## Credit transactions in the Automotive Sector and Connected Activities

Credit transactions targeted to the purchase of automotive vehicles have grown significantly in recent years, contributing to sustain the activity level in the automotive industry and in the economy as a whole. With the aim of contributing to the analysis of the sector's economic performance, this Box evaluates the trajectory of credit transactions for the acquisition of vehicles, the production and marketing of cars, trucks, buses, motorcycles and agricultural machinery as well as auto parts, components and accessories.

Favorable credit market conditions, expressed by reduced interest rates and lengthened maturities, in addition to macroeconomic stability and positive trajectory of employment and income indicators led to the expansion of financing and commercial leasing operations for vehicles and agricultural machinery.

Thu, the stock of the sector's credit operations, taken into account both transactions with individuals and corporations, as shown in Table 1, totaled R$217 billion in September 2010, increasing by 232.1% in comparison to the same period in 2005. Credits targeted to individuals, encompassing direct consumer loans (CDC) and leasing operations, totaled R$176 billion, up 230.2% in the period. Meanwhile, corporate credit operations expanded 240.5%, to R$41 billion, of which R$25.2 billion involving nonearmarked resources and R$15.8 billion involving earmarked resources. It should be noted that earmarked credit operations, reflecting the relevant contribution of the Special Industrial Financing Agency (Finame) administered by the National Bank of Economic and Social Development (BNDES), grew 368.7% in the period.

Over the last five years, the supply of credit with lengthened terms and decreasing costs boosted the demand for motor vehicles and, therefore, contributed to the expansion of the segment's level of production and sales. The total output of the automotive sector – including cars, light commercial vehicles, trucks, buses and motorcycles – reached 4.6 million units in the first ten months of 2010, up 47.3% in comparison to 2005. Parallel to this, domestic sales reached 3.9 million units, compared to 2.3 million units from January to October 2005.

Financing for the production of vehicles, parts and accessories (FV) totaled R$17.6 billion in September 2010, rising 22.3% in the period, as seen in Table 1. It should be noted that the proportion of credit allocated to the automotive industry in total FV fell from 68.1% in September 2005 to 42.4%. In this segment, 70% of loans were channeled to the production of cars, 24.7% to buses, trucks and tractors and 5.3% to motorcycles. In September 2010, loans for the production of parts, spares and accessories, which now represent 57.6% of the FV, focused on contracts related to the manufacturing of engines, chassis, bodywork and other components, corresponding to 52.7% of total credit operations in this segment.

The balance of loans for the marketing of cars and auto-parts reached R$29.9 billion in September 2010, increasing 192.4% in comparison to September 2005. Of this total, 68.6% referred to loans for the marketing of new and used cars and 31.4% for the financing of auto-parts dealers.

**Table 1 – Credit to the automotive sector**

R$ million

| Period | | Output | | | Trade | | | Acquisition | | | | Total |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Vehicles | Parts | Total | Vehicles | Parts | Total | Corporations | Individuals | | | |
| | | | | | | | | | CDC | Leasing | Total | |
| 2005 | Sep | 9 808 | 4 588 | 14 396 | 7 096 | 3 124 | 10 220 | 12 053 | 46 218 | 7 080 | 53 298 | 89 966 |
| | Dec | 9 691 | 4 788 | 14 479 | 7 384 | 3 342 | 10 726 | 12 768 | 50 685 | 8 427 | 59 112 | 97 085 |
| 2006 | Dec | 7 435 | 5 219 | 12 654 | 9 427 | 3 980 | 13 407 | 14 251 | 63 475 | 13 877 | 77 352 | 117 664 |
| 2007 | Dec | 5 762 | 6 234 | 11 996 | 11 834 | 5 248 | 17 082 | 17 909 | 81 481 | 30 136 | 111 617 | 158 604 |
| 2008 | Dec | 7 632 | 6 965 | 14 597 | 17 477 | 7 051 | 24 528 | 20 424 | 82 433 | 56 712 | 139 145 | 198 694 |
| 2009 | Dec | 6 497 | 7 774 | 14 271 | 18 602 | 8 080 | 26 682 | 28 967 | 94 133 | 63 159 | 157 292 | 227 213 |
| 2010 | Sep | 7 458 | 10 142 | 17 600 | 20 490 | 9 391 | 29 882 | 41 038 | 125 515 | 50 456 | 175 971 | 264 491 |

Taken together, the balance of credit operations for the production and marketing activities of automotive vehicles and auto parts and the purchase of automotive vehicles reached R$264.5 billion in September 2010 (Table 1), rising 16.4% in comparison to the end of 2009 and 194% in comparison to September 2005. It should be noted that financing for the acquisition of vehicles accounted for 82% of this total, while the proportion of loans for the marketing and production of vehicles and auto parts totaled 11.3% and 6.7%, respectively.

**Table 2 – Participation of credit to the automotive sector**

R$ million

| Period | | Total credit to the automotive sector (a) | Total SFN credit (b) | Participation of the automotive sector (a)/(b) | Participation of the credit to the automotive sector no GDP |
|---|---|---|---|---|---|
| 2005 | Sep | 89 966 | 564 357 | 15.9 | 4.3 |
| | Dec | 97 085 | 607 023 | 16.0 | 4.5 |
| 2006 | Dec | 117 664 | 732 590 | 16.1 | 5.0 |
| 2007 | Dec | 158 604 | 935 973 | 16.9 | 6.0 |
| 2008 | Dec | 198 694 | 1 227 294 | 16.2 | 6.6 |
| 2009 | Dec | 227 213 | 1 414 344 | 16.1 | 7.2 |
| 2010 | Sep | 264 491 | 1 613 631 | 16.4 | 7.7 |

Analysis of Table 2 shows that the participation of these credit operations in the total national financial system credit operations reached 16.4%, rising 0.5 p.p. over the past five years. This expansion becomes even more relevant in view of the upward trend of the ratio between the National Financial System (SFN) credit stocks and the Gross Domestic Product (GDP). Accordingly, the share of credit operations targeted to the automotive sector in the GDP moved upward from 4.3% to 7.7% in the period.

It is plausible to suppose that this trend shall be affected by the effects of Circular no. 3,515, dated December 3, 2010, on the contracting of transactions with maturities greater than 24 months. This macroprudential measure regulates, among other credit modalities, the financing and commercial leasing of vehicles whose maturity terms may jeopardize the balance between the contracted volumes and the value of vehicles constituting the guarantees for theses operations. The increase in the required capitalization of financial institutions that carry out such transactions through greater risk-weighting factor could, in principle, restrict longer-term loans, thus encouraging contracts with shorter maturities or with greater down payments. The restriction of operations with longer maturities, although could represent an eventual disincentive for credit transactions in the automotive industry, is seen as an important mechanism for maintaining the sustainable development of the credit market in the country.