East Bloc bankers setting their sights on the Euromarket

by William Engdahl and Laurent Murawiec

In the midst of an unprecedented military and political blackmail of Western European governments by Soviet and Warsaw Pact forces, Moscow has quietly put into place an extremely significant series of financial arrangements which provide them vital economic warfare capability suitable to the strategy of decoupling Western Europe—militarily, politically, and financially—from the United States in coming months.

In recent weeks, these financial moves have developed principally out of Moscow and Budapest, with the latter now being sold openly in the West as a new "Swiss-style" banking center. Under the veil of so-called economic liberalization, the former financial center of the Austro-Hungarian Empire is being readied as an essential channel for enormously increased and highly select East-West financial linkages. Only this time, unlike during the so-called détente period of the 1960s and early 1970s, the banking institutions will deliberately exclude American-based banks.

On Aug. 29, Moscow Narodny Finance, the London subsidiary of the Russian state-owned Narodny Bank, surprised many Western banking circles when it entered the Western Eurobond market for the first time in history. Although the initial amount is relatively small, $50 million, it opens an entirely new and potentially significant credit linkage between Moscow and Western European financial institutions. Clearly tongue-in-cheek, a spokesman for the bank in London called it, "very much a toe in the water for us."

Narodny Bank's first bond notes are for a seven-year term, and have been priced in the Western markets at an astonishingly favorable 3/16% above the London interbank borrowing rate. Including added commissions, this means that Moscow is now able to borrow at only ¼% above what preferred major banks in the West can borrow for. The Western bank which is heading the consortium of banks selling the Moscow bonds is West Germany's largest commercial bank, Deutsche Bank of Frankfurt. This same bank, for some years one of the most aggressive in pursuing ties with Moscow and the East bloc, was also the lead bank financing the extraordinarily generous and highly controversial Soviet-West German natural gas pipeline from the Soviet Urengoi, despite extreme pressures from the Reagan White House two years ago. In one month, the first deliveries of that Siberian gas will come into the system of Ruhrgas in the heart of West Germany's industrial steel belt.

The eagerness of select West European banks such as Deutsche Bank to enter this long-term relationship with Moscow at this time of unprecedented East-West tension, is a clear and rather brazen political signal from the European financial oligarchy: They are willing to cast their lot in the coming period for increased financial dependence on East bloc loans while cutting essential ties with regions such as Ibero-America and Africa.

Record levels of borrowing

For its part, according to a number of informed European financial sources contacted by *EIR*, Moscow is maximizing its liquidity through an extraordinary increase of borrowings on Euromarkets in recent weeks, the kind of thing one would do prior to an expected financial collapse. One leading West German bank spokesman commented: "It's funny. The Russians don't need these funds. They've got huge amounts of cash available. They're restructuring their maturity profile to longer term. For example," he continued, "the Russians asked our bank to arrange a Euro-financing, which we did. They then got the funds from us and promptly turned around and deposited them in our bank!" A Russian banker told the West German, "This policy [of maximizing liquidity] is costing us a lot of money."

Over the past period, such Soviet borrowing has soared to record levels. In the two-month period from mid-May to mid-July, the Russians were borrowing on Western credit markets at a staggering annualized rate of $8 billion. This is fully double the previous peak of 1979, just before the events in Poland and Afghanistan chilled such East-West borrowing.

The second major and highly secretive area of Soviet financial ties with the West which has become increasingly significant involves complex barter and counter-trade deals which by nature remain largely outside the official East-West trade statistics. Counter-trade is the increasingly common practice of using bartered goods as part of an international trade transaction. Moscow is currently carrying out sophisticated tri-level "counter-trade" and barter deals according to reports from a number of authoritative sources. Recent trade has involved significant covert, or "black," purchase of OPEC oil, including from such normally pro-Western producers as

Saudi Arabia and Kuwait. These barter deals are made outside the domain of the OPEC production ceiling. In return for giving their oil to the Soviets, the OPEC suppliers get Soviet arms or soft-currency goods. The Russians then take this same OPEC crude (they are not OPEC members) and dump it onto the European spot trading market, through a series of small cut-out trading houses in Switzerland, London, and other trading centers. This puts further downward pressure on OPEC prices in a period of chronic and worsening underconsumption. In return for dumping OPEC crude on the West, Moscow gets large amounts of dollars which are reportedly being used to purchase record amounts of Western—primarily U.S.—grain through Cargill, Bunge, André and the major Swiss-linked grain-cartel group.

The third, and as yet least appreciated area of major financial development, is the transformation of Hungary into a Swiss-style secret "offshore" banking center. The process began almost a year ago when the Hungarian government approved a series of dramatic financial changes designed to attract foreign depositors. According to an Aug. 26 interview in Denmark's *Berlingske Weekendavis* with the president of one of the Hungarian banks involved, Antal Beszedes of the OT Savings Bank, Hungary is offering secrecy and tax advantages better than Switzerland. "Our conditions," the banker stressed, "will be much better than the Swiss for accounts of foreigners. In Switzerland, there is a 30% tax on interest. We will have no tax."

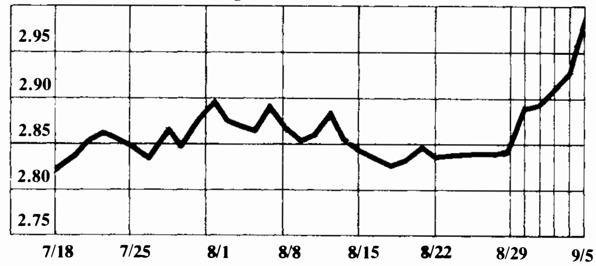
The Budapest banker also stressed that whereas Switzerland has an agreement with the United States to disclose information on private numbered bank accounts in certain criminal cases, Hungary will make no such agreement. This is an obvious green light signal to certain Western "black money" sources to use the Moscow-controlled Budapest banking center for certain operations without fear of disclosure.

The list of European banks intimately tied to the new Hungarian offshore banking suggests that this is part of some kind of deal between Moscow and the financial families of the *Mitteleuropa* oligarchy.

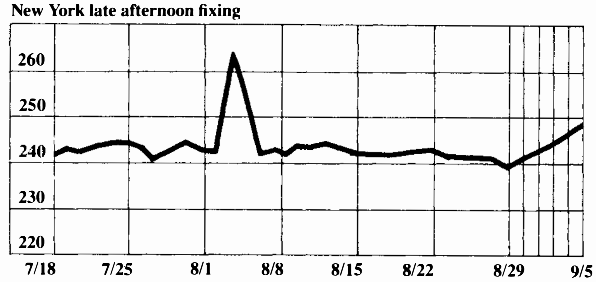
The bank being used to facilitate the Hungarian offshore game is called the Central European International Bank. This new creation is a consortium in which the Hungarian National Bank owns 34% of the East-West institution. The remaining 66% is held in six equal blocks of 11% each. The holders include the Italian Banca Commerciale Italiana, the Union Bank of Bavaria, the Kreditanstalt-Bankverein of Vienna, and Société Générale of Paris. The remaining is held by two Japanese banks, Taiyo Bank, and Long-Term Credit Bank of Japan. The Union Bank of Bavaria is known to be controlled by the enormously wealthy Thurn-und-Taxis family of Regensburg, a leading advocate of accommodation with Moscow as the "Third and Final Rome." The family is known to control the largest private fortune in Central Europe, and perhaps the world.

Currency Rates

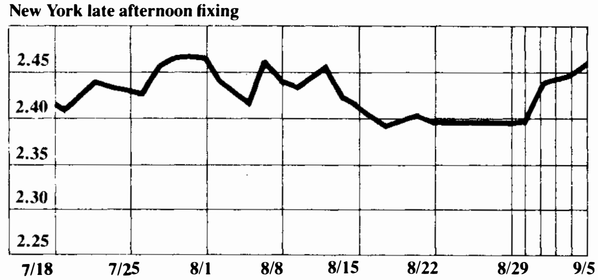
The dollar in deutschemarks
New York late afternoon fixing



The dollar in yen
New York late afternoon fixing



The dollar in Swiss francs
New York late afternoon fixing



The British pound in dollars
New York late afternoon fixing