Executive summary

Since the release of the previous Inflation Report, risks to the global financial stability remained high, like those associated with the deleveraging process taking place in major economic blocs and with the steep slope of the yield curve of relevant mature economies. The Committee appraises that financial markets volatility tends to react to the release of new indicators and/or to the signaling made by the authorities that indicate the starting (or imminent) restoration process of monetary conditions in the United States in the relevant horizon for monetary policy. In summary, despite identifying low probability of extreme events in the international financial markets, the Committee considers that the environment in the international financial markets remains complex.

Still regarding the external environment, in general, the prospects for moderate global activity in 2013 have been unchanged since previous Inflation Report. In fact, available evidence still point to low and below potential growth rates in mature economies for this year. However, prospects indicate intensification of the pace of global activity in the relevant horizon for monetary policy. In international markets, there is evidence of some accommodation of prices of commodities, as well as greater volatility and tendency of appreciation of the United States dollar.

The scenario of higher global growth, particularly of important trade partners of Brazil, combined with the depreciation of the Real, militates in making the dynamics of external demand more favorable to the growth of the Brazilian economy.

In the domestic framework, the economy continued to grow and the pace of activity in the second quarter rose in relation to the first quarter of 2013, with recovery in exports and maintenance of significant expansion of investment. This result supports the view that a change in the composition of aggregate demand is underway. Accordingly, household consumption will continue to grow, however at a more moderate pace; and, in contrast, investment and net exports would gain momentum. It is worth noting, still, that the main scenario envisages a more intense pace of domestic activity in this and next year, that is, a growth path more in line with potential growth in the relevant horizon for monetary policy.

The Copom evaluates that the domestic demand tends to remain relatively robust, especially household consumption, mostly due to the effects of stimulus factors, such as income gains and moderate credit expansion. This environment tends to prevail in this and following semesters, when domestic demand will be affected by the remaining effects of policy action implemented recently. For the Committee, these effects, added to programs for public service concessions and to the rights for oil exploitation, among others, generate good prospects for investments and industrial production.

Credit operations have grown in a moderate pace in the quarter ended in July, with tendency of increased expansion in earmarked credit and loans granted by public banks. This evolution reflects the more intense demand for cheaper and longer term credit means, such as earmarked operations with BNDES and real estate funds; and non-earmarked payroll debit loans. The Copom highlights that its main scenario considers moderate expansion in the credit market, in particular, in the credit to households, in a pace more consistent with the growth of household disposable income.

The performance of public accounts in the seven first months of 2013 reflected the gradual intensification of economic activity since the end of last year and the impact of the fiscal stimulus policy adopted recently.

The current account deficit reached US$57.8 billion in the eight first months of the year (US$31.5 billion in the same period of 2012), with highlight to the impacts of the reversion (to the negative side) of the trade balance and the increase in the net expenditures of services and income. In turn, net inflows of foreign resources as direct investment, bonds and loans abroad, share and bonds in the country totaled US$64.4 billion in the eight first months of the year, compared to US$58.2 billion in the same period of 2012.

The inflation measured by the 12-month IPCA reached 6.09% in August, 0.85 percentage points (p.p.) higher than the rate recorded in August 2012. The inflation rise was due to the acceleration in the market prices, which increased 7.64% in the 12-month period up to August (up 1.88 p.p. against August 2012). Regulated prices rose 1.27% (down 2.51 p.p. against August 2012). Food and beverages group increased 10.45% in 12-month period (8.86% up to August 2012). In turn, the services sector inflation has reached 8.60% in the 12-month period up to August (7.89% up to August 2012). The Copom evaluates that the high variation in consumer prices in the last twelve months contributes for inflation to show resistance. Likewise, contribute the formal and informal mechanisms of price indexation and the worsening in the perception on the very dynamics of inflation.

Regarding inflation projections, following the usual procedures and taking into account the information set available up to the cutoff date of September 6, 2013, the baseline scenario – which assumes constant exchange rate over the forecast horizon at R$2.35/US$ and target for the Selic interest rate at 9.00% p.a. – projects inflation of 5.8% in 2013, 5.7% in 2014 and 5.5% in the third quarter of 2015.

In the market scenario – which uses data from the expectations survey undertaken by Banco Central's Investor Relations and Special Studies Department (Gerin) with a significant group of institutions – the projections indicate inflation of 5.8% in 2013, 5.7% in 2014 and 5.4% in the third quarter of 2015.

Regarding GDP growth, the projection for 2013, according to the baseline scenario, is 2.5% (0.2 p.p. lower than the estimate considered in the previous Report) and 2.5% in the 4-quarter rate up to the second quarter of 2014.

The Copom emphasizes that the international evidence, in which it is ratified by the Brazilian experience, shows that high inflation rates generate distortions that lead to higher risks and depress investment. These distortions are manifested, for example, in shortening the planning horizons of households, businesses and governments, as well as in the deterioration of the businessman's confidence. The Committee also emphasizes that high inflation rates subtract the purchasing power of wages and transfers, with negative repercussions over households' confidence and consumption. Hence, high inflation rates reduce the growth potential of the economy, as well as of jobs and income generation.

Therefore, 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 rates, such as the ones observed in the last twelve months, persist in the relevant horizon for monetary policy.