Banking

Monthly Report on Banking and the Financial System

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1. Banking and the Financial System

Traditional bank deposits slowed at the end of the third quarter of the year

In September 2024, the balance of traditional bank deposits (“sight + term”) registered a real YoY change of 4.0% (8.7% in nominal terms), lower than the growth observed in August (4.6% in real terms). Demand deposits increased their growth rate and in September contributed 2.4 percentage points (pp) to the total growth of traditional deposits, but it was not enough to offset the slowdown in term deposits, which in September had a contribution of 1.6 pp to growth, the second lowest contribution recorded so far this year.

With September's result, the average real growth of traditional deposits in 3Q24 reached 4.0%, down from 4.6% in 2Q24. The slowdown between the second and third quarters of the year is more noticeable if we consider that the accounting effect of the exchange rate depreciation since July has cushioned the reduction in the growth of traditional deposits. Stripping out this effect, the average growth of traditional deposits declined from 4.7% in 2Q24 to 2.2% in 3Q24.

In the ninth month of the year, sight deposits registered a real annual change of 3.7% (nominal growth of 8.4%), higher than the real growth recorded in the immediately preceding month (IPM, 3.3%). With this result, sight deposits seem to have regained some dynamism, but part of this improvement would be associated with the previously mentioned accounting effect of the exchange rate. Stripping out this effect, sight deposits grew by an average of 1.3% in real terms in 3Q24, lower than the average real growth of 3.7% recorded in 2Q24.

As in August, the only holders contributing to the growth of sight deposits were companies, whose balances showed a real YoY change of 4.8%, the highest growth rate recorded so far this year, partly because this segment is the most sensitive to the accounting effect of the exchange rate. Even stripping out this effect, the real growth rate (1.1%) is higher than the contraction observed in sight deposits in the previous two months (-1.4% on average).

This greater dynamism in companies‘ sight deposits is mainly explained by a reallocation of balances toward more liquid resources (substitution of term deposits), as some of the indicators associated with companies’ revenues seem to be weakening. In particular, sales growth of ANTAD affiliated shops was 1.8% in real terms in September, lower than the 3.2% growth observed in August, while the total income index of the non-financial services sector slowed its growth rate from 4.5% in July to 4.1% in August (latest available information).

The rest of the sight deposit holders registered less dynamism: the balances of individuals reduced their growth from 7.2% in real terms in August to 5.9% in September, those of other financial intermediaries from -1.5% to -2.5% and those of the non-financial public sector from -6.6% to -4.6%.

Term deposits also moderated their dynamism in September 2024, registering a real annual growth rate of 4.5% (9.3% nominal), lower than the 7.5% observed by the IPM. With the result of the ninth month of the year, the real average growth of term deposits in 3Q24 reached 5.8%, below the 6.4% observed in 2Q24. As in the case of sight deposits, the reduction in real annual growth between the second and third quarters of the year is more noticeable if the accounting effect of the exchange rate depreciation is stripped out, since when adjusting for this effect, the average growth of term deposit balances decreased from 6.6% in 2Q2024 to 4.0% in 3Q2024.

Most term deposit holders show a decrease in the growth of their balances: companies reduced their real annual growth from 8.1% in August to 7.1% in September, private individuals saw their decline go from -2.3% to -3.3%, and the balances of other financial intermediaries went from 33.6% to 22.1%. This loss of dynamism would be associated with both the reduction observed in the interest rates of these instruments, which makes them less attractive compared to other savings and investment alternatives, and a weaker dynamism in the sources of income of both families and companies, leaving them with less margin to allocate surplus resources to different types of savings.

Outstanding credit to the non-financial private sector moderates its growth

In September 2024, the outstanding credit portfolio balance granted by commercial banks to the non-financial private sector (NFPS) registered a real annual growth of 7.2% (12.1% nominal), lower than that observed in the immediately preceding month (IPM, 7.7%). At the real annual growth rate of 7.2% for September, business loans contributed 3.5 pp, while the consumer and housing portfolios contributed 3.0 and 0.6 pp, respectively.

With September's result, real average annual growth (stripping out the effect of inflation) in 3Q24 amounted to 7.1%, up from 6.5% in 2Q24. However, part of the growth observed in 3Q24 reflects the accounting effect of the exchange rate devaluation on foreign currency denominated balances. Stripping out this effect, we would be seeing a slowdown from an average real growth of 6.7% in 2Q24 to an average annual growth of 5.4% in 3Q24.

In the ninth month of the year, outstanding consumer credit reached a real annual growth rate of 12.7% (17.8% in nominal terms), reducing its dynamism with respect to the previous month, when such growth was 13.0%. As a result, average real growth in 3Q24 was 12.7%, lower than the 13.8% recorded in 2Q24. The consumer durables segment (ABCD, 19.6% of consumer credit) continues to be the main source of dynamism, contributing 6.1 pp to the real annual change in the outstanding loan portfolio. At a monthly rate, after the rebound in balances recorded in April 2024 derived from the consolidation of a Sofom ER, the rate of expansion of the portfolio stood at 1.5% monthly, less than the average of 1.6% observed between May and August.

The second largest contributor to growth in September was credit cards (36.1% of consumer credit), where the outstanding balance increased by 7.6% YoY in real terms (12.5% nominal), down from 7.9% in real terms in August. In 3Q24, the segment's annual growth averaged 7.6%, significantly below the 2Q24 average real growth of 10.3%. In September, the contribution of this segment to the dynamism of consumer credit was 2.9 pp, below the average contribution of 3.8 pp in the first eight months of the year. This slowdown partly reflects the gradual decline in the growth of private consumption, which in August (latest available information) registered an annual rate of 2.3%, lower than the average growth rate observed in the previous seven months (3.9%).

Payroll and personal loans registered a real annual change of 4.6% and 8.4% (9.4% and 13.4% nominal, respectively), which together contributed 2.5 pp in real terms to consumer credit growth in September. Here again, quarterly average growth rates show a clear slowdown, with payroll loans declining from 5.4% in 2Q24 to 4.9% in

3Q24, while personal loans slowed from an average real growth rate of 9.4% in 2Q24 to 8.3% in 3Q24. These results continue to reflect the slower pace of growth in formal employment, which in 3Q24 averaged 1.8% (down from 2.2% in 2Q24) and in real wages (which in 3Q24 grew at a rate of 4.3%, down from 4.5% on average in 2Q24).

Outstanding housing loans (21.7% of the outstanding portfolio to the NFPS) registered a real annual growth rate of 2.8% (7.6% nominal), slightly improving its performance with respect to the previous month (when such growth was 2.6%). With September's result, real average growth for 3Q24 reached 2.5%, down from 3.3% in 2Q24. The September result reflects the greater dynamism observed in the medium-residential housing segment, which grew at a real annual rate of 3.1%, slightly higher than the 3.0% average observed in August. The outstanding balance of financing for low-income housing continued to contract, albeit more moderately, amounting to -2.9 percent in real annual terms in September, less than the average fall of -4.4 percent recorded in the first eight months of the year. The slowdown in the dynamism of formal employment observed since May 2023, together with a slower recovery of real wages and the expectation of a slower decline in long-term interest rates would limit a greater dynamism in the demand for this type of financing.

Corporate loans (53.3% of the outstanding portfolio to the NFPS) grew by 6.6% in real terms (11.4% in nominal terms), lower than the 7.5% growth rate observed in August. By sector of activity, the services sector remained the main motor for growth, contributing 4.7 pp to the total dynamism of the outstanding corporate portfolio in September, while the electricity, gas and water sector continued to contribute 1.0 pp to the total dynamism of this portfolio. The manufacturing sector recorded for the second consecutive month a positive real annual change, which amounted to 1.4% real annual change, while the construction sector, although showing a moderation in its dynamism, managed to remain in positive territory, with an annual change of 0.2%.

In 3Q24, real annual corporate portfolio growth averaged 6.5%, up from 4.7% recorded in 2Q24. However, it should be noted that during 3Q24 there was a significant accounting effect associated with the depreciation of the exchange rate, which affects the foreign currency balances of this loan portfolio. Stripping out this effect, average real growth in 3Q24 was 3.5%, down from 5.1% in 2Q24.

This slowdown in the growth rate of the corporate portfolio reflects the lower dynamism of the economy in general, as shown by the recent performance of the overall economic activity indicator (IGAE), which in August (latest available information) registered an annual growth rate of 0.4%, lower than the 3.8% observed in July. In particular, private investment, one of the sources of credit demand, reduced its growth from an average of 7.7% in 2Q24 to an average of 4.7% between July and August 2024.

In short, lending was less buoyant in September, which was partially cushioned by the accounting effect of the exchange rate depreciation. Stripping out this effect, the loss of dynamism in the outstanding private sector credit portfolio is more noticeable. The slowdown in employment, the slower recovery of wages and the slower growth of economic activity, in particular consumption and investment, keep the possibility of faster growth in the demand for credit from both companies and households limited in the short term.

The International Monetary Fund (IMF) releases results of the annual assessment of the Mexican economy for 2024

Through the Article IV Consultation, the International Monetary Fund (IMF) assesses the economic situation and prospects of each of each member country. The results of this financial year for Mexico in 2024 were released on 1

November. The report highlights that the Mexican economy has slowed down while inflationary pressures are easing. In this context, consumer credit has moderated, reflecting lower domestic demand and the evolution of monetary policy. Mortgage lending continues to grow and corporate lending also shows some expansion.

Banking system vulnerabilities are moderate. The sector has high capital and liquidity buffers. Recent stress tests show that bank capital remains above the regulatory minimum even in a significantly stressed environment, although some smaller banks might fall below the minimum regulatory level. However, the report notes that there are factors requiring continuous supervision, including: concentration of lending, exposure to contingent credit facilities and banks' relatively large exposure to sovereign debt.

Concerning non-bank financial intermediaries, the report highlights that regulators' stress tests show that these intermediaries could face difficulties in an environment of sustained high interest rates. Since they represent less than 4% of the financial system's assets and have little connection to the banking system, they pose limited risk.

Lastly, with regard to its review of the financial system, the IMF considers that there are areas of opportunity to strengthen the macroprudential and supervisory framework in Mexico, among which it highlights: 1) publishing a macro-prudential strategy, including guidelines for the use of the countercyclical capital buffer, 2) monitoring risks arising from loan concentration and contingent credit facilities, 3) authorizing the banking regulator to supervise financial conglomerates on a consolidated basis, 4) further strengthening the operational framework for cybersecurity, especially with regard to strategy, oversight and information exchange, and 5) improving the resources of regulators as well as the legal protection of supervisors.

IMF draws attention to vulnerabilities and imbalances that put financial stability at risk

In its most recent update of the *Global Financial Stability Report*, the IMF emphasizes the decoupling of uncertainty and volatility in financial markets as an amplifying factor of the vulnerabilities currently facing the global economy. It emphasizes the episode of high volatility in August, triggered by changes in Japan's monetary policy, as an example of the harmful effects on asset prices when a sudden increase in volatility coincides with high levels of leverage.

The report points out three main vulnerabilities. First, the high growth in the level of debt in several economies, particularly in the developed world. The resilience of emerging economies (EMs) is underscored; however, emphasis is placed on the risk of capital outflows and access to financing in the face of possible changes in trade policies from developed countries. In fact, it emphasizes that, in recent years, the percentage of the term premium of long-term EM government bonds explained by movements in the term premium of the 10-year Treasury bond has increased from 5% to around 15% in the case of Latin American debt.

The second vulnerability originates in the commercial sector of the real estate market. The decoupling between prices and fundamentals, particularly in the office sector, could mean a sudden correction in prices with adverse effects for banking and non-bank institutions concentrated in this sector.

Lastly, the third vulnerability corresponds to the high use of financing from non-bank financial institutions (NBFIs). The report returns to the volatility episode of August as an example of how the use of this financing can generate tensions in the financial system when the rapid unwinding of debt positions can be reflected in liquidity problems.

The lack of information on the NBFI sector makes it difficult to clearly identify the concentration risks and vulnerabilities that generally exist in this type of institution.

Mexico's financial savings and total financing both increased in the first quarter of 2024

In October 2024, the National Banking and Securities Commission (CNBV) presented its Report on Financial Savings and Financing in Mexico, with data corresponding to the first quarter of 2024 (1Q24). During this period, total financial savings showed a real annual increase of 2.9%, reaching an equivalent of 93.3% of GDP, higher than the 91.9% recorded in 1Q23. In 1Q24, total financing grew by 3.5% in real annual terms, representing 95.9% of GDP, exceeding the 93.9% recorded in 1Q23.

At the end of 1Q24, domestic financial savings reached 74.7% of GDP, up from the 71.6% reported in March 2023, with a real annual growth rate of 5.7%. In this segment, investment in fixed-income securities and trust certificates (CBFs) represented 38.7% of GDP, with a real annual increase of 7.2%. The deposits of financial intermediaries experienced a real annual growth of 4.2%, reaching 36.1% of GDP. Within the latter category, commercial banks accounted for 23.5% of GDP, while Infonavit and development banks contributed 6.0% and 3.8% of GDP, respectively. In contrast, external savings reflected a real annual contraction of 7.0%, reaching 18.6% of GDP in March 2024 (down from 20.3% of GDP in March 2023). Resources from abroad earmarked for the public sector amounted to 12.8% of GDP, while those raised by the private sector reached 5.8% of GDP. In terms of external financing channels, securities issued abroad accounted for 8.8% of GDP, domestic securities held by non-residents represented 5.7%, and foreign loans were equivalent to 4.1% of GDP.

In terms of financing, the external component presented a real annual contraction of 9.3%, reaching 12.9% of GDP (vs. 14.4% in 1Q23). Within this heading, external financing to the private sector, equivalent to 5.3% of GDP, decreased by 11.4% in real terms, while external funds to the public sector, representing 7.6% of GDP, contracted by 7.8% in real annual terms. Broken down by type of financing, fixed-income securities issued abroad represented 3.7% of GDP for the private sector, with an annual decline in real terms of 12.8%, whereas external loans to the private sector amounted to 1.6% of GDP, decreasing by 7.8% in real terms. In the case of the public sector, fixed income instruments issued abroad reached 5.0% of GDP, with a contraction of 2.5%, and external credits destined to the public sector, which represent 2.6% of GDP and decreased 16.5% at a real annual rate with respect to 1Q23.

In contrast, domestic financing showed a real annual growth of 5.8%, representing 82.9% of GDP at the end of 1Q24. By destination, 45.9% of GDP domestic financing went to the public sector, while 37.1% went to the private sector. This percentage was distributed mainly in loans from commercial banks (18.9% of GDP), with a real annual growth of 5.8%, followed by loans from other financial intermediaries (10.4% of GDP), issuance of domestic debt and CBFs (6.1% of GDP), and development banks (1.6% of GDP). As for the public sector, domestic financing represented 45.9% of GDP, which was distributed between the issuance of domestic debt and CBFs (42.6% of GDP), loans from commercial banks (1.9% of GDP) and development banks (1.3% of GDP).

The report also includes additional data on non-financial entities. Among them, a real annual decrease of 1.9% in suppliers' credit to Mexican Stock Exchange (BMV) issuers stands out, while non-bank credit card balances registered a real annual growth of 15.5% in the analyzed quarter.

2. Financial markets

Can we currently expect a similar reaction of domestic asset prices to what happened after the 2016 election in the United States?

Given the change of government in the United States, the negative differentiation of domestic assets, particularly the exchange rate, has not been long in coming. Given the precedent of the 2016 presidential election, it is worth asking to what extent the behavior of domestic asset prices will resemble what was observed on that occasion and/or what differences there are with respect to that time.

The first point to consider is that the outcome of the 2016 US presidential election was somewhat unexpected, so asset prices experienced a sudden drop as soon as the result was known. In fact, the peso depreciated 13.6% in the following four days after the election, from 18.3 to 20.8 pesos per dollar (ppd).

In contrast, the outcome of the 2024 presidential election was far from a surprise. Even the positions in the financial markets were more in line with the victory of the Republican candidate. This was reflected in the fact that the exchange rate began to show volatility ahead of election day and, although there was a depreciatory movement after the result was known, this was considerably different from the behavior of 2016. The depreciation after seven days from the election has been 2.2% and the most recent level has been below that recorded on election night (20.7 ppd).

The second point to consider is the renegotiation of the trade agreement between Mexico, the United States and Canada (USMCA). The main issue in the 2016 campaign was the possible termination of the treaty, and renegotiations formally began in August 2017, less than seven months into Donald Trump's first presidential term.

This time, the USMCA review is scheduled for 2026 and although the issue of possible trade tariffs was a substantive part of the presidential campaign, the potential breakup of the trade agreement was not at the center of the discussion. This is not to say that it will not be a bargaining lever for the U.S. government, but rather that the sensitivity of financial variables to this issue will increase later as the issue of renegotiation approaches.

The third issue to consider is that of the idiosyncratic risks of our country. In contrast to 2016, domestic risks have not only increased in probability, but are of a diverse nature with fewer mitigators in place to address them.

The main domestic risk is public finances, considering that with a deficit of around 6.0%, a primary deficit of around 1.2% of GDP and the promise to maintain support for PEMEX, it is essential that the federal government present a credible budget proposal in order to achieve fiscal consolidation and prevent the issue of a change in the credit rating outlook from beginning to be priced in.

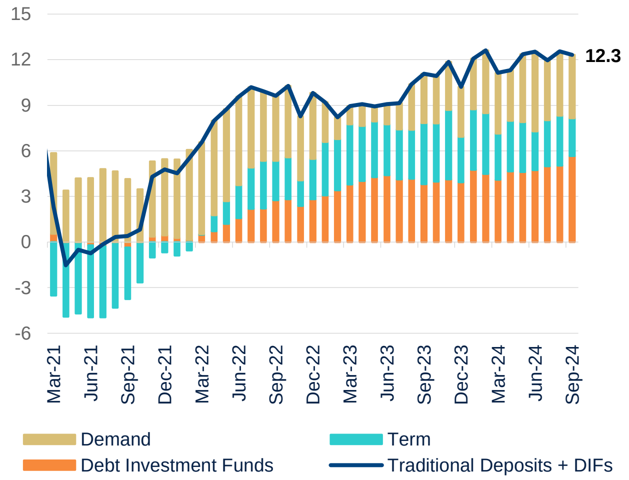
The implementation of the judicial reform is an element of uncertainty that will most likely be reflected in the country's growth prospects, whereas the high probability that additional reforms will be approved could further complicate the process of renegotiating trade agreements. All this in a context of fewer resources to draw on compared to 2016, given that various funds or trusts of the federal public administration were exhausted by the last administration.

In short, the response of domestic asset prices to Donald Trump's return to power as President of the United States will not be in an abrupt manner as it was in 2016 after his surprise victory, but will most likely gradually reflect the possibility of the materialization of tariff threats on an economy that shows several vulnerabilities.

It will be the extent of these vulnerabilities that will have a decisive influence on whether or not an exchange rate appreciation like the one observed in the six months following the January 2017 change of power in the United States will occur. In any case, it is undeniable that in the short term the risks are clearly skewed to the upside.

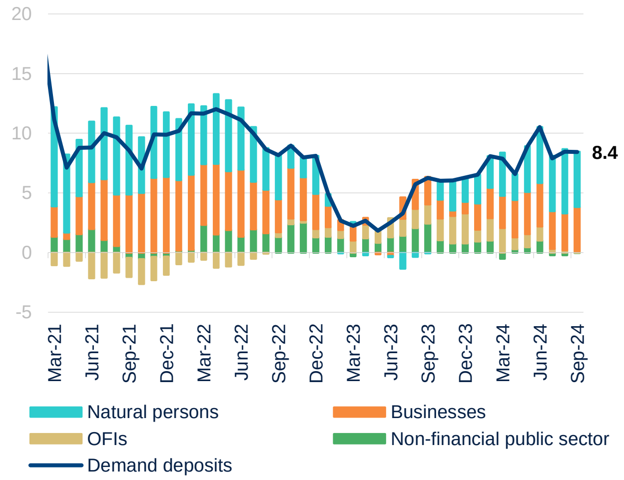
Deposits: figures

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



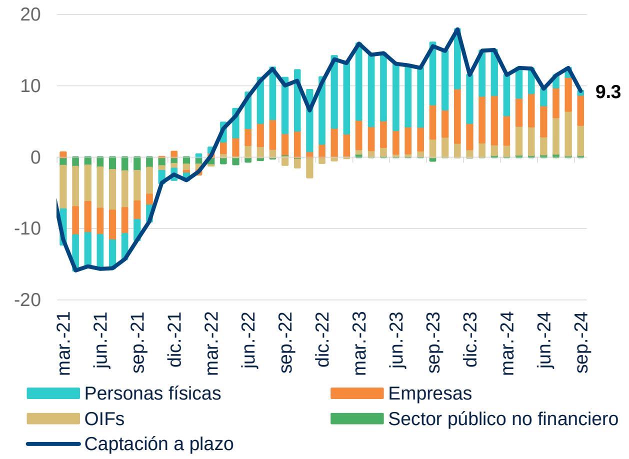
Source: BBVA Research based on Banxico data.

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



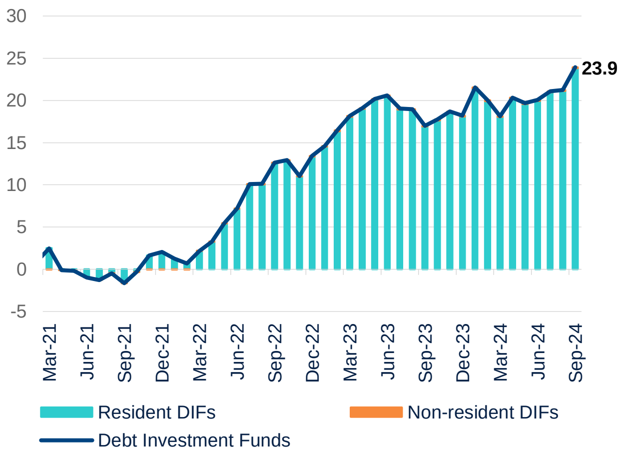
Source: BBVA Research based on Banxico data.

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



Source: BBVA Research based on Banxico data.

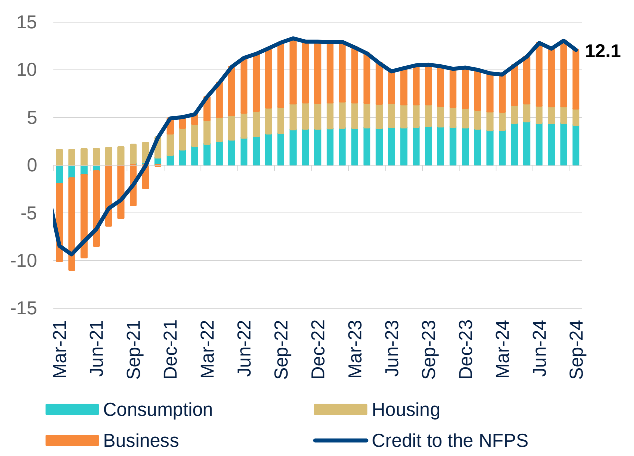
Figure 4. **DEBT INVESTMENT FUND SHARES (NOMINAL ANNUAL CHANGE, %)**



Source: BBVA Research based on Banxico data.

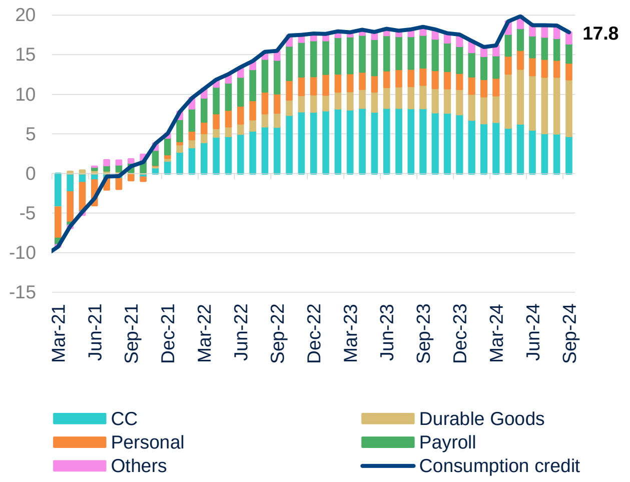
Loans: figures

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



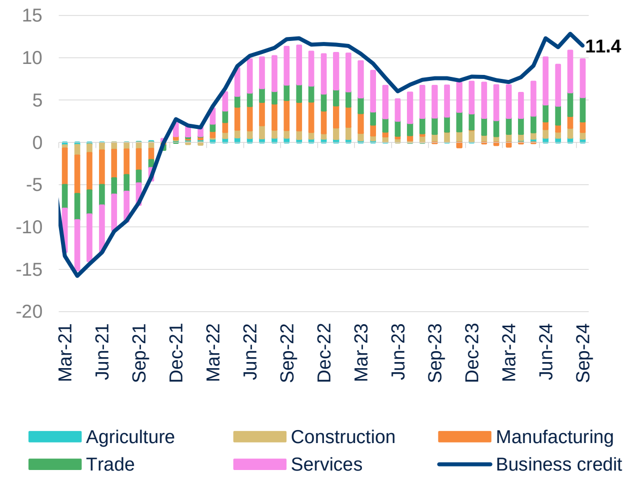
Source: BBVA Research based on Banxico data.

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



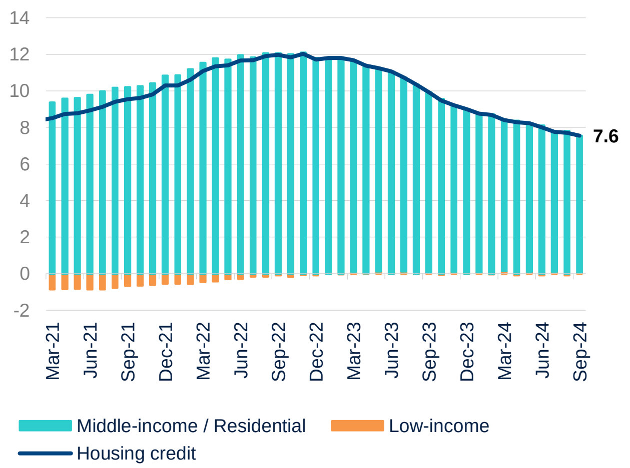
Source: BBVA Research based on Banxico data.

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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