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The Secretaria de Hacienda y Credito Publico (SHCP) has developed stricter capitalization guidelines for Mexican banks to increase the amount of money available for loans. The new guidelines were announced by Finance Secretary Jose Angel Gurria Trevino at a press conference Sept. 21. Gurria said the rules will require Mexican banks to take steps to boost their capital reserves, although no specific goals were announced. The guidelines intend to shore up Mexico's banking sector, which has yet to recover from the 1994 peso devaluation.

The economic crisis that followed the devaluation caused interest rates to skyrocket and led a large percentage of bank debtors to default on their loans (see SourceMex, 1995-06-07). The crisis forced President Ernesto Zedillo's administration to bail out the banking system at a cost of billions of dollars. Estimates released by the Instituto de Proteccion al Ahorro Bancario (IPAB) in early September indicate the bank rescue could cost the government more than 873 billion pesos (US$92.3 billion), more than 19% of GDP.

Some experts, such as US-based financial-rating service Standard & Poor's (S&P), believe the costs could climb to US$105 billion, or roughly 21% of Mexico's annual GDP. The S&P estimate does not include the amount the government can recover from selling assets seized from failed banks. But this is expected to amount to less than US$10.6 billion, the rating service said. The private sector, meanwhile, is concerned about the high cost of the bank-rescue operation, since this will reduce government spending and growth in coming years.

"We are going to pay for the slow economic growth through reduced consumption, lower public investment, and a diminished capacity to create jobs," said Raymundo Winkler, director of the Consejo Coordinador Empresarial (CCE). Guidelines become effective in 2000 The guidelines, effective Jan 1, 2000, will attempt to close loopholes by which banks artificially inflate their capitalization levels.

Under the regulations, banks will be required to gradually reduce the amount of capital counted as basic capital until they reach a limit of 20% by 2003. Previously, Mexican banking laws set no limit on how much deferred tax could be considered basic capital. The new rules also eliminate the loophole that allowed banks to count debt instruments as basic capital. "This change brings Mexico in line with international banking standards," Gurria told reporters.

Some banking-industry analysts said they were surprised the guidelines failed to require banks to increase their ratio of capital to loans at risk to 10%. The SHCP left that ratio at the current level of 8%. The guidelines received mixed reactions. The principal criticism came from debtors-rights

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organization Asamblea Ciudadana de Deudores a la Banca (ACDB), which accused the Zedillo administration of only looking after the interest of banks. The ACDB, also known as El Barzon, said the new rules offer no relief for borrowers forced to default on loans because of inflexible policies by the banking sector.

The banking industry, meanwhile, said the regulations may not be sufficient to encourage banks to increase the amount of capital available for lending. Carlos Gomez y Gomez, president of the Asociacion de Banqueros de Mexico (ABM), said the guidelines must be accompanied by continued macroeconomic stability and changes in Mexico's financial structure, including full autonomy for the Banco de Mexico (central bank). "If these conditions are absent, there will not be sufficient domestic or foreign capital for the banks," Gomez y Gomez told Reuters. "The capital will begin flowing the moment the banking system becomes attractive."

Banking sector expects major changes

In a recent report, S&P said the Mexican banking system requires as much as US$15.5 billion in fresh capital, or 3% of GDP. "Incentives are needed for investors to start channelling resources to the banks," said S&P bank analyst Ursula Wilhelm.

The Zedillo administration sees the mergers and increased foreign investment as a necessary step to strengthen the Mexican banking sector. "We are looking for banks to inject new capital, and it is up to the individual institutions whether they do this through finding Mexican or foreign partners or through selling assets," said Eduardo Fernandez, director of the Comision Nacional Bancaria y de Valores (CNBV).

But foreign participation in Mexican banks has already increased significantly since the economic crisis that followed the 1994 devaluation of the peso. Of the 19 banks privatized in recent years, only four are still fully controlled by Mexican interests. Two of those banks, Grupo Financiero Bancomer and Banamex, have been discussing the possibility of merging into one large institution (see SourceMex, 1999-04-07). Banamex is a subsidiary of Grupo Financiero Banamex-Accival (Banacci).

At a meeting in Washington in late September, Bancomer president Ricardo Guajardo Touche told reporters that the government has already removed all obstacles for a Banamex- Bancomer merger. But he said the merger may not take place for "a couple of years." Guajardo Touche said the two banks also have to change the perception in Mexico that a merger would create a monopoly that would harm the country's economy and consumers. Rather, he said, the merger would create a more solid domestic institution.

"We must take into account that the Mexican market is global in nature," said Guajardo. "We must avoid measuring the domestic market only in terms of our borders." [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Oct. 6, reported at 9.46 pesos per US$1.00] (Sources: Associated Press, 08/31/99, 09/21/99; El Universal, 09/08/99, 09/22/99, 09/23/99; Associated Press-Dow Jones news service, 09/23/99; Excelsior, 09/22/99, 09/24/99; The News, 09/24/99; El Economista, 09/08/99, 09/22/99, 09/23/99, 09/24/99, 09/27/99, 09/28/99; Novedades, 09/07/99, 09/22/99, 09/28/99; Reuters, 08/31/99, 09/03/99, 09/21-23/99, 10/01/99; Notimex, 10/05/99)

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