

Rotberg takes a trip

Gene Rotberg, the World Bank's treasurer, said in London last week that his bank had no intention of borrowing in sterling at present—it last did so in 1971—but might well consider it if and when British interest rates come down a couple of points or so. It would be a straight fixed-rate sterling issue, he added, not a Eurosterling one. Significantly, he came to London to present an extensive financial appraisal of the World Bank to those London merchant banks, led by Baring, which did the 1971 issue, and the likes of Warburg which didn't but might expect to be on the prestigious bandwagon next time.

The World Bank does not take a currency risk on its borrowings; it on-lends the currencies it has borrowed, in appropriate mixes as it chooses. Its borrowers, in turn, pay interest and repay their loans in the same currencies. However, the bank acts as if it takes the currency risk, weighing favourable interest rate differentials against potential revaluation losses for its customers. Rotberg cites as an example that if the cost of a Swiss franc borrowing is 5% for 10 years and that of an American dollar issue 12% for a similar maturity, a simple formula shows that the Swiss franc would have to be revalued by more than 91% over the 10 years to offset the interest advantage.

A guilder issue?

The choice is usually less obvious. But since 1977, when it raised most of its funds in the United States, the World Bank has borrowed almost exclusively in D-marks, yen and Swiss francs because it reasoned, given the interest rate differentials of these currencies, that the dollar was undervalued.

But what now? The choice is much trickier. Rotberg still talks about the same three currencies for borrowing in the next three months to complete the 1980-81 programme. But the German market is closed to the World Bank, as to all foreigners, at least until April 1st. So maybe a guilder borrowing instead?

Meantime, the World Bank's lending rate was upped this month from 9.25% to 9.6%. Rotberg hastens to say that this does not necessarily reflect a view that interest rates are on the rise again. At least once a year, and more often if necessary, the bank's lending rate is adjusted to assure it is 50 points above the marginal cost of borrowing in the most recent and prospective six-month periods. Nevertheless, the hiking of the World Bank's lending rate comes as something of a jolt to the optimists who reckon that interest rates are headed down.