**Report from Rio** by Silvia Palacios

# Taking on the banks

*The President's action to protect Brazilian sovereignty has Wall Street plenty worried.*

In an operation planned in utmost secrecy with Finance Minister Dilson Funaro and central bank chief Fernão Bracher, Brazilian President José Sarney used his presidential powers to issue the first executive decree of his government, calling a halt to the "bankruptcy industry" which has been sucking the economy dry.

Until now, financial entities in Brazil could speculate freely, asset-strip their own operations, and then walk away from fraudulent bankruptcies with their pockets lined, the government left holding the bag of bad debts. With Sarney's presidential decree, the rules of the game are now changed.

On Nov. 19, Sarney announced that adjustment for inflation would not only be applied to assets in liquidation proceedings, but to debts as well; no longer would owners of bankrupt banks be able to rely on inflation to erode their debts into nothing. Banks engaging in illicit activities would now be forced to pay what they owe.

Following the decree, the government ordered liquidation of the powerful Banco de Comercio e Industria (COMIND), a premier property of the encrusted São Paulo oligarchy. The government also ordered liquidation of the Auxiliar and Mainsonnave banks, which had also defrauded their depositors.

The liquidation order not only caused a furor inside Brazil, but more importantly, in the world financial markets, especially among the Wall Street banks. The reason? On Nov. 21, Brazilian central banker Fernão Bracher categorically declared that the government would not assume responsibility for the foreign debt of the liquidated banks, estimated at some $450 million. (The government will, however, honor some $104 million in interbank credit lines.)

The banks' hysteria is not due to loss of $450 million; what really disturbs them is President Sarney's move to protect Brazilian sovereignty—both in regard to its internal banking system and, as important, regarding negotiation of its foreign debt. If Brazil puts an end to the speculative paradise of its "parallel economy," some $40 billion annually will no longer flow into the coffers of the international banks.

The government is also moving to block creditor banks from buying up bankrupt institutions. In the case of the Mainsonnave bank, the central bank stepped in to prevent American Express from buying it up. Henry Kissinger and dirty-money banker Edmund Safra sit on the advisory board of Amex. Similarly, the finance minister himself intervened in mid-November to prevent the notorious speculator, Naji Nahas, from buying up stocks of the state oil company, Petrobras.

Heading up a wave of protest and intrigue to force the government to pay the controversial $450 million in debt, U.S. Federal Reserve chief Paul Volcker personally telephoned Funaro to demand it. Funaro responded: "Brazil has $8 billion in foreign exchange reserves in private American banks. If one of these should go bankrupt, can you guarantee that the American Treasury would cover the damages to our government?" Brazilian newspapers report that, at that point, the conversation terminated.

Chase Manhattan and Bankers Trust have coordinated the pressure campaign against Brazil, threatening that unless the COMIND debt is paid, the creditors will refuse to renew Brazil's $16 billion worth of short-term credit lines in January.

Even before the liquidation of the three banks, the creditors' worry over Brazil was sufficient to prompt a flood of high-level visits. The first to arrive was Guildo Hanselmann, vice-president of the Union Bank of Switzerland, followed by the governor of the Bank of England, Robin Leigh-Pemberton, who wanted Brazil to reduce its growth expectations to achieve "a strengthening of debt service."

These two were followed by the executive vice-president of the Royal Bank of Canada, John Cleghoern, and by Dutch Finance Minister Herman Onno, who visited in his capacity as IMF Interim Committee president. Yet another visitor was Antoni Debauer, vice-president of Drexel Burnham Lambert, which does a vast business in speculation with bonds of the Ibero-American foreign debt.

Despite these immense international pressures against Brazil, the tendency which supports limiting debt payments to foreign banks has become more vocal. Asked to comment on the matter of the $450 million, central banker Bracher declared: "None of the available information allows us to conclude that the debts should be honored." And the creditors? "Naturally, they will be sad, they'll make ugly faces, and will stick out their tongues at us."



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