Andean Report by Jaime Ramírez

Venezuela and the banks

Venezuela toughens its bargaining stance with its creditors, as IMF conditionalities trigger social crises.

During Venezuelan President Jaime Lusinchi's late July visit to Mexico, to meet with President Miguel de la Madrid, the two heads of state dedicated much verbiage to decrying the Ibero-American foreign debt as "a burden for our people," and demanding "co-responsibility" from the creditor banks. All rhetoric aside, the two Presidents are well aware that their populations are fast reaching the breaking point.

Even as Lusinchi was in Mexico, his government back in Caracas was stalling on signing a new debt refinancing deal until it is formally reassured of the more than $3 billion in new credit from the lending banks. Venezuela's presentation of a tougher front, according to insiders, has as much to do with the growing social tensions inside the country as it has to do with the recent bank nationalization decreed by Peru's President Alan García.

At the end of February, just after Brazil declared its debt moratorium, the steering committee of creditor banks struck a series of deals with Venezuelan negotiators for the explicit purpose of staving off joint debt action continentally. Those agreements were already approved by the Venezuelan central bank for signing at the end of July, but leaders of the ruling Democratic Action party are now saying that the deal—as constituted—should not be signed.

The main reason they give is that there has not been reciprocity on the part of the banks. According to official figures, Venezuela has paid more than $20 billion to its creditors over the past three years, as part of Finance Minister Manuel Azpúrua's determination to turn Venezuela into the continent's "best debtor," in order to win preferential treatment in obtaining new credit. In exchange for its "good behavior," Venezuela has received nothing, except for some short-term credit lines adding up to approximately $1.5 billion.

In order to have paid the $20 billion over three years—under conditions of a more than 50% collapse in oil prices since the beginning of 1986—the country has been handing over its international reserves, shrinking its imports at the expense of internal production, and devaluing its currency. But this brute-force looting has now reached its limit. According to official sources, if Azpúrua's policies hold at the present rate, operating reserves will be exhausted by the end of 1987. At the same time, internal inflation and shortages are creating an explosive political and social crisis. While many sectors are demanding that the government declare a debt moratorium, the official position is to seek new credit to cover the fiscal deficit.

The IMF and World Bank missions that visited Venezuela last June have clearly stated that Venezuela has received no new bank credit because it has not followed bank recommendations to the letter: fiscal austerity, internal savings, and a unified exchange rate. The last effort to unify the various exchange rates was made last December, when the official rate went from 7.5 to 14.5 bolívares to the dollar, representing a 93% devaluation.

To deal with the wave of strikes and popular protests against the inflation unleashed by that devaluation—in a country which for more than 20 years has had a stable parity of 4.3 bolívares to the dollar—the Lusinchi government was forced to decree a 20-30% wage hike, price controls, and a four-month job freeze, to prevent mass layoffs. Despite this, prices have continued to rise, to the point that inflation for the first half of 1987 reached 19%. The Venezuelan Workers Federation, controlled by the ruling party, announced that it would move into the streets to demand an extension of price controls, at least through the end of the year.

Venezuela's business sector is also opposed to the IMF and World Bank recommendations. "Fiscal austerity" for them means paralysis of many contracts, and "internal savings" means a hike in bank interest rates. The National Association of Small and Medium Industrialists (Fedeindustria) and national chambers of construction, commerce, real estate, and savings and loans are up-in-arms over the interest rate hike the central bank wants to impose. These same businessmen have recently begun to attack the head of Banco Latino, Pedro Tinoco, for being the IMF's waterboy.

The Venezuelan Labor Party (PLV) has taken the accusations a step further, noting that the Tinoco-Planchart law firm represents the interests of Venezuela's main creditor, Rockefeller's Chase Manhattan Bank. The PLV also points out that the head of the World Bank mission just sent to Venezuela is Bella Balassa, co-author of a notorious manual on how to pay the debt, which Rockefeller and his Venezuelan lackey, Gustavo Cisneros, were promoting throughout the region last January.