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World Bank unveils deal on debt swaps

BY PETER MONTAGNON IN LONDON

THE WORLD BANK has signed a debt-swap insurance deal with Aetna Casualty and Surety as part of a series of innovative measures announced yesterday to facilitate its fund-raising on world bond markets.

Under the deal, believed to be the first of its kind in the Euromarkets, Aetna will insure the risks run by the bank when it swaps debt obligations with other borrowers of lesser credit standing.

The bank also announced yesterday a $1bn increase to $10.6bn in its borrowing plans for the current business year which ends on June 30, as well as a new instrument giving instant daily access to fixed-rate borrowing on the US domestic bond market of funds with a maturity of between three years and 30 years.

Mr Eugene Rotberg, the bank's treasurer, said the Aetna deal was a cost effective way of adding to its scope for swapping debt in international capital markets. It would allow the World Bank to swap debt with borrowers whose credit rating was only "AA" or "A," whereas it was presently confined to deals with top-rated "AAA" partners unless there was also a commercial bank guarantee.

Between August 1981, when it participated in its first currency swap, and the end of last year the World Bank entered into 183 currency swap transactions for a total of $6.3bn equivalent. It now expects to arrange about $2bn in swaps a year.

Swapping debt enables borrowers to lower costs by switching into different currencies and interest rate structures from those of the bonds they issue.

Separately, the bank has won board approval to launch a new instrument on the US domestic market whereby it will continuously offer investors up to $500m in securities with a maturity of three to 30 years.

Unlike a conventional bond issue this will allow investors to choose exactly the maturity they require to match the cash-flow needs of their bond portfolios. The securities will be offered, starting in the next few weeks, through four agents - Goldman Sachs, Merrill Lynch Capital Markets, Salomon Brothers and Shearson Lehman.

Mr Rotberg said the new programme would help the bank meet its increased borrowing target. About $0.2bn of this year's needs have already been met.

The bank had already planned a borrowing increase to some $12.5bn next year and wants to space out the acceleration of its fund raising which will be needed to meet its obligations under the so-called Baker initiative.

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