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Borrowers with Restructured Overdue Debt Have High Rates of Non-Payment

by LADB Staff

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According to a report published in mid-July by the Comision Nacional Bancaria y de Valores (CNBV), nearly half the loans that were restructured through special government programs were back in default as of the end of the first quarter of this year. The CNBV said a total of 67.1 billion pesos (US\$8.65 billion) in loans had been restructured under assistance programs such as the Acuerdo de Apoyo a Deudores de la Banca, (ADE), which began in August 1995 (see SourceMex, 08/30/95). Of the total loans restructured, 30.6 billion pesos (US\$3.94 billion), or 46%, has fallen back into default. As expected, overdue debt remains a greater problem in some of Mexico's poorer states, such as Nayarit, Oaxaca, Michoacan, Hidalgo, Quintana Roo, Tabasco, and Veracruz.

According to a CNBV report, the ratio of overdue debt to total debt was about 52.8% as of May of this year, compared with a ratio of 47.8% in May of 1996. The CNBV report recognized that the ADE and other programs, rather than offer a comprehensive solution to the debt situation, have actually provided partial remedies for both the debtors and for the banking institutions. Debtor-rights group seeks protection for borrowers Meanwhile, the debtor-rights organization Asamblea Ciudadana de Deudores de la Banca (ACDB) has approached the newly elected Congress to draft new legislation for permanent mechanisms to address problems of overdue debt.

According to the ACDB, almost 60% of Mexican borrowers are facing such problems. The ACDB commonly known as El Barzon has received strong support from the Partido de la Revolucion Democratica (PRD), which won 125 seats in the 500-member Chamber of Deputies in the July 6 mid-term elections (see SourceMex, 07/09/97). According to ACBD president Gerardo Fernandez Norona, the organization's strategy now is to obtain support for debt-relief legislation from the Partido Accion Nacional (PAN), which won 122 seats in the election. In a document handed to PAN officials, Fernandez Norona urged the PAN to join the PRD in developing a "just and equitable solution" to the problem of overdue debt. The PRD, PAN, and two smaller parties together control 261 seats in the lower house of Congress, compared with 239 for the governing Partido Revolucionario Institucional (PRI).

"The elections gave the Mexican people in general, and debtors in particular, great hopes and expectations for a better economic future," said Fernandez Norona. Fernandez Norona accused the PRI-led government of showing favoritism toward a banking sector that has been generally insensitive to the needs of debtors. He said the government's purchase of 230 billion pesos (US\$29.6 billion) in overdue debt represents a subsidy for the banking sector.

Report shows strong quarterly profits for largest banks

The ACDB's push for legislation to address overdue debt coincided with quarterly statistics detailing the earnings of the banking sector. According to the Mexican stock exchange (Bolsa Mexicana de Valores, BMV), Mexico's largest banks reported net profits of 1.58 billion pesos (US

\$203.8 million) during the second quarter of 1997. The report pointed out that the banking sector, and particularly Mexico's three largest banks, obtained profits in the second quarter despite unpaid loans. The BMV reported net profits for Banamex at 914 million pesos (US\$117.9 million) during the quarter, an increase of 135% relative to the same three-month period in 1996. Similarly, profits for Bancomer were reported at 404 million pesos (US\$52.1 million) in the April-June quarter, an increase of 32% relative to a year ago. Serfin, Mexico's third-largest bank, reported net profits of 101 million pesos (US\$13 million) during the quarter, reversing a net loss in the January-March quarter of this year.

The statistics on quarterly profits do not include data from banks that were bailed out by the government's savings protection agency (Fondo Bancario de Proteccion al Ahorro, FOBAPROA). These banks include Inverlat, Union, Cremi, Centro, Banpais, Oriente, Obrero, Interestatal, Sureste, Capital, Promotor del Norte, and Anahuac. Meanwhile, President Ernesto Zedillo's administration has announced a new initiative to help address overdue debt for agricultural producers. The initiative, however, still relies extensively on the banking sector to provide the relief, with the Secretaria de Hacienda y Credito Publico (SHCP) playing the role of intermediary. Deputy finance secretary Martin Werner told reporters the banking sector will be given the first opportunity to develop a program for the agricultural sector. If not, said Werner, the government would use its resources toward strengthening the country's system of credit unions, particularly in rural areas. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on July 30, reported at 7.75 pesos per US\$1.00] (Sources: The News, 07/16/97; Reuter, 07/25/97; El Economista, 07/28/97; Excelsior, 05/07/97, 07/16/97, 07/18/97, 07/29/97; El Universal, 07/10/97, 07/23/97, 07/28/97, 07/29/97; La Jornada, 07/15/97, 07/23/97, 07/29/97)

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