Financial Times (London, England)

September 10, 2004 Friday
London Edition 1

SECTION: COMPANIES INTERNATIONAL; Pg. 29

LENGTH: 785 words

HEADLINE: Banks feel heat in Mexico: Report says foreign institutions are charging more than they do elsewhere, says John Authers

BYLINE: By JOHN AUTHERS

BODY:

The long-running war between Mexico's politicians and its bankers took a turn for the worse this week.

For several years, the government has complained that the country's recently revived banking industry - restructured at great cost to the public - was not lending enough to the private sector.

This week, Oscar Levin, the government banking ombudsman, opened a different front, publishing a report claiming that the banks were concentrating on raising commissions to the exclusion of increasing lending.

He said the foreign banks, which account for 81 per cent of banking assets in Mexico, are charging far more than they do for equivalent products in other countries.

Mr Levin said that "curiously, in their countries of origin, the practices of these banks involve better service and lower relative costs". In Mexico, their presence "still has not translated into the concrete establishment of operating and administrative policies that permit a gradual reduction in the costs of various services and products".

He said that commissions had grown from 33 per cent of financial margin four years ago to 50 per cent in June of this year, and complained that the banks had not made the investments necessary to expand Mexico's still under-developed banking system.

Only 12 per cent of Mexican consumption is paid for with credit or debit cards - far below international norms - and 86 per cent of transactions are in cash.

On Wednesday, the Mexican Banks Association responded by saying that it agreed with neither the methodology nor the data that Mr Levin had used.

Manuel Medina Mora, head of both the association and of Citigroup's Mexican subsidiary Banamex, said growth in banks' lending to all the major categories - consumers, housing and companies - had grown in the past 12 months for the first time since the Tequila Crisis of 1994-95.

However, while consumer credit has tripled in the past four years, lending to companies has been static, and has only increased 4 per cent in the past year.

He added that while banks' income from commissions had risen at an annual rate of 12.5 per cent since 1998, the number of transactions handled by the system had increased at a rate of 23.5 per cent, "which demonstrates that, in the aggregate, the prices of banking services in our country have cheapened significantly".

Mr Medina Mora added that there was a global trend for banks to increase fee income rather than interest income, and that Mexican banks, which now derive 31 per cent of their income from fees, were far behind their counterparts in Brazil - 36 per cent - and the US - 44 per cent.

Banking has long been a sensitive political subject in Mexico.

In 1982, President Lopez Portillo made it his final act as president to nationalise the banks, in a move that robbed the industry of a generation of talent.

Then, after the recently re-privatised banking system collapsed in the wake of the 1994 exchange rate devaluation, amid revelations that many banks were riddled with fraud, the government spent Dollars 65bn bailing them out - an act that remains deeply controversial.

In the past five years, all the largest Mexican banks have been sold to international financial groups - Citigroup of the US, HSBC of the UK, Spain's BBVA and SCH, and Canada's Scotiabank - making them an easier target for politicians.

The central problem is a lack of credit, which is now widely perceived as a severe impediment to growth.

In 2001, according to the World Bank, bank credit to the private sector in Mexico accounted for less than 20 per cent of GDP, having stood at 36 per cent in 1994. It has now dropped below 16 per cent, in spite of the recent slight upturn highlighted by Mr Medina Mora. The world average is 136 per cent.

Politicians note with annoyance that almost all the conditions are in place for the banks to start lending on a bigger scale, and that these improvements have been made on a tiny base.

Following the international takeovers, they have strong balance sheets, while the economy is growing, and inflation has largely been beaten.

The low interest rates on government paper - a by-product of stability - mean there is no longer easy money to be made simply by buying bonds, and that it is in the banks' interests to start lending for productive purposes.

But the most recent survey by the Banco de Mexico, covering the second quarter of this year, showed that 72.5 per cent of Mexican companies do not use bank finance at all and rely on suppliers' credit instead.

This week's events seem to prove that Mexico's banks can expect no let-up in political pressure.

The ombudsman's attack seemed to amplify what President Vicente Fox told a bankers' convention two years ago: "You can do more, much more."

LOAD-DATE: September 9, 2004