

time, cost control is becoming a priority, and employment in the banks has been cut by close to 20 percent over the past two years.

There are only about 4,500 bank branches in Mexico, compared with close to 8,000 in Canada. This is partly because relatively few Mexicans have bank accounts. There are only about four million chequing accounts in all of Mexico.

Expanding banking operations to make a full range of services available to the average Mexican will create considerable demand for support services. Opening accounts, issuing credit cards and making loans depends heavily on customer information systems. Canadian companies have a distinct advantage in this area because of their experience in supporting a large system of branch banking over a huge geographical area. The U.S., Canada's principal competitor, has only just begun to allow multi-branch banking.

The trend towards Automated Teller Machines (ATMs) is inevitable, but the poor quality of the Mexican telecommunications system is a serious obstacle. The bankers are working with *Teléfonos de México (TELMEX)*, the recently-privatized national telephone company, to solve these problems and the largest banks now have national ATM systems.

Improved services to business will also require more advanced technology. In particular, there is a growing demand for automated payroll systems and electronic funds transfer.

Because of the pressure to reduce costs and implement new technology, industry experts are predicting a number of mergers. They are projecting that by 1996, a handful of strong national banks will completely dominate the financial system, with regional banks operating mainly in niche markets.

## BANKING CUSTOMERS

Mexicans have not traditionally been big users of banking services. There are only 13 million bank accounts in Mexico, of which just four million are chequing accounts. Fewer than 15 percent of Mexicans have any kind of bank account.

After a decade of dealing with nationalized banks, many customers distrust automated services such as ATMs. They typically insist on receiving stamped receipts for deposits so they have tangible proof of the transaction. Some large banks employ people to redirect incoming customers to the ATMs. The banks see ATMs as a cost-effective way of expanding their coverage, but this outcome will depend on customer acceptance of the technology.

Consumer and small-business credit is not widely available in Mexico. Presently only 15 percent of Mexicans have mortgages, and there are only about 10 million credit cards for a population of 89 million. This is partly due to high interest rates, but the market is expected to increase as confidence in Mexico's stabilizing economy grows and personal incomes rise.

## THE MARKET FOR MORTGAGES

The privatization of the Mexican banks, combined with dramatically reduced inflation, has led to a rapidly expanding mortgage market. Consumers now have better access to mortgages than ever before.

Fixed-rate mortgages were discontinued in the 1960s, and in the early 1980s the entire mortgage market virtually disappeared. Today, the banks are developing new mortgage products and competing aggressively for market shares.

The privatization and deregulation of the banks was an essential element in the revival of the mortgage market. In 1988 the government eliminated the reserve requirements that previously required the banks to invest up to 85 percent of deposits in government-designated instruments. Much of this investment was at lower than market rates.

The government also eliminated regulations that controlled interest rates on deposits and loans. This led to a situation where the banks had surplus capital to lend. The newly-privatized banks also had the motivation to develop a mortgage market to exploit this situation.

Government efforts to control the rate of inflation were also instrumental in the revival of the market. Mexico's inflation rate peaked at 159 percent in 1987. This made any kind of long-term financial commitment precarious at best, and no residential mortgages were issued in 1987 or 1988. With the return of single-digit inflation rates in the 90s, variable-rate fixed-term mortgages once again became feasible. A few residential mortgages were issued in 1989, and in 1990, outstanding mortgages jumped by 900 percent. Recently, fixed-rate mortgages have begun to re-appear.

In the two-year period between December 1991 and November 1993, the real value of outstanding mortgages issued by the commercial banks more than doubled, and some banks saw a much larger increase (table).

Low cost housing in Mexico is financed mainly by public programs or by pension plans. There are two major pension plans: *Instituto del Fondo Nacional de la Vivienda para los Trabajadores (INFONAVIT)* covering private sector employees, and *Fondo de la Vivienda del Sistema de Seguridad Social de los*

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