

2.8. BANKING IN EMERGING MARKETS

“Bankers are just like the rest of us, only richer,” said Ogden Nash, but what the American poet failed to mention is their tendency enriching itself, to **impoverish** those around. Now in the world’s emerging economies a long line of banking **mishaps** has left taxpayers with their problems to settle and governments wondering how **to pick up the pieces**.

The past two decades have brought more crises, **precipitated** not only by the weak management of banks but also by factors such as unwise economic policies, political **meddling**, financial liberalisation and increased competition. Since 1990 more than 100 developing countries have suffered some kind of serious banking-sector crisis. In some of them, reckless lending had left banks with **unrecoverable** loans that **outstrip** their capital. In others, banks have been **scuppered** by a **sudden** loss of **confidence** that led to runs by depositors.

Many bank – watchers worry that, on the evidence of the past few years, things are getting worse. In Africa, banking systems have been going down the **tubes** at the rate of two a year. According to the World Bank, between 1988 and 1998 systemic banking crises struck in 20 African countries, 5 of which had to spend more than a tenth of their GDP to **mend** the damage. On paper, emerging Asia has been luckier: among its larger countries, only India suffered anything even approaching a crisis in recent years. But, as this survey will explain, the region’s banks and their regulators have been **storing up** problems, and may soon be paying the price.

In Eastern Europe, banks in almost every country have run into trouble as they changed communism for capitalism. Hungary’s government has thrice had to bail out state banks that had been **hived off** from its communist – era central bank, taking with them huge portfolios of bad loans to **smokestack industries**. Over the past 5 years, the financial systems of all 3 Baltic states have been rocked by explosions among the new breed of private banks. The Czech Republic, one of the region’s star economic performers, **blotted** its reputation with a series of banking scandals and **bust-ups** that last year threatened a systemic collapse. In Bulgaria, a failure to reform state industry and banking supervision has left banks with a collective negative net worth of over \$1 billion.

Banks in Latin America have been just as **accident-prone**. Chile suffered a **devastating** banking crisis in the early 1980s. The currency **turmoil** in Mexico at the end of 1994 came on top of banks’ overexpansion and careless lending that had stored up trouble. Mexico’s problems also **tripped up** Argentina’s already – wobbly banks as panicky customers drew out 40% of their deposits in early 1995. Vene-