

Government announces measures to boost Mexico's financial system

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- Mr. Lopez-Obrador's government has just released an eight-point plan to boost the financial system
- This program aims to further deepen banking penetration and make more efficient both the payment system and bank intermediation
- We welcome the government's efforts to improve the financial system

Government just released a plan to boost Mexico's financial system. The plan aims to further deepen banking penetration as well as having a more efficient payments system and bank intermediation, both from the deposit and credit sides, in order to be able to channel more resources to real investments. In order to achieve these goals, Mr. Lopez-Obrador's government proposes eight actions in three key areas in the financial sector, as shown in the following table.

Summary of measures to boost Mexico's financial system

Measures to have a more efficient payments system and deepen banking penetration

1. Platform for transactions on mobile devices and/or Internet
2. Payroll loans in any financial institution
3. Update regulation for security lending (financial institutions)

Measures to boost financial markets

4. Measures to incentivize deeper and more liquid financial markets
5. Flexibility for financial institutions to perform security lending (including equity and corporate bonds)
6. Changes to pension funds' investment regime

Measures to foster financial inclusion

7. Elimination of barriers to entry to the financial system for young adults between 15 and 17 years old
8. Reconfiguration of development banks

Source: MoF

Measures to have a more efficient payments system and deepen bank penetration

- (1) **Platform for transactions on mobile devices and/or the internet.** The government aims to reduce cash transactions and incentivize the use of financial services. This will be achieved through the joint development of an electronic platform by both Banxico and commercial banks supported by the central bank's *Electronic Interbank Payment System*, known as SPEI. In addition, this would have no cost for terminal users;
- (2) **Payroll loans in any financial institution.** This measure aims to make the payroll-credit market more competitive as workers would now be able to obtain loans backed by their payroll account from any financial institution, even if its payroll account does not belong to the bank granting the loan;
- (3) **Update regulation for security lending (financial institutions).** A larger number of financial institutions will now be able to make this type of transactions, while the pool of assets allowed for this end will also be increased. This measure aims to increase and enhance liquidity conditions in fixed income and capital markets;

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Measures to boost financial markets

(4) **Incentivize deeper and more liquid financial markets.** Initial public offerings (IPOs) will now pay lower income tax on capital gains, at 10%. Moreover, foreigners will be able to retain 100% of income tax related to their holdings of corporate bonds;

(5) **Flexibility for financial institutions to perform security lending (including equity and corporate bonds).** Along with Banxico and other financial authorities, regulation will be strengthened in order to allow financial institutions, including pension funds, to conduct security lending transactions with publicly traded assets that include equity and corporate bonds;

(6) **Changes in pension funds' investment regime.** The aim is to give more flexibility to pension funds to diversify investments, channel more resources to productive investments, and foster the increase in voluntary savings from workers;

Measures to foster financial inclusion

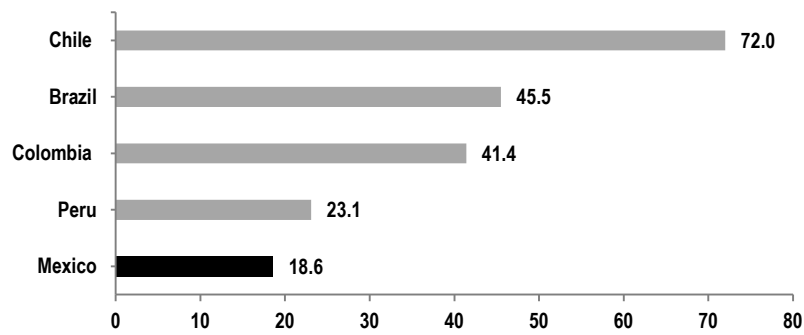
(7) **Elimination of barriers to entry in the banking system.** Young adults between 15 and 17 years old will be able to have a debit account, benefiting about 7 million people, which could also have an added benefit from government's scholarship programs; and

(8) **Reconfiguration of development banks.** This measure aims to benefit 15 million of new clients in rural areas, marginalized municipalities, and semi-urban areas where banking services are not available. *Banco del Ahorro Nacional y Servicios Financieros (BANSEFI)* will become *Banco del Bienestar*. A new financial group will be focused on the agricultural sector, composed of: *Financiera Nacional de Desarrollo Agropecuario, Forestal, Rural y Pesquero (FND)*, *Fondo de Capitalización e Inversión del Sector Rural (FOCIR)*, *Fideicomiso de Riesgo Compartido (FIRCO)* and *Agroasemex*.

These measures will complement efforts in other areas. These include new technologies for the massive use of financial services; client authentication for the reduction of identity theft; standardization of costs and terms and conditions in banking products; and the reduction of barriers to entry to foster client mobility, among others.

We welcome the government's efforts to boost the financial system. Mexico still has one lowest levels of banking penetration in Latin America. In our view, the measures announced today will help increase these levels by allowing a larger number of users to access banking services, which would eventually reduce informality.

Banking penetration in selected Latin-American countries
% of GDP



Source: World Bank and Banxico

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