Eight Venezuelan banks are seized

by David Ramonet

On June 14, the Venezuelan government of President Rafael Caldera finally decided to take over the eight banks that it had been repeatedly bailing out since Jan. 25. These banks first began to show problems after the country's second largest bank, Banco Latino, was shut down by the government on Jan. 13. For the next five months, these eight banks received a sum of approximately one-half trillion bolivars in emergency funds, which nonetheless proved totally insufficient to rehabilitate them. That amount was *in addition to* another half-trillion bolivars that had been poured into Banco Latino, to no avail. The combined bailout, equal to $6-8 billion, represents nearly 70% of the government's annual budget.

A bottomless pit

For nearly six months, the government had maintained the illusion that the banks would eventually recover. But following a week of marathon meetings among financial authorities, it was finally decided that the government's bailout funds were going into a bottomless pit.

Also on June 14, the newspaper *El Universal* published an article by Oscar García Mendoza, president of the Banco Venezolano de Crédito—a small bank, but the only one considered by the bankers themselves as "bulletproof." According to García Mendoza, "the banks which were being assisted must be taken over immediately. These banks are history. The true problem lies with the unassisted banks."

In response to the government measure, the president of the National Banking Council, José Bouza Izquierdo—backed by the president of the Venezuelan Banking Association Juan Tomás Santana—issued a wild statement denouncing the government's move as "irrational," and complaining that the bankers hadn't been consulted. Two days later, García Mendoza issued an explosive declaration in the name of his bank's board of directors, rejecting the protests of Bouza and Santana and announcing his withdrawal from membership in the Banking Association, as an expression of solidarity with the government's move.

One month earlier, on May 13, García had given a conference on the financial system, at which he warned that "the banks are completely decapitalized." The conference was organized by the company Veneconomía, in the city of Barquisimeto. Venezuelan banks, said García, "have spent years capitalizing interest [on their overdue debtors], revaluing assets, using every unorthodox means to register non-existent profits while failing to punish bad accounts. The final result is that they don't possess the capital to handle the present crisis."

This situation, he charged, was covered up thanks to a decision early on in the Carlos Andrés Pérez government to form a "banking lobby" that controlled all the financial associations, imposing its own criteria thanks to the "enormous power of this group, which enjoyed top-level political banking." Included in this "banking lobby" were the directors of the Banco Latino, along with several owners of the banks which have just been taken over, as well as of others still functioning.

A parallel banking system

As a result of the government's intervention against these banks, it has been learned that an unregulated, parallel banking system actually existed, with off-balance sheet operations greater than regular commercial operations, thus leading to the collapse of the commercial banking system. This is made evident in the fact that in late 1993, the eight troubled banks combined had deposits of 300 billion bolivars (equivalent to approximately $3 billion at the January 1994 exchange rate), while the financial aid they had received from the central bank was in excess of 500 billion bolivars. The total deposits of Venezuela's 44 commercial banks at the end of 1993 were 1.6 trillion bolivars. That is, combined, the nine banks (including Banco Latino) lost more than one-fifth of the country's total commercial banking deposits.

Total losses of Banco Latino are estimated at more than 300 billion bolivars, representing 150% of its assets, which totalled approximately 202 billion bolivars as of December 1993. The losses of the other eight banks, according to Venezuela's banking superintendent, reached 316.5 billion bolivars, against total assets of 29.3 billion bolivars. That is, they went bankrupt 11 times over!

Just as the less-than-savory banking interests in Venezuela are nervous about the implications of President Caldera's latest move, so, too, are the international financial centers. The London *Financial Times*, the sole English-language financial newspaper to cover this latest aspect of the Venezuelan banking crisis, made clear in a June 16 article that it was nervous about where Caldera might go from here, when he quoted an analyst from the London School of Economics warning that the banks' closure does not mean that the drain on public finances is over, since the President could decide to further reimburse depositors. Venezuelan government bonds were further downgraded to a BB− (below investment grade) by the New York and London bond brokers, in a clear statement of annoyance at Caldera's independence.