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Third World syndications shrink

Bankers are dickering over safety nets and IMF guarantees, not growth strategies.

The reason Third World countries fear for their financial survival, and international bankers are intent on expansion of petrodollar recycling, was evident in the latest figures on syndicated Euromarket loans, released June 2 in Luxembourg. From January through April 1980, less-developed countries took up 27 percent of Eurosyndications—as compared with 40 percent in the same period last year. Advanced sector OECD borrowers accounted for 51.3 percent of these loans, up from 29 percent in the first trimester of 1979.

Total syndications dropped by 22 percent to 18.2 billion from 23.6 billion. As U.S. interest rates eased in April, and Japanese banks returned to the market, an upturn began that generated 6.8 billion in new syndicated credits, or the total would have been still lower. There is plenty of lendable Euroliquidity, and spreads between deposits and loans are now viable for the banks, who need new assets. But central bank limits per country on loans have by and large been reached by West German banks, and U.S. banks have been holding back Third World commitments as well. In any case, Eurosyndications only go to upper-tier Third World borrowers, not the credit-hungriest.

International bankers' unease over the LDCs' financial survival, and their own loss potential on outstanding loans, dominated what turned out to be sterile sessions of the annual International Monetary Conference, held June 2-4 in New Orleans, Louisiana. Commercial bankers and central bank representatives heard a series of overlapping proposals from Bank of America president A.W. Clausen, Deutsche Bank spokesman Wilfried Guth, Chase Manhattan Chairman David Rockefeller, and International Monetary Fund Managing Director Jacques de Larosiere.

Clausen proposed that banks cut back on their deficit financing, and introduce the international equivalent of domestic "mortgage pass-through certificates" for direct investors to take up the slack. Commercial banks could concentrate on "project lending," preferably through "co-financing with international financial agencies" like the World Bank and its regional affiliates. At the same time, a new international agency would make equity investments in the LDCs. This approach also includes IMF loan guarantees for the banks' assets, using liquidity idled by Third World reluctance to borrow from the Fund except under extreme duress.

IMF Director de Larosiere questioned whether this use of resources could undercut the IMF's ability to impose conditions of Third World lending. He favored a reform of the IMF, however, as proposed over the past couple of months by London banking spokesmen, European Community bureaucrats, and other advocates of a strong IMF-World Bank role. The short-term deficit loans traditionally assigned to the IMF should become longer-term and more "flexible" in conditionalities, so that demands for straight cuts in budgets, imports and industrial activity are instead adapted to the particular "restructuring" designed for the victim by the World Bank "project directors."

David Rockefeller echoed a preference for the IMF-World Bank control of recycling, with the elegant comment that "we [commercial banks] should do our thing and they should do theirs." Earlier, he had criticized Euromarket loans as enabling Third World borrowers to bypass the IMF and "postpone such policy changes as curbing growth."

Deutsche Bank's Wilfried Guth proposed a "safety net" kitty to be established by the 20 leading international banks to bail each other out in the event of dangerous loan losses. Guth reportedly also suggested that the IMF itself borrow in private markets to avail itself of petrodollars, an idea floated privately, as *EIR* reported last month, by the Brookings Institution's Robert Solomon.

The most striking thing about the conference was not the obvious question arising from David Rockefeller's comments—if cutbacks in growth are forced, how can a borrower make good?—but the apparent unwillingness of those promoting more "flexible" approaches to take responsibility for mapping out anything like a real growth strategy.

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