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Congress Approves Controversial Initiative to Bail Out Bank-Rescue Fund

by LADB Staff

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In mid-December, the Chamber of Deputies and the Senate approved a plan to bail out the controversial bank-rescue fund (Fondo Bancario de Proteccion al Ahorro, FOBAPROA). The initiative was approved just days before the scheduled completion of the 1998 legislative session. The FOBAPROA initiative passed largely with support from the governing Partido Revolucionario Institucional (PRI) and the conservative Partido Accion Nacional (PAN). The center-left Partido de la Revolucion Democratica (PRD) voted against the measure in the Senate and boycotted the vote in the Chamber of Deputies, charging that the plan drafted by the PRI and the PAN unfairly benefited wealthy bankers at the expense of Mexican taxpayers.

The vote in the Chamber of Deputies was preceded by a noisy demonstration organized by the debtors-rights group El Barzon, formally known as the Asamblea de Deudores a la Banca (ACDB). Demonstrators forced their way into the legislative chamber, hurling rotten tomatoes and flour primarily at PAN and PRI legislators. Members of El Barzon accused the PAN of treason against the Mexican people for supporting a PRI-led initiative that "condemns generations of Mexican people to pay for the inefficiency of the federal government and the greed of Mexican bankers."

The measure, which passed 325-159 in the Chamber of Deputies and 93-10, in the Senate, establishes a formula for the government to assume more than 600 billion pesos (US\$60.6 billion) in FOBAPROA liabilities. In his original proposal, President Ernesto Zedillo had recommended that FOBAPROA liabilities be converted into public debt (SourceMex, 04/15/98). However, legislators later modified the proposal because of opposition from the PAN.

Under the plan approved this month, FOBAPROA liabilities will be financed each year as a separate category in the federal budget. As part of the FOBAPROA initiative, legislators also agreed to establish a program to aid small-scale debtors who have managed to keep up with their debt payments despite soaring costs. The program will benefit small and medium-sized businesses and borrowers with agricultural, mortgage, and other loans. In addition, the FOBAPROA legislation created an independent agency, the Instituto para la Proteccion del Ahorro Bancario (IPAB), to replace FOBAPROA. IPAB will insure deposits equivalent to 400,000 unidades de inversion (UDIs). UDIs are inflation-indexed instruments worth about two pesos (US\$0.20) each.

PAN drops demand for resignation of central bank governor

In a compromise with the PAN, President Zedillo and PRI legislators agreed that Guillermo Ortiz, the chief governor at the Banco de Mexico (central bank) would not sit on the IPAB board. Until the FOBAPROA vote in December, the PAN had insisted on Ortiz's resignation as a condition for supporting any measure to bail out the bank-rescue fund. The PAN and the PRD had accused Ortiz of violating Mexican laws when he helped create FOBAPROA in 1995.

Some political analysts raised the possibility that Ortiz may be pressured to step down from his post sometime in 1999. "The PAN was not able to secure Ortiz's immediate resignation," said political scientist Jose Antonio Crespo. "Even so, people assume Ortiz will resign in a few months." But the PAN's decision to back down on its demand for Ortiz's resignation and its support for the bank-rescue plan could have a high political cost for the center-right party. Political observers said the party is perceived as either caving in to the PRI or abandoning its principles to gain a favorable treatment from the PRI-led federal government in upcoming elections.

Following the FOBAPROA vote, Sen. Rosalbina Garavito of the PRD suggested that the PAN move was designed to gain a favorable position for its potential candidate Vicente Fox in the 2002 presidential elections. But Deputy Santiago Creel defended the PAN's stance, saying his party decided to support the FOBAPROA rescue plan to prevent a financial crisis. "We have a great opportunity to solve a dilemma that has become a permanent crisis and that threatens the advances we have made," said Creel.

Prominent political analyst Sergio Sarmiento expects the PRD to gain the most political benefit from any disfavor brought on the PAN because of the FOBAPROA vote. "While public opinion surveys show that most people do not know about FOBAPROA, they know enough to link the program with corruption," Sarmiento said. "The PRD could benefit simply because of its opposition to the bank-rescue plan," he added. The FOBAPROA question also exposed some minor dissent within the PRI and the PAN.

In the Chamber of Deputies, seven legislators from the PRI and 12 from the PAN joined five independent colleagues and several members the Partido del Trabajo (PT) and the Partido Verde Ecologista Mexicano (PVEM) in voting against the initiative.

In the Senate, PRI Sen. Humberto Mayans Canabal voted against the initiative along with fellow senators from the PRD and the PT. Another controversial point in the FOBAPROA law opens the door for foreign banks to acquire majority shares in Mexico's three largest banking institutions. Under the provision, the three banks Banamex, Bancomer, and Serfin have five years to transform shares previously reserved for Mexican nationals into stocks that can be purchased by Mexicans or foreigners. "A foreign bank would neglect investment areas that would constitute a priority for Mexicans," said columnist Francisco Martin Moreno of the daily newspaper Excelsior.

Rogelio Ramirez, president of the independent economic advisor group Ecanal, said the FOBAPROA question could create long-term problems for the Mexican government because of its cost. In its proposal for the 1999 budget, the administration requested 18 billion pesos (US\$1.8 billion) to cover debt-servicing costs of FOBAPROA. But Ramirez said the real cost is five or six times that amount. "This is good-bye to the balanced budget in terms of FOBAPROA's real cost," said Ramirez. Legislators to hold special session to consider 1999 budget By finalizing a decision on FOBAPROA, the Chamber of Deputies and the Senate were able to begin debate on the 1999 budget. However, legislators were unable to complete debate by the Dec. 15 deadline and were forced to call a special session beginning Dec. 17.

Under the Mexican Constitution, the Chamber of Deputies must approve a budget by Dec. 31. If not, the government could be forced to cease operations entirely, as the Constitution has no provisions covering the lack of a budget agreement. Among the most divisive issues is President Zedillo's proposal for a 15% surcharge on telephone service. This telephone tax, which is opposed by both the PAN and the PRD, would help compensate for a reduction in revenues caused by a slump in global oil prices (see SourceMex, 12/09/98).

Legislators from the two parties have rejected compromises offered by the Secretaria de Hacienda y Credito Publico (SHCP), which include proposals to apply the tax only on the higher telephone bills. Zedillo, attempting to forge a compromise with legislators ahead of the special session, has said he would be willing to accept a further reduction of 10 billion pesos (US\$1 billion) in the 1999 budget, even though this would "inevitably affect programs of undisputed economic and social importance." But the administration remains adamant that the telephone tax must remain in place. Under Zedillo's original budget proposal, the telephone tax would generate about 11 billion pesos (US\$1.11 billion) in additional revenue in 1999, which is only 1% above the planned government expenditures for the year.

In response, the PAN has proposed the elimination of tax breaks in other areas, such as transportation and agriculture. "The government can make cuts in other areas to compensate for the potential revenues from the telephone tax," said Deputy Carlos Medina Plascencia, head of the PAN delegation in the Chamber of Deputies. Earlier this month, both the PAN and the PRD presented budget alternatives to the plan offered by President Zedillo.

Among other things, the two opposition parties recommend the elimination of what they consider "unnecessary" government entities. The PAN has proposed that the Secretaria de Turismo (SECTUR), Secretaria de Reforma Agraria (SRA), and the Secretaria de la Contraloria y Desarrollo Administrativo (SECODAM) be phased out. The PRD is also pushing for the elimination of SECODAM, but stopped short of pushing for the elimination of the SRA and SECTUR. Instead, the center-left party has proposed to cut out specific programs such as the anti-terrorist unit of the Secretaria de Gobernacion (SG), which is projected to cost 350 million pesos (US\$35.3 million) in 1999.

The PRD alternative budget also allocates no money for FOBAPROA, compared with the 18 billion (US\$1.8 billion) recently approved by the PAN and the PRI. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Dec. 16, reported at 9.90 pesos per US \$1.00] (Sources: Proceso, The Dallas Morning News, 12/13/98; Associated Press, 12/12-14/98; CNN, 12/14/98; Reuters, 12/13- 15/98; El Economista, 12/09/98, 12/10/98, 12/14-16/98; La Jornada, 12/09/98, 12/13/98, 12/14-16/98; Excelsior, 12/09/98, 12/13/98, 12/14/98, 12/16/98; El Universal, 12/11/98, 12/13/98, 12/14-16/98; The News, 12/14/98, 12/16/98; Novedades, 12/14-16/98)

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