



Inflation Outlook

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I. Introduction

BCB's Mission

- Ensuring the stability of the purchase power of the currency and a solid and efficient financial system.

Importance of this Mission

- The international experience and the economic theory set low and stable inflation as a precondition to sustainable growth.
 - **High inflation:**
 - Higher risk premium, low confidence, short planning horizon and little investment;
 - Less employment, less income and less consumption; and
 - More income concentration, less growth and reduction of welfare.

The Brazilian Experience Ratifies this Vision

Period	Annual Average (%)	
	Real GDP Change	Inflation
1980-1985	2.6	147.1
1986-1994	2.3	842.5
1995-2003	2.2	9.1
2004-2012	3.9	5.5

Retrospective - Abroad

Since the last Report release:

- Some accommodation, at a high level, of the risks for the global financial stability, with low probability of occurrence of extreme events;
- Moderate global activity;
- Evidences suggest some accommodation in the prices of commodities in the international markets and trend of dollar appreciation in the US; and
- In general terms, accommodative monetary policy, in emerging and mature economies.

Retrospective - Brazil

Since the last Report release:

- Economic growth reached 0.6% in the first quarter;
- In the market of factors: narrow idleness margin in the labor market;
- Expansionist fiscal and quasifiscal policies;
- In the wholesale market, prices pressures in the industrial segment and accommodation in the agricultural;
- High dispersion in the increases relative to consumer prices, inflation at high level and showing resistance; and
- Start of the ongoing adjustment cycle of monetary conditions.

Prospects – Abroad - 2013-2014

- Still heightened risks for the global financial stability;
- In the relevant horizon for the monetary policy, the volatility of financial markets tend to react to the start (or imminence) of the normalization process of monetary conditions in the US;
- Prospects of intensification of the global activity pace; and
- In the relevant horizon, prospects of increase of the global inflation.

Prospects – Brazil - 2013-2014

- More intense activity pace and investment recovery;
- Current account deficit essentially financed with foreign direct investment;
- Moderate credit expansion (consumption, especially);
- Moderation in wage gains;
- Accomplishment of the primary surplus target in 2013 of R\$155.9 billion, according to the Budget Guidelines Law (LDO), and of R\$167.4 billion, in 2014, according to the Draft Budget Guidelines Law (LDO 2014);
- Twelve-month inflation still presents elevation trend and the balance of risks for the prospective scenario is unfavorable; and
- Inflation is under control and will continue under control.

Prospects – Projections

GDP Projection:

- The estimate rate for the GDP growth in 2013 was revised to 2.7%, down from 3.1% in the March Report; and
- The estimate rate reaches 3.0% in the four quarters through the first quarter of 2014.

Inflation projections:

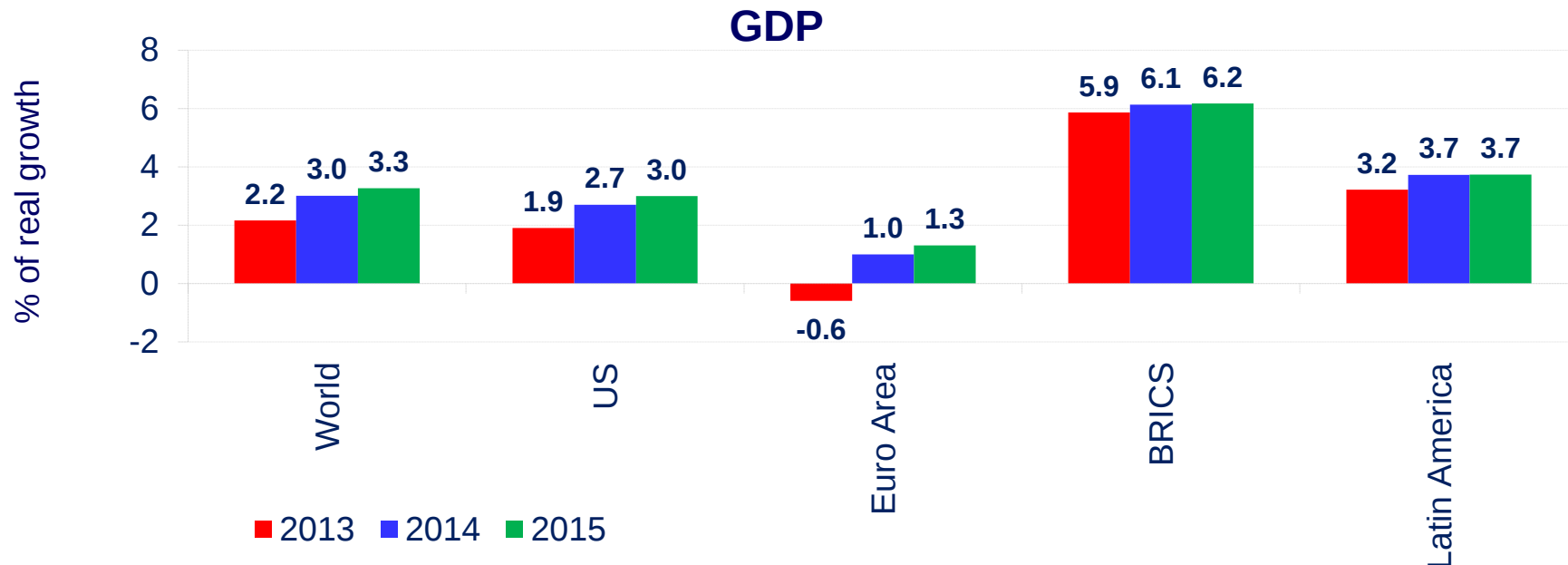
- Baseline scenario: 6.0% for 2013; 5.4% for 2014; and 5.5% for the second quarter of 2015; and
- Market scenario: 5.8% for 2013; 5.2% for 2014; and 5.3% for the second quarter of 2015.

Prospective Scenario – Monetary Policy

- The Copom highlights that, in moments such as the current one, the monetary policy should remain especially vigilant, in order to minimize risks that high inflation levels such as the one observed in the last twelve months persist in the relevant horizon for the monetary policy.

II. International Environment

Activity – Expectations



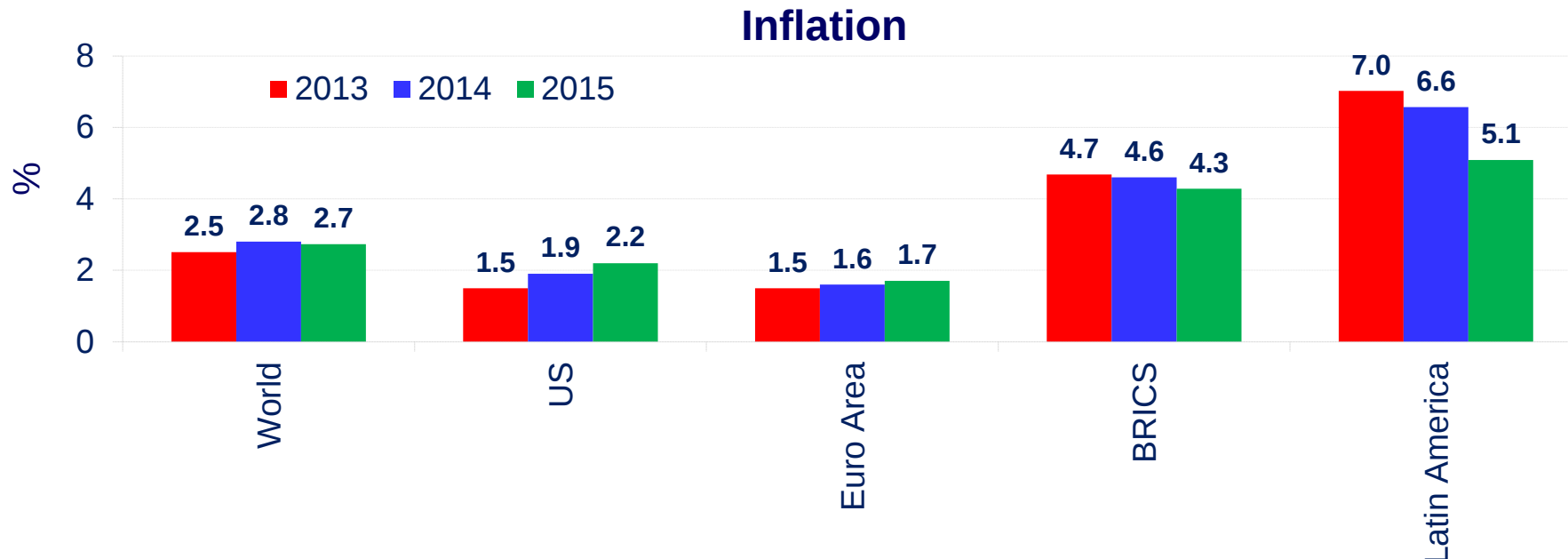
2013 GDP (%)

	2012		2013	
	Sep	Dec	Mar	Jun
US	2.1	2.0	1.9	1.9
Euro Area	0.4	-0.1	-0.2	-0.6
Japan	1.2	0.7	1.2	1.8
U. Kingdom	1.2	1.1	0.9	0.9
China	8.1	8.1	8.1	7.7
India	5.9	5.6	5.2	5.1
Brazil	4.0	3.4	3.0	2.5

2014 GDP (%)

	2012		2013	
	Sep	Dec	Mar	Jun
US	2.6	2.8	2.7	2.7
Euro Area	1.3	1.2	1.1	1.0
Japan	1.2	1.0	1.3	1.5
U. Kingdom	2.2	1.6	1.6	1.6
China	7.8	8.0	8.0	7.7
India	6.7	6.5	6.2	6.0
Brazil	4.0	3.8	3.5	3.1

Prices – Expectations



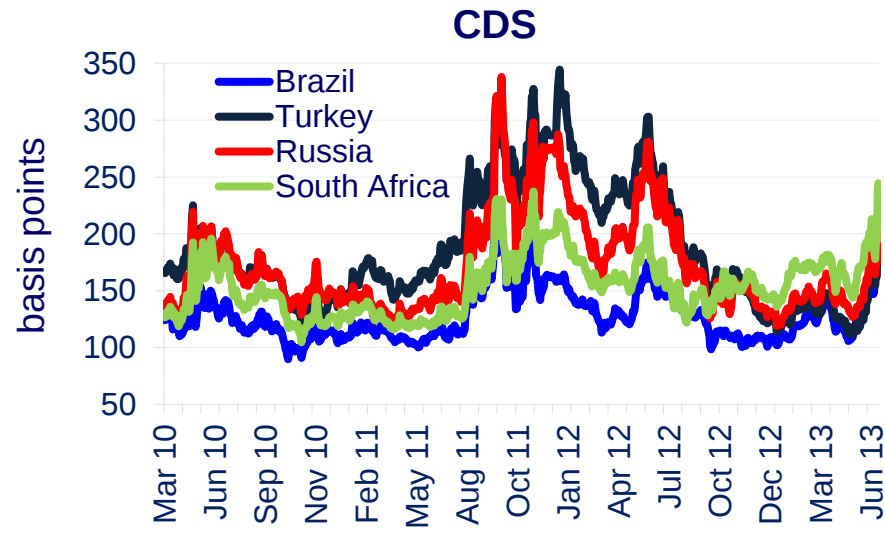
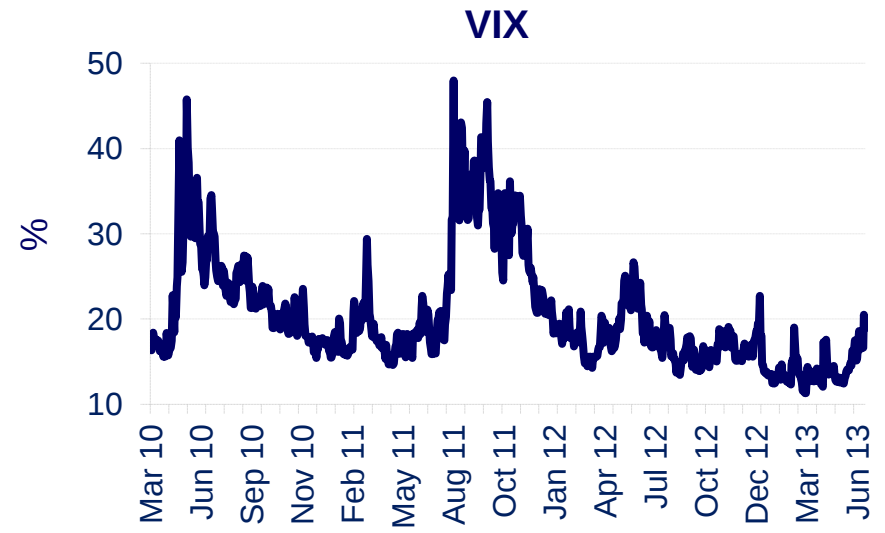
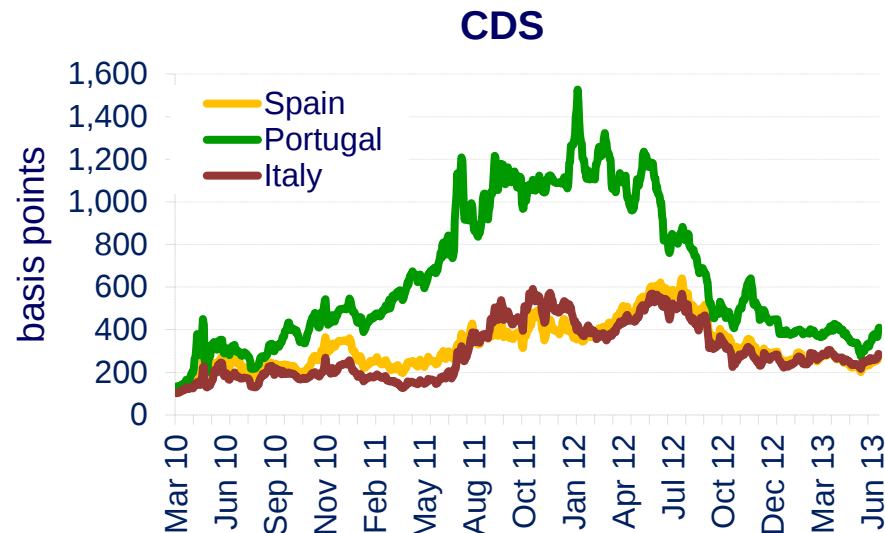
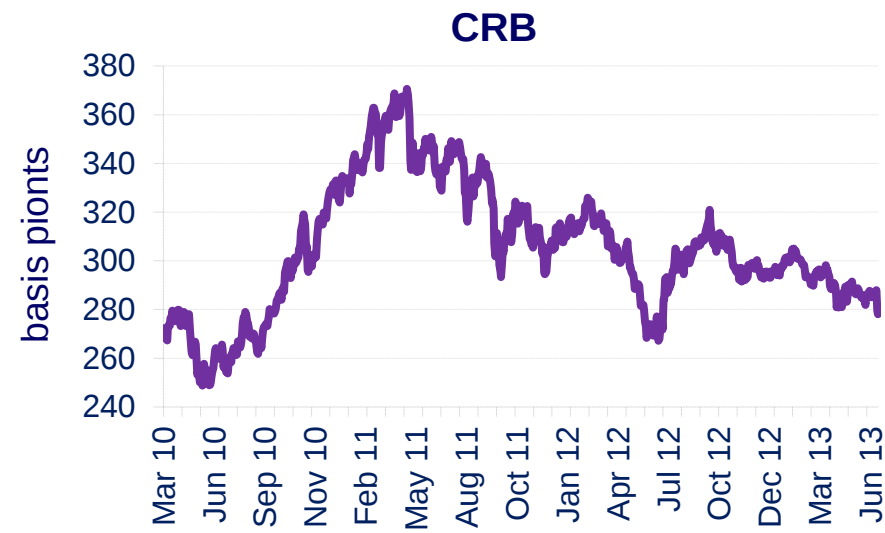
2013 Inflation (%)

	2012		2013	
	Sep	Dec	Mar	Jun
US	2.0	1.9	1.9	1.5
Euro Area	1.8	1.9	1.7	1.5
Japan	0.1	0.0	0.1	0.1
U. Kingdom	2.0	2.5	2.6	2.7
China	3.3	3.1	3.1	2.8
India	8.5	8.6	8.6	9.3
Brazil	5.5	5.5	5.7	5.9

2014 Inflation (%)

	2012		2013	
	Sep	Dec	Mar	Jun
US	2.3	2.1	2.1	1.9
Euro Area	1.8	1.8	1.7	1.6
Japan	1.7	1.7	1.8	2.0
U. Kingdom	2.0	2.0	2.3	2.4
China	3.6	3.5	3.5	3.2
India	7.8	7.6	7.9	8.3
Brazil	5.2	5.5	5.6	5.8

Commodities, Volatility and Risk Aversion

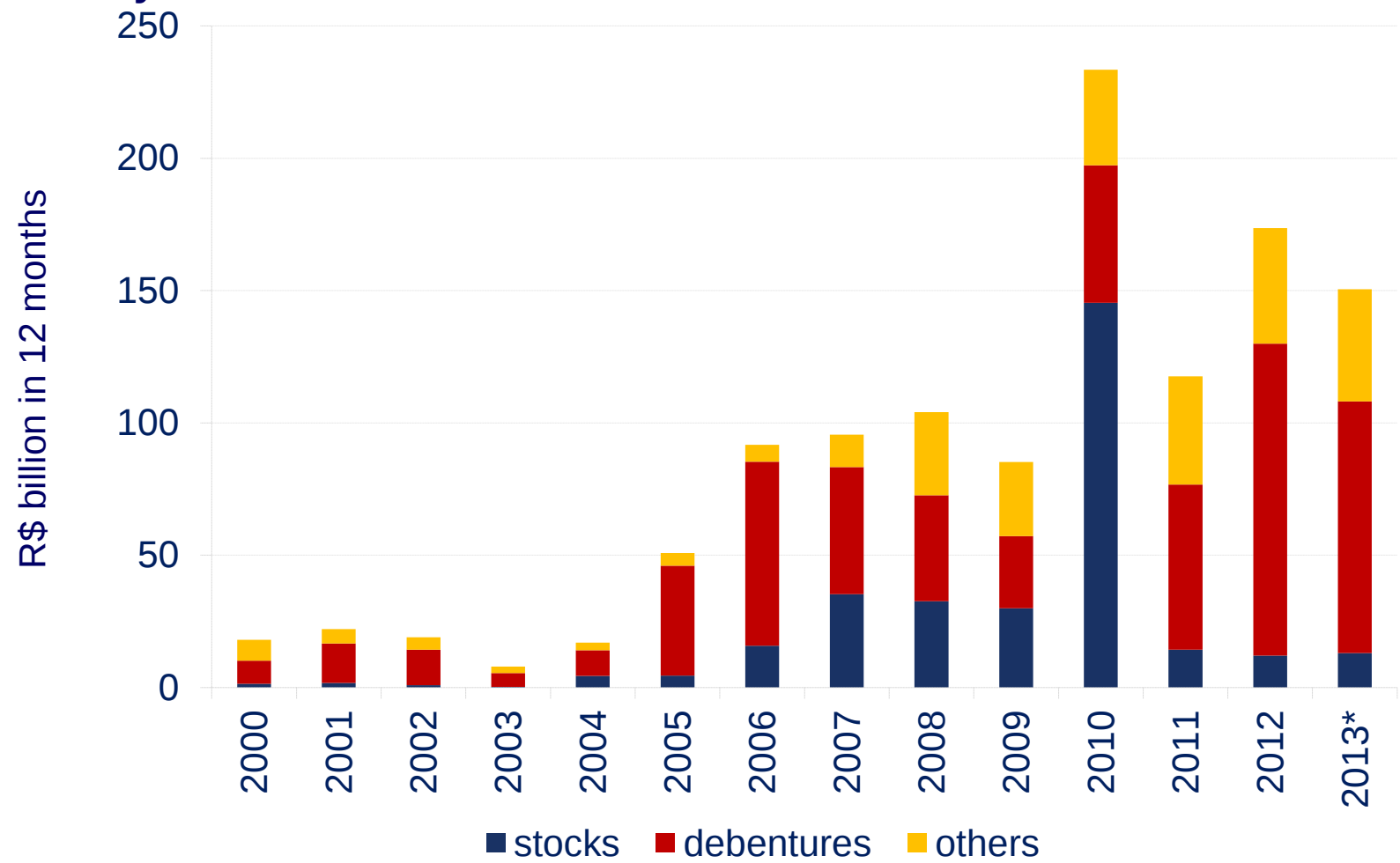


data up to 6/21

III. Financial Conditions

Capital Market Domestic Operations

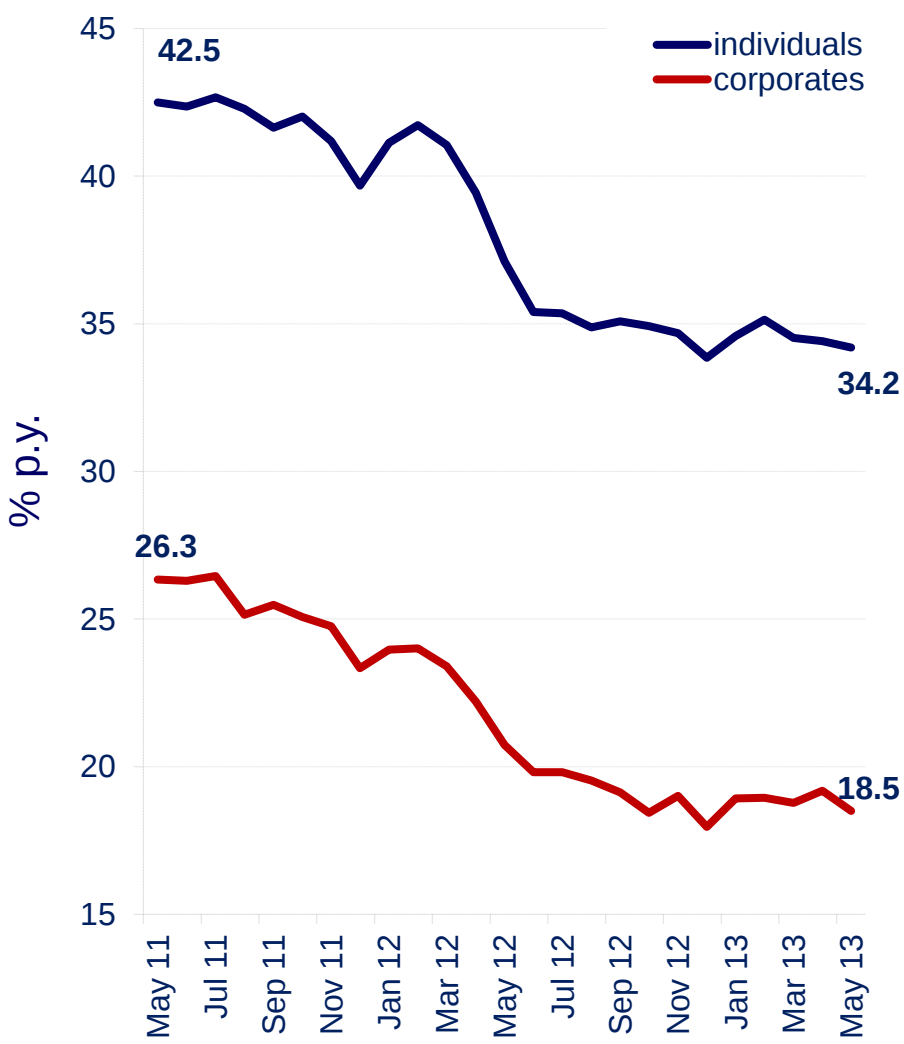
Primary Issues



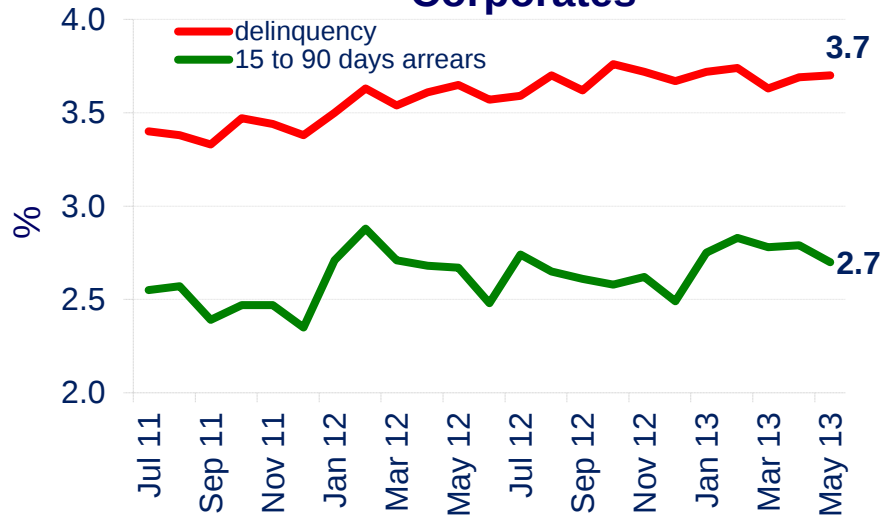
*12 months through Feb/13

Credit: Cost, Delinquency and Arrears

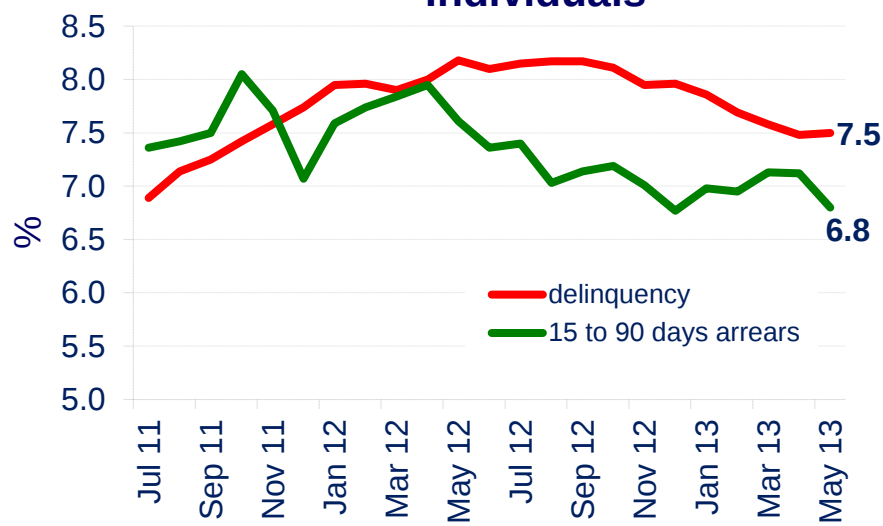
Interest Rate



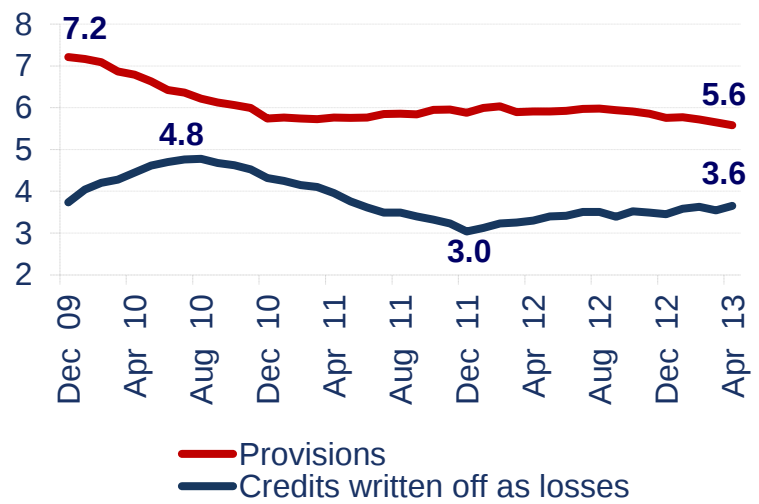
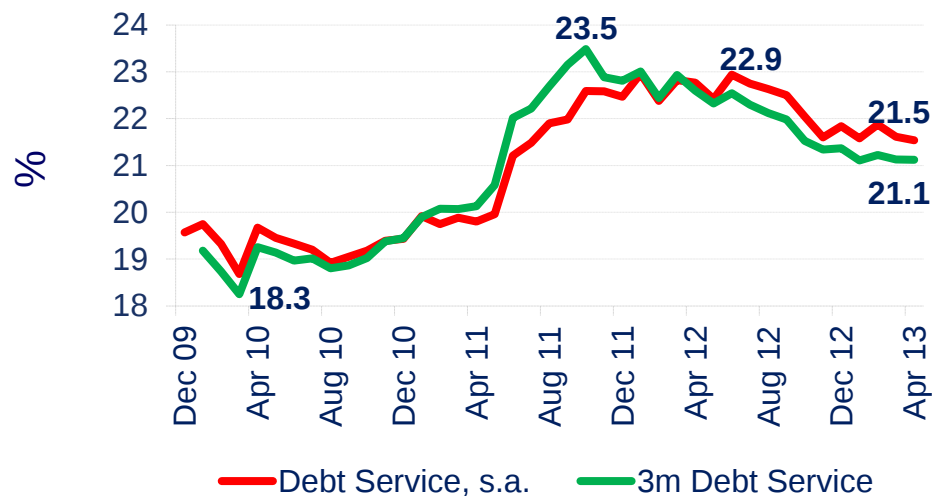
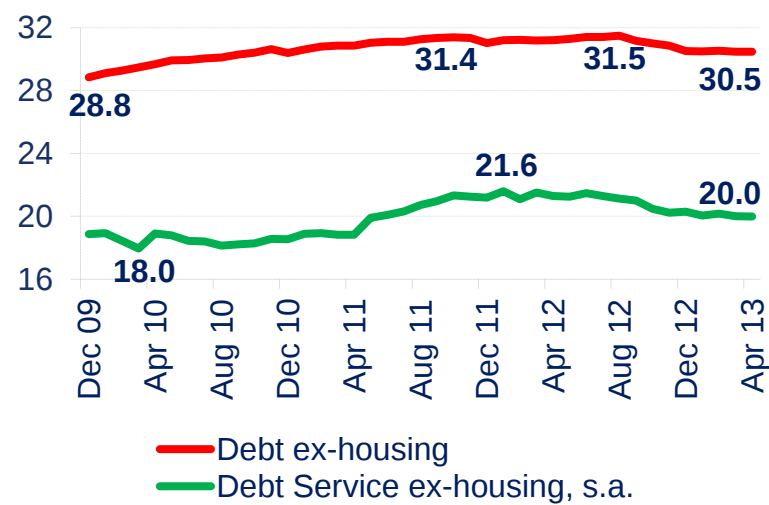
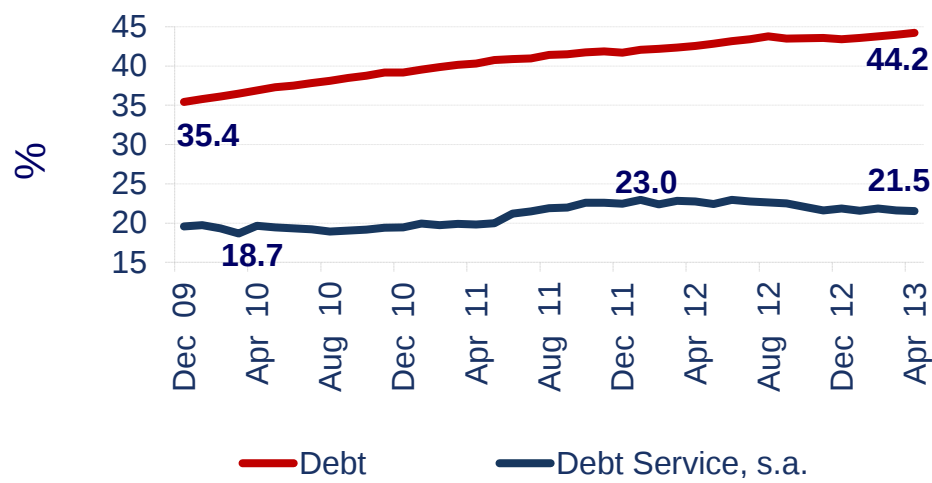
Corporates



Individuals

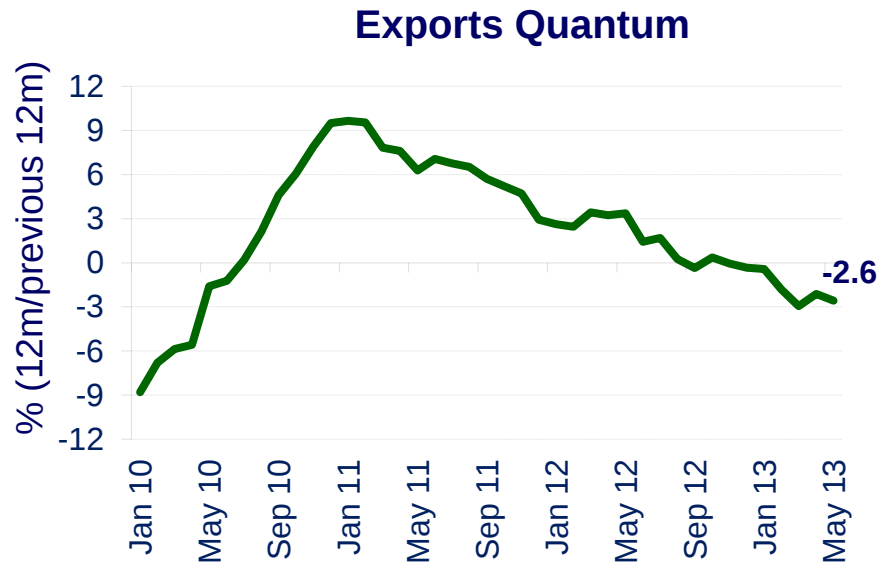
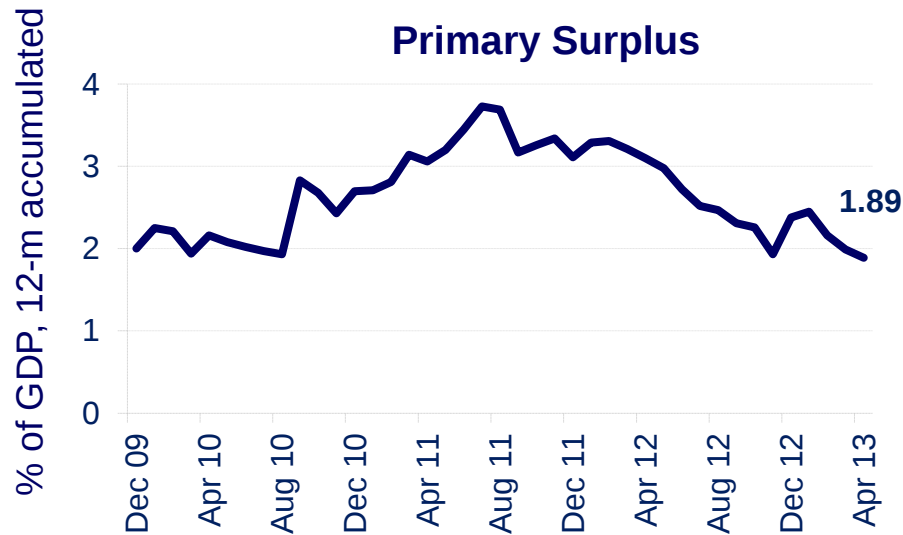
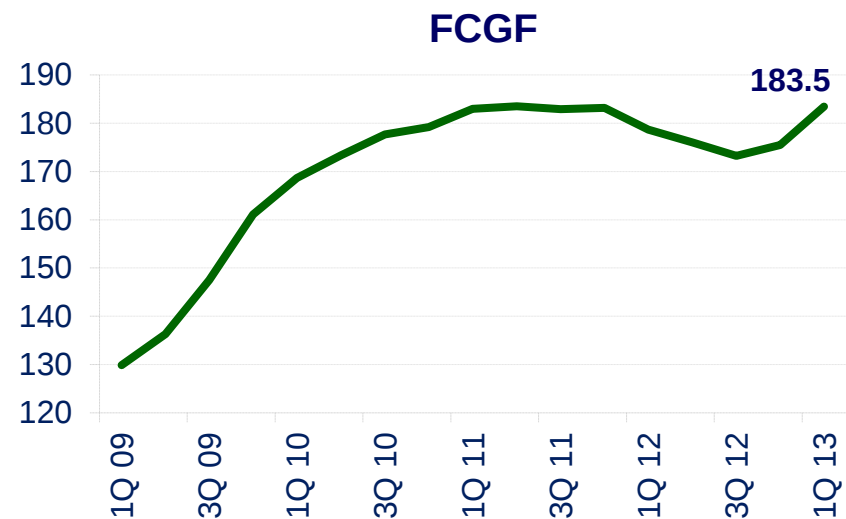
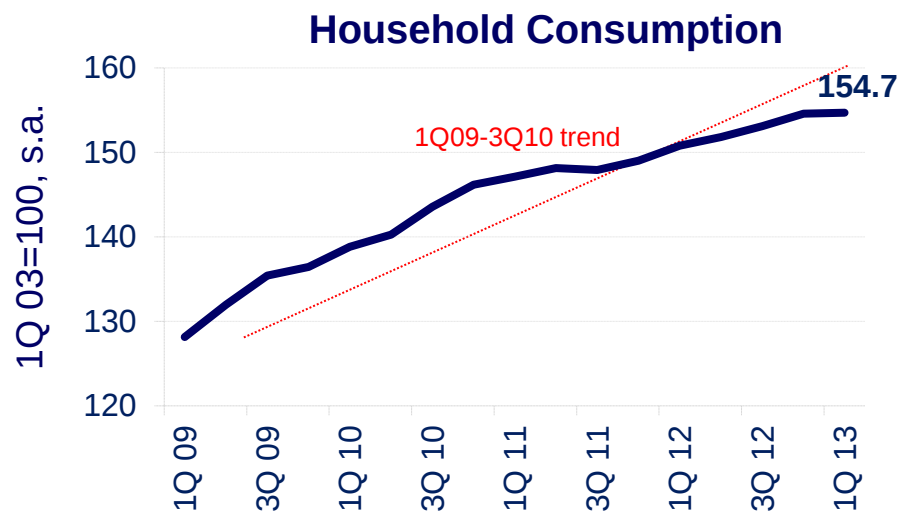


Household Debt and Provisions



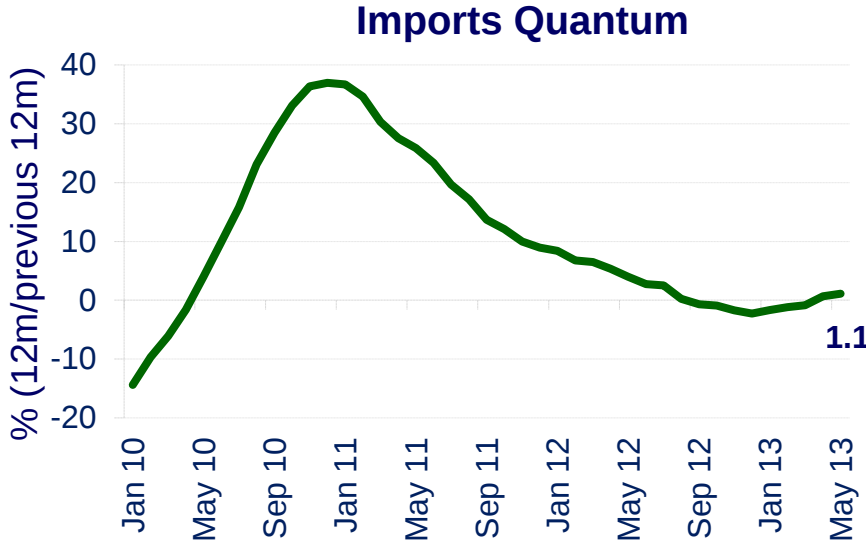
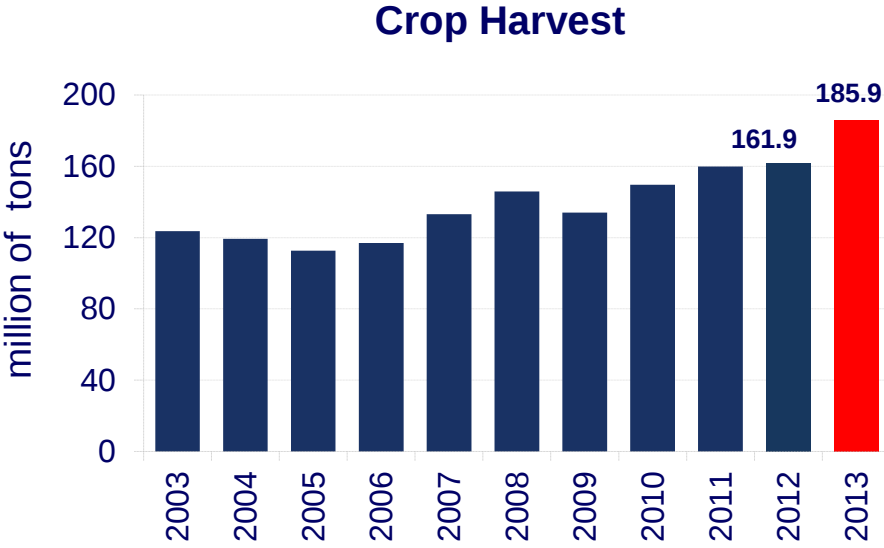
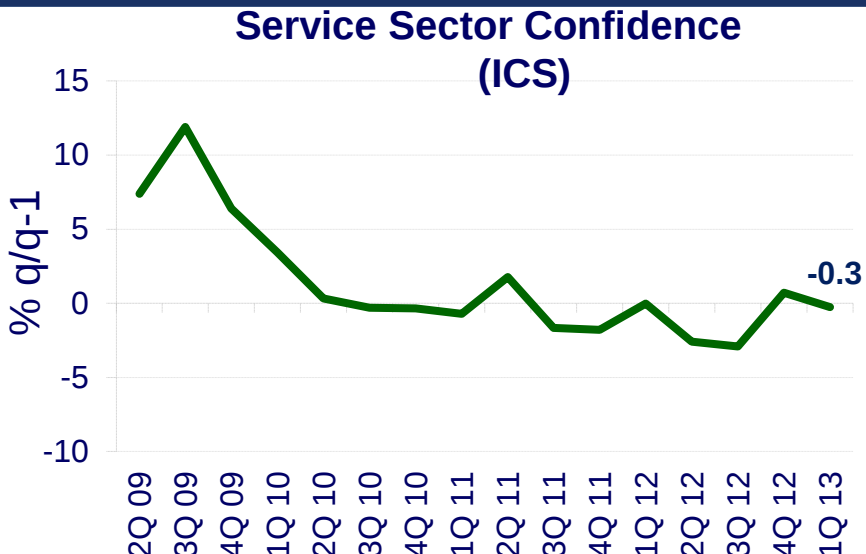
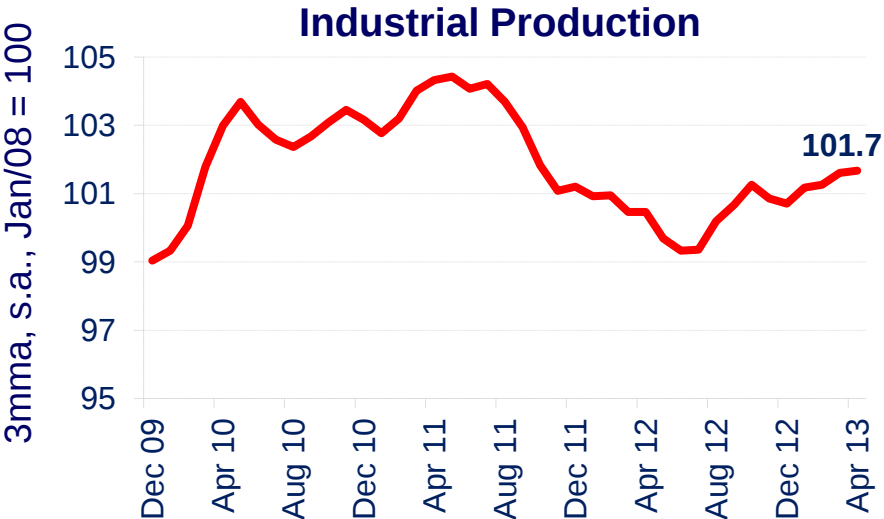
IV. Activity

Demand



Target for 2013: R\$155.9 billion

Supply



2013: IBGE estimates in May/13

Box: Forecast for the Balance of Payments

- Current account deficit revised to US\$75 billion, up from US\$67 billion (lower trade surplus, of US\$7 billion, compared to previous projection of US\$15 billion);
- Rollover rate of long term securities and loans changes from 125% to 138%;
- Net inflow of foreign investment in stocks maintained at US\$10 billion; and
- Foreign direct investment maintained at US\$65 billion.

Box: GDP Growth Forecasts

Increase of 2.7% for the year 2013 and 3.0% for the accumulated growth in four quarters up to 1Q2014;

Supply

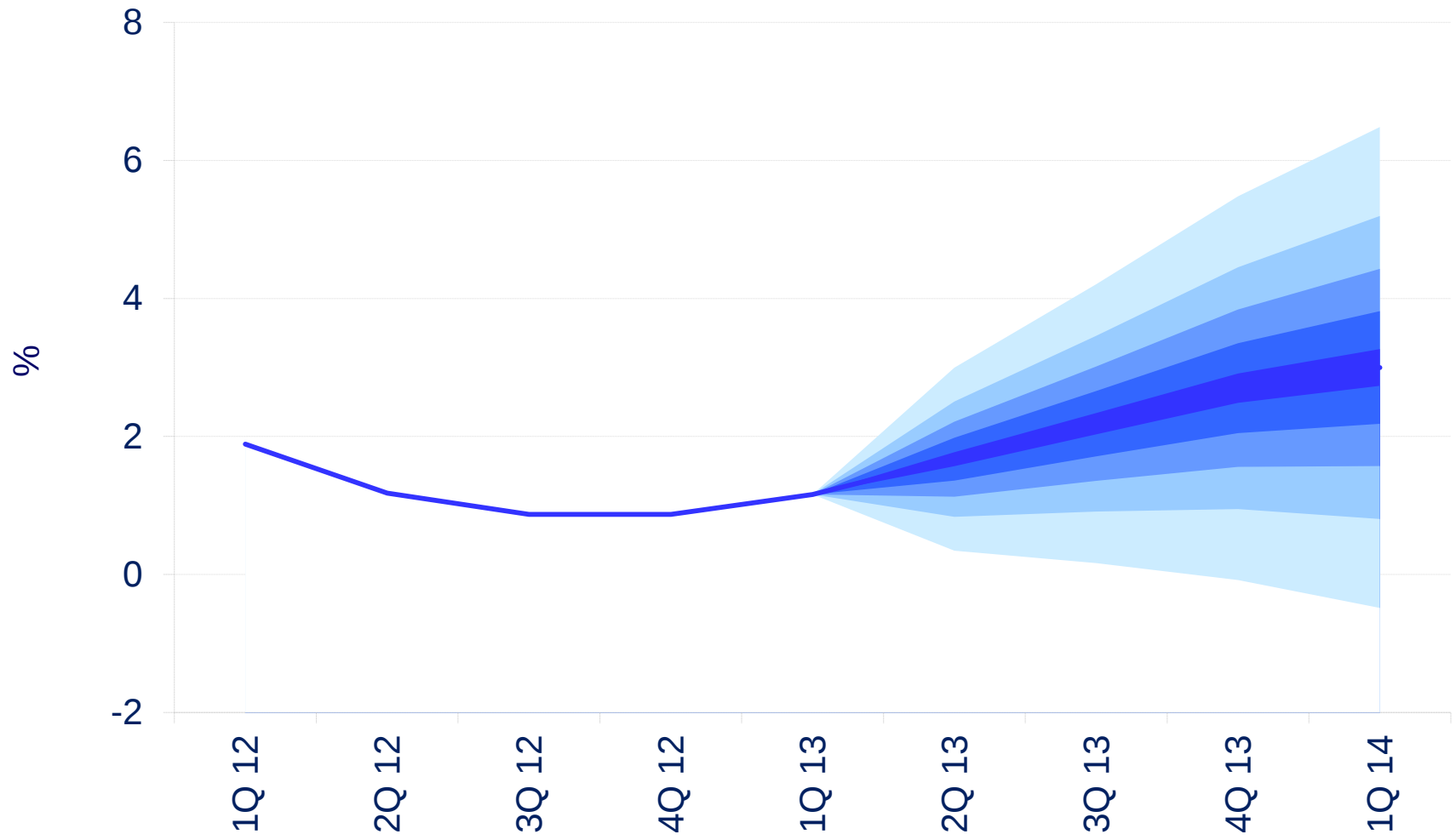
- Agriculture and livestock (+8.4%, up from -2.3% in 2012);
- Industry (+1.2%, up from -0.8% in 2012); and
- Services (+2.6%, up from 1.7% in 2012).

Demand

- Investments (+6.1%, up from -4% in 2012);
- Household consumption (+2.6%, down from +3.1% in 2012);
- Government (+2.4%, down from +3.2% in 2012); and
- Contributions of domestic demand and external sector estimated at 3.4 p.p. and -0.7 p.p., respectively.

GDP Forecast

Baseline Scenario*



* Interest constant at 8.00% p.y.

V. Inflation Developments

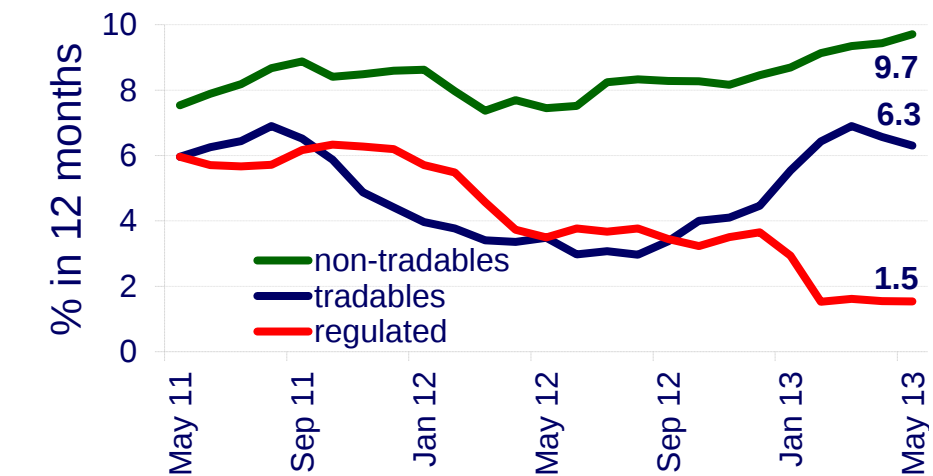
Inflation Developments

Prices Indices

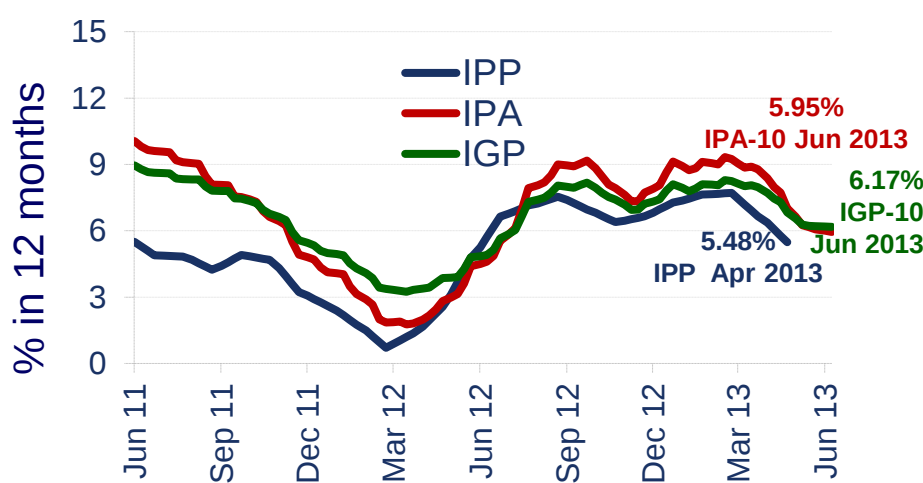
	Change in 12 months (%)	
	May/12	May/13
IPCA	4.99	6.50
INPC	4.86	6.95
IPC-Fipe	4.19	5.11
IPC-C1	5.07	6.52
IGP-DI	4.80	6.20
IPA-DI	4.40	6.07
Agricultural	5.62	7.52
Industrial	3.97	5.59
IPC-DI	5.06	5.96
INCC-DI	6.66	7.56

Prices

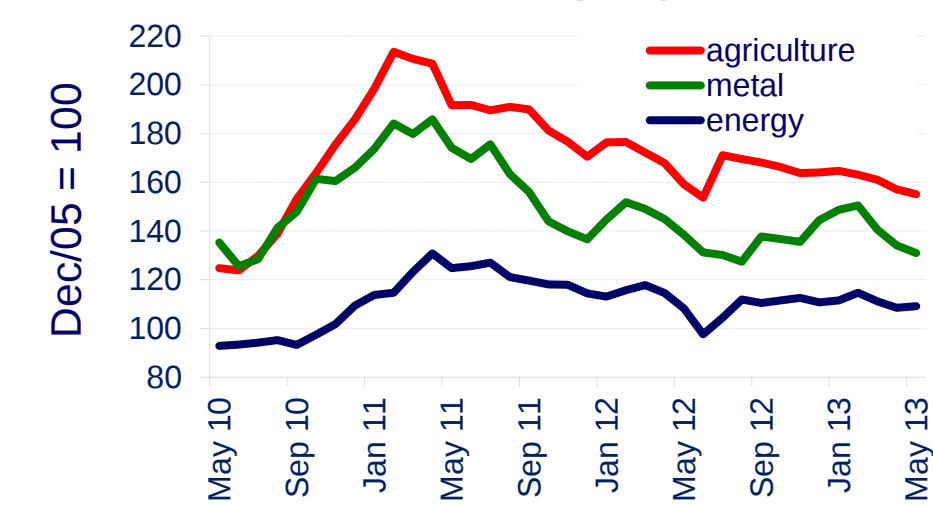
Inflation



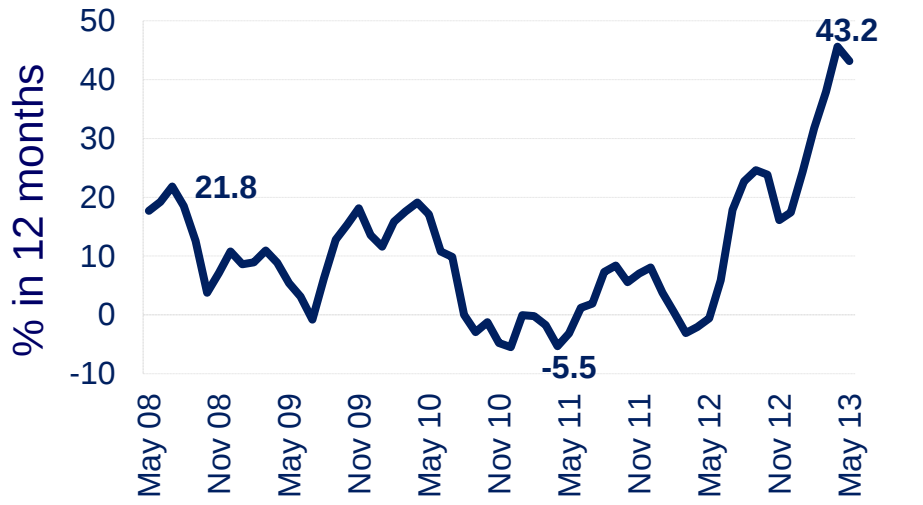
Producer Prices and IGP



IC-Br (US\$)

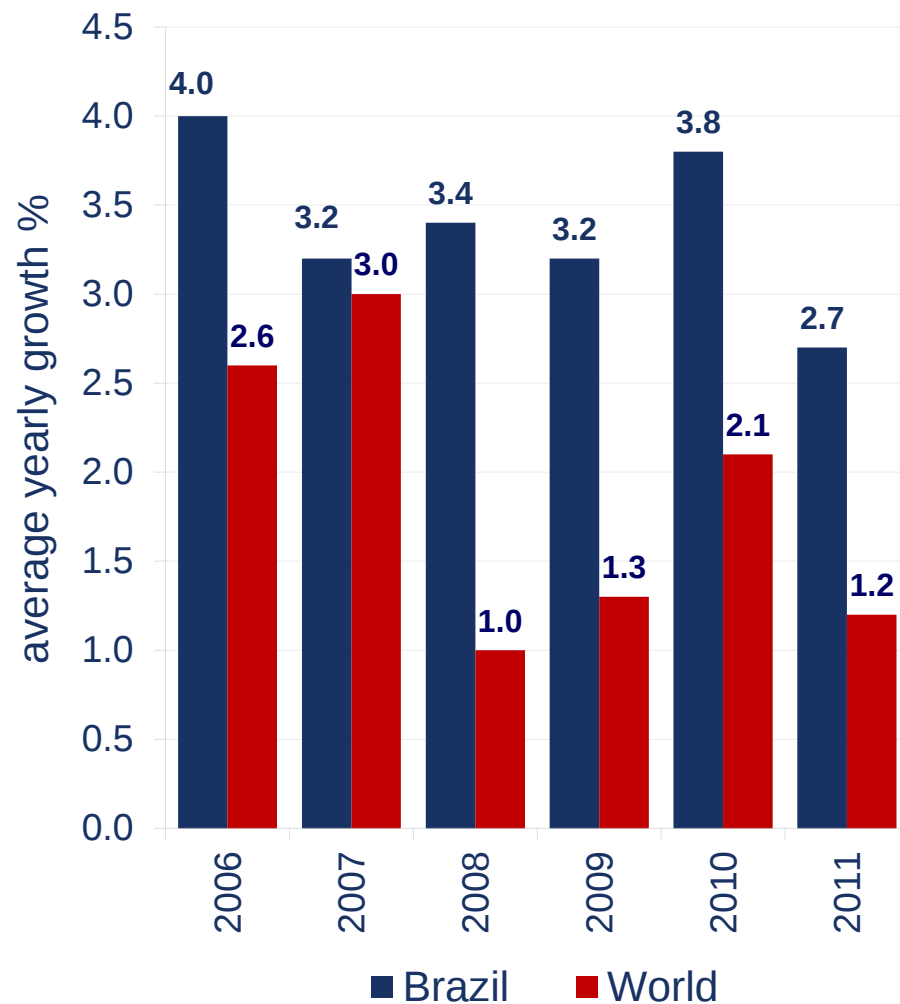


In Natura Food Prices

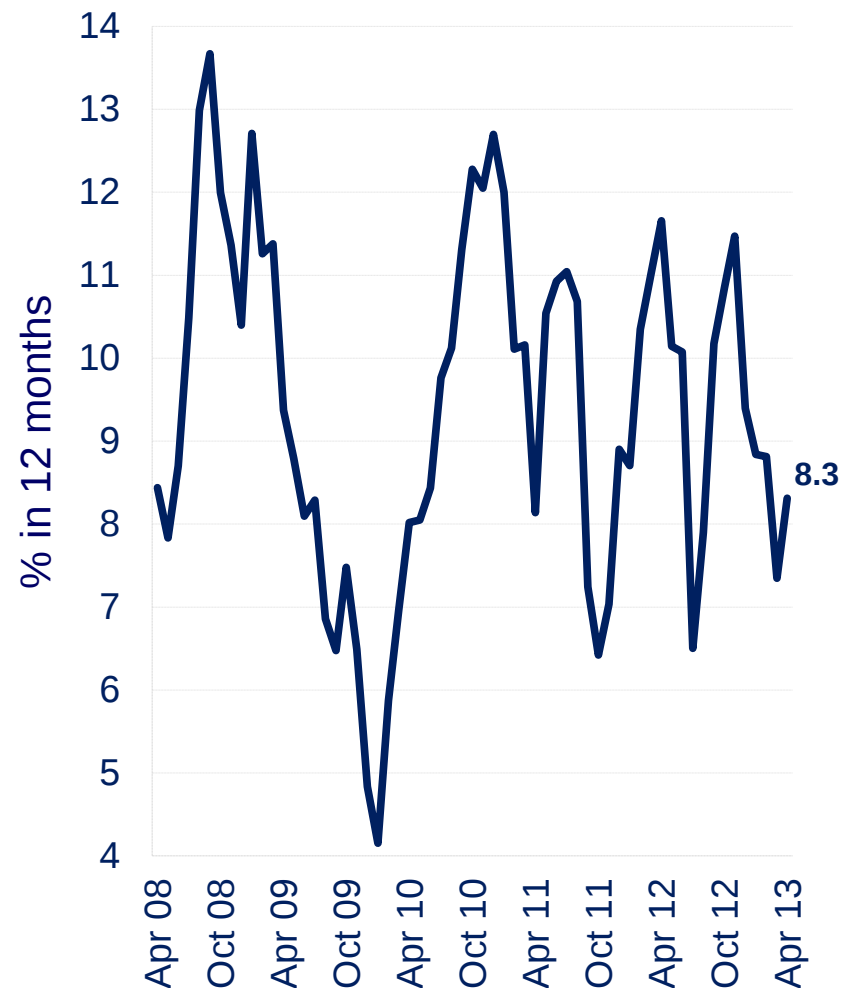


Wages

Real Wages



Nominal Wages



Market Estimates for 2013

	Mar 31 st		Jun 21 st
IPCA	5.71	▲	5.86
Regulated Prices	3.00	▼	2.65
IGP-M	4.92	▼	4.58
IPA-DI	4.28	▼	3.39
Selic (End-of-Period)	8.50	▲	9.00
Exchange Rate (End-of-Period)	2.00	▲	2.13
GDP	3.01	▼	2.46
Industrial Production	3.12	▼	2.56
Trade Balance	12.40	▼	6.50
Foreign Direct Investment	60.00	=	60.00
Primary Result	2.20	▼	1.80

Market Estimates for 2014

	Mar 31 st		Jun 21 st
IPCA	5.68	▲	5.80
Regulated Prices	4.50	▼	4.20
IGP-M	5.31	▼	5.23
IPA-DI	5.00	▲	5.25
Selic (End-of-Period)	8.50	▲	9.00
Exchange Rate (End-of-Period)	2.05	▲	2.20
GDP	3.50	▼	3.10
Industrial Production	3.95	▼	3.10
Trade Balance	12.65	▼	8.00
Foreign Direct Investment	60.00	=	60.00
Primary Result	2.30	▼	1.50

BCB Inflation Forecasts

Baseline Scenario* and Market Scenario

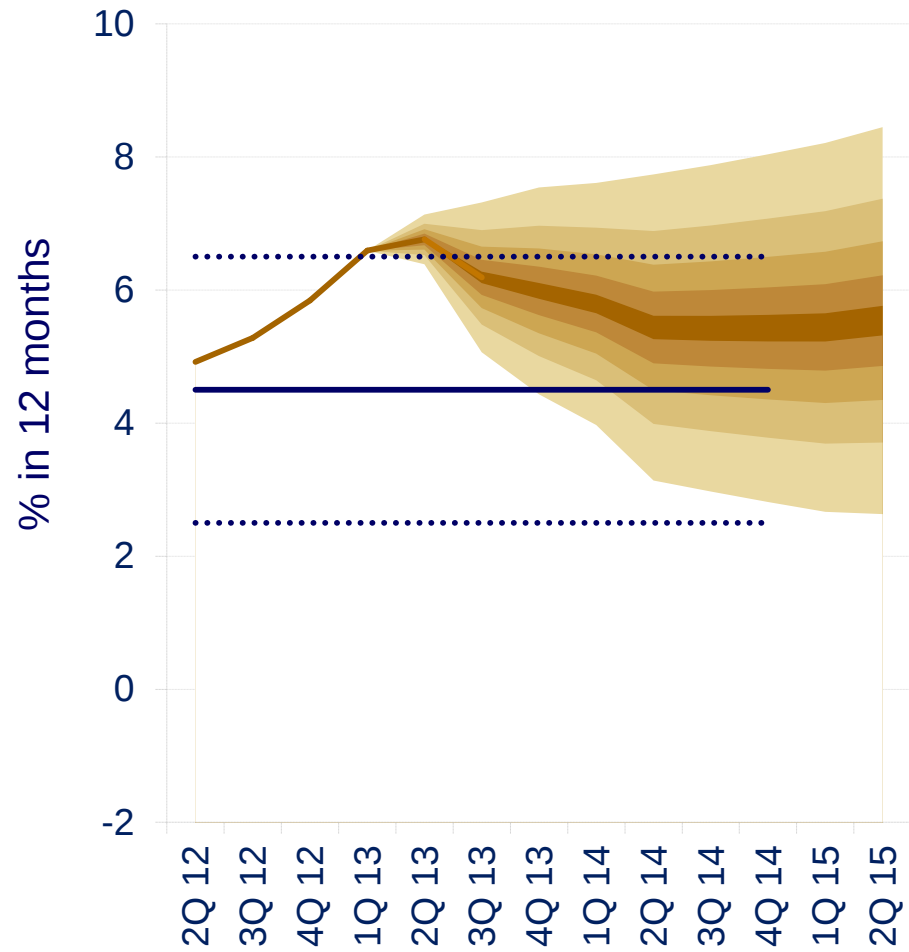
Period		Baseline	Market
2013	2	6.8	6.8
2013	3	6.2	6.2
2013	4	6.0	5.8
2014	1	5.8	5.6
2014	2	5.4	5.2
2014	3	5.4	5.2
2014	4	5.4	5.2
2015	1	5.4	5.2
2015	2	5.5	5.3

Obs.: 12-month accumulated inflation (% p.y.)

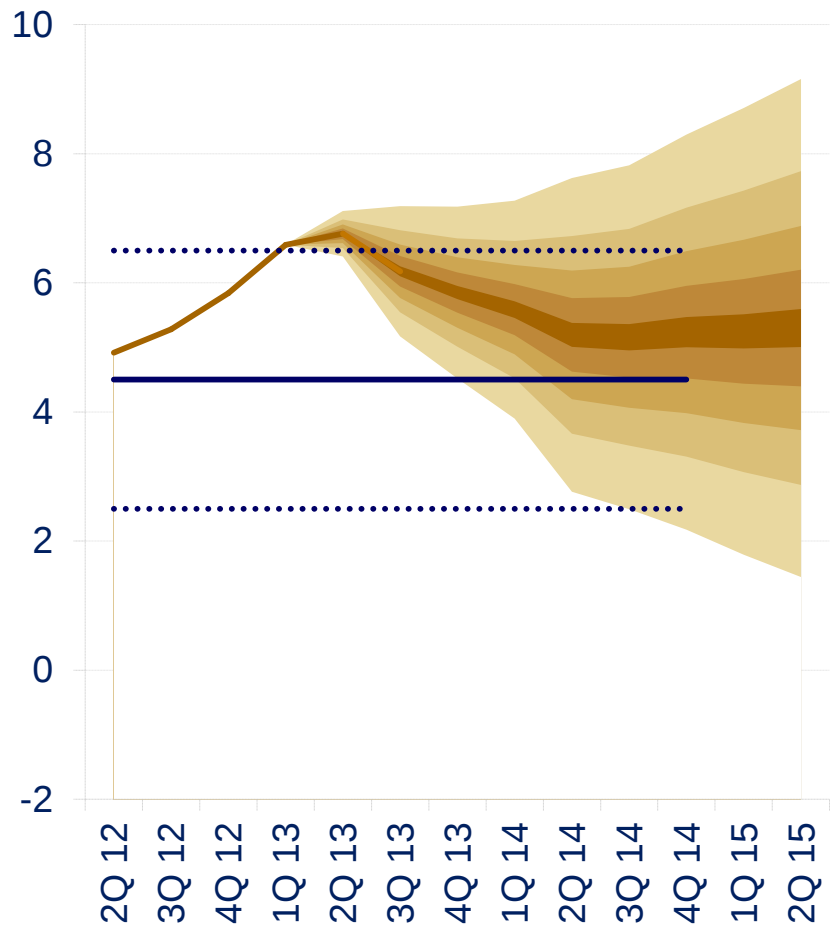
* Interest constant at 8.00% p.y.

BCB Inflation Forecasts

Baseline Scenario
(interest constant at 8.00% p.y.)



Market Scenario



VI. Boxes

Key Drivers of the GGGD Evolution

- Relative stability; and
- Contribution of interest, transfers to public banks and acquisition of reserves counterbalanced by the GDP growth contribution, redemption of debt and BCB result.

Recent Evolution of Wholesale and Retail Food Prices

- Recent divergence among the components of the food group in the IPA-DI and in the IPCA strongly associated to differences in the composition of indices.

Revision of the Small-Sized Projection Models – 2013

- Update in the information regarding the small-sized semistructural models used by the Central Bank; and
- As main innovations, the new specifications incorporate a structural primary surplus measure and monthly seasonal standard for each quarter.

Extraction of Inflation Expectations from Financial Instruments

- It shows evidences that financial assets constitute important information source on inflation expectations.



Inflation Outlook

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