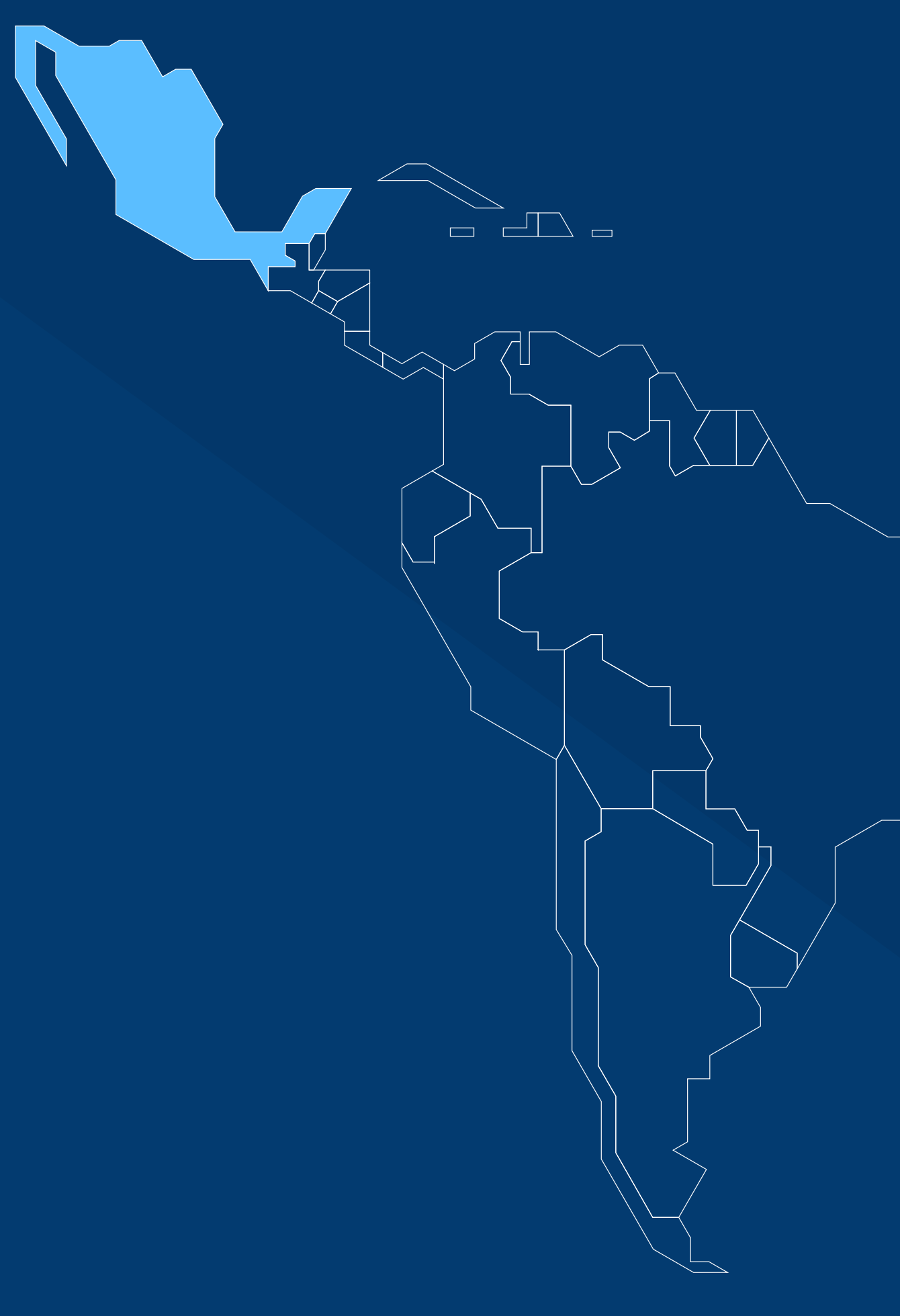


Mexico

Promoting financial development in the context of the Middle-Income Trap



Overview

Between 2011 and 2017, the economy has grown on average

2.6% annually, while the **LAC average** is **1.7%**

Banking sector is stable:



Financial risks seem to be **well contained**



However large segments of population **remain unbanked**



Regulation aligned with **Basel III**

ROE: **15.7%**

Tier 1: **14%**

NPL ratio: **1.9%**

Financial Access

Low number of bank branches:

14.5 per **100,000** adults and of correspondents

49 per **100,000** adults specially if compared to other LAC economies

Low financial inclusion MIFI:

97th position (out of 137 countries)

DiGiX:

59rd (out of 100 countries)

This is expected to improve due to the approval of Fintech Law in 2018

Low access to capital markets:

1.1 listed companies per **1,000,000** people

Financial Depth



Low level of financial depth in the region: credit to GDP of **21%** and deposits to GDP of **24%**



Depth of capital markets appears to be adequate Stock market capitalisation: **35%** of GDP



Inflows of foreign investment for debt securities is average. Non-financial corporates are the most exposed: **13.3%** of GDP

Efficiency and Stability of the Financial System



Profitability is adequate (ROA: **1.7%**) and has been decreasing in the last decade



Operating costs are average for the region: overhead costs to total assets of **3.6%**

Institutional factors

Mexico's indicators are above average in some cases

Ease of doing business (Average HI: 33 out of 190)

49th

Registering property (Average HI: 66 out of 190)

99th

Getting credit (Average HI: 67 out of 190)

6th

Enforcing contracts (Average HI: 47 out of 190)

41th

Resolving insolvency (Average HI: 22 out of 190)

31th

Recommendations

- Keeping in mind the **importance of maintaining physical presence** (branches and correspondents) in areas where financial and digital literacy is low
- Allow correspondents to intervene in the **process of requesting credit**
- Following the approval of the Fintech Law, **continue to minimise barriers and to improve usage of ICT** to advance in digitalisation
- Reaching a consensus on a **specific definition of microcredit** to avoid differences among institutions
- There is room to further **increase access to capital and debt markets**
- **Debit taxes could be eliminated** to boost the levels of credit and deposits and to disincentive the use of cash thus reducing informality
- **Reduce timing and procedures to register property, enforce a contract and resolve insolvency** to decrease the costs and risks involved in these processes

For further details:

Policy priorities to promote financial development in the context of the Middle-Income Trap: The cases of Argentina, Colombia, Mexico and Peru