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INTERNATIONAL CREDIT

Behind the Eurocontrol push: who will get the 'big potato'?

When the Federal Reserve this April put together its secret proposal for reserve requirements on the Eurocurrency lending markets, *Executive Intelligence Review* was the first to report the U.S. plan's existence—and to relay Fed and State Department comments that the plan, among other things, is designed to crimp European and Japanese banks' deposit bases for lending to underdeveloped countries.

Since that exposé, there has emerged what the June 4 *Business Week* describes as "a gathering storm over Euromarket controls." The discussions of how and whether controls should be introduced actually reflect the down-to-the-wire issue of who will recycle OPEC's swelling dollar surplus.

The London press keeps complaining that a "borrowers' market" persists in Eurolending: this is a code term for the continued lending by Japanese and West German banks to the less-developed countries and other borrowers whom the U.S. administration wants to put under the control of the International Monetary Fund and its conditional shut-down-your-economy credit rationing. A key item at the Tokyo summit of Western leaders June 28 will be U.S. insistence that Japan and Western Europe agree to drastically restrict this private-market "over-recycling," to cite the term used by the Fed's allies at the West German Bundesbank.

Assume that something like the conjuncture outlined in our Domestic Credit column occurs. The early-1979 dollar reflows to the U.S. taper off, and the resulting hike in American short-term rates then pushes up rates on Euromarket certificates of deposit and the London interbank rate (LIBOR). Spreads on Euromarket loans—the difference between a lender's cost of funds and the rate charged—become even thinner.

FOREIGN EXCHANGE

EMS currency realignment: France bolstered or grid dismantled

European bankers have been saying that within two weeks or so they expect an official realignment of the currency rates within the European Monetary System (EMS). The time frame reflects the planned meeting of the Organization of Petroleum Exporting Countries on oil prices. The question is whether a Belgian-led effort will succeed in disrupting the entire system—which includes France, West Germany, Holland, Denmark, Ireland and Italy as well as Belgium—or whether the French, on the basis of producer-consumer arrangements for adequate, tolerably priced petroleum supplies, will be able to hold the "zone of monetary stability" together, discipline the Belgians and Dutch, and keep their currency in line with the deutschemark.

As featured in the London press, the Dutch and Belgians have been complaining about the strength of the mark vis-à-vis their currencies, and protesting the increase in West German interest rates which tends to reinforce the gap. Dutch and Belgian bankers say they really don't believe the currency weakness is a big problem—but they would like to use it as a pretext for devaluing the French franc and dismantling the EMS. If France's still-shaky economy is subjected to oil catastrophe, and the French franc is devalued, costlier exports from West Germany and financial destabilizations would follow. Danish bankers, meanwhile, have commented that there is no urgent need for a realignment at this point, although the kroner, formerly knocking its divergence ceiling, has now joined the Belgian franc and Dutch guilder on the floor.

Senior Frankfurt bankers are discussing something far more consequential for the economy—a renewed push to export nuclear power facilities to the Third World, along with certain political measures to ensure the nonproliferation of Iranian-style "revolutions." Dresdner Bank had proposed a multibillion-dollar fund for nuclear exports in the wake of the last oil hoax, but the West German Credit Oversight Board plus U.S. pressures blocked the plan.

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