Banks

Monthly Report on Banking and the Financial System

Fernando Balbuena / Iván Martínez Urquijo / F. Javier Morales / Carlos Serrano / Mariana A. Torán / Gerónimo Ugarte / Samuel Vázquez

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1. Banking and the Financial System

In 2019, the average nominal growth of bank credit to the non-financial private sector was 8.4%

In December 2019, the annual nominal growth rate in the balance of the current loan portfolio granted by commercial banks to the non-financial private sector (NFPS) was 5.1% (2.2% in real terms). This nominal annual growth rate is half the rate recorded in December 2018 (10.0%), and was lower than the rate recorded in the previous month (5.9%). The December 2019 growth corroborates and deepens the slowdown of the growth rate of bank credit to the NFPS, which was first observed in April 2019. Likewise, the nominal annual growth rate of this bank credit, in addition to persistently slowing, saw eight consecutive months with a single-digit growth rate as of December 2019. The slowdown process of bank credit to the NFPS in 2019 is also reflected in its average nominal annual growth rate, which went from 12.2% to 8.4% between 2018 and 2019.

Additionally, in December 2019, the nominal annual growth rate of each of the three credit categories that make up the bank credit to the SPNF was as follows: Consumption, 5.3% (6.0% in November); Mortgage, 10.7% (10.8% in November); and Business, 3.1% (4.3% in November). Furthermore, the contribution of growth of bank credit to the NFPS in December 2019 across its three components was as follows: mortgage loans accounted for 2.0 percentage points (pp) of the 5.1 pp growth in credit to the NFPS that month. The contributions of business loans and consumer loans were 1.8 pp and 1.2 pp, respectively. It should be noted that since July 2013, business loans were the component that most contributed to the growth of bank credit, which stopped in December 2019. In the last month of the year, mortgage loans were the component that contributed most to the growth of bank credit.

The average growth in traditional bank deposits in 2019 is the lowest in the last five years

In December 2019, the nominal annual growth rate of traditional bank deposits (sight + term) was 5.5% (2.6% real), showing a slight recovery from the result observed in November (4.7%), but insufficient to reverse the slowdown observed since August 2019. The December result made the average nominal growth rate of traditional bank deposits in the year 7.0% (3.2% real), lower than the average rate of 9.0% in 2018. In particular, the 2019 growth was the lowest in the last five years and represents less than half of the average nominal growth rate observed in 2015 (14.3%).

The observed performance of traditional bank deposits reflects, on the one hand, the slowdown in economic activity, which generated lower demand for deposits for transactional purposes and, on the other, the lower attractiveness of term deposits in light of lower interest rates. By type of instrument, sight deposits contributed 2.9 percentage points (pp) to the average growth of 7.0% in 2019, while term deposits added 4.1 pp to that dynamism.

For its part, the holding of Debt Investment Funds (DIFs) maintained its dynamism, supported by expectations of lower interest rates and an environment of lower volatility. In 2019, the holding of shares of this type of instrument averaged a nominal growth rate of 10.4% (6.6% real), higher than the nominal growth recorded in 2018 of 9.2%. The continuation of a phase of monetary easing portends the future reallocation of resources to more liquid or relatively higher-yielding instruments, in an environment of weak economic growth, which would reduce the availability of resources to be earmarked or maintained as longer-term savings.

At the end of the first half of 2019, the balance and number of total credit card customers increased

Banco de México (Banxico) published the Basic Credit Card Indicators Report (BCCIR) with data as of June 2019. The purpose of the document is to follow up on the terms and conditions of the loans offered through this instrument through banking institutions or financial institutions associated with banks. The analysis considers only comparable cards. That is, it excludes CCs that have no market conditions (cards granted to employees of the issuer are excluded), have payment problems (cards in arrears or delinquent), or have received some different treatment that alter their original granting conditions (restructured cards).

As of June 2019, the balance of CCs represented 38.6% of the total balance of consumer loans. Compared to June 2018, the total balance of the CC portfolio grew by 1.5%. In addition, in June 2019 there were 26.3 million cards with a balance of MXN 388.2 billion, of which 90.8% of plastics (19.4 million) and 73.6% of the balance (MXN 352.6 billion) corresponded to comparable cards. The two groups of comparable cards are: i) customers who pay in full (customers who pay their entire balance by the cut-off date); and ii) customers who do not pay in full (customers who pay a portion of the outstanding balance).

In the reference month, the percentages of the number and balance of comparable cards of customers who do not pay in full (48.8% of cards and 72.1% of the balance) were lower than in the same month of 2018 (51.3% of cards; 74.2% of the balance). In other words, compared to the previous year, the number of cards and the total balance of customers who pay in full increased compared to the same month in 2018. The weighted average effective interest rate (TEPP) of the total comparable cards in June 2019 was 25.8% higher in 50 basis points at the rate recorded a year earlier. However, it is notable that the TEPP of customers who do not pay in full increased from 34.0% in June 2018 to 35.9% in June 2019. In June 2019, the CC delinquency rate (5.2%) showed a slight improvement from June 2018 (5.3%). In the adjusted delinquency rate, the opposite was true, since the adjusted delinquency rate of 2019 (15.5%) was slightly higher than that of 2018 (15.4%). This may indicate that in 2019, there may have been a marginal increase in the quality impairment of the loan portfolio of CCs.

Payroll credits recovered dynamism in 2019 due to an increase in the amount of loans granted

In February 2020, Banco de México (Banxico) published the Basic Payroll Loan Indicators Report (BPLIR), which contains data until June 2019. Like other indicator reports produced by the central bank, this report only considers credits under original conditions of contracting, thus excluding delinquent, restructured or awarded loans to former bank employees and the credits that required the invoice of some goods as a guarantee.

The BPLIR shows that in June 2019, the total number of payroll credits was 5.0 million, the total balance was MXN 252.7 billion, and the annual real growth of the latter was 4.8%. In addition, in June 2019, the payroll loan balance represented 24.2% of the total credit balance granted to consumption. For its part, the comparable payroll loan portfolio of June 2019 consisted of just over 4.3 million loans (86.7% of the total number of loans on that date) and the balance of these amounted to MXN 233.8 billion (92.5% of the total balance). Of the comparable loans, 2.5 million were granted in the last year (July 2018 to June 2019), which was 2.5% higher than the number of comparable payroll loans granted in the previous year (July 2017-June 2018). For its part, the balance of comparable loans in June 2019 was 4.7% higher in real terms than in the same month of 2018. In addition, in June 2019, the average term and interest rates of the total comparable payroll loans were 47 months and 24.5%, while in June 2018 the deadline was the same (47 months), and the average interest rate was slightly lower (24.4%). The delinquency rate of this type of consumer loan in June 2019 (5.3%) was equal to June 2018, and the 2019 adjusted delinquency rate (10.2%) was lower than in 2018 (11.0%). The latter indicates that the impairment of this loan portfolio from July 2018 to June 2019 was lower than that recorded a year earlier.

The average amount of payroll loan granted per customer in June 2019 was 70,335 pesos, which was 4.4% higher in real terms than the average amount granted in the same month of 2018. The BPLIR segments the payroll loan portfolio into: i) loans up to 40,000 pesos; and ii) loans of more than 40,000 pesos. In June 2019, the average loan amount of the first category of customers (loan amount up to 40,000 pesos) was 17,733 pesos, which was 6.1% real annually less than the average amount granted in 2018 in this first segment; and 130,989 pesos for the second category of clients. In the latter case, the average payroll loan amount was 2.0% greater in real terms than the amount granted in June 2018. In addition, payroll loans of lower value are granted at an average term of 40 months and interest rate of 27.5%; while those of the highest value category are granted at an average term of 49 months and interest rate of 24.2%. Data from the BPLIR show that it is the segment of customers with a high amount of credit (amounts greater than 40,000 pesos), which drove the growth of this category of loan.

The value of production in the construction industry fell by 4.3% in 2019

The value of production for the construction industry, according to Inegi's Monthly Survey of Construction Companies (ENEC), shrank 4.33% in the annual figures at the end of 2019. The building component accounts for almost 50% of the entire value within the industry. This consists of residential building, the productive part (industrial, commercial and service buildings) and other buildings including schools, hospitals and clinics. However, the latter account for less than 10%of building production.

With regard to the value of production for housing, there was a growth of just 0.5% in real terms (cumulative figures for the whole of 2019). However, productive building contracted by 7.5% in the same period, also in real terms. While housing production maintained negative rates throughout 2019, it managed to reach positive ground due to a boost in residential segments where the highest mortgage placement was recorded through commercial banking, where mortgage interest rates remain at historically low levels and may even decline marginally during 2020.

In contrast, productive building has been contracting for nearly 12 months. In this case, builders faced the cycle of short-term interest rate hikes, which, although it ended in 2018, was compounded by the slowdown in economic activity in 2019 and the uncertainty surrounding the signing of the Treaty between Mexico, the United States and Canada (USMCA). However, now that the cycle of decline in short-term interest rates has been consolidated, this could be an incentive to reactivate production in this industry, on the condition that economic activity and investment go back to exhibiting growth during 2020.

Stagnation in the finance and insurance sector

According to data from Inegi for the fourth quarter of 2019 (4Q19), the finance and insurance sector, which accounts for 4.8% of GDP, closed the year with stagnation, due to the low credit and deposit dynamics that affected the performance of non-market financial intermediation institutions.

As a result, and in conjunction with the performance of the central bank and stock and exchange activities, financial services (without insurance and sureties) grew by only 0.05%. For their part, sureties, insurance, and pensions companies experienced a 0.5% contraction at the end of 2019.

Growth during 2019 was lower than expected partly because of the low level of investment. Both individuals and companies have acted cautiously and credit and investment decisions have been shifted toward future periods, affecting sector performance by reducing credit growth and uptake.

In 2020, better performance in the sector could be supported by a surge in investment and an acceleration in consumption that would promote greater banking and financial activity as a whole. This would imply that, in 2020, the sector’s share of GDP could resume its upward trend, with growth higher than that of the economy as a whole.

2. Financial Markets

The price of risky assets sank as the Coronavirus spread globally

The discovery of cases of Coronavirus outside China triggered an episode of risk aversion at magnitudes not seen since 2008. Until the discovery of cases in Italy during the last week of the month, market participants incorporated a scenario of limited and transitory losses, taking as a reference, to a large extent, what happened with the SARS epidemic in 2003. However, at the end of February, uncertainty about the extent and pace of the spread of the disease, as well as its consequent effects on global supply and demand, have prevented prices of risky assets from hitting a “floor.”

As expected, stock markets reflected risk aversion most strongly. The global benchmark for this asset class (MSCI World) registered losses of 8.6% in February, down 10.9% during the last week of the month. As discussed earlier, the narrative that dominated the markets favored risk-taking before the contagion in Italy was revealed. Thus, during most of February we saw gains that even led some indices to reach new historical highs. Such is the case with the S&P500, which reached its historical peak of 3,386 points on February 19 and registered a growth of 3.5% during the first three weeks of the month, and then fell 11.5% between February 21 and 28, in what constitutes the worst week for this indicator since 2008. This pattern was also seen in the benchmark for this class of assets in emerging markets (MSCI EM) that had a price drop of 5.4% in February, after the 7.3% fall during the last week of this month eroded the 2.0% gains observed during the first three weeks of the second month of the year. In the case of the IPC index, the fall in February (6.3%) was greater than that of MSCI EM, as the gains during the first three weeks of the month (1.6%) were reduced to face a 7.8% decline during the last week of the month.

In light of the sale of risky assets, market participants significantly increased their demand for assets considered risk-free. This demand reached such a point in the case of the US government curve that the YTM of both the 10- and 30-year bonds recorded all-time-lows of 1.15% and 1.67%, respectively. In the case of the 30-year bond, the reduction during February was 32 basis points, while with respect to the same month of 2018 the reduction was around 140 basis points. In the case of the 10-year bond, the February reduction was 35 basis points, while the drop amounts to 155 basis points with respect to February 2018. Both cases show that the growth outlook are far from current levels. In the short end of the curve, yields also fell in light of the higher probability that market participants assign to further cuts by the FED. In fact, the market discounts around 75 bp of cuts in 2020, with a 100% probability that the first downward movement will occur at the next March meeting. It should be noted that this expectation was reinforced after the FED chairman issued an unusual statement on the last day of the month, noting that they are ready to support the economy in light of the risks posed by Coronavirus.

In the foreign exchange market, the Mexican peso ranked as the fifth most depreciated currency among its emerging peers after falling 4.1% in February. In the second part of the month the exchange rate increased 1.1 pesos to 19.6 pesos per dollar at the end of February, leaving behind more than two months below 19.0 pesos per dollar. This depreciation of the Mexican peso was greater than the one observed by the emerging currency benchmark that fell 2.6%, and than the strengthening of the dollar against the currencies of developed countries of 0.8%. While the short-term yield gap continues in favor of the Mexican peso, the increase in its volatility considerably reduces its attractiveness. It should be noted that the implied volatility of the one-month dollar/peso exchange rate options rose from 7.56% in January to 13.6% in February, its highest level since December 2018.

In the commodity market, Brent oil fell 13.1% due to fears of a decline in global demand, while the Mexican mix recorded a 17.4% fall during February to below USD 39 per barrel for the first time since 2017.

The growth of the Coronavirus epidemic was the catalyst for a correction in the prices of risky assets after a long period of exacerbated optimism that was far from economic fundamentals. Henceforth, markets will be particularly vigilant for clear indications that the epidemic is controlled, as well as stimuli from central banks and governments globally, in order to have a more certain idea about the effects on global supply and demand. Only in these circumstances would it appear that a long-lasting “floor” for the prices of risky assets could be found.

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