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Credit Issues to Eastern Europe Need Coordination

Especially in recent years, credits granted to the socialist countries in Eastern Europe have grown strongly, and this has given reason to ask forcefully for the coordination of such issues though the subject as such — coordination of the entire credit policy — was mooted, mainly within the framework of the EC already about 10 years ago.

It is not so much the volume of the credits given by some countries since about the middle of the sixties but the conditions attached to them, that drove other western governments to press for coordination in this field. A mere glance at the conditions granted with credits to Eastern Europe, and at the number of them, will show that western agreements made on joint consultations and previous agreements on conditions have been kept only to a limited extent. Some countries are worried about their own competitive position, and this seems to be the main explanation for the fact that the agreements between them were, in most cases, honoured more in the breach than in the keeping: this is also true of the astonishing volume which credits granted recently to Eastern Europe have reached.

This total weighs again on the shoulders of the creditors and presses them to new talks now or very soon. But nowadays, there will be less talk than earlier about periods to run, rates of interest, redemption-free years, and regulations about export credit insurance arrangements. Today, the fundamental question in every single case of a planned new credit is the problem of whether the potential debtor will be able ever to repay. It is true that, from one eastern country to the next, their individual repayment capacities have to be assessed quite differently. Yet the relations between the total volume of credits already issued or new credits to be granted yearly and annual deliveries of goods and services to the West by individual debtor countries make it imperative that now and not later is the point in time when such fundamentals must be thrashed out.

To avoid any misunderstanding: We are far from casting doubts on the — so far — excellent reputation and behaviour of East European states as debtors, or on their overall economic potential, as a whole. The only thing that worries us here is the sober knowledge that, in spite of a genuine

willingness to pay and/or economic capacity to pay and/or deliver goods and services in return, the day may soon be dawning on which some or all Eastern European countries have become illiquid because they do no longer succeed in performing the transfer of real values (goods, services, e.g. tourism). And as soon as liquidity problems as to redeemability appear, no creditor country may look on complacently what other western industrialized countries do in relation to eastern credits. For every new credit issued in that direction adds to the redemption risks for all the other creditor governments.

The economic cycle which has demonstrated its parallelism just now all over the Western World and may continue to be so demonstrated has already set up an upward curve of rising difficulties. Since the autumn of 1974, imports from Eastern Europe have dropped visibly. The same might be repeated to-morrow, but then — if and when Western creditor countries continue their behaviour in making available credits to the East — on a much higher level of indebtedness of the socialist partner countries.

When once repayment of credits should not be made by the due date, the creditors might be forced to undertake awkward economic operations in their own countries in order to rescue the principle of real value transfer as the only real basis of debt redemption. In contrast to past attempts at harmonizing credit practices, coordination should now, from the very beginning, include Eastern Europe in order to safeguard its interests.

The main task to-day is to suggest both to debtors in Eastern Europe and to western creditors, including states in Western Europe, Japan and the US, to think over the possible consequences of uncontrolled further credit growth. A thorough analysis of the relationships between debtors and creditors in East and West, respectively, will show that an upper bearable limit for maximum indebtedness is clearly indicated in a number of cases already now. If and when no further resources can be mobilized, some socialist countries may then probably be compelled to cut down their imports from the West successively and systematically for a number of years, but at the same time to increase their efforts to export more to the West.

Klaus Bolz