

International Credit by Renée Sigerson

Sovereign lending on the way out?

Trade credits and non-dollar loans are rising as non-U.S. banks prepare for a post-dollar era.

Increasing indications that the major non-U.S. international banks are moving away from straight Eurodollar lending to sovereign nations into a variety of other forms of lending, from suppliers' credits to loans in their own currencies, corresponds to the recognition outside the United States that the U.S. economy, and consequently the dollar, are headed for a major blowout. The emerging pattern of financing arrangements corresponds to the expected permutations by which some modicum of lending and trade can continue in the aftermath.

Leading the way are the British, who, following the 1979 revocation of sterling exchange controls, are taking this opportunity to carry out their long-held plan to bring sterling back into the center of international finance.

Two sterling loans, one for £150 million (\$269 million) for Sweden announced by National Westminster last month, and a second of the same size for an as yet unannounced borrower, are the largest of a sudden spate of sterling Eurocredits. Banking sources in Britain indicate several more will soon be announced.

Sterling acceptance credits are also on the rise: the large £365 million (\$653 million) such facility for the Mexican oil company Pemex, which was announced in September, heads the list. Eight other

overseas borrowers, primarily government agencies, have followed suit.

Finally, Britain is moving strongly toward loan packages with high components of trade credits and sterling lending, and is doing so in heretofore shunned markets. Last month, Brazil was granted a \$1.556 billion loan package, the first British lending to Brazil in five years. Almost half the total, \$682 million, is in the form of suppliers' credits for British exports to Brazil. Another portion of the remaining \$874 million, whose size has not been disclosed, is in sterling.

According to a New York spokesman for the lead bank in the consortium raising the commercial funds, Lloyds International, more and more lending is being tied when possible to actual projects that can serve as collateral, or to specific goods in trade. As for the old form of untied sovereign credits which can be spent anywhere, bankers are "very unwilling to do that these days."

It is generally recognized that syndicated loans are off, especially to the developing countries. The number of banks active in international lending is also falling, in line with the falling volume of new business on the Euromarket.

The head of international economics at a New York international bank said that whether what he termed "predatory financing" was

on the rise, is being "actively debated" in banking circles. But this kind of financing will definitely increase in intensity, he said.

In particular, suppliers credits generally imply at least partial government subsidizing of interest rates and a transfer of the risk from lender to exporter. Reliable figures for the volumes of such subsidized rates for 1981 are not available, and even the published figures for 1980 and earlier are questionable. Apart from the cases of the U.S. and Japanese Exim banks, the subsidies take the form of central-bank discounts, guarantees, or simple subsidies of interest-rate differentials applied to loans originating in the private banking system. Which ones are subsidized is almost impossible to detect.

However, it is quite certain that these loans are a major part of every suppliers' credit for the developing countries.

In the German case, where a special facility exists for the less developed countries, activity has stepped up quite a bit recently. At the same time, the German international banks have largely withdrawn from the Euromarket syndications, in favor of mark-denominated export financing.

The stagnating European economies are vying for LDC trade, and spreads are low on many Eurocurrency loans.

But underlying the move is the universal recognition that much of the existing LDC debt is never going to be repaid; that the storm clouds of dollar crisis are going to burst in the not very distant future; and that loans in domestic currencies, associated with one country's trade, are the safest—if not the only viable—way to go.