

4 Brazilian Credit Market Evolution

Since the middle of the 90's, the credit market presented very high, though decreasing, banking spreads. In order to encourage this process, in 1999 the "Interest and Banking Spreads in Brazil" project was initiated, aiming to implement measures that would foster a credit culture in the country, as well as reducing rates charged. In 2000, for example, some measures aspiring to reduce asymmetric information from financial institutions (i.e. client information access, collateral seizure and improvement on the levy system) and eager to increase competition in the overdraft market were implemented. Moreover, over the years improvements in the banking sector competition were sought, along with more transparent rates charged to consumers. It is worth mentioning two other measures that aimed to reduce the default rate: the new bankruptcy law, which altered the priority of loans made with real collateral in relation to tax credit, and permission for private initiative workers and pensioners and retired individuals of the INSS¹² to obtain payroll deducted loans.

The outcomes of this project in the first half of this decade are not so apparent. Initially, credit as a proportion of GDP remained relatively constant (24.8%)¹³, while interest rates and preset spreads fell until June 2001, when this trajectory reversed up until April 2003, falling afterwards. Only then it was possible to see significant improvements in the credit to GDP ratio, nowadays at 45%. However, the composition of total credit granted experienced some changes: non-earmarked loans rose up from 11.5% to 15.2% as a fraction of GDP between June 2000 and October 2004, even though the ratio of other categories remained relatively stable. In 2007, this ratio went up to 24.5%. It is worth mentioning the amount of payroll deducted loans rose from a third to two thirds of total personal

¹² National Institute of Social Security

¹³ Between January 2000 and January 2005.

loans granted from 2003 to 2007¹⁴. Finally, while greater attention was given to non-earmarked loans, it must be recognized the fact that earmarked loans also increased in the same period, especially the ones made by the BNDES¹⁵.

Other factors that experienced some changes are spread composition and average maturity of these operations. As for spread composition, it was observed that administrative costs and taxes had a disperse participation: 13.64% and 7.61% in average, respectively. On the other hand, bank gross and net margins experienced a decrease between 2001 and 2007, being explained mostly now by delinquency rates. The latter, measured by the percentage of portfolios 90 days overdue, rose in the beginning of the project, because of expansion of credit to individuals, a category that presents higher default rates. With very few oscillations, it reached the 5.10% level, approximately, in September 2005, decreasing afterwards (4.3% in December 2007). As for average maturity, it fell a little in the beginning and reacted vigorously at the end of 2002, when it rose from 229 days to 296 in 2006.

¹⁴ Even though there was a tremendous increase in the payroll deducted loans, this is concentrated mainly on the public sector employees, retired and pensioners from the INSS. Chu, Lundberg and Takeda (2007) assign this to the private sector's greater turnover (low in the public sector, with payment stability for pensioners and retired from the INSS) and suggest that deductions could be transferred across employers.

¹⁵ National Economic and Social Development Bank