

# Mexico Banking Flash

The Financial System Stability Council (CESF): the Mexican financial markets are adjusting in an orderly fashion to an environment of greater international volatility originated by a possible reduction in financial assets by the US Federal Reserve.

In its session of June 20, 2013, Mexico's Financial System Stability Council (CESF)<sup>1</sup> reviewed the recent situation of risks arising from the international and domestic environment, as well as possible vulnerability in the financial system.<sup>2</sup>

- **The Mexican economy's sound fundamentals have meant that the domestic financial markets have adjusted in an orderly fashion to an environment of greater volatility on the international financial markets**

Only a few days after the central banks of Japan and the euro zone increased their monetary incentives, the US Federal Reserve announced that due to various indicators suggesting the continued recovery in the US economy, it would begin to reduce its rate of financial asset purchases toward the end of this year. The announcement has led to adjustments of portfolios around the world, and affected the financial markets of emerging economies, including Mexico.

- **In the view of the CESF, if the Financial Reform initiative and other reforms being considered but still not put forward by the government were implemented, Mexico would stand out even more in terms of its capacity to deal with external shocks**

Thus the members of the CESF highlight the importance of continuing to strengthen the macroeconomic framework in Mexico, as well as the capacity of the financial authorities to regulate and supervise the Mexican financial system with the aim of strengthening its capacity to cope with volatility from abroad.

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<sup>1</sup> 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.

<sup>2</sup> 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 capital flow reversal; 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) The weakness of the global economy and confidence.