

Banks

Monthly Report on Banking and the Financial System

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Banking and Financial System

The Financial Stability Board publishes its annual report and updates its balance of risks

The main risks highlighted for the nation's economy are the weakening global economy, further falls in oil prices and output (with effects on public finances), lower growth in domestic economic activity and the uncertainty surrounding the normalisation process of US monetary policy. As strengths of Mexico's financial system, the report points to the appropriate levels of liquidity and capitalisation of the country's banks, and the dynamism of lending to the private sector, with reduced rates of delinquency. The stress tests conducted by the CNBV (*Comisión Nacional Bancaria y Valores*, Mexico's banking and securities supervisor) for the [report](#) show that the banking system maintains appropriate levels of capitalisation and solvency, although some institutions will have to take additional measures in order to comply with the minimum regulatory requirements. The omission of the financial situation of Pemex as a focal point in the risk evaluation is striking, as is the absence of any assessment on the effects of the increase in the current account deficit deriving from the reduced oil export revenues.

Lending to the private sector maintains its dynamism, driven by the business and consumer segments

In February 2016 the balance of performing loans granted by [commercial banks to the private sector](#) grew at a nominal annual rate of 16.0% (12.8% real), representing an increase of 0.7 percentage points (pp) relative to the rate seen in January 2016 (15.3%). This was the result of progress in the financing of businesses and consumers, which continue to be favoured by the increased depreciation of the currency, but also by advances in certain components of economic activity such as domestic consumption and gross capital expenditure.

Growth in banking deposits slows due to declining dynamism in both its components

In January 2016 the nominal annual rate of growth in [traditional commercial bank deposits](#) (demand and term) was 10.8%, representing a fall of 2.5 percentage points (pp) relative to the previous month and of 4.3 pp compared with the same month of last year. The reduced dynamism in the growth of traditional banking deposits may be a reaction to the quickening pace of capital expenditure by companies and an improving trend in consumer spending, as revealed by the Gross Capital Expenditure and Private Consumption indicators.

The CNBV releases its latest figures on Financial Savings and Financing

In September 2015 [financial savings](#) reached 97.9% of GDP, representing a balance of MXN 17.8 trillion. The fastest growing component was external savings (34% of total financial savings), with real year-on-year growth of 19.3%. Such growth is striking in an environment in which most emerging markets experienced capital outflows. The next biggest components in terms of growth were deposits taken by intermediaries (31.3% of total financial savings), which grew by 8.1%, and fixed income securities (34.7% of total financial savings), which grew by 1.4%. At the same time, financing reached 96.2% of GDP and a balance of MXN 17.5 trillion. As in the case of financial savings, the fastest growing component was the external financing (20.5% of total financing), with real YoY growth of 31.5%, followed by the credit portfolio (32.6%) and domestic debt issues (46.9%), which grew by 11.7% and 5.2% respectively. Part of the increases in external financial savings and financing is probably due to a valuation effect deriving from the peso depreciation.

The most dynamic segment of consumer credit is payroll lending

According to the latest publication of Banco de México's [Basic Payroll Lending Indicators](#), at the end of the first half of 2015 payroll loans represented 23.4% of total consumer credit. The performing balance of these loans showed real annual growth of 30.9% compared with the same period of the previous year. During the reference period, delinquency on this type of lending was not only lower than in other consumer credit segments, but also lower than that seen in housing loans. These loans perform better because they are deducted from salary and they have lower interest rates. The segment's dynamism is also reflected in its placing, with 75.2% of the current portfolio having been granted between June 2014 and June 2015. During this period the average amount of payroll loans granted was MXN 54,300 and the average term was 39 months. Consumers are showing more and more preference for this type of loan.

Half of the performing auto loans were granted in the past year

Based on the [Basic Auto Lending Indicators](#) published by Banco de México in January 2016, the balance at April 2015 of this type of lending accounted for 10.8% of the total consumer credit portfolio. During the reference period, 570,888 loans were granted, with a balance of MXN 63.37 billion, representing an annual real growth rate of 0.6%. Delinquency was 1.7%, the lowest of all types of consumer lending. Between May 2014 and April 2015 a total of MXN 31.78 billion in new loans were granted, equivalent to 50.1% of total outstanding loans. During this period the average amount of auto loans was MXN 168,300 (with an average total vehicle price of MXN 249,000). 70% of the loans granted were at 45.9 months.

Financial Inclusion

The 7th Financial Inclusion Report published by the CNBV shows progress in access to and use of financial services

According to this [Report](#), in Q2 2015 the percentage of municipalities with at least one access point was 74.4%, covering 97.9% of the adult population. In terms of the use of services, the report highlights the fact that between Q4 2013 and Q2 2015 there were increases in the number of deposit accounts in banks and in popular savings and credit institutions of 11% and 10% respectively. The number of loans granted by financial institutions reached 53.5 million, for a total amount equal to 30.9% of GDP in Q2 2015. As regards means of payment, the report highlights increases in the number of electronic and POS terminal transactions, while other means of payment such as cheques saw reduced activity.

Means of Payment

Banco de México launches the SPID (*Sistema de Pagos Interbancarios en Dólares or Dollar Interbank Payment System*)

On 1 April the [SPID](#) began operations. This system –developed and implemented by Banco de México– has the objective to increase the efficiency of domestic US dollar-denominated payments carried out by Mexican companies'. This mechanism is also expected to improve the security measures related to the transfer of funds from illicit sources. All banks offering accounts in dollars to legal entities are obliged to take part in the system. We consider this measure highly positive, in that besides the benefits identified by Banco de México, it will generate useful information on the flows of dollars that companies exchange within the country.

IMCO (*Instituto Mexicano para la Competitividad or Mexican Institute for Competitiveness*) publishes a study on the use of cash in Mexico

[This study](#) describes the role of cash in the Mexican economy, analyses the costs associated with the handling of this means of payment, and documents successful cases of countries that have transitioned towards electronic means of payment. For example, in an analysis of a sample of 107 countries, the study shows that the use and presence of cash has a negative effect on economic growth. In other words, for each percentage point by which the presence of cash in the economy declines, the study finds an increase of between 0.045 and 0.055 percentage points in GDP. The analysis also puts forward some recommendations on public policy that may help encourage reduced use of cash in Mexico.

Capital Markets

China and oil prices trigger a new bout of global volatility at the beginning of the year

During the first quarter of 2016 the financial markets were characterised by highly volatile behaviour associated mainly with concerns over the global economic cycle, the economic situation in China, movements in oil prices and expectations on the US Federal Reserve's monetary normalisation cycle. In Mexico the exchange rate was the variable most affected by these fluctuations, although so far there has been no deterioration in the interest rate curve or inflation as in previous periods of currency depreciation.

During the first six weeks of the year doubts about the slowdown of China's economy triggered an increase in global risk aversion, which translated into generalised falls in equity markets, commodity prices and emerging market assets. In particular, in mid-January Mexican crude oil was trading at US\$18.9 a barrel, its lowest level since 2002. In Mexico, the US dollar reached a new all-time high closing rate of MXN 19.14 in mid-February, while the spread on five-year CDS widened to 230 bps, a similar level to that reached at the height of the European crisis of 2011.

The catalyst that changed the market trend was the announcement of a possible agreement between Saudi Arabia, Qatar, Russia and Venezuela to freeze oil production to levels of last January. This, together with abating concerns over the world economy, given the improved performance of the US economy, led to higher oil prices and a gradual increase in demand for risky assets. In the midst of this change, the Mexican government and the Banco de México adopted various measures to stabilise the currency market, which provided additional support for the appreciation of the peso (see [Package of fiscal, monetary and foreign exchange measures to delimit risks](#)), which was already below 18 pesos to the dollar as at 1 March. Subsequently, the shift towards a more dovish tone on the part of the US Federal Reserve in mid-March further strengthened the Mexican peso, and the exchange rate went as low as 17.11 pesos to the dollar in intraday trading. Since then the dollar has fluctuated between 17.30 and 17.85 pesos, influenced mainly by movements in the price of oil. Thus equity markets ended the first quarter with gains (S&P500 0.78%, MSCI EM 5.28%, IPC 6.75%); the price of oil increased by 6.22%; long-term interest rates fell (10-yr. Treasuries - 60 bps to 1.76%, 10-yr. Mbono -30 bps to 5.96%). Emerging market currencies showed a generalised appreciation (the peso is still at 1.30% against the dollar relative to the beginning of the year, the second biggest depreciation in this group of countries); and sovereign risk, measured by the spread on five-year CDS, fell for the majority of emerging markets (in the case of Mexico the reduction was 10 bps, to 160 bps).

Regulation

Establishment of the countercyclical capital buffer

In line with the international agreements on the subject, on 7 April the CNBV [amended](#) its Banks' Rulebook, incorporating the countercyclical capital buffer, along a gradual transition starting in December 2016 and ending with full implementation by December 2019. The buffer will be made up of Common Tier Equity 1 and will result from the credit risk capital charges on transactions with the private sector in the various jurisdictions in which banks operate, along with each jurisdiction's countercyclical capital charges as determined by the CNBV. The rule also requires that in the event of shortfalls, banks face restrictions on the profit distribution to their shareholders, on senior management remuneration and on share buy-back programmes.

Banco de México amends its rules on the charging of commissions

On 11 April Banco de México published its [Circular 08/2016](#) amending Circular 22/2010 on refunds and loan prepayment penalties, stating its aim as the promotion of competition, transparency and mobility of users of financial services. Banco de México establishes that the only way in which a prepayment penalty can be included in a mortgage is by offering the customer, at the time of signing, an alternative product that does not

incorporate such feature. This provision will come into force on 1 October of this year. The circular also requires banks from 2017 onto refund customers the remaining proportional part of periodic commissions charged in advance on any transactions entered into by means of standard-form contracts when customers cancel them during such period.

CNBV publishes a list of domestic systemically important banks

On 1 May the CNBV [identified](#) the credit institutions considered of national systemic importance in line with the [guidelines](#) established on the subject at the end of 2015, which also envisaged the introduction of an capital buffer in excess of the 10.5% capital ratio required of all credit institutions. The banks identified by the CNBV are Scotiabank Inverlat, Banco Inbursa, HSBC México – each with a 0.6% buffer –, Banorte (0.90%), Banamex and Santander (1.20% each) and BBVA Bancomer with a 1.50% buffer. These institutions will have four years from 2016 to meet the additional capital charges at a 25% yearly rate.

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