Click here for Full Issue of EIR Volume 25, Number 36, September 11, 1998

Venezuela denounces financiers' plot

by David Ramonet

"What I pointed to yesterday out of intuition—that there is a conspiracy against the interests of Venezuela—today is a reality backed by evidence: a forged news dispatch," Venezuelan Planning Minister Teodoro Petkoff told news media on Aug. 20. The Bloomberg financial news agency had disseminated a wire from AFX, a joint property of the London *Financial Times* and the French wire service Agence France Presse, announcing that President Rafael Caldera's government would devalue the bolivar, the currency, by 17-20% in order to deal with its fiscal deficit, and would ask for special powers from Congress to do so.

On the same day, capital flight, which has been steadily bleeding the country since the beginning of August, accelerated, with the consequent pressure on the exchange rate. Throughout August, Planning Minister Petkoff and Finance Minister Maritza Izaguirre reiterated that the government has no intention of imposing a macro-devaluation, or exchange controls, such as those which were in place from July 1994 to April 1996.

But, the conspiracy really did not begin with the Bloomberg wire. Beginning at least 10 days before, investment banks and wagerers (the so-called "institutional investors") had begun liquidating their holdings of Venezuelan bonds, both their Brady and global bonds, and even the more recent "Ven-18" bonds, to the point that they were selling at 50% of face value, and sometimes less.

On Aug. 10, a spokesman in New York for the Dutch ABN Amro bank declared that "the dumping of Venezuela's bonds is such, that it would appear that the market fears that this country will suspend payment on its debt, and fall into default." The next day, after the damage had already been done, the spokesman said that he had not said, what he had said. Furthermore, according to the Caracas daily *El Nacional,* J.P. Morgan, which was the agency which placed the $500 million worth of Ven-18 bonds issued at the end of July (at a usurious 14% annual interest rate, for 20 years), now is recommending that its clients "not invest, in the short term, in public bonds of the Latin American countries," Venezuela included. Just like in the Amro case, the statement was denied after the damage had been done.

At the same time, the same financial houses which market Venezuelan debt were offering buy-sell contracts of dollars for bolivars in New York, at the rate of $50-100 million a day, in which they bet on a macro-devaluation of the bolivar.

Venezuela has lost some $7 billion in income from the drop in the price of oil this year, $5 billion of which was planned for the federal budget. After reductions in its budget, the government still lacks $1.65 billion needed to service the foreign debt.

The International Monetary Fund and the creditors are pressuring the government to impose greater austerity, by implementing a devaluation, which would generate inflation. The government has refused to do this, but has tried to maintain the exchange rate, by using Central Bank reserves—which it has consequently lost. Thus far this year, reserves have dropped $3.95 billion, falling to $13.87 billion at the end of August, and there is no end in sight to the capital outflow.

At the same time, the Central Bank has attempted to stop the flight of capital, by increasing the yields, and reducing the maturity of the bonds offered to the banks and money markets. In August, it came to the point that they offered Certificates of Deposit for seven days, at 60% interest rates.

This has forced up bank interest rates. But, none of these conventional measures have stopped the flight of capital, or the pressure on the exchange rate, which, despite government efforts, keeps depreciating. In August, the planned 1.28% gradual devaluation in the exchange rate doubled to an effective rate of 3.5%.

National industry is prostrate

With interest rates currently between 80 and 90%, national industry is prostrate, and agriculture is paralyzed. As if these effects of the world depression upon Venezuela were not enough, the collapse of the currencies of Asia, Russia, and eastern Europe have led to an inundation of Venezuelan markets by manufactured products from these countries, ranging from shoes, clothing, and textiles in general, to hot-rolled laminated steel products, coming from Russia, Ukraine, and Kazakstan.

Last year, business survived, thanks to low interest rates which financed consumption. Since July of this year, however, the banks have been foreclosing on mortgages, and repossessing automobiles from debtors behind in their payments. According to Softline Consultants, the principal Venezuelan firm which periodically reviews the banks' situation, from January to July, non-performing debts of the banks increased 47%, while the total loan portfolio dropped in absolute volume for the first time in a long time.

This is the result of the fact that while the government is refusing to yield to the pressures for devaluation, neither has it taken the measures of economic and financial regulation which could cut short the attacks by the speculative funds, which by any means possible, are out to drain the rest of Venezuela's $13.87 billion in reserves, to cover their losses in other parts of the world.

© 1998 EIR News Service Inc. All Rights Reserved. Reproduction in whole or in part without permission strictly prohibited.