Andean Report by Ana María Mendoza

Playing for dollars

Venezuela pledges multibillion-dollar bailouts to keep its creditors happy; where will the money come from?

The Central Bank of Venezuela (BCV) announced that as of April 6 it would begin to provide preferential dollars to private debtors, to enable them to meet their foreign debt obligations, a plan which the creditor banks imposed on the government as a condition for refinancing the public foreign debt.

If this is true, a new, perhaps fatal, devaluation of the bolivar is at hand. The total amount of dollars to be made available over the period of the next eight years—at the rate of 7.5 bolivars to the dollar—is $7 billion.

The central bank's offer includes adding on an additional 4.5 bolivars per dollar, an exchange risk rate, to the preferential dollars that each private debtor will receive.

Taking into account that the dollar is currently valued at 23 bolivars, the BCV will be giving 77 billion bolivars ($3.4 billion) as a "gift" to the private sector. And this without even taking into account what has already been given out through Recadi, the now-defunct government agency created for the allocation of preferential dollars.

So where will these dollars come from? If they are taken from BCV's international reserves, Venezuelans must expect a massive devaluation of the bolivar in the weeks ahead. If a devaluation is not forthcoming, the question where the money will come from becomes even more serious, since it is a known fact that many countries are using money from the drug trade to keep themselves afloat.

It is significant in this context that, according to a UPI wire report of April 4, the U.S. Drug Enforcement Administration (DEA) has described Venezuela as "a country with a high index of drug-money 'laundering,' higher than that of Switzerland, Hong Kong, and the Grand Cayman Islands."

At least one Venezuelan congressman has demanded an investigation by both the Congress and the judicial police force into, particularly, the Venezuelan "free port" island of Margarita, which reportedly gives out far more U.S. dollars than it brings in as "tourist revenue."

The allocation of "privileged" foreign exchange for payment of the private debt could be the final straw for an economy that has held itself together with spit, glue, and perhaps some monkey business, too. Over the past two years, the bolivar has already been devalued by 600%, doubling the public foreign debt from 140.7 billion bolivars in 1985 to 389.2 billion in 1986, doubling also interest payments.

Further, at least 30% of the national budget is going to meet interest payments on the debt, which also doubled in that same period, while less than 4% is going to health and a comparable percentage for education.

Inflation in the first quarter of 1987 was 4.2%, according to a Central Bank report which notes that home expenses were particularly hard hit. As a result of all this, living standards have dramatically fallen, with recently decreed price increases aggravating an already explosive situation.

On March 21, Venezuelan Workers Federation (CTV) President Juan José Delpino said in Maracaibo that "the worst of the crisis has not yet been unleashed. . . . Increases in various mass-consumption items are going to occur by more than 100%, which will far exceed wage increases."

Delpino announced plans to demand a new round of wage increases, to try to reverse the rapid deterioration of workers' buying power.

At the same time, the newly dictated increase in domestic interest rates, from 12% to 25-30%, on the recommendation of economic consultant Pedro Pablo Kuczynski, will assault the already suffering business sector and generate worse unemployment. The recommendation is particularly outrageous since Kuczynski, a vice-president of First Boston International, is also a fugitive from Peruvian justice, wanted for fraud and corruption!

How does the government expect the Venezuelan population to respond to such developments? Last month's rioting in Mérida was just a warning of things to come; the population took advantage of the disturbances to loot stores for food, clothing, and other basic necessities.

Manuel Peñalver, general secretary of the ruling Democratic Action party, said on March 19 that the riots "were part of an extremist plan by Bandera Roja [Red Flag], in combination with guerrilla groups from other countries." He went on, however, to acknowledge that the subversives "take advantage of these acts to destabilize . . . because of the economic and social problems that exist in the country, which everyone is aware of and no one denies."

Too bad that acknowledging a problem doesn't solve it!