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A Third World credit crunch

Once-preferred major borrowers face the prospect of sharp reductions in loans from international banks.

From December 1981 to January 1982, reports the Paris-based Organization for Economic Cooperation and Development (OECD), loans issued by international banks fell by 24 percent. The drop in bank lending, the OECD notes, is mostly traceable to a sharp reduction in borrowings by Third World countries, particularly those which are net consumers of oil.

Evidence is now mounting that this borrowing decline by Third World nations at the onset of 1982 is not a short-term development. Rather, a harsh limitation of credits to developing countries is apparently going to be imposed by international banks. The banks have been threatening to make this drastic move for two years now, ever since U.S. interest rates began their historic high levels in 1979. Evidence indicates the banks are now very serious about carrying out their threat.

A push for a cutoff of credit to the Third World is being publicized particularly by Swiss international banks.

On Feb. 15, the *Neue Zürcher Zeitung*, Switzerland's leading financial daily, targeted Mexico, the second largest net borrower in the developing sector. In an article entitled, "Mexico in Foreign Economic Dilemma" the *NZZ* states: "In the past year, the official sector alone took up $14.9 billion in foreign credits, raising its total indebtedness to $48 billion. . . . This drastic increase in the rate of new indebtedness . . . gives representatives of foreign banking circles reason to take a more cautious view of Mexico as a debtor country." The Mexican government is planning to raise $11 billion on international markets during 1982, *NZZ* notes. This will "raise foreign debt to $60 billion," the Swiss bankers' journal adds, "assuming that the international banks are willing to cooperate."

Before the 1979 liftoff of U.S. interest rates, oil-producing Third World countries like Mexico, as well as Third World countries with large populations like Brazil, were ranked among the most credit-worthy borrowers with which international bankers could seek to do business.

Since then, however, these countries—through no fault of their own—have been forced to allocate up to 50 percent of all new annual borrowings simply to amortize interest-rate costs on back loans.

These Third World borrowers now faced with the dilemma of having to seek new loans, if only to pay off old debt, at the same time that a powerful faction in the international banking community, apparently spearheaded by the Swiss, are insisting that the Third World reduce its credit demand.

Current developments in Argentina, which has over $32 billion in outstanding international debt, provide a devastating profile of the sacrifices international banks are now demanding in exchange for loans to refinance that old debt.

As *EIR* documented in our Jan. 26 issue, Argentina is being subjected to a process of "Chileanization," that is, an intensity of domestic austerity which may destroy all remnants of parliamentary democracy in that country.

Under the regime of Economics Minister Roberto T. Alemann, who served as the Argentine representative for Union Bank of Switzerland, most publicly owned corporations are being put up for sale to private industry; a complete wage-freeze has been imposed in the government sector despite a 130 percent annual rate of inflation; and the only sector of industry which will be allowed to grow is production for export.

Industrial capacity utilization is currently 48 percent in Argentina, and unemployment is estimated to be at least 4 million. The Alemann regime has announced it will do nothing to alleviate this industrial shortfall until after the inflation crisis is cracked—whatever the cost.

In its Feb. 15 column on Mexico, the *NZZ* leaves little room to doubt that this is the kind of treatment the Swiss banks are now demanding be applied to Mexico.

The Mexican government will attempt to negotiate long-term refinancing of $9 billion in short-term debt this year, the *NZZ* reports. Its prospects for success, the journal warns, are not great, because "the apparent policy of the international banking world has been, up until now, restricted to short maturities and higher interest rates"—a cycle which could force Mexico, like Argentina, into hyperinflation.

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