Globalized Bank Sector Is Collapsing In Peru

by Manuel Hidalgo

Disintegration of the banking system is the characteristic feature of the systemic collapse of globalization in Peru, similar to what is ongoing in neighboring Ecuador. The wave of interventions, bankruptcies, and mergers began as a sequel to the so-called "Asia Crisis" of 1997, and has continued non-stop ever since: Last December, the NBK and Nuevo Mundo banks were intervened in after a serious bank run, and in mid-January, the deadline has been reached for determining whether they will be taken over, or shut down permanently. NBK and Nuevo Mundo thus join a long list of banks—República, Orión, Solventa, Serbanco, Banex, and Latino—which have been intervened in over the past three years, and of which only the last has been kept alive on artificial support.

In mid-1999, the takeover/rescue of Wiesse Bank, second largest in the country, was carried out by the Italian consortium Sudameris. In early 1998, 25 banks made up the "national" banking system in Peru—although a large number of those were actually controlled by foreign banks. By early 2001, that total number had shrunk to 15, while foreign control had increased, given the takeover of Banco Latino by Interbank.

Delinquency in payments to the banking system shot up from 8.35% of total portfolio at the end of 1999, to 10.21% in November 2000, despite the fact that the government allowed the banks to erase their non-performing assets through accounting tricks. The shortfall in reserve assets adds up to approximately $700 million, while bank profits have declined. In the past five months, more than $1 billion has left the banking system, between deposits and lines of credit abroad. Standard & Poors lowered its risk classification for the Peruvian banking system, from stable to negative.

An important factor in this flight capital was the political crisis unleashed by the international financial oligarchy, as part of its strategy to overthrow President Alberto Fujimori, which they achieved in November of last year. But there is also an underlying economic and financial problem, which Fujimori did not know how to solve.

At this point, the Peruvian banks are insisting that there is liquidity in the system, but they argue that there is no one to lend to, given the dire straits of the Peruvian business sector. They have a point; there are some 1,500 medium-size and large companies which have been forced to submit to asset-restructuring programs announced by the government. Critics of these measures have said that these are resources which, far from going toward working capital for these companies, are nothing but another covert bank rescue.

Costs and Hidden Costs

The costs of the banking crisis are frightening: Economics Minister Javier Silva Ruete reported that the government has already spent $1.062 billion in bank rescues over the past two and a half years. According to the data released by Silva Ruete and the Banking Superintendent, the government has had to write off between $843 and $937 million in this category.

In the past few months, the government had deposited its funds in the banks, as a kind of respirator to the terminally ill system. The press is now saying that the crisis of the NBK and Nuevo banks, was precipitated by a government withdrawal of its deposits. The government, hoping to avoid a new banking crisis, announced that it would issue another $500 million in bonds to facilitate government takeovers.

1998 marked the end of the huge flood of dollars into the Peruvian economy, by means of privatization, mining megaprojects, credit lines to banks, portfolio investments in the Lima Stock Exchange, and construction of hotels and other speculative real estate investments. Desertion by the Anglo-Dutch Shell of the mammoth Camisea gas project marked the bottoming-out of the "boom" of oil and mining investments. Privatization lost its impulse because the "meat" of the Peruvian economy had already been sold off.

The profitability of the local stock exchange (in dollars) went negative by 34.8% in 2000. Direct Foreign Investment in the third quarter of 2000 was $16 million, compared to $579 million during the same period in 1999, and $299 million for the corresponding period of 1998.

All of these are but aspects of the international financial collapse, which drove the dollar flow back to the metropolis, the so-called "flight to quality." All of this was aggravated, of course, by the financial warfare run against Peru as part of the "get Fujimori" campaign in 2000.

The arrangement that globalism imposed on Peru in 1990, to cover some of its own shortfall in production with foreign products, in exchange for handing over its leading state companies at bargain-basement prices while surrendering control over national savings via bank de-nationalization, is now running out of steam. Although that arrangement relied on 1) a vast cushion of dollars from the drug trade, 2) a social escape valve of mass migration abroad (with the consequent remittances to families back in Peru), and 3) a boom of mining exports, which more than doubled between 1990 and 2000, Peru today suffers from a business, banking, and fiscal crisis.

As of 1998, the Fujimori government tried to counteract the collapse in foreign exchange earnings by drastically reducing the consumption of the population. A devaluation was avoided, but at the cost of triggering a profound recession in the domestic economy, which has not revived despite the later "dynamism" of exports controlled by foreign cartels in Peru, such as Newmont, Barrick Gold, and BHP.