

# Venezuelan Brady bond market was a laundry

by David Ramonet

On Jan. 24, Venezuelan Finance Minister Luis Raúl Matos Azócar issued a resolution to control the sale of so-called Brady bonds on the Caracas stock exchange. The Brady bond market had turned into a homegrown caricature of speculation on financial derivatives, de facto setting the exchange rate between the bolívar and the dollar on the black market. Venezuela's President Rafael Caldera explained the same day, in a television interview on his 80th birthday, that this manipulation of the "Brady market" serves the aims of an economic war "to try to distort the recovery of the economy." He added that "the propaganda being made around the Brady bond dollars is intended to put more and more pressure on for a senseless devaluation, which we are doing our utmost to face down."

For over a year, the financial warfare pros in the media, such as the *Wall Street Journal*, the London *Financial Times*, the *Economist*, and the *Economist Intelligence Unit*, have relentlessly campaigned for the bolívar's devaluation, to force the government to accept the International Monetary Fund's shock therapy. Caldera's government has resisted, and has now imposed controls on the weakest link in the financial chain, the Brady bond market.

So-called Brady bonds are securities which replaced the external bank debt in 1991, under then-U.S. Finance Secretary Nicholas Brady's plan. The dollar-denominated bonds are issued by Venezuela, with terms ranging from 5, 6, and 7 to 30 years, and with variable rates of interest. Until last June, these transactions were only carried out in foreign financial centers, such as New York, London, or Frankfurt. Then, the Venezuelan government acceded to allowing transactions on the Caracas Stock Exchange, as a safety valve for the demand for dollars. But the valve turned into the marker for the exchange rate on the black market, a conduit for dirty money, and a lever for the destabilization of the national economy, as was discovered by investigators from the Anti-Organized Crime Division of the Technical Corps of the Judicial Police.

On the Caracas exchange, the Brady bonds, although denominated in dollars, are paid with Venezuelan currency at the official controlled exchange rate of 290 bolívares to the dollar. They are quoted at a discount, i.e., a percentage of their nominal value is offered, and whoever offers the highest percentage, gets them. From the difference in the quotation between Caracas and New York, an implicit exchange rate is thus obtained. For example, in New York, the Venezuelan Brady bonds could be quoted at 50% of their face value,

while in Caracas the quotation has gone as high as 100% and even more.

A theoretical example of how the devaluation was triggered, when the controlled exchange rate was 170 to the dollar: A person buys a \$1 million face-value bond, offering 100% in Caracas, for which he pays 170 million bolívares in November. The buyer sells the bond in New York to get dollars, but he is only offered 50% of its nominal value, and he only gets \$500,000 for it. Thus, this individual has bought \$500,000 for 170 million bolívares, implying that each dollar was bought at 340 bolívares.

## How phony transactions 'fix' black market

According to *Wall Street Journal* propaganda, Venezuelan businessmen had to go along with this scheme, because of the supposed dollar shortage due to the exchange controls. But in reality, in one day on the Caracas Stock Exchange, only one bond changed hands—and generally the bond did not really exist, because it only involved the word of a broker who asserted that "I have a Brady bond from this or that company"—and it passed through more than 15 hands.

This was explained to me by Luis Benchimol of Inverworld, a director of the Stock Brokers Association. I asked if it were true that the "Brady market" was replacing the controlled currency market, since allegedly some \$800-900 million passed through it monthly in November and December. "Well, it is not quite that way, because there is an immediate buy-sell process."

According to the Judicial Police, 95% of the transactions never existed. Typically, in the morning, a broker would offer a nonexistent bond, and another would pretend to buy it. That's how they fixed the quotation. Later the second guy "resold" it, and the quotation went up. By day's end, a sum of nonexistent dollars had piled up, and all the "transactions" had the sole purpose of setting the exchange rate for the dollar black market.

At the end of the "Brady market" session, the same brokers went hunting for people seeking dollars. Sometimes, according to *El Nacional* investigative reporter Yolanda Ojeda Reyes, the dollars were offered at below the implicit exchange rate of the Brady market. The suspicion that drug-trafficking dollars were getting laundered, led the U.S. Drug Enforcement Administration to get involved in one phase of the Judicial Police's probe.

The Finance Ministry's new measures oblige brokers to keep a detailed record of all operations in securities denominated in foreign currencies. Plus, the buyer cannot resell the same security until six days later. Although the speculators have protested against the measures, Brokers Association president José Gonzalo Muci, admits that the Brady market cannot go on marking the parity of the bolívar, "because it is a market in securities and not currencies." Fifteen members of his association are under the scrutiny of the Anti-Organized Crime Division.