

Financial Development and Competition in Mexico

Financial Development and Growth

Empirical research has supports a simple and clear conclusions:

Financial development causes economic growth

Financial development causes growth through its effect on productivity and innovation

Financial backwardness constrains growth

Banks or Stock Markets ?

Answer: both

Common law countries have a more favorable environment to stock market development than civil-law countries ?:

Civil law countries can adapt their practices

Financial development depends on politics ?

Yes. Political democratization will eliminate crony capitalism

Competition or Financial Stability ?

Both, there is no dilemma

Coordination between competition authorities and regulators is indispensable but have to agree on the merits of competition

Financial competition induces competition in non financial markets

Financial market imperfections restrain growth and induce concentration in non financial markets

How to achieve competition

Reduce barriers as much as possible and level the playing field

Competition through more bank entry is not enough. It might have anticompetitive consequences

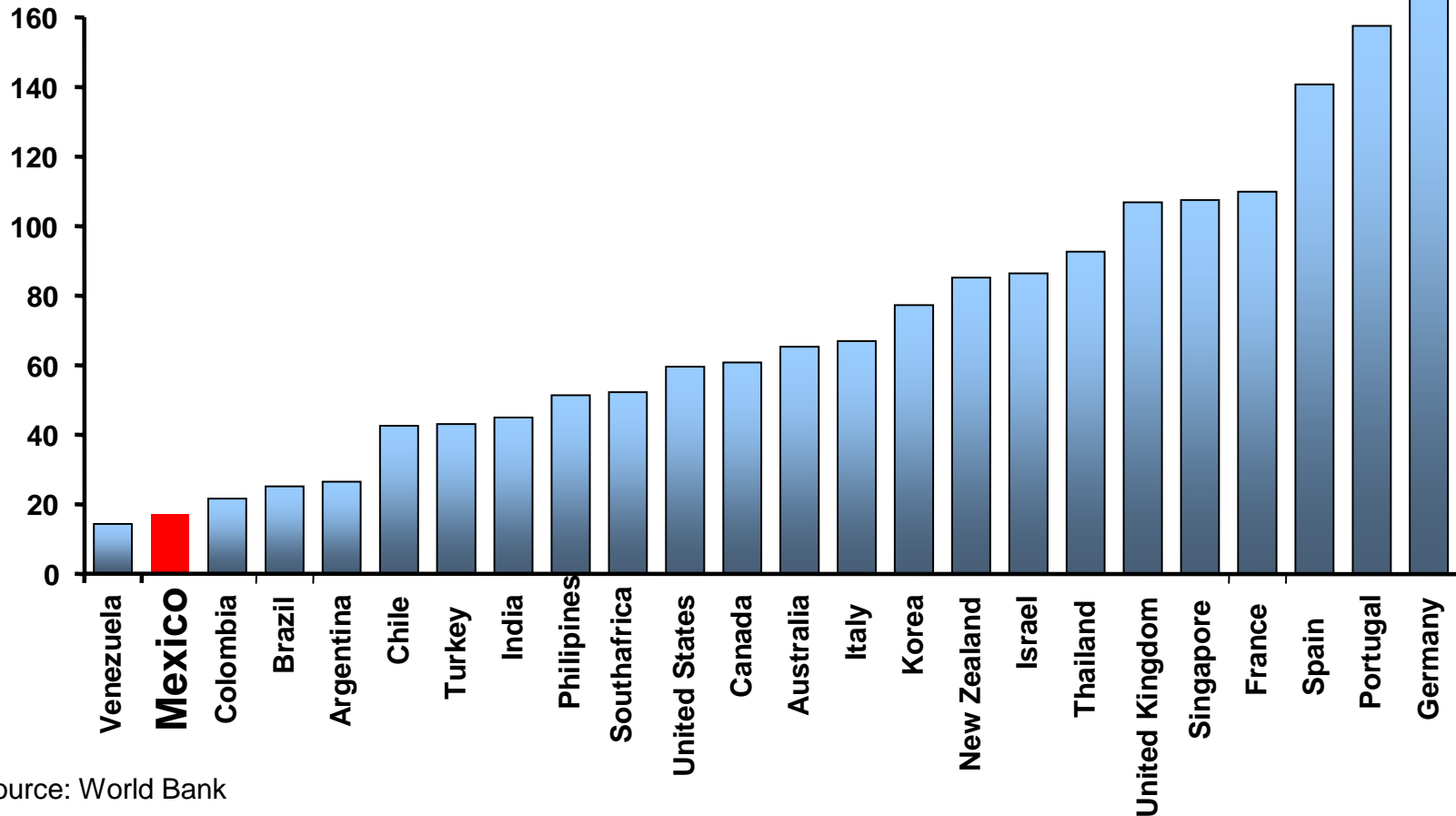
Expansion of stock markets is indispensable to achieve competition in banking

The Case of Mexico

- Both the banking sector and the stock market are small
- Bank credit to consumers is larger than credit to business
- The banking market is highly concentrated
- Retail banking is expensive and lacks transparency

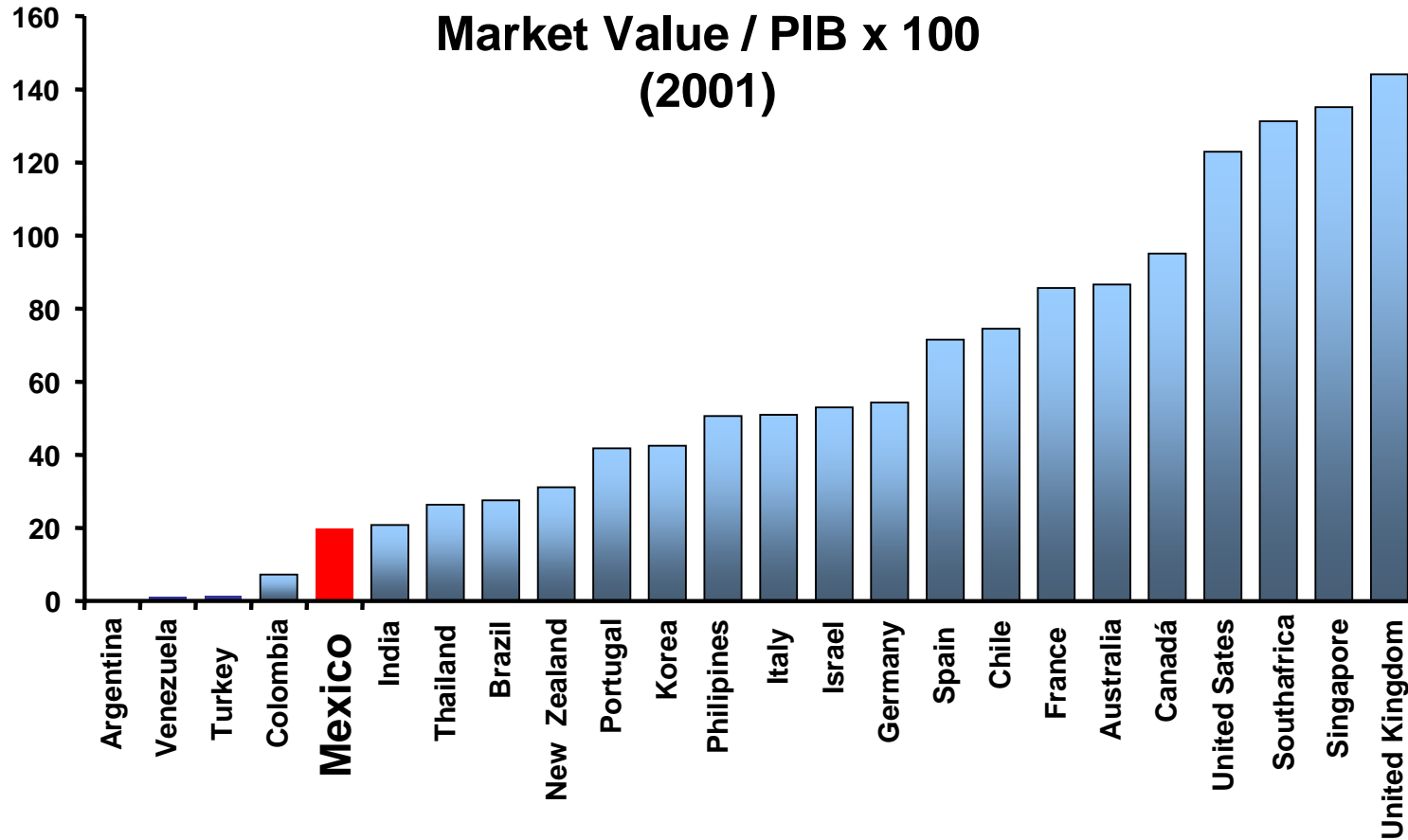
Depósitos Bancarios en Varios Países

Depósitos / PIB x 100
2001



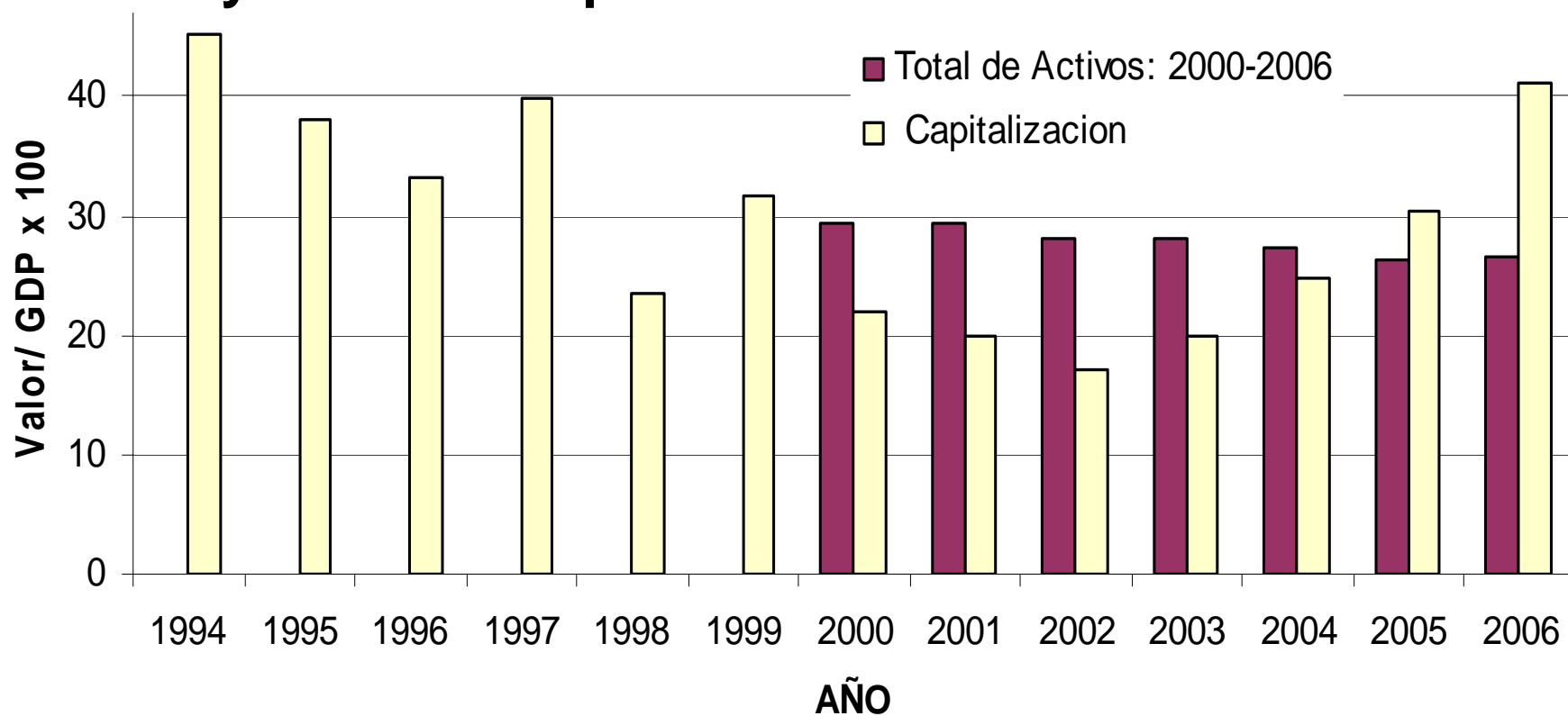
Source: World Bank

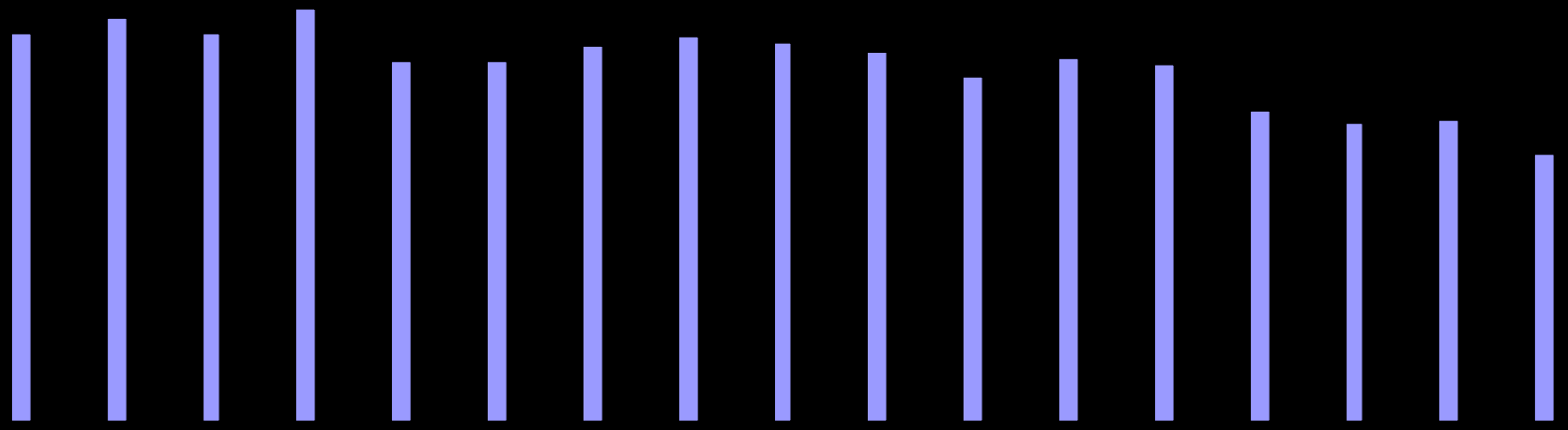
Stock Market Capitalization in Various Countries



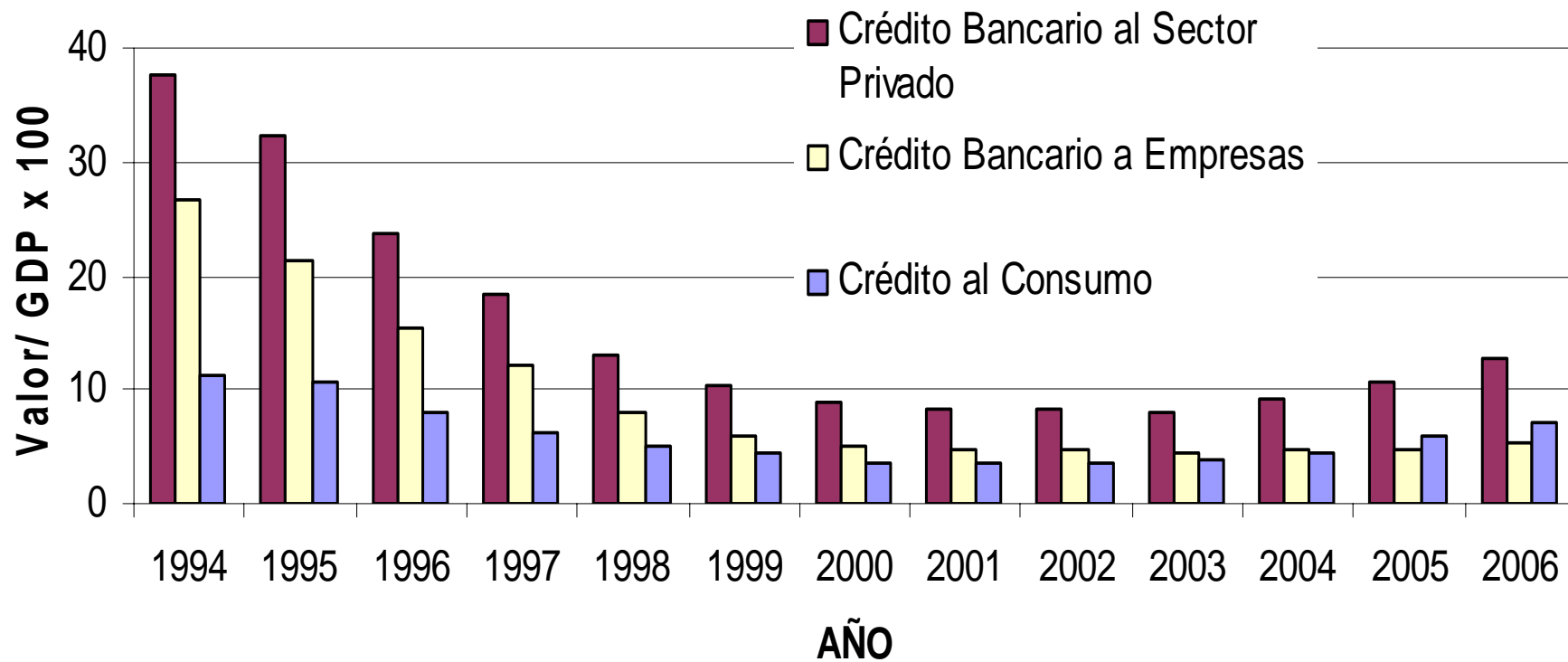
Source: World Bank.

Mexico: Total de Activos de la Banca Comercial y Valor de Capitalización del Mercado Bursátil



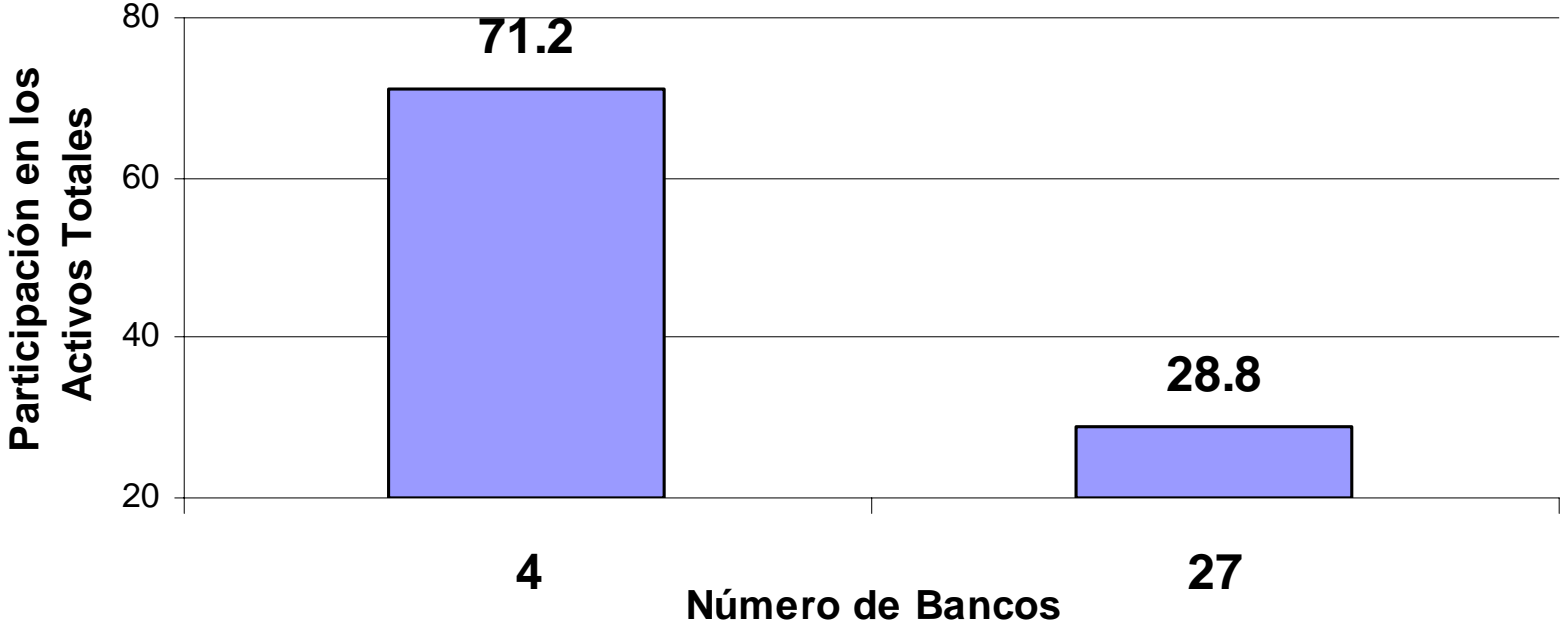


Mexico: Crédito de la Banca Comercial / GDP



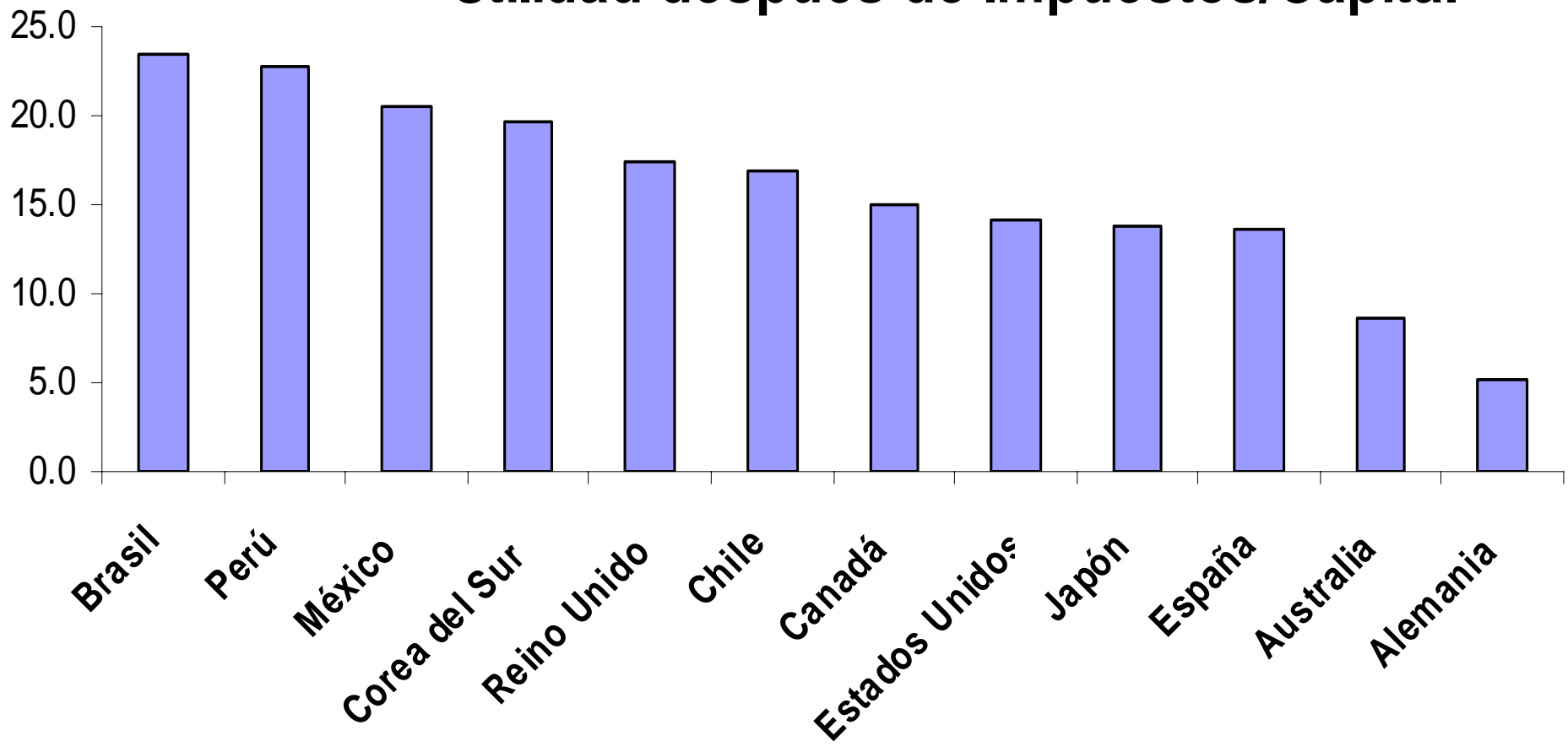
Participaciones en los Activos Totales de la Banca Comercial

Mexico, diciembre de 2006



Utilidad/Capital

Utilidad después de Impuestos/Capital




The Case of Mexico (2)

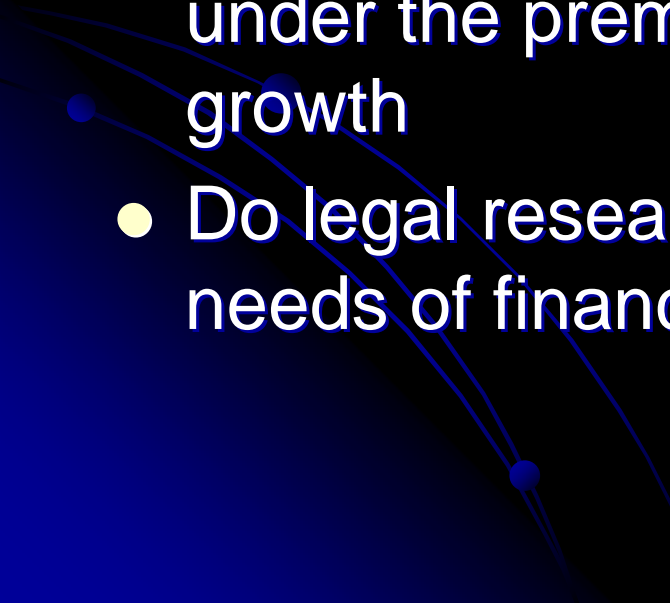
- The stock market has increased in size as the number of shares listed has decreased
- Very few participants a high proportion of shares are listed by large corporations and their subsidiaries
- Most of the shares listed do not have voting rights or voting rights are diluted

There is Some Progress

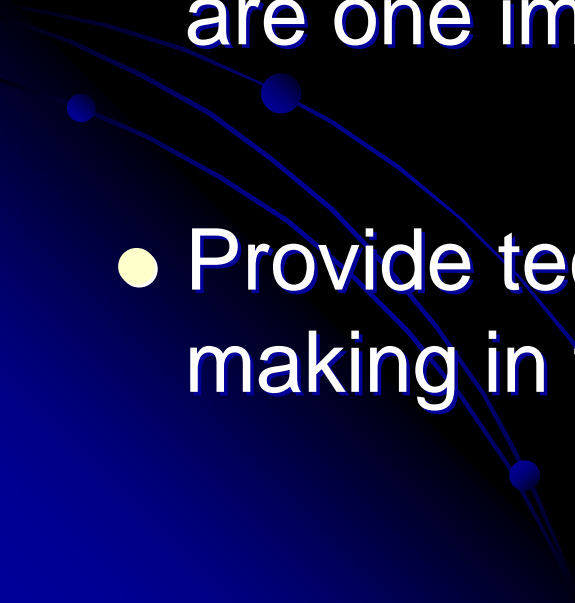
The new law for the securities market goes in the right direction:

- It is guided by the principle of “one share one vote”
 - It is based on the principle that transparency and information will allow investors to determine the merits of shares
 - It provides for the creation of new incorporated firms to enter the market and increase activity
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Summary

- Make more efforts to expand the stock market
 - It will induce competition in banking
 - It will break the barriers created by large family corporations
 - Coordinate competition authority and regulators under the premise that competition is good for growth
 - Do legal research to design laws adapted to the needs of financial markets
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Summary 2

- Carry out legal research to design laws adapted to the needs of financial markets
 - Convince Congress that barriers to finance are one important cause of stagnation
 - Provide technical and legal support to law making in the financial sector
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“Better to have loaned and
lost

• than never to have loaned at
all”

