

# Credit-card debt may threaten Brazils boom

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SAO PAULO (AP) — Silas Xavier pulls credit card bills from a pocket on the door of the taxi he drives, more from the glove box and still more from a pouch behind his seat, waving them as his voice rises in frustration and desperation.

Like many of the 40 million Brazilians who have joined the middle class since 2003, he got a taste for American-style consumption and dived headlong into the enticing world of easy credit, once available only to the wealthy.

He defaulted three times in four years. Now he's in over his head again, struggling to provide for his wife and 4-year-old daughter.

Xavier is one more debtor adding to fears that the economic boom in Brazil may be partly built on a bubble in personal credit, even with interest rates on credit cards often topping 200 percent. Economists worry that if it pops, it could severely damage an economy that has come through the global downturn better than almost every other nation.

"The amount I owe keeps growing. I pay, but I can't stop this snowballing of the debt. The interest each month is too high," said Xavier, pointing to the latest credit card bill, showing he still owes \$2,200. "I've tried to learn from hard experience how to better manage my debt, but I'm too far behind."

Brazilian leaders have praised newly empowered consumers like Xavier as drivers of the nation's economic rise. Their spending helped the country emerge from the global economic crisis at a time when people in other countries pulled back.

Now some economists fear those same consumers are being buried by sky-high lending rates. They worry that if debt erodes middle-class buying power, Brazil could face a recession.

The interest rate on credit cards in Brazil's financial hub of Sao Paulo averages 238 percent, according to a study conducted earlier this year by Fecomercio, a federation of commerce. That means carrying a balance of \$1,000 for a year results in a \$3,380 tab. That cost is expected to rise, with the Central Bank of Brazil likely to raise interest rates to battle inflation.

Before, people like Xavier, who is 24 and makes about \$2,000 a month driving his cab, couldn't get credit. Brazil was beset by hyperinflation in the 1990s and economic turbulence in the early 2000s.

When the nation brought its economy under control, banks started expanding credit offers. The number of bank credit cards in circulation has tripled to 150 million in the past eight years.

Economists say many people here are getting credit cards without knowing how to manage the debt. But for those who want to buy things and don't have cash on hand, there is no alternative.

The sky-high interest rates mean Brazilians must pay off their cards every month or quickly drown in debt.

For the first six months of this year, the number of Brazilians in default was up 22 percent from the same period in 2010, the biggest jump in nine years, credit rating agency Serasa Experian said Monday. Private economists say one in 10 Brazilians is in default.

By the end of the year, the Central Bank expects 28 percent of Brazilians' disposable income will go toward servicing debt, compared with 16 percent in the United States and less than 10 percent in other developing nations.

Consumer confidence in Brazil sank to a two-year low in June, according to the latest survey from the National Industry Confederation. That's mostly because rising interest rates and inflation of 6.71 percent, above the government's target ceiling of 6.5 percent, are pummeling poorer Brazilians.

That all this is happening while Brazil's unemployment is at a historic low and the overall economy remains strong particularly worries some economists, who expect the situation to get worse as Brazil's growth slows. The economy, which grew 7.5 percent last year, is expected to slow to 4 percent growth this year.

"The next two or three years could be quite tricky for Brazil, in part because of the possibility of a credit bubble," said Neil Shearing, senior emerging markets economist at Capital Economics in London. "I wouldn't underestimate the potential that we see a recession in Brazil in the next three years as a result of this."

Finance Minister Guido Mantega denies that Brazil's economy is overheating and fueling a credit bubble. The government's most recent economic review noted that private-sector credit debt is equivalent to 54 percent of Brazil's total economic output — well below the 120 percent in China and South Africa, where interest rates are much lower.

Central Bank President Alexandre Tombini told a Senate panel last week he thinks the number of consumer defaults in Brazil should level off and then drop as Brazilians become more prudent with credit.

David Beker, head of Latin American economic and fixed-income strategy at Bank of America Merrill Lynch in Sao Paulo, said Brazil's economy is adjusting to the rapidly growing role of credit, "but from that to say there is a bubble or that it is going to burst is an exaggeration."

Beker said the Central Bank is concerned about credit growth and recognizes that low-income Brazilians have taken on more than they can pay.

The Central Bank could take more steps to rein in credit, including requiring banks to hold more money in reserve and taxing some credit card purchases. It has used both measures before.

Beker said the bigger danger for Brazil would be to let inflation go unchecked. Fighting it means raising interest rates, which leads banks to charge higher rates on credit cards.

Samy Dana, an economics and finance professor at the Getulio Vargas Foundation, worries that a credit bubble could lead to bubbles in other sectors of the economy, such as real estate, as Brazilians spend far beyond their means.

Rent for prime office space in Rio de Janeiro, for example, is now the most expensive in the Americas, recently overtaking New York, and the fourth highest in the world, according to Cushman & Wakefield, a real estate brokerage.

For Xavier, the cab driver, being in debt in Brazil means working nights instead of playing with his daughter. He is resigned to working for a long time to pay off his \$2,200 debt. And he knows any sudden misfortune — an unexpected doctor bill or a repair for his taxi — will put him further in the hole.

"We need a consumer revolution in this country, what they're charging us on interest is absurd," he said. But he added: "I have no choice. I'm financing my life, my work with this credit."

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