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## Prospects For "brady Plan" Negotiations: Venezuela, Argentina, Peru

by John Neagle

Category/Department: General

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The next two Latin American nations to negotiate restructuring agreements with private bank creditors are Venezuela and Costa Rica. In mid-July the Venezuelan government made a proposal for a 50% reduction in its \$21 billion of debt to commercial banks. According to the New York Times (07/25/89), bankers have dismissed the Venezuelan request, arguing that Caracas does not require or deserve the level of assistance offered to Mexico. (See Chronicle, 07/25/89, 07/27/89.) Venezuelan President Carlos Andres Perez told reporters on July 25 that his government plans to follow through on its request for substantial reduction in debt service under the general guidelines of the US debt initiative outlined by Treasury Secretary Nicholas Brady. He added that Venezuelan negotiators have received a positive response, although the committee representing the country's bank creditors has "not yet given an affirmative to our first request." According to Argentine economist Enrique Szewach, "Argentina can now be a good candidate for the Brady plan." He said new economic measures under President Carlos Menem's government price hikes for public sector goods and services of up to 600%, elimination of tax breaks, and bills to privatize state companies comprise conditions expected by foreign creditors in debt restructuring agreements. On July 29 at a meeting of the Group of 8 in Cartagena, Colombia, Argentine Foreign Minister Domingo Carvallo said his country would need a greater reduction in total debt service than Mexico received. Most of Argentina's foreign debt \$45 billion of nearly \$60 billion was contracted between 1976 and 1983 under military rule. In those years, domestic interest rates were generally high and the Argentine peso was overvalued. Next, foreign banks were enthusiastic about realigning large deposits made by oil-exporting nations. Consequently, a large proportion of Argentine loans was not used for productive investments, ending up instead in foreign bank accounts as flight capital. At present, two million of the 9 million residents of Buenos Aires province eat in soup kitchens. An estimated 50% of Argentine children are anemic. Until very recently, Argentina had not made even token interest payments to commercial bank creditors. Peru is less likely than Venezuela or Argentina to obtain terms similar to Mexico's in negotiations with foreign banks at least until a new government is installed in July 1990. President Alan Garcia won accolades from Peruvians four years ago when he proposed limiting debt service payments to 10% of export revenues. At present, in the context of widespread guerrilla violence, economic recession and spiralling inflation, Garcia's approval rating has plummeted to 7%. Peruvian debt service payments at present have been reduced to a minimal amount. Short-term credit, the only credit still available to Peru, has dropped from \$800 million in 1985 to \$150 million today. Peru's GDP dropped 9% in 1988, and is expected to decline at least 11% this year. The Inter-American Development Bank calculates that living standards in Peru have regressed to the levels of 20 years ago. (Basic data from Notimex, 07/25/89; New York Times, 07/25/89, 07/26/89; AFP, 07/29/89)

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