

The expansion in banking credit continued in July, despite challenging conditions

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- Today, Banxico published its banking credit report for July 2022
- Banking credit grew 3.2% y/y in real terms, adding four months in positive territory. We believe this result is quite positive given more challenging conditions for both activity and loans
- Inside, the three categories rose, with consumer loans once again leading at 5.6%, followed by mortgages at 3.3%, and corporate loans at 2.2%
- Non-performing loans (NPLs) were unchanged, standing at 2.6% of the total portfolio. Inside, only mortgages had a slight deterioration (2.9%), while consumer and corporate loans remained at 2.8% and 2.4%, respectively
- We believe that credit will continue expanding in the 2H22, although likely at a slower pace because of monetary tightening and lower economic activity growth rates

Banking credit keeps growing in July, driven by consumer loans. Banking credit to the non-financial private sector increased 3.2% y/y in real terms in July (see [Chart 1](#)), close to our estimate of +3.1%. Although the recovery began in May 2021, this month marks the fourth consecutive period with positive rates. The expansion was mainly driven by consumer loans, which could be related to households deferring or smoothing spending related to tourism and leisure activities –due to the summer holiday– as well as high inflation. This would be consistent with other data which suggests that the impact of the last wave of COVID-19 contagions was lower compared to previous episodes. Broadly speaking, we saw a more challenging scenario for economic activity, although the data is mixed. Specifically, [INEGI's Timely Indicator of Economic Activity](#) points to a slight contraction in both industry and services. In addition, [inflation maintained its upward trend in July](#) –with average annual rate at 8.15% y/y from 7.99%, with pressures still on food items. On the contrary, and positive for domestic demand, [employment was positive](#) (although to a certain extent limited by a seasonal effect). Lastly, and as mentioned in previous reports, we will pay attention to the central bank's monetary tightening cycle and its effect on both consumer and corporate loans. So far, we consider that the impact has been limited, but are still awaiting additional information as rates keep going up.

By components, consumer loans kept their positive trend, rising 5.6% y/y (previous: 5.0%), as seen in [Chart 2](#). Personal loans stood out, once again improving the most (6.7% from 5.2%). Other relevant increases were seen in credit cards (6.3% from 5.4%) and payroll (6.2% from 5.4%). 'Others' moderated its growth pace but continued with a double-digit expansion (15.4% from 23.6%). Lastly, durable goods climbed back to positive territory (0.2% from -0.3%).

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Corporate loans expanded further. The figure was 31bps higher than June's, resulting in +2.2%. Inside, behavior was also skewed up, as seen in [Table 1](#). We highlight mining (1.9% from -6.9%), recreational services (5.6% from 2.4%) and real estate (2.4% from 0.5%). Manufacturing, on the other hand, accelerated by +94bps, to 0.1%. Lastly, mortgages increased 3.3% (previous: 3.4%), with low-income housing better at -10.7% (previous: -12.8%), while residential moderated to 4.0% (previous: 4.3%).

Non-performing loans unchanged at 2.6% of the total portfolio. Inside, ([Chart 3](#)), consumer and corporate loans were stable at 2.8% and 2.4%, respectively. However, mortgages deteriorated slightly to 2.9% from 2.8% in June. We consider that non-performing loans remain adequate and, more importantly, have maintained relative stability throughout the year, which could be beneficial to support credit growth ahead.

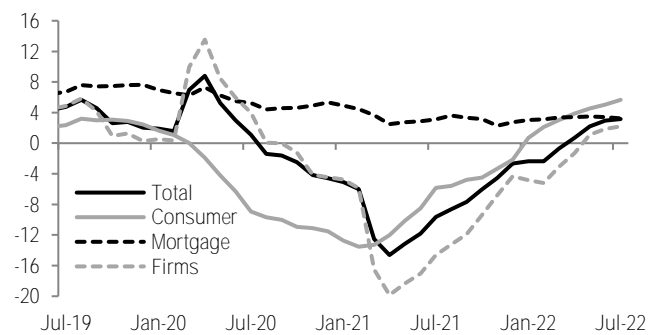
Reference rate hikes and the slowdown in growth could limit the credit recovery. We continue to believe that credit will improve further in the remainder of the year, boosted by strong consumer fundamentals and interest in expanding their businesses as the Mexican economy recovers. Nevertheless, headwinds are climbing, including further Banxico rate hikes –expecting the target rate to close 2022 at 10.00%– and a high likelihood of a moderation in the pace of GDP growth in 2H22. Somewhat positively, we expect inflation to start moderating soon. On top of having a favorable effect on spending, this could also be a lower drag for credit growth. On the medium term, we believe there is ample room for growth. According to the latest *National Survey of Business Financing* carried out by INEGI and the CNBV, in 6 years (from 2015 to 2021) the percentage of companies that have requested a loan from a banking institution picked up from 40% to 47%. However, relative to other EMs, this is still somewhat low, with opportunities for financial institutions to expand the size of the market.

Banking credit
% y/y in real terms

	Jul-22	Jun-22	Jul-21	Jan-Jul'22	Jan-Jul'21
Private banking credit	3.2	3.0	2.2	0.7	-9.6
Consumer	5.6	5.0	4.5	3.9	-5.8
Credit cards	6.3	5.4	4.9	4.9	-7.0
Payroll	6.2	5.4	5.1	4.6	-2.9
Personal	6.7	5.2	4.7	3.2	-13.3
Durable goods	0.2	-0.3	-0.6	-1.1	-3.4
Auto loans	-4.3	-4.9	-5.0	-5.6	-7.4
Other durable goods	29.9	29.6	28.9	28.6	33.4
Others	15.4	23.6	19.4	15.2	11.7
Mortgage	3.3	3.4	3.5	3.4	3.1
Low-income housing	-10.7	-12.8	-12.6	-14.8	-18.5
Medium and residential	4.0	4.3	4.4	4.4	4.6
Firms	2.2	1.9	1.1	-1.3	-14.6
Primary activities	7.3	5.9	6.0	4.0	-5.5
Mining	1.9	-6.1	-19.9	-1.7	-32.4
Construction	-6.9	-7.0	-8.2	-9.7	-16.9
Utilities	-0.4	-1.1	-0.9	-3.2	-10.3
Manufacturing industry	0.1	-0.8	-1.7	-5.6	-19.4
Commerce	-0.7	0.9	-0.9	-1.2	-16.4
Transportation and storage	8.0	9.6	10.8	6.4	-16.6
Mass media services	8.2	18.7	15.9	7.7	-18.5
Real estate services	2.4	0.5	-1.0	-3.8	-17.2
Professional services	4.2	4.4	3.9	1.7	-11.5
Recreational services	5.6	2.4	2.8	0.7	-8.6
Other services	6.4	5.1	6.0	3.7	-12.6
Not sectorized	4.0	2.3	2.1	-0.2	2.7
Non-banking financial intermediaries	3.6	7.4	-11.1	-11.0	-31.0

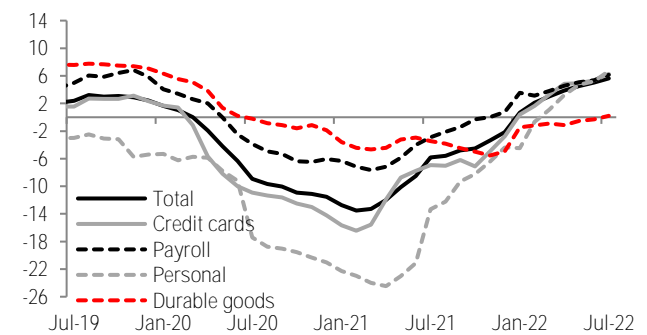
Source: Banxico

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



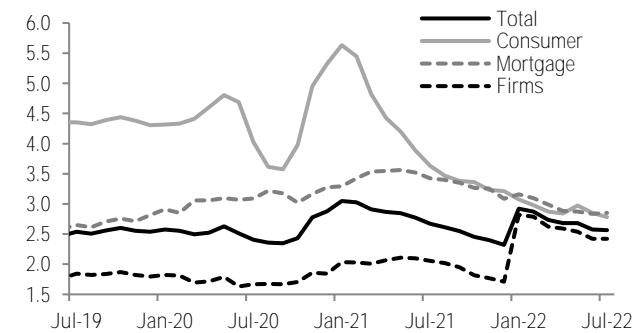
Source: Banorte with data from Banxico

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



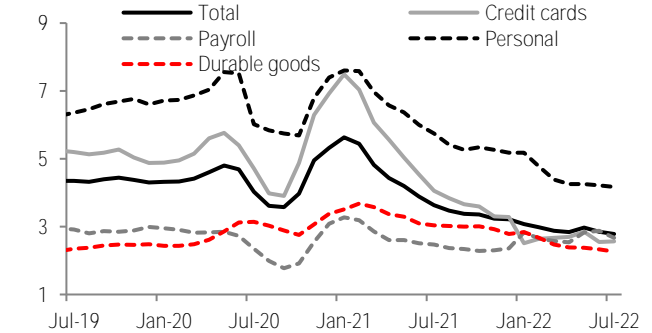
Source: Banorte with data from Banxico

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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