of Commerce, as stated above. CIBC's immediate problem is a Dome Petroleum default on its more than $1 billion in debts by September.

The Big Five Canadian banks have lent Dome $4 billion. They only have $9 billion in capital (stock value of their own banks, plus retained profits). Were Dome to totally default, half the capital of the Big Five—and they comprise 90 percent of the banking system—would evaporate. Of course some of these loans are secured against assets, but in a deflated oil market the value of such assets dwindles.

Dome is not exactly a special case. During the post-1978 period, when takeovers, financing, real-estate loans, and lending to oil firms went on at an increasingly frenzied pace, the Canadian banks were hardly examples of "prudent lenders." In July 1979, total loans made by Canadian banks to Canadian consumers and corporations totaled $73.6 billion. This zoomed to $120.6 billion, an increase of 64 percent, by November 1981. Since that time, under the monetarist regime of Bank of Canada chief Gerald Bovey, the level of loans has stagnated.

CIBC, in addition to its $1.4 to $1.8 billion in loans to Dome, made $400 million in loans to Massey-Ferguson and $500 million in loans to Turbo resources. Royal Bank of Canada made $400 million or more in loans to Sulpetro oil. And so on.

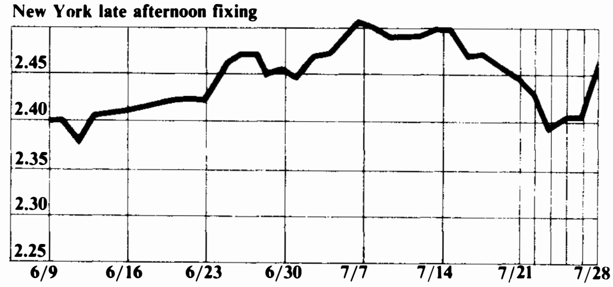
The danger is not only that these and other loans will go bad, but that at a certain point, the Big Five banks will not have enough funds to cover their bad loans without calling back outstanding loans to other companies. This could also happen if depositors began withdrawing funds from the banks. Calling in loans during a depressionary collapse is the process by which a banking crisis explodes. Hugh Brown, a leading bank analyst with the Toronto investment dealer Burns Fry stated July 6 that the banks "have less ability now to survive a depression than they did in 1933."

Many Canadian bank analysts are reporting that Canadian banks will have to report $1.5 billion in bad-loan losses this year. And, according to the Toronto-based McCarthy Securities firm, another $5.3 billion of loans do not currently pay interest. These loans become defaults if the recession deepens. The Canadian banks also have a very large exposure to Third World debt—perhaps a third of the Big Five bank loans are international loans.

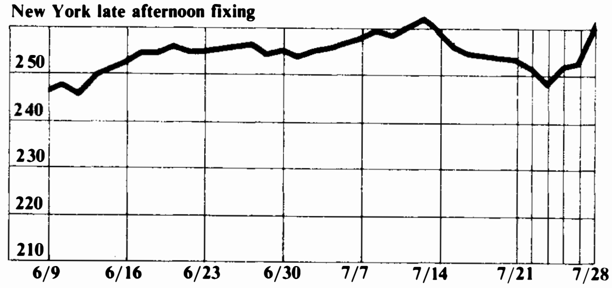
Bank Credit Analyst's Richard Coughlin reported July 23 that the Canadian government might try to save CIBC by nationalizing the bank. However, even were that to happen, "there would be tremendous repercussions for the international banking system," he said. Canada might default on a portion of the $25 to $50 billion in loans that it owes U.S. banks on the interbank market.

Currency Rates

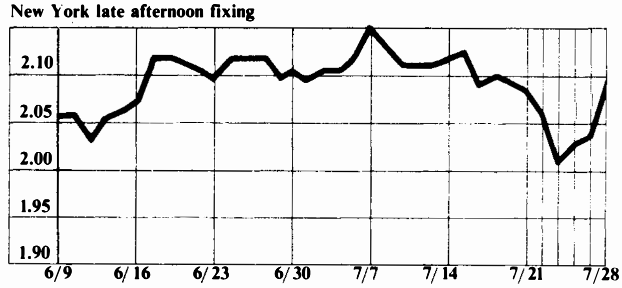
The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing