Brazil:
Recent Economic Developments

Afonso Bevilaqua

November 2005

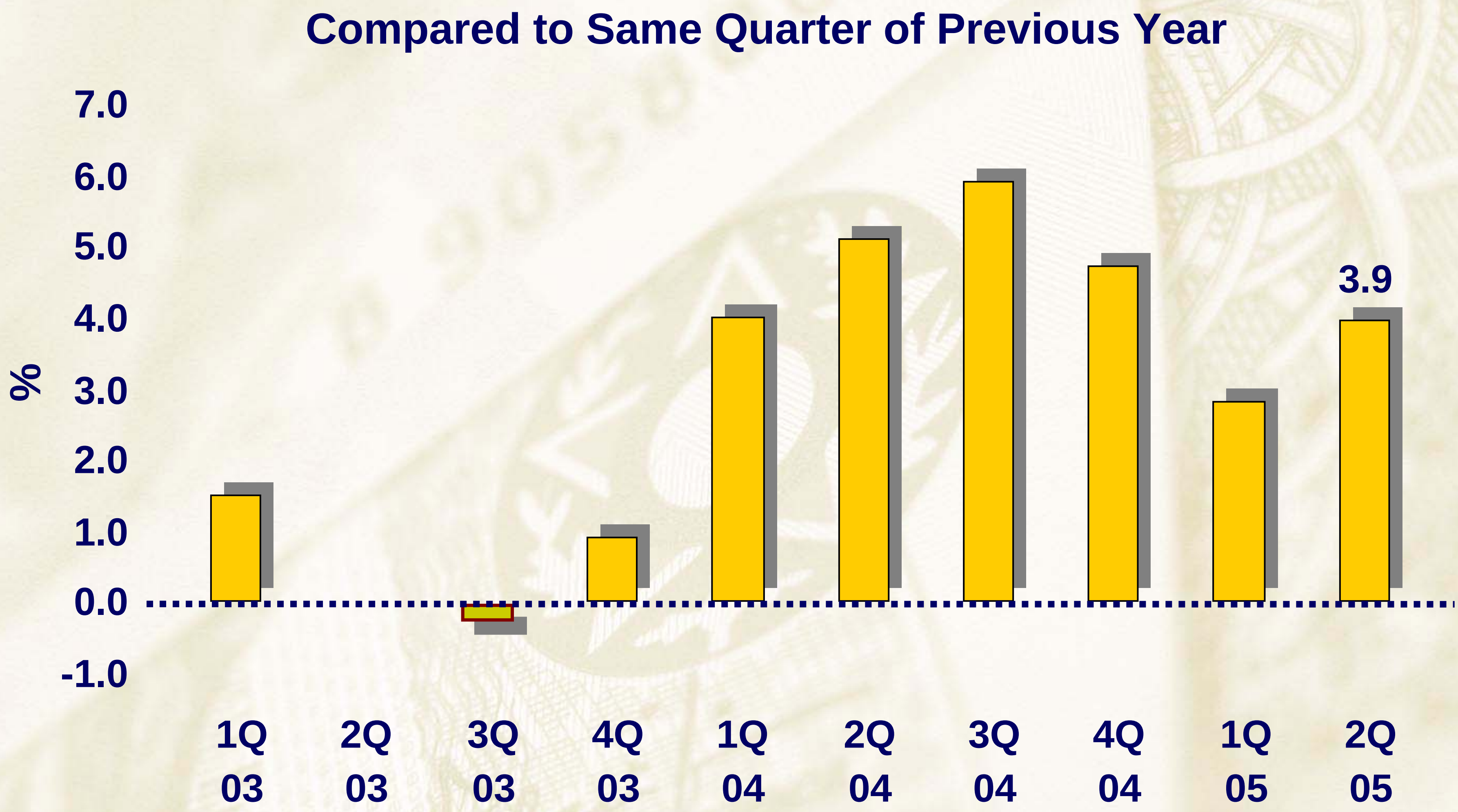
BANCO CENTRAL DO BRASIL

Brazil: Recent Economic Developments

- Economic Activity
- Inflation
- External Sector
- Fiscal Policy and Debt Management
- Strengthening Resistance to Shocks

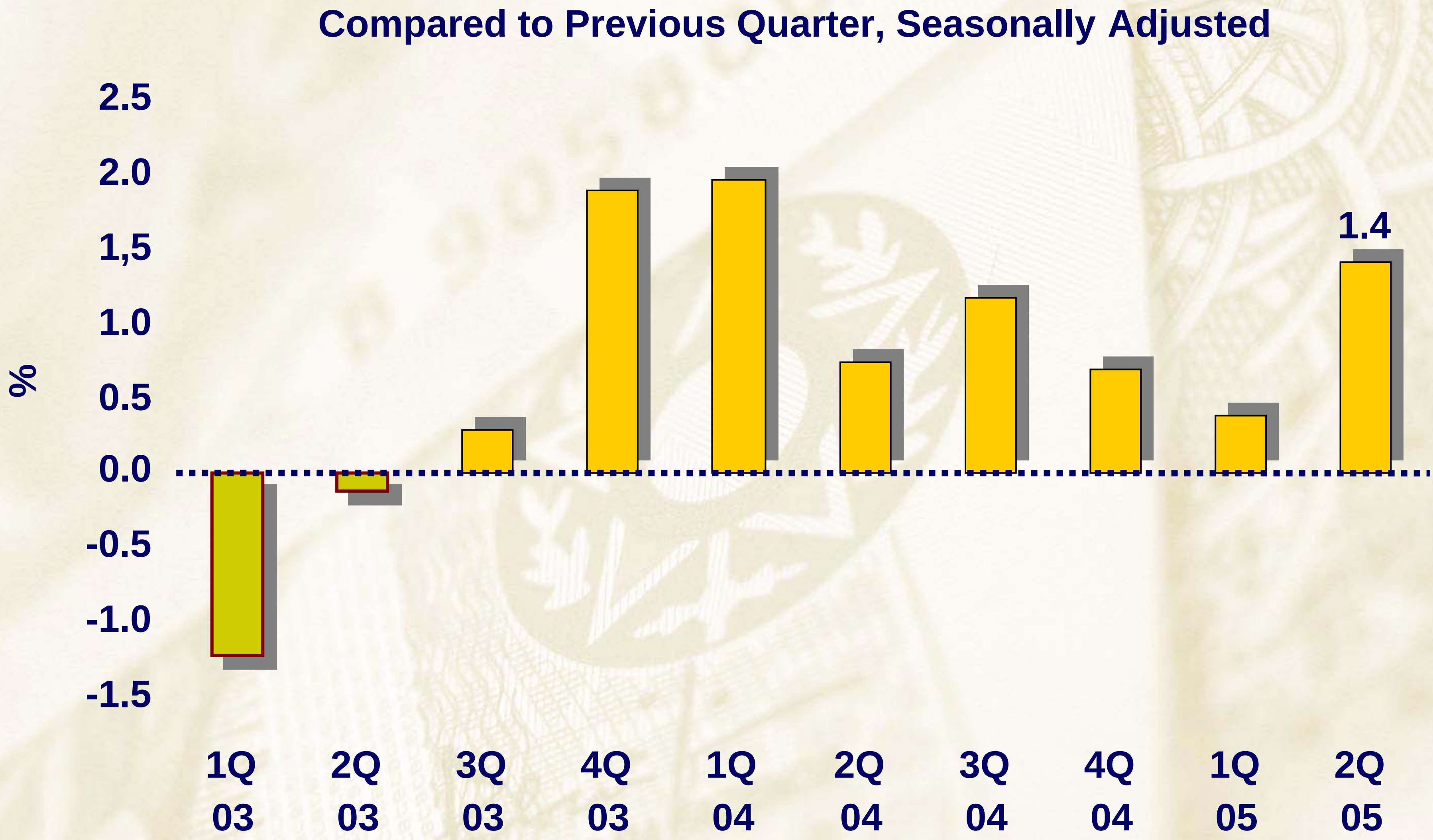
➢ Economic Activity

GDP Growth

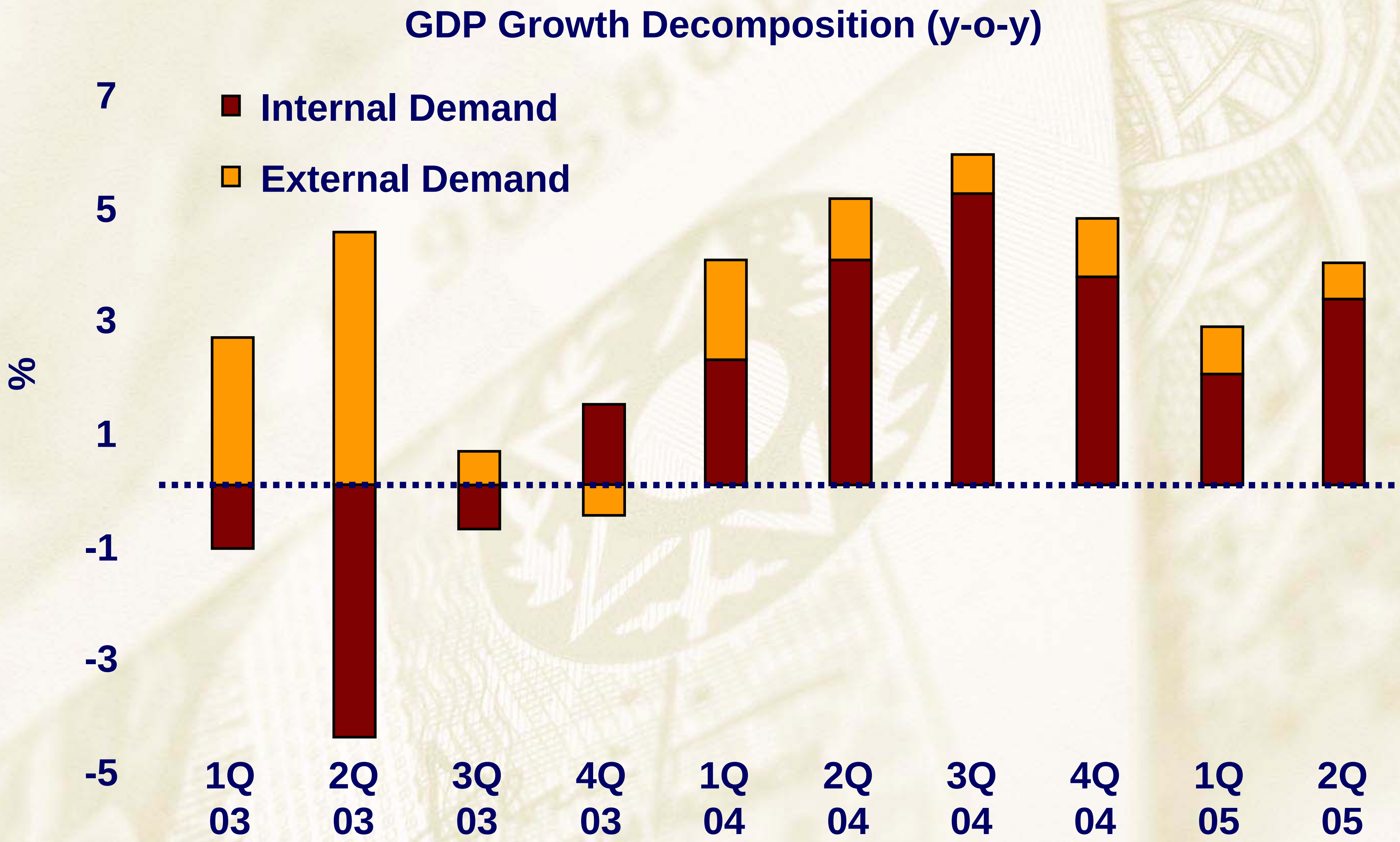


Compared to Same Quarter of Previous Year
%
7.0
6.0
5.0
4.0
3.0
2.0
1.0
0.0
-1.0
3.9
1Q 03
2Q 03
3Q 03
4Q 03
1Q 04
2Q 04
3Q 04
4Q 04
1Q 05
2Q 05

GDP Growth


Compared to Previous Quarter, Seasonally Adjusted
%
2.5
2.0
1,5
1.0
0.5
0.0
-0.5
-1.0
-1.5
1.4
1Q 03
2Q 03
3Q 03
4Q 03
1Q 04
2Q 04
3Q 04
4Q 04
1Q 05
2Q 05

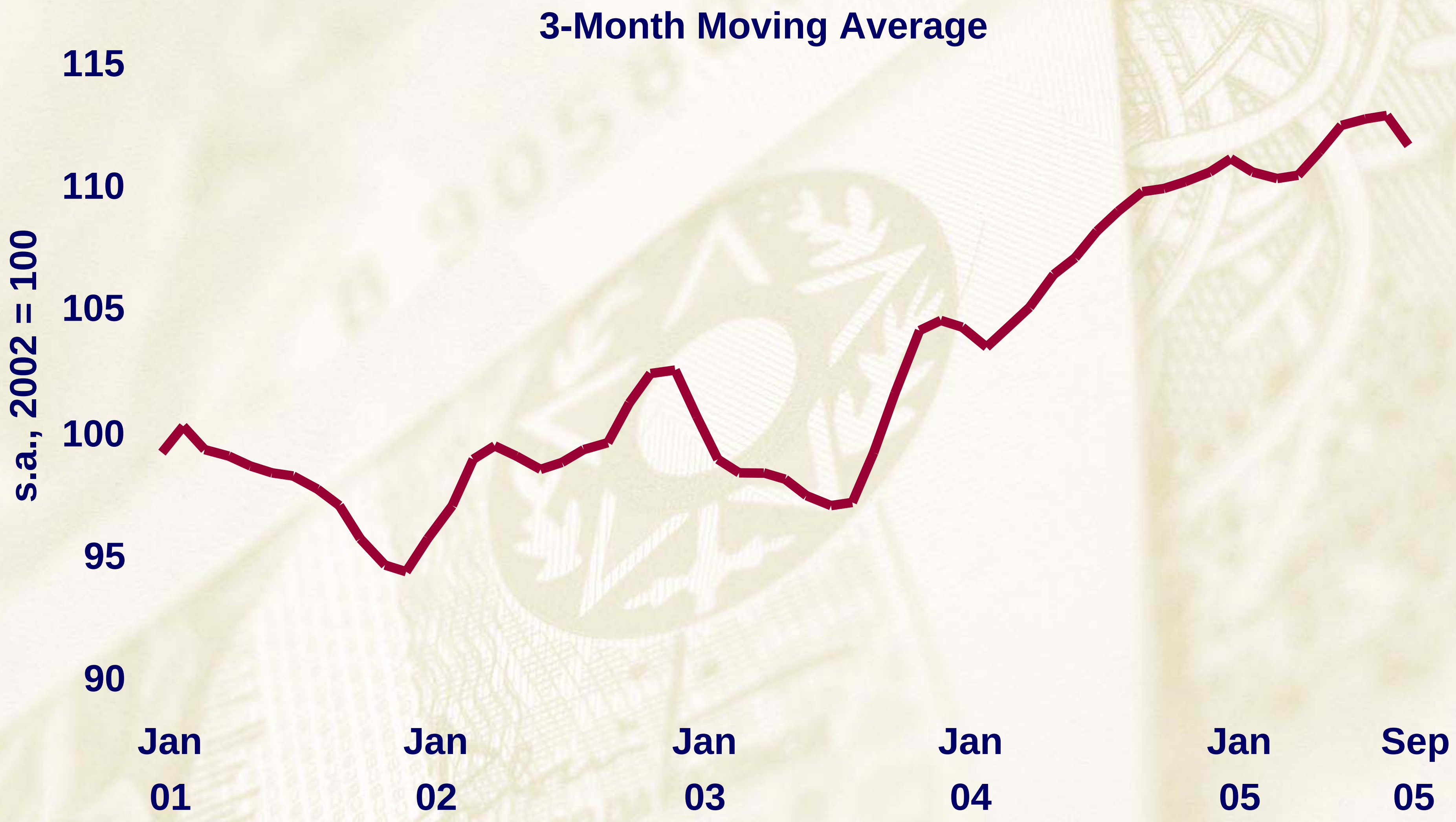
Contribution of Internal and External Demand to GDP Growth



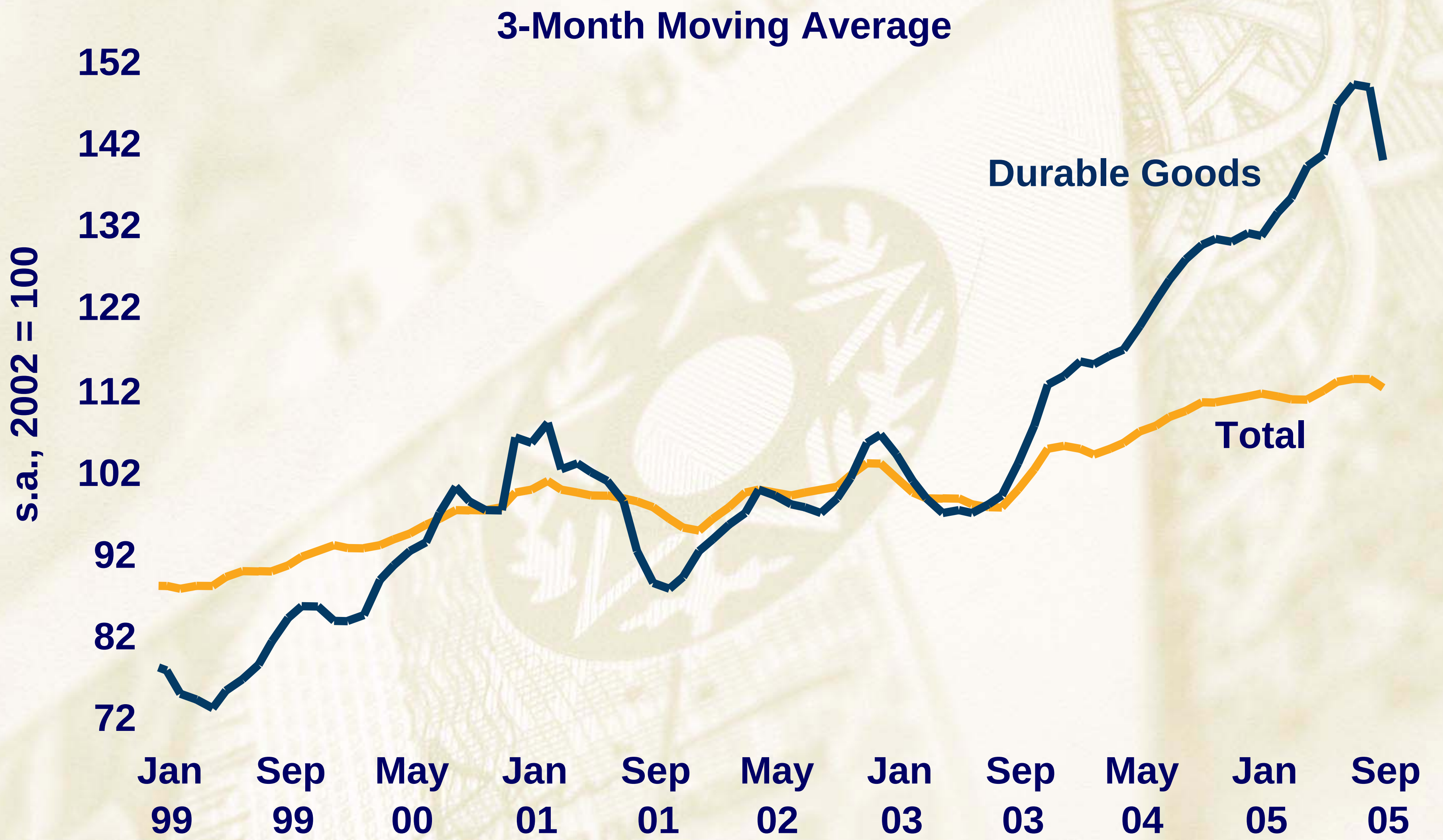
GDP Growth

146
142
138
134
130
126
122
s.a., 1990 = 100
In the eight quarters to 2Q05,
a cumulative growth of 9.2%
1Q 99
4Q 99
3Q 00
2Q 01
1Q 02
4Q 02
3Q 03
2Q 04
2Q 05

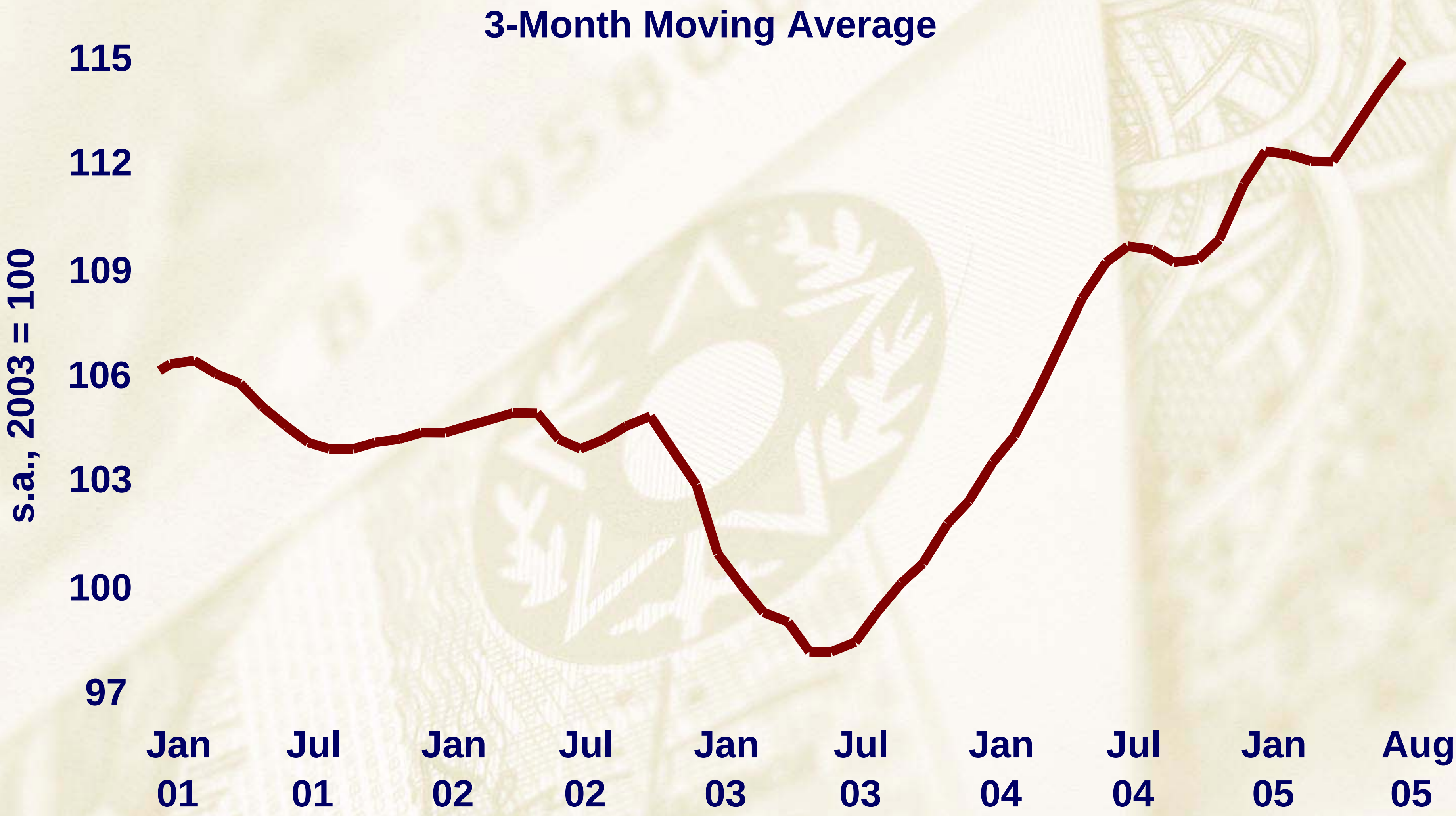
Industrial Output



Industrial Output

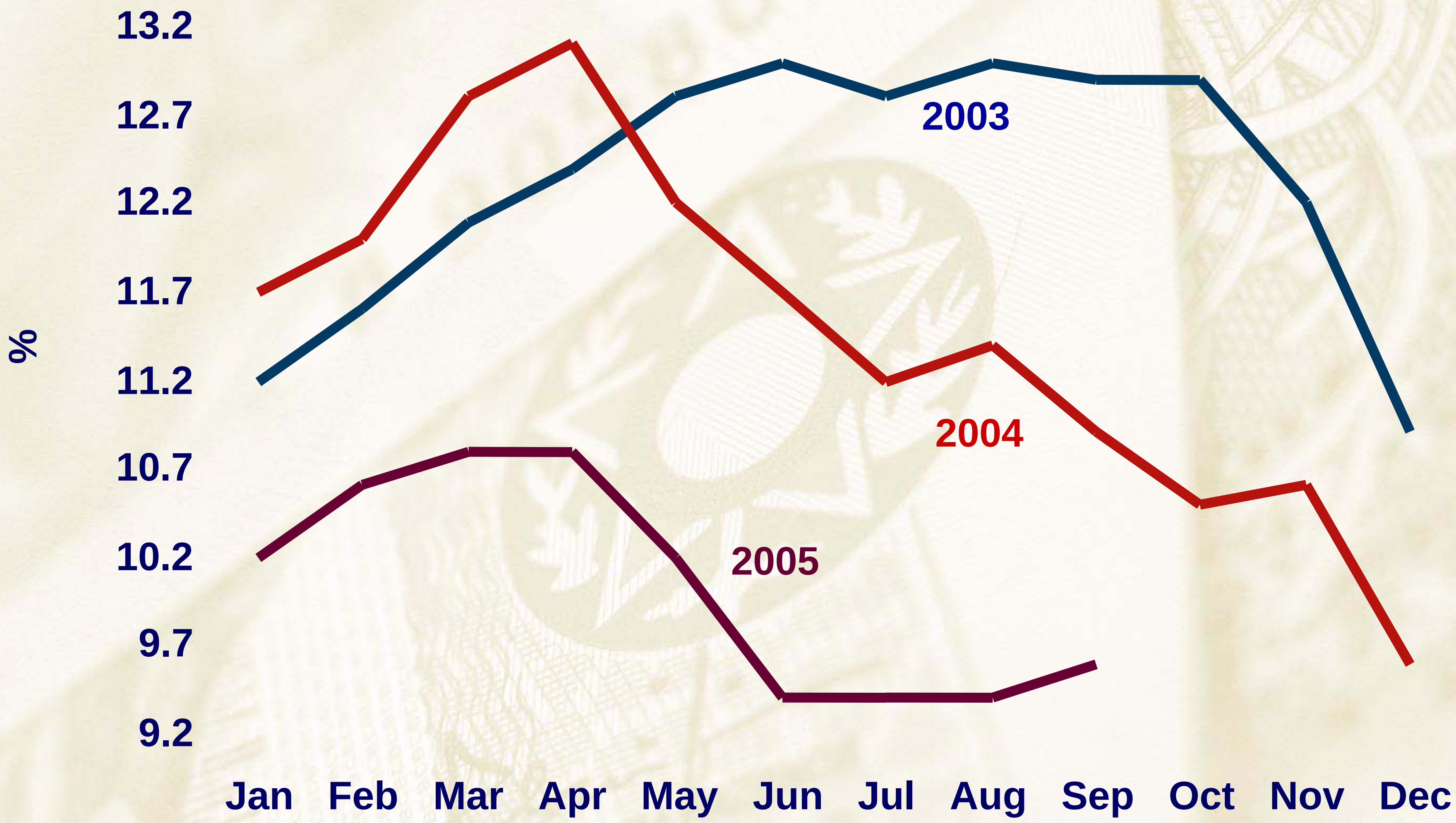


Retail Sales

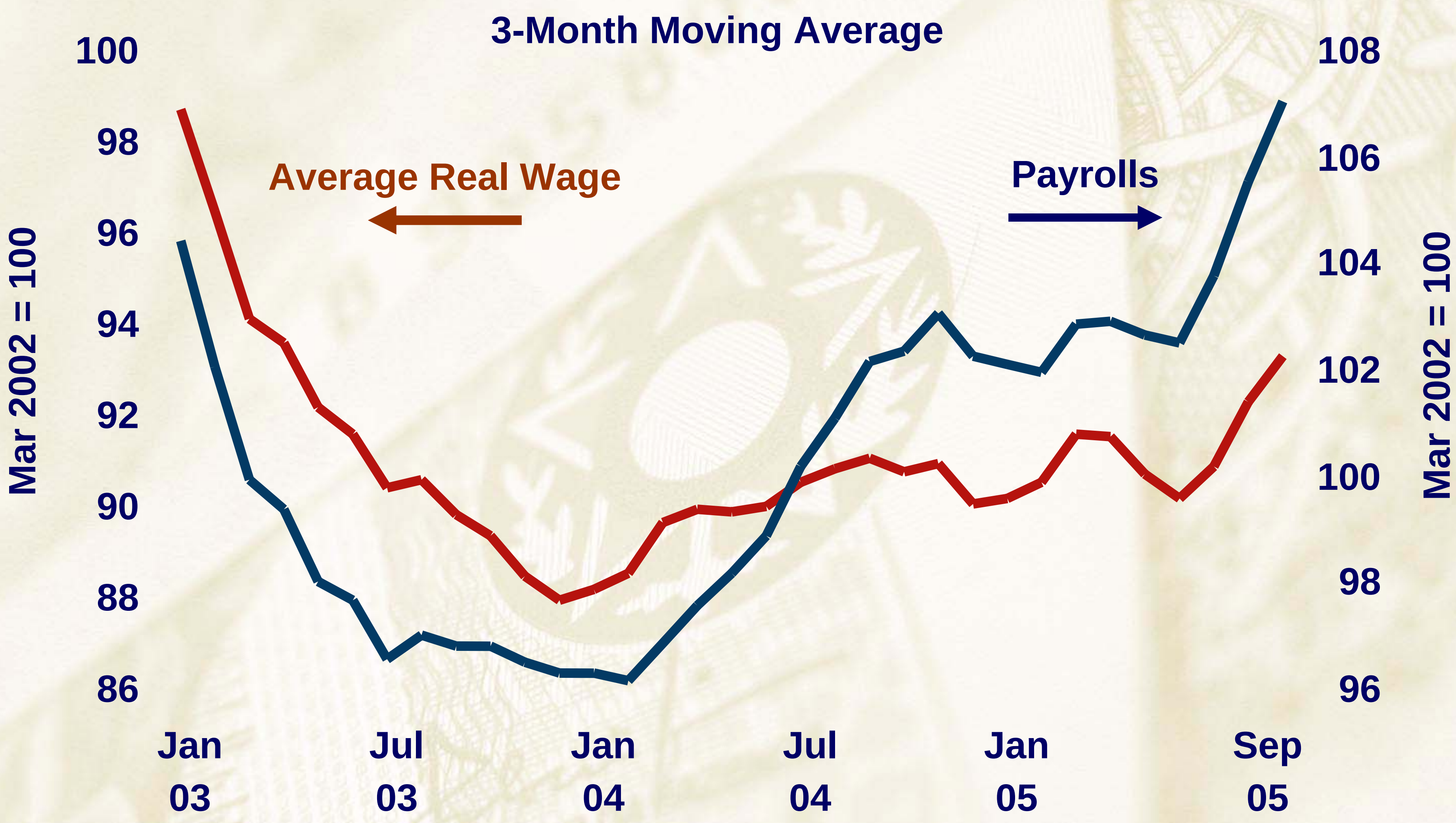


Formal Job Creation

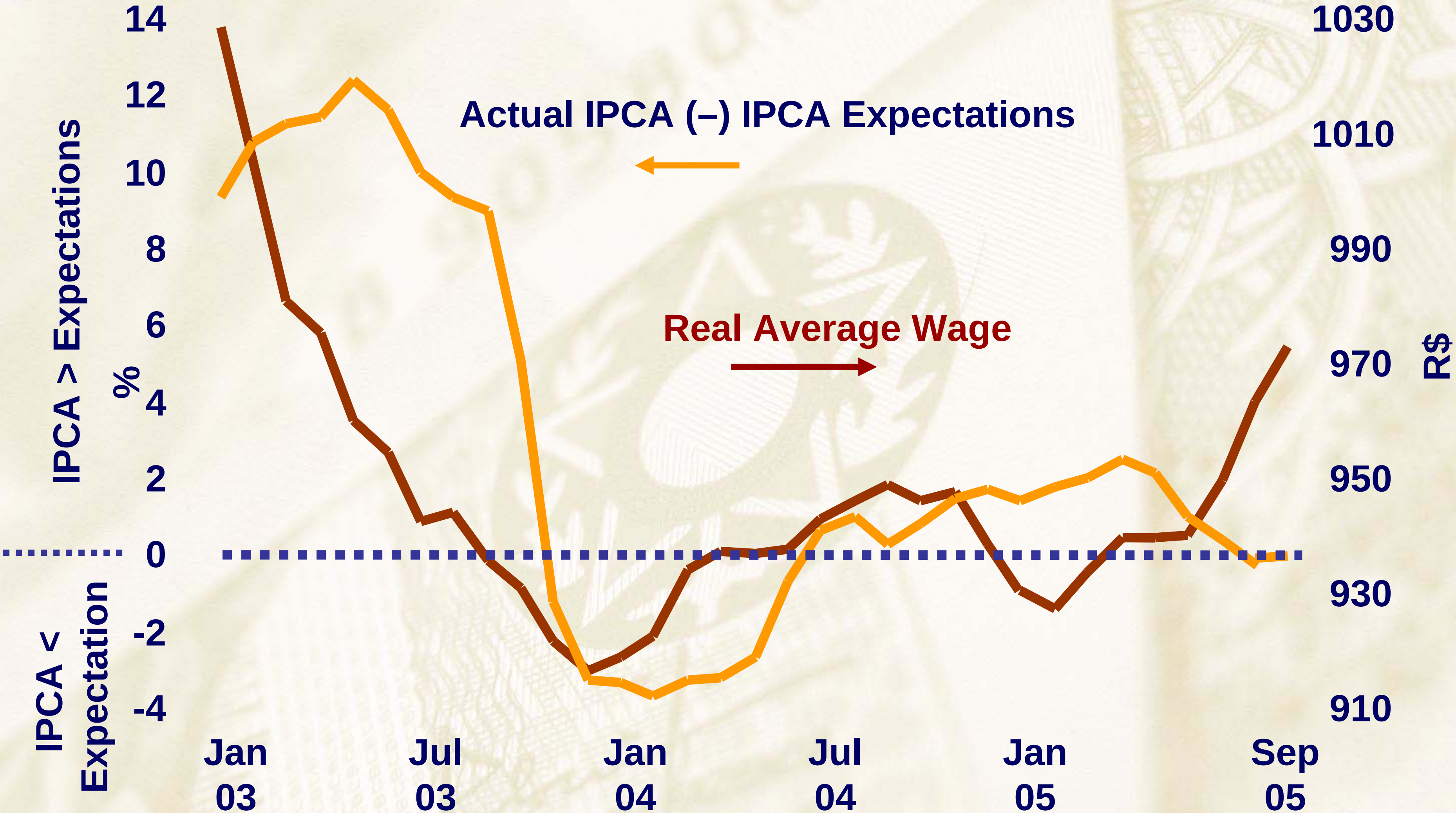
Unemployment Rate



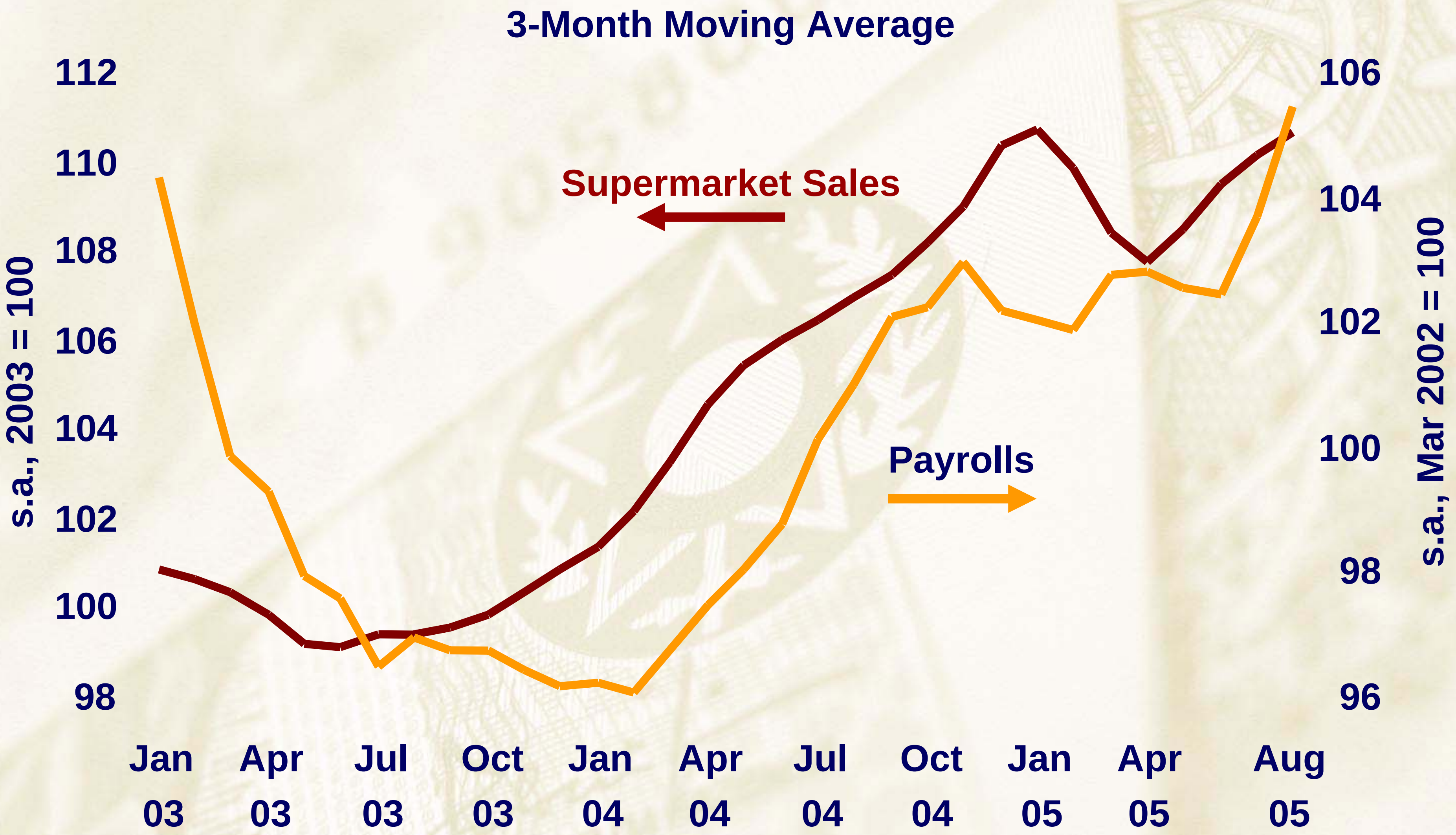
Average Real Wage and Payrolls



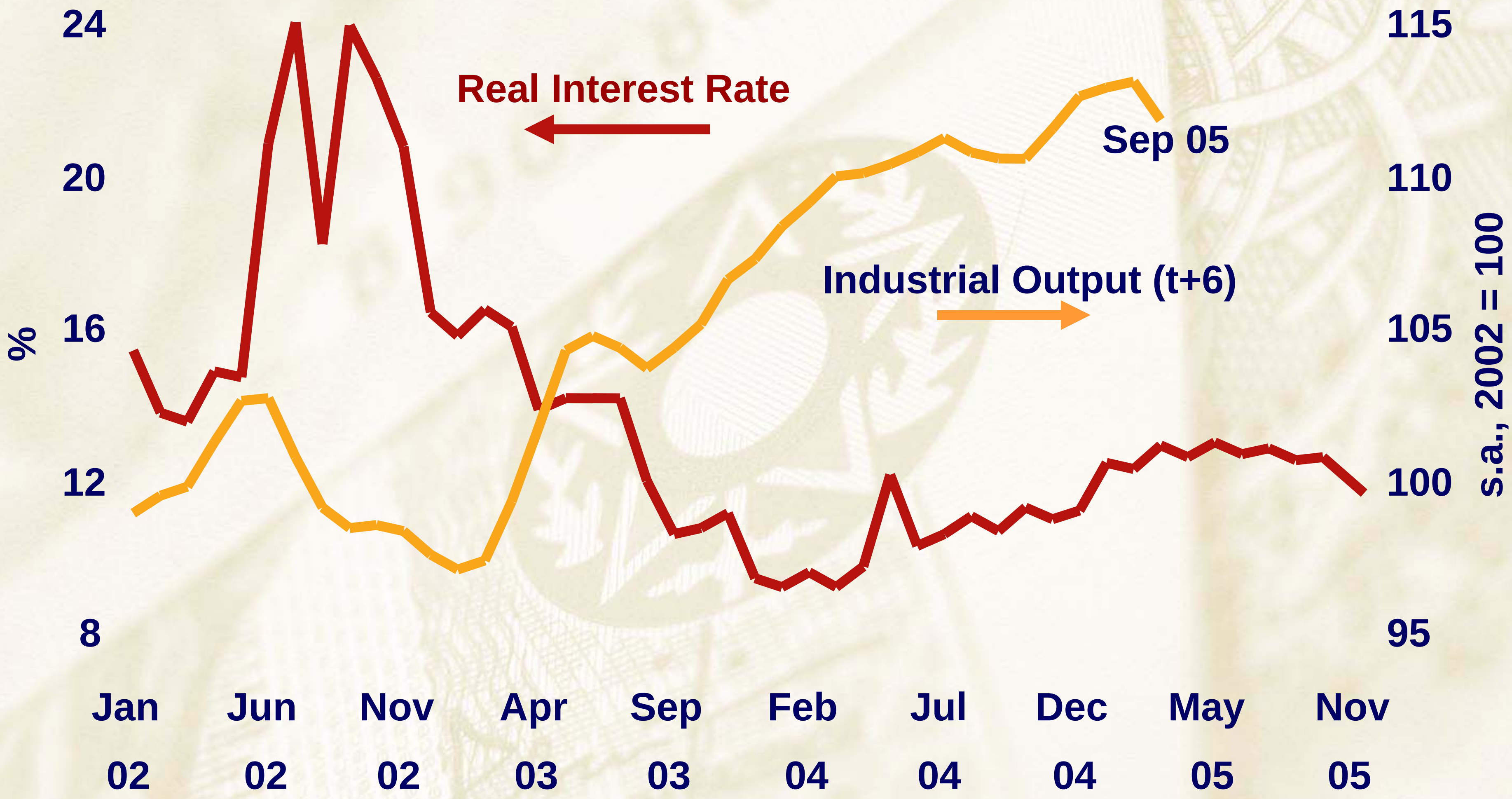
Average Real Wage and Inflation



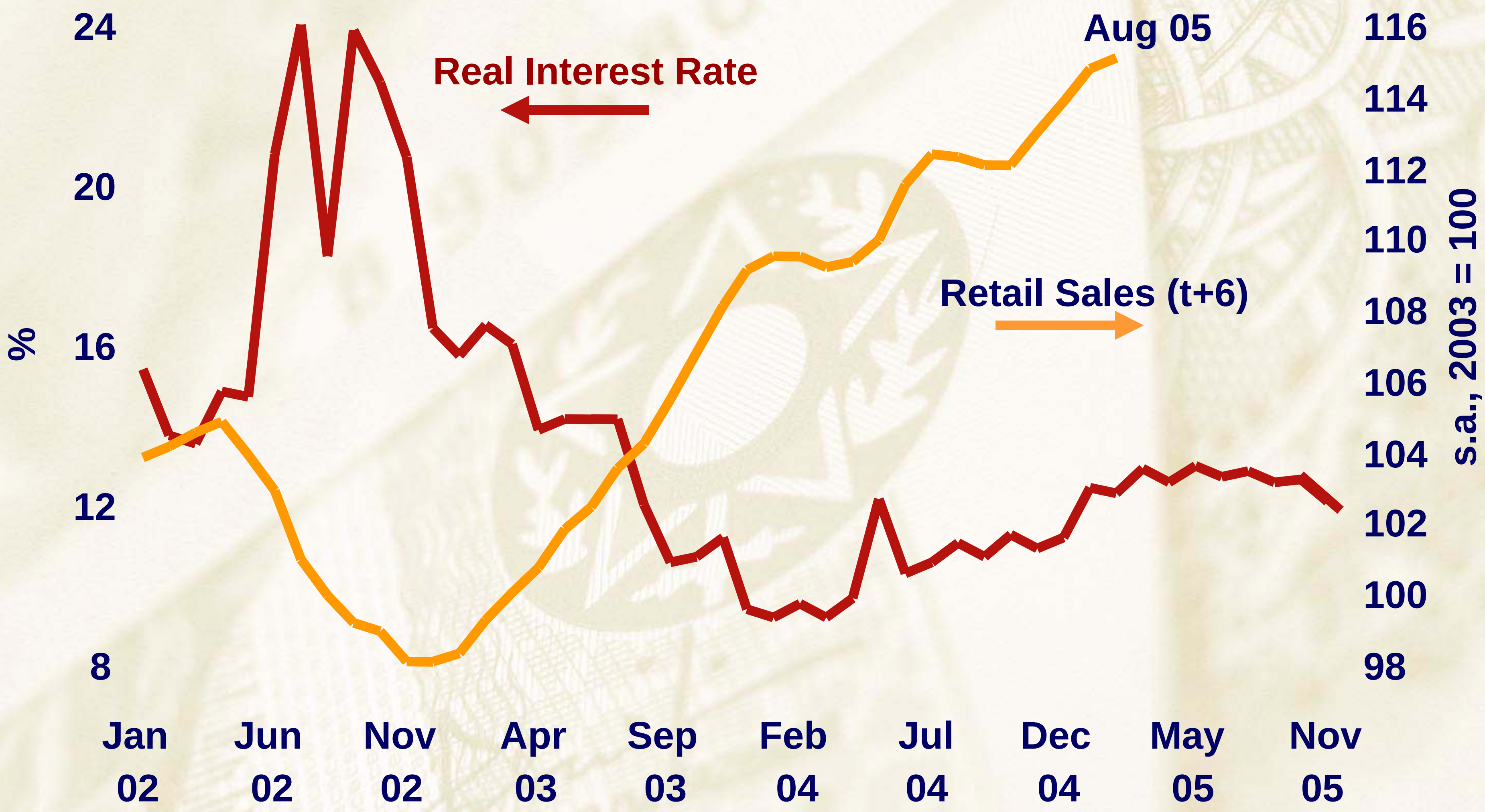
Non-Durable Retail Sales vs. Labor Income



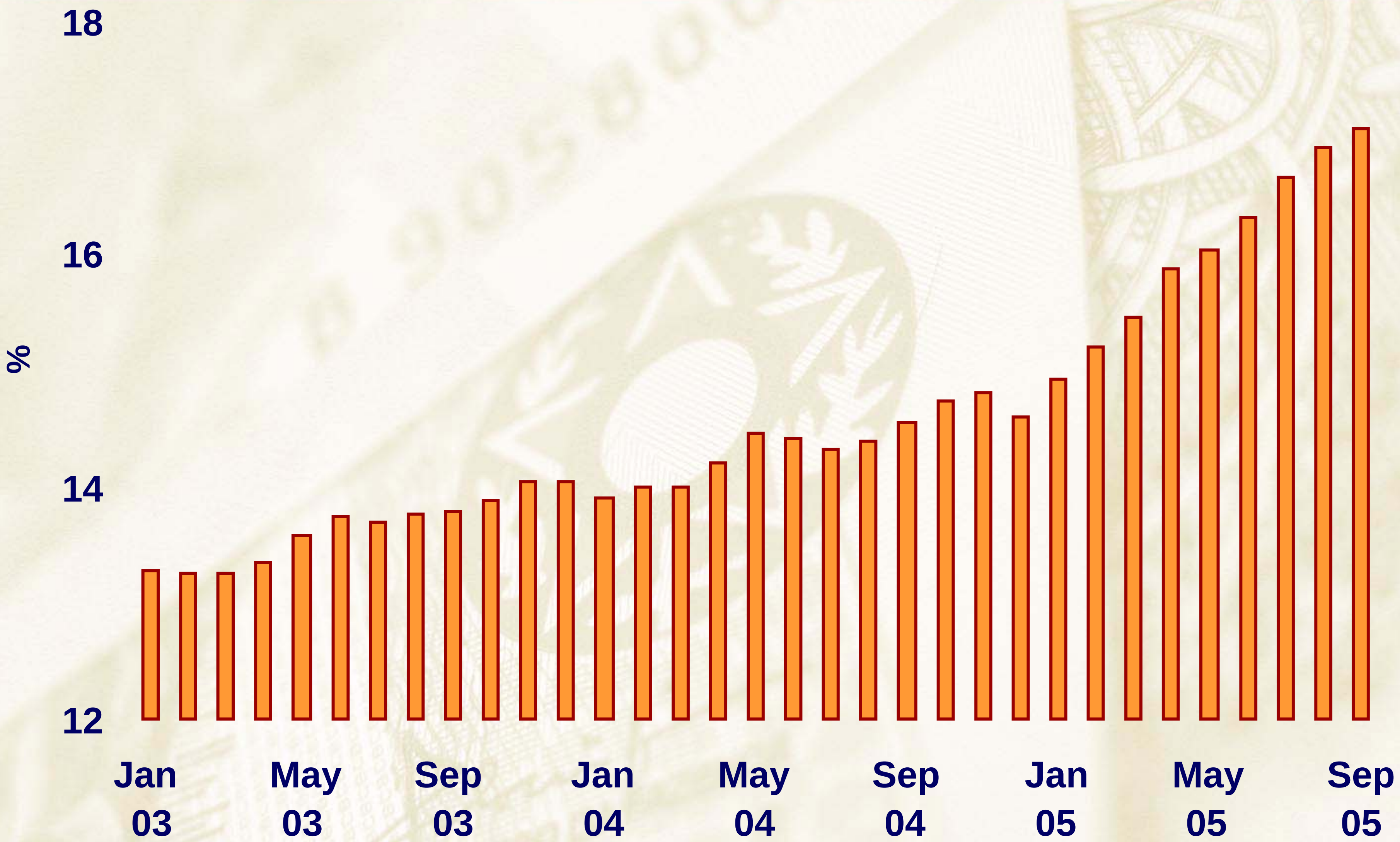
Real Interest Rate vs. Industrial Output



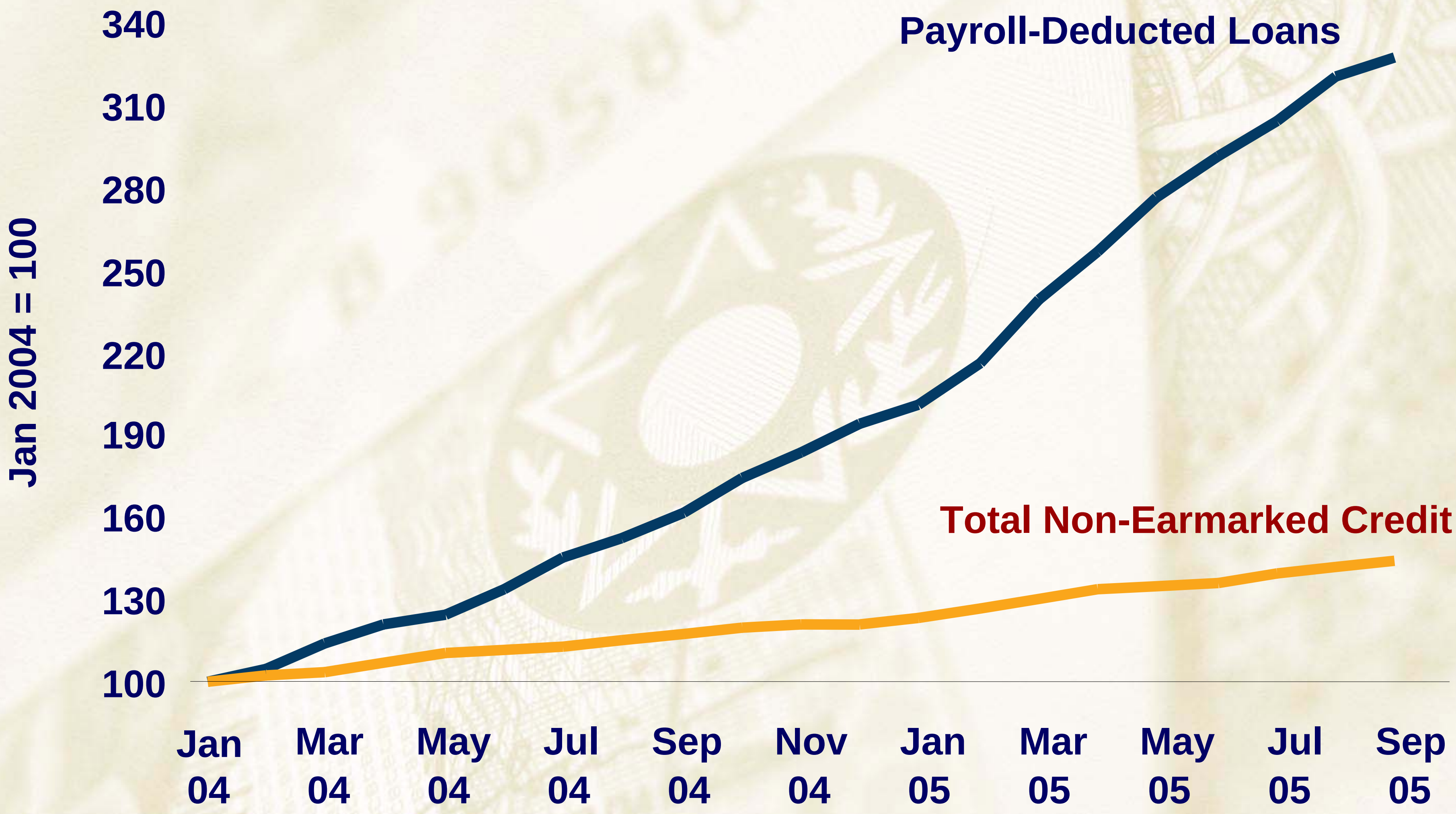
Real Interest Rate vs. Retail Sales



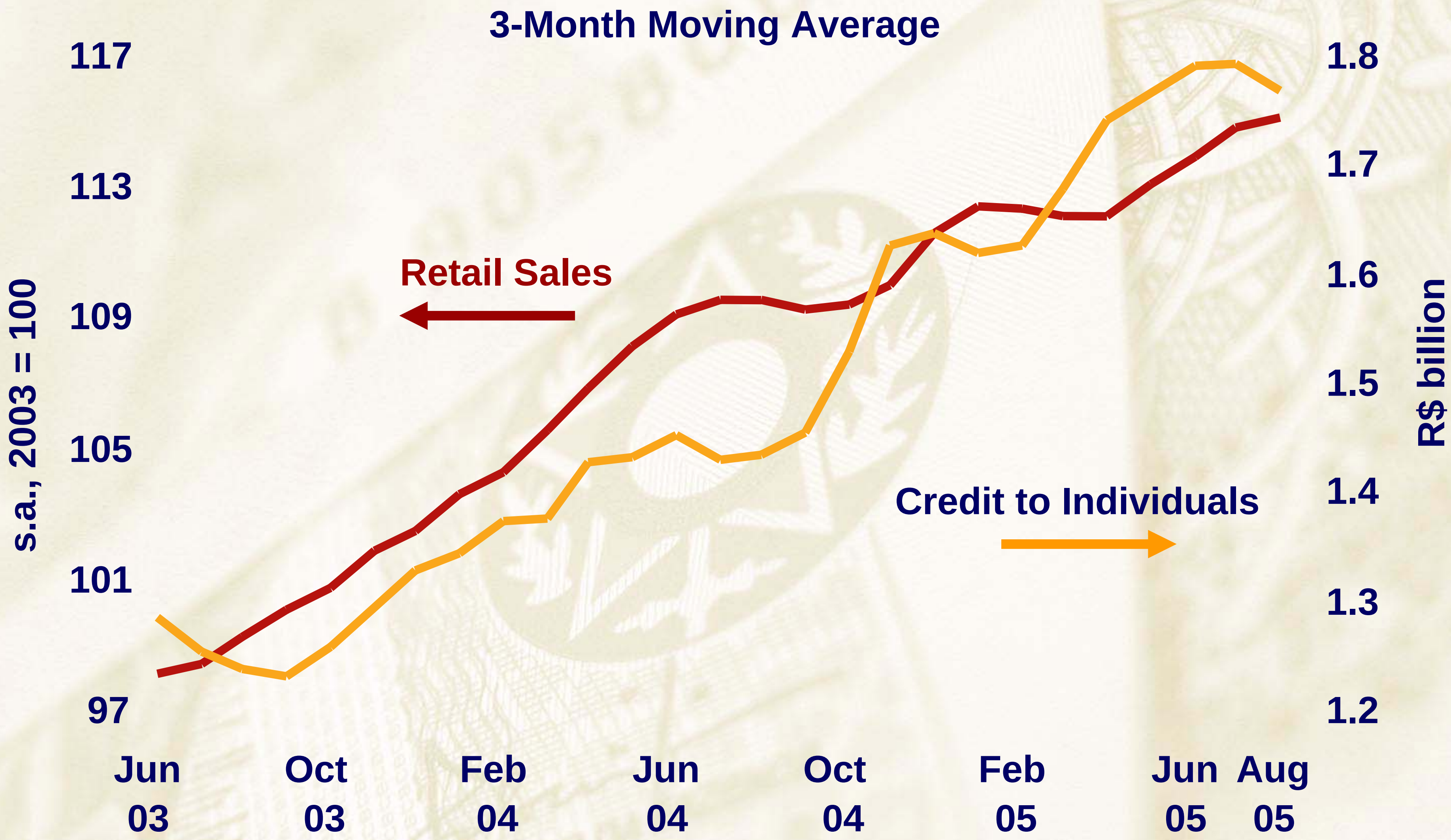
Non-Earmarked Credit/GDP Ratio



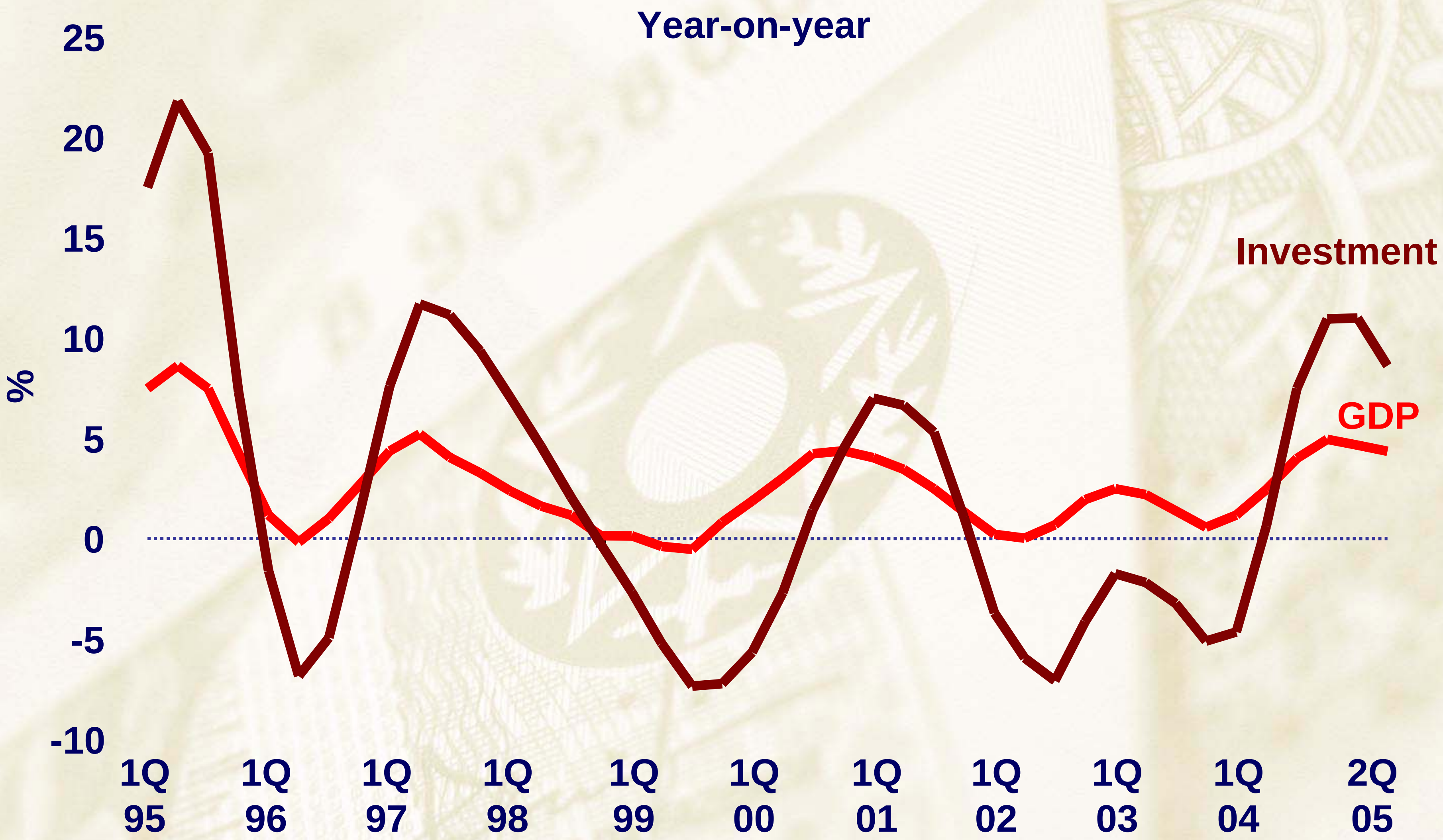
Payroll-Deducted vs. Non-Earmarked Credit



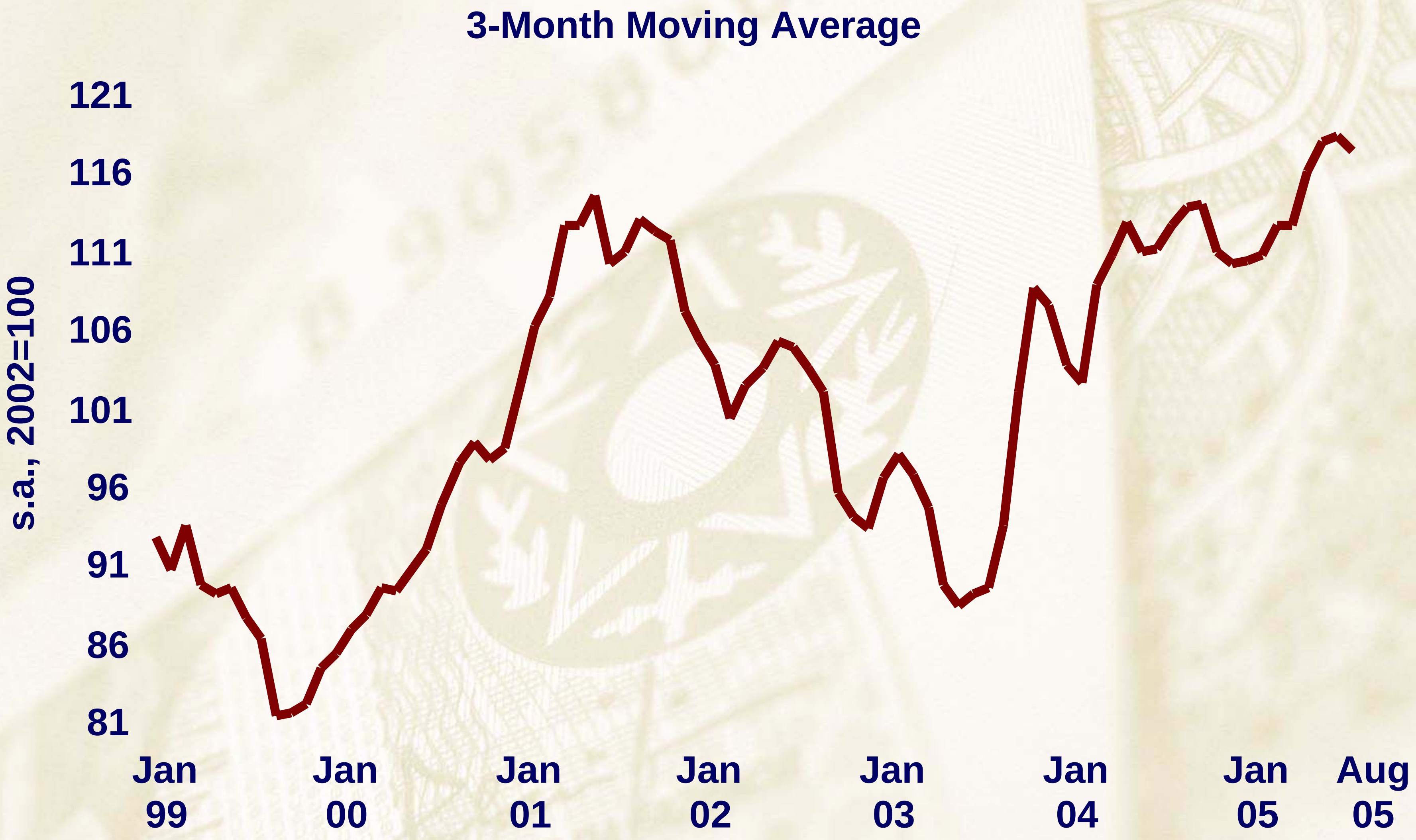
Credit vs. Retail Sales



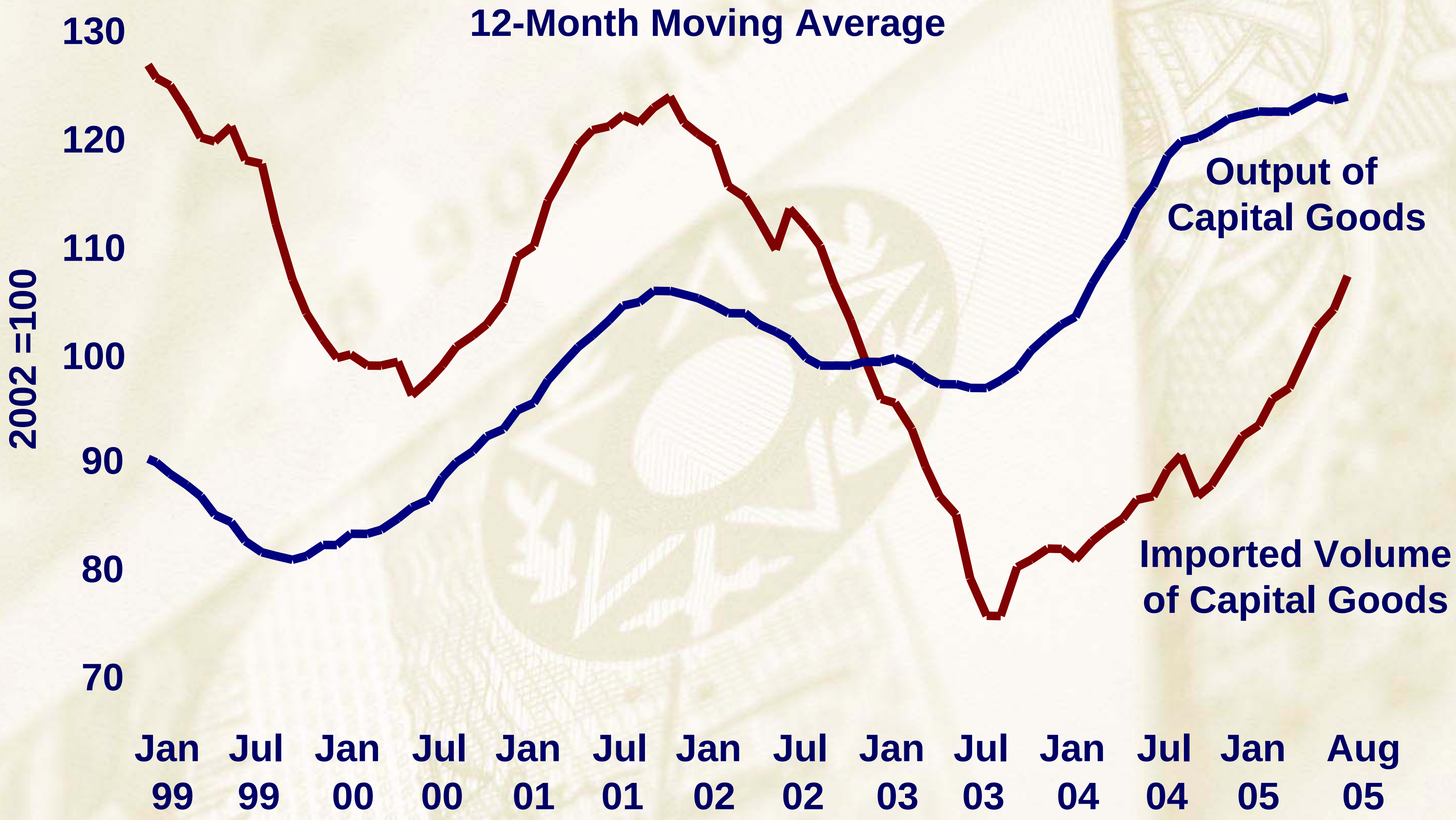
GDP and Investment



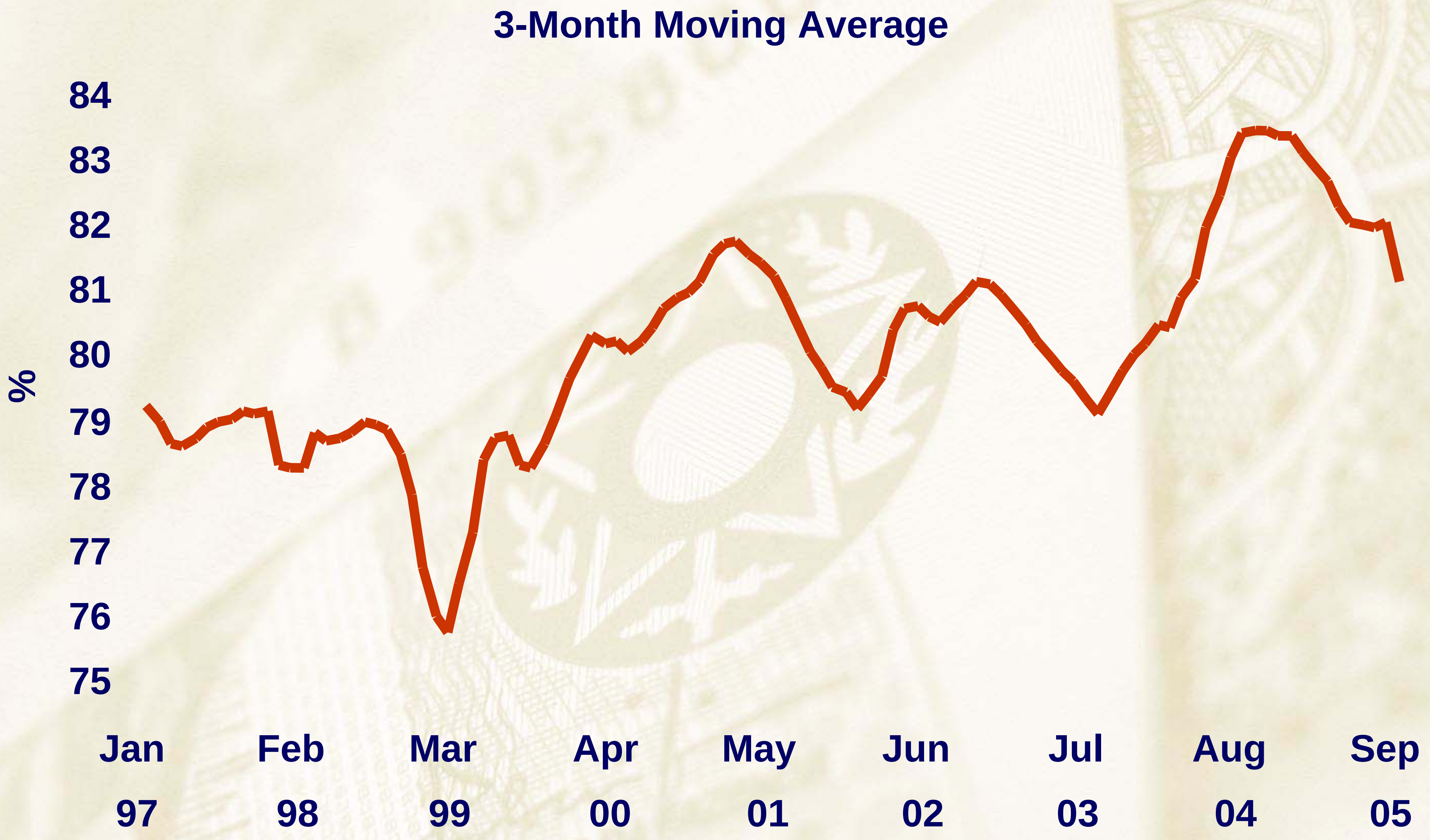
Domestic Absorption of Capital Goods



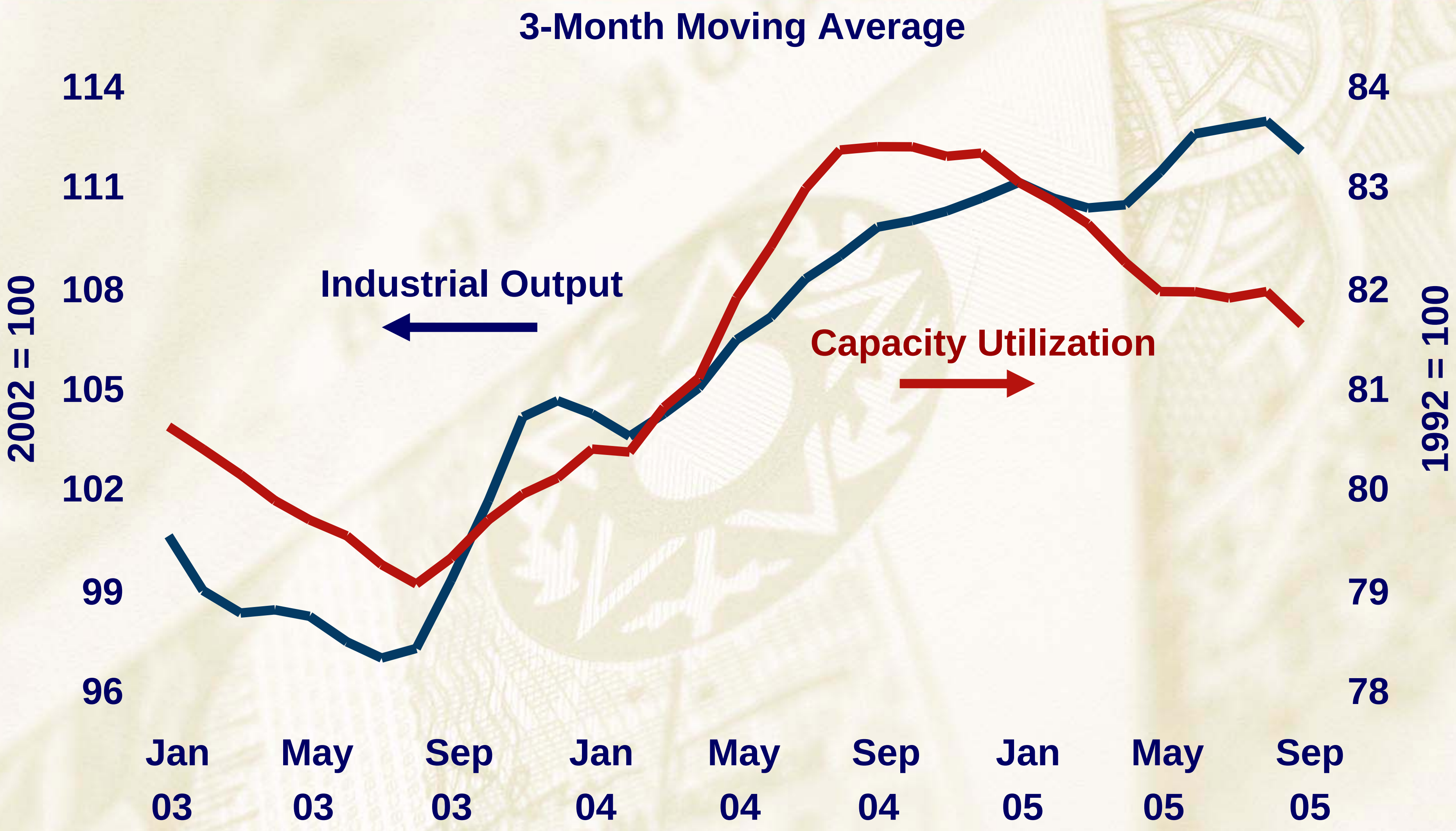
Output and Imported Volume of Capital Goods



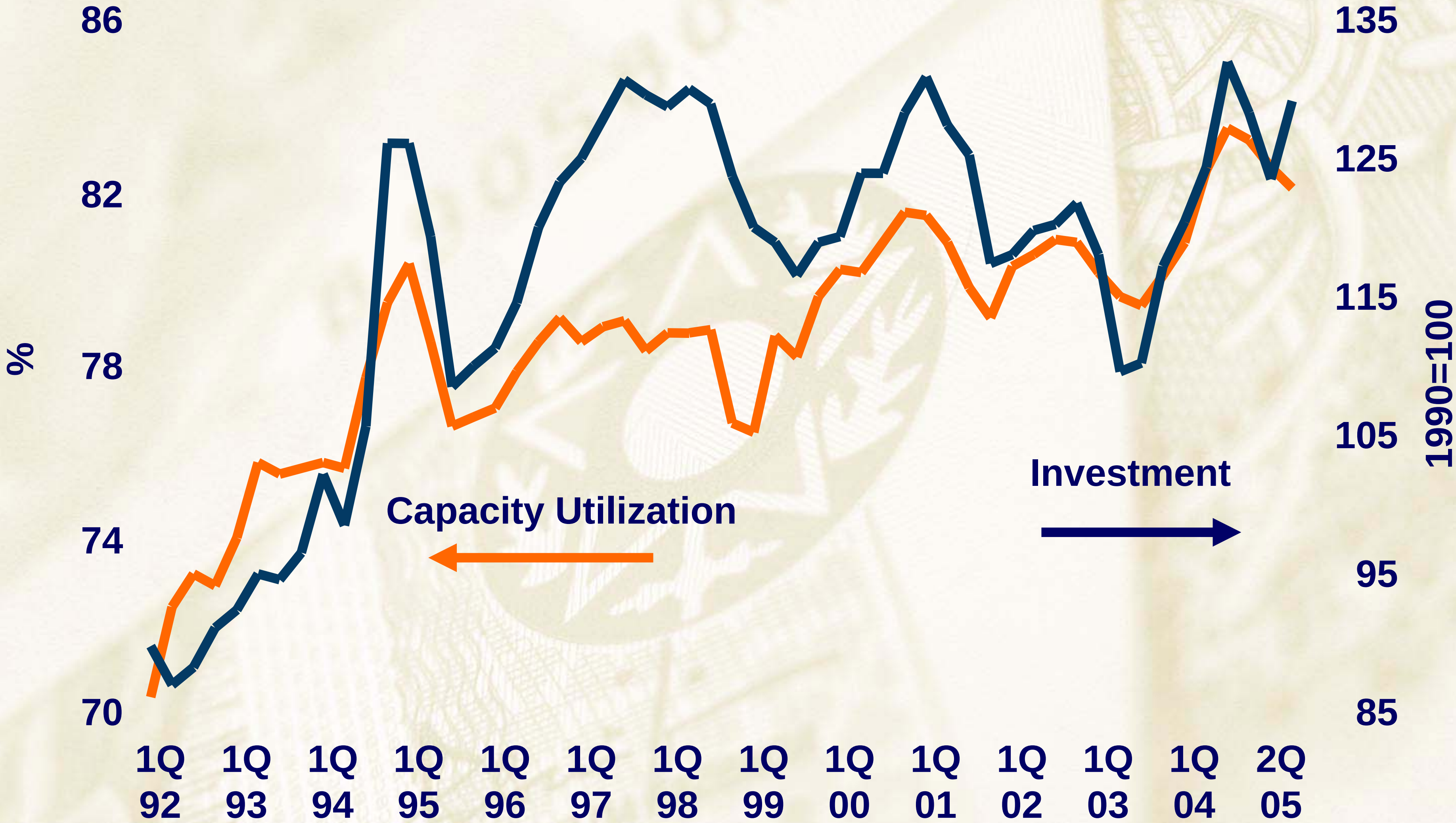
Capacity Utilization



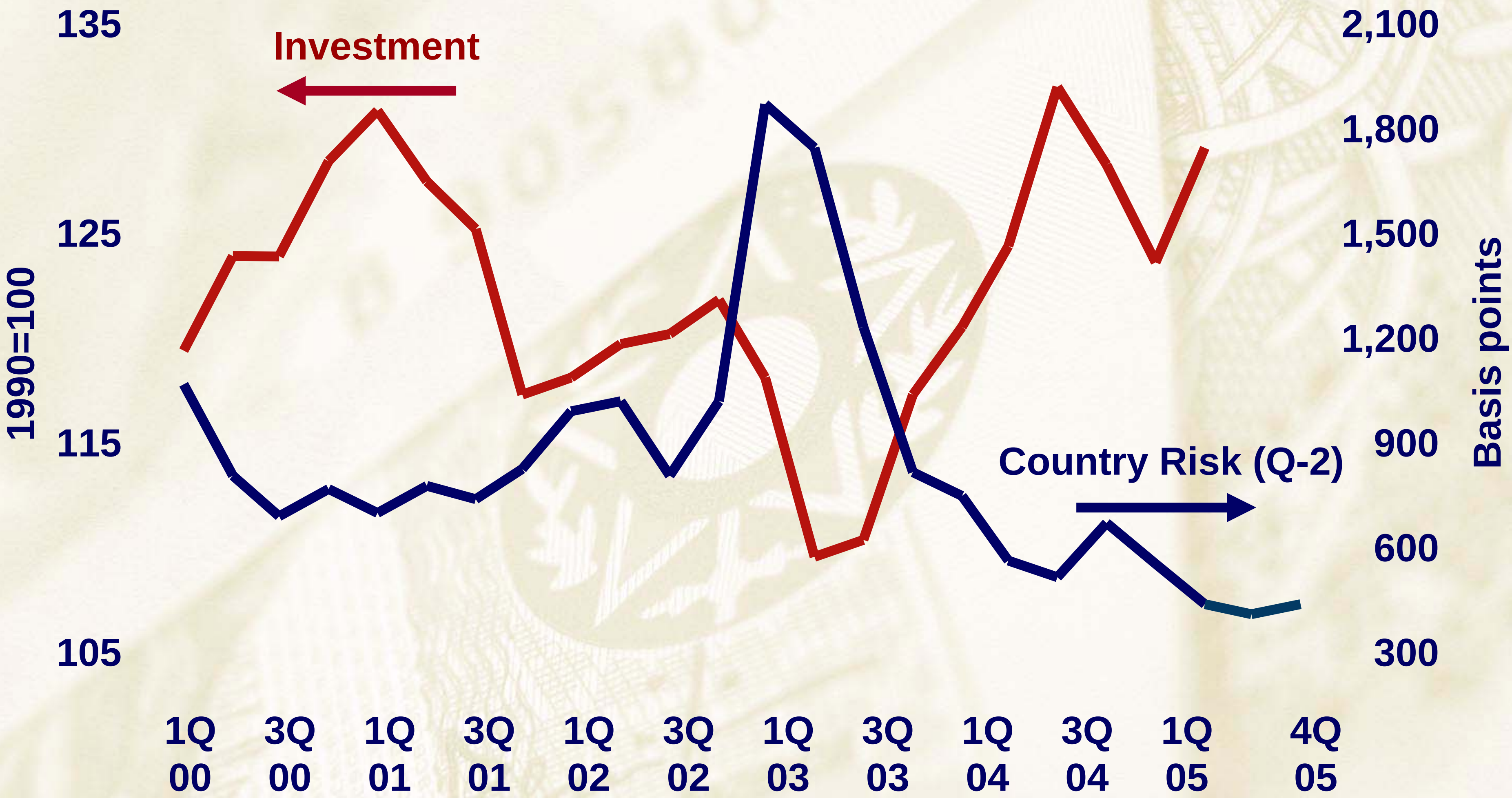
Capacity Utilization and Industrial Output



Investment x Capacity Utilization

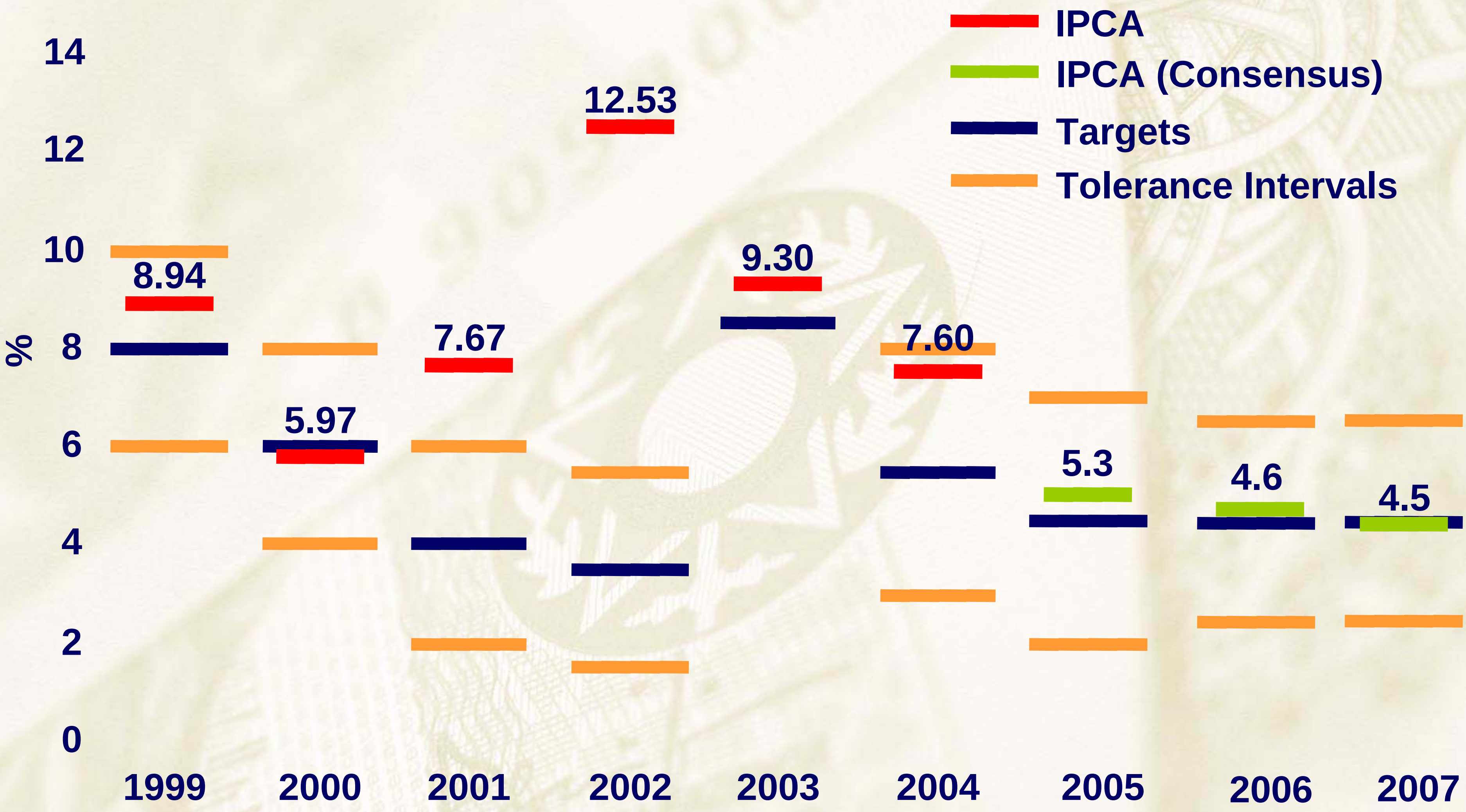


Investment x Country Risk



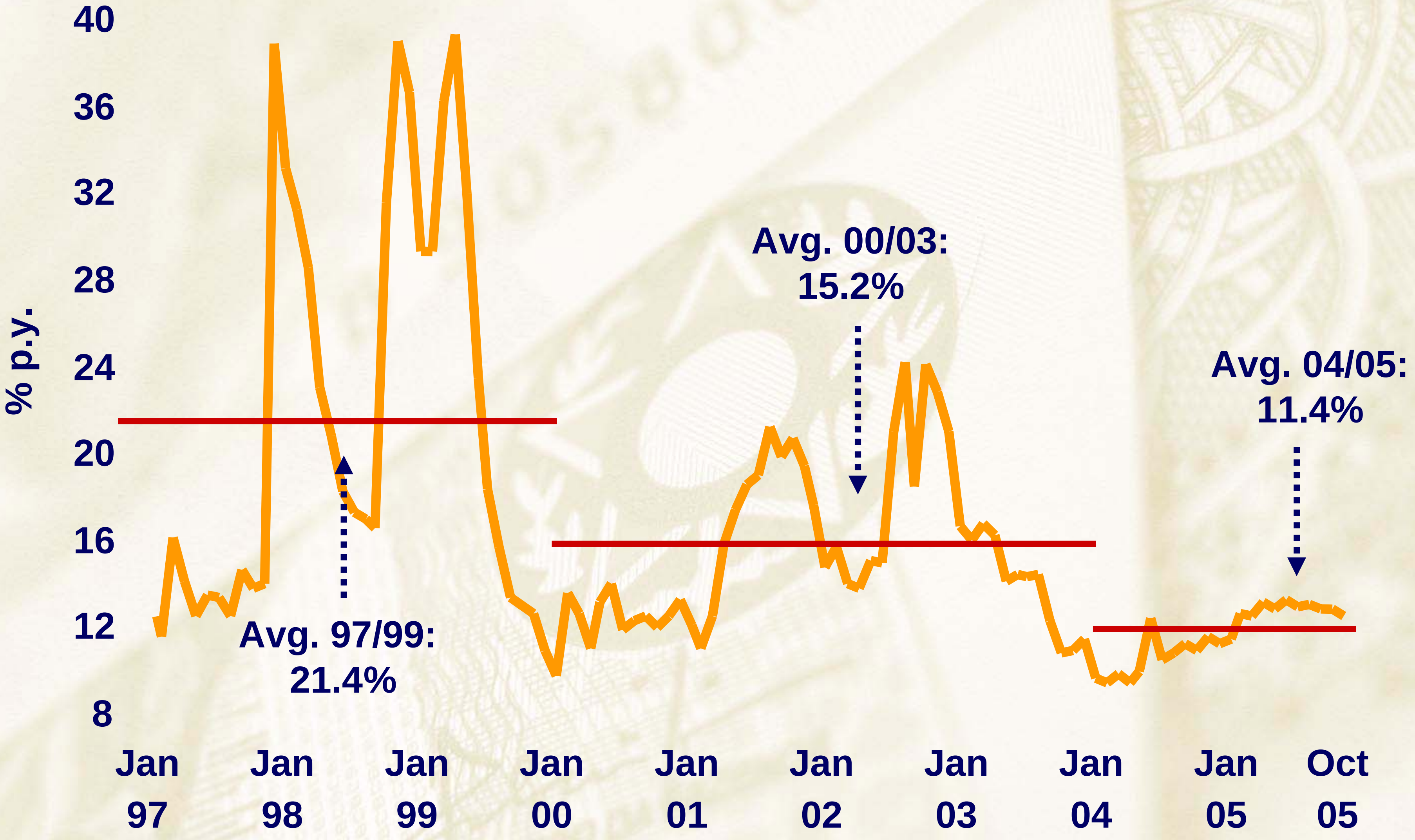
- Inflation

Inflation Targets

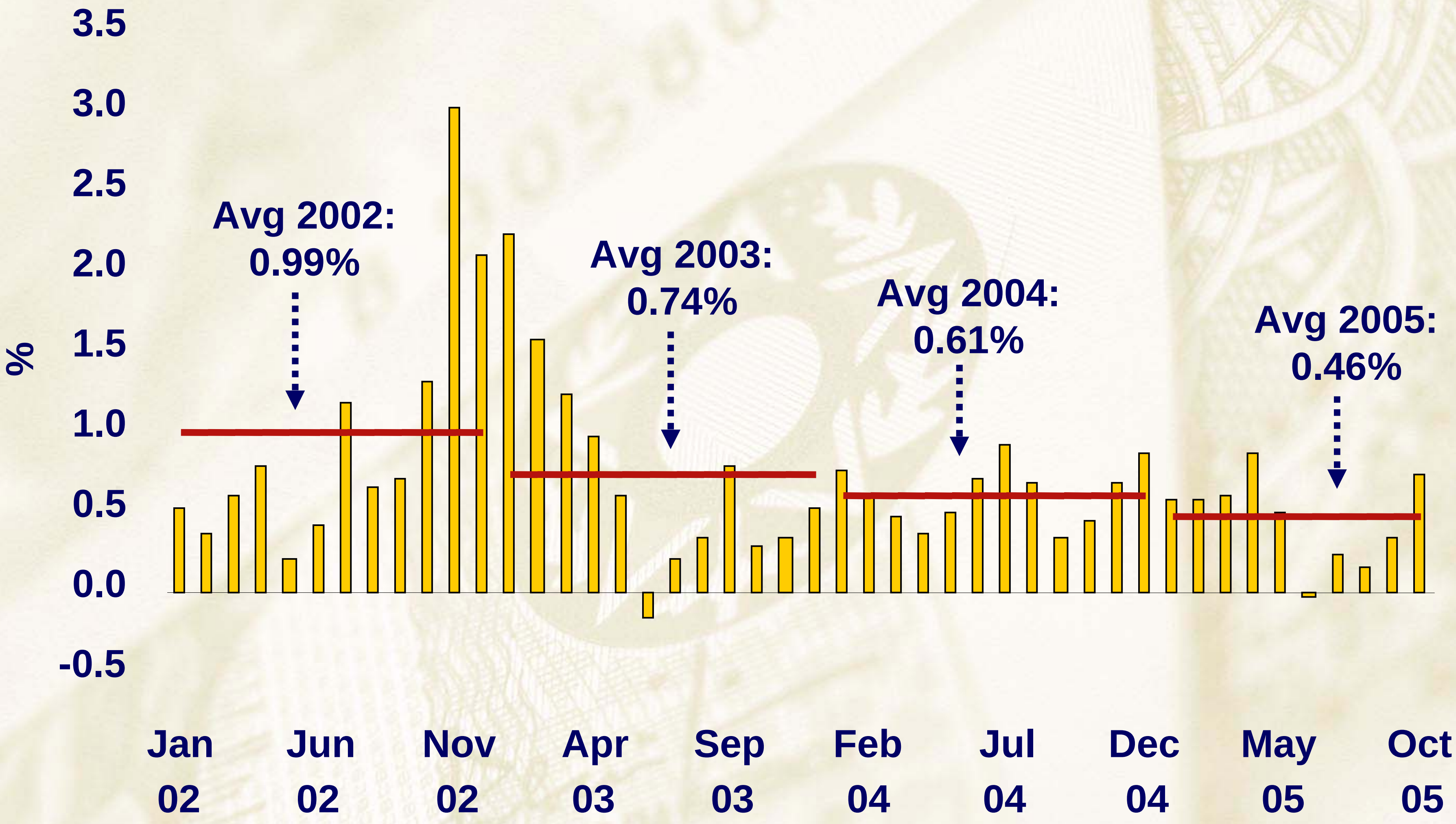


Interest Rate (Selic and 360 days Swap)

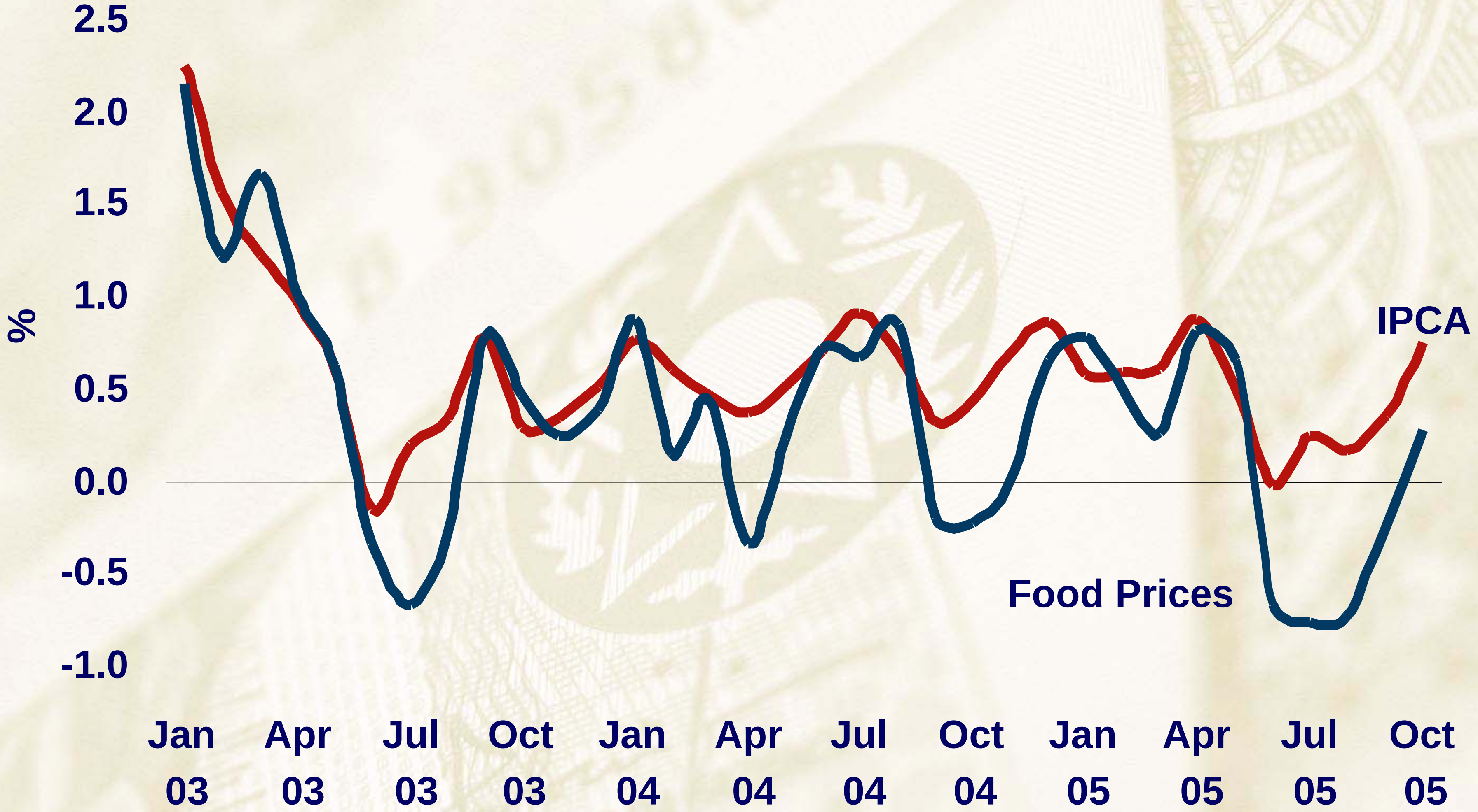
Real Interest Rate (360-day Swap)



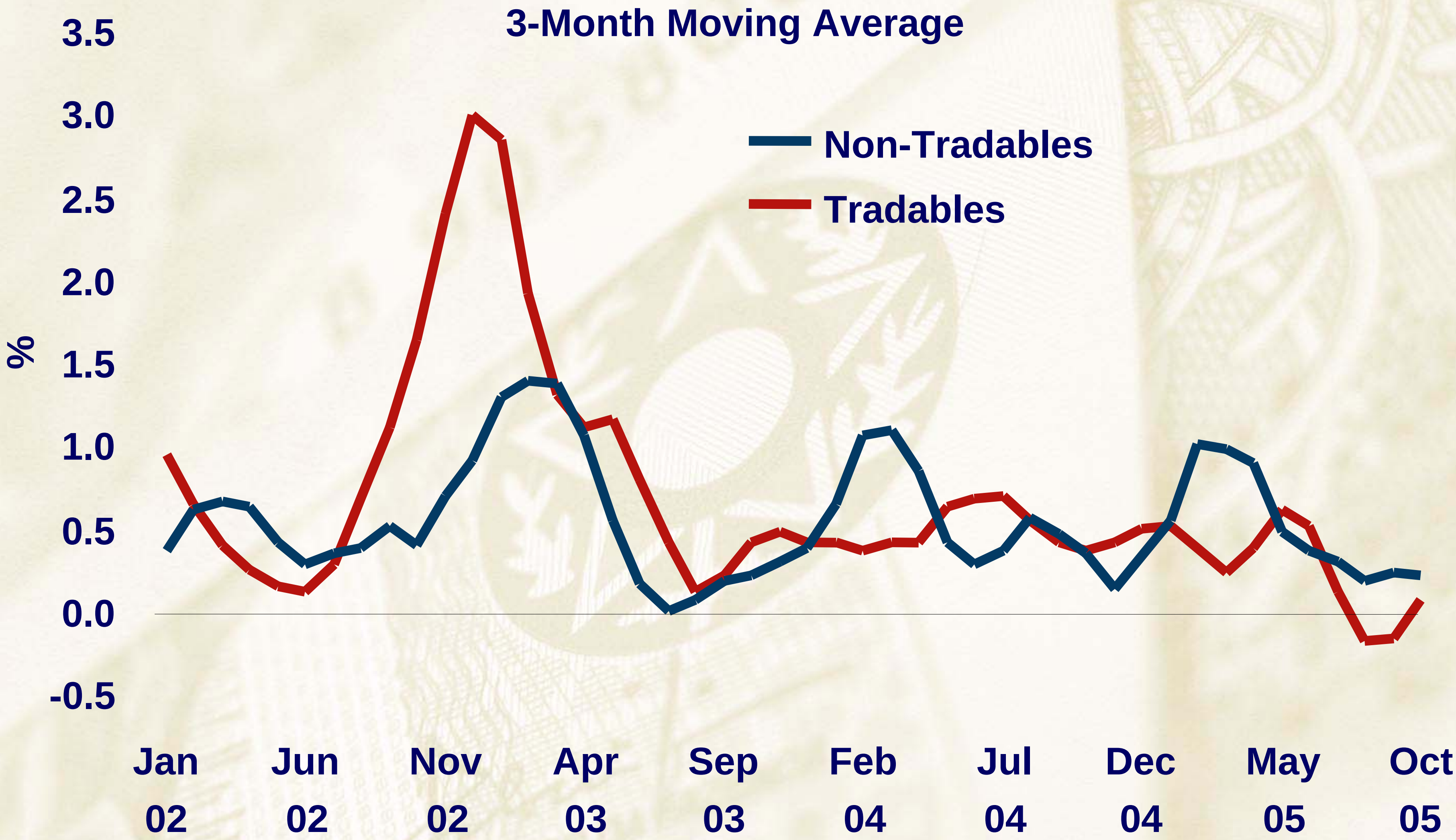
IPCA Inflation



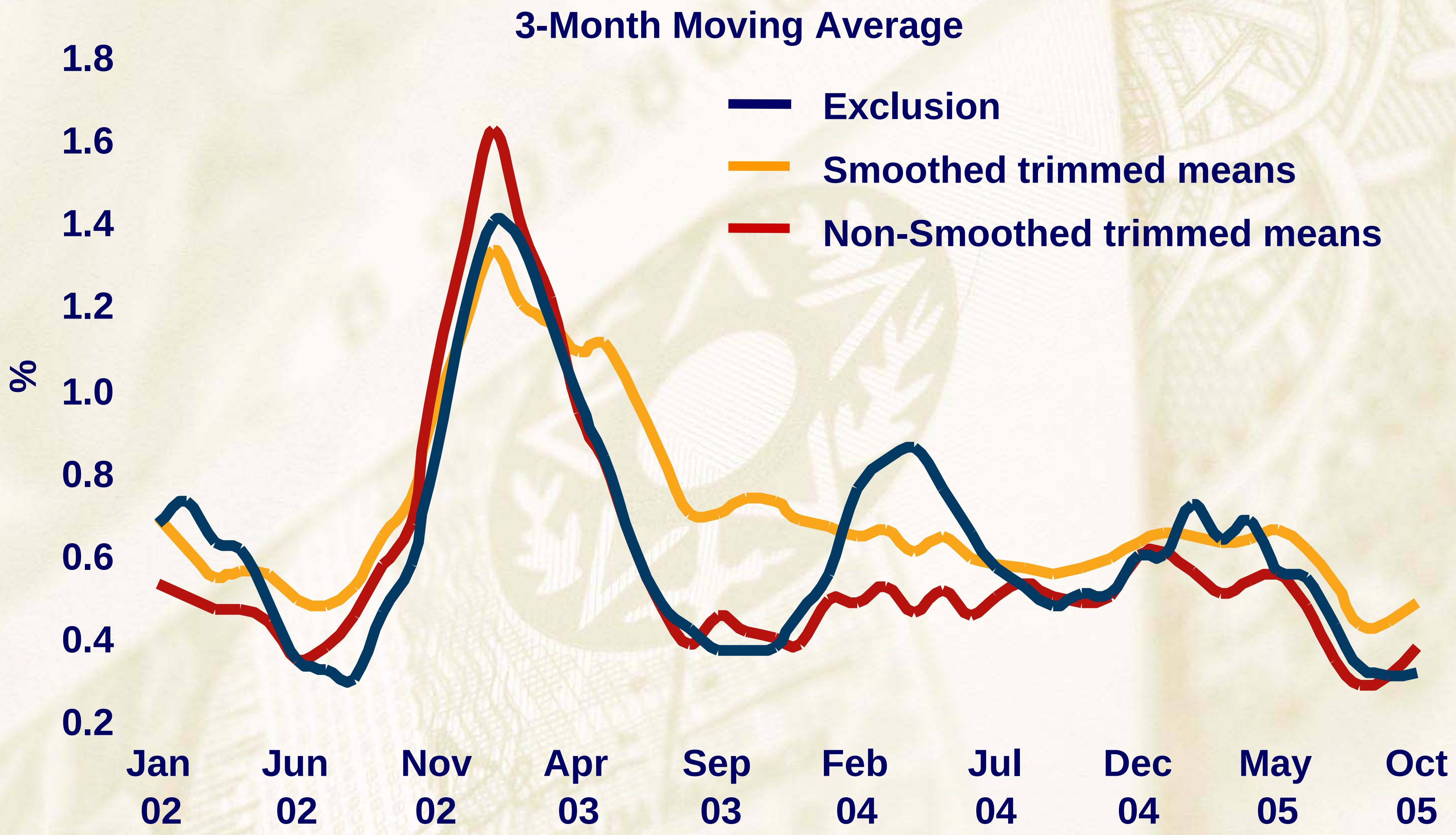
Food Prices x IPCA



Tradables x Non-tradables Inflation

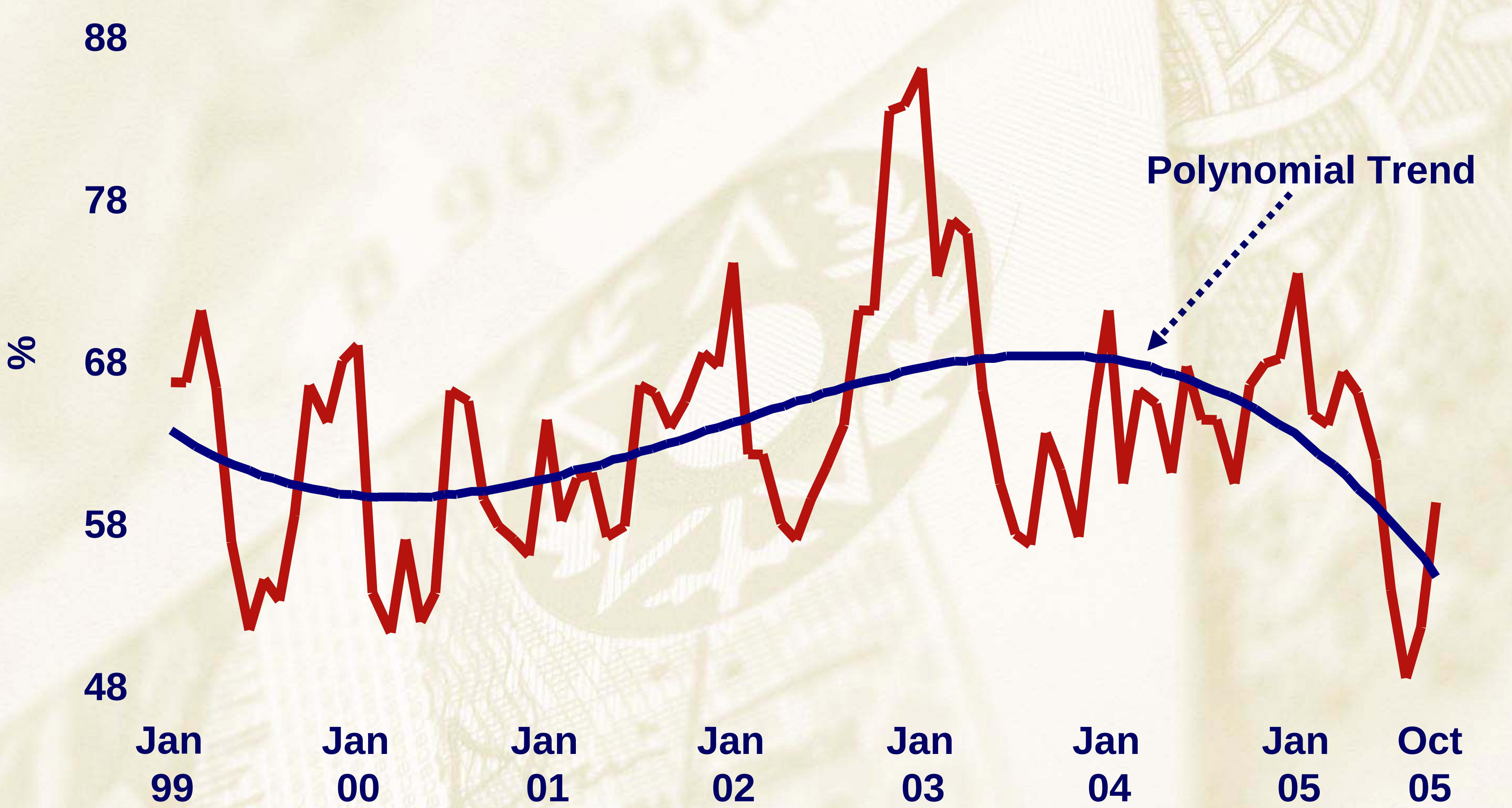


Core IPCA

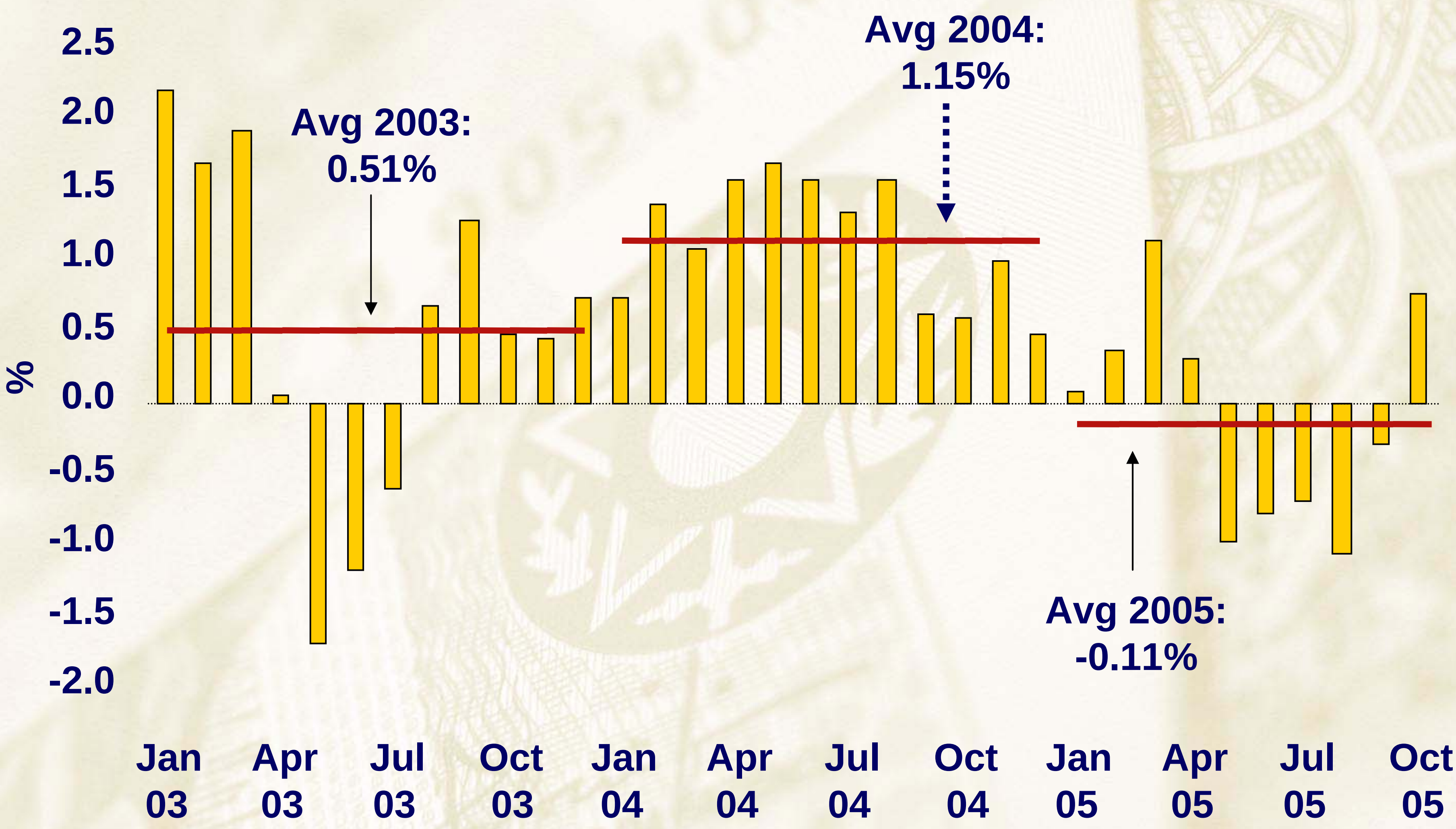


3-Month Moving Average
%
1.8
1.6
1.4
1.2
1.0
0.8
0.6
0.4
0.2
Exclusion
Smoothed trimmed means
Non-Smoothed trimmed means
Jan 02
Jun 02
Nov 02
Apr 03
Sep 03
Feb 04
Jul 04
Dec 04
May 05
Oct 05

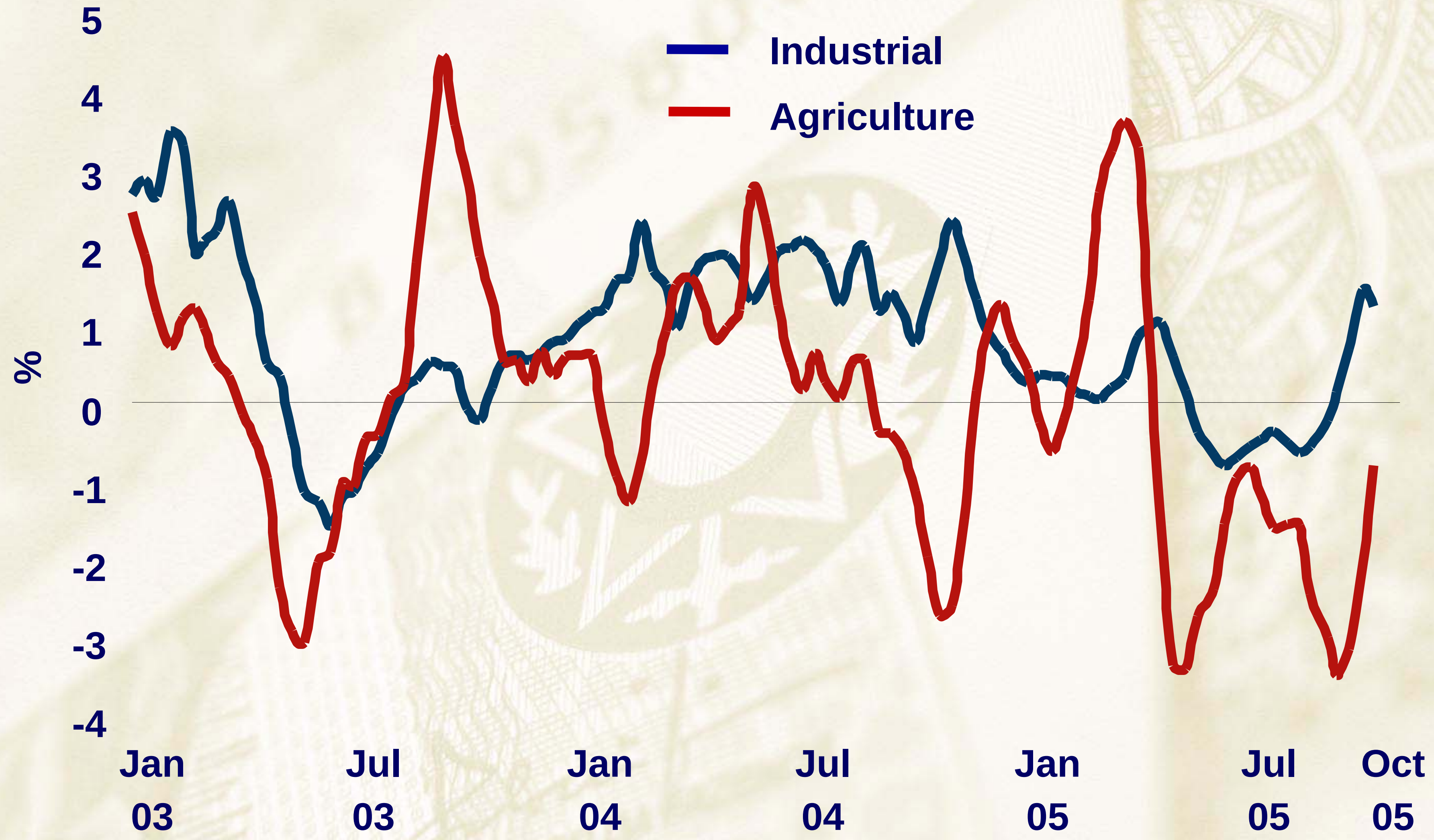
IPCA: % of Items with Price Increases



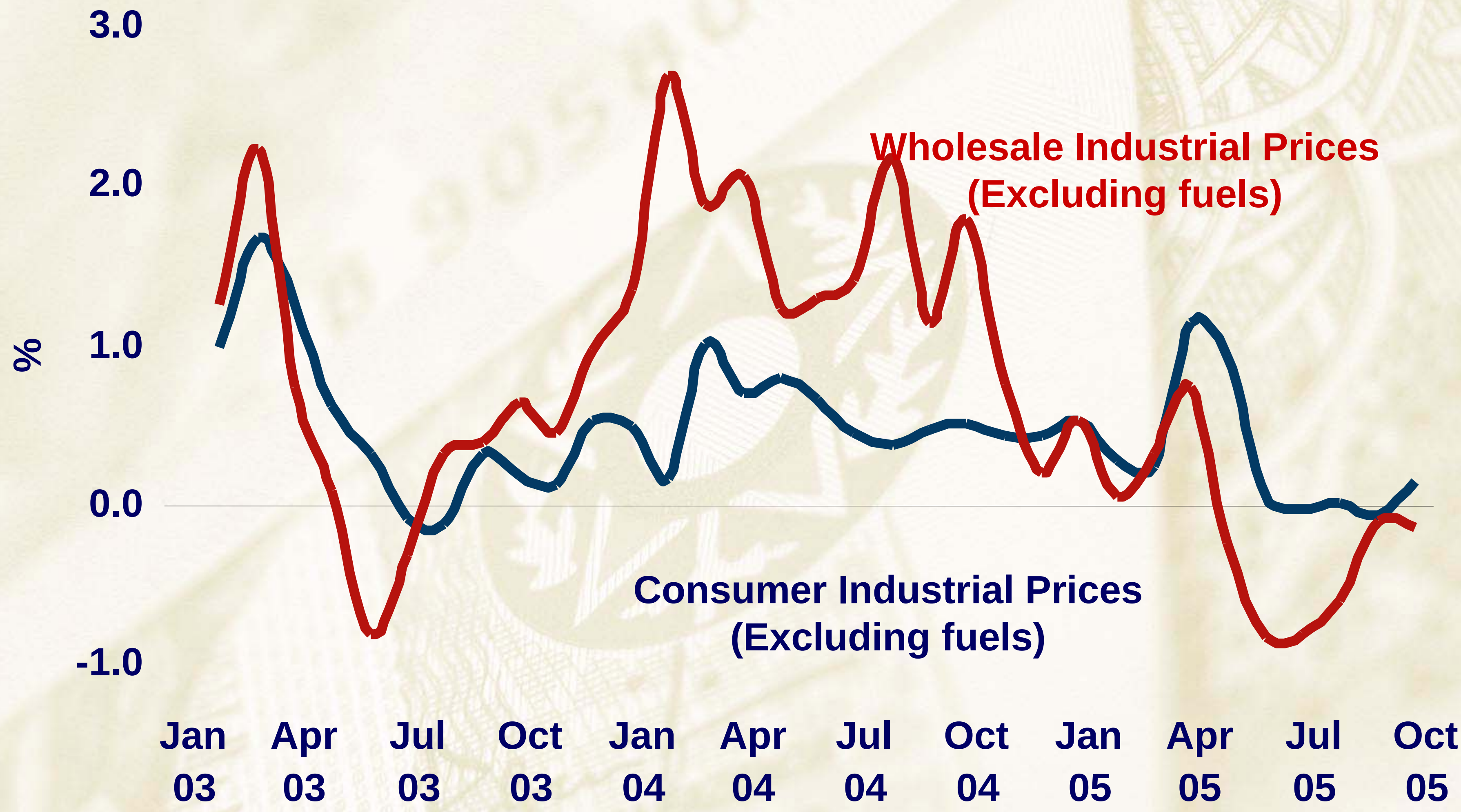
Wholesale Prices Inflation (IPA)



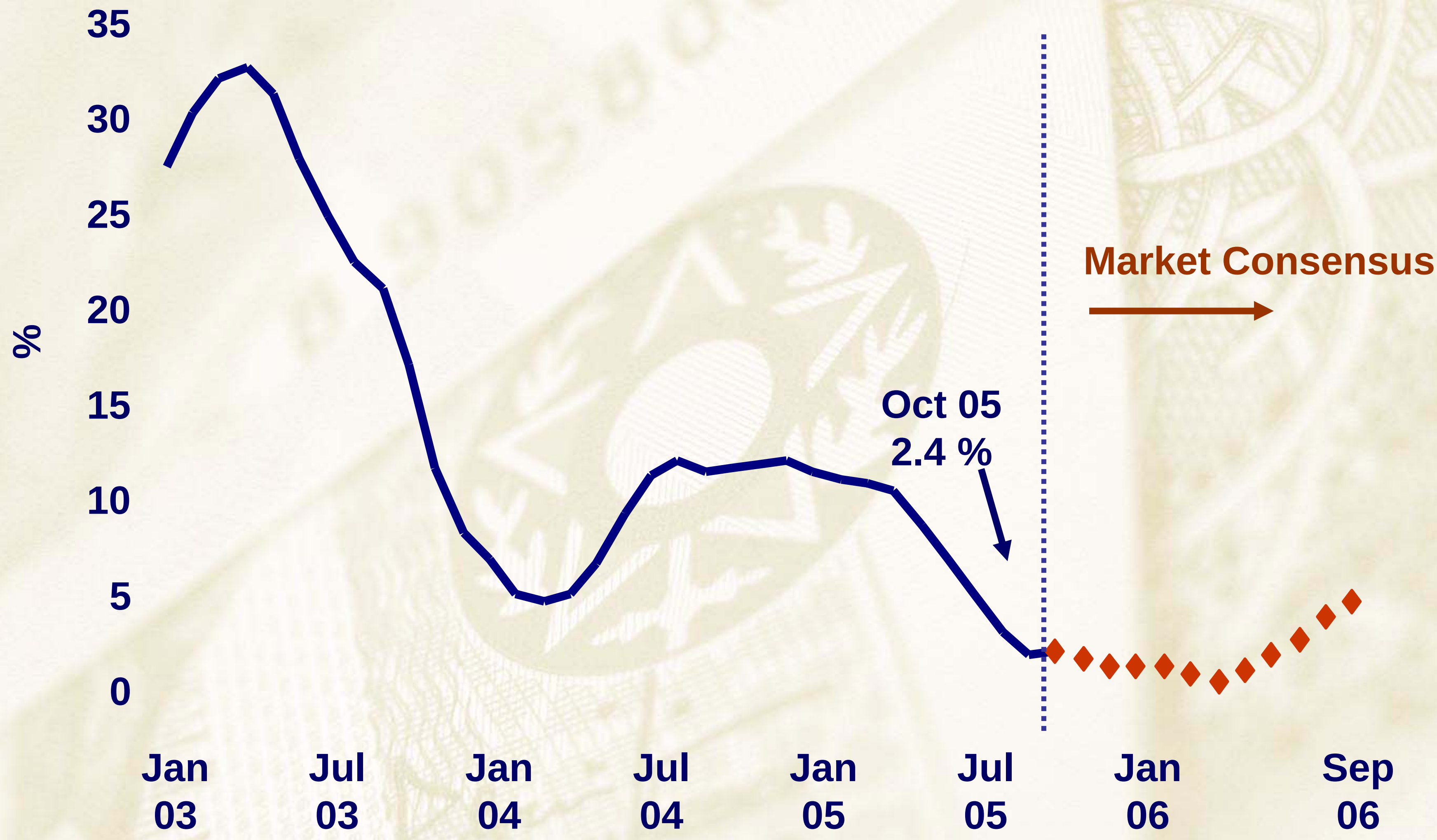
Wholesale inflation (IPA, IPA-10 and IPA-M): Industrial x Agriculture Prices



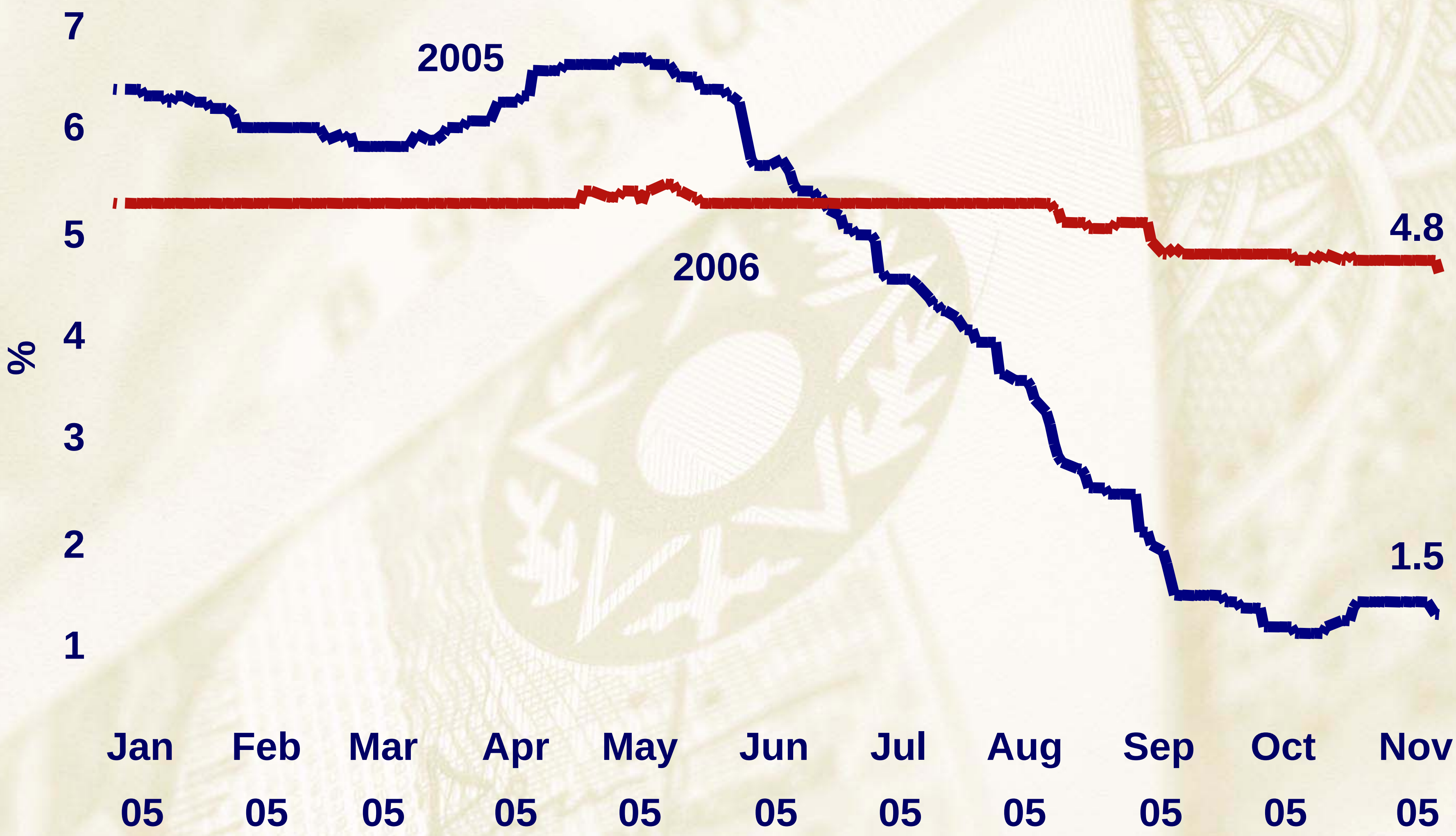
Industrial Prices: IPA x IPCA



IGP-M in 12 Months

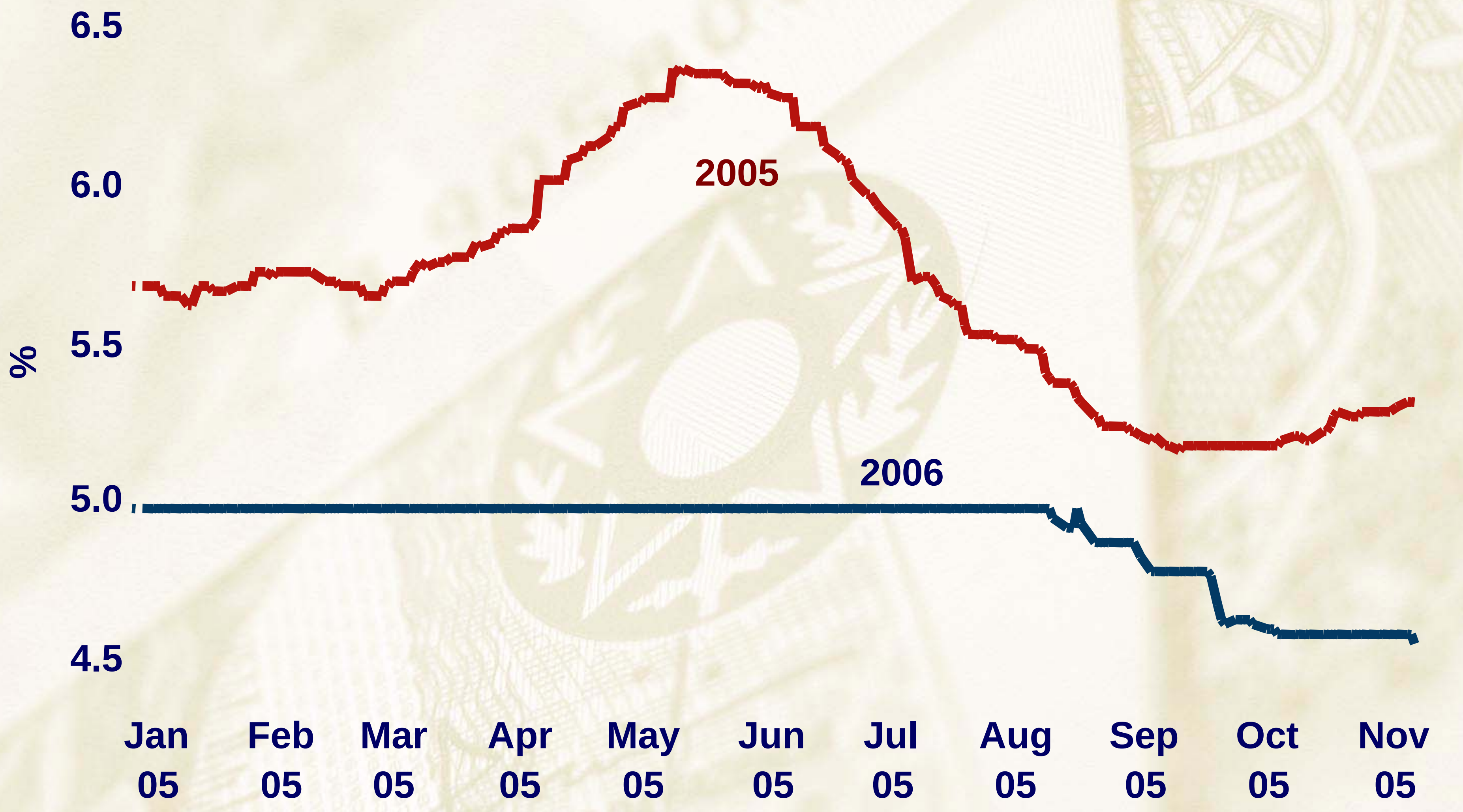


IGP-M Expectations: 2005 and 2006

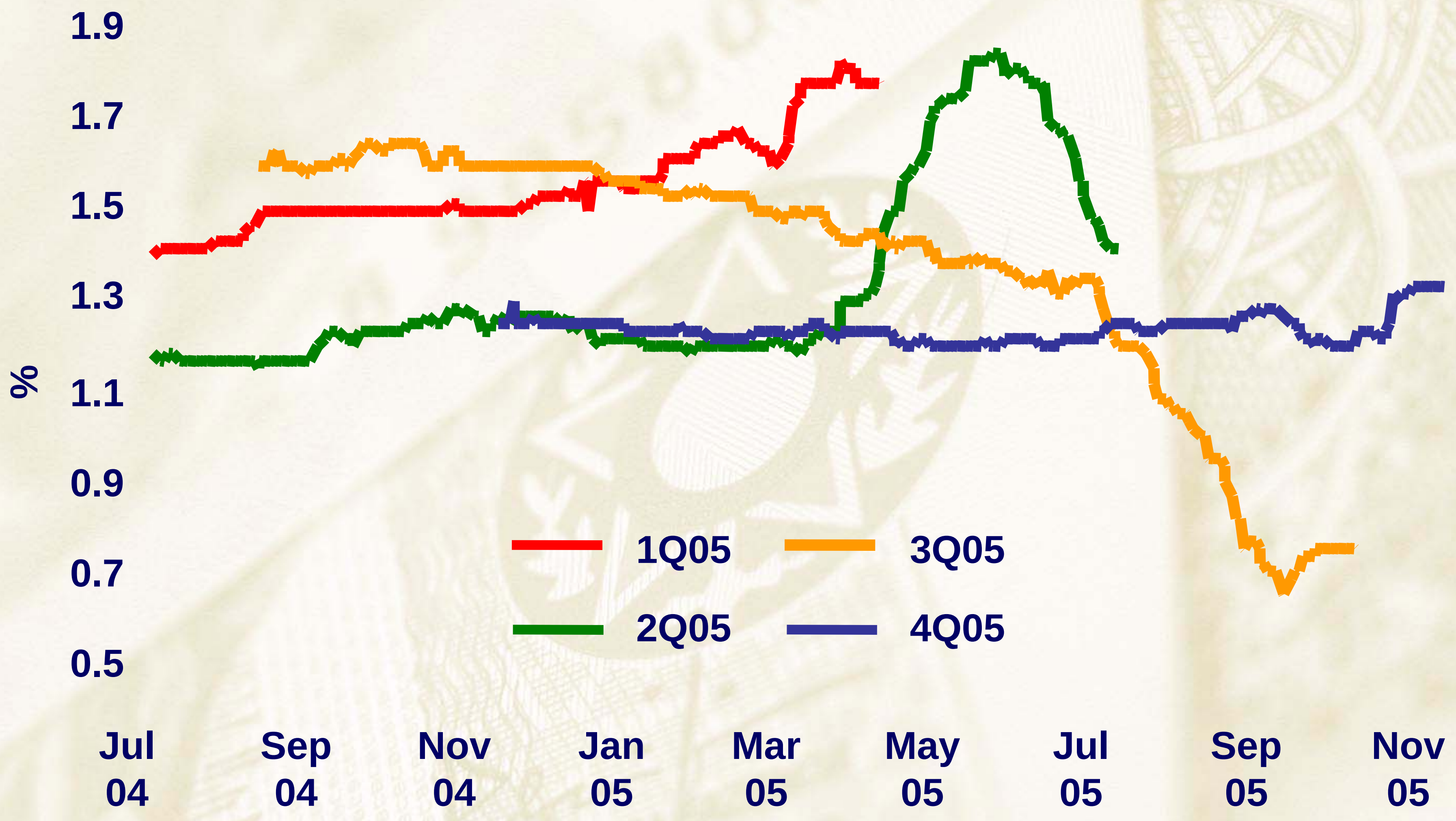


IPCA Inflation in 12 Months

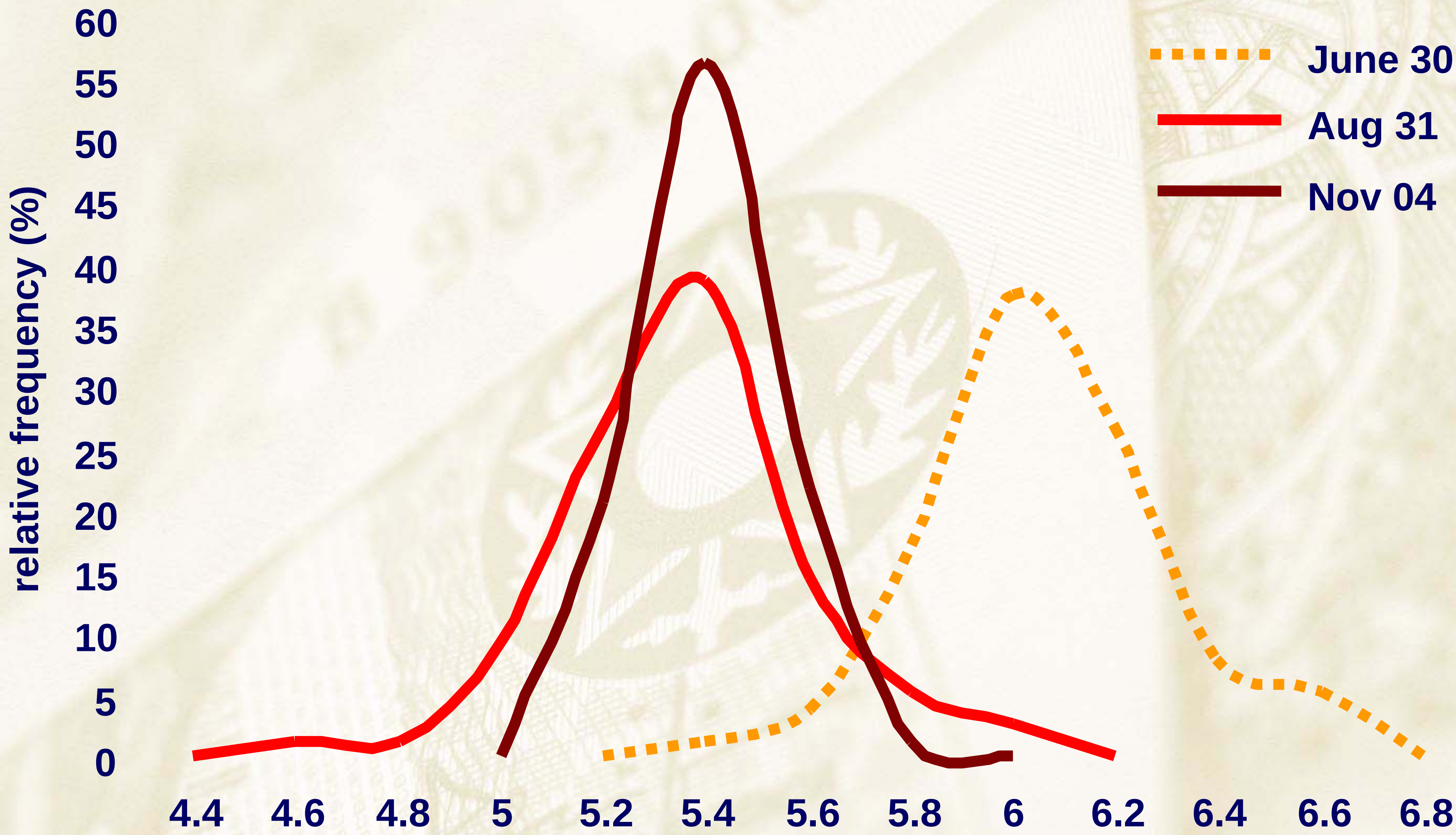
Market Inflation Expectations for 2005/06



Market Inflation Expectations for 2005

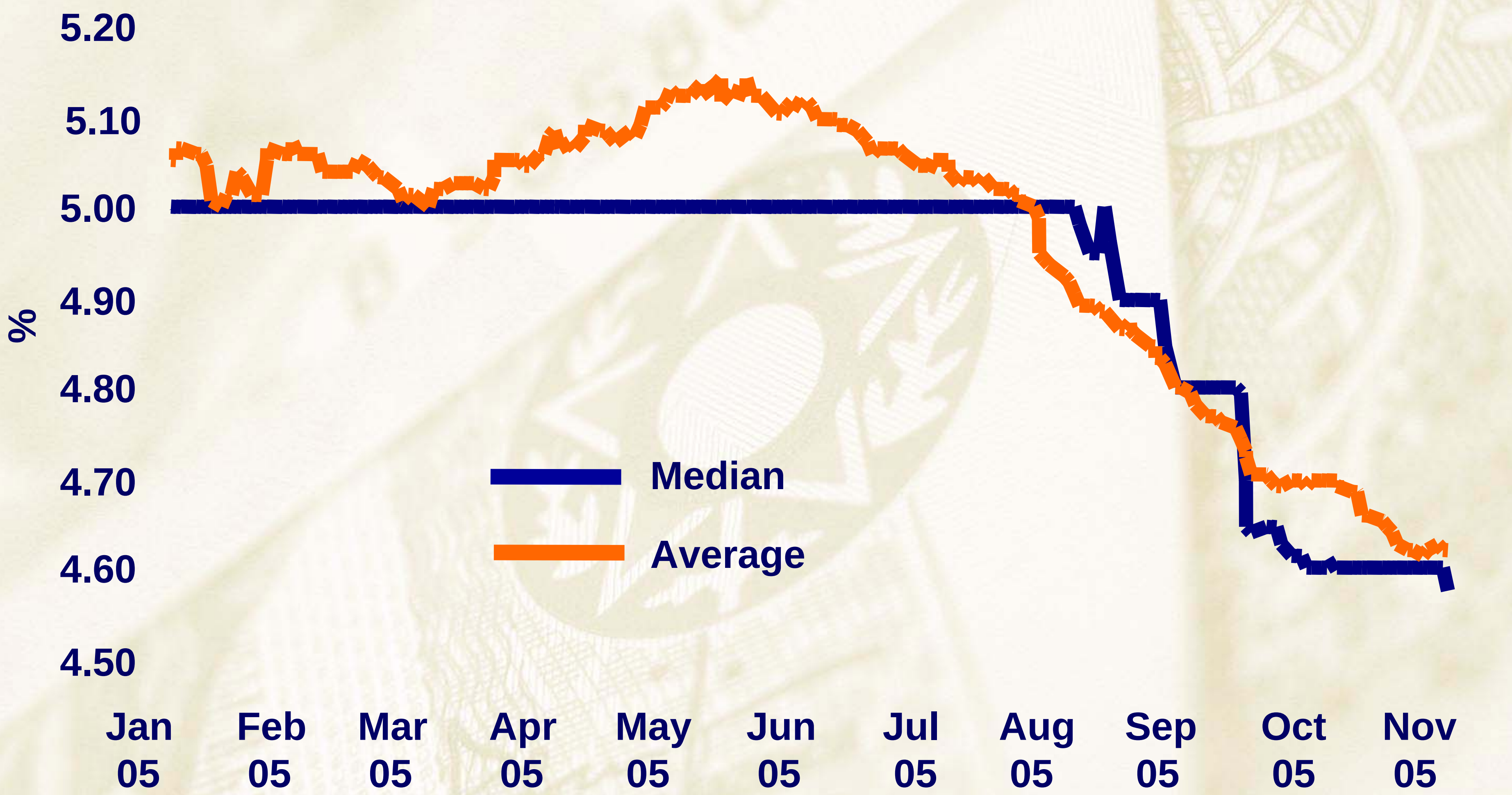


Distribution of Market IPCA Expectations for 2005

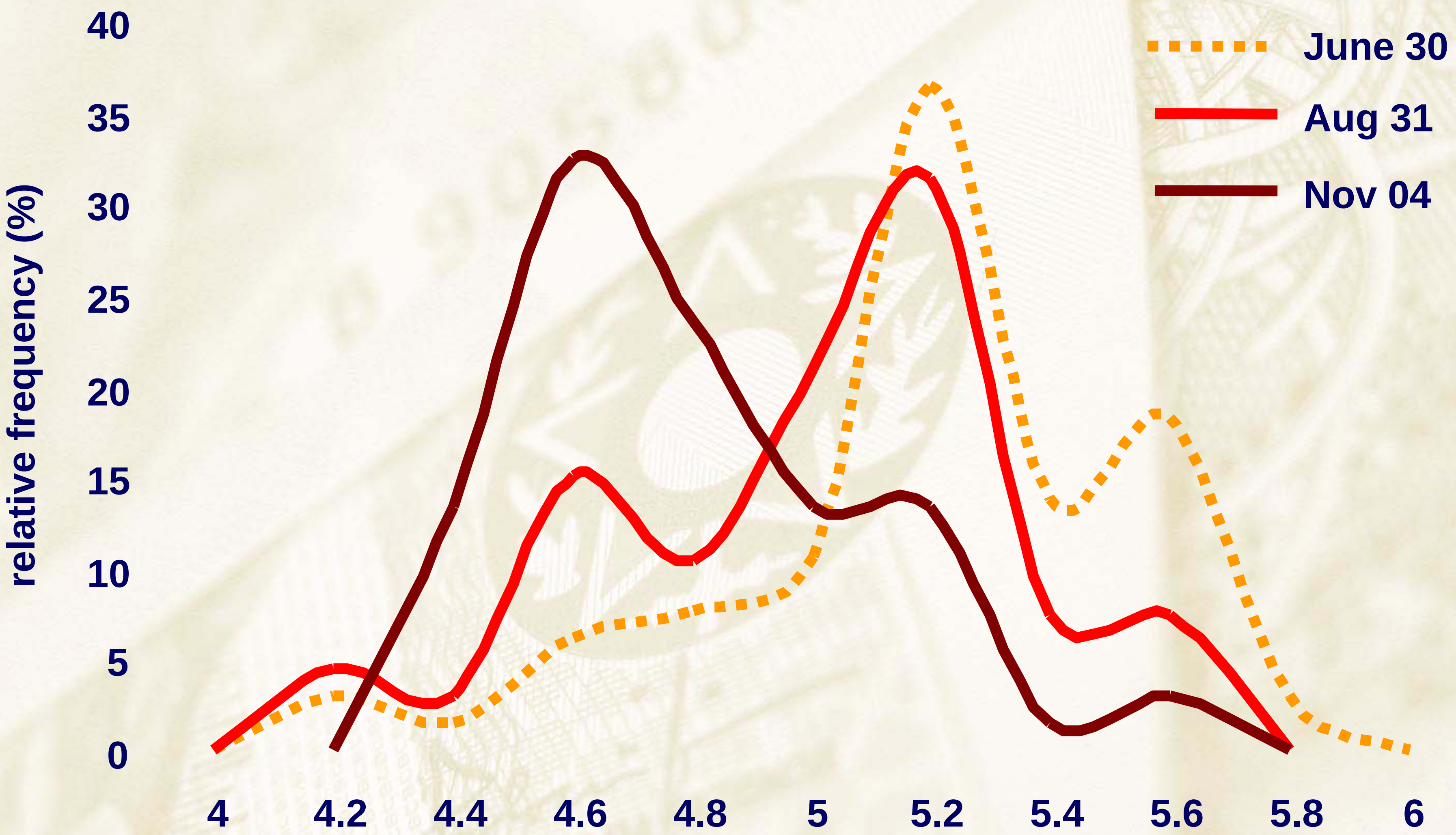


12-Month Ahead Inflation Expectations

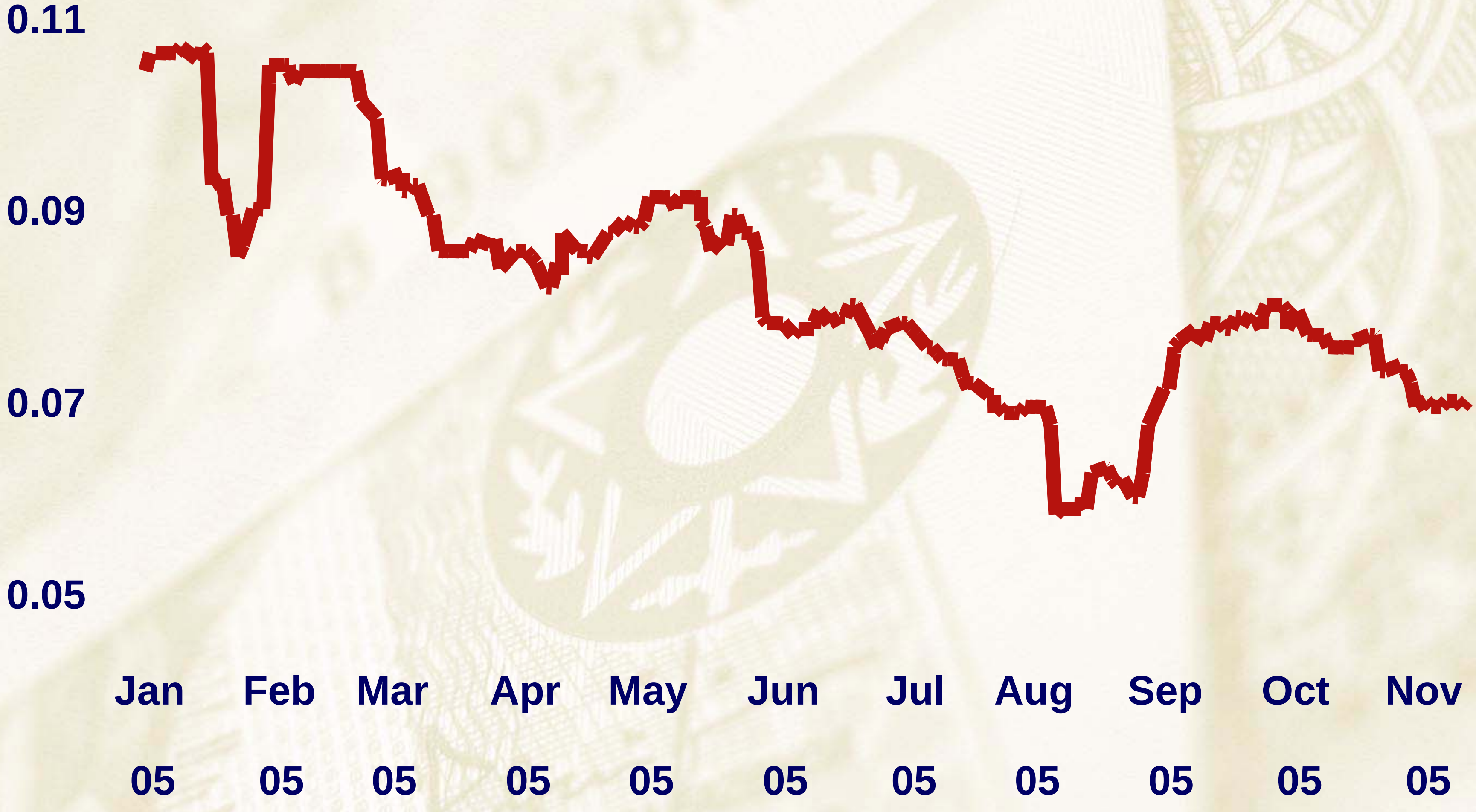
Market Inflation Expectations for 2006



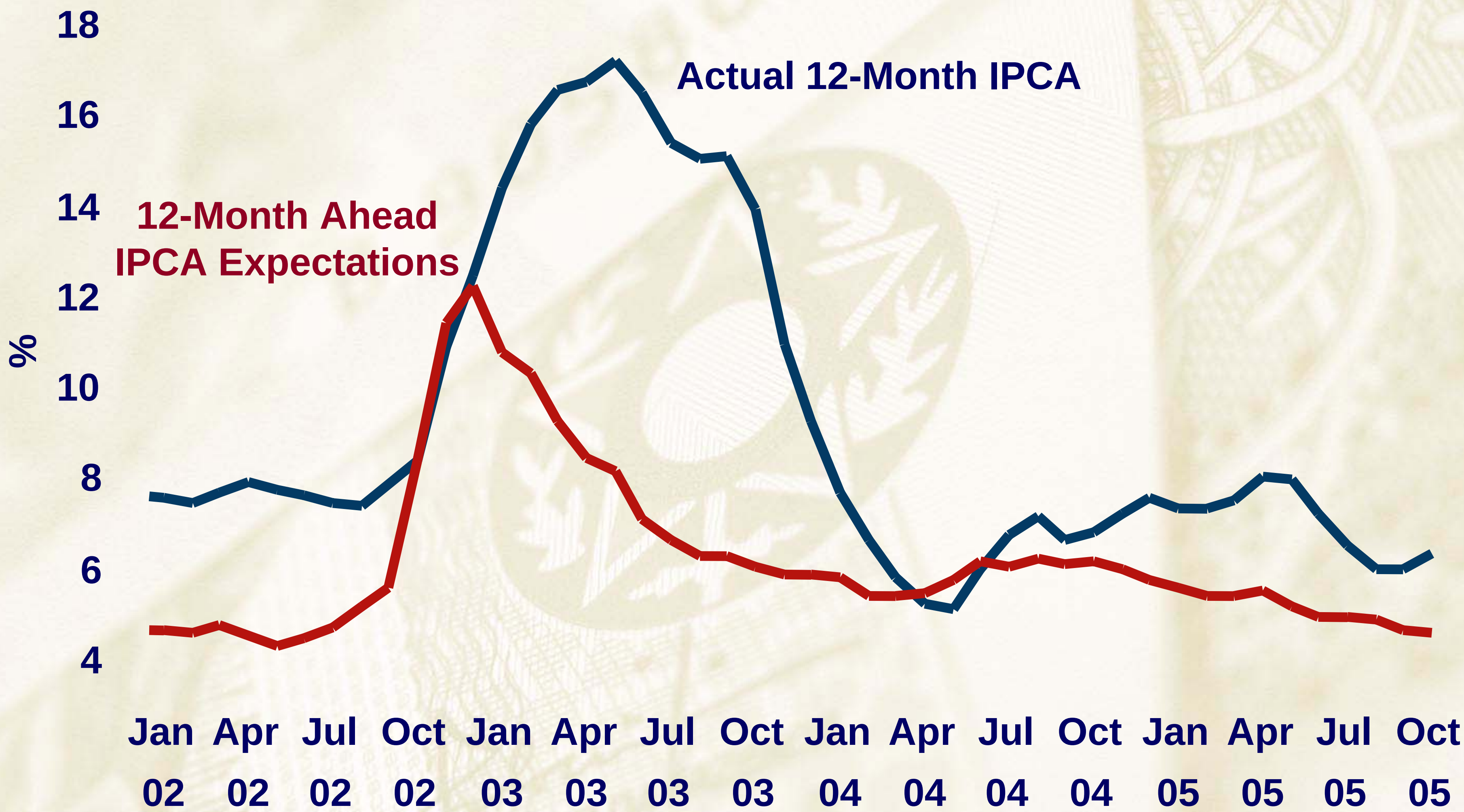
Distribution of Market IPCA Expectations for 2006



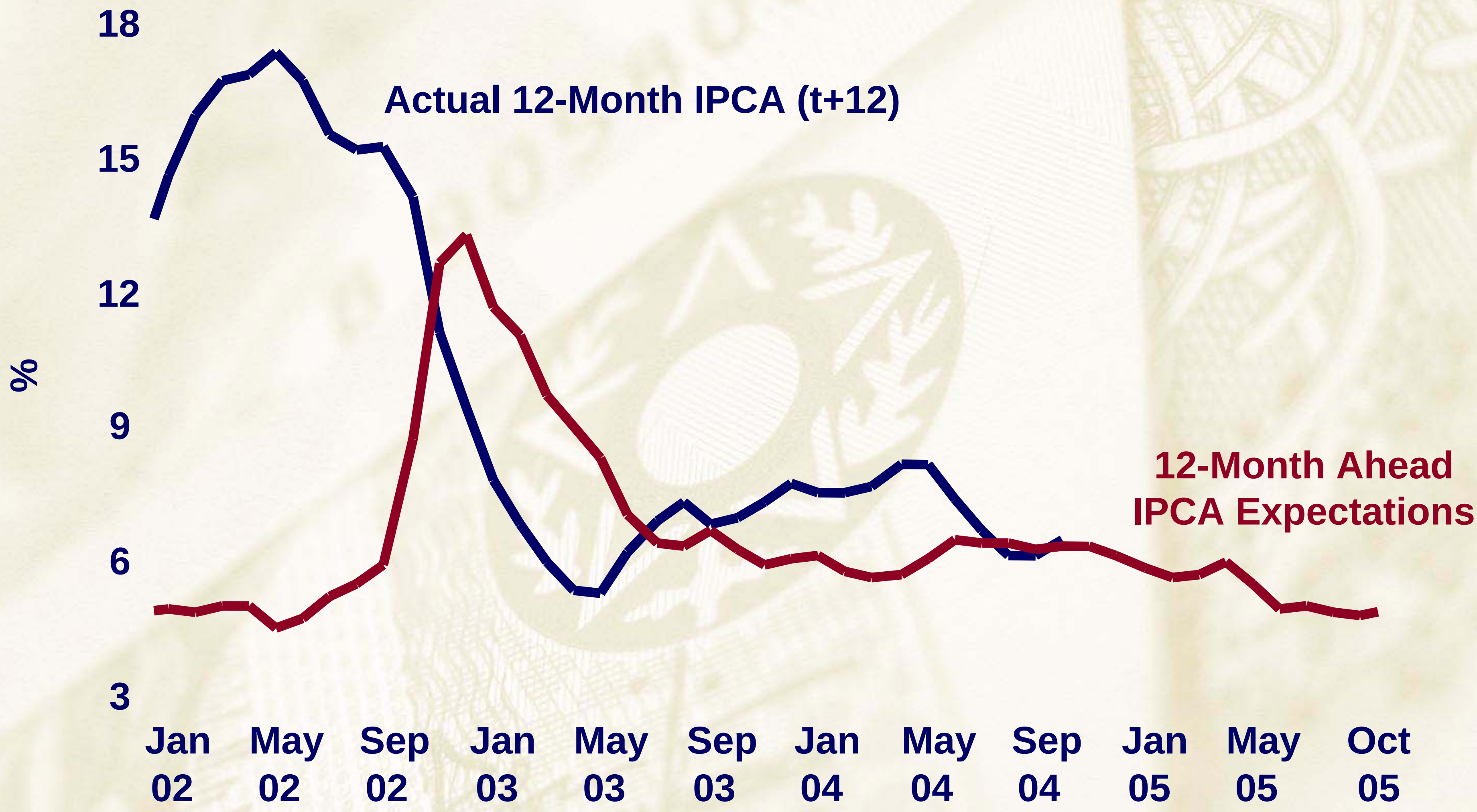
Variation Coefficient of Market IPCA Expectations for 2006



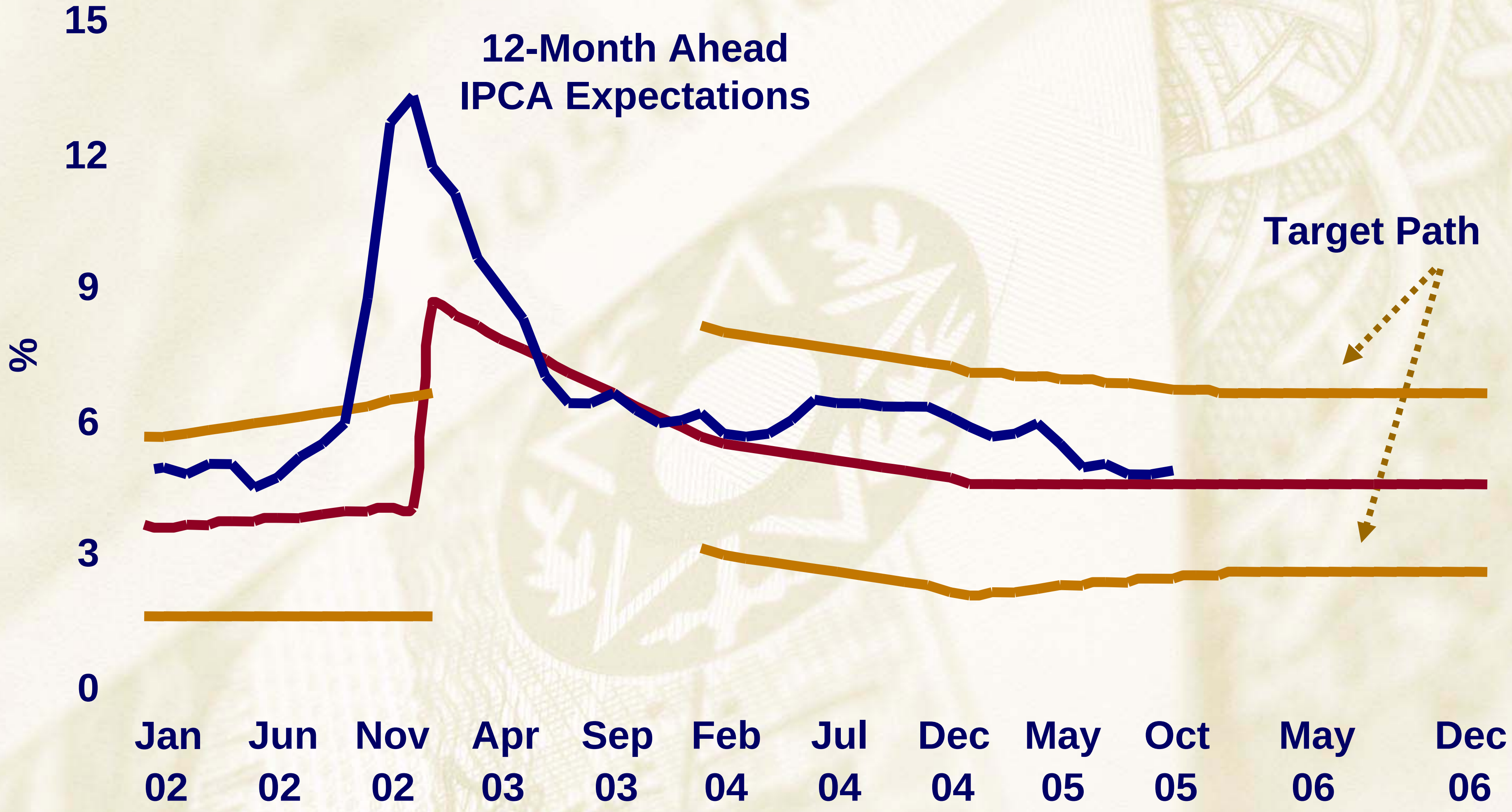
Actual and Expected IPCA



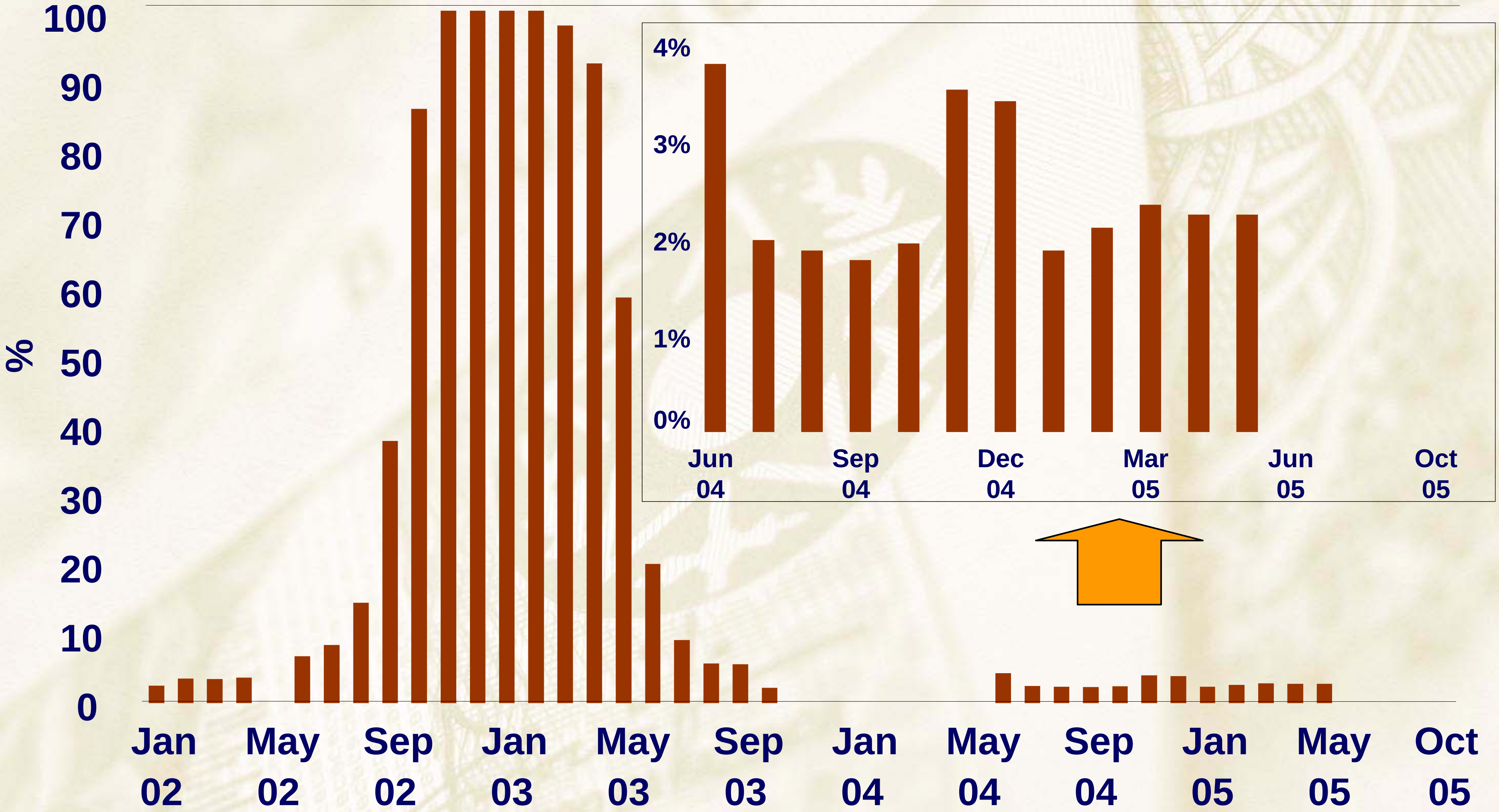
Difference between Actual and Expected IPCA



Inflation Expectations and Target Path



Market Inflation Expectations: % of Surveyed Participants Expecting IPCA Above Target Path



Inflation Forecasts: September/2005 “Inflation Report”

IPCA Inflation Forecast with 19.50% p.a. Interest Rate

(Benchmark Scenario)

		Confidence Intervals						
		50%						
			30%					
				10%				Central Projection
2005	3	5.7	5.9	6.0	6.1	6.3	6.4	6.1
2005	4	4.3	4.6	4.9	5.1	5.4	5.7	5.0
2006	1	3.0	3.5	3.9	4.3	4.7	5.2	4.1
2006	2	2.2	2.8	3.3	3.9	4.4	5.0	3.6
2006	3	1.9	2.7	3.3	4.0	4.6	5.3	3.6
2006	4	1.6	2.4	3.1	3.9	4.6	5.4	3.5

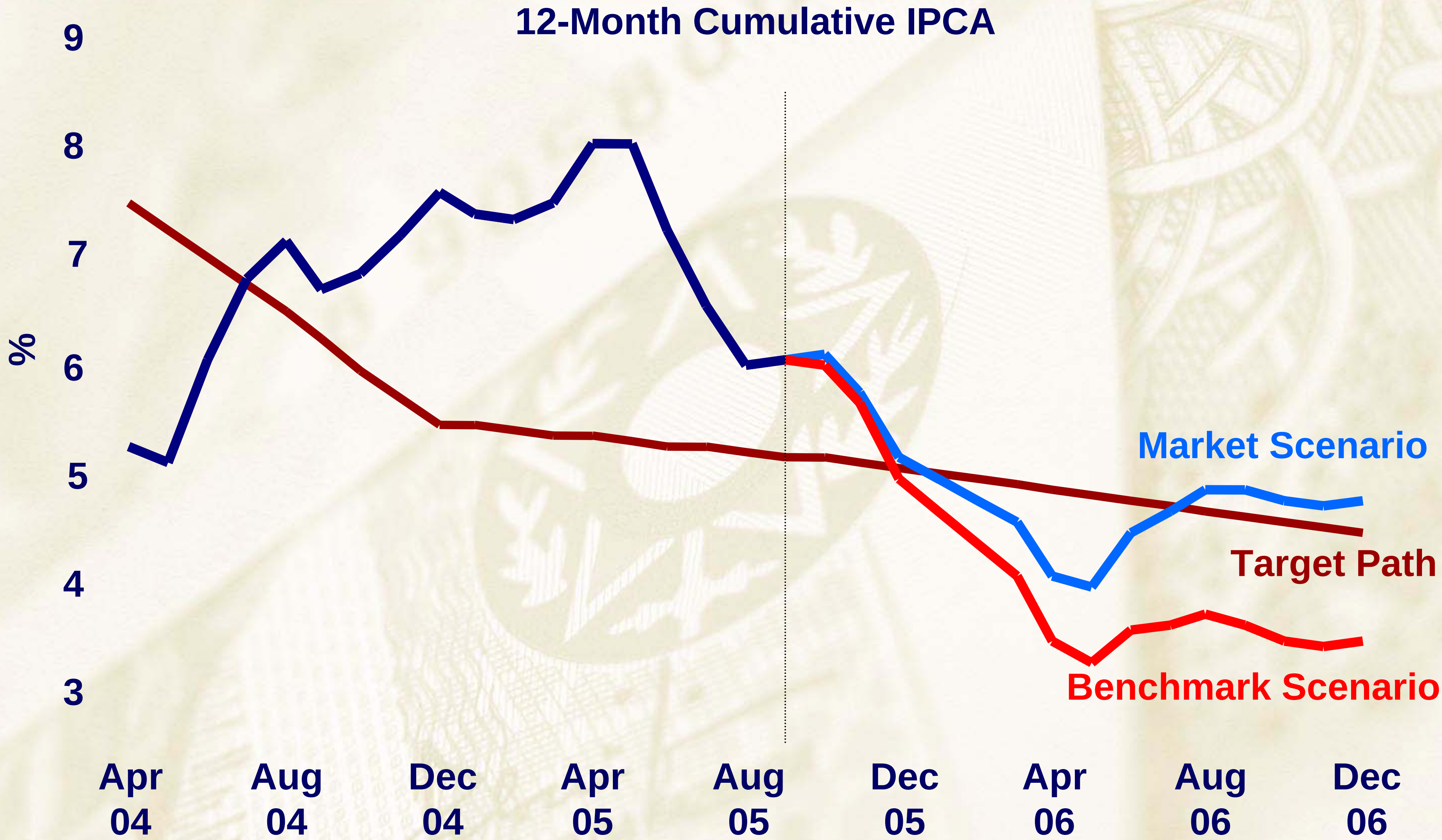
Inflation Forecasts: September/2005 “Inflation Report”

IPCA Inflation Forecast with Market Interest Rates

(Market Scenario)

		Confidence Intervals						
		50%						
			30%					Central Projection
				10%				
2005	3	5.7	5.9	6.0	6.1	6.3	6.4	6.1
2005	4	4.5	4.8	5.1	5.3	5.6	5.9	5.2
2006	1	3.5	4.0	4.4	4.8	5.2	5.6	4.6
2006	2	3.1	3.7	4.2	4.7	5.3	5.9	4.5
2006	3	3.2	3.9	4.6	5.2	5.9	6.6	4.9
2006	4	2.9	3.7	4.4	5.2	5.9	6.7	4.8

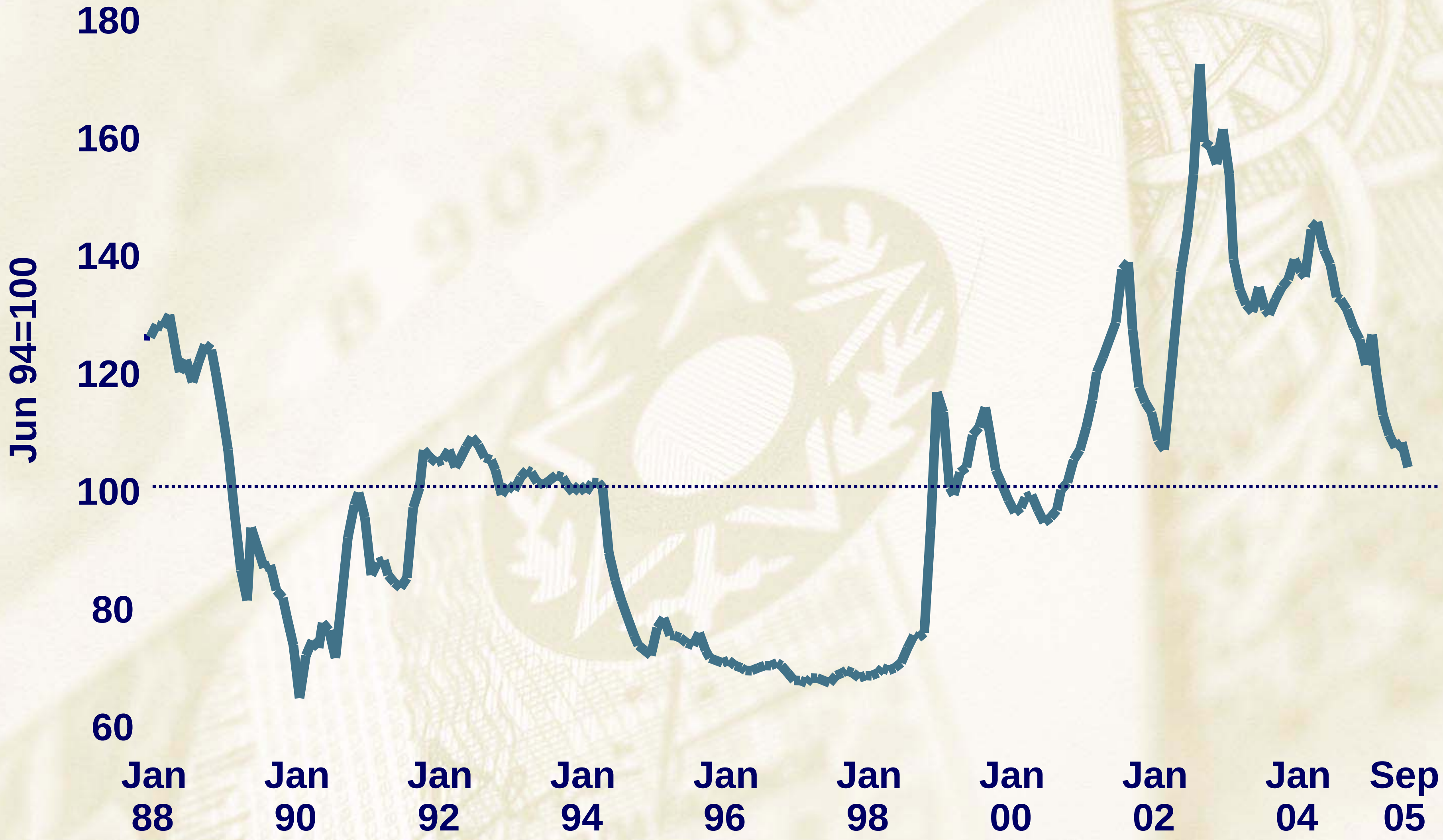
Inflation Forecasts: September/2005 "Inflation Report"



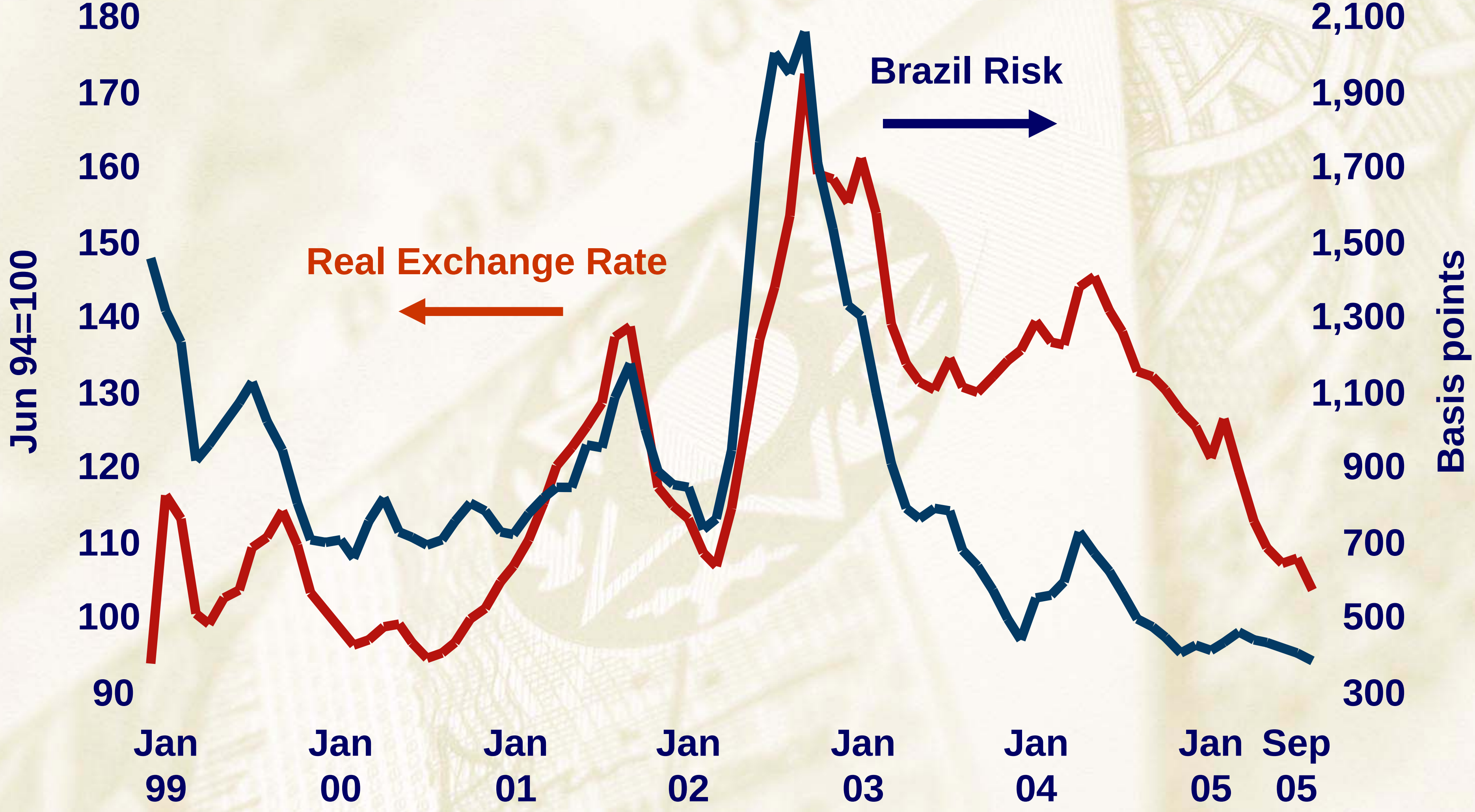
- **External Sector**

Nominal Exchange Rate

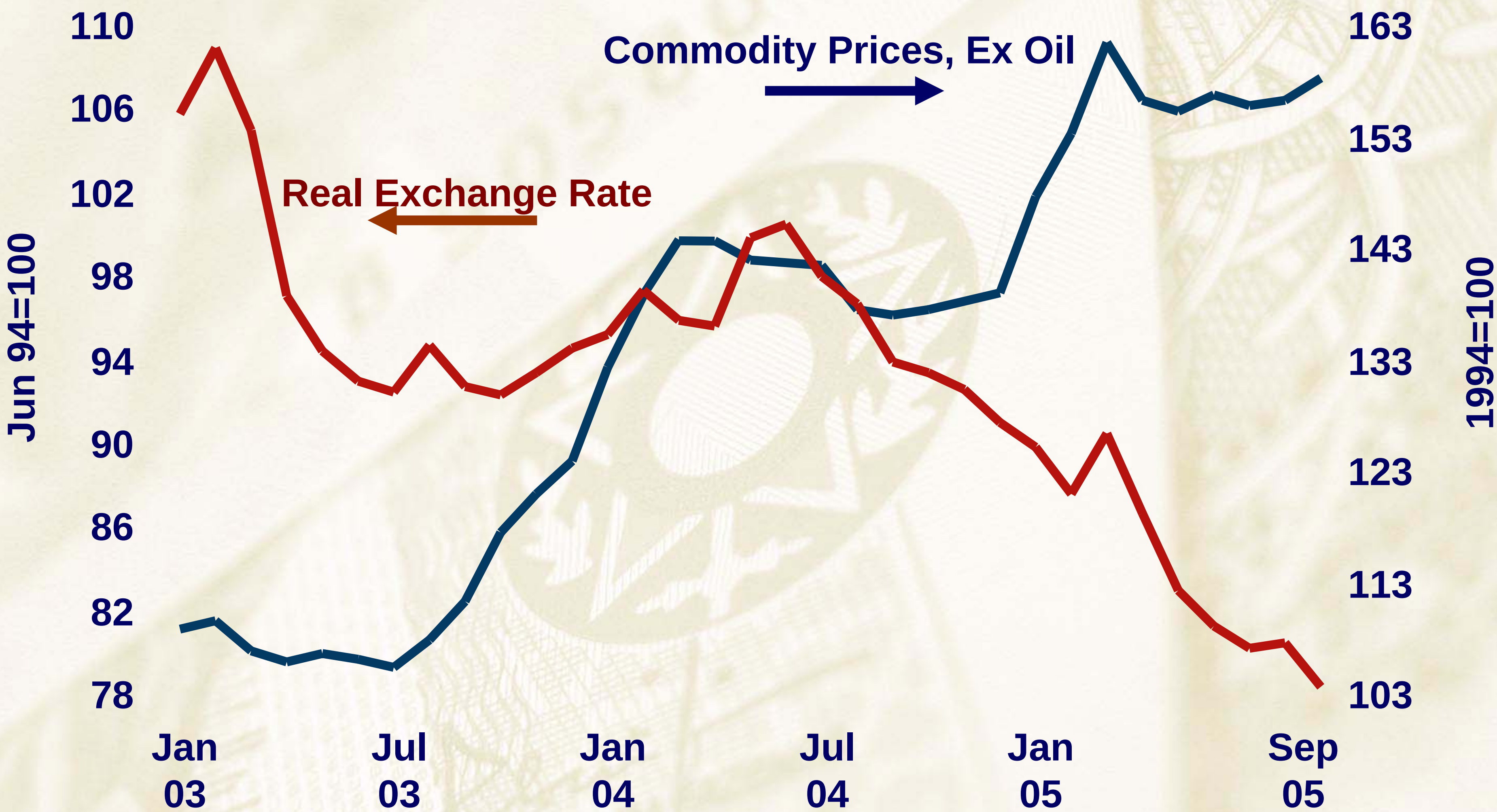
Real Effective Exchange Rate



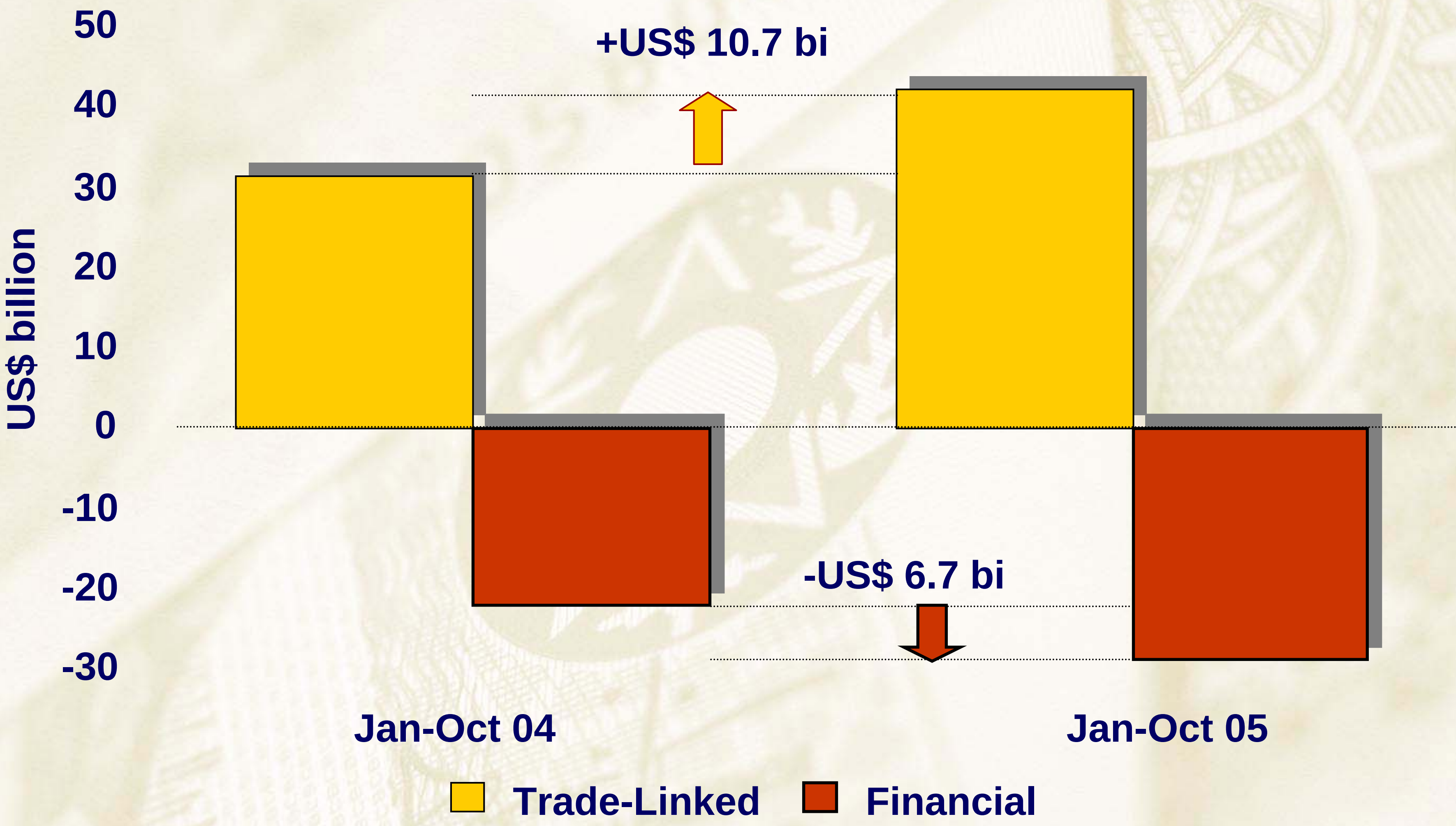
Real Exchange Rate x Brazil Risk



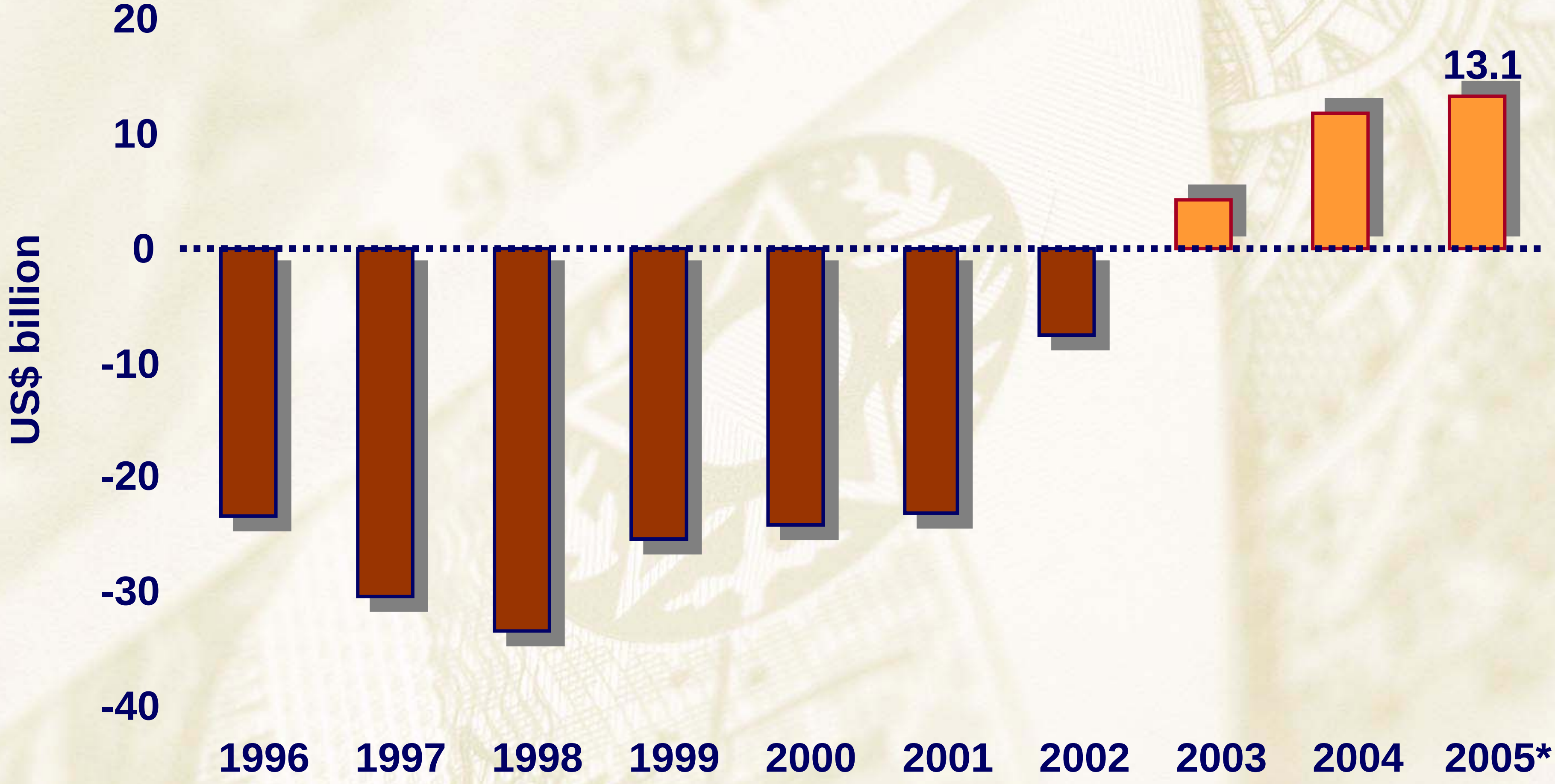
Real Exchange Rate x Commodity Prices



Net Foreign Exchange Flows

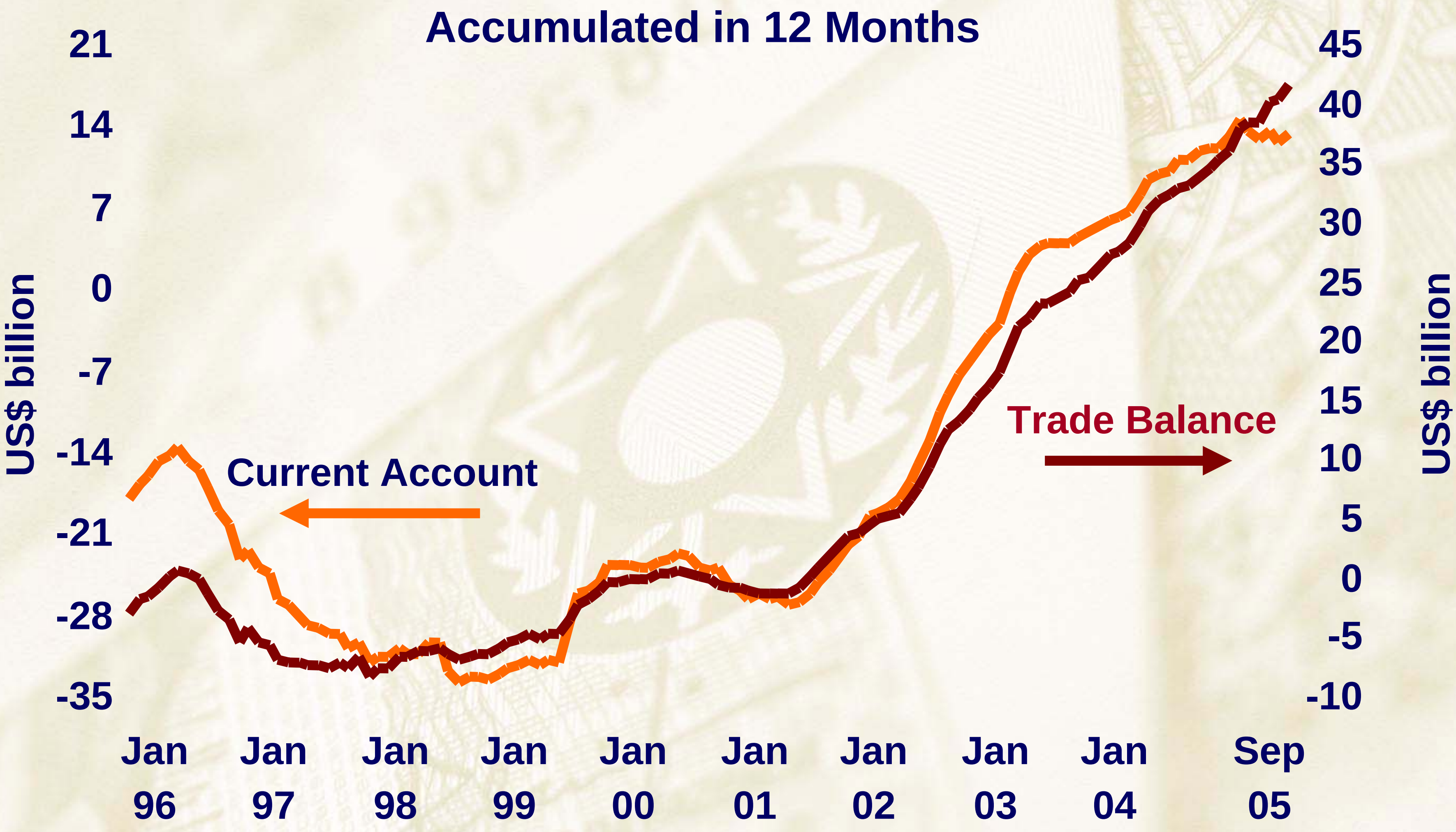


Current Account



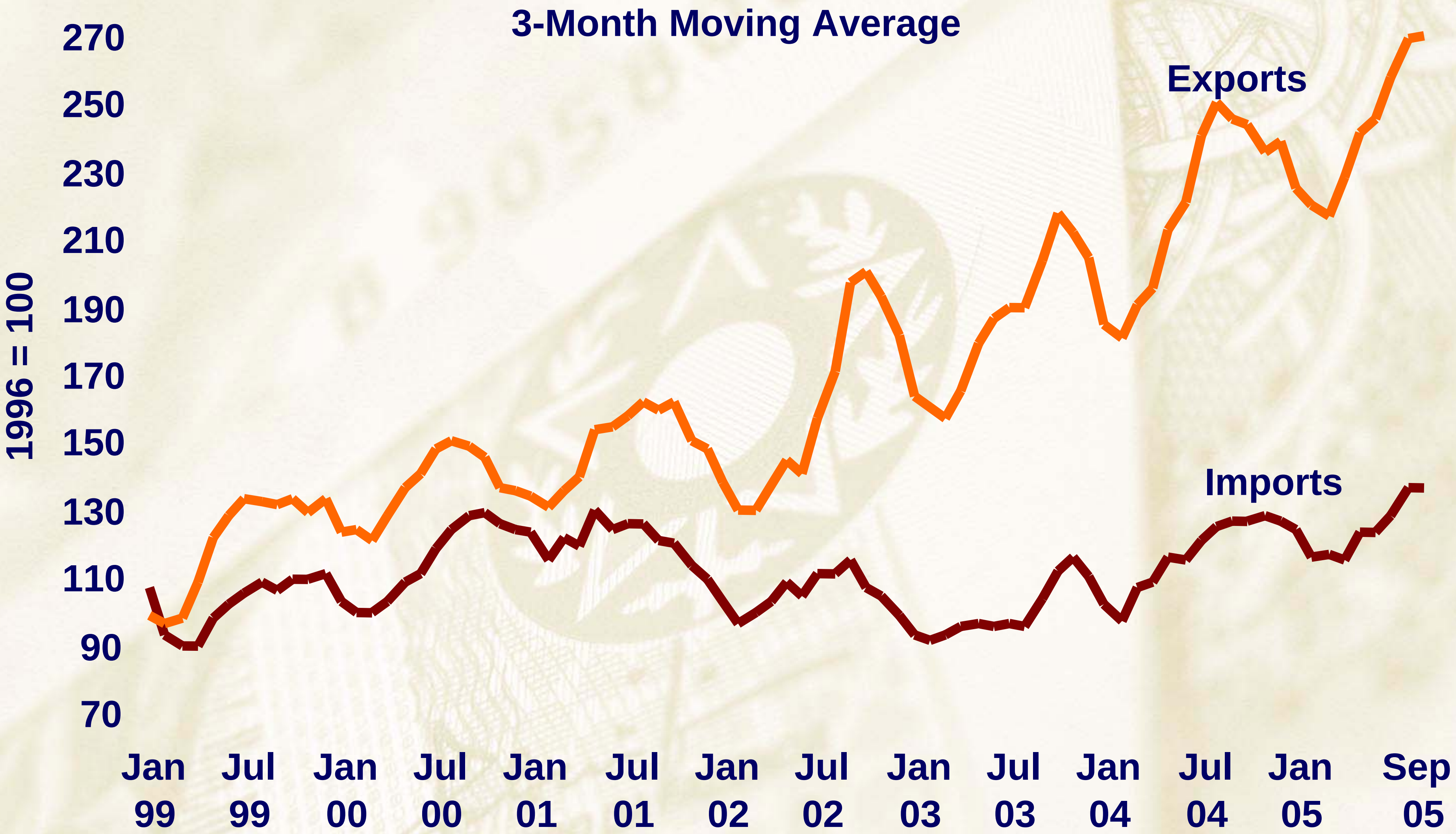
* 12 months through September

Current Account vs. Trade Balance

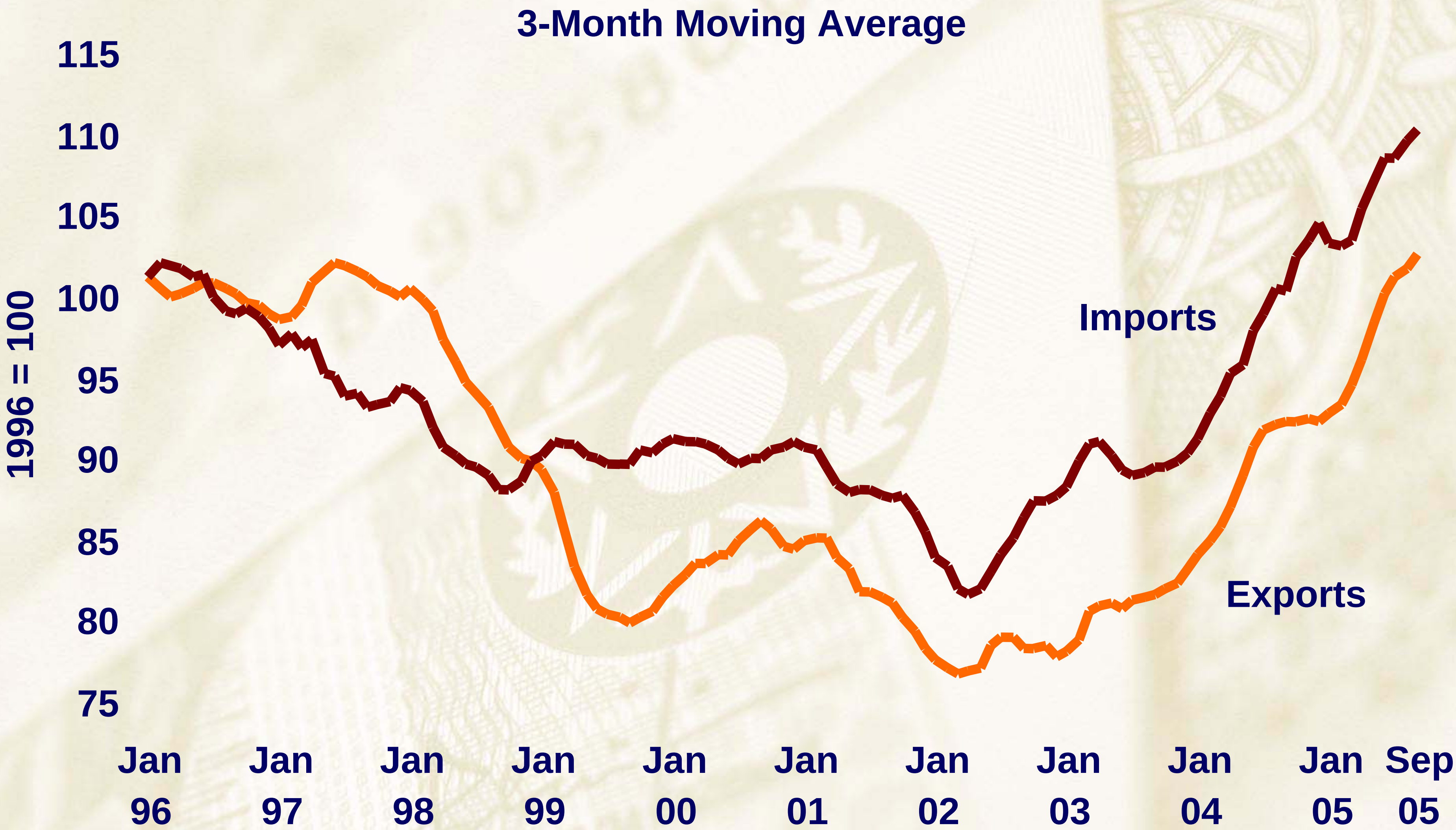


Trade Balance

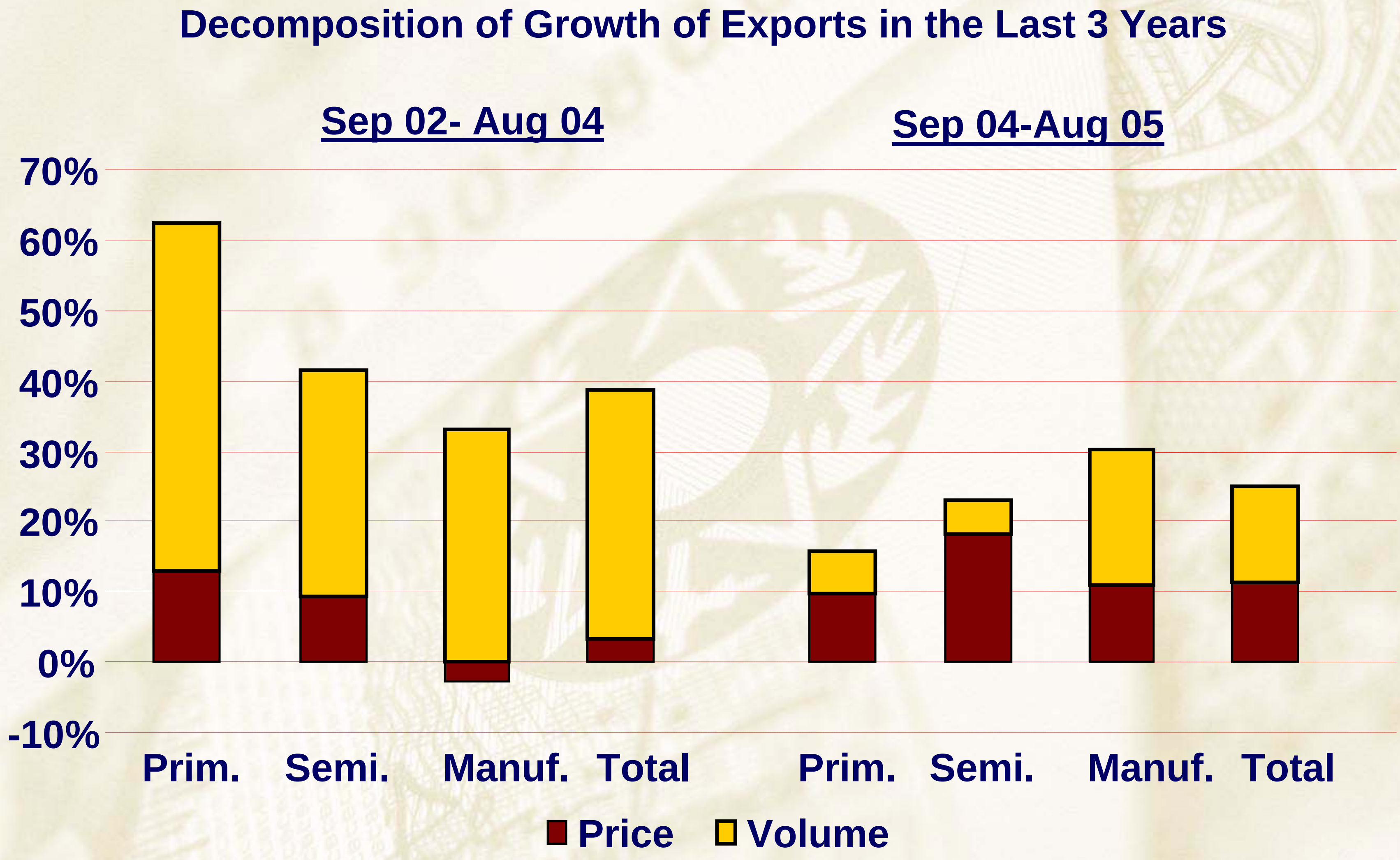
Exports and Imports Volume



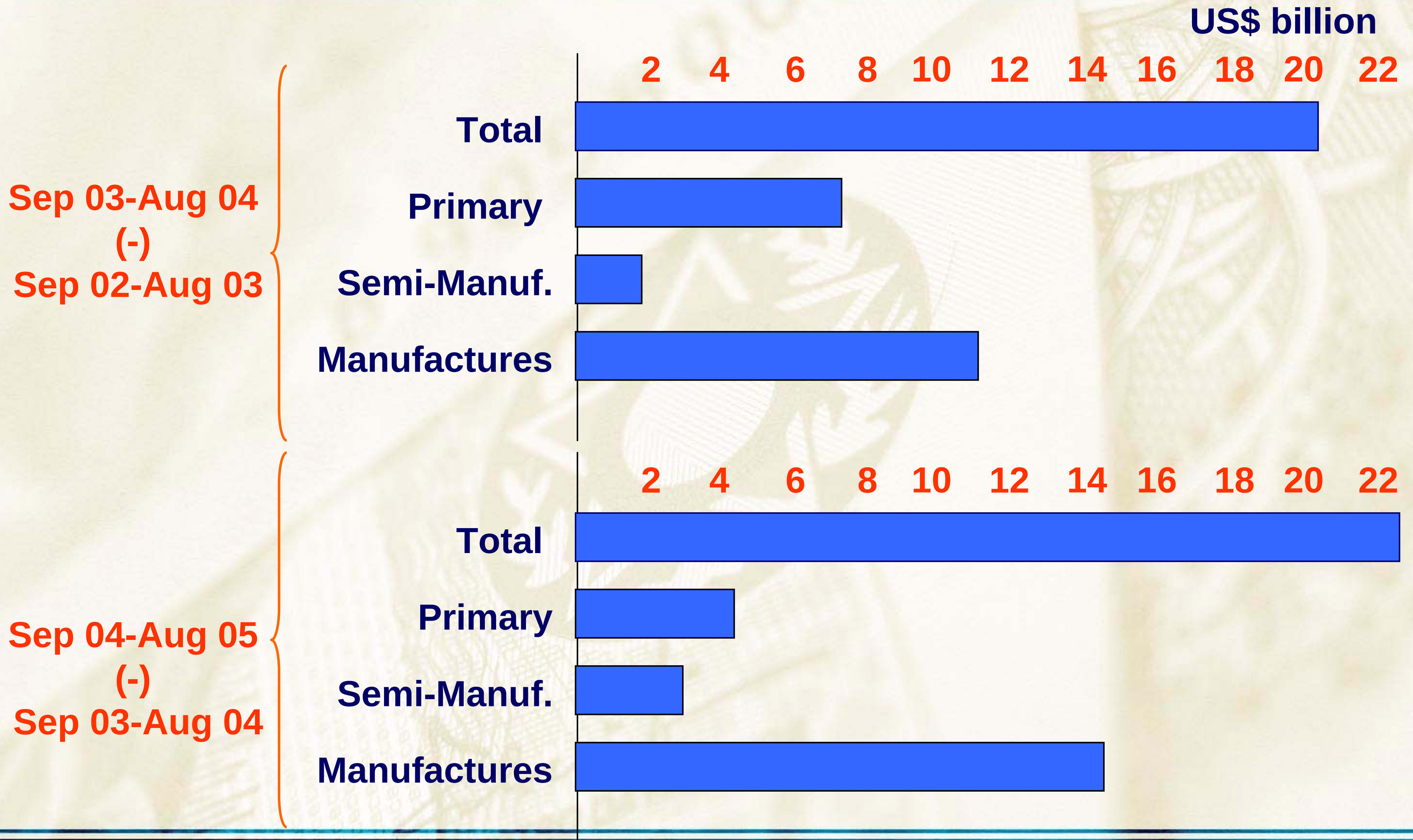
Export and Import Prices



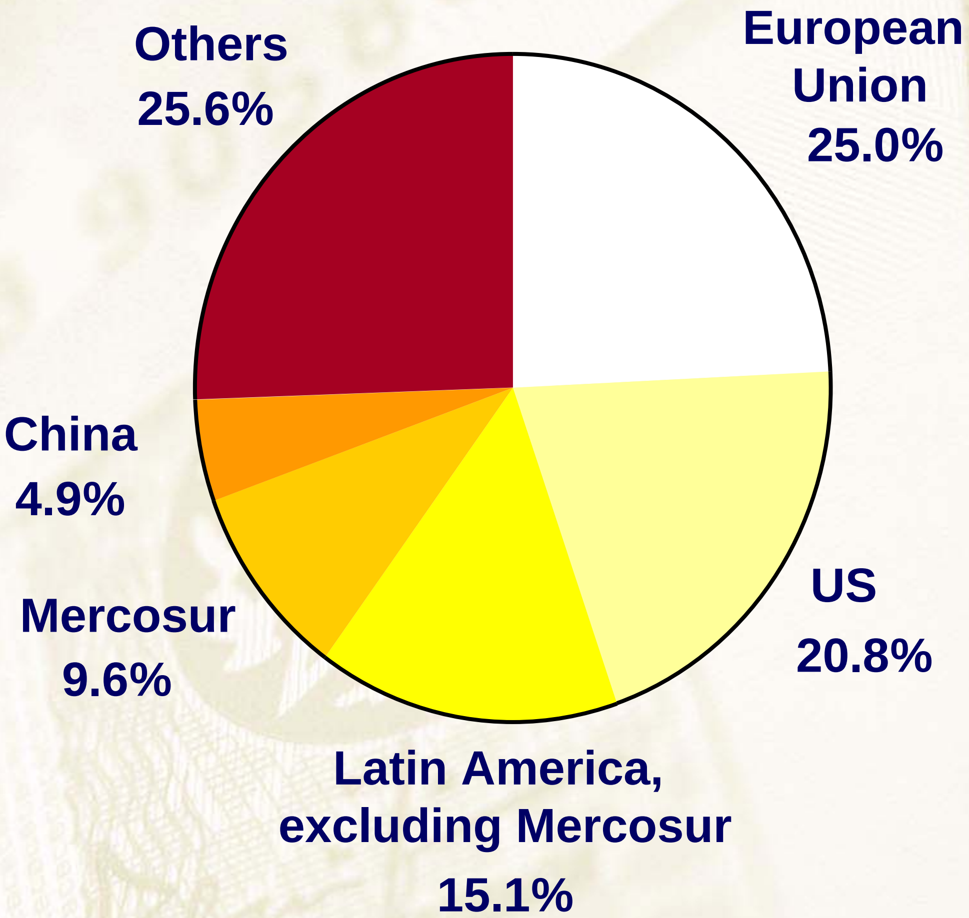
Exports: Price and Volume Effect



Exports: Growth by Category

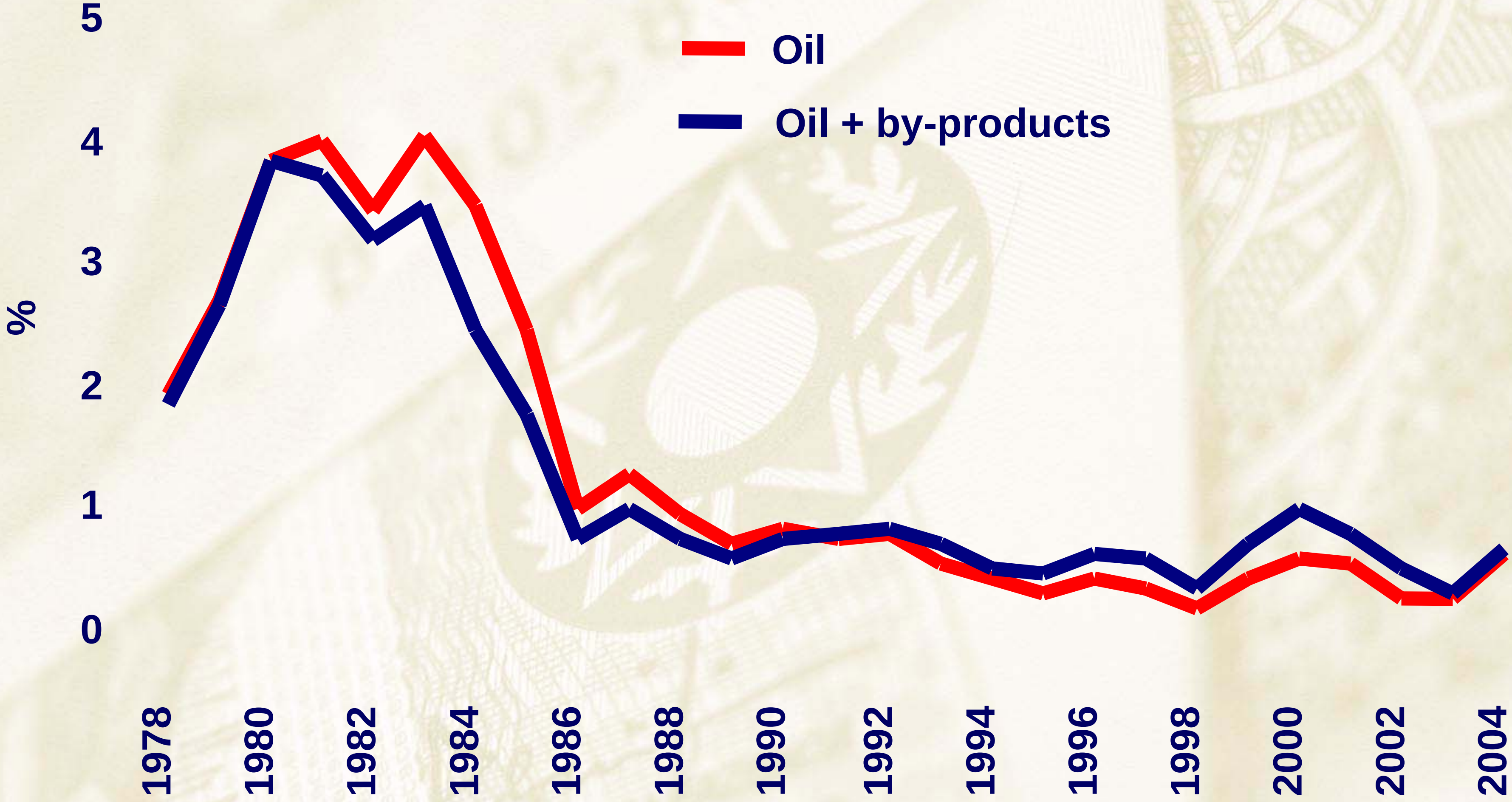


Exports by Markets: 2004/2005

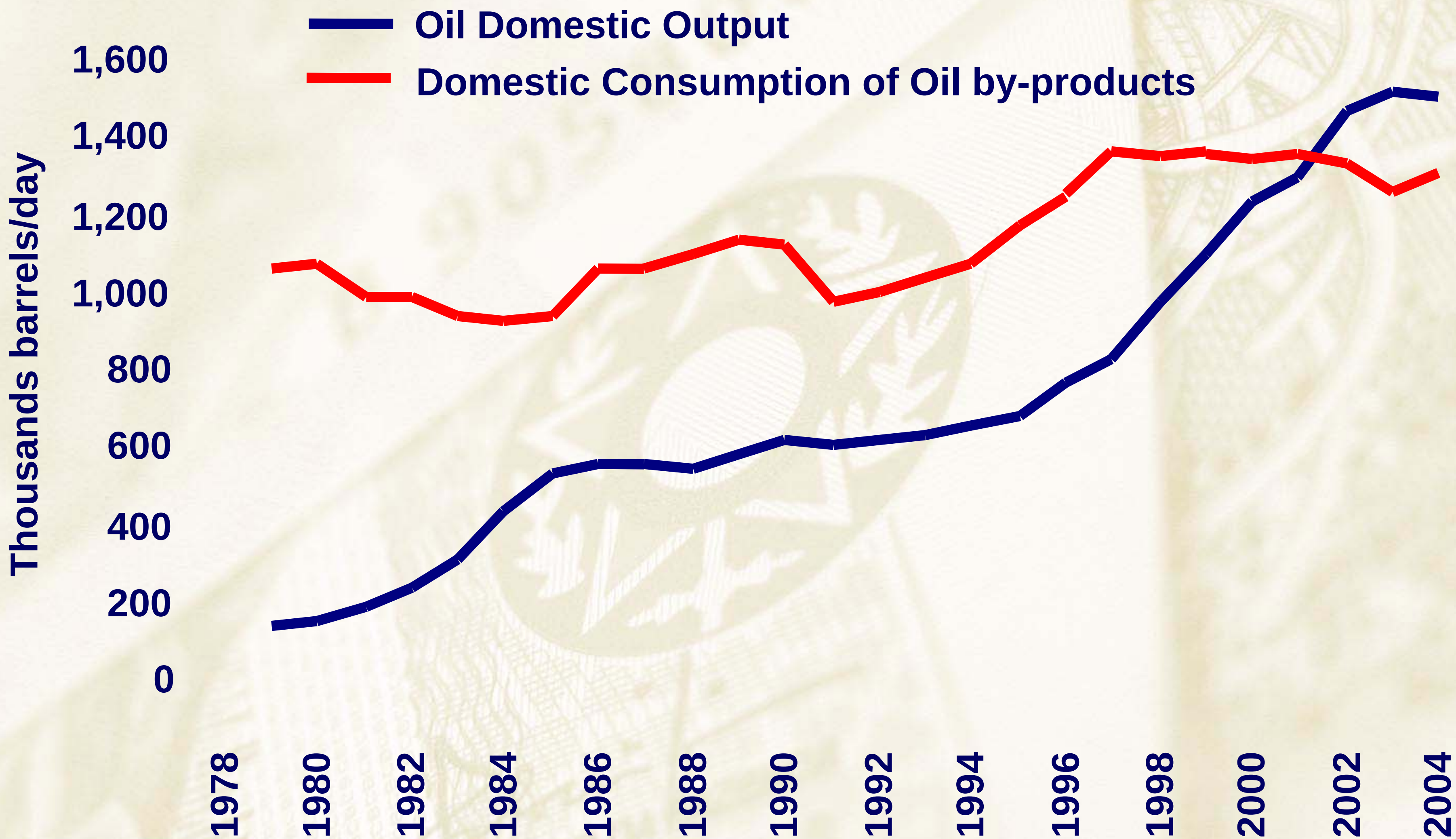


Exports Concentration, by Market (Herfindahl-Hirschman Index)

Net Oil Imports/GDP ratio

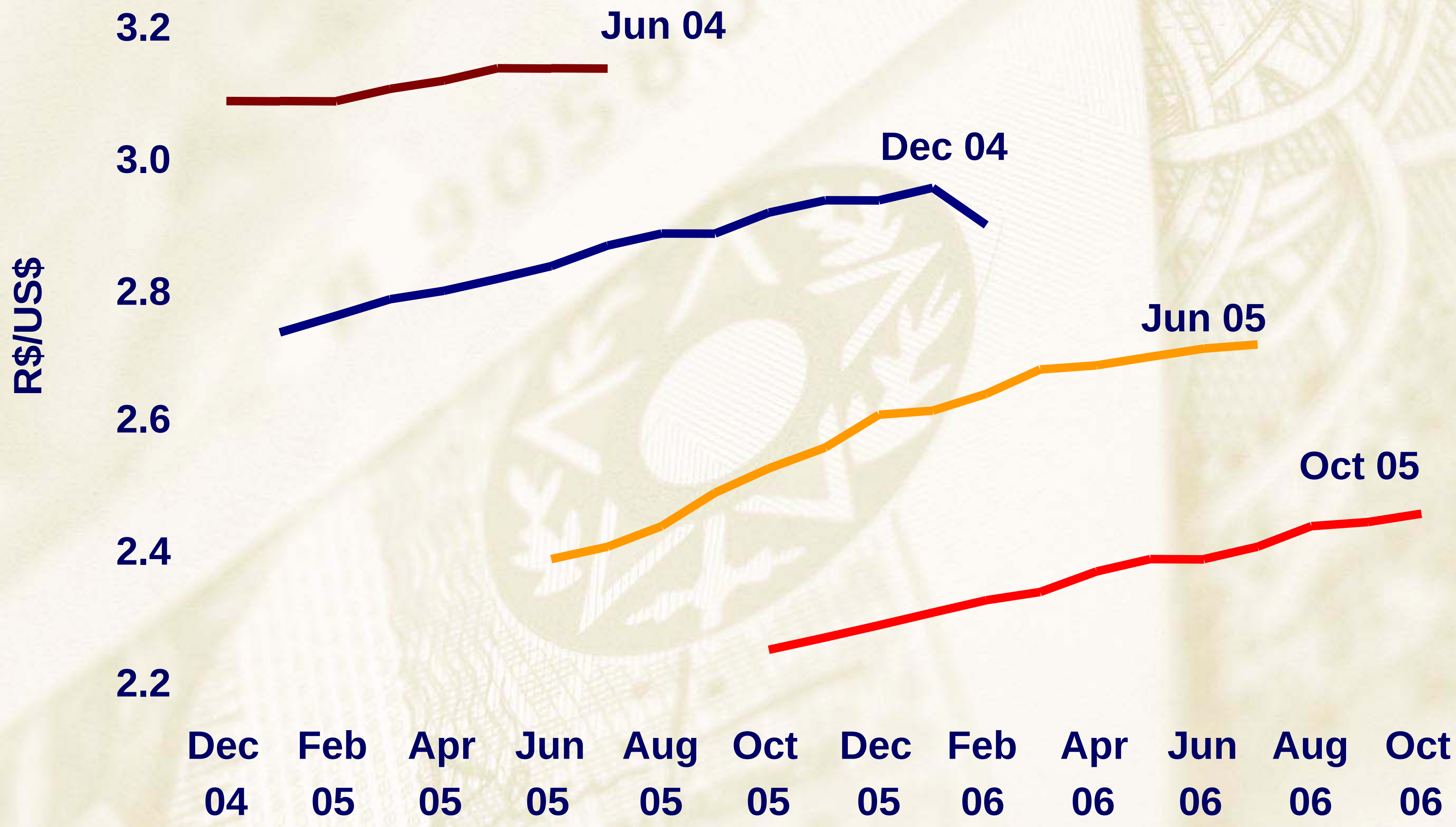


Oil Production and Consumption



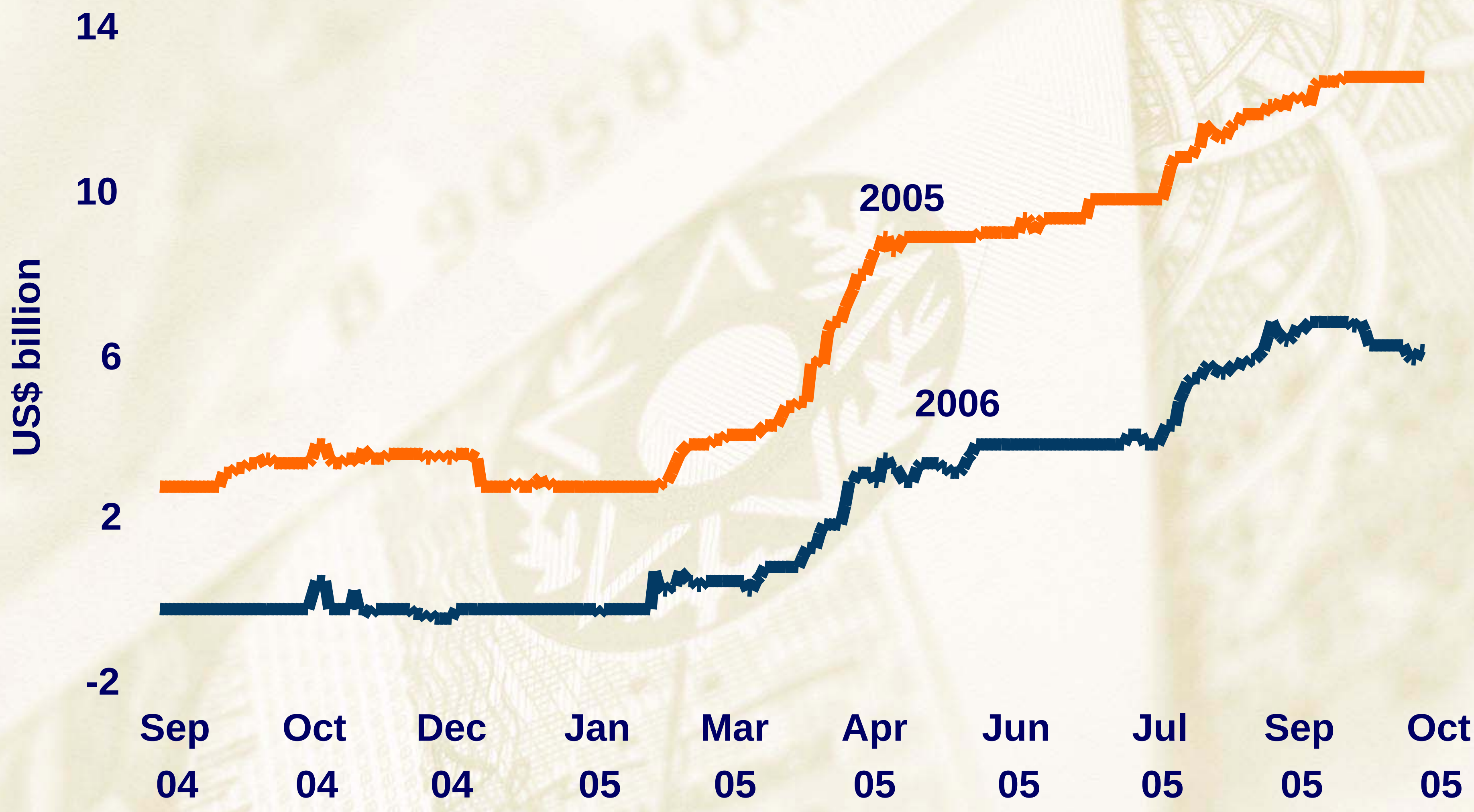
Oil Domestic Consumption/GDP Ratio

Market Expectations for the Exchange Rate in Selected Months



Market Expectations for Trade Balance in 2005 and 2006

Market Expectations for Current Account in 2005 and 2006



Balance of Payments: Uses and Sources

US$ billion

	2005	2006
Uses	**-23.7**	**-24.3**
Current account	9.4	0.7
Trade Balance	38.0	29.0
Services and income	-32.0	-31.8
Current unilateral transfers	3.4	3.5
Medium- & long-term amortizations	-33.2	-25.0
Sources	**23.7**	**24.3**
Capital account	0.7	0.7
Foreign direct investment	16.0	16.0
Equity capital (net)	14.0	16.0
Intercompany loans (net)	2.0	0.0
Equities & long-term debt securities issued in Brazil	5.0	4.0
Medium- & long-term disbursements	26.6	20.7
Brazilian investments abroad	-7.9	-9.6
Bank deposits	-3.2	-5.6
Other assets	-4.7	-4.0
Loans to Banco Central (IMF)	-7.8	-7.2
Short-term and other	-0.6	0.0
Reserve assets	**-8.2**	**-0.3**

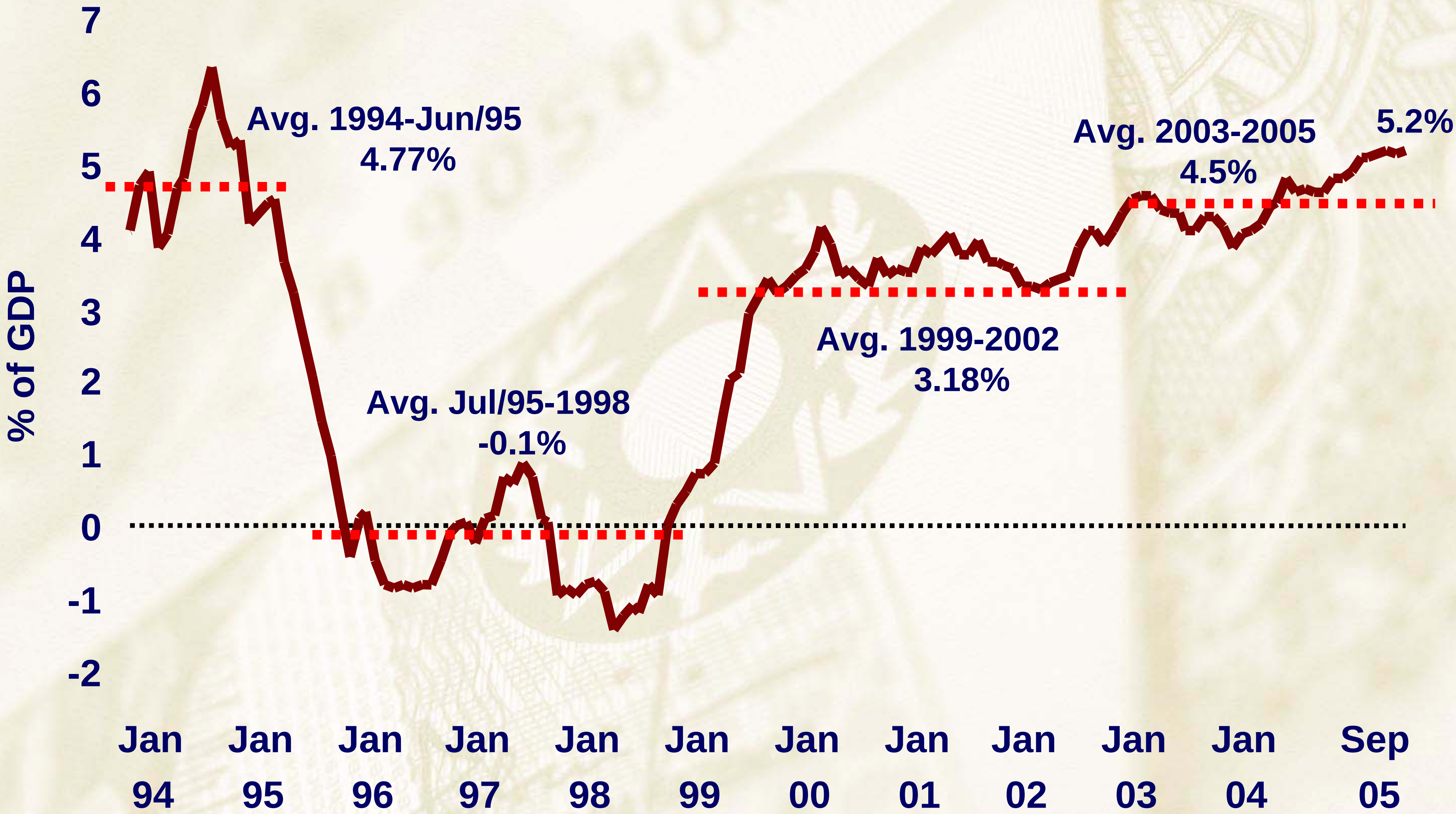
Balance of Payments: Market

US$ billion

	2005	2006
Current account	**11.7**	**0.1**
Financial account (net)	**1.7**	**5.6**
Foreign direct investment	16.0	16.0
Foreign portfolio investment	5.0	4.0
Medium- & long-term loans	-13.1	- 11.0
Short-. medium- & long-term trade credits	- 1.3	- 0.1
Banks	- 0.3	0.5
Other	- 1.0	- 0.6
Brazilian investments abroad	- 4.7	- 4.0
Other	- 0.2	0.7
Financial gap	**13.5**	**5.6**
Net Banco Central interventions	- 10.2	
Banks: asset changes	- 3.2	- 5.6

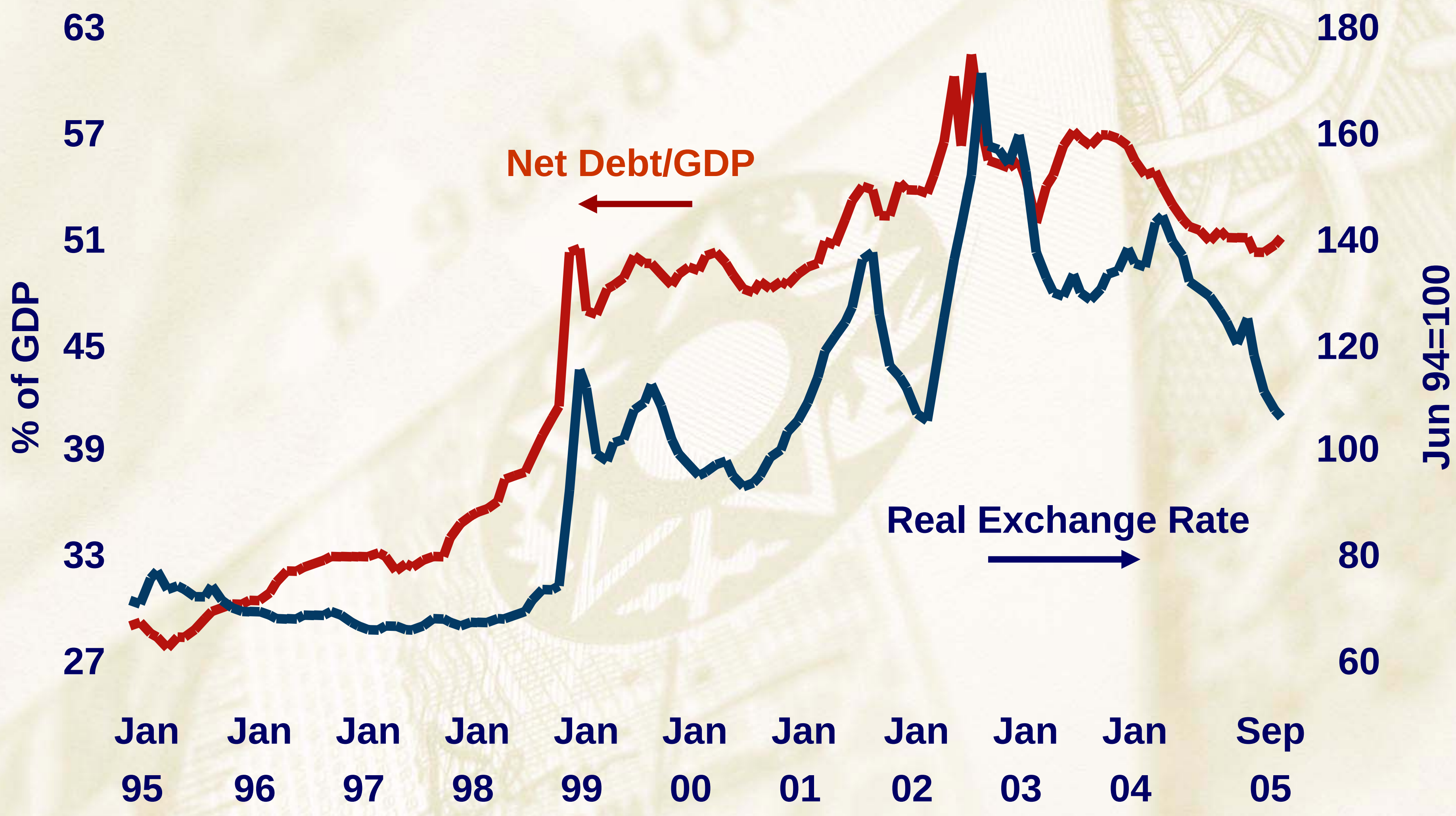
- **Fiscal Policy and Debt Management**

Consolidated Public Sector Primary Surplus



Debt-to-GDP Ratio

Public Sector Net Debt and Real Exchange Rate

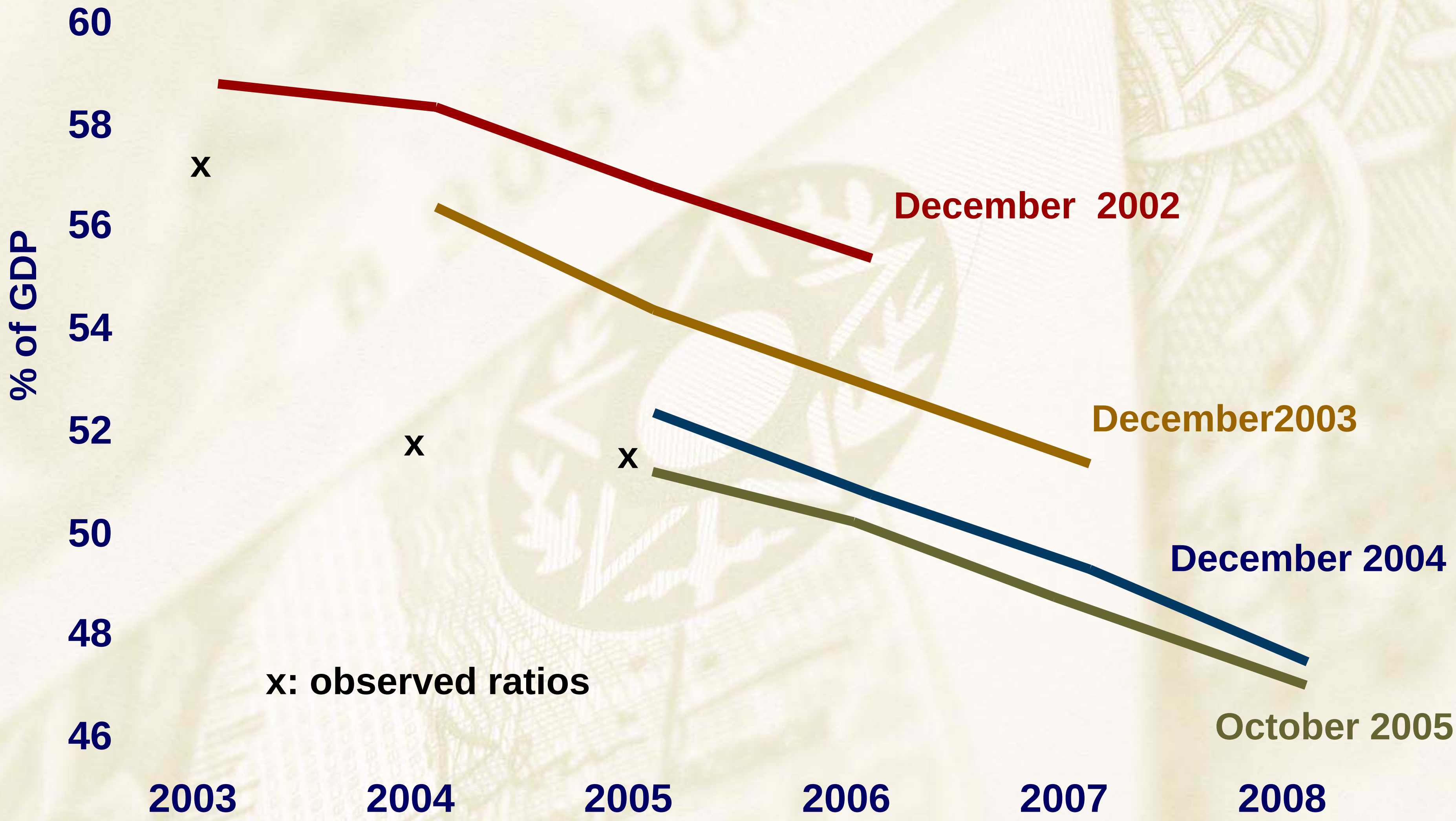


Debt Dynamics

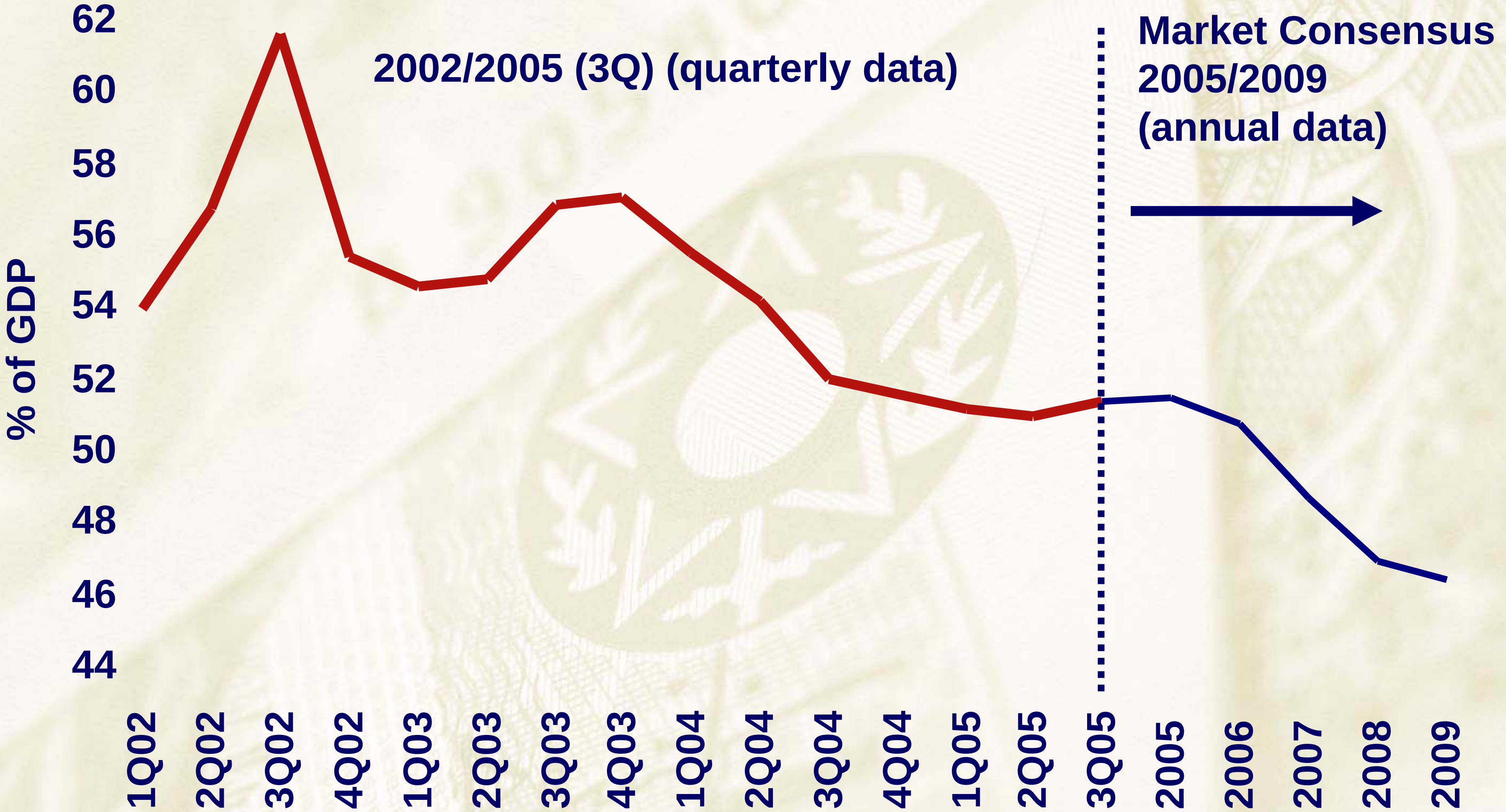
	1999	2000	2001	2002	2003	2004	2005*
Net debt increase	7.0%	0.1%	3.9%	2.9%	1.7%	-5.5%	-0.3%
1. Primary surplus	-2.9%	-3.3%	-3.5%	-3.3%	-4.1%	-4.4%	-4.6%
2. Pure interest on the debt	8.2%	6.8%	6.9%	7.2%	9.1%	6.9%	6.3%
3. Depreciation on domestic debt	3.8%	0.8%	1.5%	4.8%	-1.4%	-0.2%	-0.3%
4. Depreciation on foreign debt	2.8%	0.8%	1.5%	4.4%	-2.6%	-0.7%	-0.9%
5. Skeletons	1.3%	0.8%	1.5%	0.9%	0.0%	0.4%	0.4%
6. Privatization proceeds	-0.8%	-1.8%	-0.1%	-0.2%	0.0%	0.0%	0.0%
7. Effect of GDP growth	-5.3%	-3.9%	-3.9%	-11.0%	-0.3%	-7.9%	-1.1%
Memo:							
Debt dynamics (1+2+7)	0.0%	-0.4%	-0.5%	-7.1%	4.7%	-5.4%	0.6%
Currency (3+4)	6.6%	1.6%	3.0%	9.2%	-4.0%	-0.9%	-1.2%
Net "skeletons" (5+6)	0.5%	-1.0%	1.4%	0.7%	0.0%	0.4%	0.4%

* Year through September

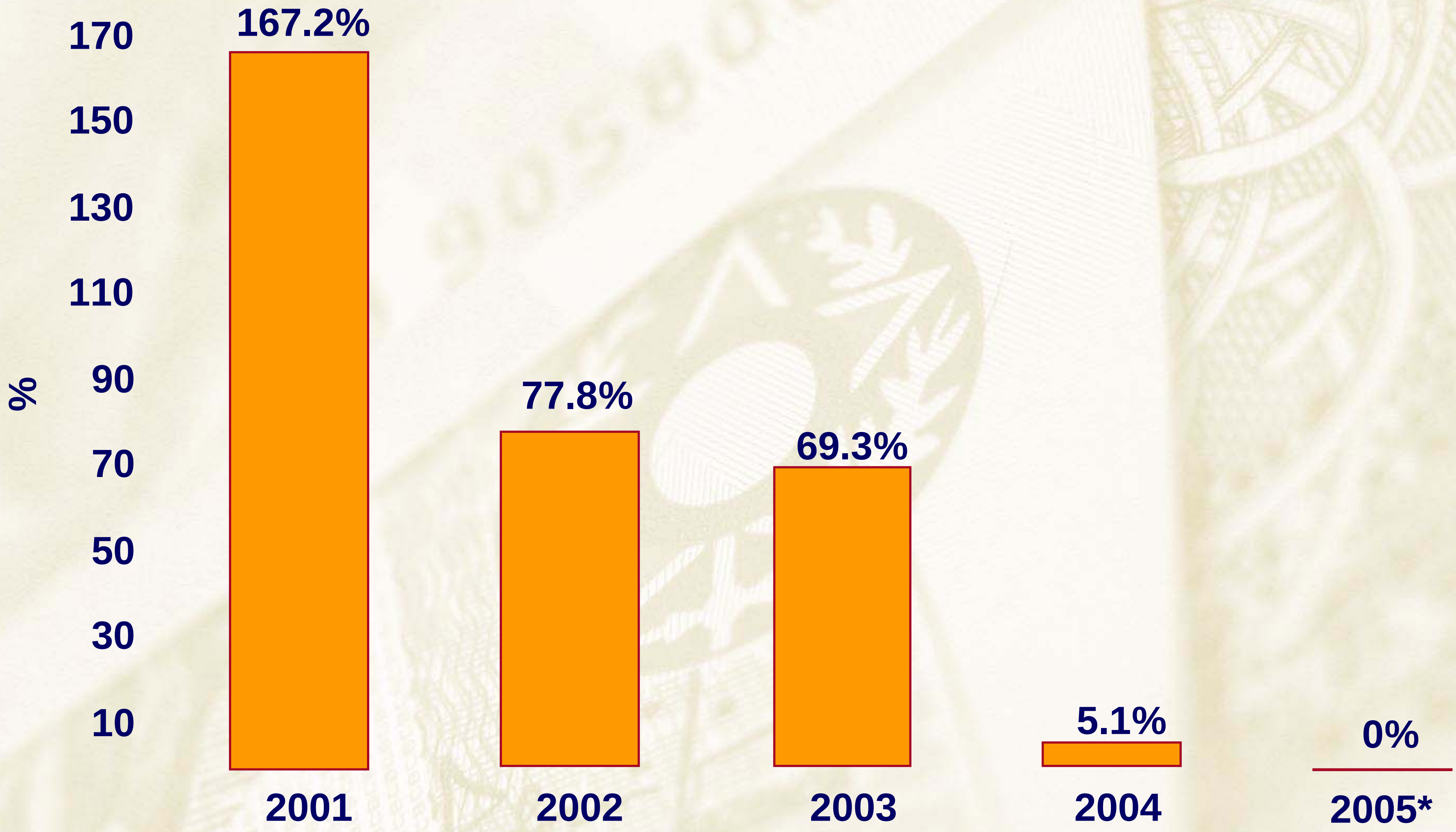
Market Expectations for Debt-to-GDP Ratio



Debt-to-GDP Ratio Trend

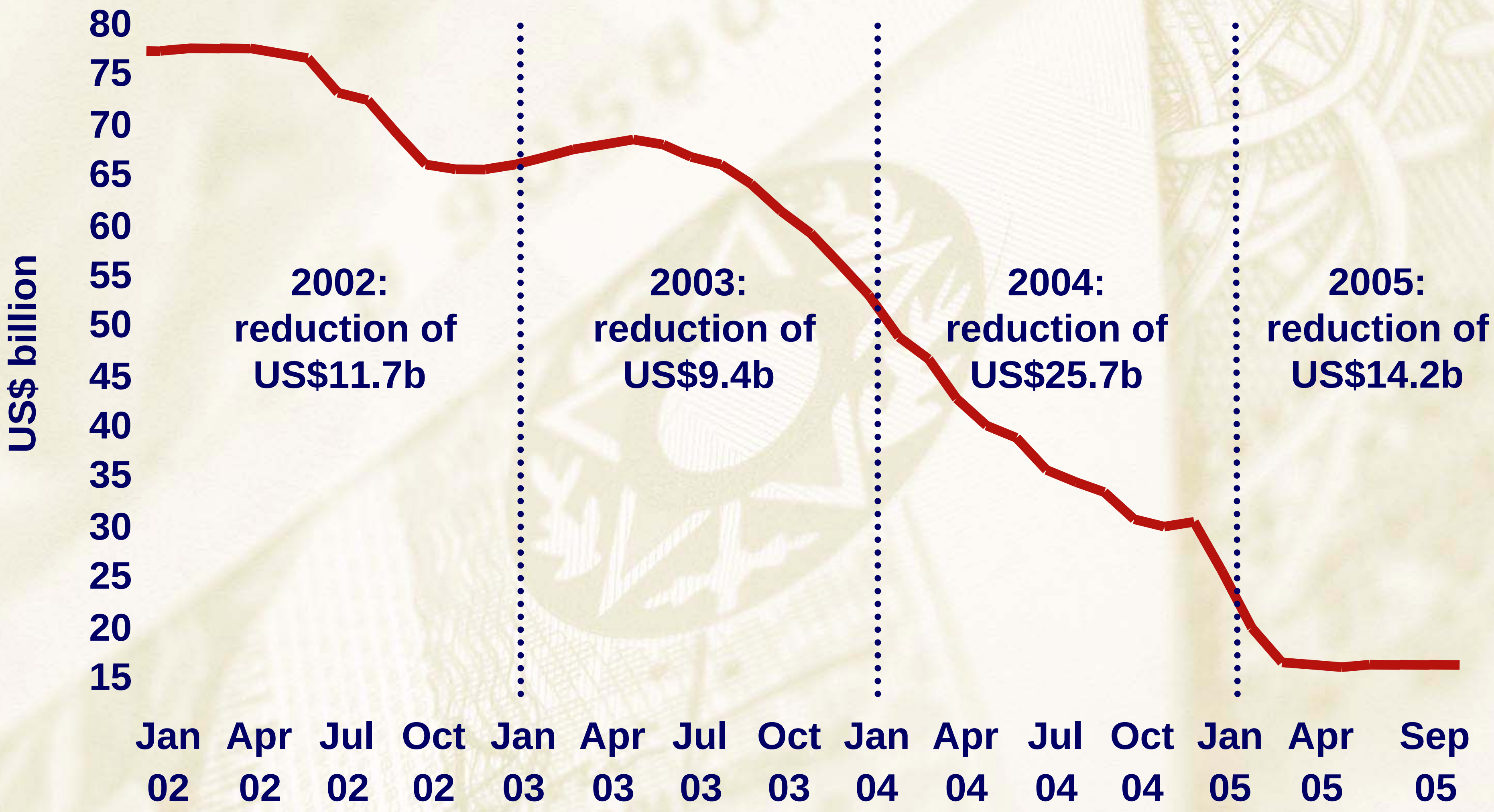


Rollover of FX-Linked Debt

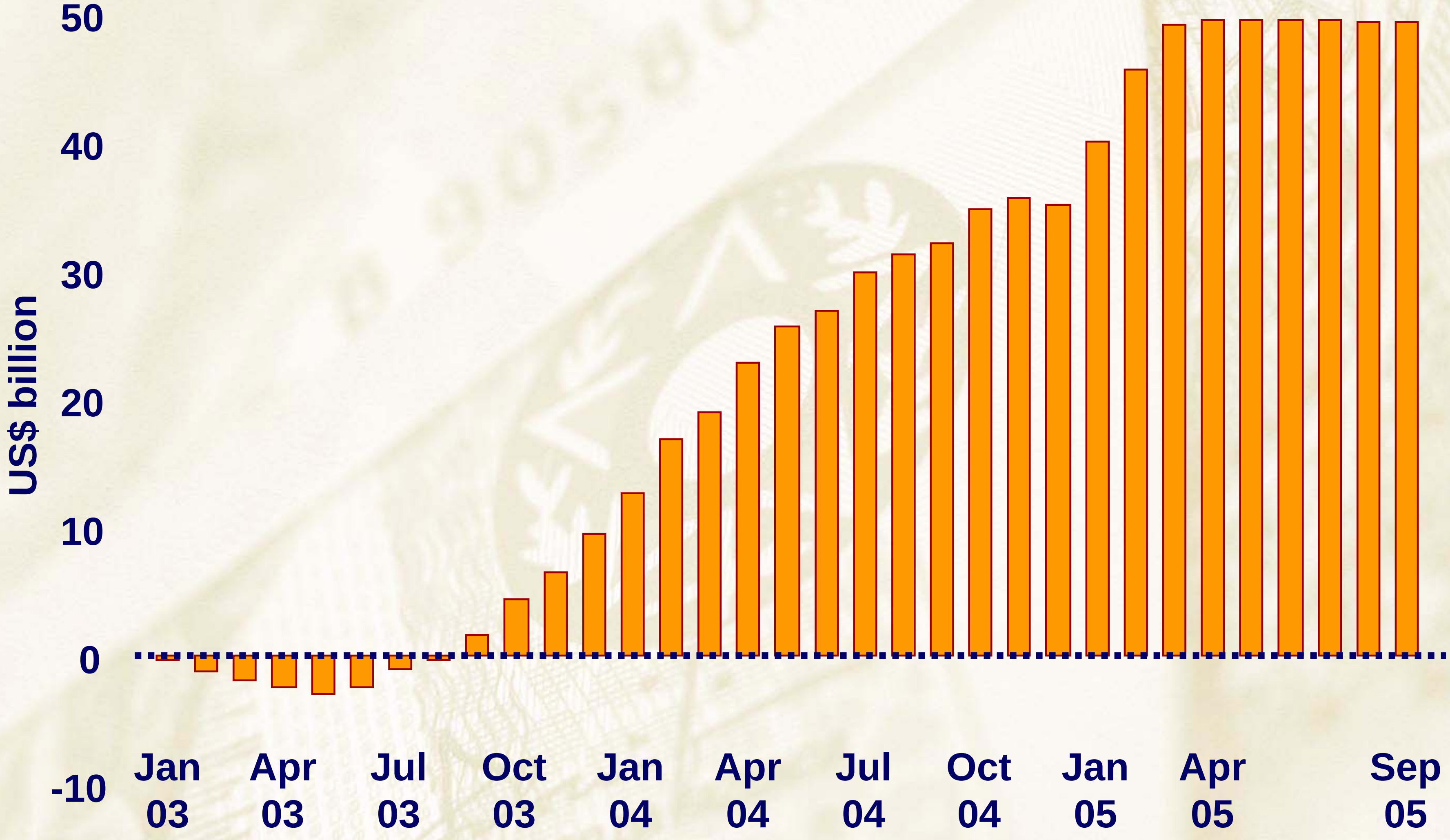


* Year through October

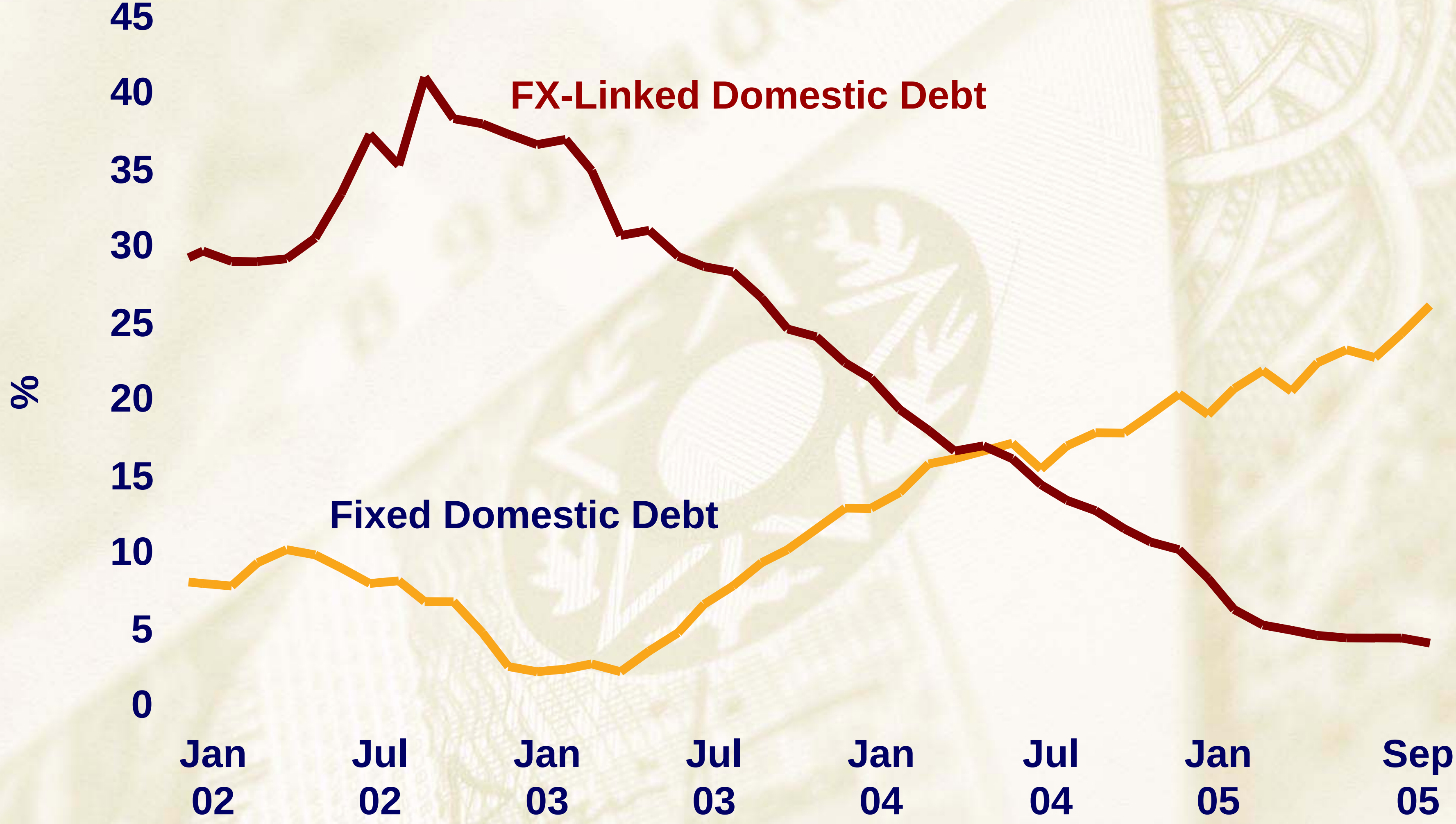
FX-Linked Domestic Debt



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



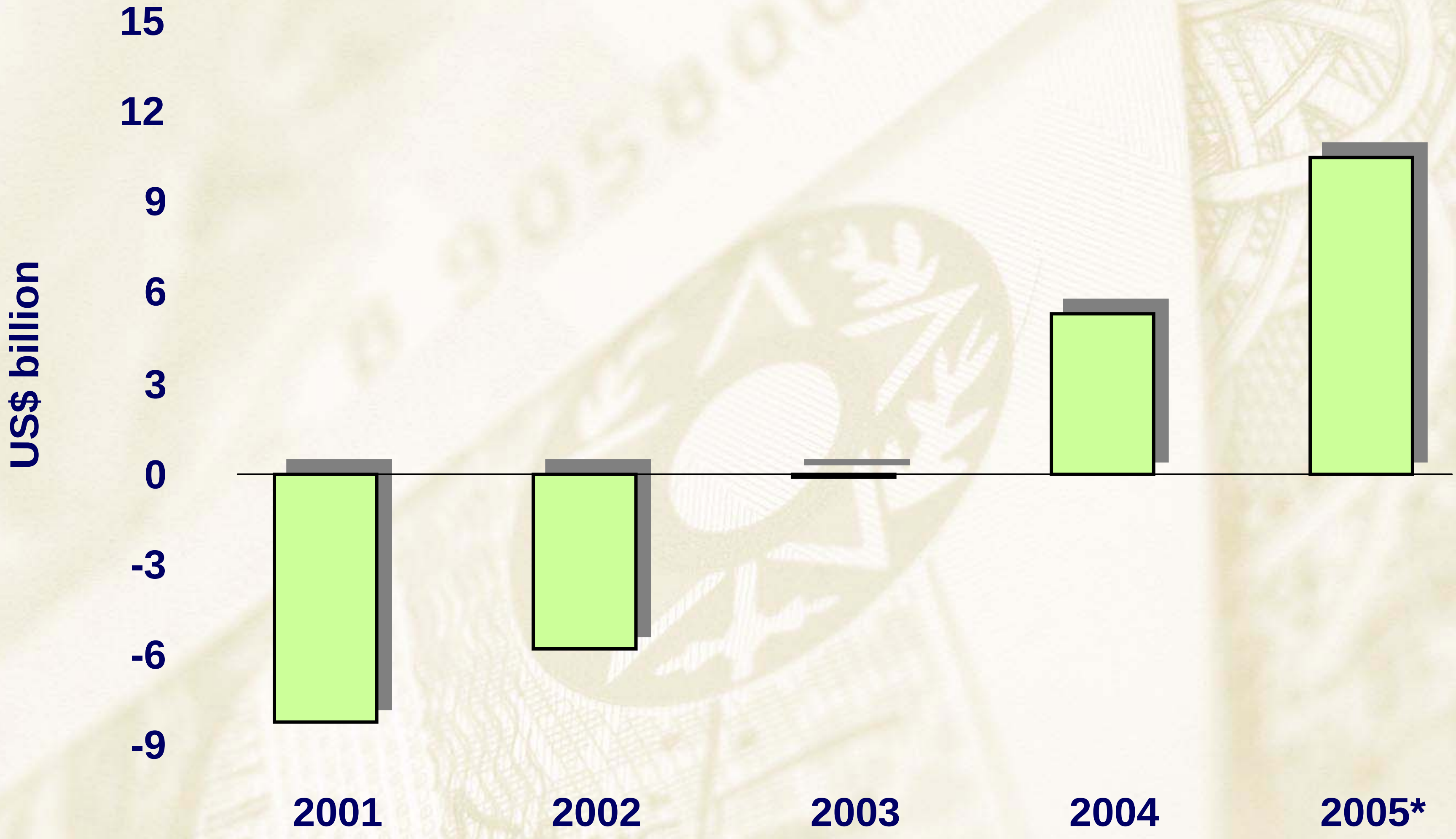
FX-Linked and Fixed Debt as a Share of Total Domestic Debt



➢ Strengthening Resilience to Shocks

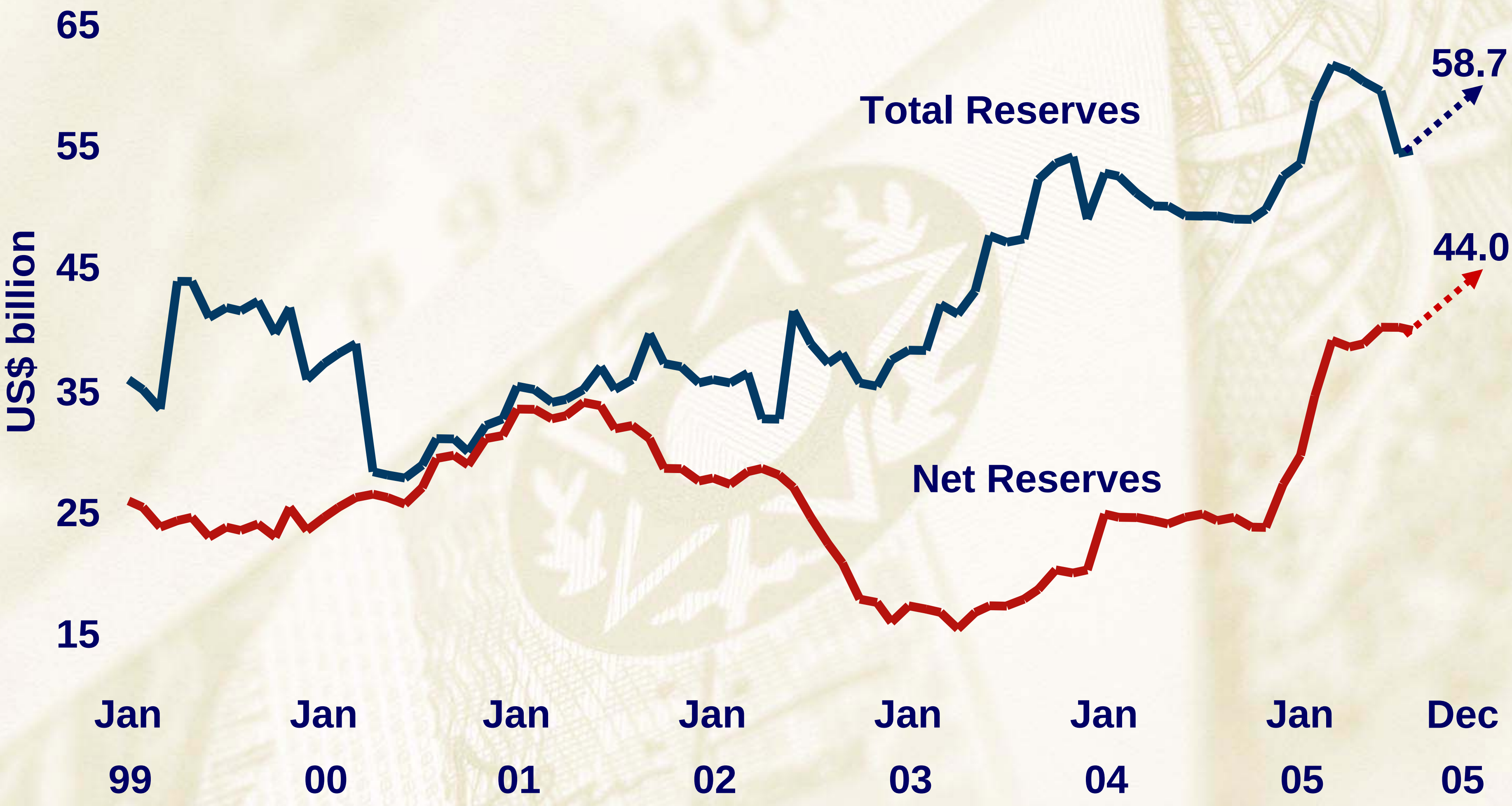
Brazil Risk (Embi+)

Net BCB Acquisitions in the Fx Market

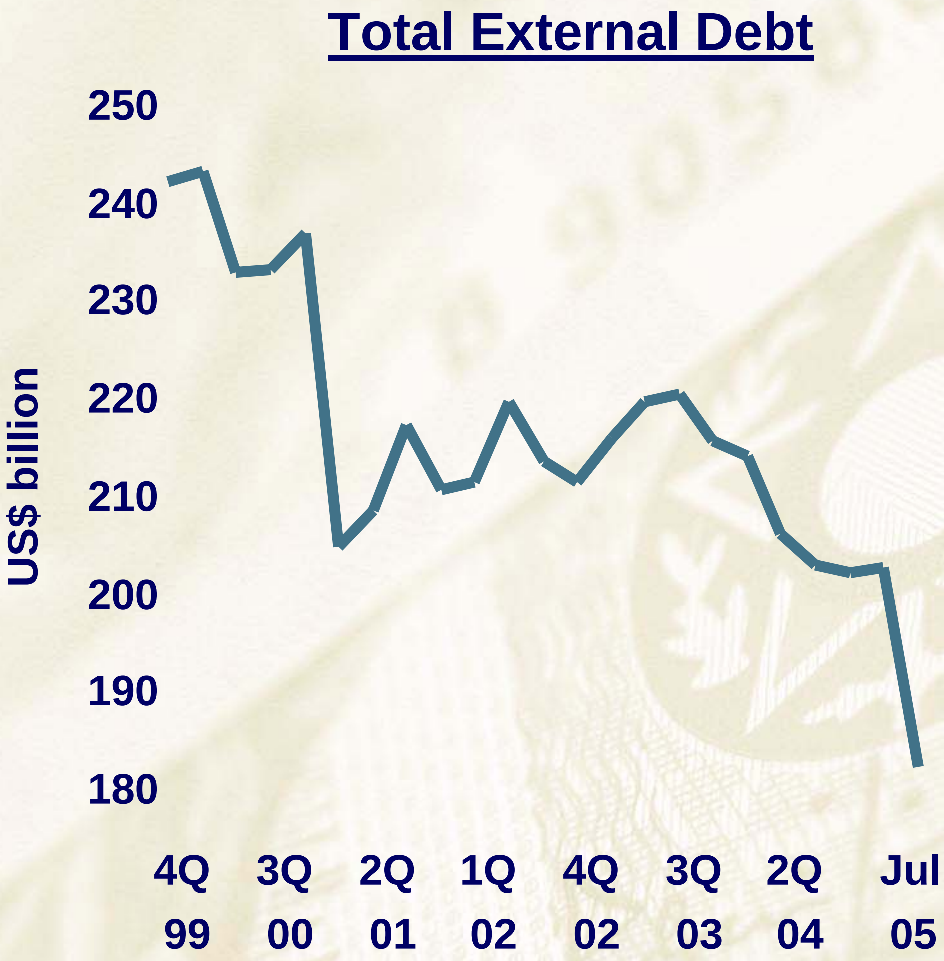


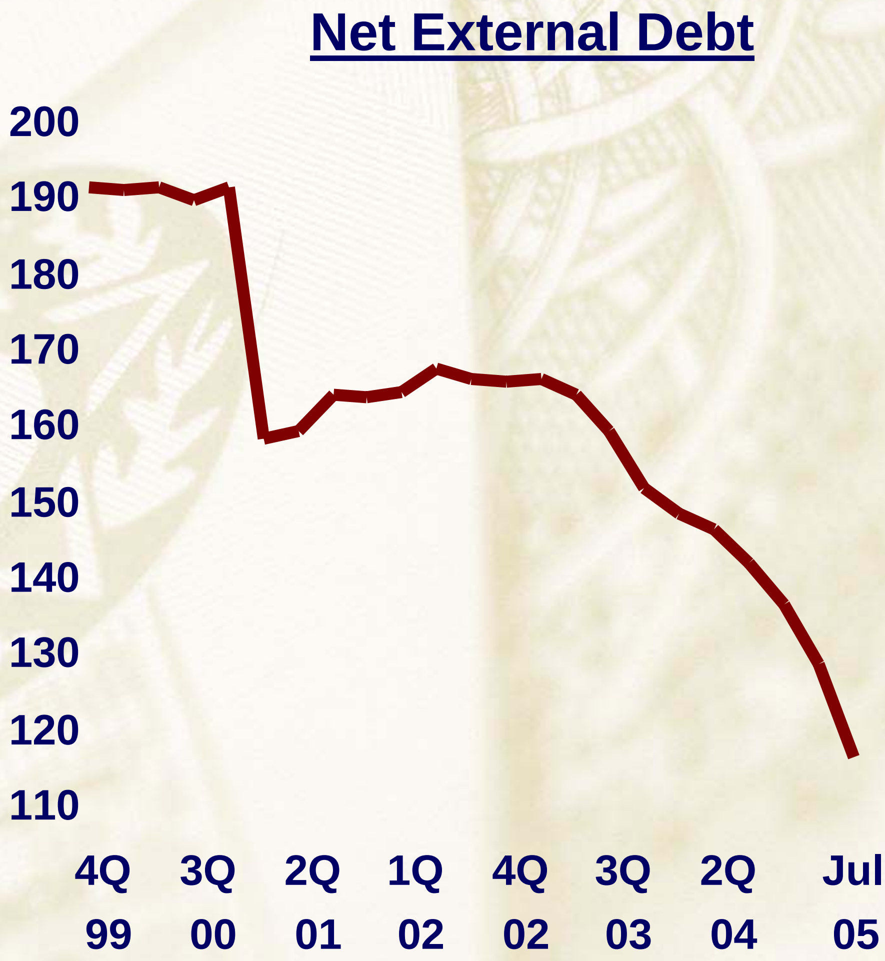
* Year through September

International Reserves



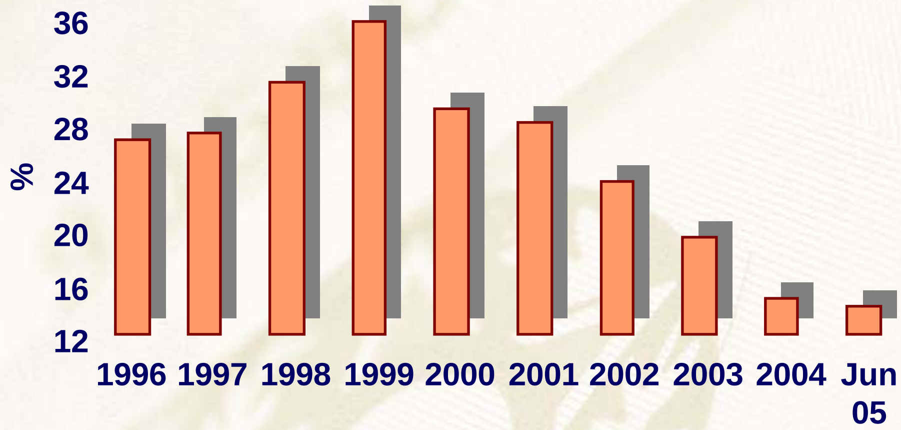
External Debt



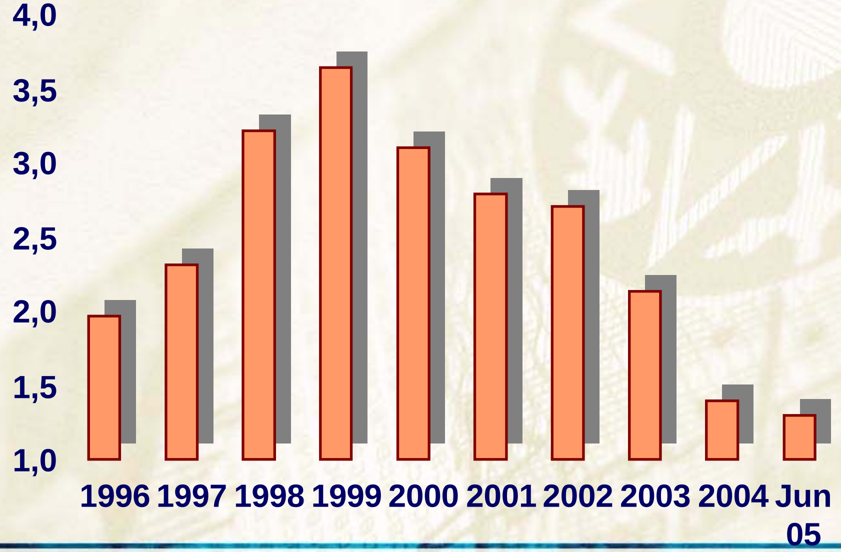


External Sustainability Indicators

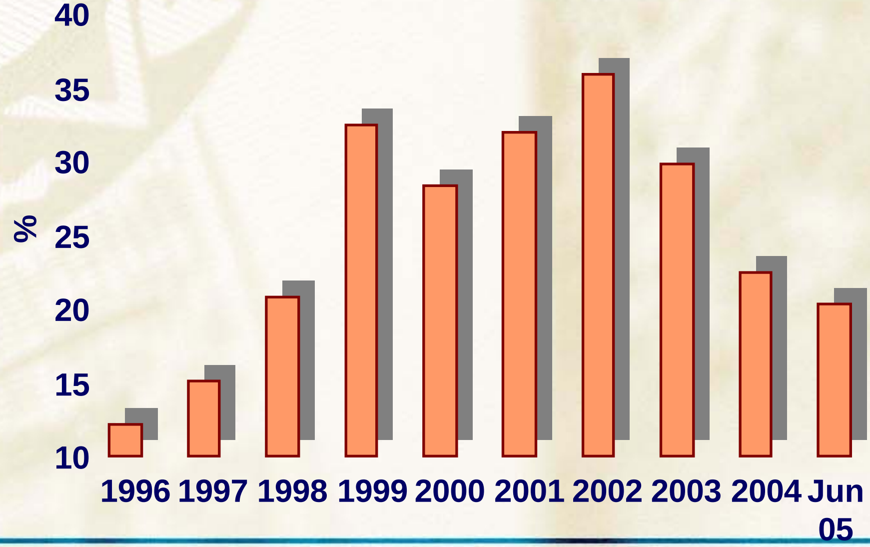
Interest Payments/Exports



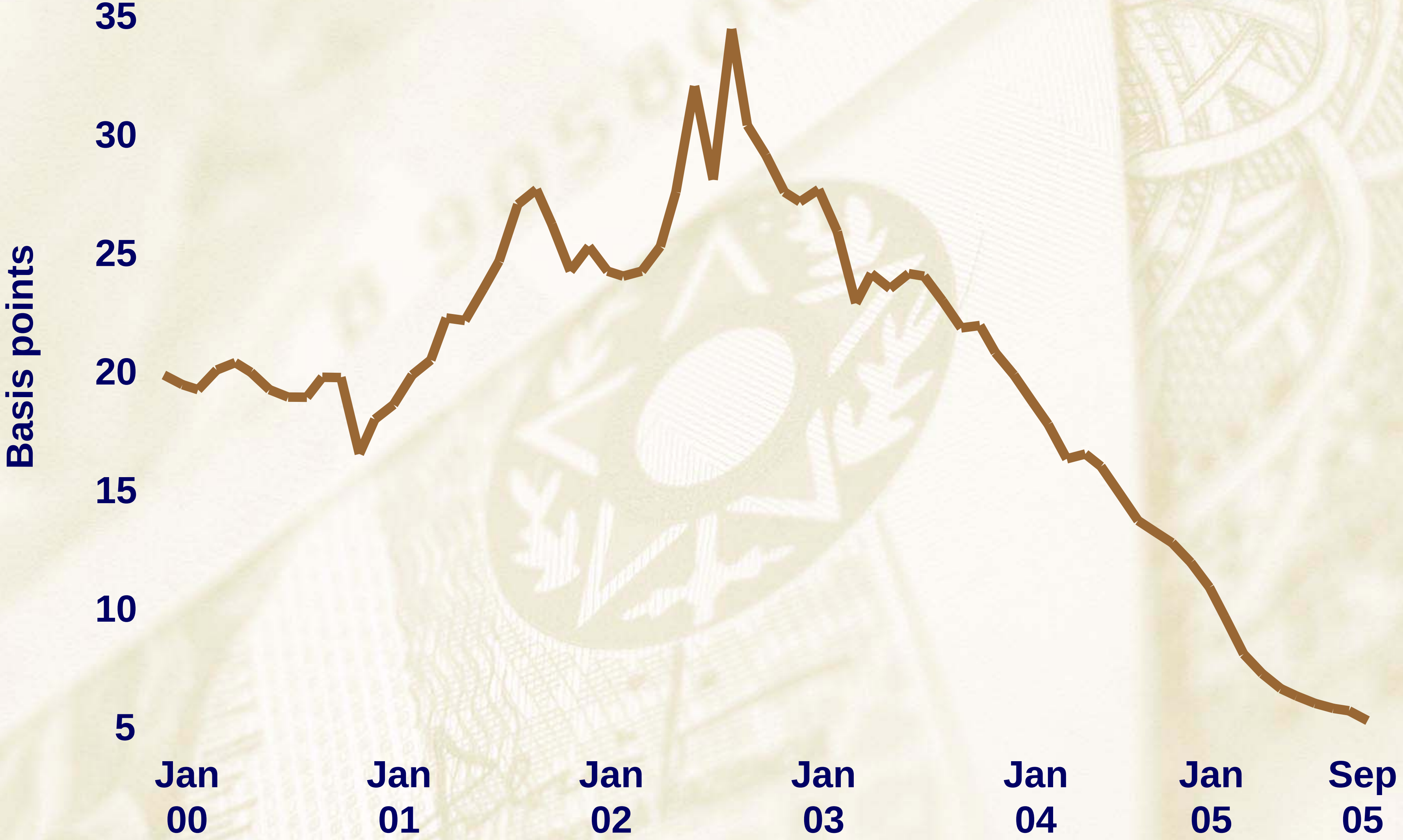
Net External Debt/Exports



Net External Debt/GDP



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



Brazil:
Recent Economic Developments

Afonso Bevilaqua

November 2005

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