

Despite British Countermoves European Monetary Fund Moves Ahead

The strongest public announcement that Europeans and Arabs are pulling together the European Monetary Fund (EMF) appeared in an Aug. 24 *Deutsche Zeitung* interview with West German Finance Minister Hans Matthoef, who indicated that the

EMF — particularly to turn the fund in an anti-dollar direction — are less than honorable. Further, according to reports, Emminger has perceived that the British-Israeli terrorism is directed against the EMF. The Bundesbank has been heavily supporting the dollar in recent days.

WORLD FINANCE

European Monetary Fund will shortly out-dimension the International Monetary Fund. Americans will see that the EMF will stabilize the dollar, Matthoef said. The Finance Minister stated that he takes the dollar fall more seriously than the Bundesbank, the West German central bank, and pointedly noted that there is not now nor will ever be a fight between the Schmidt government and the Bundesbank; the fight is inside the Bundesbank itself.

Sources close to the central bank indicate that Bundesbank president Otmar Emminger has now been convinced to support the EMF. He is reportedly now aware that the British intentions towards the

Top West German industrialists say that they will tolerate the dollar dropping below 2 deutschmarks, and are preparing in good time to drive the dollar up to the previously agreed upon 3 deutschmark level.

Arab Coordination

The announcement by Saudi Arabia's Prince Fahd Aug. 23 that the Saudis will not raise the price of oil at least until 1979 and will not drop the dollar, not only provided support for the dollar, but is known to be a move in coordinating the Arab Monetary Fund with the EMF.

European ministries were briefed on Fahd's announcement several days before it was made public and agreed to "coordinate" with the Saudis. Strategic meetings to couple the EMF and the AMF, begun with a meeting between Chancellor Schmidt and Prince Fahd three weeks ago are continuing, while according to the French daily *Le Figaro*, the Arabs are converting British real-estate investments into dollar investments.

As a senior official in the West German Finance Ministry commented last week, "The British will not get into the EMF without paying a very high price."

The most immediate weakness perceived by the Europeans is the United States, where the Carter Administration and other political forces continue to flounder. While both the Germans and French agree that the EMF must be based on gold, the French are demanding gold backing now; the West Germans are taking a softer position reportedly in order to absorb possible attacks from the U.S.

In the same *Deutsche Zeitung* interview, Matthoef declared: "We will fulfill our commitment to the Soviet-German Accords (of May 6, 1978) . . . and if money is needed for that, it will not be withheld. Washington should not worry; it (the Accord — ed.) is not directed against America . . ." A West German banking consortium, led by Deutsche Bank, is in Moscow negotiating a \$500 million credit line for Soviet development projects and increased trade.

London Out on a Limb

With firm support for the dollar from the Saudis and the Shah of Iran, and the recognition that the EMF is not an antidollar currency bloc, the City of London has been left with few options.

Arab Monetary Fund Opens Door for Business

The Arab Monetary Fund (AMF) made its first loan last week to the government of Egypt in the amount of \$17.5 million. The loan was agreed upon by the Fund's President Dr. Jawad Hashim and Egyptian Central Bank Governor Dr. Mohammed Abdal Moneim Ibrahim in Abu Dhabi, AMF headquarters.

Ibrahim told the Abu Dhabi newspaper *Ittihad* that his government was gratified with the speed with which the loan came through. "It would have taken a long time if the loan was from a non-Arab monetary institution." The loan which will be used to help Egypt with its mounting debts, is being extended at between 3 to 4 percent over a three-year period — terms the International Monetary Fund would not likely meet.

Shortly after the Egyptian loan approval, a Sudanese delegation arrived in Abu Dhabi and a \$7.5 million loan was approved.

The Arab Monetary Fund was founded two years ago with the participation of all the Arab countries. Its capital is still quite small, a little more than \$910 million which is being lent in a unit of account known as the Arab dinar.

After a meeting of British Conservative leader Margaret Thatcher and West Germany's Christian Socialist Franz Josef Strauss in Vienna on Monday, Aug. 21, Strauss attempted to undermine the EMF from the Bundestag. The West German government is obliged under the constitution to answer Strauss's question: why Otmar Emminger was kept out of discussions leading up to the Bremen Accords. Matthoefer answered for Chancellor Schmidt that Emminger was kept more informed than even he, ending the discussion. The next round of monetary discussions will take place at the Paris Group of Ten deputy finance ministers' meeting scheduled for September 8.

Matthoefer: 'Firm Determination' To Defend \$

Excerpts of an interview conducted by Salchow of the Deutsche Zeitung, with West German Finance Minister Hans Matthoefer:

Hans Matthoefer, who has been Finance Minister for six months, is a man who thinks ahead: he does not want to be solely the nation's bookkeeper, but a political minister who fully uses "all the political possibilities for shaping developments" of his office.

Under present circumstances Matthoefer is taking the effects of the dollar's weakness more seriously than the Bundesbank. Matthoefer has in mind far more, however, than the 10.3 percent upvaluation he calculates the D-mark has undergone since the end of 1976. Like Claus Koehler of the Bundesbank directorate he is committed to the zone of European currency-rate stability resolved upon at the Bremen summit of the European Community, a stabilization of the foreign exchange markets.

Matthoefer: "Now, as before, there exists firm political determination on the part of the West German Chancellor and the French President to launch this new instrument of monetary policy by the first of January."

Because skeptical currency dealers fear that the EMF would generate a gigantic inflation machine,

Matthoefer himself concedes that during one of the most recent central bank meetings a "heated atmosphere" developed. Even Social Democratic Party members of the central bank council were openly mistrustful, because too little information on the monetary program had been presented prior to the European (Community) meeting.

Also intended to reassure the Bundesbank is Matthoefer's indication that it will be impossible to weaken the strict currency discipline of the European currency alliance, that is, the snake with new, enlarged currency links.

Matthoefer: "There will either be a European Monetary Community or nothing."

In the Finance Minister's view the zone of European currency stability will do more than contribute in technical market ways to the stabilization of the foreign exchange markets. A forceful expansion of intra-European trade is above all the expected result.

... The Finance Minister has taken precautions in case it should appear that he has placed an unrealistic degree of confidence in Jimmy Carter. In his usual prudent way, he also holds a Soviet joker in his back hand.

Matthoefer: "I have made up my mind to energetically bring to fruition the West German-Soviet economic agreement — which will be in effect into the next century — very soon indeed." If funds are needed to do this, Matthoefer will ensure their availability.

Washington, nevertheless, need have no doubts about the direction of Matthoefer's policies. The Finance Minister certainly believes that there exist no divisive differences between Bonn and Washington about diagnosis and therapy for the dollar. Nevertheless he considers the implementation of the therapy to be a domestic American problem — whatever that may mean.

The world monetary conference that begins in September in Washington will in any case bring new controversies if the Americans do not become liberated from the nightmare that the European Monetary Fund, which may out-dimension the International Monetary Fund itself, will, contrary to West German intentions become an institution directed against the dollar. The firming of the dollar (is) expected by Matthoefer as its first result