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Mexico Seeks Ways to Reduce Overdue Debts Owed to Banks

by LADB Staff

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A surge in overdue debt since the beginning of 1994 has sparked debate about what additional steps President Ernesto Zedillo's administration and the Mexican congress can take to force the banking sector to reduce loans in arrears. According to some estimates, overdue debt in the Mexican banking system is now close to 100 billion nuevo pesos (US\$16.3 billion), or 15% of the total debt. In comparison, overdue debt at the end of 1994 was estimated near US\$10 billion. According to some analysts, the debt could increase to US\$20 billion this year, unless users are able to restructure their loans. One debt-restructuring program, unveiled by the Zedillo administration in late March, appears to have attracted very limited interest from the business sector and other borrowers.

The program, which allocated about 76 billion nuevo pesos (US\$12.4 billion), was created to provide some certainty for debtors by restructuring debt payments at a more stable interest rate, whose index would be tied to a daily inflation index, rather than to volatile markets (see SourceMex, 04/05/95). Under the program, loan principal and interest rates are denominated in investment units (unidades de inversion, UDIs), which remain constant in real terms. The UDIs can also be used as denominations for commercial contracts, but will not circulate as currency. However, according to representatives from the bankers association (Asociacion de Banqueros de Mexico, ABM) and the national banking and securities commission (Comision Nacional Bancaria y de Valores, CNBV), only about 3 billion nuevo pesos (US\$490 million) has been used for UDIs since the program was initiated in April.

At the hearing before the Senate banking committee, Eduardo Fernandez Garcia, president of the national banking and securities commission (Comision Nacional Bancaria y de Valores, CNBV), acknowledged that the restructuring program has presented a number of problems for the public. Fernandez placed some blame on the banks, which he said had not created a mechanism to implement and promote the program among the general public. Among other things, Fernandez specifically blamed a lack of proper training for banking personnel, a lack of communication between banks and debtors, and hesitancy among many borrowers to accept the UDIs as a legitimate restructuring instrument.

Even with a strong promotional effort, banks and the government face major difficulties in convincing the general public to make greater use of UDIs. For example, according to a survey conducted by the private sector's economic studies center (Centro de Estudios Economicos del Sector Privado, CEESP), almost 75% of the respondents said they had no plans to use the UDIs to restructure their debts. The survey was conducted in June and July among 500 executives and business owners in four metropolitan areas: Monterrey, Guadalajara, Leon, and Mexico City. Roughly 25% of the respondents said they had too little information to make a decision whether to enter the program. One in five of the respondents acknowledged owing overdue debt to a commercial bank. According to the survey, the percentage of overdue debt problems was even

greater among small-business owners. Some business leaders, such as Ernesto Vega, president of the finance committee of the industrial chambers confederation (Confederacion de Camaras Industriales, Concamin), said banks have placed profits above the needs of clients, which has exacerbated the problem. In addition to high interest rates, many business leaders complain about excessive service fees charged by banks. Some organizations have demanded "an immediate analysis of the overdue debt situation, before it becomes a social problem of uncontrollable dimensions."

A few business organizations have devised other schemes to deal with their debt problems. For example, in early August, 10 business and private groups announced the formation of an organization dedicated to dealing with debt problems with commercial banks. The organization, dubbed the association of bank debtors (Asociacion Mexicana de Deudores de la Banca), represents about 28,000 credit users. Among the participants are the credit card holders association (Asociacion Nacional de Tarjetahabientes) and the National Bar Association (Barra Nacional de Abogados). The principal mission of the organization is to negotiate with commercial bankers "just conditions" to restructure loans and reduce interest rates. Association president Victor Blake accused banks of insensitivity to the needs of clients, especially through their practice of "charging interest on interest." At the same time, Blake said the organization will seek to reach a negotiated compromise with banks, rather than a moratorium on payments. "If all of us suspend payments at the same time, then the banking sector will go bankrupt," said Blake. "Our country would fall into chaos."

On the other hand, this pledge not to suspend payments to banks has prevented participation from El Barzon, an organization that has been openly critical of the commercial banking system. El Barzon which was formed by middle-class farmers in 1993 to protest the banking sector's policies toward agricultural debt has managed to gain thousands of supporters in urban areas, particularly among credit card holders. In an interview with reporters in late July, El Barzon director Jorge Jose Quirino Salinas said that the agricultural sector's debt is about 30 billion nuevo pesos (US \$4.9 billion). According to Quirino, more than 1.2 million members of his organization have been forced to declare a moratorium on payments because of the inflexibility of commercial banks. As part of a plan to continue protests against commercial banks, Quirino said El Barzon will hold demonstrations in front of several commercial banks in six states in late August. Other agricultural organizations, such as the national confederation of rural property owners (Confederacion Nacional de Propietarios Rurales, CNPR) and the Confederacion Nacional Campesina (CNC), are also putting pressure on the federal government and banks to deal with the agricultural sector's problems of overdue debt.

Federal legislators have also used the debt situation to make a political point. During the joint session of the Senate finance and banking committees, Senators took the opportunity to criticize banks for "profiteering," and called on the Supreme Court and judicial authorities to address the problem. For example, during a hearing in late July, Sen. Fernando Solana of the governing Institutional Revolutionary Party (PRI) urged the passage of legislation to assist debtors deal with bank paperwork in debt related cases. He urged strong intervention by the Banco de Mexico (central bank) in this case. "We must stop tending solely to the interests of financial institutions and start thinking about the needs of the people," said Solana. The Permanent Legislative Committee (Comision Permanente de la Union), composed of members of the Chamber of Deputies and the Senate, has agreed to schedule a hearing to analyze the problems of overdue debt and propose

legislative solutions. Meantime, the bankers association (ABM) also announced plans to co-sponsor a forum in mid-August to examine the problems of overdue debt and spell out the options available to the business community. The forum will be held in conjunction with the confederation of chambers of commerce (Confederacion de Camaras de Comercio).

Additionally, the ABM stressed that financial institutions have about 170 billion nuevo pesos (US \$27.7 billion) available to restructure debts, which includes loans that are overdue and those that are about to become due. The statement said other programs besides UDIs exist to restructure loans. These programs are tailored to the debtor's "particular situation." The ABM acknowledged that high interest rates have created problems for many productive sectors, but also emphasized that criticisms against the banking system are unwarranted because many banks themselves are struggling to survive. Indeed, according to columnist Herminio Rebollo Pinal of *El Financiero* International weekly business newspaper, by the end of the third quarter of the year a number of banks will either be forced into mergers or require rescue by the federal government's banking protection fund (Fondo Nacional de Proteccion al Ahorro, Fobaproa). In early July, Banco Obrero already required Fobaproa assistance.

According to Rebollo, the same support will be needed for Banorie by the end of September.

Meantime, he said, banks such as Inverlat and Interacciones are poised to use foreign capital to remain afloat. Meanwhile, Sergio Raimond, director of the Instituto Panamericano de Alta Direccion de Empresas (IPADE), told participants at a forum on Aug. 4 that the Zedillo administration can solve the country's credit problems through changes in monetary policy. Raimond suggested that the Banco de Mexico increase the amount of money in circulation by 20%, which is sufficient to stimulate domestic demand for goods and services without causing a surge in inflation.

On the other hand, Raimond stressed that two conditions are needed for this program to be effective: a commitment by the business sector not to raise prices significantly and a comprehensive effort by the Zedillo administration to restructure the debts of all companies, no matter what their size. According to Raimond, the most important aspect of IPADE's proposal is that Mexico can deal with its problem of overdue debt without having to rely on foreign resources. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Aug. 8, reported at 6.13 pesos per US\$1.00] (Sources: Notimex, 07/27/95, 07/31/95; Agence France-Presse, 07/19/95, 07/25/95, 08/01/95, 08/02/95; Diario de Monterrey, 08/03/95; Reforma, 07/27/95, 08/02/95, 08/04/95, 08/08/95; La Jornada, 08/02/95, 08/04/95, 08/08/95; Excelsior, 08/02/05, 08/04/05, 08/08/95)

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