Banks

Monthly Report on Banking and the Financial System

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Banking and the Financial System

Loans to the private sector picked up at the end of 1Q17 thanks to corporate lending

In March 2017, the outstanding balance of loans granted by commercial banks to the private sector grew at a nominal annual rate of 15.2% (9.3% in real terms), 2.2 percentage points (pp) more than the previous month (12.9%) and the March 2016 figure (14.4%). This upturn was due to an increase in lending to companies (from 13.5% in February to 17.4% in March), as well as a slight increase in housing loans (from 10.8% in February to 11.0% in March). The dynamism of consumer credit, on the other hand, fell from 11.6% to 11.1%. The increase in corporate lending could be the result of improved business expectations, as the macroeconomic environment is becoming more suitable for investment. In contrast, moderation in the rate of growth of consumer credit shows lower purchasing power of households as workers' real wages are declining due to the rising inflation.

Bank deposits showed decreased dynamism as a result of a slowdown in both sight and term deposits

In March 2017 the nominal annual growth rate in traditional bank deposits (sight + term) was 11.3%, 3.2 percentage points (pp) below the previous month's figure and 0.6 pp above the same month of the previous year. The balance of traditional bank deposits thus performed worse in the first quarter of the year, as a result of lower dynamism in both sight and term deposits. The annual nominal growth rate in new sight deposits was 12.2%, 3.6 pp below the previous month's figure of 15.9%, while the balance of term deposits experienced a nominal annual variation of 9.7%, a decrease of 2.6 pp from the previous month's rate of 12.2%. The slowdown observed in both segments may be associated with a higher degree of intermediation by non-bank financial intermediaries (NBFI), probably as a result of the slight upturn in economic activity during that period, as shown by the Global Economic Activity Index (IGAE), which in March showed an annual variation of 4.4%, 3.6 pp higher than the previous month.

The value generated by construction companies rose 3.8% in the first quarter

According to data from the Monthly Survey of Construction Companies (ENEC) carried out by the National Institute of Statistics and Geography (INEGI), the total value of construction output fell by 1.6% in annualised figures. Although this contraction can be explained by decreases in items associated with public construction, there was a growth of 3.8% in real terms in the value generated by building projects, which accounted for 46% of the total value of construction.

In the building sector, the value of housing output rose 2.4% in the first quarter of 2017, a similar increase to the 2.1% experienced at the end of 2016. The construction of industrial, commercial and office buildings, on the other hand, has seen a period of acceleration since the fourth quarter of 2016, with a growth of 5.9% in real terms as at March of this year.

This cycle of growth in the production of productive properties could outweigh, as in other recent cycles, the decreased activity in house building which, although still growing, is doing so at a lower rate than at the start of 2016, at around 6% per year.

The upturn in the value of building output, which was higher than the figure expected at the start of 2017, could result in the placement of more bridging loans, as the amount of individual lending is still growing.

Companies moderate their use of financing due to their perception of less favourable terms in its cost

Mexico's central bank (Banco de México) published a communiqué on the Trend in Business Financing for the first quarter of 2017 (1Q17). In relation to the October - December 2016 quarter (4Q16), a lower percentage of companies obtained financing (84.5% vs. 85.3%). It is worth noting that all sources of finance fell as compared with the close of 2016. In the 1Q17, 36.5% of the companies surveyed stated that they had borrowed from commercial banks. This percentage was lower than that of 4Q16 (36.5%) but higher than the 1Q16 figure (35.5%).

The percentage of companies that used new credit in 1Q17 was 22.6%, less than the figure of 25.9% in 4Q16. As for the uses given to new loans in 4Q16, the increase in foreign trade operations and restructuring of liabilities are particularly worth noting. With regard to the perception on the conditions of access to the bank loan market, the companies reported more accessible repayment times and credit amounts granted. As regards the cost of bank loans, companies perceived worse conditions in terms of higher interest rates as well as fees and other bank loan-related expenses.

New tool for analysing personal lending conditions

In May, the central bank made a dynamic analysis tool for payroll credits available to the general public. Just like the tool for personal loans released in April, it enables users to compare indicators associated with payroll loans, such as interest rates, time terms and amount lent, 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.

Financial Markets

Weak dollar and long-term rates in the US contrast with global stock market gains. Peso continues to recover

May was characterised by a dissociation between movements of the main financial assets and a temporary increase in risk aversion related to political turbulence in Washington. Stock markets continued to experience rises supported by US and global growth expectations as well as low risk aversion: the S&P500 closed the month with a rise of 1.16%, a performance below the global stock market benchmark (MSCI World), which experienced a variation of 1.78%. Risk appetite was reflected most strongly in emerging markets, which closed the month with a 2.80% rise (MSCI Emerging Markets).

On the other hand, and contrary to what one might have thought given analysts' expectations of higher growth, interest rates and the dollar lost ground against other currencies. Interest rate of 10-year Treasury bonds fell 8 bps to 2.20%, almost 25 bps less than year-end 2016 figure, while the dollar lost 0.83% against emerging currencies and 2.15% as compared with developed currencies. The Mexican peso, in particular, ended the month with an appreciation of 1.07%, which left the dollar trading at 18.62 ppd. It is worth noting that, just like stock markets' gains, this appreciation was briefly interrupted by Donald Trump's dismissal of the FBI's head, which increased volatility and pushed the dollar to 19.2 pesos. Dissociation between movements in asset prices in an environment of growth expectations and monetary easing in the US, is a noteworthy phenomenon that could be corrected in the next few weeks through unexpected movements in any market.

Regulation

Banco de México adjusts the Interbank Dollar Payment System

On 29 May, Banco de México issued amendments to the provisions governing the Interbank Dollar Payment System (SPID). The changes require transfers and credits made to the accounts of legal persons residing in the country to originate from accounts with the same characteristics and to be carried out through electronic payment systems that allow this type of Dollar transfers, and whose internal rules have been authorised by Banco de México or through systems directly managed by it. It also extends the SPID's operating hours for the benefit of its users.