# Flash Brasil

## El Banco Central espera mayor inflación y menor crecimiento; y nosotros esperamos un SELIC más alto

El Banco Central de Brasil (BCB) ajustó sus estimaciones de inflación al alza, mientras que ajustó sus previsiones de crecimiento a la baja. Además, el Informe de Inflación para el 2T13 publicado hoy muestra que la autoridad monetaria ve un deterioro en el balance de riesgos para la inflación y espera que esta continúe su tendencia al alza en el corto plazo. En parte debido al impacto de una depreciación del Real (el cual ha sido subrayado por el BCB), y en línea con el informe de hoy, esperamos que el SELIC se incremente 125 pb extra en los próximos meses, hasta alcanzar el 9,25% en septiembre.

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## Central Bank expects higher inflation and lower growth; and we expect a higher SELIC

The Central Bank of Brazil (BCB) adjusted its inflation forecasts up and its growth forecasts down. In addition, the 2Q13 Inflation Report released today revealed that the monetary authority sees an unfavorable balance of risks for inflation and that it expects inflation to continue to trend up in the short-term. Largely due to the impact of a weaker currency (which was also highlighted by the BCB), and in line with today's report, we now expect the SELIC rate to be hiked by an extra 125bp in the months ahead, reaching 9.25% in September.

- **Depreciation risks (and lower pass-through) were emphasized…**

  According to the BCB, the economic weakness in some regions and remaining external uncertainties are helping to constrain domestic demand. However, the monetary authority expects the global economy to grow moderately ahead. Still according to the BCB, the process (or its imminence) of normalization of monetary conditions in the US will introduce volatility in financial markets. The appreciation of the dollar as well as the risks it poses on inflation were highlighted. However, the BCB added that "the evidence for the Brazilian economy supports the hypothesis of a lower pass-through from exchange rate depreciation to inflation", in particular in periods in which the monetary policy is being tightened (as now).

- **…as well as wage inflation, persistence and resilience of inflation, indexation and worsening of expectations…**

  The BCB reduced its 2013 GDP forecast from 3.1% to 2.7%, (which is still a somewhat optimistic figure) but it continues to expect domestic growth to intensify this year and in the next one and to be "more in line with potential growth rates". As in previous communication, the monetary authority revealed it is concerned about the persistence and the resilience of inflation, the worsening in inflation expectations and indexation. Moreover, according to the BCB "wage dynamics continue generating pressure on costs".

- **… which determined a deterioration in the balance of risks**

  All in all, there was a clear deterioration in the balance of risks for inflation, as noted by the BCB. Accordingly, inflation forecasts in the baseline scenario, which assumes exchange and interest rates stable at June 6 values (2.10 and 8.0%, respectively), were raised to 6.0% at the end of 2013 and 5.4% at the end of 2014 from 5.7% and 5.3%, respectively. The monetary authority expects inflation to continue to trend up in the short-term (and to reach 6.8% in June), and then decelerate gradually. Once more, the BCB affirmed that it is "especially vigilant" to minimize inflationary risks.

- **We adjust our forecasts and now expect an extra +125bp adjustment of the SELIC**

  In line with the recent market trends, especially the prospects for the withdrawal of monetary stimuli by the Fed, we now expect the Real to be within 2.15 and 2.20 in the remainder of the year. In our view, this depreciation, the expansive tone of fiscal policy (unlikely to be reversed, in our view), among other reasons (such as those cited by the BCB in today's report) will continue to fuel inflation pressures, which will then force the BCB to adopt a tighter monetary policy than we were expecting. More precisely, we now expect the monetary authority to adjust the SELIC up by 50bp in the next two monetary meetings (in July and August) and then deliver a final 25bp adjustment in September (our previous call was for an extra 75bps adjustment, 50bp in July and 25bp in August). All in all, we expect inflation to close 2013 and 2014 at 5.6% and 5.5%, respectively.

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