Banks

Monthly report on banking and the financial system

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1.1. Banking and the financial system

Business loans still the main driver of private sector credit

In July 2018, the outstanding balance of credit granted by commercial banks to the private sector grew at a nominal annual rate of 11.4% (6.3% in real terms). This growth was less than that of the previous month (12.8%) and of the same month in 2017 (12.6%). Nominal annual growth in the main categories of lending to the private sector was as follows: businesses 15.7% (10.4% real); housing 8.8% (3.8% real) and consumer 6.5% (1.6% real). As in previous months, lending to businesses continued to show the most momentum. The pace of growth in each segment of the portfolio was also reflected in its contribution to growth of the total lending portfolio. For example, lending to businesses contributed 8.6% to the total portfolio growth of 11.4%. The contributions of housing loans and consumer credit were much lower, at 1.7% and 1.6% respectively. The high growth rate in business lending in July, together with its large relative share in terms of total lending, explain why this loan segment is the main driver of total outstanding bank lending.

The favourable performance of bank lending to businesses was mainly due to large companies replacing external loans or financing with domestic bank borrowing. The slower momentum in consumer credit reflects the slackening pace of growth in workers' income in the formal sector and the fact that by far the greatest part of the increase in the number of workers signed up to the social security system has been in the lowest wage groups. In addition to these two factors, the greater buoyancy of house prices relative to that of workers' incomes may be a significant factor explaining much of the slowdown seen in housing loans.

Growth in term deposits picks up speed

In July 2018 the annual nominal rate of growth in traditional commercial bank deposits (sight + term) was 10% (4.9% in real terms). The growth rate for July was less than in the previous month (11.8%), as well as being less than that for July 2017 (10.5%). In that month, the proportions of sight and term deposits within total traditional bank deposits were 60.4% and 39.6% respectively. The nominal annual growth rate in July sight deposits was 6.7%, while that of term deposits was higher, at 15.7%. Sight deposits therefore contributed 4.2% to the total growth of 10% in traditional deposits, while term deposits contributed 5.8%.

The annual nominal growth rate in July sight deposits was low compared with that of the previous month (11.8%). This may reflect a reallocation of resources by economic agents into term deposits, as these grew by 15.4% in nominal annual terms in July. This was the highest rate of annual growth in term deposits seen since September 2015. One factor explaining the favourable trend in term deposits is the increase in bank interest rates and the incentive that this gives economic agents to channel funds into this type of savings.

Update of the risk assessment by the Financial System Stability Council (CESF)

On 20 September, Mexico's CESF updated its risks balance for the financial system. In the external environment, the Council continues to consider the following as the main risks: 1) escalation of trade tensions and 2) hardening of financing terms in response to bigger-than-expected interest rate increases in the US. Furthermore, in this quarter an additional risk was noted in the form of a possible increase in macroeconomic imbalances in emerging economies, which could lead to some contagion or hasten the advent of the slowdown in world growth. On this occasion, the CESF highlighted the fact that for the private sector, the availability of domestic credit sources mitigated the effects of more restricted external financing, bringing about relatively favourable credit conditions. Tracking the implementation of actions and measures in the field of cyber security, the CESF highlighted the strengthening of the Electronic Interbank Payments System (SPEI) rules. Lastly, the CESF evaluated the stock of macro-prudential tools available to the financial authorities, stressing the need to continue to strengthen these tools in order to contain systemic risk and bolster the Mexican financial system's information technology security.

The International Monetary Fund updates its Financial Access Survey

The IMF published its ninth Financial Inclusion Survey (Financial Access Survey (FAS)), which contains annual information on access to and use of financial services around the world. The database covers 189 countries spanning 14 years (2004 to 2017) and some 180 variables, including 65 indicators that normalise certain series as regards adult population size, geographical area and gross domestic product. The information is also broken down by type of financial service provider (banks, credit unions etc.) and by type of financial service (deposits, lending and insurance). New features of this update include information on correspondents and breakdowns by gender, as well as tracking of the number of credit and debit cards in circulation. The survey is based on administrative records collected by central banks or financial regulators and is a tool for monitoring progress on financial access, as well as allowing comparison among countries.

The CNBV, Mexico's Banking and Securities Commission, publishes its Financial Access Report

The CNBV presented the ninth edition of its National Financial Access Report ("RNIF9"), which analyses changes in the main indicators of access to and use of financial services in Mexico. With information to June 2017, the RNIF9 highlights advances as regards access: compared with June 2016 the number of access points for making deposits and/or withdrawals increased from 11.5 to 12 for every 10,000 inhabitants. The percentage of municipalities with at least one access point also increased, from 72.5% in June 2016 to 73.4% in June 2017. There were also 549 municipalities with no access point, representing 1.6% of the total adult population. By type of access point, there were 16,945 branches in the whole finance sector, 2.4% more than in June 2016, while the number of correspondents increased by 10.3% to 42,216. The report highlights the fact that popular savings and credit institutions (EACPs) showed the greatest increase in number of branches, while commercial banks concentrated more on expanding their correspondent networks, although some EACPs also notably established new agreements with correspondents. The number of ATMs and POS terminals for every 10,000 inhabitants grew 2.9% and 3.1% respectively, compared to the previous year. In this regard RNIF9 highlights the fact that in October 2017, fifteen banks signed agreements to share their ATMs with one another, thus reducing costs to users.

On the use side, RNIF9 reports advances in the majority of indicators (for every 10,000 adults) relative to June 2016. The most notable advance was in the number of transactions, with in-store transactions through POS terminals increasing by 8.8% and ATM transactions up by 18%. Credit products also saw increased use, with the number of credit card contracts for every 10,000 inhabitants increasing by 2.3%, and the number of contracts for other consumer credit and housing loan products up by 1.9%. On the other hand deposit products showed some reversals, with the number of deposit contracts for every 10,000 inhabitants down by 1.7% and that of debit card contracts down by 6.3%. However, RNIF9 explains that this decline was due to a clear-out of accounts in some banks' product portfolios and to the growth in adult population. With regard to accounts linked to mobile phones, the report highlights an increase of 43% relative to the previous year, although this type of account represents only 15% of the total number of transactional accounts, meaning that there is still a great opportunity for growth in this channel.

The report also presents information on the penetration of the insurance sector, actions carried out during the reporting period to protect the users of financial services and the state of financial education in Mexico.

Mortgage interest rates remain attractive so far in 2018

At the end of July 2018, the weighted average interest rate for mortgage loans from commercial banks was 10.4% in annual terms. This represents an increase of just 14 bps compared to December 2017. The stability of mortgage lending rates remains in line with that of long-term interest rates.

As we mentioned in our February report, the characteristics distinguishing the mortgage market in Mexico (fixed interest rates and average terms of close to 20 years) are such that monetary policy decisions hardly affect the mortgage lending rates offered by private sector financial institutions.

After increasing by more than 1% in 2016, the offered rate on the ten-year government bond, known as M10, showed an additional increase of 13 bps over the course of 2017. Between January and July 2018, the M10 increased by a further 26 bps, although we expect the cycle of increases to come to an end in the third quarter of this year, with rates starting to fall from 2019 onward.

Nevertheless, mortgage lending rates, which posted their biggest increase of 35 bps in 2017, could end 2018 at around 10.4%. This is only 12 bps above the level seen in December 2017. However, we estimate that lending rates could reach 10.5% during 2019 due to the lag effect relative to the M10.

1.2. Financial Markets

Domestic markets recover as risk aversion fades

September was characterised by a decline in risk aversion compared with August, particularly as regards emerging markets. The unexpected increase in Turkey's monetary policy rate and the IMF's announcement of increased resources and a faster payout for Argentina played a decisive role in easing market conditions after the sharp increase in volatility in emerging markets during August. In fact, the Turkish lira was the currency that appreciated most during the month, gaining nearly 10%.

Equity markets recovered practically across the board during the second half of September, but this was not enough to enable all markets to end the month with gains. While the MSCI World global equities benchmark and the S&P500 gained 0.11% and 0.44% respectively, the emerging markets benchmark fell by nearly 1%. Mexico's IPyC stock market index fell by just 0.3%, even less than Europe (-0.57%).

In line with the reduced risk aversion, the emerging market currency benchmark rose 2.26% in September. Apart from the aforementioned appreciation of the Turkish lira, other notable positive movements within this indicator were those of the South African rand, the Russian rouble and the Brazilian real. All these currencies were also influenced by the increase in commodity prices (the S&P GSCI was up by 3.62%), and particularly in the price of oil, which rose by 6.4% in September. The Mexican peso was the currency with the sixth greatest appreciation during the month (2.1%), although we expect its volatility to decline in the short term given the announcement of the trade agreement with the USA, which Canada is expected to join soon.

In response to the decline in demand for safe assets in September, Treasury rates inched up again, with the yield on the ten-year bond once more surpassing the 3% level it reached in late July. Although the US Federal Reserve increased its key rate by a further 25 bps, this had already been largely factored in by the markets. In Mexico, the yield to maturity on the ten-year government bond increased by two basis points to end September at 7.94%. We should point out that this indicator had touched 8.1% in the first few days of the month, before risk aversion dropped off.

1.3. Regulation

Amendments to the Single Banking Circular

The Official State Gazette of 4 September published adjustments to the methodology used to calculate capital requirements for loans granted to concessionaires where the security consists of federal contributions to the states instrumented through a trust. The reform establishes that in order for the guaranteed portion of the exposure to qualify for a 20% weighting it will be necessary for the trustee to comply with the requirements laid down in Annex 24 to the Circular. This amendment ensures that the credit institution is positioned as trustee in first place, among other stipulations.