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The debate has resurfaced in Mexico on whether foreign-owned banks have the best interest of Mexican consumers or whether their main motivation is profits. One surprising critic of foreign-owned banks, ex-President Carlos Salinas de Gortari, who reprivatized Mexico's banking system, suggested in late February that Mexico should move toward greater national control over the country's financial institutions. The issue was a major topic of discussion at the 73rd annual national banking convention in Acapulco in April, where critics reiterated their accusations that foreign-own banks continue to reap high profits by charging exorbitant interest rates, particularly on credit cards, and high service fees and by adopting overly restrictive loan policies.

Detractors pointed out that the Mexican banking sector increased its profits by almost 11% despite a sluggish economy in Mexico and overseas. Banks increased profits in 2009 despite weak economy Mexico's banking and securities regulator (Comisión Nacional Bancaria y de Valores, CNBV) said three institutions BBVA Bancomer, Banamex, and Santander earned a combined 44.2 billion pesos (US$3.4 billion) in profits in 2009, about 70% of the total profits earned by the banking sector last year. Those three banks earned about 55% of the banking-industry profits in 2008. BBVA Bancomer and Santander are affiliated with banks in Spain, while Bancomer is a subsidiary of US-based Citigroup. A major criticism of the banks is that they did not turn the profits into increased credit access for Mexican borrowers. "The profit rate of the banking system was inferior to the rate by which credit was increased," said the Mexico City daily newspaper La Jornada. "While profits for the year increased by 11%, the amount of credit increased by only about 4%.

Critics say the banks' tight credit policies have contributed to Mexico's sluggish growth rates during the past decade. Patricia Armendáriz, who once served as CNBV vice president, said banks have generally neglected loans to businesses and the private sector in favor of consumer credit. "[The foreign banks] were searching for easy money," said Armendáriz. Another common criticism is that the banks charge a much higher interest rate in Mexico than they do in their home countries, contributing to the high profit rates. For example, Santander said profits from its Mexican subsidiaries in 2009 increased by almost 39% relative to 2008. In contrast, Santander's global profits increased by a mere 1%. "This bank earned more money in Mexico despite the fact that its economic activities actually declined by close to 7%," wrote Orlando Delgado Selley in a La Jornada column on Feb. 18, shortly after the CNBV released the data on the banking sector's profits for 2009. But high interest rates were only one reason banks like Santander were able to boost their profits.

Mexico's lax banking regulations allowed the bank to reduce its overall current portfolio by 8.2% and its credit-card portfolio by 20%. "For bank officials, the explanation of the good results was that liabilities were reduced by 378 million pesos (US$29 million), or by 2.3%," said Delgado Selley. "This is why bankers say that Mexico is a country where one is allowed to earn money, and this is true because financial authorities do not bother to control the margin by which banks operate,"

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added Delgado. The lax regulation is intended in part to help bring stability to a banking system that suffered a major crisis in 1995 (SourceMex, March 08, 1995). Mexican banks have been allowed to operate with a much wider intermediation margin than banks in other countries, which helps banks but hurts consumers. The intermediation margin is the difference between active and passive fees.

In addition to high interest rates, banks have also padded their profits by charging high fees for services, from checking to use of automated teller machines (ATMs) to penalties for bounced checks. Government pushes banks to loosen credit Mexican authorities acknowledge problems with the Mexican banking sector, but the biggest concern for the Calderón administration is not so much the high fees or charges but the tight lending policies and the lack of investment. At the annual convention in Acapulco in April, Calderón called on bankers to redouble their efforts to give the public more access to loans. He noted that credit availability in Mexico, as a percentage of its GDP, is only one-fourth that available in Chile and half what is provided in Brazil. "I know that together we can expand the presence of the banking sector and its services among the population and especially deepen its participation in the productive sector."

The Secretaría de Hacienda y Crédito Público (SHCP) presented a specific target for the banking sector, for credit penetration to approach 50% as a proportion of GDP. The rate is currently at about 25% of GDP. In response to the government's plea, the Asociación de Bancos de México (ABM) said conditions are improving in the credit market and Mexico should see an increase in the number of loans by the third quarter of the year. As part of the effort to promote economic growth in Mexico, said ABM president Ignacio Deschamps, banks have initiated a program to provide easier credit to 1 million small and medium-sized businesses. Deschamps said credit has been tight since September 2008 because of the impact of the economic and banking crises in the US. "The banking system was able to resist a very critical crisis," said Deschamps, chief executive of BBVA Bancomer, the Mexican subsidiary of Spain's Banco Bilbao Vizcaya Argentaria SA. "The banks will be able to participate in the economic recovery." Some banking officials noted that a stable financial market has prompted the parent companies to increase their investments in Mexico. For example, Luis Peña, director general of HSBC México, said officials at the company's London headquarters are planning to invest about US$700 million in Mexico to modernize its branch offices and expand services. "Our decision to expand capital in Mexico is based on the potential for growth," said Peña, who noted that Brazil is the only other country in Latin America where the British bank is investing in infrastructure.

The banking industry has recognized the deficiencies in providing the Mexican population with access to credit. An analysis published recently by BBVA Bancomer noted that Mexico ranks 98th among 112 countries on an index that measured the amount of credit provided to the public sector as a proportion of the country's GDP. Beyond the lack of credit, the foreign-owned banking industry has come under criticism for its lack of investment in Mexico. A recent CNBV study called the lack of bank infrastructure in Mexico "alarming." The report said 64% of municipalities in Mexico lack banking services. In some states like Oaxaca, the only banks are in the larger cities, leaving a high percentage of the population without access to financial services.

The CNBV analysis was supported by the BBVA study, which showed that Mexico had only 14 banks per 100,000 inhabitants as of 2008. While this was a major improvement from 2005, when there were 7.6 banks per 100,000 Mexicans, Mexico still ranked 60th among 126 countries in this category.

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Furthermore, the BBVA report showed that Mexico ranked 107th among 113 nations on bank deposits as a percentage of its GDP. One improvement in recent years has been the increase in ATM machines in Mexico. As of 2008, there were about 40 machines per 100,000 inhabitants, compared with about 17 machines in 2005. In this category, Mexico ranked 49th among 112 countries. Ex-President Salinas, others call for more Mexican control of banks.

The deficiency in financial services has reopened the debate on whether Mexican-based institutions would be more responsive to the needs of Mexicans. Antonio del Valle Ruiz, a former president of the ABM and ex-director of Banco Internacional (Bital), has been among the most outspoken critics of foreign participation in the Mexican economy. Bital is now the Mexican subsidiary of HSBC. Del Valle said all major decisions regarding banking operations in Mexico "are made in London, the US, Spain, and Canada." If Mexico were to suffer a crisis similar to the one that hit Argentina in 2001 (NotiSur, May 17, 2002), many foreign institutions "would simply leave," said del Valle. The most prominent advocate of increased Mexican control of the banking sector is ex-President Salinas, who launched the effort to return Mexico's financial institutions to the private sector (SourceMex, March 06, 1991 and May 01, 1991) after they were nationalized by ex-President José López Portillo in the aftermath of Mexico's 1982 financial crisis.

Speaking at a conference on finance sponsored by the Centro de Estudios Espinosa Yglesias, the ex-president underscored the importance of the banking system, which he called "the heart that pumps blood into all the arteries of the economy." Salinas made the same point as Del Valle, suggesting that foreign owners do not necessarily have the best interest of Mexicans at heart, and, therefore, Mexico should ensure that Mexicans gain controlling interest of the financial institutions. "If they have any problems, they will have to take actions dictated by authorities in other countries," said Salinas. "That is why Mexico should regain control of its system of payments." Salinas said Mexico could emulate other countries in implementing controls on their financial sectors. "The Germans would never allow foreigners to own their banking sector," he said. "More recently, during the US financial crisis, when banks were failing, [US authorities] did not allow any foreign entity to come to the rescue." During Salinas' tenure, the federal government sold off its interest in the country's major banks, including Bancomer, Banamex, Bital, and Serfin, and opened the possibility for foreign institutions to operate in Mexico. But it was not until the administrations of ex-Presidents Ernesto Zedillo and Vicente Fox that foreign banks gained a stronghold in Mexico, merging with even the most prominent Mexican institutions like Bancomer and Banamex (SourceMex, March 15, 2000 and May 05, 2001).

Banorte is the only major financial institution still entirely in the hands of Mexican interests. Other important politicians also weighed in with their opinions. "I think that we Mexicans have to make an effort to ensure that [the banking system] becomes fundamentally Mexican," said Sen. Francisco Labastida, an ex-presidential candidate and member of Salinas' Partido Revolucionario Institucional (PRI). But neither Salinas nor any of the critics of foreign participation in the Mexican banking sector are advocating a total takeover, as was the case during López Portillo's tenure. "There could be some international affiliations, but I think it is a serious mistake for the vast majority of the banks to be in foreign hands," said Labastida. Carlos Abedrop, former ABM president, said Mexicans are primarily looking for signs that the foreign-owned institutions are committed to Mexico.

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One way to do this, he said, would be if all the foreign-owned banks were listed on the Bolsa Mexicana de Valores (BMV) and developed closer links with the stock exchange. This way the banks would become more directly integrated in the Mexican economy, he noted. Others are quick to point out that foreign banks are already a great benefit to the Mexican financial sector and the economy. Luis Pazos, president of the agency that watches over the rights of depositors (Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros, CONDUSEF), said the arrival of foreign banks increased the number of strong institutions in the country, which has served to increase competition in the financial sector.

CNBV president Guillermo Babatz said foreign ownership of a bank is not as important as its overall performance level. "Some domestic banks perform well and others not so well; the same is the case with foreign institutions," said Babatz. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on May 19, reported at 12.87 pesos per US$1.00]

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