

**9<sup>th</sup> Biennial IFC Conference:  
Are Post-Crisis Statistical Initiatives Complete?**

**Credit Statistics as a Tool for Assessing  
the Effectiveness of Policies Aimed at  
Reducing Credit Cost**

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# Introduction

- Interest rates in the Brazilian credit market are historically high.
- BCB launched the **BC+ Agenda** in December 2016 among other, to contribute to the reduction of the cost of credit and to deepen the knowledge on Brazilian credit market.
- BC+ Agenda implied some **challenges to the production of credit statistics**, associated to the policy need for a more comprehensive evaluation of the cost of credit in Brazil.
- These challenges include the **creation of a set of complementary statistics for the measurement of the cost of credit**, including:
  - methodological revisions and compilation improvements of pre-existing statistics and
  - the development of new statistics.



## BC+ Agenda

- BC+ Agenda is aimed at addressing structural issues of the domestic financial system by a combination of new legislation, regulatory measures and research about the credit market.
- The Agenda is structured in four pillars:
  - Financial citizenship,
  - Modern legislation,
  - Financial system efficiency, and
  - **Lower cost of credit.**



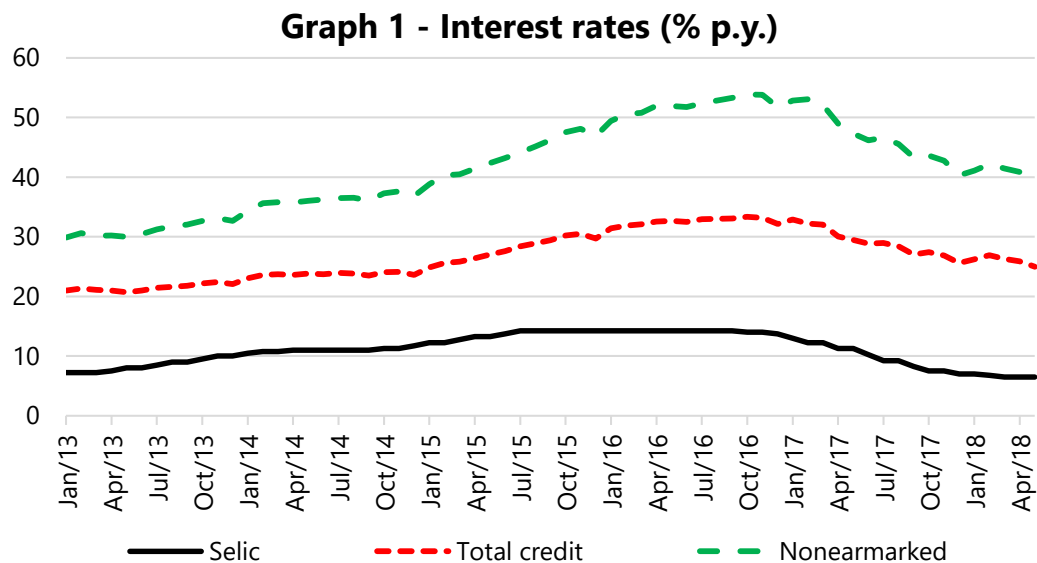
## BC+ Agenda: Lower Cost of Credit

- High cost of credit in Brazil is a complex subject with many contributing causes, from subsidies in banking credit, to competition issues and high administrative cost to banking intermediation.
- BC+ Agenda tries to address all these subjects related to the costs of credit:
  - **Subsidies:** revision of the interest rates on directed lending, aligning them to market rates.
  - **Reserve requirements:** reduction of the high levels and simplification of rules.
  - **Competition:** new legislation for credit bureaus and electronic registering of financial assets (as collateral); improving covered bonds markets; revising the structure of credit card market; etc.



## BC+ Agenda: Impact on Credit Statistics

- All those measures demand **good quality credit statistics as a tool to evaluate its effective impact**, both in the aggregate and in specific instruments or modalities.
- With the Selic rate at historical lows, how further can we go in the reduction of banking lending rates and banking spreads?



## Statistics of new operations' interest rates

- The traditional measure of interest rates in Brazil considers the **weighted average of interest rates of the new operations contracted in the reference month.**
- These interest rates statistics try to express the **"price" of the credit contracted at the margin** (i.e., in the last month)
- Besides the aggregated interest rates (for the financial system or by modalities), the **BCB also publishes each financial institution interest rate by line of credit on a daily basis** (moving average of the last five business days data), aiming to bring more transparency to borrowers and to stimulate competition.
- BCB also compiles statistics of the banks' funding costs and, thus, statistics on the **banking spreads.**

# Statistics of new operations' interest rates

## Pessoa Física - Crédito Pessoal Consignado Público

Classificadas por ordem crescente de taxa

Período: 07/08/2018 a 13/08/2018

Modalidade: Pessoa física - Crédito pessoal consignado público

Tipo de encargo: Pré-fixado

Posição	Instituição	Taxas de juros	
		% a.m.	% a.a.
1	BCO DO NORDESTE DO BRASIL S.A.	0,06	0,74
2	BCO ALFA S.A.	1,43	18,52
3	FINANC ALFA S.A. CFI	1,51	19,70
4	BCO A.J. RENNER S.A.	1,57	20,61
5	BANCO INTER	1,58	20,72
6	BCO SANTANDER (BRASIL) S.A.	1,61	21,06
7	BCO BRADESCO S.A.	1,62	21,28
8	BCO DO ESTADO DO RS S.A.	1,64	21,56
9	BCO BRADESCO FINANC. S.A.	1,65	21,69
10	BCO SAFRA S.A.	1,66	21,88
11	BRB - CFI S/A	1,67	21,93
12	BARIGUI S.A. CFI	1,70	22,42
13	BCO DO BRASIL S.A.	1,71	22,50
14	BCO CCB BRASIL S.A.	1,71	22,55
15	CAIXA ECONOMICA FEDERAL	1,76	23,24
16	BANCO PAN	1,77	23,47
17	BCO BANESTES S.A.	1,80	23,81
18	BCO ARBI S.A.	1,83	24,30
19	BANCOOB	1,84	24,48
20	PARANA BCO S.A.	1,85	24,60
21	BCO CETELEM S.A.	1,85	24,64
22	BCO OLÉ BONSUCESSO CONSIGNADO S.A.	1,87	24,85
23	BANCO ITAÚ CONSIGNADO S.A.	1,92	25,69

## Average Cost of Outstanding Loans (ICC)

- **There were gaps in the then available set of interest rates statistics.** One of the most important was the need for a broader measure of interest rates, besides last month's average cost.
- **The first new statistic created by the BC+ agenda was the ICC.**
- **ICC represents the average cost of all credit operations with amounts outstanding,** regardless of the operations' reference month.
- ICC represents how much interest borrowers would pay, considering all the operations contracted in the past yet with instalments to be paid, as well as the new operations of the reference month.
- From the point of view of the financial system, it is an estimate of how much revenue financial institutions would receive from their credit operations (assuming zero delinquency rate).



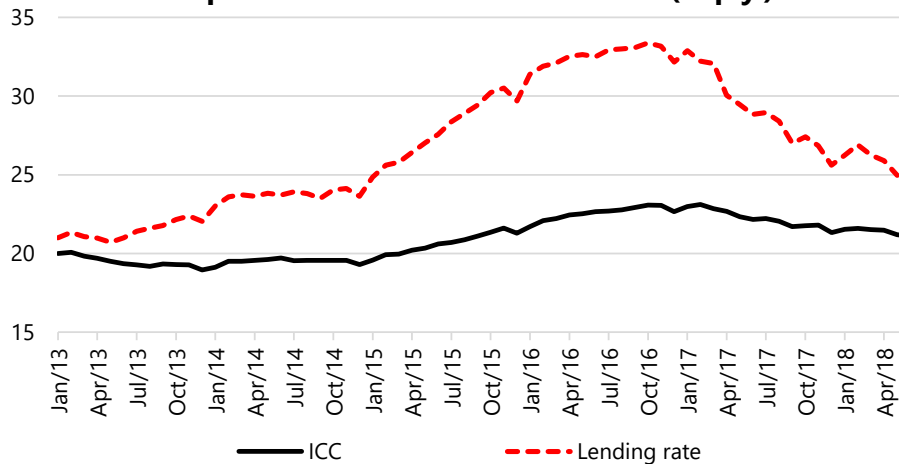
## Average Cost of Outstanding Loans (ICC)

- Let us consider two extreme cases (**real estate lending and revolving credit card loans**) to clarify the differences between the ICC and “traditional” interest rates statistics.
  - As the typical maturity of revolving credit card loans is less than two month, its amounts outstanding are BRL35.1 billion, and monthly new operations, BRL15.3 billion.
  - For real estate, with average maturity of 131 months, the values are BRL576.1 billion and BRL7.6 billion.
- **The share of credit card in the “traditional” interest rate statistics is the double of the real estate loans** (amounts of new operations).
- As for the **ICC**, the **weight of real estate loans is significantly higher**, as is the total amount outstanding.

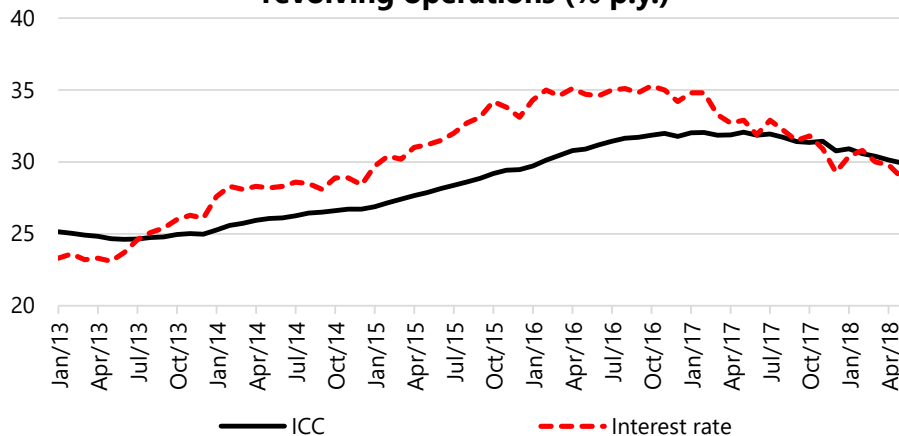
# ICC and Interest Rate Statistics

- As expected, ICC is lower and more stable than “traditional” interest rates. But...
- ... one should expect the lines in graph 2 to cross (average x margin), but they don't!
- Part of the answer lies on the role of revolving credit, with its three-digit interest rates per year.
- Considering credit cost without revolving operations, the lines do cross.

**Graph 2 - Credit cost for total credit (% p.y.)**



**Graph 8 - Non-earmarked credit costs excluding revolving operations (% p.y.)**



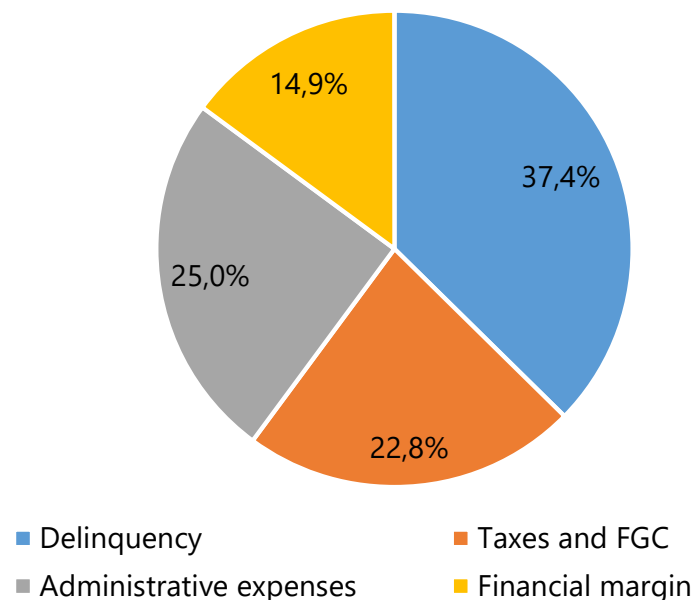
# Internal Rate of Return (IRR) and the ICC

- The other part of the answer has to do with methodologies of weighting and capitalization of the interest rates.
- At high interest rates, it does make a significant difference whether:
  - the interest rates of each line of credit are calculated as rates per month (interest paid on the reference month divided by the total amount outstanding) and then aggregated as a weighted average and only after that, annualized; or
  - if the interest rates are, from the beginning, calculated as per year interest rates.
- Although preliminary tests with the first methodology seems to show better results, further research is still needed to define the best operational proxy for an IRR to the Brazilian credit costs.

# New banking spread decomposition

- Besides providing users with a full set of credit cost measures, the BC+ Agenda also pushed for revising the decomposition of banking spreads, aiming at achieving a comprehensive and up-to-date overview of the structural causes of its high levels.
- As the graph summarizes, delinquency rates, taxes and administrative costs represents 85% of the total average banking spread.
- From these results, a series of measures were implemented to address the causes of high interest rates in Brazil.

**Graph 12 - ICC spread components**



## Further Steps in Credit Statistics in Brazil

- As already mentioned, current research is trying to define the **best operational proxy for an IRR for the Brazilian credit market**. The results of the research have potential impacts for the current methodology of the ICC and possibly also the “traditional” interest rates.
- Other (permanent?) challenge is the communication of the new statistics, its methodologies and results, and the relation (differences!) with the traditional statistics. Some initiatives are:
  - A specific press conference for the ICC release;
  - ICC methodological note in the BCB’s website;
  - Publication of the Report on Banking Economics, with a press conference; and
  - Monthly credit press releases.

**Thank you!**

**Questions, suggestions, critics  
and contributions are much  
welcome!**

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