

Remarks by Alejandro Díaz de León, Governor of Banco de México, at the Inauguration of the Seminar “Financial Stability and Central Banks”.*

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Opening remarks

Good morning. Welcome to the Seminar. It is an honor for Banco de México to receive such renowned national and international officials and leading experts who have gathered here today to exchange ideas and experiences. This Seminar is part of a set of activities seeking to reflect on the functions and challenges of contemporary central banks, which we have organized to commemorate 25 years of Banco de México’s autonomy. On this occasion, our meeting addresses the issue of the central banks’ role in financial stability.

I would like to talk about the interaction between monetary policy and financial stability and Banco de México’s measures to detect, prevent and mitigate financial risks, along with its actions to encourage inclusion and to promote competition, with a permanent focus on citizens.

* English translation made by Banco de México’s staff. Discrepancies may possibly arise between the original document in Spanish and its English translation. For this reason, the original version in Spanish is the only official document.

I. Background of the central bank's role in financial stability.

Since the beginning, central banks have monopolized the issuance of fiat money and the consequent role of lender of last resort. To successfully fulfill these functions, societies need to have confidence that their central banks will use the issuance of primary money prudently to attain their goals of preserving the purchasing power of the money they provide to society and of fostering financial stability and the smooth functioning of the payment systems.

For many years, considerations on financial stability have permeated the central banks' decision-making process. However, the 2008 crisis forced these institutions to take further steps and to coordinate efforts in an unprecedented way. Such actions have dealt with both mitigating the impact of such crisis and detecting and preventing new systemic risk events.

Thus, the 2008 crisis contributed to the largest global financial collaboration effort on record. Multilateral consensus were established to adopt regulatory and supervisory standards at the international level that would effectively limit the possibility of new crisis episodes. Among

these standards, a broader adoption of the so-called macroprudential measures and the reduction of systemic risk stand out, as, unlike microprudential regulation and supervision based on individual entities, the former recognize the close and complex interaction among the players and networks of the financial system and seek to identify and prevent risks to the financial system's stability, as a whole.

As an example of this effort, I should mention that yesterday, the 17th Meeting of the Financial Stability Board (FSB) Regional Consultative Group for the Americas was held here in Mexico City. Challenges faced by the region's financial systems were shared. The meeting also included the analysis of the work carried out by the FSB regarding cybernetic and technological risks, risks related to virtual assets, climate risks, international coordination, and possible market fragmentation. The Consultative Group, in which the Ministry of Finance and the National Banking and Securities Commission participated, also checked on the progress made during this financial year regarding the measurement of non-bank financial intermediaries in the region.

Thus, around the world, albeit under different institutional arrangements, central banks have renewed their participation in assessing and framing financial stability measures.

II. Monetary policy and financial stability

The benefits of attaining monetary policy and financial stability goals tend to strengthen. In this regard, the instruments to achieve such goals are characterized by a certain degree of interaction, but also by clear differences that must be considered. Following this line, a central bank must take three elements into account:

1. Separability between monetary policy and financial stability goals.

Although monetary policy actions can contribute to stabilize the economic cycle, it is key to keep in mind the differences between these and the financial cycle, since they are generally not synchronized and have different time frames or temporality. There are also clear differences between the best instruments to achieve price stability and financial stability, given that the regulatory and supervisory policies can address the specific challenges of financial stability.

2. Interconnection between monetary and financial policies.

Despite their distinct character, there is also a close interconnection between monetary policy and financial stability that must not be underestimated. Many emerging economies have experienced episodes of macroeconomic weakening, which have intensified due to the financial crisis. As a result, financial stability considerations have become a very important component of risk assessment for monetary policy decisions and macroeconomics in such countries. Meanwhile, in advanced economies, financial stability prior to the 2008 global crisis was taken for granted. Only after the emergency had occurred, considerations on such stability played a predominant role once again and currently interact with monetary policy via the financial risks channel. For this reason, it is imperative that challenges and risks associated with the interconnection between monetary policy and financial stability are considered.

3. Carry out an integrated policy assessment.

In order to size stress scenarios to which an economy's financial system is subject, it is essential to thoroughly analyze and assess the interaction between several policies. In particular, the

interrelation and side effects of aspects such as monetary policy, exchange rate regime, fiscal policy and macroprudential measures. For such purpose, it is necessary to comprehensively model the risks to which the economy is subject so as to adopt the most appropriate policies. Such comprehensive approach is especially valuable for emerging countries with small and open economies and less mature financial systems, which are subject to multiple shocks, both external and domestic. Although several multilateral organizations have proposed efforts in this matter, much work remains to be done as to the development of a multifactorial approach that provides improved analytical and empirical tools to generate better policies.

In sum, considering these three dimensions of the analysis can lead to a more effective central bank decision-making process and help attain the central bank price stability and financial stability objectives.

*III. Banco de México and the healthy development of
the financial system.*

Banco de México's efforts to promote the healthy development of the Mexican financial system unfold along three main axes. The first axis pertains to its regulatory and supervisory powers, key elements of financial stability. The second one has to do with its role as promoter of regulations and best practices to stimulate competition and empower citizens, for them to have access to better financial services. The third one refers to Banco de México's actions to take on new challenges, benefit from the opportunities related to technological change, and to mitigate risks.

As to the first axis, concerning the improvement of regulations and supervision over more than two decades, a sound financial system with high levels of capital, liquidity and solvency, able to withstand possible adverse scenarios, is being built in Mexico.

In this regard, Banco de México participates in the Financial System Stability Council, a body created in 2010 in which all sector authorities interact to timely monitor potential vulnerabilities and reduce risks, and

that has sought to incorporate the best international practices, not only regarding regulation and supervision, but also in matters of disclosure and transparency. In addition, for the past ten years, Banco de México has released annually a *Financial System Report*, which, as of this year, will be published every six months.

In addition to addressing traditional risks, Banco de México considers it very important to assess the nature and magnitude of certain financial challenges that have been gaining relevance, such as environmental and ecological sustainability issues. These issues are not only crucial for sustainable global development, but can lead to credit risks with systemic consequences.

In this regard, the Network of Central Banks and Supervisors to Green the Financial System (NGFS), of which Banco de México is a founding member, has identified the systemic financial risks to certain environmental and climatic issues and seeks to incorporate them in the strategic decisions of all financial institutions, developing methodologies to measure and manage such issues.

The second major axis implies that the financial system is not only stable, but also efficient and inclusive, allowing to safely and rapidly channel public savings into the most profitable projects for society.

It is essential to emphasize that financial stability is not an end in itself, but rather a means that allows to offer financial services to which citizens have access under the best conditions of quality, accessibility and extent, and to ensure that they are provided sustainably in the long term. In this regard, there are two fronts of action.

The first one is to promote greater efficiency and competition in the provision of services, reducing user mobility costs, eliminating entry barriers for new participants and developing an open architecture for information and payment networks.

The second one is to strengthen education and information, as well as consumer protection, since greater quality and clarity of public information about the products and services offered by intermediaries helps to reverse information asymmetries or correct behavioral biases and allows to make better decisions. Transparency directly benefits

consumers and encourages greater competition among intermediaries. Also, the most informed and appropriate decisions taken at the individual level contribute to prevent excessive acquisition of risks at the collective level and, thereby, to limit systemic risk factors.

Finally, the third major axis has to do with Banco de México's actions that allow it to fully benefit from the possibilities of the revolution in information technologies. Thanks to technological change, today there is an opportunity, unthinkable in the past, especially in emerging countries, to put an end to the lags in financially attending the population and to improve the payment systems, based on technological innovations and creative partnerships.

An example of how technological development can be exploited in projects rendering significant social benefits is the Request to Pay scheme CoDi (acronym in Spanish for *Cobro Digital*), which was recently launched in our country. Using the infrastructure of the Interbank Electronic Payment System (SPEI, for its acronym in Spanish), operated by Banco de México, and using QR and NFC technologies for electronic

payments, CoDi allows anyone who has a smartphone and a bank account or an account with a financial institution participating in SPEI, to make electronic payments in seconds, free of charge.

In the first month of its launch, more than 600 thousand people have downloaded this payment service. CoDi reflects how technological advance offers new alternatives to make user transactions more efficient, lower their costs, and foster greater inclusion, competition, and transparency.

Technological advance brings along great opportunities, but also implies challenges. For this reason, just like all central banks and financial authorities in the world, Banco de México faces the challenge of fully understanding the new structure and activities of financial systems, characterized by the incorporation of new business models and participants, such as the so-called Fintech companies, and by the new penetration capabilities and specialization trends. This is essential to design optimal regulation and supervision frameworks, less dependent on individual institutions and more on a modular approach that allows to

properly align incentives, establish an even floor between different types of intermediaries, empower consumers, and balance the goals of financial stability and inclusion.

Ladies and Gentlemen:

To face this stage of continuous transformation, we must rely on a forward-looking vision that not only addresses the immediate challenges, but also those deep trends that are emerging in a less visible way.

In this regard, organizing this "Seminar on financial stability and central banks" is very useful and set at the proper timing, given that in recent decades central banks have evolved very rapidly and dynamically. Today, we will have two panels of great interest. The first one related with "Financial stability and central bank independence", and the second one with "Financial stability and macroprudential policy".

In the case of Banco de México, its mandates to promote price stability, stimulate the healthy development of the financial system and foster the proper functioning of the payment systems are strongly interconnected and have complementarities. Indeed, these three objectives constitute public goods that are reflected directly in the economic opportunities and standards of living of citizens.

Price stability is a public good that, by preserving the purchasing power of money, grants basic certainty to citizens and directly affects their wellbeing.

Similarly, financial stability is a public good that allows citizens to have, in a sustained manner, better financial services and access instruments to deploy more fully their talents and initiatives.

Finally, the proper functioning of the payment systems is a public good that allows citizens to carry out all their transactions in a fast and secure way and, currently, is the gateway for millions of Mexicans to access a wide range of financial services.

The central bank seeks to provide these key public goods and thus contribute to a more robust, equitable and sustained growth over time.

Thank you once again for attending this venue, which I expect to be a very productive seminar.