



SÉRGIO BRITO

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## INFLATION GOALS FOR 2012 AND 2013

In the first six months of the year, Brazil's economic, social and political dynamics evolved in a non-convergent manner. Political events once again stole the spotlight from the positive moment of social gains, such as lower unemployment and higher income. From an economic perspective, the country's GDP (Gross Domestic Product) growth outperformed the 4.3% global average. With regards to the economy, GDP for the first quarter of 2011, divulged in June by the National Institute of Geography and Statistics (IBGE), showed a 4.2% increase in relation to the same period in 2010. In the accumulated variation for the last four quarters, GDP posted an increase of 6.2%.

In summary, the figures correspond to the perception that the level of economic activity was being pressured by key factors of aggregate demand, such as: consumption of families, private consumption (investments) and government consumption. In looking at the period utilized for IBGE's calculation, it is necessary to include in this context the innocuous effects of monetary measures, which significantly impacted the economy only in the second quarter, the result of which will only be divulged in September.

However, the signs emitted by the economy in the second quarter were perceptible, when confronting

industrial production and trade data undergoing a slowdown movement, consequently aligning with the Central Bank's (BC) strategy of controlling medium and long term inflation.

With the inflation goal of 4.5% p.a. (see graph) being upheld for the next two years (2012 and 2013), as published by the Central Bank's Monetary Policy Committee (COPOM) in June, Central Bank President Alexandre Tombini's arguments seem valid regarding efforts that shall be maintained so that prices do not interfere negatively in the population's purchasing power.

Another sign transmitted by COPOM can be interpreted in a more generic manner. It refers to sustainable price levels for keeping the economy growing close to its potential in 2012 and 2013. In other words, the BC perceives that an annual inflation rate of 4.5% is ideal for growing GDP at around 4.0% p.a.

The path laid out for the economy to achieve these goals is arduous. In fact, it will be a challenge in view of the fiscal structure that's been perversely maintained despite changes in the Federal Government. It's expected that Tombini has the tools to protect inflation goals and not give in to pressure from government authorities for a looser monetary policy. Otherwise, it will be a disaster for inflation control policies. ■

Source: Central Bank of Brazil. Prepared by Hegemony Projeções Econômicas

