

**TRANSNATIONAL BANKS AND
THE EXTERNAL FINANCE OF
LATIN AMERICA: THE
EXPERIENCE OF PERU**

ECLAC



UNITED NATIONS

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Preface

This volume represents a comprehensive study of the contemporary aspects of private commercial bank cross-border lending to a developing country.

The case of Peru is a controversial one and has proved to be an intriguing investigation. The study aims to provide previously inaccessible data on the nature of commercial bank lending to a developing country and attempts to critically evaluate the impact of the banks on economic development.

The study's primary concern is clearly the private commercial bank. By honing in so closely on the commercial bank and its involvement in external finance one gains an unusually detailed treatment of an important subject that too frequently has suffered from insipid generalization. The disadvantage of such a centralized focus, however, is that the banks' role in Peru's political economy and well-publicized problems may appear to some to be magnified beyond reasonable proportions. I should make clear right now that in my own view much (if not most) of Peru's economic difficulties have been self inflicted. However, this side of the story has been well-developed as there is a voluminous academic and journalistic literature which criticizes the contemporary economic management of the country (see bibliography). Much less attention has been paid to the role of external agents in Peru's difficulties. One very important agent - the private commercial bank - has virtually escaped scrutiny because of the dearth of specific information on the lending activities of these institutions. Thus, while not wanting to diminish the importance of the internal deficiencies in Peruvian economic policy, in the interest of counterbalancing the orientation of the current body of literature I have purposely placed very heavy emphasis on the banks' (and other external agents) involvement in the country's economic difficulties.

It also should be pointed out that while this is a case study, I feel that much of the data and analysis relate to the general issue of commercial bank lending to developing countries and therefore are relevant to broader applications. Of course, it is left to future studies to determine whether this observation is accurate or not.

The volume represents a joint effort of the Economic Development Division of CEPAL, of which I am a member, and the Joint CEPAL/CTC Unit in Santiago, Chile. The general scheme of the project, i.e., the role of banks in Peru's external finance, owes itself to Aníbal Pinto, Chief of the Economic Development Division during the gestation period of the project. For its part, the U.N. Centre on Transnational Corporations provided finance for an external consultant who managed the collection of raw data in the field. The Centre has drawn upon material in this study for its Report on Transnational Banks to be presented to the U.N. Commission on Transnational Corporations in 1980.

A number of people have provided valuable assistance to the project and should be mentioned here. Eduardo Gana, a former member of the Joint CEPAL/CTC Unit, was the supervisor of the study and provided continuous encouragement and guidance throughout the planning and implementation stages. Jan Křakal, the former Acting Chief of the Joint Unit, also should be thanked for his support during the course of the project as should Arturo Nuñez del Prado, current Chief of the Unit, for his assistance in the revision and publication stages of the study. At the outset of the project Dr. Luis Barúa was kind enough to orient me to the intricacies of the Peruvian public sector. I am especially grateful to Carlos Santistevan who as a consultant to CEPAL was responsible for managing the successful program of data collection in Peru; without Mr. Santistevan's gracious collaboration this study could not have been realized. Dr. Manuel Romero and Daniel Saba de Andrea were kind enough to provide data on some specific aspects of project finance in Peru. Oscar Ugarteche, both in conversations and in the kind loan of private research materials was of great assistance as well. I am also grateful to David Hoelscher and Richard Lynn Ground for the periodic dialogue that helped to clarify my own ideas on many aspects of the material.

A number of people provided helpful comments on all or part of the first draft of the document and should be thanked here. Those having the patience and time to comment on the entire document were Héctor Assael, Eduardo Gana, Richard Lynn Ground, William Loer, John Mc Dermott, Michael Mortimore, Fernando Sánchez, Barbara Stallings and Larry Willmore. Meanwhile, helpful criticism on one or more draft chapters was received from Andrés Bianchi, Robert Brown, David Hoelscher, Benjamín Hopenhayn, Norberto González, Arturo Nuñez del Prado and Roberto Zahler.

Finally, the opinions expressed in the volume are my own and do not necessarily reflect the attitudes of CEPAL or the individual just mentioned above. Of course, I assume full responsibility for any errors and omissions that may be contained in the study.

Robert Devlin

Santiago, Chile

Abbreviations

BCR	Banco Central de Reserva del Perú
BN	Banco de la Nación
CAF	Corporación Andina de Fomento
CEPAL	Economic Commission for Latin America
COFIDE	Corporación Financiera de Desarrollo
COTREX	Consejo de Transacciones Externas del Sector Público
DC	Developed Countries
EXIMBANK	U.S. Export-Import Bank
IBRD	International Bank for Reconstruction Development (World Bank)
IDA	International Development Association
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IMF	International Monetary Fund
INP	Instituto Nacional de Planificación
IPC	International Petroleum Corporation
ITT	International Telephone and Telegraph Corp.
JUTREX	Junta de Transacciones Externas del Sector Privado
LIBOR	London Inter-bank Offer Rate
LDC	Lesser Developed Country
MEF	Ministerio de Economía y Finanzas
OECD	Organization for Economic Cooperation and Development
OPEC	Organization of Petroleum Exporting Countries
USAID	United States Agency for International Development

Explanatory Notes

Three points (...) indicates that relevant data are not available or do not apply to the particular heading.

A dash (-) indicates that the quantity is nil or too small to specify.

Part I

BACKGROUND

Chapter I

INTRODUCTION

The decade of the 1970s has witnessed the emergence of private international commercial banks as important participants in the external finance of developing countries. In 1970 banks accounted for roughly 19% of the total current account financing (including reserve accumulation) of the non-oil exporting developing countries, most of which was short term (maturities of less than one year) in nature. However, by 1974, banks generated 33% of this finance, with the bulk of the transactions falling into the medium to long run (1-5 and over 5 years, respectively) category. In subsequent years bank finance has continued to approximate roughly a third of total finance, 1/.

While commercial bank finance has become important to LDCs taken as a whole, it is in the upper income developing countries like those of Latin America where much of the lending has been concentrated. As seen in table 1 Latin America accounted for nearly two-thirds of the gross indebtedness of non-oil exporting developing countries to commercial banks in 1978 and almost all the indebtedness on a net basis. While a great portion of this debt is carried by superborrowers like Brazil and Mexico, other countries such as Peru, Chile, Colombia, Argentina, Panama, etc., have become important clients of international banks as well.

Likewise, the relative weight of banks in the structure of Latin America's external finance also has become considerable. In 1966-1970, the average net contribution of banks to the current account finance of Latin America was only slightly greater than 12% of the total; however, by 1974 the banks accounted for more than two-thirds of net flows, 2/ and in subsequent years despite new lending by international organizations (e.g. IMF Oil Facility), their contribution has remained around 50%.

Thus there is little doubt that private commercial banks have become a force to be reckoned with in the external finance of the region. And their importance must not be taken as a mere passive element in finance. As pointed out

Table 1

INDEBTEDNESS OF NON-OIL DEVELOPING COUNTRIES TO PRIVATE
COMMERCIAL BANKS, END DECEMBER 1978 a/

(Billions of dollars)

Developing Countries						
	Latin America	Middle East <u>b/</u>	Africa	Asia	Total	World
Gross	79.4	3.1	12.0	25.4	119.9	903.0
Net <u>c/</u>	48.2	-4.4	5.5	3.9	53.2	...

Source: Derived from the Bank for International Settlements (BIS), Forty Ninth Annual Report, Basle, 11 June 1979, pp. 111-113 and subsequent revisions made by the BIS.

a/ Includes short term debt. Regional data exclude offshore financial centres and the residual estimates of the BIS.

b/ Excludes Israel.

c/ Debt less deposits in the banks.

by Barnett and Müller: "... banks can exert considerable power over underdeveloped countries that are poor in foreign exchange because they control the faucets from which dollars flow". 3/

Unfortunately, while the banks' power over the affairs of many developing countries has been growing rapidly as a result of their control over foreign financial flows, there is an incredible dearth of information and analysis with respect to the specific nature of bank lending and the impact that this has had on the development of the periphery. What improvements that have been made in collecting data on the subject have been for very recent periods and have involved a high degree of aggregation that reflects the needs of regulatory authorities in the center (who are doing the collecting) rather than the requirements of developing countries. Thus, available data reveal little about the evolution of the borrowing and lending processes, the

underlying factors and actors, and the precise implications that all this has had for developing country borrowers.

Because of the problem of a lack of information, or excessive aggregation of data, analysis of the phenomenon of bank lending to developing countries has been mostly limited to generalization, with little consideration as to whether events have differed among lending institutions and borrowing countries. The only studies that have penetrated somewhat the veil of aggregation have been those by Wellons and Sánchez Aguilar. ^{4/}. The former gives a good orientation to the general institutional process of lending and complements this with some perspicacious, albeit very brief, analysis of the cases of a number of developing country borrowers (of which Peru is not one). The latter analyses the lending of U.S. banks to Mexico in the early 1970s. Both studies have made a valuable contribution to the enhancement of understanding of bank involvement in the external finance of LDCs; however, the scope and depth of analysis are severely handicapped by an obvious data constraint.

1. Goals of the study

In general terms, the basic goal of the case study is to take a first step in breaking the analytical bottleneck with regard to the lending and borrowing processes that have generated a massive accumulation of commercial debt in many developing countries. A more penetrating view of the phenomenon is sought in order to enhance the decision making capacity of governments with regard to the contraction of commercial debt. And it is hoped that comprehensive grass-roots empirical analysis such as is attempted in this study will help to build a foundation for eventual development of new theoretical constructs that can better explain the behavior of transnational banks, particularly with respect to their lending to Third World governments.

Since a principal interest is the lending/borrowing processes underlying commercial debt the chapters have a shifting focus between the banks and Peru. But it should be made clear from the outset that the main protagonist of the study is the international commercial bank. Analysis has been especially designed so as to shed more light on its behavior, not only generally, but also at the level of the individual institution. Indeed, a major hypothesis of the study is that individual banks can have distinct modes of behavior, creating variable relations with borrowers at a point in time and intertemporaneously. Hence the need for more discriminating analysis of commercial bank lending than has been available to date.

The study also attempts to examine the reasons why the borrower became so reliant on commercial debt. This analysis, however, is purposely treated more summarily than other material because of an already voluminous literature on Peru's political economy over the last decade (see bibliography). Where there has been much less work done is on the impact of bank loans on the country's development, and therefore analysis is much more extensive in this latter area.

2. The general methodology

One way of approaching the study of transnational banks would have been to ask individual banks to provide detailed information on their portfolio and their lending to individual countries. However, banks are notorious for their use of the protective shield of confidentiality, making it difficult for even home country governments of the banks to secure disaggregated data on lending operations. In view of this, an alternative would be to go directly to borrowing countries for data that will reveal the behaviour of banks and their impact on development. However, this represents a formidable task, requiring one to systematically dig deeply into raw data in the field for a number of selected countries, and then reaggregate this information in a manner which promotes a better understanding of the lending by banks and their influence on developing countries. Notwithstanding these obstacles the latter option represents the basic methodology of the study. However, given the complexity of the matter, and given limited resources, it was decided to initiate the project in one country and hopefully have CEPAL, or other researchers, follow up with similar case studies later, adjusting them to the findings of the initial effort.

It was deemed impractical to begin the study with a superborrower such as Brazil or Mexico because of the fear that disaggregation of such voluminous lending by banks might create an unwieldy data base for the launching an initial case study. Peru finally was selected as the initial case due to the fact that, while still a major client of the banks, it offered prospects of a more manageable data base. Also, the country has recently passed through a complete credit cycle. In order to capture a more than contemporary view of bank lending, the study begins in 1965, thus incorporating at least 5 years of activity that reflect the traditionally conservative relationships between these lending institutions and developing countries. The 1970s, of course, would reflect the new style of world banking that made

developing countries acceptable, if not very attractive, clients for loans. The year 1976 is the cut-off date for empirical work, because as will be seen, it is the end of the credit cycle and represents the last year in which Peru enjoyed general acceptability among the world's commercial bankers.

Another decision has been to focus only on medium and long term lending to the public sector, or lending with guarantees of the public sector, excluding, however, loans directly related to national defense. 5/. Short term lending is qualitatively different than medium and long term transactions and data collection for the former would have been even more difficult to realize than for the latter. Meanwhile, the vast amount of medium term lending by commercial banks to Peru has been through the public sector, making the study of government loans practical from the standpoint of comprehensive coverage.

Within this defined universe, the goal was to collect comprehensive "micro-level" data on every loan extended by commercial banks over the period and more global macro-economic data on loans from other sources of credit. The goal basically was realized and the processing and analysis of these data have provided for a study with an unusually complete view of the evolution of commercial bank lending to a developing country. More information on the specifics of how data were collected and processed can be found in Appendix 1 of the study. The more than casual reader would be advised to review the aforementioned material, which in any event is very brief, in order to avoid misunderstandings about the scope and limitations of data presented throughout the study.

3. A General Overview of the Study

Chapters II, III and IV should be viewed as background material. With the exception of Chapter IV, most data employed in these sections are from secondary sources.

Chapter II establishes the international setting and argues that the penetration of commercial banks into the external finance of developing countries was due to some special structural changes in world banking. It also establishes that in many ways the process was unique and different from previous periods in history when private capital flowed in abundance to developing countries and it queries whether the contemporary body of theory underlying capital flows is adequate for explaining events.

The following two chapters are dedicated to the specifics of Peru. Chapter III provides background on the evolution of Peru's political economy over the period

1965-1976 with a view to analysis of the factors underlying its demand for foreign finance. It finds that despite the fact that the period was shared by two rather distinct political regimes, many of the factors underlying a heavy demand for foreign finance were very similar. Unique factors there also were and these are brought forth as well. Meanwhile, Chapter IV analyses the response of foreign suppliers of credit to Peru's demand for finance. It is determined that Peru has had a rather checkered history with regard to foreign credit flows. Throughout the period 1965-1976 the country faced a continual variety of financial blockades by one or more official and private creditors. While banks on occasion held back finance from Peru, they more frequently proved to be the only real elastic source of foreign capital. They are found to have been surprisingly active lenders in Sixties and extremely aggressive and unconditional lenders in first half of the Seventies. The chapter goes on to show how the environment changed radically in 1976, when bankers adopted a much more restrictive attitude on Peru.

The next four chapters make up Part II of the study and focus basically on the nature of bank lending to Peru.

Chapter V documents the changing characteristics of bank lendings to Peru via an intertemporal comparison of loans in the 1960s and the 1970s. The former is seen to be a period when a handful of big U.S. banks controlled Peru's access to commercial credit. While surprisingly active lenders, they also were very cautious, as reflected in the amounts, terms and conditions of credit. In contrast, in the Seventies there is an explosion of bank lending with regard to the amount of credit and the number of lending institutions. Also, the mode and type of lending as well as the terms and conditions of credit are found to have undergone rather dramatic change with respect to the Sixties.

Chapter VI studies Peru's syndicated credits and the strategies employed in organizing them. It is determined that a handful of large banks had a disproportionate amount of power with regard to arrangement of credit for Peru and that these banks had different strategies for organizing their syndicates. The chapter also concludes that syndicated credits had advantages for Peru that were not available in individual bank loans, but once banks lost confidence in the country the competitive advantages of syndication disappeared and were substituted for a collusive environment.

Chapter VII intends to provide support to the hypothesis that banks have heterogeneous behavior. Empirical tests show that there was little significant difference among banks in the pricing of loans over time. However, there were important differences in commitments (scaled to size) among individual lenders, suggesting that banks are inclined to discriminate risk more by the volume of their lending than

by price. Certain banks also were found to be more aggressive or conservative lenders than other banks. And institutions displayed evidence of not being indifferent about the types of loans that they extended and the economic sectors for which they provided support.

Chapter VIII reviews analysis of Part II of the study and attempts to tie together the section's major findings with respect to the changing characteristic of bank loans and the heterogeneous behaviour of lending institutions.

The next three chapters make up the third part of the study and they shift focus to the impact of bank loans on various aspects of the economic development of Peru.

Chapter IX examines the role of banks in project development. Analysis reveals that banks have supported many projects of high national priority, some of which also may have been considered to be relatively risky in nature. In general, however, on specific projects commercial banks are found to have been only one of many sources of finance so that their role clearly was only complementary in any given financial package. Their finance also only covered medium term periods.

Chapter X analyses the evolution of commercial bank conditionality throughout the 12 years covered by the study. Looking at matter in detail, one finds that banks were highly conditional lenders in the Sixties and their policies sometimes severely restricted government policy making. In the first half of the Seventies commercial banks's attitude on conditionality changed drastically as virtually no conditions whatsoever were placed on commercial credit. But, then, in 1976 bankers shifted gears once again and became highly conditional lenders. Moreover, the scope of their conditionality was amplified enormously as banks attempted to monitor the economy in a way which was not unsimilar to the IMF.

Chapter XI attempts to provide a general overview of the impact of bank lending on the socio-economic development of Peru. While finding many positive aspects of bank involvement in the economy, the overall assessment is pessimistic about the ability of banks to satisfy the requirements of development finance. Bank credit is found to have aggravated rather than mitigated structural and policy deficiencies in the economy. Banks also are found to have been unable to cope with the accumulating weakness in policy and structure that their credit helped to foster; their sudden withdrawal of support for the economy provoked a crisis that was much more severe than would have been necessary if more stable sources of development finance had been available. Banks also are found to have been interventionist and very conditional lenders when the government's economic and political position was most vulnerable.

The last pair of chapters represent the fourth and

concluding part of the study. Chapter XII summarizes some of the main findings of the investigation, draws some basic conclusions about the role of banks in development finance and makes some suggestions for future action. Chapter XIII is an epilogue which brings the reader up through 1979 with respect to the relations between Peru and its private creditors.

4. Some concluding remarks

Before entering into the body of the study it is important to point out clearly what are the limitations of analysis.

A first, and very serious limitation of the study is that it does not treat the much publicized arms' build up by Peru in the Seventies. News media and other sources have estimated that in the latter half of the decade fifteen to twenty percent of the country's foreign debt has been related to national defense purchases. These expenditures undoubtedly have impacted the economy's performance and affected Peru's geopolitical and economic relations with the governments and financial entities of the centers. However, the subject is so closely tied to national sovereignty and social welfare functions that it has been decided to skirt the issue entirely. Fortunately, the arms build up was no secret and all foreign creditors, including the banks, many of which helped to finance the build up, acted in full awareness of Peru's defense strategies. In other words, the arms purchases were not an exogenous factor in commercial bank credit decisions. 6/.

A second limitation of analysis is that no attempt has been made to comprehensively analyse relations between the banks and non-financial transnational enterprises. The study was originally designed to do this; indeed, a chapter was to be dedicated to the subject. 7/. However, it proved difficult to develop empirical support for comprehensive analysis, so that references to TNB-TNC relations in the study have had to be rather casual and are not presented in any systematic fashion.

A last, and very fundamental limitation is that this is only a case study of Peru. Analysis of bank behavior is based on revealed preferences, and given the dearth of information on activities of individual banks one will find that there often is no alternative but to conjecture about the motivations underlying behavior. Furthermore, Peru is not an "average" developing country (if indeed there is such a thing), so that generalizations provoked by findings related to Peru must be considered highly tentative in nature and would be best treated as hypotheses awaiting further testing.

Chapter II

COMMERCIAL BANKS: THE INTERNATIONAL SETTING

The motivation behind bank lending to a specific developing country can be viewed from two perspectives. On the one hand there is the general international environment, i.e., that mixture of economic, socio-political and historical factors that are exogenous to the borrower and influence the general behavior of private capital, and banks in particular. On the other hand there are the factors peculiar to a given country's political economy that influence its demand for external resources and which also may condition the specific response of private lenders to that demand. These latter factors, while not acting independently of the former, can be considered to be more or less endogenous to the developing country itself.

This chapter will attempt to provide general background on the international setting for the study and will trace some of the fundamental reasons why commercial banks were disposed to lend heavily to developing countries in the decade of the Seventies. It will be the task of the two subsequent chapters to provide background on lending/borrowing from the standpoint of the peculiarities of Peru.

This chapter on the international context is divided into 3 basic sections. The first will provide some historical antecedents on the role of banks and private capital in the external finance of developing countries. The second section takes a more contemporary view and analyses those factors that have contributed to the current involvement of banks in the external finance of developing countries. The third and last section will attempt to summarize the material and will inquire about a theoretical framework for bank lending behavior.

A. BANK LENDING TO DEVELOPING COUNTRIES: SOME BRIEF HISTORICAL ANTECEDENTS

The heavy involvement of private commercial banks in the external finance of Latin America during the decade of the Seventies has been the subject of much debate in both the industrialized and developing countries. The uninitiated could, however, derive the impression that the whole phenomenon is a new one, lacking precedent and therefore perplexing analysts. But, in fact, commercial banks, and private capital in general, have in the past played a significant part in the medium/long term external finance of developing areas. In some ways lending in the Seventies mirrors this earlier involvement; but in other more fundamental ways the whole process is rather unique.

Prior to 1970, the main periods of very significant private capital flows from industrialized to developing countries had been the Nineteenth Century and the early part of the Twentieth Century. Between 1815 and World War I, under the impulse of stability provided by the Pax Britannica, coupled with the vigorous expansion of trade, vast amounts of private capital were transferred from Europe (particularly England) to the rest of the world, especially North America and Australia, and to a lesser extent the developing countries of Latin America. The First World War seriously disrupted world trade and capital flows, but this was followed by a vigorous recovery in the 1920s. Although England remained a major capital exporter in this latter period, the pillage of war left Europe somewhat debilitated. Meanwhile, the United States emerged as a major exporter of private capital and much of its resources flowed to Latin America. 8/

The bulk of the medium/long term capital exports up through World War I were of the portfolio type, i.e., bond issues and other debt instruments, rather than direct investment. 9/ The principal borrowers were governments - especially in the case of Latin America - and they sought foreign finance basically to support infrastructure projects such as those for transport networks and public utilities. 10/ However, wars and revolutions also were commonly supported by foreign issues. 11/ Importantly, maturities on debt instruments assumed by developing countries for infrastructure projects were very long term in nature, reaching up to 99 years, and occasionally even being perpetual. 12/

What was the role of commercial banks in these activities? Direct lending by them focussed usually on short term commodity trade, but banks were also frequent underwriters of long term bond issues. 13/ The loans arranged by banks were voluminous, but also highly cyclical. 14/ While fluctuations in trade and commodity prices underlied many of the peaks

and troughs of capital flows, they were also a reflection of the uncontrolled euphoria of investors, followed by financial collapses and temporary retrenchment of loans. North has succinctly described much of the process throughout the Nineteenth Century:

The initial interest in the revolutionary South American countries (by British investors) was followed by substantial lending. In addition to government loans, there were also the activities of British companies in gold mining and similar exploits. Investors became increasingly uncritical in their evaluation of the prospects in these countries and the inevitable period of default occurred in 1825-26. Although this experience was a bitter lesson, it was to be repeated many times over. Almost every surge of capital exports to a country engendered a wave of enthusiasm which dimmed the critical faculties of the lender and produced a painful day of reckoning. 15/

Defaults were widespread and costly. Aside from the 1825-26 debacle with Latin America, in 1841-42 nine U.S. state governments suspended foreign payments and in ensuing years many foreign financed railroads went bankrupt. In 1873-74 the governments of Honduras, Costa Rica, 16/, Santo Domingo, Paraguay, Spain, Egypt, Peru, Turkey, Uruguay, Liberia, Guatemala and Bolivia all defaulted on their debt, "often because of the fear generated by the contemporary wave of defaults prevented otherwise creditworthy countries from refinancing existing obligations". 17/

Notwithstanding the boom and bust nature of lending, it is important to point out, as North does, that losses should not obscure the overall profitable character of lending by investors. 18/ Indeed, just before World War I about £3.8 billion in foreign long term publicly issued capital was held by British investors, representing roughly 25% of the country's Gross National Product. French investors were somewhat similarly committed. Latin America alone owed foreign investors about \$6 000 million in 1913. 19/

After the First World War private capital flows to developing countries were renewed. In the 1920s, and in contrast to the Nineteenth Century, the U.S. was at the vanguard of capital exports to Latin America. Although there was a somewhat greater amount of direct foreign investment in the period, portfolio transactions with governments continued to dominate capital transfers. U.S. flows were extended or underwritten by commercial banks, the most important of which were related to the big New York institutions that dominate world finance today. They competed vigorously with each other as well as with European banks for business, approaching foreign states, cities, public utilities, etc., with offers of credit, often, as Davis observes, without any serious

evaluation of repayment capacity. 20/

The crash of 1929 was followed by a severe fall in commodity prices and trade volume. The economies of many developing countries collapsed under the weight of their foreign debt and the ensuing disintegration of the world economy promoted prolonged defaults. By 1933 67% of the Latin America dollar bond issues were in default, 21/ Peru being a major country in this category. Recovery proved very difficult; for instance in the case of Peru, arrears stemming from its 1933 default to U.S. creditors were not liquidated until the early Fifties. 22/

The years preceeding World War II displayed little dynamism with regard to trade in goods and finance. Developing countries found access to foreign credit restricted as private creditors became extremely cautious under the weight of world depression and severe criticism about undisciplined behavior during the 1920s. To cite a U.S. government report that concerned itself with overseas lending by private institutions in the period:

Under the high pressure salesmanship methods by which foreign issues were solicited and sold, our loans proved to be their undoing. The flotation of one loan frequently came to be regarded as adequate justification for further issues to the same borrower or the same country without regard to the growing burden of indebtedness. 23/

B. THE POST WORLD WAR II PERIOD: STRUCTURAL CHANGES IN WORLD BANKING

Immediately after the War, developing countries' access to foreign credit followed patterns of the post-1929 period; direct foreign investment and official government loans were the principal sources of expatriate capital. International agencies such as the World Bank and the Inter-American Development Bank added another dimension to finance in the late Fifties and in the decade of the Sixties. As for commercial banks, up to 1970 they generally were limited lenders to LDCs, with their activity restricted to short term lending for trade and occasional project loans that often were protected by export credit guarantees such as those offered by the U.S. Export-Import Bank. Underwriting of bond issues was virtually nil, as investors maintained a very restrictive attitude towards developing countries and governments of industrialized nations placed an impressive network of red tape in the front placements by Third World entities. However, this conservative posture hid some important changes that were taking place elsewhere in world banking and which would eventually culminate in bankers

becoming a major source of finance for developing countries.

The change actually began in the United States in the 1950s when there developed a new breed of banker who was a "salesman at heart" and who would aggressively seek new business. 24/ The attitude was partly attributable to the high liquidity of banks during the 1950s. However, more fundamentally, banking officials conditioned by the depression of the 1930s to conservative strategies were beginning to retire and "a whole new group of what was to become the 'go-go guys' of the 1960s were entering top management". 25/ Initially, U.S. banks focussed their expansion on domestic markets, as evidenced by the fact that prior to 1960 only 6 U.S. banks had foreign branches. 26/ However, the wheels already were in motion for a massive "transnationalization" of American banking activities that would later be followed by banks in Europe, Canada and Japan. The convergence of a number of factors promoted expansion abroad. One key ingredient was the development of the eurodollar market:

The origin of the Eurodollar market can be traced back to the 1920s when U.S. dollars were deposited in Berlin and Vienna and converted into local currencies for lending purposes. These practices did influence the local money markets. After World War II, the U.S. dollar was designated by the IMF as an intervention currency in the foreign exchange market. This established the common acceptability of the U.S. dollar as a key currency for international trade, investment, exchange arbitrage, and balance of payments settlements. The continuous balance of payments deficits of the United States resulted in a growth of official reserve assets in Western European countries, and their central banks looked for investment opportunities for short-term gains. In the 1950s, Russian banks in Western Europe preferred to place their holdings of U.S. dollars with British and French banks against the risk of possible seizure by the U.S. authorities in case of crisis. Under these circumstances, Eurobanks simply practiced the principals of free economy by establishing competitive spreads between creditor and debtor rates of interest. Some French banks extended U.S. dollars loans to Italian banks during the 1950s as typical operations in small amounts. 27/

This market was an attractive place to do business; being essentially an offshore depository of foreign currencies, it was devoid of any regulation by national authorities. Thus, reserve requirements and other regulatory measures were absent, thereby in some cases lowering the

cost of banking operations and creating opportunities for enhanced profit-making.

The market's growth was given impulse by a series of other factors. In 1957, British banks were forbidden to finance trade for non-residents, thus making "offshore" deposits of the eurodollar market a convenient tool for evading the regulation. In 1958, Western Europe adopted full currency convertibility, which promoted trade in goods and currencies, thereby generating requirements for international finance. The same year the EEC was formed. Then in the 1960s when the U.S. government established a series of capital controls and interest rate regulations to stem its growing balance of payments deficit, U.S. banks found the Eurodollar market an essential source of funding for activities at both home and abroad. 28/

While the existence of the eurodollar market facilitated the expansion of international activities of U.S. banks, an important motivation for such overseas operations was the thrust of U.S. direct investment in Europe in the early 1960s. In order to avoid the risk of losing major corporate accounts to foreign financial institutions, big U.S. money - center banks acted defensively and followed transnational corporations to Europe and elsewhere, servicing their needs and simultaneously attempting to build up general market positions abroad. 29/ As these big banks increased their international lending operations, other smaller U.S. banks were obliged to follow for competitive reasons. And in the face of expanding U.S. banks, European banks had to consider a more aggressive lending posture as well. To a lesser extent, Canadian and Japanese banks also had to respond defensively to the growing presence of U.S. banks abroad.

While U.S. financial institutions were at the vanguard of the growth of international banking, they also induced some major innovations that facilitated greater international lending. In the late 1950s and early 1960s lending from the eurodollar market usually was short-term (less than one year), reflecting the current nature of the banks' deposit base. However, banks soon found that they could "purchase" short-term deposits on the market and, then, by continuously rolling them over on interest fixing dates, use these deposits to fund much longer term loans, 3-5 years being typical by the late 1960s. 30/ Of course, this created considerable mismatching between deposits and loans, but the risk was considered minimal given what was perceived to be an almost automatic refunding of the loans every 180 days.

Another major innovation included the use of lending consortia or syndicates. Banks found that they could minimize their individual perceived risk if a group of them joined together to form a loan. 31/ In this way large amounts of money could be mobilized for a borrower, while at

the same time maintaining at modest levels the exposure of any one institution. Moreover, the syndicate, by reducing the lending requirements of a bank on any given transaction, facilitated the entry of smaller banks into the international arena.

By the latter half of the 1960s the expansion of world banking had become intense. An environment of rapid growth of world trade and investment generated new opportunities for foreign lending and many more banks set their sights on the development of an international portfolio. Moreover, the desire to lend abroad was stimulated by the fact that the aggressive attitude found in some U.S. banks in the early 1950s was by now becoming more pronounced and generalized; the business psychology of the times in world banking was growth at all costs via the expansion of assets and the leveraging of capital. And there was no better way to achieve this goal than by "going international" and tapping the deposits available in the fast growing eurodollar market.^{32/} As an indication of the growth taking place, one can consider the expansion of overseas branches of U.S. banks, which were at this time the most aggressive group of institutions. In 1965 there were 13 U.S. banks with 211 branches overseas; by 1970 the number had risen to 79 banks with 536 branches.^{33/} This, of course, is a conservative indicator since it excludes from consideration foreign subsidiaries of U.S. banks.

Up until 1970, most medium-term bank lending activity took place among the industrialized countries, although as early as the mid-1960s some lending had been going to developing countries, mostly large ones such as Brazil and Mexico, and often as a result of banks following investments by transnational corporations. But around 1970, lending to developing countries became more widespread and increasing amounts of resources were being channelled to governments and to a lesser extent to local residents. By now lending clearly was motivated by considerations broader than the need to service TNCs. Thereafter the periphery was to become a major client of the international banks.

The major reasons behind the lending to LDCs included growing liquidity and competition, each of which fed upon the other. After 1970 successive waves of newcomers - notably U.S. regional banks and medium and small Japanese institutions - entered the international market in search of easy profits and the freedom of operation of a non-regulated market. This tended to further fuel international liquidity, which already had been growing very rapidly. As Weinert has pointed out:

The size of Eurodollar pool grew steadily, fed partly by the continued U.S. deficits but also by deposit creation on the part of proliferating financial institutions. Each U.S. bank branch and consortium

bank established in London enlarged the Eurodollar pool by depositing their deposits with each other, thereby creating new deposits. Moreover, the increased number of financial institutions created an ever greater will to lend as each institution sought to build a portfolio. 34/

An important determinant in the drive for new markets in developing countries was the 1970-1971 recession in the center; with loan demand depressed in the industrialized countries, some of the more aggressive commercial banks turned to the Third World in search of clients. Such a strategy proved attractive because the new "transnational" economy of the period had made many developing countries appear as good risks to the banks. The opening up of world trade in the Sixties had been generating high growth rates and sound balance of payments positions in many countries. Moreover, given what had been the weak articulation between banks and developing nations, portfolios could be built up without much concern for excessive exposure. Another attraction was that loans to governments - often the principal entrepreneur in developing countries - were seen as being particularly secure because, unlike corporations, governments do not go bankrupt and therefore are usually available to service their loans. 35/ Finally, developing countries were generally eager borrowers - reflecting stagnation of official resource flows, 36/ coupled with the excessive red tape attached to these loans - and therefore disposed to pay very high risk premiums of 2% or more over base interest rates in order to secure bank credit.

The initial flow of lending to LDCs was concentrated in the more advanced countries like Brazil. However, as competition pushed more banks into developing areas the base of lending expanded:

... competitive pressures became so hectic that banks - many of them new entrants into the international scene - saw their lending spill over into the smaller, less-developed countries of the region; countries traditionally accustomed to obtaining capital from official sources found the Eurocurrency market to be a more than willing supplier of funds. Indeed, by 1972 countries had discovered it to be a borrower's paradise; not only was there easy access to credit, but competition caused margins to be drastically reduced and maturities to reach unprecedented lengths. By way of example, Brazil, which was a leading borrower within the developing world, found that it could regularly secure credits with a 10-15 year maturity. As for spreads, they declined from 2.1/4% in 1971 to 1.1/2% in mid-1972 and 3/4-1% in 1973. At the same time lending was so voluminous that the country even

found it necessary to introduce policies to discourage foreign bank loans. 37/

When the OPEC petroleum price rise occurred in late 1973, the banks became even more eager to lend, although the motivation behind the loans changed somewhat. Flooded with deposits from the OPEC surplus, banks simply had to turnover the funds in the form of new loans. Of course, developing countries, facing the sharply increased cost of petroleum (and other commodities such as food) were willing clients; after all, they had to avoid a radical balance of payments adjustment process and more appropriate sources of long term finance remained unavailable to them due to the failure of OPEC and the industrialized countries to organize an official mechanism for the recycling of surplus national resources.

Some bankers have attempted to characterize their role in lending to LDCs during this period as simply a response to the demand of these countries for finance; in other words, lending was "demand driven". 38/ This is a half truth that needs clarification.

While developing countries no doubt had a strong demand for resources, banks were just as eager and in some cases even more eager to lend; there was clearly a bandwagon effect in lending as banks aggressively attempted to stay ahead of their competitors. Indeed, the general strategy during this expansive period of banking on at least one occasion has been characterized as a "glad-handed, name-your-price approach" to lending. 39/

But perhaps more importantly, bankers, in their desire to build up a portfolio, were often lax in their evaluation of such matters as the use of credit, facility for maturity transformation and medium term ability of a country to generate the foreign exchange needed to service debt. 40/ This problem was particularly acute in 1972-1974 as the new entrants to international banking were mostly small and medium sized institutions which had a willingness to lend that far exceeded their capacity to evaluate credits. 41/

The euphoric and rather haphazard expansion of banking ended abruptly in 1974 when a series of bankruptcies shook the world banking industry. The failure having the greatest impact was that of Bankhaus I.D. Herstatt of Germany in June in which losses on foreign exchange operations were reported at more than 160 million dollars. 42/ International bankers then panicked and quickly reviewed their international lending policies. Behavior became "reactive and conservative". As a manifestation of the caution that prevailed it can be seen in Table 2 that lending to developing countries slowed down dramatically in the second half of 1974. Moreover, margins on loans to developing countries shot up to $1\frac{1}{2}$ - $1\frac{3}{4}\%$ and available maturities were considerably shortened.

Table 2

PUBLICIZED EUROCURRENCY CREDITS TO NON-OIL EXPORTING
DEVELOPING COUNTRIES

(Billions of dollars)

1973	1974				1975			
	I	II	III	IV	I	II	III	IV
6.1	2.3	3.0	1.4	1.6	1.1	2.0	2.5	2.9

Source: IBRD, Borrowing in International Capital Markets, first quarter 1975, May 1975; fourth quarter 1975, February 1976.

Lending remained depressed in early 1975. By the second half of the year, however, bankers realized that they had to renew the flow of loans to LDCs; on the one hand they still were flush with OPEC deposits, while on the other their clients in the industrialized countries were seeking relatively little credit as a result of the deep recession in the center. Thus, as shown in table 2, bankers increased their lending to developing countries. However, they were much more selective with regard to whom they granted loans. Furthermore, the terms of lending became particularly onerous. By the second half of 1975 many developing countries had to accept margins close to 2%, or more. With regard to maturities, less than 20% of all publicized credits to LDCs had a term in excess of 6 years, compared to 76% in 1974. As for loans with a maturity of more than 10 years, they virtually disappeared from the marketplace. ^{43/}

The sudden retrenchment in the market's terms of credit undoubtedly contributed to the serious debt service problems that arose in a number of developing countries that had become heavily reliant on bank credit. The most severe problem cases at the time were Zaire, Jamaica and Peru (plus the more developed Turkey), all of which were on the verge of default. The banks, fearing wide-spread defaults in the Third World, and sensitive to charges from the centers of overlending to less developed countries, approached each case very cautiously. In order to avoid the precedent of default

and/or rescheduling, the banks extended "short leash" refinance credits to these borrowers on the promise of deflation of the local economy, usually enforced by an IMF stabilization program. ^{44/} For these problem countries the social and economic costs of squeezing out foreign exchange for payment of debt were very heavy, but accepted in lieu of the adverse consequences of outright default.

The market environment remained very restricted through 1977, but thereafter the terms of credit gradually began to ease because of (i) the growing pressures of accumulating liquidity; (ii) the waning of the uncertainties surrounding the bankruptcies of 1974 and the consequent return of some banks to the international market; and (iii) a perception that general default in the Third World was unlikely. Financial institutions remained, however, generally more cautious and selective lenders than they had been in the early part of the Seventies.

C. SOME BRIEF THEORETICAL INQUIRIES

There are some clear similarities between the years before 1930 and the more contemporary experience of developing countries with privately sourced debt. One of the more obvious ones is that in both periods large transfers were made to governments of developing countries, often under conditions of a flurry of lending that could be characterized more as a bandwagon effect than a controlled, deliberate process of credit evaluation. Also, both periods were generally lucrative ones for private creditors. After this the parallel is less certain, however.

In the Nineteenth Century most non-short term borrowing by developing countries was undertaken in arms-length bond markets, while today developing countries receive most of their credit directly from commercial banks, which, as will be demonstrated in later chapters, can be far from standoffish and remote in their dealings with government borrowers. Reflecting the different sources of credit, the maturities available for infrastructure projects in developing areas were much longer in the Nineteenth and early Twentieth Centuries than the 5-10 year maturities that commercial banks commonly offer today to government borrowers. Another major difference between the two periods is that unlike in the past when resources came from national financial institutions and national financial markets, today's resources are usually extended by transnational banks out of a transnational pool of eurocurrency that is devoid of national regulation. Thus, both the form and content of the contemporary external finance of developing countries would appear to be in many fundamental ways quite distinct from the

historical experience. This suggests new challenges and new problems for developing countries. Indeed, later analysis of the Peruvian experience will posit that there are great deficiencies in the current system of "comercialized" development finance.

The previous review of the bank lending to developing countries has purposely avoided a theoretical treatment. This is because there is some question as to whether available theoretical tools can adequately explain the phenomena in question.

Conventional theory argues that interest rate differentials, appropriately adjusted for risk, explain movements of capital. At the very beginning of the process of penetration of developing country markets in the late 1960s interest rate differentials, coupled with changed perceptions of risk, appear to have been factors behind lending. However, soon thereafter differential margins on credits between developing and industrialized economies were severely eroded to the point where maintenance of large and growing credit flows to the Third World could not, on appearance, be explained solely by rate differentials. 45/

When focusing on brief periods in history, such as in this study, real world market imperfections involving uncertainty (which distorts risk perception), time and liquidity preferences, institutional barriers to capital movements, etc., can be more powerful determinants of capital flows than rate differentials. Indeed, under conditions of real world imperfections almost anything can happen with regard to the flow of capital. Thus subjective perceptions of risk and non-economic factors can be sufficiently influential to cause the distribution of credit to be skewed in ways which are not always commensurate with the most efficient use of capital. 46/ Perhaps over the very long run the process of trial and error allows distortions and imperfections to be perceived so that retrospective analysis of extended periods would show that capital flows indeed do parallel relative interest rates. 47/ But one can only wonder to what extent short term behavior of capital movements imparts temporary advantages or disadvantages to borrowers that in themselves affect long term trends in resource flows. In any case, theoretical explanations for shorter term behavior of resource flows are clearly of great need to present day policy makers in developing countries for whom the very long term has little immediate relevancy.

Undoubtedly a fundamental consideration in seeking a theoretical explanation for bank loans to developing countries is the transnationalization of capital that has taken place in the post-World War II period. 48/

Stephen Hymer was at the vanguard of work showing that

conventional portfolio theory is in itself inadequate as an explanation of capital movements when so much of the flows is derived from direct investments of firms. ^{49/} In an age when transnational firms are vertically and horizontally integrated across the globe, factors such as control, market penetration, collusion, rivalry, ^{50/} etc., can underlie investment flows in addition to rates of return on investments. It now also may be appropriate that a more discriminating theory should be developed for transnational banks. These banks operate globally, have strong links with productive transnational enterprises ^{51/} and themselves are integrating their operations both horizontally and vertically. Thus, it probably is excessively simplistic to look to only "indifferent" capital seeking out higher interest rates as an explanation for bank lending behavior.

All the above would lead one to conclude that new directions are needed in explaining why banks behave the way they do. ^{52/} Perhaps the application of industrial organization theory might bear fruit in this regard. In any case, it is totally beyond the scope of this study to make the herculean effort of developing a theory on transnational banking. Our goal is much more modest: to construct the first comprehensive, empirical analysis of contemporary bank lending to a developing country. This, especially if coupled with later studies of other countries, hopefully will help to establish an empirical foundation for the eventual development of global theories of transnational bank lending.

Chapter III

PERU: THE PUBLIC SECTOR AND ITS DEMAND FOR EXTERNAL RESOURCES

The purpose of this chapter is to highlight those events and factors that were decisive in the public sector's recourse to external finance over the period 1965-1976. It should be made clear from the outset that the ensuing analysis will take the form of a synopsis with all the associated shortcomings of such an approach. There is already a voluminous literature analysing the evolution of the Peruvian economy, especially for the years after 1968, and therefore there is little need to duplicate these efforts here. 53/

Material in the chapter is presented on two levels. On one plane, the chapter is designed to provide the reader with key background information on the political economy of Peru over the 12 years under analysis. This material, which is of necessity descriptive, constructs the local setting that will be supportive of later analysis of bank lending. The focus, of course, is on those domestic economic and political events that influenced Peru's demand for external finance in general and bank finance in particular. Care also has been taken to incorporate local events that may have affected, either positively or negatively, foreign lenders' willingness to extend finance to the government. (The actual response of the supply side is for reasons of exposition reserved for Chapter IV, however.) These domestic events behind the recourse to external finance are treated in chronological fashion, using 1965 as the point of departure.

On a second plane the chapter attempts to complement the chronological description of key events with some analytical view of just what factors were behind Peru's need for external finance. The analytical element is incorporated in two ways. Those factors of demand that are peculiar to a particular point in time are woven into the description of the political economy of Peru. Meanwhile, those factors which are more generalized, or common to the 12 years, are brought into focus in an analytical overview that makes up

the second half of the chapter. This overview also will serve as a form of summary to the admittedly broad time span covered in the descriptive survey.

A. A SYNTHETIC REVIEW OF THE POLITICAL ECONOMY OF PERU, 1965 - 1976

In a simple framework, it can be said that the public sector's requirements for foreign finance are closely linked to the fiscal budgetary operations of the government and the behavior of the country's balance of payments.

In the first instance, external borrowing may be needed to help support fiscal expenditure. The nature of this support can vary according to the circumstances.

A budget may be in perfect balance yet be in need of foreign finance. This occurs because almost all budgets have a foreign component and foreign currency income may fall short of foreign currency expenditures. If a government wants to avoid drawing down on its international reserves, external borrowing may be its only alternative.

But foreign borrowing more often is associated with deficit finance. Given a desired level of expenditure and a given level of tax revenue, a government has several options in terms of financing the gap between income and budgeted outlays. One is that it can borrow in the domestic financial market. There are often severe limitations to this approach, however, since developing country capital markets are notoriously very thin and therefore full domestic finance of a large deficit may prove to be highly disruptive to the whole economy, or simply impossible to realize at all. An alternative form of finance is to create the resources by taking recourse to the Central Bank's printing press. But this easy route to finance is also a very dangerous one because of its severe impact on inflation. Finally, if there is a ready access to private capital markets abroad, a government may opt to cover the fiscal gap through foreign borrowing. Because of interest differentials between home and foreign capital markets, the latter option may be attractive even if domestic finance is available to cover the fiscal deficit.

In practice governments use all three methods of finance, with their respective importance varying with the size of the deficit to be financed, and the nature of access to financial capital at both home and abroad. But when domestic capital markets are small and the financial need large, the real options sometimes are between emissions and foreign borrowing. The latter is usually considered to be the more prudent source of finance, although feasibility depends on the willing hand of foreign financiers.

It also is important to point out that deficits can sometimes be more apparent than real. This occurs when deficits are a manifestation of lagging tax effort. Thus, foreign borrowing and/or emissions can simply be an expedient measure to avoid the hard realities of a need for greater restraint in spending and/or a more intensive tax effort.

With regard to the balance of payments, it is the public sector's responsibility to guarantee the "money-ness" of the local currency through its transformation into needed foreign exchange. In a developing country, current account transactions usually do not balance, requiring some form of external finance. Furthermore, there usually are requirements to finance debt service payments and capital outflows generated by nationals and foreign residents. Some of the need for finance can be covered autonomously as importers (including those of the public sector) often bring foreign credit to bear on their transactions; as foreigners are likely to be making some new investments in the country and national capital may be repatriated. However, more likely than not the net effect will be an unfinanced gap that the public sector will have to fill either indirectly, through a general program of borrowing, or directly through compensatory balance of payments loans or drawdowns of official reserves. In addition to financing the external gap, a government also may borrow simply to build up foreign exchange reserves, which are looked upon as a form of security by international creditors.

The actual amount of finance required to support the balance of payments depends on many factors. The country's export vocation, income and price elasticities of demand for imports, terms of trade, level of factor payments, swings in private capital movements, etc., all are determinants. Some elements of the balance of payments performance are out of the governments control, e.g., external prices and natural events - weather, ecological changes, etc. - that can alter the exportable surplus or change import requirements. On the other hand, the government has policy instruments at its disposal that can influence the requirements for external finance. These go from the style of development that is officially promoted, down to demand management, exchange rate regimes, tariff levels, fiscal incentives and disincentives, policies towards foreign investors, etc. Some policy measures can have an immediate impact on the external sector, e.g. import quotas, while others take longer to work their way through the system, e.g., export incentives. But in any case timely policy measures are crucial to balance of payments management.

It is within the framework of internal and external financial gaps that the following analysis on Peru will be pursued. But one must not lose sight of the fact that

financial disequilibria are in themselves a rather superficial manifestation of more fundamental structural problems that are commonly associated with dependent developing economies. Foreign finance is useful to bridge financial gaps and time lags in public policy directed at rectifying structural imbalances, but care must be taken to ensure that finance does not become an opiate that hides the need to pursue deliberate corrective measures. Thus, if a borrower lacks discipline and foresight, easy access to foreign finance can actually be permissive, promoting an unnecessary widening of financial gaps, mounting external debt and extreme vulnerability to severe problems should an adequate flow of finance suddenly become unavailable. 54/

1. 1965 - 1966: The Seeds of Crisis

The study of commercial bank lending to Peru begins at a time when the economic program of Peru's newly elected Belaúnde administration was in full gear. The government, which came into office in mid-1963 was reformist in character and its program mirrored the principles of the Alliance for Progress, as expressed in the Charter of Punta del Este. 55/ Policy was oriented to pursuing the industrialization process (via import substitution) that had begun in earnest in the late 1950s and which was progressively changing the structure of an economy that traditionally had been dependent on primary commodity exports generated by the investments of foreigners and members of the national oligarchy. 56/ But at the same time authorities also gave attention to programs of a social nature, especially in the areas of education and moderate land reform, that were designed to calm peasant unrest and narrow a gap between rich and poor that was among the widest in Latin America and in the world. 57/

Activist government policy was something of a novelty for Peru, as the public sector by tradition was relatively small 58/ and the economic environment had been for many years an "example par excellence in Latin America of that dream of orthodox development economists: an export led system in which cyclical balance of payments difficulties were handled by domestic demand restraint and exchange devaluation, in which entry of foreign capital and the repatriation of profits were virtually unrestricted and in which government intervention and participation were kept to a minimum". 59/ Partly as a consequence of the liberal tradition, the public sector was not as sophisticated as its counterpart in some other Latin American countries and there were few mechanisms for the control and coordination of an ambitious development program. In any event, the government expanded rapidly as reflected in the fact that outlays (exclusive of amortization) more than doubled over 1963-1965; 60/ even in

real terms growth was substantial, roughly estimated at more than 50%. 61/ In expanding authorities were careful, however, to respect traditional boundaries of activity as public investment was largely confined to infrastructure (especially roads), leaving basically unchallenged the private sector's domination of productive activities. Moreover, direct foreign investment continued to be the explicit cornerstone for financing productive capital formation. 62/

By 1965 there was some sign of strain in the economy. The fiscal accounts were moving into increasing deficits - after having been practically in balance in 1962-1963, - 63/ and inflation was on the rise (see tables 3 and 4). Also, as the export boom of the early 1960s receded, so did the relatively high rate of growth achieved during the period. On the other hand, imports accelerated. External prices for imports were very much higher by 1965. Moreover, import volume was fueled by an increasingly overvalued exchange rate, 64/ stagnant food production, public investment and renewed vigor in the private sector. As a result, the trade account, which had tended to balance in the early 1960s, recorded a sizeable deficit in 1965 and the current account needed considerable more finance than was customary for Peru (see table 5).

The weakening fiscal situation stemmed from the considerable growth of expenditure associated with the administration's reform program and the effects of domestic inflation, coupled with the fact that the national tax base was narrow and relatively inelastic. Moreover, taxes were a sensitive political issue and an opposition Congress was little disposed to support needed tax reform. 65/

The financing of the fiscal gap through the tapping of local savings was not easy, because of the underdeveloped nature of national capital markets and public official's lack of experience in the use of debt instruments. Thus, Central Bank primary emissions were a frequent source of finance, 66/ although recourse actually was minimized in 1965 due to new awareness of the inflationary impact of such practices. 67/ Another important source of finance was relatively short term commercial borrowing abroad, which also conveniently helped to cover the external deficit.

Here one also should point out that by 1965 there were clear signs of growing apprehension about foreign direct investment, traditionally a prime component of the country's external finance. While foreign influence in the Peruvian economy had long been considerable, and a source of concern for some sectors of the population, 68/ it had by now become a public issue largely because of an intensification of a long standing dispute with the International Petroleum Company (IPC), a local subsidiary of Standard Oil of New Jersey, 69/ that raised passions about the role of expatriate capital in the economy. 70/ Indeed, the incumbent President ran on a platform

Table 3

PERU: GROSS DOMESTIC PRODUCT AND CONSUMER PRICES

(Rates of growth)

	Average 1961-1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
GDP in 1970 prices (soles) <u>a/</u>	6.9	4.8	5.7	1.6	0.7	4.4	9.1	5.1	5.8	6.2	6.9	3.3	3.0
Consumer prices <u>b/</u>	7.1	16.1	9.2	9.8	19.0	6.3	4.9	6.9	7.1	9.5	16.9	23.6	33.5

Source: GDP: CEPAL on the basis of official data; consumer prices: IMF, International Financial Statistics, May, 1978, vol. XXXI, N°5.

a/ Market prices.

b/ Annual average.

Table 4

PERU: SUMMARY OF CENTRAL GOVERNMENT REVENUE AND EXPENDITURE

(Billions of soles)

	Average 1962-1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
Current income	11.9	17.4	20.3	23.7	30.2	34.0	38.8	41.4	45.6	53.4	68.6	87.9	111.4
Current expenditure	10.9	16.3	19.5	23.6	27.2	28.0	32.2	37.0	42.3	52.0	62.4	90.5	122.7
Savings	1.0	1.1	0.8	0.1	3.0	6.0	6.6	4.4	3.3	1.4	6.2	-2.6	-11.3
Capital expenditure	2.5	5.2	5.9	6.3	6.1	6.4	9.9	12.5	14.1	15.4	20.2	28.0	37.1
Amortization	...	1.3	1.6	1.8	3.6	4.0	5.8	8.1	9.0	15.8	16.1	12.9	16.1
Overall expenditure	...	22.8	27.0	31.7	36.9	38.4	47.9	57.6	65.4	83.2	98.7	131.4	175.9
Deficit	...	-5.4	-6.7	-8.0	-6.7	-4.4	-9.1	-16.2	-19.8	-29.8	-30.1	-43.5	-64.5
Memorandum													
Items:													
<u>As percentage of GDP</u>													
1. Current income	14.2	15.1	14.8	15.1	16.2	16.3	16.1	15.7	15.5	14.9	15.3	15.8	14.5
2. Current expenditure	13.1	14.2	14.3	15.0	14.6	13.4	13.4	14.0	14.4	14.5	13.9	16.3	15.9
3. Capital expenditure	2.6	4.5	4.3	4.0	3.3	3.1	4.1	4.7	4.8	4.3	4.5	5.3	4.8
4. Total expenditure													
excluding amortization	16.0	18.7	18.6	19.1	17.9	16.5	17.5	18.7	19.1	18.8	18.5	21.3	20.8
5. Total expenditure													
including amortization	...	19.8	19.7	20.2	19.8	18.4	19.9	21.8	22.2	23.2	22.1	23.7	22.9
6. Deficit	...	4.7	4.9	5.1	3.6	2.1	3.8	6.1	6.7	8.3	6.7	7.8	8.4
<u>As percentage of</u>													
<u>expenditure</u>													
Deficit	...	23.7	24.5	25.2	18.2	11.5	19.0	28.1	30.3	35.8	30.5	33.1	37.2

Source: Derived from data of the MEF and CEPAL.

Table 5
PERU: BALANCE OF PAYMENTS
(Millions of dollars)

	Average 1960-1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
Exports of goods and services	615	772	909	884	999	1 050	1 224	1 064	1 153	1 345	1 841	1 689	1 746
Imports of goods and services	577	845	1 034	1 048	909	895	971	1 012	1 103	1 484	2 442	3 038	2 627
Trade balance	38	-73	-125	-164	90	155	253	52	50	-139	-601	-1 349	-881
Factor payments	-66	-91	-128	-147	-149	-185	-133	-125	-121	-163	-172	-242	-371
Profits	(-59)	(-62)	(-95)	(-98)	(-76)	(-113)	(-73)	(-50)	(-47)	(-80)	(-42)	(-15)	(-44)
Interest	(-7)	(-29)	(-33)	(-49)	(-73)	(-72)	(-60)	(-75)	(-74)	(-83)	(-150)	(-227)	(-327)
Current account	-22	-159	-246	-305	-53	-27	146	-69	-64	-299	-752	-1 574	-1 233
Balance of payments (minus sign = surplus)	-23	-15	24	33	14	-37	-298	36	-12	-88	-408	497	321
Gross international reserves ^{a/}	120	175	155	126	111	167	336	424	484	568	968	467	330
Memorandum items (rates of growth)													
1. Exports of goods and services													
Current dollars	15.3	1.1	17.6	-2.8	13.0	5.1	16.6	-13.1	8.4	16.6	36.9	-8.3	3.4
1970 dollars	9.7	-2.8	2.4	1.5	11.1	-4.2	4.4	-8.7	7.9	-14.6	-3.2	-6.9	4.9
2. Imports of goods and services													
Current dollars	13.6	23.0	22.4	1.4	-13.3	-1.5	8.5	4.2	9.0	34.6	64.6	24.4	-13.5
1970 dollars	12.2	9.1	17.7	2.5	-13.2	-1.6	5.5	0.2	2.4	19.6	32.7	11.4	-16.1
3. Terms of trade index (goods)	4.0	-11.2	11.1	-2.2	2.2	11.5	10.7	-9.4	-7.4	24.8	18.3	-15.1	-3.5
As percentage of GDP (current prices)													
4. Exports of goods and services	22.3	18.0	17.8	17.3	20.8	19.4	19.7	15.6	15.1	14.5	15.9	12.4	13.0
5. Imports of goods and services	20.9	19.7	20.3	20.5	18.9	16.6	15.6	14.8	14.5	16.0	21.1	22.3	19.6
6. Current account	-0.7	-3.7	-4.8	-6.0	-1.1	-0.5	2.3	-1.0	-0.8	-3.2	-6.5	-11.6	-9.2

Source: ECLA, on the basis of official data.

^{a/} IMF, International Financial Statistics, May 1978.

that included a promise to resolve the dispute with the IPC, 71/ a promise that remained frustrated throughout his 5 years in office and ultimately contributed to a change in government. As will be seen shortly, the issue of foreign investment eventually reached a peak in 1968, bringing about a fundamental change in relations with foreign capital.

Turning to 1966, there were more indications of deterioration in the financial situation.

In this year current expenditure growth continued to outstrip the generation of revenues, with a consequent sharp reduction in public savings (see table 4). Furthermore, the fiscal gap proved more difficult to finance, so that once again authorities returned to the Central Bank for assistance. 72/ Another major resource of finance continued to be commercial loans contracted abroad on relatively short terms.

The balance of payments also was under more pressure in 1966, notwithstanding a marked improvement in exports and the terms of trade. With imports continuing their rapid pace of growth, and an increasing proportion of export receipts drained away by profit remittances, the current account deficit rose by about 55%. This year, and unlike 1965, the deficit could only be partially financed abroad so that there was an 11% decline in gross international reserves (see table 5).

Few remedial measures were taken in 1966 to stem the tide as apparently the general public saw reasons to be optimistic about the government's economic and political prospects. 73/ About the only outward sign of concern was an intensification of the debate over tax reform and the renewal of an IMF stand-by agreement for \$37.5 million in March. But perhaps as a sign of the general level of confidence, the credit - which would have been a first tranche - was not drawn upon that year.

2. 1967 - 1968: A Financial Crisis

By 1967 there finally was a general awareness of a difficult situation. Concern was growing about the viability of the exchange rate, which had been stable since 1959. The fiscal situation was by now clearly grave, with public savings all but disappearing (see table 4) and financing becoming ever more difficult to realize. The balance of payments was in severe disarray; export earnings actually declined and the current account deficit reached record proportions and was in need of finance (see table 5).

The government, facing a large fiscal gap, continued to struggle with Congress over tax reform, to little avail. Import tariffs were increased early in the year; and while having little revenue effect, they did help to slow down the

rate of growth of imports. 74/ Budget financing was satisfied largely through emergency short term commercial loans.

In August, the government negotiated a new 42.5 million stand-by accord with the IMF. Being a first tranche credit, conditions were relatively moderate. Key elements of the agreement were expenditure cuts and restrictions on new debt with a maturity of less than 5 years. 75/ This latter measure was introduced because of what was considered to be the haphazard and uncoordinated nature of borrowing by government agencies, 76/ most of which took ample recourse to commercial credit on relatively onerous terms.

The IMF accord was complemented by additional medium term commercial credit. Nevertheless, the overvalued exchange rate could not be supported (see table 6). The government, retreating from an adamant position taken earlier in the year against devaluation, 77/ had to make the unpopular decision to adjust the Sol by 44% on September 1. Notwithstanding the devaluation and additional credit, the year ended with the public sector still in a precarious financial situation and international reserves down to the equivalent of less than one and one-half months' imports (see again table 5).

In 1968 problems once again intensified, complicated by what now was becoming a debt service problem due to the inevitable reverse flow on the numerous foreign loans contracted in earlier years (see table 7). 78/ The first half of the year was spent largely trying to convince Congress about the need for a tax reform. Meanwhile, economic growth slowed, inflation intensified and the internal and external finances were in chaos. Finally, in June 1968, Congress gave the President extraordinary powers (Emergency Law 17044), for a period of 60 days, to tackle the crisis. New tax measures were quickly introduced, bringing immediate revenue gains. Further budget cuts were undertaken. In order to counteract the increasing foreign control of the banking system, local banks had to convert into two-thirds national ownership. External problems were confronted with a new IMF stand-by credit for 75 million dollars that was negotiated in September 1968. Under the stand-by agreement new debt was restricted; no loans were to be contracted with maturities between 181 days and 10 years and specified semi-annual limits were placed on loans with maturities between 10 and 15 years. 79/ Armed with the IMF credit, authorities also managed to arrange rescheduling/refinance accords with major foreign creditors.

The new measures brought immediate results, but they came too late to save the government. Facing growing unpopularity over its economic policy, and embroiled in a scandal over its proposed settlement of the IPC dispute, 80/ the administration fell victim to a restless military headed by General Juan Velasco Alvarado, who took over power in the name of a revolutionary government on October 3, 1968.

Table 6

PERU: APPARENT INTERNATIONAL PURCHASING POWER OF THE SOL

(1964 = 100)

Year	Soles per dollar	Index of exchange rates	Index of	Index of	Index of parity 3/4	Relation of
			internal prices, Peru a/	internal prices, United States b/		rate to parity 2/5
	(1)	(2)	(3)	(4)	(5)	(6)
1964	26.8	100.0	100.0	100.0	100.0	100.0
1965	26.8	100.0	113.4	102.0	111.2	89.9
1966	26.8	100.0	127.3	105.5	120.7	82.9
1967	30.7	114.6	142.7	105.7	135.0	84.9
1968	38.7	144.4	168.2	108.3	155.3	93.0
1969	38.7	144.4	181.4	112.6	161.1	89.6
1970	38.7	144.4	193.4	116.6	165.9	87.0
1971	38.7	144.4	200.8	120.5	166.6	86.7
1972	38.7	144.4	210.8	125.9	167.4	86.3
1973	38.7	144.4	241.7	142.9	169.1	85.4
1974	38.7	144.4	281.8	169.1	166.6	86.7
1975	40.8	152.2	338.5	184.8	183.2	83.1
1976	57.5	214.6	455.2	193.3	235.5	91.1
1977	83.8	312.7	634.9	205.1	309.6	101.0

Source: Derived from data of CEPAL and I.M.F., International Financial Statistics, May 1978.

Note: This is a very rough and ready index which should be used only as an approximation of trends. The United States is Peru's major trading partner and its wholesale price index is used as a proxy for international prices.

a/ GDP deflator.

b/ Wholesale price index.

3. 1969 - 1974: Consolidation of the Military Revolution

The new government declared itself dedicated to transforming an economy which was in chaos and under the control of powerful national and foreign groups. ^{81/} Its basic intentions were to reduce dependence upon foreign capital, carry through intensive and extensive land reform, and achieve a rapid rate of economic development based on export-led industrialization. ^{82/} The transformation was to be styled as a bridge between capitalism and socialism and was to take place "without chaos and without death". ^{83/} The investment required for the restructuring of the economy was to come basically from internal as opposed to external resources. ^{84/}

Given the precarious state of national finance, coupled with formal restrictions on foreign borrowing, the new government initially had little choice but to maintain stabilization efforts. In mid-October 1968, the authorities informed the IMF that they were disposed to "continue and strengthen" the program under the new stand-by credit that

was arranged in September by the previous government. ^{85/}

The stabilization effort continued through 1969-1970 and into 1971. During these years fiscal policy was orthodox, if not conservative. For 1969-1970 the current savings of the budget turned strongly positive (an average of 77% of capital expenditures), reflecting largely the effect of the full impact of the fiscal measures introduced in mid-1968. Meanwhile, investment expenditures by the public sector were restrained (see table 8) even in the face of depressed private sector investment that resulted from uncertainty over the Junta's policies. These factors contributed to a narrowing of the fiscal gap. Moreover, financing of the deficit was done principally through the use of domestic financial instruments; recourse to Central Bank financing was carefully avoided and there was little new external borrowing. ^{86/}

The balance of payments also showed remarkable improvement in this period. Reduced import requirements in 1969 and favorable world commodity prices in 1970 caused the current account to move close to balance in the former year and actually turn to a large surplus in the latter. Despite net outflows on the foreign investment account, the overall balance of payments was in surplus in both years, aided in 1970

Table 7
PERU: EXTERNAL PUBLIC DEBT^{a/}
(Millions of dollars)

	Disbursed debt	Debt service	Amorti- zation	Interest	Memorandum items	
					Disbursed debt as percentage of GDP	Debt ser- vice as percentage of exports
Average 1960-1964	180	40	32	8	6.5	6.5
1965	325	36	24	11	7.6	4.7
1966	513	53	33	20	10.1	5.8
1967	623	95	65	30	12.2	10.7
1968	737	129	67	42	15.4	12.9
1969	875	135	89	46	16.2	12.9
1970	945	167	121	46	15.2	13.6
1971	997	213	156	57	14.6	20.0
1972	1 121	219	164	55	14.7	19.0
1973	1 491	433	352	81	16.1	32.2
1974	2 182	456	338	118	18.9	24.8
1975	3 066	474	284	190	22.5	28.1
1976	3 580	485	282	203	26.7	27.8

Source: *Actualidad Económica* (Lima), October 1979, No 20.

^{a/} Public and publicly-guaranteed debt with a maturity of more than 1 year.

Table 8

PERU: PUBLIC SECTOR CAPITAL FORMATION AND FINANCE

Year	Fixed investment ^{a/}			Investment as percentage GNP	Percentage financed internally	Percentage financed externally
	Central government	Public firms	Total			
	Soles at 1970 prices (billions)					
1965	4.8	5.7	10.5	5.5	...	...
1966	6.3	6.4	12.6	6.2	...	...
1967	4.7	3.6	8.3	4.0	...	...
1968	3.5	4.1	7.7	3.6	56.5	43.5
1969	4.0	4.1	8.1	3.7	54.0	46.0
1970	6.4	4.5	10.9	4.6	64.6	35.4
1971	7.7	4.5	12.2	4.9	76.6	23.4
1972	8.2	5.3	13.4	5.1	77.8	22.1
1973	6.8	6.6	13.4	4.8	71.2	28.8
1974	9.0	14.6	23.5	7.7	53.2	46.8
1975	9.8	19.1	28.9	9.2	56.0	44.0
1976	9.5	17.8	27.3	8.4	59.6	40.4

Source: Investment and GNP figures are from Cabieses and Otero, pp.209 and with earlier data. Data for 1976 are estimated on the basis of data from the BCR (1976). Finance data are from the MEF.

^{a/} May not sum properly due to rounding.

by the legislated repatriation of foreign assets by residents to the tune of nearly 200 millions dollars. ^{87/} By the end of 1970 reserves had risen to the equivalent of four month's imports requirements (see table 5).

The stronger balance of payments position was fundamentally aided by some major refinancing of the external debt. In London in September 1968, the former civilian government had negotiated a formal multilateral refinance package of \$180 million, providing relief for 1968 and 1969.^{88/} With large payments falling due in 1970 and 1971, foreign creditors were approached for another refinance operation in Brussels in November 1969, this time for \$90 million and covering 75% of the debt service payments scheduled for the next 2 years. ^{89/} It is significant to note that at the time the government made every effort to maintain cordial relations with the IMF, ^{90/} whose goodwill, as will be seen clearly in later chapters, was crucial to the arrangement of the refinance accords.

It is important to note that the government's stabilization efforts in the period were not accompanied by drastic reductions in economic growth. As can be determined from table 3, the regime reduced inflation and balanced the internal and external accounts, all while maintaining respectable rates of economic expansion.

By 1971 the military government had implemented most of its basic reforms (to be discussed momentarily) and its interests turned from stabilization to investment and industrialization. The government planned to raise the global investment coefficient from roughly 13% in 1970 to over

21% by 1975. 91/ Moreover, in contrast to the past, the state was to become a dominant factor in investment, with the programmed rate of growth for 1970-1975 being an average of 32% per annum in real terms compared to less than 10% for the private sector; the government's share of gross internal investment was to rise from 36% in 1970, to roughly 58% by 1975. 92/ Significantly, the nature of investment also would undergo fundamental change, as the state was to give a secondary role to its traditional area of responsibility, i.e., infrastructure, in favor of a new strategy, involving heavy investments in mining and basic goods manufacturing. 93/

Interestingly, the scheme did not display the export orientation that originally had been envisioned for the development program. Indeed, the nature of the industrialization program was not unsimilar to that of the previous government. Growth was to be stimulated by the substitution of imports. In support of the strategy, tariff levels remained high, reinforced by the introduction of quotas, or absolute bans, on the import of products produced locally. While the state was to be behind most of the new investment, the government nevertheless sought to stimulate the still reluctant private investors in industry through very liberal tax incentives and the attraction of a highly protected market.

Implementation of the plan saw government capital outlays in 1972 rise in real terms above the peak level achieved in 1966. But the investment program really did not take off until 1974 when investment expenditure nearly doubled the 1966 figures (see table 8). Overall, the public sector investment coefficient rose from 4.6% in 1970 to 7.7% in 1974, 94/ with a very high percentage being devoted to large projects in mining, oil exploration and intermediate goods manufacturing. 95/ Importantly, until 1974, external sources played a significantly smaller role in the finance of investment (see again table 8), which was in keeping with earlier declarations of the government. At the same time, current outlays of the central government rose rapidly (see table 4), with subsidies 96/ and interest payments growing in significance. The spectacular growth of the public sector that was brought on by this program is reflected in the fact that by the end of 1974 the government was approaching control of roughly one-third of output and two-fifths of employment in the modern sector, one-half of all fixed capital formation, two-thirds of credit (excluding government finance) and nine-tenths of exports and one-half of imports. 97/

The enormous expansion of the state in the economy during this period was contrasted by its relatively weak resource base. According to Fitzgerald, Peru's fiscal effort was not one of the more impressive ones in Latin America as a result of very heavy tax exemptions for industrial promotion, frustration of tariff revenue through import controls on

durable goods, and an unwillingness to irritate perceived areas of middle class political support through tax reform. 98/ Indeed, the ability of the central government to capture revenue actually declined steadily after 1970 with the concomitant erosion of government savings and considerable expansion of the overall deficit (see table 4).

The scarcity of resources was compounded by the fact that state enterprises - by 1974 carrying out the bulk of investment activity (see table 8) - were unable to generate savings because of the very long gestation period of their projects and/or policies of subsidized pricing. 99/ After the oil crisis of late 1973 the latter problem became acute as subsidized prices were amply used to offset the effects of the higher external costs of food and petroleum. 100/

Despite the income bottleneck, the public sector had no difficulty financing its expenditures. The state, taking advantage of its greater control of domestic credit, took heavy recourse to internal finance; and around 1972 foreign borrowing began to take on a higher profile as well. 101/ It also should be mentioned that around 1973 primary emissions of the Central Bank once again became an important source of finance, and this eventually fueled inflation (see again table 3).

In 1971-1972, the balance of payments remained reasonable sound, in the former year because of continued restrictions on imports (which in both current and constant terms were still below the peak level of 1967) and in the latter because capital inflows began to recover due to new foreign investment in mining and oil exploration together with renewed recourse to foreign credit markets. As the investment program took off, and internal consumption expanded, imports began to accelerate, as reflected in a noticeable widening of the current account deficit in 1973. Policies promoting fast rising consumption and investment, coupled with higher prices for food imports (which traditionally are of considerable volume) and petroleum, as well as a progressively overvalued Sol (see again table 6) and speculation, caused foreign purchases to rise by nearly 65% in 1974. 102/ With factor payments also rising sharply, the current account deficit more than doubled, to represent roughly 40% of export earnings (see table 5). The imbalance in the current account was, however, totally masked by large inflows of foreign short and medium term capital which generated an overall balance of payments surplus and permitted international reserves to reach record levels. The state, through foreign borrowing, accounted for most of these capital flows. Likewise, the burden of external public debt was by now very significant (see table 7) and generating its own demand for resources.

a) The reforms

As noted in previous paragraphs, the military government preoccupied itself with reforms in the years 1969-1974. Some of these reforms had a very significant impact on the demand for foreign finance and on relations with foreign capital. The purpose of this section is not a comprehensive analysis of any or all of the reforms introduced by the government, but rather a summary of those measures that had some importance to the demand for foreign resources and/or could have conditioned the attitudes of foreign suppliers of finance. In the examination, special attention is given to reforms in the institutional control of foreign borrowing and the role of foreign capital, since these two measures had a very direct impact on the demand for foreign resources. As will be seen in Chapter IV, the latter reform also had a profound impact on the supply of the external finance.

i) Agrarian reform

One of the basic and most far-reaching reforms was that applied to agriculture. Land reform had been a hot political issue throughout the Fifties and Sixties, with peasant frustrations ever increasing due to ineffectual reform programs. 103/ To diffuse peasant unrest, and overcome a long history of near-stagnant agricultural output, 104/ the government in 1969 decreed a new land reform law. Almost immediately the country's coastal estates and large livestock operations in the Sierra were expropriated. Altogether, by the end of 1975 over 7 million hectares had been expropriated, 6 million hectares adjudicated, involving nearly 10 000 ranches and affecting 250 000 families. 105/ While the reform substantially changed the pattern of ownership in the sector, it had little impact on marketable surplus: although output did not fall below historical trends, it did not rise either, so that a high demand for food imports continued to weigh heavily on the balance of payments throughout the period. 106/

ii) Labor communities

In 1970, under a new industrial law, the government established what it termed industrial communities. Under this new regime a private industrial entity with 6 or more employees (or in cases where there were less than 6 employees, income greater than one million Soles) had to provide 25% of its pre-tax profits to a workers' industrial community, 10% in the form of currency and 15% in shares of the firm. There were similar, but modified arrangements, for the mineral, fishing and telecommunications sectors. 107/

The reform enabled workers to participate in profits; more importantly, theoretically over some time span they could eventually gain control of the enterprise itself. (From the outset they had a representative on the board of the firm).

By mid-1974 some 3 700 firms in the industrial sector had established an industrial community, incorporating about 245 000 workers. 108/

The communities, while well-intentioned, undoubtedly had some undesirable side-effects. One was that given the industrial structure of Peru, 62% of the industrial work force (as opposed to only 40% of the value-added) was not incorporated into the community concept. 109/ Another, which is more directly related to the focus of this study, is that owners of enterprises saw new investment as a way of postponing indefinitely the day in which workers could actually gain control of a firm. Thus incentive was given to new investment, and therefore imports, regardless of whether there was a real need for new capacity. 110/

iii) Institutional reforms

Immediately after the change in government in 1968, a series of institutional reforms were adopted, making a reorganized Ministry of Finance the focus of power for fiscal and monetary policy. 111/ The reforms were quite comprehensive and therefore cannot be analyzed in any detail here; 112/ one can, however, attempt to highlight those actions which had an impact on the demand for external finance.

First, in 1970, the government instituted full foreign exchange controls. These were complemented by the creation of new institutions to regulate exchange; the Consejo de Transacciones Externas del Sector Público (COTREX) was instituted to control the foreign exchange outlays of the state, while the Junta de Transacciones Externas del Sector Privado (JUTREX) was organized to elaborate an annual foreign exchange budget for the private sector, based on applications submitted by individual entities. 113/

The government also was concerned about the casual nature of debt contraction in the 1960s and it took steps to centralize control over borrowing activities. In 1969 the Comisión Permanente de Crédito Externo (Peruvian Commission on External Credit - presided over by the Director General of Public Debt (an office in the Ministry of Finance) and made up of the general managers of the BCR, BN, INP and the Coordinator of the Secretariat of the Annual Economic Plan - was created to formulate overall debt policy and approve all foreign credit operations of the state. 114/

The actual process of approval for credits was complicated, involving a multitude of government agencies. For instance, by 1970 project finance had to be approved by the Council of Ministers, be given a sectoral priority by the INP, meet with the approval of the Comisión Permanente de Crédito Externo, have its terms scrutinized and registered with the Directorate General of Public Debt, and be reviewed by the Counsel General and Controller General of the Ministry of Finance. Each approved credit also was accompanied by a Supreme Decree. 115/

Given the diverse levels of control over debt, it was decided in 1972 to establish the Comité Superior de Deuda Externa (Superior Committee of External Debt), headed by the Minister of Finance and incorporating the Chief of the INP, the Director General of Public Debt and the Presidents of the BN, BCR, and COFIDE. Its task was to coordinate the various offices in the debt control system in order to ensure that general guidelines on debt contraction were followed; it also was responsible for authorizing an agency to initiate negotiations for foreign credit. 116/

In 1972 another major innovation in the debt control system was introduced: the centralization of credit negotiations. The BN became the bargaining agent of the central government and also assumed responsibility for the short term financial needs of state enterprises. Meanwhile, COFIDE was created to handle the medium/long term credit needs of public enterprises (and under certain circumstances that of private and quasi-private enterprises). 117/ Significantly, in late 1973 the control system for credit authorizations through both institutions was streamlined in order to increase the flow of finance for programmed investment. 118/

The above demonstrates that in the Seventies there was an elaborate system of control of foreign debt contraction. It would be interesting to examine how well the system functioned. This subject, is, however, reserved for the analytical overview that makes up the second half of the chapter.

iv) Reform of foreign capital

As noted earlier, Peru traditionally had geared its economic policy to the attraction of foreign investment. The strategy met with great success, as the profile of foreign capital was extraordinarily high. By 1968 three-quarters of the mining sector, two-thirds of the sugar industry, and half of the cotton and wool processing industries were under foreign control, 119/ not to mention roughly 60% of the banking system's resources and credit. 120/ Expatriate capital also controlled one-third of manufacturing (two-thirds of the 200 largest firms), 121/ and dominated enterprises in communications, power generation and trade. 122/ The profile of the United States was particularly high, as its national firms accounted for over 80% of all direct foreign investment. 123/

The new military regime was very concerned by what it saw to be excessive foreign control of the economy and therefore took steps that sharply altered the treatment of foreign capital. In some cases the role of foreign investment was modified directly, and in others it was changed indirectly as part of broader reforms. It is important that these changes be reviewed in some detail for several reasons. First, the change in "demand" for foreign

investment altered not only investment flows, but also had repercussions on the whole nature of external finance. Second, the treatment of foreign investment is theoretically an important factor in commercial banks' evaluation of creditworthiness. 124/ Third, commercial banks - some of them important actors in this study - were both directly and indirectly affected by the reform measures.

The first major action taken by the authorities was on the IPC. On October 9, 1968, 6 days after its installation in power, the government expropriated the IPC's oil fields and refinery in Talara. Later, in early 1969, it took over all other company assets, including its gasoline marketing network. Furthermore, no compensation was to be paid because of an alleged debt of nearly 700 million dollars owed by the Company to Peru for oil extracted from the Talara fields over the previous 40-odd years. 125/ Meanwhile, the expropriated assets were turned over to the state petroleum entity which was reorganized and renamed PETROPERU.

One should not lose sight of the extreme boldness of the government's measures: the subsidiary's parent, Standard Oil, was one of the largest and most powerful corporations in the world. It also should be pointed out that in taking over the IPC's assets, authorities were quick to add that the action should not be construed as a general attack on foreign capital or private property, and that the government would support foreign investment which subjected itself to national laws and interests. 126/

In 1969 the government displayed its rather unique view on foreign investment by actions taken in the mining sector. The sector was a United States enclave with U.S. firms - Cerro de Pasco, Southern Peru Copper Corp. and Marcona Mines being most important - controlling over 80% of the value of production. Meanwhile, national interests controlled only 16% of output. 127/ In September it was decreed that the numerous mining concessions held by private corporations must be exploited or revert to the state. After receiving no adequate proposals, the next year 8 major concessions were taken over: Cerro de Pasco lost four concessions (including Tintaya); Anaconda, two (including Cerro Verde); American Smelting; two (including Michiquillay); and Kaiser Aluminum, Charter Consolidated and Natomas one each. 128/ Also, at the end of 1969 the government announced that the state would nationalize all marketing and refining of mineral products, 129/ which were later to be put in the hands of a new public enterprise called MINEROPERU. Simultaneously, it signed a contract with Southern Peru for exploitation of the large Cuajone copper deposits, 130/ thereby giving a concrete example of how Peru was still interested in foreign capital.

Another firm affected by reforms in 1969 was W.R. Grace. Having widespread holdings in Peru, it lost its two big sugar plantations (and refineries) as a result of the agrarian

reform. 131/ As a reaction to the move, Grace took steps to divest. In the same year, ITT lost its local telephone company, 132/ and Peru enforced its sovereign control over maritime resources within 200 miles of the coast.

In 1970 a law was issued implementing Decision 24 of the Cartagena Agreement, which, among other things, placed limits on profit remittances by foreign firms. Also, in an attempt to rationalize the automobile industry, General Motors and Ford had their production licences revoked in favor of new concessions to Japanese and European bidders. 133/

It was in this year that Peru introduced further reform of the financial sector. 134/ Branches of foreign banks, which at this time were Citibank, Bank of America Lloyds Bolsa, and Bank of Tokyo, (Royal Bank of Canada had recently closed its office), were allowed to remain in Peru under restricted conditions; there was a minimum capital base, no time or savings deposits were permitted and special lines of credit in foreign currency had to be made available to the government. 135/ Furthermore, foreigners were not allowed to own local banks or insurance companies; those who already had subsidiaries had to reduce their participation to below 20%. 136/ As a result of the law Chase Manhattan decided to sell its 51% ownership in Banco Continental to the government. Meanwhile, Banca Commerciale Italiana had its participation (through Sudameris) in the Banco de Crédito reduced to below 20%. Likewise, Credit Lyonnaise had to reduce its participation in the Banco de Lima to conform with the new rule. Finally, the financially troubled Banco International, of which Chemical Bank was a major shareholder, was taken over by the government.

In 1973, the government nationalized the fishing industry, financially troubled because of the disappearance of the anchovy. While the industry as a whole was largely national, 137/ a number of foreign firms, especially of U.S. origin (Ralston Purina, H.J. Heinz, Cargill, Grace) were affected. Also at the end of 1973, Cerro de Pasco, which had its cattle ranches expropriated in 1969, was subject to a complete nationalization. This had far reaching implications, because Cerro, in addition to having the largest mining operations, 138/ had interests in many other sectors of the economy. 139/

In most cases the reforms were met by indignation on the part of foreign firms. Amicable agreements, however, were in some instances worked out relatively quickly, as is the case of ITT. 140/ Chase Manhattan received a highly favorable settlement 141/ and also benefited from the private sector Cuajone agreement, a project for which it was to be lead financier. 142/ On the other hand, compensation for IPC, Grace, Cerro and some of the fishing firms were subjects of hot and long debate in which neither party could reach agreement. By mid-1973 the United States government was

interested in clearing up all outstanding claims as soon as possible and therefore appointed James Green, then a senior Vice-President at Manufacturers Hanover Trust, as a special negotiator. By February 1974 a package deal was agreed to involving: (a) payments to the United States Treasury of 76 million dollars, which would then be distributed to companies with claims by the United States Department, and (b) the release of \$74 million in blocked company assets. 143/ Also implicit in the agreement was a large syndicated bank credit to the government of Peru, an operation which will be analysed in greater detail in Chapter V.

The examination of foreign capital reforms should not end without mentioning that aside from direct actions taken on capital of international banks, these institutions were also indirectly affected through their direct and indirect links with non-financial corporations that were nationalized or "Peruvianized". The connection varied from ownership of stock of the company to interlocking directorates and extensive lending and deposit business with the parent of a subsidiary. Table 1 of the statistical appendix displays links between major banks and some of the foreign firms affected by the program of nationalizations.

b) The discovery of petroleum in the Amazon

Special attention has been given to this event because it was perhaps one of the most decisive factors in the response of both the demand and supply sides of external finance for Peru. The general highlights will be presented here, with later chapters analyzing its impact on bank lending.

When Peru nationalized the Talara oil fields, it faced a problem of deteriorating national petroleum production. Policy makers found that national output was at only about 70 000 barrels a day with another 12 million dollars of imports needed to cover the deficit with respect to local consumption. 144/ Nor were prospects good; this country, which was once a net exporter of petroleum, faced the likelihood of much higher national consumption by 1980. 145/

Impressed by Texaco-Gulf's discovery of large deposits of petroleum in an Amazon region of Ecuador that was near the Peruvian border, officials immediately took steps to explore for similar possibilities in jungle territory which was mostly adjacent to Ecuador's fields. In 1970 geological work was undertaken. Peru then invited foreign firms to join PETROPERU in the search, but under rather restrictive conditions for the time; instead of paying royalties or taxes, firms would have to explore at their own risk and any petroleum discovered would be split 50-50 with PETROPERU. 146/

The first firm to accept these conditions, then termed the "Peruvian Model", was Occidental Petroleum, a maverick

corporation, under the direction of Mr. Armand Hammer, that was known for dealing with governments that the 7 Sisters thought wiser to avoid. Contracts were signed in June 1971. By late 1971 PETROPERU and Occidental's operations were fully underway and in November a well in the Trompeteros region struck oil at 2 000 barrels a day. Then another well was developed in the Capirona region with similar success. A third was initiated at Pavayacu and it too produced oil. 147/

The results were truly promising; the traditional average ratio of success was roughly 10 wells to one discovery while Peru was finding oil at a ratio of 1:1. 148/ Not surprisingly, euphoria broke out in Peru. By early 1972 papers were headlining articles to the effect that Peru had immense reserves equal to production in the United States or Russia. 149/ Petroleum officials expressed that the jungle "was floating on a sea of petroleum" 150/ Moreover, self sufficiency was forecast for late 1975 and export potential seemed bright; indeed a foreign geologist under contract to PETROPERU went so far as to predict production of 10 million barrels a day by 1980. 151/

After the initial finds, foreign petroleum firms, notwithstanding the stringent terms of the "Peruvian Model" contract, entered the jungle in droves. The companies, -16 in all by 1974- however were secondary and tertiary petroleum operators; the "top seven" were conspicuous by their absence. 152/ Meanwhile, the United States consulting firms Scientific Software Corp. and De Golyer and Mac Naughton had estimated recoverable reserves at 547 million barrels in 1974. 153/

By 1974 Peru had already formulated plans to transport the jungle petroleum to the coast via a 200 000 barrels a day transandean pipeline. Feasibility studies had been prepared by the Bechtel Group (at a cost of 700 thousand dollars) and a complex financing package (analysed in Chapter IX), in which commercial banks participated, was arranged by mid-year. When the pipeline was originally conceived in the early 1970s, costs were estimated at 350 million dollars. However, escalations caused the actual price to prove to be nearly 800 million dollars.

4. 1975 - 1976: Crisis Anew

In the last two years covered by this study, Peru once again enters into a crisis, perhaps even graver than the one experienced in 1967 - 1968.

By 1975 the economic situation was showing open signs of strain. A deep recession in the center was playing havoc on Peruvian exports, which had already been severely hurt by the disappearance of the anchovy and the sluggish growth of volume in mining. 154/ The adverse situation was reflected

in an absolute fall in both the unit price and volume of exports that year, further aggravating the long term decline in the export coefficient, which by this time had dropped to a level equivalent to only somewhat more than half of the average for 1960-64 (see table 5). Meanwhile, imports, fueled by higher petroleum prices, the investment program, an overvalued exchange rate, subsidies on food and oil, over invoicing, etc., continued to grow rapidly. Coupled with a large deficit on factor services, the net effect of these trends was an enormous rise in the current account deficit, which could not be covered by the nevertheless large capital inflows. Again, the state was a major conduit for capital flows via foreign borrowing, much of which was used simply to offset the substantial outgoing payments related to the heavy service of foreign debt (see table 7). The shortfall in finance caused gross international reserves to fall from nearly one billion dollars in 1974 to less than 500 million dollars in 1975, which was insufficient to cover 2 month's imports.

The central government's financial situation remained very precarious as well, with fiscal effort falling to one of its lowest points in recent history (see again table 4). At the same time, public enterprises continued to run large deficits. ^{155/} The financial gap had to be closed via heavy foreign borrowing, internal credit, and especially primary Central Bank emissions. It is worth noting that in the midst of these problems the government took the surprise move of nationalizing Marcona Mines.

In August 1975 there was new leadership in the government. General Velasco was replaced by General Francisco Morales Bermudez and with him the "revolution" took on a much more conservative tone. Aside from some price adjustments, however, corrective economic measures were not undertaken until late in the year. In September a new economic team was formed. This was quickly followed by a 16% devaluation, the first adjustment of the exchange rate in 8 years (see table 6).

The slowness of adjustment was perhaps attributable to the confidence that financial problems would be rectified by upcoming petroleum (and mineral) exports. However, by the end of 1975 the prospect of massive petroleum exports was turning dim. Just as the transandean oil pipeline was reaching 46% of completion, 10 of the foreign firms in the jungle terminated operations either due to dry holes or the finding of "uncommercial" deposits. ^{156/}

The crisis deepened in 1976. In a historic multi-hour speech to the public in January 1976, the Minister of Finance clearly defined the nature of the problem and introduced measures to reduce the cost of fiscal subsidies, raise revenues and close the external gap. ^{157/} This was followed in June by a comprehensive stabilization program that, uniquely, did not involve the IMF.

Notwithstanding stabilization efforts, the banking study closes with the economy in continued crisis; high inflation, low growth, impressive fiscal and external gaps, a burdensome external debt and a precariously low level of foreign exchange reserves. Furthermore, the prospects of a petroleum boom appeared ever more doubtful as during that year all but one of the remaining foreign oil companies closed down operations in the jungle due to "unsuccessful" explorations. At the end of 1976 the only foreign operating firm in the jungle along with PETROPERU was Occidental Petroleum. By now the oil pipeline was 98% completed, but the immediate prospects were that the two companies would generate petroleum sufficient to barely satisfy half of the formal capacity of 200 000 barrels a day. 158/

In subsequent years, events were to become even more turbulent, but, unfortunately, this later period goes beyond the scope of the study. However, in order to provide continuity, Chapter XIII provides an epilogue that will take the reader up through 1979, a year in which there were signs that Peru may have found the road to recovery.

B. ANALYTICAL OVERVIEW AND SUMMARY

The first part of the chapter attempted to provide the reader with a brief account of those events and factors underlying the public sector's demand for external resources during 1965-1976. Given the breadth of the material, it might be useful to review the factors of demand for the period as a whole.

New loan commitments can be used as a proxy for the public sector's effective demand - i.e., demand that is met by a full or partial response from the supply side - for external finance. This is done in table 9 which displays volume indexes for new loans contracted by the public sector during 1965-1976. Index A represents commitments deflated by an import price index and is therefore best suited for showing trends vis-a-vis the external sector, while index B deflates commitments by an index of local prices, adjusted for the nominal exchange rate, and therefore is best related to domestic finance. 159/

The data clearly show that the public sector made increasing commitments to foreign finance in the periods 1965-1967 and 1972-1976. Curiously, despite the different political orientation of public policy in the two periods, the factors behind demand were quite similar. At the risk of oversimplifying, the commonality of factors is presented below.

1. The Fiscal Dilemma

One factor of demand for foreign resources that pervades most of the period is a severe imbalance in the fiscal accounts. On the one hand, there was almost continuous pressure to increase government expenditures, with the state taking on ever more importance in the economy. Starting from a low base of expenditure of 16% of GDP in the early 1960s, outlays averaged nearly 19% of product in 1965-1967 and roughly 20% in 1971-1976. These figures are much higher if amortization of debt is included (see again table 4). The expanded expenditure in these years is counterposed by a completely flat revenue base that averaged only 15% of product. In 1976, income as a percentage of product actually was lower than in 1965. Thus, one encounters the anomaly whereby the state sharply increased its economic participation, but did not give itself access to the domestic income needed to support the increased activity. The result, of course, was sizeable fiscal deficits to be financed. The imbalance was particularly severe in 1972-1976, when the deficits were consistently in excess of 6.5% of GDP. Only in 1968-1970, a period of relative restraint, was the fiscal situation reasonably sound.

At least to some extent there were common reasons for fiscal difficulties. As just mentioned, government expenditure tended to expand vigorously, due to growing real activity, subsidies and inflation. On the other hand revenues were held back by an inelastic tax system and a perennial disinclination to raise tax pressure. Moreover, the flat revenue base was aggravated by an inclination to forego much income because of a desire to provide investment incentives to the private sector. Investment incentives, tariff reductions (and import restrictions in the post-1968 period) all were used extensively to promote industrialization. These same incentives, however, represented considerable foregone fiscal income. 160/

Table 9

PERU: ANNUAL FOREIGN LOAN COMMITMENTS OF THE PUBLIC SECTOR
(1965 = 100)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
Index A	100	328	147	115	86	128	162	288	471	519	307	442
Index B	100	222	180	117	81	119	144	256	440	509	321	543

Source: Derived from data in IDRD, World Debt Tables and CEPAL.

Note: Index A is an index of annual foreign loan commitments deflated by the index of import prices; index B is an index of annual loan commitments deflated by an index of domestic consumer prices adjusted for movements in the nominal rate of exchange of the Sol with the U.S. dollar.

In the years of sizeable deficits, national sources of finance were limited by either an inadequate amount of local savings 161/ and/or insufficient instruments for tapping these resources. There was a greater degree of success in using domestic savings after 1968 as the government had considerable control over the domestic financial system. However, except in 1968-1970, when there were reduced financial requirements, domestic savings fell far short of the requirements for fiscal budget support.

As will be seen in the next chapter, there was ample access to foreign capital in 1965-1967 and 1972-1976. And, there was no hesitation in either period to use foreign finance to cover fiscal requirements. Central Bank emissions covered gaps that could not be filled by foreign resources.

In 1968-1971 there was little new foreign borrowing for fiscal purposes as finance requirements were much reduced and authorities were innovative in their efforts to employ domestic resources to cover the fiscal gap. But as will become evident in the following chapter, the innovative nature of public policy and the modes of finance undoubtedly in part were a response to the challenge presented by a very limited access to foreign finance.

2. The External Debt Control Dilemma

In both the Sixties and the Seventies the government's external debt contraction clearly lacked sufficient restraint, due especially to the fact that public sector expansion progressed more rapidly than the managerial skills of public servants.

In the 1960s there was little institutional control of foreign debt contraction. Government agencies, in an uninformed and uncoordinated fashion, borrowed abroad, often using local private commercial banks as their financial agent. 162/ This resulted in haphazard debt accumulation under terms which fell short of market possibilities. Burdensome interest rates and short maturities provided the government with little breathing space, contributing to eventual financial troubles.

As mentioned earlier in the chapter, with the introduction of the military government in 1968 an elaborate infrastructure was established to control and monitor foreign borrowing. This undoubtedly brought improvements, but the experience of the regime is exemplary of the gap that can occur between formal institutional controls and actual performance.

As Ugarteche points out in his revealing study on the institutional control of foreign borrowing in Peru, the centralization of credit negotiations in the BN and COFIDE was an improvement over the old system whereby each public

entity was basically on its own with regard to foreign credit agreements.^{163/} These two agencies, and especially COFIDE, had staffs capable of enhancing the credibility of finance proposals and negotiating with creditors with a view to international market conditions (COFIDE maintains files on creditors). No doubt better terms were secured as a result of this system. However, the system apparently was not an effective filter for several reasons.

First, according to Ugarteche, while the planning institute (INP) continuously showed concern about debt service and management, there were no precise parameters or guidelines established on how much debt should actually be contracted and under what conditions; nor, apparently, were precise policy guidelines ever laid down by the Comisión Permanente de Crédito Externo that was established for this purpose.^{164/}

Second, the fact that there were no explicit debt guidelines established meant the project approval was carried out without any overall constraint on foreign finance which, as Fitzgerald observes, was permissive to designers "who want the 'best' equipment and rapid delivery" and who "tend to favor foreign suppliers".^{165/} This was aggravated by the fact that planners themselves saw projects as a means of borrowing foreign exchange in general, thereby releasing indigenous resources for other purposes.^{166/} The situation led to what Fitzgerald terms as a "haphazard" accumulation of debt.^{167/}

Third, the system of project selection itself was prone to outside pressures and ministerial rivalries. As Fitzgerald notes:

"... major projects tend to accumulate their own 'pressure groups' among the beneficiaries and also within the administration, so that once underway to the feasibility stage they are very difficult to stop or modify. In administrative terms, the problem is felt to lie in the fact that the projects reach the INP 'too late in life' and are difficult to stop, or where they blatantly fail to conform to development objectives, to reformulate without rejection".^{168/}

Fourth, in practice these same pressures came into play when applications for foreign credit were being considered. With respect to the approval process Ugarteche concludes:

"Usually the pressures of Ministers for approval of projects in their ministerial portfolio resulted in the Superior Committee (of External Debt) only approving what was proposed. It is an ex-post approval of an agreement made previously by the Council of Ministers."^{169/}

Moreover, Ugarteche points out that an inverted hierarchical relationship between the Comisión Superior de la Deuda Externa and the Comité Permanente de Crédito Externo did

not help matters. The former, composed of Ministers, provided the go-ahead to initiate contacts for external credit, while that latter, composed of general managers of Ministries, had to consider the appropriateness of the amounts and terms offered. Unfortunately, the members of the Comité were of insufficient rank to resist the pressures generated from the Ministers. 170/

From the above one can conclude that the reform generated the infrastructure to regulate the demand for foreign credit, but credit proposals were nevertheless able to fully penetrate the screen of control because of a lack of definition in financial policy and inadequate instruments to counteract the momentum generated by an ambitious development program. It was not until 1978 that most of these deficiencies were remedied. 171/

3. The Balance of Payments Dilemma

The balance of payments gap, of course, was not altogether unrelated to the fiscal situation. There were nevertheless some unique factors at play.

Table 10 provides data that permit one to pinpoint some common characteristics of the balance of payments performance during the period 1965-1976. It demonstrates that the period of large financial requirements (as a percent of product) were 1965-1968 and 1973-1976. In both periods a negative trade balance, followed by mounting debt service were prime factors behind a rising need for external finance. In 1966-1967 outflows related to the direct foreign investment (DFI) account were even more important than debt service as a source of finance requirements. It also can be seen that in 1969-1972 DFI and debt service were a major burden on the balance of payments, but the trade account made a positive contribution to resource flows, creating less requirements for finance.

Looking first at the trade balance, table 5, shows that in periods of deficit there was usually relatively rapid growth of imports. External prices often were a factor behind growth, but in most years the growth of volume also was considerable. There were some common factors behind volume growth: stagnant local food production, public and private investment, subsidies on basic consumer items, tax and tariff reductions on capital goods, and very importantly, policies that provided artificial support for prolonged periods to a fixed exchange rate. However, perhaps the most important determinant of the trade deficit was the abysmal performance of exports. Throughout the 12 years there was a secular decline in the export coefficient so that by 1976 export volume as a percentage of product was only 50% of the average for 1960-1964 (see table 11). In many years the

Table 10
PERU: EXTERNAL BALANCE OF PAYMENTS DEFICIT TO BE FINANCED
(Millions of dollars)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
Trade balance	- 73	-125	-164	90	155	253	52	50	-139	-601	-1349	-881
Direct foreign investment (DFI)	- 53	-110	-165	-169	-179	-143	-108	- 23	- 10	16	301	126
Met investment	38	18	- 18	- 20	6	- 70	- 58	24	70	58	316	170
Remittances	- 91	-128	-147	-149	-185	- 73	- 50	- 47	- 80	- 42	- 15	- 44
Total debt service	- 76	- 68	-129	-232	-215	-252	-306	-318	-468	-529	-661	-989
Interest (net)	- 29	- 33	- 49	- 73	- 72	- 60	- 75	- 74	- 84	-130	-227	-327
Amortization	- 47	- 35	- 80	-159	-143	-192	-231	-244	-384	-399	-434	-662
Total deficit to be financed <u>a/</u>	-202	-303	-458	-311	-239	-142	-362	-291	-617	-1114	-1709	-1744
<u>Memorandum items:</u>												
1. Total deficit as percentage of GDP	4.7	5.9	9.0	6.5	4.4	2.3	5.3	3.8	6.6	9.6	12.6	13.0
2. Total debt service and net DFI as percentage of exports	16.7	19.6	33.1	40.1	37.5	32.3	38.9	29.6	35.6	27.9	21.3	49.4

Source: CEPAL on the basis of official data.

a/ Excludes from consideration short term capital movements and errors and omissions of the balance of payments.

Table 11

PERU: EXPENDITURES ON GROSS DOMESTIC PRODUCT, 1965-1976^{a/}

(As a percentage of GDP in 1970 local currency prices)

	1960-1964	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
Consumption	76.5	79.9	79.9	81.0	81.6	82.6	83.0	82.4	82.5	86.2	87.9	89.5	88.1
Private	65.6	67.8	68.6	69.2	69.3	70.5	71.0	70.2	69.9	73.9	75.9	76.3	74.9
Public	10.9	12.1	11.3	11.8	12.3	12.1	12.0	12.2	12.6	12.3	12.0	13.2	13.2
Investment	16.4	16.8	19.5	18.6	13.1	13.0	12.9	15.3	14.5	16.0	19.5	20.8	17.9
(Gross fixed capital formation)	14.1	15.1	16.1	14.6	12.3	12.2	12.4	13.0	13.1	13.0	15.9	18.6	16.7
Exports G and S	23.1	21.0	20.4	20.4	22.5	20.6	19.7	17.2	17.5	14.1	12.7	11.5	11.7
Imports G and S	16.1	17.8	19.8	20.0	17.3	16.2	15.7	14.9	14.4	16.3	20.2	21.8	17.7
Gross domestic product	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: CEPAL on the basis of official data.

^{a/} At market prices.

erosion of export performance was hidden by favorable prices, but in the end the sluggish volume left the balance of payment very vulnerable. One cannot help but think that if there had been a more dynamic export sector, the crises of 1967-1968 and 1975-1976 would have been manageable.

There were some common features behind the lagging export performance.

One factor was the long gestation period of mineral projects, coupled with uncertain policies on the role of foreign private investment. There was significant new investment in minerals in the late 1950s and the coming-on-stream of production helped to boost exports in the early 1960s. Any prospects for new private foreign investment in the 1960s, however, were dampened by the uncertainty surrounding official commissions examining excess profit-making by foreign mining firms; 172/ the revision of the 1950 Mining Code; and the renegotiation of the Toquepala contract. In retaliation the TNCs boycotted Peruvian mining reserves. 173/ No sooner were the problems ameliorated than a change in government took place in 1968 with a radically new view on foreign investment being introduced. This further delayed any prospect of foreign investment in minerals. After a while, an agreement was finally reached with the Southern Peru Copper Corporation (U.S.) to develop the Cuajone deposits and the government undertook the development of Cerro Verde and Michiquillay. But output from Cuajone and Cerro Verde, given lead times, could not come on stream until the latter half of the 1970s. (Development of Michiquillay had to be postponed indefinitely because of the 1975-1976 crisis). Thus Peru went through roughly 20 years without new mineral output.

Another crucial factor in the mining sector was petroleum. As has been seen, there was great anticipation of oil exports giving massive support to the balance of payments. Undoubtedly, the government formulated its investment program, and the finance of it, on the basis of eventual receipts from the Amazon oil. However, when an exportable surplus did not materialize as fast as originally expected, a gaping hole was left in the balance of payments.

Another crucial element to the poor export performance was a lack of export vocation in the industrial sector. Theoretically, the import substitution program also could have provided a base for industrial exports; indeed the Velasco government originally talked of export-led industrialization. But little attempt was made to encourage efficiency as no-questions-asked protection was provided to industrialists. The fixed exchange rate also militated against industrial exports. Nor was there any effective program to promote such exports through instruments that would compensate the formal disincentives to selling abroad. 174/

Finally, there were some factors beyond the government's control. The loss of anchovies was an ecological phenomenon that eroded to a considerable degree the country's ability to generate foreign exchange. 175/ Also, beginning in 1974 Peru was struck like everyone else with the impact of a severe world economic crisis.

Of course, except in the years of open external crisis the country was able to overcome the export bottleneck through foreign borrowing. But borrowing, along with occasionally buoyant world prices, appears to have generated a false sense of security with regard to external solvency and to have dampened incentive to introduce corrective measures. Moreover, as borrowing accumulated debt itself created a demand for more new loans to cover debt service payments. This latter demand by definition grew at an exponential rate.

Perhaps the most graphic summary of what happened to Peru is in the national accounts data presented in table 11. It reveals that between 1965 and 1975 consumption rose from 80% to 90% of Gross Domestic Product; investment rose from 17% to 21% and imports rose from 18% to 22% of product. Simultaneously, exports fell from 21% of product to 12%. These somewhat striking trends were feasible, of course, only because of massive foreign borrowing.

Chapter IV

THE SUPPLY OF EXTERNAL FINANCE FOR PERU: AN OVERVIEW

The previous chapter reviewed the evolution of the public sector over the 12-year period 1965-1976 and some of the factors underlying its demand for external resources. The demand, of course, was conditioned by supply, and it is the task of this chapter to see how the various types of finance responded to the external needs of the government. The first part of the chapter provides a statistical overview of the behavior of the supply side for the same 12-year period, taking into account the amounts authorized, the terms of finance, etc. The second part will go into more detail on the factors behind the response of the various sources of finance. Commercial banks are part of the analysis; however, they will be treated in a very general way, leaving a more detailed examination for subsequent chapters.

A. EXTERNAL FINANCE: THE STRUCTURAL SHIFT TO BANKS

As was pointed out earlier, the public sector's medium to long term external debt was not exceedingly large at the outset of the period under study; at 325 million dollars in 1965 it was equivalent to roughly 8% of the GDP. However, the debt had grown very rapidly, doubling with respect to 1960, and with most of the expansion having taken place from 1962.^{176/} One can gain an idea of exactly what sources of finance were important to the government at this time by reviewing the composition of external public debt at the middle of the decade. Table 12 provides such a profile for Peru and Latin America as a whole.

Table 12

PERU AND LATIN AMERICA: DISTRIBUTION OF EXTERNAL PUBLIC DEBT
 ACCORDING TO SOURCE OF FINANCE, 1965-1966 AND 1975-1976 a/
 (Percentage)

	Private				Official		Total
	Bonds	Suppliers	Banks	Others	Multi-lateral	Bi-lateral	
1965-1966							
Peru	5	40	8	3	23	21	100
Latin America	8	20	9	3	23	37	100
1975-1976							
Peru	-	11	45	3	11	30	100
Latin America	4	9	39	5	21	22	100

Source: Inter-American Development Bank, External Public Debt of the Latin American Countries, Washington, D.C. 1978.

Note: Data are not perfectly compatible with figures in table 7 and figure 1.

a/ Disbursed and undisbursed debt with maturity of more than 1 year.

From the table it is clear that at the beginning of the period under study the primary sources of finance for Peru were private and commercial, accounting for 56% of all public obligations. In contrast, for Latin America as a whole private commercial sources accounted for only 40% of the region's debt. Thus Peru, despite being a relatively poor country, by the mid-1960s already had an unusually "commercialized" external debt with the accompanying "hard" terms; concessionary official finance played a secondary role, accounting for only 44% of all obligations. For Latin America, however, concessionary sources of finance dominated the financial scene, as displayed in their 60% participation in the region's external debt.

In the mid-1960s most of Peru's private funds came from commercial goods suppliers who held some 40% of all obligations, a representation that was double the figure for the region; and significantly, at this time commercial banks were minor lenders to both the governments of Peru and the region.

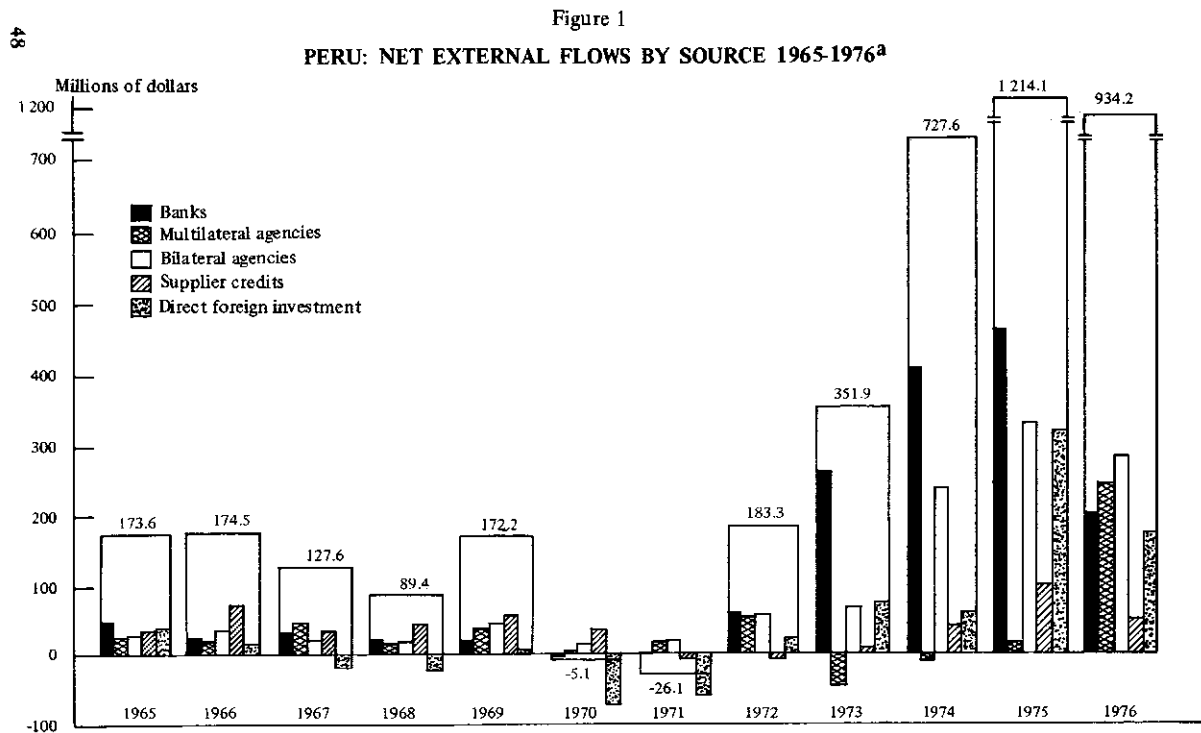
Over the 12 years, for Peru private commercial sources of finance continued their dominant role; however, there was a fundamental structural shift in the individual sources of supply. As shown in table 12, by the end of the period commercial banks were holding 45% of the country's debt, while the suppliers' portion had shrunk to 11%. Overall, private sources accounted for nearly 60% of all outstanding obligations at the end of the period. Similarly, the participation of banks in the external debt of the region increased dramatically over the period. However, in contrast to Peru the use of commercial banks was not at the expense of foreign commercial suppliers, but official sources of finance. Also, the relative increase in the importance of the banks was less pronounced for the region than for the government of Peru.

The above clearly displays a general shift to commercial bank finance over the period 1965-1976. In the case of Peru, one can trace the shift by reviewing the annual data on net external financial flows to the government that are presented in figure 1. While these data are not directly comparable to the external debt figures already presented, they provide an adequate indication of how and when the shift took place. In order to provide a complete picture of the play of forces among the various types of finance, the figure also incorporates the annual net flows of foreign direct investment.

Data confirm that during 1965-1968 the principal sources of finance were commercial suppliers' credits. However, the fact that net flows from commercial banks were as significant, and in some cases more significant, than official finance means that the banks were gaining importance with respect to the relatively minor role attributed to them at the outset of the period. As for flows of direct foreign investment, they made an important financial contribution only in 1965; net inflows were marginally positive in 1966 and were negative in 1967-1968. When viewed as a whole, total flows averaged 141 million dollars per year in 1965-1968, although this figure is biased downward by the unusually small amount of finance realized in the last year.

During the period 1969-1971, the most notable feature is the negative flows of finance. While total flows were strongly positive in 1969 - reflecting disbursements on prior commitments - they averaged a negative 16 million dollars in 1970-1971. In these latter two years net financing from all sources was marginal, with direct foreign investment registering significant negative balances due to divestment.

As shown in the figure, there was a general recovery in finance in 1972, which coincided with the reactivation of public sector activity. It also was the year in which finance clearly began to shift in favor of commercial banks. Indeed, between 1973 and 1975 commercial banks dwarfed all other



Source: ECLA, on the basis of data provided by the MEF.

^aWith the exception of direct foreign investment, all flows relate to the public sector and include national defense transactions.

sources, with some balance among sources restored only in 1976. In this same period bilateral finance and direct foreign investment were of some significance. However, suppliers' credits ceased to be an important source of finance and multilateral flows - negative in 1972-1974 - became significant only in 1976.

Leaving aside for now the qualitative implications of the shift towards commercial bank finance, it is of interest to examine the impact that the reliance on banks had for government finance.

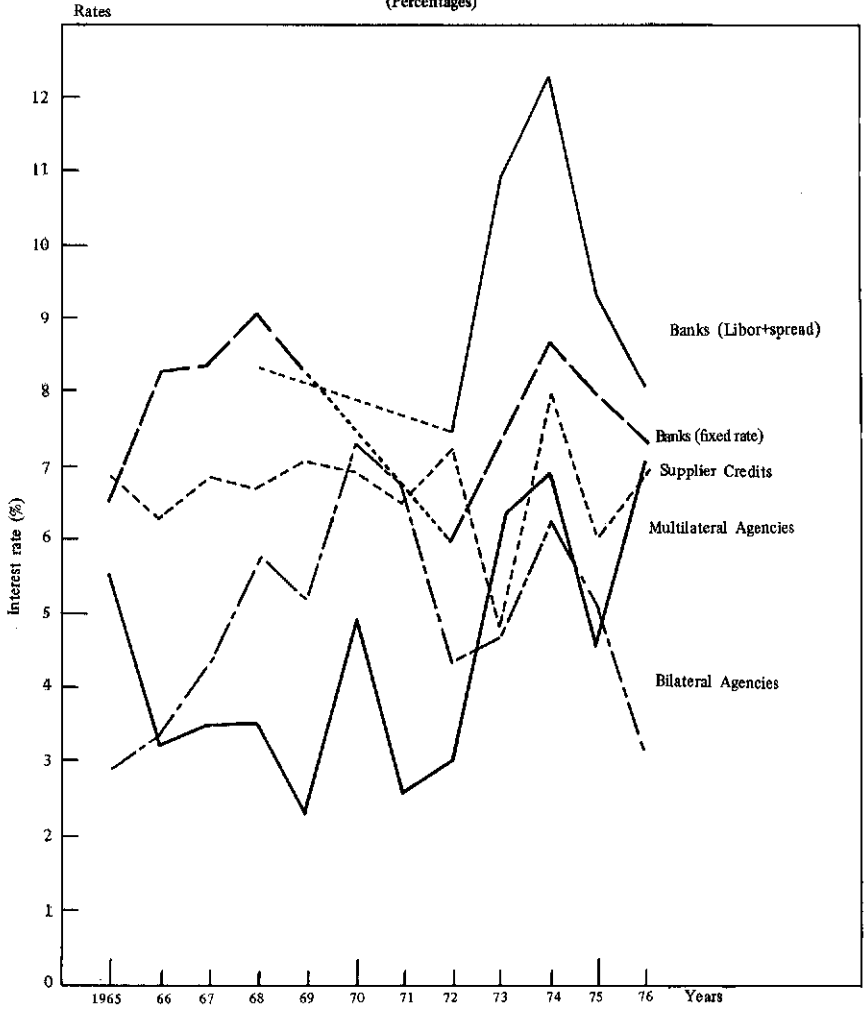
With regard to the cost of credit, the shift to banks pushed the government into the highest echelon of interest rates. This is clear from figure 2 which presents the average interest cost of the various types of foreign loans. By moving out of suppliers' credits and into bank loans the government gave up intermediate rates of interest for the highest possible rates. Moreover, the differential rate between banks and suppliers' credits was by no means marginal. Of course, the difference with respect to official finance was of even greater magnitude.

Another result of the shift to commercial bank finance was shorter repayment terms. By viewing figure 3 one can see that banks had the shortest available maturities. Again by shifting from suppliers' credits to banks, the government moved away from an intermediate tenor to the short end of the maturity spectrum. The weight of repayment terms was further aggravated by the fact that over the 12 years there was a noticeable shortening of maturities of official agencies.

Thus it is evident that during 1965-1976 the role of commercial banks in public sector external finance took a dramatic leap, with the shift taking place most notably around 1972. Unlike the experience of many developing countries which increased their reliance on bank finance in the 1970s, the shift was not from official sources to banks, but from suppliers' credits to banks. The higher profile for commercial lending institutions meant that the bulk of government finance carried the hardest credit conditions as opposed to the nominally (see below) intermediate terms that suppliers offer. The weight of credit terms also was aggravated by a noticeable stiffening of conditions on official credit.

Notwithstanding the impact of the shift to banks on the average terms of credit, it is by no means certain that Peru was worse off as a result. It is true that suppliers' credits commonly had average maturities of between 7 and 14 years and fixed interest rates of between 6 and 7 per cent - far softer than bank credit. But these terms severely understate costs in as much as additional margins probably were hidden in the purchase price of the goods financed and the charges for accompanying services. There also were implicit costs in having finance tied to specifically-sourced goods. In contrast, bank finance generally was not linked to specific foreign

Figure 2
PERU: AVERAGE RATES OF INTEREST ON LOANS, 1965-1976^a
 (Percentages)

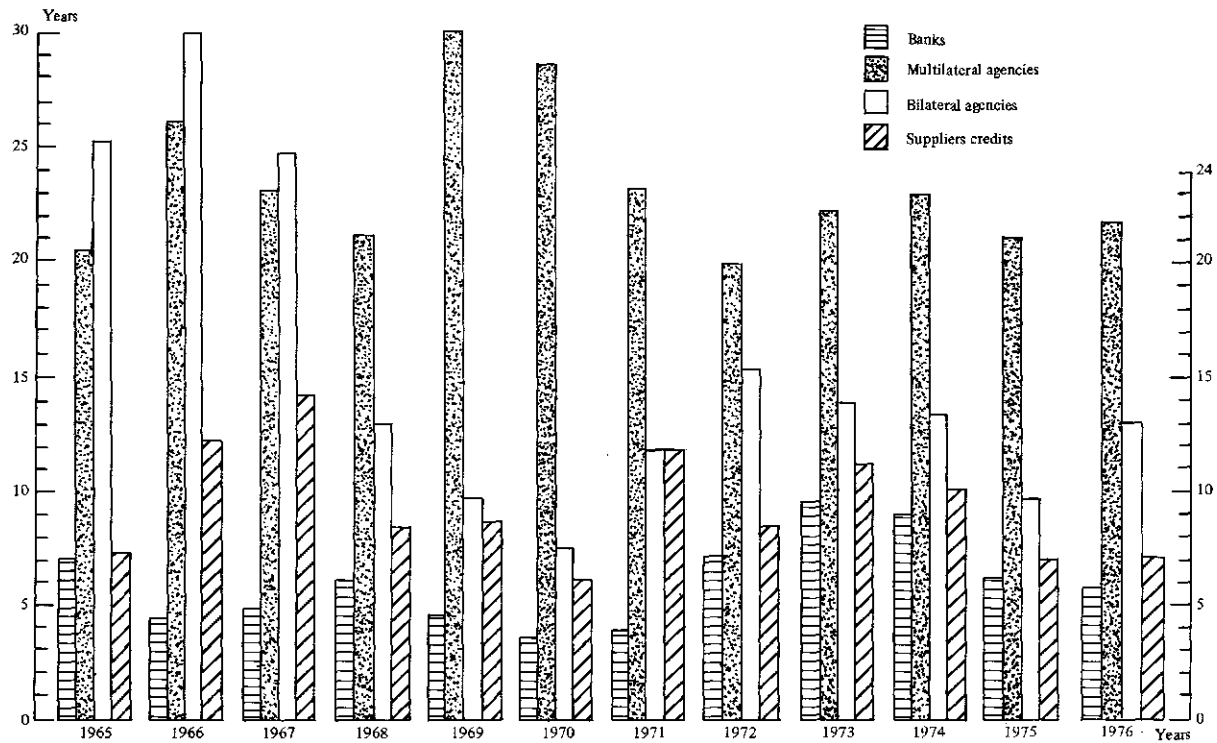


Source: ECLA, on the basis of data provided by the MEF.

^aAll loans to the public sector, including national defense transactions.

Figure 3

PERU: AVERAGE TOTAL MATURITY ON LOANS BY SOURCE^a



Source: ECLA, on the basis of data provided by the MEF.

^aAll loans to the public sector, including national defense transactions.

suppliers; indeed, it largely was not tied to foreign purchases at all. This in turn introduced new flexibility into the finance of development. It would seem, then, that all one can really conclude about the shift to banks is that a relatively poor country remained under the yoke of inappropriately burdensome commercial sources of finance.

B. FACTORS UNDERLYING THE BEHAVIOR OF SUPPLY

After having traced the shift to commercial banks, the next step is to attempt to explain why the various sources of supply behaved the way they did.

The response from the supply side is, of course, derived from a number of forces. On the one hand, the government must select a particular source of finance. While selection is undoubtedly based on a desire to secure the most favorable terms possible, more often than not availability is the overriding concern for a developing country. And availability is determined by many factors, including the credit institutions' perception of risk, its liquidity position, political motivation, marketing strategies, etc.; even personal rapport between government officials and key persons who control or influence decisions in credit institutions can be relevant. The following paragraphs will attempt to analyse in a brief way the factors underlying the behavior of the principal sources of supply.

1. 1965 - 1968: Dependence on Suppliers' Credits

As already shown, this was a period in which suppliers' credits dominated sources of supply. The government took recourse to these funds largely because of a lack of availability of more appropriate types of finance.

In Chapter III, one saw that the public sector at this time was small and relatively unsophisticated by the Latin American standards of the period in question. The situation was reflected in the fact that officials were not particularly experienced in the preparation of proposals for project loans from international agencies; criteria for proposals were relatively stringent and apparently proved taxing to the limited capacity of the public sector. ^{177/} In contrast, commercial suppliers, eager to sell their equipment, asked few questions about the merits of projects and proved to be a very elastic source of finance. Thus the government embarked on a program of capital intensive investments - the SOGESA steel mill was a large absorber of foreign funds - that easily attracted credit from commercial suppliers.

Another factor of import behind the recourse to suppliers' credits was that the U.S. Agency for International Development (AID) - than a major source of long term concessionary finance to Latin America - had variously frozen or delayed credit through most of the 5-year term of the government. 178/ Almost as soon as it came into power, loans to the new government were delayed as part of a policy designed to ensure a "satisfactory" settlement of the dispute over the IPC. Curiously, for nearly 3 years there never was an official reason given for the slowdown in loans. 179/ Not until early 1966 did an official statement appear about the freeze; however, shortly thereafter aid was officially renewed when Peru provided assurances that it did not intend to expropriate the IPC. 180/ Unfortunately, the program did not last long as the next year AID loans were once again frozen, because of a much publicized dispute stemming from the fact that the Peruvian government bought supersonic jets from France after having faced long delays in the approval of a request to purchase less sophisticated American aircraft. 181/

The net effect of hegemonic politics during the period was to blackball Peru from one of the more importance sources of long term credit in the 1960s. As displayed in table 13, AID's assistance to Peru was far below that granted to other countries. Ironically, it was the new Peruvian government which had one of the social programs in Latin America that most closely mirrored the principles of the U.S. - sponsored Alliance for Progress.

Commercial bank medium term lending during the period - averaging about 30 million dollars per annum on a net basis - was not terribly large in absolute terms. However, as shown earlier it was of some significance relative to other sources of finance. Moreover, its importance far exceeded the relative and absolute amounts provided.

In the early Sixties commercial bank finance to the government was made up mostly of secured short term credits to the state development banks. 182/ But at the very end of 1964 the government secured a 40 million dollar 3-year loan from a group of New York banks to help close its fiscal gap. 183/

Table 13

COMMITMENTS OF USAID ASSISTANCE TO SELECTED
COUNTRIES, JULY 1963-JUNE 1968

	Total (millions of dollars)	Per capita (\$)
Brazil	1 067	12.5
Chile	346	40.1
Colombia	353	19.0
Peru	90	7.5
Dominican Republic	244	67.0
Nicaragua	73	43.2
Panama	88	69.3

Source: Reproduced from KUCZYNSKI, p. 125.

Peru, at this time having a liberal economic environment, free foreign exchange regime and a large number of investments by transnational enterprises, apparently was perceived as a comfortable enough risk - notwithstanding its fiscal problems - for the banks to extend what was for the period a relatively sizeable medium term commercial credit.^{184/} However, the term was very short and repayment ultimately proved to be burdensome to the budget.

In 1966, with fiscal problems intensifying, recourse to short term bank credit was considerable. The government also managed to refinance the balance due on the 1964 credit of 40 million dollars on 5-year terms, and it obtained an additional 12 million dollars as well. Then in 1967, with the fiscal situation in open crisis, a number of desperate short term bridge loans were arranged with commercial banks. In conjunction with the IMF accord the government also arranged a 40 million dollar 5-year general purpose budgetary loan. Then, in the chaotic period between the devaluation in late 1967 and the tax reform of June 1969, it was commercial bank short term bridge finance that helped to fill the fiscal gap. Finally, after the tax reform, commercial banks agreed to restructure (refinance) repayments on earlier budgetary loans over a 5-year period. Along with this finance the banks also agreed to provide some "standby" credits for the use of the government during the IMF stabilization program.

The credits just cited are by no means an account of all the bank transactions realized during the period; more detail on these is provided in Part II of the study. Here the

objective has been to demonstrate that, at the margin, bank loans played a key role in maintaining the fiscal accounts afloat, or looked at from another angle, they helped to postpone the need to take measures that would rectify the fiscal imbalance.

2. 1969 - 1971: A Financial Blockade

The last chapter pointed out that with the arrival of the new government in October 1968 there was a serious restructuring of relations with foreign capital. Foreign capital did not accept the measures passively and, in line with tradition, affected corporations sought to involve their home governments. Not surprisingly the U.S. government became involved; it introduced a series of measures to show displeasure with Peru's program to reorient foreign capital to national development objectives. One of the principal tools used was a financial blockade.

After the nationalization of the IPC, the U.S. threatened Peru with its Hickenlooper Amendment. The implications of the Amendment have been concisely explained by Levinson and De Onis:

To protect the interests of American companies abroad, Senator Bourke B. Hickenlooper, urged on by Harold Geneen, the president of IT & T, introduced an amendment to the Foreign Assistance Act of 1962. This amendment required the president to suspend all economic assistance to any country that expropriated the property of a U.S. company, repudiated a contract with a U.S. company, or made a U.S. company subject to discriminatory taxation or administration. Suspension of all forms of economic assistance included not just foreign aid, but such legislation as that allotting sugar quotas to favored nations. A country had six months in which to take "effective steps" to provide compensation for expropriated property in "convertible foreign exchange". Thereafter the president was allowed no discretion to waive enforcement of the amendment. 185/

In March 1969 the U.S. sent a delegation to Peru to discuss compensation for U.S. assets. It later agreed to defer implementation of the Amendment pending negotiations and court proceedings concerning compensation for the IPC.

But what the U.S. agreed not to do formally largely was done informally. It revoked Peru's sugar quota, suspended arms supplies and froze most bilateral financial programs (including Export-Import Bank loans). Moreover, the U.S. used its leverage in multilateral agencies to freeze credit from these institutions.

It is important to point out that the financial blockade was not as absolute as it would have been had the Hickenlooper Amendment been evoked. The Peruvian government, facing informal rather than official legal sanctions, attempted to place pressure on multilateral agencies to honor their commitments to Peru. Efforts were particularly intense at the Inter-American Development Bank (IDB) - where there was a high degree of homogeneity among member governments - and culminated in a Presidential speech at an annual IDB meeting in which multilateral agencies were blasted for being "used as an arm of political pressure" against member countries such as Peru. 186/ The initiative was somewhat fruitful at the IDB as a reasonable level of loan authorizations was maintained. 187/ Some loans also were approved by the U.S. government and the World Bank; however, reference to table 14, makes it is clear that authorizations by these latter two agencies were unusually scarce during 1968-1971.

The blockade clearly was costly to Peru. As manifest in table 15 net bilateral loans from the U.S. were negative during the period. Donations were unusually large in 1970, but they represented extraordinary acts of mercy designed to help the government overcome the damage of a massive earthquake which struck Peru early that year.

Table 14

PERU: FINANCIAL ASSISTANCE FROM THE UNITED STATES AND WORLD BANK SEPTEMBER 1968-DECEMBER 1971

Source	Date authorized	Amount (millions of dollars)	Purpose
World Bank <u>a/</u>	8-9-1970	30	Road construction
Export-Import bank <u>b/</u>	8-9-1970	4.3	Hercules aircraft
Other United States <u>c/</u>	29-6-1971	3.0	Community development

Sources: World Bank: Statement of Loans, May 31, 1977.
 EXIMBANK: Statement of Loans, June 30, 1976
 Other: United States AID Statement of Loans, November 1974 and United States Department of Treasury. Foreign Credits, (June 30, 1973).

a/ Includes IFC.

b/ Direct loans only.

c/ Excludes Commodity Credit Program.

Table 15

PERU: BILATERAL FINANCE ACCORDING TO SOURCE, 1965-1976 ^{a/}
(Millions of dollars)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
United States	24	30	12	14	-1	-5	1	46	35	-13	12	37
Europe	9	8	11	8	45	7	-8	-11	-9	-4	43	40
United Kingdom	(-)	(-)	(1)	(1)	(-)	(-)	(-)	(-)	(-)	(3)	(14)	(18)
Germany	(3)	(4)	(8)	(5)	(29)	(-4)	(-9)	(-8)	(-12)	(-6)	(-)	(4)
France	(-)	(-)	(-)	(1)	(4)	(5)	(7)	(-1)	(-3)	(-6)	(-13)	(2)
Japan	-	-	-	-	-	-	-	8	34	169	153	62
Centrally planned	-	-	-	-	-	-	-	7	5	52	61	88
Canada	-	-	-	-	3	13	9	2	6	19	28	13
Other	-	-	-	-	-	4	16	4	-6	14	28	39
<u>Subtotal b/</u>	<u>35</u>	<u>37</u>	<u>23</u>	<u>22</u>	<u>47</u>	<u>19</u>	<u>19</u>	<u>55</u>	<u>65</u>	<u>237</u>	<u>323</u>	<u>279</u>
Donations	24	28	32	37	31	82	39	39	42	48	49	58
<u>Total</u>	<u>57</u>	<u>65</u>	<u>55</u>	<u>59</u>	<u>78</u>	<u>101</u>	<u>58</u>	<u>94</u>	<u>107</u>	<u>285</u>	<u>372</u>	<u>337</u>

Source: Table 2 of the Statistical Appendix.

^{a/} Net flows.

^{b/} May not sum properly because of rounding.

Table 16 shows that disbursements from the World Bank also were minimal for the period; moreover, the lack of authorizations during 1969-1971 contributed to the very low level of disbursements in succeeding years. The only buoyant source of loan disbursements, the IDE, was the focal point of Peruvian resistance to the blockade.

With respect to suppliers' credits, there is little empirical evidence to explain why they behaved the way they did. But it is of no coincidence that net flows from U.S. suppliers were negative in 1969-1971 (see table 17). The negative attitude of the U.S. government and difficulty in obtaining official export credit guarantees from its agencies undoubtedly discouraged credits from this source. Also, well-publicized investment disputes would have adversely affected the willingness of suppliers to extend unsecured external credit. Finally, as can be appreciated from the last chapter, the period was dominated by stabilization efforts. Thus investment activity was restrained and opportunities for "tied" external finance were commensurately reduced.

It has been demonstrated that during this period commercial banks provided practically no new credit to the government. As noted in the previous chapter, many major

international banks had links with nationalized firms and it certainly would not be unreasonable to assume that the restrictive attitude on credit was related to Peru's treatment of foreign investors. Indeed, as the study will show, certain banks were openly hostile to the government. However, without greater investigation it would be heroic to implicate all Peru's commercial bank creditors in the blockade; presumably some lenders could have been simply responding to objective circumstances. It must be remembered that banks generally were very cautious lenders to developing countries in this period. Not only was the public sector's external debt clearly burdensome, but there was great uncertainty about the government's treatment of foreign capital and the general direction of the economy. Moreover, far-reaching reforms were introduced and the nature of public policy was clearly interventionist, in contrast to the banks' ideological preference for free market economics. Furthermore, for U.S. banks, no loans guarantees could be secured because the doors of the Export-Import Bank were closed to Peru. Thus, a cautious attitude could have been expected even in the absence of a blockade, making general bank involvement in the affair somewhat problematical.

Table 16

PERU: MULTILATERAL FINANCE ACCORDING TO SOURCE, 1965-1976 a/
(Millions of dollars)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
IBRD	14	14	15	3	5	2	4	2	-	-2	68	11
IDB	11	8	10	12	10	16	20	21	10	6	9	10
CAF	-	-	-	-	-	-	-	-	-	-	-	-
IMF	-	-	22	4	25	-9	-7	30	-58	-17	-	220
Total <u>b/</u>	<u>25</u>	<u>22</u>	<u>48</u>	<u>19</u>	<u>40</u>	<u>9</u>	<u>17</u>	<u>54</u>	<u>-49</u>	<u>-12</u>	<u>76</u>	<u>241</u>

Source: Table 2 of the Statistical Appendix.

a/ Net flows.

b/ May not sum properly due to rounding.

Finally, it should be mentioned that the banks did reluctantly go along with the authorities' request in 1969 for a refinance of 1970-1971 obligations; in fact, their options were limited in as much as official lenders had agreed to refinance their loans and credits could go unpaid if refinance was not forthcoming. Chapter X will show that the refinancing exercise was not very pleasant as commercial banks attached rather severe conditions to their loans.

Table 17

PERU: SUPPLIER CREDITS ACCORDING TO SOURCE, 1965 - 1976 ^{a/}

(Millions of dollars)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
United States	2	19	7	1	-7	-6	-3	8	-1	-	3	-5
Western Europe	27	38	21	48	65	18	-17	-30	-15	-9	35	31
United Kingdom	(1)	(-2)	(-2)	(3)	(5)	(2)	(1)	(-3)	(-4)	(2)	(1)	(-)
Germany	(-2)	(21)	(2)	(-10)	(-14)	(-9)	(-21)	(-11)	(-16)	(-17)	(-7)	(-5)
France	(21)	(-)	(-1)	(23)	(19)	(-4)	(-9)	(-7)	(-9)	(2)	(29)	(11)
Italy	(2)	(1)	(12)	(15)	(58)	(35)	(20)	(-3)	(16)	(-)	(3)	(9)
Japan	9	16	11	-2	1	-5	-4	-7	8	13	-6	-6
Centrally planned	-	-	-	-	-	-	-	8	22	44	65	7
Canada	2	-	-	-	-1	32	14	-2	-10	-6	-6	-6
Mexico	-	-	-	-	-	-	-	-	-	-	-	14
Other	-	1	1	1	-	1	1	15	2	-4	7	10
<u>Total b/</u>	<u>38</u>	<u>74</u>	<u>39</u>	<u>47</u>	<u>58</u>	<u>39</u>	<u>-8</u>	<u>-8</u>	<u>7</u>	<u>39</u>	<u>98</u>	<u>46</u>

Source: Table 6 of the Statistical Appendix.

^{a/} Net flows.^{b/} May not sum properly due to rounding.

3. 1972 - 1975: From Financial Famine to Financial Feast

In this period the pendulum changed and Peru actually became swamped with external credit. There were some special factors at play and it is worthwhile to treat them in detail.

a) The removal of the financial blockade

By 1972 there appeared clear signs that the U.S. was reformulating its position on Peru. Around mid-year U.S. foreign aid agencies approved new loans in an amount close to 28 million dollars (mostly for earthquake damage) and there were abundant food credits from the Commodity Credit Corporation. ^{188/} As further evidence of a thawing of the freeze, the IBRD convoked a consultative group meeting in Paris in which it declared Peru creditworthy (i.e., no longer in need of refinance) and formally supported the government's recently formulated development plan. It is clear why the U.S. was having second thoughts about the value of maintaining a hard line with the government: Peru had shown

that it had sufficient resolve to resist external pressures; European, Japanese and Soviet commercial/political interests had been actively penetrating the Peruvian economy - formerly an American preserve - and, perhaps most importantly, oil had been discovered in the Amazon, rendering the country potentially important to the U.S.'s global energy strategy. 189/

While steps were taken to remove the blockade in 1972, its effects lingered for several more years, with the consequent loss in terms of access to official credit. The World Bank actually did not renew the flow of credit to Peru until August 1973 when it approved an agricultural development loan of 25 million dollars. Meanwhile, the U.S. Export-Import Bank (Eximbank) - important both because of its own loans and the guarantees it provides private lenders - did not authorize a new credit until March 1974, and it was for the benefit of the U.S. Southern Peru Copper Corporation. The first Eximbank credit to the public sector was not authorized until August 1974, amounting to 1.4 million dollars to help support the purchase of two new Learjets.190/ Thus, the military government of Peru had suffered through a financial blockade of official finance of varying degrees of intensity for a period of nearly 6 years.

b) Diversification of sources of finance

Given that Peru encountered overt and disagreeable political conditions attached to U.S. foreign assistance during 1963-1968, and then again in 1969-1974, along with frequent loss of access to credit from international institutions, it comes as little surprise that authorities became interested in diversifying their sources of finance.191/ This is manifest in the fact that by 1972 the government was receiving finance from many non-traditional areas. According to table 15 now Japan, Canada and the Centrally-Planned Economies - of no importance in the Sixties - were major sources of finance. Pursuit of this strategy intensified in subsequent years, such that the U.S. share of bilateral loans to the government fell from over 77% in 1965-1966 to only 8% in 1975-1976. 192/

The same phenomenon occurred with respect to suppliers' credits (see again table 17). The most notable feature is that type of credit, which relative to other sources of finance was of less significance in the Seventies, became dominated by the Centrally-Planned Economies. Indeed, the greater role of these countries in both suppliers' credits and bilateral finance most symbolized Peru's program of diversification.

As it turned out, the key actors in the drive for diversification were commercial banks. Also, these institutions

constituted the principal factor behind the dramatic rise in external finance available to the government after 1971. While Part II of the study examines in detail the growing involvement of banks in the economy during the 1970s, as a form of introduction the more general trends can be sketched here.

c) Commercial banks: their penetration of the Peruvian market

In 1971 Peru faced a severe dilemma. The government had formulated an ambitious development plan designed to restructure the economy and generate rapid economic growth. Moreover, the public sector designated itself as the principal agent of development, sponsoring large investments in productive sectors. While much of the finance could be secured locally, foreign funds clearly were crucial to the implementation of the program. But the logical sources of supply of long term development loans-international and bilateral official agencies- were relatively inelastic, owing to the aforementioned financial blockade and the unfortunate institutional limits on funding from these organizations. Massive direct foreign investment on the terms that TNCs customarily demanded obviously was not compatible with public policy. Thus, officials viewed foreign commercial banks as a potential source of external finance.

Indeed, the government made some effort to court the banks' favor. As related in Chapter III, in the initial years of the reform period fiscal and monetary policy was conservative and the government maintained cordial relations with the IMF. In addition, commercial banks generally were not directly affected in an adverse way by the reforms on private capital; major banks could maintain their branches in Lima and those nationalized, such as Chase Manhattan, received rather generous settlements. Also, Chase, one of the most influential institutions in the world banking community, benefited from the decision to allow foreign private capital to develop Cuaajone.

Coincidental with Peru's desire to secure commercial bank finance was the maturation of the structural changes in international banking - already analysed in Chapter II - that eventually made these institutions more receptive to financing developing countries. By 1971 banks were actively courting developing country clients, and Peru eventually became caught up in the wave of new lending to these countries.

Bank lending began to take on importance in Peru in 1972. It is of little coincidence that the date of entry closely corresponded to a time when much publicity had been aired about petroleum in the Peruvian jungle. Moreover, banks undoubtedly were in a position to be informed about these developments because many of them had close corporate

ties with firms drilling in the jungle fields. But it should be pointed out that given the frantic nature of lending in the early Seventies, Peru probably would have become a client of the banks one way or the other.

The penetration of the Peruvian market by commercial banks was by no means homogeneous. At the outset of 1972 Peru's traditional commercial lenders of the Sixties (to be identified in the next chapter) continued to be very reserved about new loans to the government. However, some U.S. regional banks, and Japanese and European institutions had been aggressively seeking markets abroad in order to expand their international portfolios. They became attracted to Peru for three basic reasons: first there were the prospects of oil, and secondarily mineral, exports; second, these banks had little or no exposure in Peru, making the perceived risk of new credit all that more reasonable; and lastly, the government was prepared to pay very high interest rates in order to secure the credit and thereby break out of the straightjacket created by the aforementioned financial boycott. As the "newcomers" began lending to the government, most of Peru's traditional commercial bank creditors reacted defensively and attempted to match the amounts and terms of credit. Some traditional lenders, however, obviously piqued by Peru's reform government, continued to withhold new finance. Nevertheless, Peru soon became the focal point of a flurry of competitive lending among international bankers with trends usually led by the newcomers. When the Greene Accord was formalized in 1974 the remaining holdouts entered the market and intensified the competition. All this resulted in a very rapid growth in the volume of credit and a similarly rapid decline in its cost. 193/ By 1974 net disbursements of banking institutions had reached 400 million dollars, nearly 7 times the level recorded in 1972 (see again figure 1); the banks share of net flows of loan capital to the government rose over the same period from 34% to 61% of the total.

Furthermore, there is evidence that bankers were highly aggressive in their penetration of the Peruvian market. Unsolicited letters offering lines of credit on highly favorable terms were frequent as were foreign bankers' visits to Lima for the purpose of generating interest in new loans. 194/ At its zenith, offers for finance were intense; as one local financier remarked: "foreign bankers wanted to give us money before we asked for it". 195/

One has already seen that the public sector's debt control system was not constructed to resist internal pressures to borrow abroad; the aggressive attitudes of bankers between 1972-1974 further burdened the effectiveness of the control system. It comes as little surprise, then, that a country with a current dollar per capita income of only 800 dollars in 1974 196/ accumulated by the end that

same year 1.1 billion dollars in disbursed and committed medium term bank debt, 197/ equivalent to roughly 75 dollars per habitant. Relatively speaking, Peru also became important to the banks; by 1975 it ranked among the top 7 non-oil exporting developing countries that had borrowed from these institutions. 198/

Figure 1 reveals that despite the retrenchment of world banking in the first half of 1975, net disbursements from these institutions rose slightly that year. Much of this disbursement represents the forward momentum generated by the hectic pace of lending in earlier years. Subsequently, however, banks would take a much more restrictive attitude towards lending to the government.

4. 1976: Peru Loses its Creditworthiness

The newly conservative attitude of bankers engendered by the failure of Herstatt and other difficulties in the world economy in late 1974 and in 1975 continued to dominate international lending in 1976. Terms of loans remained very onerous and banks tended to favor countries that, in their view, pursued adequate adjustment of their balance of payments. Peru, of course, at this time clearly had severe external problems and it was relatively slow in taking measures to adjust the balances of payments, in part because of a desire on the part of an insecure government to avoid eroding perceived areas of domestic political support. The new economic team installed in September of the previous year apparently generated enough confidence in bankers to maintain the flow of commercial credit, albeit at levels considerably inferior to 1974-1975. Indeed, authorities convinced banks to extend 400 million dollars in support of the June stabilization program - and without the protection of an IMF standby agreement. This credit, however, proved to be end of the honeymoon between Peru and international bankers and subsequently relations between the two parties underwent serious deterioration. At the close of the period, Peru's disbursed and committed medium term external debt to banks had reached nearly 2 billion dollars.

Part II

THE CHARACTERISTICS OF COMMERCIAL BANK LOANS
AND THE NATURE OF BANK LENDING BEHAVIOR

Chapter V

BANK LENDING TO PERU: AN INTERTEMPORAL COMPARISON, 1965 - 1970 AND 1971 - 1976

Previous chapters have stressed the fundamental changes in the nature of commercial bank lending to developing countries during the decade of the Seventies. However, up until now analysis has been very general and has provided little insight into the specific characteristics of the change itself. The task of this chapter is to present a comprehensive empirical base that documents the transformation as applied to Peru. This in turn also will initiate the process of penetration of aggregate data that is the raison d'etre of the study.

In the following pages, through the use of an intertemporal comparison, analysis attempts to indicate how financial actors, relationships and functions altered radically between 1965 - 1970 and 1971 - 1976. The former time frame is reflective of a traditional period when bankers' interests basically focused on the industrialized countries and medium term lending to developing countries was an exception rather than a rule. Banks involved in Peru prior to 1971 then may be considered the country's traditional lenders. The second period, of course, is reflective of the effects of the boom years of world banking when a wholesale expansion into markets of developing countries occurred. Here the stage is shared between the traditional banks of the first period and the aggressive newcomers of the 1970s. One will see that the changed environment also brought fundamental changes in relationships and in lending activities.

Before pursuing analysis, it should be made clear what the scope and limitations of the chapter are. As stated above, the main goal is to document the characteristics of bank lending in the two periods in question. While this does not preclude analysis of the factors underlying trends in lending, the latter element should be viewed as of secondary importance to the exercise and explains why examinations of this sort may not be as tight and elaborate as some readers might wish to see.

As far as the material itself, the ensuing analysis

will identify which banks have lent to Peru in the two periods; the various modes of credit extension; how interest rates, maturities, commissions and penalties on their loans evolved; the relative importance of the various types of loans (e.g. projects, refinance, free disposition, etc.) in total lending as well as the terms carried by each; where loans were booked by the banks; currencies employed; and the degree to which restrictive legal clauses such as waivers of sovereign immunity and local legal jurisdiction were employed in loan agreements.

A. THE ACTORS: PERU'S PRINCIPAL COMMERCIAL LENDERS

Table 18 displays the government's principal lending banks for the periods 1965-1970 and 1971-1976. Institutions are divided into six groups according to the relative importance of the banks, using as a criterion the gross amount of all authorizations for each period. 199/

Several things are immediately apparent about the data within and between periods.

In the earlier period, the predominant lending institutions were almost exclusively from the United States. This is evident from the fact that of the first 5 of the 6 groups of commercial banks, only one bank was of a non-U.S. character - the Bank of Nova Scotia of Canada.

Another characteristic of the period is that Peru's commercial lenders tended to be large in size. Major lenders (groups 1-3) were clearly superbanks, ranking among the top 22 of the world's largest banks. Moreover, all these institutions were relatively well-experienced in international lending and could be called money center banks, i.e., institutions at the hub of world commercial finance. Those banks of intermediate importance as lenders also were relatively large in size, ranking between 39 and 78 in the top 300 of world banking. However, unlike the major lenders, these institutions generally were not at the vanguard of international finance at this time.

A final observation that one can make about this first period is that a handful of institutions were responsible for the bulk of the lending. As shown in table 19 the six U.S. superbanks in the top 3 groups accounted for over 70% of the total value of commercial bank credit authorized in the period. Thus, the public sector displayed a high degree of dependence on a few key U.S. institutions. This situation probably manifests an unsophisticated borrower content with a cozy relationship with a coterie of convenient and familiar institutions. Indeed, Kuczynski has stated that in the 1960s the public sector was unfamiliar with non-U.S. banks and visa versa. 200/

Turning to the second period, 1971-1976, there clearly was a dramatic change in the sources of private bank credit.

Table 18 indicates that in terms of major lenders, groups 1-3 continue to be dominated by very large U.S. banks. However, Bankers Trust and Continental-Illinois, major lenders in 1965-1970, slipped to an intermediate level of importance in 1971-1976. There also is a newcomer to the group of major lenders-Wells Fargo. The role of this bank in Peru's finance is very important and will be discussed in greater detail as the study progresses.

While the group of major lenders in 1971-1976 is still - with the exception of Wells Fargo - from the same club of U.S. money center banks that stood out as important lenders in the earlier period, the intermediate groups of lenders (4 and 5) are characterized by many new actors and a much greater degree of geographical dispersion. The only banks from the intermediate group of 1965 -1970 that maintained their relative importance in the second period are Crocker National Bank, the Bank of Nova Scotia, and Franklin National (which no longer exists due to bankruptcy in 1974). However, it is significant that they are joined by many other banks from the U.S., Canada, Japan, Europe and even one bank from South America. The one characteristic that is common to the two periods is that the banks in the intermediate group continue to be rather large in size; with the exception of the National and Commercial Banking Group, Bancal Tristate Corporation, Banque Francais du Commerce Exterieur, American Express and First Pennsylvania Corporation, all the banks are within the top 79 of world banking.

With regard to minor lenders (group 6) their number increased dramatically, from only 15 banks in 1965 - 1970 to 131 banks in 1971 - 1976. There is probably no better indicator than this of the massive transformation of banking in the decade of the Seventies.

Perhaps the most dramatic change between the two periods is that unlike 1965 - 1970, when the major lenders also were responsible for the bulk of total credit (72%), in 1971-1976 these same lenders accounted for only 23% of the total loans authorized (see table 19). The massive influx of new actors in the 1970s whose lending was of an intermediate or minor importance at the institutional level, in the aggregate accounted for more than three-fourths of the value of all loans in the period. Intermediate lenders accounted for 47% of total authorizations, compared to only 17% in 1965 - 1970. Meanwhile, the 131 banks categorized as minor lenders - some of whose authorizations did not exceed 1 million dollars for the period - as a group accounted for nearly a third of total lending, compared to only 11% in the 1960s. Thus, in the changed environment of the 1970s important lending came from many new sources.

Table 18

PERU: MAJOR COMMERCIAL BANK LENDERS GROUPED ACCORDING TO THE AMOUNT AUTHORIZED, 1965-1970 AND 1971-1972^{a/}

1965-1970			1971-1976		
Lendings banks and amounts authorized in millions of dollars ^{b/}	Country headquarters of bank	International ranking of bank ^{c/}	Lendings banks and amounts authorized in millions of dollars ^{b/}	Country headquarters of bank	International ranking of bank ^{c/}
<u>Major lenders</u>					
1. <u>>45 and <55</u>			1. <u>>123 and <150</u>		
Bankers Trust	United States	11	Citicorp	United States	2
Citicorp	United States	2			
Manufacturers Hanover	United States	5			
2. <u>>35 and <45</u>			2. <u>>95 and <123</u>		
Chase Manhattan	United States	3	Manufactures Hanover ^{d/}	United States	16
Continental Illinois	United States	22	Wells Fargo	United States	69
3. <u>>25 and <35</u>			3. <u>>68 and <95</u>		
Bank of America	United States	1	Bank of America	United States	1
			Chase Manhattan	United States	4
<u>Intermediete lenders</u>					
4. <u>>15 and <25</u>			4. <u>>41 and <68</u>		
Bank of Nova Scotia	Canada	47	Bank of Nova Scotia	Canada	53
			Bankers Trust	United States	32
			Continental Illinois	United States	30
			Morgan Guaranty	United States	19
			Crocker National Bank	United States	79
			Dresdner Bank	Germany	14
			Banco do Brasil ^{e/}	Brazil	12
			Royal Bank of Canada	Canada	22
5. <u>>6 and <15</u>			5. <u>>16 and <41</u>		
Charter New York Corp.	United States	39	Banca Comercial Italiana	Italy	24
Crocker National Bank	United States	48	Bank of Tokyo	Japan	28
First National Bank of Boston	United States	59	Lloyds Bank	United Kingdom	31
Franklin National Bank	United States	78	Franklin National Bank	United States	...
National Detroit Corp.	United States	57	Union Bank of Switzerland	Switzerland	41
			National and Commercial Banking ^{f/}	United Kingdom	102
			Banca Tffistate Corp.	United States	199
			Banca Nazionale de Lavoro	Italy	20
			Long Term Credit Bank of Japan	Japan	44
			Credit Lyonnais ^{f/}	France	7
			Benque Francaise du Comm. Exterieur ^{f/}	France	174
			Canadian Imperial Bank of Commerce	Canada	29
			Fuji Bank	Japan	13
			Amro Bank ^{f/}	Holland	48
			First Pennsylvania Corp.	United States	106
			Deutsche Bank	Germany	6
			Bank of Montreal	Canada	45
			Chemical Bank	United States	23
			First Chicago Corp.	United States	35
			Security Pacific Corp.	United States	54
			Commerzbank A.G.	Germany	26
			American Express Int.	United States	223
			Toronto Dominion Bank	Canada	66
<u>Minor lenders</u>					
6. <u><6</u>			6. <u><6</u>		
See table 10 in the statistical appendix for the names of the 15 banks in this group			See table 11 in the statistical appendix for the names of the 131 banks in this group		

Source: ECLA, on the basis of official data.

a/ For credits with and without an export credit guarantee.

b/ The range of authorizations in each group is different for the two periods due to the much greater value of loans in 1971-1976. However, the scaling of the values for each group has been done in such a way that 1971-1976 is roughly proportional to 1965-1970.

c/ Ranked on a scale from 1-300 in world banking. Size is based on assets; 1965-1970 uses asset size for 1969 as published in The Banker, June 1970, p. 996; 1971-1976 uses asset size for 1975 as published in The Banker, June 1976, p. 645.

d/ If credits with export credit guarantees are excluded, would fall into group 3.

e/ If credits with export credit guarantees are excluded, would fall into group 5.

f/ If credits with export credit guarantees are excluded, would fall into group 6.

Table 19

PERU: DISTRIBUTION OF TOTAL AUTHORIZATIONS AMONG MAJOR, INTERMEDIATE AND MINOR LENDERS, 1965 - 1970 AND 1971 - 1976 a/

(Percent)

	Major lenders	Intermediate lenders	Minor lenders	Total
1965 - 1970	71.7	17.4	10.9	100
1971 - 1976	23.0	46.8	30.2	100

Source: CEPAL, on the basis of official data.

a/ Lending groups correspond to those of table 18.

The much greater importance of intermediate and minor lenders as agents of finance could suggest greater independence for Peru as a borrower. This is undoubtedly true to some degree. However, as will be demonstrated in the next chapter on syndication, one can overstate the degree of independence by merely focusing on the number of individual actors in Peru's external commercial finance.

1. Grouping banks according to country of origin

Shedding more light on the subject is table 20, which views the sources of commercial lending from the angle of the country of origin of the lending bank; in addition, for each country group one finds data on the corresponding number of lending institutions, their average size, and the number of credits extended for the period.

These data confirm the overwhelming presence of U.S. banks in Peru's commercial finance in the mid - and late - 1960s. Fully 86% of the value of all loans came from banks whose home office was located in this country. The lending was derived from 14 institutions, equivalent to slightly more than half of the total number of banks lending to Peru in the period. Moreover, given the concentration of lending in the hands of a few very large banks, the weighted average size (ranked by assets) of U.S. institutions relative to the top 300 in world banking was a very large 5.

The only other country with a significant presence was Canada, whose commercial banks numbered three and accounted for 8% of the loans authorized.

Altogether there were 27 lending institutions for the first period, and due to the dominance of big U.S. institutions,

Table 20

PERU: COMMERCIAL BANK AUTHORIZATIONS ACCORDING TO COUNTRY OF ORIGIN,
1965-1970 AND 1971-1976 a/

Country of banks	Percentage of total loans authorized	Number of institutions <u>b/</u>	Average Number of size <u>c/</u>	credit transactions
<u>1965-1970</u>				
United States	86.1	14	5	49
Japan	0.1	1	26	1
Canada	7.8	3	42	5
United Kingdom	1.5	2	74	5
Germany	1.1	1	14	1
France	-	-	-	-
Italy	1.0	1	25	3
Switzerland	-	-	-	-
Other	-	-	-	-
Consortium	1.0	2	301 <u>c/</u>	2
Unknown <u>d/</u>	1.2	3	...	5
<u>Total</u>	<u>100.0</u>	<u>27</u>	<u>5</u>	<u>71</u>
<u>1971-1976</u>				
United States	45.3	42	17	196
Japan	11.6	26	41	160
Canada	10.2	6	46	61
United Kingdom	6.5	11	54	41
Germany	6.4	11	18	27
France	4.3	8	43	39
Italy	2.1	8	30	24
Switzerland	2.5	7	54	15
Other	7.5	24	53	58
Consortium	3.5	23	301 <u>c/</u>	48
Unknown <u>d/</u>	0.2	1	...	3
<u>Total</u>	<u>100.0</u>	<u>167</u>	<u>27</u>	<u>672</u>

Source: CEPAL, on the basis of official data.

a/ All credits, i.e., with and without guarantees of an export credit agency.

b/ Subsidiaries have been consolidated into parent.

c/ Ranked according to asset size on the basis of The Banker's top 300 in world banking. The period 1965-1970 uses asset data for 1969 and 1971-1976 uses asset data for 1975. The country average was calculated by weighting the asset size of each bank in dollars by the amount authorized in each period. The resulting average asset size was then assigned a rank according to where it placed in the top 300 of The Banker. A rank of 301 is used to indicate an average asset size too small to be ranked in the top 300. Banks whose origins are unknown, of course, received no ranking and do not figure in the overall averages. Since the number of unknown banks bear an insignificant weight, the absence of these banks in the ranking exercise had little effect on results.

d/ Banks whose national origin could not be identified.

the weighted average size corresponded to the same size as that of the U.S. banks.

The 1970s witnessed a much greater dispersion of lenders. The total number of lending institutions rises to 167, six times the number of participating institutions in the 1960s. Reflecting the greater number of banks of all sizes, the average international rank of lending institutions falls from 5 to 27. A rank of 27, however, indicates the continued importance of large institutions.

Likewise, the weight of U.S. banks in total authorizations declines by nearly half, while Japan, the United Kingdom, Germany, France and "other" areas take on much higher profiles. Notwithstanding more geographical dispersion, the U.S. participation remains 4 times the size of the next most important country group (Japan). Thus, the U.S. continued to dominate with the difference that concentration was considerably less marked and was spread among 42 instead of just 14 institutions. 201/

As an aside it is interesting to note that the nature of the role of U.S. banks is at least partially consistent with the general notion that in the 1960s commercial banks basically followed national trade and investment flows. The overwhelming dominance of U.S. institutions in 1965-1970 conforms with the high profile of American firms as investors in Peru - as commented upon in Chapter III - 80% of all foreign direct investment originated in the U.S. This country also was a metropole for trade, being a source of some 40% of Peru's exports and 37% of its imports. The maximum trade captured by any other country was slightly more than 10% (see table 21). If traditional patterns were followed, U.S. banks dominated the servicing of trade and investments of American firms with Peru. Thus, the Peruvian market was highly familiar terrain to some U.S. banks. Not only would familiarity favorably affect perceptions of risk, but lending to the government could thus be deemed as consistent with protecting the business of corporate clients and therefore the business of the banks themselves. 202/

The reduction in the role of U.S. lending institutions in 1971-1976 is in line with their lower profile in investment and trade in the period. Although it would be difficult to empirically position the U.S. as investor in Peru, it is felt that divestment in the reform period, coupled with increased activity of European and Japanese firms, provided for greater geographical dispersion in the sources of foreign investment. Table 21 also reveals a significant decline in the U.S.'s trade share. However, two factors suggest that forces other than trade and investment influenced the behavior of bank flows: (i) the decline of the U.S.'s share of lending is much more pronounced than its reduced role in trade and probably more severe than any decline that may have occurred in its share of foreign investment; and (ii) the

Table 21
 PERU: DIRECTION OF TRADE
 (Percentage)

Country	1965-1968		1972-1975	
	Exports	Imports	Exports	Imports
United States	40	37	32	32
Japan	12	7	14	10
Germany	11	12	8	11
France	2	2	2	2
United Kingdom	3	5	3	4
Canada	-	3	-	4
Other	32	34	41	37
<u>Total</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

Source: CEPAL on the basis of official data.

relative change in importance of Japanese and European countries as commercial lenders generally is not proportional to the behavior of their shares in trade. (No data are available on investment flows.) These trends would support analysis presented in Chapter II that established conditions in which banks in the early 1970s expanded lending to developing countries, and Peru, for its own sake, i.e., the principal consideration was development of an international portfolio and not service or protection of business with home country non-financial corporations.

2. Grouping Banks According to Their Size

Mention has been made several times of the size of the banks lending to Peru. In order to clarify this point it is useful to view separately how gross authorizations were distributed among banks when they are grouped according to their size. Table 22 provides such information by breaking out total authorizations according to eight groups of banks, where each group represents a range of total assets denominated in U.S. dollars.

The table contains impressive evidence of Peru's dependence on large commercial banks. In 1965-1970, 78% of the total value of authorizations derived from banks in the two largest ranges of assets, which were equivalent to numbers 1-38 in the international rankings. In the second period, 1971-1976, 59% of the gross value of authorizations came from

Table 22

PERU: COMMERCIAL BANK AUTHORIZATIONS ACCORDING TO THE ASSET SIZE OF BANKS, 1965-1970 AND 1971-1976

Asset range a/ (millions of dollars)	Equivalent world rank (1-300) b/	Number of banks in study	Percent of credits c/
<u>1965-1970</u>			
1. 25 573 - 12 787	(1- 5)	3	33.2
2. 12 786 - 6 394	(6-38)	10	44.6
3. 6 393 - 3 197	(39-76)	6	16.2
4. 3 196 - 1 599	(77-137)	2	2.9
5. 1 598 - 800	(138-264)	1	0.9
6. 799 - 706	(265-300)	-	-
7. < 706	(> 300)	1	0.8
8. Unknown size		4	1.5
<u>All banks</u>		<u>27</u>	<u>100.0</u>
<u>1971-1976</u>			
1. 65 789 - 32 895	(1- 10)	8	17.6
2. 32 894 - 16 448	(11- 46)	34	40.9
3. 16 447 - 8 244	(47- 91)	25	18.5
4. 8 223 - 4 112	(92-147)	24	7.7
5. 4 111 - 2 056	(148-263)	21	6.9
6. 2 055 - 1 634	(264-300)	4	0.7
7. < 1 634	(> 300)	26	5.1
8. Unknown size		25	2.6
<u>All banks</u>		<u>167</u>	<u>100.0</u>

Source: CEPAL on the basis of official data.

a/ While the asset range for the two periods involve different dollar values, the range for 1971-1976 is scaled in a manner which is proportional to 1965-1970. The asset range for 1965-1970 is from balance sheet data for 1969 and the range for 1971-1976 reflects data for 1975.

b/ The world ranks are on a scales of 1-300 and correspond to the asset range for each period. Based on The Banker ranking of the top 300 in world banking for the years 1969 and 1975, respectively.

c/ All credits, i.e., with and without guarantees of export credit agencies.

the top two groups, this time equivalent to numbers 1-46 in the international rankings. 203/ Thus large institutions clearly dominated commercial lending to the government.

One may appreciate, however, some significant differences between the periods. In 1971-1976 there are many more institutions in the first two ranges of assets; for 1965-1970 there are 13 banks in groups 1 and 2, representing nearly 50% of all lenders, while in the second period the two top groups incorporate 42 banks that represent only 25% of all institutions. Likewise, in the second period the intermediate - and small - sized banks are of relatively more importance, both in terms of their number and the value of their authorizations.

In the 1970s, then, there clearly was greater dispersion of lending, both within the group of large banks and among the groups of all banks ranked according to assets. But this does not diminish the fact that among the 167 lenders to Peru in 1971-1976, 42 very large institutions had great influence over the government's external resource flows.

B. ORGANIZATION OF CREDIT

During the first period, 1965-1970, banks extended credit on an individual basis, providing the impression that finance was a rather personalized affair; that is, the public sector had direct contact with its bankers.

Although banks lent individually, it was not uncommon, however, for them to band together in the extension of a credit. Such multibank loans accounted for roughly 68% of the value of authorizations in 1965-1970.

Multibank loans were characterized by a common umbrella loan agreement. However, no bank was explicitly identified as the organizer of the credit, 204/ nor was any bank designated to administer or enforce the loan over its duration. Likewise, no explicit fees were charged for organization or administration. Thus, each bank disbursed on its own and the borrower channeled repayment directly to each institution. Presumably the attraction of these multi-institutional agreements were threefold: (i) a larger amount of resources could be mobilized, providing less risk for each individual bank; (ii) by joining into a group the banks became all that more imposing to the borrower, thereby enhancing leverage during both the negotiation and enforcement periods of the credit and (iii) group lending provided psychological security, i.e., a bank could enjoy the comfort of knowing that its peers accompanied it in taking on a certain perceived risk.

The multibank loans to Peru had no international character in the sense that all the banks came from the same

country. Moreover, the number of institutions joining together in a loan did not exceed 11 on any one agreement.

The multibank credit of the 1960s was precursor of the syndicated credit that became commonplace in the 1970s and which generated nearly 80 percent of the total authorizations of 1971-1976. In a syndicated credit a lead bank(s) initiates negotiations with a borrower and solicits participation from other institutions. Thus, in the age of syndication a bank's importance to a borrower can exceed the mere level of its loan authorizations.

Once a loan is arranged, one of the lead banks is designated as agent for the other participating banks and it has the responsibility of administering the credit, e.g., making disbursement and receiving repayment. The agent also is responsible for enforcement of the credit agreement should the borrower fail to comply with the terms of the contract 205/ Both the lead banks and the agent receive special fees for their services. And it also has become customary to give fees to other banks as an inducement for them to participate in the syndicate. Syndicates generally have some international character, as banks of various nationalities often cooperate in the arrangement of a loan. The attraction of a syndicate to a bank is similar to the attraction of the aforementioned multibank agreements with one additional incentive: the existence of fees which increase the yield on a given loan. Chapter VI will analyse syndicates in some detail in order to reveal their character and to consider the advantages such arrangements have for the borrower.

C. TERMS OF CREDIT

With regard to interest charges and maturities of commercial bank loans without external guarantors, they are presented in tables 23 and 24 for the two basic periods under examination. 206/

1. Interest Rates

a) 1965-1970

The most prevalent way of costing loans in 1965-1970 was by use of a floating prime rate - a spread or margin added to an interest rate for prime borrowers that was subject to periodic adjustment. Fully 81% of the total value of authorizations used this type of rate, which for practical purposes was the prime rate prevailing in the U.S. 207/

The average prime rate spread in 1966 was 1.5% and thereafter it rose to 1.75%. The increase in the spread was fully consistent with the open manifestation of fiscal and balance of payments problems after 1966. 208/

Table 23

PERU: INTEREST RATES ON COMMERCIAL BANK LOANS, 1965-1976^{a/}

	1965	1966	1967	1968	1969	1970	1965- 1970 average	1971	1972	1973	1974	1975	1976	1971- 1976 average
1. <u>Percentage of loans w/prime rate spread b/</u>	-	73.6	78.2	82.3	-	100.0	80.8	-	4.2	2.1	4.6	0.5	6.0	3.5
Average spread (%)	-	1.50	1.75	1.75	-	1.75	1.72	-	1.91	1.04	1.11	1.75	1.58	1.42
2. <u>Percentage of loans w/LIBOR spread</u>	-	-	-	8.7	-	-	3.4	100.0	84.1	94.8	92.6	99.5	94.0	94.1
Average spread (%)	-	-	-	1.74	-	-	1.74	2.25	2.08	1.67	1.14	1.79	2.17	1.75
3. <u>Percentage of loans w/fixed interest rate</u>	100.0	26.4	21.8	9.0	100.0	-	15.8	-	-	3.1	2.8	-	-	1.3
Average rate (%)	6.30	8.20	8.10	9.00	8.30	-	7.90	-	-	8.25	8.82	-	-	8.49
4. <u>Percentage of loans w/other type of rate c/</u>	-	-	-	-	-	-	-	-	11.7	-	-	-	-	1.10
<u>Total loans</u>	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
<u>Memorandum item</u>														
U.S. prime rate-(average) ^{d/}	...	5.67	5.63	6.33	8.00	7.81	6.69	5.65	5.22	8.15	10.71	7.73	6.73	7.37
Eurodollar rate (average) ^{d/}	5.01	6.40	5.71	6.58	9.79	8.47	6.99	6.79	5.41	9.32	11.20	7.62	6.13	7.75

Source: CEPAL on the basis of official data. Memorandum items are derived from Morgan Guaranty Trust Co, World Financial Statistics, March 20, 1972 and World Financial Markets, March 1978.

a/ For credits without export credit guarantees. Rates are weighted by amounts authorized.

b/ It was not possible in every case to identify the type of prime rate used. Therefore the rate used here is a composite and caution is merited. However, data and evidence suggest that the prime rate employed was basically the United States prime rate.

c/ Percentage of total loans that were not costed on the basis prime or LIBOR spreads, or fixed rate.

d/ 6 month rate.

Table 24

PERU: MATURITIES ON COMMERCIAL BANK CREDITS, 1965-1976 a/

Years	Average grace period	Average amortization period	Average total maturity <u>b/</u>
1965	1.53	4.79	6.32
1966	0.52	3.84	4.38
1967	1.18	3.51	4.70
1968	1.47	3.90	5.38
1969	0.87	1.09	3.09
1970	0.50	4.50	5.00
1965-1970 average	1.03	4.01	5.05
1971	1.50	3.50	5.00
1972	2.54	3.67	6.22
1973	3.75	4.87	8.71
1974	4.79	4.64	9.51
1975	2.69	2.99	5.68
1976	2.00	2.83	4.84
1971-1976 average	3.20	3.82	7.06

Source: CEPAL, on the basis of official data.

a/ Averages are weighted by authorizations. Only for credits without guarantees of export credit agencies.

b/ The sum of grace and amortization periods may be less than the total maturity because of the existence of bullet loans, i.e., loans with one payment.

An interesting feature of prime rate loans at this time was that many transactions carried a floor, and sometimes a ceiling, on the absolute interest rate that could be charged. For instance, in 1967 a large loan that bore a spread of 1.75% had a minimum absolute interest rate of 7%. In 1968 many floating rate loans carried a 1.75% spread accompanied by not only a floor of $6\frac{3}{4}\%$, but a ceiling of $8\frac{3}{4}\%$ - a curious concession given the deteriorating economic situation of the government. By 1970, the prime rate loans had returned to the practice of a simple floor, this time of 7%.

Although a floor interest rate could have worked against the interests of the borrower, by eliminating any advantage from a sudden drop in the floating prime rate, a band, or mini-max interest rate could have been attractive in as much as it put a predictable cost on a credit over the life of the loan. Thus, both borrower and lender were protected against any wild and adverse swings in the floating rate. Unfortunately, the virulent nature of world inflation in the 1970s put an end to these types of arrangements in loan agreements. 209/

The table indicates that the second most common form of costing loans in 1965-1970 was the use of a fixed interest rate. A fixed rate loan can be attractive to a borrower seeking a predictable cost over the life of a loan; it also conveniently passes the risk of unexpected inflation onto the lending institution. However, bankers naturally prefer floating rates, which explains why in absolute terms the percentage of credit with a fixed rate was relatively small (16%). Given that world prices were rising at a rate of $4\frac{1}{2}$ -5% in the late 1960s, the cost of this type of credit in real terms could be calculated at roughly $3\frac{1}{2}$ -3% at the time of contraction.

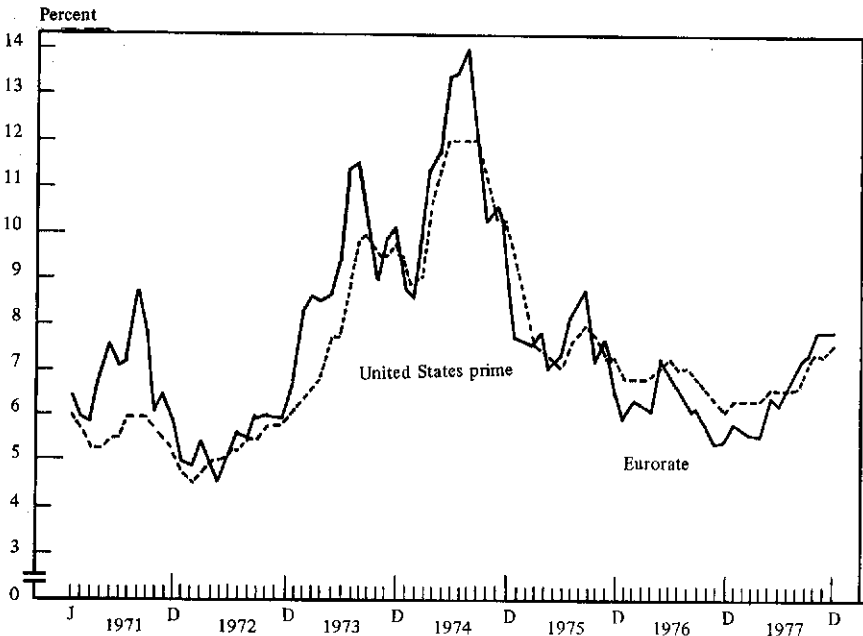
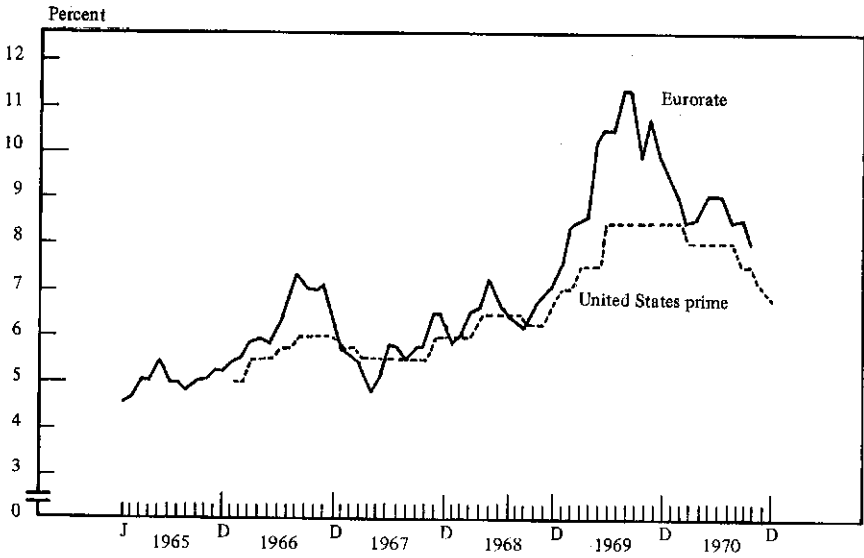
It is significant to note that in this early period the London Interbank Offer Rate (LIBOR) was of little importance as a costing mechanism; indeed, only one relatively small credit had its cost determined by the LIBOR. This no doubt reflects the dominance of U.S. banks in lending to Peru. For these banks it proved more profitable to lend out of New York than London. 210/ And Peru, by virtue of its being a relatively small borrower, could be attended from domestic offices in spite of U.S. government ceilings on the amount of foreign credit that could be extended by the headquarters of its banks. 211/ From the standpoint of the borrower this also constituted an attractive arrangement; loans from the U.S., assuming identical spreads, were more economical given that the U.S. prime rate was usually lower than the eurodollar rate (see figure 4.)

b) 1971-1976

Turning to the second period, 1971-1976, there is a

Figure 4

**EVOLUTION OF THE EURODOLLAR AND U.S. PRIME INTEREST RATES,
1965-1970 AND 1971-1977^a**



Source: Morgan Guaranty Trust Co.; *World Financial Statistics*, March 1972 and *World Financial Markets*, March 1978.

^aEurodollar rate is the 6-months prime banks' bid rates in London.

profound shift in the costing of credit. As revealed in the table almost all the loans carried the LIBOR. This reflects the fact that by the early 1970s U.S. and most other banks had been funding their loans to Peru from the highly liquid eurocurrency market where the LIBOR was the prevalent pricing mechanism. Loans funded from domestic markets were much less prevalent, as demonstrated by the negligible representation of the prime rate spread and fixed rate loans. The latter diminished in importance also due to the virulent rate of inflation in the 1970s.

Another notable feature at the outset of the second period, 1971 and 1972, is the steep spreads over LIBOR, 2.25% and 2.08% on average, respectively. The spread was markedly higher than the margin charged on floating rate loans in 1965-1970. However, thereafter the spread on loans declined dramatically, reaching a low of 1.14% in 1974. This was followed by a full circle on borrowing conditions, with a sharp rise in spreads in 1975 and ending with an onerous 2.17% average margin in 1976.

It would be instructive to compare Peru's spreads with those of other countries in order to gain some idea as to whether trends in Peru were due to general market conditions or to factors unique to that country. While it would be hazardous to draw firm conclusions from such an exercise,^{212/} one can establish trends that are, at a minimum, indicative of the relative cost of borrowing and the factors behind any changes over time.

Figure 5 presents the study's data on spreads for Peru and the average weighted spreads for Brazil and Mexico - two countries perceived by the banks in the early Seventies to be very creditworthy - based on their publicized eurocurrency credits.

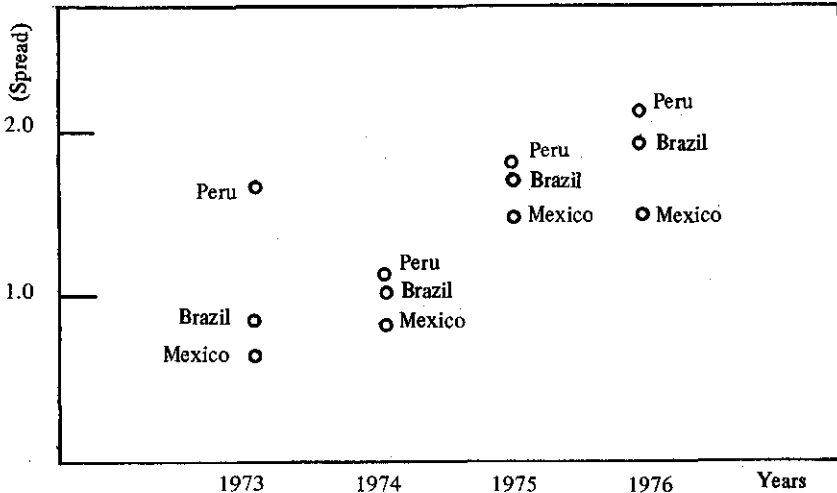
No comparable data are available for 1972, but it is known that Brazil paid about 1.50% on its commercial money around mid-year,^{213/} compared to a rate of 2.25% for Peru. This is fully consistent with a priori notions of how bankers might assess the creditworthiness of the two countries; while Peru's revolutionary government was an uncertain entity in the eyes of the bankers, Brazil had clearly established itself as dynamic economy enjoying what was then termed an economic miracle.

In 1973, with growing bank liquidity and thus greater pressure on these institutions to expand their lending, there was a general decline in margins for developing countries; however, as shown the figure, the differential charge between Peru and "seasoned" developing country borrowers like Brazil and Mexico remained very large, suggesting that risk perception with respect to Peru remained basically unchanged.

Interestingly, the figure suggests that in 1974 the banks markedly altered their perception of risk in Peru. Spreads for Brazil and Mexico rose with respect to the

Figure 5

**AVERAGE SPREADS OVER LIBOR OF COMMERCIAL BANK LOANS FOR
PERU, BRAZIL AND MEXICO, 1973-1976^a**



Source: Peru: ECLA; and World Bank, *Borrowing in International Capital Markets*, various issues.

^aWeighted by amounts authorized. Public sector loans only.

previous year, reflecting the effects of a general tightening of market conditions due to uncertainties surrounding the oil crisis, inflation and, of course, the failures of Bankhaus Herstatt and Franklin National Bank. Peru, however, went against general market trends as its average spread declined markedly. Thus, although the government continued to pay a margin superior to either of the other two countries, the differential was very much reduced. One can speculate on the reasons for the apparent change in the assessment of risk. First, Peru by now was more familiar to the banks and had straightened out its disputes with foreign firms, as manifest in the Greene Accord of 1974. Second, by 1974 Peru had publicized very favorable estimates of its petroleum reserves and was arranging for construction of a pipeline to bring the crude to the coast for export; also, Cuaajone and Cerro Verde scheduled new mineral exports for the latter half of the 1970s. Third, previous borrowing contributed to a rather large accumulation of reserves (see table 5) that provided an appearance of security, i.e., the liquidity needed to service the external debt. All these factors probably contributed to a more favorable assessment of risk. Whether the real underlying circumstances of the Peruvian economy altered to a degree commensurate with the changed perception of risk is another matter.

In 1975 one finds a general rise in margins, which is consistent with a further tightening of market conditions that year. However, while the differential between Peru and Mexico remains roughly the same, there is a narrowing of the gap in spreads between Peru and Brazil. Thus, one perceives a relative erosion of Brazil's position vis-a-vis the other two countries. This also would appear consistent with outward circumstances. Brazil's enormous external debt, its lack of national oil resources, and "slowness" in adjusting the balance of payments were by now clearly of concern to its creditors. Although in Peru the balance of payments also had deteriorated sharply, there was still the security (though waning) of prospects of oil in the Amazon. Meanwhile, Mexico continued to enjoy one of the lowest spreads among developing country borrowers, in part because of its special relationship with the United States, where most of its major commercial creditors were domiciled. 214/

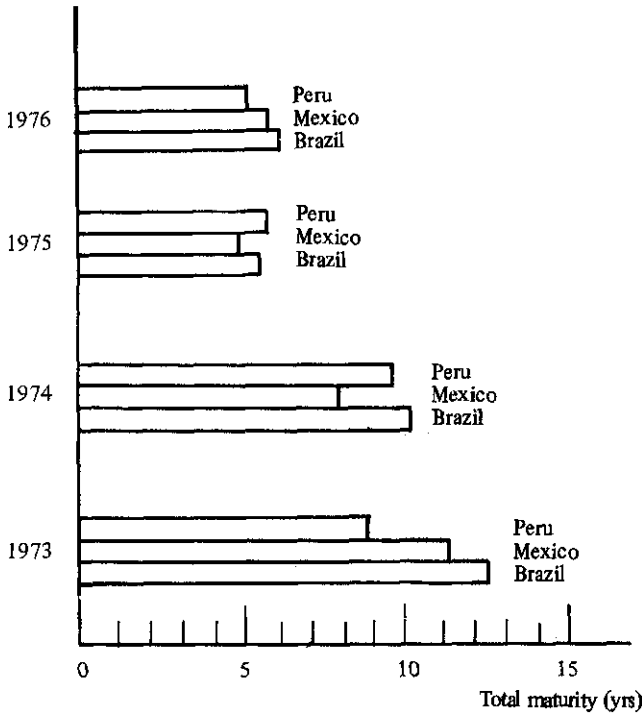
In 1976, borrowing conditions on international markets continued to be roughly as onerous as in 1975. Reflecting this, Mexico shows no real change in its average spread, apparently, the aforementioned special relationship with the U.S. overrode the uncertainty surrounding the 1976 devaluation and change in government, or alternatively, the effects of these events had not yet had a chance to work their way into the average spreads available to the country. However, Peru and Brazil underwent further deterioration, with Peru clearly suffering the greatest erosion with respect to the bankers perception of risk. Again this appears to be consistent with objective circumstances. Brazil was still a source of concern for the banks, 215/ but relative to Peru it benefited from a continental-sized economy, political stability and an economic and political team that had philosophical links with the banks. Peru, on the other hand, had a vigorous internal reform program; was a vocal Third World advocate of the New International Economic Order; it suffered from an unforeseen change in government in mid-1975; its balance of payment was in severe disarray and there was a high degree of political and economic uncertainty. But perhaps most importantly, the euphoria surrounding petroleum in the jungle had completely evaporated, with all but one of the foreign companies drilling for oil having terminated operations.

2. Maturities

In the first period, 1965-1970, maturities on commercial bank credits averaged only 5 years, incorporating a short grace period of 1 year and $\frac{1}{4}$ years of amortization (see table 24). This would appear to have been in line with general market trends as term loans of 3 to 5 years are considered to have been the norm for the market in the latter half of the 1960s.

Figure 6

**AVERAGE MATURITIES ON COMMERCIAL BANK LOANS FOR
PERU, BRAZIL AND MEXICO, 1973-1976^a**



Source: Peru: ECLA; and Brazil, Mexico: World Bank, *Borrowing in International Capital Markets*, various issues.

^aWeighted by amounts authorized. Public sector only.

It is worthwhile to point out that the longest maturities appeared in 1965, at somewhat more than 6 years. This was less than a coincidence since the government's creditworthiness undoubtedly reached a peak that year. It would be difficult to state emphatically that the arrival of the military regime in late 1968 affected the bank's willingness to accept extended maturities; only in 1969, a year of little foreign borrowing, was the tenor of credit unduly short. However, the unusually brief grace periods applied to loans in 1969-1970 are indicative of the bankers' reserve with respect to the new regime.

The second period, 1971-1976, witnessed a 40% lengthening in the average maturity to 7 years. The average, however, hides much longer maturities of 8.7 and 9.5 years for 1973 and 1974, respectively. What the data confirm,

however, is that commercial banks merely provided medium term finance and, notwithstanding occasional periods of extended maturities, their loans did not fulfill the requirements of long term development finance.

Again, it would be instructive to compare Peru's maturities with the two superborrowers, Brazil and Mexico. The caveats applied to the data on interest margins are equally applicable to maturity information.

Although comprehensive comparative data for 1972 are unavailable, it is known that Brazil regularly secured loans with at least a 10 year maturity in 1972.^{216/} Peru, on the other hand, secured an average of 6 years. The difference was not attributable to differentials in margins - i.e., higher margins for longer maturities - since in this year Peru also had a considerably higher cost of credit. Thus, the short maturity would be another confirmation that Peru was viewed as a relatively high risk in 1972. But the large differential also may have been partly reflective of Peru's inexperience in negotiating maturities with international banks; as will be shown momentarily, in later years the respective trends in creditworthiness among the three countries were accompanied by much less marked differences in maturities.

Figure 6 indicates that although Peru's maturities lengthened in 1973, they still were considerably less than those available to prime developing country borrowers such as Brazil and Mexico.^{217/}

There already has been evidence from interest margins that in 1974 banks viewed Peru as a better risk. This is confirmed with regard to the behavior of maturities as the tenor of Peru's credit was about the same as Brazil's and even longer than Mexico's. Then, in 1975, when the market tightened all borrowers experienced a notable contraction of terms; however, and perhaps in part owing to its higher interest margin, Peru's average maturity was actually slightly longer than that of either Brazil or Mexico. In 1976 Peru again fell on the short end of maturities; along with the considerably higher interest margin this suggests serious deterioration of creditworthiness from the viewpoint of private creditors.

D. FEES AND PENALTIES

Most loans carry clauses that establish fees and penalties. The fees are charged for services, while penalties are for breach of contractual terms. The following paragraphs will show the evolution of these charges for Peru. Analysis does suffer, however, from the general dearth of information on bank loans; no comparisons could be made with other developing countries because little or no data of this kind reaches public scrutiny.

1. Fees 218/

There are several types of fees accompanying loan agreements. One common charge is a commitment fee that is paid to a bank to reserve funds until they are fully drawn down. The most common commitment fee is a periodic charge on undisbursed balances. The fee also can be a flat charge on the face value of the loan, but this practice was of little importance for the credits to Peru.

Other fees are charged for the organization and administration of a loan. These can be variously termed management fees, agent's fee, participation fee, etc. They are usually at the front end of a loan; namely, a once and for all flat percentage of the face value of the credit paid at the beginning of a loan period. If more than one bank is involved, these fees are distributed in various ways according to some predetermined pattern agreed to by the banks.

Most loans also carry a provision for the reimbursement of a bank's miscellaneous costs - often termed "out-of-pocket" expenses - for legal services, preparation of the credit agreement, publicity, etc.

Table 25 presents data on the average cost of fees in both periods.

What is striking about the period 1965 - 1970 is that fees as an explicit cost item were the exception rather than the rule. Flat fees were most uncommon and less than 15% of the total authorizations carried commitment fees. In contrast to the first period, however, 1971-1976 witnessed a general proliferation of fees. Two principal reasons appear to have been behind this trend.

First, banks discovered flat fees to be a discreet way in which to raise the yield on their loans. Moreover, in a bargaining environment a borrower may be more receptive to an increase in fees than an increase in interest margins; the former are not well publicized and therefore acceptance of higher fees could enable a borrower to hide embarrassingly high interest margins which would reflect badly on its creditworthiness. Also, the longer the maturities on a loan the more amenable fees become to a borrower.

A second reason behind the employment of fees was the growing use of syndication for arrangement of loans. In these loans, institutions that organize such a credit (the managers) and the bank that administers or enforces the loan agreement (the agent) expect to be reimbursed for their services. Indeed, some banks particularly consortium or merchant banks, rely mostly on fees for their earnings; they organize and/or administer credits, capturing the management and/or agent fee, while placing only a nominal (or even no) amount of interest bearing money in the loan itself. Also in syndication, lead banks have introduced the practice of granting fees to banks willing to participate in a credit.

Table 25

PERU: FEES CHARGED ON COMMERCIAL BANK CREDITS, 1965-1976a/

	1965	1966	1967	1968	1969	1970	1965- 1970 average	1971	1972	1973	1974	1975	1976	1971- 1976 average
1. <u>Percentage of loans w/a flat fee b/</u>	-	-	-	2.0	-	-	1.0	-	49.0	86.0	85.0	99.0	96.0	87.0
Average, specific rate c/	-	-	-	1.00	-	-	1.0	-	0.47	0.45	0.31	0.93	1.32	0.77
Average, overall rate d/	-	-	-	0.2	-	-	-	-	0.23	0.39	0.26	0.92	1.27	0.67
2. <u>Percentage of loans w/a commitment fee e/</u>	-	-	2.0	34.0	-	-	14.0	-	57.0	73.0	43.0	100.0	88.0	74.0
Average, specific rate c/	-	-	1.00	0.25	-	-	0.26	-	0.50	0.46	0.47	0.52	0.72	0.56
<u>Memorandum item</u>														
Percentage of all credits that were unspecified with regard to fees f/														
Flat fees	-	17.0	19.0	7.0	43.0	-	8.0	-	-	1.0	1.0	1.0	-	1.0
Commitment fees	-	17.0	19.0	7.0	43.0	-	8.0	-	-	1.0	1.0	1.0	-	1.0

Source: CEPAL on the basis of official data.

a/ For credits without guarantee of an export credit agency. Average are weighted by amount authorized.

b/ A one time fee charged on the face value of the loan.

c/ Average for credits that carried this fee.

d/ The result of applying the specific rate to all credits. Can be viewed as the effective rate for all money in the period.

e/ A fee charged on the undisbursed balance of a loan.

f/ The percentage of credit in the study that was unspecified with regard to fees. In calculating averages and percents, these credits were excluded from consideration.

With regard to the fees themselves, commitment fees appeared on nearly three-quarters of the loans and averaged 0.56% on outstanding balances. Flat fees of all kinds appeared on 87% of all credits in 1971-1976 and averaged 0.77% of the face value of the loans.

It appears that these fees too were at least partly a function of Peru's attractiveness as a borrower. In 1972-1973, a period when fees began to gain wide acceptance among bankers, the flat service charge averaged around 0.46%. However, in 1974 the average cost of fees declined markedly, which would be in line with what has been shown to be a possible change in the bankers' perception of risk in Peru. But a shift to a creditors' market in 1975, coupled with the manifestation of problems in Peru, caused the average fee to triple to nearly 1.0%. Then, in 1976, when Peru was on the verge of losing its creditworthiness, the fees attached to the already high margins was a stiff 1.3% on average.

The fees associated with the reimbursement of "out-of-pocket" expenses, legal fees, etc., generally constituted a minor cost item, but at least on the surface appear to have involved a rather odd arrangement. In the vast majority of cases banks gave themselves a "carte blanche", i.e., the loan agreements simply state that the borrower must reimburse all such expenses. On some occasions vague parameters were set by the use of the term "reasonable" costs. And in the least frequent of cases some dollar ceiling was placed on the amount that could be charged for miscellaneous expenses. Thus, in general this latter type of fee was not subject to competition.

2. Penalties

Turning to penalties, two types have been quantified: late payment penalties and premiums charged on any prepayment of a loan.

In the first period, the most common type of penalty was a premium on the basic interest rate for payments arriving after the due date of an interest or amortization period (see table 26). And the penalty for any late payment was stiff, bringing on average for the period a 70% increase in the cost of interest over and above the basic rate. In the second period, this type of penalty became more pervasive, covering 71% of all credit. However, the average increase in the interest rate was lower, 58%. It was not possible to determine to what extent the borrower actually encountered these penalties; nor was it possible to systematically assess to what extent creditors enforced such penalties. One assumes, however, that banks flexibly applied this instrument. In any case, the penalty fees can be viewed as an "escape valve" because they could be used in lieu of calling a formal default,

Table 26

PERU: PENALTIES ON COMMERCIAL BANK LOANS, 1965-1976_{a/}

	1965	1966	1967	1968	1969	1970	1965- 1970 average	1971	1972	1973	1974	1975	1976	1971- 1976 average
1. <u>Percentage of all loans with</u>														
<u>late payment penalty b/</u>	-	88.0	-	-	-	100.0	41.0	-	39.0	32.0	95.0	87.0	96.0	71.0
<u>Average premium c/</u>	-	67.60	-	46.10	-	71.40	70.00	-	60.30	57.30	75.10	59.30	42.80	58.10
2. <u>Percentage of all loans</u>														
<u>with prepayment penalty d/</u>	-	88.0	96.0	8.0	-	-	28.0	-	5.0	65.0	43.0	94.0	76.0	62.0
<u>Average specific rate e/</u>	-	0.25	0.50	0.50	-	-	0.39	-	0.50	1.41	0.71	0.91	1.49	1.18
<u>Average overall rate f/</u>	-	0.22	0.48	0.04	-	-	0.11	-	0.03	0.91	0.31	0.85	1.14	0.74
<u>Memorandum item</u>														
Percentage of credits that were unspecified with regard to fees and penalties g/														
Late payment	17	19	12	43	-	-	10	-	-	2	3	1	7	3
Prepayment	17	19	9	43	-	-	9	-	-	1	1	1	-	1

Source: CEPAL on the basis of official data.

a/ Only credits without guarantees of export credit agencies. Averages are weighted by the amount of the loan.

b/ Penalty paid on tardy loan repayments.

c/ Percentage increase in original interest rate on amount that is paid past due date.

d/ Penalty paid on any portion of a loan that is cancelled in advance of schedule. When the fee was scaled over the life of the loan, an average was taken, weighted by the number of years each rate prevailed.

e/ The average rate for credits that had this penalty.

f/ The result of applying the specific rate to all credits. Can be viewed as the effective rate on all money for the period.

g/ The percentage of credits in the study that provided no information with regard to penalties. These credits were excluded from the calculation of percentages and averages.

which is a contractually legal, but drastic way for dealing with lagging payments.

As for prepayment penalties, they are placed on loans to discourage a borrower from prepaying an expensive credit with a new cheaper loan that may become available to a borrower due to a favorable turn in market conditions.^{219/} Banks as a rule dislike prepayment because they can lose a profitable loan and, if not participating in the new credit, they also receive an unanticipated (and perhaps unwanted) inflow of liquidity that would have to be placed again in the market.

The penalties themselves can consist of one basic flat fee on any amount prepaid. A more common practice, however, especially in the 1970s, was to scale the flat fee according to when prepayment would be effected. For example, a large 10-year loan contracted in 1973 had a 3% penalty for prepayment during the first year of the loan, 2% during the second, and 1% during the third, with no penalty thereafter; a 5-year loan in 1976 had prepayment penalties of 1/2% during the first year with a reduction of 1/2% for each year up to the fifth and last year, when prepayment could be effected at a cost of 1/2%.^{220/}

As can be appreciated from table 26, about 28% of the credits in 1965-1971 had arrangements for prepayment penalties. The credits that carried such penalties had an average cost (for 1965-1970) of 0.39% for the full maturity. In 1971-1976 prepayment penalties became much more common, borne by over 60% of the credits. Moreover, the penalty averaged 1.18%.

As one might expect, prepayment penalties were most often applied when the borrower's terms were most onerous, either due to a lender's market, a relatively low level of creditworthiness, or both. This is confirmed by the fact that coverage is the most extensive and the penalties themselves most severe in 1973 and 1975. In contrast, 1974, a year in which bankers appear to have taken a sanguine view towards Peru, displays relatively lower coverage and lower prepayment penalties.

There is no doubt that from the standpoint of an individual lending institutions discouragement of prepayment makes good commercial sense. However, one cannot help but think that in a broader perspective such penalties on developing country borrowers may be counter-productive for all concerned. Prepayment strategies of developing countries are a convenient way for borrowers to assuage the surges in interest margins and contractions of maturities that frequently occur because of changing market conditions and/or deterioration of creditworthiness. A borrower who can trade in old expensive loans for new cheaper loans is effectively enhancing its debt service capacity. Thus, through prepayment (and refinance) strategies a borrower can become a better overall risk and assume a larger volume of new debt, generating more resources for development and more business for the banks.

E. CREDITS WITH EXPORT CREDIT GUARANTEES

The preceeding analysis of the terms and conditions of credit pertained to loans without an explicit guarantee of an export credit agency such as the U.S. Export Import Bank. It would be instructive to briefly review the terms of these "guaranteed" loans as a way of comparison with unguaranteed bank credits. Table 27 provides such information for the period 1971-1976.

Not surprisingly, the terms are considerably more favorable, as banks were able to pass the risk of credit onto the export credit agency and therefore could provide less than "commercial" terms. In almost all cases the interest rate was fixed, and not so high - an average of a little more than 7% for the period 1971-1976. (In the same period world consumer prices rose by more than 10%). Moreover, the average maturity was 8 years, one full year more than the average for unguaranteed loans. Also, the frequency and amount of front-end fees were considerably less than that associated with unprotected loans.

Table 27

PERU: BASIC DATA ON COMMERCIAL BANK CREDITS WITH GUARANTEES
OF AN EXPORT CREDIT AGENCY, 1971-1976 a/

	<u>1971-1976</u>
1. <u>Interest</u>	
a) Percent of loans with fixed rate	(96.3)
Average rate (%)	(7.3)
b) Percent of loans with LIBOR spread	(-)
Average spread (%)	-
c) Percent of loans with prime spread	(2.8)
Average spread (%)	1.0
2. Average total maturity (years)	8.1
3. Percentage of loans with flat fees	(52.5)
Average fee(%)	0.75

Source: CEPAL on the basis of official data.

a/ Only on credits where it was possible to determine the existence or not of guarantees.

One must be cautious, however, about generalizing with regard to the nominal differential between guaranteed and unguaranteed credit. First, costs are understated because the export credit agency generally charges the borrower a fee for its services. Second, the loan is tied to the purchase of goods in the country of the export credit agency, which invariably has implicit costs for the borrower. Third, what appears to be a

commercial credit on the surface, really becomes a bilateral government to government loan, which generates potential for the home government of the commercial bank to interfere in the domestic affairs of the borrower.

F. TYPES OF LOANS EXTENDED BY COMMERCIAL BANKS

It is interesting to view commercial bank loans when they are broken down into their basic type. This also provides a forum for a more detailed analysis of the lending activities of commercial banks. Before pursuing analysis it is important to point out that the categories of loans are based on a formal typology which reflects to some degree the legal purpose of a credit; for instance, a refinance credit is understood to be for payment of a prior debt obligation, whether to the lending bank or another credit institution; a free disposition credit formally is for any purpose whatsoever; a project credit is linked to finance of a specific fixed investment, etc. However, money is fungible and on a functional basis the differences among credits sometimes are more formal than real. For instance, refinance credits postpone the outflow of resources via debt payments, thereby freeing a country's foreign exchange for general purpose use, much like a free disposition credit. Similarly, a free disposition credit can be used to repay debt and a project loan for local costs provides free foreign exchange for any purpose. But even though there may be little functional difference among the types of loans, there formal differences sometimes are viewed as real variants by the banks and therefore can be important with respect to credit decisions. Indeed, as will be shown in Chapter VII, it appears that some banks have preferences for participating in certain types of loans.

Table 28 divides bank credits (without an external guarantor) into 7 basic categories and shows the relative importance of each for the two basic periods under consideration.

In the period 1965-1970, bank lending activity was extremely concentrated in refinance operations. This type of credit accounted for nearly 80% of all credit operations. Loans of free disposition placed a distant second with 15% of the total value of loans. And a lending for projects and capital goods imports ranked as minor activity.

In the second period, 1971-1976, one finds much greater dispersion, which is indicative of the transformation of world banking and the general willingness of these institutions to lende to LDCs. Refinance operations still dominated lending activities, but their share of total lending fell to less than 50%. Meanwhile, loans of free disposition rose to nearly one-third of all loans; and projects, which received little bank support in 1965-1970, accounted for nearly

Table 28

PERU: BREAKDOWN OF COMMERCIAL BANK CREDITS INTO TYPE,
1965 - 1970 AND 1971 - 1976 a/

(Percent)

Type of loan	1965 - 1970	1971 - 1976
Import of K goods	-	2.0
Import of other goods	-	0.1
Refinance	79.9	48.6
Free disposition	15.3	27.8
Projects	4.8	14.7
Nationalizations	-	6.1
Other	-	0.7
<u>Total</u>	<u>100.0</u>	<u>100.0</u>

Source: CEPAL, on the basis of official data.

a/ Only for credits without guarantees of export credit agencies.

one-sixth of all commercial credit in the 1970s. Notably, a significant part of bank credit was formally authorized to compensate for nationalized assets. Thus it is clear that in the first half of the decade of the Seventies commercial banks markedly diversified the nature of their lending activities in Peru.

1. Free disposition loans

Loans of this type are usually considered attractive to a borrower. Since no specific use is attached to the funds, such credits provide borrowers with greater flexibility in the allocation of external and domestic resources. Moreover, by not being attached to purchases of goods and services, loans of this type facilitate repayment of debt (domestic and foreign) and foreign exchange accumulation,^{221/} the latter an essential ingredient in keeping commercial bankers confident of a country's creditworthiness. Such loans also demand discipline on the part of the borrower; since there is no ex ante specification for the resources, the borrower must ensure that funds eventually are channeled into areas where returns exceed the cost of credit.

From the standpoint of the lender, free disposition loans could be less attractive. With no ex ante purpose attached to the loan, the bank has no assurance that the

Table 29

PERU: TERMS ON CREDITS GROUPED ACCORDING TO TYPE, 1965-1970 AND 1971-1976^{a/b/}

Category of loans	Interest rate			Total maturity (in years)	Flat fees and prepayment penalties	
	Percentage of credit in each category with:				Percentage of credit in each category with:	
	(i)	(ii)	(iii)		flat fee ^{c/} Actual rate	prepayment penalty ^{d/} Actual rate
	fixed rate	Libor spread	prime spread			
Actual rate						
<u>1965 - 1970</u>						
1. Import of K goods	-	-	-	-	-	-
2. Import of other goods	-	-	-	-	-	-
3. Refinance	<u>13.0</u>	<u>4.2</u>	<u>82.9</u>	5.07	<u>1.0</u>	<u>14.9</u>
	7.96	1.74	1.72		1.00	0.32
4. Free disposition	<u>5.5</u>	-	<u>94.5</u>	4.78	<u>100.0</u>	<u>100.0</u>
	8.75	-	1.69		-	0.44
5. Projects	<u>100.0</u>	-	-	5.64	<u>100.0</u>	<u>100.0</u>
	7.45	-	-		-	-
6. Nationalizations	-	-	-	-	-	-
7. Other	-	-	-	-	-	-
	-	-	-	-	-	-
<u>1971 - 1976</u>						
1. Import of K goods	<u>9.0</u>	<u>53.1</u>	<u>37.9</u>	6.34	<u>35.3</u>	<u>21.9</u>
	10.43	1.61	1.15		0.65	1.28
2. Import of other goods	<u>100.0</u>	-	-	2.00	-	-
	9.00	-	-		-	-
3. Refinance	-	<u>96.1</u>	<u>1.6^{d/}</u>	6.98	<u>83.0</u>	<u>69.6</u>
	-	1.81	1.55		1.00	1.23
4. Free disposition	<u>3.9</u>	<u>95.2</u>	<u>1.0</u>	7.15	<u>93.3</u>	<u>70.1</u>
	8.12	1.79	0.75		0.61	1.39
5. Projects	-	<u>93.1</u>	<u>6.9</u>	6.87	<u>92.0</u>	<u>61.6</u>
	-	1.71	1.78		0.67	0.52
6. Nationalizations	-	<u>100.0</u>	-	8.38	<u>100.0</u>	<u>100.0</u>
	-	1.31	-		0.22	-
7. Other	-	<u>12.2</u>	<u>87.8</u>	4.63	<u>100.0</u>	<u>100.0</u>
	-	0.59	1.25		-	-

Source: ECLA, on the basis of official data.

^{a/} Credits without guarantees of export credit agencies.^{b/} Average weighted by amounts authorized.^{c/} See footnotes in tables 25 and 26.^{d/} 2.3% of the refinance credits had a rate other than those cited in the table.

resources will be used wisely, placing the prospect of repayment squarely on the value of a sovereign guarantee. Also, a bank faces the risk that funds will be employed to prepay more expensive loans granted earlier by the institution, something that, as shown earlier, generally is not viewed favorably.

a) 1965-1970

In this period, only 15% of the credit authorizations related to freely disposable loans (see again table 28). Almost 95% of the value of these credits carried floating interest rates, which was much higher than the global average for all loans and consistent with the attractive nature of the credit for the borrower. The average interest cost was roughly on par with the global average for all loans in the period and the maturity was slightly shorter than the overall average tenor (see table 29). No flat fees prevailed, but consistent with the attractive nature of the credit, banks had sufficient leverage to place prepayment penalties on all such money with the average penalty amounting to 0.44%.

A majority of the untied funds for the period pertained to two multibank loans in which the core lenders were Bankers Trust, Manufacturers Hanover, Citibank and Continental Illinois. 222/ One loan, extended in 1966, involved some new money that was rolled into a 40 million dollar credit geared basically to refinance earlier debt to the banks. In July 1967 another 40 million dollar loan was extended, this time entirely for the general use of the government. The funds - which costed at 1.75 over the prime rate and carried a maturity of 5 years - were employed to prop up the ailing fiscal budget and balance payments.

In 1967 the granting of considerable freely disposable funds to the government could be viewed with surprise given the mounting economic and political problems of the country, which by now were clearly manifest. But the banks apparently agreed to participate in a financial package, which included a standby credit from the IMF, because of what Kuczynski termed a "need to do business with a country that had until recently, and might again have, large foreign exchange reserves to deposit abroad". 223/ But if the banks had any doubts about lending to Peru when they agreed to the loan in mid-July 1967, by the time of the signing later that month, the chaotic events in the country clearly had the banks second-guessing the wisdom of their decision. If it had not been for the fact that the banks had fully committed themselves to the credit, the offer probably would have been withdrawn. 224/

b) 1971-1976

Turning to the second period, free disposition loans rose to represent nearly one-third of all authorizations. In this case, the average interest margin for the period of 1.79%

over LIBOR approximately equalled the average spread for all loans (1.75%) and the average maturity of 7.15 years did not differ much from the global average (7.06 yrs.). The percentage of these loans which carried flat fees was somewhat higher than the average for all loans, but the cost of the fees, at 0.61%, compared favorably to the average for all credit (0.77%). And consistent with the rather attractive nature of these loans for borrowers, bankers had relatively greater success in negotiating prepayment penalties, with 70% of all such credit carrying a penalty. Moreover, the average penalty of 1.4% was substantially higher than the general average for all credit of 1.18%.

One must point out that the average terms above are not independent of years in which this type of credit was extended. Roughly 63% these loans appeared in 1973 and another 29% pertained to 1975.

The accumulation of freely usable funds in 1973 resulted from interaction of two phenomena.

First, it reveals a borrower who had an interest in fortifying the foothold it had established in the international commercial bank markets in 1972. The public sector's investment program was still largely in the planning stage and therefore the capacity to absorb debt into real activities clearly was limited. Thus, the only practical way to contract funds was through untied loans. Receipts could then be used to build up reserves - something that bankers like to see - and occasionally prepay more expensive older loans with undesirable conditionality. Second, on the supply side it reflects the desire of aggressive non-traditional lenders to capture a piece of the Peruvian market - which was becoming more attractive because of oil and a general consolidation of the military regime's economic and political program, coupled with the efforts of traditional lenders to defend their market position. Because of the intense competition, by the end of 1973 freely disposable loans were being contracted at 1.25% over LIBOR and some loans even carrying fixed interest rates for up to 7 years.

After 1973 this type of credit became less prevalent. One reason is that subsequent to this year the government could more readily absorb credit into the many new projects that it began to implement. Another factor is that after mid-1974 banks became generally more cautious lenders, perhaps making them less inclined to extend free disposition finance. This is especially true with respect to Peru, which by late 1975 displayed an economic situation that clearly was worrisome to the bankers.

2. Nationalization credits

One has seen that 6.1% of the loans extended by commercial banks in the period 1971-1976 represent

transactions designed to compensate foreign firms nationalized in the government's reform program (see table 28). This is certainly interesting because it means that in the medium term the government effectively exchanged interface with transnational corporations for interface with transnational banks.

Credits of this type should be viewed as very political in character. Banks usually acted in ways which were explicitly designed to bail out corporate clients entangled in real or potential disputes with Peru. The loans also may have been politically useful to Peru in as much as the funding facilitated terminal settlements with affected corporations, thereby concluding or avoiding conflicts with home country governments. The political orientation of the credit is partly mirrored in the relatively favorable terms: the average interest rate of 1.31 over LIBOR (see table 29) compares very favorably with global average of 1.75 over LIBOR and the 8.3 year average maturity is notably longer than the 7 years for all commercial credit.

The most conspicuous loan of this type was a 76 million dollar credit headed by Morgan Guaranty Trust Company and nine other large U.S. banks in 1974. 225/ The amount corresponded to the direct payment that Peru was to make to the U.S. Treasury for compensation of nationalized U.S. firms, as agreed to under the Greene Accord of that same year. 226/ Terms were very attractive, 1% over LIBOR, a 10 year maturity, a flat fee of only 0.11 of one percent and no prepayment penalty. Another important credit of this type appeared in 1976 involving a group of six Swiss banks headed by the Swiss Bank Corporation. 227/ It amounted to 40 million dollars, 30 million of which was to compensate various Swiss entities that held shares or debt of nationalized firms in the power, communications and manufacturing sectors of Peru. (The remaining 10 million dollars was of free disposition). 228/ The loan carried more severe terms than the previously mentioned credit, with a spread of 1.75% over LIBOR and a maturity of 5 years; but taking into account the generally tight borrowing conditions in the market, as well as Peru's eroded creditworthiness, the terms of the loan can be viewed as having been relatively favorable.

Other loans extended in 1973 facilitated nationalization of the fishing industry. One was a 14 million dollar credit by a group of U.S. banks headed by Manufacturers Hanover. The cost was a spread of 2% over LIBOR and a maturity of 7 years, both favorable relative to the general conditions prevailing at the time for credit to Peru. Moreover, other credits, totalling more than 45 million dollars formally were classified as free disposition or refinance credits, but really were used to effect the nationalization of the fishing industry. 229/

3. Refinance Credits

In both periods credits related to the refinance of debt represented the most frequent form of loan transaction. A commercial bank can refinance debt owed to itself, another bank, a commercial supplier or an official agency. Refinance may be for debt payments falling due in one year, or less commonly, for the whole balance of the loan, thereby effectively restructuring the original maturity.

Commercial lenders profess not like to refinance their own loans because of the notion that contractual repayment schedules are sacrosanct;^{230/} nevertheless, in practice banks often do refinance. In a highly competitive environment such as in the early 1970s, if a bank does not agree to refinance its loans, another more aggressive bank may be eager to do so, eroding the former institution's market position. On the other hand, if a borrower is in financial difficulty, refinance is often an alternative to default, something that the banks would want to avoid if possible because of the precedent it could create and the adverse impact that this has on their annual financial statements. Refinance also can be viewed as an alternative to rescheduling, something that the banks resist at all cost.^{231/}

A bank most often will refinance an obligation to another lender when it is seeking to generate new business in a competitive environment. However, as a favor to a major corporate client, it may refinance a suppliers' credit which the client had extended to a borrower and for which it may be unwilling or unable to refinance itself.

a) 1965 - 1970

Refinance credits in this period were basically costed with a margin over the prime rate. (See table 29) Both the average margin and maturity for these credits closely correspond to the global averages for all credits.

The majority of all refinance credits appeared in 1968 and 1970 under conditions of economic stress. The concentration in these two years represents the results of the formal negotiations between the Peruvian government and foreign creditors for the rescheduling or refinance of debt. Both due to multilateral and bilateral agreements, bank refinance totalled roughly 140 million dollars in 1968 and 94 million dollars in 1970. American banks accounted for 88% of the total, while Canadian, European and Japanese banks shared the rest. It is important to note that notwithstanding a difficult economic environment, banks insisted on rather severe lending terms that precluded real debt relief. As a result of commercial banks' time and risk preferences, authorities never were able to negotiate loans with more than 6 year maturities and the bulk of credit carried only 5 years. Moreover, grace periods were extremely short, 1.5 years in

1968 and only 0.5 years in 1970. This left prospects of a heavy debt service burden almost immediately after the refinance exercise.

For this earlier period it is relatively easy to specify the nature of refinance because such loans were not very large and were associated with a specific purpose, thereby providing for a transparency that allows one to trace obligations covered by the new loans. Such was not the case in the 1970s when credits tended to be very large and tied to general requirements for refinance.

In 1965 - 1970, 92% of all refinance credits provided information sufficient to determine what it was that banks actually refinanced. Of these "specified" credits, 90% of the total value simply refinanced prior obligations to the lending bank. Table 30 shows a sequence of loans of one bank in the study. As can be appreciated, the new credits (nos. 1 and 3) in the period never really were repaid as banks continuously refinanced the obligations. This series is typical of many transactions undertaken by banks in the 1960s, and underscores W. Arthur Lewis' observation that in the end the bankers are most concerned that interest payments are met and will, even if displaying reluctance, tend to refinance their obligations. 232/

The remaining 10% of the specified refinance credits went to refinance suppliers credits, and debts owed to bilateral agencies and multilateral institutions such as the World Bank and IDB.

As noted in Chapter IV, in the early 1960s the Peruvian government had taken heavy recourse to suppliers credits. As payments began to accumulate in 1965-1968, the banks financed a significant amount of these obligations with new loans, beginning the process of the shift of dependency from suppliers to banks.

Since there is no empirical evidence to explain the bankers motivation for underwriting suppliers credit assets, one can only conjecture about the dynamics behind the process. It is suspected that the banks first began to refinance owing to a desire to generate new loan business. 233/ It must be recalled that at the opening of the period the banks viewed Peru as rather creditworthy and the loans for refinance of suppliers credits were small in comparison with other loans extended by these institutions. However, as the country's financial crisis deepened in 1967-1968, one is led to believe that the motivation to finance obligations due to suppliers was: (i) to remain in favor with their corporate clients and (ii) to cover promissory notes on suppliers credits that had already been taken into the banks' portfolio.

Another interesting aspect of refinance in this period was that in 1968 and 1970 banks also refinanced debts owed to official agencies such as the World Bank and USAID. The need to refinance these "soft" loans with "hard" commercial

Table 30

PERU: A TYPICAL SEQUENCE OF LOANS BY A COMMERCIAL BANK FOR THE
PERIOD 1965-1970

Year of credit	Amount (millions of dollars)	Interest rate	Maturity (years)			Comments
			Grace	Amortization	Total	
1. 1964	12.5	...	...	...	3.0	A free disposition loan for general finance of the fiscal budget.
2. 1966	12.5	1.5 + prime	0.5	4.5	5.0	Refinance of unpaid balance of credit 1 plus \$3.8 million in new money.
3. 1967	8.4	1.75+ prime	1.0	4.0	5.0	A new credit extended that is of free disposition for use in the fiscal budget. Overall term is the same as credit 2, but with extended grace period. The latter might be considered useful for a borrower with temporary cash flow problems.
4. 1968	17.2	1.75+ prime	1.5	3.5	5.0	Refinance of unpaid balances on credits 2 and 3. Extended grace period again favourable to a borrower with tight cash flow.
5. 1970	15.4	1.75+ prime	0.5	4.5	5.0	Restructured unpaid balance of credit 4. Note short grace period which requires more discipline from the borrower.

Source: CEPAL on the basis of official data.

credit is reflective of the various problems that Peru had encountered with one or several official agencies during the 1960s and early 1970s.

b) 1971 - 1976

Turning to the second period one finds the cost and maturities of refinance credits in line with the global averages. However, there was a higher than average frequency of flat fees and penalties on these loans and the rates employed also were higher than for all loans. The years in which refinance credits were most voluminous were 1974 and 1976, incorporating 65% of all such authorizations. Actually, in the period the government pursued a vigorous strategy of continuous refinance, with motivations changing over time.

In 1972, the government faced what it felt to be a continued debt service problem. Banks refinanced their obligations and obligations of other entities to the sum of roughly 150 million dollars, even though the balance of payments maybe could have supported regular repayments. The banks' receptiveness undoubtedly related in part to the growing talk of petroleum in Peru and the very aggressive behavior of some banks with regard to expansion into this market. Refinance also was attractive because, by virtue of it being an uncertain (and perhaps inexperienced) entity, the rate that Peru paid for such credit was 2.25% over LIBOR. This was very much higher than the cost of refinance in the 1960s (1.75 over prime) and even higher than the average cost of all credit for that year (2.08 over LIBOR), not to mention the fact that other developing country borrowers had been paying considerably less for their commercial credit.

In 1973 and 1974 the motivation for refinance clearly changed. Here the government, interested in accumulating resources for the development program, had also to be motivated by the generally easy access to bank credit and the remarkably more favorable lending terms of a borrower's market. By 1974 margins on credit for refinance of older debt had fallen to 1.19% over LIBOR and maturities reached 10 years. In an environment in which banks were eager to lend, Peru sought to repay its more expensive credit of 1972/1973 with the newer cheaper loans available to it in 1974.

In 1975 and in 1976 refinance credits stemmed mainly from considerations of debt service. With the balance of payments faltering and service on accumulated debt mounting, the government needed assistance. In mid-1976 a historic arrangement was struck between the government and its commercial bank creditors. Peruvian officials, for political reasons, wished to eschew an IMF standby agreement and therefore approached commercial creditors for 400 million dollars in refinance credits, which for administrative reasons had the formal designation of balance of payments loans. As shown in earlier chapters the banks - for reasons that are

examined in Chapter X - agreed to refinance the government without the protection of an umbrella IMF accord. The finance secured was as follows:

United States banks	\$210 million
Canadian banks	\$ 30 million
European banks	\$ 90 million
Japanese banks	\$ 32 million
Swiss banks	\$ 24 million <u>234/</u>

and corresponded roughly to the annual payments falling due to each group.

As in the economic crisis of the 1960s the time and risk preferences of commercial banks dictated that the refinance loans be extended on very harsh terms. Maturities on all the loans were only 5 years with a very short 2-year grace period. The interest margin was a full 2.25% over LIBOR and front-end fees exceeded 1.5%. Moreover, there was a unique form of conditionality based on the performance of the government's economic program. Given the importance of this credit, and the unusual conditionality applied to it, special in-depth analysis of the whole operation is reserved for Chapter X.

4. Other types of loans

Loans solely for the purpose of importing goods and not covered by guarantees of a foreign export credit agency accounted for a very minor part of credit in both periods. Most unguaranteed finance for imports came via project lending which was indeed significant. The percentage of total lending for unguaranteed project finance rose from 5% to 15% between the two periods. (See again table 28). The rather sharp rise in the share of project loans is another manifestation of the profound changes in world banking in the 1970s. One must be concerned, however, by the fact that average maturities on project loans extended only 5.6 years in 1965-1970 and 6.9 years in 1971-1976. In general, one would suspect that these short maturities scraped the bare minimum required for commercial ventures and were wholly inadequate for any investment of less than a commercial nature.

The above leads to a natural interest in knowing precisely what projects were financed by the banks. However, the whole subject of project lending is so intimately linked to the development program of the country that no further analysis will be carried out here, reserving a detailed view for Chapter IX, which dedicates itself to the subject of project development.

G. CURRENCIES OF COMMERCIAL BANK CREDITS

As illustrated in the methodological appendix, all loans have been converted into U.S. dollars for the purpose of

generating comparable data. Nevertheless, as table 31 shows, dollars were almost exclusively the original currency of Peru's loans, accounting for 98% and 88% of authorizations in 1965-1970 and 1971-1976, respectively. This is not surprising in as much as Peru is in a dollar zone and, in any case, the U.S. dollar was the principal world reserve asset and therefore the currency most employed in international lending during these periods. Not until 1976 did the sharp falls in the value of the dollar cause currencies such as the yen and D-mark to take on importance as media for international bank loan transactions. For these reasons, data merely reveal Peruvian authorities preferences and common practices of the time with regard to choice of currency.

H. WHERE COMMERCIAL BANKS BOOKED THEIR LOANS

Commercial banks can book their loans in any number of locations. The headquarters of the commercial bank is one logical site, but banks also may place a loan transaction in any one of their branches and subsidiaries throughout the world. There are various motives for booking loans in entities other than the headquarters of the banks. Some banks have a rather decentralized network and a branch or subsidiary could simply have taken initiative on a loan and booked the transaction in its office. On the other hand, a parent may simply want a loan to appear on the books of a subsidiary for reasons associated with marketing strategies, politics or convenience. But it has become most common for banks to book loans in certain entities abroad for tax purposes.

Most international banks have established branches and subsidiaries in so-called offshore centers. ^{235/} Different centers serve different purposes. Some centers can prove attractive basically as a locus for interbank deposits and funding. London, the seat of the eurocurrency market is a case in point. Other centers can prove attractive because of their relative freedom from regulations, thus permitting banks to engage in activities that home government authorities restrict (e.g. German banks in Luxemburg). Other offshore centers, however, are unabashed tax havens where the main attractions for the banks are the absence of income taxes, the complete freedom to transfer funds according to the prerequisites of the bank, and a time zone which facilitates the global movement of funds around the clock. These centers serve as formal way-stations for bank assets and liabilities, but their branches and subsidiaries are often only shell offices with a name plate and post office box. Actual transactions are undertaken by headquarters and movement of funds into and out of the center is merely a bookkeeping event undertaken by headquarters.

Table 31

PERU: CURRENCES OF COMMERCIAL BANK LOANS, 1965-1976a/
 (Percentage of total)

	1965-1970	1971-1976
U.S. Dollars	98.1	88.9
D. Marks	1.4	1.9
Swiss France	0.1	0.4
French Francs	-	2.9
Yen	-	0.5
Pounds	-	3.2
Lira	0.4	-
Guilders	-	1.5
Canadian Dollars	-	0.8
Other	-	-
<u>Total</u>	<u>100.0</u>	<u>100.0</u>

Source: CEPAL on the basis of official data.

a/ All credits, guaranteed and unguaranteed.

These tax havens can be used in various ways. One common way is to generate profits on foreign exchange transactions.^{236/} Another type of transaction which is of more relevance to this study involves loans. The value of booking a loan in a tax haven depends to some extent on tax regulations of the home country of the parent bank. For instance, in the case of U.S. banks tax officials permit their banks to credit taxes paid on foreign income in excess of the U.S. rate of 48% to other foreign income taxed at ^{237/} lower rates than the U.S. rate. Thus, U.S. banks have an incentive to generate income in low tax areas as there is no better place to do so than in a tax haven. Two favorite tax havens of U.S. banks are the Cayman Islands and the Bahamas. Non-U.S. banks also operate out of these centers.^{238/}

Table 32 breaks out areas where banks have booked their loans to Peru.

As is seen, in the first period, headquarters was the source of an overwhelming number of loans to Peru. This is consistent with the circumstances in the period. First, loans to Peru were small in absolute terms and therefore could be funded easily out of domestic financial centers. And many banks would be inclined towards home country finance because often the cost of funds could be less than in an offshore center such as London. Second, medium term loans to developing

countries were not yet commonplace, so such transactions were of personal concern to top executives at headquarters. Third, in the 1960s expansion of branches and subsidiaries abroad for the purpose of building up an international loan portfolio was still at an early stage of development; moreover, banks were just beginning to realize the tax advantages of offshore banking centers.

Table 32

PERU: WHERE COMMERCIAL BANKS BOOKED LOANS, 1965-1976^{a/}
(Percentage of total lending)

	1965-1970	1971-1975
Headquarters	95.1	46.9
London	-	14.1
Bahamas	-	17.4
Panama	0.2	3.0
Cayman Isles	-	2.1
Paris	-	0.7
New York	1.0	1.1
Luxemburg	-	5.4
Switzerland	-	0.3
Other	-	0.9
Unspecified ^{b/}	3.6	8.1
<u>Total</u>	<u>100.0</u>	<u>100.0</u>

Source: CEPAL on the basis of official data.

^{a/} All credits, guaranteed and unguaranteed.

^{b/} Unable to determine where booked.

The table shows a profound change in the booking of loans in 1971-1976. While headquarters remained the dominant station for loans, its share fell from 95% to 47%. Meanwhile, London rose in importance, as loans to developing countries became frequent enough to require the tapping of liquid dollar pools in the eurocurrency market. ^{239/} Meanwhile, tax havens like the Bahamas came into vogue among bankers.

One may observe that bookings in the Bahamas are quite high at 17% of total authorizations, while Panama is quite low at 3%. This came as something of a surprise since it was thought that an established offshore center like Panama might be a major station for loans to a Latin American country such as Peru. This suggests that the two centers play distinct roles for international commercial banks. It also suggests that the Bahamas, a country that has attracted little study, may merit detailed analysis as a financial center.

I. SOVEREIGN IMMUNITY AND LEGAL JURISDICTION

In this last section of the chapter, two legal aspects of commercial bank loans to Peru that have been a source of friction for developing country borrowers will be reviewed: waivers of sovereign immunity and local jurisdiction over credit agreements.

Lending to governments obviously is different from lending to private entities. The differences are reflected in the fact that bankers see not only commercial risks in lending to governments, but also sovereign risks. Sovereign risks stem from three special privileges that governments enjoy:

First, they may not be sued within their own courts or the courts of another country. There are some exceptions: in some countries, but as a general proposition, a government or its instrumentality has an immunity against service of legal process. Second, the courts of one country will not ordinarily sit in judgement as to the acts or omissions of another country occurring within its own territory. Again, there are some exceptions, but as a general proposition, even if a government can be sued, it may successfully defend on the ground that the propriety of its acts or omissions in its own country is not open to question in any country. Third, property of a government or its instrumentality is immune. So even if a government consents to be sued, and even if a court pronounces judgement against it, the judgement may not be enforceable. ^{240/}

While banks may make an excellent assessment of the economic and commercial risks associated with a government loan, the element of sovereign risk is a highly uncertain factor that is difficult to control.

Bankers try to protect their loans as far as possible. They generally like to resolve repayment problems without recourse to legal measures, but in the event that this proves necessary, bankers want to ensure that a borrower cannot escape due process. Thus, banks usually seek disclaimers of sovereign immunity. This so-called waiver of sovereign immunity is generally considered to be an indispensable protective clause.

On the other hand, developing country borrowers show their distaste for such waivers. Many governments find the clauses to be an affront to their national sovereignty and a limitation on their freedom of action. Nevertheless, bankers demands for this type of protection generally have prevailed and the waiver has become a standard clause in loan contracts. In the case of Peru, the clause was frequently observed in loan agreements throughout the 12 years of the study. Because of the many ways such a clause can be

incorporated into an agreement, it was difficult to systematically quantify the existence of waivers. But data in the study suggest that at least one half (and probably more) of the value of all credit in 1971-76 carried disclaimers of immunity. Peru was not alone in this case, as virtually all other developing country borrowers have had to submit to the same clause in order to secure commercial credit.

Only recently have some borrowers openly defied banks' efforts to have them sign away their immunity to prosecution. However, success is far from generalized and the waiver remains the rule rather than the exception. One cannot help but wonder to what extent such clauses are a needless irritant to developing countries. In the event that an open confrontation arises over a loan, if a government does not have the political will to settle the disagreement, no court inside or outside the borrowing country can force it to submit to the views of the bank. In the last instance, repayment rests on the good will of the government to honor its obligations. Any clause that makes a government waive its right to sovereignty is really a form of false security for the bank that covers over the real underlying forces behind repayment. This fact is aside from the consideration that there is considerable doubt about whether any court would agree to hear a case involving a sovereign government. 241/

The subject of legal jurisdiction of a loan agreement is not unrelated to the issue of sovereign immunity. It also is a focal point of disputes between the borrower and the lender.

Bankers, of course, prefer to have the legal jurisdiction over the loan contract in their home country or some other industrialized state. Thus, if a dispute is taken to court a bank can enjoy the familiarity of its country's legal environment. Sovereign governments, however, are usually loath to the idea of submitting to the courts of a foreign entity, for reasons which are obvious. Here again banks have prevailed in as much as it is almost a rule of thumb that an industrialized country, and particularly the home country of the lender or lead bank, be the legal site for adjudication. 242/

In the case of Peru, it is illegal for the government to submit to foreign courts. This is because Article 17 of Peru's 1933 Constitution states that all contracts between the state and foreign entities must be under Peruvian legal jurisdiction. 243/ However, in almost all the loan agreements with Peru in 1965-1976, the banks were able to insert clauses establishing the legal jurisdiction in their home country. To take into account Article 17, the jurisdictional statement is usually followed by a sentence such as this: "Only to the extent required by Article 17 of the Constitution of the Republic of Peru will the banks submit to the laws and courts of Peru".

The last hedge by the banks, which appears to be obligatory for a legal contract, would seem to imply that Peru could be the ultimate jurisdictional setting for any dispute. But if this is so, why do the banks insist on establishing their home country as the juridical site? Again this type of clause would appear to serve more as a needless affront to the government than a real form of security to the banks. Also it probably would lead to confusion should a legal dispute actually arise.

The whole issue of legal jurisdiction is worth reconsideration. After all the jurisdictional clause is of little use if a borrower really wishes to take an independent position on a dispute. Moreover, banks, being transnational, would appear to be in a much better position to adapt themselves to the legal environment of the borrowing country than vice-versa. And if a borrower should feel so strong about its position so as to distort the national juridical process in order to gain a favorable decision, it also is unlikely that it would accept a negative judgement from the courts of a foreign country. In the end it is the good faith of the government that secures a loan, so demanding legal jurisdiction that is alien to the borrower only may serve as ephemeral protection to the bank, and as lasting indignation to the borrower.

Despite the fact that there are serious reasons to question the utility of waivers of sovereign immunity and jurisdiction, one must appreciate the psychological comfort such clauses provide risk conscious bankers. If they were unable to have this security, bankers might become reticent to lend at all. Thus, it seems prudent to seek a compromise. Why not substitute the two clauses for some form of international arbitration should disputes arise? Indeed, a few European banks have adopted this measure and it might be worthwhile for other international banks to follow this practice as well.

SUMMARY

The preceding analysis has graphically documented the substantial changes in the characteristics of commercial bank loans over the period 1965-1976. Not only was there a dramatic increase in the number of commercial creditors, but the terms of lending, types of loans and mechanisms for finance also underwent a marked transformation. The next chapter will focus on a specific aspect of this transformation: the syndicated credit.

CHAPTER VI

SYNDICATED CREDITS TO PERU

Chapter V offered some brief analysis of the characteristics of syndicated loans during the 1970s. Given the importance of these credits - they accounted for nearly 80 per cent of all bank finance to Peru in 1971-1976 - and their rather complicated structure, special attention is devoted to them here. The basic purpose of analysis is to go beyond the ordinary presentation of the syndicated loans and penetrate the credit as far as data permit in order to gain a more organic view of its properties. To achieve this the syndicated loan will be alternatively analysed from the angle of the lenders and the borrower.

In the 1960s most commercial bank loans in the eurocurrency market pertained to individual banks and the amount of credit on any one transaction rarely exceeded 15 million dollars. However, as demonstrated previously, in the case of Peru, when lending from home markets some banks had found advantages in joining together in multi-institutional agreements: more credit could be extended to the borrower at less risk to the individual banks; there was one umbrella agreement for all participating institutions; greater leverage over the borrower, etc. In 1968 Bankers Trust extended the concept to the international market where it arranged a 100 million dollar euro-syndicated credit for the government of Austria. ^{244/} Then in 1970 Manufacturers Hanover headed a 200 million dollar syndicated credit to the government of Italy. This loan had all the trappings that have become associated with syndicated credits; a 5 year medium term maturity, a 0.75% per cent spread over LIBOR, and front-end fees of 0.5 per cent. ^{245/}

The 1970s saw the syndicated credit evolve into the dominant mechanism for the extension of international credit. As ever more banks forged ahead with the development of international portfolios, the magnitude of eurocredits exploded. It has been estimated that in the first half of the 1970s roughly 25 per cent of the value of funds provided in syndication was in the form of transactions of 500 million dollars or more. ^{246/}

As noted earlier, syndicated credits are arranged

by a lead bank which takes responsibility for negotiating with the borrower over the terms and conditions of a credit. Once an amount of credit is established and the lead bank feels that it has negotiated terms that are attractive enough to form a syndicate, it seeks bids from other banks to join in the operation. In order to inform banks - especially small-and medium-sized institutions with limited ability to assess international debtors - of the borrower's creditworthiness, the lead bank prepares a placement memorandum which details the borrower's creditworthiness, and the general terms and conditions of the loan.

In order to facilitate the formation of a syndicate, the lead bank often offers some prospective participants the role of co-manager in the syndicate. This provides the prospective lenders greater incentive to join the operation and increase the value of their participation; not only is their voice in negotiations increased, but they gain publicity as an organizer of the credit; and, most importantly, they enjoy a share of the fees that, as shown in the previous chapter, have become common to the commercial loans of the 1970s. The lead bank also might offer a share of the fees to ordinary participants.

The monetary participation of the lead bank and other managers in the syndicated credit will vary according to the management style of the banks and the market's response to the offer of syndication. If the loan is over-subscribed, the lead bank and managers can reduce their participation in the credit to a minimum, if desired, leaving income generation basically to the risk free front-end fees that accompany the credit. On the other hand, if the syndication bid is undersubscribed, the lead bank and other managers must fill in the gap with a higher participation than originally anticipated, or declare the syndicate unrealizable, at least under the originally agreed terms and conditions. 247/ In a borrower's market such as that of the first half of the 1970s, the lead bank and managers might very well decide to increase their participation above the level originally planned in order to avoid the embarrassment of a failure to organize a credit. Then the banks could contemplate selling their unwanted participation on secondary markets at a later date. However, this latter strategy, which is not infrequent, requires a lead bank to be of some size; a small bank would not be in a position to fill substantial gaps in syndication.

The whole process of organization of a credit may require up to 3 months for a borrower of low status in international markets and as little as four weeks for a well known first-rate client. The sequence of events in the formation of a syndicated loan is described in table 14 of the statistical appendix. 248/

Once the agreement has been signed, it is the role of the agent bank to administer and enforce the contract. While

in theory the agent can be anyone of the banks in the syndicate, in practice the role usually has been assumed by the principal lead bank, thereby giving it rights to the special administrative fees. 249/

Finally, before entering into the specific case of Peru, it is important to re-emphasize that the syndicated credit was a key ingredient in the massive "transnationalization" of world banking in the Seventies. The mechanism of syndication facilitated the entry of many new banks that otherwise might have stayed away from international finance, and it gave incentive to big international banks to extend the scope of their lending activities.

For small-and medium-sized banks that had little experience in international lending, the syndicate allowed them to extend foreign credit in amounts commensurate to their size and risk preference, e.g., as little as between 500 thousand and a million dollars could be an acceptable contribution to a syndicated credit. These banks also could enjoy the security and prestige of lending side-by-side with the giant world banks that organize the syndicates and assume responsibility for evaluating the creditworthiness of the borrower. Moreover, the small/medium sized banks could gain international renown as they would appear in the one page advertisements ("tombstones") that are placed in financial media to publicize new syndicated loans. 250/

From the standpoint of large international banks, the organization of a syndicate provided them with an opportunity to appear to be satisfying their clients' financial needs, all while minimizing their individual credit risk. These banks also could gain the prestige and extra fee income generated by forming a syndicate. For a large bank that wanted to become a major international bank, organization of a syndicate was a particularly effective way to rise from obscurity to international renown in a relatively short time.

Thus, it is clear that the syndicated credit was attractive to banks of all sizes and made lending in international markets appear less uncertain. Also, by facilitating new entrants to international finance, it created an intense competitive environment in the first half of the Seventies that caused banks to begin lending to developing countries and also caused the terms of credit to improve markedly from the standpoint of the borrower.

A. THE GENERAL CHARACTERISTICS OF SYNDICATED LOANS TO PERU

As evident from the previous chapter, syndicated loans appeared simultaneously with the process of general penetration of the Peruvian market by international commercial banks in 1971/1972. The basic characteristics of syndicated credits appear in table 33.

As may be appreciated, the average size of syndicated credits for the period 1971-1976 amounted to 41 million dollars.^{251/} This contrasts with an average size of 5 million dollars on single bank loans in the same period. The average number of banks in each syndicated credit reached 15 and the average participation totaled only 2.8 million dollars. This latter figure is very illustrative of how banks minimized their individual risk on large transactions. Concerning the average size of the banks - weighted by the value of their participation - involved in syndication, it was rather large; the average size based on assets was equivalent to 27 on a world ranking of 1-300.

Table 33 shows that 46 individual banks at least once played the role of agent or manager in a syndicated credit.^{252/} However, assuming the agent to be the principal lead bank in syndication, the role of organizer of these loans fell into the hands of only 22 banks, or a mere 13% of the institutions in the study. This has implications which will be dealt with in the chapter's subsection on lead banks.

As for the size of the lead banks, they tended to be very large institutions. The average international rank of the agents was 18, while it was 15 for the managers. This would support a priori notions that a successful lead bank must generally enjoy the prestige and the broad international contacts that only large banks display.

The agent and manager jointly accounted for slightly more than one-third of the credit in syndicated loans. Notably, the agent alone accounted for somewhat more than one-sixth of the credit. Managers, of which there may have been several in any one credit, accounted for 18% of the value of syndicated loans. Given many more managers than agents in transactions, each individual agent, (or principal lead bank), on average, obviously carried a relatively greater burden of loan commitment.

With regard to the participating banks, 155 institutions joined in a syndicated credit at least once. As would be expected, their average size is much smaller than the lead banks, equivalent to 41 on the scale of world rankings. And they accounted for the bulk of credit, bearing 65% of the total value of syndicated loans.

B. COST COMPARISONS BETWEEN SYNDICATED AND NON-SYNDICATED CREDIT

For a borrower, syndicated credits clearly have an advantage over single bank loans with respect to the amount of resources that can be mobilized in any one transaction. Nevertheless, the question remains: how do syndicated credits compare with single bank credits in terms of cost? This can be determined by viewing the average terms on each type of credit presented in table 34.

Table 33

PERU: BASIC CHARACTERISTICS OF SYNDICATED LOANS, 1971-1976^{a/}

1. GENERAL

a) Percent of all credit mobilized via syndication	78.7
b) Average size of syndicated credits (millions of dollars)	41.2
c) Average number of banks per syndicated credit	15
d) Average size of the banks (assets, equivalent international rank) ^{b/}	27
e) Average participation of the banks (millions of dollars)	2.8

2. LEAD BANKS

a) Number of banks acting as lead banks ^{c/}	46
(- as agent)	(22)
(- as managers)	(35)
b) Average size of lead banks (equivalent international rank) ^{b/}	17
(of agent)	(18)
(of managers)	(15)
c) Percent of syndicated credit extended by the lead banks	35.1
(by agent)	(16.8)
(by managers)	(18.3)

3. PARTICIPATING BANKS

a) Number of banks acting as participants in syndication ^{c/}	155
b) Average size of participating banks (equivalent international rank) ^{b/}	41
c) Percent of syndicated credit extended by the participants	64.9

Source: CEPAL, on the basis of official data.

^{a/} All syndicated credits.

^{b/} On a scale of 1-300. See footnote ^{c/} of table 20.

^{c/} Each bank has been counted only once for each category of agent, manager, or participant. Also, a manager that acted as an agent for a syndicated credit has been counted only as an agent. Since a bank appearing in several credits could alternatively be a manager, agent, or participant, the total number of banks in the various categories exceeds the number of institutions in the study.

Table 34

PERU: COMPARISON OF AVERAGE TERMS BETWEEN SYNDICATED
CREDITS AND LOANS ADVANCED BY A SINGLE BANK a/

(Averages)

	1972	1973	1974	1975	1976
<u>1. Average spread over LIBOR (%)</u>					
Syndicates	2.08	1.68	1.13	1.79	2.19
Single credits	2.01	1.61	1.15	1.72	1.96
<u>2. Maturity (years)</u>					
Syndicates	6.26	8.79	9.57	5.64	5.0
Single credits	6.0	8.13	8.68	6.37	3.24
<u>3. Flat fees (%)</u>					
Syndicates	0.29	0.45	0.29	0.95	1.42
Single credits	-	0.076	0.073	0.363	0.305
<u>4. Prepayment fees (%)</u>					
Syndicates	-	1.43	0.71	0.91	1.49
Single credits	0.50	0.76	0.73	-	-

Source: CEPAL, on the basis of official data.

a/ Averages are weighted by the amount authorized. Only for credits without guarantees of export credit agencies.

The table reveals that syndicated credits generally has slightly higher LIBOR spreads, somewhat longer maturities and significantly higher fees and prepayment penalties compared with single bank loans. These differences are more or less what one would expect and reflect the different nature of the two credits.

A syndicated credit is a rather impersonal transaction, as opposed to the very personal nature of a single bank loan. Thus in order to ensure that a syndicate is realized, a lead bank must sometimes place interest spreads at a level high enough to attract marginal participants who have little to gain from the transaction save income. This situation also explains the relatively higher fees/penalties on syndicated loans. In contrast, in a single bank loan the lender may have motivations that extend beyond income on the specific transaction e.g., image-making, support of a home country foreign supplier, etc. Also, fees can be lower because they do not have to be split among a number of institutions, as is the case of a syndicated loan.

Aside from a slightly higher interest rate and higher fees, the longer maturity on syndicated credits also probably is influenced by the nature of the two types of loans. In a single bank loan the lender cannot share the risk as it would do in the case of a syndicated credit. Also, a single bank credit can involve a commitment that is large relative to a commitment on a syndicated loan. (The average participation in a syndicate was 2.8 million dollars, while that for a single bank loan was 5 million dollars.) For a given interest rate, all this would incline single lenders towards shorter maturities than available on a syndicated credit.

The generally more favorable interest rate, fees and penalties on a single bank loans might suggest a strategy designed to induce more banks to lend on their own. However, in the end syndicated credits would appear to offer more advantages to the borrower. The longer maturity on these transactions are very important to developing countries and could offset equally or more the disadvantages related to interest margins or fees. Moreover, syndicated loans - by virtue of their large size - probably are less taxing to the limited negotiating capacity of many borrowers and certainly present less of an administrative burden than the hundreds of individual credit agreements needed to substitute syndicated credit flows.

C. THE LEADERS OF SYNDICATED CREDITS

The key personality in a syndicated credit for a borrower is the lead bank. Its good will is rather important to the borrower's success in maintaining a link to international capital markets. The drawing power of a lead bank can determine the costs and conditions of credit. Moreover, the market's interpretation of the borrower can be influenced by the evaluation of the country that is commonly found in the placement memorandum prepared by the lead bank. Also, the lead bank most often administers a signed credit and thus is the institution with which the borrower must deal in the event of problems during the life of a loan agreement.

Thus the lead bank adds another dimension to the role of commercial lending institutions in the Peruvian economy. It has been shown that some banks are important creditors to Peru. However, it is now clear that a bank may be even more important - without having lent to the government at all - merely by acting as a major lead institution in syndication. As it turns out, however, many of Peru's important lenders also are important lead banks, making their leverage over the Peruvian economy that much more pronounced.

A syndicated credit formally can have a number of lead banks. However, many managers in a syndicate often are

institutions with a secondary role in the organization of a credit and sometimes they are designated as a manager simply as an inducement to provide a larger participation. (A manager benefits from fees and publicity.) In those cases in which there is more than one managing bank in a credit, the principal lead bank usually is the manager that also is designated as the agent. ^{253/} Thus, Table 35 presents Peru's principal lead banks under the assumption that they are the banks which have been agents of the syndicated loans. ^{254/} The banks are ranked as leaders of major, intermediate and minor importance according to the percentage of the total value of the syndicated loans mobilized by them. The table also shows the average participation of the lead bank in its own syndicates and the bank's position with respect to the top lead banks in world credit markets.

Peru's top lead banks are Citicorp and Wells Fargo, both of which were classified in the previous chapter as major lenders to the government. By virtue of their top positions as lenders and mobilizers of credit on international credit markets for the government, these two banks stand out for their importance to Peru.

Considerably behind Citicorp and Wells Fargo as lead banks to Peru are Manufacturers Hanover, Dresdner Bank and Bank of Tokyo. All three fall into an intermediate level of importance as mobilizers of credit. As lenders, the first bank was classified as a major institution in Chapter V, while the latter two were classified as of intermediate importance.

One also finds a number of banks classified as minor mobilizers of international credit. Of this group, most were classified as lenders of intermediate importance to Peru. Chase Manhattan was, however, a major lender.

Looking at the international rankings in the same table, one notes the direct relation between a bank's position as lead bank for Peru and its position in world markets vis-à-vis major world lead banks in 1975 and 1976. Citicorp was not only a top lead bank for Peru, but also for the world market. Wells Fargo also figured as a major world lead bank, but it rested far below Citicorp. Thus its role as a lead bank for Peru was more than proportional to its position on a world scale, suggesting special behavior with respect to this country. As will be demonstrated throughout the course of the study, this is just one of many indicators of a special relationship between Wells Fargo and Peru.

With the exception of the Bank of Tokyo, lead banks of intermediate importance to Peru also were important lead banks on world markets. Among minor lead banks for Peru, four occupied the position of top lead banks in world syndication. Chase Manhattan stands out in this regard; it was a principal lead bank in world syndication, but only a minor lead bank for Peru. However, one should remember that Chase was the lead institution on the 200 million dollar syndicated credit

Table 35

PERU: LEAD BANKS GROUPED ACCORDING TO THEIR IMPORTANCE AS MOBILIZERS
OF CREDIT, 1971-1976^{a/}

Amount mobilized by bank as a percent of the total value of all syndicates ^{b/}	Percent participation of bank in its own syndicates (average)	International rank as lead bank in	
		1975 ^{c/}	1976 ^{d/}
<u>Major agents</u>			
1. <u>19 - 24</u>			
Citicorp	10.7	1	1
Wells Fargo	12.8	8	18
2. <u>14 - 18.9</u>			
<u>Intermediate agents</u>			
3. <u>9.0 - 13.9</u>			
Manufacturers Hanover	23.6	6	7
Dresdner Bank	16.4	...	5
4. <u>5 - 8.9</u>			
Bank of Tokyo	15.5	...	...
<u>Minor agents</u>			
< 5			
Chase Manhattan	74.0	4	3
Bank of Nova Scotia	33.3	...	...
Bankers Trust	33.3	...	8
Banca Commerciale Italiana	50.0	...	...
Morgan Guaranty Trust	11.8	3	4
Crocker National Bank	10.0	...	...
Lloyds Bank	40.0	10	...
Swiss Bank Corporation	28.2	...	...
National and Commercial Banking Group	17.3	...	...
Credit Lyonnais	50.0	5	9
Banque de L'Indochine et Suez	25.0	...	...
Algemene Bank Nederland	50.0	...	...
American Express International	20.0	...	...
Compagnie Financiere de Paris et des Pays-Bas	50.0	...	...
European American Bancorporation	10.0	...	...
First Chicago Corporation	8.3	12	21
Western American Bank Ltd.	16.3	...	...

Source: CEPAL, on the basis of official data; ranking of lead bank is as follows:

1975, the International Herald Tribune, November 1976;

1976, Euromoney (April 1978).

a/ All syndicated credits. Lead bank assumed to be the agent bank of each loan.

b/ Total value of syndicates for which the bank was agent divided by the total value of all syndicates to Peru.

c/ Rank within the top 15 lead banks in world syndication.

d/ Rank within the top 21 lead banks in world syndication.

for the privately-sponsored Cuaajone copper mine, which does not figure in the data base of the study. If this credit were taken into account, Chase could then be considered a major lead bank of the country as well. It also is worthwhile to point that Lloyds Bank acted as a leader on a 23.5 million dollar credit to Cuaajone.

The last and most important conclusion about the major lead banks is that a relatively few of them were responsible for a disproportionate amount of mobilized credit. The five top lead banks accounted for more than three-quarters of the total value of mobilized credit. This makes for impressive dependence on a few key institutions for access to international capital and heavily conditions the earlier finding of Chapter V that showed a much greater degree of dispersion in the sources of funding in the 1970s as compared to the heavily concentrated sources of commercial funding of the 1960s. Indeed, while the concentration of commercial lenders fell dramatically in the Seventies, it was a manifestation of the increased possibilities for international lending that emerged because of the syndicated credit. And syndicated credits brought a new form of concentration of economic power, as evident by the handful of banks responsible for organizing Peru's international loans. This concentration of power, incidentally, also is present in international markets where a coterie of large banks dominate the mobilization of syndicated credit.^{255/}

1. Lead banks grouped according to country of origin

Table 36 breaks down agent and manager banks according to their country of origin. The number of lead banks for each country, the percentage of credit mobilized by each country group and the percentage of participation in syndication also is presented.

It is evident that the dominant lead banks, both in terms of their number and the value of the mobilization of credit are U.S. institutions. No other country group approaches the U.S. in terms of its role in mobilizing international credit. The previous chapter demonstrated that U.S. banks were still dominant as lenders to the government, notwithstanding the notable dispersion in the geographical sources of funding in the period 1971-1976. However, it would appear from an examination of tables 20 and 36 that this dominance is even more important from the standpoint of leading syndicated credits. Moreover, if leadership is defined as being the agent bank - which usually is the lead bank - than the dependence on U.S. institutions is rather extraordinary, both from the standpoint of the number of lead institutions and the total value of their mobilizations. Thus another example of how an examination of the absolute

Table 36
PERU: LEAD BANKS GROUPED ACCORDING TO COUNTRY OF ORIGIN, 1971-1976a/

Country of the bank	NO of lead banks <u>b/</u>			Percent of all syndicated credit mobilized by lead banks <u>c/</u>			Percent participation of leaders in their syndicated credit		
	Total	As agent <u>d/</u>	As manager	Total	As agent <u>d/</u>	As manager	Total	As agent <u>d/</u>	As manager
	United States	14	9	13	76.0	68.8	29.1	27.2	15.3	34.9
Japan	6	1	5	15.0	7.5	11.7	15.9	15.5	10.5
Canada	5	1	5	18.6	1.7	16.9	16.7	33.3	15.0
United Kingdom	3	2	2	14.9	1.0	13.9	10.1	23.7	9.1
Germany	2	1	1	13.1	13.1	1.4	20.9	16.4	41.6
France	3	3	1	6.4	1.2	5.2	13.3	42.7	6.6
Italy	2	1	1	6.8	0.3	6.5	9.3	50.0	7.1
Switzerland	2	1	1	4.4	2.7	1.7	22.4	28.2	13.3
Other	3	1	2	13.3	1.1	12.1	7.5	50.0	3.5
Consortium	6	2	4	12.3	0.8	11.6	8.9	12.8	8.6

Source: CEPAL, on the basis of official data.

a/ All syndicated credits.

b/ A single bank is counted only once in the agent and in the manager columns. The total excludes repetition of a bank so that it can be less than the sum of the agent and manager columns.

c/ Since several banks can appear in the same syndicate as managers along with an agent, there is double counting of mobilized credit. Therefore, the sum of all mobilization of all countries exceeds 100 percent of the total value of mobilized credit.

d/ An agent that also acted as manager in a syndicate has been only counted as an agent. Percentage sums to less than 100 because one syndicate did not have a formally designated agent.

level of authorizations of individual banks seriously can understate the degree of dependence of the government on certain types of commercial institutions.

2. Lead Banks Grouped According to Size

A good deal of prestige and financial power could be an expected characteristic of lead banks. Table 37, which distributes lead banks according to size, confirms this with regard to Peru. Most lead banks, both in terms of their number and the total value of mobilized credit, ranked in the top 91 of world banking. Banks of smaller size were not of great significance as leaders in syndication, especially if leaders are viewed as the agent bank.

Interestingly, the concentration of leaders in the largest banks would have been even greater if Wells Fargo had not played such an important role for Peru in this regard. As a U.S. regional bank ranked as 69 (on a world scale in 1975), Wells Fargo gave group 3 of banks a high profile in the total spectrum.

3. Affinity Groups Among Lead Banks and Participants in Syndication

It is interesting to consider the manner in which lead banks organized credits for Peru. One might suspect that lead institutions are more familiar with some banks than others, creating affinity groups, or clusters of banks, for

Table 37

PERU: LEAD BANKS GROUPED ACCORDING TO SIZE, 1971-1976a/

Asset range of banks (Millions of US\$) <u>b/</u>	Inter- national rankings ^{c/}	No of lead banks <u>d/</u>		Percent of all syndicated credit mobilized by leaders <u>f/</u>			Percent participation of leaders in their syndicated credit			
		As		As		As		As		
		Total	agent ^{e/}	Total	manager	Total	agent ^{e/}	manager	Total	Agent ^{e/}	manager
1) 65 789 - 32 895	1 - 10	5	3	5	49.5	23.1	35.0	19.8	16.4	17.2
2) 32 894 - 16 448	11 - 46	21	10	16	61.7	43.8	36.6	25.7	19.2	20.3
3) 16 447 - 8 224	47 - 91	6	4	5	44.6	27.2	17.6	14.0	13.9	14.0
4) 8 223 - 4 112	92 - 147	5	3	2	13.6	1.5	12.1	6.1	16.8	4.7
5) 4 111 - 2 056	148 - 263	3	1	2	5.8	2.3	3.5	15.5	20.0	12.5
6) 2 055 - 1 634	264 - 300	1	-	1	3.4	-	3.4	8.3	-	8.3
7) <1 634	>300	4	1	3	11.9	0.3	11.5	6.4	16.6	6.1
8) Unknown	...	1	-	1	8.7	-	8.7	3.3	-	3.3

Source: CEPAL, on the basis of official data.

a/ All syndicated credits.

b/ See footnote a/ of table 22.

c/ See footnote b/ of table 22.

d/ A single bank is counted only once in the agent and in the manager columns. The total excludes repetition of a bank so that it can be less than the sum of the agent and manager columns.

e/ An agent that also acted as manager in a syndicate has been counted only as a agent. Percentage sums to less than 100 because of one syndicate that did not have a formally designated agent.

f/ Since several banks can appear in the same syndicate as managers along with an agent, there is double counting of mobilized credit. Therefore, the sum of all mobilization of each group of banks exceeds 100 percent of the total value of mobilized credit.

Table 38
PERU: AFFINITY GROUPS BETWEEN LEADERS OF SYNDICATED CREDITS AND PARTICIPATING BANKS^{a/}

Frequency of participation (%)	Name of banks	Country ^{b/}	Frequency of participation (%)	Name of banks	Country
	<u>Swiss Bank Corporation</u>	Switzerland		<u>Wells Fargo</u> (continued)	
100	Swiss Credit Corporation	Switzerland	33	Bank of Tokyo	Japan
100	Union Bank of Switzerland	Switzerland	33	Midland Bank Group	United Kingdom
100	Swiss Volksbank	Switzerland	33	Associated Japanese Bank	C
	<u>Manufacturers Hanover</u>	United States	33	Tokai Bank	Japan
67	Citicorp	United States	33	Commerce Union Bank	United States
67	Bankers Trust	United States	33	Kyowa Bank Limited	Japan
67	Charter N.Y. Corporation	United States	33	First Pennsylvania Corp.	United States
100	Royal Bank of Canada	Canada	33	Hokkaido Tokushoku Bank	Japan
67	Wells Fargo	United States	30	United International Bank	C
	<u>Dresdner Bank</u>	Germany	50	Yasuda Trust and Banking	Japan
50	Banca Nazionale del Lavoro	Italy	66	American Express	United States
50	Toronto Dominion Bank	Canada	50	Banco de Brasil	Brazil
50	Banca Commerciale Italiana	Italy	33	Fuyo Kobe Bank	Japan
100	Bayerische Hypotheken und Wechselbank	Germany	50	Krediet Bank	Belgium
50	Banque Nationale de Paris	France	33	Mitsubishi Bank	Japan
50	Banco de Santander	Spain	33	Rothschild International	...
50	Banque de la Societe Financiere Europeene	C	30	Bankers Trust	United States
50	Deutsche Bank	Germany	30	C.I.T. Financial Corp.	United States
100	Credit Lyonnais	France	100	<u>Algemene Bank Nederland</u>	Holland
100	Banca Commerciale Italiana	Italy	80	Amro Bank	Holland
	<u>Wells Fargo</u>	United States	60	Bank of Tokyo	Japan
50	Western Bancorporation	United States	60	Banque Commerciale Pour L'Europe Du Nord	Soviet Union
66	Banca Commerciale Italiana	Italy	60	Tokai Bank	Japan
33	Royal Bank of Canada	Canada	50	Banque Europeene de Tokyo	C
66	Toronto Dominion Bank	Canada	80	Fuji Bank	Japan
50	Lloyds Bank	United Kingdom	80	Mitsui Bank	Japan
50	Marine Midland Bank	United States	60	Sanwa Bank	Japan
50	Banca Tristate	United States	60	Dai-ichi Kangyo Bank	Japan
50	Long Term Credit Bank	Japan	60	Kyowa Bank	Japan
50	Banque Europeene de Tokyo	C	40	Mippon Credit Bank	Japan
83	Banque Commerciale Pour L'Europe Du Nord	Soviet Union	60	Taiyo Kobe Bank	Japan
33	Industrial National Corp.	United States	60	Saitama Bank	Japan
33	Japan International Bank	C	80	Sumitomo Bank	Japan
33	Libra Bank	C	40	Daiwa Bank	Japan
50	C.I.T. Financial Corp.	United States	60	Hokkaido Takushoku Bank	Japan
66	Atlantic International Bank	C	80	Industrial Bank of Japan	Japan
50	Canadian Imperial Bank	Canada	60	Bank of Yokohama	Japan
50	Fidelcor	United States	80	Mitsubishi Bank	Japan
66	Fuji Bank	Japan	40	Hokuriku Bank	Japan
33	Italian International Bank	C		<u>Citicorp</u>	United States
50	Mitsui Bank	Japan	100	Bank of America	United States
33	Mitsubishi Trust and Banking	Japan	100	Chase Manhattan Bank	United States
66	Sanwa Bank	Japan	100	Bankers Trust	United States
50	Banco de Santander	Spain	100	Continental Illinois	United States
66	Dai-ichi Kangyo Bank	Japan	100	Manufacturers Hanover	United States
33	Seafirst Corporation	United States	100	Philadelphia National Corp.	United States
50	Citicorp	United States	100	Morgan Guaranty	United States
			100	Wells Fargo	United States
			100	Chemical Bank	United States
			100	First Chicago Corporation	United States

Source: ECLA, on the basis of official data.

a/ Agents are assumed to be lead banks of syndication. They were matched with banks that appeared more than one time with the agent in a syndicated credit. The frequency of appearance is merely the number of times a bank accompanied the agent in syndication divided by the number of syndicates headed by the agents. Results must be treated as tentative since the actual number of syndicates headed by each agent was relatively small.

b/ The symbol C for the country of a bank indicates a consortium bank.

each leader. The identification of such groups around the experience of one borrower has its limitations. Not only are the number of observations for each lead bank limited, but a one country case can sustain only forced generalizations. Nevertheless, establishment of affinity groups is suggestive of the way certain lead banks operate on international capital markets.

Table 38 presents data on the banks that participated more than once in syndicated credits arranged by Peru's lead (agent) banks. It also shows the frequency of participation, i.e., the number of appearances of participant divided by the number of syndicated credits arranged by the lead bank. A frequency of 50% or more is suggestive of a "working relationship" between the lead bank and certain participants.

Three big New York money center banks in the table - Manufacturers Hanover, Bankers Trust, Citicorp - display relatively few working relationships. This is undoubtedly a function of their enormous drawing power in international markets which renders the development of many working relationships unnecessary for the successful formation of syndicates. However, it is noteworthy that many of the working relationships that they had were with other big New York banks, or other U.S. institutions such as Continental Illinois and First Chicago that fall into the big money center bank category and have much experience as international lenders. This is not surprising because U.S. money center banks have a tradition of strong operational links; recent U.S. government studies have shown these institutions to be closely connected through interlocking directorates and ownership of each other's stock.^{256/}

Wells Fargo's affinity group illustrates how a smaller regional bank managed to become a major lead bank for Peru. Not having the drawing power of big money center banks, Wells Fargo had to develop a much wider array of working relationships to ensure syndication. Notably, the degree of geographic dispersion of these relationships is large with respect to the other big lead banks and there is an obvious attention to exploiting the special links between the U.S.'s West Coast and Japan. Another feature of Wells Fargo's affinity group is that like Wells Fargo, many of the banks were relative newcomers to the international scene in the first half of the 1970s. (In Chapter VII one will find that most of the affinity group also was willing to join Wells Fargo in undercutting market prices for loans to Peru.) In sum, it appears that in order to succeed as a lead bank, Wells Fargo had to "try harder" through innovation and the development of commercial relationships with a far reaching number of banks.

The Bank of Tokyo - at the time a newcomer and not a giant in the world organization of syndicates - also appears to have relied relatively more on working relationships to

form syndicates. Moreover, its relationships were clannish in comparison with Wells Fargo as almost all the institutions are of Japanese origin.

Finally, the Swiss Bank Corporation maintained a very strong working relationship with a few banks of the same national origin and Dresdner Bank - a giant in syndication - showed a fair number of working relationships of relative international character.

D. THE RELATIVE INTERNATIONAL CHARACTER OF SYNDICATES

In this last section on the syndicated credit, analysis will focus on the geographic character of the loan. Syndication of loans is symbolic of the internationalization of commercial bank activities. It might be asked how international are the syndicates? Table 39 shows, for the period 1972-1976, the percentage value of syndicated credit coming from banks of a country origin distinct from that of the lead bank. It is evident that in 1972-1975 between 40% and 50% of the syndicated credit came from "international" sources, giving loans a reasonably transnational flavor.

Table 39

PERU: RELATIVE INTERNATIONAL CHARACTER OF SYNDICATED
LOANS, 1972 - 1976 a/

(Averages) b/

	1972	1973	1974	1975	1976
Percentage value of syndicated credit derived from banks of a country origin distinct from that of the lead bank	50.2	46.9	42.3	49.5	17.3

Source: CEPAL on the basis of official data.

a/ All syndicated credits, guaranteed and unguaranteed.

b/ Weighted by the value of the loans.

However, in 1976 loans had little international character.

The year 1976 was a special situation and reflects events when a country is on the verge of losing its creditworthiness (from the viewpoint of the banks). As noted in earlier chapters, this year Peru sought large refinance credits to stem the deterioration of its balance of payments

and meet debt service obligations. Given that the request was under conditions of economic duress, lead banks did not compete for the business; rather banks perceived the transaction as a bail out of the external accounts and therefore creditors organized a Steering Committee and banded together in national groups, - U.S., Canada, Japan, etc. - to form coordinated syndicates with roughly 400 million dollars in rescue finance.^{257/} As demonstrated in Chapter V, the terms and conditions of the credit were identical for all national groups, a further indication of the absence of competition in syndication. Research also revealed verbatim formulation of many clauses in the various loan agreements of the national groups.

Thus, there is evidence to suggest that syndicates do enjoy a relative degree of international character when banks are actively competing for a client's business. But once a borrower loses, or is on the verge of losing, its creditworthiness, commercial banks appear to revert to a more clannish, or even collusive, behaviour. In the case of Peru, national groups were formed and committees coordinated negotiations in order to avoid individual and collective losses. Terms and conditions were identical within and among country groups. This collusive arrangement undoubtedly facilitated coordination among bankers in the development of a mutually acceptable agreement. The fact remains, however, that the competitive advantages of syndication were lost to the borrower when it could not maintain the confidence of its lead banks and other private creditors; indeed, the borrower had to negotiate against an enormous block of international banks which assumed a united position on the amounts, terms and conditions of credit.^{258/} Moreover, as will be shown later in the study, in this non-competitive environment commercial banks also placed political conditions on their loans.

Chapter VII

THE DIFFERENTIAL BEHAVIOR OF COMMERCIAL BANKS

One of the conclusions that may be drawn from earlier analysis of bank lending to Peru is that behavior has not been homogeneous. It has become evident that some banks have lent considerably more resources to the government of Peru than others. It also has been seen that a bank's importance cannot be determined just by its level of authorizations; in the age of syndication certain banks play important roles as leaders which mobilize resources on international capital markets. Moreover, lead banks have displayed different strategies with regard to the organization of syndicated loans.

Likewise, when banks are examined from the standpoint of national origin, there are perceived differences in behavior. In the case of Peru, U.S. banks have been the overwhelmingly dominant lender, with Japanese banks a distant second. U.S. banks also have stood out as the principal lead institutions in syndication, mobilizing the vast amount of credit.

And when viewed from the standpoint of size, lending has clearly been dominated by very large institutions. It was shown in Chapter V that banks in the two largest ranges of asset size accounted for 78% and 58% of all lending in 1965-1970 and 1971-1976, respectively. Lead banks in syndication also usually were very large institutions. Smaller institutions certainly played a much more important role in 1971-1976 than in 1965-1970, but notwithstanding their large number, as a group they remained of secondary importance as both lenders and mobilizers of resources.

For developing country governments it is important to be aware of the differences in the behavior of its lenders. General policies of some banks or groups of banks may be more favorable to the borrower's interests than the policies of other banks, taking into account, of course, that what is viewed as favorable may change over time according to the specific goals of the government and objective circumstances. When approaching banks for finance, knowledge of the lending strategies of institutions can help to elucidate the relative strengths and weaknesses of both parties in any given bargaining environment. For instance, if a country has a

project to finance, it may be wise to approach banks that have demonstrated a special interest in that type of loan. If a country wants to reduce the cost of its credit, it might want to approach a bank that has shown a tendency to undercut market trends. In order to negotiate a loan under conditions of economic duress, it may be wise to approach banks that have a special interest in the health of the borrower, because, for example, of an unusually large commitment to it, or other important business interests in the domestic economy.

In order to ascertain the behavior of commercial banks, one must penetrate aggregate lending data. Up to now, any differences in the behavior of banks has come out implicitly in analysis of material of broader concern. It is the task of this chapter to focus more explicitly on the "revealed" differences among banks. The term revealed is employed because analysis covers only ex-post data on lending to Peru. To safely generalize one would need data on more countries and detailed data on the global lending policies and attitudes of each bank in the study. Unfortunately, such an ideal research laboratory is unavailable for reasons already elaborated upon in Chapter I. Thus, this more crude approach of analyzing the ex post behavior of banks with respect to Peru. The results, of course, are necessarily tentative in nature and subject to further research. And as will become apparent during the course of the chapter, given the far less than perfect information on all the banks in the study, one is left on many occasions only to conjecture on the motivations underlying behavior.

As for the material to be covered, four separate aspects of lending behavior are examined: (i) the individual relative commitments of lenders to Peru; (ii) the pricing strategies employed by the banks; (iii) risk preferences with respect to the type of loan extended, the economic sector supported, and the use of export credit guarantees; and (iv) the lending patterns of banks with branches or subsidiaries in Peru vis-à-vis all other banks. These individual areas of analysis have been selected on the basis of the availability of data and are not necessarily interrelated; therefore the respective sections of the chapter would be best viewed as being self contained. Nevertheless, where appropriate common threads of analysis are pointed out and the next chapter will attempt to draw some general conclusions from this and other analysis in Part II of the study.

Finally, in the examination observations are made about individual banks as well as groups of commercial institutions. Frequently the terminology "aggressive" and "conservative" is employed to characterize lenders. These terms are not meant to impart a blanket assessment of the value of a bank (or banks) to the borrower. Each type of lender can have more or less favorable, or unfavorable, effects depending on the objectives

and characteristics of the borrower at any given moment in time. For example, to the extent that aggressive lenders introduce cheaper market terms, they have an apparent favorable effect from the standpoint of the borrower. On the other hand, if the willingness of aggressive lenders to finance any and all activities induces the borrower to become lax in its financial management, then conservative bankers may be the better source of finance for the borrower. Thus, one should interpret the classification of aggressive and conservative as basically neutral in tone, with positive or negative connotations being added only according to the particular circumstances of the borrower.

A. THE RELATIVE COMMITMENTS OF COMMERCIAL BANKS

In table 18 of Chapter V one saw the relative importance of individual banks as lenders to the government of Peru in 1965-1970 and 1971-1976. However, the ranking of lenders was based on the total amount of gross authorizations and did not take into account the size of the individual lending institution. It therefore would be interesting to adjust total authorizations to the scale of the banks in order to detect the relative degree of commitment to Peru. This approach should reveal the extent to which individual banks have involved themselves in Peru and could be suggestive of marketing strategies. It also should be indicative of the leverage, if any, that Peru has over the banks.

In order to adjust data, gross authorizations 259/ in the period 1965-1970 were taken as a percentage of the assets of the individual lending banks, using dollar asset figures for 1969. A similar exercise was carried out for the period 1971-1976, with the exception that data on assets corresponded to the year 1975. In order to facilitate intra - as well as inter - period comparisons, coefficients were indexed. A coefficient of 0.5%, which happened to be the highest coefficient in the period 1965-1970, was taken as 100 and the rest of the data related to this base. Various ranges of the index were distinguished and classified as high, intermediate and low commitments. Lastly, banks were placed according to how their coefficient corresponded with the various ranges of commitment. 260/

Table 40 displays the results of the exercise. It is shown that some of the banks classified as major lenders in Chapter V for the period 1965-1970 also placed at the top of the scale of relative commitments for the same period. Bankers Trust, Continental Illinois and Manufacturers Hanover, all major lenders in terms of the value of their authorizations, also had the relatively most committed positions in Peru. The other major lenders - Citicorp, Chase Manhattan and Bank of

Table 40
 PERU: RELATIVE COMMITMENTS OF COMMERCIAL BANKS-TOTAL AUTHORIZATIONS
 AS A PERCENT OF TOTAL ASSETS, 1965-1970 AND 1971-1976^{B/}
 (100 = 0.499% of total assets)

1965-1970		1971-1976	
Level of commitments and names of banks ^{B/}	International rank of bank ^{B/}	Level of commitments and names of banks ^{B/}	International rank of bank ^{B/}
<u>High</u>		<u>High</u>	
100-80.0		> 668.9	
Bankers Trust	11	Libra Bank	301(c)
Continental Illinois	22	Euro-Latin American Bank	301(c)
Manufacturers Hanover	5	668.9-510	
<u>Intermediate</u>		Atlantic International Bank	301(c)
79.9-60.0		Asian and Euro American Bank	301(c)
Bank of Nova Scotia	47	509.9-343	
Franklin National Bank	78	Banque Europeene de Tokyo	301(c)
59.9-40.0		Associated Japanese Bank	301(c)
Schroders Ltd.	197	342.9-175	
Charter New York Corporation	39	Iran Overseas Investment Bank	301(c)
Citicorp	2	Western American Bank	301(c)
First National Bank of Boston	59	Nippon European Bank	301(c)
39.9-20.0		Japan International Bank	301(c)
Chase Manhattan	3	Banque de la Societe Financiere Europeene	301(c)
Bank of America	1	Wells Fargo	69
National Detroit Corporation	57	174.9-100	
Crocker National Bank	48	Italian International Bank	301(c)
Toronto Dominion Bank	54	Banca Tri-state Corporation	199
<u>Low</u>		United International Bank	301(c)
< 20		Inter-Union Bank	301(c)
Royal Bank of Canada	12	London and Continental Banks Ltd.	301(c)
Banca Commerciale Italiana	25	International Mexican Bank	301(c)
Morgan Guaranty Trust	6	European Brazilian Bank	301(c)
Westdeutsche Landesbank Girozentrale	14	American Express Int. Banking	223
Philadelphia National Bank	94	<u>Intermediate</u>	
Lloyds Bank	33	99.9-60	
Western Bancorporation	8	Bank of Nova Scotia	53
Bank of Tokyo	26	Banque Commerciale Pour L'Europe Du Nord	195
		International Commercial Bank	301(c)
		Crocker National Bank	79
		Fidelcor	203
		Philadelphia National Bank	144
		Toronto Dominion Bank	66
		Grindlays Bank	154
		Manufacturers Hanover	16
		First Pennsylvania Corporation	106
		C.I.T. Financial Corporation	210
		Banque Canadienne National	130
		Banque Continentale Du Luxembourg	301(c)
		59.9-40	
		Banque Europeen de Credit	301(c)
		Bankers Trust	32
		Orion Bank	301(c)
		Continental Illinois Bank	30
		Franklin National Bank	...
		Citicorp	2
		Royal Bank of Canada	22

Table 40 (concluded)

1965-1970		1971-1976	
Level of commitments and names of banks ^{b/}	International rank of bank ^{c/}	Level of commitments and names of banks ^{b/}	International rank of bank ^{c/}
		<u>Low</u>	
		<u>39.9-20</u>	
		Bank of Montreal	45
		Anthony Gibbs	301
		Industrial National Corp.	260
		U.B.A.F.	301(c)
		Dresdner Bank	14
		Trade Development Bank	219
		Chase Manhattan	4
		Lloyds Bank	31
		First Chicago Corporation	35
		Bank of Tokyo	28
		Morgan Guaranty Trust	19
		Bank of America	1
		Shamut Corporation	248
		Nomura Securities	d/
		Cleveland Trust Corporation	151
		Midland and International Bank	301(c)
		Banco de Santander	112
		Long Term Credit Bank	44
		Centran Corporation	258
		Marine Midland Bank	77
		Banque Francaise Du Commerce Exterieur	174
		Chemical Bank	23
		Banque Worms	286
		Schroders Ltd.	301
		Security Pacific Corporation	54
		Deutsche Bank	6
		Western Bancorporation	39
		Fuji Bank	13
		Swiss Volksbank	143
		<u>< 20</u>	
		The Remainder of the Banks in the Study <u>e/</u>	

Source: ECLA, on the basis of official data.

a/ Exercise is on authorizations without a guarantee of an export credit agency.

b/ Authorizations calculated as a percentage of bank assets. The asset size for the period 1965-1970 is based on 1969 data presented in The Banker June 1970; asset size for 1971-1975 is based on 1975 data presented in The Banker, June 1976. Where a bank did not rank in the top 300 of world banking, asset size was determined from 1975 balance sheet data of the Banker Research Unit's Who Owns What in World Banking, 1976. Other sources used to determine asset size were the Japan Company Handbook and The Times 1000. Banks for which no asset data could be secured were excluded from the exercise (see footnote g/).

b/ The ranks are based on the list of the top 300 in world banking prepared by The Banker. The ranks for 1965-1970 are based on 1969 asset size presented in The Banker, June 1970; the ranks for 1971-1976 are based on asset size in 1975 as presented in The Banker, June 1976. Banks that did not figure in the top 300 are ranked as 301. The letter "c" in parenthesis designates a consortium bank.

c/ Not ranked in The Banker.

d/ For the following banks were excluded from the exercise: Banque de L'Union Europeenne; Banque Internationale a Luxembourg; Balfour Williamson; Commerce Union Bank; La Salle National Bank; Rothschild Intercontinental Bank; Union Planters Bank; Banco Mexicano; Morgan Guaranty and Partners; Dow Banking Corporation; Algemene Bank Nederland; Comco International Bank; LTCB Asia Ltd.; Banque Arabe el Internationale D'Investissement; Trade Invest Bank and Trust Company; Banco Atlantico; Banco Nacional de Panamá; Banco de Bogota; First National Bank of St. Louis; Bank Lev; Privatbank and Verwaltungsgesellschaft; Bankfur Gemeinwirtschaft; Industrial Multinational Investment Ltd.; and Liberal Bank.

America - were decidedly less committed, suggesting more conservative lending strategies with regard to Peru. Citicorp, which ranks in the highest group of major lenders, had a relative commitment that placed it only in the intermediate ranks of table 40. The relative commitments of Bank of America and Chase Manhattan also were significantly less than proportional to their positions as lenders based on the absolute level of authorizations.

As for the intermediate lenders, Bank of Nova Scotia and Franklin National Bank stand out for their very significant level of relative commitment to Peru. It would appear, then, that in the Sixties these banks had a view on Peru that was somewhat more sanguine than many other lending institutions.

The other aspect of the relative commitments in the period is that no bank's commitment to Peru exceeded 0.5% of total assets. It is clear, then that the absolute weight of Peru in the total portfolio was very low even for the most heavily committed lenders. This reflects the age old dictum of prudent banking that risk can be minimized through loan diversification.

Turning to the second period, 1971-1976, one finds some striking changes. Most obvious is the fact that the scale of relative commitments by banks increased dramatically. Whereas 100 (equal to 0.5% of total assets) represented the top absolute level of relative commitment in 1965-1970, in 1971-1976 twenty banks exceeded this mark, some by more than six times.

One can appreciate from the table that almost all the banks that exceeded the base index of 100, and therefore at the very high end of the period's scale of relative commitments, were consortium banks. All the consortium banks ranked as minor lenders in terms of authorizations; nevertheless, gross loans, as limited as they were in absolute value, constituted a considerably higher percentage of total assets than for regular banks. This indicates a rather aggressive lending strategy. A possible explanation behind the phenomenon is that consortium banks are relatively small institutions that operate under the umbrella of their parent banks. The parents effectively absorb the risk of a consortium's lending, which is not very great in terms of the size of the parents. Thus, a consortium bank may commit itself to a borrower to a degree which otherwise might be deemed imprudent. And as will become evident shortly, consortium banks to some extent may have covered the higher risk through higher than average yields on their loans.

Aside from the consortium banks, the only regular banks with indexes in excess of 100 were Wells Fargo, Bancal Tristate Corporation and American Express International.

Wells Fargo is an unusual case. In Chapter V this bank classified as a major lender to Peru, its total

authorizations placing it within the group of top 5 lending institutions. The bank's relative commitment - the highest of any regular bank - far exceeds the relative commitment of any of the other major lenders in the period - Citicorp, Manufacturers Hanover, Bank of America and Chase Manhattan. Thus, Wells Fargo stands out as having a behavior that is very distinct from its companions in the major lending group. In terms of loans to Peru, Wells Fargo would appear to have had by far the most aggressive attitude of the major lenders. To achieve its business, the bank had to accept a much more extended position than any of the other major lenders. In fact, Wells Fargo's relative commitment was nearly three-times larger than the next most committed major lender - Manufacturers Hanover.

It is no secret that Wells Fargo had special interest in Peru. In the early 1970s the bank became interested in expanding beyond its regional business in the West Coast of the United States and in developing an extensive international portfolio. Markets in the industrialized countries were heavily penetrated by the big, established international banks. The most attractive developing country borrowers such as Brazil and Mexico already were the center of vicious competition among the world's bankers. Thus the appeal of second and third line borrowers in developing areas. In 1972 Peru represented a potential market for new business because many factors, described earlier in Chapters III and IV, had made most of the big, established international banks reluctant to deal with the military government. Moreover, for Wells Fargo, Peru was logical terrain for a foray into the developing world; it had recently placed in a high executive post a well-known and prestigious Peruvian national who had been an important functionary in the Peruvian Central Bank during the Belaúnde years. Using its special rapport with Peruvians, coupled with offers of substantial credit on terms which were favorable compared to that available from other institutions, Wells Fargo quickly captured a large share of the market. Pursuing similar policies up through 1974 (which will be described in greater detail later), the bank rose from zero start to become a major lender to the government of Peru and an important lender to other developing countries.

As for the two other banks with relatively high commitments in Peru - American Express and Bancal Tristate Corporation - they were of intermediate importance in terms of the value of their authorizations. They too appear to have had a generally aggressive lending policy towards Peru. Tristate, like Wells Fargo, is a U.S. regional bank and loans to Peru constituted an easy way to enjoy the high profits generated by lending to developing countries. American Express International is a well-known late-comer that behaved aggressively in international markets. Again, lending to Peru

probably represented a relatively easy way to support its ambitions to become a major world lender. In the case of American Express, however, its high commitment might be more similar to that of a consortium bank than a regular bank, since American Express International Bank is only a subsidiary of the much larger financial conglomerate, American Express Corporation. 261/

Table 40 reveals that between 1965-1970 and 1971-1976 a number of banks changed the level of their relative commitments to Peru. A rise in the relative commitment may have been in response to an explicit shift in the policy of a bank towards a more favorable attitude on the government. However, given the wide scale penetration of developing country markets by commercial banks during the first half of the 1970s, there is a strong likelihood that any increase in commitment is merely a reflection of a more general expansion of developing countries' share of bank portfolios. On the other hand, a greater suspicion may be attached to any significant fall in commitment level. In the aggressive lending environment of the Seventies, a reduction in a commitment to Peru would have required a conscious policy by the bank to counter general trends and restrain the growth of lending. This is turn could very well be indicative of a more conservative attitude on the part of the bank towards the military government.

Chapter V demonstrated that two major lenders in 1965-1970, Bankers Trust and Continental Illinois, fell to an intermediate level of importance in 1971-1976. It is evident from table 40 that they also experienced a rather sharp decline in their relative commitments to Peru between the two periods. This could indicate a change of attitude on Peru, involving a relatively more conservative policy with regard to lending to the government in the 1970s. Also, hidden in table 40 is a considerable fall in the level of the commitment of Manufacturers Hanover in 1971-1976. Thus, while in terms of absolute authorizations this bank held a position as a major lender to the government in both periods, in the Seventies it may have had a policy of relatively more restraint in lending.

Interestingly, the other major lenders - Citicorp, Bank of America, Chase Manhattan - appear to have had fixed limits on their lending to Peru throughout the 12 years. While the volume of their lending increased substantially between the two periods, their relative commitments remained basically unchanged. In other words, these banks provide no evidence of a special effort to expand the portion of their portfolio in Peru during the Seventies. Rather, their lending in 1971-1976 would appear, on the basis of these limited data, to have been of a defensive character, designed to maintain Peru's share in their portfolio.

With regard to banks of intermediate importance as lenders in 1965-1970, the Charter New York Corporation, the First National Bank of Boston and the National Detroit Corporation, all experienced rather drastic reductions in their relative commitments in the 1970s. Again this is suggestive of a change in attitude towards lending to the government of Peru.

Finally, a general observation that can be drawn from the data is that regular banks (as opposed to consortium banks) appear to have a very diversified portfolio in which Peru plays only a very minor part. In no case did gross authorizations exceed one percent of total assets; in fact, for all but three regular banks gross authorizations did not exceed 0.5 per cent of total assets for the 12 years under study.

It often has been claimed by officials in the centers that commercial banks have become "hostage" of developing country governments through their lending to them. 262/ From this data the argument would appear to be a serious exaggeration. Peru was a major borrower (in 1975 it ranked as the seventh largest developing country borrower) and its position in the portfolio of the banks was relatively minor. True, a default by Peru might damage annual profits, put a severe pinch on reserves set aside to cover loan losses, and maybe even could threaten the viability of some smaller institutions. Because of both precedent and pain bankers clearly would want to avoid default. But in the end most could accept default as a realistic alternative to further lending especially taken into account the prospects of financial assistance from home government monetary authorities.

Thus a default by a single borrower such as Peru would not be a threat to many banks and clearly would not represent any danger to the world financial system as a whole. On the other hand a default would have very serious consequences for Peru, unless it had adequate domestic support to pull out of the western capitalist community. Not only would it find most commercial and official credit cut off (due to cross-default clauses) and its purchases and sales abroad interfered with, but it also would face the prospects of reprisals from the home governments of the banks. Without massive political support at home all this would have disastrous effects on national social stability and development, thus making the borrower go to great lengths to meet the demands of its bankers.

The concept of hostage therefore seems inappropriate; indeed, on balance the banks clearly enjoy greater leverage over single borrowers. Only in the case of a superborrower such as Brazil or Mexico could a single borrower create real problems for the banks; and any problems that might arise would likely be specific to few overly-committed institutions rather than a threat to national financial systems. 263/

B. BANK BEHAVIOR WITH REGARD TO THE PRICING OF LOANS

In a simple framework, commercial bank lending to a developing country can be expressed by the following function:

$$L_t = f(E_{t-1}, C_t, P_t)$$

where L = lending to country i in period t ;

E = the level of exposure of the bank with country i in period $t-1$;

C = the bank's view of the creditworthiness of country i in period t ; 264

P = the interest price of the loan taken in the broad sense to include interest spread and maturity. (The base interest rate is determined in the interbank market.)

L in period t is then a negative function of E at the end of the previous lending period and a positive function of the current estimation of creditworthiness and the current price that the borrower will pay for credit. Since at any given time lending institutions would have different levels of E with Peru and different estimations of C , these differences could reflect themselves in either the volume of lending, the price of credit, or both.

It already has been demonstrated that the volume of lending has differed among institutions. But the question remains: how have banks behaved with respect to the price of a loan?

The advantage of generating disaggregated data is that some approximations can be made in this regard. And to the extent that one found that some banks consistently offered better or worse terms than the general market trend, this may be indicative of bank policy and therefore very useful information for a developing country borrower.

Before preceeding to the examination, two caveats covering the scope and intent of the analysis are necessary.

First, there is a limited number of years in which data can be observed. The periods 1965-1970 and 1971-1976 are very distinct ones for world banking and therefore must be viewed separately. Moreover, only in the second period was commercial bank lending dense enough to provide any potential for a meaningful analysis of differential behavior, and even then one is really limited to the extremely narrow 5-year period of 1972-1976.

Second, while there is an adequate density of loans for the period 1972-1976, there is great dispersion among lending institutions. This means that the number of banks for which there are observations in each year does not exceed 25, a rather small group considering that there are 167 lending banks for the period. Fortunately, the banks for which data permitted analysis represent mostly lenders of major and intermediate importance in terms of authorizations.

The above factors place severe limitations on what can be expected from the analysis. Nevertheless, examination of the data is suggestive of behavior and, additionally, complements information that may be generated in any future studies with similar objectives. It is these limiting conditions and goals that underpin the analysis in the section.

1. Examination of Price Behavior

a) The Testing Procedure

In looking at the establishment of terms, two variables were considered: the spread over LIBOR and the total maturity of the loan. For each year a bank was assigned an annual average spread over LIBOR and an average total maturity. Similar annual averages were calculated for all banks in the study taken as a group, using these global averages as the indicator of market trends vis-à-vis Peru. Equally paired observations ^{265/} between a bank and the global average were organized covering the 5-year period 1972-1976. A two-tailed Student's t evaluation has made on the data to test the hypothesis:

Hypothesis ₀ : the average terms of the bank were the same as the market's terms.

against

Hypothesis ₁ : the average terms of the bank were different from the market terms

at a confidence level of 90%.

As shown earlier, in the year 1976 Peru was on the verge of losing its creditworthiness; banks assumed a very cautious attitude on the country and lending became motivated more by the need to prevent default than to generate new business. Given the distinct lending environment for this year, a Student's t test was performed on equally paired observations for the period 1972-1975. This had the disadvantage of reducing the already low number of degrees of freedom from 4 to 3. But as a positive element, more banks could be incorporated into the evaluation.

To complement the evaluation of the behavior of selected individual banks, a similar test procedure was applied to banks grouped according to their country of origin and asset size. The partial aggregation of data paralleled the similar exercises presented in Chapter V. Of course, these latter tests considered all banks in the study.

b) The Results of the Tests

The actual test results for all banks and groups of banks can be found in tables 16 - 21 of the statistical appendix. Only the significant findings are commented upon here.

The results of the tests seem to suggest that banks generally do not discriminate risk on the basis of price. Among the banks tested there was a general uniformity in interest spreads and maturities of the loans. Banks would appear, then, to find it difficult to deviate from the market's price of loans, presumably because of "competitive" pressures.^{266/} Under these circumstances the different levels of \bar{E} and the different evaluations of C among the individual banks would reflect themselves not in the price of credit, but rather in the volume of lending, and perhaps in non-price aspects. Thus, in general, the volume of bank lending adjusted to the size of the institution presented in the previous section may be a reasonable approximation of how institutions perceived risk in Peru as embodied in considerations about exposure and creditworthiness.

While there was a general uniformity of trends with regard to the pricing of loans, some significant deviations from market trends appeared in the analysis. These are worth reviewing.

For the full 5-year period, 1972-1976, Manufacturers Hanover - a major lender to the government - displayed interest margins significantly higher than the market average. However, when adjusted to eliminate the difficult year of 1976, the test provided for insignificant divergence from market trends. Thus evidence probably is not sufficiently strong to state that this bank charged higher than average spreads on its loans.

Banque Commerciale pour L'Europe du Nord (Eurobank), an institution stationed in Paris, but owned by the USSR's State Bank and Foreign Trade Bank, showed for the adjusted period 1972-1975 a significant tendency to charge interest margins above market averages. However, this bank - which was a minor lender to Peru - for the same period showed a tendency to extend longer than average maturities. The longer maturities may have offset the higher spread, making it difficult to suggest that the institution operated outside the market environment.

Another institution, Bankers Trust - of intermediate importance as a lender - may have pursued a policy of extending loans with shorter than average maturities. Its divergence was significant at a 90% level of confidence for 1972-1976 and even more significant for the adjusted period 1972-1975. It also may be recalled that analysis in the previous section found that Bankers Trust perhaps restricted its exposure in Peru during the 1970s. Thus, the test results on its maturities provide further evidence of a cautious lending strategy with respect to Peru.

The Dai-Ichi Kangyo Bank - a minor lender to the government - provided evidence of longer than average maturities on its credit. Divergence from market terms was significant in both the 5 and 4-year periods.

Wells Fargo, a major lender to the government, provided significant evidence of offering longer maturities than the market for the 5-year period 1972-1976. However, this hypothesis could not be sustained when data were adjusted to the more normal period 1972-1975.

With respect to the tests on more aggregated data, few significant divergencies materialized.

For the adjusted period 1972-1975 the third group of banks ranked according to size gave results sufficient to suspect that their interest margins were consistently higher than the market average. This group of banks incorporates institutions with international ranks between 47 and 91 on a scale of 1-300. In terms of their lending to Peru, these banks accounted for 19% of total authorizations.

In the country groupings, the miscellaneous category "other" showed significant evidence of extended maturities in both the long and adjusted periods. This group accounted for 8% of the total lending to the government in the 1970s and mostly represents minor lenders that are from countries outside the mainstream of international finance (see the annexes for a list of the banks).

c) The Role of Fees

The previous analysis applied to interest margins and maturities; it excluded flat fees owing to data problems. In data collection there was no way of knowing in all cases the actual distribution of fees among the banks in syndicated credits. Thus fee earnings could not always be accurately assigned to individual institutions. This represents an unfortunate constraint because while fees are not reflective of the cost of credit for a bank, they do increase the yield of loans and therefore often must be a factor in the pricing equation.

One way of approaching the problem would be to assume that fees were equally distributed among all institutions in a syndicated credit. This, of course, is far from an accurate representation of how fees are distributed in practice. However, in effect one would be testing the degree to which institutions associated themselves with loans carrying certain levels of fees rather than testing fee earnings per se. If an institution, or group of banks, persistently were associated with loans carrying fees higher than the market average, this could be indicative of a bank that had been earning, or was seeking to earn, greater than average income from fees.

This rough and ready "guilt by association" technique was applied to the banks and Student t tests were performed in a fashion similar to that for interest margins and maturities. While by the nature of the tests not much confidence can be placed in their results, it is interesting to note that at the level of the individual institution 267/

and for groups of banks there was a much greater degree of divergence from the market average than in the case of interest margins and maturities. This would suggest that non-interest prices such as fees may be less subject to market forces than their interest related counterparts and therefore used more liberally to counter exposure and risk considerations of individual institutions.

The results of the tests are found in tables 22 - 24 of the statistical appendix. However, it would be unfair to draw even tentative conclusions about the behavior of individual institutions on the basis of such a rough statistical exercise and therefore no further specific analysis is merited here. However, it can be mentioned that results often were in line with a priori notions about bank behavior. For instance, data suggested that consortium banks pursued fees that were significantly higher than the market terms. And in the literature it is well known that consortium banks are especially geared to fee-earning activities. This no doubt reflects their limited capacity to extend interest bearing, loans, but it also must be remembered that earlier analysis demonstrated that these institutions had by far the highest relative commitments with Peru. Fees could then have been used to offset at least partially this higher apparent risk.

Finally, since the test raises the suspicion that fees are indeed used to discriminate risk, greater efforts should be made to uncover these charges on bank loans. To date fees have remained a very secret part of credit transactions and therefore have not received the scrutiny that they evidently merit.

2. Other Considerations about Pricing

The statistical tests examined above covered medium term periods and therefore hide any role that a bank may have had in the creation of inflection points in market trends. For instance, a bank may have had average terms in line with the market, but at some particular point in time it could have altered the market by pricing above or below prevailing terms, thereby inducing other banks to follow. This phenomenon is not easily subjected to testing; however, it may be located in the casual observation of data. Moreover, such observation is best done on syndicated credits which are large, generally gain much publicity, and therefore can have a psychological impact on the market. While the participation of many banks make a syndicate possible, focus will be placed on the lead banks which were behind the organization of the loan.

In this context, two non-traditional lenders to Peru, Wells Fargo, and to a much lesser degree Dresdner Bank, stand out as especially important institutions. It appears that these banks - aside from the level of their

authorizations - played a critical role in Peru's gaining acceptance on international commercial bank markets and in the lowering the cost of credit. A few descriptive examples will make this apparent.

In early 1972 Peru was a highly uncertain entity from the viewpoint of the banks. Nevertheless, as explained in Chapter IV, by this year some non-traditional commercial creditors from Japan, the U.S. West Coast and Europe began to break ranks with the international financial blockade that enjoyed the passive and, in some cases active, support of the established international commercial creditors of the Sixties. The government received significant amounts of new finance; however, terms were onerous with spreads of 2.25% over LIBOR and maturities in the range of 4.5 - 6.5 years. These terms were much more severe than those being paid by other developing countries borrowing from international commercial banks. However, later in the year Wells Fargo headed a 40 million dollar loan for 7.5 years at 2% over LIBOR and Dresdner headed a 30 million dollar loan for 7 years at 1.75% over LIBOR. The Wells Fargo loan probably had the greatest impact on the market because, while the Dresdner Bank loan was for a project, which will be shown later to be a preferred form of finance for some banks, the Wells Fargo credit was for what could be considered a relatively less attractive refinance operation. Moreover, while there was a degree of geographic dispersion for the banks participating in both credits, Wells Fargo's loan incorporated 29 banks versus 14 for Dresdner's (see table 41). The larger number of banks in the former loan surely provided for a greater psychological impact on the market.

After the Wells Fargo and Dresdner credits in late 1972 other lenders reacted defensively and moved to match terms; the market tugged back and forth between spreads of 1.75% and 2% over LIBOR, with maturities ranging between 6.5 and 7 years. Then, in April 1973, Wells Fargo led a 100 million dollar loan involving 61 banks; although the spread of 2% did not break new ground, the maturity of 8 years for a loan of free disposition was the longest tenor yet received on a syndicated credit. Then in the same month Wells Fargo, alone, extended 35 million dollars for refinance at 1.75% over LIBOR and the unprecedented maturity of 10 years. 268/ These two credits again altered the market as other banks reacted defensively to match terms; soon thereafter it became common for bank loans to carry a maturity of 9-10 years.

Table 41

PERU: A COMPARISON OF SYNDICATED CREDITS HEADED BY
WELLS FARGO AND DRESDNER BANK IN 1972

Country of the participating banks	Wells Fargo		Dresdner bank	
	Number of participating banks <u>a/</u>	Percentage of credit <u>b/</u>	Number of participating banks <u>a/</u>	Percentage of credit <u>b/</u>
United States	8	38.8	-	-
Japan	8	23.7	5	30.0
Canada	3	11.2	2	13.3
United Kingdom	2	6.2	-	-
Germany	-	-	2	23.3
Italy	3	7.5	1	10.0
Switzerland	-	-	1	13.3
Other	2	3.7	1	3.3
Consortium	3	8.7	2	6.6
<u>Total</u>	<u>29</u>	<u>100.0</u>	<u>14</u>	<u>100.0</u>

Source: CEPAL, on the basis of official data.

a/ Includes lead bank.

b/ Does not sum properly due to rounding.

Some slippage in the prevailing LIBOR spread occurred in September 1973 when a 24 bank syndicated credit headed by Manufacturers Hanover and Citicorp provided a 130 million dollar loan at a split interest margin averaging 1.6% over LIBOR. However, it again was Wells Fargo which led the next fundamental break in the market's treatment of Peru. In December this bank organized a 31 bank 80 million dollar loan at 10 years and a spread of only 1.25% over LIBOR.

In early 1974 Morgan Guaranty Trust, until now a bank with obviously a very restrained attitude on the government, headed the famous 76 million dollar credit associated with the Greene Accord. It carried an unusually low spread of only 1% over LIBOR. Although the credit clearly was of a political nature, its economic significance, its relatively low price, and the fact that it was headed by one of the most conservative banks in the industry, made for a large psychological impact on the market. ^{269/} Major loans followed with 10 year maturities and spreads as low as 1.13% over LIBOR. Subsequent lending by Wells Fargo and Dresdner Bank heavily supported the trends towards a lowering of interest margins.

In 1975 there was a general rise in spreads and a shortening of maturities. However, it is difficult to

pinpoint which banks may have led or resisted the trend because the overall market conditions were highly unstable and mere access to credit, let alone cost, was a real preoccupation.

Thus, from the above, one gains an idea of how banks can create inflection points in the market's terms of credit. One also obtains more evidence of the special character of Wells Fargo's participation in Peru's external finance. It certainly did lead more favorable pricing trends in the market and occasionally with the help of Dresdner Bank also was important in augmenting the volume of credit. It may be added, that as lead banks, Crocker National Bank and the Bank of Tokyo often reinforced trends created by Wells Fargo.

Before closing this section, brief mention should be made of several other actors which were important in influencing the market's attitude on Peru in the 1972-1974 period. It may be recalled from Chapter VI that in forming syndicates, Wells Fargo placed heavy reliance on Japanese banks, which contributed approximately one-third of the funds raised in syndication by this bank. Dresdner, Crocker National, and Bank of Tokyo also received heavy support from Japanese banks in forming syndicates. Thus Japanese institutions clearly were an important factor in the favorable turns in the market's attitude towards Peru. In the case of Wells Fargo and Crocker National, U.S. banks, particularly medium- and small-sized regional institutions also were responsible for a large volume of the credit raised in syndication. Therefore, these institutions too should be considered as key factors promoting the favorable changes in market trends.

C. RISK PREFERENCES WITH RESPECT TO THE NATURE OF LENDING

In a series of subsections that follow, analysis will focus on other non-price aspects of risk behavior of the banks.

In the first of two major subsections analysis will cover the revealed preferences of banks for certain types of loans and for lending to certain economic sectors, as embodied in the actual extension of credit to the government. Using a criteria outlined below, an attempt is made to classify preferences as demonstrating either aggressive or conservative strategies.

The second major subsection focuses on another aspect of lending: the degree to which banks attempted to avoid risk by securing guarantees from home country export credit agencies. A heavy reliance on such guarantees is indicative of a conservative strategy towards Peru, while the opposite situation is indicative of a relatively more bold posture.

In most instances, the study's data base was not dense enough to support an analysis of the full 12-year period.

Thus, the time frame covered here is only 1971-1976. Also, data often were not adequate to support an analysis at the institutional level, so accommodation had to be made for a greater degree of aggregation. The principal forms of aggregation are banks grouped according to their country of origin and asset size.

1. Preferences for Types of Loans and Economic-sectors

As argued earlier, a bank's risk perception and lending strategy may be revealed by its relative commitments to Peru, and to a limited extent, by its pricing of loans. But it is also possible that bank attitudes may be revealed by the types of loans and sectors for which credit is extended. In broaching this subject there are crucial assumptions which should be made explicit.

Banking can be viewed as having traditions and practices. Traditions are what bankers prefer to do and practice is what they actually do. The traditions incorporate the conservative dictums of prudent banking and they represent a more cautious approach to lending. Many institutions attempt with varying degrees of success to remain within the confines of tradition. However, some banks may operate outside of tradition, either temporarily for reasons of penetrating markets, or more permanently because of some special insight into the shortcomings of traditional practice.

For the purposes of the statistical exercises that will be presented below, the reader should bear in mind the following observation made by Aronson which aptly summarizes a tradition, or preferred behavior, of the banking community:

Banks prefer lending for cash-flow generating projects which will allow borrowers to meet their obligations. They prefer not to finance consumption and infrastructure, are uneasy about financing payments deficits, and would rather not refinance previous loans. 270/

Thus, even though commercial banks have a sovereign government guarantee, they may not be necessarily indifferent about the types of loans they extend and the economic activities they support. Banks cast in a traditional mold may pursue the banking dictum just cited above and attempt to maximize security by concentrating credit in loans and activities that customarily have been perceived as bearing less risk. In this regard a bank following such a practice can be deemed to be conservative. On the other hand, some banks for any number of reasons can ignore the traditional dictum, viewing it as nonsense or not in its immediate interests. This latter type of institution can be considered aggressive vis-à-vis the world banking community.

Using a criterion and technique outlined below, banks, relative to each other, are placed in a typology of conservative

and aggressive lenders based first on the types of loans that they have extended to Peru and then based on the types of economic sectors in which they have knowingly lent resources. This is followed by an overall evaluation that presents a consolidated typology based on the two aspects of lending behavior.

Before commencing the analysis it is worth reiterating that the terms aggressive and conservative are not meant to impart a value judgement about the worth of certain banks to a borrower. The value of being aggressive or conservative depends on timing and circumstances. Aggressive banks may be willing to act in a way which reflects the immediate interests of the borrower, but this can be a permissive influence on an undisciplined borrower just as it can be a boon to a sophisticated borrower. Conservative banks concentrating in project finance can be very favorable to a borrower wishing to finance a fixed investment. The mere point of the exercise is to show that there is indeed heterogeneous behavior; it is up to the borrower to use the assigned behavior to its best advantage.

a) Preferences for Certain Types of Loans

In this subsection, the preferences of banks with respect to the types of loans extended are examined. This assumes that there were risk considerations over and above the fact that loans carried a sovereign government guarantee; that there was a perception of further reduction in risk through careful selection of the types of loans in which one became involved.

For instance, some bankers may consider project loans as a relatively more safe form of finance because such credits are tied to a precise activity in which there is an economic return to cover repayment that can be evaluated on an ex-ante basis. Moreover, project loans might be considered to carry a built-in discipline because the use of resources is tied to project proposals and project implementation also may benefit from the expertise of an established private foreign or local supplier or contractor. (If a supplier also is a major client of the lending bank, this constitutes an additional incentive to lend). Characteristics similar to project lending also are found in the finance of capital goods imports.

On the side of more risk can be found loans of free disposition and refinance credits. The most risky loan would be that of free disposition since a bank has no ex-ante guarantee that the resources will be employed wisely and generate returns sufficient to finance repayment. With regard to refinance credits, although it has been shown that they made up the bulk of bank lending, bankers at least profess not to

be eager suppliers of such finance, in part because of a belief in the primacy of repayment schedules. 271/ The greater risk involved in refinance is that a bank extends (perhaps reluctantly) a previous commitment to a borrower, sometimes under conditions of economic duress and on terms that from the bank's perspective can be less than commensurate to the risk involved (in other words non-commercial).

Given the fungibility of money, it certainly is debatable whether economic circumstances merit the above distinctions in loans; nevertheless, these considerations are often perceived as real relative risks by some banks. And if institutions display a tendency to favor one type of a loan over another, this could be indicative of a lending strategy towards Peru, and even may be indicative of broader-based management strategies. For instance, if a bank were to have a relatively high percentage of its total lending in credits of free disposition and refinance - types of credit that usually are very attractive to borrowers - this may be indicative of an aggressive lending strategy. A more conservative strategy would be suggested by a bank that tended to have a relatively higher percentage of its loans in project or capital goods finance. It is under these assumptions that the following analysis is pursued.

(i) Preferences of banks when grouped according to country of origin

Table 42 displays how banks, grouped according to their country of origin, distributed lending, relative to each other, among the various types of loans in the period 1971-1976. The data presented are standardized variables of the deviation from the unweighted mean distribution for all the country groups in the table. 272/ Of interest here are the more extreme relative deviations for loans classified as capital goods, projects, refinance, and free disposition. Loans for "other imports" were of negligible significance in total lending. Credits for nationalizations also are not of direct concern because they represent a separate dimension - solidarity with home country investors and governments - that is not per se linked to global lending strategies.

Examining first loans viewed as of a more risky nature, one sees that consortium banks, Italian banks, and German banks had the greatest relative inclination to refinance. The relatively least receptive appears to be Swiss banks, 273/ and perhaps banks in the category of "other". With regard to what is possibly the most risky of loans - credit of free disposition - one finds that the Japanese banks stand out for having by far the greatest relative participation in this area. Meanwhile, German and to a much lesser degree, Swiss and British banks, appear to have had been the relatively least inclined to enter into this type of loan.

Table 42

PERU: APPARENT PREFERENCES FOR TYPES OF LOANS BY BANKS
 GROUPED ACCORDING TO COUNTRY OF ORIGIN, 1971-1976 ^{a/}
 (Standardized deviations about the global mean) ^{b/}

Country of the banks	Import K goods	Other imports	Refinance	Free disposition	Projects	National- ization	Other
United States	33.3	...	0.8	66.7	-107.4	14.3	200.0
Japan	-41.7	...	-38.1	173.6	-30.5	-38.9	100.0
Canada	20.8	...	38.1	44.8	-31.6	-38.9	150.0
United Kingdom	279.2	...	11.1	-65.5	49.5	-38.9	-75.0
Germany	-66.7	...	69.0	-211.5	193.7	-38.9	-75.0
France	-66.7	...	28.6	43.7	-13.7	-38.9	-75.0
Italy	-66.7	...	83.3	63.2	-76.8	-38.9	-75.0
Switzerland	-66.7	...	-254.0	-75.9	-118.9	296.0	-75.0
Consortium	-12.5	...	127.8	-50.6	-45.3	-38.9	-75.0
Other	-16.7	...	-64.3	11.5	153.7	-38.9	-75.0

Source: Derived from data in Table 25 of the statistical appendix.

^{a/} Excludes loans with guarantees of export credit agencies.

^{b/} $Z = \frac{X - \bar{X}}{S}$ where X is the percentage of all authorizations by a country group in a given loan classification;
 X is the unweighted average of all loans by all country groups in a given loan classification and S is the standard deviation of \bar{X} .

Project loans, deemed to perhaps carry a perception of greater security, (and carry benefits related to support of corporate clients' exports) were relatively most pursued by German and "other" banks. British banks, which also were the relatively most involved in capital goods finance, appear to have pursued this more secure route as well. The relatively most uninvolved in project finance were Swiss and United States banks.

What tentative conclusions can be drawn from this particular set of data? Since one is dealing in standardized variables, a net balance of aggressive and conservative lending can be developed. This is done in table 43 where the standardized variables of each country group are added together according to whether they reflect aggressive or conservative strategies. The net impact is determined by changing the sign of the conservative score and adding it to the aggressive score. A positive balance suggests a strategy of aggressive lending and a negative score suggests a conservative strategy.

As can be seen, Italian and Japanese banks appear as the relatively most inclined to extend risky forms of credit and therefore could be classified as having been rather aggressive. The most conservative lenders turn out to be the British, German and "other" banks. In between the extremes are other groups of banks with less notable evidence of aggressive or conservative strategies.

ii) Preferences of banks when grouped according to size

A similar exercise was carried out on the banks grouped according to their size. Tables 44 and 45 provide the standardized variables and net balances of aggressive and conservative lending, respectively. As shown, there is no obvious functional relationship between the size and the aggressiveness of lending, at least according to the ranges of assets set forth in the table. But it is interesting to note that the three groups of banks with the smallest assets had relatively high scores with regard to the degree of aggressiveness of lending. Some might have expected just the opposite; that smaller institutions would have been inclined towards securer forms of lending. Momentarily a reason will be suggested for this behavior.

Table 43

PERU: EVALUATION OF PREFERENCES FOR TYPES OF LOANS
BY BANKS GROUPED ACCORDING TO COUNTRY OF ORIGIN,
1971-1976

	Aggressive (1)	a/Conservative (2)	b/Balance (3)
United States	67.5	-74.1	141.6
Japan	135.5	-72.2	207.7
Canada	82.9	-10.8	93.7
United Kingdom	-54.4	328.7	-383.1
Germany	-142.5	127.0	-269.5
France	72.3	-53.0	125.3
Italy	146.5	-143.5	290.0
Switzerland	-329.9	-185.6	-144.3
Consortium	77.2	-57.8	135.0
Other	-52.8	137.0	-189.8

Source: Table 42.

a/ Sum of standardized variables for loans of free disposition and refinance.

b/ Sum of standardized variables for project and capital goods finance.

c/ Sum of the columns for aggressive and conservative lending after inverting the sign of the latter. A positive score is indicative of an aggressive posture and a negative score is indicative of a conservative posture.

Table 44

PERU: APPARENT PREFERENCES FOR TYPES OF LOANS BY BANKS
GROUPED ACCORDING TO SIZE, 1971-1976^{a/}

(Standardized deviations about the global mean)^{b/}

Asset range (millions of dollars) ^{a/}	World rank range (1-300)	Types of loans						
		Imports X goods	Other imports	Refinance	Free disposition	Projects	National- ization	Other
1) 65 789 - 32 895	1- 10	100.0	...	90.4	-41.7	-73.5	-54.9	-87.5
2) 32 894 - 16 448	11- 46	163.6	...	-71.1	45.8	-16.3	54.9	-
3) 16 447 - 8 224	47- 91	81.8	...	77.1	-27.1	-134.7	3.9	50.0
4) 8 223 - 4 112	92-147	-90.9	...	-113.3	-135.3	89.8	227.5	112.5
5) 4 111 - 2 056	148-263	-90.9	...	-57.8	-75.0	185.7	-25.5	200.0
6) 2 055 - 1 634	264-300	-90.9	...	157.8	-20.8	-108.2	-100.0	-87.5
7) < 1 634	> 300	-	...	48.2	31.3	6.1	-100.0	-87.5
8) Unknown	...	-90.9	...	-134.9	225.0	51.0	-71.8	-87.5

Sources: Table 26 of the statistical appendix.

a/ Excludes loans with guarantees of export credit agencies.

b/ $Z = \frac{X - \bar{X}}{S}$ where X is the percentage of all authorizations by banks of a size range in a given loan classification; \bar{X} is the unweighted average of all loans by all size groups in a given loan classification and S is the standard deviation of \bar{X} .

c/ Asset range is based on dollar figures for 1975 as found in The Banker, June 1976. See footnotes a and b in table 22.

b) Preferences for economic sectors

Just as an apparent propensity for certain types of loans may suggest bank strategies, so can the selection of economic sectors in which to lend. With the exception of freely disposable loans and general purpose refinance credits, banks know in advance the specific destination of funds when they decide to enter into a credit agreement. Banks, of course, could be perfectly indifferent as to where the country will employ the resources, especially given a government guarantee. However, it is known that some bankers believe that security is enhanced by approving credits for activities that hold possibilities for generation of repayment of the loan. In this case, a bank may avoid lending for activities which clearly cannot service commercial debt.

Following this line of thought, productive economic activities (agriculture, mining, manufacturing, etc.) would generally offer the strongest support for repayment. In most instances these activities are commercial in nature and best able to support commercial repayment terms.

Considerably more risk could be perceived in loans to basic economic sectors (water, sewerage, power, transport, etc.) because these activities often are not self-financing (this was certainly true for Peru) and therefore the capacity to repay loans must come from outside the sector itself. Also from the standpoint of risk, it may be even less attractive to lend to social service sectors. This is because social

services are rarely profitable from the standpoint of short term private rates of return, and payouts (social or otherwise) generally are a very long term proposition. Thus, for repayment commercial banks clearly must look to financial flows generated from sectors other than those in which the loan has been placed.

One suspects that some banks, in an attempt to enhance perceived security, may pursue what could be termed a relatively cautious lending strategy by favoring directly productive sectors over basic economic and social service sectors. For an individual bank, this might be considered prudent policy. However, from the standpoint of the borrower loans for basic economic and social infrastructure could be viewed as desirable and necessary because of the paucity of long term finance available from official development institutions for these activities. ^{274/} Consequently, it is of interest to determine what types of banks were most prepared to finance basic economic and social infrastructure.

i) Preferences of banks when grouped according to country of origin

Table 46 displays data similar to that of the previous section which help to highlight the apparent relative preferences of banks when grouped according to country of origin. It is shown that the institutions relatively most committed to the safer productive economic sectors were British

Table 45

PERU: EVALUATION OF PREFERENCES FOR TYPES OF LOANS BY BANKS
GROUPED ACCORDING TO SIZE, 1971-1976

Asset ranges	World rank range	Aggressive ^{a/} (1)	Conservative ^{b/} (2)	Balance ^{c/} (3)
Group 1	1- 10	48.7	26.5	22.2
Group 2	11- 46	-25.3	147.3	-172.6
Group 3	47- 91	50.0	-52.9	102.9
Group 4	92-147	-246.6	-1.1	-245.5
Group 5	148-263	-132.8	94.8	-227.6
Group 6	264-300	137.0	-199.1	336.1
Group 7	> 300	79.5	6.1	73.4
Group 8	...	90.1	-39.9	130.0

Source: Table 44.

a/ Sum of standardized variables for loans of free disposition and refinancing.

b/ Sum of standardized variables for project and capital goods finance.

c/ Sum of the columns for aggressive and conservative lending, after inverting the sign of the column on conservative lending. A positive score is indicative of an aggressive posture and a negative score a conservative posture.

and French banks. In the more risky basic economic and social service sectors, "other banks" were by far the most heavily committed in relative terms.

Table 47 present the balance of conservative and aggressive strategies. "Other" banks stand out for their relatively greater willingness to lend to basic economic and social service sectors. German, Japanese, and consortium banks also pursued relatively aggressive strategies in this regard. On the other hand, French and Canadian banks had the most conservative scores.

ii) Preferences of banks when grouped according to size

When the subject is viewed from the standpoint of the size of the banks, no clearcut functional relationship is displayed (see tables 48 and 49). There is, however, a notable concentration of conservative strategies in group 4 and group 6 of the banks. Also, it is interesting that the group of smallest banks (7) had the most significant aggressive score.

c) Overall Evaluation

Taking into account the two aspects of lending and combining the results provides an overall typology of behavior. It is still convenient to view separately banks grouped according to country of origin and size.

i) Banks when grouped according to country of origin

Table 50 presents a summary typology of the nature of lending based on types of loans and support of economic sectors. The relatively most aggressive lenders were Japanese banks. Somewhat behind these institutions were Italian and consortium banks, followed by "other" banks and U.S. institutions. The relatively most conservative lenders were British banks. Considerably behind the British banks in terms of conservativeness were German and Swiss banks. Following them were Canadian and French lending institutions, both of which had marginally conservative scores.

The lending behavior of consortium banks provides further support to the notion that they were very aggressive lenders to Peru. As demonstrated earlier in the chapter, they had the heaviest relative commitment to Peru, although this risk may have been compensated somewhat by higher than average fees on loans. In addition to the relatively heavy commitment, they are shown here to have had one of the boldest lending strategies. The strategy undoubtedly was influenced by what was determined earlier to be the umbrella security provided by the parents of the consortium banks. Another reason for the relatively more bold style could be size. Owing to their small size, consortium banks cannot extend loans in absolutely large amounts. Therefore, in the formation of syndicates they may be marginalized from more attractive (and over subscribed) loans by banks prepared to take on a relatively large participation. Thus, consortium banks, in order to expand their portfolios, may have found it necessary to have a higher proportion of their lending in loans with greater relative

Table 46
 FEND: APPARENT SECTORAL PREFERENCES OF BANKS GROUPED
 BY COUNTRY OF ORIGIN, 1971-1976^{a/}
 (Standardized deviations about the global mean)^{b/}

Sectors	United States	Japan	Canada	United Kingdom	Germany	France	Italy	Switzerland	Consortium	Other
Directly productive <u>c/</u>	-	-63.8	20.7	144.0	-30.2	219.0	-19.8	-113.8	-86.2	-69.8
Basic economic and social	-96.4	3.6	-103.6	79.5	56.3	63.4	-73.2	-111.6	-33.9	217.0
Basic economic <u>d/</u>	(-114.4)	(24.0)	(-126.0)	(118.3)	(93.3)	(69.2)	(-46.2)	(-87.5)	(-86.5)	(159.6)
Social <u>e/</u>	(28.9)	(-55.3)	(39.5)	(-89.5)	(-89.5)	(-2.6)	(-89.5)	(-89.5)	(136.8)	(202.6)
Unclassified <u>f/</u>	60.3	39.1	51.4	-143.0	-15.6	-181.6	58.1	143.6	77.1	-90.5

Source: Derived from Table 27 of the statistical appendix.

a/ Excludes loans with guarantees of export credit agencies. Only accounts for credits where both borrower and lender had ex ante agreement on destination of credit.

b/ $Z = \frac{X - \bar{X}}{S}$ where X is the percentage of all authorizations by banks of a country group in a given sectoral classification; \bar{X} is the unweighted average of all loans by all country groups in a given sectoral classification and S is the standard deviation of X .

c/ Goods production: manufacturing, agriculture, mining, etc.

d/ Water, sanitation, power, transportation, etc.

e/ Health, education, etc.

f/ Loans to a number of undesignated sectors. These are basically general refinance credits.

Table 47

PERU: EVALUATION OF SECTORAL PREFERENCES BY BANKS GROUPED
ACCORDING TO COUNTRY OF ORIGIN, 1971-1976

Country of banks	Aggressive ^{a/} (1)	Conservative ^{b/} (2)	Balance ^{c/} (3)
United States	-96.4	-	-96.4
Japan	3.6	-69.8	67.4
Canada	-103.6	20.7	-124.3
United Kingdom	79.5	144.0	-64.5
Germany	96.3	-30.2	86.5
France	63.4	219.0	-133.6
Italy	-73.2	-19.8	-53.4
Switzerland	-111.6	-113.8	2.2
Consortium	-53.9	-65.2	52.3
Other	217.0	-69.8	286.8

Source: Table 46.

^{a/} Standardized variables for lending to basic economic and social sectors.

^{b/} Standardized variables for lending to directly productive sectors.

^{c/} Sum of standardized variables for columns of aggressive and conservative lending, after inverting the sign of the latter. A net positive balance suggests an aggressive posture, while a net negative balance suggests a conservative posture.

Table 48

PERU: APPARENT SECTORAL PREFERENCES OF BANKS
GROUPED ACCORDING TO SIZE, 1971-1976^{a/}

(Standardized deviations about the global mean)^{b/}

Sectors	Asset size (millions of dollars) ^{c/}							
	65 789- 32 895	32 894- 16 448	16 447- 8 224	8 223- 4 112	4 111- 2 056	2 055- 1 634	< 1 634	Unknown
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Directly productive ^{d/}	-25.9	-59.5	-88.8	112.1	-41.4	203.5	-112.1	10.4
Basic economic and social	-9.9	-41.6	-24.8	-5.9	115.8	-218.8	101.0	81.2
Basic economic ^{e/}	(-41.1)	(-4.1)	(27.4)	(13.7)	(80.8)	(-237.0)	(116.4)	(41.1)
Social ^{f/}	(50.0)	(-97.5)	(-112.5)	(-40.0)	(145.0)	(-120.0)	(42.5)	(130.0)
Unclassified ^{g/}	44.8	126.4	149.4	-143.6	-80.5	-18.4	31.0	-109.2

Source: Derived from data in table 28 in the statistical appendix.

a/ Excludes loans with guarantees of export credit agencies. Also, only accounts for credits where both borrower and lender had ex ante agreement on the destination of credit.

b/ $Z = \frac{X - \bar{X}}{S}$ where X is the percentage of all authorizations by banks of a size range in a given sectoral classification; \bar{X} is the unweighted average of all loans by all size groups in a given sectoral classification and S is the standard deviation of \bar{X} .

c/ Asset range is based on dollar figures for 1975 as found in The Banker, June 1976. See footnotes a and b of table 22.

d/ Goods production: manufacturing, agriculture, mining, etc.

e/ Water, sanitation, power, transportation, etc.

f/ Health, education, etc.

g/ Loans that went to a number of undesignated sectors. These are basically general refinance credits.

Table 49

PERU: EVALUATION OF SECTORAL PREFERENCES OF BANKS
GROUPED ACCORDING TO SIZE, 1971-1976

Asset range	World rank range	Aggressive	Conservative	Balance
		^{a/}	^{b/}	^{c/}
		(1)	(2)	(3)
Group 1	1 - 10	-9.9	-25.9	16.0
Group 2	11 - 46	-41.6	-59.5	17.9
Group 3	47 - 91	-24.8	-88.8	64.0
Group 4	92 - 147	-5.9	112.1	-118.0
Group 5	148 - 263	115.8	-41.4	157.2
Group 6	264 - 300	-218.8	203.5	-422.3
Group 7	> 300	101.0	-112.1	213.1
Group 8	...	81.2	10.4	70.8

Source: Table 48.

a/ Standardized variables for the basic economic and social sectors.

b/ Sum of the standardized variables for the directly productive sectors.

c/ Sum of the columns for aggressive and conservative lending, inverting the sign of the latter. A positive score suggests an aggressive posture, while a negative score suggests a conservative posture.

Table 50

PERU: SUMMARY EVALUATION OF BANK PREFERENCES FOR TYPES
OF LOANS AND ECONOMIC SECTORS, 1971-1976

(Net standardized scores)^{a/}

Banks	Banks grouped according to country of origin		Total
	Type of loan	Sectoral lending	
United States	141.6	-96.4	45.2
Japan	207.7	67.4	275.1
Canada	93.7	-124.3	-30.6
United Kingdom	-383.1	-64.5	-447.6
Germany	-269.5	86.5	-183.0
France	125.3	-155.6	-30.3
Italy	290.0	-53.4	236.6
Switzerland	-144.3	2.2	-142.1
Consortium	135.0	52.3	187.3
Other	-189.8	286.8	97.0

	Banks grouped according to size		Total
	Type of loan	Sectoral lending	
Group 1	22.2	16.0	38.2
Group 2	-172.6	17.9	-154.7
Group 3	102.9	64.0	166.9
Group 4	-245.5	-118.0	-363.5
Group 5	-227.6	157.2	-70.4
Group 6	336.1	-422.3	-86.2
Group 7	73.4	213.1	286.5
Group 8	130.0	70.8	200.8

Source: Table 43, 45, 47, 49.

^{a/} Net balance of conservative and aggressive aspects of lending, evaluating type of credit extended and the sectoral destination of credit. A positive score is indicative of aggressive lending and a negative score is indicative of conservative lending.

perceived risk. In this types of credits lead banks may have been more receptive to small credits that help to successfully syndicate the loan. 275/

The relatively aggressive performance of Japanese banks is not a surprise; as latecomers to international lending, they have been known for their aggressive strategies 276/ and these data on Peru, plus findings in the previous section, merely confirm the impression. Italian banks generally are not discussed in the same light as Japanese banks, but the nature of their lending to Peru suggests that perhaps they should be characterized as bold lenders for this period. The fact that U.S. banks received an aggressive score can be attributed in part to the behavior of newcomers to the international scene such as the regional institutions and a few very large international banks that did not display traditional preferences for loans and sectors.

"Other" banks obtained a significant score on the aggressive side of the ledger, basically because they tended to have a relatively high incidence of lending in more risky basic economic and social service sectors. As demonstrated in section II of the chapter, they extended longer than average maturities. Thus, these banks were bold lenders in ways which may be of interest to developing country borrowers. The motivation for such behavior could be a variant of that suggested for consortium banks; while showing a preference for safer project lending, their marginal position in international financial flows forced them to display a greater willingness to enter into basic economic and social service sectors for which bidding for loans may have been less keen.

ii) Banks grouped according to size

With regard to the largest banks (grouped 1-3) groups 1 and 3 had substantial aggressive scores. All the intermediate-sized banks (groups 4-6), on the other hand, tallied net conservative scores. And, finally, the smallest banks, groups 7 and 8 (assuming 8 is basically smaller institutions), achieved net aggressive scores.

Earlier in the chapter, group 3 banks were found to have charged a significantly higher than average LIBOR spread on their loans. This may have effectively counterbalanced much of the greater perceived risk assumed on the nature of their loans, leaving only the very largest banks (group 1) with clear evidence of an aggressive strategy. And this aggressiveness, which is by no means overwhelming in terms of the net score, probably is a function of a risk perception conditioned by their enormous size and long experience in international lending.

As to the rather aggressive scores of smaller banks, one suspects that the explanation is similar to that given above for consortia and "other" banks; indeed, these two groups of institutions are, to a large degree, located in groups 7 and 8.

2. Preference for Home Country Export Credit Guarantees

Up to now analysis has been on lending in which the banks have assumed the full risk of credit. However, most home countries of commercial banks have agencies which guarantee loans that support the home country's exports. The material in Chapter V showed that loans carrying such guarantees had terms that were more favorable than unguaranteed commercial credits. This stands to reason because a bank, by obtaining such a guarantee, in effect avoids risk on the guaranteed part of its credit. In order to acquire such a guarantee, a bank must be willing to finance the purchase of the home country's services, and the export credit agency must have a sufficiently favorable attitude towards the borrowing country to assume the risk.

Banks which were exceptionally risk conscious in their lending to Peru could have limited their exposure in absolute terms and where possible have oriented finance towards loans with home country guarantees. A bank that had a propensity to pursue such a strategy would have a conservative view on Peru, and perhaps a cautious attitude to developing country governments in general.

Table 29 of the statistical appendix lists the banks that lent under export credit guarantees. The banks for which guarantees made up a significant part of total lending were classified in Chapter V as lenders of intermediate or minor importance to Peru; no major lender took heavy recourse to such guarantees.

When these banks are grouped according to country of origin (table 51), the institutions that had the relatively greatest reliance on external home country guarantees were British, French, and "other" banks. Other country groups appear to have taken little or no recourse to such facilities.

It already has been shown that British and French banks pursued a relatively conservative lending strategy on the loans for which they assumed the full risk. The fact that they also were the most inclined to seek support from home country export credit agencies provides further support to the notion that they were cautious lenders. The other conservative lenders, the Swiss and the Germans ^{277/}, did not, on appearance, make much use of such guarantees. Of the banks classified beforehand as aggressive in their lending policy only "other" banks made extensive use of export credit guarantees. While this adds a conservative dimension to "other" banks, it lends further support to the aggressive posture attributed to the remaining banks. ^{278/}

A priori grounds would suggest that reliance on guarantees may be a function of size (i.e., the smaller the bank the more likely it would be to seek the security of an export credit guarantee). Data on guarantees (see table 52) provided some limited support to this thesis as the degree of

Table 51

PERU: LOANS WITH A GUARANTEE OF AN EXPORT CREDIT AGENCY GROUPED ACCORDING
TO COUNTRY ORIGIN OF THE BANK, 1971-1976 ^{a/}

(Percent)

	Guaranteed credits of country group as a percent of guaranteed credits of all banks	Guaranteed credits as a percent of all credits granted by banks in the country group
United States	8.5	1.4
Japan	-	-
Canada	-	-
United Kingdom	26.1	39.0
Germany	-	-
France	26.4	59.6
Italy	0.1	0.5
Switzerland	1.0	3.7
Other	57.9	49.2
Consortium	-	-
<u>All banks in the study</u>	<u>100.0</u>	<u>9.7</u>

Source: CEPAL, on the basis of official data.

^{a/} Represents loans where it was possible to detect a guarantee. It is important to note that a borrower may not always be aware of the presence of a guarantee and this could cause the above data to understate protected credits.

reliance on guarantees was less marked for very large banks (groups 1-3) than smaller banks. However, beyond this the relationship is not clear as one group of intermediate-sized banks displayed a reliance on guaranteed credits that was more than double that of some smaller banks. So, again, there is additional evidence that intermediate sized banks may be relatively more cautious than their smaller rivals.

Finally, unlike the country groupings, when banks are examined from the standpoint of size, there is no evidence of an outstanding reliance on export credit guarantees by any single group of banks.

D. THE LENDING BEHAVIOR OF BANKS WITH BRANCHES, SUBSIDIARIES AND AFFILIATES IN PERU

On a priori grounds one could consider that international banks with direct interests in Peru, e.g. a branch bank or subsidiary, would behave somewhat differently towards government loans than banks which had ties to Peru only

through international loan flows. There are a number of reasons why this may be so.

First, a bank with, say, a branch in Lima, would have capital in Peru itself; in 1970 branches had a minimum capital requirement of \$60,000,000 soles (about 1.5 million dollars)^{279/} In addition, there would be accumulated assets from business with private firms in Peru; indeed, business with local foreign and, secondarily, national firms probably were the principal motivation for the initial establishment of a branch. Thus, an international bank in this situation may have relatively greater interest in cultivating the good will of the national government, because its policies could affect the operations of the branch bank. This may manifest itself in a relatively high profile in external (and internal) lending to the government, as well as a greater propensity to develop an image of a "good citizen" through the extension of highly visible finance (e.g., the support of projects of a social character on relatively favorable terms).

A second reason for special behavior, which is in fact a variant of the first, is that an unhealthy Peruvian economy may be adverse to the bank's branch operations. For instance, a foreign exchange crisis could mean that the branch and its clients would have trouble servicing their foreign lines of credit; thus the parent could be interested in helping the government maintain the country's balance of payments afloat. Consequently, such a bank might be more inclined to extend balance of payments finance, even in times of extreme economic duress.

Table 52

PERU: LOANS WITH A GUARANTEE OF AN EXPORT CREDIT AGENCY ACCORDING
TO THE SIZE OF THE LENDING BANK, 1971-1976^{a/}

Asset range b/ (millions of dollars)	World rank range (1 - 300)	Guaranteed credits of size group as a percent of guaranteed credits of all banks	Guaranteed credits as a percent of all credits granted by banks in the size group
1) 65 789 - 32 895	1 - 10	9.2	5.1
2) 32 894 - 16 448	11 - 46	31.2	7.4
3) 16 447 - 8.224	47 - 91	16.5	8.7
4) 8 223 - 4 112	92 - 147	22.5	28.4
5) 4 111 - 2 056	148 - 263	9.1	12.8
6) 2 055 - 1 634	264 - 300	1.8	25.6
7) <1 634	> 300	5.5	10.5
8) Unknown	...	4.2	15.5
All banks in the study	...	100.0	9.7

Sources: CEPAL, on the basis of official data.

a/ See footnote a of table 51.

b/ Asset range based on 1975 data in The Banker, June 1976. See footnotes a and b of table 22.

A third reason why these types of banks may behave in a special fashion is that the presence of a branch or affiliate would provide a familiarity with Peru unavailable to banks without offices in the country. Direct familiarity with the local economy and public officials could make for a perception of risk that was different from a bank that had to rely on secondary information and sporadic "on-site" visits to the country for the formulation of its attitude on Peru.

Finally, special behavior may be induced by government decree. In the case of Peru, this latter factor was relevant. In a 1970 law for foreign branch banks the government decreed that branches (or their parents) had to provide the government with a foreign currency line of credit of no less than double their assigned capital. The line had to be over and above regular lending and on terms suitable to the government. At the same time, foreign branches at the end of each quarter had to extend another foreign currency line of credit to state banks in an amount equal to the increment in the branch's deposits. The interest rates on such lines could not exceed the parent bank's prime rate. 280/

It is with these considerations that the following analysis on banks with operations in Peru is undertaken.

1. The Banks with Interests in Peru: Importance as Lenders

Table 53 presents a list of international banks with branches or subsidiaries/affiliates in Lima; the date of establishment the Peruvian operation; the importance of the international banks as lenders to Peru; their relative commitments; and importance as leaders in syndicated credits to the government.

The most established foreign branch bank in Peru pertains to Citicorp, which has had an office in Lima since 1920. Lloyds Bank also has had a long relationship with Peru. On the other hand, Bank of America and Bank of Tokyo are relative newcomers, with their offices opening in the mid-1960s. Two European banks, Banca Commerciale Italiana (through SUDAMERIS) and Credit Lyonnais had subsidiaries in Peru until the banking reform laws, when their participation in the subsidiaries was reduced to below 20% (although management remained decidedly oriented towards the old parents).

The table also displays 3 banks which had operations in Peru prior to 1971. As noted in Chapter 3, Chase Manhattan bought majority control of a local bank in 1965. It was nationalized in 1970, but on terms highly favorable to Chase. Prior to 1966, Chemical Bank's relationship with Peru basically was limited to lines of credit to local banks; however, in 1965-1967 it became a major shareholder in Banco International. The purchase proved to be unwise because it generated resentment, was a key factor behind a mid-1968 law calling for "Peruvianization" of banks, and terminated in

nationalization in 1970 under the revised banking reform laws. 281/ Lastly, the Royal Bank of Canada, which had the second oldest foreign branch in Lima, closed its office at the

Table 53

PERU: BANKS WITH BRANCHES, SUBSIDIARIES OR AFFILIATES IN PERU AND THEIR IMPORTANCE AS LENDERS TO THE GOVERNMENT, 1965-1970 AND 1971-1976

Name	Date of establishment	Importance as lender to Peru ^a		Relative commitment to Peru ^d		Importance as lead bank ^e	
		1965-1970	1971-1976	1965-1970	1971-1976	As agent and/or manager	As only agent
<u>Branches</u>							
Citicoorp	1920	Major	Major	Inter-mediate	Inter-mediate	Major	Major
Lloyds Bank	1936	Minor	Inter-mediate	Low	Low	Inter-mediate	Minor
Bank of Tokyo	1969	Minor	Inter-mediate	Low	Low	Inter-mediate	Inter-mediate
Bank of America	1966	Major	Major	Inter-mediate	Low	Inter-mediate	"
<u>Subsidiaries or affiliates</u>							
Banca Commerciale Italiana ^f	...	Minor	Inter-mediate	Low	Low	Minor	Minor
Credit Lyonnais ^g	...	-	Inter-mediate	-	Low	Minor	Minor
<u>Banks with firms in Peru until 1970</u>							
Chase Manhattan ^h	1964-1965	Major	Major	Low	Low	Inter-mediate	Minor
Chemical Bank ^g	1966-1967	-	Inter-mediate	-	Low	Inter-mediate	-
Royal Bank of Canada ^h	1920's	Minor	Inter-mediate	Low	Inter-mediate	Inter-mediate	-

Source: CEPAL, on the basis of official data.

a/ Based on gross authorizations in each period as presented in Chapter 5.

b/ Based on gross authorizations scaled to size as presented in Chapter 7.

c/ Based on data on syndicated credits as presented in Chapter 6.

d/ Major foreign owner of Banco de Crédito. Before banking reform laws this institution, through its affiliate Sudameris, owned 62% of the local bank's stock. This was reduced to less than 20% under the banking reform laws.

e/ Had a large holding in the Banco de Lima. As a result of the banking reform laws its share was reduced to less than 20%.

f/ Bought 51% of Banco Continental. Was nationalized in 1970 by the government under the banking reform laws.

g/ Was a major shareholder in Banco Internacional. Bought out by the government in 1970 under the banking reform laws.

h/ Closed its branch in the latter half of the 1960's.

end of the 1960s, presumably due in part to the controversy over "Peruvianization" of the local banks.

Of all the banks with direct interests in Peru, Citicorp stands out for its importance. It was a major lender to Peru throughout the 12 years; it was a major lead bank and agent in syndicated credits, and its relative commitment to Peru was of an intermediate level. The bank of next importance is Bank of America followed by Bank of Tokyo and Lloyds Bank. Of distinctly less importance are the two banks with subsidiaries/affiliates in Lima.

2. Did Direct Interest in Peru Affect the Behavior of the Banks?

It is difficult to establish a causal relationship between operations in Lima and a bank's behavior as an international lender to the government. Nevertheless, some observations can be made in this regard.

a) The volume of lending

Analysis demonstrated earlier that banks appear to discriminate among borrowers through the volume of credit rather than through the pricing of loans. It is of value to explore whether the presence of a branch or affiliate in Lima caused a bank to lend more to Peru than it might have in the absence of such a direct relationship. The question is somewhat problematical without complete information on a bank's portfolio and management strategy. Thus, the reader should bear in mind that what follows is necessarily more conjecture than fact.

It seems of significance that banks with branches in Lima had generally greater importance as lenders than banks with subsidiaries and affiliates. The stakes in branches and financial benefits derived from their activities presumably are greater in the former than in the latter. Nonetheless the question as to whether or not volume was unusual for the bank; and whether or not behavior was attributable to its direct relationship with the local economy, remains.

The fact that Citicorp was a major lender and a major lead bank per se reveals no special behavior towards Peru. Citibank is the second largest banking institution in the world; it is known to be perhaps the most "transnational" commercial bank in the world; it has been a rather persistent lender to LDCs, particularly in Latin America; and it has been ranked at the top of major lead banks in world syndication.^{282/} Thus, its dominant position in Peru - a country that was generally acceptable to the market after 1971 - may merely reflect the bank's overall position in world finance.^{283/} The only hint of a special relationship with Peru is that its relative commitment is of an intermediate level as compared to the other banks in the study. Citibank is

known to pursue a policy of relatively greater diversification (low relative commitment), consistent with its bold global lending strategy. 284/ However, its level of relative commitment was higher than any other bank with direct interests in Lima; indeed table 40 demonstrates that it was higher than almost all other superbanks lending to Peru. Thus, one could suspect that Citibank may have had a relatively heavier commitment to Peru vis-a-vis its overall portfolio in developing countries. This conclusion would even seem logical given that the Lima branch is one of the oldest in the Citicorp network, giving Peru the distinction of being one of the bank's most familiar developing country clients.

On the basis of volume, one cannot find a relatively more favorable attitude on the part of Bank of America. Although it is a major lender to Peru, this may be merely a function of its enormous size (No. 1 in the world) and dedication to international lending. Its intermediate position as a lead bank actually suggests a conservative attitude towards Peru because on a world scale Bank of America has been ranked near the very top of lead banks in syndication. 285/ Also, its low level of relative commitment may be indicative of a conservative attitude since this bank - which has a low risk, low yield management policy - is known for less diversification than many other banks. 286/ Thus if Peru had merited special attention by the bank, one would have expected a somewhat higher relative commitment.

Owing to the fact that the study contains less supportive information for the Bank of Tokyo and Lloyds Bank, evaluations are in this case even more tenuous. Nevertheless, both banks are large (Nos 28 and 31, respectively) in world terms, but not sufficiently large to render as unduly low their position as lenders of intermediate importance. This is even more true given that Latin America, and Peru in particular, have not been oriented towards England or Japan (although the latter had recently grown in importance) in the post-war period. The intermediate position of Bank of Tokyo as a lead bank is not inconsistent with its world position in this regard. The intermediate position of Lloyds Bank, however, may be relatively lower than expected given that it has ranked in the top 10 lead banks of world syndication. 287/ The above factors, coupled with the low level of relative commitments for both banks, on the surface would not lend support to the thesis of a special behavior towards Peru.

As for the two banks with affiliates in Peru, their role as lenders and lead banks are not exceptional, and their relative commitments are low. Credit Lyonnais would seem to have had the least committed position of the two, given that it was the seventh largest bank in the world (1975) and has been in the top 10 lead banks of world syndication. 288/ It could be argued, however, that without the affiliates in Lima

their presence as lenders would have been even less significant.

It would be interesting to explore whether or not the change in government policies in general, and towards local banks in particular, after 1968 affected the lending behavior of foreign banks with operations in Lima. Overall it would appear that there was no adverse effect after the initial breaking of the financial blockade in 1972.

With regard to banks currently possessing operations in Lima, their importance as lenders to Peru either remained the same or increased between 1965-1970 and 1971-1976. And only in the case of Bank of America did relative commitments fall; however, this was relative to other banks as the absolute level of commitment was roughly the same in the two periods.

In this context it may be more revealing to view the reaction of banks that had to close their operations in Peru as a result of the policy to Peruvianize the local financial market. It can be seen in Table 52 that there were no apparent adverse impacts on lending to the government; indeed, Chemical Bank and Royal Bank of Canada actually became more important lenders in 1971-1976, and even increased their relative commitment to the government.

Notwithstanding the above, there is reason to believe that at least Chemical Bank had a relatively strong reaction to the military government's policies in general, and to the nationalization of its subsidiary in particular. While most major international banks had returned to lending to the government by 1972, and most certainly by 1973, Chemical Bank, number 23 in the world in terms of size (1975) was conspicuous by its absence. It did not extend any significant medium term credit to the government until the first half of 1974. Moreover, on this occasion it entered the market in a very symbolic way by participating in the syndicated credit associated with the Greene Accord, which, of course, marked the formal establishment of peace between U.S. political-commercial interests and the government of Peru. This observation coincides also with information from industry sources which claimed that for many years high ranking Chemical Bank officials were openly bearish on the military government of Peru.

b) Terms of Lending

All the banks with operations in Lima, except Credit Lyonnais, figured in the Student's tests on average terms that appeared earlier in the chapter. It may be recalled that in general little significant deviation was found from market trends. However, an extremely rough statistical technique did hint that Bank of America possibly had a tendency to price flat fees under the prevailing market terms (see table 22 of the statistical appendix). However, aside

from the weakness of the test methodology itself, it is doubtful that this constitutes special behavior towards Peru. It is known to be an institution with a low risk, low yield strategy on lending. 289/ Therefore the lower fee structure may indicate a general management strategy of not placing emphasis on increasing yields through aggressive fee placements.

With regard to creating favorable inflection points in market trends, only the Bank of Tokyo falls into this category. As witnessed earlier, in the first half of the Seventies it played a role in the lowering of spreads and the lengthening of maturities on government loans. However, this is probably more reflective of the general strategies of Japanese banks in the period than any special behavior towards Peru.

Another aspect of pricing which was not examined earlier, but would be of concern here, is the degree to which banks extended fixed interest rate loans. It has been shown that fixed interest rate loans pass the risk of inflation to the lending institution, while variable rates force a borrower to bear such risk. It is possible that a bank with direct operations in Lima might have been more inclined to extend fixed interest rate loans to the government in order to gain favor and thus protect its local business.

Table 54 displays the distribution of loans for banks with operations in Lima according to fixed or variable (LIBOR and prime spreads) interest rates.

In 1965-1970 a number of banks extended a greater proportion of their lending in fixed-interest rates than was the norm, as measured by the average for all banks in the period. Bank of Tokyo and Banca Commerciale Italiana extended all their loans with fixed rates. However, both banks lent a relatively small amount of resources in the period, making it difficult to conclusively attribute to them a special strategy involving fixed interest rate loans to the government.

The only other bank to extend an unusually high proportion of fixed interest rate credits was Bank of America. This may have been due to general policy since the bank is known within the industry to be more inclined than most to extend fixed interest loans. 290/ However, given that it was attempting in the mid-1960s to open a branch in Lima, there is a greater likelihood that the high percentage is directly linked to prospective business operations in Peru. Indeed, all the fixed interest credit was extended in 1965, a year in which the bank's application for a branch was being considered by the government.

Turning to 1971-1976, in this period there is little support for the thesis that banks with operations in Lima might have been more inclined for reasons of public relations to extend fixed interest rate loans. Only one bank - Bank of

Table 54

PERU: DISTRIBUTION OF LOANS ACCORDING TO WHETHER PRICED WITH FIXED INTEREST RATE, LIBOR SPREAD OR PRIME RATE SPREAD FOR FOREIGN BANKS WITH OPERATIONS IN PERU, 1965-1970 AND 1971-1976

(Percent)

	1965-1970			1971-1976				
	Fixed rate	Libor spread	Prime spread	Total ^{a/}	Fixed rate	Libor spread	Prime spread	Total ^{a/}
<u>With branches in Lima</u>								
Bank of America	30.2	-	69.8	100.0	0.9	97.5	1.6	100.0
Citicorp	12.5	-	87.5	100.0	-	98.8	1.2	100.0
Bank of Tokyo	100.0	-	-	100.0	20.3	76.0	3.7	100.0
Lloyds Bank	-	100.0	-	100.0	-	94.7	5.3	100.0
<u>With subsidiaries/affiliates in Lima</u>								
Banca Commerciale Italiana								
Italiana	100.0	-	-	100.0	-	100.0	-	100.0
Credit Lyonnais	-	-	-	100.0	-	100.0	-	100.0
<u>With operations in Lima until 1970</u>								
Chase Manhattan	14.5	-	85.5	100.0	2.5	97.5	-	100.0
Chemical Bank	-	-	-	100.0	-	100.0	-	100.0
Royal Bank of Canada	-	-	100.0	100.0	-	83.0	17.0	100.0
<u>All banks in the study</u>								
	<u>15.8</u>	<u>3.4</u>	<u>80.8</u>	<u>100.0</u>	<u>1.3</u>	<u>94.1</u>	<u>3.5</u>	<u>100.0</u>

Source: CEPAL, on the basis of official data.

^{a/} May sum to less than 100 due to the presence of interest rates distinct from those cited in the table.

Tokyo- had an unusually high percentage of fixed interest credits. Without more information on this institution's global strategy, however, it is difficult to determine whether or not such behavior was due to either special interests in Lima or its generalized policy of aggressive lending to developing countries.

The relatively low percentage of fixed interest credits extended by Bank of America could be viewed with some surprise. As mentioned above, it has the reputation of extending a greater percentage of fixed interest credits than the industry

average; however, this is not reflected in its loans to the government of Peru, even though one might have expected some consideration given a branch operation in Lima. This may be another indication of a relatively conservative stance towards Peru during the period 1971-1976.

c) The nature of loans

A final point concerning banks with operations in Lima is whether or not the nature of the parent's external lending was in any way conditioned by their direct relationship with Peru. Again, without complete information on a parent bank's portfolio and management strategy any determination in this area is necessarily inconclusive. However, there is some indication that patterns of lending were determined by broader considerations than those underlying loans by banks without a direct operational link to the country.

It was presumed that parent banks might show a tendency to extend, to more than a usual degree, infrastructural project loans owing to their high public visibility. Also, loans of free disposition were thought to be another type of loan that these banks might have been more inclined to offer because of the favorable impression it could make on government authorities. As far as sectors are concerned, one might have expected the parents to have been relatively more committed to economic and social infrastructure, again for reasons of creating a good image.

Although some of the banks with offices in Lima did have lending operations with one or more of these characteristics, the data did not reveal any conclusive tendencies in this regard. Only the Bank of Tokyo approximated the defined behavior. However, there were specific instances in which the type of lending undertaken clearly was related to image and concern about local operations. Three examples are provided below.

One clear case of a loan to the government that was a direct link to a foothold in the local market involves Bank of America. In 1965 it had an application pending for a new branch in Lima. In support of its application the parent bank approved a "showcase" loan, i.e., a highly visible credit that under normal circumstances probably would not have been attractive to a lender, particularly in the generally conservative environment of the 1960s. The loan was a large 10 million dollar credit to the Municipality of Lima for the improvement of the city's road system. The money carried a fixed interest rate of 6.5% for 6 1/2 years. Such a credit clearly had its risks, notwithstanding the presence of a guarantee by the central government. Basically the dollar resources were to cover the costs of a project that had the capacity to generate neither foreign nor local resources for repayment.

Another example of where local operations induced foreign currency credit to the government was in 1972. In that year parents of all foreign branches in Lima extended credits for 1-1½ million dollars each for the import of cattle. The terms were very favorable for the period, ranging from 1.5% over a prime rate to 1.125% over LIBOR, with maturities ranging from 5 to 9 years. Both the terms of the credit and its destination would not indicate an attractive venture for the banks. However, the banks clearly had motives external to the loan itself: (i) the credit was formally conditioned by the continued existence of branches in Lima and (ii) the value of the loan could be counted towards the minimum capital requirements of the branches.

The last example involves the finance of the transandean oil pipeline. As will be shown in Chapter IX, the government initially encountered some resistance in the finance of the project. However, in the final loan package Citicorp, Lloyds Bank and Banca Commerciale Italiana (through Sudameris) were present as important lenders in the venture.

These are three examples of the parents' foreign currency lending being influenced by concern for business operations in the local economy. It is possible that with more complete information on the banks' decision making process more evidence of this nature could be uncovered. Unfortunately, the paucity of published data on the specific activities of the banks is a reality confronting any study of this sort.

The above analysis of the foreign currency lending of banks with business entities in Lima, as sketchy as it may be, leads one to believe that some banks did, in varying ways, alter the general pattern of their behavior vis-a-vis government loans to accommodate broader considerations than found in banks without a direct link to the country. But the evidence is far less than conclusive. This may mean that banks are more likely to accommodate their interests in the local market through the local currency lending by their branch or subsidiary to the public sector; only limited image making for the government in terms of the access to, and cost of, foreign credits seem to be manifest in the behavior of parent banks with branches or affiliates in the country. Actually, this type of strategy would make sense from the standpoint of the banks since local currency loans to the government would be subject to less risk than those in convertible currencies.

Chapter VIII

REVIEW OF PART II

The preceding three chapters on bank lending to Peru have had the two-fold purpose of: i) documenting the changing characteristics of commercial bank loans over the 12-year period; and ii) demonstrating that commercial banks are not a homogeneous group; that individual institutions behave differently and therefore merit more discriminating analysis than heretofore available. The broad scope of the prior analysis makes a review desirable. Although by its very nature the material is difficult to synthesize, the purpose of this review chapter is to highlight the major findings of Part II of the study.

1. The Characteristic of Bank Loans

With respect to the basic characteristics of lending over the 12 years, radical changes were found in the amount, sources, mechanisms and terms of credit.

Prior to 1970 the government's access to commercial bank credit was restricted and conditional, the tenor of credit averaged only 5 years, loans were concentrated in refinance operations and most of the credit was funded out of the U.S. financial market by just six large U.S. institutions. In the first half of the 1970s, however, one found a massive transformation in relations with commercial banks. Not only did the period witness a phenomenal increase in the volume of credit flows, but lending came from many new sources. The number of commercial lenders rose from 27 to 167; and while U.S. banks still accounted for the majority of credit, important lending came from Japanese, European and Canadian institutions. The nominal base cost of credit increased with respect to the 1960s because loans were generally priced on the LIBOR (as opposed to the lower domestic prime rate employed in the Sixties) and because banks introduced many new fees to their credits. However, the higher cost structure was offset, at least in part, by longer maturities, which averaged 7 years for 1971-1976, but on occasions extended as long as 10 years. In the 1970s the banks also were determined to have diversified the type of loans they were willing to extend: although refinance loans remained the most common

transaction, loans of free disposition and for projects took on a very significant profile. And importantly, banks -in solidarity with home country TNCs and governments- were found to have extended a large volume of credit to help the government finance payments of compensation to foreign firms nationalized in the reform of foreign capital. While the terms of refinance, free disposition, project and capital goods import loans were all broadly similar to the global averages for credit, this was not the case for nationalization loans, which displayed significantly more lenient terms on account of the political character of this type of transaction.

An expanding eurocurrency market and the emergence of syndicated credits were discovered to be two important factors underlying the transformation of lending in the 1970s. The growing access of banks of all sizes to the unregulated eurocurrency pools in sites such as London and Luxembourg permitted easy funding of loans for newcomers to international finance. Meanwhile, the syndicated credit -which accounted for 80% of the value of Peru's loans- permitted banks to tailor loan volume to their size and risk preference; it also allowed banks inexperienced in international finance to "hang onto the coattails" of the bigger, internationally established banks which performed credit evaluation, organized the syndicates and assumed responsibility for enforcement of the loan agreement. Meanwhile, these lead banks could pass the cost of their services onto the borrower through the introduction of front-end fees and other charges.

Banks were found to have extended longer maturities on syndicated credits than single bank loans, but this was offset equally or more by higher interest rates, higher flat fees and higher prepayment penalties. Nevertheless, the longer maturity, coupled with the reduced administrative costs of large volume loans, probably made the syndicated credit a more beneficial transaction for Peru.

Lastly, analysis resulted in pinpointing some potential drawbacks to the syndicated credit of the 1970s. One important one was that the vast majority of credit was mobilized by just 5 major lead banks, offsetting at least in part the favorable effects of the notable numerical and geographical dispersion in the direct sources of commercial credit that occurred in the period. In other words, Peru appeared dependent on a very small club of banks for access to the world syndicated credit market. A second problem is associated with the competitiveness of syndication. Data showed that through most of 1970s individual loans had a significant degree of competitive international character; however, as soon as Peru displayed economic weakness in 1976 the banks joined together into regional groups and negotiated as a block through a single Steering Committee. Syndicated loans lost their international and competitive character and

the banks insisted on identical terms and conditions for loans from each regional entity. While a Steering Committee and regionally based syndication facilitated coordination among the banks in a situation uncondusive to new credit extension, this does not hide the fact that the new arrangement of 1976 was collusive in nature and further eroded the bargaining position of a borrower already weakened by economic difficulties.

2. The Heterogeneous Behavior of the Banks

The three previous chapters provided ample evidence that banks behaved differently in many important ways.

In the 1960s commercial lending was dominated by a handful of big international U.S. banks and this provided for a relatively homogeneous environment. However, with the entrance of many new lenders in the 1970s bank behavior gained a multifarious appearance.

The newcomers to international finance displayed an aggressive posture with respect to loans to the government. They extended large amounts of unprotected credit without conditions. They also were likely to extend loans of free disposition and general refinance because such untied credit was a quick and easy way for the government to borrow and thereby unable the banks to build up a market position in Peru. Furthermore, for similar reasons these institutions were inclined to finance sectors of basic infrastructure and social services, traditionally unattractive activities for many banks. Finally, aggressive lenders continuously undercut the prevailing market terms for loans to Peru, thereby helping to steadily reduce interest margins and lengthen maturities.

Facing the newcomers, the traditionally international banks of the 1960s reacted differently. In 1969-1971 all these lenders were very reserved and heavily conditioned their finance to Peru, either because of concern about Peru's economic situation, or because of formal cooperation in the financial blockade against the government. However, beginning in 1972 many of them began to lend in a defensive fashion in order to protect their market position. They matched the amounts, terms and few conditions that characterized loans granted by the aggressive new lenders. Other established international lenders -still piqued by the military government's policies- openly resisted trends to varying degrees; some maintained a reluctant presence in the Peruvian market, while others simply avoided the market altogether. It was not until the Greene Accord, in 1974, that most of these holdouts fully entered the Peruvian market.

Empirical work demonstrated that Peru represented a relatively minor part of each bank's total portfolio; the principal of risk diversification was sufficiently manifest

to believe that a default by Peru would not threaten the viability of any institution. However, within this context, there were notable relative differences in the level of exposure of the banks in Peru. In the 1970s many of the aggressive lenders had the highest relative commitments to Peru. Some of the large traditionally international lenders of the 1960s showed little variation in their relative commitment over the 12 years, reflecting the defensive nature of their lending behavior in the 1970s. The restricted behavior of other traditional lenders reflected itself in a significant decline in the relative commitment between the 1960s and the 1970s.

Other empirical tests showed that over time individual commercial banks generally could not significantly deviate from the market's price of loans; in other words there was -with a few exceptions- general uniformity in the interest margins and maturities of credit. This suggested that the differential risk assessment of individual banks was undertaken through the volume of credit and non-price conditions. 291/

Individual banks also were found not to be indifferent about the types of loans they extended or the economic sectors for which they provided support. Some banks followed a traditional pattern of lending, preferring the perceived security of loans for projects and capital goods imports and preferring to support commercially productive sectors. Other banks displayed a more bold strategy, directing their credit to the traditionally less attractive loans of refinancing and of free disposition, and also showing a relatively greater propensity to finance basic social and economic infrastructure. In many cases this latter strategy was pursued by the aggressive newcomers of the 1970s. In some instances the big, traditionally international banks also pursued a similar strategy out of indifference to the type of loan or economic sector and/or out of a desire to match the offers of the newcomers for competitive reasons.

Data also demonstrated that some banks' risk preference induced them to cover a high percentage of their loans with guarantees of export credit agencies. Alternatively, other banks showed little interest in such protection.

With regard to syndicated loans, lead banks demonstrated far less than a uniform strategy in organizing credit. The newcomers to international lending gained mandates to lead syndicates through offers to undercut the prevailing market trends for credit. They also established working relationships with a wide variety of other newcomers that were disposed to join in syndication with the lead bank and to price cut as well. Working relationships manifested themselves in relatively large clusters of banks that repeatedly participated in syndicates led by the newcomers. The big, traditionally international banks, in contrast,

displayed little interest in price cutting and only had a reduced number of working relationships, which interestingly involved other big, internationally established banks.

Another finding was that banks with branches in Peru occasionally altered the pattern of their foreign currency loans to the government out of consideration for local business interests. However, the altered pattern was far from conclusive, raising the suspicion that "protective" lending -if it exists at all- is done by the local operation itself and in local currency. Thus, substantial benefits in terms of foreign currency loans to the government do not appear to have been derived from the presence of a foreign branch bank in the local economy.

Finally, in the economy crisis of 1976 all banks were found to have taken a conservative attitude on the government. However, the detailed treatment of the 1976 refinance credits in Chapter X will reveal that within a restricted environment some banks behaved in a more flexible fashion than others.

The above review has traced at a general level the major findings with regard to the differential behavior of commercial banks. Now the purpose will be to focus on similar findings but at a more institutional level. 292/

Among the aggressive newcomers of the 1970s, Wells Fargo clearly stood out as an important institution. It rose from nowhere to become a major lender to the government and one of the most important lead banks in syndication. Its relative commitment also was the highest of any regular bank. Wells Fargo captured a large piece of the Peruvian market through the aggressive pricing of its loans and the ability to organize syndicates with internationally inexperienced banks that were similarly disposed to undercut the market price for loans to Peru. Other important aggressive lenders of the early 1970s were the Bank of Tokyo, Dresdner Bank, Crocker National, Bancal Tristate Corporation and American Express International, all of which displayed lending behavior similar to Wells Fargo.

A number of banks showed openly restrictive behavior towards the government. In this group there is Chemical Bank and First Chicago which stayed away from Peru until the Greene Accord of 1974. Morgan Guaranty was a very cautious lender, moderating its position only in 1974 when it led the syndicated credit that grew out of the Greene Accord. Bankers Trust displayed a conservative attitude in a number of ways; it slipped from a major lender in the 1960s to an intermediate level in the 1970s; its level of relative commitment underwent significant decline; and it was one of the few banks that showed significant deviation from the market's price of loans to Peru -in the direction of shorter than average maturities. Continental Illinois also appears to have been less than sanguine about the military government, as reflected in a

decline in its relative commitment between the 1960s and the 1970s. For similar reasons the Charter New York Corp., First National Bank of Boston and the National Detroit Corp. all appear to have behaved more conservatively in the 1970s with respect to loans to the government.

Other banks could be classified as having had conservative strategies on the basis of export credit guarantees covering a high percentage of their credit. These institutions included Schrodgers, Credit Lyonnais, National and Commercial Banking Group, Banque de l'Indochine et de Suez, Banque Worms, Amro Bank, Banque Francais du Commerce Exterieur and Algemene Bank Nederland, to name just some.

The established international banks of the 1960s that reacted defensively to the newcomers, more or less following trends created by them up until 1975, were Citicorp, Bank of America, Bank of Nova Scotia and Manufacturers Hanover Trust. This group would vacillate between aggressiveness and conservativeness depending on what was required to defend market positions.

When banks are viewed from the standpoint of national origin, the aggressive lenders of the 1970s were Japanese banks, U.S. regional banks, Italian banks and consortia. These banks freely extended credit and heavily participated in price cutting in order to gain a market position. Also, they had a high propensity to extend loans of refinance and of free disposition and/or to support social and economic infrastructure.

More conservative behavior was found in British, French, German and Swiss institutions. These banks showed a relatively greater inclination to channel loans into the traditionally more secure project and capital goods loans and/or loans supporting directly productive economic sectors. British and French institutions also had a high propensity to secure their credits with guarantees of home country export credit agencies.

Lastly, when viewed from the standpoint of size, there was no overwhelming evidence of heterogeneous behavior. Large banks, however, were determined to have dominated the organization of syndicated credits for Peru. Data also suggested that intermediate sized banks pursued more conservative lending strategies than their very large and smaller counterparts. The explanation behind this was that large banks, by virtue of their size and international experience could assume risks that other banks might want to avoid. Meanwhile, smaller banks had to assume a relatively hold posture to compete in a crowded market where they cast small shadows.

Part III

THE IMPACT OF COMMERCIAL BANK LOANS ON THE ECONOMIC
DEVELOPMENT AND PUBLIC POLICY OF PERU

Chapter IX

COMMERCIAL BANKS' IMPACT ON PROJECT DEVELOPMENT

When reviewing the impact of commercial bank lending on Peru, an obvious area of analysis is the impact on project development. Project loans, of course, are a direct link to real activity in the economy and involve investments which have both present and future implications for growth and development. In the case of Peru, project loans carried more than usual importance given the state's drive after 1968 to expand its role in the productive sectors of the economy. Chapter V analysed project loans from the standpoint of the banks; this subsection will focus on how commercial bank project finance supported the government's development program.

A. GENERAL

Analysis in Chapter V demonstrated that projects accounted for 5% and 15% of total unguaranteed lending by commercial banks in 1965-1970 and 1971-1976, respectively. If project loans with guarantees of export credit agencies are included there is a significant change only in the latter period, in which projects' participation in total lending rises to slightly more than one-fifth.

One obvious question about bank support of project development concerns the destination of resources. Table 55 provides a distribution of bank project lending among different sectors for 1965-1970 and 1971-1976. The table also presents a distribution of major government projects among the same sectors for the period 1968-1975. Since the state's investment program did not begin in earnest until the 1970s, there probably is a considerable degree of congruence between data for 1968-1975 and the distribution of bank lending in 1971-1976.

Remembering that bank lending for projects in absolute terms was relatively small in 1965-1970, it is shown that about three-fourths of all loans went for transport; and this, incidentally, also represents a priority area of public investment in the period in question. 293/ Projects related to energy were a distant second in terms of importance, and mostly involved hydroelectric power systems.

Table 55

PERU: DISTRIBUTION OF COMMERCIAL BANK PROJECT LOANS ACCORDING
TO SECTOR, 1965-1970 AND 1971-1976^{a/}

	(Percent of total)		Distribution of all major public sector projects ^{b/}
	Distribution of project loans extended by commercial banks		
	1965-1970	1971-1976	1966-1975
Agriculture	3.0	3.2	17.7
Fishing	-	-	1.7
Mining	-	11.8	6.4
Manufacturing	6.0	20.5	15.8
Energy	10.2	46.5	45.3
(oil) ^{c/}	(-)	(43.6)	(26.2)
Water sanitation	4.8	5.8	3.5
Transport	73.8	0.1	7.0
Communications	2.3	-	2.6
Services	-	12.2	0.1
(health)	-	(12.2)	(-)
(education)	-	-	(-)
Other	-	-	-
<u>Total</u>	<u>100</u>	<u>100</u>	<u>100</u>

Sources: Bank loans: CEPAL, on the basis of official data; public sector projects: derived from data in the Ministry of Finance, La Situación Económica-Financiera del País, 12 February 1976, table 9.

^{a/} Credits with and without guarantees of export credit agencies.

^{b/} Major projects only; accounts for about 40% of the value of all public sector investment for the period, incorporating both local and foreign costs.

^{c/} Includes oil pipelines.

It can be appreciated from table 55 that in the Seventies energy projects were of very high priority to the government, accounting for 45% of the total value of major projects. Within the rubric of energy, the development of Peru's oil resources stands out as it absorbed more than one-half of the resources allocated in this area (the remainder basically involved hydroelectric power). It also is shown that within the various sectors of project development, commercial banks channeled 44% of their loans to oil-related projects. Thus commercial banks clearly lent a more than proportional amount of their resources to this national endeavor.

After energy, the second most important area of public sector projects was agriculture. Investments involved large and costly irrigation systems in Chira-Piura, Majes and Tinajones. These were designed to improve farming productivity and develop population centers in certain coastal

regions. Banks, however, did not become very involved in the investments as only 3% of commercial bank project lending flowed to this type of activity.

The next most important sector for government projects is manufacturing, which accounted for 16% of the value of major state investments. As mentioned in Chapter III, the government fostered investments in productive activities previously dominated by private (and especially foreign private) capital. Thus state activities in this sector are perhaps one of the better manifestations of the reorientation of government development policy after 1968; and banks dedicated more than 20% of their lending to manufacturing ventures, making it the second most important area of bank finance for projects.

Another area of importance for bank project lending was mining, into which roughly 12% of the loans flowed. In terms of the government's major projects, mining accounted for 6% of the total value of investments. The high priority copper projects Cerro Verde I and II dominated activities in this area.

Also of significance was health services. It too accounted for 12% of bank project finance. The projects mostly involved construction of hospitals. The relatively high profile of commercial banks in this type of finance is contrasted with the fact that ventures in health services may be considered wholly uncommercial in nature.

Thus, overall, the data would suggest that the banks provided substantial direct support to the government's investment program. With the exception of agriculture and hydroelectric power, bank finance flowed to projects of clear national priority. In relative terms, a considerable amount of finance even went to social services which are not usually considered to be an attractive area for commercial banks.

B. EXAMINING THE ROLE OF BANKS IN PROJECT FINANCE

In reviewing the nature of commercial bank support of projects, no mention has been made of the precise role of these institutions in the financing of investment programs. Did the banks fund entire projects or did they play some other role in overall finance?

Traditionally bankers have viewed their loans in projects as a way to "complement institutional and export agency credits and augment domestic financing of construction costs" 294/ In other words, bank loans are considered as one of many "layers" of financing derived from a number of private and official sources. Bankers also do not see their loans as providing long term support and therefore they expect to be repaid before other lenders. 295/

Thus, banks claim not to be major financiers of a project, but rather one element in a larger overall resource package. Unfortunately, there has been little empirical

evidence to support this view, or any other for that matter, leaving quite vague the precise role of these institutions in the direct investment activities of developing countries. Thus, in the course of this study research was undertaken to construct a more complete picture of how Peruvian projects were financed from abroad. Of interest was the role of banks vis-a-vis other financial institutions with respect to both the amounts and terms of lending, and the relation of all institutions to suppliers. Information of this type on a selected number of public sector projects, of varying degrees of size and importance, is presented in table 30 of the statistical appendix.

A summary of the relative importance of banks in the 13 selected projects is presented in table 56. Their participation varied greatly from a low of 1% of total foreign finance to a high of 100% of total finance. However, if one considers credits guaranteed by home country export credit agencies to be in fact government loans, then the aforementioned observation that commercial banks are only one layer of a multi-layered financial package appears to be accurate. Leaving aside very small projects, the only project

Table 56
PERU: RELATIVE IMPORTANCE OF BANKS AS FOREIGN FINANCIERS OF
SELECTED PUBLIC SECTOR PROJECTS, 1972-1977

Projects	Total value of foreign loans (millions of dollars or equivalent)	Distribution of loans (%)							Total
		Commercial banks			Suppliers	Government	Multilateral	Other	
		Guaranteed a/	Unguaranteed b/	Total					
NR 1	2.8	-	100	-	-	-	-	-	100
NR 2	2.8	64.3	-	64.3	14.3	21.4	-	-	100
NR 3	1.2	-	100	100	-	-	-	-	100
NR 4	3.8	34.2	-	34.2	65.8	-	-	-	100
NR 5	42.0	33.9	-	33.9	53.1	-	-	15.0	100
NR 6	29.5	49.5	15.3	25.8	-	74.2	-	-	100
NR 7	742.1b/	1.6	22.3	23.9	30.7	34.1c/	2.8	8.5	100
NR 8	28.6	36.4	18.2	54.6	3.1	42.3	-	-	100
NR 9	3.2	84.4	15.6	100	-	-	-	-	100
NR 10	72.3	30.0	40.4	70.4	-	29.6	-	-	100
NR 11	26.5	100	-	100	-	-	-	-	100
NR 12	271.4	-	1.2	1.2	98.8	-	-	-	100
NR 13	73.9d/	0.7	6.1	6.8	87.8	5.4	-	-	100

Source: Table 30 of the statistical appendix.

a/ Guaranteed credits are those with the support of home country export credit agencies.

b/ Excludes loans for \$ 0.6 million and 59 million D marks.

c/ Includes loan with unidentified participation of suppliers.

d/ Excludes a bilateral loan for 5 million Finnish marks.

in which banks had a very large unsecured participation was NQ10 -the Cerro Verde copper mine- and this amounted to approximately 40% of the total foreign resource package. Otherwise, commercial bank participation was a fifth or less, with the remainder covered by some combination of foreign suppliers, governments, multilateral agencies, etc.

The observation that banks are merely medium term suppliers of project finance already has been confirmed in Chapter V; as shown in table 29 unguaranteed project loans contained an average maturity of only 6.9 years in the period 1971-1976. When guaranteed bank credits are incorporated, the average maturity rises to only slightly above 7 years. A casual examination of table 30 of the statistical appendix, however, might suggest that the effect of the relatively short bank maturities was assuaged by longer maturities on suppliers' credits and official loans. This undoubtedly is true in the case of some projects. However, as shown in figure 3 of Chapter IV, in the 1970s only multilateral agencies consistently offered maturities that were very much longer than those of commercial bank credits; and these latter agencies had the absolute value of their credit to Peru limited by political and institutional constraints. Thus overall, one suspects that projects with the participation of commercial banks had a less of a layered appearance with respect to maturities than they did with respect to the amounts financed by individual institutions. Although a more detailed study on project loans would be required in order to arrive at firm conclusions in this area, one can be concerned about the fact that average maturities on projects displayed a more of a medium than long term character. This has adverse implications for broad-based project development and servicing of the foreign debt because the process of development is normally associated with activities that involve, for numerous reasons, long gestation periods.

C. THE OIL PIPELINE

Before closing the chapter on project development, it is worthwhile to examine the role of banks in the transandean oil pipeline, which marked one of the most important projects, and surely the most costly one, programmed by the government.

The transandean pipeline clearly was of the highest national priority. From the very outset of the 1970s expectations of considerable reserves of petroleum in the Amazon offered prospects of Peru covering its growing oil deficit and of generating abundant export revenue. This in turn would permit Peru to finance its economic development program and cover external obligations. The problem was how to bring the crude to market.

One alternative would have been to barge the petroleum down the Amazon River through Brazil to the East Coast. The

petroleum, could then be sold to Brazil or exported to third markets, using a fraction of these export receipts to purchase foreign petroleum for the domestic consumption that coastal land and offshore wells could not satisfy. The attraction of such a strategy was its relatively minimal cost. However, aside from important geopolitical considerations, the plan was deemed impractical because of the changing water levels on jungle tributaries, which could have inhibited a steady volume of shipments via river barge. Thus, authorities discarded this option at an early stage in favor of the more costly oil pipeline.

The government moved ahead quickly with the program. By early 1973 it already had commissioned and received a feasibility study recommending a 850 kilometer pipeline between the jungle and the Bayover port on the North Coast of Peru. The pipeline would have a nominal capacity of 200,000 barrels a day, which could be sharply increased through the installation of additional pumping capacity. The initial cost estimate totalled 350 million dollars and the construction would take about 2 years.

Moving ahead so quickly with the project clearly represented a calculated risk since at the time there was no firm idea about the magnitude of the reserves in the jungle. But as related in Chapter III, the initial jungle probes proved extremely encouraging, generating a state of euphoria in the public sector that place considerable momentum behind the project.

By early 1974 negotiations for the finance of the oil pipeline were fully underway. However, the government encountered a less than enthusiastic reception. Costs had escalated sharply (to over 500 million dollars) and some doubted the quality of reports filed by 2 independent oil consultants confirming proven reserves in the jungle sufficient to justify the massive pipeline venture. Even after the Greene Accord Peruvian authorities were politely turned away from many sources of finance, including those of a bilateral and multilateral type.^{296/} However, through tenacity, innovation, and the tapping of many different institutions, the pipeline obtained finance; indeed, the project eventually became oversubscribed. Ultimately, the government raised nearly 800 million dollars in foreign credit for the rapidly escalating costs of the project; in effect, the foreign loans on this one project were equivalent to roughly one-fifth of the public sector's foreign debt at the end of 1976.

Table 30 in the appendix displays the myraid of foreign loans secured to cover foreign and domestic costs of the project. It can be seen that the largest part of the finance came from the Japanese Government, which was especially concerned about securing petroleum. The problem of the debatable level of reserves was unimportant to Japan; it

planned to have claim on an assured portion of the crude coming through the pipeline as part of the agreement for repayment of the loans. 297/ Thus, for this lender, whether or not total reserves were sufficient to justify the pipeline was irrelevant; the only matter of importance was that it could confirm the existence of enough oil for sale to repay the credit.

From the standpoint of the study, it is notable that an important source of funds was private commercial banks, which extended over 150 million dollars in unprotected credits, equivalent to approximately one-fifth of the total financial package.

The two syndicated credits by Wells Fargo represent rather unique transactions. Apparently in an attempt to fill a financial gap, authorities approached the Government of Iran for special assistance. Iran agreed, but on the condition that commercial banks would act as intermediaries for the credit. Thus the Iranian government deposited 100 million dollars in an array of banks which in turn Wells Fargo organized into two separate syndicates. The basic characteristics of the two syndicates are found in table 57.

In the two general credits Wells Fargo committed very little of its own resources, while enjoying the benefits of agent and management fees. With regard to the participants, the greatest contributions came from Japanese and "other" banks. This latter group is interesting because it constitutes a significant number of banks not in the mainstream of international finance (e.g., Banco Urquijo, Banco Atlántico, Bank Melli Iran, to mention a few). Reflecting the fact that the Iranian resources passed through commercial intermediaries, the interest rate was steep at 1.75 points over the LIBOR. The only real condition for the project loan involved reports from two independent firms of petroleum consultants confirming the existence of sufficient oil to justify the pipeline.

Dresdner Bank headed the other major syndicated credit. It involved four institutions, but as shown in table 57, for practical purpose it represented a two bank credit involving Dresdner and Deutsche Bank. The resources were earmarked for the purchase of pipes from a German supplier after the government discovered that the materials could not be produced in Peru as had been originally planned. The terms of the credit were by no means easy, with an interest spread of 2.0% over LIBOR and a short maturity of 5 years.

Referring to table 30 of the appendix one finds the other banks with unsecured transactions to be Citicorp and Crocker National Bank, the former, of course, having a branch facility in Lima.

Clearly, then, banks played a key role in the finance of the pipeline, a project of high national priority. In particular, the loans are another example of the importance of Wells Fargo, Dresdner, Citibank and Crocker National Bank

to the government of Peru. The fact that little support for the project could be secured from official lenders underlies the flexibility of commercial banks and the key role they played in the national development program. However, there clearly was a cost for this flexibility, as manifest in the relatively high interest spreads and short maturities of the credit. Also, the costs proved to be more burdensome than anticipated since petroleum output fell short of expectations, causing the pipeline to operate, at least in its initial years, at only half of rated capacity.

Table 57

PERU: MAJOR COMMERCIAL BANK SYNDICATES FOR FINANCE OF THE TRANSANEAN OIL PIPELINE, 1975

	Syndicate No1	Syndicate No2	Syndicate No3
1. General			
Amount (millions of dollars)	50.0	50.0	24.4
Interest rate	1.75+LIBOR	1.75+LIBOR	2.0+LIBOR
Maturity	7 years	7 years	5 years
Flat fees	1.0%	1.0%	0.5%
2. Number of banks	22	18	4
3. Avg. Int. Rank of banks <u>a/</u>	76	27	14
4. Agent (names and percentage of credit extended)	Wells Fargo <u>b/</u> (2.0%)	Wells Fargo <u>b/</u> (2.0%)	Dresdnor Bank <u>b/</u> (41.8%)
5. Managers (names and percentage of credit extended)	Iran Overseas Investment Bank <u>c/</u> (3.0%)	Long Term Credit Bank of Japan (12.0%) Iran Overseas Investment Bank <u>c/</u> (2.0%)	Deutsche Bank (41.8%)
6. Participants (percentage of credit extended)			
United States	13.0%	14.0%	-
Japan	-	38.0%	-
Canada	4.0%	4.0%	-
United Kingdom	22.0%	10.0%	-
Germany	14.0%	6.0%	8.2%
France	4.0%	-	-
Italy	8.0%	-	-
Switzerland	-	-	-
Consortium	-	-	-
Other	30.0%	12.0%	8.2%

Source: CEPAL, on the basis of official data; footnote (c) is from the Banker Research Unit, Who Owns What in World Banking 1977-1978, London, 1977.

a/ On a scale of 1-300 in world banking for the year 1975. See footnote c/ of table 20.

b/ Also manager.

c/ A consortium bank owned jointly by: Barclays Bank (6.25%); Bank Melli Iran (25%); Bank of America (6.25%); Bank of Tokyo (6.25%); Deutsche Bank (6.25%); Industrial Bank of Japan (6.25%); Industrial and Mining Development Bank of Iran (25.0%); Manufacturers Hanover (6.25%); Midland Bank Ltd. (6.25%); and Societe General, Paris (6.25%).

Chapter X

COMMERCIAL BANK CONDITIONALITY: HOW IT EVOLVED OVER 1965 - 1976

When bankers extend credit to governments they naturally seek protection against losses. One can perceive two general forms of financial security.298/

One type is direct financial security. This is done by requiring collateral from a borrower, e.g., holding in escrow a part of the receipts of a state enterprise, or even seeking a pledge of part of a country's gold reserves.

Other forms of financial security are indirect in the sense that they focus on the general repayment capacity of the government. One type of indirect security which has become almost standard in loan contracts is a pledge from the government to provide its "full faith and credit" to a transaction. This is a global guarantee that a sovereign state will ensure repayment, even if an individual public sector entity proves incapable of servicing a loan. Banks can further increase indirect security by adding positive or negative covenants directed to the individual borrower or the state. These latter covenants often are not specific to the credit itself but rather influence policy parameters that in fact affect the state's general capacity to service debt.

Indirect financial security that places restrictions on policy parameters can be termed as political-economic conditionality. Conditionality of this nature is especially disagreeable to government officials because it represents an effective interference in domestic policies. For this reason most governments attempt to avoid such conditionality and will submit to it only under duress and only when there are no acceptable alternatives.

Direct security arrangements such as collateral may be viewed as commercial conditionality. This can be more palatable to governments because it has a rather limited impact on global decision-making. In some instances, commercial conditionality may even be viewed with favor by central government authorities when it is placed on financially weak state entities; by escrowing resources, greater discipline is placed on the borrower, thereby reducing pressure on the central government which must service the

credit in the event that the resources are not available for repayment of the loan. Nevertheless, many government borrowers probably would prefer to avoid collateral arrangements in as much as they reduce the maneuverability of national financial assets.

As far as general guarantees are concerned, they are surely the most attractive from the standpoint of the borrower. When decentralized agencies are the borrower of record, many governments attempt to limit the guarantee to the agency itself. However, in most instances bankers insist upon and receive a general guarantee of the Republic.

This chapter is basically concerned with political-economic conditionality imposed by commercial banks. Clearly, it has an impact on the direction of an economy. However, when dealing with governments, there often is a fine line between political-economic conditionality and commercial conditionality, with many gray areas where the two overlap. Analysis therefore also will point out cases of collateral arrangements. Thus the following analysis consists of an examination of protective conditions that place restraint on the actions of state borrowers. The analysis will be selective, focusing on those forms of conditionality that are perceived to have been the most influential on government actions. And for the sake of convenience, the review will follow a format involving three separate periods; 1965-1971, 1972-1975, and 1976.

A. CONDITIONALITY: ITS APPLICATION DURING THE PERIOD 1965 - 1971

The 1960s could be characterized as a period in which bankers were highly conditional lenders to the government of Peru (and probably developing country governments in general). In addition to requiring general government guarantees, conditionality of a commercial and of a political-economic nature was most common. Commercial conditionality appeared most often on loans to decentralized government agencies, while political-economic conditionality became commonplace when loans to the central government obviously had the purpose of aiding very weak fiscal and balance of payments situations.

1. Commercial Conditionality

With respect to commercial conditionality, it frequently appeared in the Sixties, especially on loans to entities other than the central government. This type of conditionality always was in addition to a guarantee from the Republic of Peru. While it would be impractical to analyze every case of commercial conditionality individually, setting forth a couple of examples illustrates how this type of protection was employed in the period.

One interesting case involved a local government, which received the backing of a central government guarantee. The

local entity had to secure a large foreign loan with its tax receipts. The arrangement required it to deposit in a special account at a local bank all receipts from a property tax until a balance accumulated to the extent of 1 1/2 times the value of the next interest and amortization quota. If tax receipts proved insufficient to generate the required balance, additional funds would be taken from the public works budget of the government. And if this proved inadequate, the central government had to deposit funds sufficient to meet the required balance. The central government also had to guarantee access to dollars for repayment.

The second example of commercial conditionality involves a 5 million dollar loan to a state steel enterprise. The lending bank required the corporation to apply to repayment of the loan the unencumbered part of U.S. dollar royalty payments paid to it by Marcona Mines for exploitation of local iron ore deposits. The Central Bank had to hold these royalty payments in a special account and in amounts sufficient to meet annual interest and amortization payments.

The significance of arrangements of this sort is that banks successfully managed to immobilize national assets to secure repayment of debt. The degree to which this type of conditionality proved onerous to Peru would depend on the circumstances of the borrower and the philosophical tone of authorities. However, objectively speaking, the security appears to have been ineffective in maintaining scheduled repayment and therefore was perhaps an unnecessary complication in credit agreements. Notwithstanding such precautions, secured credits failed to escape the need for repeated refinance, suggesting that in the end the real source of repayment was the general capacity of the government to service foreign debt and not collateral measures.

2. Political-economic conditionality

Political-economic conditionality on commercial bank loans began to appear in 1967, which more or less coincides with the open deterioration of the internal and external economic accounts. Prior to this year, the only tinge of this type of conditionality involved a rather common requirement found in loan agreements that Peru be a member of the IMF. But then again, prior to this year bank lending to the government was very modest. Between 1965-1966 banks extended only one loan of a large magnitude -40 million dollars- and most of the resources went to refinance an earlier credit of 1964.

The intensity with which conditionality was applied was progressive.

The conditionality of 1967 appeared on a relatively large general purpose loan extended by a group of banks to the central government. At the time of the bank loan Peru

had been negotiating with the IMF for a new 42.5 million dollar standby agreement for the August 1967-1968 period. In general terms the banks conditioned their loan to Peru by the need to reach an agreement with the IMF and stipulated that Peru "use its best efforts" to comply with the terms and conditions of such a standby accord. Under the general framework of tying the loan to the IMF standby credit, some of the more specific requirements included that:

- (i) the government limit to a "maximum extent" the foreign borrowing of the Central Bank and state banks for the purpose of budget or balance of payments assistance;
- (ii) new loans -other than ordinary commercial transactions- have a minimum maturity of 5 years, with 2 years grace; and
- (iii) indebtedness of the Central Bank and state banks with a maturity of less than 5 years be limited to not more than 100 million dollars at any time outstanding (excluding IMF credits and increases in lines of credit to meet seasonal requirements of productive activities).

The banks also required the government to provide them with copies of the IMF standby agreement and country reports. A copy of the agreement of a 15 million dollar loan under negotiation with USAID also had to be delivered to the banks. If Peru did not successfully negotiate a loan with the IMF, or its actions made it ineligible to receive IMF support, the banks had the option to revoke or call the loan.

How did the commercial banks' conditionality compare with the IMF agreement? While the scope of the conditionality applied by the Fund was much broader than that demanded by the banks, it is interesting to note that there were nearly identical restrictions with respect to conditions on debt contraction. According to the Fund's requirements Peru had to limit public sector borrowing abroad to loans with a maturity of at least 5 years, and in the case of suppliers' credits, to loans with a maturity of at least 10 years. And the banks' limit on borrowing mirrored the Fund's restriction of 100 million dollars for outstanding loans with maturities of less than 5 years. Thus the banks clearly followed the Fund's lead in establishing conditions on their credit.

In 1968 political-economic conditionality on commercial bank loans became more generalized. By then the government wanted to refinance all the debt it possibly could. Authorities carried out this policy in conjunction with negotiations for a new 75 million dollar standby agreement with the IMF for a 1-year period beginning in late August 1968. Moreover, since the banks generally refused to go beyond 5 years on their refinance -leaving the early Seventies with prospects of a very burdensome debt service- the civilian

government also sought a "standby agreement" with banks that would permit it to draw down funds pari-passu with the credit from the IMF. In fact, immediately before the change in government in October 1968 the parties reached an agreement, providing for \$65 million from 11 North American banks and \$25 million from 33 European banks, that could be drawn down through June 1971. But the credit never came to fruition as the government did not draw upon the funds. 299/

What is significant is that practically all commercial credits in 1968 carried some form of political-economic conditionality, most of which revolved around the IMF standby credit and the anticipated "standby" loans to be provided by commercial banks. While the individual and specific terms of the conditions attached to credits varied according to the numerous lending institutions, there was a commonality to conditionality, the sense of which can be summarized as follows:

- (i) that the government maintain in effect (i.e., renew) its standby agreement with the IMF and do nothing to prevent the Central Bank from complying with the terms and conditions of the IMF accord;
- (ii) that the Central Bank arrange the aforementioned standby credits from its major bankers on terms and conditions that would be roughly comparable for all institutions;
- (iii) that the Central Bank in 1968-1969 use its best efforts not to assume new debt in excess of that stipulated by the banks in their standby credits;
- (iv) that after such standby agreement with commercial banks shall have expired, the government use its best efforts to restrict foreign indebtedness (on a few occasions banks actually stipulated that debt at any time outstanding during any calendar year shall not exceed an amount equivalent to one-sixth of the aggregate value of Peru's exports during the preceding calendar year); and
- (v) that the banks receive periodic reports from the Central Bank on the country's external debt.

As far as the IMF agreement which underpinned commercial bank credits is concerned, it virtually stopped the contraction of new debt with maturities of more than 180 days and less than 10 years and placed severe limits on new debt with maturities between 10 and 15 years. There were no limits placed on debt with a maturity of up to 180 days or more than 15 years.

Thus, the banks, in tying their refinance accords to the IMF agreement, essentially received the protection of the tough debt limits plus the broader macro-economic policy restrictions associated with later tranche IMF standby

By doing this they operated under the IMF umbrella, yet could avoid direct responsibility for the measures themselves. Also, the banks displayed foresight as they established their own debt limits in the event of the expiration of the standby agreements.

Up to mid-1969 the banks could benefit from the buffer of the IMF accords. But by this time the August 1968 IMF standby agreement had expired and the government had decided not to seek a new standby credit. Thus bankers were consequently more or less on their own in handling Peru's debt service problems. Fortunately for them, the fiscal and balance of payments measures taken in 1968, coupled with the follow up stabilization efforts of the new government, helped to considerably assuage financial difficulties.

Notwithstanding the expired IMF accord, the commercial banks continued to refinance and restructure upcoming payments due to them, perhaps because of the threat of non-payment if refinance agreements were not forthcoming. What is of interest here is that bankers continued to apply their own conditionality to the credits.

Efforts to restructure and refinance debt in 1969-1970 met with success. However, banks, working together, placed precise limits on the contraction of debt with maturities in excess of 18 months for the period 1970-1975. The construction of the limits contrasted with the earlier practice that mirrored the IMF guidelines; instead of placing ceilings on outstanding indebtedness, the banks established annual limits on aggregate payments of interest and principal on foreign debt related to loans with maturities of 18 months or more. (Unfortunately, it proved difficult to establish the magnitude of the limits themselves). As to loans with a maturity of less than 18 months, no limits were established, except with regard to the Banco de la Nacion, for which lines of credit were restricted. In addition, Peru had to remain a member of the IMF; provide the banks with copies of the country reports from international organizations; and ensure that all terms of bank refinance agreements did not favor one institution over the other.

In 1971 Peru's traditional banks once again agreed to restructure and refinance payments. In doing so they amended their earlier conditionality. Again debt limits focused on service payments rather than on outstanding indebtedness. The period of restriction was 1972-1976 and the limits placed at 220 million dollars per annum for the first two years and 200 million dollars per annum thereafter. Limits did not apply to short term lines of credit to the state development banks, but the Banco de la Nacion had an absolute limit on its lines of short term credit. In addition to the above, the banks required Peru to maintain "a substantial" portion of its reserves on deposit at their offices.

There is no doubt that this conditionality was severe. By returning to the table on debt service in Chapter III, one may appreciate that Peru at this time already approached the established limits, making significant new debt contraction dependent on very long grace periods that would allow the government to postpone service payments until after the restricted period. However, such long periods of grace were uncommon, meaning that the conditionality effectively placed absolute constraints on the government's foreign debt contraction. The severity and importance of the restrictions can be better appreciated if one remembers that the government had plans to embark on a massive investment program which involved a need for external support.

What the above demonstrates is that up through 1971 the banks displayed boldness in the establishment of political-economic conditionality that affected the management of the Peruvian economy. When the IMF monitored standby arrangements, the commercial banks cleverly came under the Fund's wing and established formal links between their loans and the IMF credits. And maintenance of the commercial credit agreements was dependent upon satisfactory compliance with the Fund's program. Frequently the banks established their own debt limits, which resembled those stipulated by the IMF.

Interestingly, the commercial banks persisted in applying conditionality even when the Fund's protection was not available to them. This clearly represented a more risky venture. However, evidence suggests that traditional commercial lenders were up to the challenge as their loans placed severe short and medium term limitations on the government's ability to contract foreign debt. This in turn placed a clear restraint on the government's plan to pursue an ambitious development program.

B. CONDITIONALITY: ITS DISAPPEARANCE IN 1972 - 1975

Peru entered 1972 holding successful refinance accords with its bankers. However, there was conditionality attached to these agreements and this restrained government policy-making ability, especially with respect to debt contraction for the investment program. Authorities had little choice but to heed these conditions; with the principal sources of bilateral and multilateral loans cutoff as a result of a financial boycott, Peru's traditional bankers represented the only real potential source of new finance. Thus, while the government negotiated toughly with the banks, it decided to accept their conditions and comply with their requirements, hoping that somehow the banks would become more flexible and provide new finance for the development program.

As things turned out, the structural changes in world banking, analyzed in Chapter II, now had made developing countries ever more attractive clients for commercial banks.

In 1972, aided by the publicity over petroleum in the Amazon, Peru began to enjoy some of the fruits of the changes in the world financial market.

As revealed in earlier chapters, prior to 1972 a handful of traditional lenders dominated Peru's bank loans. In contrast, by 1972 many new lenders had a willingness to extend credit to the government. These banks -e.g., U.S. regional banks, Japanese banks, etc.- were relative newcomers to international finance and actively sought to expand their portfolios abroad. As a reflection of their interest in penetrating new markets, they offered finance to Peru with no conditions whatsoever. As more banks attempted to enter Peru, competition necessarily increased. By late 1972 and into 1973 there were sufficient offers of unconditional credit for Peru to break the hold of its traditional banks by liquidating in full their earlier loans laden with conditionality. The liquidation of the agreements unshackled government policy with respect to debt contraction. Moreover, most traditional lenders, in order to protect their market position, followed trends and provided unconditional finance as well. 300/

With the wave of bank lending to developing countries in the 1970s, not only was political-economic conditionality abandoned, but so too was commercial conditionality. Banks, in order to gain the favor of governments, found general government guarantees to be adequate security. The nature of finance was of little import. If a bank felt inclined to seek commercial security, or question the use of funds, it faced the prospects of other institutions providing no-questions-asked finance, thereby undercutting the banks' competitive position with the government. Thus, in the 1970s banks usually paid little attention to the use of funds or special security arrangements; the only condition for finance was the sovereign government guarantee, the value of which many banks were unwilling or unable to assess. 301/ A good example of the relative freedom from conditionality involves the finance of the oil pipeline. Despite a generally more conservative lending environment in the international market in 1975, the only requirement that the banks made for support of the project was two studies on proven petroleum reserves in the jungle. This contrasts with official lenders and suppliers from Japan which secured their loans by putting claims on the petroleum itself.

C. CONDITIONALITY RETURNS IN 1976 302/

The freedom from conditionality in 1972-1975 represented a sharp break with the past. Throughout the early 1970s the commercial banks unquestionably supported the Peruvian economy, even in the face of comprehensive reforms on foreign capital and severe structural weaknesses in public finance and the balance of payments. This environment provided Peru with

unprecedented opportunities for national self-determination. Moreover, the banks' extreme flexibility (some have said irresponsibility) during the period contrasted sharply with the traditionally conditional finance of official institutions. Unfortunately, the banks withdrew their carte blanche in 1976. One factor behind the change in attitude was external to Peru, i.e., the banks by now had become very cautious lenders to developing countries. The important bank failures in mid and late 1974 raised serious doubts about the viability of the then current management practices in international banking. In addition, public officials, especially in the U.S., had been strongly criticizing banks for having imprudently lent to developing countries. Reflecting the tense environment, many of the so-called newcomers to international lending withdrew from active participation in the market, giving the big, traditionally international banks increased leverage over the patterns of global lending. The other important factor behind the changed attitude was intrinsic to Peru. The structural weaknesses in the Peruvian economy had been progressively intensifying over the years and so had the requirements for external support. With much less brilliant prospects for petroleum in the jungle, and Peru's financial requirements accelerating, the country's private creditors panicked. Peru could no longer count on its bankers for unconditional finance.

Even with the economic package of corrective measures that Peruvian authorities introduced in January 1976, it soon became apparent that further steps would have to be taken. A large balance of payments gap developed and the banks had been displaying little interest in extending new loans at the same pace as in previous years. Something had to be done.

After informal contacts with the IMF early in 1976, the government dismissed the possibilities of a standby agreement. 303/ In line with the experience of many developing countries, economic officials -even though of a more conservative bent than those of the Velasco regime- found the IMF prescription excessively harsh and overbearing. 304/ The IMF remedy undoubtedly implied huge social costs; and aside from this, as Stallings points out, 305/ the government was politically insecure and feared the reaction of the public to the sharp economic deflation prescribed by the Fund, as well as the reaction of personalities within the government that were linked to the former Velasco regime and which since 1969 had pursued policies designed to avoid all forms of conditional IMF finance.

Seeking needed finance, in the Spring (North American) of 1976 Peruvian officials made informal contacts with U.S. banks in New York. Initial efforts focussed on U.S. banks not only because of their status as the government's main

creditor but also because U.S. banks were leaders of the international market and their blessing was needed for any assistance from the world banking community. Manufacturers Hanover Trust, which had long and close relations with both the private and public sectors of Peru, organized a meeting with several large U.S. banks. Others participating in the meeting were Bank of America, Citicorp, Wells Fargo, Chase Manhattan and Morgan Guaranty, all -with the exception of Morgan- classified earlier as major lenders to the government in the 1970s.

Authorities informed the bankers that without loans of some 350 to 400 million dollars Peru would be unable to meet its obligations. The bankers were not very enthusiastic about the request, especially when they found out that Peru refused to undergo an IMF stabilization program. In the meetings the Peruvians confronted a general reluctances among the bankers to extend new credit without IMF supervision of the economy.

During the course of events, the government prepared its own stabilization program. Whether the program arose at the initiative of the Peruvians, or as a response to the demands of the banks for Peru to "get its house in order" has been a matter of debate. But causal factors would be difficult to untangle. Peru faced a growing external gap that clearly required comprehensive policy measures. Something had to be done regardless of the opinions of bankers. Moreover, a government formulated stabilization program represented a logical bargaining tool to help convince creditors to provide financial support in the absence of a program with the IMF.

Authorities initiated their stabilization program in mid-year. The basic measures taken are reproduced in Appendix 5. As indicated, the measures included a 44% devaluation, cutbacks in fiscal expenditures, new taxes, adjustment of interest rates, etc. Generally speaking the program was very comprehensive. But whether or not the terms and conditions of the program compared to an IMF accord is difficult to determine; indeed it is problematical since agreements of this type are the outcome of bilateral negotiations. What is important is that the Peruvian program was presented to the banks as being equivalent to the traditional IMF adjustment policies.

Both during the preparation and implementation of the national stabilization program the U.S. banks remained highly reluctant to extend loans without the buffer provided by the IMF. Peru was not the only one of their developing country borrowers encountering problems and the banks feared that attending to Peru's request would set a bad precedent. Also the banks worried about the political implications of providing direct support to the government's program. Then there was a problem of how to evaluate the program and what to do if it failed.

Notwithstanding these general reservations, as negotiations proceeded U.S. banks split into two camps.

One group of major banks -notably headed by Citicorp- became advocates of a financial package for Peru. Aside from wanting to refinance the loans to keep the balance of payments afloat, these banks also saw the credit as a way of keeping the new political regime afloat; its more conservative posture apparently had greater appeal to the banks than the policies of the Velasco government. 306/ These banks also felt that the precedent of the bank loan was better than the precedent of a default, which could trigger similar behavior in other developing countries. 307/

Another group of major banks took the position of adversaries and showed little interest in monitoring a stabilization program without IMF supervision. In this group were Morgan Guaranty, Continental Illinois and Bankers Trust, all of which were shown in Part II of the study to have had a less than enthusiastic attitude on the military government even in the best of times. The latter two banks even refused to participate in the Steering Committee set up by the banks to organize negotiations between U.S. creditors and Peru. 308/

The adversaries, while not wanting to participate in a joint credit, did offer the Peruvians short rollovers of the upcoming payments due to them. However, the Peruvian authorities rejected this proposal as inconsistent with their medium term stabilization program. Thus, the adversaries encountered a dilemma. The advocates had expressed an unwillingness to cover the adversaries claims on Peru; to do so would effectively have been a subsidy for this latter group of banks. Clearly, then, if the adversaries rejected participation in a general refinance credit the whole rescue mission would have to be aborted. This in turn would ensure default. Thus these considerations, coupled with strong peer pressure, brought most major adversaries into the fold. 309/

With most important U.S. creditors more or less in agreement in principal to support the Peruvian program, in July other banks were incorporated into the negotiations. In order to coordinate the bankers position a Steering Committee was organized. Citibank represented the U.S. banks, Dresdner Bank the Europeans, Bank of Nova Scotia the Canadians and Bank of Tokyo headed the Japanese Banks. Swiss Bank coordinated Swiss creditors, who negotiated outside the global agreement.

The negotiations focussed on whether or not all the banks should provide finance for the stabilization program in the absence of the IMF, and, if so, what would be the modus operandi and how would the banks evaluate the program. At issue was the distribution of credit among the banks as well as the terms and conditions.

With regard to the distribution of the refinance credits, it was envisioned that it would be as follows: the United States, \$240 million; Europe \$120 million; and Canada and Japan \$50 million each. The actual distribution more or less followed this pattern, except that the U.S. share was less than anticipated (\$210 million). The conditions of the credit were to be extremely harsh: an interest margin of 2.25% over LIBOR; flat fees of 1.5% and a short 5 year maturity with 2 years of grace.

After arriving at a general consensus to go ahead without the IMF one of the major difficulties in the negotiations was how the banks would evaluate the government's stabilization program, which, of course, represented the justification for the credit. One problem confronting many banks -especially those not in a position to professionally evaluate a stabilization program- involved the implications of private banks monitoring a sovereign government's economic program. However, the big banks, which obviously could evaluate an economic program, were prepared to assume this responsibility and they overrode the concern of the smaller banks. Once it was decided that the banks should evaluate the program, a plan evolved in which the government would voluntarily give periodic reports to the banks on the progress of the stabilization program and provide them with data that would facilitate their own evaluation of events.

As far as what to do if the program did not, in the view of the banks, proceed satisfactorily, the following unusual procedure was worked out. Loans would be made in two equal tranches, termed A and B. The banks would disburse commitment A immediately upon a formal agreement. The B commitment would be disbursed not before January 31, 1977. In order to secure the second tranche the banks would have to (i) receive a copy of the confidential 1976 IMF country report on Peru and (ii) banks making-up at least 75% of the aggregate commitment had to express a willingness to make available the B disbursement. It is the second condition that constitutes the key to the agreement; it implied that the willingness of the banks to extend the second tranche would depend upon their opinion of the success of the stabilization program.

There was at least one other important element to the agreement: settlement of disputes with some transnational corporations -Marcona Mines and the Southern Peru Copper Corporation.

The former corporation had a long history of iron ore mining operations in Peru. In 1975 the Velasco government had expropriated its assets and declared that the action would involve no compensation. A conflict ensued, as Marcona, with considerable success, contrived a world boycott of Peruvian iron ore shipments.

In the case of Southern Peru Copper Corp., the problem stemmed from a dispute in the interpretation of tax arrangements in the mining agreement.

The commercial banks made it clear that they wanted the disputes settled. On the philosophical level banks have expressed that the mode of treatment of foreign investment is a key element in their evaluation of a country's creditworthiness. 310/ But on a more practical plane, many of the banks in the negotiation had close relations with the affected firms and they did not want to support the government while these problems went unresolved 311/ indeed the corporations own creditworthiness may have been affected by the outcome of the disputes.

During the course of negotiations for the refinance credits the government of Peru reached settlements with the aforementioned corporations. Formally the settlements were not a condition for the refinance credit; indeed the actual credit agreements made no mention of the disputes or their resolution. But there is no doubt that the banks open concern about the matter placed pressure on the Peruvians to reach a quick settlement. Clearly, the division among the banks with regard to supporting the stabilization program would have been much more difficult to overcome if the investment disputes had not been diffused. So in an implicit, if not explicit, sense the resolution of the expropriation and tax issues was a condition for the 1976 refinance credit, demonstrating once again that commercial banks and TNCs operate in tandem. But how was Peru affected by these conditions?

In the case of Marcona, intense negotiations had been underway for a long time over the subject of compensation. The corporation's home country government (the U.S.) had been pressing hard for a settlement and prodding Peru for compensation. 312/ This was on top of the foreign company's organization of a boycott against Peruvian iron ore exports. Both this pressure and a more conservative political tone in Peru made a settlement likely in any case. The banks undoubtedly speeded up the process and maybe the settlement was more favorable to the expropriated corporation than some would have preferred. On the other hand the compensation was covered by the new refinance credits. Also, a settlement ended Marcona's boycott of iron ore exports, which would help to support the stabilization program.

In the case of Southern Peru, the banks (headed by Chase Manhattan) demanded that Peru arrive at a decision on the tax matter and provide a credit to the Corporation for any back taxes that might arise. Authorities, wishing to see Cujone's copper exports on stream for the stabilization program, quickly arrived at an estimate of back taxes of \$50 million and accepted payment over time.

The above were the principal controversial elements of

conditionality. Others, such as waiver of sovereign immunity, cross default clauses, membership in the IMF, etc., were rather standard conditions that appeared in most other credit agreements.

D. A SUMMARY EVALUATION OF CONDITIONALITY

Given the scope of this section on conditionality, it is worthwhile to end the analysis with some summary observations.

It has been seen that conditionality turned full circle over the 12-year period. Banks began and ended their lending under circumstances of heavy conditionality. This is an important consideration because when commercial banks imposed conditionality on Peru in 1976 a world-wide uproar developed over the banks intervention in public policy. The reaction was as if banks had never done this before. Memories are short and surely minds were fixed on the brief period of unconditional lending of 1972-1975. But in fact commercial banks rediscovered their interventionist practices of the 1960s.

It is true that it was unusual for commercial banks to extend a large credit without the IMF overseeing the economy. However, in the case of Peru, this had already been done in 1969-1971 when, as shown previously, the banks extended large refinance credits with conditionality to the government even though authorities had avoided a standby agreement with the IMF. The new twist, however, was that private commercial banks took it upon themselves to monitor and evaluate the performance of a sovereign government's macro-economic policy. Unlike the past, conditionality was not placed on a specific policy parameter such as external debt contraction, but rather involved the entire economy. In other words, they assumed the role of the IMF.

From the standpoint of Peru, a stabilization program with the banks could have made sense. The bankers were by far its major creditor. In contrast to bank finance, IMF standby credits were a pittance. Why go through the distasteful exercise of an IMF program when more resources and perhaps less rigorous conditionality could be acquired from the banks?

And from the standpoint of the commercial banks it could have appeared sensible too. When lending for general refinance (balance of payments assistance), it is clear that the capacity for repayment is largely embodied in government economic policy. And since bank finance now dwarfed all official sources of funding to developing countries, these institutions had de facto leverage over economic policy in much of the Third World. The fact that banks had been entertaining ideas along this line is suggested in the following commentary by one major international bank in early 1976:

"... It is incumbent on banks to improve further their competence in appraising borrowing countries' economic and financial policies. The Fund (IMF) generally will be involved only in the critical cases where the necessity for internal adjustment is clearcut. But, in the less-than-critical cases, bank credit decisions also involve a judgement on the way an economy is managed and on the prospects for the balance of payments. In deciding whether to extend credits, and in setting the terms and conditions for loans, banks can influence the nature and timing of borrowing countries' policies. This is a heavy responsibility, and admittedly one which is difficult to carry out, particularly in the face of competitive pressures. However, from the viewpoint of the borrower, the discipline of the marketplace can have an important bearing on whether sound economic and financial policies are taken on a timely basis". 313/

Of course, when presented with a concrete case in which this philosophy could be applied in the extreme the banks understandably hesitated. But in the end the objective conditions of their power and leverage prevailed.

As it turned out, the banks were more vulnerable than they had thought. Third parties became outraged by the prospects of commercial banks monitoring the affairs of a sovereign state, even if a voluntarily agreed to by the borrower. As private commercial institutions banks clearly were open to charges of conflicts of interest e.g., foreknowledge of a country's exchange rate policy, credit and interest rate policy, etc., all could lead to questionable profit-making. Suspicions about the banks' role in the settlement of the investment disputes also added to the controversy. And representing a final blow, as a result of internal resistance, Peru could not live up to its end of the bargain and the national stabilization program faltered.

Commercial lenders found themselves in a "no win" situation. 314/ Their private capital base made them sensitive to adverse public opinion. Their private capital orientation also gave them limited staying power, i.e., they could not support the Peruvian economy while it vacillated in the process of gaining domestic support for needed economic adjustments. Thus, the bankers withdrew to more familiar terrain; they told authorities that no more finance would be available until Peru reached a standby accord with the IMF.

As for Peru, it was abandoned by its private creditors. The succeeding period involved numerous clashes with the banks and with the IMF as Peru attempted to find its way between the requirements of national political-economic policy and the demands of its foreign creditors.

Finally, all the above reveals that the often heard

observation that commercial banks -unlike official institutions- are "standoffish and remote" and therefore provide developing country borrowers with a great deal of national autonomy is not wholly accurate. 315/ Under the unusual historical circumstances of the expansionary and competitive period of world banking in the early 1970s finance did approximate a remote, arm's length market. But the recent history of Peru has shown that banks can and do intervene in public policy, especially in moments of national economic (and political) weakness. This is an important consideration since developing countries are especially prone to economic difficulties due to their sensitive domestic-socio-economic milieu; the structural transformations intrinsic to development; and volatile external markets.

Chapter XI

A GENERAL OVERVIEW OF THE IMPACT OF BANK LENDING ON PERU

Up to now analysis has focused on very specific aspects of the impact of bank lending on Peru. What is required is a more global evaluation of the effects of commercial banks on the Peruvian economy. Since it is virtually impossible to empirically isolate the impact commercial bank loans from the other financial, real and political activities of the economy, any general evaluation of this sort must have a more than usual degree of normative content. Thus, a similar examination undertaken by an individual with another perspective could generate very different findings. No absolute truths are posited here; the reader must ultimately judge the following arguments on their merits and derive his/her own conclusions. For the convenience of exposition, the matter will be approached by viewing both the positive and negative aspects of the banks' participation in the economy. The analysis will begin with the positive side.

A. BANK LENDING TO PERU: ITS POSITIVE ASPECTS

There are undoubtedly many positive elements in the banks' involvement in the economy. An attempt is made below to highlight some of those which were very important to the country.

1. Breaking the Grip of the Financial Blockades

When the military government entered into power in 1968 it found a very hostile external environment, as manifest in the financial blockade initiated by official and private sources of external finance. (And it must be remembered that the prior civilian government also encountered problems, albeit of more modest proportions, from official lenders). During 1969-1971 Peru's external finance was severely prejudiced by the reserved attitude of foreign financiers. The country's balance of payments remained afloat in part because of some extraordinary factors: favourable export prices, virtual stagnation of import volume, and a special law in 1970 that successfully repatriated capital held abroad by residents.

Commercial banks, and more specifically the newcomers to international lending, played a key role in the breaking of

the blockade. Prior to 1972 few banks would lend to Peru. The country's traditional bankers, whether because of objective economic circumstances or because of tacit co-operation with the blockade, limited credit to highly conditioned refinance operations. But when the new non-traditional banks began lending to Peru in 1972 this started a process, similar to a bandwagon effect, in which ever more commercial institutions -including many of the country's traditional bankers which reacted in a defensive manner- became disposed to lend to the government. As lending built up, so did the government's maneuverability and international prestige. By 1973 it became evident to the perpetrators of the blockade that their policy was increasingly unproductive. This led to the Greene Accord and the formal termination of the blockade, under conditions that were relatively favourable to Peru.

The banks' willingness to lend to Peru undoubtedly had something to do with internal factors such as the discovery of oil in the Amazon and the appearance of an improved balance of payments due to some conjunctural circumstances. However, this was only a part, and a small part, of the changed attitude of the banks. As argued throughout this study, much could be attributed to historical timing; changes in the eurocurrency market itself caused banks to seek out new clients in order to absorb liquidity and facilitate a seemingly insatiable desire to expand abroad. The extreme competitive pressures to expand assets promoted a global as opposed to a national psychology; banks no longer went abroad only to serve the interests of their home country TNCs, but in the interest of internationalization for its own sake and the profits derived from such policies. In this context, most banks were willing to overlook Peru's treatment of foreign firms and eagerly provided "no-questions-asked" finance to the government up until 1976. This represented a sharp break with the past whereby commercial banks conditioned loans by a country's attitude on private capital in general and foreign capital in particular.

These historical circumstances had great implications for Peru (and other developing countries). Had the government faced a financial blockade of similar proportions in the 1950s or 1960s there would have been a greater likelihood of its domestic policies (especially the investment programme) having been aborted by external pressures. In these years private non-financial firms (via direct investments and supplier credits) and official bilateral and multilateral agencies provided most of the finance, and all these sources traditionally had close political links with each other. (Big international banks, of course, also were in this group, but at the time they did not heavily participate in the medium term finance of developing countries). In the case of Peru the links among the various external financiers could have been activated very easily because of the severe geographic concentration of the country's external economic relations.

Thus, any attempt to reorder foreign capital's role in the economy, at least on a scale similar to that which was actually realized, could have been very costly to the country and perhaps not even feasible without extreme political cohesion at home.

Thus, in 1972-1975 finance from banks was abundant and independent of pressures from the industrialized countries' governments and TNCs. This produced an unprecedented plurality in developing countries' external finance. In turn, opportunities for national self-determination were enhanced. There is no better example of the changed environment than Peru where banks effectively gave important support to a model based on state intervention in productive activities and reform of the traditional prerogatives of private capital.

2. The Capacity to Import

After 1971 banks were the principal factor behind a growing capacity to import goods and services from abroad. This to some extent was evident in Chapter III; as demonstrated in table 5 and again in table 11, imports of goods and services constituted a sharply rising percentage of product, while exports constituted a sharply falling percentage of product. This prolonged trend, of course, proved feasible only because of external finance, which in the period in question was dominated by transactions between commercial banks and the government.

The impact of the banks on the capacity to import can be more clearly seen through formal analysis of the key elements behind the ability to purchase abroad. This type of analysis follows using constant 1970 US dollars.

Making a determination about the banks' role in the capacity to import involves a degree of inference because of data limitations. While this study has generated information on the net flows of loans from banks, it is not derived from official balance-of-payments data and therefore is not necessarily consistent with such data. Moreover, official balance-of-payments data do not provide a detailed breakdown of financial flows, so that there is no way in which to single banks out from total finance; nor is there a way to distinguish bank flows to the public sector. However, Chapter IV pointed out that banks dominated lending in the period 1972-1976, so that any movement of loan flows in the balance of payments for these years would mostly be attributable to them. It also is known that the public sector was the principal foreign borrower in the country. On this basis the capacity to import may be reviewed.

Figure 7 graphs the evolution, in real terms, of the purchasing power of Peru's exports and capacity to import over the period 1960-1976. 316/

The graph makes clear that there was a long run tendency of a rising capacity to import. However, it is striking that up until 1973 Peru's capacity to import was almost entirely dependent on earnings from export; indeed, except in 1965-1967, the net contribution of external financial flows was negative or marginal, subtracting from, or adding very little to, the country's capacity to import goods and services. However, after 1972 a notable change in relationships occurred. Exports provided no increment in capacity; indeed the 1970 peak in the purchasing power of exports never was regained and earnings from this source stagnated throughout the 1970s. However, strong stimulus was provided by external financial flows and capacity to import actually rose dramatically between 1972 and 1974; by the latter year the country's ability to purchase abroad, in real terms, was nearly 50% higher than the peak level achieved in 1970. Although the capacity to import declined sharply in 1975-1976, net financial flows still provided a very positive contribution and helped to assuage the effects of a dramatic decline in the purchasing power of Peru's exports. (In real terms, the purchasing power of exports in 1976 was below the level recorded in 1968.)

It is no coincidence that the noticeable rise in capacity to import in the 1970s, and the overwhelming importance of external financial flows in this increase, corresponded to a period when commercial banks were most involved in the Peruvian economy. Indeed, as shown in table 58, loans for which commercial banks were largely responsible, accounted for almost all the positive contribution derived from financial flows. Moreover, focusing on total financial flows only understates the full contribution of non-compensatory loans because a significant part of the inflow was offset by an outflow on errors and omissions and national assets, designated as "other" financial flows in the table. 317/

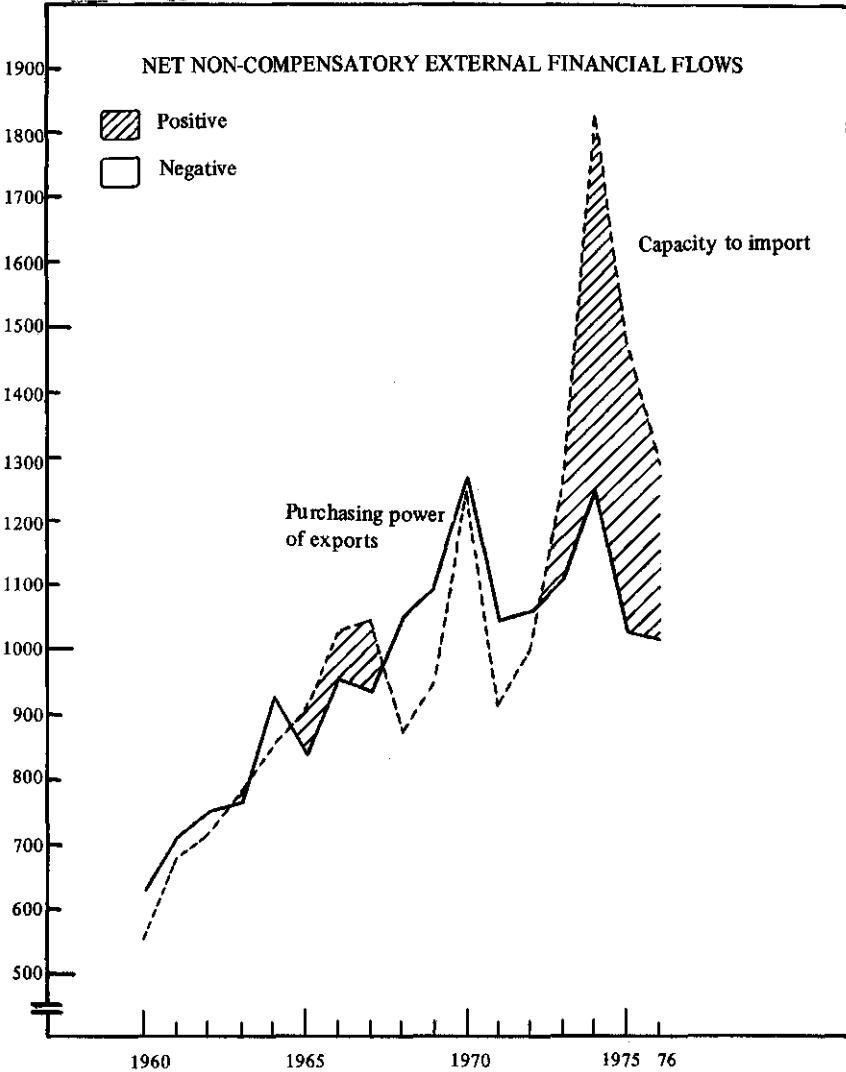
The table also demonstrates that the purchasing power of exports underwent practically no growth in 1971-1976, as compared to the previous sexenium. Thus, loans were almost the sole factor behind the 28% rise in the average capacity to import. And even more importantly, ceteris paribus, if there had not been the dramatic increase in loan flows, the ability to import would have actually declined with respect to 1965-1970.

Figure 7

PERU: PURCHASING POWER OF EXPORTS AND CAPACITY TO IMPORT, 1960 - 1976^a

Millions of dollars

(Millions of 1970 dollars)



Source: ECLA, on the basis of official data.

^aPurchasing power of exports is export volume adjusted by the terms of trade.

Capacity to import is purchasing power of exports + net financial flows, the latter being defined as net non-compensatory capital flows less net factor payments and amortization of compensatory loans.

Table 56
PERU: EVOLUTION OF CAPACITY TO IMPORT, 1960-1976

(Millions of 1970 dollars; annual averages)

Year	Purchasing power of exports <u>a/</u>	Financial flows (net) <u>b/</u>						Capacity to import (1+2)
		Total (6+7)	Foreign flows				Other <u>f/</u>	
			Direct foreign investment <u>c/</u>	Loans <u>d/</u>	Other <u>e/</u>	Total (3+4+5)		
1960 - 1964	754	-38	-66	49	-	-17	-21	716
1965 - 1970	1 023	-15	-104	77	17	-10	-5	1 008
1971 - 1976	1083	210	19	368	20	407	-197	1 293

Sources: CEPAL, on the basis of official data.

a/ Exports adjusted for the effects of the terms of trade. Includes non-equited transfers.

b/ Deflated by import price indexes.

c/ Net direct foreign investment less profit remittances.

d/ Gross non-compensatory short, medium and long term loans less amortization and interest payments.

e/ Net of donations, SDRs, and amortization of compensatory loans.

f/ Net movement of assets of residents and errors and omissions.

Figure 8 provides more information on how non-compensatory loans evolved. It is seen that in both net and gross terms loans rose in dramatic proportions from 1972. By 1975 the net contribution of credits was, in real terms, three and one-half times as large as the previous peak flow achieved in 1967. The figure also shows that after 1973 interest payments accumulated rapidly, absorbing considerably greater amounts of new disbursements of loan capital. Nevertheless, the transfers via loan capital were of a considerable magnitude throughout the period.

It is evident from the above that without the massive influx of loan capital in general, and bank capital in particular, during the 1970s Peru would not have realized an unprecedented growth of import volume, which averaged nearly 16% per annum during 1972-1975 (see figure 9). Neither export prices nor volume were up to this task, as manifest in the near stagnant purchasing power of the country's exports. This left nearly the full burden of growth on foreign capital. Thus, commercial bank loans helped to break what otherwise most certainly would have been a very debilitating external bottleneck.

3. Impact on Domestic Demand

The growth of imports facilitated by bank loans during the period 1972-1975 had a very significant impact on the evolution of the domestic economy. This is evident from table 59.

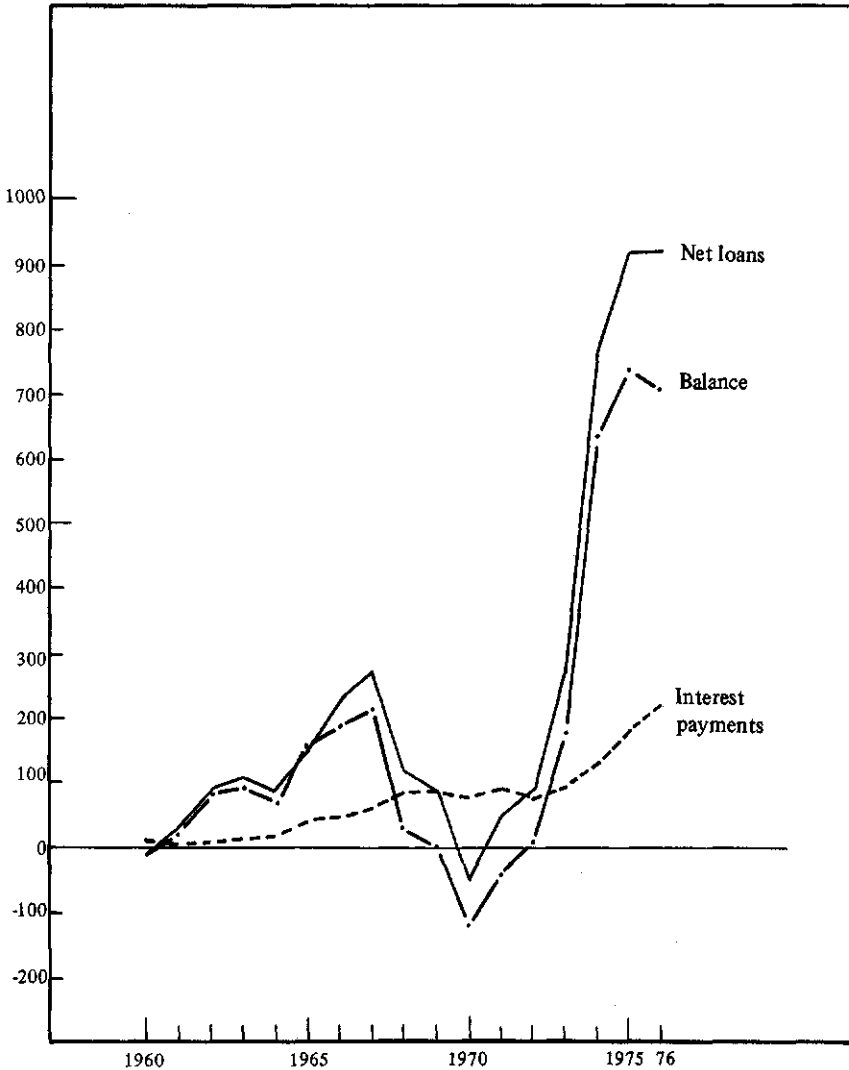
During 1972 to 1975 there was a substantial increment in the growth of domestic demand with respect to the first

Figure 8

**PERU: BALANCE OF NET DISBURSEMENTS OF NON-COMPENSATORY LOANS
AND INTEREST PAYMENTS, 1960-1976^a**

(Millions of 1970 dollars)^b

Millions of dollars

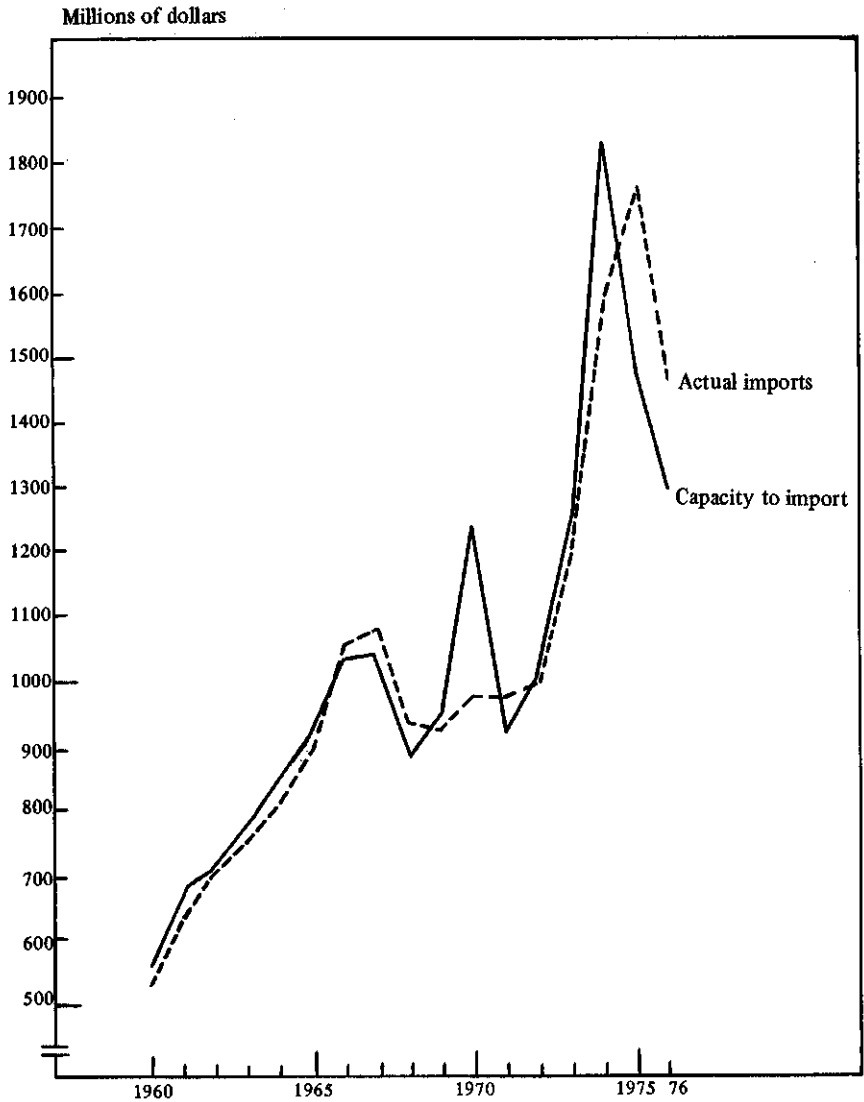


Source: ECLA, on the basis of official data.

^a Loans are short, medium, long term.

^b Deflated by import prices.

Figure 9
PERU: CAPACITY TO IMPORT AND ACTUAL IMPORTS, 1960-1976
(1970 U.S. dollars)



Source: ECLA, on the basis of official data.

3 years of the military government. The 8.8% rate of growth experienced in 1972-1975 was more than one-fifth higher the rate recorded in 1969-1971. The contributions of the public sector to this performance is particularly noteworthy, especially with regard to fixed investment.

The reliance of domestic demand expansion on imports is, of course, mirrored in the difference between the rate of expansion of domestic demand and the growth of domestic product. It can be appreciated from the table that while the growth rate of domestic demand rose by more than 20% between 1969-1971 and 1972-1975, the rate of expansion of product actually slipped by some 10%. Thus the gap between the expansion of demand and product rose from 1.1 percentage points in the former period to 3.2 percentage points in the latter. ^{3.18/} In as much as import growth gained heavy support from external loans, there is no better indication than this of the importance of external finance (and banks) in the overall performance of the domestic economy.

A further idea of the impact of bank finance on domestic demand can be given by viewing Peru's performance against that of the rest of Latin America.

Table 60 provides data on the growth of domestic demand and gross domestic product during the period 1972-1975.

Table 59

PERU: GROWTH OF DOMESTIC DEMAND AND PRODUCT, 1969-1971 AND 1972-1975^{a/}

(Average annual rates of growth)

	1969-1971	1972-1975
1) <u>Total private sector</u>	<u>6.3</u>	<u>8.0</u>
Consumption	6.7	7.8
Fixed investment	3.1	10.2
2) <u>Total public sector</u>	<u>8.9</u>	<u>12.6</u>
Consumption	5.8	7.6
Fixed investment	18.4	22.5
3) <u>Domestic demand</u>	<u>7.3</u>	<u>8.8</u>
4) <u>Gross domestic product</u>	<u>6.2</u>	<u>5.6</u>

Source: CEPAL, on the basis of official data.

^{a/} Based on market prices in 1970 Soles.

Table 60

PERU: GROWTH OF DOMESTIC DEMAND AND PRODUCT IN COMPARISON
WITH LATIN AMERICA, 1972-1975^{a/}
(Average annual rates of growth)

	Peru	Latin America
Consumption	6.9	5.5
Investment	13.9	12.0
<u>Domestic demand</u>	<u>8.1</u>	<u>7.0</u>
<u>Gross domestic product</u>	<u>5.6</u>	<u>6.5</u>

Source: CEPAL, on the basis of official data.

a/ Based on market prices in 1970 U.S. dollars.

(Since the original data for table 60 are in US dollars, rates of growth are not comparable to those in table 59). The data confirm that Peru enjoyed a markedly higher dependence on imports than the rest of Latin America with regard to the sustaining the growth of domestic demand and product. Overall, the differential between growth of domestic product and domestic demand -which reflects reliance on imports- was 2.5 percentage points for Peru and only 0.5 percentage points for Latin America. And, of course, in the case of Peru, bank finance was a major factor underpinning growth of imported goods and services.

The growth of domestic demand that was facilitated by imports of course had concrete benefits for the economy, for instance, in 1972-1975 there was a very marked rise in employment and a fall in underemployment and unemployment with respect to 1969-1971. Also, it is significant to note that real wages rose very rapidly between the two periods. (See table 61), these are good signs of enhanced well being during a period of bank involvement in the economy.

Whether or not these clear immediate benefits in the macro sense were reasonably well distributed among the members of the population is an interesting matter, but it is beyond the scope of the study to take the investigation into this type of difficult terrain. 219/

4. Impact on Public Finance

Earlier chapters showed that bank lending to Peru had a primordial impact on the country's fiscal budget.

During the fiscal crisis of 1966-1968, commercial banks extended timely loans to the financially strapped central government. Some of the loans were medium term general purpose

credits, others were for refinance of prior obligations, and an important unquantifiable part involved short term bridge finance designed to tide the government over until it could mobilize more domestic resources.

While bank finance in 1966-1968 proved decisive at the margin, and therefore more important for its timeliness than for its sheer volume, in 1972-1975 it played a pervasive role. Banks continuously refinanced upcoming debt service payments of the government, freeing resources for the investment programme. They provided a large amount of freely disposable funds which the government could use to accumulate reserves or employ as it wished. And, although banks were not overwhelmingly involved in project finance, it has been shown that they financed very high priority national ventures, the most notable being the transandean oil pipeline (and, in the private sector, the Cuacone copper mine).

It is difficult to define empirically the weight of bank loans in the total finance of the government's expenditure programme because fiscal data do not provide a sufficient degree of disaggregation. However, as in the analysis of the capacity to import, the role of banks can be inferred from

Table 61

PERU: EMPLOYMENT, UNDEREMPLOYMENT, UNEMPLOYMENT AND REAL WAGES, 1969-1971 AND 1972-1975

	Average	
	1969-1971	1972-1975
<u>Percentage of labor force</u>		
Employment	49.5	53.3
Underemployment	45.5	42.4
Unemployment	5.0	4.3
<u>Total</u>	<u>100</u>	<u>100</u>
<u>Index 1970 = 100</u>		
Real wages of workers (index in 1970 soles)	98.6	110.4

Sources: Employment: Schydrowsky and Wicht, table 10. p. 42; Real wages: CEPAL, on the basis of official data.

other data. In this case, one may examine the portion of expenditures financed externally and safely assume that, at least for 1972-1975, the banks had a high profile in total flows. Also, bank finance would have been significant, but not necessarily dominant, in 1966-1968.

Table 62 displays data on the central government budget for some selected periods. It is seen that external financial flows were very important relative to internal sources of finance in 1966-1968 and 1972-1975; in both periods they covered roughly 50% of the budget deficit. Of course, while banks had a role in foreign finance in the former period, they clearly dominated external finance in the latter. Moreover, in this latter period the budget deficit to be financed was absolutely most significant, exceeding one-fifth of total expenditures. Thus banks would appear to have had a considerable weight in central government finance during 1972-1975. 320/

Another manner of examining the importance of banks in government finance during 1972-1975 is to consider growth rates of revenue and expenditure. Using data in table 4 of chapter III, one can appreciate that, initiating with a deficit in 1971, expenditure (excluding amortization) rose by an average of 24% per annum in the period, while central government income rose by less (21% per annum). As just seen, more than half of the ensuing deficits were financed externally, in a period when commercial banks extended most of the country's foreign credit. Consequently, one may conclude that banks constituted a very important factor in public finance during the early 1970s.

5. Freedom from IMF Surveillance

An aspect similar to the one mentioned above involves the role of banks and the IMF. Chapters III and IV demonstrated that the government in power during the 1960s had to submit to IMF scrutiny. This traditionally has not been looked upon with favour by authorities because IMF standby agreements are viewed by many to be excessively harsh, and even counterproductive, to national development objectives. However, Peru, as well as other developing countries with external problems, usually could not avoid the IMF because it represented the only major source of general balance-of-payments assistance; moreover, when there were obvious balance-of-payments problems in a country, other sources of finance, both private and official, usually tied their resources to a successful completion of IMF requirements.

The IMF standby accord of 1968-1969 must have been particularly irksome to the military government, which pursued a nationalistic political and economic programme. However, given the state of the external accounts, the government had little choice other than to continue the standby programme agreed to by the previous government. The boom in export prices in 1970, coupled with a brief recovery of export

Table 62

PERU: CENTRAL GOVERNMENT FISCAL DEFICIT AND ITS FINANCE,
1966-1968; 1969-1971; 1972-1975; AND 1976

	Average			1976
	1966-1968	1969-1971	1972-1975	
Fiscal deficit (billions of soles) <u>a/</u>	4.8	3.9	17.4	48.4
Deficit as percentage of expenditure <u>a/</u>	16.3	9.3	21.4	30.3
Finance of the deficit (net)				
Percentage externally financed	47.2	18.0	51.8	32.2
Percentage internally financed	52.8	82.0	48.2	67.8
<u>Total finance percentage</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

Source: CEPAL, on the basis of official data.

a/ Excludes amortization of the public debt.

volume, provided a sufficient boost to the balance of payments to permit the government to forego renewing the IMF agreement that expired in mid-1969. However, given the evolution of the purchasing power of exports in succeeding years, coupled with the burden of substantial debt service payments, the government may very well have had to exercise discipline in order to avoid returning to the IMF for assistance. But as it was, a wave of non-traditional lenders began approaching Peru in the 1970s with unconditional finance. This provided the necessary boost to the external accounts, not only facilitating rapid growth of imports, but also a massive accumulation of foreign exchange reserves.

As shown earlier, by 1976 the banks had become less favourably disposed towards Peru, while simultaneously there was a severe deterioration of most internal and external economic indicators. Facing a severe balance-of-payments disequilibrium the banks became decidedly more cautious about further extension of credit to the country; they also encouraged authorities, for the first time in many years, to undergo IMF scrutiny. However, the government, for political reasons, preferred to avoid the IMF and therefore it negotiated intensely with the banks for a large 400 million dollar refinance credit that would not be tied to an IMF standby agreement. As has been seen the banks finally agreed to the Peruvian proposal, thus once again permitting the government to avoid the disagreeable scrutiny of the Fund. However, the bank credit was not free of costs or conditions. Moreover, the epilogue provided in the last chapter will reveal that avoidance of the Fund only was temporary as the following year relations with the banks underwent serious deterioration, leaving the government no choice but to agree to an IMF standby accord in late 1977.

B. THE NEGATIVE SIDE

The above analysis has touched on what might be considered some of the positive aspects of commercial bankers' involvement in the Peruvian economy. This will be counterbalanced by what may be considered the less propitious effects.

1. Did Abundant Commercial Bank Finance Lull Economic Authorities into a False Sense of Security?

Analysis has demonstrated that bank finance allowed the government the luxury of rapidly growing imports, on top of a sharply deteriorating export base. This also helped to support an expansion of domestic demand considerably in excess of trends in domestic product. On the fiscal side, the government was able to simultaneously expand very rapidly its consumption and investment in 1972-1975 (and in 1965-1967) side-by-side with marked erosion of tax pressure. But the opportunities provided by finance may have been a mixed blessing.

One cannot help but wonder to what degree the abundant flow of commercial bank funds in 1972-1975 lulled Peruvian authorities into a false sense of security, postponing until much too late a time the needed adjustments in external and domestic economic parameters, thereby making the devastating economic crisis of 1976 (and later) inevitable and more severe than necessary. Of course, attempting to answer such a question puts one on highly normative terrain where there is no clear empirical evidence. Also observations in this regard can take advantage of hindsight. But the question is an interesting one that merits exploration.

As shown in Chapter III, the new government took over in 1968 and there were severe internal and external economic problems. Aided by some of the measures adopted in the last days of the previous government (under Emergency Law 17044) authorities successfully reordered economic affairs. Earlier chapters showed that by pursuing a rather orthodox monetary and fiscal policy, and aided by favourable export prices, the budgetary and external accounts once again became respectable. Also, inflation fell back to tolerable levels. But importantly, as displayed in table 60, these adjustments were accompanied by considerable growth in domestic demand; in 1969-1971 the only depressing feature of the economy was the sluggish expansion of private fixed investment. Reflecting the effects of rather buoyant demand, the period witnessed significant increases in employment and a lowering of the rate of unemployment as well.

The hostile environment for external finance in 1969-1971 undoubtedly contributed to the restrained behaviour of imports, as mirrored in the relatively small difference between the

rates of growth of product and domestic demand. Thus, even though handicapped by an unresponsive foreign financial community, the government, through discipline and deep resolve, proved capable of mobilizing domestic resources to achieve respectable rates of growth. And it must be remembered that growth was accompanied by comprehensive structural reforms.

Undoubtedly the growth rates of 1969-1971 reflect an element of catch up. But this was not necessarily an overwhelming factor. Table 63 shows that from 1966 through 1971 domestic product expanded steadily; so did consumption. The only area in the economy in which a clear element of catch up appeared was in fixed investment, which did not reach the previous (and somewhat extraordinary) peak level of 1966 until the year 1971. Of course, it is likely that any serious expansion of investment after 1971 would have placed greater demands on the external sector than it did in the immediately preceding years. Therefore either exports earnings, external finance, or some combination of the two would have had to expand; and as it turned out the full burden was placed on external finance. This in itself carried implicit costs and dangers. Additionally, external finance may have exceeded the real capacity of the nation to effectively absorb it for purposes of development, fostering inefficient deployment of resources, inflation and severe external disequilibrium.

Table 63

PERU: EVOLUTION OF EXPENDITURES ON GROSS DOMESTIC PRODUCT,
1966-1971

(Index based on 1970 Soles with 1966=100)

	1966	1967	1968	1969	1970	1971
Private consumption	100	102.5	103.5	109.9	120.6	125.5
Public consumption	100	105.5	111.3	114.1	123.7	131.7
Fixed investment	100	92.5	78.7	80.9	90.1	99.2
Domestic demand	100	101.8	97.6	102.7	112.4	120.5
Exports	100	101.5	112.8	108.1	112.9	103.1
Imports	100	102.5	89.3	87.5	92.3	92.5
Gross domestic product	100	101.6	102.3	106.8	116.5	122.5

Source: CEPAL, on the basis of official data.

The economy began to display signs of problems in late 1972, precisely when access to bank finance began to take place. This is evident from the data presented in tables 59 and 60 on the evolution of domestic demand and product. Since a detailed analysis of the macroeconomics of the

situation already has been prepared elsewhere by CEPAL,^{321/} it is best to focus here on some specific institutional factors behind the economic trends.

Chapter III pointed out that the Peruvian public sector was relatively inexperienced. Expansion of the public sector in the 1960s was on a very small base, reflecting the national tradition of liberal economics. But the reform government of the late 1960s enormously expanded its presence in the economy in a mere three years (1969-1971). When it began to implement its investment programme it found foreign finance readily available. Thus in programming investments, authorities were not constrained by considerations of foreign exchange availability. A young, ambitious, highly motivated, but inexperienced bureaucracy took advantage of the situation and implemented a massive multisectoral capital intensive development programme that had a high reliance on imports.

One problem, pointed out in the aforementioned CEPAL study, was that most of the projects had a long gestation period, with payouts not coming on stream until 1977 or later. This was particularly true for export oriented projects such as those in mining. But perhaps the eagerness of banks to support the external sector provided an illusion of security which gave authorities little need to consider spacing out projects to ensure an adequate mix of short, medium and long term payouts.

Moreover, the abundance of finance gave little incentive to authorities to adjust economic parameters so as to screen imports and fully exploit existing export capacity (notwithstanding the loss of the anchovy). Bank finance supported an overvalued exchange rate that stifled the incentive to export. The overvalued exchange rate also made it easier for the private sector to overimport, whether because of speculation or a desire to pursue investments that would stave off worker control of their industries.^{322/} But by the same token, it proved easier to import food than produce it. Finally, the overvalued rate also provided greater incentive to accept bankers overtures with regard to credit.

The abundance of external finance also could have contributed to a lax attitude on fiscal matters. As long as there was easy access to external credit, it proved politically much easier to borrow abroad than to tax at home. When a significant part of the growth of government consumption and investment was covered by foreign credit, everyone could enjoy the benefits with little immediate cost. To pursue the same massive expansion via greater taxation would have been less feasible, as expenditures undoubtedly would have met resistance by those who had to finance them. And the resistance to increased tax pressure would have disciplined expenditures and required an ordering of priorities and attention to import content. As it was bankers facilitated an economic environment

where all was possible with little domestic discipline, at least for awhile.

Had Peru's international bankers been willing to provide unconditional finance ad infinitum an external economic nirvana could have been created. But by 1976 bankers clearly had changed their attitude towards Peru, and to a lesser extent towards developing countries in general. Suddenly, bankers abandoned their carefree attitude on loans to developing countries; they rediscovered "prudent" lending practices and once again became preoccupied with economic policy. Peru's declining international reserves distressed the world's bankers. The more reticent bankers became about new loans to the government, and the more severe the terms of their credit, the more transparent became the veil of finance, showing behind it a structurally weak economy. Peru's creditors panicked and this made new finance difficult to attain.

At the same time, Peru found itself very vulnerable and in a poor position to defend itself. The country's export coefficient had slumped to half of its 1965 level and nearly a third of earnings was absorbed by foreign debt service. The strategy of long term development of export capacity meant that new exports would come on stream only gradually beginning in 1977. And the development of oil exports took on a much longer term character than had been originally anticipated. Meanwhile, over 40% of the country's imports were underpinned by external finance in 1976 (current account deficit divided by imports), compared to practically no dependence in 1969-1971. Moreover, since imports were structured around intermediate and capital goods, any sharp reductions in purchases would severely damage output and employment. In a country in which large and politically influential groups had become accustomed to fast rising levels of consumption, and much larger groups were at the margin of existence, any attempt at rapid adjustment implied tremendous social costs and thus strong internal resistance.

Thus, evidence suggests that the temporary period of buoyant commercial bank finance to developing countries in the early 1970s lulled authorities into a position of severe vulnerability *vis-a-vis* the banks and foreign finance in general. This was in direct contradiction to the government's initially stated intention (see Chapter III) to rely basically on internal resources for development. Ironically, while Peru successfully reduced dependence on TNCs and official lenders, it traded this dependence for another more complicated type involving foreign commercial banks. Whether one form of dependence is less negative than the other would be an interesting matter to study. But one thing is clear: a reduction of foreign dependence was a major goal of government policy and this objective appears to have been undermined by an excessively permissive world banking community.

2. Commercial Banks: an Ephemeral Source of Development Finance

Private commercial banks entered into external finance en masse in the early 1970s, effectively displacing official institutions as the principal source of development finance for developing countries. If events are viewed from the perspective of developing countries and the requirements of broad-based socioeconomic development, this displacement should have been accompanied by a responsibility to accommodate borrowers in good times and bad. Moreover, from the same perspective one would have expected the banks to have anticipated that lending to developing countries would obviously be qualitatively different than lending to TNCs and industrialized country governments; the former are poor and exceptionally prone to bad times because of an unstable external economic environment and a delicate domestic socioeconomic structure. In the case of Peru, the issue of responsibility becomes all the more manifest when the commercial banks' participation in Peru's economic problems is taken into account.

Commercial banks displayed an almost unlimited willingness to lend resources to the government up through 1975, despite the fact that there was evidence of potential difficulties as early as late 1972. The policy initiated in 1968 involving a fixed exchange rate without compensation for inflation had obvious consequences for growth of exports and imports. The composition of imports, which banks helped to finance, was fully known by all. By 1973 the country's export coefficient was already 40% less than 1968, and, of course, continued to decline thereafter. The large accumulation of reserves that occurred from 1972 onwards - making Peru appear very liquid - occurred simultaneously with a sharply expanding current account deficit, meaning that growth of reserves only reflected borrowing from abroad, not the dynamic generation of real income.

To the extent that bankers were unaware of, or oblivious to, the underlying economic trends, then their own management of lending to Peru would have to be considered sloppy and reckless. If bankers were fully cognizant of the trends from the beginning, then they too must have been awaiting the results of the payout on the long term investments in mining, petroleum, etc. But whether banks lent due to overzealousness, or on the basis of the calculated risks of future export earnings, their tacit or explicit support of government policies prior to 1976 would lead one to expect that ideally they would have borne the consequences of their decisions and have helped Peru overcome its difficulties without grave social costs. As it was the banks quickly abandoned the authorities, leaving Peru to fend for itself.

It might be objected that the abandonment of Peru resulted from the fact that the authorities' management of the crisis did not instill the confidence needed for bankers to ride out the storm. Undoubtedly Peru did not live up to its end of the bargain with regard to the stabilization effort. But banks were not dealing with a rich country borrower or a TNC. The difficulties in adjustment stemmed from Peru's underdevelopment and the momentum found in the economic policies that the bankers unquestionably supported with abundant finance. To put a break on past trends, no less reverse them, clearly would be a long and arduous process, involving not only changes in policy, but important psychological, political and social adjustments as well. Hesitation, resistance and numerous outright failures at correction could be anticipated, as could a desire to pursue adjustment gradually so as to avoid harsh social costs in an economy suffering from severe poverty (even in the best of times).^{323/} But private bankers were not prepared to assume the responsibilities that a dominant role in development finance would seem to demand. Private creditors showed little tenacity; when their initial willingness to support adjustment (on very lucrative terms) resulted in failure, they quickly withdrew their support of the economy, giving Peru no alternative but to submit to the IMF.

Hence, one may conclude that commercial banks have a low threshold for absorbing the problems encountered by developing countries. While the "going was good", the banks were eagerly present, making the going even better. When the economics of the country turned sour, their staying power depended on the government quickly taking hard decisions that would squeeze foreign exchange out of the economy for payment of debt; decisions that also would be socially very costly and probably confront severe domestic resistance. As soon as it became apparent that the mixture of politics and economics was not yet ripe for harsh adjustment the bankers lost confidence in Peru.

Thus banks clearly were not able to satisfy one of the basic requirements of development finance, i.e., a stable source of resources able to weather the periodic internal and external difficulties that can be expected in the development process. It is true that Peru's problems were unusually severe and its commitment to adjustment half-hearted, but it is also true that bankers had given open-ended support to the policies that generated the problems, making them partially responsible for ensuing difficulties. It will be argued in Chapter XII that the banks' behaviour fell short of the needs of development finance basically because of weaknesses intrinsic to the institution of commercial banking itself.

3. The Unstable and Short Maturity Structure of Commercial Bank Credit

It was shown in Chapter II that developing countries of the 19th and early 20th Century often had access to foreign capital with very long maturities, 40, 50 and even up to 99 years. Much of the resources originated from institutional lenders and went into capital intensive projects with long payouts (railroads, canals, roads, etc.). While this type of finance had its cycles, the great crash of 1929 more or less put an end to this type of finance. Institutions and commercial banks withdrew from developing areas, concentrating their finance in the safer industrialized countries.

In the postwar period official institutions constituted developing countries' main source of finance and fortunately their loans had relatively long maturities, 25 years or more being common. But the expansion of official finance got bogged down by: (i) a lack of commitment on the part of rich countries to provide adequate support to these institutions; (ii) a general mechanism which tied finance to projects (and did not cover certain economic sectors), thereby slowing down disbursements; and (iii) conditionality and/or red tape of varying degrees which often made finance unattractive to developing country governments.

While the expansion of official finance was hampered by the above factors, once commercial banks decided to lend to developing countries they were totally unrestrained; liquidity in the eurocurrency market was expanding at phenomenal rates and the market itself was totally unregulated. It is no surprise, then, that commercial banks filled the financial vacuum and effectively displaced official lenders as the main source of finance for developing countries.

One of the consequences of the shift in the sources of finance was that developing countries, including Peru, became subject to commercial and floating interest rates, as opposed to the fixed and concessionary rates of official lenders (and sometimes foreign suppliers). This presented developing countries such as Peru with a challenge, but not necessarily an insurmountable one. Loans had to be carefully used to ensure that returns on the resources matched their costs. And the costs, after discounting inflation, usually were not outrageous; indeed, in 1973-1975 the real cost of credit for Peru may have been marginal. ^{324/} Thus, rather than absolute cost, the real challenge is in the variability of the interest rate; sharp fluctuations make it difficult to programme costs and therefore marginally profitable ventures could suddenly become unprofitable.

More serious than the variability of the interest rates is the short maturity of commercial credit. Peru's commercial loans for the whole period 1971-1976 averaged only 7 years.

These are very short maturities suitable only for the most commercial of ventures. In contrast, a broad-based development programme incorporates activities which necessarily have long gestation periods. On the commercial side, many projects involve infant industries that may have payouts that are much more stretched out than identical activities in industrialized countries. This is aside from prolongation of payouts due to mistakes and unforeseen events, such as falls in export prices. On the social side, infrastructure for social development may payout sometimes only over a whole generation.

Clearly, then, commercial bank maturities are not symmetrical to the income flow of a broad-based development programme. This places clear obstacles in the path of development. There are, of course, many ways for policy makers to confront the dilemma. However, in order to illustrate the gravity of the problem, matters can be simplified into two basic options for a country that is considerably indebted to commercial banks. The two options are:

- (i) formulate growth on a narrowly based development programme that focuses on quick payouts and high private rates of return, leaving social development at the margin today and relying on a "trickle down" effect to satisfy these needs in the longer run; or
- (ii) seek a balanced broad-based development strategy, mixing commercial and social ventures, hoping that banks will fill the maturity gap through refinance operations.

The first route would be attractive to conservative economic managers, but experience has shown that the "trickle down" strategy often has only postponed indefinitely social reforms and reasonably equitable income distribution; by the same token, it has simultaneously been associated with the exclusion of broad segments of society from participation in political processes. The second option on the other hand, would appear to open more hope for real and immediate socioeconomic development, but unfortunately it is likely to prove to be full of pitfalls for borrowers, making them inclined to move progressively in the direction of option 1. This latter phenomenon is elaborated upon below.

It is evident from Chapter V that banks do refinance, and often, making option two theoretically feasible. But refinance is a terribly awkward way to accommodate the long gestation period of broad-based development programmes. Because of the short maturities, borrowers must regularly undergo the scrutiny of their bankers in order to realize successful refinance. They then become vulnerable to the changing attitudes of bankers and the volatile conditions on international capital markets. If refinance needs develop during a borrower's market - such as 1972-1974 - the results can be attractive with low margins and relatively long

maturities (for commercial finance). But if a borrower happens to approach its bankers during a lender's market - such as 1975-1977 - the results can be discouraging and counterproductive. Aside from very high interest margins, 325/ maturities contract to only the briefest tenor. 326/ This causes interest payments to bulge and distorts the maturity profile, generating more requirements for refinance and complicating debt management. In this type of environment debt service can appear more burdensome and bankers can become nervous, further aggravating the trends. Under these circumstances, in order to maintain the confidence of bankers, government authorities may make a decisive shift to conservative economic management that places socially-oriented (basic needs) programmes - which weigh heavily on the balance of payments 327/ - at the margin of policy.

When a country under economic duress seeks to refinance in a lender's market the results can be disastrous for development programmes. Peru is a case in point. In 1976, with clear external difficulties that were structural in nature and that could not be remedied quickly, banks offered to refinance only one year of Peru's debt service and on a very short maturity of 5 years, with only 2 years grace. This "short leash" maturity provided little debt relief and ensured that payments would pop up quickly again to cause problems. Moreover, the short maturities were accompanied by a very burdensome spread (2.25%) and unusually costly fees (1.5% flat). These rather harsh terms came when bankers were still formally supporting the government's stabilization efforts. When this support was withdrawn in 1977, refinance maturities became ridiculously short, sometimes as brief as several months. On top of all the uncertainty with regard to refinance, bankers, seeing Peru's vulnerability, also became involved in the government's economic policy and even began to protect the interests of their TNC clients. The lack of finance and commercial bank scrutiny forced the government to cut back its development programme and, perversely, halt projects (like Cerro Verde II and oil exploration) that would have aided its export capacity. Social expenditures were slashed and development came to a halt while authorities rushed back and forth between their bankers and the IMF trying to reach an agreement.

It should be made clear that the behaviour of creditors could have appeared rational from the short term viewpoint of individual commercial banks. The year-by-year and month-by-month refinance on tight maturities reduced perceived risks and gave commercial bankers leverage over economic policy making, which was the real source of repayment. Had they adopted a multi-year rescheduling to smooth out debt service payments - as ideally they should have - this leverage would have been lost and perceived risk increased. Also, a

rescheduling would spot the financial statements of the banks. Meanwhile high interest margins and fees on the loans to Peru covered the perceived higher risk of lending under circumstances of economic duress. And as far as the impact of bankers' policy on the country's development programme is concerned, this was at best of secondary importance. Commercial banks are not development institutions; their main concern was profit generation and protection of depositors and shareholders by ensuring that authorities squeezed enough foreign exchange from the economy to service the debt.

4. Final Considerations

It is clear from the above that bank finance of Peru's development has been a double-edged sword. Benefits there were, but these were offset equally or more by liabilities. The basic problem with commercial bank dominance of the country's development finance lies in the observation just made above: commercial banks, as their name implies, are not development institutions. The next and last substantive chapter of the study will explore this problem in greater detail.

Part IV

CONCLUSION

Chapter XII

SOME CONCLUSIONS AND RECOMMENDATIONS

The purpose of this chapter is to draw some conclusions about commercial bank lending on the basis of the study of the Peruvian experience. Firm conclusions are of course difficult to formulate because of the uncertainties of generalizing from a one-country case and because retrospective analysis of the type performed here can be eclipsed by the fast changing events in world banking. Nonetheless, in the absence of more precise analysis of the experience of other borrowers, there are at least two reasons to suspect that general lessons and tentative policy conclusions are indeed to be drawn from this in-depth study. Firstly, a significant number of the symptoms of the Peruvian case are seemingly apparent in a number of other developing countries (e.g., Jamaica, Bolivia, Zaire, maybe Nicaragua) that have borrowed from banks; furthermore as debt piles up in the Third World and domestic political regimes evolve towards more democratic processes the aforementioned list could very well expand, even perhaps incorporating some of the so-called successful developing country borrowers. Secondly, while banks undoubtedly have learned from past errors and will attempt to adjust lending accordingly, much of their behavior is induced by their private-commercial institutional makeup and therefore there is little reason to expect radical alteration of their behavior in the medium term. Thus, with a forewarning of caution the following paragraphs will posit some general conclusions and recommendations.

The study, particularly Chapters X and XI, raises serious questions about the dominant role of commercial banks in the external finance of developing countries. It has been found that the maturities that banks offered on their loans, even under the best of circumstances, were very short relative to the long gestation period of many activities related to broad-based socio-economic development. Nor was refinancing shown to be an adequate way to overcome the short maturity spectrum. In the case of Peru banks also have displayed highly erratic lending patterns both in terms of the amount of credit available and its costs and conditions. When banks were in an expansive mood in the early 1970s they aggressively extended no-questions-asked finance to the government. Facing seemingly unlimited external finance, an

inexperienced public sector found that it could make a dash for development while avoiding timely (and politically disagreeable) adjustments in economic policy; indeed, the bankers' loans perversely masked underlying structural and policy weaknesses in the economy to such a degree that many banks themselves apparently did not anticipate the ensuing problems. Only when financial imbalances became grossly exaggerated did the bankers react. Then, when authorities attempted to adjust the economy, the banks limited their loans to the refinance of prior debt on extremely harsh terms, a response which served as a mere stopgap measure rather than real relief from debt service. Moreover, the banks were shown to intervene in the domestic affairs of Peru and to protect the interests of their TNC clients at the moments of the borrower's greatest vulnerability. As soon as it became apparent that the adjustment process could not be effected rapidly because of internal resistance to the social and political costs required to squeeze out foreign exchange for debt service, the bankers panicked and refused to extend any credit unless Peru deflated its economy according to the IMF prescription. Thus, banks provided evidence that they are not designed for the economic dislocation and uncertainties that often arise in developing countries, particularly in periods of economic crisis. ^{328/} Indeed, employing a popular joke of the period of financial crisis in the 1930s, bank loans to Peru have appeared as "an umbrella which a man is allowed to borrow as long as the weather is fine but which he has to return the moment it starts raining".^{329/}

The underlying problem appears to be that commercial banks are not development institutions and their private, commercial time and risk preferences make it difficult, if not impossible, for them to accommodate the broad socio-economic goals of development, which are long term in nature and based on social rates of return. There are several factors which seem to seriously restrict the behavior of commercial banks.

First, they are profit-oriented institutions which operate on the basis of private rates of return. They may internalize social rates of return on their lending only to the extent that the latter enhances the former; moreover, the gestation period for such a feedback process tends to be long term in nature.

Second, the great mass of bankers' resources come from call or short term time deposits. ^{330/} This places limits on the degree to which banks can prudently mismatch maturities, i.e., lend long on short funds. Thus, the nature of the resources base gives these institutions only a short to medium term time horizon with regard to lending.

Third, as bankers will readily admit, they have a special concern for minimizing risk. This orientation is partly a function of tradition, but also reflects the reality

that banks operate with other people's money and must ensure the safety of deposits if access to resources is to be maintained. This leads to a conservative view of life where "caution and prudence" are usually the watchwords for lending operations. When viewing prospective loans to developing countries, bankers naturally are primarily interested in the prospects for repayment. It is not surprising then that short term liquidity indicators (as opposed to development indicators) dominate creditworthiness criteria; 331/ good management is synonymous with assurance of liquidity to service debts, even if this means deflation of the local economy to free foreign exchange.

If banks depart from the conservative mold dictated by institutional constraints -as in the brief period of the early 1970s- the institutional contradictions and the criticism from regulatory authorities build up, forcing them to rediscover so-called prudent banking practices. In these circumstances lending conditions contract and borrowing countries face a very difficult external environment, often with severe setbacks to development; banks, in contrast, appear to lose nothing as their short rollover credits ensure repayment and profits.

The Peruvian experience suggests that commercial bank finance has many characteristics which are asymmetrical to the requirements of development. While ideally suited as intermediaries of short term funds for trade and working capital (a function banks have had for centuries), there is evidence that they find it difficult to satisfy the requirements of long term development finance and that their time and risk preferences make them not a very reliable source of finance for structural balance of payments problems. It would seem, then, that commercial banks are not an adequate substitute for long term official finance and access to private bond markets. And in the case of developing countries such as Peru where public policy suffered from inexperience and/or severe domestic pressures for economic growth cum social reform, banks clearly acted as an extremely poor substitute. Peru has suffered the consequences and undoubtedly others will too. One would think that the international community should be seeking alternatives to the present system of bank dominated external finance, which has evolved in an ad-hoc fashion and which appears to function in a manner that leaves unfulfilled many of the basic requirements of development finance.

Unfortunately, while there is evidence to suggest that commercial banks -for reasons which are not completely their own- are excessively enmeshed in the overall finance of developing countries, there is an unfortunate intellectual and political inertia in the industrialized countries with respect to seeking alternatives to bank finance, especially when programs may involve greater contributions to multilateral

agencies, which would appear to be the most suitable source of development finance. 332' Thus, in the hard world of political reality it must be assumed that barring a collapse of world finance, commercial banks will continue for the immediate future to be a major source of development finance for upper income developing countries such as those of Latin America. How then to make the best of an inadequate international financial system for development?

The immediate goal should be to assuage the sharper edges of bank lending behavior. The scope of change is limited by the fact that many problems are intrinsic to the institution of private commercial banking itself. Also, change is handicapped by the fact that there are hundreds of banks operating internationally, with no control over their liquidity or behavior. Nevertheless, some action may be taken to alleviate the situation without violating the boundaries of prudent banking.

As a general rule commercial banks could take greater care to operate in areas where they are institutionally most comfortable in the long run and therefore reduce the possibilities of radical alteration of behavior that is disruptive to market stability and the development of developing country borrowers.

In this spirit, banks could consider concentrating their lending in traditional areas of competence, i.e., short term working capital or medium term commercial investment finance. Moreover, banks could avoid lending to commercial ventures merely on the basis of a government guarantee; rather, it might be advisable to coldly evaluate ventures on commercial (and not political) grounds with a view to assessing the real repayment prospects of the venture itself. In other words, banks should cease to treat governments as if they had some type of fail safe repayment mechanism; lending for commercial ventures should conform to some standards of commercial viability.

Following the above prescription, commercial banks could avoid direct balance of payments finance when problems clearly are associated with socio-economic structure as opposed to short term illiquidity. Experience has shown that banks are incapable of absorbing the political-economic shocks that, as argued earlier, are frequently an unfortunate reality accompanying the adjustment process in developing countries; they also are not suited to be involved in public macroeconomic policy making. So why enter terrain that ultimately may require a quick and disruptive retreat? Of course, it would be feasible for banks to avoid direct balance of payments support only if countries became more comfortable with the IMF and if more financial resources could be disbursed from multilateral development agencies. Thus it would be wise for the IMF to once and for all moderate its conditionality and adopt a pluralistic and longer term

methodology for tackling the adjustment problem; 333/ also, much more medium term program lending from the World Bank and IDB would be needed if banks are to avoid direct balance of payments finance.

Commercial banks, of course, will frequently be asked to refinance their loans, which is indirect balance of payments support. Refinance should be considered a natural way to assuage repayment difficulties and borrowers undergoing adjustment should not be burdened with punitive terms, i.e., much higher than average interest margins and fees, and shorter than average maturities. It must be remembered that the real capacity of almost all borrowers to meet their debt service hinges on the refinance and rollover process; since most developing countries run heavy deficits on current transactions debt is almost always repaid with new debt. Thus, to weigh a weakened borrower down with high interest margins new fees and short maturities actually may increase the risk of non-payment rather than reduce it. In the case where a developing country faces internal structural difficulties and bunched maturities banks could cease to be reluctant to enter into rescheduling agreements. A medium term restructuring of principal should be viewed as a routine way to provide relief for economic development and reduce risks of non-payment. If interest payments are kept current, as they should be, banks would encounter extra bookkeeping work, but not necessarily losses of income.

Commercial banks also could take a broader view on the prepayment/refinance strategies of developing country borrowers, and keep to a minimum the penalties and other restrictions related to such activities. This is not to imply that prepayment or refinance is a "right" of the borrower. Such strategies are undoubtedly troublesome to a bank; not only does it lose a profitable loan, but it also receives unwanted liquidity, unless the bank itself participates in the new credit. Moreover, banks cannot call for ex post adjustment of the terms of an old loan when market conditions shift in their favor. Nevertheless, we have a situation in which what appears to be rational action on the part of an individual bank could be detrimental to all concerned in the aggregate. This is because a developing country borrower which can trade in old loans for more favorable terms can assuage the effects of the constantly changing terms on credit markets and therefore is a better overall credit risk and generally has increased capacity to assume new debt from the banks.

There are three other specific areas where banks could alter their behavior:

- i) One is that banks might seek more long term funds so as to reduce their dependency on short term deposits and thereby prudently lengthen maturities. Some banks such as Citicorp have already attempted to do this, but hopefully the

strategy will become more intensive and generalized in the world banking community. 334/

ii) Banks might reconsider the need to act as world policemen for TNCs. When TNCs invest in a country (and banks help them) all parties take calculated risks based on the returns to capital. Thus lending to a developing country government must be viewed as a separate business transaction and should not be linked to the fortunes of a locally-based TNC. In the early 1970s banks showed that there does not have to be a connection between a government's treatment of foreign investment and successful business relations between them and a government. So why renew the ancient practice of fronting for TNCs?

iii) Banks could avoid offending the sensibilities of developing countries borrower through demands to waive sovereign immunity and local jurisdiction over loan agreements. As an alternative to the traditional practice, one could envision greater employment of international arbitration as a way to satisfy a bank's requirements for security and a government's desire to avoid an alien country's legal system.

Another major area of change would be to bring commercial lending out into the open. Lenders (and sometimes borrowers) behave in ways which shroud transactions in secrecy. This ultimately benefits the banks which can "fragment" markets to their advantage with respect to the establishment of the terms and conditions of credit. A more perfect flow of information on the details of loan transactions by individual banks can only enhance the bargaining position of developing countries. It must be remembered that this study has found that commercial banks did not act as a homogeneous group; rather in many important ways they displayed distinct modes of behavior (see second half of Chapter VIII). In the bargaining environment it is important for developing country borrowers to be aware of these distinctions so that they can tailor their interface with commercial institutions in ways which are supportive of national development objectives. However, there is little institutional analysis available on the behavior of specific lenders and their loan agreements, making it difficult for new borrowers to map out ex ante strategies for negotiations with individual institutions. Under present circumstances only with a long accumulation of experience can borrowers begin to differentiate the behavior of banks; however, the "learning by doing" mode can be difficult and full of unnecessary and costly pitfalls. Moreover, resulting evaluations of the banks can be more informal than systematic.

To overcome these problems, researchers must make a greater effort to analyse the institutional behavior of commercial lending. As long as banks remain reticent about revealing the exact nature of their interface with developing

countries, the most productive way to go about this would seem to be detailed case studies such as this one, which, in a cumulative way, would reveal ever more about the lending behavior of specific institutions. Indeed, an international organization such as the U.N. Centre on Transnational Corporations, the World Bank or a new World Debt Organization under the control of developing countries could set up a reporting system whereby borrowers would provide detailed qualitative and quantitative information on credit agreements with commercial banks. Using these data the organization in turn could systematically analyse the the evolving behavior of individual banks both with regard to individual borrowers and groups of borrowers. The findings could be disseminated to governments participating in the system, providing a view on banks that would be more extensive than that available to any single borrower. 335/ Such an arrangement would allow countries to effectively interchange views and experiences concerning specific lenders and permit them to adjust their negotiations with creditors accordingly. The interchange of information among borrowers about banks also would counterbalance the advantages of bankers who are gaining ever better access to official information about countries. 336/

Of course, initially there may be resistance to such a system since some borrowers can be very protective about data concerning their activities with commercial banks. Thus work will have to be done to overcome this problem. The advantages of such a system will have to be demonstrated to developing countries and confidentiality on individual transactions will have to be ensured. Notwithstanding these obstacles, a dialogue with developing country governments on this matter should be undertaken as soon as possible.

The last major conclusion of the study is that an unregulated international banking system appears to experience periodic supply-led expansion, requiring borrowers to show restraint in the face of bankers overtures. In the early 1970s world liquidity and an unregulated eurocurrency market fostered clear supply-led expansion of lending. After a brief period of retrenchment in 1975-1977, banks once again, under pressures of liquidity, began actively soliciting clients in developing countries. Since banks sometimes can show little self-restraint, then borrowers must be prepared to do so. This suggests that (i) countries must pursue disciplined economic programs; (ii) they must carefully control their interference with foreign finance in general and commercial finance in particular, and (iii) foreign finance must be viewed only as a complement to a vigorous national effort to generate savings for development. Moreover, when foreign resources are used, care should be taken to ensure that the nature of deployment is consistent with the cost and maturities of the credit. Restraint and sagacious deployment

of resources is particularly important for small and medium sized economies where offers of commercial credit can easily exceed the real capacity of the economy to match commercial funds with appropriately commercial activities.

Chapter XIII

EPILOGUE

Of course the story of Peru and its commercial bankers did not end in 1976. The drama intensified in succeeding years and the purpose of this chapter is to provide a very brief update of the country's interface with its commercial creditors. 337/

A. THE FIRST STABILIZATION EFFORT FAILS

The full scale stabilization program instituted in mid-1976 proved to be short lived. By the beginning of 1977 it became apparent that the goals of the program could not be realized owing to, among other things, strong internal resistance to cutbacks in government expenditures. Peru's private creditors, now very frightened, forced the country to negotiate with the IMF. However, "the IMF's persistence in quantitative targets practically unrealizable in a brief period and the profound fears of the government concerning public reaction impeded the materialization of an agreement". 338/

B. A SECOND ATTEMPT AT STABILIZATION

Around mid-year, again under pressure from its private creditors to meet the requirements of the IMF, the government attempted to introduce new austerity measures. However, resistance to price increases of popular goods, falls in real wages, etc. was so strong that it provoked the quick demise of a recently installed economic minister. The succeeding economic team attempted to moderate the program through a slight downward adjustment in prices of some key goods. 339/ Facing a severe foreign exchange crunch, and the general refusal of the banks to finance without the IMF, the government desperately arranged swaps with central banks of friendly countries in Latin America and with locally domiciled foreign firms. 340/ But the foreign exchange situation proved so acute that the government felt that it had no alternative but to renew negotiations with the IMF. Hanging over the heads of officials was the fact that without the "green light" of the Fund the banks would refuse to extend any credit, other than perhaps last minute rollovers to avoid formal default.

After the introduction of austerity measures to display its "goodwill" to the Fund, authorities reopened negotiations and an agreement was finally reached with the IMF in the last quarter of 1977 for second and third credit tranches. The targets of the program were very severe, implied a high social cost, and to many they appeared totally impossible to realize. 341/ The banks remained very cautious, restricting lines of credit to local banks and remaining non-committal to the government's efforts for new finance. At the insistence of the banks, the government sought and eventually received rescheduling of its debt with the Soviet Union. 342/

In the beginning of 1978 the banks realized that new loans (equivalent to perhaps 260 million dollars) would have to be extended if default was to be avoided and creditors studied formulas to this effect. Many of the U.S. creditors favored directly tying any new loans to IMF draw-downs in the on-going standby agreement, while many European institutions did not enjoy the political implications of such a close working relationship and were inclined to extend a credit with or without the IMF. 343/ By this time Citicorp had resigned as head of the Steering Committee, being replaced by Manufacturers Hanover. Until a formula could be reached, short monthly rollover credits would be provided to stave off the default that neither Peru nor the banks wanted.

In early 1978 an IMF team visited Peru to evaluate the stabilization program. It found that the government failed to meet the standby targets and questioned the local accounting methods that stated to the contrary. 344/ One of the more publicized aspects of this latter accusation was a credit extended by Dresdner Bank at the very end of December 1977 -to build international reserves up to the end of year target levels- followed by repayment in the first week of January 1978.

The Fund indicated that the next disbursement of the standby agreement could not be effected because of Peru's failure to meet target arrangements. The banks -strongly pushed by U.S. institutions- formally abandoned negotiations for new credit. The crisis environment deepened, complicated by continuous strikes and demonstrations against the expanding austerity measures.

The government faced severe difficulties. The private sector expressed increasing hostility over the continuing shortages of foreign exchange and the tight rein foreign commercial bankers maintained on foreign lines of credit. 345/ The prospects were that by mid-May all liquid reserves would be exhausted. So the government had little choice but to begin organizing a new austerity program to present to the Fund, which by now was being characterized as "uncompromising and anachronistic".

Government authorities continued their intensive efforts to prevent default. There was talk of an effort to arrange a Paris Club rescheduling, but immediate efforts centered on avoiding default on commercial debt. While banks such as Dresdner and Nova Scotia stood in favor of going ahead with a 260 million refinance credit IMF or no, the U.S. institutions -the principal creditors- rejected this proposal outright. Citicorp even went so far as to threaten to right off its Peru exposure rather than extend credit without the IMF. ^{346/} Meanwhile, Japanese banks tended to follow trends, which clearly were led by the hard-line U.S. institutions. Thus, without a new standby agreement, the most Peru could expect would be very short term rollover credits that would evade technical default, but that in no way would provide relief from the financial crisis.

C. THE THIRD ATTEMPT AT STABILIZATION

In late May 1978 a newly installed economic team introduced austerity measures. Street riots followed and marshall law had to be introduced. Meanwhile, authorities rushed around the globe seeking loans to bolster the almost depleted international foreign exchange reserves. Numerous swaps and loans were successfully arranged with friendly governments and negotiations with commercial bankers resulted in a 45-90 day rollover credit as a bridge to an eventual settlement with the IMF.

In the middle of this environment a scandal broke out with one of Peru's major creditors -Chase Manhattan Bank. It had headed a large syndicate to the Cuajone copper project and it now wanted to establish legal control over the mine's foreign exchange earnings, which were held by the Peruvian Central Bank. Chase reportedly threatened that further cooperation from Chase and other banks around the world would be dependent upon Peru's acceptance of Chase's viewpoint on the legal issue. ^{347/} Peruvian authorities strongly rejected the implications of the bank's actions and public criticism at both home and abroad made Chase back down from its original stance.

The government finally entered again into negotiations with the Fund. This time it demanded targets which were feasible. Meanwhile, the IMF, now more sensitive to growing world wide criticism about its overly rigid stabilization policies, took a somewhat more flexible posture. A mutually acceptable agreement was reached.

Armed with the IMF accord, authorities called a Paris Club meeting late in the year to reschedule its official debt. It successfully obtained relief on 90% of the payments falling due in 1979 and 1980. Effectively the payments would be stretched out over seven years.

After the Paris Club accord, Peru then approached its

major private bankers. The agreement reached involved the following arrangements: 348/

- a) 185 million dollars which had been rolled over for 6 months in June 1978 would be paid as scheduled in January 1979.
- b) Half of the 185 million dollars due in January would be refinanced in a new one-year loan with a 1.75% spread over LIBOR.
- c) Ninety percent of payments due in 1979 and 1980 -approximately 360 million dollars each year- would be refinanced in separate loans. Payments in 1979 would be rolled over until early 1980 and then converted into a 7 year loan at 1.875% over LIBOR. Payments in 1980 would be rolled over until early 1981 and converted into a new 6 year loan at an interest rate to be determined before authorization of the credit.

The commercial bank relief was qualitatively different than that provided by official lenders. While the rescheduling agreement effectively provided a committed 2-year restructuring of payments, the banks' refinance credits were a year-by-year relief operation. This strategy would give the commercial institutions extra leverage over government policy as there effectively would be a multi-staged (as opposed to one) approval process for relief.

D. SOME SIGNS OF RECOVERY

The year 1979 opened with an uncertain outlook. With the refinance accord of late 1978 Peru received its first relief in payments to the banks since 1976. However, the pressure of amortization was assuaged for only two years, leaving prospects for another bulge in payments as early as 1981. Aside from the uncertainty surrounding the obviously stop-gap nature of the assistance provided by the banks (as well as official lenders), the pell-mell direction of events in the post-1975 economic crisis proved very costly to an already poor economy. As Peru raced back and forth between its private bankers and the IMF in order to reconcile national objectives with the demands of foreign creditors, it suffered sharp and unaffordable setbacks in its economic development. Not only were crucial projects halted or cutback (e.g. Cerro Verde II and exploration for jungle petroleum), but there were sharp falls in per capita income (see table 64). Wages and salaries underwent serious deterioration and formal unemployment rose to alarming heights. Domestic unrest over prolonged austerity measures continued to be manifest. Meanwhile, after 6 years of continuing price increases by OPEC, international economic recession and stagflation, the world community had yet to develop the needed alternative to commercial banks for the transfer of resources from surplus to deficit countries.

Notwithstanding the problematical outlook at the outset of 1979, events during the course of the year provided signs of financial recovery. Early estimates showed a nearly 80% growth of export receipts with respect to 1978, thus aiding the country's ability to service debt and facilitating a rebuilding of foreign exchange reserves. Rising commodity prices in general and oil prices in particular were the key to this performance. However, volume also made some contribution. PETROPERU and Occidental had managed to progressively boost jungle petroleum output up to roughly 140,000 barrels a day; this coupled with domestic demand management policies generated a sizeable exportable surplus that could take advantage of lucrative world oil prices. Peruvian industry, facing depressed internal demand and aided by a favorable exchange rate, also began to look abroad for sales. The flow of foreign exchange became so strong that authorities began to liberate imports in 1979 and towards year-end a decision was made to forego a significant part of the refinancing agreed to by private creditors the year before. Peru also appeared on the verge of entering another credit cycle, as banks once again began to renew the flow of medium term credit to the country. In light of events one can only hope that in the decade of the 80s both Peru and its private commercial bankers remember the lessons of the past.

Table 64

PERU: SELECTED ECONOMIC INDICATORS, 1976-1978

(Rates of growth)

	1976	1977	1978
Gross domestic product (1970 dollars)	3.0	-1.2	-1.8
Gross domestic product per capita	0.2	-3.9	-4.5
Unemployment (percentage)	8.4	9.4	9.8
Real wages a/	16.6	-23.5	-9.0
Real salaries b/	-1.3	-23.7	-14.1

Source: CEPAL, Economic Survey of Latin America 1978, Santiago, Chile.

a/ Blue collar.

b/ White collar.

Footnotes

- 1/ Data are from Watson, table 2, pp. 12-13.
- 2/ See Massad and Zahler, table 2, p.4.
- 3/ Bernet and Müller, p. 142.
- 4/ See Wellons (1977) and Sánchez Aguilar.
- 5/ The only part of the study where national defense loans are incorporated into the data base is in Chapter IV where global financial data are employed in the analysis.
- 6/ See Ugarteche (forthcoming) for a study that does treat the subject of arms, debt, and development.
- 7/ See Devlin (1980).
- 8/ There are a number of studies of these periods. For 3 works which also carry extensive bibliographies, see North, Bloomfield and Nurske (1959). Also see Davis, Chapter I and Stallings.
- 9/ See Bloomfield, pp. 3-4; Nurske (1959), pp.475-476; and North, p. 11.
- 10/ Ibid.
- 11/ North, p. 11.
- 12/ See Hughes, p. 96.
- 13/ See Davis, p. 11.
- 14/ See Bloomfield.
- 15/ North, p. 13.
- 16/ Good insight on how and why countries borrowed from England and on the nature of their defaults can be gathered from a study on Costa Rica by Bischoff.
- 17/ See Davis, p. 15.
- 18/ North, p. 13.
- 19/ See Davis, p. 17.
- 20/ See Davis, p. 20. Stallings provides an interesting recount of several loans in this period.
- 21/ Davis, p. 21.
- 22/ See Thorp and Bertram, p. 189, footnote 36.
- 23/ The United States in the World Economy, U.S. Department of Commerce, Washington, 1943 and as quoted in Davis, p. 21.
- 24/ See Hayes, pp. 33-34.
- 25/ Aronson (1975) p. 16.
- 26/ See Robinson, p. 198.
- 27/ Lees and Eng, p. 435.
- 28/ See Aronson (1977) Chapter 4 for an informative

review of the controls and their impact on bank behavior.

29/ Robinson probably has one of the best examinations of the expansion of U.S. banks abroad. Another comprehensive source of information on the foreign operations of U.S. banks is found in the FINE study of the U.S. House of Representatives (1975 and 1976). Also see Lissakers.

30/ Robinson, p. 254. For a good description of the transformation process, see Wellons (1977), p. 26.

31/ For a good description of how syndicates are formed see Miossi.

32/ See Ganoë.

33/ See U.S. House of Representatives (1976), p. 79.

34/ Weinert (1973), p. 35. The gross size of the Eurocurrency market reached 15 billion dollars in 1965, rising to 100 billion by 1971. See Wellons (1977), table 2.

35/ For a discussion of this, see Iglesias, pp. 96-97. Also see Weinert (1978).

36/ See OECD, p. 153.

37/ Devlin (first half of 1978), pp. 77-78.

38/ See Friedman, p. 48 and Watson, p. 27.

39/ Wall Street Journal, as quoted in Hayes, p. 49.

40/ See Cummings.

41/ See Wellons (1977), p. 24. Also see Weinert (1973), p. 35.

42/ See Aronson (1975), p. 22. There were other problems as well. In October, the Franklin National Bank of New York went bankrupt after many months of support from the U.S. Federal Reserve. In the same month the Banque de Bruxelles, the Union Bank of Switzerland and Lloyds of London announced large losses on foreign exchange operations. See, Lissakers, p. 24. For an in-depth study of the Franklin experience see Spero.

43/ See table 8 in IBRD, fourth-quarter 1975 (February 1976).

44/ In the case of Zaire another condition was that a foreigner take effective control of the country's central bank and manage the distribution of the nation's foreign exchange, thereby ensuring banks a share of available resources. See Dhonte, p. 51.

45/ In recent years interest margins on credits to many developing countries have fallen to the point where many question whether banks are adequately covering the cost of credit.

46/ See Fishlow, p. 137.

47/ Capitals flows in the Nineteenth Century generally have been attributed to rate differentials. For instance, see Bloomfield, pp. 35-40.

48/ See Hymer (1972).

49/ Hymer (1976), Chapters 1 and 5.

50/ See Graham for a recent empirical study that suggests that some investments by transnational firms can be

explained by retaliation and rivalry instead of efficiencies of capital.

51/ See Kotz, U.S. Senate (1974 and 1978), and Cohen.

52/ Among those who have attempted to develop new theoretical explanations for the direction of credit flows is Grubel. (1977 and 1979).

53/ For an excellent historical review covering the period 1890-1977 see Thorp and Bertram. Short term trends are analysed in the annual Economic Survey of Latin America prepared by CEPAL. Also see the annual Memoria of the Central Reserve Bank of Peru; the number for 1976 is particularly good. A penetrating analysis of the period 1963-1968 is found in Kuczynski. For a view of events in 1968-1972 consult Quijano and Central Reserve Bank of Peru (1972 and 1973). Analysis of the period 1968-1975 is found in Fitzgerald, Schydrowsky and Wicht, Amat y León, and CEPAL (forthcoming). Authors Cabieses and Otero study the years 1965-1975. Economic analysis with a focus on debt in the post-1968 era can be found in Ugarteche (forthcoming) and Reynolds. Finally, the political evolution of the country after 1968 is analysed in detail by Palmer. Most of the above studies have extensive bibliographies that can support even deeper investigations.

54/ Zahler, in his article on Chile, analyses very well the debilitating effects that abundant capital flows can have on exchange rates and current account performances of a developing country.

55/ See Levinson and De Onís, p. 148.

56/ See Fitzgerald, p. 4.

57/ See Hunt (1971), p. 377; and Ahluwalia, pp. 8-9.

58/ In 1960 government investment was equivalent to only 2% of GDP. See CEPAL, Estudio Económico de América Latina 1965, p. 263. Also see Hunt (1971), p. 392 and Kuczynski, p. 13.

59/ Thorp and Bertram, p. 205.

60/ See table 16 in Kuczynski.

61/ Calculated by using Kuczynski's data and deflating with the consumer price index.

62/ This is seen in the Economic Plan for 1962-1971. See Ugarteche (1979), p. 5.

63/ See Cabrera, pp. 25-26.

64/ See Kuczynski, p. 130.

65/ A familiar political slogan in Congress at this time was "no more taxes". See Kuczynski, p. 41.

66/ Ibid., p. 98.

67/ In that year the government was able to make ample use of public deposits such as those related to the social security system. See Kuczynski, pp. 98-99.

68/ See Mariategui, pp. 3-21.

69/ For the full history of the dispute, see Pinelo. Also see Kuczynski, Chapter 5, and Thorp and Bertram.

70/ In addition to the IPC dispute, which was being handled by the executive branch, Congress had put in motion measures to renegotiate the contract for the Toquepala copper mine of the Southern Peru Copper Corporation, a subsidiary of the American Smelting and Refining Company, Phelps Dodge, Newmont Mining and the Cerro Corporation. The highly liberal terms of the original contract were in concordance with a 1950 mining code. See Bossio Rotondo, pp. 132-136. The writing of the code itself was greatly influenced by Cerro. See Thorp and Bertram, p. 210, footnote 1.

71/ See Kuczynski, p. 118.

72/ Ibid., p. 96.

73/ Ibid., pp. 102-105.

74/ Ibid., p. 154.

75/ Source: Field research of the author.

76/ See Ugartache (1979), Chapter 2.

77/ Kuczynski, p. 153 and Pinelo, p. 131.

78/ As another indication of the debt problem, it can be pointed out that by 1968, 65% of the external debt had to be paid within 5 years. See de la Melena (1976), p. 72.

79/ No limits were placed on loans with a maturity of less than 181 days or more than 15 years. (Source: field research).

80/ See Pinelo, pp. 140-145, for an account of events.

81/ "Manifiesto del Gobierno Revolucionario de la Fuerza Armada", October 8, 1968. See Kerbusch, pp. 159-160.

82/ Fitzgerald, p. 1.

83/ (Author's translation). From Presidential message on the 149th. anniversary of independence, Lima, July 28, 1970, as quoted in Willmore, p. 97.

84/ Based on statement by the Minister of Finance in the Joint Annual Discussion of the Board of Governors of the World Bank and IMF in September 1970 as quoted in Willmore, p. 101.

85/ Source: Field research.

86/ De la Melena (1973), p. 187, and Ugarteche (1978), pp. 60-61. Deficits could be financed more easily internally because of their reduced size, and greater government control over the financial system which permitted more effective use of private savings.

87/ Some estimates have placed the amount as high as 400 million dollars. See Thorp and Bertram, p. 309.

88/ 120 million dollars came from the U.S. and Canada and 60 million dollars came from Japan and Europe. De La Melena (1973), pp. 199-200; (1976) p. 86.

89/ Ibid.

90/ The stand-by agreement expiring in 1969 was not renewed (Quijano, p. 28); however, close contact with the Fund was maintained through 1970 (Quijano, p. 102). Use of Fund resources was limited to finance with no conditionality.

- 91/ Instituto Nacional de Planificación, pp. 19-20.
- 92/ Ibid.
- 93/ Ibid., p. 20.
- 94/ Based on data in tables 1 and 11 of Cabieses and Otero, pp. 209 and 220, respectively.
- 95/ In 1971-1972, 26% of all investment went to these sectors, while in 1973-1974 the figure was roughly 46%. See Fitzgerald, p. 88. For a summary list of some of the major projects, again see Fitzgerald, p. 87.
- 96/ Much of the subsidy was for petroleum and food, the latter of which had to be imported in large quantities because of almost stagnant local production.
- 97/ The figures themselves refer to 1974 and 1975. See Fitzgerald, pp. 41, 53 and 84.
- 98/ Ibid., pp. 44-45. Interestingly, the Junta apparently never did develop mass political support. See Thorp and Bertram, pp. 318-320.
- 99/ Central Reserve Bank Memoria 1976, pp. 44-47.
- 100/ Ibid.
- 101/ See Fitzgerald, p. 55, table 32.
- 102/ There evidently also was considerable overvaluation of imports and undervaluation of exports by private firms in order remit profits in excess of established limits. See Schydrowsky and Wicht, p. 58 and Ugarteche (forthcoming).
- 103/ Horton, p. vii. For an excellent historical study of agriculture in Peru see the Organization of American States.
- 104/ Horton, p. i; also see table on p. 8 for historical data on food production.
- 105/ Brundenius, p. 19.
- 106/ See table 2 on p. 210 of Cabieses and Otero. It should be noted that the fact that production did not fall below the pre-form output trends was in itself a major achievement.
- 107/ Cabieses, pp. 79-80, and Fitzgerald, p. 34.
- 108/ See Fitzgerald, pp. 34-35.
- 109/ Ibid., p. 34.
- 110/ See Schydrowsky and Wicht, p. 56.
- 111/ De la Melena (1973), p. 131.
- 112/ See de la Melena (1973 and 1976) for an overall view of the reforms.
- 113/ For a comprehensive view of how Jutrex and Cotrex functioned, see Ugarteche (1979), Chapter 3. For a more abbreviated view, see de la Melena (1973), pp. 212-215.
- 114/ Ugarteche (1979), pp. 22-23.
- 115/ Ibid., Appendix 2, p. 57.
- 116/ De la Melena (1973), p. 211.
- 117/ For a detailed view of how these two bodies functioned, see Ugarteche (1979), Chapter 4.
- 118/ Ibid., and de la Melena (1973), p. 66.
- 119/ Fitzgerald, p. 20.

- 120/ Kuczynski, p. 239.
- 121/ Brudenius, p. 77.
- 122/ Fitzgerald, p. 20.
- 123/ Nickson, p. 15. It should be noted that trade also was heavily geared towards the United States, with it being the market for roughly 40% of all exports and one-third of all imports.
- 124/ See Friedman, p. 53.
- 125/ Pinelo, p. 145.
- 126/ See the texts of Decree Law No 4-17066 and "Manifiesto del Gobierno Revolucionario de la Fuerza Armada" of October 1963 as reproduced in Kerbusch, pp. 154-159.
- 127/ Brundenius, p. 40.
- 128/ Bosso Rotondo, p. 136.
- 129/ Ibid., p. 134.
- 130/ Ibid., p. 133.
- 131/ See NACLA (March 1976), pp. 24-30.
- 132/ Fitzgerald, p. 68.
- 133/ For details on the government's actions to rationalize the industry, see Hunt (1975), pp. 323-325.
- 134/ As pointed out earlier, the first reform law on the financial sector was introduced in the last days of the previous regime under the umbrella of the Emergency Law 17044 of June 1968. See Kuczynski, pp. 230-243. The basic proposals of the law were implemented by the new regime, with modifications that basically made for more stringent application.
- 135/ See DL 1835 in Ley de Bancos, p. 163.
- 136/ Ibid., p. 28. The first version of the law which came out in June 1968 under Emergency Law 17044 required two-thirds national ownership.
- 137/ The industry was 73% national in terms of ownership shares. Of the foreign held shares, the United States had 65%, England 6.6%, France 5.7%, Japan 4.7%, Switzerland 3.5%. See Ministry of Fishing, pp. 38 and 134.
- 138/ Brudenius, p. 42.
- 139/ See Malpica, p. 174.
- 140/ Most of the compensation was paid in Soles and reinvested in a new Sheraton Hotel in Lima. See Hunt (1975), pp. 315-316.
- 141/ Chase invested 1.7 million dollars in the bank in 1965; it received 6.3 million dollars in compensation, Ibid., p. 316 and NACLA (April 1976), p. 6.
- 142/ It is clear that the favorable settlement for Chase was linked to its ability to raise foreign resources for the high priority Cuajone project.
- 143/ NACLA (March 1976), pp. 29-30.
- 144/ See Thorp and Bertram, p. 224.
- 145/ Some estimates placed requirements at 180 000 barrels a day by 1980. See La Crónica.

146/ Medina (Nº 16), p. 3 and Hunt (1975), pp. 335-336.
147/ La Crónica. Overall, in its first 26 months of operation Occidental struck oil on the first 5 wildcat wells. PETROPERU had 3 successful wildcats strikes. See Hunt (1975), p. 336.

148/ See Copé.

149/ Medina (Nº 18), p. 15.

150/ (Author's translation), La Crónica.

151/ Medina (Nº 18), p. 15.

152/ See the list of terms in PETROPERU, Memoria 1974, p. 21.

153/ Ibid., p. 24.

154/ Mining volume was stalled by insufficient new investment. (See Thorp and Bertram, pp. 210-221). The sector also was plagued by numerous labor strikes. (See Palmer p.61).

155/ See BCR (1976) p. 47.

156/ PETROPERU, Memoria 1975, pp. 23 and 45. Fernando Sánchez Alcavera has commented to the author that to some extent Peru might have fallen victim to the global oil strategies of the petroleum companies. The jungle operations were undoubtedly expensive -especially for the smaller sized firms in Peru- and once it became clear that there were no "easy" strikes, the firms quickly moved their limited capital to more promising areas, even though there was commercial oil available. This argument appears attractive when one considers that Occidental later found commercial deposits in sites abandoned by the other companies.

157/ See MEF (1976).

158/ PETROPERU, Memoria 1976, pp. 23, 26 and 43.

159/ Index B was also calculated by using a purchasing parity index, but the trends were not unsimilar to the index in the table which uses a nominal exchange rate.

160/ See Amat y León, graph 16, p. 54.

161/ Throughout the 12-year period real interest rates on basic savings instruments were negative. See Galbis.

162/ Source: field research.

163/ Ugarteche (1979), Chapter 5.

164/ Ibid., pp. 7-10 and Chapter 5.

165/ Fitzgerald, p. 89.

166/ Ibid.

167/ Ibid.

168/ Ibid., p. 85.

169/ (Author's translation) Ugarteche (1979), p. 48.

170/ Ibid., p. 49. The "pressures" that Fitzgerald and Ugarteche make reference to appear to have been a manifestation of a general military "command" structure in economic policy making that saw Ministers override otherwise reasonable advice from civilian "técnicos". See Ugarteche (forthcoming).

171/ See new policy guidelines set out in DL 22149 in Ugarteche (1979), p. 12.

172/ The charges of excess profits apparently were correct. See Thorp and Bertram, pp. 214-215.

173/ See Thorp and Bertram, p. 219.

174/ The officially sponsored export program apparently was not very effective. See Schydrowsky and Wicht, p. 96. Thorp (Nov. 1978, p. 8) shows that in the period 1970-76 manufactured exports never exceeded 8% of all exports.

175/ Some have attributed overfishing as a factor behind the loss of the anchovy.

176/ See debt tables in Actualidad Económica, October 1979, p. 12.

177/ Kuczynski, p. 95. Teresa Hayter has argued that the excessively cautious project appraisal of official agencies actually "drove" the activist Belaunde government to commercial sources. It desperately needed finance to fulfill its campaign promise to open up the interior of Peru and bring marginalized elements of the population into the domestic economy. Commercial lenders, not particularly concerned about the use of credit, were the only sources available to the government. See Hayter, pp. 143-149.

178/ A good account of how the freeze evolved is found in Levinson & De Onis, pp. 146-156.

179/ Ibid., pp. 151-153.

180/ Pinelo, p. 132.

181/ Ibid., pp. 132-133. Also see Kuczynski, pp. 156-160 and Levinson and De Onis, pp. 154-155. Ugarteche (forthcoming) also claims that disputes over fishing rights in 1967 caused the U.S. government to freeze U.S. Export-Import Bank credit as well.

182/ See Kuczynski, p. 58. Banks also undoubtedly were owners of commercial paper related to suppliers credits that had been discounted on secondary markets.

183/ The loan was originally signed in late 1964 and then amended in early 1965. The credit, for the purpose of this study, has been classified a 1964 loan and therefore is not part of the data base that is used for analysis in later chapters. However, the loan was refinanced in 1966 and this does appear in the data base.

184/ See Kuczynski, p. 100 and Hayter, p. 144.

185/ Levinson and De Onis, p. 144.

186/ The quote is the author's translation and is taken from a speech given by the President of Peru to the assembly at the 12th Annual Meeting of Governors of the IDB in Lima, Peru during May 1971. See IDB (1971), pp. 22-29.

187/ See U.S. Treasury, p. 283.

188/ Ibid., pp. 173-174.

189/ This latter point is made in Fitzgerald, p. 68.

190/ A guarantee of 1.4 million dollars was given for a complementary private credit.

191/ The strategy was an explicit part of the 1971-1975 economic plan. See INP, p. 47.

192/ The U.S.'s share of trade also declined markedly. Exports to the U.S. fell from 34% of the total in 1965 to 24% in 1976. Imports over the same period fell from 40% to 35%.

193/ Chapters V, VI and VII provide data on the role of specific banks in the penetration of Peru as well as on the evolution of the terms and conditions of credit. Also see bank profiles in the appendices.

194/ This observation is the result of field research in Peru.

195/ See Martin.

196/ The source of this figure is CEPAL. At 1970 prices per capita income in 1974 was roughly 600 dollars. See CEPAL, Economic Survey for Latin America, 1977.

197/ See BID table 42.

198/ Includes short term obligations. See Morgan Guaranty Trust Company, September 1976, p. 11.

199/ The amounts corresponding to the groups for 1971-1976 are larger than for 1965-1970 due to the greater volume of lending in the former period, but in relative terms the scales for the two periods are approximately equal. The authorizations themselves include credits with guarantees of export credit agencies; however, where elimination of these "guaranteed" credits would change the group in which a bank is positioned, this indicated in a footnote to table 18. The reader is warned that great caution is merited with regard to the classification of credit into guaranteed and unguaranteed loans. In some cases a borrower may not have been aware of the presence of an external guarantee on a commercial bank credit and therefore in such a case no record would have been maintained to this effect. Another problem peculiar to the period 1965-1970 is that debt contraction and record keeping were exceptionally haphazard, generating the possibility that contemporary archival systems have only incomplete information on guarantees.

200/ See Kuczynski, p. 257/.

201/ Up through 1976 U.S. banks had generally dominated lending to non-oil exporting developing countries. One estimate has placed their participation in lending to this group at roughly two-thirds of the total value of loans. See Wionczek, p. 184.

202/ Another factor behind the dominance of U.S. banks in this early period is that in the Sixties these institutions were easily the most experienced overseas lenders. They also tended to have a very large resource base; of the top 11 banks (ranked by assets) in world banking in 1969, 8 had their headquarters in the U.S. See The Banker, June 1970, p. 601.

203/ The international rankings for each range of assets are different for the two periods because the independent variable is dollar asset size and thus the number

of banks corresponding to any given range of assets varies according to the growth rates of the banks over the period.

204/ Obviously in practice someone had to initiate contacts with other banks. In the case of several sizeable multibank loans in support of the fiscal budget it appears that Manufacturers Hanover Trust played this role. Incidentally, to the extent that Manufacturers was the main organizer of these credits, this would distinguish it from the other major lenders of the period and perhaps give it the title of being Peru's single most important creditor in the latter half of the 1960s.

205/ For a good review of the role of the agent and the lead banks in loan syndication, see Miossi. Also see Bee.

206/ For reasons of exposition, interest rates and maturities are treated separately. The reader should bear in mind, however, that there can be trade offs between the interest rate and the length of a maturity on a given financial package.

207/ It was not possible in all cases to establish the precise type of prime rate employed by the banks; however, information was available for a majority of the credits and suggests that the basic benchmark was the U.S. prime rate.

208/ As was pointed out in Chapter IV, Peru at this time was considered reasonably creditworthy by the banks, although in 1967-1968 they obviously were having second thoughts about their evaluation of risks.

209/ One may be curious about how the floor/ceiling mechanism affected the borrower in practice. This is difficult to determine because, as will be shown later in the chapter, most loans were continuously refinanced so that credit agreements rarely lived out their original term. Nevertheless, some indication is provided by reference to the memorandum items in table 23 and data in figure 4. Here it is evident that the floor interest rate of $6 \frac{3}{4}\%$ and 7% did not really prejudice the borrower because the prime rate never reached a level where an overall rate (prime plus spread) was less than the minimum established by the credit agreements. On the other hand, credits that bore the ceiling of $8 \frac{3}{4}\%$ could have been favorable to the borrower since in 1968-1970 the prime rate reached levels whereby a 1.75% spread would have generated costs in excess of the maximum established rate. The very results of the floor-ceiling rate arrangements contributed to its demise after 1970. For such practices to survive there had to be prospects of relative world price stability. But with world inflation accelerating, a floor interest rate had no practical benefits for a lender. On the other hand, in an environment of rising world prices, a ceiling rate on a medium term credit could only be highly prejudicial to a lender. Thus banks found it convenient to rely solely on a pure floating rate.

210/ See Sanchez Aguilar, p. 171.

211/ The regulation was the Voluntary Foreign Credit Restraint Program initiated in 1965. For details of the program see Aronson (1977) Chapter IV.

212/ This is because of the severe asymmetry of information; while this study has generated rather comprehensive data on Peru's borrowing from commercial banks, similar data on other countries is rather sparse. Moreover, any comparison of Peru with data of other countries could suffer from discrepancies associated with methodology.

213/ See Devlin (first half of 1978), p. 77.

214/ In the early 1970s U.S. banks accounted for roughly half of Mexico's liabilities with commercial banks; furthermore, these institutions had an almost unlimited willingness to lend to the country (see Sánchez Aguilar, pp. 174 and 262). As for the reason for this attitude, Aronson (1977, p. 175) has pointed out that: "American lenders also are attracted by Mexico's contiguous border with the United States. Most creditors feel that the U.S. government is so involved with Mexico's economy that it would aid the Mexican government and U.S. lenders if disaster struck".

215/ To quote a public commentary of one of the world's largest commercial banks: "In this regard, Brazil's delay in internal adjustment has come as a disappointment. There, the growth in aggregate demand, the reemergence of the fiscal deficit, and the acceleration of inflation (estimated at 40-50% for this year) have been inconsistent with the clear necessity for a current account adjustment". See Morgan Guaranty Trust Co., (October 1976), pp. 3-4.

216/ See CEPAL, Estudio Económico de América Latina 1975, p. 132.

217/ One can see that Brazil consistently had longer maturities than Mexico, which was one reason for the former country's higher interest margins. In the difficult environment of 1975-1976 Brazil made explicit a policy to pay higher interest rates to achieve more volume and longer maturities.

218/ While for reasons of exposition fees are analysed separately from interest rates and maturities, the reader should bear in mind that these charges can trade off with interest rates and maturities on a given financial package.

219/ In a few loans to Peru banks actually prohibited prepayment.

220/ In cases where penalties were scaled according to the year of prepayment, averages have been taken by weighting with the number of years in which a particular rate prevailed. Of course, the presence of scaling makes averages understate the effective cost of prepayment penalties in the earlier years of a loan and overstate it for the later years.

221/ See Lewis, p. 60.

222/ These banks joined together in multibank agreements. Several other U.S. banks variously tagged onto this core group of commercial banks to extend credit in lesser amounts. Of these secondary lenders, the most important was the Charter New York Corporation (Irving Trust) which provided 5 million dollars in a free disposition loan of 1967.

223/ Kuczynski, p. 165.

224/ Kuczynski provides some insight into the attitude of the banks just prior to signing of the agreement: "At 2 p.m. on July 31, a Monday, the Ambassador of Peru to the United States sat in the beautiful office of the former Chairman of the Board of the Manufacturers' Hanover Trust Company, then at 44 Wall Street, waiting to sign the U.S.\$40 million loan agreed to by the banks ten days before. The banks representatives were gathered in the board room next door, supposedly finishing last-minute details in the loan agreement. But the week-end news from Peru had come in the morning, and some of the banks were now hesitant. Not only had the President been unable to make his annual state of the nation message, but there had been a new development in the International Petroleum Company case as the Peruvian Congress had declared the subsoil claimed by IPC at La Brea y Pariñas to be the property of the state. The possible attitude of Standard Oil of New Jersey, the owner of IPC, was obviously important to the banks, which were depositories of large Standard Oil funds. Some discussion followed with the Peruvian delegation, but the loan agreement had been negotiated two weeks before and could not be changed in Peru, where it had been approved by the Controller General. Finally at 4.45 p.m., as some of the bankers began to fear that they would miss their trains home, the loan documents were signed" Ibid., pp. 167-168.

225/ Bank of American, Bankers Trust, Chemical Bank, Continental Illinois, First National Bank of Chicago, Franklin National Bank, First Pennsylvania Banking, Crocker National Bank, Fidelity Bank.

226/ As already mentioned in Chapter III, the principal negotiator for the U.S., James Greene, was at that time a high ranking official at Manufactures Hanover Trust. It is significant that his bank did not participate in the 76 million dollar credit.

227/ Other banks were Credit Suisse, Union Bank of Switzerland, Swiss Volksbank Bank Lev, and Privatbank Verwaltungsgesellschaft.

228/ The Swiss later made this 10 million dollars a part of their contribution to a general refinance accord arranged with international banks that year.

229/ The credits for the fishing industry have a somewhat different character than the other nationalization

credits. At the time of nationalization, the industry was heavily indebted both at home and abroad, suggesting that the banks, while ostensibly facilitating the government's purchase of nationalized assets, were, to some extent, simply refinancing obligations due to them by the former private sector entities. All together, 86% of commercial bank credits directed towards the nationalization of the fishing industry was from U.S. institutions. This is consistent with the fact that prior to 1972 U.S. banks were the dominant commercial lenders to Peru and that U.S. firms were by far the most important foreign investors in the industry (see footnote 137).

230/ An official of one commercial bank has expressed this point of view as follows: "It goes without saying that refinancing is undertaken by most banks...only very reluctantly and only for customers with whom... (they) have excellent long term relationships". See Benny, p. 57.

231/ Banks believe that rescheduling of their credit would cause a borrower to lose its creditworthiness. See Friedman, p. 69.

232/ See Lewis, pp. 65-66.

233/ Initially refinance of suppliers' credits was heavily concentrated on obligations of Sogesa, the state steel enterprise. In the early and mid-1960s Sogesa underwent an ambitious expansion program in which Ferrostaal A.G. Essen was the main contractor. Sogesa, financially weak, negotiated postponement or reduction of the debt payments to Ferrostaal and in 1965-1967 many of the upcoming payments to Ferrostaal were financed by American, Canadian, and German banks, with a guarantee provided by the central government. For details on the Sogesa expansion program and the role of Ferrostaal see the Memoria for 1964 and 1965 of Sogesa.

234/ The Swiss negotiated outside the general agreement with the other international banks. For methodological reasons this credit has been considered a 1977 transaction and therefore is outside the scope of the present study.

235/ For information on the various offshore centers consult the Banker Research Unit. Also see Doggart and Gorostiaga.

236/ For instance, a Brussels branch of a bank sells foreign exchange to a Bahamas' branch at a loss and then the Bahamas' branch resells the exchange back to Brussels at a profit. All the transactions are internal to the bank, so no real profit or loss is realized. But the tax effects can be considerable. The Brussels' branch records a loss, which is convenient for a country with a high marginal tax rate. Meanwhile, profits are recorded in the Bahamas where there are no income taxes at all.

237/ For a full descriptive example of how U.S. banks use tax havens to their advantage, see Lissakers, pp. 18-21.

238/ Different national banks tend to prefer different centers. For data on how various national groups of banks used offshore centers, see table 12 of the statistical appendix.

239/ For U.S. banks London became an essential element in the funding of loans because the Voluntary Foreign Credit Restraint Program placed absolute limits on foreign lending from home offices. See Aronson (1977), Chapter IV.

240/ Harfield, p. 86.

241/ See Sandeman, p. 77.

242/ An exception is Colombia, which has successfully demanded that "the loan agreement will be subject to Colombian jurisdiction". See Ensor, p. 98.

243/ See Ugarteche (1979), p. 15.

244/ Financial Times.

245/ Ibid.

246/ Ibid.

247/ If a lead bank has guaranteed "a fully underwritten loan" it would have no choice but to fill the gaps in syndication. On the other hand, if it promised to use only "best efforts", then it has the option to raise its participation or terminate the syndicate.

248/ For a more elaborate description of the process see Bee and/or Miossi.

249/ See Miossi, p. 16.

250/ Much like non-financial corporations banks have a nose for marketing. The position of a bank on a tombstone can be a subject of much debate as lenders seek to have their names located in the most distinguishable areas of a page.

251/ The largest single transaction was the 210 million dollar refinance credit extended by U.S. banks in 1976.

252/ Note that an agent also generally is a manager of a syndicated credit. Throughout this chapter an agent which also is a manager has been counted exclusively as an agent. This stems from the fact that the methodology employed in the chapter assumes the agent to be the principal lead bank in syndication.

253/ See Miossi, p. 16.

254/ Those interested in a list of Peru's lead banks which incorporates all managers should consult table 15 of the statistical appendix.

255/ Perhaps 50 international banks manage the bulk of world liquidity. And within this group there is a considerable degree of concentration of power. In 1975 the top 5 (Citicorp, Bank of America, Manufacturers Hanover, Morgan Guaranty and Chase) of the top 15 lead banks in eurocredit syndication accounted for 67% of the credit mobilization. See International Herald Tribune. In 1977, of the top 50 lead banks in syndication, the top 10 were responsible for nearly 60% of all credit mobilization. See Euromoney.

256/ See U.S. Senate (1974 and 1978).

257/ The negotiations behind the 1976 refinance credits and the role of various banks in the transactions are analysed in Chapter X.

258/ Of course, in arriving at a united position there was discussion and debate among the banks. The process of quid pro quo is analysed in Chapter X.

259/ One must remember that gross authorizations of a bank do not necessarily reflect outstanding commitments.

260/ It is important to point out the limitations of the data. First, coefficients may possibly contain an element of overstatement because loans are based on gross and not net commitments. Also, data are for original commitments and account could not be taken of whether or not a bank subsequently sold its paper in secondary markets. Second, there is an important element of understatement because short term credits and bank loans for national defense purposes are excluded. On balance it is difficult to determine precisely what the net effect of factors one and two have on the absolute and relative values of the coefficients. The reader should bear these points in mind when using the data.

261/ In 1975 the assets of American Express International were valued at 2.6 billion dollars, while the parent American Express Corporation had assets close to 9 billion dollars.

262/ See Lissakers, p. 58.

263/ Bankers do not even see the two superborrowers as a threat, unless they were to default simultaneously, which is a highly unlikely event (see Watson, p. 50). Hardy (p. 191) has pointed out, however, that a default by Brazil might be very damaging to Citicorp.

264/ Creditworthiness is a catchall term used to express a bank's assessment of default risk. Generally speaking, a bank's view of creditworthiness is heavily weighted by indicators of a country's external liquidity, i.e., exports, international reserves, etc., and the policies that determine their performance. For more information on how banks assess creditworthiness see Goodman, Asian Finance, Brackenridge, Anderson, and Wolfe.

265/ The equal pairing of observations is necessitated by the fact that lending terms are affected by time, i.e., the market environment shows considerable year-to-year flux.

266/ Kapur, in aggregated inter-country comparisons, found that banks did not use price to discriminate among developing country borrowers for similar reasons. It is left to future research to determine the exact nature of the competition, i.e., perfect, oligopolistic, etc.

267/ Of all the tests, those on individual institutions may be the most revealing indicator of fee earning behavior because many of the banks were managers in syndication.

Moreover, since fees were distributed equally, averages should understate earnings of many of these banks so that significantly higher than average earnings would have a greater likelihood of relevancy.

268/ The terms on this credit conflict with the reporting of the World Bank's Borrowing in International Capital Markets, which sets the maturity at 7 years.

269/ With the loan most of the remaining holdouts among the traditionally established international banks -e.g. Chemical Bank and First Chicago- began to lend to the government.

270/ See Aronson (1977), p. 177.

271/ See Devlin (1979), pp. 80-81.

272/ The standardized variable is $Z = \frac{x - \bar{x}}{s}$ where x represents the percentage of a country's loans in a given loan category, \bar{x} the unweighted mean for all countries in the loan category and s the standard deviation of x .

273/ Data understate somewhat Switzerland's refinance credits because the study's sample does not take account of Swiss participation in the general refinance agreement of 1976.

274/ As noted in previous chapters, on a world scale there was no real growth of official finance in the years 1965-1975. For Peru the problem was compounded by the financial blockade contrived by the U.S.

275/ Another consideration is that consortium banks can enter into the more controversial loans that parent banks may not want to have their names directly associated with.

276/ See Wellons (1977), p. 24.

277/ Germany has a reputation for using guarantees, but the borrower's data did not reflect this.

278/ It should be noted that U.S. banks had only a limited opportunity to secure their loans with export credit guarantees because from 1968 to mid-1974 the U.S. Export-Import Bank had its doors closed to business with the Government of Peru.

279/ See D.L. 18351 in Ley de Bancos.

280/ Ibid.

281/ Chemical Bank decided to buy into Banco Internacional because of its interest in "going international" and because participation was a convenient way to resolve the failing Peruvian bank's arrears to Chemical. However, the purchase was ill-timed and inept. As pointed out by Kuczynski, problems arose because the purchase was planned precisely at the time when "there was a growing political feeling against foreign control of banks. Still, Chemical went ahead, but without adequately informing the Peruvian authorities until after the event. In the small setting of Lima, this omission caused resentment". The purchase was the straw that broke the camel's back and provided the necessary political support for the civilian government to introduce (under emergency Law 17044 of June 1968) in August 1968 a law

calling for "Peruvianization" of local banks. The original law called for 66% national ownership (see Kuczynski, pp. 239-243). The military government later raised minimum national ownership to 75% in November 1968 and finally to 80% in 1971.

282/ The observations on Citicorp are drawn from Wellons (1978) and Citicorp's annual reports. In 1975 and 1976 Citicorp was the number one lead bank in world syndication. See Chapter VI.

283/ Of course, if the bank's loans to Peru led market trends, or enhanced the market's receptiveness towards Peru, this could be an indication of special behavior stemming from the familiarity generated by a local branch bank. There is, however, no indication that Citicorp led market attitudes on Peru.

284/ See Wellons (1978).

285/ In 1975-1976 it ranked N^o2 behind Citicorp. See International Herald Tribune.

286/ See Wellons (1978).

287/ In 1975 Lloyds Bank ranked number 10; Bank of Tokyo did not rank among the top lead banks. See Chapter VI.

288/ Ibid.

289/ See Wellons (1978).

290/ See Wellons (1978).

291/ There was evidence that fees may have played a role in risk discrimination; however, it may be recalled that data limitations prevented a precise evaluation of this phenomenon.

292/ Also see the profiles of selected banks in the appendices.

293/ See Kuczynski, p. 52.

294/ See Canal, tenth page.

295/ Ibid.

296/ The prospective availability of U.S. Export-Import Bank finance for the pipeline undoubtedly encouraged Peruvian authorities to sign the Greene Accord. However, the hoped for support never materialized.

297/ The loan was secured by sales of the crude to Japan. The controversial book by Ortiz de Zevallos Roedel has published the loan contracts and petroleum purchase agreements with Japan.

298/ Legal forms of security already have been discussed in the last section of Chapter V.

299/ See Kuczynski, p. 257.

300/ It could be argued that an improved economic situation made conditionality unnecessary. But how improved was the situation? Better overall economic indicators to some extent were a reflection of prices on international markets and increased bank lending itself. The underlying structural problems of the balance of payments (low export coefficient) and public finance remained unresolved and actually intensified in the 1970s.

301/ See Cummings.

302/ My analysis has greatly benefitted from conversations with Carlos Santistevan. The interpretation presented here is my own, however, and is not necessarily in concordance with the opinions of Mr. Santistevan.

303/ See Ugarteche (forthcoming)

304/ For one of the more severe critiques of the IMF see Payer.

305/ See Stallings, pp. 23-24.

306/ See Stallings, p. 24.

307/ Ibid.

308/ Ibid., p. 25. The members of the U.S. Steering Committee were Citicorp, Bank of America, Chase Manhattan, Manufacturers Hanover, Morgan Guaranty, and Wells Fargo, with Citicorp heading the group.

309/ In the end some adversaries just simply refused to participate. Notably, many of the banks appear to have been the aggressive lenders of the 1970s, which turned reactively conservative in the face of economic difficulties in Peru and the Third World in 1975 (e.g. Crocker National Bank and Bancal Tristate). In the end the negative block of banks was sufficiently small to permit the U.S. banks to declare their support of the financial package.

310/ See Friedman, p. 53.

311/ See Wellons (1976), p. 74. It should be pointed out that some banks had considerable investments in the Southern Peru Copper Corp. In 1973 Chase Manhattan Bank led a 200 million dollar syndicated credit for the Cuajone project. In addition to Chase, other powerful banks such as Citicorp, Morgan Guaranty, Bankers Trust and Chemical Bank participated in the credit. Meanwhile, in 1975 Lloyds Bank headed a 23.5 million dollar syndicated to the Corporation which involved big banks such as First National Bank of Chicago, Midland Bank, and Barclays Bank, all of which were involved in Peru's 1976 negotiations for a refinance credit. Source: the published tombstones for the respective syndicated credits.

312/ It should be mentioned that a high level government official of the U.S. State Department was an ex-president of Marcona.

313/ Morgan Guaranty Trust Co., May 1976, p. 9.

314/ Of course, the banks did not lose either, as Peru kept its debt service current.

315/ See Diaz Alejandro, pp. 188-197.

316/ The concept of capacity to import used here corresponds to CEPAL's traditional definition, i.e., the amount of goods and services that can be purchased with the annual net inflow of foreign exchange resources, excluding, however, inflows of resources under the heading of compensatory capital. Thus, capacity to import can be expressed as $Z = X + EF$ where Z is capacity to import, X is the purchasing power of exports

and EF is the net flow of financial resources, exclusive of inflows of compensatory capital. For the sake of clarification, $EF = (AI-AO-Fa) - (CO+Fc) + (N+Fn) + E$, where AI represents foreign autonomous capital inflows; AO, foreign autonomous capital outflows; Fa, factor payments on autonomous capital; CO, outflows of foreign compensatory capital; Fc, factor payments on foreign compensatory capital; N, net movement of assets held by residents of Peru; FN, factor receipts on national assets; and E, the net errors and omissions entry of the balance of payments. Note: national assets include government transactions, thus there is an element of double counting in the data.

317/ Errors and omissions of the balance of payments have been assumed to be basically unregistered capital flows.

318/ A major revision of Peru's national accounts data suggests that the Central Bank series which is employed here, overstates growth of domestic demand and product. However, in both the new and old series the gap between the two components are approximately equally as large. (See methodological notes in appendix).

319/ At least one study has suggested that most of the benefits of the policies of the reform government accumulated in the urban sector and in middle income groups in the formal labour market. The rural sector and informal labour market were, according to the study, relatively less affected. See Couriel.

320/ These data exclude state enterprises. However, public firms are linked to the central government budget through transfers on the capital account. Also, data in table 8 of Chapter III suggest that external finance, and therefore banks, were important in the finance of state enterprises during the 1970s.

321/ See CEPAL (forthcoming)

322/ See Schydrowsky and Wicht, p. 56.

323/ See Couriel.

324/ Taking the average of the annual average 6-month eurodollar rates plus Peru's average interest spread for the period 1973-1975 suggests a cost, grosso modo, of 10.9% for credit. Over this same period consumer prices in the industrialized countries rose by roughly 10%.

325/ In 1975-1977 LDCs commonly encountered spreads of 2% or more.

326/ In 1975, 75% of all eurocurrency credits to LDCs had maturities of 6 years or less. See World Bank, Supplement, EC-181, August 1976.

327/ As Streeten has pointed out, when the structure of demand and production is not geared to satisfaction of basic needs, any policies in this direction will generate balance of payments and inflationary pressures over the medium term (see Streeten, p. 105). Bankers will be

unimpressed if gains in employment and social well-being are at the expense of short/medium term economic growth and balance of payments/liquidity performances.

328/ In theory the economic crisis could have been quickly overcome (and of course avoided altogether) through timely economic policy measures. However, in the real world economic criteria are often overridden by more immediate social and political considerations. In poor countries -especially those with a significant degree of political participation- these latter forces can be very strong. Thus, while economic discipline is to be encouraged, recurrent and prolonged economic crises are an unfortunate reality which we all must confront.

329/ Nurske (1953), p. 135.

330/ For example, in 1976, 61 per cent of Citicorp's total deposits had an average maturity of only 90 days. See Hardy, p. 192.

331/ See Anderson; Asia Finance; Brackenridge; Goodman; and Wolfe.

332/ In a separate article (Devlin 1979) I have analysed the problems of commercial bank finance and have offered suggestions on how more resources may be channelled through multilateral agencies and private bond markets -determined to be the proper sources of development finance.

333/ See the Sidney Dell report (United Nations 1979) for some excellent suggestions on how the Fund could bring itself into line with the development objectives of the Third World.

334/ In many cases there are legal restrictions to long term funding by commercial banks. Thus, national regulatory authorities might want to reconsider their policies in this area.

335/ In the case of Peru the World Bank's tabulation of publicized eurocurrency credits provided only a partial view of transactions with commercial banks. The data also provided only limited information on a syndicate, the conditions of the agreement, and the specific role of each bank in the operation.

336/ See Ruding.

337/ For a detailed account of the economic stabilization efforts in 1977 and 1978 see Cabrera. Also see Ugarteche (forthcoming).

338/ Cabrera, p. 53 (author's translation).

339/ Ibid., p. 54.

340/ See Moreyra, p. 95.

341/ For details of the program see Cabrera, pp. 55-60 and Moreyra, p. 95.

342/ U.S. banks feared that unless there was a rescheduling, any new loans by them would appear as indirect payment of Soviet debt. See Andean Report (February 1978), pp. 22-23.

343/ Ibid., p. 22.

344/ Ibid., p. 23.

345/ Field work indicated that many local bankers were impressed by Manufacturers Hanover's behavior during the crisis. It apparently stood out for its flexible and reasonable approach to the approval of foreign exchange lines of credit.

346/ See Andean Report (April 1978), p. 63.

347/ See Andean Report (May 1978), p. 84 and Latin American Economic Report (May 1978), p. 154. Chase later denied these reports.

348/ Sources are the Central Bank of Peru (1979) pp. 48-49 and unpublished data provided by the editors of the Andean Report.

Appendix 1

METHODOLOGICAL NOTES ON DATA COLLECTION AND ANALYSIS 1/

Since the study entered virgin territory, CEPAL prepared a project manual before initiating field research. The manual, entitled Project Manual and Methodological Guidelines for a Study on the Role of Transnational Banks in the External Finance of Peru, 2/ provided the objectives and hypotheses underlying the study, predesigned data sheets to be filled out during the process of data collection, and tentative modes of processing and analysis of the data. The manual made clear that the methodology was designed to better understand phenomena as related to both lender and borrower. Thus the study's shifting focus between the banks and the Peruvian public sector.

Field research was undertaken and the public sector combed for data covering the 12-year period 1965-1976. While seeking aggregated data for medium- and long-term financial flows to the public sector from all sources, the most disaggregated data possible were sought on individual commercial bank term loans, using table format 21 of the aforementioned Project Manual as the guide for its collection. The goal was to collect comprehensive data on every individual commercial loan to the public sector, but purposely excluding credits related to national defense. This basic goal was realized and field research generated a comprehensive data base. However, not having perfect information, and given the disperse nature of the Peruvian public sector, no guarantee can be made that the data are a perfect image of the defined universe. But if they are not identical to the universe, they are certainly a very close approximation of it.

After collecting data on individual bank loans information was cross-checked for consistency and accuracy. Profiles were then developed on individual commercial lenders, incorporating all the comprehensive information from table format 21 of the Manual. Once profiles were prepared, analysis was performed on individual banks, data permitting. Data also were rebuilt into new forms of aggregation which shed light in varying degrees of generality on lending behaviour and its impact on the borrower.

The results of the process of disaggregation and

deliberate reaggregation provided a new and unusually comprehensive view of bank lending to a developing country. The results of this and other analysis are found throughout the study.

Some specific aspects of the methodology

There are some other specific aspects of the methodology which should be brought to the reader's attention. They are follows:

- (a) subsidiaries of banks were incorporated into the parent where ownership was more than 50%; 3/
- (b) when loans were syndicated credits, the syndicate itself was broken down with relevant information being placed into the profiles of the respective banks;
- (c) non-dollar loans were converted into United States dollars at the rates of exchange prevailing at the time of authorization; 4/
- (d) split interest rates were averaged, weighted by the number of years (or alternatively the amounts) on which each rate prevailed;
- (e) fees and penalties that changed value over the life of the loan were averaged in a way similar to (d); and
- (f) in reaggregation, quantifiable terms and conditions of the loans were weighted by the value of individual credits.

Finally, it should be pointed out that the national accounts data employed in the paper pertain to the series published by the Central Bank of Peru. Subsequent to the preparation of data for the study, the INP published another national account series. 5/ The Central Bank series has been maintained here, however, because there is confusion about which set of data is "official": the Central Bank series has continued to be published in Peru as well as in the IMF International Financial Statistics and the data enjoys active use by professionals in the country. In any event, it was the Central Bank data that guided decisions of government authorities and bankers during the time frame of analysis in the study.

Footnotes

- 1/ Complementary information appears in Chapter 1.
- 2/ See Devlin, (1980).
- 3/ The one exception was Sud-Ameris which is an Italian-French bank. The bank was consolidated into Banca Commerciale Italiana even though the latter has somewhat less than 50% ownership. This is because the bank reputedly has heavily influenced Sud-Ameris' behaviour vis-a-vis Peru.
- 4/ The borrower's definition of authorizations has been employed. It was found that in some cases the borrower's date of authorization of a loan could be as much as three months after a commercial bank's date of authorization.
- 5/ See INP (1979).

Appendix 2

NAMES OF BANKS IN THE STUDY

United States

American Express International Banking Corporation
Bancal Tri-State Corporation
Bank America Corporation
Bankers Trust Corporation
Centran Corporation
C.I.T. Financial Corporation
Citicorp
Citizens and Southern National Bank
Cleveland Trust Corporation
Commerce Union Bank
Continental Illinois Corporation
Crocker National Corporation
Charter New York Corporation
Chase Manhattan Corporation
Chemical New York Corporation
Fidelcor Incorporated
First Bank System Incorporated
First Chicago Corporation
First National Bank of Boston
First National Bank of St. Louis
First National State Corporation
First Pennsylvania Corporation
Franklin National Bank (went bankrupt in 1974)
Girard Company
Harris Bank Corporation Incorporated
Hartford National Corporation
Industrial National Corporation
La Salle National Bank of Chicago
Manufacturers Hanover Corporation
Marine Midland Bank Incorporated
Morgan Guaranty Trust Co.
National Detroit Corporation
Northern States Bancorporation
Rainier Bancorporation
Republic of Texas Corporation
Seafirst Corporation
Security Pacific Corporation

Shawmut Corporation
Union Planters National Bank
Wells Fargo and Co.
Western Bancorporation

Japan

Associated Japanese Bank (International) Ltd. 1/
Bank of Tokyo Ltd.
Bank of Yokohama
Banque Eropéenne de Tokyo S.A. 1/
Dai-Ichi Kangyo Bank Ltd.
Daiwa Bank Ltd.
Fuji Bank Ltd.
Hokkaido Takushaku Bank
Hokuriku Bank
Industrial Bank of Japan Ltd.
Japan International Bank Ltd.
Kyowa Bank Ltd.
Long Term Credit Bank of Japan
Mitsubishi Bank Ltd.
Mitsubishi Trust & Banking Corporation
Mitsui Bank Ltd.
Mitsui Trust & Banking Corporation
Nippon Credit Bank Ltd.
Nomura Securities Company Ltd.
Saitama Bank Ltd.
Sanwa Bank Ltd.
Sumitomo Bank
Taiyo Kobe Bank Ltd.
Tokai Bank Ltd.
Toyo Trust & Banking Co. Ltd.
Yasuda Trust & Banking Co.

Canada

Bank of Montreal
Bank of Nova Scotia
Banque Canadienne Nationale
Canadian Imperial Bank of Commerce
Royal Bank of Canada
Toronto Dominion Bank

United Kingdom

Antony Gibbs & Sons Ltd.
Balfour & Williamson
Barclays Bank Ltd.
Grindlays Bank Ltd.
Hambros Bank Ltd.
Industrial Multinational Investment Ltd.
Lloyds Bank Ltd.
Midland Bank Group
National & Commercial Banking Group Ltd.

National Westminster Bank Ltd.
Schroders Ltd.

Germany

Allgemeine Deutsche Credit Anstalt A.G.
Bank Fur Gemeinwirtschaft A.G.
Bankhaus Hermann Lampe K.G.
Bayerische Hypotheken und Wechselbank
Berliner Handels-und-Frankfurter Bank
Commerzbank A.G.
D.G. Bank Deutsche Genossenschaftsbank
Deutsche Bank
Dresdner Bank
Norddeutsche Landesbank Gironzentrale
Westdeutsche Landesbank Gironzentrale

France

Banque De l'Indochine et de Suez
Banque Francais du Commerce Extérieur
Banque Nationale de Paris
Banque Worms
Compagnie Financiere de Paris et des Pays-Bas
Credit du Nord
Credit Lyonnais
Société Générale

Italy

Banca Commerciale Italiana Ltd.
Banca Nazionale del Lavoro
Banco Ambrosiano
Banco di Roma
Banco Nazionale dell'Agricoltura
Credito Italiano
Euramerica International Bank Ltd.
Italian International Bank Ltd. 2/

Switzerland

Bank Lev A.G.
Dow Banking Corporation
Privatbank & Werwaltungsgesellschaft
Swiss Bank Corporation
Swiss Credit Bank
Swiss Wolksbank
Union Bank of Switzerland

Consortium

Asian & Euro-American Merchant Bank Ltd. (Singapore)
Atlantic International Bank Ltd. (United Kingdom)
Banque Arabe et Internationale d'Investissement (France)
Banque Continentale du Luxembourg (Luxembourg)
Banque de la Société Financière Européenne (France)
Banque de l'Union Européenne (France)
Banque Européenne de Credit S.A. (Belgium)
Euro Latin American Bank Ltd. (United Kingdom)
European American Bankcorporation (United States)
European Brazilian Bank Ltd. (United Kingdom)
Inter-Union Banque (France)
International Commercial Bank Ltd. (United Kingdom)
International Mexican Bank Ltd. (United Kingdom)
Iran Overseas Investment Bank (United Kingdom)
Krediet Bank N.V. (Belgium)
Libra Bank Ltd. (United Kingdom)
London and Continental Bankers Ltd. (United Kingdom)
Midland & International Banks Ltd. (United Kingdom)
Morgan Guaranty & Partners Ltd. (Singapore)
Nippon European Bank S.A. (Belgium)
Orion Bank Ltd. (United Kingdom)
UBAF Bank Ltd. (United Kingdom)
United International Bank (United Kingdom)
Western American Bank Ltd. (United Kingdom)

Other locations

Algemene Bank Nederland N.V. (Holland)
Amsterdam Rotterdam Bank (Holland)
Banco Atlántico (Spain)
Banco de Bogotá (Colombia)
Banco de Santander (Spain)
Banco do Brasil (Brazil)
Banco Hispano-Americano (Spain)
Banco Melli (Iran)
Banco Mexicano S.A. (Mexico)
Banco Nacional de Panamá (Panama)
Banco Popular Español (Spain)
Banco Urquijo (Spain)
Banque de Bruxelles Lambert (Belgium)
Banque Commerciale pour l'Europe du Nord (USSR)
Banque Internationale a Luxembourg (Luxembourg)
Comco International Bank (Luxembourg)
Commercial Bank of Kuwait (Kuwait)
Liberal Bank (Beirut)
L.T.C.B. Asia Ltd. (Hong Kong)
Osterreichische Landerbank A.G. (Austria)
Skandinaviska Enskilda Banken (Sweden)

Trade Development Bank Holding S.A. (Luxembourg)
Trade Invest Bank % Trust Co. (Bahamas)

Unclassified

Guaranty & Credit
Pan American Credit Corporation
Rothchild Intercontinental Bank Ltd.
Wellington Overseas

Footnotes

- 1/ Wholly Japanese consortium bank.
- 2/ Wholly Italian consortium bank.

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Table 1

PERU: A SELECTED LIST OF NATIONALIZATIONS/PERUVIANIZATIONS OF FOREIGN FIRMS, 1968-1975

Local foreign firm	Foreign parent	Owners' nationality	Nature of operations in Peru	Initial date of takeover	Bank ties (where known or suspected)
1. W.R. Grace	-	United States	Sugar estates Fishmeal Chemicals Paper	1969 1973	Citibank: held 11% of the long-term debt of the company and had two representatives on the board ^{a/} Meanwhile, Grace has had a long history of membership on Citibank's board of directors ^{b/} Morgan Guaranty: May have been an important lender ^{c/}
2. Cerro de Pasco	-	United States	Mining Cattle raising	1973 1969	Morgan Guaranty: Cerro reportedly under the control of Chase Manhattan; Newmont Mining Corp. and American Metal Climax. The former is under the influence of the Morgan group and the Rockefeller group ^{d/} Citibank: Possibly important lender ^{e/}
3. International Petroleum Company	Standard Oil of New Jersey	United States	Petroleum extraction and refining	1968	Chase Manhattan Bank: The Chase group had suspected control of the parent through historical relationship and ownership of voting stock ^{f/} Morgan Guaranty: May have been important lender to the parent ^{g/}
4. Marcona Mining Company	Utah Construction and Mining Corp.	United States	Mining	1975	... ..
5. Peruvian Telephone Company	ITT	United States	Telephone Company	1969	Lazard Freres and Co.: Representatives on the executive Kuhn Loeb and Company: committee of the firm ^{h/}
6. H.J. Heinz; Cargill; Ralston Purina; W.R. Grace (see NP 1) Gold Kist; Ferrustal; Taiyo Fishing; <u>et al</u>		United States (65.0%) England (6.6%) France (5.7%) Japan (4.7%) Swiss (3.5%) Other (14.5%)	Fishing Industry	1973	Bank of America: The former may have been an important lender to Heinz and the latter an important lender to Ralston Purina ^{i/}

Table 1 (continued)

Local foreign firm	Foreign parent	Owners' nationality
7. Empresas Eléctricas Asociadas and Energía Eléctrica Andina, S.A.	...	Switzerland
8. Cementos Lima	...	Switzerland
9. Banco Continental	Chase Manhattan Bank	United States
10. Banco de Crédito	Banque Francaise et Italienne pour L'Amérique del Sud	Italian-French
11. Banco de Lima	Credit Lyonnais	French
12. General Motors	...	United States
13. Anaconda	...	United States
14. Kaiser Aluminum	...	United States
15. Banco Internacional	Chemical Bank W.R.Grace, <u>et al</u>	United States

Nature of operations in Peru	Initial date of takeover	Bank ties (where known or suspected)	
Electric power	1971	...	...
Cement	1971	Holder Bank Financiere Glarus S.A.: Shareholder through Sindicato de Inversiones y Administraci3n S.A. ^{k/}	
Banking	1970	...	...
Banking	1970- 1971 ^{l/}	Banca Commerciale Italiana: Parent is owned by these banks ^{m/} Banque de L'Indochine et de Suez	
Banking	1970- 1971 ^{n/}	...	...
Automobiles	1969 ^{o/}	Morgan Guaranty: Each bank had two representatives on Mellon Bank the board in 1969 ^{p/} Manufacturers Hanover: May have been an important lender ^{q/}	
Mining	1969 ^{r/}	Chase Manhattan: Chase held 12% and Citibank 11% of company's long term debt. Each had a representative on the board ^{s/}	
Mining	1969 ^{t/}	Bank of America: May have been an important lender ^{u/}	
Banking	1970 ^{v/}	...	...

Table 1 (concluded)

Note: Data in Kotz study refer to the period 1967-1969. Data in Cohen study refer to primary and secondary lenders (both international and domestic) to TNCs over the period 1973-1976. Data should be used with great caution and are meant to be only suggestive of possible links. Also, information is relevant only to the extent that the links were in effect at time that crucial action was taken on the firm by the Government of Peru.

a/ Kotz, p. 168.

b/ NACLA (March 1976), pp. 8-10.

c/ Cohen, attachment 5.

d/ Maspica, p. 180.

e/ See footnote c/.

f/ Kotz, p. 188.

g/ See footnote c/.

h/ Kotz, p. 165.

i/ Distribution of the value of foreign shares. See Ministry of Fishing - OSP, p. 134.

j/ See footnote c/.

k/ Information obtained from field research.

l/ Ownership reduced from 62% to less than 20%.

m/ Banker Research Unit (1977).

n/ Participation reduced to less than 20%.

o/ Production license revoked.

p/ Kotz, p. 179.

q/ See footnote c/.

r/ Lost mining concession.

s/ Kotz, p. 176.

t/ Lost mining concession.

u/ See footnote c/.

v/ Bought by government.

Table 2
 PERU: FLOWS OF EXTERNAL RESOURCES FROM OFFICIAL SOURCES, 1965-1976
 (Millions of dollars)

	1965			1966			1967			1968			1969			1970		
	Credit	Debit	Bal- ance	Credit	Debit	Bal- ance	Credit	Debit	Bal- ance	Credit	Debit	Bal- ance	Credit	Debit	Bal- ance	Credit	Debit	Bal- ance
A. Multilateral finance	29.7	4.6	25.1	27.9	5.7	22.2	54.9	7.3	47.6	69.8	51.2	18.6	54.8	14.9	39.9	47.4	38.5	8.9
1. Development finance	29.7	4.6	25.1	27.9	5.7	22.2	32.6	7.3	25.3	23.5	8.8	14.7	24.8	9.5	15.3	29.4	11.6	17.8
1.1 IBRI	17.9	4.0	13.9	18.4	4.5	13.9	20.7	5.4	15.3	8.9	6.0	2.9	14.5	6.4	5.1	9.4	7.4	2.0
1.2 IDB	11.8	0.6	11.2	9.5	1.2	8.3	11.9	1.9	10.0	14.6	2.8	11.8	13.3	3.1	10.2	20.0	4.2	15.8
1.3 Andean Development Corp.	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2. Compensatory finance	-	-	-	-	-	-	22.3	-	22.3	46.3	42.4	3.9	30.0	5.4	24.6	18.0	26.9	-8.9
2.1 IMF	-	-	-	-	-	-	22.3	-	22.3	46.3	42.4	3.9	30.0	5.4	24.6	18.0	26.9	-8.9
2.2 Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Bilateral finance	35.0	2.3	32.7	41.1	3.7	37.4	27.9	4.5	23.4	28.7	6.6	22.1	55.7	8.5	47.2	33.5	14.5	19.1
1. United States	25.8	2.3	23.5	33.3	3.7	29.6	16.7	4.5	12.2	21.0	6.6	14.4	7.2	7.8	-0.6	3.6	8.5	-4.9
1.1 Eximbank	5.9	1.5	4.4	16.7	2.0	14.7	5.8	2.7	3.1	11.1	4.2	6.9	2.5	5.3	-2.8	0.6	5.9	-5.3
1.2 AID	17.1	0.6	16.5	15.5	1.0	14.5	10.9	1.0	9.9	9.9	1.5	8.4	4.7	1.6	3.1	3.0	1.7	1.3
1.3 PL 480	-	0.2	-0.2	-	0.1	-0.1	-	0.1	-0.1	-	0.1	-0.1	-	0.1	-0.1	-	0.1	-0.1
1.4 Commodity credit corporation	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
1.5 Other	2.8	-	2.8	1.1	0.6	0.5	-	0.7	-0.7	-	0.8	-0.8	-	0.8	-0.8	-	0.8	-0.8
2. Western Europe	9.3	-	9.3	7.8	-	7.8	11.2	-	11.2	7.7	-	7.7	45.4	0.7	44.7	12.4	5.5	6.9
2.1 Netherlands	-	-	-	-	-	-	0.4	-	0.4	0.6	-	0.6	-	-	-	-	-	-
2.2 United Kingdom	-	-	-	-	-	-	1.2	-	1.2	1.2	-	1.2	-	-	-	-	-	-
2.3 Germany	3.4	-	3.4	4.3	-	4.3	7.5	-	7.5	4.9	-	4.9	30.1	0.7	29.4	-	3.8	-3.8
2.4 France	-	-	-	-	-	-	-	-	-	0.7	-	0.7	3.6	-	3.6	4.7	-	4.7
2.5 Spain	-	-	-	-	-	-	-	-	-	0.3	-	0.3	3.5	-	3.5	2.8	-	2.8
2.6 Other	5.9	-	5.9	3.5	-	3.5	2.1	-	2.1	-	-	-	8.2	-	8.2	4.9	1.7	3.2
3. Japan	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4. Centrally planned economies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.1 Hungary	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.2 Union of Soviet Socialist Republics	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.3 Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Canada	-	-	-	-	-	-	-	-	-	-	-	-	3.1	-	3.1	13.7	0.4	13.3
6. Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3.8	-	3.8
C. Donations (all countries)	25.1	1.0	24.1	28.6	1.0	27.6	30.0	0.5	29.5	37.7	1.0	36.7	32.7	1.4	31.3	83.8	2.2	81.6
Total	89.8	7.9	81.9	97.6	10.4	87.2	112.8	12.3	100.5	136.2	58.8	77.4	143.2	24.8	118.4	164.7	55.1	109.6

Table 2 (concluded)

	1971			1972			1973			1974			1975			1976		
	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance	Credit	Debit	Balance
A. Multilateral finance	53.0	35.8	17.2	105.4	51.9	53.5	28.1	76.0	-47.9	24.8	36.4	-11.6	35.3	19.6	15.7	259.1	18.5	240.6
1. Development finance	37.0	13.2	23.8	38.6	15.7	22.9	28.1	18.3	9.8	24.8	19.4	5.4	35.3	19.6	15.7	39.1	18.5	20.6
1.1 IBRI	11.7	7.5	4.2	10.0	7.7	2.3	8.7	8.4	0.3	7.5	9.2	-1.7	16.4	9.6	6.8	19.8	9.2	10.6
1.2 IDB	25.3	5.7	19.6	28.6	8.0	20.6	19.4	9.9	9.5	16.1	10.2	5.9	18.7	10.0	8.7	18.9	9.3	9.6
1.3 Andean Development Corp.	-	-	-	-	-	-	-	-	-	1.2	-	1.2	0.2	-	0.2	0.4	-	0.4
2. Compensatory finance	16.0	22.6	-6.6	66.8	36.2	30.6	-	57.7	-57.7	-	17.0	-17.0	-	-	-	220.0	-	220.0
2.1 IMF	16.0	22.6	-6.6	66.8	36.2	30.6	-	57.7	-57.7	-	17.0	-17.0	-	-	-	220.0	-	220.0
2.2 Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
B. Bilateral finance	49.8	30.3	19.5	96.5	41.7	54.8	144.9	79.7	65.2	334.4	97.7	236.7	443.3	120.0	325.3	555.7	76.7	279.0
1. United States	9.7	8.5	1.2	55.6	10.0	45.6	65.6	30.4	35.2	32.0	44.6	-12.6	62.0	30.3	11.7	76.5	39.6	36.9
1.1 Eximbank	4.2	6.3	-2.1	0.4	6.1	-5.7	0.1	6.5	-6.4	-	5.6	-5.6	-	5.4	-5.4	12.6	4.1	8.5
1.2 AID	1.5	1.9	-0.4	1.2	2.0	0.8	8.9	2.5	6.4	6.1	3.1	3.0	7.2	3.8	3.4	9.4	4.2	5.2
1.3 PL 480	-	0.1	-0.1	-	0.1	-0.1	-	0.1	-0.1	-	0.1	-0.1	-	0.1	-0.1	-	0.1	-0.1
1.4 Commodity Credit Corporation	-	-	-	54.0	1.7	52.3	51.2	20.3	30.9	15.0	35.8	-20.8	27.3	37.9	-10.6	29.0	30.5	-1.5
1.5 Other	4.0	0.2	3.8	-	0.1	-0.1	5.4	1.0	4.4	10.9	-	10.9	27.5	3.1	24.4	25.5	0.7	24.8
2. Western Europe	10.2	17.6	-7.4	7.3	18.1	-10.8	18.4	27.0	-8.6	20.4	24.4	-4.0	56.4	13.8	42.6	48.4	8.1	40.3
2.1 Netherlands	-	-	-	1.1	0.1	1.0	11.5	0.1	11.4	3.7	1.2	2.5	6.9	1.7	5.2	15.2	1.8	13.4
2.2 United Kingdom	-	0.1	-0.1	0.7	0.2	0.5	0.4	0.2	0.2	3.5	0.2	3.3	14.2	0.2	14.0	8.3	0.1	8.2
2.3 Germany	-	8.5	-8.5	0.8	8.7	-7.9	0.4	12.5	-12.1	2.4	8.6	-6.2	1.8	2.2	-0.4	6.4	2.4	4.0
2.4 France	7.9	1.1	6.8	0.7	1.8	-1.1	0.8	4.1	-3.3	-	5.6	-5.6	4.1	5.4	-1.3	2.9	1.3	1.6
2.5 Spain	2.3	0.9	1.4	3.2	1.7	1.5	0.5	2.7	-2.2	1.3	3.8	-2.5	12.1	2.5	9.6	7.8	0.9	6.7
2.6 Other	-	7.0	-7.0	0.8	5.6	-4.8	4.8	7.4	-2.6	9.5	5.0	4.5	17.3	1.6	15.5	7.8	1.6	6.2
3. Japan	-	-	-	7.5	-	7.5	33.7	-	33.7	168.7	-	168.7	152.5	-	152.5	61.8	-	61.8
4. Centrally planned economies	-	-	-	6.7	-	6.7	6.0	0.8	5.2	55.1	3.1	52.0	74.8	13.7	61.1	93.3	5.0	88.3
4.1 Hungary	-	-	-	2.5	-	2.5	6.0	0.5	5.5	15.2	1.6	13.6	3.9	2.6	1.3	8.5	3.2	5.3
4.2 Union of Soviet Socialist Republics	-	-	-	-	-	-	-	-	-	38.1	-	38.1	63.2	10.2	53.0	84.8	0.9	83.9
4.3 Other	-	-	-	4.2	-	4.2	-	0.3	-0.3	1.8	1.5	0.3	7.7	0.9	6.8	-	0.9	-0.9
5. Canada	12.3	3.0	9.3	11.0	8.7	2.3	19.3	12.9	6.4	34.7	15.8	18.9	46.7	18.9	27.8	31.4	18.8	12.6
6. Other	17.6	1.2	16.4	8.4	4.9	3.5	1.9	8.6	-6.7	23.5	9.8	13.7	50.9	23.3	27.6	44.3	5.2	39.1
C. Donations (all countries)	41.2	1.8	39.4	41.4	2.2	39.2	45.3	3.3	42.0	51.4	3.5	47.9	52.9	3.5	49.4	61.1	3.2	57.9
Total	144.0	67.9	76.1	243.3	95.8	147.5	216.3	159.0	59.3	410.6	137.6	273.0	531.5	143.1	388.4	675.9	98.4	577.5

Source: ECLA, on the basis of data supplied by the MFJ.

Table 3
PERU: AVERAGE INTEREST RATES ON CREDIT AUTHORIZED BY OFFICIAL INSTITUTIONS, 1965-1976

(Percentages)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
A. Multilateral finance	5.54	3.20	3.47	3.47	2.25	4.98	2.39	5.00	6.36	6.94	4.58	7.08
1. Development finance												
1.1 IDB	5.50	6.00	-	-	-	7.25	-	-	7.25	7.25	-	8.56
1.2 IDB	6.00	2.65	3.47	3.47	2.25	3.43	2.39	3.00	3.97	6.68	2.00	5.05
1.3 Andean Development Corp.	-	-	-	-	-	-	-	-	-	7.67	7.94	-
2. Compensatory finance												
2.1 IDB	-	-	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	2.00	5.30
2.2 Other	-	-	-	-	-	-	-	-	-	-	-	-
Bilateral finance	2.88	3.35	4.37	5.82	5.14	7.29	6.71	4.31	4.69	6.22	5.09	3.15
1. United States	2.65	3.09	3.65	2.12	-	6.00	6.88	2.95	5.71	7.29	10.28	7.33
1.1 Eximbank	-	6.00	6.00	-	-	6.00	-	-	-	-	-	8.40
1.2 AID	1.80	2.12	2.12	2.12	-	-	2.75	2.75	-	2.75	-	2.75
1.3 Commodity credit corp.	-	-	-	-	-	-	6.13	6.13	6.13	10.40	10.20	9.00
1.4 Other	5.00	5.00	-	-	-	-	8.00	-	-	7.07	10.00	8.00
2. Western Europe												
2.1 France	-	-	-	5.00	-	8.78	-	-	3.50	-	3.85	-
2.2 United Kingdom	-	6.50	-	8.00	-	-	-	-	-	6.00	5.00	2.94
2.3 Germany	3.00	-	-	6.17	-	-	-	-	2.00	-	4.58	2.00
2.4 Netherlands	-	-	6.50	-	-	-	6.50	6.50	4.47	6.50	2.50	6.31
2.5 Spain	-	-	-	7.50	-	8.00	-	7.00	-	7.50	-	-
2.6 Other	-	-	8.50	8.00	-	9.00	-	2.00	-	8.50	1.61	5.16
3. Japan	-	-	-	-	-	-	-	5.50	3.50	6.35	-	-
4. Centrally planned economies												
4.1 Union of Soviet Socialist Republics	-	-	-	-	-	-	-	-	2.00	2.00	2.00	2.02
4.2 Hungary	-	-	-	-	-	-	6.00	2.83	6.00	-	3.67	6.00
4.3 Other	-	-	-	-	-	-	7.34	8.75	-	-	2.00	0.04
5. Canada	-	-	-	-	5.14	6.82	6.38	7.25	6.85	7.63	6.97	8.37
6. Other	-	-	-	-	-	6.06	6.62	6.39	-	6.83	7.81	-
Total	<u>4.69</u>	<u>3.28</u>	<u>4.09</u>	<u>5.03</u>	<u>3.17</u>	<u>5.95</u>	<u>5.62</u>	<u>4.24</u>	<u>5.20</u>	<u>6.28</u>	<u>5.02</u>	<u>4.32</u>

Source: CEPAL on the basis of data supplied by the MEF.

Table 4

PERU: AVERAGE GRACE PERIOD ON CREDIT AUTHORIZED BY OFFICIAL INSTITUTIONS, 1965-1976

(Years)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
A. Multilateral finance	4.79	3.66	3.23	3.75	4.00	7.79	4.50	4.50	7.37	5.35	5.65	4.83
1. Development finance												
1.1 IBRD	5.12	5.00	-	-	-	10.00	-	-	7.69	5.0	-	3.86
1.2 IDB	2.00	3.40	3.23	3.75	4.00	6.28	4.50	4.50	6.52	5.63	7.50	6.17
1.3 Andean Development Corp.	-	-	-	-	-	-	-	-	-	2.98	3.24	
2. Compensatory finance												
2.1 IMF	-	-	-	-	-	-	-	-	-	-	-	-
2.2 Other	-	-	-	-	-	-	-	-	-	-	-	-
B. Bilateral finance	7.44	7.30	6.26	3.84	1.34	2.31	1.98	3.78	3.92	4.09	1.97	2.05
1. United States	7.31	7.55	6.87	10.00	-	3.50	2.50	3.83	0.93	3.93	1.42	3.72
1.1 Eximbank	-	1.33	2.00	-	-	3.50	-	-	-	-	-	3.64
1.2 AID	10.00	10.00	10.00	10.00	-	-	10.00	10.00	-	10.00	-	10.00
1.3 Commodity Credit Corp.	-	-	-	-	-	-	1.00	1.00	1.00	1.00	1.00	1.00
1.4 Other	-	-	-	-	-	-	3.00	-	-	0.91	2.00	2.00
2. Western Europe												
2.1 France	-	-	-	2.50	-	2.00	-	-	1.00	-	2.76	-
2.2 United Kingdom	-	4.00	-	4.00	-	-	-	7.00	-	5.50	3.75	4.55
2.3 Germany	7.50	-	-	3.00	-	-	-	-	10.50	-	5.73	10.00
2.4 Netherlands	-	-	4.00	-	-	-	3.50	3.59	5.24	4.50	8.00	5.96
2.5 Spain	-	-	-	2.00	-	2.00	-	2.00	-	5.50	-	-
2.6 Other	-	-	3.00	2.00	3.00	2.00	-	5.00	-	5.50	9.06	5.30
3. Japan	-	-	-	-	-	-	-	5.00	7.00	4.50	-	-
4. Centrally planned economies												
4.1 Union of Soviet Socialist Republics	-	-	-	-	-	-	-	-	1.50	1.50	1.49	1.32
4.2 Hungary	-	-	-	-	-	-	2.00	0.95	0.50	-	0.66	-
4.3 Other	-	-	-	-	-	-	2.00	1.00	-	-	0.50	5.90
5. Canada	-	-	-	-	0.85	1.42	1.00	3.00	2.10	3.78	3.09	1.57
6. Other	-	-	-	-	-	3.39	0.67	0.87	-	2.76	2.18	-
<u>Total</u>	<u>5.63</u>	<u>4.48</u>	<u>5.33</u>	<u>3.81</u>	<u>2.57</u>	<u>5.50</u>	<u>2.65</u>	<u>3.82</u>	<u>4.98</u>	<u>4.20</u>	<u>2.46</u>	<u>2.88</u>

Source: CEPAL on the basis of data supplied by the MEF.

Table 5

PERU: AVERAGE AMORTIZATION PERIOD ON CREDIT AUTHORIZED BY OFFICIAL INSTITUTIONS

(Years)

	1955	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
A. Multilateral finance	15.73	22.40	19.94	17.45	26.00	20.75	18.82	15.50	14.86	17.56	15.43	17.01
1. Development finance												
1.1 IBRD	16.41	20.00	-	-	-	20.00	-	-	13.48	20.00	-	18.29
1.2 IDB	10.00	22.88	19.94	17.45	26.00	21.26	18.82	15.50	18.57	16.24	22.50	15.25
1.3 Andean Development Corp.	-	-	-	-	-	-	-	-	-	5.98	6.22	-
2. Compensatory finance												
2.1 IMF	-	-	4.00	4.00	4.00	4.00	4.00	4.00	-	-	-	4.00
2.2 Other	-	-	-	-	-	-	-	-	-	-	-	-
B. Bilateral finance	17.92	22.77	18.49	9.21	8.37	5.22	9.84	11.59	9.91	9.26	7.61	10.85
1. United States	23.29	23.46	21.41	30.00	-	3.50	13.81	10.82	2.03	12.00	3.47	8.86
1.1 Eximbank	-	6.17	8.00	-	-	3.50	-	-	-	-	-	3.09
1.2 AID	30.00	30.00	30.00	30.00	-	-	30.00	30.00	-	30.00	-	30.00
1.3 Commodity Credit Corp.	-	-	-	-	-	-	2.00	2.00	2.00	2.00	2.00	2.00
1.4 Other	5.00	5.00	-	-	-	-	22.00	-	2.50	6.59	5.50	5.50
2. Western Europe												
2.1 France	-	-	-	3.50	-	3.97	-	-	13.00	-	15.30	-
2.2 United Kingdom	-	14.00	-	14.00	-	-	-	25.00	-	9.50	20.50	20.09
2.3 Germany	15.00	-	-	6.04	-	-	-	-	19.50	-	15.06	20.00
2.4 Netherlands	-	-	12.00	-	-	-	12.00	13.61	14.91	15.50	22.00	15.87
2.5 Spain	-	-	-	4.00	-	5.00	-	1.50	-	9.50	-	-
2.6 Other	-	-	1.00	4.00	14.50	4.00	-	24.50	-	9.50	19.22	8.45
3. Japan	-	-	-	-	-	-	-	13.52	18.00	9.50	-	-
4. Centrally planned economies												
4.1 Union of Soviet Socialist Republics	-	-	-	-	-	-	-	-	10.00	10.00	9.92	11.30
4.2 Hungary	-	-	-	-	-	-	6.50	10.26	6.50	-	7.75	3.50
4.3 Other	-	-	-	-	-	-	8.00	3.00	-	-	11.67	9.84
5. Canada	-	-	-	-	6.54	3.83	2.00	9.00	6.11	6.63	10.46	2.61
6. Other	-	-	-	-	-	8.90	4.65	1.70	-	7.28	1.87	-
Total	<u>16.43</u>	<u>22.49</u>	<u>18.93</u>	<u>11.97</u>	<u>16.53</u>	<u>14.25</u>	<u>12.20</u>	<u>11.81</u>	<u>11.43</u>	<u>10.01</u>	<u>8.68</u>	<u>12.67</u>

Source: CEPAL on the basis of data supplied by the MEF.

Table 6

PERU: FLOW OF SUPPLIER CREDITS, BY COUNTRY OF ORIGIN, 1965-1976

(Millions of dollars)

	1965			1966			1967			1968			1969			1970		
	Credit	Debit	Bal- ance	Credit	Debit	Bal- ance	Credit	Debit	Bal- ance	Credit	Debit	Bal- ance	Credit	Debit	Bal- ance	Credit	Debit	Bal- ance
<u>Supplier credits</u>																		
1. United States	2.4	0.6	1.8	21.6	2.3	19.3	11.3	4.7	6.6	10.2	8.8	1.4	1.7	8.6	-6.9	0.9	6.6	-5.7
2. Western Europe	37.0	10.5	26.5	53.4	15.0	38.4	47.7	27.2	20.5	88.1	40.3	47.8	115.1	50.0	65.1	76.7	58.4	18.3
2.1 United Kingdom	2.5	1.2	1.3	-	1.9	-1.9	-	1.6	-1.6	5.6	2.6	3.0	6.9	2.3	4.6	6.8	5.0	1.8
2.2 France	0.3	2.6	-2.3	2.4	2.2	0.2	1.6	2.3	-0.7	26.5	3.3	23.2	28.3	10.0	18.3	5.3	9.6	-4.3
2.3 Italy	2.5	1.0	1.5	1.9	1.1	0.8	13.3	1.3	12.0	16.8	1.9	14.9	60.2	2.1	58.1	36.7	1.8	34.9
2.4 Spain	-	-	-	10.0	-	10.0	1.5	2.2	-0.7	17.4	6.0	11.4	5.8	5.4	0.4	4.2	3.8	0.4
2.5 Germany	26.0	5.2	20.8	28.4	7.7	20.7	15.6	13.9	1.7	8.0	18.0	-10.0	6.0	19.8	-13.8	15.5	24.9	-9.4
2.6 Finland	-	-	-	6.3	1.3	5.0	8.7	0.7	8.0	9.8	1.9	7.9	6.1	3.4	2.7	7.6	4.7	2.9
2.7 Sweden	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
2.8 Other	5.7	0.5	5.2	4.4	0.8	3.6	7.0	5.2	1.8	4.0	6.6	-2.6	1.6	7.0	-5.4	0.6	8.6	-8.0
3. Japan	11.0	2.2	8.8	17.4	1.7	15.7	13.6	2.7	10.9	3.1	4.9	-1.8	2.5	1.4	1.1	0.1	5.5	-5.4
4. Centrally planned economies	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.1 Yugoslavia	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.2 Union of Soviet Socialist Republics	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
4.3 Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
5. Canada	1.6	0.1	1.5	0.4	0.6	-0.2	0.9	0.5	0.4	0.4	0.8	-0.4	-	0.9	-0.9	31.8	0.3	31.5
6. Mexico	-	0.2	-2.0	-	0.1	-0.1	-	-	-	-	-	-	-	-	-	-	-	-
7. Other	-	-	-	0.5	-	0.5	0.7	-	0.7	0.2	0.7	-0.5	-	0.2	-0.2	0.8	0.2	0.6
<u>Total</u>	<u>52.0</u>	<u>13.6</u>	<u>38.4</u>	<u>93.2</u>	<u>19.7</u>	<u>73.6</u>	<u>74.2</u>	<u>35.1</u>	<u>39.1</u>	<u>102.0</u>	<u>55.5</u>	<u>46.5</u>	<u>119.3</u>	<u>61.1</u>	<u>58.2</u>	<u>110.3</u>	<u>71.0</u>	<u>39.3</u>

Table 6 (concluded)

	1971			1972			1973			1974			1975			1976		
	Credit	Debit	Bal- ance	Credit	Debit	Bal- ance	Credit	Debit	Bal- ance	Credit	Debit	Bal- ance	Credit	Debit	Bal- ance	Credit	Debit	Bal- ance
<u>Supplier credits</u>																		
1. United States	2.9	5.6	-2.7	12.6	4.9	7.7	3.5	4.6	-1.1	5.5	5.2	0.3	7.1	4.6	2.5	-	4.8	-4.8
2. Western Europe	50.2	67.0	-16.8	31.9	61.7	-29.8	59.6	74.1	-14.5	54.2	63.4	-9.2	110.5	75.7	34.8	108.3	77.5	30.8
2.1 United Kingdom	9.6	8.4	1.2	4.1	6.9	-2.8	3.0	6.9	-3.9	6.2	3.8	2.4	4.1	2.9	1.2	1.3	1.7	-0.4
2.2 France	0.4	9.3	-8.9	3.4	10.6	-7.2	3.6	12.6	-9.0	8.6	6.7	1.9	40.7	12.0	28.7	24.4	10.4	14.0
2.3 Italy	23.0	2.8	20.2	2.8	6.1	-3.3	28.9	12.5	16.4	15.0	15.3	-0.3	30.9	28.3	2.6	47.5	38.2	9.3
2.4 Spain	2.2	3.9	-1.7	1.5	4.6	-3.1	-	4.3	-4.3	-	4.2	-4.2	9.8	4.1	5.7	-	5.2	-5.2
2.5 Germany	13.5	34.3	-20.8	16.5	27.8	-11.3	16.1	32.2	-16.1	10.0	27.4	-17.4	13.9	21.2	-7.3	5.3	14.3	-9.0
2.6 Finland	-	4.2	-4.2	-	3.9	-3.9	-	3.6	-3.6	-	3.6	-3.6	2.1	3.6	-1.5	11.5	3.6	7.9
2.7 Sweden	-	-	-	-	-	-	-	-	-	2.5	0.1	2.4	-	0.4	7.6	0.3	7.3	-
2.8 Other	1.5	4.1	-2.6	3.6	1.8	1.8	8.0	2.0	6.0	11.9	2.3	9.6	9.0	3.2	5.8	10.7	3.8	6.9
3. Japan	0.1	3.7	-3.6	0.8	8.0	-7.2	17.0	8.8	8.2	22.4	9.2	13.2	2.7	8.3	-5.6	1.0	6.6	-5.6
4. Centrally planned economies	-	-	-	7.5	-	7.5	22.3	0.2	22.1	44.3	0.6	43.7	69.9	4.6	65.3	23.5	16.1	7.4
4.1 Yugoslavia	-	-	-	7.5	-	7.5	18.2	0.2	18.0	41.3	0.5	40.8	34.0	0.5	33.5	21.6	9.1	12.5
4.2 Union of Soviet Socialist Republics	-	-	-	-	-	-	4.0	-	4.0	3.0	0.1	2.9	25.2	3.0	22.2	1.9	5.5	-3.6
4.3 Other	-	-	-	-	-	-	0.1	-	0.1	-	-	-	10.7	1.1	9.6	-	1.5	-1.5
5. Canada	24.7	10.9	13.8	1.7	3.3	-1.6	-	10.1	-10.1	-	5.9	-5.9	-	5.7	-5.7	-	5.8	-5.8
6. Mexico	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	13.9	-	13.9
7. Other	1.6	0.5	1.1	15.8	0.6	15.2	4.7	2.7	2.0	0.5	3.8	-3.5	10.7	3.7	7.0	11.9	2.2	9.7
<u>Total</u>	<u>79.5</u>	<u>87.7</u>	<u>-8.2</u>	<u>70.3</u>	<u>78.5</u>	<u>-8.2</u>	<u>107.1</u>	<u>100.5</u>	<u>6.6</u>	<u>126.7</u>	<u>88.1</u>	<u>38.6</u>	<u>200.9</u>	<u>102.6</u>	<u>98.3</u>	<u>158.6</u>	<u>113.0</u>	<u>45.6</u>

Source: ECIA, on the basis of data supplied by the MFJ.

Table 7

PERU: AVERAGE INTEREST COSTS OF AUTHORIZED SUPPLIER CREDITS, 1965-1976

(Percentages)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
Supplier credits												
1. United States	7.24	5.92	9.06	6.80	-	6.00	-	7.78	7.22	6.24	9.00	-
2. Western Europe												
2.1 Germany	7.17	-	7.24	6.82	6.53	6.67	-	6.92	8.00	7.66	8.50	8.70
2.2 United Kingdom	6.00	-	6.00	5.97	5.28	6.97	4.74	7.53	5.00	7.74	8.50	8.48
2.3 Spain	-	5.49	6.00	-	8.00	7.00	7.00	8.00	6.50	9.85	9.85	-
2.4 France	6.59	8.50	6.30	-	6.27	6.85	7.53	7.50	7.40	9.19	-	8.83
2.5 Finland	-	6.00	8.32	-	-	-	-	-	-	-	8.00	-
2.6 Sweden	-	-	-	-	-	-	-	-	7.95	-	-	8.07
2.7 Italy	-	6.54	6.53	-	6.52	9.25	-	7.00	3.59	1.98	9.25	7.00
2.8 Other	7.10	7.51	8.90	-	8.43	5.46	7.75	7.40	7.68	8.70	10.05	9.22
3. Japan	7.00	8.20	-	6.50	-	-	-	7.15	-	-	-	7.50
4. Centrally planned economies												
4.1 Yugoslavia	-	-	-	-	-	-	6.50	7.00	7.50	7.36	-	-
4.2 Union of Soviet Socialist Republics	-	-	-	-	-	-	-	-	3.00	3.00	4.49	4.50
4.3 Other	-	-	-	-	-	-	-	7.02	-	-	11.00	-
5. Canada	-	-	6.50	-	7.90	7.90	-	7.90	-	-	-	-
6. Mexico	-	-	-	-	-	-	-	-	-	-	-	8.68
7. Other	-	9.00	8.00	-	-	7.00	7.00	7.08	7.00	-	4.06	8.64
Total	6.85	6.28	6.59	6.67	7.03	6.94	6.51	7.27	4.82	7.62	6.11	6.94

Source: CEPAL on the basis of data supplied by the MEF.

Table 8

PERU: AVERAGE GRACE PERIOD ON AUTHORIZED SUPPLIER CREDITS

(Years)

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
Supplier credits												
1. United States	0.99	1.22	1.00	2.62	-	3.50	1.00	1.99	5.19	0.37	1.73	-
2. Western Europe												
2.1 Germany	0.77	-	1.32	0.98	0.99	0.09	-	1.23	0.72	1.42	0.39	0.10
2.2 United Kingdom	0.50	-	1.00	1.67	0.95	-	-	0.94	2.00	1.76	0.50	1.62
2.3 Spain	-	1.26	2.00	-	0.50	0.50	0.50	0.50	0.50	0.50	0.50	-
2.4 France	0.30	0.50	2.12	-	0.66	2.00	0.54	1.00	1.37	1.34	-	0.37
2.5 Finland	-	-	0.91	-	-	-	-	-	-	-	3.00	-
2.6 Sweden	-	-	-	-	-	-	-	-	0.50	-	-	2.43
2.7 Italy	-	4.83	3.00	-	1.46	2.00	-	1.47	1.67	1.79	-	0.83
2.8 Other	-	0.58	-	-	0.43	0.54	2.00	0.76	1.78	1.37	1.04	1.00
3. Japan	2.00	1.94	-	2.00	0.50	-	-	2.79	0.50	-	-	1.00
4. Centrally planned economies												
4.1 Yugoslavia	-	-	-	-	-	-	5.00	1.00	2.00	4.56	-	-
4.2 Union of Soviet Socialist Republics	-	-	-	-	-	-	-	-	1.00	1.00	-	0.50
4.3 Others	-	-	-	-	-	-	-	2.48	-	-	2.50	-
5. Canada	-	-	0.50	-	1.00	1.00	-	1.00	-	-	-	-
6. Mexico	-	-	-	-	-	-	-	-	-	-	-	2.17
7. Other	-	1.00	0.50	-	-	0.50	3.00	0.89	2.50	-	1.98	0.92
Total	1.01	2.87	1.97	2.22	0.99	0.52	3.69	2.08	1.58	2.64	1.41	1.67

Source: CEPAL on the basis of data supplied by the MEF.

Table 9

PERU: AVERAGE AMORTIZATION PERIOD ON AUTHORIZED SUPPLIER CREDITS

	(Years)											
	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976
<u>Supplier credits</u>												
1. United States	2.78	5.21	5.35	6.53	-	3.50	2.00	4.02	3.02	1.24	4.85	-
2. Western Europe												
2.1 Germany	7.77	-	4.11	4.53	3.61	5.66	-	3.82	6.50	3.76	1.14	4.58
2.2 United Kingdom	3.50	-	4.00	4.50	4.90	2.95	3.70	4.00	4.50	4.24	4.50	4.50
2.3 Spain	-	9.87	3.00	-	4.50	4.00	4.50	4.50	2.50	4.50	4.50	-
2.4 France	6.22	4.50	6.24	-	3.59	4.65	4.46	5.00	5.73	5.61	-	5.31
2.5 Finland	-	12.00	10.22	-	-	-	-	-	-	-	8.50	-
2.6 Sweden	-	-	-	-	-	-	-	-	6.50	-	-	7.30
2.7 Italy	-	10.79	9.84	-	8.76	8.00	-	5.65	11.77	2.81	5.00	3.73
2.8 Other	7.00	6.58	4.76	-	1.58	3.56	7.00	2.15	7.22	5.99	6.72	4.36
3. Japan	6.00	5.91	-	8.00	2.50	-	-	9.04	0.50	-	-	1.50
4. Centrally planned economies												
4.1 Yugoslavia	-	-	-	-	-	-	9.50	3.50	2.50	10.75	-	-
4.2 Union of Soviet Socialist Republics	-	-	-	-	-	-	-	-	8.76	6.53	4.52	4.50
4.3 Other	-	-	-	-	-	-	-	9.41	-	-	0.50	-
5. Canada	-	-	4.50	-	10.00	8.00	-	1.00	-	-	-	-
6. Mexico	-	-	-	-	-	-	-	-	-	-	-	6.05
7. Other	-	1.00	5.00	-	-	4.50	8.00	3.32	8.00	-	5.90	7.44
<u>Total</u>	<u>6.26</u>	<u>10.00</u>	<u>12.16</u>	<u>6.24</u>	<u>7.74</u>	<u>5.67</u>	<u>8.19</u>	<u>6.37</u>	<u>9.58</u>	<u>7.42</u>	<u>5.45</u>	<u>5.38</u>

Source: CEPAL on the basis of data supplied by the HEP.

Table 10
PERU: COMMERCIAL BANK LENDING ACCORDING TO AMOUNTS AUTHORIZED, 1965-1970^{a/}
(Millions of dollars)

	0-1-5.9	6-14.9	15-24.9	25-34.9	35-44.9	45-54.9
Guaranty and Credit		Nat. Detroit Corporation	Bank of Nova Scotia	Bank of America	Chase Manhattan	Citibank
Schroders		Charter N.Y. Corporation			Continental Illinois	Bankers Trust
Philadelphia National Bank		1 st National Boston				Manufacturers Hanover
Western Bank Corporation		Crocker National				
B.Commerciale Italiana		Franklin National				
Morgan Guaranty						
Wellington Overseas						
Westdeutsche Landesbank Girozentrale						
Banque L'Union Europeene						
Panamerican Credit						
Midland and Int. Bank						
Bank of Tokyo						
Royal Bank of Canada						
Toronto Dominion Trade Lloyds Bank						

Source: ECLA, on the basis of official data.

^{a/} Includes credits guaranteed by export credit agencies.

< 16	> 16 and < 41
Schroders Ltd.	Banca Commerciale Italiana
National Detroit Corporation	Bank of Tokyo
Phil. National Bank	Lloyds Bank
Western Bancorporation	Franklin National Bank
Westdeutsche Landesbank	National and Commercial
Girozentrale	Banking Group Ltd.
Charter N.Y. Corporation	Bancal Tristate Corporation
First National Boston	Banca Nazionale de Lavoro
Banque L'Union Europeene	Credit Lyonnais
Midland and Int. Bank Ltd.	Banque Francais du Comm.
Swiss Bank Corporation	Exterieur
Swiss Credit Corporation	Canadian Imperial Bank of
Swiss Volksbank	Commerce
Marine Midland Bank	Fuji Bank Ltd.
First Bank System Inc.	Aarø Bank
Midland Bank Group	First Pennsylvania Corp.
Associated Japanese	Deutsche Bank
Bank Ltd.	Bank of Montreal
Tokai Bank	Commerzbank A.G.
Banque Continental du	Chemical Bank
Luxembourg	First Chicago Corp.
Banque Europeenne de Tokyo	Security Pacific Corp.
Banque Internationale a	Union Bank of Switzerland
Luxembourg	Long Term Credit Bank of Jap
Bayerische Hypotheken	American Express
Interunion Banque	
Banque Nationale de Paris	
Societe Generale	
Banque Commerciale Pour	
L'Europe du Nord	
Banque Indochine Et de Suez	
Industrial National Corp.	
Japan Int. Bank Ltd.	
Libra Bank Ltd.	
CIT Financial Corporation	
Atlantic Int. Bank Ltd.	
Euroamerican Int. Bank	
Fidelcor	
Italian International Bank	
Mitsubishi Trust Ltd.	
Senwa Bank	
Anthony Gibbs and Sons	
Banco de Santander	
Mitsui Bank Ltd.	

Table 11

BANK LENDING ACCORDING TO AMOUNT AUTHORIZED, 1971-1976^{1/2}

(Millions of dollars)

≥ 41 and < 68	≥ 68 and < 95	≥ 95 and < 125	≥ 125 and < 150
Bank of Nova Scotia	Chase Manhattan	Bank of America	Citicorp
Bankers Trust		Manufacturers Hanover	
Continental Illinois		Wells Fargo	
Morgan Guaranty			
Crocker National			
Royal Bank of Canada			
Toronto Dominion Bank			
Dresdner			
Banco do Brasil			

Table 11 (concluded)

◀16	▶16
Dai-Ichi Kangyo Bank	Comco International Bank
Seafirst Corporation	First National State Bank Corporation
Shawmut Corporation	Harris Bancorporation
Algemene Bank Nederland	LTCC Asia Ltd.
Balfour and Williamson	Western American Bank Ltd.
Commerce Union Bank	Banque de la Societe Financiere
Girard Company	Europeenne
Kyowa Bank	Asian and Euroamerican Bank Ltd.
Republic of Texas Corporation	Banque Arabe Et Internationale
European Brazilian Bank Ltd.	D'Investissement
Hokkaido Takushoku Bank	Banca Nazionale Dell'Agricoltura
International Commercial Bank Ltd.	International Mexican Bank Ltd.
Nippon Credit Bank	Trade Invest Bank and Trust Co.
United International Bank	Trade Development Bank Holding
Yasuda Trust and Banking Co.	Barclays Bank
Fuyo Kobe Bank	Banco Atlantico S.A.
Centran Corporation	Banco Di Roma
Banco Ambrosiano	Banco Hispanoamericana
Commercial Bank of Kuwait	Banco Urquijo
Credit Du Ford	Banco Melli
Hartford National Corporation	Banque De Bruxelles Lambert
Industrial Bank of Japan	Berliner Handels-und Frankfurter Bank
Kreditbank N.V.	Citizen and Southern National Bank
La Salle National Bank	Iran Overseas Investment Bank
Mitsubishi Bank Ltd.	Norddeutsche Landesbank Girozentrale
Mitsui Trust and Banking Co.	Banco Nacional de Panama
Orion Bank Ltd.	Skandinaviska Enskilda Banken
Rothschild Int.	Banco de Bogota
Saitama Bank	Banque Europeenne Credit S.A.
Suimoto Bank	EuroLatin American Bank Ltd.
Union Planters National Bank	Banco Popular Español
Daiwa Bank	First National Bank of St. Louis
Grindlay's Bank	UBAF Bank Ltd.
Credito Italiano	Bank Lev A.G.
Nomura Securities Co.	Privatbank und Verwaltungsgesellschaft
Compagnie Financiere de Paris	Bank für Gemeinwirtschaft A.G.
Et Pays Bas	Bankhaus Hermann Lampe
European American Bancorporation	Hambros Bank
Northern States Bancorporation	Industrial Multinational Investment Corporation
Banco Mexicano	Nippon European Bank
National Westminster Bank	Osterreichische Landerbank A.G.
D.G. Bank	Hokuriku Bank
London and Continental Banks Ltd.	Rainer Corporation
Morgan Guaranty and Partners	Liberal Bank
Bank of Yokohama	
Banque Canadienne Nationale	
Banque Worms	
Dow Banking Corporation	
Toyo Trust and Banking	
Allgemeine Deutsche Credit	
Anstalt	
Cleveland Trust	

Source: ECIA, on the basis of official data.

a/ Includes credits with export credit guarantees.

Table 12

PERU: BOOKING OF LOANS ACCORDING TO COUNTRY OF ORIGIN OF THE BANKS, 1971-1976
(Percentages)

Booking	United States	Japan	Canada	United Kingdom	Germany	France	Italy	Switzerland	Consortium	Other
Headquarters	32.9	25.1	74.7	93.7	23.0	98.4	14.1	30.0	84.8	73.5
London	13.1	37.6	13.3	-	4.3	-	4.4	63.4	1.3	6.1
Bahamas	37.3	0.2	2.3	1.5	-	-	5.5	-	1.0	0.3
Panama	5.2	-	-	-	0.7	-	11.0	-	-	5.2
Cayman Isles	4.1	-	-	-	-	-	-	-	-	3.0
Paris	-	-	0.4	-	-	-	24.3	-	-	1.5
New York	-	3.3	1.7	0.7	-	-	15.4	-	-	1.8
Luxembourg	2.1	-	-	-	64.7	-	-	6.6	-	2.5
Switzerland	-	0.4	-	0.7	-	-	12.1	-	-	-
Other	0.2	3.5	-	-	-	-	11.0	-	1.3	1.8
Unspecified	5.1	29.9	7.6	3.3	7.3	1.6	2.2	-	11.6	4.3
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: CEPAL, on the basis of official data.

Table 13

PERU: BOOKING OF LOANS ACCORDING TO THE ASSET SIZE OF THE BANKS, 1971-1976
(Percentages)

Booking	Asset range (millions of dollars) a/						
	65 789-	32 894-	16 447-	8 223-	4 111-	2 055-	< 1 634
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
Headquarters	46.8	35.4	46.6	61.2	73.4	78.3	04.3
London	2.6	17.8	19.4	18.0	-	6.1	3.5
Bahamas	24.5	21.4	16.4	4.2	6.7	-	5.2
Panama	5.8	4.0	0.5	1.2	-	-	5.2
Cayman Isles	6.4	0.6	3.7	0.6	-	-	-
Paris	-	1.2	-	0.6	-	-	-
New York	-	2.1	-	-	-	0.9	-
Luxembourg	6.1	6.1	7.9	5.3	-	-	-
Switzerland	-	0.7	-	0.6	-	-	-
Other	0.5	1.6	-	-	-	0.9	-
Unspecified	7.3	9.1	5.6	8.4	19.9	13.8	1.7
<u>Total</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: CEPAL, on the basis of official data.

a/ Assets based on data for 1975 from The Banker, June 1976.

Table 14

STEPS FOR ORGANIZATION OF A SYNDICATED CREDIT

-
1. Mandate issued to lead manager.
 2. Invitations sent to other banks to join management group.
 3. Draft loan agreement and syndication memorandum submitted to borrower.
 4. Revisions to syndication memorandum to be agreed to by borrower.
 5. Response required from banks to join management group.
 6. Formal fully-underwritten offer, telex sent to the borrower.
 7. Borrower approves final proof of syndication memorandum.
 8. Borrower gives comments on loan agreement.
 9. Borrower advises lead manager of its acceptance of the underwritten offer.
 10. Telexes sent to pre-selected group of banks to be invited to participate.
 11. Marked-up copy of draft loan agreement submitted to the management group.
 12. Revised draft loan agreement sent to banks invited to participate.
 13. Final allocation of participations made.
 14. Last date for comments on loan agreement from participating banks.
 15. All proposed revisions to loan agreement advised to borrower.
 16. Final draft loan agreement sent to participants and to borrower.
 17. Earliest date for signing loan agreement.
-

Source: Financial Times, "Syndicated Loans", World Banking Survey, May 21, 1979.

Table 15

PERU: LEAD BANKS ACCORDING TO THEIR IMPORTANCE AS MOBILIZERS OF CREDIT, 1971-1976^{a/}

Amount mobilized by lead bank as percent of total value of all syndicates ^{b/}	Percent participation of lead bank in its own syndicates (average)
<u>Major lead bank</u>	
1. <u>27 - 34</u>	
Citicorp	14.4
Wells Fargo	10.0
2. <u>20 - 26.9</u>	
Manufacturers Hanover	10.7
3. <u>Intermediate lead banks 12-49.9</u>	
Bank of America	10.2
Toronto Dominion Bank	5.1
4. <u>7 - 12.9</u>	
Chase Manhattan Bank	18.6
Bank of Nova Scotia	13.2
Bankers Trust	10.1
Continental Illinois	6.0
Philadelphia National Corporation	3.3
Morgan Guaranty Trust Co.	10.0
Bank of Tokyo	15.5
Royal Bank of Canada	3.3
Lloyds Bank	10.2
Dresdner Bank	10.4
Bank of Montreal	3.3
Chemical Bank	3.3
First Chicago Corp.	6.6
Banco Nacional de Panamá	3.3
<u>Minor lead banks</u>	
5. <u><7</u>	
Banca Commerciale Italiana	50.0
Crocker National Bank	15.1
Swiss Bank Corporation	28.2
Union Bank of Switzerland	13.3
Marine Midland Bank	8.3
National Commercial Banking Group	17.3
Banca Nazionale de Lavoro	7.1
Long Term Credit Bank of Japan	12.0
Tokai Bank	1.9
Credit Lyonnais	12.5
Banque de L'Indochine et de Suez	25.0
Libra Bank	6.5
Fuji Bank	8.7
Mitsui Bank	8.3
Algemene Bank Nederland	50.0
American Express	20.0
Mitsubishi Bank	7.5
Deutsche Bank	41.6
Grindlay's Bank	8.3
Compagnie Financiere de Paris Et des Pays-Bas	50.0
European American Bank	10.0
Banque Canadienne Nationale	8.3
Western American Bank	16.6
Iran Overseas Investment Bank	2.5
Banque Europeene de Credit	8.3
EuroLatin American Bank	5.4
Banco Popular Español	4.1

Source: ECLA, on the basis of official data.

a/ Lead banks are managers and co-managers.

b/ The amount mobilized by a bank is the total value of the syndicates for which it was a lead bank. Since a syndicate can have several lead banks, the sum of the percentages of all banks exceeds 100.

Table 16

PERU: RESULTS OF t TEST ON ANNUAL AVERAGE LIBOR SPREAD OF LOANS OF SELECTED BANKS VS. ACTUAL
AVERAGE LIBOR SPREAD ON LOANS OF ALL BANKS IN THE STUDY ^{a/}

(Paired observations)

Bank	Country	t	$\bar{\Delta}$	σ_{Δ}	$\delta = N-1$
1972-1976					
1. Chase Manhattan	United States	-0.062	0.0062	0.1817	4
2. Citicorp	United States	1.1051	0.0428	0.0870	
3. Bank of Nova Scotia	Canada	0.7840	0.0710	0.3740	
4. Bankers Trust	United States	1.3730	0.0789	0.1340	
5. Continental Illinois	United States	-0.5500	-0.0372	0.1510	
6. Manufacturers Hanover	United States	2.400*	0.0732	0.0587	
7. Banca Commerciale Italiana	Italy	1.5350	0.1010	0.1477	
8. Morgan Guaranty Trust	United States	0.4217	0.0242	0.1285	
9. Bank of Tokyo	Japan	-0.1485	-0.0142	0.2739	
10. Royal Bank of Canada	Canada	-0.1784	-0.0708	0.1353	
11. Toronto Dominion Bank	Canada	0.6709	0.0212	0.0703	
12. Lloyds Bank Ltd.	United Kingdom	-0.6740	-0.0720	0.2388	
13. Wells Fargo	United States	1.1465	0.0334	0.0550	
14. Fugji Bank Ltd.	Japan	-0.4479	-0.0750	0.0719	
15. Sanwa Bank	Japan	-0.8999	-0.0588	0.1710	
16. Banco de Santander	Spain	0.0332	0.0014	0.0942	
17. Dai-Ichi Kangyo Bank	Japan	0.4837	0.0692	0.3799	
1972-1975					
1. Chase Manhattan	United States	-0.1249	-0.1280	0.2042	3
2. Citicorp	United States	0.7645	0.0380	0.0950	
3. Bank of Nova Scotia	Canada	1.0717	0.1733	0.3033	
4. Bankers Trust	United States	1.0069	0.0780	0.1549	
5. Continental Illinois	United States	-0.4180	-0.0365	0.1746	
6. Manufacturers Hanover	United States	1.8189	0.0710	0.0784	
7. Banca Commerciale Italiana	Italy	2.2464	0.1058	0.1694	
8. Morgan Guaranty Trust	United States	0.1298	0.0098	0.1426	
9. Crocker National Bank	United States	-0.7720	-0.0735	0.1904	
10. Bank of Tokyo	Japan	-0.3201	-0.0385	0.2390	
11. Royal Bank of Canada	Canada	-0.1665	-0.0730	0.1562	
12. Toronto Dominion Bank	Canada	0.1688	0.0060	0.0711	
13. Lloyds Bank Ltd.	United Kingdom	-0.8588	-0.1703	0.2568	
14. Banque Commerciale pour l'Europe du Nord	Soviet Union	2.6364*	0.0258	0.0795	
15. Wells Fargo	United States	0.6217	0.0215	0.0684	
16. Libra Bank Ltd.	United Kingdom	-0.3684	-0.0203	0.1100	
17. Canadian Imperial Bank of Commerce	Canada	-0.7655	-0.0653	0.2705	
18. Fideleour	United States	-0.6394	-0.0528	0.2257	
19. Fugji Bank Ltd.	Japan	-1.3167	-0.0395	0.0596	
20. Sanwa Bank Ltd.	Japan	-1.2403	-0.1065	0.1777	
21. Banco de Santander	Spain	-0.3925	-0.0786	0.0955	
22. Dai-Ichi Kangyo Bank	Japan	0.3574	0.0660	0.3683	

Source: CEPAL, on the basis of official data.

Note: t = Student's t statistic.

$\bar{\Delta}$ = Mean of the differences between paired values, x and y, where x is the annual average spread on the loans of each bank and y is the annual average spread on loans of all banks in the study.

σ_{Δ} = Standard deviation of the differences between the paired values, x and y, at N-1 degrees of freedom.

δ = Degrees of freedom.

^{a/} Annual averages are the mean spreads weighted by the value of the loans authorized. The average spreads for each bank were paired with the global annual averages for all banks. Exercise was carried out only on credits that had no guarantee of an export credit agency.

Significant at 90%.

Table 17

PERU: RESULTS OF t-TEST ON ANNUAL AVERAGE LIBOR SPREAD OF LOANS OF BANKS
 GROUPED ACCORDING TO COUNTRY OF ORIGIN VS ANNUAL AVERAGE LIBOR
 SPREAD ON ALL LOANS OF ALL BANKS IN THE STUDY^{a/}

(Paired observations)

Country of banks	t	$\bar{\Delta}$	σ_{Δ}	$\phi = N-1$
		<u>1972-1976</u>		4
United States	1.2280	0.0332	0.0605	
Japan	-0.5467	-0.2680	0.1096	
Canada	0.2706	0.0086	0.0661	
United Kingdom	-0.1413	-0.0080	0.1266	
Germany	-0.4453	-0.0360	0.1808	
France	0.1593	0.0160	0.2381	
Italy	1.2255	0.0480	0.0876	
Switzerland b/	-	-	-	
Other	-0.5058	-0.0140	0.6189	
Consortium	-0.2818	-0.0120	0.0952	
		<u>1972-1975</u>		3
United States	1.2780	0.0340	0.0594	
Japan	-0.9852	-0.0525	0.1066	
Canada	0.8006	0.0250	0.0625	
United Kingdom	-0.4009	-0.0275	0.1372	
Germany	-0.6672	-0.0650	0.1949	
France	0.9099	0.0125	0.2746	
Italy	0.8081	0.0400	0.0990	
Switzerland b/	-	-	-	
Other	-0.8817	-0.0275	0.6238	
Consortium	-0.3703	-0.0200	0.1080	

Source: CEPAL, on the basis of official data.

Notes: t = Student's t statistic.

$\bar{\Delta}$ = Mean of the differences between paired values, x and y, where x is the annual average spread on the loans for banks in each country group and y is annual average spread for all banks in the study.

σ_{Δ} = Standard deviation of the differences between the paired values at N-1 degrees of freedom.

ϕ = Degrees of freedom.

a/ Annual averages are mean spreads weighted by the value of the loans authorized. The average spreads for each country group were paired with the global annual averages for all banks. Exercise was carried out on loans that had no guarantee of an export credit agency.

b/ Banks from this country did not provide a sufficient number of degrees of freedom.

* Significant at 90%.

Table 16

PERU: RESULTS OF t TEST ON ANNUAL AVERAGE LIBOR SPREAD OF LOANS OF BANKS
GROUPED ACCORDING TO ASSET SIZE VS. ANNUAL AVERAGE LIBOR
SPREAD OF ALL LOANS ON ALL BANKS IN THE STUDY^{a/}
(Paired observations)

Asset range (millions of dollars)	Equivalent international rankings ^{b/}	t	$\bar{\Delta}$	σ_{Δ}	$\beta = N-1$
<u>1972-1976</u>					
1) 65.789 - 32.895	1 - 10	0.5194	0.022	0.9471	4
2) 32.894 - 16.448	11 - 46	-0.9830	-0.0160	0.0365	
3) 16.447 - 8.224	47 - 91	0.7027	0.0200	0.0636	
4) 8.223 - 4.112	92 - 147	1.0392	0.0520	0.1119	
5) 4.111 - 2.056	148 - 263	0.7049	0.0220	0.0698	
6) 2.055 - 1.634 ^{c/}	264 - 300	-	-	-	
7) < 1.634	> 300	-0.5209	-0.0180	0.0773	
<u>1972-1975</u>					
1) 65.789 - 32.895	1 - 10	0.2781	0.0150	0.1079	3
2) 32.894 - 16.448	11 - 46	-0.9798	-0.0200	0.0408	
3) 16.447 - 8.224	47 - 91	2.5627*	0.0450	0.0319	
4) 8.223 - 4.112	92 - 147	1.3943	0.0775	0.1112	
5) 4.111 - 2.056	148 - 263	0.2689	0.0100	0.0744	
6) 2.055 - 1.634 ^{c/}	264 - 300	-	-	-	
7) < 1.634	> 300	-0.7171	-0.0300	0.0837	

Source: CEPAL, on the basis of official data.

Notes: t = Student's t statistic.

$\bar{\Delta}$ = Mean of the differences between paired values, x and y, where x is the annual average libor spread for banks in each asset range and y is the annual average LIBOR spread for all banks in the study.

σ_{Δ} = Standard deviation of the differences between the paired values at N-1 degrees of freedom.

β = Degrees of freedom.

a/ The annual averages are mean spreads weighted by the value of the loans authorized. The average spreads for each asset group were paired with the global annual average for all banks. The exercise was carried out only on loans that had no guarantee of an export credit agency.

b/ The rankings are on a scale from 1-300 for the corresponding asset range. The rankings are based on balance sheet data for 1975 as presented in The Banker, June 1976.

c/ Insufficient degrees of freedom to perform test.

* Significant at 90%.

Table 19

PERU: RESULTS OF t TEST ON ANNUAL AVERAGE MATURITY OF LOANS OF SELECTED BANKS vs. ANNUAL AVERAGE MATURITY ON LOANS OF ALL BANKS IN THE STUDY^{a/}

(Paired observations)

Bank	Country	t	\bar{d}	σ_d	$\phi = N-1$
<u>1972-1976</u>					
1) Chase Manhattan	United States	-1.0710	-1.0572	2.2083	4
2) Bank of America	United States	-1.1210	-1.0502	2.0948	
3) Citicorp	United States	0.4435	0.0126	0.6373	
4) Bank of Nova Scotia	Canada	-0.4875	-0.2160	0.9908	
5) Bankers Trust	United States	-2.5390*	-0.6460	0.5690	
6) Continental Illinois	United States	0.4492	0.0976	0.4858	
7) Manufacturers Hanover	United States	0.4451	0.1198	0.6018	
8) Banca Commerciale Italiana	Italy	-0.0354	-0.0088	0.5543	
9) Morgan Guaranty Trust	United States	0.2315	0.1098	0.8423	
10) Bank of Tokyo	Japan	-0.5059	-0.2226	0.9838	
11) Royal Bank of Canada	Canada	1.3051	0.2752	0.4715	
12) Toronto Dominion Bank	Canada	-0.9585	-0.4718	1.1006	
13) Lloyds Bank Ltd.	United Kingdom	1.8690	0.4508	0.5393	
14) Long Term Credit Bank	Japan	-0.4430	-0.5570	2.8130	
15) Wells Fargo	United States	2.1450*	0.5176	0.5392	
16) Canadian Imperial Bank	United States	0.2747	0.1882	1.5319	
17) Fuji Bank Ltd.	Japan	1.2265	0.4780	0.8715	
18) Sanwa Bank	Japan	0.5042	0.2886	1.2800	
19) Banco de Santander	Spain	0.2481	0.1524	1.3735	
20) Dai-Ichi Kangyo Bank	Japan	3.6820*	0.8298	0.5040	
<u>1972-1975</u>					
1) Chase Manhattan Bank	United States	-1.1228	-1.3618	2.4256	3
2) Bank of America	United States	-0.9456	-1.1385	2.4081	
3) Citicorp	United States	0.4630	0.1685	0.7278	
4) Bank of Nova Scotia	Canada	-0.0202	-0.0103	1.1033	
5) Bankers Trust	United States	-4.2351*	-0.8478	0.4003	
6) Continental Illinois	United States	-0.6047	-0.1620	0.5358	
7) Manufacturers Hanover	United States	0.3154	0.1095	0.6944	
8) Banca Commerciale Italiana	Italy	-0.1622	-0.5130	0.6319	
9) Morgan Guaranty Trust	United States	0.1996	0.9700	0.9720	
10) Crocker National	United States	-0.9534	-0.5438	1.1407	
11) Bank of Tokyo	Japan	-0.3746	-0.3185	1.1087	
12) Royal Bank of Canada	Canada	0.7722	0.1940	0.5025	
13) Toronto Dominion Bank	Canada	-0.2843	-0.1300	0.9145	
14) Lloyds Bank Ltd.	United Kingdom	1.7614	0.5240	0.5949	
15) Long Term Credit Bank	Japan	-0.4579	-0.7365	3.2168	
16) Banque Commerciale Pour L'Europe Du Nord	Soviet Union	3.7356*	0.4028	0.2156	
17) Wells Fargo	United States	2.0976	0.6068	0.3785	
18) Libra Bank Ltd.	United Kingdom	2.0770	0.5410	0.5209	
19) CIT Financial Corporation	United States	-0.4557	-0.6740	2.9584	
20) Canadian Imperial Bank of Commerce	Canada	-0.2486	-0.1845	1.4843	
21) Fideloor	United States	-0.0743	-0.0530	1.4259	
22) Fuji Bank Ltd.	Japan	1.1311	0.5573	0.9853	
23) Sanwa Bank	Japan	0.4344	0.3205	1.4757	
24) Banco de Santander	Spain	0.1895	0.1503	1.5860	
25) Dai-Ichi Kangyo Bank	Japan	5.1094*	0.9970	0.3903	

Source: ECLA, on the basis of official data.

Note: t = t statistic.

\bar{d} = Mean of the differences between the paired values, x and y, where x is the annual average maturity on loans of an individual bank and y is the global annual average maturity on loans of all banks in the study.

σ_d = Standard deviation of the differences between the paired values x and y at N-1 degrees of freedom.

ϕ = Degrees of freedom.

a/ Annual averages are the mean maturities weighted by the value of loans carrying a specific maturity. The averages for each bank were paired with the global annual average for all banks. Exercise was carried out only on loans that had no guarantee of an export credit agency.

* Significant at 90%.

Table 20
 PERU: RESULTS OF t TEST ON ANNUAL AVERAGE MATURITY OF LOANS
 OF BANKS GROUPED ACCORDING TO COUNTRY OF ORIGINS vs. ANNUAL
 AVERAGE MATURITY OF ALL LOANS OF ALL BANKS IN THE STUDY^{a/}
 (Paired observations)

Country of banks	t	$\bar{\Delta}$	$\sigma \Delta$	$\phi = N-1$
		<u>1972-1976</u>		4
United States	-1.3475	-0.054	0.0896	
Japan	0.8821	0.300	0.7605	
Canada	-0.3009	-0.004	0.2974	
United Kingdom	0.0119	0.002	0.3760	
Germany	0.8431	0.242	0.6418	
France	-0.5015	-0.220	0.9810	
Italy	-0.4625	-0.142	0.6866	
Switzerland ^{b/}	-	-	-	
Other	5.1588*	0.392	0.1699	
Consortium	0.0215	0.006	0.6244	
		<u>1972-1975</u>		3
United States	-0.8926	-0.0450	0.1008	
Japan	0.7671	0.3350	0.8735	
Canada	0.1808	0.0300	0.3319	
United Kingdom	-0.1777	-0.0375	0.4220	
Germany	0.7102	0.2625	0.7393	
France	-0.6412	-0.3475	1.0839	
Italy	-0.5661	-0.2175	0.7684	
Switzerland ^{b/}	-	-	-	
Other	7.1003*	0.4500	0.1268	
Consortium	-0.0910	-0.0325	0.7141	

Source: ECLA, on the basis of official data.

Note: t = t statistic.

$\bar{\Delta}$ = Mean of the differences between paired values, x and y, where x is the annual average maturity for banks in each country group and y is the annual average maturity for all banks.

$\sigma \Delta$ = Standard deviation of the differences between the paired values of N-1 degrees of freedom.

ϕ = Degrees of freedom.

^{a/} The annual average are mean maturities weighted by the value of the loan carrying the specific maturity. The averages for each country group were paired with the global annual averages for all banks. Exercise was carried out only on loans that had no guarantee of an export credit agency.

^{b/} Banks from this country did not provide a sufficient number of degrees of freedom.

* Significant at 90%.

Table 21

PERU: RESULTS OF t TEST ON ANNUAL AVERAGE MATURITY OF LOANS OF BANKS GROUPED ACCORDING TO ASSET SIZE VS. ANNUAL AVERAGE MATURITY ON ALL LOANS OF ALL BANKS IN THE STUDY^{a/}

(Paired observations)

Asset range (millions of dollars)	Equivalent international ranking b/	t	$\bar{\Delta}$	σ_{Δ}	$\phi = N-1$
<u>1972-1976</u>					
1) 65 789 - 32 895	1 = 10	0.1624	0.0280	0.2856	4
2) 32 894 - 16 448	11 = 46	-0.5293	-0.0340	0.1436	
3) 16 447 - 8 224	47 = 91	-0.4804	-0.0420	0.1955	
4) 8 223 - 4 112	92 = 147	-1.5440	-0.2320	0.3156	
5) 4 111 - 2 056	148 = 263	0.6730	0.1260	0.4187	
6) 2 055 - 1 634	264 = 300c/	"	"	"	
7) <1 634	> 300	0.7657	0.1520	0.4439	
<u>1972-1975</u>					
1) 65 789 - 32 895	1 = 10	0.3242	0.0700	0.4318	3
2) 32 894 - 16 448	11 = 46	-1.5173	-0.0825	0.1087	
3) 16 447 - 8 224	47 = 91	0.4016	0.0275	0.1370	
4) 8 223 - 4 112	92 = 147	-1.6344	-0.2800	0.3426	
5) 4 111 - 2 056	148 = 263c/	0.4866	0.1175	0.4829	
6) 2 055 - 1 634	264 = 300	"	"	"	
7) <1 634	> 300	0.5854	0.1500	0.5125	

Sources: CEPAL, on the basis of official data.

Notes: t = t statistic.

$\bar{\Delta}$ = Mean of the differences between paired values, x and y, where x is the annual average maturity for banks in each asset range and y is annual average maturity on loans of all banks in the study.

σ_{Δ} = Standard deviation of the differences between the paired values at N-1 degrees of freedom.

ϕ = Degrees of freedom.

a/ The annual averages are mean maturities weighted by the value of the loan carrying the specific maturity.

The averages for each asset group were paired with the global annual average of all banks. The exercise was carried out only on loans that had no guarantee of an export/credit agency.

b/ The rankings are on a scale from 1-300 for the corresponding asset range. The rankings are based on balance sheet data for 1975 as presented in The Banker, June 1976.

c/ Insufficient degrees of freedom.

* Significant at 90%.

Table 22

PERU: RESULTS OF t TEST ON ANNUAL AVERAGE COST OF FLAT FEES ON ALL LOANS OF SELECTED BANKS
VS. ANNUAL AVERAGE COST OF FLAT FEES ON ALL LOANS OF ALL BANKS IN THE STUDY^{a/}

(Paired observations)

Name of bank	Country	t	$\bar{\Delta}$	σ_{Δ}	$\phi = N-1$
<u>1972-1976</u>					
1) Bank of America	United States	-4.0474*	-0.2074	0.1146	4
2) Citicorp	United States	-0.3152	-0.0214	0.1518	
3) Bank of Nova Scotia	Canada	-0.9600	-0.1384	0.2024	
4) Bankers Trust	United States	-0.4278	-0.0380	0.1986	
5) Continental Illinois	United States	-1.6443	-0.0968	0.1316	
6) Manufacturers Hanover	United States	0.9256	0.0802	0.1937	
7) Banca Commerciale Italiana	Italy	1.6961	0.1422	0.1441	
8) Morgan Guaranty Trust	United States	0.1237	0.0114	0.1966	
9) Bank of Tokyo	Japan	0.1037	0.0072	0.1523	
10) Royal Bank of Canada	Canada	-0.7133	-0.0594	0.1849	
11) Toronto Dominion Bank	Canada	4.3664*	0.1684	0.0758	
12) Lloyds Bank Ltd.	United Kingdom	0.3353	0.0324	0.2161	
13) Long Term Credit Bank	Japan	0.2563	0.0664	0.1963	
14) Wells Fargo	United States	1.3974	0.1254	0.2007	
15) Canadian Imperial Bank of Commerce	Canada	0.0277	0.0056	0.4527	
16) Fugji Bank Ltd.	Japan	3.8586*	0.1566	0.0975	
17) Sanwa Bank Ltd	Japan	1.8808	0.1396	0.1660	
18) Banco de Santander	Spain	4.7630*	0.2546	0.1196	
19) Dai-ichi Kangyo Bank	Japan	2.9825*	0.1424	0.1068	
<u>1972-1975</u>					
1) Bank of America	United States	-3.3055*	-0.2156	0.1305	3
2) Citicorp	United States	-0.8890	-0.0623	0.1401	
3) Bank of Nova Scotia	Canada	-0.0961	-0.0076	0.1560	
4) Bankers Trust	United States	-1.5555	-0.1085	0.1395	
5) Continental Illinois	United States	-1.7110	-0.1198	0.1400	
6) Manufacturers Hanover	United States	0.3983	0.0393	0.1971	
7) Banca Commerciale Italiana	Italy	1.7652	0.0643	0.0728	
8) Morgan Guaranty Trust	United States	-0.5492	-0.0468	0.1705	
9) Crocker National Bank	United States	-1.7451	-0.1645	0.1885	
10) Bank of Tokyo	Japan	-1.0161	-0.0495	0.0974	
11) Royal Bank of Canada	Canada	0.1344	0.0083	0.1228	
12) Toronto Dominion Bank	Canada	3.9672*	0.1520	0.0766	
13) Lloyds Bank Ltd	United Kingdom	-0.6939	-0.0480	0.1383	
14) Long Term Credit Bank	United States	0.2460	0.0245	0.1992	
15) Banque Commerciale Pour l'Europe du Nord	Soviet Union	1.9912	0.2338	0.2348	
16) Wells Fargo	United States	0.8736	0.0958	0.2187	
17) Libra Bank	United Kingdom	1.5344	0.0970	0.1264	
18) CIT Financial Corporation	United States	-0.7672	-0.0953	0.2483	
19) Canadian Imperial Bank of Commerce	Canada	2.5005*	0.1985	0.1588	
20) Fidelity	United States	0.9417	0.1033	0.2193	
21) Fugji Bank Ltd	Japan	2.9800*	0.1373	0.0921	
22) Sanwa Bank	Japan	1.2769	0.1160	0.1817	
23) Banco de Santander	Spain	3.7603*	0.2298	0.1222	
24) Dai-ichi Kangyo Bank	Japan	2.2094	0.1195	0.1082	

Source: CEPAL, on the basis of official data.

Notes: t = t statistic.

$\bar{\Delta}$ = Mean of the differences between paired values, x and y, where x is the annual average cost of flat fees on all loans of a bank and y is the global annual average cost of flat fees on all loans of all banks.

σ_{Δ} = Standard deviation of the differences between the paired values at N-1 degrees of freedom.

ϕ = Degrees of freedom.

a/ Annual averages are the mean cost of flat fees on all loans weighted by the value of the loans. The annual averages for each bank were paired with the annual average of all banks. Exercise was carried out only on loans without a guarantee of an export credit agency. Note that in syndicated credits fees were distributed equally among all banks.

* Significant at 90%.

Table 23

PERU: RESULTS OF T TEST ON ANNUAL AVERAGE COST OF FLAT FEES OF ALL LOANS OF
BANKS GROUPED ACCORDING TO COUNTRY OF ORIGIN VS. ANNUAL AVERAGE COST OF
FLAT FEES ON ALL LOANS OF ALL BANKS IN THE STUDY^{a/}

(Paired observations)

Country of banks	t	$\bar{\Delta}$	σ_{Δ}	$\phi = N-1$
		<u>1972-1976</u>		4
United States	-0.5302	-0.0184	0.0748	
Japan	2.1937*	0.0940	0.0958	
Canada	-0.4713	-0.0460	0.2183	
United Kingdom	0.8883	0.0692	0.1742	
Germany	0.1698	0.0172	0.2265	
France	0.7004	0.1658	0.5293	
Italy	1.8090	0.0218	0.1461	
Switzerland ^{b/}	-	-	-	
Other	3.1501*	0.1812	0.1286	
Consortium	5.0929*	0.1410	0.0619	
		<u>1972-1975</u>		3
United States	-2.1633	-0.0473	0.0437	
Japan	1.8487	0.0590	0.0638	
Canada	2.1979	0.0500	0.0455	
United Kingdom	0.1089	0.0065	0.1194	
Germany	-0.7609	-0.0620	0.1630	
France	0.6214	0.1890	0.6083	
Italy	1.6283	0.0593	0.0728	
Switzerland ^{b/}	-	-	-	
Other	2.3430	0.1715	0.1464	
Consortium	3.9581*	0.1408	0.0715	

Sources: CEPAL, on the basis of official data.

Notes: t = t statistic.

$\bar{\Delta}$ = Mean of the differences between paired values, x and y, where x is the annual average cost of flat fees on all loans of banks in each country group and y is the annual average cost of flat fees on all loans of all banks.

σ_{Δ} = Standard deviation of the differences between the paired values at N-1 degrees of freedom.

ϕ = Degrees of freedom.

^{a/} Annual averages are the mean cost of flat fees on all loans weighted by the value of the loans. The annual averages for each group of banks were paired with the annual average cost of fees on all loans of all banks. Exercise was carried out only on loans without a guarantee of an export credit agency. Note that in the case of syndicated credits, fees were distributed equally among all banks.

^{b/} Banks from this country did not provide a sufficient number of degrees of freedom.

* Significant at 90%.

Table 24

PERU: RESULTS OF t TEST ON ANNUAL AVERAGE COST OF FLAT FEES OF LOANS OF
BANKS GROUPED ACCORDING TO ASSET SIZE VS. ANNUAL AVERAGE COST OF
FLAT FEES ON LOANS OF ALL BANKS IN THE STUDY^{a/}

(Paired observations)

Asset range (millions of dollars)	Equivalent international rankings ^{b/}	t	\bar{A}	$\sigma_{\bar{A}}$	$\beta = N-1$
<u>1972-1976</u>					
4					
1) 65 789 - 32 895	1 - 10	-0.2261	-0.0110	0.1088	
2) 32 894 - 16 448	11 - 46	-0.3095	-0.0038	0.0275	
3) 16 447 - 8 224	47 - 91	-0.9691	-0.0412	0.0990	
4) 8 223 - 4 112	92 - 147	-0.8146	-0.0412	0.1131	
5) 4 111 - 2 056	148 - 263	2.6878*	0.1160	0.0965	
6) 2 055 - 1 634 ^{c/}	264 - 300	"	"	"	
7) < 1 634	> 300	5.6116*	0.1380	0.0548	
<u>1972-1975</u>					
3					
1) 65 789 - 32 895	1 - 10	-0.8482	-0.0415	0.0978	
2) 32 894 - 16 448	11 - 46	-0.7032	-0.0098	0.0277	
3) 16 447 - 8 224	47 - 91	-0.2648	-0.0103	0.0774	
4) 8 223 - 4 112	92 - 147	0.2993	0.0065	0.0434	
5) 4 111 - 2 056 ^{c/}	148 - 263	-1.9360	0.0978	0.1010	
6) 2 055 - 1 634	264 - 300	"	"	"	
7) < 1 634	> 300	4.8363*	0.1230	0.0509	

Sources: CEPAL, on the basis of official data.

Notes: t = t statistic.

\bar{A} = Mean of the differences between paired values, x and y, where x is the annual average cost of fees on all loans of banks in each asset range and y is the annual average cost of flat fees on all loans of all banks.

$\sigma_{\bar{A}}$ = Standard deviation of the differences between the paired values at N-1 degrees of freedom.

β = Degrees of freedom.

a/ The annual averages are the mean cost of flat fees weighted by the value of the loan. The annual averages for each group of banks were paired with the annual average cost of fees on all loans of all banks. The exercise was carried out only on loans that had no guarantee of an export credit agency. Note that in the case of syndicated credits fees were distributed equally among all banks.

b/ The rankings are on a scale from 1-300 for the corresponding asset range. The rankings are based on balance sheet data for 1975 as presented in The Banker, June 1976.

c/ Insufficient degrees of freedom.

* Significant at 90%.

Table 25

PERU: BREAKDOWN OF LOANS ACCORDING TO TYPE AND COUNTRY ORIGIN OF LENDING BANKS, 1971-1976^{a/}

(Percent)

Country	Import of K goods	Other imports	Refinance	Free disposition	Projects	National- ization	Other ^{b/}	Total loans
United States	2.4	0.2	48.4	29.9	8.7	9.3	1.1	100.0
Japan	0.6	-	43.5	39.2	16.0	-	0.7	100.0
Canada	2.1	-	53.1	28.0	15.9	-	0.9	100.0
United Kingdom	8.3	-	49.7	18.4	23.6	-	-	100.0
Germany	-	-	57.0	5.7	37.3	-	-	100.0
France	-	-	51.9	27.9	20.2	-	-	100.0
Italy	-	-	58.8	29.6	11.6	-	-	100.0
Switzerland	-	-	16.3	17.5	7.6	58.6	-	100.0
Consortium	1.3	-	64.4	19.7	14.6	-	-	100.0
Other	1.2	-	40.2	25.1	33.5	-	-	100.0
<u>Memorandum items</u>								
Unweighted average	1.6	-	48.3	24.1	18.9	6.8	0.3	100.0
Standard deviation	2.4	-	12.6	8.7	9.5	17.5	0.4	

Source: CEPAL, on the basis of official data.

^{a/} Excludes loans with guarantees of export credit agencies.^{b/} Loans which could not be classified into any other category.

Table 26

PERU: BREAKDOWN OF LOANS ACCORDING TO TYPE AND THE ASSET SIZE OF LENDING BANKS, 1971-1976^{a/}

(Percent)

Asset range (millions of dollars)	World rank range (1-300)	Import of K goods	Other imports	Refinance	Free dispo- sition	Projects	National- ization	Other	Total loans
1) 65 789 - 32 895	1 - 10	2.1	0.5	56.9	25.8	12.4	2.3	-	100.0
2) 32 894 - 16 448	11 - 46	2.8	-	43.5	30.0	15.2	7.9	0.7	100.0
3) 16 447 - 8 224	47 - 91	1.9	-	55.8	26.5	9.4	5.3	1.1	100.0
4) 8 223 - 4 112	92 - 147	-	-	40.0	21.4	20.4	16.7	1.6	100.0
5) 4 111 - 2 056	148 - 263	-	-	44.6	24.2	25.1	3.8	2.3	100.0
6) 2 055 - 1 634	264 - 300	-	-	62.5	26.8	10.7	-	-	100.0
7) < 1 634	> 300	1.0	-	53.4	29.3	16.3	-	-	100.0
8) Unknown ^{b/}	...	-	-	36.2	38.6	18.5	4.7	-	100.0
<u>Memorandum items</u>									
Unweighted average		1.0	-	49.4	27.8	16.0	5.1	0.7	100.0
Standard deviation		1.1	-	8.3	4.8	4.9	5.1	0.8	

Source: CEPAL, on the basis of official data.

^{a/} Excludes loans with guarantees of export credit agencies.^{b/} Banks where no data were available on asset size.

Table 27
PERU: BREAKDOWN OF LOANS ACCORDING TO ECONOMIC SECTOR AND THE COUNTRY
OF ORIGIN OF LENDING BANKS, 1971-1976^{a/}

(Percent)

Sectors	United States	Japan	Canada	United Kingdom	Germany	France	Italy	Switzerland	Commonwealth	Other	Memo items	
											Un-weighted average	Standard deviation
Directly productive ^{b/}	13.2	5.8	15.6	29.9	9.7	38.6	10.9	-	3.2	5.1	13.2	11.6
Basic economic and social sectors	12.8	24.0	12.0	32.5	29.9	30.7	15.4	11.1	19.8	47.9	(23.6)	(11.2)
(Basic economic) ^{c/}	(8.3)	(22.7)	(7.1)	(32.5)	(29.9)	(27.4)	(15.4)	(11.1)	(11.2)	(36.8)	(20.2)	(10.4)
(Social) ^{d/}	(4.5)	(1.3)	(4.9)	-	-	(3.3)	(-)	(-)	(8.6)	(11.1)	(3.4)	(3.8)
Unclassified ^{e/}	74.0	70.2	72.4	37.6	60.4	30.7	73.6	88.9	77.0	47.0	63.2	17.9
<u>Total loans</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	

Source: CEPAL, on the basis of official data.

^{a/} Excludes loans with guarantees of export credit agencies; also, only accounts for loans where there was an ex ante agreement between borrower and lender on the destination of the credit.

^{b/} Agriculture, mining, manufacturing, etc.

^{c/} Power, water, sanitation, transport, etc.

^{d/} Health, education, etc.

^{e/} Loans that went to a number of undesignated sectors. These are basically general refinance credits.

Table 28
PERU: BREAKDOWN OF LOANS ACCORDING TO ECONOMIC SECTORS AND THE SIZE
OF LENDING BANKS, 1971-1976^{a/}

(Percent)

Sectors	Asset range of banks (millions of dollars) ^{b/}							Un-known	Memo items	
	65 789-	32 894-	16 447-	8 223-	4 111-	2 055-	< 1 634		Un-weighted average	Standard deviation
	32 895	16 448	8 224	4 112	2 056	1 634	(8)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)			
Directly productive ^{c/}	15.4	11.5	8.1	31.4	13.6	42.0	5.4	19.6	18.4	11.6
Basic economic and social sectors	21.1	17.9	19.6	21.5	33.8	-	32.3	30.3	22.1	10.1
(Basic economic) ^{d/}	(14.3)	(17.0)	(19.3)	(18.3)	(23.2)	(-)	(25.8)	(20.3)	(17.3)	(7.3)
(Social) ^{e/}	(6.8)	(0.9)	(0.3)	(3.2)	(10.6)	(-)	(6.5)	(10.0)	(4.8)	(4.0)
Unclassified ^{f/}	63.5	70.6	72.6	47.1	52.6	58.0	62.3	50.1	59.6	8.7
<u>Total loans</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	

Source: CEPAL, on the basis of official data.

^{a/} Excludes loans with guarantees of export credit agencies; also, only accounts for loans where there was an ex ante agreement between borrower and lender on the destination of the credit.

^{b/} Assets based on data for 1975 as found in The Banker, June 1976.

^{c/} Agriculture, mining, manufacturing, etc.

^{d/} Power, water, sanitation, transport, etc.

^{e/} Health, education, etc.

^{f/} Loans that went to a number of undesignated sectors. These are basically general refinance credits.

Table 29

PERU: BANKS EXTENDING CREDIT WITH GUARANTEES OF HOME COUNTRY
EXPORT CREDIT AGENCIES, 1971-1976

(Percent)

Banks	Guaranteed credits of the bank as a percent of all guaranteed credits	Guaranteed credits of the bank as a percent of all credits of the bank
Schroders Ltd.	5.6	88.8
Manufacturers Hanover	5.1	11.0
Philadelphia National Bank	2.5	27.8
Western Bancorporation	0.3	2.9
Banca Commerciale Italiana	0.1	1.1
Crocker National Bank	0.6	3.0
Lloyds Bank Ltd.	1.3	6.8
Swiss Bank Corporation	1.0	13.4
National and Commercial Banking Group	15.9	93.9
Credit Lyonnais	6.4	51.0
Banque Francaise Du Commerce Exterieur	9.1	81.7
Banque de L' Indochine et de Suez	4.0	72.1
Algemene Bank Nederland	4.5	100.0
Anro Bank	10.8	100.0
Balfour and Williamson	0.5	25.2
Banco do Brasil	18.8	71.6
Compagnie Financiere de Paris et des Pays-Bas	5.2	75.4
Banco Mexicano	3.7	100.0
Banque Worms	1.8	63.7
Barclays Bank	2.9	43.6

Source: CEPAL, on the basis of official data.

Table 30
PERU: A SELECTED LIST OF PROJECTS WITH PARTICIPATION OF FOREIGN COMMERCIAL BANKS, 1972-1976

Name of project	Year of loans	Suppliers	Lending institutions	Amount $\frac{a}{}$ (millions of US dollars)	Interest rate	Total maturity (years)
1) Oxygen plant	1974	Linde A.C.	Deutsche Bank	2.3	1.3 + libor	7.0
	1976	Linde A.C.	Deutsche Bank	0.5	1.3 + libor	7.0
2) Treatment plant for steel bars and plates	1972	Fives Cail	French Treasury	0.6	3.5	20.0
	1972	Babcock and Wilcox	Credit Lyonnais	1.8*	6.5	10.0
			Banque Francaise De Commerce Ext.			
			Banque De Paris et Pays Bas			
3) Anode plant	1976	DEMAG	DEMAG	0.4	8.5	5.0
	1975	DEMAG	Lloyds Bank	1.2	1.5 + libor	7.0
		Haerz Ofenbau				
		Babcock and Wilcox				
		Outokumpu Og				
		British Steel				
		Sasacor Inc.				
		Wright Engineers				
		Cari Schenk				
		General Refractories				
		Morley Company				
4) Copper refinery at Ilo	1972	Mitsui	Mitsui	23.1	6.75	13.0
	1973	Furukawa Electric	Furukawa Electric	2.6	1.75 + libor	8.0
5) Alkali plant	1973	Oronzio de Nora	Oronzio de Nora	2.5	8.0	5.0
	1976	Westinghouse	Crocker National Bank	0.3*	8.25	5.0
		Harbrook, Div. of the Form				
		Corporation		1.0*	8.0	5.0
		Dumham Bus. Int.				
		Dorr Oliver Incorporated				
		Zurn Industries Incorporated				
6) Telephone switchboard systems	1974	Philips Telecommunications Ind.	Amro Bank	13.4*	8.0	13.0
	1974	Philips Telecommunications Ind.	N.L.O. b/	6.3	6.5	20.0
7) Expansion and rehabilitation of railroads	1974	Bell Telephone	Bell Telephone	22.3	...	...
	1975	Fandral (United Kingdom)	Lloyds Bank	2.8*	7.0	5.0
		Martencita (Brazil)	Bank of London and Montreal	0.8	1.5 + libor	5.0
			Banco do Brasil	0.3*	7.0	5.0
	1973	M.L.W. Worthington Ltd.	Bank of Montreal	3.7	1.25 + libor	7.0
		Sidney Steel Corporation	Export Development Corporation of Canada	13.5	7.25	13.0
	...	Necano Export-Import	Protocol Peru-Romania	8.4	...	...

Table 30 (continued 1)

Name of project	Year of loans	Suppliers
8) Transandean oil pipeline and north feeder line	1976	Const. Protexa
	1976	Const. Protexa
	1976	Const. Protexa
	...	Machine Export
	...	Bechtel Incorporated
	...	Bechtel Incorporated
	...	Bechtel Incorporated
	1974	-
	...	-
	1974	Techint
	1977	Techint
	1974	Rustin Gas Turbines
	1975	-
	1975	-
	1975	George Wimpey Ltd.
	...	George Wimpey Ltd.
	...	Page Communications
	...	Bechtel Incorporated
	1977	Various
	1977	Consortium Williams/Sedco/Boer
1977	F.H. Gottfeld	
1975	Joint Venture Hoesch-Falgsj�dter e	
1976	...	
1974	-	
9) Expansion of cement plant Norte Pacasmayo S.A.	1976	Fuller <u>et al</u>
	1976	Fuller <u>et al</u>
	1976	Fuller <u>et al</u>
	1976	Fuller <u>et al</u>
	1976	Fuller <u>et al</u>
	1976	Fuller <u>et al</u>
	1976	Siemens
	1976	Siemens
	1977	Haver and Boecker
	1977	Perkins Motors
10) Diesel motor plant (Motores Andino)	1976	Perkins Motors
	1977	Perkins Motors
11) Copper mines Cerro Verde, stage I	1972	British Smelter Constr. Ltd.
	1972	Various
	1972	Wright Engineers Ltd.
	1973	Various United States suppliers
	1976	Various

Leading institutions	Amount <u>a/</u> (millions of US dollars)	Interest rate	Total maturity (years)
Const. Protexa	27.0	2% + libor	5.5
Const. Protexa	6.0	2% + libor	5.5
Financiera Aceptaciones	60.0*	8.5	10.5
Protocol Peru-Russia	6.1	...	...
Banco Interamericano de Desarrollo	0.5	...	...
Various	3.1	...	...
Banco Interamericano de Desarrollo	0.6	...	...
Japan-Peru Oil Co. <u>c/</u>	230.0	6.5	14
Japan-Peru Oil Co. <u>c/</u>	63.8	...	...
Techint	40.1	7.5	10
Techint	3.5	9.5	180 days
Manufacturers Hanover Finnoe Ltd.	11.0*	8.0	11.5
Syndicate headed by W.Fargo Bank	50.0 <u>d/</u>	1.75 + libor	7.0
Syndicate headed by W.Fargo Bank	50.0 <u>d/</u>	1.75 + libor	7.0
Schroders Ltd.	11.9*	8.0	7.0
Schroders Ltd.	(0.6)*	...	...
Page Communications	2.0	...	...
Crocker National Bank	15.0	1.75 + libor	6.5
Corporation Andina de Fomento	20.0	10.0	8.0
Citicorp	14.6	...	...
Deutsche Bank	0.5	2% + libor	1.0
Syndicate headed by Dresdner Bank	24.4 <u>e/</u>	2% + libor	5.0
Deval S.A.	2.0	0.6% + libor	2.0
Japan-Peru Oil Corp. (Japan)			
Petroleum Development Corporation	100.0	6.0%	14.0
United States Eximbank	8.1	8.0%	11.5
Philadelphia National Bank	5.4* <u>f/</u>	1% + prime	7.0
Philadelphia National Bank	2.7 <u>f/</u>	1% + prime	4.0
Philadelphia National Bank	1.3	2% + libor	6.5
Banque Worms	1.2	2% + libor	7.0
Banque Worms and Banque Francaise de Commerce Ext.	5.0*	7.5	11.0
Siemens	0.4	9.5	10.5
Kreditanstalt	4.0	9.5	10.5
Haver and Boecker	0.5	8.0	10.5
Schroders	0.5	2.0% + libor	5.0
Schroders	2.7*	7.5%	5.0
Williams and Glyn's Bank	21.7*	6.0%	14.0
Syndicate headed by W. and G. Bank	12.7	2.25 + libor	5.0
Export Dev. Corp. of Canada	21.4	7.25%	14.0
Continental Illinois Bank	7.0	1.0 + prime	7.0
Continental Illinois Bank	9.5	2.0 + libor	5.5

Table 30 (continued 2)

Name of project	Year of loans	Suppliers
12) Refinery Le Papeilla	1972	Technip
	1975	Technip
	1977	Technip
	...	Technip
13) Hydroelectric plant Mentaro	1975	Engineering Consultants Electrowatt
	1973	GIE - Impregilo
	1975	GIE - Impregilo
14) Paper plant	1974	Burfata Protecna
	1975	Burfata Rust
	1975	Valmet Oy
	1975	Valmet Oy
	1975	Valmet Oy
	1975	Valmet Oy
	...	Valmet Oy
	1977	Valmet Oy
	1977	Valmet Oy
	1976	Elof Hansson
	1976	Elof Hansson
	1976	Commonwealth Construction Company
	1976	Commonwealth Construction Company
	1976	Distral S.A.
	1977	Distral S.A.
	1976	Degremont S.A.
	1977	Degremont S.A.
	1977	Elof Hansson
	1977	Elof Hansson
	1977	Commonwealth Construction Company
		Alban and Felt Co.
		SMA International
		Same as above
		Same as above
		Same as above

Leading institutions	Amount n/ (millions of US dollars)	Interest rate	Total maturity (years)
Credit Lyonnais	22.9*	6.75	12.5
Banque de Paris et de Pay Bas			
Banque Francaise du Commerce Ext.			
Credit Lyonnais	2.9*	7.2	5.0
Credit Lyonnais	0.7*	7.25	4.0
Credit Lyonnais	(FF 5.6)	...	...
Swiss Credit Bank	3.3	9.0%	6.5
GIE - Impregilo	219.6	...	...
GIE - Impregilo	48.5	6.5%	17.5
Banco Nacional de Comercio Ext.	1.6*	8.0%	6.0
Citibank	0.6	1.125 + Libor	5.0
Valmet Oy	13.6	8.0%	2.5
Valmet Oy	19.3	8.0%	9.0
Citibank	1.7	1.75 + libor	7.0
Valmet Oy	0.1	...	...
Protocol Peru-Finland	(MF 5.0)	...	...
Valmet Oy	1.0	8.0%	8 months
Valmet Oy	1.0	8.0% g/	9.5
Elof Hansson	2.5	8.5%	5.0
Elof Hansson	15.7	8.0%	11.0
Export Development Corporation of Canada	1.1	8.75%	5.5
Royal Bank of Canada	0.5	1.75 + prime	5.5
Distral S.A.	0.4	2.0 + libor	8.0
Distral S.A.	2.1	8.25%	8.0
Credit Lyonnais	0.2	2% + libor	5.0
Degremont S.A.	0.9	8.75%	6.5
Elof Hansson	0.8*	8.5%	4.0
Elof Hansson	4.9*	8.0%	9.5
Export Development Corporation of Canada	1.3	8.75	4.25
Royal Bank of Canada	0.3	2.0 + prime	4.25
Bank of Montreal	0.1	2.0 + prime	4.25
Royal Bank of Canada	0.5	2.0 + prime	2.5
Bank of Montreal	0.1	2.0 + prime	2.5

Table 30 (concluded)

Name of project	Year of loans	Suppliers	Lending institutions	Amount g/ (millions of US dollars)	Interest rate	Total maturity (years)
14) Paper plant (continued)	1977	Cofpa-Martell	Cofpa	0.3	9.0%	3.0
	1977	Cabala	Credit Lyonnais	0.1	2.25 + Libor	2.0
	1977	Geschay-Wagner	Deutsche Bank A.G.	0.4	5.0% + discount rate of bank	5.0
	1977	Elof Hansson	Elof Hansson	0.5*	9.0%	3.5
	1977	Elof Hansson	Elof Hansson	2.0*	8.5%	9.0
	1977	Bufole Industrial	Banco Mexicano S.A.	0.5*	8.0%	3.17

Source: Data provided to ECLA by COFIDE and ECLA on the basis of official data.

a/ Non-United States currencies were converted to dollars using the average exchange rate for the year corresponding to the date of authorization.

b/ De Nederlandse Investeringsbank voor Ontwikkelingslanden N.V.

c/ Called JAFECO and owned as follows: 25% Marubeni Corp; 25% Mitsui Group; and 50% Japanese Petroleum Development Corp., which is a Japanese State Enterprise.

d/ The Government of Iran deposited the equivalent amounts in the accounts of the lending banks as part of an agreement with Peruvian authorities to finance the pipeline.

e/ Both the suppliers and bankers operated under the aegis of a "shell" Peruvian Corporation called ALAMBRESA. This group financed another 27 million dollars of purchases which are not indicated in the table; thus, the total financed through ALAMBRESA was 119 million D-marks.

f/ Part of a joint loan with Eximbank.

g/ 67 000 dollars was free of interest.

* Guaranteed by home country export credit agency.

Appendix 4

PROFILES ON SELECTED BANKS LENDING TO PERU

The study has made observation on certain banks. This annex will attempt to consolidate in a brief way the findings on some of the institutions. Much of the terminology reflects that used in the body of the text. It should be made explicit that some aspects of the profile are subjective evaluations based on observed behaviour with Peru and do not in any way pretend to be of an empirical nature.

1. Citicorp, U.S.A. Has had a branch in Lima since 1920. A major lender in the 1960s and 1970s as well as a major lead bank in syndication. While there is no indication that Citicorp undercut market terms with regard to the price of loans, it clearly was a sophisticated bank willing to take greater risks than many other big, traditionally international institutions. In the 1970s, Citicorp had a relative commitment in Peru that was of an intermediate level vis-a-vis all other banks; however, it was considerably higher than most other established international banks that had been lending to the government. Moreover, Citicorp actively participated in the traditionally less preferred areas of finance such as refinance, free disposition and loans for infrastructure. It made little use of export credit guarantees. And importantly, it provided finance for the transandean oil pipeline, a project of very high national priority. When negotiations began in 1976 for refinance relief without the presence of the IMF, Citicorp took a positive position and headed the Steering Committee of the co-ordinating institutions. When the Bank's plans to monitor the economy failed in 1977, Citicorp refused to head any further Steering Committees and its position in negotiations hardened somewhat. However, it continued to be relatively flexible in on-going negotiations and was classified as having had a "soft" negotiating position among the major commercial lenders. In sum, while not excessively aggressive, Citicorp has been a very important creditor with a generally flexible attitude (within a commercial context) in extending credits and resolving problems involving Peru. Citicorp was a creditor to the Cuajone project.

2. Wells Fargo, U.S.A. Not significantly present as a lender in the 1960s, but probably the key commercial actor of

the 1970s. In this latter period, Wells Fargo arose from nowhere to become a major lender and a major lead bank in syndication. Also, relative to its size, the institution had the highest commitment to Peru of any regular commercial bank. The bank achieved its status so quickly because of inside contacts and an aggressive lending posture up through 1974. A very high executive at the bank is a Peruvian national who had worked at the Central Bank of Peru during the Belaúnde years. The commercial bank's knowledge of the public sector and the Peruvian market gave Wells Fargo special leverage in the country. This was complemented by an aggressive lending strategy that saw the bank repeatedly undercut the prevailing market terms for Peruvian loans, thus making the bank instrumental in Peru's gaining acceptance in international markets and in the cheapening of credit for the government. The bank also managed to become a major lead bank in Peru (and internationally) by cleverly establishing working relationships with a wide number of small and intermediate-sized banks throughout the world that, like Wells Fargo, were mostly newcomers to the international scene. The bank also appeared to have no preference about what it financed and made no significant use of export credit guarantees. Wells Fargo led two large syndicates to finance the oil pipeline. The institution's posture became more conservative after 1975, following general market behaviour in the post-oil crisis period. The bank helped to finance the foreign-private Cuajone copper project.

3. Manufacturers Hanover, U.S.A. Traditionally "Peru's banker". In the 1960s this bank was probably the key lending institution, because of the volume of loans, its high relative commitment, and the fact that it was the major organizer of several large multi-institutional credits that helped the country through its fiscal and balance of payments crises. (It also was a major creditor to the private sector). In the 1970s, the bank appears to have taken a slightly more conservative view of the country, as there was some slippage in its relative commitment. However, it continued to be a major force in commercial finance via its maintenance of a position as a major creditor and its intermediate importance as a lead bank. While it did not show an aggressive posture with regard to the pricing of loans, it actively extended the traditionally less preferred refinance and free disposition credits. It participated in the finance of the oil pipeline and took little recourse to export credit guarantees. Manufacturers also indirectly helped Peru reach a settlement with the U.S. over various investment disputes, as a high ranking executive of the bank was the key negotiator in the settlement. During the post-1975 economic crisis this bank was very flexible (within a commercial context) and maintained an excellent image with both the public and private sectors; it has commonly been

characterized as being a "reasonable" banking institution. When Citicorp withdrew as head of the bankers' Steering Committee in 1977, it was this bank which took its place. Manufacturers was a commercial lender to the foreign private Cuaajone copper project.

4. Chemical Bank, U.S.A. Not a significant creditor in the 1960s; however, in the 1970s it became a lender of intermediate importance to the government. Nevertheless, Chemical probably had one of the most restrictive attitudes towards the military government. In the late 1960s it bought into a local bank. However, the timing of the purchase was inappropriate as there was much public concern about foreign participation in the financial sector; moreover, Chemical made no attempt to consult authorities prior to its acquisition. Its equity participation therefore was a source of irritation and was a prime mover in the civilian government's decision to "Peruvianize" local banks. This was followed by outright nationalization of the subsidiary by the military government. The bank made no secret of its displeasure with this action and with measures taken on other TNCs. While almost all major international banks had reentered the Peruvian public-sector market by 1973, Chemical was conspicuous by its absence. It entered only in 1974, and then very symbolically as a participant in syndicated credit that was part of the formal settlement of the investment dispute with the U.S. government. Lending was more vigorous thereafter. Ironically, Chemical decided to enter the public sector market almost precisely at a time when the economic situation of the government was beginning to unravel. This bank helped to finance the foreign private Cuaajone copper project.

5. Morgan Guaranty Trust, U.S.A. A lender of minor importance in the 1960s. In the 1970s it was a lender of intermediate importance. Only of minor importance as a lead bank in syndication for the government. Never appeared to be very enthusiastic about Peru, reflected in a low level of relative commitment rather than in the nature of its lending or terms. This traditionally conservative bank took the symbolic role of heading the syndicated credit that was part of the settlement of the investment dispute with the U.S. During the economic crisis of the second half of the 1970s this bank was considered a hardliner, resisting refinance without the presence of the IMF and continuously in favour of measures to pressure the government into submitting to Fund discipline. Morgan was a creditor to the Cuaajone project developed by the U.S.-owned Southern Peru Copper Corp.

6. Bankers Trust, U.S.A. A major lender to Peru in the 1960s with a high level relative commitment. In the 1970s it showed a more cautious attitude; while the nature of its lending showed no strong preferences, it slipped to an

intermediate level of importance as a lender and there was a very marked fall in its relative commitment as well. It also revealed average maturities that were significantly shorter than those offered by the market. As a lead bank it was of minor importance. During the economic crisis in the second half of the 1970s this bank took a hard line against the government's efforts to avoid the IMF, or assuage the effects of its scrutiny. Bankers Trust participated in the finance of the Cuajone copper project.

7. Continental Illinois, U.S.A. A major lender to the government in the 1960s with a relatively high level of relative commitment. In the 1970s there apparently was a much more cautious attitude; while showing no special preferences in the nature of its lending or terms, it fell to an intermediate level of importance as a lender and its relative commitment underwent sharp decline. During the economic crisis of the 1970s this bank took a conservative position and was one of the hardliners which were adamant about the necessity of having the government submit to the IMF. Participated in the finance of the oil pipeline.

8. Bank of America, U.S.A. Has had a branch bank in Lima since 1966. It was a major creditor in both the 1960s and the 1970s. However, its level of relative commitment, while remaining basically unchanged in absolute terms over the period, was only at an intermediate level relative to other banks in the former period and was at a low level in the latter period. While the bank showed no special enthusiasm for government loans in the 1970s, it did attempt to maintain its market position through the meeting of terms and conditions offered by the competition.

9. Chase Manhattan Bank, U.S.A. In the mid-1960s it bought into a Peruvian bank which was later nationalized by the military government. Compensation, however, was very prompt and quite lucrative for the bank. In both the 1960s and 1970s this institution was a major lender to the government. Compared to other banks its relative commitment was of an intermediate and low level in the 1960s and 1970s, respectively. As a lead bank for the government it was of minor importance; however, it also led a large 200 million dollar credit for the Cuajone copper mine in the private sector. During the economic crisis after 1975 Chase fell into the group of hardliner banks. It also repeatedly interfered in the government's treatment of the Southern Peru Copper Corp., e.g. it reportedly threatened to tie the success of the 1978-1979 refinance negotiations with major private creditors to an adequate settlement of a dispute over the handling of the foreign exchange resources of the Cuajone copper mine.

10. Crocker National Bank, U.S.A. A bank of intermediate importance as a lender in the 1960s and 1970s; of minor importance as a lead bank. Its relative commitments were at an intermediate level with respect to other banks in both

periods. Appeared to be a rather aggressive lender in the early 1970s, both through price cutting and the nature of its lending. Participated in the finance of the oil pipeline. After 1975, notwithstanding what was a general change in the market environment, the bank's attitude turned rather conservative. It did not participate in the general refinance relief arranged by U.S. creditors in 1976, suggesting that it may have had one of the more hardline positions with respect to the government's efforts to avoid the IMF. In the early 1970s the bank had the uncommon practice of explicitly setting the legal jurisdiction of loans in Peru.

11. Bancal Tristate Corporation, U.S.A. Not a significant lender in the 1960s, but of intermediate importance in the 1970s. Had one of the highest relative commitments of any regular bank in this latter period, indicating a rather aggressive lending strategy towards Peru. However, after 1975 the bank appears to have turned conservative; like Crocker National it did not participate in the general refinance credit arranged by U.S. banks in 1976 that was designed to bail out the country's external accounts in the absence of the IMF.

12. American Express International, U.S.A. Not a significant lender in the 1960s, but of intermediate importance in the 1970s. Of minor importance as a lead bank. Had one of the highest relative commitments of any regular bank. Its style of lending was relatively aggressive. Participated basically in loans of refinance, free disposition and infrastructural projects.

13. First Chicago Corp., U.S.A. Not a significant lender in the 1960s, but of intermediate importance as a lender in the 1970s. Of minor importance as a lead bank. Had a low level of relative commitment. Appears to have maintained a restricted attitude on the military government as reflected in the fact that it held lending back until the government reached a formal settlement of investment disputes with the U.S. in 1974.

14. Bank of Nova Scotia, Canada. A lender of intermediate importance in both the 1960s and 1970s with a high intermediate position in terms of relative commitment. In the 1960s it provided considerable short and medium term assistance to the financially-strapped civilian government. Not an aggressive lender in the 1970s, but it preserved its relatively high profile as a lender to the government. In the post-1975 economic crisis this bank was the representative of Canadian institutions in the Steering Committee and was considered to be one of the "soft" banks in the long series of negotiation with commercial creditors. Scotia Bank participated in the finance of the Cuajone project.

15. Dresdner Bank, Germany. Was not a significant lender in the 1960s, but became of intermediate importance in the

1970s. As a lead Bank it was of intermediate importance. The bank's lending in the early 1970s was aggressive and after Wells Fargo it probably was next in importance in terms of bringing general market acceptability and more favourable credit conditions to Peru. The bank led a major syndicated credit for the oil pipeline. In the post-1975 economic crisis the bank represented European institutions in the private creditors' Steering Committee. A relatively strong advocate of the Peruvian position in negotiations during the economic crisis, this bank even extended the government a short-term credit to help it pass international reserve targets of an IMF stand-by accord.

16. Bank of Tokyo, Japan. Has had a branch in Lima since 1965. Was a minor lender to the government in the 1960s and was of intermediate importance in the 1970s. Its relative commitment was low compared to other banks for both periods. As a lead bank it was of intermediate importance. This institution was a very aggressive lender in the early 1970s; not only did it price cut, but it also had a relatively high propensity to extend fixed interest rate loans and with great frequency it extended the traditionally less attractive free disposition loans. The Bank of Tokyo was the Japanese representative in the private creditors' Steering Committee. Also was a creditor for the private-foreign Cuajone project.

17. Credit Lyonnais, France. Has long had a subsidiary in Lima. Its participation was reduced to less than 20% after the military government's banking reform laws. Was not a significant lender in the 1960s, but was classified as of intermediate importance in the 1970s. Its relative commitment was low. As a lead bank it played a minor role in Peru. The bank's lending strategy was rather cautious and a high percentage of the credit extended had guarantees of French export credit agency. However, in negotiations pursued during the post-1975 economic crisis, this institution was considered to be in the group of "soft" banks.

18. Lloyds Bank, U.K. Has had a branch in Lima since 1936. Was not a significant lender to the government in the 1960s, but became a lender of intermediate importance in the 1970s. Its relative commitment to Peru was low in both periods. As a lead bank it played a minor role. The bank appears to have pursued a slightly cautious lending strategy, with significant lending for projects and capital goods imports. It helped to finance the oil pipeline. Was the lead bank for a 23.5 million dollar syndicated credit for Cuajone.

19. Banca Commerciale Italiana, Italy. Has long held indirectly a subsidiary in Lima. Under the military government participation was reduced to below 20%. In the 1960s it was a lender of minor importance, while in the 1970s

the institution was of intermediate importance. The bank was a lead bank of minor importance. Its relative commitment was low in both periods. Involved itself in price cutting in the early 1970s, and the nature of its lending was bold with a high frequency of refinance loans and credits of free disposition. It participated in the finance of the oil pipeline.

20. Schroders Ltd., U.K.; National and Commercial Banking Group, U.K.; Banque Francaise du Commerce Extérieur, France; Banque de l'Indochine et de Suez, France; Algemene Bank Nederland, Holland; Amro Bank, Holland; Compagnie Financiere de Paris et des Pays-Bas, France; and Banque Worms, France. All would be considered to have had a conservative lending strategy in the 1970s owing to the fact that a very high percentage of their loans was covered by home country export credit guarantees.

Appendix 5

PERUVIAN GOVERNMENT STABILIZATION PROGRAMME, JUNE 1976; MEASURES ADOPTED IN ORDER TO OBTAIN BALANCE-OF-PAYMENTS EQUILIBRIUM

Various measures have been implemented in order to restore equilibrium in the external sector, including the following:

- (a) An increase in the exchange rate from S/. 45 to S/. 65 per dollar

The equilibrium exchange rate parity for June was estimated at S/. 58.96 per dollar. However, in order to further improve the competitiveness of the external sector in the short run and compensate the rise in costs as a result of the measures which have been adopted, parity was fixed at S/. 65 per dollar by the Board of Directors of the Central Reserve Bank, in consultation with the Government.

- (b) Non-traditional export promotion

The tax rebate mechanism (CERTEX), previously fixed at a basic rate of 40% of the export value, was reduced only by 10%, to a basic rate of 30%, so as to increase the competitiveness of manufactured goods in the international market.

Industries are expected to respond rapidly to the export incentives adopted, generating additional foreign exchange due to the idle productive capacity resulting from the reduction of internal aggregate demand expected as a result of the stabilization programme.

- (c) Export promotion of the small and medium mining sector

The mining acceptance bond, a low interest credit mechanism, though reduced from 20% to 10% of the FOB export value, has been maintained in order to accelerate the reactivation of small and medium sized mining enterprises, which have been producing approximately 20% of Peru's copper and 35% of its silver, lead and zinc.

(d) Increase in the effective capital goods import tariff

This measure, adopted in order to correct excessive use of capital intensive production processes, will tend to promote labour intensive industries, reduce imports and achieve a more rational utilization of existing productive capacity.

(e) Reorganization of the import control system

A system of annual import programmes and annual foreign exchange budgets has been established in order to forecast the goods which will have to be imported and the foreign exchange necessary for purchasing them. This will make the import control system more coherent, rational and expeditive, assuring an adequate supply of goods to the country while serving as a mechanism for restricting the use of foreign exchange in short supply, when necessary.

(f) Priority for foreign exchange generating projects

Special priority has been given to those projects generating foreign exchange through exports or import substitution so as to gain and maintain balance-of-payments equilibrium in the future.

MEASURES ADOPTED IN ORDER TO SOLVE THE GOVERNMENT'S
FINANCIAL GAP

The following measures have been implemented with the purpose of increasing fiscal revenues:

(a) 15% tax on exports of traditional products

This tax, computed on the basis of the FOB price, was created in order to tap windfall profits generated by the devaluation. It is estimated that this tax will increase fiscal revenues by S/. 7.8 billion during the second semester of this year.

(b) Sales tax on gasoline

This should generate S/. 5.5 billion during the rest of this year. Other petroleum derivatives have not been affected.

(c) Increase of the sales tax on goods and services

All regulations relating to this tax have been integrated. The rate on luxury products has been increased from 27% to 40%, while the rate affecting most other products has risen from 17% to 20%. Taxes on foodstuffs and medicines have not been altered. These increases are expected to provide S/. 2.0 billion in new revenues during the second half of 1976.

(d) Increase in effective tariffs for the imports of capital goods

The rise in effective tariff rates, applied differentially according to the priority of the industry and the type of activity involved, will yield additional revenue of S/. 500 million by December of this year. This measure does not affect imports of goods already shipped.

(e) The license plate tax has been tripled

In addition, a tax of 50% in excess of this has been established for vehicles assembled abroad since 1970. This is expected to generate another S/. 700 million during the following semester.

(f) Increase from 67% to 72.5% in the sales tax on cigarettes

This measure, along with the authorized price rise of this product should increase fiscal revenues in 1976 by S/. 500 million.

(g) Increase in mail and toll rates

This is expected to yield around S/. 500 million this year.

Additional measures have been adopted, implementing an austerity policy for the whole of the public sector by reducing current and investment expenditures. Among these, the following are included:

(a) Reduction in current expenditures

The hiring of new personnel, as well as increases in salaries, for the public sector have been suspended until December 1976. In addition, purchases of goods and services have been severely restricted.

(b) Reduction in investment expenditures

Investment expenditures of the Central Government have been reduced by S/. 4.5 billion for the present 1975-1976 fiscal budget. These budget cuts respond to the priority level of the corresponding investment projects, favouring those destined to support the balance of payments.

MEASURES RELATING TO STATE ENTERPRISES

(a) Policy making in State enterprises

Measures have been implemented in order to rationalize and improve the efficiency of State enterprises by allowing them to function on a basis similar to that of private enterprises: managerial decision making, adequate working capital, a sound investment policy and debt structure, and a profit level at least equivalent to the cost of money in the capital market.

(b) Reduction in current expenditures

As a means of rationalizing current expenditures, a strict austerity policy has been adopted for State enterprises. Hiring may not exceed 2% over the June 30 level, and wages have been frozen for the rest of the year. Increases in other operation cost have been linked to, and may not exceed, increases in the cost of living index.

(c) Reduction in investment expenditure

Investment expenditures have been severely diminished by a total of S/. 9,666 million, affecting especially those projects not considered critical for balance-of-payments support by 1980.

(d) Price policy

State enterprises have been authorized to adjust the prices or tariffs of the products or services they sell, in order to cover their costs and generate internal funds to act as a counterpart to the external financing of their investment programmes or supply funds to the Central Government. These rises are expected to increase income by approximately S/. 11.5 billion, during the second semester of this year.

MEASURES ADOPTED IN ORDER TO INCREASE INTERNAL SAVINGS

These include the following:

(a) An average increase of 3% in the interest rate as from July 1

This is designed to promote personal savings and protect them against internal price rises in the medium run. The mechanism modifying interest rates has been made more flexible in order to allow a more rapid response to future price developments.

(b) Business enterprises will only be allowed to distribute 10% of their paid capital from 1976 profits to shareholders

In this way, greater revenues generated by price increases will result in a higher level of internal savings and reduce the demand for working capital from the banking system.

Non-distributed profits, which will increase enterprise's reserves, are allowed to be distributed after 1977.

(c) Reinvestment incentives

Agricultural, industrial, fishing and mining enterprises have been allowed to invest profits during 1976-1977, tax free, as part of their working capital.

Previously this could only be done to increase fixed assets. This measure is designed to increase the enterprises' working capital.

(d) An expansion in the Central Government's current account savings

This will result from increases in tax revenues and reductions in current expenditures.

MEASURES RELATING TO PRICES AND WAGES

(a) Prices

The stabilization programme has been designed to reduce the demand for non-essential goods, especially those with a high imported component. This can be clearly seen by the higher prices of gasoline, cigarettes and other products resulting from the measures previously described.

In order to assure a normal operation on the part of business enterprises, these have been authorized to adjust the prices of their goods and services, including those imported, during the next 90 days, after which they will again be subject to controls. Prices are expected to rise about 25% during the second semester as a result of the stabilization programme.

(b) Wages

Wages have been increased by an average of 10% in order to reduce the impact of rising prices on purchasing power. This increase, however, has been applied on a progressive basis, so that lower income groups receive a higher rate. The minimum wage has also been increased for the same reason.

Source: Reproduced from Central Bank, Aide Memoire on the Economic Stabilization Program of Peru, Lima, July 1976.

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