Six Banks Receive Assistance from State-run Bank Capitalization Fund

Latin American Database

https://elischolar.library.yale.edu/ypfs-documents/10299
SIX BANKS RECEIVE ASSISTANCE FROM STATE-RUN BANK CAPITALIZATION FUND

1,244 words
12 April 1995
Sourcemex Economic News & Analysis on Mexico
SMXN
ISSN: 1054-8890
English
Copyright 1995 Latin American Database/Latin American Institute

On March 31, the federal banking regulation agency (Comision Nacional Bancaria, CNB) confirmed that six banks had received a total of 6.48 billion nuevo pesos (US$1.03 billion) from the temporary capitalization program (Programa de Capacitacion Temporal, Procapte) to allow them to comply with the capitalization levels of at least 8% required by the government (see SourceMex, 03/08/95).

Procapte was created by President Ernesto Zedillo's administration as one of various instruments, which taken together will provide a total of about US$11.6 billion to shore up the banking sector this year. Those funds also include US$3.25 billion pledged by the Inter-American Development Bank (IDB) and the World Bank (see SourceMex, 03/15/95). A handful of foreign private institutions are also expected to contribute to the fund. In fact, according to one report, the US-based J.P. Morgan bank plans to contribute about US$1 billion to the fund, although J.P. Morgan officials say the exact amount must still be decided.

The six banks that received the Procapte assistance in March include Mexico's third-largest financial institution, Banca Serfin, which obtained 3.2 billion nuevo pesos (US$510 million). The other five banks are Inverlat, Confia, Bital, Del Centro, and Oriente.

A seventh bank, Banco Mercantil Probursa, has also requested assistance from Procapte, but CNB officials said a decision has been deferred until after the bank completes negotiations with Spain's Banco Bilbao-Vizcaya. The Spanish bank has placed a bid to acquire a portion of Mercantil Probursa. If these negotiations are successful, then Probursa's bank reserves would meet the 8% capitalization requirement, thus eliminating the need for Procapte assistance.

According to a CNB statement, all the other Mexican banks have already met the government's minimum capitalization requirement and will not need Procapte assistance in the near term.

Even though most of the banks are able to meet the capitalization requirements in the near term, some economists warn that lingering problems such as a surge in overdue debt and the inability of banks to attract new deposits may create problems in the future for much of the banking sector.

According to Maria Eugenia Correa, an economist at Universidad Nacional Autonoma de Mexico (UNAM), the overdue debt during the January-March quarter reached 60 billion nuevo pesos (US$9.57 billion).

"The increase in the overdue debt has had a direct relationship with the insolvency problems experienced by such sectors as agriculture, real estate, industry, and even some services," said Correa at a forum on the banking sector on April 2.

Similarly, a study released by the US financial services company Morgan Stanley predicted that the majority of the banks in Mexico will have to seek assistance from Procapte this year. The study said an increase in overdue debt was inevitable, given the strict economic adjustment program imposed by the Zedillo administration to deal with the devaluation of the peso.

Indeed, in late March, the government's credit administration agency (Sistemas de Administracion y Control de Credito, SAC), released a report indicating that only four out of Mexico's 18 banks had enough resources to meet all obligations, in the case that all depositors decided suddenly to withdraw their funds. The four banks are Banco Mercantile del Norte, Promex, Bancrecer and Banoriente.
SAC’s calculations rated only the risk in the near term, based on a ratio of deposits to pending obligations. The report did not rate the financial health of the banks.

According to SAC, the other 14 banks collectively would require US$19.16 billion to meet their obligations. This included about US$11 billion for the country’s three largest banks: Banamex, Bancomer, and Serfin. Together, the three banks hold 60% of total Mexican banking assets.

Another program implemented by the Zedillo administration, the creation of special investment units—dubbed Unidades de Inversion (UDIs)—is expected to help both debtors and the banking sector. Under the program, loan principal and interest rates will be denominated in UDIs, which would remain constant in real terms. The UDIs were created to provide some certainty for debtors by restructuring debt payments at a more stable interest rate, whereby the index would be tied to a daily inflation index, rather than to volatile markets (see SourceMex, 04/05/95).

Many banks have already taken other steps to avert greater economic problems this year. For example, in late March Monterrey-based bank Abaco-Confia announced the suspension of its plans to open 50 new branch offices throughout Mexico this year. According to bank president Jorge Lakenau, the expansion would have cost Confia about US$80 million. He said the bank will instead devote its resources "toward activities that will help the bank remain capitalized."

Some banks have imposed tight restrictions on the issuance of new credit cards and other services. For example, on March 23 Citibank— which until this year had been the only foreign bank permitted to operate in Mexico—announced a drastic cutback in credit card services and a "more conservative stance" in regard to consumer loans. Bank officials said the move is an effort to "reduce exposure." Up until early this year, Citibank had issued 150,000 credit cards in Mexico through the Diners Club, Visa, and MasterCard systems.

The economic crisis in Mexico has forced many foreign banks to postpone plans to fully enter the Mexican economy. Some of these banks have opened token offices as a sign of their plans to eventually enter the Mexican banking sector, but few have actually opened full-scale operations. According to Enrique Aguilar, secretary of the bank workers union Federacion Nacional de Sindicatos Bancarios (FNSB), said there appeared very little chance that these banks would be able to initiate operations in Mexico this year, given the crisis in the banking sector. However, he expressed hope that conditions would improve enough for banks to enter Mexico during 1996.

In an interview with the daily newspaper El Universal, Aguilar said the 22 institutions would have created as many as 4,500 jobs in Mexico. The opposite has occurred instead, with banks having to lay off as many as 5,000 workers since the crisis erupted after the peso was devalued in late December.

At least one foreign bank, Bank of Boston, confirmed plans to enter the Mexican market in the short to medium term. In mid-March, Bank of Boston president Chad Gifford told reporters in New York that the bank is proceeding with plans to expand in Mexico, Argentina, and Brazil this year. Bank of Boston is one of the foreign banks to receive an operating permit in Mexico, where it has very minimal credit exposure. The bank has 43 branches in Argentina and 26 in Brazil. (Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on April 7, reported at 6.27 pesos per US$1.00) (Sources: Notimex, 03/16/95, 03/27/95, 04/02/95; Report from US Embassy in Mexico City, 04/03/95; Agence France-Presse, 03/22/95, 03/23/95, 04/02/95, 04/04/95; Associated Press, 03/16/95, 03/31/95, 04/02/95, 04/05/95; La Jornada, 03/20/95, 03/23/95, 03/24/95, 03/27/95, 04/01/95, 04/05/95; El Financiero International, 04/03/95, 04/10/95)