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In early April, President Ernesto Zedillo announced proposals to reform the Mexican banking sector, including the transfer of debts in the savings protection fund (Fondo Bancario de Proteccion al Ahorro, FOBAPROA) to the government's domestic public debt. One major reform would allow foreign institutions to acquire a greater share in Mexico's four largest commercial banks. Another proposal would increase the ability of the Banco de Mexico (central bank) to make key decisions independent of the federal government. The proposed reforms must still be approved by the Chamber of Deputies and the Senate.

The center-left Partido de la Revolucion Democratica (PRD) and the conservative Partido Accion Nacional (PAN) have already expressed strong reservations about the reforms and have threatened to vote against them. Plan would transfer bank liabilities to public debt The most controversial of the three reforms is the proposal to transfer 552.3 billion pesos (US$65.2 billion) in liabilities acquired from insolvent banks and other institutions to the domestic public debt. The majority of this debt is in FOBAPROA but also includes a small amount in liabilities acquired through the securities-market protection program (Fondo de Apoyo al Mercado de Valores, FAMERVAL).

The government proposal would create a special commission (Comision de Recuperacion de Bienes) to sell the FOBAPROA and FAMERVAL liabilities to private buyers. Spokespersons for the Secretaria de Hacienda y Credito Publico (SHCP) said they were confident these liabilities could be sold quickly. "If Congress approves the legislation, it will be possible to sell the majority of FOBAPROA's debt in a short time," said Carlos Garcia Moreno, the SHCP's director of public credit.

The Zedillo administration created FOBAPROA in 1995 to help commercial banks survive a surge in loan defaults following the devaluation of the peso in late 1994. Under the program, the Comision Nacional Bancaria y de Valores (CNBV) assumed management of any bank whose capitalization fell below 8% while the government sought a private buyer. The debt in these banks was placed in FOBAPROA. Zedillo's proposal would eliminate FOBAPROA and FAMERVAL, ending the government's direct assistance for commercial banks and other private financial institutions. FOBAPROA would be replaced by the Fondo de Garantia de Depositos Bancarios (FOGADE), which would insure individual deposits up to 1 million pesos (US$118,000).

In opposing the FOBAPROA proposal, PRD and PAN legislators have questioned whether the increase in the public debt would create undue risks for the Mexican economy. According to SHCP statistics, the public debt would increase to more than 42% of Mexico's annual GDP with the addition of the FOBAPROA and FAMERVAL liabilities. Without them, the public debt would only be 28% of annual GDP. Deputy Ifigenia Martinez, the PRD's chief economic adviser, said the increase in the public debt would hurt economic growth and hamper any efforts to boost the

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purchasing power of the peso, ease unemployment and underemployment, and reduce poverty. But the administration defended the proposal, suggesting the elimination of FOBAPROA would result in a more solvent and transparent system. "We needed to create a new way to strengthen the solvency of financial institutions and reduce the risk of a new financial crisis," Zedillo said in an address to members of the Camara Nacional de la Industria de Transformacion (CANACINTRA) in Mexico City.

Similarly, Finance Secretary Jose Angel Gurria Trevino moved to ease concerns about the impact of increased domestic debt. "The cost of the clean up would not significantly affect what we are already seeing in the cost of servicing the debt," he told the Chamber of Deputies.

The proposal to allow Mexico's largest banks to sell a larger share of their assets to foreign institutions also drew strong criticism in the Chamber of Deputies. PRD Deputy Dolores Padierna said two of these banks have already agreed to sell a majority stake to foreign institutions once the banking-reform legislation is approved. She said Bank of Hong Kong is ready to assume majority control in Banca Serfin, while Canada's Bank of Montreal is prepared to assume a majority stake in Bancomer. "We cannot allow our economy to be controlled by foreign capital, turning it into a casino economy in the house of speculative capital," said Padierna.

Similarly, PAN Deputy Fauzi Handam said the administration's decision to allow increased foreign ownership of Mexican banks reflected poorly on Mexico's financial system. "Opening the banks to foreign investment reveals the inability of Mexicans to capitalize them and take them forward," said Handam. Proposal on central-bank autonomy described as inadequate The PAN has also attacked the administration's plan to allow greater independence for the central bank. Under the plan, the central bank would gain full control of policies dealing with foreign exchange and take on a greater role in supervision of the banking system.

The PAN's executive committee said these reforms represent only symbolic steps unless the administration ends micromanagement of the central bank. One way to achieve this goal, said the PAN, is to preclude any president from appointing the head of the central bank. The bank's current chief governor is former finance secretary Guillermo Ortiz Martinez. But Ortiz defended the Zedillo proposal as a solid step to boost the economy. "Mexico needs an economy with accelerated growth and a sustainable distribution of equalized income," Ortiz said at a seminar in Mexico City. "With these reform initiatives, we will have a central bank that is better equipped to serve Mexico."

The Zedillo administration is pushing for a vote on the banking-reform laws before the end of the legislative session April 30. But Rogelio Sada, the PAN's coordinator of economic policy, said he intends to call for a special session of Congress to debate the bills, which could delay any decision beyond the end of the regular session. "This is a very sensitive issue for national sovereignty," Sada told reporters after questioning Gurria. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Apr. 15, reported at 8.47 pesos per US$1.00] (Sources: Macroeconomia, 03/15/98; El Universal, 04/01/98; El Nacional, 04/02/98; El Financiero International, La Jornada, 04/06/98; Reuter, 04/02/98, 04/08/98; Excelsior, 03/31/98, 04/02/98, 04/03/98, 04/13/98; El Economista, 04/02/98, 04/13/98, 04/14/98; Novedades, 04/03/98, 04/14/98, 04/15/98)

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