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EIR Economics

Empire Strikes Back: Spanish Banks Recolonize Ibero-America

by Dennis Small

Over the period from 1997-2003, and into 2004 to date, a radical transformation of the Ibero-American banking sector has been wrought, a re-drawing of the financial map which has strategic economic implications on a global scale for the disintegrating monetary system, and crucial political ramifications involving the synarchist deployment of "left" and "right" terrorism throughout the Americas. Under the byword of "globalization," and driven by the shockwaves emanating from a string of financial earthquakes stretching from Southeast Asia in 1997, to Russia and LTCM in 1998, to Brazil in 1999, and Argentina in late 2001, the banking systems of the nations of Central and South America have been forcibly transformed along lines imposed by the international financial oligarchy. These changes—which are as well the intended future of banking in other underdeveloped regions and the advanced sector, alike—include the following principal features, which we document and elaborate below:

1. After an extended period of growth, the size of the Ibero-American banking systems *shrank* by 4% between 1997 and 2003, from total assets of $882 billion down to $850 billion. On a per-capita or per-household basis, the fall was steeper—in the range of 15-20%

2. Foreign control over this shrinking total *grew* over this same period from about 35% in 1997, to 42% in 2003. Although significant, these total figures mask the critical fact that two Spanish banking giants—Banco Santander Central Hispano (BSCH) and Banco Bilbao Vizcaya Argentaria (BBVA)—nearly *doubled* the share of Ibero-American bank assets they control, from 9% of the region's total in 1997, to 17% in 2003. When the third largest foreign bank in the region, the United States' Citibank, is included, these top three banks today control nearly one-quarter of all Ibero-American bank assets—an astonishing level of foreign concentration and control.

Within this regional picture, Brazil continues to be the significant hold-out: foreign banks control only 21% of the total assets there, less than half the proportion for the region. If we exclude Brazil, the remainder of Ibero-America has 61% of its total bank assets in foreign hands. The high water mark, to date, has been reached in Mexico, where a stunning 82% of bank assets are under foreign control (see **Map 1**).

3. Total *lending* from this atrophied banking sector also imploded over the six-year period under review, collapsing by 6% in Argentina and Brazil, and by a shocking 22% in the case of Mexico—measured on a per household basis. Argentina, Brazil and Mexico are the three largest economies in Ibero-America.

4. From this shrinking volume of loans, a sharply *diminishing percentage went to private companies and individuals* for potentially productive economic use. By 2003, the lion's share of bank loans outstanding had been channeled into purchases of government bonds, which paid the banks prodigious interest rates, while using the loans mainly to roll over existing public debt, including foreign debt. This *bankers' feeding at the public trough* produced a dramatic transformation: In Argentina, in 1997 only 10% of bank loans outstanding were in government paper, but by 2003 it had risen to 50%; in Brazil, it rose from 19% to 43% over those six years; and in Mexico, it was already at a high 41% by 1997, and rose further to 43% in 2003.

The combined effect of these shifts meant that, between 1997 and 2003, domestically-controlled loans issued to the private sector plummeted by 31% in Argentina, by 39% in Brazil, and by a staggering 67% in Mexico.

In a word, there is virtually no banking sector left in Ibero-America to meet the needs of domestic development. It has all been transformed into a gigantic suction pump of wealth into the hands of international financial interests.

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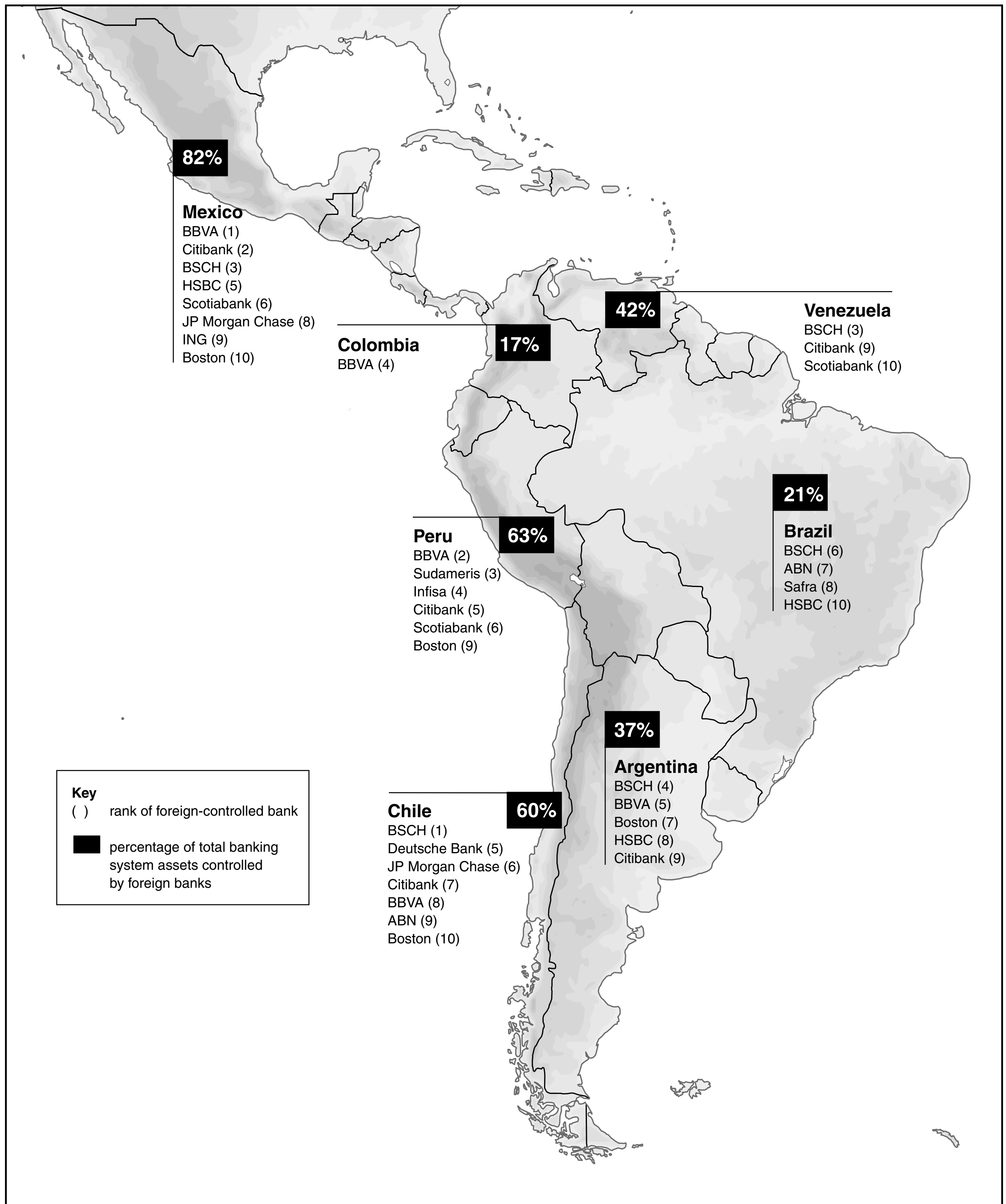
MAP 1
Foreign Bank Control of Assets, by Country



5. Leading the way in this forced march of Ibero-America into globalized banking—under which no sovereign Nation-state shall survive—is the above-mentioned **BSCH,** the largest bank in Spain, and the sixth largest in Europe. The BSCH, with 15 banks spread across Ibero-America, is the second largest bank in the sub-continent, with $77 billion in assets. Only the state-owned giant Banco do Brasil is larger, with just under $80 billion in assets.

The BSCH is headed by Emilio Botín, a fourth-generation oligarchic banker who is widely estimated to be the richest man in Spain. He is an open advocate of speculative banking—he calls this "pure banking"—rather than industrial financing, and he has forged strategic alliances between the BSCH and a number of central players in the international synarchist banking apparatus: the Royal Bank of Scotland (one of the most powerful British banks, with intimate family links to the royal household); the Morgan banking empire; and the powerful Venetian insurance giant, Assicurazioni Generali, which, among other things, financed Mussolini's rise to power in Italy.

No surprise, then, that Botín is a major backer of Spain's Franco-ite party, the Partido Popular (PP), and its recently defeated Prime Minister José María Aznar. In fact, according to various accounts, it was Botín who "created" Aznar, flying the little known PP leader to London in his private jet for a hush-hush meeting with select British bankers, prior to his 1996 election as Prime Minister. Similarly, Botín reportedly brags that he "owns" Rodrigo Rato, Aznar's Finance Minister, who was appointed as the new head of the International Monetary Fund in March 2004.

As the Madrid correspondent for the London *Economist* put it, Botín and Aznar "wanted to put Spain back where they felt it belonged at the center of a resurgent hispanic world," i.e., they seek *the Spanish re-colonization of Ibero-America on behalf of international financial interests.* This is the financial underpinning of the synarchist policy outlook reflected in the old Carlist dream, as former Uruguayan President Juan María Bordaberry recently urged, of "the reunification, first of awareness, and then in deeds, of Hispanic America and the King." Or, as the aggressively nostalgic president of the Carlist Argentine Traditionalist Brotherhood of Carlos VII, Federico Ezcurra Ortiz, stated: "We are part of that great Spanish empire as much as any of the regions of the Peninsula."

This summarily-described transformation of Ibero-American banking over the last six years has the following, broader implications:

- *Virtually no economic sovereignty remains* among the nations of Ibero-America, and the developing sector as a whole, as Lyndon LaRouche has frequently noted. A nation that does not control its own issuance and deployment of credit, has no sovereignty. The proper function of the banking and credit system of a nation, as American System exponent Alexander Hamilton so eloquently explained in his 1790 *Report on a National Bank* (see box), is to foster productive economic activity. Good banking is like the circulatory system of a living body, which delivers abundant cheap credit to all areas of productive economic activity. Today, the nations of Ibero-America don't even own their own blood.

- *There is no longer a significant distinction between domestic debt and foreign debt* in developing sector nations. As *EIR* was the first to note, back in 1993, portions of the domestic debt were becoming "internationalized" in various ways (such as the domestic issuance of dollar-denominated government bonds), and were thus de facto foreign obligations. For all intents and purposes, that process is now complete: the "domestic" banks holding government bonds are now largely foreign-controlled, while the national monetary systems have become progressively dollarized.

What we are looking at is a *single, global financial bubble*—not two distinct bubbles of foreign and domestic debt—which, like a cancer, has spread into and taken over the financial structure of every Ibero-American nation. This finding has economic implications, regarding the process of global financial disintegration; and political implications, regarding the steps which must be taken by nations seeking to ensure their survival under current global conditions.

- *The 1997-2003 issuance of a "wall of money" by the G-7 central banks never reached the Ibero-American financial system* as such—nor was it meant to. The financial oligarchy's policy decision to react to the global debt crises beginning in Asia in 1997, by pumping prodigious amounts of liquidity into the system, went exclusively to further inflate the speculative debt bubble held by the creditors. Thus we have the phenomenon of a contraction of Ibero-America's banking system—and especially of its potentially productive lending to the real economy—under conditions of global hyperinflation. The physical economies are starving to death, while the global financial system drowns in a tidal wave of speculative financial aggregates.

What the Argentina Crisis Revealed

In its Aug. 27, 1997 issue, *EIR* published a feature titled *British banks establish death grip over Ibero-America,* which documented the foreign banking takeover of the region that was underway, as reflected in data covering the five-year period between 1992 and 1997. We now return to the scene of the crime, to look at what happened subsequently, over the six years from 1997 through 2003.

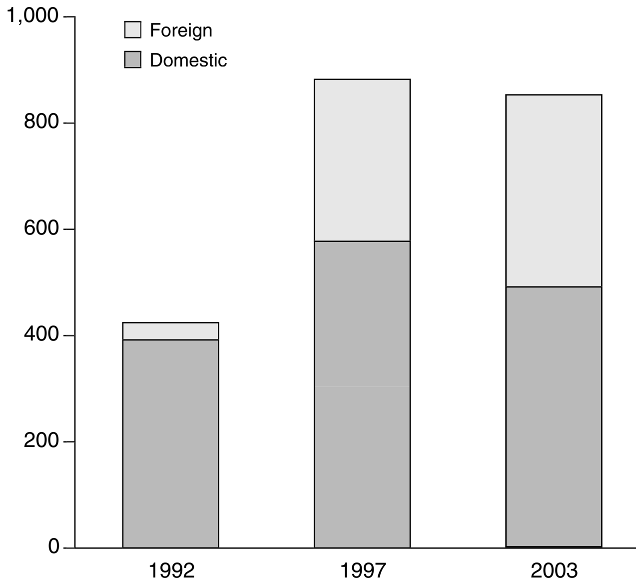
In **Figure 1,** we see the evolution of the total bank assets of Ibero-America over these two time frames.[1] From 1992-1997, total assets grew by 108%, and the foreign-controlled

1. Throughout this study, when we report the *total* for Ibero-America, we are taking the sum of the seven largest economies of the region—Argentina, Brazil, Chile, Colombia, Mexico, Peru and Venezuela. These seven comprise over 80% of the total bank assets of the entire Ibero-American region, just as their GNP's constitute about 90% of the regional total.

FIGURE 1

Control of Total Bank Assets

(Billions of Dollars)

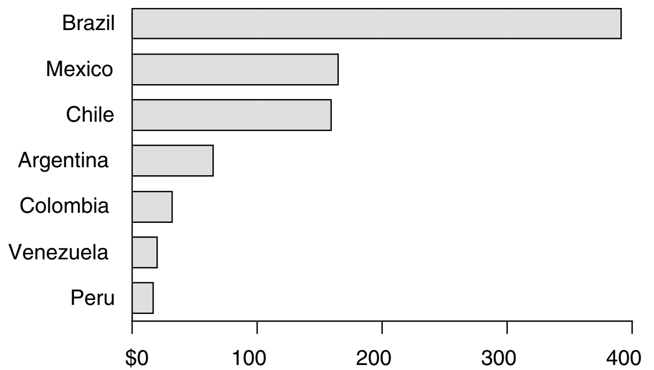


Sources: Argentina: Central Bank; Brazil: Central Bank; Chile: Superintendency of Banks and Financial Institutions; Colombia: Banking Superintendency; Mexico: National Banking and Stock Market Commission; Peru: Superintendency of Banks and Insurance; Venezuela: Superintendency of Banks and Other Financial Institutions; Salomon Smith Barney.

FIGURE 2

Bank Assets in 2003, by Country

(Billions of Dollars)



Sources: Argentina: Central Bank; Brazil: Central Bank; Chile: Superintendency of Banks and Financial Institutions; Colombia: Banking Superintendency; Mexico: National Banking and Stock Market Commission; Peru: Superintendency of Banks and Insurance; Venezuela: Superintendency of Banks and Other Financial Institutions; Salomon Smith Barney.

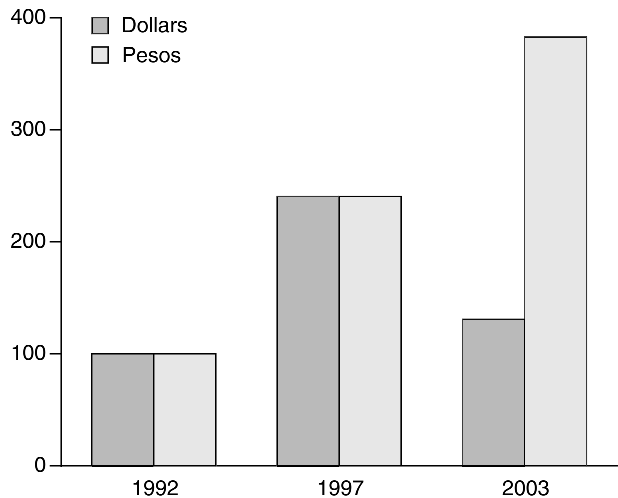
portion rose from 8% of the total in 1992, to 35% in 1997.[2] But then from 1997-2003, total assets shrank by 4%, while the foreign controlled share kept increasing up to 42% of the total. **Figure 2** shows bank assets, by country, as of December 2003: Brazil clearly dominates, with assets of $391 billion, which is more than double the size of the next largest banking system, that of Mexico ($165 billion).

One of the principal reasons for the 1997-2003 contraction of bank assets across Ibero-America, is the process of forced devaluations of local currencies that accompanied the waves of speculative assaults against those nations. For example, Argentina's bank assets, as measured in dollars and pesos, moved up in one-to-one tandem between 1992 and 1997, as the parity of the Argentine peso was fixed at one to the dollar (see **Figure 3**). But from 1997 to 2003, assets calculated in pesos continued to rise (albeit at a slower rate than before), but those assets expressed in dollars plummeted, as a result of the massive devaluation imposed on Argentina in January

FIGURE 3

Argentina: Bank Assets, Dollars vs. Pesos

(Index 1992 = 100)



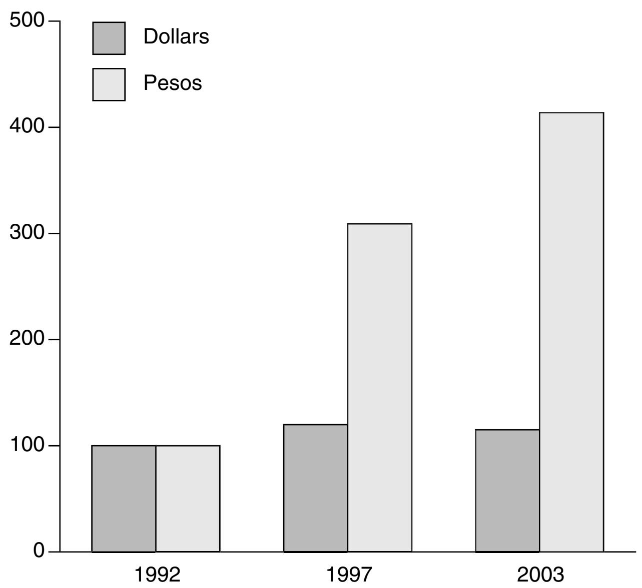
Source: Central Bank of the Argentine Republic.

2002. In other words, the devaluation made the banking system's assets held in pesos relatively worthless, in the dollarized environment of global finance.

A similar proccess occurred in Brazil, which also maintained a one-to-one parity between the real and the dollar through 1997, and then was forced to devalue in 1998; and in

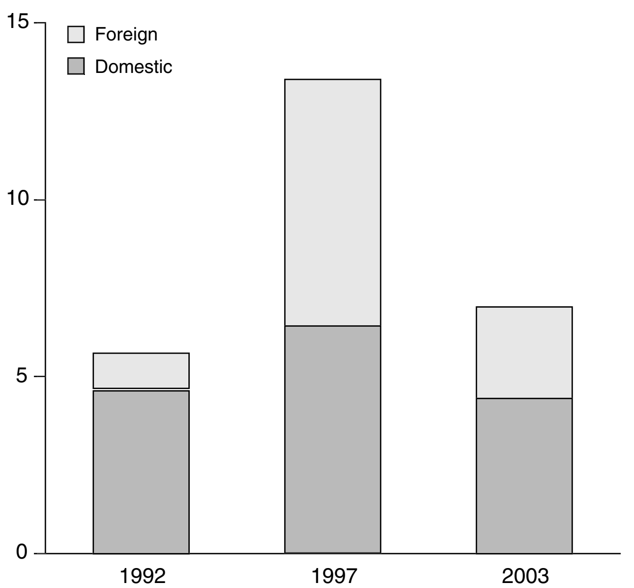
2. By foreign control of a bank, we signify the direct foreign ownership of 20% or more of a bank's assets. Other studies, such as Salomon Smith Barney's *Foreign Financial Institutions in Latin America*, Nov. 28, 2001, take 40% as the dividing line. The results of the two calculations are nearly identical.

FIGURE 4
Mexico: Bank Assets, Dollars vs. Pesos
(Index 1992 = 100)



Source: National Banking and Stock Market Commission, Mexico.

FIGURE 5
Argentina: Control of Bank Assets
(Thousands of Dollars per Household)



Sources: Central Bank of the Argentine Republic; Salomon Smith Barney; *EIR.*

Mexico, whose peso was progressively devalued over the last decade (**Figure 4**).

Turning to look at the relative size and control over the banking systems in these same three countries—which we present on a per-household basis in order to make them inter-comparable with each other and also proportional to their respective real economic demographic base—we see some revealing developments.

In the case of Argentina, the banking system collapsed by almost *half* (48%) in the wake of the 2001 debt crisis (see **Figure 5**). As part of this, there was a significant pull-back of foreign exposure in the banking system, such that the foreign-controlled share actually dropped from 52% of the total in 1997, to 37% in 2003. The combined effect left domestically-controlled bank assets of only $4,400 per household—down by a third from the $6,400 of 1997, and *less* than what it had been more than a decade earlier, in 1992 ($4,600).

What happened was that there was massive capital flight out of the Argentine banking system in the second half of 2001, induced by a foreign speculative assault on the country, and enhanced by the vulnerability of having total dollar convertibility and zero capital or exchange controls—as demanded by the International Monetary Fund over the previous decade, when Argentina was its poster boy. With capital fleeing the country full throttle, the Argentine government finally froze all bank accounts in the country in December 2001—closing the barn door after most of the horses had left. The foreign banks—led by the Spanish giants BSCH and BBVA—refused to back up the deposits caught by the government's freeze, and announced plans to reduce their exposure in Argentina. Some foreign banks, such as Canada's Scotiabank, quit the country altogether. Citibank, FleetBoston and Britain's HSBC (HongShang) all announced they would make no further investments in Argentina for the forseeable future. As a result, foreign control over Argentine bank assets dropped from 53% in 2001, to 37% today.

This Argentina pattern shows up in Ibero-America as a whole, where foreign control achieved a high water mark in 2001 of 48% of the total, and then fell back to 42% in 2003. As one United Nations study put it, "The explosive expansion of foreign banks has been reversed over the last few years, mainly as a result of the crises in Brazil and Argentina, which forced several of them to close down their operations."[3]

This "cut-and-run" approach puts the lie to the self-serving promotionals put out by outfits such as Salomon Smith Barney, a Citibank subsidiary, which wrote in a Nov. 28, 2001 report that foreign banks contribute to "an overall decrease in systemic risk" in Ibero-America, because they have "access to additional capital in times of crisis." Speaking of Argentina in particular, they argued that "the presence of foreign banks might be seen as a bulwark for the entire banking system."

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3. *Foreign Investment in Latin America and the Caribbean, 2003,* UN Economic Commission on Latin America and the Caribbean.

Equally amusing—given what actually happened in Argentina—is the preposterous claim of the Milken Institute in a November 2002 report—*The Foreign Conquest of Latin American Banking: What's Happening and Why?*—that "the presence of foreign financial firms is more likely to reduce capital flight."

In **Table 1,** we present a picture of the top 10 banks operating in Argentina—as we do for the other six countries studied. This shows that the two largest banks in Argentina are still the state-owned Banco de la Nación—which has been heavily, but so far unsuccessfully targetted for privatization over recent years—and Banco de la Provincia de Buenos Aires. Banco Galicia, a domestic private bank held by the Escanasy, Ayerza, and Braun families for 50 years, is holding on to third place, after almost going belly-up in 2002.

Galicia was especially hard hit by a run on deposits in December 2001, and the government almost nationalized it at that point. Then a 2002 scandal involving its sister Banco Galicia in neighboring Uruguay led to the loss of another $3.5 billion in deposits. Smelling blood in the water, various foreign banks tried to buy out the distressed Galicia, including Spain's BBVA and BSCH—which is already the main minority stockholder in Galicia with 7% of its capital. But the Argentine government came to the rescue—at least for now—providing nearly $2 billion from the Central Bank to cover the run on deposits, bolstered by an additional $4 billion in Central Bank "advances," according to press acounts.

Foreign and Domestic Vultures

In the case of Brazil (see **Figure 6**), foreign control has been held to a relatively low 21% of total assets, even as total bank assets dropped by 20% between 1997 and 2003. Today, total domestically-controlled assets per household stand at about $7,000—nearly double the 1992 level. Of the foreign banks operating in Brazil, the biggest is Spain's BSCH, which established a significant beachhead with its November 2000 purchase of the privatized São Paulo state bank, Banespa, today the sixth-largest in the country. But the two largest banks in the country remain the state-run Banco do Brasil—at $80 billion in assets, the largest on the continent—and Caixa Econômica Federal. Together, they hold fully one-third of the assets of the entire Brazilian banking system (see Table 1).

The next three largest banks are all private, domestically-controlled institutions: Bradesco, Itaú, and Unibanco. They have been kept flush with liquidity and able to ward off foreign takeover attempts, largely by the astronomical amounts of loot shoveled in their direction by the Federal government, in the form of bonds carrying the highest real interest rates on the planet (about which more below).

As for Mexico (see **Figure 7**), total assets fell by 20%

Hamilton on Banking and Credit

In his Report on a National Bank*, issued to the U.S. House of Representatives on Dec. 13, 1790, U.S. Treasury Secretary Alexander Hamilton discussed the need to establish a public National Bank, and the proper role of banking in general. Brief excerpts follow.*

It is one of the properties of Banks to increase the active capital of a country. . . . This additional employment given to money, and the faculty of a bank to lend and circulate a greater sum than the amount of its stock in coin are, to all the purposes of trade and industry, an absolute increase of capital. . . . And thus by contributing to enlarge the mass of industrious and commercial enterprise, banks become nurseries of national wealth. . .

It is immaterial what serves the purpose of money, whether paper or gold and silver; that the effect of both upon industry is the same; and that the intrinsic wealth of a nation is to be measured, not by the abundance of the precious metals, contained in it, but by the quantity of the productions of its labor and industry. . . . It is certain that the vivification of industry, by a full circulation, with the aid of a proper and well regulated paper credit, may more than compensate for the loss of a part of the gold and silver of a Nation. . . .

Well constituted Banks favour the increase of the precious metals. It has been shewn, that they augment in different ways, the active capital of the country. This, it is, which generates employment; which animates and expands labor and industry. Every addition, which is made to it, by contributing to put in motion a greater quantity of both, tends to create a greater quantity of the products of both. . . .

[We must take] precautions to guard against a foreign influence insinuating itself into the Direction of the Bank. . . . Such a Bank is not a mere matter of private property, but a political machine of the greatest importance to the State. . . .

Banks are among the best expedients for lowering the rate of interest, in a country. . . . The natural effect of low interest is to increase trade and industry; because undertakings of every kind can be prosecuted with greater advantage. . . . Every thing, therefore, which tends to lower the rate of interest is peculiarly worthy of the cares of Legislators.

TABLE 1

Top 10 Banks, By Country

Argentina

Rank	Bank	2003 Assets (Billions $)	% of Total Assets	Control	% Foreign Ownership	Dominant Foreign Bank
1	Nación	12.3	19%	state		
2	Provincia de Buenos Aires	7.7	12%	state		
3	Galicia	7.3	11%	private		
4	Río de la Plata	5.0	8%	foreign	95%	BSCH
5	Francés	4.8	7%	foreign	67%	BBVA
6	Hipotecario	2.6	4%	state		
7	Boston	2.6	4%	foreign	100%	FleetBoston
8	HSBC	2.4	4%	foreign	100%	HSBC
9	Citibank	2.1	3%	foreign	100%	Citibank
10	Ciudad de Buenos Aires	2.0	3%	state		
	Sub-total, top 10	*48.7*	*75%*			
	Country Total	**65.3**				

Brazil

Rank	Bank	2003 Assets (Billions $)	% of Total Assets	Control	% Foreign Ownership	Dominant Foreign Bank
1	Banco do Brasil	79.7	20%	state		
2	Caixa Econômica Federal	52.1	13%	state		
3	Bradesco	50.9	13%	private		
4	Itaú	38.1	10%	private		
5	Unibanco	22.0	6%	private		
6	Santander Banespa	19.7	5%	foreign	98%	BSCH
7	ABN Amro	18.8	5%	foreign	88%	ABN Amro
8	Safra	11.8	3%	foreign	100%	Safra
9	Nossa Caixa	9.5	2%	state		
10	HSBC	9.1	2%	foreign	100%	HSBC
	Sub-total, top 10	*311.8*	*80%*			
	Country Total	**391.2**				

Chile

Rank	Bank	2003 Assets (Billions $)	% of Total Assets	Control	% Foreign Ownership	Dominant Foreign Bank
1	Santander	26.5	17%	foreign	84%	BSCH
2	Chile	20.9	13%	private		
3	del Estado	17.7	11%	state		
4	Crédito e Inversiones	12.9	8%	private		
5	Deutsche Bank	12.5	8%	foreign	100%	Deutsche Bank
6	JP Morgan Chase	10.5	7%	foreign	100%	JP Morgan Chase
7	Citibank	10.5	7%	foreign	100%	Citibank
8	BBVA	8.7	5%	foreign	63%	BBVA
9	ABN Amro	7.6	5%	foreign	100%	ABN Amro
10	Boston	6.1	4%	foreign	100%	FleetBoston
	Sub-total, top 10	*133.9*	*84%*			
	Country Total	**159.4**				

Colombia

Rank	Bank	2003 Assets (Billions $)	% of Total Assets	Control	% Foreign Ownership	Dominant Foreign Bank
1	Bancolombia	4.3	13%	private		
2	Banco de Bogotá	3.2	10%	private		
3	Bancafé	2.3	7%	state		
4	BBVA Banco Ganadero	2.2	7%	foreign	85%	BBVA
5	Banco Agrario	2.0	6%	state		
6	Davivienda	1.8	6%	private		
7	Occidente	1.7	5%	private		
8	Conavi	1.6	5%	private		
9	Banco Popular	1.5	5%	private		
10	Colpatria	1.3	4%	private		
	Sub-total, top 10	*21.9*	*69%*			
	Country Total	**31.9**				

(continued on following page)

TABLE 1 *(continued)*

Mexico

Rank	Bank	2003 Assets (Billions $)	% of Total Assets	Control	% Foreign Ownership	Dominant Foreign Bank
1	BBVA Bancomer	43.2	26%	foreign	100%	BBVA
2	Banamex	36.3	22%	foreign	100%	Citibank
3	Santander Serfín	21.8	13%	foreign	100%	BSCH
4	Banorte	18.2	11%	private		
5	Bital	15.8	10%	foreign	99%	HSBC
6	Scotiabank Inverlat	8.5	5%	foreign	91%	Scotiabank
7	Inbursa	5.4	3%	private		
8	JP Morgan Chase	3.5	2%	foreign	100%	JP Morgan Chase
9	ING Bank	1.6	1%	foreign	100%	ING Bank
10	Boston	1.4	1%	foreign	100%	BankBoston
	Sub-total, top 10	*155.6*	*94%*			
	Country Total	**165.0**				

Peru

Rank	Bank	2003 Assets (Billions $)	% of Total Assets	Control	% Foreign Ownership	Dominant Foreign Bank
1	Crédito	5.6	33%	private		
2	BBVA Continental	3.6	21%	foreign	100%	BBVA
3	Wiese Sudameris	3.0	18%	foreign	97%	Sudameris
4	Interbank	1.6	9%	foreign	91%	Infisa
5	Citibank	0.6	4%	foreign	100%	Citibank
6	Sudamericano	0.6	4%	foreign	30%	Scotiabank
7	Interamericano	0.5	3%	private		
8	Financiero	0.5	3%	private		
9	Boston	0.4	2%	foreign	100%	FleetBoston
10	Trabajo	0.3	1%	private		
	Sub-total, top 10	*16.7*	*98%*			
	Country Total	**17.1**				

Venezuela

Rank	Bank	2003 Assets (Billions $)	% of Total Assets	Control	% Foreign Ownership	Dominant Foreign Bank
1	Provincial	3.1	15%	foreign	54%	BBVA
2	Mercantil	3.1	15%	private		
3	Venezuela	2.8	14%	foreign	99%	BSCH
4	Banesco	2.5	12%	private		
5	Industrial de Venezuela	1.1	6%	state		
6	Occidental de Descuento	1.1	5%	private		
7	Exterior	0.6	3%	private		
8	Venezolano de Crédito	0.6	3%	private		
9	Citibank	0.5	3%	foreign	100%	Citibank
10	Caribe	0.5	3%	foreign	27%	Scotiabank
	Sub-total, top 10	*15.9*	*78%*			
	Country Total	**20.3**				

Sources: Argentina: Central Bank; Brazil: Central Bank; Chile: Superintendency of Banks and Financial Institutions; Colombia: Banking Superintendency; Mexico: National Banking and Stock Market Commission; Peru: Superintendency of Banks and Insurance; Venezuela: Superintendency of Banks and Other Financial Institutions; Salomon Smith Barney.

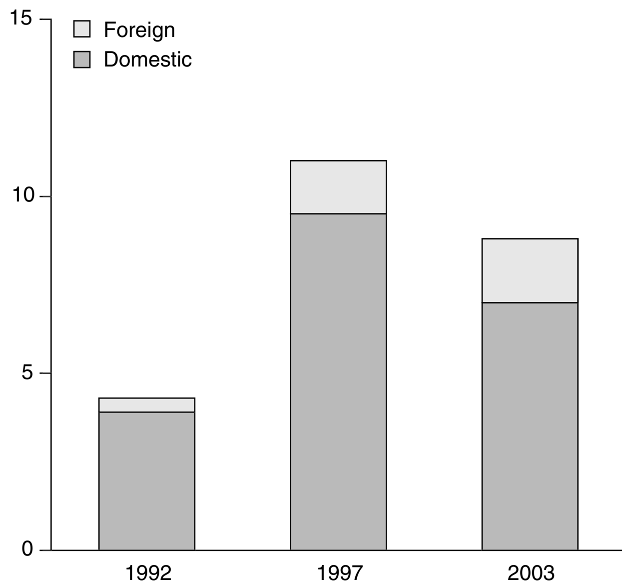
from 1997-2003—about the same proportion as in Brazil. But here, foreign control zoomed from an already high 59% of total assets, to a huge 82%, leaving a pathetic $1,200 per household in domestically-controlled assets—one-third of the Argentine level, less than a fifth of Brazil's, and a whopping two-thirds drop from Mexico's own levels of 1997.

The foreign takeover binge in Mexico was centered on three major moves:

• In May 2000, BSCH bought up Banca Serfín and subsequently merged it with its existing subsidiary, Santander Mexicano, to form Santander Serfín, the country's third-largest bank with almost $22 billion in assets.

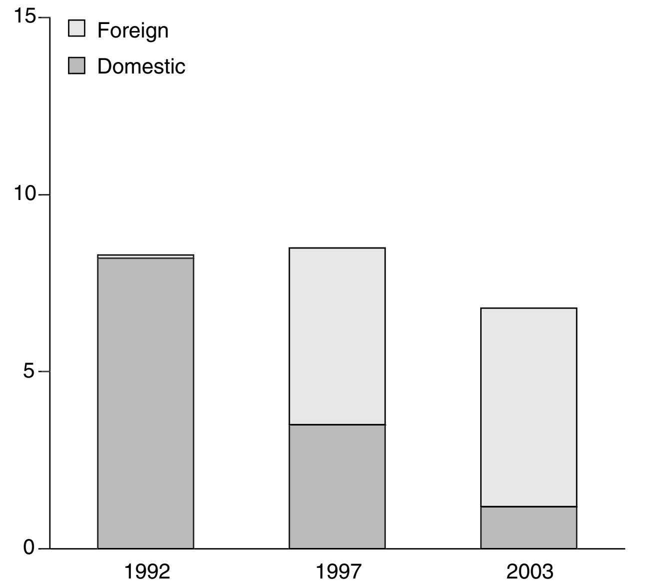
• One month later, rival Spanish bank BBVA bought a controlling 59% share of Mexico's largest bank, Bancomer, with $43 billion in assets, more than a quarter of the entire Mexican banking system. In March of 2004, BBVA pur-

FIGURE 6
Brazil: Control of Bank Assets
(Thousands of Dollars per Household)



Sources: Central Bank of Brazil; Salomon Smith Barney; *EIR.*

FIGURE 7
Mexico: Control of Bank Assets
(Thousands of Dollars per Household)



Sources: National Banking and Stock Market Commission, Mexico; Salomon Smith Barney; *EIR.*

chased the remaining 41% of Bancomer stocks.

- In May 2001, Citibank staged its own coup by snapping up 100% of Mexico's second-largest bank, Banamex, with over $36 billion in assets.

These three banks—now entirely in foreign hands—comprise nearly two-thirds of the Mexican banking system. One might ask: Did the foreign banks move into Mexico to help finance the country's productive economic development? Not a chance. Each was driven in large measure by the prospect of getting in on the rapidly growing "remittance industry"—as the $13 billion per year that Mexican workers in the United States send back to their families in Mexico, is quaintly referred to in the banking literature. Mexico, looted by the IMF and its foreign banking creditors, has been driven to export its own labor force in order to survive. With a 50% real unemployment rate, growing masses of impoverished and desperate peasants and others are crossing the border into the United States, in search of any kind of job, no matter how low the wage.

The Mexican government of Vicente Fox welcomes the $13 billion in dollars remitted to Mexico, and uses the foreign exchange to pay the foreign debt. Mexican banks make a killing on these financial transfers. Bancomer BBVA, for example, is estimated to control a 42% market share of this "remittance industry"—almost $5.5 billion in business in 2003. In fact, BSCH decided to sell 25% of its Santander Serfín assets to Bank of America in December 2002, in order to gain access to BoA's substantial banking network *inside* the U.S., and try to get in on the action on the remittance front.

Don't assume that such financial vulture tactics are limited to Mexico's *foreign*-controlled banks, however. Look at the only two domestically-controlled banks in Mexico's Top 10: Banorte (4) and Inbursa (7). According to the British credit rating agency Fitch, Inbursa—owned by Carlos Slim, the richest man in Ibero-America—specializes in banking "activities of a volatile nature," making "financial investment in corporate paper and international bonds of a speculative rating."

As for Banorte, the bank is owned by Roberto González Barrera, best known as the the owner of MASECA, the largest tortilla producer in North America, and the businessman who helped former Mexican president Carlos Salinas de Gortari flee the country in González Barrera's private jet in March 1995. He is also on the General Council of Assicurazioni Generali, the synarchist Venetian insurance company strategically allied to Spain's BBVA. As for what Banorte does as a bank, we leave it to the skilled linguists of "bankerese" at Smith Barney, who tried to explain it in their own words in their Jan. 7, 2004 report, *Mexican Banking System:*

> Banorte was not immune to the financial crisis that hit the country in 1995 . . . [and] like most of its peers,

participated in many of the [government's] rescue programs. . . . Banorte acquired two banks, Bancen (in 2000) and Bancrecer (in 2001), which . . . gave the bank the opportunity to engage in a unique business: the administration of nonperforming assets.

Both of the banks that Banorte acquired had a large portfolio of nonperforming loans. As part of Banorte's acquisition agreement with the Mexican government, the bank agreed to acquire Bancen and Bancrecer from the government, but without their respective nonperforming assets. The Mexican government agreed to this proposal; however, Banorte had to take on [government-issued] FOBAPROA bonds in lieu of the bad loans. Today, these FOBAPROA loans represent more than 42.3% of Banorte's total earning assets.

Given Banorte's large FOBAPROA bond portfolio, the bank decided to administer the associated bad loan portfolio on behalf of the government for a fee. In addition, later on, it bid for the administration of other banks' bad loan portfolios and also decided to actively participate in the purchase of distressed debt. These activities have been profitable for the bank, representing more than 30% of the bank's earnings.

In 1997, Banorte reached another strategic agreement, this time with Assicurazioni Generali of Italy, to tap into the insurance and private pension business in Mexico. . . .

Banorte has established an important presence in the loan recovery and administration business of nonperforming loans . . . Banorte's most outstanding achievement in this business is the purchase of nearly 42% of the portfolios auctioned by the Mexican government, resulting in an average recovery ratio of 40% of face value. In this particular business, return on investment on many of these assets has been more than 100%.

Such are the ways of today's *vulture funds,* recently made famous in the ongoing negotiations over Argentina's $88 billion public debt default in 2001: they pick over the carrion of a dying financial system, and the devil take the hindmost—and the people of the victimized nations.

The evolution of foreign control of banking in the rest of the continent, and of its Spanish component in particular, is summarized in **Table 2.** In the case of Colombia, the indicated drop from 51% in 1997 to 17% foreign control in 2003, undoubtedly overstates the actual decline. Although Colombian financial sources tell *EIR* that there has in fact been foreign net dis-investment in the Colombian banking sector, they estimate that current control is in reality in the 25% range. It is also worth noting that Colombia's official bank statistics do not reflect the presence of vast sums of illegal drug dollars washing through the economy. In many cases, the banks play the role of off-the-books intermediaries in money-laundering operations, which are not included in their official data, but are nonetheless a substantial part of their activities. In other cases, drug dollars circulate outside the formal banking system as such, in "exchange houses" and other locations.

TABLE 2
Evolution of Foreign Control of Bank Assets
(% of Total Assets)

	Foreign Control		Spanish Control	
	1997	**2003**	**1997**	**2003**
Argentina	52%	37%	13%	15%
Brazil	14%	21%	0%	5%
Chile	56%	60%	26%	22%
Colombia	51%	17%	27%	10%
Mexico	59%	82%	15%	39%
Peru	42%	63%	22%	21%
Venezuela	41%	42%	31%	29%
Total	**35%**	**42%**	**9%**	**17%**

Sources: Argentina: Central Bank; Brazil: Central Bank; Chile: Superintendency of Banks and Financial Institutions; Colombia: Banking Superintendency; Mexico: National Banking and Stock Market Commission; Peru: Superintendency of Banks and Insurance; Venezuela: Superintendency of Banks and Other Financial Institutions; Salomon Smith Barney.

Such drug-related financial activities are undoubtedly a significant factor in the banking systems of other Ibero-American countries as well, if less dominantly so than the Colombian case; but we have not attempted to capture this component in the current study.

Feeding at the Public Trough

The case of Banorte's dependence on income generated by investments in government bonds, is only typical of a trend which is sweeping Ibero-America like wildfire: Banks have shifted out of lending to the private sector (both corporate and consumer debt), and, like pigs, have gone to feed at the public trough of governments' bonded debt.

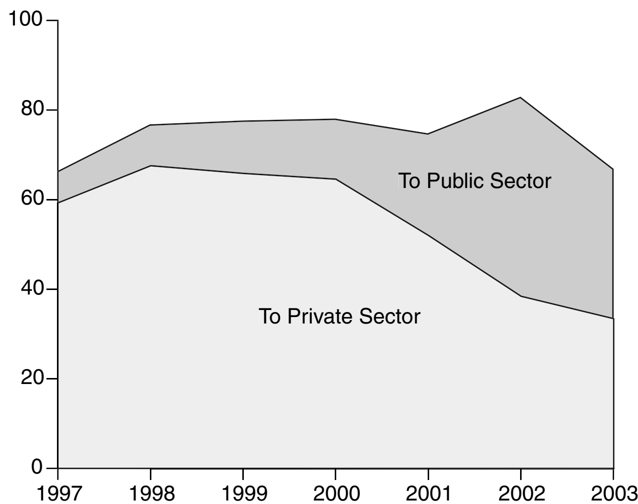
The foreign banks in Ibero-America have led the way. As the Milken Institute study delicately put it, "The allocation of [bank] assets to government securities is greater for foreign banks in every country" in Ibero-America, as compared to domestically controlled banks.

The interest rates that the region's governments are obliged to pay on their bonds, have been conveniently driven up by credit rating agencies such as Moody's, Standard & Poor's, and Fitch; by the omnipotent dictator of "country risk" spreads for these nations, JP Morgan Chase; and by relentless international speculative assaults against their currencies. This has all been to the benefit, principally, of the foreign banks allied with these agencies, and who hold the government paper. In fact, it is no exaggeration to say that, *without*

FIGURE 8

Argentina: Bank Loans Outstanding, by Sector

(Billions of Dollars)

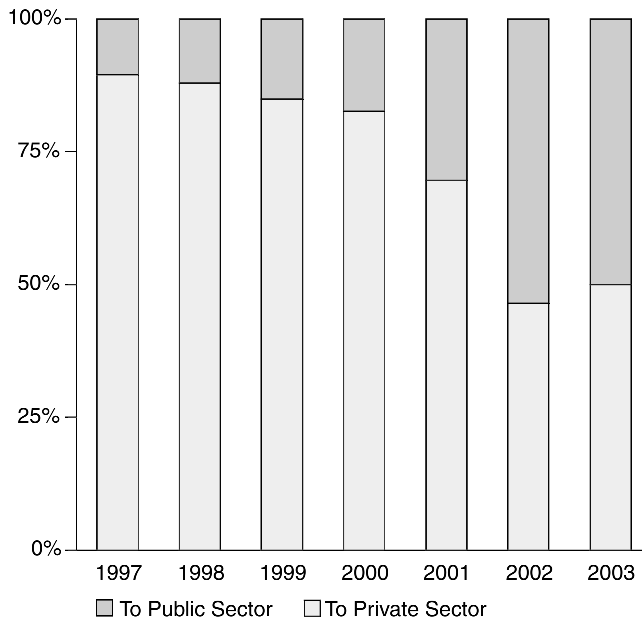


Source: Central Bank of the Argentine Republic.

FIGURE 9

Argentina: Bank Loans Outstanding, by Sector

(% of Total)



Source: Central Bank of the Argentine Republic.

this disguised government bail-out in the form of massive interest flows on artificially inflated public debt, the banking systems of most Ibero-American nations would have been forced to declare formal bankruptcy years ago.

As the handmaiden of this shift in banking activity—from traditional banking into modern-day blackmail and usury—the IMF and the creditor banks have developed a convenient obsession with what has come to be known as the *PBS*—the Primary Budget Surplus of the government. This is defined as government income minus expenditures, *exclusive of debt service payments.* In other words, it measures the resources the government is able to squeeze out of the domestic economy, and channel into paying off its mountainous public debt. This has become the *central issue* in all IMF negotiations with Argentina, Brazil and other debtor nations.

Consider the case of Argentina (**Figure 8**). Total bank loans outstanding stagnated over the period 1997 to 2003, but the component going to the business and consumer private sector shrivelled by 44%, while loans to the public sector (i.e., purchase of government bonds) skyrocketed by 381% over the same period. As a result, loans outstanding to the public sector leapt from 10% of the total in 1997, to 50% in 2003 (see **Figure 9**).

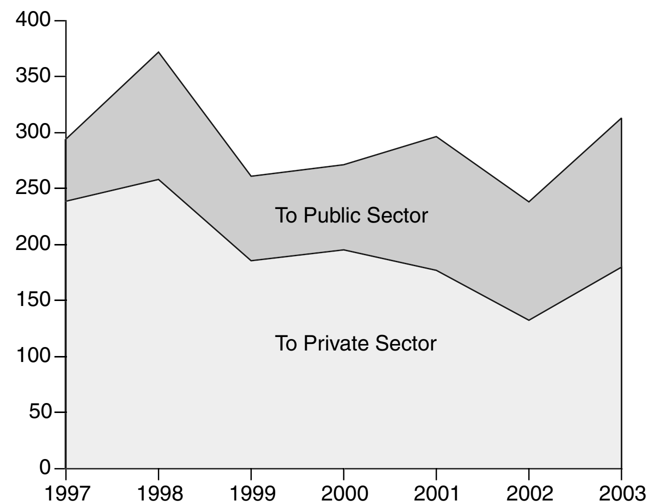
In Brazil we see a similar trend: Total loans also stagnated, while the public component grew by 141% (see **Figure 10**). By 2003, the public portion was 43% of the total—up from 19% in 1997.

In point of fact, the Brazilian banking system is on life support from the government treasury. Brazil's total public debt at the end of 2003 had risen to a staggering 913 billion reais ($311 billion, at the exchange rate of the time), which is just under 60% of the country's GNP. This public debt pays "the highest real interest rates on the planet," in the words of

FIGURE 10

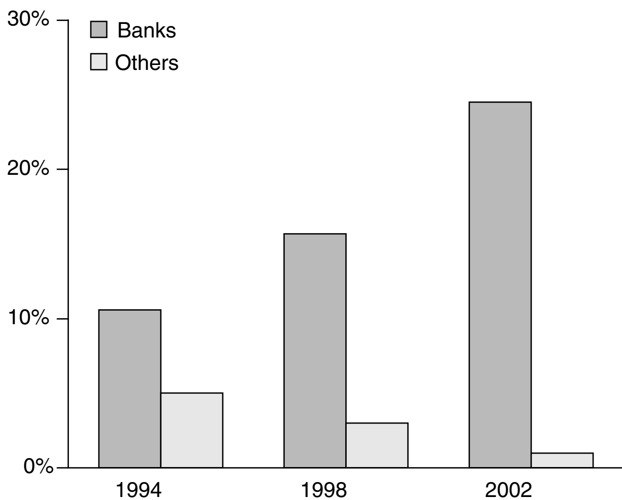
Brazil: Bank Loans Outstanding, by Sector

(Billions of Dollars)



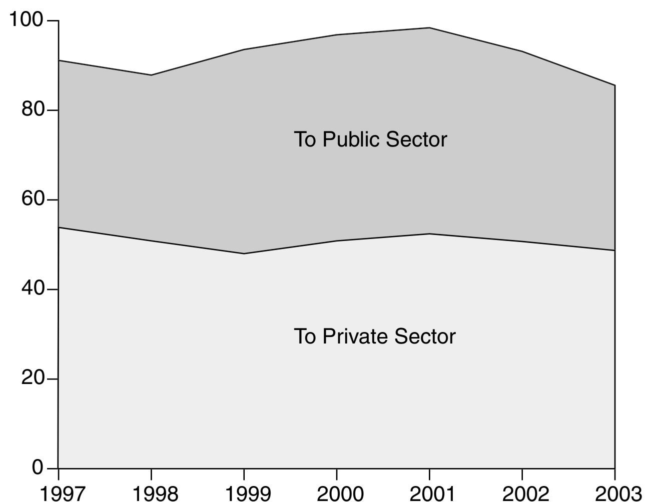
Source: Central Bank of Brazil.

FIGURE 11
Brazil: Business Profit Rates
(Percent)



Source: *Falha de São Paulo*, Brazil.

FIGURE 12
Mexico: Bank Loans Outstanding, by Sector
(Billions of Dollars)



Source: National Banking and Stock Market Commission, Mexico.

the Brazilian daily *Folha de São Paulo.* According to a Duke University study of Brazil's banks, "a traditional source of revenue had been gathering deposits from customers and investing in high-yield government bonds." And Smith Barney notes that "Brazilian banks have traditionally played an important role in financing the government by purchasing government securities . . . [and] Brazilian banks generated most of their profits from this activity"—25% in the case of Itaú, 29% for Bradesco, and 23% for Unibanco.

According to a revealing series of articles published by *Folha* over the course of the first half of 2003, Brazil's banks directly hold 39% of all government bonds. Six leading banks (Banco do Brasil, Bradesco, Itaú, Unibanco, ABN Amro, and Banespa Santander) own about half of that 39%. Another 33% of the total public bonded debt is held by investment funds, which in turn are principally administered by Brazil's major banks, who got an average 2% per year of the total assets administered, by way of additional profit.

As a result, profits for four leading banks (Bradesco, Itaú, Unibanco, and Banespa Santander) rose by 35% in the first quarter of 2003, compared to the same period a year earlier. More broadly, average profits for Brazil's banks rose from 10.6% in 1994, to 15.7% in 1998, to 24.5% in 2002. Compare this to the fate of non-banking corporations in the country, whose profit margin progressively fell from 5% in 1994, to 3% in 1998, to 1% in 2002 (see **Figure 11**). There is a direct relationship between these two opposite trends: In 1994, non-banking companies had to spend 3.5% of their revenues on financing (interest payments to the banks); in 1998, this had risen to 14.2% of revenues; and by 2002, they were siphoning off 35.1% of their revenues and handing it over to the banks.

In the cases of Chile and Mexico, the public bailout of (increasingly foreign) private banks took the form of direct government bailout operations after a banking crash. In Chile, for example, Smith Barney reports that, after 1982-83, the country's number-two bank, "Banco de Chile, like most major Chilean banks, sold certain non-performing loans to the Central Bank at *face value*. . . . In 1989, banks were permitted to repurchase the portfolio of non-performing loans . . . for a price equal to the *economic value* of such loans." [emphasis added]

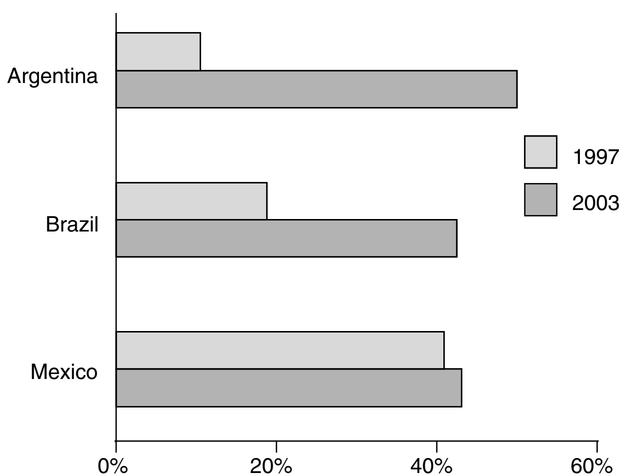
The case of Mexico's 1995 FOBAPROA bail-out is perhaps the most famous—and preposterous—of all, as exemplified by the Banorte case reported above. *EIR* has documented this rip-off extensively over the years, most recently in the May 21 issue ("No Recovery for Mexico, But 'Argentinization' ") which showed that holding FOBAPROA bonds is the principal profit-producing activity of every major Mexican bank. Without those bonds, each and every bank would be in the red.

In a word, Mexico's banking system has been dead in the water since the mid 1990s, as can be seen in **Figure 12.**

Figure 13 summarizes the dramatic shift into public sector lending—going on the government dole—in Argentina, Brazil and Mexico, between 1997 and 2003.

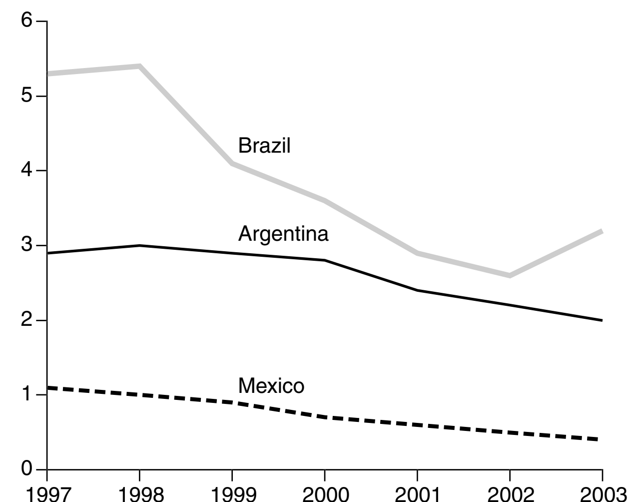
As has been stated, and is otherwise obvious, the shift into feeding at the public trough has meant a corresponding shift out of lending to the private sector, both corporate and consumer. When we further estimate the portion of that diminishing lending to the private sector, which comes from domesti-

FIGURE 13
Bank Loans Outstanding to Public Sector
(% of Yearly Total)



Sources: Central Bank of the Argentine Republic; Central Bank of Brazil; National Banking and Stock Market Commission, Mexico.

FIGURE 14
Domestically Controlled Bank Loans Outstanding to Private Sector
(Thousands of Dollars per Household)



Sources: Central Bank of the Argentine Republic; Central Bank of Brazil; National Banking and Stock Market Commission, Mexico; *EIR.*

cally-controlled banks—and consider this as the portion of banking activity which is potentially productive lending under sovereign control—we see the shocking results: *Sovereign national banking scarcely exists any more in Ibero-America.*

Figure 14 shows that, between 1997 and 2003, such lending dropped from $5,300 to $3,200 per household in Brazil (a 31% decline); from $2,900 to $2,000 in Argentina (down 39%); and most shocking of all, from $1,100 to a nearly non-existent $400 per household in Mexico (a 67% plunge). By the end of 2003, such potentially productive lending under sovereign control was 31% of total lending in Argentina, 45% in Brazil, and a mere 10% in Mexico (see **Figure 15**).

The New Spanish Empire

This dramatic redrawing of the banking landscape of Ibero-America over the 1997-2003 period had three principal protagonists: Spain's BSCH, Spain's BBVA, and the United States' Citibank. Behind them, however, stand older British and Venetian financial institutions—the guardians of the intended Synarchist world order.

Let's first look at the action on the ground, with aid of an abbreviated chronology. Of the three mentioned banks, it is the BSCH that has been a step ahead of the others: first in becoming a mega-bank through mergers and acquisitions on the home front, and then in expanding explosively in Ibero-America.

January 1999: Spain's Banco Santander and Banco Central Hispano merged, forming Banco Santander Central Hispano (BSCH), today the largest in Spain and sixth-largest in Europe. As of June 2002, its assets stood at $387 billion.

January 2000: Spain's Banco Bilbao Vizcaya and Banco Argentaria answered in kind, merging to form Banco Bilbao Vizcaya Argentaria (BBVA), Spain's second largest bank with $282 billion in assets as of June 2002.

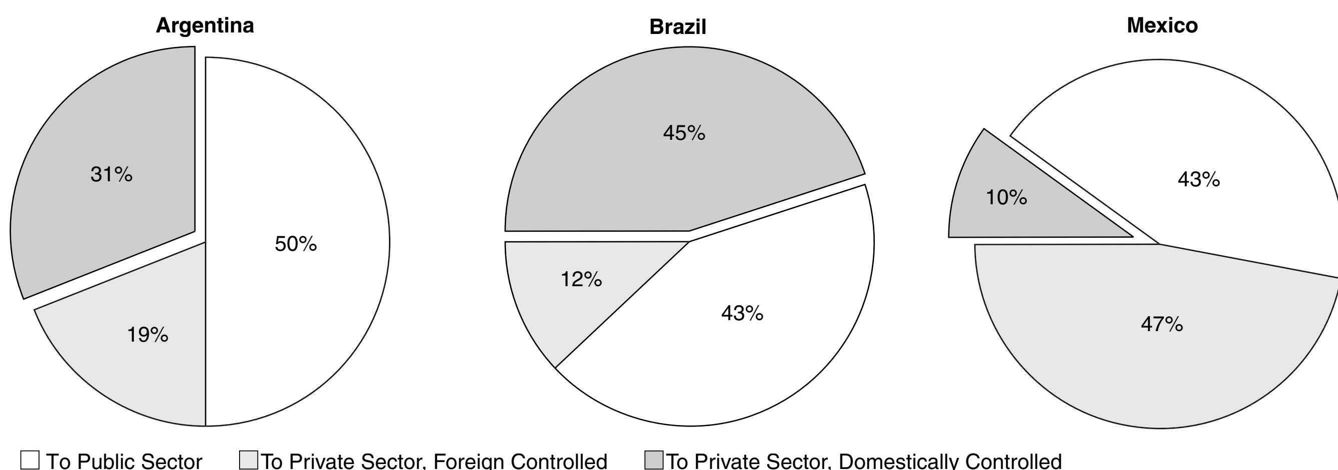
May 2000: BSCH launched a $40-plus billion move into Ibero-America, starting with the purchase of Mexico's Banca Serfín, which it subsequently merged with its existing subsidiary, Santander Mexicano, to form the $22 billion Santander Serfín, the third-largest in the country. The second half of the maneuver would come six months later, in Brazil.

June 2000: BBVA countered with its own $40-plus billion acquisition, snapping up 59% of Mexico's leading bank, Bancomer, with $43 billion in assets at the end of 2003. BBVA licked the plate clean in March 2004, purchasing the remaining 41% of Bancomer stock.

November 2000: BSCH won a heavily disputed international bid for Brazil's privatized Banespa, today the country's sixth-largest bank with $20 billion in assets. This gave BSCH a toe-hold in the coveted Brazilian market, which neither BBVA nor Citibank have been able to match. In fact BBVA chose to sell off its relatively small Brazilian subsidiary to the domestic bank Bradesco in January 2003.

May 2001: Citibank weighed in with its own nearly $40 billion move, purchasing 100% of Mexico's second largest bank, Banamex, with over $36 billion in assets at the end

FIGURE 15
Composition of Loans Outstanding per Household
(% of Total, 2003)



Source: Central Bank of the Argentine Republic; Central Bank of Brazil; National Banking and Stock Market Commission; *EIR.*

of 2003.

In less than a year and a half, these four mega-acquisitions had changed the banking landscape of the continent, dwarfing other significant moves such as Scotiabank's November 2000 purchase of Mexico's $9 billion Inverlat, Sudameris's progressive buyout of Peru's $3 billion Wiese, and HSBC's August 2002 takeover of Mexico's $15 billion Bital.

BSCH put the icing on its cake with the April 2002 acquisition of 35% of Chile's Santiago bank, and then merged it in August of that year with their existing holding, Banco Santander, to form the country's number-one bank today, with $27 billion in assets. And in Venezuela they similarly merged their two holdings in August 2002 to form Banco de Venezuela, the country's third-largest bank.

BBVA, likewise, followed its giant Bancomer operation with smaller moves, including the purchase of Chile's Bhif bank, the country's eighth-largest with $9 billion in assets.

When the smoke had cleared, BSCH, BBVA and Citibank were the number-one, -two, and -three foreign banks in Ibero-America, respectively. Together, they had more than doubled their combined assets between 1997 and 2003, amassing a staggering 24% of the total bank assets of the entire continent (see **Table 3**).

Today, BSCH gets half of its revenue and over a quarter of its total profits from its Ibero-American operations—as does BBVA. For both banks, their activities now include a dominant presence in the adminstration of privatized pension funds, which became a big business beginning in the mid-1990s and today amount to some $90 billion in assets in Ibero-America. In pensions, foreign companies have an even larger presence (52% of the total) than in the banking system. In this sector, BBVA is top dog, administering more than 25% of the total Ibero-American market. BSCH is in second place, followed by Citibank in third.

TABLE 3
Top 10 Foreign Banks in Ibero-America
(Billions of Dollars)

		1997 Assets	2003 Assets	Change 97-03	2003 % of Total Assets
1	BSCH	57	77	35%	9%
2	BBVA	26	66	153%	8%
3	Citibank	16	58	263%	7%
4	HSBC	46	31	–32%	4%
5	ABN Amro	na	28	na	3%
6	JP Morgan Chase	na	17	na	2%
7	Boston	10	16	63%	2%
8	Deutsche Bank	na	15	na	2%
9	Scotiabank	22	13	–42%	1%
10	Sudameris	na	3	na	0%
	Spanish banks	*83*	*143*	*72%*	*17%*
	Top 3 banks	*99*	*201*	*103%*	*24%*
	Top 10 banks	*na*	*324*	*na*	*38%*
	Total	**882**	**850**	**–4%**	**100%**

Sources: Argentina: Central Bank; Brazil: Central Bank; Chile: Superintendency of Banks and Financial Institutions; Colombia: Banking Superintendency; Mexico: National Banking and Stock Market Commission; Peru: Superintendency of Banks and Insurance; Venezuela: Superintendency of Banks and Other Financial Institutions; Salomon Smith Barney.

. . .And so was his great-grandfather. Emilio Botín-Sanz de Sautuola y García de los Ríos, President of the Banco Santander Central Hispano (BSCH) of Spain, is a fourth-generation banker, whose great-grandfather founded the original Banco de Santander in 1857.

"And so was his grandfather"; from the Caprichos, *by Francisco Goya. "This poor animal has been driven mad by Genealogists and Heralds. He's not the only one."*

And Its Controllers

In our first visit to the scene of the crime, back in August 1997, *EIR*'s feature included a section entitled "Meet the New Owners," which presented profiles of a number of British-dominated and/or drug-linked foreign banks, which remain important players in Ibero-America today: Banco Bilbao Vizcaya (BBV), Hongkong and Shanghai Banking Corp. (HSBC), Scotiabank, JP Morgan, and others (see *EIR,* Aug. 22, 1997). For the case of Citibank, we also refer readers to earlier *EIR* coverage for an in-depth picture of the controlling interests behind this institution, and its seedy activities—such as sponsoring and covering up the drug money laundering crimes of the convicted Raúl Salinas de Gortari in Mexico.[4]

Here we turn our attention, for the remainder of this study, to the revealing case of the Banco Santander Central Hispano (BSCH), as it best typifies the real nature of the foreign banking takeover of Ibero-America.

The Banco de Santander is an old-line financial institution, owned since its creation by the super-rich, and well-named, Botín family ("botín" is Spanish for "loot," or "booty.") Santander's current President, Emilio Botín-Sanz de Sautuola y García de los Ríos, is often listed as the wealthiest man in Spain. (In 1999, *Forbes* put his net worth at $3.4 billion.) He is the great grandson of the bank's founder, Emilio Botín y López, who established the bank in 1857 to meet the financial needs of the trade links between the northern Spanish port of Santander and Ibero-America.

4. See Richard Freeman, "Money-Laundering Scandal Could Rock Citibank, Fed," *EIR,* June 7, 1996; also John Hoefle and Scott Thompson, "Corrupt Fed Runs Economic Warfare To Prop Up Banks," *EIR,* July 30, 1993.

Like his father and grandfather before him, the current Emilio Botín takes pride in his bloodline, and intends to keep the bank in the family. His likely successor is rumored to be his daughter, the Harvard and JP Morgan-trained Ana Patricia Botín, who currently sits on the BSCH board and is president of Banesto bank, a BSCH subsidiary. Emilio's brother Jaime is also on the BSCH board.

Emilio runs the bank personally, like the patriarch that he is. At BSCH, according to a popular Madrid joke, there are only two kinds of employees: *Botines* and *botones* (Spanish for messenger boys).

Trained in Law and Economics at the Jesuit-run University of Deusto in Bilbao, the current Botín took over Santander from his father, Emilio Botín-Sanz de Sautuola y López, in 1986. Father and son were both committed, according to the Spanish daily *El Mundo,* to "the end of Santander bank's vocation as an industrial bank, and the beginning of its sole dedication to traditional financial business. . . . Botín has always been in favor of a model of pure banking." This approach guided the bnak's major mergers and acquisitions over the

years (Banesto in 1994, Banco Central Hispano in 1999), which brought BSCH to its current position as Spain's top bank, and one of Europe's leaders in speculative derivatives trading, in particular.

A year after assuming the presidency of Banco de Santander, in November 1987, Botín signed a strategic agreement with the Royal Bank of Scotland (RBS) to swap 10% of each others shares, and joined RBS's board. Sir George Mathewson, the President of RBS and President of the Association of British Bankers, likewise sits on the BSCH board today.

The Madrid correspondent for the London *Economist,* Adela Gooch, put this down to "the Botín family's penchant for the Anglo-Saxon way of doing business"; but more than Anglophilia is involved. RBS is one of the United Kingdom's oldest, leading financial institutions, which is at the heart of Synarchist banking layers internationally. As *EIR* explained in its 1997 study of foreign banking in Ibero-America, Rt. Hon. The Earl of Airlie is a prominent member of the RBS board of directors, and he is "the brother-in-law of Princess Alexandra, Queen Elizabeth's first cousin; a Privy Councillor, and is Lord Chamberlain of the Queen's Household—i.e., he heads up the innermost sanctum around the Queen. Until 1984, he was chairman of Schroeders PLC, the London merchant banking group which helped finance Hitler's rise to power in the 1930s."

Furthermore, the international private banking arm of RBS is Coutts & Co.—the private bankers to the Queen. BSCH's relationship with RSB is so cozy that in May 2003, according to the Santander web site, BSCH "reached an agreement with The Royal Bank of Scotland Group, under which [BSCH] acquired the private banking business in Ibero-America of its affiliate Coutts & Co." One of the law firms involved in the transaction put Coutts & Co.'s assets in Ibero-America at $2.6 billion.

In 1999, Botín's BSCH struck another strategic alliance with a second hard-core Synarchist financial institution: Assicurazioni Generali, the infamous and ultra-powerful Venetian insurance company. The 1992 edition of *EIR*'s best-seller *Dope, Inc.* describes Generali as follows: "Among modern financial institutions, the Assicurazioni Generali of Venice, the heir to the old Venetian fortunes, provides the most clues to the operations of the *fondi.* The 'Generali,' as an insurance organization, is a clearing house for the operations of numerous *fondi,* each one represented by its frontman, one of the principal European investment banks. Its board of directors consists of the principal banking fortunes of Western Europe. . . . Europe's two most powerful investment banks, Lazard Freres and the Banque Paribas, are the largest stockholders in the Assicurazioni through a variety of shells."

It is also well known that Generali played an instrumental role in bringing Mussolini to power in Italy.

BSCH's relationship to Generali is not unlike the one it has with RBS: they generally swap spit. Generali's President, Antoine Bernheim, sits on the BSCH board of directors, and the company owns 1.1% of BSCH's stock and 20% of the stock of Santander's insurance subsidiary. BSCH, in turn, owns 1.2% of Mediobanca, the main shareholder for Generali, and has a representative on the insurance company's General Council. In late 2003, Generali also acquired BSCH's 13.22% stake in Banco Vitalicio. According to a Sept. 23, 2003 Reuters wire, "both groups will maintain their global alliance, and are even studying broadening it to Latin America."

In 2001, then BSCH co-president José María Amusátegui was a member of Generali's General Council, along with former Governor of the Bank of Spain José Ramón Alvarez Rendueles; American drug lawyer and former ADL head Kenneth Bialkin; and Mexican vulture banker Roberto González Barrera of Banorte, among others. The extremely broad statutory function of the General Council, according to Generali's Annual Report 2001, is "providing high-quality advice in order to promote the most successful attainment of company objectives. . . [and it] has particular competence regarding issues arising from extension of the Company's geographical presence on international insurance markets and, more generally, international insurance and finance issues affecting the Company and Group interests."

Such is the nature, and the intent, of the Synarchist financial powers behind the Spanish banks' re-colonization of Ibero-America.

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