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Mexican Senate Approves Simplified Bankruptcy Law

by LADB Staff

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In early December, the Senate approved a bill to update Mexico's obsolete bankruptcy laws, thus eliminating obstacles that discouraged banks from providing new loans. The proposed law Ley de Concursos Mercantiles would provide banks with a more efficient legal process to recover assets from borrowers who have defaulted on their loans.

Under the existing law, in place since 1943, a bankruptcy procedure can drag on for as long as 15 years. The measure, approved 78-23, gained the support of the governing Partido Revolucionario Institucional (PRI) and the center-left Partido de la Revolucion Democratica (PRD). It is expected to easily win approval in the Chamber of Deputies.

The PRD supported the initiative after the PRI agreed to make several modifications, including a provision for certain exceptions for some "vulnerable" sectors. "The legislation will balance the interests of the creditors and debtors," said PRD Sen. Rosa Albina Garavito.

The pro-business Partido Accion Nacional (PAN) voted against the measure, arguing that the bill would remove protections for many smaller businesses, which could result in the loss of thousands of jobs. PAN legislators said the bill also threatens many debtors, who run a greater risk than in the past of losing their assets.

The PAN's arguments were dismissed by some private-sector organizations, which said the advantages far outweigh the disadvantages. In an analysis of the legislation, the Grupo de Economistas y Asociados (GEA) said the principal benefit of the proposed law is reactivating credit, which will help economic recovery. "If the market functions properly, the increase in loans will gradually reduce the high costs of bank financing," said the GEA.

The GEA said debtors will continue to enjoy a high level of protection, including the right to continue running their business even if the assets are transferred to the bank. The government and banking sector have taken other steps to ease the burdens of debtors. Earlier this month, the Secretaria de Hacienda y Credito Publico (SHCP) reported wide participation in the government's debt-restructuring program, Punto Final.

The program, in place between Jan. 1 and Sept. 30, 1999, provided discounts of 45% to 60% for mortgage, agricultural, and business debts. The program, which cost the government the equivalent of 3.9% of Mexico's GDP, contributed to a decline of 27% in the overdue debt held by Mexico's six largest banks during the nine-month period, the SHCP said. (Sources: Associated Press- Dow Jones news service, Novedades, 11/08/99; Excelsior, 11/09/99; El Universal, 12/02/99; Novedades, 12/06/99; Reuters, 12/07/99; Bloomberg news service, 12/08/99; Reforma, 11/02/99, 12/08/99, 12/09/99; Notimex, 12/12/99; El Economista, 12/01/99, 12/08/99, 12/13/99)

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