

Banks

Monthly Report on Banking and the Financial System

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Banking and the Financial System

Credit to the private sector increases its growth rate due to exchange rate depreciation

In November 2016 the balance of outstanding credit granted by commercial banks to the private sector grew at a nominal annual rate of 17.1% (3.3% real), higher than the rate observed in October 2016 (15.5%) and the nominal growth registered in November 2015 (13.8%). This growth was a result of the behaviour of corporate credit, which increased its rate compared to the previous month (22.0% in November vs. 18.3% in October), reflecting the exchange rate valuation effect: during November 2016 the exchange rate registered the highest depreciation observed during the year, increasing the peso value of the credit balances denominated in foreign currency. On the other hand, consumer credit reached a nominal annual growth rate of 12.9%, practically unchanged from October (13.0%), while the balance of housing loans reached a nominal annual rate of 10.8%, slightly higher than the previous month (10.7%).

The National Housing Workers Fund Institute (Infonavit) should be allowed not to report information on its affiliates to the credit bureau

On January 25, an initiative was submitted to the Chamber of Deputies to add a paragraph to Article 20 of the Law Regulating Credit Companies. It determines the non-inclusion or withdrawal of data from the primary database with credit information of workers affiliated with Infonavit.

According to this Law, all financial institutions authorised by the Ministry of Finance and Public Credit concentrate credit information, whether on natural or legal persons, on a primary database. Credit institutions, the owners of this information, are financial entities, commercial companies and multiple purpose financial institutions (Sofomes).

Infonavit began to report credit information from its affiliates from March 2016. However, given the social security goals for which it was created, the Institute is governed by different regulations than the rest of the private entities. However, the information generated from the payment behaviour of members with credit helps to better allocate credit, increases the probability of obtaining credit and decreases systemic risk. Sharing that information is a benefit for the financial system, but especially for the affiliates themselves. Consideration should also be given to the inclusion of information on the developers as is the intention of the National Register of Housing (RUV).

If the initiative comes into effect, companies with credit information would have 90 working days to erase the credit history of workers, who received financing from Infonavit, from the primary data base.

Bank deposits recorded higher growth driven by sight deposits

In November 2016 the nominal annual growth rate of traditional bank funding (sight + term) was 14.8%, 2.3 percentage points (pp) higher than the previous month (12.6%). This increase in the growth rate of traditional funding was due to a greater dynamism in demand deposits, which increased their contribution to the total growth rate by 2.2 pp, from a 7.7 pp share observed in October. On the other hand, term deposits did not show changes in their contribution to the traditional growth rate, from the previous month (4.9 pp). It is possible that the higher growth in demand deposits is associated with the revaluation of the balance held by the corporate segment in foreign currency, since in the period the FIX exchange rate averaged 20.1 pesos per dollar, 20.9% above that observed in the same month of the previous year (vs growth of 14.1% registered in October).¹ In addition to the business segment, the natural person segment also showed a rebound, possibly associated with a greater dynamism observed in family remittances. In November, revenues increased 24.7%, 17.5 pp higher than in October and 18.0 pp higher than in the same month of the previous year. It is likely that this behaviour is due mainly to the expectation of possible restrictions that could be implemented by the current US president.²

Financial markets

Expectations about the policies of the new US administration continue to influence markets

During January, investors reassessed expectations for pro-growth policies of the new US Administration after President Trump made his first decisions following his arrival in the White House. Since last November, promises on corporate tax rate cuts, deregulation and an ambitious infrastructure plan had more weight in investor expectations than President Trump's protectionist and anti-immigration threats, leading to significant gains in US assets. However, following the first executive actions of the new president and the statements made by him and his team on the strength of foreign exchange, there has been a change in the perspectives of investors against the dollar. After hitting its highest levels since 2002, the US currency depreciated by 2.6% and 1.1%, respectively, against the currencies of developed and emerging countries, respectively, during the first month of the year. Regarding the Mexican peso, after a sharp depreciation at the beginning of 2017 associated with the threats on new border taxes by President Trump, which even led the dollar to trade above 22 pesos, the Mexican currency recovered 3.63% and became the most appreciated emerging currency after the January 20 inauguration. In the debt market, the increase in inflationary expectations and the pace of monetary normalisation seems to be incorporated. The yield on the 10-year Treasury bond fell to 12 basis points at the beginning of the year and then rose again and ended at 2.45%, the same level as at the end of 2016. This was after a rise of 60 basis points between the presidential election and the end of 2016.

1 : The foreign currency balance of the business segment accounted for 65.0% of the growth rate of the total funding of this sector in November (M.N. + M.E.), which meant an increase of 21.7 pp with respect to what was observed in October.

2 : For a more detailed review, our Flash Migration Mexico of January 2, 2017, is available at: <https://www.bbvaresearch.com/wp-content/uploads/2017/01/2017-01-02-Flash-Migracion.pdf>.

In equity markets, promises of pro-growth policies have been strengthened by executive action to accelerate the construction of the Dakota pipeline and a good start to the corporate reporting season. As a result, US stock markets have registered new all-time highs, while those of emerging markets have recently replicated this behaviour, driven by the rise in raw material prices which is explained, in part, by the depreciation of the dollar. Thus, after the emerging market benchmark and the IPyC losses (2.0% and 3.7%, respectively) between the presidential election and the end of 2016, during January these indices recorded increases of 5.45% and 2.98%, respectively.

Regulation

Adjustments to CNBV's banking rulebook

On 6 January, the CNBV [published](#) adjustments to its prudential banking rules regarding ratings and capitalisation. The revision to the rating system was concentrated in the non-revolving consumer and mortgage portfolio, incorporating new dimensions of risk at customer level, such as level of indebtedness, system-wide payment behaviour and the specific risk profile of each product; updating probability of default, severity of loss and exposure at default parameters for both portfolios and incorporating a specific methodology for the rating of individual and group micro-credits.

Revisions to the Banking Performance Assessment of the SHCP

On 11 January, the SHCP [revised](#) the deadlines for bank performance assessments, which had arisen from the 2014 Financial Reform. On the one hand, the deadline for banks to submit the strategic questionnaire to the SHCP was extended from 20 January to 15 February. At the same time, the notification of the preliminary outcome by the Secretariat has been moved from the end of March to the end of May. Finally, there has been clarification of how the banks will be able to exercise their right to a hearing with respect to the preliminary result of the assessment.

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