News

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Rotberg's "Poison Put"

BY DAVID SHIRREFF

Negotiations with Mexico and the Philippines, even if successful, will have no "material positive effect" on the debtors' cash-flow, Rotberg says.

Banks were naive to expect guarantees or subsidies from the U.S. government or more commitment from international financial institutions (IFIs) as a sweetener to debt reduction, says former World Bank treasurer Eugene Rotberg.

The negotiations with Mexico and the Philippines, even if successful, will have no "material positive effect" on the debtors' cash-flow, Rotberg says, because in the past they have typically only paid half their obligations anyway. The gap was then plugged by banks capitalizing overdue interest.

"Provisioning simply subsitutes for new money; it does nothing for the debtors' cash-flow problems," says Rotberg, who is executive vice president at Merrill Lynch.

IFIs will not be allowed to overcommit resources to a few countries in Latin America; and whatever the World Bank lends for debt buy-backs or guarantees will come out of what it would have lent direct, Rotberg says. Both the IMF and the World Bank will insist that commercial banks "remain at risk so that during periods of stress...there is a cushion, namely new commercial bank lending, which can still be called upon." Otherwise, the credit risk would be shifted from the private to the public sector.

Rotberg has had more thoughts on creating an off balance-sheet affiliate of the World Bank which could provide resources for debt reduction, rate subsidies or guarantees. Failing that, an alternative might be World Bank guarantees; but, in order not to affect the Bank credit rating, commercial banks being paid out of guarantees would have to relend the money to the development institution at three-month U.S. Treasury bill rates "for a long time." Rotberg says: "We might call that a poison put."

David Shirreff is consulting editor of Risk magazine.

South Africa: W

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"South Africa is not going change its political situation fo billion dollars," says its new cen banker Christian Stals in reply reports that increasing pressure fi anti-apartheid stockholders and c tomers could derail his governme attempt to negotiate a new rep ment deal on its so-called stands debt. This is the debt that has be subject to a unilateral repayme deal fixed by South Africa for t past four years.

Neither does Stals appear faz by Commonwealth finance min ters calls for tougher financial san tions against South Africa. "T bankers will make their decision c the strength of the South Africa economy — we don't negotiate po tics with them," Stals says.

Stals, who has been using the IMI World Bank conference to hold talk with South Africa's creditor banks i confident he can fix the repaymen deal before the deadline next June If the banks push for what his gov ernment regards as unreasonabl terms, South Africa will again fix a repayment schedule unilaterally.

Banks see this as the most likely outcome of the current discussion. "No one wants to be seen negotiating

BAKA'S BLUEPRINT

An Exclusive Interview with Poland's National Bank P

BY AMY KASLOW AND DAVID SHIRREFF

Professor Wladyslaw Baka, president of the National Bank of Poland, is optimistic about reaching an agreement with the IMF, he said in a exclusive interview with Annual Meeting News yesterday. "I wouldn't go ahead of events," he said, in response to a question concerning the immediacy of the agreement, "because everyone knows that these agreements are tailored to given requirem... has met with almost every official creditor and many commercial bankers. "My meetings with the governors of central banks here have concentrated on the precipitation and acceleration of a commercial banking network in Poland. Now what we need are some pioneering moves in this area. I hope we will use the good experiences of Western...

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