Price Stability as the Basis for Sound Economic Growth

Henrique de Campos Meirelles

Brazilian-American Chamber of Commerce
Washington, September 2005

BANCO CENTRAL DO BRASIL

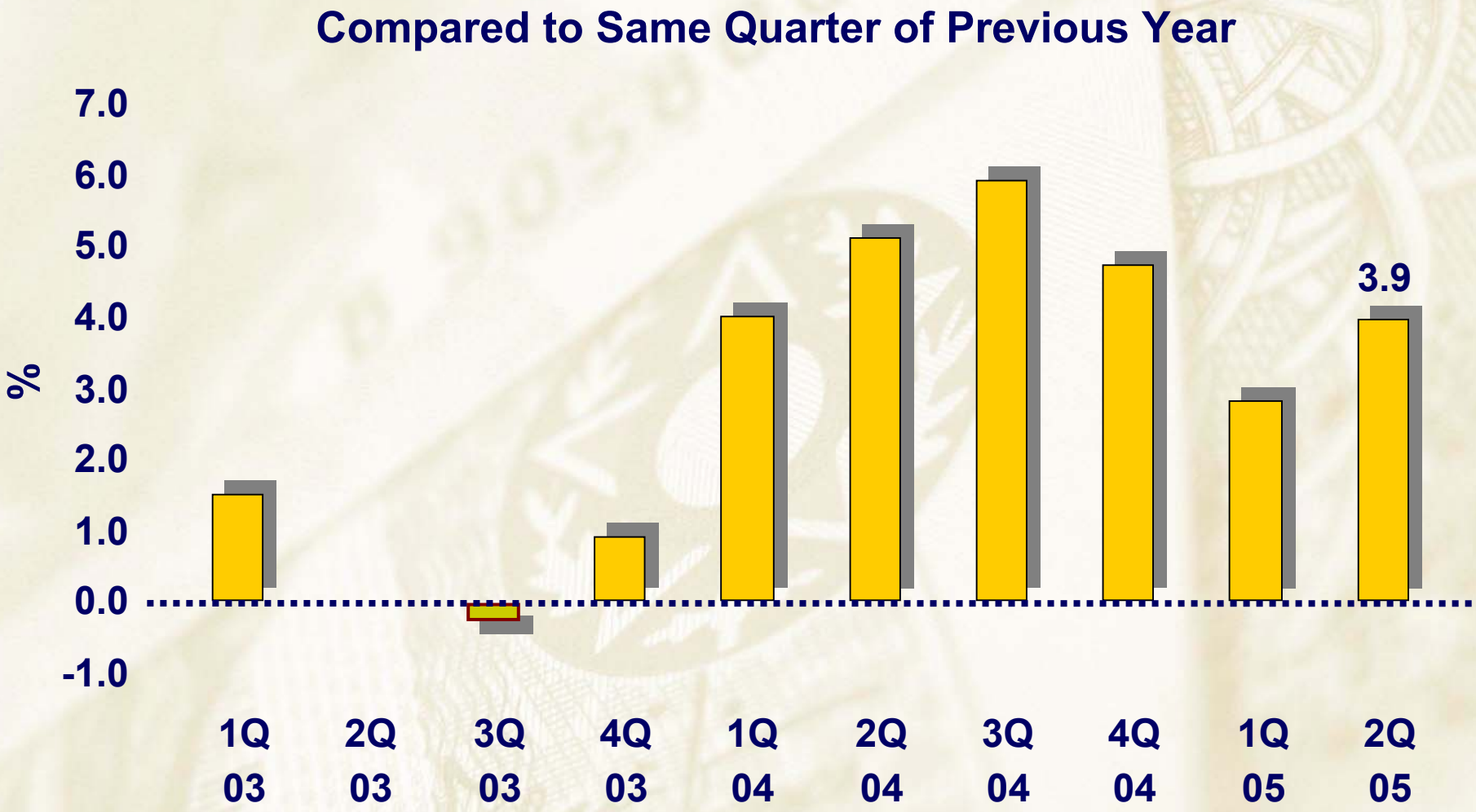
Price Stability as the Basis for Sound Economic Growth

- Economic Activity
- Inflation
- External Sector
- Strengthening Resistance to Shocks

Price Stability as the Basis for Sound Economic Growth

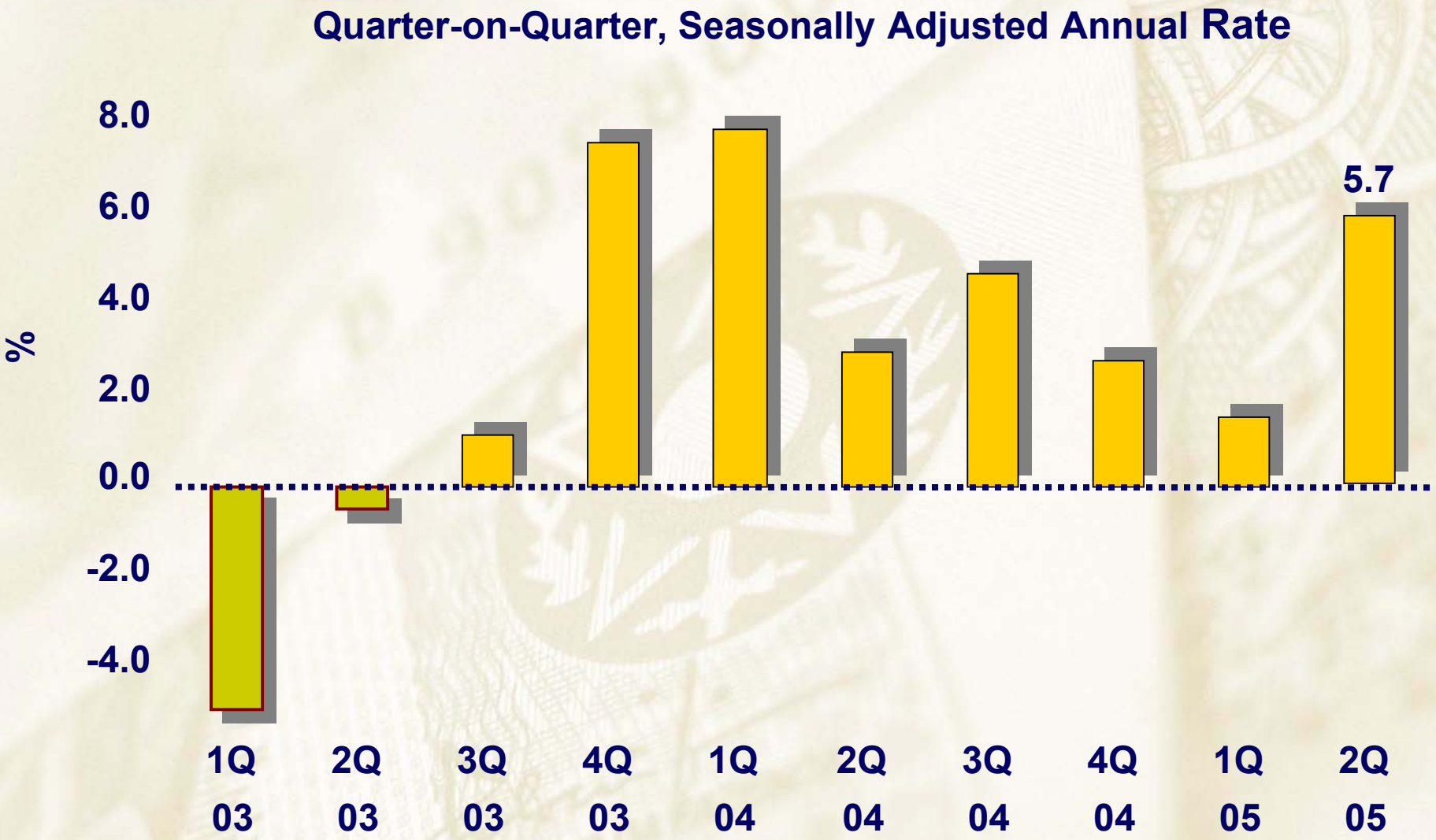
- **Economic Activity**

GDP Growth



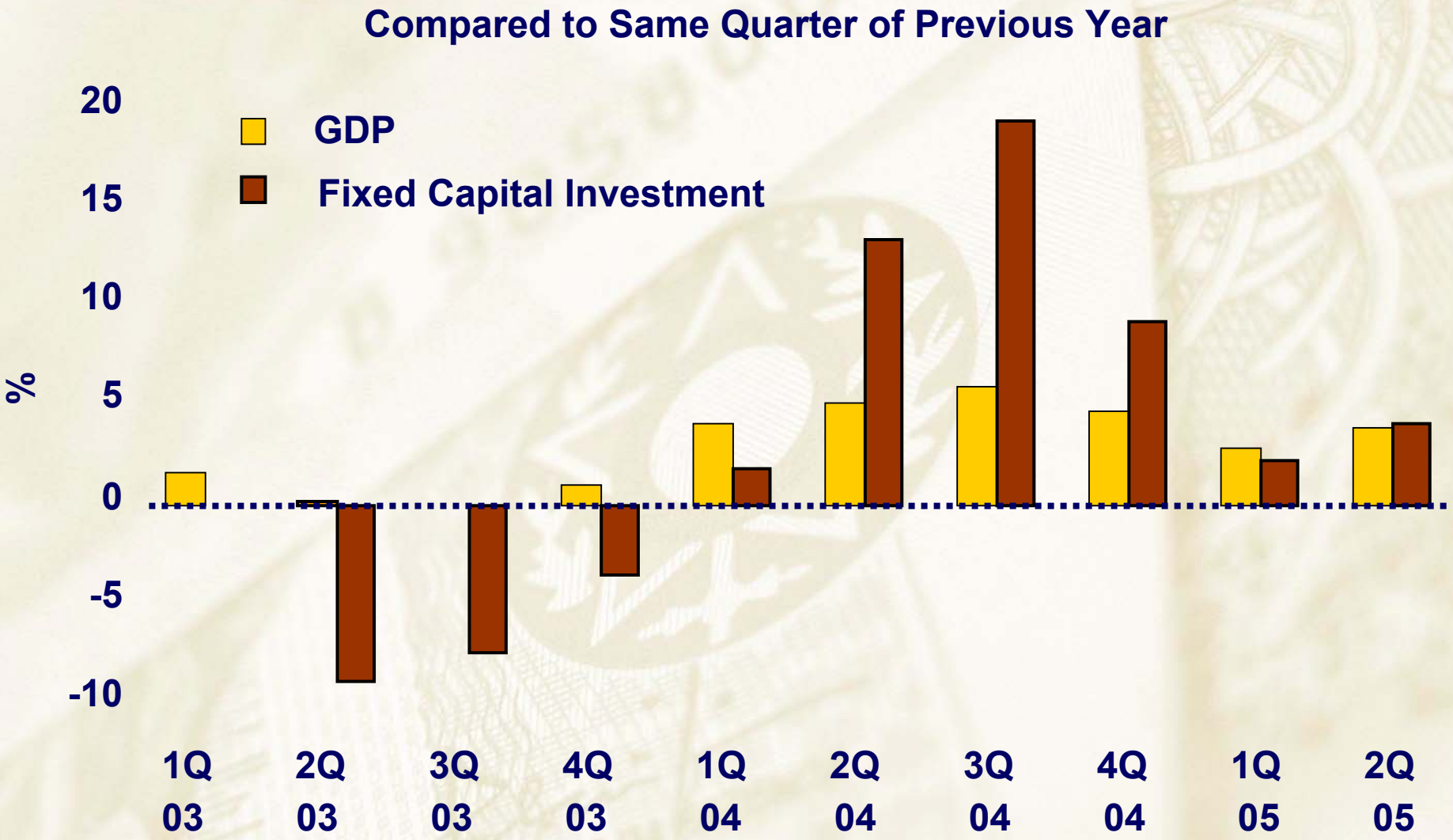
Source: IBGE

GDP Growth



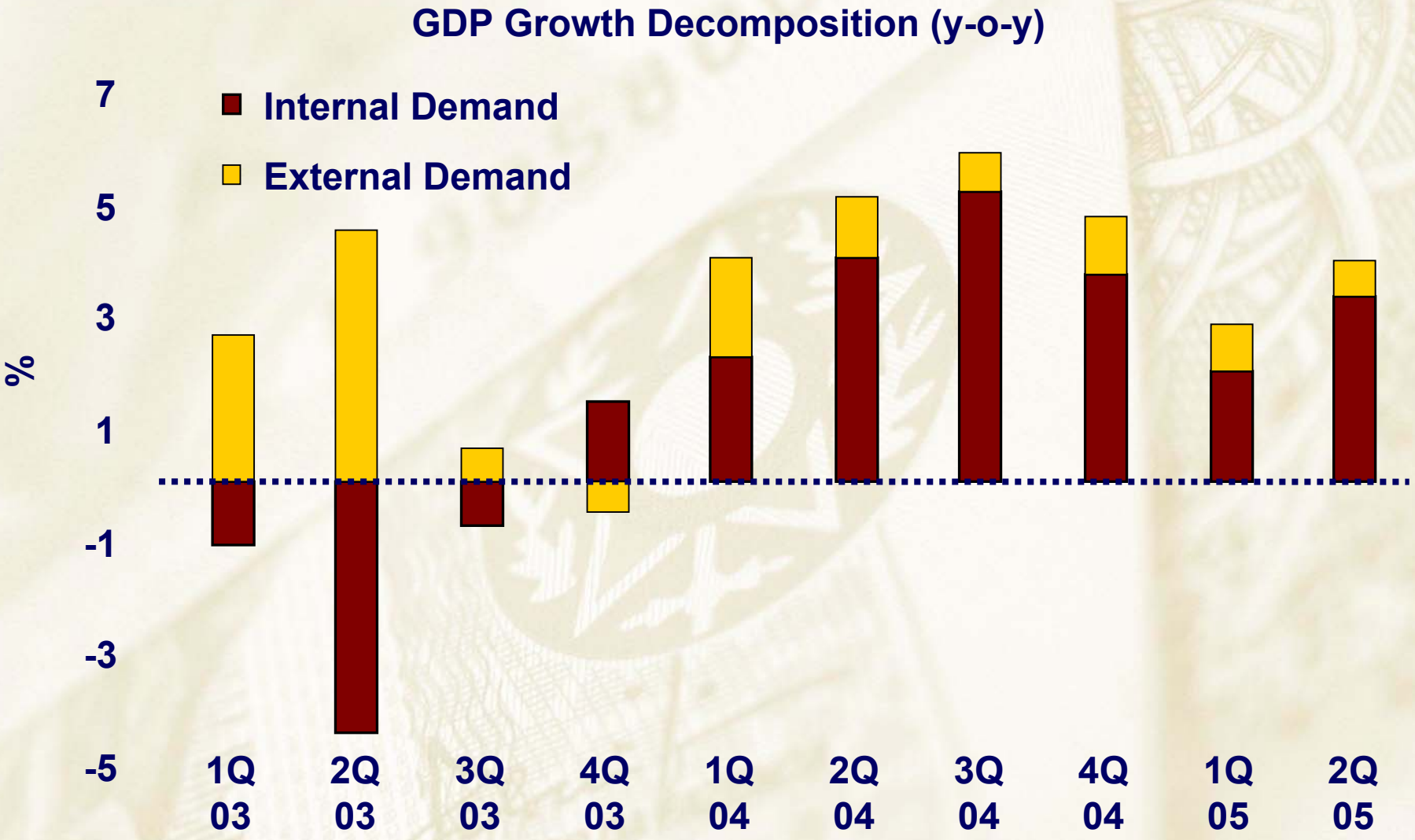
Source: IBGE

GDP x Fixed Capital Investment



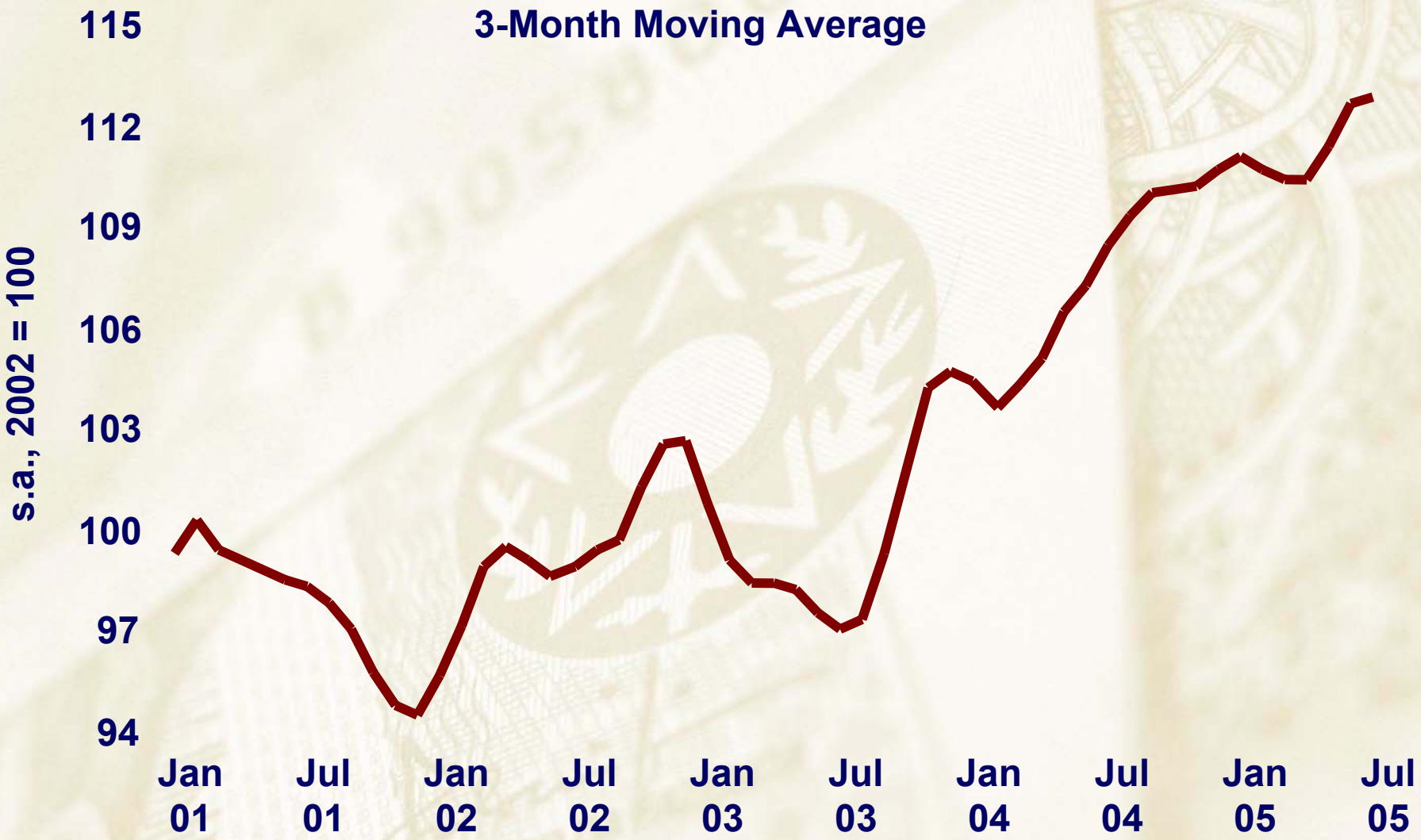
Source: IBGE

Contribution of Internal and External Demand to GDP Growth



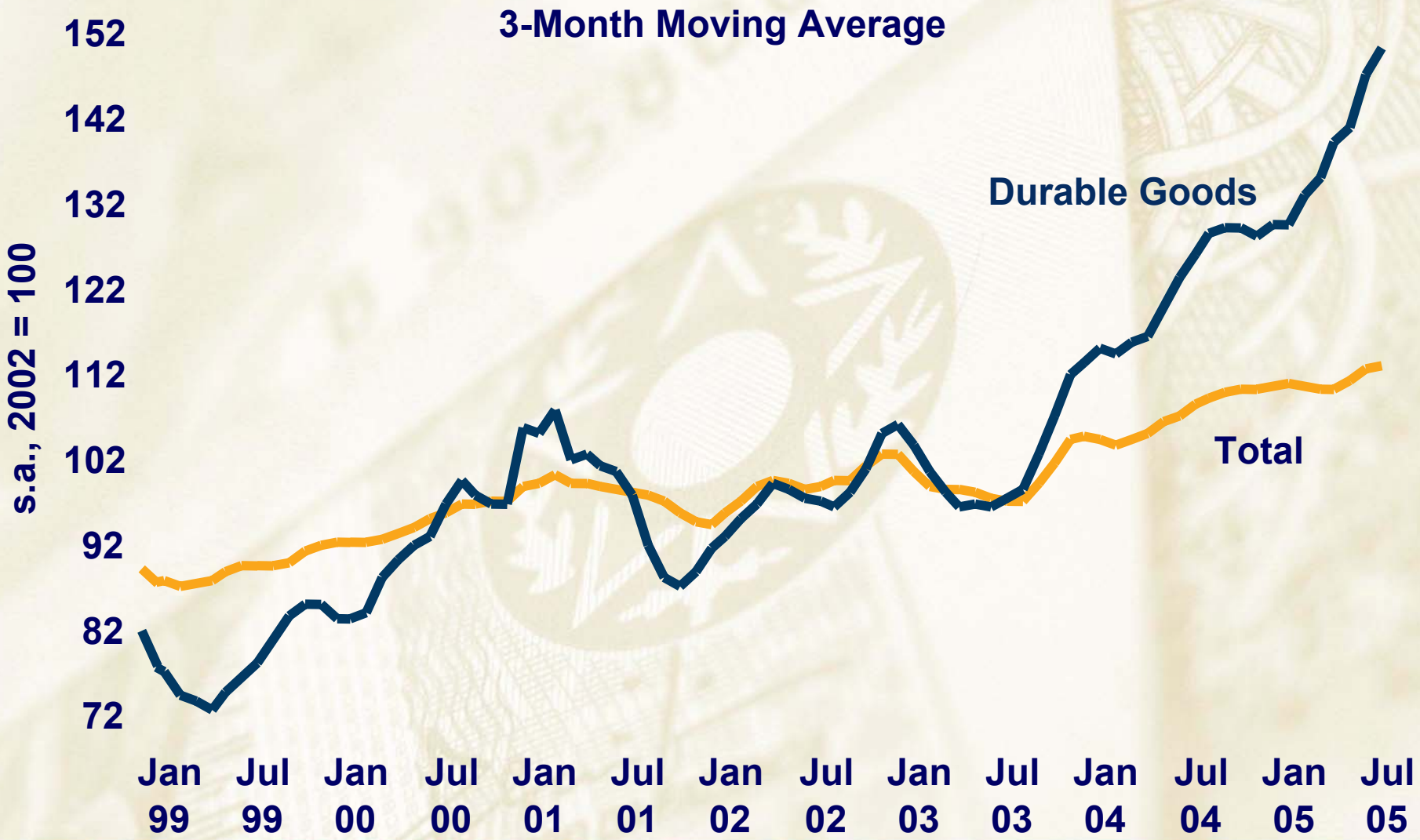
Source: IBGE

Industrial Output



Source: IBGE

Industrial Output



Source: IBGE

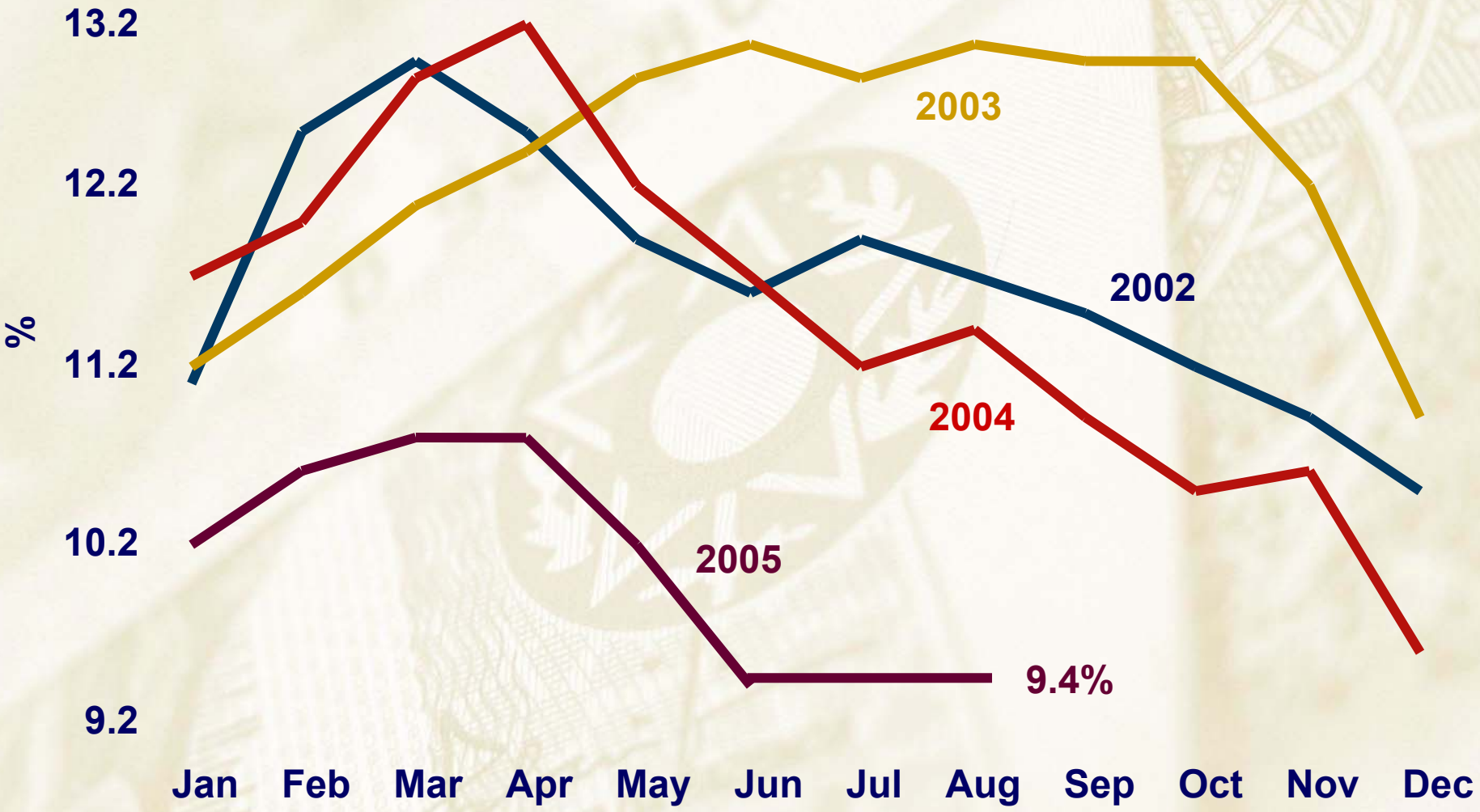
Retail Sales

Source: IBGE

Formal Job Creation

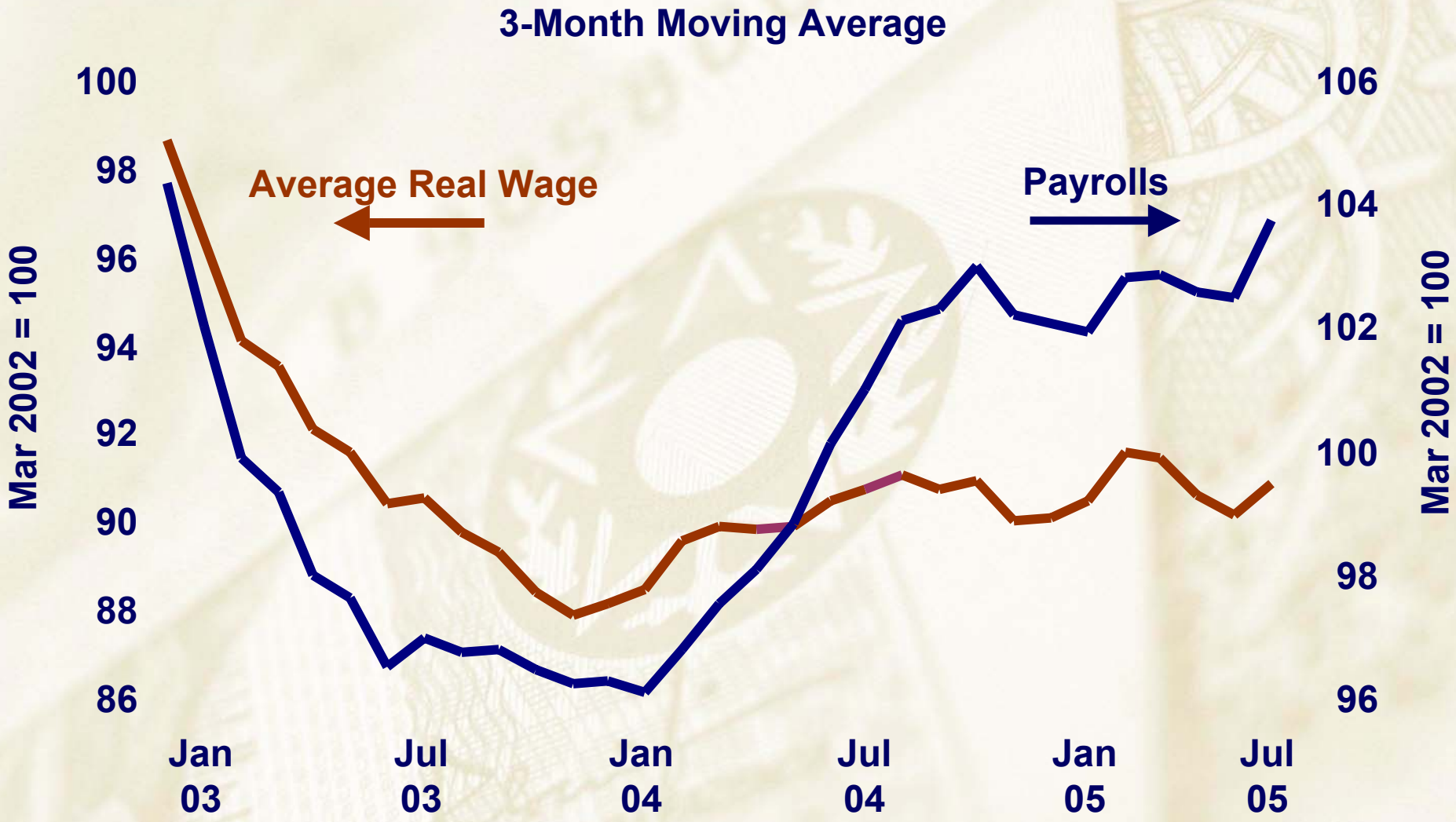
Source: Ministry of Labour and Employment

Unemployment Rate



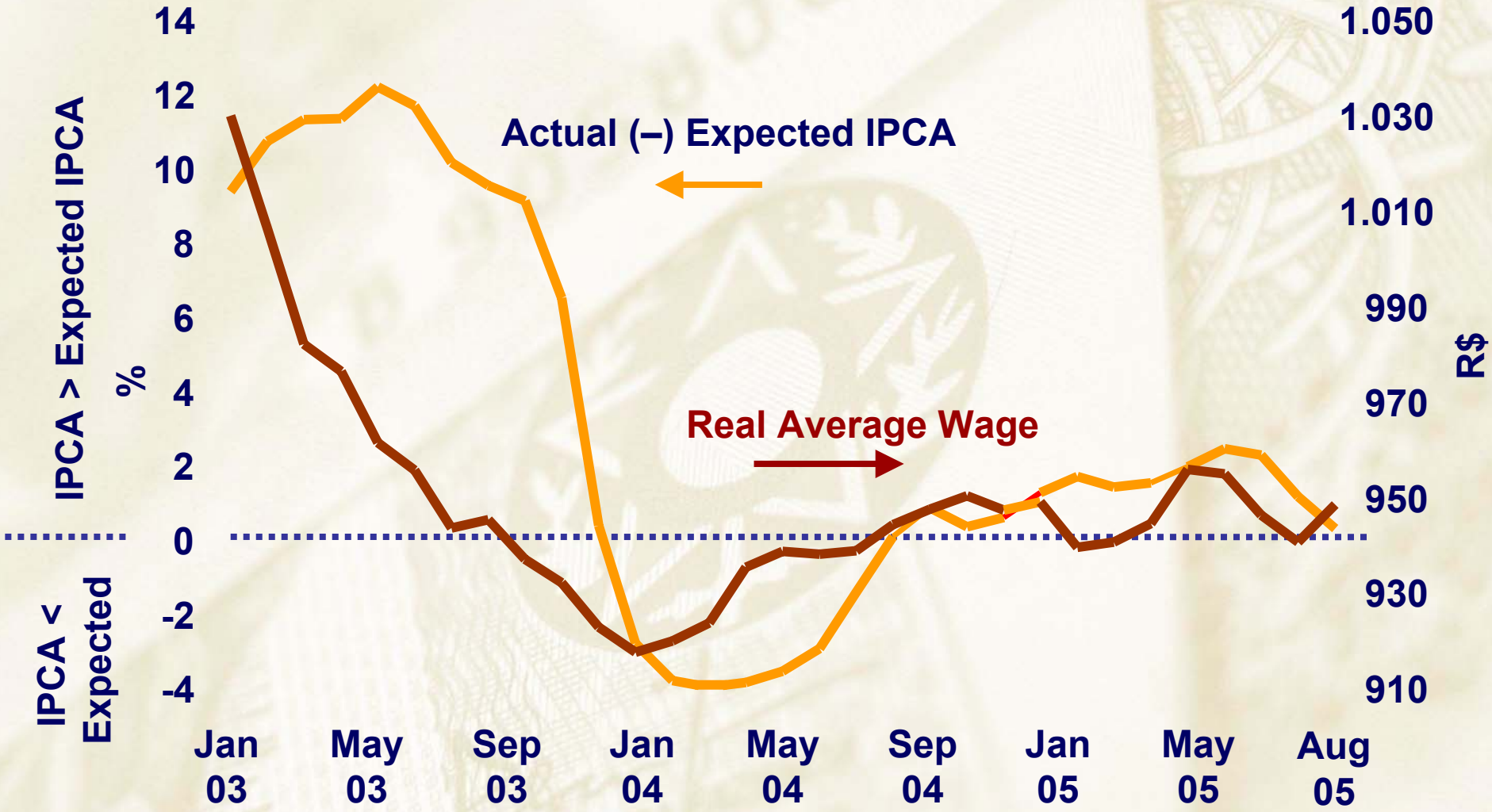
Source: IBGE

Average Real Wage and Payrolls



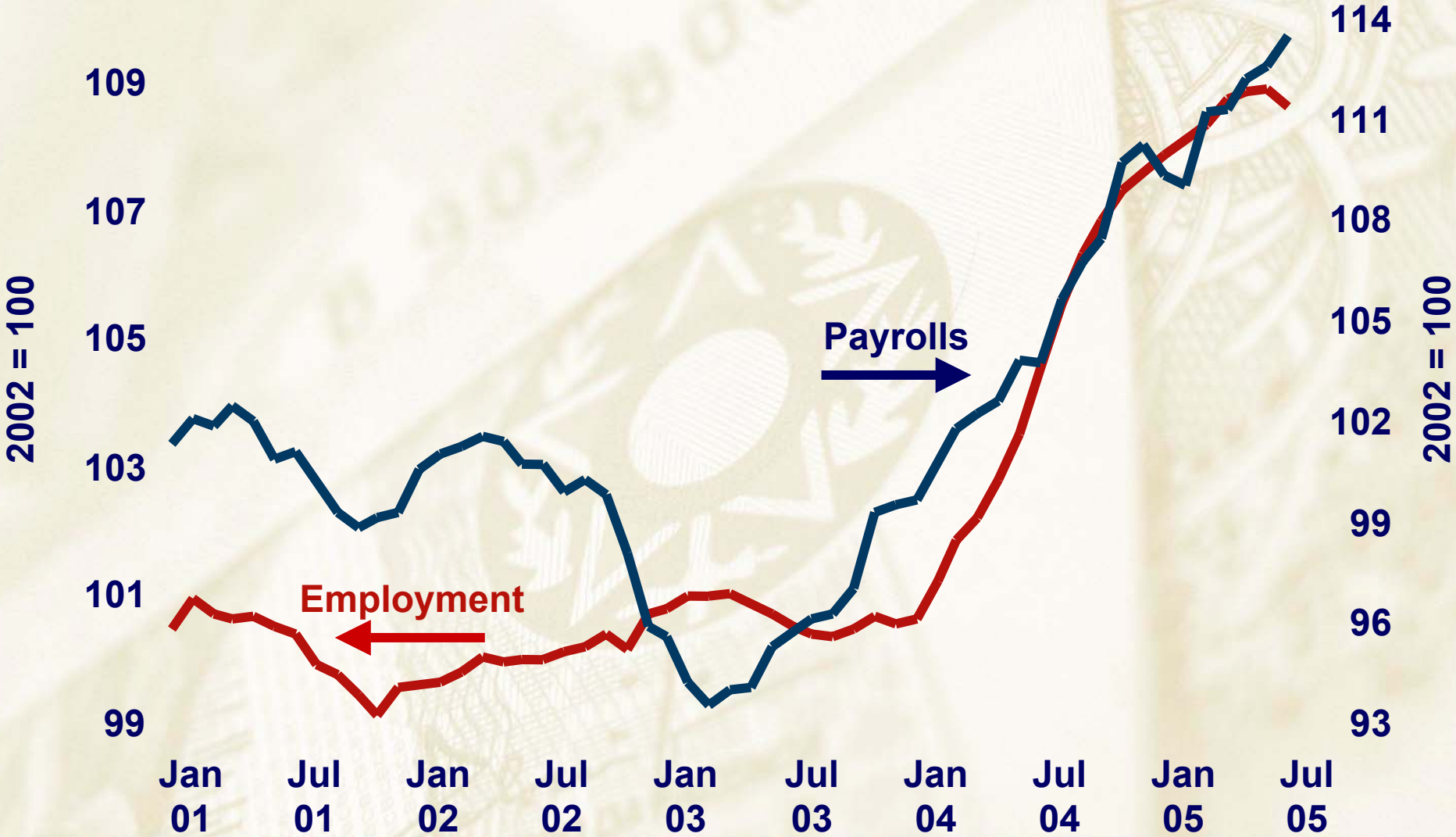
Source: IBGE

Average Real Wage and Inflation Surprise



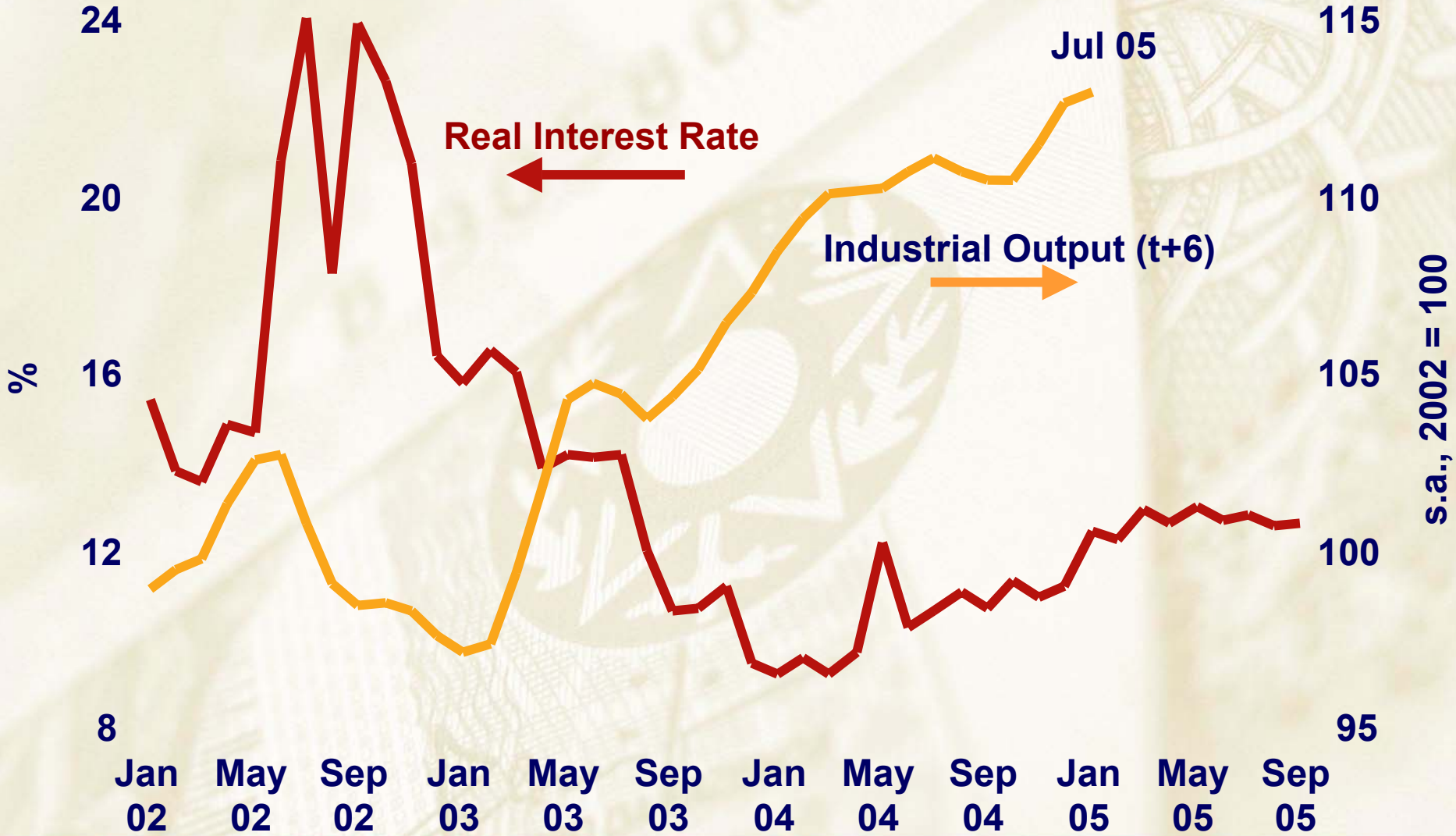
Source: IBGE, Bacen

Manufacturing Employment and Payrolls



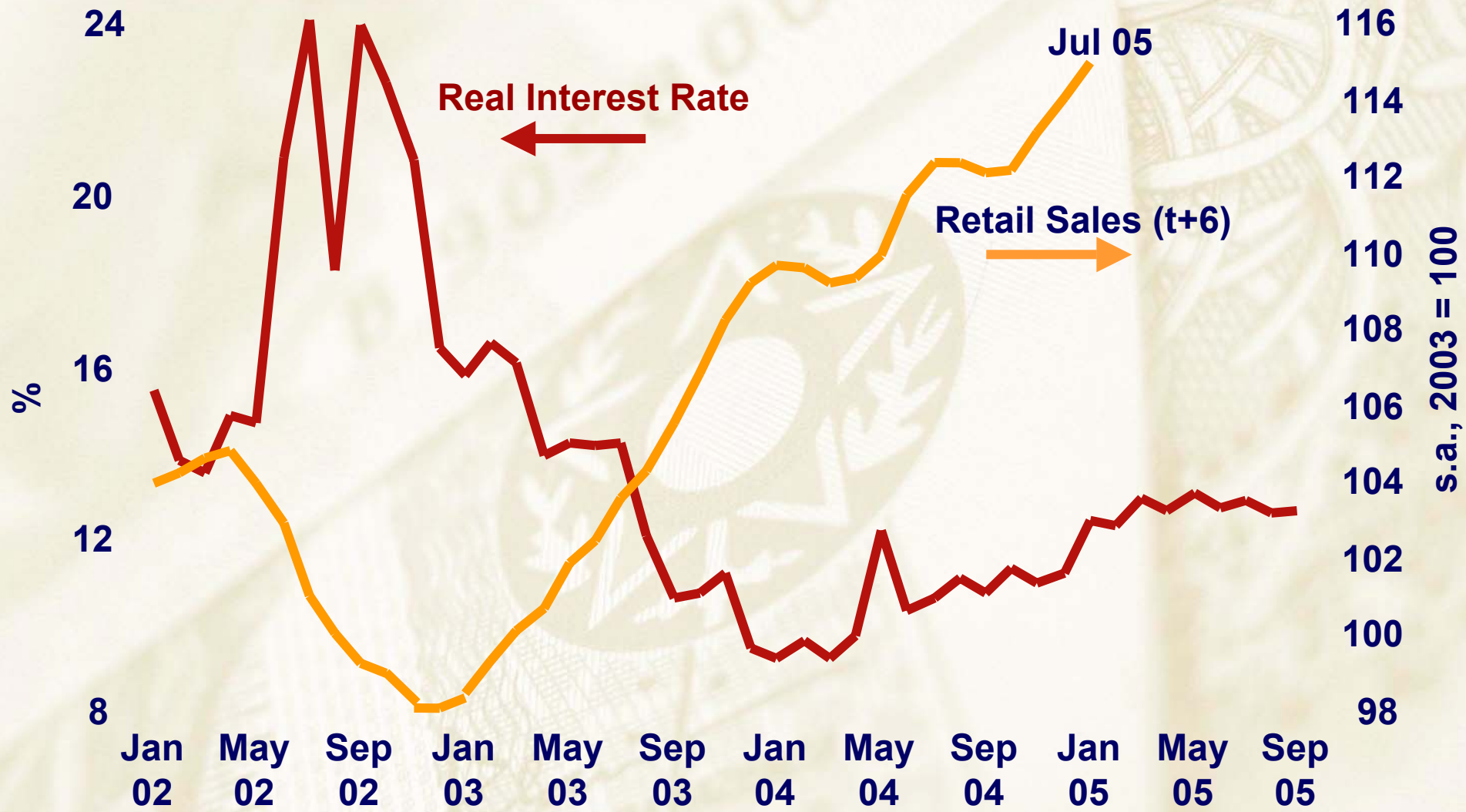
Source: CNI

Real Interest Rate vs. Industrial Output



Sources: IBGE, Bacen

Real Interest Rate vs. Retail Sales

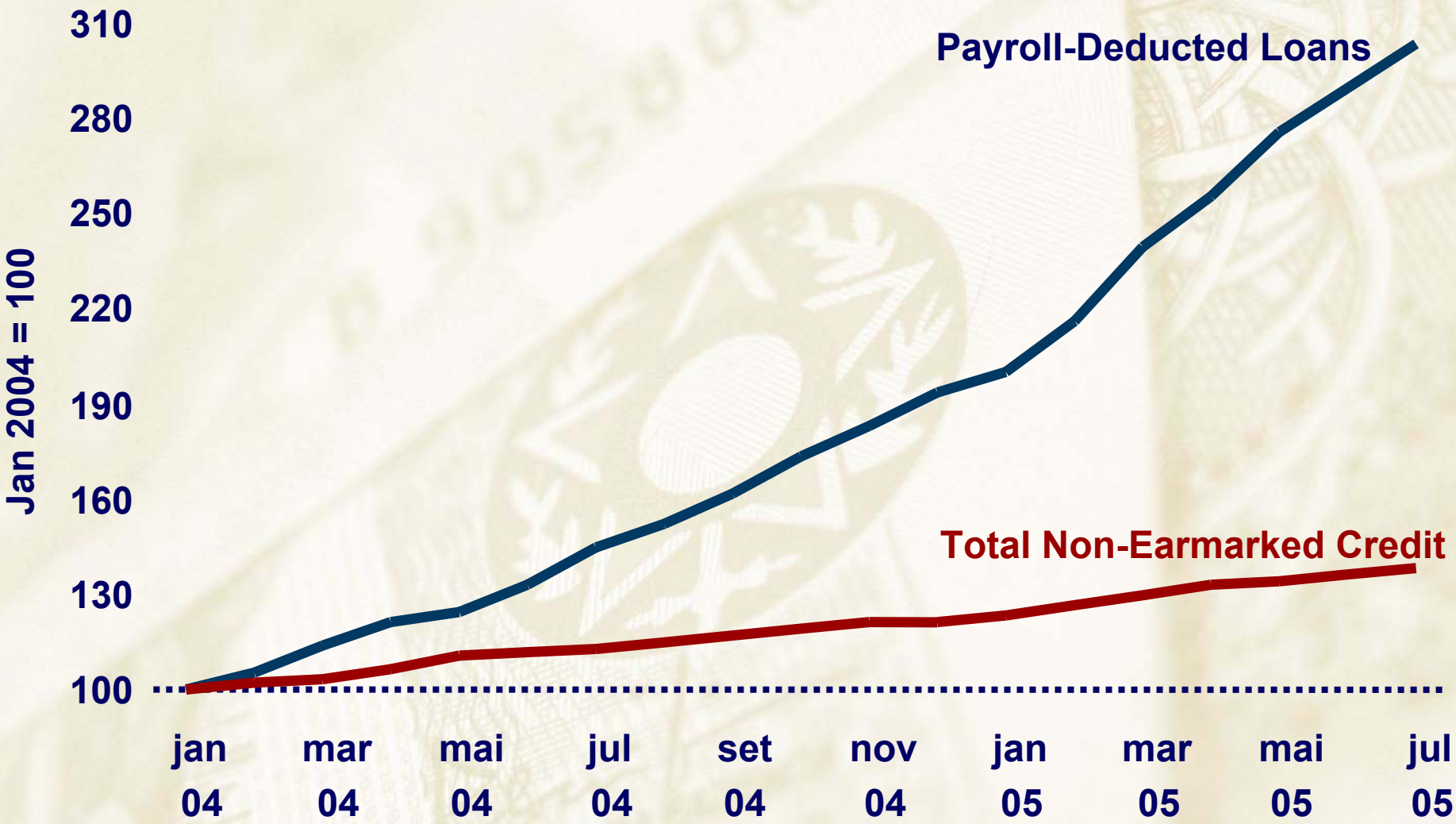


Sources: IBGE, Bacen

Non-Earmarked Credit/GDP Ratio

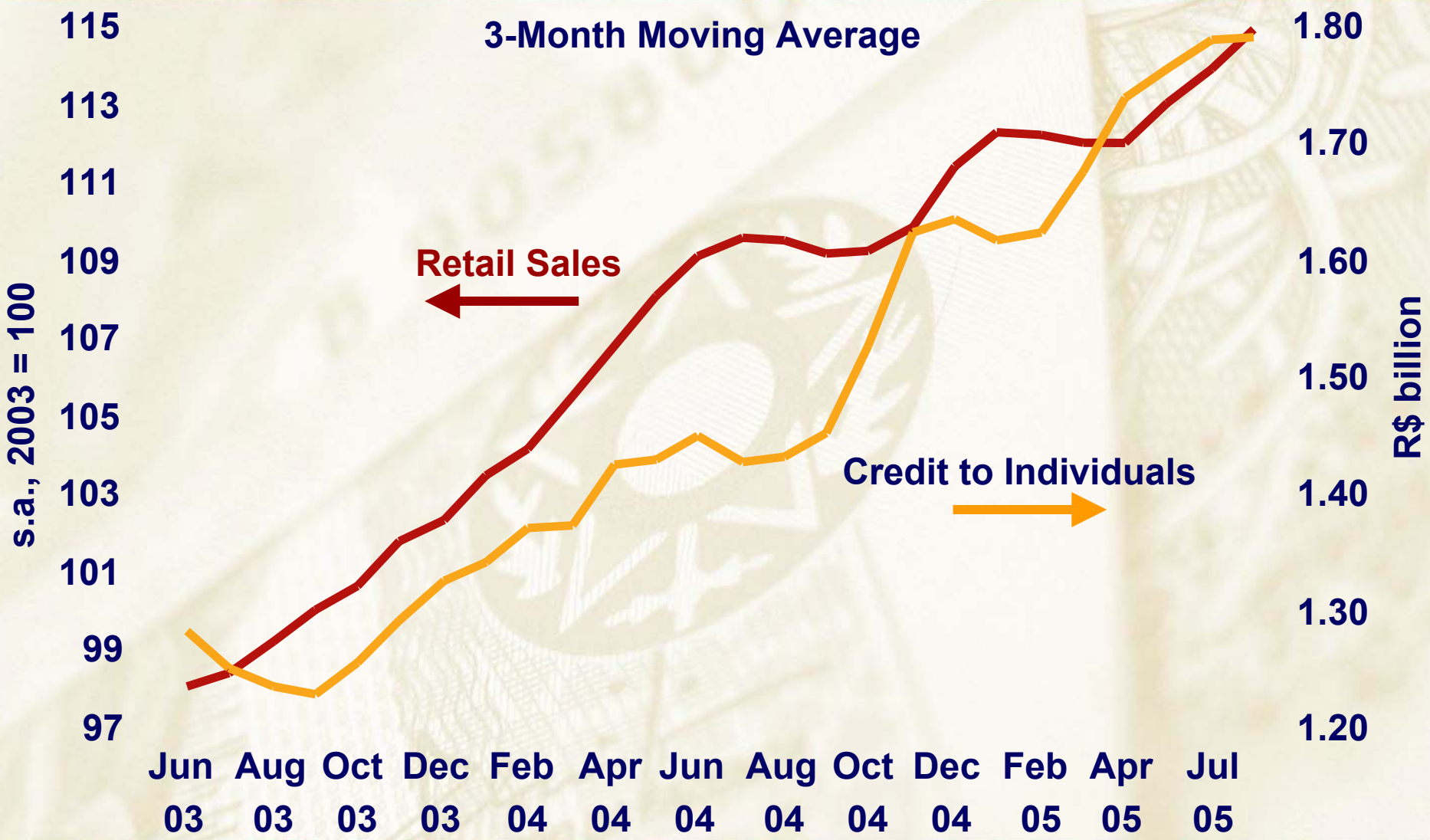
Source: Bacen

Payroll-Deducted vs. Non-Earmarked Credit



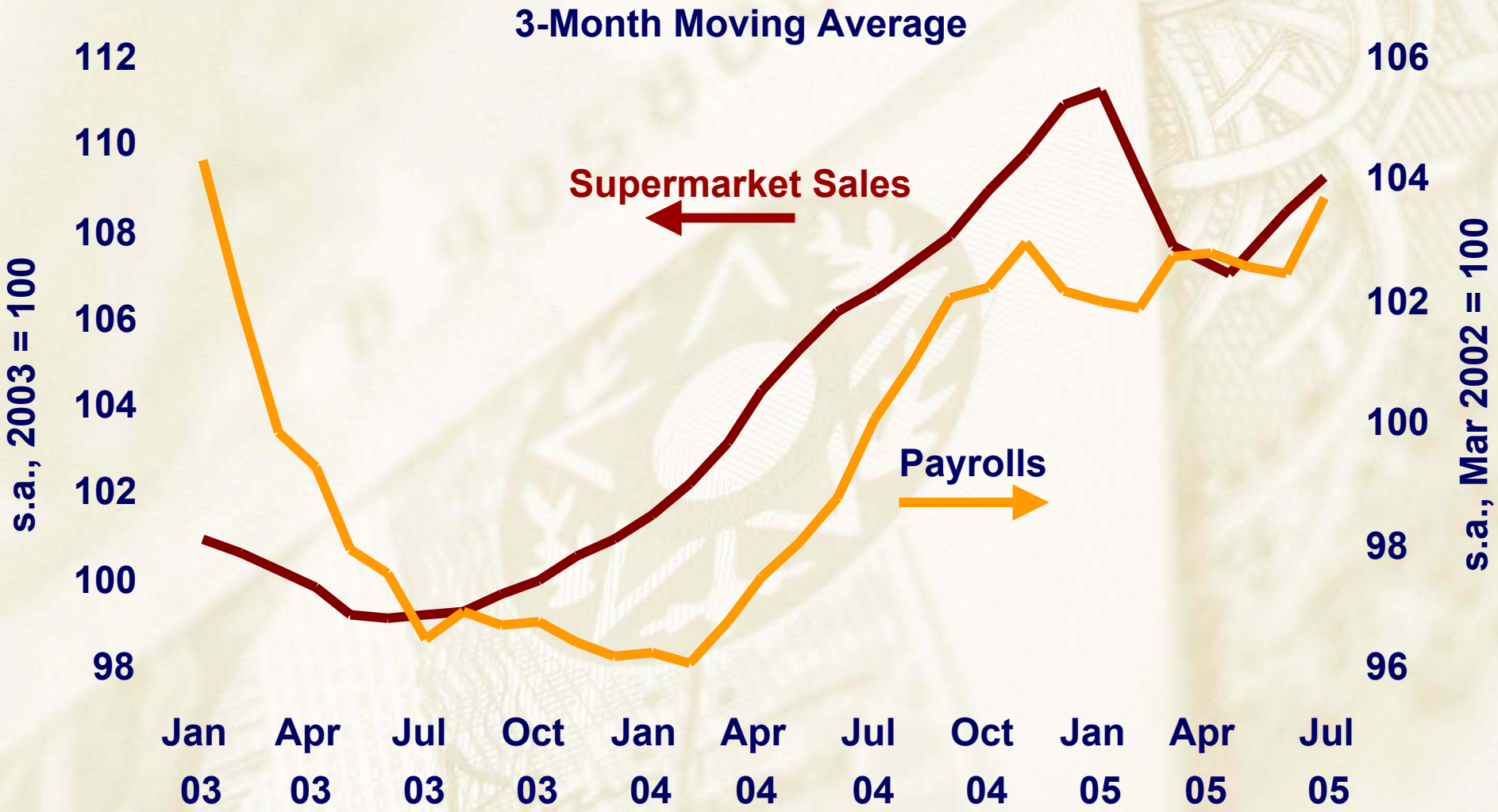
Source: Bacen

Credit vs. Retail Sales



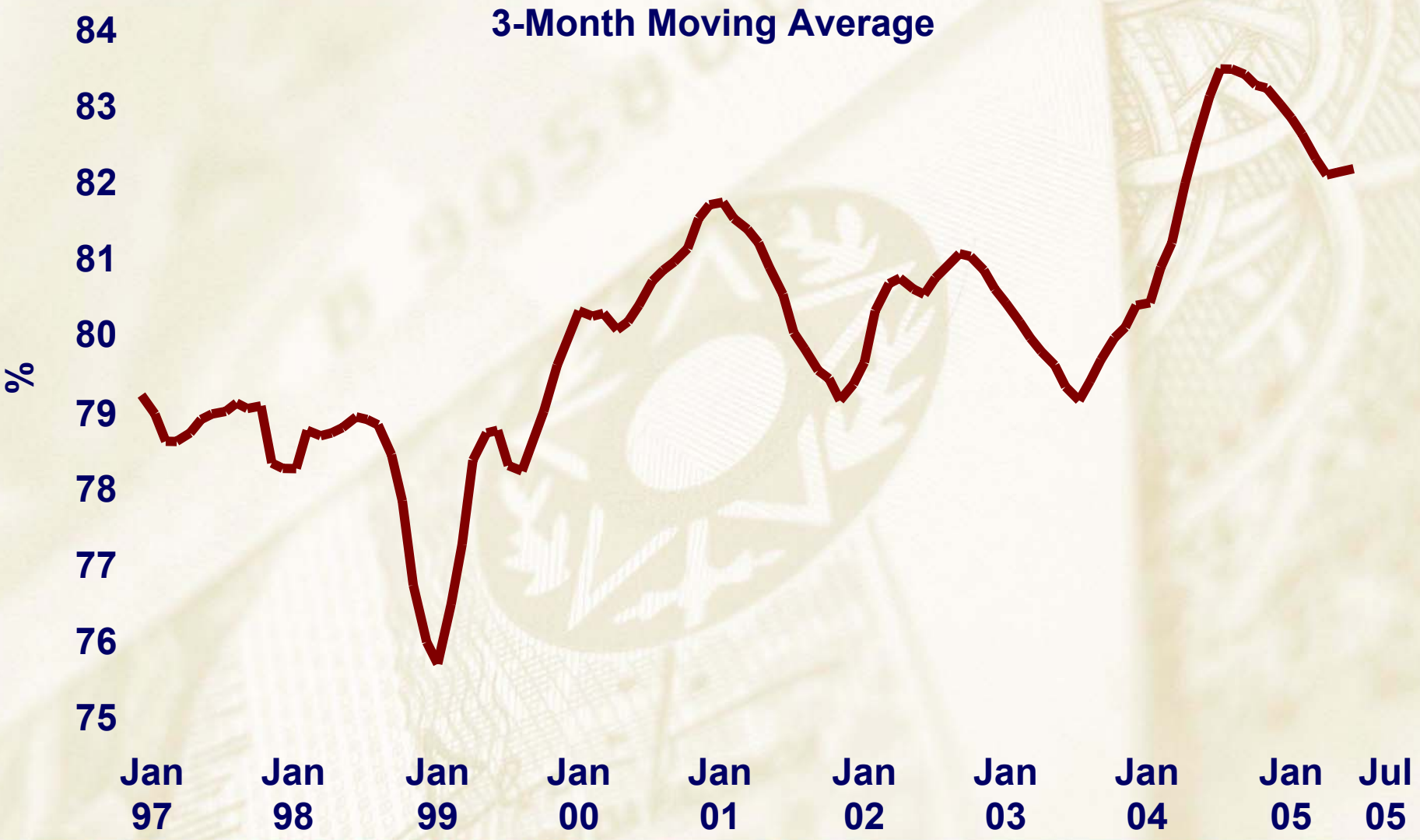
Sources: IBGE, Bacen

Non-Durable Retail Sales vs. Labor Income



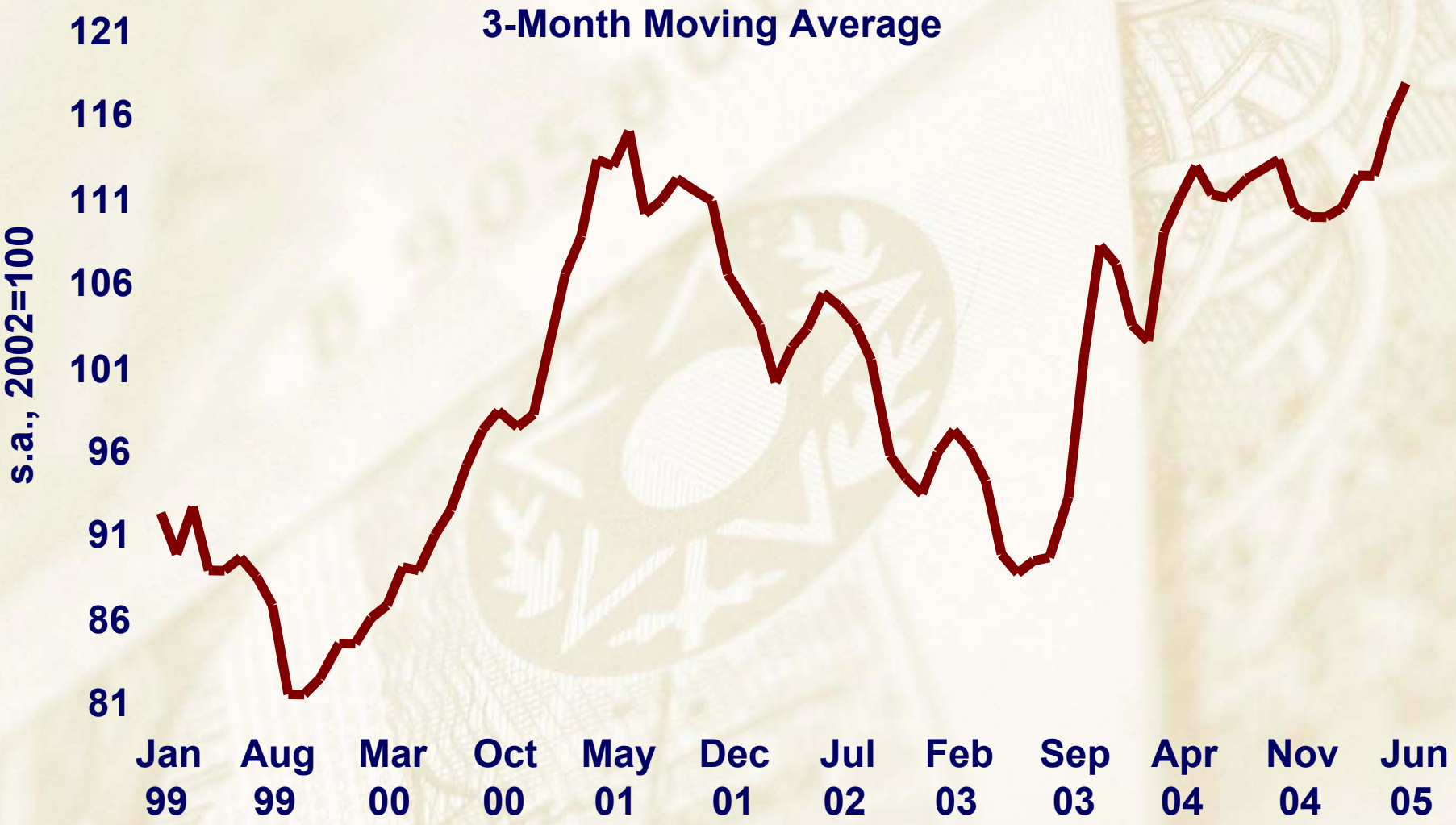
Source: IBGE

Capacity Utilization



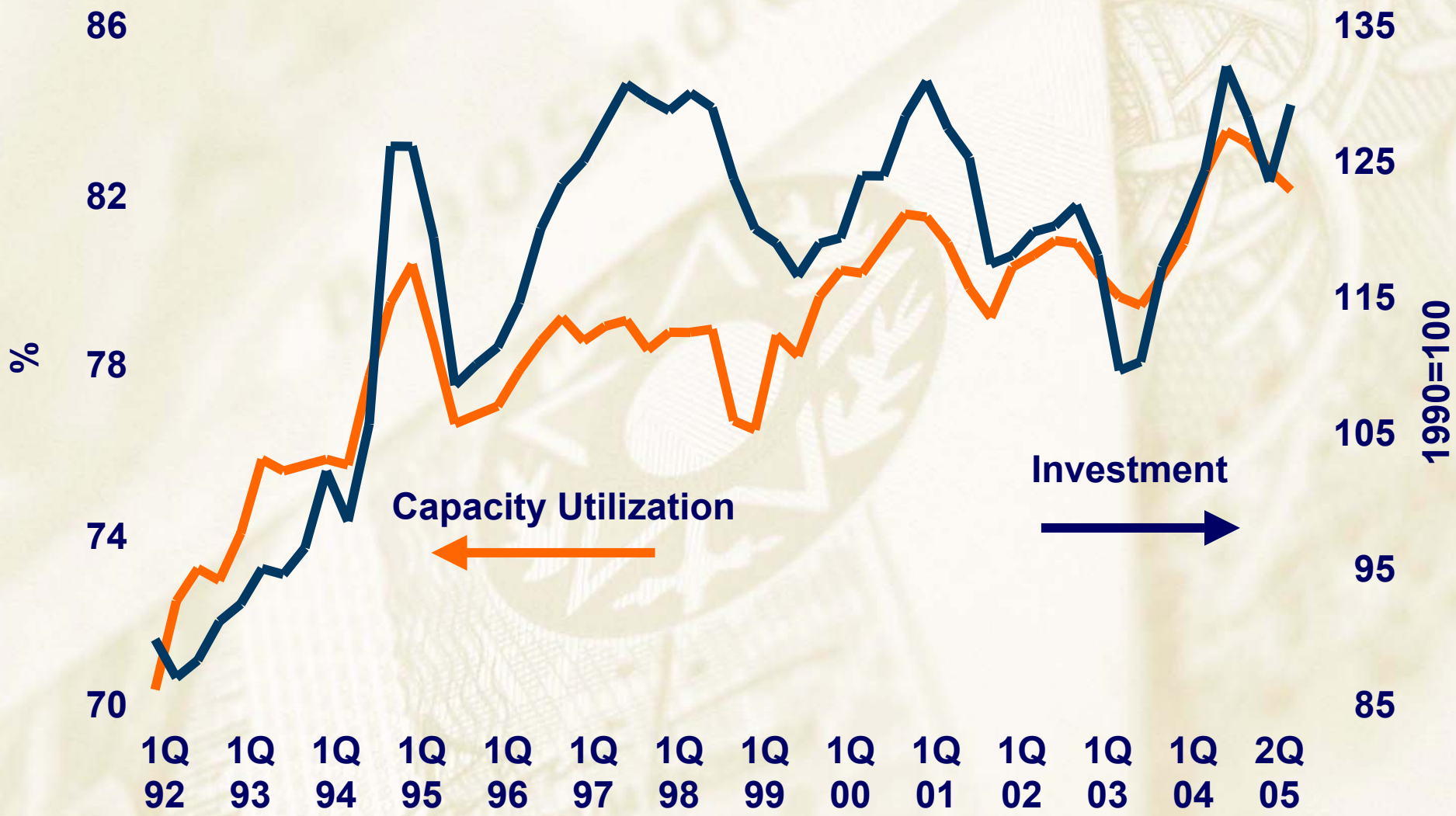
Source: CNI

Domestic Absorption of Capital Goods



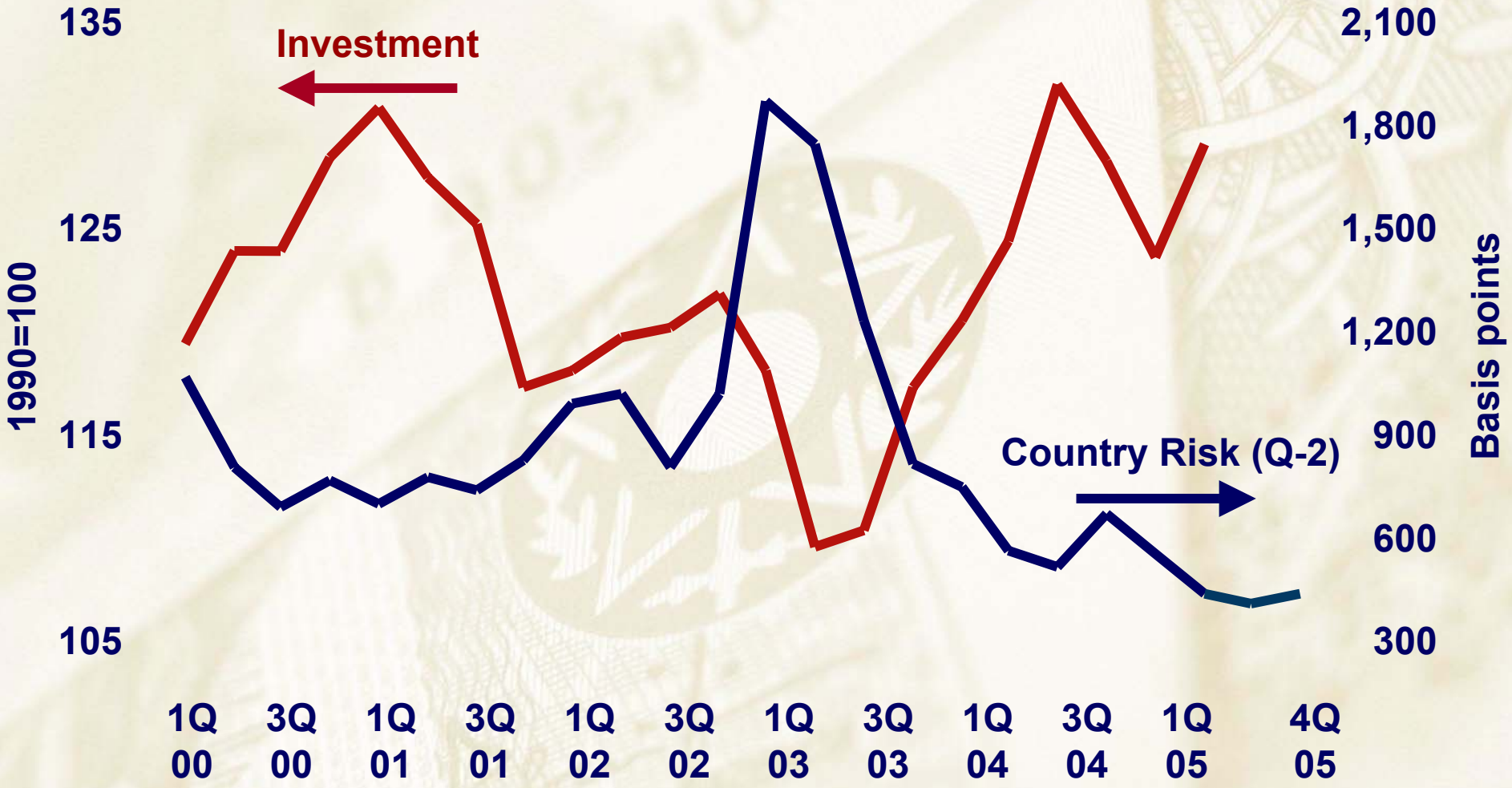
Source: Bacen

Investment x Capacity Utilization



Sources: IBGE and CNI

Investment x Country Risk

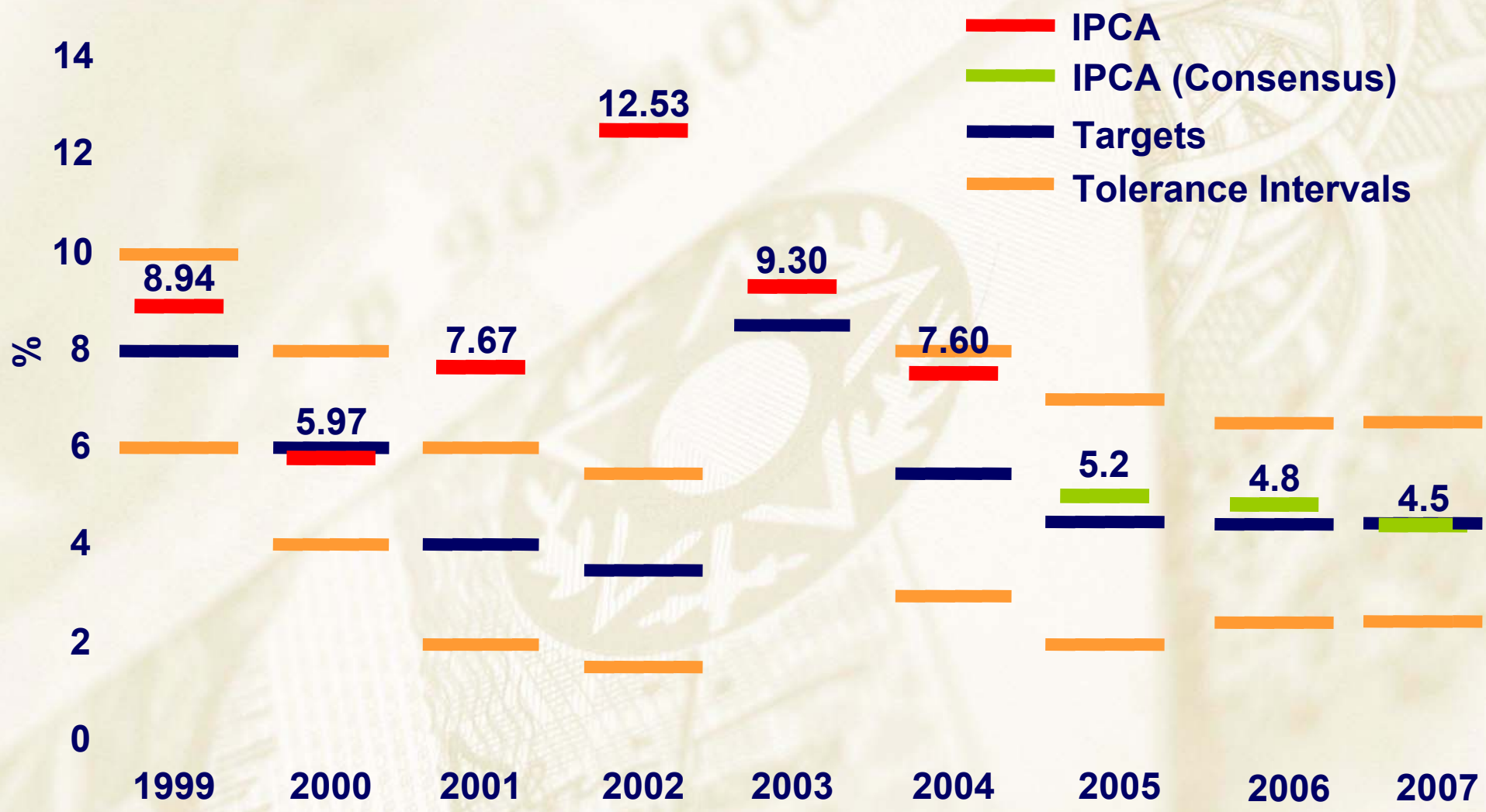


Sources: IBGE and JP Morgan Chase

Price Stability as the Basis for Sound Economic Growth

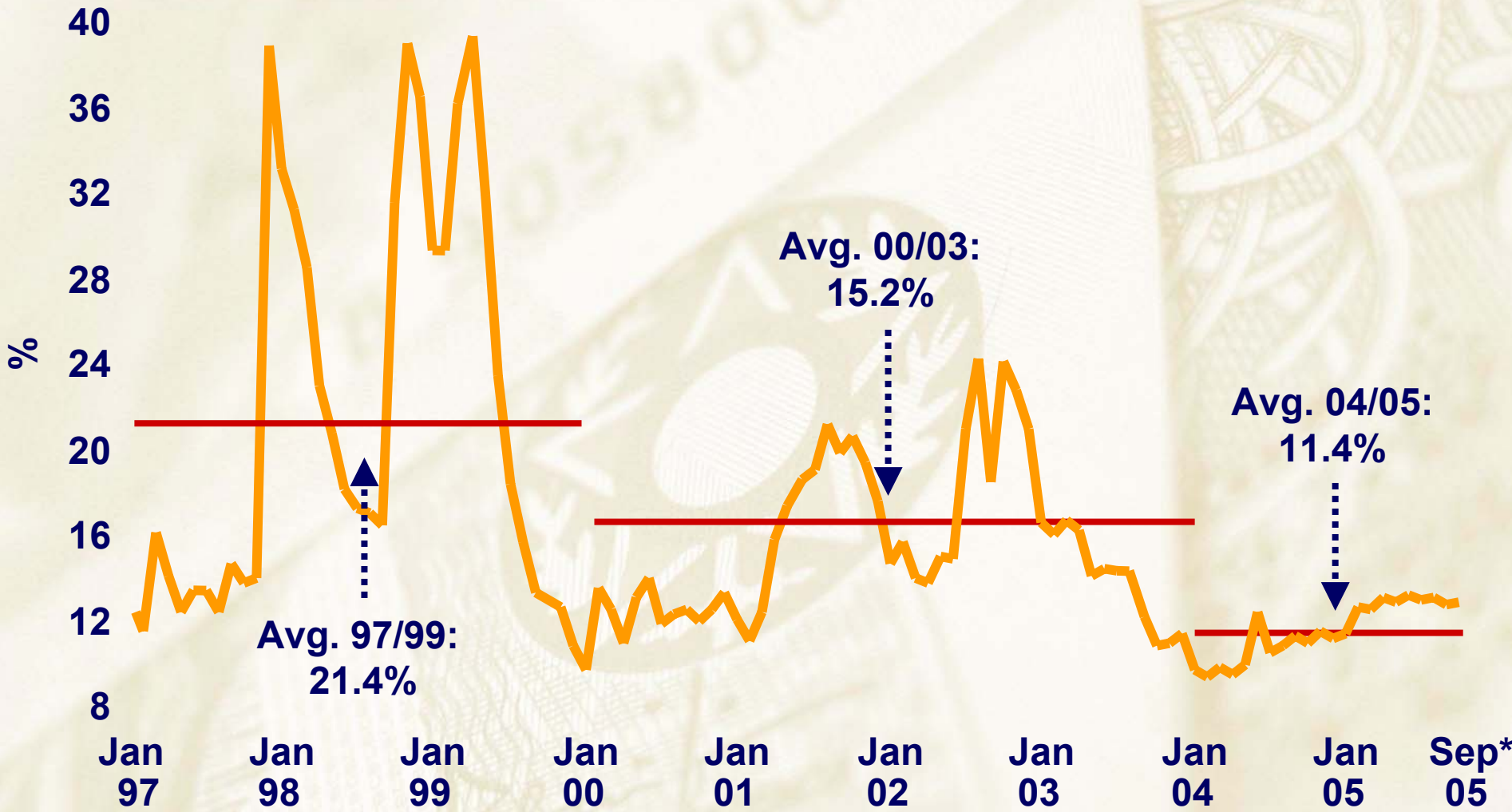
- **Inflation**

Inflation Targets



Source: Bacen

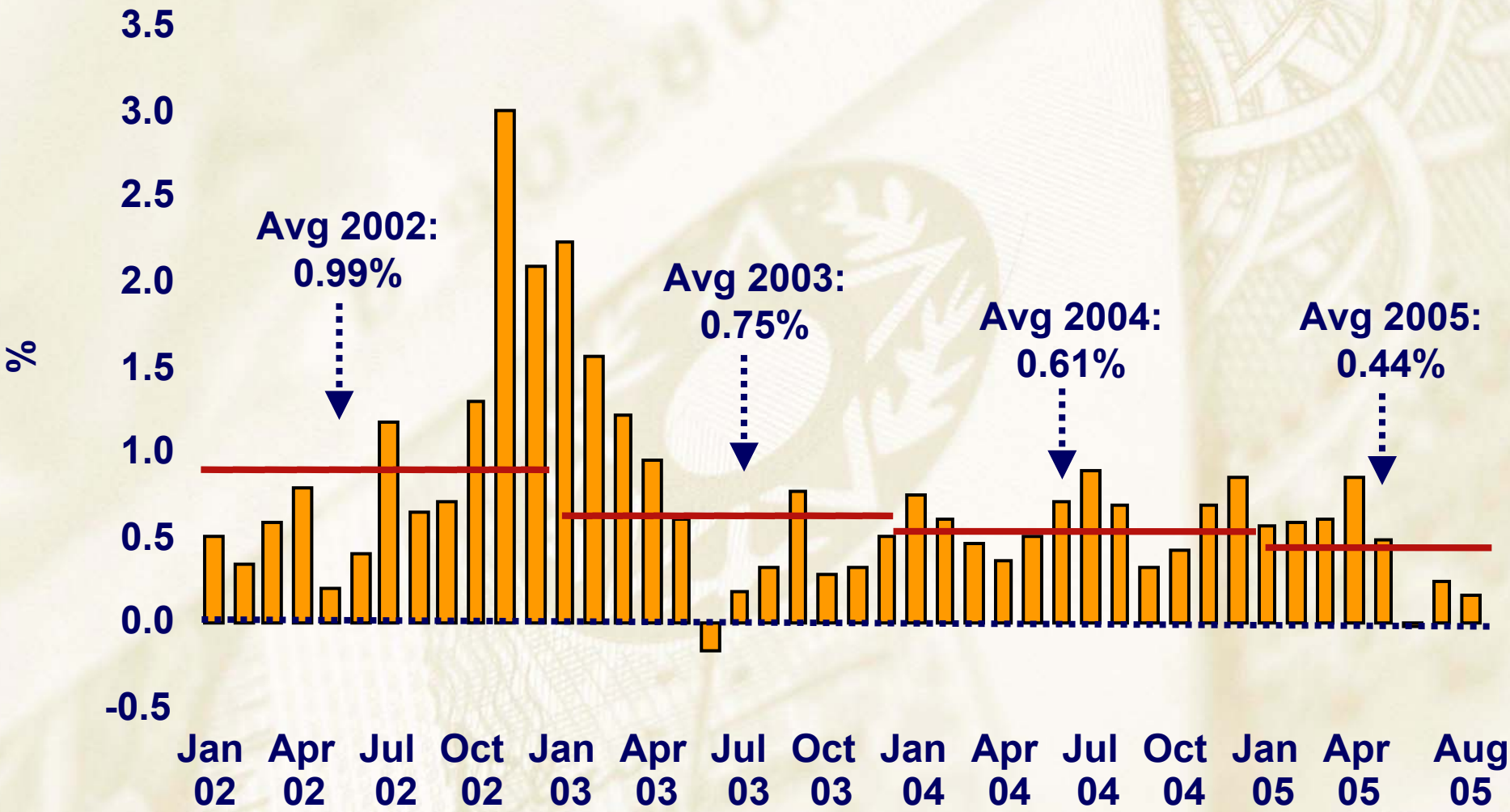
Real Interest Rate (360-day Swap)



* September 20th

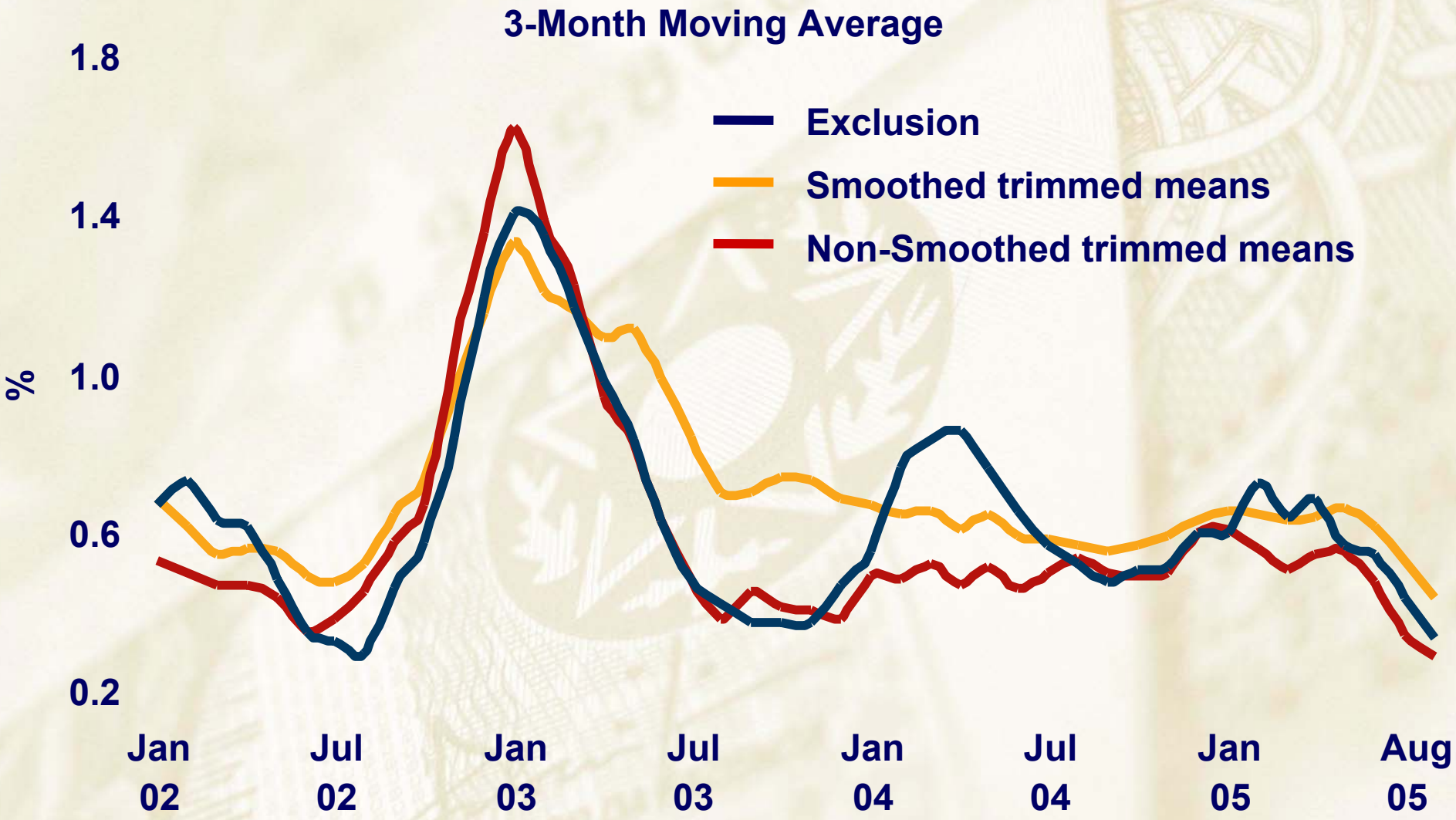
Source: Bacen

IPCA Inflation



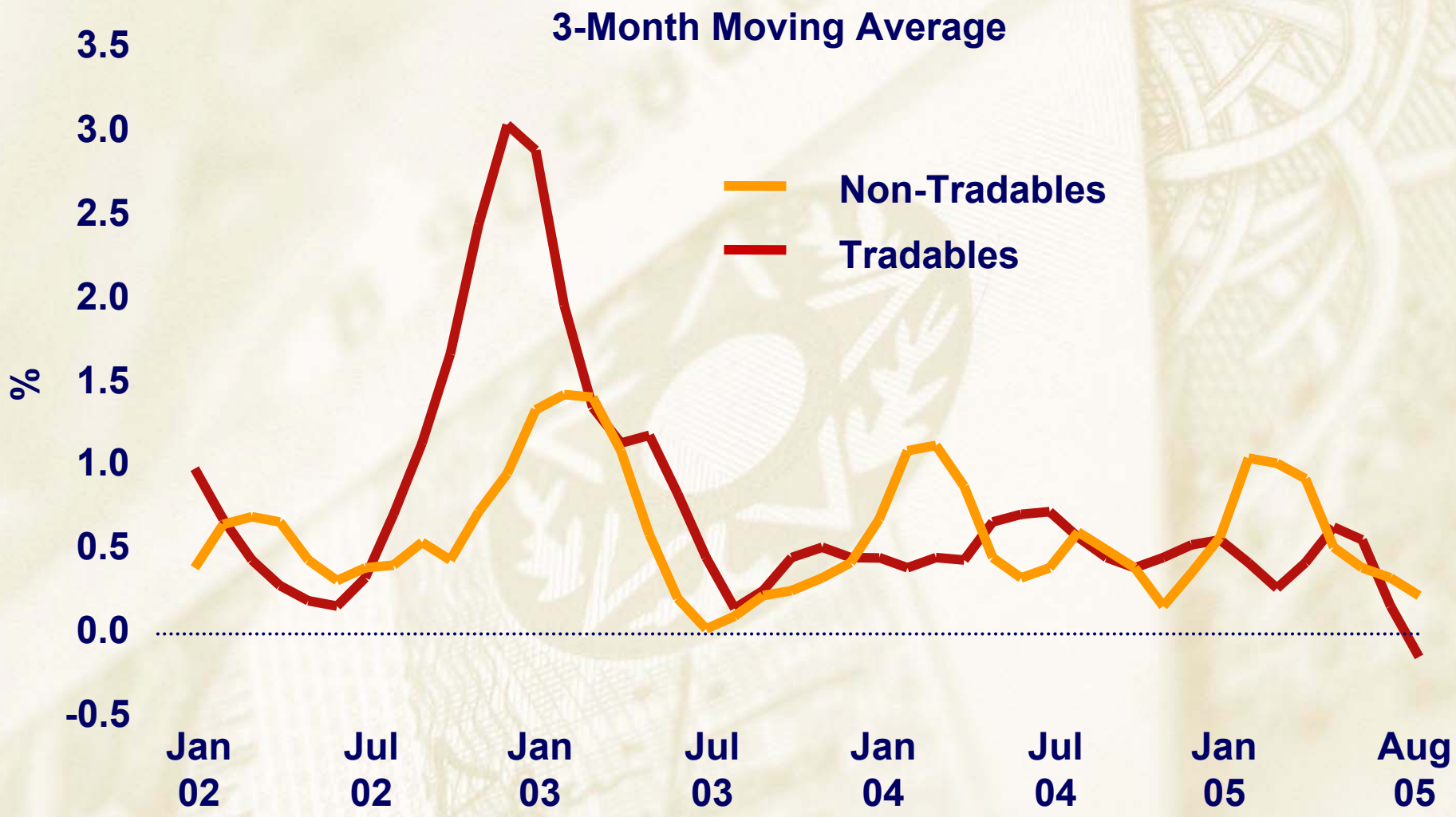
Source: IBGE

Core IPCA



Source: Bacen

Tradables x Non-tradables Inflation

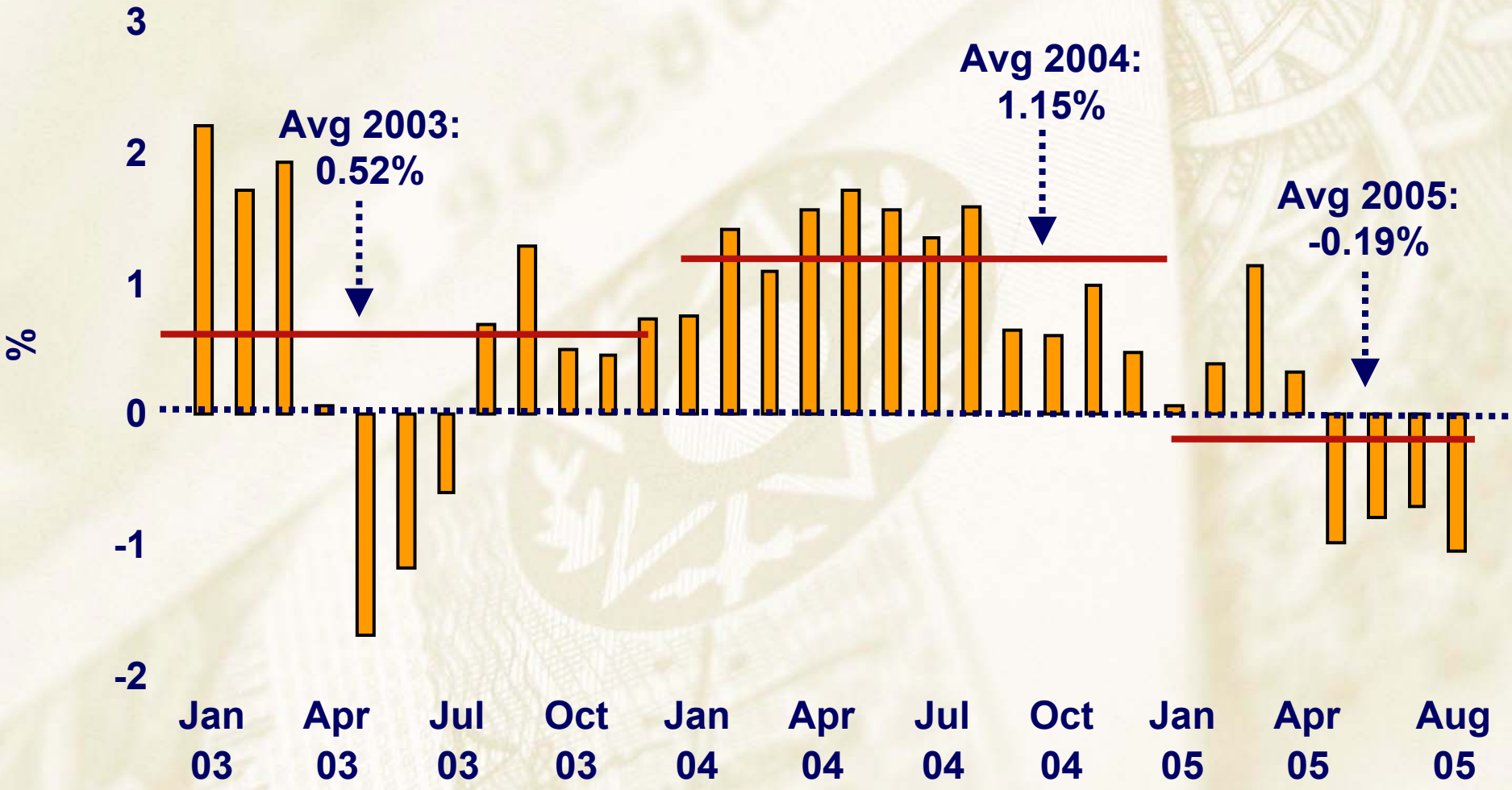


Source: Bacen

IPCA: % of Items with Price Increases

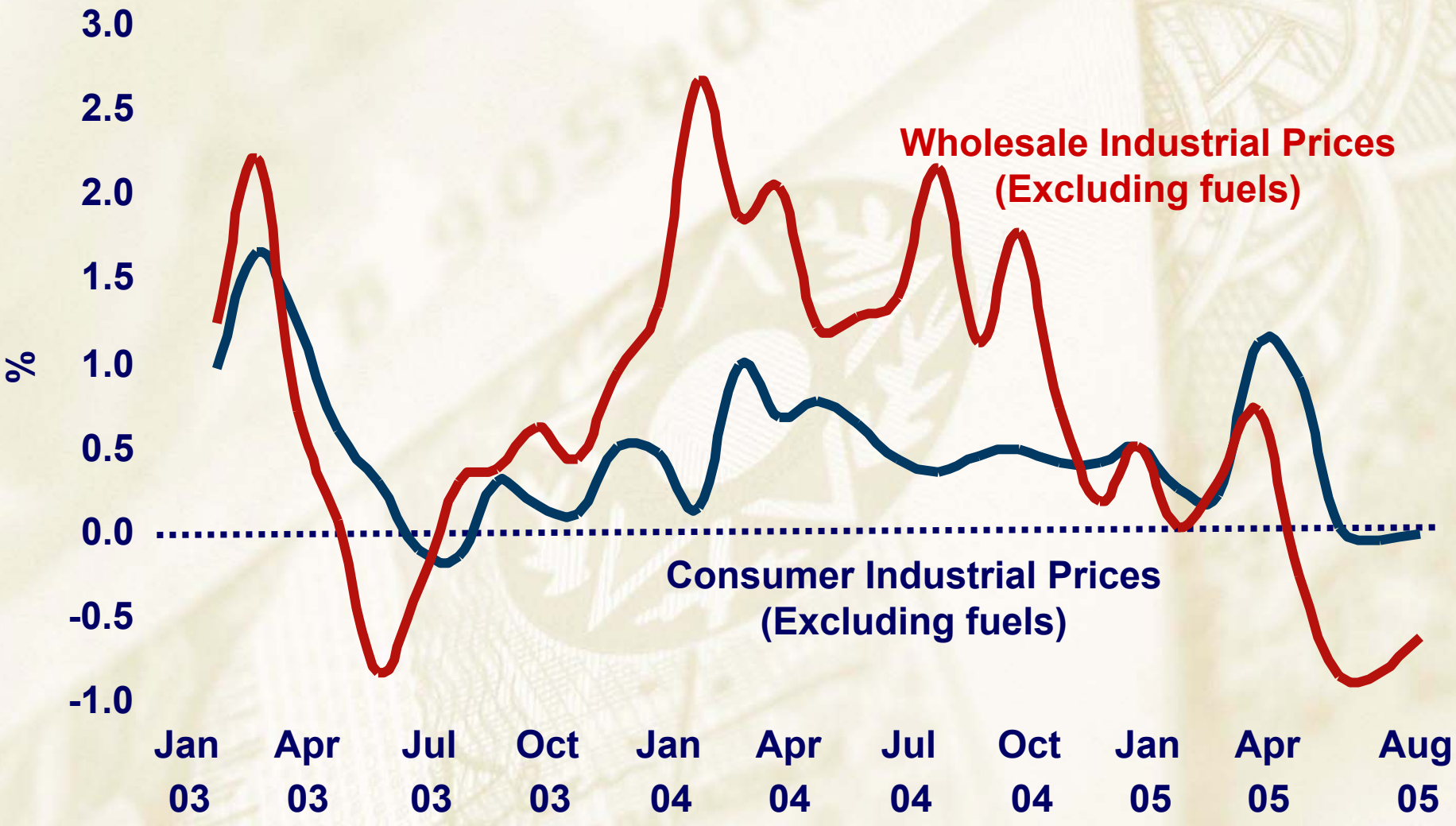
Source: IBGE

Wholesale Prices Inflation (IPA)



Source: FGV

Industrial Prices: Wholesale x IPCA

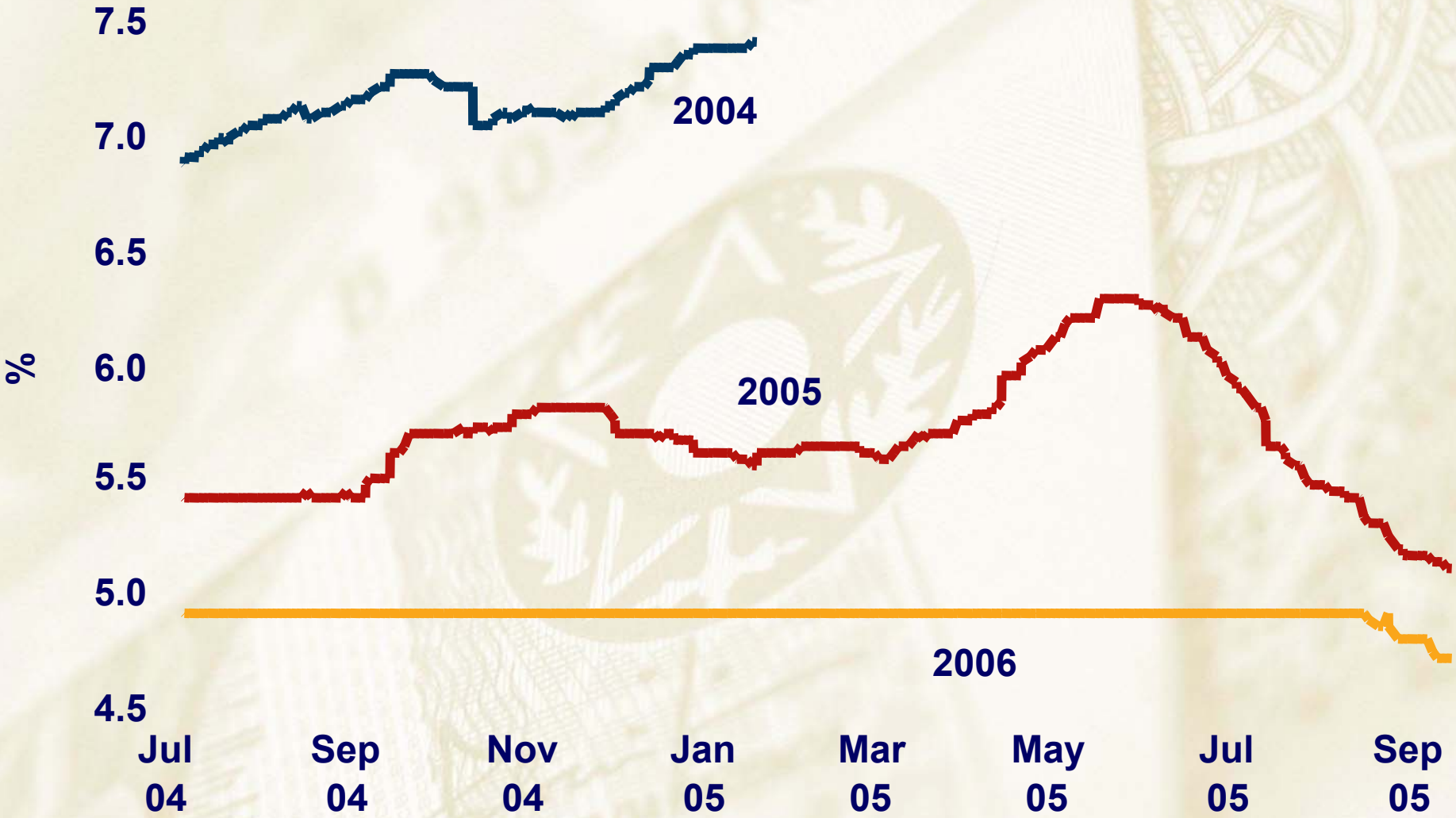


Sources: IBGE, FGV

IPCA Inflation in 12 Months

Source: Bacen

Market Inflation Expectations for 2004-06

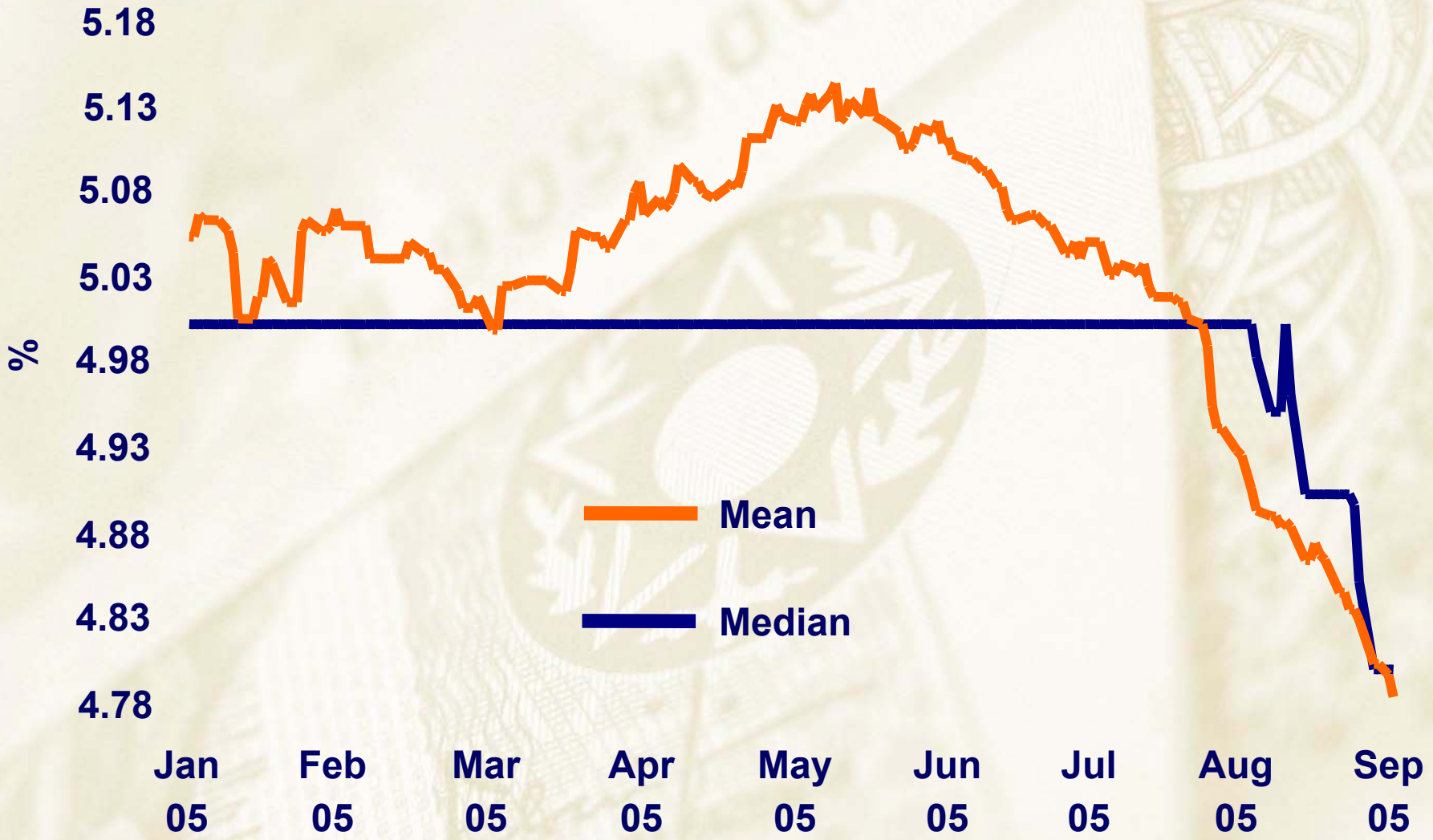


Source: Bacen

12-Month Ahead Inflation Expectations

Source: Bacen

Market Inflation Expectations for 2006



Source: Bacen

Price Stability as the Basis for Sound Economic Growth

- **External Sector**

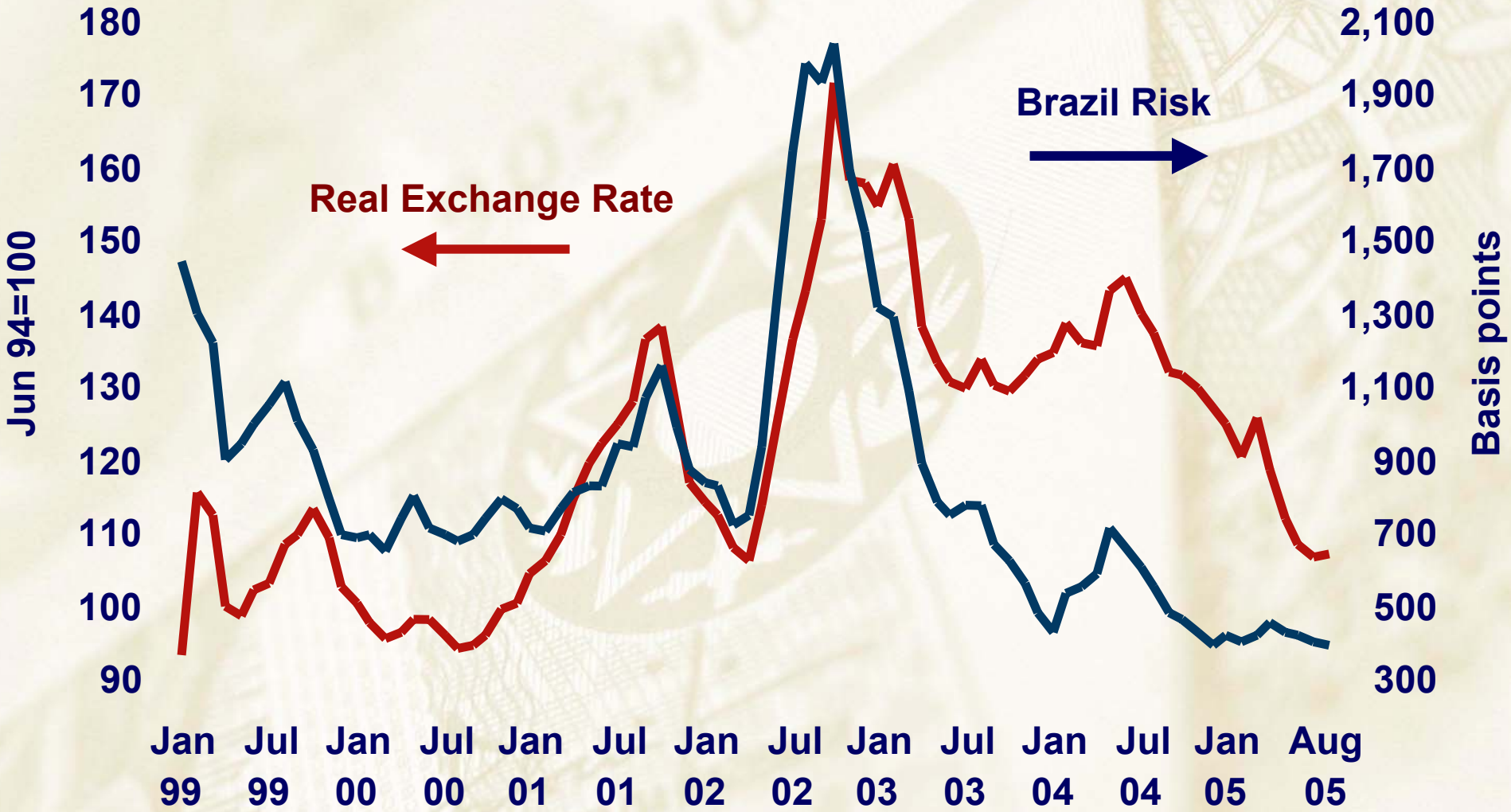
Nominal Exchange Rate

Source: Bacen

Real Effective Exchange Rate

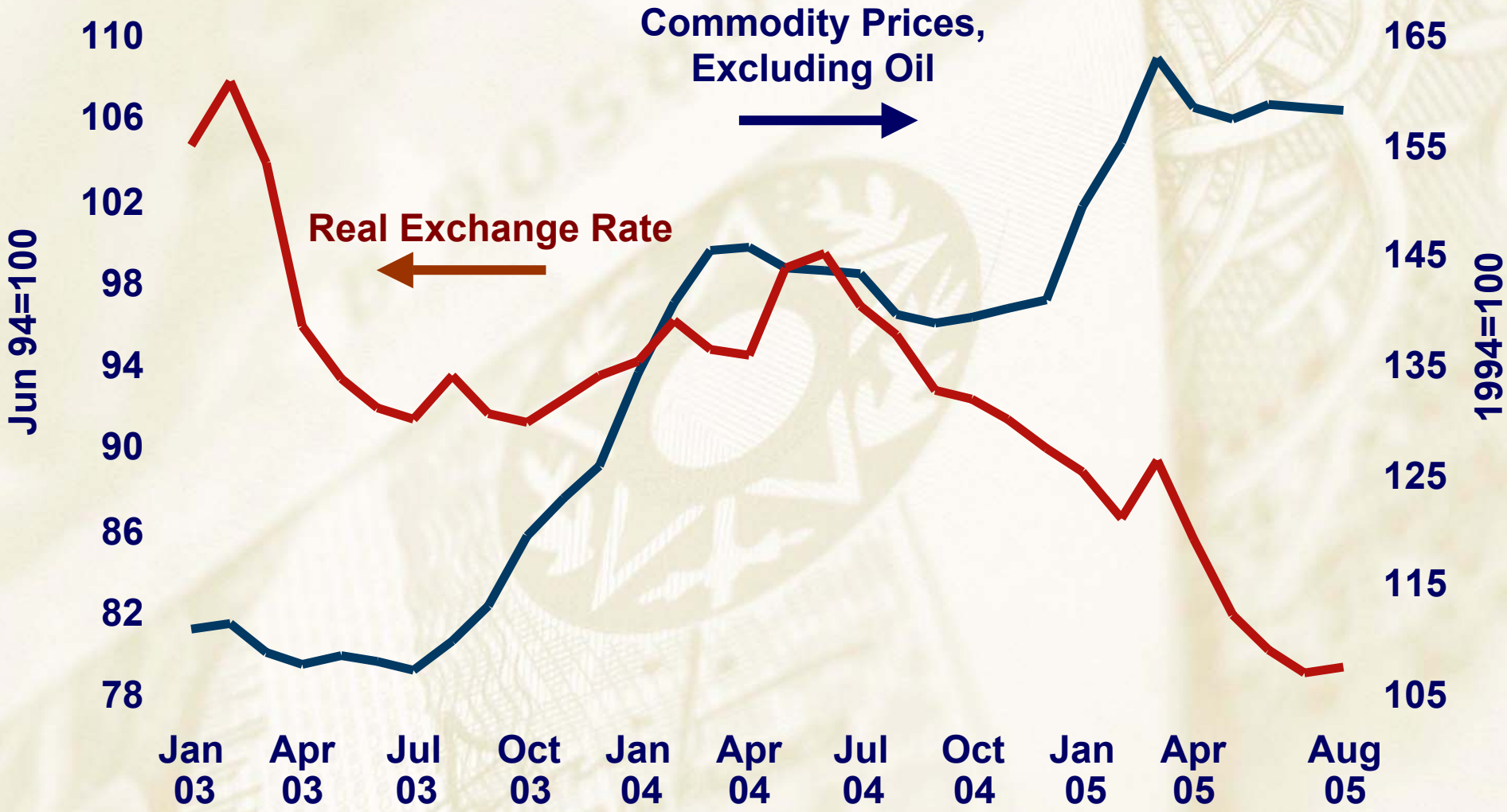
Source: Bacen

Real Exchange Rate x Brazil Risk



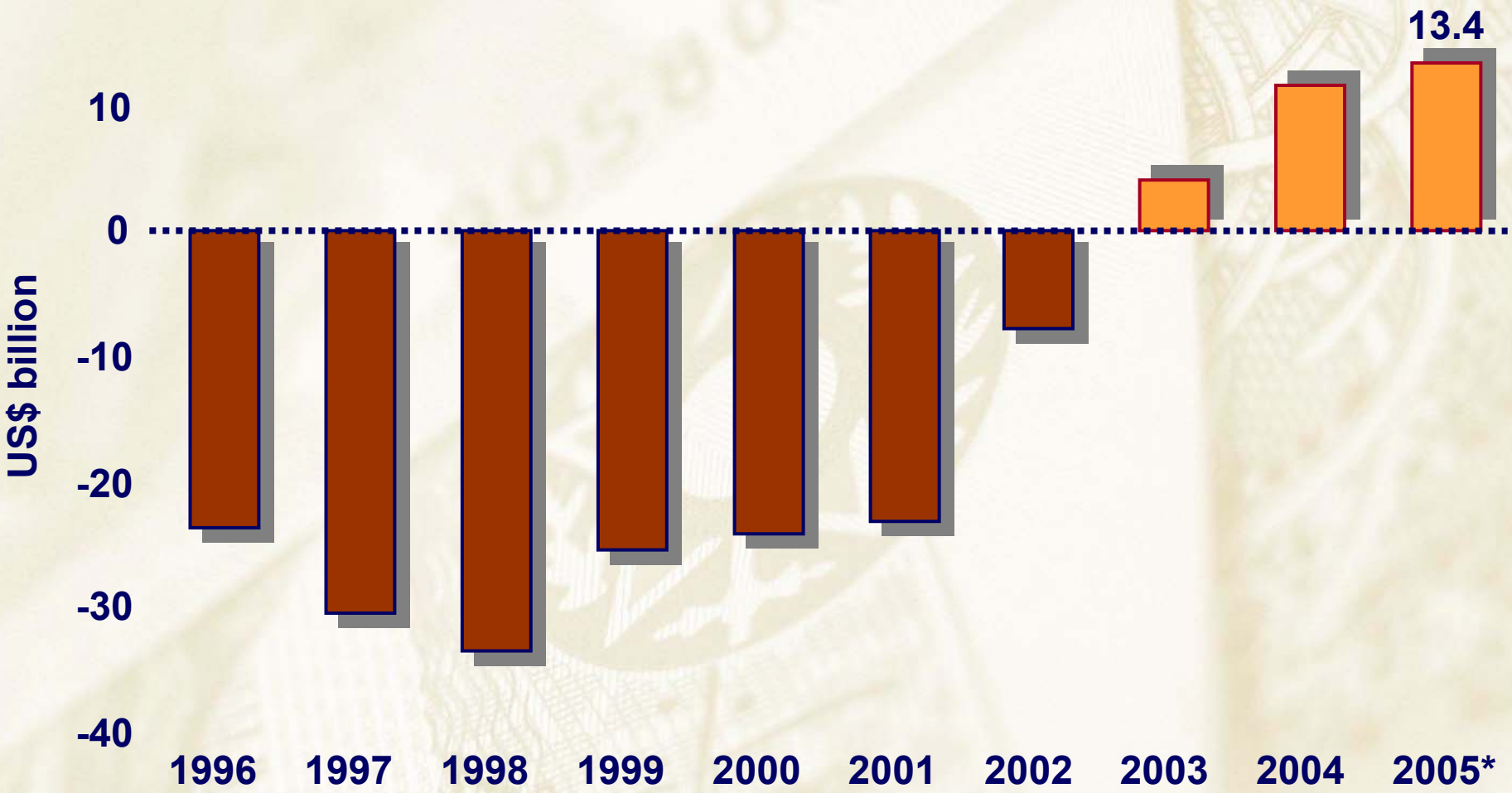
Sources: Bacen, JP Morgan Chase

Real Exchange Rate x Commodity Prices



Sources: Bacen, Chicago Research Bureau

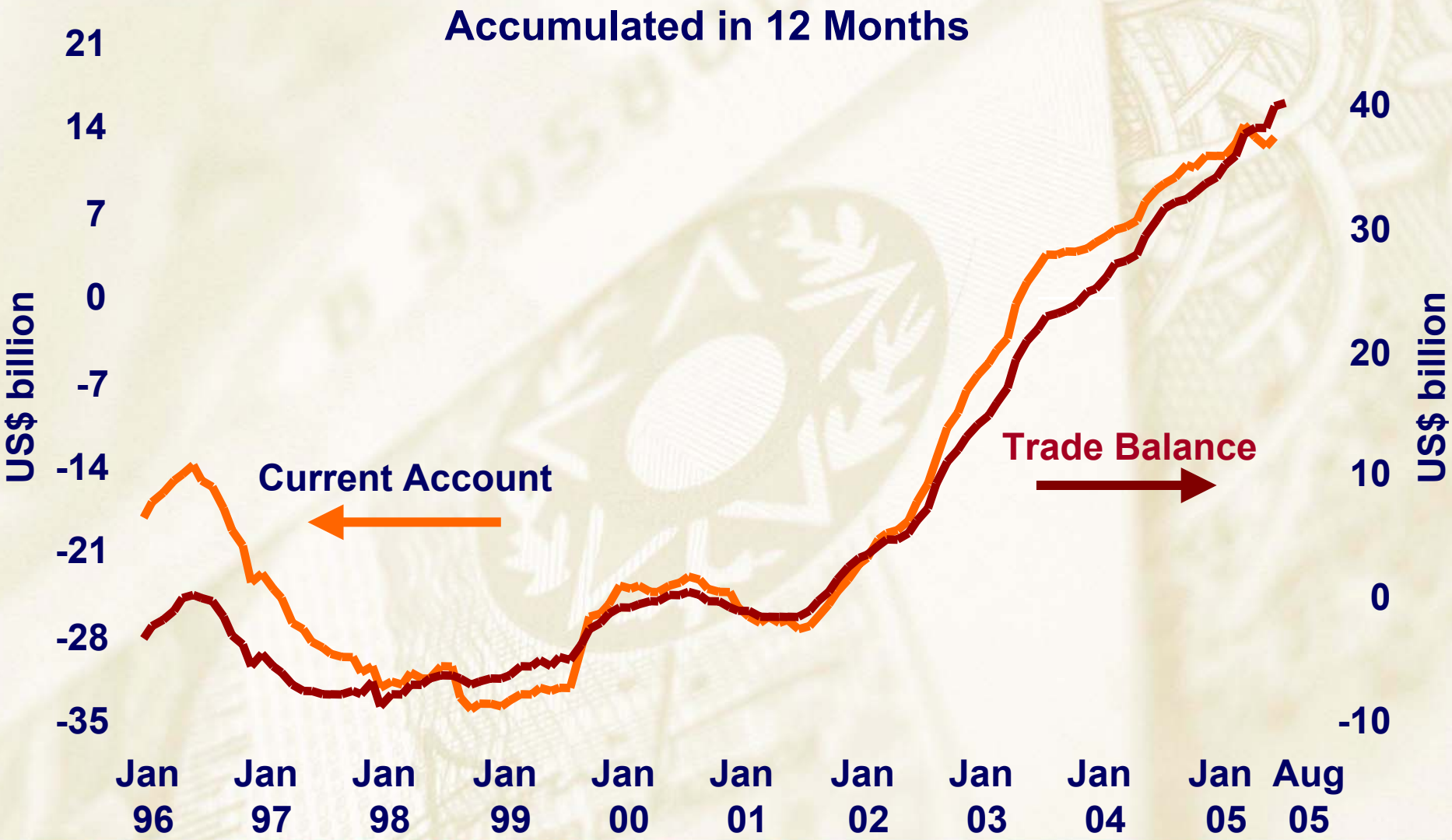
Current Account



* 12 months through July

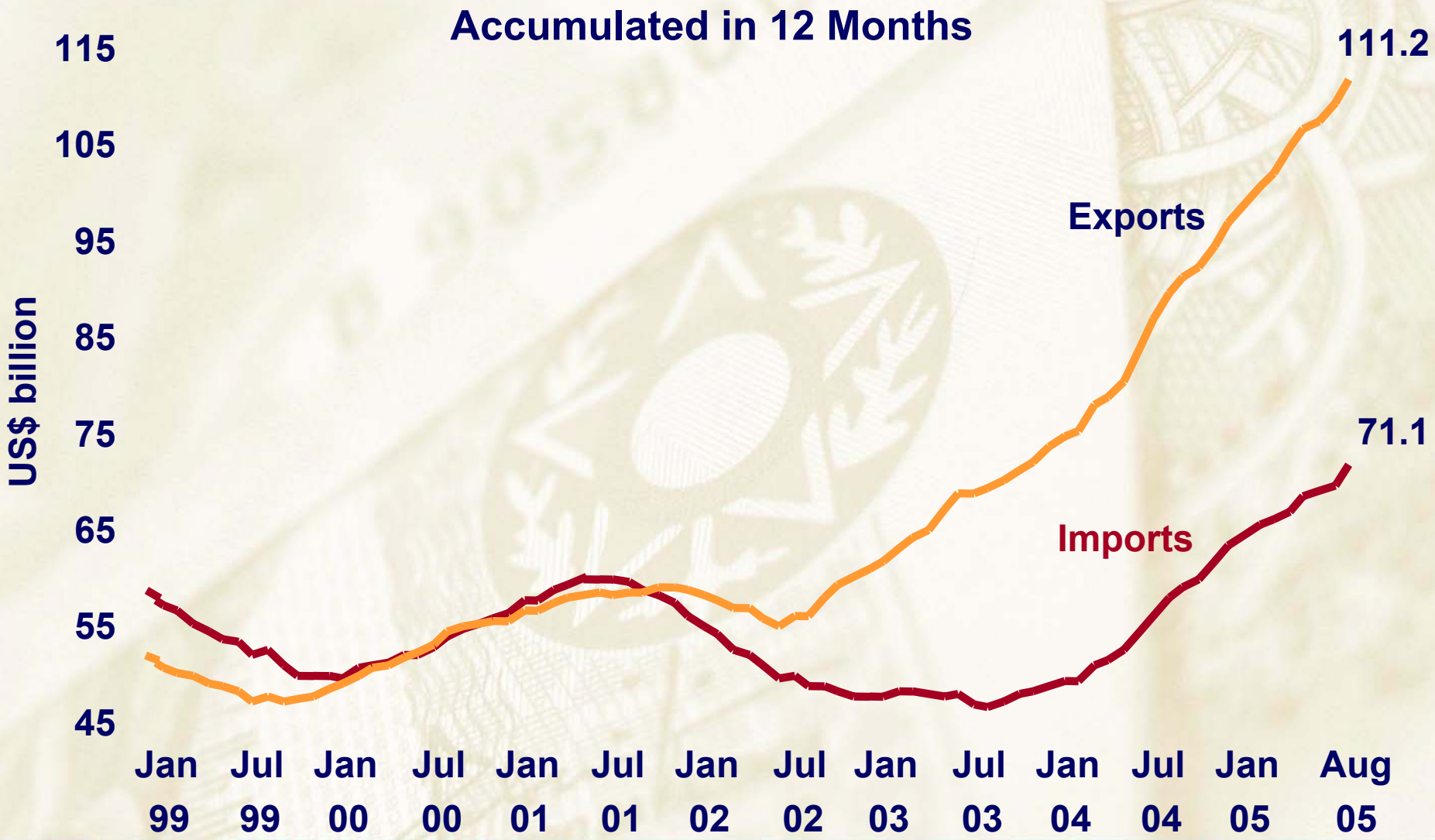
Source: Bacen

Current Account vs. Trade Balance



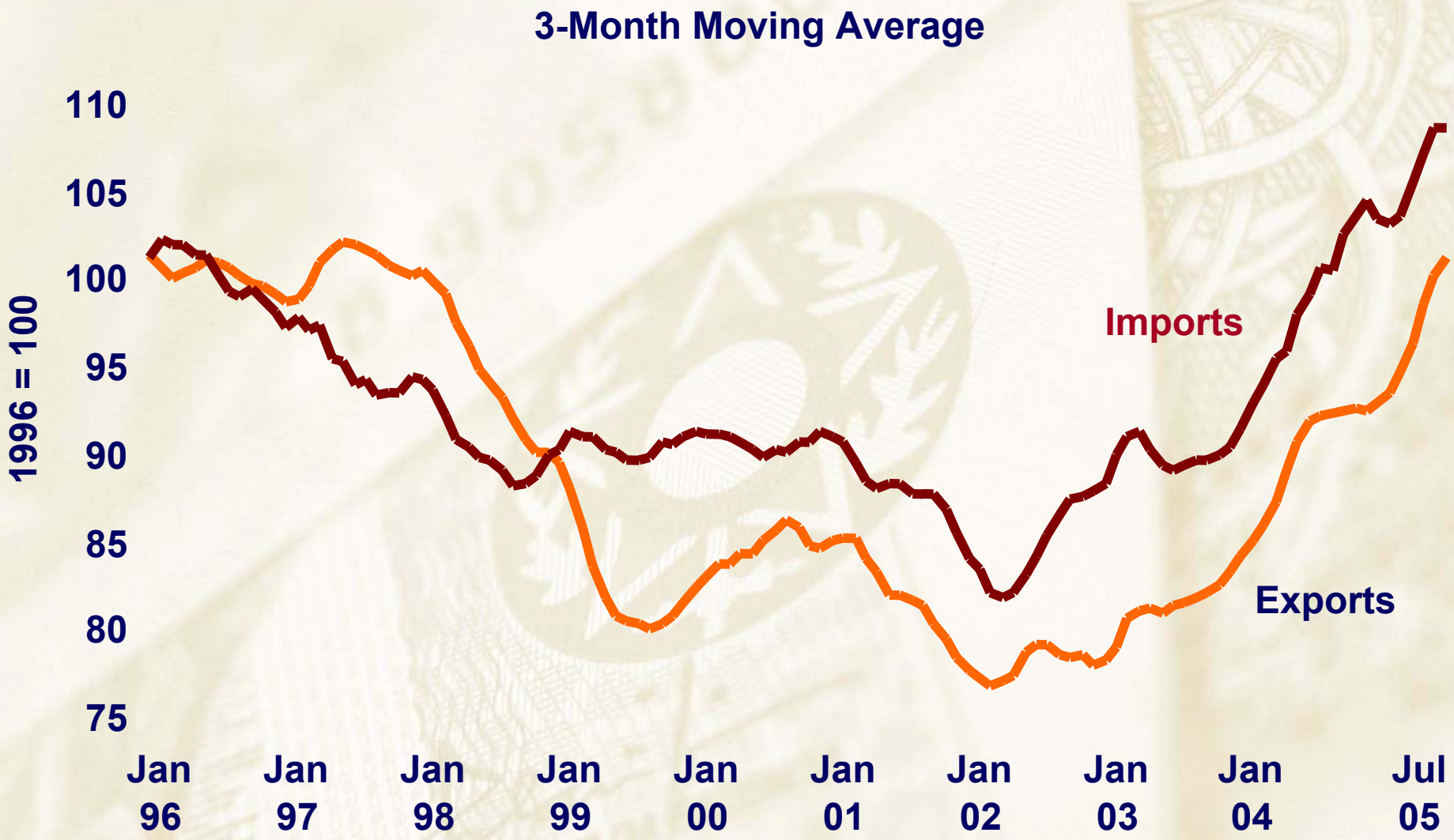
Source: Bacen

Trade Balance



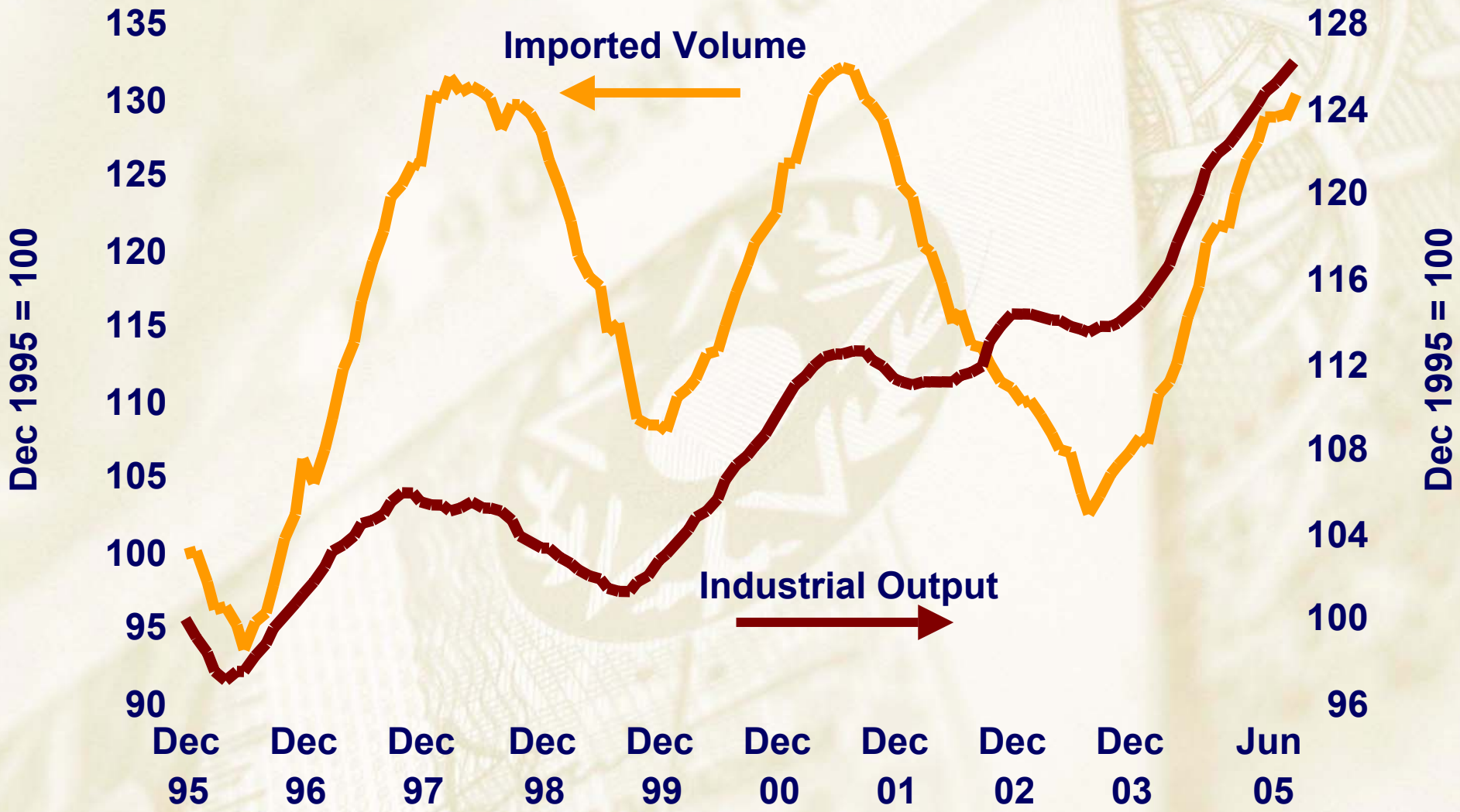
Source: Ministry of Development, Industry and Foreign Trade

Export and Import Prices



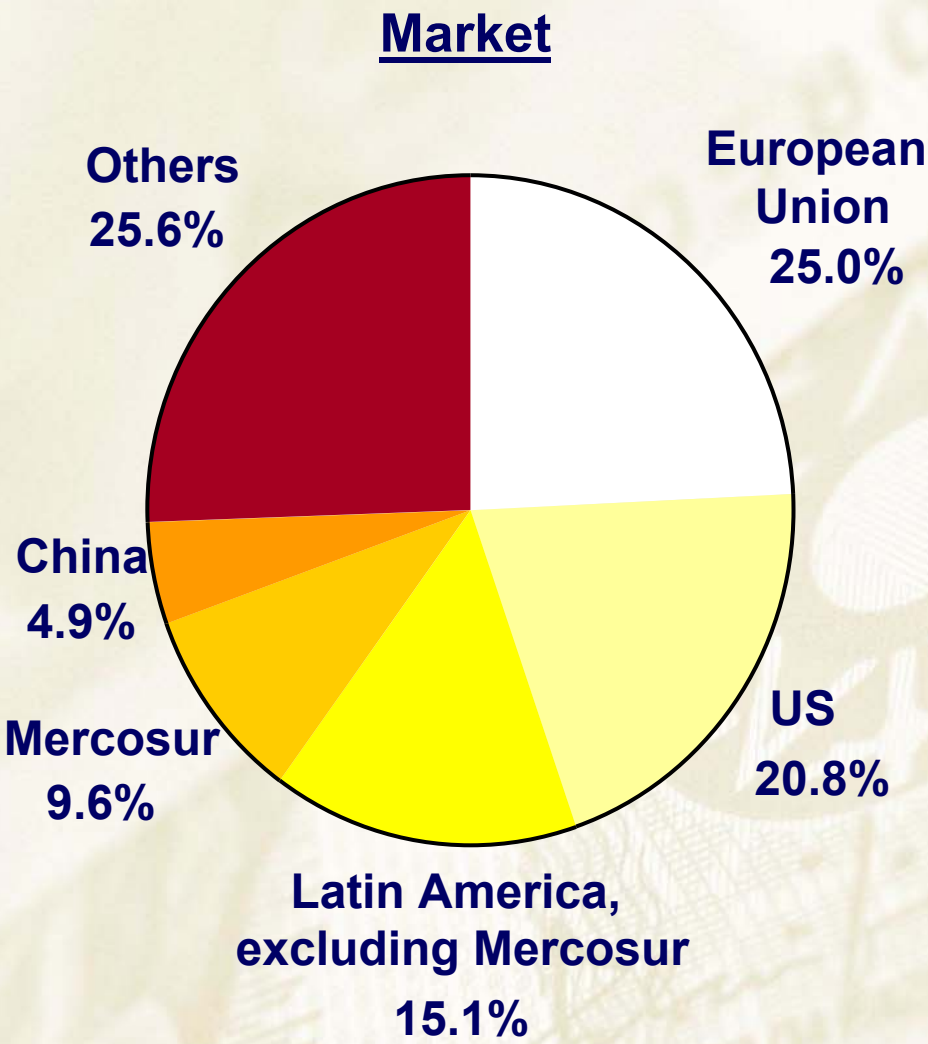
Source: Funcex

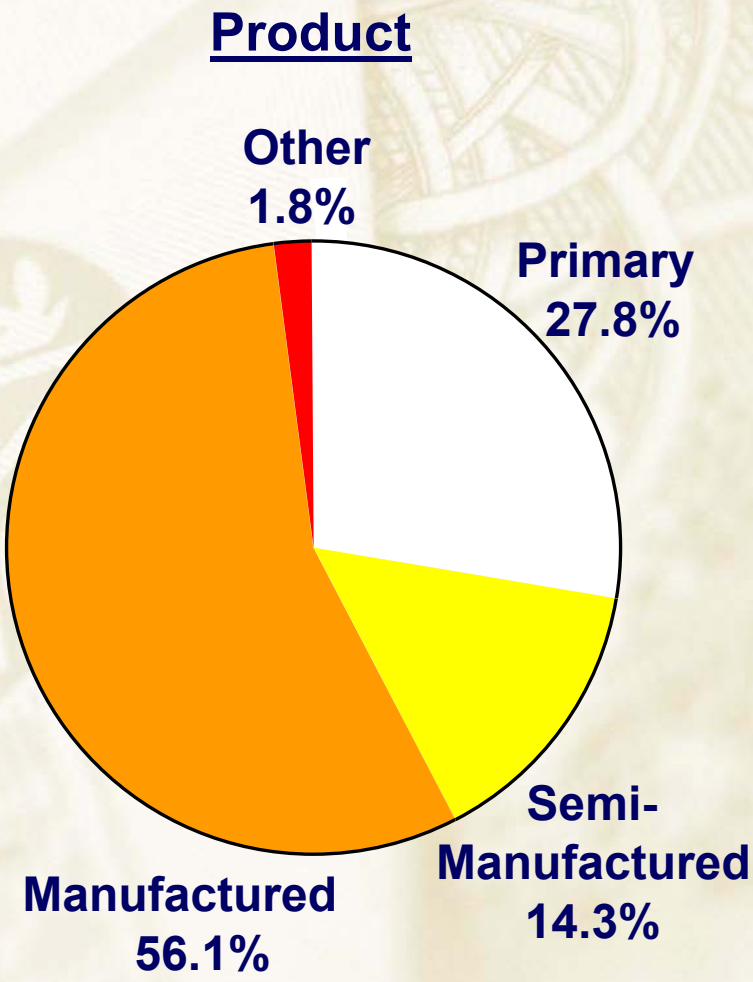
Imports x Industrial Production



Sources: Funcex, IBGE

Exports by Market and by Products: 2004/2005





Source: Ministry of Development, Industry and Foreign Trade

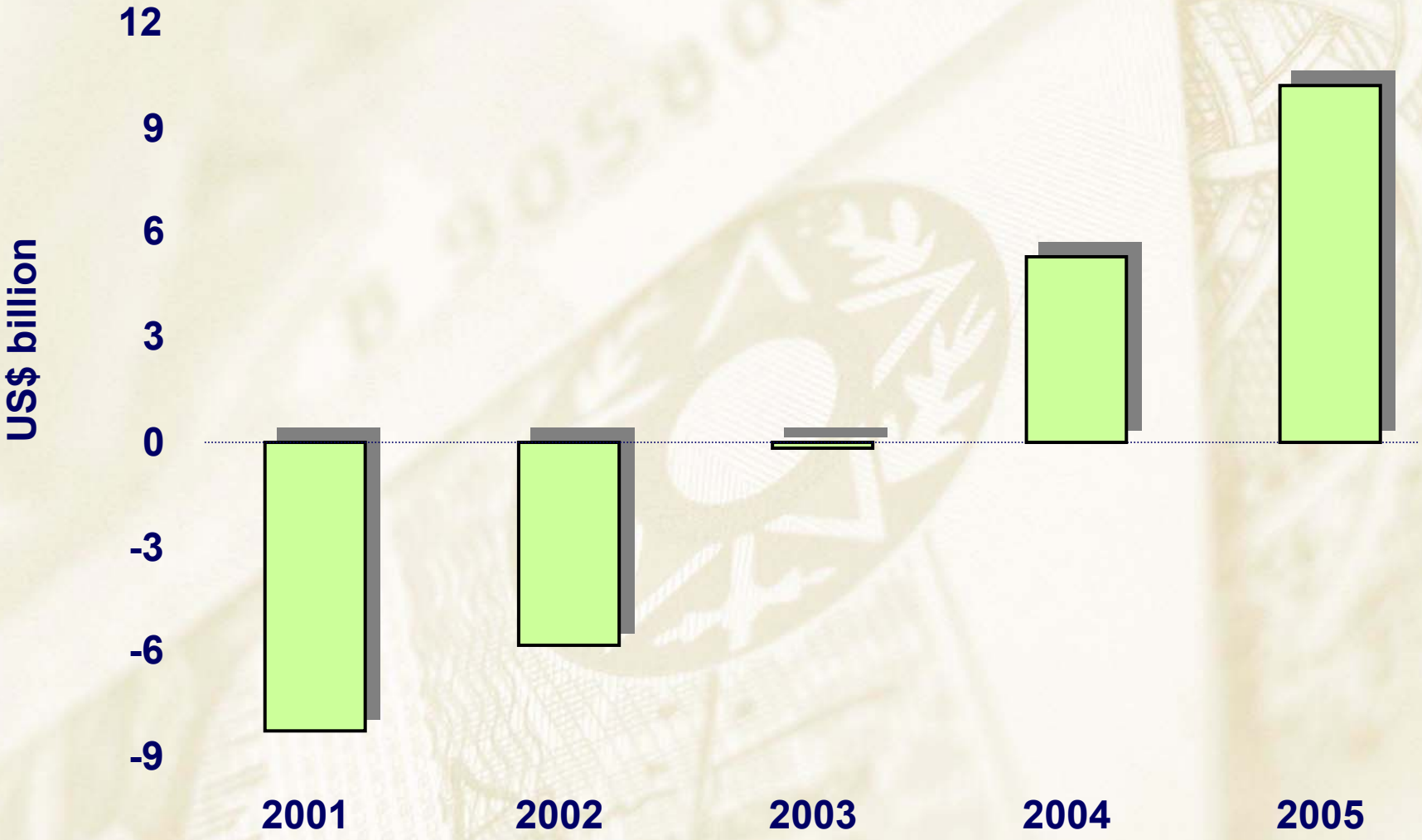
Foreign Direct Investment

Source: Bacen

Price Stability as the Basis for Sound Economic Growth

- **Strengthening Resistance to Shocks**

Bacen Acquisitions in the FX Market

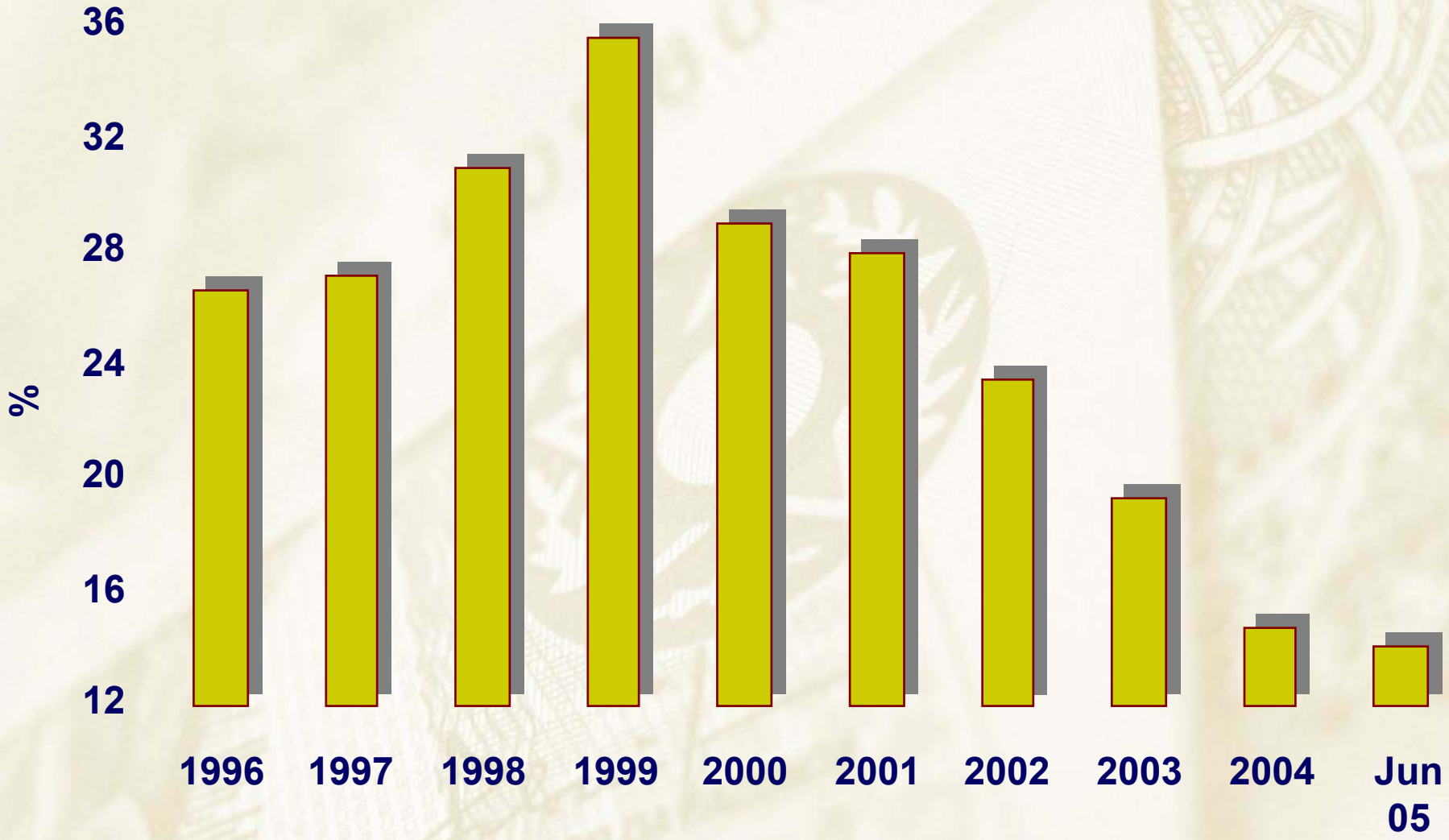


Source: Bacen

Net International Reserves

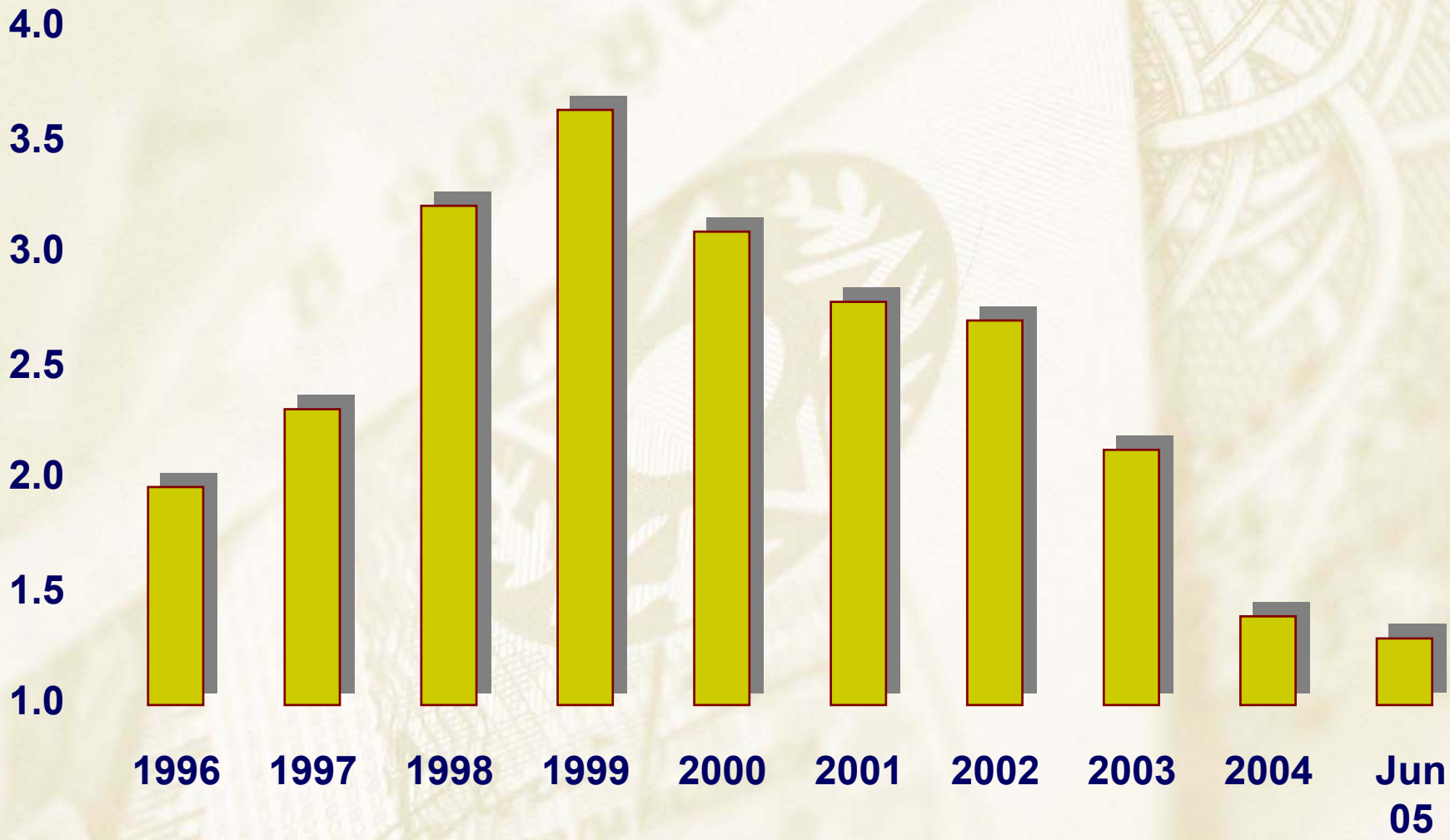
Source: Bacen

Interest Payments/Exports Ratio



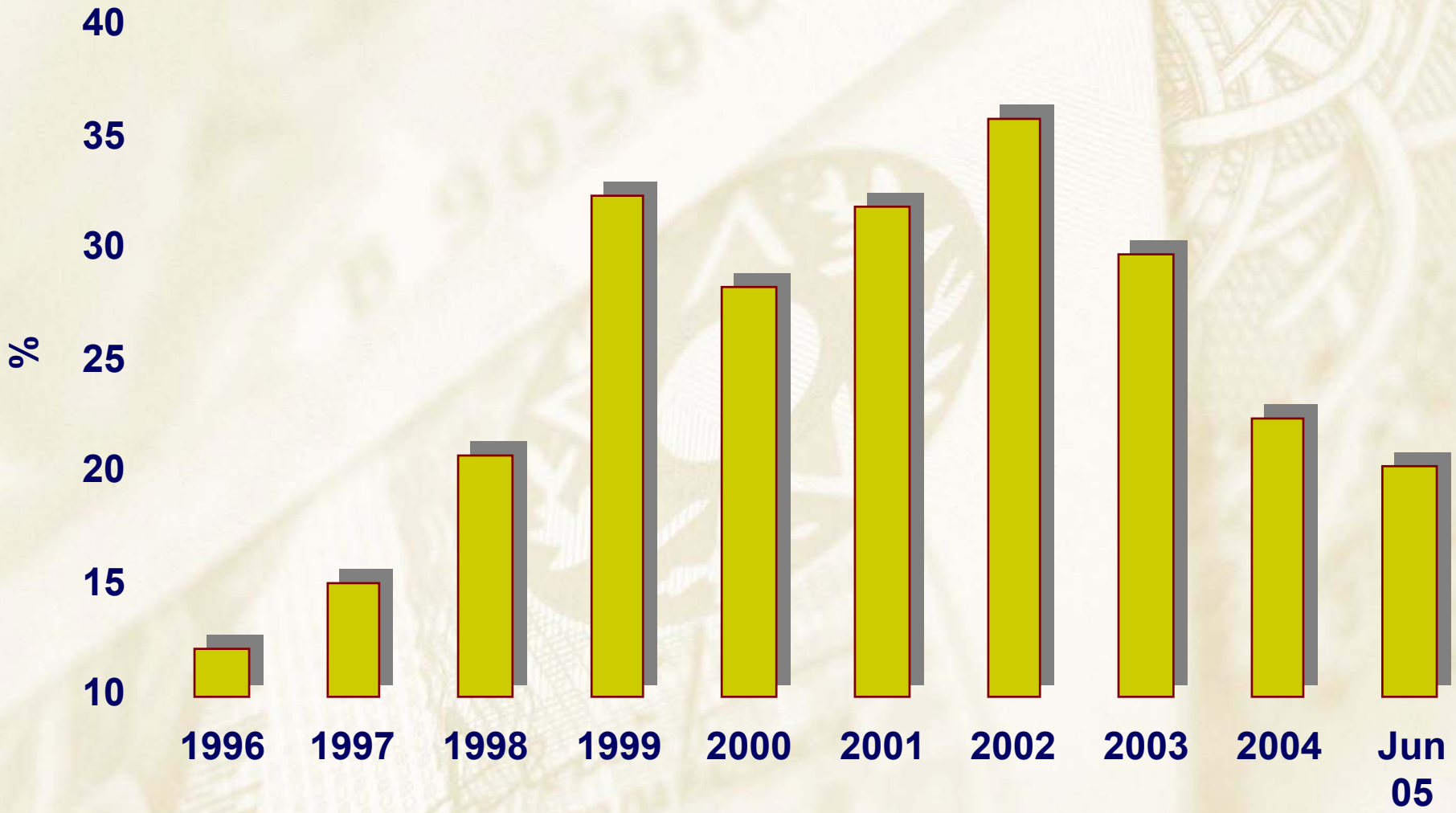
Source: Bacen

Net External Debt/Exports Ratio



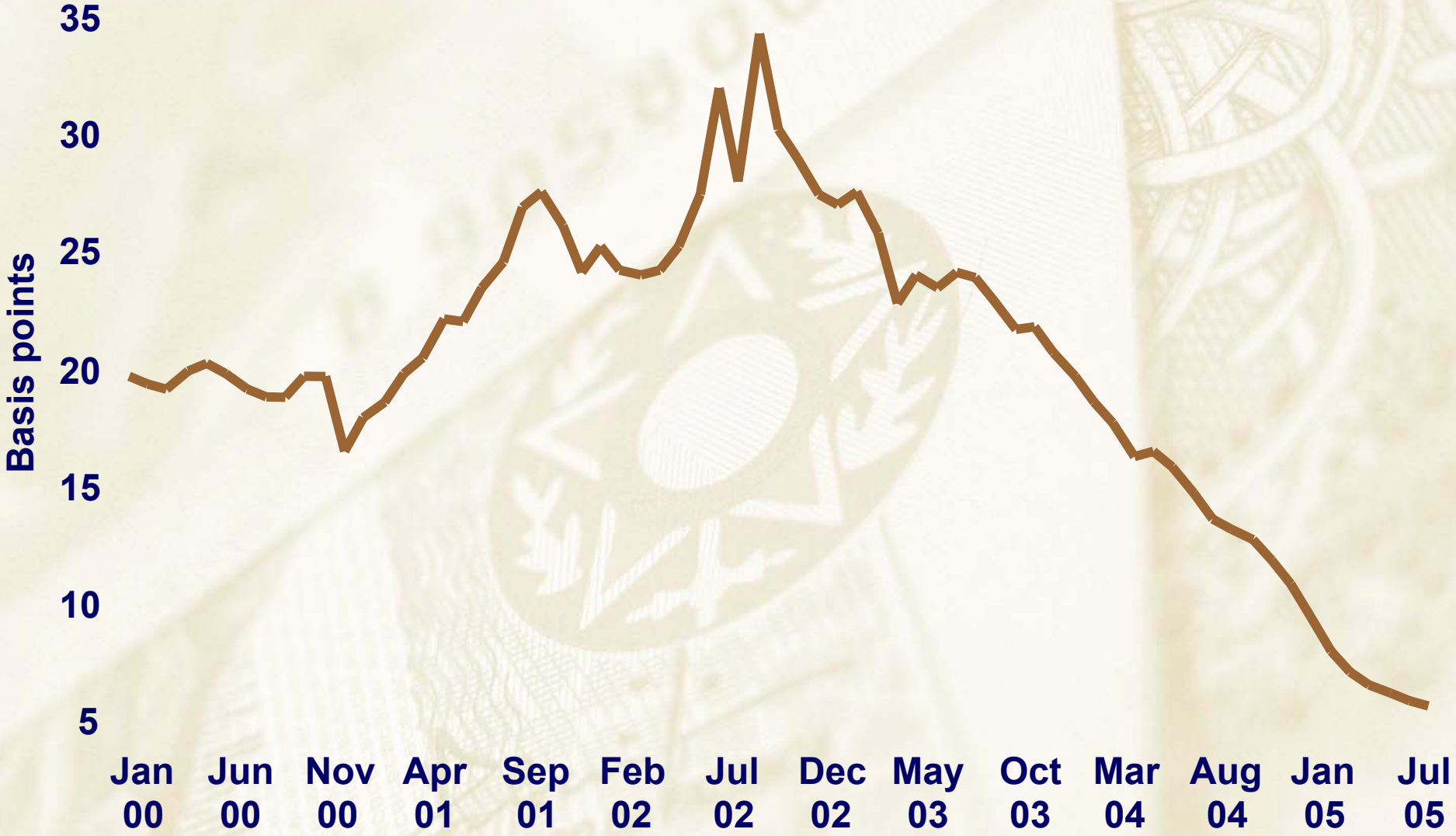
Source: Bacen

Net External Debt/GDP Ratio



Source: Bacen

Impact of a 1% FX change on Debt/GDP ratio



Source: Bacen

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