Click here for Full Issue of EIR Volume 7, Number 31, August 12, 1980

LDCs face second half borrowing crunch

Non-oil producing countries are finding credit markets closed—unless OPEC decides to finance 'equity' investments.

Although higher oil costs and the world trade slowdown have raised the current account deficits of non-oil producing developing countries to $70 billion this year, most bankers are outwardly optimistic about the ability of the international financial system to handle the increased financing load. Morgan Guaranty's economics department is not quite so sanguine.

According to the June issue of the bank's newsletter, "World Financial Markets," the non-oil producing LDCs (less developed countries) raised only $9.0 billion in publicly-announced Eurocurrency bank credits during the first half of 1980, compared to $15.4 billion during the same period last year. By contrast, industrialized countries raised $14.9 billion during the first six months of the year, compared to $10.6 billion a year ago.

The sharp drop-off in lending to non-oil LDCs, at a time when industrialized countries like Denmark, Italy and Sweden stepped up their borrowing, tends to belie bankers' arguments that the LDCs simply delayed their borrowing in hopes of more favorable credit market conditions. "This raises some questions about the widely-held view that major problems in the so-called 'recycling' process will not emerge until next year," Morgan states. "The evidence of the sharply reduced amounts of gross borrowing by a number of the major non-oil LDCs, in the face of potentially higher financing requirements, suggests that some countries may already be encountering difficulties in obtaining adequate financing."

Or to put the matter more bluntly, despite ample Euromarket liquidity due to the new influx of petrollars, many U.S. banks are simply refusing to increase their exposure in the Third World. The pullback is, in part, due to pressure from the Federal Reserve and the Comptroller of the Currency, both of whose power to supervise American banks' international activities has grown enormously over the last year. U.S. banks are now required to file semiannual "Country Exposure Reports," which the regulators then use to compute exposure to individual countries by specific banks. The regulators notify the banks if exposures are "excessive."

Morgan's analysis is useful in gauging the magnitude of the recycling problem. The bank provides estimates of the 1980 commercial borrowing requirements of twelve major non-oil LDCs, which together accounted for more than three-quarters of all non-oil LDC borrowing in the international credit markets last year. The twelve countries are Argentina, Bolivia, Brazil, Chile, Colombia, India, Ivory Coast, Korea, Philippines, Taiwan, Thailand and Turkey. Morgan estimates that these countries will need to borrow $20.5 billion in Eurocurrency bank credits and international bond issues this year to cover their current account deficits and debt amortization. Yet these twelve countries borrowed only $5.4 billion during the first six months of 1980, leaving $15.1 billion to be financed during the remainder of the year!

Morgan then outlines several ways by which the LDCs might alleviate the second-half crunch. First, they can induce banks to lend by accepting higher interest spreads on loans (a course already adopted by Brazil, which has recently raised funds at spreads of 1⅜ percent to 1½ percent over the London Interbank Overnight Rate, compared to ⅞ percent on comparable loans a year ago).

Second, the countries can reduce their borrowing requirements "through stronger adjustments efforts, implying less economic growth." Third, the countries can resort to credits from the International Monetary Fund, where they will be forced to undergo the same sort of "adjustments."

A fourth alternative, however, is not mentioned by Morgan: namely, the LDCs may obtain loans from wealthy OPEC nations, either directly or mediated through Western European banks, which reportedly are receiving the bulk of the new petrodollar deposits. OPEC governments and Western European banks are understandably reluctant to finance the LDCs when it means simply rolling over American banks' bad paper. Where there exists an opportunity to channel in new credit in the form of "equity" investments in developing Third World productive capabilities, it is a different story.

© 1980 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.