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Mexico's two largest private banks, Bancomer and Banamex, are rumored to be considering a merger. Reports in Mexican and foreign newspapers say the two institutions have initiated informal talks to combine their operations. The rumors of a Banamex-Bancomer merger underscore the shaky financial state of the Mexican banking sector, saddled with a large number of overdue loans and a lack of capital to provide new loans.

Spokespersons for Bancomer and Banamex acknowledged that the two banks may enter some sort of association this year, but they said the reports of a full merger were premature. "There's nothing concrete," said Mario Laborin, who heads Bancomer's specialized banking division. A spokesperson for the Comision Nacional Bancaria y de Valores (CNBV) said the agency, which regulates banking and securities transactions, has not received any formal notification that the two banks are considering a merger.

Talk of a Bancomer-Banamex merger first circulated in November 1998, when the two banks announced plans to combine certain operations such as processing checks and managing automatic-teller machines. Guillermo Ortiz Martinez, chief governor of the Banco de Mexico (central bank), further fueled the speculation when he told the London-based business newspaper Financial Times that the two banks had informed him informally that they intended to begin merger discussions.

Banking industry analysts say a Banamex-Bancomer merger would have a mixed impact on the Mexican banking sector. The merger, which would concentrate 43% of Mexican banking assets in one institution, could create a stronger bank with stronger capabilities to meet the financing needs of Mexicans. But the merged institution could also stifle competition, causing many smaller and medium-sized banks to fold, the analysts said.

Ortiz said he favors other structural responses for the Mexican banking sector, including the possibility of allowing foreign financial institutions to acquire shares in Mexico's largest banks. Under terms of the North American Free Trade Agreement (NAFTA), Mexico gradually allowed increased foreign ownership in Mexican banks. As of 1998, US or Canadian institutions or US and Canadian subsidiaries of foreign institutions are allowed to own as much as a 15% share in Mexican banks. "We have to recognize that private financing in Mexico is undergoing one of the worst crises in its history," Ortiz said at a housing-industry convention in late March.

Reactions to Ortiz's proposal to expand foreign participation in the Mexican banking sector have been mixed. Carlos Gomez y Gomez, president of the Asociacion de Banqueros de Mexico (ABM), said the Mexican banking sector could benefit from new investments of US$5 billion, some of which could come from foreign institutions. But Gomez, who made the statement in an interview with the daily newspaper El Economista, also warned against allowing Mexican banks to become "a morsel" for foreign institutions.

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Mexican banking sector remains extremely weak

Some debt-rating organizations like Moody's have urged President Ernesto Zedillo's administration to seek foreign partners for financially strapped banks like Serfin and Bancrecer. Grupo Serfin, Mexico's third-largest bank, is facing special difficulties. The New York Stock Exchange removed the bank from its listings in February of this year after Grupo Serfin failed to meet minimum asset and income requirements (see SourceMex, 1999-02-24).

The Mexican banking sector has received generally negative marks from Standard & Poor's, Moody's, and other debt-rating institutions. Moody's has ranked Mexico's banking sector as the weakest in Latin America and the fifth-weakest in the world. Philip Guarco, Moody's senior analyst for Latin American banks, said the banking sector suffers from weak capitalization, poor profitability, and unproved risk management. The situation is worsened by the tight government control over seemingly independent agencies like the central bank and the CNBV.

The poor economic performance of the Mexican banking sector can be traced in large measure to the growth in overdue debt. A CNBV report published in late March said overdue debt owed to commercial banks increased by about 14.93 billion pesos (US$1.57 billion) in 1998 to reach a total of 99.51 billion pesos (US$10.48 billion).

In some of the more impoverished communities of Mexico, between 55% and 64% of total loans owed to commercial banks are overdue. Because of the huge amount of overdue debt, the banking sector has been reluctant to extend credit to businesses and individuals, which is hampering economic growth.

Gomez y Gomez said the banking sector requires investments of at least US$5 billion. But the credit crunch is also attributed in large measure to the lack of capital to offer as loans. While financial institutions rely on large investors to provide some of the capital used for loans, a good portion of these funds is also obtained from deposits. The economic crisis that has prevailed to some extent since the devaluation of the peso in late 1994 has made it difficult for Mexicans to save money.

The Mexico City daily newspaper Novedades says only 3% of the Mexican population has a savings account. Mexican banks have also been selective about extending loans to smaller and medium-sized businesses because of what they see as outdated banking laws that fail to provide banks with adequate protection against defaults.

In an effort to address this concern, Zedillo has drafted a legislative initiative that extends greater legal security to banks. Under the bill, sent to the Chamber of Deputies in early April, the banks would have legal recourse to claim assets that were offered as guarantees or collateral for loans. "The initiative offers a flexible, secure, and economic mechanism for guaranteeing loans, which will increase the supply of credit for productive activities under better conditions," said a statement from Zedillo's office. While the changes in credit laws are aimed primarily at easing the credit crunch for small and medium-sized businesses, consumer loans are expected to remain tight.

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Banks have launched an extensive radio and television advertising campaign to discourage consumers from using their credit cards. Some analysts said the campaign reflects a change of strategy for banks, which are attempting to reduce reliance on consumer interest payments and are looking instead at insurance and pension management as major sources of profit.

Debtors seek relief on overdue loans

Meanwhile, the banking legislation proposed by Zedillo in April also creates legal recourse to protect debtors from abuses. But these provisions are unlikely to please debtors- rights organizations like the Asamblea Ciudadana de Deudores a la Banca (ACDB).

The ACDB, commonly known as El Barzon, has frequently criticized the banks for failing to consider the needs of debtors. At a rally in front of the Banamex headquarters in late March, members of the Mexico City chapter of El Barzon demanded to meet with bank officials to air their grievances.

Spokespersons for the protestors said debtors are not disputing their obligation to pay their debts, but said they are angry about the huge increase in the debt, which is compounded by a surge in interest rates. "We want to pay, but pay what is right, in accordance with our earnings," the spokespersons said after meeting with a Banamex executive. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on April 7, reported at 9.49 pesos per US$1.00] (Sources: Bloomberg news service, 01/08/99; Associated Press, 03/15/99; Associated Press-Dow Jones news service, Financial Times (London), 03/25/99; The News, 01/08/99, 03/25/99, 03/26/99; El Financiero International, 04/05/99; Reuters, 03/22/99, 03/23/99, 03/25/99, 03/31/99, 04/06/99; El Economista, 01/06/99, 03/25/99, 03/26/99, 04/07/99; Novedades, El Universal, 02/24/99, 04/07/99; Excelsior, 03/26/99, 03/30/99, 04/01/99, 04/07/99)

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