Banks

Monthly Report on Banking and the Financial System

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1.1. Banking and the Financial System

The rate of growth in lending to the private sector picked up slightly, driven by lending to businesses

In February 2018 the outstanding balance of credit granted to the private sector by commercial banks, grew at a nominal annual rate of 12.0% (6.3% in real terms), 0.3 percentage points (pp) above the rate seen in the previous month (11.7%) and 0.8 pp below what was recorded in February 2017 (12.8%). This result was due to an increased drive in lending to businesses, while consumer credit and housing loans grew at a similar pace to that of the previous month. Lending to businesses grew at a nominal annual rate of 15.5%, 0.7 pp more than the rate observed in January (14.7%). This drive could be associated with various factors, such as the substitution of external financing by domestic bank borrowing, the relative improvement in business confidence and the fact that some recent data on economic activity seem to show some degree of recovery. Conversely, the consumer and housing segments grew at nominal annual rates of 8.4% and 8.1% respectively, practically unchanged from the rates seen in January 2018 (8.3% and 8.1% respectively). This trend could be related to the recovery just starting to become apparent in workers' real wages, and perhaps reflected by an increase in domestic demand and a relative improvement in consumer confidence.

Commercial banking deposits are starting to regain movement

In February 2018, the nominal annual growth rate in traditional banking deposits (sight + term) was 10.4% (4.8% in real terms), 1.5 pp more than what was seen in January, but 3.4 pp less than the nominal rate posted in February 2017. During the second month of 2018, both components of traditional banking deposits performed better than in the previous month. Sight deposits showed greater movement, reaching a nominal annual growth rate of 7.8% (compared with 5.8% in January). The increased drive regarding the previous month was driven by three of the four segments forming sight deposits, which may in part be a reflection of certain improvement in households' purchasing power and economic activity. For its part, growth in term deposits meanwhile picked up slightly, to 14.7% in nominal annual terms from 14.3% in January. This improved performance was partly partly attributable to the higher interest rates seen since the end of 2017, making term deposits relatively more attractive compared to other savings vehicles.

At the same time the nominal balance of shares in Debt Mutual Funds (FIDs) continued to consolidate the growth trend which started in May 2017, posting a nominal annual growth of 9.3% (3.8% in real terms), slightly less than the 9.4% recorded in the previous month. An environment of lower volatility and agents' improving expectations as to the performance of the economy have favoured the channelling of resources into this type of financial investment.

The World Bank updated the "Global Financial Inclusion" (Global Findex) database

The third update of the Global Findex (corresponding to 2017) shows a global increase in financial inclusion, but with disparities in achievements among countries. This database contains more than 700 indicators with information on how people in 144 economies access and use financial services, whether to save, seek loans, make payments or manage risks. This edition also provides data on the use of technologies such as mobile phones and Internet to carry out financial transactions.

According to the report accompanying this update, access to mobile phones and the Internet has contributed to increase financial inclusion. In 2017, 69% of all the adults in the world had a bank account or a mobile money provider (compared with the 62% recorded in 2014 and the 51% reported in 2011). In that same year, 52% of all adults sent or received digital payments, a considerable increase with regards the 42% recorded in 2014. Despite the opportunities offered by new technologies, some disparities associated with gender, age, education and income distribution persist.

For example, 72% of men have an account whereas amongst women the percentage is just 65%. This seven-percentage point gap remains unchanged from 2011 and 2014. Concerning the differences associated with income distribution, the database reports that account holding is 13 pp greater among adults living in a household belonging to the wealthier 60% than amongst those in the poorer 40% (this difference being slightly bigger than the 12-pp reported in 2014).

For Mexico, it reports that 37% of adults had an account in 2017 (compared with 39% in 2014 and 27% in 2011), while the gap in account holding between men and women was 8 pp and that between wealthier and poorer households was 18 pp. In both cases, although the gaps are greater than those reported at global level, they have improved in relation to 2011, when the gender gap was 11 pp and the wealthy/poor household gap was 23 pp.

Housing construction projects could recover in the first half of 2018

According to data from the Single Housing Registry (RUV in the Spanish), the number of new housing builds registered was 259,000 units at the end of the first quarter of 2018, in annualised figures. This represents a decline of 8.3% in relation to the 282,000 projects reported in March 2017. However, compared with the previous quarter, it represents an increase of 3.51%, which could mean that the rate of increase may pick up further during the first half of 2018.

At the same time, the stock of ready-to-occupy homes, which registered an average decline of 18% during 2017, steadied from November onwards at 217,000 units, where it remained until the end of the first quarter of 2018. This too would seem to indicate that housing construction could show moderate growth over the next few months and break free of negative territory.

This potential recovery would also be backed by three factors. Firstly, an improvement in business confidence in the construction sector, which increased by 11.6% on average in the first quarter of the year. Secondly, the faster growth in new mortgage lending by Infonavit (the National Workers Housing Fund Institute) in 2017, which increased by more than 12%; and thirdly, expectations of a possible increase in short-term interest rates in the second half of the year, which would affect construction financing costs. With this in mind, we believe demand for bridging loans could be more dynamic during the first half of 2018.

1.2. Financial Markets

Domestic assets in step with NAFTA negotiations

Domestic asset prices were heavily influenced during April by the perception of a possible “preliminary agreement” on the NAFTA renegotiations. With the US stance becoming somewhat more flexible in light of its tight legislative agenda, the great majority of domestic asset prices reflected strong optimism. Towards the middle of the month the peso even appreciated to less than 18 MXN per USD, having been at between 18.4 and 18.9 practically since the beginning of the year. The monetary policy expectations implied by interest rate swaps now not only ruled out increases, but incorporated a reduction in rates towards year-end. Sovereign risk, measured by the five-year CDS spread, declined to 105 bps after approaching 115 bps in recent weeks. This contributed to the temporary uncoupling of the yield to maturity on the ten-year M-bono (peso-denominated government bond) from the ten-year Treasury, with a fall of 30 bps in the past few weeks. However, the delay in reaching agreement on NAFTA, combined with the strength of the dollar globally, led to the positive effect on domestic assets being diluted during the second half of the month. Thus from 18 April the trend started to reverse, and by the end of the month all the gains in domestic assets had evaporated. The yield to maturity on the ten-year bond ended April up by 15 bps at 7.50%. Sovereign risk returned to levels of 115 bps, while the currency depreciated by 2.65% over the course of the month to end at 18.70 pesos to the dollar. It is important to stress that in the last 12 days of April, the Mexican peso showed a negative differentiation, since whilst the *benchmark* for emerging countries lost 2.5%, the peso fell by 3.5%. This differentiation may be largely associated with the aforementioned decline in optimism regarding agreement on the NAFTA, and probably also with the incipient effect of the electoral process. Indeed in the last two presidential elections started to weigh on financial variables around eight weeks before election day. Given the political time constraints in the US, we are likely to see a resolution of the NAFTA in the next few weeks, which would leave the elections in Mexico as the main risk factor.

1.3. Regulation

Adjustments regarding external auditing

On 26 April the CNBV (National Banking and Securities Commission) issued its “General provisions applicable to entities and issuers supervised by the CNBV that contract basic external financial statement audit services”. These rules bring together all aspects of the external audit function for entities supervised by the CNBV (issuers and intermediaries, including credit institutions). In addition, the new rules include the obligation to draw up and follow through on an action plan to attend to the observations made by the external auditor, which must be available to the CNBV.

At the same time, the new circular repeals the provisions on the subject contained in the various previous circulars applicable to credit institutions and other supervised entities.