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BRAZIL: DIVERGENCE IN CREDIT GROWTH CYCLES

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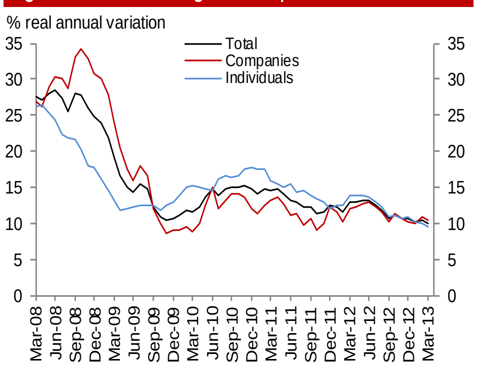
Credit operations: March 2013 results

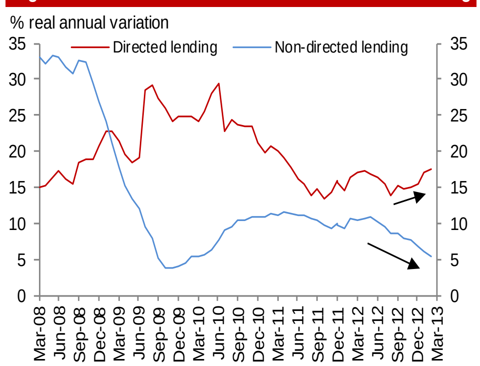
- The stock of outstanding credit held by the private sector rose to R$2.3trn—51.3% of GDP—in March, according to monthly data released by the Brazilian Central Bank last Friday. Real (inflation-adjusted) annual credit growth slowed 40bp from February to 10.1%. The result points to deceleration in the annual growth pace of credit since 2012. (Figure 1.) It also shows that there are ongoing growth cycle divergences between directed vs. non-directed loans, as well between loans issued by government vs. private banks. (Figures 2 and 3.)
- Real year-on-year loan growth to companies decelerated 40bp mom to 10.5% in March upon the slower expansion of non-directed loans, mainly from foreign banks. Loan growth to individuals slowed 20bp mom to 9.7% yoy owed to weaker growth of auto and personal loans.
- Directed loans—which are earmarked funds issued at subsidized rates by the government and private banks—now account for 42% of outstanding credit. Their growth has been outpacing that of non-directed loans since 2009 upon acceleration in BNDES and mortgage lending. (Figure 2.) Year-on-year directed loan growth accelerated 40bp mom to 17.5% in March, on account of expansion in corporate lending. Non-directed loan growth has yet to regain traction; it slowed 70bp mom to 5.4% upon broad-based deceleration in corporate and consumer lending.

Figure 1: Bank credit growth to private sector



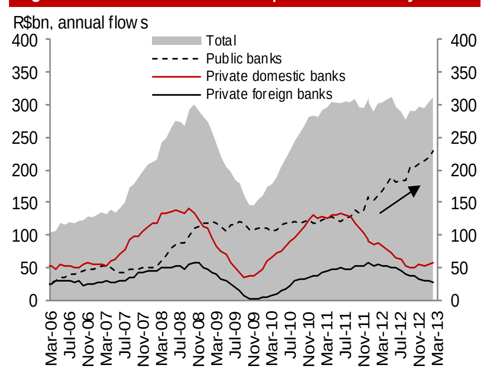
Source: Central Bank; BTMU Economic Research.

Figure 2: Growth of directed vs. non-directed lending



Source: Central Bank; BTMU Economic Research.

Figure 3: Bank credit flows to private sector by lender



Source: Central Bank; BTMU Economic Research.

Loan quality: Some improvement for private banks.

- The 90-day total NPL ratio peaked in 2H12. It came in at 3.6% in March, unchanged from February but down 20bp yoy. Improvement is uneven and varied by segment. The 15-90 day NPL ratio rose 10bp mom to 4.1% due to a 20bp mom deterioration in the ratio for loans to individuals. The 90-day NPL ratio is higher for individual (5.4%) vs. corporate (2.2%) loans; non-directed (5.5%) vs. directed loans (1.1%); and loans issued by private (5.0%) vs. government banks (1.9%). The highest NPL ratio is for non-directed loans to individuals, which fell 10bp mom to 7.6% in March.
- Asset quality is gradually improving for private banks. The 90-day NPL ratio among domestic banks decreased 20bp mom to 4.8%, while among foreign banks it decreased 10bp mom to 5.4%. At government-controlled banks it was at 1.9%, unchanged from February. (See Appendix for graphs.)
- The household debt burden remains high. Households' payments on principal and interest obligations as a share of disposable income fell to 21.7% in February from 21.9% in January. Yet, at this level, it means that over one-fifth of disposable income is still directed to pay debt obligations.

Origin of capital: Government-controlled banks are still driving credit flows.

- Credit flows to the private sector are being driven by government-controlled banks since mid-2011. Government banks have financed 49% of the stock of outstanding credit as of March, up from 33% in 2007. Moreover, in the last 12 months, they have supplied nearly three-quarters of credit flows to the private sector, as private banks restrained lending amid deteriorated asset quality and slower pace of economic growth. (Figure 3.)
- Government banks have been gaining market share under pressure to aggressively increase lending to stimulate credit growth and reduce private banks' high spreads. Credit costs for individuals dropped 50bp mom to 24.4% in March, prior to the BCB's recent SELIC rate hike in April.
- An important part of lending growth is attributed to BNDES, the development bank that since end-2007 has tripled the stock of its outstanding credit. In addition, since 2010 other government-controlled banks (such as Banco do Brasil and Caixa Econômica Federal) have substantially boosted lending. Loan growth by other government-controlled banks was up by 32.3% yoy in real terms in March, outpacing loan growth by BNDES (9.7% yoy), private foreign banks (0.8% yoy) and private domestic banks (0.4% yoy). But, following weak growth in the first two months of the year, the real growth of private domestic banks did accelerate sequentially by 0.9% mom in March. (See Appendix for graphs.)

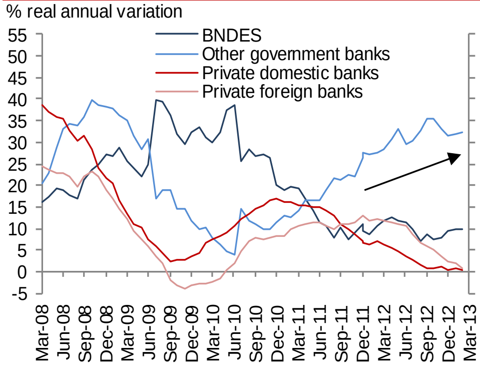
Moderation in real credit growth will test the resiliency of consumption.

- Reasonably, credit growth remains constrained on both the demand and supply sides. In an environment where sluggish lending is owed to a high household debt burden, slow recovery, and poor (though improving) asset quality at private banks, government banks will be leading credit flows.
- The gap between government-controlled and private bank lending growth should begin to narrow, however. For government banks, it will be important to monitor the ability to sustain such strong lending growth without the buildup of risks in asset quality and inflation. Meanwhile, after a difficult year for private banks in 2012, gradual lending acceleration is expected to be favored by less pressure from government banks and better asset quality.
- The moderation of aggregate loan growth will restrain inflation pressures but also challenge the resiliency of private consumption, the main growth driver of the economy. The decelerated credit market will work in the opposite direction of favorable labor market dynamics in supporting consumption. This is one more reason why the BCB's monetary tightening cycle may likely be short and the size of rate increases will be marginal.

APPENDIX OF CHARTS

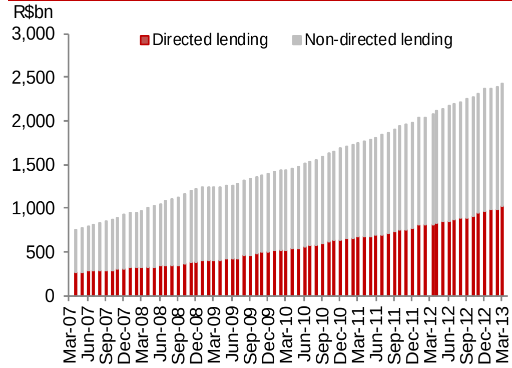
The Brazilian Central Bank (BCB) has introduced a new monthly database that provides a more detailed breakdown of certain financial system credit indicators while, at the same time, reduces the historical data availability of some categories. The charts below highlight key bank credit trends in Brazil, as well as display some of the new data available for directed and non-directed loans.

Growth: Bank credit to private sector, by lender



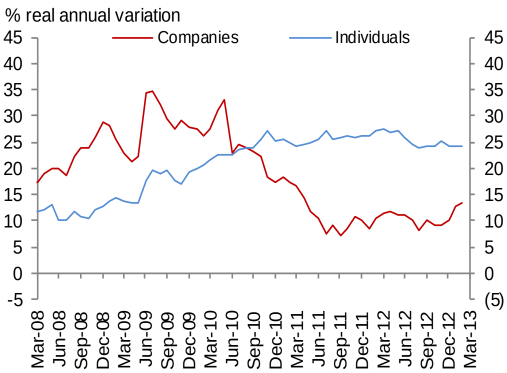
Source: Central Bank; BTMU Economic Research.

Stock of oustanding directed vs. non-directed lending



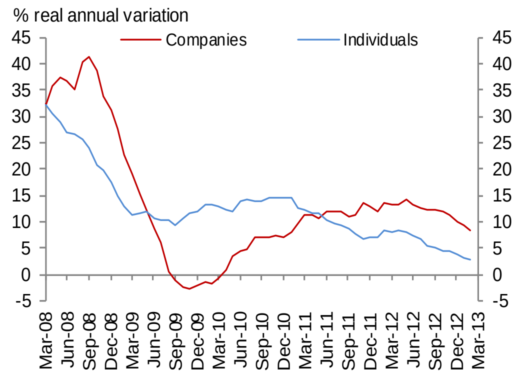
Source: Central Bank; BTMU Economic Research.

Growth of directed lending



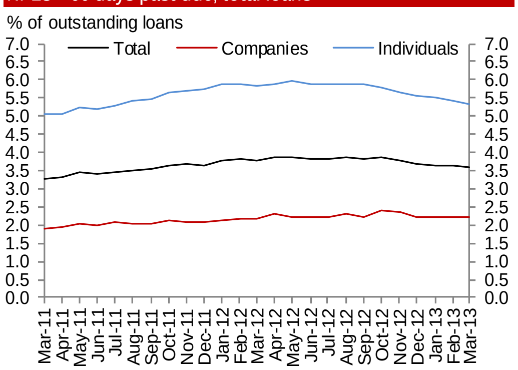
Source: Central Bank; BTMU Economic Research.

Growth of non-directed lending



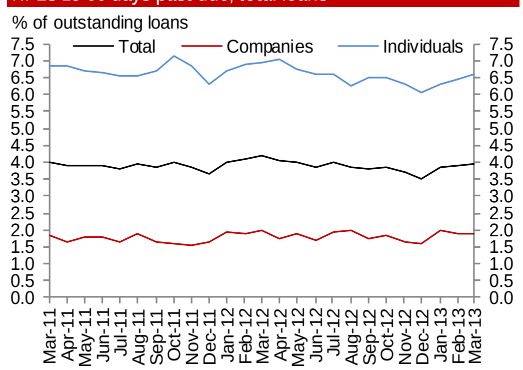
Source: Central Bank; BTMU Economic Research.

NPLs > 90 days past due, total loans



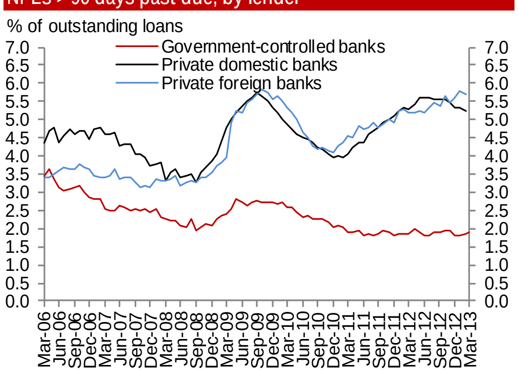
Source: Central Bank; BTMU Economic Research.

NPLs 15-90 days past due, total loans



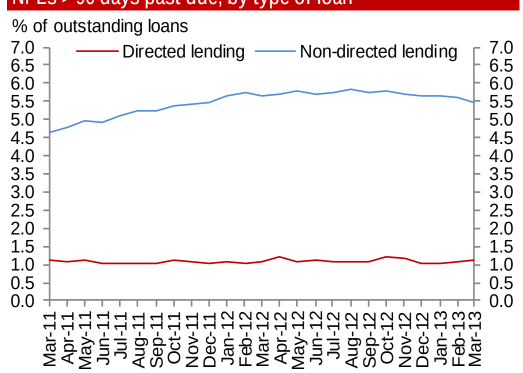
Source: Central Bank; BTMU Economic Research.

NPLs > 90 days past due, by lender



Source: Central Bank; BTMU Economic Research.

NPLs > 90 days past due, by type of loan



Source: Central Bank; BTMU Economic Research.

For historical data and commentary following BTMU's Economic News Releases, see our website at: https://reports.us.bk.mufg.jp/portal/site.