Banking credit bounces back in March amid companies increased liquidity needs

- **Today, Banxico published its banking credit report for March 2020**
- **Banking credit expanded 7.0% y/y in real terms, above our 1.9% forecast and the 1.6% expansion of the previous month**
- **Looking at the breakdown, the rise was driven by corporates at +10.0%, which we believe is explained by higher liquidity needs. On the contrary, mortgages edged down to +6.2% while consumer credit fell to 0.0%**
- **Non-performing loans decreased to 2.5%, with corporates down despite slight increases in consumer and mortgages**
- **We continue to expect credit to be impacted by the shock of the Coronavirus to the economy, although we believe the system will remain fundamentally sound and well-capitalized**

Banking credit bounces back in March. In particular, banking credit to the private sector expanded 7.0% y/y in real terms, above our 1.9% estimate. In this context, inflation in March decreased 45bps relative to February, boosting this month's performance. However, we believe the real driver behind this expansion is the increased liquidity needs from businesses, which are likely tapping pre-existing credit lines, and possibly establishing new ones to face the challenges stemming from the COVID-19 outbreak.

In this sense, credit to corporates grew 10.0%, considerably above the +0.4% seen in the previous month and a new high since August 2018. Taking a look at the breakdown, 9 out of the 13 sectors were in positive territory. We highlight the 55.7% increase in mass media as well as the 29.6% expansion in lodging and restaurants. Within industry, the most notable were mining (15.0%) and manufacturing (11.9%). On the contrary, sectors still in contraction include construction (-8.3%), commerce (-3.0%) professional services (-6.4%) and non-sectorized credits (-1.3%). In this sense, we do not rule out further increases in this category, as businesses continue to expand borrowings to pay for fixed costs, wages and other expenses amid social distancing measures due to the pandemic.

On the contrary, mortgages advanced 6.2%, decelerating relative to the 6.5% from February. Inside, low-income housing credits accelerated their pace of decline to -7.9%, while those for the residential sector were relatively more resilient (+7.4%). Moreover, consumer credit stood at 0.0%, falling sharply relative to the 1.1% seen in the previous month. Inside, payroll (2.6%) durable goods (5.1%), and others (6.2%) remained positive, while personal (-5.7%) and credit cards (-1.2%) turned to contraction. In this context, we expect credit in the latter sector to be the most impacted by the virus, as higher unemployment, especially in the formal sector, will prevent more people from accessing financial services, especially credit.

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Non-performing loans improve to 2.5%, 10bps below the figure from the previous month. Inside, only NPLs to corporates improved, standing at 1.7% from 1.8% in February. However, we will need to look at sector performance in coming months, given the strong increase in total credit observed during the month. On the flip side, both NPLs for consumer and mortgages edged-up, standing at 4.4% and 3.1% respectively. It should be noted that the latter reached a new high since mid-2016.

The economic impact from COVID-19 will probably be also felt in credit. In our opinion, the impact will come to a large extent from the shock to aggregate demand as restrictions are imposed by the Federal Government to face the pandemic, affecting economic activity and sales of non-essential goods. Although ample credit supply should still be available –especially considering efforts from both the central bank and the government–, greater uncertainty among both consumers and businesses would result in diminished appetite for leverage and more frugal spending patterns. Overall and given the current environment, we do not rule out the possibility of a contraction in banking credit, especially in the second quarter. Nevertheless, we believe additional increases could be observed in corporates, still looking for liquidity to fulfill their immediate cash needs. Considering that in the last few years credit has grown about 2 times more than GDP, credit could decelerate on a full-year basis but still show greater strength relative to our expected decline of 7.8% y/y in output.

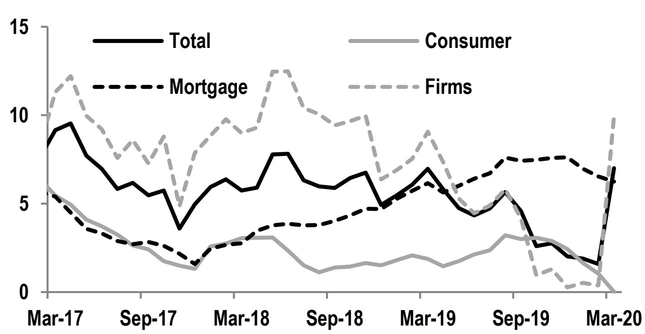
In addition, we believe measures implemented by some financial institutions, including those that allow for the deferral of payments for some months, will help avoid a significant deterioration in NPLs despite a high probability of an increase in unemployment levels. In this sense, it is also positive that NPLs before the shock at healthy. In addition, we consider financial authorities will continue to provide support for the sector given these uncertain times, with the goal of ensuring that the financial system remains adequately capitalized, as it will be key to support an eventual economic recovery at the least possible cost.

Banking credit
% y/y in real terms

	Mar-20	Feb-20	Mar-19	Jan-Mar '20	Jan-Mar '19
Private banking credit	**7.0**	**1.6**	**7.0**	**3.5**	**6.2**
Consumer	**0.0**	**1.1**	**1.9**	**0.9**	**1.9**
Credit cards	-1.2	1.4	0.6	0.7	0.7
Payroll	2.6	3.4	3.7	3.4	3.2
Personal	-5.7	-6.2	-0.9	-5.7	-0.8
Durable goods	5.1	5.5	8.0	5.6	8.1
Auto loans	3.6	4.1	8.1	4.2	8.5
Other durable goods	22.1	22.9	6.2	23.0	4.1
Others	6.2	4.5	-4.4	5.3	-1.4
Mortgage	**6.2**	**6.5**	**6.1**	**6.6**	**5.7**
Social interest	-7.9	-7.2	-11.4	-7.4	-12.1
Medium and residential	7.4	7.7	7.9	7.8	7.6
Firms	**10.0**	**0.4**	**9.1**	**3.7**	**7.8**
Primary activities	17.4	9.8	12.4	12.8	10.9
Mining	15.0	-4.9	17.6	1.6	17.4
Construction	-8.3	-8.1	-2.4	-8.4	-2.5
Utilities	5.7	2.7	14.8	4.2	14.4
Manufacturing industry	11.4	-6.6	11.9	-0.4	12.2
Commerce	-3.0	-3.8	7.7	-3.2	6.0
Transportation and storage	11.9	1.3	1.2	4.3	0.3
Mass media services	55.7	31.0	5.2	37.4	1.3
Real estate services	15.3	7.3	10.6	9.3	10.4
Professional services	-6.4	-6.0	-5.5	-5.5	-7.2
Recreational services	29.6	13.0	20.9	17.3	18.1
Other services	18.0	5.2	5.4	10.1	-2.6
Not sectorized	-1.3	-12.2	-5.1	-8.9	-2.2
Non-banking financial intermediaries	**7.9**	**-3.0**	**16.6**	**0.3**	**14.2**

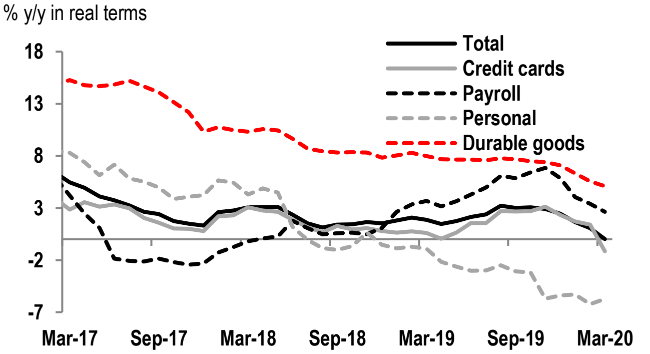
Source: Banxico

Chart 1: Banking credit
% y/y in real terms



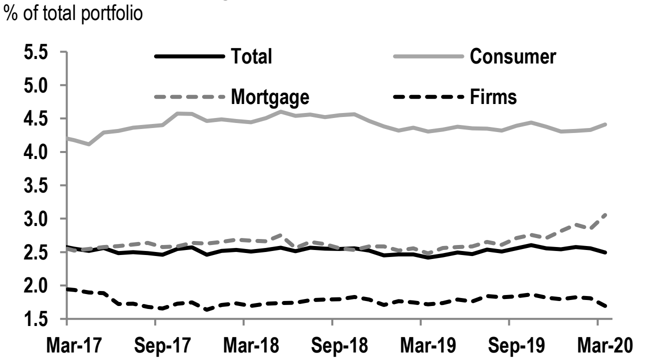
Source: Banorte with data from Banxico

Chart 2: Consumer credit
% y/y in real terms



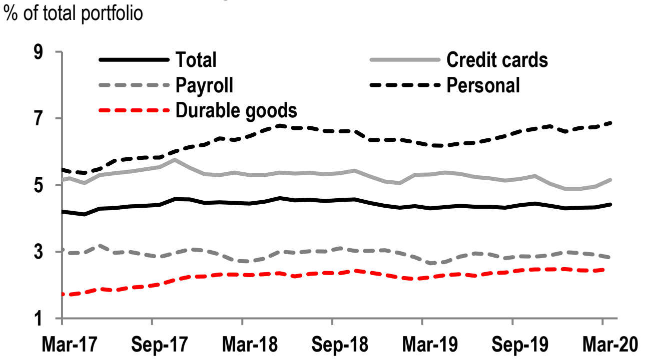
Source: Banorte with data from Banxico

Chart 3: Non-performing loans
% of total portfolio



Source: Banorte with data from Banxico

Chart 4: Non-performing loans: Consumer credit
% of total portfolio



Source: Banorte with data from Banxico

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