

# Has Peru's government tired of rescuing banks?

by Manuel Hidalgo

In an unusual development, on Nov. 12, the all-powerful Dionisio Romero, head of Credicorp, Peru's largest business and financial conglomerate, denied rumors that he is negotiating the sale of his bank, Banco de Crédito, to one of three foreign banks: Santander, Citibank, or Chase Manhattan. One week earlier, the stocks of Alicorp, his main non-banking company, plummeted, and he sold his AFP Unión to the Santander group. The last time a banker denied that he was selling his bank, it ended in a "fusion rescue," as was the case with Peru's second-largest bank, Banco Wiese, which was absorbed at the beginning of the year by the Franco-Italian group Sudameris.

In the first half of 1999, Banco de Crédito's profits collapsed by nearly 57%, and between July and September, its overdue loans increased by \$396 million; 9.17% of the bank's outstanding loans are now overdue.

On Nov. 8, the Association of Exporters said that "half the banks are in a critical situation." Devaluation, internal recession, and the collapse of raw materials prices on the world markets have dramatically increased the non-performing portfolios of banks which lent dollars to firms which received their income in soles, Peru's currency. Lines of credit from abroad fell from \$3.765 billion in August 1998, to \$1.872 billion on Oct. 7, 1999. In addition, private banking debt is largely short-term. Thus, on Sept. 15 of this year, non-performing loans were 11.54% of the total portfolio. Lending fell by 12.3% from the beginning of the year; deposits grew by a mere 1.1%. Since the end of 1998, banks have cut credit, and this has been reflected in a severe liquidity crisis for the economy, because the Central Bank has simultaneously been holding onto soles, to avoid greater devaluation pressures.

## Financial 'magic'

One question is, where are the banks getting their money, if they are not lending, as the drop in loans issued shows? All indications are that the "creative finances" of the "geniuses" of speculation have moved in. For example, last year, dollar derivatives contracts were signed for some \$3.2 billion; the main banks involved in these financial bets were Santander, Bilbao Viscaya, Citibank, and Banco de Crédito. Despite the government's bragging about its ability to deal with the devaluation run, Peru is overripe for the same treatment dealt to Thailand's currency in 1997. Former adviser to the Peruvian

government Jeffrey Sachs recommended that the Fujimori government not defend its currency, knowing full well that this would bring the country to its knees before such financial pirates as George Soros, who has been operating in Peru for several years.

Thus far, the government has done what it can to defend the "solidity of the financial system," which was tested by the crises of the República, Latino, and Wiese banks. While deciding to let Banco República fall, the government organized a rescue of Latino by buying the bank. In the case of Banco Wiese, the Economics and Finance Ministry secretly negotiated with the buyer, Sudameris, to guarantee the operation, becoming itself a 7% owner of the new Wiese-Sudameris bank.

Because of the collapse of the population's income, the government now owns 40% of bank deposits in private institutions. According to the magazine *Caretas*, this has, in effect, turned the government into the supreme judge, deciding which banks will survive, and which will not. According to Chilean banker Errazuriz, of Banco República, the government withdrew its deposits from that bank, triggering its bankruptcy. At the same time, the government has allocated hundreds of millions of dollars to bank bailouts, in the form of buying up bank assets (for \$175 million), capitalization of their tax debts to the government, exchange of Treasury Bonds (up to \$550 million worth) for non-performing loans, and a \$1 billion program for business restructuring, of which \$440 million has already been spent, etc. Further, directives have been issued to allow the banks to capitalize their loans to debtor companies. Also, the banks were permitted a "make-over," which reduced the level of non-performance from 11.54% to 8.59% in the course of 15 days!

However, none of this has reestablished the chain of payments: Apparently, every cent that enters the banks is already destined to pay the private foreign bank debt, which now stands at a minimum of \$7 billion.

The government is aware that it is facing something worse than a banking crisis: the economic paralysis of the country due to the rupture of the chain of payments and severe illiquidity. All the producer associations have accused the banks of contracting credit beyond all reasonable limits, and demands are surfacing for restoration of the so-called "development bank," which was eliminated by the fanatic Mont Pelerinite Economics Minister Carlos Boloña in 1992. The government has announced that it will sponsor the formation of an "agrarian" or "rural" bank, to channel all the credit currently handled by the Financial Development Corp. (Cofide), through the rural agencies and commercial banks. Cofide, a so-called "second floor" bank, i.e., a semi-bank, has had its operations limited by the restrictive practices of the commercial banks, and because of Boloña's 1992 Law of the Central Reserve Bank, it has been absolutely prohibited from generating that precious instrument of every sovereign nation-state: public credit.