

# Brazil Flash

## CB uses macro-prudential tools to ease monetary conditions as concerns with domestic slowdown increase

The CB announced the reversal of some macro-prudential measures implemented at the end of 2010 to tight monetary conditions. The measures show that Brazilian policy makers are increasingly concerned with the moderation of domestic activity (GDP to grow only 0.2%q/q in Q3).

- **Using macro-prudential tools again.**

On Friday, after the close of financial markets in Brazil, the CB announced that i) the increase of the minimum credit card payments from 15% to 20%, which was planned to be good from November on, was cancelled; and ii) some of the extra capital requirements for consumer loans implemented last year were lowered. In our opinion the implementation of these measures show that domestic authorities are increasingly concerned with the slowdown of domestic activity as GDP is expect to grow no more than 0.2%q/q in Q3 after growing 1.2%q/q and 0.8%q/q in Q1 and Q2, respectively.

- **We keep our SELIC forecasts: 11.0% and 10.0% at the end of 2011 and 2012.**

In spite of the concerns with a sharp moderation of domestic activity, the CB will, in our view, stick to the plan of cutting the SELIC rate by 50bps in November. We still see a 75bps as unlikely. Although the announcement of more macro-prudential should from now on not be seen as a surprise, more moves in this line could end up reducing the room for a permanent reduction of interest rates in Brazil and, in addition, increasing the risks related to an excessive dynamism in credit markets as the credit stock remains growing at a robust pace (around 20%y/y).

For more on Brazil, [click here](#)

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