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ACTION

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ACTION ARA-88

INFO LOG-88 ACDA-15 AID-88 AMAD-81 CEA-81 CIAE-88 COME-88 CTME-88 C-81 DEAE-88 DODE-88 EB-88 EXIM-86 E-81 FRB-83 HA-89 H-Ø1 INM-88 INRE-88 INR-81 1TC-81 JUSE-88 LAB-84 L-88 ADS-88 NSAE-88 NSCE-88 OIG-88 OMB-81 OPIC-88 PA-81 PM-88 P-82 PRS-81 SNP-88 SSC-81 SSO-88 SS-88 STR-20 T-81 USIE-88 /891W

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O 881914Z APR 92 FM AMEMBASSY LIMA TO SECSTATE WASHDC IMMEDIATE 7289 TRSYDEPT WASHDC IMMEDIATE INFO AMEMBASSY CARACAS AMEMBASSY BOGOTA AMEMBASSY QUITO AMEMBASSY LA PAZ AMEMBASSY SANTIAGO AMEMBASSY BUENOS AIRES USCINCSO QUARRY HEIGHTS PM

CONFIDENTIALLIMA 85188

TREASURY FOR ELLEN WYATT

E.O. 12356: DECL: OADR TAGS:

EFIN, PGOV, SNAR, PE SUPERINTENDENT OF BANKING ON

SUBJECT:

IMPLICATIONS OF COUP

1. CONFIDENTIAL - ENTIRE TEXT.

2. SUMMARY: PERU'S BANK SUPERINTENDENT TOLD ECONOFF APRIL 7 THAT THE SUPERINTENDENT TOLD

ECONOFF APRIL 7 THAT THE SUPERINTENDENCY OF

BANKING (SBS) AND CENTRAL RESERVE BANK (BCR) HAD

EEN UNDER MILITARY OCCUPATION SINCE THE COUP,

THREATENING THE FINANCIAL SYSTEM WITH COLLAPSE.

LATER THAT DAY, HOWEVER, HE CALLED ECONOFF TO SAY THAT THE SBS AND BCR HAD BEEN REOPENED. HE HAD BEEN ASKED TO STAY, END SUMMARY.

ECONOFF MET WITH HUGO GARCIA SALVATTECCI. SUPERINTENDENT OF BANKING (SBS) ON APRIL 7. THE MEETING TOOK PLACE IN THE SUPERINTENDENT'S HOME, AS THE SUPERINTENDENCY'S OFFICES HAD BEEN MILITARILY OCCUPIED.

FINANCIAL SYSTEM INCREASINGLY FRAGILE ------

4. THE SUPERINTENDENT WAS QUITE CONCERNED ABOUT THE FATE OF PERU'S FINANCIAL SYSTEM. WITH THE MILITARY OCCUPATION OF THE BBS AND THE CENTRAL RESERVE BANK (BCR), NO ONE WAS PERMITTED TO ENTER OR LEAVE THESE OFFICES: BOTH FYTITIES WERE EFFECTIVELY INOPERATIVE, AND THE FINANCIAL SYSTEM LACKED ANY SUPERVISION WHATSOFFER.

INTERBANK TRANSACTIONS WERE ONLY TAKING PLACE THROUGH IMPROVISED ARRANGEMENTS, CHECKS WERE NOT

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- 5. PERHAPS EVEN WORSE: GARCIA SALVATTECCI SAID: FINANCE MINISTER CARLOS BOLONA HAD NO IDEA THAT THE SBS AND BCR WERE UNDER MILITARY OCCUPATION UNTIL INFORMED BY THE SUPERINTENDENT. BOLONA HAD TOLD GARCIA SALVATTECCI THAT HE COULD NOT DISCOVER THE REASON FOR THE ACTION NOR WHEN IT MIGHT END.
- 6. THE SUPERINTENDENT: WHO HAS NAVIGATED PERU'S FINANCIAL SYSTEM THROUGH ROUGH WATERS BEFORE. AND WHO STOOD UP TO ALAN GARCIA TO PREVENT THE NATIONALIZATION OF THE BANKS, WAS PESSIMISTIC. "IF THE MILITARY OCCUPATION OF THE SUPERINTENDENCY AND CENTRAL BANK CONTINUE FOR TWO OR THREE MORE DAYS. THEN THE SYSTEM WILL COLLAPSE AND THERE IS NOTHING I CAN DO. " AS THE FRAGILITY OF THE FINANCIAL SYSTEM BECAME MORE EVIDENT, DEPOSITORS WERE LIKELY TO INITIATE RUNS ON THE MORE VULNERABLE BANKS, UNDERMINING THE ENTIRE SYSTEM.
- 7. GARCIA SALVATTECCI SAID HE HAD OFFERED TO

RESIGN IF THE PRESIDENT WANTED A NEW SUPERINTENDENT. HE WAS CONVINCED THAT THE SURVIVAL OF THE FINANCIAL SYSTEM REQUIRED IMMEDIATE RESOLUTION OF THE SITUATION, AND GARCIA SALVATTECCI WOULD TAKE WHATEVER ACTION WAS NECESSARY TO MAKE THE TRANSITION TO HIS REPLACEMENT LEGITIMATE. BOLONA HAD ASKED HIM TO REMAIN IN THE POSITION, SAYING THAT "PERU NEEDS YOU", BUT HAD BEEN UNABLE TO PROVIDE ANY FEEDBACK ON FUJIMORI'S PREFERENCES AND/OR DECISIONS ON THIS ISSUE.

CHOTE: JUST AFTER THIS CONVERSATION, THE MILITARY WITHDREW FROM THE BCR AND SBS. FINANCE MINISTER BOLONA PERSONALLY ESCORTED GARCIA SALVATTECCI TO THE SUPERINTENDENCY TO MAKE CLEAR THE REGIME'S SUPPORT FOR HIS CONTINUITY.)

SUPERINTENDENT NEARLY ARRESTED

JUST FOLLOWING FUJIMORI'S ANNOUNCEMENT OF THE COUPLATE ON APRIL 5. THE SUPERINTENDENT WAS HEARLY ARRESTED. HE WAS AWAKENED BY HIS SON TO HEAR FUJIMORI'S ANNOUNCEMENT, AND SEVERAL HINUTES LATER A LARGE NUMBER OF MILITARY
APPENMED AT HIS HOUSE (AT LEAST 18-15 WITH TWO
MILITARY TRUCKS) SAYING THAT THEY HAD AN ORDER FOR HIS IMMEDIATE ARREST. HE ASKED AND RECEIVED PERMISSION TO DRESS AND FIND SOMEONE TO LOOK

AFTER HIS YOUNG SON. WHEN HE RETURNED TO THE DOOR, HE WAS INFORMED THAT THERE HAD BEEN A MISUNDERSTANDING AND THAT THERE WAS ACTUALLY NO ORDER FOR HIS ARREST.

9. GACCIA SALVATTECCI IS AWARE THAT HIS APRA FARTY MEMBERSHIP IN ITSELF IS SUFFICIENT CAUSE FOR ARREST AND DETENTION UNDER THE NEW REGIME.

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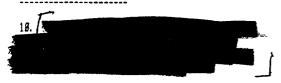
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HE AND PARTY PATRIARCH LUIS ALBERTO SANCHEZ ARE
TWO OF THE HANDFUL OF APRA PARTY MEMBERS NOT
CURRENTLY UNDER ARREST OR IN HIDING. HE
THEREFORE ANTICIPATED ARREST AS A DISTINCT
LIKELIHOOD. HE WAS RELIEVED THAT HIS WIFE IS
OUTSIDE PERU, BUT WAS CONCERNED ABOUT HIS SON.

THE COUP AND AFTERMATH



- -- ALAN GARCIA AND AGUSTIN MANTILLA HAD BOTH BEEN TIPPED OFF ABOUT IMPENDING ARREST ONE HALF HOUR BEFORE FUJIMORI'S SPEECH. GARCIA BELIEVED THE INFORMATION AND ESCAPED IMMEDIATELY. MANTILLA DID NOT. AND WAS ARRESTED AT HIS HOME.
- -- GARCIA'S LONG-TIME CONFIDENTIAL SECRETARY

MIRTA DE LARRAURE HAD BEEN ARRESTED AT 4:30 AM ON APRIL 6. HER HUSBAND TRIED TO PROTECT HER AND WAS BADLY BEATEN. THE MILITARY REPORTEDLY HOPED TO FIND OUT FROM HER THE LOCATION OF GARCIA IN HIDING. SHE HAS NOT BEEN SEEN OR HEARD FROM SINCE.

- -- THE MILITARY FOUND ONLY GARCIA'S YOUNG CHILDREN AND A MAID WHEN THEY ENTERED THE GARCIA HOME LATE APRIL 5. THEY KEPT THE CHILDREN UNDER HOUSE ARREST AND INCOMMUNICADO, IGNORING APPEALS FROM THE CHILDREN'S GRANDMOTHER AND AUNT TO BE ALLOWED TO SEE OR SPEAK TO THE CHILDREN, FOR CLOSE TO 28 HOURS UNTIL MRS. GARCIA RETURNED TO PERU LATE ON APRIL 6 AND DEMANDED TO ENTER THE HOUSE. SHE HAS NOW JOINED HER CHILDREN UNDER HOUSE ARREST.
- -- GARCIA WAS CAUGHT BY MILITARY TROOPS AND ARRESTED EARLY ON APRIL 7. NO ONE IN APRA KNOWS WHERE HE IS BEING DETAINED OR HIS CONDITION.
- -- PARTY PATRIARCH LUIS ALBERTO SANCHEZ ŒLDERLY AND BLIND) IS FREE AND IN HIS OWN HOME. THE NEWS MEDIA ARE PROHIBITED FROM INTERVIEWING HIM.
- -- EX-INTERIOR MINISTER VILLANUEVA IS IN HIDING. GARCIA SALVATTECCI COMMENTED THAT VILLANUEVA "HAS PLENTY OF EXPERIENCE IN CLANDESTINE LIVING, BUT HE IS OLD AND VERY ILL."
- -- THERE WERE UNCONFIRMED RUMORS OF THE ARREST OF MERCEDES CABANILLAS (EX-MINISTER OF EDUCATION) AND MONSIGNOR JOSE DANNERT.

HONTESINOS

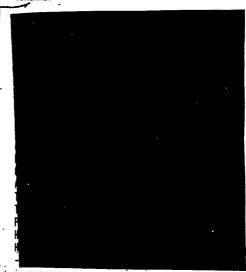
11. SPECULATING ON THE REASON FOR THE COUP, CALLED IT A SERIOUS THIS JUDGMENT. TAK NOT BLIND. I KY AN THAT CONGRESS IS A DISCRACE AND THE JUDICIARY EVEN MORE SO. BUT THIS WAS NOT NECESSARY. THERE WERE CONSTITUTIONAL MAYS TO ACKIEVE THE SAME

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END." FUJIMORI WAS, HE THOUGHT, MISLED INTO
BELIEVING THAT THE INTERNATIONAL REACTION TO
THIS COUP WOULD BE MILD OR EVEN SUPPORTIVE. BY
WHOM WAS HE MISLED? HIS OWN ARROGANCE AND
MONTESINOS ("A DARK POWER.") AS INTERNATIONAL
REACTION APPEARS MORE NEGATIVE THAN ANTICIPATED,
FUJIMORI IS LIKELY TO SEE HIMSELF TRAPPED AND
REACT VIOLENTLY. "THIS WILL MEAN INCREASING
REPRESSION AND BLOODSHED."

EXPRESSED THE FEAR THAT FULLHORI WAS ONLY A TOOL OF THE MILITARY, AND THAT THE REAL POWER WAS MONTESINOS. ONCE THERE IS NO REASON TO KEEP UP THE PRETENSE OF DEMOCRATIC LEGITIMACY FOR "THE NEXT STEP IS LIKELY TO BE REPLACEMENT OF FUJIMORI WITH A GENERAL."



SUPERINTENDENT TO RESIGN

15. GARCIA SALVATTECCI TELEPHONED ECONOFF LATE ON APRIL 7 TO SAY THAT THE SUPERINTENDENCY HAD BEEN REOPENED, THAT HE HAD BEEN CONFIRMED IN THE POSITION AND ESCORTED TO HIS OFFICE BY BOLONA.

