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CONFIDENTIAL

PRIME MINISTER

ECGD FINANCIAL PROJECTIONS

I thought I should alert you and our colleagues to ECGD's latest financial projections to the end of this decade, which officials have prepared for Paul Channon's annual discussion of their business plan with Peter Rees.

2 The base case indicates that the Department's cumulative borrowing requirement will rise from the present £400m to more than £1bn in 1987/88, before beginning to reduce. We have, of course, to look at the size and quality of ECGD's reserves and surpluses, as well as their borrowing requirements. In the base case, the reserves, after falling last year, should rise for the rest of the decade from £600m to £900m. The base case is, of course, already included in all Treasury assumptions.

3 The biggest single factor influencing the outturn of ECGD business is the international debt problem. The base case assumes that the problem has been broadly contained and that debtors will, for the most part, honour their obligations. Officials have also prepared a rather more pessimistic scenario on the assumption that real interest

CEP  
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Prime Minister  
Relevant to discussion  
of the Bosphorus Bridge  
contract in EX tomorrow

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rates rise, forcing more countries into arrears and the need for softer terms, including relief on interest. The resulting claims on ECGD entail a borrowing requirement of almost £4bn by the end of the decade and a fall in reserves and surpluses to around £400m over the same period. If such a scenario were to happen, there would be other consequences for British banks, etc. ECGD would not be the only problem we would have to face.

4 If a disaster occurred, rendering the major third world debtors incapable of servicing their debts, there would be horrendous consequences for the US and UK banking systems, as well as for ECGD. Under this so-called "crisis" scenario, ECGD's borrowing requirement over this period could reach some £7bn and ECGD's reserves would be wiped out and indeed moved to a deficit of £600m.

5 I think it is too early to consider whether we need to take any action on the basis of these projections. Officials should be allowed to complete their analyses and I will then report to you again. But I would mention that against this sombre picture, the good news is that on reasonable assumptions, current business being undertaken by



W ECGD on current terms and conditions is likely to pay its way overall, though there are a number of doubtful individual facilities which are under review.

6 I am copying this minute to Geoffrey Howe, Nigel Lawson, Michael Heseltine and Sir Robert Armstrong.

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12 February 1985

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