Now, Colombia Is Threatened by Debt Bomb

by Javier Almario

The increase of old taxes and creation of new ones; a brutal reduction of government expenditures; a wage freeze for public employees; ceilings and cutbacks of retirees' pensions; and other austerity measures contemplated by the Alvaro Uribe government in Colombia to be able to sustain payment on the growing foreign debt, could trigger unprecedented social explosions, much as just occurred in neighboring Bolivia. Ironically, such measures will not prevent Colombia from falling into default.

On Oct. 17, the Colombian Congress approved the 2004 budget, which includes service payments on the foreign debt of some $12 billion out of a total budget of approximately $30 billion! More than one-third of the national budget will be spent in subsidizing the nation's creditors, the majority of them domestic and international speculators, banks, and investment funds that live, literally like parasites, on that national budget.

Worse Than Argentina

The situation is so serious that even former President Julio César Turbay Ayala, in an Oct. 15 interview granted to the newspaper *La República,* stated that Colombia's situation was more serious than that of Argentina, because in that country the public debt represents 50% of the Gross Domestic Product, while in Colombia, it represents 53% of the GDP.

It is very difficult today to distinguish between foreign and domestic debt, given that national banks are merely branches of international banks, and pension funds—the main buyers of domestic debt—are largely administered by foreign investors. Thus, it comes as no surprise that Colombian pension funds are very worried about the Argentine debt moratorium, and the Argentine government's proposal to recognize only 25% of the debt. A recent study by one of these funds, Corfivalle, says that those affected in Argentina will largely be Argentine pensioners, who are—courtesy of their international financial managers—the primary holders of public debt. The Argentine pension funds, according to the study, have deposits of $15 billion, of which $9.7 billion are public debt paper. "Under the scenario proposed by the government, the outstanding amount of those [Argentine] bonds would be reduced by 75%, and would turn into $2.4 billion," as a result of which the pension fund portfolios would end up with half the value they currently hold. In Colombia, 45% of the pension fund portfolios are in state paper.

At an Oct. 15 conference, Juan Manuel Santos, formerly finance minister to Colombian President Andrés Pastrana (1998-2002), stated that Colombia's agreements with the IMF have been good, but that "the architecture of the international financial system is perverse," because financing of countries depends too much on the arbitrary and subjective perception of "the market."

The Pastrana government signed an agreement with the IMF in 1999, an agreement which today's Uribe government has inherited. The official text of the agreement with the Fund only contains cold figures on the deficit, the balance of payments, inflation goals, and so forth. But it is clear that in order to meet these goals, the government has been obliged to comply with a series of non-stated agreements represented by the approval of at least 14 pieces of legislation that the government has submitted to Congress—including tax and pension reform, a law of fiscal responsibility, labor reform, and changes in the transfer of resources from federal to municipal and provincial governments.

As part of these implicit agreements, the Colombian government assumed the cost of bailing out the bankrupt Colombian financial system. The system collapsed because the physical economy hasn't the wherewithal to pay its debts. The government spent some $10 billion to salvage the banks, and then offered the budget to these banks as a profitable resource of last resort. The rescued banks had no one to lend to, because no one was deemed "worthy of credit"; and so they lent to the government, which provided acceptable profitability without their having to go out and seek clients. The banks continue to earn interest merely by recycling the money they lend to the Bank of the Republic, or to the Guaranty Fund of Financial Institutions.

What is strange about this "free market" subsidized by the state is that each time the IMF, the bankers, and the government technicians analyze the figures, they conclude that state expenses are too "inflexible." Somehow, it never occurs to them that the only state expense which is really growing, and which therefore should be drastically cut back, is the expenditure on serving a debt which is devouring the national budget like a malignant cancer.

The recently approved budget allocates $3.5 billion for payment of interest. That sum could fall short, however, if the "markets" determine a greater devaluation of the Colombian peso (experts think that the additional cost could be as much as $6 billion). How nice, to give Colombia a further opportunity to subsidize the national and international banking systems by making the enormous sacrifice of reducing Colombia's defense budget (in a nation ravaged by narco-terrorism), along with its health, education, and investment budgets; looting the pensions of the elderly through new taxes; looting the labor force by increasing the age of retirement; and firing public workers! If this parasitization of the national budget is not addressed, Colombia will continue down the road to disintegration as a nation.