

Economic Watch

Brazil

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Economic Analysis

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Brazil: new IOF tax on derivatives implemented to take some steam off the exchange rate

The measure comes as no surprise and follows the recent appreciation of the Brazilian currency. More measures should not be ruled out, especially when the exchange rate breaks the 1.55 level

- **The government issued a decree this morning in Brazil to introduce a new IOF tax on local derivative markets denominated in dollars.** From today on, a 1% tax will be charged on FX operations that generate an increase in the short position in dollars higher than USD 10 million.
- **In addition to that, the decree gave more powers to monetary authorities to regulate derivative markets.** In particular, the Monetary Council (CVM) was authorized to increase the IOF tax on derivative markets up to 25%.
- **The adoption of these measures measure comes as no surprise, especially because the exchange rate had recently broken the 1.55 barrier.** It also reinforces the view that although inflation will continue in the focus of the monetary policy the government will adopt measures to avoid a sharper appreciation of the currency, especially when the exchange rate is lower than 1.55 real per dollar.
- **Just after the announcement of these measures** the exchange rate moved up from 1.53 to 1.57.
- **We expect the direct impact of the measures announced to be limited.** However, in our view, they will help to reinforce the idea that the government will prevent the real to over-appreciate and, therefore, will ended up having an impact.

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

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