

Banks

Monthly Report on Banking and the Financial System

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Banking and the Financial System

Credit to the private sector stabilises its growth in October at 15.5%

In October 2016, the balance of outstanding credit granted by [commercial banks to the private sector](#) grew at a nominal annual rate of 15.5% (12.1% real), almost unchanged from the rate in September 2016 (15.6%). This was the result of corporate lending, which remained stable compared to the previous month (18.2%); this might be associated with both a dollar debt reduction by businesses and the differing evolution of the various sectors of economic activity. Meanwhile, consumer credit and housing balances recorded slight declines in growth. The former fell from 13.2% in September to 13.0% in October and the latter from 10.9% to 10.6%. This behaviour may be linked to greater caution on the part of consumers, as shown by a fall in the consumer confidence index.

Payroll loans remain the most dynamic segment of consumer credit

On December 30, Banco de Mexico published an update on the [Basic Indicators for Payroll Loans](#), with information up to June 2016. At the end of that month, the payroll loan balance accounted for a quarter of total consumer credit, reaching an average annual real growth rate of 16.4% between June 2014 and June 2016. Payroll credit delinquencies in June 2016 were at 3.1%, lower than those recorded by consumer credit in general (4.1%). Of the 4.3 million loans in place at the end of the first half of 2016, 60.9% were granted in the past year, equivalent to 73.2% of the balance. The average weighted interest rate of the payroll loans granted was 25.5%, lower than the average weighted interest rate of 26.2% reported in June 2015. The average amount of the loans granted over the last year was MXN 64,300 (10,000 pesos more than the average for the previous year) while the average term increased to 42 months, one month longer than in June 2015.

Reverse Mortgages (HI) were introduced in Mexico City

On December 8, the Parliamentary Public Gazette of the Federal District Legislative Assembly published a decision introducing [Reverse Mortgages](#) into the Civil Code. This financial product enables property owners aged over 60 to access the capital accumulated by their property while retaining ownership of the property itself. In a Reverse Mortgage the lender pays the borrower based on a percentage of the value of their property. This type of mortgage means people of retirement age can increase their income, since the amount of money the lender commits to pay can be paid in a single instalment or periodically, as a kind of pension. Incorporating this product into the regulations attempts to remedy some of the shortcomings of the pension system and address the income needs of the growing population of elderly adults.

Growth in bank deposits slowed due to the reduced dynamism of new sight balances

In October 2016, the nominal annual growth rate of [traditional bank deposits](#) (sight + term) was 12.6%, 0.2 pp lower than in the previous month (12.8%). The decreasing growth rate for traditional deposits was due to a slowdown in the growth of sight balances. Their contribution to the overall growth rate fell by 0.4 pp from the 8.1 pp seen in September, while term deposits increased their contribution by 0.2 pp from the 4.7 pp observed in the previous month. Less growth in sight deposits may be associated with an increase in household spending, as seen in the change in overall sales by ANTAD, which recorded an nominal annual growth of 7.7% during this period, 2.1 pp above that for September. In the same vein, the Retail Trade Indicator¹ registered an annual growth rate of 9.3%, 1.2 pp above the figure recorded the previous month. On the other hand, the greater dynamism of term deposits may be linked to a growing preference for term instruments, due to the increases in the benchmark interest rate registered in recent months.²

The CNBV published the Report on Financial Savings and Financing in Mexico with figures to June 2016

On December 21 2016 the Comisión Nacional Bancaria y de Valores released the [Financial Savings and Financing Report](#) with information up to 2Q16. According to the report, in June 2016 total financial savings represented 99.6% of GDP, with a real annual growth rate of 7.9%, equal to that for the same month last year. Meanwhile, total financing accounted for 96.3% of GDP, with a real annual growth rate of 6.7%, 3.9 percentage points (pp) below that recorded in June 2015.

The sluggishness observed in financial savings was the result of the mixed performance of its components. Financial intermediaries (32.2% of GDP) recorded an improvement, with a real annual growth rate of 12.1%, 6.6 percentage points above that for June 2015. The annual percentage of other components decreased: fixed income securities (34.1% of GDP) grew in real annual terms by 2.8%, 1.4 pp below the level observed in June 2015, while foreign savings (33.7% of GDP) grew by 9.6% in real terms, 5.2 pp less than in the same month last year.

Meanwhile, the slowdown observed in total financing was due to slower growth in debt and trust bond issuance (CBF). In June 2016 this segment recorded a real annual growth rate of -3.3%, 9.8 pp below that observed in the same month last year. This was followed by external financing, which in June 2016 reported a real annual growth rate of 24.0%, 0.3 pp lower than in the same month last year. In contrast, the loan portfolio grew at 10.9% in real terms, 1.3 percentage points above June 2015.

In addition to figures on domestic financing brokered by the financial system, the report provides figures on credit granted by non-bank credit cards and financing provided by suppliers. The first of these items grew by -

¹ Original series.

² On 29 September the benchmark interest rate rose for the third time this year (50 basis points).

48.7% in real terms, a reduction of 50.1 percentage points from the level recorded in the same month last year. On the other hand, the balance of supplier credit to BMV issuers grew by 3.4%, 12.7% less than in June 2015.

Banco de Mexico publishes its report on compliance with the Law for Transparency and Regulation of Financial Services (LTOSF)

The [annual report](#) published on December 16, 2016 describes the actions taken during 2015 by the central bank to exercise the powers conferred upon it by the LTOSF. The transparency-related actions include a modification of the methodology for calculating the Total Annual Cost of Financing (CAT) and an expansion of the range of credits for which report indicators are generated (personal and housing loans). In regard to competition, four banking institutions were authorized to share their ATM infrastructure and, in order to promote the mobility mortgage loans, entities that charge a commission for the prepayment of this kind of credit were required to offer a product for which no commission is charged. In the area of regulation, financial institutions were obliged to repay the proportional part of the commissions for the unused period of service paid in advance by users who cancel their services.

So far, during 2016, the central bank has made 71 visits to credit institutions; 36 of them were verified as being in compliance with the LTOSF. It has also supervised clearing-houses by making four special inspection visits since January 2015, which ended in disciplinary and corrective action processes. In 2016, five penalties were imposed, three for breach of the CAT rules and two for breach of credit card rules.

Update to the Bank of Mexico's Annual Report on the Financial System

On December 5, 2016, the central bank released the updated [Annual Report on the Financial System](#) which analyses the factors of the economic environment and the financial system itself that can generate risks that might undermine the national financial system. In this report, the Bank of Mexico recognized that the national economy is facing an adverse environment that has worsened as a result of the uncertainty generated by the outcome of the US elections. The main risks identified for the national financial system are a weakening of (global and national) economic activity, increased interest rates, further depreciation of the exchange rate against the dollar and the risks associated with lower oil revenues.

Despite the dynamism observed in domestic credit to the private sector, the portfolio has not deteriorated; however, further weakness in economic growth could lead to pressure on the dynamics and quality of such credit. As for the exposure of banks to energy companies, the central bank believes that these risks are limited, while private non-financial companies with foreign currency debt are keeping their exposure within acceptable limits, because of their high operating cash flow in foreign currencies and financial hedges.

The value of the portfolios of the institutions may remain relatively stable in the face of abrupt changes in key financial variables, though some brokerages may suffer liquidity pressures caused by their positions in repurchase transactions. In addition, regulatory changes have led to a reduction in the liquidity levels of government securities, as an increase in capital requirements on trading positions has decreased the appetite for risk of financial intermediaries. Stress tests conducted by the central bank show that the Mexican financial system should remain sound and well capitalized.

Financial markets

Prospects for the new US administration take the dollar to its highest level since 2002

During December, the movements of the financial markets continued to be influenced by expectations about the direction of the new administration in the US. The prospect of increased infrastructure spending, reduced taxes and higher inflation continued to influence rises in equity markets, interest rates and the dollar. In fact, the global equity market benchmark (MSCI World) marked a positive return of 2.29%, very close to its historical peak in mid-2015. Meanwhile, the S&P500 registered a rise of 1.82%, a new record high during the first half of the month. In contrast, emerging stock markets ended the last month of the year without any significant changes (0.06%), while the Prices and Quotes Index (IPyC) rose 0.72% during the period. In the US fixed income market, increases continued after a more restrictive stance by the Fed at its last meeting of the year, in which it increased the federal funds rate by 25 basis points. The curve showed a slight flattening after rates at the short end increased more (8bp) than those in the long section (6 bp) during the month. In fact, the yield to maturity of 10-year government bonds ended 2016 at 2.44%, 20 basis points above the yield observed at the beginning of the year. In Mexico, Banxico increased its rate by 50bp in the face of expectations of rising inflation, which was largely discounted by the markets. However, the rates rose more toward the end of the month, when the federal government published the rise in gasoline prices for 2017. The yield to maturity of 10-year government bonds therefore ended the year at 7.45%.

In this environment of greater expectations of inflation and US rates, the dollar reached a level not seen since 2002. The currencies of industrialized countries appreciated by 0.7% in December and by 4.0% throughout 2016. The dollar rose against emerging currencies by 0.62% monthly and only 0.5% during the year. The Mexican peso closed 2016 as the third most depreciated emerging currency after losing 17% against the dollar, which accounts for the clear negative differentiation of the national currency.

Regulation

Designation of systemically important local banks for 2017

On December 16, the CNBV [published](#) the list of systemically important domestic banks (D-SIBs) indicating that the original list of April 2016 remains unchanged. Scotiabank Inverlat, Banco Inbursa and HSBC Mexico will continue to meet a 0.6% capital surcharge, Banco Mercantil del Norte 0.90%, Banco Santander and Banco Nacional de Mexico, 1.20% and lastly, BBVA Bancomer a 1.50 % surcharge.

General provisions applicable to International Exchange Systems

On December 22, the CNBV [issued](#) a new set of rules for international trading systems, the purpose of which is to provide, with regards to foreign securities listed on the systems, for: i) recognition, whether directly or promoted by the stock exchanges, brokerages or banks; ii) listing procedures; iii) the obligation of exchanges to offer investors the necessary information regarding said securities in order to clarify the financial, economic, accounting, legal and administrative status of their issuers, along with any relevant events; iv) the possibility for

exchanges to negotiate on their own systems foreign securities listed on another stock exchange; and v) criteria for cancelling the listing, suspending securities' trading, and revoking previously granted recognitions.

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