

Banking Watch

Mexico

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Economic Analysis

Mexico

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Bank cards: the number and the purchases using interest-free cards continue to grow

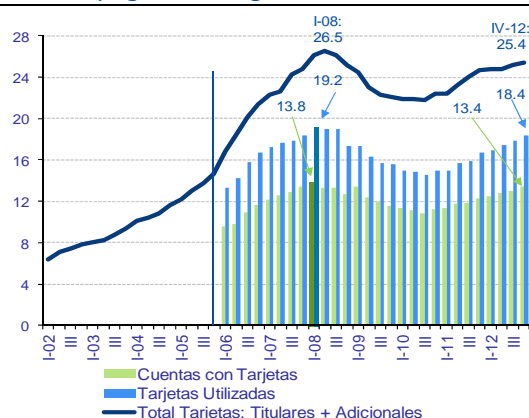
Bank of Mexico (Banxico) publishes two data series on the number of bank credit cards (CC). One is released on a quarterly basis and was published for the first time in 2002, and only refers to the total number of cards. The other series is published bimonthly and considers the cards being used by natural persons who are up-to-date with their payments. The information of both series is supplementary and gives a more accurate picture of the performance of consumer credit granted through CCs.

Quarterly Series: information on Total Number of Credit Cards

The quarterly series is the oldest. It has been published since the first quarter of 2002 (I-02) and refers to the total number of cards. In the first quarter of 2006 (I-06), Banxico expanded this series by also publishing the number of Cards Used and Accounts with Cards (contracts).

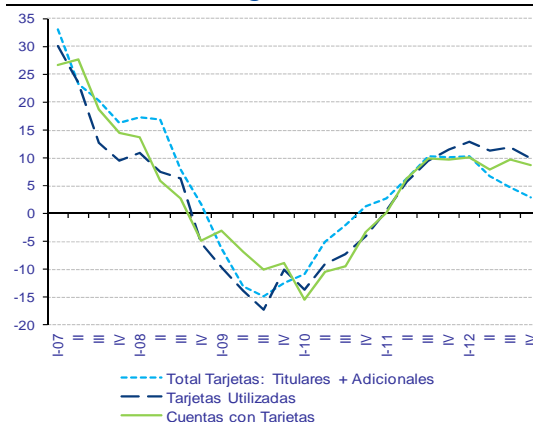
Chart 1 shows that in I-02 there were 6.4 million CCs in total, and how this figure grew steadily until I-08 when they totaled 26.5 million. After that date the number of cards declined due to the stagnation of employment in 2008, to the existence of some signs of possible saturation of this form of credit in certain segments of the population and to the effects of the 2009 recession. For these reasons, from II-08 to III-10 the number of CCs declined and later increased again driven by improved economic performance.

Chart 1
Number of Bank Credit Cards: Total, Cards Used and Accounts with Cards
(Quarterly figures and figures in millions)



Source: BBVA Research with Bank of Mexico data

Chart 2
Number of Bank Credit Cards: Total, Cards Used and Accounts with Cards
nominal annual % change



Source: BBVA Research with Bank of Mexico data

At the end of 2012 the total number of CCs was 25.4 million, lower than the 26.5 million cards existing in I-08. Compared with I-08, at the end of 2012 neither the number of cards used (18.4 vs 19.2 million) nor the number of accounts with cards (13.4 vs 13.8 million) had been exceeded. This performance of CCs could be the result of greater caution in the granting of cards by banking institutions and suggests that customers are also doing something similar as a result of better financial literacy and the recommendations given by the financial authorities since the 2008 crisis.

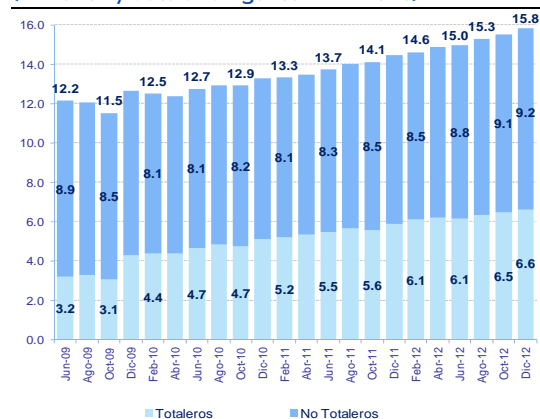
Chart 2 shows the decline in the various types of CCs from IV-08 to IV-10. Starting in I-11, the number of CCs began to register positive growth rates, reaching the highest level in I-12. After this quarter the growth rate has slowed down and the slower rate of growth has been more pronounced in the case of the total number of CCs, since in I-12 the annual growth rate was 10.2% and in IV-12 it fell to 2.9%.

Taking into account that the correlation between the total number of CCs and the number of CCs used is high, and that this is also the case between the total number of CCs and the number of CC contracts, it is reasonable to expect that a lower growth rate will also be seen in the first quarters of 2013 in the number of CCs used and in the number of CC contracts. One reason for the slower growth rate in the total number of CCs is the lower rate of growth of GDP seen in the second half of 2012. In the first half of that year the annual GDP growth rate was 4.8% and in the second half it fell to 3.2%. These figures show that the GDP growth rate for the first quarter of 2013 (0.8%) may also be reflected in the slower growth rate in the number of CCs in that period.

Bimonthly Series: information on Credit Cards held by Natural Persons (number and balance)

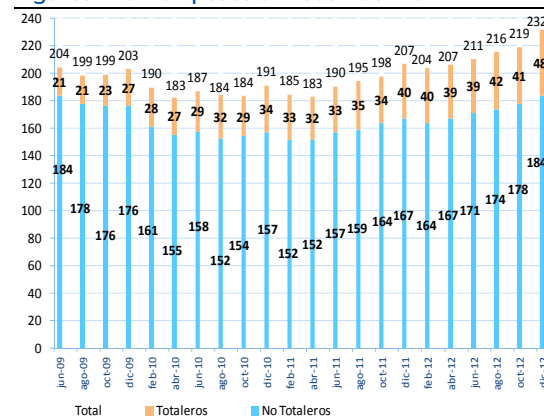
Banxico's second bimonthly statistical series for CCs was published for the first time in June 2009. This series only includes data for CCs held by natural persons who are up-to-date with their payments and shows information on various aspects of both the number of CCs and their balance.

Chart 3
Number of Bank Credit Cards held by Natural Persons who are up-to-date with their payments (Bimonthly data and figures in millions)



Source: BBVA Research with Bank of Mexico data

Chart 4
Balance of Bank Credit Cards held by Natural Persons: Customers who pay off their balance and those who do not (Figures in billion pesos of December 2012)



Source: BBVA Research with Bank of Mexico data

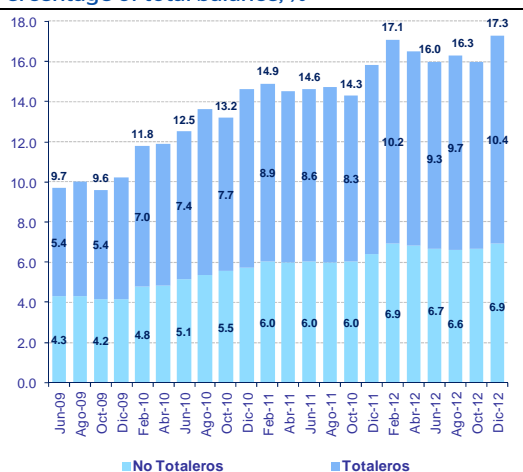
Chart 3 shows that the lowest number of total CCs held by natural persons who are up-to-date with their payments was registered in October 2009. After that date these CCs increased steadily, and from October 2009 to December 2012 the increase was 4.3 million CCs. Of this total, 3.5 million (82%) came from the increase in customers who pay off their balance (before the deadline and therefore paying no interest) and the rest (nearly 0.8 million) were customers who do not pay off their balance (remaining 18%).

Chart 4 refers to the balance of CCs held by customers who pay off their balance and those who do not, at December 2012 prices. The data in this chart shows that the credit balance of CCs held by customers who do not pay off their balance was nearly 184 billion pesos in December 2012, practically the same figure registered for this type of customers in June 2009. This shows that the increase in the balance in real terms registered by credit granted for this type of CCs from June 2009 to December 2012 was 27.7 billion pesos at December 2012 prices, and 98% of this amount corresponded to customers who pay off their balance. Moreover, from the point of view of the significance of the purchases made using interest-free CCs, 73.3% of the 27.7 billion pesos increase in the balance of this type of CCs from June 2009 to December 2012 was due to the increase in the purchases made using CCs that benefited from this promotion.

Banxico's bimonthly CC information also shows that the share of total CC credit granted interest-free has continued to increase. In June 2009 this share was 9.7% and in December 2012 it increased to 17.3%. As shown in Chart 5, customers who pay off their balance are the ones who have used this type of credit to a greater extent.

Chart 5

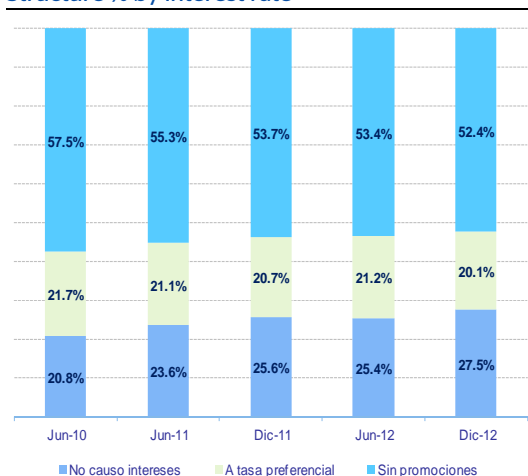
Balance of Bank Credit Cards held by Natural Persons who are up to date with their Payments Granted to Months Interest-Free: customers who pay off their balance and those who do not
Percentage of total balance, %



Source: BBVA Research with Bank of Mexico data

Chart 6

Number of Bank Credit Cards held by Natural Persons: customers who pay off their balance and those who do not
Structure % by interest rate



Source: BBVA Research with Bank of Mexico data

The data at the end of 2012 also shows that a greater number of customers are using their CCs to buy products on credit, either taking advantage of interest-free deferred payment promotions or making their purchases at preferential interest rates. There are also customers who make their purchases with no promotions. This category of customers decreased from 57.5% of the total in June 2010 (first data available) to 52.4% in December 2012.

Assessment

The two statistical series published by Banxico on the number of CCs show that they have continued to grow once the effects of the 2009 crisis were absorbed. However, the most recent data on the total number of cards shows that the growth in CCs has slowed down, which will predictably also be reflected in the other CC categories (cards used and card contracts). The possible slower growth in the number of CCs in the near future may also be reflected in a lower rate of growth in their balance.

As regards CCs held by natural persons who are up-to-date with their payments, the share of the CC balance used to make purchases with interest-free deferred payments continues to increase. On the one hand, it looks like banking institutions are offering this option to their CC customers as a way of competing among them, and on the other hand it also appears that customers are looking for this type of promotions to make major purchases.

According to the last point of the above paragraph and in view of the growing percentage of purchases made using interest-free CCs, which at the end of 2012 accounted for 17.3% of the total balance, it is conceivable that a significant number of customers have chosen to use their cards for making this type of purchases, rather than using them as revolving credit. Customers who use their CCs in this way and are also disciplined in terms of their spending would not only stop using their CCs as revolving credit, but would even use them to schedule their expenses in the long-term. In this case they could settle a purchase before making a new one. In addition, they will be confident doing this because they know that large department stores and other providers of products and services are constantly offering sales schemes using interest-free CCs. An increase in the percentage of purchases made using interest-free CCs could be explained partly by greater competition among banks that continue to offer this product, and by customers behaving as described in this paragraph.

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