

# Mexico Banking Flash

## Strategies and lines of action to democratize access to finance for projects offering potential to increase Mexico's economic growth under the 2013-2018 National Development Plan (PND)

On May 20, President Enrique Peña Nieto presented the 2013-2018 National Development Plan (PND), which describes the objectives, strategies and lines of action in public policy to be implemented by the Federal Government during his administration (Figure 1). The PND highlights the importance of speeding up economic growth to build a Prosperous Mexico which promotes sustained growth of productivity in a climate of economic stability through the generation of equal opportunities. This, under the premise that an adequate infrastructure and access to strategic inputs promote competition and enable greater flows of capital and knowledge toward individuals and companies with the greatest potential to make the most of it. Eleven major objectives are proposed to achieve a Prosperous Mexico (Table 1).

- **Among the 11 major objectives for building a Prosperous Mexico, the PND proposes democratizing the access to finance for projects offering growth potential**

In its diagnosis, the PND sets out that one prevailing concern in Mexico is that banks do not lend enough and, therefore, are not fulfilling one of their basic functions within the economy: turning saving into loans to support productive processes. It therefore proposes implementing effective public policies designed to facilitate access to funding for the establishment and expansion of productive companies through five strategies.

- **Five strategies are envisaged for democratizing access to finance:**

- 1<sup>st</sup> Promote funding through financial institutions and the stock market**

The lines of action for implementing this strategy include: (i) carrying out the necessary reforms in the legal and regulatory framework of the financial system; (ii) encouraging the entry of new participants into the Mexican financial system and promoting effective competition among the participants in the financial sector; (iii) facilitating the transfer of credit guarantees in the event of loan refinancing; (iv) encouraging the portability of transactions among institutions to facilitate the mobility of financial institution customers; (v) promoting coordination among authorities to reinforce the stability of the financial system; and (vi) making sure that the financial sector authorities carry out an effective and expeditious regulation of the sector and provide services to the sector's users in an appropriate manner.

- **2<sup>nd</sup> Increase the coverage of the financial system to include more people and companies in Mexico, in particular for the segments of the population which are currently excluded**

The four lines of action proposed are: (i) to strengthen the relationship between development banking and social banking and other providers of financial services in order to increase lending to small and medium-sized enterprises; (ii) to include financial literacy in basic and secondary education programs; (iii) to reinforce the system of guarantees to promote lending and improve its conditions; and (iv) to promote access to, and responsible use of financial products and services.

- **3<sup>rd</sup> Maintain the stability needed to enable the orderly development of the financial system, including the insurance and retirement saving sectors**

(i) Ensuring ongoing monitoring of the development of policies, standards and best practices in the international environment and (ii) Establishing and improving the prudential standards and mechanisms to avoid imbalances and promote the country's economic growth are the two lines of action associated with this strategy.

- **4<sup>th</sup> Expand access to credit and other financial services, through development banking, to economic actors in priority strategic sectors which have difficulty in accessing lending and financial services, placing special emphasis on priority areas for national development, such as infrastructure, small and medium-sized enterprises, innovation and patents, completing markets and promoting the participation of the private sector without taking its place**

This strategy envisages (i) redefining the mandate of development banking to promote economic activity through the availability of credit and other financial services in towns with viable projects and needs worthy of consideration, which would otherwise be excluded; (ii) developing technical capabilities, providing flexibility to the organizational structure and strengthening human resources to promote the creation and promotion of products and policies adapted to user needs, enabling development agencies to expand their scope of action; (iii) promoting the participation of commercial banking and other regulated intermediaries in financing of strategic sectors; and (iv) efficiently managing the capital within and among the various development banking institutions in order to boost economic development.

• **5<sup>th</sup> Encourage the participation of the private sector in the development of infrastructures, defining the involvement of state and municipal governments to boost projects offering social benefits and which contribute to increase the coverage and quality of the infrastructure needed to increase the economy's productivity**

Six lines of actions are proposed: (i) support the development of infrastructures with a long-term outlook based on three guiding principles: i. balanced regional development, ii. urban development and iii. logistic connectivity; (ii) promote the development of long-term relationships between the public and private sectors for the provision of services to the public sector or end users, using infrastructures provided totally or partially by the private sector; (iii) prioritize projects based on their social profitability and alignment with the National Democratic Planning System; (iv) consolidate flexible financing instruments for infrastructure projects that contribute as much as possible to the development of the national infrastructure; (v) supplement the financing of projects offering high social profitability in which the market does not participate in terms of risk and term; and (vi) promote the development of the capital market to finance infrastructures.

**Assessment**

The PND not only reflects many of the commitments of the Pact for Mexico, but in the case of the two commitments related to private sector financing and the strengthening of development banking, further specifies their content; in addition, by law, the annual work plans of development banks are linked to the objectives and lines of action of the PND. The Financial Reform Initiative presented on May 8 is broad-ranging and includes many of the lines of action for implementing the PND strategies to promote financing through financial institutions and the capital market, and for redefining and developing the capabilities of development banking to expand its financing to the private sector. However, some lines of action still need to be defined in greater detail through the National Development Financing Program (PRONAFIDE) and other programs of the National Democratic Planning System, especially as regards those lines that seek to extend financing for certain segments by not taking the place of the private sector or promoting its greater participation.

Figure 1. PND outline	Table 1. Eleven objectives of the PND to achieve a Prosperous Mexico
<p>The diagram shows a hierarchy of goals. At the top is the 'General Objective' to 'Achieve Mexico's maximum potential'. Below it are 'Five National Goals': I. A Mexico in Peace, II. An Including Mexico, III. A Mexico with Quality Education, IV. A Prosperous Mexico (circled in blue), and V. A Mexico with Global Responsibility. At the bottom are 'Three Horizontal Strategies': i) Democratize productivity, ii) A Near and Modern Government, and iii) Gender perspective.</p>	<ol style="list-style-type: none"> <li>1. Maintain the country's macroeconomic stability.</li> <li>2. Democratize access to funding for projects offering growth potential.</li> <li>3. Promote quality employment.</li> <li>4. Promote and guide an inclusive and facilitating green growth that preserves our natural heritage while generating wealth, competitiveness and employment.</li> <li>5. Democratize access to telecommunications services.</li> <li>6. Supply energy to the country at competitive prices, with high quality and efficiency throughout the production chain.</li> <li>7. Guarantee clear rules that encourage the development of a competitive domestic market.</li> <li>8. Develop the country's strategic sectors.</li> <li>9. Have a transport infrastructure that results in lower costs for the country's economic activity.</li> <li>10. Build a productive agriculture and fishing sector that guarantees the country's food security.</li> <li>11. Make the most of Mexico's tourist potential to bring more economic benefits to the country.</li> </ol>

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