Andean Report by David Ramonet

Death of a banking system

Derivatives and usury collapsed the Venezuelan financial system; will others take heed before it is too late?

The games of "creative accounting," usury, and speculation in financial derivatives instruments so enthusiastically promoted by Wall Street, the City of London, and the International Monetary Fund have claimed their first victims in Venezuela: Half the banking system is bankrupt, and the other half is being kept afloat with Central Bank paper.

The government's Jan. 13 takeover of Banco Latino, the country's second largest bank with deposits equal to nearly 10% of the national total, made evident that during the past five years, under the protection of the Carlos Andrés Pérez government, offshore operations of the commercial banks, together with the speculative activities of the money markets (known in Venezuela as "money tables"), constituted a parallel, unregulated banking system of a dimension rivalling that of legitimate banking and whose transactions do not appear on the balance sheets of the commercial banks. This parallel financial system became a vast "black hole" through which the commercial transactions of Banco Latino, and at least eight other banks, passed.

The traditional lending function of the rest of the banking system is now paralyzed, and the banks themselves continue to function thanks only to the central bank bonds being issued to "sterilize" the banks' liquidity which, because of usurious interest rates, cannot be loaned.

Roger Urbina, former banking superintendent, explained in a Feb. 14 interview with the daily *El Universal* that "the money table reflected in the [Banco Latino] balances from January to December 1993 was, in order: 1 million bolivars, zero, 2 million, zero, until reaching a maximum of 700 million bolivars in December. That reflected the balances. However, the real money market deposits of Banco Latino were 65 billion, 70 billion, 115 billion, until reaching 95 billion bolivars in December. That is, there was practically another bank within the bank."

(The bolivar/dollar exchange rate prior to the government's bailout of these banks was 117. It soared to 180 in recent weeks, before settling, temporarily, at 155 on June 1.)

The money market operations involved an investor giving a quantity of capital to the bank, to place in a company of the bank's choosing. The bank did not include these funds as a normal deposit, and thus the investor did not receive a "certificate of deposit," but rather a letter of exchange from the bank. These deposits are short term, virtually "overnight," since they are placed for 5, 7, 10, or 15 days only. That is why the bank does not include them on its monthly balance sheets, but rather on a parallel accounting sheet which does not legally require registering.

Further, the bank does not have to hold reserves against those funds, and thus does not have the backing of the state's Deposit Guarantee Fund (Fogade).

The typical practice of the banks is to use these funds in short-term speculative ventures. A large quantity is sent to "offshore" branches which nearly every medium- or large-sized Venezuelan bank has in Curaçao or some other Caribbean site. Sometimes these funds are used to speculate on the stock market, with foreign exchange or some other form of financial derivative. According to congressional sources, they are also used to finance the drug trade.

To prevent Banco Latino's bankruptcy from dragging down the entire financial system, the Central Bank injected 313 billion newly printed bolivars through Fogade into Banco Latino. This did not prevent other banks (Maracaibo, Construcción, Barinas, La Guaira, Metropolitano, Fiveca, Bancor, and Amazonas) from following Banco Latino's descent. In May, Fogade reported that it had bailed out these other banks with a combined total of more than 468 billion newly printed bolivars, in exchange for stock in the banks as collateral. That is, the banks were effectively nationalized, a move later formalized at a meeting of stockholders held over May 23-25.

In total, the Central Bank has printed more than 781 billion bolivars to prop up the regular, and parallel, banking system. It is illustrative to compare this figure with the total deposits of the commercial banks in December 1993 (1.417 trillion bolivars) and with the government's 1993 operating budget (1.2 trillion bolivars).

Total losses of these banks (not including Banco Latino), according to the estimates of the Banking Superintendency, add up to 316.5 billion bolivars. The combined patrimony of these banks equals 27.8 billion bolivars; in other words, they have lost 11 times their own worth. What the Venezuelan people have lost as a result of the financial games of these speculators is incalculable.