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Government Begins Process to Allow Foreign Banks to Open Subsidiaries

by LADB Staff

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On April 21, the Finance Secretariat (Secretaria de Hacienda y Credito Publico, SHCP) published rules for foreign banks to establish operations in Mexico, thus formally opening the application process. Under the timetable, published in the Federal Register (Diario Oficial), the banks will be allowed 90 days to present their application, meaning that a final decision will probably not be announced until the end of July at the earliest.

The SHCP said three main factors will be considered in the applications submitted by foreign banks:

- the institution's business plan for its Mexican subsidiary and potential benefits for the Mexican economy;
- the technical capacity of the institution and the character of shareholders and bank officials;
- the bank's financial condition and the extent of its international presence.

The opening of the Mexican banking system to foreign institutions complies with terms of the North American Free Trade Agreement (NAFTA), which calls for a gradual opening concluding in the year 2000. Guillermo Ortiz, a deputy finance secretary, confirmed that as of mid-April more than a dozen foreign banks had requested information on the regulations for initiating operations in Mexico, but none had actually submitted an application as of that time, pending the publication of the formal rules.

Ortiz told reporters the government will probably give preference to US and Canadian financial institutions, although banks from other countries are also eligible to apply, provided they also have subsidiaries in the US or Canada. Still,

President Carlos Salinas de Gortari's administration is expected to proceed cautiously with the opening of the banking sector to foreign financial institutions. SHCP officials explained that the gradual opening is designed to protect the domestic banking industry from a flood of foreign competition.

Notwithstanding the gradual pace, some SHCP officials estimate that even if only ten foreign banks are allowed to initiate operations in Mexico during 1994, the banking sector's operating capital could still increase by as much as US\$1.3 billion. Under previous 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. The SHCP is also accepting applications for establishment of subsidiaries for brokerage houses, insurance companies, and other financial intermediaries.

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