

## Brazil

# Economic Watch

Madrid, 26 January 2011

### Economic Analysis

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## Brazil: robust credit expansion in 2010; some moderation expected for 2011

- The credit stock in Brazil expanded 20.5% y/y in 2010 driven by the dynamism of domestic demand, a relatively lax monetary policy, the dynamism of credit from public institutions, and also the continuity of the structural process of credit penetration due to recent institutional changes (such as payroll credits, known in the country as *credito consignado*). The pace of credit expansion intensified in comparison to 2009 (when credit stock expanded 15.2%) but remained weaker than in 2008 (when expansion was equal to 31%).
- The credit stock now represents 46.6% of GDP, the highest value since the beginning of the current official series in 1988.
- Non-earmarked credit grew 17.1% while earmarked loans grew 27.5%.
- Credit to households increased 21.9%, more than credit to companies, which increased 19.3%. This was in line with the more positive performance of the demand side of the economy compared to its supply side.
- Real estate credit increased around 51% in 2010 but still accounts for only 8.0% of total credit and 3.8% of GDP.
- Credit from public institutions expanded 21.5%, still very robust but lower than in 2009 (32.1%) when it was used as part of government's counter-cyclical efforts. Its expansion was also lower than credit from private domestic institutions, which grew 22.4%, a clear recovery compared to an 8.0% growth in 2009. Credit from foreign banks increased 13.9% in 2010.
- Non-performing loans trended downwards throughout 2010, from 4.2% in January to 3.2% in December. Banking spreads also trended down and closed the year at 23.5%, but final lending rates remained relatively stable around 35% (as the monetary tightening implemented last year prevented these rates from declining further as was the case in the previous years). The average duration of loans jumped from 383 days at the end of 2009 to 477 days at the end of 2011.
- An important part of the improvement in credit conditions is explained by the advance in payroll loans (*credito consignado*) which expanded 24.5% in 2010 and now represents more than 60% of personal credit.
- In 2011 we expect credit growth to moderate (and to stay around 15%) following the moderation of domestic demand, a further tightening of the monetary policy and also the implementation of macro-prudential measures such as those announced at the end of 2010.

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