

Monthly Report on Banking and the Financial System

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1. Banking and the Financial System

Bank deposits pick up to levels approaching those observed during 1H25

In July 2025, the balance of traditional bank deposits (demand + time) reached a real annual growth of 5.1% (8.7% nominal), outpacing the 3.6% reported the previous month and in line with the figure recorded in the first half of 2025 (5.3%). Of the total growth figure observed in July, demand deposits contributed 3.0 pp, while sight deposits added 2.1 pp. In the seventh month of the year, the accounting impact of exchange rate depreciation contributed 0.1 pp to the total tally. Adjusting for this effect, annual real growth in July stood at 4.9%, above the average recorded during the first half of 2025 (3.4%).

In July, **sight deposits** registered a real annual growth of 4.6% (8.3% nominal), below the growth rate observed in the first six months of 2025 (5.8% YTD). When stripping out the accounting impact of the depreciating exchange rate, the growth rate for July (4.5%) was higher than that observed in June (2.9%).

By holder, the performance was somewhat mixed. For natural persons, the annual real growth rate had risen from 3.2% in June to 4.0% in July; for firms, the rate had dropped from 3.7% to 1.5%; for the non-financial public sector, the rate had climbed from 10.0% to 13.1%; and for other financial intermediaries (OFIs), it stood at 15.1%, the highest figure since March 2024.

This more buoyant performance could be explained by a moderate improvement in the various sources of income received by different agents. For households (accounting for 44% of sight deposit balances), the growth followed the modest increase in formal employment reported in July (0.5% YTD) as well as a slight pick-up in real wage dynamics (3.6% in July 2025 vs. 3.2% in Q2 2025).

For companies (accounting for 38% of sight deposit balances), the slowdown in sight deposit growth could be connected with the decline during the first half of the year in the indices associated with income from the supply of goods and services in the trade and commerce sector, which on average fell by 2.0% in the wholesale segment and 2.6% in retail.

Term deposits grew at a real annual rate of 5.8% (9.5% nominal) in July 2025, outpacing the growth figure reported in the first half of 2025 (4.7% in real terms). When adjusting for the accounting effect of the exchange rate, real growth in July was 5.7%, the highest recorded so far

this year. By holder, the performance was broadly positive. For natural persons, term savings balances were up 4.5%, the first positive rate recorded since May 2024, while for OFIs it was down in the period (20.3% vs. 30.4% in June). Balances in the hands of the non-financial public sector recorded real growth of 4.4%, compared with a -5.6% decline observed in the previous month. Lastly, balances in the hands of companies slowed their decline from -2.2% in June to just -0.2% in July.

Stocks held by debt investment funds showed a slight improvement, posting an annual real growth rate of 14.9%, up from 13.8% in the previous month. However, the rate recorded in July 2025 remains well below the average of 17.8% recorded during the first half of the year. Traditional deposits and other savings instruments are expected to slow further, as interest rates come down and amid more subdued income growth among economic agents, with economic activity and employment indicators continuing to show signs of weakness.

Bank credit to the non-financial private sector regains momentum in July

In July 2025, the balance of the outstanding loan portfolio granted by commercial banks to the non-financial private sector (NFPS) registered real annual growth of 6.4% (10.1% nominal), outpacing the 5.4% recorded in June, though still below the average observed in Q2 2025 (7.0%). Outstanding credit to companies contributed 3.5 pp to the real annual growth rate for July, while the consumer and housing books contributed 2.4 and 0.5 pp, respectively.

In July, **outstanding consumer credit** recorded annual real growth of 9.8% (13.6% nominal), higher than the 8.9% real rate observed in the previous month and above the 9.3% average recorded in Q2 2025. Loans for the acquisition of durable consumer goods (DCG) contributed 3.6 pp to the real growth rate observed in July, while credit granted through cards accounted for 3.1 pp; payroll loans contributed 1.0 pp, personal loans 1.5 pp, and other consumer loans 0.5 pp.

The credit segment for the acquisition of consumer durables (accounting for 20.9% of total consumer credit) showed a marginal improvement in July with respect to the previous month (real growth of 18.7% vs. 18.5%). The real annual growth rate of the two segments making up this portfolio (automotive and movable property) posted higher annual real growth compared with June. Automotive credit rose from an annual real growth rate of 19.8% in June to 19.9% in July, while the household goods segment increased from 9.8% in June to 9.9% in July.

The recovery in auto loans appears to reflect more favorable indicators in car sales, which in July were down 6.5% in annual terms, falling short of the 12.2% decline recorded in June.

The second-largest contributor to total growth was credit cards (35.8% of outstanding consumer credit), the balance of which was up 8.6% in real annual terms (12.5% nominal), outpacing the 7.7% real increase recorded in June and higher also than the 8.2% average posted in Q2 2025.

Credit card usage indicators show that in July, one of the sectors commanding the strongest growth, both in value and in number of transactions, was consumer staples, which may suggest that, given weak income growth, cardholders are using this type of financing to sustain their level

of spending. The lively performance could also be linked to a broader supply of services, following the entry of niche banks into this segment and the consolidation of the balances held by fintechs authorized to operate as banks.

The outstanding balances of payroll and personal loan books also upped their performance in July. Payroll loans increased their real annual growth rate from 3.5% in June to 4.2% in July (7.9% in nominal terms), while personal loans climbed from a real annual growth rate of 8.6% in June to 9.7% in July (13.5% in nominal terms). This improved showing took place despite a slowdown in formal employment (stripping out the effect of the formalization of digital application workers) and real wages, which, as in the case of credit cards, could have to do with fiercer levels of competition owing to the incursion of additional players within the different segments of the economy.

Outstanding mortgage credit (21.0% of the NFPS's outstanding portfolio) posted an annual real growth rate of 2.2% in July (5.8% nominal), marking an improvement over the growth seen in June but still below the 2.5% average recorded in the first half of the year.

By credit segment, the balance of credit for medium-income residential housing (96.3% of total housing credit) recorded a real growth rate of 2.2% in July, exceeding the figure recorded a month earlier. Meanwhile, credit for low-income housing delivered a stronger performance in annual terms, moving from negative growth of -8.9% in June to positive growth of 1.6% in July.

This relative improvement in the performance of mortgage lending may be linked to a substitution of financing sources, since the portfolios of other providers—such as housing institutions and other non-bank intermediaries—continue to show a slowdown and even a decline in their credit balances at annual rates.

Meanwhile, **outstanding loans to businesses** (53.3% of the outstanding loan book to the NFPS) posted real growth of 6.5% in July (10.2% in nominal terms), improving on the previous month's tally (+5.5%), but falling short of the growth reported in 2Q25 (8.1% quarterly average).

By sector of activity, the services sector (55.5% of the total) contributed 6.2 pp to the total growth rate of the outstanding corporate loan book in July; the manufacturing sector increased its contribution to 0.6 pp and construction contributed 1.3 pp, while the remaining sectors (agriculture, mining, electricity, water and gas, among others) knocked 0.6 pp off the total tally due to an ongoing reduction in their portfolio balances.

A particular highlight is the sustained growth seen in constructor credit, where the outstanding loan book registered real annual growth of 8.1% in July, exceeding the 7.7% average figure observed in 1H25. This performance is likely linked to the recovery of the loan book, which was very subdued throughout 2024, with construction happening to be one of the few sectors within the corporate credit universe whose balance has not yet managed to recover to pre-pandemic levels at constant prices. Within the services sector, the transportation and real estate services subsectors delivered fairly strong performances.

In terms of currency composition, the outstanding loan book denominated in domestic currency (75.5% of outstanding credit to companies) reported real growth of 6.7% in July, its highest figure in the year to date. Meanwhile, the outstanding portfolio in foreign currency delivered a more subdued performance, falling from a growth rate of 7.4% to 5.8% excluding the effects of inflation. If we also strip out the accounting effect of exchange rate depreciation, the annual change improved from 4.1% in June to 4.7% in July.

For the total corporate loan book, once adjusted for the accounting effect of the exchange rate, we can also observe an improved performance compared with the previous month, with growth climbing from a real annual rate of 4.7% in June to 6.2% in July.

The recovery in credit in July may be linked to temporary factors that might quickly dissipate, as most indicators associated with domestic demand continue to show signs of slowing, including private consumption and investment, as well as indicators related to income among households and firms, such as sales, formal employment, and real wages.

The need for liquidity and investment were the main factors prompting companies to request and/or use bank credit in 2Q25

According to the Quarterly Survey on the Credit Market Outlook published by the Bank of Mexico in Q2 2022, suppliers and bank credit remained the two main sources of financing most used by companies, standing at 60.6% and 29.9%, respectively, among the firms surveyed. Despite a slight increase of 2.6% compared with the previous quarter in terms of bank credit, the percentages for both sources of financing have been fairly static since the second quarter of 2023. The order does not change when looking at company size (companies with up to 100 employees and companies with more than 100 employees), with the percentage difference between each source of financing being broadly similar.

Notably, differences can be seen in the use of credit by company size: in Q2 2025, 46.0% of firms with more than 100 employees reported having bank credit, an 11.5 percentage point difference compared with firms with fewer than 100 employees. A similar pattern emerged in relation to new loans in Q2 2025: while 21.4% of firms with more than 100 employees reported using them, only 14.1% of firms with fewer than 100 employees did so.

For the total number of companies that used new bank loans (14.9% of the total) in 2Q25, the results show that access conditions (as measured by the amounts offered, refinancing conditions and terms and maturities) were perceived as either more favorable or unchanged compared with the previous quarter, while the requirements among banks (collateral, processing times, etc.) were perceived as less favorable.

It was a similar pattern when looking at perceptions of bank credit conditions compared with the previous quarter, as interest rates, fees, and other charges all showed a less favorable balance among companies.

Lastly, when asked, companies that reported having used and/or requested bank credit during the last 12 months (39.5% of the total) responded in 8 out of 10 cases that liquidity for the day-to-

day running of the business was the main factor behind their decision to seek bank financing. The second factor cited was investment to expand or make improvements within the company (mentioned in 61.3% of cases), while the third factor (54.2%) was the granting of credit to customers to boost sales.

It should be noted that in a distant eighth place, with 32.6% of the reasons cited for requesting and/or using bank credit, was investment with the aim of harnessing nearshoring opportunities. This result is undoubtedly influenced by the uncertainty surrounding the US tariff policy that began during April and continues to date.

2. Financial Markets

The Fed's rate cut broadens the range of gains in the financial markets, while inflation remains a latent risk

In an environment marked by several latent risks, the onset of what appears to be a cycle of federal funds rate cuts has consolidated and broadened risk appetite in financial markets to include a greater number of assets.

Despite a more hawkish-than-expected tone from the Fed Chair in his speech following the announcement of the first 25-basis-point (bp) cut of 2025, the fact that he framed this move as being more of a risk management strategy than a response to significant weakness in the labor market and consumption helped to anchor the low levels seen across most risk indicators and, in turn, fueled demand for risk assets.

Indeed, this first cut in the federal funds rate took place amid low levels across most risk indicators. Notably, both implied stock market volatility, as measured by the VIX index, and implied volatility in the US Treasury bond market, as measured by the MOVE index, are clearly below their five-year averages, with the latter at its lowest point since early 2022. Looking at foreign exchange market volatility, as measured by the CVIX index, it only managed to reach its year-to-date low in August after slipping by around 30% from its April peak.

Moreover, the spread on US investment-grade corporate bonds is at its lowest level of the past 27 years. Meanwhile, sovereign risk, as measured by the 5-year CDS spread, shows YTD declines for 18 of 20 emerging countries and also for the countries of five major global currencies.

It should be noted that the depreciation of the dollar to levels not seen since 2022 has had a positive effect on global risk aversion by easing monetary conditions in foreign countries.

All of this goes to show, broadly speaking, that both credit and market risks are currently at low levels, which has helped to push the main stock indices to new highs.

In fact, both the S&P500 and the Nasdaq hit new all-time highs on September 25, bringing their year-to-date return to 12.5% and 16.1%, respectively. What's more, on this occasion the increases could be seen across a broader spectrum of companies. For the first time since 2021, the Russell 2000 index, which groups smaller capitalization stocks, posted a new all-time high and is already up 9.2% in the year to date. This move appears to be consistent with proposals to boost the production of US companies through tax cuts and tariffs, which resurfaced with Donald Trump's return to office.

Interestingly, this risk-taking environment has been taking place as gold reaches new all-time highs, having risen by 43% in the year to date. This is particularly striking because this pattern has historically been linked to expectations of higher inflation, although a weak dollar also tends to be an influencing factor (in 2025 the dollar has depreciated by 9.8% against developed market currencies).

Although it is hard to establish causal relationships, it is certainly worth noting that this trend happens to coincide with the fact that market participants are viewing the risk of a further inflation surge as more than a remote possibility.

According to Bank of America's latest Global Fund Manager Survey, investors polled this month identified the resurgence of inflation as the main risk to markets. This response was even ranked above others such as a recession stemming from a trade war and a disorderly increase in interest rates. Moreover, this happens to be the first time in the past 25 years that the responses show such a wide difference between those who expect higher inflation (about 50% of respondents) and those who, at the same time, expect higher short-term interest rates (less than 10% of respondents).

In other words, the data suggest that in the eyes of investors, among all the risks posed by the current environment, the one with the greatest relative probability of materializing is the resurgence of inflation, especially in the current context of tariffs. However, it seems that the absence of indicators making risk signals more visible, along with the US President piling pressure on the Fed to cut rates, has been largely responsible for the persistent demand for risk assets.

This balance seems to give little weight to the dissent among FOMC members and to the possibility that, in the coming months, the pass-through of tariffs to consumers will become more evident. Thus, while the Fed's reaction function has recently placed greater weight on the employment issue, higher-than-expected inflation data could lead the markets to price in a risk that would fundamentally alter the assumptions underpinning the currently expected scenario.

Deposits: Figures

TOTAL DEPOSITS – COMMERCIAL BANKING

(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

(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 LOANS 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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