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International Credit by Peter Rush

Credit rationing for the LDC's

Only those developing nations considered sure bets—like Brazil, Peru, and Venezuela—are getting credit these days; the rest are to be "decoupled" from the world economy.

Contrary to predictions by British press analysts and various other observers that the Treasury's freeze on Iranian assets will lead to "domino defaults" and "a situation too horrible to think about," in the phrases of the London *Guardian*'s Alex Brummer Dec. 3, the Eurodollar lending pool is not undergoing an uncontrolled collapse. Analysis of Eurodollar lending to developing-sector countries since the Treasury's freeze shows that the collapse is highly controlled.

Mineral rich countries, or oil-exporting countries, will receive loans—provided that they cooperate in maintaining high raw materials prices even under conditions of reduced industrial demand, and accept almost unbearable conditions of domestic austerity. LDC's without such resources, typified by the 19 countries who scored less than a 50 percent chance of repaying their debts in the September *International Investor* survey, bankers say, will be "de-coupled" from the world economy.

In toto, the $60 billion current account deficit will be covered by an informal but strict "pooling" of the LDC's $68 billion in deposits in Western banks, until larger resources can be brought to bear through the International Monetary Fund, the London *Economist* said Dec. 1. Brazil has received a $169 million World Bank-managed credit with a $60 million participation by a consortium of five Japanese banks. This marked the first time ever that the Japanese have co-financed a syndication with the World Bank, at a time when Brazil is investing heavily in labor-intensive gasohol projects to cut their oil import bill.

In what is probably its first international loan, Namibia has arranged for a 9.5 billion Swiss franc credit from Creafin, a Swiss financial corporation controlled by Rothschild Bank AG. While the loan is guaranteed by South Africa, Namibia has rich uranium and diamond deposits as its actual collateral.

Venezuela is rumored as a good bet for hundreds of millions of dollars worth of credit for its Orinoco oil fields next year.

The example par excellence of just what it will take for an LDC nation to get a loan is Peru.

Less than a year ago, Peru barely avoided default on its over $6 billion debt by negotiating a last-minute loan with a consortium of banks led by Manufacturers Hanover Trust. On Nov. 26, however, it arranged to prepay over $400 million worth of postponed debt service originally due this year, and will pay nearly $1 billion next year—outright, with no rollover. The consortium has agreed to cut its interest rates for new loans from $1\frac{7}{8}$ to $1\frac{1}{4}$ percent over LIBOR.

The reason for the apparent reinvigoration of Peru is the commodity boom in its major raw materials, including oil, copper, and silver, which is expected to add $1 billion to Peru's export earnings. Peru has helped fuel the price take-offs by removing domestic production subsidies for some commodities. Next year's balance of payments is projected to be $100 billion in surplus.

But it's not simply a matter of enhanced commodity prices. Peru has instituted a domestic austerity regimen as prescribed by the IMF and the banking consortium last year.

Its population is now literally eating chicken feed.

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