

# World Economic Situation and Prospects

## Weekly Highlights

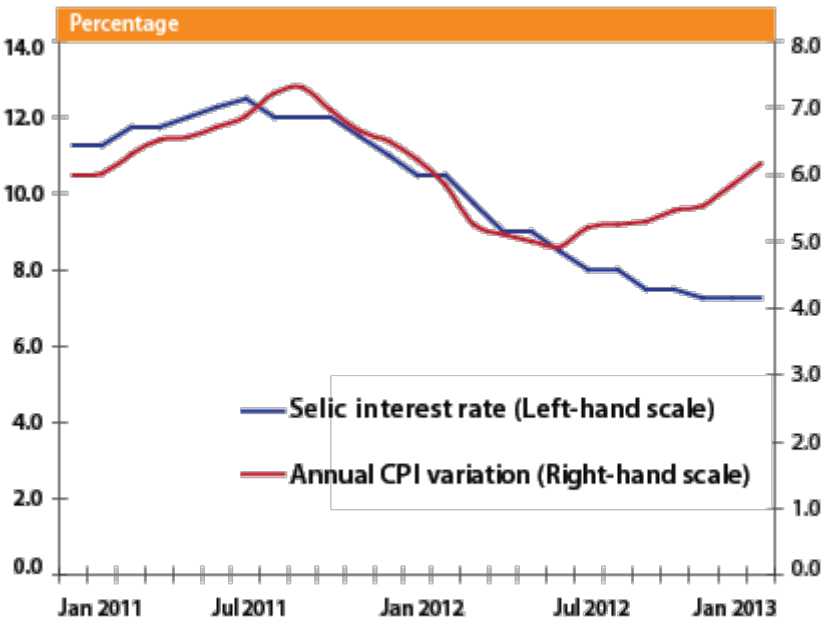
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### Challenges for Brazil: rising inflation pressures as GDP growth slows

The Brazilian economy is experiencing the dual pressures of slowing growth and rising inflation. In order to promote economic activity, the central bank reduced the Selic rate successively throughout 2012; it reached a historic low of 7.25 per cent (see figure) by the end of the year. Nevertheless, GDP only expanded by around 1.1 per cent in 2012. In December, exports decreased by 10 per cent year on year and manufacturing output decreased by 1 per cent.

**Figure 1. Brazil: consumer price index and Selic interest rate**



**Source:** DPAD-DESA, based on official data from the Central Bank of Brazil and the Brazilian Institute of Geography and Statistics.

At the same time, inflationary pressures have risen significantly in the past few months. The consumer price index (CPI) rose in January by 0.86 per cent, the largest increase for January since 2003. Over the last 12 months, the annual CPI variation reached 6.15 per cent (see figure), close to the upper limit of the central bank range of 6.5 per cent, and above the 5.84 per cent of the preceding 12 months. Rising food prices were the major driving force, with several items of the basic basket increasing by 10 per cent or more.

This has put the Government in a bind as the central bank may be forced to raise interest rates if inflation breaches the upper range, but this could further dampen growth. In an attempt to contain inflation, the Government endorsed a new act in January that will reduce electricity bills significantly—mainly through major tax reductions—from March onwards. According to official estimates, households will see electricity bills reduced by about 16 per cent. The Government is also analyzing the possibility of federal tax cuts in food items.