

Economic Watch

Brazil

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Economic Analysis

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Brazil: BNDES lending is slowing down but credit markets remain robust

- Credit data released today in Brazil confirmed a recent positive trend: lending from the BNDES -the public development bank that owns around 21% of total credit stock in the country- is moderating. This follows a very strong expansion observed since the beginning of the crisis, which was initially very helpful in supporting Brazil's recovery but now very harmful given the excessive dynamism of credit markets in an environment where the economy has been overheating.
- BNDES credit grew only 0.1%*m/m* in March and 0.5%*m/m* on average in the first quarter, well below the 2.0%*m/m* average expansion observed in 2010. In yearly terms, BNDES credit is now growing at 23.6%*y/y*, still high but lower than in the end of 2010 (26.4%) and lower than the average expansion observed last year (34.5%*y/y*).
- This moderation suggests that the BNDES will contribute to government's efforts to control credit growth and overall overheating risks.
- March credit data also shows a clear deterioration of credit conditions: average loan duration stopped expanding (it is now at 474 days), the average spread moved up to 26.8% in March from 23.5% in December, and the final lending rate is now at 39.0%, 400bps higher than in the end of 2010.
- There are also some preliminary signs of moderation in credit to households, which follow the implementation of macro-prudential measures focused on slowing it down, but more data is needed to talk about a significant and permanent slowdown.
- In spite of the BNDES contribution, of the recent macro-prudential measures and of the deterioration of credit conditions, credit growth remains robust in Brazil. The overall credit stock expanded 1.0%*m/m* in March in comparison to February. In yearly terms it expanded 20.7%*y/y*, high above the 10%-15% pace the Central Bank expects/targets for the end of the year. As a share of GDP, the stock of credit remained stable at 46.4%.
- Looking forward, we expect the Central Bank to continue taking measures to drive credit growth down to at least 15% by the end of the year.

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