

threatened the American banking system (some \$48 billion of Mexico's \$80 billion public and private debt is to American banks). But the central banks' largesse to Mexico, even though it will benefit only the country's creditors and not the country itself, nonetheless hauls into public view the exposed weak flank of the international institutions and their associate banks: the debt bomb would "hurt us more than it would hurt them,"

"Mexico did not roll over and die," commented a senior official at the General Agreement on Trade and Tariffs headquarters in Geneva. "They still have resources they may draw on."

of the IMF's demands, the state of the world economy alone implies a profound crisis for that nation. Whatever concessions it must make to the IMF will deepen that crisis.

The exposure of the central banks' weakness, however, will not be lost on Brazil, which for the first time is having trouble raising the immense volume of funds it requires to handle a \$80 billion debt burden, nor on Argentina, already \$2.5 billion behind in payments on its \$40 billion debt. Although Mexico was unable or too internally divided to persuade the other two countries to join in a common front against the IMF, the fight has not been won by either side. It will erupt when the central banks' money runs out, that is, before year-end. Meanwhile Brazil and Argentina have a greater incentive to push for favorable rescheduling terms. The debt bomb is still ticking.

*From a discussion with a leading GATT spokesman on Aug. 18:*

I agree with you completely that the financial system is about to go bust. I am not aware of any contingency plans negotiated between the central banks, except the old BIS Concordat. All bankers I talk to say that the central-bank arrangements are so vague that any sudden crisis would overtake them totally. I do not think that adequate international preparations are in place.

Central banks can be lenders of last resort even for extreme illiquidity. What about insolvency? Large writeoffs for banks mean a negative net worth—bankruptcy. Illiquidity merges into insolvency. If huge sums were to be involved, for this, governments, treasuries, would have to be involved and step in. Then that means virtual nationalization of banks!

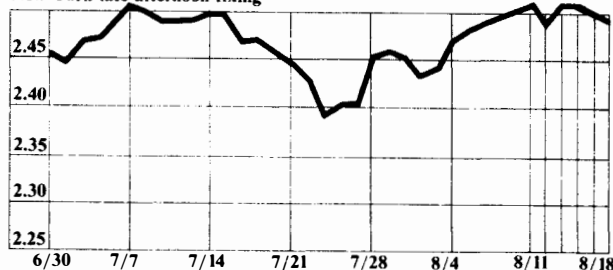
Next we have a timing problem. Sept. 10 is the deadline for renegotiating the 1982 Polish commercial debt. Then the Mexican problem is building up. . . . I expect November and December to be terrible.

Yes, I have heard the same as you concerning Shultz's views on this. . . . But where would the power be behind a McNamara-like world central bank? It could only work with the backing of the main financial powers, the G-10 etc. It cannot work, and if it did it still would not fit.

## Currency Rates

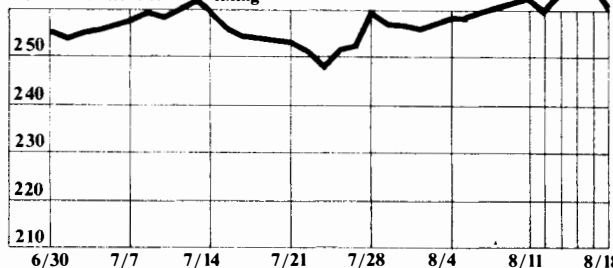
### The dollar in deutschemarks

New York late afternoon fixing



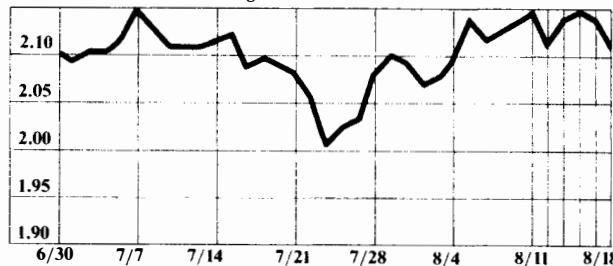
### The dollar in yen

New York late afternoon fixing



### The dollar in Swiss francs

New York late afternoon fixing



### The British pound in dollars

New York late afternoon fixing

