

## Banco Latino crash bursts Venezuelan financial bubble

by Jaime García and Cynthia Rush

In February 1985, the leadership of the Cisneros family financial empire and the affiliated Banco Latino used their influence within the Venezuelan government to order a raid on *EIR*'s offices in Caracas, the deportation of its correspondents, and a ban on the book *Narcotráfico, S.A.*, the Spanish-language version of *EIR*'s bestselling *Dope, Inc.* The Cisneros have for years been a central element in the corrupt financial and political network which surrounded and supported former President Carlos Andrés Pérez (CAP). The reason for their action against *Narcotráfico, S.A.* was the book's chapter which mentioned the family's link to Miami-based money-laundering banks and other international drug money-laundering interests, including in Cuba.

Almost nine years after *Narcotráfico*'s banning, on Jan. 14, 1994 bank regulators ordered the closing of Banco Latino, the country's second largest bank, because of mismanagement and irregularities in the handling of public funds which left it insolvent with liabilities estimated to be as high as \$5 billion. As the banking superintendent has also revealed, the bank was involved in a variety of speculative, off-balance-sheet operations, and had used public funds to benefit the companies owned by its own directors. The government has ordered a thorough investigation of the bank's activities, not the least of which is its suspicious and rapid growth from sixth-ranking in 1989 to second-ranking in 1993—coinciding with CAP's second term in office. During that period the bank opened several branches abroad.

As recently as November 1993, *EIR* had warned that after a Venezuelan judge ordered the closing of currency exchange houses on the Colombian-Venezuelan border, and bank branches in that area were investigated for drug money-laundering (including those of Banco Latino), the bank would go under because its access to drug monies would be cut off.

And so it happened.

The bank had an estimated \$5 billion in assets; about 10% of Venezuelan adults, more than 1 million people, held accounts there. Most of its directors were connected politically or through family relations to former President Pérez and his unsavory entourage. Among its directors were Ricardo Cisneros Rendiles of the Cisneros Group, which reportedly held 35% of the bank's stock, and Francisco Pérez Rodríguez, Pérez's brother. According to a report in the Jan. 14 *El Nuevo País*, Gustavo Cisneros had tried to get Chase Manhattan and Citibank to bail out the bank prior to the Central Bank's intervention, but failed.

Criminal charges have been brought against all the bank's directors, and their bank accounts ordered frozen. All have been banned from banking activities for life. President-elect Rafael Caldera has promised to abide by all legal decisions made against the bank and has called on its stockholders to meet their obligations to depositors. "The money in the banks doesn't belong to the bankers," he stated. Additionally, the Central Bank also intervened in 14 of Banco Latino's investment and insurance firms, including the Banco Hipotecario de Occidente; authorities in Curaçao did the same with the bank's offshore affiliate on the island, while the Miami-based Banco Latino International declared bankruptcy. The London *Financial Times* reported Jan. 15 that at least 11 of the country's 40 commercial banks are on the Central Bank's "watch list."

### Anglo-Americans are nervous

The bank's shutdown unleashed a financial panic whose repercussions are just beginning to be felt. There is no question that the repercussions will be felt beyond Venezuela's borders, in the context of a crisis-ridden international

banking system. According to Swiss banking sources, at stake is not the bankruptcy of a bank, but a crash of the nation's entire banking system just as President Caldera is about to take office, and the country's political stability is shaky at best. On Jan. 20, President Ramón J. Velázquez went on national television to appeal for calm, as hysteria swept the country.

The international banking community and Washington policymakers are also fearful that Banco Latino's demise may affect the economic policies adopted by the new government. Caldera has not yet defined his economic program but he is under intense pressure to continue the same free-market reforms begun by CAP, despite the havoc this would wreak on the country. A week after the bank closed, Gustavo Cisneros, president of the Diego Cisneros Organization (ODC), met personally with Caldera for two hours, supposedly to wish him a happy new year, but to also tell him that the financial sector's crisis is "solvable" and not to worry.

But according to the Jan. 25 *El Mundo*, Cisneros is the one who introduced Caldera to Henry Kissinger last December when the former secretary of state was in Caracas, and who is now trying to help Kissinger weasel his way into becoming Caldera's foreign economic adviser, just as he was for Pérez—with dire consequences for Venezuela. As he has done in the past when a crisis in Venezuela has threatened Anglo-American domination, State Department strategist Luigi Einaudi showed up in Caracas on Jan. 26, to threaten the government not to deviate from the international banking community's policies.

### **State's financial integrity jeopardized**

The seriousness of Banco Latino's collapse is that while it may bring down the banking sector's speculative operations, it could also destroy the finances of the state itself, including the Central Bank's monetary reserves and the national currency, the bolívar. This is due to the relative size of the bank, and the strange symbiosis it maintained with the public sector.

Although the bank was Venezuela's second largest in size, it was the largest in terms of deposits, with more than 1.2 million depositors. It also handled a large part of the funds, payroll, and pension funds belonging to the central government as well as to decentralized state entities and companies. Two million people are directly affected by the bank's shutdown. But in addition, the bank's administrators used the deposits of other state-linked agencies to carry out their illegal "business." Thus, oil companies, state-run companies in the industrial center of Guayana (Bolívar state), the Armed Forces, large government ministries, and innumerable other government agencies are also affected.

Half of the funds of Fogade, the deposit guarantee fund which is supposed to guarantee the deposits of all account-holders, were deposited in Banco Latino and are now frozen. Everyone mistakenly thought the bank was "too big to fail,"

perhaps because it also enjoyed significant backing from the government and political elites.

Authorities have tried to stem growing capital flight and runs on other banks, especially those most closely tied to the Grupo Latino, by pumping more liquidity into the system. On Jan. 21, they lowered the reserve ratio which banks must deposit in the Central Bank and eliminated restrictions on deposits in foreign currency.

### **The 'Latino Connection'**

Banco Latino's directors argued that the real cause of the Central Bank's action against it was a rumor campaign which in three months caused the bank to lose more than \$550 million in deposits, unacceptable for any bank. However, monetary authorities responded that what is really under investigation is the bank's misuse of depositors' money. The banking superintendent's official report on the decision to shut down the bank pointed to two extremely serious irregularities: 1) a "disproportionate" amount of off-balance-sheet operations which used public as well as depositors' funds. These operations, which amounted to 700-800 million bolívares, were subject to no official supervision or guarantees; and 2) a massive flight of the bank's liquid assets into its short-term lending operations, and from there into its offshore branch, Latino N.V. in Curaçao.

"These short-term operations handled up to 95 billion bolívares; normally these would not exceed 15 billion," the official report explains. It then adds: "In a short period of time, fed by these short-term operations as well as the liquid assets fund, the Latino in Curaçao increased its resources from \$950 million to \$2.160 billion." The report does not indicate what happened to those funds which fled to Curaçao.

Gustavo Gómez López, who was Banco Latino's president until December 1993, said in a statement sent from abroad (he has fled the country) that he will not surrender to local authorities, and charged that the bank's collapse was due to a political conspiracy which linked the institution to deposed President Pérez.

It's not surprising that many feel that CAP's downfall had a lot to do with Banco Latino's demise. His relationship to the bank has always been notorious, starting during his first administration in 1974 when the representative of the Rockefeller and Chase Manhattan group in Venezuela, Pedro Tinoco, took over as Banco Latino's president and reorganized it. The bank took in capital from the Pérez-linked Occidente Group, and from the just-emerging group which went by the name of the "Twelve Apostles." Among the latter was Tinoco and the Cisneros group. During CAP's second government the late Pedro Tinoco was named president of the Venezuelan Central Bank and head of the commission in charge of negotiating the country's foreign debt. Banco Latino achieved its spectacular growth by taking advantage of the speculative stock market bubble which had come to dominate the economy during that period.