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Short-term debt growing

Banks have resorted to a precarious kind of refinancing for current accounts deficits.

Twenty-two oil-importing countries that are the world's heaviest borrowers on international capital markets need 30 percent more funds this year than in 1979, or a total of $70 billion, to meet their payments requirements.

It now turns out that international banks which have been lending to these nations in large amounts since 1974 have been increasingly resorting to a lending mechanism in recent months that could create serious global financial problems during 1981. Reports from various sources are that international banks, since May, have been issuing short-term, bank-to-bank loans to these oil importers to help them cover payments on long-term debt.

Shifting long-term debt into short-term, faster repayment schedules is the exact opposite of the kinds of policies needed to guarantee international monetary stability.

While these instruments help to avert a refinancing crisis at this time, the short maturities virtually guarantee funding crunches over the next 18 months. And short-term loans make it difficult for borrowers to invest in programs for tangible economic growth, forcing borrowers to reduce growth rates and increase domestic spending cutbacks.

The 22 countries involved are the 12 largest developing countries and 10 smaller European industrial nations, all of which are oil-importers. The combined current accounts deficit (international payments over inflows into these nations) of this group for 1980 is around $63.5 billion. Morgan Guaranty Trust, whose estimates on global borrowing are generally viewed as highly reliable, projects that for 1980, this group will call upon the private international banking system for $70.2 billion in loans.

In early October, tallies were released by Euromarket banks on their syndicated lending activities for the first nine months of 1980. Since 1974, Eurosyndications—bonds and loans which international banks can share out among each other and also resell on a secondary market—have been the leading source of the global debt financing kicked off by rising oil costs.

In contrast to short-term instruments, Eurosyndications have an average maturation of 7 to 8 years.

However, for the first three quarters of this year, Eurosyndications were $12 billion less than for the same period in 1979. While for the first three quarters of 1979 Eurosyndications were $60.2 billion, this year they have only been $48.1 billion—despite the one-third rise in funds needed.

Indicating how this shortfall is being met, Morgan Guaranty's "World Financial Markets" reported in September that developing countries "are making less use of the syndicated loan market this year, and more use of forms of borrowing that are not publicly disclosed, e.g. bank-to-bank term lending . . . acceptance credits, and short-term lines of credit."

One indication of the overall volume of such high-interest, short-term instruments is the fact that between last March and September, when U.S. interest rates dropped for the first time in months, U.S. banks displaced $15 billion to their foreign branches, a noticeably large capital outflow recorded for a short period of time.

These funds were displaced abroad due to Federal Reserve imposition last spring of ceilings on domestic credit growth. Starting in June, the sudden surge in overseas credit extension began to show up in Fed tallies of U.S. banks' net positions with their foreign branches, which suddenly reversed from a surplus to a negative position on the order of a $7 billion shift. U.S. banks had begun to cover international loans at the expense of domestic borrowers.

An international economist at a leading foreign-owned New York bank described how these short-term bank-to-bank loans work. A bank in a borrower country puts in a call to a bank at a lender country, and arranges a trade or acceptance credit. When the loan comes due in a few months, the borrowing bank quickly transfers the funds to the lender—and the next morning, gets the same funds re-lent, either from the same creditor, or another bank in the same country. Asked to comment on the stability of such international loans, the economist noted: "1980 looks good, but what about '81? It will be more difficult than 1980, and the market will have to focus on some problem cases."

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