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[redacted]

The steep rise in oil prices since 19 8 h s produced a sharp deterioration in the current account balances of the industrialized nations and the non-OPEC developing countries. The payments problems are once again raising concerns about the ability of the international banking system to finance some of the deficits. [redacted]

[redacted]

INTERNATIONAL PAYMENTS IMPLICATIONS OF RISING OPEC OIL PRICES * [redacted]

The steep rise in OPEC oil prices since late 1978—from $12.91 to about $29 per barrel as of mid-February 1980—sharply worsened the 1979 current account balances of the OECD countries and non-OPEC LDCs and has paved the way for a record deficit in 1980. We put last year's combined deficit for these countries at $58 billion (excluding official transfers) and project the 1980 deficit at $110 billion. Beyond this year the OPEC surplus and the associated deficit of the non-OPEC countries seem likely to remain close to the 1980 levels, unlike the pattern of the period 1974-78 when the massive OPEC surplus fell sharply. Very slow world economic growth in 1981 could somewhat ease the payments pressures, while more-than-moderate oil price increases would worsen the imbalances. Renewed major imbalances in international payments positions are creating considerable anxiety about the willingness and ability of the international banking system to finance some of the deficits. [redacted]

Review of 1974-78

In 1974 the OECD and non-OPEC LDC current account positions shot to a deficit of $38 billion, excluding official transfers. Over the next four years, however, the combined shortfall decreased rather steadily, dropping to only $3 billion in 1978. Several factors contributed to this decline. Most notably, OPEC oil prices rose a total of only 14 percent in nominal terms between 1974 and 1978 while the volume of OPEC imports increased 93 percent. [redacted]

The 1979 Reversal

Last year, the steep rise in OPEC oil prices—to $18.66 per barrel for 1979 from $12.93 per barrel for 1978—led to a sharp turnaround in these trends. From the $3 billion deficit of 1978, the combined deficit of the non-OPEC countries rose to $58 billion last year. Much of the deterioration was concentrated in Big Seven OECD countries able to withstand worsened current account positions. Of the $55 billion total current account deterioration, Japan accounted for $25 billion, West Germany for $13 billion, and the United Kingdom for $6 billion. In 1979 the worsening in the payments positions of the smaller OECD countries and the non-OPEC LDCs totaled only about $20 billion. [redacted]

Some countries improved their current account positions in 1979 the higher oil prices. The United States posted the largest improvement. The lagged effects of dollar depreciation in 1978 and the slowdown in US real growth relative to the growth of its trading partners led to an improvement in the US nonoil balance that overrode the worsened US oil balance. [redacted]

The 1980 Outlook

Chiefly as a result of higher OPEC prices—an assumed average 1980 price of $30 per barrel compared with $18.66 in 1979—we expect the combined OECD and non-

* This article is based on a recent OER Intelligence Assessment of the same title. [redacted]

OECD and Non-OPEC LDCs: Current Account Balances and Shifts [1]

Billion US $

	Current Account Balance 1978	Change in 1979: Oil Balance	Change in 1979: Balance of Other Factors	Current Account Balance 1979	Change in 1980: Oil Balance	Change in 1980: Balance of Other Factors	Current Account Balance 1980
Total [2]	−2.8	−59.0	4.0	−57.8	−92.6	41.2	−109.2
OECD	27.2	−54.0	12.0	−14.8	−90.6	51.2	54.2
United States [3]	−8.8	−18.3	30.6	3.4	−30.8	17.8	−9.6
Big Six	42.9	−26.9	−20.0	−4.0	−45.5	29.5	−20.0
Japan	16.9	−11.0	−13.7	−7.8	−22.4	17.3	−13.0
West Germany	12.2	−10.8	−2.0	−0.5	−8.8	4.6	−4.7
France	5.4	−3.6	2.6	4.4	−6.6	4.2	2.0
United Kingdom	5.2	2.7	−8.5	−0.7	0.9	3.8	4.0
Italy	7.7	−3.9	1.2	5.0	−7.8	1.1	−1.7
Canada	−4.4	−0.3	0.4	−4.4	−0.8	−1.4	−6.6
Smaller OECD	−6.8	−8.8	1.4	−14.1	−14.4	3.9	−24.6
Of which:							
Denmark	−2.0	Negl	−1.5	−3.4	−2.1	1.5	−4.1
Greece	−1.3	−0.8	0.1	−2.0	−0.5	0.1	−2.3
Portugal	−0.7	0.4	Negl	−0.4	0.1	−0.5	−0.8
Spain	1.8	−1.9	2.6	2.5	−4.6	−0.1	−2.2
Sweden	Negl	−1.1	0.8	−0.3	−2.3	1.8	−0.8
Turkey	−1.4	−0.3	−0.1	−1.8	−0.5	−0.8	−3.2
Non-OPEC LDCs	−30.0	−5.0	−8.0	−43.0	−2.0	−10.0	−55.0
Of which:							
Non oil-exporting LDCs	−23.0	−10.0	−3.0	−36.0	−13.0	−4.0	−53.0
Of which:							
Argentina	2.2	Negl	−2.0	0.2	−0.1	−1.1	−1.0
Brazil	−7.0	−2.5	−0.1	−9.6	−4.0	4.3	−9.3
Chile	−0.8	−0.3	0.2	−0.9	Negl	−0.1	−1.0
Hong Kong	−0.6	−0.2	−1.0	−1.8	−0.4	−0.2	−2.4
India	0.4	−1.4	0.4	−0.6	−2.5	0.5	−2.5
Ivory Coast	−0.5	−0.1	−0.5	−1.0	−0.2	−0.5	−1.7
Pakistan	−0.8	−0.1	−0.6	−1.5	−0.2	−0.1	−1.8
Philippines	−1.3	−0.6	0.2	−1.7	−0.3	0.1	−1.9
South Korea	−1.2	−1.4	−0.9	−3.5	−2.5	0.8	−5.2
Taiwan	1.7	−0.9	Negl	0.8	−1.9	−0.4	−1.5
Thailand	−1.2	−0.8	0.2	−1.8	−0.6	0.3	−2.1

[1] Data for 1979 are estimated, and data for 1980 are projected. All balances exclude official transfers.
[2] The difference between the aggregate deficit of these countries and the OPEC surplus shown in the EIWR article, "OPEC: The 1980 Current Account Surplus and Its Placement," 22 February 1980, pp. 11-14, is accounted for by the current account position of the excluded non-Communist countries (Israel, South Africa, Malta, and protectorates and trusts), the Communist countries' net deficit position, and various statistical discrepancies which have been both large and volatile in recent years.
[3] From Data Resources Incorporated. Oil balance change is change in imports of fuels and lubricants.

[redacted]

OPEC LDC current account to deteriorate as much this year as in 1979. The oil balances will worsen even more than last year as a result of the larger oil price rise (projected at $11.34 per barrel this year versus the $5.73 experienced last year); the overall deterioration will be held down in part by an expected 9-percent rise in OPEC import volume compared with a 9-percent decline in 1979. If the worsening in the combined deficit of these countries is as great as we expect, the 1980 shortfall will total $110 billion[redacted]

OECD Countries

We expect the 1980 current account deficit of the developed countries to balloon to nearly $55 billion, nearly $40 billion larger than in 1979. The deterioration in the OECD combined oil balance should add $90 billion to the projected deficit. We expect the overall deterioration to be held to less than $40 billion by a sizable improvement in the OECD nonoil trade balance. The expected 1980 slowdown in OECD real GNP growth to about 1 percent will markedly slow the increases in OECD import volume from last year's 7-percent rise. Concurrently, gains in exports to the non-OPEC LDCs will also slacken, but probably not by as much; and sales to OPEC will rise in real terms for the first time in three years, adding about $10 billion to OECD export receipts.[redacted]

Among the Big Six, where $20 billion of the OECD deficit should be concentrated, we forecast that each country, except for France and the United Kingdom, will be in deficit this year (before accounting for official transfers):

- *In Japan*, we see a further, although smaller, current account worsening. This year's deficit probably will be about $13 billion; if so, it will be larger as a share of Japan's goods and services exports than for any year in the 1970s. Japan's oil trade balance will worsen more this year than last as a result of the steeper oil price rises. On the other hand, its nonoil balance will improve, as the effects of the 1979 yen depreciation make themselves felt.

- *West Germany* is likely to record a 1980 deficit of possibly $5 billion. This deficit will be the second consecutive current account shortfall for West Germany, an outcome that occurred at no time in the previous 20 years. Like Japan, West Germany is projected to record an improvement in its nonoil balance.

- *France* is likely to post a slight surplus this year, perhaps $2 billion before net official transfers abroad of about the same magnitude. As in 1979, we expect the French to do better than most in limiting the deterioration in their international payments position.

- For the *United Kingdom*, we forecast a shift to a current account surplus; taking into account official transfers, however, would keep Britain in slight deficit. Increased North Sea oil production and a positive swing in the nonoil balance are expected to contribute to the current account improvement.

- For *Italy*, the current account balance, which surprised most observers by staying in the black in 1979 (a $5.0 billion surplus), will likely slide just into deficit this year. The previous three years of strong surplus should prevent this minor deficit from being a concern to Rome.

- Unlike in other Big Six countries, current account shifts in *Canada* will be dominated directly by shifts in the nonoil balance, since Canada has an essential balance in its oil trade. We expect the deficit in these accounts and the overall current account deficit to rise in 1980, in part a result of a widening in the Canadian-US growth differential, which is a key determinant of the Canadian current account balance. [redacted]

The smaller OECD countries should see their combined current account deficit worsen from $14 billion to about $25 billion. This imbalance would be larger in nominal terms than the record shortfall for this group in 1977, but, as a share of their exports, it would be smaller. Almost 50 percent of the deficit will be concentrated in Denmark, Greece, Spain, and Turkey. [redacted]

Non-OPEC and Nonoil-Exporting LDCs

The combined current account deficit of the non-OPEC LDCs will certainly rise again this year; we currently fix it at about $55 billion, up from an estimated $43 billion last year. Although this deficit in nominal terms will be by far the largest ever incurred by the non-OPEC LDCs, it will still be well below the 1975 shortfall as a percent of exports. [redacted]

In contrast to the OECD countries, increased oil payments are not the chief cause of the rise in the deficit, as this group includes several countries that are oil producers—Mexico, Oman, Syria, Peru, Bahrain, Trinidad and Tobago, Egypt, and Malaysia. We anticipate only about a $2 billion rise in the non-OPEC LDC oil deficit this year, compared with a $5 billion worsening in 1979. [redacted]

Focusing on the nonoil-exporting countries in this group, however, identifies some important shifts in oil balances. For these countries, we currently project a 1980 current account deficit of $53 billion, a rise of $17 billion from 1979. Worsened oil balances are forecast to account for $13 billion of the deterioration. [redacted]

The current account deficits of the non-OPEC LDCs are expected to worsen as a result of nonoil factors as well. Slower OECD real growth will cut the increases in LDC export earnings, barring an unforeseen speculative runup in commodity prices. Concurrently, the nonoil-exporting LDCs should experience a further slip from their past growth performances. Excluding India because of its recent drought, these countries should grow at roughly 5 percent in 1980, compared with a 6.3-percent average in 1970-77. [redacted]

The nonoil-exporting LDCs probably will try to hold oil imports constant, as they did in 1974-75, and to take whatever real import growth is possible in capital equipment and raw materials. Thus, the nonoil trade balance of these countries as well as the oil-producing LDCs probably will worsen slightly; the overall nonoil deficit will also be pushed up between $5 billion and $7 billion by the increased interest payments the non-OPEC LDCs will have to make because of their increasing debt and the jump in international interest rates. Among individual nonoil-exporting LDCs, the largest deficits this year almost certainly will be posted by Brazil, South Korea, India, Hong Kong, Thailand, and the Philippines. The combined shortfall of these six countries accounts for nearly $25 billion of the total deficit projected for the roughly 100 nonoil LDCs. [redacted]

The Current Account Outlook Beyond 1980

Looking beyond 1980, the pressures seem to point to a large OPEC surplus and persistent large deficits for the OECD countries and non-OPEC LDCs, probably of about the same magnitude as in 1980. The increases in the imbalances that characterized 1979-80, however, are not likely to be repeated next year. The most likely alternative outcomes to such a scenario are: (a) exceptionally slow world economic growth even with moderate oil price increases, a scenario that would reduce current account imbalances, and (b) a decision by OPEC to raise oil prices, a scenario that would result in slower world economic growth, but would also make international financial adjustment more difficult. [redacted]

The distribution of 1981 oil-consuming country deficits associated with a $100 billion to $120 billion OPEC surplus would be difficult to project at this point. Differential growth and inflation rates, relative competitiveness, changes in market shares, and government policies all will play a role in determining the allocation of the deficits. In 1974-78, for example, despite $182 billion in cumulative OPEC surpluses, West Germany posted cumulative surpluses that totaled $49 billion; the cumulative current balances of other individual oil-consuming countries varied widely. [redacted]

Although country-by-country projections of current account balances in 1981 are premature, we can outline how the deficits might be distributed. First, it seems probable that any declines in the OPEC surplus would be captured by export-oriented countries already having a large share of the OPEC market; this suggests that Japan and West Germany could reduce their deficits in 1981. Second, to the extent that much of OPEC's increased imports are captured by a few of the larger OECD countries, deficits in the smaller OECD countries would have little prospect for substantial improvement. Finally, the deficit of the non-OPEC LDCs—particularly the nonoil group—probably would be as large or larger in 1981 as in 1980. [redacted]

The Recycling Problem

In our view, the recycling of the 1980 OPEC surplus, which we project at US $138 billion,* can be carried out with only moderate difficulty. One major reason is that the deterioration in the current accounts of OECD countries and the non-OPEC LDCs should be concentrated in those countries most able to finance the deficits. (C)

* All current account balances are expressed net of official transfers. We estimate the OPEC surplus, including official transfers, at $132 billion. [redacted]

Of the more than $100 billion increase in the current account deficit projected for the non-OPEC countries between 1978 and 1980, about one-half is expected to be absorbed by Japan and West Germany, countries with very strong payments positions in 1978. In addition, certain individual countries—most notably Turkey, Brazil, and South Korea—have already altered economic policies to forestall potential financial difficulties. [redacted]

Beyond 1980, anxieties about strains on the international financial system are much more justified. Unlike the situation in 1974-78, when relatively constant nominal oil prices and sharply rising OPEC imports led to a near-elimination of the OPEC surplus, the present large OPEC surpluses are expected to continue. We anticipate that nominal oil prices will continue to rise at least at a moderate rate and that OPEC imports will not surge as in 1974-78; both factors indicate continued high OPEC surpluses. [redacted]

Although there are more numerous safeguards to counter recycling difficulties this time around, it is questionable that the private insitutions that financed the bulk of the mid-1970s deficits will be willing to increase massively their lending levels again. Even if loanable funds are available, debtor countries may not be so willing as in earlier years to increase their indebtedness further. [redacted]

In this environment, OPEC countries probably will have to be drawn more directly into the recycling process. Despite their financial and political stake in the well-being of the non-Communist economies, they have avoided taking a large active role in the past. Involving them in direct financing schemes will take great persuasive powers and probably new types of financial instruments. [redacted]

We expect adjustment to be greatest among the smaller OECD countries, the high-income LDCs, and the middle-income LDCs. The first two groups will see growth rates reduced through their trade accounts, by surging oil bills and dampened exports to major OECD markets. Most of them will probably be able to attract enough funds to sustain moderate but appreciably lower rates of economic growth than they have been accustomed to. The middle-income LDCs such as Bolivia, Guyana, the Philippines, Senegal, and Thailand will be more vulnerable because of their narrower export base. Tighter private lending policies for them probably will mean sharply reduced economic growth over the longer term. [redacted]

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[redacted]