

Economic Watch

Brazil

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Economic Analysis

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Credit markets remained robust in May, providing support for the view that the Central Bank will continue to tighten monetary policy during the second half of the year. The data released today also shows that non-performing loans are trending slightly up

Brazil: new loans reached record level in May

- **In May, the total credit stock expanded 1.6%*m/m***, more than the average monthly expansion observed in the first four months of the year (1.0%*m/m*) and identical to the average pace recorded in 2010 (1.6%*m/m*).
- **In yearly terms, the credit stock expanded 20.4%*y/y*, still high above the Central Bank's informal target for the end of the year (within the 10%-15% range).** As a share of GDP, credit continued moving up and reached 46.9% in May (46.6% in April and 44.3% in May 2010).
- **New loans granted in May reached R\$190bn (9.6%*m/m*; 13.2%*y/y*)**, which is an all-time high.
- **A seasonally adjusted series shows that the total credit stock growth in May was equal to 1.3%*m/m*, the lowest since March of 2010**, but still strong in comparison with the first four months of the year (1.4%*m/m* in average) and with the 2010 average (1.6%*m/m*).
- **By segments, and stripping out seasonal effects, some groups are already growing at a slower pace: industry credit (0.8%*m/m* in May vs. 1.5% on average in 2010), commerce credit (1.2%*m/m* in May vs. 2.0%*m/m* in 2010); and household credit (1.3%*m/m* in May vs. 1.5%*m/m* in 2010).** There are, however, some segments that are growing more than in the recent past: housing credit (3.6%*m/m* in May vs. 3.5%*m/m* in 2010), rural credit (0.9%*m/m* in May vs. 0.8%*m/m* in 2010), and other services (1.9%*m/m* in May vs. 1.4%*m/m* in 2010).
- **Non-performing loans (NPL) moved slightly higher to 3.4% in May from 3.3% in April and 3.2% in March.** The upward trend is clearer when analysing non-earmarked credit. In this case NPL reached 5.1% in May, in comparison to 4.9% in April and 4.5% in December. NPL should continue to increase in the next few months following the current tightening of monetary policy.
- **All in all, the data released today shows that credit markets are still too strong and supports the view that the Central Bank will be forced to continue adjusting the SELIC up in the second half of the year.** It could also add to the concerns with a credit bubble in Brazil and, therefore, trigger a new set of macro-prudential measures.

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

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