

Climate compatible financial system development – Status quo

Country Brief Mexico



This country brief summarises the state of climate compatible financial system development in Mexico and provides recommendations for further action.

The Mexican financial sector is bank dominated with banks mostly focused on corporate lending, although consumer lending and mortgages have grown rapidly in the past years. Non-Bank Financial Institutions (NBFI) serve SMEs and low-income individuals. In general, the banking sector is well-capitalised, liquid and considered to be resilient to large shocks.

The commercial banking sector is highly concentrated around conglomerate structures, that usually include a bank, a pension fund, a brokerage company, an insurance company, and a mutual fund. The seven largest banks are all fully owned by financial groups, mostly non-Mexican corporations, and account for about 80% of total bank assets.

Climate change is projected to have significant economic implications and associated impacts on the financial sector. This includes a reduction of agricultural productivity and declining fish stocks. More frequent severe weather events will negatively impact the country's infrastructure, the tourism sector, ports, energy and communications, and will lead to increased health costs. Mexico's 2012 Climate Change Law, which was amended in 2020, and the Special Program on Climate Change (PECC 2020–2024) are key elements of the country's climate policy framework.

Both public and private actors within the Mexican financial system are advancing initiatives in the six action areas for sustainable finance defined in the GIZ Sustainable Finance Policy Navigator. The following actions could accelerate the transition towards a climate compatible financial system in Mexico:

ECONOMIC DATA

Population: 129 million
Income Group: Upper middle income
Annual GDP Growth 2016–20: -0.3%

CLIMATE CHANGE

CO₂ per capita: 3.74 ton
Climate Risk Index: Rank 59

FINANCIAL SECTOR

Credit Rating: Baa1 (negative)
Lending interest rate: 7.7%
Market capitalisation of listed domestic companies: 108% of GDP
IMF Financial Development Index: 0.72

- Further strengthening inter-institutional coordination, including through the four working groups of the Sustainable Finance Committee and the Working Group on Climate Finance of the Interministerial Commission on Climate Change.
- Building bipartisan awareness and commitment to climate compatible financial system development, and enhancing the understanding of the socioeconomic risks and opportunities of climatic impacts, of mitigation and adaptation activities, and their importance for preserving livelihoods. This may help to prevent discontinuity of climate policy when changes in political priorities take place.
- Developing a strategy document or roadmap for a climate compatible financial system through a participatory process.
- Introducing mandatory ESG reporting requirements at the Mexican stock exchanges, where feasible in line with TCFD recommendations.
- Developing and disseminating a financial system-wide climate stress test and addressing barriers to climate risk management in private financial institutions. Key barriers include limited climate literacy of governing boards, low levels of involvement by senior management, limited technical capacities and limited sectoral analysis of climate risks.

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Results from applying the GIZ Sustainable Finance Policy Navigator

Setting the political agenda and raising awareness



Key actors within Mexico's financial sector have demonstrated high-level political commitment to sustainable finance. The Bank of Mexico is one of the founding members of the Network of Central Banks and Supervisors for Greening the Financial System. The Sustainable Finance Committee (CSF) and the Climate Finance Working Group of the Interministerial Commission of Climate Change coordinate across government. The Mexican Banking Association (ABM) has played a leading role in many of the industry-led initiatives on green finance.

Data, standardisation and disclosure



Industry-led initiatives include ABM's 'Mexico Sustainability Protocol' for banks, participation in international voluntary initiatives such as the Principles for Responsible Investment and Banking, the publication of sustainability reports according to TCFD recommendations, and a pilot for a green lending taxonomy and reporting framework. There are mandatory ESG reporting requirements for pension funds. Currently the development of a taxonomy focused on sustainable development is ongoing. There is a general need for higher level of detail, broader scope and improved comparability of ESG data.

Prudential requirements and risk management



The comprehensive analysis of climate-related physical and transition risks and opportunities and their integration into financial decision making are still at a relatively early stage. Large financial institutions in the country tend to have an environmental and social risk management system. In 2017, ABM introduced a Social and Environmental Risk Analysis tool for the detection of sensitive environmental and social areas during the credit granting process. Bank of Mexico is currently working on an ESG related stress test, which includes climate-related risks.

Market support instruments



Mexico has been a global leader among emerging markets in the issuance of green and sustainable bonds. The year 2021 has been the most successful so far in terms of volume of sustainable bonds with almost EUR 8 billion issued. In addition, various other green financial instruments have been used, including green credit lines and green credit guarantees, with support from national and international public funds. Large commercial banks such as Citibanamex offer sustainability funds to their clients.

Leading by example



Government institutions have taken a key role in sustainable and climate compatible finance, especially leading the establishment of a green and sustainable bond market. Development bank NAFIN issued the country's first green bond in 2015. In 2020, the Mexican government, through its Ministry of Finance issued the first sustainable sovereign bond linked to the SDGs globally for a value of EUR 750 million. The Bank of Mexico considers ESG factors in its own investment decisions and has included green bonds into its universe of eligible investments.

Capacity development



A number of national initiatives support the development of technical and institutional capacities for green finance, including an online programme to become a certified Environmental, Social and Governance Analyst, classes and talks on sustainable finance on the website of Bank of Mexico, a programme on key sustainability issues for representatives of companies that had or were planning to issue shares on the Mexican stock exchange, and courses on sustainable finance by higher education institutions.

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