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Andean Report by Jaime García

Another Brady Plan failure

International bankers are refusing to bail out Venezuela, while the looting continues and social upheaval looms.

In March 1989, U.S. Treasury Secretary Nicholas Brady announced the imminent implementation of a plan to reduce the Ibero-American foreign debt by 50% while bringing fresh money to the most indebted countries. His plan was to begin with Mexico and Venezuela. Seven months later, the deal announced with Mexico is an admitted fiasco. With respect to Venezuela, spokesmen for the international banks are now saying that the potential for applying the Brady Plan to that country is "virtually null."

On Sept. 22, when it had become evident to all that the banks had no intention of implementing a Brady Plan bailout of Venezuela, President Carlos Andrés Pérez convoked a summit meeting of all the economic, political, and labor sectors of the country. He attempted to explain the Venezuelan debt situation, bitterly complaining that the banks "lacked heart," but that Venezuela could not present them with an ultimatum because "a debtor country cannot impose conditions."

Miguel Rodríguez, planning minister and architect of the government's austerity package, explained to the same gathering that the banks had rejected Venezuela's initial proposal for reducing the debt, because it was "too ambitious." Now, he said, Venezuela's negotiators are prepared to offer new guarantees to the creditors. He also said that one shouldn't fixate on "magic numbers" regarding reduction of the debt, and stressed that Venezuela will offer "better guarantees" than Mexico in winning an agreement with the banks.

But what are these "better guarantees"? In the first months of the year, Venezuela carried out bankers' orders and imposed a brutal package of austerity measures which has reduced real wages by 50%, while paralyzing industry and agriculture. This "good behavior" earned Venezuela an expanded credit facility from the International Monetary Fund (IMF) for several billions of dollars, of which they have only received $450 million to pay overdue interest on the debt for the first quarter. The creditor banks have neither reduced the debt nor delivered a cent in fresh money.

The banks then demanded the immediate payment of more than $900 million in debt service arrears. Given the physical impossibility of meeting that demand, 15 of the creditor banks gave Venezuela a "bridge credit" of $600 million, to be paid—with interest—on Dec. 28. Venezuela had to draw on $300 million of its own shrinking reserves, paying the $900 million on Oct. 6.

But the banks want other kinds of guarantees as well. Creditor spokesmen are insisting that Venezuela not be permitted to discount its debt because it has adequate resources of its own, especially oil, iron, aluminum, and gold, exploited primarily by state-sector companies. Until now, President Pérez has rejected the banks' bid for oil futures or stock in the state oil company PDVSA. However, proposals for debt-equity swaps and privatization of heavily indebted public sector companies are growing ever more popular.

For example, there is the case of SIDOR, the national steel company. The Venezuelan press revealed a World Bank proposal for progressive privatization of SIDOR, as the spearhead for a so-called "industrial reconversion" of the Venezuelan Corporation of Guayana, which also includes bauxite, aluminum, and gold companies. The argument is that SIDOR and the other companies are "technically bankrupt" because their debt in bolivars soared when the IMF decreed a unified exchange rate which eliminated the preferential dollar of 14.5 bolivars and raised the free rate of 38 bolivars to the dollar.

In case any doubt remains about the intention to bankrupt Venezuela's basic enterprises, to auction them off to creditors, Planning Minister Rodríguez announced Oct. 13 that the Eighth National Plan cuts the budget for the state-sector companies of the industrial city of Guyana by a whopping 722 billion bolivars, down to a mere 136.5 billion, "because there is no money for monumental projects when resources are scarce."

According to official figures, the GNP will fall by more than 6% this year, unemployment will surpass 17%, and inflation is expected to reach 80%. Minister Rodríguez has admitted that inflation will continue to rise, especially food prices, in large part due to a 40% drop in agricultural production over last year's already reduced output.

The construction industry is paralyzed, since the population is devoting more than 70% of its income merely to food, without the ability to acquire or improve housing. Economist Domingo Maza Zavala recently revealed that workers' buying power has suffered a fall that will reach 50% by January 1990, threatening "a social explosion of untold consequences."

Many people believe the explosion could occur sooner. On Oct. 6, neighborhood and street vendor protests were smashed by the police.

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