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Spanish Bank Seeks to Gain Full Control Over Mexican Subsidiary BBVA-Bancomer

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Spain's Banco Bilbao Vizcaya Argentaria (BBVA) has taken steps to gain full control of Mexico's Grupo Financiero Bancomer (GFB). The Spanish financial institution already controls a 60% stake in GFB and is responsible for all the Mexican bank's management decisions. In an unexpected move announced in early February, BBVA offered US$4.1 billion to acquire the remaining 40% of GFB, which would give the Spain-based company full control of the Mexican bank. BBVA acquired the original 40% share of GFB when it merged its Mexican subsidiaries with Grupo Financiero BBV-Probursa in 2000 (see SourceMex, 2000-03-15).

In agreeing to the merger, GFB-Probursa rejected an offer to consolidate its operations with Mexican rival Grupo Financiero Banamex-Accival (see SourceMex, 2000-06-14). With the merger, the names of all GFB branch banks were changed to BBVA-Bancomer. At that time, BBVA officials said they had no intention of trying to gain full control of the Mexican bank.

This position changed when officials noticed that Bancomer had become one of BBVA's main areas of growth. In its latest earnings report, BBVA said its 2003 net profit rose 30% to 2.23 billion euros (US$2.77 billion), with operations in Latin America, including Mexico, representing more than one-fourth of the profits.

"In the last three years, BBVA Bancomer has become a success story," a BBVA spokesperson said. BBVA president Francisco Gonzalez said the bank decided to expand its investment in Mexico because of the expected growth in the economy. He acknowledged that Mexico has suffered three consecutive years of low growth, but he also projected that the country's GDP would begin to grow at a rate of 4% annually. "At BBVA we are confident in the future of the Mexican economy in the medium and long term," said Gonzalez.

Analysts said BBVA also saw the potential to expand its clientele in Mexico, since 60% of Mexican workers do not have bank accounts. The Mexican affiliate has also benefited from a steady flow of transfers from expatriates working in the US. One estimate indicated that expatriates sent US$14 billion back to Mexico in 2003, 40% of which was sent via BBVA-Bancomer.

Critics say merger unhealthy for Mexican economy

Once the transaction is approved, BBVA-Bancomer will cease being a public company and will no longer be listed on the Mexican stock exchange (Bolsa Mexicana de Valores, BMV), a move that has raised concerns among some Mexican financial officials. "This is not healthy for the market," said Guillermo Ortiz Martinez, chief governor of the Banco de Mexico (central bank). "When a company goes public, especially a bank, it has the obligation to release information in a systematic manner, which by definition results in greater transparency." Ortiz also raised concerns that delisting the BBVA-Bancomer stock eliminated another viable investment option for the general public.
Mexican banking officials offered a more positive spin on the deal, saying the transaction was a natural and logical step in the globalization of financial markets. "This opens the possibility for stockholders who had held shares of Mexican financial institutions to form part of the international financial groups," said Manuel Medina Mora, president of the Asociacion de Banqueros de Mexico (ABM).

The transaction is sure to add to concerns about the rapid growth in foreign ownership of Mexican banks. Since 2000, foreign banks have spent about US$18.6 billion to acquire Mexico's largest banks. US-based Citigroup, Britain's Hong Kong Shanghai Bank (HSBC), and Banco Santander Central Hispano (BSCH) have all made inroads in the Mexican banking sector during the past several years (see SourceMex, 2001-08-08, 2002-09-11).

Some of these banks are taking a variety of steps to consolidate their presence in Mexico. For example, in late January, HSBC announced that all its Mexican affiliates, which previously carried the name Bital, would carry the HSBC name. Sandy Flockhart, president of Grupo Financiero HSBC, said the name change coincides with expansion of services. "We are aware that the Mexican financial market is becoming increasingly sophisticated and clients require better service and increased options," Flockhart said.

The incursion of foreign financial institutions into the Mexican market leaves only one large institution, Monterrey-based Banorte, exclusively in the hands of Mexican nationals. Banorte president Othon Ruiz Montemayor said there are no plans to sell out to any foreign buyers. "Since 2000, we have proven our ability to compete with our own capital," said Ruiz Montemayor. "We have sufficient liquidity and financial capacity to meet the needs of the average Mexican."

While the number of large Mexican-owned banks has almost disappeared, some small regional specialized institutions are appearing on the scene. In late December, a group of business owners announced the creation of Bxmas, a bank that will target its services to small and medium-sized agricultural operations. "Our advantage is that we will have personalized service and quick answers to client requests," said bank executive Jaime Ruiz Sacristan, who previously worked at Bital.

Still, the BBVA move to acquire a 100% share in BBVA-Bancomer has raised some red flags among Mexican analysts and legislators, who fear that the continued consolidation of the banking sector will further limit credit availability for most Mexicans. Sen. Esteban Angeles Ceron of the former governing Partido Revolucionario Institucional (PRI), who is also an economist, said many legislators had warned several years ago that an indiscriminate opening of the Mexican banking sector would come back to haunt the country's financial sector. "All the profits are going overseas, and there is little effort to promote domestic savings," said Angeles Ceron. "Also, the banking sector is not meeting its principal obligation, which is to offer loans and support productive activities."

Other analysts point out that BBVA's purchase of the remaining shares of BBVA-Bancomer through the BMV allows the Spanish company to take advantage of a loophole to avoid payment of income tax (impuesto sobre la renta, ISR). This situation is similar to the one in which Citicorp acquired Banamax-Accival. "Bancomer, like all companies enrolled in the BMV, had exclusive privileges and
fiscal advantages not afforded other Mexican business and commercial enterprises," said analyst Mario Sanchez Silva, director of the consulting committee at the Academia Mexicana de Ciencias Economicas. (Sources: Agencia de noticias Proceso, 01/29/04; Unomasuno, 01/30/04; El Universal, 01/30/04, 02/02/04, 02/03/04; Reuters, 02/02/04; Associated Press, 02/02/04; Dow Jones news service, 02/02/04; The Herald (Mexico), 02/03/04; Notimex, The New York Times, Spanish news service EFE, 02/03/04; La Jornada, 01/30/04, 02/03/04, 02/04/04; Milenio Diario, 12/18/03, 02/02-04/04; La Cronica de Hoy, 01/30/04, 02/02-04/04; El Financiero, El Sol de Mexico, 02/03/04, 02/04/04; El Universal, 02/04/04)

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