

Brazil Flash

Impaired loans remain at high levels

After having declined in June, non-performing loans (NPL) remained relatively stable –still around high levels- in July. Lending rates and banking spreads continued to trend downwards in line with the current monetary easing cycle and the focus of the government on driving banking rates down. Credit growth slowed down to 17.7%/y (0.7%/m/m) in the period although public credit continued to accelerate.

- **Impact of lower interest rates on NPL has been offset by activity weakness and financial turbulences**

NPL refrained from declining in July as the domestic economic recovery continues fragile, slower-than-expected and domestic and external financial markets remain turbulent. Over-90 days NPL increased slightly to 5.9% from 5.8% in June (to 7.9% from 7.8% in the household segment while in the corporate segment it remained unchanged at 4.0%). 15-90 days NPL increased to 2.3% from 2.2% in the case of corporations and continued at 6.4% in the case of households (below the 6.9% mark recorded in April). The continuous drop in interest rates (lending rates declined to 30.7% and banking spreads to 23bps in July; both are now close to record low levels) has not been enough to bring NPL rates down. Looking forward, we expect the positive impact of lower rates on NPL to increase gradually in the months ahead in line with existent delays and economic activity to recover more robustly in the second half of the year. We, therefore, expect NPL to decline gradually over the remainder of the year.

- **Dual credit markets: public credit expanded by 27%/y/y in July; private credit by 11%/y/y**

Public credit expanded by 27%/y/y (1.5%/m/m) in July and account now for 45.4% of total credit in the country. This very robust expansion follows public bank's focus on the very dynamic retail estate sector, the skyrocketing of loans to the public sector (+44.1%/y/y) and the use of public loans as an important countercyclical tool (today's local news report, actually, that Caixa Economica Federal will be capitalized to continue expanding in the years ahead). As we have been emphasizing in some recent reports, the evolution of public loans can be a source of future problems/distortions. Anyway, this evolution is in sharp contrast with the pace of private loans (11%/y/y; 0.1%/m/m in July).

For more on Brazil, [click here](#)

La morosidad se mantiene en niveles elevados

Tras la caída registrada en junio, la tasa de morosidad se mantuvo relativamente estable –todavía en niveles elevados- en el mes de julio. Las tasas de interés y los spreads bancarios siguieron su trayectoria a la baja, en línea con el ciclo monetario expansivo y el foco del gobierno en la reducción de las tasas de interés bancarias. El crecimiento de los mercados de crédito se ralentizó y alcanzó 17,7%a/a (0,7%a/a) en el período a pesar de la aceleración del crédito público.

Para ver más acerca de Brasil, [haga clic aquí](#)

Enestor Dos Santos
enestor.dossantos@bbva.com
+34 639 82 72 11

DISCLAIMER

This document and the information, opinions, estimates and recommendations expressed herein, have been prepared by Banco Bilbao Vizcaya Argentaria, S.A. (hereinafter called "BBVA") to provide its customers with general information regarding the date of issue of the report and are subject to changes without prior notice. BBVA is not liable for giving notice of such changes or for updating the contents hereof.

This document and its contents do not constitute an offer, invitation or solicitation to purchase or subscribe to any securities or other instruments, or to undertake or divest investments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any

kind.

Investors who have access to this document should be aware that the securities, instruments or investments to which it refers may not be appropriate for them due to their specific investment goals, financial positions or risk profiles, as these have not been taken into account to prepare this report. Therefore, investors should make their own investment decisions considering the said circumstances and obtaining such specialized advice as may be necessary. The contents of this document are based upon information available to the public that has been obtained from sources considered to be reliable. However, such information has not been independently verified by BBVA and therefore no warranty, either express or implicit, is given regarding its accuracy, integrity or correctness. BBVA accepts no liability of any type for any direct or indirect losses arising from the use of the document or its contents. Investors should note that the past performance of securities or instruments or the historical results of investments do not guarantee future performance.

The market prices of securities or instruments or the results of investments could fluctuate against the interests of investors. Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates' salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.