

LETTERS TO THE EDITOR: Russia should offer Gazprom stake for funding

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From Professor Padma Desai.

Sir, In "GKO's threaten financial stability" (June 15), John Thornhill correctly argues that the Russian central bank's policy of raising its refinancing rate to inordinately high levels (currently at an annual 60 per cent, down from the earlier 150 per cent) to boost the appeal to investors of holding on to short-term government debt can only be a temporary "game". Not only will the persistence of high interest rates damage government's budget numbers via inordinately high borrowing costs but also prevent the recovery that the Russian economy desperately needs. Indeed, another round of the Asian contagion could threaten the financial stability with irreparable consequences for Russia's market reforms.

The International Monetary Fund, badgered by continuing criticism of its recent Asian bailouts, does not have the resources to provide an immediate confidence-boosting financial package of the required amount to support the rouble while the government continues with its arduous revenue raising and tax reform agenda under IMF supervision.

It is time for Russia to explore alternative private financing. A viable option is a contingent facility contributed by western commercial banks and private financial groups with a fraction of government stock in Gazprom (which accounts for almost one-fifth of the world's gas output with reserves estimated at over ten times those of Royal Dutch/Shell and Exxon combined) serving as collateral.

The facility would carry a commitment fee if it is unused and a charge, a few percentage points above Libor, if it is used. Initially set up with a fixed time horizon, it can be rolled forward, say every three months, if necessary.

This arrangement will not only toughen the resolve of the Russian government, facing as it would the likelihood of losing its stake in Gazprom, but also get around the moral hazard problem by shifting the bailout decision-making to private financiers.

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