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Mexican Government Acquires Overdue Debt from Two Troubled Banks

by LADB Staff

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In early September, the national banking and securities commission (Comision Nacional Bancaria y de Valores, CNBV) announced a rescue operation for medium-sized banks Banca Promex and Banco del Atlantico to prevent the two financial institutions from going bankrupt. Through the rescue operation, CNBV used the national savings protection fund (Fondo Nacional de Proteccion al Ahorro, Fobaproa) to acquire more than 6.7 billion nuevo pesos (US\$1.06 billion) in overdue debt from the two banks. By taking this action, the federal government not only assumed responsibility for the overdue debt, but also helped the two banks increase their capitalization levels above the 10% required by the government. The capitalization level was originally set at 8%, but later increased to 10%. The overdue debt acquired from Banco del Atlantico totaled 3.7 billion nuevo (US \$589 million), thus increasing its capitalization level to slightly more than 12% from about 8.8% at the end of June.

Similarly, the government assumed about 3.03 billion nuevo pesos (US\$482 million) in overdue debt from Banca Promex, increasing the capitalization ratio for that institution to about 13%, compared with about 8.4% as of August. According to the CNBV, before the rescue operation, the overdue debt held by Banco del Atlantico represented about 21% of its total outstanding debt of 17.5 billion nuevo pesos (US\$2.78 billion) as of the end of June. The situation was similar for Promex, whose overdue debt had represented about 17% of the institution's total outstanding debt of 17.7 billion nuevo pesos (US\$2.8 billion) as of June 30 of this year. According to banking industry analysts, the rescue operation in addition to ensuring the financial health of the two institutions also represented an attempt by the government to increase the attractiveness of Banco del Atlantico and Promex to potential foreign investors.

Indeed, in a press conference announcing terms of the CNBV rescue, presidents Eduardo Carrillo Diaz of Banca Promex and Alonso de Garay of Banco del Atlantico said negotiations are currently under way to sell large interest in the two banks to European financial institutions. The two executives did not disclose the names of the potential European buyers, but noted that the participation of the foreign investors would inject both capital and the latest technology into Promex and Banco del Atlantico. They said this would allow the two institutions to remain competitive against the larger banks in Mexico, and against US and Canadian banks, which are gaining access to Mexico through the North American Free Trade Agreement (NAFTA).

The rescue operations for Banco del Atlantico and Promex are only the latest moves to shore up the ailing banking sector. According to CNBV statistics, the government has spent a total of 30.7 billion nuevo pesos (US\$4.9 billion) to help 19 financial institutions. Of the total, about 11.7 billion nuevo pesos (US\$1.86 billion) has taken the form of direct assistance to help boost liquidity, and the additional 15.7 billion nuevo pesos (US\$2.5 billion) has been used to acquire overdue debt.

In addition to Banco del Atlantico and Promex, the institutions that have received assistance from the government either through Fobaproa or through the temporary capitalization program (Program Temporal de Capitalizacion, Procapte) include Banca Cremi-Union, Banco Obrero, Inverlat, Banca Confia, Bital, Banco del Centro, and Banco de Oriente. Finally, financial authorities are also studying the financial situation of Banpais to determine how much money will be needed to rescue the institution. The Procapte program created this year with assistance from the World Bank and the Inter-American Development Bank (IDB) has provided most of its support to Grupo Financiero Inverlat. Procapte assistance to Inverlat this year has totaled 1.4 billion nuevo pesos (US\$220 million), out of the total of 3.28 billion nuevo pesos (US\$520 million) spent under the program so far this year.

Indeed, the financial assistance for Inverlat has been partly an effort to increase the attractiveness of the institution to a potential foreign buyer, Canada's Bank of Nova Scotia. According to CNBV sources, negotiations on this purchase are proceeding "in a satisfactory manner," although the agency provided no details. In July of this year, Agustin Legorreta, president of Inverlat's administrative council, said the sale of a partial share of Inverlat to the Canadian bank was one of the main options the bank was considering in order to help deal with the current financial crisis (see SourceMex, 07/05/95).

In addition to encouraging participation by foreigners in the Mexican financial industry, the CNBV has also encouraged some of the healthier Mexican banks to acquire ailing institutions. For example, in August of this year, the CNBV endorsed a transaction in which Monterrey-based Grupo Banorte acquired a controlling interest in Guadalajara-based Banco del Centro. Under the agreement, Banorte obtained an 88.11% share in Banco del Centro, leaving the original owner Multiva-Bancen with an 11.89% share. Banorte director Francisco Gonzalez Martinez told reporters the move not only provides the Monterrey-based bank with a foothold in central areas of Mexico but also allows Banorte to double its size.

Coincidentally, in late August the CNBV released a report on the health of the banking system. According to the report, banks collectively attained about 2.194 billion nuevo pesos (US\$349 million) in profits in the first half of the year, a decline of about 51% from the same period in 1994. The overdue debt of the banking system increased by 77.4% in the January-June period, to about 66.49 million nuevo pesos (US\$10.6 million). Nine of the 38 banks in the system reported losses totaling about 1.56 billion nuevo pesos (US\$248 million), including Inverlat, Banco Mexicano, Probursa, Confia, Banco Industrial, Banco del Sureste, Banco Interestatal. The bulk of the losses were incurred by Probursa, whose negative balance sheet reached 1.1 billion nuevo pesos (US\$175 million). The bank was recently acquired by Spain's Banco Bilbao-Viscaya (see SourceMex, 06/07/95). The other banks reported losses between 5.2 million nuevo pesos (US\$828,000) and 179.3 million nuevo pesos (US\$28.5 million). Conversely, the CNBV report said banks such as Banamex, Bancomer, Serfin, Citibank, Inbursa, and Banco del Norte reported at least some profits during the six-month period.

Of those banks, the strongest performance was reported by Banamex, whose profits during the six-month period reached 893.5 million nuevo pesos (US\$142.2 million). On the other hand, the bank's profits were down by 18.4% relative to those in January-June 1994. The second strongest performance was reported by Inbursa, whose profits during January-June reached 720 million nuevo

pesos (US\$114 million), or 17 times higher than the profits reported in the first six months of last year. Citibank, which until recently had been the only foreign bank allowed to operate in Mexico, reported profits of 461.5 million nuevo pesos (US\$73.48 million), an increase of 77% relative to the first six months of 1994. Over the past year, Citibank expanded its services, taking advantage of the opening of the Mexican financial sector to foreign institutions.

The fourth most profitable bank was Serfin, which reported earnings of 449.7 million nuevo pesos (US\$71.6 million). However, these profits were only 0.7% higher than those during the first six months of last year. Other banks that increased their profits from last year were Banco Promotor del Norte and Banco Mifel. On the other hand, Bancomer's profits of 433.8 million nuevo pesos (US\$69 million) were down about 30.8% from the same period last year. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Sep. 12, reported at 6.28 nuevo pesos per US \$1.00] (Sources: Agence France-Presse, 08/29/95; Reforma, 08/25/95, 09/06/95; Excelsior, 09/06/95; La Jornada, 08/25/95, 09/06/95, 09/07/95)

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