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Government Bails Out Banks

by LADB Staff
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In less than a month, the government took over three private banks that had fallen into financial crisis. The subsequent investigation has led to accusations against close associates of President Alfonso Portillo and government officials who are said to have put state funds at risk. The bailout could cost the central bank (Banco de Guatemala, BANGUAT) US$186.6 million dollars.

Lizardo Sosa, president of BANGUAT and director of the government's monetary board (Junta Monitaria), said the banks needed central bank credit lines to meet depositor demand and prevent a general bank panic. The bailouts and the firing of Finance Minister Manuel Maza Castellanos have not helped the Portillo administration's image, already tainted by a major corruption scandal involving the legislature and the long delay in bringing suspects to trial in the Bishop Juan Gerardi murder case (see NotiCen, 2001-03-15).

On Feb. 9, the Junta Monitaria announced the takeover of Banco Empresarial. On Feb. 28, Banco Metropolitano and Banco Promotor ran out of reserves, and their checks began to bounce. On March 1, the junta took over both banks. Shortly thereafter, the government ordered the arrest of 15 Banco Empresarial officers including its president, Juan Fernando Bendfeldt, and its former president, Mario Ricardo Falla. No arrest orders were immediately issued for officers of the other two banks, which aroused suspicions of favoritism. Francisco Alvarado Macdonald, a close advisor to President Portillo and a major contributor to his 1999 presidential campaign, has an interest in both banks popularly referred to as the "twins." Alvarado Macdonald is the principal shareholder in both banks and the president of Banco Metropolitano and vice president of Banco Promotor.

Government was slow to act

Critics of the government's banking policy pointed out that Banco Empresarial's liquidity problems dated back to 1999 and said the junta should have acted earlier. Investigation of the twin banks revealed that they had repeatedly covered their insolvency with emergency infusions from BANGUAT from 1996 through 2000. The central bank made the emergency funds available hoping the banks would resolve their problems by restructuring their loan portfolios. However, a report in March by the Superintendencia de Bancos showed that the problems did not respond to temporary solutions because they stemmed from improper loan practices and outright fraud. Investigators say the banks made unsecured or insufficiently secured loans to businesses in which bank directors had an interest. Some of the loans were interest free.

In 1999, Banco Empresarial acquired the investment firm Grupo Pro. Bank president Bendfeldt was also president of the firm at the time. Grupo Pro then bought shares in the bank, converting Grupo Pro shares into bank shares, paying only a fraction in cash. The bank refused to guarantee Grupo Pro shareholders their investment in the bank. The daily Siglo Veintiuno reported that 90% of the loans made by Alvarado's twin banks went to businesses he owned. To cover bad loans, the

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twin banks used US$234 million in government deposits as well as US$65 million in deposits from state entities such as the Instituto Guatemalteco de Seguridad, the attorney general's office, and municipal governments. Early in the bank intervention, the junta sent Attorney General Adolfo Gonzalez Rodas evidence implicating Alvarado, other bank officers, borrowers, and public officials in the collapse of the twin banks.

Also on the list were Alvarado's sons Jose Francisco and Carlos Alfredo Alvarado Rosales. Both hold high-level positions in the Portillo administration. Jose Francisco is director of Banco Metropolitano, and Carlos Alfredo is a shareholder in Banco Promotor. Siglo Veintiuno reported that the information sent to Rodas said that "grave irregularities and serious financial problems" made the interventions necessary. The main problem was the banks' practice of giving credit to insolvent businesses. Furthermore, the report said the banks had resorted to repeated extensions of payment deadlines, debt restructuring, and refinancing to avoid writing off the debts. The report also said the banks used various subterfuges to hide their financial instability such as using government deposits to maintain liquidity.

Adding to their problems, BANGUAT assessed the twin banks US$11.6 million in fines. By mid-March, Rodas had not acted on the report. Jose Francisco and Carlos Alfredo Alvarado Rosales remained in their jobs, while legislators began to accuse the administration of tolerating impunity. Deputy Jorge Rosales of the opposition Partido de Avanzada Nacional (PAN), chair of the congressional Comision de Probidad, complained that nothing was being done to bring charges against those implicated in the report. He criticized Rodas for failing "to audit and investigate in depth what happened to government resources." Rosales also asked Minister of Communications, Infrastructure, and Housing Luis Rabbe how government housing funds ended up in the twin banks.

Legislators wanted to know why Rabbe had deposited US$13 million from the ministry's housing trust fund in the banks without collecting any interest. Under questioning on March 8, Rabbe said then Finance Minister Maza Castellanos had asked that the funds be deposited in the banks. Finally, Attorney General Rodas acted.

On March 20, at his request, a court ordered 11 directors of the twin banks not to leave the country. Among the 11 were Francisco Alvarado Macdonald and his sons Jose Francisco and Carlos Alfredo. Officials say bailout will have few negative effects Sosa said that, of the US$117 million line of credit extended to the twin banks, only US$4.8 million had actually been disbursed during the first day and that the bank receivers said they used only half of that to meet depositor demand. Based on the first days of the intervention, Sosa concluded that the crisis would be a minor one. However, by the end of March, BANGUAT found that Banco Promotor had used almost all of the initial US$52 million allocated and needed another US$20.1 million in bailout money.

The miscalculation of the bank's needs was the result of the doctored figures of indebtedness the bank had supplied the receivers. The Bank Metropolitano may also ask for additional credit, said Sosa. Earlier, Sosa had said, "If the banks regain their health and pay their debts, nothing will be lost." But Cesar Garcia of Certeza Consulting said that all Guatemalans would pay for the bad administration by bankers.

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The bank disasters have raised two major issues. One is transparency in government financial transactions. It turns out that government funds were routinely deposited in the banks even on the day before the takeover. Government funds amounted to more than 40% of the twin banks' deposits and 26% of Banco Empresarial deposits. The policy of placing state funds in the private banks was one of the main reasons for the firing of Maza Castellanos. His resignation March 2 was prompted by his inability to account for US$18.8 million in state funds deposited in the banks. The other issue of concern is the effect of the bailouts on the government's fiscal condition.

Luis Carrillo, of the Asociacion de Investigacion y Estudios Sociales (ASIES), said the bailout puts BANGUAT funds at risk and could lead to higher interest rates and inflationary pressures. Economist Eduardo Velasquez of the Universidad de San Carlos said that the Superintendencia de Bancos should act to head off future bank crises before they happen. "Let's hope that the signs are apparent for the rest of the banks that have problems," he said.

Experts generally agreed that the bailout was necessary to head off a run on the banks and protect depositors. While they agreed that there would be negative consequences, the consensus was that they would be minimal. Sosa said that, in the future, the behavior of private banks would improve under the foreign-currency liberalization law that partially dollarized the financial system (see NotiCen, 2001-01-11). When the law goes into effect in May, he said, BANGUAT would hesitate to put dollars at risk to bail out the banks.

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