

## Andean Report by David Ramonet

### 'Adjustment' plan cripples Venezuela

*The International Monetary Fund prescriptions are delivering the nation to speculator George Soros.*

**B**arely a month after the International Monetary Fund (IMF) and Venezuela's international creditors succeeded in imposing their austerity "adjustment" plan on the Venezuelan government, speculative "flight capital" has seized the reins of monetary and financial policy in this country. "Flight capital" is the name given to the vast speculative financial flows which make up the international derivatives bubble, the same which collapsed the Mexican economy in December 1994. In Venezuela, the practically nonexistent financial system is being rapidly transformed into a subsidiary bubble, while the physical economy and family incomes plummet.

President Rafael Caldera has repeatedly and explicitly rejected the "Mexican model," for precisely this vulnerability, among other reasons. That is why, when he announced drastic economic measures as part of his "Venezuela Agenda" on March 12, he emphasized that he sought "economic development with social justice . . . to harmonize the demands of globalism." But, as is now evident, "the demands of globalism" cannot be harmonized either with economic development or with social justice, because they are mutually irreconcilable concepts.

Before the formal agreement with the IMF was signed, the "investment" in Venezuela of narco-funds belonging to speculator and British agent George Soros served as more of an approval of Venezuela's submission than the announcement of the pending agreement with the IMF. The speculative capital of Soros and his ilk, attracted by the high yields offered by Venezuela's Central Bank (BCV), has

introduced a steady supply of dollars into the free exchange market which began to operate in Venezuela on April 22. The dollars are bought by Venezuelans who want to take their money out of Venezuela, and they return to the same "global" funds from which they came. The BCV keeps this whole mechanism greased with extremely high interest rates, which have paralyzed agriculture, the fishing industry, domestic trade, and middle-sized industry.

One day after exchange controls were lifted and interest rates freed, the BCV opened its "exchange house" to the commercial banks, offering 80% interest rates. For several days, the banks transferred their deposits to the BCV, including the funds of various "VIP" clients that the banks kept in their own "exchange houses." By the middle of the week, the BCV lowered the rates of its "exchange house," and simultaneously issued the extraordinary quantity of 100 billion bolivars, in the form of Monetary Stabilization Bonds (TEMs), raising the interest rates offered on this latest TEM issue from 43% to 80%. TEMs are BCV bearer bonds, at fixed rates for terms of one, three, and six months. Although the TEMs are supposedly intended to regulate excess money supply, in reality, they are but one more bond that any "investor" may purchase.

That same week, Soros ordered several Caracas brokerages to acquire \$60 million worth of TEMs. According to *El Universal* columnist Manuel López Calo, "Soros's entrance was the prelude for advantageous conditions for flight capital, under the present circumstances of high yields for large in-

vestments." Soros had made headlines two months earlier, when his Quantum Partners Fund won a bid to "re-privatize" 9.36% of the stock of the Banco Provincial (Venezuela's largest bank), which had been in the hands of the Deposit Guarantee and Bank Protection Fund (Fogade), Venezuela's equivalent of the U.S.'s Federal Deposit Insurance Corp. At the time, Soros paid \$32 million.

It is estimated that during the first three weeks of the new exchange regimen, approximately \$340 million poured into the country, primarily to buy up TEMs. These TEMs then entered the free exchange market, such that the BCV hasn't yet "intervened" in the market, except to pay the onerous interest rates promised. The result is that the exchange rate has remained at 455 to 475 bolivars to the dollar. The \$340 million have returned to their funds of origin abroad, courtesy of Venezuelans who bought them on the free market.

According to the financial consulting firm Softline Consultores, the Venezuelan banking system lost 31.506 billion bolivars in current account deposits, and another 29.213 billion in time deposits, in the last week of April alone. Banking sources say they were converted into some \$132 million, and left the country.

According to economist Hector Valecillos, this mechanism threatens a repeat of the so-called "Tinoco effect," a reference to the period of Carlos Andrés Pérez's Presidency, during which the financial system under central banker Pedro Tinoco was turned into one vast narco-laundry, leading to its ultimate bankruptcy. The "Tinoco effect," according to Valecillos, involved BCV subsidies to speculators (in this case, to Soros and company) at the expense of real production, precisely what is now happening all over again.