Flash

Brazil

Credit grows robustly despite global turbulence

The total credit stock expanded 2.1%m/m in September, the highest rate in more than a year, in spite of activity moderation and financial turbulence. This expansion was driven by a strong growth in credit from public banks (2.8%m/m). The credit stock reached 48.4% of GDP (up from 46.4% in the end of 2010).

- ### Yearly growth remains around 20% since the middle of 2010
  In monthly terms, the credit stock expanded 2.1%m/m, more than the 1.3%m/m average observed in the year up to September and than the 1.6%m/m average of 2010. In yearly terms, the credit expansion was equal to 19.6%y/y in September, within the 19%y/y and 21%y/y range it has been since August of 2010. Credit markets remain very dynamic in spite of increasing signs of activity moderation (in Brazil and abroad), volatility in financial markets and measures taken by the CB in the first half of the year. Although we continue expecting credit markets to slow down, the figures released today add to the view that 2011's credit growth will not be significantly lower than the expansion observed in 2010 (20.6%).

- ### Dual credit markets
  Credit from public banks expanded 2.8%m/m (21.2%y/y) in September while, on the other hand, private credit grew 1.6%m/m (18.3%y/y). In the year up to now, the public credit expansion averaged 1.6%m/m, the same as in 2010. Private credit, however, reacted to the new measures introduced by the monetary authority and by a less supportive environment: its average expansion dropped from 1.5%m/m in 2010 to 1.2%m/m in 2011. The share of public banks in total credit has, therefore, been increasing: it reached 42.5% in September in comparison to 34.2% in September of 2008. We see some risks in this continued expansion as public banks could end up more exposed to any deterioration of domestic activity. In addition to that, from a macroeconomic perspective, the expansion of public credit can add to labor market pressures and reduce the room for the Central Bank to cut interest rates.

- ### Stable NPL and lower interest rates
  Non-performing loans were stable at 3.5% in September (3.2% in the end of 2010). Average interest rates dropped to 39.0% from 39.7% following the recent reduction of the SELIC. Banking spreads increased slightly to 28.1% from 27.8% in August.

For more on Brazil, click here.

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

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