Banks

Monthly Report on Banking and the Financial System

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Banking and the Financial System

Lending to the private sector maintained its dynamism in February

In February, the outstanding balance of credit facilities granted by commercial banks to the private sector grew at a nominal annual rate of 13% (7.8% in real terms), slightly more than the rate observed in the previous month (12.8%) but less than that seen in February 2016 (16.8%). This result is explained by the stabilisation of the nominal rate of growth of consumer credit (11.6%, unchanged from that of January) and by the slight recovery in lending to companies, which grew at a nominal rate of 13.6% (compared with 13.2% in January), and in housing loans (10.8% in February compared with 10.5% in the previous month). The stabilisation of the rate of growth might be a reaction to the improving prospects for the performance of economic activity and reduced uncertainty on the part of households and businesses, comparing favourably with the pessimistic scenario seen in January.

New bank deposits showed increased dynamism in both the sight and term segments

In February 2017 the nominal annual growth rate in traditional bank deposits (sight + term) was 14.5%, 0.4 pp more than that seen in the previous month, and 4.4 pp above that recorded in the same month of the previous year. The balance of traditional bank deposits thus performed better in February, with greater dynamism in both sight and term deposits. Sight deposits grew at a nominal annual rate of 15.9%, 0.4 pp more than the 15.4% posted in the previous month. Term deposits grew at a nominal annual rate of 12.2%, representing a 0.5 pp increase on the 11.7% seen in the previous month. The improved performance of the sight segment was probably due to a decline in intermediation on the part of NBFIs and a decrease in household consumption as a result of the slowdown in economic activity observed in the period. In February the Global Economic Activity Indicator (IGAE in the Spanish initials) posted an annual growth rate of 1.0%, 2.0 pp below that seen in the previous month, while the Monthly Domestic Market Private Consumption Indicator posted annual growth of 2.2%, 1.5 pp less than the month before. The increased growth observed in term deposits may be associated with lower investment by businesses in response to the deterioration shown by economic activity in the period, as suggested by the gross fixed capital formation indicator, which fell by 3.1% in February, 2.6 pp more than the fall seen in the previous month.

Reduced demand reflected in slower rise in house prices compared with 2016

The SHF (Federal Mortgage Company) recently announced the housing price index for the first quarter of 2017. In nominal annual terms, property values at national level grew by 5.16% relative to the same period of 2016. As we remarked in the previous issue, the slowdown in demand for housing was initially reflected in a smaller number of new construction projects. In this case, the property cycle also reflects a slower growth rate in housing prices, which are increasingly converging with the consumer price inflation (5.35% in the first quarter of the year). In terms of segments, the mid-range and residential sub-index rose by 5.94%, while that of the social housing segment grew by 4.33%, due to a declining dynamism of this market and the reduction in subsidies for home purchases.

We expect the growth in housing prices to end the year between 5.3% and 5.6% annual average for the general index, with the sub-index for the mid-range and residential segments, where there is more demand, around 5.8% to 6.0%.

Banco de México presents a report on competition in payroll-related services

On 5 April, Banco de México published the "Report on competition conditions in the provision of the main payroll services". The report reviews the competitive situation of the three banking services associated with payroll: 1) distribution or transfer of funds from the employer's account to each worker's account, 2) handling the worker's account and 3) loans linked to the worker's account. The business models used to offer these services lead to a high level of integration (99.1% of workers' deposit accounts were handled by the same institution as that used by the employer for the distribution service, and 88.8% of payroll loans outstanding had been granted by the same bank that handled the worker's account and provided the distribution service to the employer).

This integration of payroll services has different implications for competition in each market. In some cases (handling the worker's account) the integrated service represents only a fraction of the corresponding market, so the effect on competition is limited. In the case of the distribution service, the key factor is the size of the bank's infrastructure: competition takes place mainly among banks with extensive branch networks. Apart from this, in the distribution market some employers have the bargaining power to influence supply conditions. At the same time, those without such bargaining power have other ways of imposing certain limitations on banks' freedom to set commissions for their distribution services. As for competition in payroll lending, a number of factors make this kind of lending practically a captive market for the bank providing the distribution and account handling services.

Among the opportunities for improvement in regulation being considered by the central bank in order to increase competition in these services are: promoting greater mobility on the part of workers as regards their payroll accounts, passing on efficiency gains among banks to workers through better lending conditions, and promoting competition for distribution services.

Banco de México publishes the first report on basic indicators of lending to SMEs

In this report Banco de México highlights the fact that in December 2016 SMEs accounted for just 12.9% of financing to the non-financial private sector, less than consumer credit (25.8%) and housing loans (29.6%).[1] As at September 2016 the total number of SME loans in place was 797,200 to 372,000 enterprises, with an outstanding balanceof 448.6 billion pesos.

Among comparable loans, the average interest rate is 11.1% and the average debt per enterprise is 1.4 million pesos. 64% of the balance of this portfolio relates to loans granted in the past year. In other words, more than half the firms included (54.9%) took out a new loan in that period. The weighted average interest rate on new loans was 10.7%.

By type of financing, the revolving line of credit stands out since it is the cheapest and the one with the biggest amounts granted, with an average interest rate of 9.5% and an average amount of 2.6 million pesos. The most expensive financing is the corporate credit card, with an average rate of 15.3%. The majority of loans granted over the past year (87.7% by amount and 95% by number) were for working capital, and only 11.0% by amount and 4.7% by number were for investment. This in spite of the fact that investment loans are cheaper, with an average interest rate of 9.2%, compared to 10.9% for working capital facilities.

New tool for analysing personal lending conditions

With the aim of promoting transparency and competition among financial institutions, Banco de México has made a dynamic analysis tool for personal loans available to the general public. It enables users to compare indicators associated with personal loans, such as interest rates, term and amount of loans, both for the banking system as a whole and for specific institutions. The tool generates time series and dispersion statistics and allows users to design information searches with different aggregations. In the future, Banco de México envisages offering this type of tool for other kinds of credit: payroll loans, automotive finance, credit cards and mortgage loans.

Financial Markets

Renewed threats of possible withdrawal from NAFTA amid low risk-aversion environment

During April president Trump again threatened a possible withdrawal from NAFTA, highlighting the fact that risks remain, despite the generally more positive scenario. As a result, Mexican peso depreciated by nearly 0.6% during the month, the first such movement since January. Thus US dollar ended up the month at 18.82 pesos, after going as low as 18.50 pesos, its lowest level since the US election.

1: Banco de México uses two criteria to define SMEs: 1) the classification of the Secretariat of the Economy, which defines the "Calculated Firm Size" by weighting the number of employees and the volume of annual sales and 2) not having any loan of more than 50 million pesos.

Equity markets continued to show gains, albeit at a more moderate rate in an environment in which risk aversion remains below historical averages (VIX 10.8% at the end of April) and with data from the US generally signalling that the US economy is continuing to strengthen. The S&P500 ended the month up by 1.09%, influenced by Trump administration's presentation of its fiscal proposals. This behaviour was similar to that of global equities markets' benchmark, the MSCI World, which gained 1.04%. Risk appetite was seen less intensely in the emerging markets, which advanced by an average of 0.79% (MSCI Emerging Markets), and particularly so in the case of the Mexican market, which posted a marginal fall of 0.16% in April.

Regulation

Reform to the CNBV's Rules for mutual funds

On 14 April the CNBV (National Banking & Securities Commission) published an adjustment to its rules allowing investment funds to charge different fees to clients with portfolios of at least 10 million UDIS[2] (approximately €2.8 million at the current exchange rate), putting them on a par with institutional investors and pension funds and aligning their regulatory treatment.

Financial Technology (Fintech) Bill

At the end of March the Fintech draft bill was distributed for comments from the industry and the public; it proposes the creation of three types of entities: Collective Financing Institutions (crowdfunding of debt, capital or co-ownership / royalties), Electronic Payment Funds Institutions (e-money) and Institutions for the Administration of Virtual Assets (crypto-currencies).

It also creates the category of "Innovative Enterprises" (start-ups) which would be authorised to carry out reserved activities in a novel way without having to comply with certain aspects of applicable regulations, while for financial institutions regulatory sandboxes would be established. Finally, the law would require financial institutions, clearing houses and Fintech institutions to establish APIs so as to share open, aggregated and transactional data.

Contrary to what had originally been thought, the bill was not presented to Congress in the current session, and would now be presented at the next session (September to December).

2: *Unidades de Inversión* or Investment Units, a Mexican indexed unit of account,