

17 Feb 2014 20:28 ESAST **DJ Brazil Banks May Owe \$140 Billion**

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SAO PAULO -- A new report by Brazilian banks suggests a legal battle over the consequences of economic plans launched nearly three decades ago could cost them more than \$140 billion, more than double their previous estimate.

Consumer advocates have said that amount is exaggerated and is a way for banks to pressure Supreme Court justices to get a favorable ruling for financial institutions.

Savers across the country claim they weren't paid enough interest on their savings by banks as Brazil navigated its way through a series of economic plans designed to stabilize prices between 1986 and 1991. As the government sought to cut down on inflation, savers claim the interest on savings accounts didn't keep up with rising prices.

The new report by the Brazilian Federation of Banks, or Febraban, which was seen by The Wall Street Journal, indicates the costs could be anywhere between 23 billion Brazilian reais (\$9.6 billion) and, in a worst-case scenario, 341 billion reais. The report, prepared by Sao Paulo-based consulting firm LCA, estimates the banking system as a whole has set aside just 8.3 billion reais to cover potential losses.

Government officials have warned that a ruling against the banks in line with the worst-case scenario could damage the financial system and harm economic growth. Representatives of the savings account holders, such as consumer-rights organization Idec, have said the estimates are inflated.

There is a two-step process for the holders of savings accounts. First, the Supreme Court must decide whether the economic plans in the 1980s and 1990s were constitutional. If the court finds they weren't, hundreds of thousands of Brazilians with savings accounts would be able to proceed with lawsuits in lower courts seeking compensation from the country's largest financial institutions.

The legal case has dragged on for nearly two decades in lower courts and has been on the Supreme Court's docket since 2010. Experts have said the cases could continue for many more years before banks have to pay out any money.

Finance Minister Guido Mantega and central-bank governor Alexandre Tombini have both been to the court to express their concerns about the consequences of a decision against the banks.

"There is no telling what the liabilities from this judgment will be," said Justice Marco Aurelio Mello in an interview. "The judiciary isn't engaged in any government policy. If acts were committed against the constitution, the Supreme Court has to rule."

Febraban said if the worst-case scenario materializes, banks would have to curtail spending to be able to build up cash piles with which to pay savers. The banks warn a reduction in credit could further damage an already weakened economy.

Febraban declined to comment on the figures in the new report. The banks were following government rules and aren't to blame for the problems, said Febraban

Chairman Murilo Portugal. "Banks didn't profit from changes in the saving accounts," Mr. Portugal said in an interview.

Idec argues that the overall cost would be much lower. Plaintiffs have died since the cases were first brought, and lower courts have narrowed the number of people with legitimate claims, said the group's director Marilena Lazzarini.

"Banks want to make people afraid by talking about a huge number and the potential impact on the economy," said Ms. Lazzarini.