



SPEECH

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MEXICO: AN OPPORTUNITY FOR FINANCIAL INCLUSION IMF MANAGING DIRECTOR CHRISTINE LAGARDE

Introduction

Buenas tardes. Distinguidos Senadores, Diputado Muñoz Ledo, miembros de la mesa directiva, honorables invitados, damas y caballeros. I would like to express my appreciation to Senate President Batres for the kind introduction, and to Senator Monreal for his invitation to speak today. And I am happy to have met with your colleagues from the Political Coordination Board just a moment ago.

It is my great pleasure to be in Mexico City, speaking in this impressive new Senate building.

I was last here for the 2014 International Forum for Financial Inclusion, and I return to address this same crucial issue. Today, we have an opportunity to assess the progress of the past five years—and to highlight the challenges still to be addressed as this great country works to improve the lives of the millions who remain in poverty.

Mexico's Nobel laureate poet, Octavio Paz, offered an insight in his 1950 essay *El Laberinto de la Soledad*.ⁱ He said, *La soledad es la realidad mas profunda de la condición humana*.ⁱⁱ That is to say, we as humans are the only beings who know that we are alone.

We know we can break through isolation with human contact; with friendship. But how do we break down the solitude of poverty? We do this by building an inclusive economy and by increasing access to financial services so that all Mexicans can aspire to save and borrow—to buy homes and build businesses.

Over the past half-decade, the world has witnessed remarkable change in the universe of finance. Microfinance has grown rapidly. Mobile banking has helped tens of millions—especially women—gain access to banking services. Fintech has emerged as the frontier of finance.

I am glad to see that since my last visit, there has been progress to enhance financial inclusion. This is thanks to reforms that Mexicans from across the political spectrum have put in place to expand access to financial services.

But the solitude of poverty remains a fact of life for millions, especially those who live in the poor South.

In other words, Mexico has taken an important step on the road to financial inclusion. But this is not the moment to pause. Much more remains to be done!

I know you are ready to face this task. President López Obrador has made reducing poverty and inequality a goal of his administration. He has put forward concrete proposals to strengthen financial inclusion. There is reason to be optimistic.

So, what I would like to do today is, first, to speak in greater depth about the importance of financial inclusion; then outline the advances that we have seen here in Mexico; and, finally, address the efforts that are still needed.

The Role of Financial Inclusion

Mexico has stood out for years as a country with strong policies and institutions. This includes prudent fiscal policy and a central bank known for its independence and success in ensuring low inflation.

But in recent decades growth has failed to reach the levels that can substantially reduce poverty and inequality. As you are well aware, corruption and crime have played an important role limiting growth, and addressing these issues is an important policy priority. Other constraints on growth include labor market informality, limited competition in some sectors, and inadequate access to financial and telecommunication services.

Raising growth must be a priority, but the kind of growth matters.

IMF research shows that greater equality can help reinforce stronger and more durable economic growth. Inclusive growth creates opportunities for a better life—for families and communities. Our research also establishes that access to financial services has an impact on this dynamic.

And one group who can benefit most is women, who are less likely to have bank accounts—as is the case in Mexico.

This gender issue is a universal issue. Of the 1.7 billion people around the world who are unbanked, nearly one billion are women. Empowering them financially will open many doors, including participation in the labor force.

Expanding financial inclusion requires a delicate balance of government policy and private sector initiative. The government's role is to provide a supportive regulatory environment that fosters competition and growth, as well as strong and independent supervisory institutions.

Commercial banks and other financial institutions, in turn, provide the sinews of finance. Their networks of branch offices and agents can support the economy down to the village level. And where they don't exist, mobile banking and other innovations now can fill the void.

But I would also like to offer a word of caution: it is crucial to balance financial deepening with safeguards for financial stability and consumer protection.

Moving too fast to expand services and markets, without appropriate supervision, carries the risks of financial instability. This is a lesson that Mexico learned in the 1990s, and learning that lesson likely helped avoid a more painful experience during the Global Financial Crisis.

Finally, we should also bear in mind that financial development benefits from competition among financial institutions as well as from other economic reforms. For example, extending internet coverage supports mobile banking and helps reduce regional disparities.

So where does Mexico stand in its efforts to expand financial inclusion? Let's take a closer look.

Advances in Inclusion

Many initiatives have been undertaken since my last visit, and I would like to highlight that the Bank of Mexico has shown impressive leadership in this area. Three years ago, the government's National Strategy for Financial Inclusion was launched with the important goal of increasing low-income households' access to financial services.

I think the numbers speak to heartening progress.

More Mexican adults now have bank accounts. Your own national survey shows that nearly half of all adults have accounts, compared with only 36 percent in 2011.

Social programs have helped: over the past five years the government has opened accounts for some four million people to receive social or cash transfers. And 80 percent of those accounts belong to women.

Another key development: the network of banking agents has expanded nationwide, increasing services to remote areas. Those served in the countryside more than doubled in six years to eight million adults.

Technology also has helped. The number of adults who use mobile banking services has increased significantly since 2012. But the reality remains that only a small proportion of the population is taking advantage of these services.

Meanwhile, the expansion of microfinance has benefited many small entrepreneurs—again, especially women. For example, in the microfinance network Pro-Desarrollo, women now represent 95 percent of group-credit customers and half of individual borrowers.

More to Accomplish

Ladies and gentlemen, congratulations are in order for the progress your country has made in pursuit of financial inclusion.

But more still needs to be done if Mexico is to achieve levels on par with its peers.

Mexico had a little over 1,000 bank accounts per 1,000 adults last year. But the average across emerging market economies is nearly 1,500 accounts. I would add here that while there has been progress bringing women into the financial system, Mexico still lags some other Latin American countries in many respects, as IMF research has shown.

And more must be done for rural areas and smaller cities. Citizens in three-quarters of Mexico's municipalities do not have even one access point for financial services within a two-kilometer walk.

And when it comes to replacing cash as a means of payment, Mexico lags even further: 95 percent of daily purchases under 500 pesos are made with cash. By contrast, tens of millions of people in China barely use cash at all. They rely solely on mobile electronic payments.

The Way Forward

So, how to bridge the remaining gap, and benefit all Mexicans?

As I said a moment ago, growth has disappointed in recent decades, and that has hampered the effort to reduce poverty. Better access to financial services is one important way to achieve higher rates of growth. Important reforms have helped advance financial inclusion, but there clearly is room for more progress.

I met this morning with President López Obrador, and I was heartened by our conversation. The President made clear that he is resolved to lift Mexico's economic growth and reduce inequality. He also is committed to enhancing financial inclusion, especially encouraging much wider use of mobile banking.

I am impressed with the government's first steps.

One initiative is to improve electronic banking. I hear that pilot programs are underway to test-run the CoDi digital platform to enable real-time electronic payments via mobile phones. This could open the door to the financial system for millions of Mexicans.

Efforts to expand the mobile network also can bring more financial services to the most remote areas. As we have seen in other countries, this use of technology can be a game changer. Kenya's mobile payment service, M-PESA, is a well-known example.

In the realm of institutional finance, the decision to allow pension funds greater flexibility with their investments can help channel savings to more productive uses. In time, it also may provide more opportunities to expand participation in the financial system.

Let us also not forget that financial institutions themselves are an important part of the equation when it comes to financial deepening and inclusion. Continued progress in promoting competition in the banking sector and streamlining bankruptcy could boost incentives for banks to extend credit.

The fintech law approved last year by the Congress was an important step forward and provides a comprehensive framework for innovation while protecting financial stability. This balance is embedded in the Bali Fintech Agenda, a statement of principles developed by the IMF and World Bank last year and endorsed by our 189 member-countries.

Mexico is among the Latin American countries that are taking the lead in encouraging the use of innovative technologies in the delivery of financial services. Your more than 300 startups offer a menu of services like payments and remittances, microfinance and crowdfunding, and credits to pay for health services. I would emphasize that remittances, which are important for the Mexican economy, can benefit from highly transparent, low-cost solutions that enable rapid payment processing.

Fintech can provide a toolkit for the transactions that Mexicans need. This is the point of financial inclusion—to create opportunities that offer access and hope.

At the IMF, we have embraced the emergence of fintech and are prepared to provide the full support of our growing technical expertise on the regulatory aspects of this innovative technology.

Conclusion

In conclusion, it is a moment of change and challenge for Mexico. In the face of an uncertain global environment and modest growth prospects, it is encouraging to see a consensus that progress must continue—and accelerate. But the challenge of deeply engrained poverty remains a huge obstacle that must be addressed without pause.

There are many good ideas and initiatives, and I am optimistic that you can continue to advance financial inclusion. I am eager to see where you are five years from now.

Mexico is a country with a long history, deep and vibrant traditions, and powerful aspirations for the future. The road to reaching that future must begin by sharing the dream with all Mexicans.

The great Mexican artist Frida Kahlo once said: *Al final del día podemos aguantar mucho más de lo que pensamos que podemos.*ⁱⁱⁱ

I would like to add that by breaking the solitude of poverty, we can reap much more than we think we can.

We at the IMF are proud to work with your government and your people to help reap these gains.

Thank you for your time.

El **Centro de Estudios Internacionales Gilberto Bosques** del Senado de la República tiene como objeto la realización de estudios y el acopio de información sobre temas de política internacional y política exterior de México; así como el prestar apoyo a las comisiones de relaciones exteriores para el desarrollo de sus actividades y el ejercicio de las facultades exclusivas del Senado en materia de política exterior; además de auxiliar a los órganos directivos, comisiones, grupos parlamentarios y senadores que así lo requieran en cuanto a diplomacia parlamentaria y protocolo en el ámbito internacional.

ⁱ The Labyrinth of Solitude, 1950

ⁱⁱ Solitude is the profoundest fact of the human condition.

ⁱⁱⁱ At the end of the day, we can endure much more than we think we can.