BBVA Research

Monthly Report on Banking and the Financial System

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1. Banking and the Financial System

Bank deposits show less momentum in August 2025

In August 2025, the balance of traditional bank deposits (sight + term) reached a real annual growth of 3.9% (7.6% nominal), a figure lower than the average of the first 7 months of the year, which stood at 5.3%. To the growth observed in August, sight deposits contributed 2.1 pp, while term deposits contributed 1.8 pp. Bank deposits in August no longer benefited from the accounting effect of the exchange rate, as the appreciation shaved 0.7 percentage points off growth. After adjusting for this effect, real growth at an annual rate in August amounted to 4.6%, a figure higher than the average observed during the first seven months of 2025 (3.6%).

In August, **sight deposits** registered a real annual growth of 3.2% (6.9% nominal), lower than the 4.5% observed in the previous month and also lower than the average growth observed in 2Q25 (5.0%). When discounting the accounting effect of the exchange rate, the growth observed in August (3.9%) was similar to the growth observed during 2Q25, whose average rate was 3.7%.

By holder, the performance was somewhat mixed. **Except in the case of individuals, the rest of the holders slowed their growth path**. In the case of individuals, the real annual growth rate went from 3.8% in July to 5.0% in August. For companies, this rate was reduced from 0.7% to -0.1%; for the non-financial public sector, the real annual growth rate fell from 14.8% to 10.6%; and in the case of other financial intermediaries (OFIs), a real annual growth rate of -2.3% was recorded, lower than the 15.8% recorded in the previous month, but higher than the average rate observed in 2Q25 (-11.6%).

The greater dynamism recorded in the case of households (45% of sight deposit balances) could be explained by modest growth in formal employment in August (0.3% annual rate), a slight increase in the real wage growth (3.7% in August 2025 vs. 3.2% in 2Q25) and private consumption indicators that continue to show low momentum (0.1% annual growth in July, latest available data), factors that may have allowed households to build up liquidity.

In the case of businesses (37% of sight deposit balances), the slowdown in sight deposits could be linked to a slower pace of revenue growth, as reflected in indicators of income from the provision of goods and services: In the case of wholesale trade, this index contracted 5.9% at an annual rate in July (latest available information) and for retail trade, this fall was 6.5%, in both cases deepening the slowdown observed in the first half of the year. In the services sector,

although the revenue index showed some recovery, it was smaller than the increase recorded in expenses.

Term deposits grew at a real annual rate of 5.1% (8.8% nominal) discounting the exchange rate effect in August 2025. This figure is lower than the growth observed in July 2025 (5.8%), although higher than the growth recorded in 2Q25 (4.2% real rate). Once again, the accounting effect of the appreciation of the exchange rate did not benefit the dynamism of term deposits, since real growth in August would have been 5.8%, if this appreciation had not occurred between August 2024 and August 2025.

By holder, a good performance is observed in most of the saver sectors. For individuals, term savings balances showed an expansion of 2.2%, lower than the 4.8% recorded in July 2025 but higher than the average growth recorded in 2Q25 (-1.5% in real terms). OFIs, on the other hand, slightly accelerated in dynamism (from 19.3% in July to 21% in August). Balances in the hands of the non-financial public sector recorded real growth of 30.6%, compared with a 3.7% decline observed in the previous month.

In the three previous cases, performance could be associated with the slow decline in deposit rates, which reflects, in part, competition among intermediaries to attract depositors. Finally, company balances registered an annual change of -0.9%, lower than the -0.3% recorded in July 2025. This decrease could be associated with the use of accumulated resources in term deposits by companies, given the weak performance of their revenues.

The holding of shares in debt investment funds showed a slight improvement, registering a real annual growth rate of 15.1% and a nominal growth rate of 19.2%, higher than the 14.9% recorded in the previous month, although still below the average rate of 16.4% observed in 2Q25. The gradual slowdown in the balance of these instruments so far this year appears to reflect a lower availability of resources among the various agents to maintain some form of savings in these funds.

Traditional deposits and other savings instruments are expected to continue to show a slowdown, reflecting both the reduction in interest rates and the lower dynamism in the growth of agents' revenues, amid indicators of economic activity and employment that still show signs of weakness.

Bank credit to the non-financial private sector slows its growth in August

In August 2025, the balance of the outstanding credit portfolio granted by commercial banks to the non-financial private sector (NFPS) registered a real annual growth of 5.1% (8.8% nominal), below the 6.4% recorded in July and the average observed in the first half of the year (1H25) of 8.6%. At the annual real growth rate in August, outstanding credit to companies contributed 2.3 pp, while the consumer and housing portfolios contributed 2.3 and 0.4 pp, respectively.

In August, **outstanding consumer credit** recorded annual real growth of 9.3% (13.2% nominal), lower than the 9.8% real rate observed in the previous month and lower the 11.8% average

recorded in 1H25. Loans for the acquisition of durable consumer goods (DCG) contributed 3.4 pp to the real growth rate observed in August, while credit granted through cards accounted for 3.0 pp; payroll loans contributed 1.1 pp, personal loans 1.5 pp, and other consumer loans 0.4 pp.

The segment of credit for the purchase of durable consumer goods (DCG credit, 20.9% of total consumer credit) saw its annual growth rate slow compared with the previous month, from 18.7% in real terms to 17.6%. The two segments that are part of this portfolio (automotive and movable property) decreased their momentum compared to July.

Automotive credit rose from an annual real growth rate of 19.9% in July to 18.9% in August, while the household goods segment increased from 10.0% in July to 8.4% in August. The moderation in the growth of automotive credit reflects the slowdown in vehicle sales; in particular, the indicator of retail sales of new cars in August experienced a steeper decline, recording contraction at an annual rate of 15.5%, more than double the drop in sales recorded in July (6.5%).

For its part, the **credit card** segment remained the second-largest contributor to consumer loan portfolio growth, reaching a real annual growth of 8.3% (13.2% nominal) in August, below the result obtained in July (8.6% real) and the average observed in 1H25 (8.9%).

Credit card usage indicators show that in August, growth in both transaction value and number of transactions decreased compared to July. However, some lines of business, such as those associated with education and discretionary consumption, managed to increase their dynamism compared to the previous month. This behavior could be associated with the end of summer vacation season and back-to-school expenses.

Outstanding balances of the payroll loan and personal loan portfolios in August showed mixed performance. Payroll loans increased their real annual growth from 4.2% in July to 4.4% in August (8.1% nominal), while personal loans went from a real annual growth rate of 9.9% in July to 9.6% in August (13.6% nominal). In both cases, August's result remained close to the average observed in 1H25 (4.7% and 9.5% respectively), so the performance of these portfolios has managed to sustain itself despite the slowdown in formal employment and real wages.

Outstanding housing credit posted a real annual growth rate of 2.0% in August (5.6% nominal), showing a loss of momentum compared to that observed in July, and similar to that observed in 2Q25 (1.9% real average).

By credit segment, the balance of credit for medium-residential housing (96.9% of the balance of total housing credit) in August registered a real growth rate of 2.3%, marginally above the result recorded in the previous month. By contrast, low-income housing credit reversed the recovery seen in July, falling from 1.6% real growth in July to an 8.3% decline in August.

The relative stable momentum in mortgage loans despite the slowdown in labor market indicators is likely associated with a substitution of financing sources as the portfolio of other providers, such as housing institutes and other non-bank intermediaries, continues to decelerate.

For its part, **outstanding business credit** (53.1% of the outstanding loan portfolio to the non-financial private sector) registered a growth in real terms of 4.3% in August (8.1% nominal), below the growth observed in the previous month (6.4%) and the average recorded in the first half of the year (9.7%).

By sector of activity, the services sector (55.4% of the total) contributed 4.6 pp to the total growth rate of the outstanding corporate loan book in August; the manufacturing sector decreased its contribution to 0.3 pp and construction contributed 0.9 pp, while the remaining sectors (agriculture, mining, electricity, water and gas, among others) knocked 1.5 pp off the total due to an ongoing reduction in their portfolio balances. While growth in lending to the services, construction, and manufacturing sectors offset declines in other areas, it is notable that all three sectors saw a slowdown in their outstanding loan portfolios in August.

In terms of currency composition, the outstanding loan book denominated in domestic currency (75.8% of current credit to companies), achieved a real growth of 6.1% in August, a figure lower than that recorded in the previous month (6.6%). For its part, the outstanding foreign currency portfolio lost momentum, from a growth rate of 5.7% to a decline of -0.7% in real terms, after adjusting for inflation. Unlike what had been observed up to July, the behavior of the exchange rate reduced the momentum of the foreign currency portfolio, since without taking this effect into account, the August growth rate would have remained at 4.7% (the same as that recorded in July); that is, the accounting effect of the appreciation of the exchange rate reduced momentum by 5.4 pp.

For the total business portfolio, when adjusting for the accounting effect of the exchange rate, a weaker performance is also observed compared to the previous month, as growth went from a real annual rate of 6.2% in July to 5.7% in August.

The slowdown observed in the different portfolios in August reflects the weakness of domestic demand, so it is expected that credit will continue to show moderate growth in the coming months.

The Financial System Stability Board (CESF) updated its balance of risks

In its October statement, the CESF highlighted that global financial markets have seen a decline in volatility and an increased risk appetite, reflecting, in part, the trade agreements and negotiations that have been reached, as well as economic activity that has been more favorable than anticipated. However, at the global level, the CESF considers that risks and uncertainties associated with trade policy, geopolitical tensions and monetary policy still prevail, which could have an impact on the performance of these markets.

In Mexico, local financial markets have maintained an orderly behavior with low volatility, while economic activity has shown sluggishness in the third quarter of the year. Although the rating agencies maintain the investment grade of sovereign debt, it is noteworthy that short-term challenges include public finances and the relationship with the U.S.

In this context, the Mexican financial system maintains a solid and solvent position, with the capacity to absorb shock and preserve an adequate and stable operation. Additionally, no individual bank showed significant financing exposure to non-bank financial intermediaries, so a default by these entities would not pose a systemic risk. With respect to the exposure of the external sector, the associated risks are considered limited.

Strategic Overview 2024: Mexican banks strengthen their innovation and social commitment

The *Strategic Overview of Mexican Banking 2024*, published by the Ministry of Finance and Public Credit (SHCP), collects information from the 49 banks that operated during 2024 in order to analyze actions and strategies aimed at improving access, efficiency and depth of the Mexican financial system, as well as promoting financing for sustainable development.

According to the *Performance Assessment of Multiple Banking Institutions* conducted by the Ministry of Finance and Public Credit (SHCP), commercial banks account for 40% of all institutions in Mexico's banking system, followed by development banks (27%) and niche banks (14%). Specialized banking and corporate banking services represent 8.0% and 4.0%, respectively.

Institutions show a growing interest in digitalization and innovation, with plans to modernize products, services, and service channels, which is in line with the preferences of customers, who have migrated to a greater use of digital channels (from 43% to 45% in 2024) and a slight decrease in the use of bank branches.

During 2024, banking institutions accelerated their transition toward a more digital, inclusive, and operationally efficient model. Although mobile banking is a key part of banks' expansion strategy, the provision of products with a focus on inclusion plays an important role in the product offerings. In 2024, 45% of institutions reported having implemented credit products geared toward women, young people, older adults, people with a disability, ethnic minority groups, farmers, and small companies. For deposit products, 22% of banking institutions incorporated products aimed at these segments. Regarding digital payment methods and customer experience, 73% of institutions reported having at least one strategy in place.

100% of banking institutions had risk identification and mitigation mechanisms in place, as well as an operational risk management framework that was fully integrated into their overall management processes. During 2024, 39% of banks made at least one modification to their risk management framework. Given the digitalization landscape facing banks in Mexico, risk management has become a top priority. In terms of cybersecurity, all banking institutions had tools to deal with cyberattacks, thus reflecting the sector's commitment to protecting the financial ecosystem.

The SHCP document considers that gender equality has gained an important place in the transformation of the banking sector, but it still faces challenges in translating into effective actions that close existing gaps. The increase in resources, the inclusion of equity criteria in

career plans and greater accountability show clear progress. However, strengthening technical capacities and monitoring mechanisms will be key to achieving sustainable results and consolidating institutional leadership that promotes a true culture of equality.

The depreciation of the dollar has been the main factor behind the easing of LATAM's financial conditions during 2025: BIS

The BIS document *Financial Conditions Indices in Latin America* proposes the construction of a Financial Conditions Index with a common methodology for Brazil, Mexico, Peru, Chile and Colombia. The index consists of a group of internal variables, including interest rates (short, medium, and long term) and country risk (5-year CDS and spreads on U.S. corporate debt), while the group of external variables includes the bilateral exchange rate, the global dollar performance index, and another U.S. Treasury bond, as well as the MOVE fixed income market volatility index.

The weights are obtained in such a way as to reflect the impact of financial conditions (CF) on GDP over the course of a year. The exercise finds that during 2025 there has been a relaxation of CF in all the countries analyzed, mainly explained by the generalized depreciation of the dollar.

In the particular case of Mexico, the depreciation of the dollar is compounded by the reduction in interest rates, especially at the short end of the curve, to explain the relaxation in foreign currency. It is noteworthy that in April, as a result of President Trump's announcement of tariffs, there was some tension explained by the rise in the components of global volatility (e.g., MOVE) and a rise in country risk.

Particularly relevant is the estimate for all the countries analyzed, which indicates that a 100-basis-point (bp) increase in the monetary policy rate translates into a 0.2 standard unit tightening of CFs in the region after three quarters, while a one-standard-deviation increase in CF tightening translates into a 0.5% reduction in GDP a quarter later.

2. Financial Markets

Signs of higher credit and liquidity risks in the U.S. are affecting financial markets

In a context of open risk appetite mainly underpinned by expectations about the productivity gains of Artificial Intelligence (AI) and the restart of the cycle of cuts in the federal funds rate, the month of October showed some signs of fractures that, although isolated at the moment, temper the overall favorability of the environment and suggest that the likelihood of risks occurring may not be as low as market participants have priced in.

On the one hand, there is credit risk. The announcement of debt restructuring (Chapter 11 protection) by the auto parts manufacturer First Brands, along with the bankruptcy of automotive credit provider Tricolor Holdings amid fraud allegations, initially led to losses of up to a quarter of

Jefferies Financial Group's share value. In addition, JP Morgan—the largest bank by capitalization in the North American system—recognized a loss of USD 170 trillion in the third quarter. In both cases, the losses were derived from loans or purchases of bonds from First Brands or Tricolor Holdings.

Subsequently, on October 16, a couple of regional banks (*Zions Bancorp and Western Alliance Bancorp*) reported losses linked to fraudulent loans extended to funds with investments in high-risk commercial mortgages. This unleashed a short-lived episode of risk aversion that led the S&P 500 to lose 0.63% and the Nasdaq 0.4%, while the yield to maturity of the 10-year Treasury bond fell below 4.0% for the first time since last April.

These events are far from posing a risk the automotive credit market as a whole, which amounts to around USD 1.6 trillion, and even less so the private credit market, which is around 25% of the U.S. GDP. They do, however, underscore two phenomena. The first is the deterioration in asset quality. The default rate on auto loans stands at around 8.0%, its highest level since 2011, after a rise of about 3.0 percentage points since 2022. It should be noted that this is not limited to the automotive sector—default on credit card debt is also on a clear upward path.

The second phenomenon is the increase in lending between banks and non-bank financial institutions (NBFIs). According to the FDIC (Federal Deposit Insurance Corporation), in the last two years, the percentage represented by loans to NBFI of total bank loans increased by about three percentage points and is currently close to 10%.

On the other hand, signs of an increase in liquidity risk were also present in October. On October 16 and 17, banks requested USD 15.1 billion from the FED through its short-term loan window, the largest two-day total since the pandemic. This demand for resources was generated by the increase in the repo rate to levels above 4.25%, a sign that there was difficulty in the interbank market to acquire liquidity.

This behavior occurs a couple of days after the Fed chairman declared that operations to reduce the balance sheet of the U.S. central bank (quantitative tightening, QT) could come to an end in the coming months. It should be noted that the Fed began with this passive reduction of its balance sheet in June 2022 by not renewing the Treasury and mortgage-linked bonds it accumulated during the pandemic, bringing its balance sheet to 22.1% of GDP after reaching a peak of 36.8% of GDP at the end of 2021.

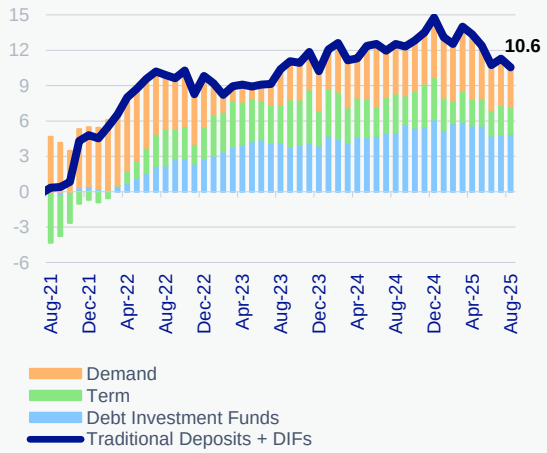
What occurred in this episode is clearly far from what happened in 2019, and even more so from the onset of the pandemic. However, the levels reached by the repo rate suggest that money market liquidity is showing signs of strain.

Following the stock market declines on October 16, news regarding U.S.-China trade relations, corporate earnings reports exceeding expectations, and the Fed's communication continuing to signal a rate cut at the next meeting once again pushed equity indices into positive territory. However, the signs of increases in credit and liquidity risks, although they are not systemic threats, do suggest a dissonance with the relentless appetite for risk that seems to exist in certain areas of the financial markets.

Deposits: Figures

COMMERCIAL BANKING TOTAL DEPOSITS

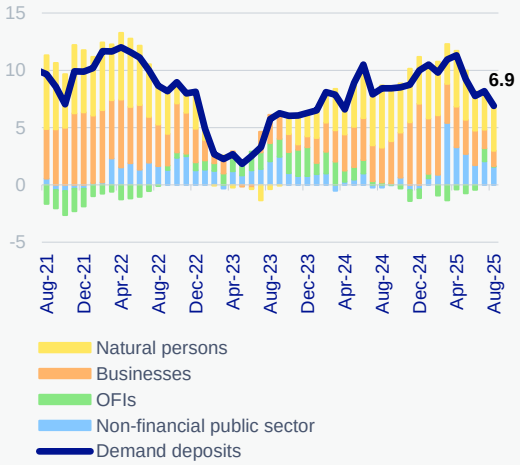
(NOMINAL ANNUAL CHANGE, %)



Source: BBVA Research, with data from Banxico

SIGHT DEPOSITS

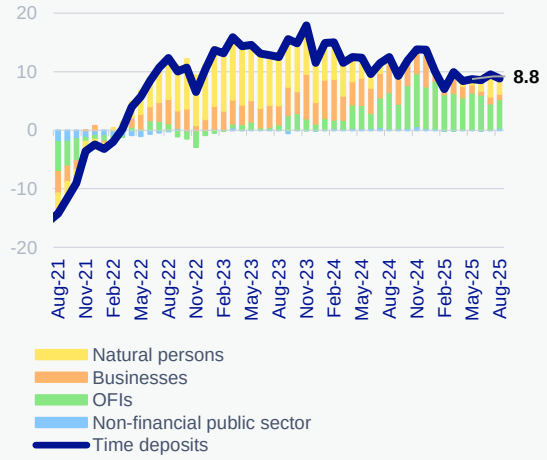
(NOMINAL ANNUAL CHANGE, %)



Source: BBVA Research, with data from Banxico

TERM DEPOSITS

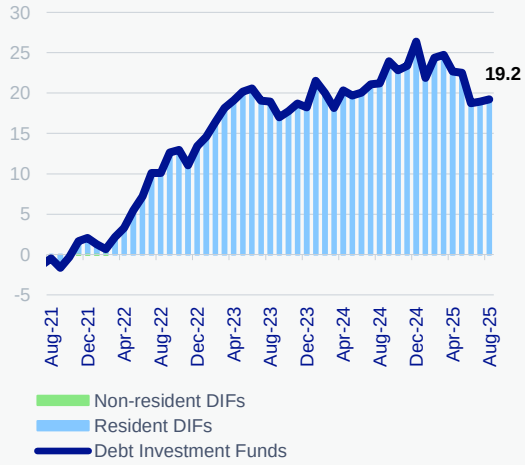
(NOMINAL ANNUAL CHANGE, %)



Source: BBVA Research, with data from Banxico

DEBT INVESTMENT FUNDS (DIFs)

(NOMINAL ANNUAL CHANGE, %)

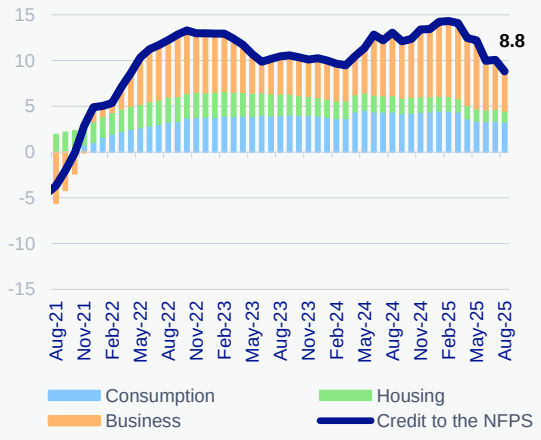


Source: BBVA Research, with data from Banxico

Credit: Figures

OUTSTANDING BANK CREDIT TO THE NFPS

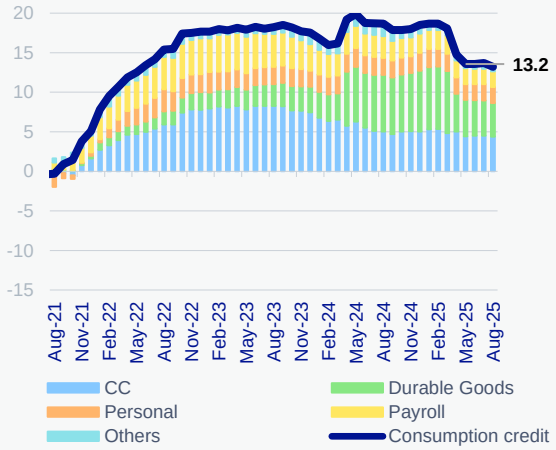
(NOMINAL ANNUAL CHANGE, %)



Source: BBVA Research, with data from Banxico

OUTSTANDING CONSUMER CREDIT

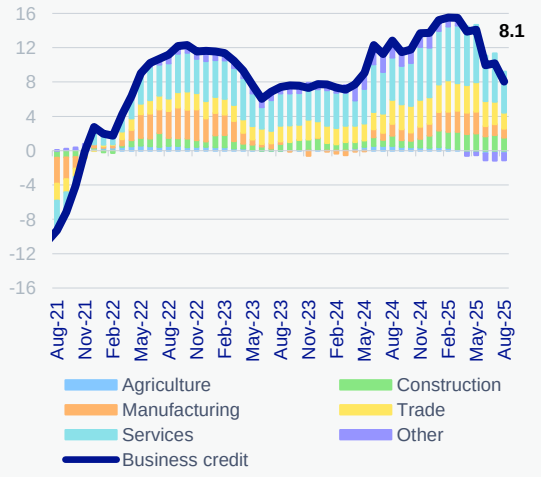
(NOMINAL ANNUAL CHANGE, %)



Source: BBVA Research, with data from Banxico

OUTSTANDING LENDING TO COMPANIES

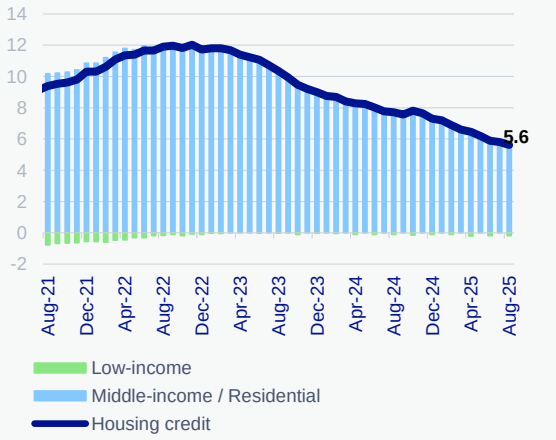
(NOMINAL ANNUAL CHANGE, %)



Source: BBVA Research, with data from Banxico

OUTSTANDING MORTGAGE LOANS

(NOMINAL ANNUAL CHANGE, %)



Source: BBVA Research, with data from Banxico

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