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FEATURED Q&A

Will Mexico's Financial Reform Bill Live Up to Its Promises?

Q Mexico's government recently unveiled a financial reform bill that aims to increase lending rates in order to drive up economic growth, among other changes. The government claims the bill would simplify the bankruptcy process, introduce competition among banks and encourage the country's development bank to boost lending. Does the bill address the right areas of Mexico's financial system? What are the most significant changes that would occur under the reforms, and how will financial and other companies be affected? What will the reforms mean for the Mexican economy?

A Nicolás Mariscal, member of the *Advisor* board and chairman of Grupo Marhnos in Mexico City: "The Mexican financial system is strong; it has liquidity and capital but is small in relation to GDP. The financial reform bill addresses the right challenges to propel the growth of the financial sector and to promote a more competitive and productive economy. It is a comprehensive financial reform aimed at improving the Mexican financial system and reinforcing the protection of creditors' rights. At the same time, it would improve protection and options for the commercial banks through national development banking. The bill also promotes the expansion of other credit institutions, which are more effective, including the Sofoles. It will improve the legal framework for other instruments such as Structured Equity Securities, or CKDs, that are reinforcing private investment to develop important infrastructure projects like hospitals, or other instruments in the stock market such as the FIBRAS and referenced certificates. It will boost lending with better rates, but unfortunately it might not be fully reflected in the economy as it should, because one of the main problems is the large informal sector. The businesses that belong to the informal sector are not eligible for credits because they do not have the required legal

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Ecuador Considering Asylum for U.S. Spy Agency Leaker

Ecuadorean Foreign Minister Ricardo Patiño (pictured) said the country will act on its principles as it considers an asylum request from Edward Snowden, the former U.S. government contractor who stands charged with leaking secrets. See story on page 2.

File Photo: Ecuadorean Government.

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NEWS BRIEFS

U.S. Drug Enforcement Agency Agent Fatally Stabbed in Bogotá

A U.S. Drug Enforcement Agency agent died late last Thursday after being stabbed in a taxi during an apparent robbery in Bogotá, Reuters reported. The U.S. ambassador to Colombia said that the death of Special Agent James "Terry" Watson was not related to work, but was a case of robbery gone wrong. Colombian President Juan Manuel Santos urged the police to spare no effort in apprehending those responsible for the crime.

Uruguay's Abortion Law Withstands Challenge

Uruguay's abortion law, the most liberal in South America, on Sunday withstood a challenge when opponents failed to receive enough votes to take the law to force a national referendum on repealing it, the Associated Press. Opponents needed 655,000 voters to cast ballots asking for a referendum on the law, which was passed by Congress last October, but only 226,653 people voted. Feminist groups and abortion rights activists celebrated, though opposition to the law is still strong.

Mexico Offering $150 Million in Loans for Homebuilders

Mexico's Federal Mortgage Society, a unit of the country's development bank, said Sunday that it will work with credit unions to offer as much as 2 billion pesos (nearly $150 million) in loans to help small- and medium-sized homebuilders, Reuters reported. The country's three largest homebuilders, **Geo**, **Urbi** and **Homex**, have seen the sales of their homes slump in recent years. Fifteen credit unions were in the process of receiving authorization to access funding lines from the mortgage society, Reuters reported.

Political News

Ecuador Considering Asylum Request From Snowden

Ecuador's foreign minister said today that his country will act on its principles as it considers an asylum request from Edward Snowden, the former U.S. government contractor charged with leaking government secrets, the Associated Press reported. Snowden's asylum request "has to do with freedom of expression and with the security of citizens around the world,"

> "We act upon our principles."
>
> — *Ricardo Patiño*

Foreign Minister Ricardo Patiño told reporters in Hanoi, where he was on his way to a meeting with Vietnam's foreign minister. Patiño added that Ecuador would not make its decision on whether to grant asylum to Snowden based on damage it might cause to its relationship with the United States. "There are some governments that act more upon their own interests, but we do not," he said. "We act upon our principles." Snowden, a former contractor of the National Security Agency, was charged with espionage after he leaked details of a U.S. government surveillance program to the press. He sought refuge in Hong Kong before flying Sunday to Moscow. He was booked Monday morning on a flight to Cuba, but a Reuters correspondent on the plane said Snowden was not onboard and that the seat he had been expected to take was occupied by another passenger. Whistleblower Web site WikiLeaks said Snowden was headed for Ecuador "via a safe route for the purposes of asylum, and is being escorted by diplomats and legal advisers from WikiLeaks," the Associated Press reported. WikiLeaks founder Julian Assange has been holed up in Ecuador's embassy in London for a year. Russia's ITAR-Tass and Interfax news agencies cited unnamed airline officials in reporting that Snowden was planning to travel from Cuba to Venezuela, possibly en route to Ecuador.

More Than 250,000 Protest Against Corruption in Brazil

More than a quarter of a million people flooded the streets in several Brazilian cities on Saturday, as residents of the South American country continued expressing their anger after more than a week of demonstrations, the Associated Press reported. The series of protests, which started the previous week over an increase in public transportation fares in São Paulo and then encompassed Brazilians' frustrations over high taxes and poor-quality public services began to focus more intensely Saturday on government corruption, the wire service reported. Across the country, demonstrators voiced their opposition to legislation known as "PEC 37," which would restrict the ability of federal prosecutors to investigate crimes. Opponents of the measure fear it would harm prosecutors' attempts to pursue corrupt politicians. The investigations of federal prosecutors led to Brazil's largest-ever corruption case. The "mensalão," or "big monthly payment," scandal broke in 2005 and involved senior aides to then-President Luiz Inácio Lula da Silva bribing members of Congress for their votes. Lula has not been charged in connection with the scheme, but Brazil's Supreme Court last year convicted two dozen people in the case. The defendants who were convicted have lodged appeals, delaying jail time and enraging Brazilians. In a speech Friday night, President Dilma Rousseff sought to appease protesters by vowing to fight corruption in her government and saying that peaceful protests were welcome. "I want institutions that

Rousseff

File Photo: Brazilian Government.

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are more transparent, more resistant to wrongdoing," she said, adding that she planned to meet with protest leaders and local officials. "My generation fought a lot so that the voice of the streets could be heard." However, Rousseff's words failed to win over many demonstrators. "Dilma is underestimating the resolve of the people on the corruption issue," Mayara Fernandes, a medical student who was protesting in São Paulo, told the AP. "She talked and talked and said nothing. Nobody can take the corruption of this country anymore. The demonstrations are the largest Brazil has seen in more than two decades. Some 60,000 people gathered in the main square of Belo Horizonte, 30,000 blocked a main street in São Paulo and 30,000 in the southern city of Santa Maria where a nightclub fire in January killed more than 240 people. In all, demonstrators gathered in more than 100 cities across the country.

Economic News

Chile's Bachelet Against HidroAysén Project

Former Chilean President Michelle Bachelet, the frontrunner in the country's upcoming presidential election, said Sunday night that she opposes the planned HidroAysén hydropower project, Reuters reported. "I'm not in favor of HidroAysén and I don't think it's viable," Bachelet said in a televised debate with three other leftist candidates. "It shouldn't go forward." The Chilean Supreme Court backed five generating units at the planned 2,750-megawatt megaproject, but environmental groups then sought a review by a special ministerial group. Critics of the project argue that it would harm the environment and hamper tourism. The project is expected to cost more than $8 billion, industry analysts have said. Power production in Chile, the world's top copper producer, has been beset by a lack of investment, confusing regulations, droughts and the country's massive 2010 earthquake. Miners have been counting on the HidroAysén project as a key source of power.

Featured Q&A

Continued from page 1

documents. Therefore, the reform will help lead to more competitive banking and a more productive economy, but at the same time, efforts to reduce informality need prompt action."

Tapen Sinha, professor of risk management at the Instituto Tecnológico Autónomo de México and professor at the University of Nottingham Business School: "Mexico has had a good run in the international arena lately. Part of the reason has been Brazil's recent lackluster performance. Another reason has been the success of 'Pact for Mexico.' A few weeks ago, Fitch Ratings upgraded its Mexico rating to BBB+. There are signs that Standard & Poor's and Moody's will follow suit. Mexico's rating is based on macroeconomic fundamentals and commitment to pass structural reform that the pact is undertaking. The latest proposal of the pact has been banking reform, which Mexico sorely needs. Less than 25 percent of Mexico's GDP is from the lending business; Brazil has twice that amount. Total credit given to small- and medium-sized companies has been less than 15 percent of the total credit even though these companies generate 75 percent of employment. Banks, however, have not suffered from such stingy behavior. If anything, they are amply rewarded. Spanish banks BBVA and Santander have 20 percent return on equity, whereas Citigroup-owned Banamex had 10 percent. It may seem paradoxical that banks are so profitable. They make money by charging people for anything and everything. The cost of certifying a check is $10 or more. All service charges are five to 10 times higher than in the United States. Yet, thanks to free-trade agreements, most banks in Mexico are foreign owned. They have yet to show 'best practices' in Mexico. The government, with the support of the opposition, is trying to force a change in behavior of the banks. If it succeeds, the GDP could grow at 6 percent rate in the medium term instead of half the current rate."

> "Less than 25 percent of Mexico's GDP is from the lending business; Brazil has twice that amount."
>
> — *Tapen Sinha*

Alejandro Garcia, senior director for Latin America Financial Institutions at Fitch Ratings: "Broadly speaking, the proposed reform is effectively addressing the most important challenges toward further expanding financial intermediation. The still-high operating costs and credit losses in selected sectors are key drivers of both low banking penetration and high interest rates in certain products, especially in retail lending. Improving the overall rule of law in financial activities, particularly in executing and foreclosing guarantees, should gradually have a positive effect on overall lending costs and, therefore, should also improve the availability and affordability of financial products. However, the positive effects for banks are most likely to be achieved over the medium term, when the lending and overall legal framework has been effectively and materially improved. There are other structural factors constraining financial intermediation, such as the population's unequal income distribution and high level of labor informality. Nonetheless, other non-bank intermediaries could see improvements over a relatively short timeframe, in the event that development banks effectively increase the availability of funds. Development banks and other government agencies are the main funding source for several lenders in sectors such as mortgage, consumer, small and medium-sized enter-

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Featured Q&A

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prises (SMEs) and agribusiness lending. These non-bank intermediaries are key players in certain regions and/or economic sectors. Therefore, if the availability of funding effectively increases, their relative contribution to total lending could grow over the near term. Improving the functioning of credit bureaus is also critical. Ample and detailed information on good borrowers should be widely available to ensure that they have easy access to better borrowing terms."

A David Olivares, vice president and senior credit officer for Latin American bank ratings at Moody's Investors Service: "The reform is credit positive for Mexican banks because it creates specialized courts that will streamline the bankruptcy process and facilitate enforcement of collaterals and guarantees, which has been a major barrier to more active lending, especially for loans to SMEs, which is a segment that offers banks great loan-growth potential. The reform also proposes a centralized credit bureau that will improve the quality of loan origination by allowing banks to cross-reference borrower information and better estimate expected credit losses. Mexico's two existing privately owned credit bureaus do not readily share information and do not include information from unregulated financial companies such as non-bank financial institutions or pawn shops, which are major sources of financing for low-income consumers, another source of growth potential for banks. The reform also includes partnerships between government-owned development banks and private institutions that promote specific sectors, and do not crowd out commercial banks' SME financing. The reform will also allow Mexican bank regulators to periodically evaluate bank lending and limit banks' proprietary trading if the regulator considers its lending volume too low. All in all, the reform aims at boosting bank lending in the country. With loans to GDP at less than 30 percent, Mexico's financial intermediation is modest and lags other Latin American countries, including Chile, Brazil and Colombia. The reforms require the amendment of at least 34 different laws, and will therefore take some time before they are enacted. But if enacted, they will ensure economic growth by providing broader access to credit."

The Advisor *welcomes reactions to the Q&A above. Readers can write editor Gene Kuleta at gkuleta@thedialogue.org with comments.*

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