

5-7-1997

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LADB Staff

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Recommended Citation

LADB Staff. "Debtors Group, Academics Protest Plan to Capitalize Banking System." (1997). <https://digitalrepository.unm.edu/sourcemex/3742>

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Debtors Group, Academics Protest Plan to Capitalize Banking System

by LADB Staff

Category/Department: Mexico

Published: 1997-05-07

In mid-April, the Finance Secretariat (SHCP) said it will proceed with a controversial plan to capitalize the banking system. The SHCP decision drew immediate criticism from the debtor-rights organization El Barzon and from several legal and academic experts. Under one phase of the plan, the savings protection fund (Fondo Nacional de Proteccion al Ahorro, FOBAPROA) would auction off a total of 340 billion pesos (US\$42.9 billion) in assets confiscated from borrowers with overdue debts to commercial banks. The total includes 160 billion pesos (US\$20.2 billion) in assets obtained from institutions that went bankrupt and were assumed by the federal government. The remaining 180 billion pesos (US\$22.7 billion) were obtained through the government's capitalization program, under which FOBAPROA assumed loans from troubled banks in exchange for financial assistance.

The SHCP said FOBAPROA's capitalization agency, Valuacion y Venta de Activos (VVA), will offer 150 million pesos (US\$18.9 million) in assets and debt on financial markets for a four-week period, starting May 12 and concluding June 6. The VVA said the placement operation will be managed by the US financial institution Bankers Trust. According to the VVA, the auction will be open to Mexican and foreign investors, who will be required to pay a participation fee of 10,000 pesos (US \$1,265), plus the applicable value-added tax (IVA).

El Barzon opposes plan to sell overdue debt to foreign buyers In addition to selling off assets, the VVA will auction off a total of 104.9 billion pesos (US\$13.3 billion) in delinquent loans to private investors on foreign financial markets. FOBAPROA acquired these from banks at 50% of value.

The proposal to auction off the overdue debt on financial markets has attracted strong opposition from El Barzon. In late April, members of the organization's chapter in Mexico City organized a large protest in front of the SHCP headquarters to urge government officials to seek an alternate plan to deal with overdue debt.

El Barzon executives said the SHCP plan to acquire 104.9 billion (US\$13.3 billion) fails to help all debtors, since the actual overdue debt is more than 304 billion pesos (US\$38.4 billion). Jose Maria Imaz, a co-director of El Barzon Metropolitano, said the organization supports the government's decision to acquire overdue loans, but opposes the sale of these loans on foreign financial markets. According to Imaz, El Barzon has proposed an alternate plan by which the government would establish a special trust (Fideicomiso de Recuperacion, FR) to hold overdue debt acquired from financial institutions.

Under the plan, the government would acquire that part of the overdue debt targeted to be auctioned off at its real market value, which El Barzon estimates at 22.6 billion pesos (US\$2.85 billion). The plan would provide an opportunity for debtors to renegotiate their overdue debt, since

they would be allowed to pay back balances over a ten-year period without incurring additional interest. El Barzon met with deputy finance secretary Tomas Ruiz in March to seek assistance in developing a plan to restructure overdue debts.

According to Imaz, Ruiz told El Barzon representatives the SHCP could not provide the type of help sought by the organization. "We came to Ruiz with certain demands, but he said he could do absolutely nothing for us," Imaz said at the protest in front of the SHCP. "Now we are presenting a new document in which we are asking for negotiations." In a press conference in late April, six directors of organizations affiliated with El Barzon said they would make the government's actions on overdue debt a major issue in the weeks leading up to the July 6 congressional and state elections. Among other things, El Barzon plans to establish a "tent city" in the Mexican capital on June 23 to bring greater visibility to the plight of debtors. "There is no partisan motive behind our actions," said the leaders, led by Jose Quirino Salas, director of Barzon- Union. "We want to take advantage of the electoral environment to seek a definitive solution to the problem of overdue debt."

At least one of the member groups of El Barzon, however, has taken a partisan position, endorsing Cuauhtemoc Cardenas of the Democratic Revolution Party (PRD) in the race for mayor of Mexico City. Sale of confiscated assets raises constitutional question Meanwhile, the FOBAPROA plan to auction off the 340 billion pesos (US\$42.9 billion) in assets was sharply criticized by the Instituto de Estudios de la Revolucion Democratica (IERD), a PRD-affiliated think tank. IERD director Rosa Albina Garavito said the FOBAPROA plan was an "expropriation of the personal patrimony of Mexican debtors." She also said the FOBAPROA plan will concentrate wealth among a few, rather than resolve overdue debt for 5.4 million delinquent borrowers.

From a fiscal standpoint, Garavito said the plan does not make sense, since the FOBAPROA program could result in losses of about US\$20 billion for the government. In addition, the national judicial movement (Movimiento Juridico Nacional, MJN) said the auction of debt represents a potential violation of Article 27 of the Mexican Constitution. According to MJN secretary Francisco Castro, Article 27 prohibits private bankers from assuming control of properties that will not be used for their normal daily operations. The auction of debt will include apartments, homes, and buildings that bankers seized from debtors who were unable to repay their loans because of high interest rates. [Note: Peso- dollar conversions in this article are based on the Interbank rate in effect on May 7, reported at 7.91 pesos per US\$1.00] (Sources: The News, 04/22/97; Excelsior, Novedades, 04/29/97; La Jornada, 03/31/97, 04/17/97, 04/30/97)

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