

International Credit by Peter Rush

Who'll lend to the LDCs?

Studies by Chase and other banks suggest rolling over Third World debt would be tough even if times were good.

With interest rates shooting through the ceiling and Third World loan demand expected to rise by up to 33 percent over last year's already stratospheric \$50 billion, much attention has been drawn to the question of whether the developing countries will be able to borrow what they will need, and if so, from whom. Present trends indicate a crisis blow-out of the LDC debt situation by the second half of this year.

A conservative estimate by Chase's *International Finance* newsletter for Feb. 4 places the current account deficit of the non-OPEC LDCs in 1980 at \$65 billion. Morgan Guaranty's *World Financial Markets* estimates the demand will go as high as \$80 billion, and neither estimate calculates the effect of a world recession. This entire amount will need to be financed, in addition to refinancing the approximately \$100 billion in debt service that will be payable during the year as well.

Chase projects that in 1980, the magnitude of LDC financing to be provided by commercial banks will drop from \$28 billion to \$26 billion, and from 57 percent of the total to barely 40 percent. The inability of the private banking sector to carry the huge added burden is the source of the impending crisis in LDC financing. In its commentary, Chase's Economics Group chooses to ignore the obvious question posed by its charts: where will the (conservatively estimated) \$39 billion in

noncommercial loans come from?

Chase's answer is the "solution" recently proposed by Chairman David Rockefeller, who said he thought the International Monetary Fund should pick up the shortfall in LDC credit. Fed Chairman Paul Volcker has also called for the IMF to replace private bank lending. Neither gentleman could have been aware of the IMF's meager resources for the task, which total only \$6 billion in the "Witteveen facility," \$2.4 billion in the Trust Fund, and some additional billions available from general resources. To lend all of this would require acceptance of stiff conditions by all borrowers.

Restricting its analysis to the bank-financed portion of the total LDC demand, Chase asks whether "recycling will work for the non-oil LDCs this time." It says the tighter foreign borrowing constraints will either lead to "forced disruption of capital flows"—i.e., a country will go bankrupt suddenly—or to "adjustments," import reductions which will hurt growth rates and likewise discourage lenders. Having proved that no matter what they do, LDCs will not be attractive borrowers, the Chase letter concludes that there is "currently no basis" for prediction of debt defaults.

Morgan's estimates reveal more of the problem. In 1979, Morgan reveals, 47 percent of total international credit went to roll over or refinance already outstanding debts, up from 41 percent in

1978. In the syndicated loan category, which accounts for almost all LDC loans, the ratio of refinancing to total loans rose from 47 percent to 53 percent. While gross loans to LDCs rose 28.7 percent, net loans rose only 6.4 percent. With inflation at twice that rate, the real value of net loans to the LDCs actually dropped.

But the worst aspect of all has been the fact that the 100 percent increase of the U.S. prime rate, and with it the LIBOR and other nations' prime rates, imposed a huge extra debt service burden on the LDCs while penalizing the lending banks who depend on short-term deposits. The *Financial Times* reports that there has been very little Eurodollar lending to the Third World so far this year, even though banks are flooded with OPEC deposits. Since the banks can only raise the interest rates every six months, monthly or even weekly rises in the interest rates the banks must pay out on short-term deposits represent unrecoverable losses. The only way out is speculation.

From the side of the LDCs, the added interest charges alone could tack anywhere from \$12 to \$20 billion or more onto the \$70+ billion already estimated loan demand. The debt-service ratios would rise correspondingly as well. Against this debt mushroom must be placed the prospects for LDC economic performance this year: no one is predicting a good year, with halving of growth rates in the key countries widely expected. The creditworthiness of most LDCs has nowhere to go but straight down this year, caused by the high interest rates and stagnating world economy.