Monthly Report on Banking and the Financial System

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Banking and the Financial System

Lending to the private sector eased was less dynamic, with slower growth in business loans

In April 2016 total performing bank loans granted by commercial banks to the private sector grew at a nominal annual rate of 13.3% (10.5% real), representing a decrease of 0.5 percentage points (pp) relative to the rate seen in March 2016, but more than that of April 2015 (10.8%). By segment, consumer credit grew at a nominal annual rate of 12.8% (10.0% real), more than the 12.7% seen in March 2016 and more than twice the growth seen in April 2015 (6.0%), as a result of advances in the personal loan and automotive finance segments, which behaved in line with domestic consumption, mainly of durable goods and cars. The pace of growth in lending to businesses eased to 14.1% for the month in nominal YoY terms (11.3% real), 1.1 pp less than that seen in March 2016. This seems to be related to an increase in external corporate borrowing, both in the form of loans obtained from external institutions and in debt issued on foreign stock markets. Lastly housing bank loans grew at a nominal annual rate of 12.6% (9.8% real), 0.1 pp less than in March 2016, due to a deeper decline in lending for social housing (13.2% of the housing portfolio), from -1.2% in March to -2.0% in April.

Growth in banking deposits maintained the dynamism seen in March, with uneven performance between its components

In April 2016 the nominal annual rate of growth in traditional banking deposits (sight and term) was 11.8%, unchanged from the previous month and 2.2 pp below that seen in the same month of the previous year. The contribution of sight deposits to the growth rate in traditional deposits fell by 0.8 pp, from the 8.4 pp seen in March, while that of term deposits increased by 0.7 pp from the 3.4 pp seen in the previous month. The uneven performance of sight and term balances may possibly be related to non-banking financial intermediaries reconstituting balances.

Payroll loans remained the most dynamic segment of consumer credit

On June 3rd Banco de México published the Basic Payroll Lending Indicators, with information as at the end of the fourth quarter of 2015 (Q4 2015). In that quarter payroll lending accounted for 24.0% of total consumer credit and reached annual real growth of 17.1% relative to Q4 2014. Delinquency on this type of lending at the end of 2015 was 2.9%, less than the 4.3% for total consumer lending, maintaining the downward trend seen in the past year. Of the 4.2 million registered loans at the end of 2015, 61% were granted in the past year, equivalent to 74% of the total balance. The weighted average interest rate of payroll loans granted throughout 2015 was 26.0%, which was 20 bps less than the comparable figure for 2014. The average amount of the loans granted in 2015 (MXN 58,600) was more than in 2014 (MXN 54,300), while the average term, at 40 months, was three months longer than in 2014.

Banco de México publishes new report on housing loans

On June 7th the central bank issued its first report on Basic Housing Loan Indicators, which will be published every six months. Although it does not include loans granted by the public housing institutes Infonavit and Fovissste, it does include loans co-financed by these institutions and commercial banks. At the end of 2015 the total balance of housing loans accounted for 20% of loans granted to the non-financial private sector. At 2015 year-end housing loans were 8.5% up in real terms on year-end 2014, with an NPL rate of 3.6%. The most significant type of housing loan (81% of the total) is that granted for the acquisition of new or used residential property, which in 2015 showed a weighted average interest rate of 9.6%, an average term of 21 years and an average amount of MXN 999,000. Loans to pay off debt increased in importance during 2015, accounting for 6% of the balance and 3% of the number of loans, due to borrowers switching mortgage lenders as a result of increased competition in the market.

The National Banking and Securities Commission (CNBV for its acronym in Spanish) publishes information on the Liquidity Coverage Ratio for the first quarter of 2016

The CNBV's press release highlights the fact that as of March 2016 the 44 banks obliged to report the ratio complied with the minimum regulatory level. The median of the liquidity coverage ratio was 107.51% and the average weighted by the value of banks' assets was 216.40%. While all banks comply with the ratio, we agree with the opinion expressed by the central bank in its 2015 Report on the Financial System that liquidity risk management needs to go beyond merely complying with the indicator, with each institution incorporating into its decision making stress indicators and metrics enabling it to determine the level of liquid assets appropriate to its particular characteristics. It is also important to consider the volatility that the ratio could show in the event of abrupt changes in market conditions, which could bring the ratio below the minimum required.

The CNBV published figures for Financial Savings and Financing as at the end of 2015

In December 2015 financial savings reached 94.7% of GDP for the fourth quarter of 2015, representing a balance of MXN 17.9 trillion and real growth of 6.5% compared with December 2014. The fastest growing segment were the deposits held by intermediaries (30.8% of total financial savings), which showed real year-on-year growth of 12%. The next biggest components in terms of growth were external savings (31.7% of total financial savings), which grew by 8.5%, and lastly fixed income securities (32.1% of total financial savings), which remained practically unchanged from year-end 2014 (up by 0.05%). As we mentioned in the January 2016 edition of Mexico Banking Outlook, growth in deposits in that period was due mainly to increases in both business and private individual balances. It is possible that businesses adopted a cautious stance and postponed their investment plans in view of the unstable environment seen throughout 2015, and that this led them to prefer less volatile savings instruments such as the term deposits offered by commercial banks. As for private individuals, it may be that historically low inflation and the depreciation of the peso seen in that period contributed to increasing households' purchasing power in 2015, boosting balances held in accounts.

At the same time financing reached 93.9% of GDP, and a balance of MXN 17.7 trillion. As in the third quarter, the fastest growing component was external financing (19.0% of the total) which grew by 20.4% in real annual terms, followed by the lending portfolio (31.1%) with a real annual growth rate of 13.0%. Within external financing, the biggest increase was in financing granted to the public sector, which grew at a real annual rate of 21.2%, while that granted to the private sector increased by 19.7%. In the case of the private sector, the increase in external financing was due to a valuation effect caused by the depreciation of the peso. When these resources are converted to US dollars they show a year-on-year decrease of 0.2%. In the case of the public sector, as well as the depreciation of the peso a further factor was the 3.5% increase in indebtedness in dollar terms relative to December 2015.

The Financial System Stability Council (CESF for its acronym in Spanish) updates its balance of risks

In the latest update of the balance of risks for the Mexican economy, the CESF highlights among external risk factors the weakening of world economic activity and the bouts of volatility in the international financial markets, which could lead to tighter credit conditions for the Mexican economy. Among internal factors, we note in particular the consideration given to the effects of low oil prices and the diminished oil production platform on public finances, the country's external accounts and the financial exposure of certain banks to PEMEX suppliers.

Financial inclusion

Results of the 2015 National Financial Inclusion Survey (ENIF)

The SHCP (Secretariat of Finance and Public Credit), CNBV and INEGI (National Institute for Statistics and Geography) published the results of the ENIF 2015. The new questionnaire allows information to be gathered from a larger number of intermediaries, thus removing a limitation that had affected the 2012 survey. Also, the design of the questionnaire helps to provide a better insight into the use of alternative channels such as mobile and online banking.

However, the design of the 2015 questionnaire does not allow a proper comparison with the information collected in 2012, since it is not possible to isolate the effect of the inclusion of the other financial intermediaries that were not included in 2012. Thus the increases shown from 2012 to 2015 may reflect the greater number of intermediaries and/or a change in financial inclusion, the sources of the increases being indistinguishable. (See Banking Flash Mexico).

Financial markets

“Brexit” unleashes a new bout of volatility in the markets

During June movements in the financial markets were dominated by the UK referendum on whether to stay in the EU, and to a lesser extent by the US Federal Reserve’s monetary policy decision. At the beginning of the month the US non-farm payroll report surprised the market with a figure well below that expected by the analyst consensus (38,000 compared with 160,000), practically eliminating the possibility of a federal fund rate hike in the June meeting. Subsequently, the UK referendum was uppermost in market minds, to such an extent that between June 9th and 23rd global risk aversion was influenced by polling results. At first there was a significant uptick, which took the VIX from 14.0% to 21.0% in just three days before it fell again to 17.0% on the day of the referendum based on expectations that the ‘remain’ vote (to stay in the EU) would prevail. Nonetheless, as the results came in, the realisation that the trend in favour of the ‘leave’ option was irreversible led to a bout of risk aversion not seen since 2011. The VIX increased by 8.0 pp in a single day, while equity markets saw losses across the board, practically all currencies depreciated against the dollar and there was heavy demand for safe-haven assets such as Treasury bonds and dollars. In particular, the S&P500 lost 3.6%; Mexico’s IPC lost 2.73%, while equity markets in Europe posted losses of as much as 8.0%. In the currency markets the dollar reached a new record high of 19.51 pesos per dollar in the early hours of June 24th; the British pound depreciated by 8.0%, the euro by 2.35% and the Swiss franc by 1.4%. Demand for safe assets increased to such an extent that yield to maturity of the 10-year Treasury bond closed at 1.56%, a level not seen since 2012, while in Germany and Japan yields on similar instruments went back into negative territory. In this volatile environment the SHCP announced additional cuts in public spending of MXN 31.7 billion for this year in order to shore up the fundamentals of the Mexican economy (see Flash Mexico: New cuts to public spending to support fundamentals in view of volatility from “Brexit”).

A few days after the referendum, signs of a more accommodating stance to limit the effects of Brexit by central banks in the UK, Europe and Japan contributed to a reduction in volatility in financial markets. The VIX fell by 43% during the last week of June, ending the month at the same level it started. Equity markets recovered the losses seen since the referendum, as did currency markets. The peso appreciated by around 3.0% during the last week of the month, ending June at 18.36 pesos per dollar, influenced mainly by the reduction in risk aversion and to a lesser extent the 50 bps increased in the reference rate of June 30th (see Flash Banxico). Even with this appreciation, the peso ended June as the second most depreciated currency among emerging markets. Lastly, in the government bond market, expectations of looser monetary policy and more gradual monetary normalisation in the US took yields on 10-year Treasuries to 1.45%, while yields on bonds with maturities in Japan and Germany closed at -0.21 and -0.13% respectively.

Regulation

CNBV issued regulations on Bank Leverage

The CNBV published the final version of the new leverage ratio rules for credit institutions, in line with relevant international standards. The regulations establish the methodology for calculation and the obligation to report the leverage ratio and its components periodically online and in the notes to bank's quarterly financial statements.

The CNBV stipulated that institutions designated as of local systemic importance must carry out this calculation and disclosure from September 2016, while the remaining institutions must do so from December of this year.

The Federal Government established its Financial Inclusion Policy

On June 21st the government presented its Financial Inclusion Policy during the second international forum on the subject. The Financial Inclusion Policy is an instrument for guiding the actions of the members of the National Financial Inclusion Council and for the coordination between the financial authorities and public and private financial institutions and NGOs interested in promoting the inclusion agenda.

The Financial Inclusion Policy comprises six pillars: education and skills development; the use of technological innovations; development of financial infrastructure in areas not currently served; promotion of access to, and use of, financial services by population segments that do not yet benefit fully from them; increasing consumer confidence and protection; and lastly generating data and metrics for evaluating the success of taken actions.

Regarding this last point, the Policy establishes metrics and evaluation indicators for monitoring the degree of progress in attaining objectives, with the baseline set in 2012 and the objective horizon at 2018. These indicators include the percentage of adults using any access point, the percentage of adults having at least one formal financial product and the percentage of adults holding a deposit or savings account from a formal financial institution.

Although the Financial Inclusion Policy establishes measurement indicators, it does not explicitly set the target figures for 2018, which might make it difficult to carry out a proper evaluation at the end of the period. Similarly, the sources of information for generating these indicators should be comparable over time.