BANCO CENTRAL DO BRASIL

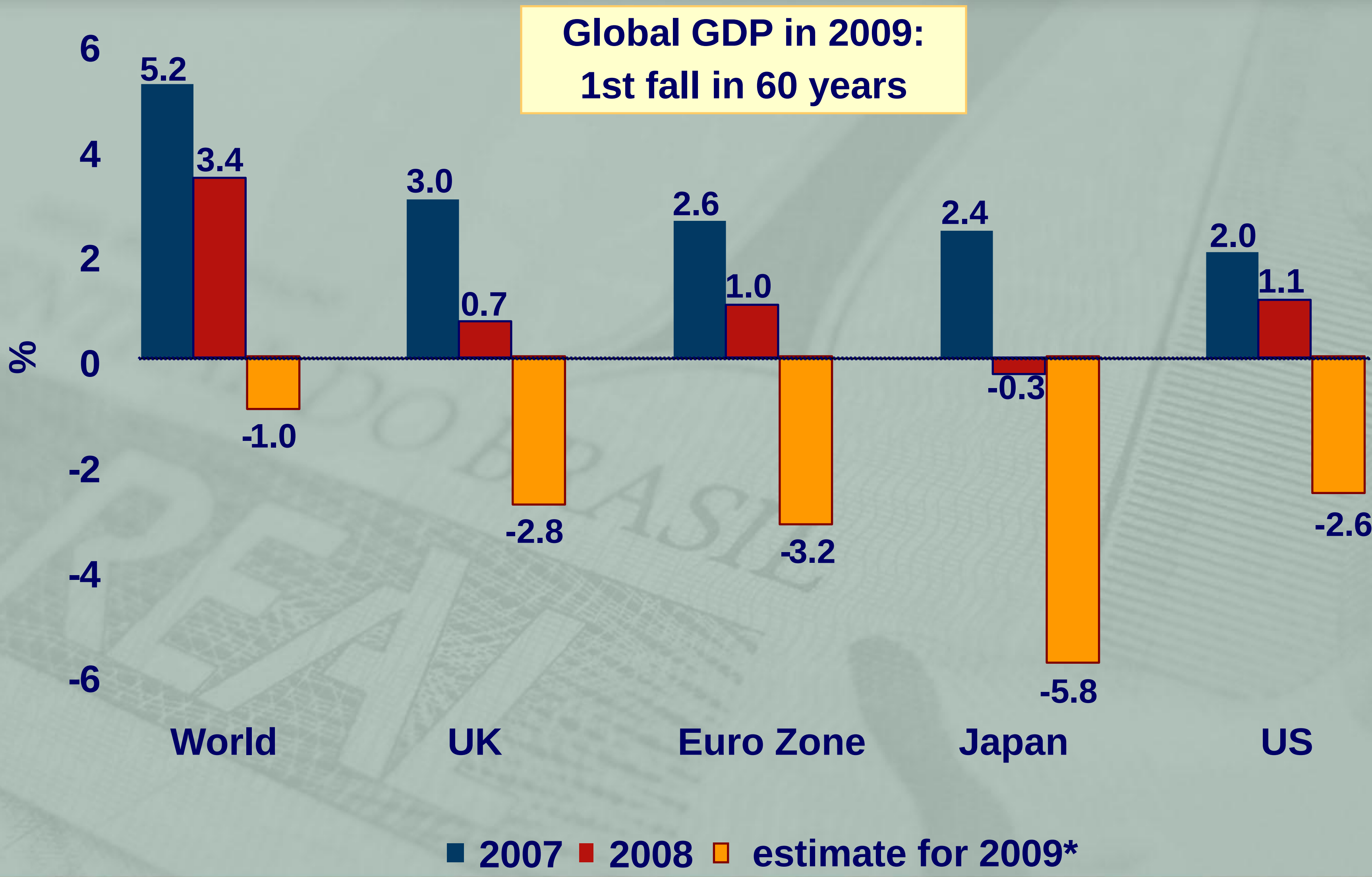
Brazil: economic outlook

Mário Mesquita

April 2009

I. External environment

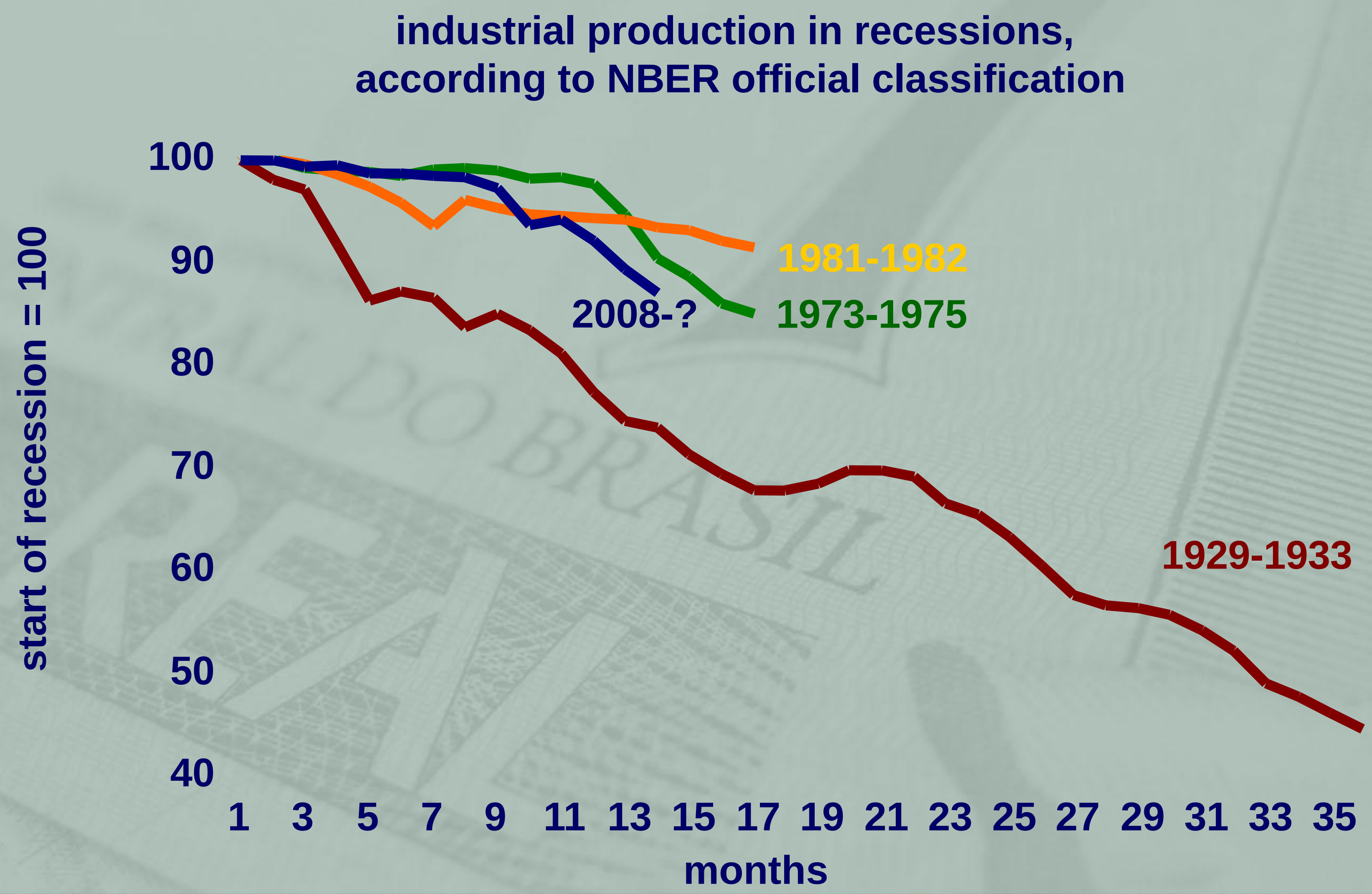
GDP – World and Selected Countries/Blocks



Source: IMF

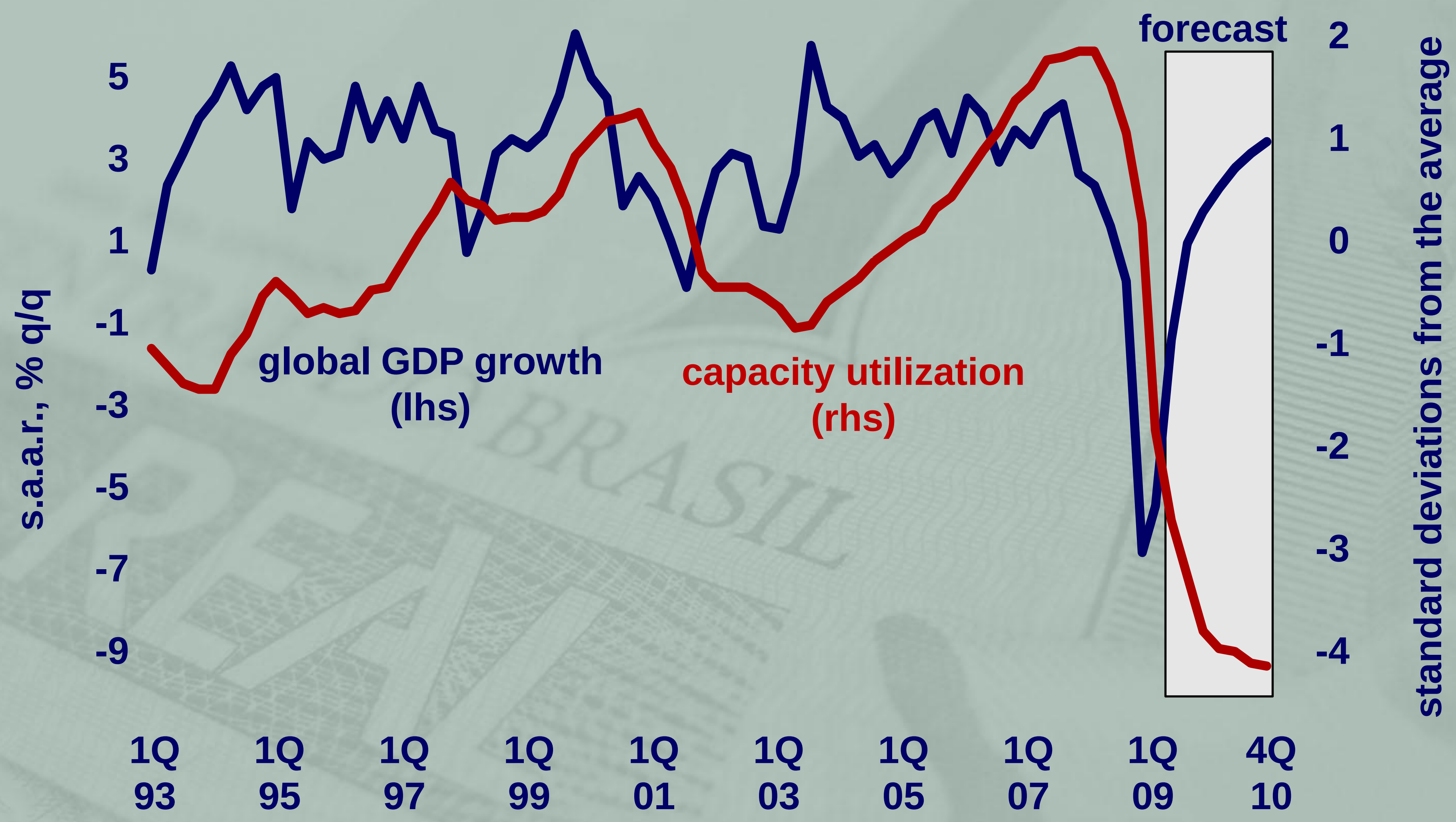
*WEO Mar 09

US: Comparing Recessions



Source: Federal Reserve and NBER (National Bureau of Economic Research)

Global GDP and Capacity Utilization



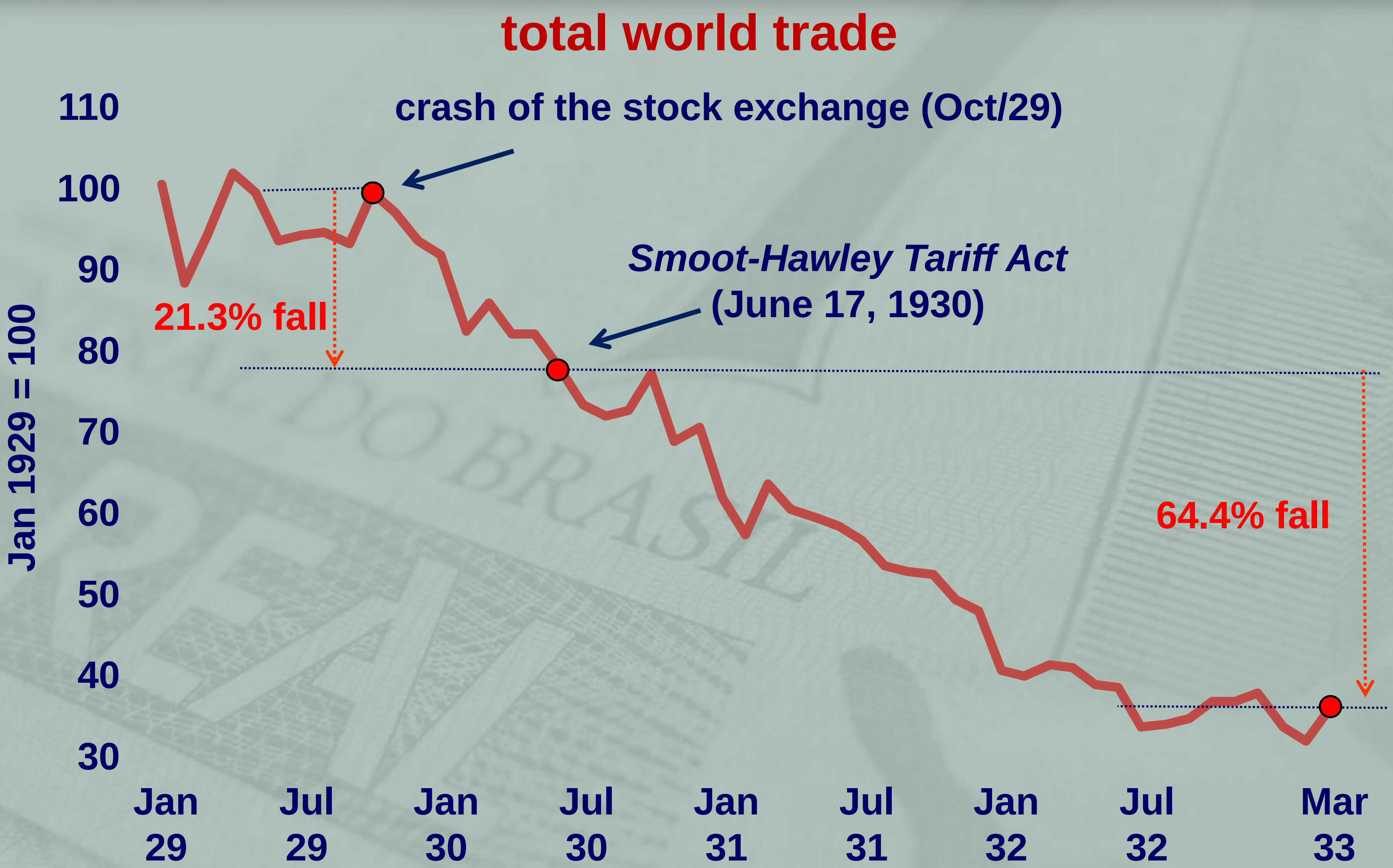
Source: JP Morgan

GDP and Global Trade

Sources: FMI, WEO Update - Jan/09 and WTO

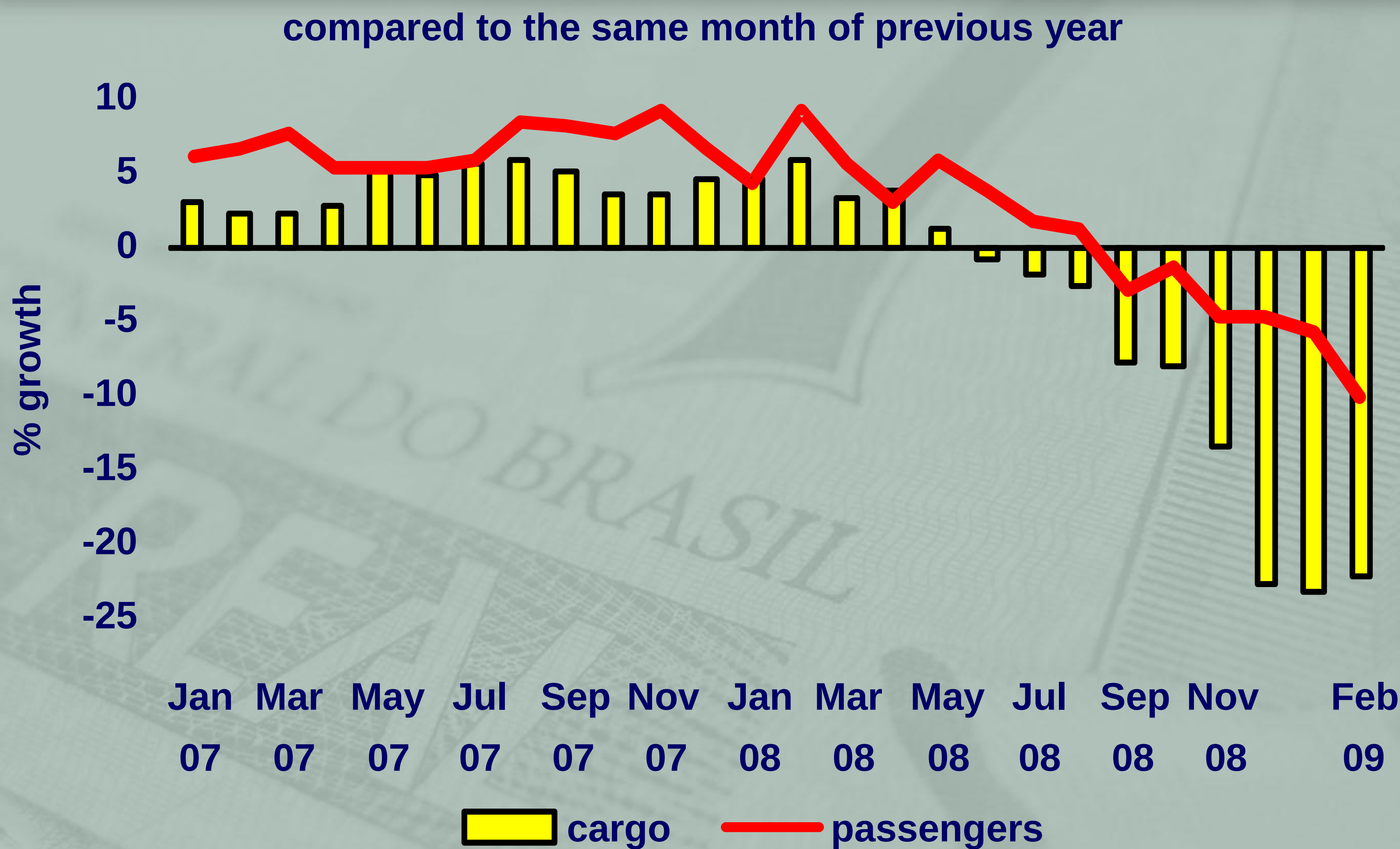
* 2009: estimate

The Danger of the Protectionism: Lessons from the Great Depression



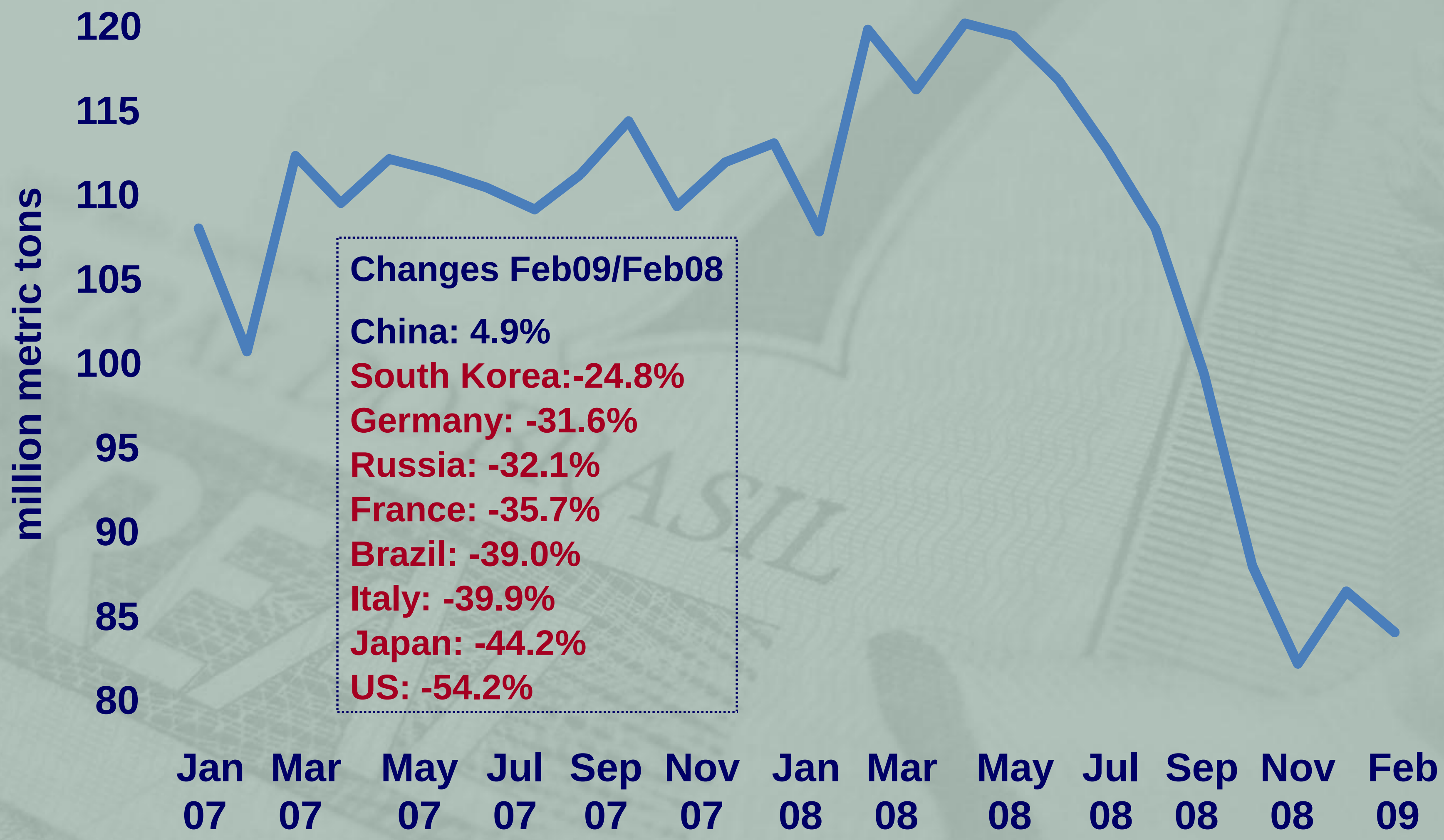
Source: League of Nations

World Air Traffic



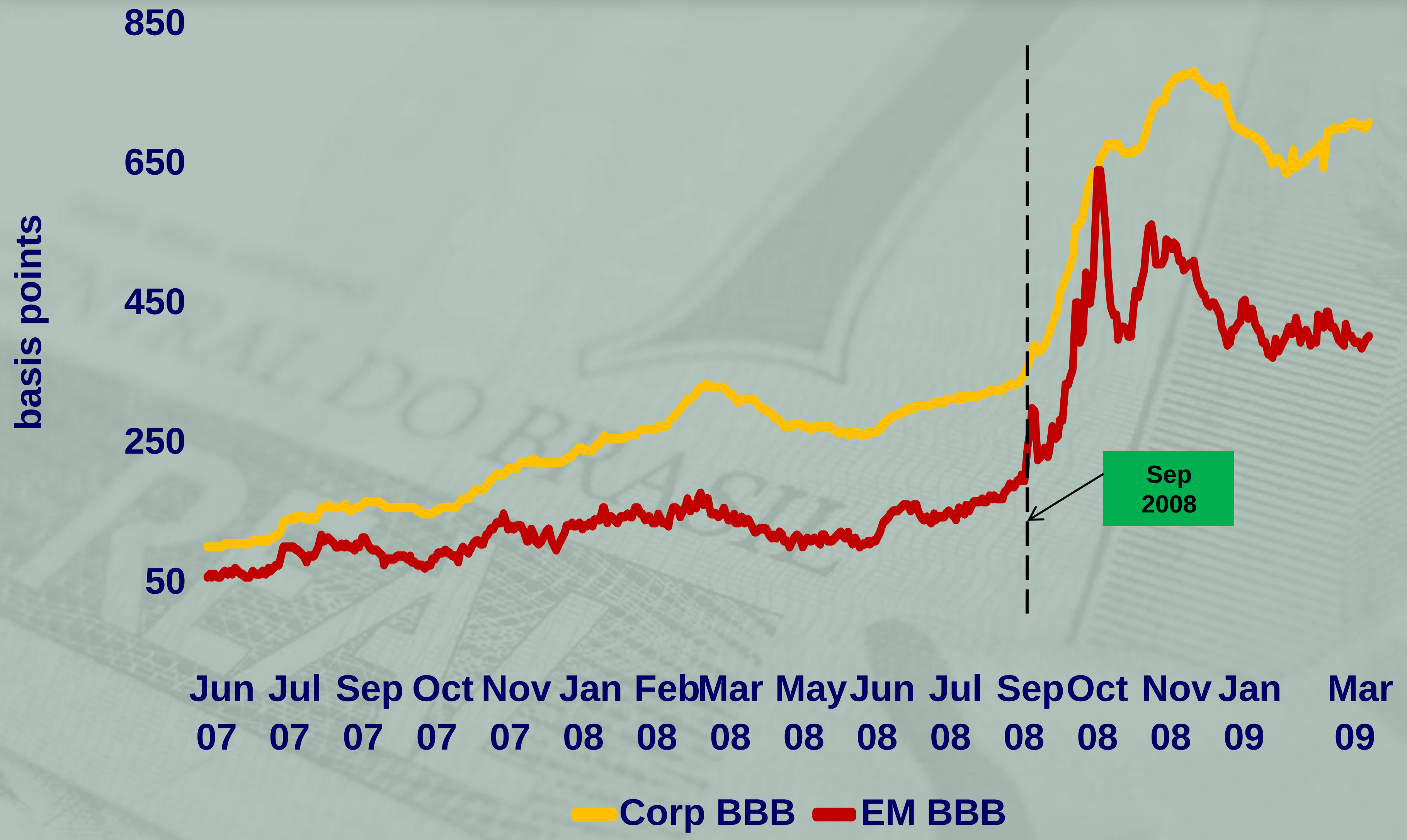
Source: IATA

World Monthly Steel Production



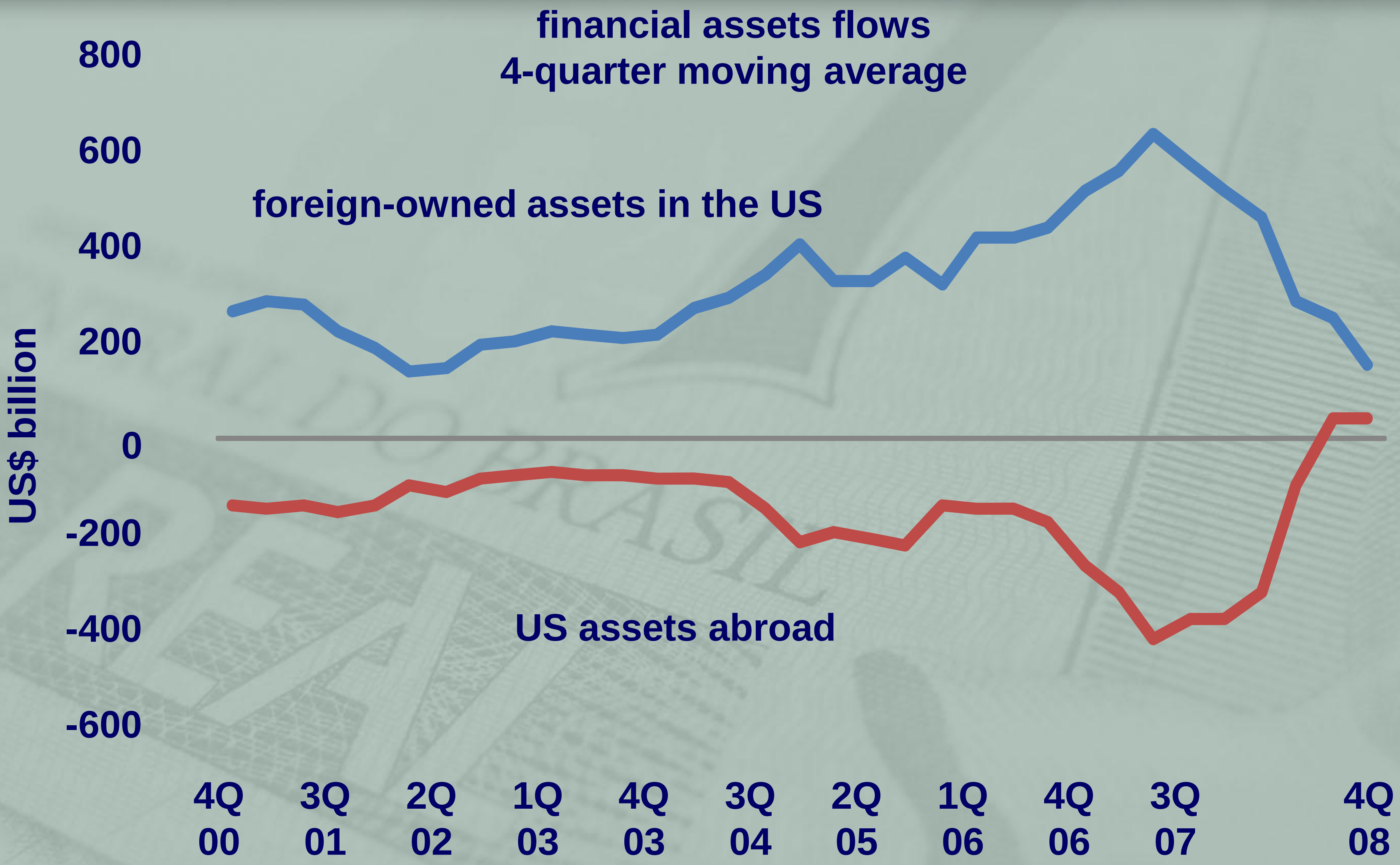
Source: World Steel Association

Spreads in the Current Crisis – US Corporates and Emerging Countries



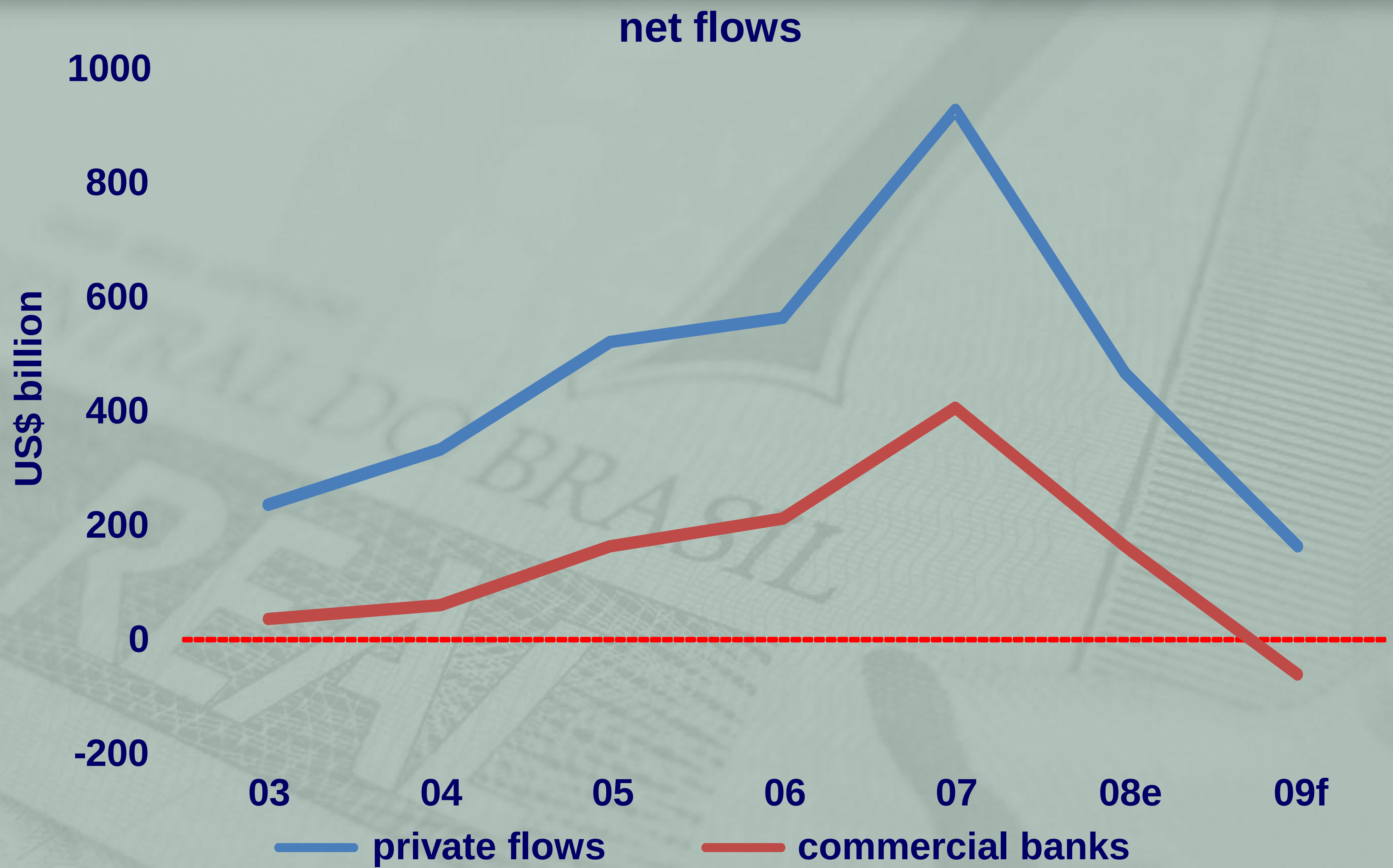
Source: Bloomberg

Reversal of Financial Globalization?
Repatriation of Capital – US



Source: Bureau of Economic Analysis (BEA)

External Financing for Emerging Market Economies



Source: IIF; e: estimate, f:IIF forecast

Industrial Production and CPI Inflation in Selected Countries

Industrial production (% YoY)

	US	EU	Japan	China	Russia	India	Turkey	S. Africa	Chile	Colombia	Mexico	Peru	Brazil
Sep 08	-6.2	-3.2	0.2	11.4	6.4	6.2	-4.3	5.2	3.6	-3.4	-1.7	11.6	9.7
Oct 08	-4.3	-5.8	-7.1	8.2	1.7	-0.6	-6.7	-2.3	-0.8	-7.3	-2.1	9.2	1.1
Nov 08	-5.9	-8.3	-16.6	5.4	-8.7	2.6	-13.2	-7.7	-5.7	-13.5	-4.7	6.4	-6.4
Dec 08	-8.2	-12.4	-20.8	5.7	-10.3	-1.1	-17.8	-8.7	-3.7	-9.5	-5.9	4.9	-14.8
Jan 09	-10.1	-15.7	-31.0	...	-16.0	0.3	-21.4	-12.9	-8.9	-10.8	-11.1	3.1	-17.4
Feb 09	-11.2	...	-38.4	11.0	-13.2	-1.4	-23.7	-15.0	-11.5	...	...	...	-17.0

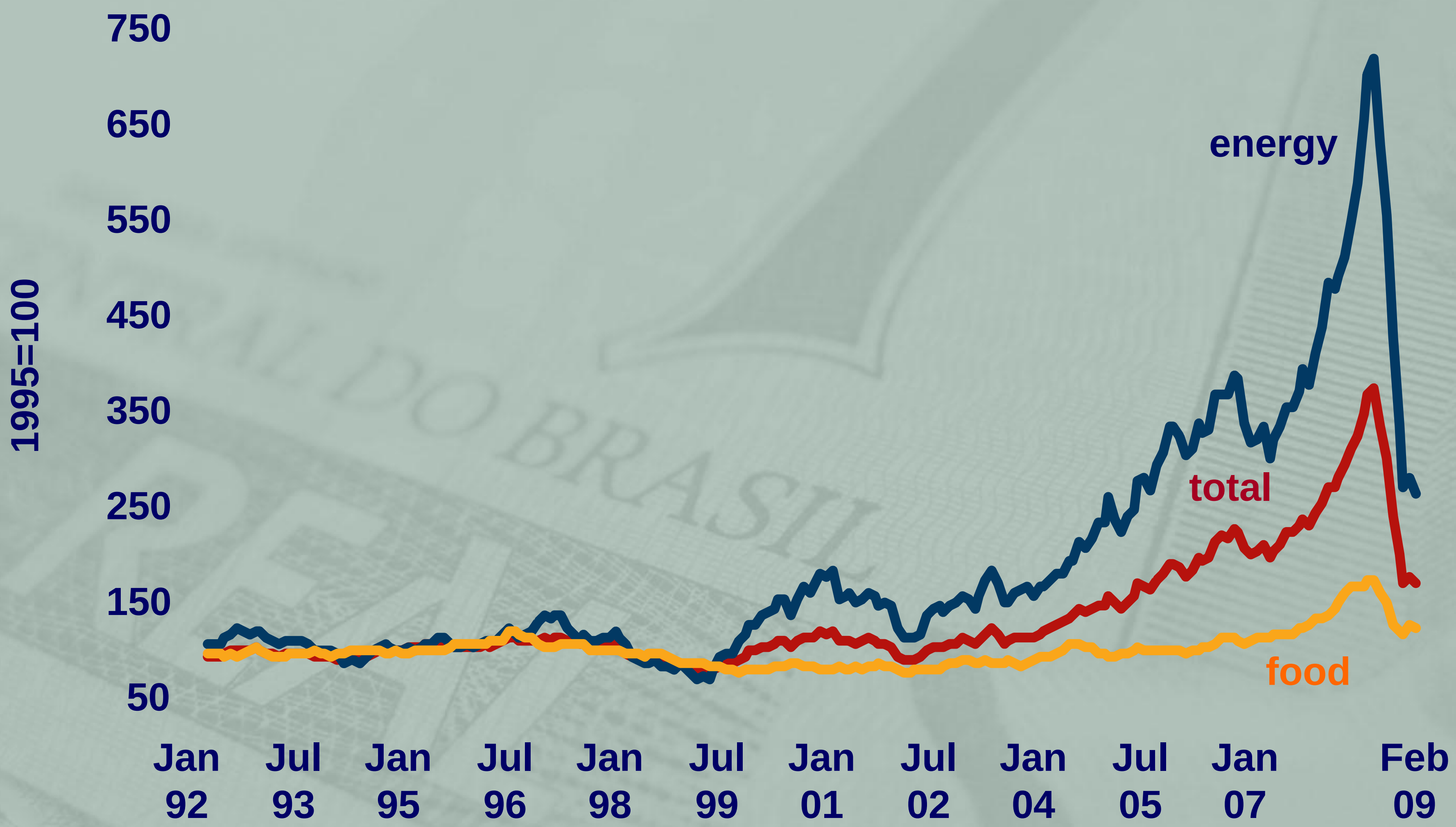
CPI Inflation (% YoY)

	US	EU	Japan	China	Russia	India	Turkey	S. Africa	Chile	Colombia	Mexico	Peru	Brazil
Sep 08	4.9	3.6	2.1	4.6	15.0	9.8	11.1	13.0	9.2	7.6	5.5	6.2	6.3
Oct 08	3.7	3.2	1.7	4.0	14.2	10.4	12.0	12.4	9.9	7.9	5.8	6.5	6.4
Nov 08	1.1	2.1	1.0	2.4	13.8	10.4	10.8	12.1	8.9	7.7	6.2	6.8	6.4
Dec 08	0.1	1.6	0.4	1.2	13.3	9.7	10.1	10.3	7.1	7.7	6.5	6.7	5.9
Jan 09	0.0	1.1	0.0	1.0	13.4	10.4	9.5	8.1	6.3	7.2	6.3	6.5	5.8
Feb 09	0.2	1.2	-0.1	-1.6	14.0	9.6	7.7	...	5.5	6.5	6.2	5.5	5.9
Feb-Sep (p.p.)	-4.7	-2.4	-2.2	-6.2	-1.0	-0.2	-3.4	-4.4	-3.7	-1.1	0.7	-0.7	-0.4

Sources: Bloomberg and local institutes of statistics

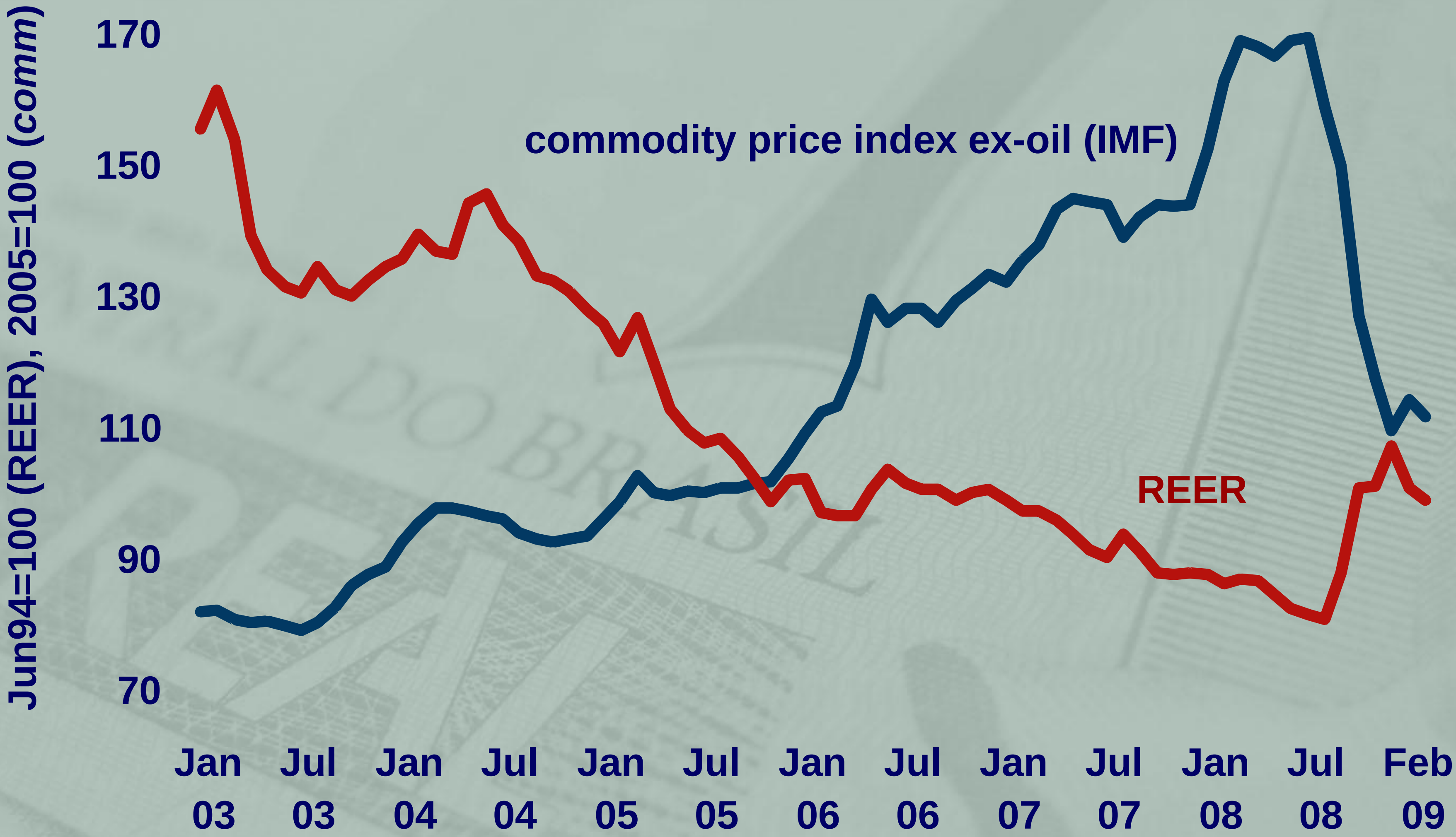
II. Brazil and the International Financial Crisis: more Financial Resilience

Commodities Price Indices (Total, Food and Energy)



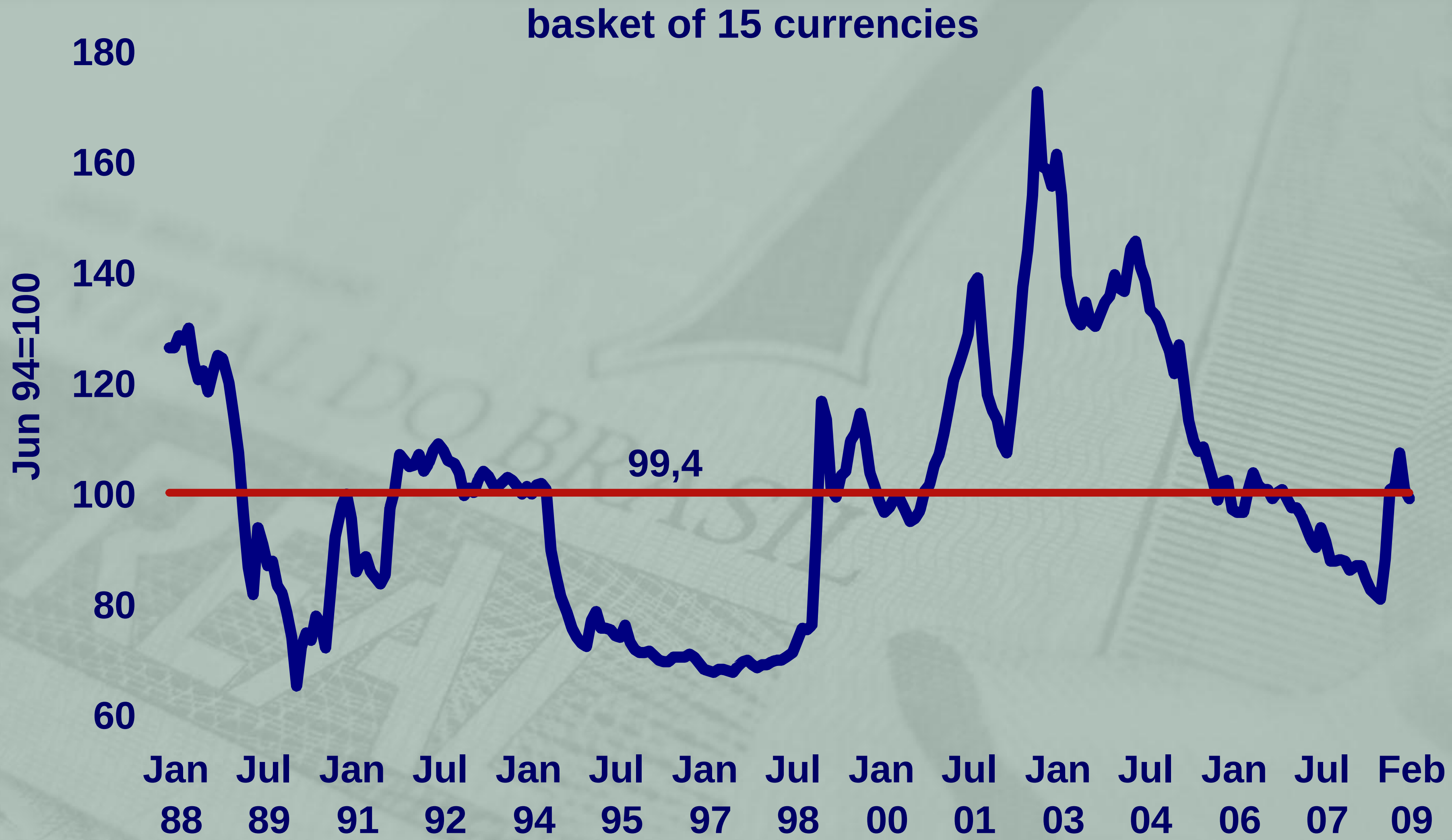
Source: IMF

Real Exchange Rate vs. Commodity Prices



Sources: BCB and IMF

REER

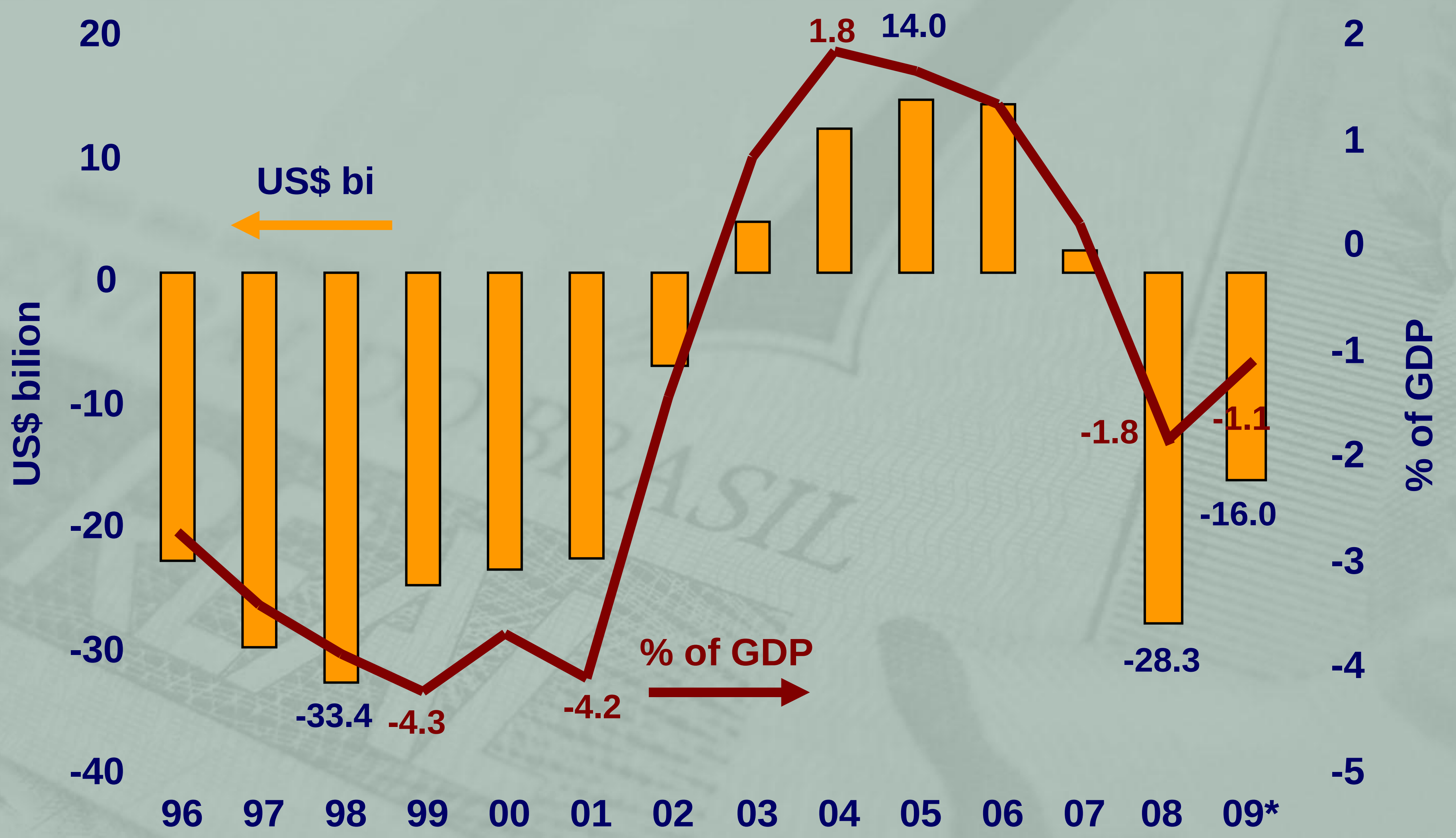


Source: BCB

Current Account – Accumulated in 12 Months – Difference between Feb 09 and Feb 08

Source: BCB

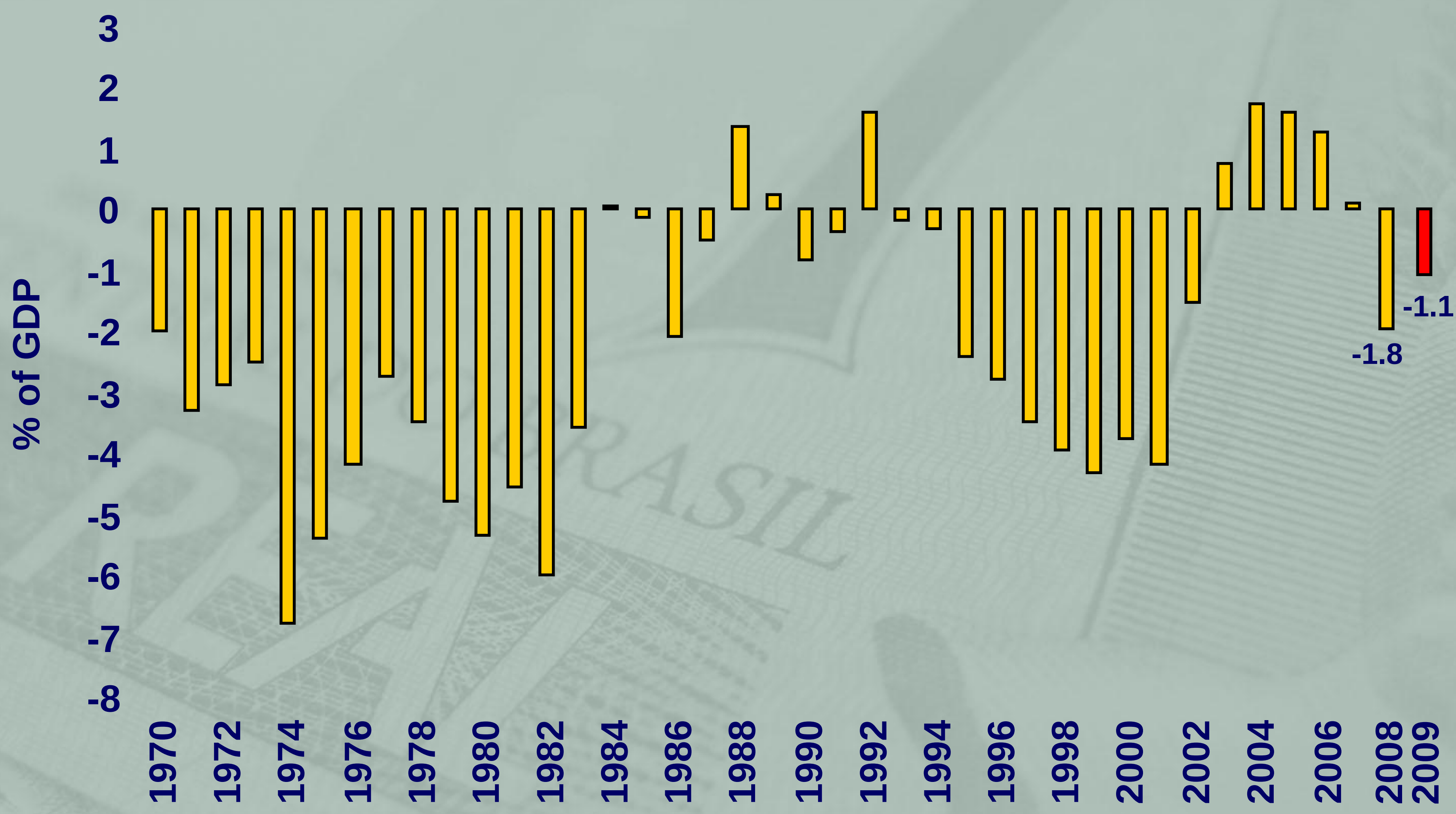
Current Account Balance



Source: BCB

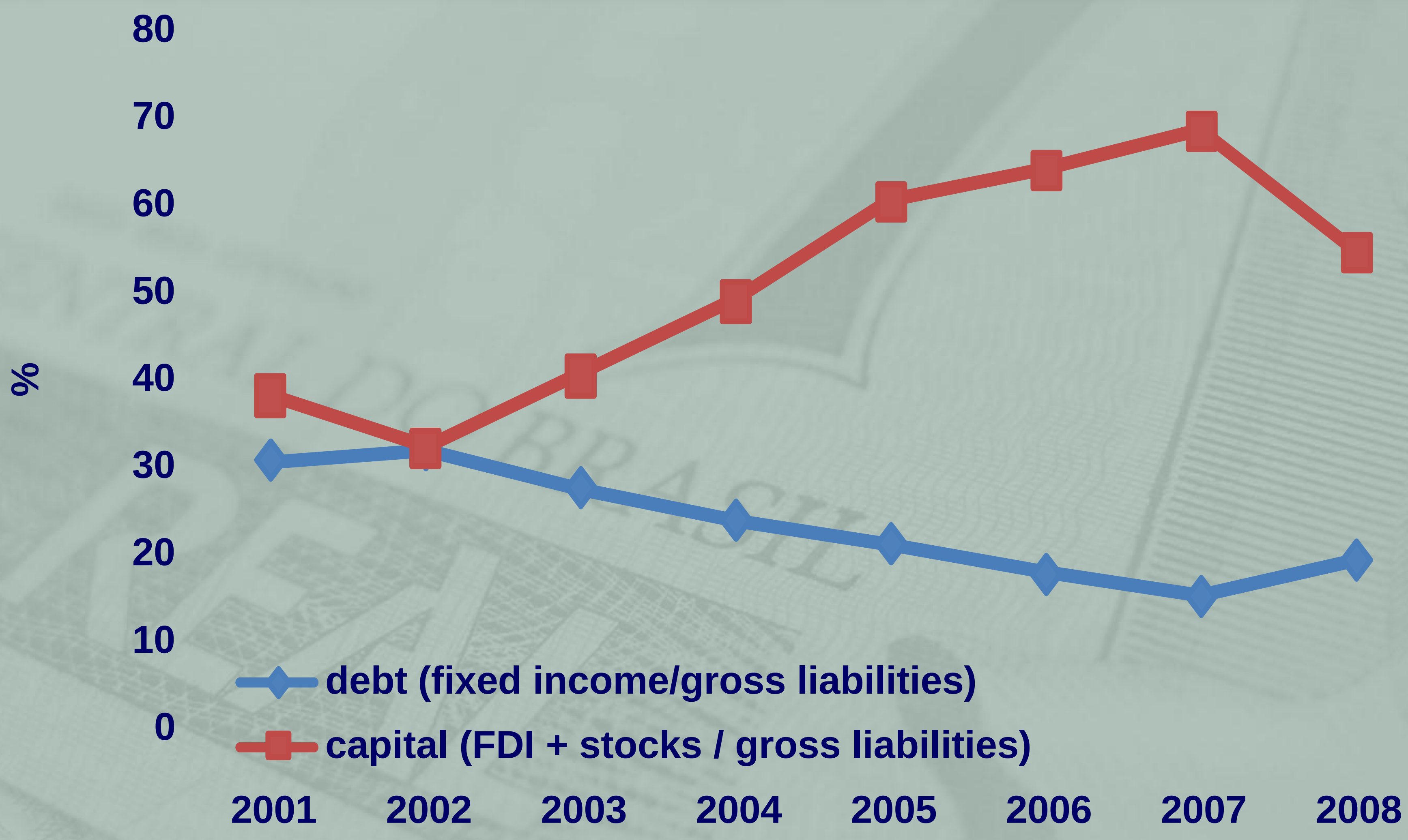
*2009: estimate

Current Account Balance/GDP



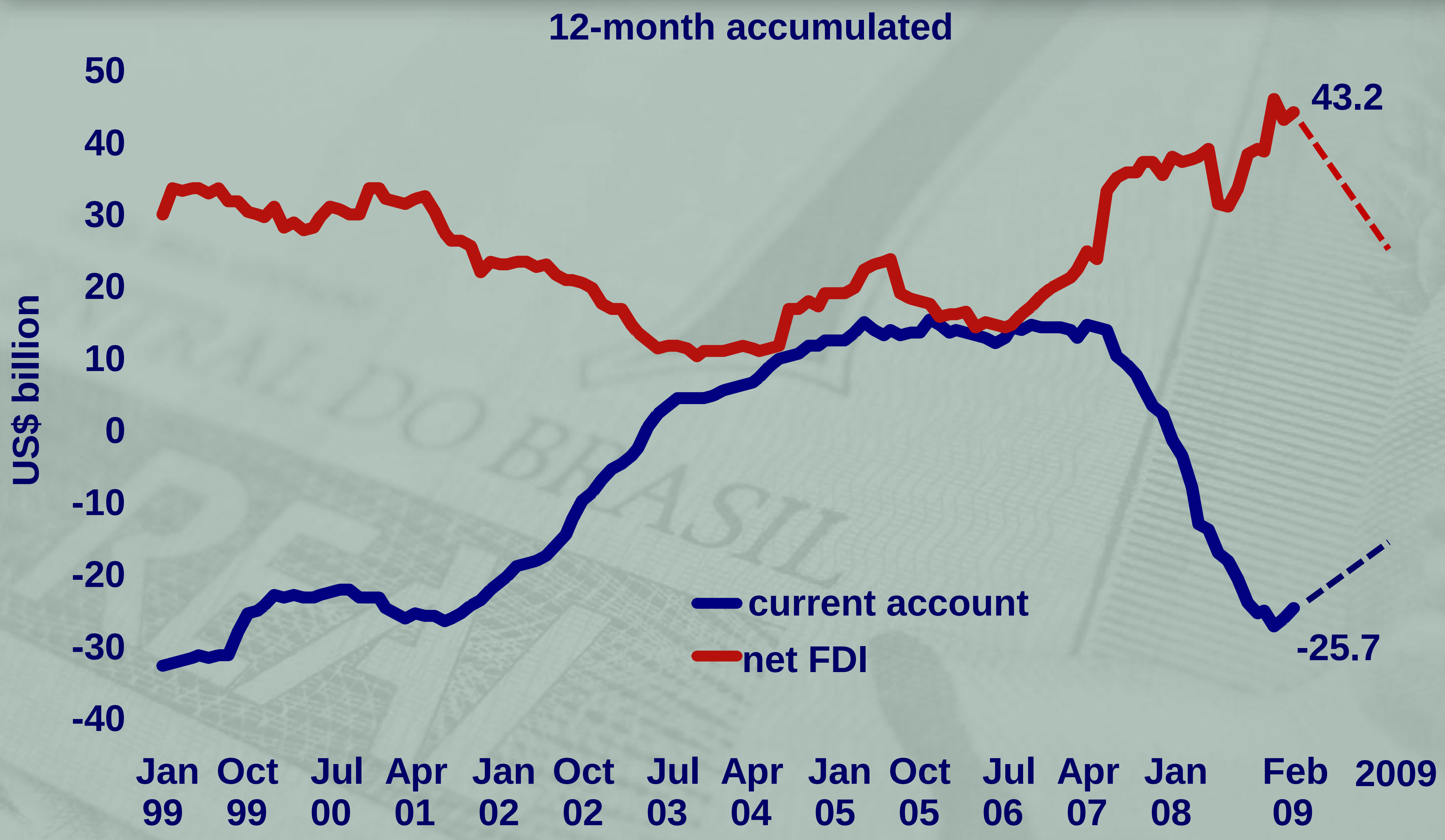
Source: BCB; 2009: estimate

Debt vs. Equity



Source: BCB

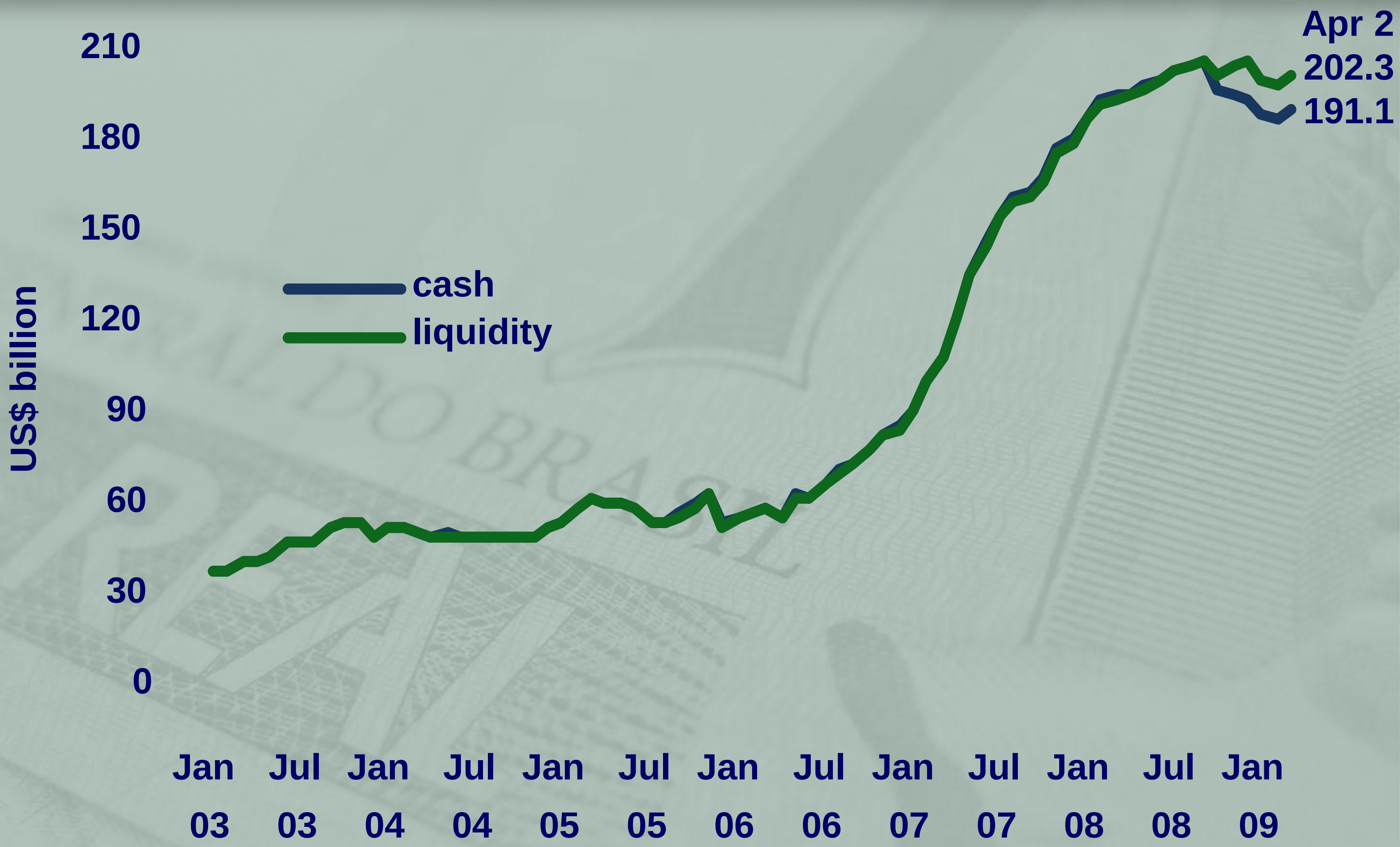
Net FDI x Current Account Balance



Source: BCB 2009 estimates: US$ -16 billion (current account) and US$ 25 billion (FDI) (March 2009 Inflation Report)

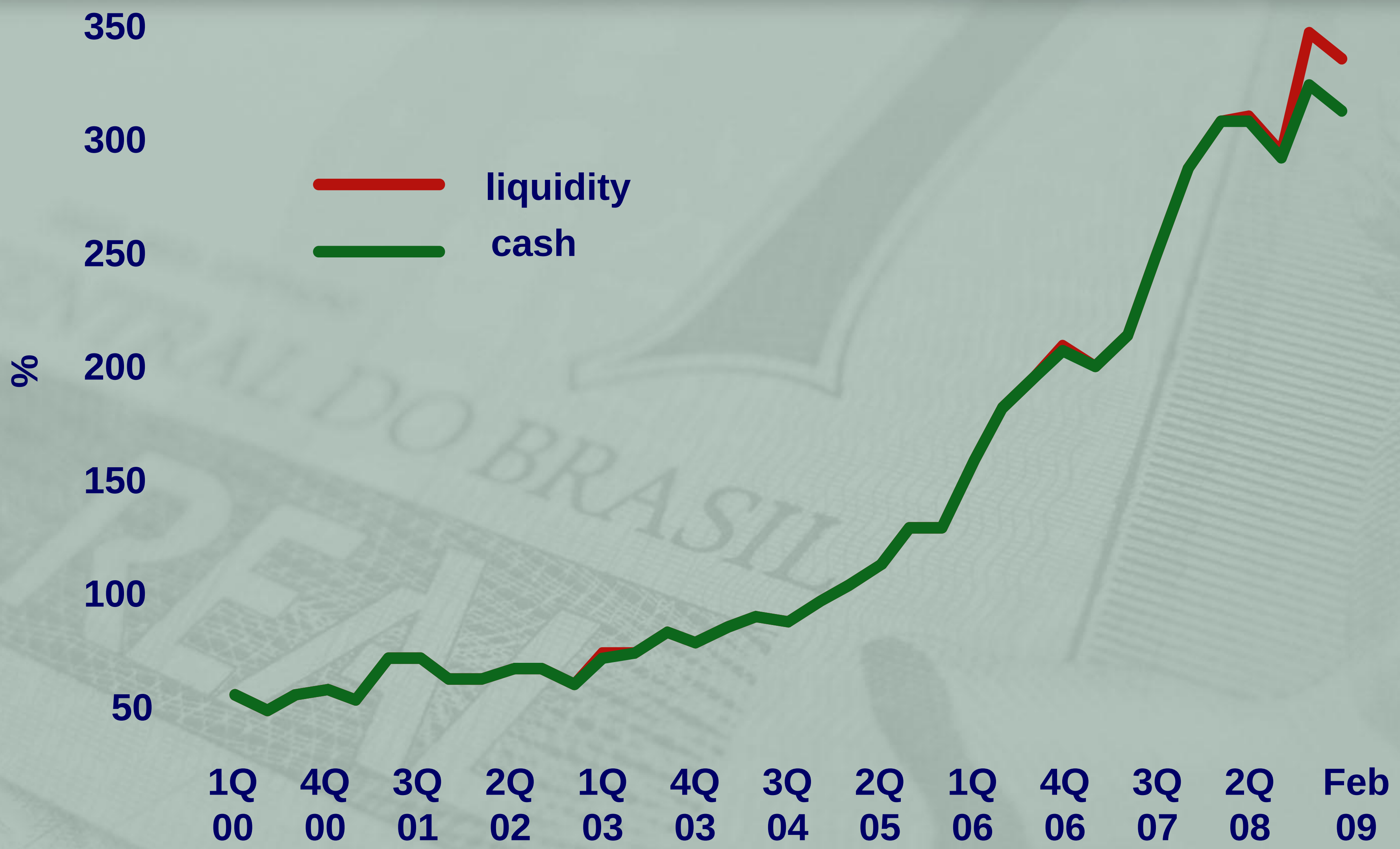
BANCO CENTRAL DO BRASIL

FX Reserves



Source: BCB *up to Nov/05

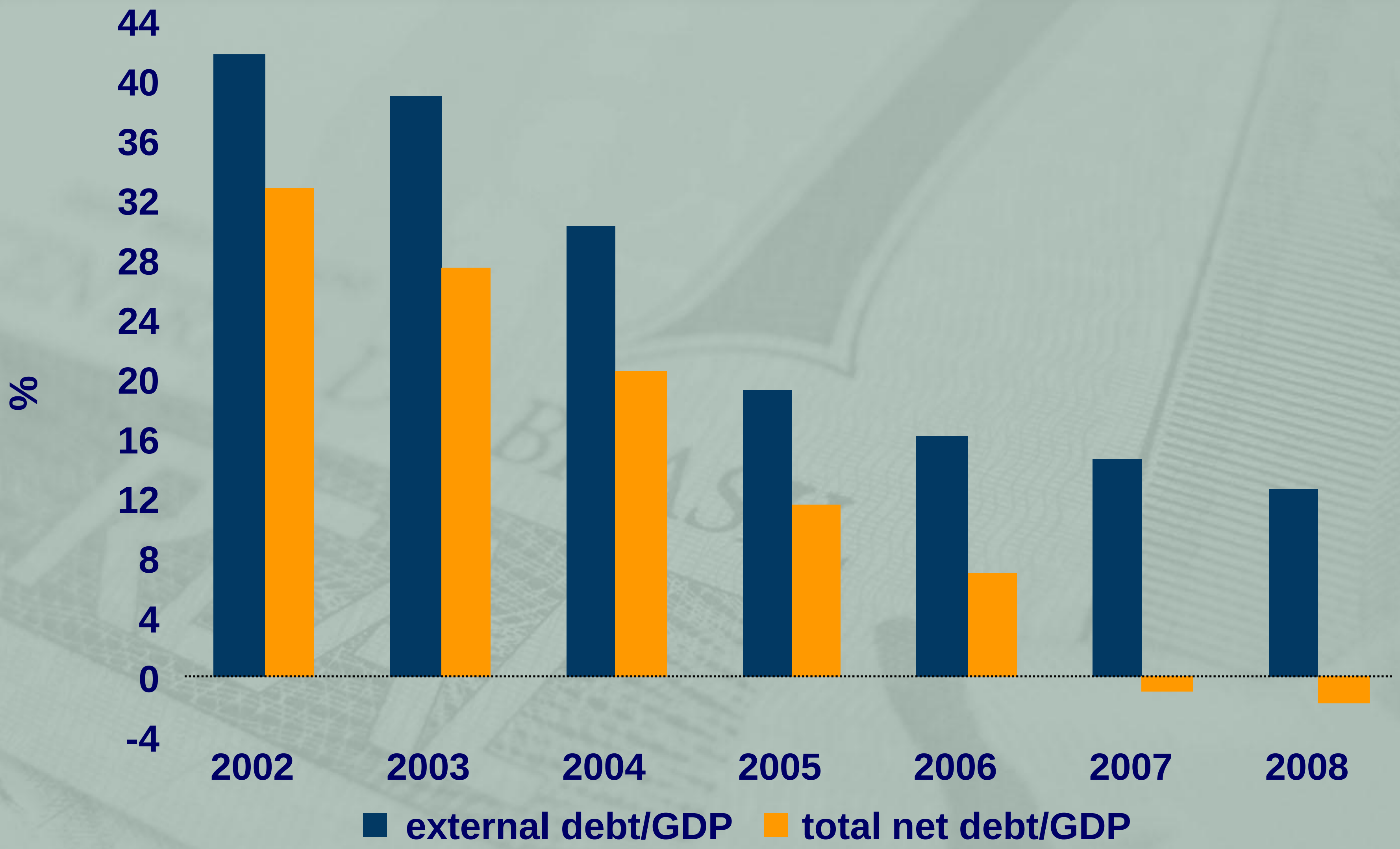
Reserves/Short-Term Debt



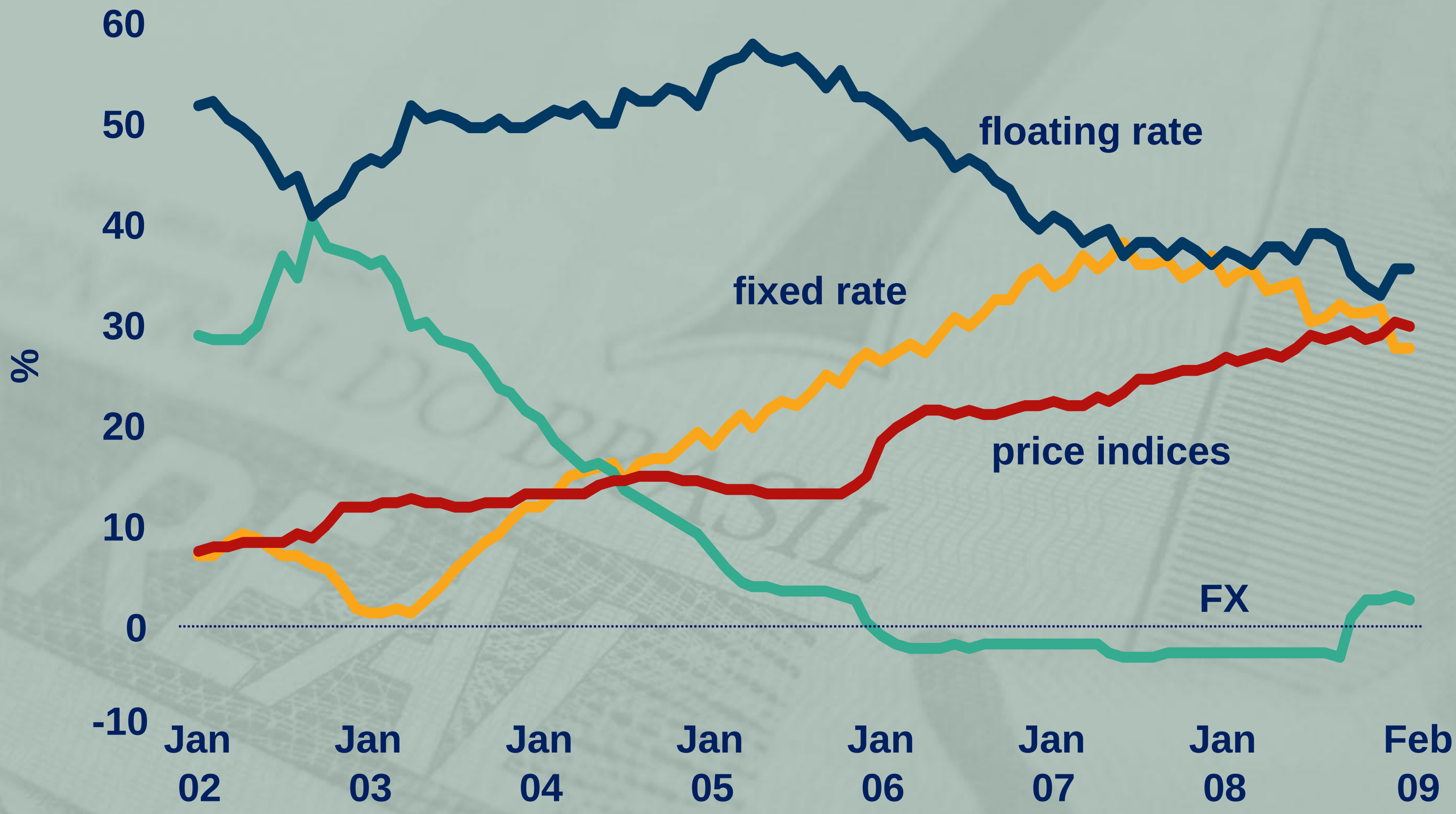
Source: BCB

*Up to Nov/05: adjusted net reserves

External Debt / GDP



Domestic Public Sector Debt Composition



Source: BCB

Effects of Confidence Crises on the Brazilian Economy - Past

External Shock → Confidence Deterioration

Currency Depreciation

Pressure over Public Debt/GDP Ratio

Public FX-Linked Debt

Domestic

External

Effects of Confidence Crises on the Brazilian Economy - Today

External Shock → **Confidence Deterioration**

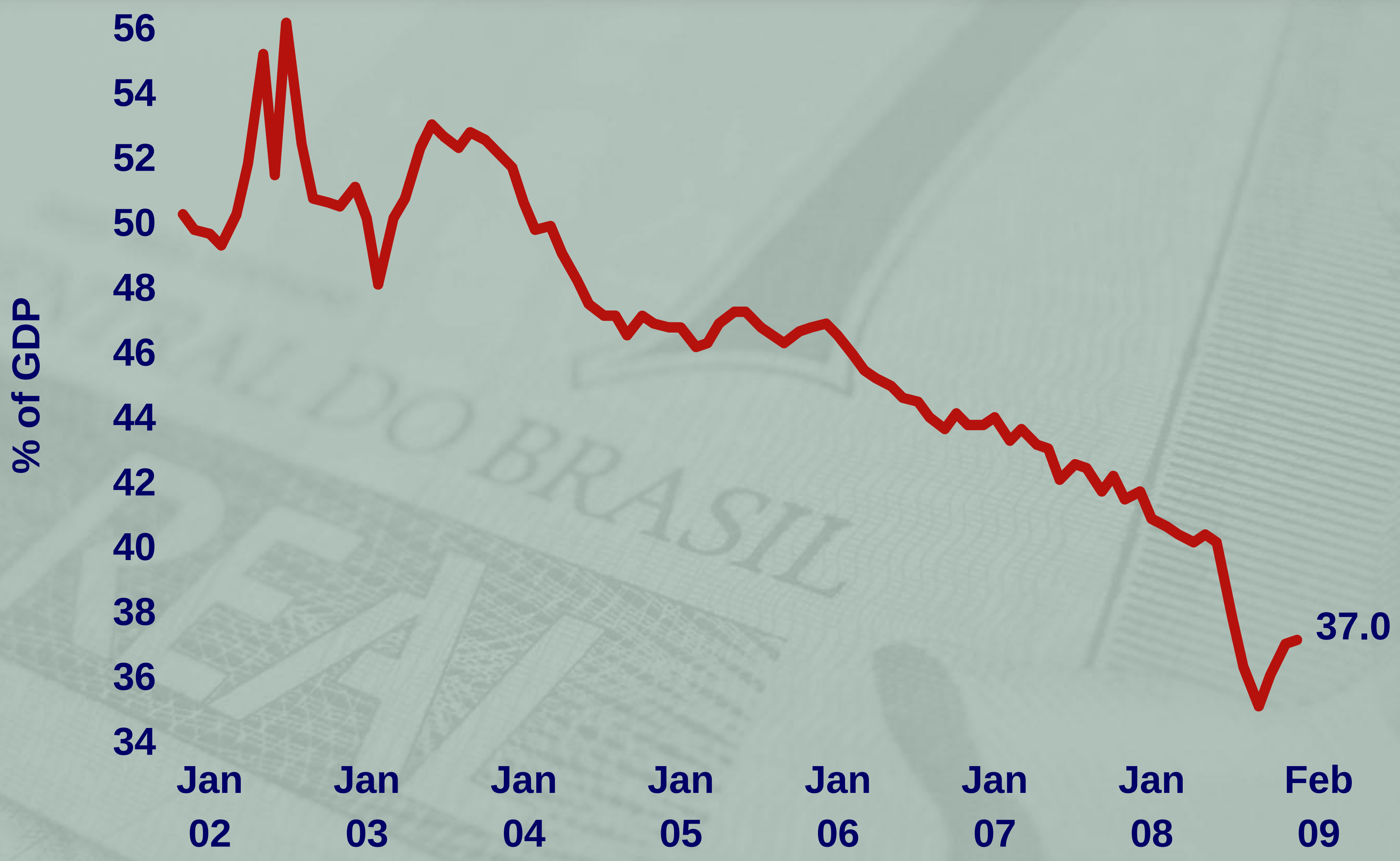
Currency Depreciation

Reduction of Public Debt/GDP Ratio

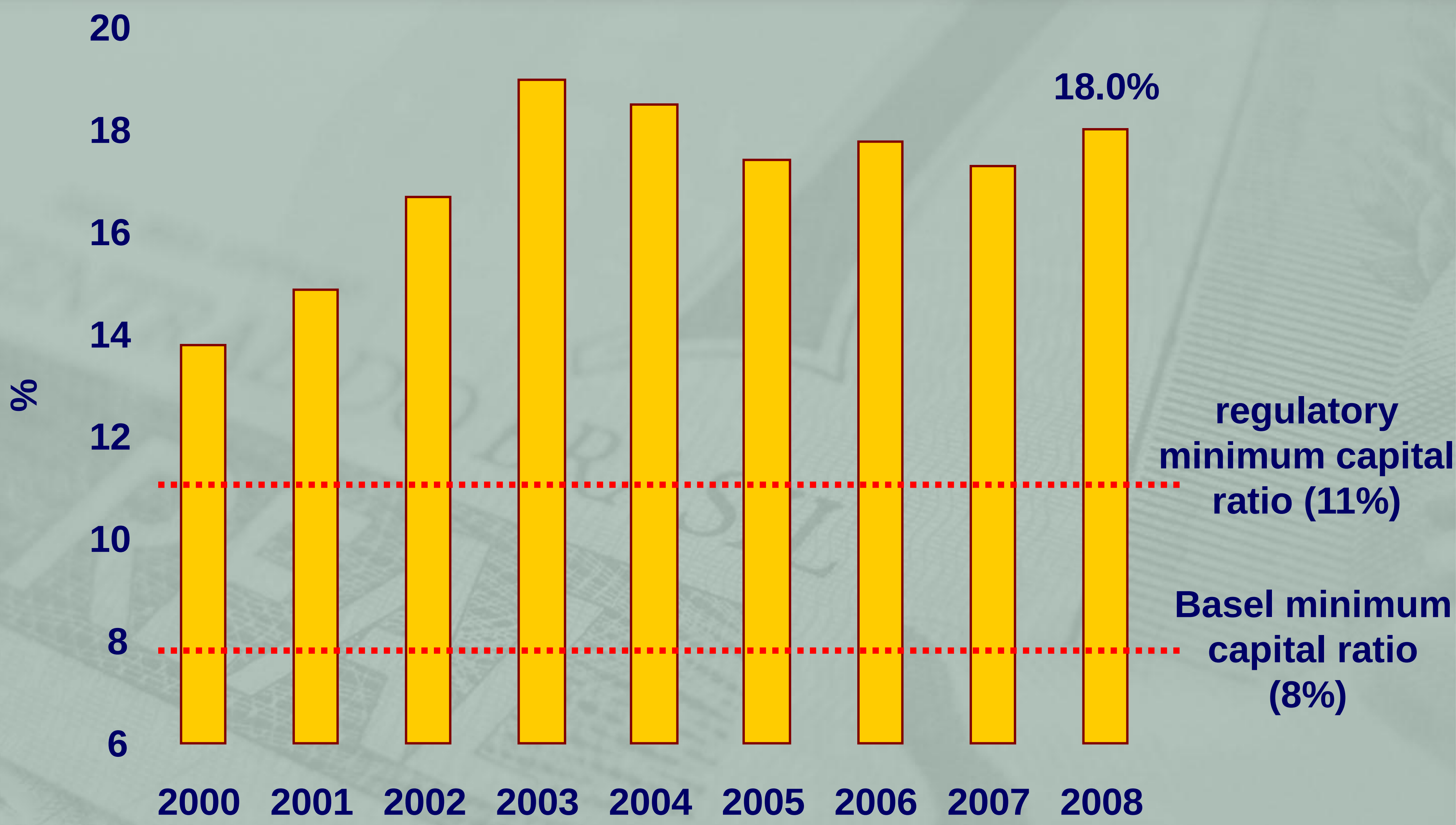
Public Sector is Creditor in Dollars

~~Public FX-Linked Debt~~

Net Public Debt/GDP

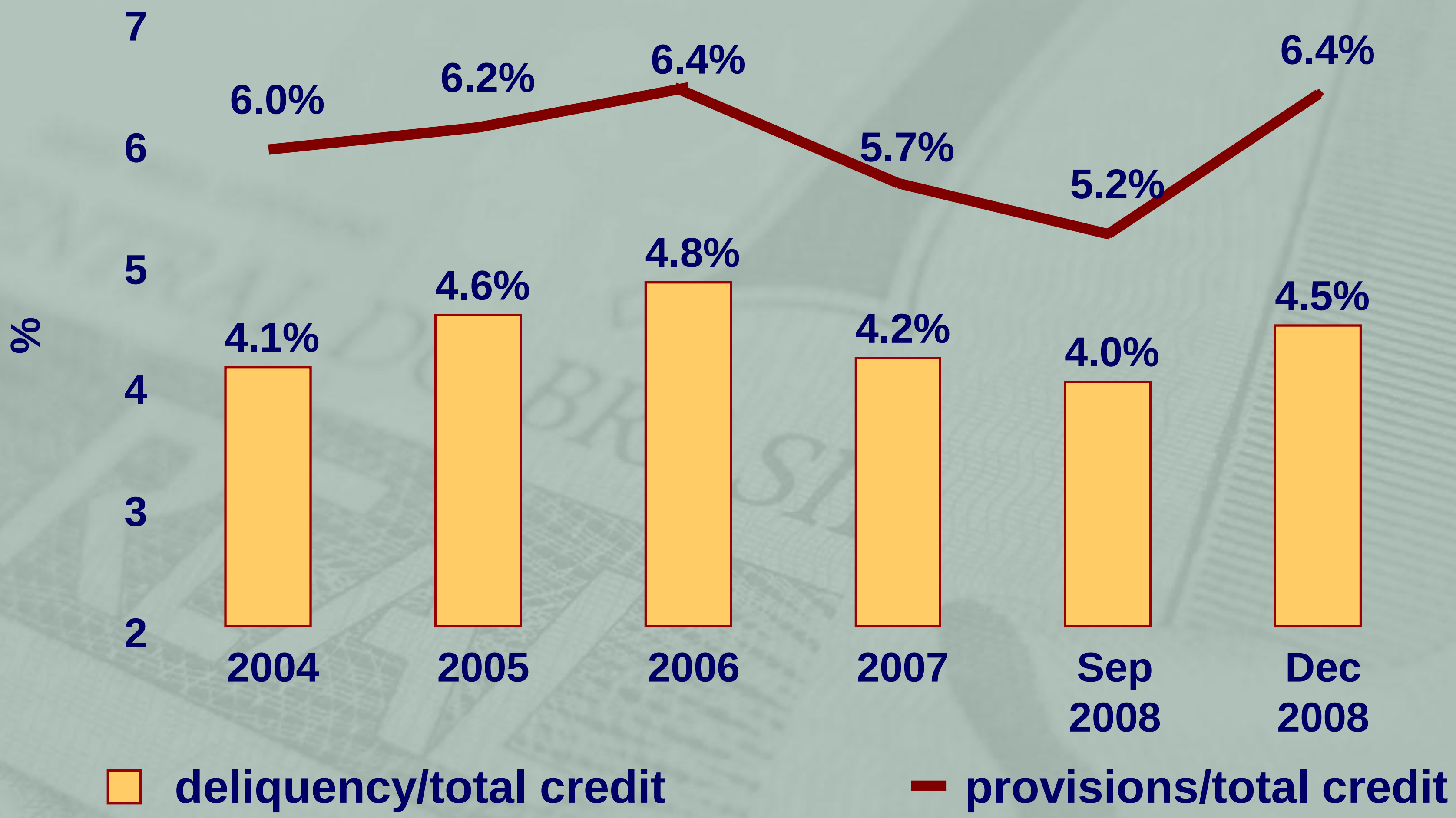


Banking System Capital Adequacy Ratio



Source: BCB

Brazilian Banks: Delinquency and Provisions

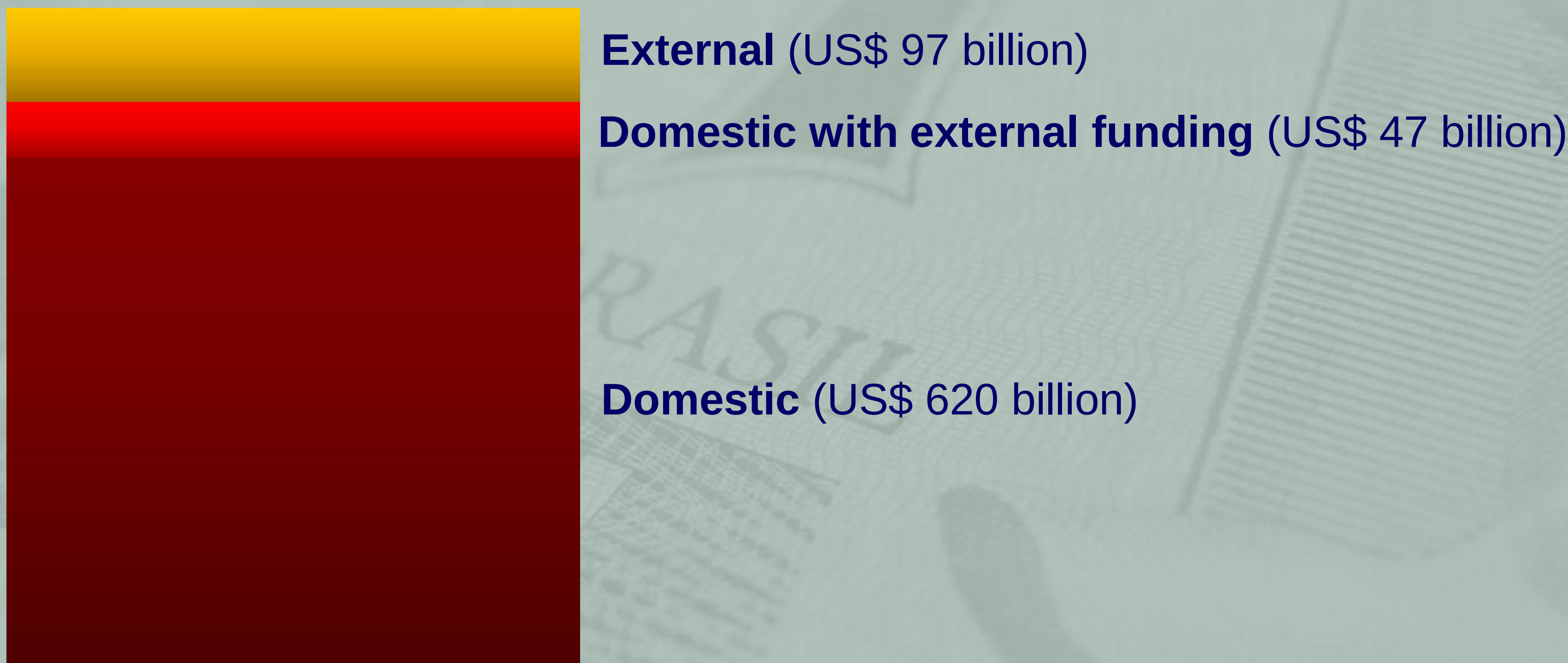


III. Transmission of the Financial Crisis to the Real Economy

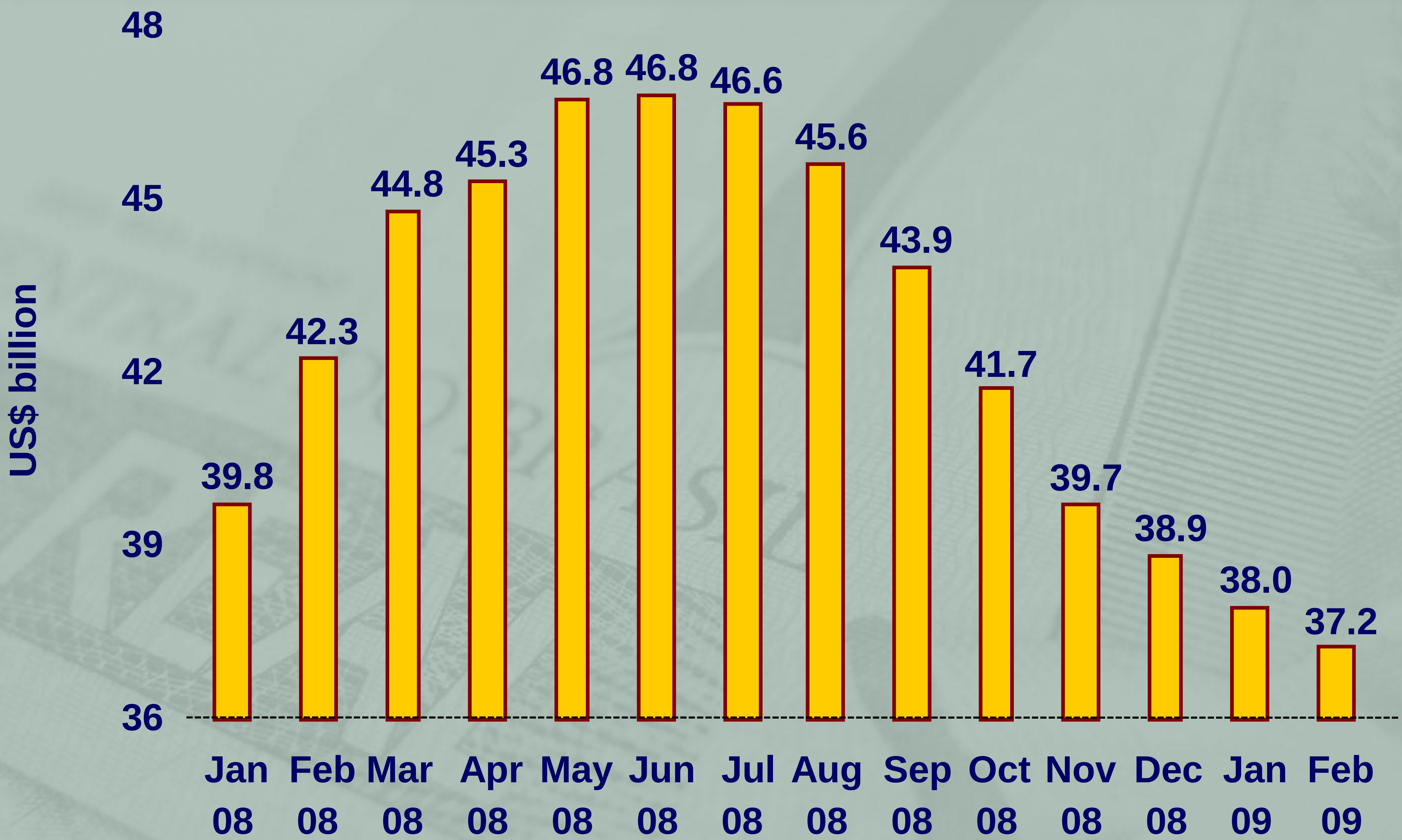
Crisis – Transmission Channels

Total Credit Supply

credit outstanding before the crisis



Domestic Banking Credit with Foreign Funding



Source: BCB

International Reserves

- **international reserves at the end of August:**

US$ 205.1 billion

Source: BCB

Liquidity supply to the FX Market

up to April 3, in US$ billion

	Sales	Repurchases	Net
Cash	14.5	-	14.5
Repos	10.6	7.6	3.0
Export financing (ACCs)	11.8	2.4	9.4
TOTAL	36.9	10.0	26.9
Swaps (net)			28.8

Source: BCB

Reserve Requirements

- amount of banks' reserve requirements in the BCB at the end of August: R$ 259.4 billion

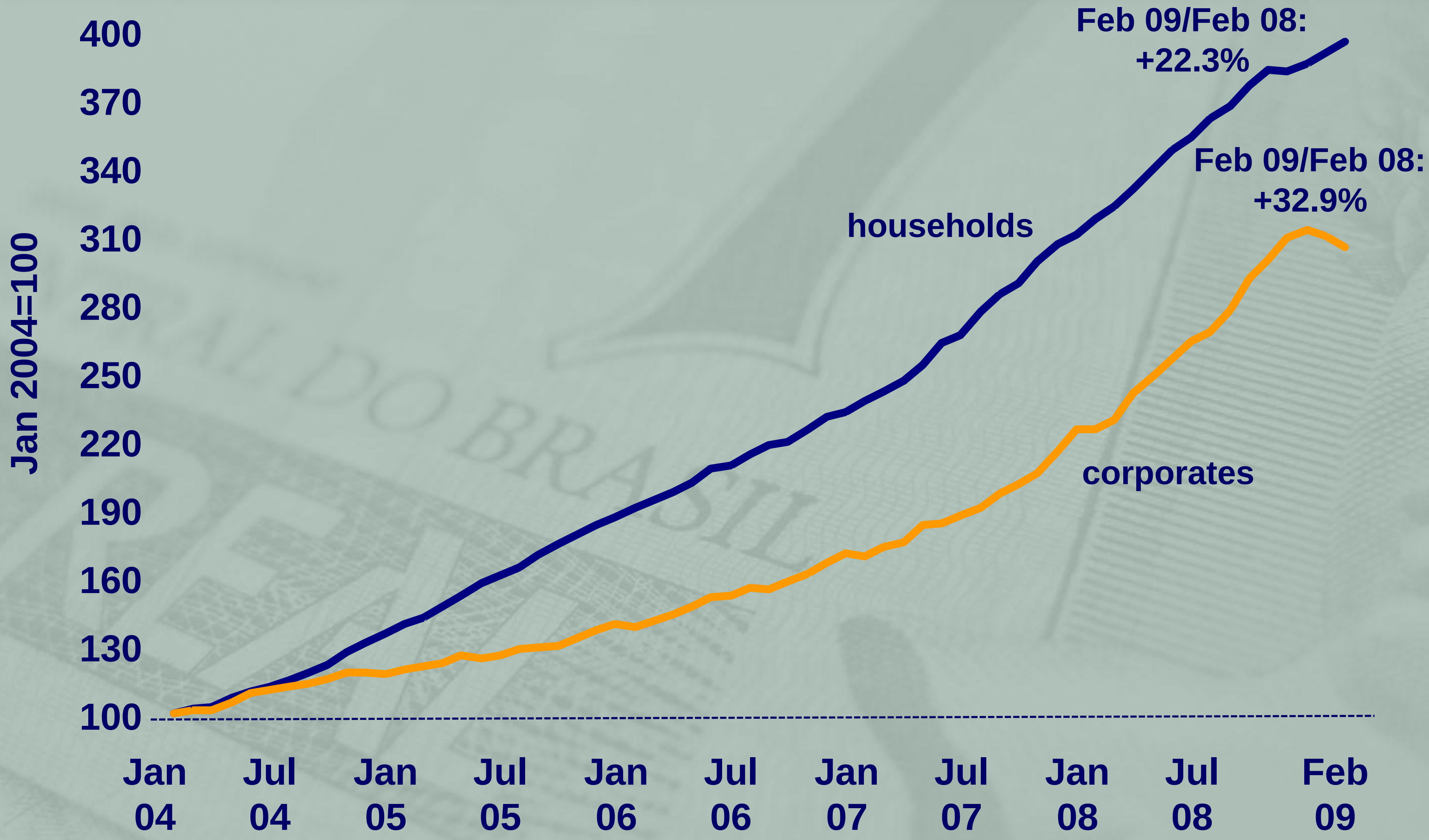
Reserve Requirements Release

up to March 10

- released reserve requirements = R$ 99.9 billion

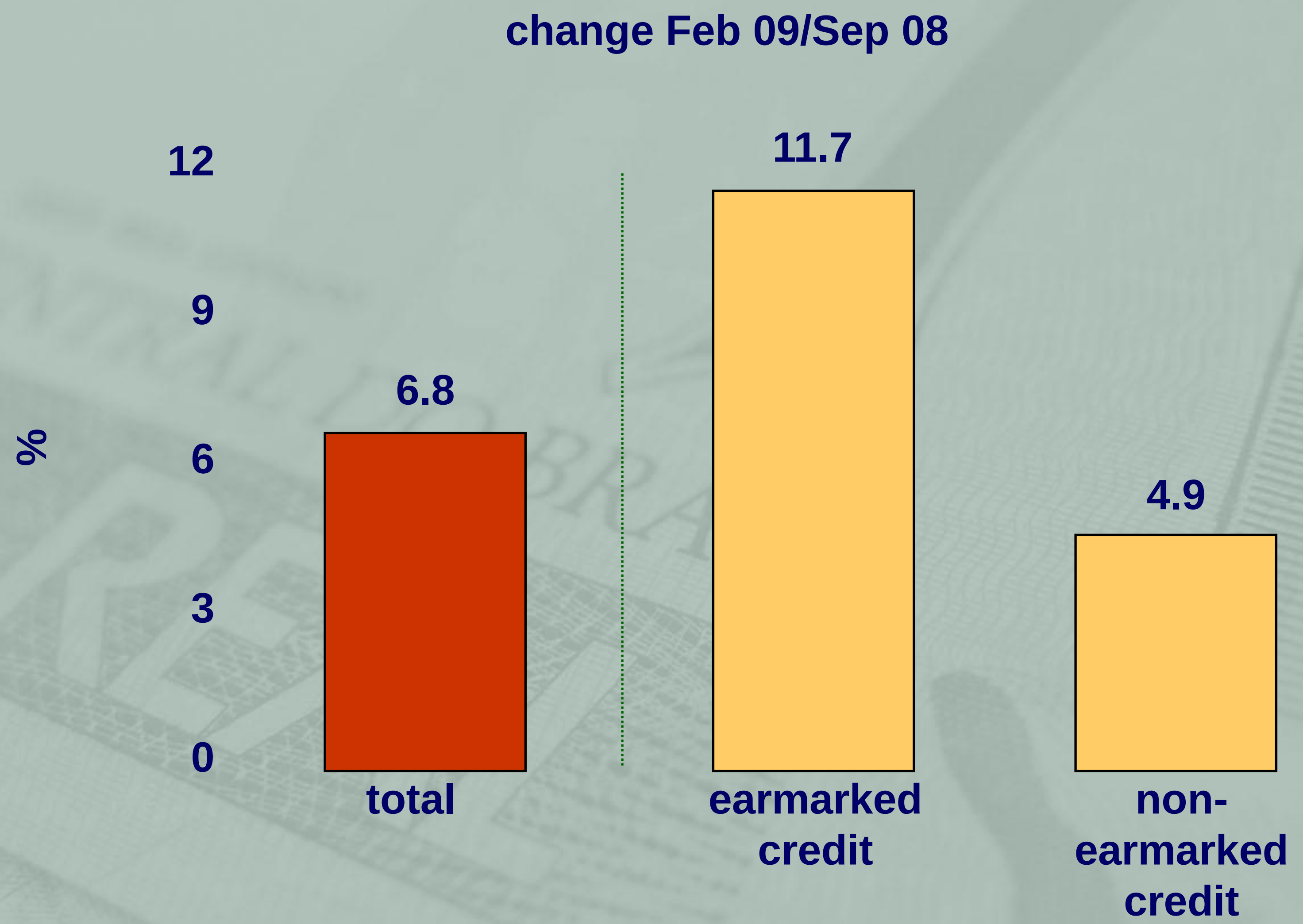
Source: BCB

Credit Growth



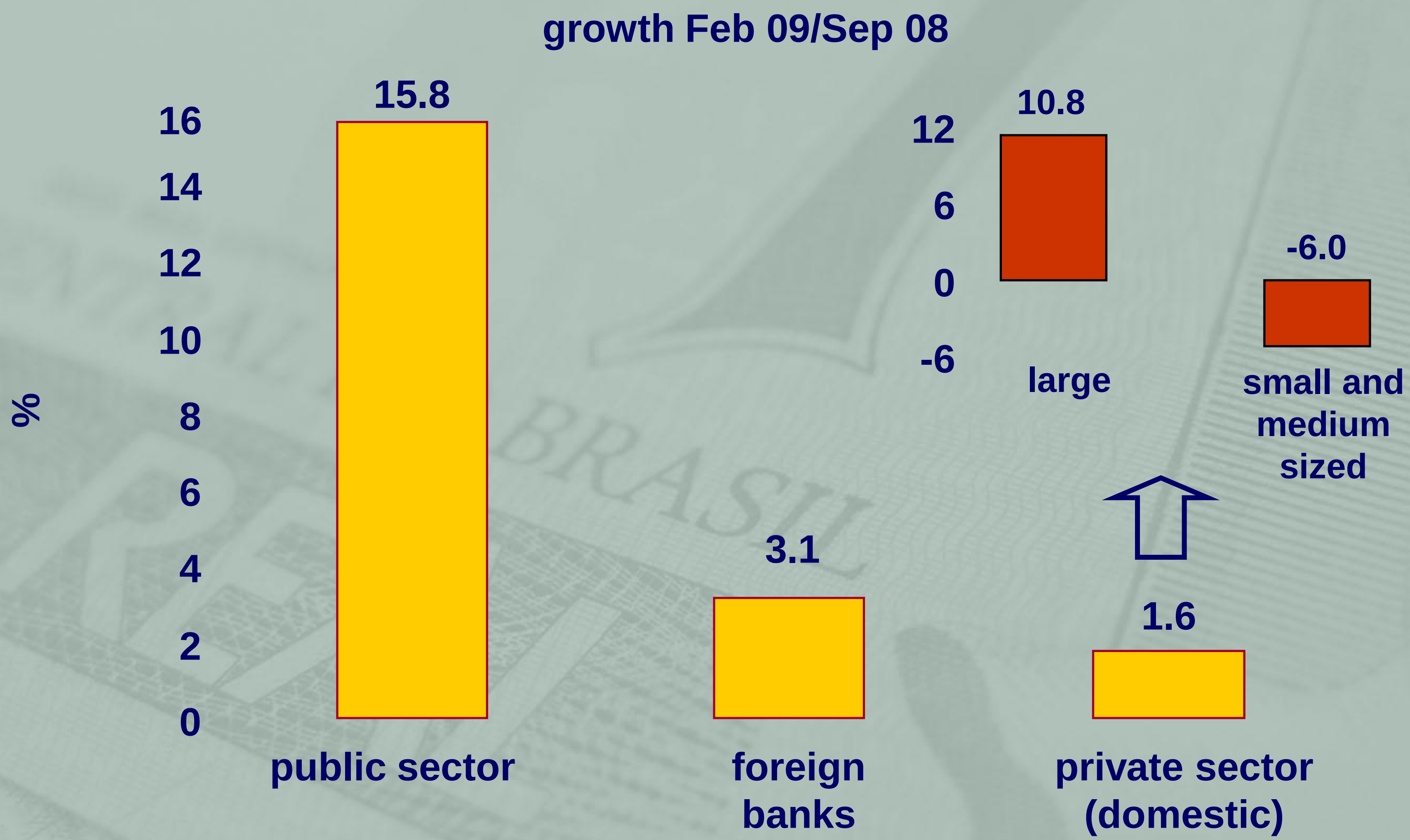
Source: BCB

Credit



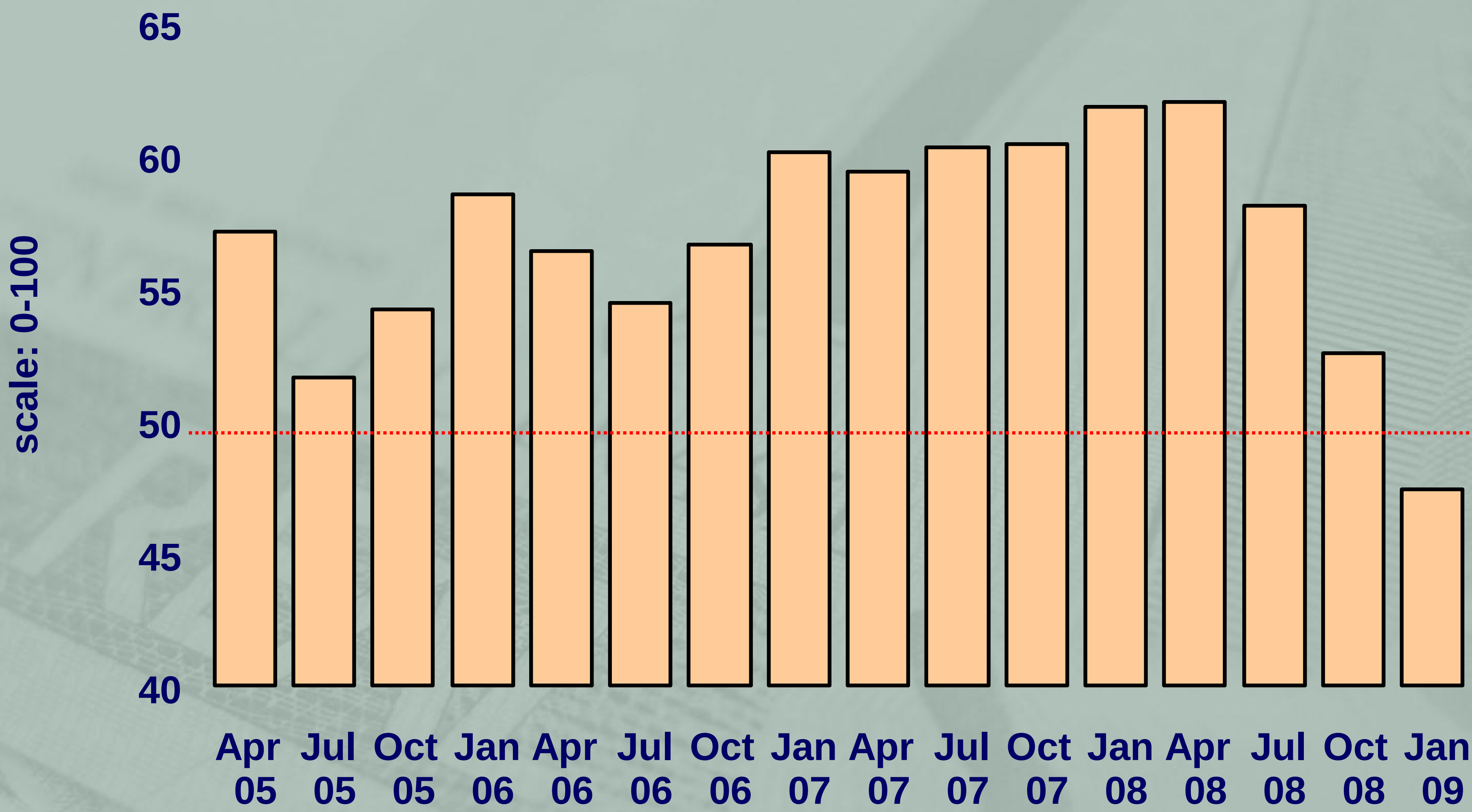
Source: BCB

Credit



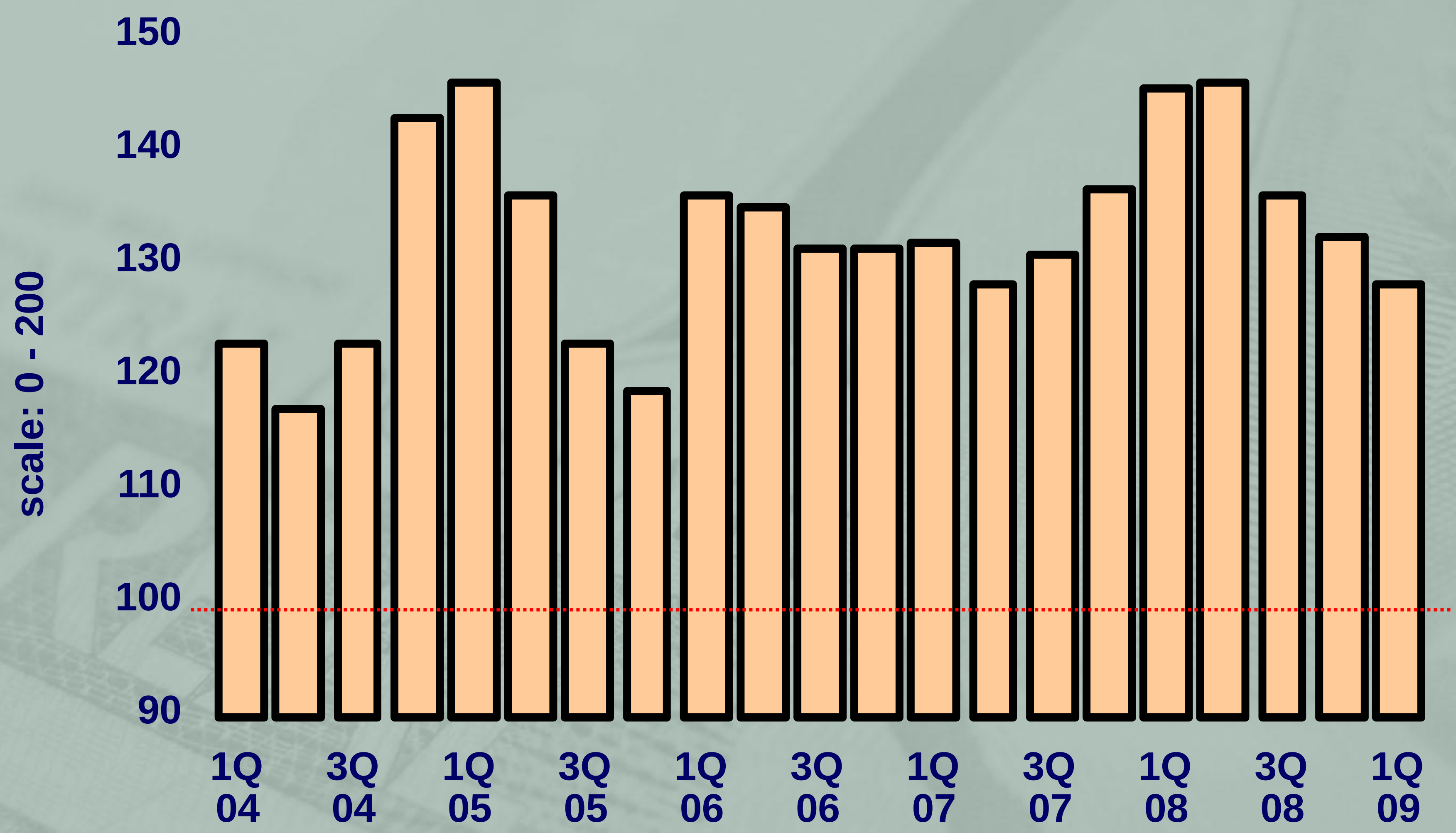
Source: BCB

Business Confidence (CNI)

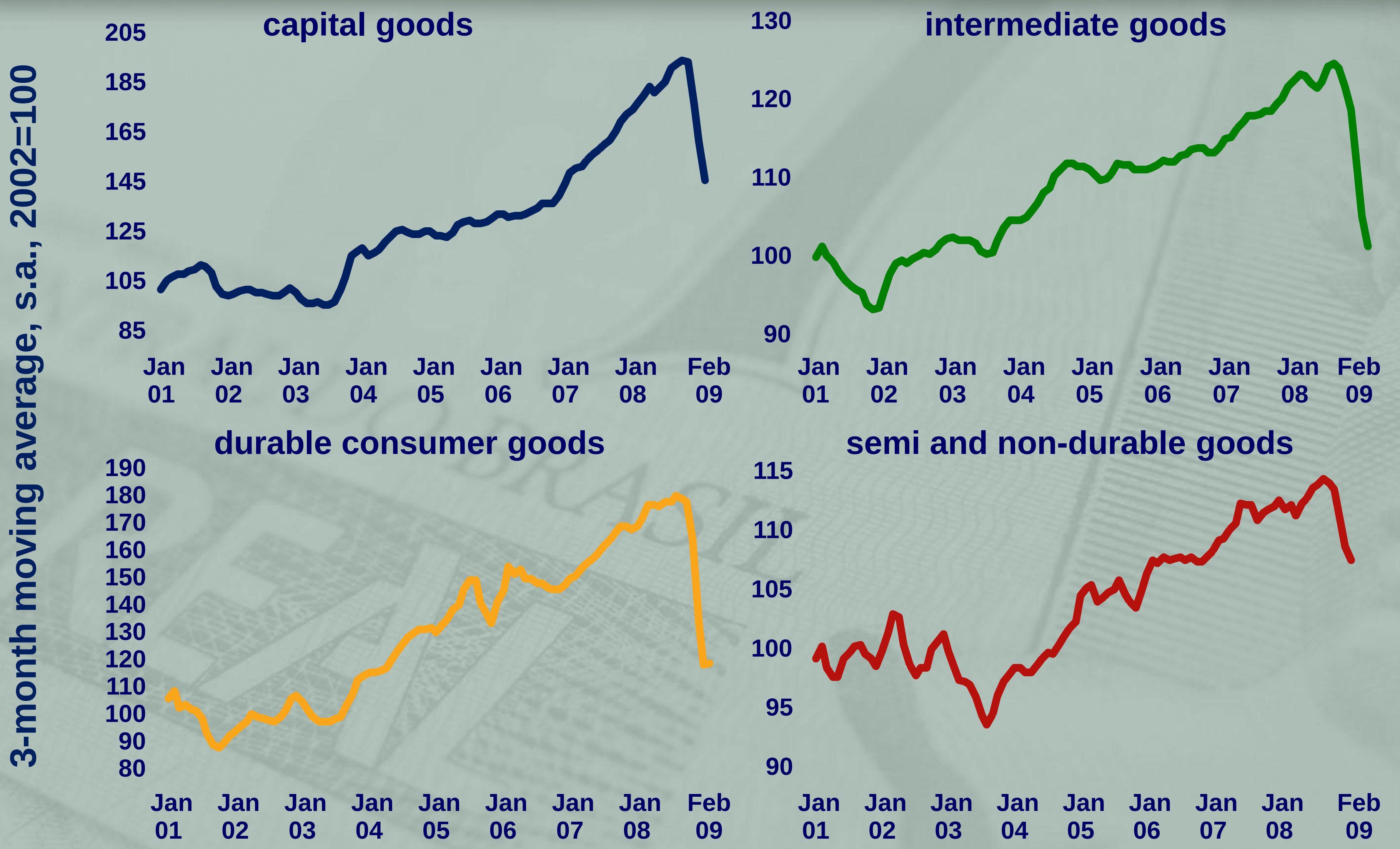


Source: CNI

Consumer Confidence (São Paulo)

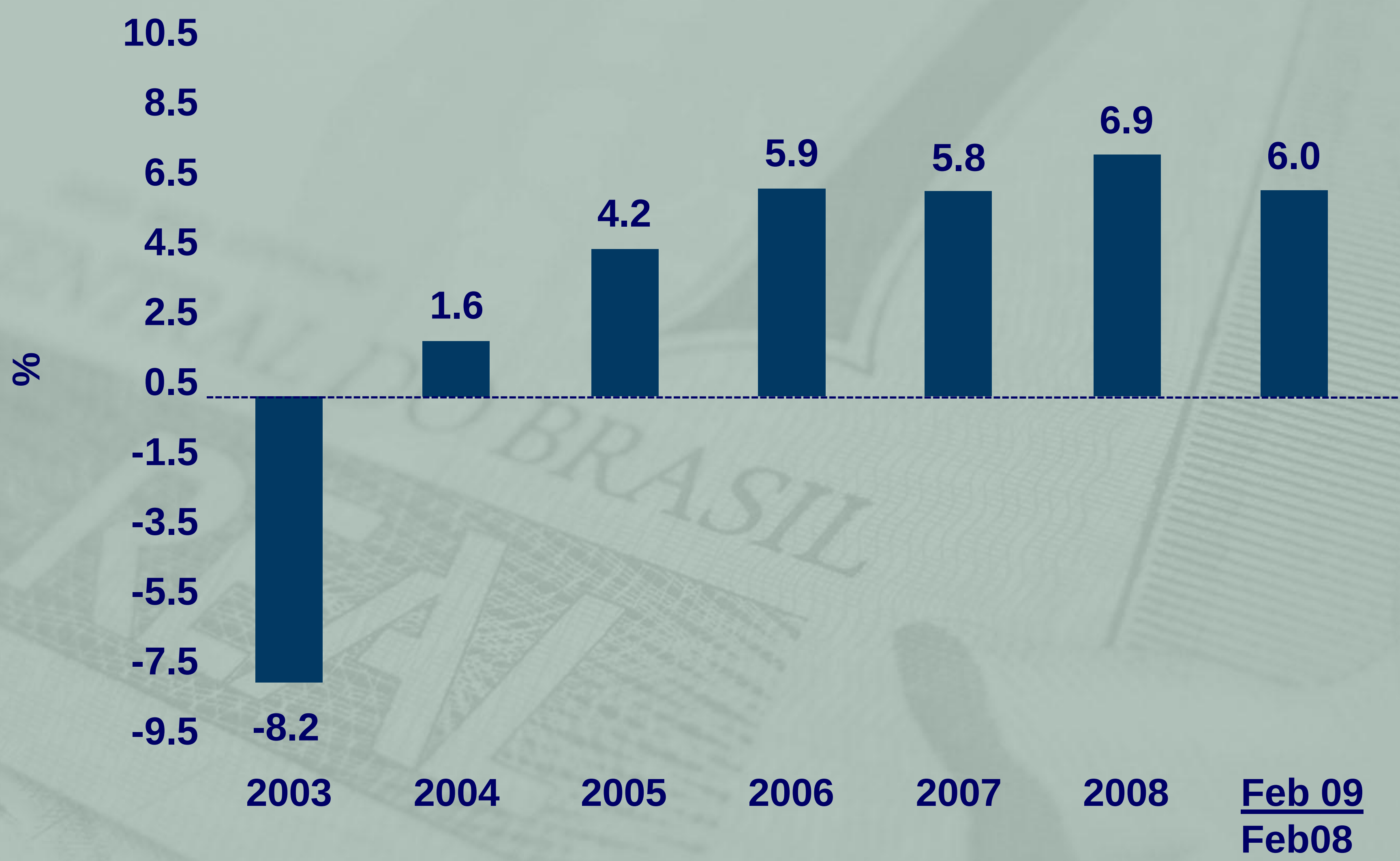


Industrial Production by Sector



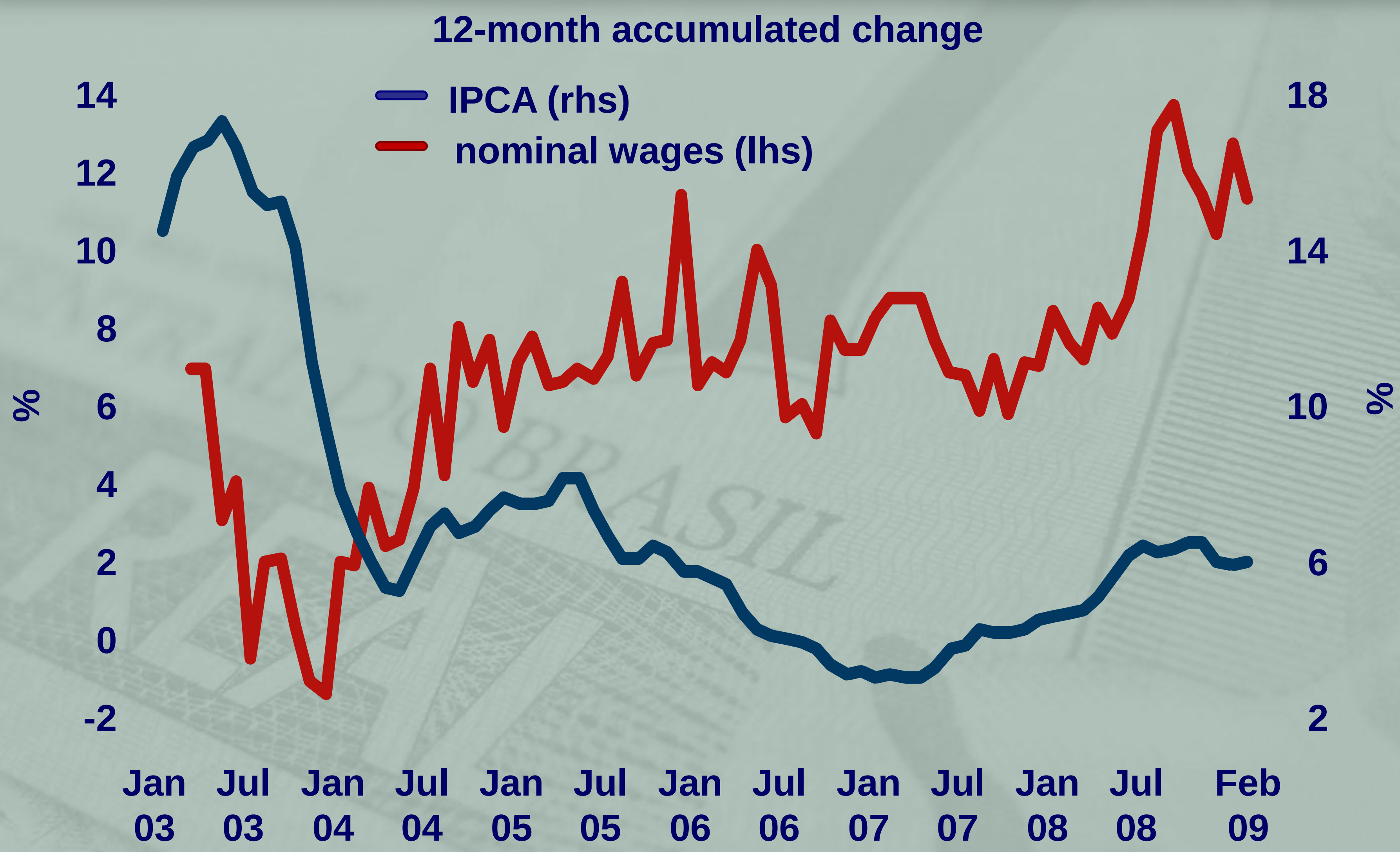
Source: IBGE

Payroll



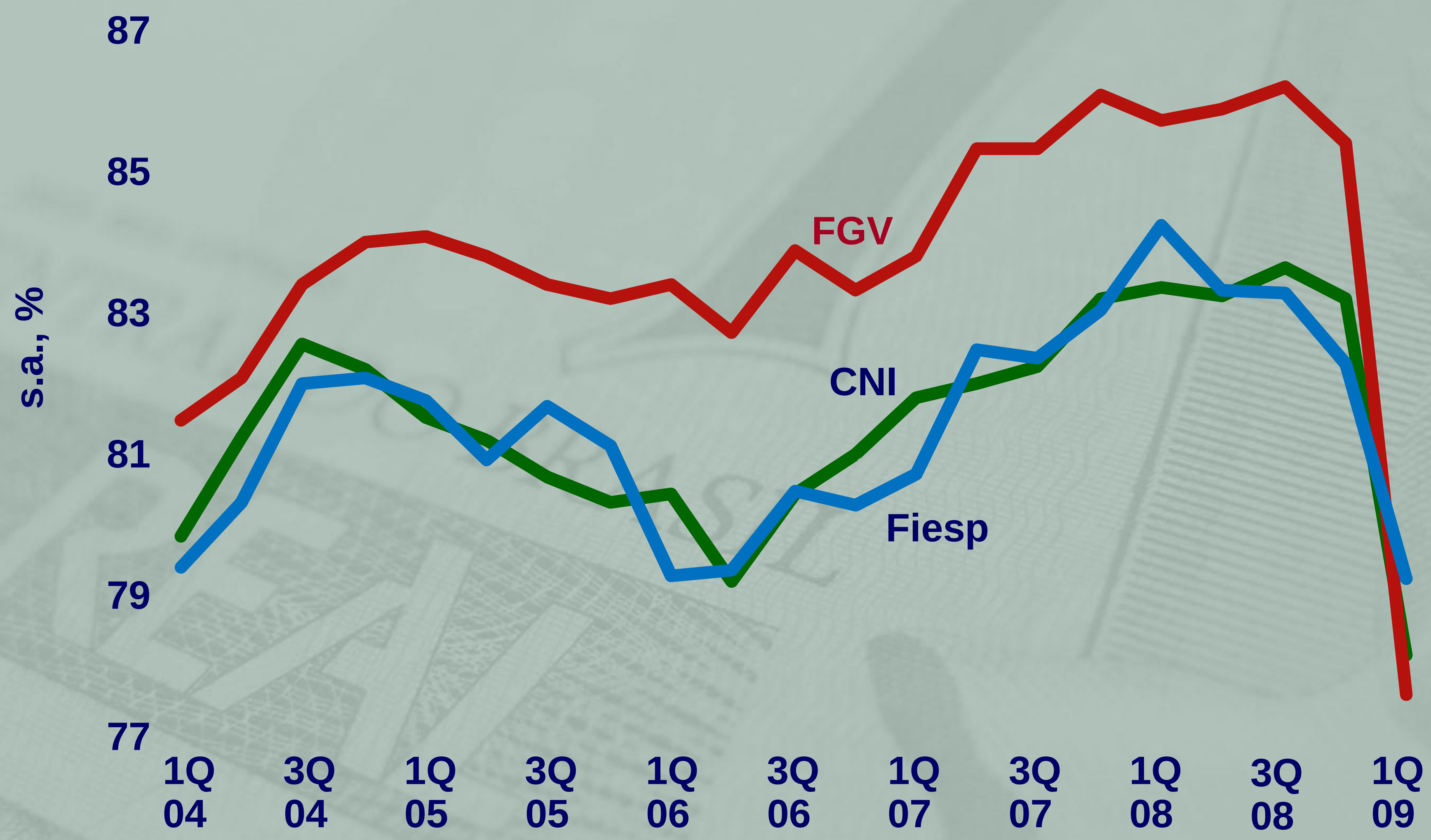
%
10.5
8.5
6.5
4.5
2.5
0.5
-1.5
-3.5
-5.5
-7.5
-9.5
-8.2
1.6
4.2
5.9
5.8
6.9
6.0
2003
2004
2005
2006
2007
2008
Feb 09
Feb08

Nominal Wage Growth vs. Inflation



Source: IBGE

Capacity Utilization



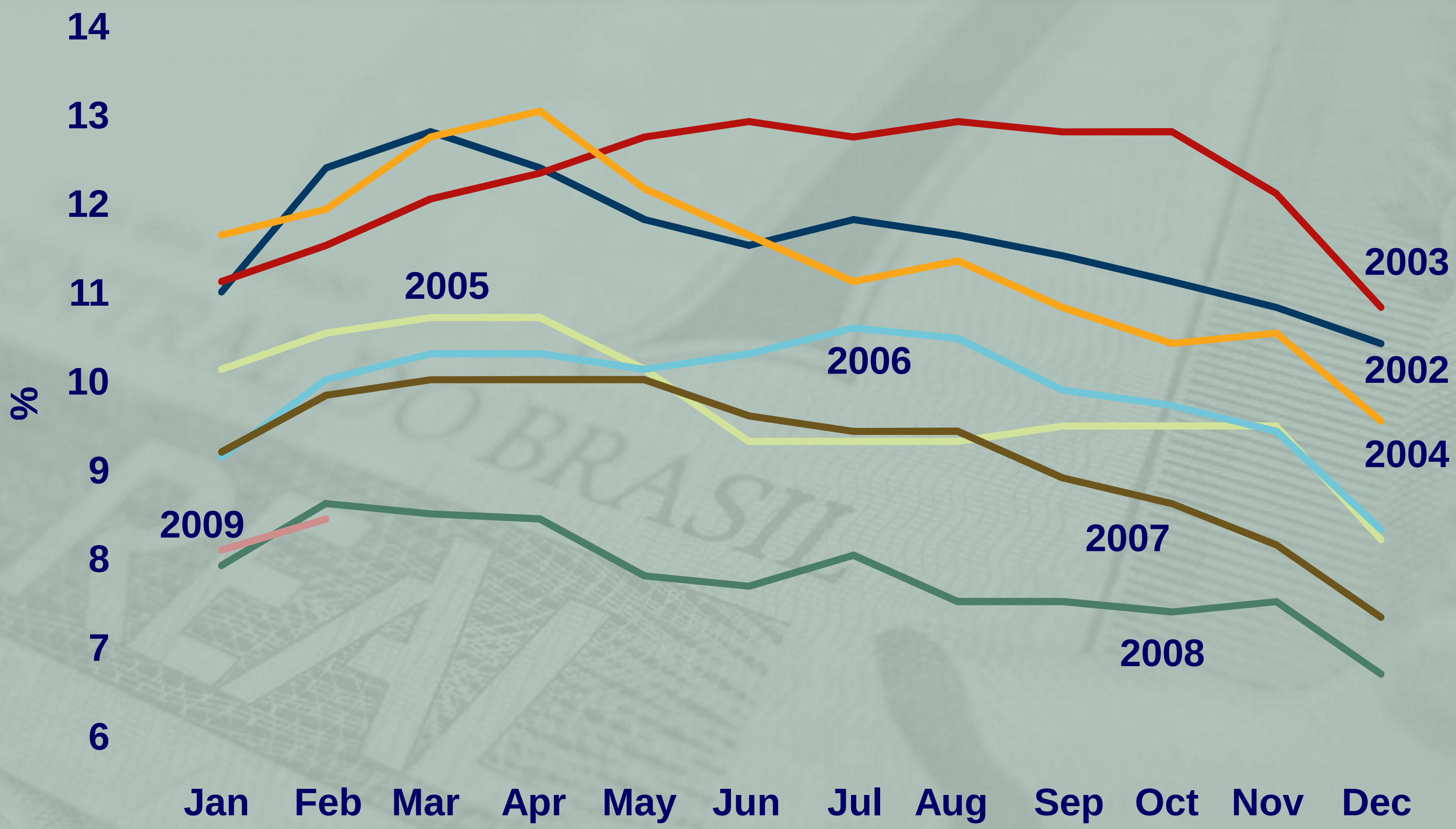
Capacity Utilization

%

Industrial Sectors	Max. since 95		2008				2009		Difference (p.p.)
	Level	Date	Sep	Oct	Nov	Dec	Jan	Feb	Feb 09-Feb 08
Consumer Goods	**88.1**	**Sep/08**	**88.1**	87.8	86.5	77.7	76.6	77.5	-4.7
Capital Goods	**89.9**	**Jul/08**	89.2	88.1	85.5	84.2	73.3	73.7	-15.2
Construction Material	**92.2**	**Sep/08**	**92.2**	91.2	89.2	82.2	81.6	82.3	-5.9
Intermediate Goods	**88.9**	**Oct/04**	86.0	86.0	85.6	81.2	77.0	77.5	-19.7
TOTAL	**87.2**	**Nov/07**	86.3	86.3	85.2	80.6	76.7	76.9	-7.8

Source: FGV

Unemployment Rate

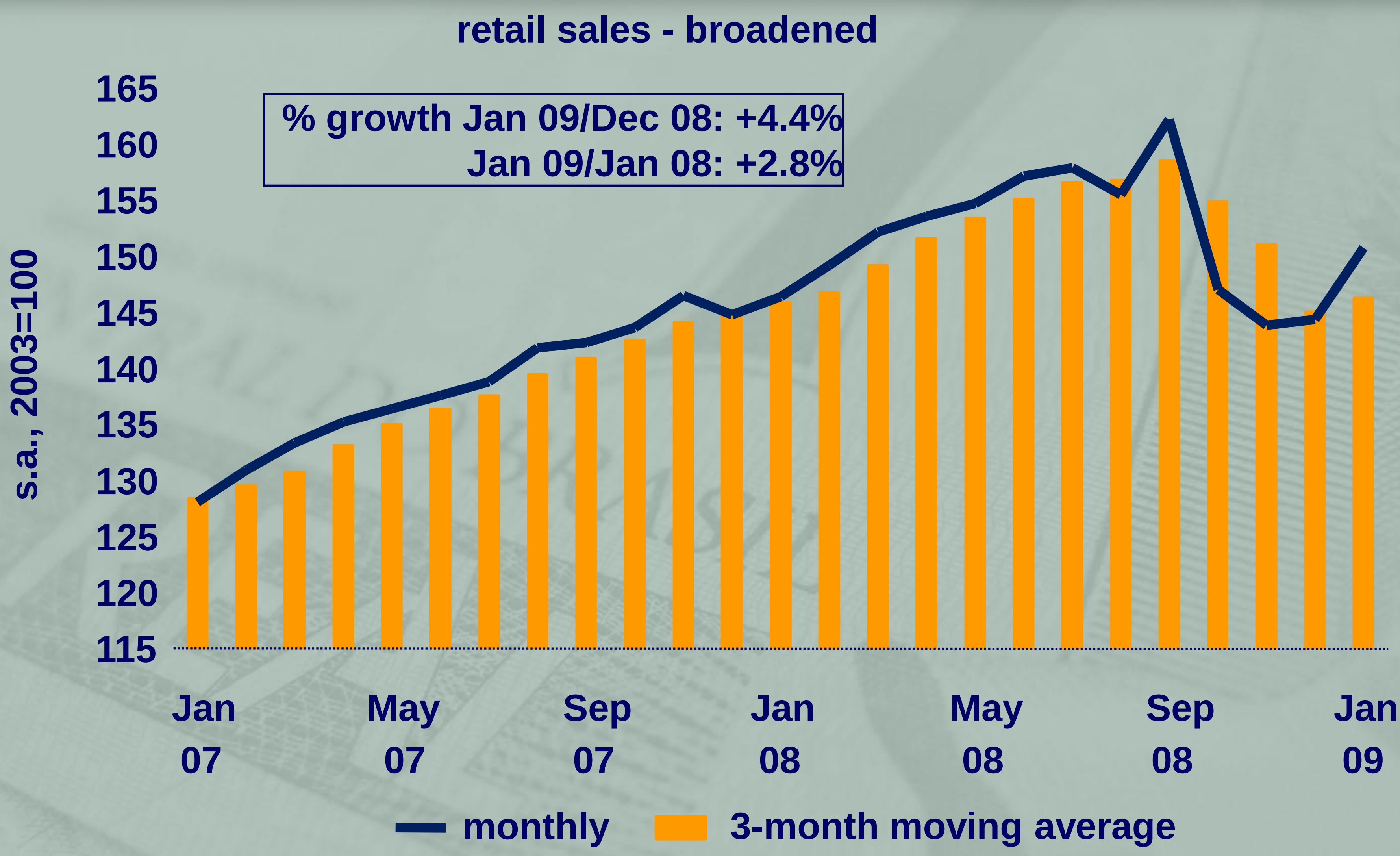


Source: IBGE

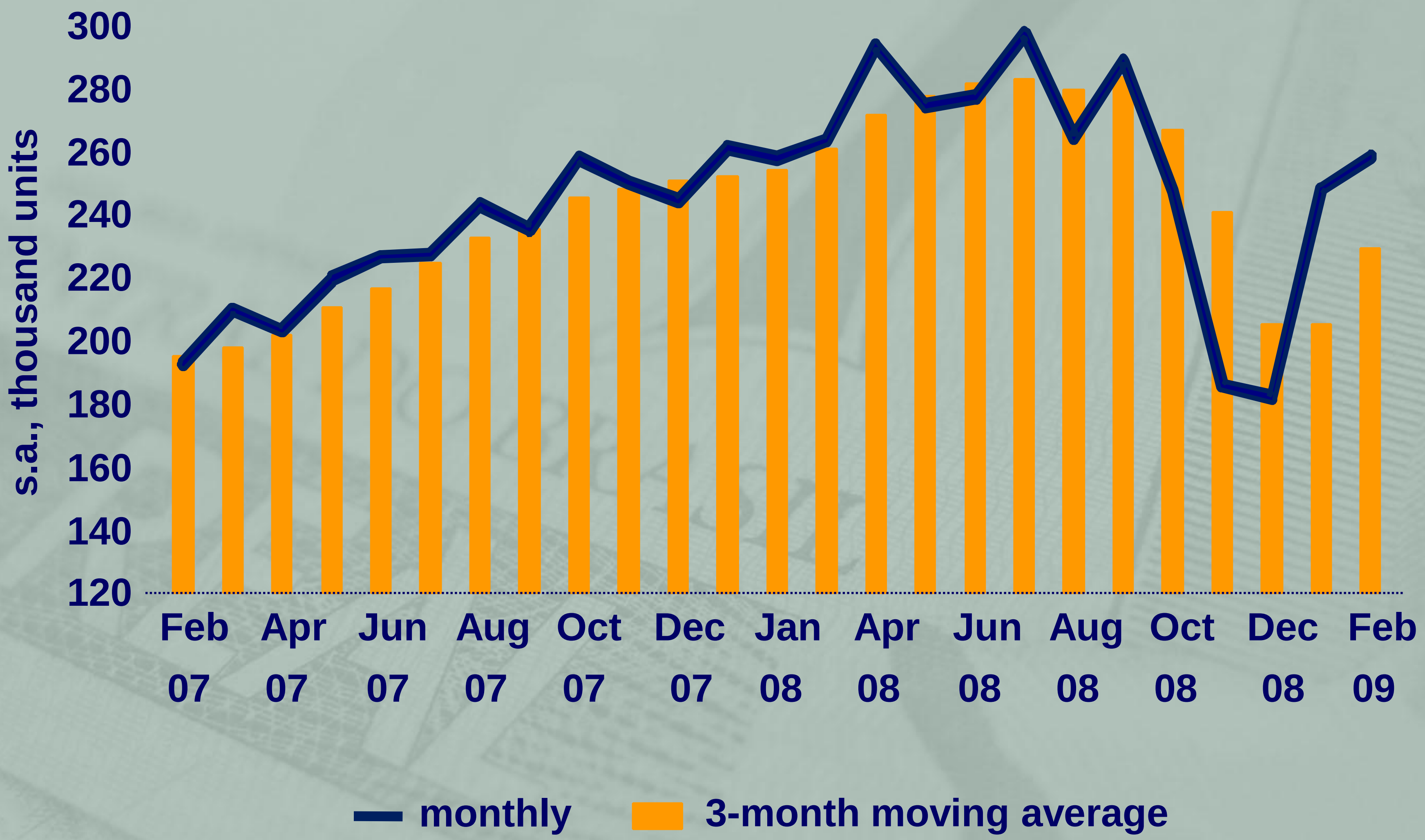
Unemployment Rate

Source: IBGE

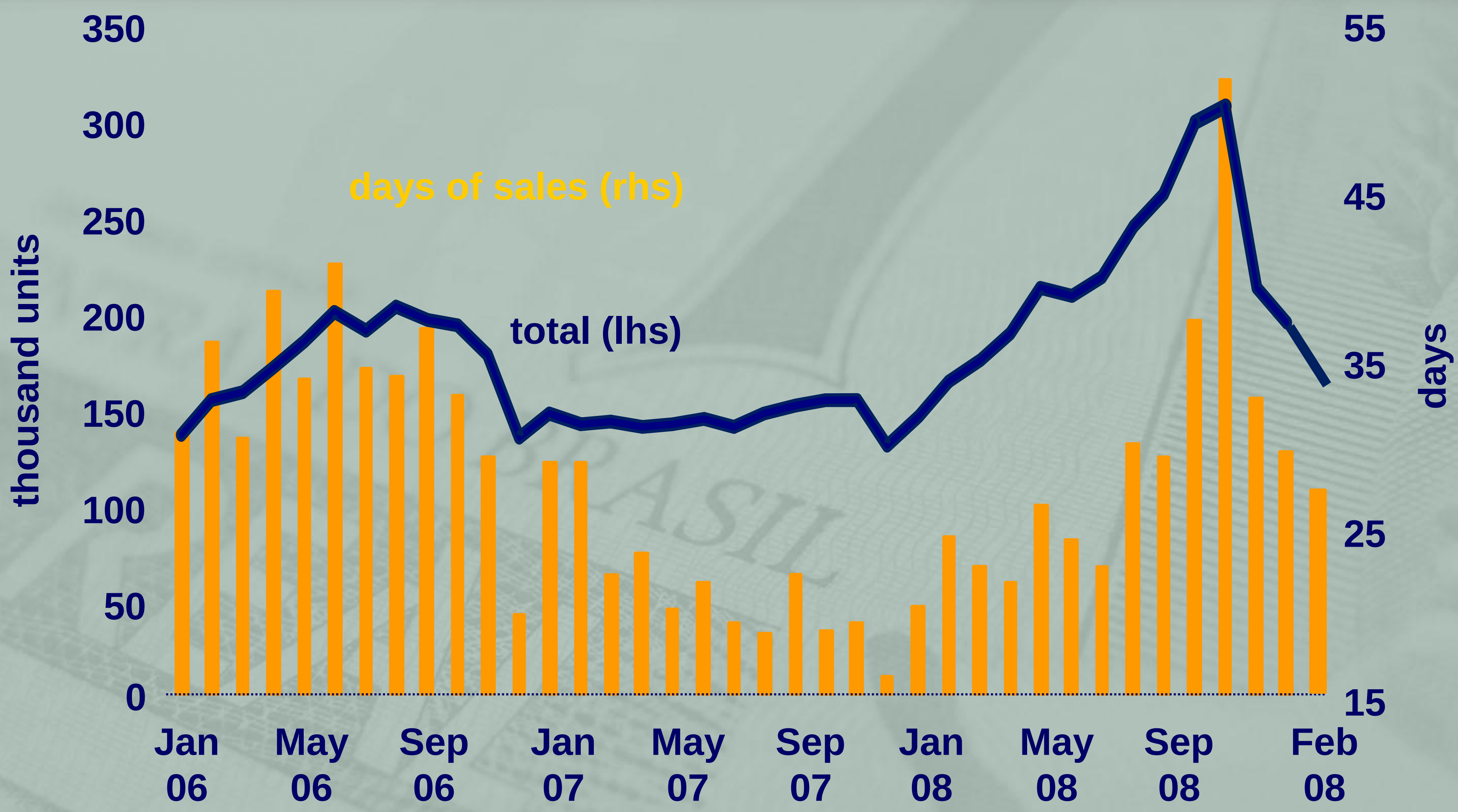
Retail Sales



Vehicle Sales

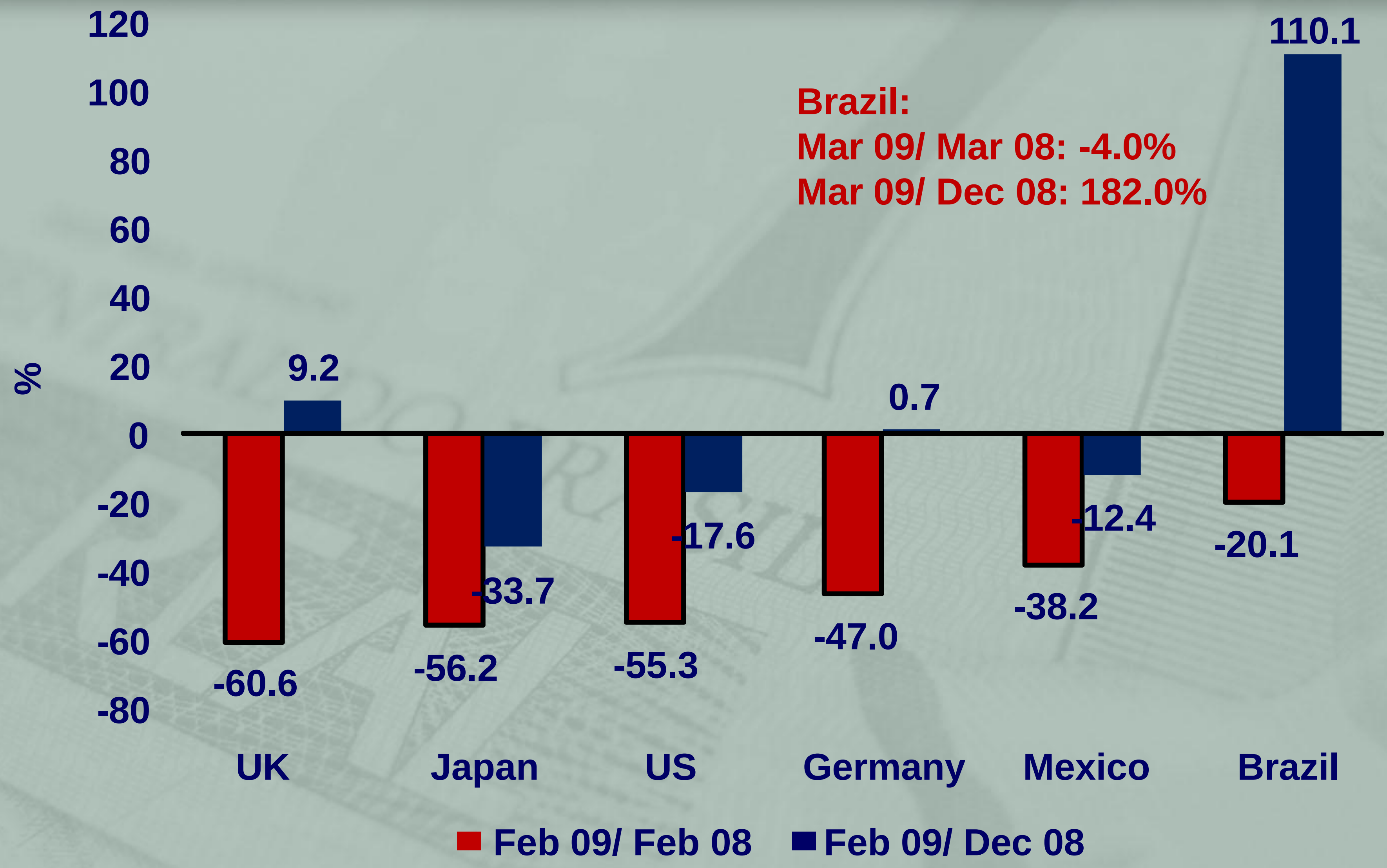


Vehicle Inventories



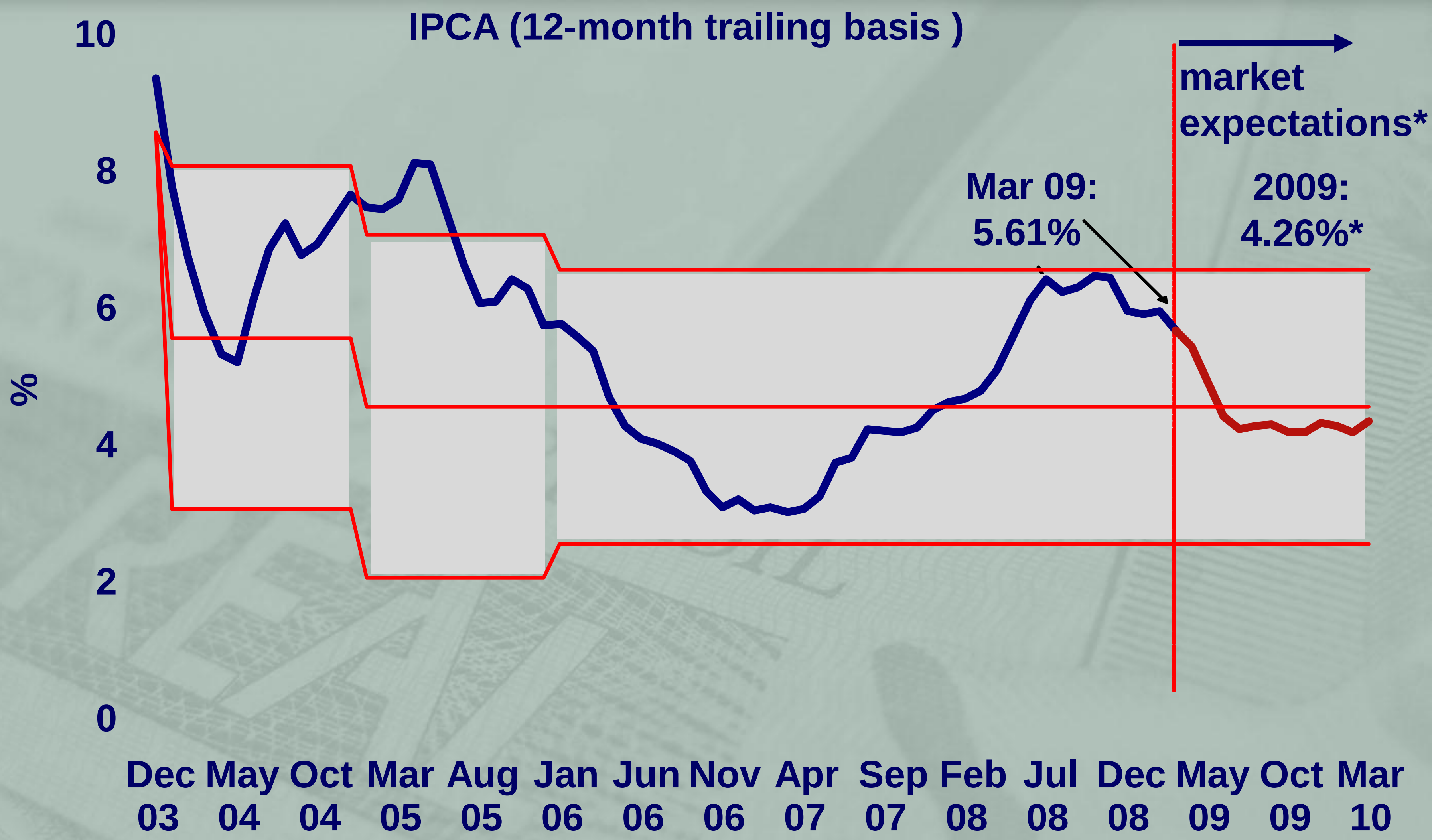
Source: Fenabrave

Vehicle Production



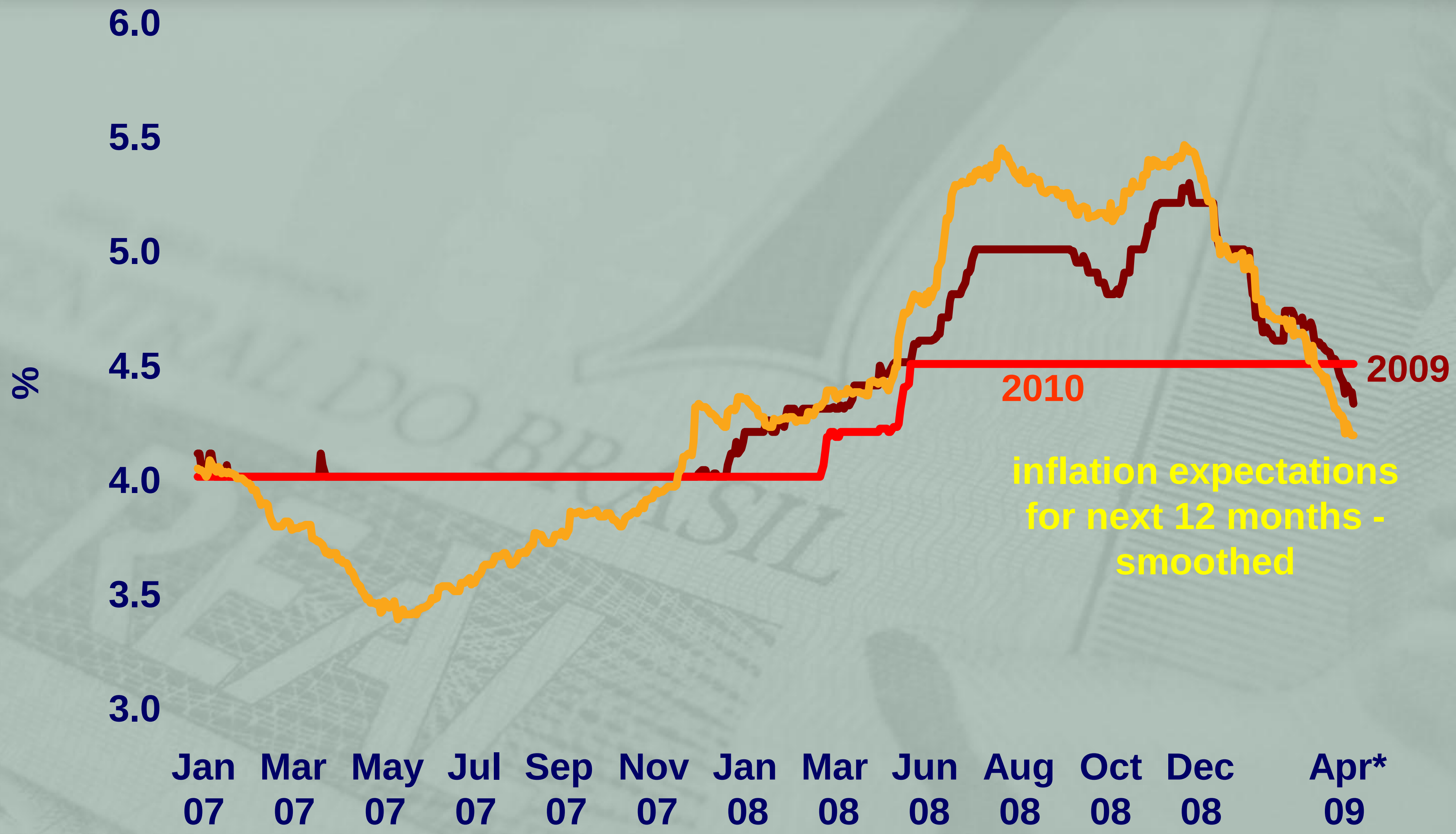
Sources: SMMT, Jama, Fed, VDA, Amia and Anfavea

Inflation Convergence to Targets



Source: BCB *4/3

IPCA – Inflation Expectations

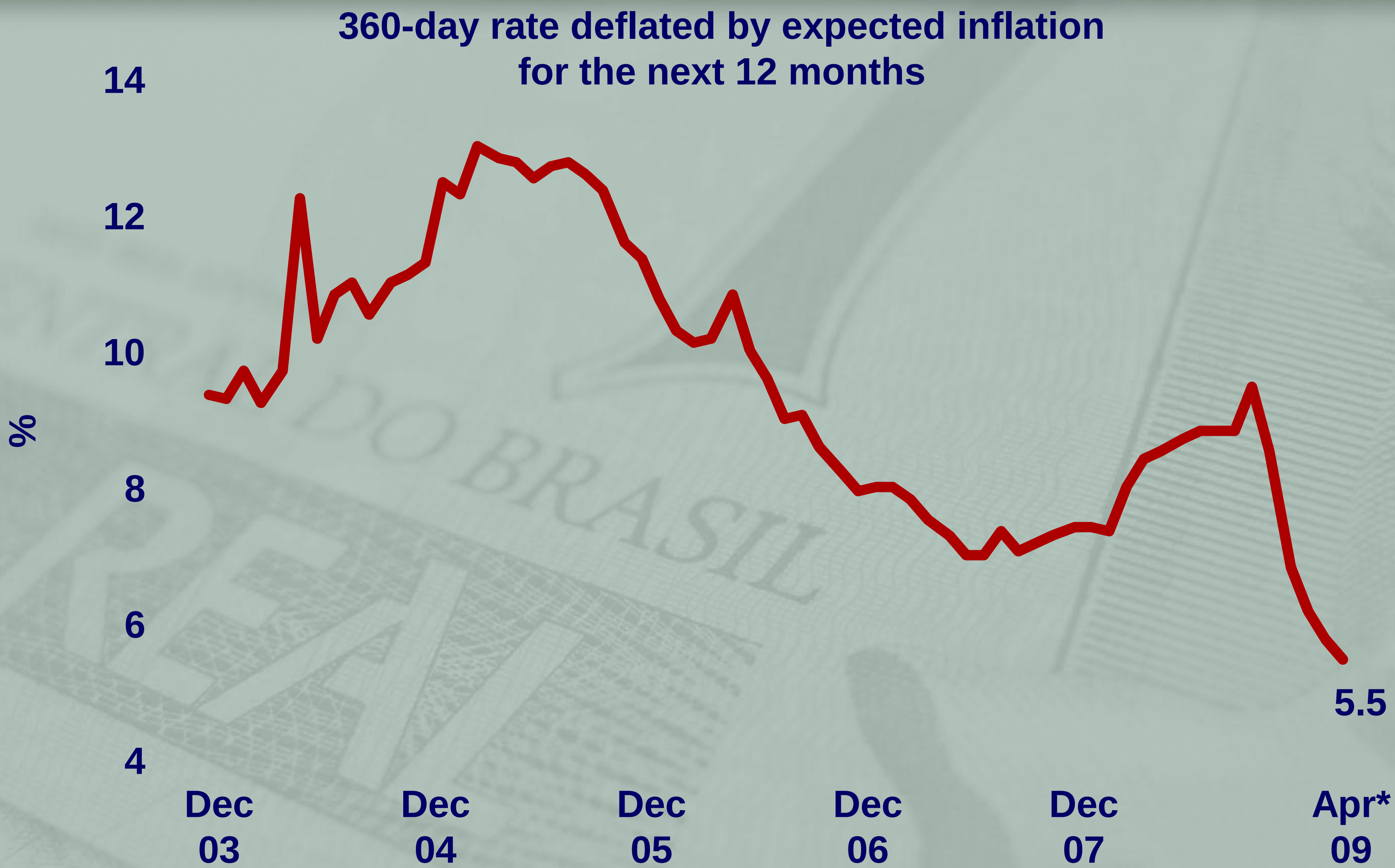


Interest Rates

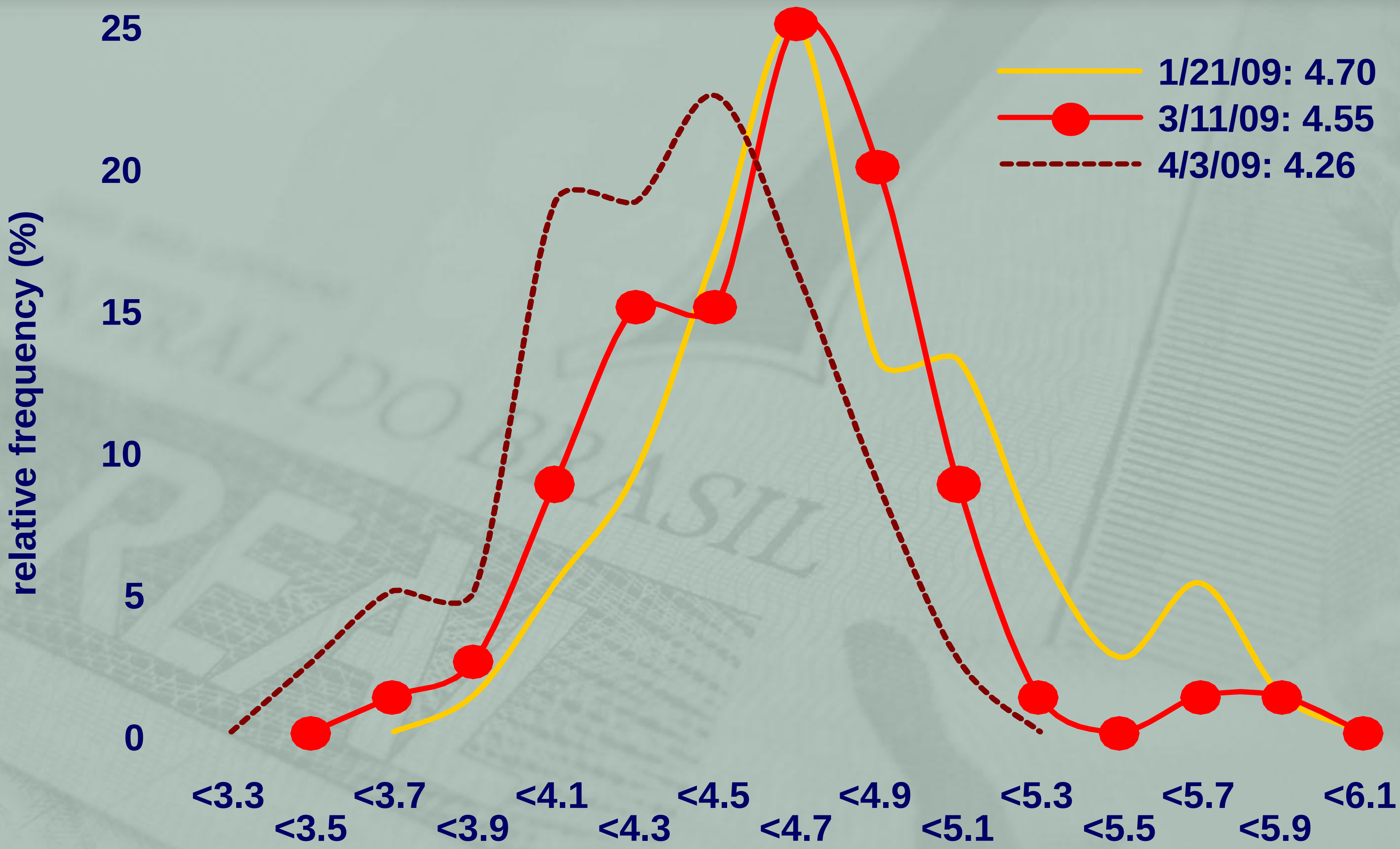
Sources: BM&F Bovespa and BCB

*4/3

Real Interest Rate

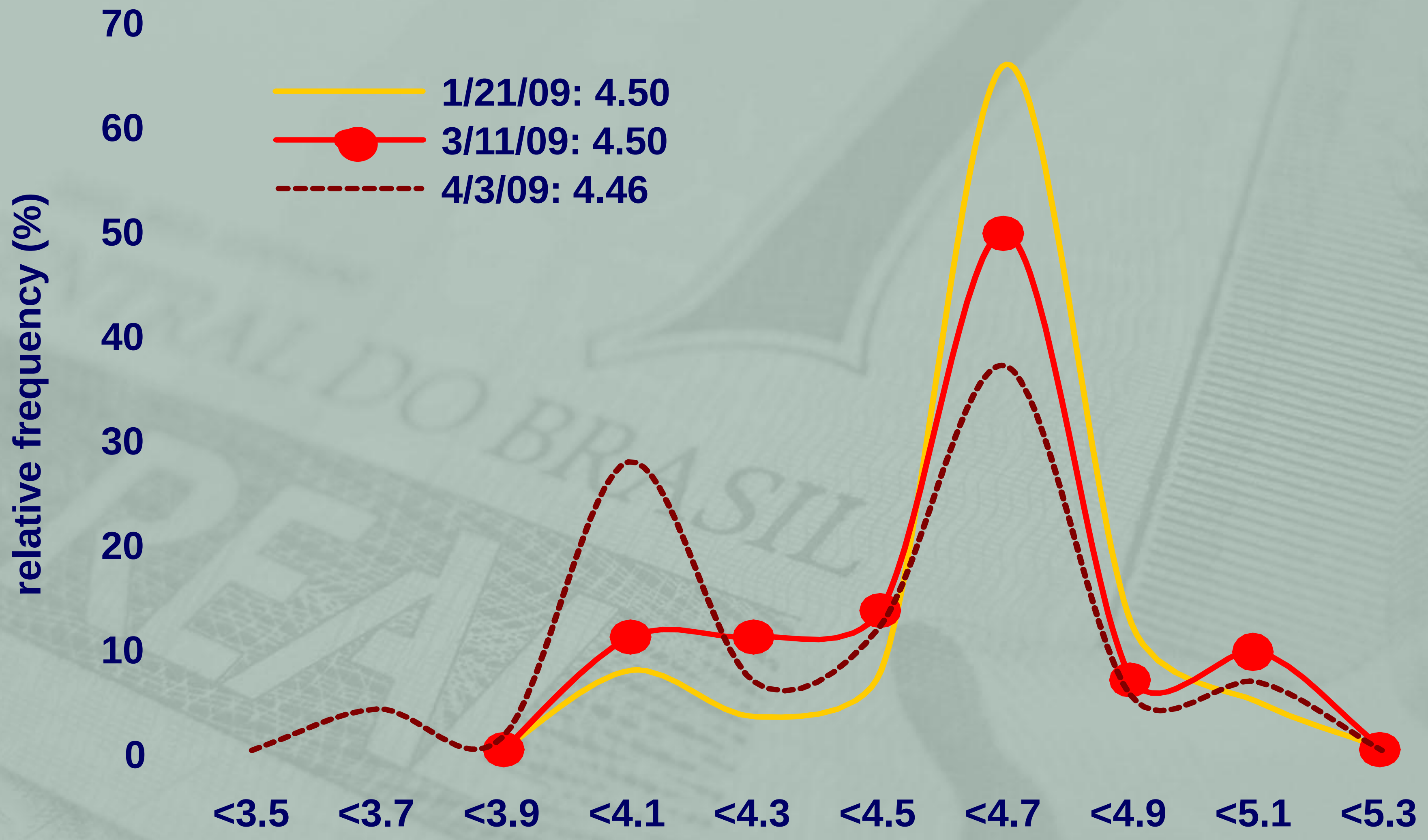


Inflation Expectations - IPCA - 2009



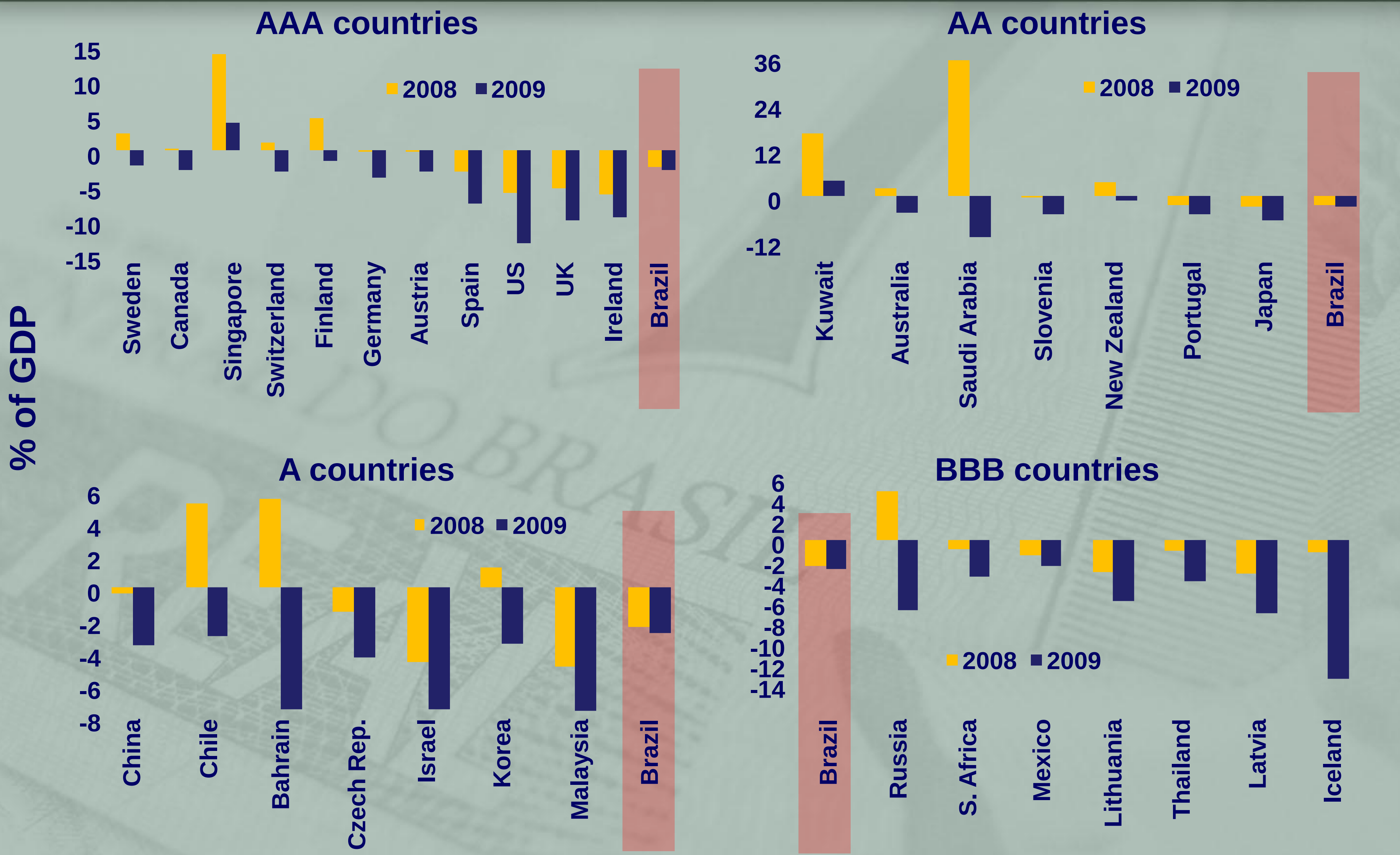
Source: BCB

Inflation Expectations - IPCA – 2010



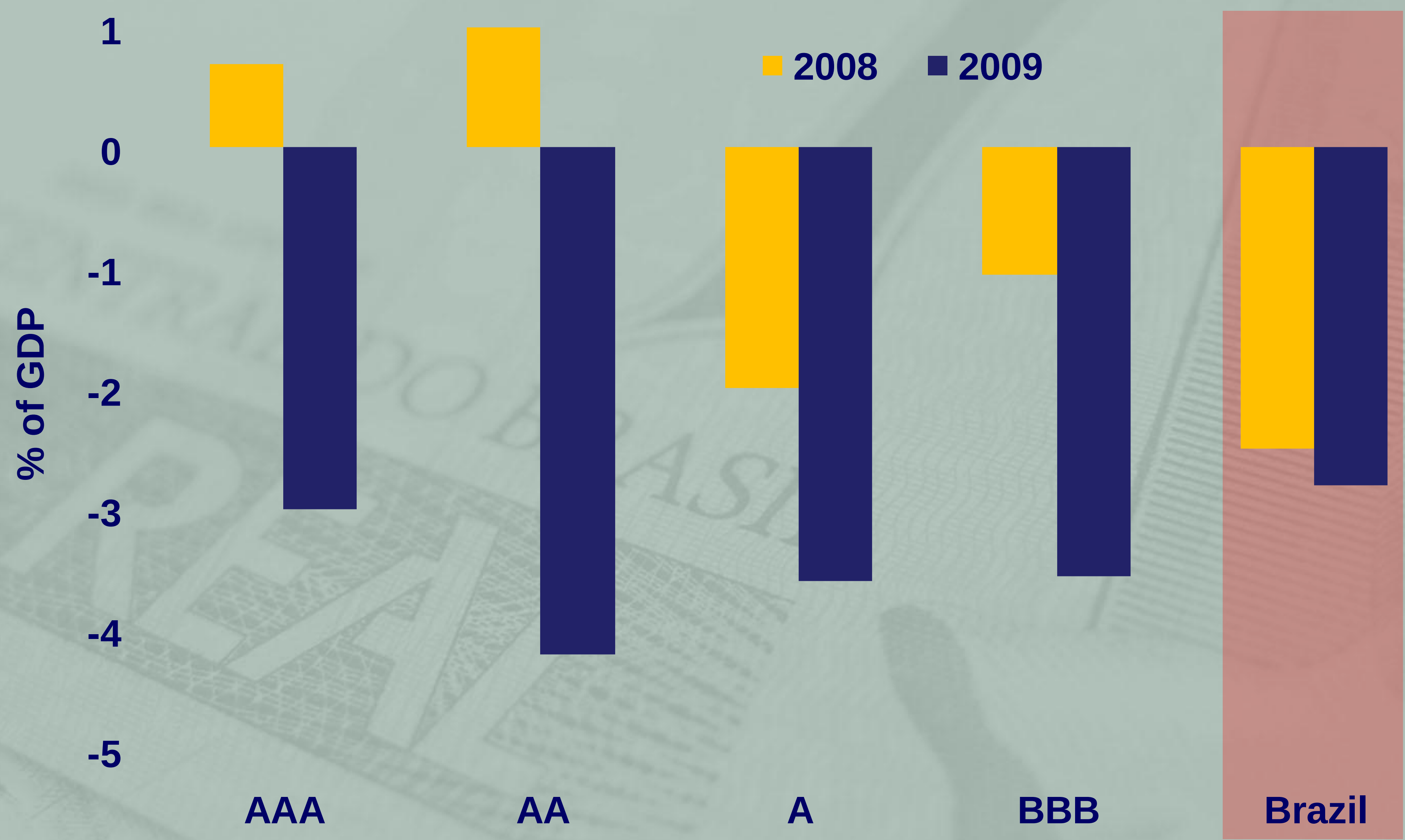
Source: BCB

General Government Balance/GDP



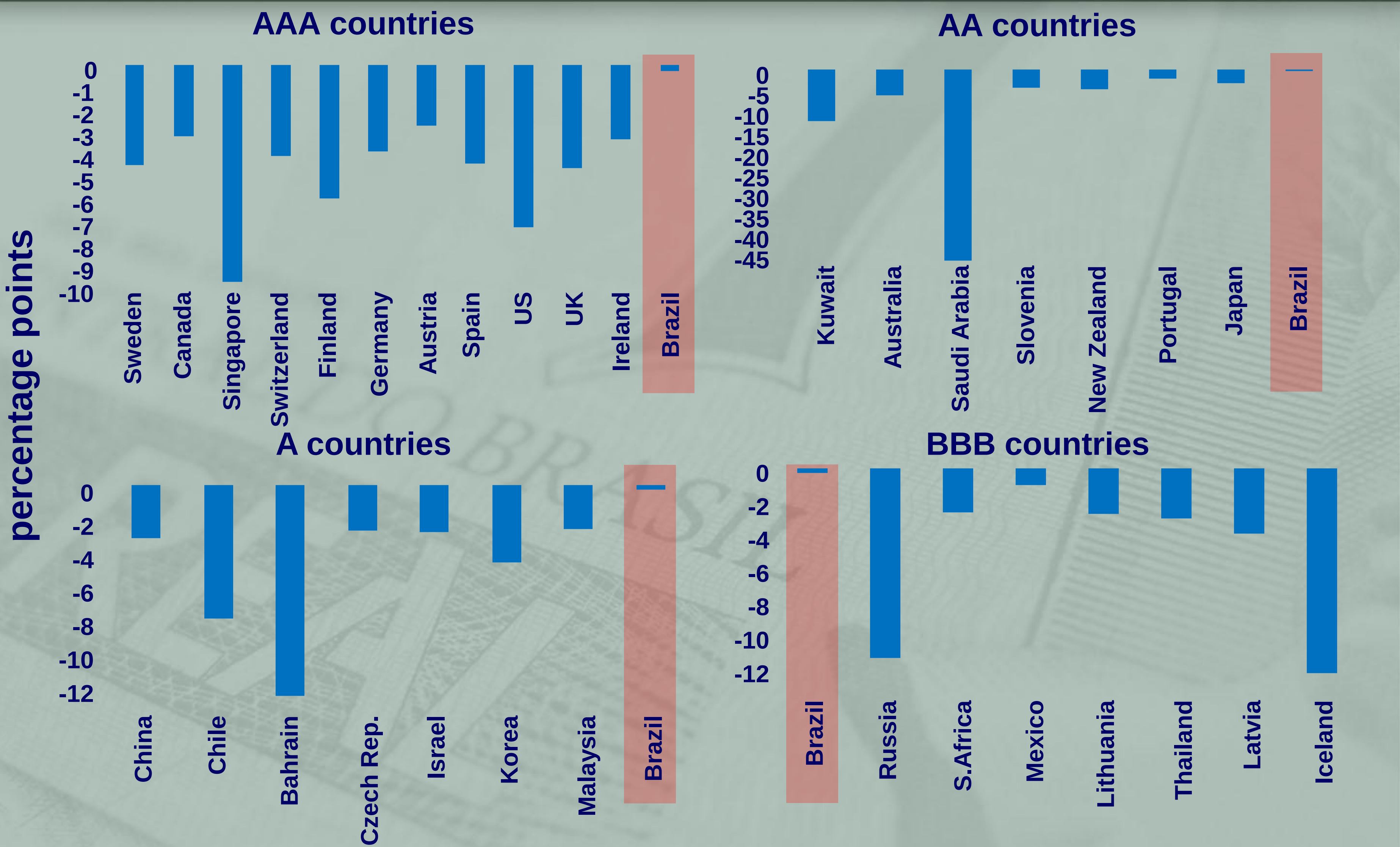
Source: Fitch Ratings

General Government Balance/GDP



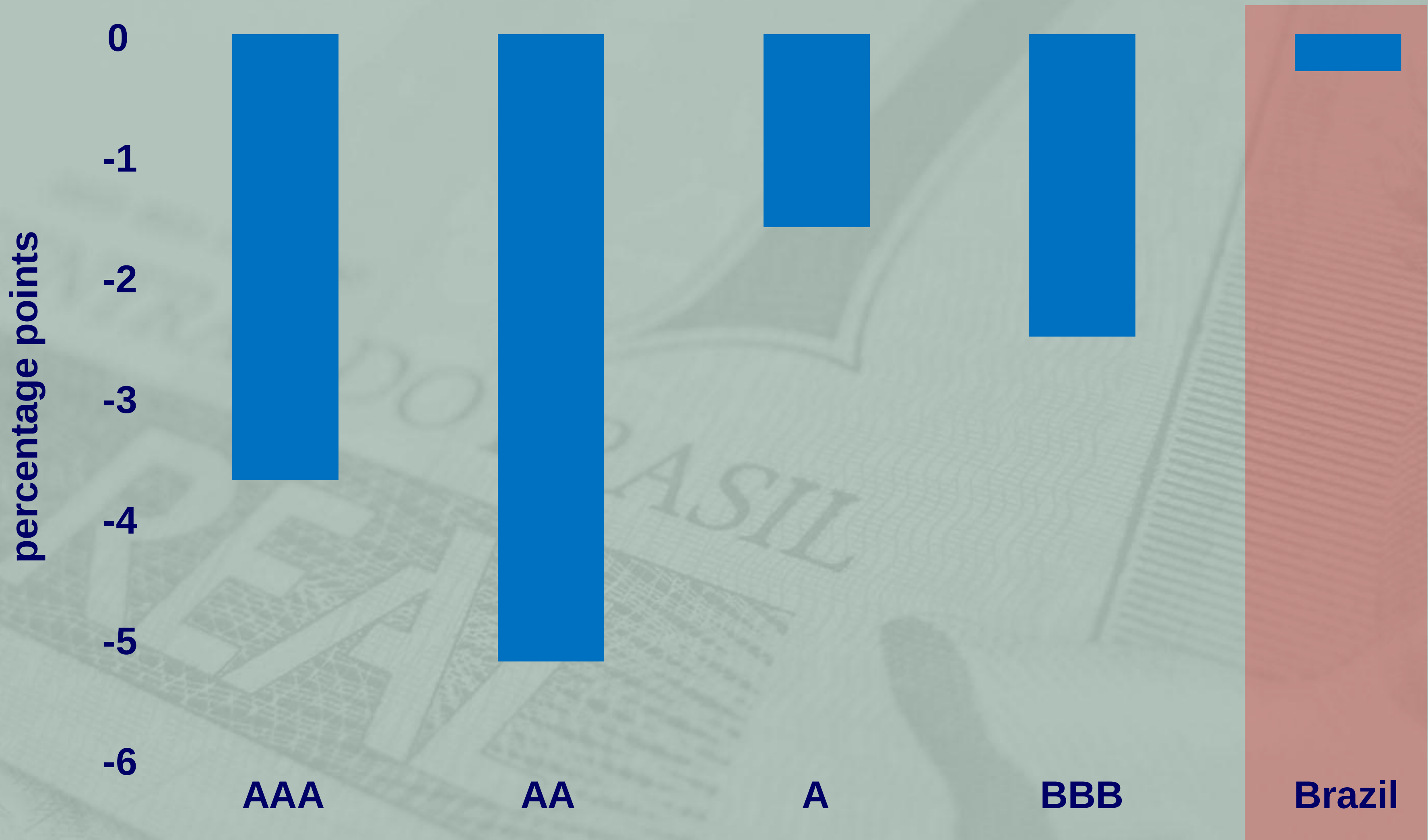
Source: Fitch Ratings

General Government Balance/GDP – Difference between 2009 and 2008



Source: Fitch Ratings

General Government Balance/GDP – Difference between 2009 and 2008



Source: Fitch Ratings

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