Recent evolution in corporate credit

Figure 1 – Credit outstanding
% change YoY

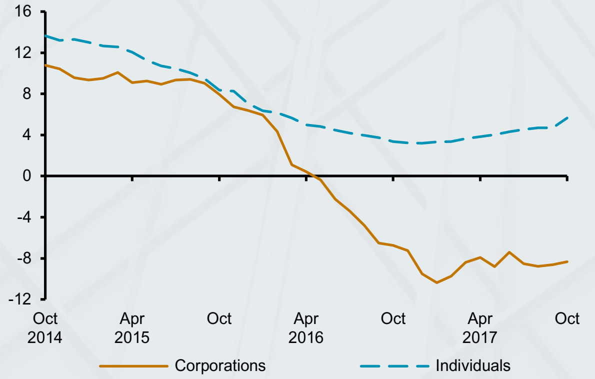


Figure 2 – Credit outstanding by debt value
Credit outstanding – R$ billions

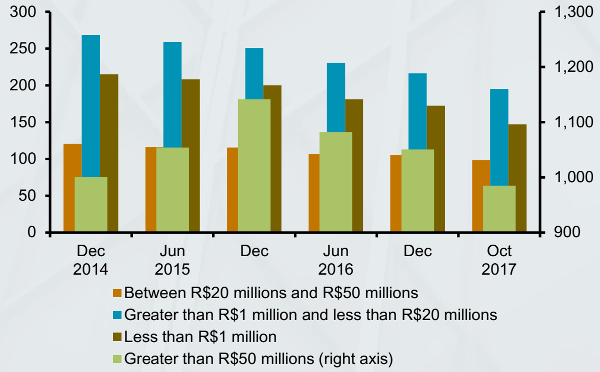
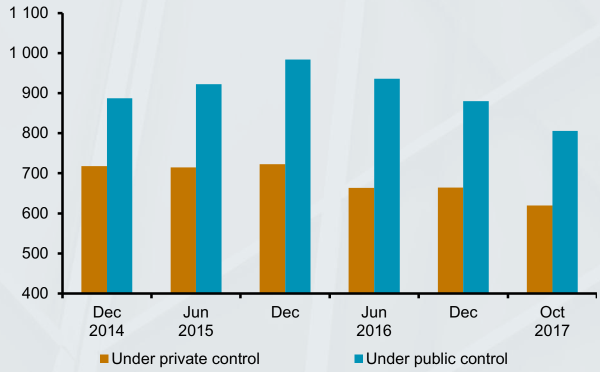


Figure 3 – Credit outstanding by origin of the capital
Credit outstanding – R$ billions



The credit market has recorded performance more consistent in the segment of credit for individuals than in the segment of corporate credit (Figure 1). The objective of this box is to identify the central aspects of the corporate credit dynamics, especially the influence of company size and the substitution of funding sources.

An interesting analysis path is that which approaches the subject of lending to corporations by its size. For that matter, it was initially considered the period from December 2014 to October 2017, which was broken down into two intervals: (i) December 2014 to December 2015 and (ii) December 2015 to October 2017.

Analysis from the point of view of borrowing shows, in the first period, an expansion of 14 percent in the balance of credit operations above R$50 million[1] (Figure 2), in contrast with generalized declines in the balance of operations below R$1 million, from R$1 million to R$20 million and from R$20 million to R$50 million. It is clear, therefore, that the major credit operations were determinant for the growth in the corporate credit portfolio, as registered in this period of deceleration in economic activity.

The increase in the balance of corporate portfolios from December 2014 to December 2015 reflected, mainly, the growth of loans granted by the financial institutions under public control, notably the R$58 billion increase in loans of the Brazilian Development Bank – BNDES (Figure 3)[2].

The period started in 2016 was characterized by an increase in uncertainties associated, mainly, with the negative impact caused by non-economic events. In this context, the total balance of corporate credit portfolio decreased R$282 billion from December

1/ This increase reflected, especially, the evolution of a portfolio of 34 companies within a sample of around 4,300 borrowers with operations above $50 million, concentrated in the segments of oil, mining, power, paper manufacturing and slaughtering.

2/ It is worth mentioning that part of the increase in the balance of corporate credit portfolio reflected the impact of exchange rate variation of around 50 percent in the period, relative to operations exposed to foreign currencies. These operations represented 15.0 percent of the entire corporate credit portfolio, as of December 2015 (11.0 percent in December 2014).

2015 to October 2017, especially due to a contraction of R$156 billion in the balance of operations above R$50 million. The reduction in the portfolio of 36 borrowers – several of them pertaining to the same corporate conglomerate – explains 80 percent of this variation.

In the same way, as observed from December 2014 to December 2015, the balance of credit operations from R$20million to R$50 million, from R$1 million to R$20 million and less than R$1 million also retreated during the period.

The sectors where the sharpest reductions in borrowing occurred were, as expected, the same where the most expressive expansions occurred in the period previously analyzed.

It is worth noting the decline in the number of borrowers that represent 50 percent of the entire corporate credit portfolio (Figure 4).

It is also worth noting that, despite major banks showed a contraction in their stock of corporate credit from 2016 on, a sharper reduction occurred in the portfolio of public banks, which represented approximately 63 percent of the fall between December 2015 and October 2017 (R$178 billion). This behavior was influenced by the concentration of their operations on larger companies, exactly the segment that registered the sharpest contraction in credit from 2016 on. In turn, private banks contributed to a reduction of R$104 billion in the period, a smaller rate of shrinkage.

From the point of view of the origin of resources, the highlights are the operations with resources from BNDES (direct and intermediated) which presented the most intense retraction (-21 percent) between December 2015 to October 2017, when compared to the decrease in other operations (-14 percent) in the same period (Figure 5).

Another relevant aspect in the recent context of financing of enterprises is the growth of capital markets, partly influenced by the reduction of the basic interest rate, by changes in costs, by credit approval policy with earmarked resources, by the National Financial System (SFN) requirements for conceding credit, and by the process of resumption of economic activity which contributes to improve balance sheets. Data from the Brazilian Financial

Figure 4 – Credit outstanding – corporations
Number of borrowers that represents 50% of the credit outstanding

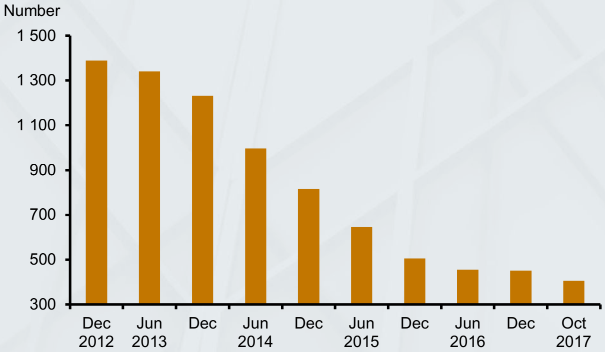


Figure 5 – Credit outstanding – corporations

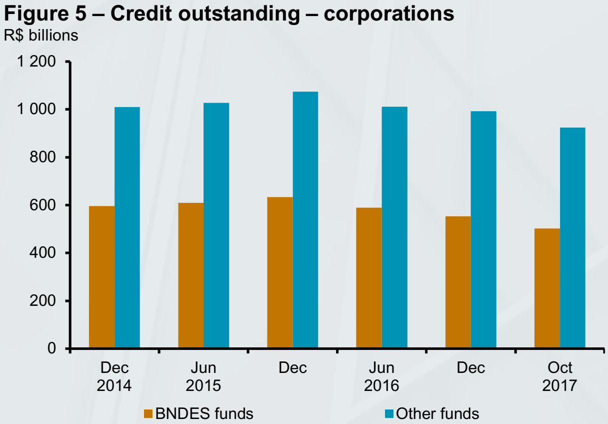


Figure 6 – Capital market
Transactions through october – R$ billions

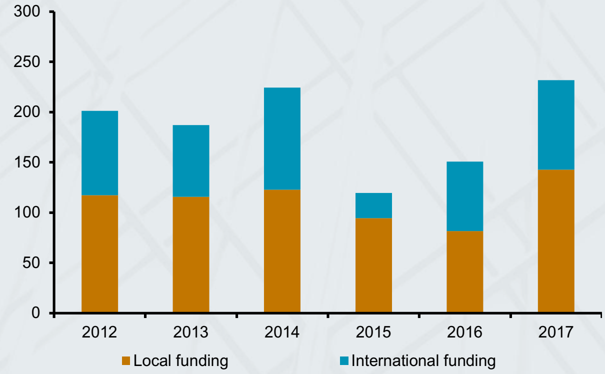
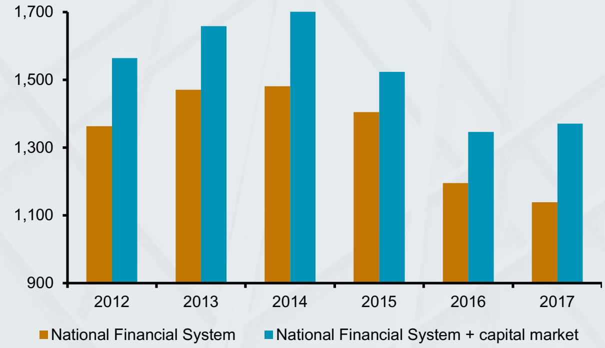


Figure 7 – New operations – corporations
Through october
R$ billions



and Capital Markets Association (Anbima) (Figure 6) make evident the significant increase in capital market funding this year – domestic emissions grew[3], up to October 2017, 75 percent in comparison to the same period of 2016, and external emissions increased 29 percent in the same period. Thus, whereas the corporate credit market shows a 4.7 percent decline during the first 10 months of the year when compared to the same period of 2016, the consolidation of these new loans with market funding capital growth reveals a growth of 1.8 percent in the same period (Figure 7). This fact suggests that the greater dynamism in capital markets compensates, in a large extent, the retraction in credit markets. It is important to observe that, depending on the profile required to operate in this market, this movement tends to be led by large companies.

In short, the evolution of credit market in the corporate segment was, in both periods analyzed, conditioned by the credit operations for larger companies and, on the side of credit supply, by the financial institutions under public control. It is worth noting that the greater dynamism in capital markets compensated the slower growth in the segment of corporate credit.

3/ Includes: Debenture, Promissory notes, Certificate of Agribusiness Receivables (CRA), Certificates of Real Estate Receivables (CRI), Receivables Investment Funds (FIDC) and stocks.