Monthly Report on Banking and the Financial System

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1. Banking and Financial System

Traditional bank deposits moderate their growth, reflecting the slowdown in term deposits.

In April 2025, the balance of traditional bank deposits (sight + term) reached real annual growth of 6.1% (10.3% nominal), below the 6.5% recorded in March and similar to the average recorded in 1Q25 (6.0%). Sight deposits contributed 4.6 pp to the growth observed in April, while term deposits contributed 1.5 pp. Notably, in the fourth month of the year, the accounting effect of the depreciation of the exchange rate was lower than that observed in the previous five months. Adjusting for this effect, real annual growth stood at 4.2% in April, higher than the average for 1Q25 (3.4%).

In the fourth month of the year, sight deposits registered real annual growth of 7.1% (11.3% nominal), the highest recorded since February 2021. Even discounting the accounting effect of the depreciation of the exchange rate, the growth observed in April (5.2%) is among the highest recorded in the last four years.

By holder type, the pick-up observed in the balances of individuals (from 3.7% in March to 6.7% in April) and the smaller contraction in the balances of other financial intermediaries (from -21.2% in March to -9.6% in April) stand out. In both cases, part of this performance can be attributed to a reallocation of term deposit balances due to the lower opportunity cost of maintaining liquid balances as a result of the gradual decrease in deposit interest rates.

On the other hand, the holding of sight deposits by companies slowed marginally from 5.5% in March to 5.3% in April, while growth in the holdings of the non-financial public sector decreased after having reached a peak in the season of higher collection associated with the annual tax return of individuals and corporations in March (the growth rate decreased from 44.6% to 25.4% in the reference period).

Going forward, the performance of these deposits is expected to continue to reflect the reallocation of savings into more liquid instruments in an environment in which interest rates are expected to drop further and there is limited stimulus from economic activity, which continues to show signs of slowdown.

Term deposits grew at a real annual rate of 4.3% (8.4% nominal) in April 2025, lower than the growth observed in the preceding month (5.9%) and the average recorded in 1Q25 (5.1%). This slowdown is less noticeable when adjusting for the accounting effect of the exchange rate. Excluding this effect, real growth in April was 2.4%, equal to the average for 1Q25. By holder type, real annual growth in companies' balances decreased from 5.3% in March to 1.8% in April and the growth recorded by other financial intermediaries dropped from 35.2% to 25.9%. Meanwhile, the contraction in the balances held by individuals and the non-financial public sector decreased: from -2.7% to -2.1% for individuals and from -8.5% to -2.5% for the non-financial public sector. Looking ahead, term savings are expected to continue to slow, due to both the drop in interest rates and the weakness in revenues generated by economic agents as economic activity and employment indicators continue to decline.

Bank credit to the non-financial private sector is losing momentum.

In April 2025, the balance of the outstanding loan portfolio granted by commercial banks to the non-financial private sector (NFPS) registered real annual growth of 8.2% (12.5% nominal), lower than the figure recorded in the previous month (9.9% real) and the average for 1Q25 (10.1%). At the rate of real annual growth in April, lending to companies contributed 5.1 pp, while the consumer and housing portfolios contributed 2.6 and 0.5 pp, respectively.

Stripping out the accounting effect of the exchange rate, the loss of momentum was less marked, as the real annual rate fell from 7.0% in March to 6.3% in April. In other words, the depreciation of the exchange rate contributed 1.9 pp to real annual growth in bank credit in April 2025. This was due to the accounting effect of the lowest exchange rate seen in the past five months, as this effect contributed an average of 2.8 pp to growth in these months.

In the fourth month of the year, outstanding consumer credit saw real annual growth of 10.4% (14.7% nominal), lower than the real growth recorded in March (13.8%) and the average recorded in 1Q25 (14.2%). The slowdown mainly reflects the base effect of the purchase of a Sofom E.R. by a bank in the financial system in April 2024, the consolidation of whose balances is estimated to have contributed approximately 3 pp to total growth in the portfolio in the past 12 months.

Even factoring in this impact, consumer durable loans (accounting for 20.8% of consumer credit) remained the main driver of consumer credit, contributing 3.9 pp to the real annual change in the outstanding portfolio in April. In April 2025, the two segments comprising this portfolio (automotive and movable property) showed a marginal decrease in their annual growth rate compared with the preceding month: in the first case, from real annual growth of 47.1% in March to 21.6% in April (due to the aforementioned base effect); and in the second, from real annual growth of 11.3% to 11.0% during the reference period.

The second largest contributor to growth in April was the credit cards segment (36.1% of outstanding consumer credit), whose balance increased by 9.5% in real annual terms (13.8% nominal), showing greater dynamism compared with the result observed in March (8.7%) but equaling the average growth observed in 1Q25. The good performance of this portfolio over the course of 2025 partly reflects the incorporation of the balances of *Fintechs* that have obtained banking licenses in recent months and the increased participation in this segment of banks that were traditionally more focused on the business and investment segment. Additionally, for April, the statistics for the flow of credit operated through TDCs indicate that the only business that registered an increase in the amount traded compared with the previous month was that associated with discretionary consumption, which could imply that the Easter holiday season may partly explain the rebound in the real growth rate of the current balances of TDCs observed in April.

The outstanding balances of the payroll and personal loan portfolios continued to lose dynamism in April. Payroll loans registered real annual growth of 4.7% (8.8% nominal), lower than the figure of 5.2% seen in the previous month, while the real annual growth rate for personal loans went from 9.6% in March to 9.2% in April (13.5% nominal).

April's result in both cases is below the average real annual growth for 1Q25 (5.5% for payroll and 10.3% for personal loans). The real growth observed in April was reflected in a contribution of 2.6 pp by payroll and personal loans to the real growth in outstanding consumer credit. Both portfolios are those that have most opportunely reflected the slowdown in formal employment and real wages. In the first case, annual growth was 0.2% in April, the lowest rate seen since April 2021, while the daily wage for IMSS-affiliated positions in April was 3.5%, slightly below the average observed in 1Q25 (3.7%).

Outstanding housing lending (21.1% of the outstanding NFPS portfolio) registered a real annual growth rate of 2.4% (6.5% nominal) in April, reducing its dynamism once again compared with the previous month (when a real annual rate of 2.7% was observed) and also below the average observed in 1Q25 (3.1%). The figure seen in April mainly reflects the contraction in the subsidized housing portfolio, moving from a real annual change of +0.2% in March to -9.0% in April. The middle-income residential housing segment did not show any changes in momentum with respect to the previous month, reporting real annual growth of 2.8% in April. The lower dynamism of the mortgage portfolio continues to reflect the slowdown in formal employment and wage indicators. Taking into consideration that the momentum of this portfolio lags behind the performance of these indicators, it is expected that even more moderate growth in this portfolio will be observed during the rest of the year.

On the other hand, outstanding business credit (53.5% of the outstanding portfolio to NFPS) registered growth of 9.6% in real terms (13.9% nominal) in April, below the result observed in March (11.2% real) and the average achieved in 1Q25 (11.2%).

By sector of activity, the services sector (55.1% of the total) contributed 7.7 pp to the growth rate of the outstanding business portfolio in April, while for the third consecutive month the manufacturing sector (19.4% of the total) ranked second in importance, contributing 1.6 pp to said growth. It is worth noting that in April 2025 this sector managed to sustain its dynamism, reaching a real growth rate of 8.3%, higher than the average growth recorded in 1Q25 (7.7%).

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The construction sector was in third place (accounting for 15.7% of the total) with a contribution of 1.3 pp, although the momentum of this portfolio moderated, registering growth of 8.0%, which was lower than the previous month.

In terms of currency composition, it should be noted that the outstanding portfolio in domestic currency (D.C.; 73.9% of outstanding lending to companies), achieved real growth of 4.9% in April, above the 4.6% reached the previous month. Meanwhile, the outstanding portfolio in foreign currency (F.C.) grew at an annual rate of 26.3%, discounting the inflation effect. However, also discounting the accounting effect of the depreciation of the exchange rate, it registered an annual variation of 9.6%, matching the average recorded in 1Q25.

For the total portfolio, more moderate growth can be observed when adjusting for the accounting effect of the exchange rate, as it would decline from a real annual growth rate of 9.6% to 6.0%, slightly below the average of 6.1% recorded in 1Q25 (excluding the accounting effects of inflation and the exchange rate). In other words, in April, the accounting effect of the exchange rate contributed 3.7pp to growth at an annual rate.

As the valuation effect of the exchange rate continues to fade and the unexpected increase in credit demand due to the tariff threat moderates, business loans are likely to slow further, as the indicators associated with economic activity, particularly private investment, continue to show signs of weakness.

The banking sector increased its assets in the last half of the year and showed a slight increase in its credit and market risks.

According to information from the June 2025 Financial Stability Report of the Bank of Mexico (Banxico), at the close of the first quarter of 2025, the assets of the Mexican financial system registered real annual growth 9.8%, slightly lower than the rate observed in the second half of 2024. This can be attributed to the performance of mutual funds and Siefores (specialized mutual funds companies investing in pension funds), which saw annual growth of 20.3% and 13.7%, respectively. At the same time, commercial banks, which account for 42.5% of the system's assets, registered real annual growth of 6.5%.

With respect to September 2024 (the date of the previous report), it is worth noting that the credit risk of commercial banks increased slightly due to higher risk in the business portfolio. While market risk saw a slight upward trend, driven by changes in the composition of banks' portfolios toward instruments that are more sensitive to interest rates as well as positions with higher foreign exchange risk, liquidity risk remains stable.

The Mexican banking sector continues to show solvency and liquidity conditions well above regulatory minimums. In March 2025, the Capitalization Index (ICAP) stood at 19.90%, 52 bp above the rate recorded in September 2024. At the same time, the Capitalization Index net of risk increased compared with the previous report as a result of an increase in the ICAP of the system which offset and exceeded the effect of the rise in credit risk in the portfolio.

The aggregate Liquidity Coverage Ratio (LCR) for the banking sector remains close to 200%, showing that banks have sufficient liquid assets to meet their liquidity needs for 30 days during a stress event. Faced with a stress scenario involving severe outflows of deposits from the system, most banks (accounting for 93% of total system assets) have an LCR that is higher than the regulatory 100%.

In the case of Siefores, the growth of their assets is explained by capital gains in their investment portfolios due to the increase in the market value of their positions in government securities and foreign equities and maintaining the level of risk within controlled ranges.

Finally, as in previous reports, Banxico highlights that at the aggregate level the financial system is resilient to shocks derived from three macroeconomic scenarios (a weakening of national consumption and investment, a slowdown in global economic activity and credit rating adjustments) and three historical scenarios (trajectories of the main macroeconomic variables as in the 1995 crisis, the global financial crisis of 2008 and COVID-19). In all cases, in the aggregate, solvency (ICAP) and leverage levels remain above the regulatory minimum, showing the resilience of the financial system.

In 1Q25, the regional performance of financial services in Mexico reflected the impact of trade uncertainty.

Based on information from the Regional Economic Report published by the Bank of Mexico (Banxico), in the first quarter of 2025, financial services in Mexico showed region-specific trends[1], strongly influenced by the trade uncertainty stemming from the United States.

In the Northern region, the placement of business loans among SMEs and companies oriented to the domestic market remained stable, although a weakening in demand from exporting companies was observed. In the North-Central region, the same uncertainty boosted the purchase and sale of foreign currency, but held back loan applications and investments in financial funds. In the Central region, the arrangement of credit insurance and foreign exchange transactions increased, although the demand for credit in sectors linked to foreign trade and in riskier assets, such as cryptocurrencies, decreased.

In contrast, in the Southern region, there was a rise in demand for credit from agri-food and real estate companies, benefiting from the lower interest rates and improved eligibility conditions, while sectors such as transport, foreign trade, retail trade and restaurants were affected by the drop in tourism.

[1] Regionalization in the report: the Northern region includes Baja California, Chihuahua, Coahuila, Nuevo León, Sonora and Tamaulipas; the North-Central region includes Aguascalientes, Baja California Sur, Colima, Durango, Jalisco, Michoacán, Nayarit, San Luis Potosí, Sinaloa and Zacatecas; the Central region is made up of Mexico City, State of Mexico, Guanajuato, Hidalgo, Morelos, Puebla, Querétaro and Tlaxcala; and the Southern region comprises Campeche, Chiapas, Guerrero, Oaxaca, Quintana Roo, Tabasco, Veracruz and Yucatán.

In this context, the outstanding credit of commercial banks extended to private non-financial companies continued to grow in all regions of the country, with greater expansion in the Southern region.

The Central region made the largest contribution to growth in outstanding credit (53% of the total), with an increase in real annual growth from 8.9% in 4Q24 to 13.5% in 1Q25, followed by the Northern region (23% of the total), where growth climbed from 5.9% to 7.4% during the reference period. This was followed by the Southern region (7% of the total), where growth rose from 23.5% to 24.9% and lastly the North-Central region (17% of the total) which showed a more modest performance, with growth going from a real annual rate of 9% in 4Q24 to 9.1% in 1Q25.

In the same period of comparison, by sector of activity, the increase in the growth rate of the outstanding portfolio of the industrial sector in the Northern (from 2.9% to 9.2%) and Central (from 6.1% to 11.6%) regions stands out. At the same time, the services sector marked an increase in growth in three regions: Central (from 10.6% to 14.6%), North-Central (from 13.3% to 15.7%) and Southern (from 25.1% to 29.9%). Finally, the agricultural sector showed a weaker performance, even showing contractions in some regions (Northern and North-Central).

2. Financial Markets

To what extent has American Exceptionalism reversed in the financial markets over the past few months?

The new U.S. Administration has prompted a significant shift in demand for U.S. financial assets. After five years of dominance among market participants, resulting in a label of "American Exceptionalism", the policies announced by President Trump have discouraged demand to such an extent that the *risk-free status* of some of U.S. assets is starting to be questioned.

Almost three months after the announcement of the President's tariff list, and following the Senate proposal to tax investments made by all countries that have "unfair" tax policies toward U.S. companies (*section* 899), how negative has the performance of U.S. financial assets been?

First of all, we have the dollar. The idea that the Trump administration favors a depreciation of the dollar to promote the growth of the manufacturing sector and that it has even put the exchange rate issue on the table to reduce the amount of tariffs, as was rumored in the negotiations with South Korea, has led the U.S. currency to a generalized depreciation.

So far in 2025, as of June 18, the dollar has depreciated 8.8% against the currencies of developed countries, which places it at its lowest level in the last three years; while against the currencies of emerging countries (EM) this depreciation, in the aforementioned period, stands at 7.0%. Within this group, the Mexican peso has appreciated by 8.7% against the dollar, making it the currency with the ninth highest appreciation level. With this, the exchange rate is just above 19 pesos per dollar, practically 10.0% below the level recorded after "*Liberation day*".

Additionally, according to *Bloomberg data*, futures positions point to short positions in the dollar amounting to USD 16 billion, which suggests that investors expect this weakness in the U.S. currency to continue in the coming months.

In second place is the stock market. If the U.S. share index is excluded from the global benchmark for this asset class (the MSCI All World Country Index), this benchmark would have recorded a total return of around 16.0% so far in 2025, while the return of its U.S. counterpart (MSCI USA) would have been a mere 2.4%. All this despite the rise of almost 20% in U.S. stocks from their lowest point this year after the announcements to postpone tariffs.

When analyzed by region, the same dynamics can be observed. So far in 2025, as of June 18, the S&P 500 has gained 1.7%, which is below the 6.5% recorded by the Euro Stoxx 600 and also below the MSCI EM benchmark of 11.0%. In fact, the IPYC of the BMV exceeds the aforementioned indices with gains of 14.6% in the period in question.

These data suggest that not only developed countries have benefited in the search for more diversified investments, but there has also been significant demand for EM assets, which is not so usual during episodes of risk aversion.

Finally, the U.S. government fixed income market. Even with market expectations that the Federal Reserve System (FED) is likely to implement a monetary easing cycle, long-term interest rates have tended to increase, suggesting that investment decisions have been driven by the *"term premium"*.

The term premium is linked to the fiscal risks faced by the United States in the face of its current debt of USD 29 trillion, which already stands at close to 100% of GDP, and its fiscal deficit of 6.0% of GDP. All this, in a scenario in which the current administration is presenting an initiative that, according to the Congressional Budget Office, would add around USD 3 trillion to the deficit in the next decade.

At this juncture, the yield to maturity on treasury bonds has increased. In the particular case of the 10-year maturity, this yield has seen a rise of 22 basis points (bp) since last April. The 30-year bond yield has risen above 5.0% for the first time since 2023. This higher yield is influenced by the increase in investor risk perception, as reflected in the low demand in recent auctions of long-term bonds.

This performance contrasts with that of German government bonds. The yield to maturity on the 10-year bond fell 21 bp between the last day of March and June 18.

In addition, a change in market dynamics has been observed. The correlation between the term premium of the 10-year bond and the dollar turned negative from April, which is unusual given that higher yields and the safety represented by U.S. assets would normally have led to greater demand for dollars and the dollar would thus have appreciated.

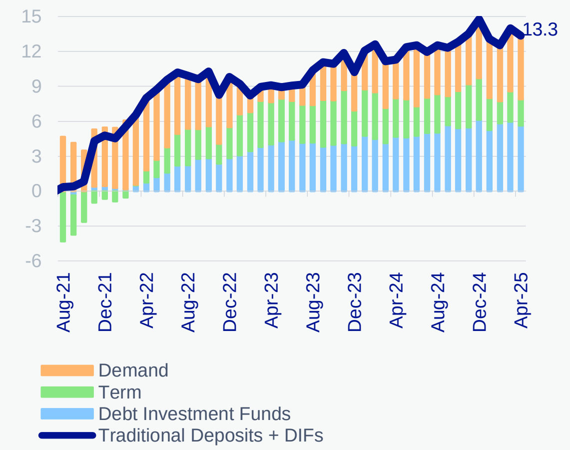
There is no doubt that market participants did not correctly assess the magnitude of the risks posed by the arrival of the new U.S. administration. The various policies proposed in all areas (e.g. trade, migration, tax) and the volatile and unilateral way of implementing them has led to a change in market dynamics that will take time to assimilate.

However, going forward, we will have to closely monitor the signals shown by the government bond market in the face of proposals that are far from signaling fiscal adjustments and in the face of threats and disdain for foreign investment. Above all, in a country that has been the destination par excellence for portfolio investment.

Deposits: Graphics

COMMERCIAL BANK TOTAL DEPOSITS

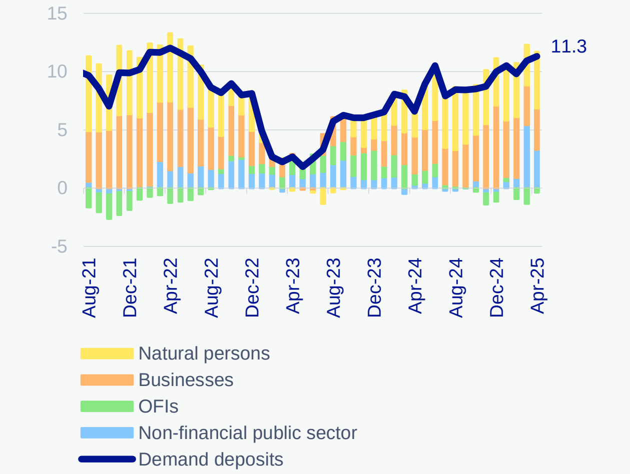
(NOMINAL ANNUAL CHANGE, %)



Source: BBVA Research with data from Banxico

SIGHT DEPOSITS

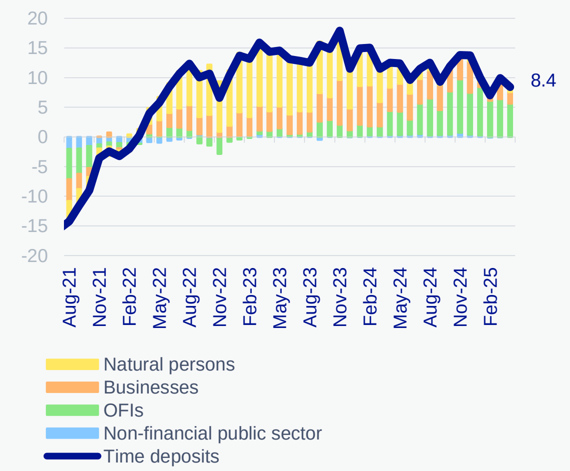
(NOMINAL ANNUAL CHANGE, %)



Source: BBVA Research with data from Banxico

TERM DEPOSITS

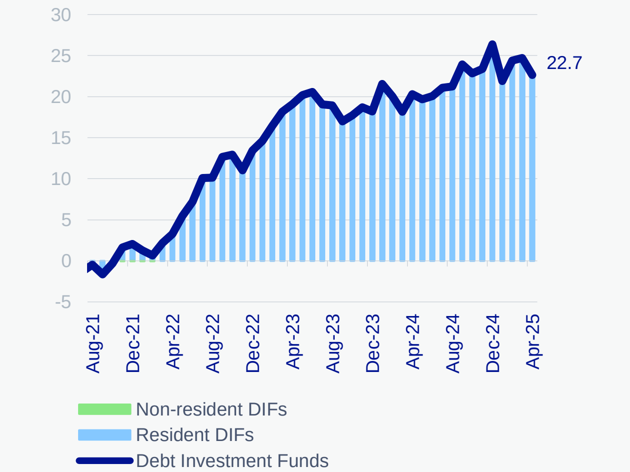
(NOMINAL ANNUAL CHANGE, %)



Source: BBVA Research with data from Banxico

DEBT INVESTMENT FUNDS (FIDs)

(NOMINAL ANNUAL CHANGE, %)

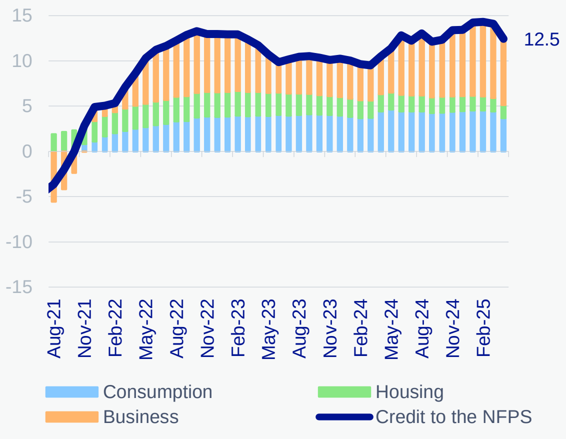


Source: BBVA Research with data from Banxico

Credit: Charts

OUTSTANDING BANK CREDIT TO THE SPNF

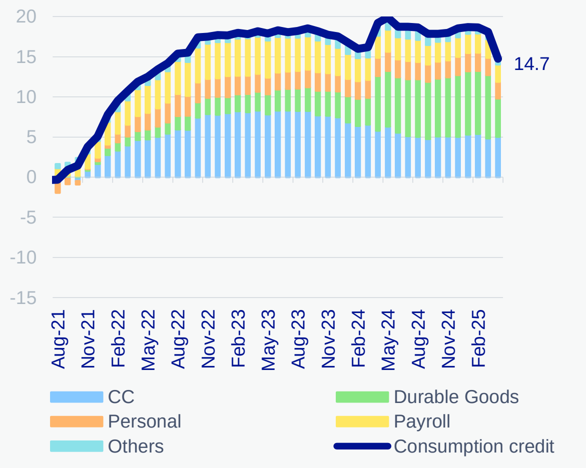
(NOMINAL ANNUAL CHANGE, %)



Source: BBVA Research with data from Banxico

OUTSTANDING CONSUMER CREDIT

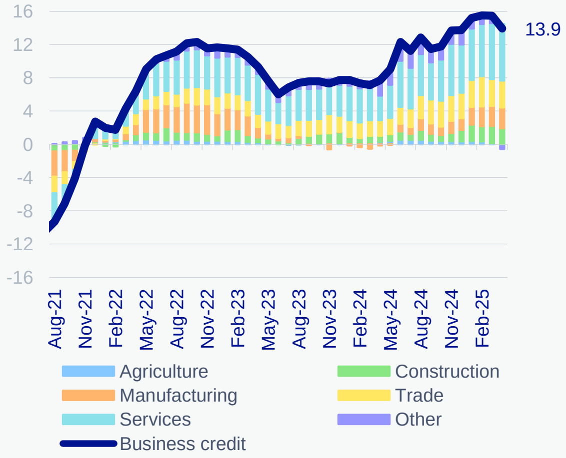
(NOMINAL ANNUAL CHANGE, %)



Source: BBVA Research with data from Banxico

OUTSTANDING LENDING TO COMPANIES

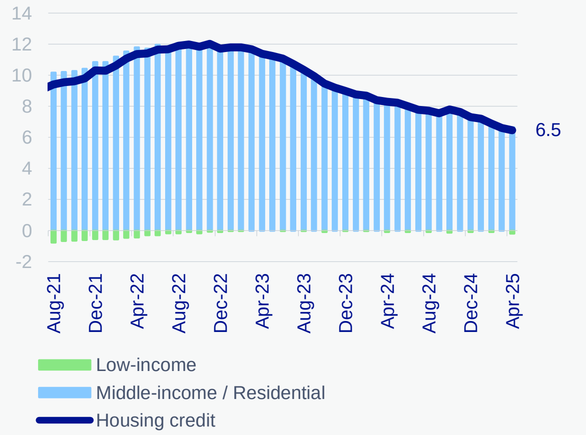
(NOMINAL ANNUAL CHANGE, %)



Source: BBVA Research with data from Banxico

OUTSTANDING MORTGAGE LOANS

(NOMINAL ANNUAL CHANGE, %)



Source: BBVA Research with data from Banxico

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