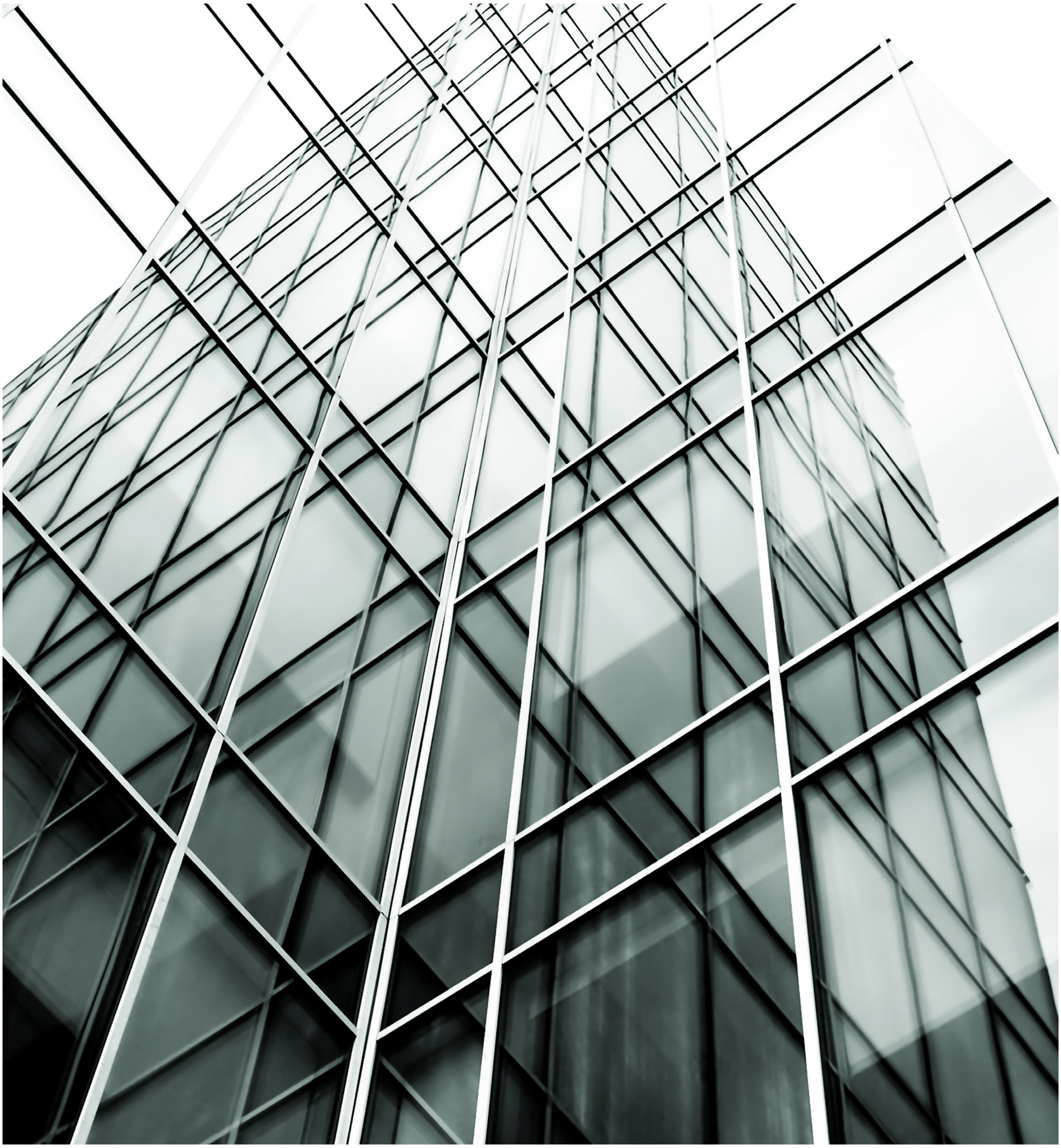

ISSN 1517-7289

# Inflation Report

Volume 19 | Number 4 | 2017 December

BANCO CENTRAL
DO BRASIL

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Volume 19 | Number 4 | 2017 December

ISSN 1517-7289
CNPJ 00.038.166/0001-05

| Inflation Report | Brasília | v. 19 | nº 4 | Dec | 2017 | p. 1-66 |
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# Inflation Report

Quarterly publication of the Monetary Policy Committee, according to Decree nr. 3,088, dated 6.21.1999.

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**Statistical conventions**

| | |
|---|---|
| **...** | data not available. |
| **-** | nil or non-existence of the event considered. |
| **0** ou **0.0** | less than half the final digit shown on the right. |
| ***** | preliminary data. |

Hiphen between years indicates the years covered, including the first and the last year.
A bar (/) between years (1970/1975) indicates the average of the years covered, including the first and the last year or even crop or agreement year, when mentioned in the text.

Occasional discrepancies between constituent figures and totals as well as percentage changes are due to rounding.

There are no references to sources in tables and figures originated in the Banco Central do Brasil.

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# Principles for the Conduct of Monetary Policy in Brazil

## Mission and objectives

The Banco Central do Brasil (BCB) has as mission to ensure the stability of the currency's purchasing power and a solid and efficient financial system. The compliance with the task of ensuring price stability is achieved by means of the inflation targeting framework, with inflation targets set by the National Monetary Council.

The experience, both domestic and international, shows that the best contribution of monetary policy to sustainable economic growth, low unemployment and improvement in people's living conditions is to keep inflation low, stable and predictable.

The economic literature indicates that high and volatile inflation rates generate distortions that lead to increased risks and negatively affect investment. These distortions shorten the planning horizons of families, businesses and governments, and erode business confidence. High inflation rates subtract the purchasing power of wages and transfers, with negative repercussions on household's confidence and consumption. Moreover, they produce inefficient price dispersion and reduce the informational value from prices that contributes to the efficient allocation of resources in the economy.

High and volatile inflation has also regressive distributive effects. The less favored groups of the population, which generally have more restricted access to instruments to protect them from the loss of the currency's purchasing power, benefit the most from price stability.

In short, high inflation rates reduce potential economic growth, affect job creation and income, and worsen income distribution.

## Implementation

Monetary policy impacts the economy with long, variable and uncertain lags, usually estimated to extend up to two years. As a result, there is substantial uncertainty associated with inflation projections in the relevant horizon for the conduct of monetary policy, which arises naturally from the incidence of favorable and unfavorable shocks to the economy over time. It is thus expected that, even under appropriate policy, realized inflation will fluctuate around target. The Monetary Policy Committee (Copom) should seek to conduct monetary policy so that inflation projections point to inflation converging to the target. Therefore, it is genuine that monetary policy is carried out in a forward-looking way.

The inflation targeting framework in Brazil is flexible. The horizon that the BCB sees as appropriate for the return of inflation to the target depends on both the nature of the shocks that affect the economy and their persistence.

The BCB believes that a clear and transparent communication is essential for monetary policy to achieve its objectives efficiently. Thus, the BCB regularly publishes evaluations of the economic factors that determine the inflation trajectory, as well as the potential risks to this trajectory. The Copom Statements and Minutes, and the Quarterly Inflation Report are key vehicles in communicating these assessments.

## Inflation Report

The inflation projections are presented in scenarios, and are conditional on assumptions for some economic variables. Traditionally, the assumptions refer to the paths for the exchange and Selic rates throughout the projection horizon. These values are usually extracted from the Focus survey, conducted by the BCB with independent analysts, or are assumed constant. The reported scenarios are based on a combination of those assumptions. Alternative scenarios may also be presented. It is important to stress that these scenarios are part of the quantitative tools used to guide Copom's monetary policy decisions, and that their assumptions do not constitute and should not be seen as the Committee's forecasts for the future behavior of those variables.

The conditional inflation projections incorporate probability intervals that highlight the degree of uncertainty associated with them. Inflation projections depend not only on assumptions about the interest rate and the exchange rate, but also on a set of assumptions about the behavior of exogenous variables. The Copom uses a wide range of models and scenarios, with conditioning assumptions associated with them, to guide its monetary policy decisions. By reporting some of these scenarios, the Committee seeks to enhance the transparency of monetary policy decisions, contributing to its effectiveness in controlling inflation, which is its primary objective.

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