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Banking by Kathy Burdman

The soft-currency scam

How far has it gone? Ibero-American investment laws as well as U.S. regulations are being torn up.

Intelligence estimates from bankers across the country say that the "new money" packages for Mexico and Brazil are falling apart. Neither Mexico nor Brazil has yet received a cent of the $3.8 billion and $6.5 billion jumbo loans in negotiations for months.

Even if pieces of these packages do come through, these countries cannot possibly have enough dollars to meet their current interest obligations in U.S. dollars. The major question in fact is: *How much of these arrearages in dollars are being paid, not in unavailable dollars, but in Ibero-American soft currencies* into blocked accounts to Citibank and the other major banks, as predicted by *EIR* since last December?

Last August, at an American Enterprise Institute meeting in Vail, Colorado, Henry Kissinger proposed that creditors turn their debt into "equity" in debtor nations, since the debt is unpayable. Local currency paid into creditors' accounts would be used to buy up the debtor nations' assets, a new form of British Empire looting.

There already exists a convenient outlet for the use of soft currencies to turn debt, in effect, into equity in the debtor nations. A major move is under way in Ibero-America to rewrite foreign investment laws. In mid-February, Mexico announced a wholesale "reinterpretation" of foreign ownership laws, to allow foreigners to own controlling interests in Mexican companies for the first time. Venezuela announced Feb. 21 that it will "ease restrictive foreign investment rules." Argentina still has no IMF agreement, and the IMF will probably demand a relaxation of foreign investment rules as precondition.

Kissinger was right about one thing: the unpayability of the debt in dollars. It was in response to the size of dollar arrearages, particularly in Brazil, that Comptroller of the Currency C. Todd Connover wrote a secret emergency letter to Citibank's legal counsel Sherman and Sterling late last year, advising them that they could accept interest payments "in Brazilian cruzeiros" without being penalized by the regulators. Now it is clear why the Comptroller had to let the scheme go into effect by Feb. 1.

There is a new, simultaneous buildup of arrearages across the continent to an extent not seen since Mexico and Brazil declared de facto bankruptcy in late 1982 and early 1983. Brazil was 120 days in arrears on public- and private-sector interest payments at the end of February, and apparently expects to pile up arrearages which by the end of the first quarter will be some 150 days. On a $12 billion annual interest bill, that means current interest arrears of $4 billion and projected arrears near $5 billion.

According to a Pittsburgh banker, "Even if the IMF gave Brazil the seal of approval tomorrow, there is no way in hell they could be disbursed money until the end of March; they'll be 150 days in arrears. First-quarter income is going to look pretty bad for some banks."

Argentina was at least another $2 billion in arrears at the end of February. Venezuela has also chosen "finance by arrears" for its private sector debt of at least $500 million as at the end of February. Because the Mexican loan has no near-term prospect of being disbursed, Mexico itself could also fall behind.

This presents a U.S. dollar interest arrearage across the continent approaching $8-$10 billion for the end of the first quarter.

Meanwhile, it is common knowledge in some banking circles that blocked accounts are already a major finance mechanism. Citibank senior vice-president William Rhodes and Manufacturers Hanover senior vice-president for Latin America Douglas McCouch have admitted to regional bankers that most of the $4-$5 billion in Brazilian arrearages is already being accepted by the major banks in Brazilian cruzeiros at Brazil's central bank.

"We are perfectly well aware that Citibank has been accounting past due interest payments in cruzeiros and we don't like it one bit, it's very inflationary," one Florida bank's international division chief told me in late February. "But if the regulators allow it—and I've already heard about the Comptroller's letter to Citibank—then the banks will do it."

Some bank accountants have already quietly agreed to the soft-currency practice. Lloyd, Haskins & Sells has given one Florida bank a written opinion which states that the regulators agree not to classify loans with large arrearages as non-performing, as long as the arrearages are paid in soft currencies. The letter reportedly states that such payments into blocked accounts may be treated as current interest income under the regulators' interpretation.

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