International Credit by Laurent Murawiec

Recycling panics policymakers

It's nearly time to roll over Third World debt, but no one has a good way to do it.

For 1980, developing countries seek between $80 and $90 billion in loans, almost every penny of that for refinancing of the debt which has accumulated since the 1973 oil hoax. Financial policymakers worldwide are gritting their teeth, because less than half of that borrowing requirement—the bare minimum to prevent default somewhere—was filled in the first half of this year.

At bottom, at least $50 billion of that sum must be raised or politically accounted for (i.e., postponed to 1981, as bankers last week agreed to do for Bolivia) before year-end. Thirty-five billion dollars of that total will have to come from syndicated loans and bonds raised on the Euromarkets. "We're already sitting on a rescheduling nightmare," one Washington official stated. He also reported that the State Department was actively involved in the debt refinancing negotiations between U.S. banks and their Third World borrowers. "Each time we sit down and get the private banks together, they're increasingly skittish about rolling over these countries. . . . the private banks will be doing less recycling, period. . . .We want a totally different solution. . . ."

Whether or not any of the plans currently being debated can be implemented will be the major subject of discussion at the International Monetary Fund meeting in Washington at the end of September.

The two kinds of solution under heaviest debate in London and New York banking circles are 1) to hand as much of the debt burden as possible over to the International Monetary Fund (IMF). The Fund would extract repayment under conditions of harshest regulation of Third World economies; or 2) to establish closer coordination between central banks and commercial banks in reviewing loan allocations, mainly by introducing Euromarket regulation.

Although neither solution has the merit of solving the problem of developing country debt, both were intensively discussed this week at an informal gathering of bankers in Alpbach, Austria. Participants at the "sounding board" session for the IMF annual conference included Swiss Central Bank chief Fritz Leutwiler and U.S. Undersecretary of State for Economic Affairs Richard Cooper.

Leutwiler's remarks tended to favor increased central bank activity in regulating Euromarket activities. He predicted that Euromarket lending will continue to expand through the 1980s, despite the overhang of multibillion dollar commitments which are becoming increasingly difficult to refinance; however, he warned, the "susceptibility to crisis will also increase."

At the same time, Leutwiler rejected out of hand the proposal for IMF-backed guarantees for Third World lending. He argued that this would only fuel the uncontrolled growth of unpayable debt.

IMF control over Third World debt was also termed impractical by former Treasury adviser Peter Kenan in an interview this week. "I have a terrible sense," he reported, "that everyone is going into the IMF annual meeting with the idea that the IMF must bail everyone out—and the IMF can't. What worries me is . . . we have no policy, we have no mechanisms—then we'll have a crisis."

Many experts expect the crisis to emerge around refinancing of Brazil. Holder of no less than 16 percent of total Third World debt, or more than $50 billion, Brazil is expected to seek $9 billion in loans over the next four months. Top-level think-tankers and New York bankers have recently visited Brazil to propose that it go to the IMF for $4 billion in standby facilities, rather than expect the banks to do all the financing. But it is a matter of Brazilian national pride not to beg for financing from the IMF, which if it did lend to Brazil would impose lower growth rates on its automotive and agricultural sectors.

At Alpbach, Cooper meanwhile shocked participants with an impassioned defense of the $5 billion-range U.S. payments deficit for this semester. Cooper stated that the deficit will force oil-producing surplus countries to invest in energy-saving capital equipment in the industrialized countries. Challenged by European participants as to whether this wouldn't take away from investment in the developing countries, Cooper retorted that it would probably be a good thing, since the rate of return on investment was better in industrial than in underdeveloped countries.

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