Click here for Full Issue of EIR Volume 22, Number 5, January 27, 1995

But even more dangerous, like Mexico in recent months, the Italian government has been forced more and more to resort to short-term debt to finance its huge annual deficits. In January alone, Italy must refinance some $60 billion in such short-term debt. With the value of the lira falling amid political instability, the danger is that any added Banca d'Italia (central bank) interest rate rises to stabilize the lira would send the costs of interest on the debt spiralling out of control. Already, the government must budget $100 billion annually for debt service.

Not surprisingly, international financial firms such as Barclays and S.G. Warburg in London, and Salomon Brothers in the United States, are demanding that Italy's government impose draconian budget reduction and radically reduce its annual $50 billion deficit in public pension funding, as a precondition for any more foreign investment into Italian government bonds. The new government of Lamberto Dini, assuming it even gets approved by parliament, faces demands to impose an added $42 billion in budget cuts within the next several months, or face what some financial analysts warn could be a state default, à la Mexico in August 1982.

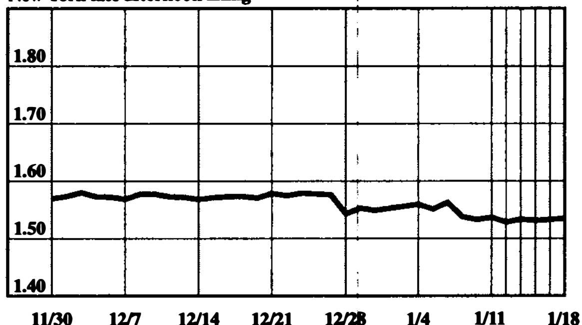
Risks outweigh the rewards

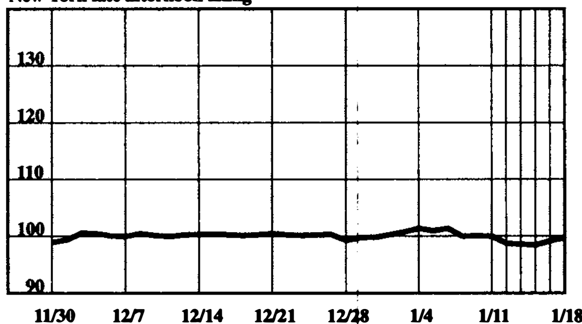
In Sweden, where since 1990 the economy has been deep in the worst depression since the 1930s, the budget deficit has ballooned under the combined costs of state bailout of the bankrupt banking system and the soaring state costs of unemployment insurance. Fully 13% of the workforce is unemployed, up from only 2% in 1988. This year the total Swedish state debt will exceed 90% of GDP, some $175 billion, and the estimated budget deficit will be SKr 189 billion ($29 billion). With such an exploding debt burden, the government has been forced to pay 11% or more to sell its bonds to international investors, further adding to the soaring budget deficit.

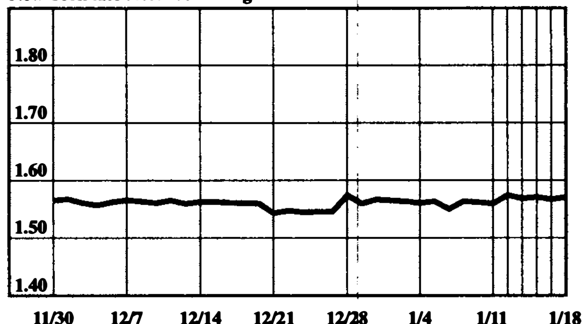
Last August, just days before national elections, Skandia, the country's largest insurance company and a major buyer of bonds, announced it would buy no more Swedish bonds until it was convinced that any new government was going to take draconian steps to cut the deficit. Since the 1970s, Sweden's traditional industrial economy has shrunk, while unemployment was absorbed into a huge public service sector. Today Sweden's public sector is 70% of GDP.

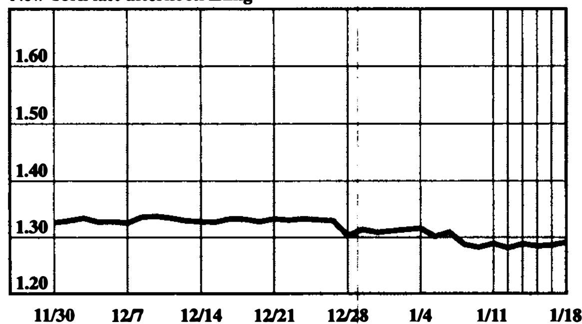
Spain is only slightly less grim in fundamentals, but there is a political crisis in the 12-year reign of Socialist Prime Minister Felipe González. Spain today has a public debt equal to 42% of GDP, but after the Mexico crisis, foreign investors began to liquidate their Spanish bonds, forcing interest rates up to 12%, a rise of 4% since January 1994. Reports from European bankers are that, amid a wave of political scandals which could topple the González government, nervous U.S. and British fund managers have decided that the risks of investing in Spanish debt outweigh the rewards.

Currency Rates









© 1995 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.