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INTERNATIONAL CREDIT MARKETS

Screws turned on bonds and Euroloans

From Frankfurt to Zurich to Tokyo, the upward spiral in inflation and interest rates set in motion by the recent hike in world oil prices has upset bond markets in nearly every major foreign money center in recent weeks, except that of London.

Last week was Tokyo's turn in the barrel as rumors intensified that the Bank of Japan was about to hike the discount rate—presently at 3.5 percent—by half a percentage point or more. Japanese ten-year government bonds priced originally at 99 $^1/_2$ fell to below 90 in secondary market trading, the worst performance in postwar history. Foreign yen issues, known as "Samurai bonds," were also badly battered: dealers were unable to place new bonds issued by the Danish and Austrian governments despite discounts of as much as three percentage points.

There appears to be some resistance to credit tightening among Japanese business and Liberal Democratic Party leaders. A Vice Governor of the Bank of Japan, for example, told the Finance Committee of the Japanese Parliament that the BOJ does not intend to raise the discount rate. Nevertheless, the markets are reacting as if the rate hike is a foregone conclusion. And, according to the West German financial daily *Handelsblatt*, the Bank of Japan has already moved to restrict long-term commercial and industrial lending by Japanese banks.

Similarly, the Bank of Italy announced on April 9 that it has decided not to ease any further the mandatory lending ceilings for Italian commercial banks.

This comes just at the point when Italy's depressed economy is show-

BANKING

Behind the banking shakeup in West Germany

International financial newspapers commented widely this week on the proposal issued by West German Economics Minister Count Lambsdorff that his country's banks should be made to "limit" their shareholdings in domestic corporations to 15 percent of total company liquidity.

Lambsdorff made the proposal during the National Banking Conference, a late-March event whose proceedings are still being debated by financial circles worldwide.

In an exclusive story last week, this publication revealed that Lambsdorff's proposal is part of a "package deal" put together by Lazard Freres International, to persuade its West German colleagues to withdraw their support for the newly founded European Monetary System. The package calls for West German banks to concentrate investments in North and South American labor-intensive raw materials "development" schemes, with funds scraped together through liquidation of their holdings in West German industry.

On April 9, the London *Financial Times* discussed Lambsdorff's proposal and stated bluntly: "West Germany's universal banking system (i.e., the arrangement which allows banks to conduct both commercial and investment banking—ed.) differs radically from the Anglo-Saxon concept of things."

The Lazard group wants to impose an "Anglo-Saxon" banking apparatus on West Germany—not the least in order to reverse the Schmidt government's efforts at nuclear generator exportation, and active East-West entente.

The Lazard banking clique is largely based in Frankfurt. There Lazards International has a partial subsidiary, the Dausbank, which it controls with Westdeutsche Landesbank (WdL), the largest regional, "semi-government"-owned bank. Also based in Frankfurt is Walter Hesselbach, former head of the trade union-owned Bank für Gemeinwirtschaft (BfG), and a leading figure in

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ing signs of revival (the volume of industrial output in February rose 8.2 percent from the year-ago level). The new credit ceilings announced by the central bank will permit individual banks to increase their lending by a maximum of 5.2 percent between now and Sept. 30. Bankers had previously expected that the limit would be raised to 7.5 percent or even 9.

Euromarket squeeze?

Tightening credit conditions in the advanced-sector countries of the U.S., Western Europe and Japan point to the possibility of a sudden squeeze in the important medium-term Eurocurrency lending markets later this year. Although the Eurodollar market still appears flush with liquidity, a Herstatt-style international banking crunch is one possible option which might be activated by London as part of its "Crash of '79" option.

New York investment bankers tend to dismiss the immediate likelihood of such a crisis. According to these sources, OPEC's financial surplus, swollen by this year's price run-up, will be placed with U.S. and British banks, as in 1973-74, and then recycled to cover the increased borrowing needs of non-oil producing developing countries as well as the advanced sector countries. Nevertheless, these sources say, there will be a "secular tightening" of overall credit supplies and very few funds will be supplied to the developing sector beyond what is required to roll over existing debt.

Brazil is a case in point. The country's foreign debt now totals $42 billion, the largest of any developing-sector country; 60 percent of its annual export earnings must be used to pay debt service. Although the central bank presently has a $12 billion cushion of foreign exchange reserves, the government has been pressured by its foreign bank creditors into enacting severe new austerity measures. These include limits on the amount of new foreign debt which can be taken on by the Brazilian public-sector companies—which are being undermined in favor of "free enterprise"—and increased emphasis on agricultural production at the expense of industry.

The cost of rice rose 110 percent in Brazil during the month of March alone. According to the April 10 *Financial Times*, "the government intends to announce a drastic package of anti-inflation measures before Easter and is reported to have deliberately delayed the announcement until the holiday to give the Brazilian public time to meditate at length on the belt tightening that will follow."

—Alice Roth

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international Zionist organizations. Along with S.G. Warburg, these private Frankfurt banks are committed to weakening the financial and political stature of the "big three" commercial banks, the Deutsche, Dresdner, and Commerzbank. The private Frankfurt banks have a powerful ally in the WdL, the regional bank of the Ruhr. During 1978, WdL overtook Commerzbank in deposits and loans, becoming the country's third largest bank.

Two years ago, WdL's chairman Ludwig Poullain was driven to resign over a real estate scandal. His replacement, Walter Seipp, had been representing WdL on the board of Kredietbank, Belgium's leading Flemish bank, where he developed a reputation for arranging international business deals. Seipp is a key figure in the Lazard scheme, due to his association with Kredietbank director Robert Triffin, an economist commissioned by the Belgian and British royal families. Notable for promoting schemes for a European "regional currency bloc" over the past 35 years, Triffin hopes to capture the new European Monetary System as an International Monetary Fund partner for this purpose.

Triffin has also persistently advised that the strength of West German banking should not lie with the "big three" commercial banks, but rather with the regional and cooperative banks, led by WdL. To support this argument, Triffin has pointed out that the combined assets of the regional and smaller banks outstrip the "big three" banks of industry by more than 200 percent.

Three new European-American financial deals announced this week add to the evidence that the investment offers now being made to West German and other European banks are strictly aimed at bolstering London's "buy American cheap" scheme.

Baring Brothers, Robert Fleming of London, and Paluel-Marmont of Paris, all investment banks, took major participations in U.S. pension management corporations this week. Pension funds, like insurance companies, are prime targets for investment, as far as London is concerned, because they hold rapidly deployable funds, easily manipulated to rig financial markets. Reports are that French and West German firms are picking up on this idea in the hope of dumping European securities, which have weakened since the oil scare, on the U.S. market.

—Renée Sigerson