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Salinas Introduces Legislation Allowing Foreign Banks To Establish Full-service Branches In Mexico

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On Nov. 25, President Carlos Salinas de Gortari submitted a bill to the legislature to allow foreign banks to establish full-service branches in Mexico. In announcing the legislation, Salinas told reporters that the growing insertion of Mexico into the global economy requires the "internationalization" of Mexico's financial services. In addition, he said the increased competition resulting from the creation of new financial institutions will benefit borrowers, encourage savings, result in more funds being channeled toward productive investments, and increase the efficiency of international banking transactions. On the other hand, the President emphasized that Mexico's financial opening will be gradual and will comply with the timetable specified in the North American Free Trade Agreement (NAFTA), which stipulates a six-year transition period. Thus, the Mexican banking system will not be fully open to US and Canadian banks until the year 2000. Two days before Salinas's announcement, the Finance Secretariat (Secretaria de Hacienda y Credito Publico, SHCP) announced plans to allow 20 to 25 foreign banks to begin offering expanded services in Mexico during 1994. The foreign banks are expected to offer more than the consultation and liaison services offered by representative offices under current law, although the announcement did not spell out exactly which additional services would be provided. As expected, stock prices for bank and financial group issues on the Mexican Stock Exchange (BMV) declined considerably the day after the opening of the banking sector was announced. According to analysts at Casa de Bolsa Afin, the presence of the foreign banks in Mexico is expected to force the Mexican banks to increase expenditures in order to remain competitive. For its part, the SHCP said the expansion of financial institutions operating in Mexico would help increase the amount of money available for loans and reduce interest rates. Currently 29 banks and finance companies carry out domestic operations in Mexico, where interest rates have recently averaged 16.62%. In fact, the National Manufacturing Industry Chamber (Camara Nacional de la Industria de la Transformacion, CANACINTRA) on Nov. 27 renewed its appeal to the Salinas administration to take steps to reduce interest rates for 1994. CANACINTRA president Vicente Gutierrez Camposeco called high interest rates the "greatest obstacle" preventing Mexican industry from competing effectively against the US and Canada once NAFTA is enacted on Jan. 1, 1994. (Sources: La Jornada, 11/17/93; Agence France-Presse, 11/23-25/93; Notimex, 11/23/93, 11/25/93, 11/27/93)

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