Banking System and Local Financing

The Central Bank of Venezuela (BCV) regulates the monetary system through the control of credit institutions, the establishment of minimum cash reserve requirements and the issuing of currency and rediscounting of notes.

In the past, credit demand was fueled by negative real interest rates and fears of inflation but more recently interest rates have become positive. Interest rates are fixed and periodically adjusted by the BCV. Commercial bank loans are currently at 37 per cent with six month deposits receiving a 40 per cent rate.

Commercial banks in Venezuela are primarily short-term lenders. The largest commercial bank is Banco Provincial followed by Banco de Venezuela, Banco Mercantil, Banco Latino, Banco Uniono, Banco Consolidado and Banco de Maracaibo. Commercial bank loans are usually granted for 90 days (two years is the legal maximum, except for some industrial and agricultural loans), while financieras and mortgage banks may lend for longer terms. Prime borrowers can easily roll over the loans, particularly if they provide the bank with other financial business, such as foreign exchange trading or letters of credit.

In general, Venezuelan manufacturing companies finance a major portion of their total assets through debt. Local firms, in particular, rely heavily on short-term loans from commercial banks. These banks are limited to lending only 10 per cent of their paid-in capital and reserves to any one firm (except in special cases such as agricultural loans).

Foreign companies must receive their initial financing from abroad. State-owned banks, such as Banco Industrial de Venezuela, have generally been unwilling to lend to majority foreign-owned firms. However, access to local funds by foreign companies has improved since February 1986, when the BCV lifted a decade-old rule restricting foreign company access to local bank financing.

Borrowing from abroad, common among international firms in Venezuela, requires prior approval from the Superintendency of Foreign Investment (SIEX), except for any loan with a maturity of up to two years, or a line of credit with a final draw-down within two years of the date the line was opened. Registration with SIEX is still necessary in these cases, within 60 days for two-year credits and 30 days for shorter terms. The agreements can be renewed automatically for an additional two years without prior SIEX approval, but