

Brazil Flash

CB now expects lower growth and higher inflation

According to the Q2 12 Inflation Report released today, the Central Bank reduced its GDP forecast for 2012 to 2.5% from 3.5% and revised its inflation forecasts to 4.7% - 4.9% from 4.4%-4.5%. We expect the monetary authority to continue (parsimoniously, as suggested by the Report) cutting the SELIC rate in the months ahead.

- **The balance of risks for inflation improved in the last quarter, according to the BC**

The upward revision of inflation forecasts for 2012 to 4.7% in the reference scenario (which suppose SELIC and exchange rate will remain constant at current values) and 4.9% in the market scenario (which take into account markets forecast for both interest rates and exchange rate) from 4.4% and 4.5% is a direct consequence of the perspective of lower interest rates and a more depreciated exchange rate. In 2013, still according to the just-released Inflation Report, inflation should reach 4.9% - 5.0% (in comparison to the 5.2% forecast released in the previous Inflation Report). Even though the CB implicitly recognized the negative impact on inflation of lower interest rates and a weaker real, the monetary authority sees a more benign balance of risks now than in March thanks to a more deflationary external environment (linked to the "geographic and temporal amplification of the perspectives of moderate growth", higher financial volatility and risk-aversion, and perspectives of a "relatively benign commodity prices dynamic") and to a slower-than-expected domestic demand recovery.

- **Lower growth due to weaker domestic demand**

The CB cut its private consumption and GFKF growth forecasts for 2012 from, respectively, 4.0% and 5.0% to 3.5% and 1.0%. Public consumption forecast was kept at 3.2%. On the other hand, the CB now expects the external demand to have a less negative contribution to GDP this year as exports forecasts were adjusted upwards (to 4.1% from 3.0%) due to positive surprises in Q1 2012 and imports forecasts were adjusted downwards (to 5.6% from 7.0%) in line domestic demand revisions. Taking into account all this figures, the monetary authority reduced its GDP forecasts for 2012 by 1 percentage point to 2.5%.

- **SELIC to reach 8.0% in July**

In our view, by adjusting growth downwards and inflation upwards the CB recognizes that inflation could not converge to the 4.5% target by the end of the year even in a scenario where GDP remains below its potential and one-off events (such as the IPCA's new methodology and tax cuts on goods with a significant weight on inflation indexes) help to keep prices under control. However, this should not prevent the monetary authority from continue easing monetary policy. We expect the SELIC to be cut by 50bps to 8.0% in July and see increasing chances for additional cuts in the remainder of the year.

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

El BC ahora espera menor crecimiento y mayor inflación

De acuerdo con el Informe de Inflación del segundo trimestre divulgado hoy, el Banco Central redujo su previsión para el PIB de 2012 hasta 2,5% desde 3,5% y revisó al alza sus previsiones de inflación hasta 4,7%-4,9% desde 4,4%-4,5%. Esperamos que la autoridad monetaria siga (con parsimonia, como indicado en el Informe) recortando los tipos SELIC en los próximos meses.

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