Banks

Monthly Report on Banking and the Financial System

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1.1. Banking and the Financial System

Corporate lending remains the main source of growth in total credit to the private sector

In October 2018, the annual nominal growth rate in the outstanding balance of credit granted by commercial banks to the private sector was 11.8% (6.5% in real terms). This growth was a little more than that of the previous month (11.2%) and less than that of the same month of 2017 (12.5%). Nominal annual growth in the main categories of lending to the private sector was as follows: corporate 15.2% (9.8% in real terms), housing 9.5% (4.3% in real terms) and consumer 6.5% (1.6% in real terms). The components of bank credit contributed to total growth as follows: corporate lending contributed 8.4 percentage points (pp); housing 1.8 pp; and consumer 1.6 pp. The above figures show that in October corporate lending was the largest contributor to total credit growth. This is also illustrated if one takes into account that the average nominal annual growth rate of total credit to the private sector from November 2017 to October 2018 was 11.6 pp and the average contribution in that period to this growth rate by its components was the following: corporate, 8.3 pp; consumer, 1.8 pp; housing, 1.6 pp.

There are at least two factors that have largely driven the growth of the current commercial bank corporate lending portfolio. One of these is the substitution of external financing sources for internal financing of commercial banks. The second factor is the currency composition of corporate lending granted by commercial banks. In particular, the current loan portfolio of commercial banks is made up of corporate lending in national currency (NC, 77% of the balance of the total current loan portfolio in October 2018) and in foreign currency (FC, 23% remaining), so adjustments in the exchange parity are reflected in the valuation in national currency of the bank corporate lending in FC, impacting their growth rate.

The better performance of traditional bank deposits is supported by the dynamism of term deposits

In October 2018, the nominal annual growth rate in traditional commercial bank deposits (demand + term) was 9.4% (4.3% in real terms), slightly higher than the previous month’s (8.8%) but less than the nominal annual growth rate recorded in October 2017 (12.8%). This result reflected the improved performance of term deposits, which compensated for the slowdown in demand deposits. In October, demand deposits contributed 2.5 pp to the nominal real annual growth of 9.4% in traditional deposits, while term deposits contributed 6.9 pp to said growth.

In the case of demand deposits, the nominal annual variation was of 4.0% (-0.9% in real terms), 0.3 pp above the nominal rate reached in September, but significantly lower than the nominal annual rate of 13.5% reported the same month of the previous year. This reduction in dynamism is explained in part by a base effect, since in October 2017 the official capital repatriation program that was in force since January of that year concluded, which generated an atypical growth of demand balances. In addition, a reallocation of resources to longer-term instruments, which grant a higher interest rate, may have also contributed to the reduction in demand deposits. In effect, in October term deposits recorded a nominal annual growth rate of 18.3% (12.7% in real terms), the highest reported since March 2009. Thus, the environment of higher interest rates continued to promote the dynamism of term deposits.

Automotive loans slow down their dynamism, but continue to boost consumer loans

The Bank of Mexico (Banxico) updated its report of Basic automotive loan indicators with information from the end of April 2018. In said month, the balance of the automotive loans granted by banks (12.7% of the total consumer loan portfolio) recorded a real annual growth rate of 10.3%, lower than the real growth of 14.4% recorded the previous year. Despite this loss of dynamism, automotive loans remained the most dynamic segment among the different types of consumer loans. The NPL rate, for its part, reached 1.8% in April 2018 and the adjusted NPL rate was 4.3%, both indicators showing increases relative to those observed the previous year (1.5% and 3.2%, respectively, in April 2017).

From this edition onwards, Banxico's report incorporates information on loans granted by commercial banks and institutions associated with automakers. Considering both sources of financing, the total of performing automotive loans at the end of April 2018 amounted to 1.8 million, equivalent to 239.9 billion pesos (billion pesos). In the last year (between May 2017 and April 2018), 600 thousand loans were granted, with an outstanding balance of $60.7 billion pesos. Loans granted by commercial banks in the last year represented 49.4% of the total number of loans (51.5% of the balance). The average amount of automotive loan originations granted in the last year by banks was $210,487. This figure was higher than the average amount of the institutions associated to automakers ($203,338) and the one granted by the same commercial banks the previous year ($183,832). Regarding the interest rate, it is reported that the weighted average rate of loans granted by commercial banks in the last year was 13.1% (vs. 13.2% granted by the institutions associated to automakers in the same period and 12.8% granted by commercial banks the previous year).

Payroll loans recover dynamism after a year of reductions

Banxico published an update of the Basic payroll loan indicators, with information up to June 2018. At the end of the first half of the year, the balance of payroll loans represented 23.6% of total bank consumer loans. The real annual growth rate in June 2018 was 2.7%, recording for the first time in the last twelve months a recovery after the contractions recorded since June 2017. Payroll loan delinquencies stood at 3.0%, lower than the figure for consumer loans in general (4.6%). In addition, the adjusted NPL rate of payroll loans in June 2018 was 11.0%, below the rate of 12.3% recorded in June 2017. Of the 4.3 million payroll loans in place at the end of June 2018, 56.9% were granted in the past year, equivalent to 69.1% of the total balance. The average weighted interest rate on payroll loans granted was 24.4%, slightly lower than the rate reported in June 2017 (24.6%). For its part, the average amount of loans granted in the last year was 69.1 thousand pesos, 5.7 thousand pesos higher than the average amount reported the previous year. Also, the average term increased to 46 months, four months more than the average term reported for the portfolio in June of the previous year.

Personal loans continue their slowdown and record lower portfolio quality

Banxico updated its report of Basic personal loan indicators with information at the close of February 2018. This type of loans represented 21.5% of the total portfolio of consumer loans, ranking third in importance after credit cards (39.3%) and payroll loans (23.3%). At the close of the first two months of 2018, the balance of the personal loan portfolio recorded a real annual growth of 5.6%, a rate that was lower than the real growth of 9.0% in February 2017. This rate maintains the downward trend in dynamism observed since Jun16. In February 2018, the delinquency rate of personal loans was 6.3%, the second highest recorded among different categories of consumer loans. For its part, the adjusted delinquency rate in February 2018 was 15.2%, higher than the 12.5% recorded in the same month of the previous year. Over the past year, 6.6 million loans were granted, representing 78% of the total number of current personal loans and 62.7% of the current total balance. Among the loans granted in the last year, it is worth noting the increase in the participation of loans under $5,000 (whose total balance increased 7.6% in real terms) and loans with a term greater than 24 months and for an amount greater than $25,000 (which reported an increase of 0.5% in real terms between February 2017 and February 2018). The increase in low amount loans was reflected in a decrease in the average total amount of loans granted in the last twelve months, from $18,719 in February 2017 to $18,589 in February 2018, while the average term increased from 20 to 21 months in the same period. For its part, the average interest rate weighted per balance dropped off slightly from 35.7% to 35.3% between February 2017 and February 2018.

Banxico publishes its annual report on the actions taken to comply with the Transparency Act

Banxico published its "annual report on the exercise of the powers conferred by the Law for the Transparency and Regulation of Financial Services (LTOSF)" for the period from June 2017 to June 2018. With this report, the central bank reports on the actions it has taken pursuant to the powers conferred on it by the LTOSF to develop regulatory and transparency actions that facilitate users' access to the information necessary to compare the cost of financial services from different providers, and that promote efficiency and competition in the provision of such services.

Among the actions taken to improve transparency and the information services available to users, the central institute underscores the publication of reports on basic loan indicators (BLIs) (automotive, payroll, personal, housing and SMEs), which are carried out twice a year by product type, in a staggered manner. Tools were also released for consulting information on automotive loans and credit cards, which allow users to analyse and compare the conditions under which regulated financial institutions grant loans in Mexico.

In the case of passive operations (deposits), the report refers to the different activities that the central bank has carried out to increase transparency and the information that benefits and, where appropriate, protects cardholders as consumers when they make use of the payment system infrastructure.

Banxico also underscores the benefits that users of credit and various financial services have had in recent years due to the implementation of the rules that emerged from the LTOSF. Similarly, it comments on the new provisions adopted (such as the Law to Regulate Financial Technology Institutions) to protect within its sphere of competence users of financial services.

It is also documented that, in 2018, the Superior Audit Office of the Federation (ASF) carried out an audit called "Institutional framework of interest rates and commissions from multiple banking to the private sector." The objective of this audit was to strengthen the availability of financial information that would allow users to have better elements to compare the cost of loans. In addition, the ASF made two other recommendations. The first was to point out the need to strengthen mechanisms for interagency collaboration and coordination with other authorities (National Banking and Securities Commission, Federal Commission of Economic Competition, and National Commission for the Protection and Defence of Users of Financial Services). The second was on the need to simplify the commissions' scheme and their registration. Compliance with the recommendations of the ASF will strengthen transparency and facilitate comparison between the different products of the country's various financial institutions.

Housing prices rose by 9.9% in the third quarter of 2018

At the end of September 2018, the housing price index published by the Federal Mortgage Society (Sociedad Hipotecaria Federal, SHF) recorded an increase of 9.89% over the same period last year. This increase is similar to that recorded in the previous quarter, which was 9.92% in June, which could be reflecting the maximum levels of appreciation of the last cycle. Prices in the mid-range and residential segments rose by 10.40%, while in the social housing segment they increased by 9.38% in the same period.

The stability of the last two quarters in house prices could be reflecting lower demand for construction materials and therefore a slowdown in producer prices of residential construction. These had grown 12.5% on average during the first half of 2017, while between January and June 2018 the average was 7.25%. In our June 2018 report, we anticipated the effect that lower demand for construction inputs could have in subsequent months.

In regional terms, the entities with the greatest economic activity, which concentrate the country's urban and industrial areas, lead the pace of housing appreciation in the third quarter of 2018. Such was the case of Jalisco and Mexico City, where the SHF index rose by 12.1% and 9.5% respectively, while in the states of Puebla and Nuevo León it increased by 10.8% and 10.4%, respectively. Other states in the Bajio region, which continue to acquire capital gains above the national average are: Guanajuato, Zacatecas and Queretaro, with annual rates of 10.6%, 10.2% and 10.1%, respectively.

1.2. Financial Markets

The month of December was marked by greater concern about a significant slowdown in global economic growth by participants in international financial markets. In this environment, the position of maintaining the current course of monetary normalisation by the chairman of the Federal Reserve, at its December meeting, exacerbated nervousness by incorporating into the debate the possibility of a "policy error." All of this triggered an episode of risk aversion, which led the VIX index to stand at 36% in the last week of the year, up from 18% at the beginning of the month. In the case of Mexico, the sending of a responsible budget proposal by the federal government and the repurchase of bonds issued by the trust of the New International Airport of Mexico (NAIM), were instrumental in reducing idiosyncratic risks and thus differentiating Mexican assets positively.

The exchange rate was again the indicator that recorded the fastest reaction to the reduction of domestic risks. After a depreciation of about 10% between early October and late November, the Mexican peso appreciated 3.5% during the last month of the year, so the exchange rate closed 2018 at 19.6 pesos per dollar. Unlike the peso, the emerging currency benchmark depreciated 0.4% in December, while the dollar appreciated 1.13% against developed country currencies.

The differentiation was most evident in the equity market. While the global stock benchmark fell 7.7% and the S&P500 plummeted 9.1%, the Mexican Stock Exchange Index of Prices and Quotations (IPyC) recorded a marginal change of -0.22% during the last month of the year. In the fixed income market, the reduction in domestic risks allowed the lower yields on U.S. treasury bonds to influence downward movements in the domestic curve, even after the increase in the monetary policy rate in Mexico. Thus, the yield to maturity on the 10-year government bond fell by 50 basis points to close 2018 at 8.66%.

It should be noted that, in the case of sovereign risk, measured by the spread of the 5-year CDS, the increase in volatility at the global level had a greater weight, for which an increase of five basis points was recorded during December.