

11-15-1995

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Recommended Citation

LADB Staff. "Debt Restructuring Program Attracts Only 60 Percent of Eligible Participants." (1995).
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Debt Restructuring Program Attracts Only 60 Percent of Eligible Participants

by LADB Staff

Category/Department: Mexico

Published: 1995-11-15

According to a report released by the national banking and securities commission (CNBV) in early November, the government's special debt-restructuring program (Acuerdo de Apoyo a Deudores de la Banca, ADE) attracted fewer than 60% of the total number of debtors eligible to participate in the program. The ADE, which was announced in late August, offered amnesty to debtors who were delinquent on their loan payments or who were about to default on their loans, as long as they enrolled in the ADE by Oct. 31 (see SourceMex, 08/23/95). Those debtors who signed up by that date received a grace period of another two months, until Jan. 1, 1996, to complete the paperwork to restructure their debt.

The CNBV statistics, however, showed that only 1.25 million debtors out of a targeted 2.10 million debtors decided to take advantage of the program by the enrollment deadline of Oct. 31. According to the CNBV, three out every four debtors with delinquent credit card payments had signed up to restructure their debt. As of the end of September, credit card holders represented almost 48% of all those persons with overdue debt.

In contrast, the CNBV said only one in four businesses with overdue debt had decided to take advantage of the program. According to the commission, businesses accounted for 45% of the total debt. Of the total number of businesses with overdue debt, roughly 21% had not been able to meet their monthly payments for four or more months. Still, the possibility that the enrollment in the ADE would be less than desired was already evident by mid-October, two weeks before the deadline. An informal survey conducted by the daily newspaper Reforma in mid-October showed that more than one-third of the indebted businesses and individuals polled were not planning to restructure their loans.

The survey polled 370 private consumers and 185 businesses. About one-fourth of the respondents in each category had already decided to participate in the ADE. Close to 40% in each category had decided to participate before the deadline, while another one-third said they would not enter the ADE. Still, the decision by a relatively high percentage of debtors not to participate in the ADE was in part a protest against what was viewed as "token" steps by Mexico's large commercial banks to address Mexico's economic problems. Many debtors feel that bankers should find ways to reduce interest rates and produce a more comprehensive scheme of restructuring and even forgiving debt.

Indeed, in anticipation of the Oct. 31 deadline, a number of groups formed a special alliance (Alianza Nacional) to launch nationwide protests against what they described as the "usury" and the "aggressions" of the banking sector. To commemorate the traditional "Day of the Dead" holiday on Nov. 1, hundreds of protestors marched through Mexico City carrying coffins, which they said symbolized the death of the ADE. The protestors, dressed in black and wearing skeleton masks, carried the coffins to banks throughout the city. In a press conference, leaders of the agricultural

organization El Barzon which is one of the principal organizers of the alliance repeated their demands for President Ernesto Zedillo's administration and bankers to find a new scheme that will "truly benefit" the thousands of Mexicans who are delinquent on their loans, many through no choice of their own. El Barzon is an organization of middle- income farmers, which formed in 1993 to protest high interest rates and lending practices of agriculturally oriented banks. The organization has since expanded to include urban residents, mainly credit card holders.

El Barzon leaders said the alliance will seek remedies to address the problem of overdue debt through the legislative process. In fact, they said that more than 200 legislators from the four parties represented in the Chamber of Deputies had pledged to support legislation to enact a more comprehensive debt forgiveness legislation. Meantime, the overdue debt is becoming a growing problem for the banking sector, whose profits have fallen by about 43.5% so far in 1995. According to the most conservative estimates, overdue debt at the beginning of this year was close to 100 billion nuevo pesos (US\$12.9 billion).

One preliminary estimate by the CNBV suggests that the overdue debt had surged to 240 billion nuevo pesos (US\$31.2 billion) by the end of October. ABM president Jose Madariaga Lomelin said that despite the passage of the deadline, banks would not necessarily resort to legal actions "until we can prove that the debtor does not want to pay." On the other hand, Madariaga ruled out the possibility that a new program to restructure debt would be made available. "The formulas to renegotiate debt were already spelled out in the ADE," he said. "We are not offering any other new formulas." [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Nov. 14, reported at 7.70 nuevo pesos per US\$1.00] (Sources: Agence France-Presse, 10/04/95; 10/16/95; Notimex, 10/16/95; Inter Press Service, 10/31/95; El Financiero International, 10/23/95; La Jornada, 10/20/95, 11/01/95; Excelsior, 10/21/95, 10/31/95, 11/02/95; El Financiero International, 11/06/95; Reforma, 10/16/95, 10/31/95, 11/03/95, 11/09/95, 11/10/95)

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