

Economic Watch

Brazil

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Economic Analysis

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The pace of credit expansion dropped down to 1.0%/m/m from 1.8%/m/m in 2H10 following the implementation of macro-prudential measures and some moderation of the BNDES lending. If credit continues expanding at this pace - which we see as likely - 2011 overall expansion should be within the 10%-15% range suggested by the Central Bank

Brazilian credit markets: slow convergence to the “target”

- The total credit stock expanded 1.3%/m/m in April. In the first four months of the year, the average monthly expansion was equal to 1.0%/m/m. This represents robust growth, but was significantly lower than the 1.8%/m/m average pace observed in 2H10.
- This slowing down is related to the recent implementation of macro-prudential measures, the moderation displayed by National Development Bank (BNDES) loans, and the lower demand from the public sector.
- The implementation of macro-prudential measures since the end of 2010 has been triggering a gradual but effective correction on credit markets, especially on targeted segments: non-earmarked household credit is now expanding around 1%/m/m, below the 1.7%/m/m pace observed in 2H10; and car loans grew 0.6%/m/m in average in the first fourth months of the year, well below the 1.9%/m/m average expansion in 2H10.
- BNDES total lending expanded 0.2%/m/m in April for the second month in a row, which follows a 2.0%/m/m average expansion in 2010. We see this pace change as a voluntary movement by public authorities to take some steam off domestic demand.
- Total credit to the public sector, which represents around 4% of total credit, is also cooling down (-0.8%/m/m in April). This adjustment is explained by the higher control of fiscal expenditures and by lower demand for credit, which is natural in a post-election year.
- If credit continues growing at a 1.0%/m/m pace for the remainder of the year, credit will have expanded 13% in 2011, which is within the 10%-15% range suggested by the Central Bank as the most adequate in the current environment.
- We still see some risks of credit growing more than expected, but we believe the Central Bank will react to any over-dynamism of credit markets by implementing more macro-prudential measures and guaranteeing the achievement of the informal target for credit growth this year.
- In comparison to April 2010, the total credit stock grew 21.0%/y/y in April (20.8%/y/y in March). As a share of GDP, the credit stock reached 46.6% in April, slightly more than in March (46.5%) and in the end of 2010 (46.4%). These data show that credit markets remain very robust in spite of the recent moderation.
- The data released today show that NPLs remained relatively stable at 3.3% in April and that the average lending rate raised to 39.8% from 39.0% in March, the highest rate since February of 2009.

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

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