'Real Plan' destroyed Brazil's banks

The nation's banking crisis has put Banco do Brasil, the biggest bank in Ibero-America, on the chopping block.

Fernando Henrique Cardoso's government has dedicated itself, almost exclusively over past months, to trying to prevent an explosion of the greatest banking crisis in the history of the country. On March 21, the government succeeded in its most desperate effort to date on this score, when, by doling out huge political and economic favors, it got the Senate to cancel a special committee, the CPI, which it had voted to set up to investigate the Central Bank's handling of criminal actions by leading private banks, starting with the bankrupt Banco Nacional and Banco Economico.

But the government shot down more than the CPI in the process. Its self-promoted image as too honest to be corrupted, went down the tubes with its open buying of the vote, while a clear message was delivered to the country, that "monetary stability" rests upon a national banking system so rotted out that no investigation could be allowed.

No sooner had the government celebrated its pyrrhic victory, than another bombshell hit the financial markets: the news that the largest bank in the country, Banco do Brasil, had lost $4.5 billion in fiscal year 1995. During 1995, the liquid assets of the bank fell from $9.5 billion to $3.5 billion, a loss equivalent to the size of the next-largest banking institution in the country, the private bank Bradesco. Losses continued in 1996, at a rate of $500 million a month, and the bank's board projected a $6 billion loss for the first six months of 1996: A clear path to bankruptcy.

Faced with this situation, the government injected $8 billion into the bank to keep it afloat, at a cost of an increase of the public internal debt on the order of $6 billion. The pension fund of the bank employees, the PREVI, was forced to contribute another $1.2 billion. Despite the government's intervention, the value of the bank's stock on the Rio and São Paulo markets fell over 30% in two days, a drop without precedent.

What really is bankrupt, however, is the government's stabilization plan. The "Real Plan" transferred a gigantic speculative bubble of international money into domestic debt, at very high interest rates, which has now led to the barely disguised insolvency of the national banking system. The Banco do Brasil is a victim, like the rest of the banking system, of increased interest rates, which threw the physical economy into generalized bankruptcy, from which only those sectors engaged in purely speculative activities escaped. Bad debts held by the bank in 1995 reached $18 billion.

Likewise, the agricultural crisis resulting from a policy of keeping prices of primary products below their cost of production, hit Banco do Brasil, the primary farm lending bank in the country. Despite the largest grain harvest ever (over 80 million tons), farming suffered a net $10 billion loss in 1995, a large part of which was passed on to the bank by arrears on its farm loans.

On top of that, as revealed by journalist José Casado recently in *O Estado de São Paulo,* the government has been using Banco do Brasil to quietly keep afloat various private banks facing severe liquidity problems. "It is known that 27 financial institutions are being sustained, daily, by a special fund, and the Banco do Brasil, through loans on the interbank market," allows the banks to balance their books monthly without appearing "as habitual frequenters at the rediscount loan window [at the Central Bank], where there is a risk of exposure to the public's natural curiosity," he wrote.

Although the Banco do Brasil's problems stem from the government's economic stupidities, they are being used as an opportunity to destroy the largest public financial institution in Ibero-America. The Banco do Brasil was founded in 1808; it served as the country's Central Bank until 1965; and it has financed the country's greatest achievements of economic development. Until 1987, the bank had a so-called "movement" account, which permitted it to rapidly inject credits into development areas monitored by its network of more than 3,000 agencies across the country. In a country the size of a continent, with poorly developed and underpopulated expanses, the bank has been a major factor in maintaining national cohesion.

The current government does not hide its intention to transform the already stripped-down Banco do Brasil into a private institution, an idea promoted by the London *Financial Times* on March 21. In the name of "competitiveness," the government proposes to close more branches, and fire more employees.

Yet it is precisely Banco do Brasil, a bank formed on the concept of a national bank, which Brazil urgently requires to act with dispatch, in the face of the imminent collapse of its national financial system, to reactivate a national credit system, freed from the speculative flows of international capital, and protected from the global financial collapse.