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Crédit Lyonnais bailed out—again

by Christine Bierre

During the International Monetary Fund-World Bank annual meeting in Washington, IMF Managing Director Michel Camdessus warned that the failure of national banking systems is the "Achilles' heel" of the world financial system. Although he didn't say so, his public observation makes clear why the European Union Commission decided on Sept. 25 to allow France to again bail out Crédit Lyonnais, Europe's erstwhile number-one bank, with an infusion of some 3.9 billion francs ($800 million).

A British EU official told the *Daily Telegraph* on Sept. 28 that "the specter of systemic banking failure had spooked the European Commission into allowing the state aid package to prop up the bank." A British banker characterized the consequences of a Crédit Lyonnais bankruptcy as "seismic." In France itself, public outcry over the enormity of the bank's failure, not to mention the state bailout, keeps growing. The weekly *Nouvel Observateur* called it "the biggest banking crash in history, without precedent in the entire world."

The EU negotiations on a third "restructuring" forced the French government to further disclose its bailout strategy, as well as the outrageous costs to the French taxpayers. Estimates are that the bill might hit FF 100 billion ($20 billion)—what it cost to build the Channel Tunnel. The exact cost will depend on how much Crédit Lyonnais is able to cover its bad debt through the sale of its assets gone sour, but experts put the range between FF 60-70 billion francs and FF 150 billion. The state, however, has already announced it will cover all the losses: If the cost is, say, FF 100 billion, each French taxpayer will shell out FF 5-6,000, equivalent to a month's pay at minimum wage.

Three 'restructuring' plans

The problems of the bank became apparent in 1993, when its losses reached a mammoth FF 6.9 billion, which triggered a first restructuring plan. The state wiped all bad real estate debt (roughly FF 45 billion) off the bank's balance sheet, by transferring it to a newly created defeasance company, the Omnium Immobilier de Gestion (OIG). But, in 1994, the bank's losses climbed to FF 12.1 billion, and a second restructuring was planned in March 1995. A public refinancing entity, EFPR, was created with a subsidiary, the Consortium de Réalisation (CDR), in charge of selling Crédit Lyonnais's fairly dubious assets, evaluated then at FF 135 billion, and reevaluated today at 190 billion. The activities of CDR, which absorbed the OIG, were financed through a new loan from Crédit Lyonnais of FF 135 billion at below-market rates (7% on 1995 loans and 3% on 1996 loans).

The ability of the CDR to sell these assets in real estate, cinema, banking, and industry debt, will define the ultimate cost of the state bailout plan, a process which will take ten years. So far, the expected losses are about FF 80 billion. The assets are evaluated as "variable" (37%), "dubious" (44%), and "unknown" (19%). Crédit Lyonnais was originally a state bank oriented towards industry, but "diversified" into post-industrial investments, such as real estate, the purchase of MGM, hotels, and golf courses, and was known to have financed many of former President François Mitterrand's dirty political operations.

While even the IMF estimates the ratio of bad to good debt in the French banking system at around 8%—undoubtedly an underestimate—the government is still determined to not only save Crédit Lyonnais, but to privatize it. Bank President Jean Peyrelevade is currently operating on a plan to raise Crédit Lyonnais's present Moody's rating of BBB, which makes it unsellable, to AA. For this, a third restructuring plan is under way, which will cost some FF 9 billion, entail a "reduction in force" of 5,000 workers, and the creation of what is called a "bad bank" solely to manage its losses. By transferring all bad debts and losses from the bank's balance sheets to different defeasance operations, Crédit Lyonnais can show operating profits for a second year in a row: FF 13 million in 1995, and 67 million in 1996!

French taxpayers have already paid a FF 4.9 billion for recapitalization of the bank for the first restructuring plan, and will be shelling out the FF 3.9 billion agreed to by the Brussels EU Commission. That money will go to cover the difference, for 1996, between the market rate and the "friendly" interest rate on the FF 135 billion loan that Crédit Lyonnais made to CDR. This, in addition to the FF 9 billion cost of the third restructuring plan, plus FF 80 billion in expected losses from the CDR realization operations, makes up the 100 billion total losses, the figure put out in the French press.

Lyndon LaRouche, referring again to Camdessus's warning, in an interview with "EIR Talks" on Oct. 9, characterized Crédit Lyonnais as "essentially . . . a bottomless bankruptcy." He continued, "Its situation is absolutely hopeless. If the French government were to go much further than it has in the attempt to bail out this bank, or if they would try to privatize it, which is impossible, they would blow the whole system out. . . .

"So, what we're faced with, is that the combination of a collapse of Crédit Lyonnais, which can happen at any time, combined with a collapse of one or two other major banks . . . could set forth a kind of chain reaction which could obliterate the international monetary system as it now stands, within a period of as short as 48 to 72 hours."

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