

Brazil Flash

Credit and labor markets will continue supporting domestic demand in 2012

Credit and labor markets remain robust in spite of a slight (lower than expected) moderation in the end of 2011. They were both key to support a domestic demand growth of around 3.8% last year. In addition, they will play a very important role to prevent consumption and investment from adjusting significantly downwards this year.

- **Credit markets: increasingly important to stimulate domestic activity**

The total credit stock grew 19% in 2011, slightly less than in 2010 (21%), but more than the CB's unofficial target (15% some months ago and 17% more recently). As a share of GDP, the total credit stock reached 49.1% in December after having closed 2010 at 45.2%. The dynamism of credit markets was especially driven by loans from public institutions and by real estate credit which increased 23.8% and 44.5%, respectively, in 2011.

Looking ahead, we expect credit markets to remain very strong this year. Support for credit markets should come from lower interest rates and also from the announcement of more measures to stimulate credit concession. As government's commitment with fiscal target will leave almost no room for fiscal policy, it is very likely that policy makers will rely on macro-prudential measures and public banks to drive growth up this year. We see (at least) two risks in this strategy: i) credit expansion could end up reducing the room for taking interest rates down even if fiscal targets are met; ii) the utilization of public banks to boost credit supply could create distortions in the banking system and also problems for these banks in the future.

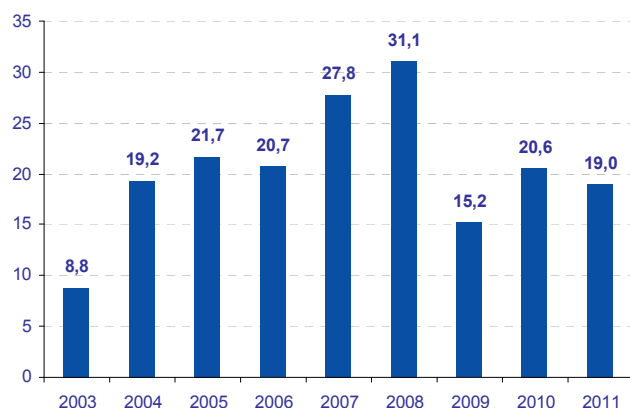
- **Labor markets: stability at strong levels**

The unemployment rate reached 4.7% in December (expected: 4.9%; Dec-10: 5.3%) and averaged 6.0% in 2011, the lowest figure ever (see chart below). Average real wages expanded 2.5% last year, a significant deceleration in comparison to 2010 when the expansion was equal to 5.9%, but still very robust. Data for the end of the year shows that the impact of external turbulences and domestic deceleration on labor market was limited. In the same line, we expect labor markets to continue strong this year. More precisely, in 2012 unemployment rate and wage expansion should be not very different from the values observed recently.

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

Chart 1

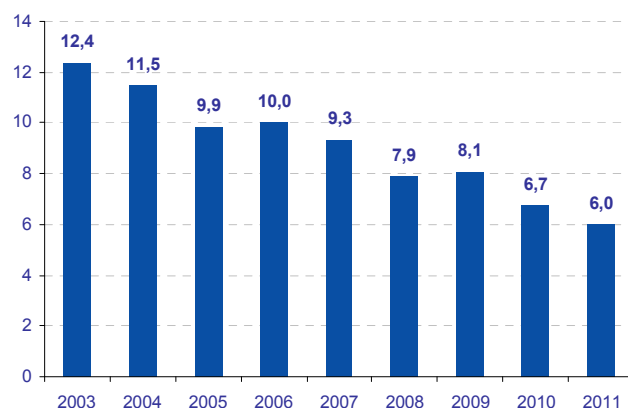
Credit growth (%)



Source: Central Bank of Brazil

Chart 2

Unemployment rate (yearly average; %)



Source: IBGE

Enestor Dos Santos
enestor.dossantos@bbva.com
+34 639 82 72 11

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