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## **Government Takes Cautious Approach In Opening Banking Sector To Foreigners**

*by LADB Staff*

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In late March, a top official from the Finance Secretariat (Secretaria de Hacienda y Credito Publico, SHCP) announced that President Carlos Salinas de Gortari's administration plans to take a more cautious approach than originally foreseen in opening the Mexican banking sector to foreign institutions, extending the opening process over a 10- year period. Speaking at a banking seminar in Dallas, SHCP development and planning director Guillermo Barnes said the extended timetable was drafted to protect the domestic banking industry from a flood of foreign competition. Barnes told seminar participants that the Mexican government's cautious approach is aimed at helping Mexican banks remain competitive.

According to the SHCP, to date nearly two dozen foreign banks have applied for permits to operate in Mexico. Most of these banks are based in the US and Canada, although banks from Europe and Japan have also expressed some interest. Under the guidelines released by the SHCP in March, a foreign financial institution that wants to establish a wholly owned subsidiary in Mexico must have minimum capital of US\$20 million and maintain reserves equal to 8% of total assets.

Some foreign bankers have protested the SHCP's decision to prolong the opening of the banking sector. As a compromise, the SHCP is expected to consider easing some operating restrictions spelled out in the original plan, such as eliminating the requirement that banks submit a five-year plan, and removing the ceiling on capital stock each institution is allowed to have.

Nevertheless, in addition to the cautious approach the SHCP will take to opening the Mexican banking sector, financial analysts suggest other factors could discourage foreign banks from venturing into the Mexican market. These include the high cost of opening a subsidiary and concerns over potential political instability. In late March, SHCP banking director Tomas Ruiz said the SHCP expects to issue at least 25 new banking permits during the remainder of this year, including 15 for subsidiaries of foreign institutions and ten for new domestic banks.

In fact, in early April the SHCP announced approval of operating permits for the following three new domestic banks:

—Banco Alianza, to be based in Matamoros, Tamaulipas state, across the US-Mexico border from Brownsville, Texas. The partners in the operation are maquiladora owner Sergio Arguelles and three groups of US investors led by Texas Pacific Group, Richard Blum, and Donald Strum. The bank, capitalized with US\$44.7 million, will mainly seek to serve small and medium-sized businesses. The bank plans to open branches in Ciudad Victoria (Tamaulipas), Monterrey, and Mexico City. \*

—Banco Fimsa, based in Mexico City, plans to offer financial services oriented toward the needs of medium-sized businesses. The bank will be a subsidiary of Fimsa stock brokerage company.

—Banco del Bajío, which will serve medium-sized businesses in the cities of Guanajuato, Querétaro, San Luis Potosí, Aguascalientes, and Morelia. The investment group is led by Felipe Pablo Martínez.

In early April, the SHCP also granted operating permits for two new mortgage firms (Hipotecaria Nacional and Crédito Inmobiliario) and four new savings and loan institutions (Caja Gonzalo Vega, Caja Ciudad del Maíz, Caja La Monarca, and Caja Chihuahua).

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