# Europe brings down interest rates

*The EMS is informally promoting trade and investment through corporate finance*

The French-government owned Electricité de France issued a Eurocredit of $75 million this week with an interest rate of .35 percent over Libor. The Euroloan managed by France's Crédit Lyonnais, the third most active bank in Euromarket syndications, is being offered at the lowest interest margin to hit the Euromarkets this year.

The EdF loan is the latest example of a low-interest strategy which leading banking interests in France and West Germany have designed for top European corporate customers. Petrodollar inflows to the continent have facilitated this.

The move toward lower interest rates is being primed on a daily basis by the workings of the European Monetary System, the currency stabilization program implemented by the French and West German governments in 1979 to create the basis for a new international monetary system. From the outset, Chancellor Schmidt and President Giscard made it clear that their goal was to channel "surplus" international liquidity into modernizing and expanding continental Europe's industrial base and opening up new long-term trade.

The benefits the EMS offers European industry are indicated by the following.

In recent months, the Swiss Central Bank has worked towards setting up informal associate status in the EMS. About six weeks ago, the Swiss and West German central banks agreed to link their currencies through a de facto fixed parity agreement. As a result, West Germany's largest firms are borrowing substantial seven-to-twelve-year funds from Swiss banks at prevailing Swiss domestic rates, which are in the 7-8 percent range.

These loans have helped West German firms such as the Mannesmann pipeline manufacturing company to consolidate major deals. This week Manesmann was awarded a $340 million water pipeline contract by Saudi Arabia.

When Chancellor Schmidt announces the results of his just-concluded trip to Moscow, Mannesmann and related European firms are expected to win multibillion dollar contracts for Siberian development financed by German-led banking consortia.

Lower European corporate financing costs have also facilitated a series of dramatic acquisitions and mergers, particularly in the auto and steel sectors. Michelin Tire, for example, has sold off its 50 percent holding in Kleber-Colombes to a subsidiary of Germany's Bayer Chemicals. Michelin will use the funds to finance expansion plans in North and South America.

Peugeot and Fiat are negotiating a major engineering joint venture which will integrate their operations worldwide. Otto Wolff steel, which also represents the Luxembourg steel giant Arbed, has just purchased a growth-oriented agricultural equipment supply company in Houston, to enable it to expand American sales overall. Demonstrating Arab confidence in European basic industry, Kuwait announced this week that it had just purchased $1.4 billion in equity in Volkswagen Brazil.

A recent *Neue Zürcher Zeitung* report on first-quarter 1980 current accounts settlements by EMS members emphasized the expanded net liquidity available to European central banks. The reason is the upvaluation in their gold reserves, which under the EMS takes place through European Currency Account clearing every three months. The potential for further long-term, low-interest lending is correspondingly expanded.

In contrast to Europe's efforts to use low-interest loans to bolster and protect industry in the face of the worsening U.S. depession, Anglo-American banks are sticking firm to the old game of trying to attract international capital flows with exorbitant interest rates.

With returns of 15-16 percent on British gilts, the Bank of England injected £700 million this week into the U.K. banking system to finance the latest round of government paper issuance. Manufacturers Hanover has just opened a full operating branch in the Channel Islands to market short-term certificates of deposit. Chemical Bank announced the first-ever issue of a high-interest certificate of deposit denominated in Special Drawing Rights (the International Monetary Fund basket-numeraire) this week, while Morgan Guaranty and Citibank are on a big push to market CDs in Curacão and the Cayman Islands.