Andean Report by Jaime Ramírez

Venezuela, debt-strangled

The collapse of oil prices and soaring debt service costs are driving Venezuela to the financial brink.

According to a report of the Venezuelan central bank, published May 12, oil export revenues during the first four months of the year amounted to just $1.75 billion, lower than even the minimal official estimates, which were put at $7.5 billion for 1988, at a $15/barrel price. That is, oil income did not even cover the cost of the most indispensable imports to maintain the productive sector: Of the $2.2 billion worth of foreign reserves budgeted for essential imports in the first third, only $1.675 billion was actually given out.

What was paid punctually, however, was $1.295 billion in service costs on the foreign debt, both public and private. By the end of the year, debt service costs are expected to reach $5.5 billion.

To make up for the first trimester deficit, the government of President Jaime Lusinchi continues to pursue a policy of seizing all available funds that are not rooted to the ground: $465 million from the Venezuelan Investment Fund (FIV), $75 million from the central bank's operating account, $530 million from the forever swollen category of "others," which we know includes some credits and "non-traditional" exports, ranging from sale of gold reserves to deeper and darker secrets. In this manner, the foreign exchange deficit for the first trimester of 1988 will be reduced, officially, to "only" $849 million.

According to Hernán Luis Coriano, ex-president of the FIV, "Technical studies suggest that the balance of payments deficit this year will surpass $4.6 billion, of which the government hopes to cover approximately $2.5 billion by transfer of funds from the FIV to the central bank, by indebtedness, and through sale of gold."

The international reserves from which the government traditionally pays debt service and covers its deficits are nearly exhausted. Operating reserves are currently estimated at $2.7 billion and, according to an agreement with Venezuela's creditor banks, all deals will be canceled and Venezuela subject to embargo if they fall below the $2 billion level!

A rise in the price of oil, which could give Venezuela a financial respite of sorts, appears improbable, especially given the failure of OPEC's recent conference. Nor is capital raining down on Venezuela from abroad, as the banks had promised. Not even the personal globe-trotting of President Lusinchi, to the United States and Japan, has produced more than a few crumbs.

During a May 2-3 seminar in Caracas sponsored jointly by the Aspen Institute and Latin American Economic System (SELA), International Monetary Fund president Michel Camdessus declared, "There are no reasons to anticipate an improvement in the foreign debt crisis. The adjustment program must be more vigorously pursued . . . even if the poorest sectors of the population are temporarily affected."

What such a program would look like was spelled out in a March 1988 confidential World Bank report on Venezuela, leaked to *El Nacional*. The report urges that "the public sector deficit be reduced, increases in wages and agricultural prices avoided, interest rates raised and the exchange rate unified." It further demands "liberalization" of all controls on imports, exports, and both domestic and foreign investment.

Agriculture is condemned to a not-so-slow death by the World Bank recommendation that "existing subsidies for fertilizers should be reduced and interest rates for agricultural credits raised. . . . In addition to avoiding generalized hikes in subsidized agricultural prices, the government should abandon plans to create a state distribution agency and should not create subsidization plans."

Industry is already strangling under current conditions. The director of the Federation of Chambers of Commerce (Fedecamaras), Freddy Rojas Parra, warned, "The country's industries are going to have a difficult and totally bleak second semester in the matter of foreign exchange revenues." The President of the Venezuelan Industrial Confederation (Conindustria), Jorge Chappellín Bello, told the press May 20 that if congress and the executive don't order immediate relief measures, paralysis of the industrial sector would lead to total collapse of the economy immediately after the Dec. 4 federal elections.

According to the president of the Metallurgical and Mining Industries (AIMM), Amador Hernández, a progressive paralysis of the nation's aluminum processing plants is occurring—with at least 17 such firms on the brink of bankruptcy—due to a severe shortage of raw materials on the internal market. It appears that Venezuelan aluminum, the cheapest in the world, is being exported abroad for desperately-needed foreign exchange, while domestic industry, bereft of dollars to import aluminum from abroad, is left high and dry.