BANCO CENTRAL DO BRASIL

Brazil: On the Way to Investment Grade and Sustained Growth

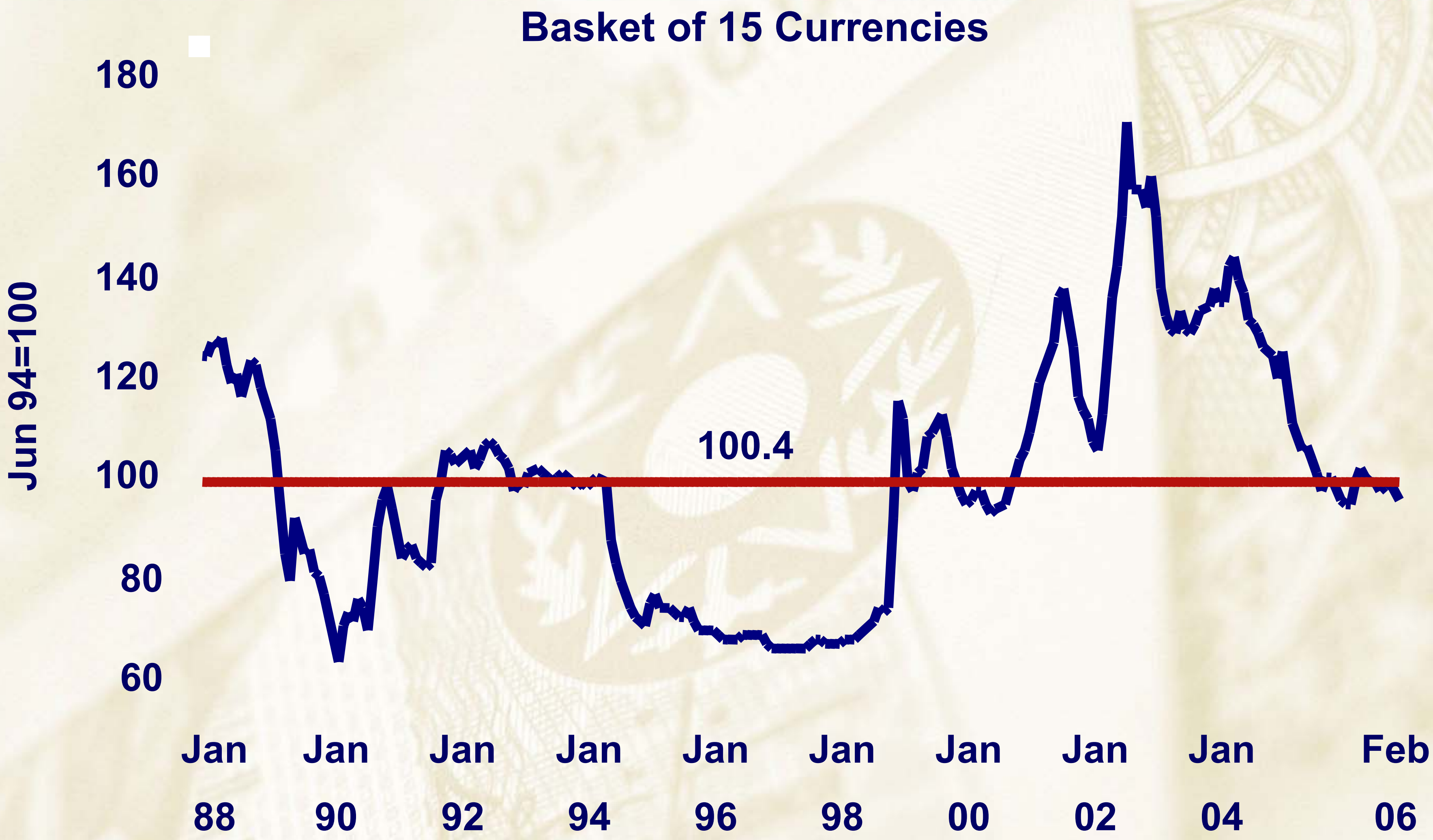
Rodrigo Azevedo

March 2007

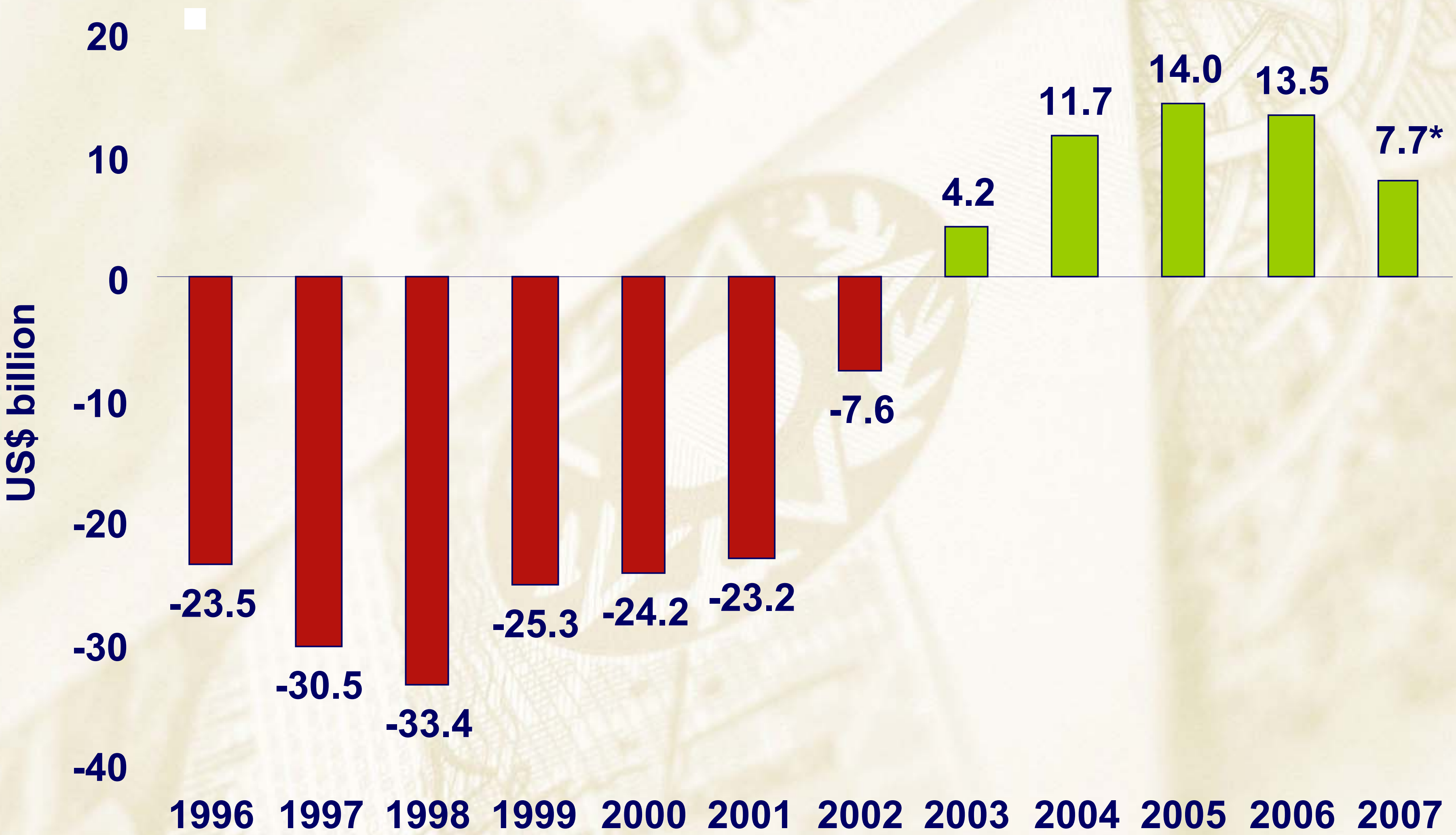
I. Building a more resilient economy

Nominal Exchange Rate

Effective Real Exchange Rate

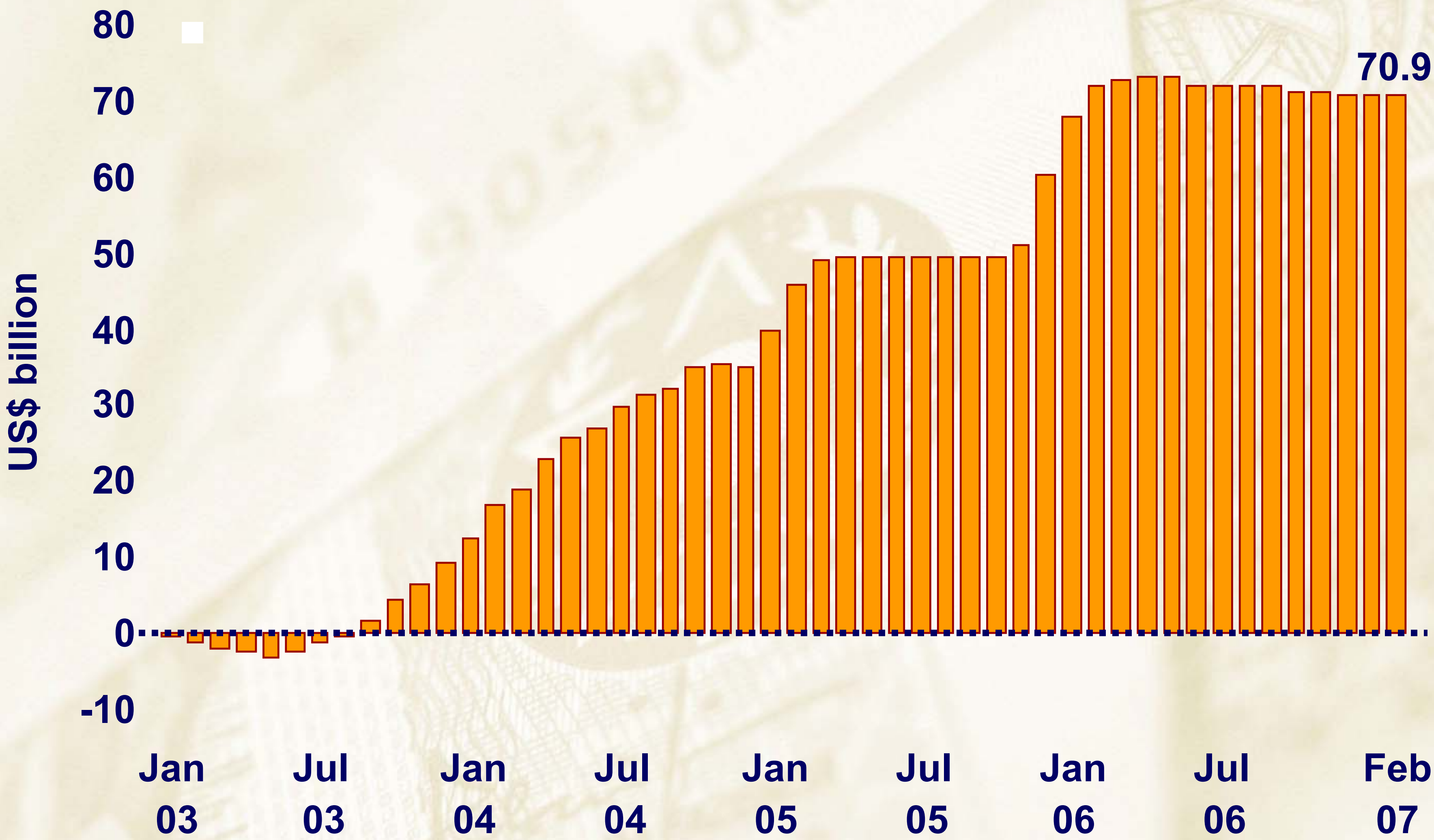


Current Account



* Estimate

Cumulative Reduction in FX-Linked Domestic Debt since Jan/2003



Source: Bacen

Impact of a 1% FX Change on Net Debt-to-GDP Ratio

International Reserves

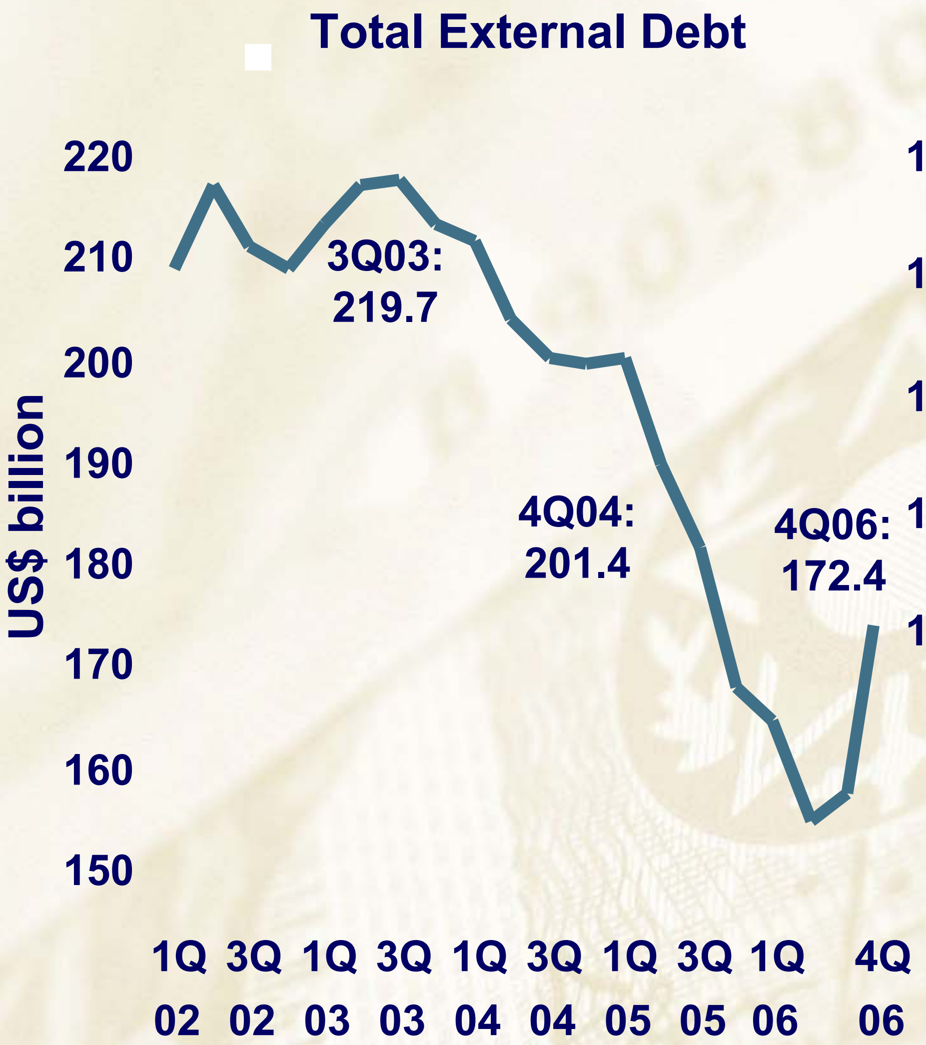
Reduction in Sovereign External Debt

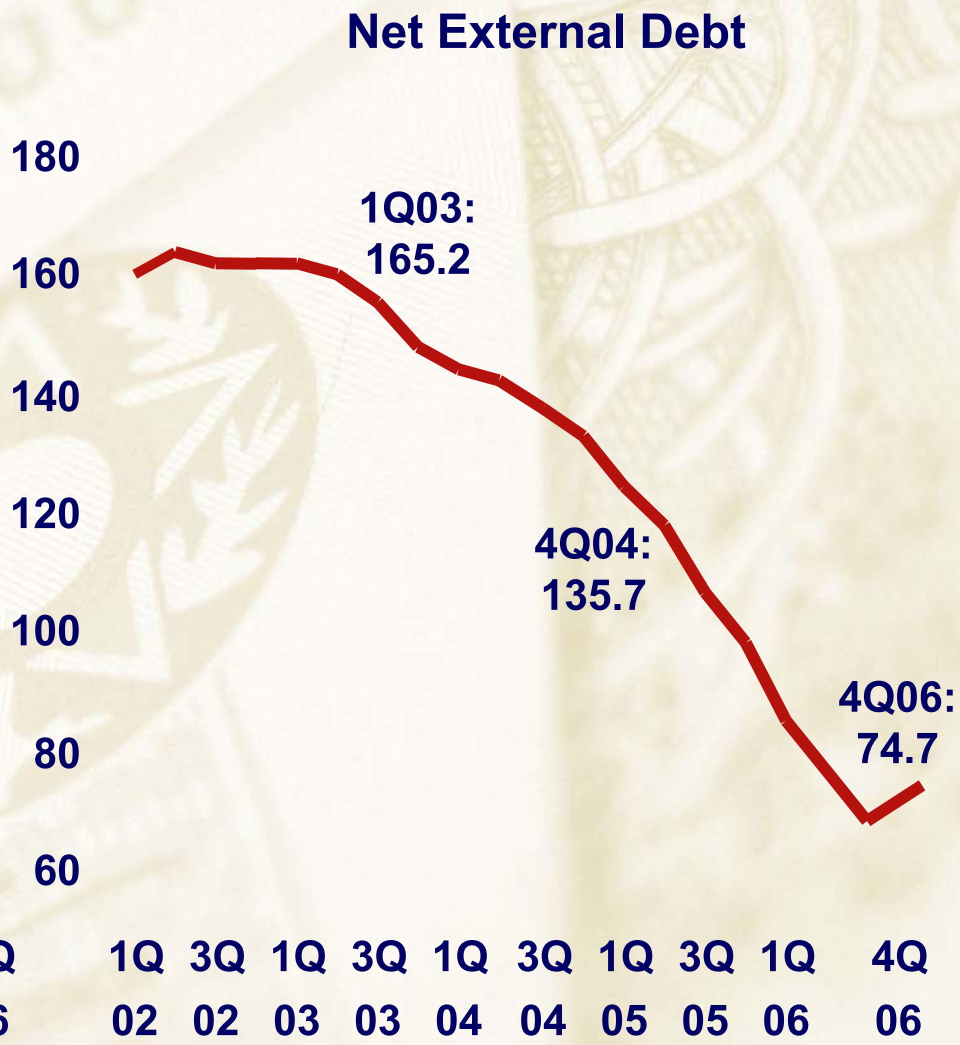
(US $ bi)

	Face Value
Securitized External Debt	**15.0**
C-Bond call (Oct-05)	1.1
Buy-back Program (Jan to Dec 06)	6.1
Brady Bonds Call (Apr 06)	6.5
Tender Offer (Jun 06)	1.3
Non-Securitized Debt	**22.1**
IMF I Payment (Jul 05)	4.9
IMF II Payment (Dec 05)	15.5
Paris Club Payment (Jan 06)	1.7
Total	**37.1**

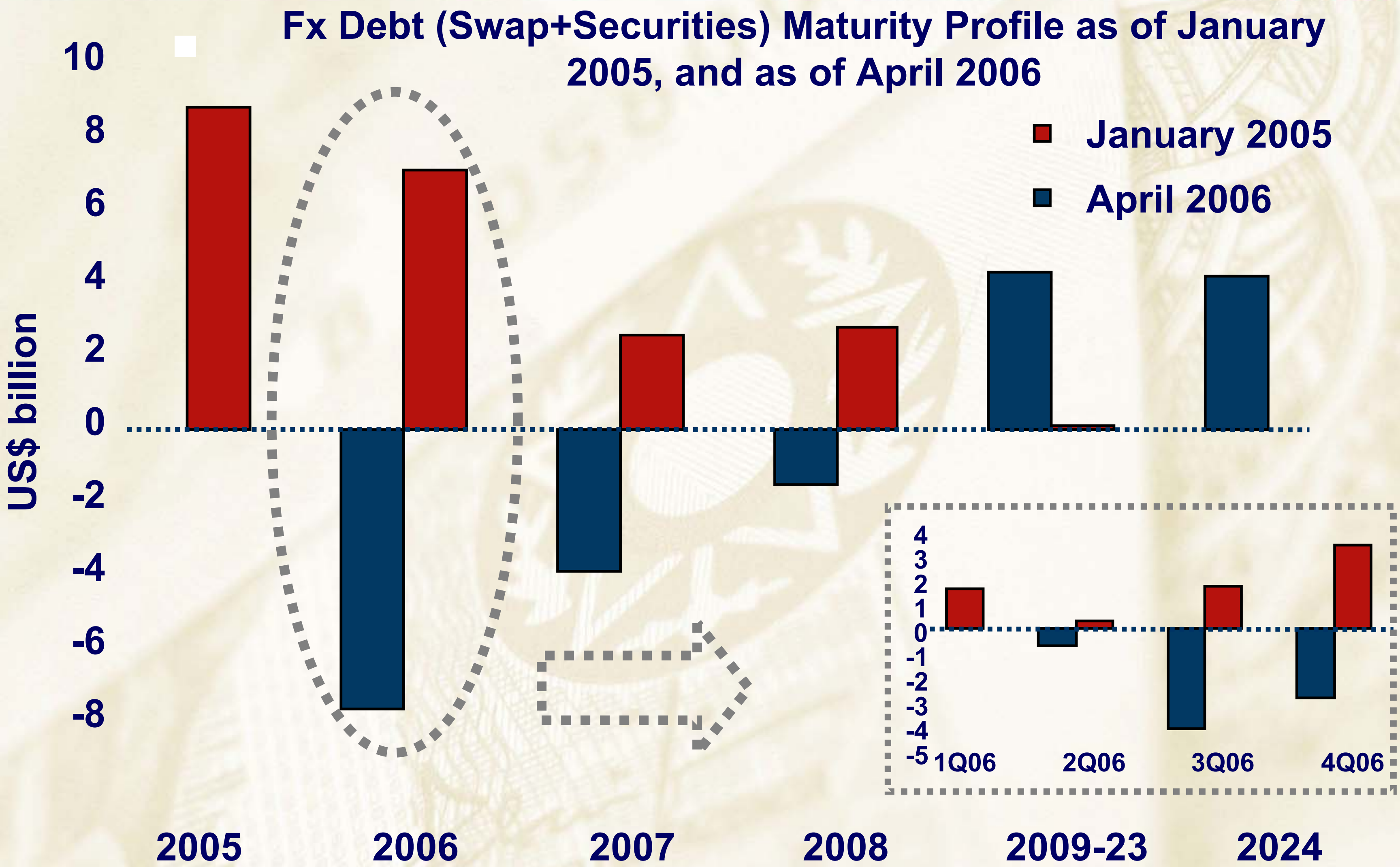
Source: STN

External Debt





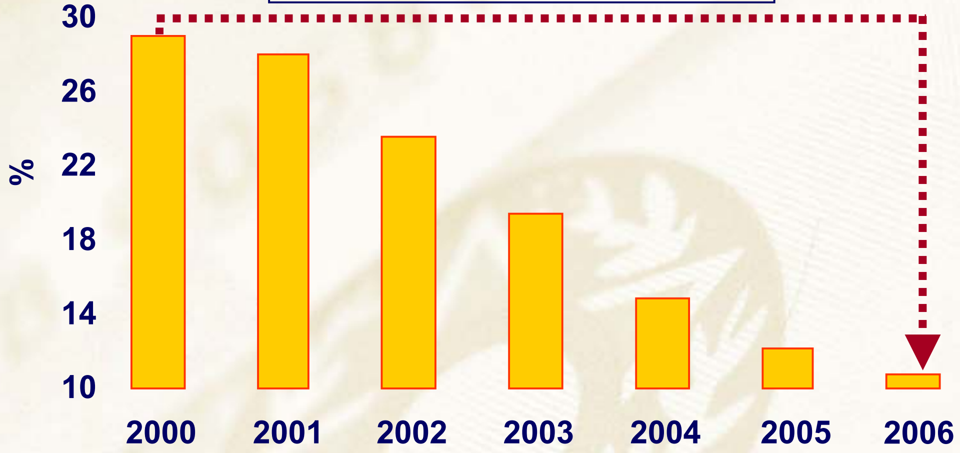
Hedging against volatility around the elections



External Sustainability Indicators

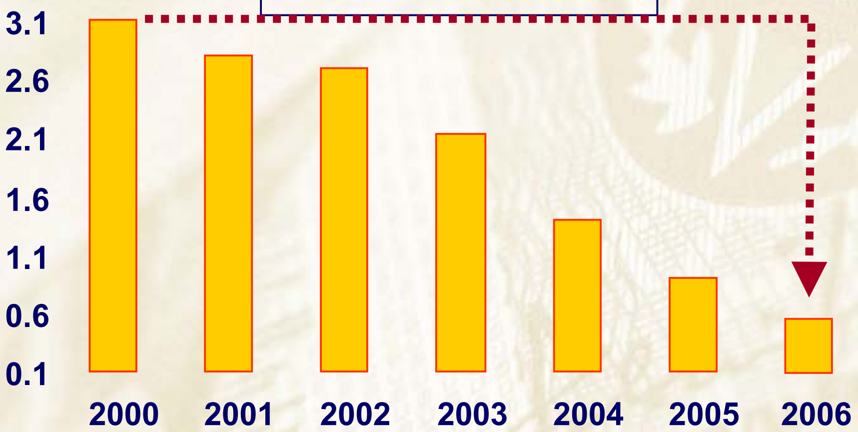
Interest Payments/Exports

to 10.8%* from 29.0%



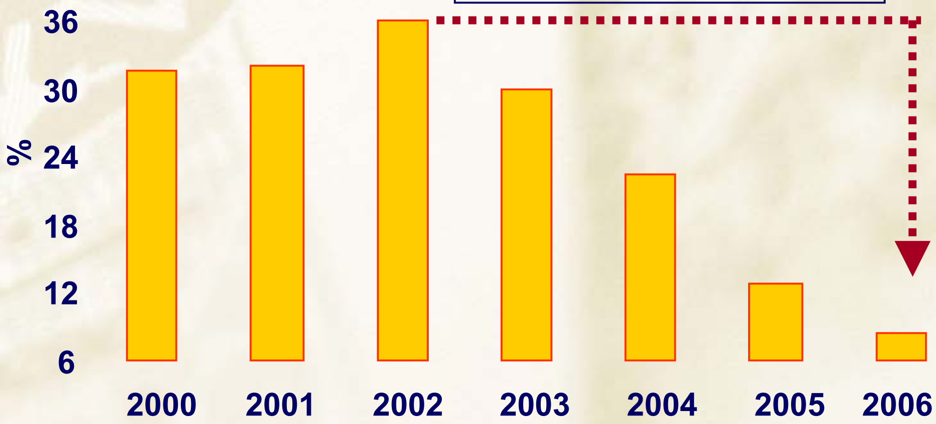
Net External Debt/Exports

to 0.5* from 3.1



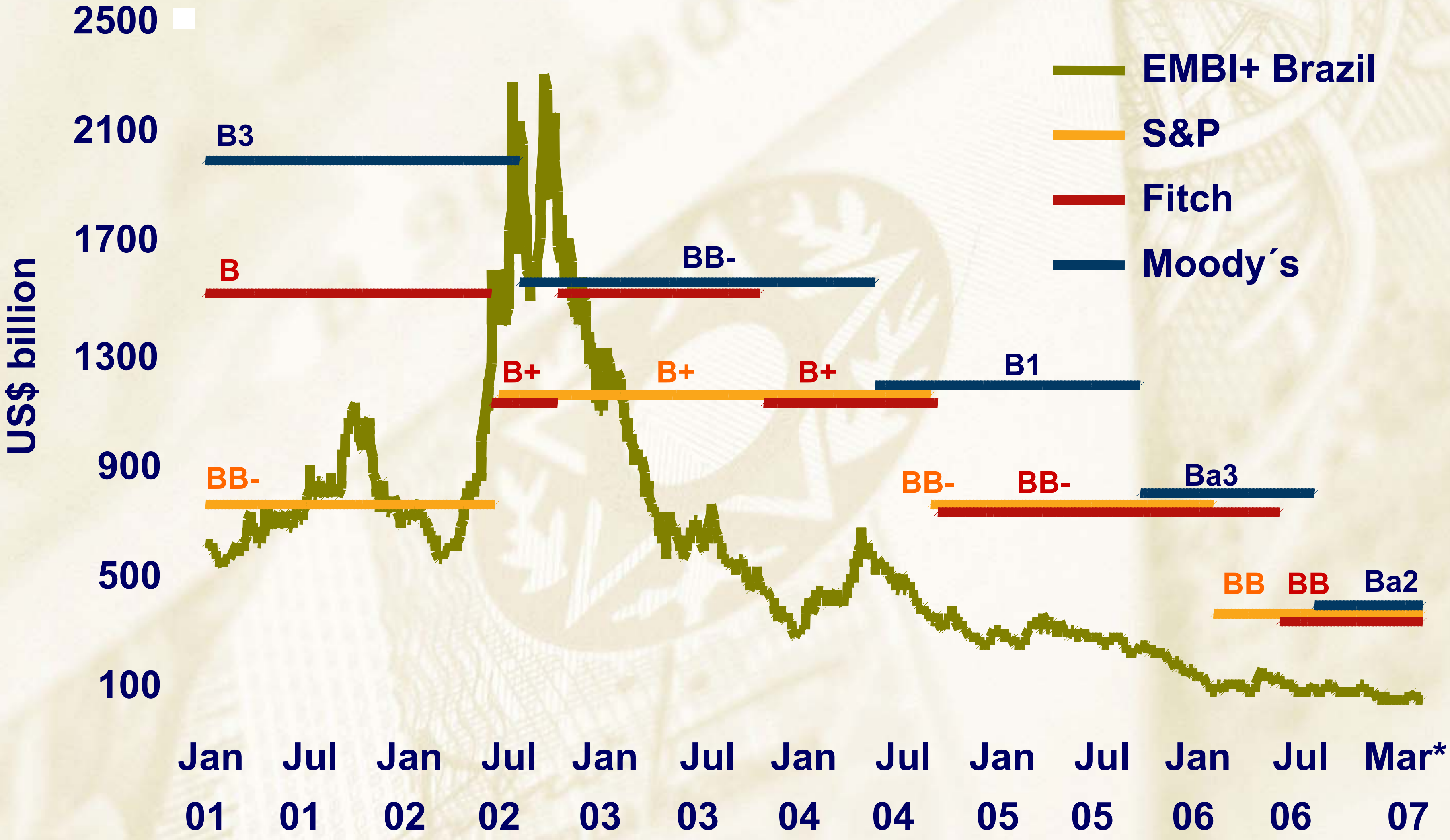
Net External Debt/GDP

to 7.8%* from 35.9%



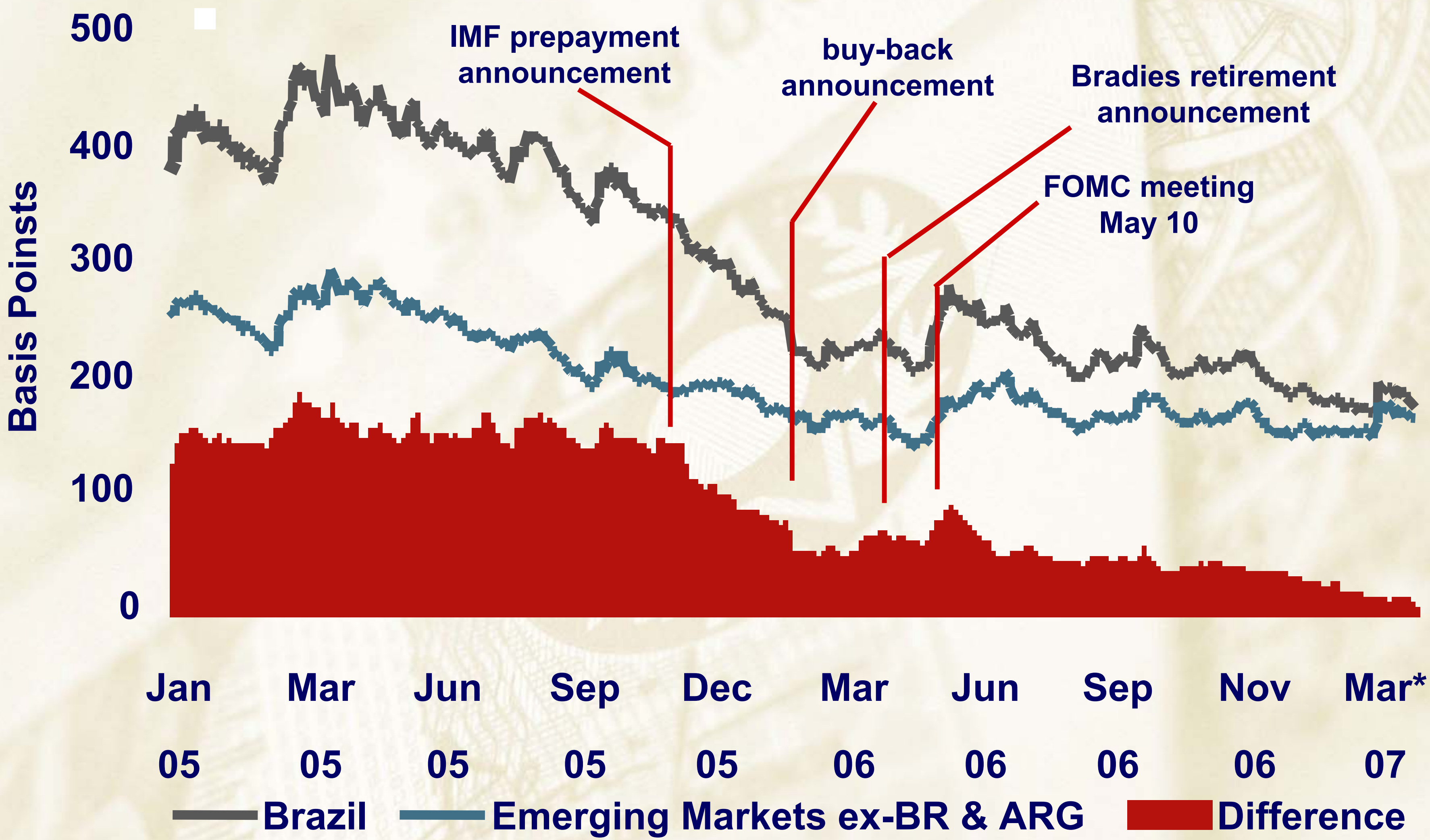
* Lowest record since the starting of the series in 1970

Country Risk vs. Brazil Ratings



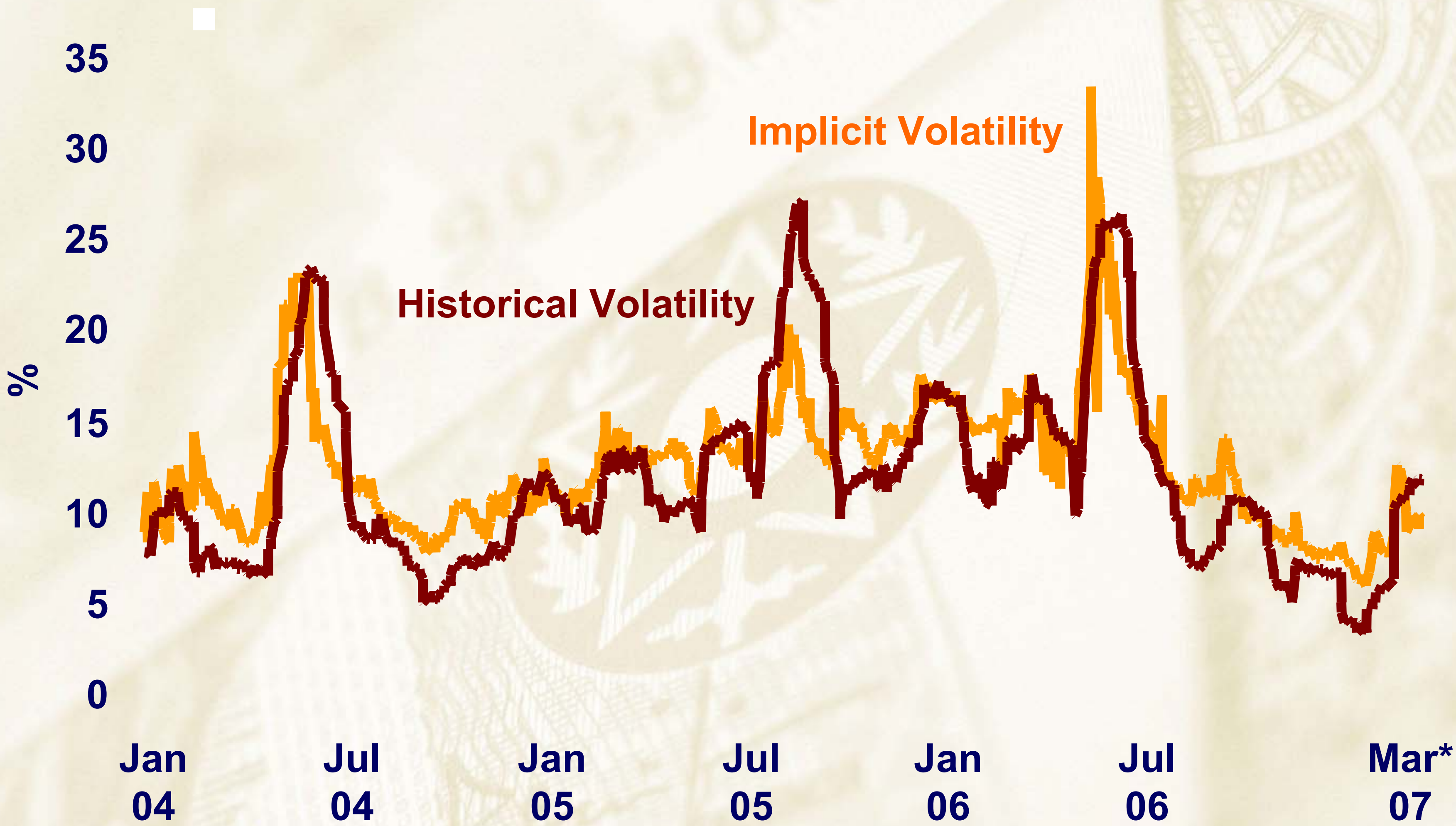
Sources: JP Morgan and Bloomberg *Mar 21

Brazilian Country Risk x Other Emerging Markets



Source: JP Morgan * March 21

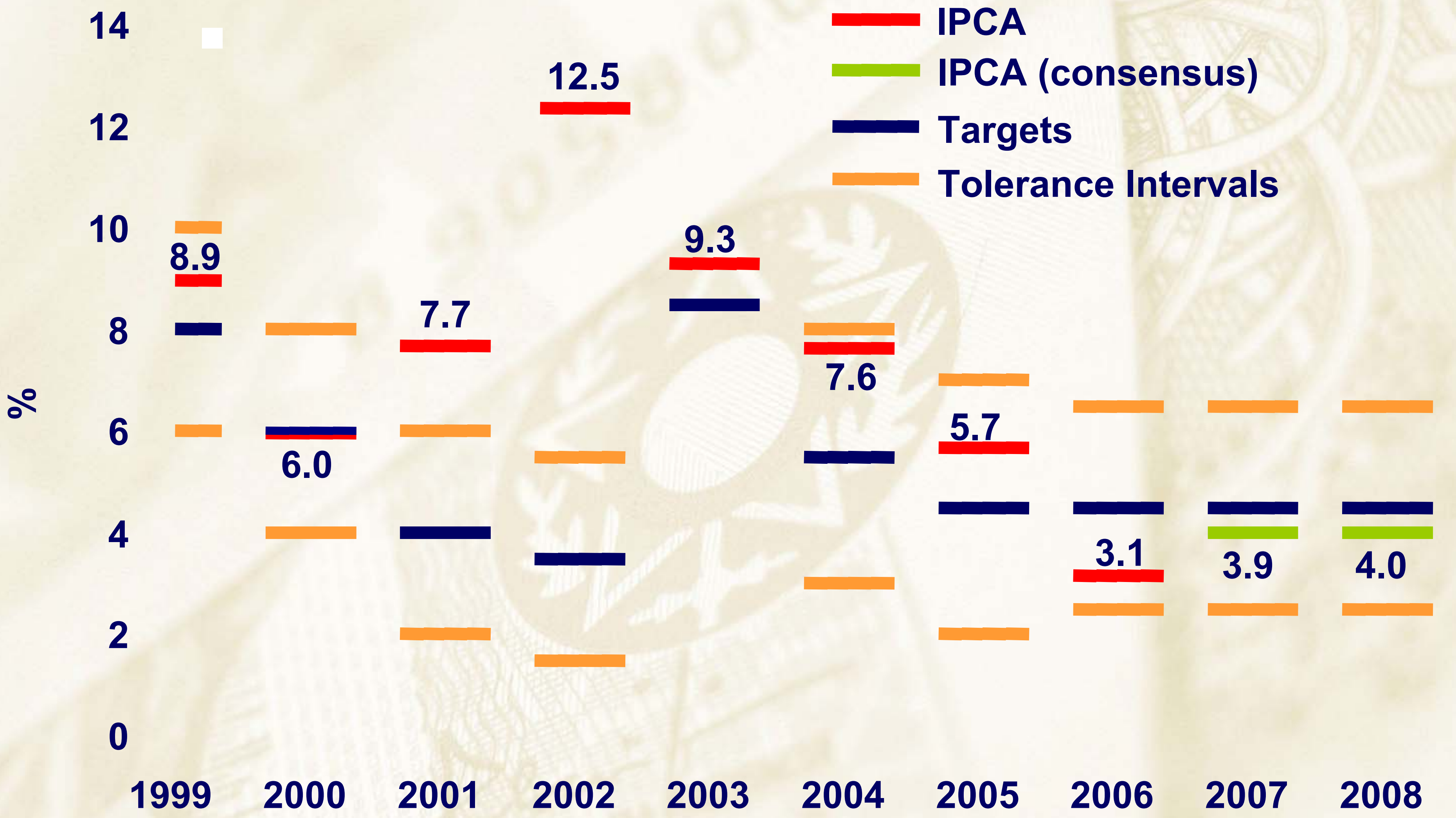
Brazilian *Real* Exchange Rate Volatility



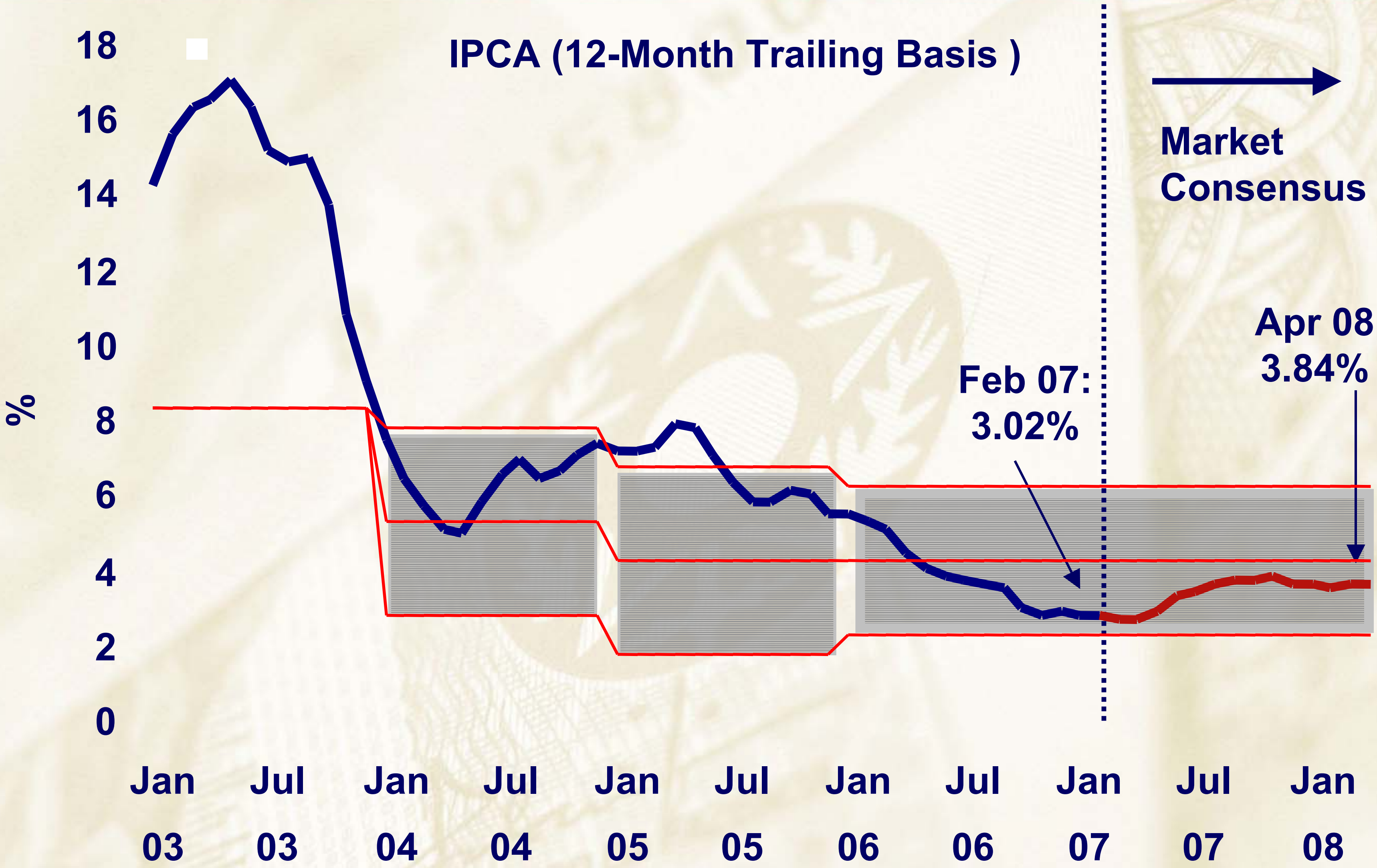
Source: Bloomberg * March 23

II. Strengthening stability and longer decision horizons

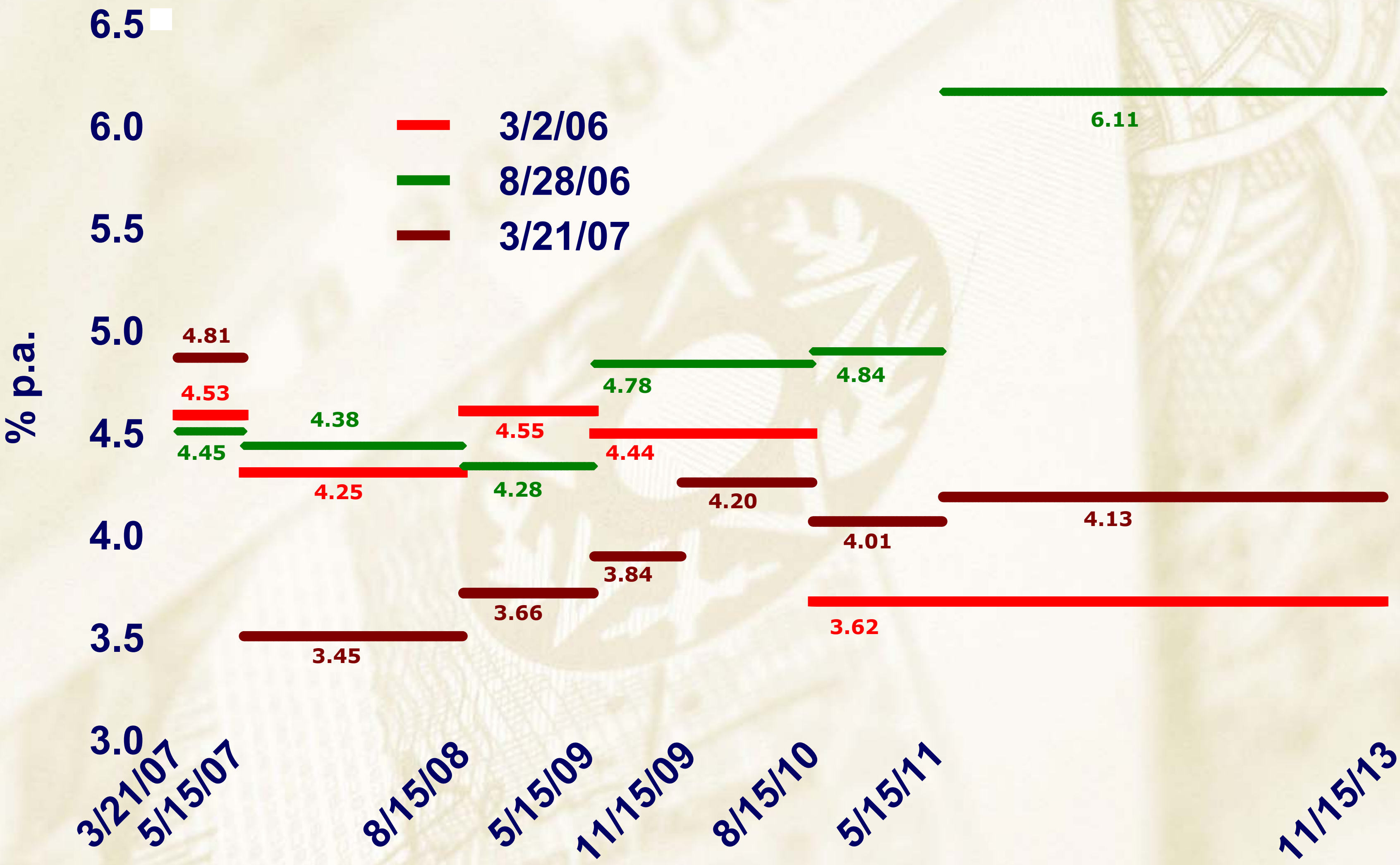
Inflation Targets



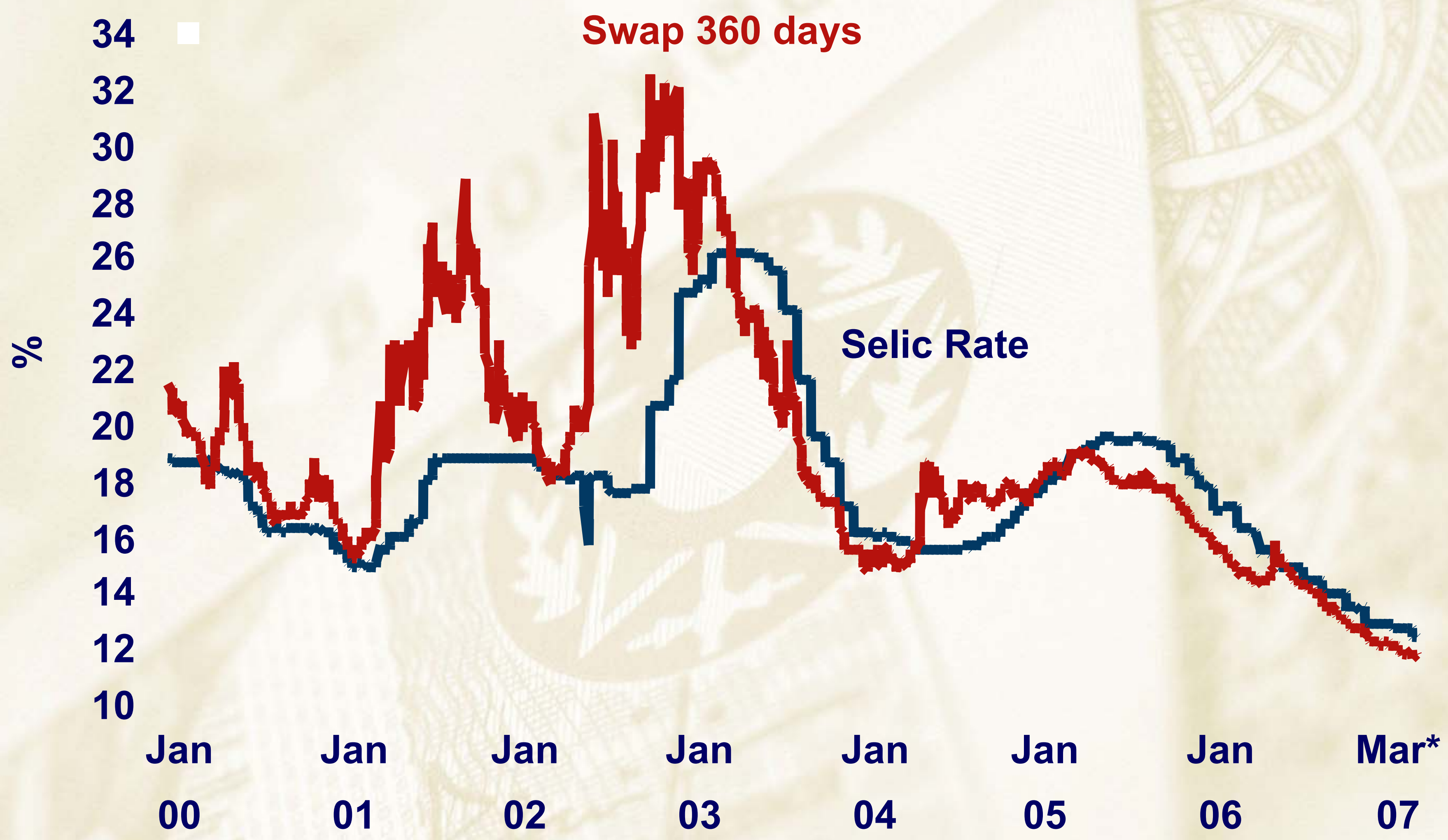
Inflation Convergence to Targets



Implicit Inflation Rate - NTN-B

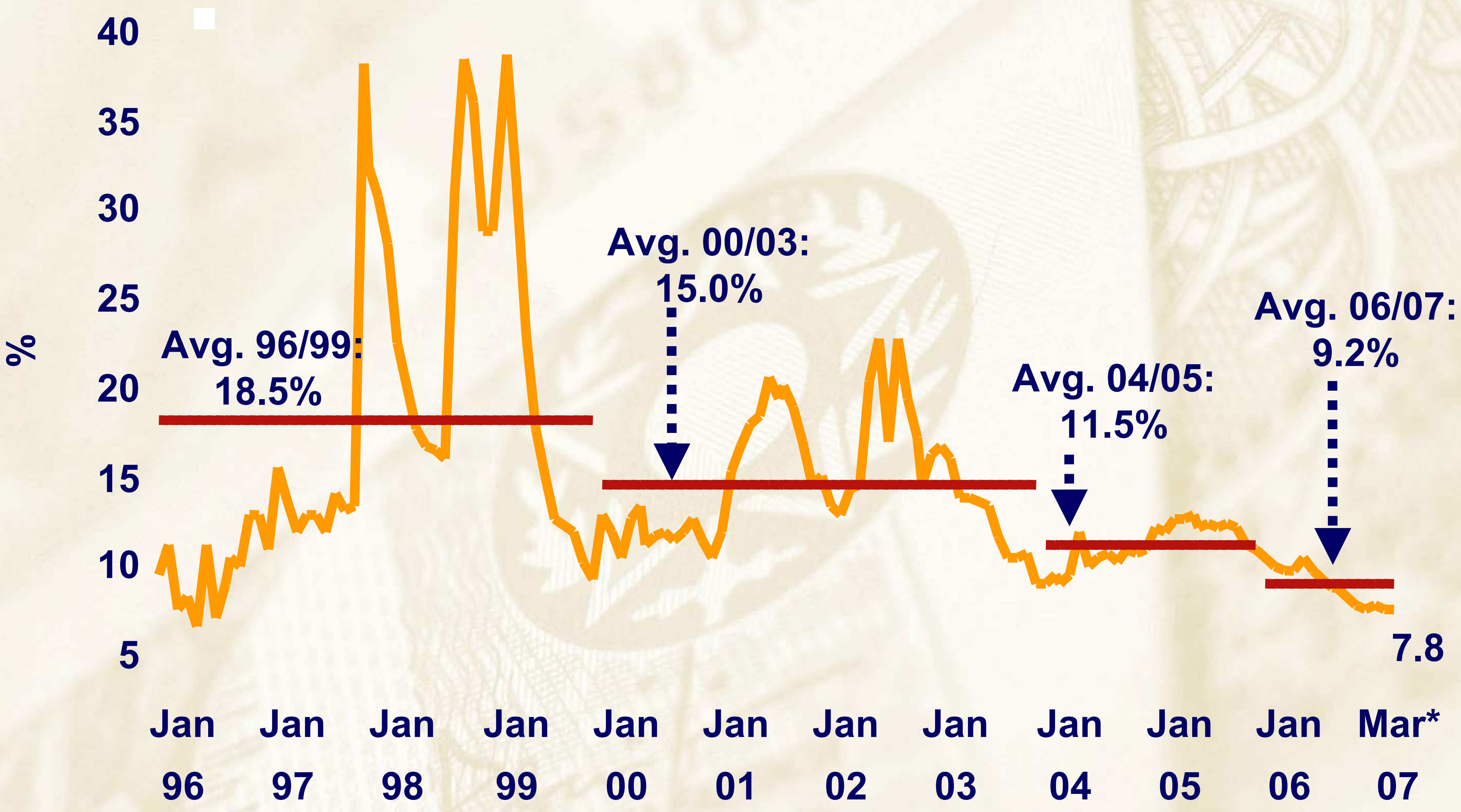


Interest Rate (Selic and 360-day Swap)



Sources: BCB and BM&F *Mar 21

Real Interest Rate (360-day Swap)

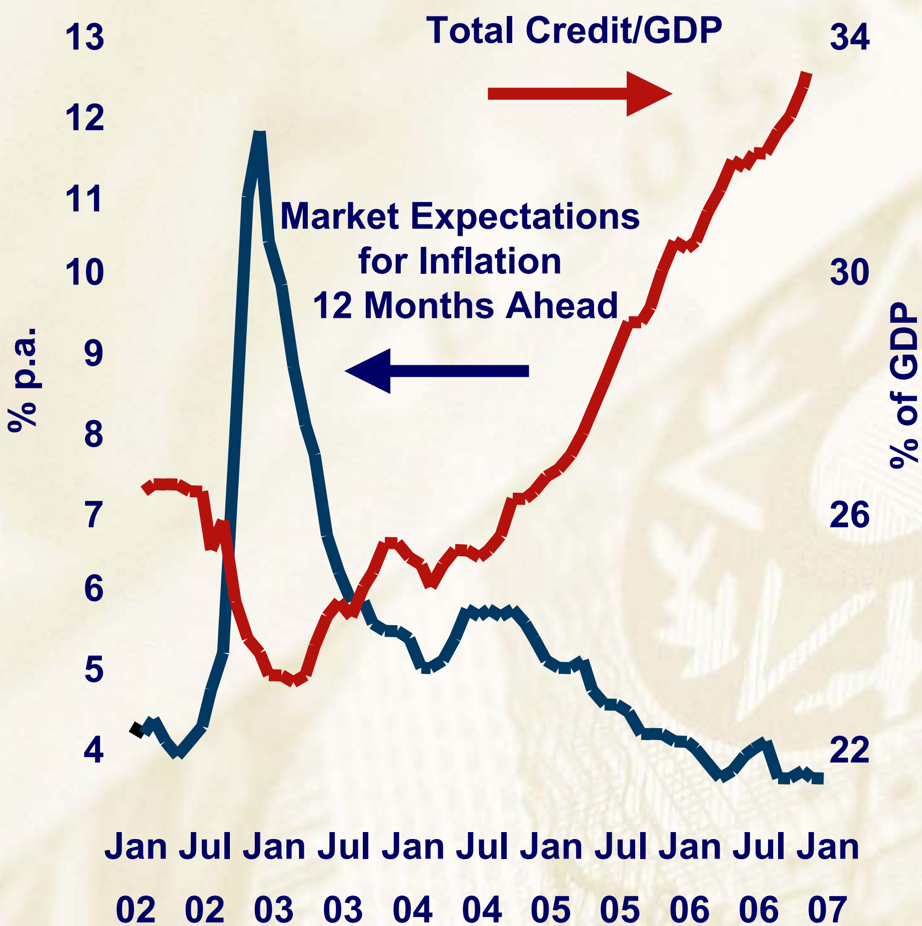


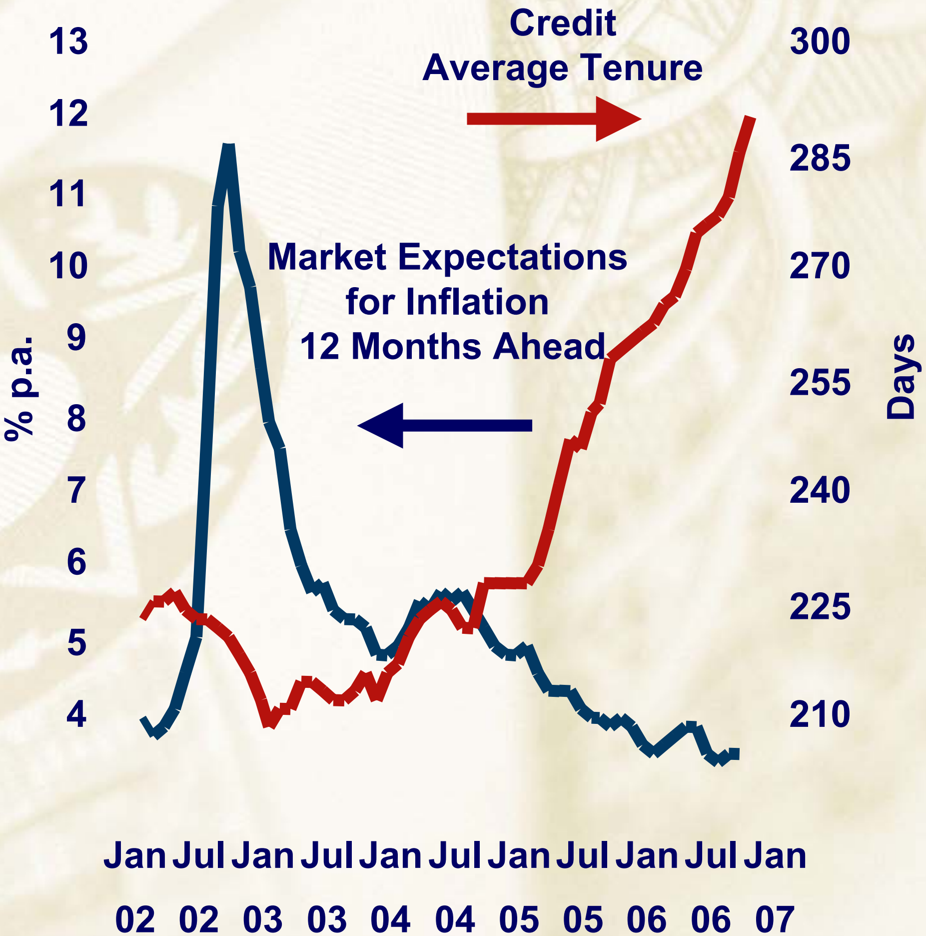
Sources: BCB and BM&F *Mar 21

Brazil inflation linked yields (NTN-Bs)

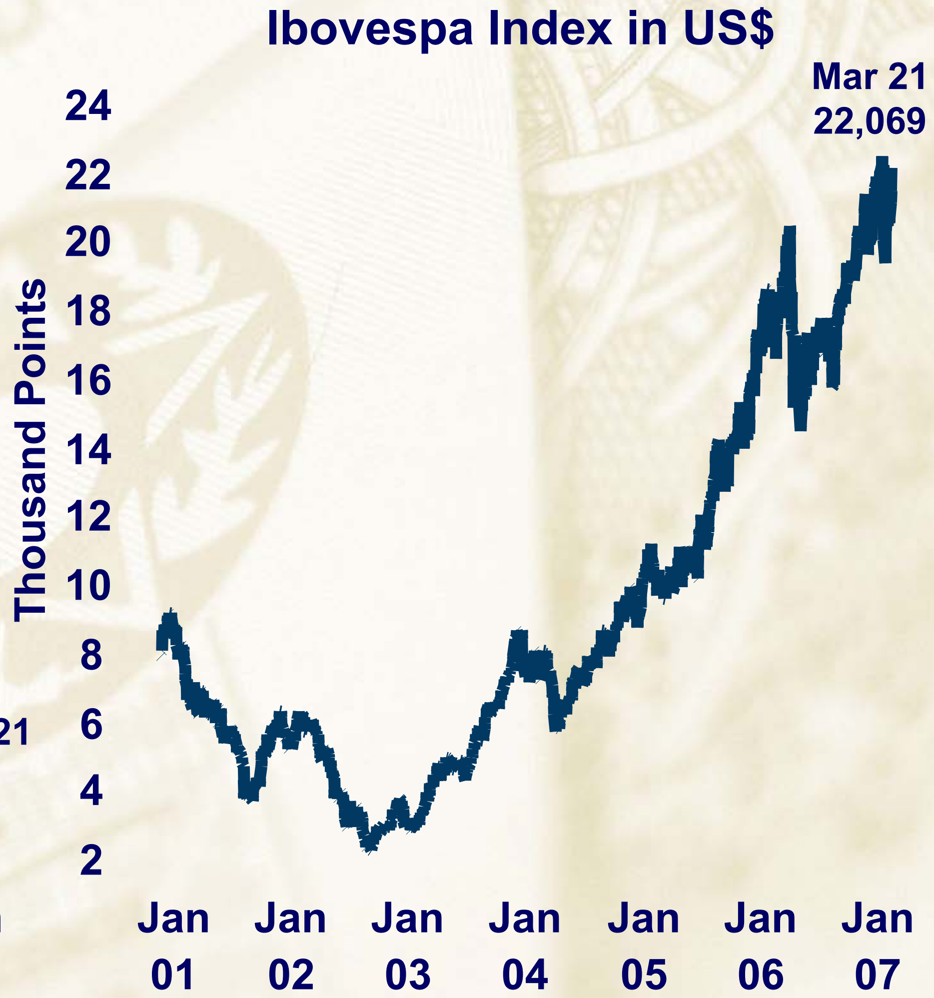
*Mar 20

Credit x Inflation

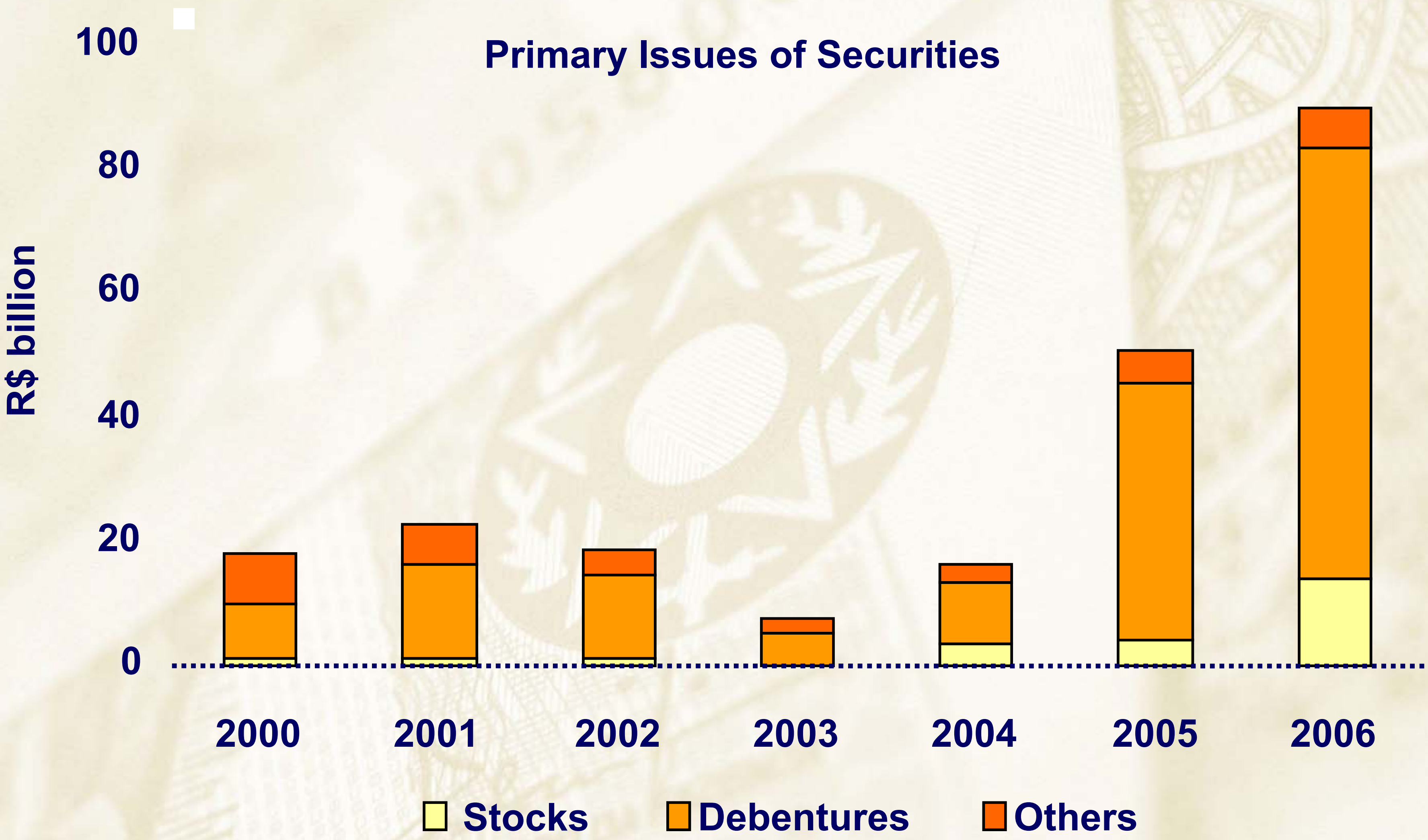




Market Indicators

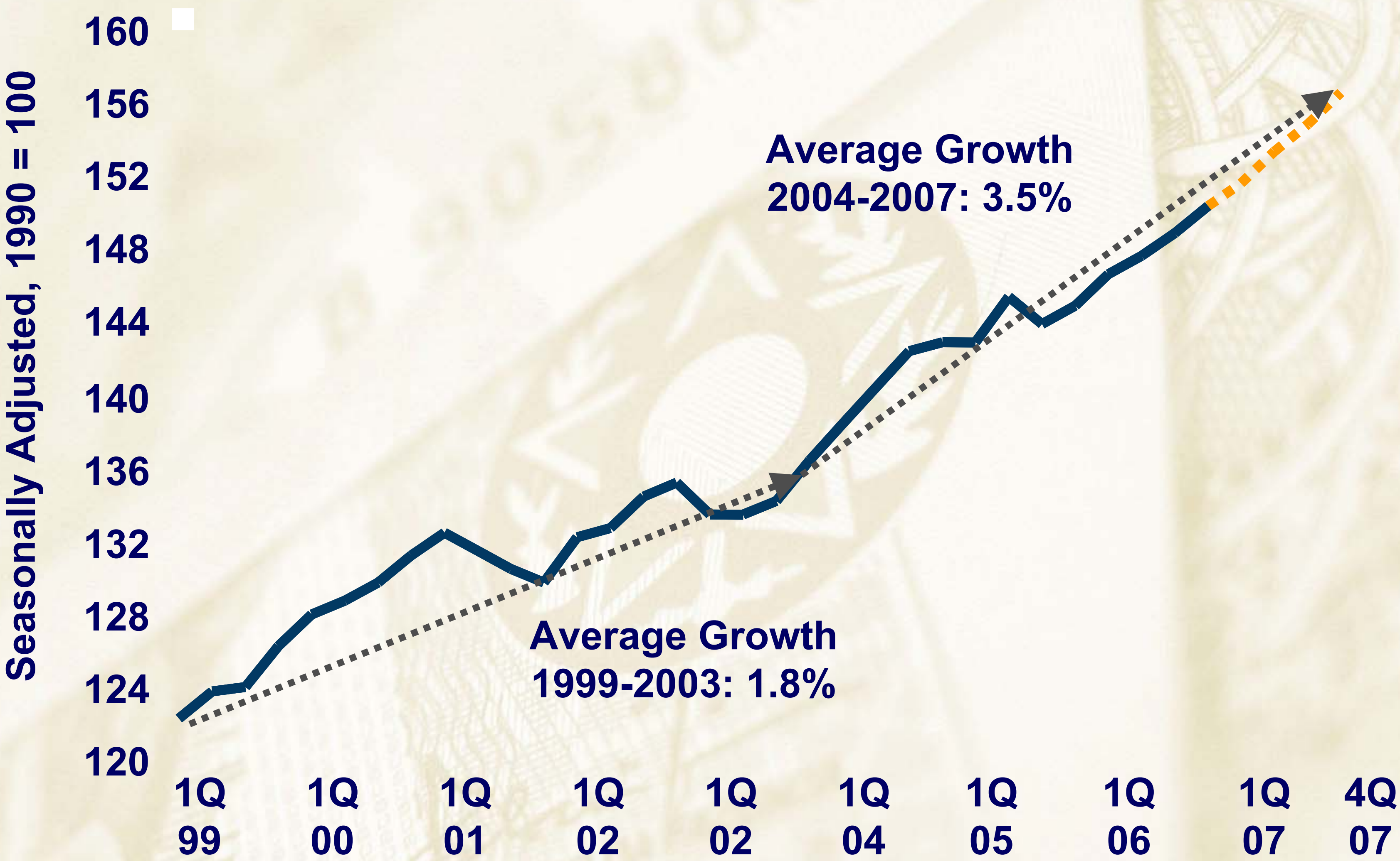


Capital Markets



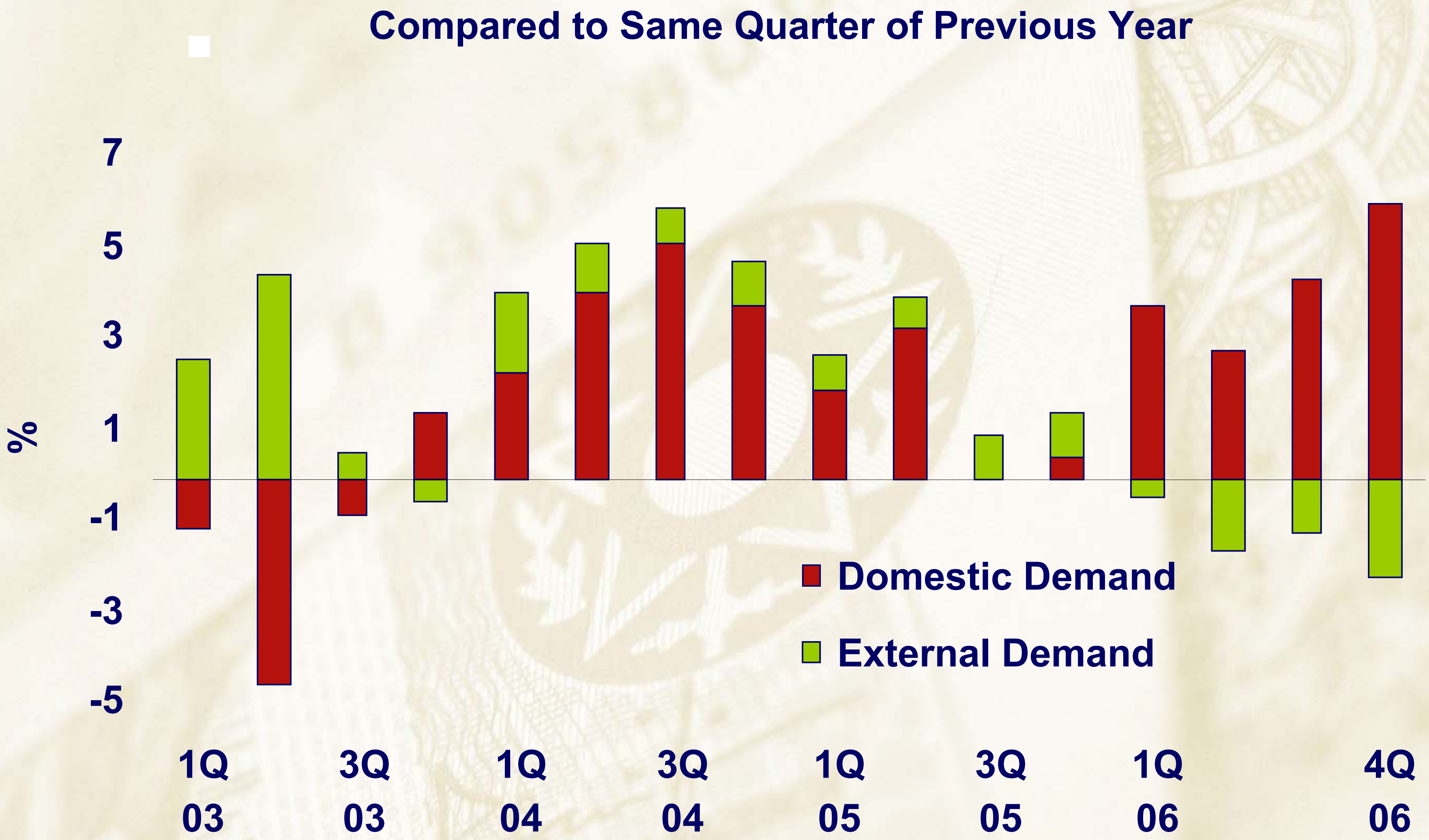
III. Economic activity

GDP: 1999-2007*

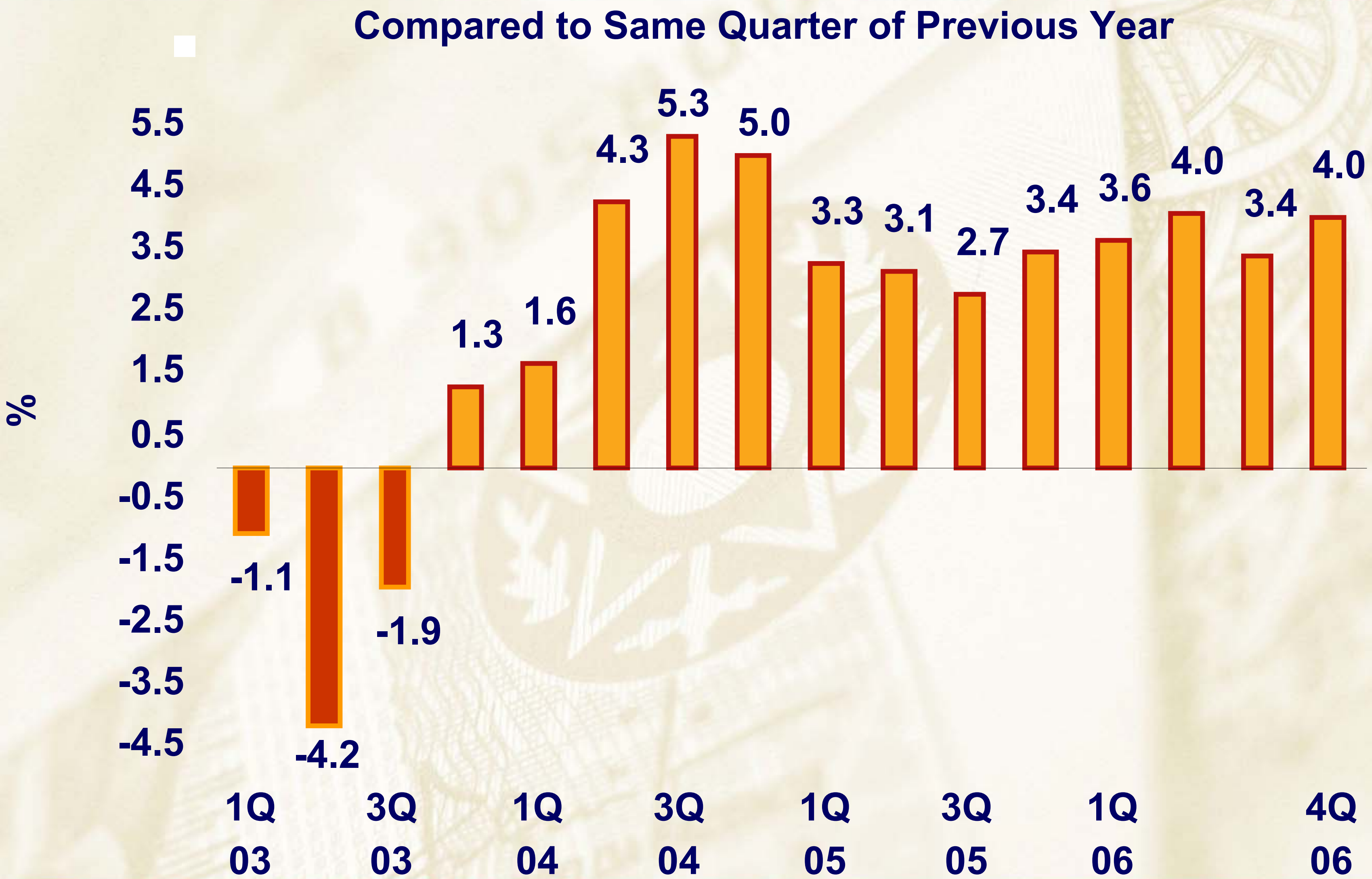


*Inflation Report Dec/2006

Contribution of Domestic and External Demand to GDP Growth



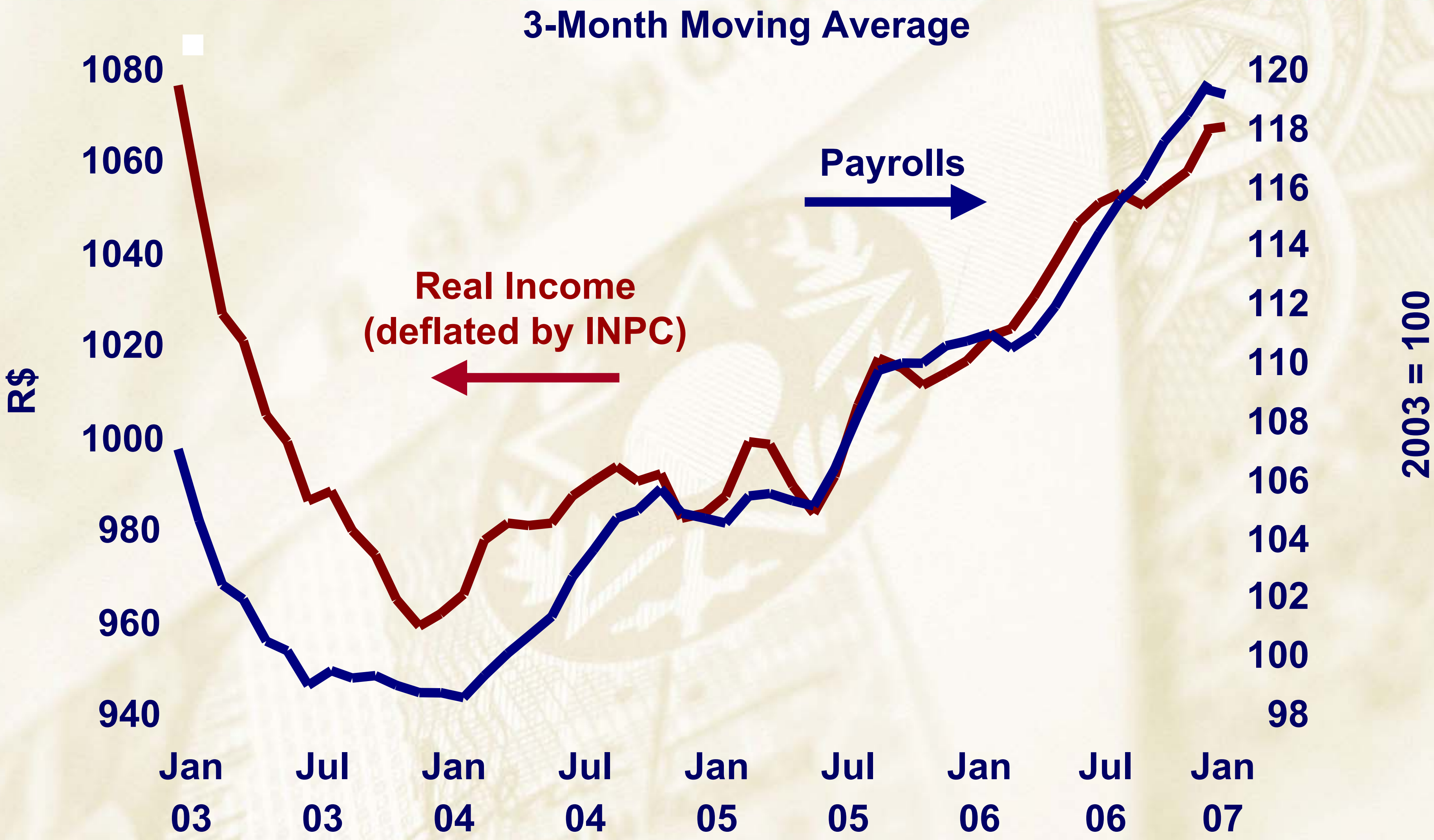
Household Consumption



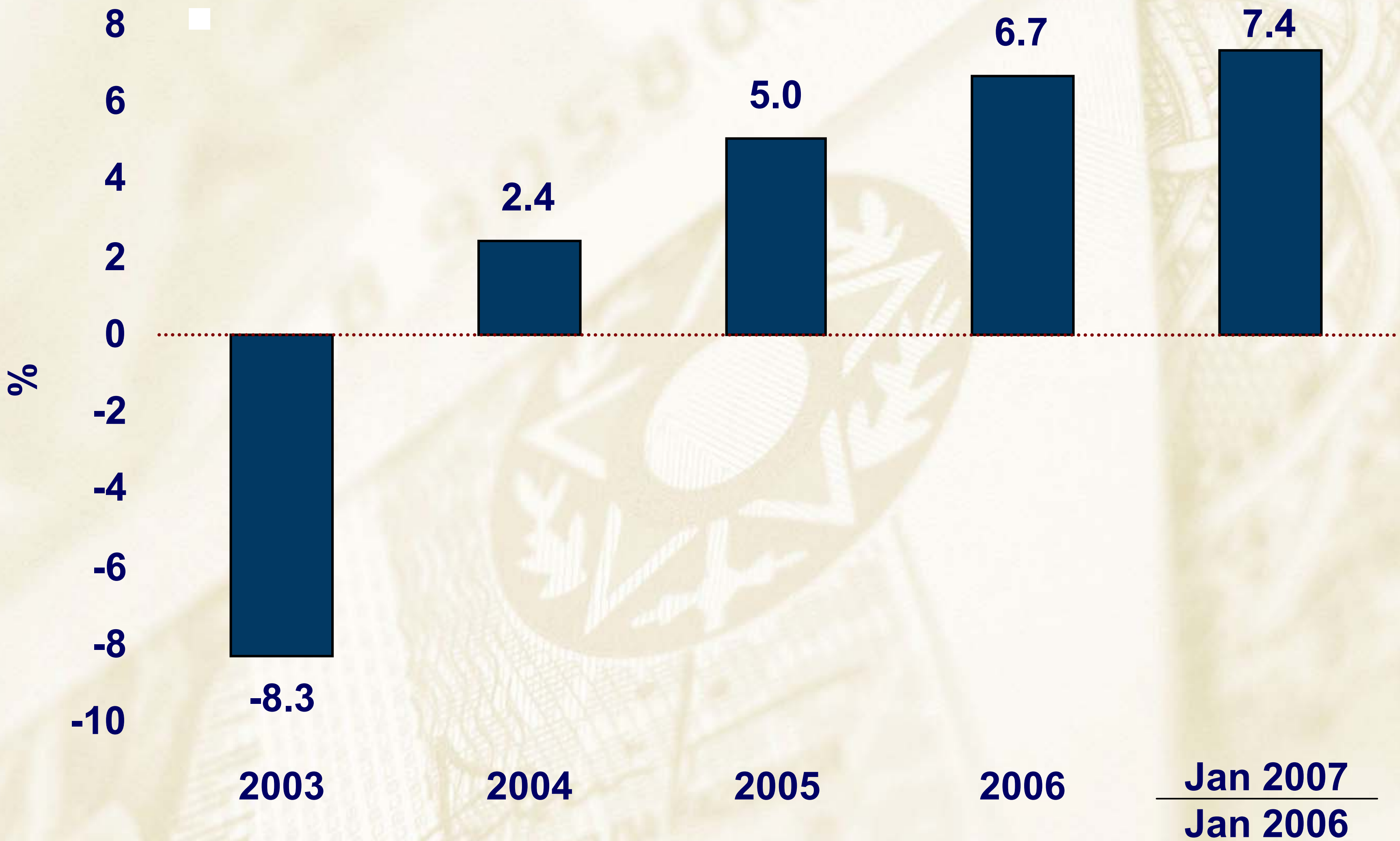
Retail Sales

Sources: IBGE and Banco Central

Average Real Income and Payroll



Real Payroll Growth

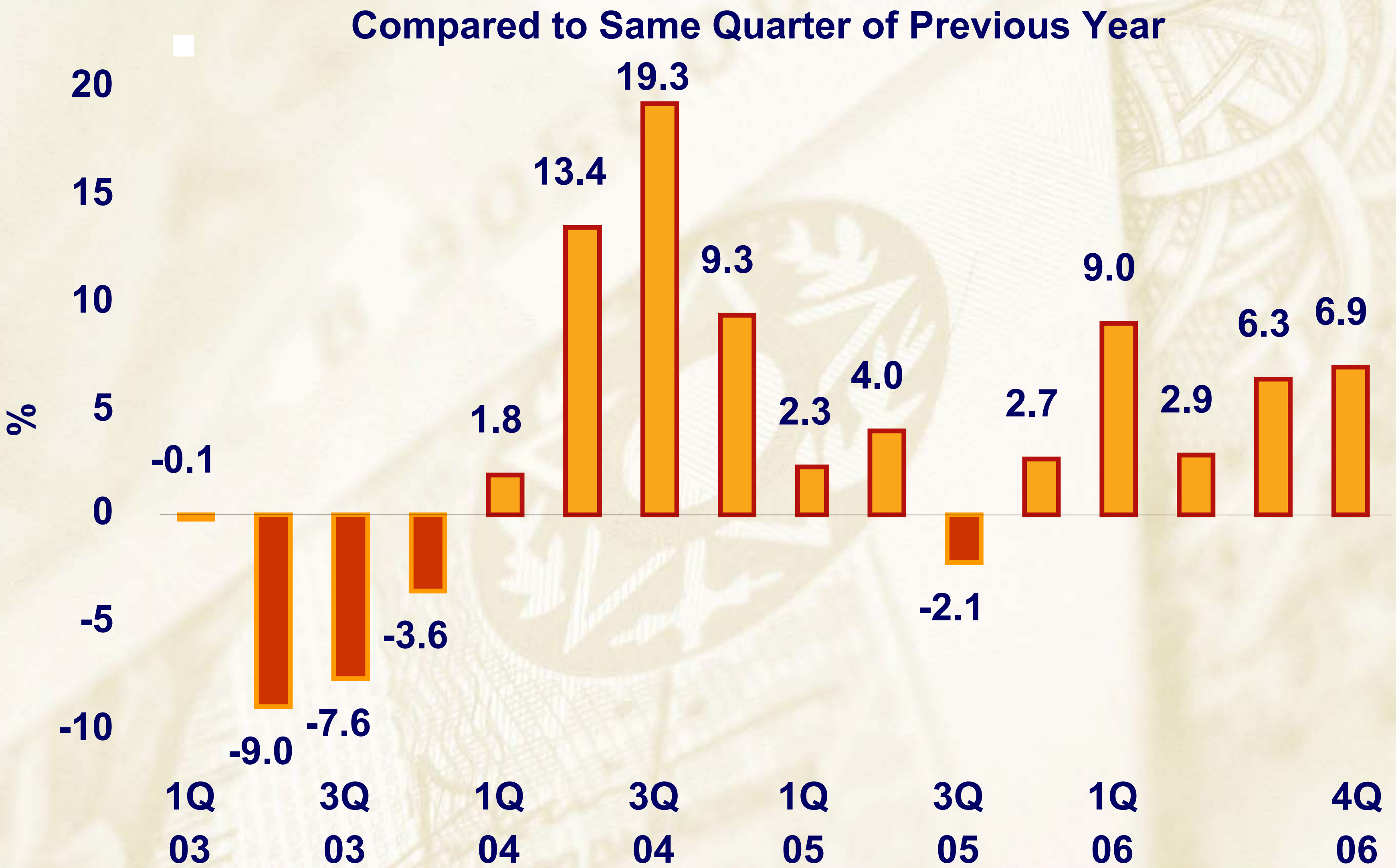


Source: IBGE

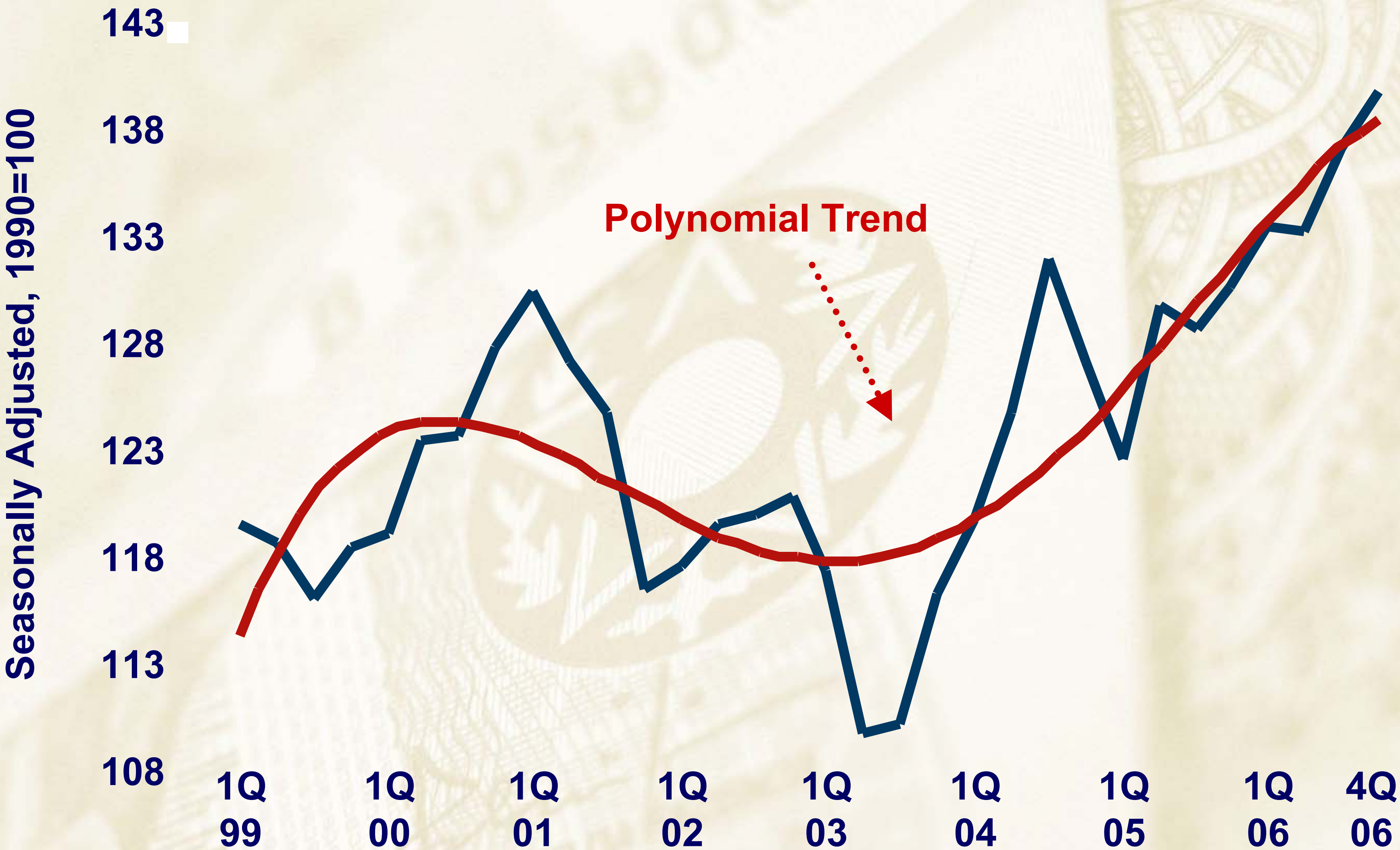
Job Creation in the Formal Sector

Source: Ministério do Trabalho e Emprego

Gross Fixed Capital Formation



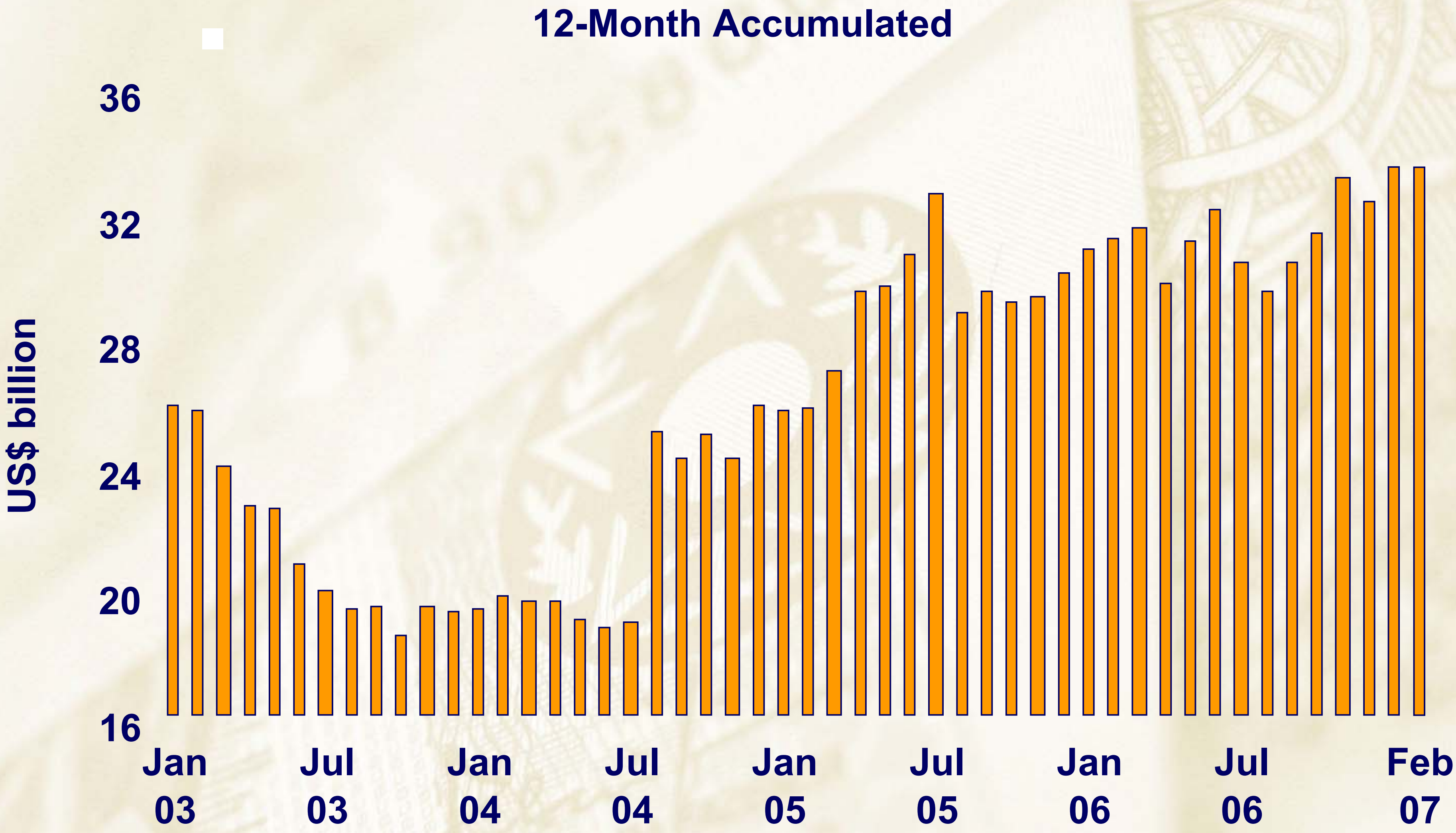
Gross Fixed Capital Formation: 1999-2006



Source: IBGE

Production of Inputs to Construction Industry

Gross Foreign Direct Investment



IV. A world class financial infrastructure

Banco Central do Brasil (BCB) – Mission

- To ensure stability of Brazil´s currency purchasing power
- To ensure the soundness and the efficiency of the country´s financial system
    - Regulation and supervision of the financial system
    - Intervention in financial institutions and even decreeing their extrajudicial liquidation, if necessary.
    - Overseeing payments, securities and derivatives settlement systems

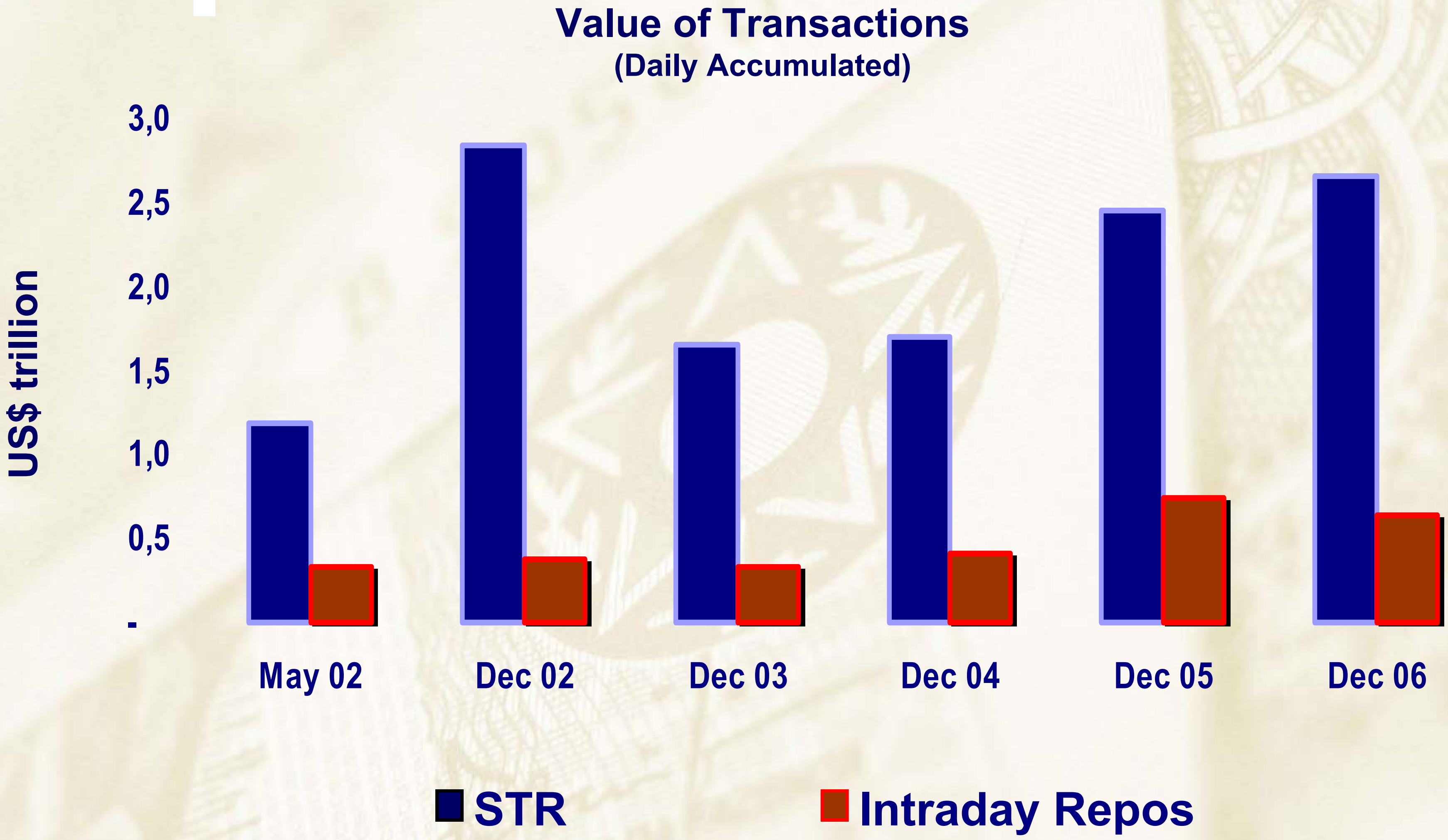
The Brazilian Payment System – features – I

- **A real-time gross settlement (RTGS) system for transfer of funds with queuing and intraday credit facilities**
- **Settlement in central bank money (inter-bank settlement)**
- **Full automation with *straight through processing* (STP)**
- **All settlement systems are supported by a high-performance and open architecture network, which uses XML language**
- **Three central securities depositaries (CSD) and two central counterparties for securities and derivatives markets**
- **Best practices in risk management**

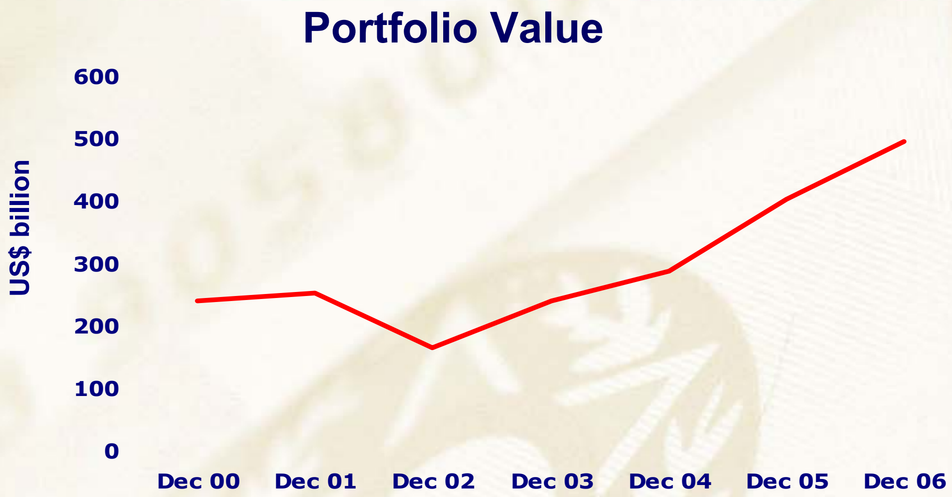
The Brazilian Payment System – features II

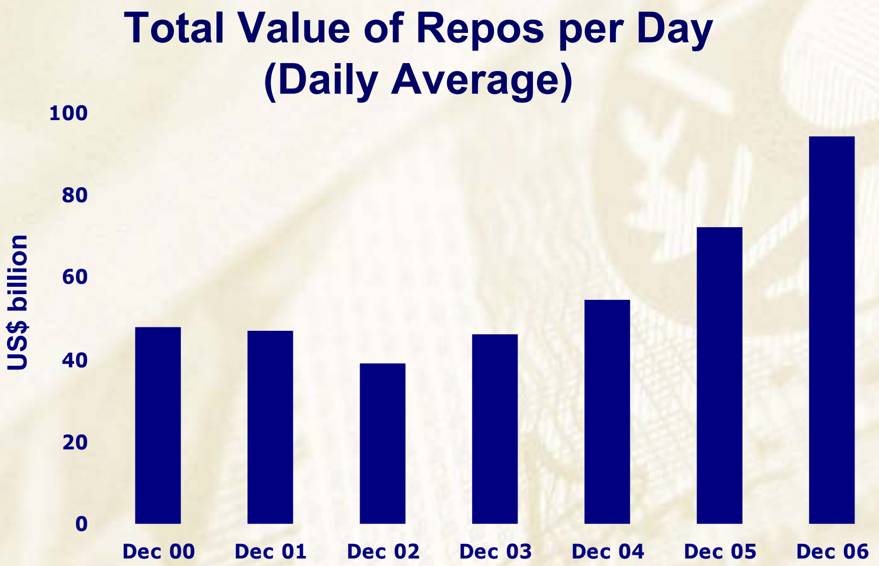
- Settlement certainty: central counterparties enforced by law
- D*v*P or P*v*P is observed in all systems
- Short settlement cycles:
  - Funds transfers: STR → real-time
  - Government securities: SELIC → real-time or BM&F → end of day (T+0 or T+n)
  - Corporate bonds: (T+0 or T+1)
  - Stocks: T+3 (spot market)
  - Derivatives: T+1
- All securities are dematerialized
- Adherence to international best practices (CPSS/IOSCO)

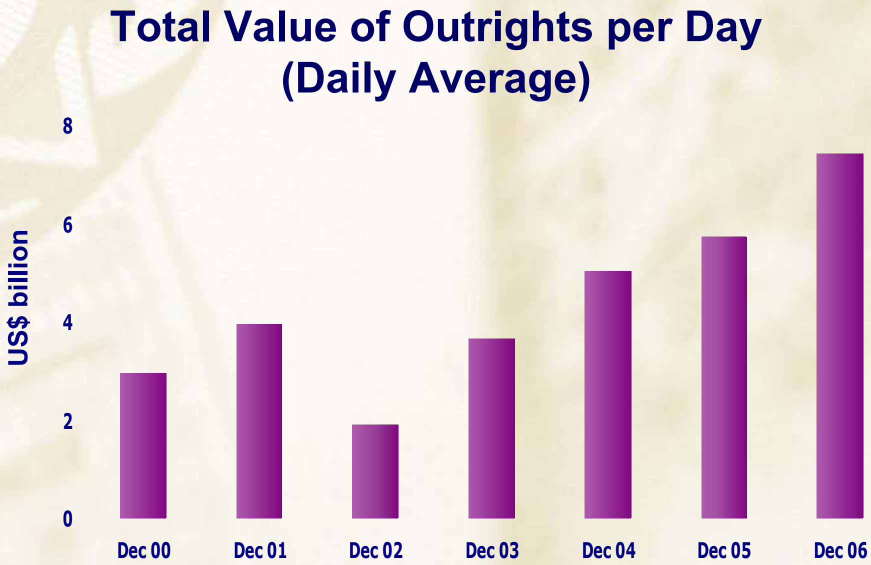
The Brazilian RTGS System – STR



Brazilian Government Securities CSD – The SELIC System



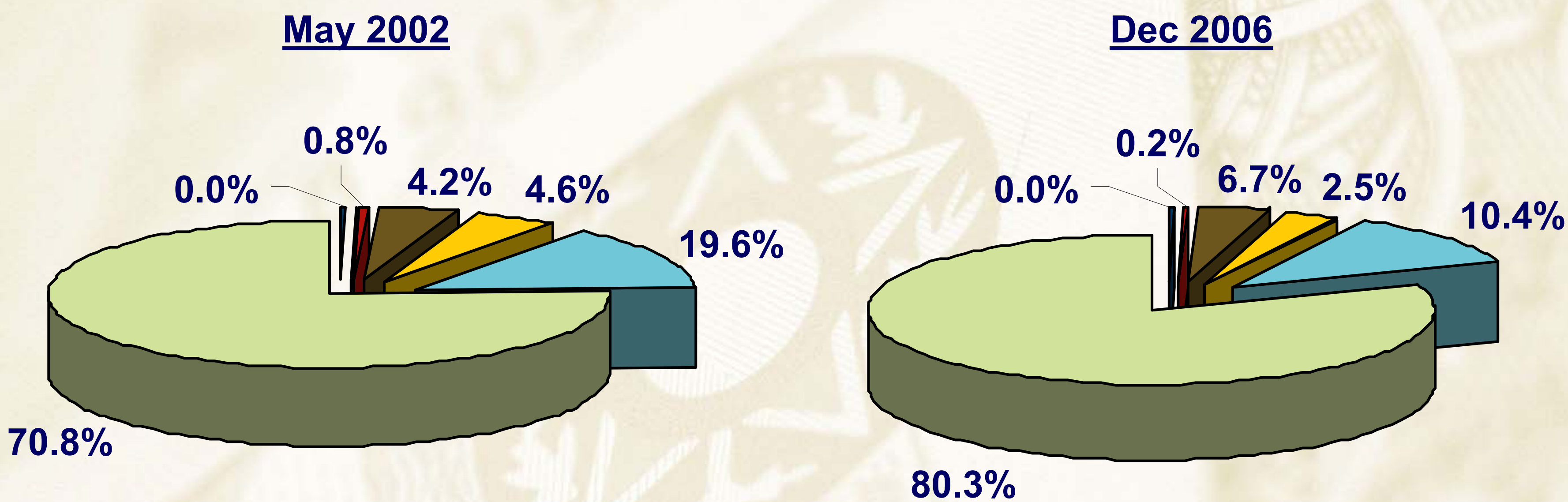




Securities and Derivatives Settlements Systems

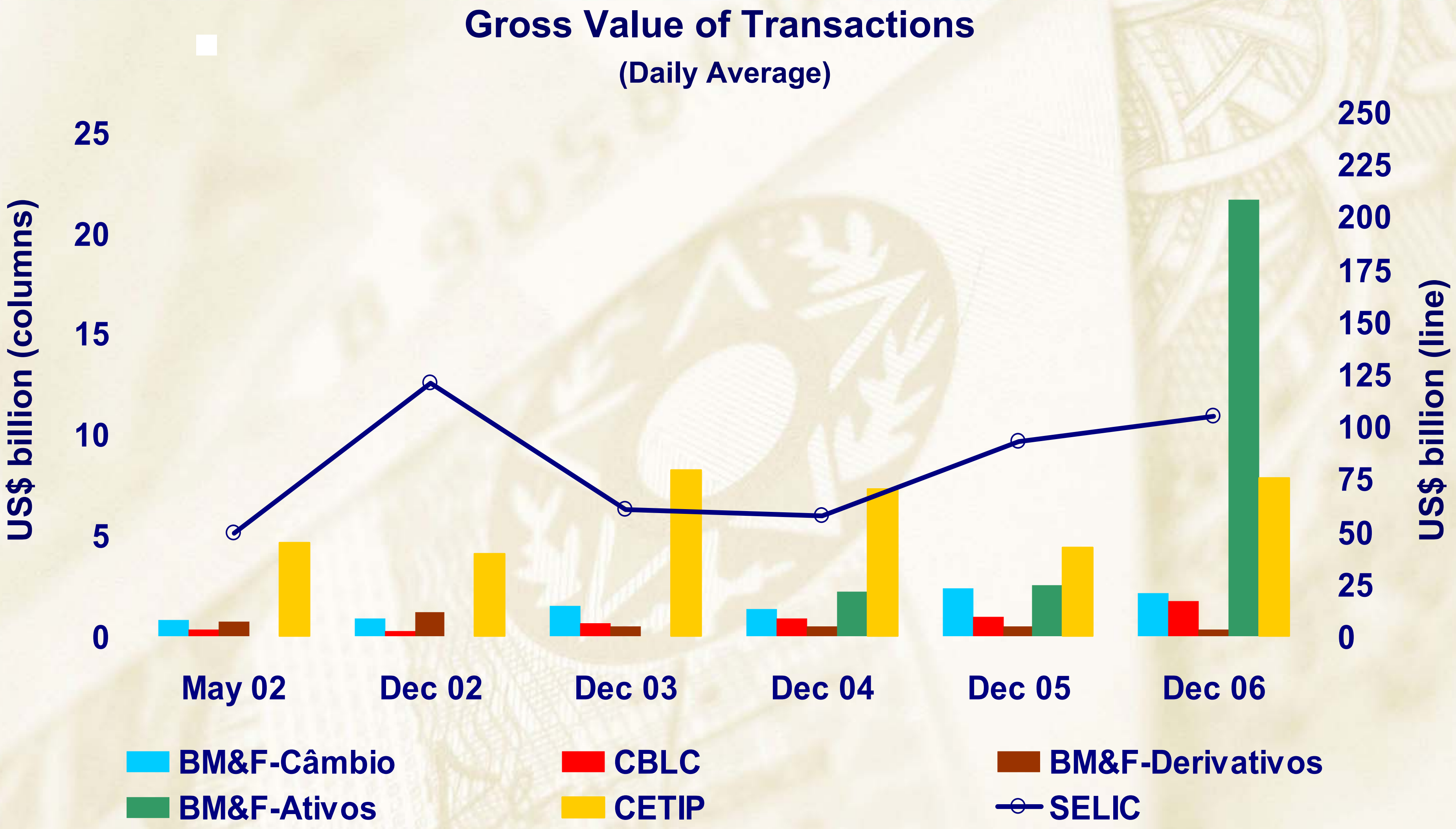
Volume of Transactions

(Daily Average)



- SELIC
- Securities Clearinghouse – BM&F-Ativos
- Derivatives Clearinghouse – BM&F-Derivativos
- Foreign Exchange Clearinghouse – BM&F-Câmbio
- Brazilian Clearing and Depository Corporation – CBLC
- Custody and Settlement – CETIP

Securities and Derivatives Settlements Systems



The Banco Central do Brasil Website

http://www.bcb.gov.br/?english

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