Mexico Banking Flash

Mexico's Financial System Stability Council has assessed the impact of the increased volatility of capital flows on emerging markets and the implications for the Mexican financial system of the slowdown in domestic economic activity

In its session of September 30, 2013, the Financial System Stability Council (CESF)[1] of Mexico reviewed the recent developments in risks arising from the international and domestic environment, as well as possible vulnerability in the financial system.[2]

- **Mexico has not escaped the increased volatility that has particularly affected some emerging markets. However, the strength of its financial system and the prevailing clear, transparent and predictable policies have helped reduce the impact and kept adjustments in better order than in other emerging economies.**

  The CESF highlighted in its statement that the factor setting Mexico's banking system apart from its peers is that its funding is based on strong internal resources, basically in traditional deposits. In addition, the members of the CESF considered that although the financial markets reacted favorably to the recent decision of the U.S. Federal Reserve to postpone the start of normalization of the monetary stance, until there is more evidence of the strength of the economic recovery in the U.S., there is still a high risk of new episodes of as financial markets anticipate the start of the withdrawal of monetary stimuli.

- **The weakness of domestic economic activity observed in the first half of the year will have a temporary negative effect on credit expansion and the probability of debtors' default.**

  At the same time, in regards to the impact on Mexico's economy of hurricanes Ingrid and Manuel, the CESF approved the information presented by the Secretariat of Finance and Public Credit (SHCP) to the extent that these meteorological phenomena will not affect the government budget proposed either for this year or next year in the Economic Package for 2014, since the costs associated with reconstruction will be met using available resources and by reallocating some items of expenditure.

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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.

[2] In its Annual Report of March 2013, the CESF identified three risks at a global level that could affect the Mexican economy and its financial system: 1) a possible reversal in capital flows; 2) the resurgence of problems associated with the fiscal and debt situation in various European economies and contagion to the international financial system; and 3) weakening of the global economy and confidence.