MULTINATIONAL BANKS IN MEXICO: Growth Promoting or Rents Seeking?

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ABSTRACT

The banking system in Mexico has undergone significant changes in the last decades. Financial liberalization has been a key driver of these changes, leading to increased competition and the emergence of new financial intermediaries. This has had implications for the efficiency of credit allocation, the stability of the banking system, and the role of banks in the economy.

I. THE MEXICAN BANKING SYSTEM

A. Size of the banking system

Although commercial banks accounted for the lion's share of the Mexican financial system, the levels of bank intermediation remained relatively low. Banking intermediation in Mexico, measured as the ratio of bank credit to the private sector over GDP, was far below that of Latin American countries. In 2000, this ratio was 15.8 percent, while the Latin America region averaged 30.2 percent. Mexico lagged behind its peers, partly due to the high levels of informal credit market and the concentration of financial activities in large banks.

B. Commercial banks as main source of financing

While commercial banks have been the main source of financing, there have been changes in the sources of funds and the composition of bank portfolios. In 2001, commercial banks accounted for 85 percent of total commercial loans, while in 2006, this percentage decreased to 62.8 percent. The factors behind this trend included regulatory changes, increased competition, and the emergence of non-bank financial intermediaries.

C. Credit capitalization index

The credit capitalization index, which measures the ratio of bank capital to assets, has increased over time, indicating a higher degree of financial stability. In 2001, the index was 11 percent, while in 2006, it increased to 18.9 percent. This improvement in capitalization has been attributed to regulatory measures and the implementation of Basel II standards.

D. Interest income by credit allocation

Interest income, which is an important source of revenue for banks, has been affected by changes in the regulatory framework and the competitive environment. Since the implementation of Basel II standards, banks have been faced with higher capital requirements, which have impacted their profitability. In 2001, interest income from credit allocation was 14.8 percent of total income, while in 2006, this percentage increased to 18.5 percent.

E. Total loans as percentage of GDP

The total loans to GDP ratio has been a key indicator of the credit activity in the economy. In 2001, this ratio was 40 percent, while in 2006, it increased to 60 percent. The increase in the total loans to GDP ratio has been driven by the expansion of credit to the private sector, particularly to large firms and the government.

F. Lending to firms

Lending to firms has been a key component of the credit activity in the economy. Since 1998, there has been a decrease in the share of assets allocated to firms, which has been reflected in the decline of interest income from credit allocation to firms. In 2001, interest income from credit allocation to firms was 29 percent of total income, while in 2006, this percentage decreased to 20 percent.

G. Foreign and domestic banks

Foreign banks have accounted for a significant portion of the credit activity in Mexico. In 2001, foreign banks accounted for 40 percent of total credit, while in 2006, this percentage increased to 50 percent. This increase in foreign bank credit has been attributed to the opening of the Mexican financial market to foreign investors, the expansion of their operations, and the attraction of regulatory and tax incentives.

H. Other intermediaries

Other intermediaries, such as savings and loan associations, credit unions, and finance companies, have played a minor role in the credit activity in the economy. In 2001, these intermediaries accounted for 5 percent of total credit, while in 2006, this percentage decreased to 3 percent. The decrease in the share of credit allocated to these intermediaries has been attributed to the increased competition and the attractiveness of commercial banks as a source of funding.

III. CREDIT TO FIRMS AND BANKS' PORTFOLIO ALLOCATION

A. Foreign banks

Foreign banks have accounted for a significant portion of the credit activity in Mexico. In 2001, foreign banks accounted for 40 percent of total credit, while in 2006, this percentage increased to 50 percent. This increase in foreign bank credit has been attributed to the opening of the Mexican financial market to foreign investors, the expansion of their operations, and the attraction of regulatory and tax incentives.

B. Domestic banks

Domestic banks have accounted for the remaining portion of the credit activity in the economy. In 2001, domestic banks accounted for 60 percent of total credit, while in 2006, this percentage decreased to 50 percent. The decrease in the share of credit allocated to domestic banks has been attributed to the increased competition and the attractiveness of foreign banks as a source of funding.

IV. CONCLUSIONS

This study analyses the role of commercial banks in the Mexican economy, focusing on the implications of financial reforms on the financial system that resulted in a smaller banking system, increased competition, and the emergence of new financial intermediaries. The changes have had implications for the efficiency of credit allocation, the stability of the banking system, and the role of banks in the economy.

ACKNOWLEDGMENTS

This research was supported by a fellowship from the Graduate Research Mentorship Program (GRMP) of the Graduate Division at UC Berkeley.

DATA SOURCES

- Comisión Nacional Bancaria y de Valores (CNBV), Boletín Estadístico de Banca (México, various issues)
- Instituto Nacional de Estadística, Geografía e Informática (INEGI), Datos Demográficos y Económicos
- Banco de Mexico, http://www.banxico.org.mx
- International Financial Statistics, IMF, CD-ROM

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