

## Mexican banking system springs a leak

by Carlos Cota Meza and Carlos Méndez

On the night of Sept. 5, Mexican Secretary of Finance Pedro Aspe announced that Banco Unión-Banco Cremi and all of its financial enterprises, including three brokerage houses, had been taken under government control for having committed fraud, and that an arrest order had already been issued against their principal owner, Carlos Cabal Peniche. Aspe and Undersecretary of Finance Guillermo Ortiz insisted that this is an isolated case and that there is no crisis in the Mexican banking system. Aspe said that "in other banks which were also under investigation, corrective measures were taken to the satisfaction of the financial authorities to remedy their problems, [which are] of a different order of magnitude."

Reality, however, is otherwise. On Sept. 6, banking expert José A. Pérez Stuart wrote in the newspaper *Summa* that banks like Bancomer and Banamex (the country's two biggest), "had to extend emergency credit lines under the table last week to troubled banks in order to keep them from falling into serious difficulty. The major banks have had to go to the aid of the troubled ones. The credit lines are open because of the urgency. There is talk that four banks that had to resort to this money were Banpaís, Banco de Oriente, Mercantil Probusa, and Internacional. As for Banca Unión, you already know what happened."

On top of this, is the fraud scandal of the Havre Group, to which the former mayor of Mexico City Manuel Camacho Solís is linked, and the bankruptcy of the Mexicana de Aviación/Aeroméxico monopoly, officially announced on the same day, Sept. 5.

What underlies these developments is the fact that the entire Mexican banking system is beginning to crumble, much as the Venezuelan banking system did earlier this year. Both cases are symptomatic of the fundamental insolvency of the entire world financial system, which has begun to shred

at its weakest points. One month ago, Richard Freeman, one of *EIR's* economics and finance experts, gave a seminar in Mexico City on the analysis of American statesman-economist Lyndon LaRouche, entitled "The Coming Disintegration of the Financial Markets." During a press conference, reported extensively by the daily *Excelsior* of Aug. 8, Freeman warned that the only solution to the collapse of the speculative system is "to reorganize the international financial system on the basis of banking systems which correspond to each nation's interests and and their real economy, and not to the particular interests of speculative profits; we must return to the basic system of production." Any other measure, he said, is useless.

While not identical, the Mexican takeover of Banco Unión-Banca Cremi is very similar to what happened in Venezuela with Banco Latino, which was just a hint of what lay beneath the crisis of the Venezuelan banking system as a whole. Like the case of Banco Unión-Banca Cremi, in Banco Latino there had been corruption and multimillion-dollar self-lending. Just as the Cisneros Group flourished in Venezuela in the shadow of the government of Carlos Andrés Pérez, the Mexican press indicates that in one decade, Cabal Peniche went from selling bananas to being on the *Forbes* list of the world's multimillionaires. *La Jornada* of Sept. 7 said that "the business history of Carlos Cabal Peniche goes back to 1987, when he appears as a partner of the San Carlos del Golfo banana plantation. . . . His past, known in the business world, indicates that his star rose when, at the end of 1987, 'he became associated' with Federico de la Madrid Cordero—eldest son of the former President Miguel de la Madrid—and expanded the business. . . ." Prominent among the firms acquired by Cabal Peniche is Del Monte Fresh Produce, the largest vegetable-packing business in the world.

## Bad debt portfolio

The crisis of both the Venezuelan and Mexican banking systems is related to a ballooning problem of overdue debt, which is where the speculative crisis reveals itself most clearly.

For more than a year, *EIR* has been warning about the problem of overdue debts in Mexico, especially in agriculture. In our cover story of April 23, 1993 ("Mexico's 'Success Story': The Charade Is Ending") *EIR* showed that foreign debt had crept up to \$100 billion by 1991 and was still rising, while debt service payments had zoomed to 70% of the federal budget in 1988-89. In our Sept. 10, 1993 issue, *EIR* reported that bank foreclosures against farmers alone had grown 1,000% in five years and that at least one-third of the country's producers were about to be eliminated.

Banco Unión had in the last year a 79.3% increase in its overdue debt portfolio, while Banca Cremi's was 89.5%, according to a report in the Sept. 6 issue of *El Financiero*. The assets of both banks added up to some \$12 billion, but Banco Unión registered this year a drop in its profits of 13% compared to the previous year, and Banca Cremi's profits dropped 35% in the same period. The financial conglomerate of Cabal Peniche includes: Banco Unión, Banca Cremi, Banco del Sureste, Arrendadora Financiera Pragma, Afianzadora Mexicana, Arrendadora Unión, Factoraje Unión, Factoraje Cremi, and three exchange houses (Unión, Cellini, and Majapara). According to the Department of Finance, Cabal Peniche extended loans to himself out of the resources of Banco Unión. It seems that the fraud carried out in the last four months added up to \$700 million.

## Forewarnings of the crisis

Already on Sept. 3, the daily *El Economista* reported that five national banks had formally requested the support of the Banking Fund for the Protection of Savings (Fobaproa, a kind of Mexican version of the FDIC in the United States) "to cover potential short-term problems of insolvency," which, apart from the formalities, means that these banks cannot back up the deposits of their savers. Although the authorities did not want to put out the names of those banks, it is certain that for more than one year, signals have been going out regarding the serious problems of the banks, manifested through the skyrocketing of overdue debt, 40% of which is now considered "not possible to track down."

In June 1994 bad debt had grown 636%, totalling \$41.625 billion new pesos, surpassing the paid-in capital of the banks themselves, estimated at 39.536 billion new pesos. The contingency funds (or preventive reserves) grew by 1,796%, amounting to 15.359 billion new pesos. The argument given in presenting the accounts is the same given to justify the insolvency of the five banks: "economic deceleration and increase in interest rates." But in analyzing the sources of banking revenues (371.852 billion new pesos), one finds that 60% comes from the money markets, which are off-balance sheet operations unbacked by reserves, and

which pay high interest rates in what are called "overnight markets," practically within 24 hours.

According to the National Banking Commission, the number of cities and towns served by the banks has declined from 1,006 to 776 in the last three years. The number of bank accounts has declined from 15.6 million to 6.1 million. This is explained as a "repositioning of assets," based on the creation of new financial service instruments that are replacing traditional banking services. For example many major former banking clients have opted for so-called stock market financing. For the first five months of 1994, according to the National Stock Commission, stock market new-issue financing increased by 148% over the same period in 1993, totaling \$1.5 billion. External stock market financing went up by 84.77% totalling \$752 million. The new-found justification here, is that "traditional bank financing is too expensive."

But even the banks are turning to this kind of financing. For the first six months of this year, the national banking system increased its total holdings in the stock market by 33%, now totalling 131.382 billion new pesos. This equals 20.77% of the total assets of the banking system, calculated at 651.324 billion new pesos by March 1994. The banks themselves have turned into stockbrokers and spend more energy on speculation than on traditional banking activities.

Apart from the fiasco of the governmental plans to restructure the banks' bad debt portfolios, such as the System of Restructuring of Overdue Portfolios (Sireca I and Sireca II), and the issues of Zero-Coupon Bonds, there are several bankruptcies which the authorities have presented as "commission of fraud," but which are much more the tip of the iceberg of what is now showing up generally. Since last May, several cases of fraud have been discovered (committed by the Havre Financial Group, by the machinery firm Autos, Camiones and Maquinaria San Juan de Monterrey, and by the former owner of the Blanco supermarket chain).

The common element in all these "fraud" cases is that all have been involved in leveraged buyout operations. As is widely recognized, the Mexican banks were reprivatized through these leveraged buyouts, and it is no secret that a foreign debt of some \$6 billion was contracted in this way. This is what allowed the new bankers to pay between two and five times the book value of the banks.

The situation in Mexico is so serious that even the monetarist-minded governor of the "autonomous" Bank of Mexico, Miguel Mancera, rejected so-called financial derivatives. On Aug. 16, at the Eleventh Assembly of Bank Supervisory Organizations of Latin America and the Caribbean, Mancera said: "Although they are not undesirable, the country is not yet prepared for derivatives. . . . Derivatives facilitate the concentration of risk in financial intermediaries and it is difficult for them always to act with caution." Mancera added that with financial derivatives, "we should orient ourselves toward evaluating the internal systems of risk control" and not only to "supervise individual operations."