

State-owned banks sustain Brazilian bank credit over 2008

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Institutions are responsible for 68% of credit expansion in the fourth quarter of 2008

In December 2008, bank credit reached the highest percent of GDP since the Central Bank of Brazil first calculated it. The outstanding credit reached 41.1% of GDP. It is a substantial growth vis-à-vis 2004, in which a 24.5% growth was achieved. Owing to this, the most optimistic expectations for expansion of credit were surpassed, although the end of 2008 was marked by sudden and sharp intensification of the international financial crisis.

Even after September – month in which the international crisis threatened to bring in a wave of panic after the Lehman Brothers bankruptcy – the annual variation rate of credit operations continued to grow above 30% p.a. Graph 1 shows that, throughout 2008, there was no reduction in credit operations vis-à-vis GDP.

In view of this scenario, this issue of Brazilian Economic Insights aims to analyze what supported the recent growth of Brazilian bank credit, particularly over the period that the international financial crisis

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intensified. For such, it is necessary to analyze the credit evolution per segment of demand (enterprises, individuals, rural and housing) and per institution (State-owned and private banks), aiming to identify any changes in the Brazilian credit market over the period.

Credit evolution per segment of demand

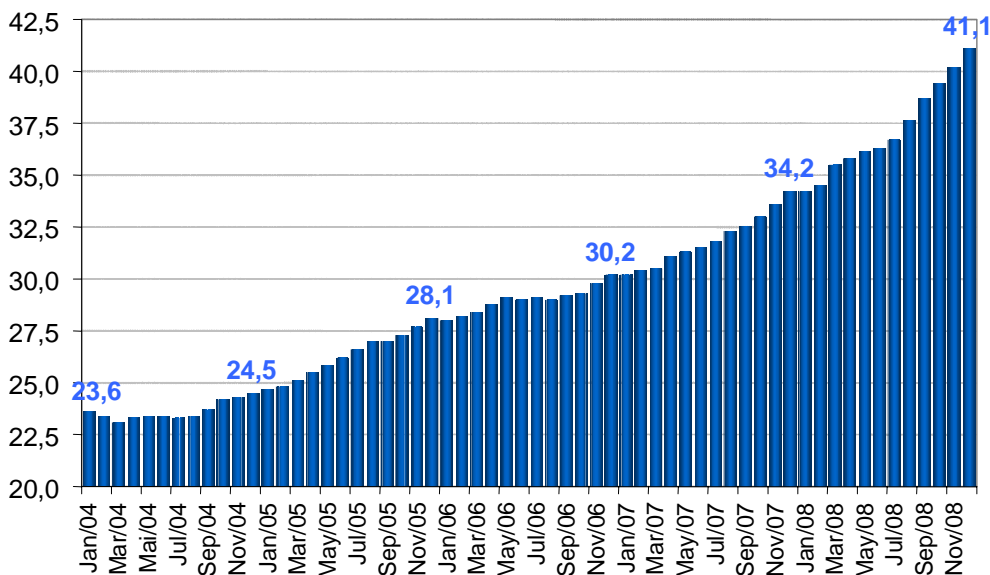
Over the last five years, the supply of bank credit in Brazil has presented strong expansion rates. Graph 2 provides data on the growth of bank loans in three categories –

individuals, enterprises and others. It also shows the average amount for each of these groups over the 2004-2008 period.

Between 2004 and 2008, credit to individuals represented 32% of the total credit market over the period. The segment recorded the highest average growth rate over that period, around 31.5% p.a. versus 22.5% p.a. for enterprises and 18.6% p.a. for the rural and housing segments.

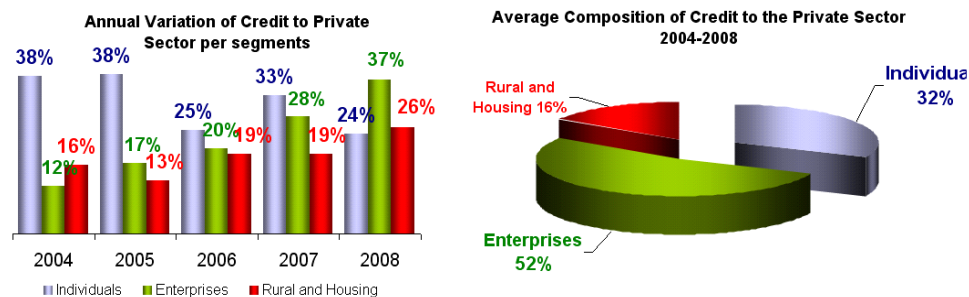
This resulted in the combination, on one hand, of the continuous growth in household income, stimulated by the increase in the

Graph 1: Evolution of the Credit/GDP Ratio in Brazil (in %) (2004-2008) – monthly data until Dec./08



Source: Brazilian Central Bank

Graph 2: Growth Rate and Composition of Credit in the Private Sector (2004-2008)



Source: Prepared by the BNDES based on Brazilian Central Bank data

number of jobs, as well as in real wages and the drop in interest rates. On the other hand, the creation of payroll-backed credit¹ was also relevant. Besides this, there was also growth in credit operations for the purchase of vehicles, and in leasing operations – which are also targeted at financing vehicle purchases. Such growth in operations was combined with better financing conditions in terms of costs and maturities – which were extended to 5 or even 7 years.

Credit for enterprises had a different performance. It presents a clear upward trend, reaching a rate of 37% in 2008, i.e., well above credit for individuals (24%). Part of

this growth is a result of the investment cycle that has transpired in the Brazilian economy over the last two years². However, in light of the data from the 4Q08, even higher acceleration of company demand vis-à-vis household demand on the Brazilian bank market may be attributed to the worsening of the foreign credit scenario.

Efforts of State-owned banks

In 2008, credit operations of State-owned banks grew 40%, whereas the private bank variation reached only 27% (Table 1). This caused the contribution of State-owned banks to the total growth rate to reach 43% over the year, a percentage well above the 25% recorded in 2007 and above the average (33%) for the 2004-2008 period. Since 2004, this was the first time that the State financial institutions surpassed the

¹ Throughout 2008, we observed a natural reduction in the growth of payroll-backed credit, as potential borrowers tend to finish over time.

² In fact, between 2006 and 2008, the Gross Formation of Fixed Capital (GFCF) grew at a rate 2.5 times higher than GDP.

private ones. This change may primarily be attributed to different countermeasures of State-owned and private banks in view of the effects of the international financial crisis.

As of September 2008, when the crisis had a harsher impact on the Brazilian economy, especially with regard to dramatic reduction in liquidity, the public sector began operating anti-cyclically. Several measures were taken in this vein. In addition to the reduction of compulsory reserves made by the Central Bank, the public lines of financing for exports and for working capital were extended by Banco do Brasil and the BNDES.

The result of these efforts may be seen in Graph 3, which shows the accumulated variation of credit operations per source of capital versus September, when the credit conditions were globally impaired.

While private banks kept their volume or operations virtually stable, State-owned banks showed swift growth. Between September and December 2008, credit from State-owned banks grew 12.9%, while that of private banks rose only 3.2%. Consequently, State-owned banks were responsible for 68% of the net variation of credit operations over 4Q08. The BNDES' performance amassed almost 1/3 of the entire increase in credit.

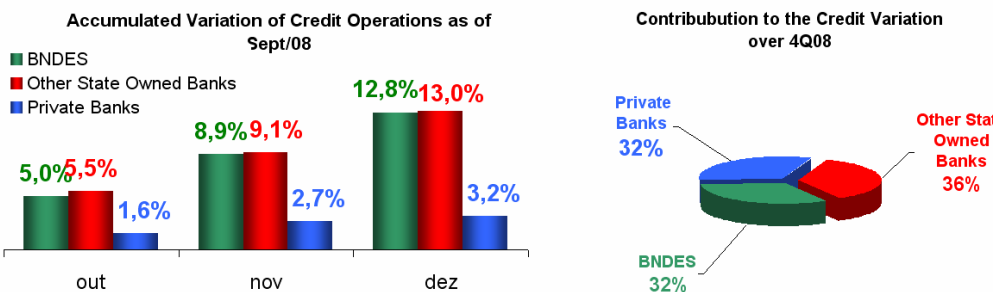
This increase in credit from State-owned banks was mainly earmarked for production sectors. Graph 4 compares the quarterly evolution of total credit and of that earmarked for enterprises, per institution (State-owned banks and private banks). It is possible to notice, over the last few years, a general trend of credit acceleration during the fourth quarter of each year. In 2008, however, with regard to private

Table 1 – Growth Rate of Credit Operations: Public and Private Banks

	Growth Rate of Credit Operations (in %)		Contribution to Growth (in %)	
	Public Banks	Private Banks	Public Banks	Private Banks
2004	15.0%	22.0%	31.6%	68.4%
2005	16.0%	25.0%	28.7%	71.3%
2006	20.0%	21.0%	36.1%	63.9%
2007	19.0%	33.0%	24.7%	75.3%
2008	40.0%	27.0%	43.2%	56.8%
Average	22.0%	25.6%	32.9%	67.1%

Source: Prepared by the BNDES based on Brazilian Central Bank data.

Graph 3: Accumulated Variation of Credit Operations per Source of Capital as of Sept./08



Source: Produced by the BNDES based on Brazilian Central Bank data

banks, this pattern was not observed. There was a deceleration in financing operations over 4Q08. In their turn, State-owned banks operated counter-cyclically over this same period. They maintained a growth pattern, presenting a more robust expansion (12%), particularly for enterprises (14%)³.

Thus, in addition to the seasonal movement, by the end of 2008, it is possible to notice the anti-cyclical nature of the structure of State-owned banks in the bank credit market.

Final considerations

The 4Q08 was marked by the worsening of the current international financial crisis. In this

vein, credit conditions destabilized on a global scale. Hence, expectations for the evolution of credit in Brazil were ominous.

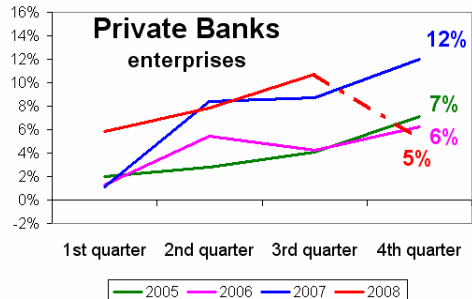
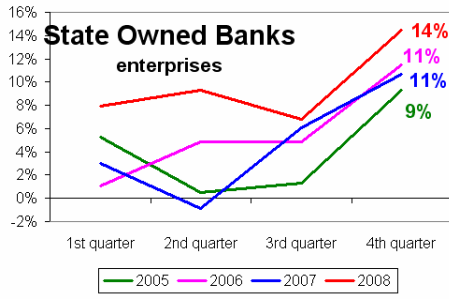
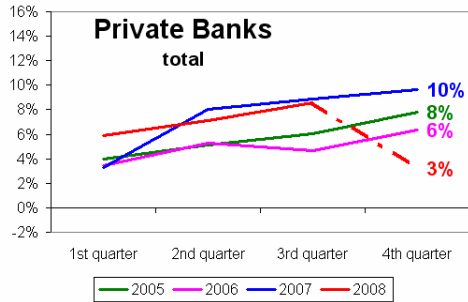
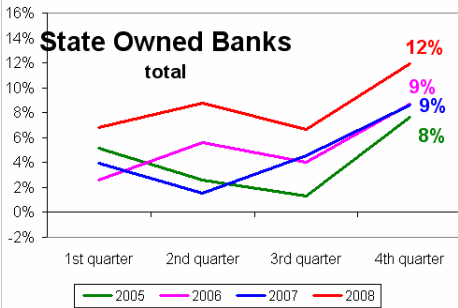
State-owned banks' efforts, increasing credit over 4Q08, managed to maintain a course of growth for bank credit in the Brazilian economy, in spite of the lower pace vis-à-vis the previous years. Public banks amassed 68% of the rise in credit between September and December 2008. The BNDES alone contributed with 32 percentage points. These disbursements were primarily earmarked to sustain economic activity.

In fact, different countermeasures in view of the crisis may be attributed to the structural nature of these institutions themselves. During a scenario of international financial crisis, private banks tend to act defensively, disseminating the effects from the shortage of foreign

³ This trend was repeated, to a smaller extent, in the credit assigned to individuals. While public banks, in the 4th quarter, presented a growth rate of 10%, private banks, on the same comparison basis, posted a regular performance – around 1.0%.

Graph 4: Growth Rate of Credit Operations per Source of Capital (in %)

quarter versus the immediately previous quarter



Source: Produced by the BNDES based on Brazilian Central Bank data

credit. In their turn, State-owned banks are capable of doing the opposite, maintaining or even increasing their disbursements to prevent the interruption of financing, above all for enterprises.

By seeking to sustain credit levels in the economy, State-owned banks are fulfilling their roles as development promotion agencies. The existence of public banks has been a differential in this specific crisis, to such a degree that the States have become more efficient

in offsetting the recoil of private institutions. In the US, for instance, where there are no State banks, the US Central bank is undergoing huge difficulties to promote an increase in credit for enterprises. In effect, the substantial increase in liquidity (US\$ 1 trillion) promoted by the FED over 4Q08 was neutralized by the increase in deposits in monetary authority banks.

In Brazil, the Central Bank's efforts to broaden the liquidity in Brazilian and foreign currency have been

complemented by an increase in credit from State-owned institutions for enterprises and families. This measure is not enough to fully offset the negative impact of the foreign setback, although it is relevant to lessen the downturn in activity. This is only possible, among other factors, due to the importance of

these institutions within the Brazilian credit market. As a complement to private credit, the efforts of State-owned banks play a crucial anti-cyclical role, revealing the importance of the State for a healthy credit system.





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