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According to the Jan. 28 edition of daily newspaper EL NACIONAL (Caracas), the Venezuelan government has changed its tactics in negotiations to pay its $32 billion foreign debt. The new strategy effectively consists of meeting debt payment obligations "albeit minimally," vis-a-vis 460 foreign private bank creditors as outlined in the February 1986 refinancing. In turn, Caracas would obtain new loans to compensate for the drain on the country's financial resources. EL NACIONAL stated that the new tactic is an outcome of recent talks between Finance Minister Manuel Azpurua and representatives of the country's principal foreign bank creditors. In February 1986, Venezuela refinanced $21.2 billion of its debt held by foreign commercial banks. Terms for payment were 12-1/2 years, at a total interest rate of 1.125% above the LIBOR (London inter-bank lending rate).

In March Caracas requested that the payment period be extended to 15 years with a three-year grace period on principal payments, and an interest rate reduction to less than one percent above the LIBOR. The major justification for these requests was an expected $5 billion decline in 1986 oil export revenues. The committee representing Venezuela's foreign bank creditors responded that such concessions were not acceptable, but that the country could be classified as "bankrupt." The latter implied that Venezuela would not have access to new credit from commercial banks.

The government in Caracas was hardly anxious to obtain the bankruptcy label, since the country requires new investment for economic recovery. In 1986 the Venezuelan economic growth rate was 3.1% after eight years of recession. Domestic savings is considered insufficient for investment needs. Thus, the change in "strategy" is expected to create confidence in the Venezuelan government among foreign bankers, who would then be willing to extend new loans.

Economist Pedro Palma of the Institute of Advanced Administrative Studies (Instituto de Estudios Superiores de Administracion-IESA), argued that the change in tactics does not mean Caracas acquiesces to paying the foreign debt "at whatever cost." Rather, he said, Venezuela will make payments corresponding to the country's "financial capacity and taking into account requirements for domestic development." Palma added that smaller payments could be combined with new loans in such a way that net cancellations of the foreign debt would be close to zero. "In this way, pressure on foreign currency reserves would be avoided as well as resource flows to the exterior."

Unofficial sources claimed the committee of foreign bank creditors may accept an extension of payment terms to 14-1/2 years and a reduction in the interest rate to one percent above the LIBOR. While a three-year grace period for payments on principal is not acceptable, reduced payments during this period are possible. Venezuela is the fourth largest Third World debtor nation after Brazil, Mexico and Argentina. Its foreign debt totals $32 billion, of which $25.3 billion pertains to the public sector.
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