

## Banking credit decelerates in May after two strong months

- Today, Banxico published its banking credit report for May 2020
- Banking credit expanded 5.3% y/y in real terms, below both our 9.0% forecast and the 8.8% expansion seen in the previous month
- Looking at the breakdown, the deceleration was due to lower growth across all sectors. Corporates came in at +8.5%, while mortgages edged down to +6.2%. Meanwhile, consumer credit furthered its decline to -4.2%
- Non-performing loans climbed to 2.6% of total loans, with consumer and corporates showing a slight increase and with mortgages unchanged
- Considering today's results, we expect credit to continue slowing down, feeling the impact from the pandemic on the economy. Nevertheless, the system remains fundamentally sound, aided by measures from regulators and institutions to boost the supply of credit

**Banking credit decelerated in May, although remaining positive.** In particular, banking credit to the private sector expanded 5.3% y/y in real terms, below both our 9.0% estimate and the 8.8% from the previous month. We should mention that this figure was dragged by the 69bps increase in inflation in May relative to April. However, and despite lower dynamism, we believe there is still some boost from higher liquidity needs, particularly by corporates, still reflected in this sector's relative strength. In this sense, credit to corporates grew 8.5%, lower than the +13.5% seen in the previous month. Taking a look at the breakdown, although 9 out of the 13 sectors were in positive territory, all of them posted a decline relative to April's figures. Although we expected a deceleration to happen, we did not anticipate it would happen so fast, already showing some signs of the impact of lower economic activity. In this sense, among the sectors with the steepest declines were lodging and restaurants (+26.0%; previous: +38.2%), mass media (+37.6%; previous: +47.0%) and primary activities (+10.3%; previous: 18.9%), as seen in [Table 1](#).

Meanwhile, mortgages advanced 6.2%, below the 7.3% from April but in line with the March figures. Inside, low-income housing credit accelerated its pace of decline to -9.8%, while those for the residential sector also decelerated to +7.6%. Meanwhile, consumer credit fell 4.2%, lowest since August 2010. Inside, only durable goods (1.4%) and others (5.7%) remained positive, with credit cards (-8.2%) and personal credit (-7.7%) in deep contraction. In particular, we believe this is related to the deterioration in employment conditions as well as to increased caution by consumers, opting to delay purchases of expensive items until uncertainty decreases.

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



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**Non-performing loans increase to 2.6%.** Inside, mortgages were the only ones unchanged at 3.1%. Nevertheless, both corporates and consumption increased. The former came in at 1.8%, 10bps higher than April, while in the latter, the pickup was of 20bps to 4.8%. Overall, we consider this measure has benefited by programs implemented by several large banks to allow for the deferral of payments without impacting credit scores. In this sense, we will need to carefully look into dynamics once this period ends, with a couple of months remaining, as we could see some relevant increases.

**We expect credit to keep declining in coming months.** We consider that overall credit levels will be impacted due to the Coronavirus, albeit with considerable differences among categories and sectors. In particular, and as previously mentioned, consumer credit will probably be the hardest hit, as deteriorated employment conditions continue to influence families' spending decisions. Regarding loans to businesses, it is likely these will decelerate too, although at a lower rate still aided by liquidity needs from several sectors. Meanwhile, it is also possible that mortgages decelerate, despite benefiting from refinancing programs and the possibility of people tapping into their home equity. Nevertheless, given the delay in the reopening of the economy, which is already incorporated into [our recent revision to GDP](#) to -9.8% y/y in 2020, downside risks for credit have increased.

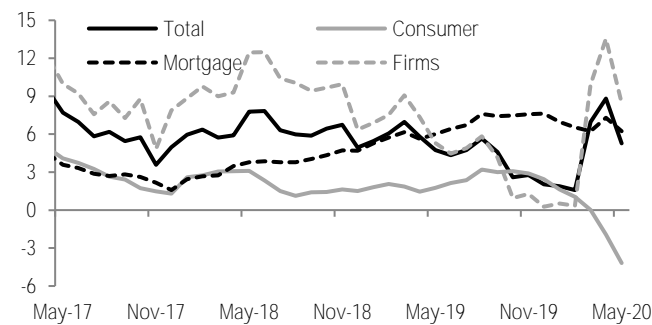
Regarding NPLs and the overall health of the banking system, we believe both regulators and financial institutions will establish measures to bolster its strength. On the first point, the deferral programs previously announced have served as a stopgap measure in these months, with the possibility of additional measures and instruments to help both customers and bank's balance sheets. On the second, changes to some rules announced by CNBV and other regulators, as well as liquidity and credit measures announced by the central bank, should foster a smoother functioning of the credit channel to the real economy.

Banking credit  
% y/y in real terms

	May-20	Apr-20	May-19	Jan-May '20	Jan-May '19
Private banking credit	5.3	8.8	4.7	4.9	5.8
Consumer	-4.2	-1.9	1.7	-0.7	1.8
Credit cards	-8.2	-5.7	0.6	-2.4	0.5
Payroll	0.0	2.0	3.7	2.4	3.3
Personal	-7.7	-5.9	-2.6	-6.2	-1.5
Durable goods	1.4	3.8	7.6	4.4	7.9
Auto loans	0.2	2.3	7.4	3.0	8.1
Other durable goods	15.8	21.4	10.2	21.2	6.0
Others	5.7	9.5	3.2	6.2	0.2
Mortgage	6.2	7.3	6.0	6.7	5.8
Social interest	-9.8	-7.9	-10.9	-8.0	-11.8
Medium and residential	7.6	8.5	7.7	7.9	7.6
Firms	8.5	13.5	5.3	6.6	7.2
Primary activities	10.3	18.9	10.7	13.5	10.7
Mining	15.4	20.2	-3.9	8.0	10.0
Construction	-6.9	-5.9	-9.3	-7.6	-4.7
Utilities	6.4	11.1	10.4	6.1	13.2
Manufacturing industry	7.5	14.6	4.9	4.2	9.4
Commerce	-2.6	-0.8	7.1	-2.5	6.7
Transportation and storage	10.3	16.1	-1.0	7.9	-0.4
Mass media services	37.6	47.0	2.2	39.5	2.4
Real estate services	17.2	20.4	5.6	13.2	9.3
Professional services	-8.7	-6.1	10.4	-6.3	-0.5
Recreational services	26.0	38.2	15.4	23.2	16.6
Other services	20.3	23.1	-0.6	14.6	-0.7
Not sectorized	-0.4	6.7	-10.8	-4.2	-5.6
Non-banking financial intermediaries	10.9	8.1	13.1	3.9	14.4

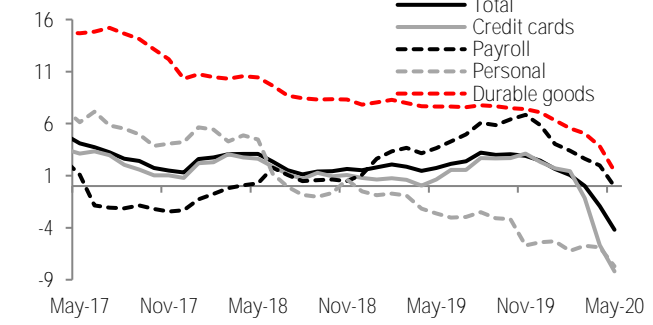
Source: Banxico

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



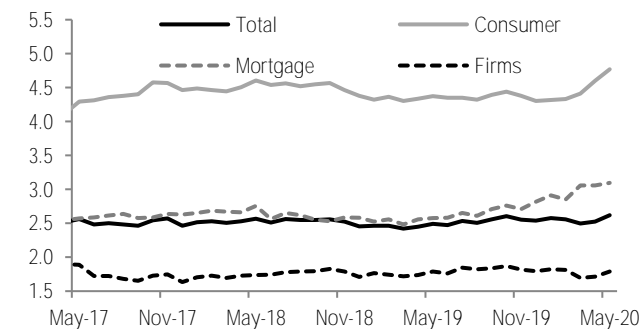
Source: Banorte with data from Banxico

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



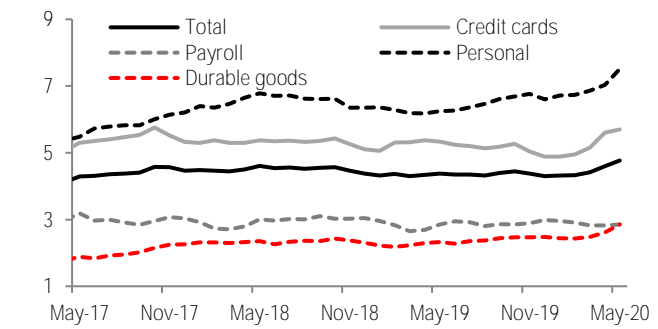
Source: Banorte with data from Banxico

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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We, Gabriel Casillas Olvera, Alejandro Padilla Santana, Delia María Paredes Mier, Juan Carlos Alderete Macal, Manuel Jiménez Zaldívar, Marissa Garza Ostos, Tania Abdul Massih Jacobo, Francisco José Flores Serrano, Katia Celina Goya Ostos, Santiago Leal Singer, José Itzamna Espitia Hernández, Valentín III Mendoza Balderas, Víctor Hugo Cortes Castro, Hugo Armando Gómez Solís, Miguel Alejandro Calvo Domínguez, Luis Leopoldo López Salinas, Leslie Thalía Orozco Vélez, Gerardo Daniel Valle Trujillo, Eridani Ruibal Ortega and Juan Barbier Arizmendi, certify that the points of view expressed in this document are a faithful reflection of our personal opinion on the company (s) or firm (s) within this report, along with its affiliates and/or securities issued. Moreover, we also state that we have not received, nor receive, or will receive compensation other than that of Grupo Financiero Banorte S.A.B. of C.V for the provision of our services.

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