

Banking

Monthly Report on Banking and the Financial System

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1. Banking and the Financial System

Growth in traditional bank deposits slows in tandem with sight deposits

In July 2024, the balance of traditional bank deposits (demand + term) registered a real annual growth rate of 3.4% (equivalent to a nominal growth of 9.1%), lower than the growth observed in June and also below the average recorded in the first half of the year (5.0 and 4.8% respectively). The rebound by sight deposits came to a halt, with growth slowing down. In July, sight deposits contributed 1.4 percentage points (pp) to the total growth of traditional deposits, down from 3.4 pp in June. Meanwhile, term deposits contributed 1.9 pp to the momentum observed. The slowdown in deposits in July 2024 partly reflects lackluster economic activity, which has begun to feed through to several revenue indicators.

Traditional deposits remained strong in July, partly due to the accounting effects of exchange rate depreciation. Adjusting for this impact, the real growth rate for traditional deposits in July would be 2.0%, down from 4.1% in June. In other words, the depreciation in July contributed nearly 1.4% to the observed dynamism due to this accounting effect.

The real annual change in sight deposits over the first seven months of the year was 2.2% (nominal growth of 7.9%), lagging the 1H24 average of 3.3%. Consequently, the rebound in sight deposits observed in May and June, which had real growth rates of 4.0% and 5.3% respectively, tapered off. In July, the holders who contributed the most to growth were individuals whose balances showed a real annual variation of 4.7%, the highest growth rate so far this year. This dynamism is still mainly associated with a recomposition of households' financial savings towards more liquid resources, in an environment in which both wages and employment are growing more moderately.

The balance of sight deposits for companies increased by 2.6%, down from 4.5% reported in June. This lower dynamism could reflect lower growth and even contraction in revenues in some sectors of economic activity. For example, the indicator of revenues from the supply of goods and services dropped between May and June (latest available information) for the wholesale, retail and services sectors decreased (from -4.1% to -9.8%, from 0.9% to -3.9% and from 5.4% to 5.1%, respectively). Additionally, the ANTAD sales indicator continued to decelerate (for total stores) from a real growth of 1.4% in June to a contraction of 1.5% in July.

Term deposits gained momentum in July 2024, showing real annual growth of 5.6% (11.5% nominal), though this was below the average growth of 7.6% observed in 1H24. The holders that contributed the most to the dynamism were other financial intermediaries, whose term deposits reached a real rate of annual growth of 25.6% in July (higher than the 10.4% recorded the previous month), this increase could be related to the monetary pause that delayed for a few months the cycle of reductions in the interest rate, in such a way that these intermediaries kept a greater part of their balances available in instruments that could generate higher returns.

Conversely, terms savings of companies and individuals declined. In the first case, companies' term deposits reduced their growth rate from 7.4 to 6.3%, while the balance of individuals registered a contraction for the second consecutive month, going from a real annual change of -0.2% in June to -2.0% in July. This slowdown appears to reflect the reduced growth path in revenues for both companies and households.

Outstanding credit to the non-financial private sector in general was less robust

Real annual growth in the balance of outstanding loans from commercial banks to the non-financial private sector (NFPS) in July 2024 was 6.4% (12.3% nominal), down from 7.5% the month before but above average real annual growth of 1H24 of 6.0%. At the annual real growth rate of 6.4%, business loans contributed 2.9 pp, while the consumer and housing portfolios contributed 2.9 and 0.5 pp, respectively

Outstanding consumer credit in July registered real annual growth of 12.5% (18.7% nominal), down from 13.1% the month before. The credit segment for the acquisition of durable consumer goods (ABCD, 19.4% of the consumer portfolio) continues to be the main source of dynamism, contributing 5.9 pp to the real annual variation of the same. Above all, this reflects the acquisition of a Sofom ER by a commercial bank, which is expected to normalize by 2Q25, mitigating the base effect. Month-on-month, following the April 2024 increase in balances driven by that consolidation (18.8%), the pace of portfolio growth eased to 1%, in line with the 1Q24 average of 1.1%.

The credit card segment was the second largest contributor to growth in the year's seventh month (36.2% of consumer credit). Real growth in its outstanding balance was 7.5%, marking the second straight month of slowdown and well below average real growth in 1H24 of 11.3%. In June, the contribution of this segment to the dynamism of consumer credit was 2.8 pp, below the contribution of 3.5 pp in the previous month. This result still reflects the slowdown in private consumption, which in June (latest available information) grew at an annual rate of 3.9%, below the average growth of 2.5% observed in the first half of the year.

Meanwhile, payroll and personal loans recorded real annual changes of 4.9 and 8.3%, respectively, together contributing 2.6 pp to the overall growth of consumer credit. Both segments continued to reduce their expansion rate, and were below the average growth observed in 1H24 (5.9% for payroll loans and 9.1% for personal loans). This performance reflects the moderation in the growth of both formal employment and wages. Specifically, the annual growth rate for the number of IMSS-insured workers was 2.0% in July, below the 2.5% average recorded in 1H24, while real wage growth in the month was 3.9%, below the January-June 2024 average of 4.9%.

Outstanding housing credit slowed further in July, with the real annual growth rate falling to 2.1% (7.8% nominal), the lowest level since December 2017. This bears out weaker momentum in the medium-income residential housing segment, which grew at a real annual rate of 2.3% in July, well below the 3.9% average seen in the first half of the year. Turning to financing for low-income housing, the annual rate of contraction eased from -7.2% in real terms in June to -2.9% in June. The slowdown in formal employment over the past 12 months, combined with a sluggish recovery in real wages and expectations of a prolonged period of high long-term interest rates, may well be dampening stronger demand for housing loans.

On the other hand, business credit (53.2% of the current portfolio to the NFPS) registered a growth in real terms of 5.4% (11.3% nominal), exceeding the average real growth of 3.7% recorded in 1H24. By sector of activity, the services sector remains the one that contributes the most to growth, contributing in July with 4.1 pp to the total dynamism of the current business portfolio, while the electricity, gas and water sector continued to contribute 1.0 pp to this growth. Nevertheless, outstanding manufacturing and construction loans fell, in line with stagnating activity in those sectors, subtracting 0.2 pp and 0.4 pp, respectively, from the portfolio's overall growth. Part of the slowdown

in bank credit to companies is associated with the substitution of sources of financing by some of the borrowers. In particular, some companies have replaced bank debt with stock market debt in the internal market. Domestic debt issuance in 2Q24 grew at a real annual rate of 11.1%, outstripping the 9.2% achieved in 1Q24.

Looking at currency composition, outstanding business companies in domestic currency (75.2% of the total portfolio) delivered real annual growth of 0.9%, below the 2.6% average recorded in the year's first half. For its part, outstanding foreign currency-denominated business loans showed real growth of 22.0%, well above the 7.5% observed in 1H24. As was the case in June, part of this acceleration was caused by the accounting effect of exchange rate fluctuation. Excluding the effects of exchange rate fluctuations and inflation, the real growth rate of foreign-currency denominated business loans actually slowed, from 11.9% in June to 9.7% in July. Factoring in the same exchange rate valuation effect for the total outstanding business loan portfolio, the pace of growth declined from 5.5% in June to 3.0%, i.e., a sharper pace (-2.5 pp) than if we exclude exchange-rate depreciation (-1.5pp).

From now on, it is expected that the weakness of economic activity and employment will be reflected in a further slowdown in the growth of the different portfolios that make up bank credit, which could moderate as there is a greater decrease in the costs of financing.

Commercial banks anticipate higher credit demand in the large enterprise and credit card segments for 3Q24

Banco de México published the 2Q24 [Survey on General Conditions and/or Standards in the Banking Credit Market \(EnBan\)](#). Commercial banks collectively reported an uptick in demand for credit across the large non-financial corporate, non-bank financial intermediary, and personal loan segments in the quarter. While the banks with the largest market stake reported higher demand in the non-financial SMEs, credit card and automotive credit segments, the banks with the lowest market stake did not perceive significant changes in demand for these segments. Banks with the smallest market share reported increased demand for payroll loans. The banking industry overall reported lower demand for mortgage loans in 2Q24.

Looking ahead to 3Q24, banks, on average, expect demand to pick up in the large non-financial corporate, non-bank financial intermediary, and credit card segments. Those with the largest market shares expect to see higher demand for credit by non-financial SMEs and mortgage loans, whereas those with smaller market shares are not anticipating any changes in demand for these two segments.

On average, banks did not report any changes in general conditions and/or credit approval standards in 2Q24 in the credit card, personal loan and mortgage loans segments. Banks with the largest market share reported more relaxed conditions for the non-financial SMEs segment and no change for non-bank financial intermediaries, while those with the smallest share reported tighter conditions in both segments. For 3Q24, banks, on average, do not expect any material changes in loan approval standards for the large non-financial corporate, credit card and mortgage loan segments. Banks with the smallest market share think overall conditions for non-financial SMEs and non-bank financial intermediary segments will tighten further.

The 2Q24 EnBan report highlights that commercial banks have expressed concerns about the national economic downturn and a decline in business confidence regarding overall economic activity. Banks with the largest market share noted the deterioration in the international economic environment and the weakening of companies' financial health.

In 2Q24, the percentage of companies that used bank financing decreased

In August, Banco de México published the findings of the [Credit Market Survey](#) for the second quarter of 2024. It showed that 77.4% of companies reported using some form of financing in 2Q24. This was its highest level since 3Q21 (77.9%), but is still below pre-pandemic levels, of 88.3% (in 4Q19).

By source of financing, 27.7% of companies reported using bank financing, the lowest percentage since 3Q22. Even with the decrease, bank financing is still the second most utilized source, trailing behind supplier finance (62.6% of companies in 2Q24). In both cases, the shares were lower than in the first quarter of 2024, while the use of financing from companies of the same corporate group or parent increased (to 12.2% from 10.3%).

At the beginning of 2Q24, 40.1% of companies had bank debt, a slightly higher percentage than reported at the beginning of 1Q24 (39.5%). However, the percentage of companies that used new bank loans decreased, from 16.7% in 1Q24 to 12.5% in 2Q24. Regarding the destination of the new loans, working capital stands out, which increased in importance from 60.7% to 69.9% in the reference period. The second leading recipient is investment, which saw its share fall slightly, from 22.7% in 1Q24 to 22.0% in 2Q24. For its part, the restructuring of liabilities was the destination of new financing for 12.4% of the companies surveyed, lower than the 17.7% reported in the previous quarter. In general, the trend has seen greater use of working capital financing, while investment has shown more moderate increases, with some notable falls in sectors such as construction and in regions such as the southern region.

Regarding the perception of access to and cost of bank credit, companies that secured new loans (12.5% of those surveyed) reported more favorable conditions in terms of loan amounts and terms offered. However, they perceived less favorable conditions for refinancing existing loans and more stringent collateral requirement.

Financing to companies in Mexico in 2Q24 was characterized by several limiting factors that have affected the use of new bank loans. For the 87.5% of companies that did not take out a new bank loan in 2Q24, the three main barriers cited were high interest rates, the overall economic environment, and the amounts required for collateral.

Opportunities in the design of SME policies to improve their access to financing

The second edition of the [SME Policy Index: Latin America and the Caribbean](#) (SME PI) of the Organization for Economic Cooperation and Development (OECD) highlights the difficult economic outlook facing the Latin American and Caribbean (LAC) region over the past five years. In general terms, the impact of political transitions and socioeconomic conditions have been influenced by factors such as the COVID-19 pandemic, as well as the Russia-Ukraine war. That said, SMEs have shown a fundamental role in the socioeconomic landscape, constituting 99.5% of all companies in the LAC region, together with a contribution of 60% of formal productive employment.

According to the SME PI, Mexico stands out as a leading country, excelling in seven of the eight dimensions assessed and outperforming the LAC regional averages. However, Mexico's institutional framework of support for SMEs has undergone significant changes since the publication of the SME PI 2019, driven by the new policy director of the 2018-2024 administration. This change has limited the capacity to implement effective policies and has led to a relative decrease in the resources available to support SMEs. The SMEs sector, which constitutes 52% of the national GDP, has faced serious challenges as a result of the pandemic. Approximately 400,000 SMEs closed down during the health crisis. Of these, only 7% receiving government support, which is far below the 33.6% average reported in other OECD countries

Among the eight dimensions evaluated is that related to access to financing. Mexico obtained a score slightly higher than the regional average in this dimension. The first main takeaway is the regulatory and institutional development in the registration of tangible and intangible assets. Second, in the access to finance dimension, Mexico has government provisions on the stock market, a strategy that allows companies to adopt a less demanding corporate form. However, there is no market for small-cap SMEs and the percentage of collateral required for medium-term loans is the highest in LAC countries. The report highlights the importance of the National Financial Education Strategy (NFES) as a key mechanism for better business management of SMEs, promoting the use of financial products and the inclusion in the digital payment system.

Along with the results obtained, the SME PI establishes a series of recommendations, which seek to: promote a separate stock market for small-cap SMEs; revise downwards the weighting of collateral required (for medium-term loans) and promote acceptance of movable assets as collateral; strengthen the current system of follow-up, monitoring and evaluation of the NFES; develop specialized information and training mechanisms for entrepreneurs who went bankrupt in their projects; create an automatic mechanism that removes companies and individuals from the official bankruptcy and insolvency registers when the situation is resolved; and establish maximum time limits for insolvency (up to 3 years). These proposals establish the path to be followed to promote the growth of Mexican SMEs, the axis of the national economy.

2. Financial markets

Can any lessons be learned from the Fed's most recent easing cycles that began with a 50bp cut?

The Federal Reserve began its cycle of monetary cuts with a 50 basis point (bp) reduction in the federal funds rate, something that has only happened twice in the last 23 years.

Opinions may vary on whether the 50 bp cut reflects a bid to address potentially weaker labor market data or increased confidence, as stated by the Chairman, that inflation is already on track to reach the 2.0% target. The unusual start to this cycle invites comparisons with previous instances. The aim is to analyze whether any lessons can be drawn about the performance of prices of domestic financial assets.

The 2001 cut cycle also started with a 50bp reduction. Then, the Mexican economy was losing momentum, with the trend ultimately leading to recession by the first quarter of 2002. This was partly due to the collapse of internet companies in the United States. Mexico was also still undergoing disinflation in the wake of the 1994 crisis, with annual inflation rates still above the 8.0% level seen in early 2001.

One year after the start of the cycle of cuts (3 January 2001), the performance of the main domestic assets was as follows: i) The yield to maturity on the 10-year nominal bond fell by approximately 100 bp—this is the first year a nominal bond with this maturity has been traded; ii) the exchange rate appreciated by 5.24%, reaching 9.12 pesos per dollar by January 3, 2002; iii) the Mexican Stock Exchange's IPC rose by 12.7%, in contrast to the S&P 500's 13.5% decline.

The second latest rate-cutting cycle that began with a 50 bp cut was in September 2007. By that time, the first signs of valuation issues with mortgage-linked instruments in the United States had already cropped up, eventually resulting in Lehman Brothers' bankruptcy in September 2008. A year into this cycle (September 18, 2008), the performance of main domestic assets was as follows: (i) the yield to maturity on the 10-year nominal bond fell by

approximately 37 bp; (ii) the exchange rate depreciated by 6.25%, to 10.0 pesos per dollar, a few days after the Lehman Brothers' collapse; (iii) the Mexican Stock Exchange's IPC dropped by 22.3%, hit by the S&P 500's 19.5% plunge.

Although the current situation could have some similarity to that of 2001 strictly in terms of economic activity, it is clear that the Fed's 50 bp cut announced yesterday finds the Mexican economy in a very different situation. On the cyclical side, we are facing a slowdown affected by the U.S. economy, heightened by cutbacks in public spending following the completion of the outgoing government's flagship projects. In addition, there is the phenomenon of nearshoring, which represents an element in favor of the Mexican economy, whose potential for benefits is uncertain in the face of political conditions both at home and in the United States

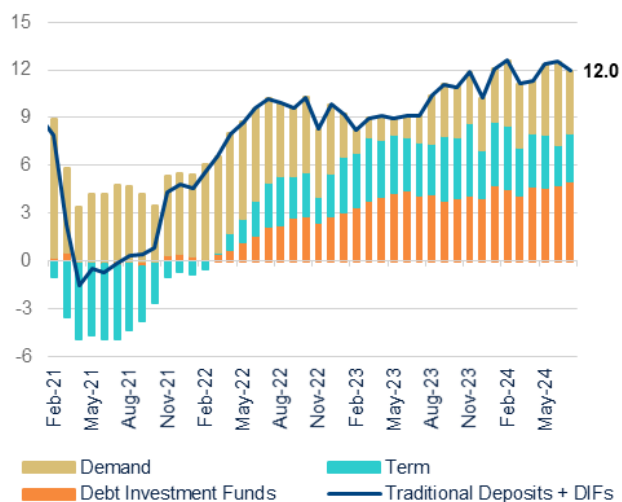
On the price side, inflation is showing a downward trend as supply shocks are gradually being resolved. Softer demand should help extend this trend, easing the persistent rise in the price of services. In this context, Banxico is expected to continue with its cycle of cuts, albeit cautiously.

However, the biggest difference lies in idiosyncratic risk. The institutional reforms proposed by the ruling party in a context of qualified majority in both chambers have resulted in a higher risk premium. Financial variables are already reflecting some of this increase in risk but concerns about returning to fiscal balance in the medium term could further heighten it.

Thus, the experience that can be drawn from the two previous episodes of monetary easing by the Fed that began with a 50bp cut is very limited. The outlook is more challenging due to the unique characteristics of the current post-pandemic economic cycle and the heightened idiosyncratic risk facing the Mexican economy. However, what can be said is that the balance of risks for domestic asset prices has a downward bias.

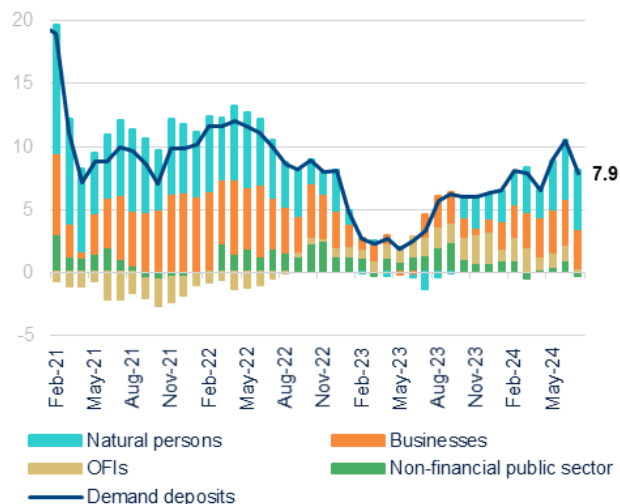
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Figure 1. **COMMERCIAL BANKING DEPOSITS**
(NOMINAL ANNUAL CHANGE, %)



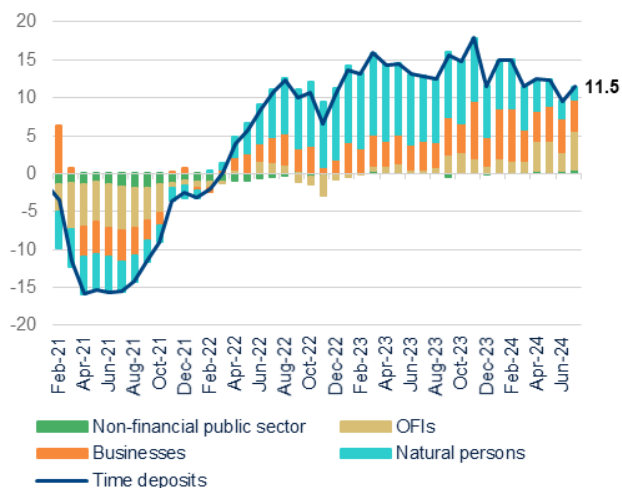
Source: BBVA Research based on Banxico data.

Figure 2. **SIGHT DEPOSITS**
(NOMINAL ANNUAL CHANGE, %)



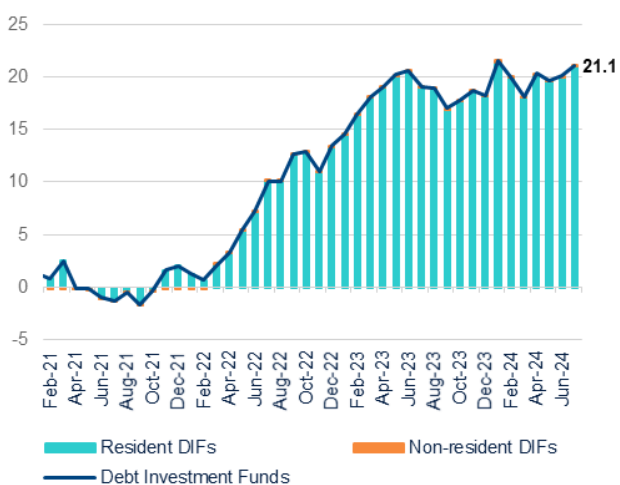
Source: BBVA Research based on Banxico data.

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



Source: BBVA Research based on Banxico data.

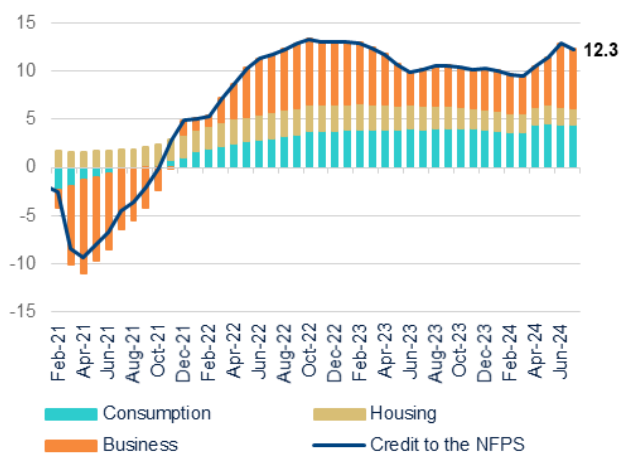
Figure 4. **DEBT INVESTMENT FUND SHARES**
(NOMINAL ANNUAL CHANGE, %)



Source: BBVA Research based on Banxico data.

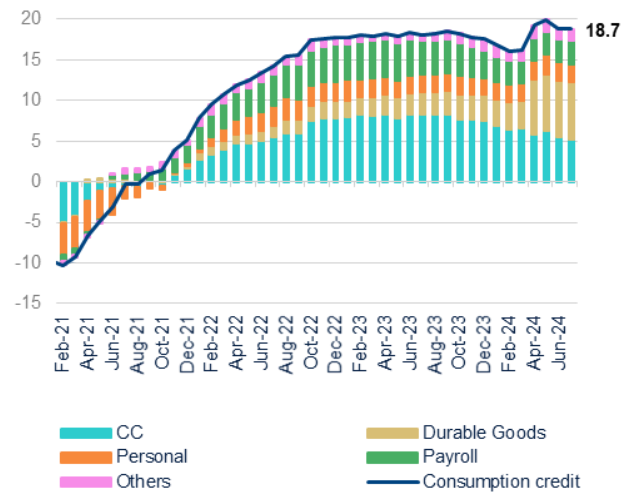
Credit: figures

Figure 5. **OUTSTANDING BANK CREDIT TO THE NON-FINANCIAL PRIVATE SECTOR (NOMINAL ANNUAL CHANGE, %)**



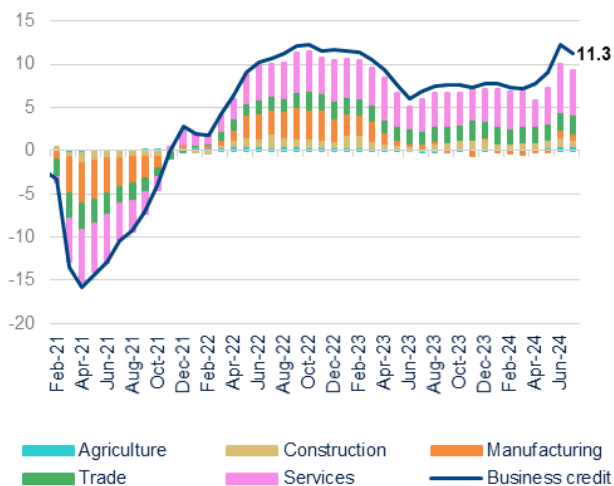
Source: BBVA Research based on Banxico data.

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



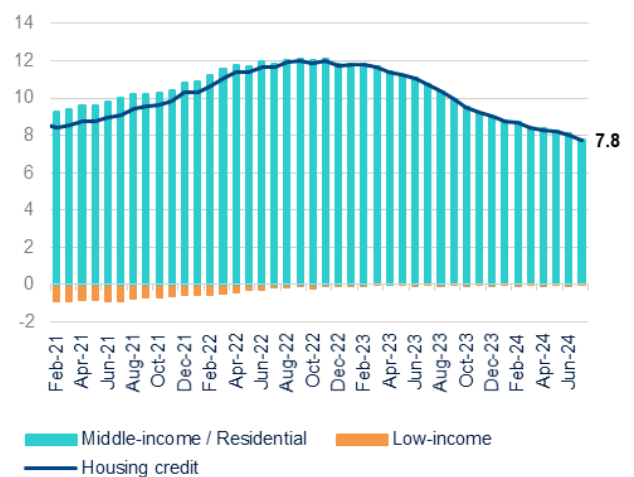
Source: BBVA Research based on Banxico data.

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



Source: BBVA Research based on Banxico data.

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



Source: BBVA Research based on Banxico data.

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