



Financial Stability Report – First Semester 2019

June 2019



Introduction

- Banco de México's primary objective shall be to seek the stability of the purchasing power of the Mexican peso. The Bank shall also have the purpose of:
 - ✓ Promoting the sound development of the financial system and,
 - ✓ Fostering the proper functioning of the payment systems.
- A stable financial system :
 - ① Is one in which financial institutions, markets and their infrastructures **facilitate the exchange of funds among savers, borrowers and investors**, with adequate risk management.
 - ② Contributes to the **proper functioning of the economy** and to achieving **sustainable economic growth**.
 - ③ Is able to withstand shocks.
 - ④ **Contributes to maintain an environment of macroeconomic stability and growth.**
- In order to identify the risks and vulnerabilities that may affect Mexico's financial stability and to have a more comprehensive, timely and forward-looking assessment of the financial system as a whole, Banco de México's Governing Board decided to modify the name of the present *Report*, its structure, and its publication frequency. The ***Report will be published twice a year and will change its name from Financial System Report to Financial Stability Report.***

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1 Macrofinancial conditions

2 Financial system risks

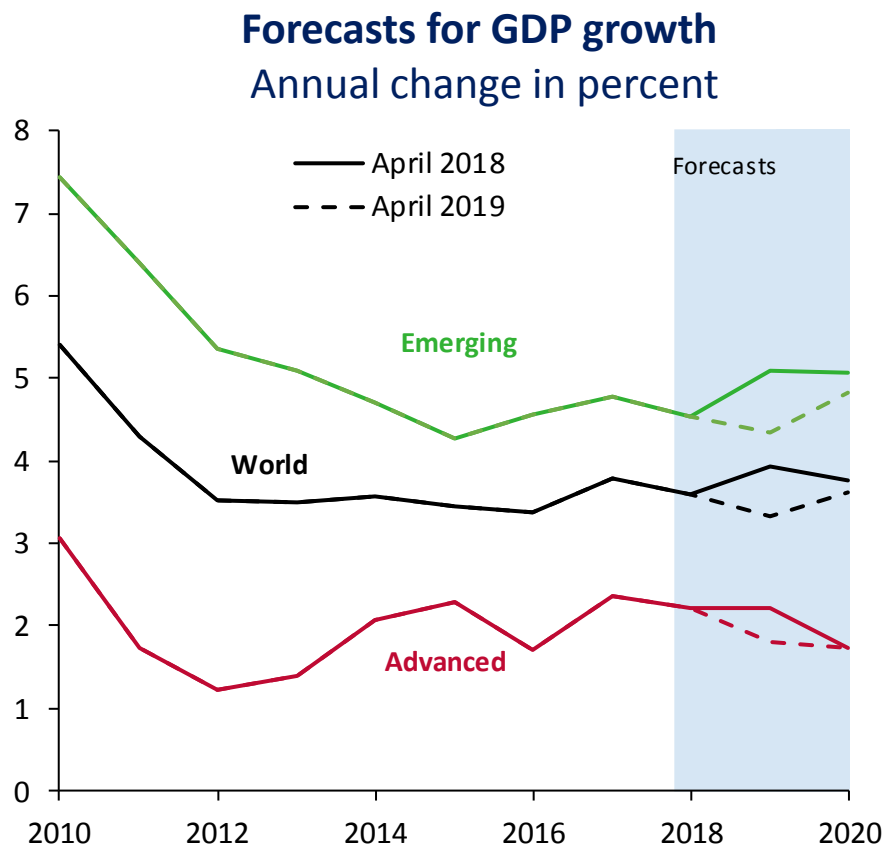
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4 Macroprudential policy

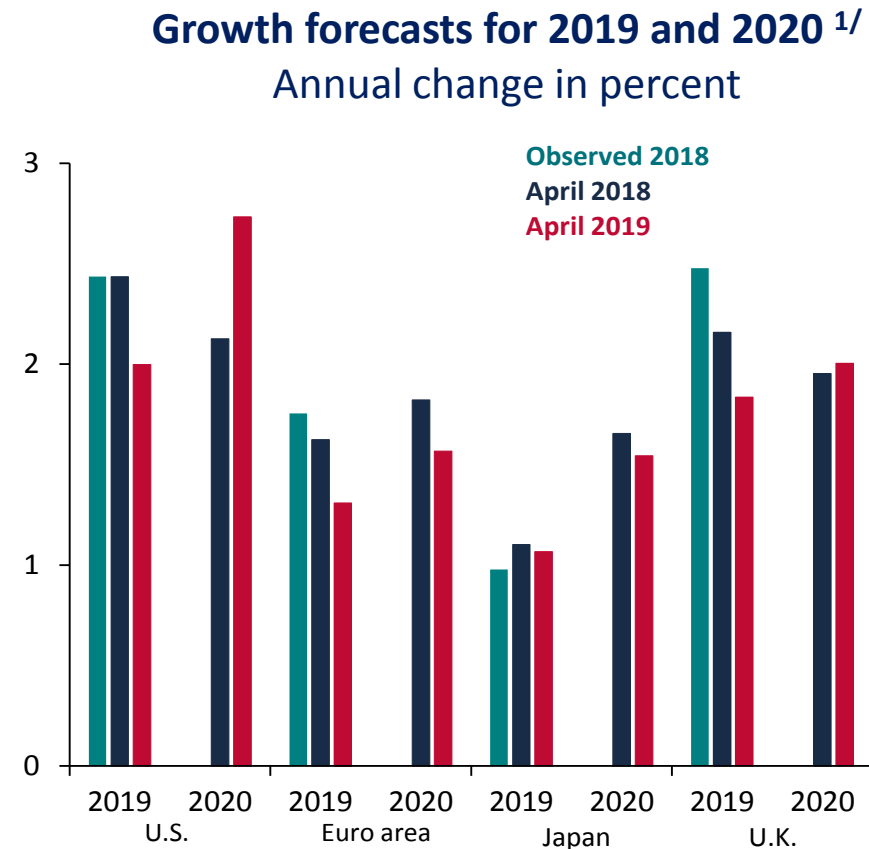
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1 Global economic growth

During the third and fourth quarter of 2018, the growth rate of world economic activity decelerated. Nevertheless, a moderate recovery was observed during the first quarter of 2019 in some of the major advanced economies. Growth forecasts for the remainder of 2019 and for 2020 were revised downwards.



Note: Data as of April 2019.
Source: International Monetary Fund World Economic Outlook (WEO).

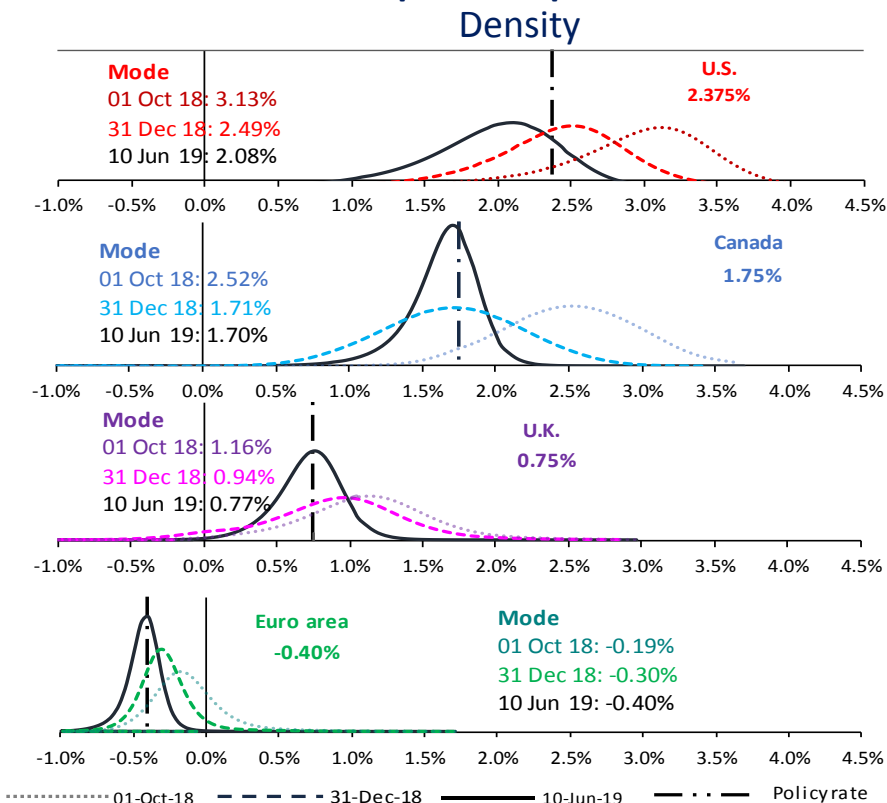


Note: Data as of April 2019.
^{1/} Data for 2018 is observed data.
Source: International Monetary Fund, World Economic Outlook (WEO).

2 Financial markets: advanced economies

From October through the first half of December, international financial markets exhibited volatility. Stock markets had a favorable performance after the US Federal Reserve modified its rhetoric in December, by signaling a less tight monetary policy stance. Nevertheless, since May this behavior was partly reversed due to further escalating trade tensions. In this context of lower growth expectations, short- and long-term rates in the United States have significantly decreased.

**Prospective distribution of the policy rate at end of 2019
implied in options^{1/}**

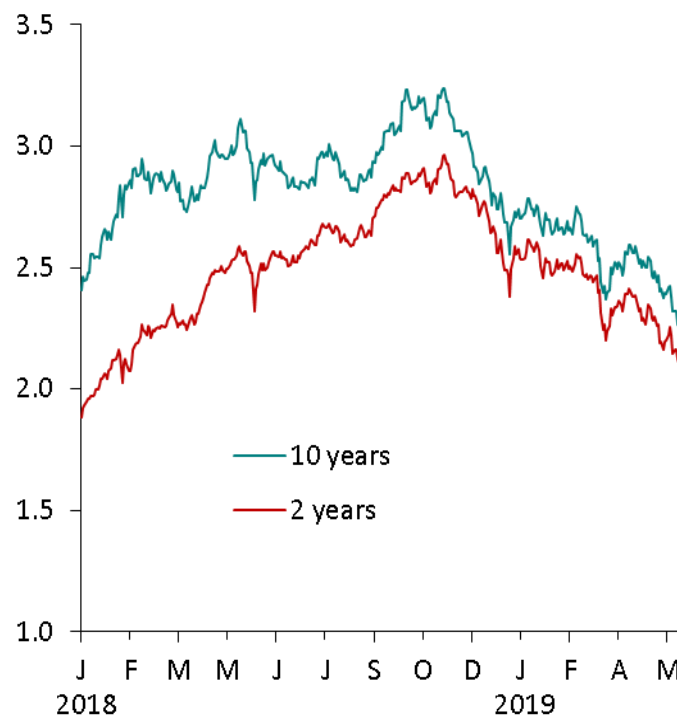


Note: Data as of June 2019.

^{1/} The policy rate's implicit distribution is obtained from changes in interest rates implicit in 3-month interest rate futures options (LIBOR in the United States and the United Kingdom, EURIBOR in the euro area, and bankers acceptance in Canada). The differential between the reference rate and the corresponding 3-month rate is assumed to remain constant. Distribution implicit in options uses the Breeden-Litzenberger method.

Source: Bloomberg.

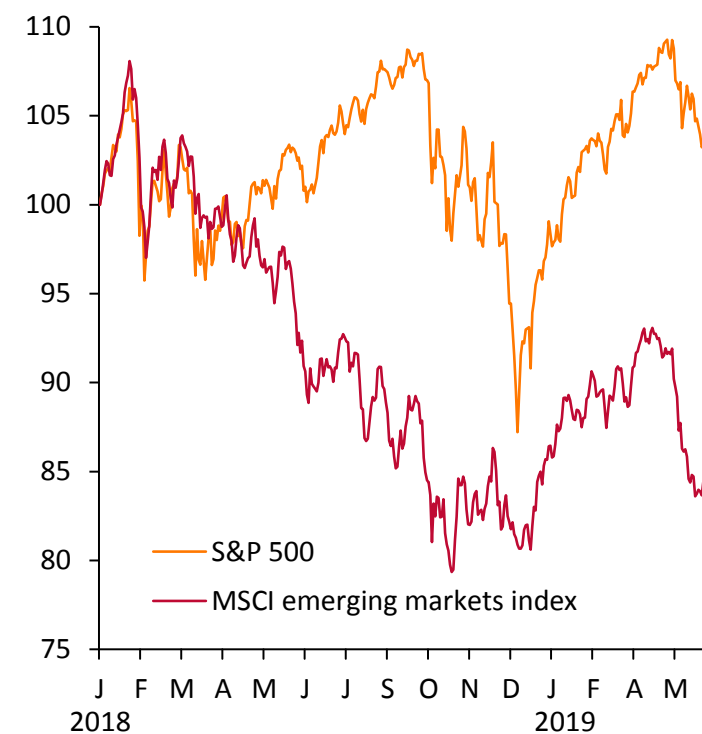
US interest rates
Percent



Note: Data as of June 2019.

Source: Bloomberg.

Stock market indices performance
Index (January 2018 = 100)



Note: Data as of June 2019.

Source: Banco de México with Bloomberg data.

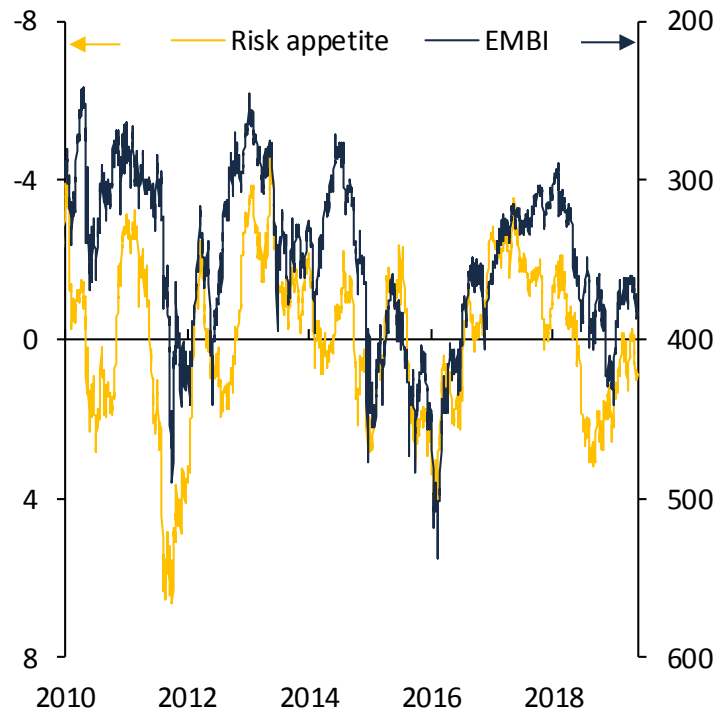
3 Financial markets: emerging economies

Since late December, financial assets of some emerging economies benefited from an increase in risk appetite and from a higher search for yield, which was reflected in significant inflows to emerging economies. Nevertheless, in May, this trend partly reversed due to the lower risk appetite stemming from escalating trade tensions.

EMBI and risk appetite index ^{1/}

Left axis: index, inverted axis

Right axis: basis points



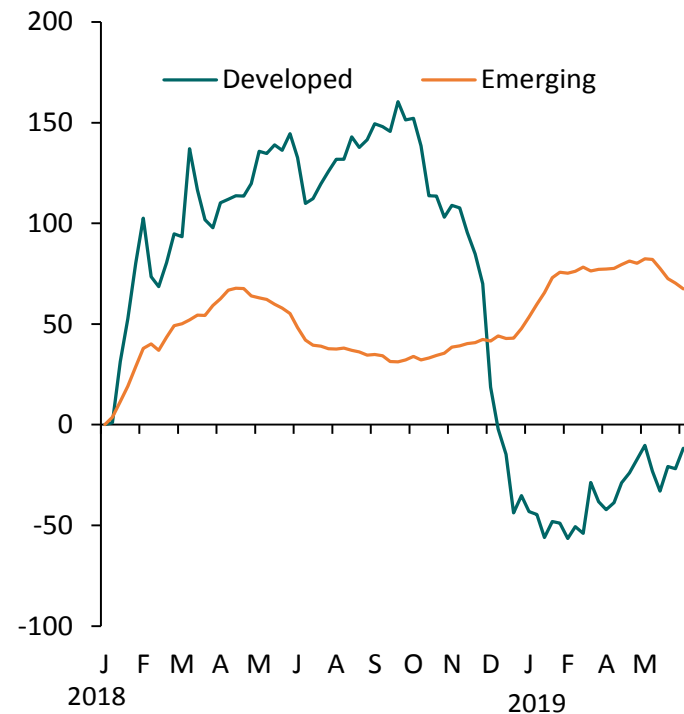
Note: Data as of June 2019.

1/ Note: After performing a regression of the EMBI spread and the Credit Suisse risk aversion index with data from January 2007, the results are obtained with a statistically significant beta. EMBI = 27.75 (risk aversion).

Source: Estimated by Banco de México with Credit Suisse and Bloomberg data.

Cumulative flows of funds to emerging and developed markets (bonds and equity) ^{1/}

USD billion



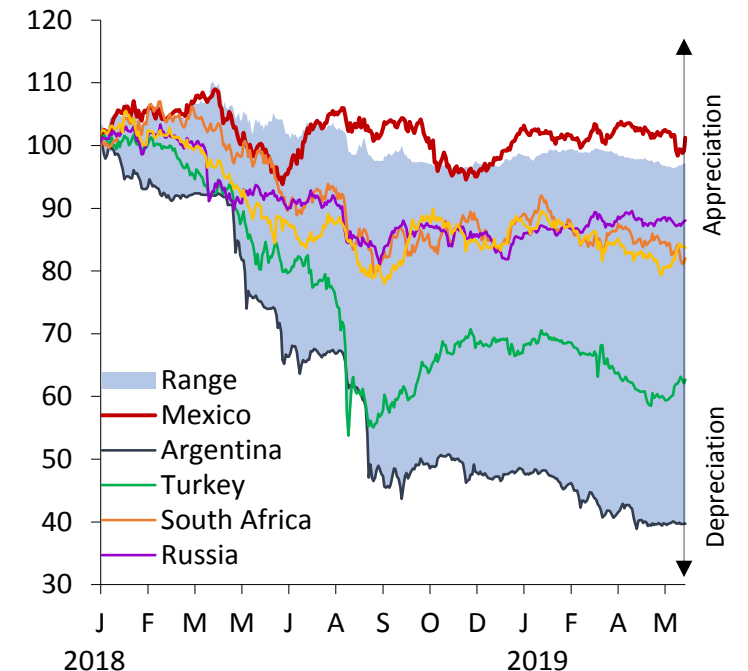
Note: Data as of June 2019.

1/ Accumulated flows since January 2018.

Source: Banco de México with data from EPFR Global.

Cumulative performance of selected emerging economies' currencies during 2018 and 2019 ^{1/}

Index (December 2017 = 100)



Note: Data as of June 2019.

1/ The selected currencies used to calculate the range are: Russian ruble, Polish zloty, Czech koruna, South African rand, Peruvian sol, Philippine peso, South Korean won, Colombian peso, Chilean peso, Hungarian forint, and Malaysian ringgit. The range is defined for each observation with the currency with the highest appreciation and that with the highest depreciation for that day.

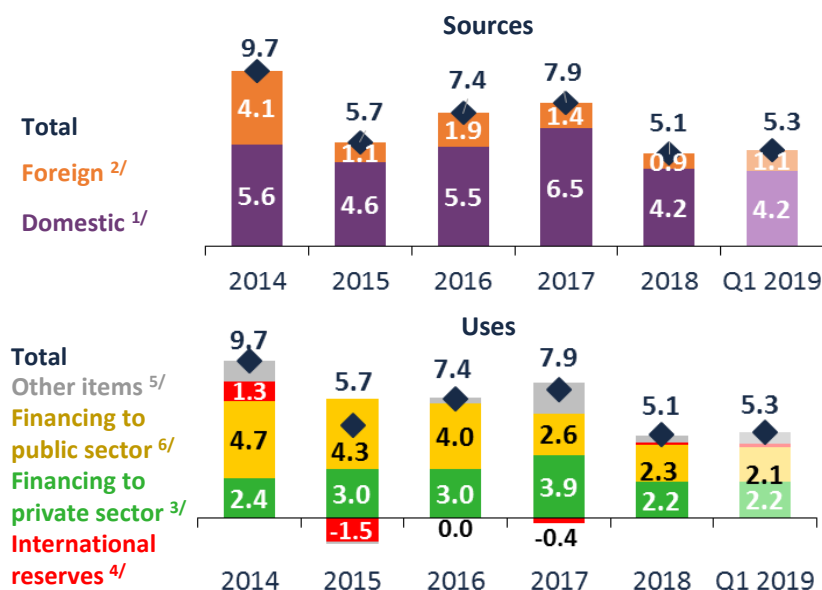
Source: Banco de México with Bloomberg data.

4 Mexican financial markets

The Mexican economy has faced lower external financing flows and a worsening of the oil trade balance since late 2014. In this context, external accounts have adjusted significantly.

Total funding of the Mexican economy (sources and uses)

Annual flows as share of GDP



Note: Figures expressed in percent of annual GDP nominal average.

1/ Corresponds to domestic financial assets (aggregate F1), composed of monetary and non-monetary domestic sources.

2/ Includes monetary instruments held by non-residents (equivalent to the difference between M4 and M3) and other non-monetary external sources (external debt of the Federal Government and public agencies and companies, commercial banks' external liabilities, external financing to the non-financial private sector, and funds raised by agencies, among others).

3/ Includes lending by financial intermediaries, the National Housing Agencies (Infonavit and Fovissste), the issuance of domestic debt and external financing of firms.

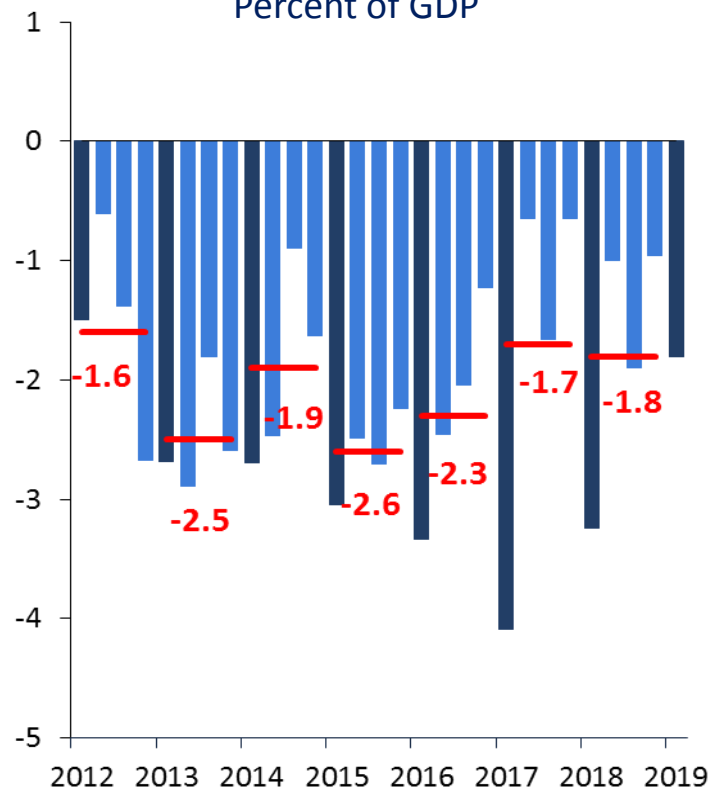
4/ As stated in Banco de México's Law.

5/ Includes capital accounts, and earnings and other assets and liabilities of commercial and development banks, of non-bank financial intermediaries, of the National Housing Agency (Infonavit) and Banco de México –including securities issued by Banco de México for monetary regulation purposes, especially those related to sterilizing the monetary impact of the operational surplus. It includes non-monetary liabilities from the Institute for the Protection of Bank Savings (IPAB) as well as the effect of the valuation changes of public debt instruments, among other concepts.

6/ Excluding the effect of Banco de México's operational surplus.

Source: Banco de México.

Current account 1/ Percent of GDP

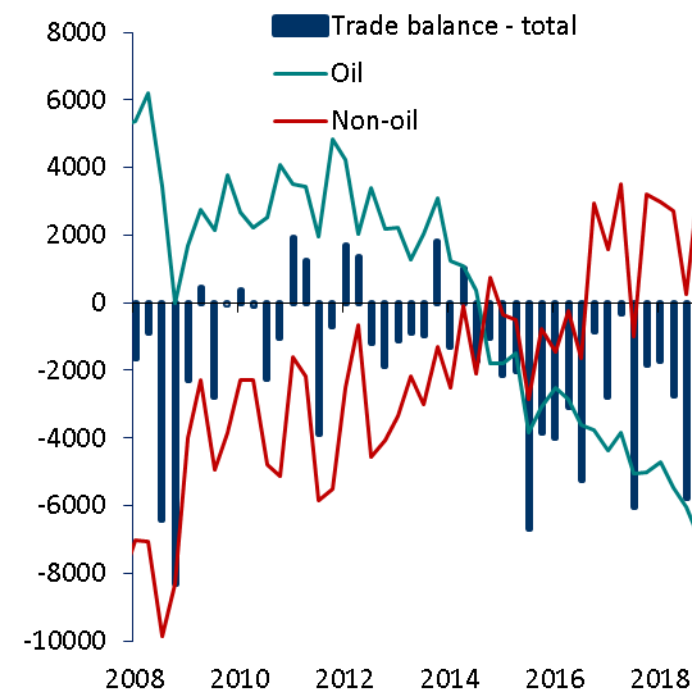


Note: Figures as of the first quarter of 2019.

1/ Dark blue bars refer to the first quarter of each year. Red lines correspond to annual data.

Source: Banco de México and National Institute of Statistics and Geography (INEGI, for its acronym in Spanish).

Trade balance USD million



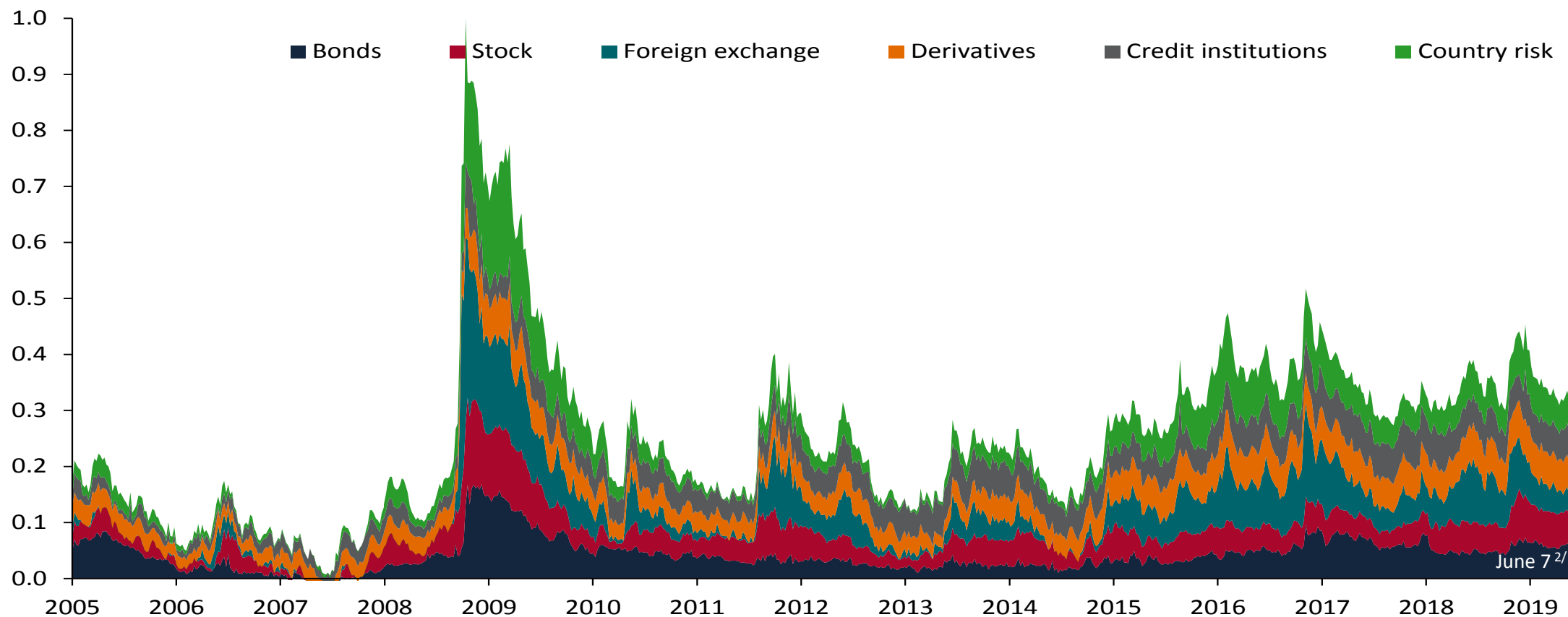
Note: Data as of the first quarter of 2019.

Source: Banco de México and INEGI.

4 Mexican financial markets

Mexican financial markets have undergone episodes of stronger market stress, higher volatility and an increase in risk premia since late 2014.

Mexican Financial Market Stress Index (IEMF, for its acronym in Spanish) ^{1/}
Stress level



^{1/} The index was estimated using **principal** components analysis and consists of 36 standardized variables of Mexican financial markets grouped into 6 categories (bond market, stock market, foreign exchange market, derivatives market, credit institutions and country risk). The total sum of the components yields the IEMF scaled to range [0,1]. A higher level of the index represents a higher financial stress.

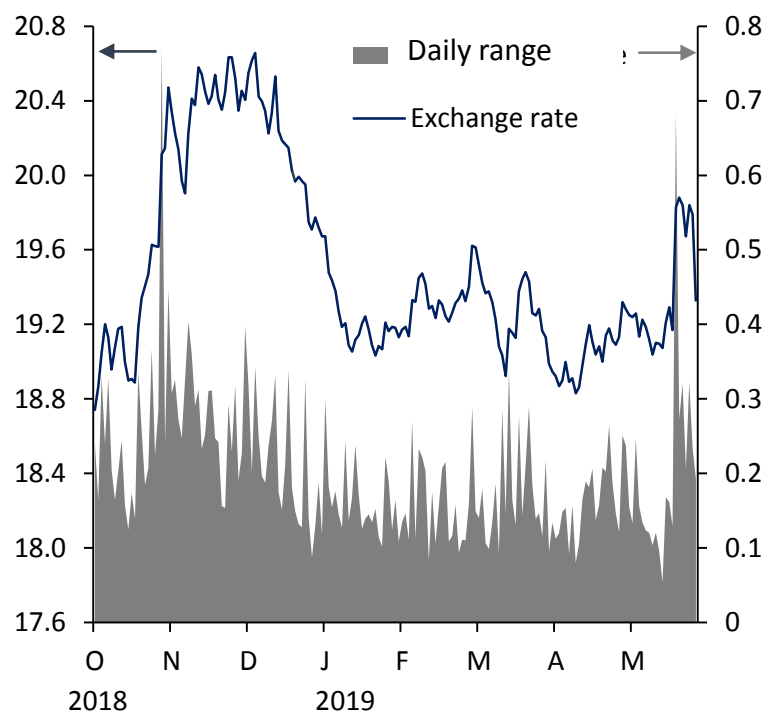
^{2/} Data as of June 7, 2019 is preliminary.

Source: Banco de México and Bloomberg.

4 Mexican financial markets

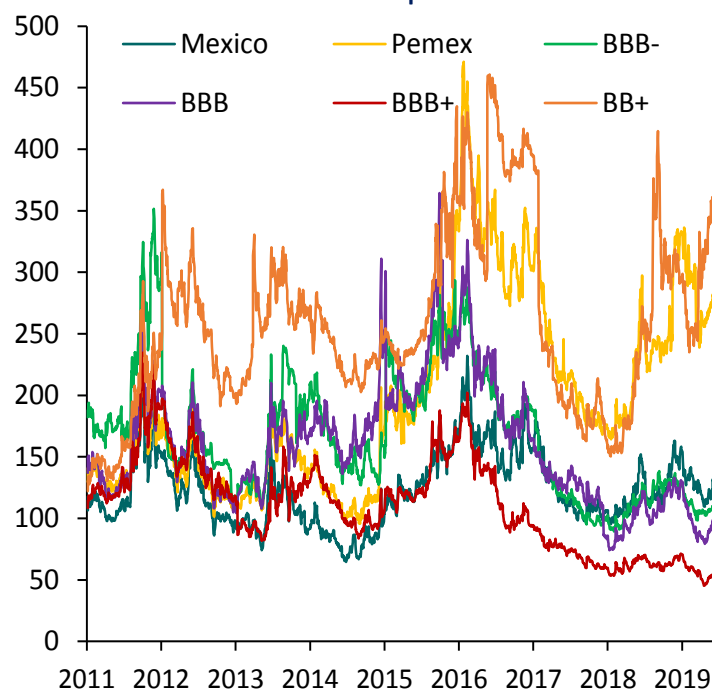
By mid-December, an inflection point was also observed in domestic financial markets. The peso exchange rate appreciated and interest rates decreased for almost all maturities. Given the tensions and trade difficulties between the United States and Mexico as well as the downgrade in the rating and outlook of the country's sovereign debt and of Pemex's debt, these variables have exhibited higher volatility.

Exchange rate and daily trading range
MXN/USD and cents



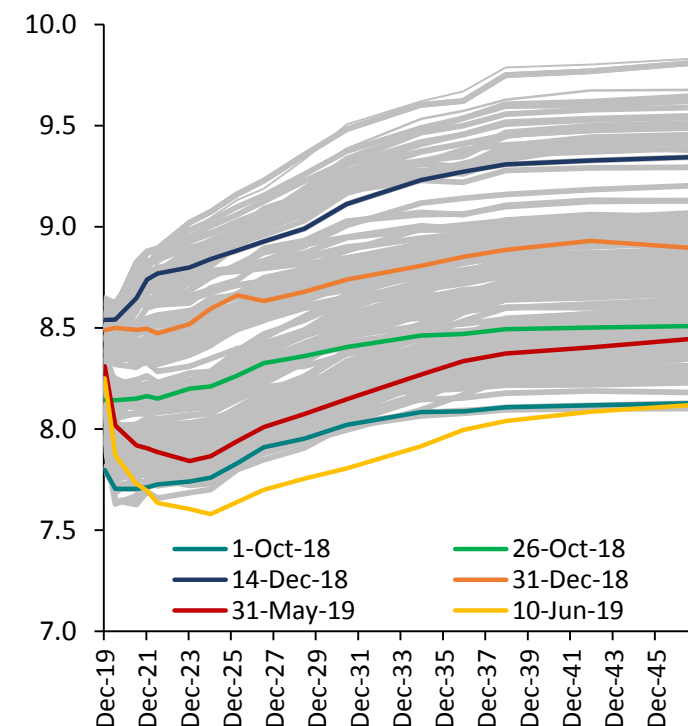
Note: Data as of June 2019.
Source: Banco de México with Bloomberg data.

5-year Credit Default Swaps (CDS) and bonds in US dollars of Mexico, Pemex and selected emerging economies ^{1/}
Basis points



Note: Data as of June 2019.
^{1/} Countries considered: Hungary, India, Russia, Colombia, Indonesia, the Philippines, Peru, Thailand, South Africa and Turkey. In the case of Mexico and Pemex, data corresponds to dollar-denominated bonds, while for the rest of the countries, the 5-year CDS is considered.
Source: Banco de México with data from Bloomberg, Fitch, and Reuters.

Bond M yield curve ^{1/}
Percent



Note: Data as of June 2019.
^{1/} Grey lines refer to daily yield curves since October 1, 2018. Dates on the horizontal axis correspond to nodes of the yield curve.
Source: Banco de México with PIP data.

5 Balance of macrofinancial risks

Under the previously described environment, the Mexican economy faces both domestic and external risks. Financial stability risks are:

- 1 A greater slowdown of global economic growth.
- 2 The adoption of further protectionist policies worldwide.
- 3 Lower levels of investment and lower growth of the Mexican economy.
- 4 Further reviews on credit ratings in Mexico.
- 5 Additional episodes of volatility in international financial markets/portfolio rebalancing in emerging economies.

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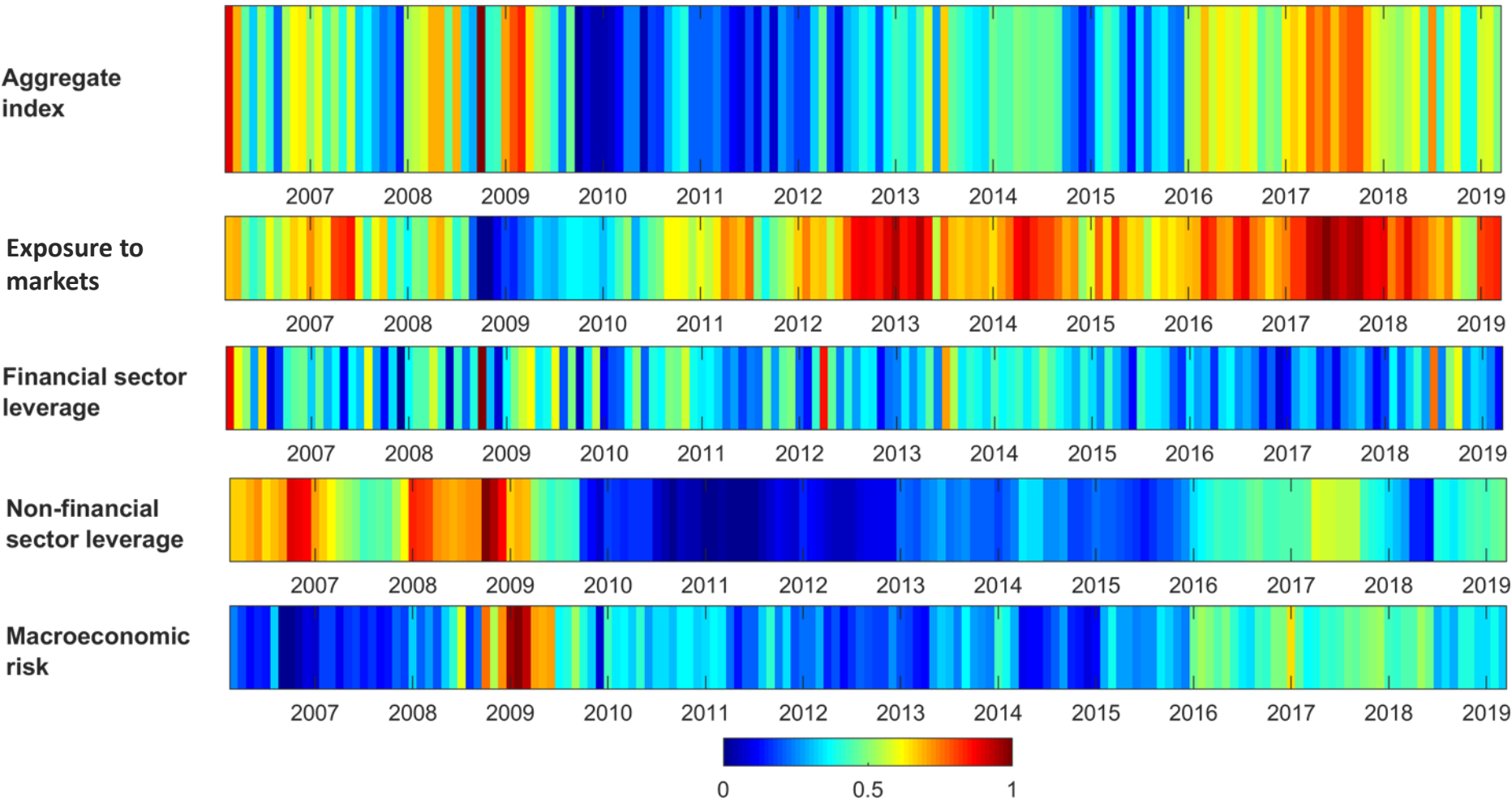
4 **Macroprudential policy**

5 **Final remarks**

1 Heat map of Mexican financial system risks

Monitoring and identifying vulnerabilities and risks that could affect financial stability allows to mitigate them through macroprudential tools and additional policy actions.

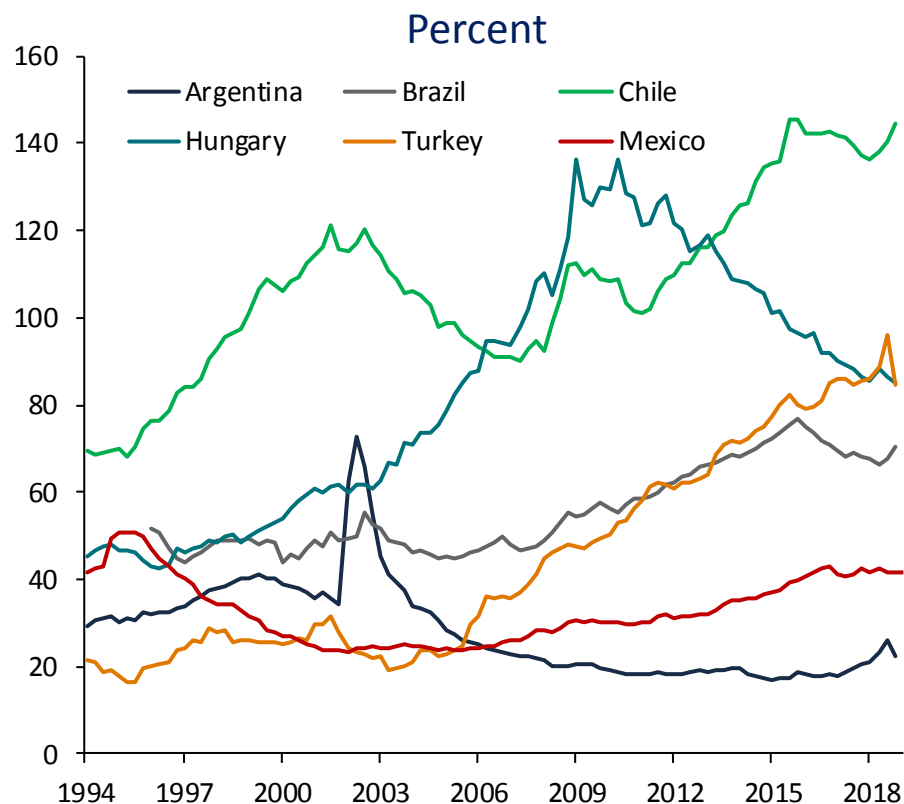
Heat map of Mexican financial system risks



2 Financial cycle and credit gap

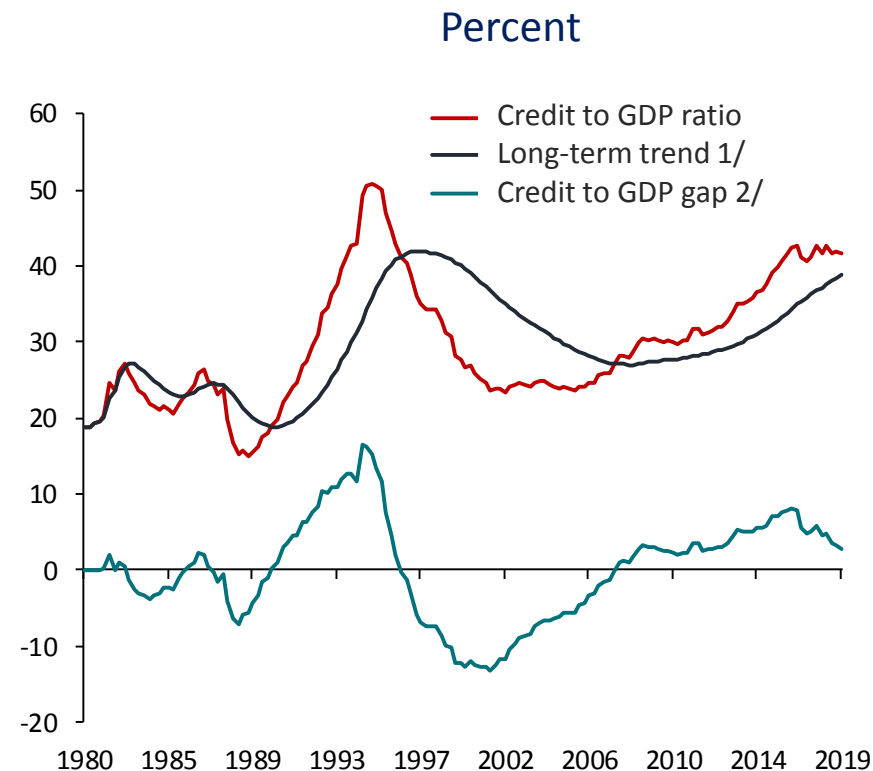
The current phase of the Mexican economy's financial cycle, the evolution of the credit-to-GDP ratio, and the gap with respect to its long-term trend, are important factors in identifying vulnerabilities associated with credit growth patterns.

EMEs: Non-financial private sector credit-to-GDP ratio



Note: Data as of December 2018 and March 2019 for the case of Mexico.
Source: Bank of International Settlements (BIS) and Banco de México.

Mexico: Non-financial private sector credit-to-GDP ratio and long-term trend



Note: Data as of March 2019.

1/ The long-term trend is estimated using the Hodrick-Prescott filter with a tail with a smoothing parameter of 400.000, using data starting from Q4 1980.

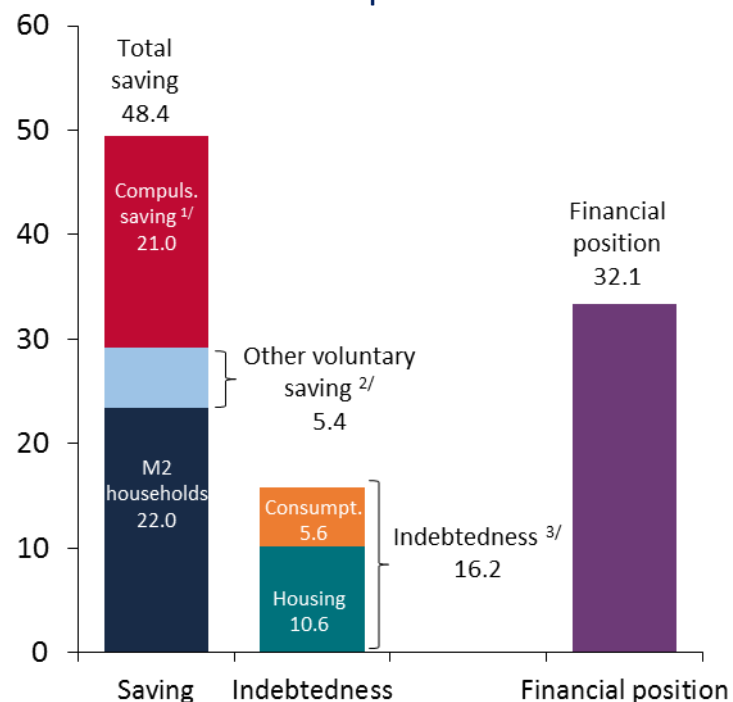
2/ The credit to GDP gap is calculated as the difference between the credit-to-GDP ratio and its long-term trend.

Source: Banco de México.

3 Households' financial position

Aggregate households' leverage remained stable during the last quarter of 2018 and the first quarter of 2019. Total financing to households slowed down during such period, largely due to the evolution of consumer credit.

Households' indebtedness relative to their financial assets
Stock in percent of GDP



Note: Data as of March 2019.

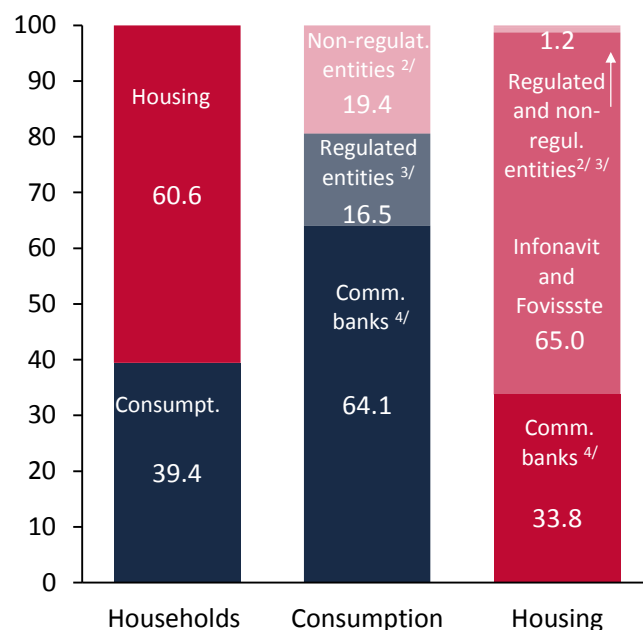
1/ Includes housing and pension funds.

2/ Includes public and private securities, securities issued by states, municipalities, public entities and state-owned companies, the National Infrastructure Fund (Fonadin, for its acronym in Spanish), and other bank liabilities held by households.

3/ Includes credit from commercial banks, development banks, popular loan entities and credit unions, and regulated Sofomes.

Source: Banco de México.

Household indebtedness^{1/}
Percent of total funding



Note: Figures as of March 2019, except for figures for unlisted non-regulated Sofomes which are available as of December 2018.

1/ The first column includes total financing to households corresponding to that granted for the consumer and housing segments, both by regulated and non-regulated entities. For the columns related to the financing of each segment, the denominator corresponds to the total financing received by each segment, including the amounts granted by non-regulated entities.

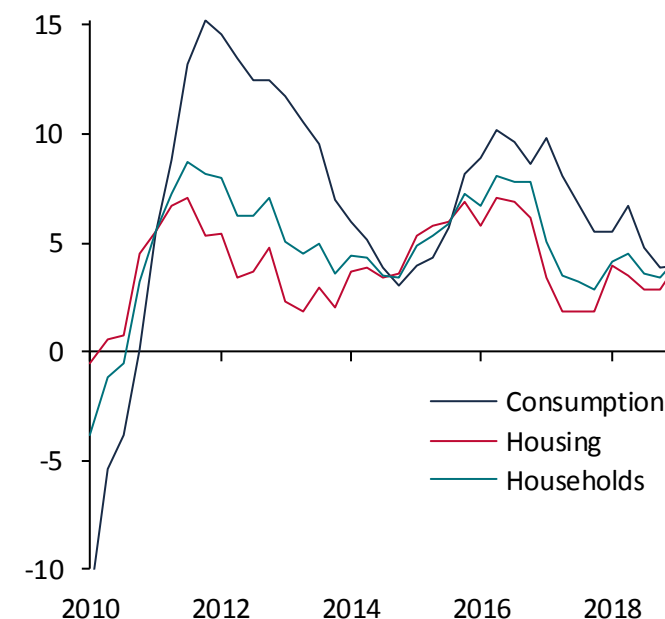
2/ Includes financing granted by non-regulated Sofomes, debt-issuing companies that grant financing (i.e. automotive) and credit granted by listed departmental stores to their customers.

3/ Includes development banks as well as other regulated non-bank financial entities such as Socaps, Sofipos, and Sofomes regulated as debt issuers.

4/ Includes the portfolio of regulated Sofomes that have a patrimonial link with a bank.

Source: Banco de México, Mexican Stock Exchange (BMV, for its acronym in Spanish), and Commission for the Defense of Financial Services Users (Condusef, for its acronym in Spanish).

Total financing to households^{1/}
Real annual change in percent



Note: Figures as of March 2019, except for figures for unlisted non-regulated Sofomes which are available as of December 2018.

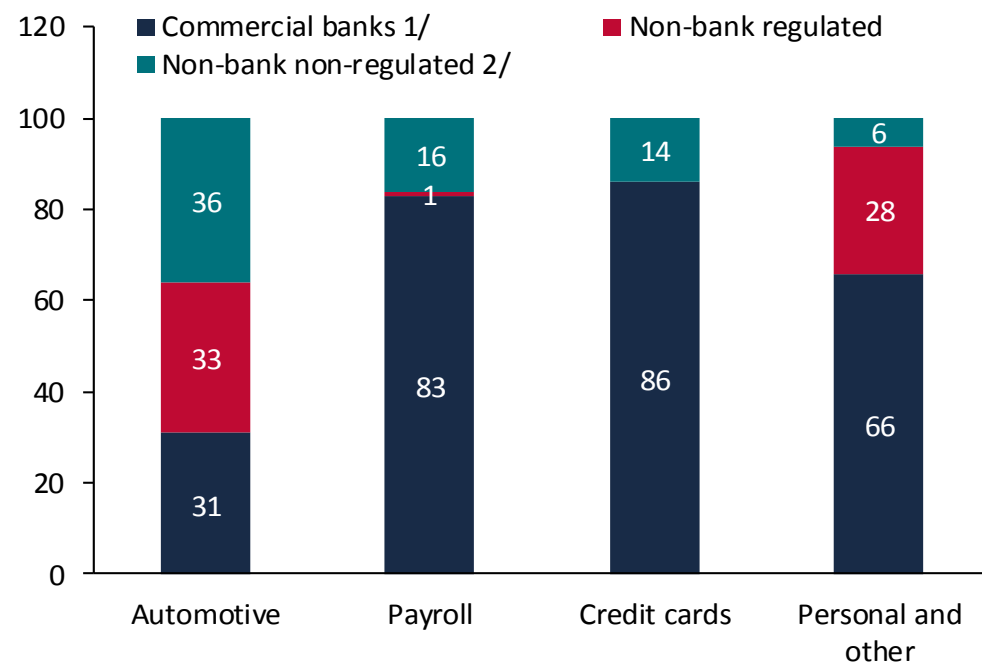
1/ Considers credit granted by the country's banks, regulated Sofomes with links with banks, Socaps, Sofipos and credit unions as well as financial entities such as Sofoles, leasing companies and factoring companies. For housing loans it also includes those granted by Infonavit and Fovissste. It also includes financing granted to companies by non-regulated entities, such as non-regulated Sofomes and that granted by financial companies specializing in credit or leasing, which issue debt but are not financial entities under Mexican law. Growth series are adjusted to reflect the time when figures for financing by non-regulated entities and Sofomes (which are regulated due to being debt issuers) are included in the sample period (2015-2016).

Source: Banco de México, BMV and Condusef.

3 Households' financial position

By type of creditor, commercial banks are the major providers of consumer credit, although the market share of non-banks is also significant, particularly in segments such as auto loans.

Consumer finance by type of financial intermediary
Percent



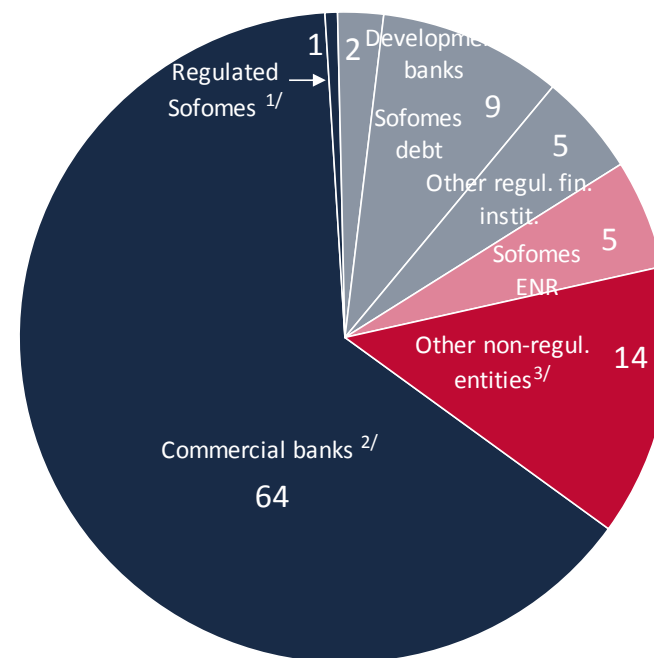
Note: Figures as of March 2019, except for figures of unlisted non-regulated Sofomes which are available as of December 2018.

1/ Includes credit portfolio of regulated Sofomes that are related entities to a bank.

2/ Includes portfolio of non-regulated Sofomes, credit cards issued by departmental stores that report to the BMV as well as financial companies that grant credit predominantly as part of their business line, such as financial leasing or some financial areas of automotive companies.

Source: Banco de México, National Banking and Securities Commission (CNBV, for its acronym in Spanish) and Condusef.

Consumer finance
Percent



Note: Figures as of March 2019, except for those of unlisted non-regulated Sofomes which are available as of December 2018.

1/ Refers to regulated Sofomes that have patrimonial links with banks that are not their subsidiaries.

2/ Includes credit portfolio of regulated Sofomes which are subsidiaries of a bank.

3/ Includes credit portfolio granted by departmental stores that report to the BMV as well as by financial companies specialized in credit or financial leasing that issue debt but which are not financial entities under Mexican laws.

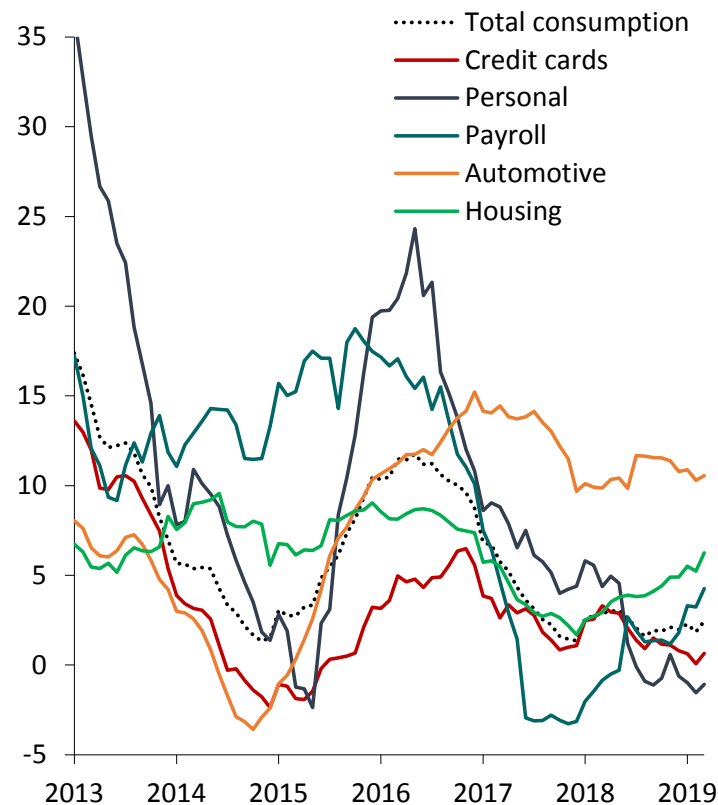
Source: Banco de México, CNBV and Condusef.

3 Households' financial position

The lower dynamism of consumer credit has been coupled with a decline in delinquency rates in almost all segments of its loan portfolio.

Commercial banks' performing credit to households

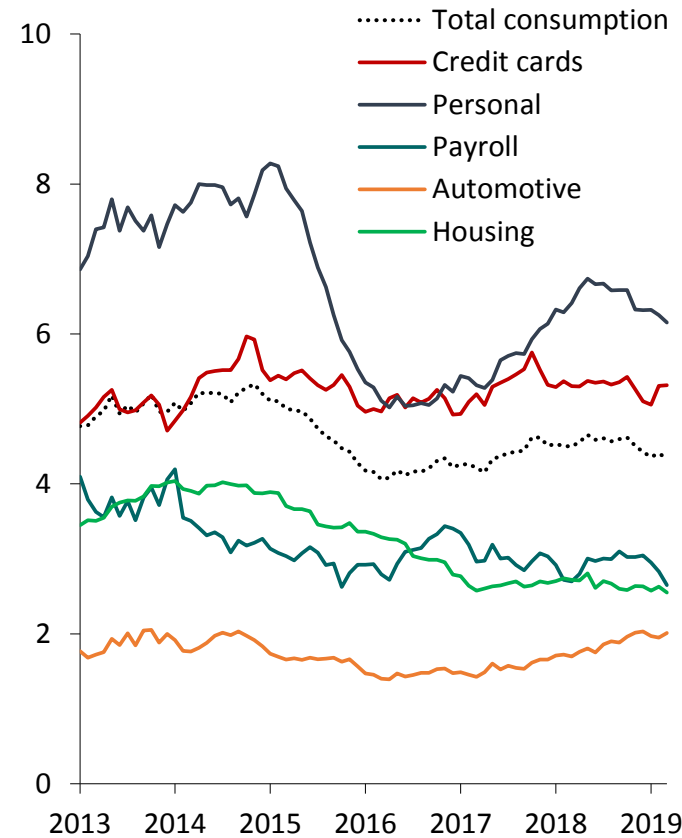
Real annual change in percent



Note: Data as of March 2019.
Source: CNBV.

Delinquency rate of bank credit to households

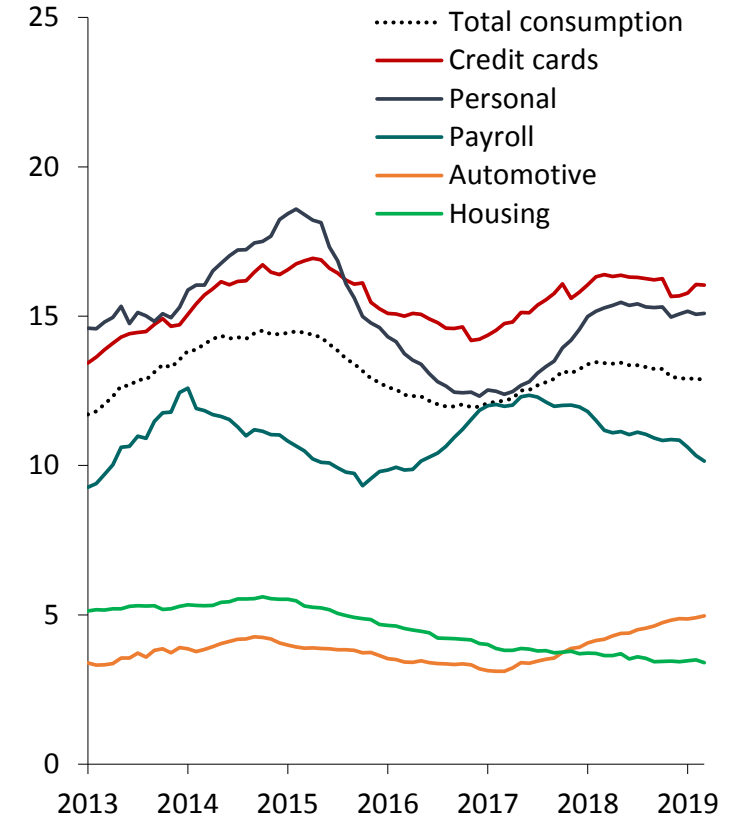
Percent



Note: Data as of March 2019.
Source: CNBV.

Adjusted delinquency rate of bank credit to households

Percent

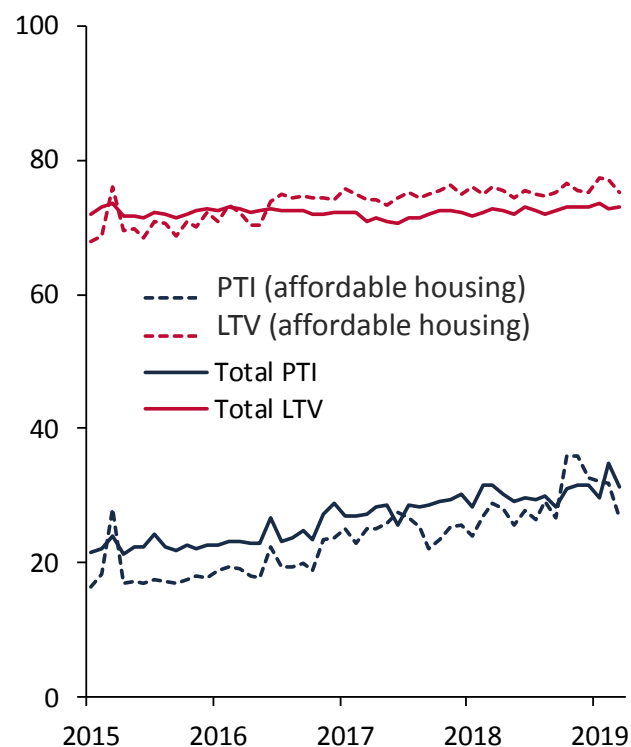


Note: Data as of March 2019.
Source: CNBV.

3 Households' financial position

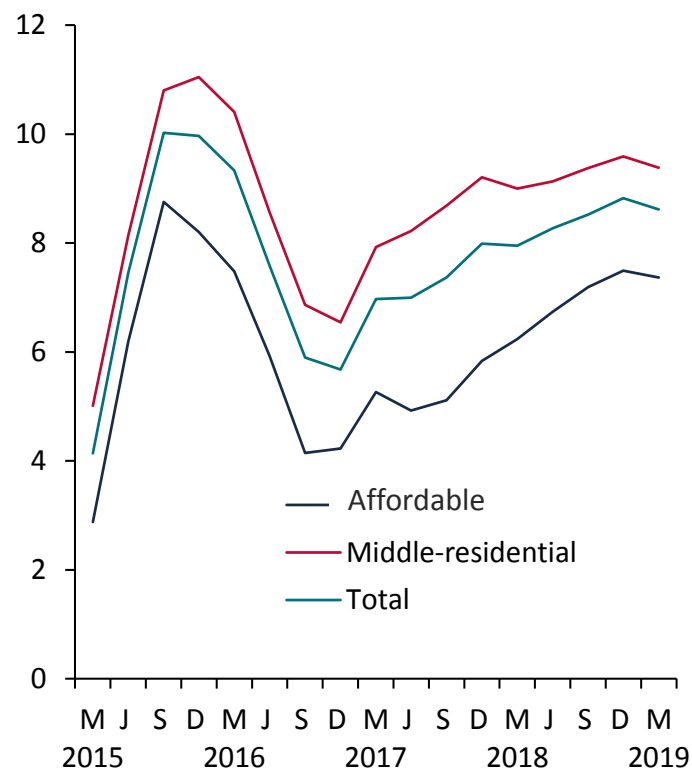
As to mortgage lending, there has been a slight increase in the mortgage payment-to-income (PTI) ratio and in the loan-to-value (LTV) ratio. Nevertheless, the delinquency rate of most recent credit vintages remains below those of previous years.

Mortgage Payment-to-Income (PTI) ratio and Loan-to-Value (LTV) ratio
Percent



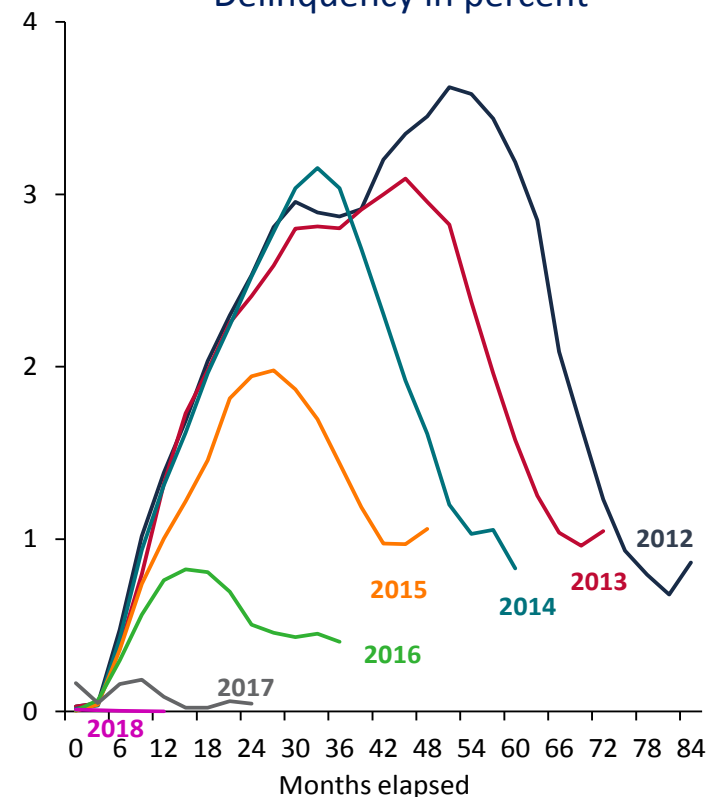
Note: Data as of March 2019.
Source: CNBV.

Housing price index
Annual change in percent



Note: Data as of March 2019.
Source: Federal Mortgage Society (SHF, for its acronym in Spanish).

Bank credit vintages for housing acquisition
Delinquency in percent



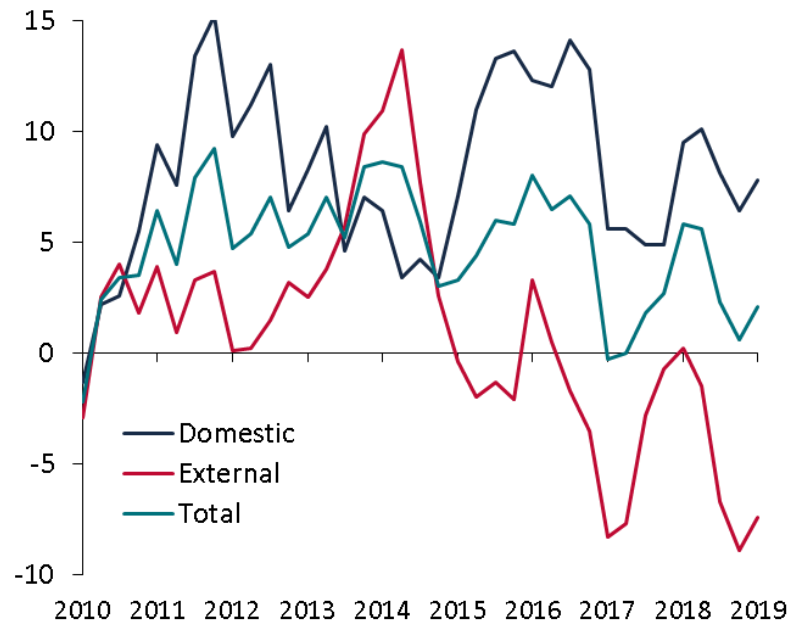
Note: Data as of March 2019.
Source: CNBV.

4 Private firms' financial position

The growth rate of banks' credit to non-financial private sector firms slowed down and the average balance of borrowers' increased. Bank credit delinquency rates for Small and Medium Enterprises continue to increase moderately and total portfolio delinquency rates remained stable.

Growth of total financing to non-financial private firms ^{1/}

Real annual change in percent

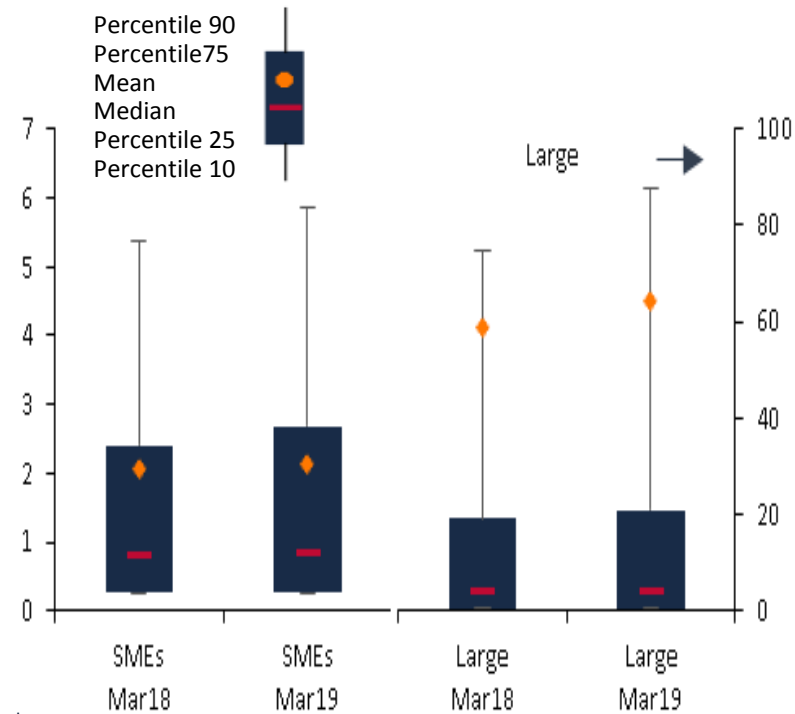


Note: Data as of March 2019.

^{1/} Includes financing by suppliers, both domestic and external, companies listed in the Mexican Stock Exchange, and financing granted to firms by non-regulated entities, such as non-regulated Sofomes and by financial companies specialized in credit and leasing that issue debt but which are not financial entities under the Mexican law. Includes also financing granted to companies by non-regulated entities, such as non-regulated Sofomes and financing granted by financial companies specializing in credit or leasing, which issue debt but which are not financial entities under Mexican law. Growth series are adjusted to reflect the time when figures for financing by non-regulated entities and Sofomes (which are regulated due to being debt issuers) are included in the sample period (2015-2016).

Source: Banco de México, BMV and SHCP.

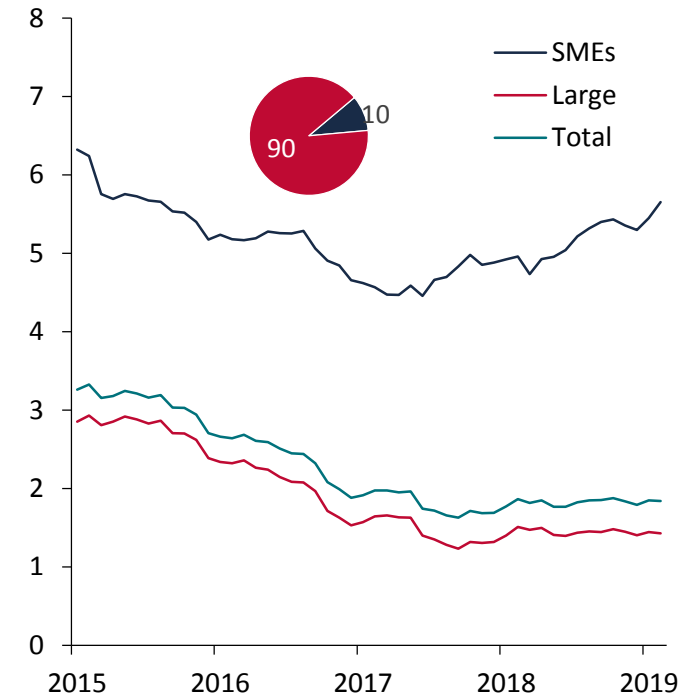
Total credit granted by firm size
MXN million



Note: Data as of March 2019.

Source: CNBV.

Delinquency rates by firm size
Percent



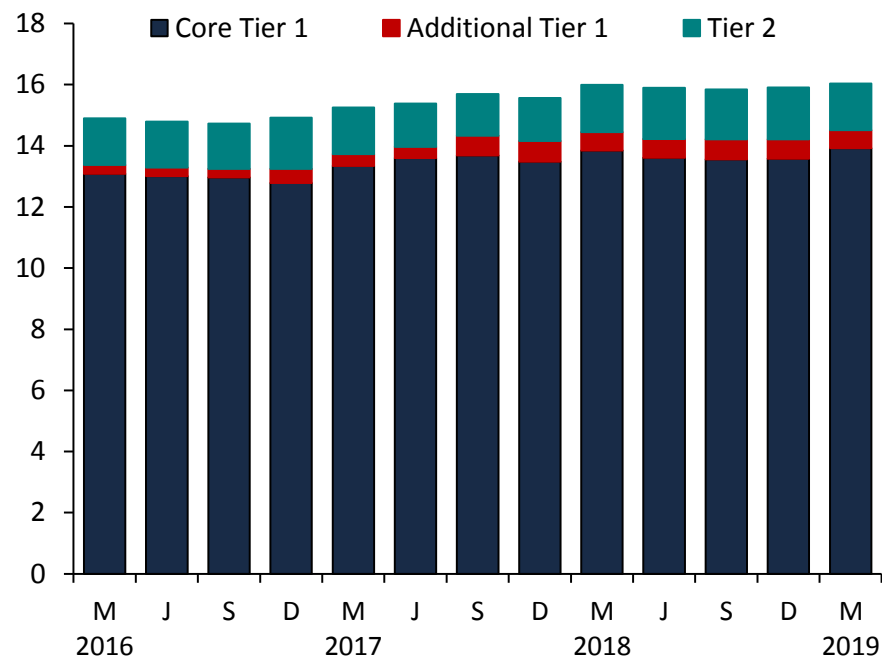
Note: Data as of March 2019.

Source: CNBV.

5 Institutions: commercial banks

Commercial banks maintain high regulatory capital ratios, which allows for credit growth and to cope with adverse scenarios.

Structure of banks' Capital Adequacy Ratio (CAR) ^{1/}
Percent

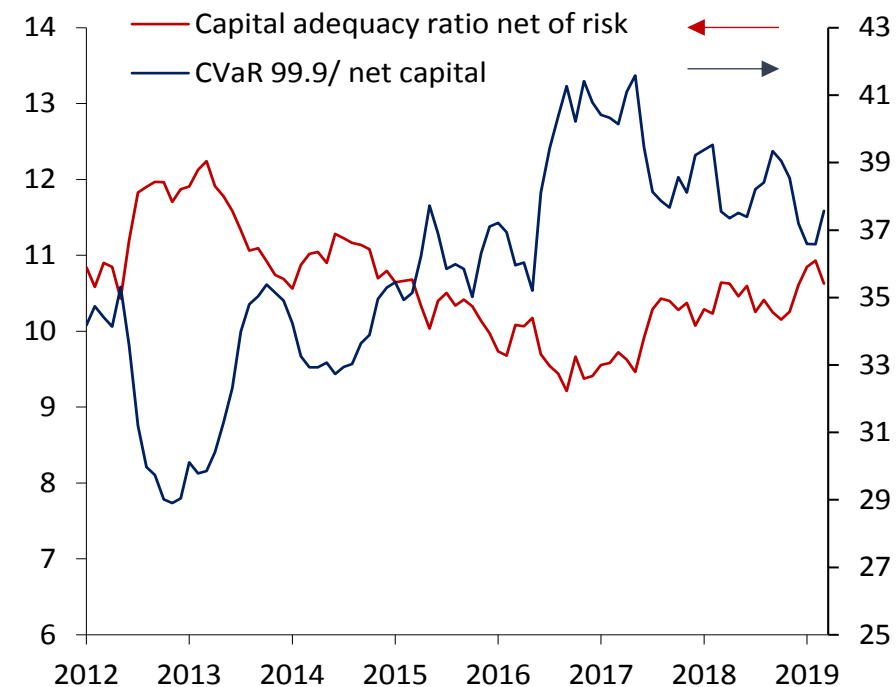


Note: Data as of March 2019.

1/ The capital adequacy ratio (CAR) is estimated by dividing the net capital by the risk-weighted assets. The net capital is the regulatory capital that includes the Tier 1 and the Tier 2 capital. According to capitalization rules, the quotient of that division should be at least 10.5 percent.

Source: Banco de México.

CAR net of risk ^{1/}
Percent



Note: Data as of March 2019.

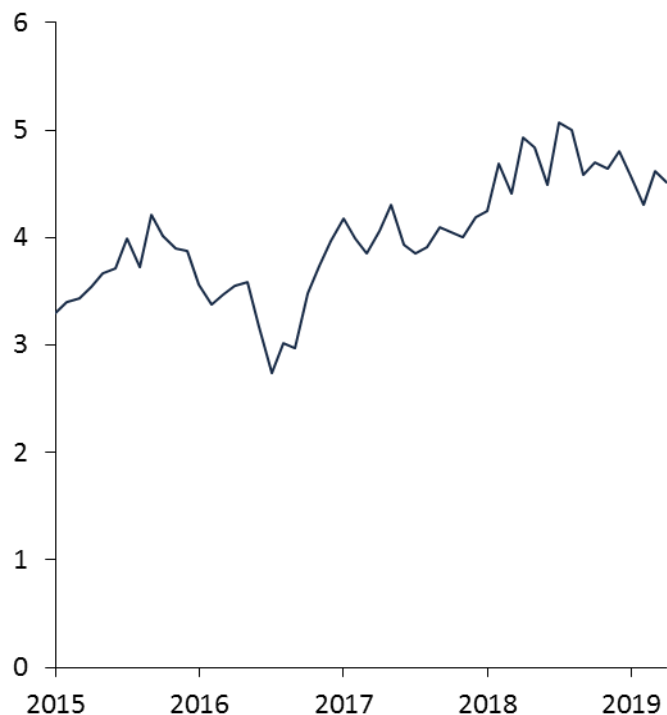
1/ Estimated as the capitalization ratio that results from reducing the CVaR of both net capital and risk-weighted assets. This indicator assumes that credit portfolio has losses for an amount equal to the CVaR, which the bank assumes as directly reflecting capital loss without affecting its reserves and that such portfolio is weighted in order to determine the capital requirements at 100%.

Source: Banco de México.

5 Institutions: commercial banks

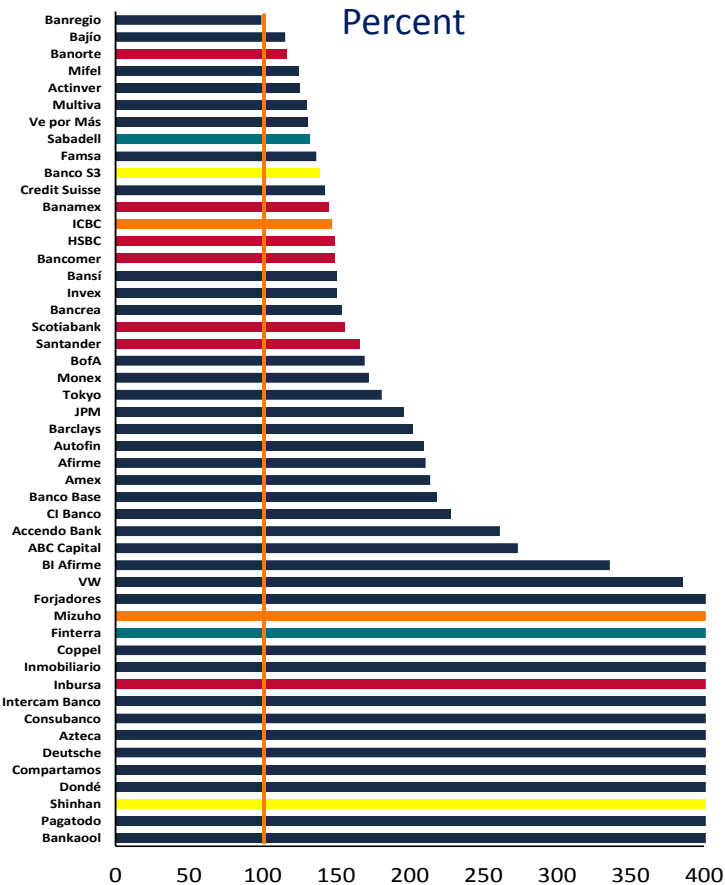
The environment of greater market uncertainty and volatility on interest rates, exchange rates, and stock market indices, led to an increase in banks' market risk. As for liquidity risk, commercial banks continue exhibiting adequate liquidity to cope with financial stress episodes.

Conditional Value at Risk (CVaR) at 99.9% for market risk
Percent of net capital



Note: Data as of April 2019.
Source: Banco de México.

Liquidity Coverage Ratio (LCR) ^{1/ 2/}
Percent



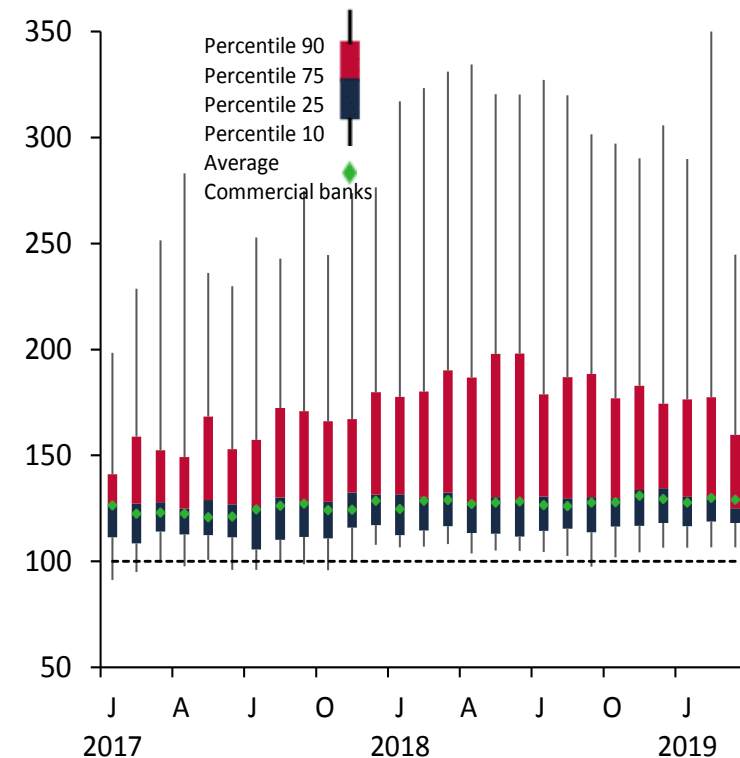
Note: Data from January to March 2019.

1/ The quarterly average of LCR from January to March 2019 is presented for each bank. In compliance with the current regulation, as of March 2019, banks marked in red should satisfy a minimum LCR of 100%, those in blue, a minimum of 90%, those in green a minimum of 80%, those in orange a minimum of 70%, and those in yellow a minimum of 60%.

2/ The LCR reported for Banco S3 is obtained from its Financial Information Report of Q1 2019.

Source: Banco de México and CNBV.

Distribution of Net Stable Funding Ratio (NSFR)
Percent

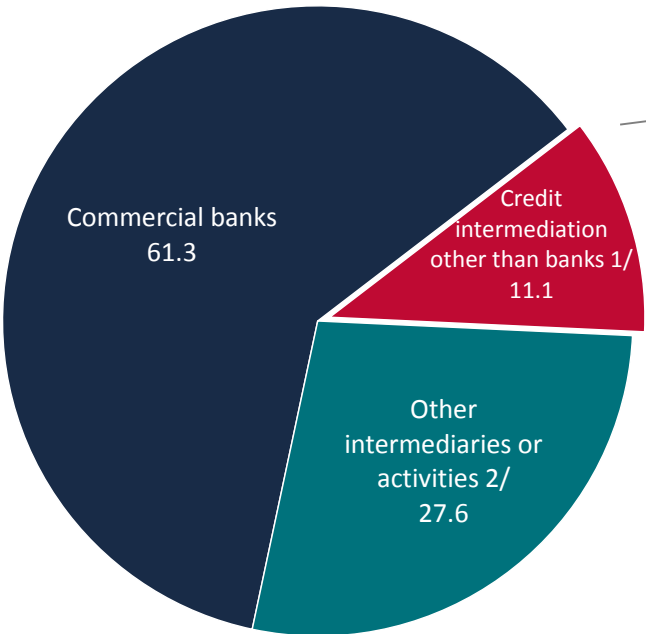


Note: Data as of March 2019.
Source: Banco de México.

6 Institutions: other non-bank financial intermediaries

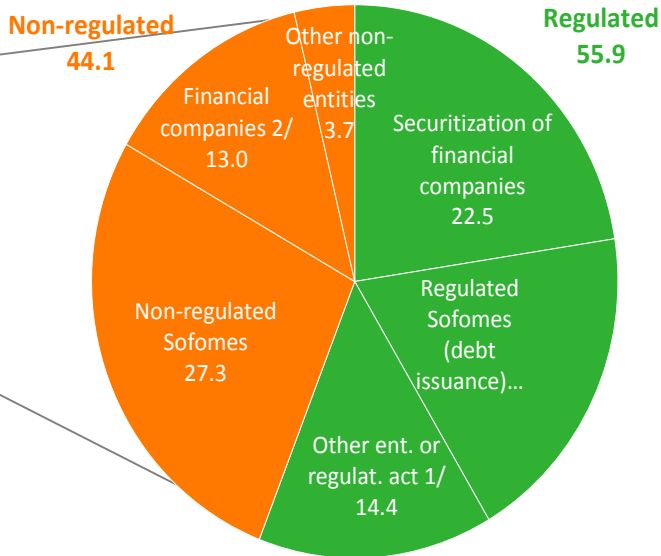
Besides commercial banks there are other financial entities that provide financing or engage in credit intermediation. These intermediaries' assets account for 11.1% of the total. Some of these institutions fund themselves from financial markets or from institutional investors and are subject to different prudential regulations, proportional to their risks, which should be monitored for financial stability purposes.

Other financial entities and activities not subject to bank regulation
Percent of total assets



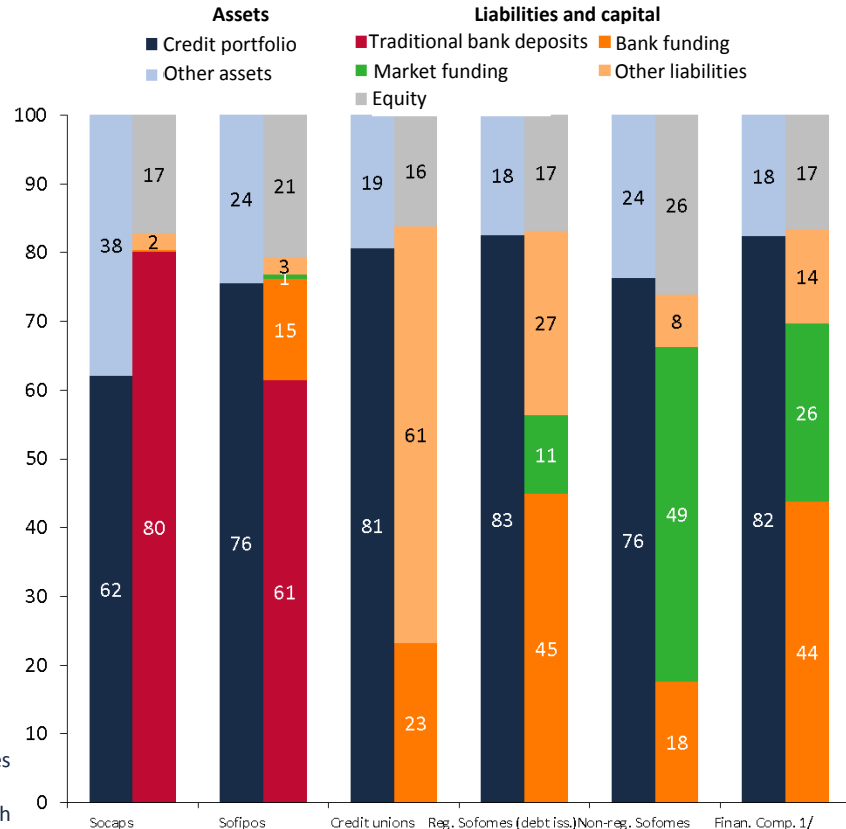
Note: Figures as of December 2018, except for entities that participate in credit intermediation other than banks and which are up to September 2018.
1/ Includes Socaps, Sofipos, regulated Sofomes that issue debt, non-regulated Sofomes, credit unions, financial companies specialized in credit or financial leasing, companies granting consumer credit, mortgage trusts, securitization of financial institutions, and companies with operations similar to collective financing financial technology institutions.
2/ Includes investment funds, regulated Sofomes with equity linkages to banks, deposit warehouses, brokerage houses, credit insurers, fibers, E fibers, CCD and Cerpis.
Source: Banco de México, CNBV, CNSF, Condusef, Indeval, BMV, and firms' websites.

Entities engaging in credit intermediation other than banks 1/
Percent of total assets



Note: Data as of September 2018.
1/ Includes Socaps, Sofipos, credit unions and mortgage trusts.
2/ Refers to financial companies specialized in credit or financial leasing. Figures as of December 2018.
3/ Includes companies that grant consumer credit and companies with operations similar to collective financing financial technology institutions.
Source: Banco de México, CNBV, CNSF, Condusef, Indeval, BMV, and firms' websites.

Assets and liabilities of entities other than banks that engage in credit intermediation
Percent of total



Note: Data as of September 2018.
1/ Refers to financial firms specialized in credit or financial leasing. Figures as of December 2018.
Source: Banco de México, CNBV, CNSF, Condusef, and BMV.

7 Other risks

Cyber risks

- The materialization of cyber risks may affect financial institutions through:
 - i. Disruptions in the institutions' information technologies and the consequent **unavailability of their services**.
 - ii. Compromising the **integrity, reliability, and availability of the information** managed by institutions.
 - iii. **Economic losses** to the **institutions or to their customers**.
- Mexico's financial authorities have developed a three pronged cyber risk mitigation strategy based on:
 - i. **Corporate governance** where information security is given a high priority within institutions.
 - ii. **Preventive strengthening of infrastructure and IT systems**, based on standards and better practices.
 - iii. **Development of equipment and incident response protocols** that allow for a timely response.

Environmental risks

- Environmental degradation and climate change might have credit risk and reputational implications for financial system participants at the national and global level. In particular, physical and transition risks should be considered.
- Under extreme scenarios, such risks may lead to losses that could threaten financial stability. Therefore, it is important that financial institutions adopt a more active role that allows them to absorb and mitigate such risks.

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1 **Macrofinancial conditions**

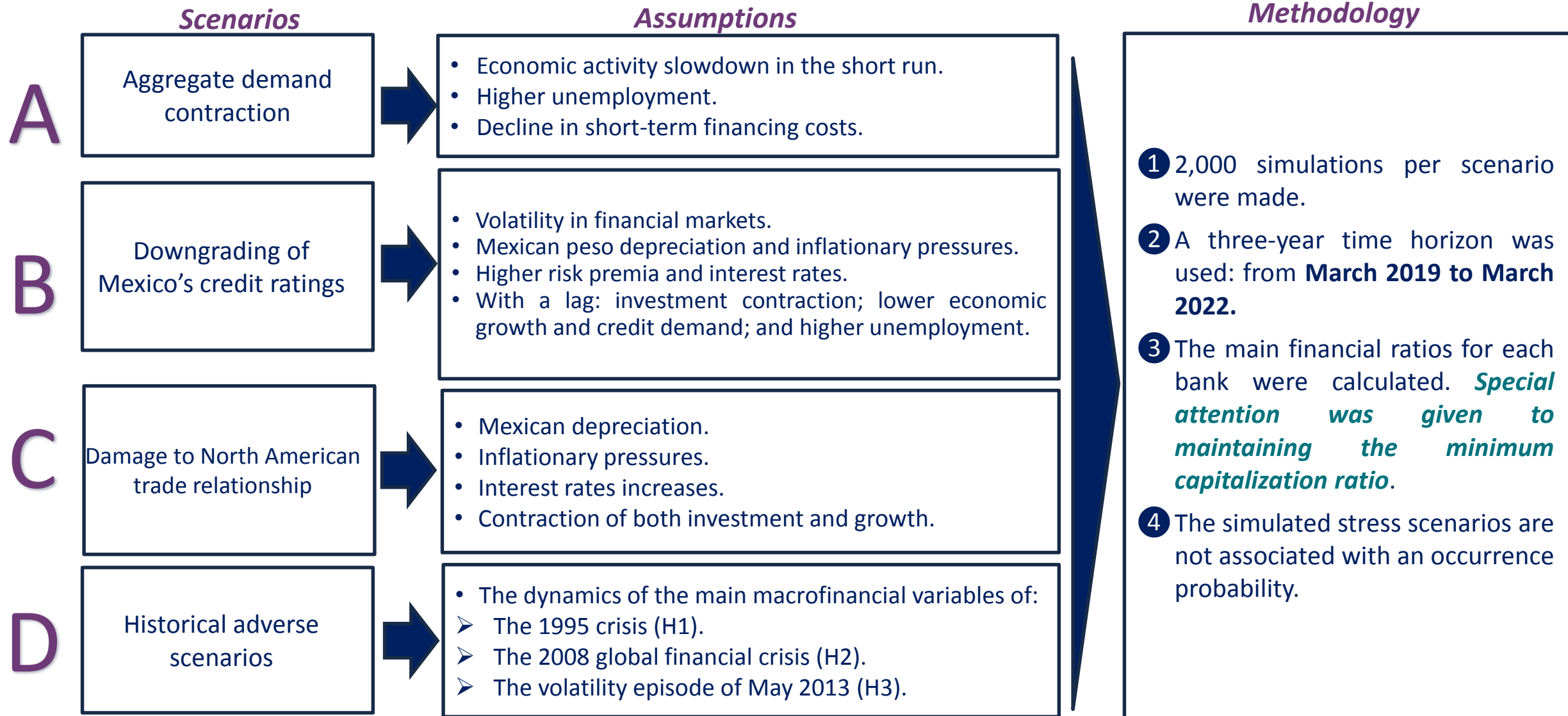
2 **Financial system risks**

3 **Stress tests**

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Stress tests

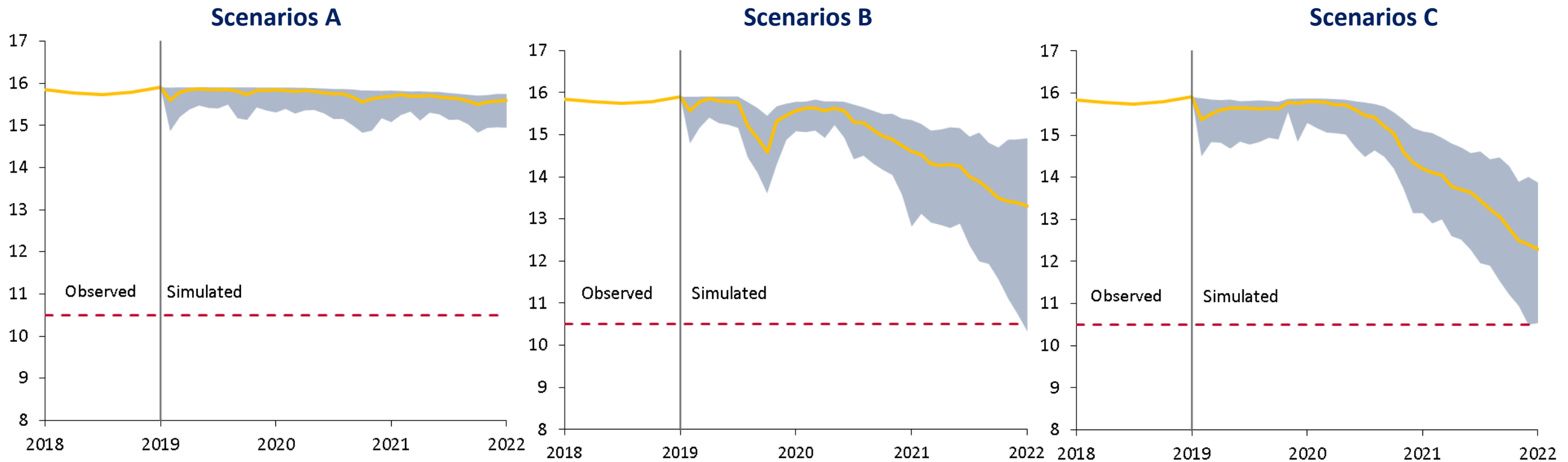


Note: The severity of the stress scenarios analyzed is due to the combination of simultaneous adverse shocks in several variables. In the set of scenarios A, shocks fluctuate between -2.9 and 4.6 standard deviations for all variables. The most outstanding are the shocks of up to -2.9 standard deviations in the credit portfolio's annual growth; of 4.3 standard deviations in the peso exchange rate; and of -1.2 standard deviations in the 28-day Cetes rate. In the set of scenarios B, shocks fluctuate between -4.1 and 9.6 standard deviations for all variables; the most outstanding shocks are a shock of 7.7 standard deviations in the peso exchange rate; of 5.4 standard deviations in the Cetes rate; and of -4.1 standard deviations in annual credit growth. Finally, in the set of scenarios C, shocks fluctuate between -3.4 and 8.1 standard deviations for all variables, with a considerable shock to unemployment of 3.7 standard deviations, 8.1 standard deviations for the exchange rate; and -2.8 standard deviations for the Global Economic Activity Index (IGAE, for its acronym in Spanish).

Stress tests

After analyzing the results of stress tests on credit institutions' capital ratios, it can be concluded that the financial system's average capitalization ratios remain above the regulatory minimum plus buffers, even under the most adverse scenarios.

Financial System Capital Adequacy Ratio (CAR) ^{1/2/}



Note: Data as of March 2019 and 3-year simulations starting from such date.

1 / Horizontal line corresponds to CAR minimum plus capital buffers.

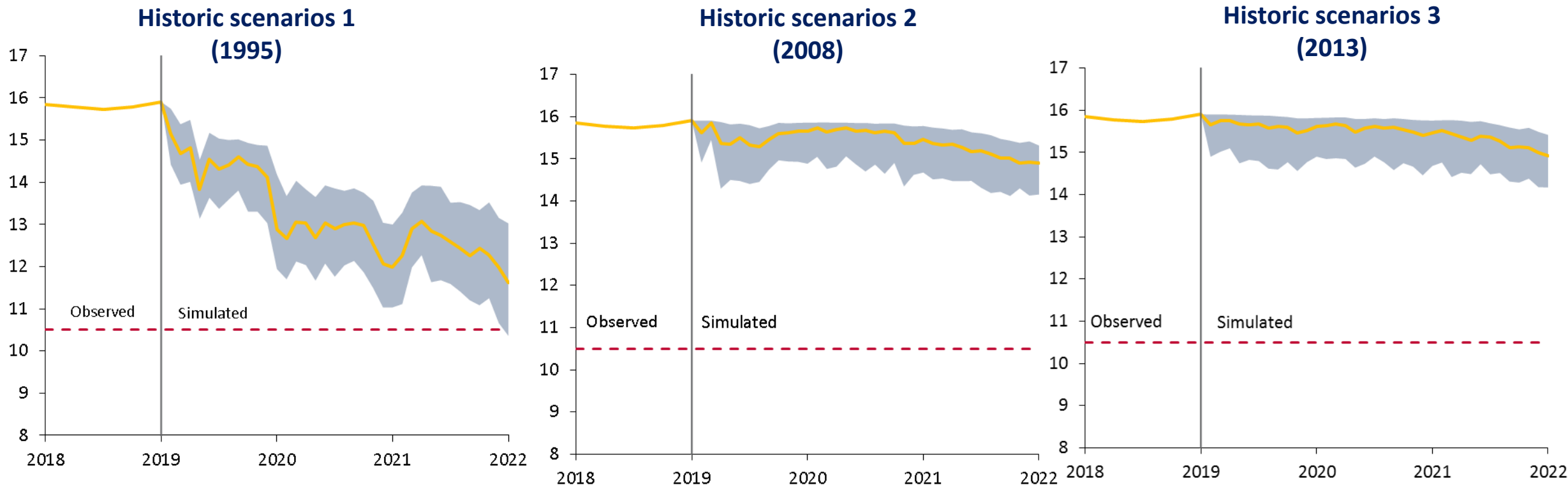
2/ These results should in no way be interpreted as a forecast for the 3 years analyzed.

Source: Banco de México.

Stress tests

In the set of historical scenarios analyzed, the system would remain resilient, finishing the stress horizon with ratios above the regulatory minimum excluding capital buffers.

Financial System Capital Adequacy Ratio (CAR) ^{1/2/}



Note: Data as of March 2019 and 3-year simulations starting from such date.

1 / Horizontal line corresponds to CAR minimum plus capital buffers.

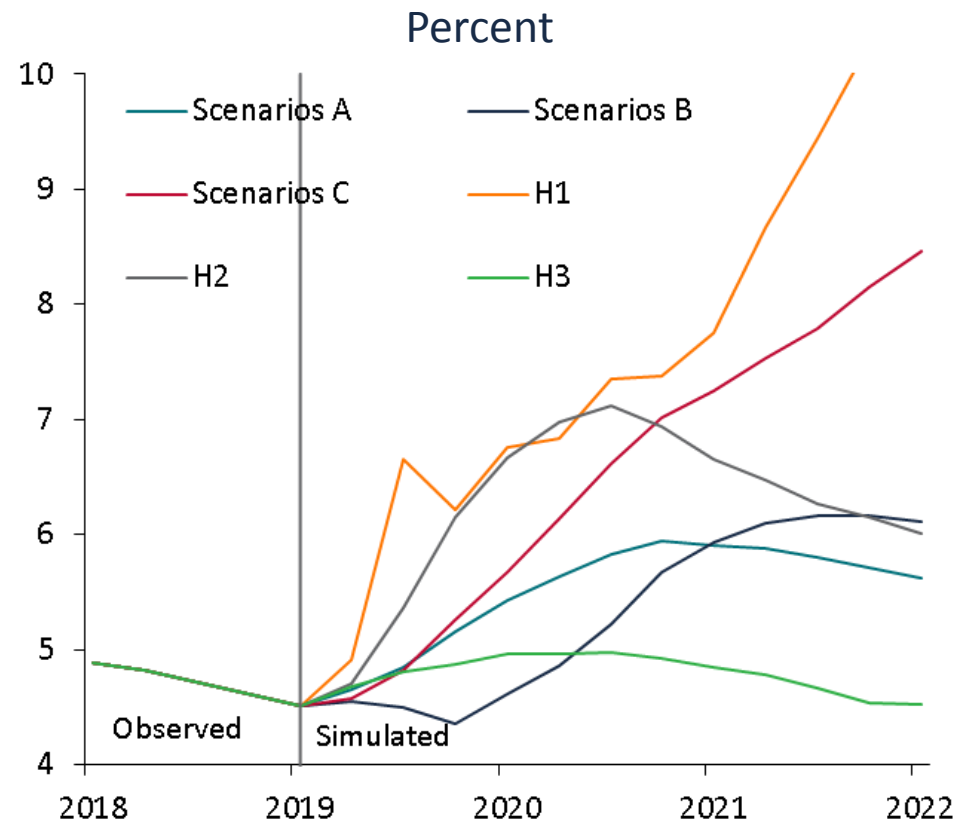
2/ These results should in no way be interpreted as a forecast for the 3 years analyzed.

Source: Banco de México.

Stress tests

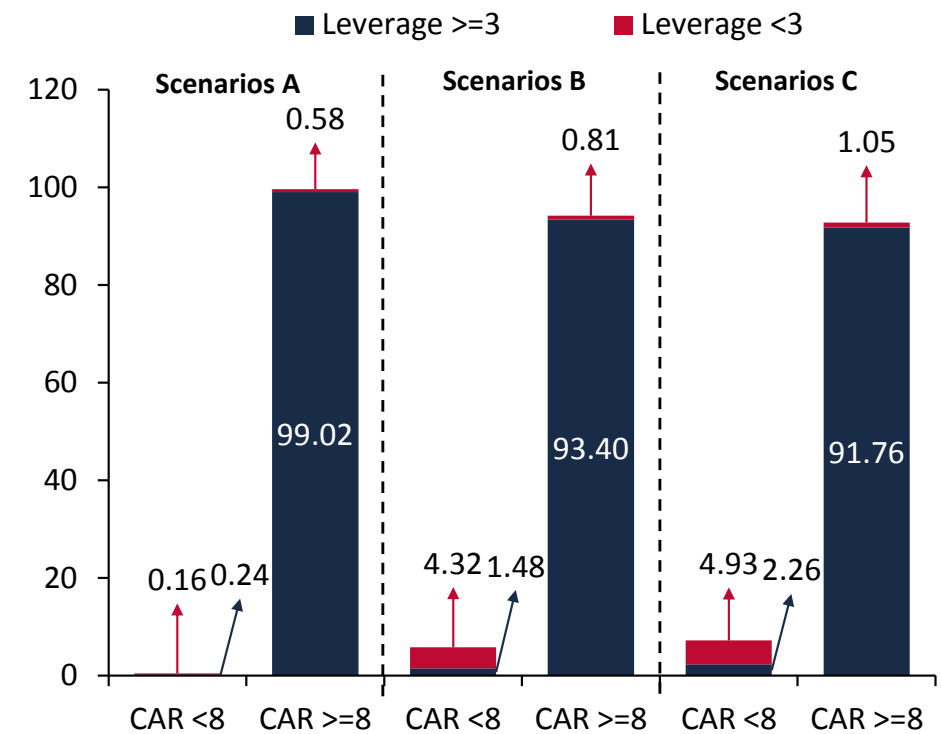
Adverse effects impact banks in two ways: i) through higher delinquency ratios (due to greater credit defaults) and, ii) through the banking sector's deleveraging process (asset reduction), which affects banks' ability to generate earnings.

Financial system loan portfolio probability of default



Note: Data as of March 2019 and 3-year simulations starting from such date.
Source: Banco de México.

Relation between Capital Adequacy Ratio (CAR) and leverage ratio



Note: Data as of March 2019 and 3-year simulations starting from such date.
*/ Percent of banks weighted by assets in total scenarios.
Source: Banco de México.

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Macroprudential policy

- Financial authorities in Mexico have implemented macroprudential tools that help reduce the probability of financial systemic risks from materializing or to mitigate their impact if they were to occur.
- From October 2018 to May 2019, the following measures stand out:
 - 1 Strengthening derivatives markets**
 - ✓ Rules on margin requirements for derivatives that are not cleared or settled through clearing houses have been published for consultation.
 - 2 Strengthening financial institutions' risk management and corporate governance framework**
 - ✓ Commercial banks submit their contingency plans for assessment and approval, which allows to anticipate strategies for potential adverse scenarios and thus plan how to cope with them.
 - 3 More effective international coordination for cooperation and management of cross-border crises**
 - ✓ Mexico participates in the Crisis Management Groups of some international banks to improve coordination with authorities of other countries.
 - 4 Improved regulation of repo operations and securities lending**
 - ✓ Amendments to the existing regulations on repo operations and securities financing transactions have been published for consultation, with a more robust methodology for estimating minimum haircuts, as well as for extending both the set of eligible securities and the scope of financial entities allowed to carry out this type of transactions.
 - 5 New liquidity requirements**
 - ✓ There is ongoing work to implement the Net Stable Funding Ratio (NSFR).

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Final remarks

- 1 Despite the environment of uncertainty that the Mexican economy has faced, **the financial system remains robust, with moderate risk levels**. However, it is necessary to:
 - ✓ **Maintain and continue strengthening regulation and supervision.**
 - ✓ **Keep a prudent and firm macroeconomic strategy.**
- 2 **The financial position of households has remained relatively stable**, with indebtedness growing at moderate rates. Households' credit delinquency rates have remained stable.
- 3 **Total financing to non-financial private firms decelerated**, largely due to a reduction in external financing, while domestic financing also slowed down but in lesser magnitude, and continued to exhibit low delinquency rates, albeit slightly higher for Small and Medium Enterprises (SMEs).
- 4 **Deterioration of the sovereign and Pemex's credit ratings are a significant risk factor that must be addressed.**
- 5 Given Pemex's relevance for the economy, for public finances and for the financial system, and considering the recent downgrade to its credit rating, strengthening its credit quality is crucial.

Final remarks

- 6 Commercial banks continue to show adequate capitalization and liquidity ratios to deal with potential financial stress episodes.
- 7 Stress tests suggest that, as of March 2019, the banking system had adequate capitalization ratios and profitable business models that would allow it to maintain capitalization and leverage ratios above the regulatory minima under an adverse macroeconomic environment.
- 8 As for non-financial risks, **those associated with cyber attacks and with environmental degradation and climate change have gained relevance** and must be assessed and mitigated.
- 9 Given the various challenges the Mexican economy is currently facing, it is important to highlight the relevance **of maintaining a stable, efficient, competitive and innovative financial system** that generates the right incentives for financial institutions to safely and efficiently intermediate public savings to profitable projects.
- 10 **It is essential to have a strong institutional framework, along with financial regulation and supervision that foster the integrity of the financial system and protect people's interests.** All of the above is needed in order for the financial system to contribute to sustainable economic growth and to increase Mexicans' welfare.

Boxes

- 1 Financial stability's relevance for economic growth
- 2 Recent reviews to the credit rating outlook of Mexico and Pemex
- 3 Global financial cycle in Mexico
- 4 Cobro Digital (Digital Charge) (CoDi, for its acronym in Spanish)

Annexes

- 1 Disaggregated heat map of Mexico's financial system



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