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Venezuela: Seized Banks Reopened In State System

by LADB Staff

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Six months after nationalizing the local subsidiary of Spain's Banco Santander, the third-largest bank in the country, the Venezuelan government took over eight small banks in December 2009, which, after a quick clean-up and rehabilitation process, entered the public financial system under the name Banco Bicentenario. Although the measure had no negative consequences for depositors, an avalanche of rumors appeared on Facebook and in a blitz of emails, making their way to the mainstream media. The rumors were aimed at provoking a run on the banks with depositors withdrawing their money and sending it to banks abroad. Economy Minister Ali Rodriguez blamed the political opposition for the rumors. The effort was aborted after the Consejo Bancario Nacional (CBN), an organization generally critical of the government that includes all private banks and financial institutions governed by the Ley General de Bancos, supported the government's action. In this context, and as the Venezuelan judiciary issued an international warrant for 30 bankers, President Hugo Chavez announced the creation of a "socialist market," an alternative to the capitalist free-market system. The takeover of the banks occurred amid international tensions in the country threats from the US State Department because of Venezuela's deepening relations with Iran, further deterioration in bilateral relations with neighboring Colombia (see NotiSur, 2009-11-20), and accusations by Chavez regarding an alleged US-led military-aggression plan with logistical support from Holland. At the same time, the Venezuelan government set off a new crisis by threatening Japanese firm Toyota with expulsion and the expropriation of its automobile-assembly plant. "Sept. 26 will be a crucial time for the country, with the election of 167 Asamblea Nacional (AN) deputies. Therefore, during the campaign, we must get used to being bombarded with extreme displays such as these," said academic Maruja Tarre, an analyst at the public Universidad Simon Bolivar. Tarre was referring both to the opposition's rumor campaign and to Chavez's statements. Liquidity problems, questionable practices lead to takeover The government said that various factors led to the intervention and expropriation of the eight banks. In some cases, said Chavez, the owners could not demonstrate the origin of funds used to acquire interests in these and other entities and to buy different types of businesses (food, construction, service-sector firms). In other cases, state agencies detected a lack of liquidity necessary to meet a bank's obligations to depositors or practices expressly prohibited by the banking law, such as bankers receiving loans from their own institutions. Chavez said he would not hesitate to "take over all the private banks if it is necessary, if we prove that they committed irregularities, and that rather than fulfilling their corporate purpose they specialized in financial speculation." The president added, "The banks that have been taken over and all those that we might take over in the future, if necessary, will be cleaned up and rehabilitated to then be incorporated into the public financial system and thus continue strengthening the social agenda, a socialist banking system without speculators, which supports those who produce. Any bank that is slipping will be taken over. Rest assured that, if we are obliged to seize all the private banks, we will do so, have no doubts." The CBN backed the government action after some of the media had already begun repeating the rumors and the "run" was reaching worrisome proportions, along with a drop in the value of the currency and in the public-bond rate. "The private banks have no fears, they do not have any fear. What the president has said is that he will not be afraid to nationalize a bank that does not meet its legal obligations,
and that is valid," said CBN president Victor Gill Ramirez. The banker stressed that the banking sector supported the government's measures against the group of small banks, and he pointed out that "the government acted strictly in accordance with the Ley General de Bancos and to guarantee, support, and protect depositors." On Dec. 4, international news agencies (France's Agence France-Presse, Britain's Reuters, Italy's ANSA, and Cuba's Prensa Latina) published Ramirez's opinions and also emphasized a slight uptick in the value of Venezuela's currency, the bolivar, and a rise in benchmark Global 2027 sovereign bonds. "Anxiety over the health of Venezuela's financial system eased on Friday, with bonds rising after heavy losses registered this week as a paper reported a businessman agreed to hand over two institutions to the state," wrote Reuters. The same day, the Web site of Miami Spanish-language newspaper El Nuevo Herald posted an AP story datelined Caracas in which the US agency's version contradicted reality. The AP story said, "Venezuela's bolivar sank to a two-month low and bonds tumbled as President Hugo Chavez's threat to seize more banks prompted investors to pull their money from the financial system and move it overseas." The agency complemented its version with statements from Alejandro Martinez, an analyst at Vaneconomia, a Venezuelan publishing house specializing in business topics. "Chavez's comments on intervening in other banks has sparked even more uncertainty regarding the financial system," said Martinez; and Alberto Ramos of Goldman Sachs Group, Inc., said, "We should take [Chavez's] statements at face value. It's one of the key sectors of the economy that the government hasn't yet taken substantial control of." An investigation by the Venezuelan daily El Universal found that, with the incorporation of the eight banks, the state controls 24% of deposits and has a national network of 738 branches. Comparatively, the private bank Banesco, next in importance, is far behind with 13.27% of deposits and 472 branches. Although, in announcing the takeover of the eight banks, the economy and finance minister complained because, he said, the private sector was not developing an ample and open credit policy, El Universal took the official statistics from October 2009 to arrive at the opposite conclusion. It said that, without counting Banco de Venezuela the Santander affiliate taken over by the government the public financial system put little emphasis on credit. On average, for each 100 bolivares taken in in deposits, private banks lend 63.31 bolivares, while state-owned banks returned in loans between 15.9% and 29.8% of the funds taken in. The state banks also have problems recouping the loans. While private banks only lose 2.14 bolivares for each 100 bolivares lent, public-bank losses are up to 10.36 bolivares for each 100 bolivares loaned. Chavez threatens to take over Toyota plant Just as "the fire was put out" with the passage of the eight banks into the public financial system, Chavez lit a new fire by announcing, on Dec. 23, that he was willing to take over the Toyota auto plant. The president threatened to replace the Japanese company "with an auto company from Russia, China, Belarus." Chavez said the threat would continue as long as Toyota refused to transfer its technology and maintained its decision to not assemble the Land Cruiser 70, an all-terrain vehicle used in farm work and for public transportation in areas where access is difficult. Initially, the president extended the threat to Ford and General Motors but later included Chrysler, Iveco, Hyundai, Fiat, and Mitsubishi. At the same event, the president added to the tensions when he announced "another step on the road to 21st century socialism: We are talking about social ownership and creating a socialist market." What is that? he asked. "Many people ask themselves what Chavez is doing selling rice, tires, and cars. Yes, folks, we are going to create a socialist market, we are going to go from capitalism's free trade to socialism's human market because we believe that what is needed is fair trade. Unfair trade, or capitalism, produces more wealth every day for the economic hegemony and increasing poverty and exclusion for the people." Chavez defined social ownership as "the right to entities and spaces of economic achievement or the potential for such, aimed at satisfying general and human needs in a
participatory way." But do not "imagine something else," he warned. "Legalizing social ownership does not mean the end of private property. What we are looking for is for the two types of ownership to coexist to achieve a balance and end monopolies and latifundios (large landholdings)."

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