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LADB Staff

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Foreign Banks Earned 1.29 Billion Pesos in Profits in Mexico During 1995

by LADB Staff

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According to the national banking and securities commission (Comision Nacional Bancaria y de Valores, CNBV), the 15 foreign banks that offered full-service operations in Mexico during all of 1995 earned combined profits of 1.29 billion pesos (US\$170 million). The Mexican government has awarded operating permits to 26 foreign-based financial institutions as part of the opening of the financial market. The first set of permits was announced in October 1994 (see SourceMex, 10/26/94). The recent CNBV study, however, took into account only the 15 financial institutions that were fully operational as of Jan. 1, 1995. Several banks that have received permits to operate in Mexico either initiated operations in the middle of the year or in early 1996. In fact, still another bank has since joined the list of foreign institutions allowed to operate in Mexico.

On April 1, the Finance Secretariat (SHCP) announced a permit for the Bank of Tokyo. The bank expects to capitalize its Mexican operations at US\$36 million. The CNBV report said that 13 of the 15 foreign banks obtained profits last year. The only two institutions to finish the year in the red were Dresdner Bank, which recorded losses of 15.8 million pesos (US\$2.1 million), and Ing Bank, which lost 2 million pesos (US\$265,000). The profits for the 15 foreign banks were in stark contrast to the poor financial condition of the Mexican banking sector as a whole. The CNBV report did not provide specific statistics for the Mexican-based banks for 1995. However, eleven of the 16 banks listed in the Mexican Stock Exchange (BMV) reported losses or sharp reductions in profits during the first quarter of the year.

According to the CNBV, a major disadvantage for domestic banks is that they continued to carry over a significant overdue debt accumulated in past years. The foreign banks, in contrast, had very little debt themselves, since the majority of their clients are other banks or the Mexican subsidiaries of corporations from their home countries. Many of the foreign banks also began the year with relatively high levels of capitalization. Another reason for the low exposure to possible losses for the year of foreign banks is that these institutions have provided relatively few loans during their short time of operation in Mexico. Indeed, the one foreign banking institution that has operated in Mexico continuously since 1929, Citibank, reported an increase of 150% in overdue debt.

The Mexican Bankers Association (Asociacion de Banqueros de Mexico, ABM) expects the foreign banks to become more fully integrated into the Mexican banking sector during the coming year. The ABM has already fully integrated the overseas institutions into its organization, creating a special subcommittee for foreign banks, led by John Donnelly of Chemical Bank-Mexico. In a report released at the recent banking industry meeting in Cancun in March, the ABM indicated that foreign banks as a whole had attracted deposits close to 10 billion pesos (US\$1.3 billion) in 1995.

For 1996, that amount was expected to increase to 20 billion pesos (US\$2.6 billion). This total does not include the deposits gained by Bank of Nova Scotia, which in late February reached an

agreement to buy a majority share in Grupo Financiero Inverlat (see SourceMex, 02/21/96). [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on April 9, reported at 7.55 pesos per US\$1.00] (Sources: La Jornada, 03/17/96; Agence France-Presse, 04/01/96; Excelsior, 04/03/96; El Financiero, 04/10/96)

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