10-20-1993

Salinas Administration Pressures Banks To Reduce Interest Rates Before 1994 Election

Carlos Navarro

Follow this and additional works at: https://digitalrepository.unm.edu/sourcemex

Recommended Citation
Salinas Administration Pressures Banks To Reduce Interest Rates Before 1994 Election

by Carlos Navarro
Category/Department: General
Published: Wednesday, October 20, 1993

Mexican banks, which have enjoyed high profitability since returning to the private sector two years ago, are now facing growing pressure from the administration of President Carlos Salinas to cut interest rates and ease credit terms ahead of the 1994 presidential election. The banking system was nationalized in September of 1982 during the administration of president Jose Lopez Portillo and reprivatized under the Salinas administration, beginning in 1991. The economic policies instituted under Salinas have depended heavily on the establishment of a strong banking system, and therefore, banks have been allowed wide latitude to earn profits. According to the Wall Street Journal, Mexican banks earned an unusually high 8% net interest rate in 1992. This rate measures the difference between the cost for a bank to borrow money from the interbanking system and the rate charged on loans. The high net interest rate has in turn attracted strong interest in bank stocks on the Mexican Stock Exchange (BMV) and on overseas financial markets. On the other hand, the banking sector's policy of charging high interest rates has caused difficulties for many smaller and medium-sized enterprises. Larger companies such as Cementos Mexicanos (CEMEX) have easier access to the US banking system, where they have been able to take advantage of historically low interest rates. President Salinas, realizing that the lack of easy access to credit could represent a major liability for his Institutional Revolutionary Party (PRI) in the months leading up to the 1994 elections, is now pushing for some reform in the policies of the major banks. "The big concern of the government is that the domestic financial system is not responding to the credit needs of the real economy," a financial broker told the Wall Street Journal. According to Salvador Garcia Linan, director of the Mexican Institute of Small and Medium-sized Enterprises (Instituto Mexicano de la Mediana y Pequena Empresa, IMMPE), the difficulty in obtaining credit has forced many smaller businesses to contract rather than expand. "The small and medium sized companies are simply adjusting the size of their workforce to an affordable level," said Garcia. "They lack money for expansion, and most perhaps 90% are behind in payment of taxes and contributions to federal programs." In fact, on Oct. 7, Grupo Expansion in its weekly economic magazine reported that Mexico's small and medium- sized businesses, which account for about 10% of the country's GDP, are facing their worst crisis in 20 years because of their inability to obtain credit. According to the magazine, more than half of the small businesses have failed to make a profit over the past several months. The credit squeeze is also hampering the ability of smaller businesses to prepare for scheduled implementation of the North American Free Trade Agreement (NAFTA). On Oct. 7, Lino Landeros Santos, vice president of the National Manufacturing Industry Chamber (Camara Nacional de la Industria de la Transformacion, CANACINTRA) told La Jornada newspaper that interest rates in border states are averaging 25% to 30%, while US rates are only averaging about 14%. The Salinas administration is attempting to bring down interest rates by promoting increased competition through the approval of operating permits for nine new banks. An official from the Finance Secretariat (Secretaria de Hacienda y Credito Publico, SHCP) said permits for more banks will be approved before year-end 1993 (for previous coverage see SourceMex, 06/09/93 and 09/29/93). While increased competition in the banking sector should help bring down interest rates
over the long run, financial analysts suggest that additional policies must be adopted in order to produce more immediate results. The administration has already rejected a proposal that the Banco de Mexico (central bank) loosen monetary policy, since this would tend to increase consumer price inflation and thus undermine the central element of Salinas' economic plan. Therefore, putting pressure on the major banks to lower interest rates represents the only viable solution. Ironically, the Wall Street Journal report suggests that any efforts to limit the ability of banks to earn profits could actually result in a contraction of the banking system, since some banks may be forced to merge or restructure. The profitability of the banking system is also threatened by a huge increase in overdue debt over the past year. According to reports filed with the Mexican Stock Exchange (BMV), overdue debt owed to 16 of Mexico's 18 largest banks totaled almost 29 billion nuevo pesos (US$8.8 billion) as of the end of August, almost twice as high as the amount outstanding in August 1992. In fact, the overdue debt represented almost 10% of the liabilities of the 16 banks, nearly three times as high as the accepted international norm of 3.5%. The BMV reports showed that more than half of the overdue debt about 18.5 billion nuevo pesos (US$5.6 billion) was owed to three of Mexico's largest financial institutions Banamex, Bancomer, and Serfin. Additionally, Banco Atlantico, Banco Mexicano, Banco Internacional and Comermex were owed 6.5 billion nuevo pesos (US$1.97 billion), or almost one-fourth of the total. Meanwhile, Mexican banks have also been unsuccessful in attempts to resolve their dispute with the Mexican retail sector over high credit card transaction fees. The dispute has been most acute in the case of the restaurant sector. On Oct. 5, the National Restaurant Industry Chamber (Camara Nacional de la Industria Restaurantera, CANIRAC) announced that restaurants have decided to stop accepting Carnet credit cards. CANIRAC president Antonio Alvarez Caballero raised the possibility that the boycott may eventually be extended to credit cards issued by Banamex and Bancomer. This is the second time CANIRAC has actually resorted to a boycott of credit cards, although the organization has threatened such action on several occasions during the longstanding dispute. A private study on credit card transaction fees commissioned by the Mexican Bank Association (Asociacion Mexicana de Bancos, AMB) and CANIRAC failed to resolve the disagreement as had been hoped (for more details see SourceMex, 07/14/93 and 08/11/93). On Oct. 6, Jose Madariaga Lomeli, chief executive officer at Grupo Probursa, the parent company of Multibanco Mercantil, urged the restaurant and banking industries to reach a settlement in the dispute. Speaking at an economic forum at the Universidad Iberoamericana in Mexico City, he stressed the importance of finding a solution that will be beneficial to credit card users. However, he pointed out that credit card transaction fees in Mexico are much lower than in many developed countries. (Sources: Excelsior, 09/24/93; Wall Street Journal, 10/05/93; Notimex, 10/06/93, 10/07/93; La Jornada, 10/05/93, 10/06/93, 10/08/93)

-- End --

©2011 The University of New Mexico, Latin American & Iberian Institute. All rights reserved.