

Banks

Monthly Report on Banking and the Financial System

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July 29, 2019

1. Banking and the Financial System

Reduced business finance to companies reduces the growth rate of total credit to one-digit levels

In May 2019, the annual nominal growth rate in the balance of the [current credit portfolio granted by commercial banks](#) to the non-financial private sector was 9.1% (4.6% in real terms). This growth rate was lower than in the previous month (10.3%) and also lower than in the same month in 2018 (13.4%). The last time that commercial banking loans granted to the non-financial private sector grew to one digit was in February 2015 (8.8%), and it has been a gradual slowdown since June 2018, when nominal annual growth was 13.4%. The nominal annual growth rates of its three components in May 2019 were as follows: consumer, 6.1%; mortgages, 10.5%; and business, 9.8%. Furthermore, the percentage structure of the balance of this credit in May 2019 was as follows: 58.4% for business loans; 22.7% for consumer loans; and 18.8% for mortgage loans. In the same month, the contribution of the growth of these three categories to the growth of the total credit to the non-financial private sector was as follows: companies contributed 5.7 percentage points (pp) of the total of 9.1 pp of credit growth; mortgages, 2.0 pp, and consumers, 1.4 pp.

The reason why commercial banking loans to the non-financial private sector grew to one digit in May is due to less activity in business loans. This is evident if we take into account how the contribution to credit growth to the private sector evolved across its three components. For example, the contribution to the average growth of total credit between June 2018 and May 2019 was 1.5 pp for consumer loans (similar to the contribution observed in May 1.4 pp). The same was observed in the contribution of credit to mortgage loans (1.8 pp average vs. 2.0 pp in May). In contrast, in the case of companies, their average contribution in the aforementioned twelve months was 7.8 pp, falling to 5.7 pp in May. If the nominal annual growth of consumer and mortgage loans remains the same or similar to that of May 2019 (consumer, 6.1%; mortgages, 10.5%), and that of business loans slows and does not grow at least 11.5% per year, then bank loans to the private sector are expected to grow at a rate of one digit.

Nominal growth of traditional bank deposits has been at its lowest level since the end of 2013

The continual slowdown in the pace of economic activity and risks in both trade and economic policy adversely affected [deposits to the banking system](#), to the extent that the nominal growth of traditional bank deposits during May 2019 was at its lowest level since the end of 2013. Lower activity in bank deposits was almost generalized and reflects how, as the weakness of the economy has increased, its negative impact is starting to take precedence over the momentum that high interest rates exerted on the growth of term deposits.

The decline in the annual growth rate of traditional deposits (sight + term deposits) to levels of 7.3% in May (2.9% real) was the product of the lower rate of savings by companies, which influenced, above all, a lower growth rate of their term deposits, which was 12.7% (8.0% in real terms) at an annual rate. Sight deposits by companies also grew at a slower pace. However, this was more than offset by the growth of high liquidity deposits by individuals, meaning that this deposits segment grew at an annual rate of 3.9% (-0.4% in real terms) during the fifth month of the year.

The economic indicators available in the month of June, particularly job creation, suggest that the economic weakness could continue, which, coupled with the expected interest rate cuts during the second half of the year, make it credible that the possibilities of reversing the downward trend in traditional banking deposits are limited.

Update of financial savings and financing indicators in Mexico

The National Banking and Securities Commission (CNBV) has published an update on [the Financial Savings and Credit Report in Mexico](#), with information as of December 2018. The paper notes that, at the end of the fourth quarter of 2018 (Q4-18), total financial savings amounted to 88.7% of GDP, less than 91.7% of the GDP recorded in the same period of 2017. The most significant decrease was observed in external financial savings, which fell from 29.0% of GDP in December 2017 to 26.3% in the same month of 2018. In the case of holdings of fixed income values and stock certificates, their share declined from 30.9% of GDP in 2017 to 30.3% at the end of 2018. Meanwhile, deposits of financial intermediaries increased slightly, from 31.7% of GDP in December 2017 to 32.0% in December 2018.

Total financing was equivalent to 90.1% of GDP in December 2018, down from 91.4% in the same month of the previous year. More than half of this financing (47.5% of GDP) was granted to the public sector. Financing to the private sector amounted to 42.6% of GDP at the end of December 2018. In this case, the report notes that the private sector's main source of domestic funding continues to be the loans granted by commercial banks, which represented 18% of GDP at the close of Q418.

Credit limit raised by INFONAVIT

On July 3, INFONAVIT announced an increase in the credit limit for workers who have incomes of up to 2.8 Units of Measure and Update (UMA) or nearly 7,200 pesos. These workers may obtain loans of 270,000 to 390,000 pesos. The benefit could reach up to 3.4 million workers registered in that income bracket. Thus, INFONAVIT again highlights this segment of social interest and workers with incomes below 5 UMA or VSM (times minimum wage). While this program will not reactivate the social mortgage segment, it is a boost to this type of mortgages and improves access to better-located houses for workers.

2. Financial Markets

Market performance supported by expected interest rate cuts

In July 2019, the expectation that the lax monetary position of the main central banks at global level will maintain the economic expansion remained a common factor in movements of the financial markets. However, as the month progressed, it has become apparent that, within the global slowdown, the US economy has been positively affected, a fact that has been reflected in a favorable performance of its financial assets. In the case of domestic assets, the uncertainty regarding PEMEX's financial situation has remained largely confined to the oil company's assets.

In equity markets, the S&P500 reached a new historical peak as a result of a 2.9% return in July, which represents its sixth monthly growth in 2019. This increase was above the global benchmark performance of this asset class (MSCI World Index), which registered a 1.72% increase as of July 26. The Mexican Stock Exchange saw a negative change after a 5.8% decline, larger than the MSCI Emerging Markets Index (-0.6%) during the seventh month of the year.

In the government fixed income market, investors reduced the likelihood of seeing a 50 basis points (bp) cut at the next FED meeting on economic data above expectations and communication by FOMC members. This influenced a rise in the US curve in July, which led the 2-year node rate to 1.85% (+10 bp), while the 10-year rate was around 2.07% (+7 bp) as of July 26 th. In Mexico, the correlation with the Treasury bond curve fell in the second part of the month, which influenced a 10-year drop in bond yields that stood at about 7.54% at the end of July (-5 bp).

The Mexican peso continues to be influenced by its relatively favorable position in terms of risk-adjusted performance, making it the currency with the third-highest growth rate among emerging countries in July, with growth of 0.9%. However, most currencies have not been so lucky. In an environment of lower interest rates on global level, the positive differentiation of the US economy was reflected in a strong dollar. So far in 2019, it has seen gains against the currencies of developed countries and just a slight depreciation against emerging currencies.

The peso has been supported by an increase in non-speculative positions in the futures market, which are located near its historical peak, reached last April. However, the search for returns in the foreign exchange market has not been reflected in demand for CETES, as foreign investors continue to reduce their positions at the close of arbitrage opportunities. On the long end of the curve, foreigners hold their positions, of about 60% of the total in circulation of M bonds, although the foreign flows in the first half of the year were among the smallest in the last 10 years.

The national long-term corporate debt market closed June with an increased issuance by about 77.500 billion pesos, one of the best monthly performances in recent years. Thus, the amount accumulated during the first half of 2019 was over MXN 145 billion, which is close to the total issued during 2016 and represents a significant increase from the MXN 15 billion accumulated up to April. No additional placements were recorded in the first half of July.

Lastly, it is important to note that, so far, the uncertainty regarding PEMEX's financial situation has not had a significant impact on the performance of other domestic financial assets. Although sovereign risk, measured by the 5-year CDS spread, trades at levels similar to those of countries with a BBB- rating, this was already the case over a year ago. Meanwhile, the prices of the oil company's assets have deteriorated significantly. PEMEX's dollar yield curve is already above Petrobras at around 200 bp, when a year ago the Brazilian oil company, which has no investment grade, was

above PEMEX at about 100 bp. In addition, the difference between sovereign credit risk and that of the Mexican oil company is around 245 basis points, close to its historic peak, after Fitch's recent downgrading. Looking forward, this will be one of the main topics to follow, especially in the climate of the present economic slowdown in the country.

3. Regulation

Reports by Sociedades de Información Crediticia (Credit bureaus)

On July 12, Banco de México (Banxico) submitted to public consultation changes to [Circular 27/2008](#) addressed to Sociedades de Información Crediticia and their users, with the aim of, among others: regulating the periodic delivery of information reports to Banxico (customer databases and user list) by means of specific forms and additional information requirements, as well as the guidelines that users should follow in relation to sending information, including the obligation of commercial enterprises to designate an information officer; updating customer identification and authentication processes for the issuance of reports (electronic, optical, biometric, digital, etc.), and establishing a deadline for dispatching customer claims, disclosing customer claim rights in reports, and the obligation to provide customers with a channel to file their claim.

Information received by SIC from financial institutions

On July 12, Banco de México submitted to public consultation amendments to [Circular 27/2014](#) addressed to the Sociedades de Información Crediticia (SIC) in order to align it with the definitions of the Ley para Regular las Sociedades de Información Crediticia (the credit bureau law), to make the information they receive from financial entities more precise and detailed. Among others, it is now required to include the customer's CURP (Unique Population Registry Code), the employer's tax ID, indication in the event that it is a Payroll Loan, Annual Initial Total Cost, indication as to whether the customer has cancelled the direct-debit of a Payroll Loan, the state where the loan was granted and to which it is to be disbursed, customer income range, as well as various adjustments due to the updating of certain concepts.

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