

## International Credit by Renée Sigerson

### The shrinking OPEC surplus

*Reduced earnings of oil-producing countries are being felt in the Euromarkets as a squeeze on deposits.*

If the \$28 per barrel current benchmark price for oil holds until year's end, the oil-producing countries in the OPEC cartel will post a deficit of between \$40 and \$53 billion. This compares to the \$10 billion deficit OPEC ran last year, when sales fell dramatically due to the collapse of demand in Western industrial countries.

The \$13 billion margin of difference in these 1983 projections, which come from New York commercial banks, is based on different views on what will happen to oil sales this year. OPEC output is currently in the range of 16 million barrels per day (bpd); the lower \$40 billion projection assumes that world demand will rise by the fourth quarter to 18 million bpd, due to last year's run-down in oil stockpiles as well as this year's "economic recovery." This assumption, however, is highly questionable.

If the oil price declines further—and pressure is coming from Iran as well as non-OPEC producers for price discounts—OPEC's deficit could shoot up to the \$70 billion range. According to New York market observers, even at this early date, the disappearance of the OPEC surplus is the single most important factor pushing up Euromarket deposit rates.

The differential now between rates on six-month Euro-CDs and U.S. Treasury bills is at a record high of over 1 percent. The gap can continue, so long as the U.S. Federal Reserve continues to increase reserves to the U.S. banking system; but the pressure

on Euromarket funding is pushing U.S. domestic rates towards a rise of 100-200 basis points by the end of August.

Earlier this month, the head of the West German central bank reported that Saudi Arabia had failed to renew investments in West German government obligations. In the first quarter of 1983, the Mideast oil-producing countries sold over \$1 billion more in U.S. government securities than they purchased, according to U.S. Treasury estimates. It is too early to determine whether the \$400 million in liquidations on the short-term end is merely due to "seasonal" factors, such as the wrap-up of the Saudi Arabian fiscal year, which occurs during the U.S. first quarter.

However, to the extent that the bulk of Middle Eastern funds is now expected to be concentrated in short-term denominations, the reduction of \$625 million in long-term investments in the first quarter will probably not be reversed.

Many bankers argue that the disappearance of the OPEC surplus is irrelevant to the availability of funds for international banks. They claim that, since the same funds which would have been earmarked by OPEC for banking deposits are now being used to finance imports from international firms, these funds find their way into the banking system anyway.

What this monetarist argument ignores, however, is the extent to which the offshore banking markets function as a form of private central bank.

Since the whole point of offshore banking is that it is reserve-free, every real deposit placed offshore creates a much larger "multiplier" of international liquidity than the same funds placed with domestic bank branches.

As recently released Bank for International Settlements figures show, international lending from offshore centers contracted dramatically in 1982. Lending from offshore centers in the BIS reporting area was below \$20 billion, compared to \$118 billion in 1981. Lending from the parent branches of U.S. banks, in contrast, leapt up a sharp \$29 billion, to a total of \$103 billion, compared to \$74 billion in 1981.

All this occurred before the oil-price collapse, and was largely the result of much greater banking "caution" in lending to Third World countries which have been defaulting on their debts. Banks have been concentrating their lending operations in parent branches, where they have the full backing of central banking authorities, a form of security that banks cannot afford to do without amid the uncertainties of the current international debt crisis.

What this adds up to when combined with the reduction in oil-producers' funds, however, is an accelerating shrinkage in the offshore Euromarket system as a whole. A U.S. Federal Reserve official told *EIR* that the dwindling availability of real deposits in the offshore markets now represents the most vulnerable point for a collapse of international banking. These officials are particularly monitoring the offshore subsidiaries of "U.S. third- and fourth-tier banks," since these smaller institutions cannot compete with larger institutions for funds and may suddenly have greater difficulty maintaining interbank obligations.