

International Credit by Renée Sigerson

Eurodollar lending crunch for 1982

New Bank for International Settlements figures show market expansion cannot continue.

Data released in January by the Bank for International Settlements on the status of the Eurodollar market justify, in retrospect, the International Monetary Fund's warning of last Sept. 27 that the mammoth payments deficits of the Third World were "unsustainable" for 1982. The new data prove that the market continued expanding at a record rate in order to finance a deficit for 1981 of \$100 billion (and almost certainly much larger this year), but that previous financial resources are no longer available.

However, the International Monetary Fund did not specify how these deficits might be reduced; senior IMF staff ridicule the proposal still defended by the U.S. Treasury and by some former Carter administration officials that the developing countries may simply cut back. They have already cut to the bone and are importing for the most part only what they need in order to continue to export.

What is clear, however, is the previous pace of Eurodollar lending cannot continue, and that the prospects for a general crisis on the Eurodollar market, realizing in the worst way fears that arose in the context of the December events in Poland, are extremely dangerous.

Precise estimates of the volume of new credits differ. A World Bank survey released by the International Monetary Fund Jan. 25 showed a total \$140 billion in new bank credits on the Eurodollar market, while a survey by the West German news-

paper *Frankfurter Allgemeine Zeitung* Jan. 20 showed a total of \$200 billion in volume. The difference lies in the World Bank's failure to count about \$40 billion in credits taken up by large American corporations in London to finance mergers in the United States. Both sets of figures put the Third World's borrowing at around \$40 billion.

However, these count only publicized credits, and the rule of thumb is that such credits equal only half of all lending to the Third World; the rest are mainly short-term credits not publicized. Add another \$40 billion to the Third World borrowing figure, and \$20 billion in borrowings from governments and international institutions, and the \$100 billion deficit figure is accounted for.

What is considerably more disturbing than the lending figures, which show a 50 percent higher volume of new loans is information provided by the BIS on the market's deposit base. Since the point of take-off for the Eurodollar market, the Eurobanks have relied on deposits generated first by commodity revenues of developing countries and, after December 1973, oil revenues of OPEC countries, to fund loans to countries thrown into deficit by combined high oil prices and high interest rates.

In 1980, the OPEC countries' surplus funds, most of which were deposited in the Eurodollar market, totalled \$110 billion, a figure that sank to less than \$70 billion in 1981,

and will fall to a *deficit* of between \$10 and \$50 billion during 1982—depending on whether the oil price holds (according to a just released IEA report, North Sea crude is bringing the price down sharply).

The evaporation of these funds is reflected in the BIS numbers. For the first time in a decade, the volume of foreign deposits in the Eurodollar market fell in absolute terms by \$13.1 billion during the first half of 1981, the most recent period for which data are available.

By comparison, the deposit volume grew by \$17 billion in the first half of 1980 and by \$28 billion in the second half of 1970. The annual rate of swing into deficit during 1981, therefore, was \$70 billion, or much more than the simple drop in the OPEC surplus. This indicates that the drop in world trade and commodity prices, particularly insofar as they affect Third World countries, has been reducing the deposit base; if anything, the trend would have accelerated during 1981's second half and will continue to accelerate this year, as OPEC moves into absolute deficit.

Where will the Eurobanks obtain the funds to bail out their debtors, particularly when the Federal Reserve is pursuing a high-interest policy at home? The apparent answer is that the Eurodollar banks, who must put up no reserve requirements, are creating "bank money" out of thin air, and that the expansion of loans represents principally fictitious lending and paybacks by banks who can lend no real deposits, and debtors who can pay no real cash.

This is a "supersaturated" environment, the classic condition in which any significant shock can precipitate a major crisis.