

Financial Stability Report – First Semester 2024

June 12, 2024

BANCO DE MÉXICO®

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Introduction

The Financial Stability Report describes:

- ✓ The **current state of the Mexican financial system**.
- ✓ The **evolution of the most important risks and vulnerabilities**.
- ✓ The results of **credit and liquidity stress tests, as well as those associated with climate change.**

- The Mexican financial system maintains a **solid and resilient position,** despite the **complex global environment** characterized by:



- ✓ **International financial markets** that have exhibited **periods of volatility** due to **greater risk aversion amid the possible escalation of geopolitical conflicts.**
- ✓ The **persistence of inflation** in most countries, at levels above their respective central bank targets.
- ✓ **Global financial conditions** that displayed some tightening in April.

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Contents

1 Macro-financial conditions

2 Measures for the sound development of the financial system

3 Financial system risks

4 Stress tests

5 Final remarks

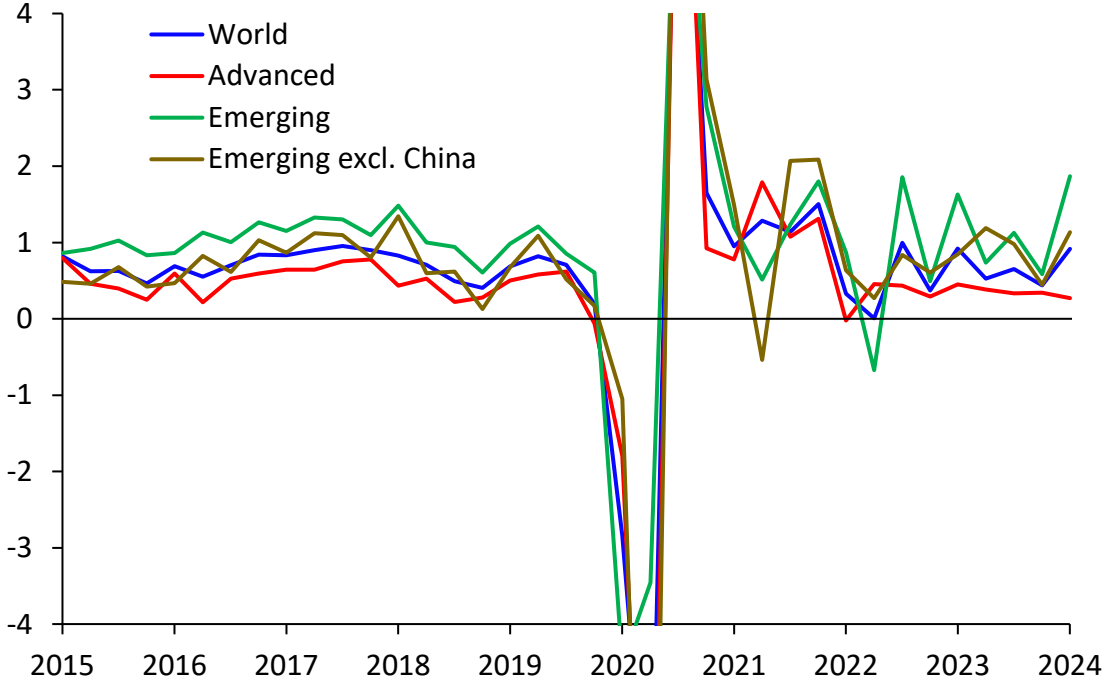
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1 Global economic growth

During H1-2024, global economic activity recovered heterogeneously among countries, following the deceleration at the end of 2023. Thus, global economic growth forecasts were revised slightly upwards for 2024 and remained unchanged for 2025.

GDP growth[1/]

Quarterly % change, s. a.



Data as of Q1-2024.
Source: Banco de México with data from Haver Analytics and J.P. Morgan
s. a. / seasonally adjusted data.
1/ The sample of countries used for the calculation represents 85.3% of world GDP adjusted by purchasing power parity. Forecasts are used for some countries in the sample for Q1-2024. The ranges of the series were shortened to facilitate their visualization. The data corresponds to the minimum and maximum levels of the indicators for the sample of indicators that are not visualized in the chart.

Global GDP growth forecast

Percent

	As of April 2024		Change since January 2024	
	2024	2025	2024	2025
World	**3.2**	**3.2**	**0.1**	**0.0**
Advanced	**1.7**	**1.8**	**0.2**	**0.0**
United States	2.7	1.9	0.6	0.2
Euro area	0.8	1.5	-0.1	-0.2
Japan	0.9	1.0	0.0	0.2
United Kingdom	0.5	1.5	-0.1	-0.1
Emerging	**4.2**	**4.2**	**0.1**	**0.0**
Excl. China	4.1	4.1	0.0	0.0
Mexico	**2.4**	**1.4**	**-0.3**	**-0.1**
China	4.6	4.1	0.0	0.0
India	6.8	6.5	0.3	0.0
Brazil	2.2	2.1	0.5	0.2

Data as of April 2024.
Source: IMF, World Economic Outlook, January and April 2024.

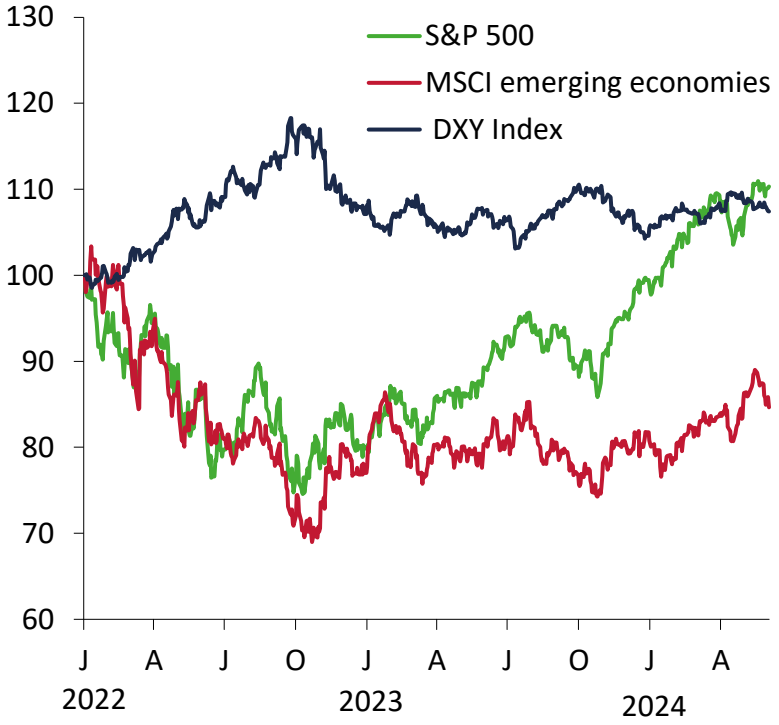
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2 International financial markets

During H1-2024, the behavior of international financial markets was dictated by slower-than-anticipated global disinflation dynamics that delayed the convergence to central banks' targets, which, along with the resilience observed in economic activity data, prompted monetary policy expectations to incorporate a restrictive stance for a longer period of time.

Stock market and FX indices´ performance

Index (January 2022 = 100)



Data as of June 2024.
Source: Banco de México with data from Bloomberg.

Global Financial Conditions Index

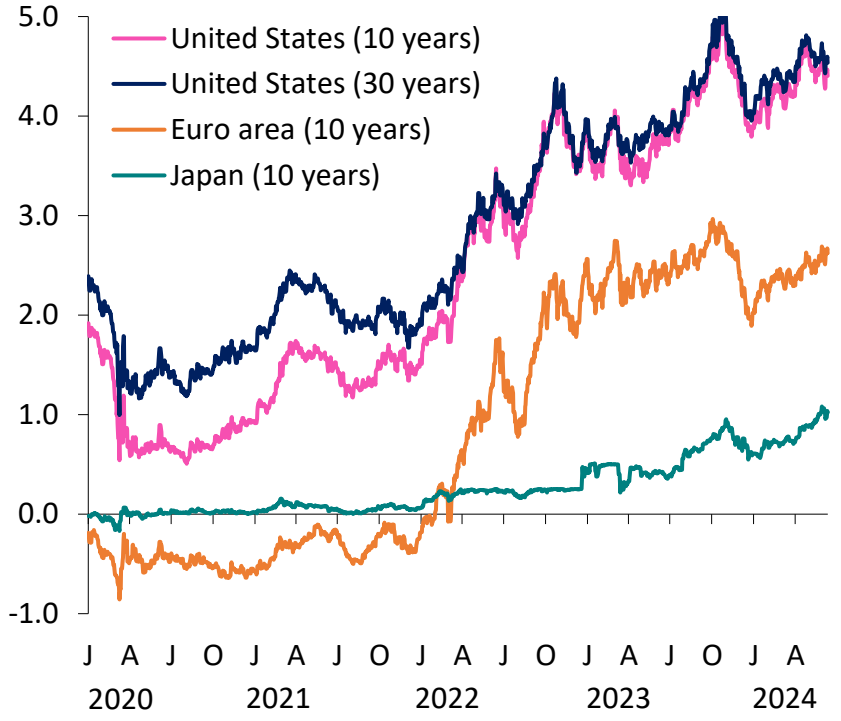
Index



Data as of June 2024.
Source: Goldman Sachs.

Government bonds' interest rates

Percent



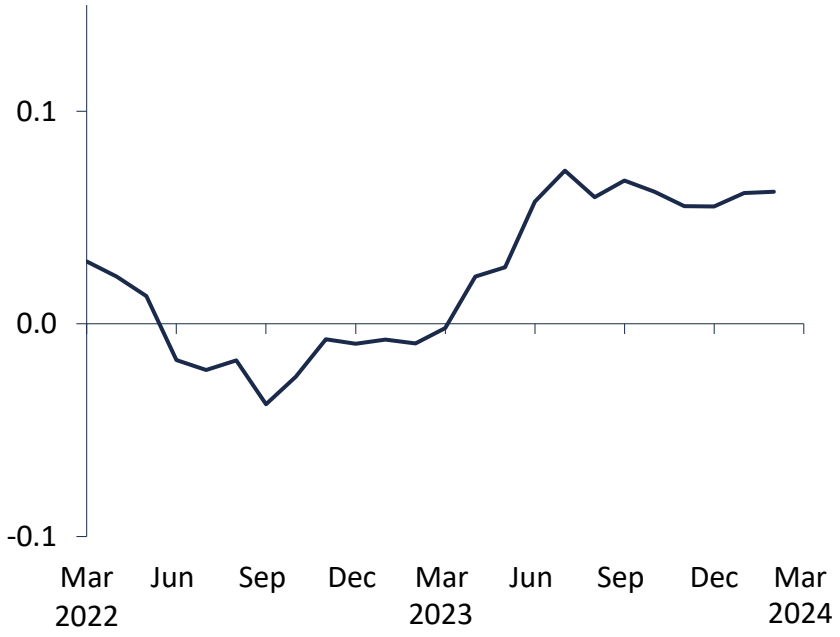
Data as of June 2024.
Source: Bloomberg.

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❸ Financial markets: emerging market economies

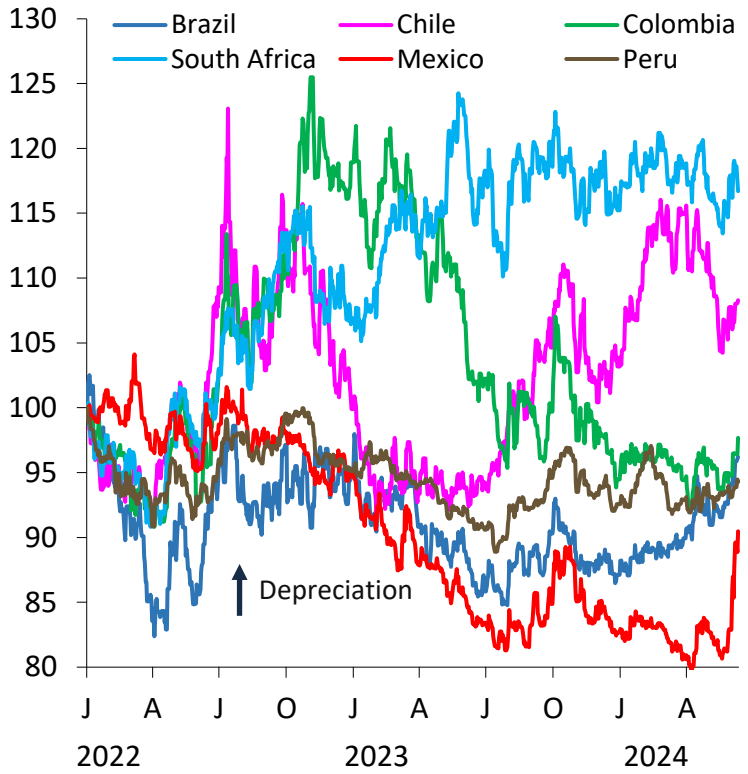
In the current environment, financial markets in emerging countries have exhibited greater volatility. Thus, since December 2023, the currencies of these countries have shown a mixed behavior, given the relative strength of the US dollar.

Non-resident portfolio flows to EMEs[1/]
Percent of 2022 GDP, 1-year moving average



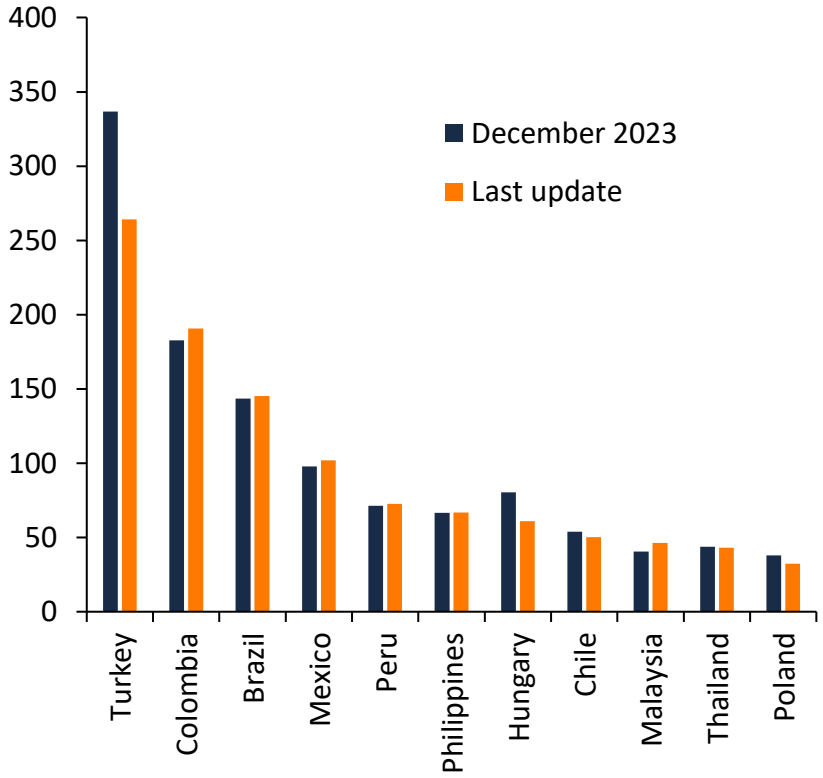
Data as of February 2024.
Source: Institute of International Finance (IIF).
1/ The measure of portfolio flows from emerging economies included those countries considered in the monetary policy and international financial markets sections of the Quarterly Report January-March 2021, for which information was available from the IIF. This measure was obtained by adding the flows of all these economies and dividing the total by the sum of their GDP in 2022.

Nominal exchange rates against the USD
Index 02-Jan-2022 = 100



Data as of June 2024
Source: Bloomberg.

5-year CDS for selected emerging economies
Basis points



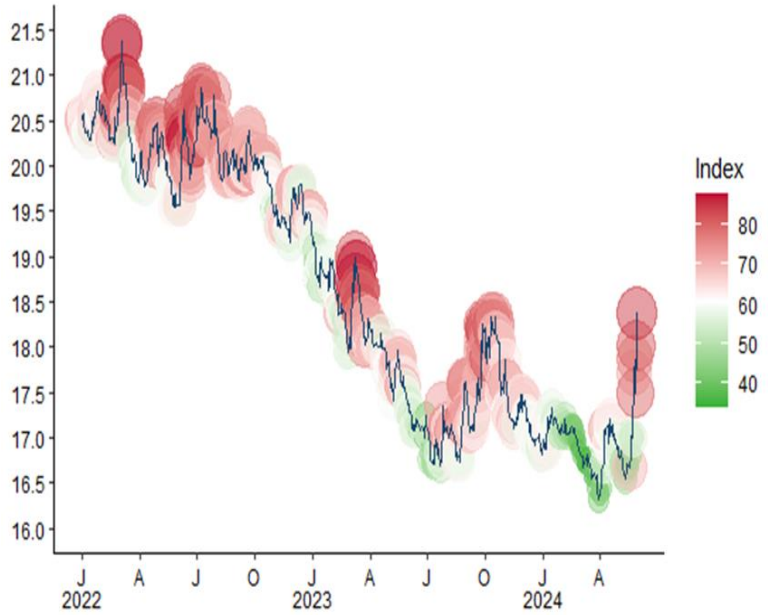
Data as of June 2024.
Source: Bloomberg.

Publicly accessible information

4 Mexican financial markets

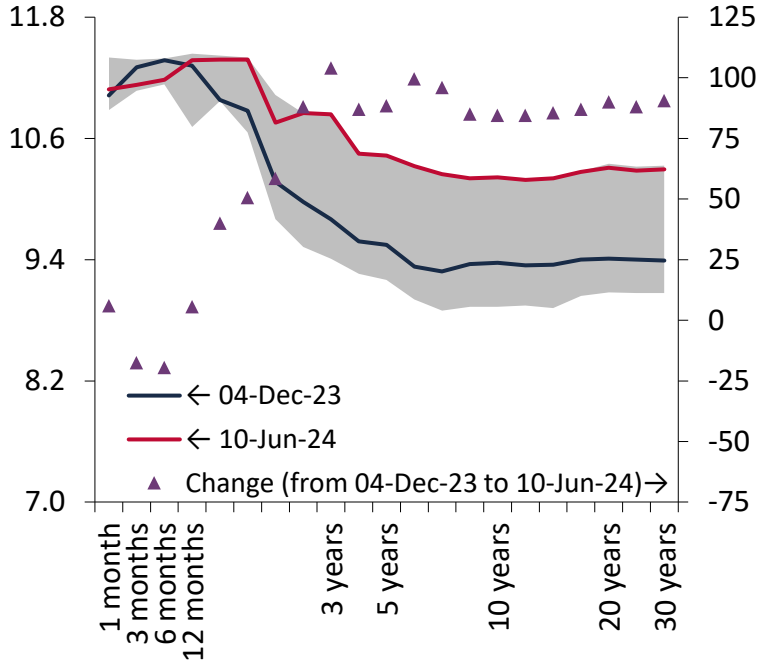
As domestic financial markets were influenced also by external conditions, the Mexican peso depreciated during H1-2024, with some episodes of greater volatility during the last months. The M bonds' yield curve has shown increases in almost all maturities, in a context in which trading conditions in this market continued to display deterioration.

Mexican peso trading conditions index[1/]
Mexican pesos per US dollar; index



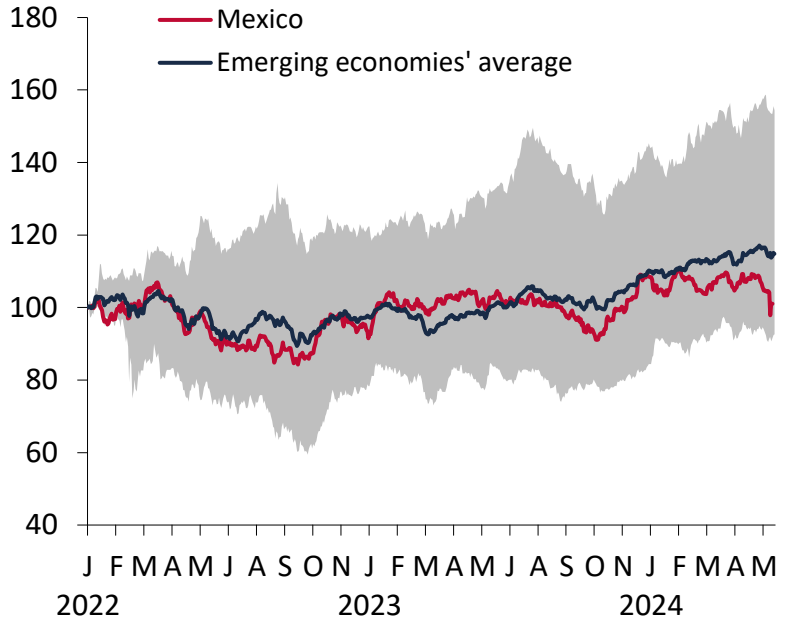
Data as of June 2024.
Source: Banco de México with data from Bloomberg and Refinitiv.
1/ The index is computed as the average of the percentiles of 1-month implicit volatility and skewness, volume and observed spreads. Percentiles are computed since 2018. Red (green) circles mean a greater (lesser) deterioration of the trading conditions in the FX market.

M bonds' yield curve[1/]
Percent



Data as of June 2024.
Source: Banco de México with data from PIP.
1/ The grey area is the daily yield curve range since December 4, 2023.

Equity indexes' cumulative performance for selected emerging economies[1/]
Index (Jan-2-2022 = 100)



Data as of June 2024.
Source: Banco de México with data from Bloomberg.
1/ The emerging countries included are Brazil, Chile, Colombia, Philippines, Hungary, India, Indonesia, Malaysia, Poland, and South Africa.

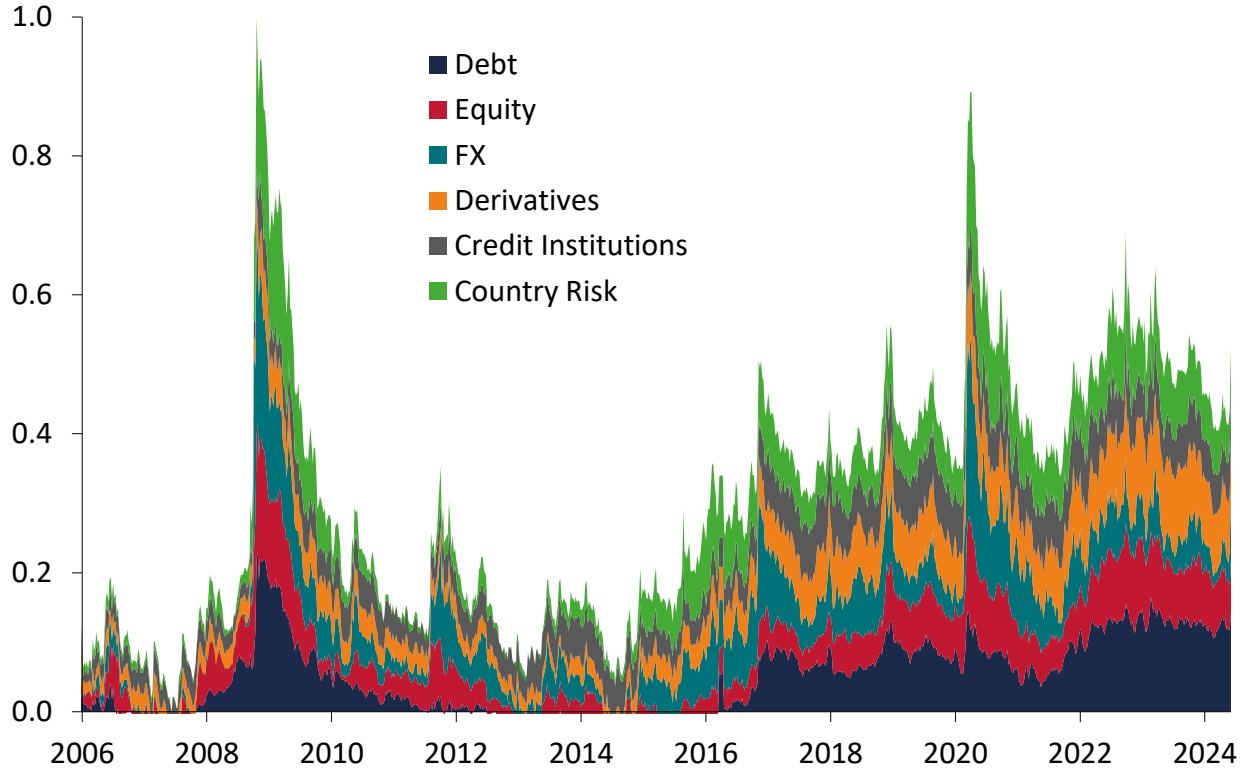
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4 Mexican financial markets

During the period from December 2023 to May 2024, the domestic Financial Market Stress Index (FMSI) rebounded somewhat in April, due to geopolitical tensions. In early June, the FMSI rebounded again due to the performance of the domestic foreign exchange, debt and equity markets, and reached levels above those registered in the last Report. In turn, end of May data shows that the Financial Conditions Index remains in the tightening zone.

The Financial Market Stress Index[1/]

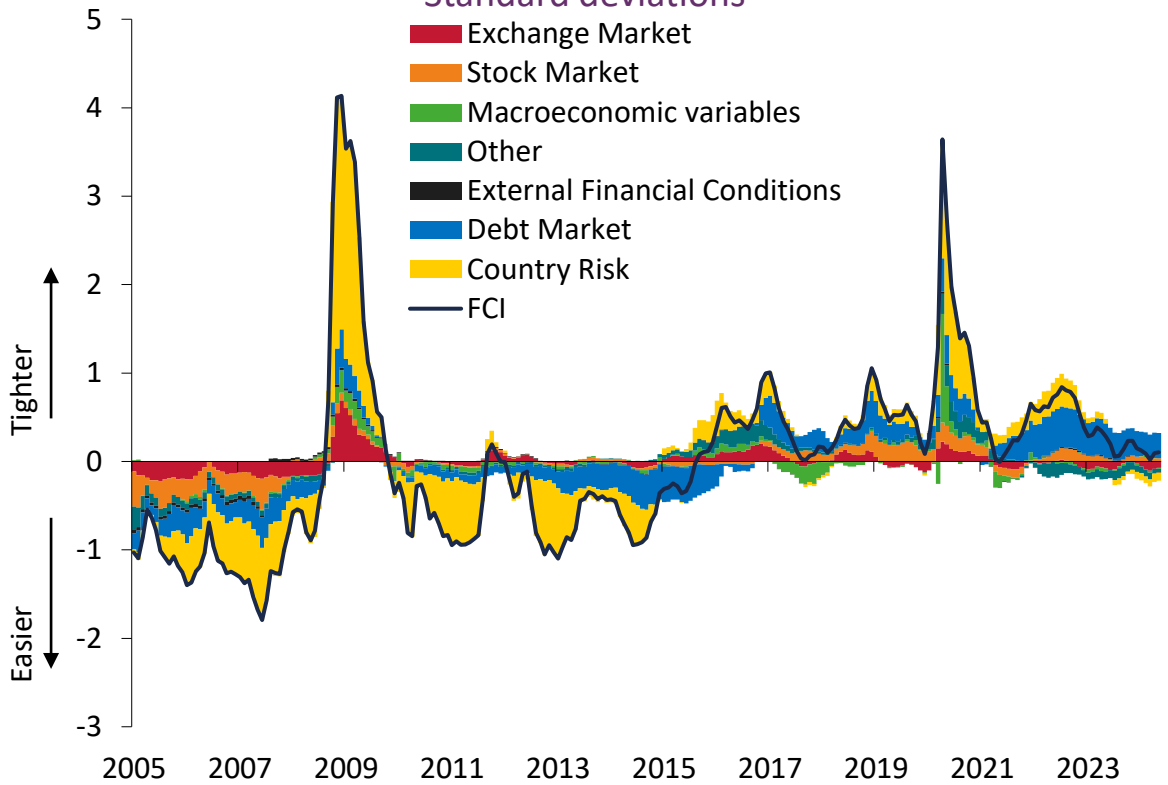
Stress level 2006-2024



Data as of June 07, 2024.
Source: Banco de México.
1/The index was estimated using a principal component analysis based on 36 standardized variables of the Mexican financial markets grouped into 6 categories (i.e., debt market, equity market, FX market, derivatives market, credit institutions and country risk). The sum of all components result in an index which is scaled to the [0,1] interval. A higher number represents higher financial stress.

Financial Conditions Index[1,2/]

Standard deviations



Data as of May 2024.
Source: Banco de México.
1/ For a description of the methodology see Box 2: Financial Conditions and Growth Risk, Financial Stability Report, December 2019.
2/ The contributions of each FCI variable are estimated using Kalman Filter.

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❺ Macro-financial risks

- Although Mexico's financial system vulnerabilities remain contained, there are still some macro-financial risks which, if they were to materialize, could affect the proper functioning of the financial system, such as:

  I. **Tighter global financial conditions, and/or for a longer period than previously anticipated.**

  II. **Heightened geopolitical tensions and/or trade conflicts.**

  III. **A systemic event with implications for the global financial system.**

  IV. **Unexpected adjustments in credit ratings for the sovereign or Pemex.**

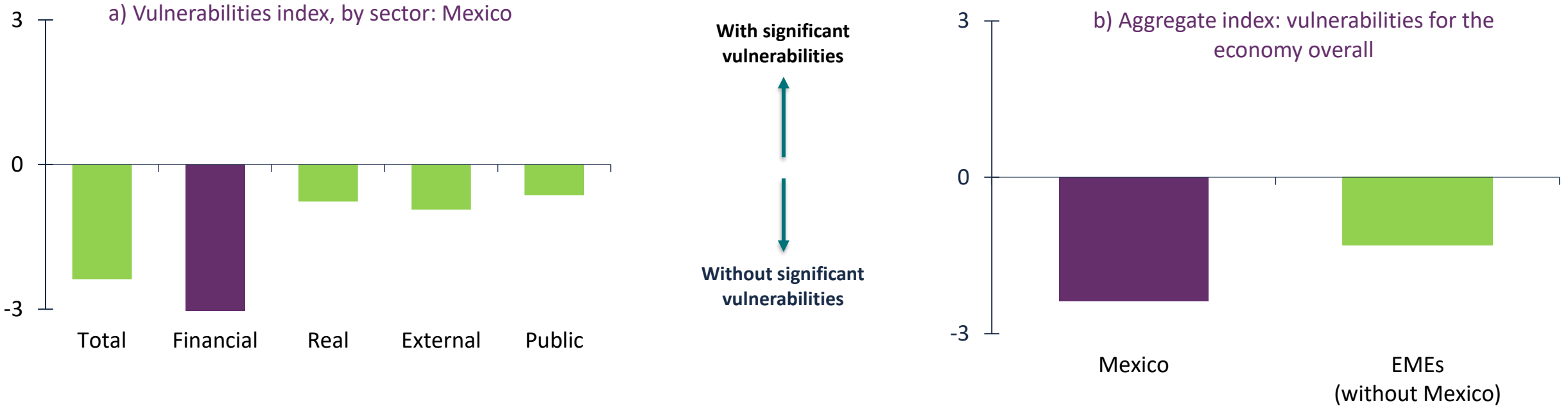
- These risks are considered in credit stress tests.

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5 Macro-financial risks

Early warning indicators detect vulnerabilities in the financial, real, external and public sectors, which could have implications for macro-financial stability in the future.

Macro-financial vulnerabilities index



Source: Banco de México, Haver Analytics, IMF (World Economic Outlook and Financial Soundness Indicators). The group of emerging economies includes Brazil, Colombia, Indonesia, Philippines, South Africa, Thailand, and Turkey.

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Contents

1 Macro-financial conditions

2 Measures for the sound development of the financial system

3 Financial system risks

4 Stress tests

5 Final remarks

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Measures to preserve the sound development of the financial system

To maintain the continuous improvement of the regulatory framework, different regulatory actions were taken by Banco de México. Some of theme are:



The issuance of new rules through which the **Permanent Liquidity Facility (FPL, for its acronym in Spanish)** was implemented, which replaced the **Ordinary Additional Liquidity Facility (FLAO, for its acronym in Spanish)**, to meet temporary liquidity needs.



Amendments to the **rules applicable to repurchase agreements** to incorporate international standards and practices when executing these transactions.



Modifications to the **management, operation and internal control requirements** to be complied with by entities that intend to carry out **derivatives transactions.**



Amendments to the provisions allowing financial institutions to use the **Funding TIIE (Interbank Equilibrium Interest Rate) Compounded in Advance** as a reference rate in deposit transactions and loans in local currency.



Amendments to the **rules to execute swaps of government securities** to include government debt instruments aligned with **ESG criteria**[1/], to comply with the Sustainable Development Goals and encourage these investments in Mexico.

1/ Environmental, social and governance.

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Contents

1 Macro-financial conditions

2 Measures for the sound development of the financial system

3 Financial system risks

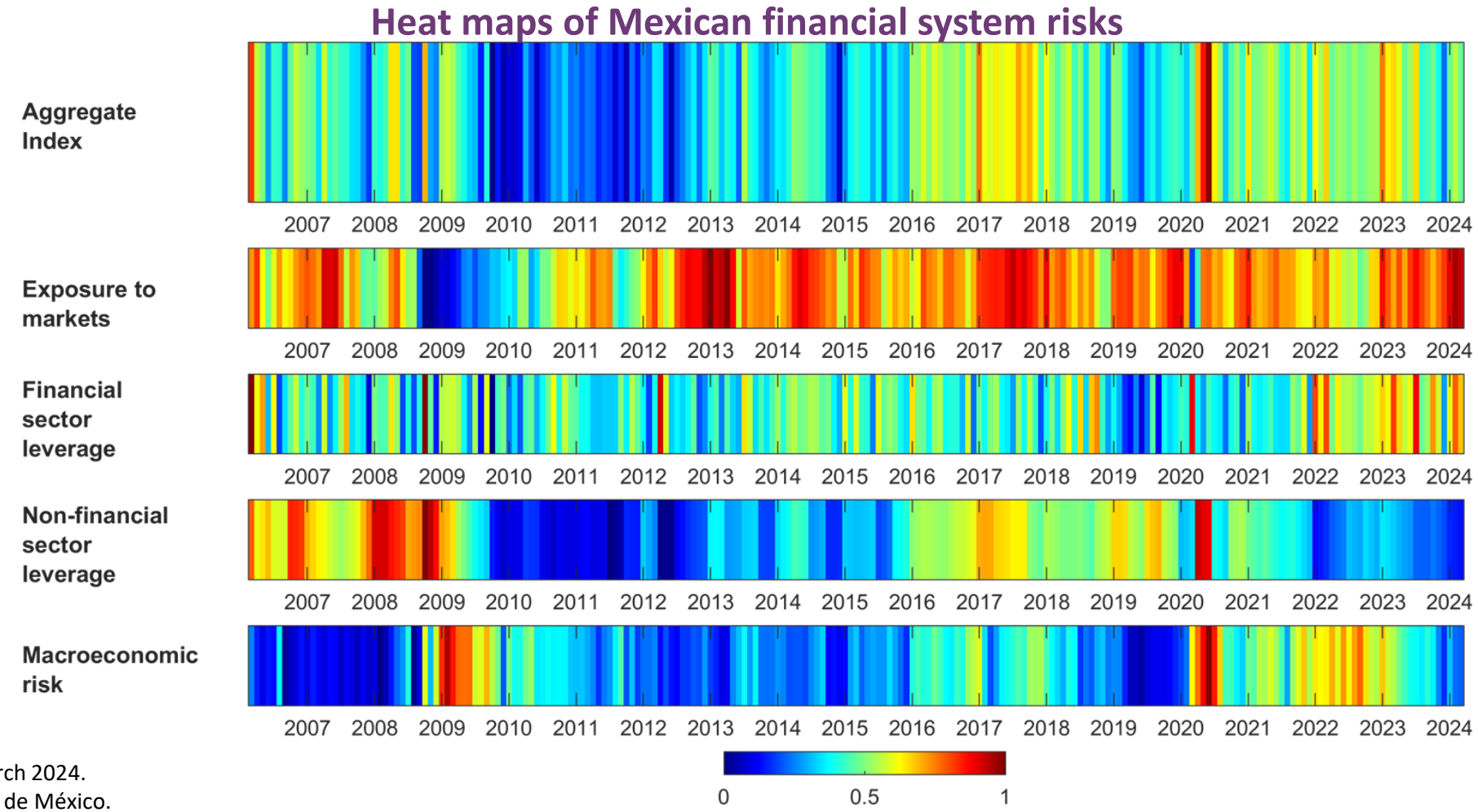
4 Stress tests

5 Final remarks

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❶ Heat maps of Mexican financial system risks

As illustrated in the heat map, the aggregate risk of the financial system remained at a level similar to that observed in the previous *Report*. This was because market exposure and financial sector leverage risks increased, while macroeconomic and non-financial sector leverage risk decreased during the period.



Data as of March 2024.
Source: Banco de México.

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❷ Survey of systemic risk perceptions among financial institutions

The most frequent domestic and external financial risk according to financial intermediaries is, as in the previous semester, higher-than-expected inflation. Regarding expectations for the main risks over the next 6 months, there was an increase in market risk (rates, foreign exchange and equities) and operational risk. In contrast, expectations for credit risk and liquidity risks (funding and market) decreased.

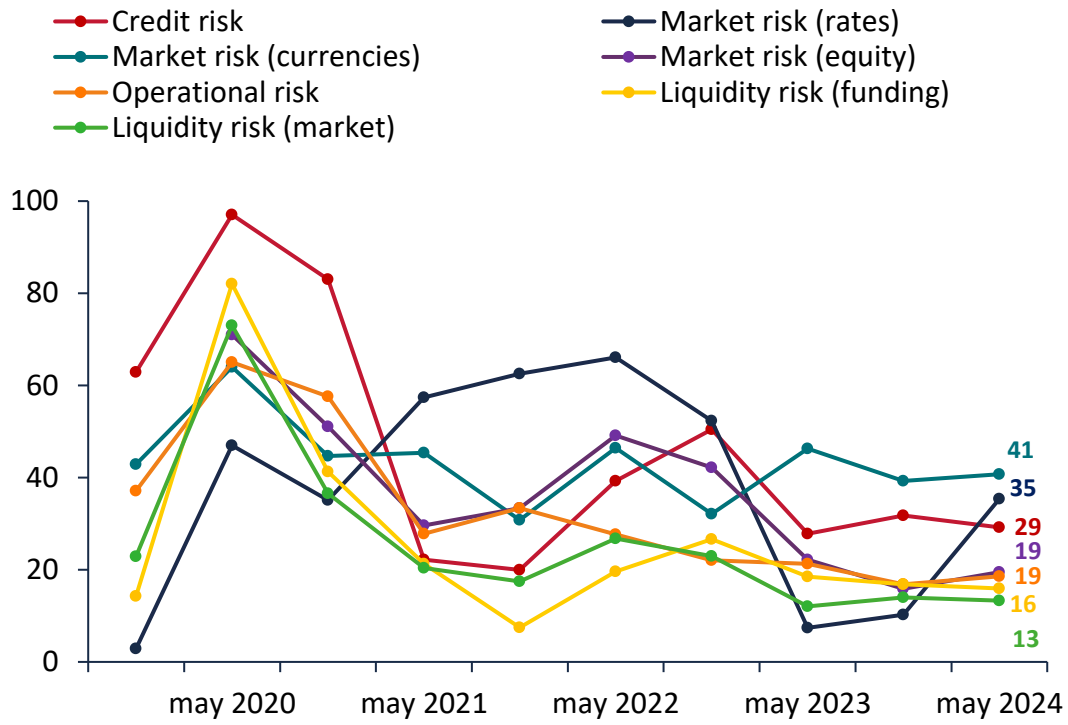
Main sources of financial system risks (6 months ahead)

Percent of total institutions

	November 2023[2/]	May 2024[1/]
External financial risks		
Inflation higher than expected	86	88
Deterioration of global economic growth outlook	79	73
Volatility in commodity prices	54	66
Disorderly changes in foreign interest rates	71	64
Deterioration of foreign market conditions*	54	61
Domestic financial risks		
Inflation higher than expected	73	77
Deterioration of public finances	71	73
Deterioration of the domestic economic growth outlook	68	71
Deterioration of sovereign credit rating	58	63
Fiscal, financial and economic policies	48	55
Non-financial risks		
Political, geopolitical and social risks	93	94
Cybersecurity and IT risks	79	81
Climate risk	49	73
Violence and insecurity	71	67
Deterioration of the rule of law and impunity	49	49

1/ A total of 113 institutions participated in the latest survey. 2/ A total of 107 institutions participated in the previous survey. * Exchange rate volatility, depreciation and lack of liquidity.

Expectations regarding the evolution of risks over the next six months[1/]



Source: Banco de México

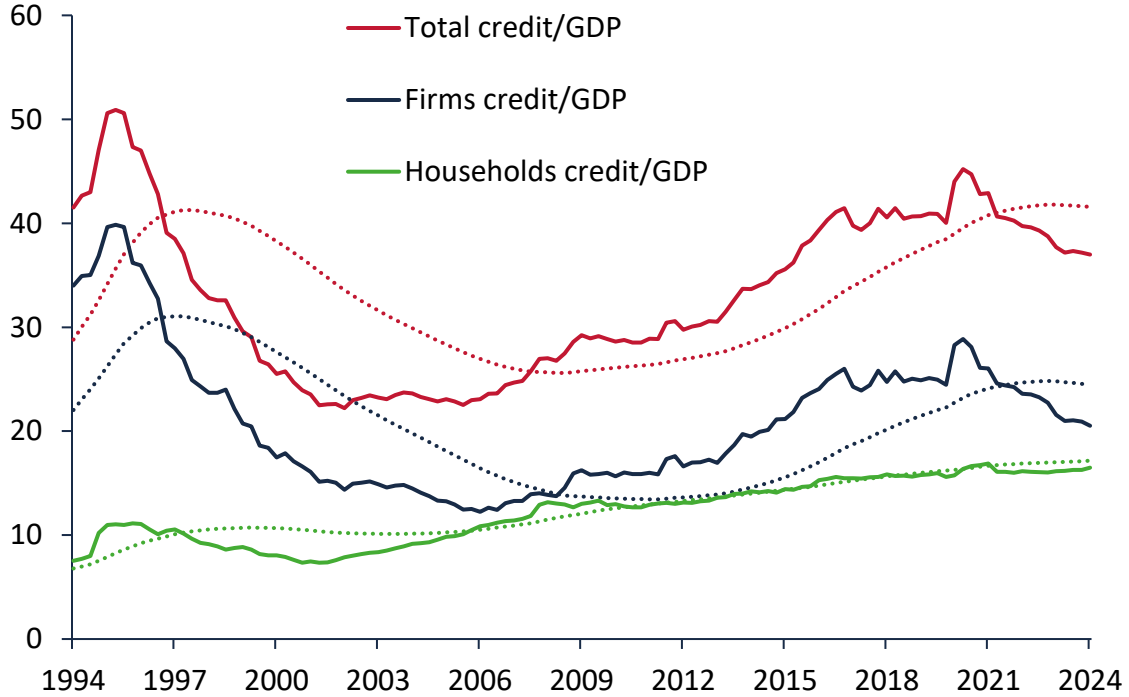
1/ The chart shows the difference between the percent of institutions that expect a risk to increase and the institutions that expect a risk to decrease.

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❸ Total financing to the non-financial private sector

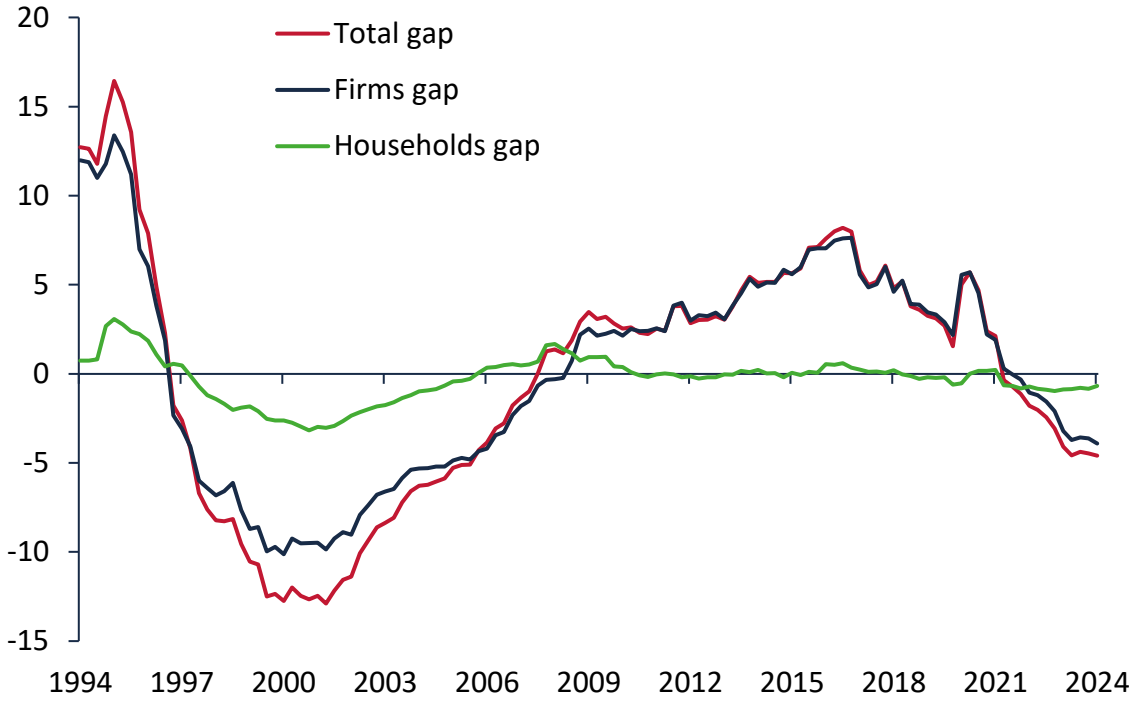
Total financing to the non-financial private sector, measured as a share of GDP, decreased marginally to the levels registered in September 2023. Both total financing and financing granted to businesses remain at levels similar to those of 2015. The financing gap registered twelve consecutive quarters with negative levels.

Credit to non-financial private sector[1/]
Share of GDP in percent



Data as of March 2024.
Source: Banco de México
1/ Dotted lines correspond to long-term trend.

Credit-to-GDP gap[1/]
Percent



Data as of March 2024.
Source: Banco de México.
1/ The difference between observed credit-to-GDP ratio and its long term trend

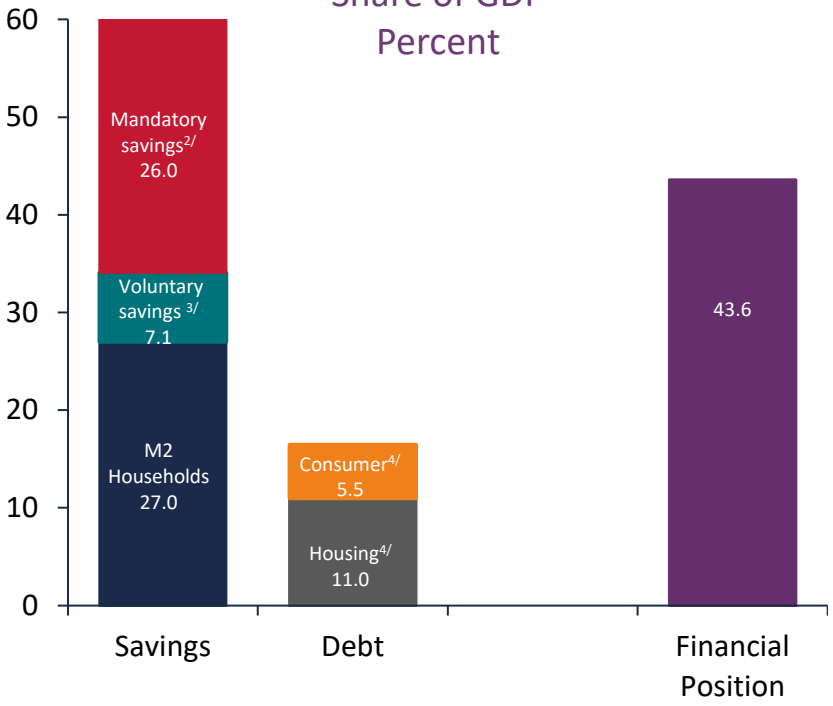
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4 Households' financial position

The financial position of households increased with respect to second semester of 2023. Regarding their indebtedness, the real annual growth rate of total household financing increased slightly. In particular, consumer credit granted by commercial banks continued increasing, and there was a notable growth in credit cards and automotive loans.

Households financial position[1/]

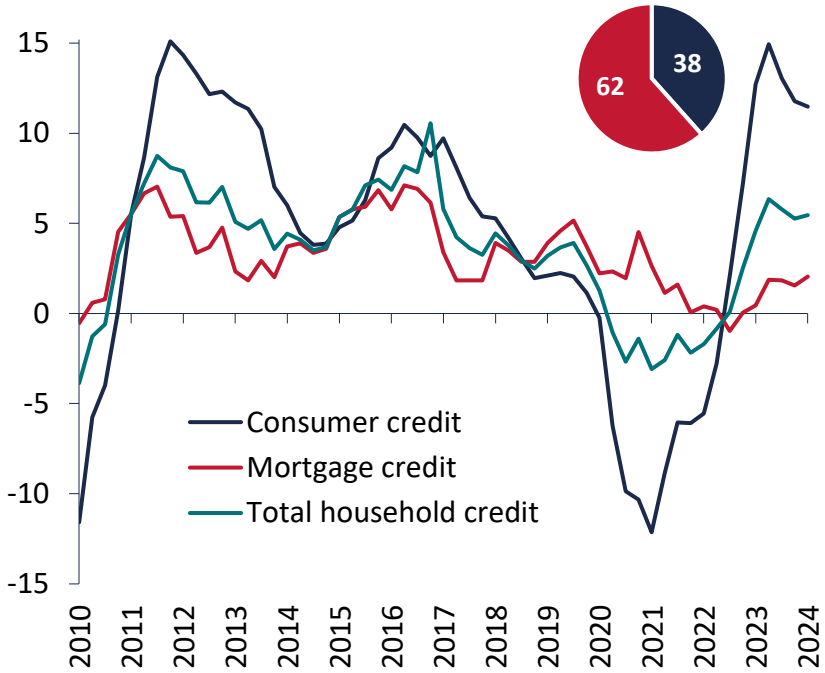
Share of GDP
Percent



Data as of March 2024. Source: Banco de México.
1/ Totals may not add up to 100% due to rounding. Share of four quarters average nominal GDP. 2/ Includes housing and pension funds. 3/ Includes public securities, private securities, issued by states, municipalities, OyEs and Fonadin, as well as other banks liabilities held by households. 4/ Includes credit granted by commercial banks, development banks, non-bank savings and loans entities, credit unions and regulated financial companies.

Household credit growth[1/]

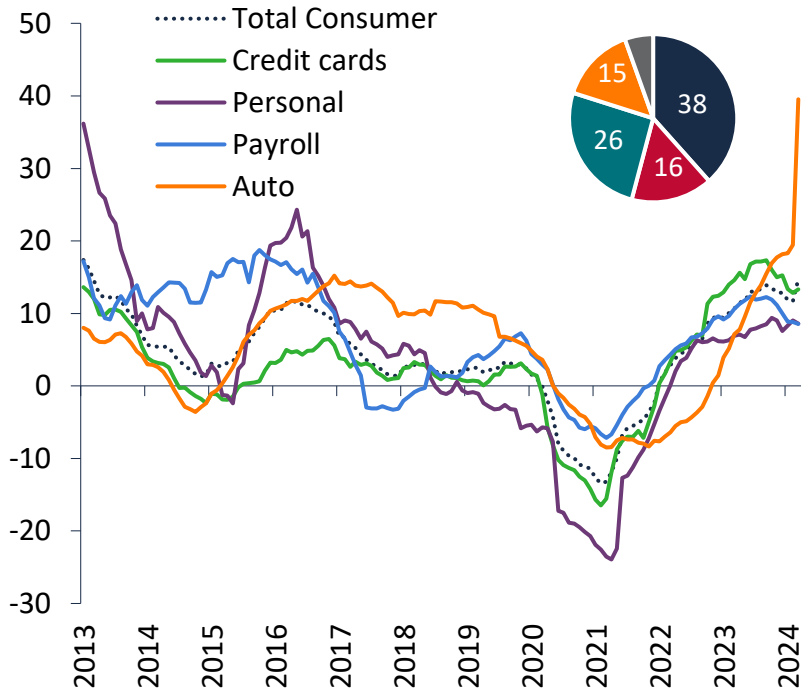
Real annual percent change



Data as of March 2024
Source: Banco de México, BMV and Condusef.
1/ See the Financial Stability Report for a more detail explanation that comprises each category

Consumption portfolio of the banking system

Real annual percent change



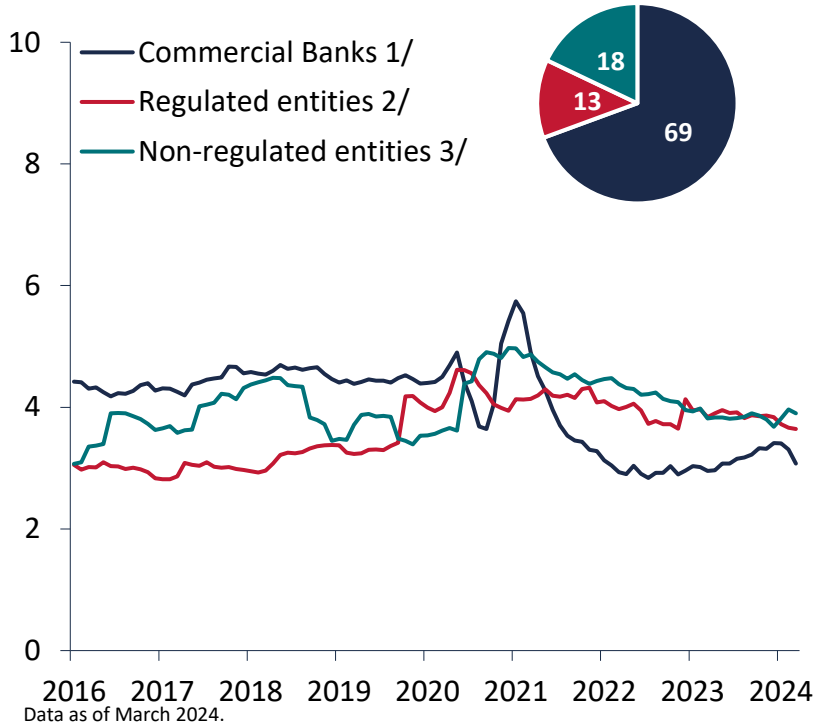
Data as of March 2024.
Source: CNBV.

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4 Households' financial position

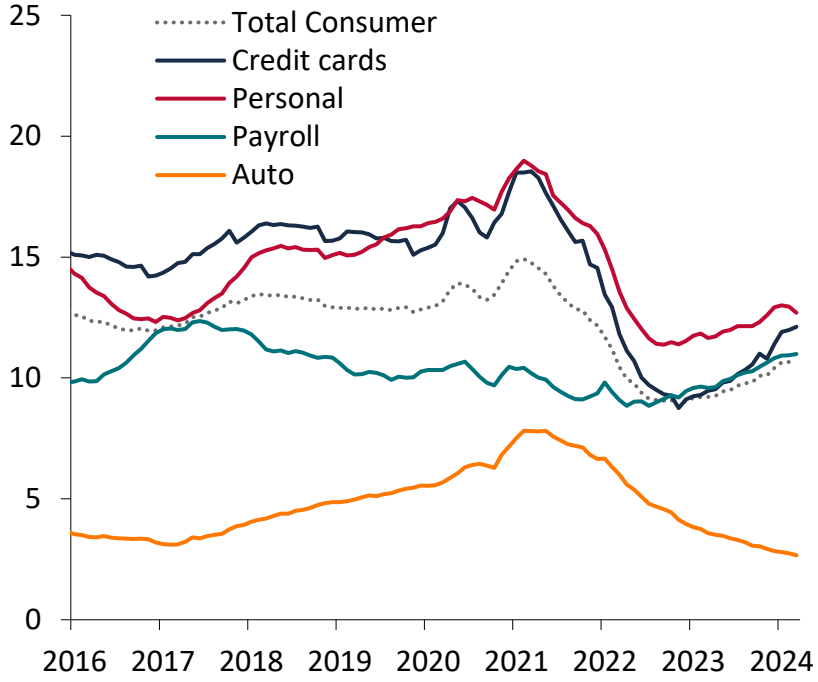
The non-performing loan ratio of the consumer bank loan portfolio remained at a low level. Notably, the upward trend exhibited in previous semesters reversed in Q1-2024. However, the adjusted non-performing loan ratio continues trending upwards. Non-performing loan ratios of other non-bank consumer credit lenders also decreased since the last *Report*; while non-performing loan ratios of loans granted by Infonavit and Fovissste increased slightly.

Non-performing loan ratio of consumer portfolio
Percent



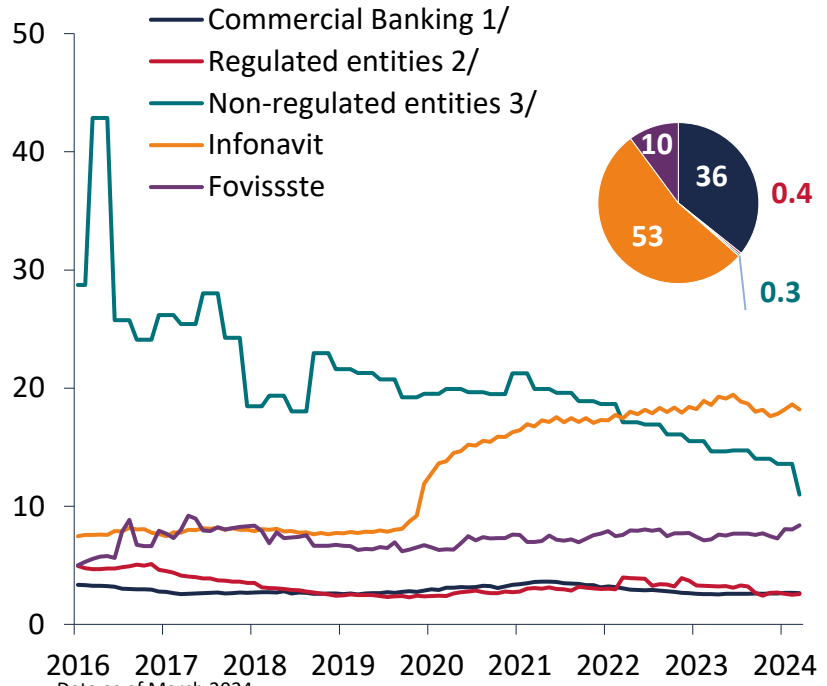
Data as of March 2024.
Source: Banco de México (SIE), CNBV, BMv, and Condusef.
1/ Includes the loan portfolio of regulated sofomes having an equity linked with a bank, whether subsidiaries of the latter or not. 2/ Includes the credit portfolios of the development bank and of non-banking regulated financial intermediaries, such socaps, sofipos and sofomes regulated for issuing debt. 3/ Includes credit portfolio of non-regulated sofomes and debt-issuing financial companies which primarily issue grant credit as part of its business.

Adjusted non-performing loan ratio of consumer loan portfolio[1/]
Percent



Data as of March 2024.
Source: CNBV.
1/ Includes sofomes regualted for having equity links with a bank.

Non-performing loan ratio of mortgage portfolio
Percent



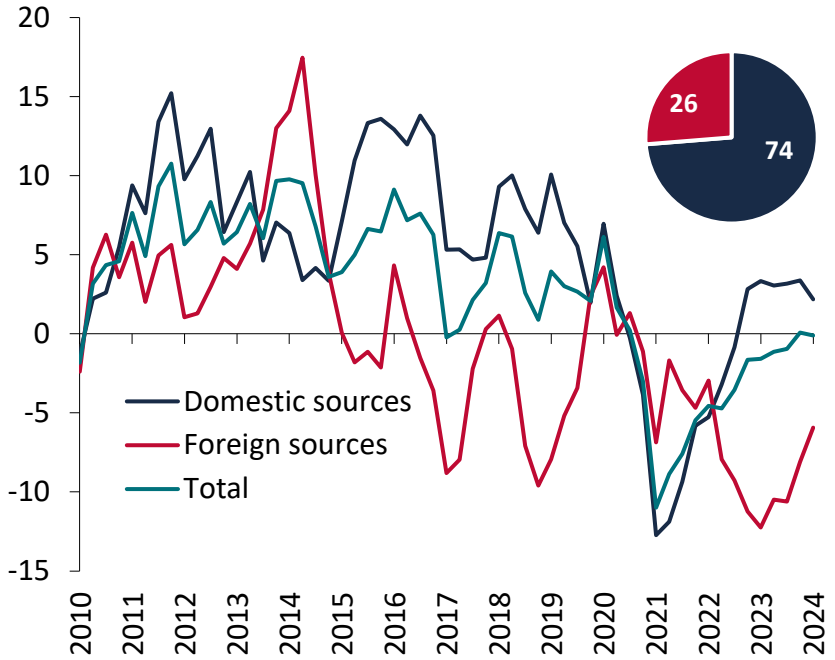
Data as of March 2024.
Source: Banco de México (SIE), CNBV, BMV, and Condusef.
1/ Includes the loan portfolio of regulated sofomes having an equity linked with a bank, whether subsidiaries of the latter or not. 2/ Includes the credit portfolios of the development bank and of non-banking regulated financial intermediaries, such socaps, sofipos and sofomes regulated for issuing debt. 3/ Includes credit portfolio of non-regulated sofomes.

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5 Non-financial private firms' financial position

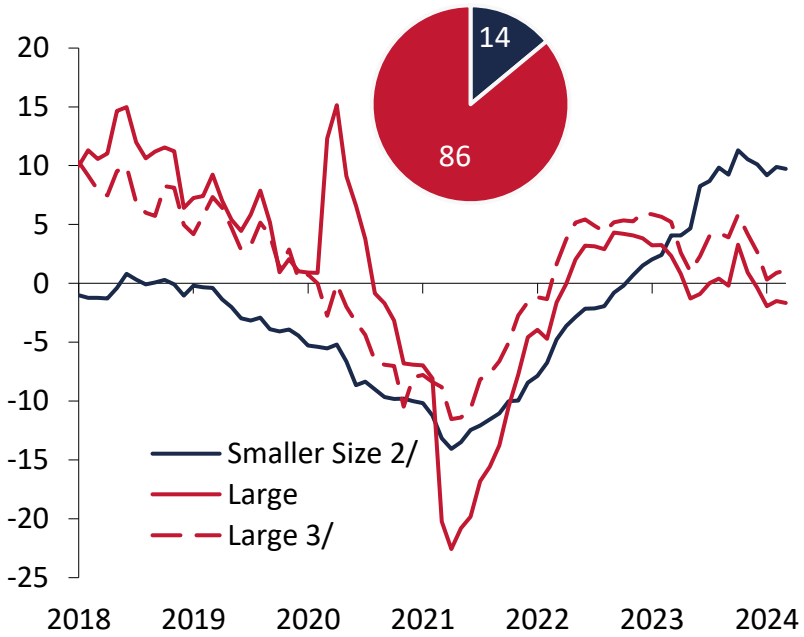
Total lending to non-financial private firms in Mexico decreased slightly in real annual terms, albeit at a slower pace. The external component contracted for fourteen consecutive quarters, due to the reduced credit from foreign banks and lower international debt issuance. Meanwhile, the domestic component registered positive growth, although it decelerated slightly.

Total financing to private non-financial companies[1/]
Real annual percentage change



Data as of March 2024.
Source: Banco de México, BMV and SHCP.
1/ The percentages shown here consider the figures relating to non-regulated entities that grant financing and that are included at the bottom of Table 1 (Memo); therefore, they differ from those registered in the upper part of the same table.

Portfolio growth by company size[1/]
Real annual percentage change



Data as of March 2024.
Source: CNBV.
1/ The pie chart shows the total percentage of the portfolio of each segment.
2/ Private non-financial companies not listed on the Mexican Stock Exchange with maximum historical loans less than 100 million Mexican pesos.
3/ Large companies excluding those that had a monthly increase in their balances of over15 % in March 2020, which represent 30% of the balance and 16% of large companies' borrowers as of the last date.

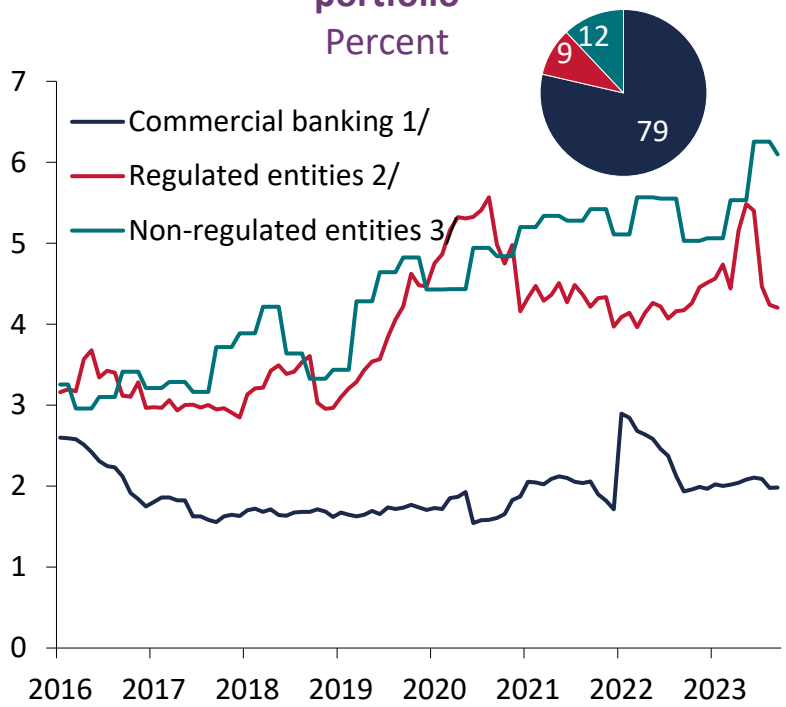
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5 Non-financial private firms' financial position

The non-performing loans ratio of the non-financial private firms' banking portfolio decreased from November 2023 onwards. Likewise, the non-performing loans ratio of the corporate credit portfolio of non-bank financial intermediaries decreased during the reference period. The Listed Companies Vulnerability Index (LCVI) shows a slight increase due to a deterioration in indicators associated with debt service capacity and, to a lesser extent, with those of leverage and profitability.

Non-performing ratio of corporate loans portfolio

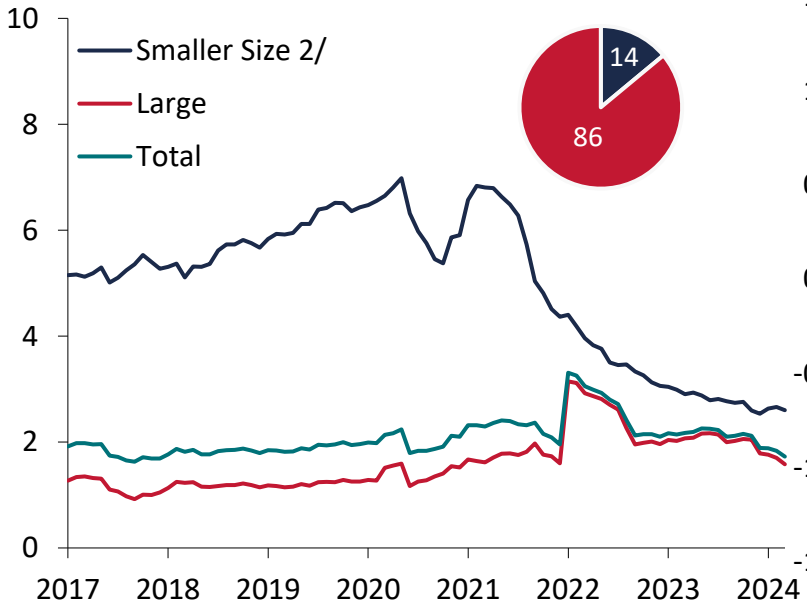
Percent



Data as of March 2024. Source: Banco de México (SIE), CNBV, BMV, and Condusef. 1/ Includes the credit portfolios granted by regulated sofomes for having an equity linked with a bank, whether subsidiaries of the latter or not. 2/ Includes the credit portfolios of non-banking regulated financial intermediaries, such as socaps, sofipos, credit unions, sofomes regulated for issuing debt, bond warehouses, development public trusts (FIRA, FOVI, FIFOMI) and government agencies (FND). 3/ Includes credit portfolio of non-regulated sofomes and debt-issuing financial companies, such as financial leasing companies or financial arms of automotive companies.

Non-performing loan ratio by company size[1/]

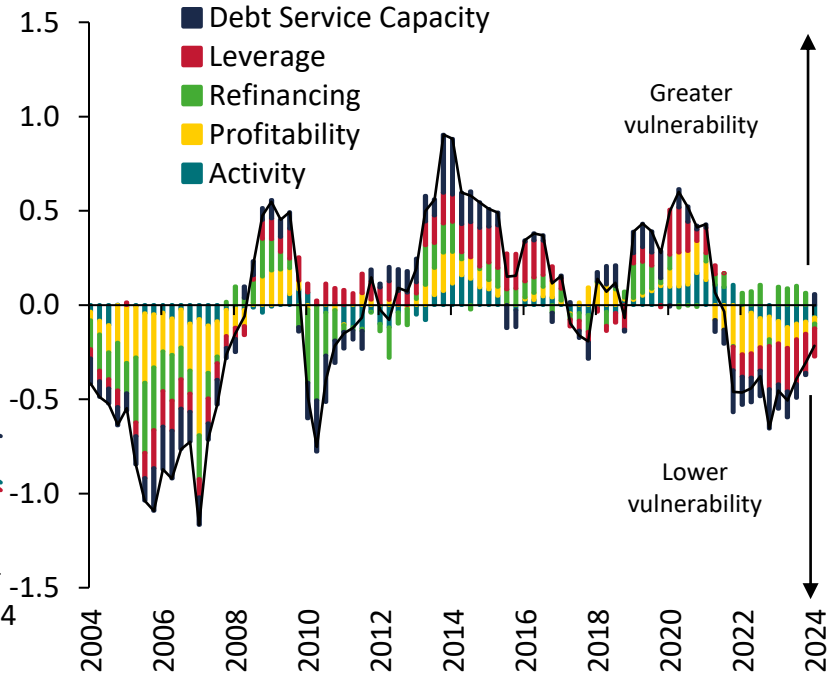
Percent



Data as of March 2024.
Source: CNBV. 1/ The pie chart shows the total percentage of the portfolio for each segment. 2/ Private-non-financial companies not listed on the Mexican Stock Exchange with maximum historical loans of less than 100 million Mexican pesos.

Listed Companies Vulnerability Index

Percent



Data as of the first quarter of 2024.
Source: Banco de México with data from Bloomberg.

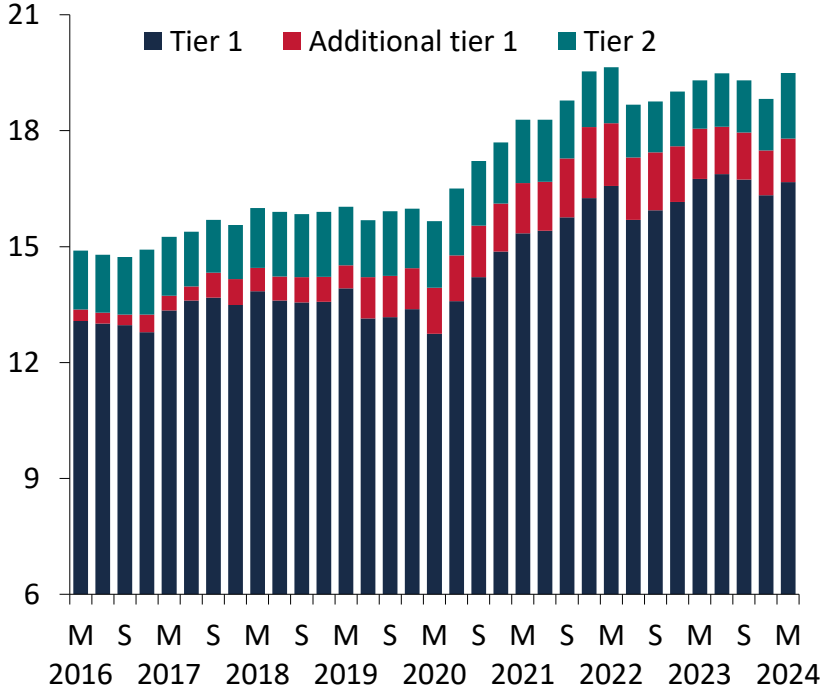
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6 Institutions: commercial banks

The Capital Adequacy Ratio (CAR) of commercial banks increased during the period from September 2023 to March 2024. Meanwhile, their credit risk remained relatively stable during the reference period. Thus, the CAR net of risk ratio increased slightly in Q1-2024 and maintains levels above the regulatory minimum, suggesting the sector remains in a solid position to face possible risks associated with the current economic situation.

Structure of banks' Capital Adequacy Ratio (CAR)[1/]

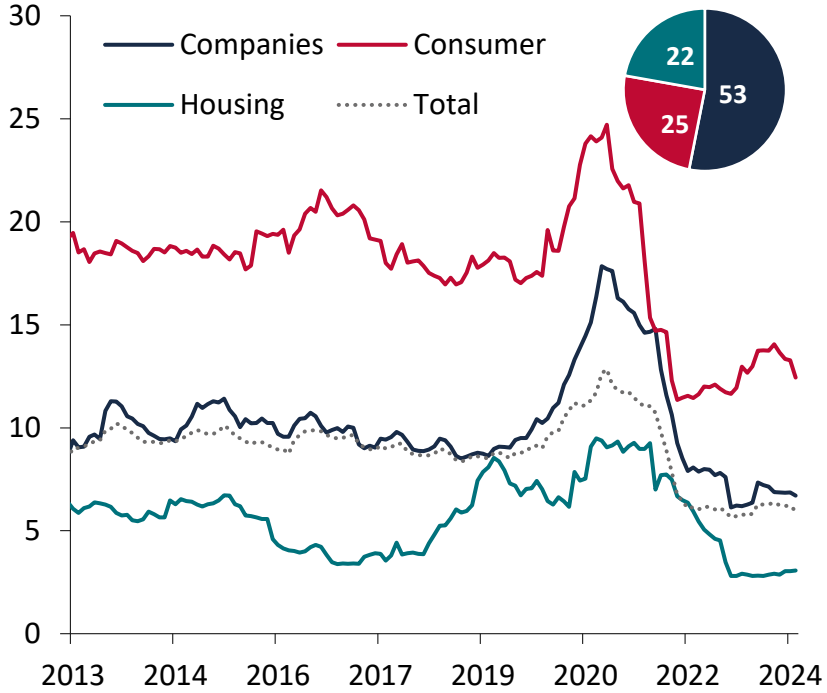
Percent



Data as of March 2024
Source: Banco de México.
1/ The Capital Adequacy Ratio (CAR) is calculated by dividing net capital by risk weighted assets. Net capital is the regulatory capital that includes the Tier 1, Additional Tier 1, and the Tier 2 capital.

Conditional Value at Risk (CVaR) by type of portfolio [1/]

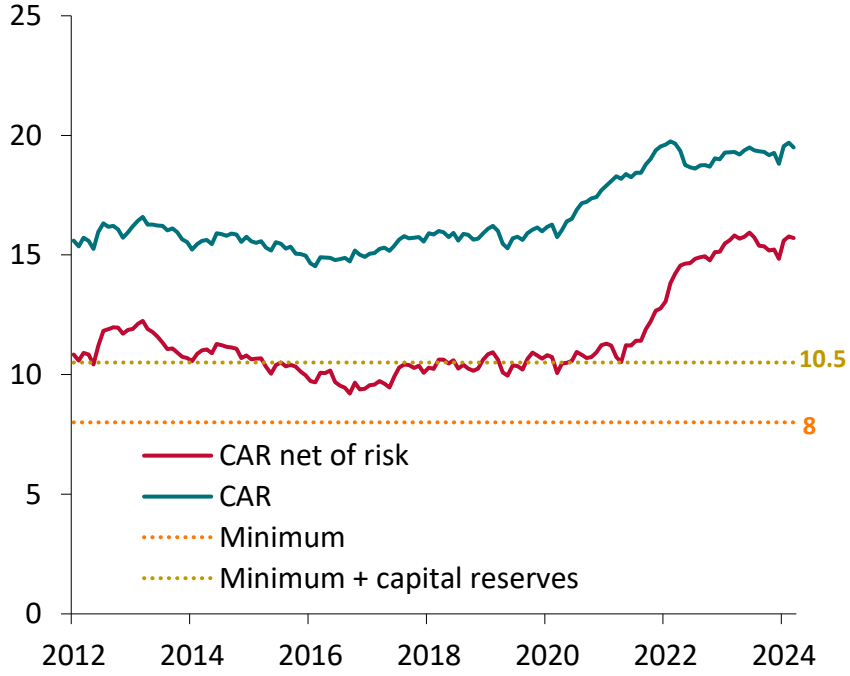
Percent of portfolio



Data as of March 2024.
Source: Banco de México, CNBV, and Credit Bureau.
1/ Using a time period of one year and a confidence level of 99.9%. The pie chart shows the total percentage of the current balance for each portfolio segment.

CAR net of risk [1/]

Percent



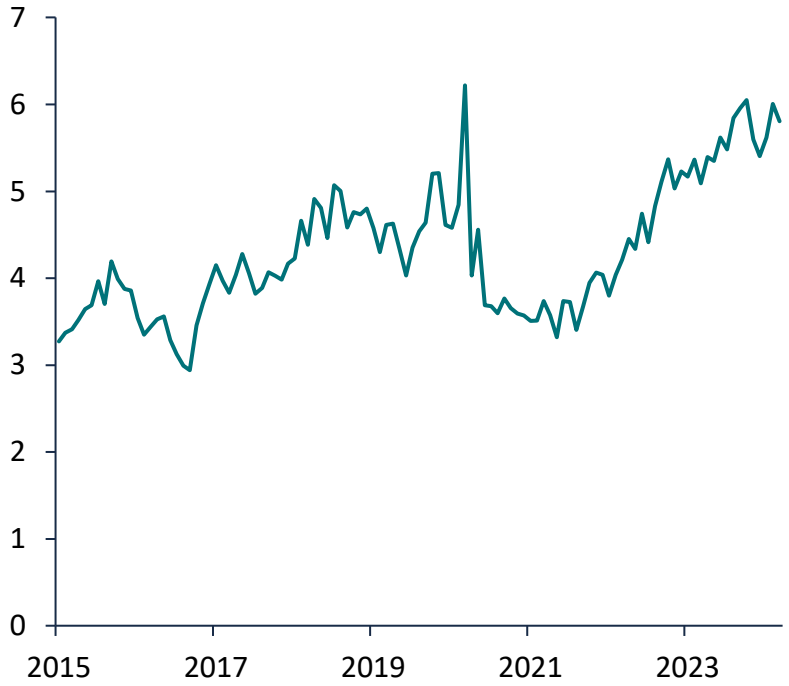
Data as of March 2024.
Source: Banco de México, CNBV, and Credit Bureau 1/ Estimated as the capitalization ratio that results from reducing the CVaR at a 99.9% confidence level, both from the net capital and risk weighted assets. This indicator assumes that the credit portfolio incurs losses in an amount equivalent to a CVaR of 99.9% and such losses are absorbed by the banks and then reflected in their capital levels without affecting reserves, and that this portfolio is weighted at 100% to determine their capital requirements.

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6 Institutions: commercial banks

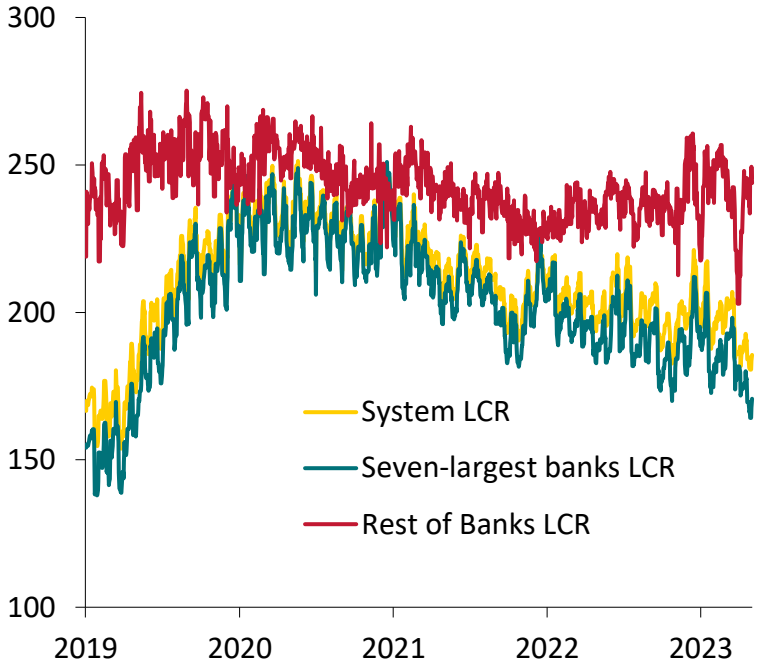
Since the release of the past Report, the of commercial banks' market risk has decreased, whereas while liquidity of the banking system has remained ample, with indicators exceeding regulatory minima.

99.9% CVaR for commercial bank's market risk
Share of net capital (percent)



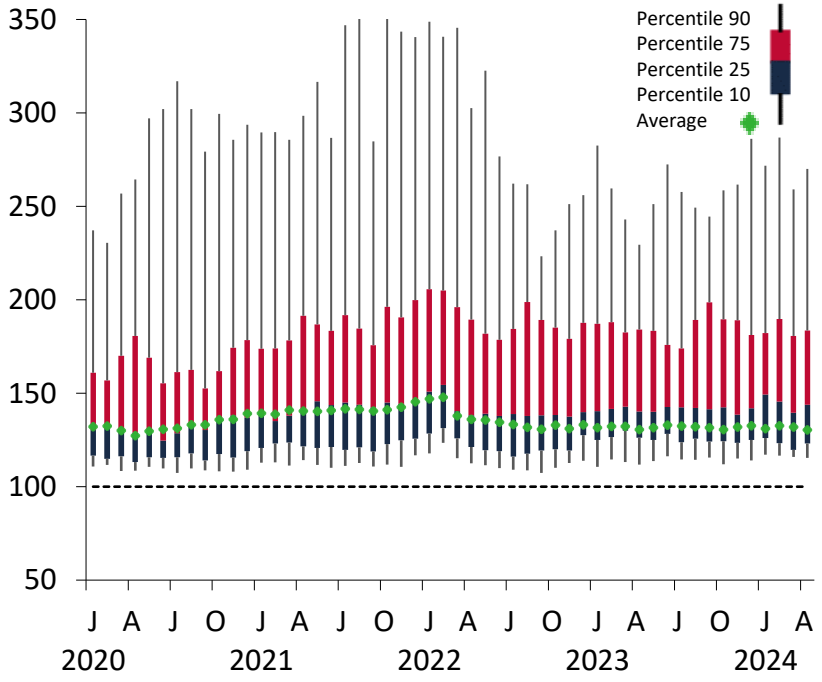
Data as of March 2024.
Source: Banco de México, CNBV, BMV, Bloomberg, and Valmer

Daily Liquidity Coverage Ratio (LCR) of the banking system and groups of banks
Percent



Data as of April 30, 2024.
Source: Banco de México.

Net Stable Funding Ratio (NSFR) distribution
Percent



Data as of April 2024.
Source: Banco de México.

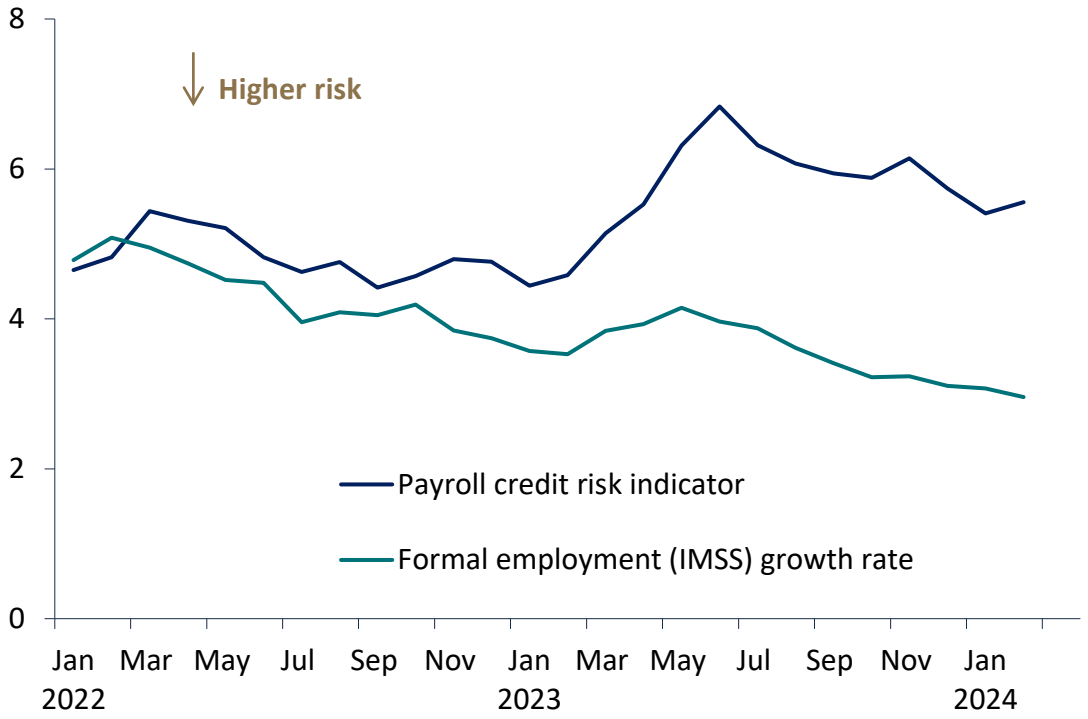
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7 Commercial banks' exposure to changes in formal employment and economic activity

Employment and economic growth dynamics can affect the credit risk faced by the banking sector's credit risk.

Payroll portfolio credit risk due to changes in formal employment[1/]

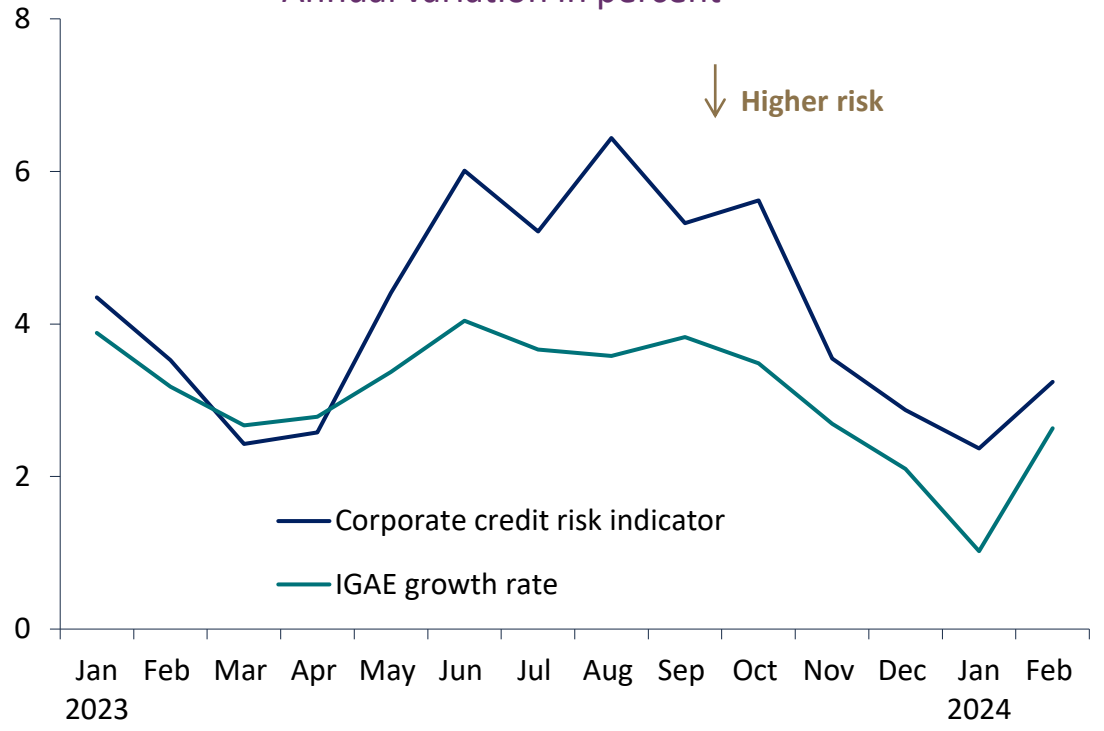
Annual variation in percent



Data as of February 2024.
Source: Banco de México, INEGI, and IMSS.
1/ The indicator is constructed as the weighted sum of the growth in formal employment in Mexico's different labor markets. In this sum, the weight received by the labor market corresponding to a state, gender and high or low wage level is equal to its share of payroll credit.

Corporate portfolio credit risk due to changes in economic activity[1/]

Annual variation in percent



Data as of February 2024.
Source: Banco de México with own data and INEGI.
1/ The indicator is constructed as the sum of economic growth in the different sectors. In this sum, the weight of each sector's growth is equal to its share in the corporate loan portfolio. Thus, the indicator captures the risk of aggregate and sectoral changes in economic growth.

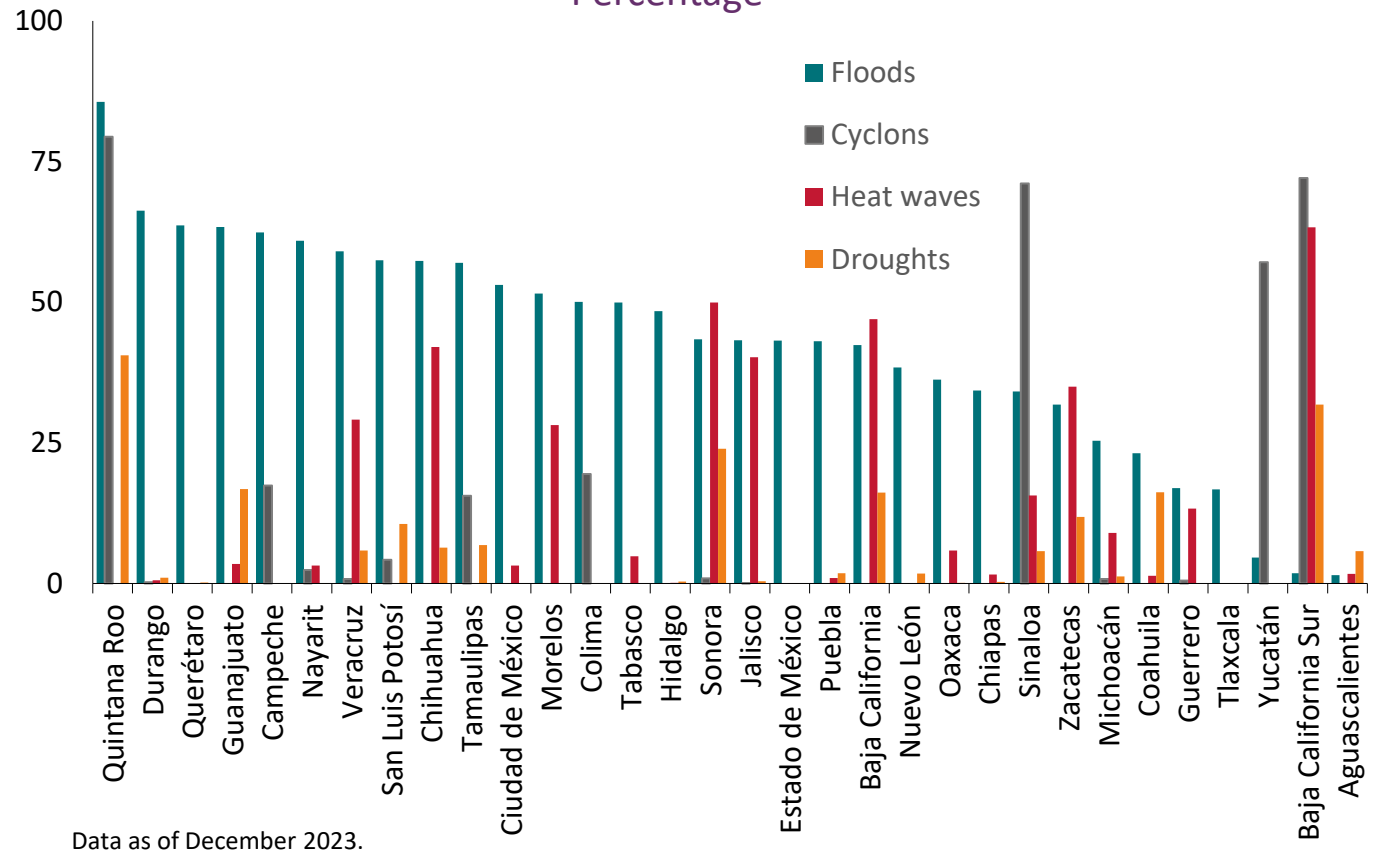
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8 Other risks: environmental risks and sustainable investing

Corporate loans granted to sectors vulnerable to hydro-meteorological events are more exposed to floods and heat waves. In terms of diversification, banks with corporate portfolios more exposed to heat waves, are more exposed to droughts and tropical cyclones.

Exposure of corporate portfolios to sectors and municipalities vulnerable to hydro-meteorological events

Percentage

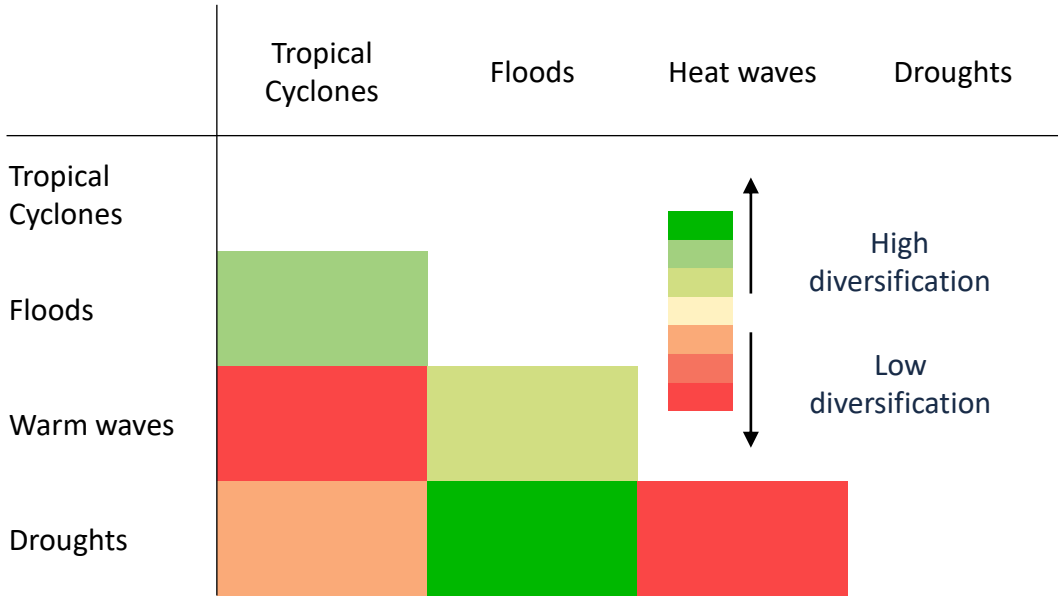


Data as of December 2023.

Source: Banco de México, CENAPRED, CNBV and INEGI.

Diversification of corporate loan portfolios to sectors and municipalities vulnerable to different hydro-meteorological events

Percentage



Data as of December 2023.

Source: Banco de México, CENAPRED, CNBV and INEGI.

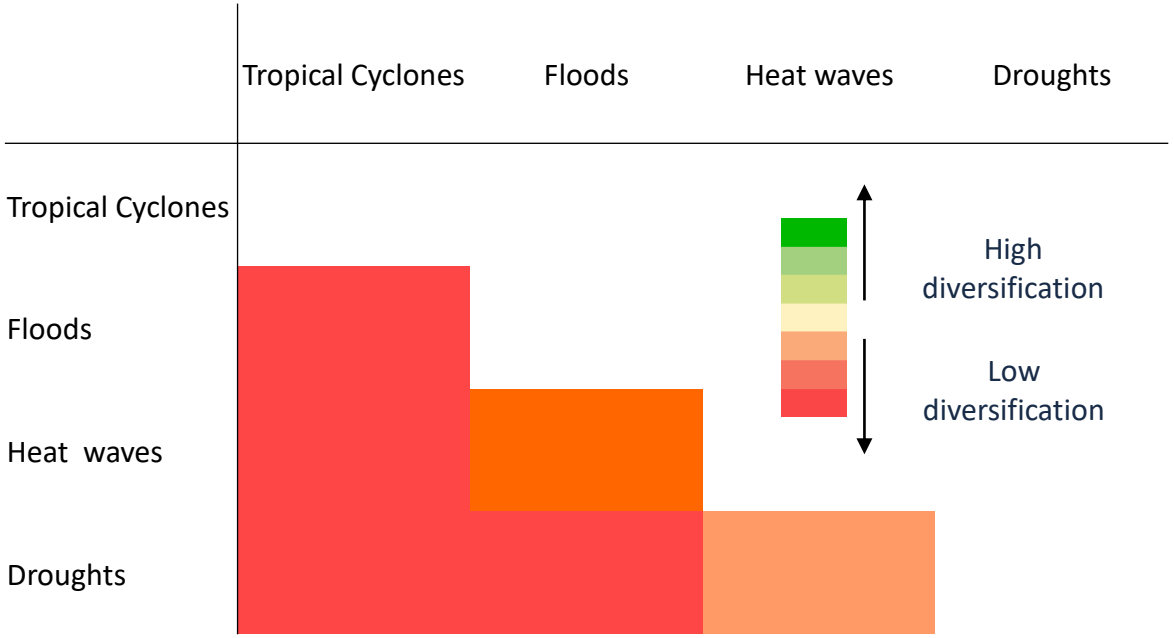
1/ The colors indicate the degree of diversification of the portfolio. Red color denotes lower diversification, while green color denotes higher diversification. Diversification is obtained from the correlation coefficient between the proportions of the loan portfolios to each bank that are vulnerable to different hydro-meteorological events.

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8 Other risks: environmental risks and sustainable investing

In the mortgage loan portfolio, commercial banks show the lowest diversification due to the materialization of several hydrometeorological events over a short period. In contrast, this diversification is greater in the consumer loan portfolio.

Diversification of mortgage loan portfolio in sectors and municipalities vulnerable to different hydro-meteorological events (for different banks)[1/]



Data as of December 2023.
Source: Banco de México, CENAPRED, CNBV and INEGI.

Diversification of consumer loan portfolio across sectors and municipalities vulnerable to different hydro-meteorological events (for different banks)[1/]

	Tropical Cyclones				Floods				Heat waves				Droughts			
	Payroll	Automotive	Personal	Revolving	Payroll	Automotive	Personal	Revolving	Payroll	Automotive	Personal	Revolving	Payroll	Automotive	Personal	Revolving
Tropical Cyclones																
Floods																
Heat waves																
Droughts																

Data as of December 2023.
Source: Banco de México, CENAPRED, CNBV and INEGI.

1/ The colors indicate the degree of diversification of the portfolio. Red color denotes lower diversification, while green color denotes higher diversification. Diversification is obtained from the correlation coefficient between the proportions of each bank's consumer or housing loan portfolios that are vulnerable to different hydro-meteorological events.

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8 Other risks: cyber risks

Cyber risks are still relevant for the financial system, both domestically and globally.

- **Financial institutions in Mexico reported two relevant cyber-incidents**. However, there were no significant economic damages for the attacked institutions or their clients.
- Based on their monitoring of cyber-attacks originated by geopolitical conflicts, Banco de México and financial authorities determined **to maintain the cyber threat alert level for the Mexican financial system** at “Yellow” given the escalation of conflicts in the Middle East.
- The financial authorities' Response Group for Sensitive Information Security Incidents (GRI, for its acronym in Spanish) **developed a resource guide for financial authorities and institutions for managing media communication during cybersecurity incidents.**

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8 Other risks: operational continuity risks

Financial market infrastructures and payment systems have a relevant systemic importance and therefore must provide their services and operate under any conditions, at any time, and from anywhere.

- At the end of Q1-2024, **the SPEI availability rate was 99.9%.**
- **Banco de México has not experienced any incidents in its technological infrastructure** used to operate **the payment systems nor in its internal operating processes.** Therefore, payment systems have not had any interruptions in their services due to this cause.
- **In the first half of 2024, an incident was registered by a participant of SPEI**, which affected its operation within the system. **This incident,** however, **did not affect the assets of the institution's clients.**

Publicly accessible information

Contents

1 Macro-financial conditions

2 Measures for the sound development of the financial system

3 Financial system risks

4 Stress tests

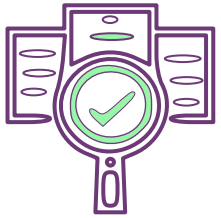
5 Final remarks

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Stress tests to commercial banks



As part of its functions to promote the sound development of the financial system Banco de México carries out stress tests, which are simulations performed to **assess the resilience of the Mexican banking system** under extreme adverse economic scenarios.



The scenarios considered **should not be taken as a forecast** of the expected performance of the economy or be associated with a probability of occurrence.



The purpose of the **credit, liquidity and climate stress tests** is to assess the resilience of the banking system to an adverse but possible shock, and to determine whether it could continue to perform its financial intermediation function **with capital and liquidity levels above those required by regulations**.

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Credit stress tests

	Scenarios[1/]	*Assumptions on macro-financial variables*
A	**Prolonged tight global financial conditions**	• Uncertain and highly volatile conditions in international financial markets. • Exchange rate and interest rate pressures. • Higher risk premia, increased financing costs for households and firms. • Lower credit growth and higher non-performing loans rate levels.
B	**Slowdown of global economic activity**	• The US economy slows down and enters recession. Lower industrial activity and a decline in imports. • This would be reflected in a lower growth rate of the Mexican economy and greater volatility in the financial markets and the exchange rate. • Lower demand for credit, higher unemployment rates, and an increase in non-performing loans rate portfolio.
C	**Credit rating adjustment**	• High volatility in domestic financial markets, a depreciation of the exchange rate, higher risk premia and, therefore, upward pressure on interest rates. • A contraction in aggregate demand and higher unemployment. • Credit would decrease, and higher levels of non-performing loans rate would be expected, which would affect bank revenues.

Additional assumptions:

1. ***This exercise is common to all institutions*** *and does not consider idiosyncratic problems related to loan origination.*
2. ***It disregards possible mitigation measures*** *that could be implemented by the institutions in the simulation(counterfactual simulation of partial rather than general equilibrium).*

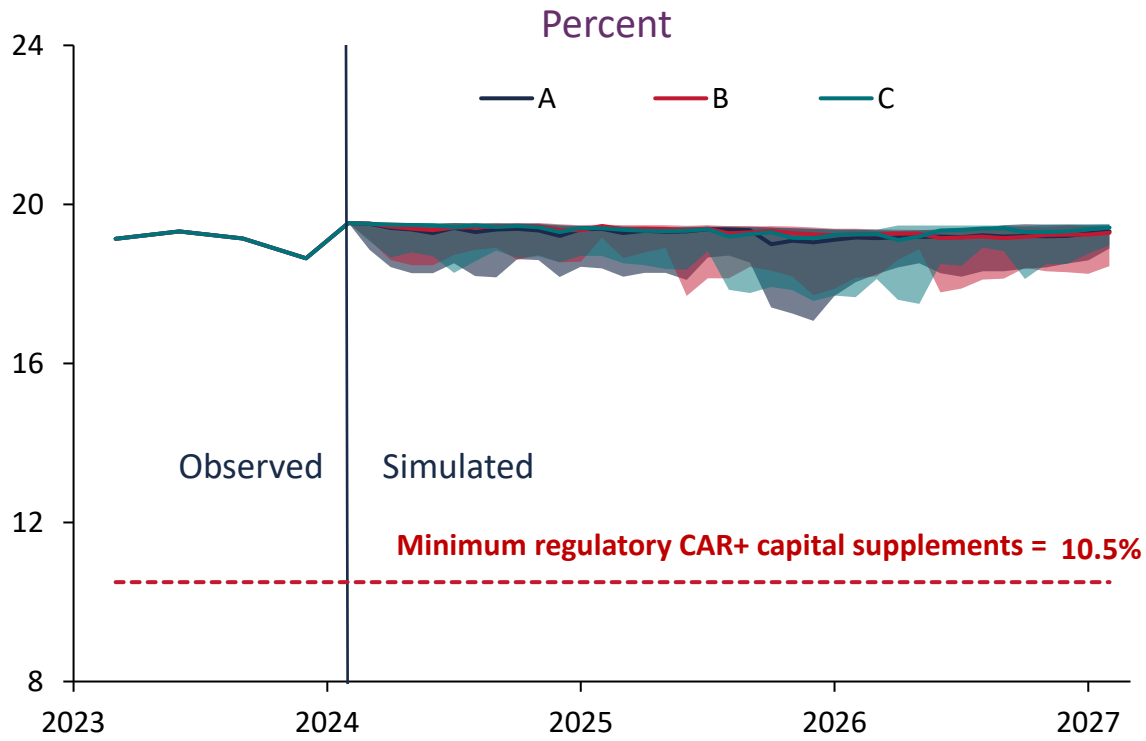
1/ For more detailed information on these scenarios, refer to the complete version of this *Report*.

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Credit stress tests

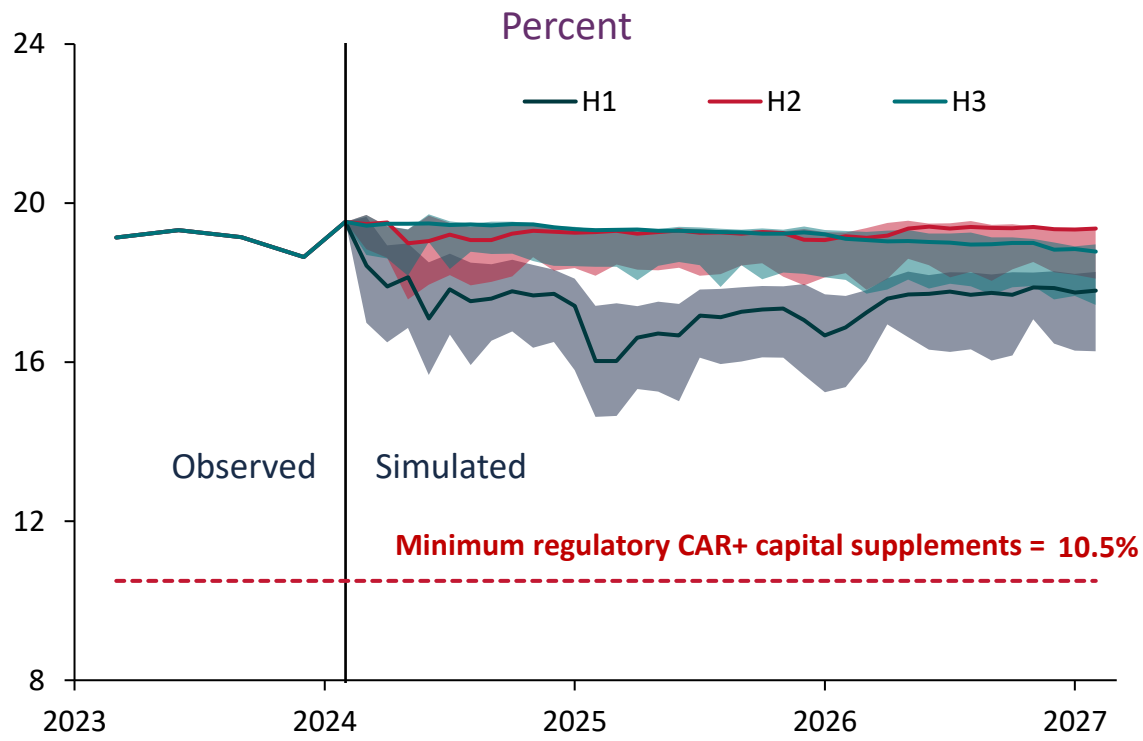
In all simulated scenarios, the results suggest that the Mexican banking system has capital levels plus supplements above the regulatory minimum. This includes the three considered historical scenarios, results of which suggest lower capitalization levels, but still above the regulatory minimum.

Financial System Capital Adequacy Ratio (CAR)
a) Scenarios A, B and C



Data as of February 2024 and simulations 3 years thereafter.
Source: Banco de México.

Financial System Capital Adequacy Ratio (CAR)
b) Historical scenarios[1/]



Data as of February 2024 and simulations 3 years thereafter.
Source: Banco de México.
1/ Three historical scenarios were considered that replicate the trajectories of the main macro-financial variables during the 1995 crisis (scenario H1), the 2008 global financial crisis (scenario H2), and the economic crisis stemming from COVID-19 (scenario H3).

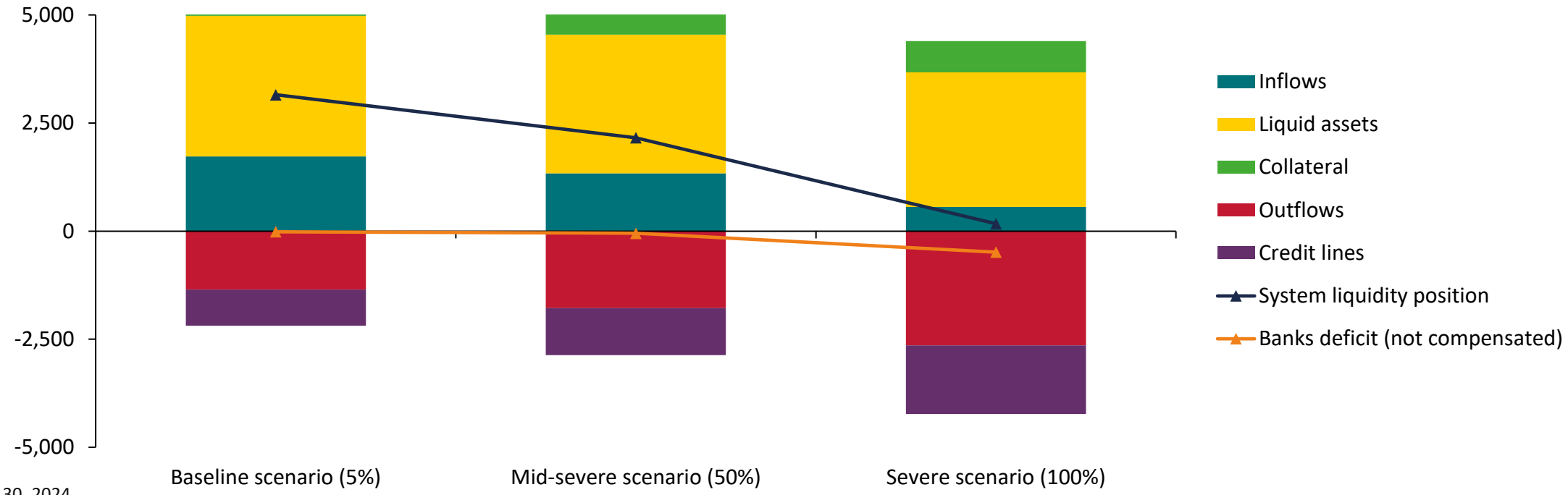
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Liquidity stress tests

The results of the liquidity stress tests suggest that banks' high liquidity position would allow them, at the aggregate level, to face greater stress episodes than those experienced in the past and those proposed in the different severe stress scenarios. With data as of April 2024, the banking sector as a whole would maintain a liquidity surplus under the stress scenarios over a 90-day horizon.

Liquidity stress scenarios over 90-day period[1/]

Billion pesos



Data as of April 30, 2024.
Source: Banco de México.

1/ In the severe scenario (100% severity), a haircut on liquid assets of around 4% is considered. Repos have a roll-over of 45% and released collateral has the same haircut as liquid assets. Inflows from loans portfolio are not considered (100% haircut). Wholesale deposits (demand and term) have a 20% run-off factor and retail deposits (demand and term) have a 10% run-off factor. Contingent liquidity and credit lines granted have a 40% run-off factor. The baseline scenario and mid-severe scenario consider a 5% and 50% severity compared to the severe (100%) scenario. The mid-severe scenario estimates an aggregate outflow which is similar in magnitude to the outflow calculated under the LCR (See Box 9 "Stress testing methodologies based on cash flows" of the Financial Stability Report, December 2022).

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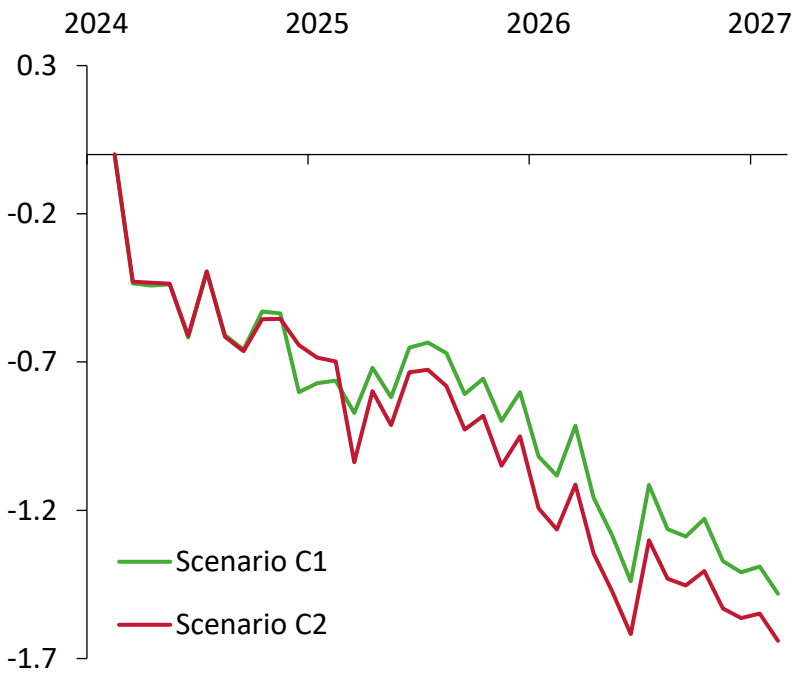
Climate stress tests

- **The purpose of these tests is to assess the resilience of the banking system** to a severe but possible adverse shock triggered by **extreme weather (hydro-meteorological) events.**
- The methodology assumes that recent historical events, in this case, the materialization of extreme hydro-meteorological events, repeat and occur simultaneously. The exercise consists of three parts:

1. Determine the **characteristics of the climate-related shock** that could put the banking system at risk.
2. Estimate **direct losses** and, by **calculating the effect** that **the shock could have on the main macro-financial variables**, estimate **potential losses** using the stress testing methodology.
3. Finally, it was estimated that **in the base scenario (C1),** which **assumes a 1% GDP fall, the impact on the CAR would correspond to a fall of 1.65 percentage points;** whereas **the second scenario (C2) assumes a 2% GDP fall**, and its impact on the CAR is equivalent to a fall of **1.83 percentage points.**

Results: System capitalization ratio with respect to the baseline scenario

Percentage points



Figures as of February 2024 and data at the end of the stress horizon.
Source: Banco de México.

Publicly accessible information

Contents

1 Macro-financial conditions

2 Measures for the sound development of the financial system

3 Financial system risks

4 Stress tests

5 Final remarks

Publicly accessible information

Final remarks

1. During the first half of 2024, the global environment remained complex given the slower-than-anticipated global disinflation dynamics, tight financial conditions, and geopolitical tensions.

2. In such an environment, it is even more relevant to monitor the evolution of Mexico's financial system, as Banco de México continues to do so.

3. In Mexico, the financial system shows a solid and resilient position with sufficient capital and liquidity to face adverse scenarios, including those considered in the stress tests.

4. Banco de México will monitor the evolution of Mexican financial markets in order to take actions, if necessary, in compliance with the legal framework.

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Boxes

1. Amendments to the Securities Market Law and the Investment Funds Law
2. Rules for repurchase agreements: modifications to incorporate international standards and practices
3. Gender credit gap: widening or narrowing with uncertainty?
4. Credit risk heat map of the Mexican banking sector
5. Implementation of the Large Exposures regulation and the Net Stable Funding Ratio in Mexico in compliance with international standards
6. Analysis of the effect of a measure of aggregate interbank risk perception on financing decisions in the interbank market
7. Water scarcity and corporate credit exposure
8. Disclosure of risks related to sustainability
9. The Network of Central Banks and Supervisors for Greening the Financial System (NGFS) and scenarios defined by such network

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