

INTERVIEW WITH DR. JOSE JUAN DE OLLOQUI

Mexico is passing through a period of economic changes as a result of its battle to control inflation.

With a nationalized bank and an economy subject to the ups and downs of the world market, the government has launched an economic policy of streamlining the parastate industries. These and other topics are discussed by José Juan de Olloqui, director of Banca Serfin in an interview with *Voices of Mexico*.

What advantages have come from the nationalization of the banks?

There must be a balanced relationship between rural and industrial development for economic and social reasons

The nationalization of the banks had immediate and medium-term advantages for the management of the nation's economic policy. Among the immediate advantages, the government was able to control foreign currency exchange rates more effectively and apply other measures necessary in confronting the foreign debt crisis with a disciplined and efficient banking system.

Among the medium term advantages it is worth mentioning the restructuring of the Mexican banking system which has provided us with a more rational scheme than before the nationalization. Also, state ownership of the bank has meant that the federal government has the backing of credit institutions in order to finance the public deficit.

Existing relations between the state banking system and the so-called parallel banking system have been described as complementary. What is your opinion on this?

The activities of the commercial banks and the so-called parallel banks are certainly complementary, but they are also interrelated. There are several areas where the field of action of the national credit societies and other agents of financial intermediation overlap. Thus, the healthy development of Mexico's financial system is indispensable and so is the existence of equality among all competitors.

Director of the Serfin Bank in Mexico, ex-President of the Mexican Bank Association
1984-1985

The nationalization of the bank meant that the state had access to new financial resources. What has been the link between the state banks and the development of the national productive system?

Mexican banks have managed to deal with the current adversity through the development of new services

In spite of the appearance of new financial agents, the multiple bank is still the financial mediator *par excellence* and thus helps to meet demands for loans—a function that is indispensable for both public and private investment and for economic growth. Besides, there are various funds and trusteeships administered by the national credit societies as well as resources handled by the banking system which, according to the dispositions of the financial authorities, are assigned to the development of federal government priority areas.

One of the most notorious problems of our country lies in the inequality between the rural and urban areas, between agricultural development and the enormous urban industrial growth. How has the bank used its influence to change this unequal relationship?

The backwardness of agricultural development in our country is due to the growing emphasis given by the federal government, especially since World War II, to industrial development policies. Of course industrialization was and still is indispensable for the diversification of our economy, to increase the aggregate value of our production and provide employment opportunities. As John Kenneth Galbraith says, a country that wants to be developed only on the base of its agriculture will not be developed even in its agricultural sector.

However, there must be a balanced relationship between rural and industrial development for economic and social reasons. The rapid growth of our agricultural production in the 1940s and 1950s assured the supply of food and industrial goods of agricultural origin, supported the development of our manufacturing activities and contributed significantly to price stability.

We have to point out, however, that the equilibrium between agricultural development and industrial development is a question of economic policy which goes beyond the powers of the credit institutions. In practice, the national credit societies have operated more as instruments of economic policy, especially in response to indications from financial authorities which impose the assignation of a certain proportion of resources, at preferential rates, which should be destined to the countryside.

Since 1982 Mexico has experienced one of the most critical stages of its economic history: reduction of its internal market, the closing down many small- and medium-sized businesses and sources of employment and the rise of inflation. In some way the state banking system bank is the financial heart of our country: how has it been affected by this crisis and what have been the principal measures to avoid that this financial heart gets weakened?

Throughout this present period of government, banking activities have been greatly affected by the economic crisis. As I have already mentioned, the government has relied significantly on the multiple banks to finance its spending, limiting both the resources earned and the financial margin with which the banks used to operate.

In particular, with the Economic Solidarity Pact, the bank has had to confront a substantial reduction in interest rates as a result of efforts to reduce inflation. It is worth pointing out that in other countries in which similar stabilization programs have been applied, the financial institutions have suffered considerably.

In Mexico, however, the national credit societies have managed to adapt to the adverse conditions imposed by the economic situation and continue operating in conditions similar to those which existed before the Pact. How has this been possible? Besides the rationalization of the institutional structure and the achievement of greater levels of efficiency, the Mexican banks have managed to deal with current adversity through the development of new services and by increasing non-traditional banking activities without neglecting traditional banking activities.

Mexico's private enterprise has systematically favored reducing the state's role in the nation's economic control and planning. Does this also mean that private enterprise seeks to reduce intervention by the state bank? What has been the nationalized bank's position with regard to this matter?

I have always maintained that the bank nationalization is irreversible. This has also been indicated by Carlos Salinas de Gortari, who in all probability will be the next



Juan José de Olloqui, Director of Banca Serfin. (Photo from Novedades archive)

President of Mexico. For this reason I have been obliged to check some speculations about demands made by some members of the private sector who have openly tried to lobby for the re-privatization of the bank or for the creation of a parallel private bank.

On the other hand, however, in carrying out the current government's economic policies, the nationalized bank has played an important role in the process of selling non-strategic state companies to the private sector.

The Economic Solidarity Pact, has been put into effect in order to fight inflation. How have the nationalized banks' financial policies adapted themselves to the Pact?

Repeating the reply that I gave earlier, I would like to point out that the banks have made considerable efforts to support the objectives proposed in the Economic Solidarity Pact through the reduction of interest rates and their financial operating margin.

What role have the nationalized banks played in relation to the payment of foreign debt interest and capital?

In the case of Serfin Bank, priority has been given to developing foreign trade and earning foreign currency. Proof of this is that, although we are the third most important bank in Mexico in terms of the volume of resources handled, we are often first in matters of international activities.

This has been achieved through participation in programs of debt reconversion, promotion of foreign investment in priority sectors, and above all, through the promotion of exporting activities among the bank's clients. This constitutes the main way of earning foreign currency so that our country can adequately service the foreign debt.

Over the last few years the Mexican government has implemented policies to improve its state industry. Numerous state companies have been sold, closed down, fused and transferred. Others are going through the same process. Is the Mexican government interested in maintaining the nationalized banks in its hands? Is it thinking of increasing private sector participation in the banks? Where are Mexican banks going?

As I said before, I am convinced that the nationalization of the bank is an irreversible process. This has been declared by the PRI presidential candidate, Carlos Salinas de Gortari, who has added that private sector participation in bank capital will not be increased. I believe that the Mexican state banking system will have to keep operating within a framework of competition which will allow it to operate efficiently and adequately attend the necessities of the national economy. But it will also have to enter in international financial markets, where the activities of the service sector in general, and of financial services in particular, are becoming more and more important and where our nation should also have a significant presence. □



Banca Serfin office in downtown Mexico City.
(Photo by José Fuentes)



During the current administration, banking has been affected by the economic crisis.