# Venezuelan business leaders repudiate the IMF's austerity

by Alfonso Rodríguez

"The government should not let itself be bound by the International Monetary Fund," said Eddo Polessel, the president of Venezuela's main business association, Fedecamaras, in remarks to journalists at the Nov. 19 conference on Business Integration organized by the Andean Development Corp. The government of Carlos Andrés Pérez, Polessel emphasized, "has to determine what is best for the country, and carefully analyze what is the burden, beyond the already-existing one, that the business sector can support."

The remarks were made in response to the decision made by the Pérez government regarding whether or not to abide by the contracts of the Venezuelan Central Bank (BCV) with Venezuelan businessmen who are indebted abroad to the tune of $4.4 billion. Back in 1983, the central bank signed an agreement with the Venezuelan debtors, to sell them dollars at the fixed exchange rate of 12 bolivars to the dollar. But since February 1989, when the parity was allowed to float, the central bank has not kept the contract, and the majority of businessmen have not kept up with their foreign debt payments.

On Nov. 23, President Pérez announced his "unappealable decision" to recognize only one-third of the private foreign debt. "That proves that the government has accepted the conditionalities of the International Monetary Fund," Polessel told the daily *El Mundo*.

Polessel was one of the business spokesmen who, at the start of the Pérez government, gave strong support to its program of economic liberalization, imposed under the guidance of the IMF and the World Bank. But 22 months into the experiment, Venezuelan businessmen are beginning to suspect that the purpose of the economic reform package has nothing to do with its originally stated premises.

## There is no rule of law

"The government has to maintain the possibility, its ability at any given moment to subsidize agriculture, subsidize medicine, subsidize the construction of housing, and the IMF doesn't allow you to do that," were the sharp words of Luis Teófilo Nuñez, the editor of the influential conservative daily *El Universal,* in a television interview which was transcribed in full in the Nov. 18 issue of that newspaper. "If we destabilize that ability," he warned, "we are undermining the democratic system." Nuñez explained: "If you take away the state of law, if you violate my rights, and if you don't give the people what they need in terms of food, medical help, and housing, you are also undermining the democratic system, because that is what democracy has been." In the opinion of a large section of Venezuela's businessmen, Nuñez said, the denial of the foreign debt contracts by the Venezuelan Central Bank is, pure and simple, "a violation of the state of law in the country."

One of the things that most annoyed the business sector was when President Pérez announced his decision on the private debt and called that decision "unappealable," although he admitted that the businessmen have the right to fight his decision before the courts. "Let them do whatever they want," said Pérez, in reference to those who want to take the fight to the courts. Planning Minister Miguel Rodríguez added that whoever attempts an appeal "will only be wasting his money on lawyers, and won't get a cent in the end."

## Debt for equity

As a result of the government's denial of the contracts, many companies will end up in the hands of their creditors. This process had already begun in mid-1989, when the Pérez government—carefully following the International Monetary Fund's Letter of Intent—also denied similar contracts relating to the Venezuelan companies' commercial letters of credit.

The Venezuelan business community is learning, albeit painfully, that the true purpose of the IMF-inspired package of measures is to help the country's creditor banks, through economic and legal reforms that guarantee the transfer of entire sectors of the national economy, both public and private, to the creditors.

Even the famous "privatization" of state sector companies, which in the beginning was so strongly backed by the private sector, will lead to the surrender of the most profitable of these to the international creditors. The exchange of debt for equity "is one more mechanism for encouraging the privatization process," declared Planning Minister Rodríguez on Nov. 23.

A few weeks earlier, the Pérez government had announced that it hoped to obtain a discount of "no less than 15%" in its debt-for-investment, or debt-for-capital swaps. That is a substantial difference from the hoped-for discount of 40-60% of which Rodríguez spoke at the beginning of the year.

Further, Rodríguez contradicted the Finance Ministry, which had announced that the 1991 budget would include $44.5 billion resulting from privatizations. Rodríguez explained that privatization, "in the majority of cases, does not yield a net cash flow, since it is very costly, involving the restructuring of companies." In other words, the privatizations would not even compensate for the 15% discount which the state would supposedly get in its debt-for-equity swaps.

## Banking reform will help launder drug money

Another area of government economic policy which has caused great concern among Venezuelan businessmen and financiers, is the decision to open up the banking sector to foreign "participation." Before 1990 ends, the Pérez government will send various bills to Congress proposing the reform of the Venezuelan Central Bank and of agencies that oversee the financial system. By early 1991, the bill to reform the national banking system as a whole is expected to be ready. These bills are part of a financial reform package which the government intends to carry out, as per its agreements with the International Monetary Fund and World Bank.

There is tremendous fear in Venezuela that this will lead to the takeover of the banking sector by the big international banks, and that this will in turn transform the country into a major center for drug money laundering. This point was made explicitly by the former superintendent of foreign investment, Edison Perozo, who warned that the decree would allow "the imposition of a narco-economy" with all "the famous mechanisms for laundering dollars."

As with the other "reforms" that make up President Pérez's economic package, the financial reform has met with opposition from the various business sectors that had previously unconditionally backed the measures. For example, the president of the National Banking Association, José Bouza Izquierdo, gave an interview to the daily *El Nacional* of Nov. 19, in which he insisted: "We must ask ourselves three questions regarding the foreign banks: Why does the government want to open our borders to foreign banking? How is foreign banking going to come in and what will their limits be? When will foreign banking come?" Bouza was recently named president of the Latin American Banking Federation (Felaban).

Since October, a Special Report by the Venezuelan Labor Party (PLV) has been circulating among business and political circles. Entitled "The financial reform will lead to a drug economy," the report warns that the proposed financial reform "is the complement to Decree 727, which eliminated restrictions on foreign investment." Banking liberalization will take place in the previously created framework of absolutely unrestricted capital flows.

## Bonds for non-existent exports

The PLV report has been echoed by an investigative team from the newspaper *El Diario de Caracas,* which has been reporting for the past two months on how certain banks have used export mechanisms to commit fraud and launder dirty money. For example, the government issued bonds, equivalent to 30-35% of the value of supposed exports, only to discover one year later that the exports were non-existent. Among those participating in this fraud were: the Banco Latino, whose president, Pedro Tinoco, Jr., is also the president of the Venezuelan Central Bank and the leading proponent of the financial reform; the Venezuelan Central Bank itself; the Banco Industrial de Venezuela, which, at the time, was run by the current Finance Minister Roberto Pocaterra, another promoter of the reform; and David Rockefeller's Chase Manhattan Bank.

On Oct. 22, the daily reported that "according to sources linked to the investigations," there is "a powerful financial group behind these international activities, in which the financial platform of the Banco Latino's Curaçao and Miami branches was used, making bridge transfers through Chase Manhattan Bank branches. It has also been established that those who committed the fraud had links to the Venezuelan Central Bank, from which payments were made to Pique," one of the companies under investigation.

"Behind these movements is a gigantic money-laundering operation stemming from the drug trade," declared the daily on Oct. 24. According to security agencies involved in the case, reported the newspaper, "such operations can only be carried out with the knowledge of the banking institution."

Continuing its paraphrase of the PLV report, *El Diario de Caracas*'s investigative team emphasized on Nov. 21 that "it is not known how much of the $2.944 billion that was registered as [revenues from] non-oil exports actually entered the country." It adds that "the subsidy or incentive for those exports cost the country 30% of their total paper value, thereby diverting those resources from other kinds of productive investments, such as industry and agriculture. One supposes that those dollars which never came in should be re-invested in the country, the established norm of export subsidization. But, according to BCV estimates, only $647 million in nontraditional export revenues entered the country, that is, 22% of that which was registered."

The exposé concludes that, while the exports of the paper companies were nonexistent, "the dollars themselves were very real, some coming from Peru and Colombia . . . [or] by electronic wire through the commercial banks."