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Peru's Congress approves bill to pay land bonds

BY PATRICIA VELEZ AND TERRY WADE LIMA,

Peru's Congress approved a bill on Monday to finally pay the country's infamous land reforms bonds some 40 years after they were issued and the pending swap could be worth \$1.4 billion or more.

Congress passed the law, which instructs the finance ministry to carry out a debt swap that could be equivalent to about 1 percent of gross domestic product, as creditors and banks filed hundreds of lawsuits demanding payment. The bill says owners of the land bonds will be able to exchange their illiquid paper for new sovereign bonds. It also stipulates the new bonds could have maturities of up to 30 years, meaning that the next government would not see its budget weighed down by extra fiscal costs from the swap.

In what became one of the most bitter chapters in Peruvian history, the agricultural bonds were issued in the 1970s during a chaotic land redistribution program started by leftist dictator Gen. Juan Velasco, who sought to take farms from the rich and hand them over to peasants.

Many middle-class planters were also ensnared in the program, which caused Peru's agricultural output to collapse as 5,000 farms were seized between 1969 and 1981.

The land reform also touched members of President Alan Garcia's cabinet. When Garcia's finance minister, Ismael Benavides, was a young man, his father's farm was taken over by Velasco. Benavides has said up to 4 billion soles (\$1.4 billion) in bonds are outstanding, although the government that issued the land bonds kept sloppy books and some owners may have lost or misplaced their bonds. Some investors say there could be up to \$3 billion outstanding.

One holder of the bonds said Garcia is expected to sign the bill before he leaves office on July 28. The bill also requires the government to open the swap within 30 days of it being signed into law and owners of the land bonds would have until 2015 to tender their paper. Garcia once spoke of the importance of paying the bonds, though time is running out just days before he leaves office.

President-elect Ollanta Humala, a leftist who has tried to recast himself as a moderate, has not taken a firm position on the land bonds, but a lawmaker from his party on Monday said paying the land bonds would leave a fiscal "time bomb" for the next government. Though Peru has won investment grade credit ratings over the past couple of years, it is still haunted by several fiscal skeletons, or unpaid debts. In October, Peruvians approved a referendum forcing the government to repay people who contributed to Fonavi, as the housing fund was known. That referendum, analysts say, prompted the government to show more willingness to pay the land bonds.

(Editing by Richard Borsuk)

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