYRD. Please submit it for the record.
 [The material referred to follows:]

SUMMARY OF EXIMBANK'S EXPOSURE AS OF NOV. 30, 1977

(In thousands of dollars)

	S/T FCIA INS	M/T FCIA INS	Reg. bank and guar. to ex- porters	Financial guar- antees	Reg. loans	CFF and rel. loans	Total exposure
Africa/Middle East.....	197,227	211,158	223,527	1,100,365	2,383,289	50,107	4,165,673
Asia.....	151,336	81,162	77,588	1,599,211	4,079,826	51,643	6,040,768
Europe—EEC ¹	153,228	22,084	8,645	220,200	1,076,747	8,940	1,489,846
Canada Europe—Other.....	158,337	43,176	71,311	794,000	3,563,473	23,643	4,653,941
Latin America.....	316,957	460,392	553,867	980,682	3,073,601	104,254	5,499,751
Subtotal.....	977,085	817,973	944,938	4,694,459	14,176,936	238,588	21,849,979
Discount loans.....					919,353		919,353
PEFCO.....				26,001	50,000		76,001
Subtotal.....				26,001	969,353		995,354
Total.....	977,085	817,973	944,938	4,720,461	15,146,289	238,588	22,845,333
S/T insurance, unship balance.....	2,134,200						2,134,200
Master policies, unship balance.....	41,521						41,521
Miscellaneous.....		9,190	130,838	1,451			141,480
Subtotal.....	2,175,722	9,190	130,838	1,451			2,317,202
Total exposure.....	3,152,806	827,163	1,075,776	4,721,912	15,146,289	238,588	25,162,534

¹ European Economic Community countries.

Source: Office of the Treasurer—Controller.

(In thousands of dollars)

	S/T FCIA insurance	M/T FCIA insurance	Reg. bank and guar. to exporters	Financial guarantees	Reg. loans	CFF and rel. loans	Total exposure
Economic Sector:							
Agriculture.....	380,950	69,039	87,485	72,979	253,095	17,957	881,505
Communication.....	96,485	35,895	107,043	70,603	288,408	14,634	613,068
Construction.....	615,730	326,875	263,374	64,958	257,410	56,185	1,584,533
Electric power:							
Nuclear.....			549	1,328,738	2,712,250	123	4,041,660
Other.....	34,655	19,126	57,708	740,179	1,297,660	8,157	2,157,485
Manufacturing.....	152,047	89,661	139,534	444,940	1,388,111	59,481	2,273,774
Mining and refining.....	155,625	43,963	56,473	1,006,970	2,756,390	12,640	4,032,060
Transportation:							
Commercial jet aircraft.....	275	5,654	2,330	625,769	3,226,120	1,008	3,861,156
Other.....	386,965	218,026	176,268	309,011	1,054,877	41,137	2,186,283
Other.....	1,330,075	9,733	78,820	56,314	992,616	27,266	2,494,824
Unallocated.....		9,190	106,192	1,451			116,833
Discount loans.....					919,353		919,353
Total.....	3,152,807	827,163	1,075,776	4,721,912	15,146,289	238,588	25,162,535

SUMMARY OF EXIMBANK'S EXPOSURE SHOWING TOTAL AMOUNT BY TYPE OF RISK AS OF NOV. 30, 1977

[In thousands of dollars]

	S/T FCIA insurance	M/T FCIA insurance	Reg. bank and guar. to exporters	Financial guarantees	Reg. loans	CFF and ref. loans	Total exposure	Total cumulative exposure
Exposure by risk group:								
0.48.....	387,063	250,696	103,726	459,534	3,851,506	20,744	5,073,269
Discounts ¹					919,353		919,353	5,992,622
PEFCO.....				26,001	50,000		76,001	6,068,623
0.72.....	353,047	305,599	359,610	1,710,631	4,801,633	100,898	7,631,418	13,700,042
1.08.....	145,437	176,037	346,575	1,860,883	3,249,236	107,420	5,885,587	19,585,629
1.26.....	82,994	84,131	134,893	651,662	1,648,669	9,428	2,611,776	22,137,405
Other ²	8,545	1,510	135	11,749	625,892	98	647,928	22,845,333
Subtotal.....	977,085	817,973	944,938	4,720,461	15,146,289	238,588	22,845,333
Unallocable.....	2,175,722	9,190	130,838	1,451			2,317,202
Total.....	3,152,806	827,163	1,075,776	4,721,912	15,146,289	238,588	25,162,534

¹ Considered 1st category risk. Consists of discount, loans, and PEFCO's line of credit.

² Markets ineligible for supplier credit support.

SUMMARY OF EXIMBANK'S EXPOSURE SHOWING PERCENT BY TYPE OF RISK AS OF NOV. 30, 1977

	S/T FCIA insurance	M/T FCIA insurance	Reg. bank and guar. to exporters	Financial guarantees	Reg. loans	CFF and rel. loans	Total exposure	Total cumulative exposure
Exposure by risk group:								
0.48	12.28	30.31	09.64	09.73	25.43	08.69	20.16	23.61
Discounts ¹					6.07		3.65	24.11
PEFCO				.55	.33		.30	54.44
0.72	11.20	36.95	33.43	36.23	31.70	42.29	30.33	77.63
1.08	4.61	21.28	32.22	39.41	21.45	45.02	23.39	88.21
1.26	2.63	10.17	12.54	13.80	10.88	3.95	10.38	90.78
Other ²	.27	.18	.01	.25	4.13	.04	2.57	
Subtotal	30.99	98.89	87.84	99.97	100.00	100.00	90.75	
Unallocable	49.01	1.11	12.16	.03			9.22	
Total	100.00	100.00	100.00	100.00	100.00	100.00	100.00	

¹ Considered 1st category risk. Consists of discount, loans, and PEFCO's line of credit.

² Markets ineligible for supplier credit support.

Note: Detail may not add to total due to rounding.

EXIMBANK'S EXPOSURE BY COUNTRY LOANS, GUARANTEES, AND INSURANCE AS OF NOV. 30, 1977

Country	S/T FCIA insurance	M/T FCIA insurance	Reg. bank and guar to exporters	Financial guarantees	Reg. loans	CFF and rel. loans	Total exposure
Africa/Middle East:							
Alghanistan.....	1.26	1,758			2,987		4,746
Algeria.....	1.08	7,715	29,027	53,107	244,647	558,091	892,913
Angola.....	1**	646	214		1,383	326	6,651
Bahrain.....	0.72	2,407	1,486			4,407	3,893
Bamun, Peoples Republic of.....	1.26	181	29				153
Botswana.....	1.08			648			648
Burundi.....	1.26	306					306
Cameroon, Federal Republic of.....	1.08	447	166	2,304	1,538	17,189	21,249
Canary Islands.....	0.48	169					169
Central African Empire.....	1.26	3				3,133	3,130
Chad.....	1.26	15					15
Egypt, Arab Republic of.....	1**	1,242				34,017	35,259
Ethiopia.....	1.26	28	37			5,851	5,860
French Territory of Afars and Issas.....	1.26	41					41
Gabon.....	1.08	1,135	2,494	4,326	24,211	19,554	51,721
Gambia, the.....	1.08	56					56
Ghana.....	1.26	584			21,185	45,788	67,558
Guinea.....	1.26	10			15,591		15,602
Iran.....	0.48	23,541	68,302	3,578	24,662	619,022	741,344
Iraq.....	0.72	7,789				1,283	9,071
Israel.....	1.08	4,987	550	4,772	206,897	141,586	403,706
Ivory Coast, Republic of the.....	0.72	3,754	637	8,283	74,898	83,935	171,784
Jordan.....	1.26	3,234	1,203	154	24,598	10,034	39,223
Kenya.....	1.08	90	180	238	1,616	10,420	12,363
Kuwait.....	0.48	32,396	47,304	3,150			82,850
Lebanon.....	1**	4,774	1,296	135	10,366	39,679	56,249
Liberia.....	1.08	10,551	1,120	996	2,218	20,594	35,686
Libya.....	0.72	1,640	133				1,773
Madagascar Republic.....	1.08	64	166		22,800		22,902
Malawi.....	1.08	637					637
Mali.....	1.26	18	192				210
Mauritania.....	1.26	2		2,058	4,043	4,755	10,854
Mauritius.....	1.08	3					3
Morocco.....	1.08	1,861		3,557	22,228	50,781	78,427
Mozambique.....	1.26	20	26		2,400	1,800	4,325
Niger.....	1.26	30		3,200		5,420	8,650
Nigeria.....	1.08	4,813	3,097	214	678	16,063	23,676

See footnotes at end of table.

EXIMBANK'S EXPOSURE BY COUNTRY LOANS, GUARANTEES, AND INSURANCE AS OF NOV. 30, 1977—Continued

Country		S/T FCIA insurance	M/T FCIA insurance	Reg. bank and guar to exporters	Financial guarantees	Reg. loans	CFF and rel. loans	Total exposure
Oman	1.08	916	1,153					2,069
Pakistan	1.26	2,277	46	918		66,665	1,839	71,745
Qatar	0.72	3,833	1,267					5,100
Reunion Island	0.72	10						10
Saudi Arabia	0.48	21,403	11,476	8,134		7,531		48,545
Senegal	1.08	510	2,116	6,027	2,134	8,551		18,318
Seychelles	0.72	20						20
Sierra Leone	1.26	14	1,775			24,338		26,127
South Africa, Republic of	0.72	22,307	20,510	58,399	101,679			202,896
South West Africa	1**	50						50
Sudan, The	1.26	835	5,245	16,274	5,398	14,787		40,868
Swaziland	1.08	4						4
Syrian Arab Republic	1**	954						954
Tanzania	1.26	26		2,800				2,826
Yug. Government of	1.08	462		5,925	1,004	1,506		7,973
Tunisia	0.72	2,452	760	7,033		24,290		34,535
Turkey	1.26	9,117	5,684	23,227	73,039	239,382		350,449
Uganda	1**	9						9
United Arab Emirates	0.72	18,713	3,197	3,124				25,034
Upper Volta	1.26	152			488	1,000		1,336
Yemen Arab Republic	1.26	31						31
Yemen, Peoples Democratic Republic of	1**	5						5
Zaire	1.26	2,678	154	98	202,660	228,508	57	428,800
Zambia	1.26	5,338	117	351	24,951	54,751		85,508
Total Africa/Middle East		197,227	211,158	223,527	1,100,365	2,383,289	50,107	4,163,673
Asia:								
Australia	0.48	39,948	11,092	4,447	21,936	214,780	756	292,958
Bangladesh	1**					1,302	98	1,399
Brunei	0.72	43						43
Burma, Union of	1.26	100	2,633			254		2,987
China (mainland)	1**					26,386		26,386
China, Republic of (Taiwan)	0.72	35,541	2,056	1,707	511,034	1,048,887	11,520	1,610,745
Fiji Islands	1.08	135	16					119
Hong Kong	0.48	5,523	3,684	1,280	1,478	37,763	39	46,811
India	1.08	5,601	1,105	2,391	1,935	83,943		94,974
Indonesia	1.26	7,958	16,817	25,560	114,740	446,294		611,369

Japan.....	0.48	18,273	4,916	5,713	101,910	891,139	813	1,022,764
Korea, Republic of.....	1.08	5,538	15,274	13,273	431,115	549,996	29,039	1,044,234
Malaysia, Federation of.....	0.72	9,556	8,545	931	1,530	55,888	64	76,514
New Caledonia.....	1.08	282						282
New Hebrides.....	1.08	4						4
New Zealand.....	0.48	3,756	4,212	2,473	10,507	111,878	2,609	135,436
Pacific Islands—British.....	0.72	391						391
Papua New Guinea.....	1.08	39	89					50
Philippines.....	1.08	9,671	1,826	15,457	404,881	423,128	2,100	857,064
Ryukyu Islands.....	1**	440						440
Singapore.....	0.48	5,942	6,065			129,626	1,068	142,701
Sri Lanka.....	1.26	64	16	667		2,241		2,989
Tahiti.....	1.08	1,420						1,420
Thailand.....	0.72	3,722	2,816	3,689	1,102	56,322	3,538	71,188
Trust Territory Pacific Islands (United States).....	0.48	1,751						1,751
Vietnam, Republic of.....	1**	500						500
Western Samoa.....	0.72	4						4
Total Asia.....		151,336	81,162	77,588	1,599,211	4,079,826	51,643	6,040,768

Europe/Canada:								
Austria.....	0.48	4,701	96		235	19,772	202	25,006
Azores.....	0.48	56						56
Belgium.....	10.48	14,145	429	896	13,543	71,158	242	100,413
Canada.....	0.48	46,338	2,458	3,253		274,083	2,672	328,804
Cyprus.....	1.08	5,794						5,794
Denmark.....	10.48	6,950	1,558	816		61,860	98	71,282
Finland.....	0.48	2,940	566		15,124	58,538	360	77,526
France.....	10.48	26,774	3,809	476	57,395	155,568	6,707	250,730
Germany, Federal Republic of.....	10.48	20,505	693	134		75,691		97,022
Gibraltar.....	0.48	121						121
Greece.....	0.72	15,091	13,972	22,471	876	29,896	96	82,401
Greenland.....	10.48	10					85	95
Iceland.....	1.08	972	194	1,638		6,454		9,258
Ireland.....	10.48	556	3	48	102	9,600		10,309
Italy.....	0.72	44,926	10,928	1,517	12,350	232,278	309	302,309
Liechtenstein.....	0.72	410						410
Luxembourg.....	10.48	189				35		154
Malta.....	0.72	1,405						1,405
Netherlands.....	10.48	24,254	18	823	20,698	184,498	895	231,186
Norway.....	0.48	9,647	4,085	3,147	3,505	284,046	43	304,472
Poland.....	1.08	868		1,913		220,337	4,320	225,701
Portugal.....	1.08	2,346	1,362	3,667	15,298	103,583	1,149	127,406
Romania.....	1.08	1,631	532	10,117	3,326	73,652	1,861	91,219
Spain.....	0.72	37,102	9,903	5,250	389,326	1,266,297	3,247	1,711,124
St Pierre and Miquelon.....	0.48	11						11
Sweden.....	0.48	10,906	2,843	2,818	50,961	152,248	487	220,262
Switzerland.....	0.48	10,359	2,270	37	11,356	91,235		115,256

See footnotes at end of table.

EXIMBANK'S EXPOSURE BY COUNTRY LOANS, GUARANTEES, AND INSURANCE AS OF NOV. 30, 1977—Continued

Country	S/T FCIA insurance	M/T FCIA insurance	Reg. bank and guar to exporters	Financial guarantees	Reg. loans	CFF and rel. loans	Total exposure	
Union of Soviet Socialist Republic.....	1 **				463,155		463,155	
United Kingdom.....	10.48	15,297	4,647	3,934	116,112	272,827	604	413,421
Various European Countries.....	10.48					13,233		13,233
Yugoslavia.....	1.08	9,751	4,896	17,000	303,995	520,178	9,208	865,028
Total Europe/Canada.....		311,565	65,261	79,956	1,014,201	4,640,220	32,584	6,143,786
Latin America:					750		1,242	
Antigua.....	1.26	492			245,037	6,245	507,437	
Argentina.....	1.26	34,762	29,124	38,860	153,408		19,964	
Bahamas.....	1.08	3,522		450	4,960	11,033	3,094	
Barbados.....	1.08	432		5	1,577	1,944	549	
Belize.....	0.72	596	20	28			7,360	
Bermuda.....	0.48	3,404		117		3,839	82,929	
Bolivia.....	1.08	4,589	18,470	14,344	119	45,206	1,686,986	
Brazil.....	0.72	52,255	47,003	46,538	*353,098	1,138,426	49,665	
Cayman Islands.....	0.72	20	40	1,161		11,770	278,425	
Chile.....	1.26	15,121	13,147	10,872	18,586	220,700	142,754	
Costa Rica.....	0.72	22,646	23,520	28,588	17,668	48,843	51,369	
Cuba.....	1.08	9,654	12,733	16,086	11,02	9,772	2,023	
	E**				36,267		36,267	

Dominican Republic.....	1.08	1,913	5,789	4,207	34,430	76,563	959	123,860
Ecuador.....	0.72	23,924	30,477	42,285	6,215	11,155		114,356
El Salvador.....	1.08	5,691	4,242	9,645	3,500	6,762	679	30,520
Falkland Islands.....	0.72	53						53
Guatemala.....	0.72	6,369	11,100	9,444	21,634	25,640		74,187
Guyana.....	1.08	493	802	8,067	2,303	7,122		17,801
Haiti.....	1**	1,043				20,680		21,723
Honduras.....	1.26	6,259	7,888	9,855	6,165	8,601	1,208	39,976
Jamaica.....	1.08	1,697	1,981	5,173	38,397	64,181	497	111,925
Mexico.....	0.72	33,013	115,364	117,585	219,221	710,336	30,691	1,226,210
Nicaragua.....	1.08	6,837	6,879	11,273	6,366	18,903	1,479	51,737
Panama.....	1.08	6,840	10,000	25,216	28,234	72,128		143,154
Paraguay.....	1.08	428	5,032	2,789		3,606	1,146	13,001
Peru.....	1.08	19,206	40,585	98,781	50,729	105,212	6,298	320,810
Surinam.....	0.72	1,098	209	509		3,029		4,845
Trinidad and Tobago.....	0.72	883	1,415	1,065		50,522		53,885
Uruguay.....	1.08	13,914	4,151	2,471		1,200	110	21,846
Venezuela.....	0.48	37,952	70,171	58,452	12,967	111,537	828	291,905
Virgin Islands—British.....	0.72	34						34
West Indies—British.....	1.08	2,524	9					2,534
West Indies—French.....	0.72	969	241	3				1,213
West Indies—Netherlands.....	0.72	1,476				2,837		4,313
Total Latin America.....		316,957	460,392	563,867	980,582	3,073,601	104,254	5,499,751

* European Economic Community Countries.

** Includes guaranteed colps under cfl program totaling \$42,522.

Senator BYRD. Which are the major countries that are involved?

Mr. MOORE. Just quickly, to summarize, Mr. Chairman, our major "exposures" as we call them would be in the lesser developed countries, with Mexico and Brazil in Latin America, with South Korea and the Republic of China in the Far East, with Algeria in Africa. I think that those would represent the largest exposures around the world. Also, the Philippines would be high.

Senator BYRD. What is the record of the Philippines?

Mr. MOORE. It has been good.

Senator BYRD. I noted last week in the New York Times a piece by-lined by Ann Crittenden in which this news article discussed the Bank's loan to the Philippines in regard to a nuclear reactor for the Philippines. Could you give some background on that?

Mr. MOORE. Yes, Mr. Chairman. Of course, that loan was again set up before I was at the Export-Import Bank. It was a loan where money was raised largely from the public by Eximbank extending its guarantees to bonds of the Philippine Government to raise money to pay for the nuclear plant.

Senator BYRD. In other words, the Export-Import Bank then guaranteed the Philippine Government bonds?

Mr. MOORE. That is correct, and in part the loan directly lent funds as well to the Philippine Government.

Senator BYRD. How much was involved in that deal?

Mr. MOORE. I believe the total amount of loans and guarantees was in the range of \$600 million to \$700 million.

Senator BYRD. Over what period of time would that be repaid? Are they long term bonds? I suppose that they are.

Mr. MOORE. I would not say that they were long term, in that you might expect for a similarly sized transaction of the U.S. Government, and I do not know this specifically, but if it follows the pattern of most of the nuclear plants we have financed, it would be a period to construct the facility, which runs from 5 to 7 years, and then either 10 or 12 years repayment after completion of construction, so the total term would not have been more than about 19 years, and it could have been as little as 17 or 18.

Senator BYRD. I am wondering whether the Bank is financing other nuclear reactor plants elsewhere in the world.

Mr. MOORE. Yes.

Senator BYRD. Where?

Mr. MOORE. Mexico, Taiwan, South Korea, Yugoslavia, Spain, the Philippines, Brazil.

Senator BYRD. India?

Mr. MOORE. I am not absolutely certain—that was so many years ago—whether we did the one in India, but I would be glad to check and let you know for the record.

[CLERK'S NOTE: The committee was subsequently informed by the witness that the Eximbank did not finance India's nuclear power-plant.]

Senator BYRD. Thank you. We seem to be pretty heavily into the nuclear reactor financing business.

Mr. MOORE. Yes. In the past the Eximbank has supported the financing and exports of equipment for many nuclear electrical-producing plants.

Senator BYRD. What about at the present time? Are there loans now being made for nuclear plants?

Mr. MOORE. Yes, Mr. Chairman, under careful regulations at the executive branch and statutory provisions in our charter, which of course do not allow us to export or facilitate financing of exports for that purpose, except to countries who have entered appropriate agreements on the control of proliferation.

Senator BYRD. I assume, then, the countries you named off a little while ago are now involved in current loans. Are there additional countries you are now considering making loans to or have made loans to?

Mr. MOORE. We are additionally considering the possibility of financing nuclear power plants in Italy in addition to the list I mentioned. I don't believe we have done it to date in Italy. Presently, we would not go forward with new nuclear plants in Brazil because they have not entered into the appropriate kinds of agreements for safeguards.

Senator BYRD. When was the Brazilian loan made?

Mr. MOORE. It was either 1970 or 1971, for their first nuclear plant.

Senator BYRD. What exposure do you have in Panama?

Mr. MOORE. The total exposure, including all the different kinds of programs, is \$143,154,000.

Senator BYRD. How much to the Government of Panama?

Mr. MOORE. That I cannot tell you from the documents I have. I would have to supplement.

Senator BYRD. If you would submit that for the record.

[The material referred to follow:]

Of the \$141,318,200.66 Eximbank exposure in Panama as of December 31, 1977, \$90,965,274.91 was to the government or governmental entities, \$9,948,439.09 to private buyers with government guarantees, and \$35,886,877.03 to private buyers. Information on the foreign buyer is unavailable on the remaining exposure under the short-term insurance program.

Senator BYRD. Now, to how many different governments has the Export-Import Bank made loans which are now outstanding and have not been yet repaid? How many different governments are involved?

Mr. MOORE. Mr. Chairman, do you mean direct loans to governments, or do you mean countries?

Senator BYRD. No, governments.

Mr. MOORE. Again, I would not be able to answer that from the materials I have here. It varies from country to country, of course, how their economy is organized. If they are essentially a controlled market economy, the loans may well be to government agencies or guaranteed by them.

Senator BYRD. For example, Russia is to the Russian Government.

Mr. MOORE. Or some part of it. It would not be directly to the Russian Government, but to a trading or an administrator responsible for the development.

Senator BYRD. Under their system, that is all a part of the Russian Government.

Mr. MOORE. That is correct.

Senator BYRD. I assume if it is made to an agency of the Russian Government, your bank holds the Russian Government liable.

Mr. MOORE. Correct.

Senator BYRD. If you would supply for the record the number of governments to which the Export-Import Bank now has loans outstanding.

Mr. MOORE. I would be glad to do so.

[CLERK'S NOTE: The committee was subsequently informed by the witness that as of December 31, 1977, Eximbank had loans outstanding to 93 foreign governments or governmental entities.]

Mr. MOORE. The number of countries around the world in which we have business is approximately 140.

Senator BYRD. I assume, and maybe I am wrong, but I assume that the bulk of those 140 countries—Did you say 140 countries?

Mr. MOORE. Yes.

Senator BYRD. I shouldn't have thought there were many more countries in the world. That is about all there are, isn't it?

Mr. MOORE. Not quite. There are some more. In many of the lesser developed countries, our loans will carry the government guarantee, and we are looking to the sovereign risk, but the loan itself might be to a private entity and guaranteed by a development bank.

Senator BYRD. But you also have some directly to governments, like Zaire. That is directly to the Government of Zaire; is it not?

Mr. MOORE. I believe not. I think there are two particular agencies which may be a part of the Zairean Government. There is no doubt we would look directly to the Government of Zaire for payment.

Senator BYRD. The 140 countries in which the Import-Export Bank has exposure, I would assume that the majority of those transactions would not be government to government, but would be essentially private transactions.

Mr. MOORE. They would be almost entirely in the developed countries, but in the lesser developed, and in more instances than not, you have government credit.

Senator BYRD. I think it is important to have that information for the record, and of course, when I speak of government I am speaking of a government agency for which the government is responsible.

Mr. MOORE. I understand.

Senator BYRD. To what extent is the Export-Import Bank involved in financing the oil trade deficits incurred by the LDC's?

Mr. MOORE. I think a correct answer directly to your question, Mr. Chairman, would be none, in that we do not enter into balance of payments loans from our facility. We do make loans for particular projects. To answer you in a fuller, more indirect fashion, I suppose one could take the position that any time we extend credit to a country with a deficit in its balance of trade, that in some fashion we were financing that deficit, but our financing is always tied to particular projects, when we are talking about our larger transactions and direct loans, and particular products or services when we are talking about our other programs.

Senator BYRD. What is the current lending authority of the Eximbank?

Mr. MOORE. \$25 billion.

Senator BYRD. That is your total exposure?

Mr. MOORE. Total exposure. The direct lending authority is limited to \$20 billion.

Senator BYRD. Of which you have direct lending now of \$14 billion, as I recall.

Mr. MOORE. Correct.

Senator BYRD. Do you anticipate additional rescheduling during this calendar year?

Mr. MOORE. Yes, we have agreed, subject to the satisfactory performance of certain conditions, that we will meet in April to discuss further reschedulings of maturities of loans to Zaire. There could be others, but that is the only one I know of certainly at this point.

Senator BYRD. What are the current interest rates being currently paid by borrowers to the Eximbank?

Mr. MOORE. They range from $7\frac{3}{4}$ percent to $8\frac{3}{4}$ percent per annum.

Senator BYRD. What interest is being charged on the Russian loans?

Mr. MOORE. I believe I am correct in saying that those were authorized at 6 percent. Now, when they have come back for any change in the availability date or anything else, we suggest the current rates, and I believe the Russians in each instance have elected not to draw further funds, because they did not want to incur additional charges.

Senator BYRD. Are all of those loans short-term loans?

Mr. MOORE. No, most of the exposure in Russia is long term.

Senator BYRD. I am surprised any of them have come due.

Mr. MOORE. No, no, in the authorization, when you extend credit, you tell the buyer that they may borrow \$100 million provided it is all drawn for the project purposes by a date which is within 2 years, and in some instances the Russians have not finished the project in time, and have had to come back for an extension of the authorization date. Since that deviates from the loan agreement, we would then have the right to increase the interest rate on the additional authorization period.

Senator BYRD. Have you increased it?

Mr. MOORE. We have.

Senator BYRD. You have?

Mr. MOORE. And in each case the Russians have not drawn further funds.

Senator BYRD. One of the witnesses several years ago testified that the Russians do not believe in interest.

Mr. MOORE. They really do not. If they do, they believe in it at very low rates.

[General laughter.]

Senator BYRD. I assume you have no exposure in the People's Republic of China.

Mr. MOORE. We have none at the present. There is an exposure that comes from before 1949 which is still on our books which was incurred by the Republic of China prior to leaving the mainland, but we have none with the People's Republic of China.

Senator BYRD. What business are you now doing with India?

Mr. MOORE. There has been a very low level of activity in the last 1 or 2 years, but we are now beginning to discuss business there again, and I will give you the exposure figures, which come from earlier years. The total exposure in India is just under \$95 million.

Senator BYRD. Just under \$95 million?

Mr. MOORE. Yes.

Senator BYRD. Is that to the Government of India?

Mr. MOORE. That I do not know. These were all put on the books prior to my being at the Export-Import Bank, but again, I would be glad to supply you with the answer to that.

Senator BYRD. Thank you.

[The material referred to follows:]

Of the \$91,874,406.98 Eximbank exposure in India as of December 31, 1977, \$73,070,805.09 was to the Government or government entities, \$7,950,516.00 was extended to private buyers with Government guarantees, \$8,705,085.89 to private buyers. Information on the foreign buyer is unavailable on the remaining exposure under the short-term insurance program.

Senator BYRD. Reports indicate that there were some—I'm not sure what term to use—irregularity of payments with regard to the Philippines' nuclear transaction. Since the Eximbank was involved in that, do you have information you could supply the committee on that?

Mr. MOORE. Well, I can tell the committee that in the practices of the Export-Import Bank, each loan is analyzed carefully within the capability of our facility, for the appropriateness of the figures, for the construction of a project of that kind. In addition, affidavits are taken from the borrower and the exporter stating what payments are being made in connection with the transaction or stating none if that is the case. Both procedures were followed in the case of the Philippines, and as I understand it, the affidavits stated that there were no illegal payments made.

Senator BYRD. This New York Times piece speaks of the Philippines' nuclear plant, and says that payments were made to a close friend and in-law of President Marcos for assistance in obtaining the contract and for implementation of services. Estimates of the size of the commission range from \$4 million to \$35 million.

Now, since the Export-Import Bank was involved in that loan, how do you view the commissions in that case?

Mr. MOORE. I am not sure I have a view, Mr. Chairman. I think it is possible that they were legal. I suppose it is possible that they were illegal, depending upon the intent and knowledge of the particular receivers and payers at a particular point in time. I do not, though, know the facts other than from reading the same article you have.

Senator BYRD. Does Exim have the information as to the exact amount involved and for the purposes of the payment?

Mr. MOORE. No, Exim would not have that, because any such payments, if they were made, would have had to have been made separately. Under our procedures, disbursements of the loan would not go to the Philippines, but only to the exporters in the United States against proof of export of the particular items.

Senator BYRD. Thank you very much, Mr. Moore. You have been very helpful today, and I would be delighted to have you stay if you would like, but I do not think it is necessary to hold you up, since I had the opportunity yesterday to go over your statement in some detail. Thank you, sir.

[The prepared statement of Mr. Moore follows:]

**STATEMENT OF JOHN L. MOORE, JR., PRESIDENT AND CHAIRMAN, EXPORT-IMPORT
BANK OF THE UNITED STATES**

Mr. Chairman, Members of the Committee: I appreciate this opportunity to appear before you to discuss the roles of the Export-Import Bank in the question of foreign debt owed to the United States.

Eximbank was originally established in 1934 and reincorporated under the Export-Import Bank Act of 1945 to aid in financing and to facilitate exports of U.S. goods and services. Eximbank supplements financing from the private sector for those exports sold on commercial terms customary in international trade. While Eximbank has a Congressional mandate to offer financing for American exporters which is competitive with that being provided to foreign exporters by their official export financing agencies, Eximbank does not, and cannot, offer concessional or aid-type financing. Capitalized by a \$1.0 billion sale of securities to the U.S. Treasury in 1945, Eximbank has been self-sustaining since that time, receiving no appropriated funds.

Eximbank offers five basic programs to assist American exporters in their overseas sales: Direct Loans and Financial Guarantees, Cooperative Financing Facility (CFF) Loans, Commercial Bank Guarantees, Discount Loans, and Exporter Credit Insurance. I would like to explain briefly how each of these programs functions in order to give the Committee a better understanding of the nature of Eximbank's exposure.

DIRECT LOANS AND FINANCIAL GUARANTEES

Eximbank facilitates exports of major capital equipment, requiring repayment terms over five years, through direct loans to foreign buyers for a portion of the required financing for their U.S. purchases. Commercial banks generally provide the remainder of the financing. In some instances, the Private Export Funding Corporation (PEFCO), owned by U.S. commercial banks and exporters, will also participate in the transaction. Eximbank guarantees the PEFCO loans and may guarantee a portion or all of the commercial bank loans. While the loans are extended to the foreign buyers, the funds never leave the United States because they are paid to the U.S. exporters. The foreign borrowers repay the loans, plus interest and other fees, in U.S. dollars to Eximbank and the private lenders. Through this program Eximbank makes available the longer-term, fixed-rate financing required for this type of sale and which the private sector is unable to provide. Eximbank participation encourages maximum private financing while helping U.S. exporters meet foreign official export credit competition.

COOPERATIVE FINANCING FACILITY (CFF)

Eximbank enters into agreement with overseas financial institutions to lend them funds on terms of from one to five years which they in turn relend to cover one-half of the financing for a particular U.S. export. The foreign bank provides the other half of the funds and takes the credit risk on the entire transaction. This program supports small and medium-size U.S. export sales by assisting foreign buyers, who because of size, inexperience, or other factors are unable to obtain credit to finance their purchases through the U.S. private sector or other Exim programs.

DISCOUNT LOANS

Eximbank provides stand-by assurance to U.S. commercial banks, which purchase fixed-rate export obligations, that during the life of such obligations Eximbank will extend loans to them against the remaining value of the obligations. This program is intended to overcome limitations in the private market's willingness to provide medium-term (271 days to five years) fixed-rate financing for export sales.

COMMERCIAL BANK GUARANTEES

Eximbank guarantees the repayment of medium-term (181 days to five years) export credit extended by U.S. banks to foreign buyers, without recourse to the

U.S. exporters. The commercial bank retains a share of the commercial risk for its own account, and is protected by the Eximbank guarantee against the remaining commercial and political risks.

EXPORTER CREDIT INSURANCE

The Foreign Credit Insurance Association (a syndicate of 53 private marine and casualty insurance companies), in conjunction with Eximbank, insures short-term (up to 180 days) and medium-term (181 days to five years) export credit provided by the private sector. FCIA provides insurance coverages against defined commercial risks, while Eximbank provides political risk coverage and reinsures FCIA against excessive commercial losses. The program spreads the risk in export credit among the exporter, FCIA, and Eximbank in accordance with classic insurance principles, thereby enabling exporters to sell abroad and the private market to provide the needed financing.

EXIMBANK EXPOSURE

As of November 30, 1977, Eximbank's total exposure worldwide was \$25,162,534,000. Of this \$14,257,228,578 was under the Direct Loan Program, \$4,721,912,000 was under the Financial Guarantee Program, \$238,588,000 was under the Cooperative Financing Facility Program, \$1,075,766,000 was under the Commercial Bank Guarantee Program, \$3,979,969,000 was under the Exporter Credit Insurance Program, and \$919,353,000 was under the Discount Loan Program. It should be noted that Eximbank exposure figures include authorized but undisbursed amounts.

The nature of Eximbank's exposure varies from program to program. In the Direct Loan and Cooperative Financing Facility Programs, Eximbank lends directly to a foreign public or private buyer (often with the guarantee of the foreign government).

Under the Guarantee and Insurance Programs, Eximbank does not lend money, but rather insures the private commercial bank which finances the export or the exporter himself against non-payment by the foreign buyer for commercial or political reasons. Insurance and guarantee authorizations are treated in the same way as loans for exposure purposes. Although Eximbank's undertaking to guarantee or insure a transaction means that it will pay the commercial bank or exporter should the exporter or bank not be paid by the buyer, in the majority of long- and medium-term cases, the transactions are guaranteed by the foreign government of the buyer, an agency of that government, or a foreign bank or other party acceptable to Eximbank. Consequently, Eximbank would sustain a loss only in the case in which the buyer defaulted and the guarantor would not, or could not, pay. Inasmuch as short-term insurance coverage is limited to 180 days, a guarantor is usually not required.

Under the Discount Loan Program, Eximbank's exposure is to American commercial banks rather than to foreign buyers. The Discount Loan Program is basically a stand-by facility which allows the commercial bank to offer fixed-rate export financing with the assurance that it will not lose money should the cost of the bank's borrowings rise. When a bank uses the Discount Loan Program, it issues its own note to Eximbank.

While Eximbank theoretically could be called upon to loan its entire exposure under the Discount Loan Program to commercial banks, this would only occur if their cost of borrowing increased dramatically.

I would like to point out that Eximbank, in carrying out its Congressional mandate to aid in financing and to facilitate U.S. exports, is required by the Eximbank Act to find a "reasonable assurance of repayment" in any transaction for which it extends financing support.

All of Eximbank's exposure represents exports financing undertaken only after an examination of the likelihood of repayment. Eximbank's risk avoidance strategy relies heavily on its judgment with respect to the creditworthiness of the borrower, the borrower's country and any guarantor—which is usually the government or central bank.

CREDIT JUDGEMENT PROCESS

Eximbank makes credit judgements on both the micro, or project level, and at the macro, or country level. Where an export transaction requires Eximbank's

credit insurance, guarantee, or medium-term supplier credit assistance, the Bank assesses the financial condition and prospects of the individual foreign purchaser or lending institution. Where Eximbank's direct credit or financial guarantee is required for foreign projects, an economic feasibility study of that project is also undertaken. In addition to these micro credit judgements made on a case-by-case basis, Eximbank also undertakes comprehensive economic, political, and social evaluations of the countries which use the Bank's various programs. The highlights of these macro-level analyses are considered carefully by Eximbank's Board of Directors whenever it decides to approve or deny an individual transaction.

At the micro level, current certified financial statements are relied on heavily by Eximbank analysts in assessing the financial condition and prospects of the foreign purchasers. Following standard accounting principles, these financial statements are analyzed by deriving and evaluating the conventional operating ratios as well as by other basic tests. When available, a foreign corporation's Dun and Bradstreet report is also investigated and the opinions of other financial experts may also be sought.

Where Eximbank's direct credit or financial guarantee is requested in connection with a project, an economic and an engineering appraisal of the project is prepared by the Bank's staff. This project feasibility orientation is based on Exim's belief that, in general, the projects we support should be economically viable—i.e., generate sufficient earnings to repay the debt. The economic appraisal focuses on the cash flow projected by the project's developer or the foreign obligor. If the Bank feels that the assumptions used in generating that anticipated cash flow are unrealistic—for example, projected revenues are overstated while costs are understated—then we will reconstruct the cash flow on the basis of assumptions that we believe are more appropriate. In addition, Eximbank's engineering staff evaluates and reviews the technical requirements and feasibility of the proposed project, usually examining studies prepared by the borrower's consultants or staff. Again, if the engineers dispute the project's technical assumptions as submitted, then the project is evaluated on the basis of assumptions that we feel are more accurate.

At the country or macro level, Eximbank's analytical efforts proceed along two distinct, but complementary lines. A small team of Eximbank country economists monitors economic, political and social developments as well as government policy in all countries in which Eximbank has exposure. In addition to following closely the countries on a day-to-day basis, the country economists periodically report on the country's recent balance of payments record and future outlook.

Regardless of Eximbank's efforts to avoid repayment problems, the length of many of our loans makes debt problems impossible to avoid completely. Debt problem occur for various and constantly changing reasons. Some debt problems are caused by political turmoil, as in Lebanon in the last two years. Others result from poor debt management or overall balance of payments difficulties. None of these are always foreseeable at the time of making a loan.

There are three possible outcomes of an Eximbank loan: full and prompt repayment, temporary difficulties which lead to a rescheduling of the loan and ultimate full repayment, or serious problems which make the outstanding portion of the loan uncollectible.

Since its inception, Eximbank's credit reviews and guarantor policy have kept Eximbank's losses to a minimum. We are proud of the fact that even though we have authorized \$40 billion of direct credits since 1934, only \$3.8 million, or 1/100th of one percent, have been written off as losses. During this period, \$1.4 billion, or 3.5 percent of our loans, have been rescheduled. We have had good to excellent repayment experience with almost 90 percent of the cases after rescheduling took place. Of the \$40 billion of guarantees and insurance authorized by Eximbank since its inception, net claims have totalled only 1/10th of one percent (\$45.2 million).

We feel we can be justifiably proud of our record of export support, general accuracy of credit judgment, and bad debt recovery.

I would now like to explain how we at Eximbank assess the prospects for repayment of our outstanding exposure given the current international economic situation and foreseeable developments in that situation.

MAJOR DEBT PROBLEMS

Since 1945, the United States has exported nearly \$1.0 trillion of goods to the rest of the world. Eximbank authorizations during this period have supported approximately \$100 billion of those exports—or 10 percent.

However, although two-thirds of U.S. exports since 1970 have been to developed countries, about two-thirds of Eximbank activity during the same period has been in developing countries. Accordingly, about \$14 billion of today's \$25 billion Eximbank exposure relates to developing countries in Africa, Asia and Latin America and represents less than 10 percent of total LDC (less developed countries) debt outstanding as of the end of 1976.

Eximbank does not believe, however, that its large exposure in these countries unduly jeopardizes the Bank's financial stability. Although many developing countries have had some difficulty in adjusting to higher energy prices and slow economic growth in the industrial countries, the economic outlook today is substantially brighter than it has been. In fact, the non-OPEC developing countries did remarkably well in 1977. Adjustments in economic policies, including the imposition of import restrictions, price increases for key commodities such as cocoa and coffee, and a leveling off of import prices resulted in a 12 percent increase in developing country export earnings while import spending expanded by about 8 percent. Consequently, the developing countries were able to once again reduce their aggregate external payments deficit—to approximately \$23 billion, compared to \$26 billion one year earlier. At the same time, the non-oil developing countries registered real income growth of about 5 percent in 1977, sharply higher than the 3.4 percent expansion of 1975 but about the same rate as achieved in 1976.

The economic gains were widely distributed, being especially concentrated on the developing countries which have, in the past, relied heavily on commercial bank and officially supported export credit financing to cover their exchange requirements. Most of these countries—such as Brazil, Korea and Mexico—are in the upper tier of developing countries in terms of level of development and income and are, therefore, the most creditworthy of the LDC's.

Eximbank's LDC exposure is primarily in these countries. For example, high coffee and soybean prices, coupled with a slowing of domestic growth, enabled Brazil (where Eximbank's total exposure, as of November 30, 1977, was \$1.7 billion, or about 12 percent of the Bank's total LDC exposure) to reduce its external payments deficit in 1977 by \$1.5 billion—from \$6.0 billion to \$4.5 billion. Similarly, in Mexico, high export prices for coffee, petroleum and tomatoes and the imposition of strict demand management policies resulted in a \$1.3 billion improvement in the Mexican external payments position in 1977. (Eximbank's exposure was \$1.2 billion as of November 30, 1977, or about 8 percent of LDC exposure.) Furthermore, Korea (Eximbank exposure of \$1.0 billion, or 7 percent), the Philippines (Eximbank exposure of \$850 million, or 6 percent), and Taiwan (Eximbank exposure of \$1.6 billion, or 11 percent) also registered substantial trade and balance-of-payments improvements last year. Together, these countries account for almost one-half of Eximbank's exposure in the developing countries, and their economic performance provides an accurate indication of the economic position and prospects of the LDC's in which Eximbank is active.

EXIMBANK FINANCIAL CONDITION

I would like to leave you with a word of encouragement and optimism. The international monetary system as a whole is capable of handling the massive debt servicing needs that have arisen in recent years. Let me assure you that the Export-Import Bank, which is part of both the international financial system and the U.S. banking system, is well positioned financially to handle or absorb any debt difficulties or defaults that may arise.

I believe that this view is substantiated by the following data:

Eximbank's outstanding loan-to-equity ratio stands at roughly 4:1, which is 2 to 3 times lower than the 10 to 15 average ratio of internationally involved U.S. commercial banks and only slightly above the 2.6 ratio of the World Bank.

Eximbank's present capital of \$2.8 billion and our policy of keeping our lending rate at 75 basis points above our marginal cost of funds would enable us to absorb both sharp fluctuations in interest rates and substantial unforeseen

losses without affecting our ability to continue generating positive annual net income.

As of September 30, 1977, Eximbank had arrearages of 90 days or more of \$134,444,200 or approximately $\frac{1}{2}$ of one percent of Eximbank's total exposure as of that date. It should be noted, however, that of the \$134,444,200, \$120,226,500 constitutes principal and accrued interest outstanding on loans to Cuba and the Republic of China (with respect to equipment and facilities left on mainland China when that government moved to Taiwan) as of December 15, 1958, and April 1, 1949 respectively. Excluding these long-standing arrearages, the balance of \$14,217,700 in arrearages constitutes less than 6/100ths of one percent of Eximbank's September 30, 1977, worldwide exposure.

Senator BYRD. The next two witnesses will be the Honorable C. Fred Bergsten, Assistant Secretary of the Treasury for International Affairs, and the Honorable Robert Hormats, Senior Deputy Assistant Secretary of State for Economic and Business Affairs.

I had the opportunity yesterday to study Mr. Bergsten's statement. I did not have Mr. Hormats' so I could not look that over.

Mr. Bergsten, suppose you proceed as you wish. Your full statement will be incorporated into the record, and you can proceed as you think best.

STATEMENT OF HON. C. FRED BERGSTEN, ASSISTANT SECRETARY OF THE TREASURY FOR INTERNATIONAL AFFAIRS AND HON. ROBERT HORMATS, SENIOR DEPUTY ASSISTANT SECRETARY OF STATE FOR ECONOMIC AND BUSINESS AFFAIRS

Mr. BERGSTEN. Thank you very much, Mr. Chairman.

My staff is putting up some charts that depict the overall situation on debts owed to the U.S. Government, the primary question that you have raised for today's hearings. While they are doing that, I would like to comment in my oral statement really only on three points that are elaborated on in my written statement: First, the international context, which has been changing very rapidly, within which we think it helpful to look at the debt problem today; second, the specific question of indebtedness of the developing countries, including rescheduling of their debts, which was a question highlighted in your press release discussing these hearings; third and finally, the question of debts owed to the U.S. Government and our efforts to collect those debts and reduce the outstanding arrearages as we have done over the last several years.

Senator BYRD. One question for clarification. When you speak of total debts, are you including Export-Import in that, or is this separate?

Mr. BERGSTEN. We include direct loans by the Export-Import Bank in our chart on your far right, Mr. Chairman. You can see the breakdown of debt owed to the U.S. Government by program, and the second yellow bar, the post-World War II indebtedness, which totals about \$42 billion. It is then broken down by program, of which \$11.4 billion is owed on disbursed loans of the Export-Import Bank, which as Mr. Moore pointed out is about \$3 billion lower than the exposure figure he uses.

[The chart follows:]

*Outstanding indebtedness of foreign countries to the U.S. Government
as of Sept. 30, 1977*

	(In millions)
I. World War I and related indebtedness -----	\$26,706
World War I and related credit, including accrued interest....	24,826
German World War I indebtedness-----	¹ 1,880
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II. Post-World War II and World War II indebtedness on USG credits	42,011
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A. Long-term credits -----	41,530
<hr/>	
Foreign Assistance Act and related programs :	
Financing of military purchases-----	4,409
A.I.D. and other-----	13,804
Export-Import Bank Act-----	11,441
Agriculture Trade Development and Assistance Act-----	6,575
Lend-lease and other war accounts-----	1,381
Commodity Credit Corp. export credits-----	1,153
Other credits-----	2,767
<hr/>	
B. Accounts receivable credit -----	374
<hr/>	
Military logistical support-----	214
Military Sales Act-----	44
Atomic Energy Act-----	40
Other-----	76
<hr/>	
C. Short-term credits Commodity Credit Corp -----	107
<hr/>	
III. Public and private U.S. claims settled by the U.S. Government	60
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Grand total -----	68,777

¹ The actual indebtedness, except for \$4 million, is denominated in Reichmarks. This figure is an estimate only.

Mr. BERGSTEN. We have attempted, Mr. Chairman, in this chart, to put together a comprehensive single number, a grand total, of all debts owed to all entities of the U.S. Government for any purpose as of September 30, 1977. We have tried to give you a comprehensive and precise picture that would include everything, including the Export-Import Bank. This chart, however, does not include the contingent liabilities of foreign governments to the Eximbank on its insurance and guaranty programs.

Let me simply start out by noting once again that the interest in this whole question of international debt has, of course, been greatly increased in the last few years because of some fundamental changes in the world economic and financial picture. We are, of course, in a period of major imbalances in the world economy, stemming from the very sharp increase in the price of oil in late 1973, and subsequent world recession and very high rates of inflation.

We know a few oil exporting countries, namely those in the Persian Gulf, are experiencing massive trade and current account surpluses as a result of their raising of the oil prices several years ago. As a result, the rest of the world has to divide up a very sizable trade and current account deficit and borrow in the financial markets or government-to-government in order to finance those deficits.

The result is a very rapid buildup of foreign assets in the oil exporting countries, and at the same time a buildup of debt owed by the

deficit countries, and therefore very sharp expansion in the total level of international debt over the last few years.

Now, a major element in this picture, of course, is that most of the assets of the oil-exporting countries are not channeled directly to the deficit countries, although we are trying to increase the share that is so channeled, but is intermediated through the private financial markets. The international situation is much like the domestic situation where financial intermediation has become a major factor of financial life over the decades. The result is that a very large share of the buildup of international debt in the last few years has consisted of debt owed by countries in balance-of-payment deficit directly to private financial markets, be it the Eurocurrency markets or U.S. banks more directly.

In fact, about three-quarters of the deficits required by the rest of the world on account of the oil price buildup have been financed through private markets, and therefore generate a buildup of private debt.

In order to move the world economy toward a more stable pattern of international payments and trade, this administration adopted last spring a comprehensive strategy to try to both reduce the buildup of international debt, by reducing the level of payments and balances, and also reduce any risk of instability in that debt by improving the quality of the international flows.

We put forth a six-point program early last year, and we have made progress in each of those aspects during the course of the last year. If you care to discuss those in detail, I have listed them in my statement.

One aspect of the question that has been raised in some detail is the debt buildup in the developing countries, and the extent to which that causes a significant risk to the international economy and world financial stability. Now, Treasury is in the final stages of preparing its annual report to the Congress on the question of debt of the developing countries, and we will forward it to the Congress at the end of this month.

The overall conclusion of our report is that the external indebtedness of the developing countries is not of a magnitude that would justify anxiety or deep concern about the international financial system. I can tick off four or five reasons we come to that conclusion, and again, I would be delighted to discuss those in more detail. One of the critical points is that even though the absolute level of debt has risen very sharply, the debt service ratio of the developing countries taken as a group has actually not increased since 1973.

This is for a number of reasons. The level of debt has risen sharply, but so has the level of export earnings of the developing countries. Inflation, of course, is a factor that erodes the real cost of debt, because all of these outstanding debts, of course, have been accumulated in nominal terms, and as everything rose in price terms over the succeeding years, it reduced the real debt service burden of the developing countries as well as for other borrowers. But beyond that, the export earnings and the GNP's of the developing countries have also grown very rapidly, and therefore enabled them to maintain decent debt ratios.

Another very important point that is often missed is that the loss ratio of American banks on their foreign lending is much less than on their domestic lending. In fact, the repayment record on foreign loans

is much better than on domestic loans over even these past several years, when there has been such an explosion of international debt and concern about that question.

Senator BYRD. Excuse me. To get that clarified, by domestic loans, do you mean commercial bank loans?

Mr. BERGSTEN. Yes, comparing here loans by U.S. commercial banks on one hand domestically and on the other hand abroad. There have been a couple of studies that have shown that the ratio of losses incurred to the U.S. commercial banks have been much higher on their domestic loans by a ratio of 3 or 4 to 1 than on their international loans, so that much of the concern expressed about risk on international lending, at least relative to domestic lending, has been overstated, and to some extent misplaced.

Senator BYRD. My colleague from New York, Senator Javits, has made several speeches which express exactly the opposite view, that the banks are overextended, and could be something that would cause a great deal of trouble in the months ahead. I assume you do not agree with that.

Mr. BERGSTEN. That is right. We have studied Senator Javits' arguments and his statement of several months ago very carefully, and we do come to a different judgment for the reasons I am mentioning this morning and have outlined in some detail in my statement.

We view the situation as one that bears very close watching, but on the basis of all of the evidence and analysis we have put together, we find there is no cause for alarm, and no significant risk to international stability from the level of foreign borrowing.

I might just add one or two other points about this particular issue. In our effort to monitor the situation closely, so that we can be confident in our judgments on the point you have just now raised, we have significantly improved, I think, the capability of our own governmental mechanism, both to monitor the situation and to be sure that the bank regulatory authorities are fully capable of monitoring what is going on.

We have had a number of improvements, some of which were just announced last week, on our data concerning the indebtedness of developing countries and the exposure of U.S. private banks in foreign countries. We have now coordinated much more effectively the assessment of country risk among the FDIC, the Comptroller of the Currency, and the Federal Reserve Board. We are continuing to assess the approach to our foreign risk assessment, and in general have tried in every way possible to make sure that our bank regulatory authorities are doing the kind of job they need to do in monitoring the foreign debt situation to make sure that we are not missing any risks that might develop.

Now, despite what is an overall favorable picture, there does from time to time clearly occur a case when an individual country might find itself in deep financial and economic difficulty and have to re-schedule its external debt. There is some misunderstanding about the process, and I thought it might be worthwhile if I just went through, step by step, what happens in a case like that. I will also take that opportunity to indicate what our policy is towards such debt rescheduling situations. We have a very clear and well-defined policy to avoid any excessive liberality on our part in rescheduling foreign debts.

When a country's external position takes a turn for the worse, and it is unable to reduce its deficit in the very short run, it may have difficulty servicing its external debts. Defaulting would jeopardize its future ability to borrow from its creditors. Therefore the country may decide to seek a rescheduling. If the country has sizeable debts owed to other governments or guaranteed by governments, such as the United States, it would then request a meeting with that group of creditor governments.

The last several of those meetings have taken place in Paris, and therefore the term "Paris Club" is often used to denote meetings of creditor countries to consider a rescheduling request.

Senator BYRD. Let's get to some facts now. Do you have a list of countries for which the debts were rescheduled for 1977, 1976, 1975, and 1974?

Mr. BERGSTEN. I have a complete list. Mr. Chairman, of all of the international debt reschedulings from 1956 through 1977. Since 1976, there were in fact only three reschedulings.

Senator BYRD. What were they?

Mr. BERGSTEN. India, Zaire, and Sierra Leone, of which the United States participated only in the Zaire rescheduling. We did not participate in India or Sierra Leone.

Senator BYRD. Is it not a fact, though, that in regard to India, the United States cancelled a great deal of its debt?

Mr. BERGSTEN. In 1974 the United States did collect from the Government of India prepayment of its very large rupee debt, a local currency claim that had piled up over the years from Public Law 480 sales, I believe. At the same time, the United States made a grant to India of most of the proceeds.

Senator BYRD. \$2 billion worth of a \$3 billion claim was written off, as I recollect.

Mr. BERGSTEN. Mr. Hormats was around at the time, as an expert on that, if you would like to have details from him.

Senator BYRD. Yes; do you have a statement you want to make, or shall we just proceed? You go ahead and make your statement, and then we will come back to this question.

Mr. HORMATS. I am sorry that the statement I prepared did not get to you in time, sir, but let me just make a few general points, if I may, and then we can go to the questions you have on your mind.

Essentially, we concur with the Treasury's analysis of the general debt situation. It is our feeling that there are obviously new stresses put on the international system as a result of the OPEC price increase, but with proper management of all of the elements of the international economy, a smoothly functioning trading system, a smoothly functioning financial system, adequate growth in the major countries, stabilization policies in the weaker countries with large amounts of inflation, and a proper energy policy on the part of the United States and other countries, these problems, in the context of an overall improving international picture, can be dealt with. They can be dealt with reasonably well.

The problem, of course, frequently comes down to, as Mr. Bergsten has pointed out, one or two particularly difficult countries, and there we have on occasion, and on a rare occasion at that, used the process of debt rescheduling, but this has been confined to a very few coun-

tries under terms extremely rigorous in that they insist that these countries, as part of the overall agreement, put their economic house in order, hold down their level of inflation, and reduce the deficit which is required to borrow.

Senator BYRD. Who has the responsibility on the debt rescheduling, the Treasury Department or the State Department?

Mr. HORMATS. The Treasury and State Departments work very closely together in formulating policies on this.

Senator BYRD. But someone has to make the final decision.

Mr. HORMATS. It is done primarily in the context of the National Advisory Council, which is chaired by the Treasury. In the last case of Zaire, the State Department negotiated, but we negotiated on the basis of a position which is cleared off by both agencies and done in the interagency context of the National Advisory Council.

Mr. BERGSTEN. Mr. Chairman, could I clarify a bit? It is a four-step process. We developed the policy response toward a rescheduling request, as Mr. Hormats said, through the National Advisory Council, which is chaired by Treasury. The actual negotiation of the government-to-government rescheduling agreement is usually carried out by the State Department with the assistance of Treasury following multilateral discussions in the context of a Paris Club meeting.

Then, when it comes to the detailed rescheduling of the individual loans, such as the Export-Import Bank loans to Zaire, those details will be negotiated by the operating agency, in this case the Export-Import Bank. So it is a four-step process from policy coordination in the NAC to multilateral creditor-club discussions to government-to-government agreement to detailed negotiation of the specific loans themselves.

Senator BYRD. What authority does the executive branch have to reschedule loans?

Mr. BERGSTEN. The authority differs, Mr. Chairman, from program to program: AID and its predecessors, Export-Import Bank, Public Law 480, CCC. In general, the operating agency does have authority to reschedule debt if it believes doing so will help maximize its revenues and repayments over time. There is no authority to forgive debt on loans extended under the Foreign Assistance Act of 1961, but an authority to reschedule.

Senator BYRD. There is no authority to forgive debt?

Mr. BERGSTEN. That is right.

Senator BYRD. Does State agree with that assertion?

Mr. HORMATS. Yes, sir. In the AID bill, it is quite explicit that there cannot be any forgiveness of AID. It is written into the AID bill, I think section 620(r).

Senator BYRD. So any forgiveness of debt must be done by the Congress, if there is any forgiveness?

Mr. HORMATS. Yes.

Mr. BERGSTEN. That is right, and I might say in addition, Mr. Chairman, that in meeting our obligations under an amendment to one of the 1974 pieces of legislation, the Secretary of State will put before the Congress every agreement for rescheduling debts owed under the Foreign Assistance Act for 30 days before the agreement becomes effective.

Senator BYRD. Who do you put it before?

Mr. BERGSTEN. The Secretary of State transmits it to the chairman of the Senate Foreign Relations Committee and to the Speaker of the House.

Senator BYRD. In regard to the rescheduling, I think it might be well so we could have it in one place to put into the record those tables that you have going back to 1956. Mr. Secretary.

Mr. BERGSTEN. We would be delighted to do that.

Senator BYRD. Thank you.

[The material referred to follows:]

INTERNATIONAL DEBT RESCHEDULING EXERCISES, 1956-77

Year	Country	Total amount rescheduled (millions)	Amount of U.S. debt rescheduled (millions)	Consolidated period	Terms	Comments
1956	Argentina	\$500.0	0	Arrears to June 30, 1956.	No grace, 9 yr at 3½ percent.	
1959	Turkey	400.0	0	5 yr 5 mo	No grace, 12 yr, at 3 percent.	Only U.S. commercial debt rescheduled.
1961	Brazil	300.0	0	4 yr 7 mo	6 mo grace, 5 yr, at various percent.	Eximbank rescheduled \$305,000,000 in separate arrangement.
1962	Argentina	240.0	0	2 yr	No grace, 6 yr, at various percent.	Eximbank extended a \$72,000,000 refinancing loan in 1963.
1964	Brazil	200.0	\$44.5	2 yr	2 yr grace, 5 yr, at various percent.	Eximbank only.
1965	Chile	96.0	43	2 yr	do	
1965	Turkey	220.0	15	3 yr	5 yr grace, variable.	
1965	Argentina	76.0	18	1 yr	2 yr grace, 5 yr at various percent.	Do.
1966	Ghana	170.0	511	2 yr 7 mo	2½ yr grace, 7½ yr, at various percent.	Do.
1966	Indonesia	247.0	51	1½ yr	3 yr grace, 8 yr, 3 to 4 percent.	Interim rescheduling.
1967	do	95.0	23	1 yr	do	Do.
1968	India	300.0	27	3 yr	62 percent grant element.	
1968	Peru	58.0	0	1½ yr	1 to 1½ yr grace, 4 yr, at various percent.	Only U.S. commercial debt rescheduled.
1968	Indonesia	85.0	22	1 yr	3 yr grace, 8 yr, 3 to 4 percent.	Interim rescheduling.
1968	Ghana	100.0	141	3½ yr	2 yr grace, 7½ yr, at 6 percent.	Eximbank only.
1969	Peru	70.0	0	2 yr	1 yr grace, 4 yr, at 8 to 9 percent.	
1970	Indonesia	2,100.0	215	All maturities	30 yr, at no percent.	Incorporates 1966-67 and 1968 rescheduling.
1970	Ghana	25.0	0	2 yr	Variable.	
1971	India	92.0	9	1 yr	6 percent grant element.	
1971	Yugoslavia ¹	59.0	59	2 yr	2 yr grace, 10 yr, at 5 percent.	
1971	Egypt ¹	145.0	145	4.5 yr	27 mo grace, 5 yr, at 6.6 percent.	No grace on CCC credits.
1972	Cambodia	2.0	0	1 yr	2 yr grace, 8 yr, at 3 percent.	
1972	Chile	258.0	110	1 yr 2 mo	2 yr grace, 6 yr, at 5 to 6 percent.	
1972	Pakistan	234.0	51	2 yr 2 mo	2 yr grace, 3 yr, at 5 percent (maximum).	
1972	India	153.0	29	1 yr	59 percent grant element.	Continuation of 1971 agreement.
1972	Cambodia	2.5	0	1 yr	2 yr grace, 8 yr, at 3 percent.	

1972	Turkey	114.0	0	All maturities	5 yr grace, 25 yr, at 3 percent	Proceeds assigned to United States as partial reimbursement for U.S. establishment via grants of European Monetary Fund.
1973	Poland ¹	32.0	32	2 yr	4 yr grace, 8 yr, at 6 percent	
1973	Pakistan	103.0	23	1 yr	2 yr grace, 3 yr, at 5 percent (maximum)	Temporary and partial extension of 1971 agreement.
1973	India	187.0	29	1 yr	55 percent grant element	Continuation of 1970 and 1971 agreement.
1974	Ghana	290.0	0	Pre-1966 commercial	10 yr grace, 18 yr, at 2½ percent	Incorporates 1966-68 and 1970 rescheduling.
1974	Chile	460.0	232	2 yr	80 percent at 3 yr grace, 7 yr, various	
1974	Chile	650.0	196	4 yr	62 percent grant element	Resolves debt issues from 1971 war.
1974	Pakistan	194.0	45	1 yr	62 percent grant element target	
1974	India	230.0	95	1 yr	80 percent 3 yr grace, 6½ yr, various	
1975	Chile	167.0	0	1 yr	62 percent grant element target	United States, Canada, and Italy didn't participate.
1975	India	160.0	0	1 yr	do	Do.
1976	do	170.0	46	1 yr	85 percent, at 3 yr grace, 6½ yr, various	
1976	Zaire	(²)	0	1 yr	Not available	
1977	India	200.0	68	1 yr	85 percent, at 3 yr grace, 6½ yr, various	Bilateral United States-GOZ agreement not signed.
1977	Zaire	(³)	0	1 yr	85 percent, at 3 yr grace, 6½ yr, various	
1977	Sierra Leone	(³)	0	2 yr	80 percent, at 2½ yr grace, 1½ yr, various	

- ¹ Bilateral.
- ² Estimate.
- ³ Not available.

Note: The concept of grant element is a measure of concessionality of lending terms. It compares a loan on given terms with a hypothetical loan at 10 percent with no grace period; the lower the grant

element (expressed as a percentage), the closer the rescheduling terms are to this hypothetical loan. The 1974 agreement with Pakistan was linked directly with an agreement under which Bangladesh assumed responsibility for debts on projects visibly located in its territory. As part of the multilateral accord, the United States rescheduled \$85,000,000 in debt service on obligations assumed by Bangladesh.

Senator BYRD. I am not totally clear as to which department of Government is responsible for the collection of debts owed by foreigners to the United States.

Mr. HORMATS. In the first instance, Mr. Chairman, it is the agency which originally extended the debt. In the case of Export-Import Bank, for instance, if they have extended the debt and there was a problem, they would in the first instance go to the particular country.

Senator BYRD. Leave the Export-Import Bank out.

Mr. HORMATS. AID would similarly go to the country through its own auspices and make a representation. If after they fail to achieve the results they felt they could go no further at that point, they would go to the State Department, and through our embassies primarily, we would—

Senator BYRD. The State Department then has the responsibility for the debts?

Mr. HORMATS. In the second instance, after the agency that had originally extended the debt had exhausted its possibilities. Then the State Department would try to take over through its ambassadors, through other types of representation, and ask the country—to try to work it out with the country.

Senator BYRD. I am trying to pinpoint the responsibility. It is in the State Department?

Mr. HORMATS. Yes, sir.

Senator BYRD. What is the total debt owed the United States at this point?

Mr. HORMATS. The total debt owed is something like \$42 billion, post-World War II.

[Pause.]

Mr. HORMATS. \$12 billion from World War II and the post-war period and \$27 billion from World War I.

Senator BYRD. That includes \$11 billion Export-Import?

Mr. HORMATS. Yes; yes, sir.

Senator BYRD. So leaving out Export-Import, it is \$31 billion owed the United States in post-world War II debts?

Mr. HORMATS. These are not arrearages. These are just money lent.

Senator BYRD. I understand. That is the total amount owed. Now, how much is owed on World War I debts?

Mr. HORMATS. Virtually all that is up there, \$26.7 billion.

Senator BYRD. Is there any interest being paid on that?

Mr. HORMATS. There is no significant interest, so far as I know, perhaps a very small amount.

Senator BYRD. Is there any effort being made by the American Government to collect any of that debt?

Mr. HORMATS. A large bulk of the debt was owed to us by our allies in World War I has been tangled up in the problem of German repayments of reparations to those countries. The German problem was held in abeyance in 1953. This has been as a result of a treaty in effect dissolved, and the countries that are—directly have made their repayments of debt to us contingent upon their receiving money from the Germans, from the German Government.

Senator BYRD. What I am trying to ascertain is, has the State Department made any effort to collect any part of the World War I debts?

Mr. HORMATS. Well, sir, efforts were made quite a while ago, but since the 1953 agreement in London when the resolution of the German problem was deferred until the final general settlement of the matter, we have found it very difficult to do this.

Senator BYRD. So the answer to my question is no?

Mr. HORMATS. That is correct.

Senator BYRD. Is that correct?

Mr. BERGSTEN. Could I add one caveat, Mr. Chairman? In December 1976, Hungary on its own, made a full payment of the delinquent portion of its World War I debt to the United States in the total of about \$4.3 million. By becoming current on its payments, this action ended the restriction of Johnson Act limitations on Hungary's access to U.S. capital markets.

The other point I might add to what Mr. Hormats said, you asked whether interest was being collected. He was certainly right in saying neither interest nor principal is being collected for most of the World War I debts. We do continue to accrue interest owed to us on the books.

Senator BYRD. Is that included in the \$26 million?

Mr. BERGSTEN. Oh, yes. In fact, the interest exceeds the principal. We continue to show the interest in addition to the principal as an element of World War I indebtedness owed to the United States, and when Hungary came in and made this full payment, that certainly included the interest accrued during the period. So, we do show it, and it is included.

Mr. HORMATS. I should point out, sir, that on the original debt, the total original debt, there has been some principal paid and some interest paid by a number of countries. It is just that there is a lot still remaining to be paid. Four countries, in fact, have settled all of their debt, including Cuba, Finland, Liberia, and Nicaragua, but the larger debtors simply have not.

Senator BYRD. You mentioned Germany. Last night I read the autobiography of the former president of the Reichbank. Very, very interesting. He was president during the early and mid-1920's. It was really hair raising to read about German inflation. I have read a half a dozen books on German inflation, and I still cannot understand how it got to the proportion it got to. I can understand how it could have gotten very high, but it was such an astronomical figure.

Even after reading five books, I cannot figure out why it went to such an extreme. Could any of you enlighten me on that? It is a little beyond our subject here this morning.

Mr. HORMATS. They printed a great deal of money, I guess.

Senator BYRD. Leaving out, then, World War I debts, what reduction has there been in the total indebtedness since the meeting that this committee held in February of 1976, which was exactly 2 years ago? Do you have figures showing what payments have been made in the intervening 2 years and by what countries?

Mr. HORMATS. Yes, we have figures. During that 2 $\frac{3}{4}$ -year period roughly \$6.5 billion in dollars of interest and principal on long-term credits was collected, and roughly \$500 million in foreign currencies. Overall net arrearages have dropped from \$657 million to \$591 million.

Senator BYRD. Of course, that would be affected by your rescheduling, I assume.

Mr. HORMATS. To some extent, but most of those arrearages, roughly 70 percent, relate to some of these rather more difficult political problems which are under "extraordinary political arrearages." They have not been rescheduled. They simply have not been paid.

Mr. BERGSTEN. I think just for clarification, Mr. Chairman, when we reschedule debt we do not count the amount rescheduled as an arrearage.

Senator BYRD. That is what I say. When you reschedule it, it is not considered in arrears.

Mr. BERGSTEN. Yes.

Mr. HORMATS. Yes.

Senator BYRD. That is why it occurred to me my statement a moment ago is correct. If you reschedule it, it would change your arrearage figure.

Senator BYRD. Yes.

Mr. BERGSTEN. Only the Pakistan rescheduling contributed to the decline in arrearages since the end of 1974.

Mr. HORMATS. It has not happened in the case of the 1977 rescheduling for Zaire.

Zaire has been rescheduled, but we have not signed formal agreements. Therefore the number still remains under major arrearages.

Senator BYRD. Let me see if I have got this figure correctly in my mind. The total indebtedness owed to the United States by foreigners or foreign governments would be \$68 billion, including Export-Import?

Mr. BERGSTEN. [Nods affirmatively.]

Senator BYRD. And if you eliminated Export-Import, the total indebtedness of foreign governments to the United States would be \$57 billion?

Mr. BERGSTEN. This is not all foreign governments, Mr. Chairman. It is all debts owed to the U.S. Government.

Senator BYRD. By foreigners.

Mr. BERGSTEN. By foreigners, be they foreign private or official entities.

Senator BYRD. But as a practical matter, leaving out the Export-Import Bank, virtually all of that is, is it not, or certainly a very large share of it, is by foreign governments?

Mr. BERGSTEN. Right.

Senator BYRD. The Export-Import Bank is different, but with the remainder of the debt, as I understand it, the bulk of that is owed by foreign governments to the United States.

Mr. BERGSTEN. That is right.

Senator BYRD. Maybe all of it.

Mr. BERGSTEN. Exclusive of the Export-Import Bank, some \$742 million in U.S. Government credits due from foreign private obligors was outstanding as of September 30, 1977.

Senator BYRD. As a practical matter most is owned by foreign governments.

Mr. BERGSTEN. Most of it is governments. You are quite right.

Senator BYRD. On page 2 of Secretary Bergsten's statement, it says "U.S. trade deficit totaled about \$30 billion in 1977." For the record, would you estimate what you expect that to be in 1978, our current year?

Mr. BERGSTEN. We think it will be on the same order of magnitude, Mr. Chairman. It is very difficult to be precise to the last billion dollars, but our estimate is, the deficit in 1978 will be roughly in that same order of magnitude.

Senator BYRD. Which is an astonishingly great deficit.

Mr. BERGSTEN. It represents about 1.3 percent of our gross national product, which in relative terms means it is less than trade deficits of a lot of other countries of the past, despite the huge absolute size. It is very sizeable, though. It is a source of concern, and we are making a number of efforts to do something about it, primarily, our effort to win congressional support for strong energy legislation which would go to the heart of the problem since our oil imports are now costing us about \$45 billion.

Senator BYRD. If the Administration will send down a sound energy tax proposal, I will consider voting for it, but I am not going to vote for the proposal that was sent to us. It doesn't get one single additional barrel of oil, and puts the heaviest tax on the American people they have ever had put on them. I can't support that proposal.

On page 3 of your statement, you say, "We have urged deficit countries to adopt prudent adjustment policies." Now, what does that mean?

Mr. BERGSTEN. The balance of payments deficits of several major countries had become of sufficient size that there was a question about the continued availability of external financing, and what we have suggested was that those countries put their houses in order, cut the growth of money supply, reduce the level of Government expenditures, and particularly the budget deficit.

Senator BYRD. Now, that is what I thought you meant. Would you not want to apply the same prudent policy to the U.S. Government?

Mr. BERGSTEN. We certainly wish we were in a position to do so.

Senator BYRD. I guess those countries may tell you the same thing when you confront them with that statement.

Mr. BERGSTEN. Interestingly, Mr. Chairman, they have not. They recognize the very big difference between the position of the United States and their own position in terms of balance of payment positions and external finance. We have been able to finance our external deficit without great difficulty, despite the fact we have run a sizable trade imbalance. Other countries have not been able to do so after a certain point, and have been required by that external requirement to put their houses in order.

There is another fundamental difference, if I might say so, Mr. Chairman. As you well know, the inflation rate in this country is too high, and we all want to get it down, and we are working to do that. Nevertheless, on an international scale it is not very high, about 6 percent. Some of the countries to which I refer, Italy, the United Kingdom, not to mention Brazil and Mexico, have had inflation rates running well above the 15 percent level, and even beyond that.

So, for purely internal reasons, they have had to put their houses in order, reduce excessive internal expansion. They have had a much different situation than we have had in this country.

Senator BYRD. I agree with you thoroughly, with one exception. I think this country has got to put its financial house in order, and I don't see any signs that it is doing so. The inflation rate has dropped somewhat, but in my judgment it will be heading up very shortly. I

don't see how we can avoid it, with the Government coming in with another unbelievably high deficit spending program.

To talk about our trade balance, I was under the impression that a \$30 billion trade deficit is something to be alarmed about, but I don't see too much alarm today.

Mr. BERGSTEN. Let me be clear on that, Mr. Chairman. The trade deficit is a source of concern to us. We have been working on it in many respects, working with the Congress, and taking your comments into account, on coming up with an effective energy program in order to cut our level of oil import, working with some of the main balance of payments surplus countries, notably Japan, over the last month to adopt policies to reduce their surpluses and thereby enable us to reduce our deficit.

There have been over the last year changes in exchange rate relationships that will over the next year or so lead to a significant improvement in our competitive position and thereby reduce our trade current and account deficits. So, we have been working on this in a number of areas.

I might also add that we have very significantly improved our capacity to provide export financing to enable American exporters to compete fully on the world market, which they have not always been able to do in the recent past. We have tried to move in a number of ways to reduce our external deficit, because of the very same concern you have just expressed.

Senator BYRD. Looking at foreign lending by U.S. banks, how much has this risen in the past five years compared with domestic lending by U.S. banks?

Mr. BERGSTEN. I am not sure I have that comparison at hand, although we would be glad to supply it for the record.

Senator BYRD. That would be fine if you would, yes.

Mr. BERGSTEN. Right.

[The material referred to follows.]

TOTAL DOMESTIC AND FOREIGN ASSETS OF U.S. BANKS

[Billions of dollars]

Date	Total consolidated assets of all insured banks ¹	Claims on foreigners ²	Claims on domestic residents	Percentage increase from previous year		
				Total assets	Claims on foreigners	Claims on domestic residents
December 1970	614.5	40.1	574.4			
December 1971	694.0	57.9	636.1	12.9	44.4	10.7
December 1972	810.4	76.9	733.5	16.8	32.8	15.3
December 1973	943.8	110.5	833.3	16.5	43.7	13.6
December 1974	1,042.7	140.3	902.2	10.5	27.0	8.3
December 1975	1,082.1	161.8	920.3	4.7	15.3	3.1
December 1976	1,185.3	200.6	984.7	8.5	24.0	5.8
June 1977	1,231.2	211.4	1,019.8	*7.7	*10.8	*7.1

¹ From consolidated report of condition, including foreign and domestic office data.

² Total foreign claims on Treasury balance of payments reports for banks in the United States less claims held by U.S. offices for foreign banks. Total foreign claims reported on FR-520 form for foreign branches of U.S. banks less claims on related branches and less branch liabilities to their head offices.

* Estimated annual rate of growth from data for 6 months.

Senator BYRD. It has expanded greatly, has it not?

Mr. BERGSTEN. There has been a very rapid growth in the foreign bank lending of American commercial banks. The rate of the increase

has slowed down over the past year to 18 months, as the level of deficits being run by the developing countries has receded, but it continues to expand at a fairly rapid clip.

Senator BYRD. I am glad to get your view that the U.S. banks are not overextended. I have been fearful that they have become overextended. I remember the way the banks handled the REIT's a few years ago and the disaster that resulted. I am relieved by your statement today that the U.S. bank exposure and the dangers that could possibly result have been exaggerated.

Mr. BERGSTEN. It is something that we do watch closely, as I mentioned. We have improved our statistical reporting. We have improved our surveillance systems to make sure we will continue to be on top of it, but we do feel the concerns have been exaggerated in some corners, and the situation does not pose any major risk to international financial stability.

Mr. HORMATS. I have a couple of points that might further illustrate that. Only 24 percent of lending of U.S. banks abroad is to developing countries, and a large bulk of it is to developed countries, which are relatively sound risks. Well, they are all relatively sound risks, but there is presently an idea that most of it is developing countries, and in fact it is only about one-fourth.

A second point is one Mr. Bergsten raised earlier, which is, the aggregate debt service ratio of these countries has not deteriorated from 1973. It is at roughly the same level as 1973.

The third point that is particularly interesting is that the growth of lending to these countries has declined rather substantially. In other words, it started off at roughly 20 to 25 percent in the sort of middle part of 1970's, and is down now to an increase of roughly 15 percent, as these countries try to develop stabilization policies and increase their reserves.

So, the overall picture, I think, is one that, while it bears watching, and both of our agencies watch it closely, it is not a problem that I think requires urgent alarm.

Senator BYRD. That is the table of which you were speaking, that you could put in the record?

Mr. BERGSTEN. (Nods affirmatively.)

Mr. HORMATS. Yes, sir.

Senator BYRD. I think it would be very desirable to do that.

You mentioned 24 percent of U.S. banks lending to the developing countries. Which of the countries would get the bulk of that financing?

Mr. BERGSTEN. The most detailed data on this, Mr. Chairman, were released just a week ago, and I would be glad to submit that table for the record if you would like.

Senator BYRD. Yes.

[The material referred to follows:]

COUNTRY EXPOSURE LENDING SURVEY

[Federal Reserve Press Release, January 16, 1978]

The results of a survey of foreign lending by large United States banks as of June 30, 1977 were made public today by the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Federal Reserve Board.

The survey was made to increase the information available on foreign lending, on a country-by-country basis. The data reported cover claims on foreign residents held at all domestic and foreign offices of 119 U.S. banks with assets of \$1 billion or more.

Based on the experience of this survey, the bank regulatory agencies have instituted a semi-annual "Country Exposure Report" to begin with data for December 1977. Results of future reports will be published approximately four months after the reporting date.

TYPES OF LOANS

The information gathered in the survey concentrated on data concerning lending from a bank's offices in one country to residents of another country, or lending in a currency other than that of the borrower. These are known as cross-border or cross-currency loans.

Cross-border and cross-currency loans are those most closely associated with country risk. As shown in Table I, these claims totaled \$164 billion on the reporting date. About 42 per cent of such foreign lending was accounted for by claims on residents of Switzerland and the Group of Ten (G-10) developed countries. Another 20 per cent represented loans to residents of "other developed countries" and "offshore banking centers."¹ Cross-border and cross-currency claims on residents of non-oil producing less developed countries amounted to approximately \$40 billion, or some 24 per cent of the total.

In addition, the banks reported \$44 billion in local currency claims that were held by their offices in foreign countries on residents of the country in which the office was located. An example would be Deutsche Mark claims on German residents held by the German branch of the reporting U.S. bank. To a large extent, these local currency claims were matched by \$37 billion in local currency liabilities due to local residents. Approximately 75 per cent of these claims were on residents of Switzerland and the G-10 countries.

MATURITIES

The survey provided for the first time comprehensive data on the type of customer and the maturity distribution of banks' claims on foreigners (Table 1). About 63 per cent of the reported cross-border and cross-currency claims had a maturity of under one year. Such short-term claims were especially prominent in the G-10 countries and the offshore banking centers where, combined, \$64 billion out of \$85 billion in claims matured in less than one year. This heavy concentration of short-term claims reflects the large volume of interbank lending in these countries. Most such placements of deposits are for very short periods.

For most other groups of countries, short-term claims accounted for about one-half of total claims although the proportion varied significantly among individual countries.

TYPE OF BORROWER

With regard to type of customer, private nonbank sector lending was the largest, accounting for \$63 billion. Other types of lending were placements with banks amounting to \$59 billion, and loans to the public sector totaling \$42 billion. This last category includes foreign central governments, their political subdivisions and agencies and commercial non-bank enterprises owned by government. This distribution varied significantly from country to country. Here also, most of the claims on banks were on those located in the G-10 countries and the offshore banking centers.

GUARANTEES

In Table II, information is provided on the cross-border and cross-currency claims that are guaranteed by residents of another country. Claims are re-allocated from the country of residence of the borrower to another country on two grounds: First, claims on a bank branch located in one country where the head office is located in another country are allocated to the country of the head office. Since a branch is legally a part of the parent, claims on a branch are treated as being guaranteed by the head office. Second, claims on a borrower in one

¹ Countries where multinational banks conduct a large international money market business.

country which are formally guaranteed by a resident of another country are allocated to the latter country. These reallocations are thought to provide a better approximation of country exposure in the banks' portfolios than the unadjusted figures.

The results of the reallocations appear in the last column of Table II. Most of the shifts are accounted for by the transfer of claims on branches (and, where guaranteed, subsidiaries) of banks to their head offices (\$25 billion out of \$33 billion). In general, the reallocations primarily affected the offshore banking centers and some of the developed countries. For example, claims on the offshore banking centers decreased from \$16.8 billion to \$4.4 billion and claims on the United Kingdom decreased from \$25 billion to \$15.8 billion.

For most less developed countries, a relatively small portion of claims is externally guaranteed. The total shown for claims on foreigners by country of guarantor is about \$150 billion or \$14 billion less than the total for claims by country of borrower. This results from U.S. residents guaranteeing about \$16.5 billion in claims on foreigners and foreign residents guaranteeing about \$2.5 billion of claims on U.S. residents.

COMMITMENTS TO PROVIDE FUNDS FOR FOREIGNERS

The survey also provided information on commercial letters of credit and other contingent claims on foreigners. The banks were asked to report such contingent claims only where the bank had a legal obligation to provide funds. As shown in Table III, the amounts reported total \$42 billion, with 75 percent of that total being on the private sector, including banks.

USE OF THE DATA

The results of the survey need to be interpreted with some caution. The survey was experimental in nature, and it was recognized that all banks might not be able to furnish the requested information in the short period of time they were given. As a result, certain deviations from the instructions were permitted and in a limited number of cases, data were estimated for banks that were unable to report all items requested. In particular, some banks were permitted to report claims by "country of the guarantor" rather than by country of the borrower's residence. Gross claims on some countries (particularly the banking centers) may, as a result, be somewhat understated.

In addition, the reported contingent claims may be somewhat overstated, particularly as regards the private sector, because some banks included advised lines (where actual extensions of credit under such lines of credit might not be obligatory). In spite of these difficulties, it is believed that the reported data provide a representative profile of the foreign claims of U.S. banks.

Attachment.

TABLE I.—CROSS-BORDER AND NONLOCAL CURRENCY CLAIMS BY RESIDENCORROWER, OF JUNE 1977 BE

(In million of dollars)

Country	Total claims	Claims on—			Maturity distribution of claims	
		Banks (placements)	Public borrowers	Other private	1 yr. and under	Over 1 yr.
G-10 and Switzerland:						
Belgium/Luxembourg.....	4,212	3,601	90	521	3,848	365
France.....	6,840	4,757	692	1,392	5,430	1,410
Germany.....	4,048	1,661	232	2,155	2,983	1,065
Italy.....	5,055	2,177	1,717	1,161	2,812	2,243
Netherlands.....	2,764	1,934	117	714	2,424	341
Sweden.....	1,749	670	314	765	968	840
Switzerland.....	1,880	1,021	163	756	1,752	128
United Kingdom.....	45,138	17,363	2,475	5,301	19,090	6,049
Canada.....	5,117	3,179	680	1,258	4,152	965
Japan.....	11,754	1,777	289	9,688	7,462	4,292
Total.....	68,557	38,140	6,709	23,711	50,861	17,696

Non-G-1. developed countries:

Austria.....	939	665	191	84	775	165
Australia.....	1,355	144	26	1,165	640	514
Finland.....	1,210	313	262	635	591	619
Greece.....	1,770	268	603	858	552	1,177
Iceland.....	86	1	38	47	11	74
New Zealand.....	417	26	199	193	143	275
Norway.....	1,844	121	254	1,469	605	1,238
Portugal.....	525	16	352	157	377	148
Spain.....	3,332	849	1,264	1,219	1,352	1,950
South Africa.....	2,201	47	1,186	968	937	1,263
Turkey.....	1,473	410	448	615	1,023	450
U.S.S.R.....	1,434	252	467	715	651	783
Ireland.....	451	103	248	100	167	284
Total.....	17,037	3,215	5,538	8,285	8,094	8,940

Eastern Europe:

Bulgaria.....	416	81	324	12	223	154
Czechoslovakia.....	154	106	45	3	105	49
East Germany.....	708	63	592	54	282	427
Hungary.....	883	252	411	1	252	371
Poland.....	1,248	161	1,016	72	350	898
Romania.....	217	94	87	36	157	59
U.S.S.R.....	1,592	464	1,112	16	653	940
Yugoslavia.....	984	15	409	560	171	813
Total.....	5,982	1,236	3,996	754	2,233	3,751

Oil-exporting countries:

Algeria.....	1,470	18	1,129	322	340	1,130
Ecuador.....	831	7	392	452	462	369
Indonesia.....	1,580	132	1,350	498	836	1,144
Iran.....	1,831	208	653	970	1,031	800
Iraq.....	88	-----	76	12	20	68
Kuwait.....	399	219	37	143	360	39
Libya.....	128	42	78	9	124	4
Nigeria.....	70	-----	14	56	66	4
Qatar.....	81	6	68	7	56	25
Saudi Arabia.....	336	40	32	264	291	45
United Arab Emirates.....	401	181	56	124	249	152
Venezuela.....	4,548	101	2,452	1,995	2,097	1,640
Total.....	12,163	954	6,377	4,832	6,742	5,420

Non-oil-exporting developing countries—Latin America and Caribbean:

Argentina.....	1,793	134	946	713	991	802
Bolivia.....	371	80	104	187	164	187
Brazil.....	10,588	331	3,748	6,510	3,321	7,267
Chile.....	620	38	300	281	401	218
Costa Rica.....	356	10	151	196	178	179
Dominican Republic.....	239	-----	56	184	111	128
El Salvador.....	194	25	62	107	121	74
Guatemala.....	161	-----	1	160	73	87
Honduras.....	181	20	29	132	119	61
Jamaica.....	251	20	154	77	74	177
Mexico.....	11,322	423	5,910	4,989	5,459	5,864
Nicaragua.....	433	14	187	232	268	165
Paraguay.....	24	-----	1	23	13	11
Peru.....	1,504	33	1,328	543	922	982
Trinidad and Tobago.....	53	38	10	5	48	5
Uruguay.....	162	87	22	52	76	85
Total.....	28,652	1,253	13,009	14,391	12,359	16,292

TABLE II—CROSS-BORDER AND NONLOCAL CURRENCY CLAIMS ON FOREIGNERS BY COUNTRY OF GUARANTOR—JUNE 1977

[In millions of dollars]

Country	Total claims (by residence)	Claims guaranteed by residents of other countries		Total claims less guaranteed claims	Claims on residents of other countries guaranteed by residents of this country		Total claims by country of guarantor
		On banks	On others		On banks	On others	
G-10 and Switzerland:							
Belgium Luxembourg.....	4,212	1,243	131	2,838	191	314	3,343
France.....	6,840	1,091	270	5,479	1,312	577	7,368
Germany.....	4,048	139	234	3,675	2,119	587	6,381
Italy.....	5,055	127	58	4,870	399	254	5,533
Netherlands.....	1,749	93	109	2,552	221	187	2,970
Sweden.....	1,749	0	9	1,740	48	141	1,929
Switzerland.....	1,880	79	158	1,643	598	272	2,515
United Kingdom.....	25,138	9,811	1,200	14,127	1,047	661	15,835
Canada.....	5,117	42	185	4,889	1,593	212	6,694
Japan.....	11,754	213	252	11,289	2,467	1,083	14,859
Total.....	68,557	12,838	2,607	53,112	9,995	4,298	67,405
Non-G-10 developed countries:							
Austria.....	939	35	26	878	46	53	977
Australia.....	1,355	30	81	1,244	259	44	1,547
Finland.....	1,210	0	17	1,193	72	88	1,353
Greece.....	1,770	46	80	1,644	5	117	1,766
Iceland.....	86	0	0	86	0	0	86
New Zealand.....	417	1	8	408	51	12	471
Norway.....	1,944	2	134	1,708	63	83	1,854
Portugal.....	525	0	7	518	15	3	537
Spain.....	3,332	30	91	3,211	240	31	3,482
South Africa.....	2,201	26	38	2,137	63	34	2,234
Turkey.....	1,473	0	47	1,426	1	21	1,448
Denmark.....	1,434	2	90	1,342	22	84	1,448
Ireland.....	451	5	12	434	72	1	507
Total.....	17,037	177	631	16,229	910	571	17,710
Eastern Europe:							
Bulgaria.....	416	0	2	414	0	0	414
Czechoslovakia.....	154	2	0	152	16	0	168
East Germany.....	708	0	0	708	2	1	711
Hungary.....	663	7	10	646	17	0	663
Poland.....	1,248	10	51	1,187	10	20	1,217
Romania.....	217	7	3	207	1	0	207
U.S.S.R.....	1,592	7	33	1,552	89	5	1,646
Yugoslavia.....	984	0	89	895	0	18	877
Total.....	5,982	33	188	5,761	135	44	5,940
Oil-exporting countries:							
Algeria.....	1,470	0	162	1,308	0	65	1,373
Ecuador.....	831	18	48	765	0	0	765
Indonesia.....	1,980	49	143	1,788	59	8	1,855
Iran.....	1,831	1	60	1,770	141	24	1,935
Iraq.....	88	0	0	88	0	0	88
Kuwait.....	399	3	24	372	15	0	397
Libya.....	128	0	0	128	2	0	130
Nigeria.....	70	0	3	67	0	7	74
Qatar.....	81	0	0	81	0	2	83
Saudi Arabia.....	336	15	50	270	29	60	359
United Arab Emirates.....	401	68	2	331	9	18	358
Venezuela.....	4,548	7	109	4,432	79	12	4,523
Total.....	12,163	152	601	11,400	334	206	11,940

TABLE II—CROSS-BORDER AND NONLOCAL CURRENCY CLAIMS ON FOREIGNERS BY COUNTRY OF GUARANTOR—JUNE 1977

[in millions of dollars]

Country	Total claims (by residence)	Claims guaranteed by residents of other countries		Total claims less guaranteed claims	Claims on residents of other countries guaranteed by residents of this country		Total claims by country of guarantor
		On banks	On others		On banks	On others	
Nonoil exporting developing countries:							
Latin America and Caribbean:							
Argentina.....	1,793	8	182	1,603	15	8	1,626
Bolivia.....	371	24	52	315	0	16	331
Brazil.....	10,588	97	579	9,912	526	63	10,501
Chile.....	620	0	16	604	1	0	605
Costa Rica.....	356	0	24	332	0	3	335
Dominican Republic.....	239	0	5	234	0	0	234
El Salvador.....	194	0	10	184	0	0	184
Guatemala.....	161	20	20	121	0	10	131
Honduras.....	181	0	9	172	0	3	175
Jamaica.....	251	0	8	243	9	16	258
Mexico.....	11,322	89	474	10,759	150	32	10,941
Nicaragua.....	433	0	7	426	2	1	429
Paraguay.....	24	0	0	24	0	0	24
Peru.....	1,904	17	30	1,857	7	78	1,942
Trinidad and Tobago.....	53	0	0	53	0	0	53
Uruguay.....	162	0	10	152	13	15	180
Subtotal.....	28,652	255	1,406	26,991	723	245	27,959
Asia:							
China (Taiwan).....	2,319	27	106	2,186	14	5	2,205
India.....	208	0	17	191	19	3	213
Israel.....	662	2	22	628	108	6	752
Jordan.....	24	0	2	22	32	7	61
Korea (South).....	3,216	8	102	3,106	62	58	3,226
Malaysia.....	596	50	32	514	15	37	566
Pakistan.....	60	0	9	51	5	14	70
Philippines.....	1,861	5	53	1,803	25	16	1,844
Thailand.....	669	11	23	635	86	17	738
Subtotal.....	9,615	103	366	9,146	366	163	9,675
Africa:							
Egypt.....	524	0	27	497	2	1	500
Ghana.....	21	0	3	18	8	0	26
Ivory Coast.....	271	0	22	249	0	0	249
Morocco.....	374	0	20	354	11	19	384
Sudan.....	174	0	75	99	0	0	99
Tunisia.....	55	0	13	42	5	0	47
Zaire.....	283	0	112	171	0	0	171
Zambia.....	179	0	3	176	3	17	196
Subtotal.....	1,881	0	275	1,606	29	37	1,672
Total.....	40,148	356	2,047	37,743	1,118	445	39,308
Offshore banking centers:							
Bahamas.....	5,905	5,279	41	585	34	6	625
Bahrain.....	565	439	0	126	4	45	175
Caymans.....	2,802	2,558	21	223	2	4	229
Hong Kong.....	1,286	361	293	632	91	256	979
Panama.....	1,896	533	404	959	5	54	1,018
Singapore.....	2,366	1,799	57	510	33	7	550
Liberia.....	1,889	0	1,167	722	0	63	785
Lebanon.....	125	17	41	67	2	13	82
Total.....	16,834	10,986	2,024	3,824	171	448	4,443
Miscellaneous:							
Other Western Europe.....	222	68	41	113	71	105	289
Other Eastern Europe.....	1	0	0	1	0	3	4
Other Asia/Pacific.....	470	24	27	419	5	33	457
Other Middle East.....	191	10	0	181	8	0	189
Other Africa.....	370	0	15	355	7	2	364
Other Caribbean.....	1,029	14	274	741	0	56	797
Other Latin America.....	1,160	37	23	1,100	29	20	1,149
Other North America.....	44	0	0	44	0	3	47
Total.....	3,487	153	390	2,954	120	222	3,296
Grand total.....	164,208	24,707	8,478	131,023	12,783	6,234	150,040

TABLE III.—CONTINGENT CROSS-BORDER AND NONLOCAL CURRENCY CLAIMS BY COUNTRY OF RESIDENCE, JUNE 1977

[In millions of dollars]

Country	Commitments under letters of credit to—		Other commitments to—		Total contingent claims on—	
	Public borrowers	Banks and other private borrowers	Public borrowers	Banks and other private borrowers	Public borrowers	Banks and other private borrowers
G-10 and Switzerland:						
Belgium/Luxembourg.....	0	113	22	594	22	707
France.....	41	222	676	1,808	717	2,030
Germany.....	9	183	54	1,754	63	1,937
Italy.....	12	489	174	119	186	608
Netherlands.....	0	146	1	776	1	922
Sweden.....	0	48	151	815	151	863
Switzerland.....	2	332	95	803	97	1,135
United Kingdom.....	22	783	275	2,968	297	3,751
Canada.....	0	177	49	282	49	459
Japan.....	1	306	38	2,385	39	2,691
Total.....	87	2,799	1,535	12,304	1,622	15,103
Non-G-10 developed countries:						
Austria.....	0	16	103	168	103	184
Australia.....	0	441	131	381	131	822
Finland.....	35	42	305	154	340	196
Greece.....	112	252	174	518	286	770
Iceland.....	14	4	36	3	50	7
New Zealand.....	10	7	77	31	87	38
Norway.....	1	45	50	486	51	531
Portugal.....	16	9	2	35	18	44
Spain.....	37	140	84	895	121	1,035
South Africa.....	1	74	8	154	9	228
Turkey.....	79	81	10	52	89	133
Denmark.....	0	15	118	442	118	457
Ireland.....	50	17	68	102	118	119
Total.....	355	1,143	1,166	3,421	1,521	4,564
Eastern Europe:						
Bulgaria.....	16	5	40	5	56	10
Czechoslovakia.....	2	0	6	10	8	10
East Germany.....	25	0	136	60	161	62
Hungary.....	0	3	94	29	94	30
Poland.....	58	29	145	20	203	49
Romania.....	8	0	139	2	147	2
U.S.S.R.....	1	0	282	76	283	76
Yugoslavia.....	6	25	53	100	59	125
Total.....	116	62	895	302	1,011	364
Oil-exporting countries:						
Algeria.....	91	44	95	25	186	69
Ecuador.....	72	102	89	71	161	173
Indonesia.....	14	62	149	229	163	291
Iran.....	99	64	93	322	192	386
Iraq.....	58	28	119	105	177	133
Kuwait.....	10	57	3	44	13	101
Libya.....	115	17	7	36	122	53
Nigeria.....	82	42	64	34	146	76
Qatar.....	8	34	27	6	35	40
Saudi Arabia.....	39	299	13	179	52	478
United Arab Emirates.....	38	85	76	87	114	172
Venezuela.....	193	245	251	787	444	1,032
Total.....	819	1,079	986	1,925	1,805	3,004

TABLE III.—CONTINGENT CROSS-BORDER AND NONLOCAL CURRENCY CLAIMS BY COUNTRY OF RESIDENCE, JUNE 1977—Continued

Country	[In millions of dollars]					
	Commitments under letters of credit to—		Other commitments to—		Total contingent claims on—	
	Public borrowers	Banks and other private borrowers	Public borrowers	Banks and other private borrowers	Public borrowers	Banks and other private borrowers
Nonoil exporting developing countries:						
Latin America and Caribbean:						
Argentina.....	81	99	139	330	220	429
Bolivia.....	22	28	47	97	69	125
Brazil.....	33	108	215	421	248	529
Chile.....	69	69	70	47	139	116
Costa Rica.....	14	15	10	13	24	28
Dominican Republic.....	43	55	30	133	73	189
El Salvador.....	5	14	5	16	10	30
Guatemala.....	6	4	39	141	45	145
Honduras.....	3	20	28	115	31	135
Jamaica.....	4	0	2	10	6	10
Mexico.....	101	100	228	698	329	798
Nicaragua.....	2	10	4	15	6	26
Paraguay.....	0	7	10	10	10	17
Peru.....	39	37	25	50	64	67
Trinidad and Tobago.....	19	2	43	3	62	5
Uruguay.....	19	11	43	12	62	23
Subtotal.....	460	580	38	2,692	1,398	2,672
Asia:						
China (Taiwan).....	238	158	344	478	582	636
India.....	70	44	0	24	70	68
Israel.....	4	20	50	107	54	127
Jordan.....	42	8	19	23	61	31
Korea (South).....	56	244	122	471	178	715
Malaysia.....	40	19	53	122	93	141
Pakistan.....	41	43	3	115	44	158
Philippines.....	76	135	545	288	621	423
Thailand.....	11	115	8	206	19	322
Subtotal.....	578	787	1,144	1,834	1,722	2,621
Africa:						
Egypt.....	131	160	47	100	178	260
Ghana.....	18	15	25	20	43	35
Ivory Coast.....	12	20	47	25	59	45
Morocco.....	58	28	61	0	119	28
Sudan.....	18	1	5	0	23	1
Tunisia.....	14	8	18	17	32	25
Zaire.....	10	2	8	4	18	6
Zambia.....	28	12	1	19	29	31
Subtotal.....	289	246	212	185	501	431
Total.....	1,327	1,613	2,294	4,111	3,621	5,724
Offshore banking centers:						
Bahamas.....	1	22	6	144	7	166
Bahrain.....	0	3	27	114	27	117
Caymans.....	0	0	0	2	0	2
Hong Kong.....	1	157	114	315	115	472
Panama.....	4	155	50	136	54	291
Singapore.....	2	88	84	268	86	356
Liberia.....	8	42	1	202	9	244
Lebanon.....	0	49	62	413	62	462
Total.....	16	516	344	1,594	360	2,110
Miscellaneous:						
Other Western Europe.....	8	15	0	11	8	26
Other Eastern Europe.....	0	0	0	0	0	0
Other Asia/Pacific.....	72	41	69	105	141	146
Other Middle East.....	97	44	56	47	153	91
Other Africa.....	110	20	19	66	129	86
Other Caribbean.....	11	70	18	173	29	243
Other Latin America.....	16	48	60	116	76	164
Other North America.....	0	9	0	61	0	70
Total.....	314	247	222	579	536	826
Grand total.....	3,034	7,459	7,442	24,236	10,476	31,655

Senator BYRD. Can you pick out the major ones?

Mr. BERGSTEN. The major developing countries are Mexico and Brazil, which together account for about one-half of all lending to developing countries. Of the roughly \$40 billion total in United States bank claims in developing countries as of June 1977, a little over \$11 billion was to Mexico and about \$10.5 billion to Brazil. So, that is half of it right there.

Other major sources of those claims include Korea, about \$3.2 billion, Taiwan, about \$2.3 billion, the Philippines, about \$1.9 billion, Peru, about \$1.9 billion, Argentina, about \$1.8 billion.

If you add up those seven biggest countries, you have, I believe, over 80 percent of the total lending of U.S. private banks to developing countries. So, it is a highly concentrated phenomenon, not one, as it is often portrayed, which is across the board and spread out among 80 or 90 countries.

Senator BYRD. What is Panama on that list?

Mr. BERGSTEN. Panama, for purposes of this list, is a special case, Mr. Chairman, because Panama happens to be what we call an offshore banking center. It has a lot of branch banks itself, which channel loans from parent banks on to other lenders.

Senator BYRD. What is Panama?

Mr. BERGSTEN. The figure I have for our lending to banks in Panama is about \$1.9 billion. I think in another table it nets out how much of this is actually to Panama itself.

Senator BYRD. That is the exposure in Panama, the \$1.9 billion?

Mr. BERGSTEN. That is exposure in Panama, but a lot of that is in turn guaranteed or to be repaid by someone outside of Panama, so the total claims, less claims guaranteed by someone outside Panama, was \$959 million, as of June 1977. It is a pass-through situation, with a lot of overseas branches, so about half the total was passed through. About half of it, at least implicitly, was to Panama itself.

Senator BYRD. In ratio, though, it would be higher than either Brazil or Mexico, in relationship to the size and wealth of the country.

Mr. BERGSTEN. Well, it is about one-tenth the debt. You probably know the population figures better than I.

Senator BYRD. It is 1.5 to 1.6 million persons. Mexico is what, 20 times that? And Brazil?

Mr. BERGSTEN. Brazil is about 100 million people, so you are right.

Senator BYRD. So what I am saying is, that is a very high ratio, it seems to me, when you compare it with either Brazil or Mexico or any of those other countries.

Mr. BERGSTEN. Another way to look at it, Mr. Chairman, would be the debt service ratio, the extent to which the country's export earnings covers its debt, and in Panama that ratio would be a good bit less than either Brazil or Mexico, meaning its ability to service the debt is a good bit more certain.

Senator BYRD. What does India owe the United States now?

Mr. BERGSTEN. India is one of the largest total debtors to the United States. The total is \$3.6 billion, which makes it in fact the largest single debtor among the developing countries.

Senator BYRD. Now, did India pay anything on that debt in 1967?

Mr. BERGSTEN. 1967? We will have to look back in our earlier tables on that. We will have to submit that for the record.

Senator BYRD. I would like to ask the same question about India for 1977, 1976, 1975, back to 1970, as to what India paid each year.

Mr. HORMATS. They pay, on the average, about \$130 million a year on their dollar debt. They have paid that since 1975. I do not know the precise number, but that is a rough average of what they have paid.

Mr. BERGSTEN. They have been paying regularly all of their post-World War II debts to the U.S. Government. As I indicated earlier, there has been a recent rescheduling by some other creditor countries of Indian debt, but the United States did not participate in that.

Senator BYRD. Submit for the record, beginning with 1970, what India has paid per year, both interest and principal.

Mr. BERGSTEN. We will do that, Mr. Chairman. I have in front of me the figures from 1970 through 1975, and it rose steadily from \$83 million in 1970 up through \$111 million in 1975.

Senator BYRD. Is that interest or—

Mr. BERGSTEN. It would be principal only.

Senator BYRD. So we don't know how much is principal and how much is interest?

Mr. BERGSTEN. We do know, and I could get it for you, and we will submit it.

Senator BYRD. If we could break that down for those years, 1970 through 1977, it would be helpful.

Mr. BERGSTEN. We will do that.

[The material referred to follows:]

PAYMENTS OF PRINCIPAL AND INTEREST RECEIVED FROM INDIA BY THE U.S. GOVERNMENT

[In thousands of dollars and equivalents]

Calendar year	Applied as principal repayments				Interest income received			
	U.S. dollars	Indian currency	Refinanced by new lending (debt reorganization) ¹	Total	U.S. dollars	Indian currency	Interest capitalized	Total
1967.....	34,844	36,788	-----	71,632	28,805	56,742	264	85,811
1968.....	38,514	42,224	-----	80,738	34,421	61,560	2,782	98,763
1969.....	40,189	45,331	-----	85,520	35,195	65,032	2,576	102,803
1970.....	40,229	42,361	-----	82,590	40,182	65,028	2,394	107,604
1971.....	43,062	51,453	-----	94,515	48,636	66,212	1,766	116,614
1972.....	52,039	48,283	-----	100,322	45,545	65,415	700	111,640
1973.....	59,753	49,688	7,909	117,350	37,713	64,858	21,371	123,952
1974.....	50,240	2,124,934	12,708	2,187,882	36,394	29,712	16,959	83,065
1975.....	69,810	17,366	23,615	110,791	45,462	5,865	21,521	72,848
1976.....	81,969	14,918	-----	96,887	59,747	5,264	-----	65,011
Jan. 6, 1977.....	49,299	6,644	-----	55,943	29,544	1,804	-----	31,348

¹ All major debt reorganization under consortia arrangements are included. In other instances, operating agencies may have accepted deferred schedules for repayment of principal and have not reported these deferrals as debt reorganization transactions.

² Under the 1974 agreement with the Indian Government, that government repaid all of its Indian currency loan indebtedness to the U.S. Government in the total amount of 17,381,542,000 rupees (valued at \$2,099,220,000). At the same time, the U.S. Government disbursed 16,640,000,000 rupees (valued at \$2,009,662,000) as a grant to the Indian Government, under sec. 104 of Public Law 480. Prior to entering into the settlement, the executive branch reported the terms of the draft settlement agreement to the Congress for its review, and congressional hearings were held.

Source: U.S. Department of Commerce, Bureau of Economic Analysis, from information made available by operating agencies.

Senator BYRD. What is the U.S. liquid liability to foreigners at the present time?

Mr. BERGSTEN. I do not have the precise figure in front of me. One of my colleagues behind me may have the Treasury bulletin, and if so he could hand it to me and I could give you the latest figure.

Senator BYRD. I would specifically like to get December 31, 1977, and June 30, 1977, it was \$163.1 billion.

Mr. BERGSTEN. That sounds right.

Senator BYRD. That was June the 30th. Now, if we get to December 31, do you have that figure handy?

Mr. BERGSTEN. I do not have it with me, Mr. Chairman. The number would certainly be a bit higher, because in the second half of 1977, we did have a balance-of-payments deficit on the official settlements concept that would mean a further build-up in certainly foreign official liquid claims on the United States.

Senator BYRD. Beginning December 31, 1970, it was \$47 billion, and that had tripled by December 31, 1976, to \$151 billion. June the 30th of 1977 it was \$163 billion, and I will put that table in the record at this point and ask you to supply the figure for December 31.

Mr. BERGSTEN. I will do that, Mr. Chairman.

[The material referred to by Senator Byrd follows:]

U.S. GOLD HOLDINGS, TOTAL U.S. RESERVE ASSETS, AND U.S. GOVERNMENT LIQUID LIABILITIES TO FOREIGNERS

[Selected periods in billions of dollars]

	Gold holdings	Total assets	Liquid liabilities
End of World War II.....	20.1	20.1	6.9
Dec. 31, 1959.....	22.8	24.8	19.4
Dec. 31, 1970.....	10.7	14.5	47.0
Dec. 31, 1973.....	11.7	14.4	92.6
Dec. 31, 1974.....	11.6	15.9	119.1
Dec. 31, 1975.....	11.6	16.2	126.6
Dec. 31, 1976.....	11.6	18.7	151.4
June 30, 1977.....	11.7	19.2	163.1

Source: U.S. Treasury Department.

[The following was subsequently supplied for the record by Mr. Bergsten:]

U.S. liabilities to foreign official institutions and liquid liabilities to all other foreigners was about \$192.1 billion at the end of December 1977.

Mr. BERGSTEN. One reason, of course, for that very large figure is the fact that the dollar is the central money of the international economic system, and as trade grows other countries build up their dollar balances, partly in order to finance trade and international investment growth, so the fact that the United States plays an international banking role through the key currency role of the dollar does mean that that number is likely to grow over time, and become substantial, as it has.

Senator BYRD. It is growing out of proportion. At the end of World War II, the liquid liabilities to foreigners was \$6.9 billion. In December 31, 1959, it was \$19 billion. Then we go to 1970, and that is when

it starts inflating, and it has inflated greatly ever since. It is way out of proportion, but that is not even the worst of it necessarily, and I will read you a statement here, and get your comment on it.

On page 18, you say, "Total foreign and international holdings of U.S. debt securities were \$100 billion on October 31, 1977." Well, how does that differ from liquid liabilities to foreigners?

Mr. BERGSTEN. The liquid liabilities include foreign short-term deposits in U.S. banks.

Senator BYRD. That is right, and your figure does not include—

Mr. BERGSTEN. That is right. This is only the holdings of U.S. Government securities.

Senator BYRD. I have a statement by Jeffrey Bell, a director of the Land & Merchants Bank and senior adviser to the J. Henry Schroeder Bank & Trust Co. in New York, and he says, "Overseas holdings of dollars, including Eurodollars, amount to in excess of \$500 billion." Could that be right?

Mr. BERGSTEN. That sounds a bit high, but if one includes Eurodollars, the figure might very well run up into that range.

Senator BYRD. There again, that is much higher than the Treasury figures of liquid liabilities to foreigners.

Mr. BERGSTEN. Yes, because Eurodollar liabilities are not liabilities of the U.S. Government or of U.S. citizens, so the international role played by the dollar generates dollar assets abroad which are not dollar liabilities of U.S. residents.

Senator BYRD. So, to get back to your figure again of \$100 billion, and if liquid liabilities to foreigners are \$163 billion, the most recent figure would be more than that, say, \$170 billion. If am I interpreting this accurately, that would mean \$70 billion of deposits?

Mr. BERGSTEN. That would be the bulk of the difference, right.

Senator BYRD. In your statement, on page 7, you say, "Since the 1960's, the United States has participated in negotiations to reschedule the external debt of 12 countries on 26 separate occasions," so that means you are rescheduling more than once on some of the countries.

[Mr. Bergsten nods affirmatively.]

Senator BYRD. Could you identify those 12 countries?

Mr. BERGSTEN. Yes. It is again from that list that I had mentioned earlier. The countries would include Brazil, Chile, Turkey, Argentina, Ghana, Indonesia, India, Peru, Yugoslavia, Egypt, Pakistan, and now Zaire. In addition, a bilateral rescheduling agreement was negotiated with Poland in 1973.

Senator BYRD. Thank you, sir.

Now, you say on page 11 that "Only a small portion of the debt is in arrears." Can you list those countries which are now in arrears?

Mr. BERGSTEN. We have tried to do that in our middle chart here for all of the major ones. Out of the total of a little under \$600 million in arrears, a little over \$400 million are what we call extraordinary political arrearages. By that we mean spinoffs of really unusual political circumstances, such as the departure from the mainland of the Government of China, the shift in government in Cuba in 1959, the results of the Southeast Asian hostilities in the more recent past, and item No. 4, the biggest single item, the unresolved Korean war logistical support accounts.

These Korean war accounts involve six countries which the United States views as owing some money because of logistical support provided their forces during the Korean war. However, no loan agreements were ever signed at the time and both a committee of this Congress and the U.S. Government have now taken the view that there may be a strong case for no longer treating them as debts. We want to consult with you and others in the Congress on that matter in some detail, since it is quite an unusual circumstance. It is the biggest single item in the total arrearages picture, but we have laid out the major countries on the chart, and we can certainly provide a country-by-country breakdown of even the smaller ones if you want.

Senator BYRD. I think it would be well to do that.

[The material referred to follows:]

Arrearages of 90 or more days on foreign loans and credits of U.S. Government agencies (excluding World War I debts)

[Dollars in millions]

	<i>Sept. 30, 1977</i>
I. Extraordinary political arrearages:	
1. China -----	¹ \$106.1
2. Cuba -----	74.1
3. Vietnam and Cambodia -----	25.7
4. Unresolved Korean war logistical support -----	199.7
Total political -----	405.6
Percent of overall total -----	69
II. Major arrearages—public long-term:	
1. Iran -----	35.6
2. Zaire -----	² 20.0
Total major arrearages -----	55.6
Percent of overall total -----	9
III. Other major arrearages:	
A. Public:	
1. Long-term -----	21.5
2. Short-term and accounts receivable -----	93.2
Of which:	
Financing military sales, logistical support, M.A.A.G. ---	54.1
Lend-lease -----	4.8
Post office -----	19.1
Other -----	15.1
B. Private	
1. Long-term -----	14.3
2. Short-term and accounts receivable -----	1.1
Total other arrearages -----	130.0
Percent of overall total -----	22
IV. Overall total—Groups I, II, III -----	591.2

¹ Excludes, as of Sept. 30, 1977, \$49 million of principal and interest due from the Republic of China from assets left on the Asian continent, for which Export-Import Bank by agreement with that Government has deferred from pressing.

² In process of being rescheduled.

FOREIGN LOANS AND CREDITS OF U.S. GOVERNMENT AGENCIES DUE FROM OFFICIAL FOREIGN GOVERNMENT OBLIGORS

SUMMARY BY PROGRAM AND TYPE OF OBLIGOR^{1,2} (EXCLUDING INDEBTEDNESS OF FOREIGN GOVERNMENTS ARISING FROM WORLD WAR I) AS OF SEPT. 30, 1977

(In dollars or dollar equivalents)

	Credit utilized and still outstanding	Principal and interest due and unpaid, 90 days or more ³
Total, all programs	38,307,997,838	504,581,203
Under Foreign Assistance and Related Acts	13,500,493,375	27,652,501
Country loans.....	12,845,651,276	15,819,404
Social progress Trust fund.....	505,806,781	
Deficiency and basic material development.....	1,668,505	1,720,445
OPIC—Investment support.....	137,670,464	416,303
AID refund claims—grant assistance.....	9,696,349	9,696,349
Under military sales	4,668,486,234	260,811,880
Military sales act.....	4,453,439,876	51,109,044
Logistical support.....	213,241,631	207,898,109
Military assistance advisory groups.....	1,804,727	1,804,727
Mutual Education and Cultural Exchange Act	107,373	39,028
Agricultural trade development and assistance	6,495,290,525	12,382,073
Currency loans to foreign governments.....	1,159,971,147	33,860
Currency loans to private enterprises.....	2,465,198	318,549
Long-term dollar sales.....	5,332,790,812	11,966,296
AID refund claims—grant assistance.....	63,368	63,368
Under Commodity Credit Corporation Charter Act	926,585,166	7,567,393
Under Export-Import Bank Act	8,440,988,441	10,563,054
Postal debt settlements	23,137,557	22,233,018
Administrative area development		
Surplus property sales	217,382,784	50,981,495
Sales of overseas surpluses.....	217,382,784	50,981,495
Sales of domestic surpluses.....		
Sales of foreign service property.....		
British loan	2,557,762,303	
Loans to United Nations	42,808,860	
Asset acquired in European fund liquidation	114,000,000	
War account settlements and Lend-Lease	1,188,057,703	103,206,006
Under Atomic Energy Act	49,808,138	109,078
Under Furatom Cooperation Act	36,064,097	
Under Freloc treaty	40,000,000	
International Ice Patrol	76,497	76,497
Canal Zone Government	4,896,433	4,744,414
Panama Canal Company	3,536,439	3,426,409
Saint Lawrence Seaway Development Corporation		
Federal aviation administration	1,147,323	689,262
U.S. Coast Guard	65,400	54,607
Library of congress	56,479	24,841
Tennessee Valley Authority		
Immigration and naturalization service	74	25
Bureau of Customs	230,388	11,851
National Bureau of Standards	3,762	1,300
National Oceanic and Atmospheric Administration	205,135	6,445
Department of the Interior	26	26
General Services Administration		
Debt reorganization and adjustments: Indonesian debt rescheduling of Mar. 16 1971	3,192,894	
Total, all countries and official organizations	38,307,997,838	504,581,203
Afghanistan	106,244,848	2,452
Albania, Peoples Republic of	669	669
Algeria	316,762,662	305
Angola	3,156,500	
Anguilla	296	296
Antigua	764,733	357,750
Argentina	320,963,270	1,734,826
Australia	156,275,419	396,490
Austria	46,285,614	32,711
Bahamas	9,420,880	67,641

See footnotes at end of table.

FOREIGN LOANS AND CREDITS OF U.S. GOVERNMENT AGENCIES DUE FROM OFFICIAL FOREIGN GOVERNMENT
OBLIGORS—Continued

SUMMARY BY PROGRAM AND TYPE OF OBLIGOR¹ (EXCLUDING INDEBTEDNESS OF FOREIGN GOVERNMENTS
ARISING FROM WORLD WAR I) AS OF SEPT. 30, 1977—Continued

[In dollars or dollar equivalents]

	Credit utilized and still outstanding	Principal and interest due and unpaid, 90 days or more ²
Bangladesh, Peoples Republic of	594,269,374	3,402
Barabados	1,093	1,093
Belgium	85,487,346	99,211
Belize (British Honduras)		
Benin	15,770,398	8,356
Bermuda	13,773	13,773
Bolivia	282,764,958	999,754
Botswana	21,528,610	20,011
Brazil	2,064,552,051	301,527
British Virgin Islands	29,923	29,923
Brunei	6,321	
Bulgaria	1,136	1,136
Burma	44,105,437	
Burundi	5,578	5,578
Cameroon	41,646,041	352
Canada	100,668,050	1,663,339
Cape Verde Island	15,468	15,468
Cayman Islands (United Kingdom) (Caribbean region)	137,908	137,908
Central African Empire	2,833,383	7,487
Chile	1,042,392,739	81,385
China, Peoples Republic of (mainland)	411,141	411,094
China, Republic of (Taiwan)	1,052,654,741	107,617,393
Colombia	887,395,667	12,821,849
Cook Islands	4,145	4,145
Costa Rica (Cocos, Nesting Islands)	90,632,236	990,879
Cuba	2,917,126	2,917,126
Cyprus	5,839,629	3,041
Czechoslovakia	4,874,334	7,769,031
Denmark	23,544,038	412,967
Dominica	8,160	8,160
Dominican Republic	264,825,106	1,468,353
Ecuador	119,918,774	461,108
Egypt, Arab Republic of	954,798,604	489,803
El Salvador	69,292,960	100,536
Ethiopia	184,456,494	51,304,104
Fiji Islands		
Finland	54,695,254	49,814
France	193,304,145	9,476
French Polynesia	880	880
Gabon	18,624,159	23,145
Gambia	293	293
Germany, Federal Republic of, (Bonn)	81,800,594	3,581,507
Germany, Soviet (Democratic Republic of East)	182,151	182,151
Germany, Berlin	133,039	5,838
Ghana	213,194,217	339,640
Gibraltar	962	962
Gilbert Islands	267	267
Greece	681,441,558	18,863,658
Grenada	15,445	15,445
Guadeloupe	8,201	8,201
Guatemala	94,807,467	524,843
Guinea	69,069,596	1,263,273
Guyana	63,203,000	
Haiti	49,751,385	895,614
Honduras	87,939,097	82,648
Hong Kong (United Kingdom)	402,480	361,225
Hungary		
Iceland	14,711,828	9,393
India	3,506,286,645	4,299,006
Indonesia	1,629,729,011	4,720
Iran	747,408,676	36,267,216
Iraq	4,810,782	2,648
Ireland	49,720,228	445,040
Israel	3,251,569,713	322,715
Italy	238,401,098	903,366
Ivory Coast	57,522,714	
Jamaica	93,131,097	177,830
Japan	648,974,771	967,416
Jordan	179,839,219	4,889
Kenya	76,341,199	384,482
Khmer Republic (Cambodia)	208,994,763	10,626,563

See footnotes at end of table.

FOREIGN LOANS AND CREDITS OF U.S. GOVERNMENT AGENCIES DUE FROM OFFICIAL FOREIGN GOVERNMENT
OBLIGORS—Continued

SUMMARY BY PROGRAM AND TYPE OF OBLIGOR ¹ (EXCLUDING INDEBTEDNESS OF FOREIGN GOVERNMENTS
ARISING FROM WORLD WAR I) AS OF SEPT. 30, 1977—Continued

(In dollars or dollar equivalents)

	Credit utilized and still outstanding	Principal and interest due and unpaid, 90 days or more ¹
Korea, (Democratic Peoples Republic of)	143	143
Korea, Republic of (Seoul)	1,714,320,986	452,166
Kuwait	2,306	830
Laos	15,596	5,442
Lebanon	50,586,843	153,316
Lesotho	983	983
Liberia	94,062,587	564,343
Liya	143,592	143,592
Luxembourg	824,760	2,800
Macao (Portugal)	10,928	10,928
Madagascar (Malagasy Republic)	6,036,871	-----
Malawi	22,953,159	-----
Malaysia	88,656,558	59,779
Mali	3,013,257	-----
Malta	4,993,154	-----
Martinique (French)	17,745	17,745
Mauritania	3,975,519	500
Mexico	474,964,350	1,442,365
Morocco	535,965,878	250,764
Mozambique	1,785,657	-----
Nauru	-----	-----
Nepal	2,178,258	-----
Netherlands	117,201,508	58,233
Netherland Antilles	41,373	41,373
New Zealand	109,271,576	111,942
Nicaragua	137,447,409	73,685
Nizer	3,082,855	-----
Nigeria	95,722,920	1,667,989
Norway	17,058,775	15,833
Oman	138,661	73,502
Pakistan	2,556,703,667	1,112,667
Panama	165,186,453	9,728,360
Paraguay	59,031,340	306,286
Peru	320,769,856	245,641
Philippines	439,216,533	47,664,862
Pitcairn Island	1,544	1,544
Poland	437,280,708	-----
Portugal	353,099,953	415,288
Portuguese Timor (Now Indonesia)	201	201
Qatar	1,632	1,632
Rhodesia	45,755	45,756
Romania	84,720,159	10,142
Rwanda	-----	-----
Saint Christopher-Nevi-Anguilla	1,003	1,003
Saint Helena	565	565
Saint Lucia	-----	-----
Saint Vincent	28,112	28,112
Saudi Arabia	7,683,743	54,391
Senegal	5,061,642	-----
Sierra Leone	2,425,036	-----
Singapore	85,510,095	2,746
Somalia	15,244,565	1,888,373
South Africa	4,172,511	64,962
South-West Africa	880	880
Spain	655,038,282	127,856
Sri Lanka (Ceylon)	179,714,242	248
Sudan	41,123,853	380
Surinam	3,721,811	518
Swaziland	2,719,002	739
Sweden	74,906,651	120,857
Switzerland	419,987	410,117
Syria	85,826,953	139
Tanzania	76,268,979	275
Thailand	125,472,608	20,058,487
Togo	1,505,562	-----
Tonga	-----	-----
Trinidad and Tobago	15,912,773	48,319
Tunisia	341,630,341	643
Turkey	1,638,690,558	87,687,744
Turks and Caicos Islands	19,165	14,503
Uganda	10,846,823	28

See footnotes at end of table.

FOREIGN LOANS AND CREDITS OF U.S. GOVERNMENT AGENCIES DUE FROM OFFICIAL FOREIGN GOVERNMENT OBLIGORS—Continued

SUMMARY BY PROGRAM AND TYPE OF OBLIGOR^{1,2} (EXCLUDING INDEBTEDNESS OF FOREIGN GOVERNMENTS ARISING FROM WORLD WAR I) AS OF SEPT. 30, 1977—Continued

(In dollars or dollar equivalents)

	Credit utilized and still outstanding	Principal and interest due and unpaid, 90 days or more ³
Union of Soviet Socialist Republics.....	1, 079, 151, 344	8, 108
United Arab Emirates.....	3, 689	3, 689
United Kingdom.....	3, 257, 191, 376	1, 445, 981
United States, Miscellaneous Pacific Islands.....		
Uruguay.....	87, 349, 725	98, 108
Vatican City.....	34, 041	34, 041
Venezuela.....	118, 115, 515	7, 216, 089
Vietnam, North Democratic Republic of.....	233, 492	233, 492
Vietnam Republic of (Saigon).....	103, 388, 372	14, 764, 945
Western Samoa.....	5, 033	5, 033
Yemen Arab Republic (Aden).....	413, 074	
Yugoslavia.....	458, 590, 153	137, 796
Zaire (Congo-Kinshas).....	389, 953, 776	24, 897, 257
Zambia.....	55, 583, 042	1, 160
Andean Development Corp.....	4, 295, 286	
Caribbean Development Bank.....	8, 936, 349	
Cebel.....	14, 537, 131	
Cafmi.....	10, 000, 000	
Council of the Entente States.....	17, 066, 051	
East African Common Services Organization.....	1, 383, 411	18
European Atomic Energy Community.....	56, 118, 542	177
European Coal and Steel Community.....	13, 000, 000	
International Atomic Energy Agency.....	14, 265	14, 265
NATO.....	71, 350	62, 528
United Nations.....	47, 242, 668	4, 433, 988
University of East Africa.....	2, 647, 538	
West Africa Development Bank.....	1, 120, 546	
African regional.....	15, 490, 526	1, 720, 445
Western Hemisphere regional.....	4, 470, 148	
Western Hemisphere unspecified.....	7, 578, 577	494, 399
South Asia regional.....		
Western Europe regional.....	45, 470, 841	
Worldwide unspecified.....	380, 394	

¹ Estimates included for U.S. dollar equivalent of receivables denominated in other than U.S. dollars and/or payable in foreign currencies, goods, or services at the option of the debtor: \$2,618,787,299 (\$266,453,241).

² Credits guaranteed by foreign governments are classified as credit to the official sector.

³ Credits with an amount overdue are not necessarily in default. The arrearages reported are frequently technical, pending conclusion of discussions or negotiations between the borrower and the collecting agency.

Note: Totals may not add due to rounding.

FOREIGN LOANS AND OTHER CREDITS OF U.S. GOVERNMENT AGENCIES DUE FROM FOREIGN PRIVATE OBLIGORS

SUMMARY BY PROGRAM AND TYPE OF OBLIGOR^{1,2} (EXCLUDING INDEBTEDNESS OF FOREIGN GOVERNMENTS ARISING FROM WORLD WAR I) AS OF SEPT. 30, 1977

(In dollars or dollar equivalents)

	Credit utilized and still outstanding	Principal and interest due and unpaid, 90 days or more ³
Total, all programs.....	3, 742, 831, 532	86, 603, 530
Under foreign assistance and related acts.....	314, 293, 778	3, 601, 080
Country loans.....	281, 699, 293	1, 312, 026
Social progress trust fund.....	5, 814, 775	
Deficiency and basic material development.....		
OPIC—Investment support.....	26, 776, 520	2, 485, 864
AID refund claims—grant assistance.....	3, 190	3, 190

See footnotes at end of table.

FOREIGN LOANS AND OTHER CREDITS OF U.S. GOVERNMENT AGENCIES DUE FROM FOREIGN PRIVATE
OBLIGORS—Continued

SUMMARY BY PROGRAM AND TYPE OF OBLIGOR^{1,2} (EXCLUDING INDEBTEDNESS OF FOREIGN GOVERNMENTS
ARISING FROM WORLD WAR I) AS OF SEPT. 30, 1977—Continued

(In dollars or dollar equivalents)

	Credit utilized and still outstanding	Principal and interest due and unpaid, 90 days or more ³
Under military sales.....	371,514	313,203
Military Sales Act.....		
Logistical support.....	371,514	313,203
Military assistance advisory groups.....		
Mutual Education and Cultural Exchange Act.....	1,093,093	
Agricultural trade development and assistance.....	79,188,444	6,675,865
Currency loans to foreign governments.....	628,478	
Currency loans to private enterprises.....	78,559,966	6,675,865
Long-term dollar sales.....		
AID refund claims—grant assistance.....		
Under Commodity Credit Corporation Charter Act.....	333,517,176	258,509
Under Export Import Bank Act.....	3,000,456,629	74,881,387
Postal debt settlements.....		
Administrative area development.....	7,160,386	
Surplus property sales.....		
Sales of overseas surpluses.....		
Sales of domestic surpluses.....		
Sales of Foreign Service property.....		
British loan.....		
Loans to United Nations.....		
Asset acquired in European fund liquidation.....		
War account settlements and Lend-Lease.....		
Under Atomic Energy Act.....		
Under Euratom Cooperation Act.....		
Under FRELOC Treaty.....		
International Ice Patrol.....		
Canal Zone Government.....	201,948	1,021
Panama Canal Company.....	3,740,532	216,259
Saint Lawrence Seaway Development Corporation.....	325,945	
Federal Aviation Administration.....	676	17
U.S. Coast Guard.....		
Library of Congress.....		
Tennessee Valley Authority.....	1,248,737	
Immigration and Naturalization Service.....	313,816	105,394
Bureau of Customs.....	498,107	174,430
National Bureau of Standards.....	275,421	103,230
National Oceanic and Atmospheric Administration.....	64,397	8,896
Department of the Interior.....	525	
General Services Administration.....	80,408	64,239
Debt reorganization and adjustments: Indonesian debt rescheduling of Mar. 16 1971.....		
Total, all countries and official organizations.....	3,742,831,532	86,603,530
Afghanistan.....	1,768,325	
Albania, Peoples Republic of.....		
Algeria.....	360,676	
Angola.....	1,623,905	
Anguilla.....		
Antigua.....	2,528	
Argentina.....	37,993,420	257,131
Australia.....	65,895,995	4,920
Austria.....	640,590	716
Bahamas.....	21,981,475	41,421
Bangladesh, Peoples Republic.....	661,036	216,166
Barbados.....	1,512,220	34
Belgium.....	393,318	84,593
Belize (British Honduras).....	139,000	
Benin.....		
Bermuda.....	4,084,338	
Bolivia.....	1,681,977	
Botswana.....		
Brazil.....	344,125,285	759,069

See footnotes at end of table.

FOREIGN LOANS AND OTHER CREDITS OF U.S. GOVERNMENT AGENCIES DUE FROM FOREIGN PRIVATE
OBLIGORS—Continued

SUMMARY BY PROGRAM AND TYPE OF OBLIGOR^{1/2} (EXCLUDING INDEBTEDNESS OF FOREIGN GOVERNMENTS
ARISING FROM WORLD WAR I) AS OF SEPT. 30, 1977—Continued

[In dollars or dollar equivalents]

	Credit utilized and still outstanding	Principal and interest due and unpaid, 90 days or more ³
British Virgin Island.....	7	7
Brunei.....		
Bulgaria.....	80	80
Burma.....	618	557
Burundi.....		
Cameroon.....		
Canada.....	171,504,351	49,309
Cape Verde Island.....		
Cayman Islands (United Kingdom) (Caribbean Region).....	12,153,036	8,429
Central African Empire.....		
Chile.....	18,776,063	13,595
China, Peoples Republic of (mainland).....		
China, Republic of (Taiwan).....	21,696,592	138,817
Colombia.....	12,451,811	2,986
Cook Islands.....		
Costa Rica (Cocos, Keeling Islands).....	4,476,176	24,257
Cuba.....	36,267,980	71,227,824
Cyprus.....	2,707	2,444
Czechoslovakia.....	2,313	325
Denmark.....	45,961,514	6,259
Dominica.....		
Dominican Republic.....	9,947,479	7,593
Ecuador.....	2,261,160	6,355
Egypt, Arab Republic of.....	9,043,107	806
El Salvador.....	10,348,423	15
Ethiopia.....	2,763	2,632
Fiji Islands.....	56	
Finland.....	7,713,660	156
France.....	85,714,163	13,645
French Polynesia.....		
Gabon.....	600	600
Gambia.....		
Germany, Federal Republic of (Bonn).....	68,974	7,328
Germany, Soviet (Democratic Republic of East).....		
Germany, Berlin.....	3,518	1,363
Ghana.....	819,985	
Gibraltar.....		
Gilbert Islands.....		
Greece.....	7,823,229	17,586
Grenada.....		
Guadeloupe.....		
Guatemala.....	18,236,729	74,701
Guinea.....	15,591,109	29
Guyana.....		
Haiti.....	250,072	
Honduras.....	2,639,572	307
Hong Kong (United Kingdom).....	37,827,027	8,520
Hungary.....	206	
Iceland.....	18	
India.....	60,055,290	6,338,387
Indonesia.....	138,899,914	493,624
Iran.....	21,646,984	7,502
Iraq.....	661	
Ireland.....	529	
Israel.....	79,626,391	164
Italy.....	376,222	18,441
Ivory Coast.....	143	143
Jamaica.....	5,893,127	16,439
Japan.....	129,037,779	11,401
Jordan.....		
Kenya.....	1,002,665	967
Khmer Republic (Cambodia).....		
Korea, (Democratic Peoples Republic of).....		
Korea, Republic of (Seoul).....	275,052,526	3,689
Kuwait.....	25	
Laos.....	70	70
Lebanon.....	5,608,047	29
Lesotho.....		
Liberia.....	14,718,447	421
Libya.....	249	249

See footnotes at end of table.

FOREIGN LOANS AND OTHER CREDITS OF U.S. GOVERNMENT AGENCIES DUE FROM FOREIGN PRIVATE
OBLIGORS—Continued

SUMMARY BY PROGRAM AND TYPE OF OBLIGOR¹ (EXCLUDING INDEBTEDNESS OF FOREIGN GOVERNMENTS
ARISING FROM WORLD WAR I) AS OF SEPT. 30, 1977—Continued

[in dollars or dollar equivalents]

	Credit utilized and still outstanding	Principal and interest due and unpaid, 90 days or more ²
Luxembourg.....	70, 447	
Macao (Portugal).....		
Madagascar (Malagasy Republic).....		
Malawi.....		
Malaysia.....	1, 935, 027	979
Mali.....		
Malta.....		
Martinique (French).....	61	61
Mauritania.....		
Mexico.....	171, 853, 877	2, 424, 163
Morocco.....	8, 407, 982	704
Mozambique.....	117, 222	
Nauru.....	1, 801	1, 042
Nepal.....	123	123
Netherlands.....	70, 579, 567	3, 644
Netherlands Antilles.....	2, 838, 012	28
New Zealand.....	259, 091	576
Nicaragua.....	1, 932, 198	6, 404
Niger.....		
Nigeria.....	888, 754	
Norway.....	281, 007, 701	16, 757
Oman.....		
Pakistan.....	10, 708, 571	
Panama.....	41, 556, 708	219, 332
Paraguay.....	2, 356, 964	
Peru.....	60, 948, 379	200, 926
Philippines.....	124, 355, 056	8, 682
Pitcairn Island.....		
Poland.....	214, 134	1, 639
Portugal.....	7, 866, 142	1, 009
Portuguese Timor (Now Indonesia).....		
Qatar.....		
Rhodesia.....		
Romania.....	897, 198	4, 431
Rwanda.....	150, 000	
Saint Christopher-Nevis-Anguilla.....		
Saint Helena.....		
Saint Lucia.....		
Saint Vincent.....		
Saudi Arabia.....	179	179
Senegal.....		
Sierra Leone.....	18, 718, 461	112
Singapore.....	3, 216, 447	1, 544
Somalia.....	829, 439	1, 274, 168
South Africa.....	12, 505	1, 042
South-West Africa.....		
Spain.....	327, 387, 009	5, 474
Sri Lanka (Ceylon).....	420, 498	
Sudan.....	1, 820, 677	
Surinam.....		
Swaziland.....	114	114
Sweden.....	10, 012, 113	10, 325
Switzerland.....	92, 692, 863	442
Syria.....		
Tanzania.....	155	155
Thailand.....	38, 241, 115	10, 037
Togo.....		
Tonga.....	119	119
Trinidad and Tobago.....	1, 274	
Tunisia.....	901, 479	246
Turkey.....	115, 574, 179	3, 413
Turks and Caicos Islands.....		
Uganda.....	27	11
Union of Soviet Socialist Republics.....	816	288
United Arab Emirates.....	13	13
United Kingdom.....	144, 102, 914	31, 379
United States, miscellaneous Pacific Islands.....	332	166
Uruguay.....	50, 684	329
Vatican City.....		
Venezuela.....	40, 920, 588	410
Vietnam, North, Democratic Republic of.....		

See footnotes at end of table.

FOREIGN LOANS AND OTHER CREDITS OF U.S. GOVERNMENT AGENCIES DUE FROM FOREIGN PRIVATE
OBLIGORS—Continued

SUMMARY BY PROGRAM AND TYPE OF OBLIGOR¹ (EXCLUDING INDEBTEDNESS OF FOREIGN GOVERNMENTS
ARISING FROM WORLD WAR I) AS OF SEPT. 30, 1977—Continued

(In dollars or dollar equivalents)

	Credit utilized and still outstanding	Principal and interest due and unpa d. 90 days or more ²
Vietnam, Republic of (Siagon).....		
Western Samoa.....		
Yemen Arab Republic (Aden).....		
Yugoslavia.....	224,827,076	3,164
Zaire (Congo-Kinshas).....	1,754,857	643,728
Zambia.....	9,717,899	
Andean Development Corp.....		
Caribbean Development Bank.....	8,294,826	
Cabel.....	135,873,107	
Cafmi.....		
Council of the Entente States.....		
East African Common Services Organization.....		
European Atomic Energy Community.....		
European Coal and Steel Community.....		
International Atomic Energy Agency.....		
NATO.....		
United Nations.....		
University of East Africa.....		
West Africa Development Bank.....		
African regional.....	3,076,294	1,854,071
Western Hemisphere regional.....	11,910,941	
Western Hemisphere unspecified.....	1,450,000	
South Asia regional.....	1,666,667	
Western Europe regional.....	13,920,000	
Worldwide unspecified.....	120,555	

¹ Estimates included for U.S. dollar equivalent of receivables denominated in other than U.S. dollars and/or payable in foreign currencies, goods, or services at the option of the debtor: \$2,618,872,999 (\$266,453,241).

² Credits guaranteed by foreign governments are classified as credit to the official sector.

³ Credits with an amount overdue are not necessarily in default. The arrearages reported are frequently technical, pending conclusion of discussions or negotiations between the borrower and the collecting agency.

Note: Totals may not add due to rounding.

Mr. HORMATS. Sir, we have a little more elaborate list if you like to have that.

Senator BYRD. Pardon?

Mr. HORMATS. If you would like, we could tick off the numbers. There are about 19 countries in all which constitute over 90 percent of these arrearages, which includes those countries, the six that are mentioned there, plus a few others, if you would like me to go down the list very briefly for you.

Senator BYRD. Suppose you do that.

Mr. HORMATS. As is on there, China is a claim relating to, as Mr. Bergsten has pointed out, the movement of the government of the Republic of China from the mainland. There are a lot of disputed claims as to who got what property.

Turkey has an arrearage related to the Korean war. That falls under the Korean war segment. Cuba is primarily an Export-Import Bank problem, which relates to the takeover of the Castro government.

Ethiopia has a Korean war issue as well, as does the Philippines. Iran, which I know you are interested in, has a debt of roughly \$36 million left over from the surplus property claims which have been linked by the Iranians to some damages allegedly done by the United States during the war to the Iranian railroad.

Senator BYRD. Has anything been paid on that?

Mr. HORMATS. A bit has been paid over time, but nothing recently.

Senator BYRD. When was the last payment?

Mr. HORMATS. October, 1975, \$1.8 million.

Senator BYRD. What is the total of the Iranian debt?

Mr. HORMATS. \$36 million.

Senator BYRD. What interest is being paid on it?

Mr. HORMATS. Well, interest is accumulating at a rate of something on the order of 2.38 percent.

Senator BYRD. 2.38 percent?

Mr. HORMATS. Yes, sir. This was the original interest that was a part of these two agreements.

Senator BYRD. Has any interest been actually paid?

Mr. HORMATS. Yes, it has been paid.

Senator BYRD. When?

Mr. HORMATS. I believe part of the money paid in 1973 and 1975 reflected interest. I should tell you that about one year ago Under Secretary Robinson of the State Department made representations to the Iranians on this particular point to their Minister of Finance. We have certainly not given up on this. The Iranians have linked it to the railroad issue, as I have mentioned. We do not agree that there should be a linkage, and we have told the Iranians this.

We are still working on this. This is a very active issue. It has by no means been cast aside.

Senator Byrd. What are the policies and criteria which govern the collection of debts owed the United States by foreign governments?

Mr. HORMATS. It very largely depends upon the government. In some cases historical animosities or present relationships make it virtually impossible to collect the debt, and while the debt is still active in some of these areas, it is not at this point able to be collected.

Our policy in general is to collect debts owed the United States, and in a number of cases we have been rather successful. Primarily in those political cases we have not been as successful as we would like, but the policy is a very clear one. That is, if there is an obligation to the United States, it should be collected.

Senator BYRD. Has the United States ever "gotten tough" with any country in recent years?

Mr. HORMATS. Have we gotten tough? I don't know in every case, but I am quite confident that in certain cases we have. It depends largely on the particular state of the relationship at that point how tough one can be and how effective being tough will be.

Mr. BERGSTEN. Let me add that in a number of cases we have gotten very tough. Take the Zaire case, where there has been a rescheduling. We have gotten very tough in terms of the economic reform that is required of that government before we would agree to any kind of rescheduling or stretching out of its debt. If it did not undertake those reforms, it would be forced to default, with very adverse effects on its own credit standing and its own ability to meet its economic objectives. So, during the rescheduling negotiations we participated in during the past year, we have been extremely tough in requiring that particular government to take major steps to put its house in order, and to achieve comparable terms on its debt reorganization with private creditors. In general I would submit that we have been tough.

Senator BYRD. Would the State Department supply for the record which countries are in arrears regarding their debts to the United States and the amount of arrearage, together with a description of the efforts being made to collect the arrearage?

Mr. HORMATS. Yes, sir.

Senator BYRD. That is one, and secondly, on current interest payments, would you supply that for the record?

Mr. HORMATS. Interest payments that are due?

Senator BYRD. That are due.

[The material referred to follows:]

ARREARAGES OF 90 OR MORE DAYS AND IN EXCESS OF \$1 MILLION OWED TO U.S. GOVERNMENT AGENCIES BY FOREIGN GOVERNMENTS AS OF SEPTEMBER 30, 1977, (EXCLUDING WORLD WAR I DEBTS)

1. KOREAN WAR

Logistical Support: \$199.7 million (AR,¹ all principal).*—In order to secure the participation of as many nations as possible and to expedite the flow of material to the troops at the front, logistic support (ammunition, food, gasoline, weapons, etc.) was apparently extended whether or not there were underlying agreements, but with at least an implicit requirement that repayment should be sought. Of the twenty nations receiving logistical support, the accounts of fourteen were regularized in due course. Formal reimbursement agreements were worked out with eight countries, all economically developed. Five other nations, also developed, paid without any formal agreement. A Presidential determination was made in 1965 not to bill India for the small amount of logistic support it received.

The remaining six countries, which all may be placed in the ranks of developing countries, were not in the same financial position as the other recipients and evidently had not reckoned on the costs of operating as part of an American-supplied force. The countries and approximately amounts of the claims are:

	<i>Millions</i>
Colombia	\$11.5
Ethiopia	14.5
Greece	18.8
The Philippines	47.8
Thailand	19.9
Turkey	87.2
Total	199.7

In 1976, the Thirty-Seventh Report of the House Committee on Government Operations recommended that: "Congress should consider legislation removing the Korean War debt claim against Colombia, Ethiopia, Greece, the Philippines, Thailand, and Turkey from the Treasury Department's category of outstanding U.S. debts."

The Departments of Defense, State, and Treasury intend to consult with the appropriate Congressional Committees regarding such legislation.

2. ARGENTINA

Foreign Military Sales: \$1,734,826 (AR, all principal).*—This arrearage was eliminated as of 12/77.

3. CANADA

Logistical Support: \$532,981 (AR, all principal).*—This arrearage, owed to the Navy, consists of bills for fuel. Some \$351,000 of this amount was collected between 9/30/77 and 12/31/77. Navy is working to improve billing system, which is responsible for delay in collection. Additional logistical support arrearages

¹ Asterisk (*) AR denotes accounts receivable with original maturity of less than 90 days; ST denotes short-term credit with original maturity of 90 days to 1 year; LT denotes long-term credit with original maturity of more than 1 year.

(to the Army) have been incurred since September 1977, raising the total of Canada's logistical support arrearages to \$853,554 as of December 31, 1977.

Postal Service: \$1,118,061 (AR, all principal).*—Postal Service does not consider Canada to be a collection problem). See attachment on Postal Service arrearages.

4. CHINA (TAIWAN)

Postal Service: \$1,611,951 (AR, all principal).*—A payment of \$440,000 was received on January 23, 1978, reducing this arrearage to \$931,000. Postal Service does not consider Taiwan to be a collection problem. See attachment on Postal Service arrearages.

War Account Settlement and Lend Lease: \$20,213,406 (AR, all principal); War Account Settlement and Lend Lease: \$78,155,616 (LT*; \$46,988,637 principal, \$31,166,979 interest);*

Surplus Property Sales: \$7,634,417 (LT; \$3,945,722 principal, \$3,688,695 interest).*

These major arrearages relate to the succession of governments in China in 1948. The issues involve allocation of claims between the ROC and PRC, correct evaluation of claims, and the problem of government concession. As our relationship with the PRC evolves, we will consider how we might handle these debts.

5. COLOMBIA

Foreign Military Sales: \$1,068,615 (AR, all principal).*—This arrearage was eliminated in 12/77.

6. CUBA

Postal Service: \$2,917,126 (AR, all principal).*—State Department assistance has been requested by the Postal Service.

Eximbank: \$71,226,638 (LT; \$36,266,581 principal, \$34,960,057 interest).*—Given our political relations with Cuba, it has not been feasible for us to negotiate settlement. We will pursue collection, along with the issue of large U.S. private claims, when the state of bilateral relations permit.

7. CZECHOSLOVAKIA

Sales of Overseas Surpluses: \$7,764,565 (LT; \$4,869,868 principal, \$2,894,697 interest).*—Settlement of Czechoslovakia's post-war surplus property debt to the U.S.G. has been held up as a result of the continuing inability of the two countries to reach agreement on competing claims by Czechoslovakia for restitution of its U.S. held gold and by the U.S. on behalf of private claimants whose assets were nationalized in Czechoslovakia. Although an agreement was signed in 1974 which, inter alia, provided for full repayment of principal and interest on the surplus property debt, Congress rejected the settlement and required (through the Long-Gravel Amendment to the Trade Act) that the United States renegotiate the terms of the settlement.

8. DOMINICAN REPUBLIC

Postal Service: \$807,748 (AR, all principal).*—Agreement on repayment plan reached in August, 1977. Check for \$132,000 received on 8/18/77, with semi-annual payments to follow.

Foreign Military Sales: \$429,538 (LT; \$400,000 principal, \$29,538; interest).*—Arrearage on loan #751705. Cable sent to Embassy in 1/78 asking Embassy to press collection effort.

OPIC: \$176,033 (LT; \$128,400 principal, \$47,633 interest).*—This arrearage was eliminated in 12/77.

9. ETHIOPIA

Foreign Military Sales: \$36,791,964 (AR and LT*; \$36,064,129 principal, \$727,835 interest).*—Prospects for prompt collection are poor.

10. GERMANY (FEDERAL REPUBLIC OF)

Postal Service: \$3,581,507 (AR, all principal).*—Postal Service does not consider Germany to be a collection problem. See attachment on Postal Service arrearages.

Logistical Support: \$94,119 (AR, all principal).*—Payment of \$51,000 on this arrearage received. However, additional 90-day arrearages incurred as of December 31, 1977, increased Germany's total logistical support arrearages to \$192,591.

11. GUINEA

AID Country Loans: \$930,851 (LT; \$754,027 principal, \$176,824 interest).—* Agreement reached on proposed resolution of this arrearage by means of debt relief. Embassy now negotiating formal agreement with GOG.

AID Refund Claim: \$332,370 (AR, all principal).—* Cable sent to Embassy requesting new collection effort. Status of collection effort uncertain.

12. INDIA

War Account Settlements and Lend Lease: \$4,299,006 (AR, all principal).—* The Indian Government has raised questions concerning the validity of these lend-lease accounts. The Department of State and Treasury are reviewing the matter at the present time.

13. IRAN

Logistical Support: \$208,230 (AR, all principal).—* Slightly more than half of this arrearage to the Navy was eliminated as of 12/31/77. However, an additional \$97,000 arrearage to the Army was reported for the same period, raising the total logistical support arrearage total to \$197,432.

MAGG: \$312,768 (AR, all principal).—* These arrearages, which are disputed by Iran, date back to 1951. The Air Force and Army made major collection efforts in 1968, 1971, and 1972. State Department assistance was sought in 1972 and subsequently the U.S. Embassy in Tehran asked both military departments to desist from further billings to Iran. The matter has apparently remained unchanged since 1972.

Sales of Overseas Surpluses: \$35,582,513 (LT; \$23,297,059 principal, \$12,285,454 interest).—* State Department is pursuing negotiations to collect this arrearage. (State will supply more information.)

14. KHMER REPUBLIC

AID Refund Claims: \$2,114,318 (AR, all principal); USDA Long-Term \$ Sales: \$8,505,243 (LT*, all interest).—* Collection of these extraordinary political arrearages is unlikely in the near future.

15. MEXICO

Postal Debt: \$1,327,303 (AR, all principal).—* Arrearage reduced to \$93,000 as of 10/7/77.

16. NIGERIA

Eximbank: \$1,634,774 (LT; \$1,374,000 principal, \$260,774 interest).—* Arrearage eliminated 1/77.

Postal Service: \$130,542 (AR, all principal).—* Postal Service does not consider Nigeria to be a collection problem. See attachment on Postal Service arrearages.

17. PAKISTAN

AID Refund Claim: \$1,000,000 (AR, all principal).—* Arrearage stems from non-utilization of loan funds. Treasury was informed on 4/8/77 that the funds involved had been utilized, and that arrearages would be eliminated as soon as proper documentation received. This arrearage was still being reported to the Treasury as of 9/30/77.

Postal Service: \$112,867 (AR, all principal).—* Arrearage reduced to \$90,432 as of 12/30/77.

18. PANAMA

Canal Zone Government: \$4,745,435 (AR, all principal).—* This arrearage relates primarily to charges by the Palo Seco Hospital for the treatment of Panamanian nationals, and is disputed by the Government of Panama. The Department of State is pursuing collection.

Panama Canal Company: \$3,642,668 (AR, all principal).—* As of October 31, 1977, the Panama Canal Company had \$3.5 million in accounts receivable from the Panamanian Government for garbage disposal, water processing and other services. Over \$1 million of this amount is owed the Company on water bills based on new rates established in November 1975. Panama took exception to these rates but started to pay them in November 1976. Panama also took exception to de-

livery surcharges on the water bills. The water rate arrearages have been under discussion by the Governor of the Canal Zone, Panama's water authority, and the U.S. Embassy for the past year.

Foreign Military Sales: \$1,055,284 (AR, all principal).*—Arrearage eliminated in 10/77.

Postal Service: \$474,277 (AR, all principal).*—Arrearage decreased to \$366,141 as of 12/30/77. State assisting in the collection effort.

19. SOMALIA

AID Country Loans: \$1,888,573 (LT; \$1,498,751 principal, \$389,822 interest).*—AID hopes this arrearage can be solved as part of discussion on the resumption of assistance to Somalia.

20. TURKEY

Estimbank: \$75,177 (LT, \$132,664 principal, \$242,513 interest).*—Arrearages eliminated in January, 1978.

21. UNITED KINGDOM

Postal Service: \$1,420,920 (AR, all principal).*—Postal Service does not consider the United Kingdom to be a major collection problem. See attachment on Postal Service arrearages.

22. UNITED NATIONS

United Nations: \$4,429,423 (AR, all principal).*—The UN continues to acknowledge their debt to the U.S. of \$4.4 million for logistic support in the Congo operation. However, the UN currently has a deficit of \$120 million, which includes this \$4.4 million, and has been unable to repay us thus far. We have been pressing this claim over the past year, and will continue to do so.

23. VENEZUELA

Foreign Military Sales: \$6,219,035 (AR, all principal).*—Arrearage eliminated by 12/31/77.

Logistical Support: \$368,143 (AR, all principal).*—This case was turned over to DSAA on 9/29/77, and a letter sent to Venezuela on 10/7/77. Status of collection effort since then unknown.

MAAG: \$311,276 (AR, all principal).*—One of a group of Latin American MAAG arrearages being handled by the State Department and DOD.

24. VIETNAM

AID Refund Claims: \$6,246,012 (AR, all principal); Postal Service: \$293,492 (AR*, all principal); USDA Long-Term Sales: \$502,625 (LT*, all interest); AID Country Loans: \$7,952,940 (LT*; \$476,601 principal, \$3,576,339 interest).*—Collection of these extraordinary political arrearages is unlikely in the near future.

25. ZAIRE

CCO: \$7,092,397 (ST and LT*; \$6,233,438 principal, \$858,424 interest); USDA: \$2,794,077 (LT*; \$2,382,988 principal, \$411,089 interest); AID Country Loans: \$4,688,659 (LT*; \$2,966,903 principal, \$1,721,747 interest); Estimbank: \$7,079,944 (LT*, \$2,476,566 principal, \$4,603,378 interest); DOD: \$3,217,351 (LT*, \$1,690,720 principal, \$1,526,631 interest).*—Zaire has requested rescheduling of these credits, and negotiations are in progress.

26. AFRICAN REGIONAL

AID Deficiency and Basic Material Development: \$1,720,445 (LT; \$1,244,404 principal, \$476,041 interest).*—Arrearage on loan for Rhodesia-Zambia railroad dates back to 12/30/70. State Department collection assistance has been requested by AID. Status of collection effort uncertain.

Attachment: Postal Debt Arrearages.

ATTACHMENT

POSTAL DEBT ARREARAGES

The United States Postal Service (USPS) and 155 other postal administrations are members of the Universal Postal Union, which makes the rules for exchanging mail between countries and also sets charges for services performed. The USPS is not a signatory to the Parcel Post agreement, therefore, these agreements are made on a bilateral basis. The USPS bills other countries for services rendered and conversely is billed for services tendered to it. Accounts are prepared and upon acceptance are held in a pending file until there are sufficient accounts to offset. Once a quarter, general statements are prepared and the creditor country submits it to the debtor country. The debtor country then accepts, or amends and accepts the statement, and returns it to the creditor country with payment. This process may take up to a year in some cases and, of course, there are some countries which do not make immediate payment. The triennial statistics is a sampling procedure which establishes the basis for billing specific charges (surface and air) and can only be billed at the end of the second year.

The USPS reports receivables due from foreign obligors to the Treasury every quarter in accordance with regulations promulgated in the Treasury Fiscal Requirements Manual, Part II, Chapter 4500, dated July 1, 1976.

Accounts are considered delinquent by Treasury after the expiration of 90 days. The USPS does not consider them delinquent at that point since sufficient time has not elapsed to permit exchanges of documents to substantiate the billing. There are, of course, certain accounts that are delinquent. In those cases, State Department assistance is requested to help the USPS to make collection. The Revolving Fund was established by the 94th Congress for Advance Payments to U.S. International Air Carriers for the purpose of advancing payments to United States flag carriers for airmail services performed for other countries, subject to subsequent collection and redeposit to the Fund.

Thirty-six months after the date of the advance, the USPS may deduct the uncollected amount from any sums owed to the air carrier.

The indebtedness, therefore, evolves from three sources: (1) The length of time required to audit and settle accounts between countries; (2) delinquent liquidation on the part of certain countries; and (3) the operation of the revolving fund pursuant to statutes passed by Congress.

Mr. BERGSTEN. Might I note, Mr. Chairman, that we have supplied already to the committee and the staff detailed arrearage tables which give by individual loan any existing arrearages of both principal and interest, but we will certainly add the amounts of interest due as well as the other points you raised about efforts to collect in our submission.

Senator BYRD. Fine, in reference to the NATO claims with France, has France made payment on the claims made by NATO?

Mr. HORMATS. Yes, these are the so-called "Freloc" claims. Let me try to get the precise numbers, but the French are making payments.

Mr. BERGSTEN. As of September 30, Mr. Chairman, the French Government had paid \$60 million.

Senator BYRD. To the United States?

Mr. BERGSTEN. Yes, of the \$100 million total to be repaid. That was agreed between the U.S. Government and France in 1975.

Mr. HORMATS. Part of that goes to NATO through the United States. NATO gets approximately 36 percent of the money the French pay.

Senator BYRD. Let's get this straight. Am I correct that the United States claimed that France owed the United States \$370 million?

Mr. HORMATS. \$378 million, yes, sir.

Senator BYRD. \$378 million. As I understand it, that was scaled down to \$100 million to be paid to the United States over a 5-year period beginning in June 1975, so I gather from you that \$60 million has been paid on that.

Mr. HORMATS. Yes.

Senator BYRD. Well, is it not also correct that NATO as such has a claim against France?

Mr. HORMATS. I am not familiar with the NATO claim. I do not know how much of the original \$378 million claimed by the United States was for the U.S. forces specifically or for the U.S. force problems plus those of NATO.

Senator BYRD. But you do know that the United States claims from France \$378 million for the United States?

Mr. HORMATS. Exactly.

Senator BYRD. But as I understand from what you say, 36 percent of the \$100 million will not go to the United States, but will go to NATO.

Mr. HORMATS. That I am not certain of, Mr. Chairman—I know the United States originally claimed \$378 million. Whether that was all to go to the United States or whether we were claiming part of it to go to us and then be transferred is something I simply do not know.

Mr. BERGSTEN. I think I can clarify what was called for by the settlement. The \$100 million settlement was to be paid by France purely to the United States, to be purely for the U.S. claim, and the \$60 million that has been paid so far has been to the U.S. Government.

Senator BYRD. That is what I thought.

Mr. BERGSTEN. The remaining \$40 million will also be paid to us.

Senator BYRD. But in addition to that, is it not correct that France also owes NATO as such?

Mr. BERGSTEN. That is right. NATO has in addition made its own claim on France. As far as I am aware, that has not been resolved. So, that issue is still under negotiation.

Senator BYRD. Do you mean the NATO claim against France?

Mr. BERGSTEN. Right.

Senator BYRD. In which the United States has a very high stake?

Mr. BERGSTEN. Right. We would, in addition to the \$100 million direct settlement, benefit as a member of NATO from an eventual NATO settlement with France.

Senator BYRD. That is right.

Mr. HORMATS. Let me clarify what I said before, Mr. Chairman. Part of the cost of the movement that the United States bore were paid not by the United States but by NATO. In other words, when we had to move all of these troops and the installations to Belgium, NATO paid for part of the move, not the United States. Therefore, the money I indicated was being paid by the United States to NATO was to defray part of the cost that NATO paid of that move.

In other words, they paid some of the cost that we would have otherwise paid.

Senator BYRD. I was under the impression that this \$100 million settlement, that that \$100 million would come to the United States. I did not realize it would take part of that \$100 million to pay to NATO.

What is the situation?

Mr. HORMATS. It is paid. I think we have to get a more detailed accounting of how this operates, but my understanding of it is this, and I was not involved in the actual workings of it. Part of the cost of this overall move, which was something on the order of \$378 million, was to be paid by the United States to NATO, to physically do part of the movement.

Senator BYRD. I would like to find out, and I wish you would find out and put it into the record—

Mr. HORMATS. Yes, sir.

Senator BYRD [continuing]. Whether we have taken this \$100 million, any part of this \$100 million, and paid it over to NATO, because France owes NATO and NATO in turn owes the United States.

Mr. HORMATS. We will certainly check and give you a detailed account.

Senator BYRD. I would also like to know what NATO's original claim on France was, that is one figure, and how much France has paid NATO. So, there are three different things. The first two have just been noted, and the other is whether any of this \$100 million is being taken from American taxpayers and given over to NATO in settlement of a claim where NATO owes the United States.

Mr. HORMATS. We will look into those and give you an accounting. [The material referred to follows.]

CLAIMS AGAINST FRANCE

When the French asked the United States, Canada and NATO to remove their military presence from France in 1966 they were put on public notice by the United States that there would be financial consequences flowing from their decision. In 1968 the United States filed a claim with France, and later a statement tabulating it at \$378 million for the loss of user rights to facilities plus the cost of relocation.

France did not accept the argument that they had a legal obligation to make a financial settlement, and in 1972 proposed a lump-sum settlement that would set aside all legal arguments. In 1974 the French offered a settlement amounting to \$100 million, and this was considered to be a reasonable settlement by the United States. The agreement signed in June 1975 amounts to a political settlement intended to resolve a long outstanding question and to contribute to a further improvement in relations between France and the United States.

France agreed to pay \$20 million to the United States each year for five years, for a total financial settlement of \$100 million. Payments are made to the Secretary of State. A portion of these receipts is then transferred each year to NATO, in accordance with an undertaking to reimburse NATO from any such receipts in partial compensation for an extraordinary NATO undertaking to finance about \$100 million in United States relocation projects which would normally have been financed solely by the United States. Approximately 36 percent (the proportion that the NATO financing bore to total United States relocation costs) of the receipts from France will be so transferred. The remainder will be deposited each year into the miscellaneous receipts of the Treasury.

NATO as an organization notified France in 1968 that the 14 allies had suffered loss of use of certain assets in France in which there had been common financing under the NATO infrastructure fund, and that certain extraordinary expenditures had also been incurred in the relocation of certain NATO facilities outside of France. Details of the claim were provided to the French in 1969. A third claim was submitted by the Canadian Government, relating to several airfields in France which had been used by Canada.

The amounts of the NATO and Canadian claims remain classified figures, but we would be happy to provide the information separately to the Committee. We believe that the French Government is actively negotiating a settlement of the Canadian claim. There had been some indication that the French wished to reach this settlement before turning to the NATO claim.

Senator BYRD. What interest is France paying on that \$100 million?

Mr. BERGSTEN. I am told there is no interest on that. It was viewed as a claims settlement through a lump sum payment, essentially.

Senator BYRD. Totally aside from the Export-Import Bank, how much does the Soviet Union owe the United States?

[Pause.]

Mr. BERGSTEN. We are looking it up in the detailed book. We have the totals here.

Mr. HORMATS. The overall debt of the U.S.S.R. is about \$1.1 billion. Subtract the \$405 million, and I guess that would be the total.

Mr. BERGSTEN. Yes. The difference is \$674 million, which is essentially the lend-lease debt from World War II.

Senator BYRD. Where do you get \$1.1 billion?

Mr. BERGSTEN. It is \$674 million lend-lease debt plus the \$405 million which is the amount outstanding under Export-Import.

Senator BYRD. Let's eliminate Export-Import Bank.

Mr. BERGSTEN. Then it is \$674 million.

Senator BYRD. Let us review this a little bit. Now, as I understand it from previous testimony today, the executive branch has no authority to cancel debts. Both of you testified to that, yet under the lend-lease settlement, although the United States was owed \$2.6 billion, that debt was settled on this basis. The Soviet Union was to pay \$722 million over the period beginning in 1972 through the year 2001. Now, the initial installments were to be paid, \$12 million on October the 18th, 1972. Was that paid?

Mr. HORMATS. Yes, they have paid three installments, \$48 million.

Senator BYRD. Another \$24 million was to be paid on July 1, 1973. Has that been paid?

Mr. HORMATS. Yes.

Senator BYRD. Now, another \$12 million was to be paid on July 1, 1975. Has that been paid?

Mr. HORMATS. I believe that has been paid. The agreement, as I understand it, is as follows. The Soviets were to pay \$48 million. The overall settlement was for \$722 million.

Senator BYRD. Out of \$2.6 billion which the United States Government said was owed it.

Mr. HORMATS. Yes, these terms are essentially comparable with the settlements made on lend-lease to Britain and other countries, and you are right, \$722 million was the amount agreed upon.

Senator BYRD. Yes.

Mr. HORMATS. The agreement was, the Soviets would pay an additional \$48 million, that the remainder of the money that they owed us under this final agreement would be paid if they got most favored nation treatment.

Senator BYRD. If they got loans to pay it.

Mr. HORMATS. Actually, the precise wording of the agreement was that they would pay the remainder, the \$674 million, after paying \$48 million, if they received most favored nation treatment by the United States, which they did not.

Senator BYRD. Which is another way of saying, if they were granted Export-Import Bank credits.

Mr. HORMATS. Well, that was not a part of the deal. They would, of course, have liked to have gotten—

Senator BYRD. That is the purpose of the most favored nation status, is it not?

Mr. HORMATS. That would have given them the opportunity to export a bit more to the United States.

Senator BYRD. But it would also give them the right to borrow from the Export-Import Bank.

Mr. HORMATS. It would not have been a right. They would have been able to borrow from the Export-Import Bank, but only to the limit—even if there had been no Jackson-Vanik amendment, which is what prevented them from getting their most favored nation treatment, as you know, even if there had been no Jackson-Vanik amendment, as you pointed out earlier, the \$300 million ceiling would have applied, but their obligation had nothing to do, even if we had provided no Export-Import Bank lending, they would still, under lend-lease, the agreement they reached, have been required to pay this full settlement.

Senator BYRD. I want to find out exactly what has been done now. The agreement was that they were to pay \$722 million.

Mr. HORMATS. Yes, sir.

Senator BYRD. They were to pay three installments totalling \$48 million. Then the additional was to be paid if they were granted most-favored-nation treatment, which would permit them to have access to Export-Import Bank credit, namely, to American tax dollars.

Mr. HORMATS. Most favored nation tariff treatment and Export-Import Bank were separate elements to this. Export-Import Bank treatment would not have necessarily permitted them to—most favored nation treatment would not have necessarily permitted them to get Export-Import Bank lending. In other words, that was a separate element of this.

Senator BYRD. The President of the United States authorized Export-Import Bank credit. Is that not correct?

Mr. HORMATS. That would have had to have been a separate decision.

Senator BYRD. It was a decision. How else could they have gotten it?

Mr. HORMATS. No, you are right, but it is a decision which is separate from whether or not they got most favored nation tariff treatment. They were required to pay this if they got most favored nation tariff treatment.

Senator BYRD. And they were not required to pay it if they did not?

Mr. HORMATS. Yes.

Senator BYRD. So in other words, here is what our State Department did. It settled a \$2.6 billion claim for \$722 million, of which the Soviets were to pay \$49 million, and the additional they would pay provided we loaned them the money to pay it. I think that is a damn fool arrangement.

Mr. HORMATS. Perhaps I did not make myself understood. The obligation to repay by the Soviets related only to whether or not they got most favored nation treatment. Even if they had not—

Senator BYRD. So the settlement provided that the Soviets would pay the debts only if they got other special concessions from the American people. You do not deny that, do you?

Mr. HORMATS. No; what they wanted was equal access to the American market on the same basis as other countries, which is most favored nation.

Senator BYRD. You don't mean to testify before this Committee that they were not looking at these Export-Import Bank credits?

Mr. HORMATS. Indeed, they were. You are absolutely right.

Senator BYRD. They had in mind, and Secretary Kissinger had in mind, billions of dollars of Export-Import Bank credits.

Mr. HORMATS. They did, quite clearly, as you point out, want credits, but their obligation to repay was not linked to their receiving credits.

Senator BYRD. It was linked by your own testimony to the most favored nation treatment, which in turn gives them access to the Import-Export Bank credits.

Mr. HORMATS. Most-favored-nation treatment was a separate element of this. They could have gotten most-favored-nation treatment without any additional Export-Import Bank credits. That was a separate decision by the United States Government. You are right. They wanted them. There is no question about that, but their obligation to repay was not contingent upon our providing them new Export-Import Bank money.

If we had not provided them with a cent more in Export-Import Bank money, they would have still been obliged to repay that \$722 million.

Senator BYRD. As a practical matter, we all know it is all wound up together.

Mr. HORMATS. But—

Senator BYRD. The basic purpose of the most favored nation treatment from their point of view was to have access to these credits.

Mr. HORMATS. They certainly wanted access to the credits, but there was a definite line drawn between the two.

Senator BYRD. So, anyway, the fact is that they have paid nothing—correct me if I am wrong—they have paid nothing on this debt since July 1, 1975.

Mr. HORMATS. That is correct, on that particular debt. Can I also point out that Export-Import Bank credits would not have been able to have been used by the Soviets to repay loans, the lend-lease loans. They are for specific projects and specific exports.

Senator BYRD. It is true they wouldn't use the same dollars, but it is just like instead of using the dollars in your right pocket, you use the dollars in your left pocket, and you get the right pocket money from the U.S. taxpayers. What our Government did, is to settle the Soviet claim for 3 cents on the dollar plus another 24 cents provided we loaned them the money to pay the 24 cents. That is about what it amounts to.

Mr. HORMATS. One additional point. Our terms with respect to the Soviets were in a number of ways better, certainly no worse, from our point of view than the terms in which we settled lend-lease with our other allies.

Senator BYRD. Because we made mistakes in the past does not mean we must compound the mistakes.

Mr. HORMATS. But we did not give them anything we did not give other governments.

Senator BYRD. No, we are good on giving things away. I object to that policy of continually giving little or no consideration to the fact that these funds have to come out of the pockets of the taxpayers, any place the Government can get it.

Mr. HORMATS. I should point out that the original numbers which you have cited, Mr. Chairman, of lend-lease were along the lines of a claim and had to be worked out. It is not certain that the entire amount that we asked for—

Senator BYRD. It was certain insofar as our Government was concerned, because our Government asserted it as a certainty.

Mr. HORMATS. But normally such claims are worked out.

Senator BYRD. We already wrote off, as you know, \$9 billion of claims on lend-lease, did we not?

Mr. HORMATS. To?

Senator BYRD. We already wrote off \$9 billion of lend-lease to the Russians. What we refused to write off and what we said with certainty was that they owe \$2.6 billion.

Mr. HORMATS. Well, there were some things that were in the Soviet Union—the policy on lend-lease was not to charge countries who participated in lend-lease for military equipment.

[The following was subsequently supplied for the record:]

DEPARTMENT OF STATE,
Washington, D.C., January 30, 1978.

HON. HARRY F. BYRD, Jr.
U.S. Senate.

DEAR SENATOR BYRD: The Secretary has asked me to reply to your letter of January 23 requesting the Department's views concerning the status of the Soviet lend lease debt.

In order to respond to your questions fully, I would like to review briefly the background of the Lend Lease Agreement with the U.S.S.R. which was signed in October, 1972. As you know, lend lease equipment and services were provided to our allies as part of our joint war effort. We did not regard the large volumes of military hardware and civilian-type goods expended during the war as constituting a reimbursable obligation. We asked lend lease recipients to reimburse us only for the fair depreciated value of goods potentially useful to a peacetime economy still on hand on V-J Day, and, on a dollar-for-dollar basis, for the so called "pipeline account" of goods contracted prior to, but actually delivered until after, the end of the war.

On the basis of these principles, the United States entered into a post-war lend lease settlements under which we accepted repayment of a percentage of the value of the "civilian type" equipment. In the case of the United Kingdom, for example, aid during World War II totalled about \$21.5 billion. The amount eventually to be repaid by the U.K. will be about \$895 million.

In the case of the U.S.S.R., our repeated initial requests for an inventory of "civilian-type" goods went unanswered. The U.S. therefore estimated their value at approximately \$2.6 billion. We made specific settlement offers of \$1.3 million and finally of \$800 million in 1972. Both of these offers were rejected by the Soviets (whose own settlement offers had risen from \$175 million to \$300 million in 1952). Negotiations broke down in 1952.

This remained the position of both sides until the negotiations which led to the 1972 Agreement, which provided for a final settlement of \$722 million. Under the terms of the 1972 Agreement, the Soviets have made unconditional payments totalling \$48 million. However, under the Agreement, Soviet payment on the remaining balance of at least \$674 million was conditional on the granting by the U.S. of most favored nation (i.e., non-discriminatory) treatment to the exports of the Soviet Union. This has not occurred.

The answers to your specific questions are as follows:

1. The 1972 Lend Lease Agreement is, by its terms, a full and final settlement of all U.S. lend lease claims. Under it, the U.S.S.R. agreed that the total net sum due from it for lend lease and related claims shall be \$722 million. Of this amount, \$48 million was payable in installments on or before July, 1975. This amount has been paid. Repayment of the balance of \$674 million is contingent upon notification by the U.S. to the U.S.S.R. that the United States has extended MFN to the U.S.S.R.

2. The Department has not sought to renegotiate the lend lease settlement agreement, nor have we proposed that the Soviets make further payments to us in the absence of MFN. We believe that there is no reasonable prospect for success of any such effort.

3. The Soviet Union continues to have a contingent obligation to pay the United States the balance due under the Lend Lease Agreement at such time as the United States may give notice that MFN has been extended.

4. As noted, we do not believe that an effort to renegotiate the lend lease claims settlement agreement, or to induce the Soviets to make further payments otherwise than as specified in that agreement, are likely to be successful. Of course, so long as the provisions of the Lend Lease Agreement cannot be executed, the contingent balance due remains a pending issue in our bilateral relations with the U.S.S.R.

Sincerely,

DOUGLAS J. BENNETT, JR.,
Assistant Secretary for Congressional Relations.

Senator BYRD. And we did not. If you will read the record, you will find that we wrote that off. We wrote off \$9 billion, in round figures, but we said with certainty that the Soviets owed us \$2.6 billion, and the State Department comes along in 1972 and settles that \$2.6 billion for 3 cents on the dollar, namely, \$48 million plus another 24 cents provided they get most-favored-nation treatment. We would loan them the money to pay it, although it was not phrased that way, of course.

I contend that not only was it a bad deal, but I do not think that should have been done without congressional approval, and there was no congressional approval, just like the Indian debt was canceled without congressional approval.

Well, thank you very much, gentlemen. I appreciate your being here today. I think this clears up some points. I think it is important that we have a full record of the countries that owe the United States, which you have and will put into the record, also the arrearages.

Mr. HORMATS. As opposed to the last State Department spokesman, I will not come away saying this was boring. [General laughter.]

Senator BYRD. Thank you, gentlemen.

[The prepared statements of Mr. Bergsten and Mr. Hormats follow:]

STATEMENT OF HON. C. FRED BERGSTEN, ASSISTANT SECRETARY OF THE
TREASURY FOR INTERNATIONAL AFFAIRS

THE INTERNATIONAL ECONOMIC SITUATION

The general issue of international debt and the question of debts owed to the United States, which are the topics of these hearings, must be viewed in the context of the present pattern of international trade and financial flows. The oil price increases in 1973 and 1974, and the subsequent recession in the industrialized countries, produced sizable imbalances in international trade. A handful of countries accumulated foreign assets at an unprecedented pace. These assets in turn were used to finance the deficits of oil-importing countries through private financial intermediaries in the industrialized market economies. The external indebtedness of oil-importing countries escalated. Many countries had to adopt stabilization policies that temporarily constrained growth rates in order to lay the foundation for attaining long-term employment and consumption objectives.

Last spring, in testimony before the Congress, I outlined the strategy of the Carter Administration for dealing with these problems and thereby enhancing the stability of the world economy. I would like to briefly review our progress to date in six major areas, as an essential framework for considering the complex issues of international debt which are of concern to this Subcommittee:

Our first priority has been the adoption of a U.S. energy program which would help reduce our own trade imbalance, strengthen the dollar and thereby greatly

enhance international financial stability. The U.S. trade deficit totaled about \$30 billion in 1977, and our oil imports totaled about \$45 billion—up from less than \$5 billion in 1972. Lagging economic growth in some of our major markets abroad was an important factor behind the sizable increase in the U.S. trade deficit in 1977, but oil imports increased further as a consequence of continued policy in action. The President's energy program is designed to lessen U.S. dependence on imported oil, and we believe it is critical that legislation implementing this first part of a comprehensive U.S. energy program emerge from the Congress in the very near future. In addition, we have urged OPEC countries to avoid further oil-price increases which might adversely affect world economic stability.

Our second objective has been to urge those industrial countries having large current-account surpluses—particularly Japan but also Germany—to adopt policies that would help reduce their surpluses and thereby reduce the pressure on deficit countries, relieving the buildup of debt around the world. We have had intensive discussions with the Japanese on how this can be accomplished, and they have adopted policy measures which seek to cut their surplus in half in 1978 and reduce it further thereafter, aiming at equilibrium under current conditions. Germany has also moved to stimulate its domestic economy. In the meantime, both the yen and the mark have appreciated considerably against the dollar, which will help attain the needed adjustments.

Third, we have urged deficit countries to adopt prudent adjustment policies and thereby reduce their debt buildups. Here there has been considerable success. The United Kingdom and Italy, in particular, are in much stronger positions today than a year ago. Among the developing countries, remarkable improvement has occurred in Brazil and Mexico. Though a number of countries are still in difficulty, we anticipate a smaller, more evenly distributed deficit in the non-OPEC countries in 1978.

Fourth, to assure an adequate information base for monitoring the international debt situation, we have sought to improve the availability of data on international lending activities and on the economic and financial situations of individual countries. Progress has been made in this area, especially in connection with international bank lending. The data released last week on foreign lending by large U.S. banks is one result of our efforts. Moreover, the regulatory agencies have improved their capacity to assess and regulate the international lending activities of commercial banks.

Fifth, we have worked to augment the resources available to the IMF to enable it to work even more effectively with countries running balance of payments deficits. One of the most important decisions we made in 1977 was to support the establishment of a new Supplementary Financing Facility in the IMF, known as the "Witteveen Facility," designed to encourage countries with severe payments problems to adopt effective adjustment programs. Seven industrialized countries and seven OPEC countries agreed last year to provide about \$10 billion for this Facility. Legislation to authorize U.S. participation in the amount of SDR, 1,450 million, or approximately \$1.7 billion, is now before the Congress. We believe that the establishment of this Facility in 1978 is essential to strengthen the international monetary system. We also anticipate that the sixth IMF quota increase will go into effect early in 1978. Discussions on a further increase in quotas are in process.

Finally, we have participated in the rescheduling of external debt for individual countries that were unable to meet their debt-service obligations. Fortunately, only two countries in the past year were forced to reschedule—Sierra Leone and Zaïre. Pakistan has formally requested a rescheduling in 1978, and an additional rescheduling for Zaïre may be necessary. We hope that no other countries will have to reschedule in the near future.

INTERNATIONAL DEBT

This review of our approach to the overall problem of international economic and financial stability is essential to place in perspective the issues of international debt, and debts owed to the United States. International debt management is a complex, but essential aspect of international economic cooperation. A decade ago, the industrialized countries were generally creditors and the developing countries were debtors. Now, however, a few oil-exporting developing countries have emerged as major international creditors, holding an estimated \$175 billion of foreign assets at the end of 1977. At the same time, most of the industrialized countries (including the United States) are—for the time being—net recipients

of external financial flows. The distinction between creditors and borrowers has taken a sharp turn.

The best source of data on international debt is the World Bank, which publishes statistics on the medium and long-term government and government-guaranteed debt of 84 developing countries that borrow from the Bank. At the end of 1975, the latest year for which complete data are available, the amount of this debt was \$121 billion. Almost 60 percent of this amount was owed to official creditors (governments and international organizations), and the remainder was owed to private creditors. Our own studies of LDC debt, as detailed in our annual report which will be transmitted to the Congress shortly, have revealed some interesting conclusions:

First, economic growth and expanding exports have increased the capacity of the developing countries to service their external debts. The information we have on public debt indicates that the debt-service ratio of these countries as a group was no higher in 1976 than it was in 1973.

Second, inflation has substantially reduced the burden of previously-incurred debt measured in real terms.

Third, the bulk of the increase in borrowing by the developing countries since 1973 has been accounted for by a small group of relatively more advanced countries including Argentina, Brazil, Chile, Korea, and Mexico. In particular, this group accounts for almost all of the increase in borrowing by non-oil LDCs from commercial banks.

Fourth, the non-oil developing countries have been able to increase their official reserves by almost 80 percent since 1973, to a current level of about \$50 billion.

Of course, there have been a few cases where countries have been unable to meet their debt-service obligations, and it has been necessary for them to seek debt relief. I would like to address this matter and explain our policy in such situations.

DEBT RELIEF

Since the mid-1960's, the United States has participated in negotiations to re-schedule the external debt of 12 countries on 28 separate occasions. Remarkably, the pace of these reschedulings has actually declined in recent years, in spite of the global economic difficulties. In 1972 alone, there were six debt-reorganization exercises. By comparison, there have been only two reorganization exercises per year in each of the last three years (1975-1977).

U.S. policy on debt reorganization is clear, and has four major elements:

1. Debt-service payments on international debt should be reorganized on a case-by-case basis and only in extraordinary circumstances where necessary to ensure repayment. Debt relief should not be given as a form of development assistance.

2. Debt-service payments on loans extended by the United States Government or guaranteed by the United States Government will normally only be reorganized in the framework of a multilateral creditor club agreement.

3. When a reorganization takes place that involves U.S. Government credits or government-guaranteed credits, the United States will participate only if: (a) the reorganization agreement incorporates the principle of non-discrimination among creditor countries, including those that are not party to the agreement; (b) the debtor country agrees to make all reasonable efforts to reorganize unguaranteed private credits falling due in the period of the reorganization, on terms comparable to those covering government or government-guaranteed credits; (c) the debtor country agrees to implement an economic program designed to respond to the underlying conditions and to overcome the deficiencies which led to the need for reorganizing debt-service payments.

4. The amounts of principal and interest to be reorganized should be agreed upon only after a thorough analysis of the economic situation and the balance of payments prospects of the debtor countries.

5. The payments that are reorganized normally should be limited to payments in arrears and payments falling due not more than one year following the reorganizing negotiations.

Meanwhile, we have sought to discuss the whole issue in a responsible international context. The Development Committee of the World Bank and the IMF has, largely at the initiative of the United States, agreed to study the role of external borrowing in financing development. We are hopeful that this effort will lay the foundation for clear international agreement on the steps that should be taken, by both borrowers and creditors, to manage external borrowing even more effectively in the future and help avoid debt problems.

DEBTS OWED TO U.S. BANKS

Commercial banks in the leading market economies have played a major role in using OPEC surpluses to finance the current account deficits of oil-importing countries. The intermediation function performed by the international banks has become a central element in the world economy. U.S. banks have been significant participants in this process.

In fact, the foreign claims of U.S. banks have grown at rates exceeding 15-20 percent per year during the past few years. As a result, considerable public attention has been drawn to this issue, and questions have been raised about the prudence of the international lending policies of the banks.

We believe these concerns are greatly exaggerated, and will continue to prove to be unfounded. Losses on foreign loans have been small. In fact, loss experience has been better on foreign loans than on domestic loans. Moreover, with the recent improvements in the international payments pattern and successful adjustment effort in a number of deficit countries, U.S. bank lending abroad has been growing at a much slower pace. In the first nine months of 1977, the increase was at an annual rate of only 10 percent compared with 24 percent in 1976.

An important part of our effort to improve the information available in this area has been the United States Government's collection of new, more comprehensive data on the exposure of U.S. banks in foreign countries. Through these new data, we have attempted to measure the claims of U.S. banks which are subject to cross-border or country risk. This is done principally by re-allocating claims on foreigners on the basis of where the ultimate obligation for repayment rests. In quite a few cases, a loan made to the resident of one country is guaranteed by a resident of another foreign country. In addition, loans in local currencies to residents of countries in which the lending U.S. bank operates are excluded from the cross-border exposure of the U.S. bank, because such lending is not subject to the risks that foreign exchange shortages abroad would entail.

U.S. bank claims on foreigners subject to cross-border risk as of June 30, 1977 amounted to \$150 billion. About \$47 billion of this amount consisted of claims on other foreign banks, so that the cross-border exposure of U.S. banks to private non-bank foreign borrowers and foreign governments is about \$100 billion. About \$39 billion of this represents claims on residents in the non-oil developing countries. The new data also show that U.S. bank exposure abroad is heavily in the area of short-term maturities. Nearly two-thirds of all U.S. bank claims on foreigners have maturities of one year or less.

DEBT OWED TO AND GUARANTEED BY THE U.S. GOVERNMENT

Let me turn now from the international lending of U.S. private banks to the loan activity of the United States Government. The prompt and complete repayment of all foreign debts owned to the Government is a policy goal of the highest priority for the Treasury Department and other U.S. agencies. For the most part, foreign debts have been repaid on schedule; payment on only a small portion of this debt is in arrears.

The Treasury Department does not collect payments on debts, but rather oversees the collection process through the compilation of data on U.S. loans and foreign debt arrearages and the review of individual debt problems through the National Advisory Council (NAC), which Treasury chairs. The responsibility for collection of foreign debts lies initially with the creditor agency. If the creditor agency's efforts are unsuccessful, the Department of State may provide assistance.

All foreign debts owned the United States Government arise from Congressionally mandated programs. For convenience, outstanding debts can be separated into two categories: (1) Debts contracted during or after World War II; (2) debts relating to our activities during and immediately after World War I.

POST WORLD WAR II DEBTS

As of September 30, 1977, the total principal outstanding on post-World War II debts to the United States Government was \$42.1 billion, primarily in the form of long-term credits. Only \$107 million of the total was in short-term credits, and \$374 million in accounts receivable. The debt is largely a result of

U.S. Government foreign aid and export credit programs of the last 30 years. Some \$14 billion was contracted under the Foreign Assistance Act (and predecessor legislation); \$4 billion under the Foreign Military Sales Act; \$6.5 billion under Public Law 490; and over \$11 billion under the Export-Import Bank Act. Another \$1.4 billion arose from activities related to World War II, primarily lend-lease and surplus property disposal.

Given the objectives of these programs, it is not surprising that loans to non-oil developing countries account for nearly 65 percent of the total value. The largest individual debtors among the developing countries are: India (\$3.6 billion), Israel (\$3.3 billion), Pakistan (\$2.6 billion), Brazil (\$2.4 billion), Korea (\$1.9 billion), Indonesia (\$1.8 billion), and Turkey (\$1.7 billion).

ARREARAGES AND DELINQUENCIES

The great bulk of these debts have been paid on time. At your last hearings on this subject, you were given information on arrearages as of the end of 1974. From January 1, 1975 through September 30, 1977, the United States collected some \$6.5 billion in principal and interest due on long-term credits, and the equivalent of about \$500 million in principal and interest on foreign currency loans.

As of September 30, 1977, the latest date for which complete data are available, the total principal and interest delinquent on post-World War II debts was \$591 million, compared with \$657 million at the end of 1974. Nearly 69 percent of the total outstanding arrearages represent special problems, including those of a political nature, which have made collection difficult. The State Department will address the problems underlying arrearages in payments by China, Cuba, and Indochina, as well as arrearages by Iran and Zaire (which together account for \$56 million in outstanding debt).

By far the largest arrearage in this group, \$199 million, relates to military logistical support provided by the United States to other nations during the Korean conflict. While most countries have agreed to repay such assistance, six developing countries (Colombia, Ethiopia, Greece, the Philippines, Thailand, and Turkey) have not. Without going into the details, I would like to note that a 1973 report of the House Committee on Government Operations concluded that: "It is improbable that as less developed nations they (the six nations) ever implied a willingness or ability to pay. There is no reason for continuing to carry these claims as debts on U.S. Treasury records."

In 1976, the Thirty-Seventh Report by the same committee recommended that: "Congress should consider legislation removing the Korean War debt claim against Colombia, Ethiopia, Greece, the Philippines, Thailand, and Turkey from the Treasury Department's category of outstanding U.S. debts."

The National Advisory Council has endorsed this recommendation, and we intend to consult with the Congress regarding the passage of such legislation.

A further \$130 million in arrearages derives primarily from technical and administrative problems, rather than hardcore delinquencies.

WORLD WAR I DEBT

There is another \$25 billion owed to us in connection with foreign loans at the time of World War I. This figure takes into account unpaid interest charges, which now exceed the amount of the original borrowing, as well as repayments of \$3 billion.

During and immediately after World War I, the Allied Powers borrowed about \$10 billion from the United States. After the war the United States Government collected about \$1 billion on these borrowings. Collection was complicated, however, by the general financial disorders which prevailed in the post war period, and the United States concluded debt-funding agreements with most of these countries during the 1923-30 period. Most debtor countries fulfilled their commitments under these debt funding agreements until 1933-34. But only a few have made any payments since that time. Total collections under these funding agreements amounted to about \$2 billion as of September 30, 1977.

The principal debtor governments (except the Soviet Union, which in January 1918, repudiated all foreign debt incurred during the former Czarist regime) have never denied the legal validity of the debts. As a practical matter, however, they are inextricably linked to the question of German war reparations and the intra-European debts generated during World War I. Many European countries are net creditors on account of World War I indebtedness, with Germany owing

more to them than they in turn owe to the United States. Since the early 1930's, these countries have steadfastly maintained that they would resume payments on their war debts to the United States only if the issue of Germany's World War I reparations were satisfactorily settled.

Under the 1953 London Agreement on German external debts, to which the United States is a party, resolution of the problem of intergovernment claims against Germany arising from World War I was deferred "until a final general settlement of this matter." This agreement was ratified by the United States Senate and has the status of a treaty.

GUARANTEE PROGRAMS

The subcommittee has requested that I also address the subject of the foreign guarantee programs of U.S. Government agencies. These guarantees of foreign loans are not debts in the true sense, since they do not include an obligation to repay the United States Government on the part of foreign countries. More importantly, in most cases these guarantees present no cost to either the United States Government or the taxpayer. It is only in the exceptional case when a default occurs on the repayment of a loan guaranteed by a government agency that the United States Government, as guarantor, must use tax dollars to cover the default.

Treasury is now in the process of completing a report detailing the contingent liabilities of the United States Government on insurance and guarantees of private contracts with foreign obligors. Preliminary findings of this study, which will be forwarded to the Congress upon completion, indicate that some \$9 billion of contingent liabilities have been incurred under four different agency programs. Some \$7.6 billion of this amount, or over 84 percent, were extended by the Export-Import Bank as a means of facilitating U.S. exports. The remainder consists of \$157 million of OPIC guarantees (for commercial risk only), \$584 million in Department of Defense guarantees, and \$691 million in AID Housing Investment Guarantees. Some ten countries were the recipients of more than 50 percent of the guarantees.

CALLABLE CAPITAL

In addition to the guarantees by U.S. Government agencies just discussed, the United States Government, along with other developed donor countries, guarantees, by the use of callable capital, the bond issues of the international financial institutions of which it is a member—the World Bank, the Inter-American Development Bank and the Asian Development Bank. Such callable capital is a contingent liability which will almost certainly never have to be drawn, though it is fully appropriated by the Congress.

The subscribed callable capital of the members is not available to these banks for development lending. A bank may call upon the members for their callable capital subscriptions only to the extent necessary to meet its obligations to its bondholders. In other words, callable capital would only constitute a cash outlay by the subscribing countries in the highly unlikely circumstance that a bank was unable to repay maturing issues of its bonds. Given the record of sound financial management of each of the development banks, they should continue to be able to meet their bond obligations from principal and interest payments on development loans and from their other financial resources.

If a bank were faced with defaults on the development loans it had made or guaranteed, it would first draw on its reserves and other available resources to meet payments on its outstanding bonds or liabilities. Only after these funds were exhausted would the bank be obliged to call upon a portion of the members' callable capital subscriptions. Such a call would be on a pro rata basis. Hence, the callable capital subscribed to the development banks by the United States represents a contingent liability which is virtually certain never to be drawn.

FOREIGN OWNERSHIP OF U.S. GOVERNMENT SECURITIES

Data on foreign holdings of U.S. Treasury securities are reported monthly in four places in the Treasury Bulletin: Tables OFS-2 summarizes ownership of public debt securities; Tables IFS-4, CMI-2, and CMV-4 give information on the country of residence and type of foreign holder of Treasury securities.

Table OFS-2 shows that total foreign and international holdings of U.S. public debt securities were \$100 billion on October 31, 1977, an increase of \$24.8 billion from October 31, 1976. Table IFS-4 shows current and past data for holdings of

nonmarketable bonds and notes by official institutions of foreign countries. The total as of November 30, 1977, was \$20.5 billion. Approximately seven-eighths of these nonmarketable securities were held by the government of Germany.

As a matter of policy, we do not disclose official holders of marketable securities without the consent of the foreign government involved. To date, only Canada has given this consent. OPEC countries, however, have invested only about \$15 billion, or less than 10 percent of their total financial assets, in marketable U.S. Treasury securities. OPEC holdings represent about 3 percent of total U.S. Government public debt held by non-U.S. Government entities.

All direct foreign and international acquisitions of U.S. Government securities, whether marketable or non-marketable, are handled by Treasury on a non-discriminatory basis. Interest rates on non-marketable securities are determined in accordance with the prevailing yields at the time of issue on marketable securities of comparable maturity.

Foreign official institutions have acquired their holdings of marketable securities in many instances through market purchases. In other cases, acquisitions have been made through add-ons to regular public offerings of marketable securities with a year or more to maturity. These amounts are awarded to the subscribing official institutions at the average price and yield determined by the market bidding for the public offering.

The purpose of the add-on facility is to minimize the impact of foreign official investment activities on the market for Treasury securities while, at the same time, providing a mechanism by which these official institutions can readily meet their legitimate investment requirements. A number of countries have taken advantage of this facility; the OPEC countries, whether singly or as a group, have not been the most important users.

CONCLUSION

I would like to conclude by briefly commenting on the outlook for the world economy in 1978, which sets the stage for the outlook for the international debt situation. While the world economy is not yet on a satisfactory course, considerable improvements should continue to occur during the year.

A number of DCs and LDCs have already benefitted from stabilization efforts, have re-established their international creditworthiness, have regained their access to private capital markets, and are poised for faster growth than has been possible the last few years.

The OPEC surplus and the resulting offsetting oil importers' deficit, will be smaller than last year due to continuing growth in OPEC imports and expansion of oil production in non-OPEC nations, together with some continued weakness in the economic growth of many European countries.

The aggregate deficits needed to offset the OPEC surplus will be distributed in a more sustainable pattern, as most countries which face financing limits are restraining their deficits.

International economic cooperation has contributed to a more informed and sounder basis for international debt management in the future, and our own regulatory authorities have improved their capability to fulfill their functions in the international area.

If Congress acts soon on the President's energy program, and if other nations adopt appropriate adjustment policies, I am confident that we can look forward to a more stable and sustainable pattern of international payments in the year ahead.

STATEMENT OF HON. ROBERT D. HORMATS, DEPUTY ASSISTANT SECRETARY OF STATE FOR ECONOMIC AND BUSINESS AFFAIRS

I am pleased to have this opportunity to appear before this Subcommittee to discuss issues related to international debt. I would like to speak briefly about the nature of current international financing problems, and describe how recent events have affected the debt situation. In the second part of my statement, I will discuss our policy regarding public debts owed to the United States. In this context, I will address some of the problems we are encountering in carrying out our debt policy.

External debt is the result of external borrowings which have been undertaken by a country to enable its economy to develop at a rate above that which could be financed solely by domestic resources. There is nothing wrong with debt in itself. Indeed, external borrowings have long been integral components of eco-

conomic development in many nations. Such capital inflows, for example, made a major contribution to United States development during the 19th century, just as today they constitute a vital ingredient in the efforts of poorer countries to accelerate their development.

THE CURRENT FINANCING PROBLEM

The oil price rise, coupled with the most severe recession of the post-war era, added an important new dimension to the debt situation. Since the balance of payments surpluses of OPEC nations inevitably generate a corresponding aggregate deficit in the non-OPEC countries, balance of payments management for most oil-importing countries has become very difficult.

In view of the magnitude of the collective non-OPEC deficit and the suddenness with which it developed, it would have been impossible for the oil-importing countries to eliminate the deficit quickly without imposing severe austerity programs. The result would have been an abrupt contraction in their economic growth and—for a number of countries—serious political, economic and social instability. Moreover, the impact of harsh deflation in deficit countries would have jeopardized recovery of the world economic system as a whole by collapsing export markets and thus reducing demand for the exports of other nations, including the United States. Given this alternative, the decision of most countries to finance their deficits by external borrowings can be judged to be appropriate.

The size of the international payments disequilibrium meant that the financing requirements of deficit countries have been exceptionally large. We estimate, for example, that the medium and long-term indebtedness of the non-oil exporting developing countries more than doubled between 1973 and 1977. The annual debt service obligations of these countries now exceed \$20 billion. The indebtedness of some OECD countries has also increased sharply. In fact, some of the most difficult adjustment problems are now found in industrial democracies. There has also been an upswing in the debt of the Soviet Union and Eastern Europe owing to high world commodity prices, world recession, and increased imports of Western capital goods.

Despite some increased availability in official bilateral and multilateral financing, the magnitude of deficit country requirements inevitably increased reliance on private market finance. We estimate, for example, that private banks and security markets financed roughly 75 percent of the current account deficit experienced during the 1974-76 period. The lending standards of the banks have been high. This is evidenced by the high concentration of bank lending in the industrialized countries, and in a dozen or so developing countries with expanding economies and favorable export prospects. In contrast, developing countries with limited export and growth potential have had little access to private market financing and continue to be dependent on official concessional transfers.

In evaluating the significance of outstanding debt, it is important to realize that aggregate data are misleading in that they do not reflect the wide diversity in debtor countries. Meaningful analysis must therefore focus primarily on individual country situations. Such analysis indicates, for example, that debt is currently distributed in line with debt servicing capacity. It also shows that while the financing needs of many deficit countries remain large, particularly for those with particular social and political constraints, debt servicing problems are confined to a relatively few countries. This reflects the fact that, for most countries, the rise in the nominal value of debt service that has occurred has been largely offset by nearly equal increases in the nominal value of production and exports which are used to repay the debt.

In assessing future debt servicing prospects, there are certainly grounds for caution. We expect that the large payments imbalances between the major oil exporting nations and the rest of the world will remain for some time to come. The problem of economic adjustment to these deficits will therefore be a continuing one. In the longer term, deficits must be geared closely to the underlying productive potential of individual countries.

During this adjustment period, we should expect the level of international indebtedness to continue increasing, albeit at a slower rate than recent years. Despite this increase, it is my view that debt problems are neither general nor unmanageable. This assessment is based on the maintenance of a reasonably favorable international economic environment. In this context, I see six broad

targets of global strategy, the implementation of which will affect significantly our ability to deal with international debt:

(1) To increase aggregate domestic demand consistent with price stability, with particular emphasis on the stronger industrial economies;

(2) To maintain an open international trading system and accomplish the objectives of the Tokyo round of trade negotiations; recognizing that trade restrictions would hurt many countries which depend on exports to repay their debts.

(3) To develop new energy sources and conserve energy as an indispensable long-term adjustment to the current financial imbalance of the OPEC countries with the rest of the world;

(4) To assure adequate official financing with appropriate conditionality which encourage internal adjustments in an orderly fashion. I believe the proposed Supplementary Financing Facility of the IMF is particularly important;

(5) To assure an expanded flow of bilateral and multilateral concessional assistance to the poorest countries;

(6) To adopt or maintain appropriate domestic policies in deficit countries which assure effective management of borrowed funds, and maintain access to private capital markets.

DEBT OWED TO THE UNITED STATES

I would now like to turn to the matter of debt owed to the United States. As of September 30, 1977, outstanding indebtedness on United States Government credits (exclusive of indebtedness arising from World War I) totaled approximately \$42.1 billion, of which \$41.6 billion related to long-term debt with an original maturity of over 1 year. This debt includes many loan categories, with the terms of lending reflecting the purpose of the program under which the loan was extended. Humanitarian or development loans, representing almost 60 percent of our debt are, for example, highly concessional. On the other hand, loans by the Export-Import Bank, which account for roughly 28 percent of our outstanding debt, are at market related rates consistent with the Bank's legislative mandate to provide official financing for United States exports comparable to that of our major competitors.

Approximately 54 percent of our long-term debt is attributable to the non-OPEC developing countries. OPEC countries account for 8 percent, industrialized countries (including Israel) for 34 percent, and the Soviet Union and Eastern Europe for 4 percent. Aside from Ecuador, Indonesia and Nigeria, the bulk of the debt owed by OPEC countries related to Export-Import Bank lending. This is also the case for lending to other industrialized countries.

The objective of United States foreign policy is to protect the interests of the United States—among which are the assets represented by foreign debts. Individual lending or creditor agencies have the primary responsibility for insuring debtor country compliance with agreed repayment schedules. In situations where these agencies encounter collection difficulties and request encounter collection difficulties and request assistance, the Department of State and United States Embassies overseas have the responsibility for pursuing collection. We take these responsibilities very seriously, and pursue such delinquencies vigorously. Among the areas of progress over the last 18 months, were collections of overdue payments from Hungary (\$4.3 million), the Dominican Republic (\$1.4 million) and Uganda (\$.5 million).

In the vast majority of cases, debts owed to the United States since the Second World War have, in fact, been paid on time. Repayments, including interest on long-term credits extended since 1940 now exceed \$45 billion. As of September 30, 1977, principal and interest due and unpaid 90 days or more totaled \$591 million. I note, Mr. Chairman, that in spite of the difficult financial situation faced by many debtor countries, the level of outstanding arrearages reflects an improvement over the \$652 million figure discussed with you at your Subcommittee's last hearing on this subject two years ago. While this reflects primarily the seriousness foreign governments attach to honoring agreed obligations, it also reflects the importance and high priority given to debt collection efforts by the United States Government.

While debtor countries worldwide have a generally good record in maintaining their debt servicing payments to the United States, I assure you that we will continue to press for improved results. It is important to recognize, however, that a large portion of current delinquencies relate to a few unique situations

where circumstances currently impede our ability to collect. For example, approximately 70 percent of current arrearages relate to Korea Conflict Logistical Support Claims and debt owed by China, Cuba, the Khmer Republic and Vietnam.

Arrearages relating to logistical support provided by the United States to other nations during the Korean Conflict total \$200 million. They arose because, while we concluded formal agreements for repayment of such assistance with 14 countries, the validity of the claims of six countries (Colombia, Ethiopia, Greece, the Philippines, Thailand and Turkey) cannot be clearly established. The history of these claims is complex, and we are about to begin consultations with Congress regarding the initiation of legislation which would remove the claims from the category of outstanding debt. This course of action conforms fully to a 1976 recommendation of the House Committee on Government Operations.

The delinquencies attributable to the Republic of China total \$108 million, and are largely related to Lend Lease and other War Accounts Settlements. The debts involve a number of difficult issues including the proper allocation of claims between the Republic of China and the People's Republic of China, the correct evaluation of the claims, and the problems of government succession. Cuba's arrearages total \$74 million, most of which is owed to the Export-Import Bank. As our relationships with the People's Republic of China and Cuba evolve, we will consider how we might handle the question of these and related debts. Political factors also hinder settlement of \$25 million now owed by the Khmer Republic and Vietnam. In this context, it should be noted that our performance in assuring debt repayment is best in countries where we maintain good bilateral relations. And conversely, situations where bilateral relations bear the legacy of historic animosity or are clouded by serious friction often constitute serious debt collection problems.

Arrearages other than the five cases cited above total approximately \$184 million. The largest of these are attributable to Iran (\$36 million) and Zaire (\$25 million). In the case of Iran, the United States has made extensive efforts to collect arrearages owed on two surplus property agreements signed in 1945 and 1948. Iran made payments totaling \$11 million on these debts during the late 1940's, but halted them during the period of instability in the 1950's.

As a result of recent negotiations, Iran made payments of \$750,000 (March 1973) and \$1.8 million (October 1975). Iran has, however, made future payments conditional on progress in settling a claim they have against the United States for damages to Iranian railways by allied military forces during World War II. They place their claim at \$172 million. We have advised Iran that the evidence they have submitted to date does not substantiate a claim against the United States. We have also stressed our position that the long established surplus property debt, the validity of which is not in question, should be paid off without reference to the unconnected Iranian claim. We have noted, however, that we remain willing to give the Iranian claim—which is further complicated by the issue of the division of financial responsibility in Iran during World War II between the U.S. and the United Kingdom—a full hearing. It is our intention to continue pursuing this matter at an appropriately high government level.

The Zairian arrearage is a reflection of the serious economic situation which has affected that country since 1974. This situation has been characterized by substantial balance of payments deficits, a prolonged pause in economic growth, and a large accumulation of arrearages on foreign debt. It was the view of the International Monetary Fund that a rescheduling of Zaire's external debt was an essential element in economic recovery. This analysis was shared by all of Zaire's official creditors who have subsequently negotiated two Paris Club rescheduling agreements covering a large portion of the 1976 and 1977 maturities. Until such time as the United States and Zaire conclude an implementing agreement on 1977 maturities, these payments are technically recorded as arrearages.

Apart from the debt owed by Zaire and Iran, a large portion of the remaining arrearages constitute technical and administrative problems rather than any intentional failure to pay.

DEBT RENEGOTIATIONS

Recognizing that extraordinary circumstances may require a modification of loan terms to reflect a change in conditions in a borrowing country, the Congress has provided authority for debt renegotiation for each United States Government lending program. Even with this authority, however, it is United States policy to confine the use of this authority to extraordinary situations where necessary

to assure repayment. Eligibility for debt relief has traditionally been based on a "case-by-case" examination of individual debt problems as they arise. This is normally done in a multilateral framework to insure equal treatment among creditors.

The incidence of serious debt servicing problems requiring multilateral debt relief continues to be confined to a few countries. Although the period 1974-77 has been a particularly difficult one for the developing world, the vast majority of developing countries have continued to service fully their official debts. During this four year period only six countries required multilateral debt renegotiation, with the United States participating in the agreements for four of the countries, India, Pakistan, Chile, Zaire.

Multilateral debt renegotiations affect government or government-guaranteed debt. Usually short-term credits, all unguaranteed bank credits and loans from the multilateral lending institutions (World Bank, etc.) have been excluded. The U.S. has no legal authority to bind private creditors to these agreements. As a result, the United States participation has been conditioned on debtor country agreement to make all reasonable efforts to reorganize unguaranteed private credits on terms comparable to those covering government credits. This reflects our view that the principle of comparable treatment of both public and private creditors is appropriate, and that it is highly important that the risks of lending be shared by both. We do not believe public creditors should "bail-out" their private counterparts. In addition to establishing an unfair burden on taxpayers, such a "bail-out" could lower the generally current high level of lending standards by giving both private lenders and debtor countries the false impression that creditor governments are willing to assume responsibility for the repayment of private debt.

In closing, Mr. Chairman, I would like to restate my belief that debt problems are neither widespread nor unmanageable. Given a reasonable international economic environment, debt problems over the next several years should be confined to a relatively few countries. On the collection of arrearages and prudent use of debt renegotiation, we think our record is a good one, but will continue to press for improved results wherever possible.

[Whereupon, at 12 p.m., the subcommittee was adjourned.]

[By direction of the chairman the following communication was made a part of the record:]

ALEXANDRIA, VA., January 25, 1978.

HON. HARRY F. BYRD,
U.S. Senate,
Washington, D.C.

DEAR SENATOR: According to yesterday's Washington Post a Treasury official testified before you that there is no cause for alarm in loans abroad by U.S. banks. Unfortunately, this is not the case when we consider the whole picture. Coming on top of the current enormous U.S. balance of payments deficit these loans increase the supply of dollars in world money markets and create additional pressure on the dollar rate. It is true that these loans help oil importing nations to finance their deficits but they of course increase the U.S. deficit which has to be offset by inflow of funds from abroad.

It would not be a sound policy to keep raising domestic interest rates until adequate funds are attracted from abroad—the effects on the domestic economy might prove to be intolerable. I suggest that we have reached the point where U.S. banks should stop increasing their loans abroad and in fact should reduce their foreign loan volume. The U.S. Treasury and the Federal Reserve System have adequate means to persuade the banks to cooperate. Such a policy would strengthen the dollar and give the world economy again a sound monetary basis without the U.S. economy being pushed into a depression. The oil importing nations with the help of international agencies would find credit in the countries where the surplusses are.

Statistical data published by the Department of Commerce show that in every three-months period since 1970, when the dollar dropped markedly against the German mark, there has been a substantial increase in U.S. bank loans to foreign borrowers (1971/3 q., 1973/1 q. and 1974/4 q., 1975/4 q. and 1976/1 q., 1976/3, 4 q., 1977/2 q.) while the dollar value recovered as a rule when loans dropped or rose only slightly (1974/3 q., 1975/3 q., 1977/1 q.). U.S. bank loans, of course, are only one factor in the complex dollar market but their magnitude is such to make it a major factor and presently the only one we can influence readily.

To sum up, if we are serious about the integrity of the dollar, we have to choose between driving up interest rates at home and reducing U.S. bank loans abroad. The dollar depreciation of the last few months has demonstrated that the U.S. can no longer be banker to the world without thinking of its own liquidity. I am not advocating the setting up of exchange controls but suggest that a measure of sanity be brought into the admittedly uncontrolled foreign loan activities of U.S. banks.

Yours truly,

ROBERT EISENBERG.

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