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Government Proposes Restructuring Banking Regulatory Agencies

by LADB Staff

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The Mexican government is in planning significant structural changes to regulatory agencies for the banking sector. In mid-March, the administration said it will eliminate Fondo Bancario de Proteccion al Ahorro (FOBAPROA) and transfer its functions to the Banco de Mexico (central bank) and the Secretaria de Hacienda y Credito Publico (SHCP). The administration of President Ernesto Zedillo will submit the proposals with its package of banking reforms to the Chamber of Deputies and the Senate in April.

Plan includes changes to FOBAPROA, banking commission

Under the plan, the central bank would assume FOBAPROA's role of insuring depositor debts for a limited period, while the SHCP would create a special agency to sell off more than US\$40 billion in bad loans. FOBAPROA has been unable to sell off much of the debt acquired from troubled banks since the agency was created in the aftermath of the peso devaluation in 1994. Under the administration plan, the new SHCP agency will look for new avenues to sell off the debt, including the Bolsa Mexicana de Valores (BMV).

BMV president Manuel Robleda said the stock exchange would favor this approach. "Until now, the stock market has played a very small role in the privatization of government entities," said Robleda. The administration has also proposed a more independent role for the Comision Nacional Bancaria y de Valores (CNBV). Under the proposal, the agency would gain stronger regulatory and supervisory powers. As a semi-autonomous agency, the CNBV would also form its own governing body, similar to the Banco de Mexico. "This would allow the agency to develop longer-term policies," said CNBV president Eduardo Fernandez.

Carlos Gomez y Gomez, president the Asociacion de Banqueros de Mexico (ABM), said the banking sector fully supports an independent CNBV and other reforms proposed by the Zedillo administration. "Banks will be obligated to provide more accurate and transparent information," said Gomez y Gomez. "This can only increase the confidence of the public in our institutions."

Banker, debtor groups form committee to address overdue debt

Gomez y Gomez, who recently assumed the top ABM post, has also been instrumental in involving the banking sector in an unprecedented dialogue with the debtors organization, the Asamblea Ciudadana de Deudores de la Banca (ACDB), also known as El Barzon. In early March, the ACDB and the ABM announced formation of a working group to address overdue debt. In the past, the two sides have been adversaries, with the ACDB accusing Mexican bankers of placing profits ahead of the needs of debtors. Gomez y Gomez said the debtors and bankers organizations are committed to solving the debt problem. At the same time, he said, the two sides are dealing with a complicated issue, which will not be resolved overnight. "I don't have a magic wand to resolve such a complex problem," said Gomez y Gomez. "But we will take whatever steps are necessary to find a solution."

ACDB leader Gerardo Fernandez Norona commended the ABM for entering into a dialogue with debtors, and he urged the bankers association to place a high priority on easing the burden for borrowers, whose debt has quadrupled in the past several years. The debtors, said Fernandez, are paying exorbitant interest rates, which at times have risen above 100%. The ACDB leader said the working group will have to negotiate several difficult issues, including the amount of debt covered by the agreement, the interest rates charged to debtors, and an amnesty period. The announcement of the ACDB-ABM working group coincided with a nationwide conference of El Barzon members in Mexico City.

At the meeting, representatives from the various chapters of the organization developed resolutions urging the Zedillo administration to create a special agency to deal with overdue debt, particularly for agricultural producers. They asked the administration to include the proposed agency in the fiscal year 1999 budget proposal to be sent to the Chamber of Deputies. The agency, which would require initial funding of 5 billion pesos (US\$584 million), would restructure overdue agricultural debt for a period of 20 years at an annual interest rate of 7%. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Mar. 17, reported at 8.56 pesos per US\$1.00] (Sources: Reuter, 03/02/98, 03/08/98; Financial Times, Notimex, El Financiero International, La Jornada, El Universal, El Economista, 03/09/98; Novedades, 03/06/98, 03/09/98, 03/10/98; El Diario de Yucatan, 03/12/98)

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