Dateline Mexico by Ruben Cota

Credit screws are tightening

Mexico's newly privatized banks are scrambling for capital; but what they want is not to lend, but to receive.

The recent presidential decree imposing customs tariffs of 15, 20, and 25% on imports of beef represents a tacit recognition of what is going on throughout the Mexican agricultural sector: the displacement and destruction of national producers in practically every area. However, for Finance Minister Pedro Aspe Armella, these are merely the "dark" aspects of Mexico's otherwise clear-sighted economic leadership.

Attempting to clarify those "dark" aspects, Aspe explained to the Chamber of Deputies on Nov. 17 that there is "chiaroscuro" (both light and shadow) in the development of the various economic sectors. He admitted the deterioration of the agricultural sector, but promised that it would receive more than $10 billion from the banks in 1993. Three months earlier, Agriculture and Water Resources Secretary Carlos Hank González had issued a call to the owners of Mexico's newly privatized banks to channel credit to the Mexican countryside.

Whether the banks will come through is another matter. All indications are that they are facing severe difficulties of their own which are forcing them to reduce lending and, in some cases, to declare outright insolvency.

Because of President Salinas de Gortari's anxiousness to appear as the President who brought Mexico out of underdevelopment and into the category of a developed nation, and because of the North American Free Trade Agreement, the Mexican banking system has been committed to the so-called Basel Accord, which stipulates that the banks must increase their capitalization index. The capitalization index is measured by the relationship between a bank's capital and its at-risk assets (also known as problem loans), and constitutes the basis upon which banks give financing and expand their credit portfolios. The 1993 law regulating Mexico's credit institutions demands, in fulfillment of the Basel Accord, a capitalization index above 9%, which the banks must reach by December.

Bankers are thus in feverish competition among themselves for the scarce capital available on the market. They are trying to place their debt on the international markets, paying up to 4.5% above standing interest rates, while through various illegal maneuvers tolerated by the authorities, they are impoverishing their partners by forcing them to make emergency infusions of capital.

The most severe case is that of Banco Serfin, the third largest of Mexico's 18 banks, which has bad debt of $0.8 billion above its in-hand capital of $0.75 billion. This year it has generated no reserves. Serfin has set itself up as a Financial Group, the first in the country according to its own propaganda, as a maneuver to force bank shareholders to exchange their stocks for those of the financial group and, with them, to pay a difference of approximately $2.30 per share. Banco Serfin's worst problems are concentrated in the northwest of the country, precisely because of the collapse of agricultural activity, and in Puebla because of textile bankruptcies.

Antonio del Valle Ruiz, new owner of Banco Internacional, declared that the process of bank capitalization was not easy because the stock market is not in any condition at present to put instruments on the market. According to Agustín Legorreta, the new owner of Comermex, the problem of capitalization is made more difficult by the fact that they do not yet have access to the international markets. In 1993, Comermex concentrated on exploiting the mortgage markets, and consumer and auto loan credits. That is, it concentrated on the urban zones and stayed clear of the countryside. Alfredo Harp Helu, president of the administrative council of Banamex, says the credit shortage will worsen in the first half of 1993, and that, because of the lack of liquidity on the international markets, the banks will face tremendous difficulties achieving the capitalization levels the Bank of Mexico is demanding.

According to a document issued by the Mexican Banking Association (AMB), the index of bad bank loans rose from 1.3% to 4.07% between December 1989 and June 1992. In the agricultural sector, says the AMB study, deterioration began to make itself felt in 1991, the result of collapsing world demand for certain export products, low productivity, lack of appropriate means for distribution and storage, withdrawal of subsidies, and reduction of the profit margin due to increased costs. The greatest percentage of problem loans were concentrated in the northwest regions of Puebla, Veracruz, Tlaxcala, and Oaxaca.

In view of this situation, the AMB recommends that the banks "adjust their credit administration procedures to existing conditions, to avoid a greater deterioration in risk exposure." Translation: The banks should harden conditionalities on credit, to avoid further losses.