

# Brazil Flash

## Credit expanded 17.3%/y/y in February, the lowest in practically two years

After staying practically constant within the 18.0% - 22.0% range since May of 2010, the total credit stock grew “only” 17.3%/y/y in February. The monthly expansion was also modest: 0.4%/m/m. The moderation was especially important in the non-earmarked segment (14.6%/y/y; -0.1%/m/m) in comparison to earmarked credit (23.0%/y/y; 0.8%/m/m). In spite of the recent moderation we expect credit markets to continue as one of the main drivers of activity and to near the 20%/y/y pace again in the second half of the year.

- **Public banks continued to gain market share**

Earmarked (“directed”) credit outperformed non-earmarked (“free”) credit. And credit from public banks outperformed credit from private institutions. As a consequence, directed credit reached 36% of total credit (which should not be forgotten within the discussions about the reason why interest rates are high in Brazil) and the public credit share climbed to 44.0%. In spite of the robust performance of public / earmarked credit, the total credit stock lost dynamism in February (total credit as a share of GDP remained stable at 48.8%). This moderation is in line with the recent economic activity slowdown. Accordingly, we expect both credit and overall activity to accelerate over the year and to display a robust growth in the second half of the year. More precisely, on one hand we expect GDP to grow significantly more than 1.0%q/q in the third and fourth quarters in comparison to something within the 0.6% - 0.8% range in the first quarter and around 1.0%q/q in the second one. On the other hand, we expect credit growth to recover and to near once again the 20%/y/y pace in the second half of the year.

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