

Banking Outlook

Mexico

November 2011
Economic Analysis

- **Bank credit and deposits: at least during 2011, the favorable macroeconomic environment will be indispensable for both to continue growing**
- **Bank credit: second source of financing for companies, after owners' contributions.** Of those companies that obtained bank credit in 2008, 81.3% are micro companies, with 10 or fewer employees; but there is still a high potential for the penetration of credit
- **Around five million workers in the private sector could still enter the banking system through payroll accounts**
- **Government payments to individuals (G2P) through the banking system: a potential for generating important savings:** along the order of six billion pesos (0.05% of GDP) through the inclusion of 1.7 million jobs in the public sector and the state governments and of 33.5 billion pesos (0.3% of GDP) through electronic payment of support programs

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1. Summary

Evolution of total bank credit: at least during 2011

Hand in hand with economic recovery, credit granted by the commercial banks to the private sector has grown in a sustained manner for 16 months. In the total accrued for the year, from January to September 2011, according to the latest available information, the annual average growth rate for total bank credit is of a nominal 12.7% (9.1% in real terms)

All the components of total bank credit to the private sector register a real positive contribution to growth

Credit to companies, in addition to being the largest credit category, has represented the greatest contribution to the growth of total credit to the private sector. Its rate of expansion has been similar to that of total credit; last September its annual average growth rate was 15.2% in nominal terms (11.7% in real terms). On the other hand, consumer credit, which showed limited expansion in the fourth quarter of 2010, showed more accelerated growth by the second quarter of 2011 and in September reached 21% in annual nominal terms (17.4% in real terms). Its most dynamic component corresponds to "Other consumer loans", and in it, payroll loans have shown the most outstanding growth. Finally, although bank credit for housing still shows lower growth than at the beginning of 2008, it will recover in line with the sustained and dynamic growth of formal employment.

More recent estimates of BBVA Research: total bank credit could register an average real annual growth rate in 2011 of a nominal 12.7% (9.1% in real terms) and in 2012 of a nominal 13.5 % (9.6% in real terms)

To the extent that the macroeconomic environment is favorable, bank credit will continue to grow to meet the demand for resources from families and companies. The current projections are based on a base scenario that considers a real annual GDP growth rate for Mexico of 3.8% and 3.3% in 2011 and 2012, respectively.

The favorable macroeconomic environment will also allow for extended deposits (traditional bank deposits plus debt mutual funds) to continue growing

We expect this to be at an annual average nominal rate of 10.4% (6.6% in real terms) during 2011 and a nominal rate of 10.2% (6.6% in real terms) during 2012. The dynamics of deposits are dependent on economic growth, the generation of employment and to a lower extent on interest rates and inflation.

The analysis of the questions regarding Credit and Bank Accounts of the 2009 Economic Census indicates that in 2008 more than 959,000 productive entities obtained financing

Although 2008 was a year of a strong slowdown in demand for credit, the main source of resources was internal. This was comprised mainly by the contributions of resources by owners, partners, relatives and friends. Second in importance in financing for businesses were the banks, and their share far surpassed that of savings funds and private money lenders, suppliers, government and other non-bank financing sources.

The most numerous group of companies that obtained bank credit in 2008 was that of productive entities with up to 10 employees

Of those companies that obtained bank credit that year, 81.3% belong to the segment of micro companies. Despite this, in this segment of businesses, the proportion that reported that the conditions of credit supply did not seem attractive (because they believe that the interest rates are high, that they do not meet the requirements or because they are not familiar with the procedure for applying for credit, among other reasons) was significantly greater than among the larger size companies. Moreover, about half of the companies that operated that year did not obtain credit because they declared they did not need it, that is, they excluded themselves from the market voluntarily.

Bank credit vs. non-bank financing: how do the companies that obtained it differ?

The census information indicates that companies with a recognized payment capacity, measured through different characteristics such as high productivity indexes, high revenues, guarantees, job creation or having greater operating time in the market are those that have greater access to bank credit. This suggests that the efforts of the authorities and the banks to promote the granting of bank credit to micro, small and medium-size companies could be complemented with other measures to reduce credit risk. A couple of these measures are the universalization of the credit bureau and improvement of the guarantees registry, Registro Único de Garantías Mobiliarias and the Registro Público de Propiedad (Public Registry of Personal Property and Public Registry of Real Estate Property). In this edition, we will analyze briefly the Public Registry of Personal Property, since the legal premises for its creation and advances in its implementations following one year of initiating its operations are important for the granting of credit.

Measurement of the potential for bancarization (the implementation of banking services) in the payment of wages and benefits of government support programs in deposit accounts

In recent years strong growth has been observed in the number of bank accounts in Mexico, which has coincided with the implementation of various public policies to improve conditions of access to financial services by the population. Among these measures, the creation of bank deposit accounts is significant, as is the stipulation in the Expenditures Budget of the Federation for the years 2010 and 2011, of provisions to stimulate electronic payment to the bank accounts of beneficiaries of subsidy programs and of public servants' payroll accounts, among others. In addition to this measure to encourage the use of banking services among the population, the analysis also suggests that by only incorporating a part still pending of the public sector and the state government in the scheme of electronic payments, there is a potential for the incorporation of banking services along the order of 1.7 million job positions, which would generate savings on the order of almost six billion pesos, an amount equivalent to 0.05% of GDP. Moreover, in terms of the payment of support programs, it is estimated that the gains in efficiencies would be approximately 33.5 billion pesos, which would be equivalent to 0.3% of GDP. Achieving these benefits requires the joint efforts of the federal government and of the states and municipalities.

To summarize, we can anticipate that a favorable macroeconomic environment will continue to promote banking activity, both in terms of credit and deposits. Moreover, the consolidated efforts to promote a stronger banking environment will not only bring benefits and saving for users, but will also imply benefits for the entire economy to the extent that the resources that are liberated are destined to activities with greater private and social profitability.

2. Current Situation of Credit and Savings

2.a Bank Credit to the Private Sector: Recent Evolution and Outlook

Evolution of total bank credit: from less to more

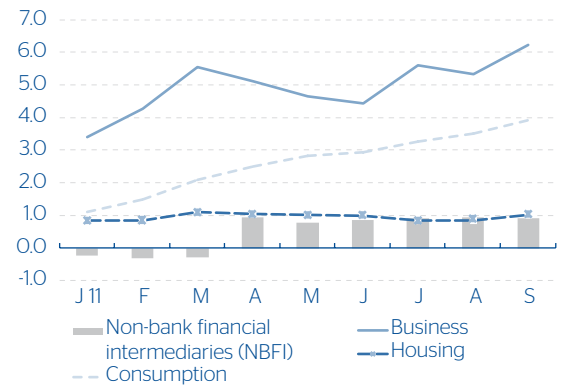
Credit granted by the commercial banks to the private sector has been growing in a sustained manner during 16 months, and this has been happening since June of 2010 (Graph 1). Moreover, its expansion rate has increased. For example, in the third quarter of 2010 (3Q10), its real average growth rate was 1.8%; in 2Q11 it rose to 9.4% and in September 2011, the most recent datum available, it grew to 12.1%. In the total for the year, from January to September 2011, the real average annual growth rate of total bank credit is 9.1%. Once the macroeconomic environment became favorable, which was reflected in positive GDP growth, investment and formal employment, total bank credit to the private sector also resumed growth.

Graph 1
Total Bank Credit to the Private Sector
Real annual growth rate, %



Source: BBVA Research with Banco de México data

Graph 2
Total Bank Credit to the Private Sector
Contribution to growth by component in percentage points; from January to September 2011



Source: BBVA Research with Banco de México data

All the components of credit with real growth

Since April 2011, all the components of total bank credit to the private sector (credit to companies; consumer credit; housing credit and credit to non-bank financial intermediaries (IFNB for its Spanish initials), posted a real positive contribution to growth. According to the latest available data through September of this year, credit to companies represented 53.2% of the total; consumer credit, 23.6%; housing, 19.5%; and non-bank financial intermediaries (IFNB), 3.6%. As shown in Graph 2, credit to companies, in addition to being the highest credit category, is the one that has shown the greatest contribution to the growth of total credit to the private sector. That is, in September total credit grew 12.1 percentage points (pp) and credit to companies accounted for 6.2 percentage points of the 12.1% growth. The contribution to growth in consumer credit, housing and credit to non-bank financial intermediaries was 3.9, 1.0 and 0.9 pp, respectively.

The economic reactivation spurs greater demand for credit by companies to make their investments

Credit granted to companies resumed growth as a result of the improved macroeconomic environment that has prevailed in the country as of 2010. The rate of expansion of this credit

category has been similar to that of total credit, for which in 3Q10 its real average growth rate was 1.7%, in 2Q11 it grew, in real terms, to 8.9%, and has continued growing to reach 11.7% in September, in real terms.

As we have commented on other occasions, the most recent data confirm that to reach an expansion of credit to companies at high rates, not only is an environment required in which the macroeconomic variables grow, but also high and sustained growth rates. The latter is due to the fact that bank credit to companies is channeled to support the expansion of working capital or for companies' investment projects (for more details see Section 3a "What does the 2009 Economic Census tell us about obtaining credit among Mexican companies?"). These also emerge as a consequence of the new opportunities that arise due to the process of general economic growth. That is, the expansion process of economic activity spurs demand for credit.

Graph 3

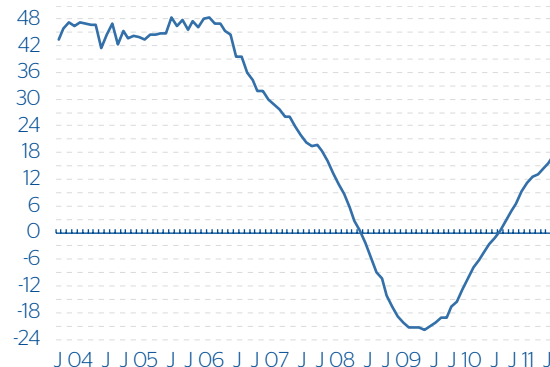
Bank Credit to Companies
Real annual growth rate, %



Source: BBVA Research with Banco de México data

Graph 4

Bank Consumer Credit
Real annual growth rate, %



Source: BBVA Research with Banco de México data

Consumer credit: maintains the highest growth rates, with payroll-backed loans particularly significant

It took one more quarter for consumer credit to resume growth, compared to credit granted to companies, which was the first to reactivate. At the beginning of this phase, its expansion was limited; in the fourth quarter of 2010, its real annual growth rate was barely 0.6%. However, by the second quarter of 2011, its growth accelerated and in that period the real growth rate was 12.2%, which has continued to grow and in September reached a real annual growth rate of 17.4%.

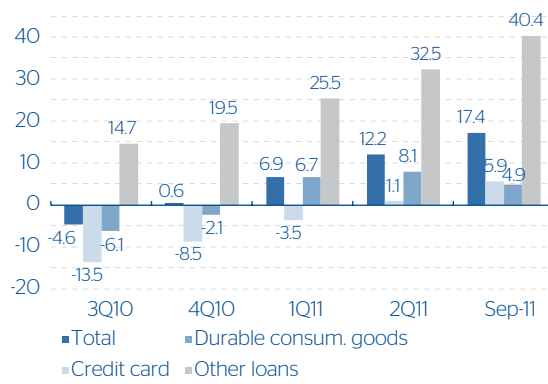
Consumer credit includes three credit categories: credit cards; acquisition of durable consumer goods, ABCD (automobiles); and other personal credit (payroll-backed loans). Credit granted through credit cards again resumed growth until the second quarter of 2011, and in that period its real annual average growth rate was moderate and 11%.¹ This consumer credit category has continued to grow and in September its rate was higher, a real annual 5.9%. In turn, in that same quarter the real average growth rates for ABCD (acquisition of durable consumer goods) credit and "Other personal loans" were 8.1% and 32.5%, respectively. It should be mentioned that in September, the ABCD credit category reduced its real growth rate (4.9%), while that of personal loans increased (40.4% in real terms). That is, the most dynamic component of consumer credit is "Other consumer credit", and within the latter are payroll-backed loans, which have shown dynamic growth.

The above dynamics are reflected in an important contribution of consumer credit to the growth of total credit (Graph 2).

¹ For an analysis of credit granted through credit cards from the standpoint of the number of existing cards see Inset "Number of bank credit cards: recent evolution", which appears in this same issue of *Mexico Banking Outlook*

Graph 5

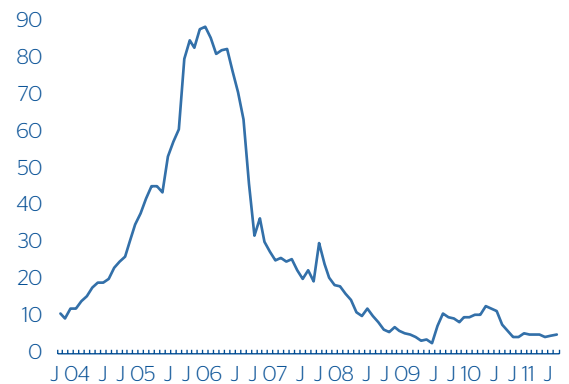
Total Consumer Credit and by Category Real annual average quarterly growth rate, %



Source: BBVA Research with Banco de México data

Graph 6

Bank Credit for Housing Real annual growth rate, %



Source: BBVA Research with Banco de México data

Housing credit shows moderate growth

Bank credit for housing has registered a lower growth rate since the beginning of 2008. In the last months of 2009 the current loans in UDIS were transferred to the performing housing loan portfolio in pesos. This movement led to a transitory increase in the growth rate for this type of credit.

It should be noted that bank housing credit is related to the performance of permanent employment in the formal sector of the economy, and both variables were also affected by the recession of 2009. This means that the growth of housing loans, in an initial phase, requires the recovery of the level of formal permanent employment (the number of IMSS-affiliated workers) to the levels prior to the recession of 2009. In a second phase, the dynamic growth of formal permanent employment is required. This, among other factors, allows for consumer confidence to increase, and with this, demand for housing loans will also grow.

The above factors are illustrated in the performance of permanent employment of IMSS affiliates. In October of 2008, there were slightly more than 12.8 million affiliated workers. This number was reduced to 12.2 million in July of 2009, and resumed growth slowly to slightly less than 12.9 million in October of 2010. From the tenth month of 2010 to September of 2011, the increase in the number of permanent employees has been limited (2.8% during this period), of almost 364,000 workers. This figure constitutes a moderate number of net creation of permanent jobs in the period referred to, which also reflects moderate growth in demand for housing loans.

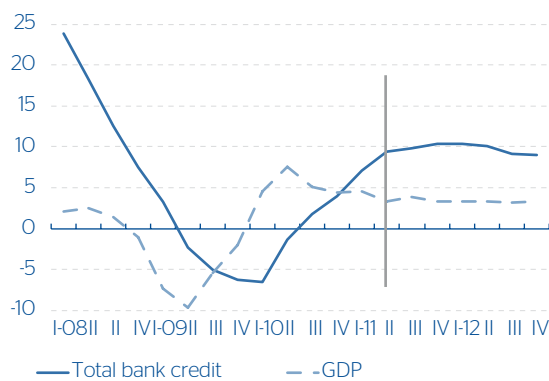
The case of housing credit clearly illustrates that bank credit in its different categories will grow with greater dynamism to the extent that GDP, investment and employment grow at high rates and in a sustained manner.

Perspectives: the stimulus to credit to the private sector will be maintained

As mentioned, in the March edition of *Mexico Banking Outlook*, we projected for this year that the annual average nominal growth rate of bank credit would be 13.5% (9.5% in real terms) to the extent that GDP would grow 4.3%. Our more recent estimates, in the base scenario, indicate that if GDP growth in 2011 and 2012 is 3.8% and 3.3%, respectively, total bank credit could register an annual average nominal growth rate in those years of 12.7% (9.1% in real terms) and of 13.5% (9.6% in real terms, respectively. (Chart 1).

Credit growth expected for 2011 and 2012 indicates that despite the fact that GDP will moderate its growth rate in 2012, bank credit to the private sector will grow at a slightly higher rate than that of the previous year due to the fact that in 2012 those that will enter the formal job market already have recognized seniority to obtain credit. Moreover, the base scenario for 2012 presumes that the expansion of economic activity will have consolidated, although at lower growth rates, and the creation of new formal jobs will continue and, in general, reasonably favorable expectations will predominate regarding the macroeconomic environment in the country. These factors favor the demand for and the supply of credit. Thus, the annual average nominal growth rates for consumer credit, credit to companies, and housing loans, are expected to be 17.1%, 13.1% and 10.6%, respectively.

Graph 7
**Total Credit by the Commercial Banks and GDP
Real annual growth rate, %**



Source: BBVA Research

Chart 1
**Total Bank Credit up to 2010; estimated as of
2011 Annual average growth rate, %**

	Real rate	Nominal rate
2008	15.5	22.3
2009	-2.7	3.4
2010	-0.6	3.9
2011	9.1	12.7
2012	9.6	13.5

Source: BBVA Research

To the extent that the macroeconomic environment is favorable, bank credit will continue to grow to meet families' and companies' demands for resources. Moreover, the estimated growth rates for the three categories of bank credit discussed above refer to a sustainable evolution of indebtedness of the economic agents in a context of limited macroeconomic risks.

Inset 1: Current Situation of Bank Credit Cards

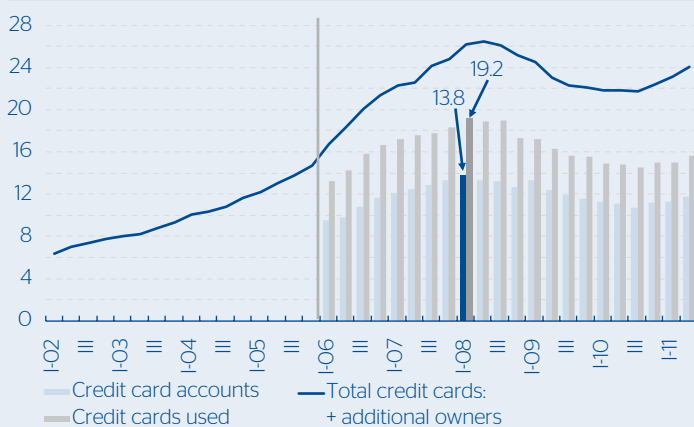
This article discusses the evolution of the number of bank credit cards based on information published by the Banco de México (Banxico, the central bank). It should be mentioned that the evolution of the number of credit cards is a direct reflection of the situation and of the outlook for consumer credit. As detailed in this article, Banxico provides two types of information on the number of credit cards, which complement each other. The first is on the number of cards and the second allows us to infer some details on how they are used. This allows for a broader analysis to be made on both points and offers greater information on consumer credit provided via credit cards.

Evolution of the number of credit cards since 2002

Credit cards began to be used in Mexico several decades ago, but official statistics to measure the increasingly important use of this credit and payment instrument are relatively recent. As of the first quarter of 2002 (1Q02), the central bank began to publish a series of statistics on a quarterly basis on the number of bank credit cards. These reports contain information on the number of credit cards that the banks made available to their

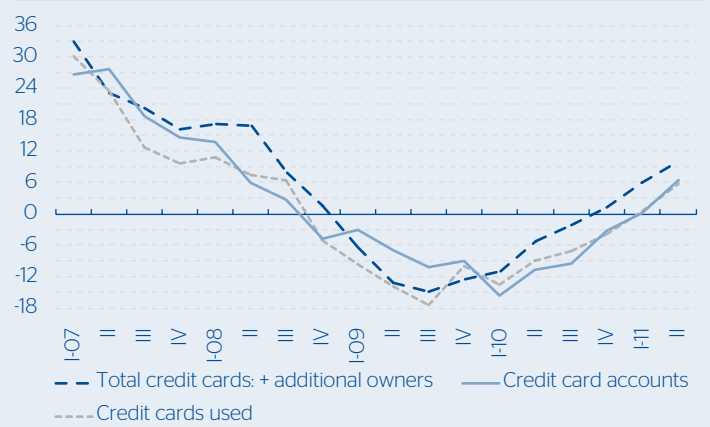
clients, who in turn activated them (credit cards currently in force). The data include primary and secondary or additional cards. As of the 1Q06, the central bank has supplemented this information by including quarterly data on the number of credit cards that were used and the number of agreements associated with them. As shown in Graph 8, the total number of credit cards grew dramatically from 2002 through the first half of 2008. The highest numbers of the different categories were reported in 1Q08, with a total of 26.2 million cards in circulation (associated with 13.8 million agreements), of which 19.2 million had been used in different transactions. It should be mentioned that on the level of aggregate data, the number of credit cards is positively related with formal employment (total number of workers affiliated to the Mexican Social Security Institute (IMSS)) and with GDP, among other variables². Thus, the slowdown in the growth of the formal employment rate registered in 2008 (in the first half of that year the average rate was 3.3% and in the second six months it had fallen to 1%), coupled with its contraction during the 2009 recession (-3.1% annual average) and the decrease in GDP (- 6.1%) for that year, were factors that affected both the number of credit cards as well as the number of cards used.

Graph 8
Number of Bank Credit Cards
Figures in millions, quarterly data



Source: BBVA Research with Banco de México data.

Graph 9
Number of Bank Credit Cards
Annual growth rate, %



Source: BBVA Research with Banco de México data.

² On an individual or household level, factors such as monetary income or salaries and/or educational level of the head of the household are related with the possession of credit cards. Other elements that also influence include the number of POS (point of sale) terminals in the area where the household is located as well as businesses that accept payments for goods and services with credit cards. For further details, see "Tenencia y uso de tarjetas de crédito en México: Un análisis de los datos de la Encuesta Nacional de Ingresos y Gastos de los Hogares 2006", Castellanos, S. G. and D. Garrido (2010), Trimestre Económico volume LXXVII (I), no. 305, January-March 2010, pages 69-204.

Graph 9 indicates that the total number of credit cards began to post positive growth rates in the 4Q10, while the total number of cards actually used began to increase from the 1Q11. At the same time, the number of agreements or credit card accounts used also began to grow in the 1Q11 and continued doing so in the 2Q11. This behavior is a clear sign of the revival of consumer financing granted via credit cards.

Moreover, it should be mentioned that GDP growth (which increased 5.4% in 2010 and 4% in the 1H11) coupled with the rise in formal employment (in 2010 its average growth was 3.8% and in the first half of 2011 it rose 4.5%) will allow for the total number of credit cards to continue to grow and eventually recover the historical levels registered in the first half of 2008.

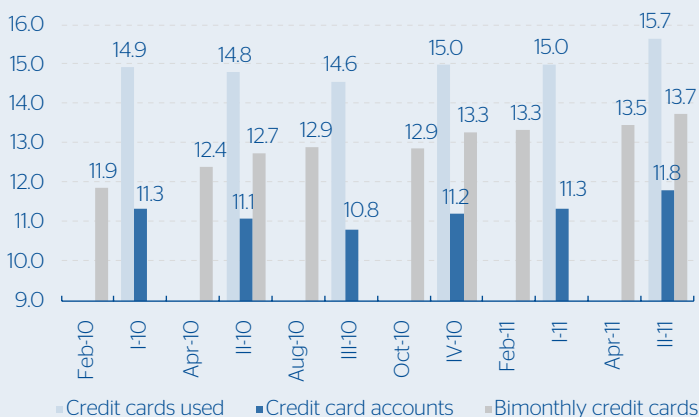
Behavior patterns of customers who pay the total balance or partial payment of their credit card balance

As a result of the provisions contained in the Law for the Transparency and Regulation of Financial Services (Ley para la Transparencia y el Ordenamiento de Servicios Financieros), in June 2009 the central bank began issuing a bimonthly report on basic credit card indicators. This report, among other information, presents data on the number of credit cards held by individuals who are current in their payments. The bimonthly data on the number of credit cards in this report is a subgroup of the number of current credit cards and credit card agreements used in the quarter, as shown in Graph 10.

The bimonthly data on the number of credit cards held by individuals who are current in their payments indicates that the total number of cards from June 2009 to October 2009 contracted, and that as of April 2010 clear signs of expansion emerged. It should be noted that the total number of this type of credit card held rose 191% from October 2009 to June 2011, by slightly more than 2.2 million cards. Within this total, special attention should be paid to the great increase in the number of customers who paid their total balance at the end of each billing period (Graph 11). In the period in question, this number rose 776% and the increase amounted to 2.4 million cards. In contrast, the performance of customers making partial payments on the balance owed, decreased 2.2%, with their number declining by almost 0.2 million in that same period.

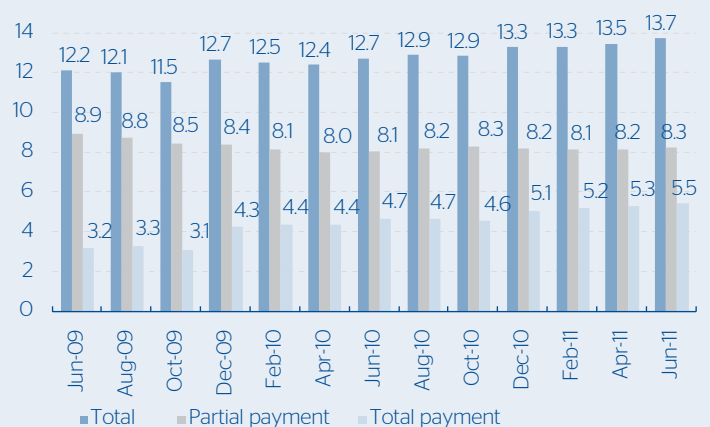
It should be noted that, in real terms, the balance of the loan portfolio granted via credit cards from October 2009 to June 2011 fell 4.6%. The credit balance for customers not paying the total balance on their credit card declined -10.9%, while the balance for customers making total payment of their balance grew 43.9%. The asymmetry in these growth rates can be attributed to those that did not make total payment of their balances in October 2009 accounting for 88.4% of the total outstanding debt granted via cards, with the remaining 11.6% corresponding to those making total payment of their balance. By June 2011 this proportion had changed, with those not making total payments on their accounts representing 82.5% of the debt, while the remaining 17.5% corresponded to customers making total payment of their balance. That is, it is

Graph 10
Number of Bank Credit Cards
Figures in millions for bimonthly and quarterly data



Source: BBVA Research with Banxico data

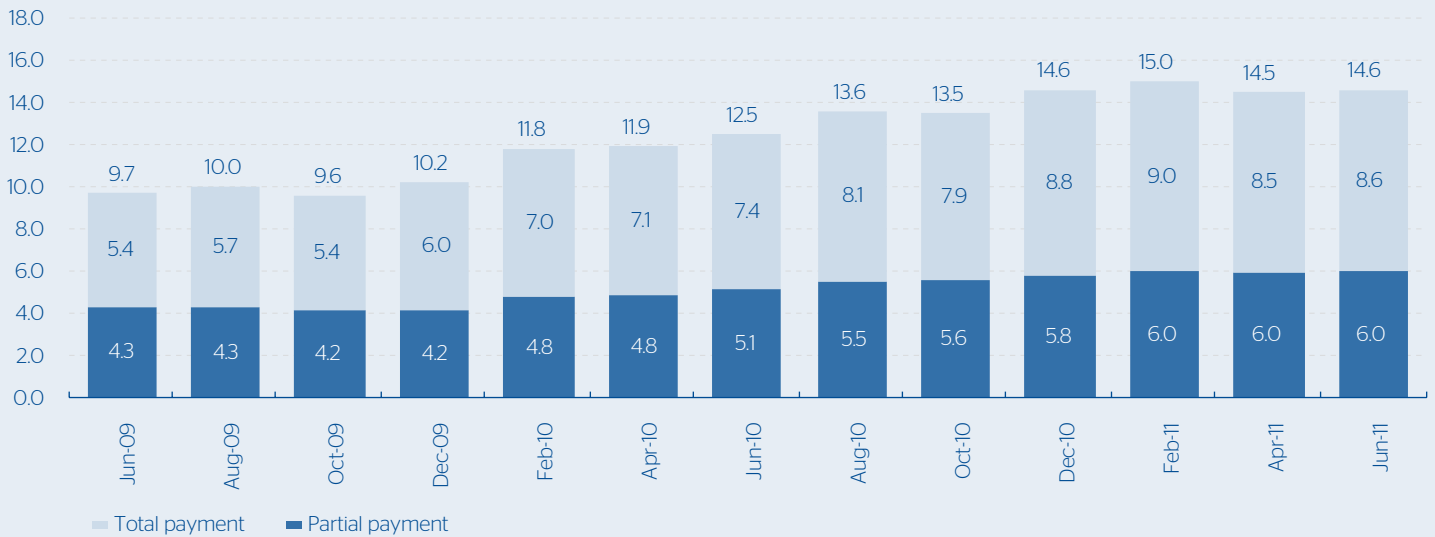
Graph 11
Number of Bank Credit Cards
Total number of Bank Credit Card holders, making total or partial payments on their balance Bimonthly figures in millions of units



Source: BBVA Research with Banco de México data

Graph 12

Interest-free credit as a proportion of the total balance, %



Source: BBVA Research with Banco de México data

the customers making total payment of their balances in the period in question who made the most purchases with their credit cards. Based on these data, we can conclude that it is the customers in this category who are making greater use of credit cards as a means of payment in order to take advantage of the benefits offered by this instrument over others.

An example of this is the percentage of credit extended through credit cards that is interest free as a proportion of the total credit balance granted via plastic. From October 2009 to June 2011 this percentage increased from 9.7% to 14.6%. As can be seen in Graph 12, in this period the percentage corresponding to customers making total balance payments increased from 5.4% to 8.6%. The percentage attributable to customers making partial payments also increased, from 4.3% to 6%.

The figures from the basic credit card indicators report show that customers making total payments on their balance significantly increased their relative share among total credit card holders. In addition, it is important to note that a higher percentage of the credit balance for customers making partial payments corresponds to interest-free purchases of goods and services.

The above data indicate a significant change in the characteristics of the use of credit cards. Now credit card customers who can do so are trying to use their plastic as a means of payment more than other credit instruments at the same time that they benefit from making purchases with interest-free deferred payments.

Conclusions

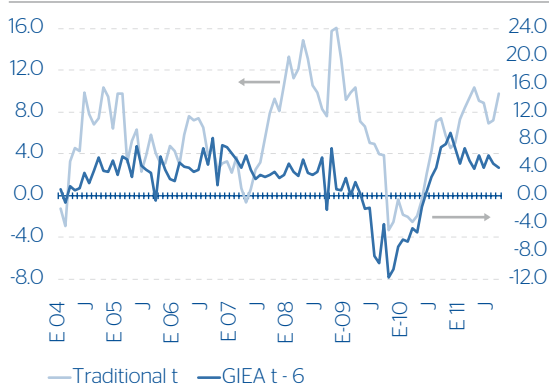
The data on the total number of credit cards issued by banks show that this type of consumer credit has been reactivated and has now entered its expansion phase. By the same token, the data show that customers who make total payments on their balance obligations have boosted their relative share of credit granted via credit cards and that a higher percentage of credit card users are taking greater advantage of the benefits that come from making purchases with their credit cards with deferred interest-free payments. The growth trend and the new pattern of credit card use will continue to the degree that a favorable macroeconomic environment persists.

2.b Bank Deposits: Recent Evolution and Perspectives

Economic activity, a determinant factor for deposits

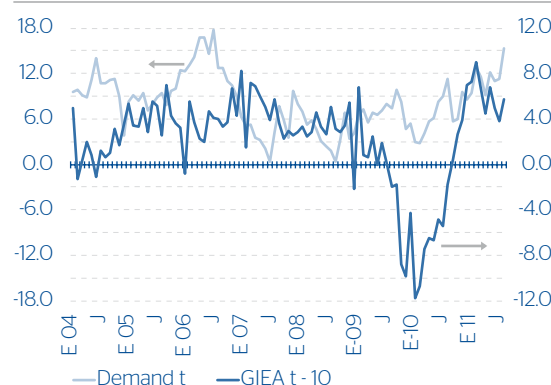
As of June 2010, traditional bank deposits resumed real positive growth rates, and growth of these deposits reached their maximum level this past April 2011 at 10.3%. The following month, the growth rate was more moderate and in September it was 9.7%. Traditional deposits in the commercial banks include the sum of deposits in demand and time instruments. To the extent that GDP resumed growth, deposits began to recover. Graph 13 shows that this relationship shows a six-month delay, as indicated by the monthly global indicator of economic activity

Graph 13
Traditional Bank Deposits and the Global Indicator of Economic Activity (GIEA)
Real annual growth rate, %



Source: BBVA Research with Banco de México and INEGI data

Graph 14
Demand Deposits and the GIEA (Global Indicator of Economic Activity)
Real annual growth rate, %



Source: BBVA Research with Banco de México and INEGI data

Demand deposits, in addition to activity, affect inflation

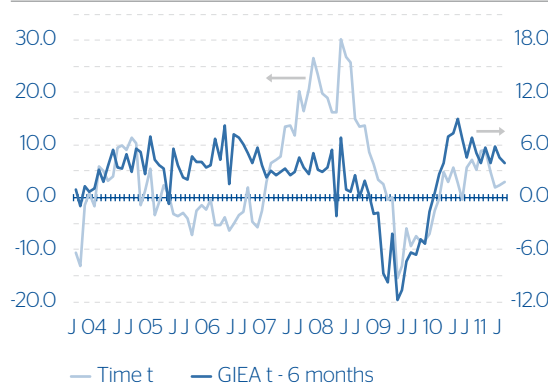
The performance of bank demand deposits has been favorable (Graph 14). Although its direct relationship with economic activity shows that when GDP grows, so do these deposits, their relationship with inflation indicates that when inflation is high or increases, the effect is that deposits are reduced. It should be recalled that demand deposits are made through transactional bank products whose accounts do not generate interest or if they do, the yield obtained is low. In this manner, relatively high inflation levels reduce the value of demand deposits in real terms. Thus, relatively high inflation levels reduce the value of demand deposits in real terms, for which reason savers prefer to channel their resources to other instruments that protect them from inflation.

In the last year and a half, an environment of GDP growth has been seen, together with lower inflation, which are factors that help explain the dynamic growth of demand deposits in banks. Thus, during 2010, GDP grew 5.4%, and demand deposits increased 6.2% from January to September that year and 6.4% during that entire year. In turn, from January to September of 2011, demand deposits grew 11.2% while GDP growth during the first half of the year was 4%, with a slightly lower GDP growth of 3.8% expected for the whole year. Average inflation from January to September of 2010 was 4.1%, which was the same value on average for that entire year. Throughout 2011, inflation has descended and its average from January to September this year was lower, at 3.4%.

Time deposits; a recent slowdown

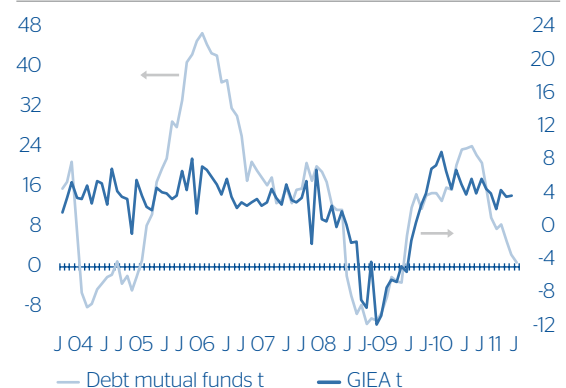
Time deposits in the commercial banks, after posting real positive growth rates as of August 2010 and reaching 9% in real terms last May, have declined rapidly. In September of this year, their real annual growth was 2.9%. This is partly related to the growth rate of economic activity and possibly to other factors, such as the return on savings instruments that are not immediately liquid (Graph 15), and a greater preference for other savings instruments.

Graph 15
Bank Time Deposits and the GIEA
Real annual growth rate, %



Source: BBVA Research with Banco de México and INEGI data

Graph 16
Debt Mutual Funds and the GIEA
Real annual growth rate, %



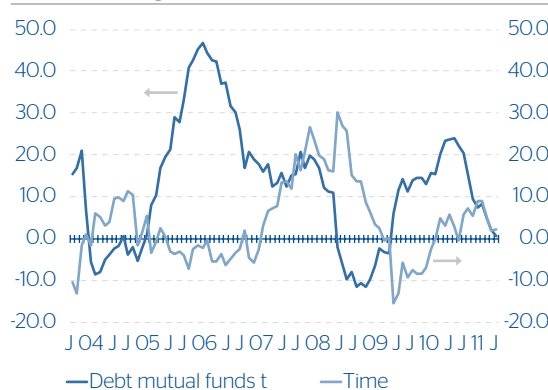
Source: BBVA Research with Banco de México and INEGI data

Debt Mutual Funds: gaining a share of the total

In December of 2000, the proportion of resources that were deposited in Debt Mutual Funds in relation to the balance of time deposits in the commercial banks was 24.5%. In December of 2010 this percentage rose to 95.5% and by August of 2011, the last information available indicates that this was reduced slightly to 94.3%.

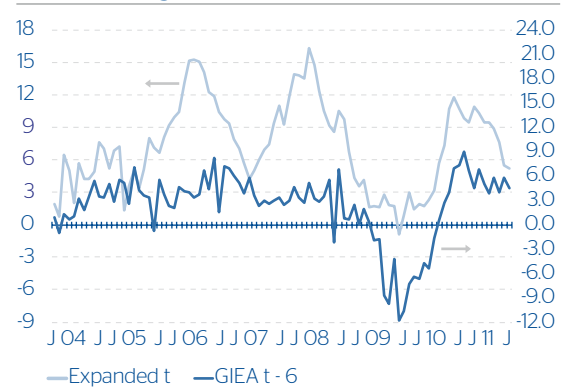
In October of 2008, debt mutual funds registered important declines, due to rising interest rates at the time. This reduced their balance and led some savers to abandon them and channel their resources toward time savings instruments in the commercial banks. This was reflected in negative real annual growth rates in debt mutual funds from October 2008 to September 2009. As of October 2009, the balance in these debt mutual funds resumed growth and did so at high rates during 2010 with this dynamism continuing through May of this year. Similar to what had occurred with time deposits, the growth rate of this savings instrument has also declined rapidly, and in August of this year it was 0.8% in real terms.

Graph 17
Debt Mutual Funds and Time Deposits in Banks
Real annual growth rate, %



Source: BBVA Research with Banco de México and INEGI data

Graph 18
Expanded Deposits and the GIEA (Global Indicator of Economic Activity)
Real annual growth rate, %



Source: BBVA Research with Banco de México and INEGI data

It should be mentioned that, in general, when growth of debt mutual funds is dynamic, bank time deposits have shown a certain sluggishness and even negative growth rates. Also, the opposite has occurred with high growth in time deposits, reflecting a contraction in the balance of resources deposited in debt mutual funds, as occurred at the end of 2008, due to the decline in value of these instruments at that time.

Currently, it is significant that debt mutual funds and time deposits in banks have both shown a rapid slowdown at the same time when the macroeconomic environment has been favorable. A possible explanation for the recent loss of dynamism of debt mutual funds and time deposits is due to the fact that savers are channeling a greater proportion of their resources toward other savings options.

Expanded deposits: the sum of traditional deposits and Debt Mutual Funds

Expanded deposits are the sum of the balance of traditional deposits in the commercial banks and the balance of resources deposited in debt mutual funds. This classification allows having a definition of voluntary savings resources that operate in the banking institutions, either due to deposits that the banks obtain directly from the public or due to the intermediation of non-bank savings instruments such as debt mutual funds.

Expanded deposits, given the elements that are included in these, also depend on the conditions of the prevailing macroeconomic environment. For this reason, expanded deposits were affected by the recession of 2009 (Graph 6), and registered a negative real annual growth of 0.9% in October of that year. As of the following month, it resumed growth, driven by the improvement in the macroeconomic environment. Thus, in the first half of 2010, the real annual average growth rate for these deposits was 2.7% and grew to 10% on average for the second half of that year. The average growth of expanded deposits in the first half of 2011 was 9.4% and from January to August, according to the latest available data, dropped to 8.4%, due to the lower rates registered in July (5.4%) and in August (5.2%). Behind this evolution is the lower growth rate seen in time deposits in the commercial banks and in debt mutual funds during those months.

Savings in non-bank instruments, substitutes for traditional deposits

In general, it can be considered that time deposits in the commercial banks and in debt mutual funds compete with other savings instruments, such as federal government securities and securities from other public entities (IPAB, debt issues by the states, the municipalities and government-owned companies). The savings deposits that the commercial banks receive and that are channeled to debt mutual funds are part of total financial savings, which include all types of savings instruments, bank and non-bank. In addition, total financial savings include both obligatory and voluntary savings (Chart 2).

Obligatory savings are those made under the guidelines of the Retirement Savings System (SAR for its Spanish initials), and that are channeled toward mutual funds that specialize in retirement funds (Siefos) or outside these in the case of obligatory savings due to contributions to the workers' housing fund. Total financial savings without obligatory savings are voluntary savings, and these can also be made by foreigners through holdings in securities issued by the public sector or that they may have in commercial bank agencies abroad. Voluntary financial savings that are made internally constitute the category and the variety of savings instruments that are available to families and companies.

The middle part of Chart 2, shows the amount and increase of voluntary financial savings made internally in the country from May to September of 2011. The Chart clearly indicates that in this section, savings channeled to the commercial banks and particularly toward bank demand instruments, represented the most important category in the period of reference, followed by public sector securities (VSP for their Spanish initials) and savings in the development banks. The Chart also shows that time deposits in the commercial banks increased marginally during those months.

Chart 2

Financial Savings: Balances in May and August of 2011. Figures in billions of pesos of September 2011.

	May-11	Sept-11	Increase Sept - May
Total Financial Savings = M4a - bills and coins held by the public	8,444	8,444	502
I. Deposit Institutions	2,956	2,956	212
Development banks	358	358	34
Resident commercial banks (Demand + Time)	2,437	2,437	167
Demand	1,336	1,336	165
Time	1,101	1,101	3
Commercial bank agencies abroad	105	105	11
Savings and Loan Associations (SAP's)	56	56	0
II. Securities Issued by the Public Sector (Valores Emitidos por el Sector Público) (VSP) *	4,174	4,174	250
III. Securities Issued by Companies	360	360	7
IV. SAR (Retirement Savings Funds) outside the Siefores	954	954	32
Financial Savings= I + II + III + IV *	8,444	8,444	502

Increase in Total Financial Savings from August to May of 2011

	8,444	8,946	502	
I. Total Financial Savings (AFT for its Spanish initials)	8,444	8,946	502	
1) Holdings by foreigners of Public Sector Securities	878	948	69	
2) Commercial banks' agencies abroad	105	115	11	
3) Siefores (obligatory savings)	1,457	1,487	30	
4) SAR (Retirement Savings System) outside the Siefores (obligatory savings)	954	986	32	Structure %
II. Voluntary Internal Financial Savings (AFIV)= AFT (Total Financial Savings) minus: 1 + 2 + 3 + 4	5,050	5,409	359	100.0
5) Securities Issued by Private Companies	360	367	7	1.9
6) Development Banks	358	392	34	9.3
7) Commercial Banks	2,437	2,604	167	46.6
7.1) Demand	1,336	1,500	165	45.8
7.2) Time	1,101	1,104	3	0.8
8) Savings and Loan Associations (SAPS)	56	57	0	0.1
III. AFIV (Financial Savings) in Public Sector Securities = AFIV minus 5 + 6 + 7 + 8	1,839	1,990	151	42.0
9) Debt Mutual Funds (include a high proportion of Public Sector Securities (VSP)			17	4.7
10) Rest of Public Sector Securities (VSP)			134	37.3

* VSP (Valores del Sector Público) or public sector securities include federal government securities, IPAB bonds, Brems and debt issued by public sector entities (states, municipalities and government-owned companies).

Source: BBVA Research with Banco de México data

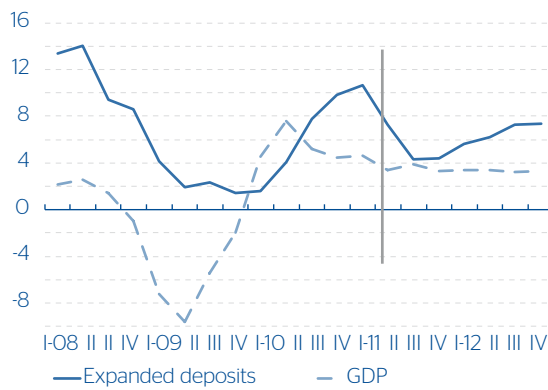
The above figures suggest that although a favorable macroeconomic environment spurs savings in general, the degree of attractiveness and substitution that each instrument in particular has for clients will be an important factor that generates the difference in the growth rates of the different categories. In this sense, it can be said that public sector securities (PSS) are an important substitute for bank savings and to the extent that their acceptance is expanded, it is to be expected that their relative importance in total savings will increase.

Outlook for expanded deposits: their growth will be more moderate

Throughout 2011, the growth of expanded deposits has declined as a result of the lower growth rate observed in its components of time deposits and the balance of debt mutual funds. The slowdown in growth of these savings instruments that have been seen in the middle of the year and the estimated GDP growth rate of 3.8% will cause expanded deposits in 2011 to grow an average nominal 10.2% (Chart 3).

Graph 19

Expanded Deposits of the Commercial Banks and GDP
Real annual growth rate, %



Source: BBVA Research with Banco de México and INEGI data

Chart 3

Commercial Banks Expanded Deposits Up To 2010
Annual average growth rate, %

	Real Rate	Nominal Rate
2008	11.4	17.3
2009	2.4	7.6
2010	5.8	10.2
2011	6.6	10.2
2012	6.6	10.4

Source: BBVA Research with Banco de México and INEGI data

On another note, for 2012 we estimate, in the base scenario, that GDP will grow 3.3% and inflation will again remain at low levels. This macroeconomic environment will allow for the continued growth of expanded deposits and we expect this will be at an annual nominal 10.4%. By components, the expected nominal growth in 2012 for demand deposits is of 11.7% and of 6.4% for term deposits. These growth rates will allow traditional deposits to grow at an annual average nominal rate of 9.4%. Moreover, for 2012 we also expect a better performance of debt mutual funds (DMF), which will bring their annual average nominal growth rate to 12%.

3. Special Topics

3.a What does the 2009 Economic Census tell us about obtaining credit among Mexican companies?

Introduction

The main channel through which credit can influence economic growth is through the financing of private investment projects. Due to this, in this section of **Mexico Banking Outlook**, we present some of the characteristics of the performance of credit to companies that are based on the statistics of the 2009 Economic Census (Census)³. The analysis of the census information complements what already has been shown by other official sources regarding bank credit to companies, and also it allows identifying and quantifying some of the aspects of the private sector and government-owned companies that obtained bank credit, in comparison with those which did not. This information is useful when measuring the size of the credit market of the country within a context where the banks and the authorities are interested in increasing the penetration of credit, which becomes an important boost for the country's economic growth. Moreover, the analysis reveals certain important differences regarding the uses that companies give to the financing they obtain.

1. Some descriptive statistics

The banks are the main source of external financing of Mexican companies

According to the Census, in 2008 there were 4,724,892 economic units (companies) operating in Mexico, of which 3,437,645 (73%) belong to the private and government-owned sector.⁴

In that year, more than 959,000 productive entities obtained bank financing or from other non-bank sources. It should be mentioned that in the group of companies that did obtain financing, the main source of resources was internal, which is comprised of resources from contributions from owners, partners, relatives and friends. The second place in importance in the financing of firms is held by the banks, followed by popular savings banks and private lenders, suppliers, government and other sources. (Chart 4).

Chart 4

Economic units of the private and government-owned sector which operated in 2008 and obtained credit through loans or financing⁵

Stratus of employed personnel	Total of economic units which obtained credit, loans or financing	Distribution according to sources (%)											
		Owners, partners relatives or friends		Banks		Popular sav-ings banks or private lenders		Suppliers		Government		Other sources	
		Units	%	Units	%	Units	%	Units	%	Units	%	Units	%
National total	959,628	739,681	77	167,359	17	110,837	12	80,321	8	24,183	3	19,289	2
0 to 10 persons	893,651	699,818	78	136,103	15	107,149	12	68,007	8	22,520	3	15,728	2
11 to 50 persons	51,834	32,998	64	23,165	45	2,918	6	8,153	16	1,311	3	1,907	4
51 to 250 persons	11,407	5,702	50	6,588	58	696	6	3,310	29	276	2	1,102	10
251 and more persons	2,736	1,225	45	1,479	54	81	3	874	32	58	2	498	18

Source: BBVA Research with data from the 2009 Economic Census

³ For a more detailed description and evaluation of the census information see Castellanos, S. G., Morales, F.J. and M. A. Torán (2012) "Análisis del Uso de Servicios Financieros por parte de las Empresas en México: ¿Qué nos dice el Censo Económico 2009?" (Analysis of the Use of Financial Services by Mexican Companies: What does the 2009 Economic Census Tell Us?), Work Document, BBVA Research, to appear in 2012.

⁴ These figures include economic units engaged in activities of generation, transmission and distribution of electric power, water and gas supply through ducts to the final consumer, financial companies, those of the Public Sector, religious organizations and homes with economic activity in a place of shared use. To respond to questions in the Credit and Bank Account Questionnaire, INEGI only includes information of master records and single establishments. For operating effects, INEGI divides the universe of economic units into "PYMES" for small and medium-size establishments and "SEG" for large establishments and companies. In "SEG", there are single establishments (they do not share the trade name with another establishment) and companies (more than one establishment with the same trade name). Source: INEGI.

⁵ The economic units report all the sources used in one period, which is why the sum is more than 100%.

Despite the above, the analysis of the sources of financing by size of firm, defined by the number of persons employed, suggests some differences in the relative importance of each one of the sources of resources that seems interesting to point out. The pattern in which the main source of financing are the owners and the partners characterized to a great extent those firms with fewer than 10 persons employed (micro-firms) and those that employ from 11 to 50 persons (small). These productive entities constitute approximately 99% of the private sector and government-owned companies existing in Mexico

Among companies with more than 51 and up to 250 persons employed (medium-size companies), and with 251 or more persons employed (large), the banks are the main source of financing. Nevertheless, as can also be seen in Chart 4, it is significant that the most numerous group of companies that obtained bank credit in 2008 is that of productive entities with up to 10 employees, with 81.3% of the companies that received bank credit that year belong to that segment (that is 136,103 of the 167,359 economic units that reported the banks as their source of financing). The above is in contrast to the information that is commonly heard that “the banks do not cater to small businesses”.

2. More than half of the companies did not demand credit because they did not need it

Census data indicate that of the almost 3.3 million companies that did not obtain credit, loans or financing in 2008, more than half responded that they did not need it (Chart 5). In order of importance, the following reasons are mentioned: i) bank interest is high; (ii) the belief of not complying with the requirements; iii) lack of confidence in the banks; (iv) lack of knowledge in the procedure for requesting it; v) long distance from the institutions; (vi) they requested it but it was not granted; and (viii) other causes.

According to the Census, the proportion of companies reporting that they considered that interest rates are high among companies with fewer than 10 employees is significantly higher than among other companies. On the other hand, it is noteworthy that the proportion of productive entities that reported not having obtained credit because it was not granted to them was very low in all size segments of companies.

In order to evaluate this information, it is important to take into account the economic events that were present in 2008, the year when the Census was taken. According to the Report of the Financial System of Banco de Mexico, for example, during that year, there was a marked contraction of economic activity in addition to great instability on the international financial markets. These factors affected supply adversely, but, in particular, the demand for credit.

Chart 5

Economic units of the private and the semi-official sector by condition of credit or financing obtainment⁶

Strata of employed personnel	Total of economic units that did not obtain credit, loans or financing	Distribution according to causes (%)							
		They did not need it	Interes- rates are high	The did not think they could meet the require- ments	They do not trust the banks	They do not know the procedure for request- ing it	The insti- tutions are too far away	They required it but it was not granted	Other causes
National total	3,270,287	54	41	13	3	3	2	1	2
0 to 10 persons	3,150,920	53	41	13	3	3	2	1	2
11 to 50 persons	101,001	67	27	6	2	1	1	3	5
51 to 250 persons	14,860	67	20	5	1	1	0	4	7
251 and more persons	3,506	69	9	3	1	0	0	2	11

Note: Each economic unit reports all the causes why it did not obtain financing, which is why the sum of the breakdown as per the sources is higher than 100%.

Source: BBVA Research with 2009 Economic Census data.

⁶ It does not add up to 100%

3. Potential market of bank credit to companies

In order to analyze the size of the potential market of bank credit, it is useful to group these according to their condition for obtaining credit into four groups, which are defined below and are illustrated in Chart 6:

- A. Those that obtained bank credit;
- B. Those that obtained non-bank financing (from owners, partners, relatives or friends, employees' savings and loan associations, private lenders, suppliers, government, debt issuance or other sources).
- C. Those that did not obtain financing because interest rates are high, thought they could not meet the requirements, do not know the procedure for requesting credit, the bank institutions are too far away, requested it but it was not granted to them, and other causes, and
- D. Those that did not obtain financing because they showed a lack of interest in it or mistrusted the banks.

Groups C and D, which make reference to companies that did not obtain credit, differentiate the productive entities that did not obtain credit due to reasons relative to characteristics of the products or of the offerer, leading to "involuntary rationing" (group C) of those that are related to a "voluntary rationing" from the demand side (group D) (Stiglitz and Weiss, 1981).

The previous segmentation allows considering companies that obtained financing from sources other than the banks (group B) and to those that did not obtain it because the supply conditions were not attractive or convenient for them (group C) as potential consumers of bank credit. Thus, for 2008, the universe of companies that could have used bank credit was on the order of slightly more than 1.5 million, that is, 792,000 group B companies, plus 763,000 from group C (Chart 6).

Among the potential credit consumer companies, the proportion of entities that experienced "involuntary rationing" (group C of companies) in the category of those that have 11 or more employees, the percentage is lower than 10% (nil among companies with 251 or more employees) but among companies with 10 or fewer employees, it is 23%, that is, one out of every four. It should be added that this reinforces the challenge for the banks to design more attractive credit products for smaller size companies. However, among the 1.7 million companies that did not demand credit for lack of interest or confidence in banks (group D), the differences in the proportions by segment suggest a greater lack of interest or confidence among companies of smaller size, but the differences are less inconsistent among the different segments.

Chart 6
Economic units of the private and government-owned sector due to the condition of obtainment of credit or financing

Strata of employed personnel	A		B		C		D			
	Those that obtained bank credit		Those that only obtained non-bank financing		Those that did not obtain credit or financing for reasons different from lack of interest in it or for not trusting the banks		Those that did not obtain credit or financing and showed a lack of interest in it or did not trust the banks			
	Units	%	Units	%	Units	%	Units	%		
Total	3,437,645	100	167,358	5	792,270	23	762,966	22	1,715,051	50
0 to 10 persons	3,287,048	100	136,128	4	757,523	23	755,391	23	1,638,006	50
11 to 50 persons	124,165	100	23,164	19	28,670	23	7,248	6	65,083	52
51 to 250 persons	21,447	100	6,587	31	4,820	22	427	2	9,613	45
251 and more persons	5,085	100	1,479	29	1,257	25	0	0	2,349	46

Source: BBVA Research with 2009 Economic Census data

4. Bank credit vs. non-bank financing. How do the companies that obtained it differ?

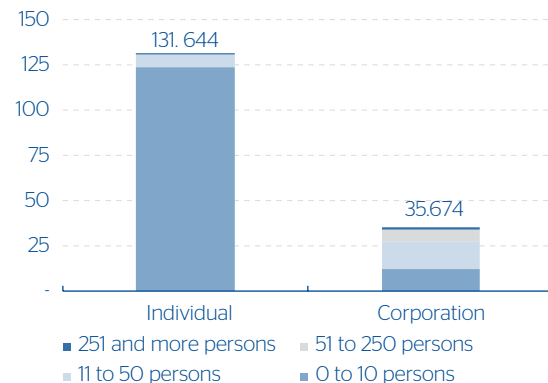
As a first step for a better understanding of the characteristics of companies that use credit and have clearer parameters regarding how much more credit to companies could grow, in the case of the companies in groups A and B that did obtain financing of some type, a series of tabulators and graphs are presented below on certain characteristics of the companies that were relevant in the decisions of financial services supply. These characteristics are: i) type of property; ii) seniority or years in operation; iii) income and fixed assets; iv) employment, salaries and productivity; and v) formality. Also analyzed are data with regard to the payment of interest for the financing obtained and its use for investment purposes or working capital.

4.1 Property: the trading corporations tend more to turn to bank credit than to non-bank

Private and government-owned companies are classified by type of property in four groups of individual entities, trading corporations, government and international organizations. Among the companies that obtained bank credit there is a higher proportion of trading corporations (21%) than among those that turned to non-bank financing (8%). In contrast, among the companies that did obtain bank credit, there is a lower proportion of individuals with entrepreneurial activity (79%) than in the other group (92%) (Graphs 20 and 21).⁷ The previous figures suggest the more formal that the legal constitution is of a company (or more sophisticated its organization), the greater use it will make of bank credit.

Graph 20

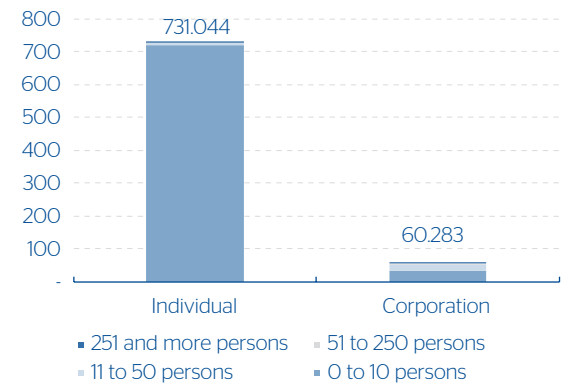
Companies that obtained bank credit due to type and size of property



Source: BBVA Research with 2009 Economic Census data.

Graph 21

Companies that obtained non-bank financing due to type and size of property



Source: BBVA Research with 2009 Economic Census data

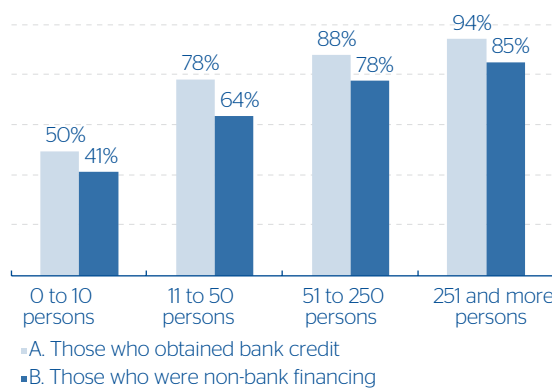
4.2 Seniority: companies that have been in operation on the market more time tend to obtain more bank credit

In general, companies with 11 or more employees have more seniority on the market than those with 10 or fewer employees. There is a greater proportion of companies with more than five years of seniority among those that obtained bank credit than those that turned to non-bank financing (Graph 22) However, among companies that started operations in 2008, a lower proportion obtained bank financing than from other sources (Graph 23). This performance guideline is more pronounced among companies with 50 or fewer employees. An explanation for this pattern is that the probability for a company to continue its activities tends to increase with its age, since it is about a company that is reliable and that knows its market better.

⁷ The number of companies owned by the government and of international organizations that obtained financing is lower than 1% in both groups.

Graph 22

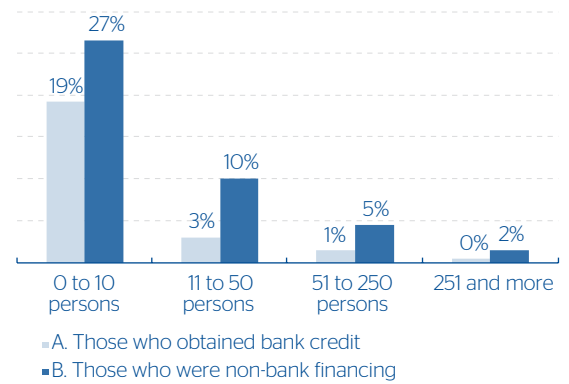
Proportion of companies that began operations prior to 2004



Source: BBVA Research with 2009 Economic Census data.

Graph 23

Proportion of companies that began operations in 2008



Source: BBVA Research with 2009 Economic Census data.

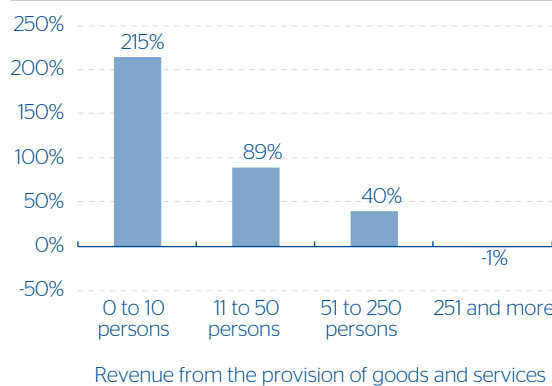
4.3 Revenues and the value of assets tend to be higher among companies that obtained bank credit

As is to be expected, the Census data indicate that companies that obtained bank credit have higher revenues in comparison with those that obtained loans from non-bank sources (Graph 24). The order of magnitude of the difference is substantial, in particular among micro and small companies. For example, in the case of companies with 10 or fewer employees, there is a difference among this type of companies of 215%, while among the small companies it is almost of 90%.

In general, the pattern described above for revenues is repeated in the case of fixed assets, since these provide the possibility of being used as collateral for some credit, which could occur particularly in the case of smaller-sized firms. These differences in the value of assets of companies that obtained bank credit compared to those that obtained non-bank financing are greater among companies with 10 or fewer employees. In this category of micro companies, the differences in the value of office machinery and equipment and other assets and real estate are particularly noteworthy as being most significant (Graph 25).

Graph 24

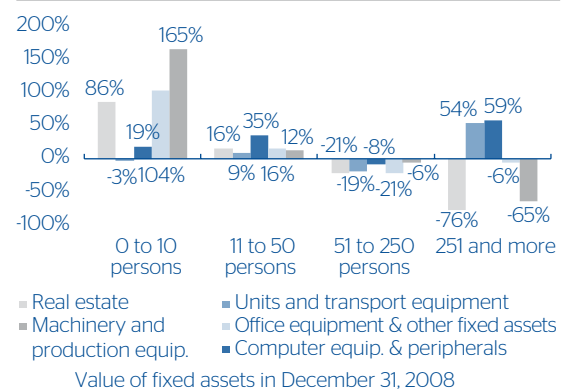
The difference in revenues per economic unit of companies that obtained bank credit compared to those that obtained non-bank financing, %



Source: BBVA Research with 2009 Economic Census data.

Graph 25

The difference in the value of fixed assets per economic unit of companies that obtained bank credit compared to those that obtained non-bank financing, %



Source: BBVA Research with 2009 Economic Census data.

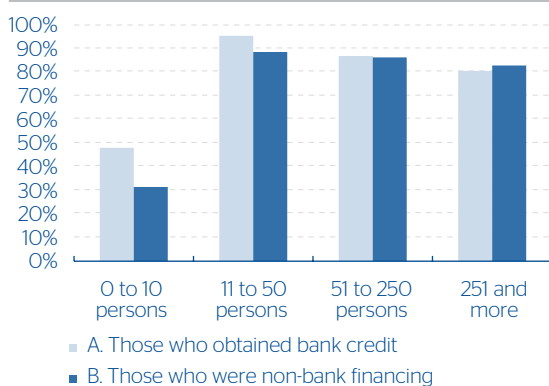
4.4 Companies that obtained bank credit also employed more persons, paid higher wages and were more productive

4.4.1 Employment

Among companies with 10 or fewer employees, the proportion of workers paid with fixed wages and salaries is lower than 50%. Also, in this case, there is a gap of several percentage points among those that obtained bank credit and those that obtained non-bank financing (Graph 26). Among those economic units with 11 or more workers, the proportion of entities that report employing workers with fixed wages and salaries is higher than 80%, and the differences are few between the two groups of interest. Another difference appears from the value of the salaries paid and profit sharing to personnel per economic unit. On average, these were almost three times higher among the economic entities that obtained bank credit than among the rest of the companies that obtained non-bank financing (Chart 7).

Graph 26

Proportion of economic units with workers paid fixed wages and salaries



Source: BBVA Research with 2009 Economic Census data.

Chart 7

Salaries paid, profits shared per economic unit, (2008 pesos per economic unit)

Strata of employed personnel	A Those that obtained bank credit	B Those that obtained non-bank financing
Total	1,465,421	554,068
0 to 10 persons	139,279	84,248
11 to 50 persons	1,117,779	859,667
51 to 250 persons	6,526,080	6,624,651
251 and more persons	55,698,465	76,690,167

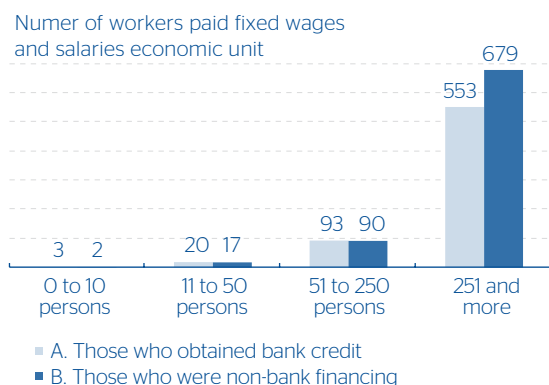
Fuente: BBVA Research con datos del Censo Económico 2009.

4.4.2 Salaries paid

Also the Census data indicate that a greater proportion of companies that obtained bank credit reported having more persons working for a fixed salary, and these entities tend to employ more persons and to pay them slightly higher salaries than the productive units that obtained non-bank financing (Graph 27 and Chart 8).

Graph 27

Proportion of economic units with employees with fixed wages and salaries



Source: BBVA Research with 2009 Economic Census data

Chart 8

Salaries paid, profits distributed per employee (2008 pesos per person)

Strata of employed personnel	A Those that obtained bank credit	B Those that obtained non-bank financing
Total	75,243	72,147
0 to 10 persons	44,719	36,111
11 to 50 persons	57,119	50,689
51 to 250 persons	69,903	73,428
251 and more persons	100,752	112,884

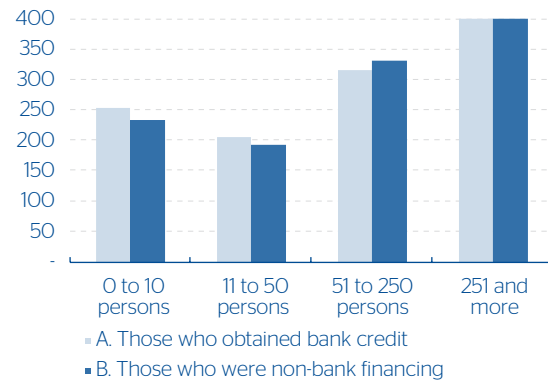
Source: BBVA Research with 2009 Economic Census data.

4.4.3 Productivity

The ratio of fixed assets to income per person suggests that the salary differences existing among the company categories are associated to a greater productivity of employment, particularly in the case of group A companies among the group of entities that obtained bank credit (Graphs 28 and 29).

Graph 28

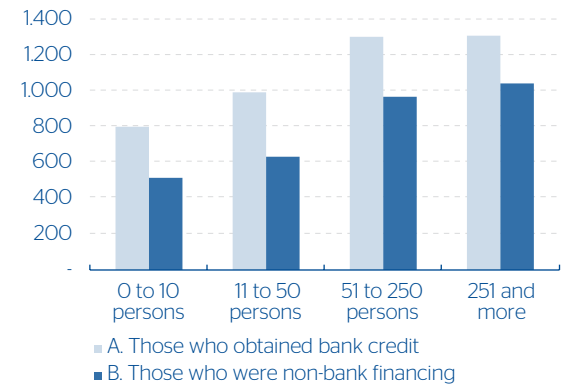
Total value of fixed assets per paid workers with fixed wages and salaries, pesos



Source: BBVA Research with 2009 Economic Census data

Graph 29

Income per paid worker with fixed wages and salaries, pesos



Source: BBVA Research with 2009 Economic Census data.

4.5 Companies that obtained bank credit show more characteristics that suggest formality: they employ fewer non-paid workers or paid with commissions and pay more taxes

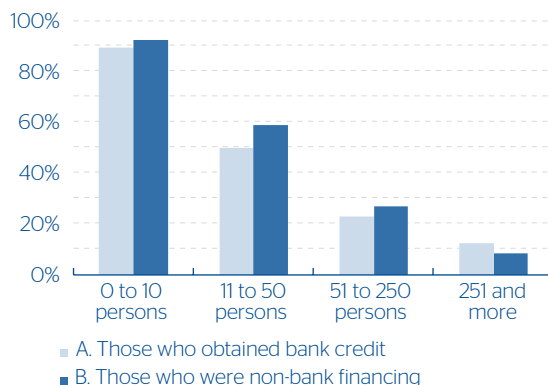
To infer the formality of the companies, the Census offers data on employment of non-paid persons or paid through commissions and on the payment of taxes and contributions.

4.5.1 Non-paid employees or those paid with commissions

The employment of non-paid personnel that is strongly associated with a condition of informality is greater among economic units with 10 or fewer employees. But this also happens in units of greater size. This phenomenon is slightly higher among companies that obtained non-bank financing than in the rest (except among large companies) (Graphs 30 and 31).

Graph 30

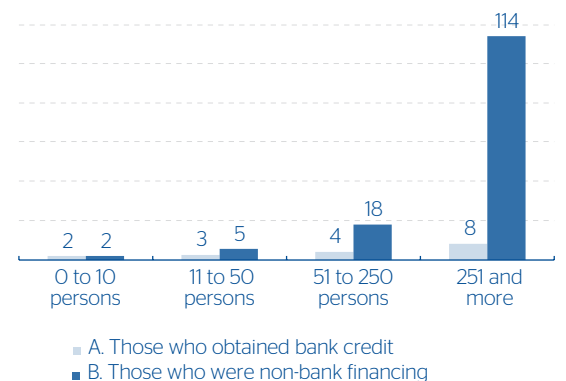
Proportion of economic units with non-paid employed personnel.



Source: BBVA Research with 2009 Economic Census data.

Graph 31

Non-paid employed personnel per economic unit.

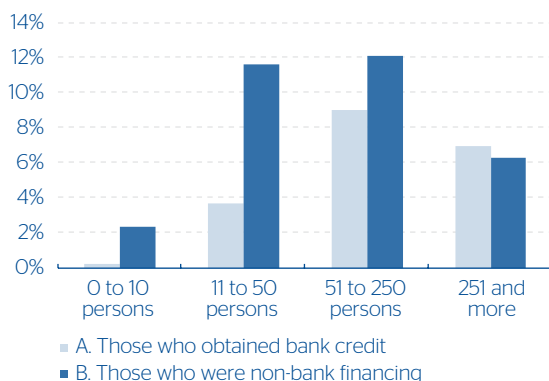


Source: BBVA Research with 2009 Economic Census data.

The employment of personnel paid by commissions without a base salary, which does not entail the payment of social security and other social benefits is a less frequent modality than the employment of non-paid personnel. This is seen more among small, medium and large firms than among the micro companies. The proportion of companies that had non-bank financing that employed personnel of this type is higher than in the group of those that had bank credit (except among the large companies) (Graph 32). Also, the number of persons employed in this modality is higher in the first group than in the second (Graph 33).

Graph 32

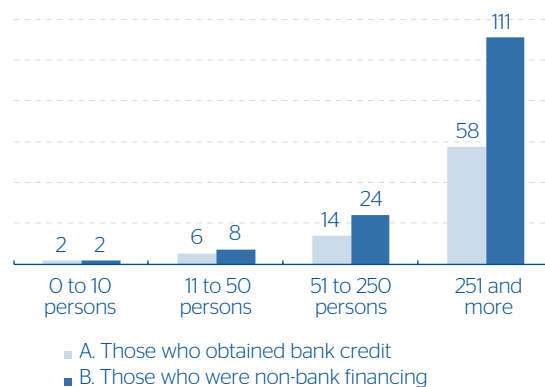
Proportion of economic units with employees paid with commissions without a base salary



Source: BBVA Research with 2009 Economic Census data.

Graph 33

Employees paid with commissions without a base salary per economic unit



Source: BBVA Research with 2009 Economic Census data.

4.5.2 Tax payment

As refers to the subject of tax payments, as a result of the patterns of employment described above, it can also be observed that the companies that obtained bank credit in 2008 pay more contributions to social security and other social benefits than those companies that obtained non-bank financing. Thus, in 2008 the average expenditures per company for social security and other benefits in each group was 396,930 pesos and 256,244 pesos, respectively.

The census data regarding the payment of other taxes also reveal that companies that turned to non-bank financing tend to be more informal. For example, a greater proportion of those companies that obtained bank credit pay and withhold the VAT (value added tax). Also, the payment of the VAT per economic unit among the companies that obtained bank credit on average is higher than that of those that obtained non-bank financing and this expenditure represents a greater proportion of total income per supply of goods and services of this type of companies. This pattern of performance is more accentuated among the micro companies (Chart 9).

The performance guidelines described compared to the payment of the VAT are also observed compared to other taxes that the economic units pay. Thus, a higher proportion of those entities that obtained bank credit pay taxes, the payment per economic unit is slightly higher ; and, on average these expenditures represent a lower proportion of the revenues of this group of economic units (Chart10).

Chart 9

VAT payment

Companies that obtained bank credit				Companies that obtained non-bank financing			
Strata of employed personnel	U. Total economic proportion (%)	Payment / Economic Unit.	Paid VAT / Total income in goods and services	Strata of employed personnel	U. Total economic proportion (%)	Payment / Economic Unit.	VAT paid / Total income in goods and services
Total	9%	9,552,470	6%	Total	2%	6,110,314	5%
0 to 10 pers.	2%	1,556,824	2%	0 to 10 pers.	1%	472,830	1%
11 to 50 pers.	27%	3,377,520	5%	11 to 50 pers.	19%	2,317,816	5%
51 to 250 pers.	67%	13,292,961	8%	51 to 250 pers.	58%	10,238,332	8%
251 & more pers.	83%	43,705,159	6%	251 & more pers.	74%	46,377,469	6%

Source: BBVA Research with 2009 Economic Census data.

Chart 10

Tax payment excluding VAT

Companies that obtained bank credit				Empresas que obtuvieron financiamiento no bancario			
Strata employed personnel	U. Total economic proportion (%)	Payment / Ec. Unita	Tax payment. excing. VAT/ total income. goods & services	Strata employed personnel	U. Total economic proportion (%)	Payment / Ec. Unita	Tax payment. except VAT/ Total income for goods & services.
Total	6%	2,197,039	1%	Total	1%	1,252,677.64	1%
0 to 10 pers.	1%	103,604	0%	0 to 10 pers.	0%	63,088.25	0%
11 to 50 pers.	20%	464,199	1%	11 to 50 pers.	14%	344,085.11	1%
51 to 250 pers.	51%	,476,570	1%	51 to 250 pers.	44%	1,126,509.00	1%
251 & more pers.	62%	17,157,418	2%	251 & more pers.	59%	11,322,508.70	1%

Source: BBVA Research with 2009 Economic Census data.

4.6 What is the cheapest source of financing?

A low proportion of companies that obtained bank credit or non-bank financing report having made tax payments for interest. In general, only 8% of the entities that obtained bank credit and 1% of those that obtained non-bank financing report this type of expenditures. The above notwithstanding, as can be expected, the payment of interest per economic unit is lower among companies that obtained bank credit, except among the micro and small companies, compared to non-bank financing. Even though the Census information does not allow knowing if this is due to the fact that behind this expenditure there is a higher amount from loans or a higher interest rate, the study by Hernández, Pagán and Paxton (2005) offers some evidence that, in fact, at least among the micro companies, the average size of bank loans is almost 17 times the size of the average tax forthcoming from personal loans, friends and relatives. For his part, Cotler (2008) indicates the relatively high amount of the loans as a possible limiting factor to the access of bank credit among micro companies.

Chart 11

Interest payments on loans and credit received

Companies that obtained bank credit				
Strata of employed personnel	Economic Units	E. U. as a proportion of the total (%)	Interest payments (thousands of pesos)	Payment / ec. unit
TOTAL	13,518	8%	25,196,447	1,863,918
0 to 10 persons	2,050	2%	599,307	292,345
11 to 50 persons	5,920	26%	3,146,123	531,440
51 to 250 persons	4,341	66%	8,150,171	1,877,487
251 and more persons	1,207	82%	13,300,846	11,019,756
Companies that obtained non-bank financing				
Strata of employed personnel	Economic Units	E. U. as a proportion of the total (%)	Interest payments (thousands of pesos)	Payment / ec. unit
TOTAL	4,906	1%	60,835,044	12,400,131
0 to 10 persons	1,234	0%	238,559	193,322
11 to 50 persons	1,837	6%	804,621	438,008
51 to 250 persons	1,324	27%	2,660,768	2,009,644
251 and more persons	511	41%	57,131,096	111,802,536

Source: BBVA Research with 2009 Economic Census data.

5. What is the destination of the financing obtained?

As to the use of the financing that companies obtained, the census data suggest that the proportion of the economic units that report assigning the financing to categories related to “investment” (creation or opening of the business, equipping or expansion of the business and the purchase of a locale or vehicle) is lower than the proportion that reports assigning it to categories of working capital or other headings of current expenses (debt payments, acquisition of inputs, salary payments and other uses). The proportion of companies that report allocating the financing to Investment compared to the total is similar among the companies that obtained bank credit than among those than obtained non-bank financing (Chart 12).

Chart 12

Use of loans and credit received

Companies that obtained bank credit				
Strata of employed personnel	Economic Units	Invest. (creation or business opening, equipping or expansion of the business, or purchase of a locale or vehicle)	Working capital and other headings of current expenses (debt payment, input acquisition, payment of salaries and other uses)	Investment / Total
Total	167,358	96,037	111,472	46%
0 to 10 persons	136,128	79,999	78,770	50%
11 to 50 persons	23,164	11,395	22,195	34%
51 to 250 persons	6,587	3,708	8,420	31%
251 and more pers.	1,479	935	2,087	31%

Companies that obtained non-bank financing				
Strata of employed personnel	Total Economic units	Invest. (creation or opening of a business, equipping or expansion of the business, or purchase of locale or vehicle)	Working capital and other headings of current expenses (debt payment, acquisition of inputs, salary payments and other uses)	Investment / Total
Total	792,270	169,985	180,346	49%
0 to 10 persons	757,523	163,879	168,024	49%
11 to 50 persons	28,670	4,856	8,750	36%
51 to 250 persons	4,820	967	2,593	27%
251 and more pers.	1,257	283	979	22%

Note: Each economic unit reports all the uses that it gave the financing, which is why the sum of the uses differs from the total of the economic units.

Source: BBVA Research with 2009 Economic Census data.

On the other hand, it should be pointed out that the analysis of the uses of the financing also suggests that the amount of the loans of the firms that turned to the banks, tend to be higher than those received by firms that went to non-bank sources. Independent of their size, the units that obtained bank credit report a higher number of uses for the credit they obtained, so the sum of these surpasses the number of uses that the category of firms gave them the category of firms that obtained non-bank financing.

Conclusions

The Census clearly shows that the micro companies, due to the preponderance they have in the Mexican economy, constitute the majority of the clients of the banks. However, within this numerous group of companies, there is a large proportion of productive entities that experience involuntary rationing of bank credit associated with various conditions of the credit supply that are not attractive to them, such as the fact that they consider that the interest rates are high or that they do not meet the requirements. The above could happen despite the fact that, according to data of the Mexican Bank Association (MBA), bank credit granted to micro, small and medium size companies (MIPYMES for their Spanish Initials) grew from December 2006 to December 2010 from 73,000 to more than 174,000.⁸

⁸ These figures only include the companies that obtained credit from the nine bank institutions that voluntarily provide statistics to that association. Therefore, even if these figures are not also accurate, they are indicative of the rapid expansion of credit to the MIPYMES, experienced in those years.

It is important to point out that despite the fact that the 2009 Economic Census offers a more complete perspective than that of other official sources that report on the evolution of bank credit to companies, and that they base them on data samples, this source does not precisely measure the number of companies that obtained financing, of bank origin or not in 2008. The reason is that in the census questionnaire, an affirmative or negative answer is requested for the question of whether the economic unit obtained the credit or financing in 2008; and on the question about the reasons for not having obtained a credit, several companies answered that the reason was that they had already been granted a loan previously⁹. From that perspective, the census information indicates the minimum number of companies of the private and government sector that had financing from external sources in that year. It is also important to note that the year the census was taken was 2008, since this was when the global instability started that was transferred to lower economic growth and a recession in 2009. That is, the amount of companies that have bank credit could be slightly higher. It also does not consider that entrepreneurs could have used their personal credit cards to finance their companies.¹⁰

The banks and the authorities have recognized the need to boost credit to MIPYMES (micro, small and medium-size companies). Thus, in 2010 and 2011, they continued to work jointly to modify diverse regulations to promote the granting of bank credit directed to this segment, asking for fewer requirements and increasing the amount of the official support for the constitution of guarantees for first credit losses that might be granted to companies of smaller size.

Among the conditions for granting credit that were eased and are of note was the elimination of the requirement of having to present the Tax ID in the application for credit and greater flexibility in the documentation required according to the credit amount. For the latter, the use of bank statements instead of the cash flows projected for credits lower than 2 million UDIS is now permitted and of audited balance sheets for financing that is lower than 4 million UDIS. Another measure of support consisted in the increase in public funds destined for granting the guarantees of first losses.¹¹ Thus, the MBA (Mexican Bank Association) announced that the number of MIPYMES estimated attended by the commercial banks at the close of 2010 was 521,000.¹²

Chart 13

Bank credit vs. non-bank financing: How do the companies that obtained them differ?

- **Property:** Trading corporations tend more to turn to bank credit than to non-bank financing.
- **Seniority:** The companies with more time operating on the market tend to obtain more bank credit.
- **The income and the value of fixed assets tend to be higher among the companies that have bank credit.**
- **The companies with bank credit also had more employees, paid higher salaries and were more productive.**
- **Companies that obtain bank credit show more characteristics that suggest formality; they employ fewer non-paid workers or those paid with commissions, and pay more taxes.**

Source: BBVA Research with 2009 Economic Census data.

On the other hand, when examining the differences existing among the companies that received bank credit and those that obtained financing from non-bank sources, the result is that the latter are significantly in terms of their seniority or the number of years in operation, income, fixed assets and employment per economic unit, among other indicators. From the above, it can be inferred that the companies that have a recognized payment capacity, measured through different characteristics such as generating high productivity indexes, obtain high revenues, have guarantees, and create jobs; they are those that imply a lower credit risk. As a whole, these advantages or strengths are determining factors that facilitate bank credit and suggest that ex ante there is adequate monitoring

⁹ Among the large companies, other reasons given for not having obtained credit in 2008 include being in a situation of losses or in suspension of payments, being companies with foreign capital and/or having credit contracted by the head office abroad, be in-bond manufacturing companies, or being able to have available resources forthcoming from the United States and/or by public organizations. Source INEGI.

¹⁰ Outlook for the PYMEs in Mexico and Latin America, third measurement. Visa November 2010.

¹¹ For further details see Werner (2010).

¹² Source: Presentations of linkage of the Mexican Bank Association before different entrepreneurial forums. Estimated figure by the MBA with data on credit contracts of the CNBV.

of the risks in the granting of commercial credit (Chart 13)¹³. Also, all the elements that permit quantifying and delimiting the risk of granting credit to companies will allow for the economic units to have financing in the long term to support the expansion of the production plant and, therefore, the economic growth process of the country.¹⁴

In order to quantify the impact that bank credit could have on economic growth and on progress in the measures to increase credit directed at the MIPYMES, it is recommendable to have an official survey that could be taken with greater frequency than the Economic Census (since the next survey will be taken in 2014). Also, it is recommended that the new survey take questions from the census questionnaire so as to obtain comparable figures to those already available, and, in any case, that it be completed with additional questions that would allow for accurately defining the information. In this way, a timely instrument will be available to make better decisions as to the financial inclusion of both the companies and their employees.

There are other measures that can boost credit to companies and help reduce credit risk. A couple of these are the universalization of the credit bureau and the improvement of the guarantee registries. The universalization of the credit bureau is a fundamental element for expanding risk monitoring to more companies and sectors, in addition to permitting that it continue to be efficient¹⁵. In turn, in the census data, the diminishing of the times, costs and processes to register the guarantees stand out as an important element so that more micro-companies, which tend to have shorter historical credit records because they have been in operation on the market less time, can use their fixed assets, real estate and personal property as collateral to request bank credit (see Chart 2: The registration of real estate guarantees). Such reforms, in addition, will diminish the current need for allocating public funds to the granting of credit guarantees or to allow allocating said funds to companies or investment projects on infrastructure or in the agricultural sector.

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¹³ This result coincided with the finding of evidence of an efficient monitoring of ex ante risks in the granting of credit to micro-companies in Hernandez-Trillo, Pagan and Paxton (2005).

¹⁴ It is important to recall that the data examined, of a transversal cut, are not adequate for establishing the causality between financing and the characteristics of the companies, so that these findings can also be interpreted as indicative of the positive impact that bank credit has in economic growth.

¹⁵ In *Mexico Banking Outlook* March 2011, three proposals are presented and analyzed to improve the quality and quantity of the information of the Credit Information Associations in Mexico.

Inset 2: The registration of property guarantees

The conditions prevailing in an economy with respect to the ease and speed in registering loan guarantees are essential for the proper functioning of the credit markets. International experience suggests that in countries where it is easy for companies to use their different assets as collateral to obtain commercial loans the conditions for granting such financing are more favorable¹⁶. In addition to having assets, lenders are required to accept them as guarantee. It is for this reason that many countries have undertaken reforms that aim to expand the categories of assets that can be used as collateral (removing unnecessary restrictions on constituting such guarantees or allowing the use of different properties for such purposes) and to improve the systems for their registration, consultation, and/or execution.

This article briefly examines the emergence of property guarantees in Mexico, the creation of the Sole Registry of Property Guarantees (RUG for Registro Único de Garantías Mobiliarias), the progress registered to date, and certain limitations still to be addressed. The analysis concludes with a couple of proposals to improve the institutional framework for registering guarantees in Mexico.

First steps for establishing property guarantees in Mexico

A number of legal reforms have been undertaken in Mexico to improve the institutional framework to allow the use of non-real estate property as collateral. When non-real estate property is used to provide guaranteed loans, there are different risks associated with the mobility of the properties for both the creditor as well as third parties with a legal interest in them. On the one hand, the debtor could possibly not report on other loans secured with the same property. Moreover, in the event that the debtor guaranteed several loans with the same property and disclosed such information, there is the possibility of confusion arising as to which lender has priority or precedence over the property if the debtor defaults on his loan. On the other hand, an opportunistic debtor can sell the property pledged as collateral to a third party who without knowing so “inherits” the obligation to pay the credit. By the same token, a creditor can opportunistically make a claim for conditions other than those agreed upon. The possibility that such situations could materialize can be minimized by creating a mechanism that would provide public information about the existence of loans guaranteed by the property. This mechanism takes the form of a registry whose purpose is to disclose information concerning loan guarantees and establish priority among creditors in accordance with the

order in which the corresponding data were registered.

The pledged collateral without transfer of ownership was introduced into the Mexican legal system through the 2000 reform to the General Law on Negotiable Instruments and Credit Operations (LGTOC for Ley General de Títulos y Operaciones de Crédito) which provided this legal category with: a) greater flexibility for establishing such collateral, b) improvement through the registry data disclosure (which allows the guaranteed debtor to retain possession of the property put up as collateral and repay the loan with the proceeds derived from its use, modification, or sale), and c) the possibility of extrajudicial enforcement through an agreement between the parties involved. Despite these benefits, according to figures from the National Banking and Securities Commission (the CNBV for Comisión Nacional Bancaria y de Valores), in 2009 (almost a decade after the implementation of pledged collateral without transfer of ownership was introduced), 85% of the banks' collateral secured loan portfolio was based on real estate (mortgages)¹⁷.

One aspect of the institutional framework that is likely to limit the expected positive impact of the introduction of the pledged collateral without transfer of ownership is that even though the Registro Público de Comercio (Public Commercial Registry) is under the responsibility of the federal government and should, in principle, be operated exclusively and centrally by the federal government, for practical reasons and by tradition it has functioned as a section of the Registros Públicos de la Propiedad (Public Registries of Real Estate Property), and that because this is a civil matter, it is administered on a state or municipal level, as a decentralized agency and with operating conditions and quality levels in providing services that are very different from one state to another.

This situation has persisted because the number of states that have signed agreements to incorporate their information into the Integral Registry Management System (SIGER for Sistema Integral de Gestión Registral), created in the Ministry of the Economy to systematize and standardize the information from local public registries, is still small. According to a recent study (Baley, 2009), between 2000 and 2008 around 475,000 documents registered in nine states (Baja California, Campeche, Colima, State of Mexico, Guanajuato, Jalisco, Nuevo Leon, Veracruz, and Tlaxcala) were registered with the SIGER. Of that total, liens and pledged collateral without transfer of ownership accounted for only 6.7% and 0.5%, respectively.

¹⁶ Secured Transactions Systems and Collateral Registries. Investment Climate Advisory Services, World Bank Group. January 2010.

¹⁷ 17A more complete analysis of the economic importance of the registries of guarantees for the granting of credit is presented in “El Registro de Garantías Mobiliarias y su Impacto en el Mercado de Crédito Garantizado” Baley, I. (2009), Autonomous Technological Institute of Mexico, thesis to obtain a BA in Economics and a BA in Applied Mathematics.

The birth of the Sole Registry of Property Guarantees (RUG for Registro Único de Garantías Mobiliarias): its advantages and development

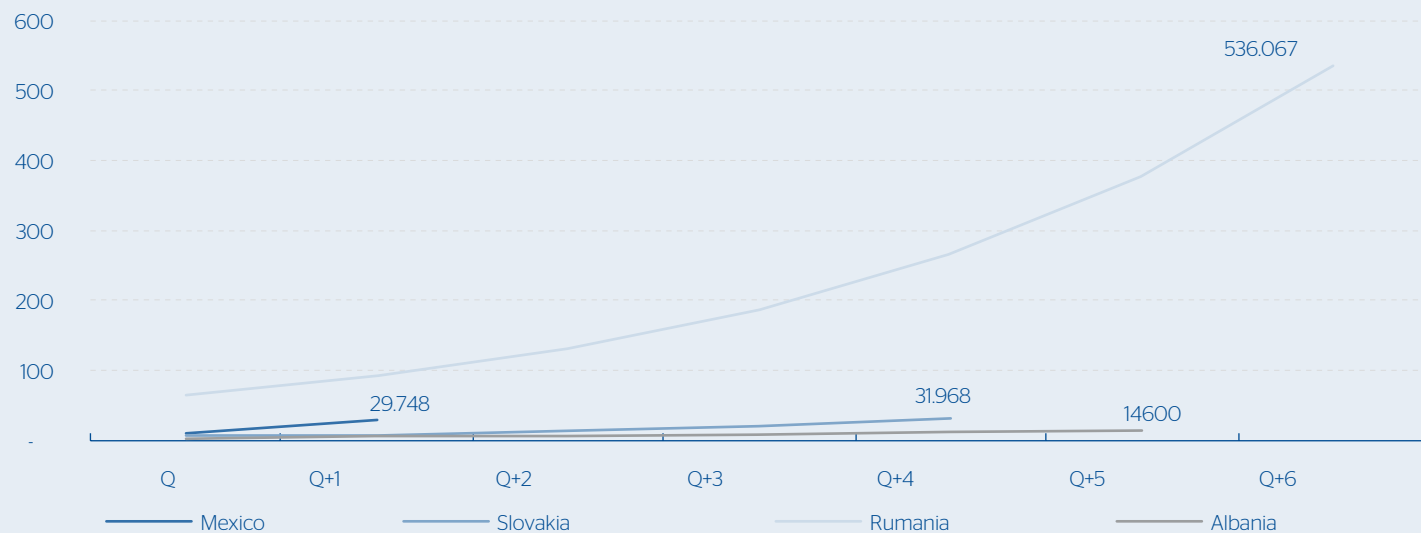
The reform of the Commercial Code that was adopted in April 2009 created the Sole Registry of Property Guarantees (RUG), as a mechanism for providing information on the establishment of property guarantees and to facilitate the identification of priority claims among creditors, and make the registration procedure more efficient. Through the RUG, which began operations on October 7, 2010, different acts and property guarantee contracts can be registered¹⁸ in its Internet site. To do so, it is only necessary to sign up as a registered user and have the basic information on the creditor, the debtor, and the guarantee available in order to enter the system.¹⁹

On July 31, 2011 (that is, less than a year after the RUG went into effect), documentation on 29,748 guarantees had been entered into the new system (2.8 times more property guarantees than in the same period last year), generating savings of more than 21.96 billion pesos for debtors, with a guaranteed value of over 1.1 trillion pesos²⁰. Progress in the

number of guarantees registered in Mexico compares very favorably with the corresponding data from other countries that have implemented such reforms, such as Albania and Slovakia, even though the growth is less dynamic than in the successful case of Romania (Graph 34). In addition, the federal government has announced that, among other measures to encourage private sector financing, in 2012 efforts will be made to expand the use of the RUG to promote the granting of loans to businesses, especially small and medium-size enterprises, and introduce modifications to the contractual procedures involved in pledged collateral without transfer of ownership and guarantee trust, in order to provide greater legal certainty to credit institutions and increase the flows of guaranteed credit²¹. The international experience suggests that to expand the use of guarantee registries a key element is that they be managed through a single and centralized platform so that the registered information be available through a sole source. For this reason, it is very important that all the registries inherited from the previous systems be gradually merged with the RUG unless they are already functioning efficiently.²²

Graph 34

Number of property guarantees registered since the year the new property guarantee system began in Mexico and three selected countries that have implemented similar reforms



Source: BBVA Research with data from different sources; for México, "Facilitan a empresarios acceso a crédito en el Distrito Federal", Department of the Economy, Press Release No. 241, October 24, 2012; for Rumania and Slovakia, Secured Transactions Systems and Collateral Registries, International Finance Corporation, January 2010; and for Albania, Unlocking Dead Capital, M. Safavian, M. Fleisig, H. and J. Steinbuks (2006), World Bank Viewpoint Note Number 307, March 2006, and Survey of Charges Registries in the Balkans, European Bank for Reconstruction and Development, 2004.

¹⁸ Pledged collateral without transfer of ownership, fixed asset loans, working capital loans, industrial mortgages, lease financing, commercial sales of non-real estate property, conditional sale clause, guarantee trust, any lien and other special privileges under the Commerce Code or other commercial laws.

¹⁹ For more details see www.rug.gob.mx

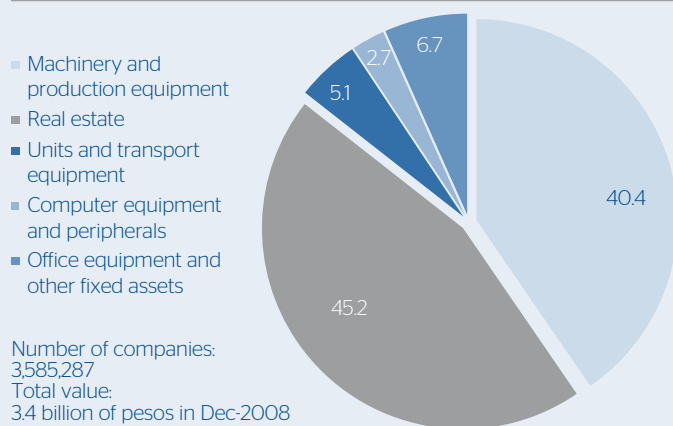
²⁰ For more details, see Fifth State of the Nation Report, President of the Republic, in September 2011 or "Facilitan a empresarios acceso a crédito en el Distrito Federal," Department of the Economy, Press Release No. 241, October 24, 2012.

²¹ For more details, see Criterios Generales de Política Económica 2012, Finance Ministry, September 1, 2012.

²² See "Secured Transactions and Collateral Registries Systems", op cit, for more details.

The 2009 Economic Census provides useful information to measure the importance of improving the institutional framework for registering property guarantees. According to this source, the value of the fixed assets of private companies and government-owned enterprises that carried out operations in 2008 was on the order of 3.4 trillion pesos in the year. Real estate accounted for 45.2% of the total value; production machinery and equipment, 40.4%; and other categories of moveable fixed assets (transportation vehicles and equipment, computer equipment and peripherals, and office equipment and other fixed assets) the remaining 14.4% (Graph 35). By way of reference to gauge the census data, it should be noted that this asset structure is more inclined toward the possession of real estate than what was reported by the World Bank (WB) for a sample of 60 low and middle-income countries undertaken in the 2000-2005 period, for which the corresponding figures are 22% for real estate and 44% for production machinery and equipment²³. But these figures are not strictly comparable because the WB survey includes accounts receivable as part of collateralized assets, with a weight of 34%, and such information is not included in the Mexican economic census, even though the latter does contain three more asset categories than the World Bank survey.

Graph 35
Value of companies' fixed assets at December 31, 2008 (breakdown by type of asset)

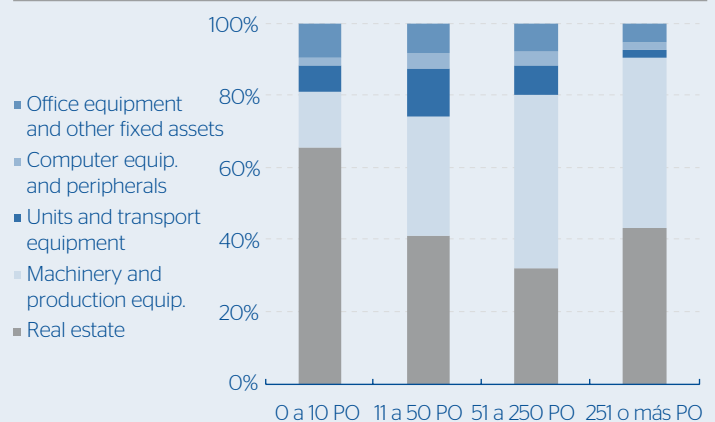


* Number of private companies and state owned enterprises that completed the questionnaire on credit and bank accounts and reported the value of their fixed assets as a number different from zero.
Source: BBVA Research with 2009

However, an analysis of census data from Mexico by company size, defined according to the number of employees, show differences in the structure of the relevant assets (Graph 36). For companies with 11 or more employees, real estate accounts for less than 45% of their assets. In contrast, among micro-enterprises employing 10 or fewer workers, real estate with a value of around 393 billion pesos, represents more than 65% of their total fixed assets²⁴. As a possible explanation for this phenomenon, it should be recalled that among micro-enterprises there is a higher percentage of new companies than in the rest of the segments, companies that could still be in a stage of adaptation or equipping of their facilities. Another possible explanation is that their production processes of goods and services use less sophisticated or specialized machinery and equipment.

This latter data, coupled with the fact that the micro segment represents 95% of the country's economic units, indicates that efforts to streamline and expedite the institutional framework of guarantees for the benefit of smaller companies should not come at the expense of modernizing the Public Property Registries or the regulation and promotion of competition in notarial and commercial notary public activities.

Graph 36
Value of companies' fixed assets at December 31, 2008 (breakdown by number of persons employed by the company)



Note: Data were reported from 3,485,287 private sector companies and government-owned enterprises that completed the questionnaire and reported the value of their fixed assets as a number different from zero.
PO: employees
Source: BBVA Research with 2009 Economic Census data

²³ See "Unlocking Dead Capital", M. Safavian, M., Fleisig, H., and J. Steinbuks, World Bank Viewpoint Note Number 307, March 2006.

²⁴ It should be noted that the relative importance of real estate assets among companies that can serve as collateral does not substantially change if stocks or inventory of goods, inputs and materials used for providing services, manufactured goods, unfinished goods, and other goods are added to the universe of fixed assets, since their value at December 2008 amounted to 505 trillion pesos and their breakdown was as follows: 13% in companies with 10 or fewer employees, 14% in companies with 11 to 50 employees, 26% in companies with 51 to 250 employees, and 48% in companies with 251 or more employees.

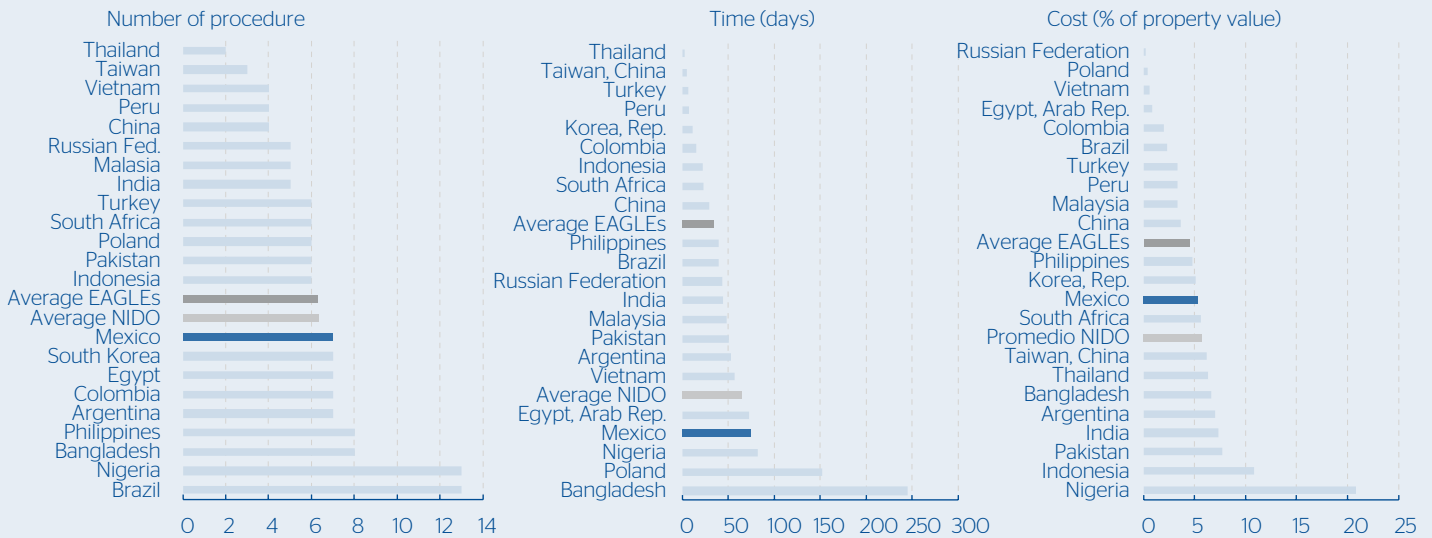
Some limitations on the application of the RUG come from the Public Registry

Indeed, the time and cost of registering real estate properties in Mexico compares unfavorably with other countries. According to the 2012 World Bank Doing Business Report, registering a real estate property in Mexico requires seven procedures and takes 74 days, which places it 133rd and 143rd in a sample of 183 countries. In turn, the cost of registering such property in Mexico accounts for 5.3% of the property value, which places it in 101st place among 183 countries. It should be added that the comparison of these indicators on the institutional framework for registering real estate in Mexico with respect to the group of developed countries that, due to the size of their economy and growth rate, BBVA Research has concluded that in the next 10 years, will significantly contribute to the growth of the global economy (EAGLEs), confirms the importance of having faster and less costly procedures for registering property guarantees in Mexico to improve the country's competitiveness (Graph 37)

In 2007 the National Program for Public Property Registries was launched, which aims to provide the country with registry agencies that would adopt a national standardized registration system that meets international standards of quality, service, efficiency and effectiveness in the field, including on a multidisciplinary level, for users of registry services. In 2009, 22 states had signed the respective cooperation agreement with the federal government, even though there were great differences among them in terms of the degree of progress in their functioning²⁵. More recently, in February 2011, this program was linked to the Land Registry Modernization Program and the National Statistics Institute (INEGI) was included to form part of the Evaluation Committee and to prepare the country's Land Value Assessment Registry²⁶, even though no updated details are offered on the states listed and the progress made in implementation. In conclusion, even though this key step has been taken in the adoption of this reform, as illustrated by the experience of the RUG, it is very important to ensure that all the states adopt a common standard.

Graph 37

Characteristics of property registries in EAGLEs and EAGLEs NEST economies from BBVA Research in 2010



Source: BBVA Research with data from the World Bank 2012 Doing Business Report. For more details on the methodology for classifying the economies of the countries corresponding to the EAGLEs and EAGLEs NEST groups, see Garcia-Herrero, A., Navia, D. and M. Nigrinis (2011), "Las Economías Emergentes que Liderarán el Crecimiento. EAGLEs," ICE La Nueva Geografía de la Internacionalización, March-April 2011. No. 859. The countries that currently comprise the EAGLEs group are China, India, Brazil, Indonesia, South Korea, Russia, Mexico, Egypt, Taiwan, and Turkey. The nations currently in the EAGLE NEST group are Thailand, Nigeria, Poland, Colombia, South Africa, Malaysia, Vietnam, Pakistan, Bangladesh, Argentina, Philippines, and Peru. New information on and changes in these classifications are available at www.bbva.com

²⁵ For more details, see "Programa para la modernización de los registros públicos de propiedad de los estados: avances del programa en 2009," Legal Counsel of the Federal Executive branch, October 15, 2010. Available at: <http://www.cjef.gob.mx/index.php/modernizacion-de-los-registros-publicos-de-la-propiedad/avances-en-el-2009-y-recursos-consolidados>.

²⁶ 26Diario Oficial de la Federación (Official Gazette of the Federation), February 24, 2011. For more details see "Modernización de los Registros Públicos de la Propiedad de los Estados: Ejercicio Fiscal 2011," Legal Counsel of the Federal Executive Branch, May 3, 2011. Available at: <http://www.cjef.gob.mx/index.php/modernizacion-de-los-registros-publicos-de-la-propiedad/ejercicio-fiscal-2011>

In relation to notarial services, a recent study by the Instituto Mexicano para la Competitividad y la Comisión Federal de Competencia (Mexican Institute for Competitiveness and Federal Commission on Competition) concluded that the design of current regulations in Mexico, “appears to adequately address the objectives of quality service, but often sets unnecessary restrictions to entry and competition among notaries that make it difficult to access their services”. The study recommends: 1) the elimination of these restrictions, including limits on the number of notaries and geographical restrictions, as the most effective way to boost the competitiveness of the Mexican notarial system and 2) implement reforms to remove the obligation of hiring the services of a notary public in those relatively simple and standard operations that users can handle on their own without jeopardizing the legal certainty of the corresponding procedure as well as those in which they hire experienced lawyers to advise or represent them.²⁷

The task of modernizing the Public Registries is still pending

In conclusion, during the past decade Mexico has embarked on ambitious reforms to improve the institutional framework for registering guarantees, both real estate and non-real estate. But very uneven progress has been registered between states and it can be said that modernization has occurred slowly. It is therefore very important that these advances be consolidated on a more generalized level and that new systems operate fully throughout the entire country, in order to achieve the gains in efficiency associated with their adoption. While the reforms to facilitate and lower the cost of registering property guarantees benefit small and medium-size companies, the most recent census data reveals that the reforms on registering real estate property guarantees are particularly important for improving access to credit among micro-enterprises. In this regard, efforts should be focused so that both the registration of real estate collateral as well as non-real estate guarantees function as efficiently as possible.

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²⁷ El mercado de servicios notariales en México.(The Mexican market of Notarial Services) Mexican Institute for Competitiveness and the Federal Commission on Competition, April 2011. Available at: <http://www.cfc.gob.mx/index.php/HOME-carousel/mercado-de-notarios-511.html>

3.b Bancarization measured through bank payroll accounts

In this section of **Mexico Banking Outlook** we will describe what the bank payroll instrument is and its potential to encourage salaried workers to use banking services. With this in mind, we will present some statistics on the labor market and the number of payroll account contracts in order to try to infer how many workers may already use this type of account and how many still do not do so. The main conclusion of this section is that despite the potential importance of this instrument, the existing statistics so far are not sufficient to accurately answer these questions.

Bank payroll accounts facilitate access to financial services

Bank payroll accounts are an important instrument for increasing the population's access to banking services. With this instrument a company opens a bank account for each of their workers for the purpose of depositing the payment of their salaries or wages. For its part, the bank provides each employee with a debit card so that once the salary or wage is deposited, the worker can make the desired cash withdrawal at an ATM, buy goods and services from businesses that accept debit cards as a means of payment, or pay for such purchases through recurring charges to the account through the use of direct debit payments, also known as pre-authorized debit or pre-authorized payments. That is, all workers with a bank payroll account have access to banking services through an account that receives deposits and that is also a modern payment instrument.

Bank payroll accounts allow for establishing a long-term relationship between banks and employees who have this instrument. This relationship makes it easier for banks to know their clients and offer them other financial services in accordance with their characteristics and needs. This deposit account familiarizes the beneficiary with the use of efficient electronic means of payment and makes it possible for the client to obtain credit by providing the bank where the account is held with information on his or her recurring income and credit bureaus with data on the payments for different products and services made via direct debit. In addition to its advantages as a means of payment, this instrument allows the account holder to generate a history of his or her income and payments that facilitate the placement of other products. One of them is payroll credit, a consumer loan that banks grant to customers who have this type of bank account. This credit is proportional to the customer's income and the payments are automatically deducted from the account in which his or her salary or wages are deposited.

Bancarization potential through bank payroll accounts in Mexico

To determine how many individuals can obtain access to financial services through payroll accounts in Mexico, a first reference point is to determine the number of people who receive a fixed salary. According to data from Mexico's National Survey on Jobs and Employment (ENOE for Encuesta Nacional de Ocupación y Empleo), the employed and wage-earning economically active population in Mexico is close to 28.5 million people.²⁸

This population of 28.5 million people can be broken down by the type of institution in which they work in three categories: i) companies, businesses and private institutions, ii) public institutions, and iii) the household sector²⁹ (Graph 38). The largest category corresponds to salaried workers who are employed in private sector institutions, companies, and businesses, and which amount to nearly 17.3 million people. Each of the other two remaining categories is of a similar size, and involve close to six million people.

It should be mentioned that it is unlikely that those employed in the household sector, most of whom work for companies in the informal economy or in homes, are paid through a bank payroll account. This is largely due to two factors. The first is that the boss or employer himself must have a bank account. The other is that the deposit that the boss or employer makes into these accounts can be considered proof of a formal employer-employee relationship and therefore could create employer

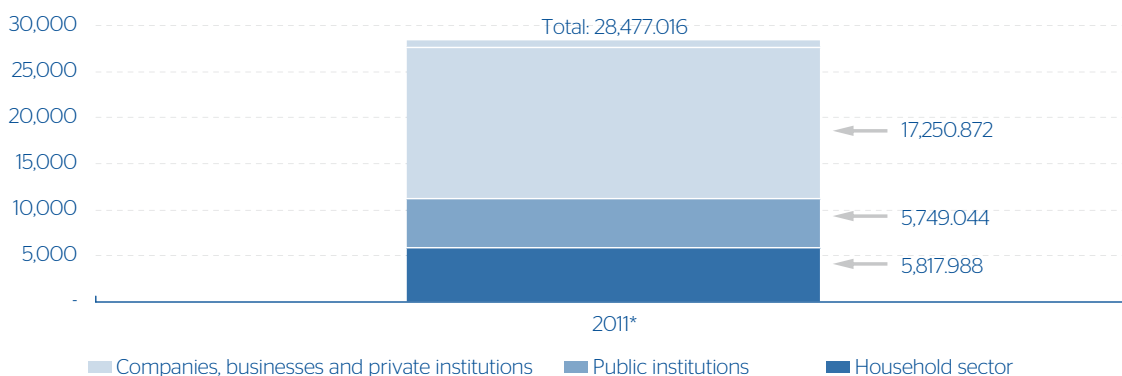
²⁸ As a reference point for this figure, it should be noted that according to statistics from the National Accounts System of Mexico contained in the Public Sector Macroeconomic Indicators, in 2009 (the latest data available) there were about 35 million paid jobs in the country.

²⁹ The household sector includes four categories in the classification used by the ENOE: i) informal Sector, ii) paid domestic work, ii) subsistence agriculture, and iv) unspecified and special situations.

requirements to pay benefits and possibly even tax obligations. To the extent that this is precisely what a company in the informal economy or a family seeks to avoid, then it can be argued that in the short term the potential to increase access to banking services through payroll accounts is limited to workers employed in formal private sector companies and in the public sector, be they newly hired workers or those who have not obtained an account for some specific reason.

Graph 38

Breakdown of the employed and wage earning economically active population by type of economic unit in 2011*



Note: Annual average number of people. As the number of salaried employees in private companies and public institutions are not reported separately in the basic statistics on wage earners in the ENOE, the data are estimated as a percentage of the respective category of the section "paid workers" contained in these tables.

* I and II quarter of 2011. These data are already adjusted by the 2010 National Population and Housing Census.

Source: BBVA Research with information from the Leading Indicators on Jobs and Employment, ENOE, INEGI

The above consideration indicates that the condition of informality is a restrictive factor for bancarization even though in Mexico basic payroll accounts were created that, in principle, are a good and low price instrument for workers to have their wages deposited (see Box 3: Basic Deposit Accounts). The remainder of this section of Mexico Banking Outlook is devoted to analyzing the category of workers in the formal private sector and the following edition to the category of public sector workers.

Workers in the formal private sector and the number of payroll accounts

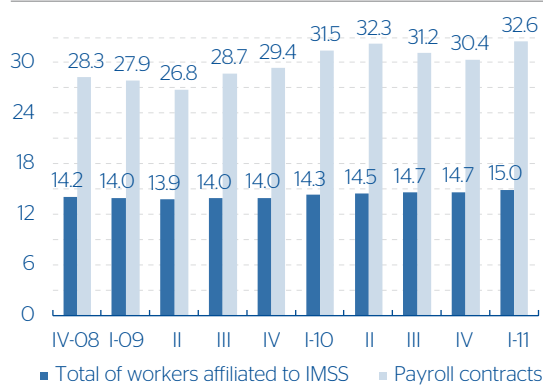
While official data on jobs and employment suggest that the number of employees in the private sector is around 17 million, not all of them work for formal private institutions, companies, or businesses. To determine how many of them do indeed work in formal private institutions, companies, and businesses it is necessary to consult the Mexican Social Security Institute (IMSS) databases. It is important to note that although it is widely believed that IMSS data represent a census of formal private sector employment in Mexico, they also include certain categories of public sector workers who are employed in different divisions of the three branches of government, and which have chosen to affiliate their workforce to the Institute. However, given this consideration, in principle, the possibility can be considered that all workers employed in formal private sector companies and who are affiliated to the IMSS could have a bank payroll account. During 2011, the total number of workers affiliated to the IMSS has fluctuated at around 15 million (Graph 39).

Once the category of private sector workers who can receive their wages through bank accounts is defined, in order to determine what the bancarization potential is, it is necessary to subtract from that total the number of employees who already have a bank payroll account. However, in Mexico the official statistics that are available are imprecise, since there are no data to distinguish between the number of contracts and the number of customers. This is the case with the quarterly data issued by the Banco de México on the number of payroll contracts, which indicates that since the third quarter of 2009 the number of payroll account contracts is more than twice the total number of workers affiliated to the IMSS (Graphs 39 and 40). The problem of the lack of reliable data on the number of individuals with payroll accounts is also relevant when considering that from the

fourth quarter of 2008 (4Q08) to the first quarter of 2011 the total number of workers affiliated to the IMSS increased by slightly more than 825,000, while in that same time frame, the number of payroll contracts rose by 4.2 million.

Graph 39

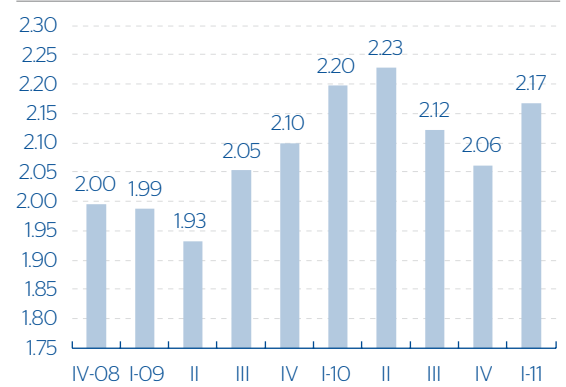
Total number of workers affiliated to the IMSS and bank payroll accounts
Figures in millions



Source: BBVA Research with Banco de México and STPS data

Graph 40

Ratio of payroll account contracts to the total number of workers affiliated to the IMSS



Source: BBVA Research with Banco de México data

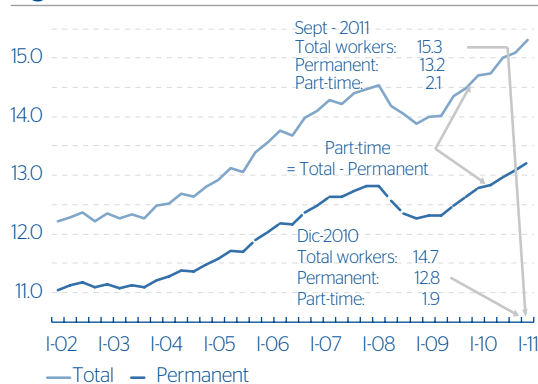
The imprecisions in the available statistics may be due to several factors, such as the high turnover of formal workers, which leads to the duplicity of payroll cards or the existence of large number of inactive accounts corresponding to workers who left the formal sector to enter the informal economy or who stopped working altogether. These shortcomings and the fact that the existing statistics are not weeded out in order that they exclusively reflect active payroll accounts are the factors that limit the use of the information available on the number of payroll account contracts in order to estimate the number of salaried workers with access to banking services.

Number of workers employed in the formal sector by company size

The lack of statistics on the number of workers with active bank payroll account contracts makes it impossible to estimate how far bancarization has advanced in Mexico in recent years through the use of these accounts. For this same reason, it is also possible to identify what percentage of workers remains to be attended to or be given access to banking services through this banking product. More concretely, the previously described situation indicates that there is no way to accurately identify to what extent bancarization has advanced in formal economy employment from December 2010 to September 2011, a period in which a total of 577,000 jobs were created (Graph 41).

Graph 41

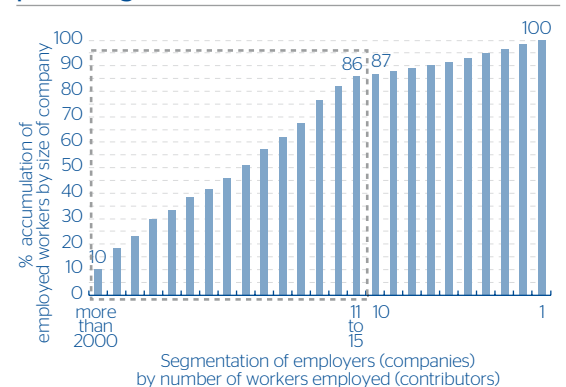
Workers affiliated to the IMSS: Total, Full-time and part-time
Figures in millions of workers



Source: BBVA Research with STPS data

Graph 42

Number of workers registered in the IMSS by company size
Figures: Dec-2010, accumulated percentages; %



Source: BBVA Research with IMSS Memoria Estadística (Statistical Memory) 2010 data

An alternative for having a more accurate idea of the potential number of private sector workers who have access to banking services or could have it a relatively short period of time is to consider the number of workers affiliated to the IMSS by company size. The IMSS itself provides information on the number of affiliated workers according to company size or employer, as this is called. Size is measured by the number of workers and the data is stratified. The hypothesis is the belief that the larger a formal sector firm is, the more likely it will be that its workers will have a bank payroll account, since it facilitates administrative controls for the company, provides transparency in the payment of wages and salaries, and makes it easy to document withholding taxes, and other relevant administrative aspects.

The previous hypothesis is plausible considering that according to the 2009 Economic Census, in 2008 the percentage of companies that had a bank account (which would be a prerequisite for depositing wages in bank payroll accounts) was 91% among firms with 51 to 250 employees. In the case of companies with 251 or more employees, the corresponding figure was 95%.³⁰

Based on the above assumptions, the following considerations can be made on the basis of company size. For example, if we assume that all the workers employed in formal sector companies with 51 or more employees have a payroll account or could have one in a short period of time, then 68% of workers affiliated to the IMSS already have access to banking services with a payroll account or could have access in a short period of time. That is, this case scenario involves about 10 million workers. Now, if we believe that the previous case scenario applies to formal sector companies that have, for example, 16 or more workers, then the percentage of employees with access to banking services or that could have access in a short period of time increases to 82% (about 12 million) of the total number of workers affiliated to the IMSS. This percentage rises to 86% (about 13 million) if we consider companies that have 11 or more workers, as shown in Graph 42.

Chart 14 indicates, based on the assumptions of the percentage of the total number of workers with access to banking services through a payroll account and on the basis of company size, the number of those employed in the private sector who still do not have access to banking services. Thus, if only those who work in formal sector companies with 51 workers or more had a payroll account, then in September 2011 just under five million workers in the formal private sector would still not have access to banking services through this deposit product.

Chart 14

Estimate of the number of private sector workers who have a payroll account based on company size (number of employees)

Company size	Assumed percentage of workers with payroll account, %	Total number of workers affiliated to the IMSS		Estimate of the number of workers with payroll accounts (assumed percentage)			Workers still without access to banking services	
		Dec.-10	Sept.-11	Dec.-10	Sept.-11	Increase Sept.-11 - Dec.-10	Dec.-10	Sept.-11
51 or more workers	67.8			9,992,895	10,384,011	391,117	4,745,888	4,931,640
26 or more workers	76.5			11,275,169	11,716,473	441,304	3,463,614	3,599,178
16 or more workers	82.2			12,115,280	12,589,465	474,185	2,623,503	2,726,186
11 or more workers	86.1			12,690,092	13,186,776	496,683	2,048,691	2,128,875
Total number of workers		14,738,783	15,315,651					

Source: BBVA Research with IMSS data

Another alternative for estimating the number of workers in the formal private sector who have a payroll account is by using data from the 2009 Economic Census on companies holding bank accounts. This information is relevant due to the fact that it is a prerequisite that a company have a bank account for it to be able, in turn, to pay the salaries of their workers through bank accounts.

³⁰ Source: BBVA Research with 2009 Economic Census data. The percentage of enterprises that had a bank account in 2008 was 76% among companies with 11 to 50 employees and 17% among businesses with 10 or fewer employees.

According to the questionnaire on credit and bank accounts from the economic census, in 2008 the number of businesses that had a bank account was 668,574, which represent 19.4% of the total in the private sector and among government-owned enterprises that conducted operations in that year. The linear extrapolation of the number of salaried workers in all business to those that had a bank account suggests a population of salaried workers with access to financial services through payroll accounts, or who could have them in a short period of time, of almost 10.5 million employees (Chart 15). This approximation also would suggest that the number of formal sector employees that currently remain without access to banking services through a bank payroll account is about five million.

Chart 15

Number of economic units by size in 2008 that had bank accounts and number of workers with access to banking services by company size

	A	B	C	D	E	F	G	H = (C*G) / 100
	Number of economic units (EU)							
	Economic Units		Paid workers		Having a bank account	Proportion of Economic Units, %		Number of workers with Access to banking services
Employed workers	Number	%	Number	%	/ Total	Bank accounts / Total	Bank accounts / Segment	
National total	3,437,645	100.0	14,121,990	100.0	668,574	19.4	19.4	10,497,850
0 a 10	3,287,048	95.6	2,921,801	20.7	550,296	16.0	16.7	489,149
11 a 50	124,165	3.6	2,708,172	19.2	94,037	2.7	75.7	2,051,048
51 a 250	21,447	0.6	3,105,876	22.0	19,488	0.6	90.9	2,822,181
251 y más	4,985	0.1	5,386,141	38.1	4,753	0.1	95.3	5,135,472

Source: BBVA Research with 2009 Economic Census data.

Conclusions: The importance of having better statistics on active payroll accounts allows for improved measuring of progress in bancarization

The number of payroll contracts has posted strong growth in recent years. This has coincided with an effort by the authorities and banks to promote bancarization, such as through the creation of basic deposit accounts. However, the nature of the information available that has been discussed here does not allow for clearly identifying the number of people who actually already have active bank payroll accounts. A better approximation of this data could be made from a survey undertaken among workers.

While this is a limiting factor in determining the number of private sector salaried workers who still do not have access to bank services through payroll accounts, based on data from companies that already have bank accounts, it is estimated that there is still a potential client base on the order of 5 million people who could have access to banking services with an account of this type.

The availability of more complete information on the number and use of payroll accounts will quantify pending efforts at bancarization through this instrument. In addition, it will help establish strategies to follow and to identify possible improvements to the product. As exemplified by this case of payroll accounts, this requires the elaboration of a series of pertinent statistics to measure the progress in bancarization efforts that have been made in Mexico, as well as to quantify the different segments of the population that yet to have access to banking services. This is one of the first tasks that could be adopted by the National Council for Financial Inclusion, created by the federal government.³¹

³¹ Diario Oficial de la Federación (Official Gazette of the Federation), October 3, 2011

Inset 3: Basic deposit accounts, some international experiences in the field and their importance as a means of bancarization

Importance and general characteristics of basic deposit accounts

Banks use product differentiation to compete with each other, and this consists of making a bank product, such as in the case of a deposit account, that have different attributes, characteristics, or integrated services. These features are designed to meet different customer profiles. It is also common for banking products to have differentiated prices, according to different features they offer and services that are integrated into the account.

The wide range of banking products, their various features and different prices make comparisons between banking products and institutions not an easy task for the customer. At the same time, the price of sophisticated products can be a factor that would exclude segments of the population with limited income. For these reasons, in many developed and developing countries basic accounts or accounts with minimum features have been introduced whose services are free of charge for the customer.

The introduction of basic accounts is an important part of efforts to improve transparency and protect consumers of

financial services. In addition, it is felt that such accounts are a mechanism that can promote bancarization and the creation of a financial culture among segments of the population with limited income. This is because they provide the customer with a standard savings product, easy to use, and whose main services are free of charge.

Basic accounts experience in other countries

Since 2000, in the United Kingdom financial authorities have required banks to offer basic accounts to the public, and at the end of 2009 there were 7.8 million basic bank accounts in the country.³² Meanwhile, the Financial Consumer Agency of Canada, on its website, offers information on various types of savings accounts that are equivalent to basic accounts and provide access to a wide range of services. For these types of accounts, Canadian banks offer not to charge fees if the client meets certain requirements (minimum balance, maximum number of ATM transactions in their own and other banks' teller machines).³³

In addition, in New Zealand banks do not charge commissions for opening standard savings accounts.

Chart 16

Basic Accounts: general aspects in some countries where they exist*

General aspects in the countries where they exist	Mexico
<p>South Africa Between 2005 and 2010, 3.7 million basic accounts (Mzansi) were opened, but only 58% of these are active</p>	<p>Main characteristics of basic accounts Types of basic accounts: 1) Basic payroll account (CBN, Cuenta Básica de Nómina); Basic account for the general public (CBPG).</p>
<p>Brazil In 2005 basic accounts were created and by 2010 the country had 10 million such accounts, with 57% of them active. The factors that spurred their growth were: 1) the government's social welfare and family assistance program, 2) extensive network of correspondent banks that provides multiple access points. A limiting factor has been the small amount of promotional efforts on the part of the private banks.</p>	<p>Minimum services for a basic account Basic accounts do not require a minimum opening balance. The minimum services that they provide apply equally to the CBN and the CBPG, and are: i) account opening, ii) providing a debit card, iii) deposit of resources into the account by any means; iv) cash withdrawals at the counter and the bank's own ATMs. v) payment for goods and services in affiliated businesses through the debit card vi) Balance consultations at the counter or at ATMs vii) direct debit payments for services; vii) account closure</p>
<p>India Basic accounts were introduced in 2006 and in 2010, about 58.7% of households in the country had an account and in 43% of households the accounts are active. The difference between these two figures can be attributed to customers' not knowing the benefits of such accounts.</p>	<p>Differences between the types of basic accounts The CBN does not require that a minimum monthly average balance be maintained, whereas banks can determine the amount of the average monthly balance required for a CBPG not to charge commissions</p>
<p>México Basic accounts emerged in 2007 in the Law for the Transparency and Regulation of Financial Services. According to the Banco de México, in June 2008 there were about 7.5 million basic accounts: 6 million payroll accounts and 1.5 million for the general public. In September 2011, it was reported that by that time there were a total of more than 16 million basic accounts.</p>	<p>Inactive basic accounts If a CBN (basic payroll account) does not receive deposits for 6 consecutive months the bank can turn it into a CBPG (basic account for the general public). Furthermore, if a CBPG does not maintain the required minimum average balance for 3 consecutive months, the bank may close the account and provide the client a check for the remaining funds.</p>
	<p>Maximum amount of deposits in the basic accounts The Credit Institutions Law stipulates that the combined total of monthly deposits should not be greater than 165 times the monthly minimum wage (US\$9,870.00 dollars in 2011).</p>

* For the case of South Africa see: M.Hanouch (2010), "Policy Innovations to Improve Access to Financial Services in Developing Countries: Learning from Case Studies in South Africa", Presentation, Workshop of Policy Innovations to Improve Access to Financial Services: Learning from Case Studies, Center for Global Development, July 2010. For the case of Brazil see: M. Nakane, M. (2010), "Policy Innovations to Improve Access to Financial Services: The Case of Brazil", presentation at the July 2010 seminar sponsored by the Center for Global Development. The case of India is documented by S. Varma (2010), "Financial Inclusion: The Case of India", which is also contained in the documents presented in July 2010 by the Center for Global Development.

³² See the website of the British Bankers' Association: www.bba.org.uk

³³ See the website of the Financial Consumer Agency of Canada: www.fcac-acfc.gc.ca

In developing countries such as Brazil, India, and South Africa, basic accounts have started to be offered to large segments of the population (Chart 16). To a large extent this has been done as a way to facilitate the access of large segments of the population to basic banking services. Some of the benefits provided to those holding this type of account include being able to receive deposits from third parties, withdrawing money from ATMs, making debit card payments, and having a savings instrument that allows them to meet contingencies.

Basic accounts in Mexico

The reforms to the Credit Institutions Law of June 2007 included the requirement for credit institutions to offer a basic bank deposit product, i.e., a basic account. Meanwhile, the Law for Transparency and Regulation of Financial Services of 2007 gives the Banco de México the authority to regulate, among other aspects, commissions and any other chargeable item applied by financial institutions to their customers. Given the new legal framework that was established in 2007, in July of that year the Banco de México issued the rules governing basic accounts, both for basic payroll accounts (CBN) as well as for basic accounts for the general public (CBPG), which entered into effect in January 2008. From the beginning of 2008 until September 2011 more than 16 million CBPG and CBN accounts had been opened, which in numerical terms represents 14.3% of the country's 112 million people.³⁴

A factor contributing to the rapid growth of these deposit accounts occurred when the rules for the operation of basic accounts entered into effect. This led most banks to adjust their preexisting products with the requirements established in the rules to be able to begin to offer them to the public.³⁵

Prospects for basic accounts in Mexico

The outlook for CBN (basic payroll accounts) are positive to the extent that it is an efficient electronic means of payment for private companies and public sector divisions and agencies that use them to meet their payrolls. In this sense, to the extent that formal employment in the country

increases, CBNs will also continue to grow. At the same time, the CBPG (basic accounts for the general public) will find that their expansion is related to the benefits and the usefulness perceived by the public or by the depositors who use them. In this sense, the more information that circulates on the different advantages of having a general basic account, the greater the percentage of the public that will use them, which, in turn, continues to boost bancarization among the population and a financial culture in the country.

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³⁴ Carstens, A. (2011), "Opening remarks for the 2011 AFI Global Policy Forum" Taking Stock. Setting Goals. Moving Forward." Cancun, Mexico, September 28, 2011.

³⁵ For more details on this point, see Negrin, J. L., de la Cruz, P. Le Thi, M. L. and D. Ocampo (2009) "Introduction of Basic Accounts in Mexico to Address the Issue of Access to the Banking system: Design and Expected Impact." Social Well-Being and Policy, Vol. 5, No. 1, First Semester 2009, 45-74.

3.c Use of bank services in government payments to persons (G2P)

1. Introduction

Due to the importance of the payments that the government makes, both due to the volume of the flows and to the number of receivers of government expenditures, there has been growing interest at a world level for making them through more efficient payment means. In the particular case of the payments made by the government to persons and individuals (as receivers of subsidies, employees, pensioners and suppliers), the migration toward electronic payment means that allows the direct payment to bank accounts of the beneficiaries provides diverse advantages over the traditional means such as cash and checks.³⁶

For the executors of the expenditures, electronic payments provide an alternative for reducing transaction and administrative costs associated with the registration and processing of information, which leads to an improvement in terms of more timely payments. From a supervisory standpoint, the incidence of deviations is reduced, helping to make the execution of the expenditures more transparent and facilitating their audit. In addition, electronic payment also provides advantages to the receivers by reducing the time and cost of receiving payments or benefits. Finally, the adoption of electronic payments means is a starting point for the population that does not use bank services to access other services offered by the formal financial system.

In a recent study made on the case of India,³⁷ it is estimated that the savings for the government between using the current system and one of electronic payments to manage the exchange of monetary flows with households is US\$22.4 billion (8% of the budget for the payment of subsidies and services in the 2008-2009 period, close to 1.7% of GDP). These savings are estimated based on the detection of three sources of inefficiency in the current payment modes: a) transaction costs (which generate between 15% and 20% of the losses); b) administrative and operating costs (between 5% and 10% of the losses); and c) leaks associated with the deviation of resources (between 75% and 80%). As a percentage of the payment flows destined for each function, the highest saving comes through the automation of the payment of the programs of poverty relief (28%), followed by the savings derived from the automation of incoming and outgoing social security flows (3%), while the savings associated with electronic payroll and pension payments, as well as the payment of personal taxes, represent 1% of their respective flows (Chart 17).

Chart 17

Estimated saving from the use of electronic payments in India (Billions of dollars, 2008-2009)

Type of payment to individuals	Estimated savings	Payment flows from the government	Savings as a % of the flow
Poverty relief programs	18.3	66.0	28%
Salaries and Pensions	0.8	97.0	1%
Social Security	2.9	89.0	3%
Taxes to individuals	0.4	44.0	1%
Total	22.4	296.0	8%

Source: BBVA Research based on information published in "Inclusive growth and financial security. The benefits of e-payments to Indian society". McKinsey & Company, Inc. November 2010.

In various countries, to encourage the process of electronic payments in substitution of payments in cash and checks, diverse legal modifications have been introduced that instruct the public sector institutions to make and receive payments through electronic transfers. For example, in the United

³⁶ For further details on better international practices in payments to the government, see "General Guidelines for the Development of Government Programs", World Bank, Draft, July 2011

³⁷ Ehrbeck, T., Lochan, R., Sinha, S., Tahliyani, N. and A. Zainulbhai (2010), "Inclusive growth and financial security. The benefits of e-payments to Indian society", McKinsey & Company, Inc. November 2010.

States, since 1996, it was established that all payments of federal agencies and corporations with the exception of tax returns, must be made through electronic means.³⁸ In the United Kingdom, in April 2003, the government established that the payments of government benefits, pensions and subsidies must be made through deposits in basic accounts. In Spain, in the General Regulation for the Financial Management of Social Security, it is established that transfer orders will constitute the normal payment means of the obligations that the Social Security General Treasury must make, and, since 2002, the payment of obligations of the State General Administration through an Accounting Information System in the State General Administration³⁹ is also centralized.

In Mexico, in the Expenditures Budget of the Federation (PEF for its Spanish initials) for the years 2010 y 2011, provisions were included to encourage, in the Federal Public Administration (APF for its Spanish initials) agencies and entities, the payment by electronic means to the bank accounts of: a) the beneficiaries of the subsidy programs; b) public servants, for the purpose of payroll payment; c) the suppliers of goods and services; d) the persons contracted for fees. The above, as a measure to promote the bank use of public employees, to reduce the costs of financial services and to have a better control of the resources destined for the APF.⁴⁰

In the rest of this section, the progress made in the use of bank services due to these steps is presented, as considered in the federal expenditures budget for the two most important budgetary payment flows of the government to individuals: the payroll payments and the support received through social aid programs.

2. Electronic payment of the government employees' payroll

How many workers are employed in the Public Sector?

In the case of payroll payments, in order to measure the extent of this initiative, the starting point is to measure how many persons the public sector employs. According to INEGI information⁴¹, in 2009, there were 4,551,451 remunerated positions⁴² registered in the public sector in all of its levels (federal government, decentralized organizations, funds and trusts, state and municipal governments and public government organizations and companies). This figure is equivalent to 13% of the total remunerated positions in the economy (Graph 43). In turn, the wages and salaries for those positions represented 27% of total wages paid (Graph 44).

What is the goal for the migration of payroll payments in Mexico?

In particular, in the case of the payment for personal services, the Finance Ministry issued an agreement to orchestrate the steps foreseen in the PEF⁴³. In said document, only the agencies (centralized public administration, APC for its Spanish initials) are bound to present a work plan to incorporate electronic payment. In turn, the entities (government-owned official public administration companies, APP for Administración Pública Paraestatal) were left the option to incorporate this type of payment through an agreement.

³⁸ Debt Collection Improvement Act, Federal Communications Commission, 1996.

³⁹ ORDEN PRE/1576/2002 of June 19, by which the procedure is regulated for the payment of the obligations of the General State administration, Finance Ministry, Madrid, Spain.

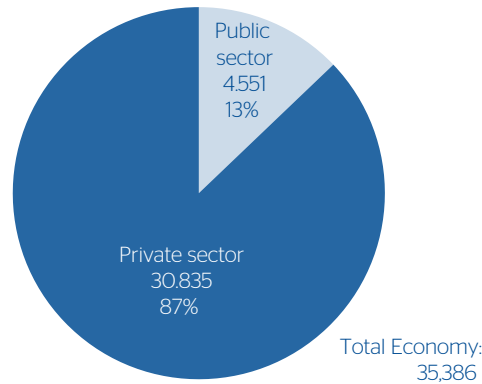
⁴⁰ These provisions are included in the broadest framework of steps destined to achieve greater efficiency in the administration of public resources, in the implementation of the System of the Unique Treasury Account is particularly significant. Since 2007, both the Treasury of the Federation and the Banco de Mexico advanced in a work program destined to set in motion a process the objective of which was to make payments directly from the Treasury account in the Central Bank to the bank accounts of the beneficiaries, through the System of Inter-Bank Electronic Payment (SPEI for its Spanish Initials). According to a recent study ("Recent innovations in inter-bank electronic payment system in Mexico, the role of regulation", J. L. Negrín, D. Ocampo and A. de los Santos, IFC Bulletin No 31), since the creation of the SPEI, payments through electronic transfers have gained a participating share compared to other means different from cash, not conducted in terminal points of sale or tellers (that is through checks or direct debits). While in 2005, the transfers in the SPEI represented 2.9% of the payments via transfers, direct debits or checks; currently they represent 17.5%. They maintain all the technological conditions and the current constants of demand; the estimated saturation point for the SPEI is of 23%.

⁴¹ The National Accounts System of Mexico, macroeconomic indicators of the public sector 2005-2009. Base year 2003, Second version. The information published through the ENOE does not allow identifying the personnel employed in Public Institutions, according to the government level in which they provide their services (federal, state, municipal), in addition to including international organizations, political parties, unions, and other economic units not subject to the same rules of execution of expenditures as the Public Sector.

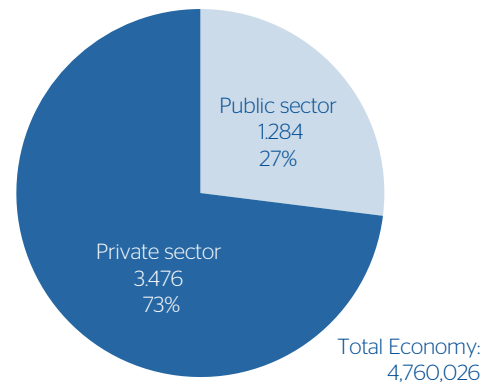
⁴² The remunerated positions do not represent the number of persons employed in each activity but the average number of remunerated positions that it is estimated was required for the production. One same person may occupy two or more positions within one or several economic activities.

⁴³ The agreement that has as its objective establishing the terms for the promotion of actions conducive to the implementation of the electronic payment of personal services in the Public Federal Administration". Official Gazette of the Federation, July 23, 2010.

Graph 43
Remunerated Positions (2009)
Thousands of Positions



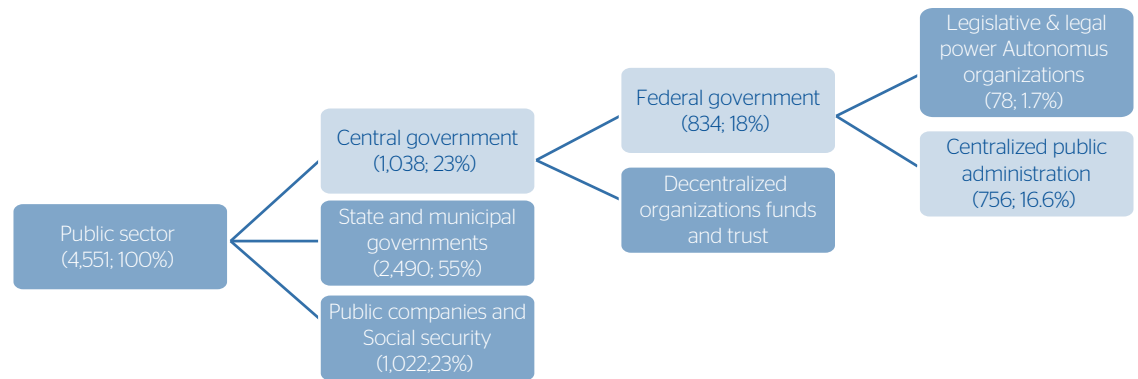
Graph 44
Remunerations (2009)
Billions of Current Pesos



Source: BBVA Research with information from the National Accounts System of Mexico. Macro-economic indicators of the public sector 2005-2009. Second Version. INEGI. The remunerated positions do not represent the number of persons employed in each activity, but the average number of remunerated positions that is estimated was required for the production. One same person can be employed in two or more positions within one or several economic activities.

The statistics of the National Accounts System (SCNM for its Spanish initials) of INEGI do not allow fully identifying how many workers lend their services in the APC. However, in the aggregate that contains it (Central Government, Graph 45), in 2009, there were 1,038,175 remunerated positions in the public sector (23% of the total); the rest of the positions were distributed among the State and Municipal Governments (55%), Social Security and Government-owned Companies (22%).

Graph 45
Remunerated Positions of the Public Sector, 2009 (thousands of positions; % of the total)



Source: INEGI. SCNM. Macro-economic Indicators of the Public Sector. INEGI, Public income and expenditures in Mexico.

Even though they are not directly comparable, the statistics of income and expenditures of INEGI⁴⁴ allow specifying the identification of the workers' universe that could receive payment for their services through direct deposits to their bank accounts. According to said statistics, employed personnel by the APC in 2009 totaled 756,173, equivalent to 17% of the remunerated positions of the public sector. In that year, the expenditures made in personal services of the APC were close to P\$213 billion (equivalent to 25% of the total expenditures for this sub-group of agencies and 1.8% of GDP).⁴⁵

⁴⁴ While the public sector statistics are structured with a focus on production, the income and expenditures statistics follow a budgetary focus, which is why the classifications are not exactly equivalent. Whereas in the SCNM, the statistics reported are 823,451 positions in the aggregate of federal government and organizations, funds and trusts, in the statistics of income and expenditures of the federal government (the closest category conceptually) 834,711 positions are reported.

⁴⁵ Based on information of the 2009 Finance Ministry Account.

Unequal advances in the migration of payroll payments of government workers

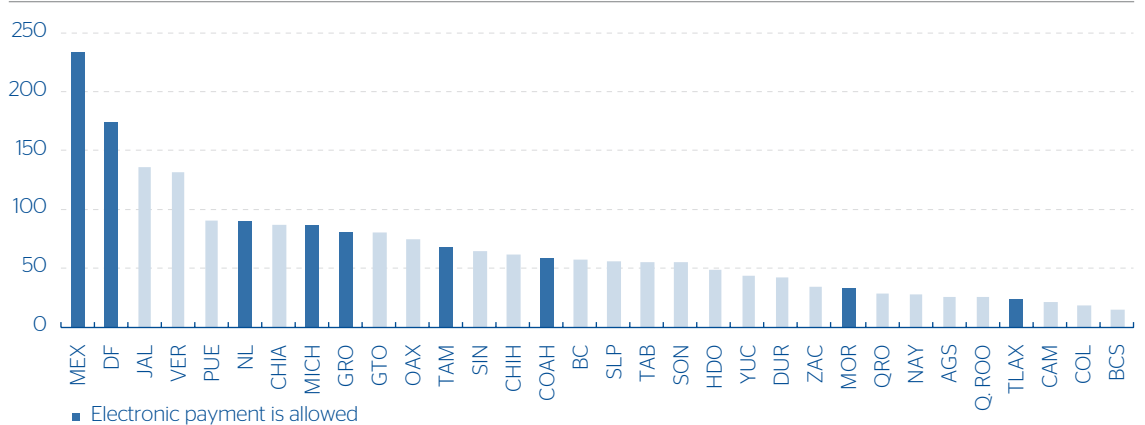
At the end of 2009, only 45% of the payments to these employees was made through direct deposits to the beneficiaries' bank accounts. For the 2Q11, this percentage has risen to 68.9%. That is, in the year when the provisions were introduced, approximately 340,000 employees were receiving payment for their services through a deposit in a bank account, and at a year and a half of the publication of the agreement, it was possible to incorporate another 235,000 persons, for which there is still a potential for incorporating bank services to almost 176,000 positions of the APC, assuming that these will be placed in places or locations that have bank Infrastructure.⁴⁶ Under the assumption that the financial technologies of India and Mexico are similar, it is estimated that the earnings in efficiencies will be approximately P\$1.630 billion.⁴⁷

The state public sector still needs to implement the steps to facilitate payroll payments in bank payroll accounts

In addition to the Federal Government, some states have also advanced toward the incorporation of electronic means for the payment of personal services. Currently, nine of the 31 States and the Federal District foresee payroll payment through electronic means: Coahuila, Federal District, Guerrero, Mexico, Michoacan, Morelos, Nuevo Leon, Tamaulipas and Tlaxcala⁴⁸. Even though there does not exist a public source with the data referring to employed personnel using bank services for payment by the state governments, it is possible to make some inferences with respect to the potential in said sub-group. According to statistics of the SCNM of INEGI, the state governments registered in 2009 a total of 2,132,175 remunerated positions⁴⁹ (47% of the positions and 46% of the remunerations of the public sector). In the States that allow for payments through electronic means, there are 851,238 remunerated positions (40% of the total of the state governments) (Graph 46).

Graph 46

Remunerated positions in the state governments 2009 (thousands of positions)



Source: BBVA Research with information from the National Accounts System of Mexico. State Governments and Local Governments, Current Accounts and of Accumulation, Production Accounts due to Purpose, 2005-2009. Base year 2003. Second version. INEGI

⁴⁶ Assuming that the use of bank services was achieved by 90% of the employees of the APC, and that these have grown between 2009 and 2011 at a rate of an annual 51%, the average observed in the 2005-2009 period.

⁴⁷ The result from applying 1% of the savings for payroll and pension payments reported in the study "Inclusive growth and financial security. The benefits of e-payments to Indian society", to the budget performed in personal services by the APC in 2009.

⁴⁸ For further details, see Article 74 of the Legal By-laws for the Workers at the Service of the State of Coahuila of Zaragoza; Article 38 of the General Labor Conditions of the Federal District Government; Article 73 of the Labor Law of the Public Servants of the State and Municipalities, State of Mexico; Articles 6 and 11 of the Law on the Remunerations of the Public Servants of the State of Michoacan; Article 40 of the Civil Service Law of the State of Morelos; Articles 26 and 27 of the Law on the Remunerations of the Public Servants of the State of Nuevo Leon; Article 21 of the Labor Law of the Public Servants of the State of Tamaulipas; Article 24 of the Labor Law of the Public Servants of the State of Tlaxcala and its Municipalities; and Article 27 of the Labor Law of the Public Servants of the State of Guerrero (in this state, the means for paying the salaries is not specified).

⁴⁹ The breakdown of the information of INEGI does not allow assigning the 358,480 registered positions in the municipal governments to their respective states.

Assuming that the States that already allow the use of electronic means for the payment of personal services, the payment percentage was similar to that observed at the start of the steps foreseen in the PEF for the APC (45%); in said states there could be a potential for approximately 390,000 jobs paid through the use of bank deposits. If the rest of the States were to include similar provisions so as to make the payment of personal services through electronic means, another 1,176,000 remunerated positions could be incorporated, by which approximately 1,566,000 positions would receive payment through bank deposits in the States⁵⁰. Under the same assumption of similar financial technologies, the earnings in efficiency due to introducing wage payments through bank accounts through electronic means would rise by approximately P\$4.361 billion⁵¹.

Conclusion

Simply by incorporating the electronic payment plan to one part of the Public Sector (the APC) and State Governments, there is a potential to implement the use of banks on the order of 1,742,000 jobs⁵² and achieve savings on the order of P\$5.990 billion, equivalent to 0.05% of GDP (Chart 18), which could be allocated to investment programs or social development. According to the Budget of Expenditures of the Federation 2011, said amount is equivalent to:

- The totality of the authorized budget for the Habitat Program and the Savings and Subsidy Program for Housing (P\$5.274 billion)
- The Budget for the Food Support Program and Milk Supply Support Program under Liconsa (P\$5.280).
- 60% of the budget for the conservation of highway infrastructure (P\$9.645 billion).
- The budget for the drinking water, drainage and sanitation program in Urban Areas (P\$5.418 billion).

Chart 18

Estimated Bank Usage and Savings from the use of electronic payments in Mexico Payroll of Government Employees

Administrative Level	Remunerated Positions			Government Pay- ment Flows (mp)	Estimated	
	Total	With Bank Usage	To have Ban Usage		Millions of Pesos (mp)	% of GDP
Centralized Public						
Administration	756,173	575,482	176,236	212,966	1,630	0.01
State Governments	2,132,175	390,746	1,566,731	1,150,381	4,361	0.04
Total	2,888,348	966,228	1,742,967	1,363,347	5,991	0.05

⁵⁰Source: BBVA Research based on information of the Expenditures Budget of the Federation 2009 (Fin. Min.) and the National Accounts System of Mexico. State Governments and Local Governments. Current and Accumulation Accounts of Production for Finality 2005-2009. Base Year 2003. Second Version (INEGI).

The sum of positions with bank usage does not coincide with the total observed, since it is estimated that the 2009 base had annual growth of 51% and only 90% of the total government employees have bancarization⁵¹.

To summarize, since a few years ago in Mexico, the different branches of government have begun to replace the use of cash and checks with electronic payment means, which are more efficient. However, there is still much to be done in order to take advantage of the benefits of these payment means.

⁵⁰ Assuming that 90% of the state government positions were to implement bank usage and that, between 2009 and 2011, this had grown at an annual rate of 10%, the average observed for the 2005-2009 period.

⁵¹ The result of applying a 1% savings for payroll and pension payments reported in the study "Inclusive growth and financial security. The benefits of e-payments to Indian society" and taking as a base the estimated payroll payment as of the information published by the INEGI (Public State and Municipal Finances of Mexico 2006-2009) within which it is estimated that the States allocate approximately 50% of their total expenditures to the payment of personal services (including the transfers for security, health and education), an amount close to the figure registered of payroll payments for the States in the statistics of the SCNM (approximately P\$570 million). This figure could increase up to P\$6 billion if the estimate of the IMCO is taken as the base where 68% of the expenditures in the states is spent on payroll. For greater detail, please consult "The black box of public expenditures", Mexican Institute for Competitiveness, A.C. (IMCO for its Spanish initials) 2010.

⁵² Due to the fact that the available information does not permit inferring the relationship among remunerated positions and the number of persons employed in the different levels of activity of the public sector, this figure assumes that a worker with bank usage only has one position or post in some level of the government.

3. Electronic payment of social support programs¹

Social support programs have replaced generalized subsidies

As part of a strategy to make more efficient and ethical social expenditures to reduce poverty, there are increasingly more countries that have replaced the generalized subsidies to acquire diverse basic goods and services from help programs with transfers in cash directed to segments of the focalized population (usually under a socio-economic criterion), the reception of which could be conditional or unconditional for them to make a certain minimum expense on basic goods and services (such as studying up to a certain educational level or to make a given number of doctor visits per year). According to the Consultive Group to Assist the Poor (CGAP), only between 1999 and 2009, 48 aid programs of this type were implemented in 33 emerging and developing countries around the world, the most important being, from the number of beneficiaries, those of India (45.1 million), China (22 million), Brazil (12.4 million), South Africa (12.2 million), Bangladesh (6.5 million) and Mexico (5 million)⁵³. In effect, Mexico is not foreign to this world trend, and there are various examples of these bills both at the government level and the states and municipalities. In this section of, **Mexico Banking Outlook** the progress that exists in the migration of the payment of the support programs from cash to electronic deposit means is briefly described as are the potential benefits of this practice.

Social Support Programs in Mexico

The Federal Government currently has 60 social benefit programs which are attended by seven different Agencies⁵⁴, with a coverage of over 18 million beneficiaries and a budget of more than P\$236 billion⁵⁵. Although only in some of those programs has it been foreseen that the payment of the transfers be made through bank accounts, among these, there are two more important programs of relief to poverty: the Human Opportunities Development Program and the Food Support Program, which cover around 43% of the budget and 46% of the beneficiaries.⁵⁶

At the State, Federal District and Municipality level, progress is still incipient. Through June 2011, there were 66 programs of social support managed by the States, the Federal District and the Municipalities, of which the allocation that had been assigned to the banks was in the amount of P\$8.029 billion, covering 1.2 million beneficiaries. As a reference, it is possible to indicate that the number of programs stated represents less than 10% of all the programs managed by the States in 2010 (Chart 19) and the cost lower than 2% of the expenditures for "Subsidies, Transfers and Aid" exercised by the States in 2009⁵⁷. Unfortunately, there are no centralized official statistics that would allow determining the proportion of beneficiaries who receive help through their bank accounts. However, according to a recent study, among the programs that distribute cash through electronic means are the following: "Live Fully" of the Chihuahua State Government; "Education Guaranteed", "Express Link", "Talent Children" and "Prep School Yes" of the Federal District Government; "Scholarships with You Let's Go to School" of the Guanajuato State Government; and "Food Support for Older Adults and Persons with Different Capacities" of the Morelos Ecatepec Municipality of the State of Mexico.

⁵³ In the case of Mexico, the programs Opportunities and Youngsters with Opportunities are considered. See "Banking the Poor via G2P Payments", Pickens, M., Porteous, D. and S. Rotman (2009), Consultive Group to Assist the Poor Focus Notes No. 58, December 2009, for further details.

⁵⁴ National Commission for the Development of Indigenous People, Integral Development of the Family, Agriculture and Livestock Ministry, Rural Development, Fishing and Nutrition, Social Development Ministry, Ministry of the Economy, Ministry of Public Education, Environment and Natural Resource Ministry, and Labor Ministry. Source: "Bill for the Strengthening of the Institutionalism of Social Programs in Mexico (IPRO)", with data available through October 5, 2011 <http://www.programassociales.org.mx/resultadosn.aspx> December 2010 and "Programas Sociales Inventario", Presentation BBVA Bancomer, June 2011.

⁵⁵ In 2011, the resources approved for the total group of programs and actions to overcome poverty totaled P\$295,202.4 million. The execution of P\$236,366.3 million corresponds to the Federal Government. Source: Fifth Annual Report of the President of the Republic, September 2011.

⁵⁶ "Initiative for the Strengthening of Institutionalizing Social Programs in Mexico (IPRO)", December 8, 2010. "Social Programs Inventory", Presentation BBVA Bancomer, June 2011, and 5th Annual Report of the President of the Republic, September 2011.

⁵⁷ According to the Statistics of Public Finances of States and Municipalities of the INEGI, in 2009, the Expenditures Budget of the States for the item of Subsidies, Transfers and Help totaled P\$511,863 million.

Chart 19:

Social Support Programs managed by the States and the Federal District

State	Social support programs paid		State	Social Support Programs paid	
	Number of programs	through banks		Number of programs	through banks
Aguascalientes	56	1	Morelos	1	0
Baja California	N.D.	14	Nayarit	53	1
Baja California Sur	N.D.	0	Nuevo Leon	11	0
Campeche	22	2	Oaxaca	8	0
Chiapas	8	5	Puebla	40	3
Chihuahua	N.D.	1	Querétaro	29	0
Coahuila	1	0	Quintana Roo	2	2
Colima	N.D.	1	San Luis Potosi	14	0
Distrito Federal	122	12	Sinaloa	3	1
Durango	16	0	Sonora	49	4
Estado de Mexico	28	5	Tabasco	32	0
Guanajuato	15	2	Tlaxcala	7	0
Guerrero	113	0	Veracruz	6	0
Hidalgo	11	1	Yucatán	11	3
Jalisco	100	4	Zacatecas	86	5
Michoacan	13	0	Total:	857	66

Note: The figures regarding the programs paid through banks include information of the following municipalities: Cuautitlan Izcalli, Mex. (3), Zacatecas, Zac. (3), and Aguascalientes, Ags. (1). Source BBVA Research with data from the Bill for the Strengthening of the Institutionalizing of Social Programs in Mexico (IPRO) available on October 5, 2011 at <http://www.programassociales.org.mx/resultados.aspx>, "Social Programs Inventory", Presentation BBVA Bancomer, June 2011 and "Electronic Payments of Cash Transfer Programs and Financial Inclusion", Seira, E. (2010), Mimeo. Instituto Tecnológico Autónomo de México, March 2010

Opportunities for progress

The Human Development Opportunities Program (Opportunities) and the Food Support Program (PAL for its Spanish initials) are two of the most important of the Federal Government, which are operated by the Department of Social Development (SEDESOL for its Spanish initials) with a budget of more than P\$73 billion and coverage of 6.5 million families (more than 34 million persons) in 2011⁵⁸. Almost five million families of beneficiaries live in around 135,000 rural localities and in transition that are characterized for high poverty levels.

The Opportunities program very well exemplifies a program of conditioned cash transfers, since the greater part of the resources that it delivers are destined for educational scholarships that 5.2 million children and young persons receive who, according to results of external evaluations, manage to reach a higher school grade than their parents. In addition, the beneficiary families receive free access to a Guaranteed Basic Health Package that considers a series of actions focused on the promotion of health and the timely detection of illnesses.

Even though the financial infrastructure is still limited in localities of this type, the Opportunities and PAL payments are made both through direct deliveries such as payments on account, prepaid bank cards with chip and debit cards. Since 2006, a greater proportion of the payments are increasingly made through accounts and bank cards as part of the program of migration to electronic payments that the Federal Government has initiated (Graph 47). In a way, in agreement with the requirements of the PEF, the goal of the Social Development Ministry is that, in 2012, direct deliveries will have been totally substituted by electronic alternative. To achieve this goal, the strategy considers using a network of branches and correspondents of Bansefi.⁵⁹

Thus, SEDESOL will not only consolidate and make transparent its operation of social programs, but it will decrease the costs of the payment of funds. Even though diverse evaluations indicate that the operating costs of the program consume a very low portion of their budget, there still exist opportunities for gains in efficiency due to the reduction in the costs of transactions and

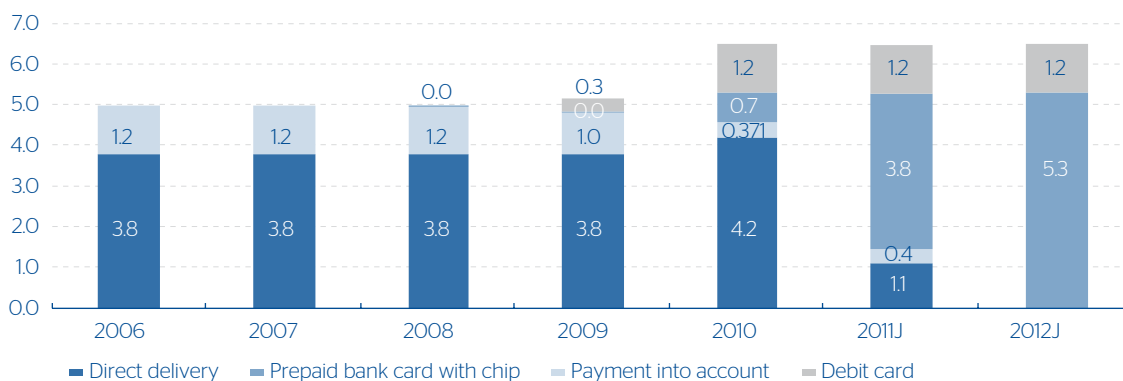
⁵⁸ Source: SEDESOL, "One in every three Mexicans receive support in cash from Opportunities and PAL", Press Release No. 25/2011, September 7, 2011, http://www.opportunidades.gob.mx/Portal/wb/Web/one_in_every_three_Mexicans_receive_support_from_opportu

⁵⁹ Source: "Delivery of Opportunities and PAL Monetary Supports Modalities and Mechanisms" Presentation, SEDESOL, November 2010.

the reduction of leaks from the deviation of resources. Using as a base the results obtained in the study made for India (Chart 17) and assuming that the financial technologies of both countries are similar, the gains in efficiency, derived from achieving that the totality of these two subsidies are paid through electronic means, would be close to P\$8.300 billion, equivalent to 0.1% of GDP. This amount represents close to 25% of the potential earnings that could be generated from the implementation of electronic payments for the totality of government subsidies in Mexico (see Inset 4: An estimate of the gains in efficiency due to the bancarization in subsidy programs in México).

Graph 47

Payment of Monetary Support from Opportunities and PAL by Modality (millions)



Note: For 2011 and 2012, estimated figures.

Source BBVA Research with data from "Entrega de Apoyos Monetarios Oportunidades y PAL Modalidades y Mecanismos" ("Delivery of Monetary Supports from Opportunities and PAL. Modalities and Mechanisms") Presentation, SEDESOL, November 2010

In turn, the beneficiaries will receive better attention; they will be able to have access to other financial services (savings, insurance, micro-credits, etc.); and, they will be able to decrease the costs of time, transportation and opportunity in which they incur for receiving these subsidies. A pilot test which, in November 2008, endowed the point of sale terminals to 230 Diconsa stores to make the payments of Opportunities suggests that the gains for the receivers of the transfers are considerable.⁶⁰ The results show that, for the beneficiaries that receive their transfers from Bansefi accounts, the transaction costs of the beneficiaries decrease from P\$30.1 to P\$0.49, and the costs of opportunity from P\$16.9 and P\$2.2 compared to those who receive their transfers directly. Also, according to a poll realized among 260 beneficiaries who participated in the pilot plan reveals that 99% of them prefer the electronic payment method from the direct payment in cash. It should be added that this preference for the new payment method seems to be related with the possibility of having a secure means to keep the money. As per a recent investigation in the differences of the performance of the savings of beneficiaries of Opportunities and other account holders of Bansefi who live in urban localities, the average savings of the opportunity accounts is higher than the average of the savings in the traditional accounts of that institution (P\$246 and P\$101, respectively), which seems to be due to the fact that the beneficiaries of Opportunities choose not to withdraw the totality of the economic help received. On the other hand, as the account holders become experienced in the management of their debit cards, the probability increases that they will use them to make purchases in stores, instead of withdrawing cash from automated tellers.⁶¹

⁶⁰ In *Mexico Banking Outlook* July 2010, the benefits are briefly described for the participating stores in the pilot plan of Opportunities Diconsa. Seira (2010) presents a more detailed analysis.

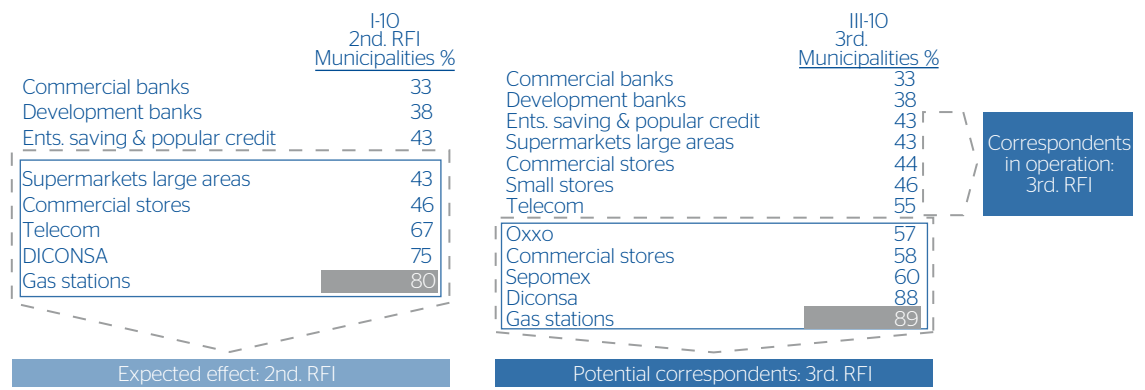
⁶¹ For further details, see Seira (2010).

Bank correspondents: an important complement for the electronic payment of social support programs

Through the use of bank correspondents, it will be possible to expand the coverage of persons of population segments who can receive electronic transfers of funds from social support programs in a bank account. It should be mentioned that the National Banking and Securities Commission (CNBV for its Spanish initials) in its Third Report of Financial Inclusion integrated the correspondents who are already in operation, and considered others as potential ones. With the inclusion of the latter, the CNBV now considers that the coverage of municipalities would rise from 80% to 89% (Graph 48).

Graph 48

Bank Correspondents: Expected and Real Impact in Coverage by Municipality, as per Estimates of the CNBV, %



Source BBVA Research with Second and Third Report of Financial Inclusion of the CNBV data.

In the CNBV estimates, it is considered that the higher increase in the percentage of municipalities that use bank services could be forthcoming from entities of the public sector (State networks), such as Sepomex and Diconsa, are incorporated to the correspondents’ plan. Under the assumption of potential correspondents, Sepomex would incorporate 2,067 offices, which would allow a 2 percentage-point (pp) increase in the coverage. For its part, Diconsa would incorporate 14,092 establishments to the correspondents’ plan, which would provide an increase in the very important geographic coverage of 28 pp at a municipal level. Nevertheless, to date, the correspondents’ network of the private banks has grown in a much more accelerated manner, even though, currently it is concentrated in localities of greater size where it is easier to achieve the minimum operating levels for a correspondent to operate in a profitable way for the store and for the bank. A greater coordination on the part of diverse government entities that distribute help programs and greater communication of such policies to the banks could be very beneficial for identifying the localities where such minimum operating conditions can be achieved for private agents.⁶²

Conclusion

In short, in Mexico both the Federal Government and the state and municipal governments have started to make their payments to persons through bank electronic means, and certain programs show very significant progress. International experience suggests that the payment of support programs through electronic means allows achieving important gains in efficiency and well-being, because they decrease transaction costs, produce budgetary savings that can later be destined to other productive uses, and lead to financial inclusion. So as to increase bancarization use, it is very important to develop the correspondents’ network so as to service the population living in small and remote communities. This effort is also in progress and the advances that are achieved in the bank correspondents sphere will be possible to be used to realize the electronic payment of social aid programs with a more ample network and for the benefit of a higher number of users.

⁶² In *Mexico Banking Outlook* February 2010, briefly described is the experience of Brazil regarding the adjustments to the regulation of financial operations that could be carried out and the chains of establishments for the provision of public goods and services that were added to the correspondents network in that country.

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Inset 4: An estimate of the gains in efficiency due to the bancarization of subsidy programs in Mexico

How great can the gains in efficiency be from the migration of payments by government assistance programs in Mexico to electronic payments? As a first approximation of this measurement exercise, this section of **Mexico Banking Outlook** will develop a simple exercise, for which we will analyze, on the one hand, the public information available on the budget for government subsidies and social assistance programs and their rules of operation and, on the other, as a reference point, the measurement of efficiency gains available for the case of India.⁶³

According to the Federal Expenditure Budget (PEF for Presupuesto de Egresos de la Federación) for the 2011 fiscal year, close to 417.14 billion pesos will be allocated (16% of the approved budget) for subsidies and social assistance channeled through various federal programs⁶⁴. Of these resources, 95.3% are earmarked for the social and private sectors or state governments with the aim of undertaking actions that promote economic and social development. (Graph 49)

Within these subsidies, a part of the total is applied through a series of provisions that specify the manner in which the budgeted resources are to be managed, for the purpose of achieving greater efficiency, equity, and transparency. This part corresponds to the programs subject to the rules of operation.⁶⁵ Included in the 2011 expenditures budget are 104 programs subject to rules of operation, through which almost 244.47 billion pesos are channeled (Graph 49). Among other characteristics, the rules that govern the budgetary application of these programs cover aspects such as: a) the characteristics that should be considered in order to define and attend to the target population, b) measures to simplify and facilitate access on the part of the programs' beneficiaries c) the government department best suited to implementing them, and d) criteria related to the scheduling, disbursement, application, and verification of the use of the resources. The information on this latter point allows for an

estimate to be made on the amount of resources that can potentially be provided to those enrolled in the programs through electronic payment means.

Of the 104 programs subject to rules of operation, 41 make explicit reference to the provision considered in the PEF (Art. 17, Section XII); most do so through a transitory article that states: "For the granting of assistance to program beneficiaries, efforts will be made in the implementation of an electronic distribution mechanism using bank products." These programs are primarily intended for social development purposes and have a budget that in 2011 exceeds 163.43 billion pesos (about 39% of the total budget, Graph 49).

Where it is physically, geographically, or operationally impossible to adopt the use of electronic payments, or that this method of payment may not be efficient because of its cost, it is stipulated that in order for the work programs to move toward electronic payments, December 2012 should be established as the deadline for their implementation. Nevertheless, there are few reports on the implementation of this subset of programs that include any indicator that would allow for assessing the progress made in the bancarization of the beneficiaries of these programs.

To estimate the gains in efficiency that could be generated by the adoption of electronic payments in the case of the disbursement of subsidies, the following assumptions are made: a) in the case of programs that report some degree of progress in bancarization, the disbursed resources are proportional to the number of beneficiaries served,⁶⁶ b) that 90% of the beneficiaries (and of the budget of each program) are able to receive the financial assistance through electronic payment means, and c) the entire allocated budget will be disbursed to the beneficiaries in the form of monetary assistance.⁶⁷

⁶³ Ehrbeck, T., Lochan, R., Sinha, S., Tahliyani, N. and A. Zainulbhai (2010), "Inclusive Growth and Financial Security. The benefits of e-payments to Indian society," McKinsey & Company, Inc. November 2010.

⁶⁴ In order to identify only the budget "distributable" as assistance, only the funds allocated to Chapters 4300 and 4400 were considered and the rest of the chapters assigned for the implementation of each subsidy program were left out (for example, personal services, materials, and supplies etc.)

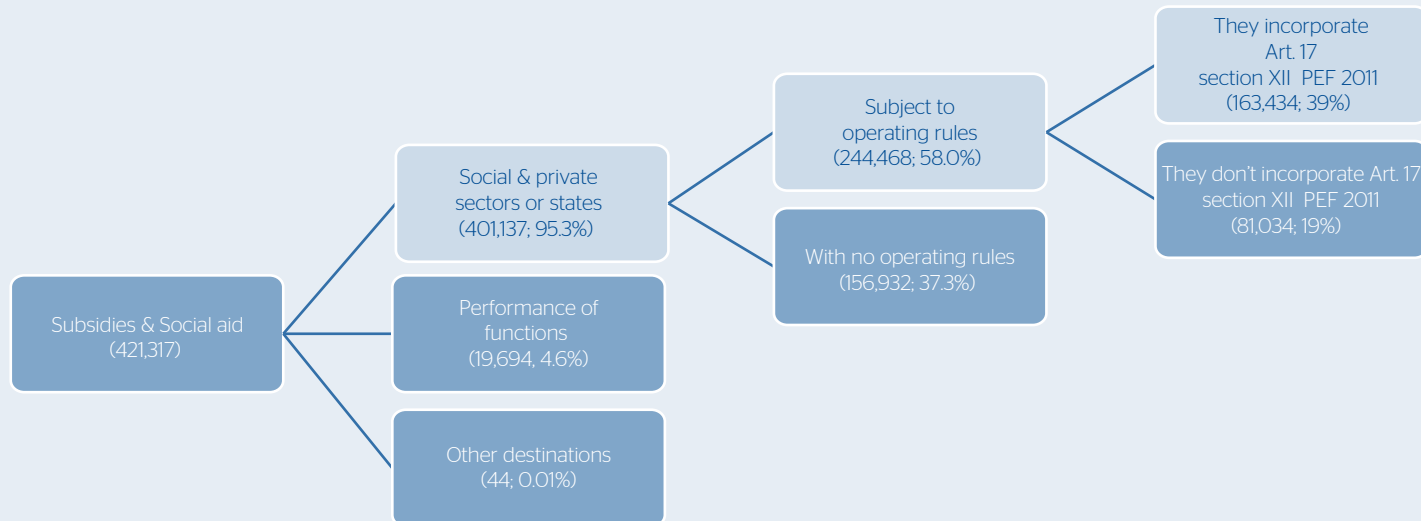
⁶⁵ Appendix 18, Federal Expenditures Budget for the 2011 Fiscal Year. The 104 budgetary items correspond to 99 different programs, but for this exercise they are being accounted for separately, since they correspond to programs implemented by various federal agencies and the budget allocated to each department is related to a specific budgetary outlay. These programs include Temporary Employment, Human Development Opportunities, and Child Day Care to Support Working Mothers.

⁶⁶ The "Segundo Informe Trimestral 2011" ("2011 Second Quarterly Report") of the Department of Social Development reports that, in the case of the Human Development Opportunities Program, 41.4% of families receive financial support via electronic transfers, so it is assumed that 41.4% of the resources are disbursed through this means of payment. This assumption implies that every family has the same number of beneficiaries and their characteristics are the same, receiving the same amount of monetary support.

⁶⁷ Some of the programs include actions that involve providing a service as a complement to monetary support, however, information was not located that would identify which budget is allocated to each line of action.

Figure 49

Budget earmarked for subsidies and social assistance, 2011 (millions of pesos; % of the total)



Source: Análiticos Presupuestarios PEF 2011. SHCP

Thus, of the 41 programs subject to rules of operation that provide for payment by electronic means, there is the potential for disbursing approximately 119 billion pesos in bank accounts. Again, based on the assumption that the financial technologies in India and Mexico are similar, the gains in efficiency would amount to about 28% in the disbursed flows, or about 33.50 billion pesos, of which 8.30 billion pesos correspond to the Human Development Opportunities and Food Assistance programs.

Meanwhile, in 2011, some 63 programs were budgeted that are subject to rules of operation, but these rules do not explicitly include the guidelines of Article 17, Section XII of the PEF budget. Most of these subsidy programs are designed to promote economic development activities (mainly infrastructure and production projects). The budget allocated to them was more than 81.03 billion pesos, equivalent to 19% of the total assistance and subsidies budget (Graph 49). Some of these programs provide in-kind support or earmark their resources to provide goods at a subsidized price, and therefore they are not conducive for disbursement through

electronic payments. Some programs were also identified that already included as a requirement to disburse the assistance that the beneficiary have a bank account. In these cases, the programs in question do not provide additional gains in efficiency as a result of the migration of payments. However, in cases where the final assistance consists of providing cash contributions, there are still opportunities to generate savings through disbursement via electronic payments if the government divisions that make the payments are required to do so to the final beneficiaries through the latter's bank accounts⁶⁸ This would imply the different types of government divisions disbursing the funds, including the states and municipalities, joining the effort launched by the federal government.

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⁶⁸ It should be noted that in these cases the rules of operation already require that government divisions disbursing the funds have a bank account exclusively for receiving the resources

4. Statistical Appendix

Chart 20

Financial savings: Balances in billions of December 2010 pesos

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	III-11	2011- III, %
M4a	4,067	4,540	4,741	5,182	5,521	6,135	6,666	7,145	7,831	8,021	8,605	9,514	
- Bills and coins held by the public	286	299	330	361	392	423	471	501	541	567	606	569	
= Financial savings *	3,781	4,241	4,411	4,822	5,129	5,712	6,194	6,643	7,290	7,454	7,998	8,946	100.0
I. Depository institutions	1,966	2,038	1,952	2,066	2,177	2,333	2,338	2,547	2,853	2,868	3,003	3,168	35.4
Resident commercial banks (demand + term)	1,604	1,639	1,549	1,665	1,770	1,854	1,913	2,116	2,393	2,382	2,499	2,604	29.1
Demand	617	750	788	860	892	1,003	1,093	1,199	1,239	1,297	1,420	1,500	16.8
Term	987	889	761	805	878	851	821	918	1,154	1,085	1,079	1,104	12.3
Foreign agencies of commercial banks	89	74	62	45	51	53	63	84	92	78	86	115	1.3
Savings & Loan Associations (S&L)	8	9	10	13	15	18	21	23	23	50	55	57	0.6
Development banks	265	316	330	344	341	409	342	324	345	359	363	392	4.4
II. Securities issued by the public sector	1,336	1,668	1,862	2,059	2,189	2,560	2,951	3,136	3,223	3,373	3,741	4,424	49.5
III. Securities issued by private companies	133	138	188	240	266	269	300	347	337	324	336	367	4.1
IV. SAR outside of Siefores	347	397	410	457	497	550	605	613	878	888	919	986	11.0
Financial savings = I + II + III + IV	3,781	4,241	4,411	4,822	5,129	5,712	6,194	6,643	7,290	7,454	7,998	8,946	100.0
Instruments included in financial savings													
TOTAL SAR = Siefores + SAR outside of Siefores	603	770	871	1,006	1,120	1,289	1,475	1,578	1,902	2,078	2,300	2,473	
Siefores	257	373	461	549	623	738	870	966	1,023	1,190	1,381	1,487	
SAR outside of Siefores	347	397	410	457	497	550	605	613	878	888	919	986	
Financial savings without SAR total	3,178	3,471	3,540	3,815	4,009	4,424	4,720	5,065	5,389	5,376	5,699	6,472	
Debt mutual funds	241	386	410	422	425	544	707	815	735	841	1,027	nd	
Real annual percentage change, %													
M4a	3.5	11.6	4.4	9.3	6.5	11.1	8.6	7.2	9.6	2.4	7.3	11.0	
- Bills and coins held by the public	1.7	4.7	10.4	9.2	8.6	8.0	11.4	6.4	7.9	4.9	6.9	11.0	
= Financial savings *	3.7	12.2	4.0	9.3	6.4	11.4	8.4	7.2	9.7	2.2	7.3	11.3	
I. Depository institutions	-13.0	3.7	-4.2	5.9	5.4	7.2	0.2	9.0	12.0	0.5	4.7	10.8	
Resident commercial banks (demand + term)	-13.9	2.2	-5.5	7.5	6.3	4.7	3.2	10.6	13.1	-0.5	4.9	9.7	
Demand	8.5	21.6	5.0	9.1	3.8	12.4	8.9	9.7	3.4	4.7	9.5	15.3	
Term	-23.8	-9.9	-14.4	5.9	9.0	-3.1	-3.5	11.9	25.7	-6.0	-0.5	2.9	
Foreign agencies of commercial banks	-29.7	-16.9	-15.2	-28.4	13.4	4.4	18.3	34.7	9.0	-15.1	10.5	43.4	
Savings & Loan Associations (S&L)	-19.4	13.2	12.4	21.5	19.4	19.0	16.6	9.3	2.4	115.8	9.3	4.3	
Development banks	2.2	19.2	4.5	4.1	-0.7	19.8	-16.4	-5.1	6.4	4.1	1.1	11.9	
II. Securities issued by the public sector	34.1	24.9	11.6	10.6	6.3	16.9	15.3	6.3	2.7	4.7	10.9	12.3	
III. Securities issued by private companies	42.0	3.6	35.6	27.9	10.7	1.2	11.7	15.4	-2.9	-3.7	3.6	14.1	
IV. SAR outside of Siefores	16.3	14.5	3.3	11.5	8.8	10.6	9.9	1.3	43.4	1.1	3.5	7.1	
Financial savings = I + II + III + IV	3.7	12.2	4.0	9.3	6.4	11.4	8.4	7.2	9.7	2.2	7.3	11.3	
Instruments included in financial savings													
SAR TOTAL = Siefores + SAR outside of	24.7	27.6	13.2	15.5	11.3	15.1	14.5	7.0	20.5	9.3	10.7	6.0	
Siefores													
Siefores	38.3	45.3	23.6	19.1	13.4	18.6	17.9	11.0	6.0	16.3	16.0	5.3	
SAR outside of Siefores	16.3	14.5	3.3	11.5	8.8	10.6	9.9	1.3	43.4	1.1	3.5	7.1	
Financial savings without SAR Total	0.5	9.2	2.0	7.8	5.1	10.3	6.7	7.3	6.4	-0.2	6.0	13.4	
Debt mutual funds	-12.4	60.2	6.2	2.8	0.9	27.8	30.1	15.2	-9.7	14.4	22.2		
Percentage of GDP													
Financial savings = I + II + III + IV	37.9	42.5	45.5	46.7	46.0	49.1	49.3	50.3	54.7	59.4	60.4	61.9	
I. Depository institutions	19.7	20.4	20.1	20.0	19.5	20.0	18.6	19.3	21.4	22.8	22.6	22.0	
Resident commercial banks	16.1	16.4	16.0	16.1	15.9	15.9	15.2	16.0	18.0	19.0	18.9	18.2	
Development banks	2.7	3.2	3.4	3.3	3.1	3.5	2.7	2.5	2.6	2.9	2.7	2.7	
I Rest (Agencies abroad + S&L)	1.0	0.8	0.7	0.5	0.6	0.6	0.6	0.8	0.8	1.0	1.0	1.1	
II. Securities issued by the public sector	13.4	16.7	19.2	19.9	19.6	22.0	23.5	23.8	24.2	26.9	28.3	30.2	
III. Securities issued by companies	1.3	1.4	1.9	2.3	2.4	2.3	2.4	2.6	2.5	2.6	2.5	2.6	
IV. SAR outside of Siefores	3.5	4.0	4.2	4.4	4.5	4.7	4.8	4.6	6.6	7.1	6.9	6.9	
Percentage of GDP, other concepts included in financial savings, %													
Total SAR	6.0	7.7	9.0	9.7	10.0	11.1	11.7	12.0	13.9	16.5	17.3	17.4	
Siefores	2.6	3.7	4.8	5.3	5.6	6.3	6.9	7.3	7.7	9.5	10.4	10.5	

The proportion of GDP data for 2011 correspond to II-11 and not III-11
 Source: Banco de Mexico (broad monetary aggregates) and INEGI

Chart 21

Credit and Financing to the Private Sector: Balances in billions of December 2010 pesos

	IV 00	IV 01	IV 02	IV 03	IV 04	IV 05	IV 06	IV 07	IV 08	IV 09	IV-10	II-11	2011 - II, %
Total: All categories	3,304	3,084	3,215	3,344	3,573	3,778	3,878	4,557	5,135	4,873	4,986	5,243	100.0
Bank	1,194	1,036	1,000	966	999	1,135	1,426	1,750	1,875	1,791	1,873	1,965	37.5
Non-bank	2,111	2,049	2,215	2,379	2,574	2,643	2,452	2,807	3,260	3,082	3,113	3,277	62.5
Total consumer	123	156	207	244	335	465	589	672	636	557	559	594	11.3
Bank	69	88	115	161	227	337	465	563	525	421	419	456	8.7
Non-bank	54	67	92	84	108	128	124	109	110	136	140	138	2.6
Total housing	711	724	766	806	866	916	1,007	1,202	1,216	1,236	1,288	1,374	26.2
Bank	317	258	227	191	183	229	295	338	357	376	400	412	7.9
Non-bank	394	466	539	616	683	688	712	864	859	860	888	962	18.3
Total companies	2,470	2,205	2,241	2,293	2,371	2,396	2,282	2,683	3,284	3,080	3,139	3,275	62.5
Bank	807	689	658	614	589	569	666	848	993	995	1,053	1,097	20.9
Non-bank	1,662	1,515	1,583	1,679	1,782	1,827	1,616	1,834	2,291	2,085	2,086	2,178	41.5

V Real annual percentage change, %

Total: All categories	6.1	-6.6	4.2	4.0	6.8	5.8	2.6	17.5	12.7	-5.1	2.3	4.5
Bank	-15.6	-13.2	-3.4	-3.4	3.4	13.6	25.6	22.7	7.2	-4.5	4.5	9.3
Non-bank	24.2	-2.9	8.1	7.4	8.2	2.7	-7.2	14.5	16.2	-5.5	1.0	1.7
Total consumer	15.8	26.2	33.1	17.9	37.2	38.7	26.6	14.1	-5.4	-12.4	0.4	8.6
Bank	15.3	27.7	30.4	39.7	41.4	48.3	37.9	21.2	-6.8	-19.9	-0.3	11.7
Non-bank	16.4	24.1	36.8	-9.3	29.2	18.4	-3.1	-12.5	1.6	23.5	2.8	-0.6
Total housing	-4.9	1.9	5.8	5.2	7.4	5.8	9.9	19.3	1.2	1.6	4.2	6.7
Bank	-24.6	-18.7	-11.9	-16.2	-4.0	25.1	28.9	14.6	5.7	5.2	6.5	6.7
Non-bank	20.4	18.4	15.6	14.2	11.0	0.6	3.6	21.3	-0.6	0.1	3.2	6.6
Total companies	9.3	-10.7	1.7	2.3	3.4	1.1	-4.8	17.6	22.4	-6.2	1.9	2.9
Bank	-13.5	-14.6	-4.6	-6.6	-4.2	-3.3	17.0	27.3	17.0	0.2	5.9	9.3
Non-bank	25.4	-8.9	4.5	6.0	6.1	2.5	-11.6	13.5	24.9	-9.0	0.0	-0.1

Percentage of GDP, %

Total: All categories	33.1	30.9	33.2	32.4	32.0	32.4	30.9	34.5	38.5	38.8	37.7	38.1
Bank	12.0	10.5	10.4	9.4	9.0	9.8	11.4	13.3	14.1	14.4	14.2	14.4
Non-bank	21.1	20.5	22.7	22.9	23.0	22.6	19.5	21.2	24.4	24.4	23.4	23.7
Total consumer	1.2	1.6	2.1	2.4	3.0	4.0	4.7	5.1	4.8	4.4	4.2	4.3
Bank	0.8	1.0	1.3	1.6	2.1	3.0	3.8	4.3	4.0	3.4	3.3	3.4
Non-bank	0.5	0.6	0.8	0.7	0.9	1.0	0.9	0.7	0.8	1.0	1.0	0.9
Total housing	7.1	7.3	7.9	7.8	7.8	7.9	8.0	9.1	9.1	9.8	9.7	10.0
Bank	3.2	2.6	2.3	1.8	1.6	2.0	2.3	2.6	2.7	3.0	3.0	3.0
Non-bank	3.9	4.7	5.6	6.0	6.1	5.9	5.7	6.5	6.4	6.8	6.7	7.0
Total companies	24.8	22.1	23.1	22.2	21.3	20.6	18.2	20.3	24.6	24.5	23.7	23.8
Bank	8.1	6.9	6.8	5.9	5.3	4.9	5.3	6.4	7.4	7.9	8.0	8.0
Non-bank	16.7	15.2	16.3	16.2	16.0	15.7	12.9	13.9	17.2	16.6	15.8	15.8

Infrastructure and Number of Bank Cards - Units

	IV 00	IV 01	IV 02	IV 03	IV 04	IV 05	IV 06	IV 07	IV 08	IV 09	IV-10	II-11
ATMs	nd	nd	17,011	17,758	20,416	22,900	25,687	29,333	31,932	33,905	35,936	35,884
POS terminals	nd	nd	129,971	146,029	160,289	201,852	305,144	418,128	446,025	446,792	482,299	517,691
Branches*	nd	nd	7,849	7,768	7,788	7,972	8,404	9,230	10,722	10,731	11,291	11,500

Number of current cards at the end of the quarter (figures in millions)

Credit	nd	nd	7.8	9.4	11.6	14.7	21.4	24.8	25.2	22.1	22.4	24.1
Debit	nd	nd	32.4	32.2	31.8	36.1	51.7	51.9	56.9	60.8	75.2	80.0

Continued on the following page

Credit and Financing to the Public Sector: Balances in billions of December 2010 pesos

	IV 00	IV 01	IV 02	IV 03	IV 04	IV 05	IV 06	IV 07	IV 08	IV 09	IV 10	II-11	2011-II, %
Commercial bank credit	344	319	350	344	272	273	202	198	172	258	314	316	5.3
Federal government	319	274	285	251	111	69	37	34	24	31	44	47	0.8
States and Municipalities	23	16	21	35	69	76	65	75	95	138	189	187	3.1
Decentralized gov't agencies	2	29	44	57	92	127	100	89	53	89	81	82	1.4
Development bank credit	162	175	198	161	160	166	155	150	154	120	126	116	1.9
Federal government	104	115	109	83	83	95	80	95	98	49	54	51	0.9
States and Municipalities	9	11	13	14	32	31	32	32	28	42	48	45	0.7
Decentralized gov't agencies	49	48	76	65	45	40	44	23	28	29	24	20	0.3
Debt issued in the country	1,318	1,655	1,977	2,263	2,417	2,774	3,230	3,473	3,636	3,954	4,177	4,563	76.1
Federal government	884	1,027	1,129	1,309	1,351	1,477	1,899	2,093	2,212	2,514	2,584	2,748	45.8
States and Municipalities	-	0	8	19	26	27	44	52	56	58	60	60	1.0
Decentralized gov't agencies	-	-	-	21	62	128	160	152	141	152	186	210	3.5
IPAB	111	228	328	422	497	622	718	804	793	806	789	809	13.5
Banco de Mexico	253	306	370	318	303	327	208	211	273	262	394	573	9.5
FARAC	70	94	142	175	177	194	201	161	161	163	163	163	2.7
External financing	888	882	951	1,077	1,030	905	647	621	737	997	1,076	1,003	16.7
Credit and financing TOTAL	2,714	3,032	3,477	3,846	3,879	4,119	4,243	4,465	4,720	5,330	5,693	5,997	100.0

Real annual percentage change in the balance, %

Commercial bank credit	nd	-7.1	9.6	-1.7	-21.0	0.4	-25.8	-2.0	-13.3	50.2	21.6	25.1
Federal government	nd	-13.9	3.8	-11.7	-56.0	-37.4	-46.0	-8.9	-29.5	27.8	42.2	57.1
States and Municipalities	nd	-31.4	34.6	64.6	96.1	10.6	-14.4	14.4	27.4	45.1	37.2	38.4
Decentralized gov't agencies	nd	1328.6	50.4	30.9	60.4	38.1	-21.8	-10.2	-41.0	69.7	-9.5	-6.4
Development bank credit	nd	7.7	13.6	-18.7	-0.6	3.4	-6.3	-3.5	3.0	-22.1	4.5	-1.6
Federal government	nd	10.3	-5.5	-24.0	0.7	14.3	-16.2	19.2	3.5	-50.1	9.7	7.2
States and Municipalities	nd	27.1	17.6	4.1	128.4	-4.4	4.9	1.2	-13.2	50.3	12.8	8.2
Decentralized gov't agencies	nd	-1.4	57.8	-15.3	-30.1	-11.4	8.7	-48.4	24.5	3.4	-16.4	-30.9
Debt issued in the country	nd	25.6	19.4	14.5	6.8	14.8	16.4	7.5	4.7	8.8	5.6	18.0
Federal government	nd	16.3	9.9	15.9	3.3	9.3	28.6	10.2	5.7	13.7	2.8	11.8
States and Municipalities	nd	0.0	5610.1	147.6	37.7	0.8	65.7	18.1	8.5	3.6	2.9	4.8
Decentralized gov't agencies	nd	0.0	0.0	0.0	200.6	107.1	24.8	-5.4	-7.3	8.1	22.5	41.0
IPAB	nd	104.9	44.0	28.7	17.8	25.0	15.5	12.0	-1.4	1.6	-2.1	2.8
Banco de Mexico	nd	20.8	20.9	-14.1	-4.7	7.9	-36.4	1.6	29.5	-4.2	50.6	123.7
FARAC	nd	33.4	51.3	23.3	0.7	9.6	3.8	-19.9	0.3	1.0	-0.1	2.5
External financing	nd	-0.7	7.9	13.2	-4.4	-12.0	-28.5	-4.1	18.7	35.3	8.0	2.9
Credit and financing TOTAL	nd	11.7	14.7	10.6	0.9	6.2	3.0	5.2	5.7	12.9	6.8	15.1

Credit and Financing: Percentage of GDP, %

Commercial bank credit	3.4	3.2	3.6	3.3	2.4	2.3	1.6	1.5	1.3	2.1	2.4	2.3
Federal government	3.2	2.7	2.9	2.4	1.0	0.6	0.3	0.3	0.2	0.2	0.3	0.3
States and Municipalities	0.2	0.2	0.2	0.3	0.6	0.7	0.5	0.6	0.7	1.1	1.4	1.4
Decentralized gov't agencies	0.0	0.3	0.5	0.6	0.8	1.1	0.8	0.7	0.4	0.7	0.6	0.6
Development bank credit	1.6	1.8	2.0	1.6	1.4	1.4	1.2	1.1	1.2	1.0	0.9	0.8
Federal government	1.0	1.2	1.1	0.8	0.7	0.8	0.6	0.7	0.7	0.4	0.4	0.4
States and Municipalities	0.1	0.1	0.1	0.1	0.3	0.3	0.3	0.2	0.2	0.3	0.4	0.3
Decentralized gov't agencies	0.5	0.5	0.8	0.6	0.4	0.3	0.3	0.2	0.2	0.2	0.2	0.1
Debt issued in the country	13.2	16.6	20.4	21.9	21.7	23.8	25.7	26.3	27.3	31.5	31.6	33.1
Federal government	8.9	10.3	11.6	12.7	12.1	12.7	15.1	15.9	16.6	20.0	19.5	20.0
States and Municipalities	0.0	0.0	0.1	0.2	0.2	0.2	0.4	0.4	0.4	0.5	0.5	0.4
Decentralized gov't agencies	0.0	0.0	0.0	0.2	0.6	1.1	1.3	1.1	1.1	1.2	1.4	1.5
IPAB	1.1	2.3	3.4	4.1	4.5	5.3	5.7	6.1	5.9	6.4	6.0	5.9
Banco de Mexico	2.5	3.1	3.8	3.1	2.7	2.8	1.7	1.6	2.1	2.1	3.0	4.2
FARAC	0.7	0.9	1.5	1.7	1.6	1.7	1.6	1.2	1.2	1.3	1.2	1.2
External financing	8.9	8.8	9.8	10.4	9.2	7.8	5.2	4.7	5.5	7.9	8.1	7.3
Credit and financing TOTAL	27.2	30.4	35.9	37.2	34.8	35.4	33.8	33.8	35.4	42.4	43.0	43.5

* The figure for 2011 corresponds to branches I-II

Source: Banco de México and National Banking and Securities Commission

5. Reforms to the legal and regulatory framework applicable to multiple banking institutions

Chart 22

Reforms to the legal framework applicable to Multiple Banking Institutions: January - August 2011

No.	Subject	Scope of the Reform	Modified Regulations	Publication in the Official Gazette of the Federation
1	Writ of "Amparo"	<ol style="list-style-type: none"> 1. Grants action to promote a writ of "amparo" to the holder of a legitimate individual or collective interest, in the same manner as can be done through a writ of "amparo" by the holder of a subjective personal and direct right. 2. Establishes that the acts claimed may be suspended in those cases and through the conditions determined by the regulatory law, for which the juridical body must conduct a pondered analysis of the appearance of good law and of social interest. 3. Orders the Federal Congress to conduct the corresponding legal reforms within the 120 days following publication of this constitutional reform. 	Political Constitution of the Mexican United States	06/06/2011
2	Economic Competition	<ol style="list-style-type: none"> 1. Raises considerably the applicable economic sanctions for the execution of monopolistic practices and other violations of the law. 2. Penalties of 3 to 10 years in prison for persons that conduct absolute monopolistic practices; 3. Expands the elements that determine the substantial power of economic agents in the relevant markets and creates the character of a joint substantial power that one or more economic agents can exercise in a specific relevant market; 4. Strengthens the regime of powers of the Commission for Economic Competition to investigate, verify, solicit the use of public force, dictate cautionary measures, impose sanctions, suspend probable monopolistic practices and issue guidelines and technical criteria, among others, and 5. Reduces the period of the Chairman of the above-mentioned Commission from six to four years, subject to re-election only one time, without prejudice of the 10-year term that corresponds to him as Commissioner. 	Federal Law on Economic Competition, Federal Penal Code and Fiscal Code of the Federation	08/30/2011
3	Collective Actions	<ol style="list-style-type: none"> 1. Introduces the procedural action to bring suit in a collective manner before the Federal Courts, the declaration or constitution of a right or the imposition of a sentence, based on diffused, collective or individual rights or interests, derived from relationships in the consumption of goods or services--public or private--or from environmental protection. 2. Confers active legitimacy to exercise collective actions to: <ol style="list-style-type: none"> 2.1. Federal Agencies for: Protection of the Consumer and Environmental Protection; CONDUSEF and the Federal Commission of Competition. 2.2. The common representative of a collective body formed by at least 30 members; 2.3. Non-profit Civil Associations formed to defend interests in the respective matter, and; 2.4. The Attorney General of the Country . 	Código Federal de Procedimientos Civiles (Federal Code of Civil Procedures); Código Civil Federal (Federal Civil Code); Ley Federal de Competencia Económica (Federal Law on Economic Competition); Ley Federal de Protección al Consumidor; (Federal Law on Consumer Protection) ; Ley Orgánica del Poder Judicial de la Federación (Organic Law of the Judicial Power of the Federation); Ley General del Equilibrio Ecológico y la Protección al Ambiente (General Law for Ecological Equilibrium and Environmental Protection) and; Ley de Protección y Defensa al Usuario de Servicios Financieros (Law for the Protection and Defense of Users of Financial Services).	08/30/2011

Chart 23

Reforms to the secondary regulatory framework applicable to Multiple Banking Institutions: January - October 2011

No.	Subject	Scope of the Reform	Modified Regulations	Publication in the Official Gazette of the Federation
1	Automated teller machines operated by third parties	Modifies Official Circular Letter 2019/95 and establishes the bases for multiple banking credit institutions to offer joint automated teller machine services operated by third parties.	BANXICO. Circular 6/2011. (Modifications to Official Circular Letter 2019/95)	2/16/2011
2	Registry of Personal Property (Registro único de garantías mobiliarias) (guidelines)	Pursues the appropriate operation of the Registry of Personal Property, in terms of the provisions of the Commerce Code and the Regulation for the Public Registry of Commerce for the purpose of providing a modern, safe and efficient registration service in accordance with the new needs that the various legal instruments impose.	DEPARTMENT OF THE ECONOMY. GUIDELINES for the operation of the Public Registry of Commerce	6/13/2011
3	Classification of simplified file accounts	1. Establishes the classification of bank products for deposits in Mexican currency on 4 levels (deposit accounts, levels 1 to 4), in accordance with the limits on monthly deposits noted as follows: <ul style="list-style-type: none"> • Level 1: Limit of 750 UDIS in monthly deposits and of 1,000 UDIS as a maximum balance. • Level 2: Limit of 3,000 UDIS in monthly deposits. • Level 3: Limit of 10,000 UDIS in monthly deposits. • Level 4: Unlimited, unless the banks come to some agreement with their clients. 2. The main characteristics of these accounts are the following: <ul style="list-style-type: none"> • Levels 1 and 2 accounts shall be solely for individuals; levels 3 and 4 accounts shall be for both individuals and corporations. • Access to the resources of level 1 accounts shall be exclusively through debit cards (for use exclusively in Mexican territory). This cannot be done by means of mobile phones or any other electronic device. • Access to the resources of levels 2, 3 and 4 accounts shall be through the media that the banks determine (electronic transfers, pre-authorized debit payments and through debit cards.). • Withdrawals through checks may only be authorized for level 4 accounts. • The banks are bound to grant a CLABE number for levels 2, 3 and 4 accounts.. 	BANXICO. Circular 14/2011	6/17/2011
4	Bank cards in a foreign currency	Updates the regulation regarding the issue and operation of bank cards in a foreign currency, which modifies Circular 2019/ 95	BANXICO. Circular 15/2011	6/20/2011
5	Simplified file accounts and commission agents.	1. Reform to the Provisions for the Prevention of Money Laundering as a result of the updating of simplified file accounts. 2. Establishes the minimum requirements to be met for the opening of this type of accounts, which are lower in comparison with traditional accounts. Integrates a filing office to receive physically the corresponding documentation from the financial entities of the Mexican Financial System and the public in general for the purpose of having proper control and followup as well as the days and hours during which these acts should be conducted.	SHCP (Finance Ministry). Provisions of a General Nature applicable to Credit Institutions. Referred to in Article 115 of the Law on Credit Institutions.	8/12/2011
6	Single counter service	Integrates a filing office to receive physically the corresponding documentation from the financial entities of the Mexican Financial System and the public in general for the purpose of having proper control and followup as well as the days and hours during which these acts should be conducted.	CNBV (National Banking and Securities Commission) . Provisions of a General Nature applicable to the entities and persons referred to in articles 3, sections IV, V and VI, and 4, section XXX, of the National Banking and Securities Commission Law, as well as the general public, for the delivery and reception of documents in the National Banking and Securities Commission.	10/5/2011
7	New methodology for the classification and provisioning of the portfolio for states and municipalities	Establishes a new methodology for the classification and provisioning of the loan portfolio for states and municipalities, as well as the accounting criteria with regard to loans and accounting guidelines relative to the prevention structure on credit risk.	CNBV. Provisions of a General Nature applicable to Credit Institutions..	10/5/2011
8	Electronic promotions and notifications	Regulates the reception of promotions and notifications through electronic means, in administrative procedures before CONDUSEF.	CONDUSEF Rules of a general nature to receive promotions and make notifications through electronic means, in the administrative competition procedures of CONDUSEF.	10/18/2011

6. Special topics included in previous issues

Marzo 2011

- Financing to the Public and Private Sector: Comparison of CNBV and Banxico Measurements
- Evaluation of the Mexican Financial System through Perception Surveys and the Importance of Incorporating Observed Data
- Financial Savings: Two Ways of Measuring Them, Based on CNBV and Banxico Statistics
- Credit Bureaus: toward the Incorporation of More and Better Information

July 2010

- Does Judicial Efficiency Reduce the Cost of Credit?
- Credits to Related Parties
- Restrictions on external financing: effects on investment and growth for countries in the demographic window
- “Mobile Money” in Kenya

February 2010

- Credit to the Private Sector
- TAC, Total Annual Cost of Financing
- Regulatory Changes and Consumer Protection
- Changes to the Rules for the Creation of Loan Loss Provisions for Consumer Credit through Credit Cards
- Trends in Supervision and Regulation on an International Level
- Solvency of the Mexican Banking System
- A Brief Review of the Literature on Determining Factors in Credit Penetration Brazil's Correspondent Bank Model

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