

Competition advocacy in the banking sector in Mexico

In 1995 Mexico experienced a severe crisis that required a comprehensive bank bailout

1995 crisis

- GDP growth: -6%
- Peso depreciation: 55%
- Inflation rate: 52%
- Interest rate: 80%
- Stock prices: - 40% (between 11/94 and 02/95)
- Population below subsistence: from 21.2% in 1994 to 37.4% in 1996
- **Bank capitalization (risk-weighted): below 8%**

Exit strategy

- International credit facilities: USD 52 billion
- Comprehensive bank bailout (its cost reached 17% of GDP by 2006)



Several reforms contributed to long-term recovery by mobilizing key sources of productivity

Examples

Foreign trade

- NAFTA opened growth opportunities (1994)

Competition policy

- Removed restrictions to entry: e.g. **gas stations** (1994)
- Prevented monopolies: e.g. **airlines** (1995)
- Promoted pro-competitive privatizations

Privatization

- Railroads
- Maritime ports

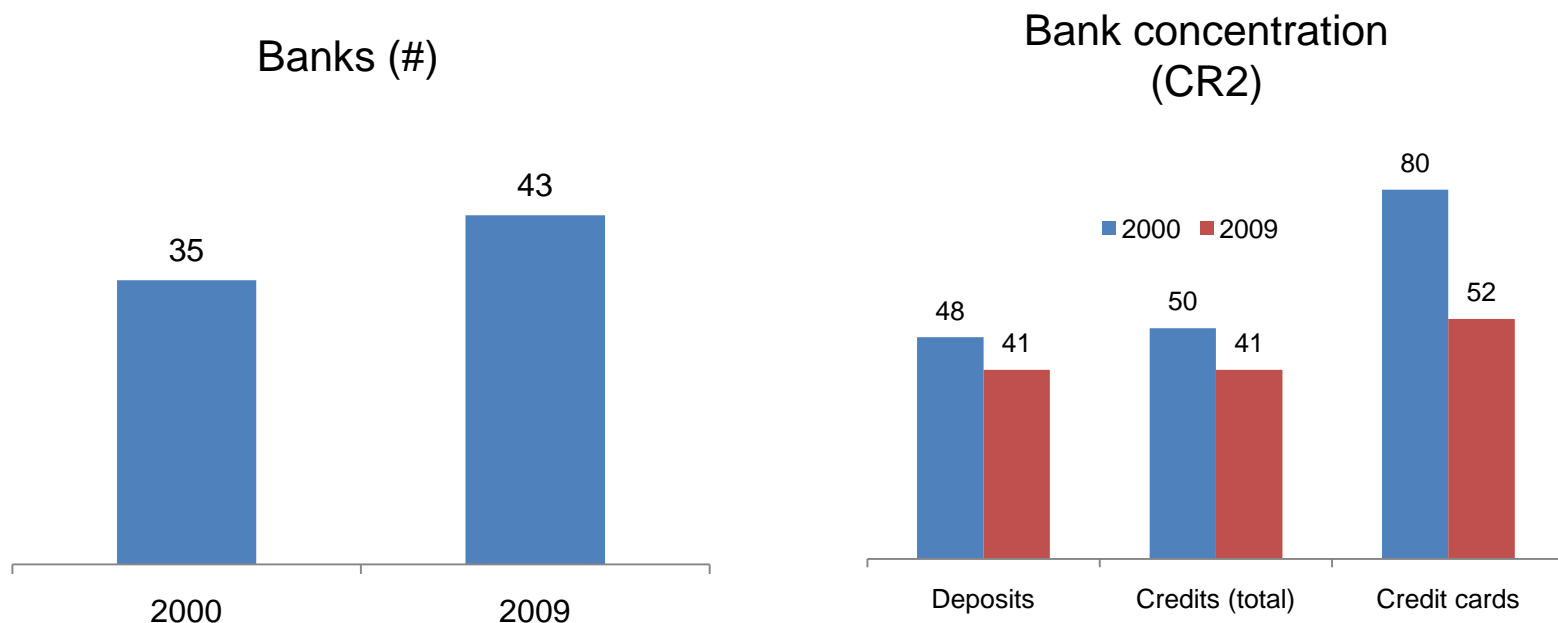
Deregulation of banks

- Banks were liberalized following strict competition and prudential principles

Banks were liberalized based on competition principles and strict prudential rules

- Strict capitalization and risk management rules (1998-1999)
- Strong financial regulators
- Reduced barriers to entry:
 - No restriction to foreign investment (1998)
 - Reductions in minimum capital requirement, creation of niche banks and bank correspondents (2006-2007)
 - More competitive access to payment infrastructure (2002-2007)
 - Creation of unregulated financial entities that provide credit (except credit cards), but cannot accept deposits. (2006)
- Supervision of interbank fees by central bank (2004-2009)
- Mandatory transparent information to customers (2002-2009)
- Creation of credit bureaus (2002)

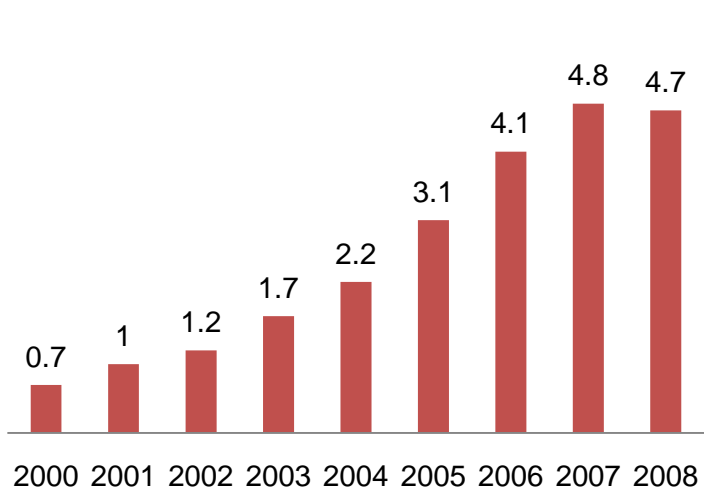
New players entered and market concentration decreased



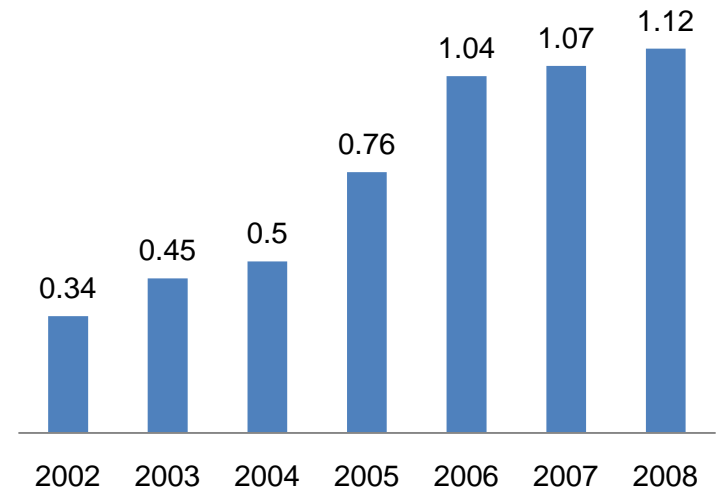
Additionally, there are 1,071 new unregulated financial entities providing credit services to the public.

Financial penetration increased

Bank loans/GDP

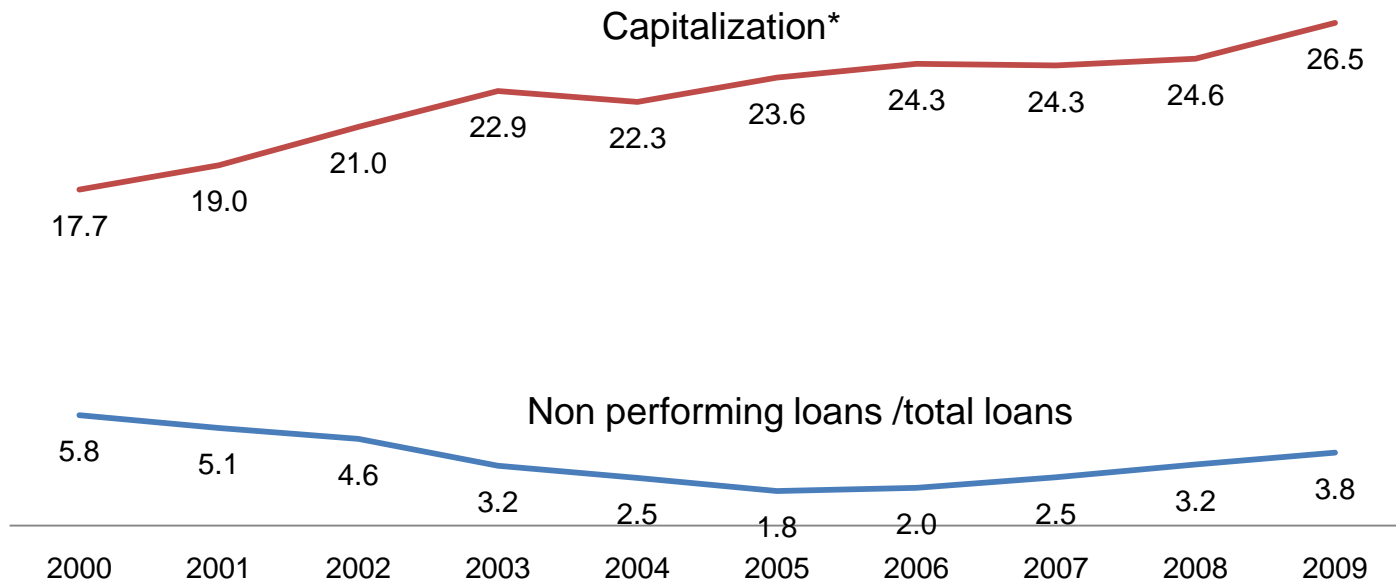


Credit card transactions/ GDP



Without putting at risk the feasibility of the banking system

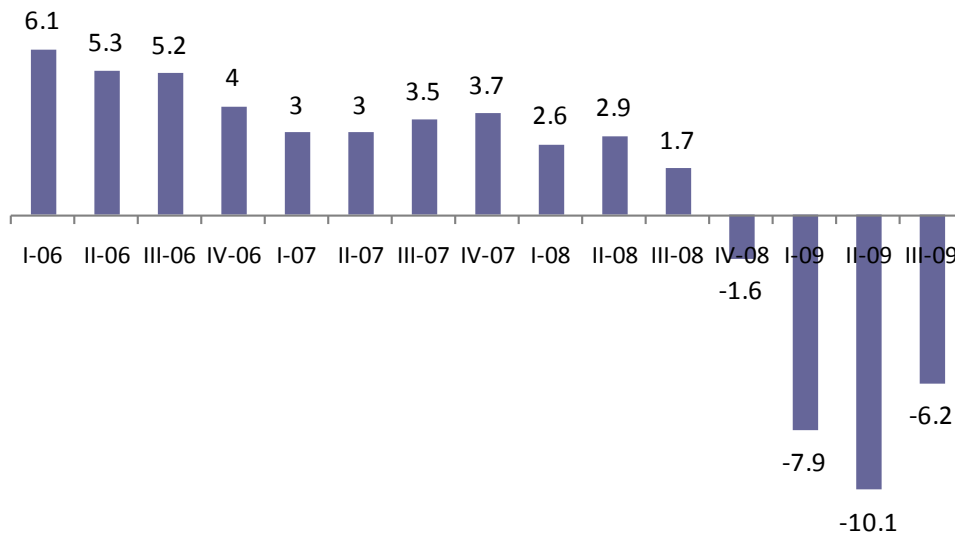
Bank capitalization and non performing loans (%)



*Includes only assets under credit risks

The current crisis is severe, but does not involve a banking crisis

GDP, Annual variation

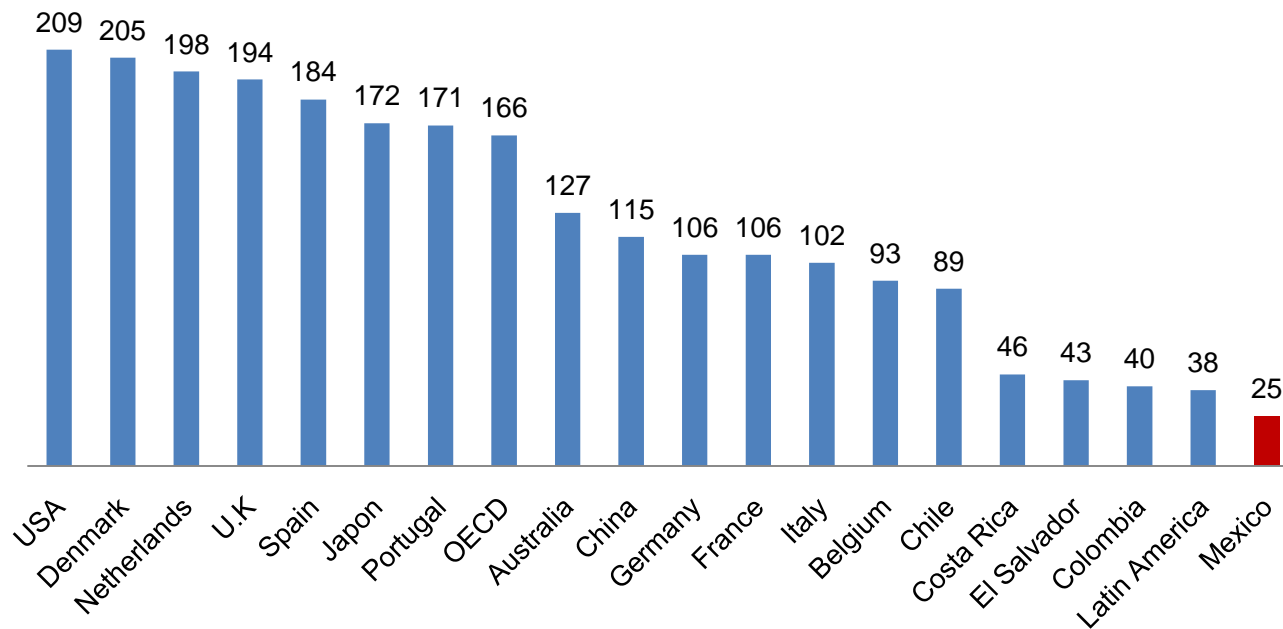


Characteristics

- Drastic reductions in exports, investment and fiscal revenues
- Depreciation: 23%
- **No banking crisis**
- Population below subsistence level : from 13.8% in 2006 to 18.2% in 2008

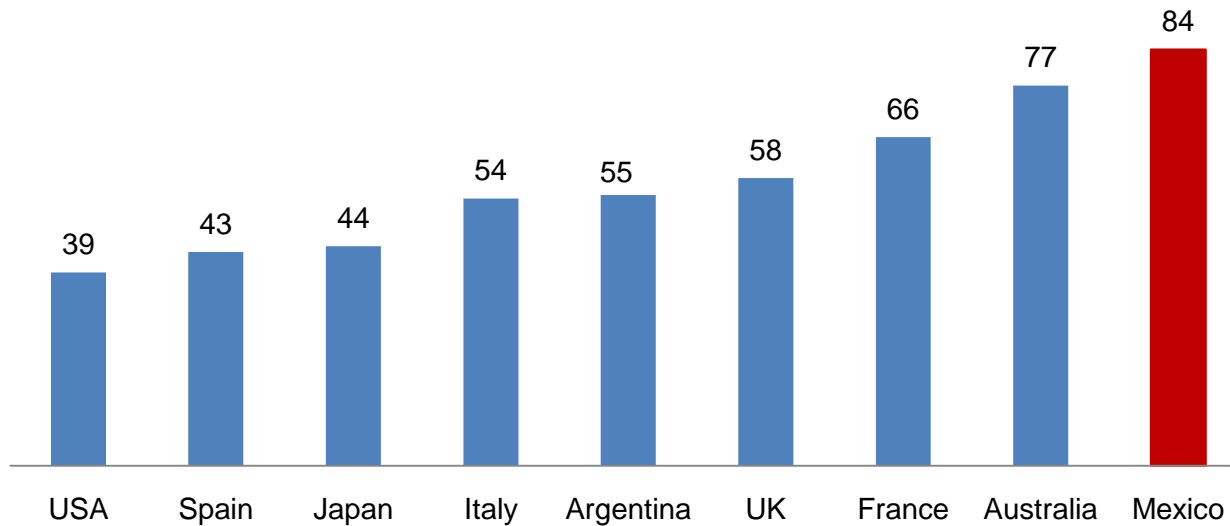
However, credit penetration is still low compared to international references ...

Credit to private sector as % of GDP , 2007



... and market concentration is still high

Market concentration in Banks
(CR5 of Deposits)




The CFC has recommended further legal reforms to improve the current situation

- Switching packages
- Stricter supervision of interbank fees
- Competitive interconnection between payment card switches and credit bureaus
- Open payment cards to non banking institutions
- Greater information transparency to users
- Creation of standardized basic credit cards

These reforms have already been approved by the Senate and are pending for approval in congress

Competition advocacy has played a central role in promoting pro-competitive reforms

- Permanent effort to raise public awareness of the lack of competition in the banking sector and its costs for consumers
- Three public reports with recommendations for introducing pro-competitive reforms in this sector (the last one issued jointly with the OCDE) with strong presence in mass media
- Several appearances before the Congress proposing or supporting pro-competitive reforms
- Sector regulators have become strong allies in introducing competition principles



Many of the pro-competitive reforms introduced so far are associated with recommendations issued by the competition authority