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FEATURED Q&A

How Will Chávez's Nationalization Threats Affect Banks?

Q Venezuelan President Hugo Chávez earlier this year threatened to nationalize the country's private banks if they refuse to provide 40 billion bolívars ($9.31 billion) in agricultural loans this year. Is it feasible for the banks to provide that level of loans to farmers? How would such an increase affect banks' loan portfolios and businesses? To what extent do Chávez's threats affect banking operations in Venezuela and future growth of the country's financial sector?

A Franklin Santarelli, managing director in the Latin America Financial Institutions Group at Fitch Ratings: "It is difficult to comment on the probability of a nationalization of private banks, as such decisions are politically motivated and impossible to predict. However, I can say that it is feasible for banks to provide the aforementioned amount of agricultural loans since, in real terms, the level is not that different from the amount that the banking regulator recently disclosed about agricultural loan disbursement by Venezuelan banks during 2011 (36.15 billion bolívars). Given the high level of inflation in Venezuela (which Fitch estimated to average 30 percent in 2012), credit growth to the agricultural sector will likely increase outstanding loans to this sector above the required 40 billion bolívars. Venezuelan banks have provided financing to the agricultural sector on a mandatory basis for a very long period of time, and on average, Fitch believes the system has adequate tools to provide such financing and control its risk exposure. Even when it's obvious that mandatory lending rules are not in line with best practices in the financial world, it's also true that in all these years of compulsory lending, the asset quality of such exposures has been in line with the system's overall average. On the other hand, these measures always impose different pressures on individual banks as not all of the banks have the right tools and commercial network to

Continued on page 3

Pope Ending Cuba Visit With Mass, Meeting With Fidel

Pope Benedict XVI, pictured Monday with Cuban President Raúl Castro, wraps up his three-day visit to Cuba today with a massive open-air Mass and a meeting with Fidel Castro. See story on page 2.

Photo: Granma.

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NEWS BRIEFS

Vázquez Mota Campaign Calls for Probe of Wiretaps

The campaign of Mexican presidential candidate Josefina Vázquez Mota on Tuesday accused the rival Institutional Revolutionary Party of conducting wiretaps and called for an investigation, the Associated Press reported. Vázquez Mota, of the ruling National Action Party, has not confirmed that the voice on a phone recording released earlier this week is hers, but an aide said it was the candidate's and lodged a complaint with prosecutors. In the recording, a woman is heard accusing the head of Mexico's federal police of spying on her.

Ocampo Looks to Latin America for Support in World Bank Bid

José Antonio Ocampo expects that Latin American countries will support his bid to become the next head of the World Bank, he said in an interview with RCN Radio on Tuesday, Bloomberg News reported. The former Colombian finance minister is up against Nigerian Finance Minister Ngozi Okonjo-Iweala and Jim Yong Kim, the president of Dartmouth College. Although the seat has always gone to an American, Ocampo said there is a "real possibility" that the bank could choose a candidate from a developing country at its April 20 meeting.

Geopark Holdings Purchases Hupecol Cuerva for $75 Million

Latin America-focused oil and gas company **Geopark Holdings** said Tuesday that it has purchased **Hupecol Cuerva** in Colombia for $75 million, Reuters reported. The acquisition is Geopark's second in Colombia, after purchasing the **Winchester Oil and Gas** and **La Luna** companies for $30 million in February.

Political News

Pope Benedict XVI to Meet With Fidel Castro Today in Cuba

As he wraps up a three-day visit to Cuba, Pope Benedict XVI plans to meet today with Fidel Castro and also will celebrate a massive outdoor Mass that could draw as many as one million people to Havana's Revolution Square, Agence France-Presse reported. On Tuesday, the pope met with President Raúl Castro and asked that Cuba declare Good Friday a national holiday. At the beginning of his visit on Monday, Benedict urged Catholics during a Mass in Santiago to help build a "renewed and open society, a better society, one more worthy of humanity." Last week, the pontiff said Marxism "no longer corresponds to reality." Benedict's calls for openness in Cuba led the country's vice president, Marino Murillo, to say there would be no large-scale political changes. "In Cuba, there will be no political reforms," Murillo told reporters, AFP reported. "What we are talking about is an updating of our Cuban economic model, which makes our own form of socialism more sustainable, for the well-being of our people." Benedict, apparently referring to political prisoners and possibly exiles, said he was praying for "the needs of those who suffer, of those who are deprived of freedom, those who are separated from their loved ones." The pope does not plan to meet with dissidents during his visit, which has drawn criticism. In recent days, Cuban authorities reportedly rounded up some 150 dissidents and barred others from leaving their homes in an effort to prevent demonstrations. Benedict's visit is the first by a pope since the historic visit of John Paul II in 1998. The communist nation was officially atheist until the early 1990s.

Last week, the pope said Marxism "no longer corresponds to reality."

Economic News

Tight Labor Market in Brazil Can Handle Faster Growth: Tombini

Brazil's labor market, which is at nearly full employment, can absorb faster economic growth without putting upward pressure on inflation, the country's central bank president, Alexandre Tombini, said Tuesday in Miami. "The labor market is tight but the use of the labor market is not as tight as the headline figure," Tombini said at a Bloomberg forum, the news service reported. "There has been a decline in working hours and some segments of the Brazilian economy have given compulsory holidays for workers." Vehicle manufacturers, including **Daimler**'s Mercedes-Benz and **General Motors**, have ordered furloughs as a weaker economy in Brazil has idled assembly lines. Amid the European debt crisis, the South American country's growth slowed last year to 2.7 percent, lower growth than most of Latin America. Since August, Brazil's central bank has cut interest rates five times in an effort to spur the economy. In their March meeting, policymakers signaled a high probability that interest rates would be lowered to just over 8.75 percent, an historic low. Also on Tuesday, the government extended tax breaks on appliances including refrigerators and washing machines in exchange for producers' vows to preserve jobs. The government's efforts are expected to boost growth in this year's second half, said Tombini. Because of lower inventory levels, an increase in demand would lead to higher production. Brazil's unemployment rate reached a record low of 4.7 percent in December and was 5.9 percent on average in the 12-month period through February. Inflation, which has been above the government's 4.5 percent target rate since 2010, was 5.61 percent in the middle of March.

Tombini

File Photo: Brazilian Government.

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Company News

Chile's LAN to Receive its First Dreamliner This Year

Chile's **LAN Airlines** will take delivery of its first **Boeing** 787 Dreamliner later this year, LAN officials said Tuesday, Bloomberg News reported. In total, Chile's flagship carrier ordered 32 of the planes through a $3.5 billion capital expenditure plan in which it will buy 26 Dreamliners and lease the other six. The use of the new planes will help LAN save costs as the 787s reduce the use of fuel by 20 percent, according to Pedro Margozzini, LAN's corporate and services marketing director, who spoke to reporters on the sidelines of the FIDAE Air and Space Show in Santiago. "This is a more efficient airplane in relation to the environment as it sends 20 percent less carbon to the atmosphere; generates more efficiencies and allows us to continue offering reasonable prices to our passengers," said Margozzini. Fuel costs currently amount to almost 30 percent of the operational costs of each LAN flight, he added. The airline's first Dreamliner will fly between Santiago and Buenos Aires, Lima, Los Angeles and Frankfurt, said LAN, which plans to extend the use of the planes to its subsidiaries in Latin America. "As we progress with other alliances in the market, such as the merger with TAM, we will use it for all LAN units. So far, for next year, we have only defined these routes," said Margozzini. LAN is expected to finalize its merger with Brazil's **TAM** in about a year. The merged airline would be Latin America's largest carrier and among the 10 largest in the world. LAN is the first Latin America-based airline to incorporate the 787.

Fuel costs currently amount to almost 30 percent of the operational costs of each LAN flight.

Featured Q&A

Continued from page 1

tap this segment and hence, their asset quality trends may differ. Last but not least important, every time the authorities introduce new compulsory lending rules, the ability of banks in the system to execute their own business plans are interrupted and in some cases, the existence of mandatory lending rules undermine the banks' ability and willingness to provide financing to other sectors. This certainly does not bode well in terms of the desired increase in banking penetration."

A Bret Rosen, Latin America sovereign-debt strategist at Standard Chartered: "The banking system in Venezuela possesses substantial liquidity in bolívars given the dearth of viable destinations for credit within the overall economy and thanks to the country's draconian capital controls. Clearly, directed lending of the type that the president is pushing entails a number of risks for the financial system; loans would be made according to a political determination rather than their economic viability. Should the system be forced to make loans based on this criterion, one could expect nonperforming loans to increase as well as a deterioration of overall loan portfolios; credit to small farmers could present a series of operational and logistical problems. Chávez's threat to nationalize private banks further harms Venezuela's overall investment environment and dissuades financial institutions from expansion. Deposit rates remain very low, and, in fact, highly negative in real terms due to the excess liquidity in the system, while certain interest rate caps do not encourage loan growth. The failure of the private sector to grow in recent years has left the system with few options, and hence a large portion of the system's assets ends up in government bonds or obligations of PDVSA."

> "One could expect nonperforming loans to increase as well as a deterioration of overall loan portfolios."
>
> — *Bret Rosen*

A Beatrice Rangel, member of the *Advisor* board and director of AMLA Consulting in Miami Beach: "The head of the Venezuelan banking watchdog (SUDEBAN) said in October that 'the national banking system is living one of its best times … both in terms of liquidity, which is around 6.98 billion dollars, as well as solvency.' Assuming that he was right, President Chávez will most probably need to print a lot of money to achieve the lending target he set to benefit the rural sector. According to this agency, profitability increased 35 percent year-on-year in 2011. But a close look at the triggering factors of such an auspicious situation reveals that it was basically due to currency arbitration and lending to the government. This seems to indicate that there are not many other attractive destinations for credit. To earmark so much money to credit for farmers not only seems to contradict the regime's economic strategy while running counter to the logic of banking, but also sets the foundation for a financial crisis. In an election year, this seems a bit of an odd policy to adopt."

A Carlos Alberto Molina, professor of finance at IESA in Caracas: "On Jan. 29, President Hugo Chávez announced the creation of the 'Ezequiel Zamora' fund to centralize the agricultural loans that Venezuelan banks currently manage. The banks will transfer their agriculture loans to the government-managed fund, receiving agricultural bonds in exchange. By December 2011, Venezuelan banks were financing

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Featured Q&A

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51.71 billion bolívars in agriculture loans, close to 20 percent of the total system loans. The minimum percentage of agriculture loans a Venezuelan bank has to give is set every month by the government, and it is now 20 percent. In his announcement, President Chávez threatened to nationalize private banks (65 percent of the system assets). He specifically mentioned the three biggest private banks, Banesco, Mercantil and BBVA Provincial for not granting enough agriculture loans. Surprisingly, these banks are granting 29 percent, 53 percent and 38 percent of their loans to the agricultural sector, respectively. These percentages are similar to the 41 percent of the biggest state-owned Venezuelan bank, and certainly higher than both the law's minimum and the system average. Transferring agricultural loans to the newly-created government fund means that Venezuelan banks will lose the control of these loans. These limitations on doing business restrict the sector's growth. Threatening private banks with nationalization prevents future investments not only in the banking sector, but also in the whole economy. Given the current level of agricultural loans granted by private banks, the nationalization threat can only be understood from a political point of view: Blaming the banks for the failure in public policies for the agricultural sector."

> "Threatening private banks with nationalization prevents future investments not only in the banking sector but also in the whole economy."
>
> — ***Carlos Alberto Molina***

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

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