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# The Brazilian credit market: recent developments and impact on inequality

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# THE BRAZILIAN CREDIT MARKET: RECENT DEVELOPMENTS AND IMPACT ON INEQUALITY

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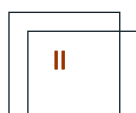
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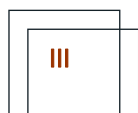
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## ABSTRACT

The aim of this paper is analyzing the evolution of the Brazilian credit market from 2003 to 2011 and its impact on inequality in Brazil. The arguments are organized as follows. After an introductory section, the second one presents the determinants and the general trends of the banking credit market between December 2003 and December 2011, while the third section analyses the extent to which employment and incomes in the banking sector might have contributed to reduce the inequality in Brazil. The paper closes with some final remarks on the lessons that can be drawn from the Brazilian experience.



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## 1. INTRODUCTION

The Brazilian banking system transformed drastically after the *Real Plan* was introduced in the middle of 1994. This was conditioned by a set of structural, macroeconomic, and regulatory factors. In structural terms, besides furthering financial openness, the banking crisis of 1995 was followed by an increased presence of foreign banks in the domestic market after barrier-entry regulations were loosened, state banks were privatized, and a banking restructuring program (Program for Stimulating the Restructuring and Strengthening of the National Financial System -PROER) was launched. In macroeconomic terms, the price stabilization had profound impacts. Moreover, the basic interest rate has been maintained in a high level even after the adoption of a new economic policy framework in 1999, namely, the combination of an inflation targeting policy with a dirty floating exchange rate regime under conditions of deep financial openness, which had been theoretically supported by the “New Consensus Macroeconomics”. In regulatory terms, the development of a solid prudential regulation and supervision framework started with the implementation of the international standards of the Basel Accord in 1994 (Paula, 2011; Cintra, 2006, Freitas, 2007a; Sobreira, 2011).

These transformations resulted in a new competitive environment in the Brazilian banking system, leading to both reactive and pro-active actions by national private banks, who can be considered profit-seeking agents as noted by Minsky (1986). On the one hand, these institutions changed their strategies by implementing new technologies and products, entering in new markets, cutting their costs, improving their risk management and monitoring systems and by diversifying their sources of revenue, mainly through introducing fees on services that were free during the high inflation period (from 1985 to 1994). On the other hand, the entry of foreign banks triggered the search of scale and market power by the main retail national private banks. This played an active role in the wave of Mergers and Takeovers (M&T) that took place over the late 1990s and early 2000s (Paula, 2011; Freitas, 2007a).

The interaction between the government driven transformations and the private bank’s reactions resulted in a restructuring and consolidation process, which culminated in a complex, sophisticated, efficient, and sound, although concentrated, banking system (see Table 1 in the statistical annex). Furthermore, despite of the greater presence of foreign banks, the privatization of banks of the regional governments, and the process of financial deregulation, national banks still play a major role in the credit market that has maintained its mixed nature (see Table 2 in the statistical annex). This nature stems from the maintenance of the earmarked credit segment (which includes bank loans with lower interest rates that follow some kind of earmarking allocation according to government regulations) as well as the presence of federal public banks along with large national private banks.

In spite of the wide liberalization program during the 1990's, the Brazilian government kept this market segment and the property of five public banks, of which two are universal banks (*Banco do Brasil* – BB and *Caixa Econômica Federal* – CEF), one is a development bank (*Banco Nacional de Desenvolvimento Econômico e Social* – BNDES) and the remaining two are regional banks (*Banco da Amazônia* – BASA and *Banco do Nordeste do Brasil* – BNB). While BB is an open joint stock company, whose controlling stockholder is the federal government, the other ones are fully state-owned banks. It is worth mentioning that the two dimensions of the Brazilian banking market's mixed nature are self-reinforcing inasmuch as the federal public banks (hereafter, public banks) are the main managers of the earmarked credit segment.

Although there were major changes in the Brazilian banking credit market after 1995, the appetite for short term financial applications (that is, a strong preference for liquidity) in relation to the high inflation period did not change up until 2002. With the exception of a short period of credit expansion after the *Real Plan*, banks continued to prioritize applications in *Selic*-indexed<sup>1</sup> government securities, which combined liquidity and high interest rates *vis-à-vis* increasing banking loans (Prates, 2010; Prates & Freitas, 2010, Freitas, 2007b).

Unlike government's expectations, the reduction of the State presence in the banking sector and the emergence of foreign banks did not translate into lower banking spread and higher credit supply. Although, according to Paula (2011, p. 203), this entry probably fostered competition in the market and enhanced banking efficiency. In regards to bank spreads, after a sharp drop from 120 per cent per year in June 1994 to around 60 per cent in March 1999, there is a remarkable stability at the level of 40 per cent since January 2000 (De Paula, Oreiro e Basílio, 2012). The ratio credit/GNP, in turn, was reduced from 35 per cent in June 1994 to around 22 per cent in December 2002. In other words, between the launch of the *Real Plan* in 1994 and the end of 2002, a regression, in terms of the Brazilian banking system functionality, was observed.

The domestic banking credit market only gained momentum in 2003, where it began its most lasting period of credit expansion to the private sector in Brazil's current history. Between January 2003 and December 2011, the Credit Operations/GDP ratio rose from 25.7 to 49.0 per cent. Although the credit market dynamic underwent important changes after the contagion effect of the global financial crisis of 2008, this expansion was uninterrupted up to the middle of 2012. As highlighted by Sobreira (2011), the aforementioned Brazilian banking system restructuring and the prudential regulation improvements in the aftermath of the *Real Plan* played a decisive role in the banking system resilience in face of the crisis contagion effect. Indeed, these two processes, along with the maintenance of a public share in the Brazilian credit market (namely, the federal public banks and the earmarked credit) helped the system to avoid the systemic crisis that was an open possibility at the end of 2008.

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<sup>1</sup> The *Selic* rate is the basic rate used as a reference for monetary policy, the so called policy rate. It is the rate of the short term (overnight) federal government-issued bond.



Since 2003 credit growth has been anchored on banks operations, of which more than 90 per cent of total credit accounts to Brazil's private sector. The role of other financial institutions – leasing companies, financiers, credit cooperatives, etc. – is still limited in the country. Brazil's credit system, therefore, remains very dependent on banks, as is the case in many other countries, particularly in Latin America (Torres Filho, 2012). In short, the Brazilian financial system is bank-based, led by financial conglomerates, and organized around large universal private and public banks (Carvalho, 2011).

The aim of this paper is to analyse the evolution of the Brazilian credit market from 2003 to 2011, and its impact on inequality in the country. The arguments are organized as follows: The current section, the introduction, lays a general overview. The second section presents the determinants and the general trends of the banking credit market between December 2003 and December 2011. The third section analyses the extent to which employment and income in the banking sector might have contributed to reduce inequality in Brazil. The final section of this paper presents some concluding remarks.

## 2. BANKING CREDIT MARKET DYNAMICS FROM 2003 TO 2011: MAIN DETERMINANTS AND GENERAL TRENDS

The most sustained period of credit growth to the private sector in the history of the Brazilian economy began in the last few months of 2003 (see chart 1). Between December 2003 and December 2011, the credit/GNP ratio more than doubled (from 24.2 per cent to 49.0 per cent). During that time, banks redefined their operational strategies and began to expand credit to the private agents, expecting an increase in their market share and in their profit margins.

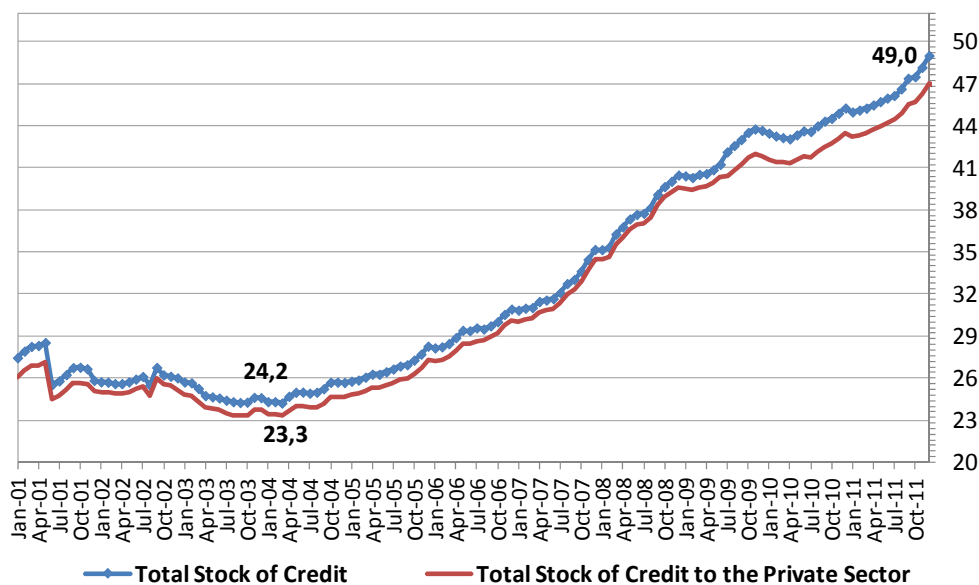
This change in the composition of bank portfolios was determined by two related factors. The first one was the confirmation that there would not be a change in the economic policy in the leftist Lula da Silva's government, who took office in January 2003 (Freitas, 2007b). As noted by De Paula (2011:3), the new government embraced the economic policy framework adopted in 1999, based on the "New Consensus Macroeconomics". In other words, the new government achieved the so-called credibility along with the financial market.

This factor, however, would have a small impact in the absence of the second and most important factor, namely, the improvement in the macroeconomic environment (Prates, 2010; Prates and Biancareli, 2009). This improvement came across in a set of variables, among which: (i) the downward trend of the average expectations<sup>2</sup>; for the Broad Consumer Price Index (IPCA) for the following 12-months, which is the main benchmark taken into account by the Brazilian Central Bank (BCB), for setting the target interest rate; (ii) the downward trend, with some lag, of the IPCA; (iii) the reduction of the policy rate (the target overnight *Selic* rate), although in a discontinuous way and; (iv) the reduction in the forecast for the *Selic* rate in the following 12-months (Prates and Biancareli, 2009).

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<sup>2</sup> Every week the Central Bank discloses the financial market projections for key economic indicators, gathered in the *Focus* newsletter. The numbers do not reflect the expectations of BC, but the convergence of forecasts of financial institutions such as banks, brokers and consultants. The Central Bank reports show around a hundred companies participating in the survey however, it withholds the names. The main information of the *Focus* is the projections for inflation, Gross Domestic Product (GDP), exchange rate, and basic interest rate.

Chart 1 Outstanding credit as percentage of GNP



Source: Authors' elaboration from BCB Data.

These trends were ultimately conditioned by the emergence of a benign international environment in 2003, supported by a new boom of capital flows to emerging countries, a low risk aversion of global investors, an upward trend of commodity prices, and Chinese commodity appetite (UNCTAD, 2008). This environment enabled an improvement in the Brazilian external accounts which, in turn, was accompanied by a decrease in Brazil's external financial fragility<sup>3</sup> and an uninterrupted appreciation of both the Brazilian currency and an improved forecast for the exchange rate in the following 12-months between the second quarter of 2003 and July 2008 (Prates and Biancareli, 2009).

A high level of external fragility of the economy tends to inhibit business in the financial system in general, thereby making it difficult to fulfill the condition of functionality relative to the volume and allocation of resources. This fragility results in a high degree of uncertainty regarding the exchange rate behavior, one of the key-prices of capitalist economies, which turns out to be even more crucial to developing countries such as Brazil (Andrade and Prates, 2013). In Brazil's case, historically, one of the main sources of the uncertainty that surrounds financial operations, which prevent the trading of long-term assets, has been the exchange rate instability and the permanent threat of currency depreciation.

In reality, the price stabilization reached by the *Real Plan* launched in 1994 and the banking sector adjustment and restructuring in the second half of the 1990s was insufficient in persuading banks to reduce their liquidity preference. The reason for this is straightforward: In developing economies, such as Brazil,

<sup>3</sup> The smaller external vulnerability of the public sector stands out. This relates as much with the increase in international reserves as with the fall in the public external debt which made the Brazilian government a net creditor in foreign currency since January 2006 (Cunha, Prates e Ferrari Filho, 2011).

historically subject to a situation of external financial fragility, the exchange rate behavior is fundamental to the configuration of an environment friendly to banking credit growth. The influence of the exchange rate on the Brazilian credit market has been both direct and indirectly.

Directly, the exchange rate affects the borrowing cost with external funding; an appreciation trend, for instance, decrease this cost and vice-versa. As in the country banks have limited external liabilities, this transmission channel was unimportant in the analysed period. Yet, as detailed in the next section, mainly in the second semester of 2007 and the first semester of 2008, banks launched financial innovations through which the currency appreciation lowered the cost of credit operations with domestic funding, that contributed to speed up the credit boom at that moment.

At the beginning of the credit boom, the indirect channel was of utmost importance, i.e., the positive influence of the currency appreciation on the trajectory of two other key macroeconomic variables: the inflation rate and the basic interest rate. In regards to the first one, the exchange rate variations were the main determinants of the previously mentioned downward trend of the inflation and therefore, the inflation target policy in Brazil with Lula's government<sup>4</sup>. Regarding the interest rate, the threat of a sudden increase in the *Selic* rate, as a response to an overshooting of the exchange rate, was dispelled by the expectations (self-fulfilled until August 2008) of a sustainable trend of currency appreciation due in part to the still high basic interest rate, as well as to the external account improvement since 2003.

In this setting of improved macroeconomic conditions, household credit (mainly personal credit and credit for purchase of goods, as detailed in section 2.3) was shown to be a profitable asset for private banks in face of the optimistic expectations regarding the employment and income recovery under the new government and the perspective of policy rate reduction – and, consequently, shrinkage of traditional earnings with short term treasury bills indexed to the overnight *Selic* rate. It is worth to mention that the same improvement in the macroeconomic setting (mainly the downward trend of the exchange rate and the *Selic* rates) paved the way for a change in the composition of the public debt, with a rise of fixed interest and indexed to inflation securities and a decrease in the ones indexed to the exchange and *Selic* rates<sup>5</sup>. In short, both the demand and the supply of *Selic* indexed public bonds were discouraged by the projected downward trend of the policy rate, which contributed to the change in banks' willingness to make financial investments of a larger time horizon.

The recovery of credit to households began in the second quarter of 2003 (see Chart 2), before the beginning of the consumer purchase power recovery (at the end of 2004, according to Amitrano, 2006) as well as the launch of the payroll-

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4 On the inflation target policy in Brazil, see Farhi (2007), Freitas (2010) and Arestis, Paula and Ferrari (2011).

5 This change in the public debt composition is highlighted by Paula, Oreiro e Basílio (2012).

deducted credit for workers and pensioners (on December 2003<sup>6</sup>). This kind of credit can be understood as a financial innovation sponsored by the Government with the aim of decreasing the cost of household loans in the non-earmarked segment, fostering the financial inclusion process (Freitas, 2007b). Therefore, it is an example of the role of State policies in shaping a financial system that is functional to economic development. Favorable conditions for households to access credit are also an important complement to the financing structure of the economic development process, as the investment and innovation processes that play a leading role in the various phases of development also requires an expansion in domestic consumption (although not necessarily of the same magnitude).

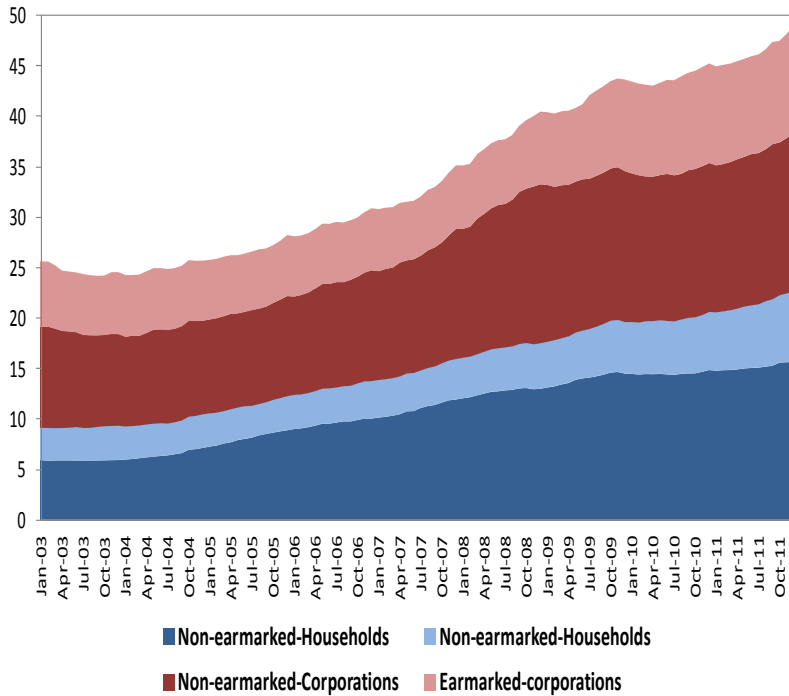
On the demand side, the greatest will to take on a debt, even with its high interest rates, reflected favorably, on the one hand, on the expectations by households in relation to the future economic performance; while on the other hand, the need to update the purchase of durable goods. The share of household credit in the financial system credit operations began to rise in 2003, a tendency that was reinforced by the expansion of consumer's purchase power after 2004. This share grew from 38.1 percent of the total in December 2003 to 46.3 per cent in December 2011, a rise of 8.2 percentage points, while the share of corporate credit fell from 62 per cent to 53.7 per cent of the total, a decrease of 8.2 percentage points (see Table 1).

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<sup>6</sup> The payroll-deducted credit was introduced by Provisory Measure n.130 on September 7, 2003 and converted into Law n.10.820, on December 17, 2003 (Freitas, 2007a e Cintra, 2006).

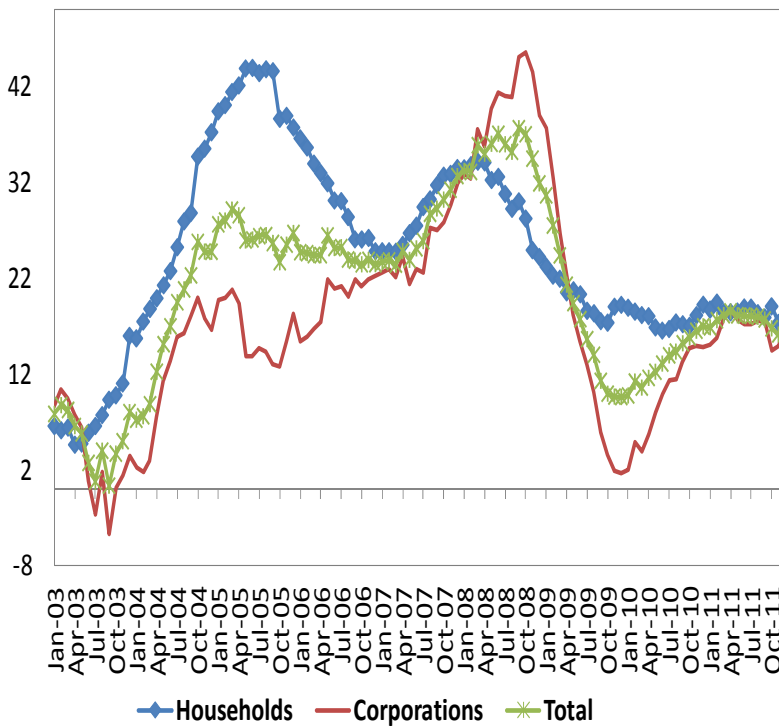
Chart 2 Outstanding credit: balance with individuals and corporations

As percentage of GNP



Source: Authors' elaboration from BCB data.

Percent change in 12 months



Source: Authors' elaboration from BCB data.

Although the corporate sector still had a higher share in the total outstanding credit in December 2011, the household credit has led the credit expansion for most of the period, with exception of the phase between February 2008 and April 2009 (see Charts 2 and 3), when the corporate sector (mainly industry and other services, which include infra-structure – see chart 3) was at the forefront of the expansion due to a set of factors, such as the higher growth rate and bank strategies.

**Table 1 Main features of the Brazilian credit market (2003-2011)**

	Volume (BRL billion)			Share of the total			In percent of GNP		
	dec-03	sep-08	dec-11	dec-03	sep-08	dec-11	dec-03	sep-08	dec-11
<b>Total Outstanding Credit</b>	418	1.153	2.030	n.d	n.d	n.d	27,5	39,1	49,0
<b>Households</b>	159	515	941	38,1	44,7	46,3	9,4	17,5	22,7
<b>Corporations</b>	259	638	1089	62,0	55,3	53,7	15,2	21,6	26,3
<b>Non-Earmarked</b>	255	829	1302	61,0	71,9	64,1	15,0	28,1	31,4
Households	101	384	648	39,6	46,4	49,8	5,9	13,0	15,6
Corporations	155	444	654	60,7	53,6	50,2	9,1	15,1	15,8
<b>Earmarked</b>	163	324	728	39,0	28,1	35,9	9,6	11,0	17,6
Households	58	131	292	35,8	40,3	40,2	3,4	4,4	7,1
Corporations	104	193	436	64,1	59,7	59,8	6,1	6,6	10,5
<b>Outstanding Credit to the private sector</b>	403	1.131	1.948	n.d	n.d	n.d	23,7	38,4	47,0
<b>By economy activity</b>									
Households	124	438	834	30,8	38,7	42,8	7,3	14,9	20,1
Housing	25	58	200	6,2	5,1	10,3	1,5	2,0	4,8
Others*	99	380	633	24,5	33,6	32,5	5,8	12,9	15,3
Corporate sector									
Industry	117	270	418	29,0	23,8	21,5	6,9	9,1	10,1
Commerce	43	120	208	10,7	10,6	10,7	2,5	4,1	5,0
Other services	72	201	347	17,8	17,7	17,8	4,2	6,8	8,4
Rural	47	103	141	11,7	9,1	7,2	2,8	3,5	3,4
<b>By capital control</b>									
Public banks	154	377	805	38,1	33,3	41,3	9	12,8	19,4
National private banks	160	509	793	39,7	45,0	40,7	9,4	17,3	19,1
Foreign banks	90	246	351	22,2	21,7	18,0	5,3	8,3	8,5

Source: Author's elaboration from BCB data.

Note: \* Mainly, personal credit and credit to good purchase.

Yet, the average rate of growth of household credit (as well as of the total credit) was lower in the period after the global financial crisis in comparison with the previous period (see Chart 2). Therefore, with regards to the dynamism of the credit market, it is possible to distinguish two sub-periods of the Brazilian credit cycle: the first one from the beginning of the cycle<sup>7</sup> to September 2008; and the second one from October 2008 to December 2011.

With regards to the credit market performance according to the funding source and the capital origin, the difference between the two sub-periods is even more outstanding. While in the first period the credit of the non-earmarked<sup>8</sup> segment granted by private banks (mainly the national ones) recorded the highest growth rate – i.e., the private side of the Brazilian credit market –, the second period was

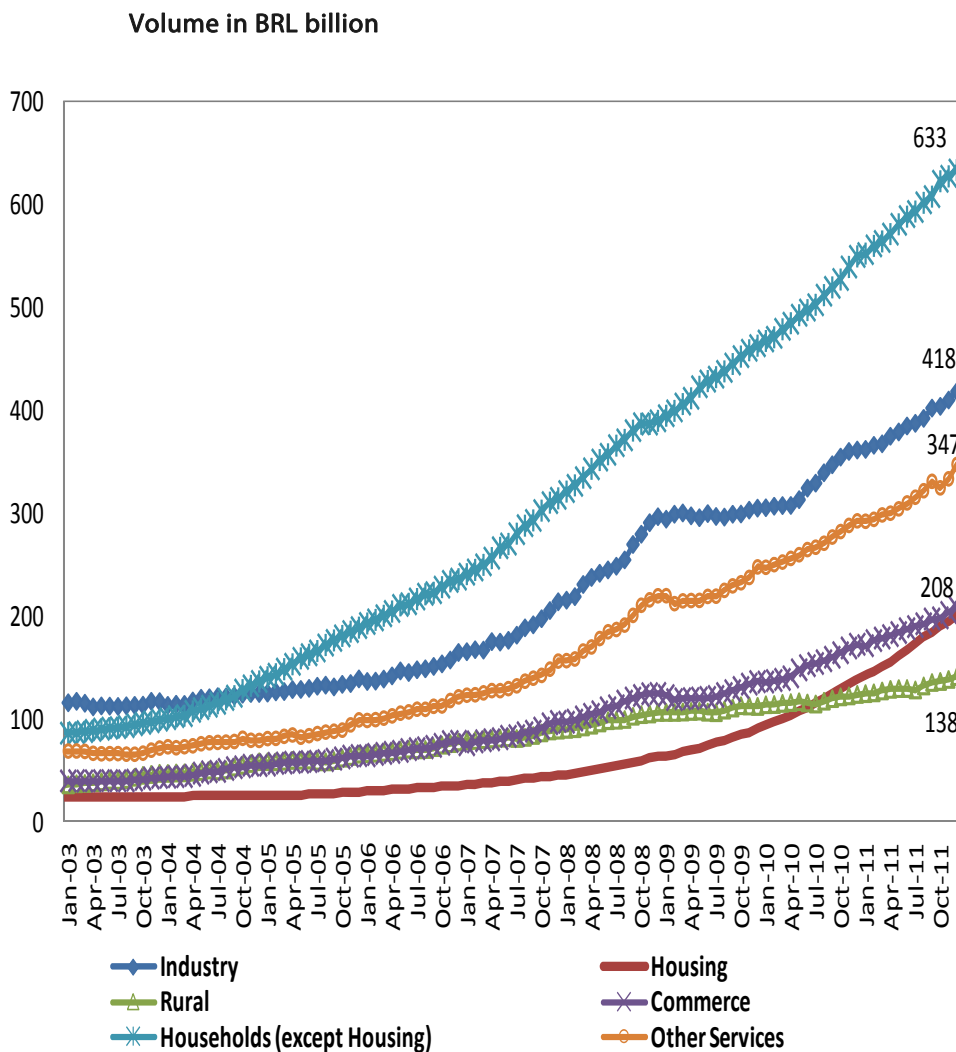
<sup>7</sup> If we take the ratio Credit/GNP as an indicator, the cycle began in December 2003. If we take instead the percent change in 12 months, we could say that the cycle started on the second quarter of 2003, when the growth rate of the household credit has initiated its upward trend.

<sup>8</sup> The earmarked segment includes bank loans with lower interest rates that follow some kind of earmarking allocation according to government regulations. The non-earmarked segment includes bank loans that are not subject to these regulations.

led by the earmarked segment and the public banks, i.e., the public side, although the share of non-earmarked resources in the total remained higher (64.1 per cent in December 2011, see Table 1).

This change began with a counter-cyclical response of the main public banks (BNDES, CEF and BB) in face of the contagion effect of the global financial crisis in the private side of the Brazilian credit market but held on throughout the second period. Only during a short period (from December 2010 to June 2011), private banks credit, anchored on non-earmarked resources, reached the same pace of public banks credit.

**Chart 3 Outstanding credit to the private sector by economic activity**

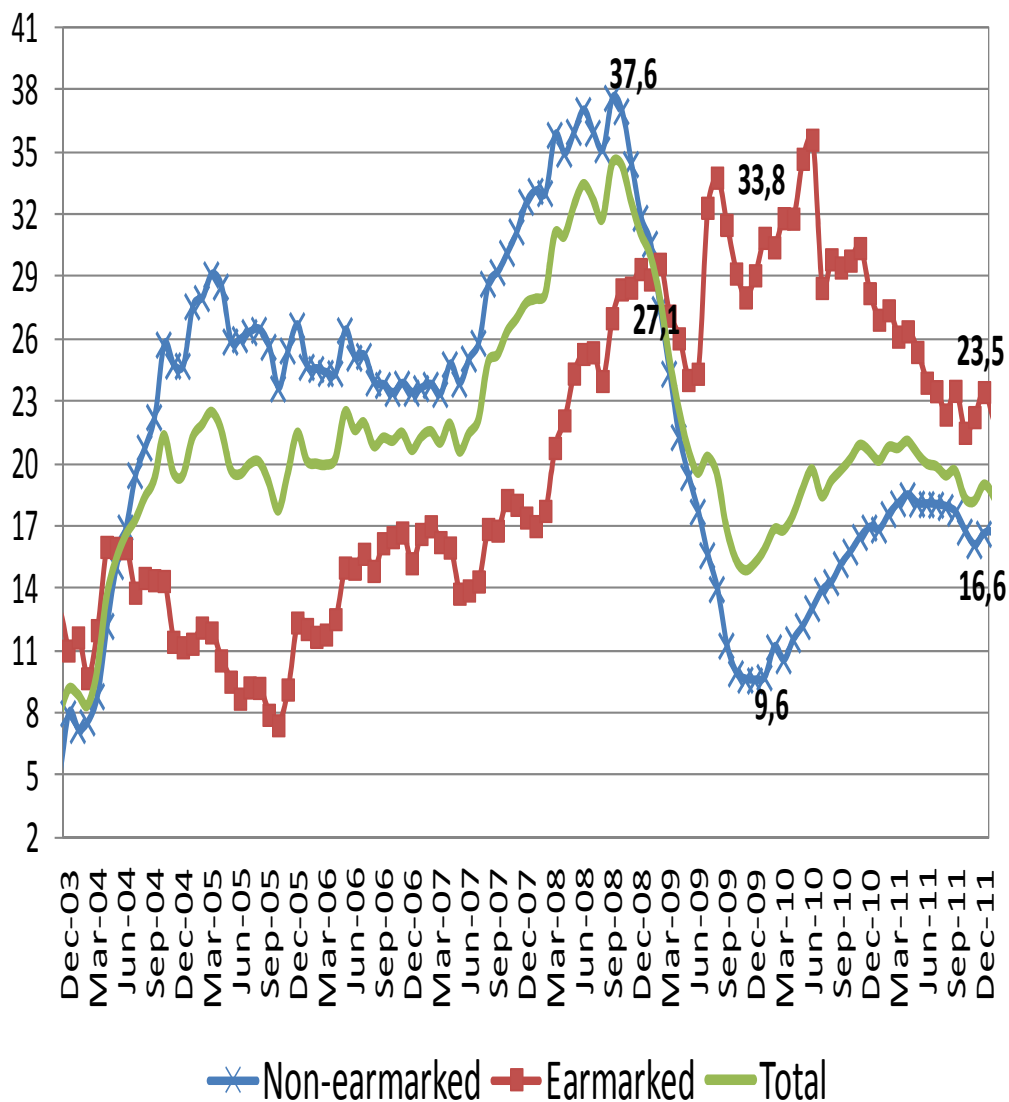


Source: Authors' elaboration from BCB data.



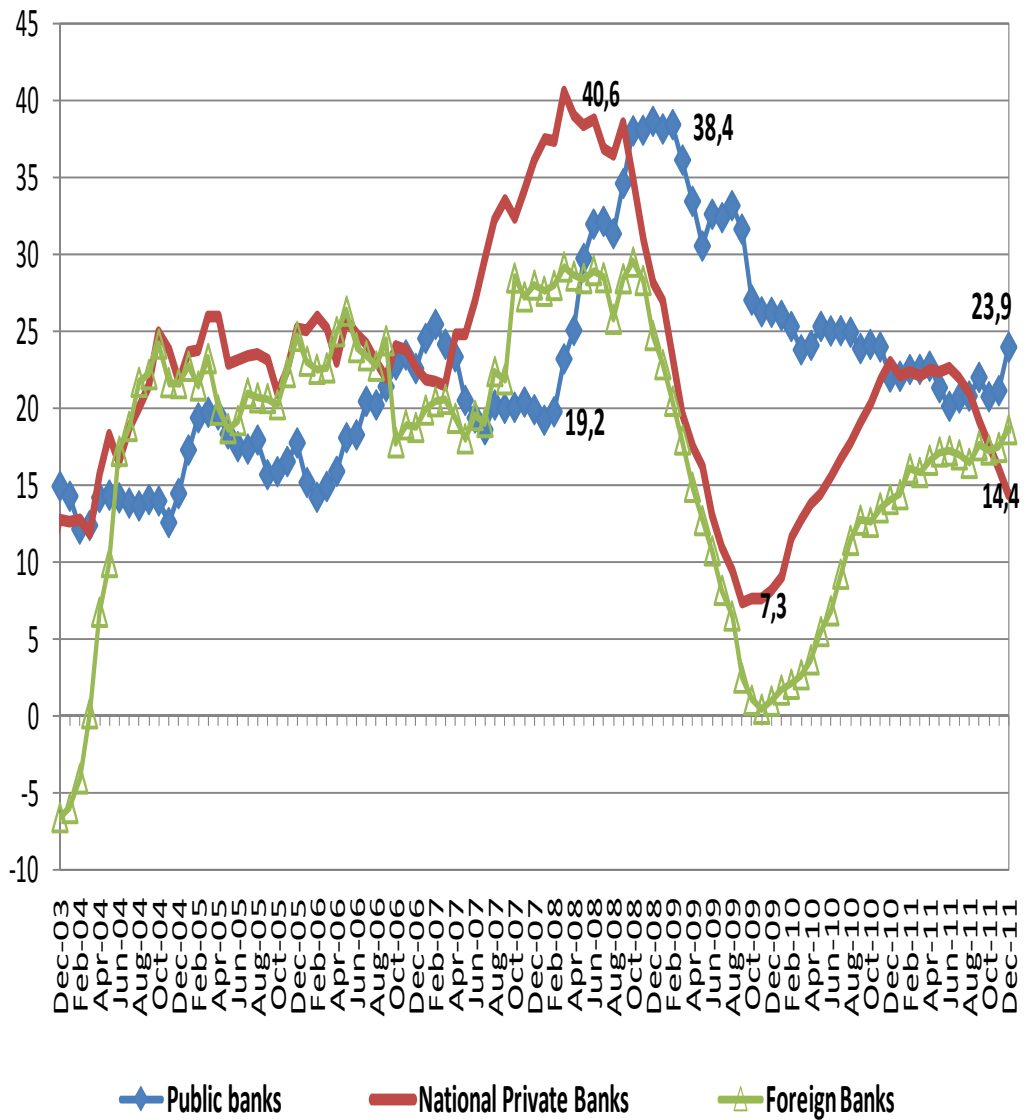


Chart 4 Outstanding Credit according to the source of funding (percent change in 12 months)



Source: Authors' elaboration from BCB data.

Chart 5 Outstanding credit to the private sector according to the capital control (percent change in 12 months)

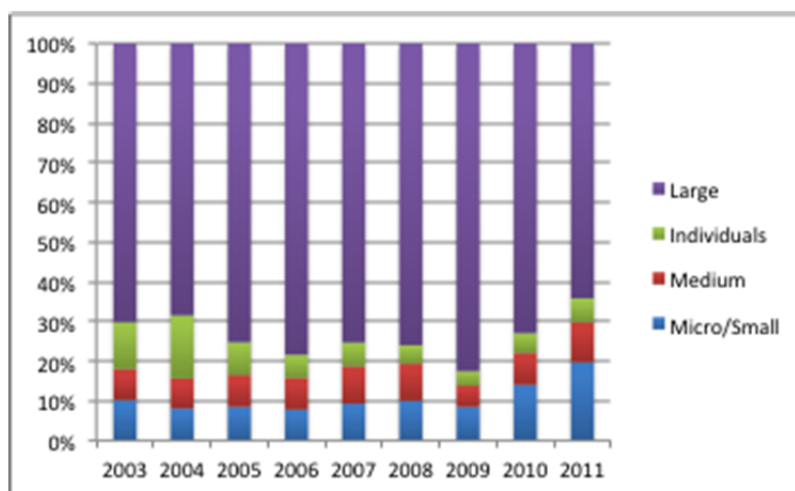


Source: Authors' elaboration from BCB data.

It is important to highlight the decisive role of BNDES both in designing plans and in providing support to private sector companies in every area. The Bank itself implemented, in July 2009, the BNDES Program of Investment Support (PSI in Portuguese), which was later extended in two different occasions, and should last until December 2013. It focuses on financing capital goods (especially machinery and equipment purchase), innovation and exporting sectors. Nearly half of the PSI resources, up until December 2011, were earmarked to micro, small and medium enterprises (MSMEs). This line fits the Bank's discourse of the need to enhance access to long-term credit by these companies as a step toward a better income distribution and an increase in the employment rate. The creation of the BNDES Card is another action towards the strengthening of micro and small enterprises<sup>9</sup>. Consequently, the share of micro and small enterprises in the Bank's disbursement greatly increased reaching 20 per cent in 2011 (see Chart 6).

Last but not least, it is worth mentioning the importance of BNDES's counter-cyclical action in coping with the global crisis effects in the country, extending its direct loans and launching new lines of credit<sup>10</sup>. As the credit risk of on lending operations is overtaken by the distributing financial agents<sup>11</sup>, these operations lost momentum after the crisis contagion due to the pro-cyclical behavior of private banks. As in other moments of greater uncertainty, these institutions scaled back both non-earmarked and earmarked loans (see section 2.3).

**Chart 6. BNDES disbursement per company size – 2003-2011 (per cent)**



Source: BNDES, Operacional Statistics

In this context, BNDES's direct loans accelerated, playing a crucial role in sustaining corporate sector financing. Consequently, these loans' share in the

<sup>9</sup> The BNDES card is a pre-approved credit line intended to purchase necessary items to MPMEs activities which have manufacturing department in the country and which are registered at the BNDES Card Operation Portal, by properly registered suppliers.

<sup>10</sup> For example, BNDES launched in December 2008 a new line intended to grant working capital, called Special Credit Programme (SGP), valid until June 30, 2009.

<sup>11</sup> There are two kinds of BNDES loans: the direct and the on lending ones. On lending operations refer to resources from BNDES that are lent through other financial institutions. They represent close to 50% of the BNDES lending operations.

total earmarked credit, directed to the corporate sector, jumped from 47.2 per cent to 53.8 per cent between September 2008 and December 2009, reaching an amount equivalent to 5 per cent of GDP. Only through the recovery of economic activity in 2010, on lending operations began to grow at a faster pace than the direct ones; as a consequence of private banks effort to regain market shares that were lost for public banks at the peak of the crisis. It should also be stressed that BNDES loans (direct plus on lending) account for more than 95 per cent of the earmarked credit to the corporate sector (see Table 2).

**Table 2 BNDES operations to the corporate private sector by modality**

	Direct		Onlending		Total	
	% GDP	% of earmarked credit	% GDP	% of earmarked credit	% GDP	% of earmarked credit
set/08	3.1	47.2	3.1	48.5	6.2	95.7
dez/08	3.6	49.4	3.4	46.5	7.0	95.9
jun/09	3.8	50.4	3.4	45.4	7.2	95.8
dez/09	5.0	53.8	3.9	42.5	8.9	96.3
jun/10	4.8	51.5	4.2	44.8	9.0	96.3
dez/10	4.8	47.9	4.9	48.4	9.7	96.3
jun/11	4.8	46.8	4.9	49.4	9.7	96.2

Source: Brazilian Central Bank. Authors' elaboration.

### 3. EMPLOYMENT AND INCOMES IN THE BANKING SECTOR

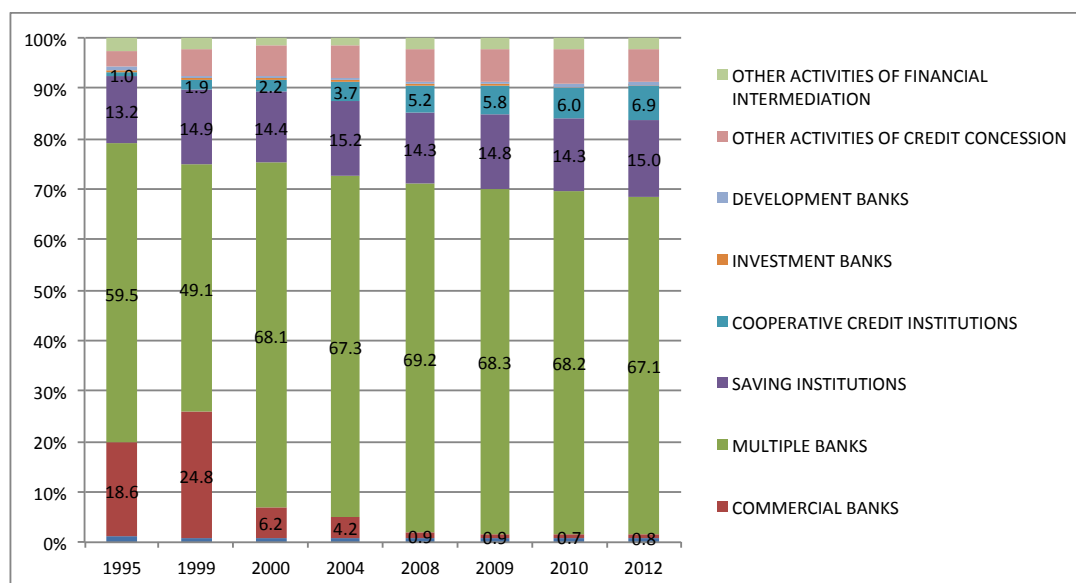
In this section, the employment and income in the banking sector as well as the issue of financial inclusion, which was one of the main targets of both Lula’s and Dilma’s administrations, will be analyzed.

In 1990, there were 732,000 jobs in the Brazilian banking system, according to data by Inter-union Department of Socioeconomic Studies and Statistics (DIEESE). This total fell 46.3 per cent until 1999, down to 393,000 thousand jobs - a decrease of 339,000 jobs – especially due to the restructuring process that hit many sectors of the Brazilian economy during that period. After an upswing in 2000, the number decreased again in 2001 to the same level of 393, 000 jobs, and in 2012 it increased again reaching 430,884 jobs, the largest since 1990.

Since 2001, the Brazilian banking sector shows continued growth in the stock of employees. Both Lula’s and Dilma’s administrations stress the financial inclusion of the population as one of their more important goals. Moreover, the credit expansion that took place, especially after 2005, demanded the expansion of bank branches.

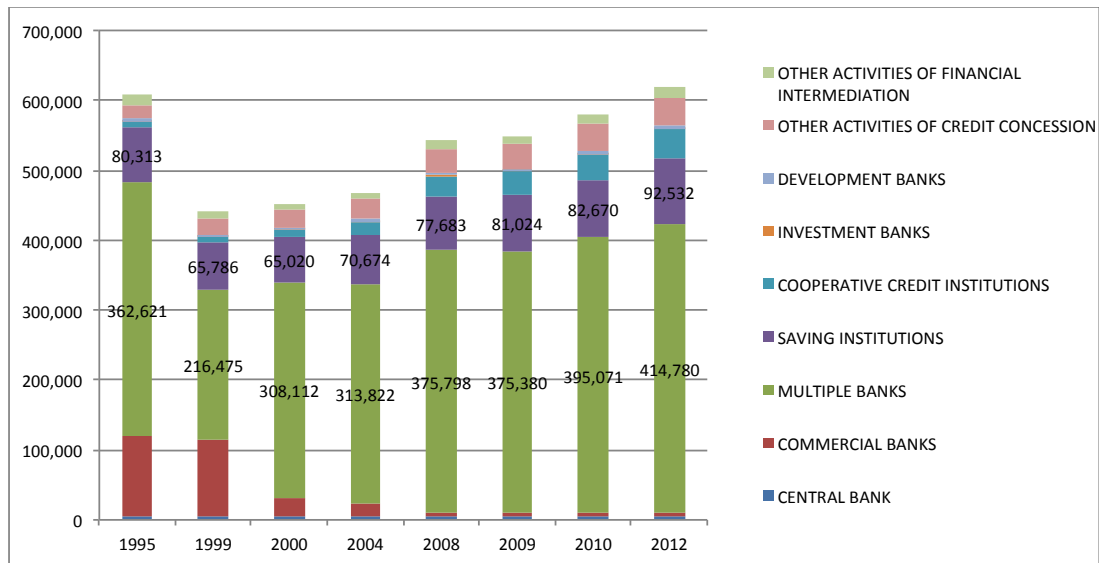
Charts 7 and 8 present the evolution of the total employees in the banking system and in other branches of the financial system. It is shown that multiple banks are responsible for more than 50% of total employment in the financial system.

Chart 7 Employment in the financial sector (%)



Source: Annual Social Information Report - Ministry of Labour and Employment (MTE)

Chart 8 Employment in the financial sector



Source: Annual Social Information Report - Ministry of Labour and Employment (MTE)

The analysis of the evolution of the structure of employment in the banking system can help us to grasp some important features of its evolution since 1995:

- After the restructuring of the 1990's, the decade of 2000's witnessed a continuous increase in the employment in the banking system until 2012;
- The commercial banks turned into multiple banks with commercial portfolios;
- Cooperative credit institutions have increased significantly their participation.

Yet, financial services represent no more than 2.5% of formal employment in the service sector and 1.3% of the total formal employment in Brazil. Hence, it is not from the employment in that sector that inequality will be reduced, but from the profile of the credit (Table 3).

From 2004 to 2012, banking workers obtained a 13.9% real increase in their remuneration. Nevertheless, the average salary of the category grew only 3.6% in the same period. One of the reasons is the high turnover in this category. According to a recent DIEESE report (DIEESE, 2012), Banks would be exchanging professionals with higher salaries for new employees with less pay.

**Table 3 Formal employment: total, services and financial services**

	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<b>Financial Services</b>	463,368	463,279	466,316	486,397	499,918	526,427	542,859	549,214	579,337	597,095	617,974
<b>Services</b>	15,969,854	16,370,539	17,001,020	18,054,701	18,951,696	20,134,178	20,891,553	21,999,359	23,268,395	24,476,056	25,104,828
<b>Total Brasil</b>	28,683,913	29,544,927	31,407,576	33,238,617	35,155,249	37,607,430	39,441,566	41,207,546	44,068,355	46,310,631	47,458,712
<b>% Services</b>	2.9	2.8	2.7	2.7	2.6	2.6	2.6	2.5	2.5	2.4	2.5
<b>% Total</b>	1.6	1.6	1.5	1.5	1.4	1.4	1.4	1.3	1.3	1.3	1.3

Fonte: RAIS - MTE

Therefore, despite of the fact that the financial inclusion of the population has increased over the last decade and that there has been a increase in the number of jobs created, the banking sector seem to be suffering from a process of growing precariousness of work conditions in Brazil.

## 4. CONCLUSION

The analysis carried out in the previous sections brought to light many improvements with regard the Brazilian banking credit market. Firstly, between December 2003 and December 2011, the credit volume grew steadily, reaching a historical record. Secondly, this growth path was accompanied by a diversification in the credit products offered to households, which foster the financial inclusion process (mainly, the payroll-deducted loan). Thirdly, external resources share in the total funding of corporate credit, which was already small at the outset, decreased even more over the period. Consequently, the currency mismatch risk in the credit market, which was one of the main sources of financial fragility in the country until 2002, reached its lowest level in history.

In spite of the breakthroughs in the Brazilian banking system performance since 2003, it remains little functional to development due to the allocation criteria in its private side. This is because the non-earmarked credit allocation still featured, in general, by high interest rates and short terms. In the household sector, even though the financial inclusion process over the analyzed period, the financial exploration of lower-income customers has not been overcome yet. As stressed by Paula (2011), the incorporation of these customers “has been done with practices that could be characterized as financial exploration in the sense that banks charge high interest rates and high fees of such customers in a strategy that can be called as ‘debt trap’”<sup>12</sup>.

In the corporate sector, despite the banking credit market growth since 2003, it remains featured by a clear and historical “division of duties” between public and private banks. While the first are specialized in long-term financing out of earmarked resources, the latter prioritize short-term credit out of non-earmarked resources for working capital. Private banks only grant longer-term loans to corporations out of external funding and, mainly, BNDES onlending (i.e., earmarked resources transfers) as in this loans they incur in credit risk but not in

<sup>12</sup> On this strategy, see Dimsky (2007).



mismatch risk. On the demand side, corporations prefer BNDES loans for financing long-term investments due to their more favorable conditions in terms of cost, term and guarantees.

Hence, the macroeconomic environment improvements since 2003, underlying the longer private credit growth phase in Brazilian history, have not induced private banks to effectively engage themselves in the process of funding aggregate investment. Indeed, even in the finance stage of this process, their engagement still insufficient as the short-term credit out of non-earmarked resources is grant with high lending rates and very short maturities.

Regarding the employment in the banking sector, our main finding is that the financial services represent no more than 2.5% of total services employment and 1.3% of total formal employment in Brazil. Therefore, it is not from the employment in that sector that inequality has been reduced, but from other factors, among which the profile of the credit, namely, the expansion of the payroll loans to households and of the loans to small business by the BNDES.

However, the analysis of the employment structure in the banking system brings to light some important features of the financial system evolution in the period under analysis. Firstly, after the restructuration in the 1990s, there was a continuous increase in the employment in the sector, especially since the second half of the 2000s. This stems from the increasing access to banking services by the Brazilian population (a process called "*bancarização*" in Portuguese), which comes from public policies and banks responses to the growing demand for these services. Consequently, the number of banking branches raised 12 percent between 2008 and 2012. Secondly, the employment in cooperative credit institutions (which grant loans to lower income households and small business) increased significantly in the 2000s, from 2.2 percent to 6.9 percent of the total banking employment.

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