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27 **Petrodollar Recycling at Midyear (U)** The problems of recycling huge OPEC surpluses to deficit countries are being met with minimum disruptions this year, but the outlook is less sanguine for 1981 and beyond [redacted]

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Petrodollar Recycling at Midyear [redacted]

Despite concerns about the continuing ability of international financial institutions to recycle large OPEC surpluses, we believe that for at least 1980 the balance-of-payments financing requirements are being met with a minimum of disruption. The system has managed well thus far because the increase in the non-OPEC current account deficit is concentrated in countries well able to finance their payments gaps, international capital markets are highly liquid, interest rates have declined, and ample funds are available through international financial institutions. [redacted]

The outlook over the longer term is far less sanguine. Annual OPEC current account surpluses probably will continue in excess of $100 billion. Moreover, the countries in the best position to finance large deficits will be reducing their imbalance as their domestic growth slows—the United States, West Germany, and Japan. This means the smaller OECD countries will probably see their deficits change little, while the deficits of non-OPEC LDCs will rise. The economies of the latter two groups will thus be squeezed. How much depends on (a) the ability of international financial institutions to develop innovative methods of payments financing and (b) the willingness of OPEC countries to become more directly involved in the recycling process. To the extent that these approaches fail, these countries will be forced to sharply curtail imports and economic growth in attempts to shift the deficits back to the major industrial countries. [redacted]

Magnitude of 1980 Recycling Needs

Based on an average oil price of $31 per barrel, we currently estimate a $67 billion rise in the OPEC current account surplus this year, to $134 billion.*

* All current account balances in this article exclude official transfers. [redacted]

We expect this upsurge to add $46 billion to the combined deficit of the OECD countries and $12 billion to that of the non-OPEC LDCs. Last year the deficits of the developed and the developing countries rose by similar amounts. Nearly two-thirds of the total rise in the current account deficit of the non-OPEC countries is expected to be absorbed by the relatively wealthy Big Seven industrial countries; the smaller OECD countries and the non-OPEC LDCs will each shoulder about one-sixth of the increase. [redacted]

OECD Countries

The major developed countries appear to be having little difficulty handling the substantial worsening in their payments accounts. Their external financing policies suggest a positive encouragement of capital inflows or a relaxation of previous restraints on such inflows. ***Japan's*** 1980 current account deficit, now estimated at $11 billion, is being covered by short-term capital inflows and restraints on long-term outflows; Tokyo may also draw down international reserves. In April, Tokyo arranged for Saudi Arabia to purchase from $160 million to $225 million of government securities each month for an unspecified period. Capital inflows, under direct encouragement or relaxed restraints, are figuring prominently in financing the estimated $6 billion deficits of ***Canada*** and ***West Germany*** and the $4 billion deficit of ***France***. Bonn also has negotiated a $2.4 billion special Saudi purchase of government securities. As for ***Italy***, the projected $3 billion deficit should be easily managed following three consecutive years of large surpluses which helped accumulate official reserves of $22 billion, excluding gold. [redacted]