

International Credit by Renée Sigerson

Power play around Poland's debt

Bonn wants to stabilize the situation. The U.S. has a small creditor role but a big political one.

An emergency meeting of top international bankers from the United States, Germany, France, and the U.K. convened in London March 31 to work out a position for tense negotiations with Poland on its debt to Western banks. Two weeks ago, Poland—which has gone through a heavy economic downturn due to the political crisis there—started missing payments for the first time on the \$6.5 billion due to its creditors during 1981.

The Polish debt talks are the focus of a political showdown. The political issue involved is that the two countries with the “biggest stake” in Poland are West Germany and the Soviet Union. With \$4.5 billion in commercial loans lent, West Germany is Poland's leading creditor. The Soviets, in turn, not only act as a de facto “lender of last resort” for the East bloc, but in recent months are also known to have directly financed Poland's debt payments.

If a mutually agreeable solution to Poland's debt crisis is found that both of these countries can endorse, then an influential precedent will have been established for East-West agreement on solving serious international financial problems. Currently, West German banks and Soviet officials are also negotiating a \$5 billion German credit to finance construction of a natural gas pipeline from Siberia to Western Europe. Detailed attention in these talks is being given to such matters

as how to set interest rates, as well as prices on the steel pipes which West German firms will produce. An amenable resolution of the Polish debt would benefit the pipeline negotiations, which West German spokesmen already assert are going very well.

With \$27 billion in total debt to Western banks, Poland is one of the top debtor nations in the world. Its cessation of payments coincides with a pattern of Third World debt emergencies.

Banks estimate that during 1981 Third World countries will need no less than \$83 billion to meet debt service, oil payments, and other current account payments. If U.S. dollar interest rates go back to 20 percent levels for any length of time, global borrowing needs during 1981 could top \$100 billion.

This global monetary weakness has triggered speculation that Poland could topple the Western banking system. The *Christian Science Monitor* on April 1, for example, ran a commentary by a former congressional staffer who asserted, “A Polish default would send strong shock waves through the international monetary system.”

Numerous other sources, however, emphasize that while the global debt situation serves to limit the options open to creditors, Poland's debt crisis is, above all, a political problem.

On April 1, Richard Portos, an economist associated with Britain's

Royal Institute of International Affairs who is cited as one of the West's top authorities on Soviet bloc debt, emphasized the political nature of the Polish talks in a presentation before the New York Council on Foreign Relations (CFR).

CFR sources report that Portos indicated that the decision to cease Polish debt payments was made on the highest levels within the Soviet Union. “The Soviets are putting pressure on Western governments by not bailing the Poles out. . . . The Soviets are inviting Western banks and governments to get together” on solving this problem, the source underlined.

It is estimated that \$17 billion of Polish debt is guaranteed by Western government agencies. Since the banks are strapped for funds, if Poland is to get any new loans—as it has appealed for—this would have to be generated by the governments involved.

“The key issue is that new money must come in, and must be sufficiently long term to meet the needs,” the source stated. He added that Bonn is recognized as “running the show” at the debt talks, but on new money “Bonn can't do the whole thing alone.”

“It is the American government which will have to take the lead” in giving new funds. The Germans “need the Americans.”

Bonn may indeed move to draw the United States into the settlement. What is clear, though, is that the Germans will make substantial commitments to prevent the Polish crisis from getting out of control.

If the United States supports a stabilizing package, it will also have to be a package acceptable to the Soviets.