Brazil Flash

Government adopts a new scheme to remunerate saving accounts and eliminates a barrier for moving the SELIC down

The government decided to face the political costs of changing the rules governing the remuneration of the *poupança* (the most popular form of savings accounts in the country) by announcing measures that, in practice, will create room for the SELIC to continue moving downwards. We now expect the SELIC to soon reach 8.25% and see higher inflationary risks in the medium-term (especially in 2013).

- ### The return on *poupança* accounts will now be linked to the SELIC

  Late on Thursday, the Minister Guido Mantega announced that the previous remuneration scheme (0.5% per month plus a small monetary correction) will be replaced by a new scheme in which savers will get 70% of the SELIC plus the same small monetary correction in the case the SELIC is below 8.5%. The previous remuneration scheme will remain if the case the SELIC is equal or above 8.50%. The new rules for the *poupança* will only be valid for new investments and will continue being tax-free.

- ### A positive change, with political costs

  We see the change announced yesterday as positive because it puts an end to an antiquated rigidity, inherited from inflationary times, and creates more space for monetary policy. It, however, has a political cost as the nominal returns of this popular and very traditional form of saving accounts can decline from now on. The political costs of such initiative can, actually, be illustrated by the widespread opposition to the changes suggested in 2009 (in line with the changes announced yesterday) by the former President Lula. The President Dilma certainly expects the political benefits of lower interest rates to offset the political costs of altering saving accounts returns.

- ### Perspectives of lower interest rates and higher inflation

  Even though the new regulation is a positive step from the structural point of view, it is not necessarily positive from a macroeconomic point of view as, at this moment, it can trigger "excessive" interest rate cuts and add to medium-term concerns with inflation. As in our view the "saving accounts barrier" -and not inflation- was the main obstacle for moving the SELIC further down, we now expect the CB to bring rates to 8.25% by delivering a 50bps cut in the end of May and a final 25bps cut in July. We then expect rates to remain stable at that level till the end of the year. As a consequence of a laxer than expected monetary policy, we see now higher pressures on inflation in the second half of this year and, especially, in 2013 when inflation would near 6.0%.

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

Investors should be aware that they could even face a loss of their investment. Transactions in futures, options and securities or high-yield securities can involve high risks and are not appropriate for every investor. Indeed, in the case of some investments, the potential losses may exceed the amount of initial investment and, in such circumstances; investors may be required to pay more money to support those losses. Thus, before undertaking any transaction with these instruments, investors should be aware of their operation, as well as the rights, liabilities and risks implied by the same and the underlying stocks. Investors should also be aware that secondary markets for the said instruments may be limited or even not exist.

BBVA or any of its affiliates, as well as their respective executives and employees, may have a position in any of the securities or instruments referred to, directly or indirectly, in this document, or in any other related thereto; they may trade for their own account or for third-party account in those securities, provide consulting or other services to the issuer of the aforementioned securities or instruments or to companies related thereto or to their shareholders, executives or employees, or may have interests or perform transactions in those securities or instruments or related investments before or after the publication of this report, to the extent permitted by the applicable law.

BBVA or any of its affiliates´ salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to its clients that reflect opinions that are contrary to the opinions expressed herein. Furthermore, BBVA or any of its affiliates' proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. No part of this document may be (i) copied, photocopied or duplicated by any other form or means (ii) redistributed or (iii) quoted, without the prior written consent of BBVA. No part of this report may be copied, conveyed, distributed or furnished to any person or entity in any country (or persons or entities in the same) in which its distribution is prohibited by law. Failure to comply with these restrictions may breach the laws of the relevant jurisdiction.

In the United Kingdom, this document is directed only at persons who (i) have professional experience in matters relating to investments falling within article 19(5) of the financial services and markets act 2000 (financial promotion) order 2005 (as amended, the "financial promotion order"), (ii) are persons falling within article 49(2) (a) to (d) ("high net worth companies, unincorporated associations, etc.") Of the financial promotion order, or (iii) are persons to whom an invitation or inducement to engage in investment activity (within the meaning of section 21 of the financial services and markets act 2000) may otherwise lawfully be communicated (all such persons together being referred to as "relevant persons"). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons. The remuneration system concerning the analyst/s author/s of this report is based on multiple criteria, including the revenues obtained by BBVA and, indirectly, the results of BBVA Group in the fiscal year, which, in turn, include the results generated by the investment banking business; nevertheless, they do not receive any remuneration based on revenues from any specific transaction in investment banking.

BBVA is not a member of the FINRA and is not subject to the rules of disclosure affecting such members.

"BBVA is subject to the BBVA Group Code of Conduct for Security Market Operations which, among other regulations, includes rules to prevent and avoid conflicts of interests with the ratings given, including information barriers. The BBVA Group Code of Conduct for Security Market Operations is available for reference at the following web site: www.bbva.com / Corporate Governance".

BBVA is a bank supervised by the Bank of Spain and by Spain's Stock Exchange Commission (CNMV), registered with the Bank of Spain with number 0182.