

of all their country's woes. Understandably, then, the Jaruzelski regime is not eager to say anything openly about these credits. But this silence carries the risk that there will be an even more hostile reaction from the public once it learns about the agreement. This in turn may lead to some developments that may take both the Soviet and Polish regimes by surprise, something not uncommon in Poland's troubled postwar history.

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EAST GERMANS BENEFIT FROM U.S. BANK CREDITS THAT DON'T CALL FOR HUMAN-RIGHTS CONCESSIONS

(By Frederick Kempe)

EAST BERLIN—American bankers' eager resumption of credits to East Germany is helping the country avoid human rights concessions in its financial relationship with West Germany.

East Germany avoided a Polish-like financial crisis in 1982 and 1983 through two separate credits negotiated and guaranteed by Bonn and extended by West German banks. In return, East Germany eased restrictions on West German visits to the East, and it also last year allowed 40,000 East Germans to emigrate to West Germany.

Western experts now believe that East Germany yielded the short-term human-rights concessions to pursue significant longer-term aims that would spare it from such a vulnerable political position again. It combined the West German credits with a strict austerity program and dramatic import reductions to considerably improve its economic performance and its image among international creditors, who now are competing to give the country money.

CHANGE OF COURSE

Bank of America, Manufacturers Hanover, and Citicorp, who were refusing East Germany new credits a little more than a year ago, are managing with the Bank of Tokyo a \$150 million credit that has grown to \$500 million largely due to U.S. banks' demand. The loan hasn't any political strings attached, and its terms are the best East Germany has seen since the Polish repayment crisis— $\frac{7}{8}$ percentage point over the London Interbank Offered Rate (LIBOR) or an option for $\frac{1}{2}$ percentage point over the U.S. prime rate. It is to be repaid over 7 years with a 3 year grace.

"It's all a political business," says Wolfgang Seiffert, economic adviser to the East German government until 1978, and now a professor in Kiel, West Germany. "The attempt of East Germany to get money from American and other banks is an effort to get western finances without liberalization measures. The money will give East Berlin a stronger hand for its political games with West Germany because it doesn't need Bonn's money as much anymore."

West German bankers also complain that the Americans have been driving prices down in their effort to get back into the East German lending market that they abandoned in 1981, when Poland cast a shadow over all of Eastern Europe.

Until last year, West Germany banks were extending the East Germans primarily commercial loans, usually to be repaid after one year at a rate three to four percentage points above LIBOR. However, East Germany extracted far better conditions from First National Bank of Chicago when it worked its way back into the market last year. First Chicago offered a \$75 million club loan at only one percentage point above LIBOR, a rate that European banks thereafter were forced to match despite a feeling by many lending officers that the margin wasn't sufficient.

THE GROWING GAP

U.S. banks are injecting money into the East German economy at a critical time. East Germany considerably reduced imports over the past 3 years to achieve hard currency trade surpluses and to service debts, but it also dangerously reduced investment. The result was that the technology gap between it and its West European neighbors grew.

Western economists expect the next East German 5-year plan, from 1986-90, to include an ambitious investment program, particularly emphasizing purchases of Western technology.

This is partially a response to a Soviet ultimatum that Moscow is to get Western quality goods in exchange for the raw materials it provides Eastern Europe, or