Report from Rio by Geraldo Lino

Panic over Brazil's bank crisis

Bankers fear that an investigation into the banking system will expose the fraud of Brazil's economic model.

The March 6 decision by the Brazilian Senate to set up a congressional commission of inquiry, or CPI, to investigate the country's banking and financial system, has unleashed panic on Wall Street, as well as among banking circles here. The same day, the lower house of Congress defeated legislation which was intended to "reform" the social security system, that is, cut back pensions, as Brazil's foreign creditors demand.

Combined with the CPI's creation, this news has the backers of the radical neo-liberal (free trade) policies underlying President Fernando Henrique Cardoso's "Real Plan" (the anti-inflationary program which helped him get elected), virtually climbing the walls.

For example, on March 11, the *Wall Street Journal* complained that President Cardoso had "lost the political initiative," following the defeat of the social security reforms. Goldman Sachs executive Jorge Mariscal told the *Journal* that "Brazil might explode," and perhaps suffer a crisis of the type triggered in Mexico in December 1994. On March 7, the daily *Jornal do Brasil* expressed fear that something similar to the banking crisis which hit Venezuela in late 1994-early 1995, could occur in Brazil.

The level of hysteria unleashed is striking. Although the immediate motivation for the CPI's creation was the revelation of fraud at the Banco Nacional (where, for ten years, no one, including its British accounting firm KPMG, or the central bank, detected that its books were "cooked"), the commission's purpose is more open-ended. This is what has a lot of people, including President Cardoso, very worried.

Why? Because the issue isn't just corruption or the illegal doings of one or another bank. What the financial and banking oligarchy really fear, is that a CPI could reveal that Brazil's banking system, like the international financial and banking system, is about to blow out. Corrupt and illegal practices, including drug-money laundering, are merely the vehicles the banks have used to keep themselves afloat. In Mexico, this is how Wall Street's boy Carlos Salinas de Gortari propped up his economic "miracle," as investigators in that country are beginning to find out.

In Brazil, *EIR,* as well as other journalists, such as the respected Rubem de Azevedo Lima of *Correio Braziliense,* have already begun to expose similar operations, such as the government's plans to hand an additional chunk of the banking system over to the drug-tainted Safra family and its Banco Safra. The Safras, against whom there are multiple charges of money-laundering, already control a portion of Brazil's banking system through their ties to the Nasser brothers, chief stockholders of the Banco Excel. If Excel and its allied Union Bancaire Privée (UBP) of Switzerland succeed in purchasing the large Banco Economico, the country's sixth-largest bank, a significant part of the banking system will be in very dirty hands indeed. Aside from Safra's well-documented ties to the underworld, UBP itself is under U.S. government indictment for tax evasion and money-laundering in the state of Florida.

There is little doubt that a serious CPI investigation would unearth the scope of these dirty operations, and expose the bankruptcy of the government's neo-liberal "economic stabilization" program. It could also potentially bring down the President himself. Cardoso is personally linked to the Banco Nacional case through the fact that his son married into the Magalhães Pinto family, chief shareholders of the Banco Nacional.

Thus the panic. In response to the news that the Senate had voted to set up the CPI, Cardoso warned, "The senators have no idea how this will negatively affect Brazil's international image." Inside the Congress, pro-government legislators mobilized to either stop the CPI, or neutralize its effectiveness by stacking it with their people. The threat a CPI represents to the existence of the Real Plan was indicated by the London *Financial Times*'s March 18 report that it "would distract attention from other reforms."

Despite government attempts to sabotage the CPI, many analysts here believe it won't be easy to stop. There is tremendous popular outrage over the central bank's injection of close to \$16 billion to prop up the banking system, which *Istoe* magazine described in its March 6 issue as "the biggest financial hemorrhage in the history of the Republic." Popular indignation was also reflected in the Feb. 29 statement by the National Bishops Conference, attacking the government for failing to deal with financial fraud: "It is unjust that even the minimal funds of poor pensioners, small producers, and workers in general are stolen in order to inject money into the financial system. Sacrificing lives to save economic plans should stop."