

deficits as today's taxpayers become tomorrow's unemployed and treasuries try to spend economies out of a slump. Mr. Miller should tell central bankers at Basle

that, so long as the United States guzzles Middle Eastern oil, they can have either a strong, stable dollar or a stimulative American trade deficit to help their economies out of a rut. They cannot have both.

Morgan Guaranty Newsletter Confirms Eurolending Hurt \$\$\$

Morgan Guaranty Trust's monthly newsletter, World Financial Markets, corroborates the Executive Intelligence Review's analysis of Eurocurrency market lending detailed in its December issue. According to the newsletter, excerpted below, "the expansion of international lending on a net basis was probably no greater than last year," due to "the probable increase in repayments on maturing bonds and credits."

EIR drew the same conclusion in November, working from second-quarter Bank for International Settlements data, and argued that the large increase in the gross volume of lending, while net lending stagnated or fell, led to the creation of excess international liquidity and dollar weakness. Morgan's economists believe the link between international lending and the dollar situation "is a line of reasoning that might be pursued," but decline to pursue it. The banks' role in weakening the dollar, through a lending policy that recycles existing debt service without promoting new exports to the underdeveloped countries, might shed light on the strange silence of the commercial banks on the issue of intervention to back the U.S. currency.

The gross volume of lending activity in the international bond and Euro-currency bank credit markets rose to a new high in 1977. However, given the probable increase in repayments on maturing bonds and credits, it is likely that the expansion of international lending on a net basis was no greater than last year. When also taking into account the increase in the banks' net foreign lending in domestic currencies (as opposed to Euro-currencies), the total net increase in international lending this year may even have been somewhat smaller than last year. This reflects both the narrowing of international payments disequilibria outside the United States and the generally slower growth of world trade and economic activity....

According to preliminary data, the gross volume of publicly announced new international bond issues combined with the gross volume of medium-term Euro-currency bank credits reached a new high of \$72 billion this year. This is an increase of more than \$10 billion, or 17 percent, from the previous record volume of 1976. The amount of such financing arranged also increased between the first and second halves of this year, from about \$34 billion to \$38 billion.

The growth between the two years was concentrated in the medium-term Euro-currency bank credit market,

where the amount of new credits arranged rose from less than \$29 billion in 1976 to more than \$40 billion this year. New issue volume in the international bond market declined slightly, from \$32.5 billion last year to about \$32 billion in 1977. The expansion of Euro-bond issue activity to yet another record high of \$17.5 billion this year, versus \$14.3 billion last year, was more than offset by declines in the volume of new foreign bond issues in the U.S. and Swiss markets.

These figures are for publicly announced international financing activity on a gross basis as opposed to net international credit flows both include bond issues and loans which are not publicized. They refer to bond offerings and bank credit commitments as announced, irrespective of when the proceeds of bond issues are received by borrowers or the extent to which the credit commitments are utilized, or drawn down, by borrowers. The figures do not take into account repayments of outstanding bonds and loans, which are substantial. Furthermore, the data do not include lending in domestic currencies by the head offices of banks to foreign borrowers. Data covering such foreign lending (excluding interbank deposits) by the head offices of U.S., U.K., German, Swiss, Dutch, and Japanese banks during the first nine months of this year show an annual-rate increase of about \$7.5 billion on a net basis (data on gross flows are not available) versus a net increase of approximately \$14 billion in 1976....

Gross Euro-currency lending to the non-OPEC developing countries increased at a slower pace during 1977 than in the two previous years. This partly reflected the reduced financing needs of several major borrowers (e.g., Brazil, Argentina, Colombia, and the Philippines). In addition, a few normally significant borrowers (e.g., Peru and Turkey) were unable to obtain new credits because of their reluctance to take sufficient adjustment measures to cope with a deteriorating external payments position. On the whole, lenders have been heartened by the demonstrated willingness and ability of many of the major developing-country borrowers to take necessary adjustment measures. These measures have led to a significant improvement in their external payments positions from those which prevailed during 1974-75 and for some countries into 1976....

In addition to the borrowing requirements inherent in current account imbalances, the gross demand for international credit will be boosted by the further increase in the amount of external debt maturing next year which will have to be refinanced for the most part....