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President Enrique Peña Nieto, Congress Considering Reforms to Banking System that Would Boost Lower-Cost Credit, Promote Growth

by Carlos Navarro

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In early May, President Enrique Peña Nieto and leaders of the three major parties teamed up to introduce a banking-reform bill that would boost bank loans in a country where credit availability is far behind other major economies in Latin America. The executive and legislative branches see banking reform as an important step to expand economic growth, with GDP projected to increase by 3.5% in 2013.

The measure did not make it to the floor of Congress before the end of the session, but the joint congressional committee comprising leaders from of all parties (Comisión Permanente) is pondering whether to include the legislation in special sessions scheduled in July and August. Among other things, the legislation would offer commercial banks more incentives to lend to individuals and businesses as well as increase the role of government development banks in helping expand credit.

The measure also contains clauses that would increase the accessibility and accountability of financial institutions.

The joint decision to move on this legislation is the result of the Pacto por México, which leaders from the major parties and President Peña Nieto signed in December 2012 to attempt to push through important reforms to modernize the country (SourceMex, Dec. 5, 2012, and Jan. 9, 2013).

The agreement hit a bump in May of this year because of accusations that officials from governing Partido Revolucionario Institucional (PRI) were using government resources to promote PRI candidates in the upcoming July 7 state elections (SourceMex, May 1, 2013). Despite those concerns, the parties set their differences aside and resumed an uneasy working relationship.

"Macroeconomic stability, the soundness of our financial institutions, and the will to reach agreements between the principal political forces in this country open a unique opportunity for us," Pena Nieto said shortly after the legislation was introduced. "This is the ideal moment for a comprehensive review of the legal framework for the financial sector and to make responsible lending an important engine for economic development."

Still, even with the appearance of broad agreement on the banking-reform measure, the initiative has drawn its share of detractors.

Critics say deeper changes needed

The criticisms about the banking-reform proposal include charges that the initiative primarily benefits the large banking institutions and does not provide sufficient incentives to encourage competition among financial lenders. Statistics from Mexico’s central bank, the Banco de México, show that the seven largest banks control 85% of loans and 80% of assets among the 46 lenders that comprise the banking sector.
Some critics also raised concerns about the potential for the legislation to increase the public debt and the absence of efforts to promote greater participation by domestic interests in the banking sector, which is primarily controlled by banks whose headquarters are overseas. "In our opinion, it is important that we seek provisions that encourage greater participation by Mexican banks," said Sen. Dolores Padierna, a member of the center-left Partido de la Revolución Democrática (PRD).

Additionally, Padierna suggested that the initiative does not benefit the public at large. "This reform does not offer the types of changes that the Mexican economy requires, which is to promote a broad set of actions that would allow lower-cost credit to grow," said the PRD legislator.

There were even some concerns among executives from the seven large financial institutions that would seemingly benefit from the bank reform. "We are worried about the ambiguities in this legislation," said Marcos Martínez Gavica, president of the Mexican unit of Grupo Financiero Santander. "This [reform] leaves unanswered the question of what are the consequences of whether a bank is not making sufficient loans."

Martínez Gavica also said bankers were displeased with a provision that prohibits financial institutions from investing in government securities. "We might not be the only ones unhappy with this measure," said the Santander official. "The Banco de Mexico is probably even less pleased because this is going to affect the liquidity of the Bonos M and the Certificados de la Tesorería de la Federación (CETES)."

An evaluation by experts brought together by the Centro de Estudios Espinosa Yglesias (CEEY) gave the reforms generally good marks but also warned against some potential problems such as overregulation.

"In the opinion of the specialists, the initiative reflects an effort to strengthen the oversight of the state over the banking system, but several proposals were presented that could have the effect of promoting overregulation of the operations of the financial institutions," said the Mexico City daily newspaper El Financiero, which reported on the meeting of the CEEY experts. "This, in turn, could result in greater operational costs."

Conversely, the CEEY evaluation said the provisions to eliminate many restrictions for the government development banks to provide loans represented a positive step.

The panel of experts strongly agreed that the banking reform would benefit Mexico’s economic policies. However, the majority also warned "not to expect a substantial impact in the growth of intermediate private loans and in the reduction of active interest rates," said El Financiero.

**Legislation improves consumer protection**

The legislation also strengthens and clarifies the role of the Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros (CONDUSEF), the agency that watches over the interests of banking consumers.

In the eyes of many critics, CONDUSEF has been "an inefficient monster that lacked sufficient technical expertise," said Alicia Sagado, a financial columnist for the Mexico City daily newspaper Excésior.

CONDUSEF director Mario Di Costanzo praised the consumer-protection provisions of the legislation, including the proposed new system to resolve disputes between consumers and financial
institutions and other measures that strongly protect users of the banking system. "[Our role] will no longer be simply to impose fines ... but to take actions that would prevent disputes," said Di Costanzo, a former legislator from the center-left Partido del Trabajo (PT).

There was also strong support from the financial sector, which supports steps to improve the availability of lower-cost credit to the public from both commercial and development banks. "We are also in agreement with the concept that interest rates should not be reduced by decree," said Javier Arrigunaga, president of the Asociación de Bancos de México (ABM).

It is still uncertain whether the legislation will come to Congress this summer at a special summer session or whether the Comisión Permanente will allow the debate on the measure to wait until the new regular session starts in September. Some members of the center-right Partido Acción Nacional (PAN) are pushing for Congress to delay consideration of the measure until September to allow ample debate.

"The Chamber of Deputies will act responsibly, taking into account the different opinions," said PAN Deputy José Isabel Trejo, chair of the finance committee (Comisión de Hacienda y Crédito Público) in the lower house. "There are opposing views on whether easing credit guarantees economic growth."

The measure will undergo careful review this summer from the various parties affected by the legislation. For example, the Congreso Agrario Permanente (CAP), which represents small-scale agricultural interests, and the rural-development bank Financiera Rural have scheduled a forum for mid-July to examine the impact of the proposed legislation on rural credit. CAP regional directors said they would like to review the proposed changes to Financiera Rural ensure increased support for campesinos and small-scale producers.

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