

Latam Daily | Brazilian government takes a new step to tackle slowdown in domestic demand

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Following the announcement last week of a measure to try to reduce layoffs, the government increased the cap on payroll loans to 35% of personal income from 30% previously. In Chile, the monetary policy meeting will be held today. We expect the committee to leave rates at 3%.

Brazil - Government raises cap on payroll loans

As a move to try to prevent a further significant deceleration of the credit market and thus of private consumption, the government announced yesterday that payroll loans (“credito consignado” as they are known in Portuguese) can now amount to up to 35% of personal incomes rather than 30% as before. Of the 35%, 5% must be used exclusively to pay credit card debt (which is among the most expensive type of credit in the country). A similar measure had been vetoed in May as the government argued then that it could generate “an expansion of household debts and could end up increasing non-performing loans (NPLs)”. Its introduction now, a few days after the announcement of a measure to reduce layoffs by increasing the flexibility in the number of hours worked, indicates that the government is now more worried about the ongoing deceleration in economic activity, which could imply that it will give less priority to fiscal adjustment in future. While this could be supportive in terms of growth, it would be at the cost of increasing the likelihood of further rating downgrades.

What to watch today

Brazil - Retail sales (May, 8:00hrs NYT)

Retail sales are expected to drop again in May reinforcing the signs that private consumption will contract significantly in 2Q15.

Chile - Monetary policy meeting (July, 17:00hrs NYT)

We expect a pause in the policy rate at 3% at today’s meeting and a neutral stance. Worries over annual inflation above 4% will persist, but nonetheless aggregate activity continues to indicate slack in components of private demand.

Calendar indicators

	Date	Period	Consensus	BBVAe	Actual	Prior
Brazil						
Formal Job Creation Total	13 July to 20 July	Jun	--		--	-115,599
Retail Sales MoM	14 July	May	-0.2%	-0.50%	--	-0.4%
Economic Activity MoM	15 July	May	-0.60%	-0.80%	--	-0.84%
FGV CPI IPC-S	16 July	01-jul	--		--	0.82%
CNI Industrial Confidence	17 July	Jul	--		--	38.9
Chile						
Overnight Rate Target	14 July	--	3.00%	3.00%	--	3.00%
Colombia						
Vehicle Sales	13 July to 15 July	Jun	--		--	22,696
Retail Sales YoY	15 July	May	2.9%	3.10%	--	-1.0%
Industrial Production YoY	15 July	May	-2.2%	-4.0%	--	-3.6%
Consumer Confidence Index	15 July	Jun	--	10	--	13.7
Peru						
Economic Activity YoY	15 July	May	2.5%	1.80%	--	4.3%
Unemployment Rate	15 July	Jun	--		--	7.0%

Source: Bloomberg and BBVA Research

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07.10.2015	Peru: Monetary dilemma remains; activity, exchange rate, inflation?
07.09.2015	Chile: Analyzing the new fiscal scenario
07.09.2015	Mexico: Inflation YoY reached its lowest level in June
07.08.2015	Chile: "One timers" drive inflation above expectations
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07.03.2015	Mexico: Industrial production could decrease 0.3
07.01.2015	Chile: New challenge for fiscal authority, implementing USD 8 Bln through public investment
07.01.2015	Peru: Inflation will make harder the CB's commitment
07.01.2015	Mexico: private sector credit rose 10.4% in May

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