

Worldwide Banking Turbulence Slams Peru

by Manuel Hidalgo

Peruvian businessman Jaime Mur declared on television on April 1, that the Banco Wiese Sudameris (BWS), the country's third most important bank, was facing insolvency. In 2003, the BWS suffered a 72.19% collapse in profits, in comparison to 2002. Although the Peruvian press failed to give much coverage to Mur's statements, the Finance Ministry, the banking superintendency and the country's number one bank, Banco de Credito, felt obliged to respond publicly that BWS is indeed "solvent," and that it has "an adequate liquidity level, to meet all foreseeable demands."

For its part, BWS announced that it would file a lawsuit against Mur for "financial terrorism."

LaRouche's Forecasts

But no one should find it strange that Peru's banking system is experiencing such extraordinary turbulence, given the fact that the world monetary/financial system is in the process of disintegration, just as Democratic Party Presidential pre-candidate and U.S. economist Lyndon LaRouche has been forecasting.

In fact, on March 20, LaRouche told hundreds of students attending a conference at the Technological Institute of Higher Studies in Monterrey, Mexico that "world production, today, is about \$41 trillion net product. But, the amount of financial derivatives, in 2003, the turnover, was \$8.7 *quadrillion* of short-term obligations. These short-term obligations are so vast, relative to our product, that the financial system is absolutely bankrupt." Mexican banks have gone under at least twice in recent years, as have the banks of Argentina, Ecuador, and, just a few months ago, the Dominican Republic as well.

In the United States, as *EIR* has reported, there are several banks which are surviving only through the artificial respiration provided by the Federal Reserve, among these, such well-known institutions as Citigroup and JP Morgan Chase.

LaRouche's warnings are not unknown in Peru, where the International Caucus of Labor Committees (ICLC) and the LaRouche Youth Movement (LYM) have widely circulated his statements to political, government, business, labor, media, and university circles.

Intensive Care for the Banks

Since 1998, Peruvian banking has been under intensive care from the state. However, the number of banks has still

been reduced from 25 to 15; some by liquidation—Orión Solventa, Banex, Nuevo Mundo, Serbanco, República—and others by being absorbed by other banks, as is the case with BSCH, Latino, and BWS.

The vast quantities of aid provided by state coffers have not prevented a number of financial groups from leaving the country, such as Santander Central Hispano or history's first opium bank, the Hong Kong and Shangai Banking Corporation.

The true level of delinquency on payments by the system is unknown, as the government has in effect dismantled banking supervision and reinforced mechanisms of "preventive rescue" in its place. Peruvian governments since 1998 have poured no less than \$2.4 billion in bonds and cash into rescuing Peru's banks, and the figure is even larger when one takes into account the state resources assigned to companies that eventually fell into the hands of the creditor banks.

One Congressional investigation recently concluded that in the bailouts of Wiese and Latino banks, bankers as well as government officials committed a number of crimes. The case against Latino is already being reopened for further investigation, as a result. It is estimated that the "rescue" of Wiese will represent an additional loss to the state of \$314 million, merely by executing the state guarantee given the INTESA financial group. In the case of Latino bank, the Picasso group, in whose charge Latino was until the state intervened against it, facilitated the speculative intervention of George Soros on the Peruvian stock market.

IMF Demands

The doors to these extralegal changes were opened by the International Monetary Fund (IMF), with its October 1996 demands to change legislation for confronting a possible financial crisis. The Venezuelan banking crisis had cost 20% of that country's Gross National Product, and the Chilean, 30%. So, under IMF pressure, the traditional supervisory norms in Peru were abandoned, and the ability of the Banking Superintendency and Deposit Insurance Fund to conduct "preventive bank rescues" was instead strengthened.

The banking crisis is lighting the fuse for the explosion of a much broader fiscal crisis. Although the exact amount is not yet known, it is clear that the cost of these bailouts represents an enormous drain on state funds. The Alejandro Toledo government has tried to confront its fiscal deficit by issuing bonds to the tune of some \$3.18 billion, thereby increasing the country's foreign debt by some \$5 billion. Debt service already consumes 25% of the national budget, and if it is combined with the banking crisis, it is evident that Peru is heading for precisely the kind of crisis that we have just seen in Argentina and Ecuador, which is ripping apart the social fabric of those countries.