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International Credit by Peter Rush

Credits and 'risks'

A conference of Anglo-American financial chieftans predicts little credit because of great "risks" in the 1980s. But even banks are "not totally opposed to greater regulation" of the Eurodollar market themselves—even though they appear to be the principal beneficiaries of the lack of regulation.

Controlling the expansion of international lending was the major theme of the International Banking Conference sponsored by the American Bankers Association in New York on Jan. 28-29.

M. H. Fisher, editor of the *Financial Times* of London, who delivered the principal address, predicted a significant contraction of the international loan market in 1980 in response to the new series of global political "risks" which emerged in 1979: Iran, Afghanistan, and so forth.

In his keynote address to the conference on Jan. 28 and in impromptu remarks the next day, Otmar Emminger, the recently retired head of the Deutsche Bundesbank, laid out a series of banking measures for limiting the overall expansion of the trillion dollar Eurodollar market.

The conference took place, however, against a background of developments which point to an expansion of international lending over the next year, at concessionary rates and on a different basis than the standard medium-term balance of payments credits of the past. These include activity brewing to expand East-West trade, and the agreements between Indira Gandhi and French President Giscard.

In the international lending market, a flurry of new loan syndications is breaking the slowdown that has been in effect since last summer. Of note is the announcement last week of a $196.9 million line of credit from France to Peru, which will be used to expand a steel mill, build a hydroelectric power station and extend the Lima telephone system. Between 25 percent and 30 percent of the loan will consist of low-interest credits from the French government and the rest will be provided by French commercial banks at prevailing market rates.

Several weeks ago, the French government extended an $80 million credit facility to the Brazilian state of Sao Paulo.

Discussion of such developments only filtered into the proceedings of the ABA-sponsored International Banking Conference in the form of references to the "uncooperativeness" of the "independent" French and West Germans.

Jim Leach, member of the House Banking Committee, opened the morning session Jan. 29 on "Controlling the Eurocurrency Markets" with a pitch for introducing reserve requirements in the Eurodollar market. Leach authored a bill in the U.S. Congress last spring that would empower the Federal Reserve to move in conjunction with European central banks to impose reserve requirements on Euromarket deposits.

The second speaker, Dennis Weatherstone, chairman of the Executive Committee of Morgan Guaranty, added that the large New York-based international banks are "not totally opposed to greater regulation" of the Eurodollar market themselves—even though they appear to be the principal beneficiaries of the lack of regulation.

Last spring *EIR* reported that Fed Governor Henry Wallich, the leading U.S. proponent of Euromarket regulation, in fact had the full support of the New York commercial banks. The issue of "regulating" the Eurodollar markets arose at that time, a number of New York bankers admitted privately, because West German and Japanese commercial banks were lending out their sizable dollar reserves to Third World countries at cut-rate prices and undercutting the spreads of the New York banks.

"Will the European central banks agree to the proposals for maintaining reserves against Euromarket deposits?" John Haley, executive vice president of Chase Manhattan and the session's moderator, asked Dr. Emminger. Emminger admitted that the task was not an easy one. But he noted that during the Iranian crisis, West German banking authorities were able to collect a lot of information from German banks about their international lending activities that they could never get before.

Emminger proposed a three-stage program for reining in the overall expansion of the Eurodollar market: the consolidation of the (international and domestic) balance sheets of the banks; the introduction of capital controls where necessary; and the imposition of uniform loan-to-capital ratios on international banks, the approach also favored by Governor Wallich.

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