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Government Announces Rescue of Financially Troubled Bancrecer

by LADB Staff

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In mid-October, Mexican savings-protection agency Instituto de Proteccion al Ahorro Bancario (IPAB) announced plans to rescue financially troubled Bancrecer, the country's fifth-largest bank. IPAB was scheduled to assume control of the bank in early November at the request of the board of directors at Grupo Financiero Bancrecer.

As part of the takeover, IPAB is expected to inject more than 103 billion pesos (US\$10.7 billion) into the bank. As a condition for the Bancrecer rescue, IPAB will require Bancrecer shareholders to absorb "all corresponding losses" incurred by the bank, although no exact figures were mentioned.

The opposition parties, particularly the center-left Partido de la Revolucion Democratica (PRD), have criticized President Ernesto Zedillo for spending so much money to rescue Mexico's financially troubled banking sector while limiting expenditures on social programs. Some financial experts expect the cost of the bank-rescue operations to climb beyond the original estimate of 552 billion pesos (US\$57.4 billion), and they say costs could ultimately total 900 billion pesos (US\$93.6 billion) or more (see SourceMex, 1999-07-14).

Unlike the operations in place under the Fondo Bancario de Proteccion al Ahorro (FOBAPROA), IPAB's predecessor, IPAB has imposed tighter capitalization requirements for Mexican banks (see SourceMex, 1999-10-06). But many banks have complained that the requirements have tripled operating costs. Some PRD legislators have accused the Zedillo administration of using the proceeds from oil exports to pad the bank-rescue funds. Mexico's oil-export revenues have increased in recent months because of a strong recovery in global oil prices (see SourceMex, 1999-09-09, 1999-10-13).

In an analysis released Oct. 19, the PRD delegation in the Senate said the government has devised clever accounting methods to conceal the use of these funds, which have gone toward the rescue of banks such as Inverlat. Opposition legislators are considering releasing a list of businesses that benefitted directly or indirectly from fraudulent transactions channeled through FOBAPROA.

The PRD has come out strongly in favor of this proposal, while the pro-business Partido Accion Nacional (PAN) has reluctantly agreed to the plan. PAN Deputy Fauzi Hamdan told reporters in mid-October that the list would be made public at the end of the month.

Rescue costs already covered by 1999 budget

IPAB, meanwhile, insists the cost of the Bancrecer rescue will not require the government to spend funds that were not already allocated. IPAB says the Bancrecer failure was anticipated, so the rescue money was included in the 1999 federal budget. Bancrecer, which already benefitted from one government bailout, incurred heavy debts after the devaluation of the peso in 1994. Its financial

situation deteriorated to the point that the bank was removed from the list of companies traded on the Bolsa Mexicana de Valores (BMV) in 1998.

Another controversy has marked the IPAB rescue of Bancrecer. Germany's private insurance company Allianz AG has accused the Mexican government of offering preferential treatment to Mexican investors in the rescue operation. Allianz invested US\$50 million in convertible debentures in Bancrecer in 1996 as part of a recapitalization program backed by FOBAPROA. With the agreement of financial regulators, FOBAPROA authorized BanCreceer to liquidate, at face value, the peso-denominated debentures in the hands of Mexican investors. But Bernd Valtingojer, Allianz Mexico's chief financial officer, said IPAB officials have told him that they are not planning to refund the US\$50 million invested by the German insurer.

Another company official said Allianz has initiated legal and diplomatic action to recover its investment. The government's control of Bancrecer is expected to be brief, since regulators will be seeking other private investors to acquire the institution. One likely suitor is Monterrey-based Banorte, one of the few Mexican banks that has managed to remain fairly healthy. By acquiring Bancrecer, Banorte would become Mexico's third-largest bank, behind Bancomer and Banamex.

But the Bancrecer sale is unlikely to take place until IPAB is able to find a buyer for Serfin, which the government rescued in July of this year (see SourceMex, 1999-06-30). The agency is hoping to sell Serfin, now Mexico's third-largest bank, sometime during 2000. The likely buyers remain three European institutions: Spain-based Banco Bilbao Vizcaya, Banco Santander Central Hispano, and Britain's Hong Kong Shanghai Bank Group Holdings PLC. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Oct. 20, reported at 9.61 pesos per US\$1.00] (Sources: La Jornada, Novedades, Reuters, 10/14/99; El Economista, 10/12/99, 10/14/99, 10/15/99; Excelsior, 10/15/99; Associated Press, 10/16/99; El Universal, 10/11/99, 10/15/99, 10/20/99)

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