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Folder Title: Urban Assistance Conference Papers - Mexico

Folder ID: 30138273

Series: Conference on Improving the Effectiveness of Urban Assistance files

Dates: 11/01/1985 – 11/30/1985

Fonds: Records of the Urban Development Sector

ISAD Reference Code: WB IBRD/IDA URB-4314S

Digitized: 02/15/2022

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Urban Ass. Conference

Papers

(Mexico)

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 **Archives**
A1994-026 Other #: 2 **30138273**
Urban Assistance Conference Papers - Mexico **167085B**

THE MEXICAN HOUSING FINANCE SYSTEM: RECENT REFORMS

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MEXICO CITY
NOVEMBER, 1985

THE MEXICAN HOUSING FINANCE SYSTEM: RECENT REFORMS

THIS PAPER ADDRESSES THE SUBJECT OF WHAT IN MEXICO IS - CALLED THE "HOUSING FINANCE PROGRAM". THIS PROGRAM INCLUDES - LOANS GRANTED BY THE COMMERCIAL BANKING SYSTEM. THERE ARE OTHER SOURCES OF FINANCING TO THE HOUSING SECTOR WITHOUT COMMERCIAL - BANKS' PARTICIPATION.

MANDATORY INVESTMENT REGULATIONS BY THE CENTRAL BANK - REQUIRE COMMERCIAL BANKS TO ALLOCATE RESOURCES TO HOUSING AND THEY ALSO SPECIFY THE TERMS THAT SHOULD BE APPLIED. THE SPECIFIC RULES ARE DEFINED AND THEIR APPLICATION SUPERVISED BY THE CENTRAL BANK WITH THE - HELP OF "FOVI" (FONDO DE OPERACIÓN Y FINANCIAMIENTO BANCARIO A LA VIVIENDA). FOVI IS A TRUST FUND WHICH OPERATES AS A SECOND TIER BANK. ITS RESOURCES ARE USED TO COMPLEMENT THOSE REQUIRED TO BE INVESTED BY BANKS.

THIS COMBINED SYSTEM ORIGINATED AT A TIME WHEN THE COUNTRY'S MACROECONOMICS WAS DEFINED IN TERMS OF ECONOMIC STABILITY AND LOW INFLATION RATES. THE SYSTEM WORKED QUITE WELL FOR SEVERAL - YEARS. PREFERENTIAL INTEREST RATES WERE OFFERED BUT THEY WERE NOT ALWAYS LOWER THAN INFLATION RATES, THOUGH, OF COURSE, THEY WERE LOWER THAN MARKET RATES.

MEXICAN ECONOMIC OUTLOOK ~~W~~ CHANGED LATER ON AND INFLATION TOOK HOLD. BY THAT TIME, THE TERMS OF CREDIT WERE SEEN AS SOMETHING RIGID WHICH COULD NOT BE VERY EASILY CHANGED. THIS WAY, INTEREST RATES LAGGED WELL BEHIND THE LEVEL OF INFLATION.

INFLATION MEANT LARGER SUBSIDIES —GRANTED THROUGH CREDIT— AND GREATER PROBLEMS FOR BANKS, WHICH HAD TO TAKE CARE OF THIS BURDEN THROUGH THEIR PROFITS. FURTHERMORE, INFLATION CREATED, BY ITSELF, VERY STRONG BARRIERS FOR ADJUSTMENTS TO BE MADE. THE PROBLEM TO DEAL WITH WAS NOT ONE OF SIMPLY CHANGING THE TERMS — OF CREDIT OR MAKING THEM MORE FLEXIBLE TO THE NEW SITUATION. THIS KIND OF "SOLUTION" COULD ORIGINATE ADDITIONAL PROBLEMS, UN KNOWN TO A MARKET NOT USED TO HIGH RATES OF INFLATION.

ONE OF THE NEW PROBLEMS THAT FLEXIBILITATION COULD BRING ABOUT WAS THAT OF A GREATER LIQUIDITY BURDEN ON THE DEBTORS. THE POINT WAS NOT THAT OF HAVING THEM TO PAY A HIGHER REAL INTEREST RATE —AS COMPARED WITH THAT APPLIED DURING THE PERIOD OF PRICE-STABILITY— BUT ONE OF AN ACCELERATED REAL LOAN AMORTIZATION. THIS ACCELERATED AMORTIZATION —BROUGHT ABOUT THROUGH THE NOMINAL INTEREST RATE PAYMENT MECHANISM— MEANT THAT POTENTIAL HOUSE BUYERS WERE — BEING CROWDED OUT OF THE FINANCIAL AND REAL ESTATE MARKETS. THEREFORE, THE SUBSIDY PROBLEM COULD NOT BE SOLVED BY SIMPLY RISING INTEREST RATES, WITHOUT RUNNING THE RISK OF NOT FINDING POTENTIAL DEBTORS WITH ENOUGH ABILITY TO PAY.

AS IT IS WIDELY KNOWN, INFLATION DOES NOT AFFECT FINANCIAL AND ECONOMIC VARIABLES IN A SYMETRICAL OR PROPORCIONATE WAY. THUS, IF INTEREST RATES FOLLOW INFLATION RATES, THIS PROPORTIONATE ADJUSTMENT HAS A DISPROPORTIONATE EFFECT ON THE REAL AMORTIZATION PROFILE SPECIFIED BY TRADITIONAL LOAN CONTRACTS, SPECIALLY THOSE FOUND IN THE MORTGAGE MARKET. THE EFFECT OF

INFLATION IS ONE OF REQUIRING A LARGER REAL PAYMENT OF THE -
PRINCIPAL WITHIN THE FIRST OF THE CONTRACTED INSTALLMENTS. LET
US REMEMBER THAT CREDIT CONTRACTS ARE WRITTEN IN REFERENCE TO
CURRENT VALUES, NOT REAL VALUES. THEREFORE, IN THIS, AS IN MANY
OTHER CASES, ADJUSTMENTS CANNOT BE NEUTRAL.

ANOTHER CONSEQUENCE OF THE PHENOMENON JUST DESCRIBED, IS
THAT OF A DISPLACEMENT OF POTENTIAL "CUSTOMERS" OFF THE SYSTEM
AND THE SUBSTITUTION OF OTHERS WITH HIGHER INCOME, WHO WERE
NOT ORIGINALLY THE TARGET POPULATION OF THE FINANCE SYSTEM. ALL
OF THESE FACTORS HELP TO EXPLAIN WHY THERE WAS STRONG OPPOSITION
TO INTEREST RATE INCREASES AND WHY THEY LAGGED BEHIND INFLATION.

EVEN THOUGH INTEREST RATES LAGGED, THEY TENDED TO BE -
ADJUSTED ANYWAY. THIS SLOW AND INSUFFICIENT -TO LOWER SUBSIDIES-
MOVEMENT, WAS ENOUGH TO CAUSE THE NARROWING OF POTENTIAL POPULATION
TO BE BENEFITED AND THE SUBSTITUTION OF HIGHER INCOME GROUPS.
POTENTIAL DEBTORS WERE REQUIRED TO EARN A LARGER INCOME IN ORDER
TO BE ABLE TO PAY THE FIRST INSTALLMENTS OF THEIR LOANS.

IN ORDER TO PAY FOR THE SAME KIND OF HOUSING, LARGER
INCOMES WERE REQUIRED, EACH TIME THAT INTEREST RATES WERE INCREASED,
HOWEVER SMALL THESE INCREASES WERE AND HOWEVER LOW INTEREST RATES
WERE. FOLLOWING THIS PATH, THE HOUSING FINANCE PROGRAM WAS EX-
HAUSTING ITSELF AND IT NO LONGER TENDED TO RESPOND TO THE INITIAL
OBJECTIVE OF TARGETING ON RELATIVELY LOW-INCOME GROUPS. FURTHER-
MORE, EVEN THOSE WITH HIGHER INCOMES WERE IN THEIR OWN WAY TO
GET OFF THE SYSTEM.

IT SHOULD BE NOTICED THAT THE HOUSING FINANCE PROGRAM -AS IT CAME FROM THE 60S INTO THE 70S- WAS NOT A CAUSE OF INFLATION. SUBSIDIES WERE INITIALLY MODERATE AND COULD NOT BE HELD RESPONSIBLE FOR STARTING UP THE ERA OF INFLATION.

ON THE CONTRARY, IT WAS INFLATION -EXPLAINED BY OTHER FACTORS- THAT INEVITABLY HURT THE PROGRAM'S FEASIBILITY AND LED IT TO IRRADIATE MANY OF INFLATION'S INCONVENIENCES AND DISTORTIONS. THE FINANCE SYSTEM SUPPORTING THE PROGRAM WAS REQUIRED TO FIGHT FOR ITS LIFE, BY MAKING USE OF THE SAME FACTORS WHICH, IN A BROADER SENSE, WERE SOME OF THE RESPONSIBLE ONES FOR INFLATION- THAT IS, GENERALIZED AND GROWING SUBSIDIES.

AT THIS POINT, THE QUERY ABOUT THE SYSTEM WAS WHETHER THE FINANCE PROGRAM COULD BE ONLY MAINTAINED ON A VERY LIMITED SIZE OR ~~THE~~ SUBSIDIES COULD BE CONTROLLED.

WITH THIS VIEW IN MIND, DIFFERENT WAYS OF GOING ABOUT REFORMING THE TERMS OF CREDIT WERE CONSIDERED. THE REFORM WAS INTENDED TO REDUCE SUBSIDIES AND CONTROL THEM AND TO MAKE DEBTORS ABLE TO MEET THE TERMS OF CREDIT BY THEIR OWN MEANS.

THE SPECIFIC MECHANISM ADOPTED IN 1984 AND BEING AT WORK TODAY IS NOT AN "IDEAL" ONE. ITS ADOPTION WAS THE RESULT OF TAKING DIFFERENT CONSTRAINTS INTO ACCOUNT. THESE CONSTRAINTS, SOME OF WHICH ARE STILL RELEVANT, EXPLAIN WHY A "BETTER" SYSTEM WAS NOT IMPLEMENTED, AND NOT A LACK OF CHOICES.

AN OPEN DISCUSSION ABOUT WHAT AN "IDEAL" SYSTEM IS COULD BE HELD, BUT WHAT MUST BE POINTED OUT IS THAT AN ALTERNATIVE MECHANISM WAS TECHNICALLY AVAILABLE, GOING BEYOND A SIMPLE ADJUSTMENT OF INTEREST RATES. THE CENTRAL BANK HAD BEEN CONCERNED FOR SOMETIME ABOUT THE EFFECT OF INFLATION ON ACCELERATING THE REAL AMORTIZATION OF LOANS -IN THE CASE WHERE NOMINAL INTEREST RATES TEND TO FOLLOW INFLATION RATES, HOWEVER SLOWLY- AND IT WAS ALSO CONCERNED ABOUT THE EFFECT OF THE IMPLICIT REJECTION OF LOANS TO LOWER INCOME GROUPS.

AT THE TIME THE NEW SYSTEM OF HOUSING FINANCE WAS DESIGNED, IT WAS "TECHNICALLY" VIABLE TO ADOPT A SYSTEM WHICH MADE FLEXIBLE INTEREST RATES POSSIBLE, WITHOUT BEARING THE EFFECT OF CONCENTRAING REAL AMORTIZATIONS AT THE BEGINNING OF THE LOAN TERM. A SYSTEM DESIGNED TO MEET THESE PURPOSES WAS ALREADY AVAILABLE AND IT WAS ACTUALLY APPLIED IN OTHER CASES -THE FOREIGN EXCHANGE RISK COVER AGE OF PRIVATE EXTERNAL DEBT OFFERED PESO FINANCING WITH SUCH AN APPROACH.

THUS, IT SHOULD BE REMARKED THAT THE PRESENT MECHANISM - APPLIED TO HOUSING FINANCE, WAS NOT THE RESULT OF A LACK OF OPTIONS BUT THAT OF THE WORKING OF DIFFERENT CONSTRAINTS. THE PROBLEM HAD TO BE SOLVED FROM ESSENTIALLY A MARKET STANDPOINT, AND NOT SIMPLY BECAUSE OF POLITICAL AND SOCIAL FACTORS.

ONE ELEMENT OF IMPORTANCE IN THE DECISIONS TO BE MADE, WAS THAT OF THE POSSIBLE REACTION AND BEHAVIOR OF POTENTIAL USERS OF CREDIT. THEY, AS IN MANY OTHER PARTS OF THE WORLD, HAD BEEN USED TO LOOK AT THEIR CREDIT COMMITMENTS IN TERMS OF OUT OF PROPORTION

EFFORTS ^{ONLY} DURING THE VERY FIRST YEARS OF THE LOAN TERM, BUT CONSUMPTION SACRIFICE WAS EXPECTED TO EASE OFF LATER ON. ALMOST FIXED LOW INTEREST RATES AND HIGH INFLATION MEANT LOWER REAL - PAYMENTS TO MEET THEIR MORTGAGE CONTRACTS IN LATER YEARS. THIS MARKET EXPECTATION WAS NOT VOID OF SOCIO-POLITICAL IMPLICATIONS AND ^{AS A WHOLE,} ~~SO~~ A LIGHTENING OF DEBT BURDEN THROUGH TIME WAS EXPECTED - TO BE OFFERED.

THE ABOVE CONSIDERATIONS WERE TAKEN INTO ACCOUNT, SO AS - TO SEEK DECREASING INSTALLMENTS PAYMENTS - IN TERMS OF ^{THEIR} PROPORTION ^{TO} OF INCOME. THESE DECREASES WERE NOT ONLY DESIGNED TO MEET THE - POTENTIAL DEBTORS' EXPECTATIONS BUT ALSO TO MAKE THEM FEEL SECURE TO BE ABLE TO PAY BOTH FOR PRINCIPAL AND INTEREST. OF ALL POSSIBLE CHOICES, THE SPECIFIC ONE TO BE SELECTED WAS THAT REQUIRING "UNIQUE" MONTHLY PAYMENTS TO BE ADJUSTED AT A RATE LOWER THAN THE ANNUAL INCREASE IN MINIMUM WAGES - A 70 PER CENT ADJUSTMENT. THIS WAY, PAYMENTS WOULD FALL IN RELATION TO INCOME AS TIME PASSED BY.

THE LAGGED ADJUSTMENT OF PAYMENTS MEANS THAT THE REAL VALUE OF THE AMOUNT PAID MAY FURTHER LAG IF INFLATION ACCELERATES OR REMAINS HIGH. THIS INCONVENIENCE WAS ACCEPTED UNDER THE MACRO ECONOMIC EXPECTATION THAT INFLATION WOULD COME DOWN - THIS POINT WILL BE STRESSED LATER ON.

IN DESIGNING A NEW PAYMENTS SYSTEM FOR HOUSING LOANS, IT WAS CLEAR THAT IN ORDER TO HAVE SUBSIDIES REDUCED, INTEREST RATES SHOULD APPROACH MARKET LEVELS. SO, IT WAS DECIDED THAT PREFERENTIAL RATES SHOULD INCREASE EACH YEAR IN ACCORDANCE WITH AN ADJUSTMENT

MECHANISM LINKED TO MINIMUM WAGE INCREASES. THESE CHANGES SHOULD TAKE INTEREST RATES FROM THE LOW INITIAL LEVELS TO A LEVEL CLOSE TO MARKET RATES AND INFLATION RATES. IN ORDER TO DEFINE THESE OBJECTIVES IN QUANTITATIVE TERMS, A GOAL WAS SET FOR INTEREST RATES TO EVENTUALLY REACH THE C.P.P. LEVEL -THIS RATE AVERAGES THE COST OF BANK DEPOSITS OR BANK FUNDS.

SO, IT WAS DECIDED THAT INTEREST RATES SHOULD INCREASE, - THAT DEBTORS WILL BE GUARANTEED TO BE REQUIRED ONLY TO MAKE A - UNIQUE MONTHLY PAYMENT AND THAT PAYMENTS SHOULD NOT ACCELERATE - REAL AMORTIZATION OF LOANS. ALL THESE OBJECTIVES COULD ONLY BE ACHIEVED WITHIN THE FRAMEWORK OF SOME KIND OF AN "IDEAL" SYSTEM. ONE SUCH A SYSTEM-WHICH COULD BE IDENTIFIED AS PREDETERMINED "PRESENT VALUE PAYMENTS"- REQUIRES THAT ADDITIONAL FINANCING FOR INTEREST SHOULD BE OFFERED WHEN NECESSARY -THAT IS, WHEN INTEREST ACCRUED CANNOT BE MET BY THE SPECIFIED "UNIQUE" PAYMENT MADE BY THE DEBTOR.

THIS ADDITIONAL FINANCING AFFECTS THE CURRENT VALUE OF DEBT BUT NOT ITS REAL VALUE. BY THE SAME TOKEN, LENDERS ARE NOT REQUIRED TO COMMIT MORE REAL ASSETS. WHAT INTEREST FINANCING ACHIEVES IS ^{THAT} ~~THE FACT~~ OF IMPEDING INFLATION TO CONCENTRATE REAL AMORTIZATIONS AT THE BEGINNING OF THE LOAN TERM, WITHOUT REQUIRING INTEREST RATES TO REMAIN LOW. IT SHOULD BE NOTICED THAT ACCELERATION OF REAL AMORTIZATION -WHEN TRADITIONAL PAYMENT SYSTEMS ARE APPLIED- IS ACTUALLY OBTAINED THROUGH NOMINAL INTEREST PAYMENTS, SINCE NOMINAL PRINCIPAL PAYMENTS ARE GENERALLY FIXED.

IN AN "IDEAL" SYSTEM, TOTAL CORRECTION OF DISTORTIONS CAN ONLY BE ACHIEVED BY HAVING ADDITIONAL INTEREST FINANCING - GRANTED AS REQUIRED, WITHOUT ANY LIMIT. ON THIS MATTER, OTHER CONSTRAINTS HAD TO BE TAKEN INTO ACCOUNT. PAYMENT SYSTEMS WHICH REQUIRE ADDITIONAL INTEREST FINANCING ARE SOMETHING NEW IN THE MEXICAN FINANCIAL MARKETS. THEY ARE NOT QUITE UNDERSTOOD EITHER BY DEBTORS OR BANKERS. THEREFORE, IT WAS RECOGNIZED THAT SOME - KIND OF PSYCHOLOGICAL OPPOSITION WOULD ARISE BECAUSE DEBTORS WOULD WATCH THEIR DEBT GOING UP -THOUGH ONLY IN CURRENT TERMS AND NOT REAL TERMS. A SIMILAR THOUGH LESS STRONG OPPOSITION, COULD BE EXPECTED FROM BANKERS FACING A GREATER COMMITMENT OF RESOURCES -THOUGH AGAIN, ONLY IN CURRENT VALUE TERMS.

IN ANY CASE, IT WAS ^{AGREED} ~~EXPECTED~~ THAT POINTING OUT TO THE FACT THAT THE TOTAL REAL VALUE OF DEBT WOULD NOT INCREASE THROUGH ADDITIONAL INTEREST FINANCING, ^{WAS} ~~WOULD~~ NOT ~~BE~~ ENOUGH FOR OPPOSITION TO SUBSIDE. THEREFORE, A LIMIT TO ADDITIONAL FINANCING WAS IN ORDER. SOME OTHER CONSIDERATIONS TAKEN INTO ACCOUNT RELATE TO LEGAL REGULATIONS APPLYING TO ~~THE~~ REGISTRATION OF PROPERTY RIGHTS, LOAN GUARANTEES AND TAXES AND FEES TO BE PAID. A NOMINAL MAXIMUM VALUE~~S~~ FOR MORTGAGE GUARANTEES WAS REQUIRED, EVEN THOUGH THE LOAN - WAS RELATED TO A SPECIFIC PROPERTY WITH A GIVEN EXPECTED REAL VALUE THROUGH TIME.

A WIDE DISCUSSION ABOUT THESE MATTERS WAS UNDERTAKEN INCLUDING THE PARTICIPATION OF BANKERS. IT FINALLY WAS DECIDED THAT ADDITIONAL INTEREST FINANCING SHOULD NOT EXCEED 70 PER CENT OF THE ORIGINAL LOAN -IN TERMS OF CURRENT VALUE.

IN SUMMARY:

1. A FINANCING SYSTEM WAS ADOPTED TO REQUIRE A UNIQUE - MONTHLY PAYMENT, DESTINED TO PAY FOR BOTH PRINCIPAL AND INTEREST.
2. THE PROPORTION THAT THE UNIQUE MONTHLY PAYMENT REPRESENTS IN RELATION TO INCOME, IS EXPECTED TO DECREASE THROUGH TIME.
3. AS COMPARED TO TRADITIONAL MORTGAGE SYSTEMS, THE LIGHTENING OF THE DEBT BURDEN, IMPLICIT IN THE FOREGOING POINTS, IS - ACHIEVED THROUGH ADDITIONAL INTEREST FINANCING -EVEN THOUGH IMPERFECTLY, BECAUSE A LIMIT IS SET IN NOMINAL TERMS-, AND FINALLY,
4. INTEREST RATES ARE TO BE ADJUSTED SO THAT THEY CAN APPROACH MARKET AND INFLATION RATES.

FROM A MATHEMATICAL POINT OF VIEW, IT IS EASILY SEEN THAT THE ADOPTED NEW SYSTEM -GIVEN THE SPECIFIC LEVEL SET FOR ITS PARAMETERS- IS NOT ABLE TO ABSOLUTELY CONTROL SUBSIDIES. NO ONE WAS TRYING TO MAKE SUBSIDIES EQUAL TO ZERO. HOWEVER, LET US NOT FORGET THAT ORIGINAL OBJECTIVES WERE, AND STILL ARE, THOSE OF - ACHIEVING A GREAT REDUCTION OF SUBSIDIES AND THE CONTROL OF THEM AT SPECIFIC LEVELS. IN THIS CASE, ONE CAN STILL ASK, WHY WAS THE NEW SYSTEM IMPLEMENTED EVEN THOUGH SYBSIDIES ARE NOT CONTROLLABLE AT DIFFERENT RATES OF INFLATION?

AS IT HAS BEEN EXPLAINED, THERE WERE DIFFERENT CONSTRAINTS TO BE TAKEN INTO ACCOUNT. MARKET CONSIDERATIONS -BESIDES POLITICAL AND SOCIAL FACTORS- WERE SPECIALLY IMPORTANT IN PRECLUDING THE ELIMINATION OF ALL DISTORTIONS CAUSED BY INFLATION. ON THE OTHER

HAND, WHEN DECISIONS WERE TO BE MADE, THERE WAS A GENERAL - ACCEPTANCE OF THE EXPECTATION THAT MACROECONOMIC POLICIES TO BE IMPLEMENTED WOULD DRAMATICALLY LOWER INFLATION. THIS EXPECTATION WAS PARTICULARLY RELEVANT, SINCE EVEN THOUGH THE NEW SYSTEM DOES NOT TOTALLY CONTROL SUBSIDIES -UNDER ANY CONDITION- IT CAN - SUBSTANTIALLY REDUCE SUBSIDIES AND GET THEM WITHIN BOUNDS, IN THE CASE OF INFLATION BEING NOT SO HIGH AS IT ACTUALLY HAS COME TO BE.

~~HOWEVER,~~ THE LACK OF CONTINUED SUCCESS IN REDUCING INFLATION IS NOT TO BE BLAMED ON THE HOUSING PROGRAM -NO MATTER HOW MUCH SUBSIDIES AS A WHOLE, AND NOT THOSE APPLIED TO SPECIFIC SECTORS, ARE TO BE HELD RESPONSIBLE FOR INFLATIONARY PRESSURES. THE NEW SYSTEM CLEARLY OFFERED A BETTER OUTLOOK FOR SUBSIDIES TO DIMINISH -AT LEAST WITHIN THE EXPECTED MACROECONOMIC SCENARIOS.

FURTHERMORE, EVEN THOUGH IT WAS NOT POSSIBLE TO ADOPT A SYSTEM ABLE TO RESPOND TO ANY INFLATION SCENARIO, THE BASIS FOR SUCH A SYSTEM WAS SET FORTH. IT SHOULD BE UNDERLINED THAT THE IMPLEMENTED INFRA~~STR~~UCTURE MAKES IT POSSIBLE FOR THE SYSTEM TO IMPROVE, TO MEET THE CHALLENGE OF VARYING MACROECONOMIC CONDITIONS, SPECIALLY THOSE UNDER HIGH INFLATION RATES. BESIDES, GETTING USED TO THE NEW SYSTEM PROVIDES AN EDUCATIONAL PROCESS HELPING TO OVERCOME SOME OF THE CONSTRAINTS ORIGINALLY TAKEN AS ALMOST INSURMOUNTABLE. THESE OBSERVATIONS PROVIDE A SECOND JUSTIFICATION FOR THE NEW SYSTEM. IT IS TECHNICALLY POSSIBLE FOR THE SYSTEM TO IMPROVE TO OBTAIN A BETTER LOAN RECOVERY AND TO PRACTICALLY -

ACHIEVE AN ABSOLUTE CONTROL OF SUBSIDIES.

AS LONG AS DIFFERENT PARAMETERS WITHIN THE SYSTEM CAN BE MODIFIED, THE SYSTEM CAN BE IMPROVED WITHOUT DISCARDING IT. THE CRITICAL POINT IS TO FIGHT SOME OF THE MARKET AND SOCIAL CONSTRAINTS WHICH ORIGINALLY INFLUENCED THE VALUE OF THE SPECIFIC PARAMETERS OF THE SYSTEM. BECAUSE OF THE EDUCATIONAL PROCESS MENTIONED ABOVE, THERE IS ACTUALLY A BETTER OUTLOOK ^{FOR IMPROVEMENT} NOW THAN SOME TIME AGO.

LET US NOW TURN TO A DIFFERENT BUT RELATED SUBJECT. THE EFFECTS OF MANDATORY INVESTMENT REGULATIONS —THE SAME AS THOSE OF THE FINANCING AND PAYMENTS SYSTEM MENTIONED ABOVE— ARE SENSIBLE TO DIFFERENT RATES OF INFLATION. THE MANDATORY INVESTMENT SYSTEM WORKED IN AN ACCEPTABLE WAY DURING A PERIOD OF ECONOMIC STABILITY AND LOW INFLATION. THIS, BY ITSELF, IS EVIDENCE OF IT NOT BEING AN PRIMAL INFLATIONARY CAUSE.

IT MUST BE ACCEPTED THAT INFLATION INDUCES DISTORTIONS THROUGH DIFFERENT MEANS, INCLUDING THE WORKING OF THE MANDATORY INVESTMENT SYSTEM. HOWEVER, IT MUST BE ALSO^S OBSERVED THAT THE ULTIMATE EFFECTS DEPEND ON WHATEVER IS GOING ON IN RELATION TO THE LOANS PAYMENT SYSTEM AND THEIR CONTRIBUTION TO LOAN RECOVERY. DEPENDING ON THESE FACTORS, SUBSIDIES CAN BE OF CONSIDERATION OR NOT, AND THUS THEY CAN BE RELEVANT OR NOT IN TERMS OF THE BURDEN THEY MEAN AS FAR AS BANKS' PROFITS ARE CONCERNED.

CONSIDER FOR A WHILE, THE SCENARIO OF LOW INFLATION AND INTEREST RATES CLOSE TO MARKET RATES. IN THIS CASE, SUBSIDIES

IMPELLED BY THE MANDATORY INVESTMENT SYSTEM WOULD NOT BE A CAUSE OF GREAT CONCERN OR OF DISTORTIONS. ALTERNATIVELY, THE EFFECTS OF HIGH INFLATION CAN BE MINIMIZED IF DIFFERENT MARKET AND SOCIAL CONSTRAINTS ARE OVERCOME IN ORDER TO CONTROL SUBSIDIES OR, ^{IF} AT LEAST, TO SET SUBSIDIES WITHIN BOUNDS.

AS LONG AS THE JUST MENTIONED EFFECT ON SUBSIDIES IS ATTAINED, THE MANDATORY INVESTMENT SYSTEM SHOULD OPERATE MORE CONVENIENTLY. ANY WAY, IT MUST BE NOTICED THAT MANDATORY INVESTMENT -INCLUDING ALL ITEMS AMONG WHICH HOUSING IS THE LARGEST- AFFECTS A RELATIVELY SMALL PORTION OF TOTAL BANKS RESOURCES. THEREFORE, IT CAN BE SAID THAT INTEREST RATES AS A WHOLE, AS WELL AS BANKS' PROFITS, ARE DEPENDENT ON WHAT IS DONE ON THE LARGEST PORTION OF BANKS' ASSETS. MANDATORY HOUSING FINANCE APPLIES TO 5 PER CENT OF BANK RESOURCES.

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IN GENERAL, PREFERENTIAL HOUSING RATES ARE TO BE OFF - SET BY INCOME FROM INTEREST CHARGED ON THE REST OF ASSETS. THIS KIND OF DISTORTING EFFECT IS RELATIVELY SMALL -THOUGH IMPORTANT FOR BANKS' PROFITS- AND CAN BECOME ALMOST INSIGNIFICANT AS LONG AS SUBSIDIES ARE REDUCED. FURTHERMORE, REDUCTIONS OF INFLATION AND GENERAL ECONOMIC UNCERTAINTY ARE THE MOST IMPORTANT FACTORS IN PREVENTING THE UNSOUNDNESS OF THE HOUSING FINANCE SYSTEM AND THAT OF THE FINANCIAL SYSTEM AS A WHOLE.

THE CONTINUED LIFE OF THE HOUSING FINANCE PROGRAM IS A KEY FACTOR IN FIGHTING INFLATION AND FURTHERING ECONOMIC DEVELOPMENT. A LARGER SUPPLY OF HOUSING AND THE ABILITY TO USE IDLE CAPACITY IN

CONSTRUCTION INDUSTRY ARE AN ESSENTIALLY PART OF GENERAL ECONOMIC POLICY.

HOUSING CONSTRUCTION IS NOW A SECTOR IN MEXICO WHERE SPENDING -NOT EXACTLY PUBLIC BUT PRIVATE- CAN BE INCREASED WITHOUT GREATER INFLATIONARY IMPLICATIONS.

THE HOUSING FINANCE PROGRAM HIGHLY INDUCES THE CREATION OF EMPLOYMENT BECAUSE CONSTRUCTION IS A LABOR INTENSIVE ACTIVITY. THERE IS NO DOUBT ABOUT THIS. BESIDES, THE PROGRAM IS DESIGNED TO BRING ABOUT THE PARTICIPATION OF DIFFERENT SOCIAL SECTORS WHICH INCLUDE THE FAMILY SAVERS, THE CONSTRUCTION PROMOTERS OR DEVELOPERS, THE BANKS AND THE PUBLIC SECTOR. THE PARTICIPATION OF THE PUBLIC SECTOR IS LIMITED TO DIRECT AND INDIRECT RELATIONS WITH THE FINANCIAL SYSTEM, WITHOUT GETTING INTO DIRECT CONSTRUCTION BY THE CENTRAL GOVERNMENT.

THERE IS NO DOUBT THAT THROUGH THIS KIND OF PUBLIC SECTOR PARTICIPATION, THE RISKS ABOUT HIGHER BUDGET DEFICITS ARE MINIMIZED -AS COMPARED TO THE CASE OF DIRECT CONSTRUCTION AND ALLOCATION OF HOUSING BY THE CENTRAL GOVERNMENT.

FINALLY, IT SHOULD BE OBSERVED THAT THE PARTICIPATION OF COMMERCIAL BANKS HELPS TO SET DIFFERENT IMPROVEMENTS AND EFFICIENCY ADJUSTMENTS INTO MOTION. BANKS ARE EAGER TO CONTRIBUTE TO HAVE REFORMS RELATED TO INTEREST RATES AND SUBSIDIES IMPLEMENTED.

THANKS.