

Banks

Monthly Report on Banking and Financial System

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Banking and Financial System

Slower growth in all three main segments of lending to the private sector in August

In August 2016 the balance of [outstanding credit granted by commercial banks to the private sector](#) grew at a nominal annual rate of 16.1% (13.0% in real terms), representing a decline of 0.8 percentage points (pp) from the rate observed in July 2016. This was due to a reduced pace of growth in the three credit segments, mainly in consumer credit and lending to businesses. Growth in consumer credit slowed from 13.8% nominal annual in July to 13.3% in August, while growth in lending to businesses slowed from 19.1% to 18.2%. Mortgages also slowed slightly, from 11.3% to 11.1%. These figures could be linked to a moderation in certain components of economic activity. For example, the slowdown in domestic consumption (nominal growth of total retail sales fell from 13.5% in July to 4.8% in August, according to ANTAD, the National Retailers Association of Mexico) and the lower growth in workers' real wages (0.8% YoY in real terms in August, the lowest rate of the year so far) may have contributed to reducing the rate of growth in payroll and personal lending; while the weakness observed in investment (down by 1.7% YoY in July) and exports of manufactured goods (down by 3.7% YoY in August) seems to be weakening lending to businesses in the construction and manufacturing sectors.

Growth in bank deposits slows due to the reduced dynamism of sight deposits

In August 2016 the nominal annual growth rate of [traditional bank deposits](#) (sight + term) was 12.5%, practically unchanged from that seen in the previous month. This slackening in the pace of growth in traditional deposits came from a slowdown in the growth of sight balances, whose contribution to the overall growth rate fell by 0.2 pp from the 8.6 pp seen in July, while term deposits increased their contribution by 0.2 pp from the 3.8 pp observed in the previous month. It is possible that the reduced thrust in sight deposits is associated with greater intermediation by non-bank financial intermediaries, in line with the increased annual nominal percentage change in financing granted by this segment at the end of the second quarter of 2016. The increased thrust in term deposits may be associated with an increase in household savings, both on account of expectations of negative shocks to their income in view of the reduced dynamism of economic activity and as a result of higher interest rates which make savings in term instruments more attractive. At the end of August, the Global Economic Activity Indicator (IGAE in the Spanish abbreviation) showed an annual growth rate of 1.5%, 0.8 pp less than that seen in the month before. For its part, the Consumer Confidence Index showed deterioration in households' expectations, falling by 4.3% YoY in August to its lowest level so far this year. Added to the foregoing is the cumulative increase of 100 bps in the central bank's reference interest rate in February and June 2016, which could be expected to have encouraged growth in term deposits.

The CNBV released data of Financial Savings and Financing for 1Q16

According to figures from the CNBV (*Comisión Nacional Bancaria y de Valores*, Mexico's banking and securities regulator), in March 2016 [financial savings](#) reached 100.1% of GDP, with a balance of 18.5 billion pesos and growth of 6.9% in real terms compared with 1Q15. The fastest growing segment was that of intermediaries (32.7% of total financial savings and of GDP), which showed year-on-year growth of 11.1% in real terms. It was followed by external savings (33.2% of both financial savings and in terms of GDP), which grew by 7.8%, and, in third place, holdings of fixed income securities (34.1% of both financial savings and GDP), which increased by 2.3%. The growth in intermediaries' deposits was the result of increased balances from the popular savings and loans sector (SOFIPOs (Popular Financial Companies) and SCAPS (Savings & Loans Cooperative Companies)), whereas that in banks' deposits showed a similar rate of growth to that of last year (9.4%). The growth in external savings was due to a valuation effect in private sector borrowings and stock exchange issues abroad (external savings financing the private sector), as a result of the Mexican peso depreciation of approximately 13% between 1Q15 and 1Q16, as well as increased indebtedness in dollars (converting these resources into US dollars, the annual growth was 5.9%).

The balance of financing reached 18 billion pesos, representing 97.5% of GDP. The growth in financing was 6.9% in real terms compared with the same quarter of 2015. This was the result of growth in both bank credit (commercial banks grew by 9.9% YoY in real terms and development banks by 12.1%) and in financing by the non-banking financial sector (for example, regulated SOFOMES (multi-purpose finance companies) increased their lending to the private sector by 360.4% YoY in real terms; lending by general bonded warehouses grew by 62.7% and credit granted by FONACOT (a government institution for providing consumer credit to Mexican workers) increased by 36.3%). Also, for the third consecutive quarter we saw an increased volume of financing from abroad, due to both the valuation effect with the depreciation of the peso and to increased borrowing in dollars by both the public and private sectors.

According to Banco de México figures, the credit card portfolio continues to recover; half the new credit granted was at promotional rates.

Banco de México published the [Basic Credit Card Indicators](#), with information to the end of June 2016. Credit granted through this segment represented 39% of the total portfolio of consumer credit. In June 2016, this type of credit posted an increase of 3.9% in real terms compared with the same month of 2015, making it the least dynamic segment within consumer credit, although showing a recovery with respect to the performance seen at the end of 2015.

In June 2016, there were a total 17.3 million active cards up to date with their payments, with a balance amounting to 272.2 billion pesos. Cardholders paying off the full balance every month represented 48.3% of the number of cards and 23.3% of the balance. Although as a proportion of the number of cards those paid off in full every month increased slightly from December 2015 when it was 47.3%, as a proportion of the total balance it fell from that same date, when it was 24.5%. Meanwhile, the weighted average effective interest rate (TEPP) of the total portfolio in December 2015 was 24.5% (110 basis points more than in June 2015). As for the use of promotional interest rates, we note that as at June 2016, 30% of the total balance was related to purchases at interest-free monthly instalments, 20% to purchases at preferential rates and 50% to purchases with no promotion.

Financial markets

The US election at the centre of attention of the financial markets

The ups and downs of the US presidential election were the main influence behind movements in the financial markets in October. The perception that the Democratic candidate had won the first presidential debate opened the way to a period of greater risk-taking, which was reflected in significant increases in the financial markets and appreciation of emerging market currencies. In particular the Mexican peso appreciated by 5.22% between 26 September and 27 October, making it the currency that has appreciated most among all emerging market currencies. On the Mexican stock market, which also showed a high degree of correlation with swings in opinion polls in the US, there was a rally of more than 1.8% in the period referred to, which compares favourably with the fall of 0.6% in the S&P500 and the practically non-existent rise in the emerging markets equities benchmark (MSCI EM). However, this increased appetite for risk was interrupted when the FBI announced the reopening of its investigation into the Democratic candidate's handling of e-mails when she was Secretary of State. In fact in a matter of days the exchange rate once again touched intraday levels of as much as 19.50 pesos to the dollar, while global risk aversion metrics such as the VIX were above 20% for the first time since last June. Thus, amid the uncertainty regarding the presidential succession in the US, the Mexican peso ended with an appreciation of 2.7% in October, which compared favourably with that of barely 0.2% for emerging currencies as a whole. On the equities markets the IPyC, Mexico's stock exchange index, ended October up by 1.6%, a much bigger increase than the marginal one of 0.2% in the emerging markets benchmark, and much more so when it is borne in mind that overall this asset class posted a fall of 2.0%. Lastly, the price of oil fell by 1.55% while awaiting further details of the agreement reached at the end of September on global production cuts.

In the first ten months of the year, the yield on ten-year Mexican bonds averaged 5.98%, practically unchanged from the average for the whole of 2015 (5.94%) and from that of the first nine months of this year (6.01%). We note in particular the stability of long-term interest rates, despite the persistent pressures on the peso in a more adverse context as regards global flows into emerging markets and foreign appetite for Mexican bonds. As well as these global factors, long-term interest rates have not increased following the three hikes, each of 50 bps, in the central bank's key rate so far this year (in February, June and September). Also, until last week they had withstood the pressures on the MXN. The FBI's decision to reopen the investigation into Hillary Clinton's e-mails on 28 October put pressure on the MXN, and on this occasion, unlike previous bouts of pressure, growing concerns about the increased probability of a Trump victory since then have been reflected in higher long-term interest rates. In fact, after holding relatively steady almost throughout the month (the 10-year Mexican bond averaged 6.08% to 27 October), the ten-year yield rose by 15 bps in the last two days of the month, reaching 6.36%, its highest level so far this year. In the first few days of November, the apparent lessening of probabilities of a Trump win and the FBI's further announcement on Sunday that it had found nothing new, reversed these pressures and the yield is now at 6.20%. In the next few days, a win by Hillary Clinton could lead to a further fall of between 10 and 20 bps.

Looking ahead, we still think that, since the monetary (key) rate in Mexico is no longer very far from its estimated neutral level of 5.0%-5.5%, that of the 10-year bond ("M10") is in turn not far from its long-term equilibrium level, which would imply a slope of around 100-150 bps relative to the monetary rate. The flattening of the yield curve that we have seen this year was thus to be expected, since we started with the monetary rate at highly

accommodative levels. Also, we expect movements in the M10 to continue to be influenced by the US 10-year Treasury Note, for which we continue to anticipate gradual increases.

In short, qualitatively it is hard to see significant increases in long-term interest rates in the U.S., and the process of fiscal consolidation in which the federal government is already immersed will continue to limit the supply of long-term bonds in Mexico, so we foresee no significant movements in 2016-17. For year-end 2016 and 2017 we continue to forecast levels of 6.2% and 6.5% respectively. The main upward risks are related to increased perception of country risk if the fiscal objectives for 2017 are not attained and/or if additional pressures are seen on Mexican assets in the event of a possible, albeit unlikely, Trump victory, or following the materialisation of some global risk that has not been factored in, such as increased concerns about China's prospects or a speeding up of rate hikes by the US Federal Reserve.

Regulation

CNBV's regulatory agenda for 2017

During the Risk Management Symposium of the Mexican Banks' Association on October 27th and 28th, Jaime González Aguadé, president of the CNBV, announced the Commission's main regulatory themes for 2017. Of importance are measures for the promotion of e-commerce, the remote opening of accounts, the prevention of identity theft, regulatory adjustments necessary for the start of operations of the country's second stock exchange, and the development of the Net Stable Funding Ratio, with a view for its implementation in 2019.

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