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Economic Watch

Brazil

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Economic Analysis

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In addition to reducing the risks related to a strong expansion of credit markets, the CB also tries to take some steam off domestic demand. We expect this measure – and other macroprudential actions to be taken in the next few months - to work as a complement to SELIC hikes

Brazil: CB announces a new measure to keep consumption credit under control

- **The Central Bank increased the risk weighting factor of payroll credit loans with maturity higher than 36 months from 75% to 150%.** This measure, therefore, raises banks' risk-provisioning requirements for payroll-backed credit card operations. In practice, this measure gives banks less incentives to use this type of operation.
- **The goal of the measure announced today by the Central Bank is to slow consumption credit down and,** therefore, reduce the risks that an excessive credit expansion ends up fuelling a bubble and, also, take some steam off domestic demand.
- **This measure comes as no surprise as the Central Bank had recently showed clear signs of concern with the excessive dynamism of consumption credit markets.** The growth of this credit segment was equal to 17.8%y/y in May, slightly less than in December of 2010 (18.7%y/y).
- **The macroprudential measure taken by the monetary authority follows other measures recently taken to slow this credit segment down as,** for example, the implementation of an IOF tax in the first half of this year and of higher capital requirements in the end of 2010.
- **We don't see this macroprudential measure as a replacement to SELIC hikes.** We, therefore, maintain our view that the SELIC will be adjusted up by 25bps to 12.50% this week, and then by extra 25bps in the end of August.
- **We also expect more macroprudential measures to be implemented in the next few months,** especially if credit markets refrain from showing clear signs of moderation and converging to 15%y/y by the end of the year (current growth: 21%y/y in May).

For more on Brazil, click here

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