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Mexican Banking Sector Enjoys Higher Profits in 1993

by LADB Staff

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The Mexican banking sector as a whole reported increased profits during 1993, although individually, the country's two largest financial institutions reported disappointing economic performances. According to a report released in late February by the government's National Banking Commission (Comision Nacional Bancaria, CNB), profits for Mexico's banking sector approached 8.8 billion nuevo pesos (US\$2.6 billion) last year, up nearly 40% compared to 1992, when the sector reported profits of about 6.3 billion nuevo pesos (US\$1.9 billion).

Two largest banks slump

The CNB said the banking sector was able to overcome the effects of a sluggish economy and a large increase in overdue loans. Still, notwithstanding the strong performance of the sector as a whole, results were mixed for individual banks. For example, the country's two largest banks Banco Nacional de Mexico (Banamex) and Banco de Comercio (Bancomer) reported disappointing results, while a number of medium-sized banks reported much higher net earnings last year than in 1992.

According to El Financiero International weekly business newspaper, net earnings for Banamex last year fell by 2% from 1992 to US\$761 million, while net earnings for Bancomer increased by a smaller-than-expected 1.4% to US\$628 million. In contrast, Banca Serfin, Mexico's third largest bank, reported that its net earnings in 1993 rose by 90% from the year before to US\$318 million.

Similarly, Banco Mexicano Somex the country's sixth largest bank reported net earnings at US\$153.2 million, more than three times as high as the US\$49.7 million reported in 1992. Other medium-sized banks also reported a strong performance, partly because of their regional influence. For example, earnings for Monterrey-based Banco Mercantil del Norte (Banorte) reached US\$102.6 million, compared with US\$71.6 million the year before. Maria Vazquez Martinez, an analyst with Probursa brokerage house in Mexico City, predicted that Bancomer and Banamex will continue to face strong competition from the new domestic and foreign institutions that have either recently started operations, or that will soon receive operating approval.

Eleven new banks created last year

The Salinas administration approved the creation of 11 new banks in 1993 and is considering applications for another 12 institutions this year. In addition, the government is expected to open bids later this year for foreign banks to set up limited-service operations in Mexico during 1994. Overdue loans are also expected to remain a large problem for banks, especially if economic conditions do not improve significantly during 1994. According to Roberto Hernandez, president of the Mexican Banks Association (Asociacion Mexicana de Bancos, AMB), overdue loans owed to private banks as of year-end 1993 totaled 46 billion nuevo pesos (US\$13.7 billion), compared with 14.7 billion nuevo pesos (US\$4.4 billion) owed at the end of 1992. Slightly more than one-fourth of the total owed as of year-end 1993, about 12 billion nuevo pesos (US\$3.6 billion), involved agricultural loans. In comparison, overdue agricultural loans as of year-end 1992 were valued at 1.8 billion nuevo pesos (US\$536.9 million).

On a related matter, the AMB and the CNB in a separate report released at the end of February, said the business conglomerates that acquired the country's banks under President Salinas's reprivatization scheme will recover their investment within five years, or about half the time originally projected. The banks, which were nationalized under former president Jose Lopez Portillo, were sold back to private investors by the Salinas administration, beginning in 1991.

The report said that Acciones y Valores, which paid 9.7 billion nuevo pesos (US\$2.9 billion) for Banamex in August of 1991, has reported profits of 5.2 billion nuevo pesos (US\$1.6 billion) during the 29 months the group has operated the institution, despite the 2% drop in profits that it suffered in 1993. Similarly, Grupo Vamsa, which paid 7.8 billion nuevo pesos (US\$2.3 billion) for Bancomer in October 1991, has since that time obtained a total profit of 4.3 billion nuevo pesos (US\$1.3 billion).

A third business entity, Grupo Obsa, which purchased Banco Serfin in January of 1992 for 2.8 billion nuevo pesos (US\$835 million), has since that time obtained profits of 1.36 billion nuevo pesos (US \$405 million). According to the report, the buyers of 10 other privatized banks have also all reported profits equivalent to between 24% and 72% of the price that they paid to purchase their firms.

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