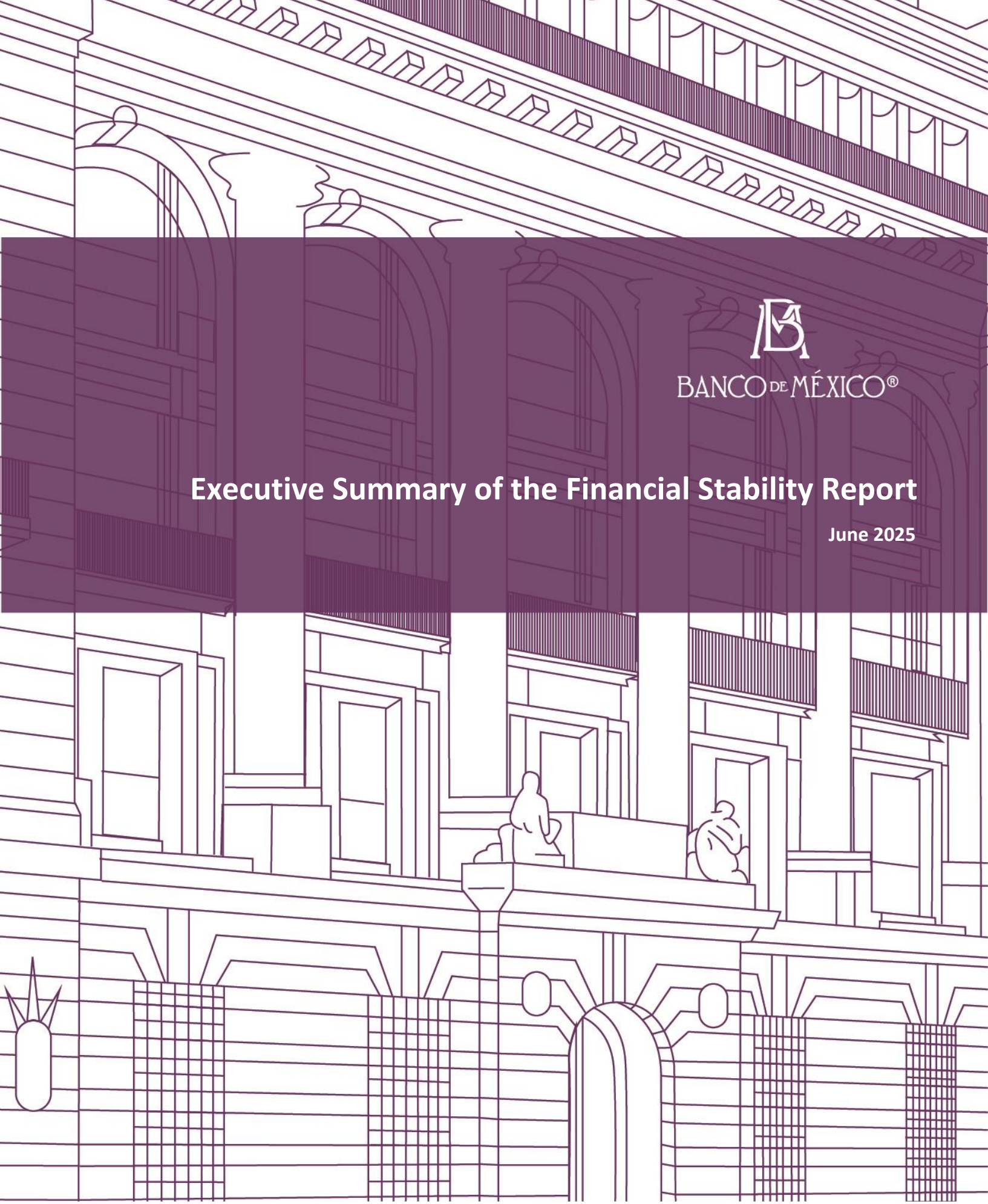


BANCO DE MÉXICO®

Executive Summary of the Financial Stability Report

June 2025

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Executive summary

The Mexican financial system has shown resilience in a global context characterized by a slowdown in economic activity, ongoing disinflation, trade tensions between the United States and its trading partners, and expectations of a less restrictive monetary policy in most countries. During the first half of 2025, international financial markets registered episodes of volatility, particularly in the currencies and stock indices of countries and regions where trade conflicts have caused greater impact.

Macro-financial conditions

International environment

Global economic activity increased during the fourth quarter of 2024 compared to the previous quarter. Nevertheless, growth is estimated to have slowed in the first quarter of 2025 given the increase in trade uncertainty following the US announcement of tariffs on several of its trading partners.

In light of the above, global growth projections for 2025 and 2026 were recently revised downwards by the International Monetary Fund.

During the fourth quarter of 2024, inflation increased in some advanced economies, while in emerging economies it showed heterogeneous behavior, reflecting the idiosyncratic factors in each country. So far in 2025, headline and core inflation have exhibited different behavior, both in advanced and emerging economies. Inflation still remains above the central banks' targets in most countries.

Domestic environment

Domestic economic activity contracted during the fourth quarter of 2024 compared to the prior quarter, and showed signs of weakness at the beginning of 2025, in a complex environment caused by increased uncertainty from trade tensions. Headline inflation slowed from 4.51% in the fourth quarter of 2024 to 3.72% in the first quarter of 2025, due to a sustained reduction in core inflation, largely attributed to monetary policy actions. In May 2025, annual headline inflation stood at 4.42%.

During the first half of 2025, the Mexican peso registered temporary bouts of volatility, associated with the uncertainty generated by changes in US trade policy. However, the Mexican peso appreciated during the period overall, reflecting the weakness of the US dollar.

Meanwhile, total financing to the Mexican economy increased in real annual terms in the first quarter of 2025, representing 101% of GDP. The public sector accounted for 58%, 21% went to non-financial companies, and the rest to households (consumption and housing).

Against this backdrop, Banco de México's Governing Board lowered the reference rate by 25 basis points at its December 2024 meeting, and by 50 basis points at each of its February, March, and May 2025 meetings, reaching 8.50%.

Risks identified in the financial system

Banco de México uses both qualitative and quantitative indicators to assess a wide range of risks that may affect the stability of the financial system. These can be grouped into two broad categories: i) macro-financial risks, related to recent developments and possible deteriorations in domestic and international economic and financial variables; and ii) risks inherent to the financial system, to which households, companies, the public sector, commercial banks and other financial intermediaries are exposed, including disruptions that may occur in financial markets and payment systems.

With respect to the macro-financial risks that could affect the stability of the Mexican financial system—stemming from both the international and local economic and financial outlook, as well as their potential to trigger unexpected or severe shocks that could impair the system's proper functioning in the current complex and uncertain global environment — the following risks have been identified: i) a marked weakening of economic activity, at both the global and domestic levels; ii) increased potential for surprises in the trajectory of global financial conditions; iii) unanticipated adjustments in the credit ratings of key domestic issuers; and iv) the materialization of a systemic event with implications for the global financial system.

The quantitative analysis of various aggregate risk indicators shows that the Financial Conditions Index (ICF, for its Spanish acronym) eased, although it remains in the restrictive zone. The Financial Markets

Stress Index (IEMF, for its Spanish acronym) decreased, while the aggregate risk of the financial system increased slightly. The macro-financial vulnerabilities index does not detect significant vulnerabilities in the Mexican economy overall, nor in the sectors analyzed (financial, real, external, and public). Therefore, the economy is considered to be resilient to possible adverse economic developments.

Regarding the sectoral analysis of the risks inherent to the financial system, the following findings stand out:

Households

The financial position of households improved, driven by a peak in savings, and the relative stability of real total debt balances of borrowers over the past two quarters. On a year-on-year basis, banks' consumer loan portfolios and those of their related sofomes grew in real terms across all segments, particularly in the automotive segment. Overall, non-bank financing accelerated slightly, with trends differing between regulated and non-regulated intermediaries.

The non-performing loan ratio of consumer loan portfolios of commercial banks and their related sofomes decreased during the period. In contrast, non-performing loan ratios of non-bank financial intermediaries as a whole, increased slightly. Also, the non-performing loan ratio of Infonacot decreased and that of sofipos increased marginally due to an increase in past-due loans.

Total financing to housing grew at a slightly higher rate than during the second half of 2024, driven by commercial banks, their related sofomes, and Infonavit. The non-performing loan ratios for banks' mortgage loan portfolios continued rising, albeit from historically low levels; those of Infonavit increased slightly as well, while those of Fovissste declined.

A decomposition analysis of changes in non-performing loan ratios by borrower gender showed that increased female participation in payroll, corporate, and mortgage loan portfolios contributed to lower non-performing loan ratios, a trend reinforced by a general improvement in repayment behavior, except in the mortgage sector. The decrease in financing costs also contributed to lower non-performing loan ratios in the personal, payroll, and business loan portfolios.

Companies

Total financing to private non-financial companies increased in real annual terms. The foreign component contracted due to a reduction in lending by banks from abroad and a decline in international debt issuance. However, domestic financing grew via all three main sources: bank credit, non-bank credit, and debt issuance.

Corporate non-performing loans declined for both large and smaller companies, and for both foreign and local currency denominations, reaching historically low levels. Similarly, the non-performing loan ratio for credit granted to companies by non-regulated non-bank financial intermediaries decreased. While the Vulnerability Index of Listed Companies (IVEL, for its Spanish acronym) increased slightly, it remains in the low vulnerability zone. Operating cash flow increased in real annual terms, thus contributing to the decline in indebtedness and debt service costs.

However, some listed companies registered financial indicators at levels that suggest potential financial vulnerabilities. The number of such companies remained stable and banks' exposure to them is low relative to their regulatory capital.

Public sector

The public sector balance registered a slightly lower deficit in 2024 than the level projected in the Economic Package. The Federal Government anticipates a public sector balance deficit of 3.3% of GDP by the end of 2025, with Public Sector Borrowing Requirements estimated in a range of 3.9-4.0% of GDP. Meanwhile, state governments registered no changes in their credit risk profiles, while nine municipal governments exhibited an improvement and two saw their profiles deteriorate.

Banking sector

As of the first semester of 2025, commercial banks maintained high levels of capitalization and liquidity, exceeding regulatory minimums. The stress tests show that the banking system overall has adequate capital and liquidity levels to face the simulated adverse scenarios.

Commercial banks' credit risk increased marginally, due to an increase in the risk of the business loan

portfolio. Also, market risk increased slightly due to shifts in the composition of banks' portfolios towards instruments that are more sensitive to interest rates, and positions with greater foreign exchange risk. Liquidity risk remained stable and limited, while contagion risk was close to its average of recent months.

Other non-banking financial intermediaries (NBFI)

The NBFI sector has heterogeneous funding structures, with some entities relying mostly on traditional funding, and others on non-stable sources that continue to face challenges. Nevertheless, total financing granted to the non-financial private sector by NFBIs increased in real terms as of March 2025. Some entities registered risk indicators at levels that suggest financial vulnerabilities, with an increase in the number of such entities, but a reduction in their share of total assets. Notably, banks' exposure to these entities remains low relative to their regulatory capital. Therefore, a potential default by such entities would not pose a risk for the banking system.

Environmental and cybersecurity risks

Environmental risks can affect the stability of the financial system. For this reason, Banco de México, in coordination with other authorities, assesses their impact on the economy and the financial sector to promote their proper management and mitigation. In this regard, commercial banks' indirect exposure to transition risks decreased; however, their direct exposure increased. In terms of physical risks, floods are the hydrometeorological phenomenon with the greatest impact on corporate and mortgage loans. The banks most exposed to flood risks show higher profitability, which could enhance their resilience.

Cybersecurity risks remain one of the main threats to the global and Mexican financial systems, particularly those associated with the increasing use and growing sophistication of Artificial Intelligence (AI). According to indicators developed by Banco de México to actively monitor these risks, the cybersecurity levels of the Mexican financial system are deemed adequate. Banco de México also promotes exercises aimed at strengthening cyber-resilience.

Policy measures implemented

During the first half of 2025, the financial authorities took actions to strengthen the regulatory framework by adopting best practices and international standards to ensure it remains robust and up to date. Regulatory changes were implemented in the areas of credit risk, accounting standards, securities lending transactions, derivatives markets, and sustainable finance.

Final remarks

As this *Report* shows, the Mexican financial system remains stable and resilient; however, challenges persist in the current uncertain and evolving global environment. In this regard, our financial system maintains solid fundamentals, reflecting adequate liquidity and capital levels, as well as prudent risk management.

Going forward, Banco de México remains attentive and vigilant to the evolution of the country's financial markets and will take the necessary measures, in coordination with other authorities and within the scope of its legal mandate, to preserve the stability of the financial system and ensure the proper functioning of the payment systems.



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