



Yale SCHOOL OF MANAGEMENT  
*Program on Financial Stability*

## EliScholar – A Digital Platform for Scholarly Publishing at Yale

---

YPFS Resource Library

---

3-6-1995

### Harsh World for Mexican Banks

Financial Times

<https://elischolar.library.yale.edu/ypfs-documents/10290>

---

This resource is brought to you for free and open access by the Yale Program on Financial Stability and [EliScholar](#), a digital platform for scholarly publishing provided by Yale University Library. For more information, please contact [ypfs@yale.edu](mailto:ypfs@yale.edu).



## HARSH WORLD FOR MEXICAN BANKS.

750 words

6 March 1995

Financial Times

FTFTA

6

English

(c) 1995 The Financial Times Limited. All rights reserved

A bail-out scheme has come too late to save Banpais, writes Leslie Crawford.

The Bank of Mexico last week put in place what amounts to a massive rescue plan for the banking system - but it came too late to save Banpais, the country's eighth-largest bank, from technical insolvency.

The central bank's intervention on Friday at Banpais has exposed the banking system's vulnerability to Mexico's harsh new world of high real interest rates, economic recession and a volatile currency.

Grupo Financiero Asemex-Banpais, which also owns the country's largest insurance company, Aseguradora Mexicana, is the first financial group to be placed under central bank management since the peso devaluation in December. Bank regulators said Banpais failed to maintain adequate capital ratios and committed 'irregularities' which placed its financial health at risk.

The bail-out scheme came after banking regulators warned that as many as 10 out of Mexico's 16 domestic banks would require hefty capital infusions from the government's Bank Savings Protection Fund, Fobaproa, in order to be allowed to continue operations.

The troubled banks have reported difficulties in meeting the minimum capital adequacy ratios set by the Bank of Mexico primarily because continued depreciation of the peso has caused dollar-denominated assets to grow in peso terms. Banks are also under pressure to raise provisioning against non-performing loans, which have soared since devaluation sent the economy into a tail-spin.

Only the country's two largest banks, Banamex and Bancomer, which hold 45% of deposits in the banking system, have stated they do not need the help of Fobaproa.

Serfin, the third largest bank, said it might need Fobaproa's assistance to shore up capital and reserves. It said it needed 1.2bn pesos to meet a new central bank directive ordering banks to raise provisioning against bad debts to 60% of their non-performing loans. Serfin had already set aside 1.4bn pesos last year to increase its reserve coverage to 40%.

Even before December's devaluation, Mexican banks were making substantial provisions against growing past-due loans, which rose 42% in 1994. Since then, and with the economy deteriorating rapidly, regulators at the National Banking Commission estimate banks will need to find 4.4bn pesos to cover an even greater number of corporate and consumer loan defaults this year. Private financial analysts put the figure closer to 10bn pesos.

Nominal interest rates have trebled since devaluation as the central bank has tightened monetary policy to combat inflation. Consumer prices rose 6.1% in the first six weeks of the year - against an annual target of 19%, which few economists believe can now be met.

In addition to their capitalisation problems, the banks are trapped in a liquidity squeeze. Income has fallen as loans are restructured and maturities extended to forestall defaults, while the banks' sourcing costs have soared.

The blanket bail-out of the financial system has a catch. Fobaproa will recapitalise troubled banks by purchasing subordinated bonds, convertible into equity within five years. If a bank has not repaid Fobaproa in full after the

five years, the central bank says it will sell its shares. In addition, banks which seek Fobaproa's help will not be allowed to expand credit until they have repaid their debts to Fobaproa in full.

The loans of Mexico's banking system grew by 36% last year - nine times the rate of growth in the economy as a whole. Analysts regard the unchecked expansion of credit as the main cause behind the steep rise in past-due loans, which now total almost 9% of the system's total loan portfolio.

Mexico's main financial groups do not like the Fobaproa scheme. They risk losing control of the banks they own if their shareholding is diluted by failing to repay Fobaproa in the short time-frame given. They have accused the central bank of seeking 'back-door renationalisation of the banking system,' privatised under former President Carlos Salinas.

In the present circumstances, however, undercapitalised banks have little choice but to go cap-in-hand to Fobaproa. The dramatic collapse of bank stocks after devaluation - the market capitalisation of the entire financial system has fallen from \$26.8bn to \$7.24bn - has made new equity issues unfeasible in Mexico City's battered stock exchange.

The hope that foreign equity partners could be found for some of the more vulnerable banks looks increasingly unlikely.

(c) The Financial Times Limited 1995.

Document FTFTA00020051022dr3602234