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Multilateral Banks Approve Loans for Mexican Banking System, Social Programs

by LADB Staff

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On March 9, the World Bank and the Inter-American Development Bank (IDB) announced the approval of loans totaling US\$3.25 billion to help the Mexican government support the country's ailing banking sector and enhance the country's social assistance programs. The announcement of the assistance was timed to coincide with the release of details of the government's new economic emergency measures on March 9. The funding includes US\$2.25 billion for the banking system, including US\$1.5 billion from the World Bank and US\$750 million from the IDB. This money will be channeled to the national banking commission (Comision Nacional Bancaria, CNB) and the savings protection fund (Fondo Bancario de Proteccion al Ahorro, Fobaproa).

The World Bank and IDB said the funds will be available to guarantee the solvency of the banks, strengthen audit procedures, create mechanisms that reduce the credit risks for inter-bank loans, and establish a system to assist with restructuring of corporate debt. In a statement following the announcement of the loans, the Finance Secretariat (SHCP) said the loans will allow the government to "guarantee that the banking system can respond to the needs of the productive sector in a timely and flexible manner." Additionally, the SHCP said the increased liquidity of the banking system will allow some resources to be allocated toward promotion of domestic savings.

According to some analysts, Mexico's banking system is in danger of becoming insolvent because of a high rate of non-payment of loans and lack of domestic savings to shore up reserves. An additional constraint is a new requirement by President Ernesto Zedillo's administration that banks increase the reserves on hand to cover overdue debts. In fact, the government has already been forced to take control of one bank, Banpais, citing "irregularities" committed by the company, including a lack of reserves and capital that "put its financial health at risk" (see SourceMex, 03/08/95). In addition to Banpais, a CNB report in early March indicated that another 14 banks are in serious trouble because of an increase in overdue debts. The list includes Banamex, Bancomer, Serfin, Inverlat, Bital, Mexicano, Atlantico, Mercantil-Probursa, Banco del Centro, Banorte, Confia (Abaco), Banoro, Bancreser, and Banco del Oriente. The CNB estimated that Mexico's banking system will need about US\$23 billion to prevent a massive rate of bankruptcies and closures.

Meanwhile, the IDB and the World Bank also approved US\$1 billion in loans for programs to assist the social sectors most vulnerable to the economic crisis facing Mexico. Each of the two institutions will contribute about US\$500 million of the total loans. An SHCP statement said the loans will be channeled to shore up programs in the areas of education, health and nutrition, and job training. The new funding for these programs has become crucial, given the government's commitment in the economic package announced on March 9 to reduce government expenditures by 10% during 1995. President Zedillo did not specify any areas targeted for expenditure reductions, although budget cuts are expected to affect all areas of government spending, including social programs. (Sources:

La Jornada, 03/05/95; Reuter, Spanish news service EFE, 03/09/95; Agence France-Presse, 03/10/95;
Notimex, 03/09/95, 03/12/95; El Financiero, 03/13/95)

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