Business Briefs

International Credit

Predictions mount of financial blowout

The latest issue of the *Bank Credit Analyst,* a Canadian financial newsletter considered the most prestigious such financial bulletin, states that within the next 30-60 days there is danger of a serious "accident" on international financial markets. World debt markets are "overextended," the newsletter notes; high interest rates make financing of that debt impossible. Within the coming month or two, a global liquidity crisis may well become irreversible.

In a private discussion on Sept. 3, a top-level U.S. investment banker intimately linked to European oligarchic circles concurred: "Many people think things will improve; they think 'things never break.' " But, "an extremely painful process of adjustment in the Third World" is ahead. International banking is suffering from "growing illiquidity," he noted; "banks are still receiving payment on interest" on their loans, "but nothing of the principal. These debts were never intended to be repaid anyway." The situation ahead "for the Third World will be very painful. . . . What is important is the insolvency of the Third World."

Municipal Finance

Koch plans further fiscal crunches

New York City Mayor Edward Koch, now running for re-election, will institute significant new cuts in New York social services after the election, investment bankers are confident, although Koch is currently publicizing plans to borrow $30 billion over the next decade to finance a new capital-expenditures program. Koch has no intention, these circles report, of demanding increased revenues from the federal government.

"Of all the mayors of major cities," stated a spokesman for the Citizens Budget Commission, which coordinates with the New York banks, "Koch made the most realistic adjustments to new federal realities."

New York was scheduled to seek $125 million on the bond market before June 1982. However, in January, the city will issue a financial plan review. Currently, the terms of the review are being kept confidential, but the Citizens Budget Commission asserts that it will depict a grim financial situation, and revise Koch's campaign spending promises downward.

"Fiscal 1983 will be miserable," the Citizens Budget Commission official stated, characterizing the report's contents.

Bond Markets

Rohatyn and Morgan demand a credit cutoff

Claiming that the municipal borrowing crisis is worse than "that of Chrysler or the thrifts," the *Journal of Commerce,* unofficial organ of Morgan Guaranty Trust, issued a lengthy editorial Sept. 3 demanding that U.S. state and local governments sharply curtail their borrowing, which last year totaled $47 billion.

The *Journal* specifically excoriates the use of tax-exempt municipal bonds to build industrial parks, one of the few sources of viable credit left for local industry. "Congress should redefine the whole concept of 'public purpose' and consider a moratorium or ban on these securities that are not issued by publicly owned supporting enterprises."

The *Journal* notes that the Reagan tax program and the S&Ls' all-savers tax-exempt certificate have made municipal bonds much less attractive to high-income investors and forced the usually substantially lower interest rates on municipal bonds up to the level of those on taxable bonds. Therefore, "banks and equity companies have virtually pulled out of the market as buyers and wealthy individuals are distracted by the investment options and are, in any event, demanding shorter maturities."

Meanwhile, New York financial overlord and Lazard Frères partner Felix Rohatyn proposed to Mayor Koch and the New York State administration at a Sept. 2 press conference that the city, state, and regional authorities determine a collective limit to their borrowing, reduce the total by 25 percent, and scale down services and new construction "because of the unfavorable bond markets," which he assumes will remain that way.

Banking

Somber predictions from German spokesmen

Leading bankers participating in the yearly International Summer Banking School in the West German town of Timmendorfer, Schleswig-Holstein, have expressed unusually pessimistic views on the international financial situation.

The Bundesbank Governor, Karl-Otto Poehl, said in his speech that banks should become far more risk-conscious than they have been in the past and restrain their lending activities on the international markets. Citing the case of Poland, the German central bank chief commented that concentrating too much on one single borrower should be avoided, since it made the lender banks vulnerable to "blackmail," and forces them to grant further help.

Deutsche Bank cochairman Wilfried Guth strongly called upon Third World nations "to adjust to the new world economic realities," and asserted that the commercial banks should impose tough lending conditions similar to those demanded by the International Monetary Fund, when they lend to Third World nations. However, Guth continued, "even those nations that try to accept and implement conditionalities may end up losing their creditworthiness."

Finally, Commerzbank board member Engelbert Dicken stated that German banks have extended 20 times as much international credit as their own

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capital base, and demanded a massive improvement of German banks' capital structures. Dicken also proposed the development of joint financial ventures between OPEC nations, the industrialized countries, and official institutions such as the IMF and the World Bank.

Energy Policy

Hormats gets cool reception in Bonn

During the last week of August, U.S. Undersecretary of the Treasury for International Trade Robert Hormats led a large delegation to Bonn for a perilous exercise: at the recent Ottawa summit conference, the American delegation, in an effort to deter West Germany from entering a very large, long-term agreement to buy natural gas from the Soviet Union, had pledged to promptly present Helmut Schmidt's government a set of alternative proposals aimed at improving the German energy-supply situation.

Bonn has strenuously explained that the contracts with Moscow are already far too advanced to be repudiated; and the tenor of the package brought by Hormats suffices to ensure that the Germans reject it.

Hormats suggested that Bonn reduce the size of the gas contracts, and proposed to create instead a global Western "energy safety net." He then offered to 1) deliver large quantities of U.S. coal, building up East Coast ports and involving mine operators in the investment, and launch German-American synthetic-fuels programs; 2) make firm commitments for sale and delivery of U.S. uranium and enriched nuclear fuels; 3) export U.S. gas, which should become easily exportable, once it is deregulated, and; 4) export Alaskan oil.

While polite skepticism was expressed in Bonn concerning this set of offers, the German press announced that Wycoal Gas and other U.S. corporations have agreed with their German partners to "reduce the first phase and postpone the following phases" of the joint venture in coal gasification the Carter administration had launched with West Germany.

Third World

Costa Rica halts debt payments

Despite extended consultations with the International Monetary Fund, the global agency which aims to bolster countries' creditworthiness through emergency financing, Costa Rica declared a debt moratorium on Sept. 2 on $2.4 billion in outstanding debt. Its creditors include most of the major New York commercial banks.

Government spokesmen, in announcing the move, described the financial situation of the country as "desperate." Sharp import reductions will now be imposed in an effort to gain control over the chaotic financial situation. The cuts are to include a prohibition against imports of both cars and agricultural machinery.

The New York banks did not expect Costa Rica to declare a moratorium at this time, sources have indicated. The suddenness of the move is being interpreted as part of the worsening political crisis in Central America; further financial dislocations in the region are now expected.

Before the moratorium was announced, the IMF had been monitoring the country's finances very closely. During discussions between the IMF and Costa Rican officials, the IMF requested that representatives from the private business sector also be admitted to the talks. Observers interpret this as a signal that the IMF is accelerating the trend to make "private enterprise" the doctrine for governing financial and trade relations between advanced and developing countries.

This is the second occasion on which IMF intervention in Latin America has resulted in debt moratorium. Earlier this year, Bolivia declared a halt on payments after six months of deliberations with the IMF.

Briefly

- **THE SAUDIS** are "buying large amounts of gold off-market, and someone is giving them very good advice as to how to make the purchases," a Washington, D.C. source reported Sept. 4.

- **ITALY'S** top economic ministers met the week of Aug. 31-Sept. 4 and discussed cutting the Italian fiscal year 1981 budget by $9 billion to $23 billion, after having already cut the budget considerably.

- **ITALSIDER,** the giant state-owned Italian steel producer, could not meet its August payroll for 52,000 workers and is scrambling to borrow to cover the costs.

- **NORMAN TURE,** undersecretary of the Treasury, said in a Sept. 3 interview: "The Fed is correct in tightening monetary policy. If only Volcker repeated many more times what he did on TV last Sunday, he would finally convince the financial markets that the Fed will stick to its firm policy, and then interest rates would come down. . . . There is no connection whatsoever that can be established between the size of the Federal deficit, the magnitude of capital formation, and inflation."

- **REP. JIM MATTOX,** a Texas Democrat, addressing the state independent bankers' association at the beginning of September, described Paul Volcker as "a mad scientist." As for Donald Regan, Mattox predicted that when the Treasury Secretary gives his upcoming policy address on banking, the administration will move toward "true deregulation"; Mattox charged that this will open the regional banks, which are responsive to local needs, to takeover by major banks "who may not even have national interests at heart. Twelve of the largest banks in the U.S. are owned by foreigners." Mattox sits on the House Banking Committee.