

Mexico Banking Flash

Financial System Stability Council: the Mexican financial system maintains an adequate level of resistance to turbulence

At its session on March 22, 2013, the Financial System Stability Council (CESF)¹ analyzed the situation of the Mexican banking system and approved the Annual Report it will present not later than March 31 to the Federal Executive on the country's financial stability.

- **The Report analyzes the main current and future risks and vulnerabilities facing the Mexican financial system**

The CESF considers that despite the extreme volatility of international financial markets during most of 2012, towards the end of the year risk perception fell substantially, due largely to the policy announcements by various European and US authorities. However, it also considers that the main external risks (the situation in Europe and the fiscal cliff in the United States) remain current, so they must be monitored carefully.

- **The CESF report notes that concerns over accumulating risks in the global financial system have increased**

This is because of the prolonged period of low interest rates in the main advanced economies. The CESF believes that this situation could lead to an episode of risk aversion if there were an unexpected reversal of the accommodative monetary policy in these economies.

- **Both banks and insurance companies have an adequate level of resistance to turmoil, even in the case of hypothetical (though plausible) scenarios of severe stress**

The capital levels of financial institutions are above the minimum demanded by the regulations. Of particular note is the adoption in Mexico of the standards established under Basel III for capital and reserves and the principles of effective remuneration for banks. It is worth recalling that as of January 2013, the first month when the capital ratio (ICAP) of the banks was calculated under the new Basel III rules, all the banking institutions are within category I level compliance. In other words, they have a total capital ratio above the 10.5% limit established by Basel III.

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¹ The CESF comprises the Secretary for Finance and Public Credit (Chairman), the Governor of the Bank of Mexico, the Deputy Secretary for Finance and Public Credit, two deputy governors of the Bank of Mexico, the President of the National Banking and Securities Commission, the President of the National Insurance and Finance Commission, the President of the National Retirement Savings Commission and the Executive Secretary of the Institute for the Protection of Bank Savings.