

stationed in the Pentagon. With 14 years' experience on the "military beat," this seasoned reporter indicated that his information came from "people who keep up with these things, people higher up."

**BUNDESBANK INTEREST CUT:
"PSYCHOLOGICAL MOVE" ACCORDING TO BANKERS**

Oct. 25 (IPS)--West German and U.S. banking sources in New York City derided yesterday's decision by the West German Federal Bank (Bundesbank) to lower the rates at which it lends to West German banks as a "psychological move" which will have little effect on the current credit squeeze.

One West German banker said, "The increase in liquidity will not be overwhelming, and the lowering of rates won't have much impact." The Federal Bank yesterday reduced the Lombard rate, at which it provides short-term funds to banks on security of government bonds, and the discount rate, which is little used in practice, from 9 per cent to 8.5 per cent and from 7 to 6 per cent respectively.

A selective credit squeeze continues. "I do not yet see a reverse of the general tight credit policy," said an official of the New York office of Bayerische Veriensbank. "To be very frank, to go into some industries right now would be foolish. In certain situations, like textiles and construction, you might as well throw your money out the window. I don't think the banks would go into construction to bail the companies out."

At First National City Bank, economists described the move as "fairly cautious," adding that any further easing of credit would be predicated on forcing across a "moderate wage settlement of fall wage demands."

Bank loans rose by 9.2 per cent between February and July, according to Federal Bank figures, a much higher rate of growth than any other advanced sector country. But the banks' capacity to sustain such growth is highly limited. Free liquidity reserves of the banks, according to the central banks' measurements, have fallen from about DM 6 billion before the June 26 Herstatt bankruptcy to less than DM 3 billion at present. Even this increase in bank lending is highly selective. Analysis of Bundesbank figures shows that over the summer banks sharply reduced their short-term credits to weaker sectors in favor of longer-term credits to the potential survivors, a form of credit triage.