

Investors Fear Brazil Is Stuck in Low Growth and High Inflation

Written by Newsroom

Tuesday, 15 January 2013 14:25



Consumer prices in Brazil ended 2012 near the top of the Brazilian central bank's target range for the third year running, prompting concern from economists that the country is stuck in a phase of low growth and high inflation.

Brazilian inflation in December was 5.84% against a year earlier - well above the middle of the central bank's target zone of 4.5% plus or minus two percentage points - despite economic growth last year that was estimated to have been only about 1%.

The central bank, which said the December consumer prices figure was on track with its forecasts, is keen to maintain the credibility of its inflation-targeting regime in a country where prices remain a sensitive issue.

Brazil's present economic stability is based largely on its achievement in vanquishing runaway inflation, which in earlier decades was measured in hundreds rather than single-digit percentage points.

Alexandre Tombini, the governor of the Central Bank of Brazil, said the 2012 figure was less than in 2011, when inflation touched the top of the bank's range of 6.5%. Inflation was therefore "converging" towards the center of the target as the bank had promised.

Tombini said inflation was boosted in the second half of 2012 by several "shocks", such as a rise in the price of agricultural commodities.

"In the short term, inflation is showing some resistance, but there are indications it will return to a downward trend in 2013."

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Economists said they did not expect inflation this year to breach the upper end of the central bank's target range because economic growth was predicted to remain relatively tepid.

Many economists are forecasting the economy will expand by 3.5% this year, but see the possibility that the figure could be lower.

Much would depend on whether the government would be able to implement a cut in electricity tariffs, which will lower prices for consumers by as much as 16%, said Capital Economics.

"In the absence of an immediate cut in tariffs, inflation is likely to rise above 6% in the first quarter of this year," added the London-based research house.

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