Andean Report by Valerie Rush

Colombia shuts down production

The bankers' "good boy" in Ibero-America is fallen on hard times; will the drug traffickers reap the reward?

The Barco government in Colombia, which has always prided itself on its punctual debt payments and its facility in submitting to International Monetary Fund dictates without so much as signing a letter of intent, is feeling a bit crumpled lately. After years of claiming the position of "the good boy" caught "in a bad neighborhood," Colombia is currently in the process of mugging itself, to satisfy the international creditor community.

When Colombia first contracted a "jumbo" loan, approximately $1.06 billion, from its international creditors, it was viewed as but a first installment in financing President Barco's ambitious program for combating "absolute poverty." As 1987 progressed, however, and Colombia's foreign debt-export ratio rapidly approached 50%, that loan was converted into the means for meeting foreign debt payments on such critical state sector activities as electricity, oil, and coal. By November, it was understood that the loan would go in part to meet the state's wage bill for the month.

It was then that the creditors' turned the tourniquet. Rumors that French and Japanese banks had pulled out of the "jumbo" loan package, later denied, caused a delay in approval and disbursement of the loan until "sometime" in 1988. Pressures—both domestic and foreign—began to build on the Barco administration for a renegotiation of the foreign debt; Colombia is the only Ibero-American country to have resisted a debt restructuring.

A glimmer of reality finally seeped into the Colombian economic cabinet, with Finance Minister Luis Fernando Alarcón forced to admit, "We must take some temporary measures to be able to attend to or finance certain aspects of public investment, that require resources at the very beginning of the year." He added that he was hopeful that "we are able to handle the situation without introducing traumas. . . ." The Colombian Congress is currently in the process of approving a finance ministry request to expand the public wages portion of the 1987 budget by approximately $100 million.

Then, the IMF upped the pressure, demanding that the Barco government make still further sacrifices to bring the economy within the Fund's "acceptable" guidelines, and presumably, to qualify for that increasingly intangible "jumbo." On Nov. 26, the manager of the Colombian central bank, Francisco Ortega, wrote a letter to every banking institution in the country, requesting their abstention from issuance of any new credit until further notice. Ortega's letter cited the "unacceptable" 33% annual growth rate in the money supply as the reason for his request. The Barco government had promised the IMF that growth of the money supply would not exceed 27% in 1987.

Significantly, Ortega's letter made no mention of the central bank's infamous *sinister window,* where dollars of undeclared origin—the majority of them from the drug trade—are exchanged for pesos, no questions asked.

Ironically, the central bank's unprecedented "recommendation" to turn off the nation's credit spigots will drive the economy solidly into the arms of the very drug traffickers who are currently inflating it. Eliseo Restrepo, the president of Colombia's Agricultural Society, denounced the finance ministry's policy of cutting off development credit, warning that productive "investment in the countryside will end." The Colombian Chamber of Construction has reported that money coming through the central bank's "sinister window" is going into mass purchases of real estate, a classic money laundering technique.

The former head of the Latin American Banking Federation (Feleban), Fernando Londoño Hoyos, described the problem in a nutshell:

"The decision of the government to suddenly and totally contract credit is absolutely irresponsible. Credit is a source of working capital that operates normally in any civil society. Serious businessmen plan their operations on the basis of their own resources, plus the quota of indebtedness they have contracted. To shut this off from one moment to the next will place thousands of companies in an emergency, feeding speculation, encouraging non-bank credit, rewarding the foreign exchange black market and, finally, removing from the productive sector all confidence in normal business procedure."

All of this, concludes Londoño, "will lead the resources originating in the drug trade to link themselves somehow to the economy."

The Barco government, currently in the throes of a political battle over whether to extradite cocaine kingpin Jorge Luis Ochoa to the United States as the first salvo of a renewed anti-drug war, will lose without firing a shot if its economy remains under IMF "guidelines."