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Venezuela: On Foreign Debt Reduction Plans, Background

by John Neagle

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President Carlos Andres Perez has requested a 50% reduction in Venezuela's commercial bank debt. Negotiations with bankers are scheduled for the fall. During a recent visit to Venezuela, Sen. Richard Lugar (R-Ind.) and a member of the Foreign Relations Committee, described as unlikely "Venezuela's fixation of demanding a 50% writeoff." After taking power on Feb. 2, Perez lifted controls on interest rates and the exchange rate. The bolivar was devalued by nearly two-thirds relative to the US dollar. Next, the government has reduced the number of prohibited and taxable imports from 6,154 to about 200, and established a schedule to reduce tariffs from a high of 932% in February to 20% in 1993. Government subsidies were also reduced, and state-owned companies earmarked for privatization. Meanwhile, unemployment is on the upswing, GDP is expected to decline by 8% this year, and inflation for the year is estimated at 84%. In February, Perez's austerity measures provoked riots that caused at least 300 deaths, and in May, Venezuelans organized the first national strike in 30 years. Since the riots, Venezuela has received $755 million in loans from the World Bank, and $4.3 billion from the International Monetary Fund. Caracas can use up to 25% of the IMF money to repurchase debt on the secondary market. Prior to suspension of principal payments last September, Venezuela had paid more on principal to commercial banks than any other Latin American nations since 1982. Of its $35 billion foreign debt, commercial banks account for almost $29 billion. Interest payments in 1987 totaled $1.8 billion, and principal payments, $1.2 billion. According to the Morgan Guaranty Trust Company, wealthy Venezuelans have $60 billion stashed in foreign banks. (Basic data from New York Times, Notimex, 08/28/89)

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