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International Credit by Peter Rush

The IMF takes command

With private bank credit dried up, many developing countries must turn to the IMF, which is demanding fierce austerity.

Since the Carter administration shocked the world credit markets by freezing Iranian assets on Nov. 14, dollar lending to Third World countries by private banks has nearly ground to a halt. Into the breach has stepped the International Monetary Fund. During the past two years net IMF lending was zero because developing countries could turn to European and Japanese banks as an alternate source of credit. But with private bank credit evaporating fast, most developing countries have no choice but to accept the Fund's credit terms.

Secretary of State Cyrus Vance's mission to put the clamps on Europe coincided with the announcement by U.S. Federal Reserve Governor Henry Wallich before a Senate Banking subcommittee at the end of the week that Third World trade deficits for 1980—which he estimated would top $100 billion as a result of oil price rises—would be "too massive to be financed away." Many countries will have to adjust by depressing their economies rather than financing the deficits by borrowing, he stated, adding that controls were required in the private Eurodollar credit markets to bar "unsound" lending to developing countries from that quarter.

Many leading French and West German banks are now saying that they will neither accept new OPEC petrodollar deposits nor relend the funds to Third World countries. "Commercial banks cannot go on accepting all deposits offered them," Commerzbank chief Robert Dhom recently told the *International Herald Tribune*. And Credit Lyonnais' top executive Pierre Brussolette stated: "Financing of Less Developed Countries (LDCs) is not a problem banks have to assume ... We are, under no circumstances, obliged to channel funds to (LDCs) simply because OPEC deposits such funds with us."

Such statements reflect a serious retreat on the part of European policymakers, particularly the French and West Germans, who had previously proposed to use the European Monetary System (EMS) to mop up surplus petrodollars and direct these funds to Third World industrialization. "You ask whether Germany has capitulated? The answer is yes," one well-informed West German businessman admitted privately. "The weakness of Europe is that it is unable to tackle U.S. actions in the Middle East."

Europe's retreat is already setting up the preconditions for Iranian-style disintegration of other Third World economies.

Turkey has reportedly agreed on a new package of austerity measures insisted upon by the IMF, including another major currency devaluation and substantial increases in prices of key commodities consumed domestically, such as gasoline, fertilizers, sugar and coal. According to the London *Financial Times*, the measures "will undoubtedly fuel Turkey's inflation, which is running at between 70 and 80 percent." In return, Turkey will receive a piddling $78 million credit from the IMF, $100 million from a consortium of private banks, and small additional amounts from the Organization of Economic Cooperation and Development (OECD) countries.

Jamaica, one of the several countries on the IMF's Extended Financing Facility (EFF) tranche which carries the most severe conditions and monitoring, is about to be delivered to the chopping block. Last weekend, Jamaican Prime Minister Michael Manley announced that the country would fail to meet IMF officials' December "test," and that $240 million in IMF credits would have to be renegotiated.

The Philippines, having completed one round of the EFF this year, has no choice but to renew another EFF arrangement to carry its $9 billion debt through the next several years, and has just opened negotiations with an IMF team which the London *Financial Times* insists will be "precedent setting" for other "middle-income" developing countries that have gone heavily into debt.

South Korea, for example, one of the more industrialized Third World countries, is rumored to have applied for an $800 million IMF loan. *The Far Eastern Economic Review* announced this week that the IMF's traditionally "low profile" in Asia will change now as more countries face debt crunches and deepening payments deficits.

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