Brazil Flash

CB cuts reserve requirements

The Central Bank (CB) announced on Friday afternoon a reduction in banks' reserve requirements, which should inject R$30bn (around 0.5% of GDP) in the economy. This additional monetary easing step arrives -perhaps not coincidentally- in the same week the Fed announced QE3 and a small, domestic bank was liquidated. In our view it supports our SELIC call: a final 25bps cut in October and stability at 7.25% for a long period.

- **Officially, the measure was taken to adapt the country's reserve requirements to structural changes made in recent years…**

  The CB lowered from 6.0% to 0.0% the additional reserve requirement rate on demand deposits and from 12.0% to 11.0% the additional reserve requirement rate on time deposits. In addition, banks can from now on fulfill up to 50% of time deposits requirements by acquiring loan portfolios and long-term local bonds. According to the CB, these measures will reduce the stock of reserve requirements the monetary authority holds from R$380bn to R$350bn in the months ahead. Still according to the CB, the changes announced on Friday will help to improve local banks' funding as well as reduce intermediation costs "in line with the structural changes that the Brazilian economy go through". According to local news, CB officials said that the measure is also in line with the monetary authority's medium-term goal to take reserve requirements down to international standards (they currently amount to around 8.5% of GDP).

- **…but other factors have probably helped to trigger changes in reserve requirements.**

  The CB announced last week the liquidation of the bank Cruzeiro do Sul. This follows the liquidation of other small domestic banks in the last months due to both fraudulent actions and funding problems. Behind the changes announced on Friday we see a support to the small bank model, which has been under stress since the 2008-2009 crisis. In addition, there are heightened concerns within Brazilian officials (including the President Dilma) about the low dynamism of domestic credit markets. These concerns could also have worked as a trigger to the changes adopted by the CB on Friday. Moreover, these changes arrived just some hours after the FED announced another quantitative easing round, which suggests that the R$30bn injection trough lower reserve requirements could have also been an initial reaction to the measures taken in the US, in line with our view about the impact of QE3 on Latam countries. All in all, we see the announcement of QE3 by the Fed as well as the reduction in reserve requirements in Brazil as supportive to our SELIC call: we see increasingly more likely a final 25bps in October (instead of a pause) and also stable rates for a long period (instead of an upward adjustment somewhere in the first half of 2013).

For more on Brazil, **click here**

El BC reduce los requerimientos de reservas obligatorios

El Banco Central de Brasil anunció una reducción de los requerimientos de reservas obligatorios que debe resultar en una inyección de R$30Mm (cerca de 0,5% del PIB) en la economía. Este nuevo paso de expansión monetaria llega – tal vez no por casualidad- en la misma semana que la Reserva Federal de EE.UU. anunció nuevas medidas de estímulo a la economía y un pequeño banco local fue liquidado. En nuestra opinión, la reducción de los encajes apoya nuestra visión sobre el SELIC: un recorte final de 25pp en octubre y estabilidad a 7,2% por un largo período.

Para ver más acerca de Brasil, **haga clic aquí**

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