

Banking credit – Deceleration continues despite some resiliency in activity

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- Today, Banxico published its banking credit report for December 2020
- Banking credit declined 4.6% y/y in real terms, slightly lower than our -4.5% forecast and the -4.2% of the previous month
- Looking at the breakdown, the contraction was due to a weaker performance in consumer (-11.5%) and corporate (-4.5%) loans. Nevertheless, mortgages were slightly better at +5.3%
- Non-performing loans (NPLs) rose slightly to 2.9% of the total portfolio (previous: 2.8%), with an upward adjustment in consumer and mortgage loans, partially offset by better dynamics in corporates
- We expect credit to remain weak in coming months, with risks to activity increasing in the short-term. The financial system remains healthy even after the recent uptick in NPLs, with timely actions from both financial institutions and regulators

Banking credit to the private non-financial sector keeps declining. It contracted 4.6% y/y in real terms in October (see [Chart 1](#)), lowest since April 2010. This came slightly below our expectation at -4.6% and the previous figure of -4.2%. During the period, there was a slight positive impact from annual inflation, falling 18bps. Nevertheless, overall weakness in activity, coupled with uncertainty after the increase in COVID-19 cases and low appetite for credit –both from consumers and businesses– kept driving loans down. In this sense, corporates fell 4.5% and added eight months to the downside. In this respect, the lack of a clearer outlook is still inducing a more careful approach, situation that may extend until we are well underway in the recovery and vaccination process. Looking at the breakdown, 6 out of 13 sectors worsened relative to November (see [Table 1](#)), highlighting mining (-38.0% from -22.7%), real estate (-0.8% from 4.0%) and transportation (-7.4% from -3.5%). On the contrary, some sectors that improved were ‘other services’ (12.1% from 8.9%) and mass media (0.3% from -1.3%). We should note that the downward trend continues to extend despite a [resilient 4Q20 GDP print](#), with an upward surprise in both industry and services despite a more complex backdrop at the end of the year.

Mortgages picked up to 5.3% from 4.9% in November. Inside, low-income housing credit was once again lower to -15.4%, while residential sector loans were higher at 6.9%. Meanwhile, consumer credit fell 11.5%, lowest since April 2010. Inside, most categories debilitated at the margin ([Chart 2](#)), with persistent weakness in credit cards (-14.2%), personal credit (-21.0%) and others (-10.4%). Meanwhile, durable goods (-1.9%) –supported by others (+31.1%)– and payroll credits (-6.0%), showed a ‘better’ performance. We believe the deterioration in epidemiological conditions, coupled with still high uncertainty, is still weighing on credit demand. It is our take that families are delaying large spending due to concerns about the possibility of worsening employment conditions or in case they might need some resources in case they fall ill due to the virus.

Winners of the award for best economic forecasters for Mexico in 2019, granted by *Refinitiv*



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Non-performing loans increase slightly, to 2.9% of total loans. This is increase 10bps higher than in November. Inside, NPLs for consumer loans rose to 5.3% from 5.0% ([Chart 3](#)), at its highest level since mid-2010. Meanwhile, corporates improved 10bps to 1.8%, with mortgages broadly stable at 3.3% (previous: 3.2%). While there is a negative effect on these figures due to a base effect as total credit shrinks, we consider families and businesses may be experiencing some hardships, impacting their payment capabilities. Despite of this, actions put in place by banks –bolstering their capitalization ratios in recent months– as well as regulators such as the *National Banking and Securities Commission* (CNBV in Spanish), the MoF, and Banxico, should avoid any major disruptions in the banking system.

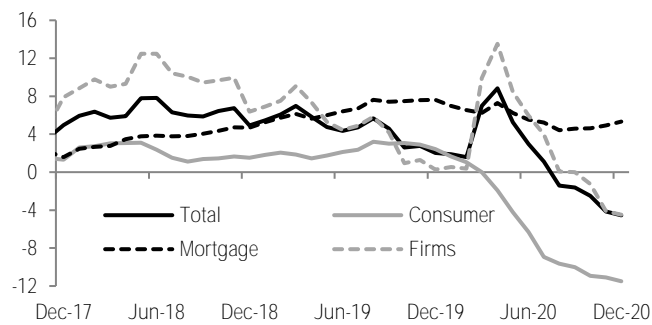
We expect credit weakness to extend in coming months. We believe banking credit will remain negative in the short-term, with increased risks for activity. The main driver would be the recent pickup in the number of contagions, with ten states in ‘red’ according to the traffic-light indicator. In this context, we believe the most exposed sector will be consumer loans, with lockdowns resulting in non-essential businesses closing. There are also other sectors in corporates which may be affected, albeit with uncertainty about whether the impact triggers increased credit demand or if its declines due to lower activity. We consider that in the medium-term dynamism should start to recover, benefited by the boost from external demand and a gradual improvement of domestic conditions. Nevertheless, and more related to consumer credit, there is still uncertainty over the recovery of employment and wages, adding some risks for this category. Meanwhile, corporates will need to have a defined plan of when they can return to profitability and cover some of the weaknesses left in their financial position, only to then resume with their expansion plans. On the other hand, and relatively more isolated, it is likely that mortgages remain stable, with moderate growth rates in the forecast horizon. Lastly, the health of the financial system remains despite the increase in NPLs over the last few months. In this sense, we will keep looking closely at their behavior, as well as additional measures that may be taken in case risks increase further.

Banking credit
% y/y in real terms

	Dec-20	Nov-20	Dec-19	Jan-Dec '20	Jan-Dec '19
Private banking credit	-4.6	-4.2	2.0	1.2	4.6
Consumer	-11.5	-11.1	2.4	-6.1	2.3
Credit cards	-14.2	-13.0	2.3	-8.0	1.6
Payroll	-6.0	-6.5	5.8	-2.0	4.7
Personal	-21.0	-20.3	-5.4	-12.9	-2.8
Durable goods	-1.9	-1.1	7.1	1.2	7.7
Auto loans	-5.2	-4.2	5.6	-0.6	7.1
Other durable goods	31.1	30.2	25.3	21.7	14.5
Others	-10.4	-14.5	7.3	-4.9	2.7
Mortgage	5.3	4.9	7.6	5.6	6.6
Social interest	-15.4	-14.8	-5.3	-11.2	-9.3
Medium and residential	6.9	6.4	8.7	7.0	8.2
Firms	-4.5	-4.1	0.3	2.8	4.8
Primary activities	-6.4	-7.1	11.5	4.8	11.2
Mining	-38.0	-22.7	-6.5	-5.8	0.2
Construction	-14.2	-15.0	-8.3	-11.5	-6.9
Utilities	0.0	-0.6	-0.1	3.8	8.9
Manufacturing industry	-8.5	-9.0	-3.3	-0.1	4.9
Commerce	-12.7	-12.0	-3.2	-6.2	4.0
Transportation and storage	-7.4	-3.5	-3.7	3.7	-0.6
Mass media services	0.3	-1.3	30.6	18.6	7.9
Real estate services	-0.8	4.0	5.7	11.7	5.8
Professional services	-22.2	-21.2	-2.9	-17.0	0.3
Recreational services	12.0	12.1	6.9	20.6	16.4
Other services	12.1	8.9	5.6	14.2	2.4
Not sectorized	9.2	4.8	-13.8	-0.2	-11.0
Non-banking financial intermediaries	-23.2	-13.6	-3.3	-4.6	8.3

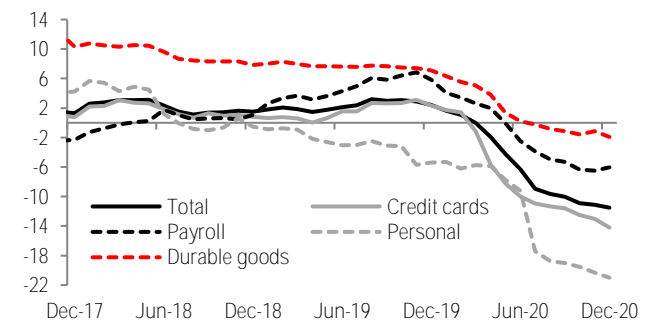
Source: Banxico

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



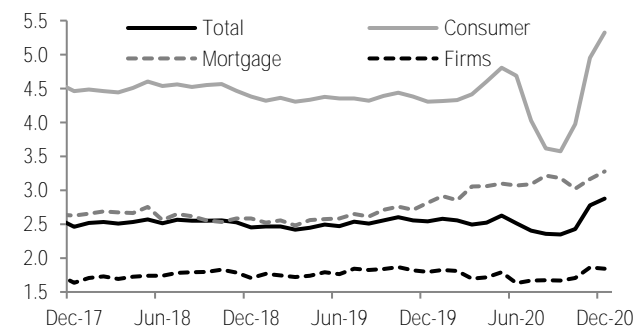
Source: Banorte with data from Banxico

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



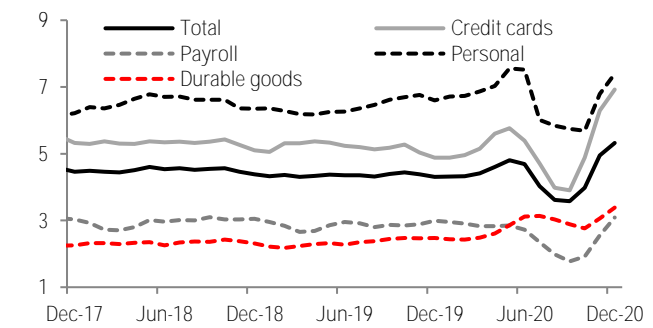
Source: Banorte with data from Banxico

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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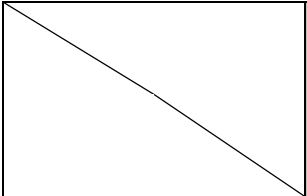
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