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Dr Ernst-Gunther Bröder

Euromoney asked two of the world's leading borrowers for their views on the continued inventiveness of the national capital markets.

Eugene H. Rotberg, vice president and treasurer, World Bank

Communications have permitted buyers and sellers to respond to each other virtually instantly, while simultaneously aware of competing financial opportunities throughout the world. National savings and markets are increasingly freed from legal, regulatory, and practical constraints which were designed to inhibit the transfer of capital across domestic borders. Financial engineering permits: mistakes once made from getting worse; wise decisions to be captured; the hedging of risks attributed to currency, interest rates and spreads; and the leveraging of financial decisions through options and warrants. All of this leads to the view that we should "measure our performance" frequently and intensively, and, judge ourselves by the quality of our short-term decisions which are facilitated by new financial instruments.

The "integration of markets" makes the valuation of credit more difficult, links together virtually all important players in the world's financial system and makes virtually impossible any "orderly" market response or regulation by domestic monetary authorities.

It would seem reasonable to conclude,

therefore, that we are in the midst of a fundamental restructuring of how savings move worldwide as well as an opening-up of a whole range of possibilities, extending from disaster scenarios to explosive and exciting implications for growth in both the industrialized and developing world. Indeed, issues involving national sovereignty and the political economy are likely to confront us with as much drama as the industrial and managerial revolutions.

Everyone seems to be writing and talking about pieces of the picture. The political and social implications, however, are illusive. I suspect that one of the reasons for the lack of focused public policy attention is that, when one is involved in the midst of a structural change, it is hard to notice and harder yet to resolve the political implications. These may be outside the expertise – or interest – of the participants who have the technical familiarity with what is going on.

Conclusion: Learn Chinese.

Dr Ernst-Gunther Bröder, president, European Investment Bank

There is little doubt that financial markets have become more innovative as a consequence of increasing competition between banks. Official policies, leading towards deregulation and the globalization of capital markets, have encouraged the inter-penetration of financial systems. As a result, a multiplicity of new capital-raising techniques have developed, some of them

blending short-term features. A number of them, however, have proved to be short-lived.

In developing these new capital-raising techniques, the motivation has probably come as much from a desire to satisfy demands from individual borrowers as from progressive deregulation. The EIB, as the regional development bank for the European Community and a prudent borrower, has been sensitive to differences in new market techniques in the course of its capital-raising operations which it has undertaken to be able to match the needs of its customers. So far, the bank has, for example, tapped the commercial paper market in New York and made very selective use of swap deals in raising floating rate dollars.

The inter-connection and inter-dependence of markets seem likely to develop further, but, there will be a limit to the squeezing of margins. One might expect that differentials in interest rates for the same currency would be arbitrated out over time. These processes and the "securitization" of capital markets, which has been inspired by investors' preferences for internationally tradeable instruments in deregulated markets, are likely to be furthered by modern communications and round-the-clock banking. The growth of off-balance sheet liabilities, however, has begun to cause concern among monetary authorities which may lead them to examine more closely the market activities of the institutions within their jurisdiction. The EIB systematically appraises the array of potential borrowing techniques and instruments, and weighs up carefully the risks that each might involve. ■