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Andean Report by Valerie Rush

Lusinchi: a new Alan García?

Bankers, stunned by Venezuela's unilateral debt action, fear they may not be able to plug the dike cracked by Peru.

'I am not ready to say Lusinchi is another Alan García," said one jittery U.S. banker cited by the *Christian Science Monitor* of July 23, "but he's making me nervous." The reference is to Venezuelan President Jaime Lusinchi, whose government shocked creditor banks worldwide with a unilateral decision to convert $7 billion worth of private-sector debt to foreign banks into government bonds bearing 5% interest—and maturing in 15 years!

The legislation which dictated the debt conversion, part of a package known as Fococom (Fund for Exchange Compensation), was the result of a bipartisan commission, at least some of whose members deliberately wanted to set off "alarm bells" within the banking community. One of Fococom's drafters, Luis Enrique Oberto, a former finance minister, gave a series of interviews to the Venezuelan press in which he compared the effect of the law to the action of Peruvian President Alan García in limiting foreign debt payments to 10% of export earnings.

Said Oberto, "We cannot continue to stagger around, each negotiating for himself and capturing his own little share. We must achieve Latin American unity to face this debt problem. . . . The law is an alarm bell for the bankers. It will force the government and the banks to negotiate under very different terms from that which they have been using."

Oberto also pointed out that he and his collaborators had modified the original draft of Fococom submitted by Finance Minister Manuel Azpurua, inserting among other things an unprecedented prohibition against exchanging private sector debt for equity. Debt-for-equity is one of the schemes currently being pushed by the international banking community, through which the creditors hope to rid themselves of unpayable debt while appropriating the national patrimony of debtor nations.

While the unnamed banker cited above was relatively restrained in his comments, others of his ilk have been less so. According to the *Wall Street Journal* of July 21, furious bankers are threatening to sue Venezuelan private companies and the central bank "if the law is executed." Trade credits to Venezuela have already been cut off by Chase Manhattan, Morgan Guaranty, and Chemical Bank. One senior official of the Bank of England privately asserted: "Venezuela is aware of the threats from the banks. We will see if they step back. We have information the law may yet not be ratified."

But the banks may be whistling in the dark. Their real fear is, as the *Wall Street Journal* itself confessed, that "the concept of unilaterally converting debt to bonds might spread to other debtors, like Mexico."

While Dr. Oberto's argument for debtor unity may not yet be unanimous in Venezuela, the realization that the oil price collapse is changing the rules of the debt game *is*. In a nationwide address July 17 on the economic crisis facing the country due to the downward spiral of oil prices, President Lusinchi told Venezuelans that, in view of this "challenging situation . . . it is not possible to sit with folded arms."

Commenting on the outrage of the creditors at Venezuela's sovereign decision, the president of the ruling *Acción Democrática* party, Gonzalo Barrios, said July 13: "If the international banks are annoyed, that is a good sign, very advantageous for Venezuela." Even Finance Minister Azpurua, generally a favorite with the bankers, was forced to comment July 18 that the banks' threats "are an absurdity, nonsensical, absolutely counterproductive."

On top of the hysteria generated by Fococom, a second decision regarding private-sector debt was taken by the Lusinchi government, and announced July 17. The preferential exchange rate, in place since 1982, by which private domestic borrowers have been purchasing dollars in Venezuela to pay back their foreign debts, has now been eliminated. Instead of 4.3 bolivars for each dollar purchased, these private debtors must now pay the rate of 7.5 bolivars/dollar, which the *New York Times* says could increase their debt service by 74%!

While some of the private debtors affected are undoubtedly honest businessmen, it is well known that a majority are speculators and "flight capitalists" who have accumulated vast fortunes abroad courtesy of the preferential exchange. Now, they will be forced to dig into their dollar stashes to meet debt payments, or go belly up.

As London's *Financial Times* noted July 19, the Venezuelan government is hopeful that "pressure to pay off foreign debt will force companies to repatriate money held overseas." President Lusinchi himself estimated offshore capital at $25 billion.

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