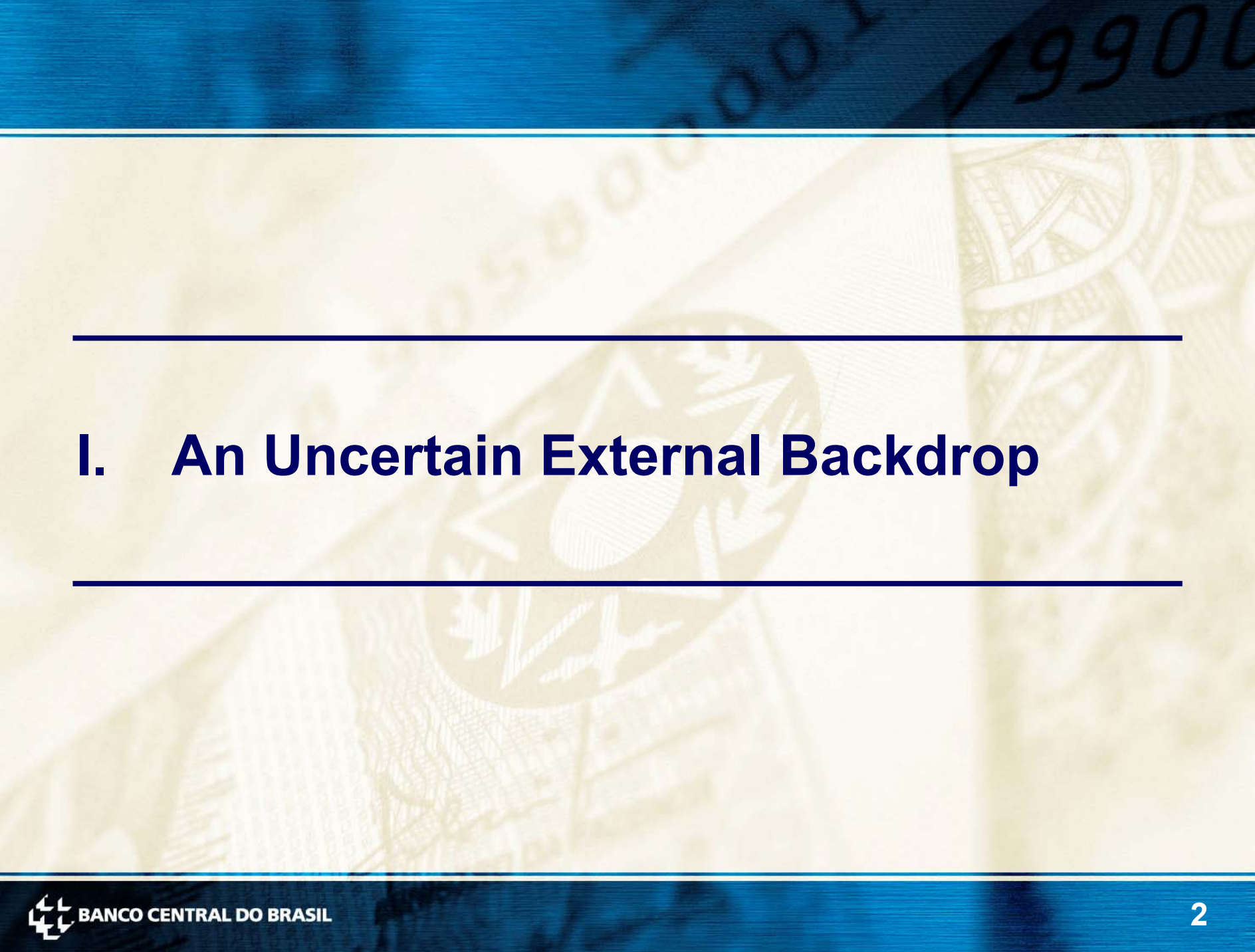




BANCO CENTRAL DO BRASIL

Inflation Targeting in an Uncertain External Backdrop

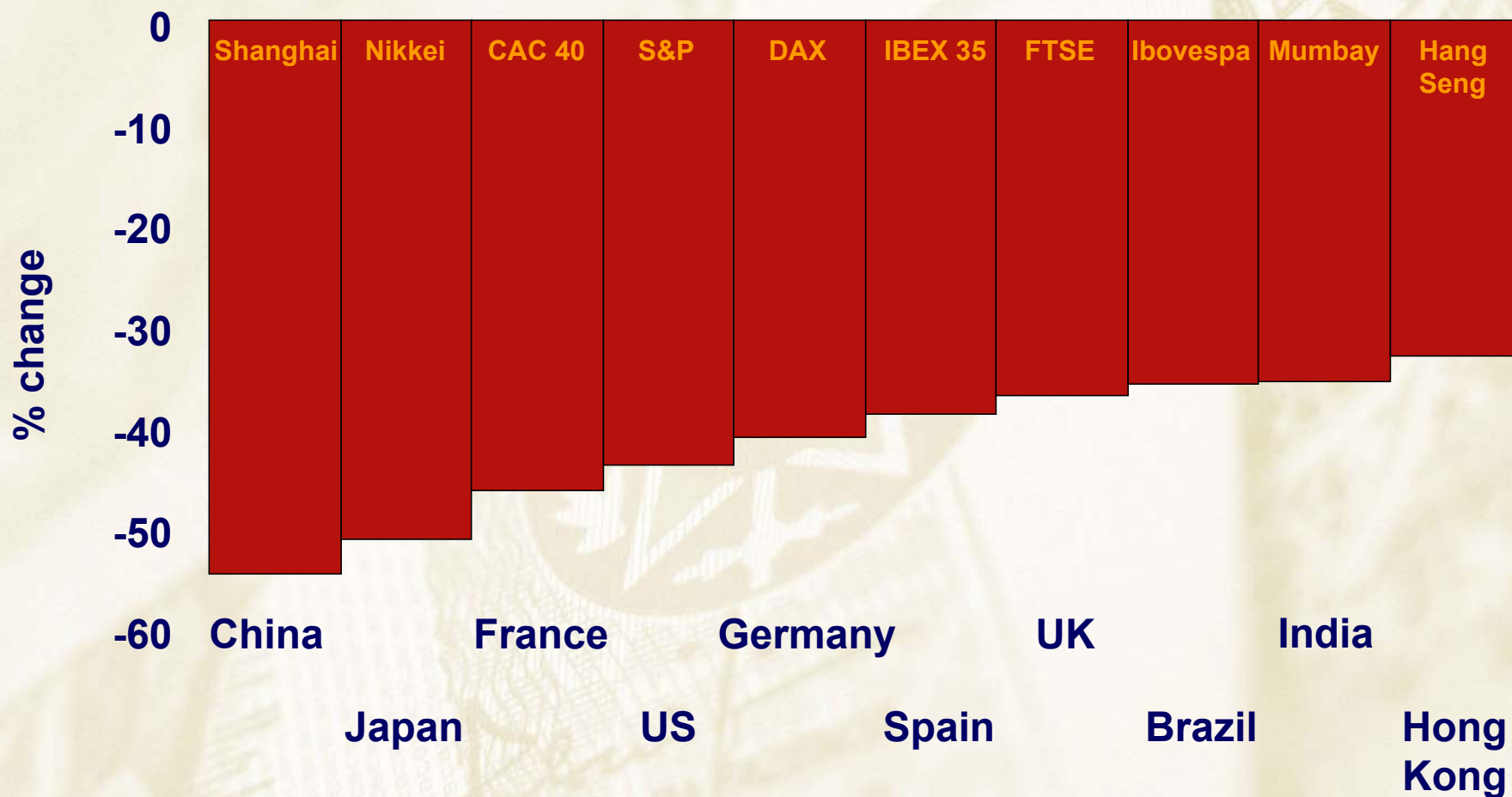
Mário Mesquita
London November 17-19, 2008



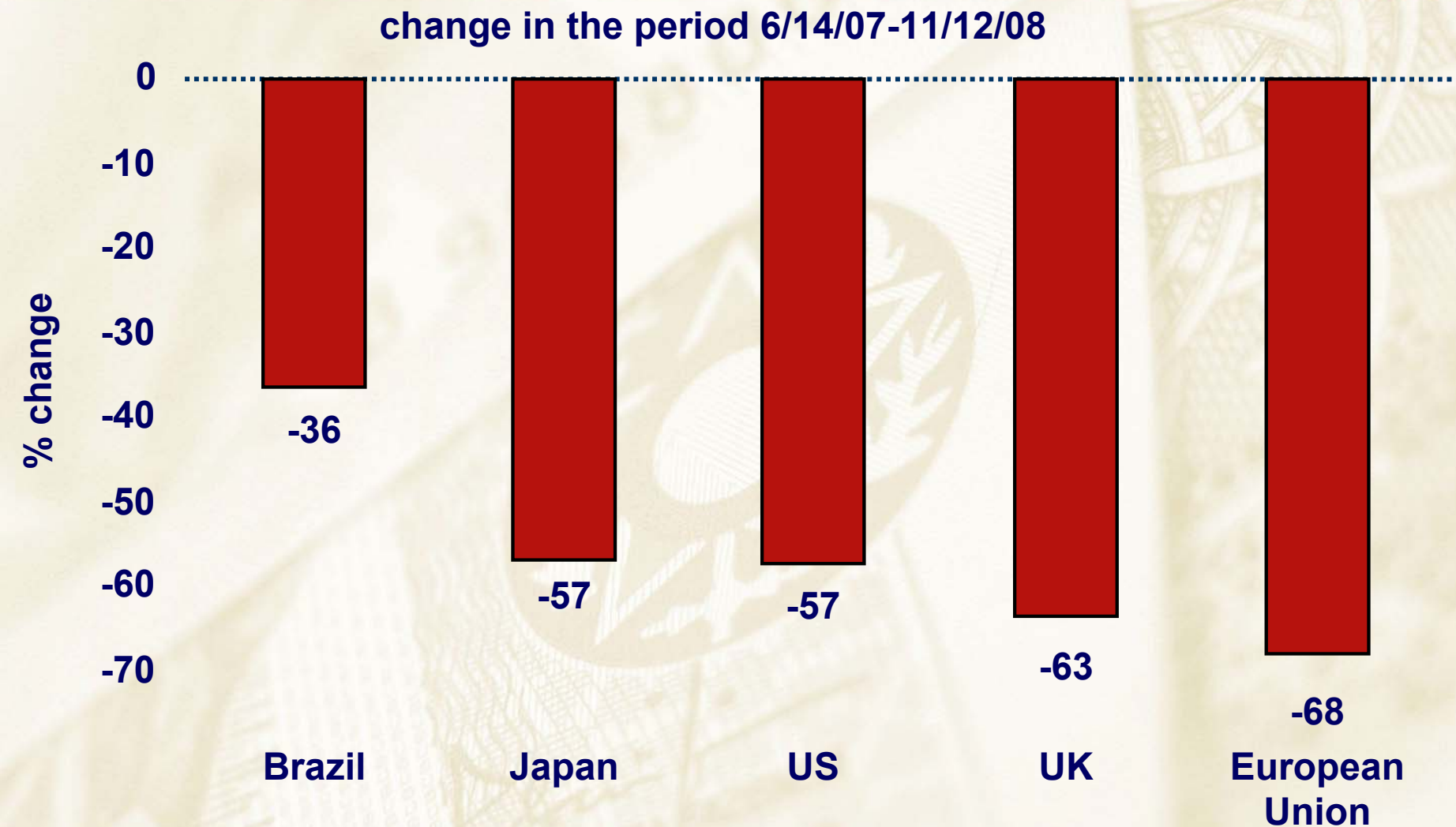
I. An Uncertain External Backdrop

Ibovespa vs. Global Stock Exchange Indexes

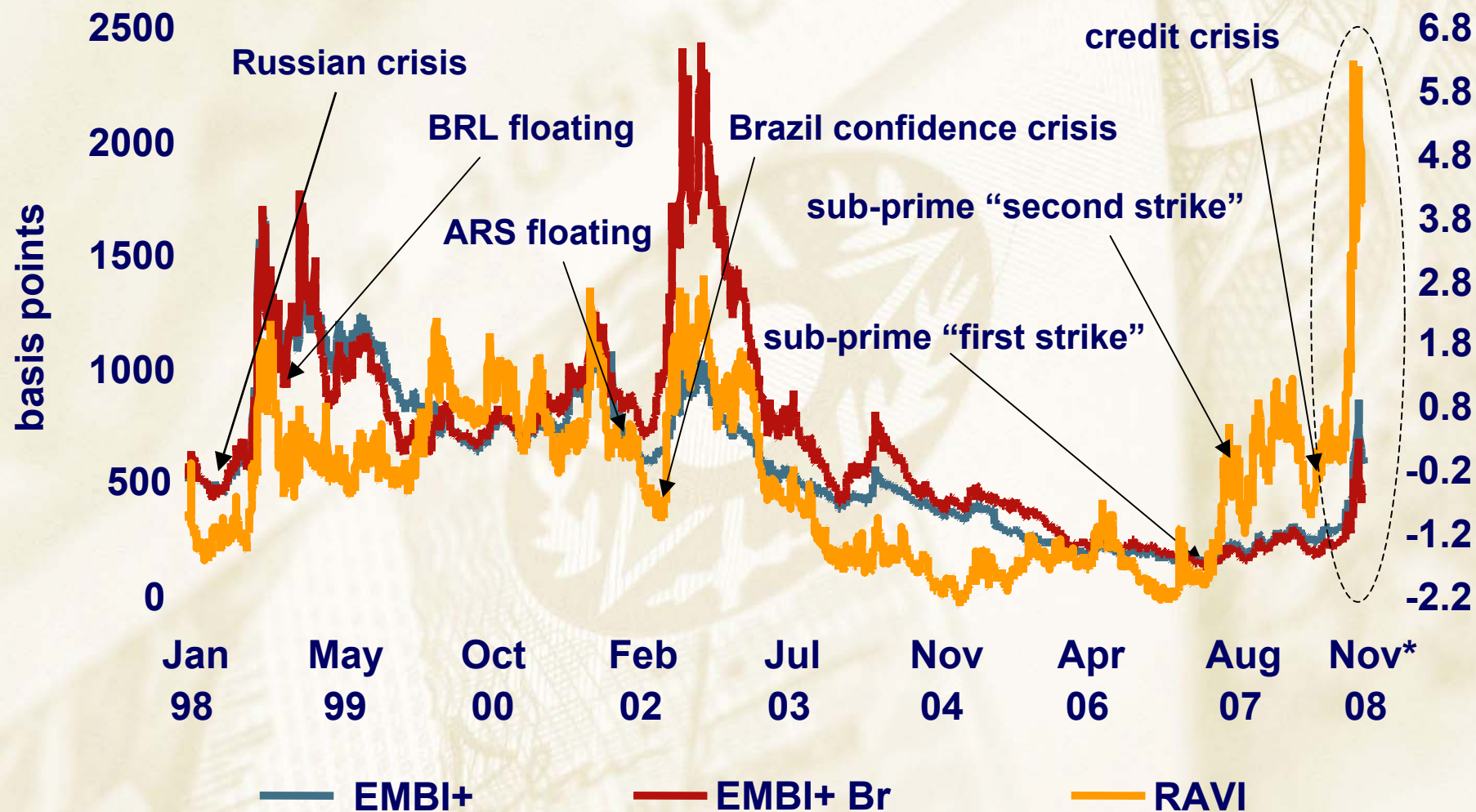
change in the period 6/14/07-11/12/08



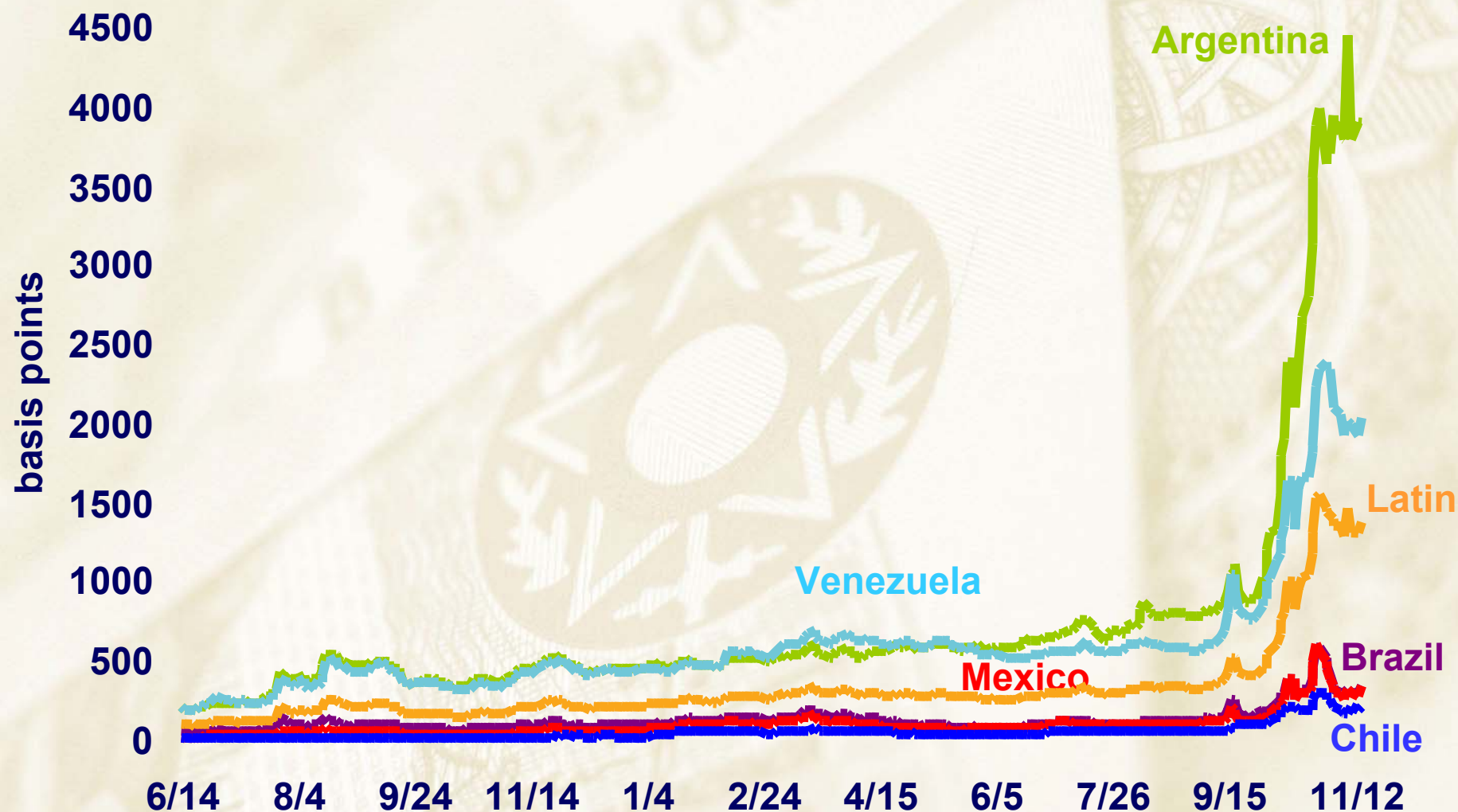
Stock Price Indices: Banking Sector



Country Risk and Risk Aversion Index (RAVI)

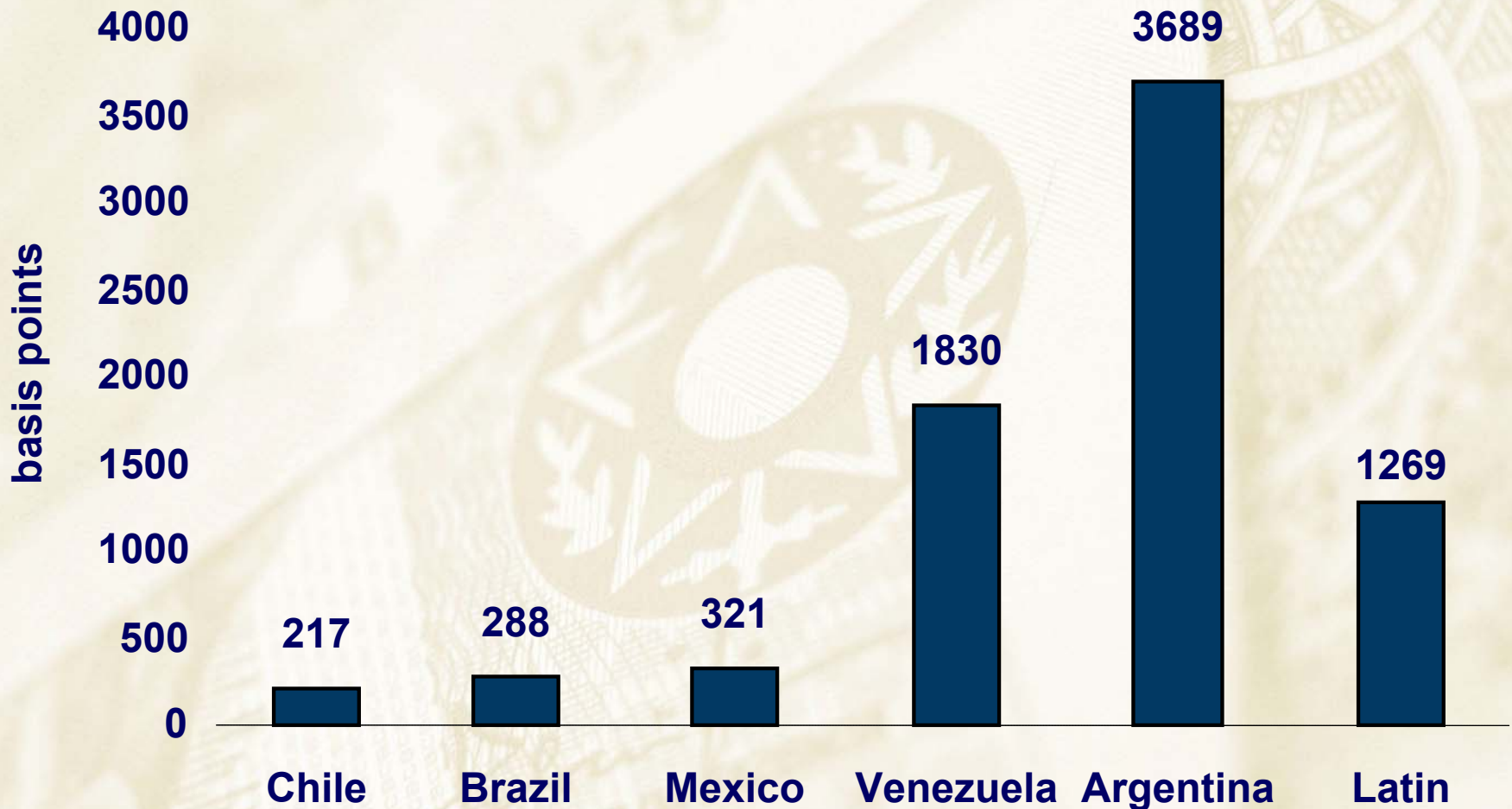


CDS (5y): LatAm



CDS (5y): LatAm

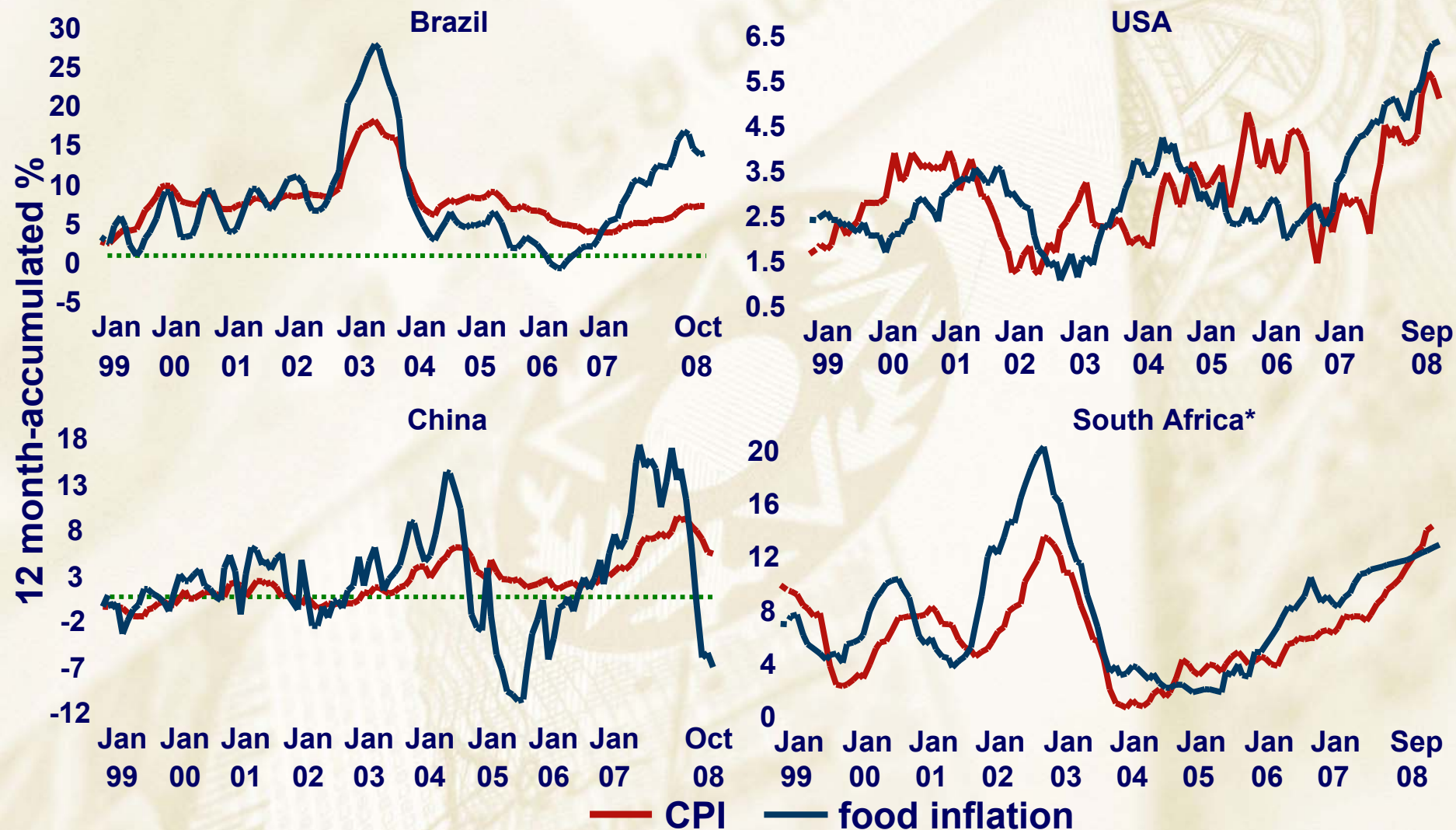
change in the period 6/14/07-11/12/08



US Dollar Weakening: trend reversal?



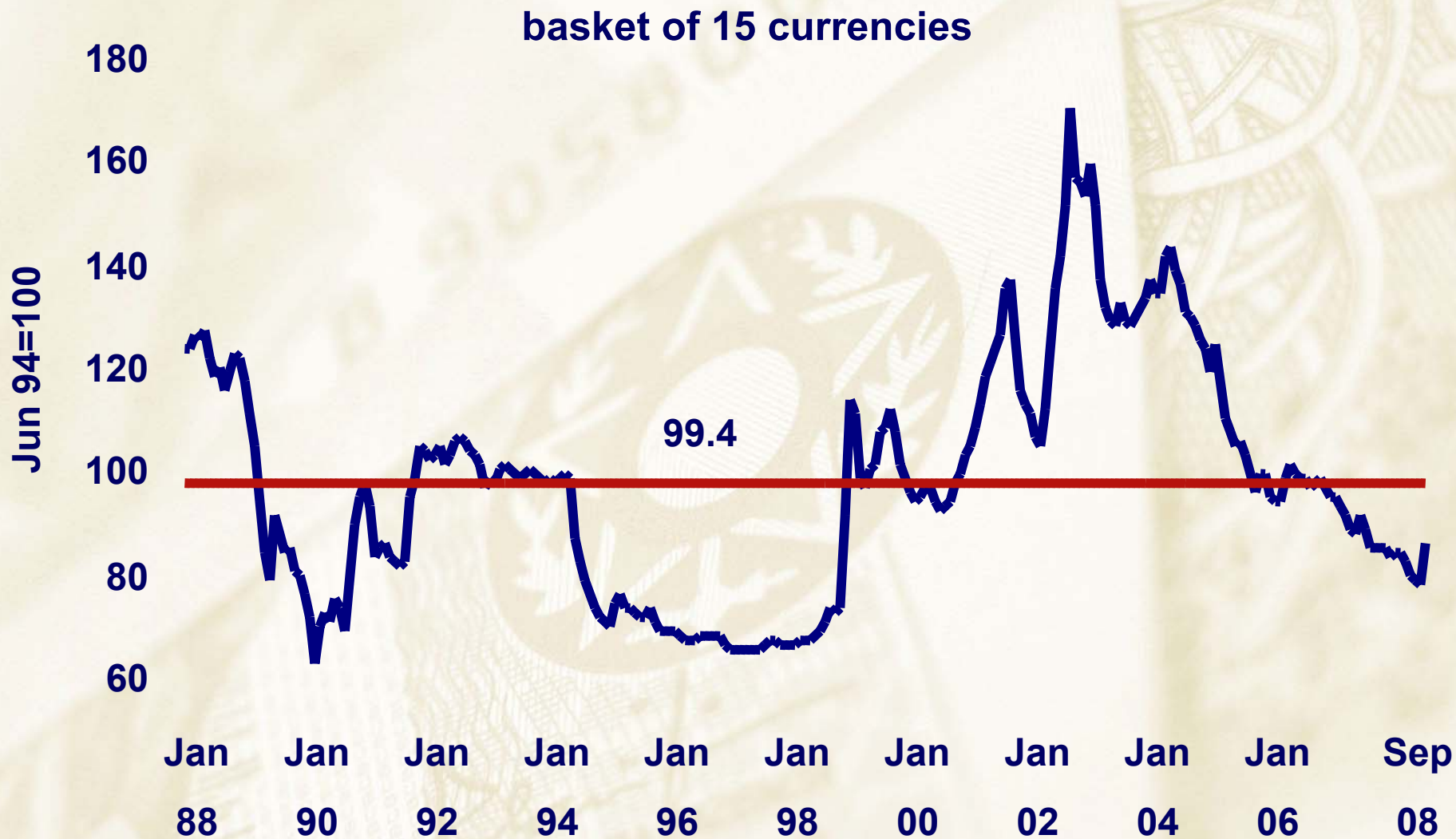
CPIs and Food Inflation - Selected Countries



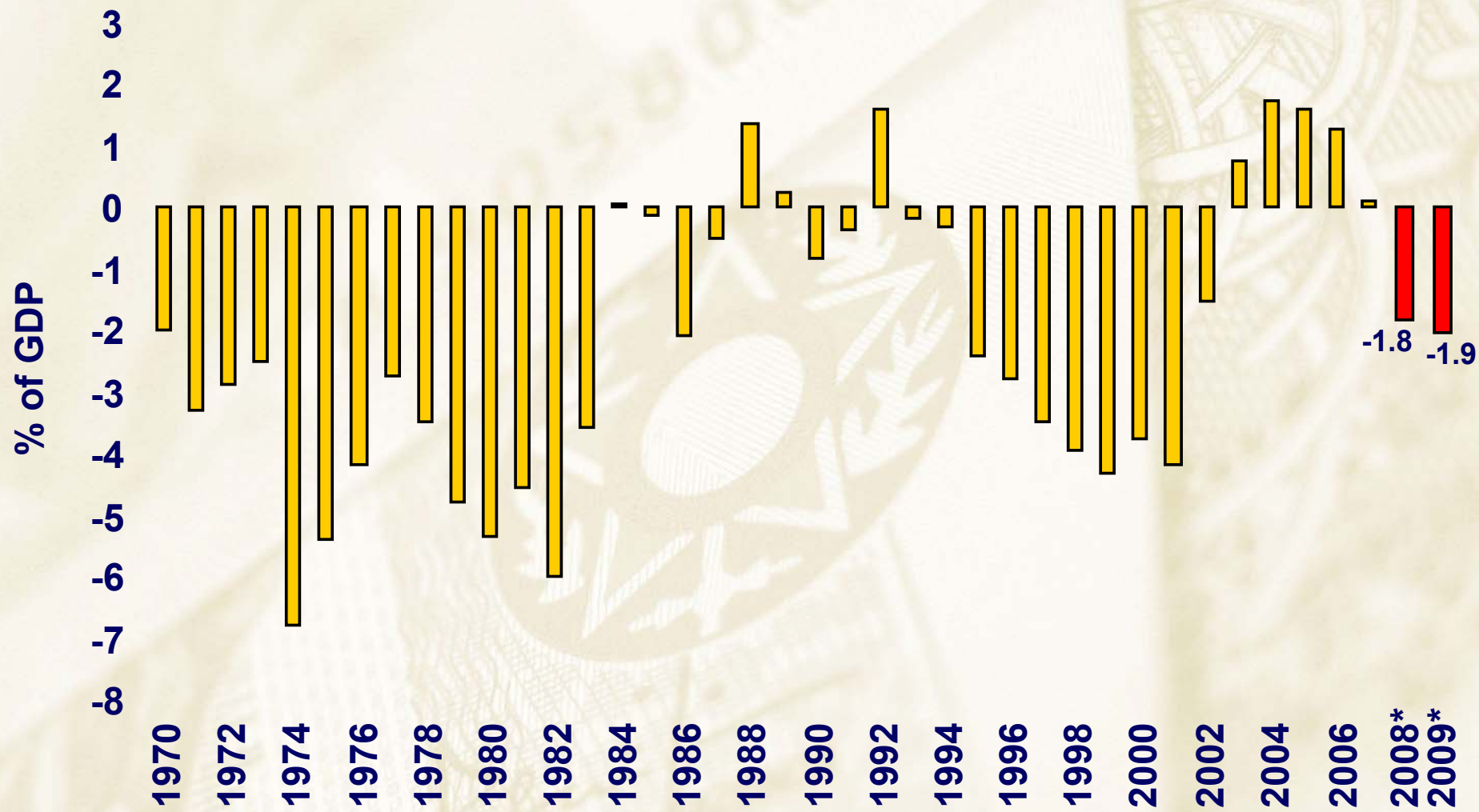


II. Brazil: Resilience to Shocks

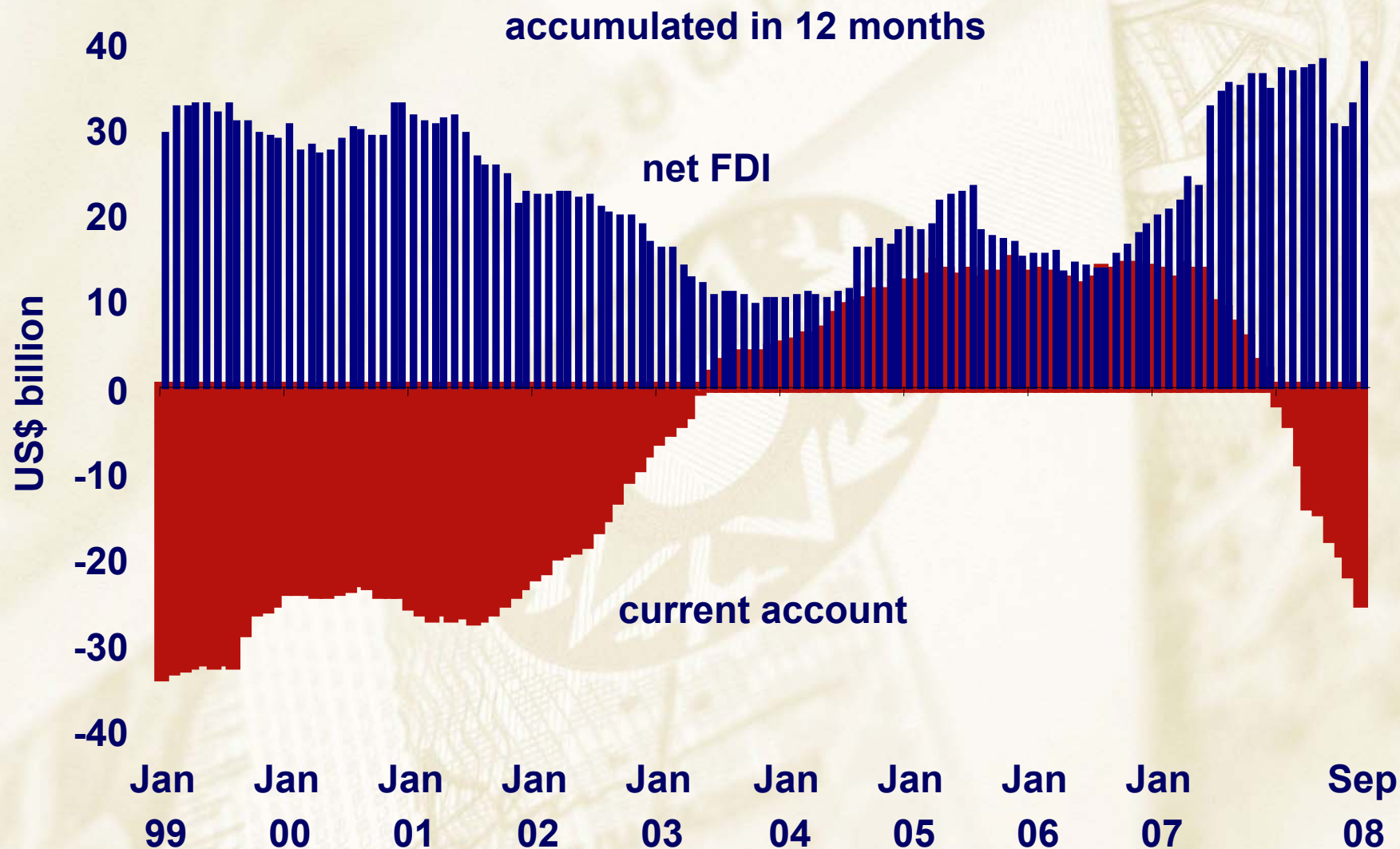
Real Effective Exchange Rate



Current Account/GDP



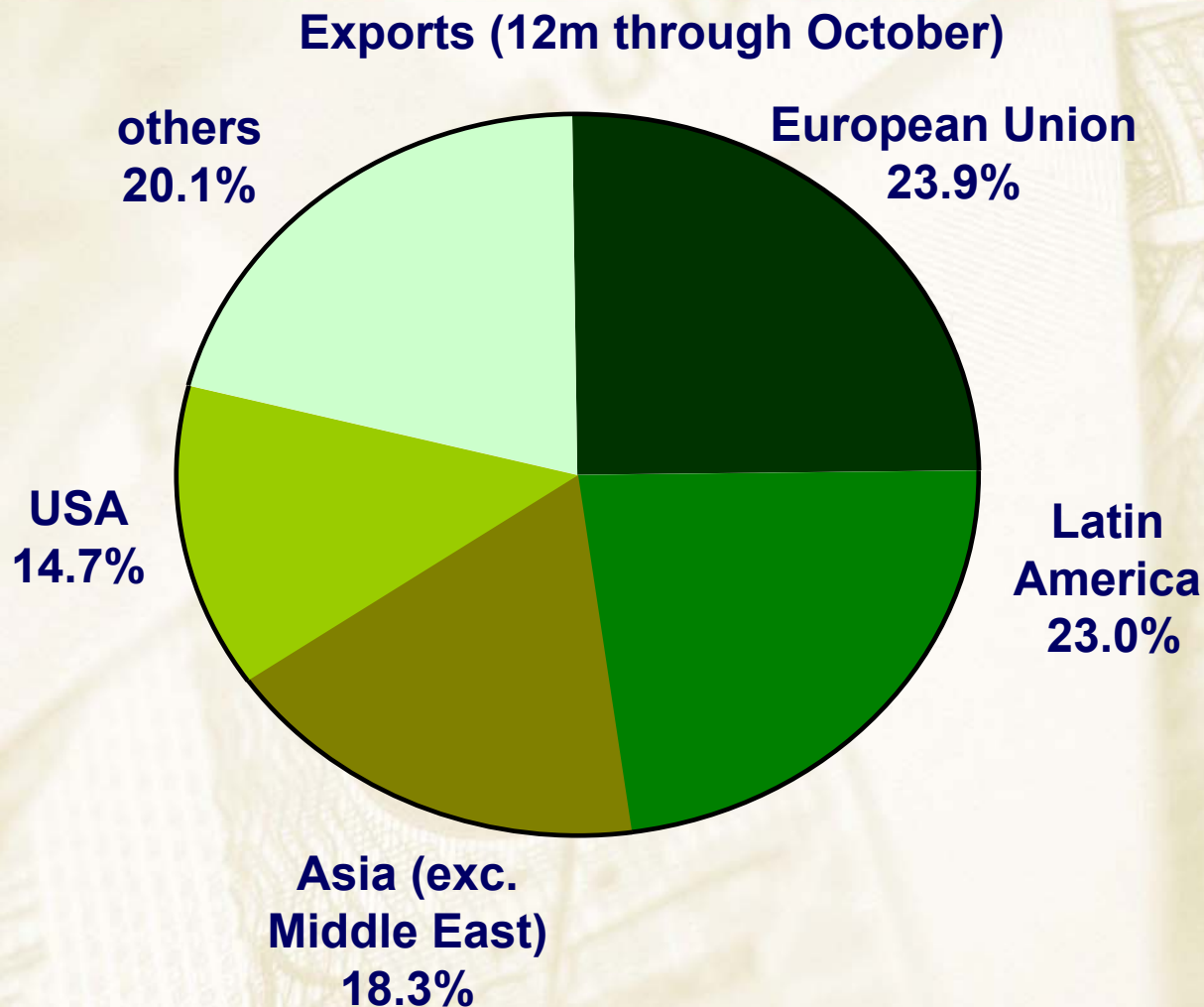
Net FDI vs. Current Account



Trade Balance

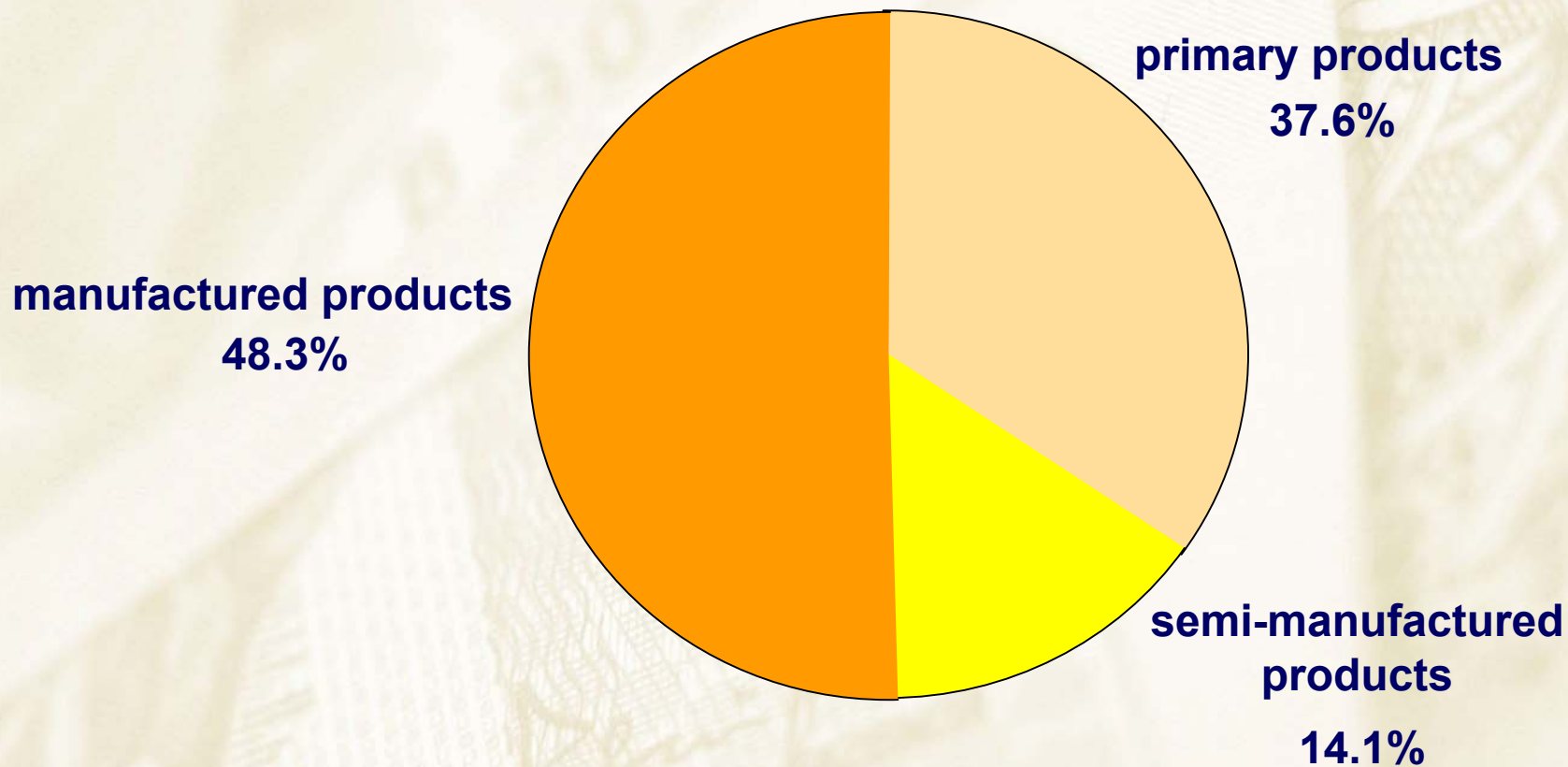


Brazil: ...with Fairly Diversified Trading Relations

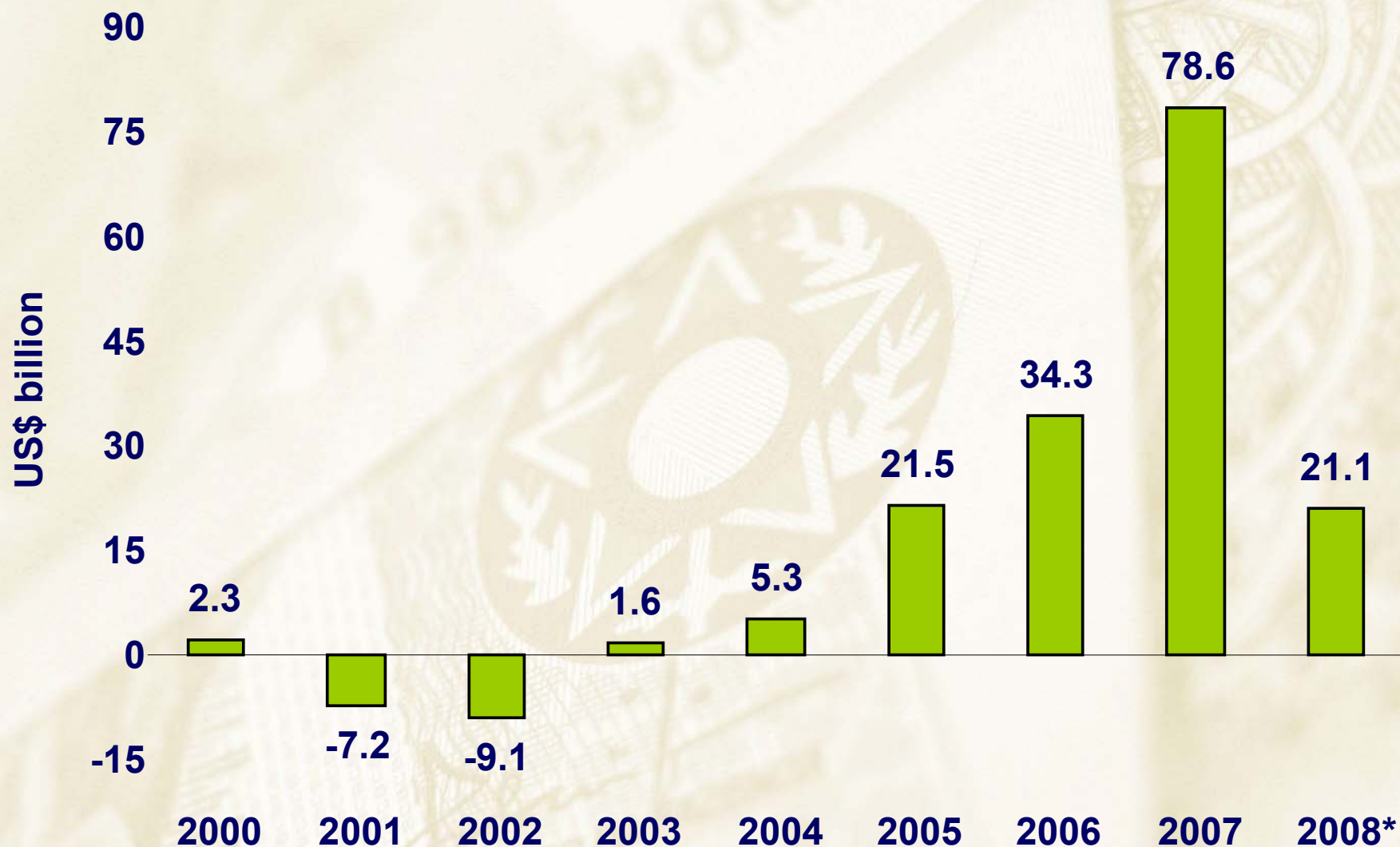


Diversification of Exports by Products: 2008

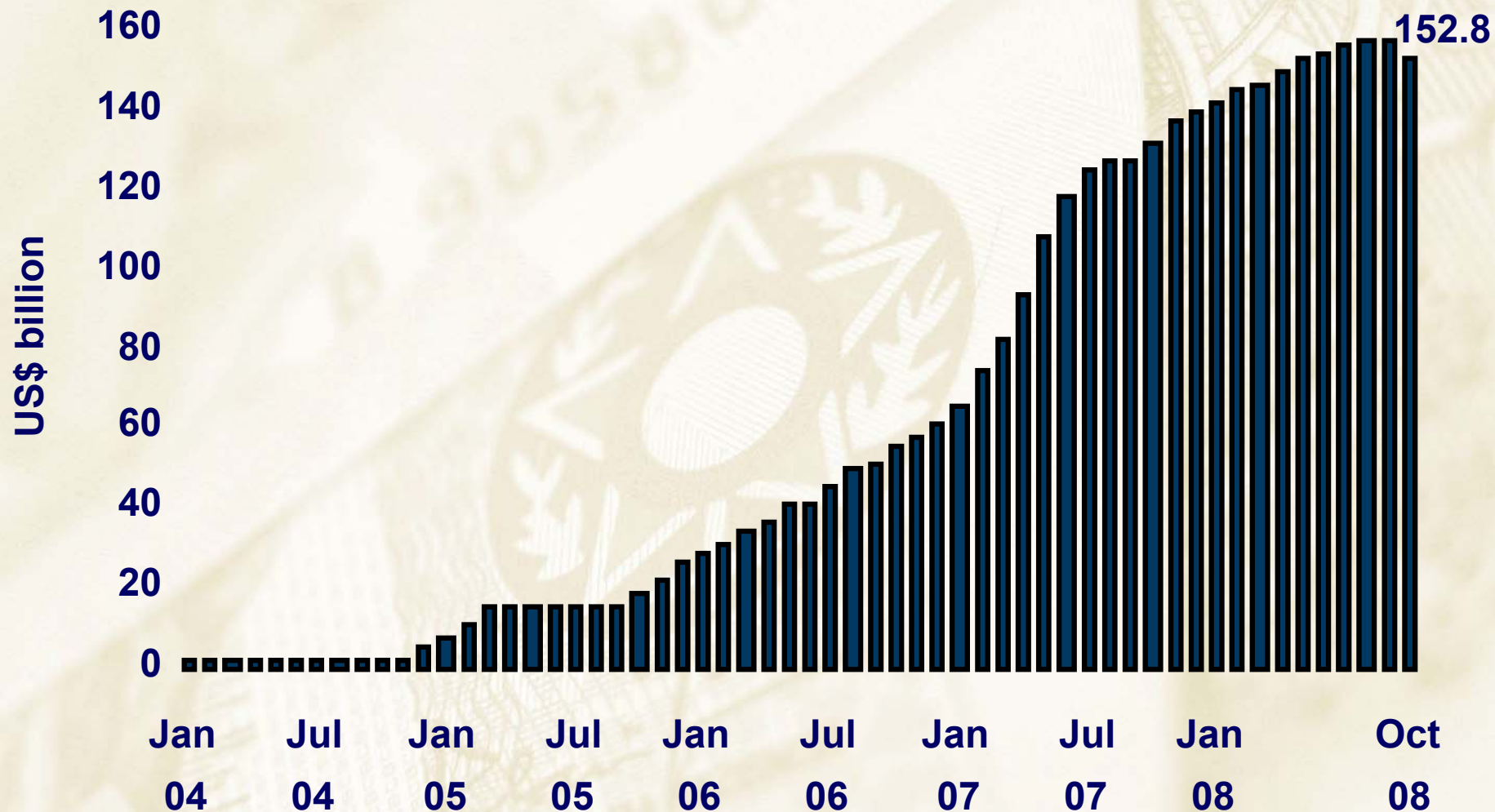
Exports (12m through October)



BCB Purchases in the FX Market



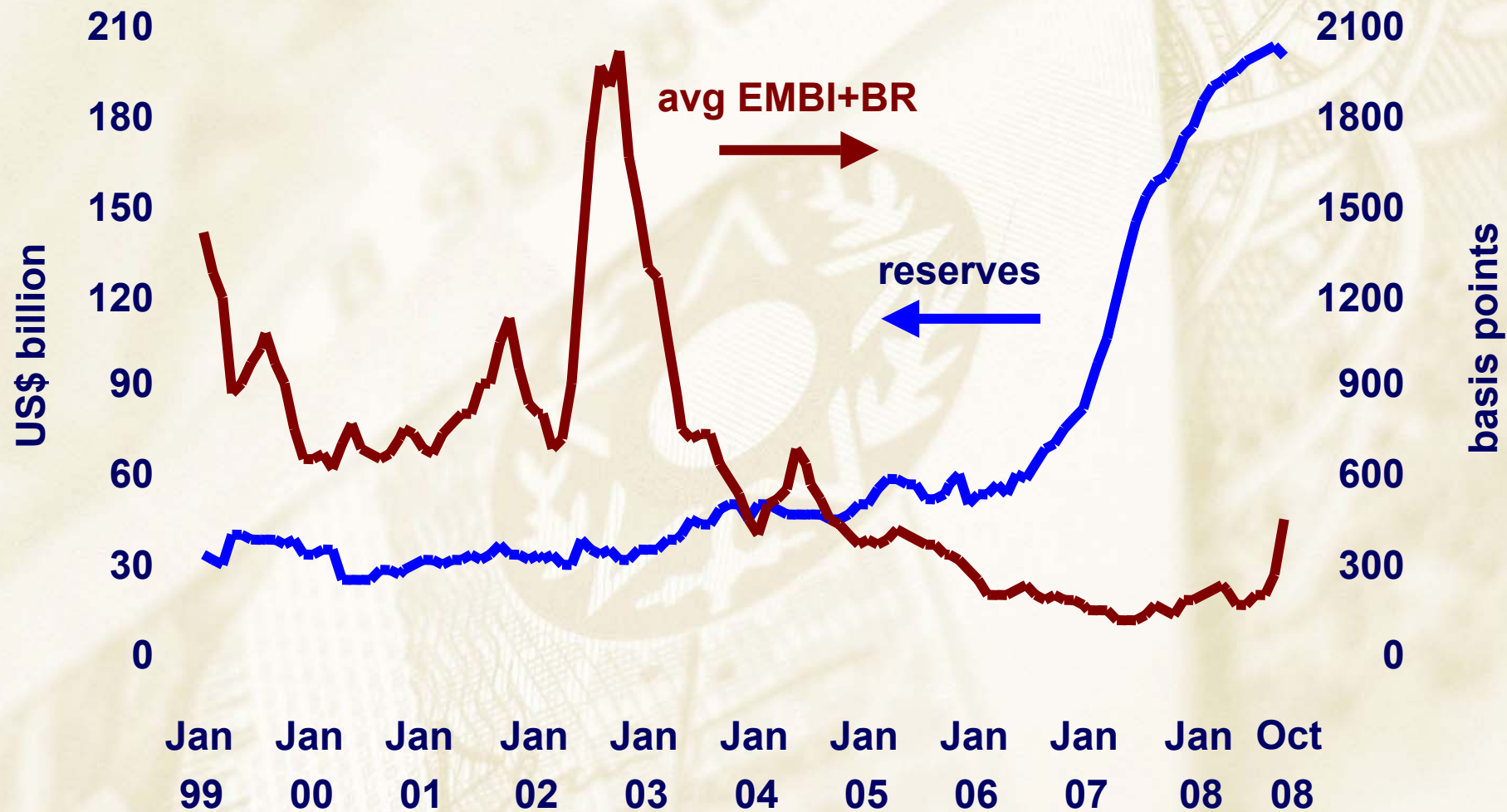
BCB Purchases in the FX Market (Accumulated Flows since Jan 2004)



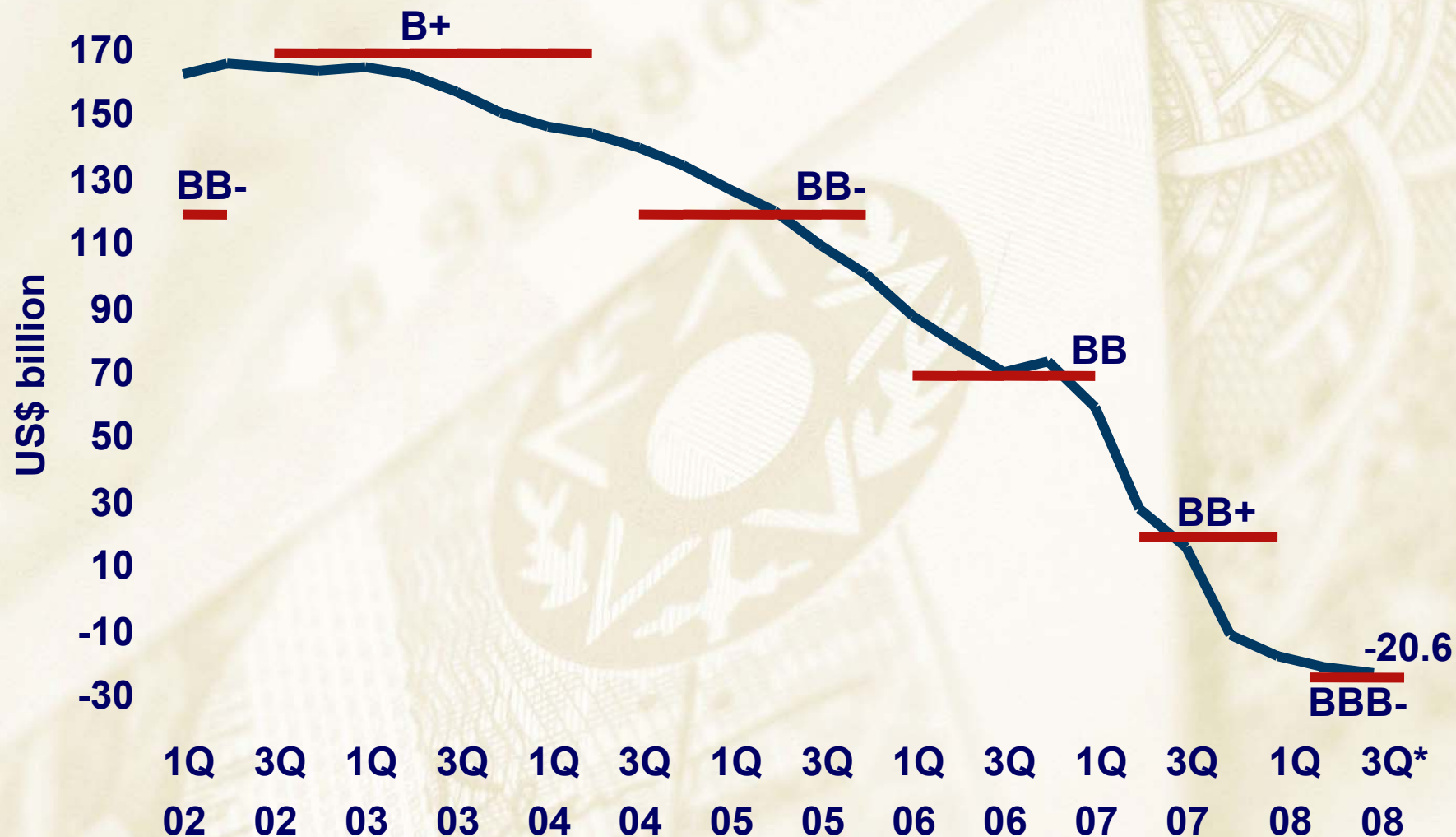
Net FDI and Net Foreign Investment in Stocks and Short- and Long-Term Fixed-Income



International Reserves and Sovereign Spread

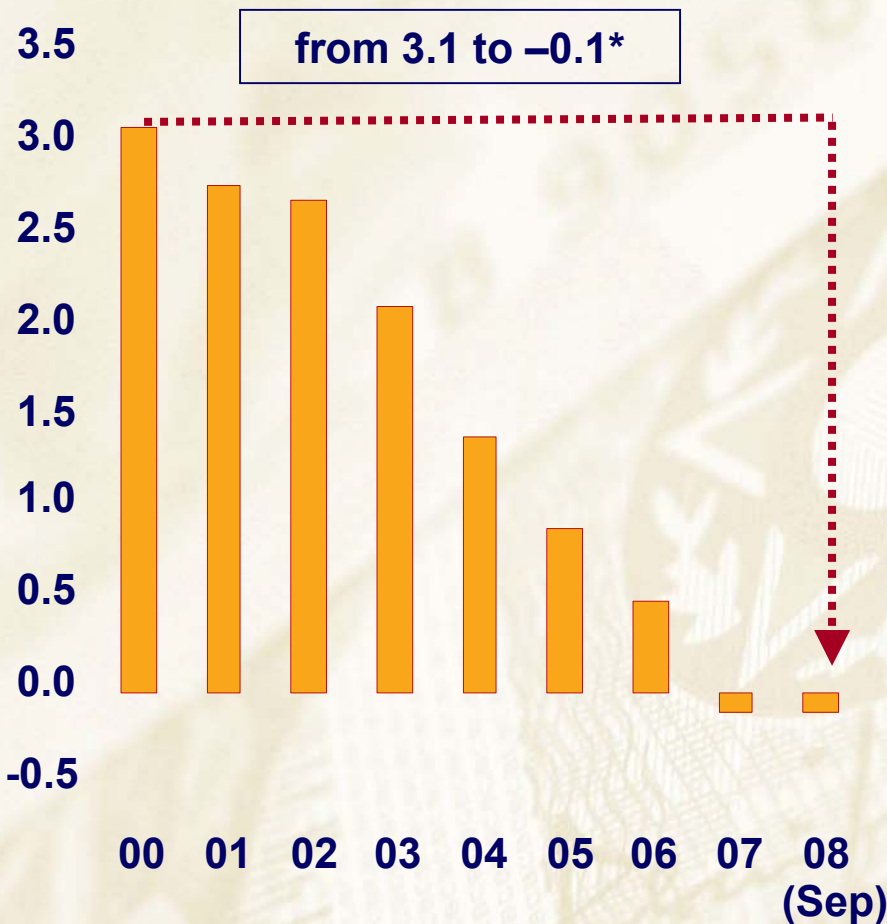


Net External Debt vs. S&P Ratings

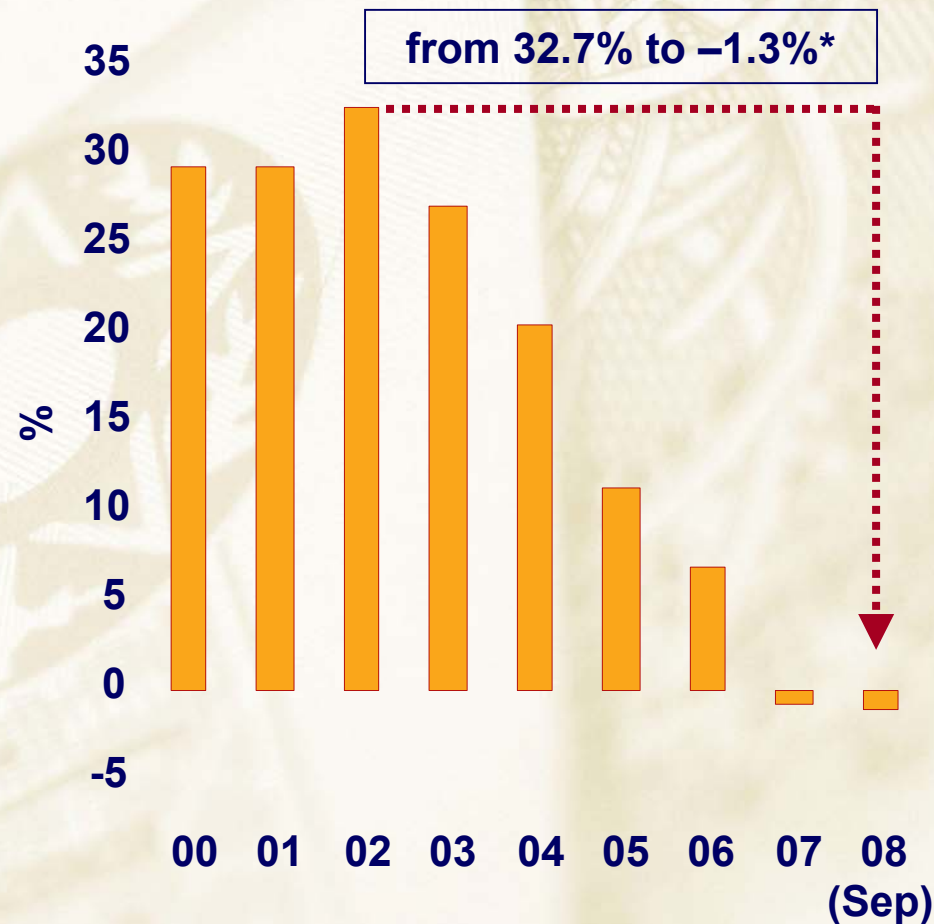


External Sustainability Indicators

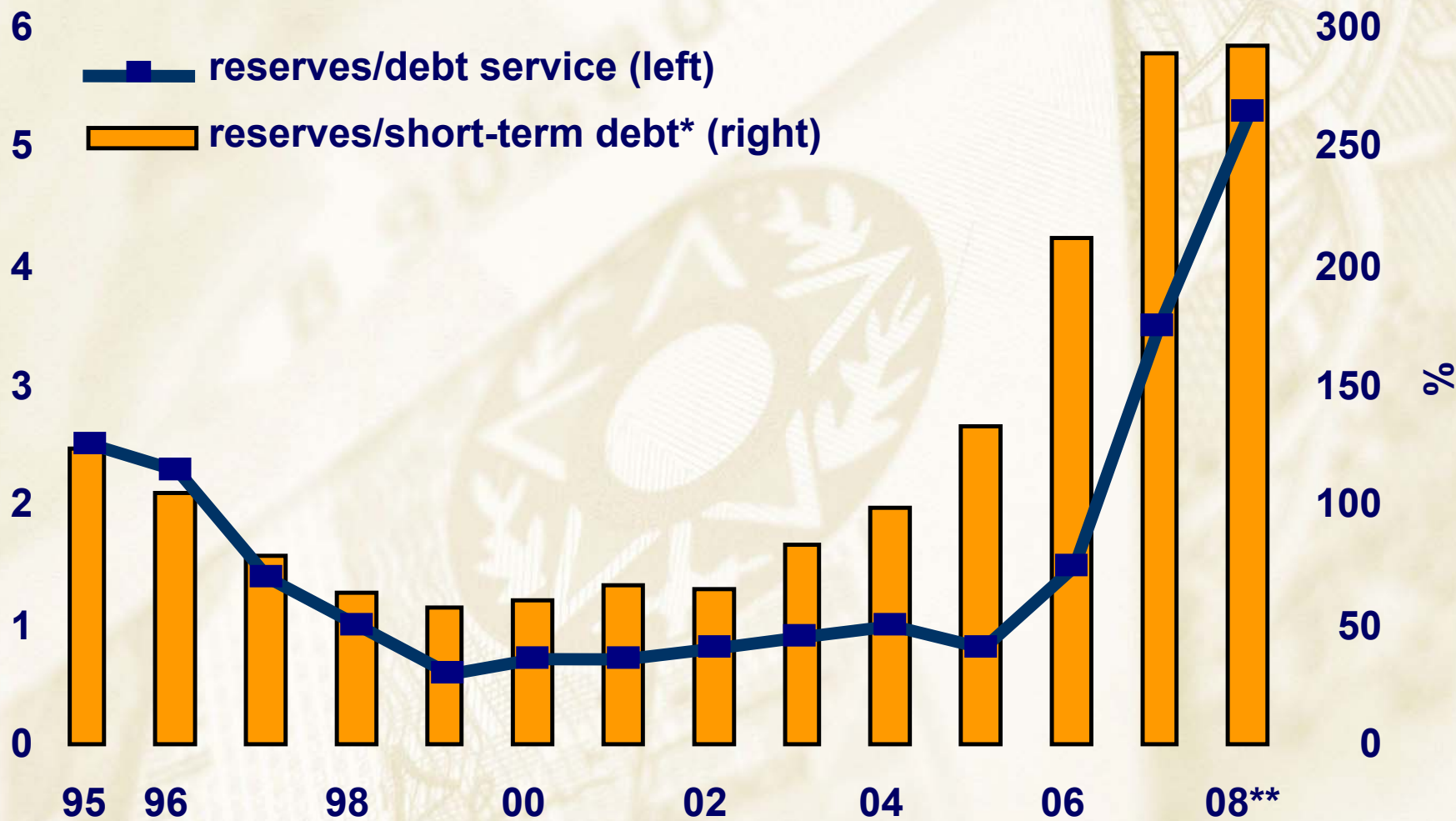
net external debt/exports



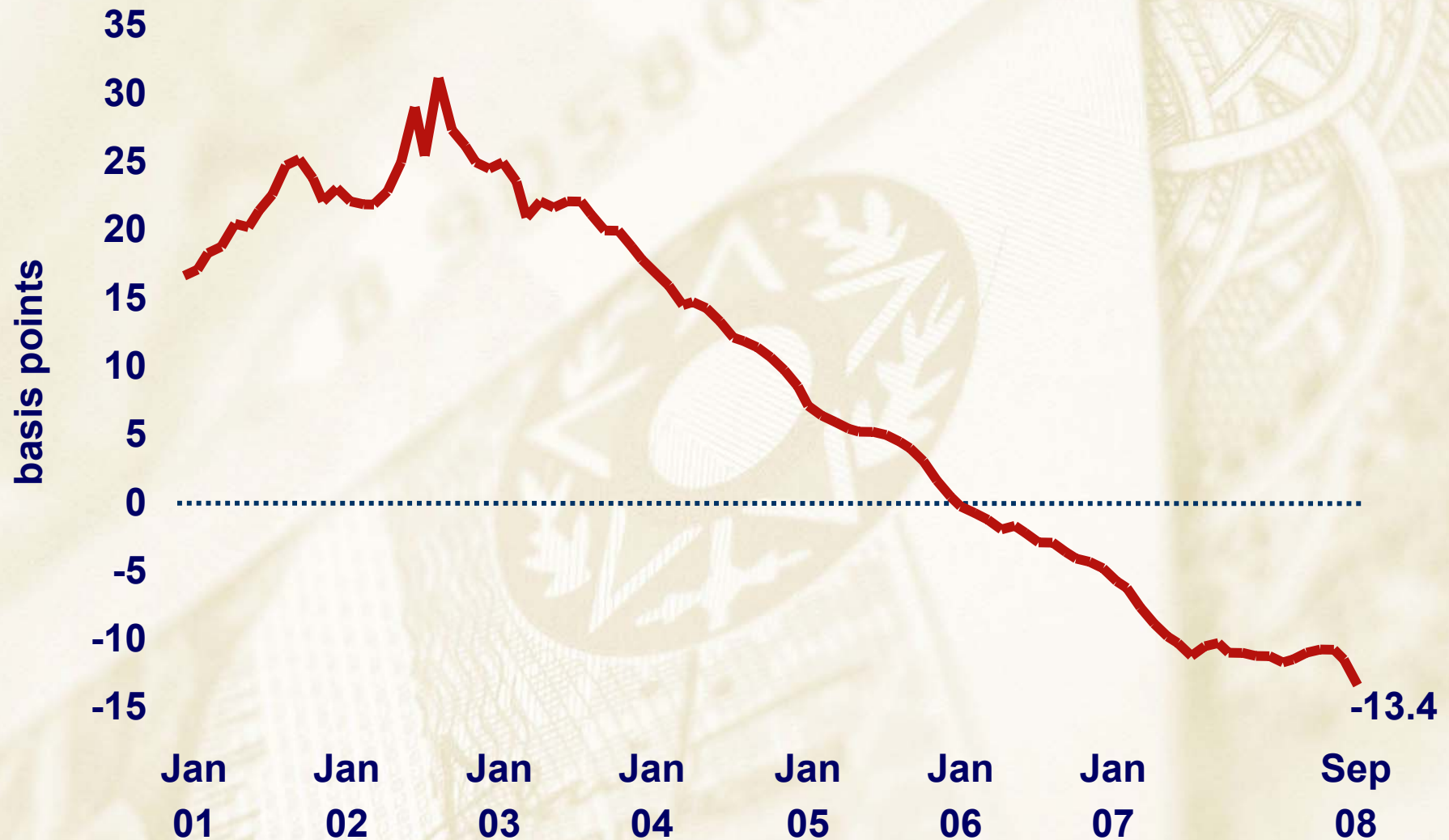
net external debt/GDP



External Sustainability Indicators – Reserves



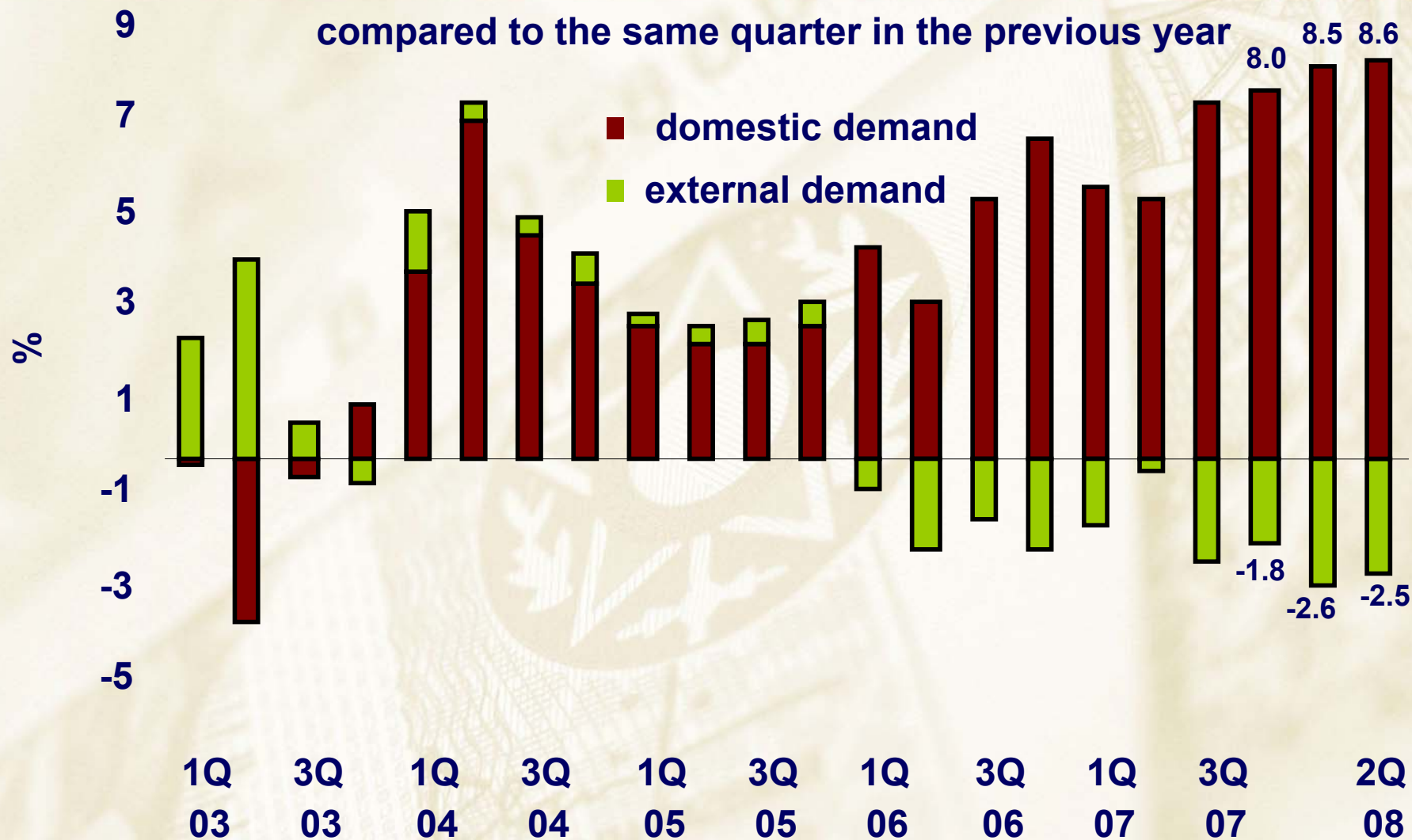
Response of Debt/GDP Ratio to a 1% Exchange Rate Change



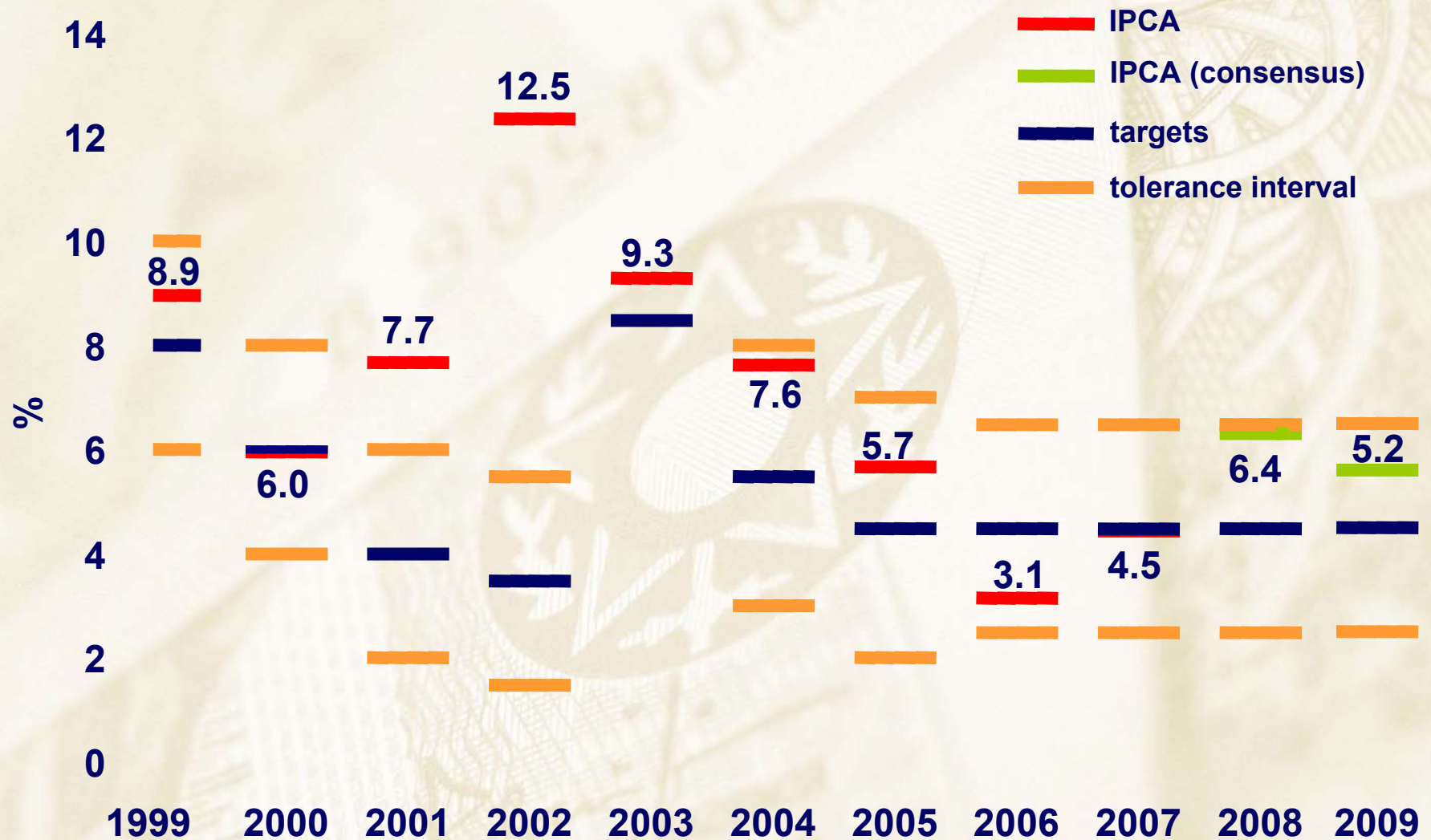


III. Brazil: Inflation Targeting in Practice

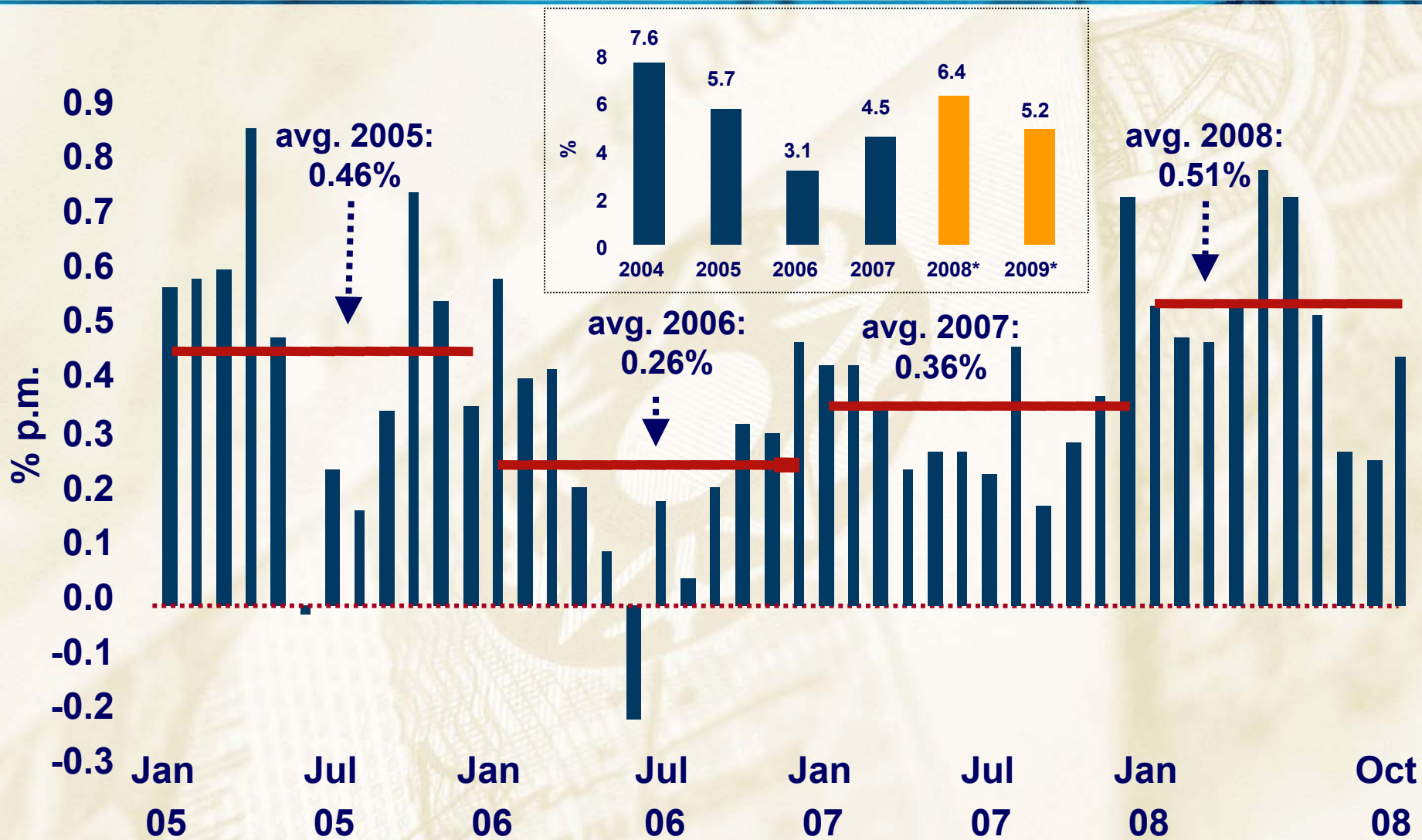
Contribution of Domestic Demand vs. External Demand for GDP Growth



Inflation Targets

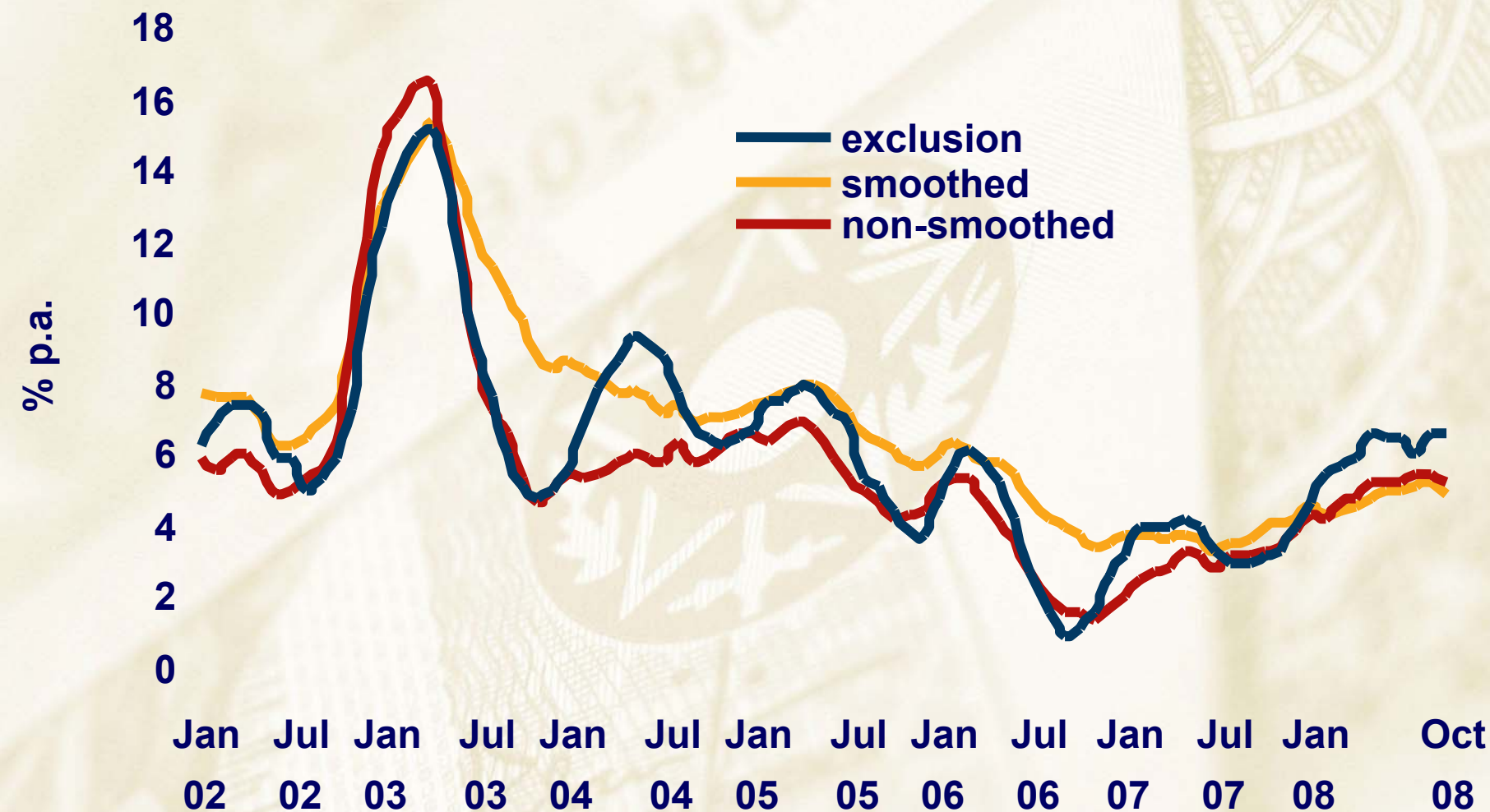


IPCA Inflation

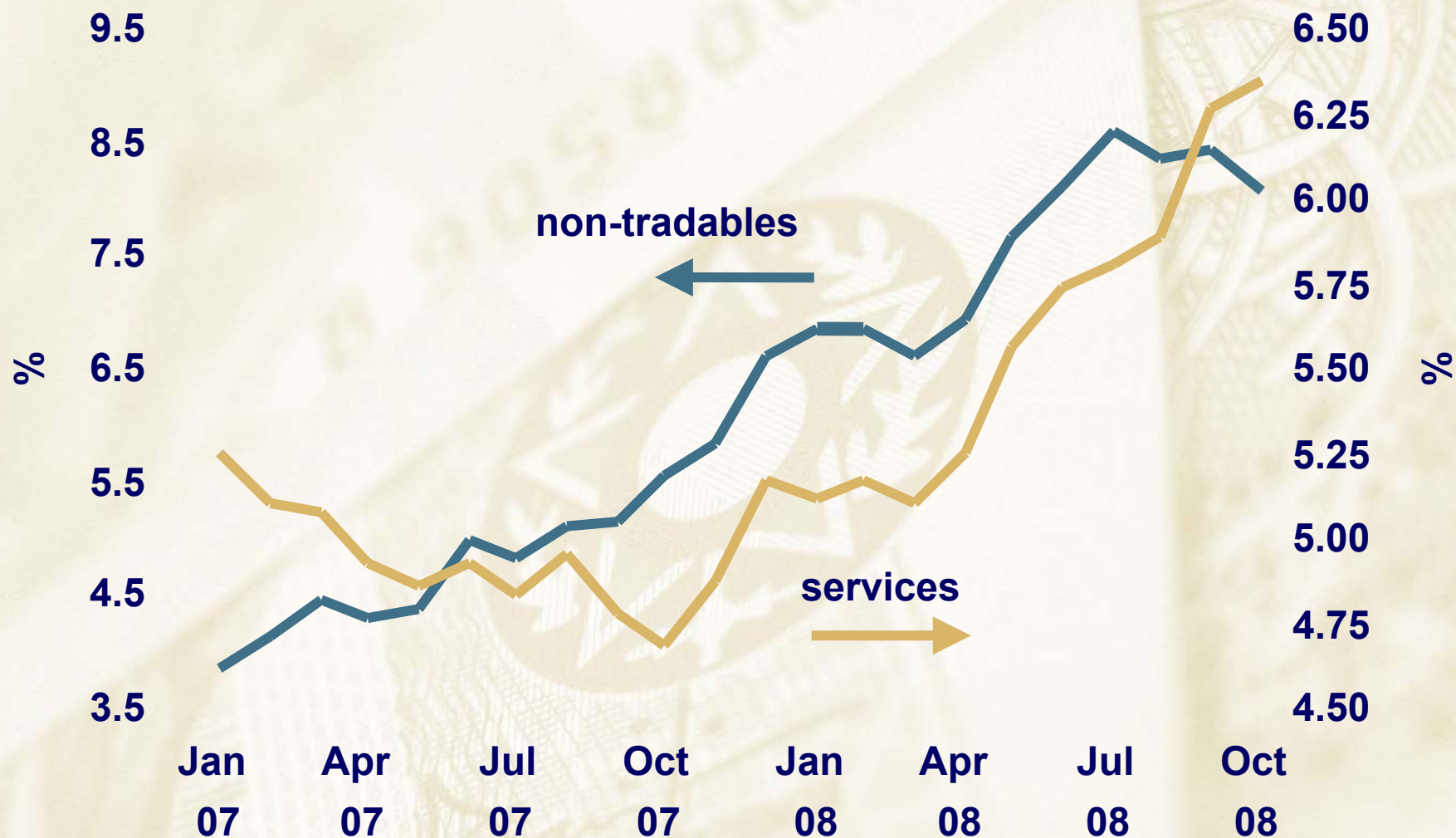


Core Inflation

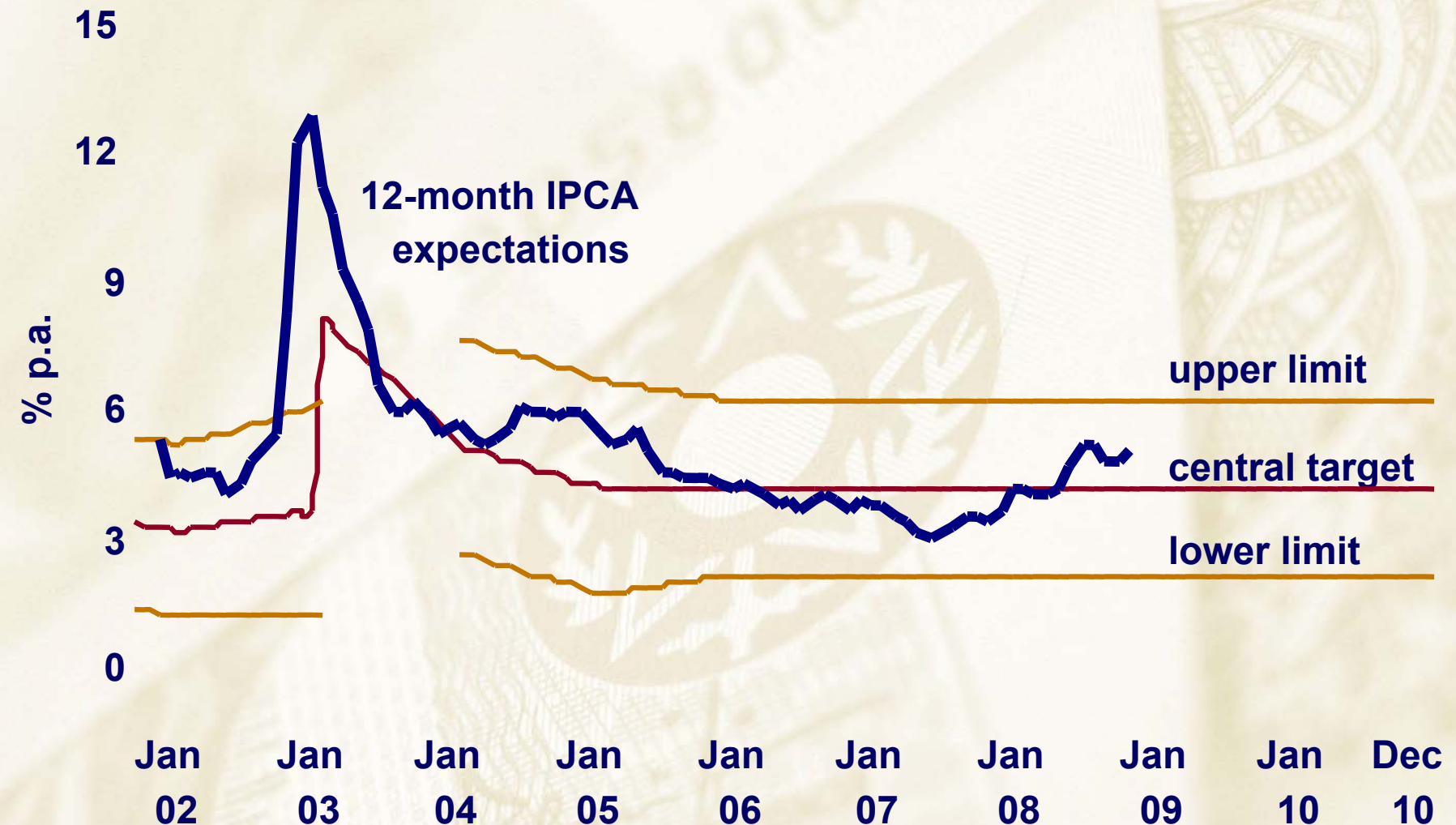
6-month moving average, annualized



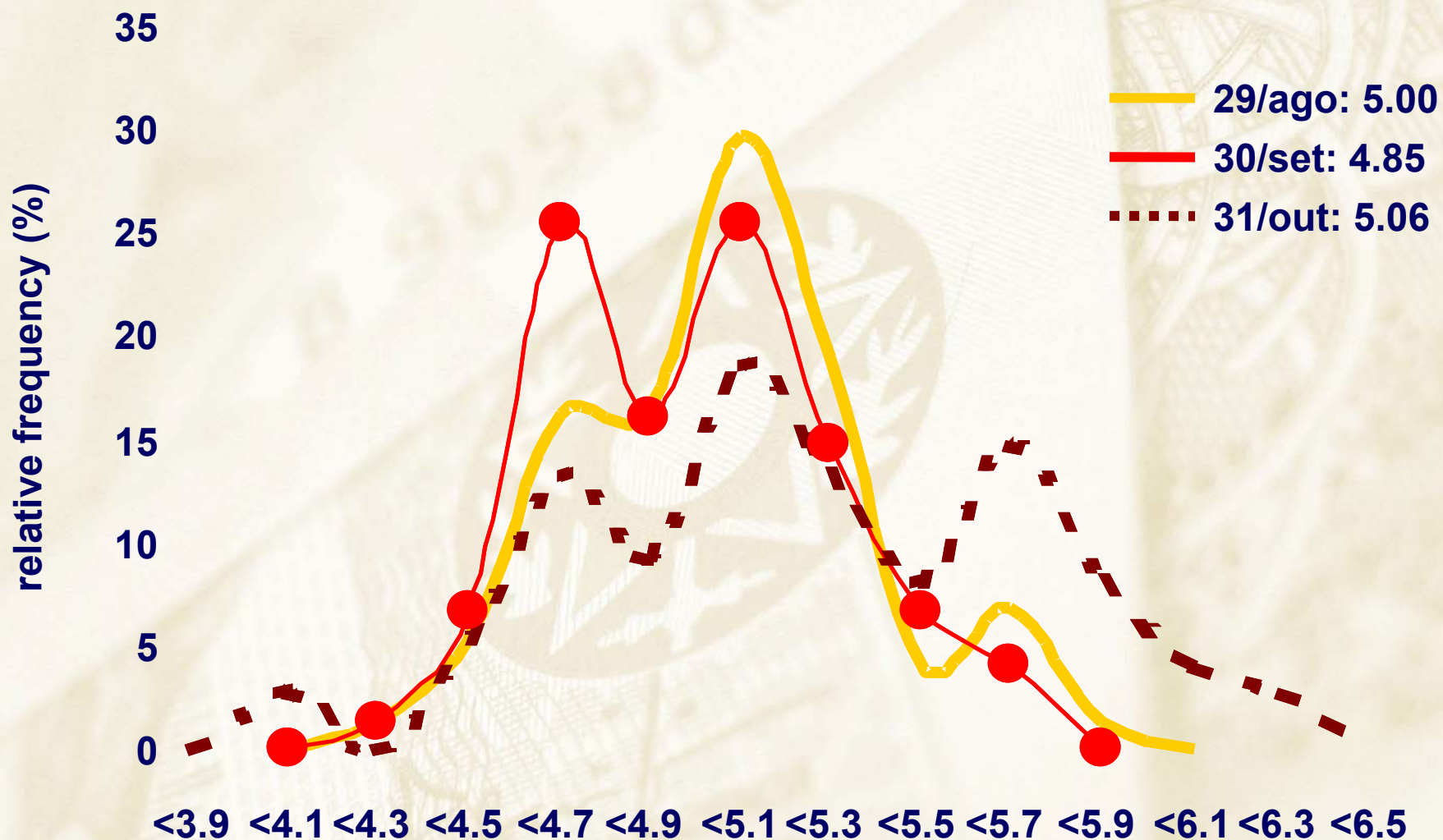
IPCA – 12-month change



IPCA Expectations and Target



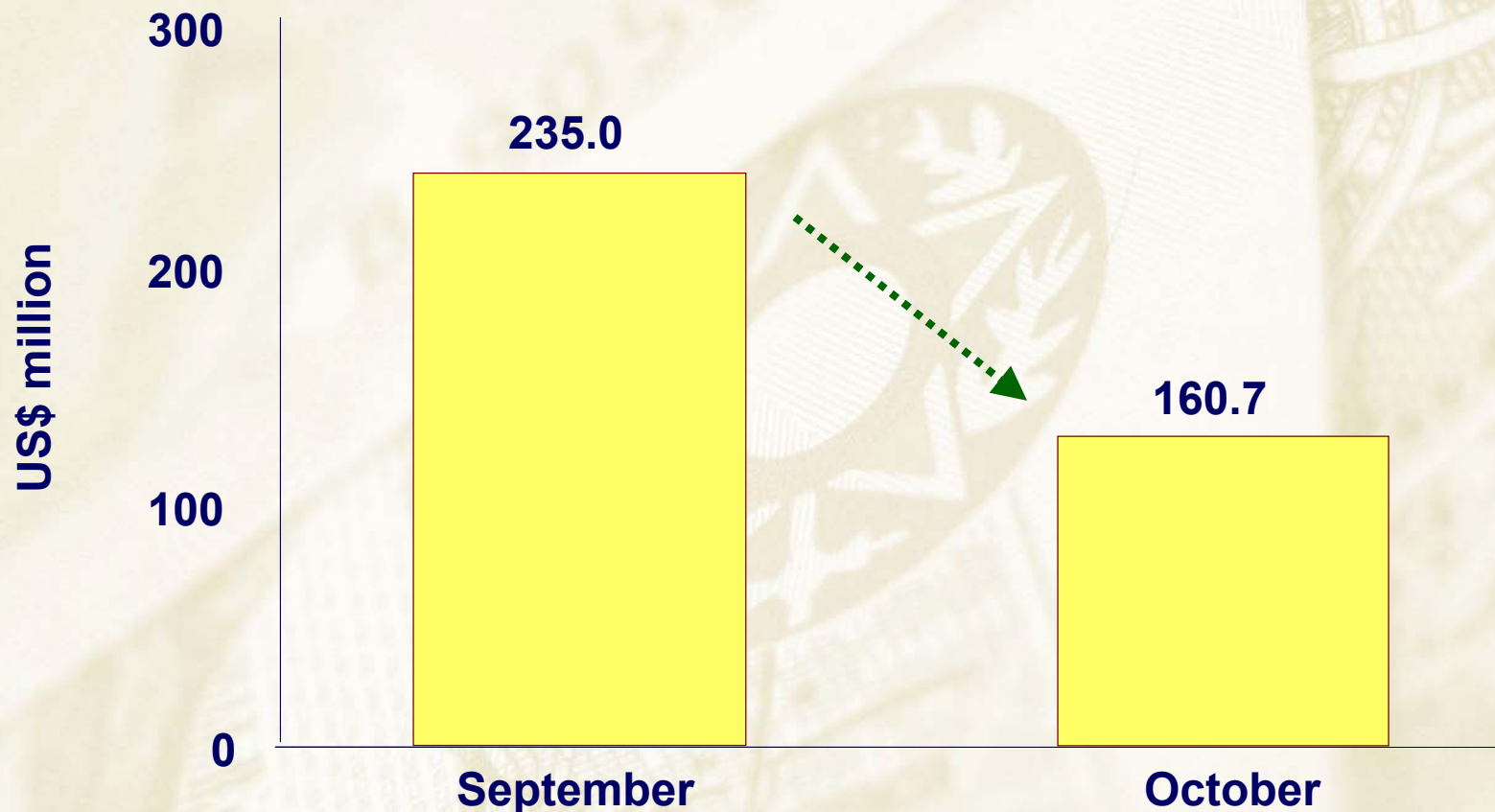
2009 IPCA Market Expectations



IV. Dealing with the global crisis

Liquidity in Foreign Currency: Trade Finance Contracts (ACC)

daily averages



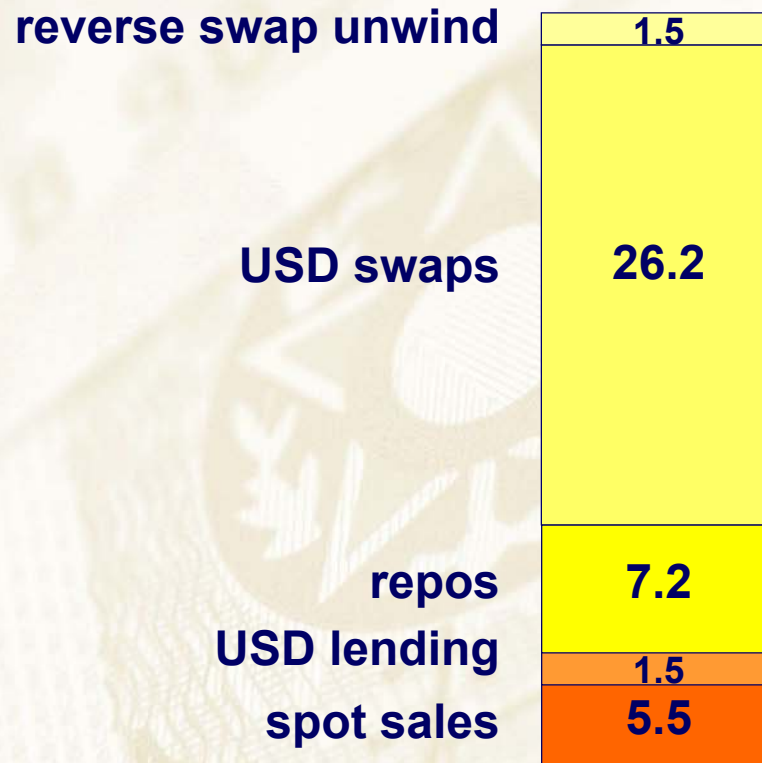
Recent Initiatives to Inject Liquidity in Foreign Currency Market

- Sales of USD in repo auctions;
- Reduction of reserve requirements for banks acquiring USD with repos;
- Sales of currency swap contracts;
- Sales of USD in spot market;
- Collateralized loans, aimed at financing exports;
- Elimination of tax (IOF) on fixed-income capital inflows;
- Authorization for BCB to engage in currency swap transactions with other central banks
- Agreement with the US Federal Reserve

Recent Initiatives to Inject Liquidity in Foreign Currency Market

amounts injected between Sep 19th and Nov 7th

US\$ billion



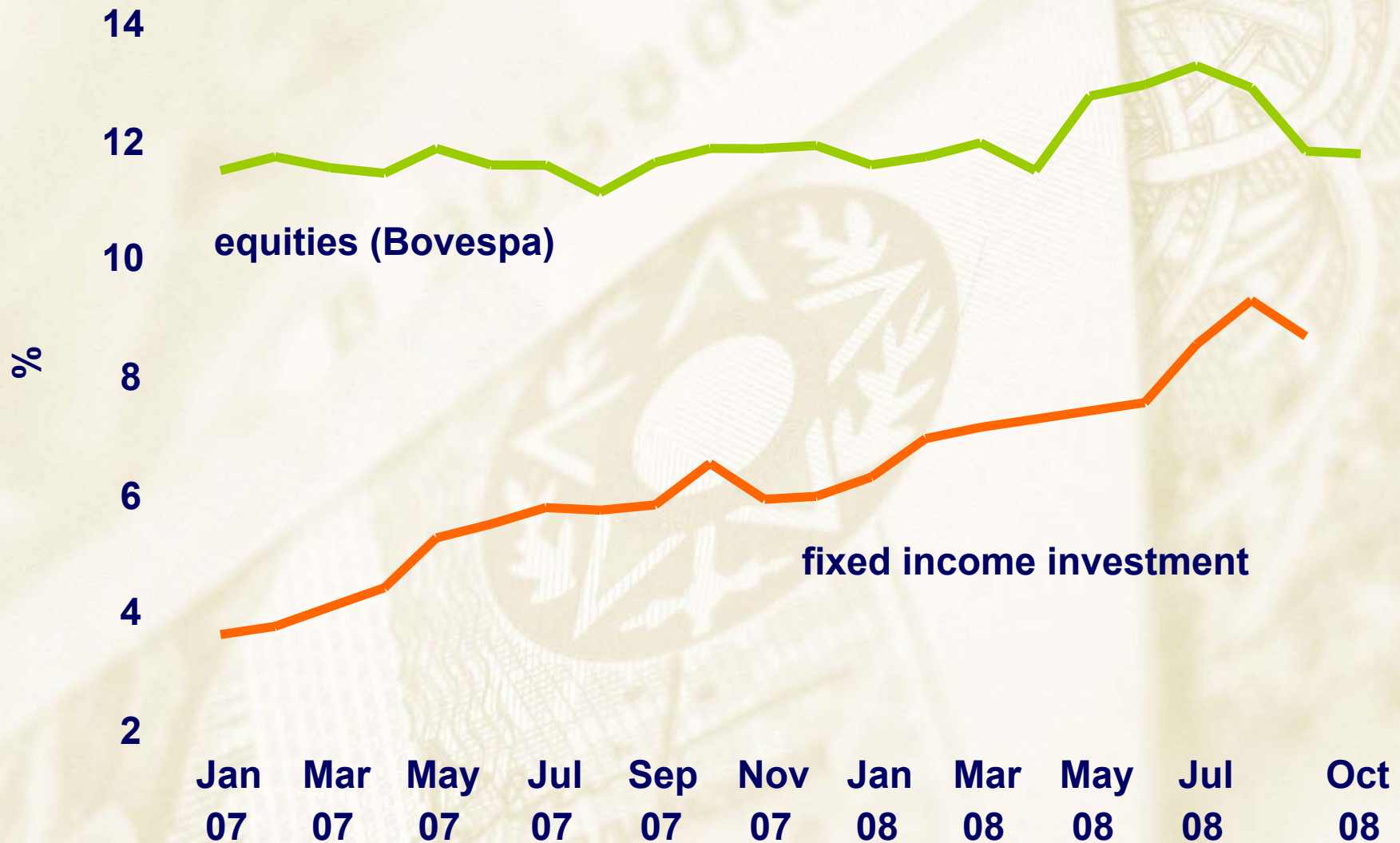
Reserves/Total Debt



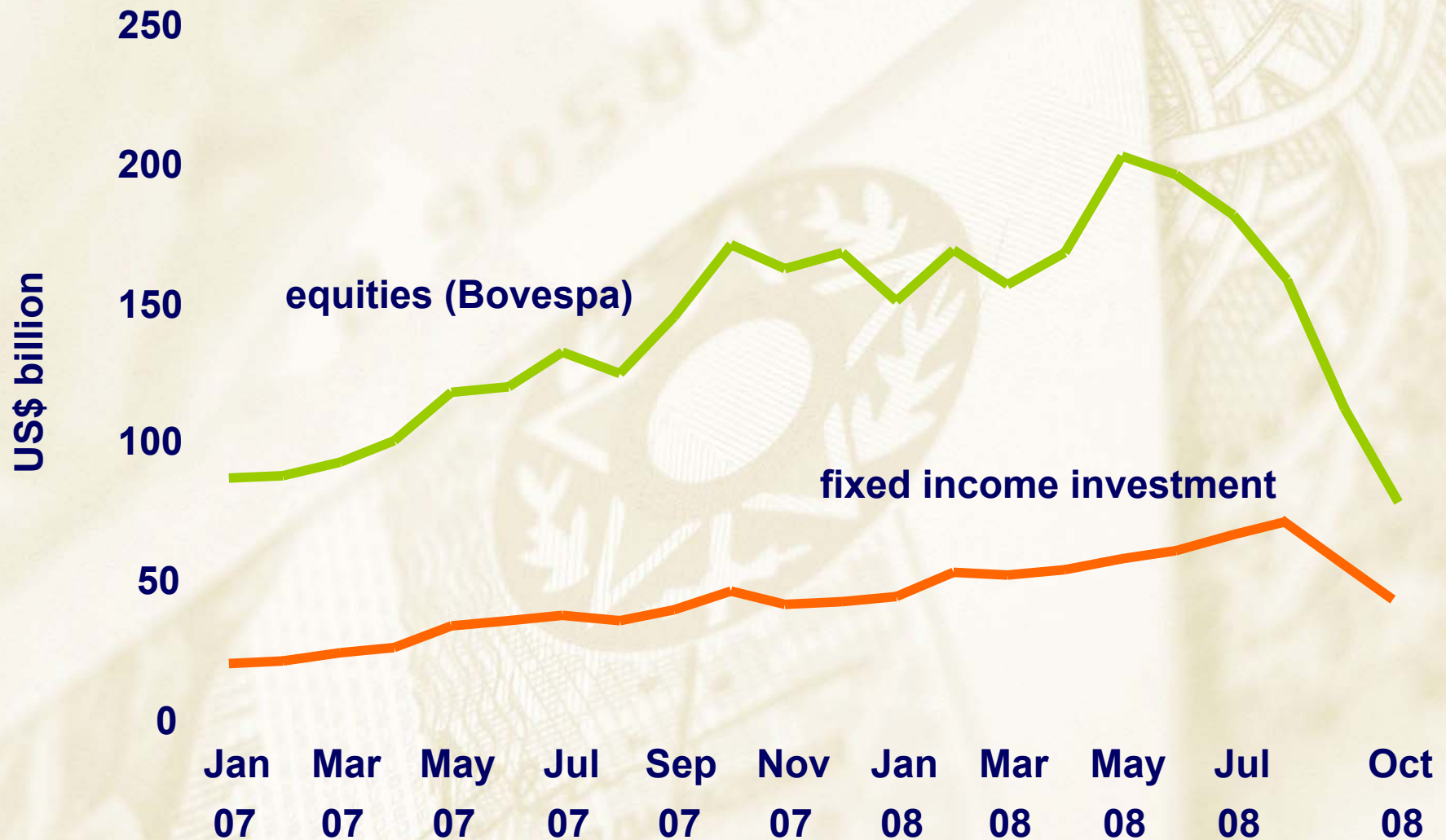
Reserves/Short-Term Debt



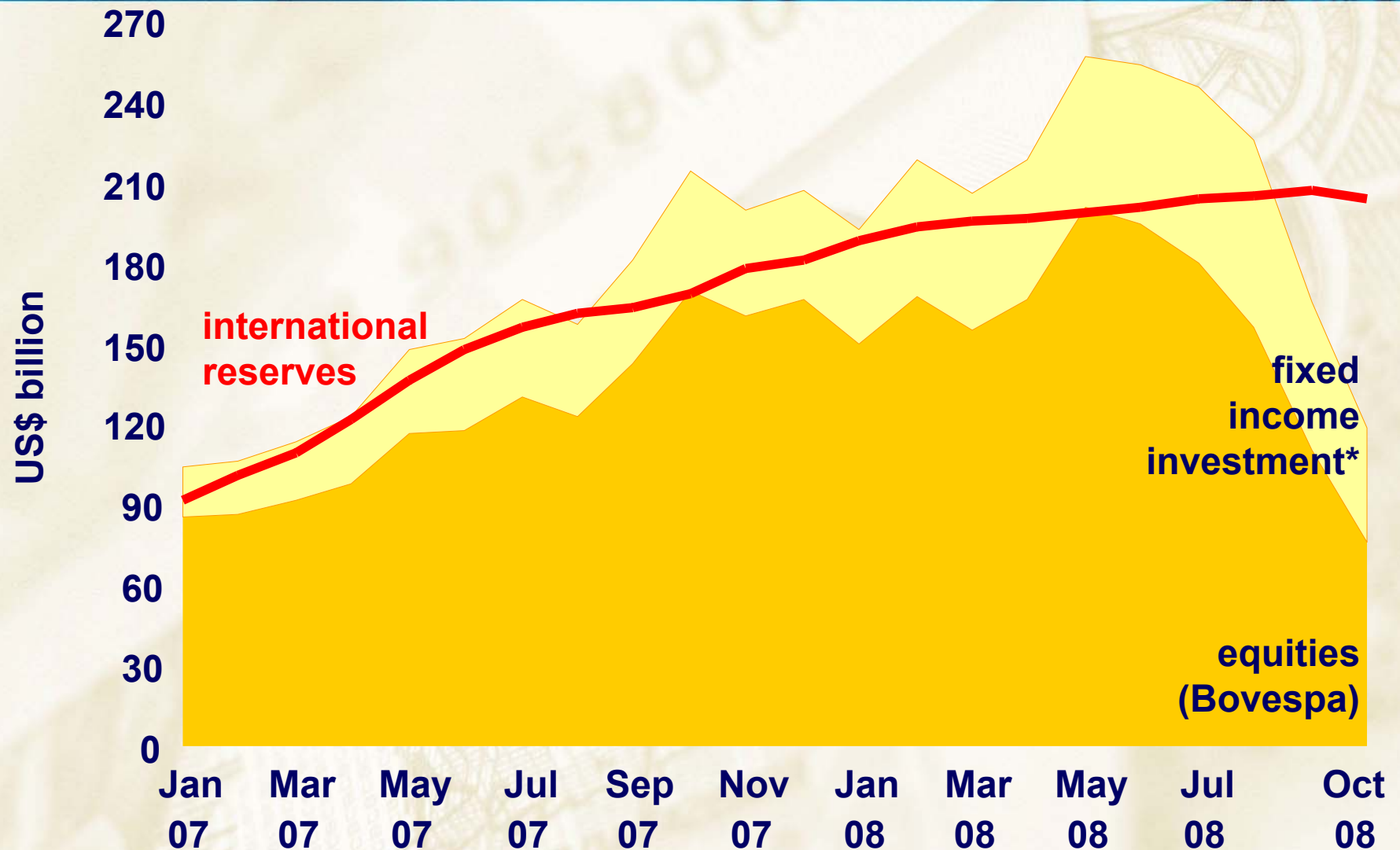
Participation of Foreign Capital



Stock of Foreign Investment

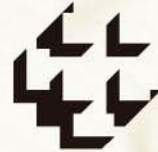


Stock of Foreign Investment



Recent Initiatives to Inject Liquidity in Domestic Credit Market

- Increase of exemption limits, reduction of rate and/or postponement of reserve requirements;
- Commitment to eliminate reserve requirements on time deposits, on deposits by leasing companies and the additional requirement (R\$100 billion);
- Reduction of reserve requirements on time deposits for banks that buy assets from other institutions;
- Authorization for BCB to buy certain assets from banks;
- Authorization for public banks (BB and Caixa) to acquire stakes or control of other institutions;
- Increase in lending requirements to rural sector.



BANCO CENTRAL DO BRASIL

Inflation Targeting in an Uncertain External Backdrop

Mário Mesquita
November 2008