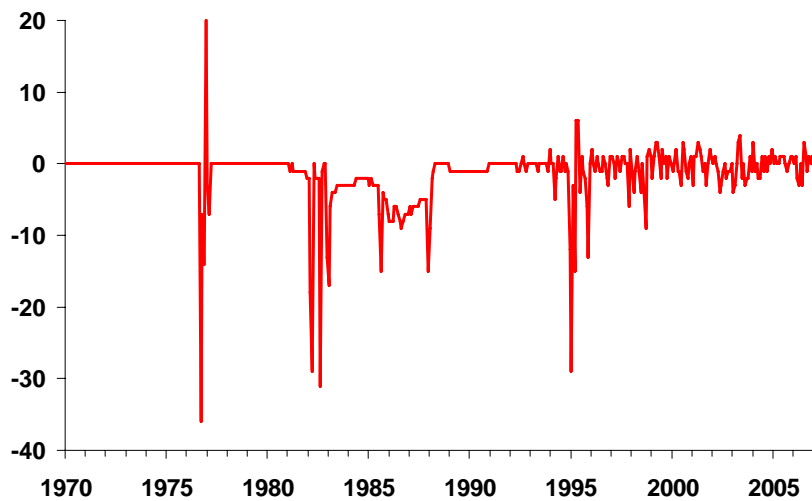


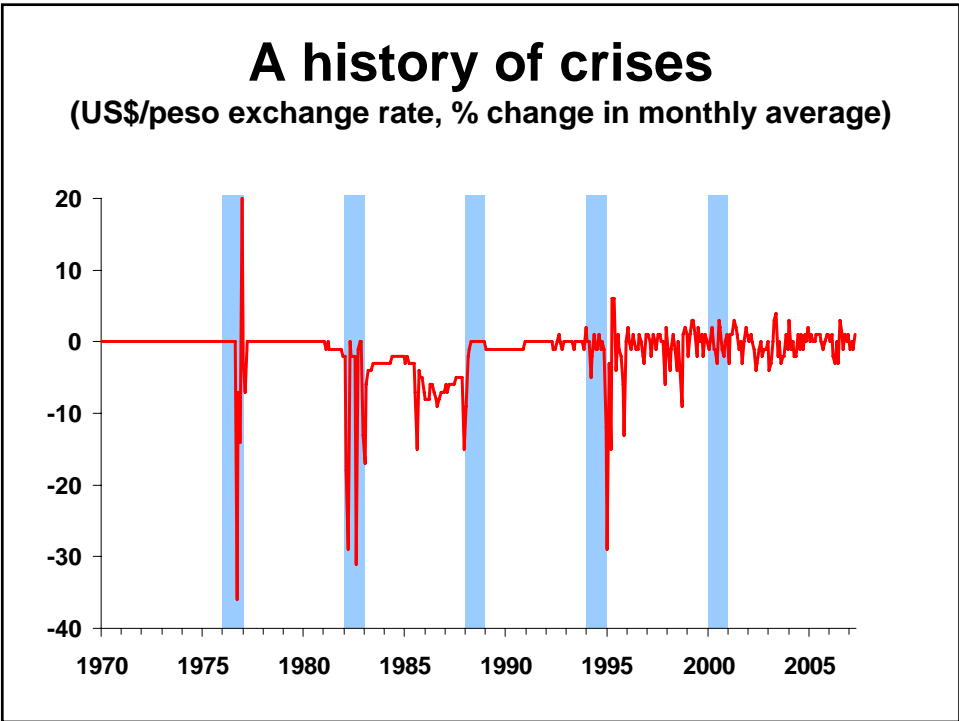
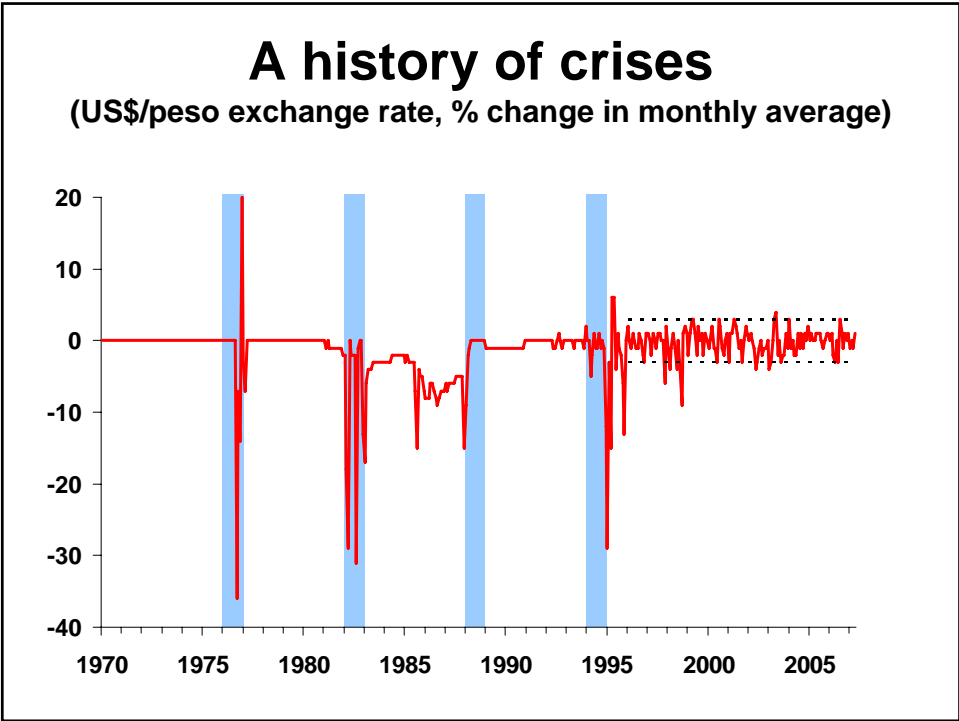
Laying the Foundation for a Modern Financial System

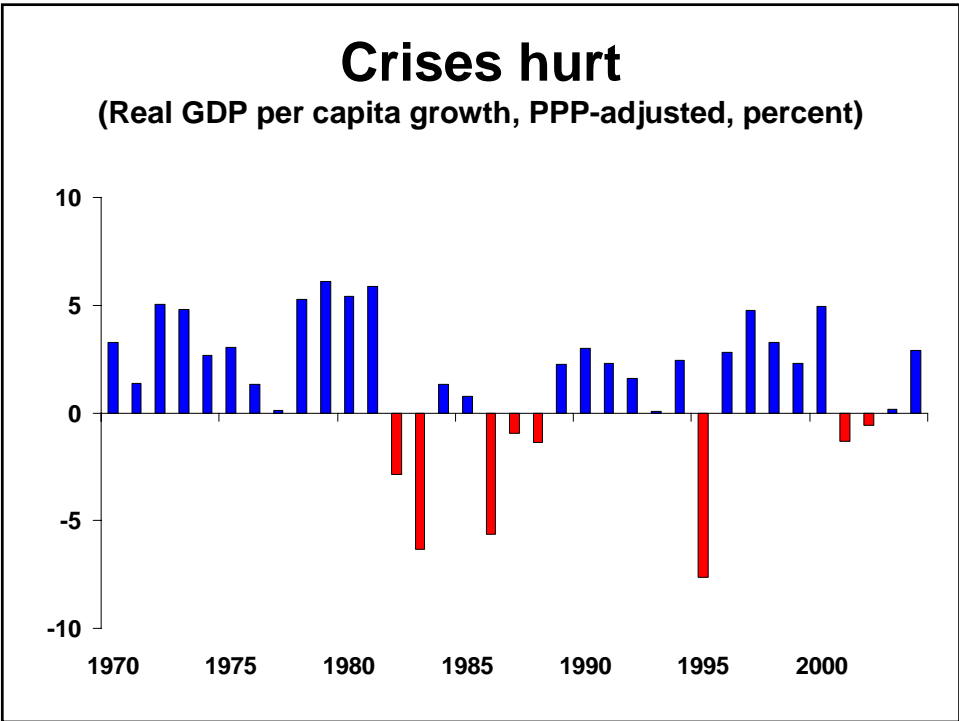
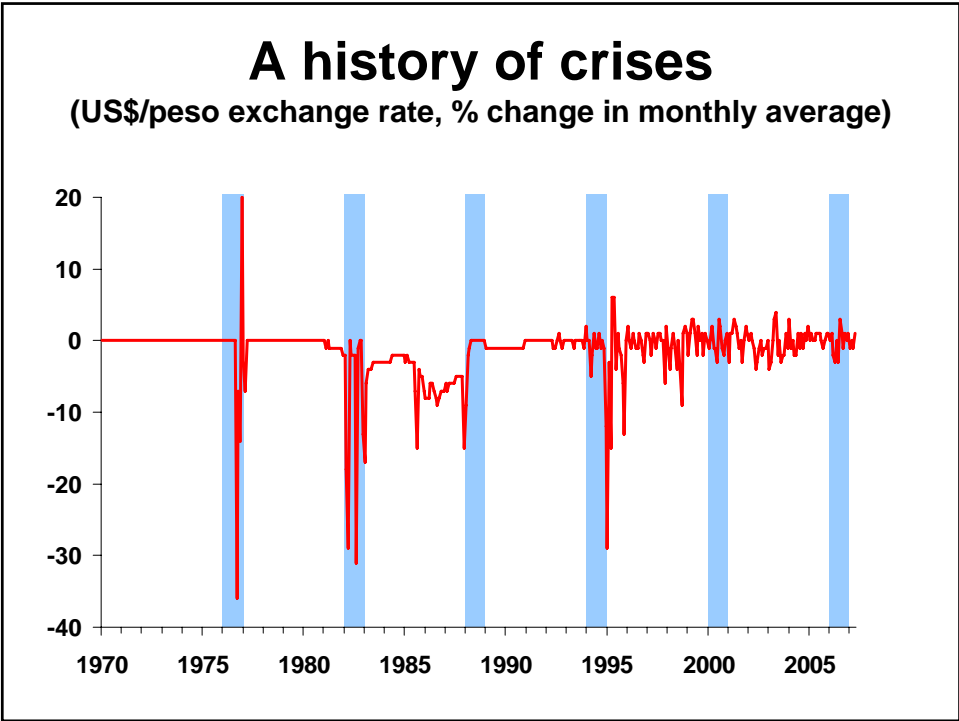


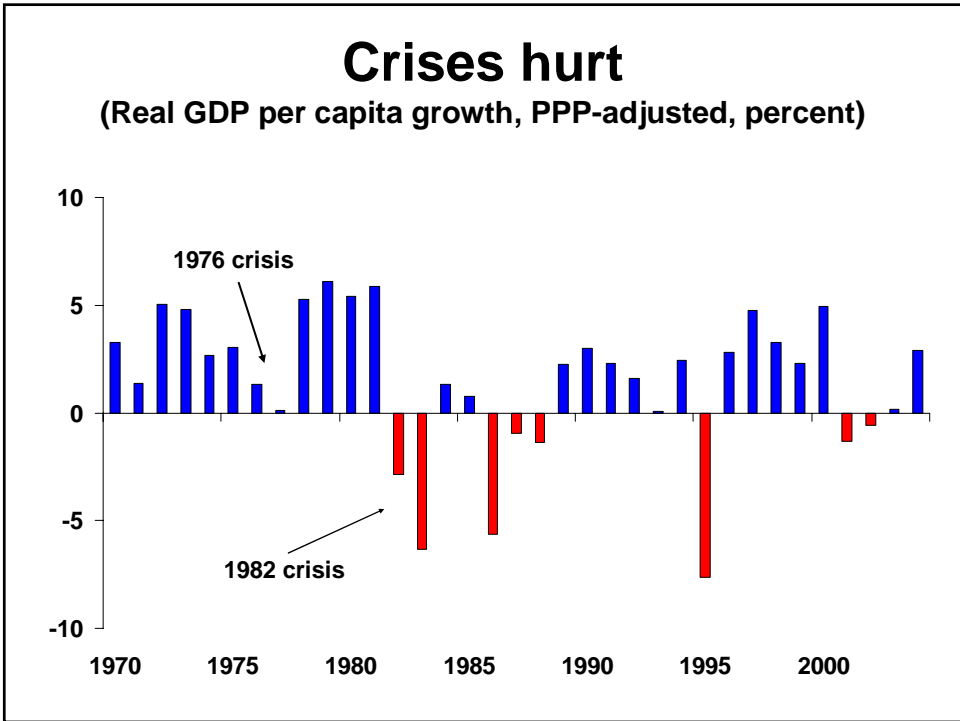
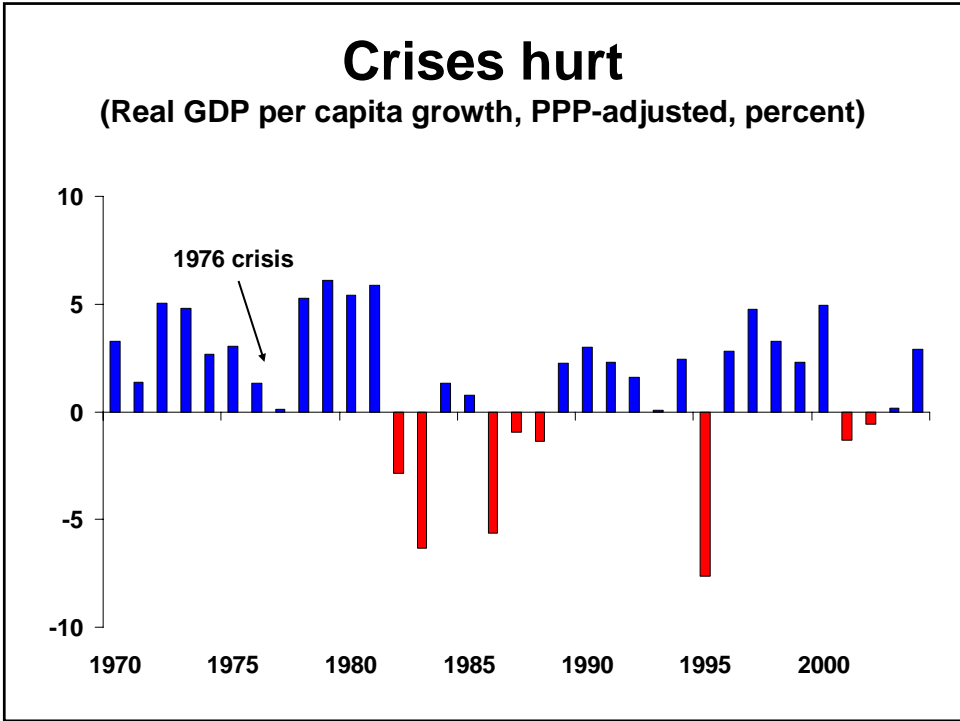
A history of crises

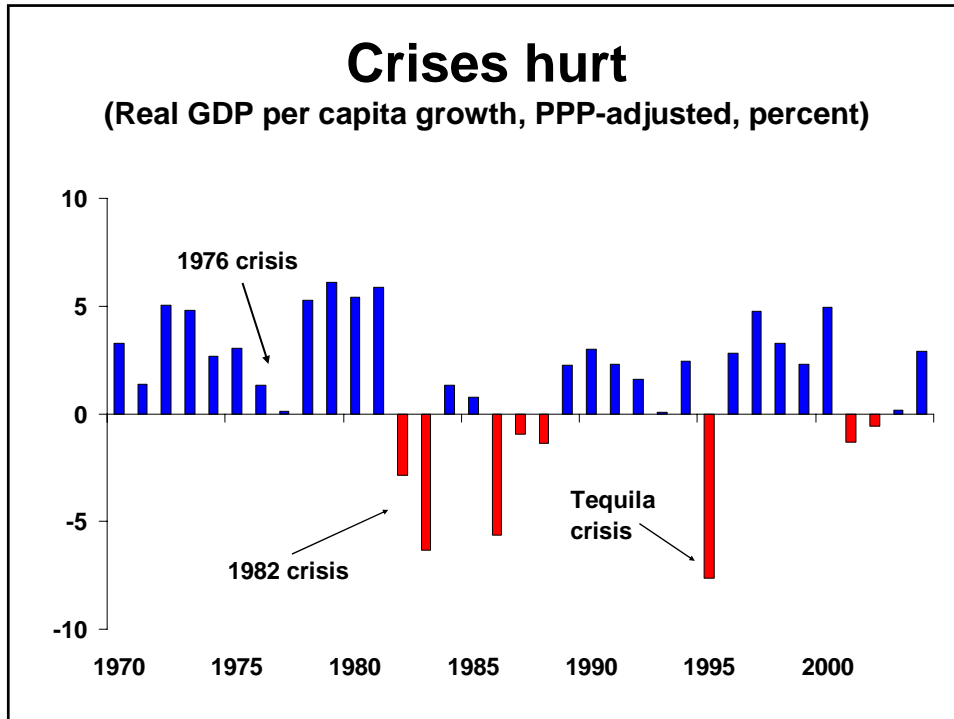
(US\$/peso exchange rate, % change in monthly average)





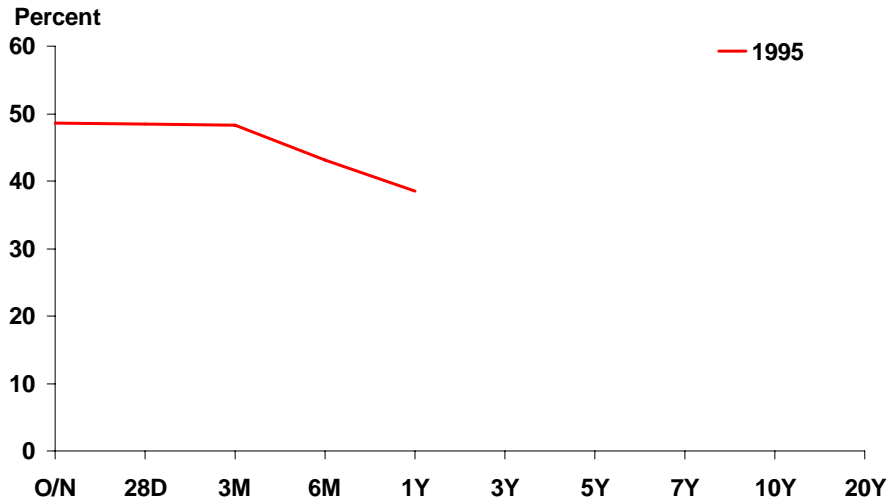




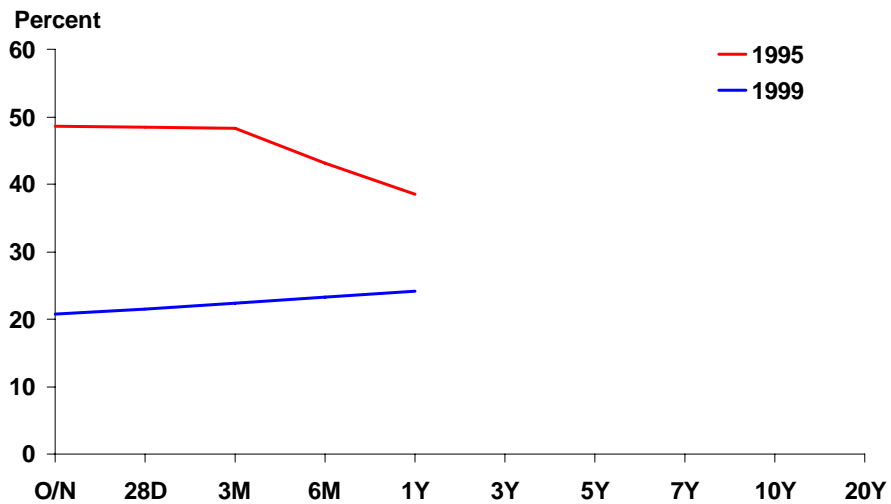


- ### Times Have Changed
- Interest rate developments
 - Bank lending booming
 - Financial system modernity emerging

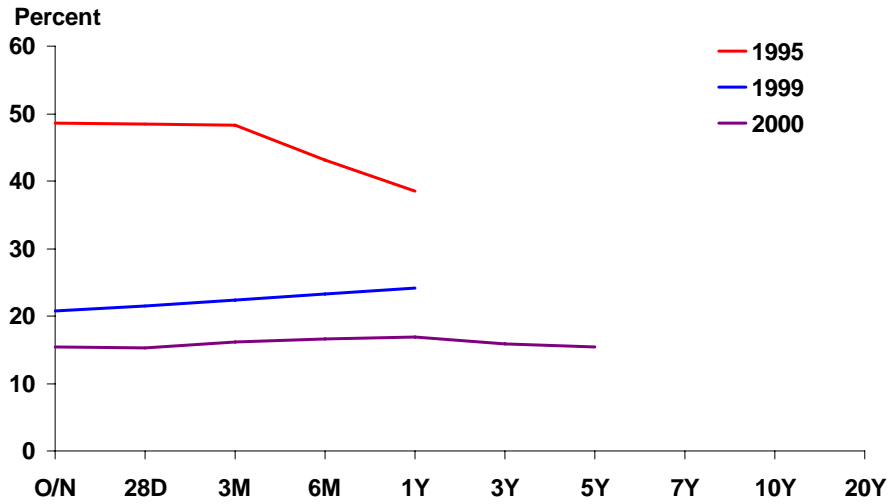
Mexico grows a yield curve



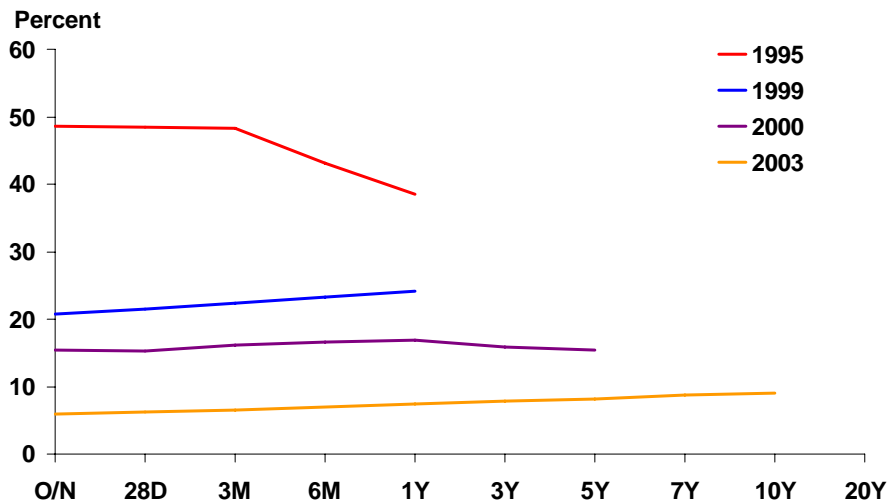
Mexico grows a yield curve



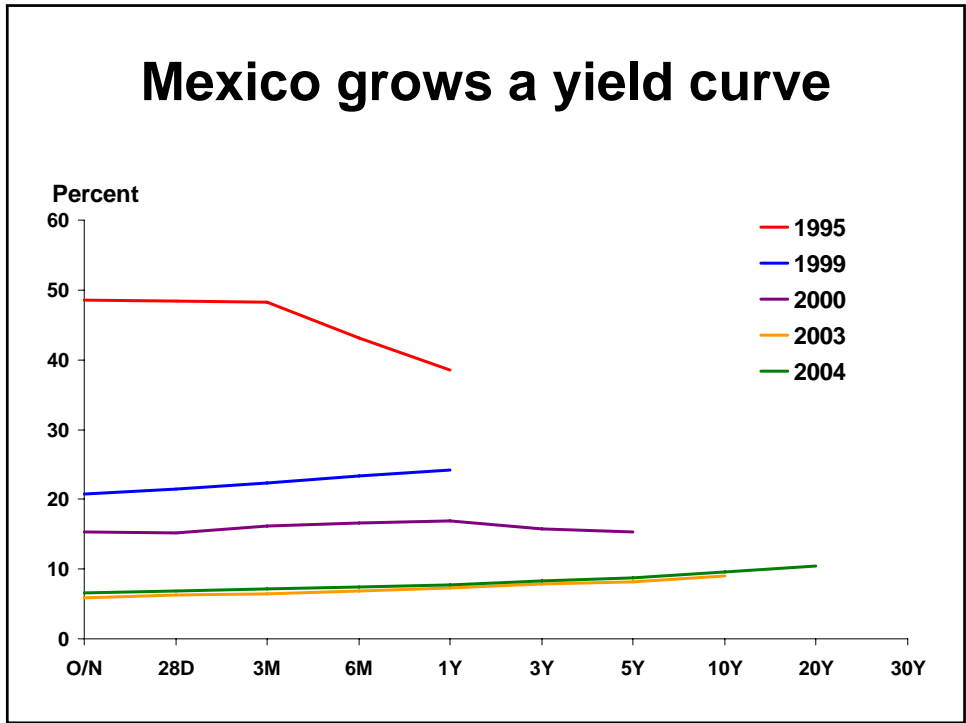
Mexico grows a yield curve



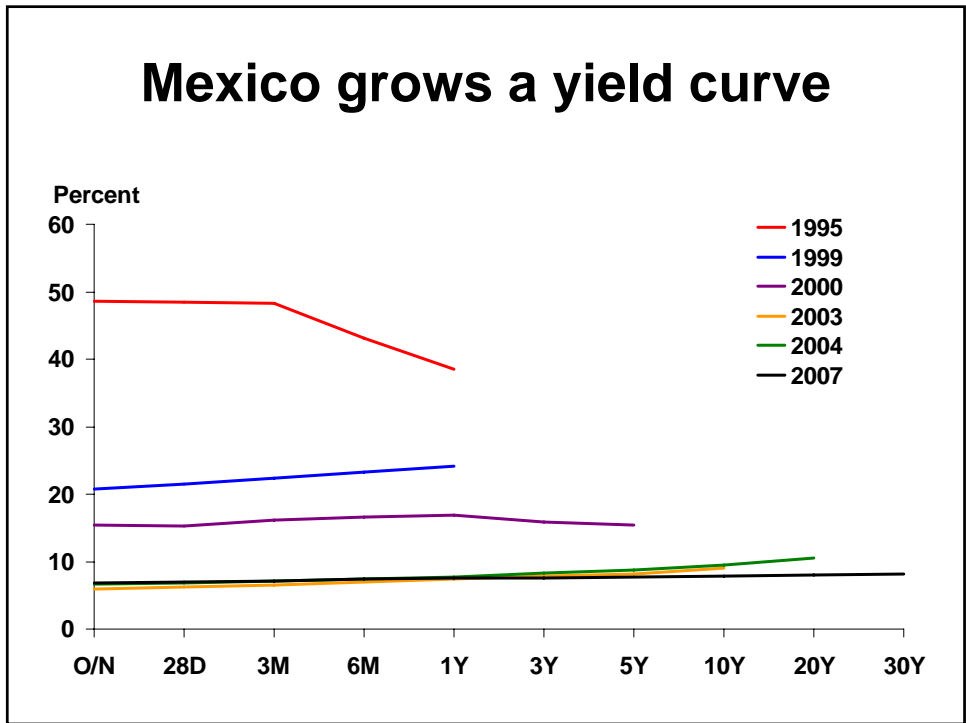
Mexico grows a yield curve



Mexico grows a yield curve

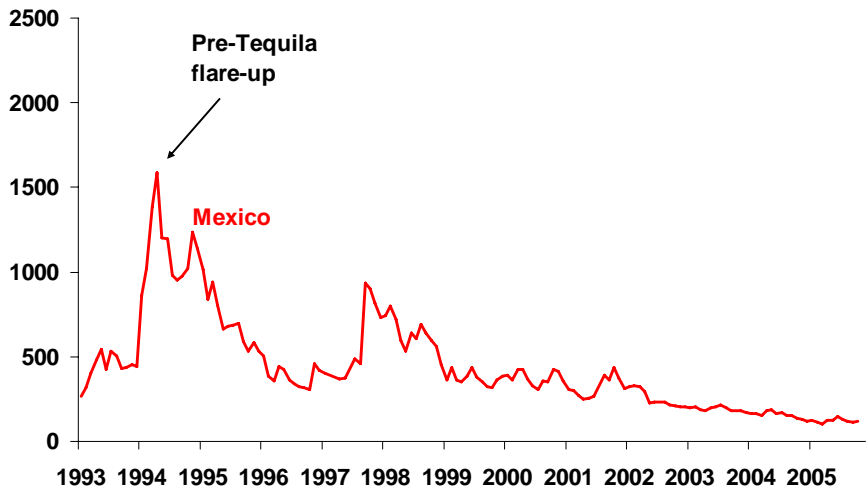


Mexico grows a yield curve



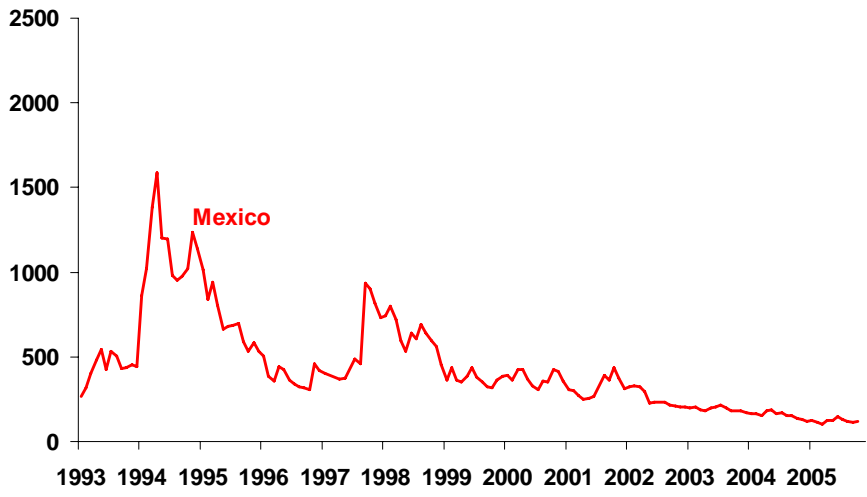
Where's the sexenio?

(Country premium, basis points)



Where's the sexenio?

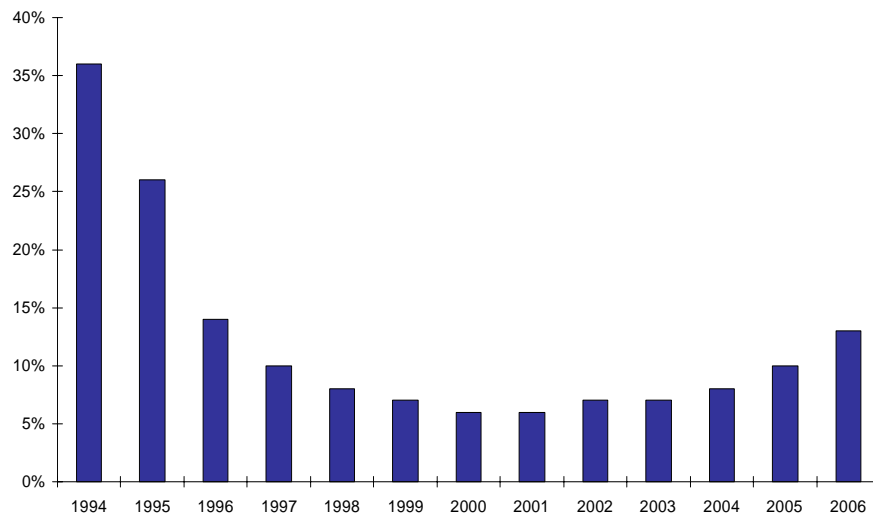
(Country premium, basis points)



Times Have Changed

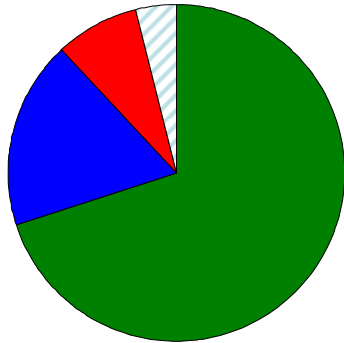
- Interest rate developments
- **Bank lending booming**
- Financial system modernity emerging

Bank Financial Penetration



Bank Lending...Before

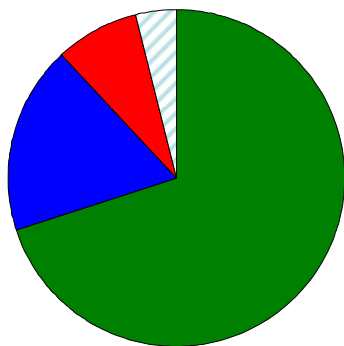
1994



Government Business Mortgage Consumer

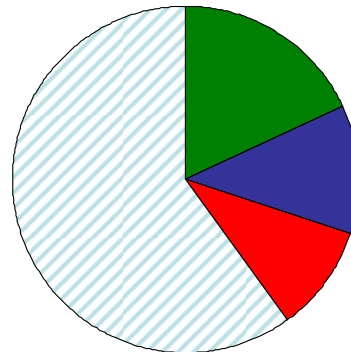
Bank Lending...After

1994

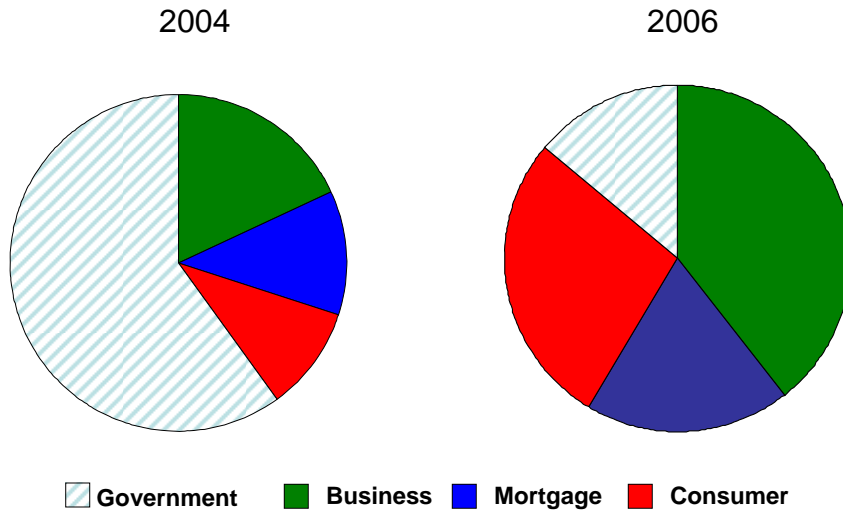


Government Business Mortgage Consumer

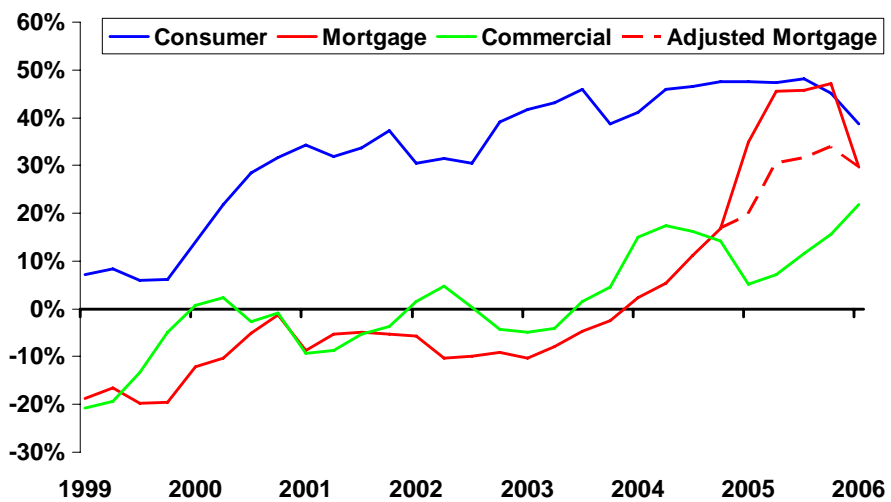
2004



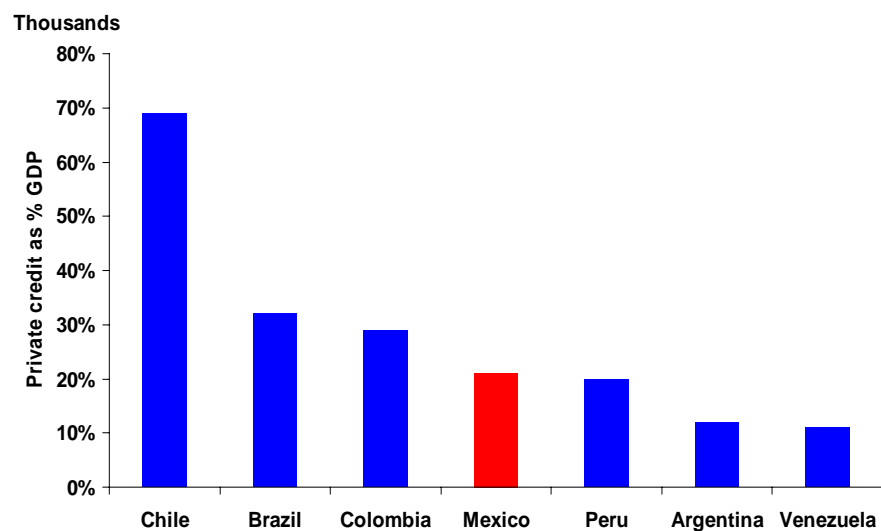
Bank Lending...Dramatic Recovery



Bank Loan Growth



Mexico's Financial System Still Small



Mexican Commercial Banks As of December 2006

	Total Assets (US\$billions)	Market share (percent)	Branches
BBVA-Bancomer	70.6	22.9	1,733
Citibank-Banamex	62.4	20.2	1,451
Santander-Serfin	54.0	17.5	914
Banorte	33.7	10.9	978
HSBC	30.4	9.8	1,347
Scotiabank-Inverlat	11.9	4.3	426
Medium and small banks (18)	24.4	7.9	339
Small foreign subsidiaries (11)	15.4	5.0	17
Banks owned by retailers (5)	4.5	1.5	1,165
Total (40)	308.9	100.0	8,370

Times Have Changed

- Interest rate developments
- Bank lending booming
- **Financial system modernity emerging**

Impact of Financial Globalization

- **Generally favorable impact on efficiency**
- **Studies show greater stability**
- **Higher quality intermediation**
- **Introduces new technologies and distribution channels**
- **Especially acute in emerging markets**

Securitization

Evidence of Mexico's Financial
System Success

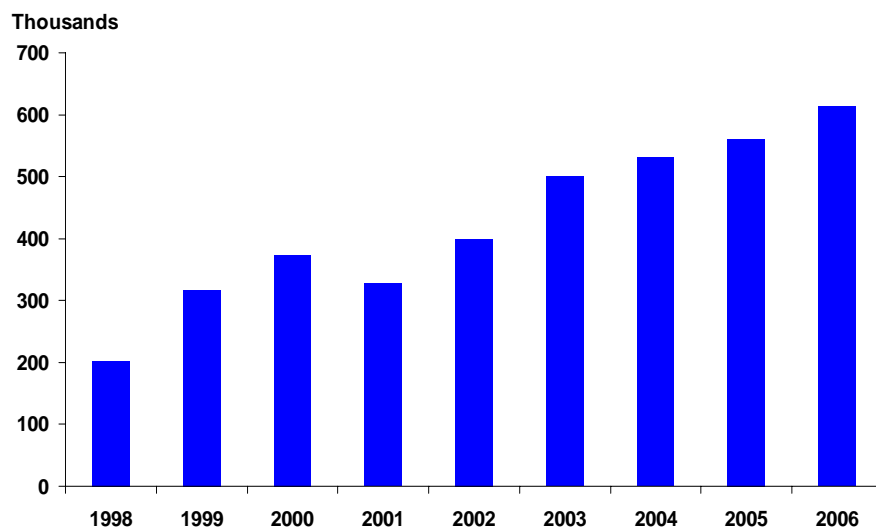
Top 10 Emerging Market Mortgage-Backed Security Issuers (June 2004 – June 2006)

Rank	Country	Deal Value (US\$ million)	Number of deals
1	South Korea	9,850.4	21
2	Mexico	1,732.1	27
3	Malaysia	1,087.5	2
4	South Africa	988.4	4
5	Taiwan	729.5	5
6	China	362.3	1
7	Chile	51.1	2
8	Czech Republic	27.5	2
9	Latvia	15.0	1
10	Argentina	13.3	1

The Rewards of Securitization

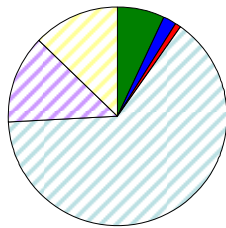
- Increased financial market efficiency
- Attractive alternative for institutional investors
- Greater risk diversification

Rapid Growth of Mortgage Originations



Private Sector Gaining Market Share

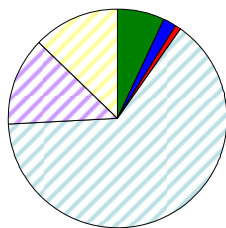
2002
US\$7.1 billion



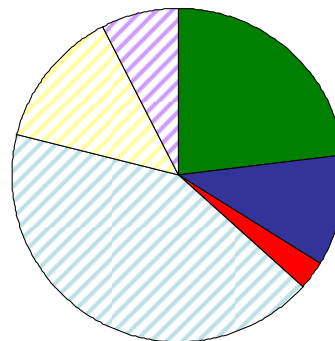
Private entities: ■ Banks ■ Sofoles ■ Other private
Public entities: ▨ Infonavit ■ SHF ■ Other public

Private Sector Gaining Market Share

2002
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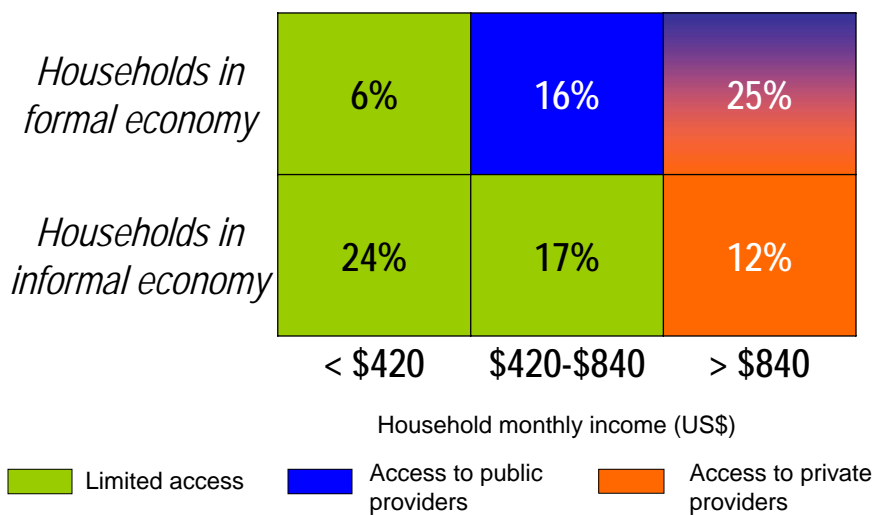


2006
US\$15.5 billion



Private entities: ■ Banks ■ Sofoles ■ Other private
Public entities: ▨ Infonavit ■ SHF ■ Other public

Who Qualifies for Mortgages?



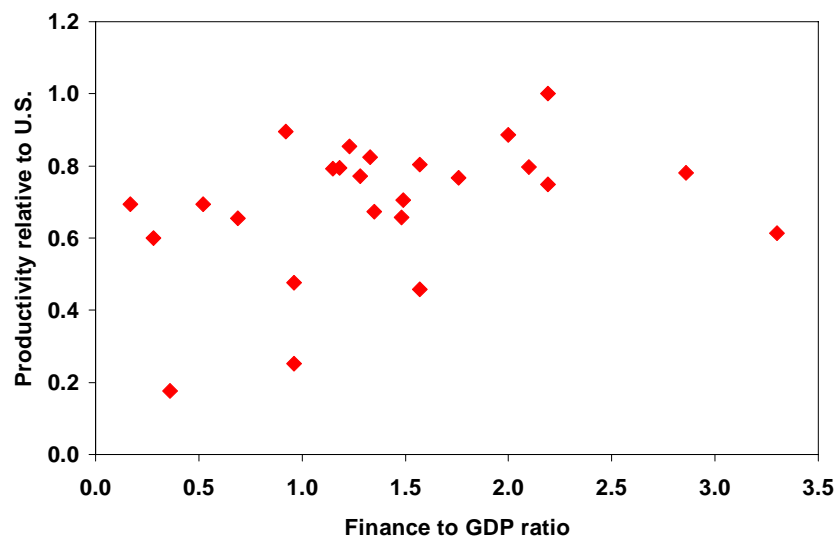
Going Forward

- **Borrowers' access to cheaper mortgages**
- **Households' enhanced economic well-being**
- **More liquid housing industry**
- **Greater household mobility**

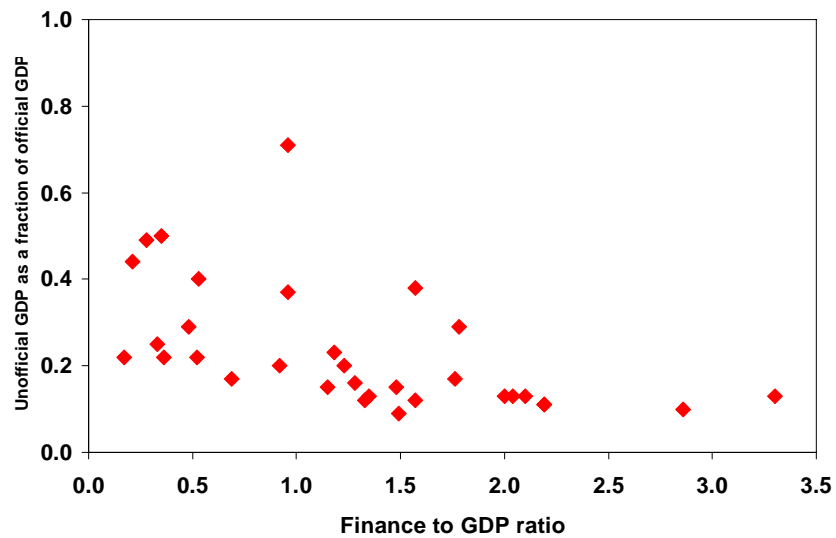
Financial Development Important

- 1) Promoting investment (*capital intensity channel*)
- 2) Directing capital to better uses (*efficiency channel*)

Financial Development and Productivity



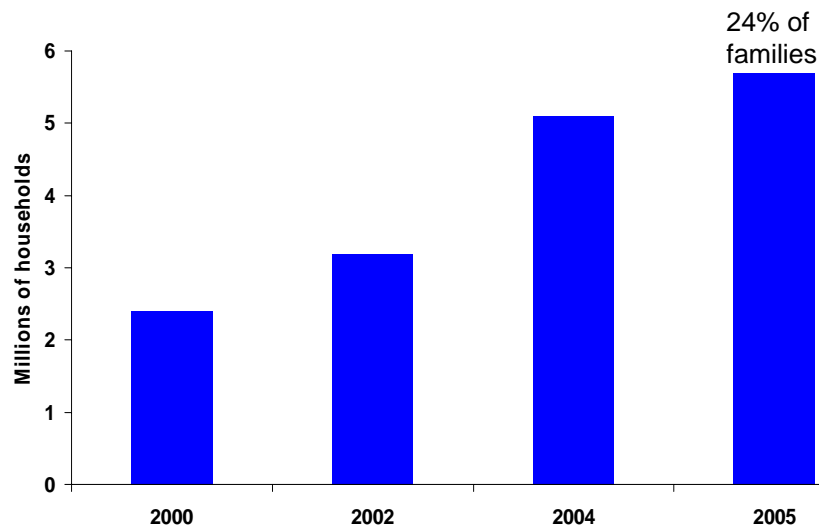
Financial Development and Informality



Implications

- Developing nations and informal activity
 - Unregulated, untaxed and often unreported
 - Can be 50 – 80 percent of GDP
- Costs of operating formally: taxes, bureaucratic costs, bribes...
- Benefits?
- When finance is scarce, costs can outweigh benefits

Formal Sector Financing



Conclusion

- Mexico had been plagued by crises
- Two possible responses:
 - Nationalize
 - Globalize
- Mexico financial system a true success story...
- ...but issues remain

Thank you!