Banking

Monthly Report on Banking and the Financial System

Mariana A. Torán / Iván Martínez Urquijo

December 18, 2024

1. Banking and the Financial System

Traditional bank deposits increase their expansion rate in the tenth month of the year

In October 2024, the balance of traditional bank deposits (sight + term) registered a real annual change of 4.7% (9.7% in nominal terms), a figure higher than the growth observed in September (of 4.0% in real terms). Growth in sight deposits stabilized and contributed 2.3 percentage points (pp) in October to the total growth in traditional deposits, while term deposits picked up, contributing 2.4 pp to the total tally for October, matching the average contribution recorded in the first nine months of the year. The recovery of traditional deposits continues even discounting the accounting effect of the depreciation of the exchange rate. Stripping out this effect, real growth in traditional deposit-taking increased from 2.3% in September to 3.3% in October.

In the tenth month of the year, sight deposits registered a real annual change of 3.6% (nominal growth of 8.5%), slightly below the real growth recorded in the immediately preceding month (IPM, 3.7%). With this result, sight deposits appear to have stabilized their expansion rate, even if we strip out the accounting effect of the exchange rate depreciation. Ignoring this effect, sight deposits reported real growth of 2.2% in October, slightly above the level observed in September (2.1%).

Sight deposit balances by type of holder showed a mixed performance in October. In the case of natural persons, the real annual growth rate was lower than that reported in the IPM (from 5.9% to 4.9%). Meanwhile, the balance of sight deposits among business customers rose from a real annual rate of 4.8% to 5.8%. For natural persons, more subdued levels of employment and real wage growth could be making it harder for households to amass liquid savings. In the case of companies, the livelier performance by sight deposits would be associated with the non-use of income and expenses in various sectors. Notably, certain sectors have seen an increase in income, as in the services sector, where income increased its expansion rate in September (latest available information) with respect to the previous month (from an annual growth of 4.1 to 4.9%), while the trade sector reduced its expenditure for the provision of goods in the same period: the wholesale trade recorded an annual drop of 13.5% in its expenditure (exceeding the 8.7% contraction recorded in the IPM), while the retail trade showed an annual reduction of 14.4% (vs. the 10.4% contraction recorded in the IPM). In the case of other financial intermediaries, their sight deposit balance further increased its contraction (from 2.5% to 9.4%) while the non-financial public sector fell (from 4.6% to 1.4%). In this case, the change observed in October appears to be associated with a reallocation of resources toward longer-term instruments, in response to the greater availability of liquid resources for these agents.

Meanwhile, term deposits picked up in October 2024, registering a real annual growth rate of 6.8% (11.9% nominal), higher than the 4.6% observed in the IMP. As in the case of sight deposits, the recovery in the annual rate of growth is maintained even if we factor in the accounting effect of the exchange rate depreciation, since, controlling for this effect, growth in term deposits rose from 2.8% in September to 5.3% in October.

As in the case of sight deposits, term balances by type of holder delivered a mixed performance in October. In the case of the non-financial private sector (78.6% of total term deposits), these balances have reduced their growth rate as a result of the gradual decline in interest rates. In particular, term savings in the hands of natural persons slowed further, dipping from a real annual change of -3.3% to -3.7%, while term instruments in the hands of companies reduced their growth from a real rate of 7.1% in September to 5.8% in October. Meanwhile, non-bank financial intermediaries (20.2% of total term deposits) increased their holdings of term instruments and the balance saw further growth, climbing from a real annual growth rate of 22.1% to 41.3% between September and October. In this case, these intermediaries could be allocating resources toward this type of instrument, to replace part of the holdings they used during the pandemic and in the period of higher interest rates, as from April 2020 to July 2023 these holders recorded significant reductions in their term balances. Last but not least, term balances of the non-financial public sector (1.2% of the total) also picked up the pace during the period, climbing from growth of 25.0% in September to 31.6% in October. Moving forward, the effect of lower interest rates on non-financial private sector holdings will likely lead to a restructuring in the balances of these holders, meaning that we will see a broad slowdown in term deposits.

Outstanding credit to the non-financial private sector slows

In October 2024, the outstanding loan portfolio balance granted by commercial banks to the non-financial private sector (NFPS) recorded real annual growth of 7.0% (12.1% nominal), below the growth observed in September (7.2% real). Loans to businesses contributed 3.3 pp to the real annual growth rate for October, while the consumer loan and housing portfolios contributed 3.0 and 0.7 pp, respectively. As in the case of deposits, loan balances have priced in the accounting effect of exchange rate depreciation. Stripping out this effect, growth was down slightly from 5.6% to 5.5%.

In the tenth month of the year, outstanding consumer credit reached a real annual growth rate of 12.5% (17.8% in nominal terms), slightly down on the previous month (+12.7%). The consumer durables segment (ABCD, 19.6% of consumer credit) remains the main growth driver, contributing 6.1 pp to the real annual change in the outstanding loan portfolio. In monthly terms, the portfolio expansion rate was 1.2%, lower than the growth rate observed in September.

The second segment with the greatest contribution to growth in October was credit cards (36.2% of consumer credit), whose outstanding balance increased 8.3% in real annual terms (13.4% nominal), increasing its expansion rate compared to the result observed in September (7.6% in real terms). During that month, this segment contributed 3.1 pp to the total growth in consumer credit, exceeding the average contribution of 2.9 pp observed over the previous three months.

Payroll and personal loans registered a real annual change of 4.5% and 8.2% (9.5% and 13.3% in nominal terms, respectively), which together contributed 2.9 percentage points to real growth in consumer credit in October. The positive growth of both segments slowed in October, to reach the lowest rates observed during 2024. In the case of payroll loans, the outstanding portfolio balance slowed by one percentage point with respect to the average real annual rate for the first nine months of the year (dipping from 5.5% to 4.5%), while the outstanding portfolio of personal loans was down 0.7 percentage points on the average for the first nine months of the year (8.2% vs. 8.9%). This slowdown reflects the more subdued growth rate of formal employment, which in October reported an annual change of 1.4%, below the average rate of 2.3% observed between January and September. Moreover, the real wages associated with such employment have also delivered a quieter performance: in October its growth rate reached 4.2%, below the 4.7% average recorded in the first nine months of the year.

Outstanding housing loans (21.6% of the outstanding portfolio to the NFPS) registered a real annual growth rate of 2.9% (7.8% nominal), slightly improving its performance with respect to September (when real growth stood at 2.8%). The October figure reflects the pick-up in the middle-income residential housing segment, which grew at a real annual rate of 3.3%, slightly higher than the 3.1% average observed in September. The outstanding balance of financing for subsidized housing dipped once again, falling 8.0% in September in real annual terms, the largest annual rate drop so far in 2024. The slowdown in formal employment, the slower pace of real wage growth and the expectation of a slower decline in long-term interest rates will continue to limit further growth in the outstanding balance of this portfolio.

In October, performing loans to businesses (53.2% of the outstanding portfolio to the NFPS) grew by 6.2% in real terms (11.3% nominal), lower than the 6.6% growth rate observed in September. By sector of activity, the services sector remains the main growth driver, having contributed 5.3 pp to total growth of the outstanding corporate portfolio, while the electricity, gas and water sector contributed 0.9 pp to the total growth of this portfolio. Following the increase reported during the previous two months in the manufacturing and construction portfolios, their real annual change returned to negative territory in October, falling by 1.4% and 0.9%, respectively.

In terms of currency composition, it should be noted that the outstanding portfolio in local currency (N.C. 73.3% of the total) achieved real growth of 1.7% in October, higher than the level observed in September (1.1%). Meanwhile, the outstanding portfolio in foreign currency (FX), stripping out the accounting effect of the exchange rate depreciation, recorded a real growth rate of 9.0%, its lowest level in the year to date.

This slowdown in the growth rate of the outstanding corporate portfolio reflects the more subdued state of the economy in general, as shown by the recent performance of the overall economic activity indicator (IGAE), which in September (latest available information) registered an annual growth rate of 0.3%, lower than the 0.7% observed in August. Notably, growth in private investment—one of the sources of demand for credit— fell from an average of 7.1% in 2Q24 to just 1.7% in 3Q24.

In short, the outstanding loan portfolio managed to maintain its growth rate in October, even when we factor in the accounting impact of the higher exchange rate depreciation. However, given the signs of a slowdown in economic activity, particularly in employment, real wages and investment, we expect to see more moderate growth in credit demand moving forward, although it is likely that the year-end shopping season will lead to a temporary recovery in consumer credit that could partially offset the sluggishness in the other portfolios.

Financial System Stability Report, Bank of Mexico

According to the December 2024 Financial Stability Report of the Bank of Mexico (Banxico), financial assets within the financial system were up 10.2% in real annual terms, mainly as a result of 18.4% and 21.1% increases in assets in the hands of Siefores (pension investment societies) and mutual funds, respectively, which together account for one third of the total assets of the Mexican financial system. Commercial banks, which represent 42.3% of the system's total assets, also reported growth, albeit at a lower annual real rate of 2.2%.

This system growth has to do with the economic and monetary cycle and has taken place under adequate liquidity and solvency conditions. In the case of commercial banks, not only is the Capitalization Index (ICAP) practically double the regulatory minimum as of September (19.4%), but even the Capitalization Ratio net of risk (adjusted for portfolio losses equivalent to the credit CVaR at 99.9%) was 15.6% in September, well above the regulatory minimum. This shows that banks would be able to cope with unexpected losses in the event of credit defaults affecting their portfolios.

As for liquidity, the aggregate Liquidity Coverage Ratio (LCR) among banks remains at almost 200%, showing that banks have sufficient assets with which to meet liquidity needs of a stress event over 30 days. Not only that, but even in a scenario of extreme deposit outflows, most banks—with assets representing around 94% of the system's total assets—have an LCR above the regulatory minimum of 100%.

In the case of Siefores, their asset growth is largely down to an increase in capital gains, although the fact that unemployment withdrawals have declined and represent a relatively small proportion of the total resources under management also contributed to this growth. The capital gains have come about amid the start of the monetary tightening cycle and significant gains in equity markets, which is consistent with the gains seen in government debt and foreign equity positions.

It is worth noting that amendments to the Investment Regime were published in October, including an increase in the foreign currency limit, investment in FIBRAS (Real Estate Investment Trusts) and structured instruments, mainly for the portfolios of younger people.

Meanwhile, the high growth in mutual fund assets is due to both inflows and positive returns. This can be understood if we look at the breakdown of their assets. According to Banxico, almost 60% of the assets of fixed-income mutual funds (61% of the total) are made up of F Bonds and Cetes (Treasury bills), instruments that have benefited from high interest rates.

In terms of equity funds (39% of the total), stock held in foreign funds accounted for 55.5% of the assets of this type of fund, which is consistent with the increase in the returns earned on foreign funds.

Last but not least, Banxico has reiterated the message contained in previous reports that, at an aggregate level, the financial system is resilient to shocks under three macroeconomic scenarios (weakening of national consumption and investment, slowdown of global economic activity and adjustment of credit ratings) and under three historical scenarios (the course taken by the main macroeconomic variables during the 1995 crisis, the Great Financial Crisis and COVID-19, among others). In all cases, in the aggregate, solvency (ICAP) and leverage levels remain above the regulatory minima.

2. Financial markets

The prices of the main financial assets align with the outcome of the U.S. election

Movements in the financial markets over the past month have largely lived up to expectations, following the Republican candidate's victory in the U.S. presidential election. Promises of deregulation, a tax cut and a strengthening of the corporate sector appear to underpin the prospects for sustained economic growth in the United States over the coming years.

This outlook, coupled with looming threat of tariff hikes that could exacerbate the slowdown in the rest of the world's major economies, could well be the reason for the latest fluctuations in the prices of the main financial assets.

In the equity market, the main indices reported growth between November 13 and December 11, albeit with clear differences. While the benchmark for this asset class (MSCI World) grew by 2.0% during the period, the North American technology sector, represented by the Nasdaq 100, grew by 4.2%, while the subset of the seven most representative companies in this sector, known as the Magnificent 7, grew by 10.1%.

For the emerging market (EM) equity benchmark, growth between November 13 and December 11 was only 1.4% and in the case of Mexico, it was just 1.0%. For one of the main European indices (EuroStoxx 600), growth in the same period was a fairly sizable 3.7%. However, when reviewing the growth so far in 2024 (up to December 11), this index shows a growth of 8.6%, whereas the S&P500 is at around 28.0% and the global benchmark is 21.2%. Notably, among the main indices, one of those showing negative returns so far this year is Mexico’s CPI (-10.6%), reflecting the idiosyncratic and external risks to which the economy is exposed.

In the US fixed income market, yields to maturity stabilized somewhat between November 13 and December 11, having risen abruptly in the immediate aftermath of the US election. The yield to maturity of the 10-year Treasury bond fell 18 basis points (bp) in the period, although in the last week it managed to reverse the trend by climbing to 4.35% as of December 11.

It bears repeating that one week after the election, this indicator maxed out at 4.45%, having started the last quarter of 2024 at 3.78%. The short end of the curve fell by a lesser degree (13 bp), maintaining a positive slope of around 12 bp. In this context and with the Fed looking to cut rates, the slope of the curve is expected to steepen over the coming year.

The movements we saw in the Mexican curve were also consistent with the monetary tightening cycle and risk outlook in the medium to long run. While the yield to maturity of the three-year Mexican bond fell by 56 bp between November 13 and December 11, the middle part of the curve fell by a more modest 19 bp, and the long end (10-year bond) fell by just 3 bp. Even the yield to maturity on the 20-year bond increased by 12 bp during the period.

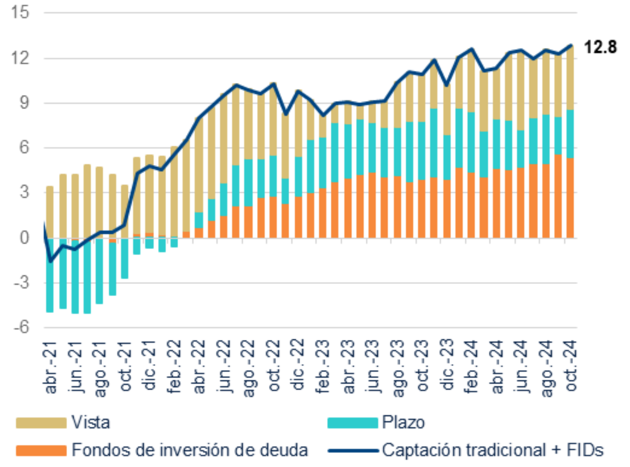
In the foreign exchange market, the dollar strengthened, in line with the expectations mentioned earlier, as shown by the fact that the greenback gained 0.2% on the currencies of other developed countries, and 0.6% on emerging currencies. Of these, the Mexican peso appreciated by 1.8% between November 13 and December 11, making it the fifth most appreciating emerging block currency in the period.

This appreciation could be viewed as a stabilization of sorts, following the volatility observed around the US presidential elections, after which it was trading at 20.7 pesos per dollar. If 2017 is anything to go by, volatility will resurface once again as Donald Trump's investiture draws closer and in the immediate aftermath of him taking office, especially when we consider his promises about hiking tariffs and stamping down on immigration.

In short, the strength of recent data and expectations among market players have favored risk-taking in US assets, particularly in a context of weakness seen in the rest of the global economies and the looming threat of tariff hikes. If he stays true to his word and presses ahead with what he has been promising in early 2025, the price outlook could change significantly. In any case, risks to Mexican asset prices remain skewed to the downside.

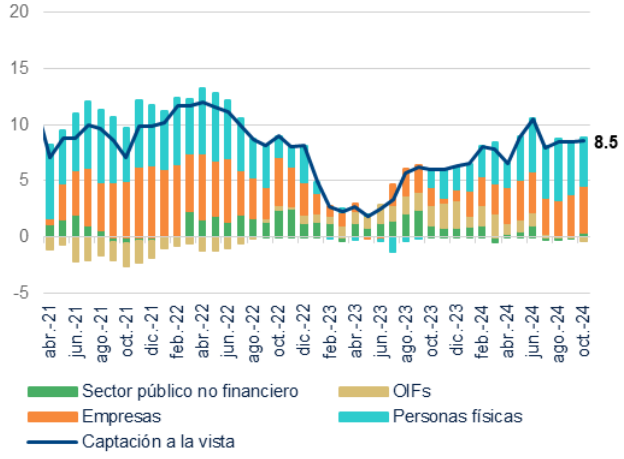
Deposits: figures

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



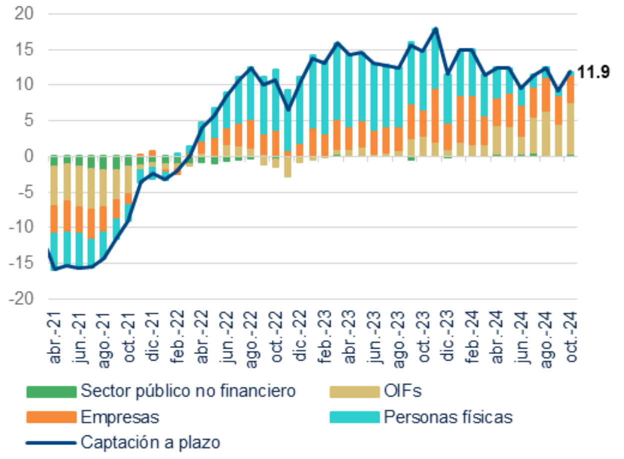
Source: BBVA Research based on Banxico data.

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



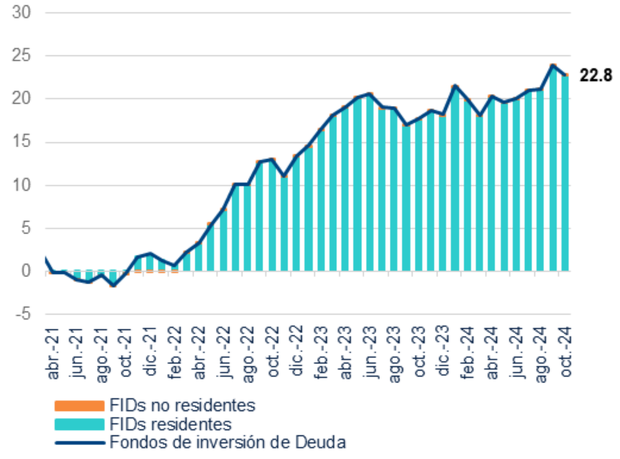
Source: BBVA Research based on Banxico data.

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



Source: BBVA Research based on Banxico data.

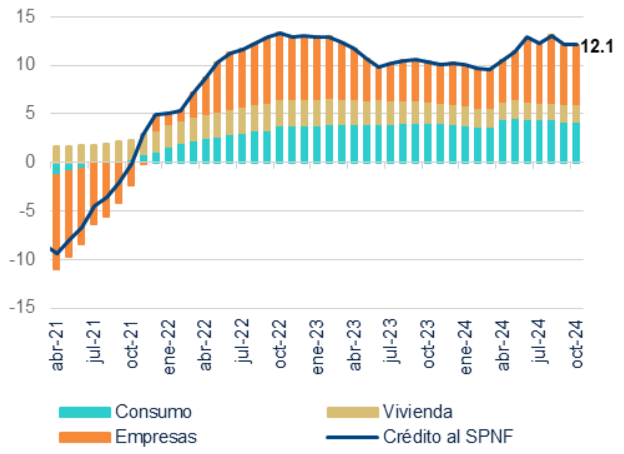
Figure 4. **DEBT INVESTMENT FUND SHARES (NOMINAL ANNUAL CHANGE, %)**



Source: BBVA Research based on Banxico data.

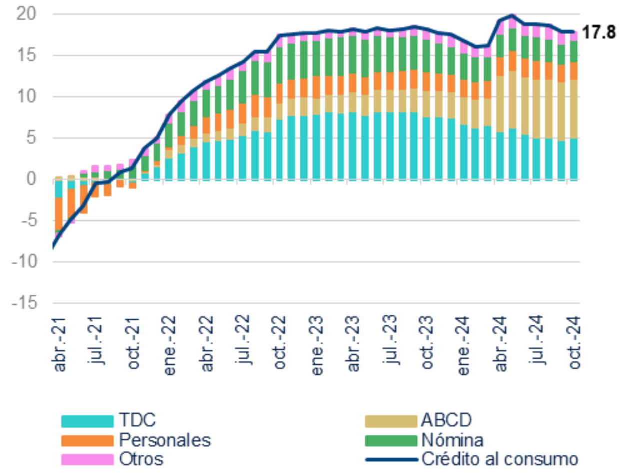
Loans: figures

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



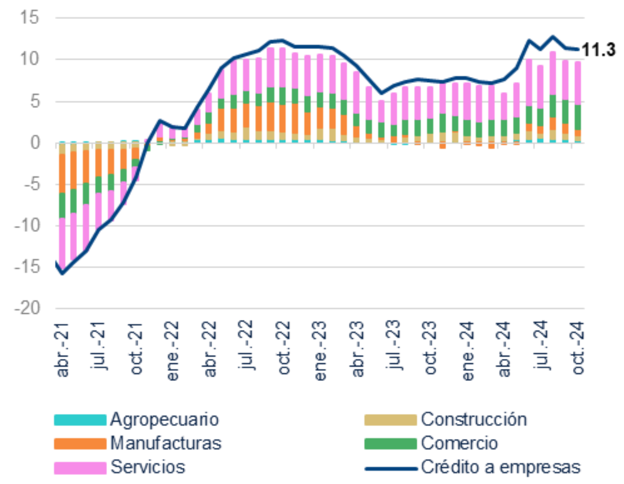
Source: BBVA Research based on Banxico data.

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



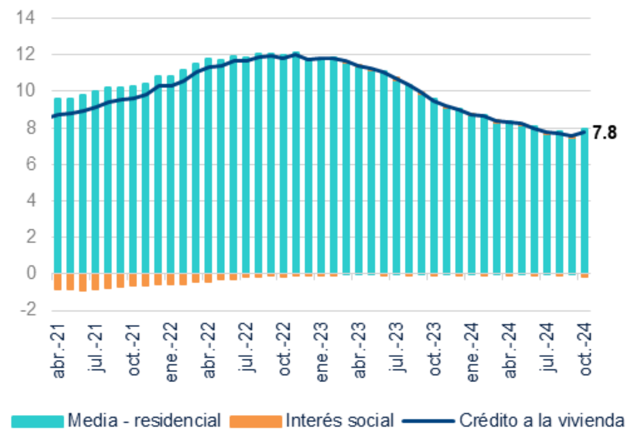
Source: BBVA Research based on Banxico data.

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.

BBVA Research

Creating Opportunities

DISCLAIMER

The present document does not constitute an “Investment Recommendation”, as defined in Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (“MAR”). In particular, this document does not constitute “Investment Research” nor “Marketing Material”, for the purposes of article 36 of the Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive (MIFID II).

Readers should be aware that under no circumstances should they base their investment decisions on the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

This document has been prepared by BBVA Research Department. It is provided for information purposes only and expresses data or opinions regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

ENQUIRIES TO:
BBVA Research: Paseo de la Reforma 510, Colonia Juárez, C.P. 06600 Mexico City, Mexico.
Tel.: +52 55 5621 3434
www.bbvaresearch.com