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EUROCURRENCY MARKETS ON TIGHTROPE

NEW YORK, N.Y., Dec. 28 (IPS)--The threat of a major bankruptcy and collapse of the entire international credit structure is so immediate that Eurocurrency banks are desperately moving to directly refinance the huge piles of unsold inventories of European and Japanese manufacturers. Japan alone, a recent heavy borrower on the Eurocurrency markets, has an estimated $8-10 billion of unsold goods sitting in European and U.S. warehouses.

This refinancing, plus the intense inter-bank lending activity to stave off bankruptcies of Europe's major banks, has sent short-term Eurodollar rates shooting upwards to 11.5 per cent. The prevailing high interest rates reflect bankers' heavy demand for overnight, seven-day, and 30-90 day loans from other banks. The larger banks are being forced to pump this new money into their debtors to avoid defaults on loans--defaults that could set off a chain reaction of bankruptcies. While medium and long-term lending in the $100 billion Eurodollar sector has come to a standstill, short-term demand is so intense that only a "chosen few" can expect to receive funds. Invariably, these are large borrowers whose survival is critical for the solvency of the banks themselves. This policy of financial triage is forcing smaller businesses to go broke by the hundreds.

The higher rates are also attributable to the rapid decline in the value of the dollar. The rates now include the "extra" interest being charged to recoup the loss in value on the principal over the duration of the loan.

Government Refinancing Worsens Situation

The situation will be exacerbated further as Western European governments seek financing for their massive payments deficits. According to New York's financial circles, Britain's chances for financing its nearly $15 billion deficit on the Eurodollar market are nil unless it offers its gold as collateral; the same holds true of France and Italy.

Meanwhile, the World Bank and the International Monetary Fund will be in the market for money to bail out Third World countries such as Chile and South Korea in order to avoid a wave of debt moratoria that could bring the whole system down overnight.

Commenting on the deteriorating situation, Marine Midland's Eurodollar Department head said, "This is only the beginning. So far, the lending is limited almost exclusively to previous borrowers--to keep them afloat. Wait til the financing of government deficits starts."

A major new twist will be added to the international credit structure when the U.S. government moves to finance the $35 billion U.S. Treasury deficit and the West German government its $20 billion

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shortfall in tax revenues. The U.S. Treasury's attempts at selling government bonds to the Arabs have been to no avail. Private domestic sources just do not have that kind of money available.

Both the United States and West Germany may have to rely on the suicidal printing of new money coupled with further lowering of the reserve requirements of domestic banks to increase the money supply. These moves would raise havoc with inflation rates --possibly sending them to Latin American levels--and the dollar would fast become worthless. At the same time the credit network would be exposed to the point where one major bankruptcy would blow the whole thing to pieces.