High Debt Limits Access to Commercial Loans for Many Mexican States

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The amount of money available to state governments to borrow has become increasingly limited, in large part because of recent scandals involving governors. According to recent data from the finance ministry (Secretaría de Hacienda y Crédito Público, SHCP), commercial banks have tightened requirements for local and state governments to qualify for loans, effectively reducing the amount of money available to these entities.

During the first half of 2016, commercial banks disbursed only about 8.4 billion pesos (US$463 million) in loans to local and state governments, which is half of the amount approved in January-June 2015. This was the largest year-on-year decline since the sharp downturn in the Mexican economy in 2009, which generally followed the economic crisis in the US that year (SourceMex, Feb. 11, 2009, June 24, 2009, and Sept. 2, 2009).

According to the SHCP, the reduced loan rate also follows a sharp increase in the liabilities of several states over the past five years. Veracruz, Quintana Roo, Nuevo León, and Chihuahua accounted for roughly one-half of the 70% increase in the liabilities of state governments between 2010 and 2015, which stood at 536 billion pesos at the end of December (US$29 billion), according to the SHCP.

Governors under investigation

The governors or former governors of those four states—Rodrigo Medina de la Cruz of Nuevo León, César Duarte Jáquez of Chihuahua, Javier Duarte de Ochoa of Veracruz, and Roberto Borge of Quintana Roo—are among the chief executives under investigation for acts of corruption, including personal enrichment (SourceMex, July 15, 2015, and July 13, 2016). All four are members of the governing Partido Revolucionario Institucional (PRI).

Other PRI governors implicated in recent acts of corruption include Andrés Granier of Tabasco, Tomás Yarrington of Tamaulipas, and Humberto Moreira of Coahuila, all also members of the PRI (SourceMex, May 30, 2012, June 19, 2013, and March 9, 2016). Two members of the conservative opposition Partido Acción Nacional (PAN) have also faced charges of corruption: Luis Fernando Reynoso Femat of Aguascalientes and Guillermo Padrés Elías of Sonora (SourceMex, May 21, 2014, and July 15, 2015).

A common denominator in the allegations is that these governors or former governors greatly increased their state debt in order to fund lavish expenditures for themselves or for relatives or to raise unauthorized funds for political activities. The charges of corruption contributed to losses for the incumbent party in recent gubernatorial elections in most of these states (SourceMex, June 24, 2015, and June 15, 2016).

These debt problems have led financial institutions to adopt a more reserved stance with their lending policies to local and state governments.
“We now have more cautious policies to avoid cases of over-indebtedness,” Armando Acevedo, the executive in charge of local lending at Grupo Financiero Interacciones (GFI), told Reuters.

GFI, a major lender to states and municipalities, has had good reason to adopt the restrictive policies. In June, the international debt ratings agency Moody’s downgraded GFI’s classification because of “rising asset risks deriving from the bank’s large exposures to Mexican regional and local governments.”

Moody’s also lowered debt ratings for Veracruz and Chihuahua in ensuing weeks. A competing ratings service, Standard & Poor’s, took the same action on Quintana Roo’s debt classification.

“I detect a much more analytical banking sector,” said Marcela Andrade, who heads the SHCP’s Unidad de Coordinación con Entidades Federativas. “It’s more obvious they’re looking more at who they lend to.”

Other Mexican financial institutions confirmed they are also being extremely vigilant with their lending practices regarding state and local governments. “What we have done is be much more careful about which states we’re lending to,” said Luis Robles Miaja, board president of BBVA Bancomer.

New effort to charge Moreira
Former Coahuila Gov. Moreira, meanwhile, remains under fire for actions he took while in office between 2005 and 2011. Moreira, who left the post before the end of his term to lead the governing Partido Revolucionario Institucional (PRI) during the 2012 presidential election, left Coahuila with a debt of close to US$2.8 billion. Moreira is alleged to have used the funds to pay for campaign expenditures for five gubernatorial elections and for President Enrique Peña Nieto’s presidential race.

Facing heavy political heat for his activities, Moreira left the country for Spain, where he enrolled in graduate school in order to obtain a student visa. A Spanish judge threw a wrench in Moreira’s plan, ordering his arrest on charges of money laundering and corruption (SourceMex, Jan. 27, 2016). Moreira was detained on orders from Spain’s Fiscalía Anticorrupción as he arrived at the Madrid-Barajas airport. Even though his transgressions occurred in Mexico, Spanish authorities claimed jurisdiction because Moreira opened at least three bank accounts in Spain that received transfers equivalent to 200,000 euros (US$225,000) in allegedly illicit funds from two Mexican companies.

In March, Spanish authorities released Moreira from prison and turned him over to the Mexican government. Mexican authorities reportedly pulled some strings to gain Moreira’s release to avoid having him testify in a Spanish court, where he could potentially reveal information of illegal activities on behalf of the PRI (SourceMex, March 9, 2016).

Even though Spanish authorities brought embezzlement and money laundering charges against Moreira, the Mexican federal government has not pursued the case. However, PAN members have requested the creation of a citizens’ tribunal to investigate the former governor. They plan to charge him with abuse of power. “We have paid 19 billion pesos (US$1.1 billion) in interest and costs associated with debt management,” said Sen. Luis Fernando Salazar Fernández, who represents Coahuila in the upper house.
Salazar and more than a dozen other PAN senators have also brought the case to the federal attorney general (Procuraduría General de la República, PGR) urging authorities to launch a full investigation. The PGR has not said whether it will take the case.

While authorities determine whether to proceed with the investigation, new allegations have surfaced of links between Moreira and the ruthless Zetas cartel during his tenure in office. During testimony at a court hearing in San Antonio, Texas, in July, Rodrigo Humberto Uribe Tapia, a former financial operator for the Zetas, said the criminal organization bribed the Moreira administration in order to receive special protection from state authorities.

In exchange for the bribes, the Moreira government allowed the criminal organization to conduct both illicit and legal economic activities, such as construction and mining, without interference from the federal government (SourceMex, Jan. 6, 2010, and Nov. 14, 2012), Uribe Tapia said. The bribes to Moreira were laundered through real estate properties in Texas, he said.

Uribe Tapia also told jurors that Moreira allowed the Zetas to gain control of the state’s prison system, from where the organization carried out a number of criminal activities.


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