

vors' club"—from Malaysia's imposition of exchange controls on Sept. 1, 1998, to Russia's own prioritization of national survival over debt service, under Primakov. Lyndon LaRouche's "New Bretton Woods" design was coming onto the agenda.

In the recently released annual report of the Bank for International Settlements, BIS Managing Director Andrew Crockett carries on about how last year's "sense of foreboding" is gone, but he also declares with some urgency that "the real task now is to improve the [international financial] system we have, *before suggested alternatives begin to look more attractive than they really are.*" About Crockett's voiced fears of the attractiveness of "suggested alternatives," LaRouche commented on May 31, "Wait until you see *next month!*"

### **Roulette in the Finance Ministry**

On May 27, then-First Deputy Premier Zadornov, amid rumors about his own status and the composition of the new cabinet, briefed the press on the first cabinet meeting under Stepashin. The main item on the agenda was a report from Central Bank Chairman Viktor Gerashchenko and Economics Minister Andrei Shapovalyants, on "the program of economic policy that has been agreed upon with the International Monetary Fund and the World Bank" by the Primakov government, as the basis for the issuance of IMF loans.

The IMF rollover amounts to \$4.8 billion, to be used to make payments due from Russia to the IMF. The package included tax laws, to be passed by the State Duma, but that action has been delayed for nearly a month by the Duma's attempted impeachment of Yeltsin and the latter's ouster of Primakov. Zadornov pointed out that the Duma recesses on June 20, by which time the IMF-demanded laws must be passed.

The direct debt payments to the IMF are an important component of Russia's sovereign debt, but the package deal is of overreaching importance. Its finalization was supposed to be the go-ahead for the latest restructuring of Russia's Paris Club (state to state) and London Club (commercial) debt, inherited from the Soviet Union. While making interest payments on Eurobonds issued by independent Russia during the 1990s, Russia is not paying on the Soviet-era debt.

On May 26, Finance Ministry official Mikhail Kasyanov (subsequently confirmed, disconfirmed, and reconfirmed as Finance Minister in the new cabinet), stated that Russia was seeking "a new rescheduling" of the London Club debt, "by the end of the year." Meanwhile, Russia would not be able to pay the \$855 million due June 2 on PRINs and IANs, which are restructured principal and interest, respectively, of the London Club debt. Russia also missed its \$724 million PRINs payment in December 1998, but the London Club steering committee declined to make a formal determination of default.

## **Wall Street hedge fundies push for Russian default**

A group of creditors holding about \$3 billion of Russia's total London Club debt (which comprises \$22 billion in PRINs and \$6 billion in IANs—the restructured principal and interest notes, respectively), is trying to force the issue of default. The group apparently consists of hedge fund operators and so-called "portfolio managers." Ten of them, including Gramercy Advisors (New York) and Appaloosa Management (New Jersey), have formed the Russian London Club Portfolio Managers, Inc. Gramercy managing director Mark Helie told Reuters that the large banks on the London Club steering committee were too ready to roll over the Russian debt, because they care about continuing to do business with Russia, whereas these funds just want their "investments" serviced.

The new group is not represented on the London Club steering committee, which is to decide by June 6, how to respond to the missed June 2 payment. The London Club declined to make a determination of default, when Russia missed the Dec. 2, 1998 payments.

The split mirrors what happened early this year with the committee of foreign holders of Russian GKO bonds, in which the speculation specialists at Crédit Suisse First Boston resisted the move by Chase Manhattan, Deutsche Bank, and others, to accept Russian redemption offers that entailed big losses.

Helie and others are talking about mustering 50% of the PRINs holders and/or 25% of IANs holders, to force a default. He was quoted by Reuters, "If Russia fails to remedy the default, we may take legal action in the London courts, because the underlying loan agreements are subject to U.K. law," and then, in this scenario, Russia would be "ordered" to pay the entire \$28 billion!

Key personnel of these funds are veterans of a Wall Street intelligence operation, run by John Irwin III—a discreet, but active figure in the operations of the American Family Foundation (AFF) and Cult Awareness Network (CAN) against Lyndon LaRouche in the 1980s. John Irwin III is President of the Bodman Foundation, which, along with the Achelis Foundation, was a key source of funding for the AFF, mother of CAN. Irwin's BPI Capital Partners took over Gramercy Emerging Markets Fund, which deals in dollar-denominated sovereign debt, in April of 1999.

—Rachel Douglas and Roger Moore