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# Banking credit continued to grow at the end of 2023, although with base effects resulting in a moderation

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- **Today, Banxico published its banking credit report for December 2023. Credit grew 5.6% y/y in real terms**
- **Inside, performance was mixed. Consumer loans were still high at 12.2% (previous: 12.8%), noting a moderation through 4Q23. Corporate loans expanded at the margin at 3.0% (previous: 2.9%), meanwhile mortgages came in at 4.1% (previous: 4.7%)**
- **Non-performing loans (NPLs) improved, representing 2.3% of total loans. The index for consumer loans rose to 3.4% (+10bps), with mortgages unchanged at 2.6% while corporates improved to 1.8% (-30bps)**
- **We maintain a positive view on credit. However, we anticipate a divergence in the performance of its components, with consumption maintaining some momentum, while mortgages and corporates could moderate slightly given current interest rate levels**

**Credit added 21 months with positive annual rates.** Banking credit to the non-financial private sector grew 5.6% y/y in real terms (see Chart 1), moderating relative to November (6.0%). The period was characterized by resilience in consumption, something already expected considering the end-of-year holidays. Additionally, strength in fundamentals remained, highlighting a low unemployment rate and an increase in average wages. On the other hand, overall economic activity seems to have remained somewhat limited, which along higher inflation could have limited further gains.

By components, consumer loans rose 12.2% (previous: 12.8%), moderating for a third month in a row. Inside, performance was skewed to the downside, with three of the five items with lower rates of expansion relative to the previous month, as seen in Chart 2. In order of relevance, personal loans grew +7.5% (previous: +9.0%), with payroll at +7.9% (previous: +9.3%), and credit cards at +14.4% (previous: +15.0%). On the contrary, 'others' accelerated to 28.7% (previous: 22.1%). Finally, 'durable goods' were unchanged at 14.9%. Corporate loans accelerated marginally to 3.0% (previous: 2.9%), with five of the thirteen sectors driving this increase. In detail, the categories with the most significant improvements were mass media at -17.5% (previous: -26.1%) and professional services at +14.8% (previous: +11.2%). In contrast, categories with a deterioration include lodging at -6.9% (previous: +0.4%) and transportation at +6.3% (previous: +9.8%). Finally, mortgages were lower at +4.1% (previous: +4.7%). The slowdown is explained by the low-income housing item, falling to -5.0% from -2.0%. Meanwhile, the residential category came in at +4.5% (previous: +5.0%). For more details see Table 1.

**Non-performing loans improved, representing 2.3% of the total portfolio.** With this figure we highlight a full year average of 2.4% (Chart 3), rather low in our opinion. Looking at the breakdown, the index for consumer loans climbed by 14bps, to 3.4%. Meanwhile, the index for mortgages was unchanged at 2.6%, while the metric for corporates metric improved by 26bps to 1.8%. Considering this, we believe it is relevant to point that overall NPL levels are quite stable, which in our view continues to show a healthy performance of credit management, which is especially important in a context of higher interest rates.

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Winners of the 2023 award for best Mexico economic forecasters, granted by *Focus Economics*

**We believe credit will continue to grow in 2024.** Considering the estimated performance of different relevant variables, we maintain our vision of an expansion trend for the general indicator, although likely at a more moderate pace. On the other hand –also defined by elements considered in our general outlook–growth rates of the different components, as seen in 2023, will be heterogeneous. Thus, we expect a banking credit expansion for all 2024 to be around 6.0%, a rather positive figure considering that the base effect is more challenging.

In detail, the main positive factor for credit growth is the start of Banxico's easing cycle, which we anticipate will begin at the end of 1Q24 with a 25bps cut, continuing with a gradual path and resulting in a year-end rate of 9.25%. In addition, we believe that the labor market will remain strong, which will likely translate into a higher percentage of the population with access to formal credit. Other elements such as a higher offer of credit and purchasing channels will support credit growth rates. Regarding these, trends such as 'buy now and pay later' or the reduction of delivery time for online purchases are identified as drivers of consumer credit in 2024. In this sense, the *Mexican Association of Online Sales* recognizes that Mexico is among the five nations with the most dynamic growth rates, estimating that by 2026, online commerce will grow 33% vs. 2023. Moreover, studies such as '*Numbers that talk about Mexico*' by the consulting firm *Fiserv* report that financing methods such as zero-interest deferral programs are very attractive to the Mexican consumer, describing them as one of the most efficient instruments to improve their purchasing experience, with more than 66% of the population preferring to use this facility through their credit cards.

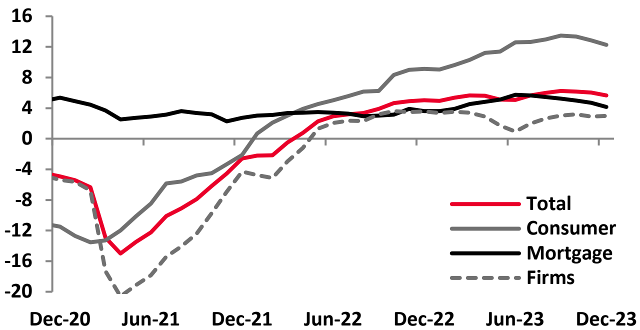
Considering this, we believe that consumer credit will continue to lead the expansion, although probably limited in the margin by: (1) An adverse outlook for inflation; and (2) a challenging base effect. Regarding corporate loans, the effects of nearshoring will continue to drive demand for credit by MSMEs, with factors such as lower interest rates being key for growth. Finally, regarding mortgages, we do not anticipate any major change, as it is the most stable item, although they may be favored by Banxico's accommodative cycle.

**Banking credit**
% y/y in real terms

| | Dec-23 | Nov-23 | Dec-22 | 2023 | 2022 |
|---|---|---|---|---|---|
| **Private banking credit** | 5.6 | 6.0 | 5.0 | 5.6 | 2.2 |
| **Consumer** | 12.2 | 12.8 | 9.1 | 11.8 | 5.3 |
| Credit cards | 14.4 | 15.0 | 12.4 | 15.5 | 6.4 |
| Payroll | 7.9 | 9.3 | 8.7 | 9.8 | 5.7 |
| Personal | 7.5 | 9.0 | 5.7 | 7.6 | 3.8 |
| Durable goods | 14.9 | 14.9 | 5.2 | 10.4 | 0.8 |
| Auto loans | 18.2 | 17.7 | 1.4 | 11.4 | -3.7 |
| Other durable goods | -0.7 | 1.5 | 27.3 | 5.2 | 30.3 |
| Others | 28.7 | 22.1 | 12.8 | 14.8 | 18.5 |
| **Mortgage** | 4.1 | 4.7 | 3.6 | 4.8 | 3.3 |
| Low-income housing | -5.0 | -2.0 | -9.1 | -4.7 | -12.5 |
| Medium and residential | 4.5 | 5.0 | 4.2 | 5.2 | 4.1 |
| **Firms** | 3.0 | 2.9 | 3.6 | 2.7 | 0.6 |
| Primary activities | -1.3 | -0.6 | 2.1 | -2.1 | 3.3 |
| Mining | 35.1 | 38.2 | -9.2 | 10.8 | -3.8 |
| Construction | 3.4 | 2.8 | -3.8 | -0.1 | -3.8 |
| Utilities | -4.6 | -7.9 | 133.9 | 50.2 | 35.7 |
| Manufacturing industry | -4.1 | -6.7 | 4.4 | -1.8 | 2.2 |
| Commerce | 6.7 | 9.5 | 4.5 | 5.3 | 0.3 |
| Transportation and storage | 6.3 | 9.8 | -4.0 | 4.6 | -3.3 |
| Mass media services | -17.5 | -26.1 | 1.9 | -21.3 | 8.6 |
| Real estate services | 9.2 | 9.7 | 9.4 | 9.9 | -1.1 |
| Professional services | 14.8 | 11.2 | 12.3 | 13.3 | 1.3 |
| Lodging services | -6.9 | 0.4 | -1.1 | -2.3 | -5.5 |
| Other services | 16.6 | 16.8 | 7.8 | 16.0 | 7.9 |
| Not sectorized | -0.4 | 4.6 | 11.4 | 5.7 | 2.2 |
| **Non-banking financial intermediaries** | 19.7 | 30.7 | 18.9 | 28.2 | -0.9 |

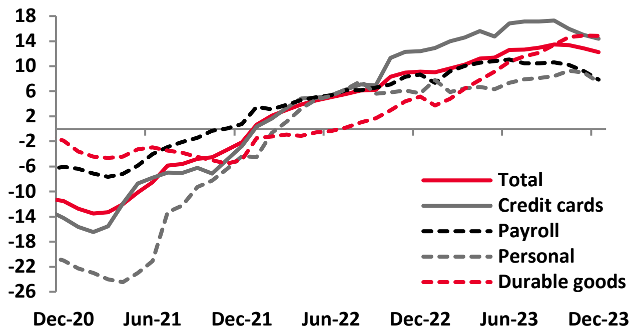
Source: Banxico

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



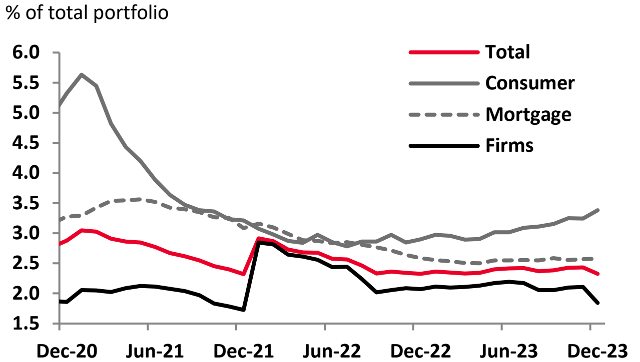

Source: Banorte with data from Banxico

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



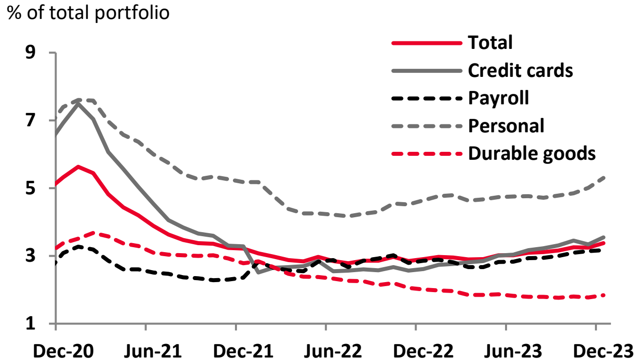

Source: Banorte with data from Banxico

**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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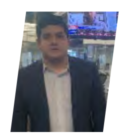

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