

# Mexican private banking system is melting down

by Carlos Cota Meza

In an *EIR Feature*, "Mexico's Debt Bomb Explodes; Who Will Follow?" this author established that the immediate effect of the Mexican government's insolvency would be "the disappearance of the national private banking sector, with the potential for a chain reaction of bankruptcies."

"The Mexican banking system now faces the condition of being at once insolvent creditors and delinquent debtors. . . . The foreign debt of the banking sector went in one year from \$20 billion to \$25 billion (a 25% increase). . . . According to statistics of the National Banking Commission, Mexico's private banks are currently facing external payments of \$8.7 billion on loans which their international creditors do not want either to renew or to renegotiate. In sum, the Mexican private banking system, privatized only 30 months ago, is in absolute bankruptcy. All that is missing is the official announcement." (See *EIR*, Vol. 22, No. 5, Jan. 27, 1995, "Mexico's Financial Crisis: Metastasis of a Speculative Cancer," pp. 24-25.)

The reason the banks are going bust, is not the devaluation of the peso but the unrestrained practice of incurring short-term external debt; the speculative investment of the stock market in its own issues, a practically unlimited recourse to self-lending; and the huge cuts taken by middlemen, which have worsened the common debtor's non-performing debt.

The bankruptcy of the Mexican banks is so evident that even the president of the Association of Mexican Bankers (ABM), José Madariaga Lomeli, is no longer a banker, but an employee of the Banco Bilbao Vizcaya, a Spanish entity, which took control of the Probusa Financial Group (its bank, its stock brokerage, and subsidiaries and affiliates) on May 29 for \$350 million!

The Mexican government, via the Banking Fund for Protection of Savings (Fobaproa, comparable to the U.S. Federal Deposit Insurance Corp.) acquired the bank's "bad debt" for 4.6 billion new pesos, or about \$800 million, which amounts to one-third of the present debt holdings of the Probusa bank.

Madariaga Lomeli explained the reasons for the merger of the first privatized bank, four years ago, with a foreign bank: "The operation does imply an enormous sacrifice for the present stockholders. . . . We directly set aside 1 billion new pesos as reserves and we ended up with 200 million in capital. . . . Either we had to move ahead or we would have come to a screeching halt."

In fact, the bank was already bankrupt and was forced either to shut down or be bailed out by Procapte, the Temporary Capitalization Program which the government uses to artificially keep other Mexican banks afloat. Somehow, the government stepped in through Fobaproa, which became the second largest shareholder. It is rumored that the Madariaga Lomeli group was left with 4% of the stocks and he was kept on as president of the institution, only in order to not dismantle the bankers' association.

The government's purchase of non-performing debt has raised a flurry of protests, to which the chairman of the National Banking and Stock Commission, Eduardo Fernández, responded: "If the conditions of high interest rates and other macroeconomic elements were to lead to a situation in the future in which this debt suffered losses, the damage would now not affect the shareholders, but the owner of the debt, in this case Fobaproa."

If the government is subsidizing the bankers this way, because it considers them victims of the "effects of the crisis," why not deal the same way with the millions of debtors in the farming, manufacturing, and commercial sectors? Could it be that they are considered to blame for the crisis and therefore the Interior Department wants to make them pay the debts by police-state methods, in order to keep supporting the bankers?

Fobaproa and Procapte have already turned into a bottomless barrel. Insofar as information is known, of the 18 banks still officially in existence, six have turned for bailouts to Procapte (Inverlat, Confia, Serfin, Banorie, Bital, and Bancen), but the amounts used have not been made public. The Bank of Mexico reports that up to the first quarter of this year, Fobaproa had intervened in four banks (Unión and Cremi, both owned by the fugitive banker Carlos Cabal Peniche; Banpais of Angel Rodríguez, another fugitive; and Banco Obrero, which belongs to the big labor confederation, CTM).

The amount of capital used in these interventions is 12.3 billion new pesos (to which the 4.6 billion new pesos used in Probusa would have to be added). In addition, Fobaproa granted \$3.8 billion to the banks to pay their overdue foreign debt in the first quarter, mainly that contracted for issuing certificates of deposit abroad.

According to these limited figures, in just five months Mexico's government has doled out to the banks 39,706 million new pesos (\$6.619 billion) and yet the banks keep right on collapsing. On Jan. 26, the Finance Secretary asked the lower house of Mexico's Congress to cut the budget by 20 billion new pesos, or the equivalent of 1.3% of Gross Domestic Product. What has been given to the banks already adds up to 2.5% of GDP. This figure will keep rising. The Inverlat, Serfin, Banco Mexicano, and Bital banks (three of them already bailed out by Procapte) are in line to be absorbed by foreign banks, because the latter are demanding that the government "clean up its debt holdings" as happened with Probusa.

Since the government at the moment shows no sign of wanting to change its financial fundamentalism, in the coming weeks we will see even more banks going belly-up, and like the Probusa bankruptcy, this will be extremely costly for the Mexican treasury.

### Major firms will be unable to pay

Right behind the banks in line for bankruptcy are the Mexican companies which had "access" to the international capital market. The external debt of these companies, between 1993 and 1994, grew by 100% and went from \$15 million to \$31 million. Various reports establish that 12 of the 55 top companies on the Mexican Stock Market in the next six months will have to meet payments of \$1.284 billion, mainly in the so-called Mexican Eurobonds and commercial paper. Among these, the standouts are: the airline Aeroméxico, currently restructuring external liabilities which it could not pay in February; Sidek, which suspended payments in March; Cemex, whose suspension of payments is deemed imminent; as well as Synkro, Iusacell (cellular phones), and Cydsa of the Monterrey Group.

Stock market analysts maintain that if they don't find sufficient backing, the stock values of these companies will plunge more than 50% or to minimum values, which could cause their shares to be suspended from listing on the stock market, provoking a new collapse in the Mexican Stock Market.

But 1995 is the easy year for these companies. Between 1996 and 1999, the companies that issued external obligations have to pay around \$8.3 billion in Mexican Eurobonds, with a whopping \$4.145 billion concentrated in 1998. And who knows if they will get through 1995!

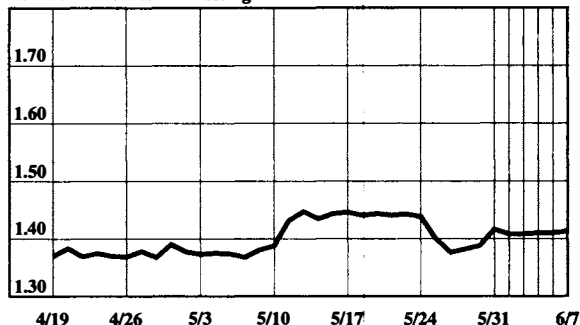
Beyond this, a banking corruption scandal is about to explode. The 12 "representative" companies are also in debt for the second quarter to the national banks for 5 billion new pesos (\$1 billion), which they do not consider debt, because in one way or another, they were partners in the purchase of the privatized banks. Rather, they were self-loans—precisely the corrupt practice for which the banks were nationalized in 1982.

The advisory service El Inversionista Mexicano ("The Mexican Investor"), in an exhaustive analysis of the first-quarter reports of 54 Mexican Stock Market firms, shows that they report a short-term internal bank debt of 54.146 billion new pesos (\$8.357 billion), and that the same companies paid 8 billion new pesos, or \$1.333 million in interest in the first quarter. This reveals that the bulk of non-performing and related debt falls on these 50-odd "representative" companies of the economic model of the former Salinas de Gortari government. Were the government to accede to a review and classification of non-performing debt, we would discover that the delinquency of the farmers as well as small and medium-sized businesses and retailers would be an easily manageable problem.

## Currency Rates

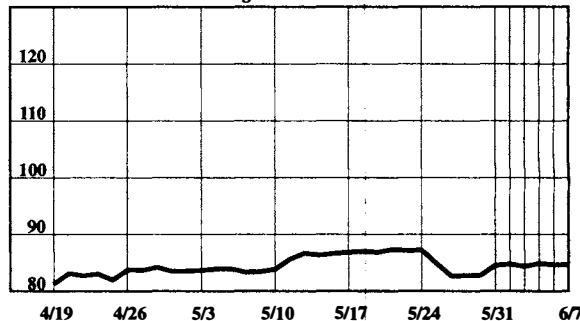
### The dollar in deutschemarks

New York late afternoon fixing



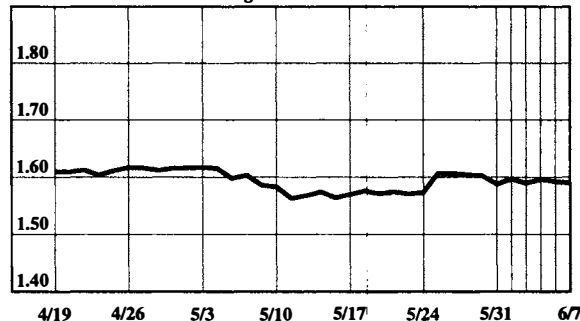
### The dollar in yen

New York late afternoon fixing



### The British pound in dollars

New York late afternoon fixing



### The dollar in Swiss francs

New York late afternoon fixing

