Banking

# Monthly Report on Banking and the Financial System

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## 1. Banking and the Financial System

### The dynamism of term deposits continues to drive the growth of traditional deposits in commercial banks

In January 2024, the balance of traditional bank deposits (sight + term) registered a real annual growth rate of 4.3% (equivalent to a nominal growth of 9.4%), a better performance than the immediately preceding month (1.5% real). In the first month of the year, sight deposits contributed 1.0 percentage point (pp) to the 4.3% growth of traditional deposits, while term deposits continued to be the main driver of the dynamism registered, contributing 3.3 pp.

As mentioned in other editions of this report, since September 2022, the year-on-year appreciation of the exchange rate has moderated the nominal dynamism of traditional bank deposit balances, due to the valuation effect of balances denominated in foreign currency (close to 13% of total traditional deposits). Discounting this effect, in addition to the inflationary effect, the January balances show a real variation of 5.6%.

In January, sight deposits registered a real YoY growth of 1.6% (6.5% nominal), a variation of the same magnitude as that registered the preceding month. This result is associated with a better performance of sight deposits of the public sector and companies, which was enough to offset the contraction registered by sight deposits of individuals - which in January registered a real annual variation of -8.6% (-4.1% nominal) - and the slowdown in the balances of other financial intermediaries (OFI), which grew only 3.6% in January, after an average growth of 22.5% in 2023. This contraction in individuals' sight deposits could be explained both by the growth in private consumption, which in the fourth quarter of 2023 (4Q23) averaged an annual growth rate of 5.2%, as well as by the higher yields that term instruments offer in an environment of interest rates that remain high.

In the case of term deposits, after a slowdown at the end of 2023, the balances of such savings instruments showed a real growth of 9.6% (14.9% nominal) in January 2024, higher than the growth observed in the preceding month (6.3% real) although without reaching the double-digit real annual growth rates observed from September to November 2023. By holder, term deposits of individuals registered a slowdown (7.9 vs. 8.9% in preceding month) for the fourth consecutive month. Also noteworthy was the recovery of term balances of other financial intermediaries, which grew at a rate of 7.3% in January after having registered a slowdown for two consecutive months and, above all, the performance of corporate term savings, which grew 13.4% annually in real terms (18.9% nominal). In turn, the non-financial public sector recorded a real YoY variation in its term balances of -1.4% (-4.8% in the MIA), accumulating 3 consecutive months of declines.

In summary, a high interest rate environment continues to position term deposits as an attractive form of savings, while the good performance of the labor market (with employment up 3.0% and real wages up 5.3% in January) allows holders to increase their overall savings in sight and term instruments.

## Commercial banking credit moderates its dynamism at the beginning of 2024

In January 2024, the balance of outstanding loans from commercial banks to the non-financial private sector (NFPS) grew by 4.9% annually in real terms (10.0% nominal), lower than the 5.3% growth of the immediately preceding month. With the result of the first month of the year, it accumulates three months of slowdown, after having reached a real annual rate of 5.9% in October 2023 (the highest on record after the pandemic). By portfolio, consumer credit contributed 2.6 pp to the real annual growth of 4.9% reported in January, while the corporate and housing portfolios contributed 1.5 and 0.8 pp, respectively.

Real outstanding consumer credit balances recorded annual growth of 11.3% (16.8% nominal), lower than the dynamism observed in the immediately preceding month (12.3% real). The segments that have lost the most momentum are credit cards (TDC, 38% of consumer credit) whose real annual growth rate decreased from 14.4% in December 2023 to 12.5% in January 2024 and payroll loans (25% of the total) which went from growing at a real annual rate of 7.9% to 6.6% in the reference period. The lower dynamism in the generation of formal employment and in the recovery of real wages could explain this loss of momentum. In particular, the number of IMSS-covered workers reduced its annual growth rate from an average of 3.1% in the fourth quarter of 2023 (4Q23) to 2.9% in the first month of the year, while the salary associated with these workers went from an average annual growth rate of 6.0% in 4Q23 to 5.3% in January 2024. In the case of the outstanding balance of ABCD loans, its growth showed a very slight reduction from a real annual growth rate of 15.0% in December to 14.9% in January. Part of this result is due to the fact that its most important segment, automotive credit (14% of consumer credit), continued to show strong dynamism, with a real annual growth rate of 18.4% (vs. 18.2% in December 2023), maintaining real double-digit annual variations for the eighth consecutive month, which offset the 1.4% real decline of the other component of this segment, loans for personal property. The other segment that improved its performance was personal loans (15% of the consumer portfolio), which grew in January at a real YoY rate of 8.4%, higher than the 7.7% reported in December 2023. It should be noted that both automotive and personal loans were the segments that took the longest to recover after the contraction observed as a result of the pandemic, so the dynamism observed at the beginning of the year could be associated with this lag in their recovery.

With respect to the housing portfolio, its outstanding balances recorded an annual growth rate in real terms of 3.7% (8.8% nominal) in January, a slowdown with respect to the figures of the immediately preceding month (when real growth was 4.1%) and with opposing dynamics between the two segments that comprise it. Meanwhile, credit balances for the acquisition of medium-residential housing (96% of the total) showed a slowdown in real terms (4.0% vs. 4.5% in the immediately preceding month), while the balances of financing for social interest housing moderated their fall from a real contraction of 5.0% in the preceding month to one of 2.9% in January. As in the case of the consumer portfolio, although with a greater lag, the slowdown that has been observed since August would be associated both with a lower dynamism of employment and wages, as well as an environment in which interest rates have remained high, increasing the cost of financing and thereby reducing the demand for this type of financing.

Corporate financing (53% of the outstanding portfolio to the NFPS) increased 2.7% in real terms (7.7% nominal), marking a lower dynamism than that observed in December (3.0%). It should be noted that, by sector of economic activity, the sector with the greatest contribution to growth is trade and real estate and rental services, followed by other tertiary activities and, to a lesser extent, mining. In its composition by currencies, in the first month of the year, outstanding balances in foreign currency (M.E.) grew at a real annual rate of 3.7% higher than that observed during the immediately preceding month (2.2%) while credit denominated in domestic currency reduced its growth rate from 3.2% in December 2023 to 2.2% in January 2024. Going forward, this slowdown could be expected to continue as economic activity, and particularly private investment, is expected to be less dynamic, while interest rates remain at high levels, both of which could limit the growth of demand for financing.

## Growth in private sector credit has been more *dynamic* in Mexico than in other economies.

In February, Banxico published its Quarterly Report for the period October-December 2023. In this edition, the central bank included a descriptive analysis of the performance of bank financing in different economies, to illustrate that credit granted by banks to the private sector in Mexico has shown higher rates than those observed in other countries.

The analysis indicates that the dynamics of financing to the private sector are a function of several variables, including economic activity, the labor market and interest rates. Comparisons with various emerging and advanced economies, and based on different surveys, seem to indicate that the growth observed in the different segments of private sector credit (business, housing and consumer) is a variable that maintains a positive and lagging relationship with economic activity. Thus, the fact that during 2023 Mexico's bank financing growth was higher than that of other economies would partly reflect the fact that the recovery of the Mexican economy occurred later than that of the rest of the economies analyzed.

The report also highlights that the intermediation of funds in Mexico has been orderly and without generating pressures on the loanable funds market, and that delinquency rates have remained at or below pre-pandemic levels.

## In Mexico, total financial savings grew by 0.2% while total financing increased 1.7% year-on-year in real terms in 3Q23

The National Banking and Securities Commission (CNBV) released its Report on Financial Savings and Financing in Mexico, with figures through to September 2023. For 3Q23, total financial savings increased by 0.2% year-on-year in real terms, representing 87.8% of GDP. Meanwhile, total financing showed a real annual change of 1.7%, equivalent to 91.4% of GDP.

At the end of 3Q23, domestic financial savings represented 69.6% of GDP, an increase over the percentage reported in September 2022 (68.8% of GDP), and registering a year-on-year increase of 4.3% in real terms. Holdings of fixed-income securities and trust stock certificates (certificados bursátiles fiduciarios, or CBFs for short; 35.0% of GDP) recorded a real annual increase of 5.0%, while deposits acquired by financial intermediaries showed real annual growth of 3.7% to reach 34.6% of GDP. In this segment, deposits from commercial banks continue to account for most of the funds raised, representing 22.4% of GDP, while Infonavit and development banking account for 5.6% and 3.4% of GDP, respectively.

Meanwhile, external savings recorded a real annual decline of 13.1%, equivalent to 18.2% of GDP in September 2023. Inflows of foreign funds into the public sector were equivalent to 12.3% of GDP, while funds raised by the private sector accounted for 5.9% of GDP. As for the channel through which funds are obtained, securities issued abroad represented 8.6% of GDP, securities issued in Mexico in the hands of non-residents 5.2%, and loans and other forms of credit obtained abroad 4.4%.

On the financing side, the external component recorded a real annual contraction of 17.9%, to reach 12.9% of GDP. Within this component, external financing granted to the private sector (5.4% of GDP) was down 20.4% in real terms and external funding to the public sector (7.5% of GDP) posted a real annual decline of 16.1%.

By type of foreign financing, fixed income instruments issued abroad accounted for the largest share of private sector funding with 3.7% of GDP, while foreign loans to the private sector reached 1.7% of GDP, with a real annual decrease of 19.4% and 22.5%, respectively. Similarly, the balances of fixed income instruments issued abroad and aimed at financing the public sector (4.8% of GDP) fell 11.9%, while foreign loans granted to the public sector (2.7% of GDP) fell 22.5%.

Domestic financing achieved real annual growth rate of 5.8%, and was equivalent to 78.5% of GDP. At the end of 3Q23, by destination of domestic financing, the resources allocated to the public sector corresponded to 43.3% of GDP, while those allocated to the private sector were equivalent to 35.2% of GDP.

Total financing to the private sector (40.6% of GDP) was mainly composed of commercial bank credit (18.1% of GDP), which was up 5.7% in real annual terms, followed by credit granted by other financial intermediaries (10.2% of GDP), issuances of domestic debt securities and trust certificates (known as CBFs; 5.6% of GDP), debt issuances abroad (3.7% of GDP), foreign credit (1.7% of GDP), and development banking loans (1.4% of GDP). Meanwhile, public sector financing (50.8% of GDP) comprised issuances of domestic debt instruments and CBFs (40.1% of GDP), followed by foreign debt issuances (4.8% of GDP), foreign loans (2.7% of GDP), commercial bank loans (2.0% of GDP), and development banking loans (1.2% of GDP).

The report also presents information for non-financial institutions. Of particular note, supplier credit to issuers on the BMV (Mexico Stock Exchange) was down 9.1% in real annual terms, while non-bank credit card balances were up 12.3% in real annual terms for the quarter.

# 2. Financial markets

## Markets converge with FED projections as inflation tops estimates

The first few months of 2024 have been distinguished by a convergence between market expectations with the Fed Open Market Committee's (FOMC) projections of federal funds rate cuts and their consequences on the prices of major asset classes.

The prospect of up to six 25 basis point (bp) cuts starting in March of this year, which market participants were incorporating into the start of 2024, was again tempered by the Fed's communication at its first meeting of the year. Subsequently, the above-expected inflation data in the first two months of 2024 have reinforced the Fed Chairman's less lax communication in late January, with expectations already looking more consistent with the three 25bp cuts raised by FOMC members' projections last December.

Following this adjustment in expectations and pending the FOMC's new projections at its March 21 meeting, the prices of fixed income and equity instruments diverged significantly. Moreover, as expected, Treasury bond yields registered increases after the FED meeting, following the significant drops observed at the end of 2023. In particular, between January 31, the date of the Fed meeting, and March 13, the yield to maturity on the two-year Treasury bond rose 43bp to 4.63 percent, after falling 4bp during the first month of 2024.

On the long end of the curve, the 10-year node recorded a 28bp increase in its yield to maturity between January 31 and March 13, so that it is trading at 4.19 percent, 31bp above the beginning of the year.

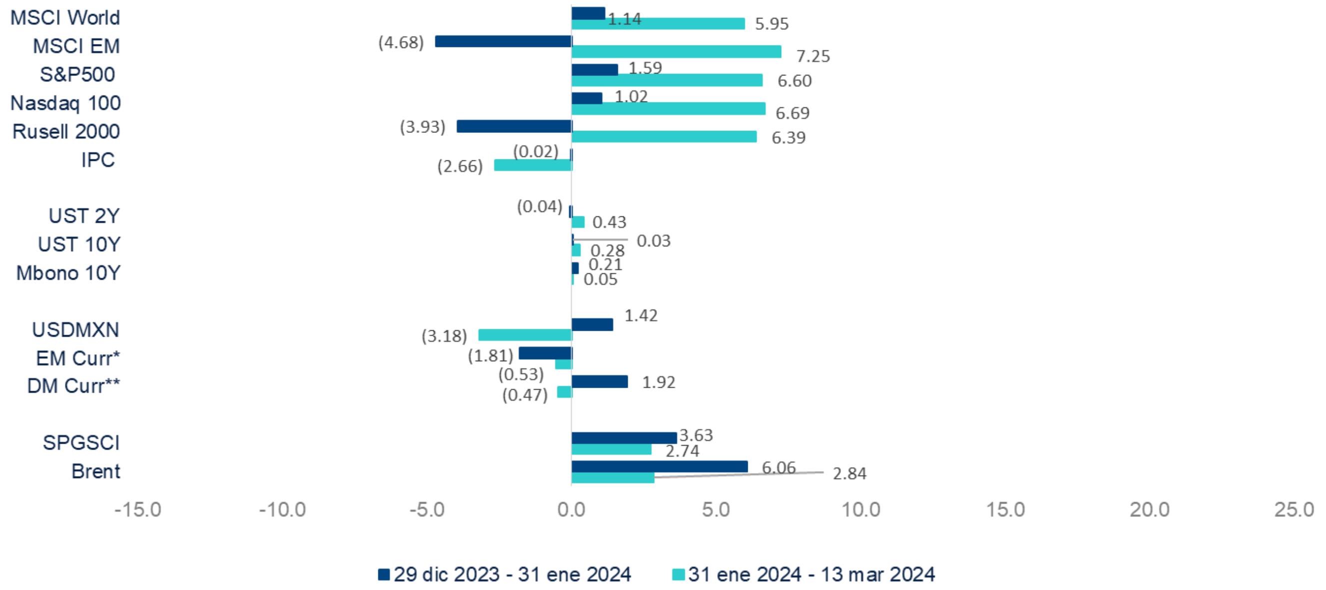
The influence of these movements and some persistence of inflation seem to have influenced Mexican fixed income, with the result that the M10 yield to maturity has increased 26bp so far this year. All this, even with the willingness of several members of Banxico's Board of Governors to initiate the cycle of cuts at the next meeting.

Meanwhile, major stock markets have posted gains, supported by better-than-expected economic data in the United States and favorable corporate results, especially from technology companies, fueling the soft landing narrative. Leading US equity indices registered a positive differentiation with respect to the global benchmark for this asset class (MSCI World), which has increased 7.1 percent so far this year. Notably, the S&P500 posted gains of 8.3 percent this 2024 with much of this increase concentrated in the large technology group called the magnificent 7 and with further upside following the Fed's January 31 meeting (see figure 1).

In the foreign exchange market, the Mexican peso maintains a positive differential that has allowed it to appreciate 1.8 percent so far this year and to once again trade below 17 pesos per dollar. This contrasts with declines of 2.3 percent and 1.4 percent respectively for emerging and developed country currency benchmarks for the same period, respectively (see Figure 1).

Markets remain on hold awaiting the tone of communication at the next Fed meeting and FOMC forecasts. What seems clear, so far, is that, given the persistence of inflation, strength in the labor market, the U.S. central bank will be very cautious in the speed of the tightening cycle, and that it will begin no earlier than mid-2024.

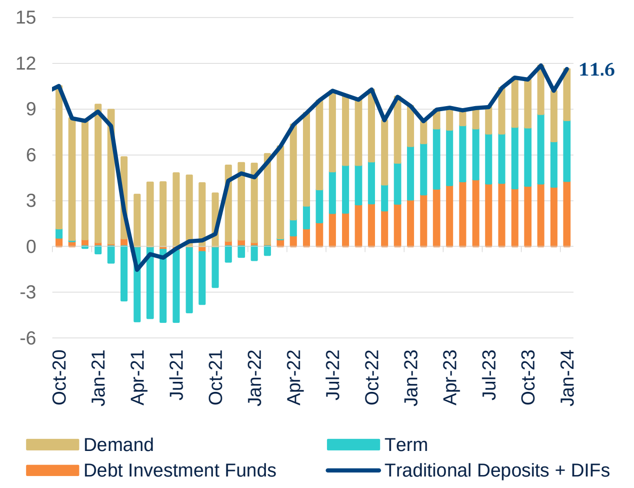
Figure 1. **PERFORMANCE OF THE PRICES OF THE MAIN FINANCIAL ASSETS DURING THE PERIOD JANUARY-MARCH 2024** (% CHANGE IN LOCAL CURRENCY)




*JP Morgan Emerging Markets Currency Index. For this index a reduction (increase) implies a depreciation (appreciation) of a basket of emerging economy currencies against the USD. **DXY Index, for this index a reduction (increase) implies a depreciation (appreciation) of the USD against a basket of developed countries currencies.
Source: BBVA Research based on Bloomberg data.

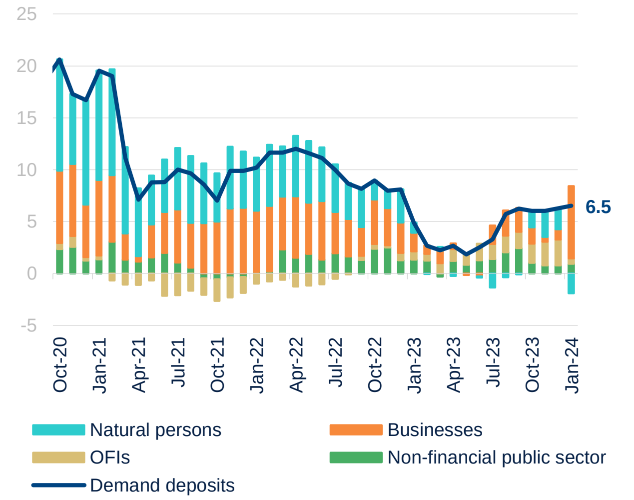
## Deposits: figures

Figure 2. **COMMERCIAL BANKING DEPOSITS (NOMINAL ANNUAL CHANGE, %)**



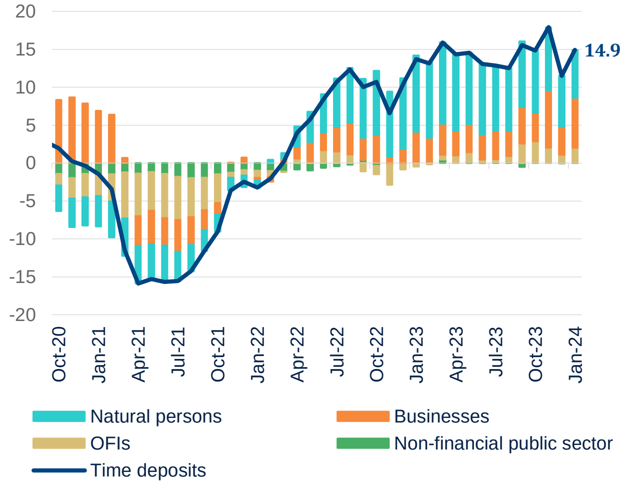

Source: BBVA Research based on Banxico data.

Figure 3. **SIGHT DEPOSITS (NOMINAL ANNUAL CHANGE, %)**



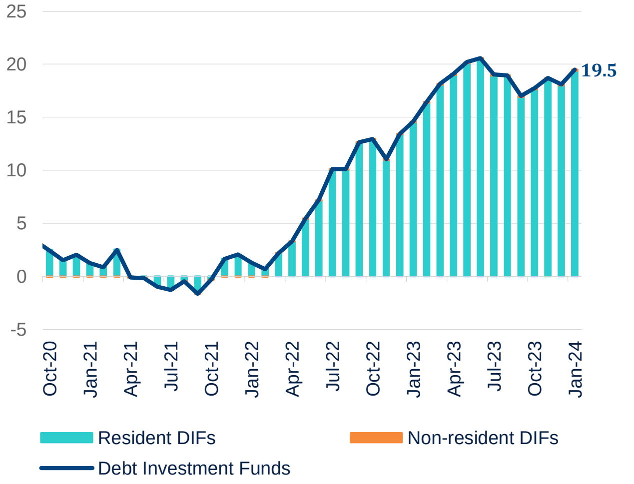

Source: BBVA Research based on Banxico data.

Figure 4. **TERM DEPOSITS (NOMINAL ANNUAL CHANGE, %)**




Source: BBVA Research based on Banxico data.

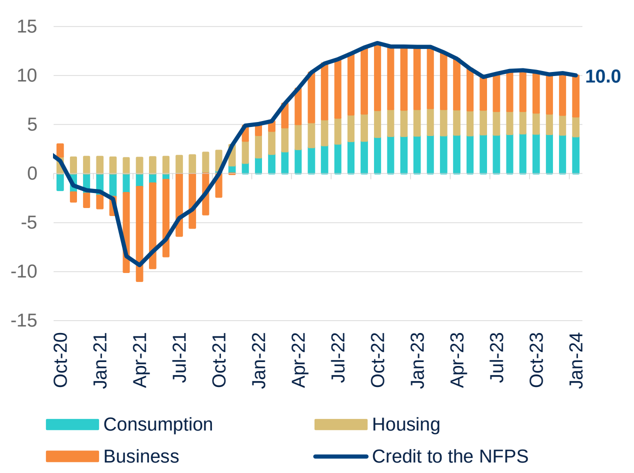
Figure 5. **DEBT INVESTMENT FUND SHARES (NOMINAL ANNUAL CHANGE, %)**




Source: BBVA Research based on Banxico data.

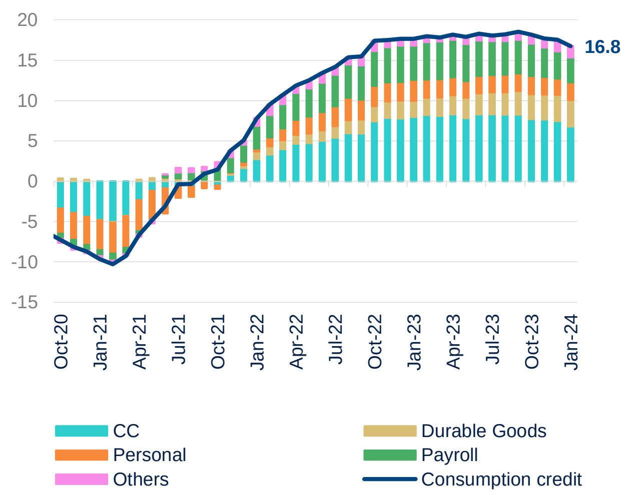
## Credit: figures

Figure 6. **OUTSTANDING BANK CREDIT TO THE NON-FINANCIAL PRIVATE SECTOR** (NOMINAL ANNUAL CHANGE, %)



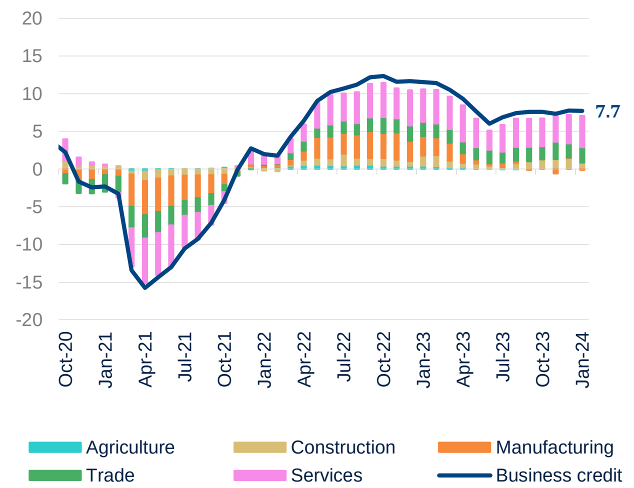

Source: BBVA Research based on Banxico data.

Figure 7. **OUTSTANDING CONSUMER CREDIT** (NOMINAL ANNUAL CHANGE, %)



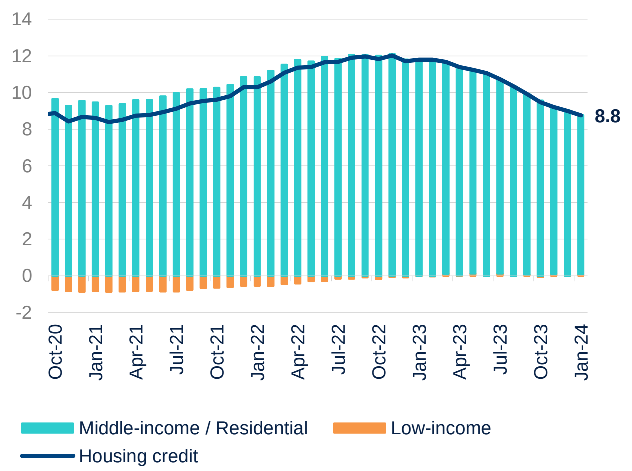

Source: BBVA Research based on Banxico data.

Figure 8. **OUTSTANDING BUSINESS LOANS** (NOMINAL ANNUAL CHANGE, %)




Source: BBVA Research based on Banxico data.

Figure 9. **OUTSTANDING MORTGAGE LOANS** (NOMINAL ANNUAL CHANGE, %)




Source: BBVA Research based on Banxico data.

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