

# Monthly Report on Banking and the Mexican Financial System

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## Banking and the Financial System

### Moderate growth in all segments of credit to the private sector

In May 2017, the balance of [performing loans granted by commercial banks](#) to the private sector grew at a nominal annual rate of 14.3% (7.7% in real terms), 1.6 percentage points (pp) less than the previous month (15.9%) and the same as that registered in May 2016. The three credit segments grew at a slower pace, in particular credit to firms, which went from a nominal annual growth rate of 19% in April to one of 16.8% in May. This behaviour could be associated with a slower evolution in economic activity (April's IGAE registered a fall of 0.7% at an annual rate). Similarly, consumer credit dynamism fell from 11% to 10.5%, while mortgage loans went from 10.6% to 10.0% in the same period. Inflation continues to be one of the factors that has contributed to lower growth in these segments, affecting the purchasing power of households and therefore their propensity to consume. For example, in May the real daily wage associated with insured workers from IMSS (Social Security Mexican Institute, by its Spanish acronym) decreased by 1.1% with respect to the same period last year, the biggest drop since April 2010.

### Both components of growth in banking deposits showed greater dynamism

In May 2017 the nominal annual growth rate in traditional bank deposits (sight + term) was 11.7%, 2pp below the previous month's figure and 1.2pp less than that registered in the same month of the previous year. Traditional bank deposits have therefore shown a loss of dynamism resulting from a lower growth in sight deposits. Sight deposits (61.7% of traditional bank balances) registered a nominal annual growth rate of 10.7%, 5.2 pp less than the figure posted in the previous month. Term deposits (38.3% of traditional bank balances) posted a nominal annual growth rate of 13.2%, representing a 1.2pp increase on the figure seen in the previous month. It is possible that the lower growth seen in the sight deposit segment is associated with an environment of higher interest rates, which strengthens the preference for term instruments, in addition to a period of volatility caused by the dismissal of the head of the FBI by Donald Trump, which increased risk aversion and led the US dollar to 19.2 pesos.

### The housing inventory continues to fall and is located below 250 thousand units

At the end of the second quarter of 2017, the number of dwellings finished in accordance with data from the National Register of Housing (RUV) was 227 thousand houses in annualised figures. This represents a 19.4% decrease with respect to June 2016. In turn, the number of housing construction projects decreased by 28.1% in the same period, reaching 258,000.

The inventory level in the first half of 2017 has not been at a similar level since the first quarter of 2014, when 237 thousand new units were accounted for. However, it is now explained by lower demand and higher costs and is not due to an adjustment in oversupply. The gap between the number of projects and the inventory is therefore now significantly lower, with both figures tending to converge towards 250,000 units.

Meanwhile, the housing production cycle has responded more quickly to both the slowdown in demand, which has been noticeable from the second half of 2016 and to last year's rising cycle of interest rates, which impacted directly via an increase in short-term rates, the main benchmark for interest rates in the construction industry. The interest rate on residential construction went from 6.8% in January to 8.3% in December last year.

## CNBV publishes its Report on Financial Savings and Financing in Mexico with figures to March 2017

México's National Banking and Securities Commission (CNBV) released its Financial Savings and Financing Report with information up to 1Q17. According to this report, in March 2017 total financial savings represented 97.3% of GDP, with a real annual growth rate of 2.7%, 3.5 pp less than that seen in December 2016. Meanwhile, total financing accounted for 95.1% of GDP, with a real annual growth rate of 1.5%, 3.6pp below that recorded in December 2016.

The sluggishness observed in financial savings was the result of lower growth in all its components. Deposits from financial intermediaries (33.4% of GDP) recorded a real annual growth rate of 7.9%, 3.2pp below that recorded in March 2016. Holdings of fixed income securities (32.9% of GDP) posted an annual real growth rate of 1.9%, 0.5pp lower than in March 2016. External savings meanwhile (31.1% of GDP) reported a real annual growth rate of -1.5%, 9.6pp below that observed in the same month last year.

Meanwhile, the slowdown observed in total financing was due to a slower growth in all three of its component parts. The credit portfolio (34% of GDP) posted an annual real rate of growth of 5.7%, 3.6pp below that reported in March 2016. Domestic debt and trust bond issues (41.7% of GDP) showed a real annual growth rate of -1.2%, 2.3pp below that observed in March 2016. Finally, external financing (19.5% of GDP) reported a real annual growth rate of 0.4%, 17.8pp lower than the same month of the previous year.

In addition to figures on domestic financing in which the financial system acts as intermediary, the report provides figures on credit granted through non-bank credit cards and supplier financing. The first of these items grew by 8.4% in real terms, an increase of 1.6pp relative to the same month of the previous year. On the other hand, the balance of supplier credit to issuers on the Mexican Stock Exchange showed annual real growth of 1%, 9.8pp less than in the same month of 2016.

## Banco de México publishes a tool to analyse the conditions of automotive loans

In July, the central bank made [a dynamic analysis tool for automotive loans](#) available to the general public. Just like the tools for personal and payroll loans released in the past months, through this facility, users can compare indicators associated with automotive loans, such as interest rates, time terms and amount lent, both for the banking system and for

specific institutions. The tool generates time series and dispersion statistics and allows users to design information searches with different aggregations.

## Key regulation issues for Fintechs and financial services

The International Monetary Fund (IMF) published a note for discussion related to [Fintechs and Financial Services](#). Rapid advances in digital technology are transforming the landscape of financial services, creating opportunities and challenges for consumers, service providers and regulators. In this context, financial authorities should ensure that financial stability and integrity risk factors (cyber attacks, money laundering and terrorist financing) can be effectively managed without discouraging innovation and the benefits associated with ease of use, reduction in costs and the expansion in access to financial services offered by new technologies.

The article focuses on cross-border payments, given the mandate of the IMF to promote the stability of the international monetary system. In particular, it analyses distributed ledger technology (DLT) given that its potential to offer significant improvements in service and cost savings could break the entry barriers characteristic of the cross-border payment market.

In terms of regulation, the document concludes that, with the use of new technologies, supervisors need to broaden their scope, paying special attention to activities, rather than entities, because financial services are increasingly being provided by a diverse group of companies and platforms in the market. It is therefore necessary to develop rules and standards to ensure the integrity of information, algorithms and platforms, and it should be considered as a policy option to support the development of open networks, once central banks evaluate the costs and benefits of increasing access to their settlement systems and offer digital coins. In addition, to maintain confidence in financial services, it will also be necessary to develop a set of new rules that clarify the rights and obligations within the new ecosystem of financial services.

## A cardholder study in Mexico shows evidence that the information they receive on their account statements does matter

In a recent study, [Seira, Elizondo and Laguna-Muggenburg \(2017\)](#) conducted a randomised controlled trial in Mexico on a group of risky cardholders to measure the impact of the information that banks send to their clients on default rates, indebtedness levels, account management and credit scores. The authors find that cardholder behaviour differs according to the type of messages they receive. For example, when they receive comparative interest rate information (such as the Truth-in-Lending-Act-type disclosures) there is no impact on indebtedness, default or account management (cancellation or switching). However, other types of messages – such as those which warn the customer about their high level of risk – are more effective, since they manage to reduce delinquency and debt levels. From these results the authors consider that messages sent by banks to their customers could have the desired impact insofar as they are easy to understand and to carry out.

## Financial Markets

### The Mexican peso is strengthened, supported by the weakness of the dollar at the global level

In an environment of lower liquidity and low risk aversion, expectations about US monetary policy were once again in the spotlight of market participants in July. The continued improvement in the labour market, which is now at levels that are near those consistent with full employment, has focused attention on data regarding inflation, which remains below the Federal Reserve's 2% target. Thus, below-expected figures, both for wage growth and general inflation in July, reduced expectations for an increase in the federal funds rate for September in the futures market from 35% to levels below 20% at the end of the month; while for the December meeting this figure went from 62% to around 51%. Expectations of a more gradual monetary normalisation than that expected a few months ago influenced a generalised depreciation in the dollar. The US currency lost 2.9% against developed country currencies in July, placing it at its lowest level since last May. In comparison with the benchmark of currencies of emerging countries the dollar lost 1.7%, very similar to the appreciation of the Mexican peso in the month in question. With this appreciation the dollar-peso exchange rate was even below 17.5 pesos per dollar for the first time since May 2016. It should be noted that the peso was supported by favourable changes regarding the perspective of Mexico's sovereign rating by two of the main international rating agencies. This fact, prompted a decline in the country's sovereign risk, measured by the spread of the CDS to five years, of up to 11 basis points, with which this indicator reached levels not observed since February 2015.

Stock markets continued to rise in July, supported by the favourable performance of high-tech companies and the higher than expected corporate reports. Therefore, the S&P500 closed the month with a 1.9% increase, slightly below the benchmark global stock market (MSCI World), which advanced 2.3%. In the case of the emerging markets, the increase was 5.5% (MSCI Emerging Markets), which consolidates the positive differentiation that has been recorded throughout the year. For its part, the Mexican market also registered a profit, although the size of the latter (2.3%) was below that of the emerging markets.

## Regulation

### CNBV draft on the modification of identity theft

The CNBV unveiled its [preliminary draft](#) of amendments to its Banking Handbook (Circular Única de Bancos) aimed at fighting identity theft. The project defines accepted identification methods for entering into contracts and requesting means of payment, as well as for cash withdrawals and transfers. At the same time, it establishes verification measures, especially biometric validation and consultation against the National Electoral Institute's electoral database. The rule also provides for the possibility of remote identification (digital onboarding).

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