

Credit

There has been a gradual improvement of credit conditions in the economy, but with significant discrepancies between non-earmarked and earmarked credit, between individuals or corporations and between state-owned or private banks. The largest expansions are taking place with non-earmarked resources, credit to households and coming from private institutions. Non-performing loans (NPLs) rates with non-earmarked loans have reached historically low levels, both for households and firms. The ratio of interest and amortization payments to household budgets has been relatively stable in the last months. Non-mortgage indebtedness for households has grown moderately, whereas mortgages remain mostly stable, around the mean level of the last three years. Interest rates and average spreads remained stable in September, after an eighteen-month period of decline.

The third quarter credit data confirm the previously observed trends. In comparison to the same month of the previous year, the contrast between non-earmarked and earmarked loans continues. Hefty differences are also observed in credit between individuals and firms, as well as between loans by private and state-owned banks. Table 1 shows the growth rates for these segments. Non earmarked loans, credit for households and credit granted by private banks have grown, while earmarked resources, corporate credit, and credit granted by state-owned banks have decreased in that period. It can be seen on graphs 1, 2 and 3 that these differences have been observed previously. One point worth noting is that the growth non-earmarked credit continues to increase, while the one of earmarked credit remains constant. The same happens in the comparison between private and state-owned banks. However, when comparing credit to households with credit to firms, the growth rate of the former, although positive, has been constant for months. The credit for firms, on the other hand, is still negative, but at a decreasing pace.

TABLE 1
National Financial System - Outstanding loans: real rate of change in the third quarter of 2018 over the same quarter of 2017

(%)

Non earmarked	4,2
Earmarked	-6,5
Households	2,2
Firms	-4,9
Private Banks	5,4
State-owned Banks	-6,4

Source: Central Bank of Brazil (BCB).

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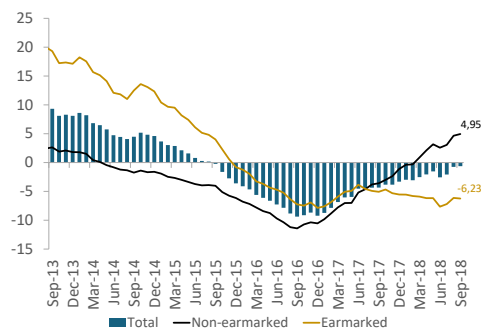
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Text written with data available up to November 5, 2018.

GRAPH 1

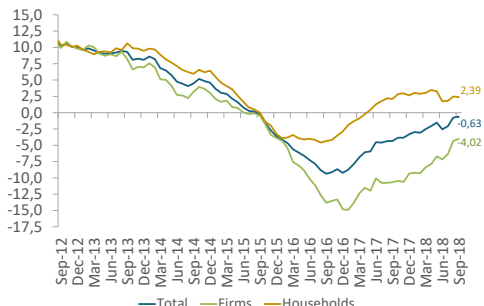
National Financial System – outstanding loans: non-earmarked and earmarked resources (yoy % change)



Source: BCB.
Elaboration: Grupo de Conjuntura / Dimac / Ipea.

GRAPH 2

National Financial System – outstanding loans: households and firms (yoy % change)

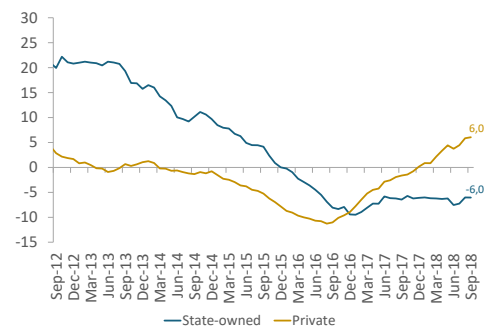


Source: BCB.
Elaboration: Grupo de Conjuntura / Dimac / Ipea.

New loans also showed significant growth over the same quarter of the previous year. The average number per working day, deflated by the IPCA consumer inflation index, increased by 8.6%. The corporate credit expanded by 12.4% and household credit increased 5.8%. When comparing the total earmarked new loans versus the earmarked ones, it becomes clear that the overall growth was totally due to the non-earmarked, which increased 9.6%, while the earmarked credit decreased by 0.8% (see graphs 4 and 5, with monthly data). The total growth is close to that of the non-earmarked because these amount to about 90% of the new loans. When deflated and adjusted for the working days and seasonal effects, total new loans continue to rise, for both households and firms (Graph 6). Table 2 ends this section with the summary of recently reported credit statistics.

GRAPH 3

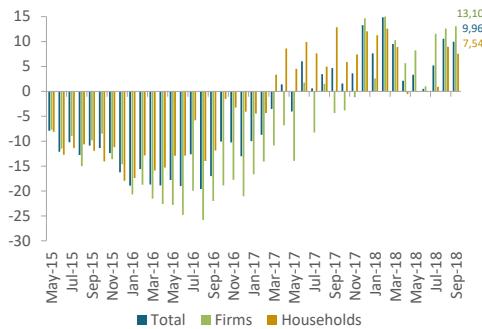
National Financial System – outstanding loans: state-owned and private banks (yoy % change)



Source: BCB.
Elaboration: Grupo de Conjuntura / Dimac / Ipea.

GRAPH 4

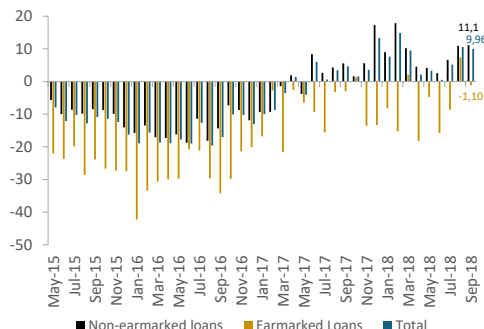
New loans : households and firms, average per working day (yoy % change)



Source: BCB.
Elaboration: Grupo de Conjuntura / Dimac / Ipea.
Note: Average per working day.

GRAPH 5

New loans : non-earmarked and earmarked resources, average per working day (yoy % change)

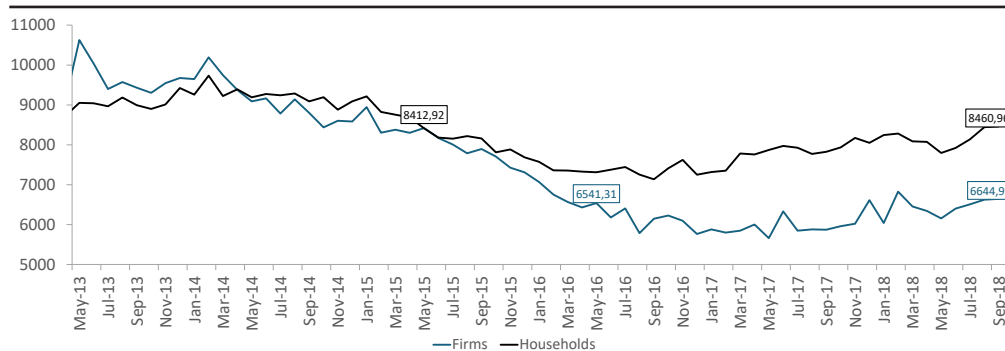


Source: BCB.
Elaboration: Grupo de Conjuntura / Dimac / Ipea.
Note: Average per working day.



GRAPH 6

New loans : households and firms
(in constant R\$ millions of Sep./2018)



Source: BCB.

Elaboration: Grupo de Conjuntura / Dimac / Ipea.

Note: Average per working day, deflated, with seasonal adjustments.

TABLE 2

Outstanding loans, new loans and delinquency (sep./2018)

	Outstanding loans				New loans (Daily average)		Non-performing (%)	
	R\$ billions	Real Change* 12 months (%)	% of GDP	Change in 12 months as % of GDP	R\$ billions	Real Change* 12 months (%)	%	Change 12 Months (%)
Total	3.169	-0,6	46,7	-0,3	295	10,0	3,0	-0,6
Households	1.728	2,4	25,4	0,5	163	7,5	3,4	-0,5
Firms	1.441	-4,0	21,2	-0,9	132	13,1	2,6	-0,7
Non-earmarked Loans	1.678	4,9	24,7	1,1	269	11,1	4,1	-1,4
Households	904	4,4	13,3	0,5	146	6,8	4,9	-0,7
Firms	774	5,6	11,4	0,6	123	16,9	3,1	-2,1
Earmarked Loans	1.491	-6,2	21,9	-1,5	26	-1,1	1,9	0,1
Households	825	0,2	12,1	0,0	17	14,4	1,7	-0,3
Firms	666	-13,2	9,8	-1,5	9	-20,9	2,0	0,5

*IPCA

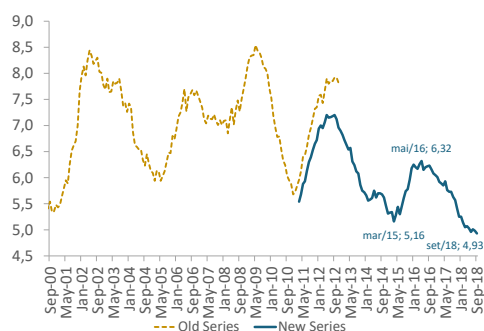
Source: BCB.

Elaboration: Grupo de Conjuntura / Dimac / Ipea.

In September, the delinquency rate of household loans continued to decline, reaching its lowest level ever recorded in the historical series (4.9%), as depicted in Graph 7. The default rate of corporate loans also continued the sharp drop observed since the second quarter of last year and reached 3.1%, the lowest level of the series that begins in 2011 (Graph 8).

GRAPH 7

Default rate in non-earmarked loans for households
(%)

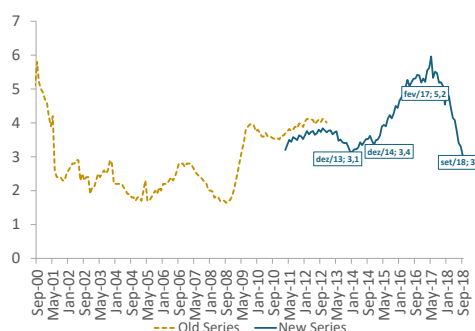


Fonte: Banco Central do Brasil (BCB).

Elaboração: Grupo de Conjuntura da Dimac/Ipea.

GRAPH 8

Default rate in non-earmarked loans for firms
(%)

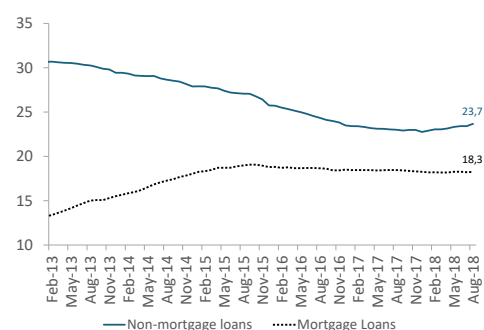


Source: BCB.

Elaboração: Grupo de Conjuntura / Dimac / Ipea.

The debt services as a share of household incomes fell in August to 20%. Along with the fall observed in July, that figure suggests a departure from the upward trend observed earlier this year. However, the most relevant movement occurred during 2017, when that ratio moved from around 22%, its average level for the last four years, to the current level of 20% (see graph 9). Total mortgages as a share of annual household incomes remained relatively stable (18.3% in June), while the share of outstanding non-mortgage loans on family incomes (accumulated over 12-months) showed a continuation of a rebound from a previous downward trajectory, reaching 23.7% in August (see Graph 10).

GRAPH 10
Mortgage and non-mortgage debt as a share of household income
 (in % of accumulated 12-month income)



Source: BCB.
 Elaboration: Grupo de Conjuntura / Dimac / Ipea.

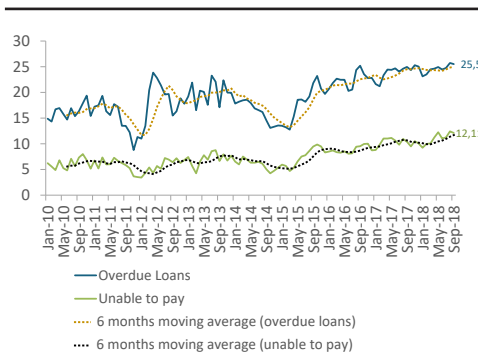
GRAPH 9
Debt service as a share of households income
 (% of seasonally adjusted series)



Source: BCB.
 Elaboration: Grupo de Conjuntura / Dimac / Ipea.

Graph 11 shows a continuation of the upward trend on the share of non-rich families (up to 10 minimal wages) that have overdue debts. Moreover, there has been an increase in the percentage of these families with overdue debts, that report being unable to fully pay their obligations (see Graph 11).

GRAPH 11
Households with with overdue debt, and households unable to pay overdue debt
 (with income up to 10 minimal wages) (%)



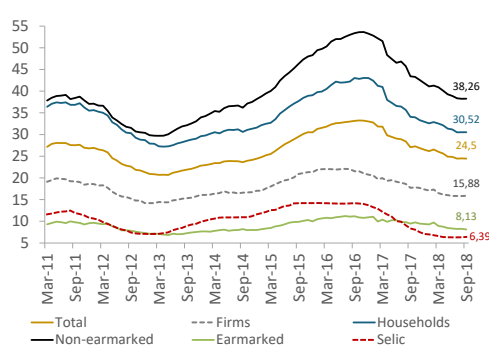
Source: BCB.
 Elaboration: Grupo de Conjuntura / Dimac / Ipea.

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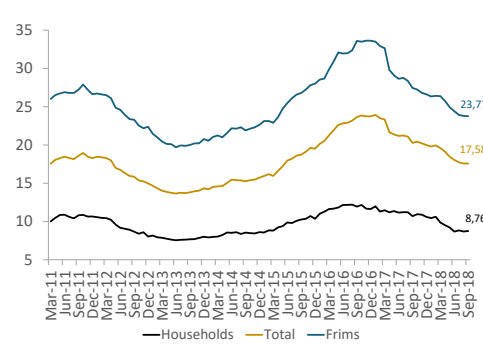
The average interest rates on the new loans remained stable in September, departing from the previous downward trajectory. However, when we look at the quarterly observations, the data for the 3rd quarter still shows a continuation of the downward trend observed since the beginning of 2017. For the total loans granted, the rate was 24.5%. The average for the same quarter last year was 28.1%. A similar behavior can be observed in spreads. They remained stable in September, after previous falls, but quarterly data still suggests a downward path (Graph 13). The interest rate and spreads data are summarized in Table 3.

GRAPH 12
Interest rates on new loans seasonally adjusted (in %)



Source: BCB.
Elaboration: Grupo de Conjuntura / Dimac / Ipea.
Obs: Quarterly moving average.

GRAPH 13
Interest rate spreads on credit operations, seasonally adjusted (in %)



Source: BCB.
Elaboration: Grupo de Conjuntura / Dimac / Ipea.
Obs: Quarterly moving average.

TABLE 3
Interest rates and spreads (sep./2018)

	Interest Rates		Spread	
	% annual	Change 12 months (%)	%*	Change 12 months (%)
Total	24,40	-2,60	17,40	-2,69
Individuals	30,40	-3,53	23,40	-3,69
Firms	15,70	-1,81	8,60	-1,91
Non-targeted Credit	38,10	-5,20		
Targeted Credit	8,00	-1,33		
Selic	6,40	-1,95	-	-

Source: BCB.
Elaboration: Grupo de Conjuntura / Dimac / Ipea.

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