BANKS

Monthly Report on Banking and the Financial System

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Banking and the Financial System

Credit to the private sector moderates its growth in 2017

At the end of 2017, the outstanding balance of credit granted by the banking sector to the private sector was 4.0 billion pesos, a real annual increase of 5.1%, one of the lowest rates for the year. Most segments recorded minimal growth rates compared to other months of the year and even lower than those observed in previous years. Only credit to firms (56.0% of the current portfolio for the non-financial private sector) ended the year with slightly higher growth (8.0% real annual) and a current balance of 2.3 billion pesos. Consumer credit registered a balance of 952 billion pesos (23.5% of the portfolio), which meant real annual growth of 1.4%, the lowest since November 2010, when it was zero. Mortgages followed a similar path and by December 2017 its balance was 745 billion pesos (18.4% of the portfolio), with a real annual growth-rate of 1.6%, the lowest since August 2003.

The factors that explain the slowdown in credit to the private sector in 2017 are mainly due to the macroeconomic environment, which has weakened the demand for credit. Among them are the lower growth in economic activity during 2017 with respect to the previous year and the contraction of real salaries of formal-sector workers due to higher inflation, with a resulting loss of household purchasing power. On the supply side, there was a notable increase in the prime rates, as a result of a more restrictive monetary policy by the Banco de México. This mainly affected the cost of business credit and mortgages, due to higher interest rates for new loans granted during the year. The rate increases for consumer credit were not transferred to the cost of financing.

Commercial Bank deposits lost their dynamism in 2017

In December 2017, traditional deposits in commercial banks (sight deposits + term deposits) registered a real annual growth rate of 3.7% (nominal 10.7%). With this result, in 2017, the average real annual growth rate for traditional deposits was 5.6%, 3.9 percentage points (pp) lower than the 2016 average. By type of deposit, both sight and term deposits showed a tendency to decelerate, reflecting a less favourable evolution in various economic indicators and a deterioration in the expectations of companies and households.

At the end of 2017, balance for sight deposits registered a real annual growth rate of 3.5% (10.6% nominal), less than half the real rate registered in December 2016 (10.7%), while the balance of the term deposits registered a real growth rate of 3.9% (10.9% nominal), lower than the real rate of 9.5% registered in December of the previous year.

Among the factors that explain this reduction in savings growth rates are the slowing pace of economic activity, increased inflation and its negative impact on household purchasing power, in addition to an environment of greater uncertainty that has accentuated the pessimism regarding the economy.

Banco de México publishes a new survey on bank credit conditions

In February 2018, the central institute released for the first time the results of the Survey on General Conditions and Standards in the Bank Credit Market (EnBan), which generates additional indicators for monitoring the evolution of the bank credit market in Mexico. The survey is carried out quarterly to gather qualitative information on changes in the supply of and demand for credit in five different segments: i) large non-financial companies; ii) small and medium non-financial companies (SMEs); iii) non-banking financial intermediaries (NBFIs); iv) consumers and v) mortgages. In addition, banks were divided in two segments when presenting the results: banks with the highest market share (representing at least 75% of the balance of the bank credit portfolio for the corresponding segment) and the group of banks with lower participation (corresponding to the rest of the banks that reported participating in the segment). The most noteworthy results for the Oct-Dec 2017 quarter (4Q17) include:

On the demand side, in relation to the previous quarter (3Q17), the banks with the highest market share noted an increase on average in the demand for credit from large non-financial companies, the IFNBs and consumer credit through credit cards and vehicle and personal loans. On the other hand, in the case of mortgages and credit for non-financial SMEs, this group of banks noted a lower demand for credit.

In terms of general conditions and/or standards of credit approval, on average the banks with the highest market share tightened the supply conditions for IFNBs, credit cards and payroll; while, on average, they reported more relaxed conditions for mortgages. The banks with lower market share reported tighter conditions for 4Q17 (compared to 3Q17) for granting credit to companies in general, credit card purchasing and personal loans.

For 1Q18, the banks with the highest market share expect demand for credit from large non-financial companies, IFNBs and for credit cards will remain high and that the demand for mortgages will recover. In 4Q17, the banks with lower market share reported a generalised increase in the demand for credit except in the case of personal loans and mortgages. For 1Q18, they expect an increase in the demand for credit from IFNBs and credit cards, while they consider that the rest of the segments will remain unchanged.

For 1Q18, the banks with the highest market share only anticipated a further tightening in credit supply for the IFNBs segment. On the other hand, the banks with lower market share only foresaw tighter conditions in 1Q18 for credit to companies, while, generally, there would not be significant changes for the other segments. It is worth mentioning that the combination of factors resulting in greater tightening in the credit supply in some segments, along with factors resulting in a lower demand for credit in others, could generate the conditions for a slowing in credit activity in the near future.

Banco de México highlights the decrease in the use of financial resources by the public sector and a shift in intermediation towards the private sector

In its most recent quarterly inflation report, Banco de México highlights that there has been a slowdown in the growth rate of the economy's sources of financial resources since 2014. This slowdown was most evident during 2017 and is mainly explained by a contraction in the sources of financial resources coming from abroad (-3.4% real annual at the end of 2017). This was due to a lower holding of monetary instruments by non-residents and lower foreign currency indebtedness in the public sector. In contrast, the relative share of internal sources has increased, as measured by the aggregate of internal financial assets, F1. At the end of 2017 the flows of the F1 component expanded at a real annual rate of 3.6%, higher than the rate of 3.2% recorded in the previous quarter. The higher growth rate was due, in part, to the increase in the holding of monetary instruments that are part of M2, which, in turn, has resulted from an increase in the holding of term assets, given the environment of higher interest rates.

In relation to the use of financial resources, Banxico highlights the lower use of these resources by the public sector, which has made it possible to release loanable funds that have been channelled to the private sector. The flows of financing to the public sector has, therefore, slowed, going from a real annual growth rate of 2.8% at the end of 2016 to 1.1% in 2017; while financing flows to the private sector increased their real annual growth rate from 3.0% in 2016 to 3.8% in 2017. Banxico highlights differentiated behaviour within the segments. On the one hand, financing to large companies maintained relatively high growth rates, as internal financing replaced external financing. On the other hand, the credit granted to smaller companies moderated, reflecting the more stringent credit conditions generated by the Central Bank's increase in the reference interest rate. Meanwhile, lending to households continued decelerating, both in mortgages and in the different consumer credit segments. According to Banxico, this behaviour is associated with the slowdown in wages and higher financing costs, which has moderated demand for this type of loan. Banxico emphasises that the non-performing loans ratios for different portfolios have remained relatively stable, although write-off adjusted indicators have shown some deterioration. In this context, Banxico warns of the importance of maintaining fiscal consolidation efforts and strengthening the macroeconomic environment to facilitate the intermediation of financial resources in the private sector, even in a scenario showing credit stringency.

Housing prices rise 7.35% per annum in the fourth quarter of 2017

In February, the SHF (Federal Mortgage Company) published the housing price index for the fourth quarter of 2017. This indicator increased 7.35% over this period with respect to the same period of the previous year. In cumulative figures, i.e. the average for the whole year, the increase in house prices was 6.1%, very similar to the average consumer price inflation recorded for 2017 at 6%.

In the latter part of the year, house prices accelerated their rate of appreciation largely due to the seasonal effect in December. The middle and residential segments increased 7.1% on average during 2017; while social housing increased 4.9% during the same period, reflecting lower demand for homes in low-value segments.

The metropolitan areas that saw the highest average rate of appreciation in 2017 were: Monterrey and Guadalajara with increases of 6.8% and 6.6% respectively. For its part, the Puebla-Tlaxcala area registered a capital gain of 5.9%; while Valle de México and the Toluca metropolitan area saw house prices increase by 5.4% and 4.9% respectively.

Financial Markets

The markets steadied after the temporary upturn in volatility

More than a month after the increased volatility in the financial markets, there has been a recovery in most asset classes, reinforcing the view that the period of volatility was influenced more by technical than underlying issues. However, protectionist risks were exacerbated in recent weeks by the imposition of US import tariffs on steel and aluminium and changes in key positions of the Trump administration.

In this environment, the global stock market benchmark registered a marginal rise of 0.11%, a lower recovery than the 0.59% seen in the S&P500 and clearly below the 1.13% gained by the stock benchmark in emerging markets. The IPyC was differentiated negatively when it fell 2.03% due to the lack of clarity in NAFTA negotiations. In the nominal fixed income market, the Treasuries curve flattened out as short-term rates gradually increased and the long-term rates declined, stabilising at around 2.8% in the 10-year node after the sale of this asset class was halted in the face of wage rises in the US in February. The performance was similar in Mexico, with a fall in the yield at maturity for 10-year M bonds of just over 15 basis points between the first half of February and the first half of March. This resulted in a rate of around 7.6%.

The US dollar has gained ground on the currency market. Between 15 February and 15 March, the US dollar appreciated 1.8% against emerging and developed country currencies, influenced by concerns regarding the effects of protectionist measures announced by the US government and by a greater incorporation of monetary policy expectations in Europe with respect to those of the Federal Reserve. The Mexican peso also weakened (1.08%) although less than the emerging currencies due to the announcement that it would be exempt from steel and aluminium tariffs while NAFTA renegotiations continue. It should be noted that the exchange rate for the peso against the US dollar has remained within the range 18.4 to 18.9 for the last few months, due to the greater likelihood that the NAFTA renegotiations will extend until next year. It is likely that, as these renegotiations take shape, the presidential elections will gradually replace NAFTA as the main idiosyncratic risk factor.