News Behind the News

Venezuelan banking system on the brink

by Peter Rush

"The Venezuelan financial system is about to collapse, which will create economic and social chaos in the country," warned Rep. Rafael Rodríguez Acosta, a member of the Finance Committee of the Venezuelan Congress, during congressional testimony on April 18 by Finance Minister Julio Sosa Rodríguez on the Venezuelan banking crisis.

Rodríguez Acosta's warning is no exaggeration. Two days earlier, banking authorities revealed that more than $4 billion has been spent in the last several months in subsidies to eight troubled banks that the government has been trying to keep afloat, which sum, added to the $3 billion spent to compensate depositors of the bankrupt Banco Latino, is $7 billion, fully 50% of the budget of the entire Venezuelan government.

Rodríguez Acosta expressed particular outrage that the banks in question were actually taking this government bailout money, and using it to speculate in exchange houses and by purchasing dollars and betting for a devaluation of the Venezuelan currency.

Five years of "free market" and "restructuring" policies dictated by the International Monetary Fund during the tenure of former President Carlos Andrés Pérez, compounded by a rampage of financial pillaging of the economy and finances of the country by the Pérez-protected gang of thieves headed by the Cisneros clan, has left the country in such dire straits that only drastic measures have a chance of forestalling economic and social catastrophe.

Not just Banco Latino

The ongoing bankruptcy of Banco Latino, the bank the Cisneros brothers set up to loot the country, has turned out to be only the tip of the iceberg. The entire banking system is suffering severe losses due to bad loans that businesses, farms, and individuals cannot repay due to the disastrous economic situation created by the Pérez-International Monetary Fund (IMF) program. These losses have been compounded by financial speculation, above all in offshore and derivatives markets.

Rodríguez Acosta called on Minister Sosa Rodríguez to "once and for all, summon a meeting of the Superior Banking Council to decide what must be done." Saying that "the economic situation is difficult enough," he warned that if the financial system does collapse, it would create chaos in the country.

Esperanza Martinó, the chairman of Venezuela's bank deposit insurance agency Fogade (the Venezuelan equivalent of the U.S. Federal Deposit Insurance Corp.), said on April 20 that eight other banks, besides Banco Latino, are on the verge of bankruptcy, and that decisions are being made now as to whether they can survive with continued help from the government, or whether, like Banco Latino, they must be closed down. She said that a meeting of the Superior Banking Council would be called to decide the fate of each. To date, the eight banks have been bailed out to the tune of 360 billion bolivars, or nearly $4 billion, a gigantic sum for the Venezuelan government to spend, on top of the $3 billion already spent on Banco Latino. There is no indication how much more may be needed, as the crisis is still deepening.

The $4 billion represents 44% of the total deposit base of the eight banks, stated National Banking Superintendent Emilio Negro in a letter to Prosecutor General Ivan Darío Badell, advising him about "the delicate situation faced by eight financial institutions that are under the regime of financial assistance of Fogade." Attached to the letter was a table showing the losses of the eight banks as ratios of their paid-in capital. The worst-off bank is La Guaira Bank, whose losses were 17 times its capital, followed by the Construction Bank with losses 14.4 times its capital, and Metropolitan Bank with losses 12.5 times its capital. The other banks' losses were as high as 7 times their capital.

A call for 'drastic measures'

Gustavo Roosen, the man appointed by the Venezuelan government to chair the Intervention Board appointed to take over Banco Latino, elaborated to *El Universal* April 17 that the entire Venezuelan banking system was in immediate danger of becoming de facto nationalized. He said that half the system was already being heavily subsidized, and the other half was surviving only because nearly half of its assets were in the form of government paper and zero coupon bonds. "For this reason it is imperative that drastic measures be taken designed to overcome this dangerous situation and prevent the Venezuelan banking system from finding itself totally state-controlled by the end of this year," he stated.

He also elaborated on the root of the problems, saying that "inflation [brought on by Carlos Andrés Pérez and his IMF-dictated program] caused a decomposition of the quality of the banks' assets and loans. The crisis of Banco Latino is only the visible point of a huge iceberg. What occurred with this financial entity [Banco Latino] uncovered the liquidity and solvency problems of other banks. . . . The problem is that interest from the country's productive investments has been lost, and instead profits have flowed [to the banks] from the financial sector, because the banks found that less risky and easier to manage."