

BRAZIL BALLOT BATTERS BANKS

By *BETH PISKORA*

October 8, 2002 -- Thanks to an unresolved presidential election in Brazil, U.S. banking stocks are likely to be under pressure for weeks.

Brazilians went to the polls over the weekend but failed to elect a new president. A second election has been scheduled for Oct. 27, and the likely winner is Luiz Inacio Lula da Silva, a radical opposition leader who has threatened to default on Brazilian debt.

That would be a horror for big U.S. banks like FleetBoston Financial, Citigroup and J.P. Morgan Chase & Co., all of which have lent billions of dollars to Brazil.

"Far and away the biggest to be affected would be FleetBoston Financial, which has a \$10 billion portfolio in Brazil," said Craig Woker, a financial services analyst with Morningstar. "If Lula makes true on some of his radical ideological promises, you could be looking at a large default."

However, Lula has more recently backed away from some of his most radical proposals - including default - in order to gain more support in his bid to become president.

Still, U.S. banks aren't taking any chances.

Citi cut loans and other commitments in Brazil by 18 percent during the second quarter because of concern the government might default on the debt. It is believed that Citi continued to cut back on its Brazilian loan portfolio in the third quarter.

J.P. Morgan has also cut back its lending to Brazil. At the end of June, J.P. Morgan had only \$2.1 billion in loans and investments in Brazil, down from \$2.8 billion a year earlier. When J.P. Morgan's third-quarter earnings are announced, analysts expect to see the Brazilian loan portfolio whittled down further.

FleetBoston is also believed to be shrinking its Brazilian loan portfolio. And it has another potential ace in the hole: Henrique de Campost Meirelles, Fleet's former head of Latin American business,

won a seat in Brazil's Congress.

"He could become an alleviating factor were he to gain a prominent role in Brazil's government," said Woker.

In active trading yesterday, Fleet slipped 97 cents to \$17.75. Citi fell \$1.25 to \$26.73. J.P. Morgan Chase & Co. moved up 23 cents to \$16.77. Analysts attributed J.P. Morgan's gain to plans to cut its work force.

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