Banking

Monthly Report on Banking and the Financial System

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1. Banking and the Financial System

Traditional bank deposits regain momentum in March, on the back of demand deposits.

In March 2025, the balance of traditional bank deposits (demand + term) recorded a real annual change of 6.5% (10.6% in nominal terms), a figure higher than the growth observed in February (4.8% in real terms). Based on these figures, traditional deposits averaged 6.0% growth in the first quarter of the year (1Q25), slightly above the 5.7% observed in 4Q24.

Both demand deposits and term deposits delivered an improved performance in March, with the former contributing 4.5 percentage points (pp) to the total growth in traditional deposits, and the latter delivering 2.0 pp. The accounting effect of the exchange rate in March reached its highest level since June 2024 (contributing 3.0 pp to the buoyant annual rate). Even if we strip out this effect, we can observe a clear improvement in the performance of traditional deposit-taking, having climbed from a real annual rate without the exchange rate effect of 2.4% in February to 3.5% in March.

In the third month of the year, sight deposits registered a real annual change of 6.9% (nominal growth of 10.9%), higher than the real growth recorded in the immediately preceding month of 5.8%. With this result, sight deposits achieved a higher real change in 1Q25 than the average recorded in 4Q24 (6.5% vs. 4.4%).

Demand deposit balances by holder type continue to show a mixed performance. In the case of individuals (43.8% of the total current balance), the annual real growth rate was down on the immediately preceding month (from 6.4% to 3.8%). Meanwhile, the balance of corporate demand deposits slowed, dropping from a real annual growth rate of 9.7% to 5.5%, while other financial intermediaries further slowed the growth in this type of deposits from a real annual change of -16.4% to -21.1%. **The only segment that showed significant recovery was the non-financial public sector (14.5% of the total current balance), whose real annual growth rate increased from 4.4% in February to 43.5% in March**.

This uptick could be down to the strong performance recorded in the federal government's non-oil revenues, which were up 17.6% in real terms in March, the highest rate recorded since 2015, as a result of various measures to improve auditing and foster taxpayer compliance. However, this effect would be temporary in nature and could last for an additional month at most (until the taxpayers' annual tax returns have been finalized).

Meanwhile, term deposits picked up in March 2025, registering a real annual growth rate of 5.9% (9.9% nominal), higher than the 3.1% observed in the immediately preceding month. As a result, real growth for 1Q25 averaged 5.1%, below the average of 8.3% observed in 4Q24. This deposit category also delivered a mixed performance by type of holder. In particular, term savings among individuals (44.3% of total term deposits) continued to slow from a real annual change of -2.6% to -2.7%, while holdings in the hands of other financial intermediaries slowed slightly, falling from a real annual rate of 35.0% in February to 34.7% in March. By contrast, corporate holdings of term deposits managed to reverse the downward trend observed in February by switching from a real annual change of -2.3% to positive growth of 5.3%, while terms deposits in the hands of the non-financial public sector slowed their decline from -11.7% in February to -8.5% in March. Therefore, term instruments in the hands of companies shored up the performance in the third month of the year. This could be explained by the fact that companies have been temporarily amassing a portion of the funds obtained through financing facilities (credit to companies witnessed a significant increase in the first quarter of the year), for use further down the line.

Looking ahead, a slowdown in traditional deposit-taking is to be expected, seeing as though the temporary tailwinds on both demand deposits and term savings will dissipate and weaker economic activity will ultimately feed through to the revenues of economic agents.

Current credit to the non-financial private sector slows slightly

In March 2025, the outstanding loan portfolio balance granted by commercial banks to the non-financial private sector (NFPS) recorded real annual growth of 9.9% (14.1% nominal), below the growth observed in February (10.2% real). Even so, 1Q25 saw an average annual real growth rate of 10.1%, higher than the 8.2% average recorded in 4Q24. Lending to companies contributed 6.0 pp to March's real annual growth rate, while consumer and housing loans contributed 3.3 and 0.6 pp, respectively. If we strip out the accounting effect of the exchange rate, the slowdown becomes slightly more noticeable, as the real annual rate dropped from 7.5% in February to 7.0% in March. In other words, the exchange rate depreciation contributed 2.9 pp to the annual real growth in bank credit in March 2025.

In the third month of the year, **outstanding consumer credit reached a real annual growth of 13.8% (18.1% nominal), falling short of the growth reported in February (14.3%**). As a result, average consumer credit growth in 1Q25 was 14.2%, surpassing the 13.0% average observed in 4Q24. The consumer durables segment (ABCD, 20.8% of consumer credit) remains the main growth contributor, having added 7.0 pp in March to the real annual change in the outstanding loan portfolio. In March 2025, the two segments that form part of this portfolio (automotive and movable goods) were slightly less buoyant in annual terms with respect to the previous month, although the quarterly average remained above that observed in the last quarter of 2024 (42.2% vs. 40%).

The second segment making the largest contribution to growth in March was credit cards (36.1% of outstanding consumer credit), the balance of which was up 8.7% in real annual terms (12.8% nominal), albeit down on the figure for February (annual growth rate of 10.0%). Although double-digit growth was not achieved in March, the average growth rate in 1Q25 (9.5%) exceeded that observed in 4Q24 (8.3%). This segment contributed 3.3 pp to the growth in consumer credit in March, the lowest figure observed in the first quarter of the year. The weakness that can now be seen in domestic consumption points to a likely slowdown in the growth of this portfolio over the coming months.

Payroll and personal loans, meanwhile, continued to lose steam in March. Payroll loans reported a real annual growth rate of 5.2%, slightly below the 5.5% observed in the immediately preceding month, while personal loans went from a real annual growth rate of 10.3% in February to 9.6% in March. With these results, payroll and personal loans together contributed 2.8 pp to the real growth of current consumer lending. Despite this slowdown, real growth in both segments managed to remain above the average recorded in 4Q24 (4.8% and 9.1% respectively).

Current housing loans (21.1% of the outstanding portfolio to the NFPS) registered a real annual growth rate of 2.7% in February (6.5% nominal), once again down on the previous month (real annual growth rate of 3.0%). The March figure largely reflects the slowdown in the middle-income residential housing segment, where growth slowed from 3.4% in February to 2.8% in March.

This more subdued growth could not be offset by an improved showing from the low-income housing segment. While it did manage to move from negative into positive growth (real annual change of -6.3% in February vs. 0.2% in March), it accounts for very little (3.8%) of the total mortgage portfolio, out of the two segments that make up this loan portfolio (acquisition of low-income housing and middle-income residential housing). This slowdown in the mortgage portfolio's momentum could be down to the weaker state of the formal employment and wage indicators. Given that the performance of these indicators takes time to feed through to mortgage lending, it is likely that the slowdown recorded in 1Q25 will deepen as we move through the year.

Meanwhile, **outstanding loans to businesses (representing 53.7% of outstanding loans to the NFPS) were up 11.2% in March in real terms (15.5% nominal), slightly below the figure observed in February (11.3% real) and keeping real growth in double-digit territory for the third month running**. With the March result, average real growth of 11.2% was achieved in 1Q25, surpassing the average real growth observed in 4Q24 of 8.2%.

By sector of activity, the services sector (55% of the total) contributed 7.6 pp to the total growth in current lending to companies in March, while **for the third month running the manufacturing sector (19.2% of the total) ranked second in terms of relative importance, contributing 1.6 pp to the total growth. Notably, this sector managed to average a real growth rate of 7.8% in 1Q25, significantly higher than the growth observed in 4Q24 (1.7%)**. The construction sector came in third place (15.7% of the total), making a total contribution of 1.3 pp. This sector also showed a significant recovery in 1Q25, averaging growth of 7.8% in real terms in the quarter, outpacing the average observed in the previous quarter (1.8% in 4Q24).

Such a strong performance in terms of lending to companies is fairly unusual during the kind of economic slowdown we are witnessing now. Indeed, over the past 15 years, when formal employment has grown at rates below 1.0% and the Global Economic Activity Indicator has grown at an annual rate of less than 0.6%, the median real annual growth rate of lending to companies has been 3.9%, 7.3 percentage points lower than the current rate.

A similar story emerges in the case of lending to manufacturing companies. The median growth rate for this segment under the slowdown conditions mentioned above over the past 15 years is 2.5%, meaning that the March growth figure is 3.3 times higher.

These figures, coupled with historic US import growth in the first quarter, suggest that the **current trend among companies of bringing forward their purchases to avoid the costs of the new tariffs may have a lot to do with the unusual behavior seen in corporate credit in the early months of 2025**.

In terms of currency composition, it should be noted that the outstanding portfolio in domestic currency (D.C. 73.3% of current lending to companies), achieved real growth of 4.6% in March, below the 5.3% recorded in the previous month. Meanwhile, the current portfolio in foreign currency grew at an annual rate of 35.6%, stripping out the effect of inflation. However, stripping out the accounting effect of the exchange rate depreciation, the annual growth rate was 8.9%, lower than the 9.6% observed in February and also below the average observed in 4Q24 (9.2%).

Looking at the total portfolio, and adjusting for the accounting effect of the exchange rate, a more moderate growth rate emerges, dropping from a real annual rate of 11.2% to 5.7%, below the 6.4% growth recorded in February (net of the accounting effects of inflation and exchange rate). In other words, in March the accounting effect of the exchange rate contributed 5.7 pp to annual growth. This contribution was the highest observed since June 2024, when depreciation began to have an upward impact on nominal growth rates due to the exchange rate valuation effect.

Aside from the valuation effect of the exchange rate, as mentioned earlier, the buoyant state of corporate credit may have been aided in the first quarter of the year by the **significant recovery of financing to the manufacturing sector amid higher demand for exports as companies in the United States rush to push through their orders ahead of the dreaded tariff hikes**. Once the uncertainty over the eventual outcome of these measures clears, this precautionary approach may dissipate, and credit demand in the manufacturing sector—and indeed in the wider economy—may begin to reflect, with some delay, the slowdown shown by the latest data on economic activity.

2. Financial markets

Does the trade truce between China and the US significantly change the outlook?

Following the release of news of a 90-day trade truce between the United States and China, there was a heightened risk appetite and, in particular, increased demand for U.S. assets. However, to what extent is this initial trade rapprochement between the US and China enough to change expectations in the financial markets? In an attempt to answer this question, we would do well to compare the performance of risk asset prices before and after this latest episode in the history of tariffs.

In the weeks leading up to the announcement of the US-China trade truce, financial market participants were on the watch-out for any progress made in the trade negotiations, while the economic figures still did not reflect the findings of the surveys (soft data) pointing to greater risks to growth.

Despite the warnings made by the Federal Reserve (FED) of heightened risks to inflation and unemployment at its most recent meeting, the federal funds rate futures curve priced in just over three rate cuts this year, albeit concentrated in the second half of 2025. This suggested that markets continued to price in the fact that, despite uncertainty regarding tariffs, the greatest impact could be on economic activity rather than on prices.

This suddenly changed to just two 25-basis-point cuts for the whole of 2025, following news of the progress made in trade negotiations with China. This suggests that, given this news, market participants are now pricing in fewer risks to growth and inflation.

Accordingly, **risk asset prices shifted from cautious growth expectations with a preference for non-US assets to significant risk appetite at the outset.**

Thus, between April 9 and May 9, the main stock indices showed progress, which was reflected in a growth of the benchmark for this type of assets of 7.1% in the mentioned period. North American markets posted growth below this figure, with increases of between 3.7% for the S&P 500 and 5.7% for the Russell 2000, while in Europe the EuroStoxx 600 was up 14.5% and the emerging markets (EM) index rose by 14.6%. For the BMV's IPyC, the performance was +7.7%, which means that so far in 2025, growth has already accumulated 14.2%.

On May 12, following the news of the trade negotiations, US stock indices rose between 3.2% (S&P 500) and 4.3% (Nasdaq), well above the 2.2% growth of the global benchmark for this asset class.

In the U.S. fixed income market, there was a new increase in the curve following a rise of just one basis point (bp) in the two-year node, while the 10-year node increased by 21 bp in the period spanning April 1 to May 9. It is worth noting that most of the increase in the 10-year node's yield to maturity (16 bp) took place after the so-called Liberation Day (April 2) and the pause in applying the tariffs (April 9).

On May 12, the curve moved almost parallel by 4 bp. While it is too early to make a reliable interpretation based on a single snippet of information, this could be due to the lower risks to growth.

The Mbono curve also showed an uneven performance between the short and the long ends over the period spanning April 1 to May 9. In line with the expected interest rate cuts to be carried out by the central bank, the three-year node recorded a 13 bp fall, while the five-year node yield to maturity fell by 2 bp. By contrast, the long end of the curve saw rises of 12 bp for the 10-year bond and 19 bp for its 20-year counterpart, suggesting a higher *term premium*.

On May 12, there were also increases in the Mbono curve of between 1 and 5 bp, although the largest increases were seen at the short end. This could also be consistent with lower risks to growth in Mexico.

It is worth noting that, in line with the increases in long-term rates seen between April 1 and May 9, there was a significant reduction in foreign holdings of M bonds. **As of April 25, in the three weeks since Liberation Day (April 2), holdings of nominal fixed-rate bonds in the hands of non-residents fell by just over USD 2,000 million**. While holdings increased once again a week later, April 2025 is expected to see one with the largest reductions in foreign holdings, second only to that observed during the pandemic.

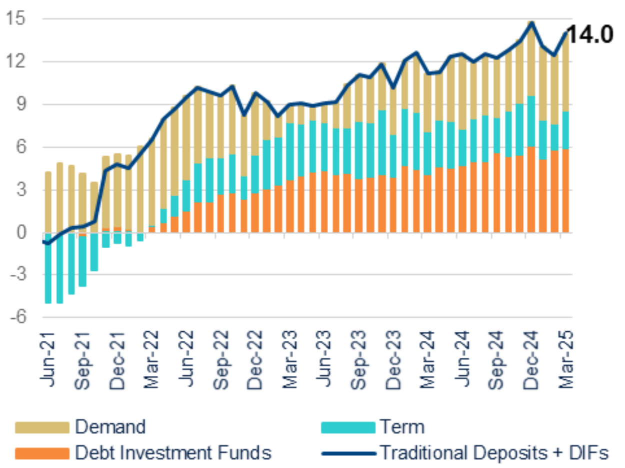
In the foreign exchange market, despite the prevailing uncertainty, demand for the dollar remained low, while the rise in the price of gold pointed to its current role as a safe haven asset. Between April 1 and May 9, the dollar lost 3.7% against developed market currencies and 1.6% against EM currencies. In contrast, the price of gold increased 7.2% over the same period, most of this increase following the announcement of the pause in reciprocal tariffs.

However, on May 12, the dollar appreciated 1.4% against the currencies of other developed countries, its best single-day performance since last November, and 1.0% against the Mexican peso, while gold fell 3.5%.

Although this rapprochement between the U.S. and China is certainly a better scenario than the threat of an all-out trade war a month ago, there are currently no factors pointing to a significant change in the scenario over the medium term. Oil prices remain down, the U.S. deficit continues to climb (which could be affecting the rise in long-term rates) and, above all, the threat of tariffs continues to loom. For now, the events that transpired over the weekend can only mean that the short-term risk scenario has improved somewhat.

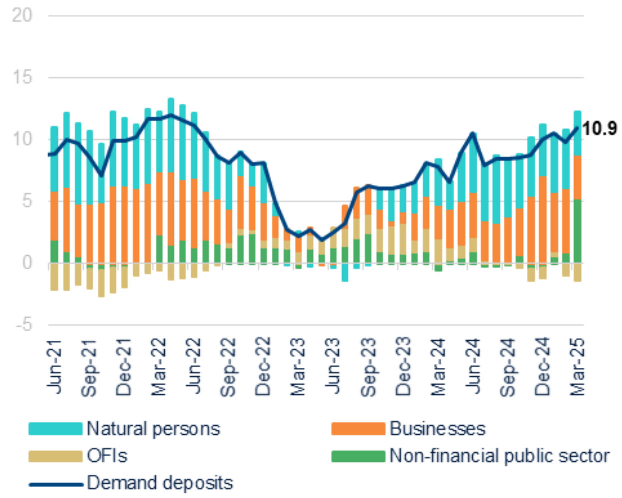
Deposit-taking: charts

Figure 1. **COMMERCIAL BANK FUNDING**
(ANNUAL NOMINAL CHG., %)



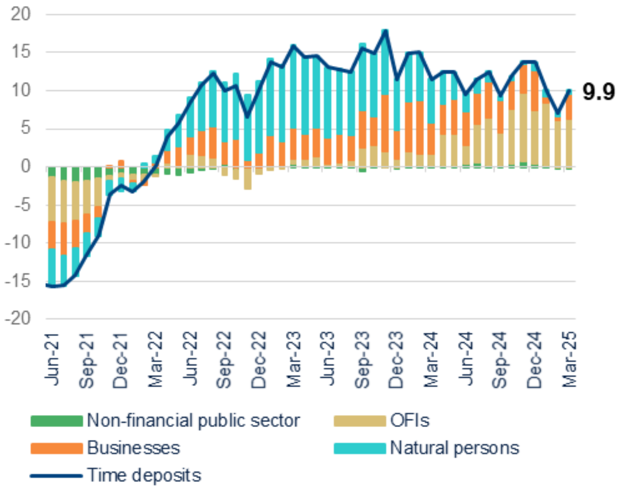
Source: BBVA Research, with data from Banxico.

Figure 2. **DEMAND DEPOSITS**
(ANNUAL NOMINAL CHG., %)



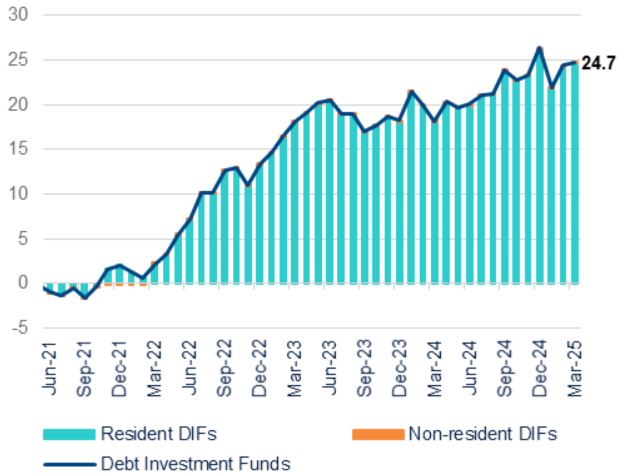
Source: BBVA Research, with data from Banxico.

Figure 3. **TERM DEPOSITS**
(ANNUAL NOMINAL CHG., %)



Source: BBVA Research, with data from Banxico.

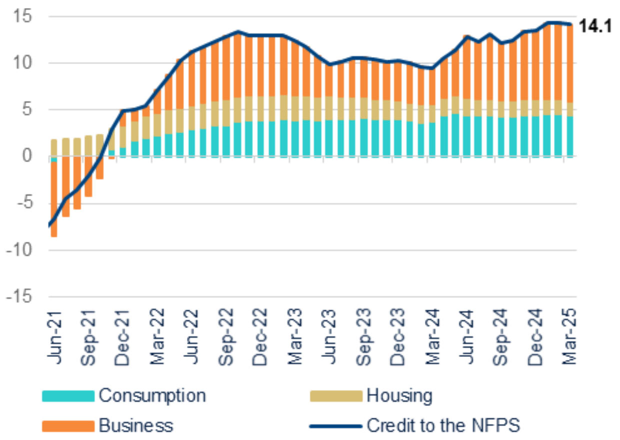
Figure 4. **DEBT INVESTMENT FUND SHARES**
(ANNUAL NOMINAL CHG., %)



Source: BBVA Research, with data from Banxico.

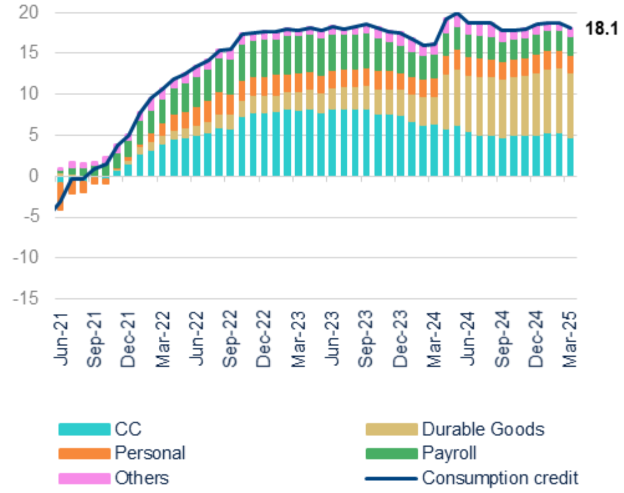
Loans: charts

Figure 5. **PERFORMING BANK LOANS TO THE NON-FINANCIAL PRIVATE SECTOR** (ANNUAL NOMINAL CHG., %)



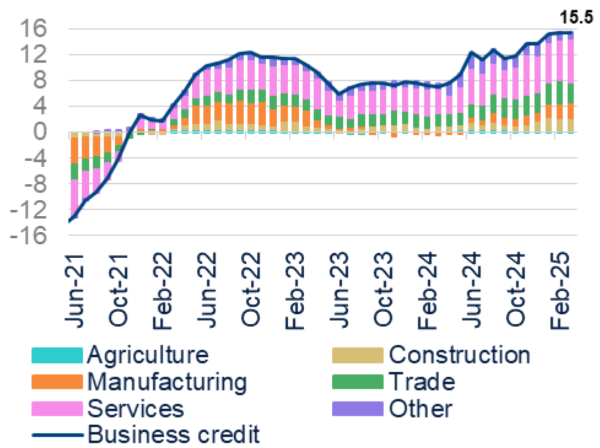
Source: BBVA Research, with data from Banxico.

Figure 6. **OUTSTANDING CONSUMER LOANS** (NOMINAL ANNUAL CHANGE, %)



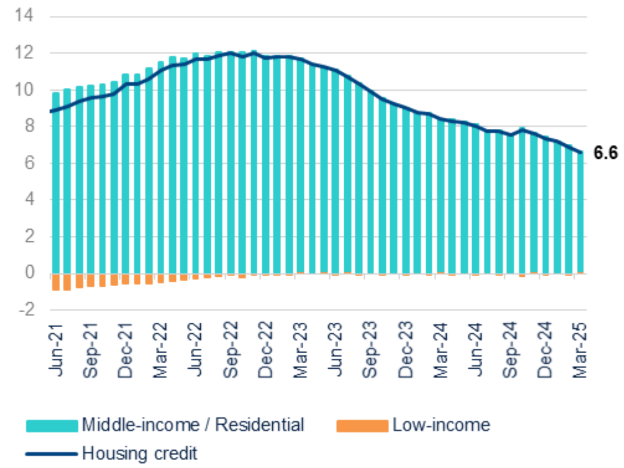
Source: BBVA Research, with data from Banxico.

Figure 7. **OUTSTANDING BUSINESS LOANS** (NOMINAL ANNUAL CHANGE, %)



Source: BBVA Research, with data from Banxico.

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



Source: BBVA Research, with data from Banxico.

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