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Carlos Navarro

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Update On Bank Reform Legislation

by Carlos Navarro  
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Mexican legislators are awaiting the vote in the US Congress on the North American Free Trade Agreement (NAFTA) later this month to determine to what extent the Mexican banking system will be opened up to participation by foreign financial institutions, mainly from the US and Canada. A bank reform bill, due to be introduced by the Salinas administration in the Chamber of Deputies during the legislative session that started on Nov. 1, would allow foreign financial institutions to gradually expand their services in Mexico. The legislation is designed to complement NAFTA, which if enacted on schedule, would allow subsidiaries of US and Canadian banks to begin full-scale operations in Mexico after the year 2000. On the other hand, in a meeting with members of the Senate's finance committee (Comision de Hacienda) in late October, Finance Secretary Pedro Aspe hinted that if NAFTA is not approved by the US Congress, then any legislation opening the Mexican banking sector to foreign investment would probably be very limited. Under current law, foreign banks (except for US-based Citibank) are only allowed to operate representative offices in Mexico. Citibank, which has operated in Mexico since the 1920s, was allowed to retain full operations even after former president Jose Lopez Portillo nationalized the country's banks in 1982. In fact, Canadian banks are already anticipating possibilities to expand their operations in Mexico if NAFTA is implemented. In an interview with the government news agency Notimex, Canadian Bank Association vice president Shaw Cooper said a number of Canadian banks are making plans to open full service branches in Mexico if NAFTA is approved. Cooper said Royal Bank of Canada, Bank of Montreal, Bank of Nova Scotia, and Canadian Imperial Bank of Commerce which already operate representative offices in Mexico are in the best position to establish full service operations. At present, the representative offices of the four banks mostly offer consulting services in the area of investments, international trade, financial services and technology. A fifth Canadian bank, the National Bank of Canada in October announced plans to open a representative office in Mexico City in the near future. According to El Financiero International weekly business newspaper, the Canadian bank is seeking to form a partnership with a medium-sized Mexican bank and start operations in January. Meanwhile, Cooper told the government news agency Notimex that Canadian bankers are encouraged by Mexico's recent economic expansion and by its potential to absorb new private investment. Cooper predicted that foreign investment would continue to flow into Mexico regardless of whether NAFTA is enacted. (Sources: El Financiero International, 10/18/93, 11/08/93; La Jornada, 10/26/93, 11/02/93; Notimex, 11/01/93)

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