BBVA Research

Creating Opportunities

Mexico Banking Outlook

Second Half of 2020

Bank intermediation slows down due to the fall in demand generated by the economic recession

After a couple of months of unusual growth, as a result of a surge in demand for liquidity for precautionary reasons, the dynamics of bank financing and bank deposits have been predominantly influenced by the decline in economic activity. The stabilization of the preference for liquid assets by consumers and companies has resulted in the banking activity of deposits and loans undergoing a slowdown clearly related to the effects of job losses, the fall in investment and the lower income currently earned or expected to be earned by economic agents. Despite this complicated economic environment, the bank's solvency and liquidity levels remain strong, both due to the regulatory facilities that have prevented a sharp deterioration of the portfolio and due to the reallocation of a higher number of resources to highly liquid, low credit risk assets such as government securities.

Bank financing to the Non-Financial Private Sector (NFPS) has left double-digit growth rates behind. This reduced momentum in terms of credit is the result of reduced economic activity, in general, and in particular of decreased consumption, employment and investment, which have had direct effects on consumer and business loans. The slowdown in bank financing to the NFPS accompanied the reallocation of resources caused by the recession. Faced with the slump in economic activity in the second quarter and the rise in volatility in financial markets, credit and liquidity risk conditions deteriorated, which influenced the fact that part of the additional resources received by banks, in the form of a higher number of demand deposits, were channeled to low-risk and highly liquid assets such as government securities. This significant growth has largely offset the lower appetite for government bonds by foreign investors. The reallocation of banking resources went hand-in-hand with an increased collection of deposits, the growth of which is gradually slowing down, particularly in the case of individuals, given the reduction in interest rates and the fall in economic activity.

In short, the adverse effects of the economic recession on the banking system, at present, remain limited to the areas of profitability and the slowdown in intermediation activities. Going forward, particularly in view of the expiration of the support programs provided by financial authorities, an increase in payment defaults of the various categories of credit is expected which, however, will not jeopardize the stability of the system as a whole, since the accumulation of provisions in recent months and the increase in net capital have helped to strengthen the solvency and liquidity of the system.

Commercial banking strengthens its capacity to confront risk and increases the financing channeled toward the rest of the economy

In September 2020, the banking system recorded a Capitalization Index (CI) of 17.2%, higher than that reported in the same month of the previous year (15.9%) and that recorded in March at the beginning of the pandemic (15.7%). While the sector already had some room for maneuver in order to deal with the crisis, it strengthened its position by increasing its net capital and moderating its exposure to risk. In particular, for the first nine months of the year, net capital saw an average annual growth of 8.7%, significantly higher than the average of 4.6% observed in the same period of 2019. Assets at risk shot up in March and April 2020 (when real annual growth rates of 7.3% and 9.2% were recorded, after averaging 5.4% over the previous 12 months) before slowing down from May onward and starting to show lower levels in August (-0.5%) and September (-1.0%). In addition to improving its solvency indicators, the banking sector also maintained an adequate liquidity position: in the third quarter of 2020 (3Q20), the liquidity coverage ratio (LCR) in the banking sector registered a median of 224.8%.

In September, total financing from commercial banks (credit + securities) to the rest of the sectors of the economy grew at a real rate (discounting the effect of inflation and the exchange rate) of 3.4%. With this result, average real annual growth in the first nine months of the year was 4.8%, the highest average recorded for the January-September period in the last five years. At this growth rate, public sector financing contributed 4.4 percentage points (pp), financing channeled to the private sector contributed 0.6 pp, financing granted to the non-resident sector contributed 0.1 pp, and finally state and municipal financing reduced the total momentum by -0.3 pp.

Between January and September 2020, the strong momentum recorded for public sector financing (23.2% of the total) stands out, which averaged a real growth rate of 22.0% in the first nine months of the year, the highest rate recorded in that period in the last 10 years. This financing was mainly channeled through securities (84.8% of public sector financing), which saw an average real growth of 26.0%, significantly higher than growth via credit, which reached a rate of 3.8% for the same period. Financing to the private sector (67.4% of commercial banking financing) registered an average annual real growth rate of 0.9% between January and September 2020, driven by the increase via credit (1.1%) as financing through securities contracted significantly (-12.8% on average). Financing to states and municipalities continued to fall further into decline, averaging -5.7% from January to September, while financing from commercial banks to other resident sectors (including IPAB, PIDIREGAS and FONADIN[1]) increased 1.7% in real terms in the period under consideration.

In 3Q20, the balance of credit to the NFPS began to fall at an annual real rate

In September 2020, the balance of credit to the NFPS achieved a nominal annual growth rate of 2.5%, one-third of the momentum recorded in the same month of 2019 (when the rate was 7.6%). The nominal growth rate for September was made up of 1.6 pp attributable to the nominal effect of the exchange rate and 3.9 pp associated with the effect of inflation, which offset the fall in real terms of -3.0 pp. With this September result, three months of contraction are accumulated. It should be noted that this credit aggregate had not fallen in real terms since May 2010.

[1] IPAB: Institute for the Protection of Bank Savings; PIDIREGAS: Productive Infrastructure Investment Project with Deferred Registration in Public Expenditure; FONADIN: National Infrastructure Fund.

In 2020, the valuation of balances denominated in foreign currency (FC) has had a significant impact on the growth rates of NFPS credit balances. Between January and September, the valuation effect of the exchange rate contributed almost a third to the average nominal growth rate of 6.4%, while in the same period of 2019 the valuation effect represented just 3.0% of the average nominal rate of 9.3%. It should be noted that the main source of the accounting effect associated with the valuation of the exchange rate within credit to the NFPS is business loans, as household credit (consumer loans and mortgages) is almost entirely denominated in national currency. In particular, FC denominated credit represents 25.1% of business loans and is equivalent to 14.9% of the total amount of NFPS credit.

After discounting the valuation effect of the exchange rate and inflation, NFPS credit averaged a real growth rate of 1.1% in the first nine months of the year, just over a fifth of the average real rate of 5.0% observed in the same period of 2019. It should be noted that between January and September 2020, business loans and mortgage loans boosted the modest growth observed (contributing 1.0 pp and 1.1 pp respectively), while the fall in consumer loans were down -1.0% from the growth of the total portfolio.

Business loans lose momentum and register their first drop in real terms over the past 10 years

In September 2020, business loans (59.2% of the bank credit balance to the NFPS) grew at an annual nominal rate of 4.0%, lower than the nominal rate of 7.3% observed in September 2019. Discounting the effect of inflation and the valuation of the exchange rate, the real annual change in September was -2.8%, registering a contraction for the second consecutive month (in August the fall was -2.0%). It should be noted that business loans had not decreased in real terms since April 2010.

Of the average nominal growth recorded between January and September of 8.2%, 3.2 pp (40% of the total) are attributable to the valuation effect of the exchange rate, and 3.4 pp to the effect of inflation, therefore real growth during this period was in fact only 1.7%. This is the lowest real growth rate recorded for the first nine months of a year in the last 10 years (the highest average growth was recorded in January–September 2011, when a real rate of 12.5% was reached).

The results observed in the second and third quarter of the year confirm that the growth in credit to businesses, associated with an immediate need for emergency health care, was temporary and insufficient to compensate for the slowdown that this type of credit had already been experiencing before the start of the pandemic. With the dilution of the effect associated with the use of credit lines in March and April to meet short-term liquidity needs, business loans currently lack the drivers need to generate more momentum. On the one hand, revenues from sales of goods and services continue to experience further contractions after reaching lows in March and April. On average, between January and August 2020, revenues from the supply of goods and services from wholesale trade, retail trade and services fell, on average, by -10.8%, -10.4% and 17.8% respectively. This weakness in income generation limits the payment capacity of companies and incentives to enter into new loans.

The negative shock on income worsens the weakness of investment, which had already been negatively affecting the demand for financing from companies even before the start of the pandemic. In August 2020, the gross fixed investment index registered a drop of -17.4%, accumulating 19 consecutive months of contraction and averaging an annual variation of -21.1% in the first eight months of the year, a level of contraction only surpassed by that recorded in January–August 1995, when an average annual change of -37.0% was recorded. It should also be noted that complementary business confidence rates associated with the right time to invest continue to deteriorate, with year-on-year reductions in September 2020 of -22.9%, -37.6%, -44.4% and -42.6% being recorded in the construction, manufacturing, trade and services sectors respectively.

While incentives to invest continue to deteriorate both due to uncertainty regarding the recovery of economic activity and public policy decisions that lead to projects that are in progress or that have already been approved being canceled, we cannot expect to reverse the drop in investment in the short term, so business loans will lack the important driving force they need to recover.

Consumer loans experience six months of contraction in real terms

In September 2020, the real annual change of the consumer loan portfolio balance was -10.0% (-6.4% in nominal terms). The result served to deepen the slowdown in consumer loans, the current balance of which had been experiencing a significant decline in its growth rate since August 2016 (the last month in which a double-digit real growth rate was observed) and which began to experience reductions from March 2020 onward. On average, the real annual change in consumer loans in the first nine months of 2020 was -4.3%, the first average contraction for a similar period since 2009 (when an average drop of -17.4% was recorded between January and September). In September, all segments of consumer loans already registered a clear contraction.

In September, the current credit card portfolio (36.7% of total consumer loans) fell by -11.6% in real terms, accumulating four months of double-digit rate reductions and seven consecutive months of contraction, which began in March, when the lockdown measures aimed at containing the COVID-19 pandemic caused a negative impact on consumption. Despite the subsequent relaxation of lockdown measures, consumption has only recovered slightly, partly because households are cautious in an environment of greater uncertainty and loss of sources of income. The private consumption indicator for the internal market continued to show a negative annual change of -14.2% in August, after registering a -24.8% low in May and averaging a -12.1% drop in the first eight months of the year.

In addition, the balance of payroll loans (25.1% of total consumer loans) began to suffer the effect of a lower level of employment, showing declines in real terms from June 2020, thus, for the first nine months of the year, this segment recorded an average annual change of -0.5%, significantly lower than the growth of 4.2% reported in the same period of 2019. Meanwhile, the current balance for personal loans (19.3% of total consumer loans) continued to decline, registering an average real decline of -10.6% between January and September 2020, greater than the -2.1% decline reported in the same period of 2019. The performance of these two segments is associated with the momentum observed in family income and employment. In particular, the slowdown already occurring in formal employment since May 2018 was compounded by the negative impact associated with the pandemic. It generated declines in the number of workers insured in the Mexican Social Security Institute (IMSS) from April and accumulated a half-year of contraction through to September, averaging a -12.1% decline so far this year.

Finally, consumer durable loans (16% of total consumer loans) have also recorded a slower expansion rate. Its average real annual growth rate was 2.2% between January and September 2020, significantly lower than the average real rate of 7.8% achieved in the same period of 2019. In particular, automotive credit (91% of this portfolio) fell by one tenth in the period considered: from the January–September 2019 average of 7.5% to 0.7% in the first nine months of 2020. The decline in household income associated with the loss of sources of employment and greater reluctance to pay for non-essential goods both point to a significant reduction in growth in this segment.

Fewer formal workers mean fewer potential borrowers accessing consumer loans, which require that customers be in formal employment or have a steady source of income to qualify as borrowers. In the medium term, prospects for the recovery of the consumer loan portfolio will remain linked to employment performance. A further loss of formal jobs and the resulting decline in household income will leave little room for maneuver to increase the placement of this type of credit, as well as increasing the risk of default. In addition, the caution of households in the face of uncertainty about the future development of economic activity could limit the recovery of consumption. This suggests that the slowdown in this family credit segment will be prolonged and could get even worse.

Mortgage loans were the only sector to maintain a real growth rate at the close of 3Q20

In September 2020, the real annual growth of the existing mortgage loan portfolio was 4.6% (8.8% nominal). With this result, mortgage loans averaged 5.9% real annual growth between January and September, down from the average reported in the same period of 2019 (6.3%). The mortgage loan portfolio still does not fully reflect the negative impact of the fall in formal employment, partly because of the delayed effect of this variable on the demand for mortgage loans. Also, the stability of long-term interest rates, which remain low, are probably helping to cushion a further slowdown. This fact, coupled with the decline in the price of housing, are factors that increase the attractiveness of real estate investment in the face of uncertainty and volatility in financial markets. This latest momentum could prove insufficient to reverse the trend toward slowdown that has been observed since April 2020, and which could be aggravated by the loss of formal jobs accumulated to date.

The deterioration in employment indicators that has been registered as a result of the pandemic will have a negative effect on the performance of mortgage loans. This is not only because of the reduction in the number of potential borrowers, but also because of the lower payment capacity of households due to falling family income. Moreover, if the sharp fall is followed by a slow recovery in employment, mortgage loan growth will not only be modest but may even be zero in the medium term.

The growth of Traditional deposits (demand +term) waned. Demand deposits remained as the main driver

In September 2020, the nominal annual growth rate of traditional deposits (demand + term) was 12.2%, higher than the nominal rate of 6.8% recorded in September 2019. With this result, the average nominal growth of traditional deposits from January to September was 11.4%. It should be noted that, as of March 2020, there was a significant acceleration in the balances of traditional deposits that meant double-digit annual nominal growth rates were recorded for seven consecutive months. Part of this momentum is associated with the valuation effect of the exchange rate, which explains 20% of the nominal growth rate.

After discounting the valuation effect of the exchange rate and inflation, the real growth rate for traditional deposits averaged 5.5% between January and September 2020, higher than the 3.1% reported in the same period of 2019. Almost all of the real growth is due to the performance shown by demand deposits, which contributed 5.4 pp to total momentum, while term deposits contributed only 0.1 pp to said growth rate. The lower contribution of term deposits to the growth of total traditional deposits is partly explained by the decline in interest rates, which coupled with the liquidity preference led to the substitution of term savings by demand deposits, which positioned themselves as the main driver of growth for banking traditional deposits.

Demand deposits gained momentum during the first nine months of 2020 supported by the segment of private individuals

In September 2020, demand deposits (61.1% of traditional deposits) grew at an annual nominal rate of 18.8%, accumulating seven consecutive months of double-digit growth. Between January and September, about 15% of this momentum is attributed to the depreciation of the exchange rate, which increased the valuation in pesos of foreign currency (FC) balances.

By discounting the effect of inflation and the exchange rate, real growth in demand deposits was 12.2%, averaging real growth of 9.1% in the first nine months of the year, significantly higher than the rates of 6.0%, 2.7% and 0% recorded for the same months of the previous three years (2017, 2018 and 2019 respectively).

With the exception of the Other Financial Intermediaries (OFIs) segment, the remaining segments of demand deposit (companies, private individuals and the non-financial public sector) on average showed greater momentum between January and September compared with that observed in the same period of the previous year. Thus, the contribution to observed real growth of 9.1% was distributed as follows: private individuals contributed 3.9 pp, companies contributed 3.5 pp, the non-financial public sector 0.9 pp and OFIs 0.7 pp.

The interest rate cutting cycle reduced the opportunity cost of keeping resources in demand deposits, which, coupled with a greater preference for liquidity for precautionary reasons, has helped maintain a high momentum in this type of deposit. However, bank deposits have not escaped the adverse effects of the economic downturn. The analysis of the monthly growth in deposits indicates that after a rebound in growth during March and April, both the term deposits of individuals and companies, as well as the demand deposits of companies suffer a fall during the subsequent months, which is consistent with the idea that the fall in income and employment has led to the use of previously saved resources.

The only segment that has shown near-continuous growth has been demand deposits by private individuals. This contrasts with the loss of formal jobs between March and September, given the statistically significant relationship between the growth of these two variables. This dynamic can be explained by four factors. First, the lower rate of job loss among the highest-paid workers. It is estimated that, of the total number of formal jobs lost between March and September of this year, 90% are concentrated in jobs with incomes of less than three minimum wages, so it can be said that around 70% of the labor income generated due to formal employment has not suffered significant losses. Second, the fall in consumption as a result of the pandemic. Whether it is because of the restrictions arising from lockdown in order to contain the virus, or because of the caution shown by people in their daily activities, the fact is that the consumption of goods and, particularly, the consumption of services, has suffered a significant reduction in recent months that has constrained the outflow of resources from demand accounts.

Third, the support programs for banking customers established by the financial authorities (e.g. the Special Accounting Criteria). The granting of grace periods for the payment of capital and interest on existing loans with banks has made it possible to increase the available income of those borrowers enjoying labor stability. Finally, as a fourth factor, it is worth mentioning that the availability of the resources of pension funds and, to a lesser extent, the significant increase in the inflow of remittances into the country, have been favorable factors that have further supported the accumulation of private individuals' resources in demand accounts. It should be noted that the impulse of remittance inflows is considered limited, since it is estimated that only 25% of remittances are made through the banking system. Thus, the combination of the stability of the income of high-wage workers with the reduction of consumption and some support measures have favored the increase in the balances of demand accounts.

Term deposits rapidly lose momentum after the rebound registered at the start of the pandemic

In September 2020, term deposits recorded a nominal annual growth rate of 2.8%, the lowest rate registered since September 2014. Despite a rebound recorded in January and March with double-digit nominal rates (10.1% and 11.0% respectively), this momentum could not be sustained for various factors. First, the decline in interest rates made term savings less attractive. In addition, the loss of jobs and the fall in economic activity encouraged economic agents to make use of their accumulated savings to supplement their income. Because of these factors, the nominal growth rate of term deposits averaged a nominal rate of 6.1% in the first nine months of the year, well below the double-digit growth recorded in the previous three years (10.4%, 14.0%, and 12.7% in 2017, 2018, and 2019, respectively). From now on, the expectation that interest rates will remain low for a long period of time, coupled with the expected reduction in corporate and household incomes, leads us to anticipate a low growth rate for term savings.

As for demand deposits, part of the nominal growth of term deposits is associated with the effect of the valuation of the exchange rate on FC balances. It is estimated that about 40% of the average nominal rate achieved by term deposits between January and September is attributable to the accounting effect of depreciation. After discounting the effect of inflation and the exchange rate, the average real growth rate in the first nine months of the year was 0.5%, the lowest recorded for a similar period since 2012. It should be noted that, as of June 2020, the balances of term savings began to contract in real terms.

It should be noted that the only segment whose growth rate did not slow (compared to the first nine months of 2019) was term deposits of companies (30.0% of total term deposits), a performance that contrasts with the marked reduction in momentum observed in other segments (private individuals, OFIs and the non -financial public sector). Part of this increase could come from the resources that companies obtained by using the credit lines which they were given access to at the start of the pandemic to make sure resources were available. In addition to this, companies, for lack of favorable investment conditions, may be keeping these resources as term savings. Finally, given the volatility of the financial markets, economic agents may also be choosing to reallocate resources from debt funds to term deposits, despite lower interest rates.

A slowdown in the momentum of debt mutual funds

Collection from shares in debt mutual funds grew at a nominal annual rate of 3.0% (-1.0% in real terms) in September, sitting below double-digit rates for the seventh consecutive month after a sustained 10-month growth streak (from May-19 to Feb-20). The loss of momentum in these financial investment instruments is consistent with increased risk aversion and a greater preference for liquidity. In addition, the end of the cycle of cuts in the monetary policy rate reduces the earnings expectations for this type of instrument in the short term.

With regard to the composition of the debt funds by instrument, the reduction in bank securities (21.3% of the total), which since May 2020 had registered declines in nominal terms, had already reached double-digit levels by July. On average, holdings of such securities fell by -4.4% in nominal terms in the first nine months of the year. Similarly, private securities (3.0% of the total) have experienced annual rate contractions since March, although their fall so far this year has not been as significant (-2.6% average from January to September). By contrast, government securities have maintained their double-digit growth rate over the past thirteen months, averaging a nominal annual growth rate of 12.2% (real 8.6%) in the first nine months of the year.

Non-residents' financial savings slow down further

In the case of residents in the country, net financial assets (NFAs) include: monetary instruments (demand deposits, term deposits, shares in debt funds, payables under repurchase agreements and public securities issued by the federal government, IPAB and Mexico’s Central Bank. This also covers non-monetary (less liquid) instruments, such as saving funds for housing and retirement (mandatory savings), other public securities and bank liabilities, as well as variable-yield securities and hybrid instruments. For non-residents in the country, possession of the same instruments is considered as in the case of residents, with the exception of saving funds for housing and retirement.

The increased demand for liquidity and the context of risk aversion in financial markets that triggered the contraction of demand and supply after the pandemic, exacerbated the decline in the external sources of financing available to the country's economy. This is particularly noticeable when we observe the fall in foreign-owned medium- and long-term bond holdings, which between March and October stood at around USD 15 billion. This has led to the fact that, despite the attractive relative interest rates offered by Mexican debt, for the first time since 2012, residents of the country hold more than 50.0% of the amount of medium- and long-term bonds in circulation. In fact, in September 2020, non-resident NFAs (18.7% of total NFAs) registered a real annual change of -13.5%, accumulating eight months of contraction. The unfavorable performance of non-residents' NFAs is mainly due to the above-mentioned fall in holdings of public securities, but also to the reduction in holdings of equity instruments, given that together they represent 93.4% of non-residents' NFAs.

The banking sector and, to a lesser extent, the specialized retirement fund investment companies (SIEFORES) have partially offset the lower appetite of foreigners for domestic instruments. This, coupled with increased demand for liquid assets, has increased their relevance and momentum as providers of finance to the economy. In fact, resident savings (81.3% of total NFAs) registered a real annual change of 3.3% in the first nine months of 2020, higher than the 0.5% decline reported in the same period of the previous year. Both voluntary savings and mandatory savings helped to boost the growth observed over the course of the year. Voluntary savings (59.3% of total NFAs) averaged a real growth rate of 1.0% between January and September, higher than the rate of -2.3% averaged over the same period in 2019. Within voluntary savings, the instruments that contributed most to the momentum were: total deposits (which includes demand deposits, term deposits and debt funds) and public securities. Mandatory savings (which includes saving funds for housing and retirement and represents 22.1% of total NFAs) improved their performance on the previous year since their average real growth rate from January to September 2020 was 10.0%, almost double the real rate recorded in the same months in 2019 (5.3%).

The Special Accounting Criteria (CCE) program ensured that the growth of the overdue portfolio was limited

The support programs proposed by the financial authorities, particularly the CCE program set up by the National Banking and Securities Commission last March, have not only supported the liquidity of families in the face of the crisis resulting from the health emergency, but, in turn, have allowed us to limit the level of defaults on bank loans and the adverse consequences on the financial system that such defaults entail. At the end of the third quarter the delinquency rate on the total NFPS loan portfolio was 2.5%, slightly lower than the rate observed at the end of the third quarter of 2019 (2.5%), supported by the incorporation of close to 20.0% of the balance of the bank's total portfolio to the CCE. According to the annual report of the Financial System Stability Council (CESF)[2], from this balance included in the program, as of June, 46.4% represented commercial loans, 30.3% represented mortgage loans and 23.2% represented consumer loans. At the end of the grace period for the payment of capital and interest on credit granted by the CCE, the expired portfolio of the various segments is expected to increase, particularly in the sectors most affected by the pandemic (e.g. hotels, transport and services). However, data for October, which estimates that 40% of loans dependent on the CCE were reactivated, indicate that a high percentage of customers have resumed their payments normally.

The restructuring program promoted by the National Banking and Securities Commission (CNBV) may have a limited scope

On September 24, the CNBV released a proposal designed to encourage banks to restructure loans affected by the health emergency through a series of benefits in terms of reserves, capital and reporting to credit bureaus. To this end, the restructures—with some differences according to the type of loan—should simultaneously observe the following:

- The reduction of the periodic payment by at least 25%
- The limiting of installment extensions to 50%
- The limiting of the increase of the remaining nominal amount to 15% of the original
- The reduction of the interest rate or the application of write-downs.

Consequently, the CNBV would allow 1) a reduction of specific reserves for restructured loans and the recognition of such reserves as a part of Tier 2 capital; 2) a reduction of credit risk weights for both restructured and new consumer, commercial, SME and mortgage loans, and 3) the use of "soft" marks in reports to credit bureaus in order to distinguish restructuring under the CNBV's program from other types of renegotiations.

On October 8, the CNBV extended the eligibility of loans to include those affected by the pandemic until January 31, 2021 (and not until September 24, 2020, as originally provided for) and reiterated the voluntary nature of the program. However, the greatest adjustment was made in relation to the requirements (maximum nominal amount and term increase, minimum reduction in periodic payment) in view of the restructured loan type and its maturity terms.

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[2] Annual report on the state of the financial system stability in Mexico and on the activities carried out by the Financial System Stability Council. September 2020. Available at: https://www.cesf.gob.mx/work/models/CESF/docs/informes/2020_informe_anual_cesf.pdf

Equally important was the possibility that banks participating in restructuring programs (benefiting in terms of capital and reserves) could—under strict capitalization criteria—distribute dividends for the financial years 2019 and 2020, which was previously prohibited. Finally, it was clarified that the reduction of credit risk weights would apply to loans restructured under the CNBV model, but also to all new loans, whether or not the institution has adhered to the CNBV's proposal.

On November 6, the CNBV limited the eligibility of loans for its restructuring program and associated benefits to "balances drawn as of April 15, 2020" which complemented the previously established requirements: being granted and performing as of March 31, 2020, borrowers not being Related Persons and being loans whose payment is affected by the pandemic by no later than January 31, 2021.

Finally, on November 9, the CNBV extended the benefits of "soft marks" before credit bureaus to bank restructures independently of the CNBV promoted program (Institutional Restructuring Programs or IRPs), provided that such programs are broadly in line with the provisions of the CNBV proposal in respect of periodic payment, term and nominal amount. Thus, reports to credit bureaus associated with the IRPs will state that the borrower's payment problems were due to the effects of the pandemic, avoiding the stigma associated with a restructuring under other circumstances.

The timely attention given by the Authority to the impact of the pandemic on economic activity, on borrowers' ability to pay and on bank balances (the increase in reserves and their impact on capital), as well as its willingness to adjust and adapt the original proposal through successive amendments, are worth highlighting.

However, the success of the proposal, measured both by its rate of adoption by the banking sector and by the deactivation of the problem of NPLs, remains to be seen. The adopted scheme runs the risk of being unattractive to institutions, since it involves a very high financial cost, given the simultaneous application of ceilings to the extensions of deadlines and nominal amounts, as well as minimum reductions in periodic payments which, in some cases may be unnecessary or simply financially inviable. In this regard, the proposal might have benefited from a more flexible approach, where banks had more room to determine the specific needs of each borrower and, based on their ability to pay, to design the most appropriate restructuring plan.

Not to offer capital benefits or reserves (or credit bureau "soft marks") to institutions carrying out restructures independently of the CNBV’s proposal, even if such restructures were appropriate, viable and conducive to settling loans seems like a missed opportunity to facilitate the earliest possible reactivation of credit and economic activity.

APPENDIX 1: MAIN REFORMS TO THE REGULATORY LANDSCAPE FOR COMMERCIAL BANKING – 2H20

Authority	Topic	Publication
1. CNBV/COVID-19 Jul/14/2020	Adjustments to the provisions of Art. 115 LIC on anti-money laundering, allows N2 accounts to receive up to 15 thousand investment units of payroll or personal loans granted by the same depository institution (during 2020)	DOF 14/07/2020
2. CNBV / COVID-19 Jul/15/2020	Establishes administrative measures for the continuity of the activities of the CNBV from Jul/16/2020	DOF Jul/15/2020
3. CNBV / Others Aug/21/2020	Updates the rules applicable to Price Vendors, categorizes information and prices for valuation of securities, derivatives and indexes; establishes obligations for documenting policies and reports, among others	DOF Aug/21/2020
4. CNBV / Others Oct/12/2020	Modification to the CUB (*Circular Única de Bancos* — banking circular) "Apertura Remota" (Remote Opening) Includes corporate entities in Level 4 accounts and private individuals with business and corporate activity in commercial loans. Distinguishes contracting between customers and applicants. Establishes technology standards and procedures for remote account opening	DOF 12/10/2020
5. CNBV / COVID-19 Nov/09/2020	Postpones entry into force to Jan/1/2023 of accounting standards published on Jan/4/2018, for participants in the derivatives contract market	DOF Nov/09/2020
6. CNBV / COVID-19 Nov/09/20	Postpones entry into force to Jan/1/2022 of accounting standards published on Jan/4/2018, applicable to brokerage houses	DOF Nov/09/2020
7. CNBV / COVID-19 09/Nov/20	Postpones entry into force to Jan/1/2022 of accounting standards published on Jan/4/2018, applicable to investment funds and persons providing services to investment funds	DOF Nov/09/2020
8. CNBV / Others Nov/13/2020	Sets the electronic medium and issues the official format for informing the CNBV of the signing of agreements for the exchange of information between companies in the same financial group	DOF Nov/13/2020
9. CNBV / Others Nov/19/2020	Resolution that modifies the CUB relative to the Business Indicator for Operational Risk	DOF Nov/19/2020
10. Banco de México / COVID-19 Jun/19/2020, Aug/19/2020, Aug/27/2020 and Sep/11/2020	Financing secured with bank loan assets for their channeling to MSMEs. Subsequent adjustments to financing conditions (extension of terms, extension of eligible assets, flexibility in the definition of MSMEs and modification of the methodology for calculating repo interest)	DOF Jun/19/2020, Aug/19/2020, Aug/27/2020 and Sep/11/2020
11. Banco de México/COVID-19 Jun/19/2020	Circular 26/2020. Rules applicable to USD financing auctions	DOF Jun/19/2020
12 . Banco de México / COVID-19 Jul/15/2020	Circular 27/2020. Presentation of digital documents as data messages with electronic signatures	DOF Jul/15/2020
13. Banco de México/Others Jul/15/2020	Circular 28/2020. Modifies Circular 3/2012. The interest rates of deposit and liquidity operations of Banco de México auctions (*open market operations*) will be automatically adjusted to the monetary policy target rate	DOF Jul/15/2020

APPENDIX 1: MAIN REFORMS TO THE REGULATORY LANDSCAPE FOR COMMERCIAL BANKING – 2H20

Authority	Topic	Publication
14. Banco de México / COVID-19 Aug/23/2020	Circular 29/2020. Rules applicable to corporate securities repurchase operations to cover liquidity needs (18/2020)	DOF Jul/23/2020
15. Banco de México / COVID-19 Aug/19/2020 and Nov/11/2020	Circulars 30/2020 and 33/2020. Rules for the provision of resources to credit institutions to channel credit to MSMEs and individuals (20/2020)	DOF Aug/19/2020 and Sep/11/2020
16. Banco de México / COVID-19 Aug/28/2020	Circular 35/2020. Extension to Feb/28/2021 of the facilities to cover liquidity needs announced on Apr/21/2020. Circulars 10/2015 financing, 16/2020 securities lending, 17/2020 repurchasing of securities, 18/2020 repurchasing of corporate securities and 20/2020 provision of resources to credit institutions to channel credit to MSMEs and individuals.	DOF Sep/28/2020
17 . Banco de México / Others Sep/30/2020	Circular 36/2020. Electronic issuance of tittles representing securities in securities depositories	DOF Sep/30/2020
18. Banco de México / Others Sep/30/2020	Circular 37/2020. Adjustments to rules for virtual asset operations for credit institutions and financial technology institutions	DOF Sep/30/2020
19 . Bank of Mexico / Others Oct/12/2020	Circular 38/2020. Modifications to 3/2012 (Admission of liabilities and investment regime for foreign currency denominated liabilities)	DOF Oct/12/2020
20 . Banco de México / Others Oct/12/2020	Circular 39/2020. Credit Rating Institutions Equivalency	DOF Oct/12/2020
21 . Banco de México / COVID-19 Oct/23/2020	Circular 40. Concludes exemptions and provisional measures in relation to the COVID-19 pandemic (Circulars 8/2020, Cash Operations and Correspondence and Dec/2020, non-working days for term calculation)	DOF Oct/23/2020
22 . Banco de México / COVID-19 Oct/28/2020	Circular 41. Minimum payment applicable to revolving credits, loans or revolving financing associated with credit cards (22/2020)	DOF Oct/28/2020
23 . Banco de México / COVID-19 Nov/04/2020	Circular 42. Repurchasing of corporate securities with Banco de México to cover liquidity needs	DOF 4/11/2020
24. Banco de México / COVID-19 Nov/04/2020	Circular 43. Amendments to the Securities' Repurchasing Circular	DOF Nov/4/2020

Source: BBVA Research

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Creating Opportunities

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