BANCO CENTRAL
DO BRASIL

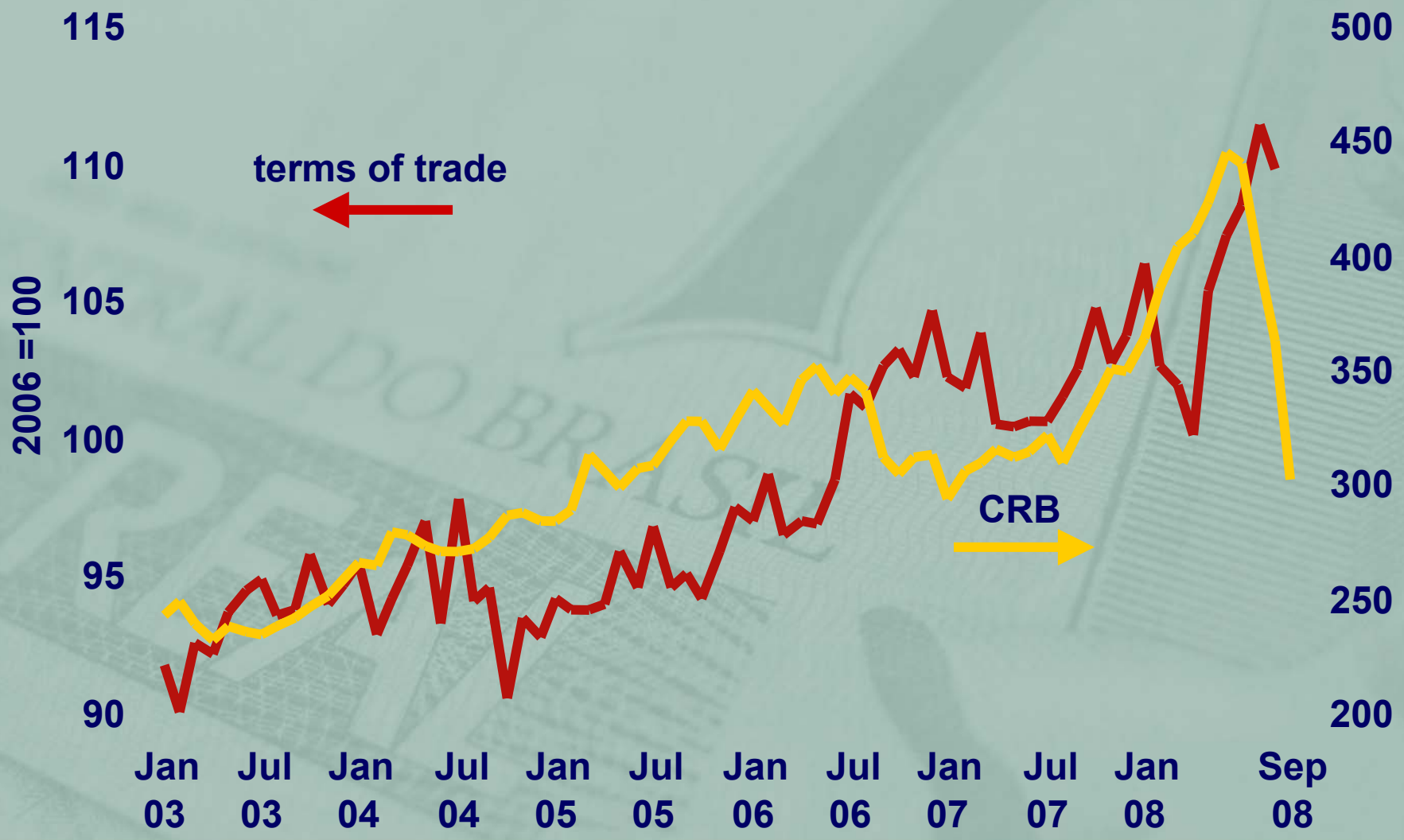
Current challenges for monetary policy in Brazil: dealing with commodity price shocks and global financial turmoil

Mário Mesquita

Istambul, November 22, 2008

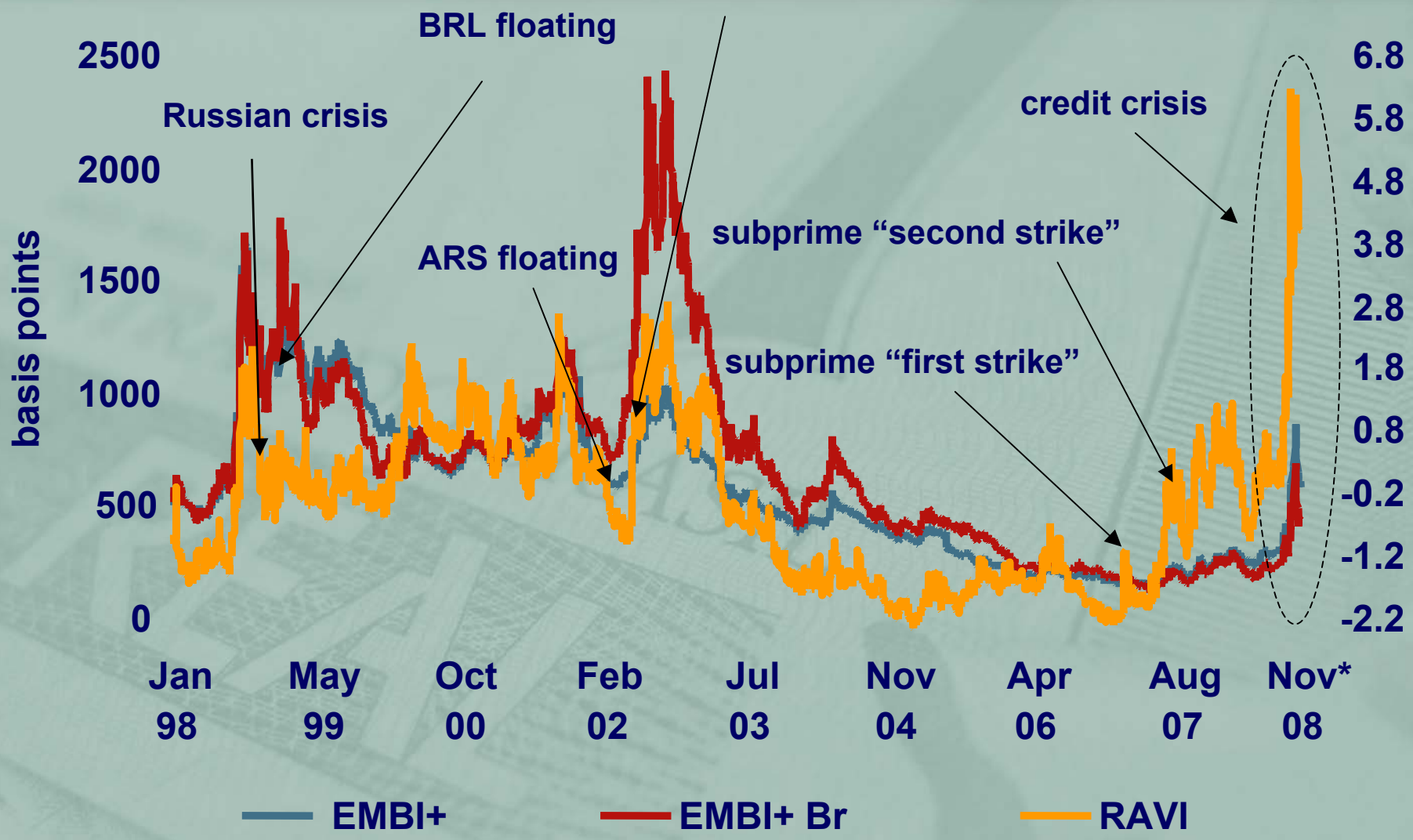
I. Global environment

Commodities Boom and Bust: CRB Index and Brazilian Terms of Trade



Sources: Funcex and Bloomberg

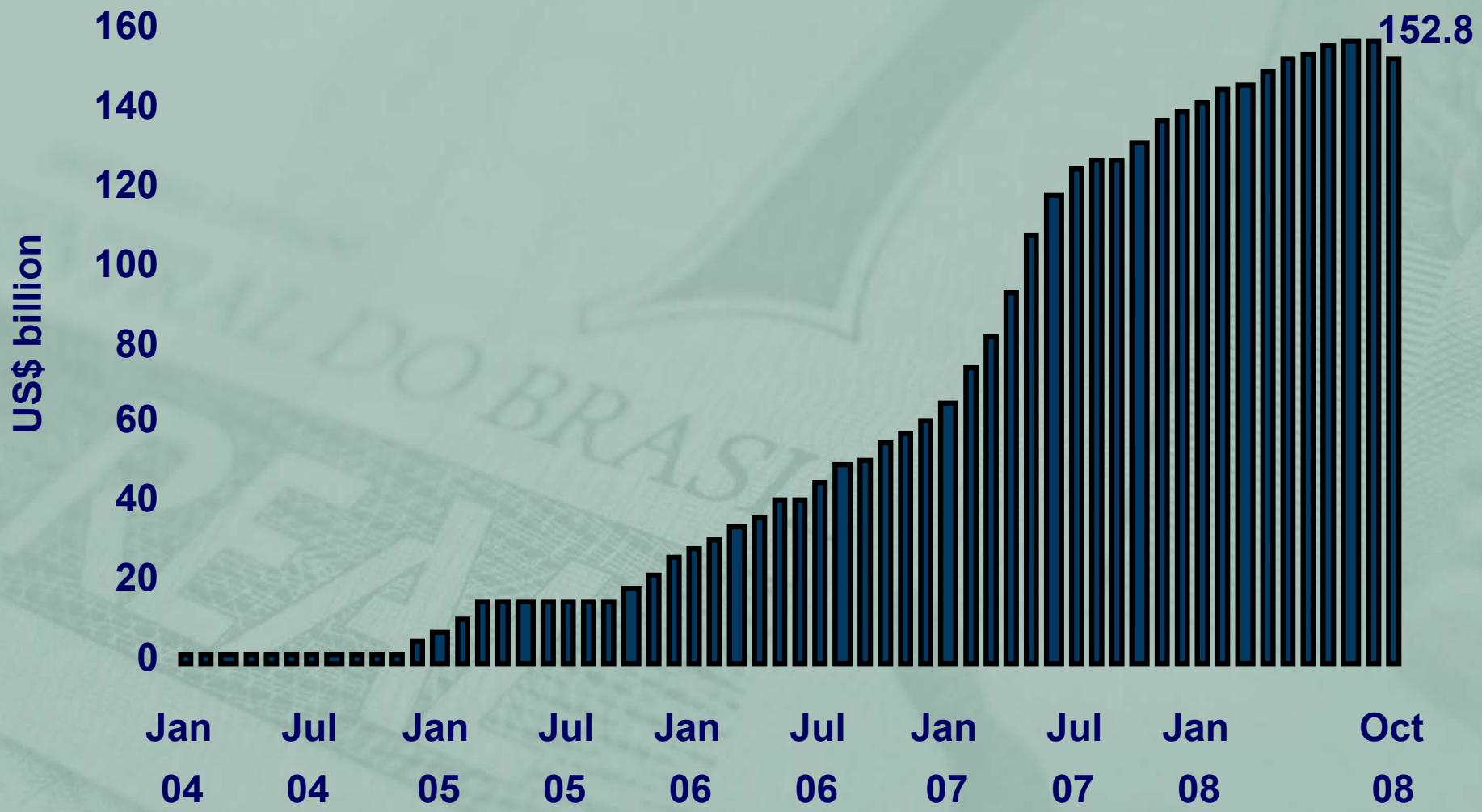
Financial Turmoil: Sovereign Spread and Risk Aversion Index (RAVI)



Sources: JP Morgan Chase and Merrill Lynch *up to 11/12

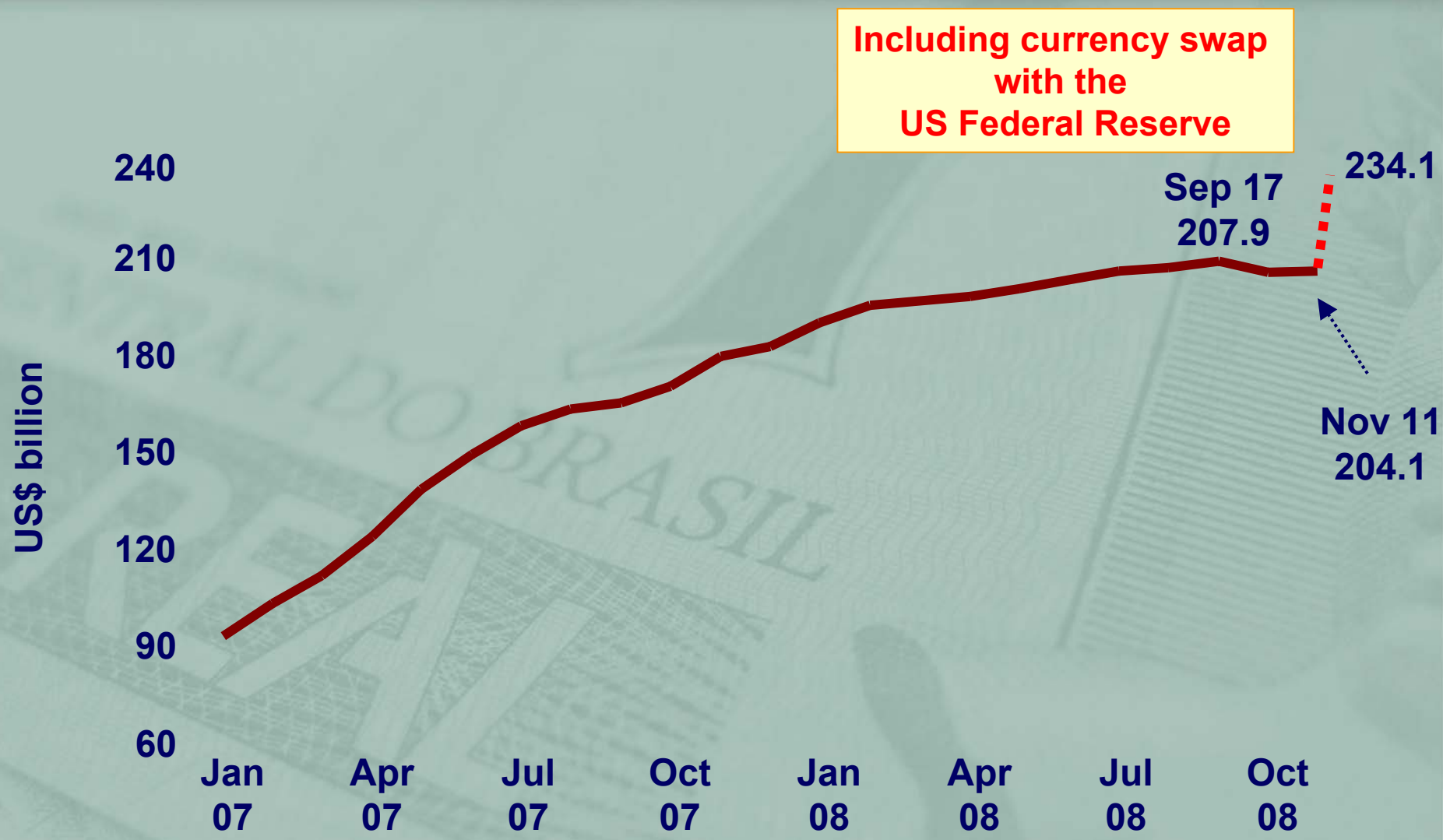
II. Impact of commodity price swings

FX Purchase by the BCB (from January 2004)



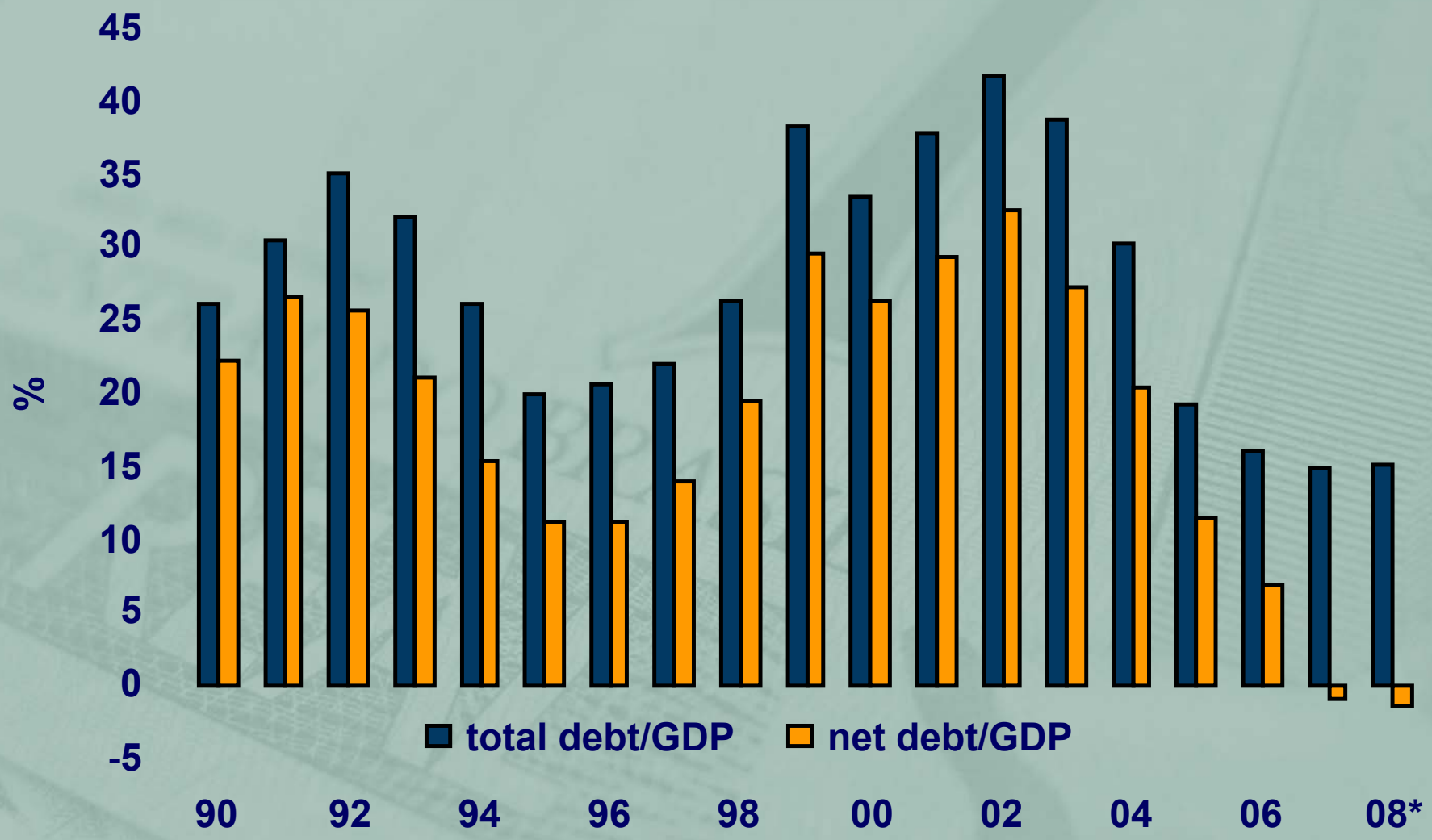
Source: BCB

FX Reserves



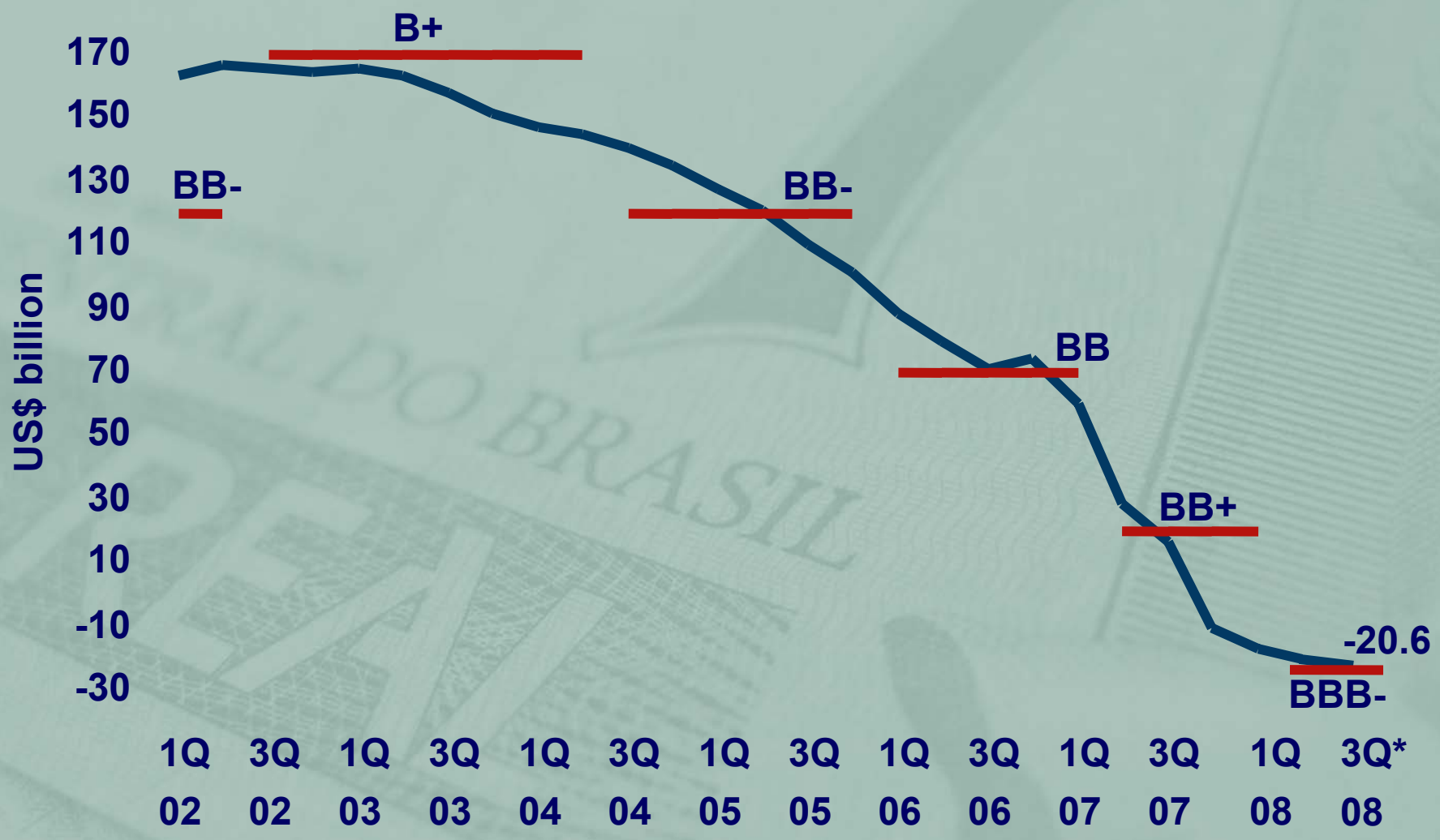
Source: BCB

External Debt / GDP



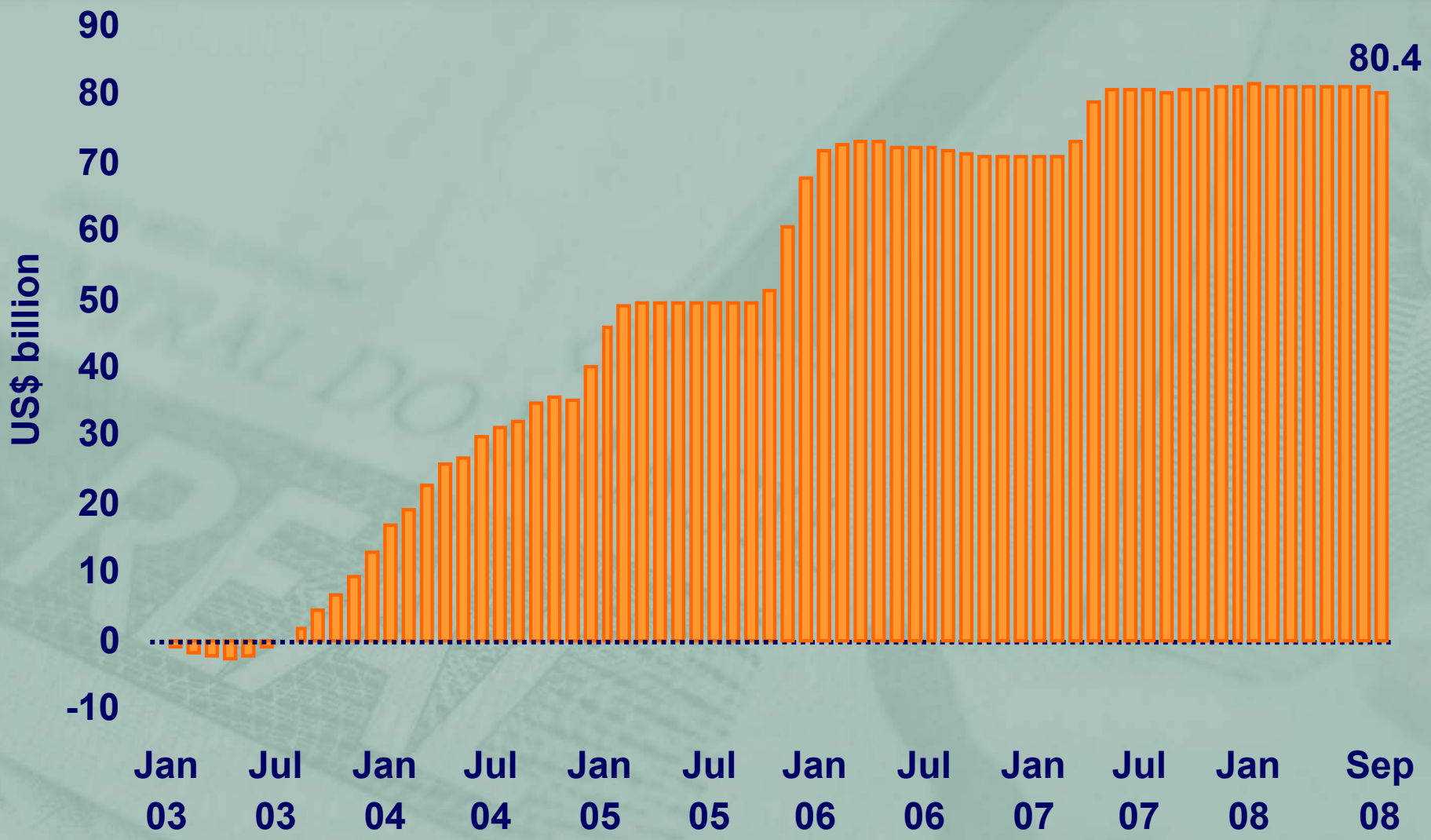
Source: BCB *September

Net External Debt vs. Sovereign Rating (S&P)



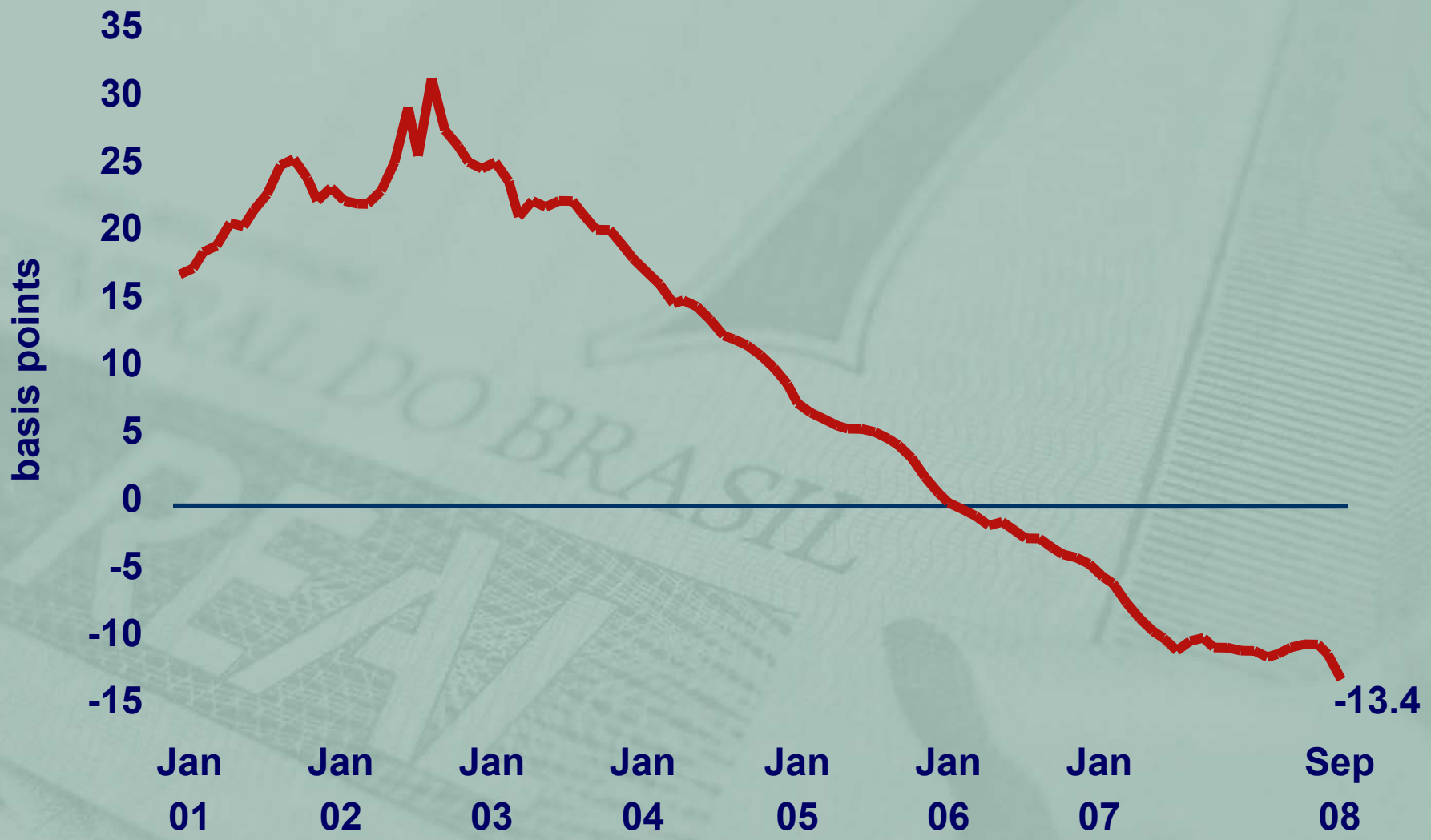
Sources: BCB and Bloomberg *estimate

Cumulative Reduction in FX-Linked Domestic Debt as of Jan 2003



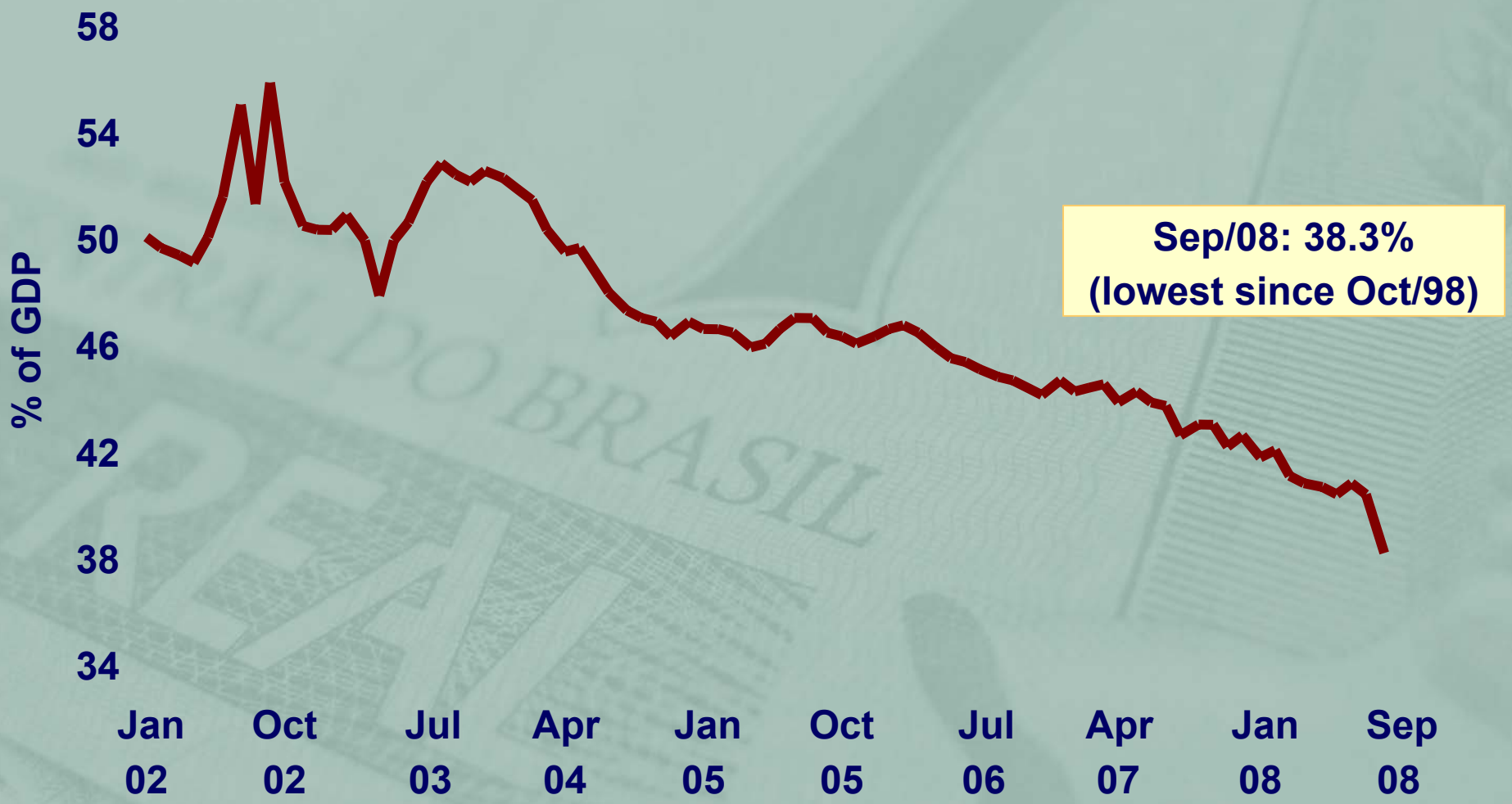
Source: BCB

Change in Debt/GDP Ratio to a 1% Depreciation of the BRL



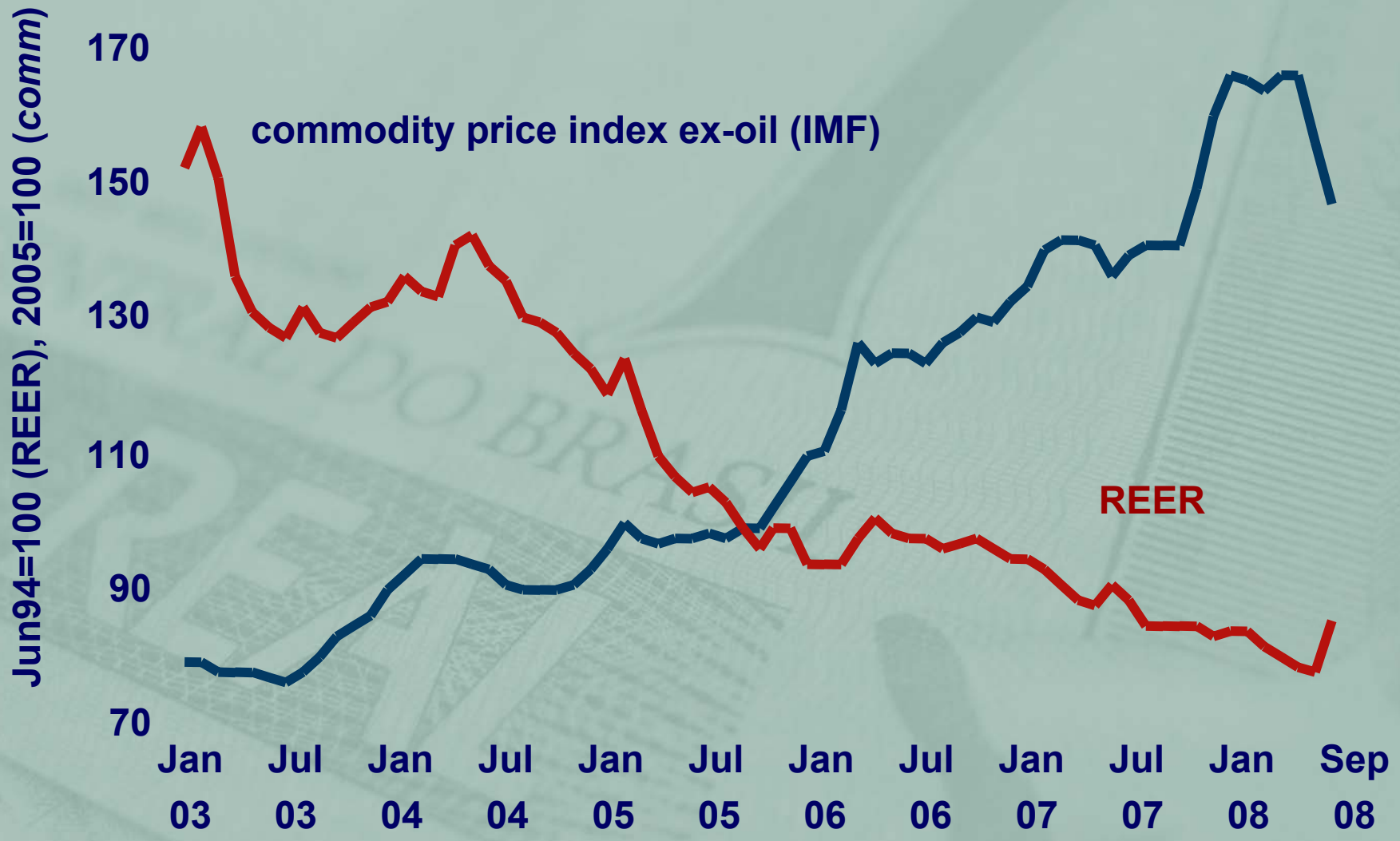
Source: BCB

Net Debt/GDP Ratio



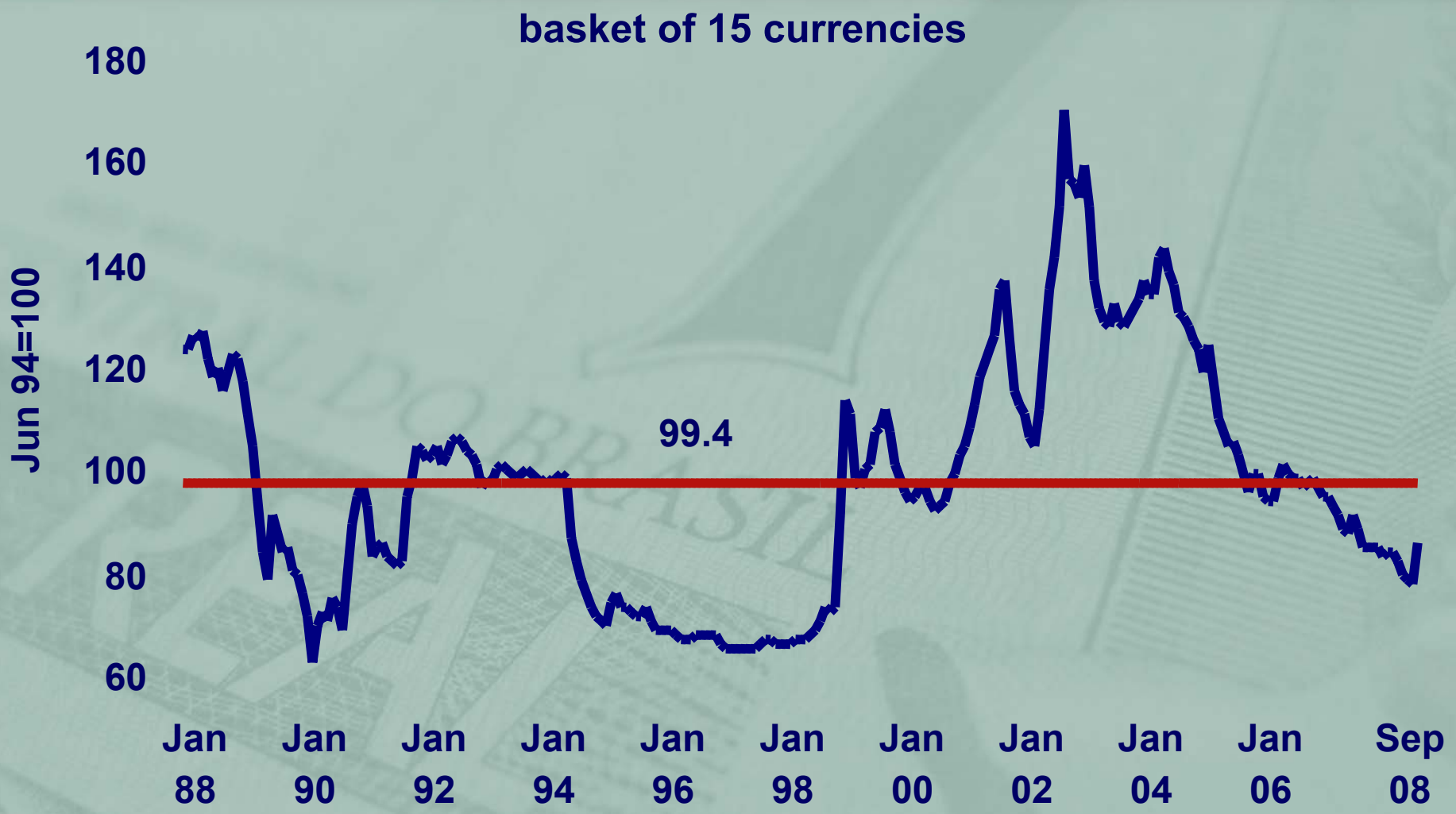
Source: BCB

Real Exchange Rate vs. Commodity Prices



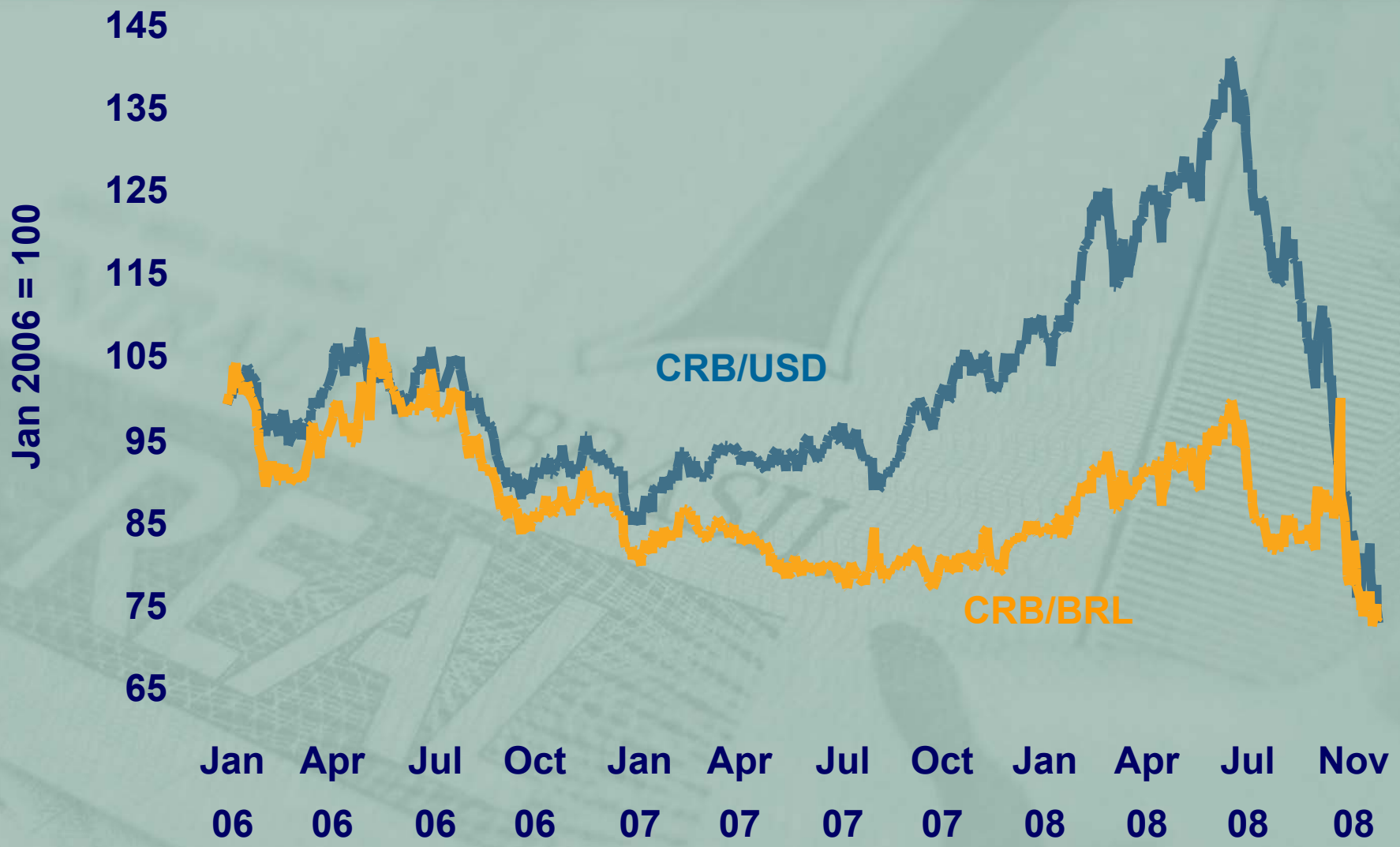
Sources: BCB and IMF

REER



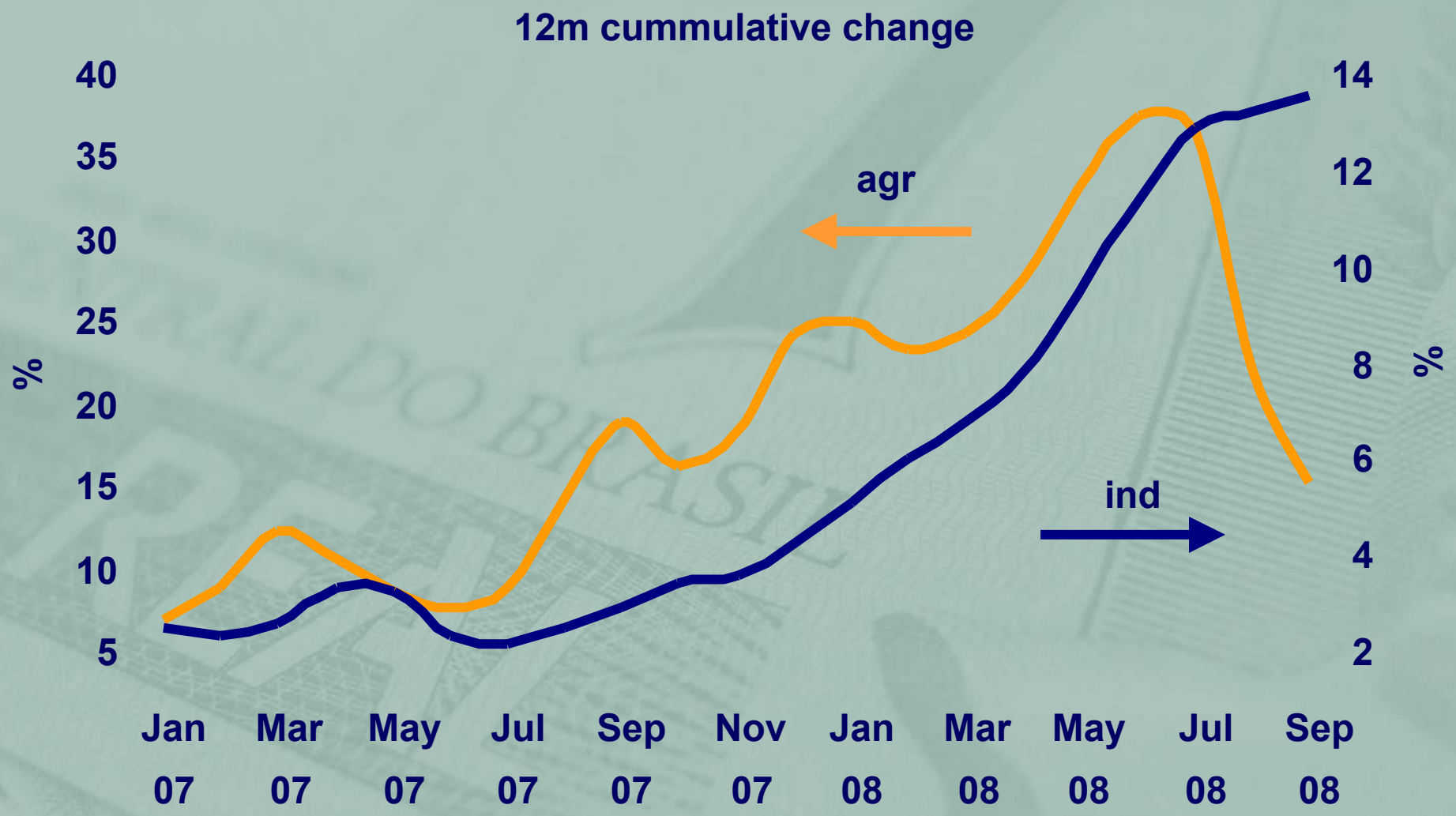
Source: BCB

Commodity Prices and the Exchange Rate: Partial Offsets



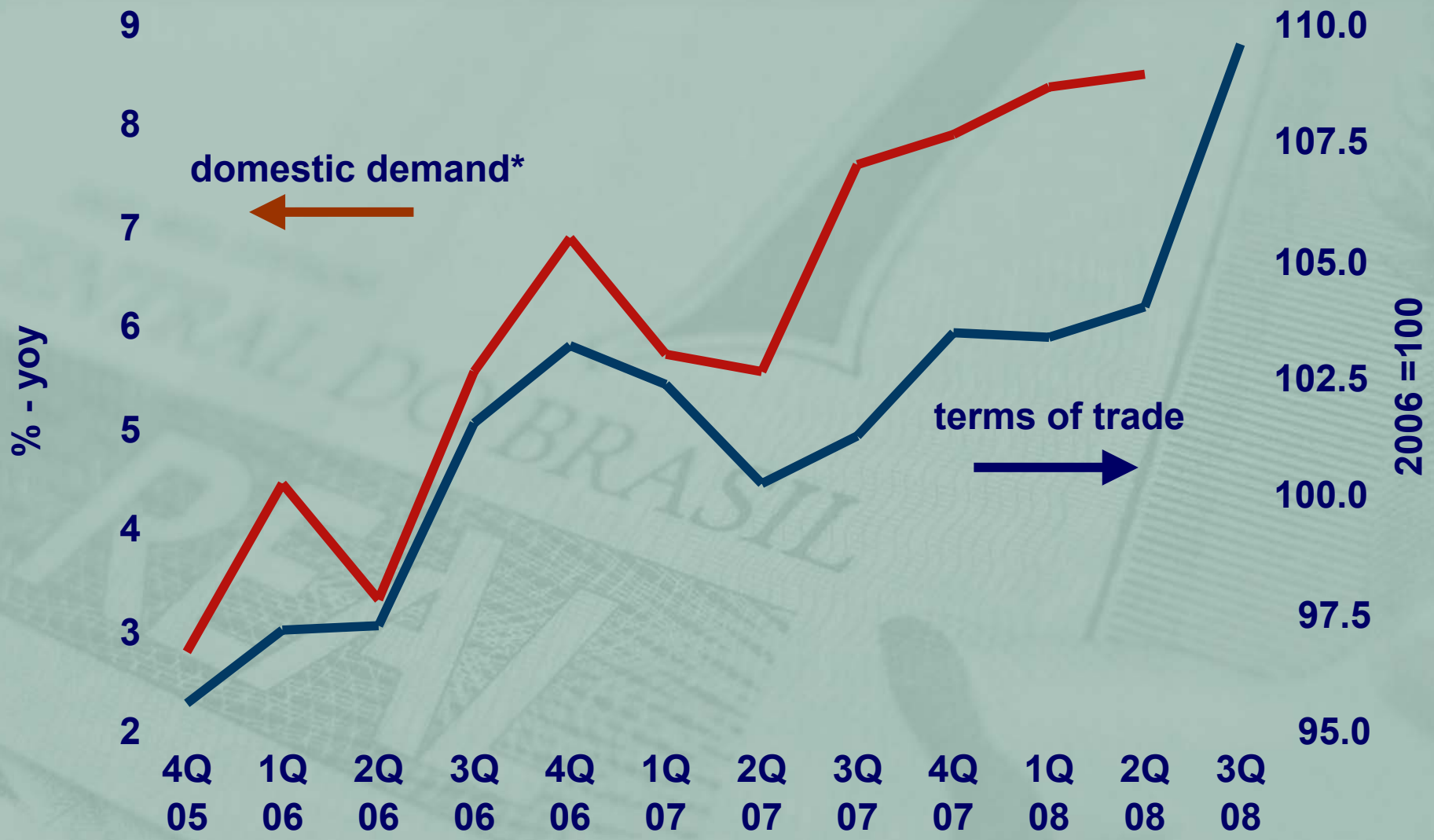
Source: Bloomberg

Wholesale Prices: (Partly) Imported Inflation



Source: FGV

Terms of Trade: The Income Effect

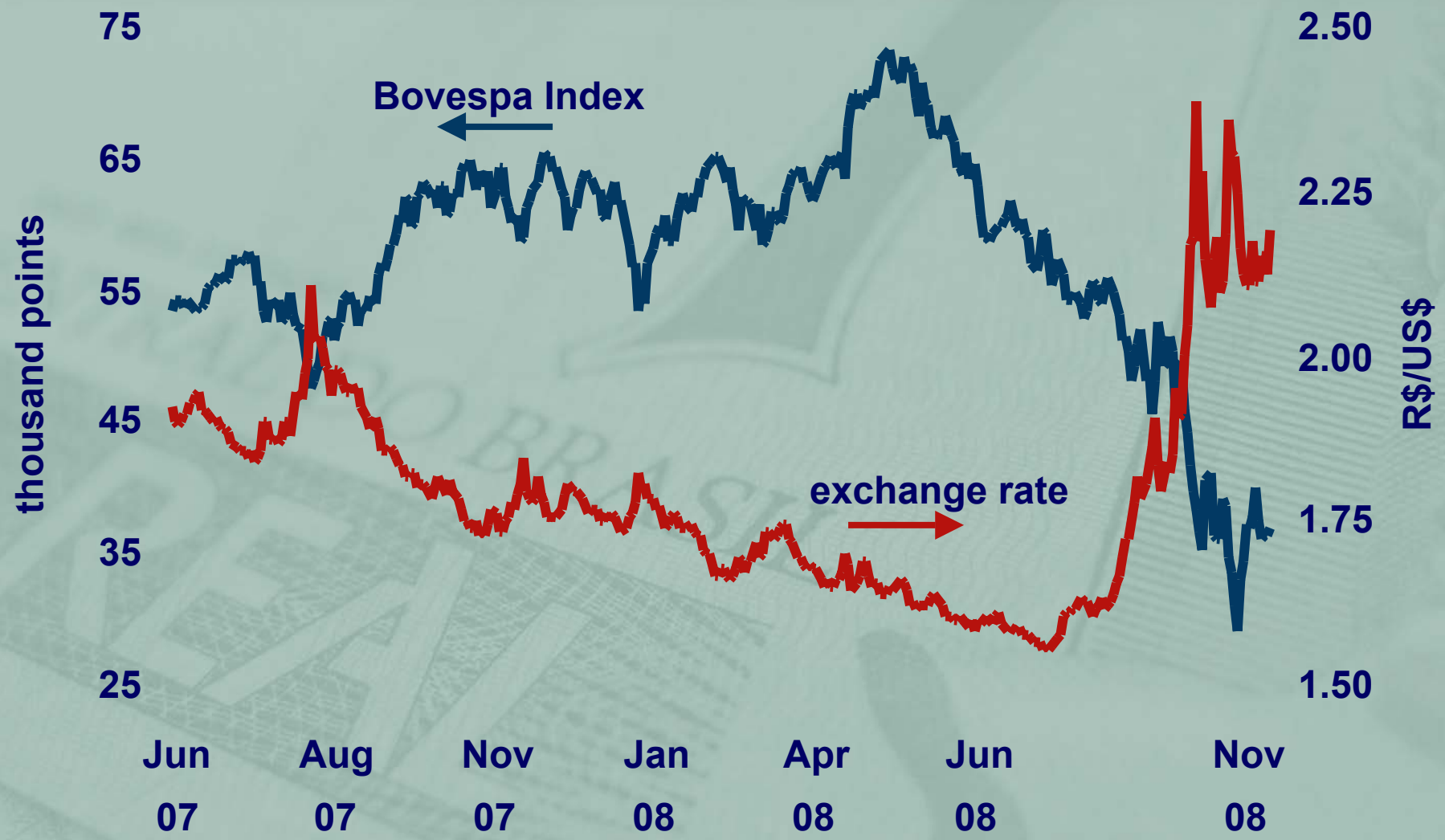


Sources: IBGE and Funcex

*up to 2Q08

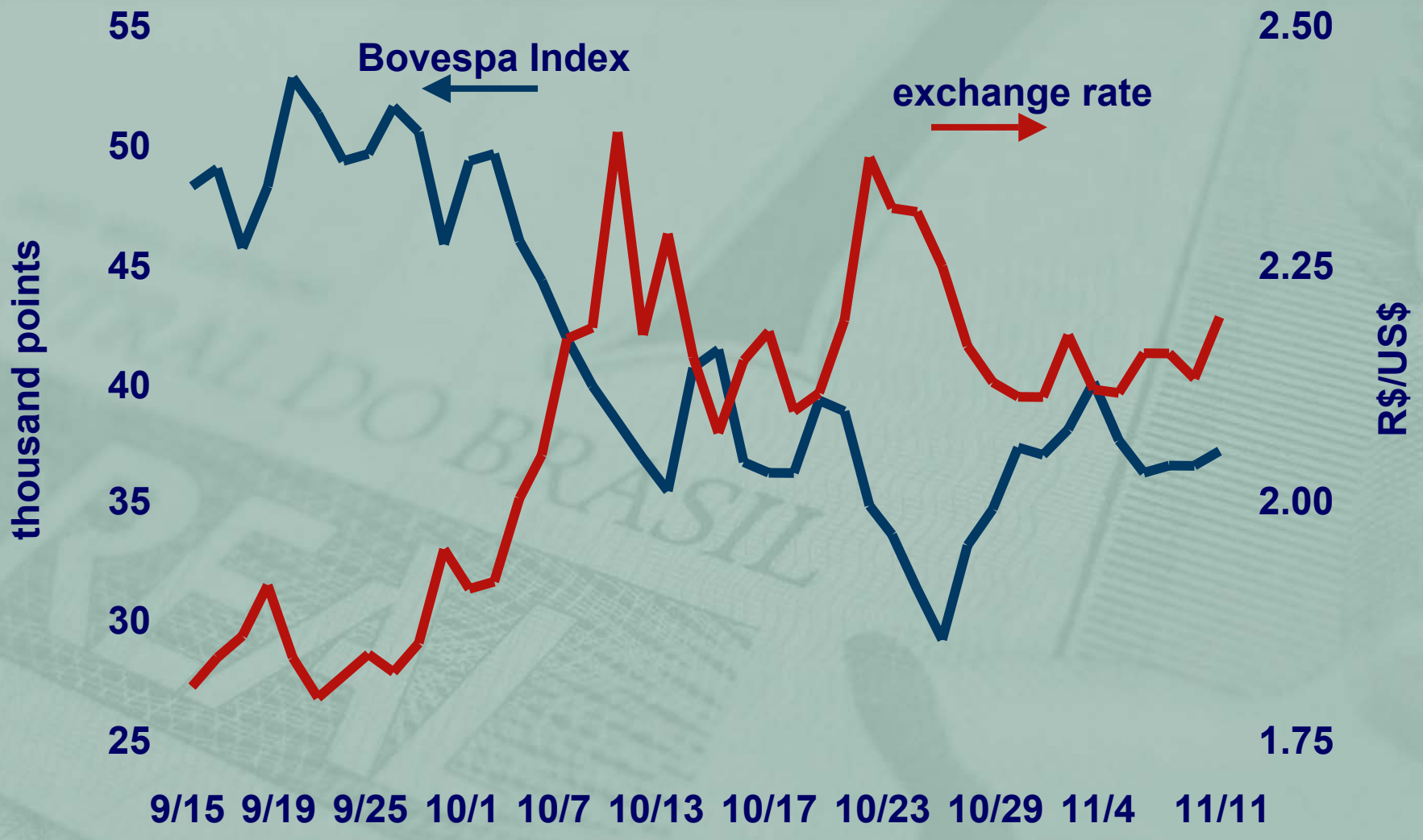
III. Impact of financial turmoil

Equity Prices and the BRL



Sources: BCB and Bovespa

Equity Prices and the BRL

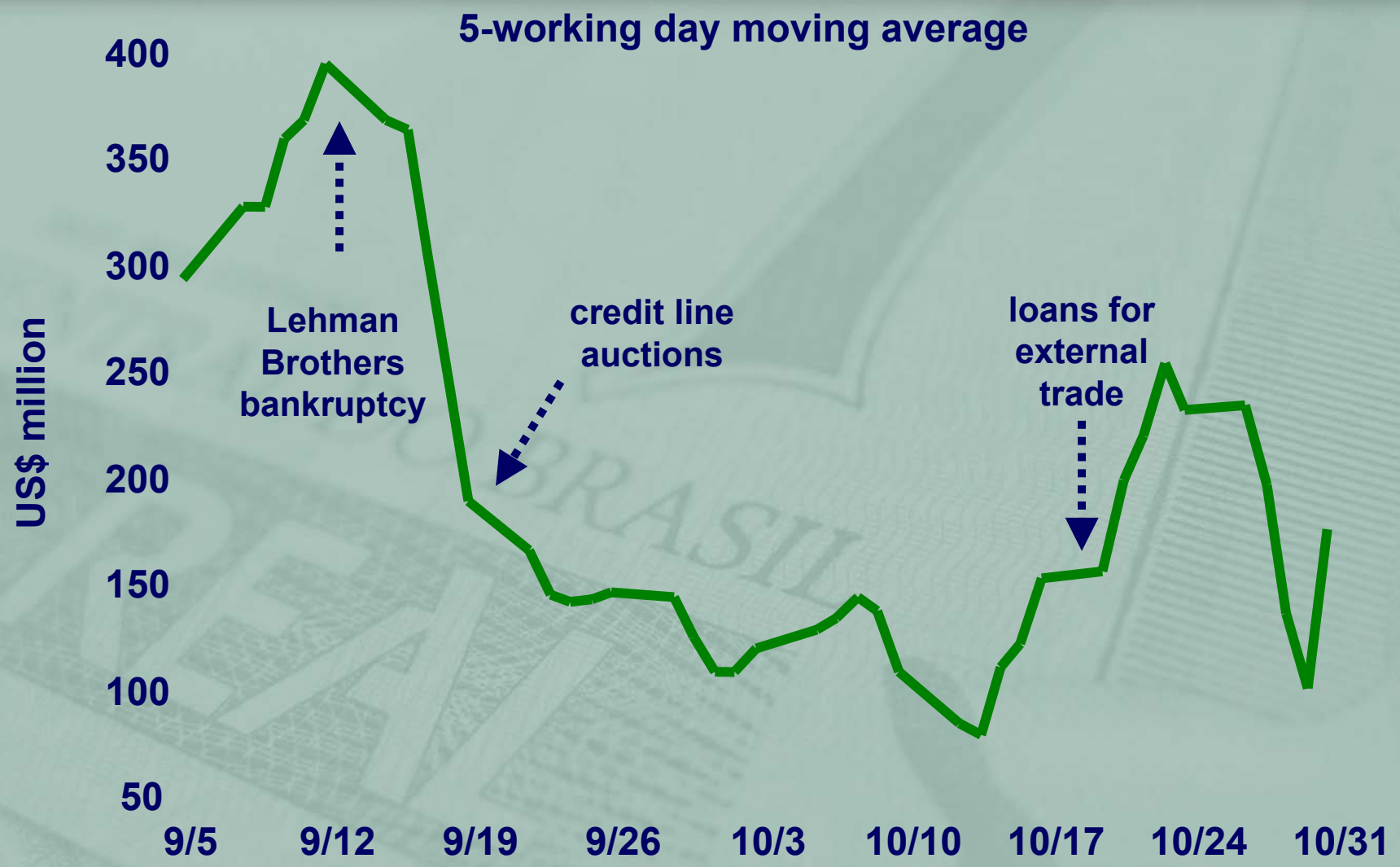


Sources: BCB and Bovespa

Foreign Investment

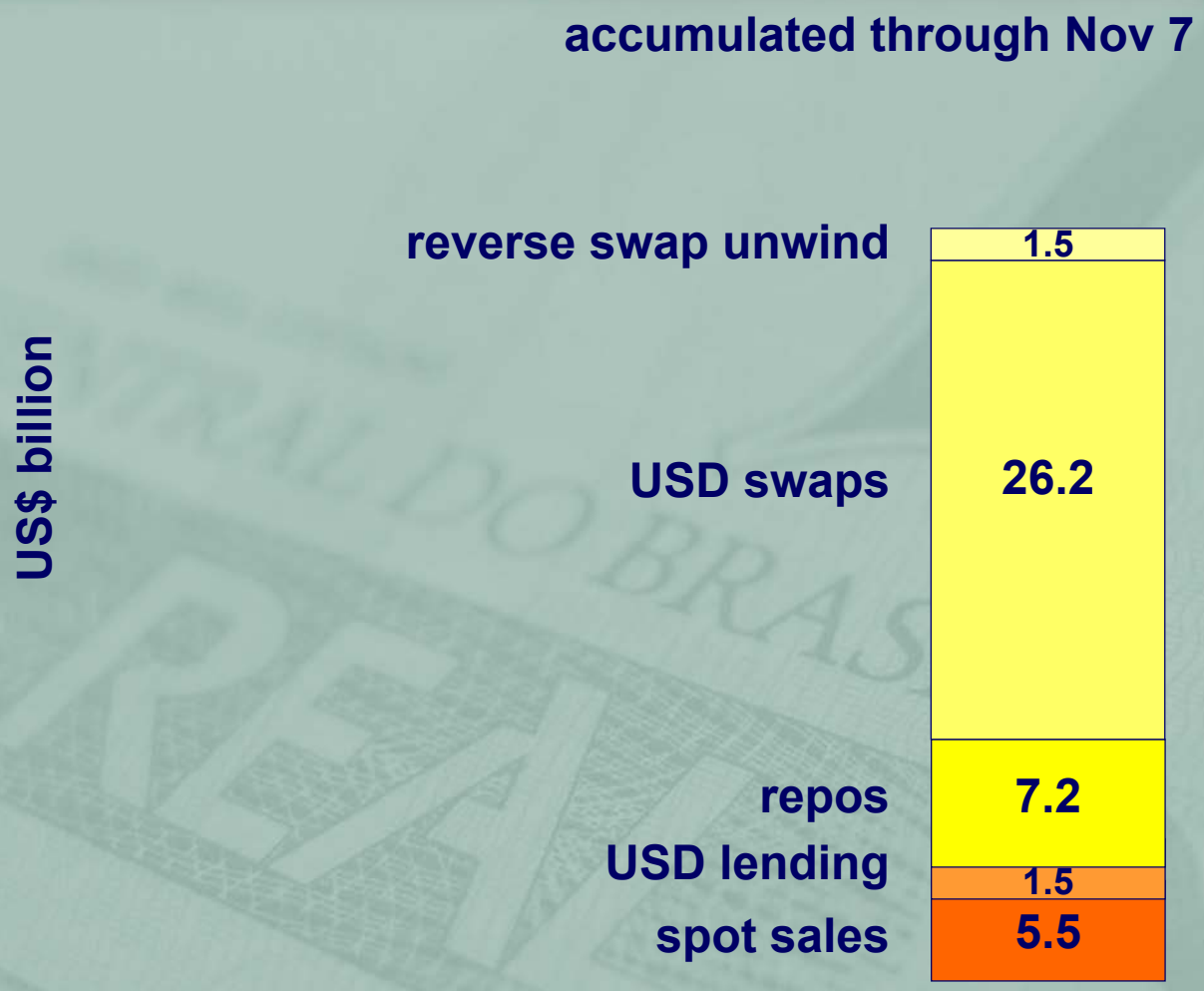
Sources: BCB and CVM

Foreign Exchange Flows – Trade finance (ACC)



Source: BCB

Recent Actions in the Crisis: Liquidity in Foreign Currency

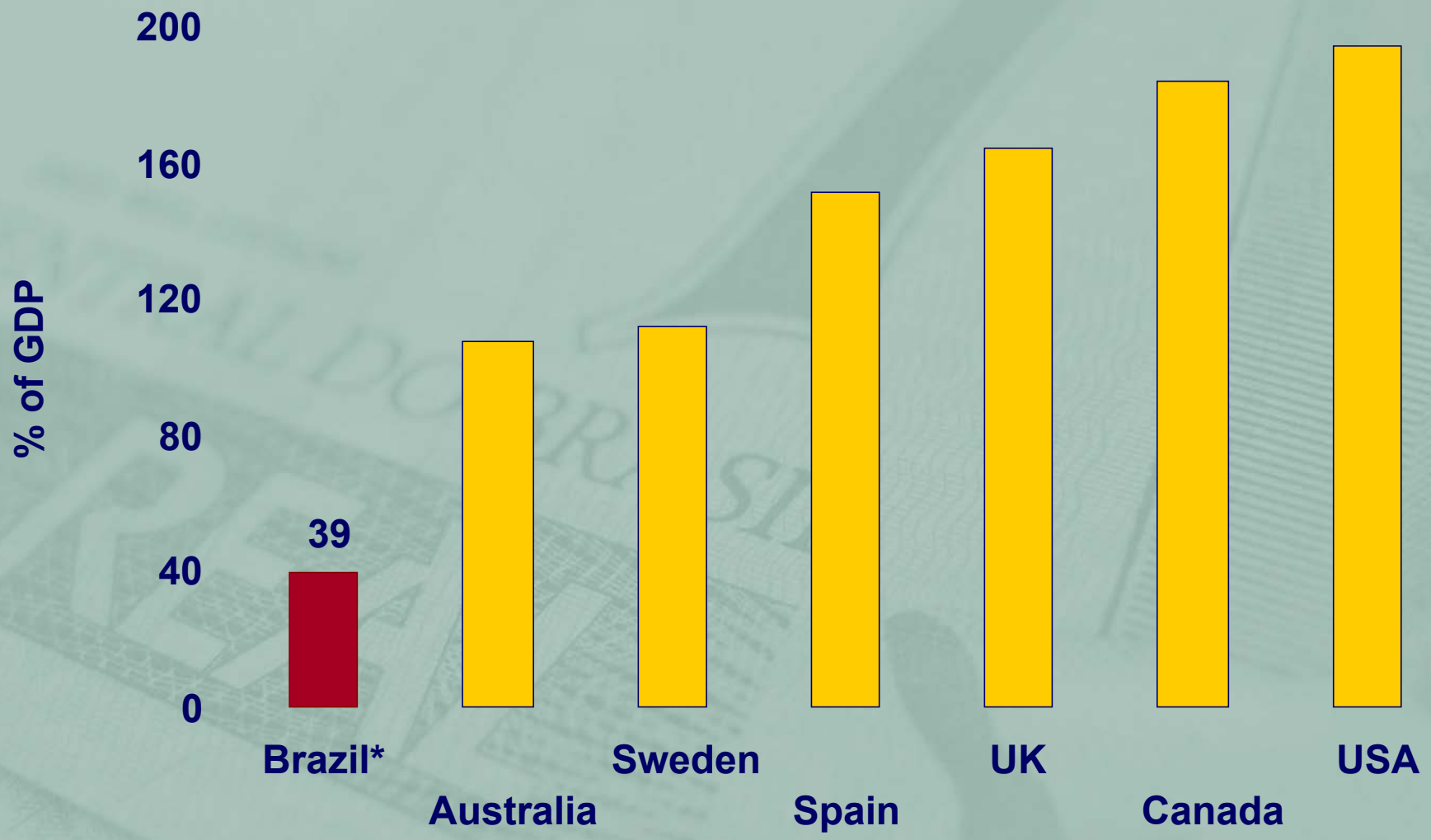


Source: BCB

Reserves/Short-Term Debt

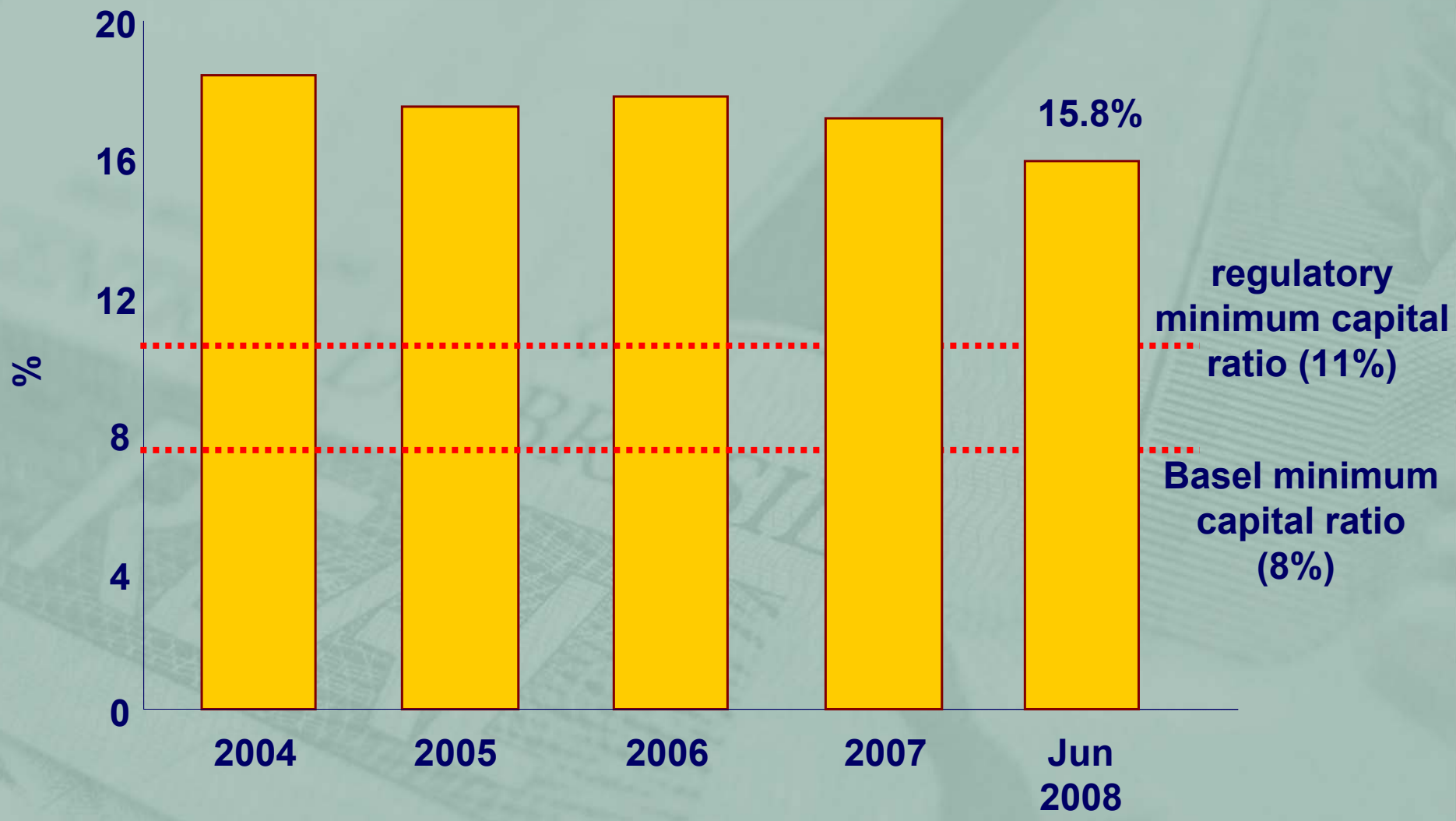
Source: BCB

Credit/GDP: Brazil vs. Mature Economies



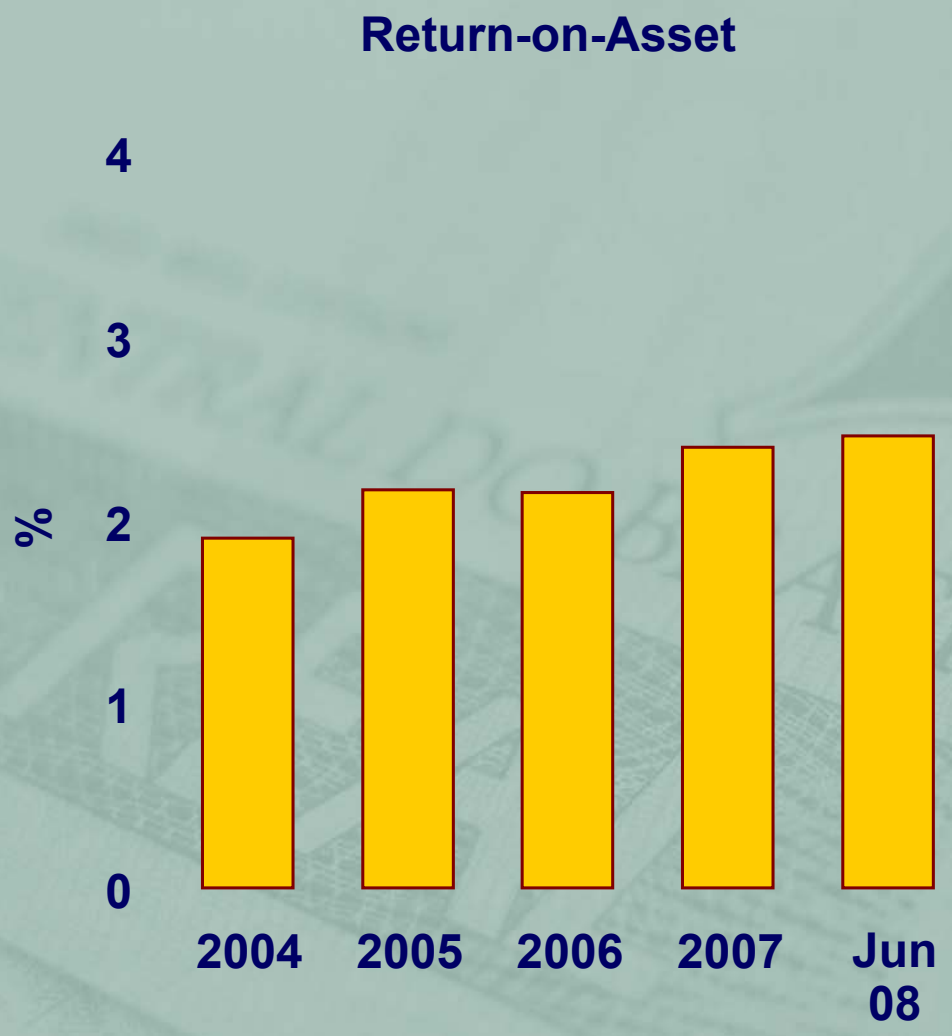
Source: World Bank *Sep 08

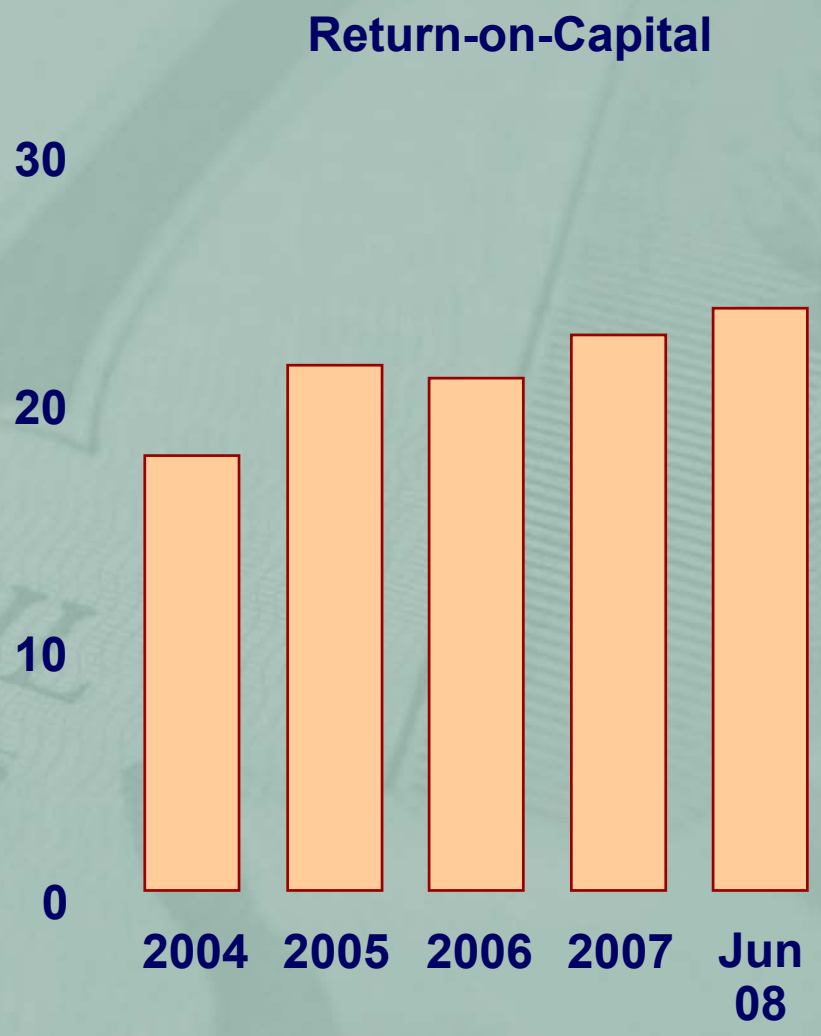
Brazilian Banks: Capital Adequacy Ratio



Source: BCB

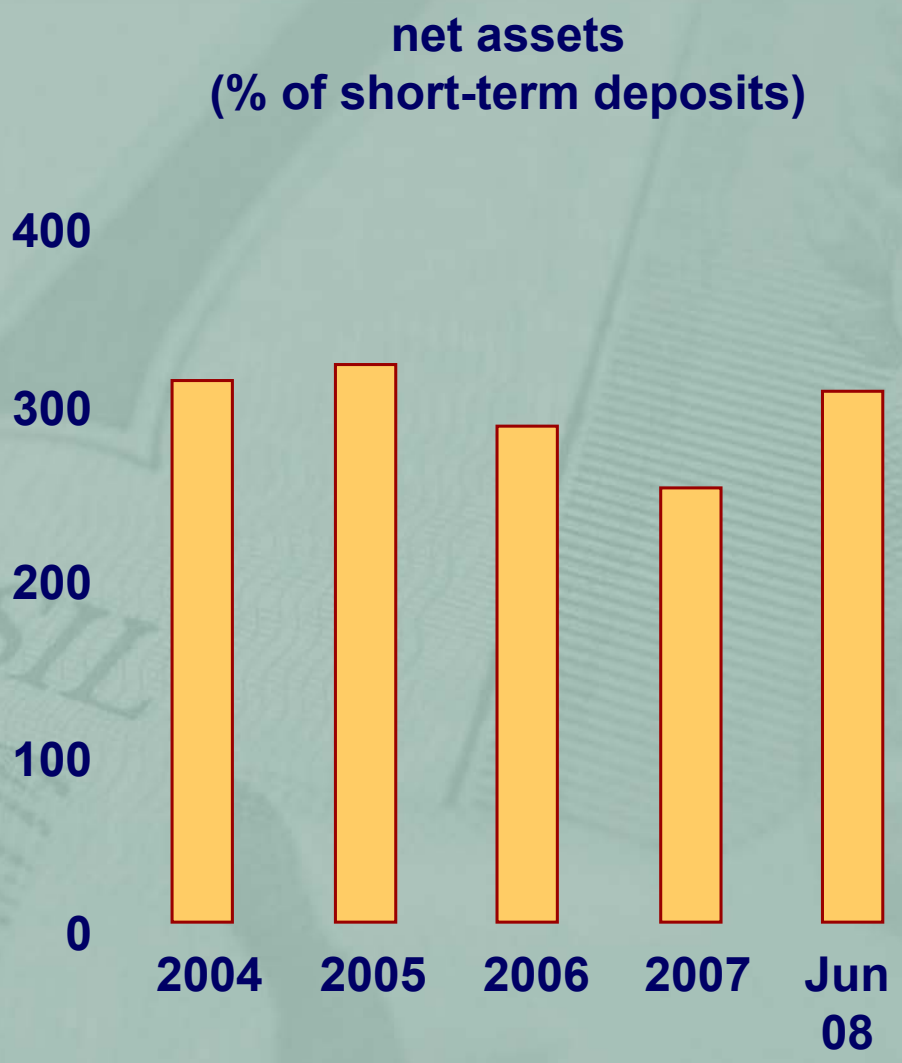
Brazilian Banks: Profitability





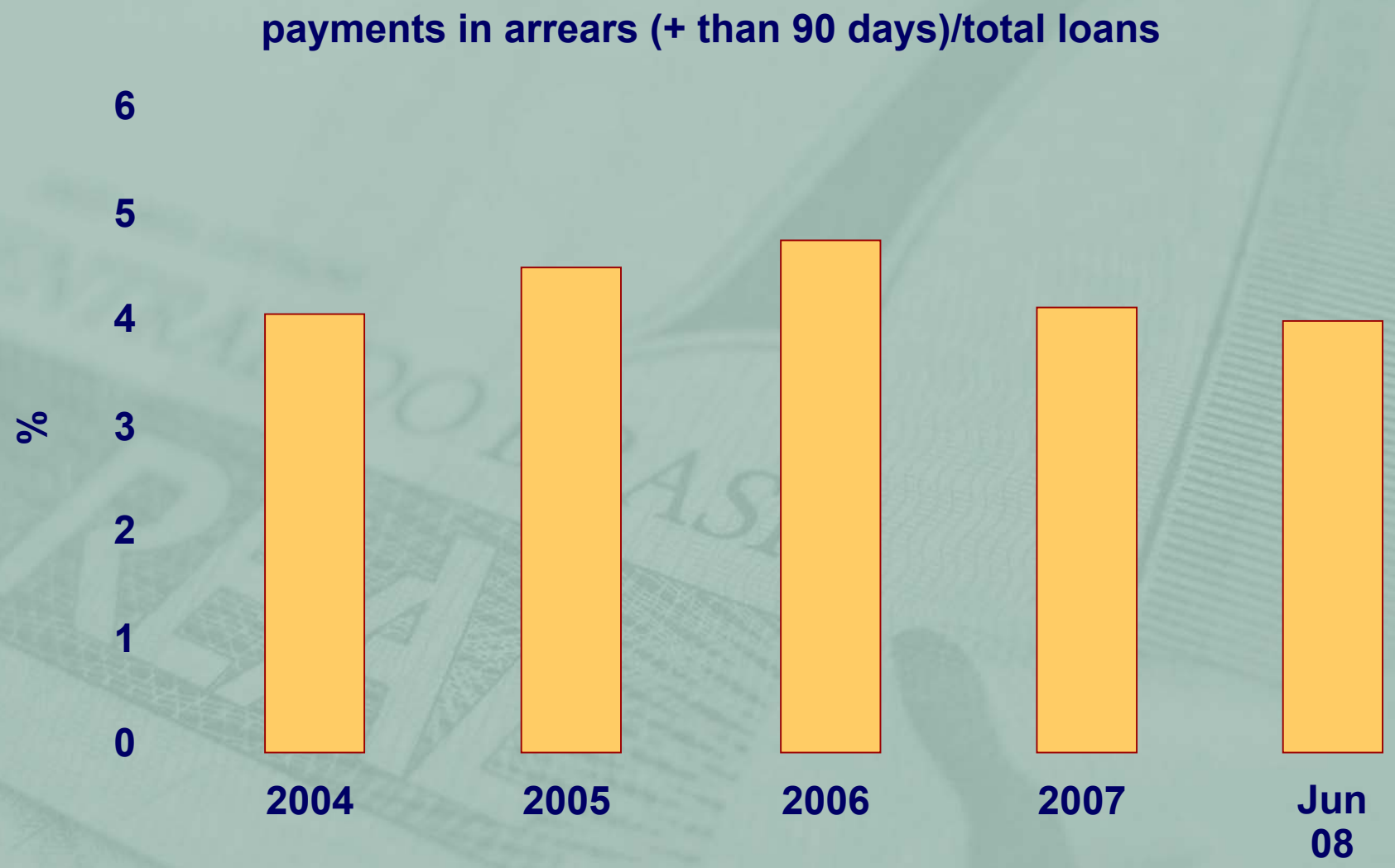
Source: BCB

Brazilian Banks: Liquidity



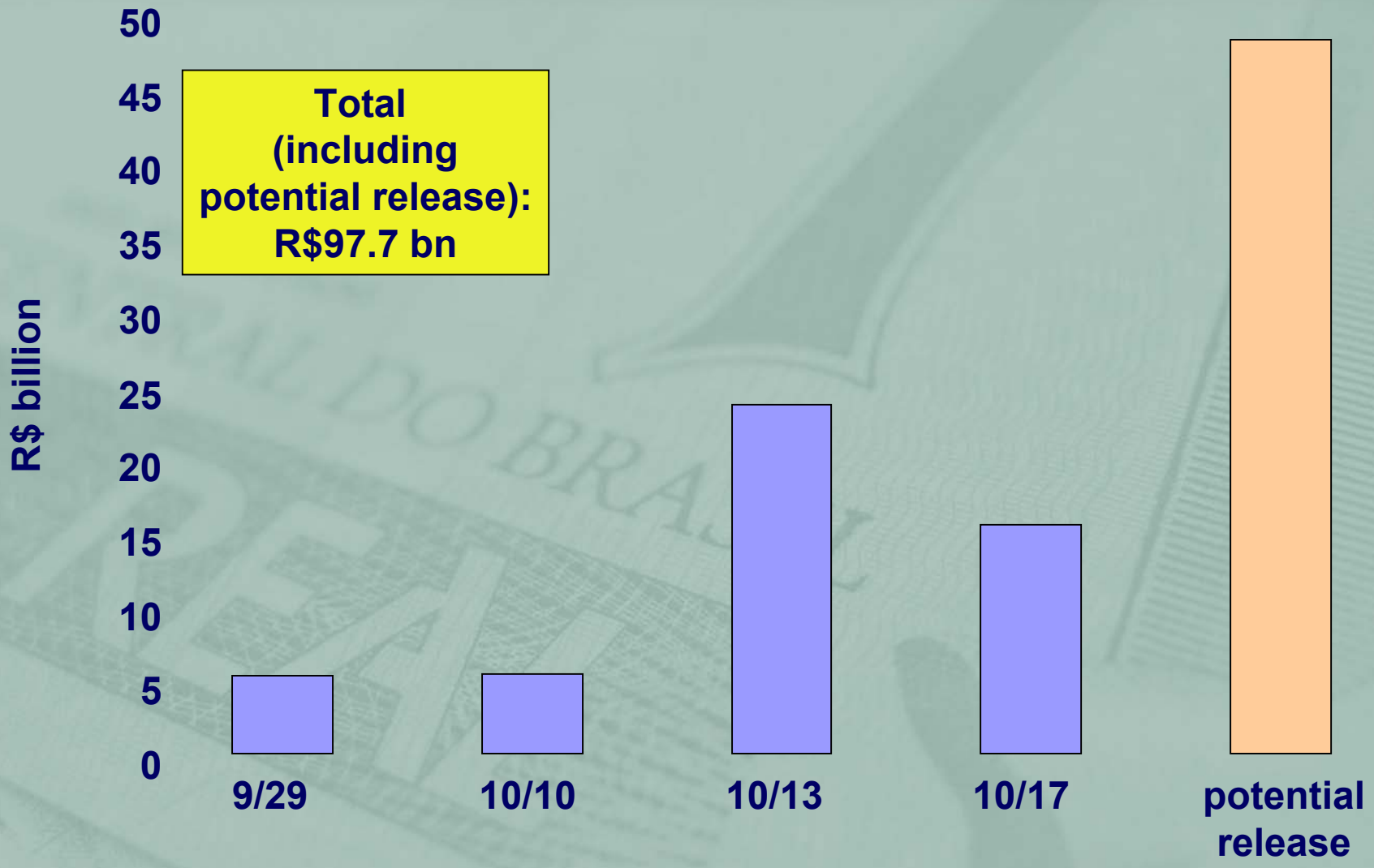
Source: BCB

Brazilian Banks: Delinquency



Source: BCB

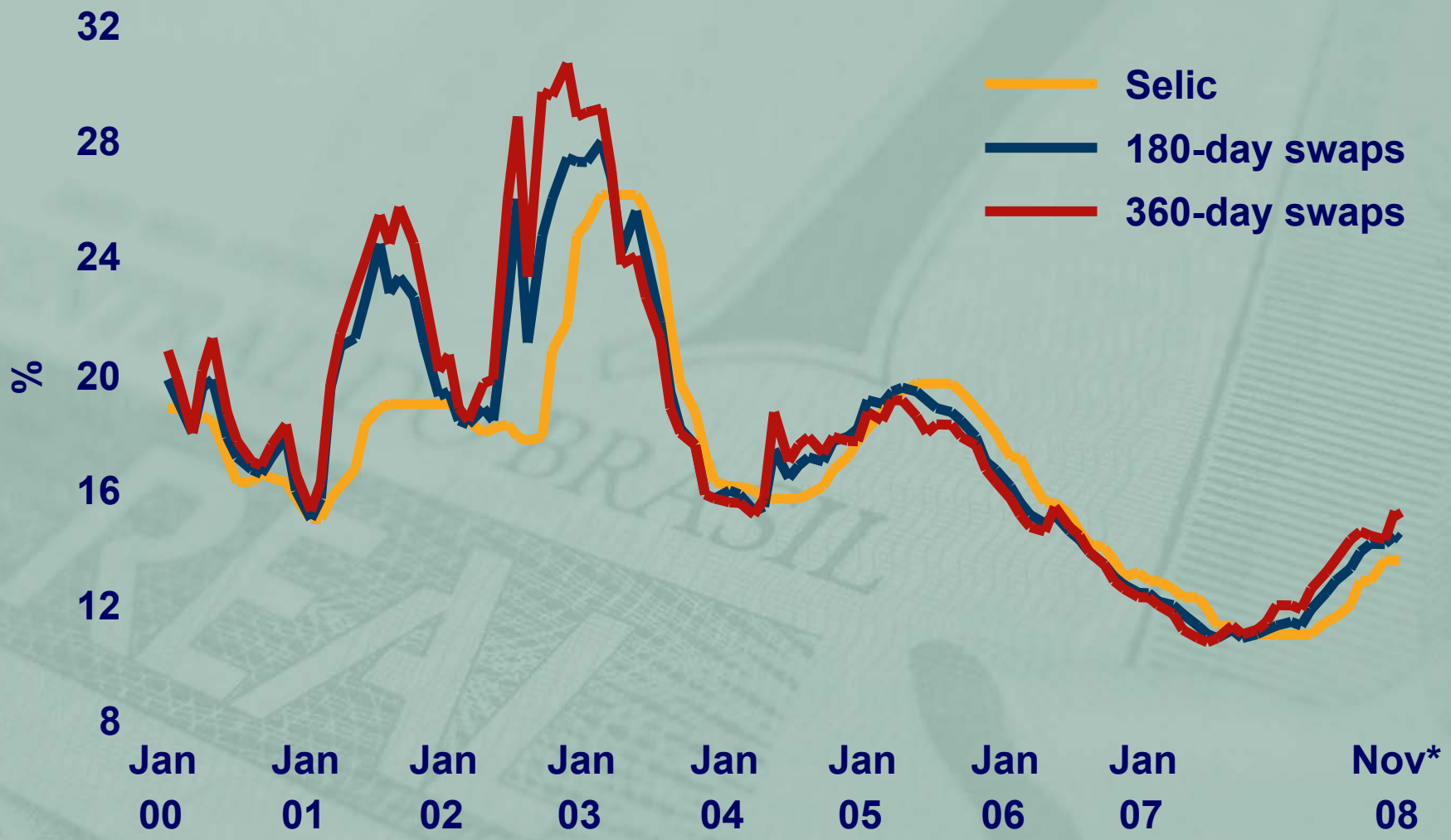
Domestic Liquidity Enhancement: Reserve Requirements Reduction



Source: BCB

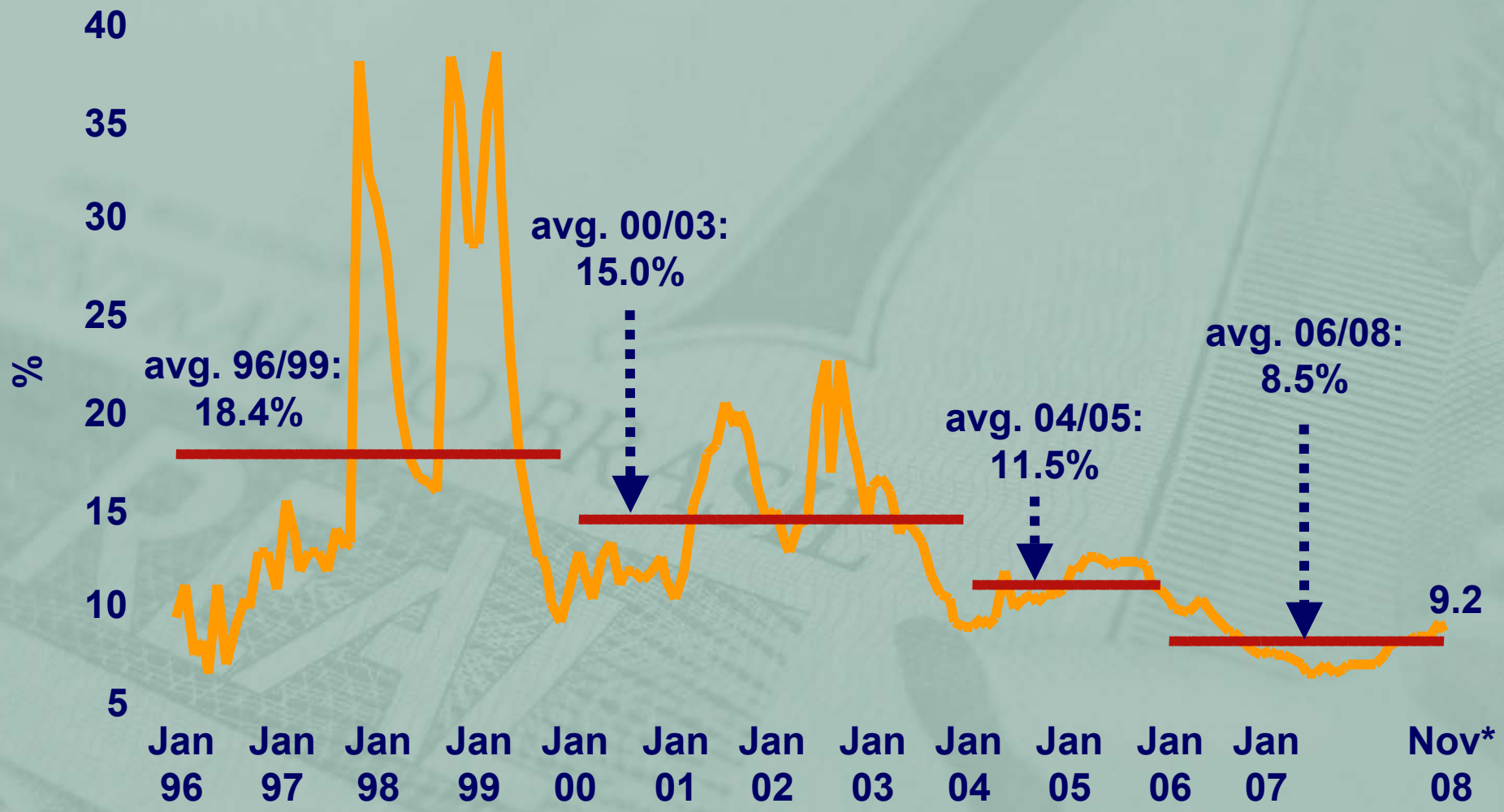
IV. Domestic economic conditions

Overnight and Term Interest Rates



Source: BCB *11/11

Real Interest Rates (360-Day Swaps)

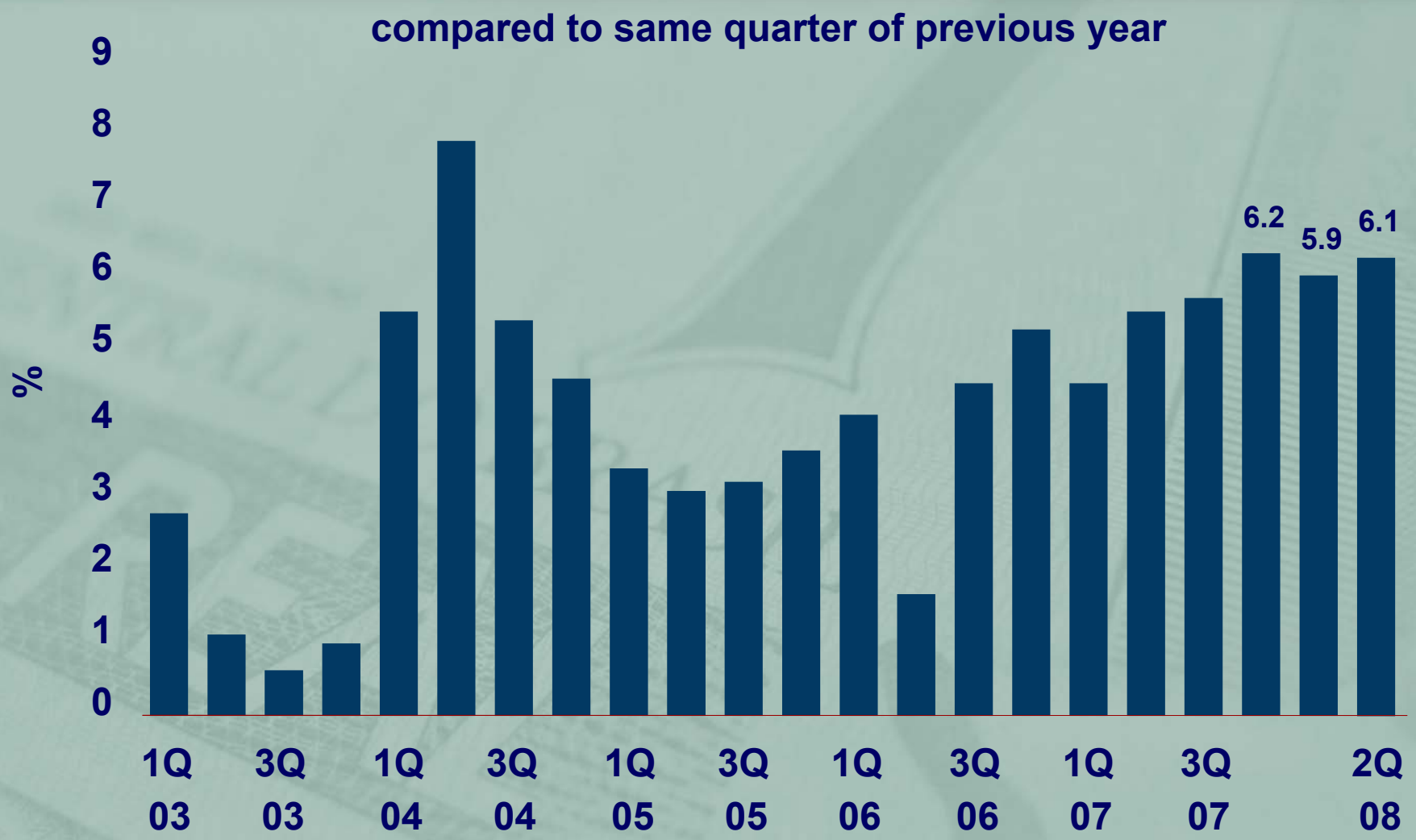


Source: BCB *11/11

Credit Growth

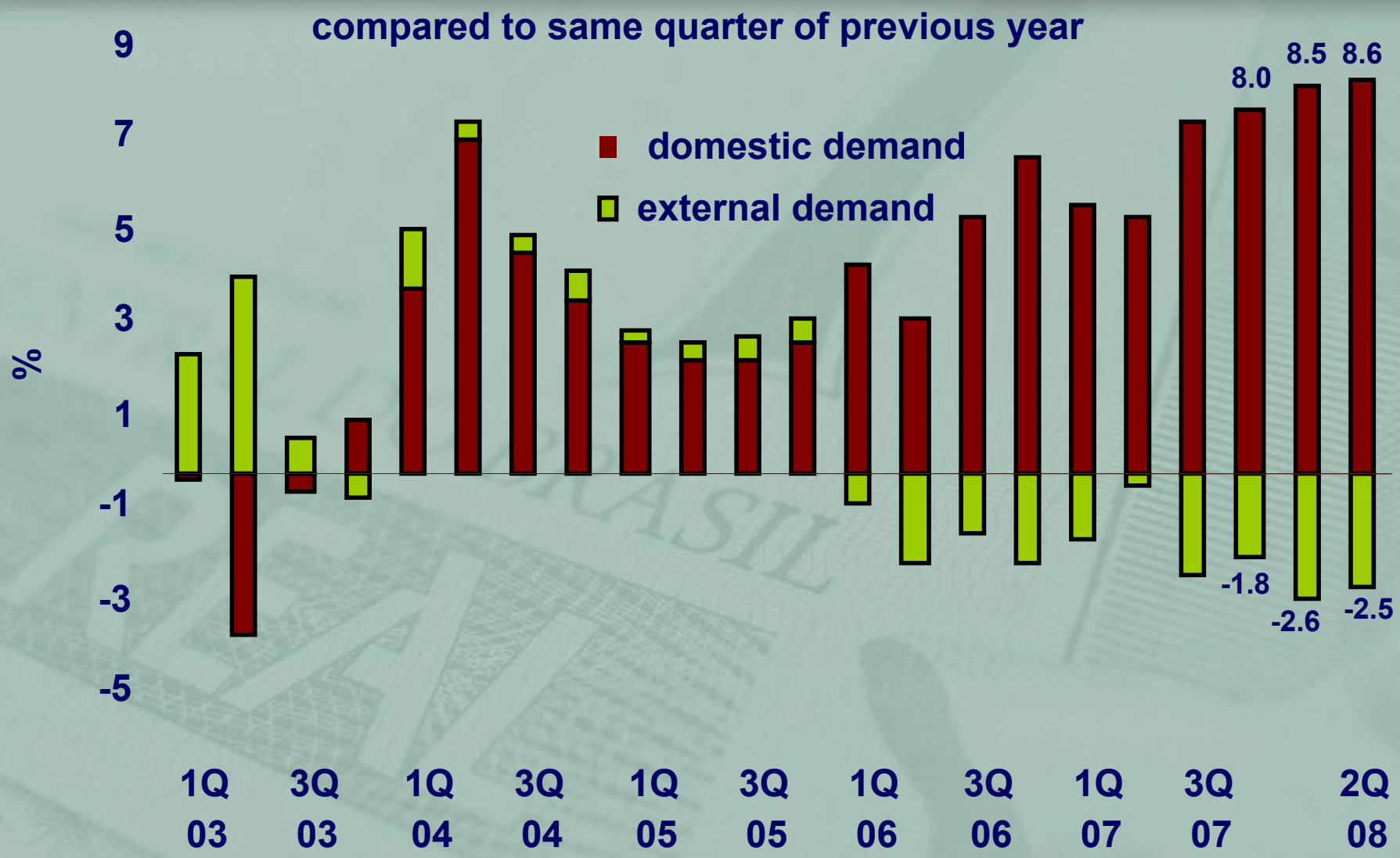
Source: BCB

GDP Growth



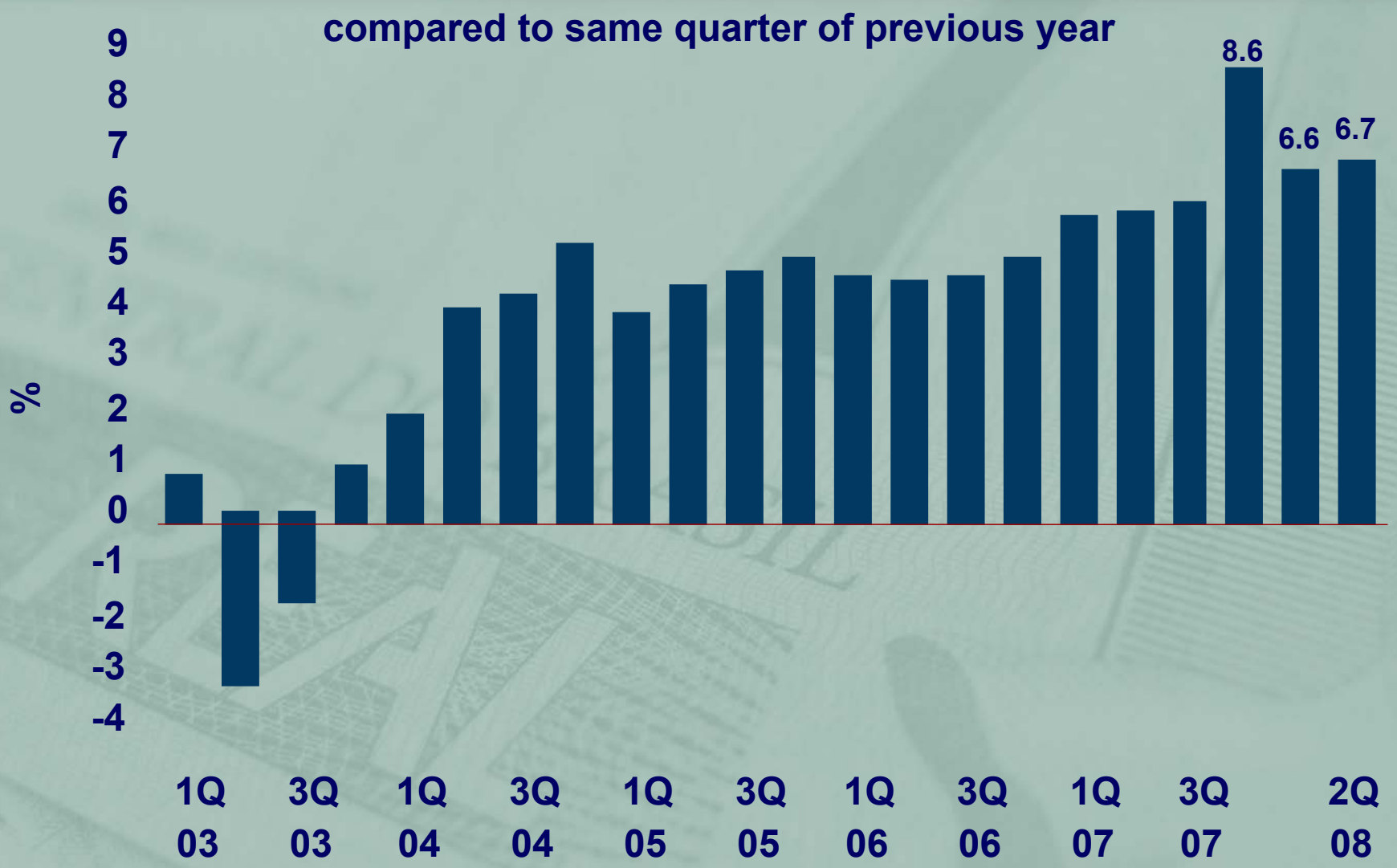
Source: IBGE

Domestic vs. External Demand



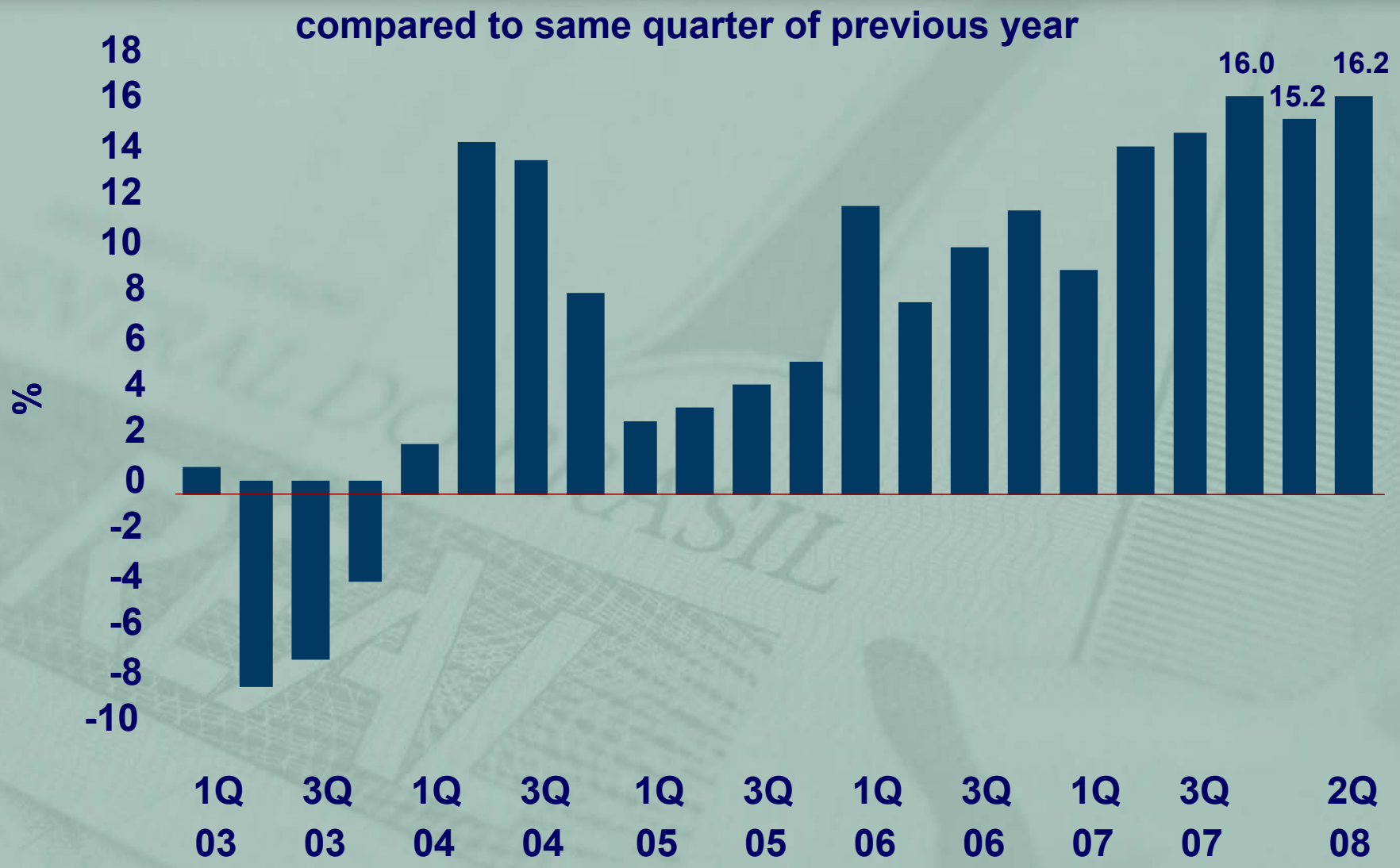
Sources: IBGE and BCB

Household Consumption



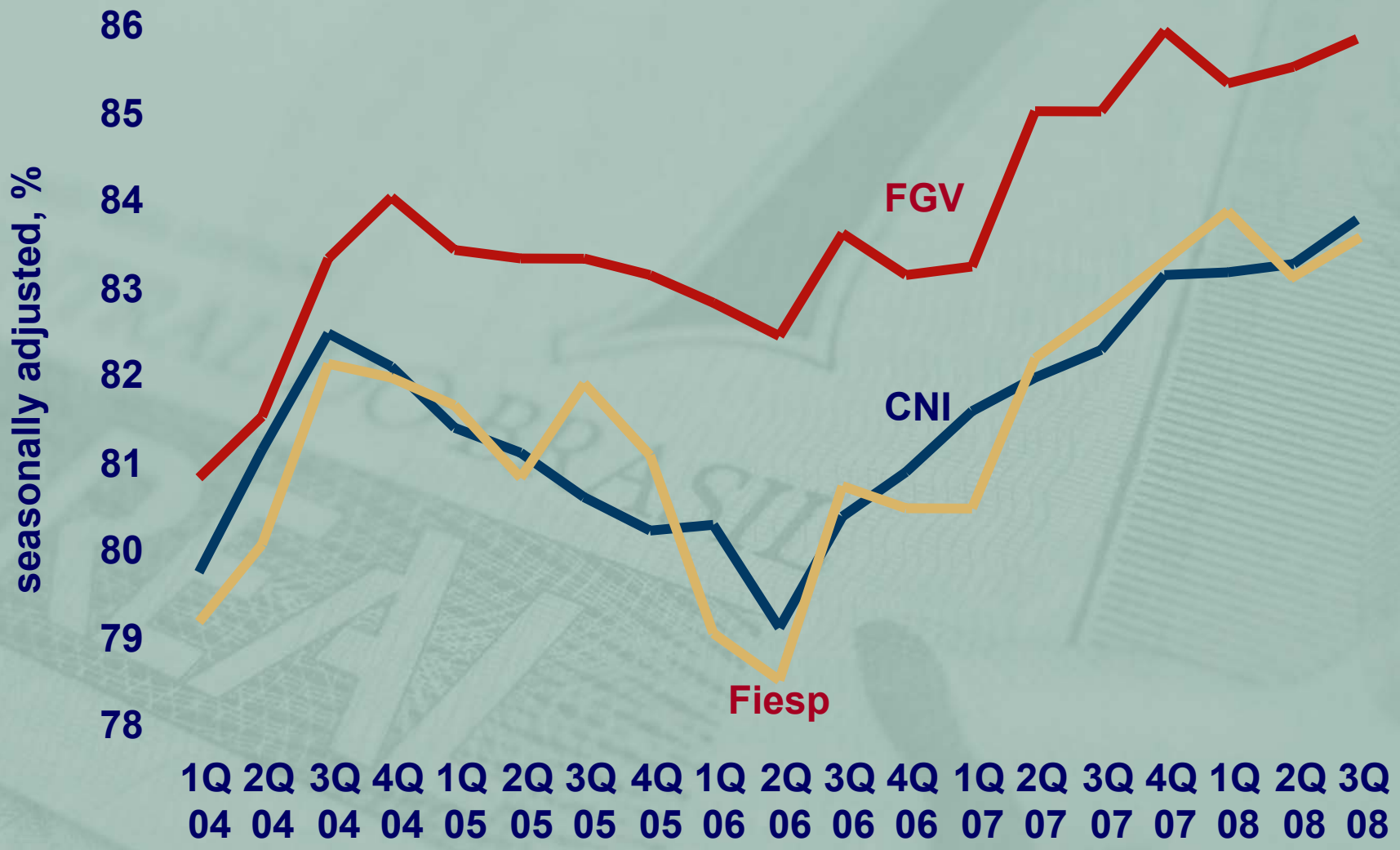
Source: IBGE

Investment



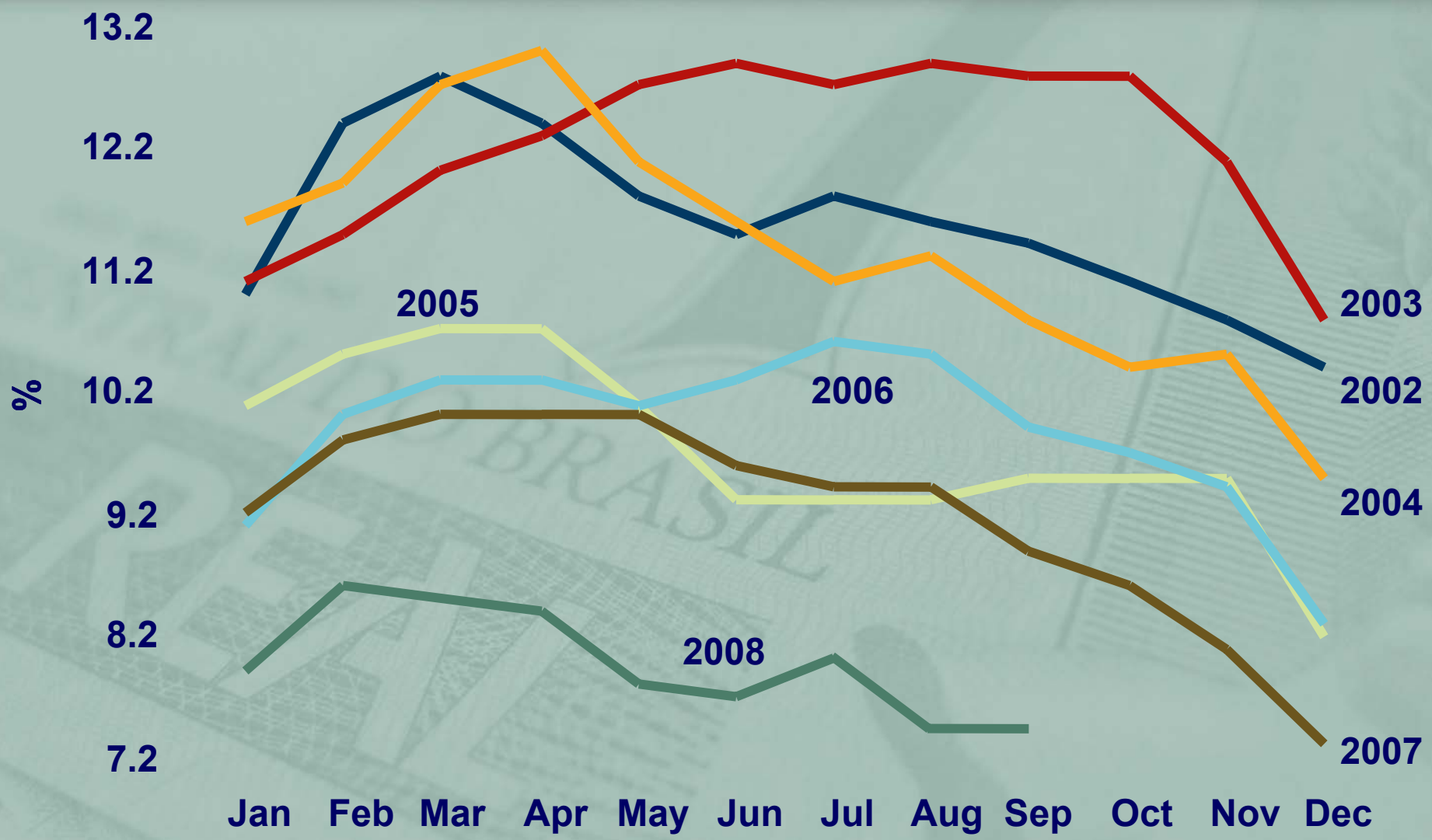
Source: IBGE

Capacity Utilization



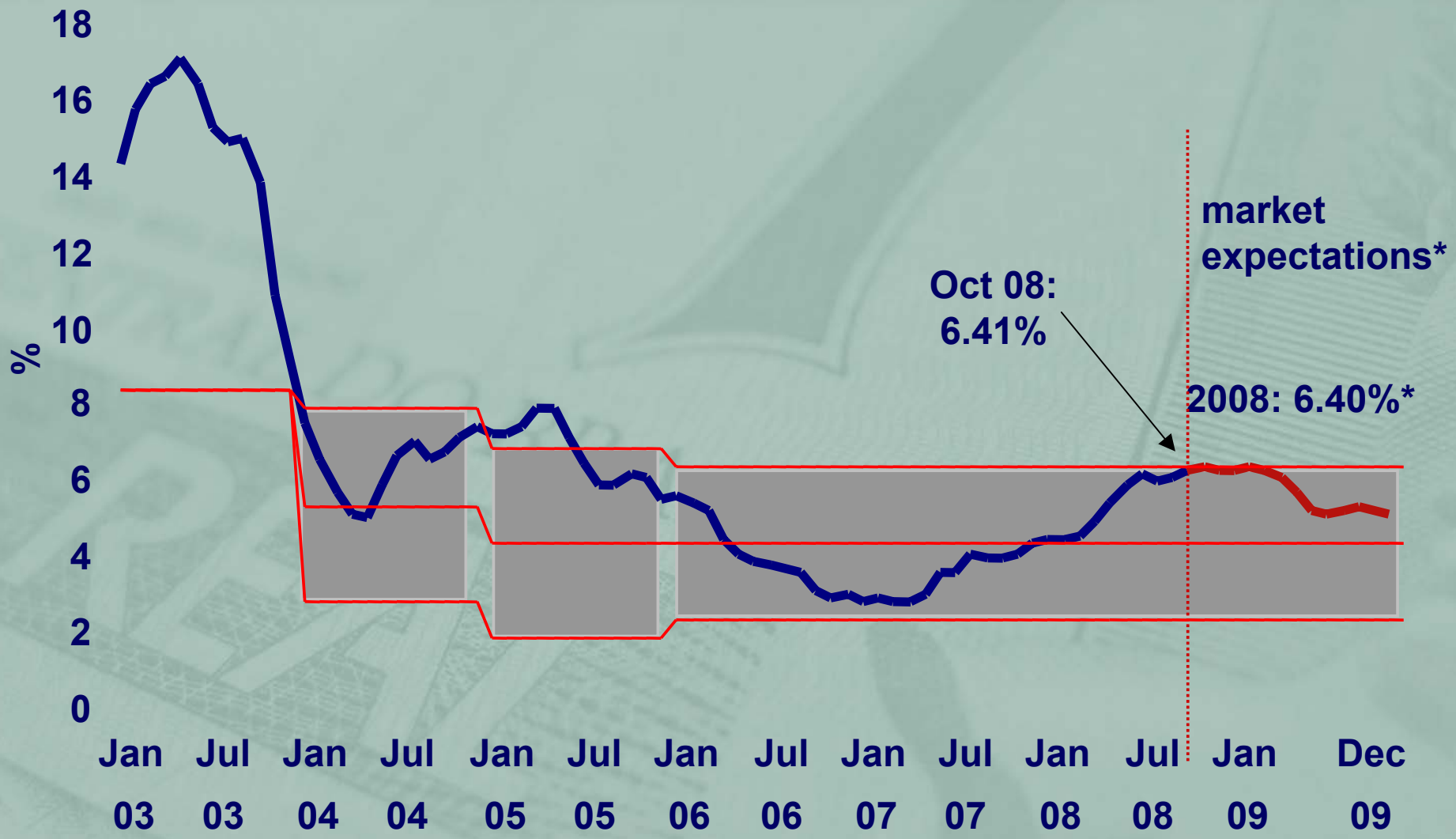
Sources: FGV, CNI and Fiesp

Unemployment Rate



Source: IBGE

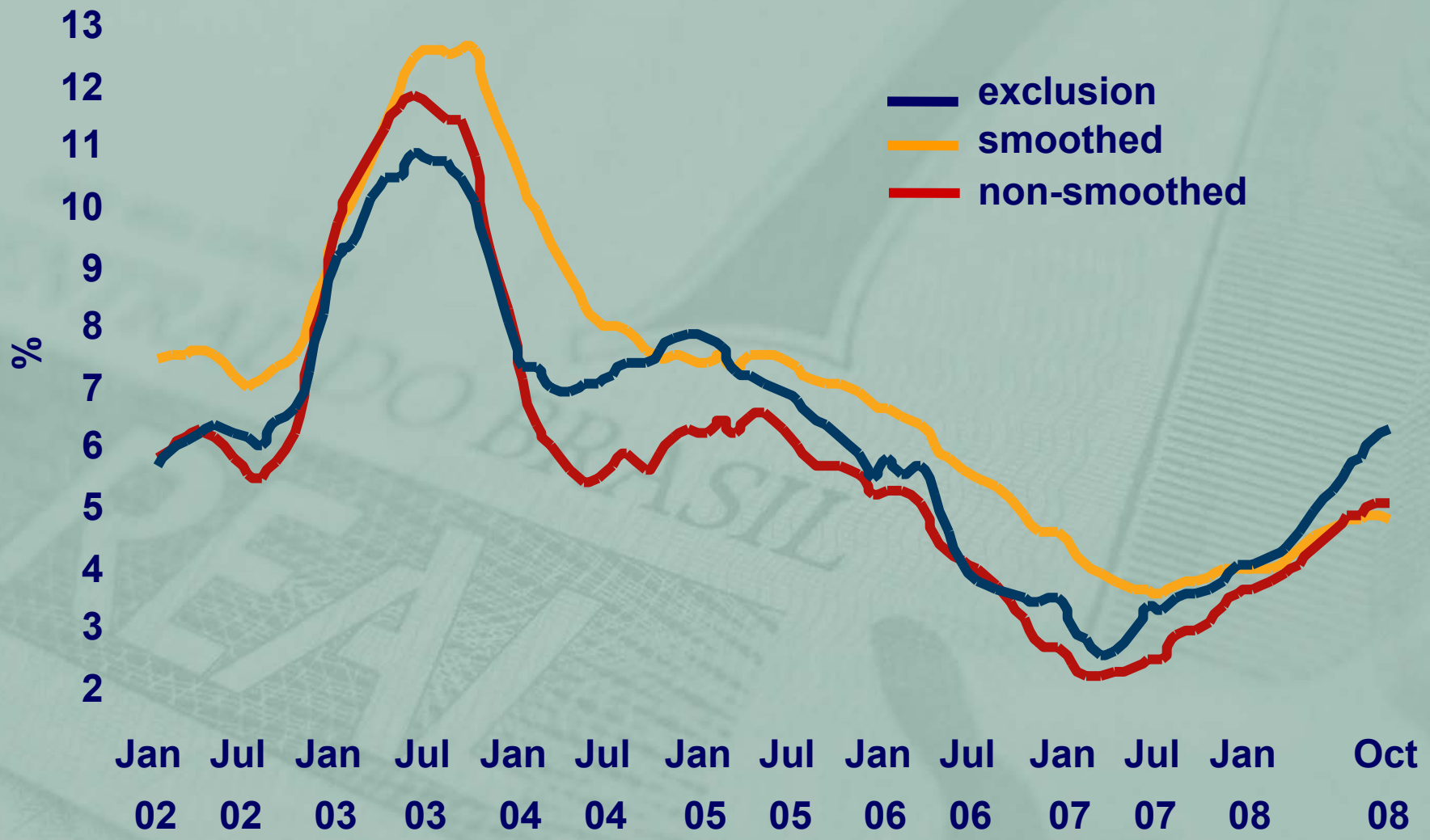
IPCA (12m Change)



Sources: IBGE and BCB

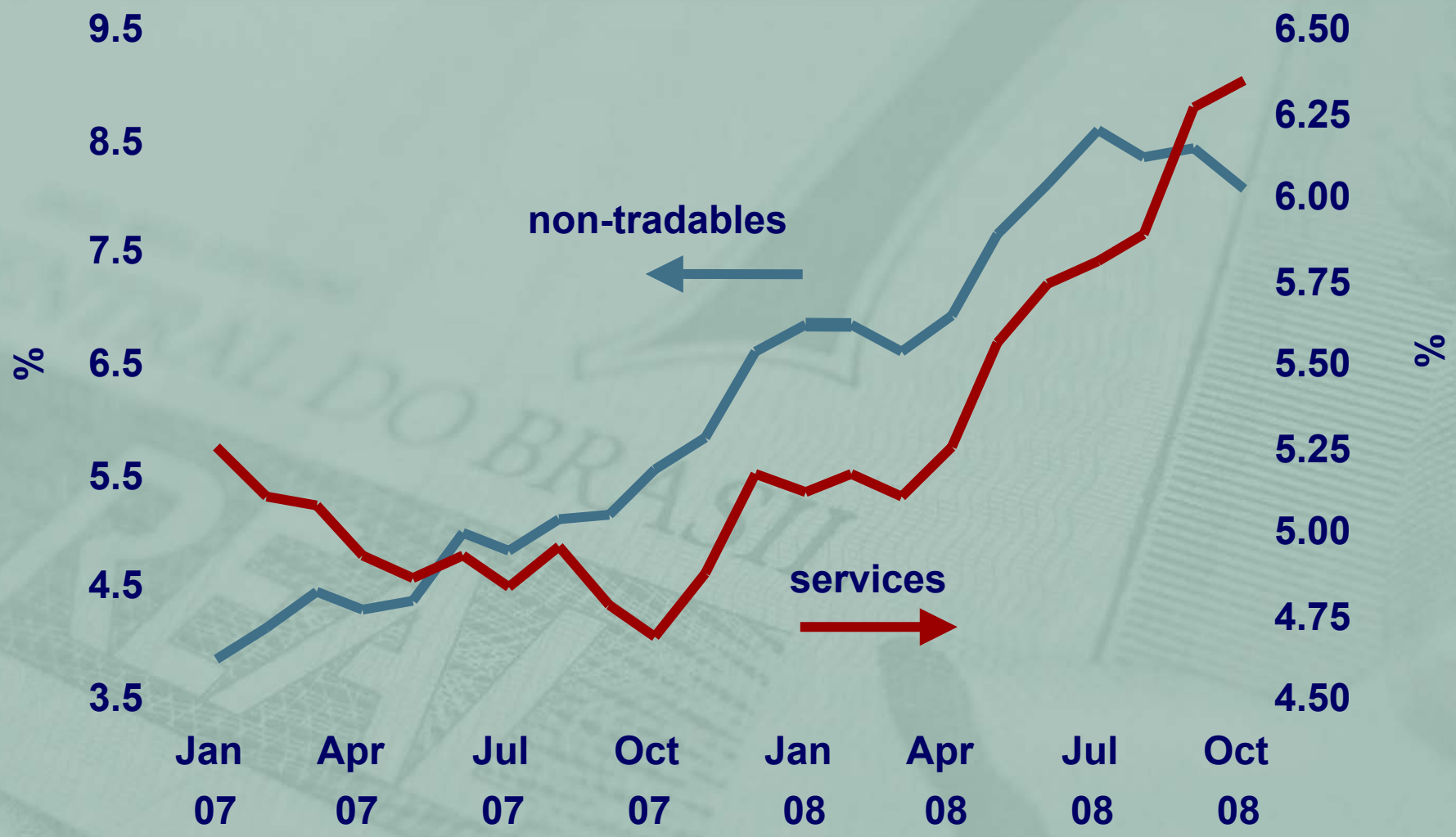
*11/7

Core IPCA Inflation



Source: BCB

IPCA: Home-Grown Pressure



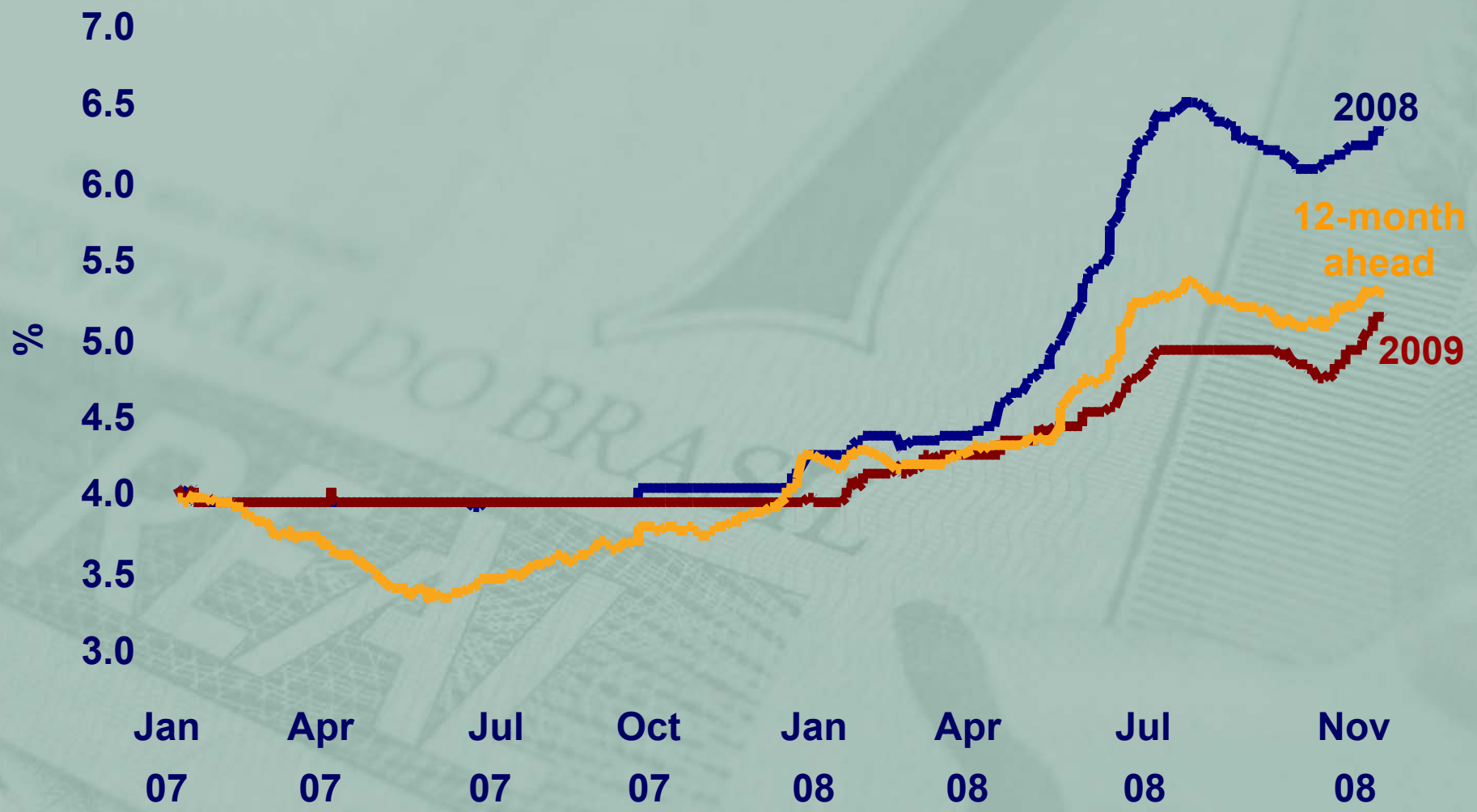
Source: IBGE

Inflation: Beyond Food and Energy

	weights	12 months			YTD (annual change)		
	oct/08	2006	2007	2008 (Oct)	2007 Oct	2008 Sep	2008 Oct
IPCA	100.00	3.14	4.46	6.41	3.97	6.39	6.31
ex food and beverage	77.35	3.69	2.83	4.58	2.59	4.69	4.69
ex food at home	84.88	3.84	3.22	5.27	2.92	5.40	5.37
ex food and energy	68.03	3.91	3.61	4.93	3.61	5.21	5.19
IGP-DI	100.00	3.79	7.89	12.29	6.31	11.26	11.52
ex food and beverage	67.48	3.18	3.51	11.56	3.17	13.04	12.87
IPC-DI	100.00	2.05	4.60	5.95	4.34	5.96	5.94
ex food and beverage	71.38	3.01	2.47	4.07	2.39	4.35	4.31
ex food at home	74.55	3.10	2.64	4.32	2.52	4.60	4.55
IPA-DI	100.00	4.29	9.44	14.71	7.07	12.82	13.29
ex food and beverage	60.12	2.95	3.60	15.37	3.07	17.47	17.27
INCC-DI	100.00	5.04	6.15	12.17	6.21	13.92	13.48

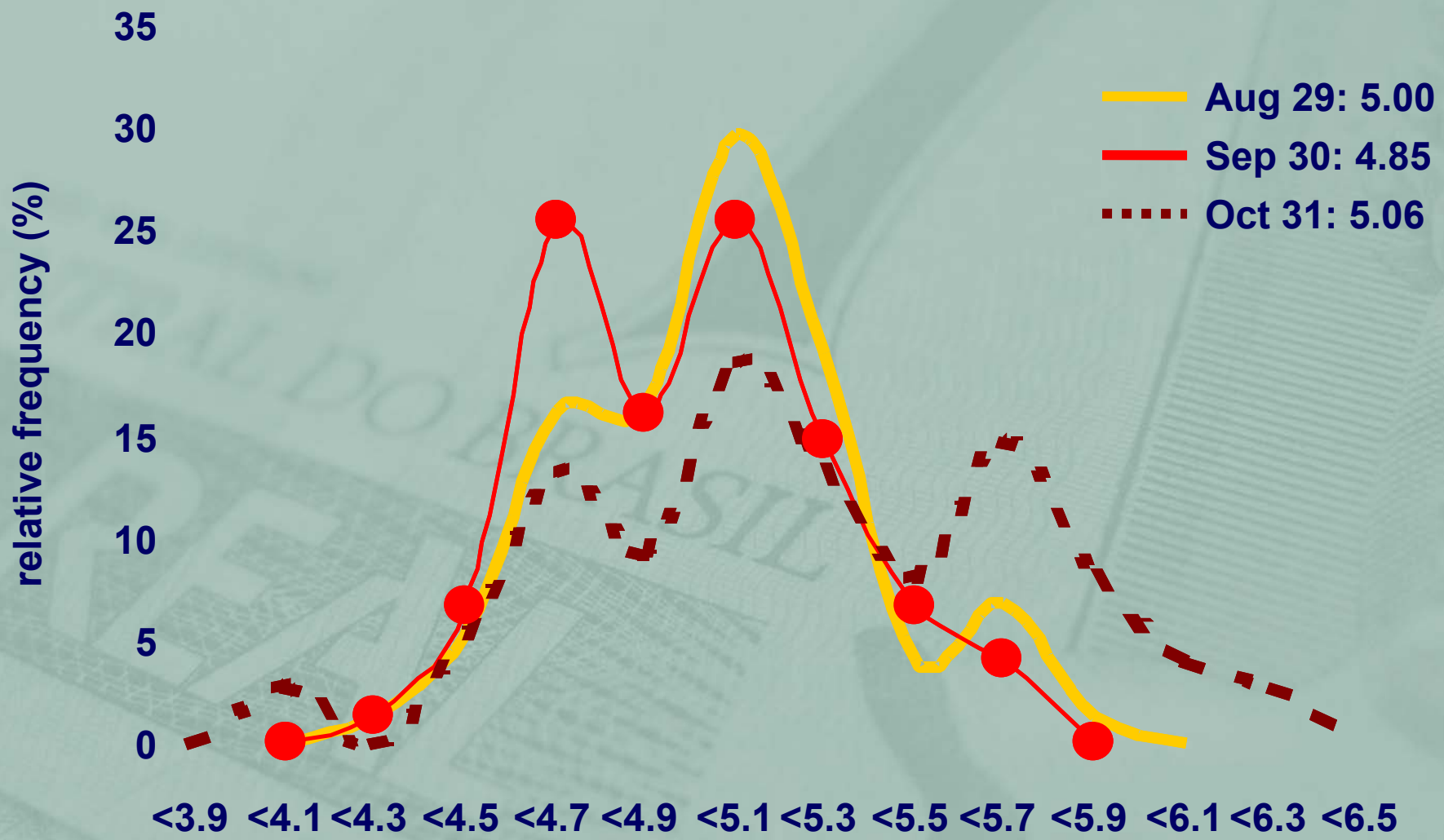
Sources: IBGE and FGV

IPCA Inflation Expectations



Source: BCB

Frequency Distribution of 2009 Inflation Expectations



Source: BCB

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