

THE MEXICAN BANKING SYSTEM: A TURBULENT HISTORY

The current status of the Mexican banking system reflects a turbulent history. The energy crisis of 1973, with its abrupt surge in oil prices, propelled Mexico into a frenzy of petroleum-related industrial expansion. Enormous growth, throughout the late 70's and early 80's, spurred massive government borrowings against future oil income. The money was used to fund elaborate infrastructure, industrial and social projects. Private industry also borrowed heavily against the bright economic projections. Bankers around the world eagerly lent to both the public and private sectors.

Suddenly, the bubble burst when oil prices collapsed in 1981 and 1982. Public and private enterprises defaulted on their loans. By late 1982, Mexico was faced with currency devaluations, spiraling inflation, plummeting oil revenues and falling industrial production. In 1982, outgoing President José López Portillo nationalized the banks, blaming them for the financial crisis.

Under the six year presidency of President Miguel de la Madrid, from 1982 to 1988, some order was gradually restored as the massive public and private debt was renegotiated, but the damage had been done. Industry was in

the doldrums, unemployment was high and purchasing power had been lost.

During 1987, the government launched the *apertura*. This was the first step toward opening the previously heavily protected and subsidized economy to foreign competition. For the first time, Mexican business faced the challenge of world competitiveness and export development became a major issue. Unfortunately, oil prices declined again, accelerating annual inflation to almost 160 percent for the year. Rapid currency devaluations followed.

The government reacted, in late 1987, with *El Pacto*: a sweeping economic stabilization program embracing price, wage, federal spending and exchange rate controls. *El Pacto* was a three-way pact between the government, business and labor, and is still in force through its successor, *Pacto para el Bienestar, Estabilidad y Crecimiento (PABEC)*, the Pact for Wellbeing, Stability and Growth. The results have been exceptional. Exchange rates have stabilized, inflation has subsided, and industrial expansion and export growth have surged.

President Salinas' government came to power in 1988, and the new administration quickly re-privatized the banks as part of a broad effort to create an internationally-competitive financial system.

Insurance services are also a growth market. Only about two percent of Mexicans are covered by life insurance. Only one-quarter of automobiles are covered for collision or theft. There will, however, be an increasing demand for new policies as the population ages, incomes rise, and bank credit makes some forms of insurance mandatory. The industry will need more efficient methods of obtaining information and assessing risks.

Under the NAFTA, foreign non-bank financial services companies can set up limited financial institutions in Mexico, but for practical purposes, the banking, investment and insurance sub-sectors are limited mainly to Mexican companies. Opportunities for Canadian companies, especially small

to medium-sized enterprises, are largely in the provision of technical services.

The dramatic change that has occurred over the past few years makes it difficult to identify specific product opportunities. Moreover, import/export statistics do not identify services in a useful way, making it difficult to evaluate recent experience. Nonetheless, it is clear that there are many opportunities for Canadian companies that provide support services to the financial sector.

THE MARKET FOR BANKING SERVICES

There were 20 banks operating in Mexico in 1993. Several more have

SIZE OF THE MEXICAN FINANCIAL SERVICES MARKET

Total Bank accounts	13,000,000
Chequing accounts	4,000,000
Credit cards	10,000,000
Insurance policy owners	7,000,000

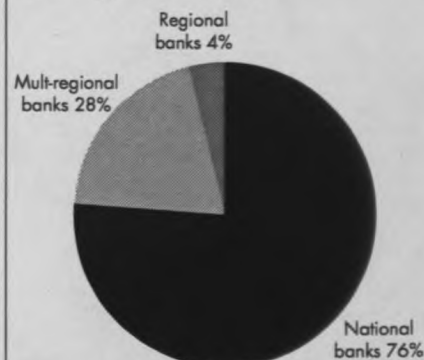
been issued licences or have applications in progress. The banking industry is regulated by the *Banco de México*, Mexico's Central Bank, and the *Comisión Nacional Bancaria*, the National Banking Commission.

Eight banks offer national services and they account for more than three-quarters of all banking activities. The other banks operate on a regional basis. The most important banks are *Banco Nacional de México, S.A. (Banamex)*, *Banco de Comercio (Bancomer)* and *Banca Serfin*. Together, they hold about 60 percent of all bank deposits.

All of the banks are under competitive pressure to improve and expand their services to customers. For the most part, their technological capabilities are underdeveloped, and service suffers. It can take as long as five days to trace a deposit from another branch of the same bank. At the same

THE MEXICAN BANKING SECTOR

Percentage of market share



Source: Mexico: The Services Sector. Waterloo: Laurier Trade Development Centre, December, 1993, p. 45.

