The Brazilian economy in the context of the current global environment.

Aldo Mendes

May 2011

BANCO CENTRAL DO BRASIL

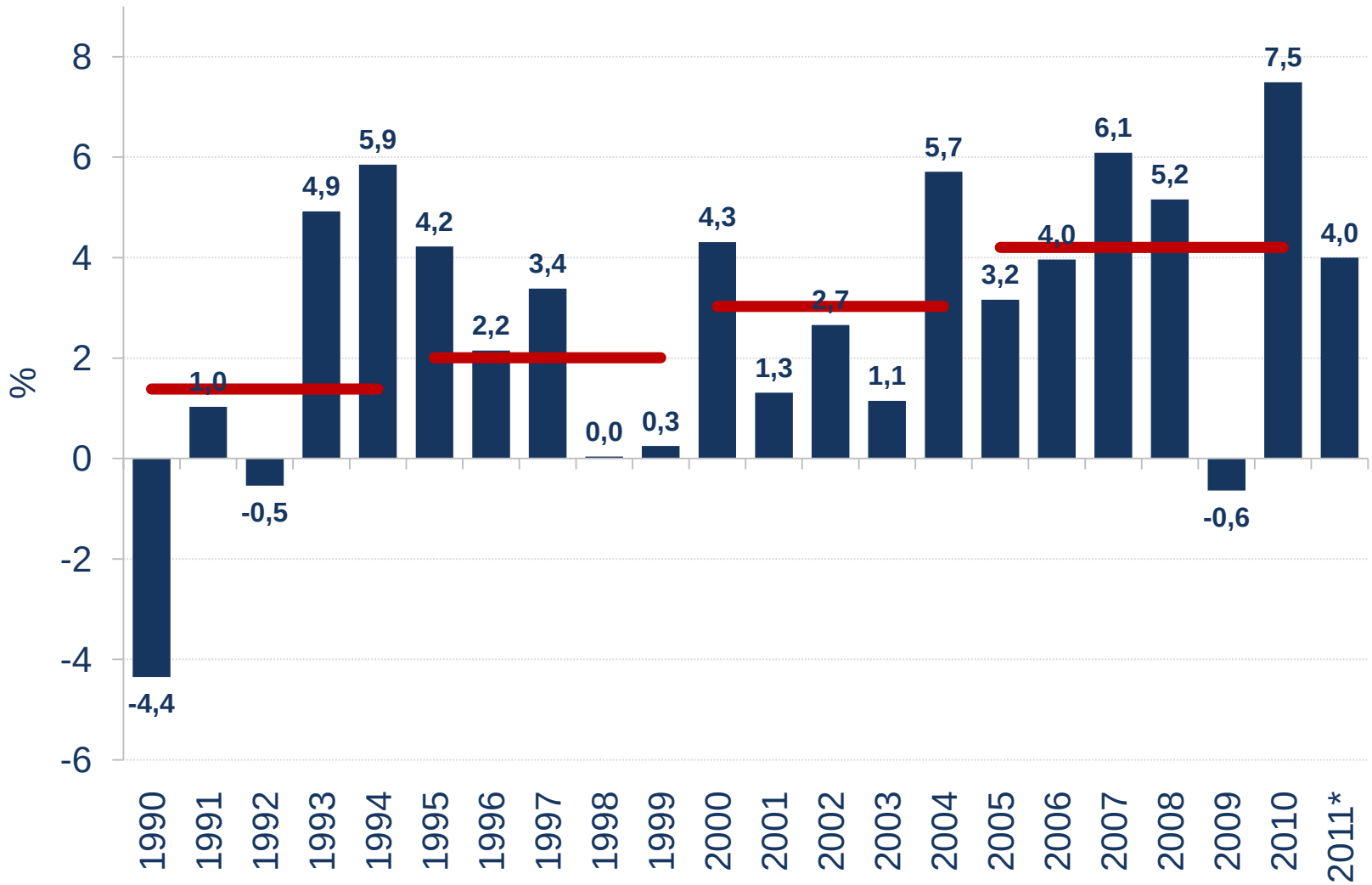
Contents

- ❑Brazilian indicators
- ❑Global environment
- ❑Inflation abroad
- ❑Credit in Brazil and macroprudential measures
- ❑Challenges for monetary policy

Contents

- ❑Brazilian indicators
- ❑Global environment
- ❑Inflation abroad
- ❑Credit in Brazil and macroprudential measures
- ❑Challenges for monetary policy

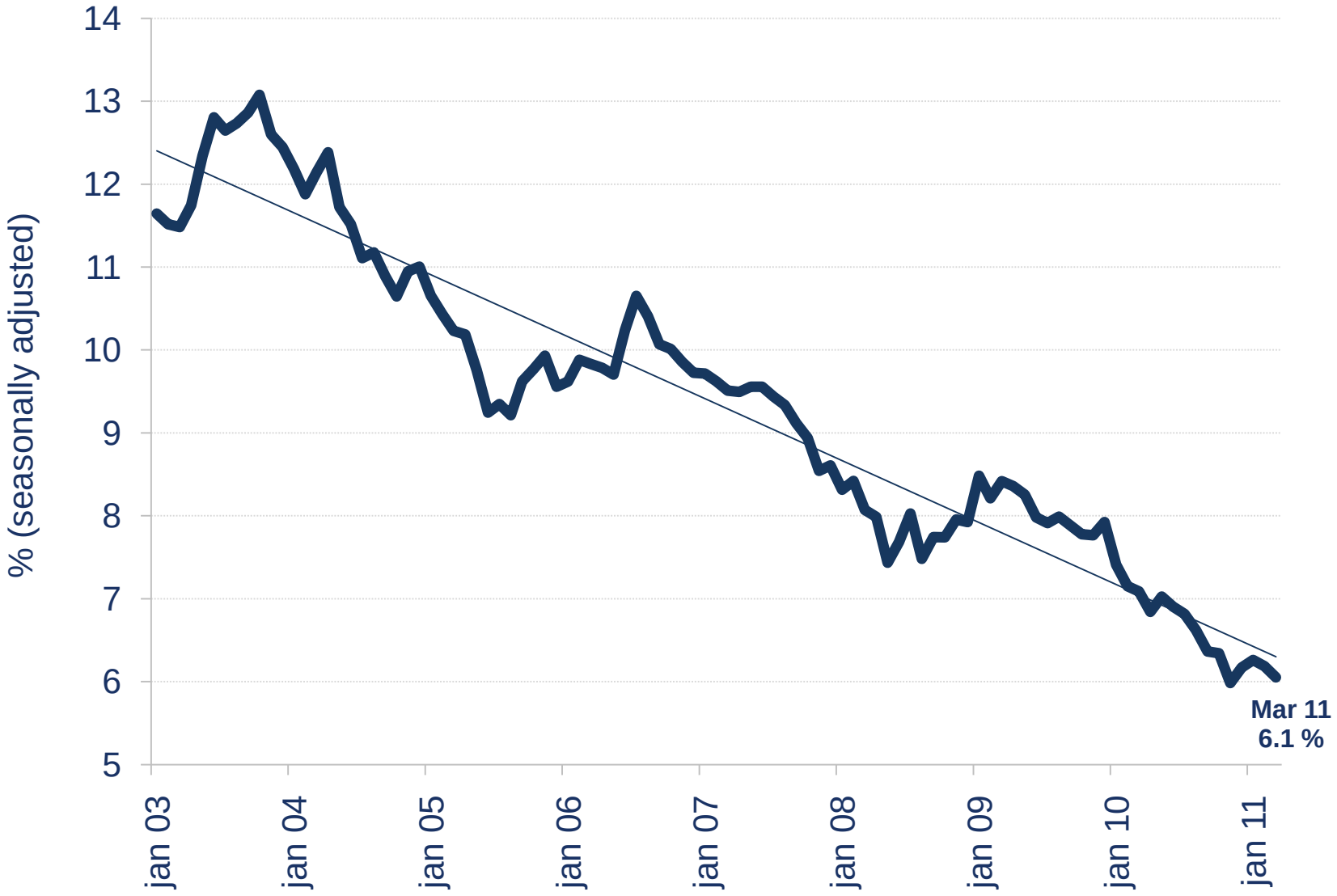
GDP Growth



*Forecast from Central Bank of Brazil (Inflation Report – March 2011)

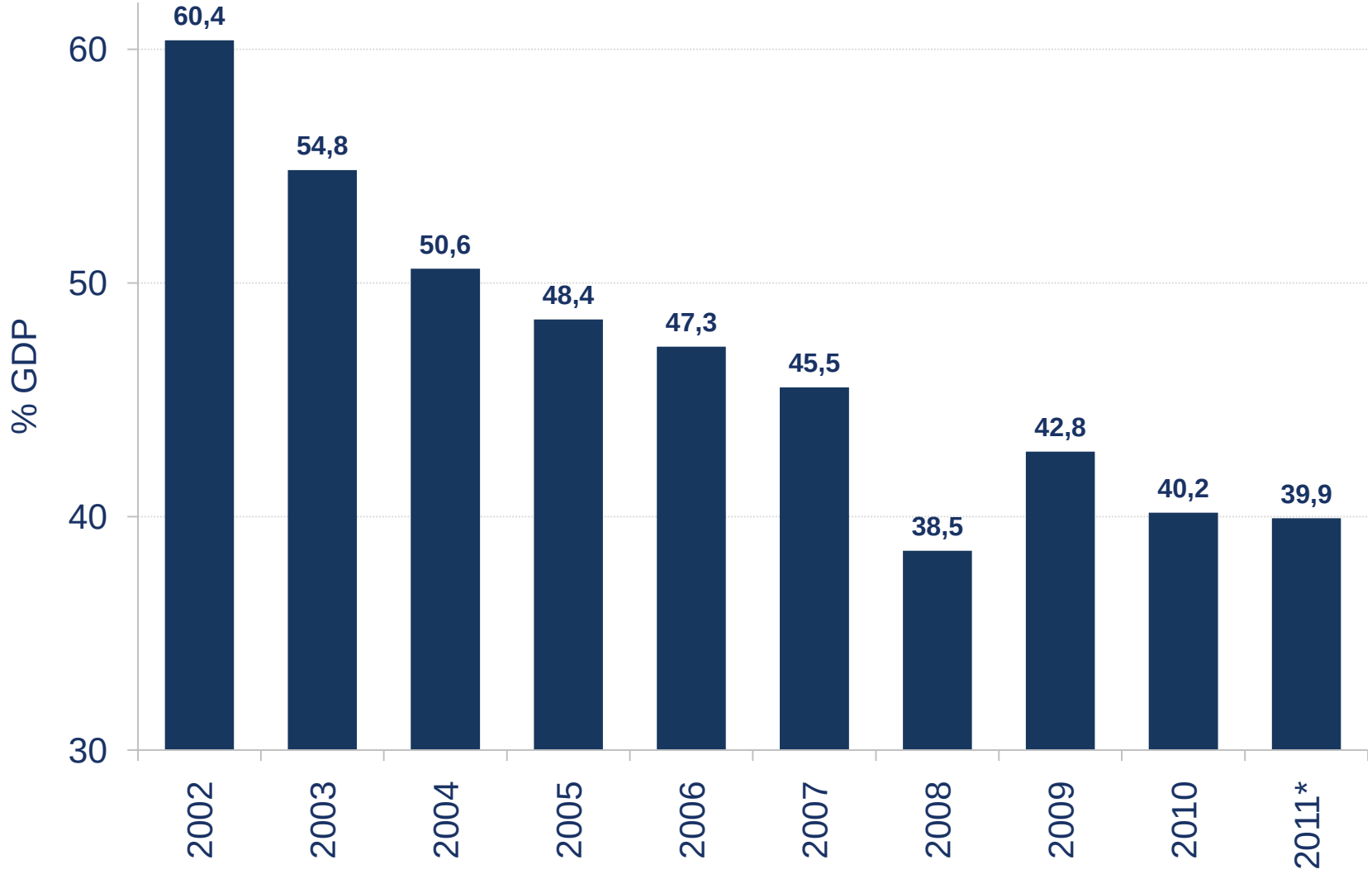
Source: IBGE

Unemployment Rate



Source: IBGE

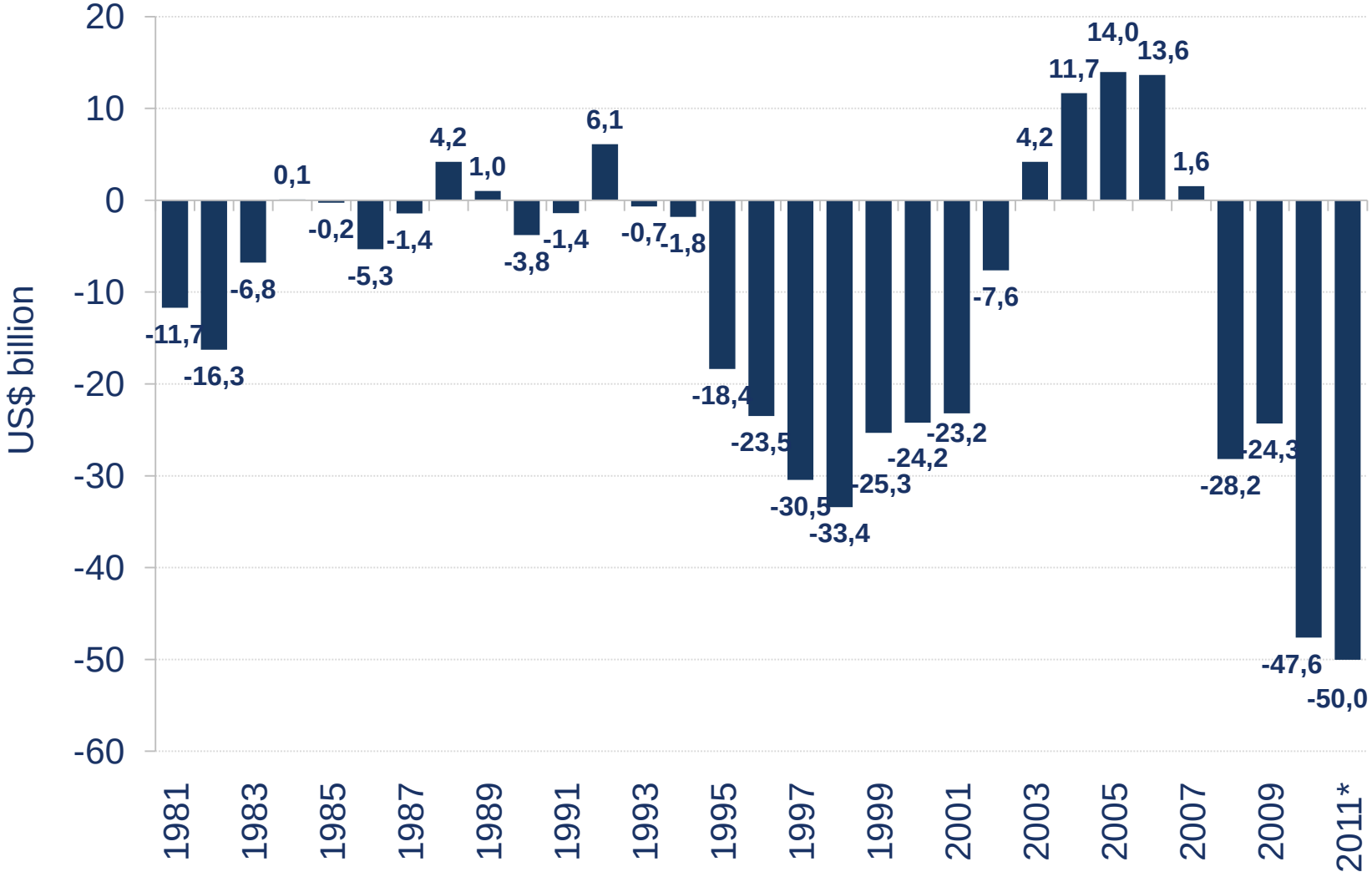
Net Public Debt



*March 2011

Source: BCB

Current Account

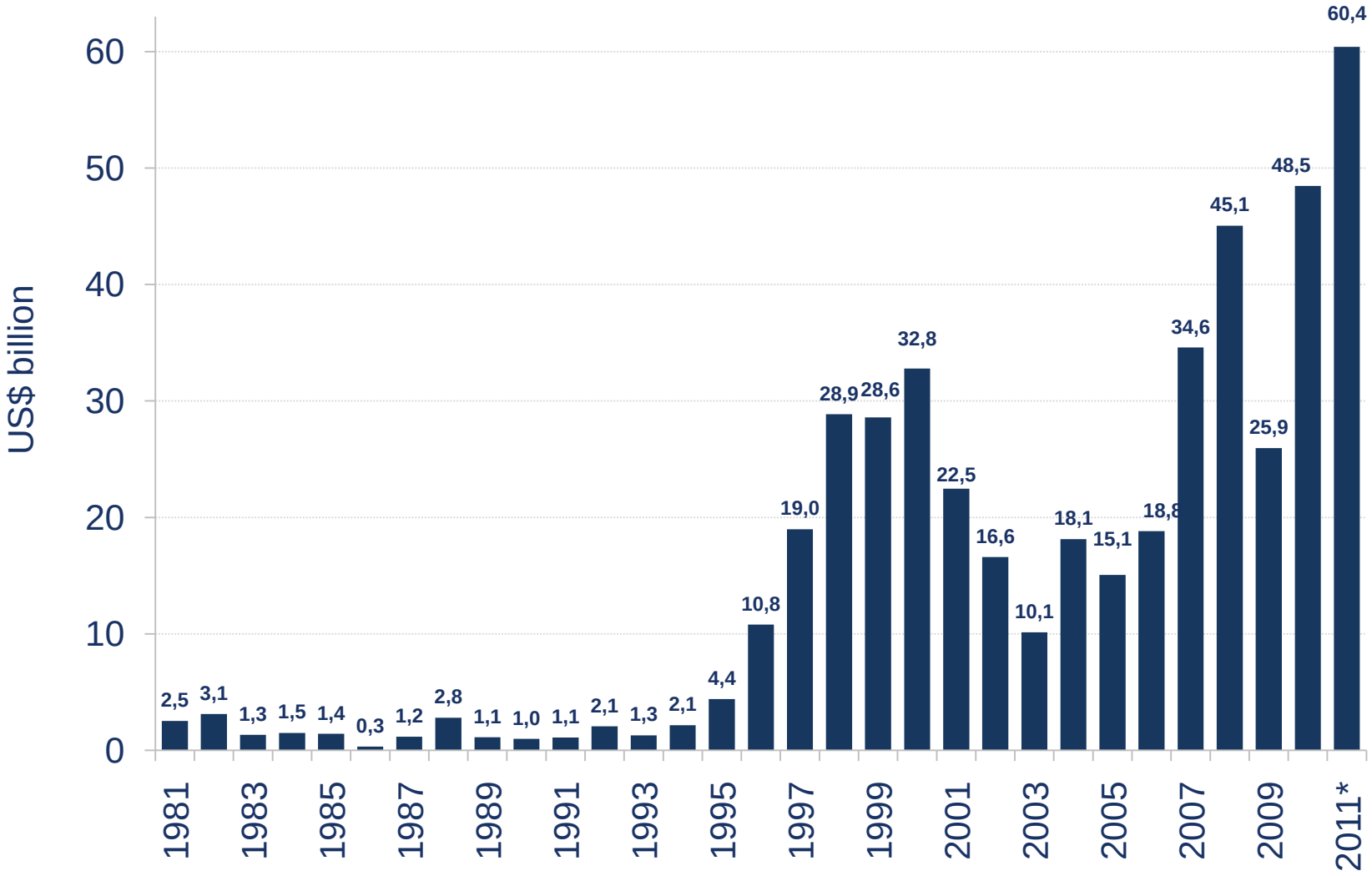


*March 2011 (12 months)

Source: BCB

BANCO CENTRAL DO BRASIL

Foreign Direct Investment

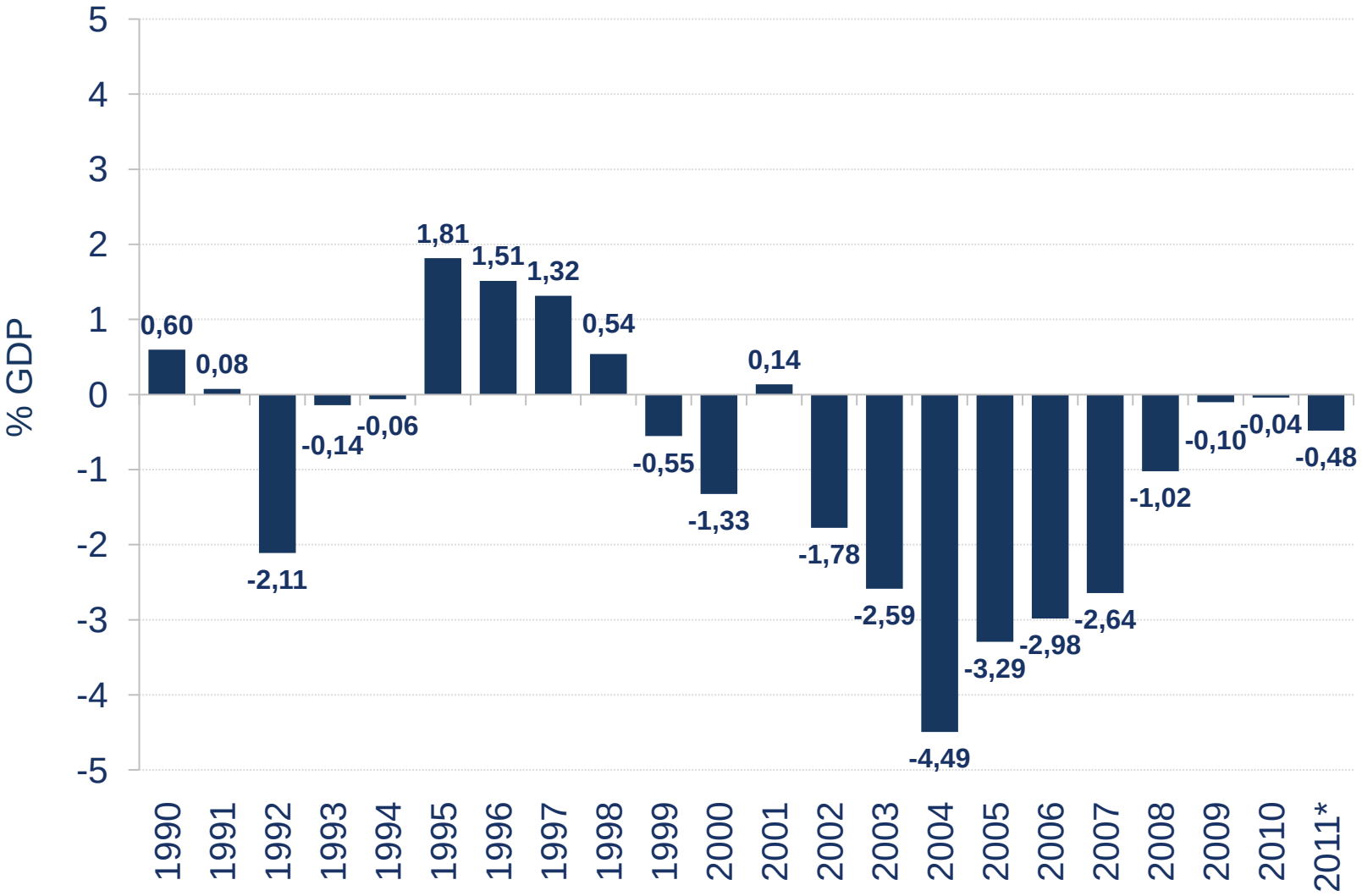


*March 2011 (12 months)

Source: BCB

BANCO CENTRAL DO BRASIL

Current Account Deficit (-) FDI

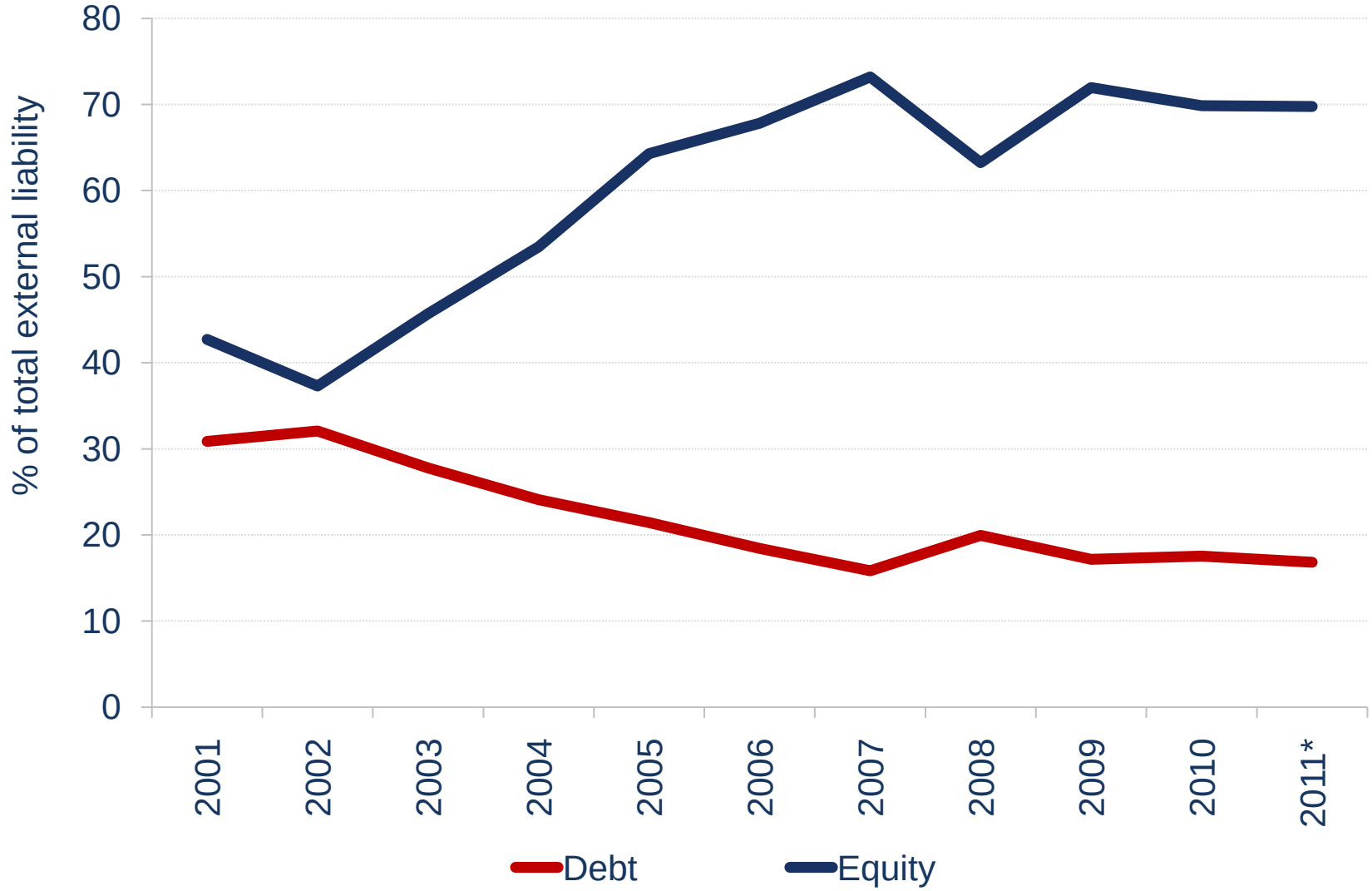


*March 2011 (12 months)

Source: BCB

BANCO CENTRAL DO BRASIL

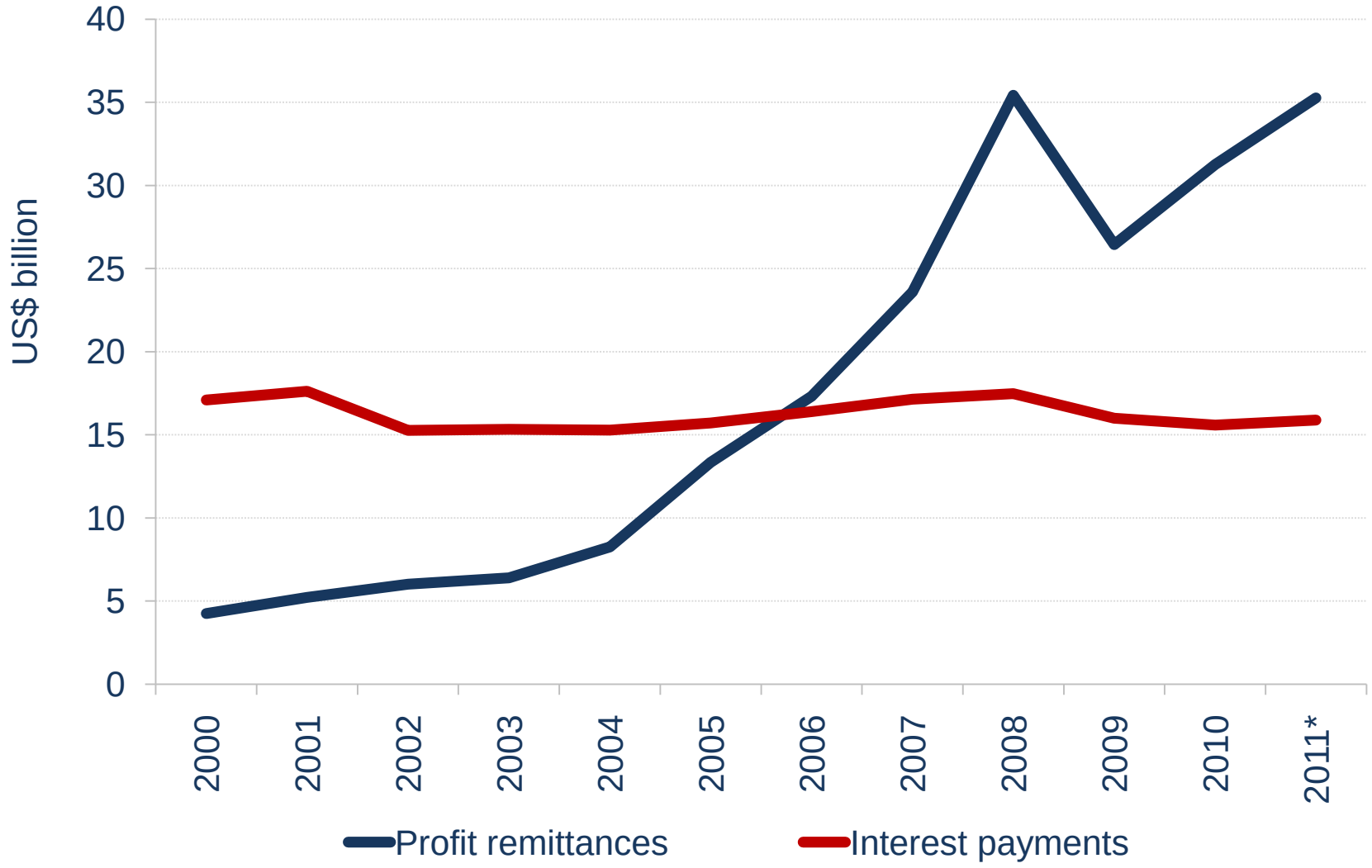
External Liability – Debt vs Equity



*March 2011

Source: BCB

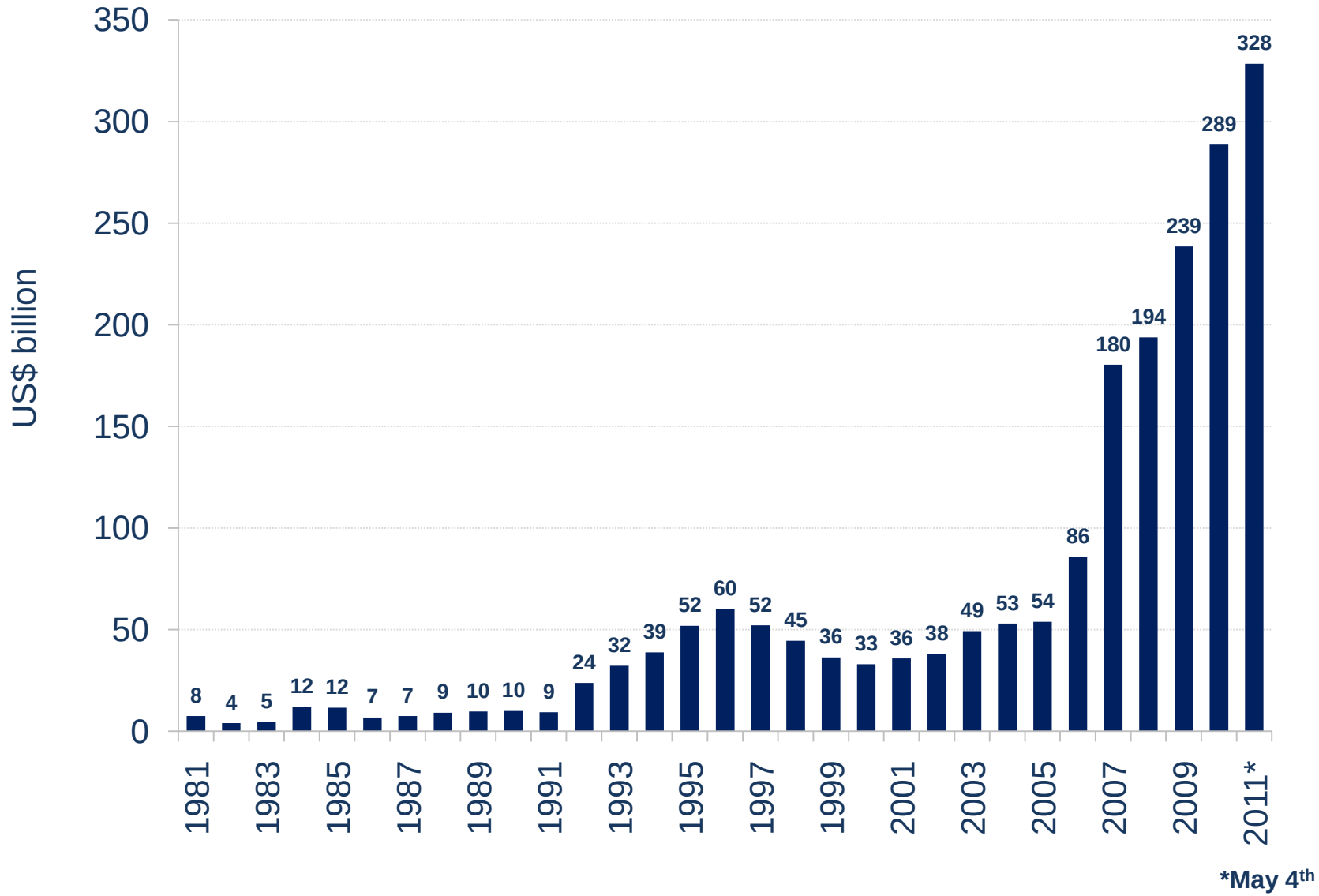
External Liability – Interest vs Profit



*March 2011 (12 months)

Source: BCB

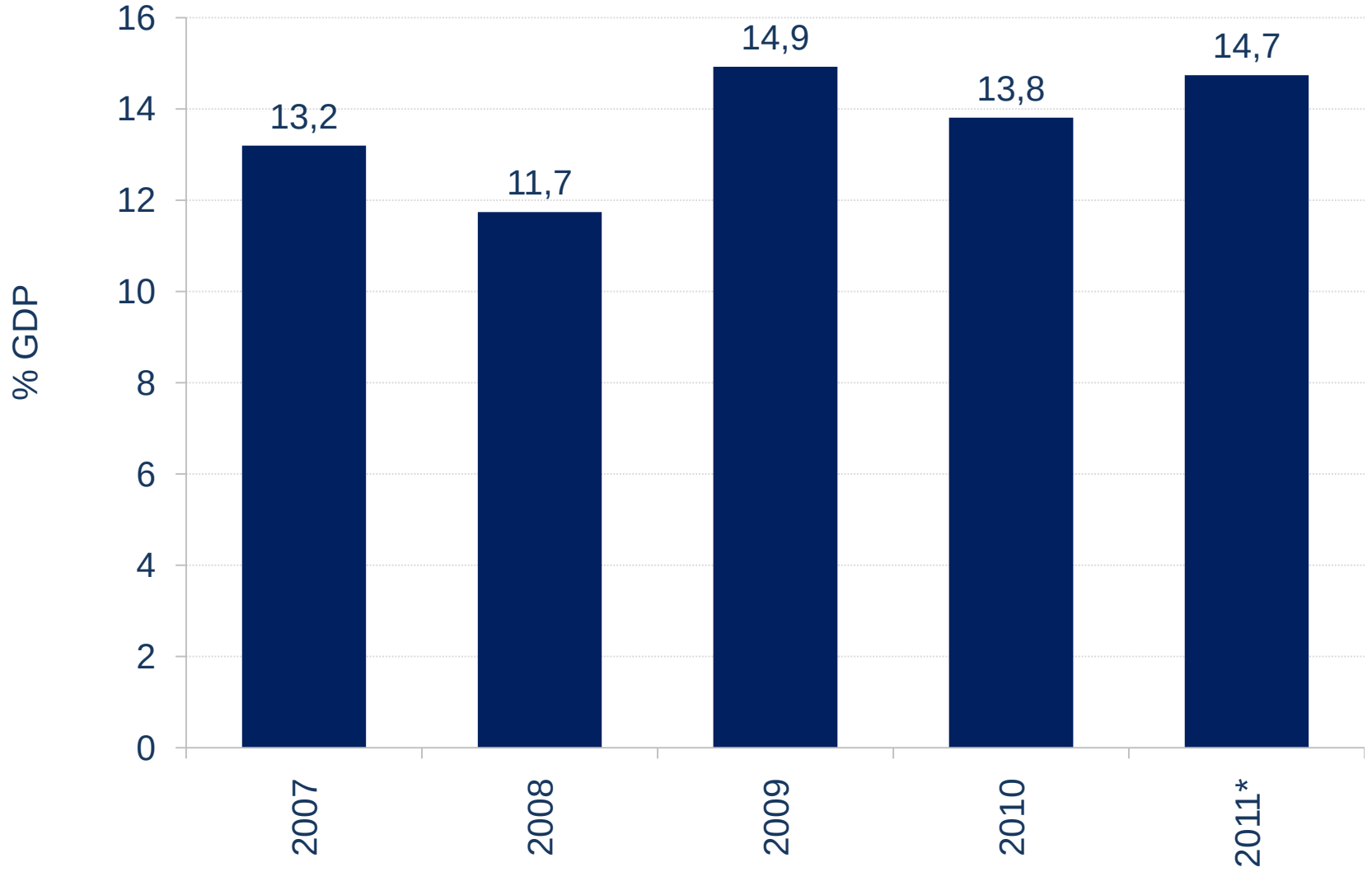
International Reserves



*May 4th

Source: BCB

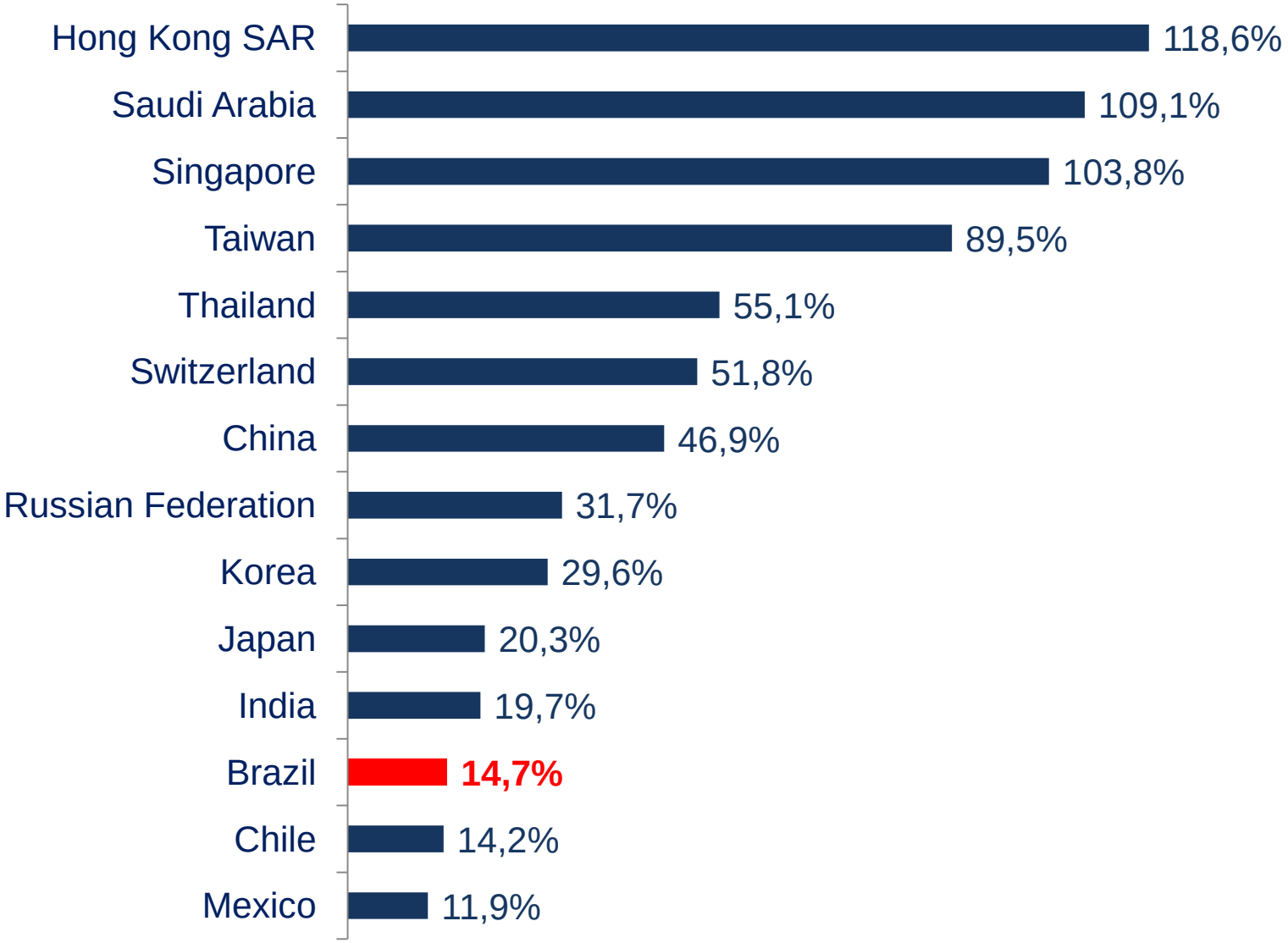
International Reserves



*March 2011

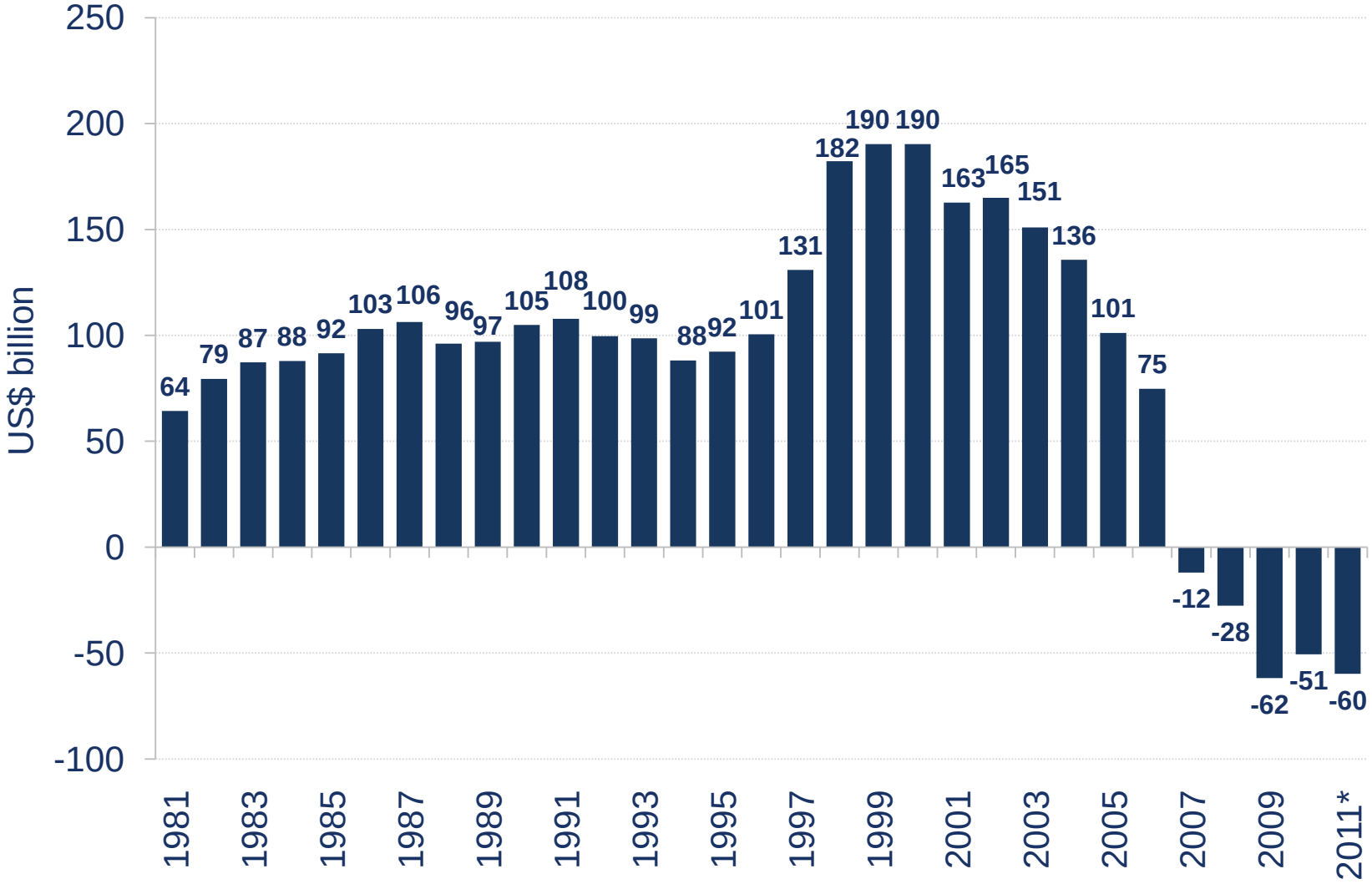
Source: BCB

International Reserves (% GDP)



Source: Bloomberg, Thomson Datastream

Net External Debt

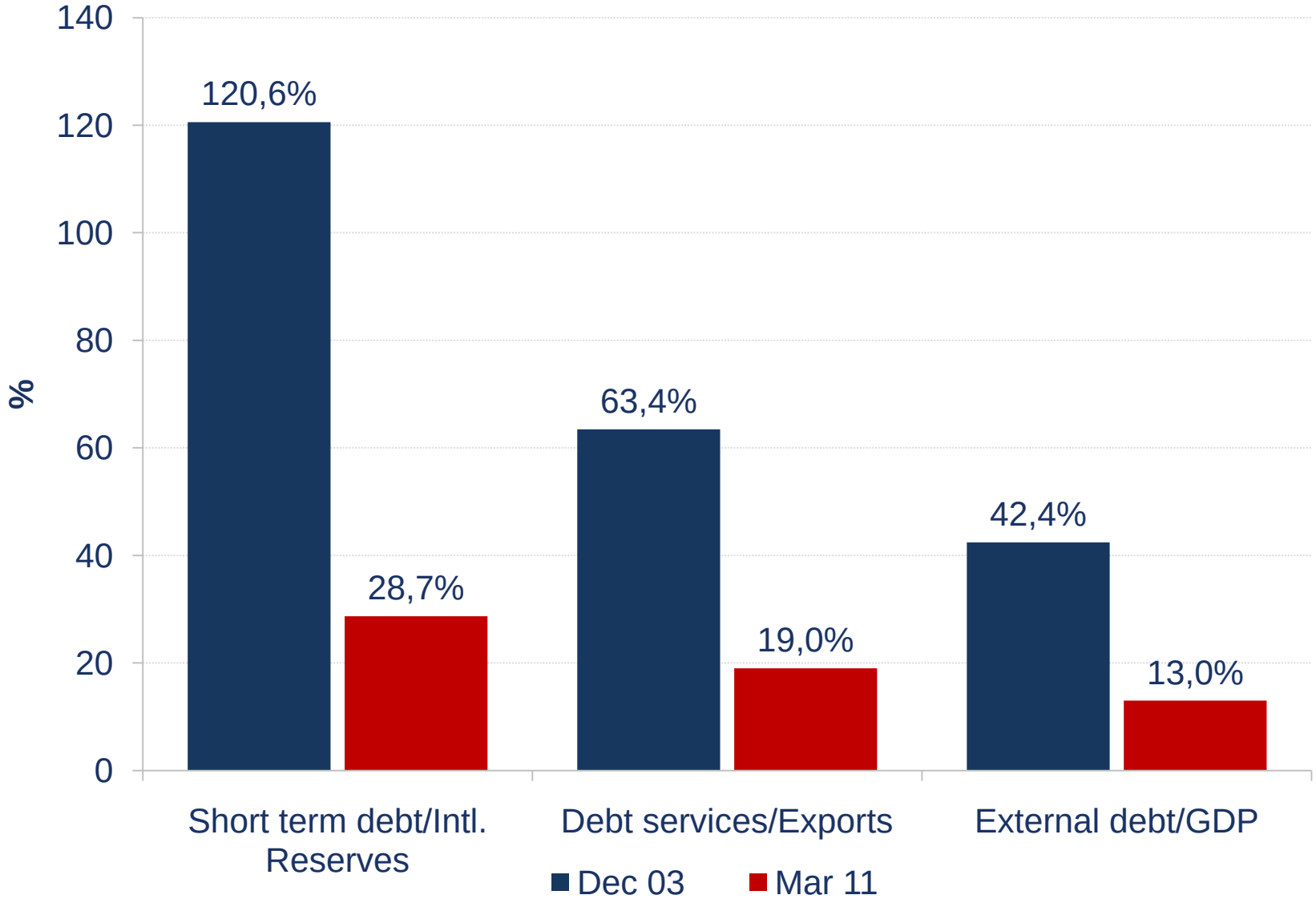


*March 2011

Source: BCB

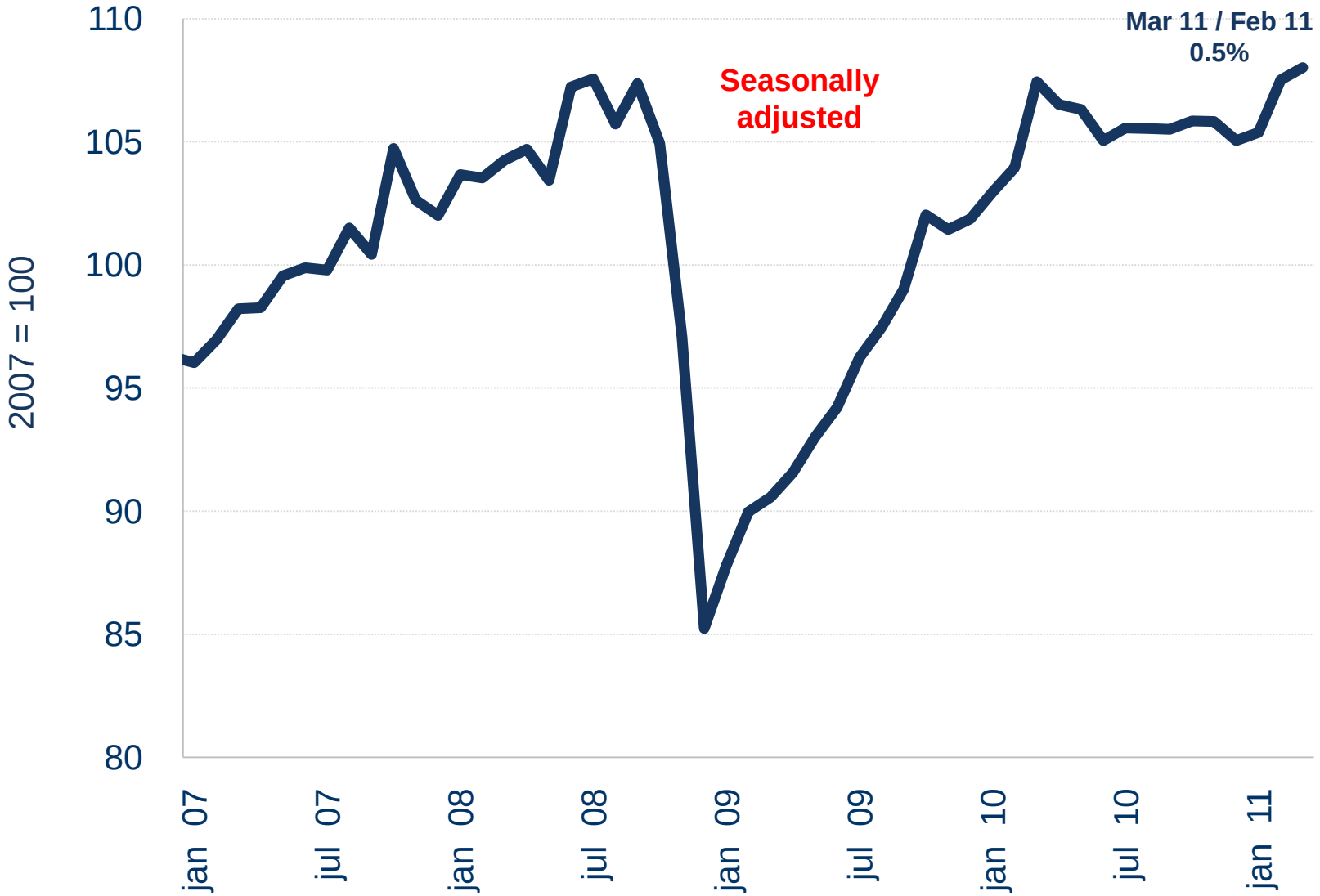
BANCO CENTRAL DO BRASIL

External Debt Ratios



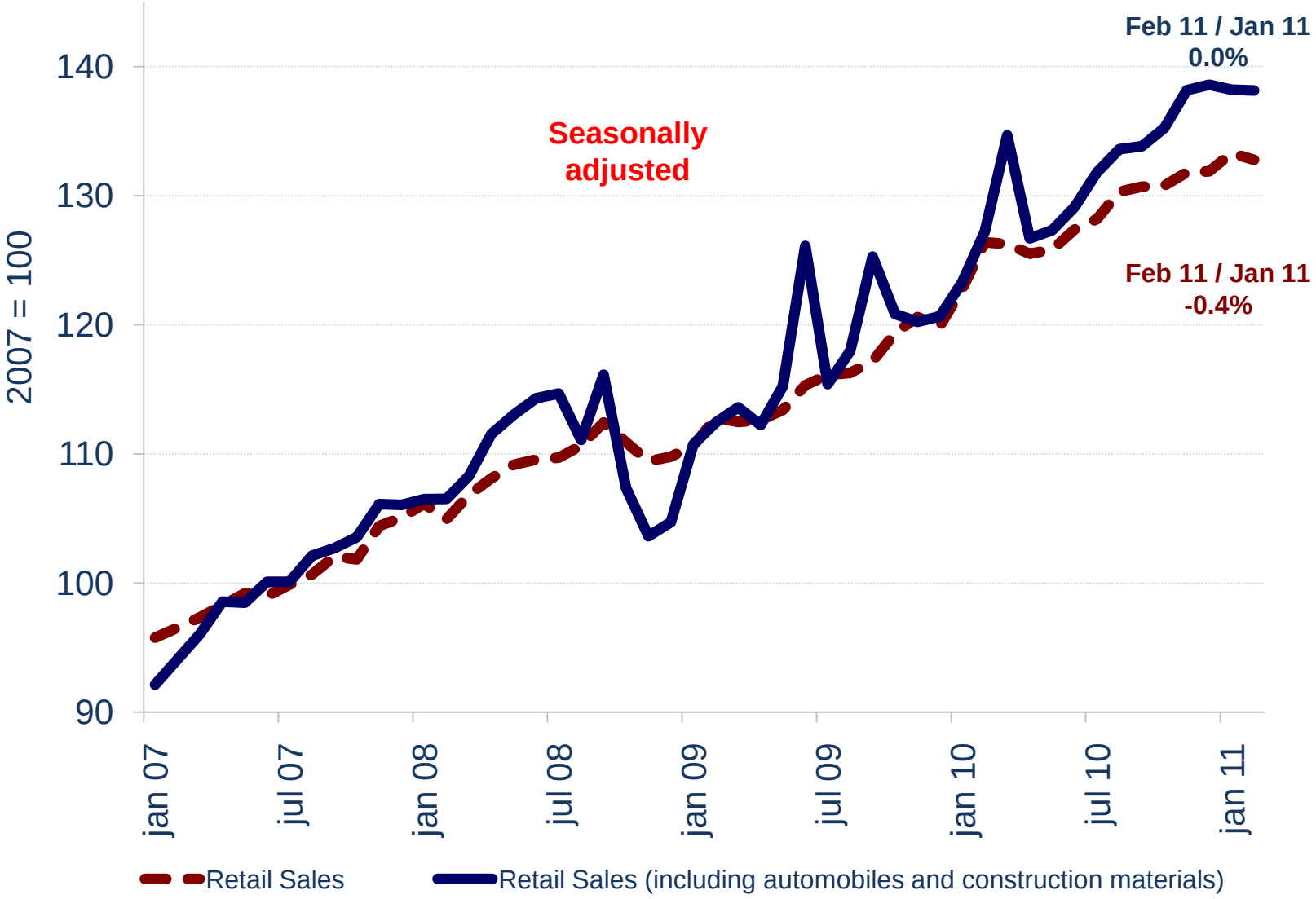
Source: BCB

Industrial Production



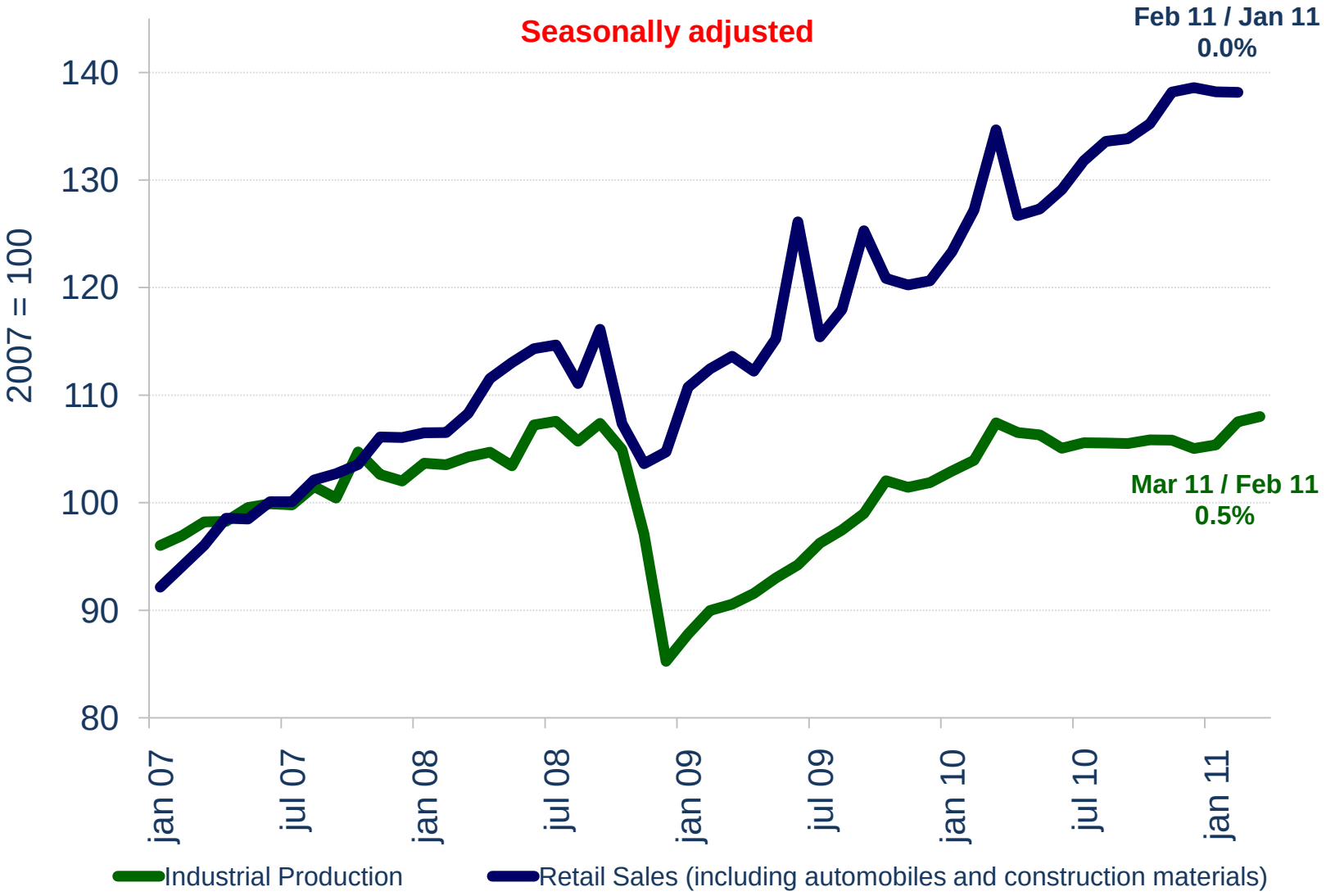
Sources: IBGE

Retail Sales



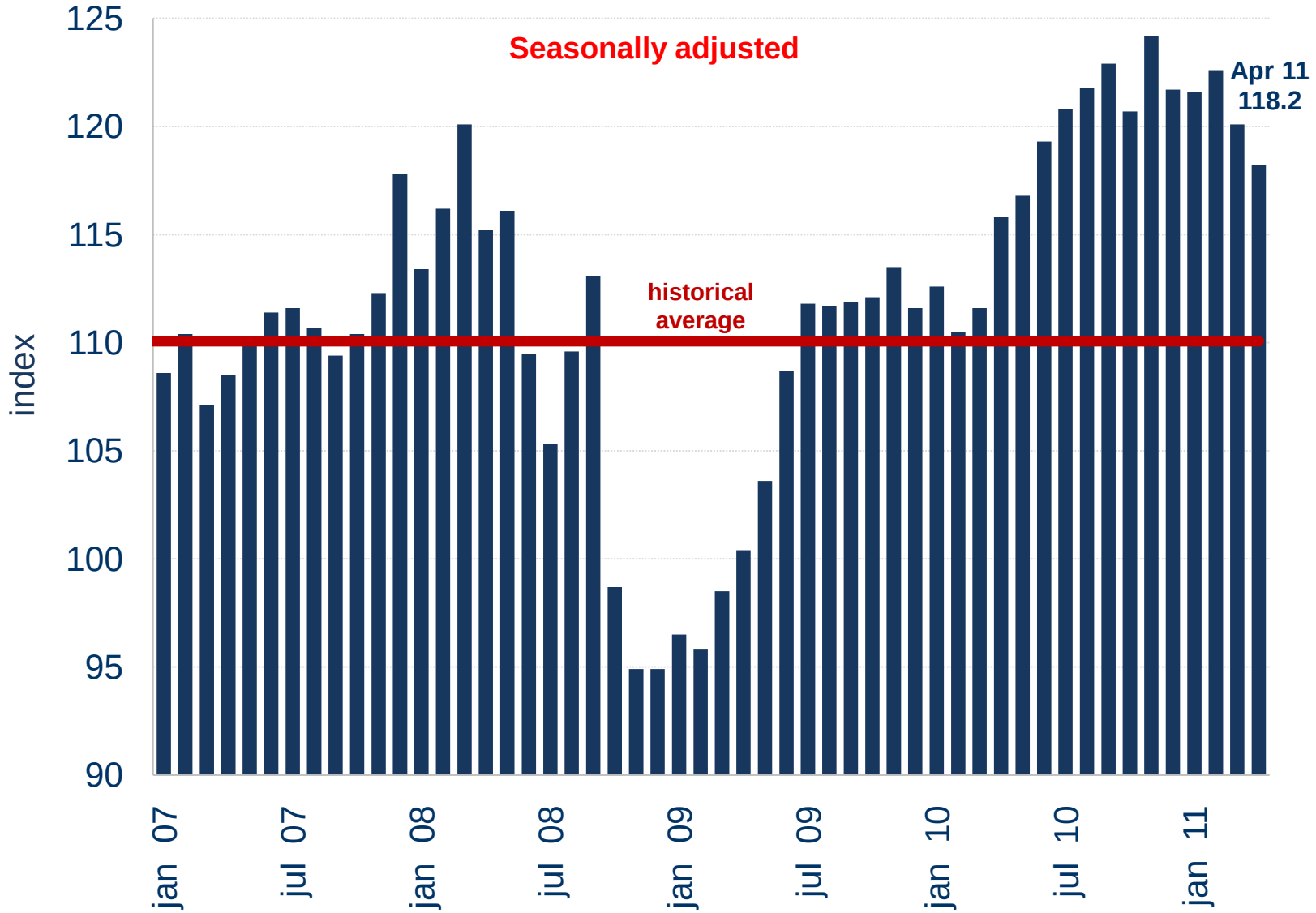
Source: IBGE

Industrial Production vs. Retail Sales



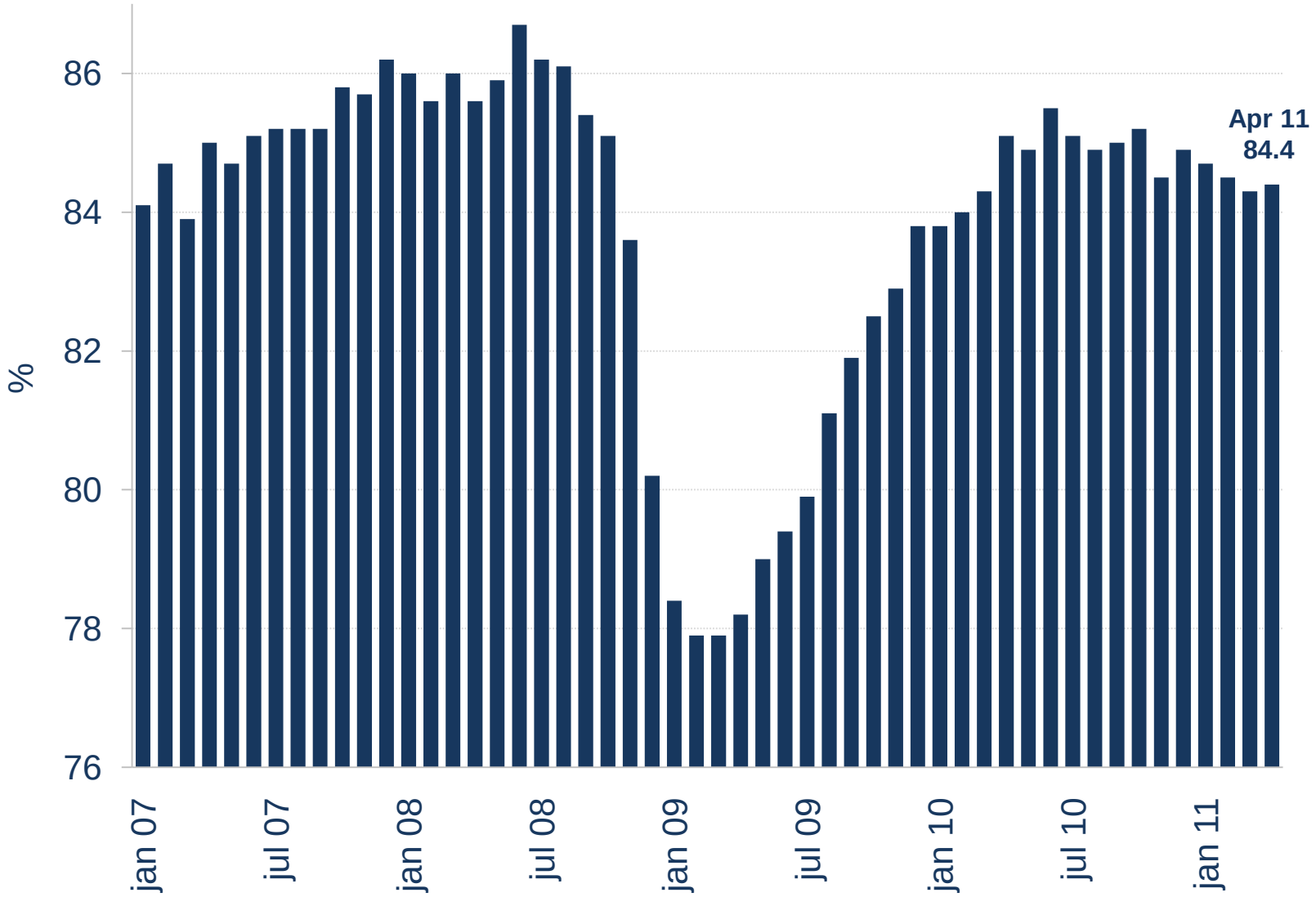
Source: IBGE

Consumer Confidence



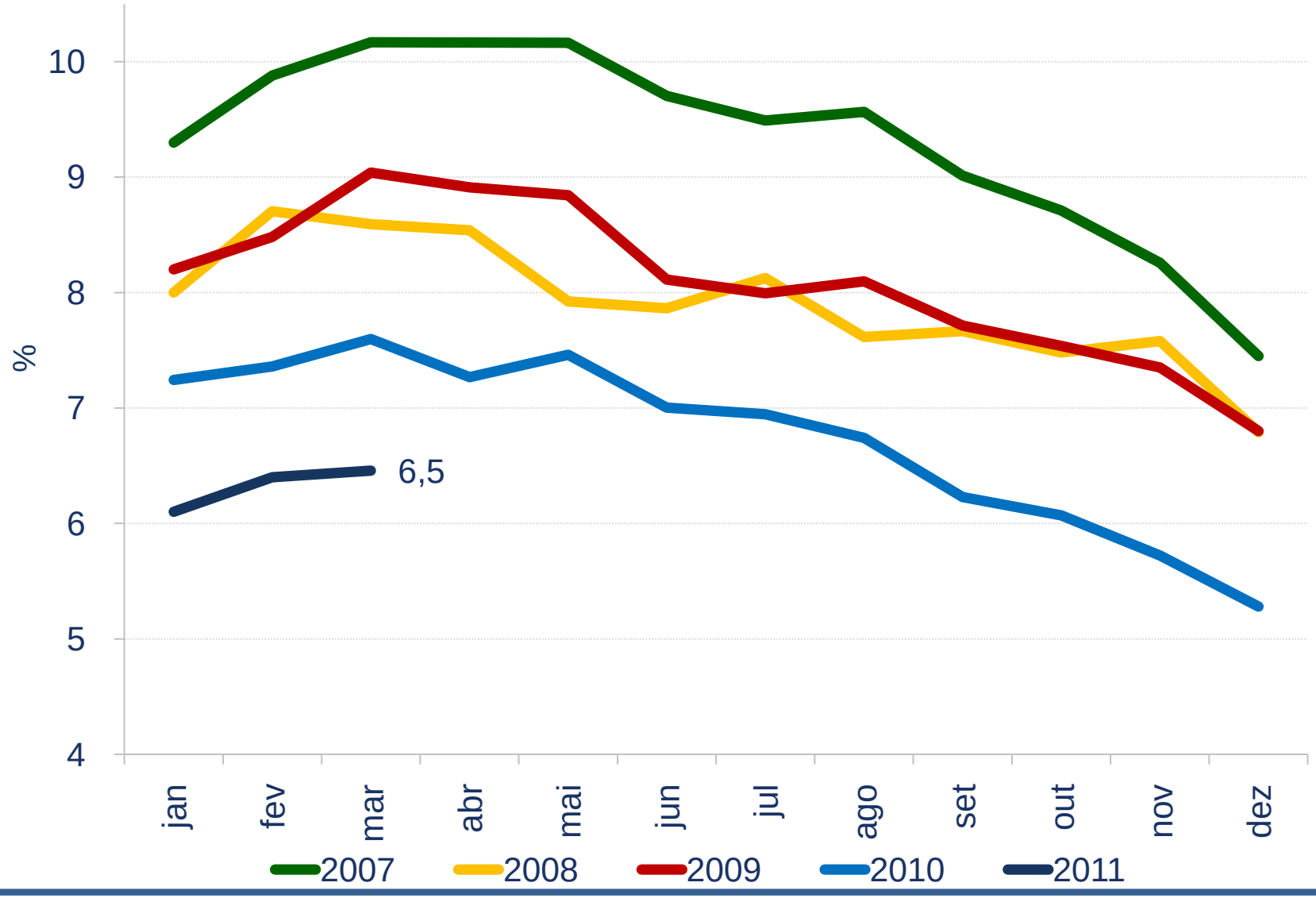
Source: FGV

Industrial Capacity Utilization



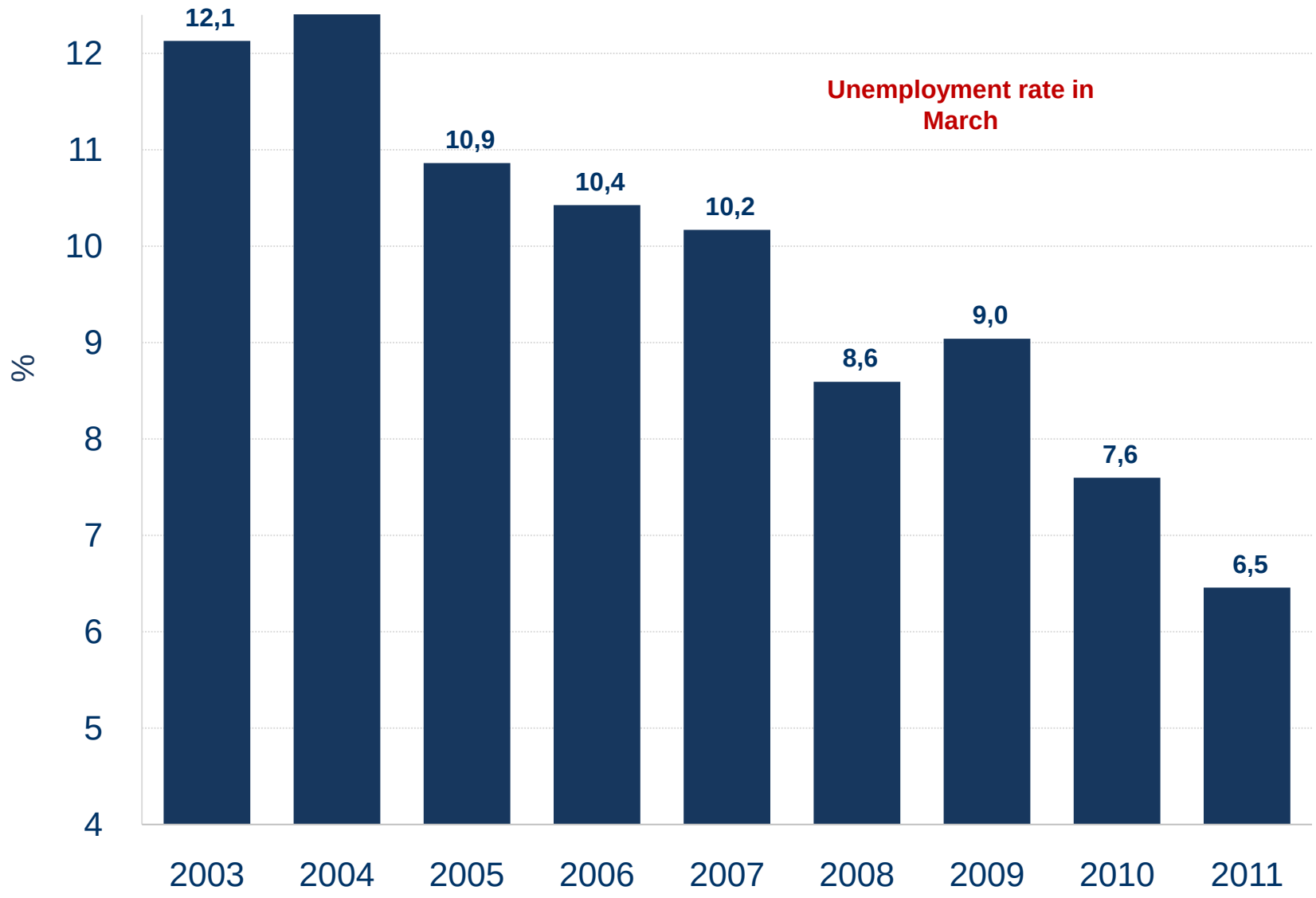
Source: FGV

Unemployment Rate



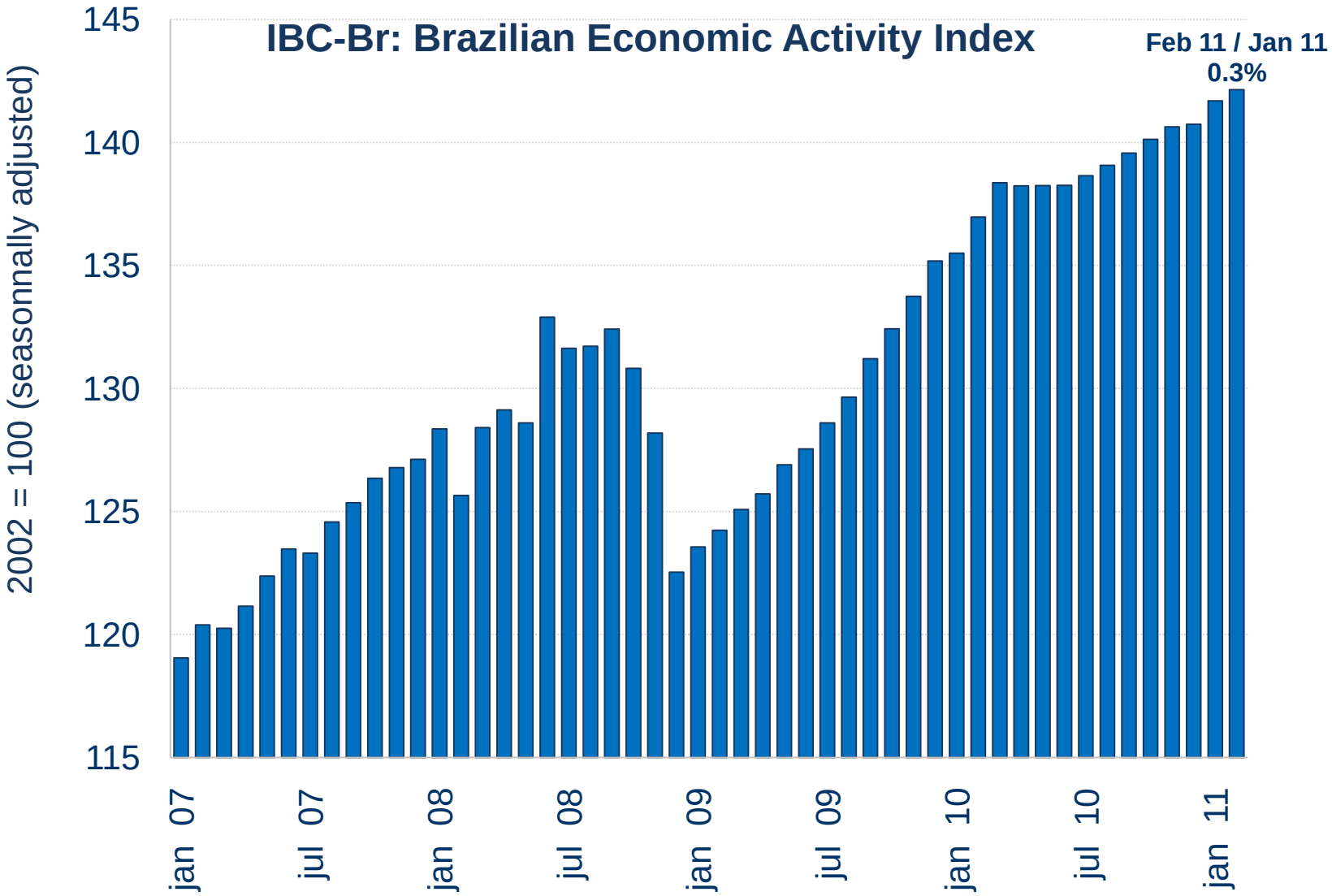
Source: IBGE

Unemployment Rate



Source: IBGE

Leading Indicator



Source: BCB

Contents

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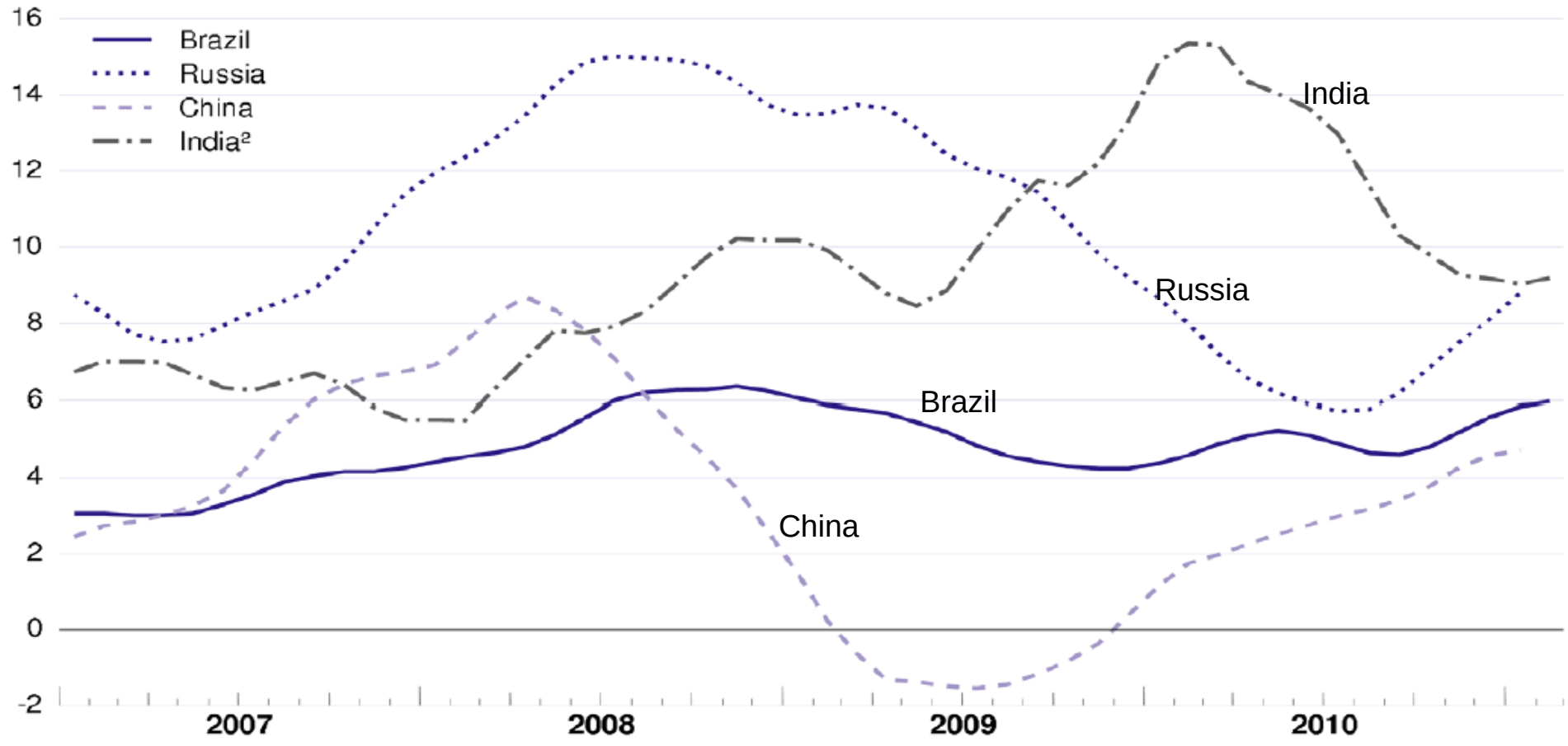
- ❑Global environment
- ❑Inflation abroad
- ❑Credit in Brazil and macroprudential measures
- ❑Challenges for monetary policy

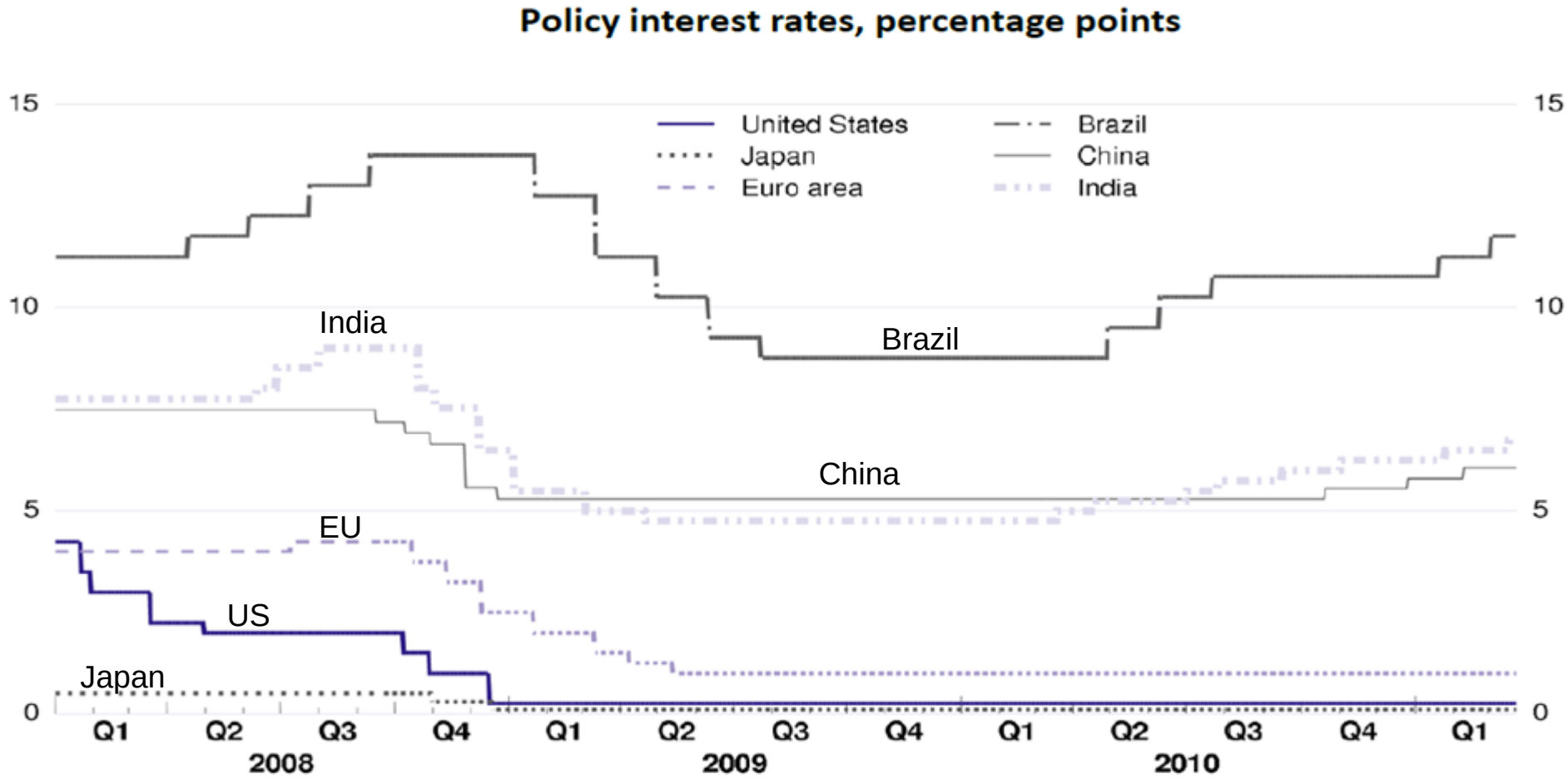
EMEs are facing inflationary pressures[1]



1. Three-month moving average.
2. Consumer price index, industrial workers.

Source: OECD, Main Economic Indicators database; and CEIC.

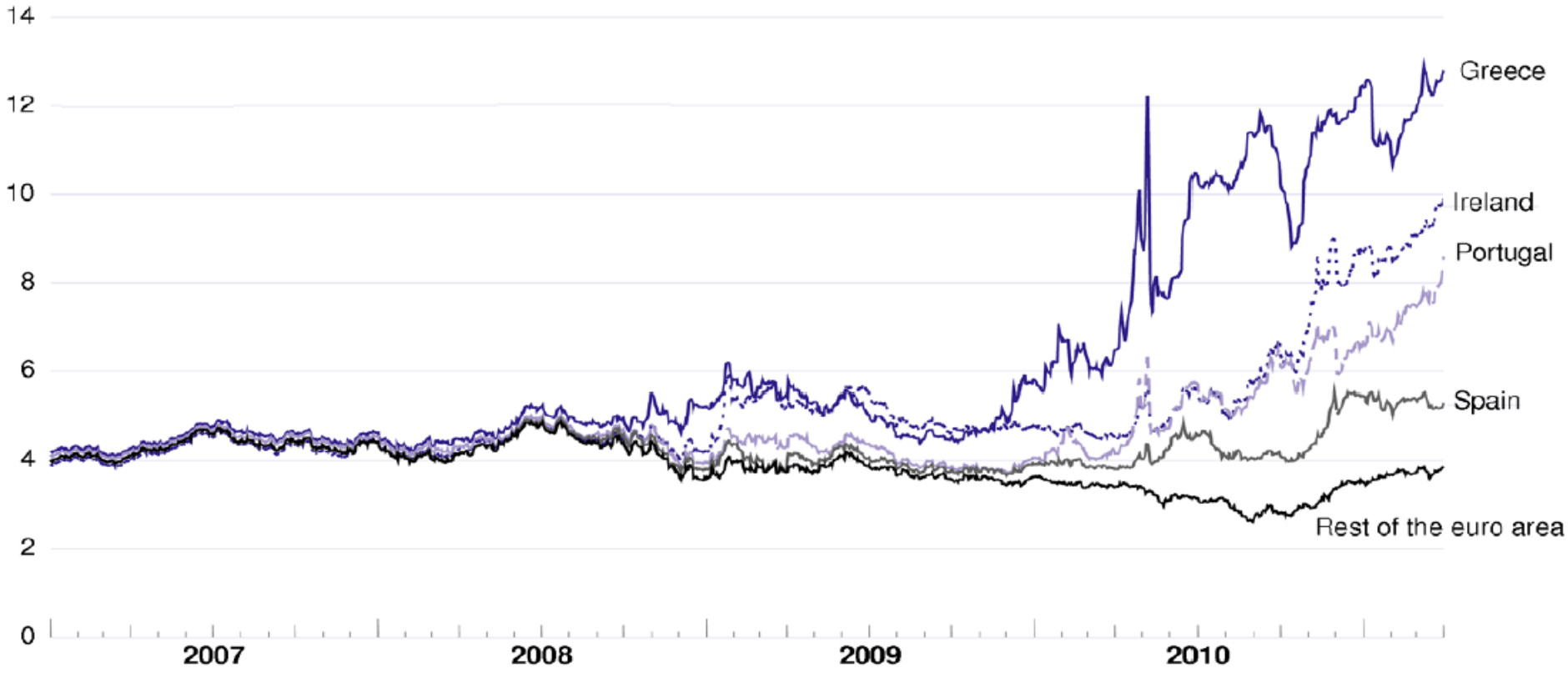
Monetary policy is tightening in EMEs



Note: Last observation is 31 March 2011.
Source: OECD;Federal Reserve; Bank of Japan; European Central Bank; Central Bank of Brazil; Reserve Bank of India; and People's Bank of China.

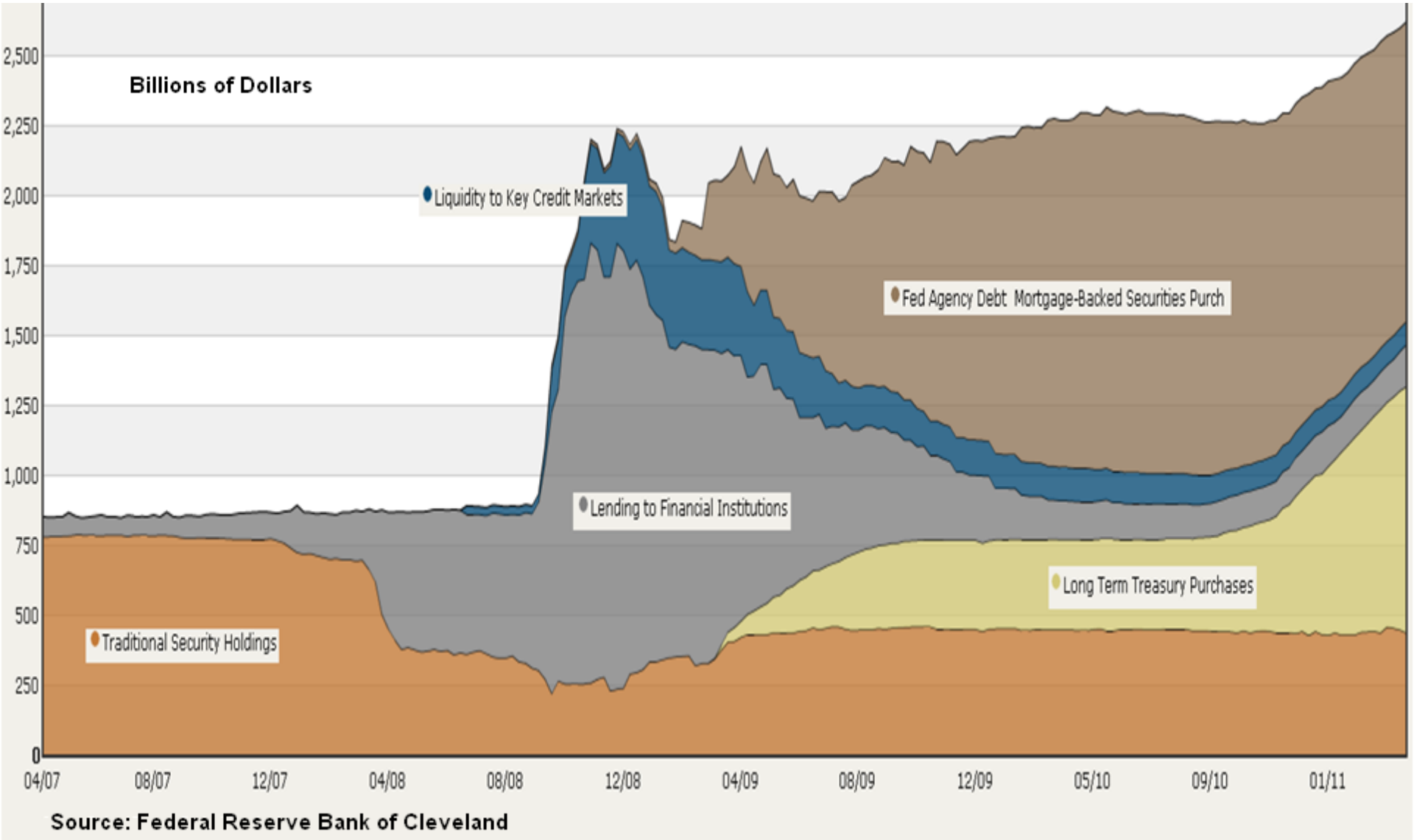
Uncertainties in Europe

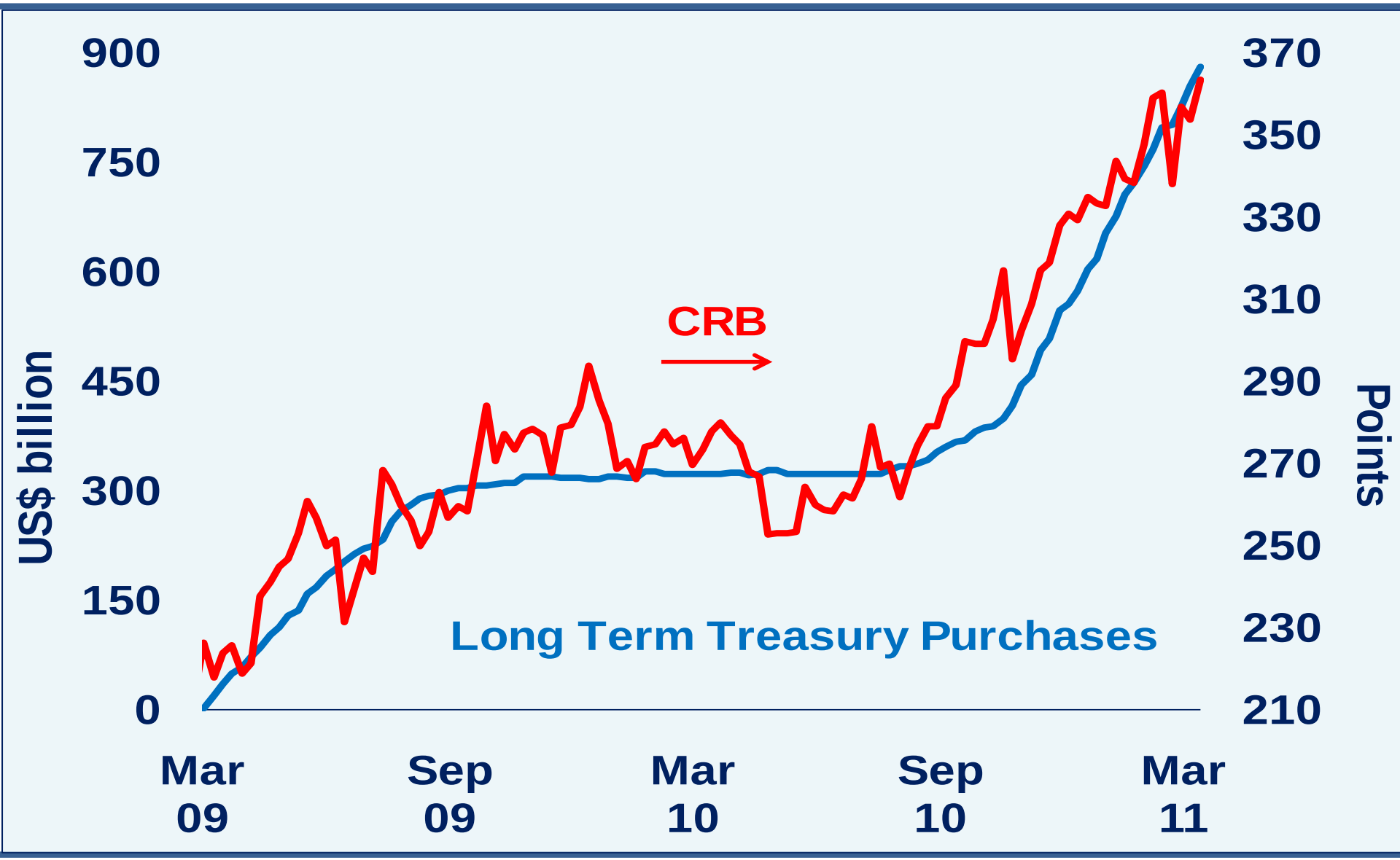
10-year government bond yields, percentage points



Note: Last observation is 31 March 2011.
Source: Datastream; and OECD calculations.

Fed's credit easing policy tools





Source: Bloomberg

Contents

- ❑Brazilian indicators
- ❑Global environment
- ❑**Inflation abroad**
- ❑Credit in Brazil and macroprudential measures
- ❑Challenges for monetary policy

Selected inflation targeters in 2011

Emerging Economies			Developed Economies		
Country	Current CPI/target (central target and band)	2011 CPI (Bloomberg) /central target	Country	Current CPI/target (central target and band)	2011 CPI (Bloomberg) /central target
Brazil	Above central target	Above central target	Israel	Above target band**	Above target band**
Chile	Above central target	Above target band	Czech Rep.	Below central target	Above central target
Colombia	Above central target	Above central target	Australia	Inside target band**	Above target band**
Mexico	Above central target	Above central target	Canada	Above central target	Above central target
Peru	Above central target	Above central target	South Korea	Above target band	Above central target
S. Africa	Inside target band**	Inside target band**	Norway	Below target***	Below target***
Philippines	Above central target	At the central target	New Zealand	Above target band**	Above target band**
Hungary	Above target band	Above central target	Sweden	Below target***	Above target***
Poland	Above target band	Above target band	Swiss	Inside target band**	Inside target band**
Thailand	Inside target band**	Above target band**	UK	Above target band	Above target band
Turkey	Below target***	Above target***			

*Do not pursue a central target ** Do not have a tolerance interval

Current CPI: March 2011
Exceptions: S. Africa, Canada,Israel - February 2011
Australia , New Zealand - December 2010

Interest rate changes in selected IT countries

December 2010

Easing	Holding	Tightening	Target	CPI (YoY)
1 country **Turkey** (7.0% to 6.5%)	11 countries **Colombia** (3.0%) **Peru** (3.0%) **Czech Republic** (0.75%) **Australia** (4.75%) **New Zealand** (3.0%) **Canada** (1%) **UK** (0.5%) **South Korea** (2.5%) **Brazil** (10.75%) **Norway** (2.0%) **Switzerland** (0.25%)	4 countries **Chile** (3.0% to 3.25%) **Hungary** (5.5% to 5.75%) **Sweden** (1.0% to 1.25%) **Thailand** (1.75% to 2.0%)	**Turkey** (4.0% +/- 2 p.p.) **Chile** (3.0% +/-1 p.p.) **Hungary** (3.0%) **Sweden** (2.0% +/-1 p.p.) **Thailand** (0.5% to 3.0%)	Nov/10 **Turkey** **(7.29%)** **Chile** **(2.5%)** **Hungary** **(4.2%)** **Sweden** **(1.7%)** **Thailand** **(1.1%)**

Interest rate changes in selected IT countries

January 2011

Easing	Holding	Tightening	Target	CPI (YoY)
1 country **Turkey** (6.5% to 6.25%)	8 countries **UK** (0.5%) **Chile** (3.25%) **Canada** (1.0%) **Mexico** (4.5%) **South Africa** (5.5%) **Norway** (2.0%) **New Zealand** (3.0%) **Colombia** (3.0%)	7 countries **Thailand** (2.0% to 2.25%) **Peru** (3.0% to 3.25%) **South korea** (2.5% to 2.75%) **Poland** (3.5% to 3.75%) **Brazil** (10.75% to 11.25%) **Hungary** (5.75% to 6.0%) **Israel** (2.0% to 2.25%)	**Turkey** (4.0% +/- 2 p.p.) **Thailand** (0.5% to 3.0%) **Peru** (2.0% +/-1 p.p.) **South Korea** (3.0% +/-0.5 p.p.) **Poland** (2.5% +/-1 p.p.) **Brazil** (4.5% +/-2 p.p.) **Hungary** (3.0%) **Israel** (1.0 % to 3.0%)	Dec/10 **Turkey** (6.4%) **Thailand** (1.4%) **Peru** (2.1%) **South Korea** (3.5%) **Poland** (3.1%) **Brazil** (5.9%) **Hungary** (4.7%) **Israel** (2.7%)

Interest rate changes in selected IT countries

February 2011

Easing	Holding	Tightening	Target	CPI (YoY)
-	7 countries **UK** (0.5%) **Czech Republic** (0.75%) **Hungary** (6.0%) **South Korea** (2.75%) **Philippines** (4.0%) **Turkey** (6.25%) **Australia** (4.75%)	5 countries **Chile** (3.25% to 3.5%) **Peru** (3.25% to 3.5%) **Sweden** (1.25% to 1.5%) **Israel** (2.25% to 2.5%) **Colombia** (3.0% to 3.25%)	**Chile** (3.0% +/-1 p.p.) **Peru** (2.0% +/-1 p.p.) **Sweden** (2.0% +/-1 p.p.) **Israel** (1.0 % to 3.0%) **Colombia** (3.0% +/- 1 p.p.)	Jan/11 **Chile** (2.7%) **Peru** (2.17%) **Sweden** (1.4%) **Israel** (3.6%) **Colombia** (3.4%)

Interest rate changes in selected IT countries

March 2011

Easing	Holding	Tightening	Target	CPI (YoY)
1 country **New Zealand** (3.0% to 2.5%)	11 countries **Australia** (4.75%) **Canada** (1.0%) **Poland** (3.75%) **Mexico** (4.5%) **UK** (0.5%) **Norway** (2.0%) **Switzerland** (0.25%) **Turkey** (6.25%) **Czech Republic** (0.75%) **South Africa** (5.5%) **Hungary** (6.0%)	8 countries **Brazil** (11.25% to 11.75%) **South Korea** (2.75% to 3.0%) **Thailand** (2.25% to 2.5%) **Peru** (3.5% to 3.75%) **Chile** (3.5% to 4.0%) **Colombia** (3.25% to 3.5%) **Philippines** (4.0% to 4.25%) **Israel** (2.5% to 3.0%)	**New Zealand** (1.0% to 3.0%) **Brazil** (4.5% +/- 2 p.p.) **South Korea** (3.0% +/- 0.5 p.p.) **Thailand** (0.5% to 3.0%) **Peru** (2.0% +/- 1 p.p.) **Chile** (3.0% +/- 1 p.p.) **Colombia** (3.0% +/- 1 p.p.) **Philippines** (4.0% +/- 1 p.p.) **Israel** (1.0% to 3.0%)	Feb/10 **New Zealand (Dec/10)** (4.0%) **Brazil** (6.0%) **South Korea** (4.5%) **Thailand** (1.5%) **Peru** (2.2%) **Chile** (2.7%) **Colombia** (3.2%) **Philippines** (4.3%) **Israel** (4.2%)

Interest rate changes in selected IT countries

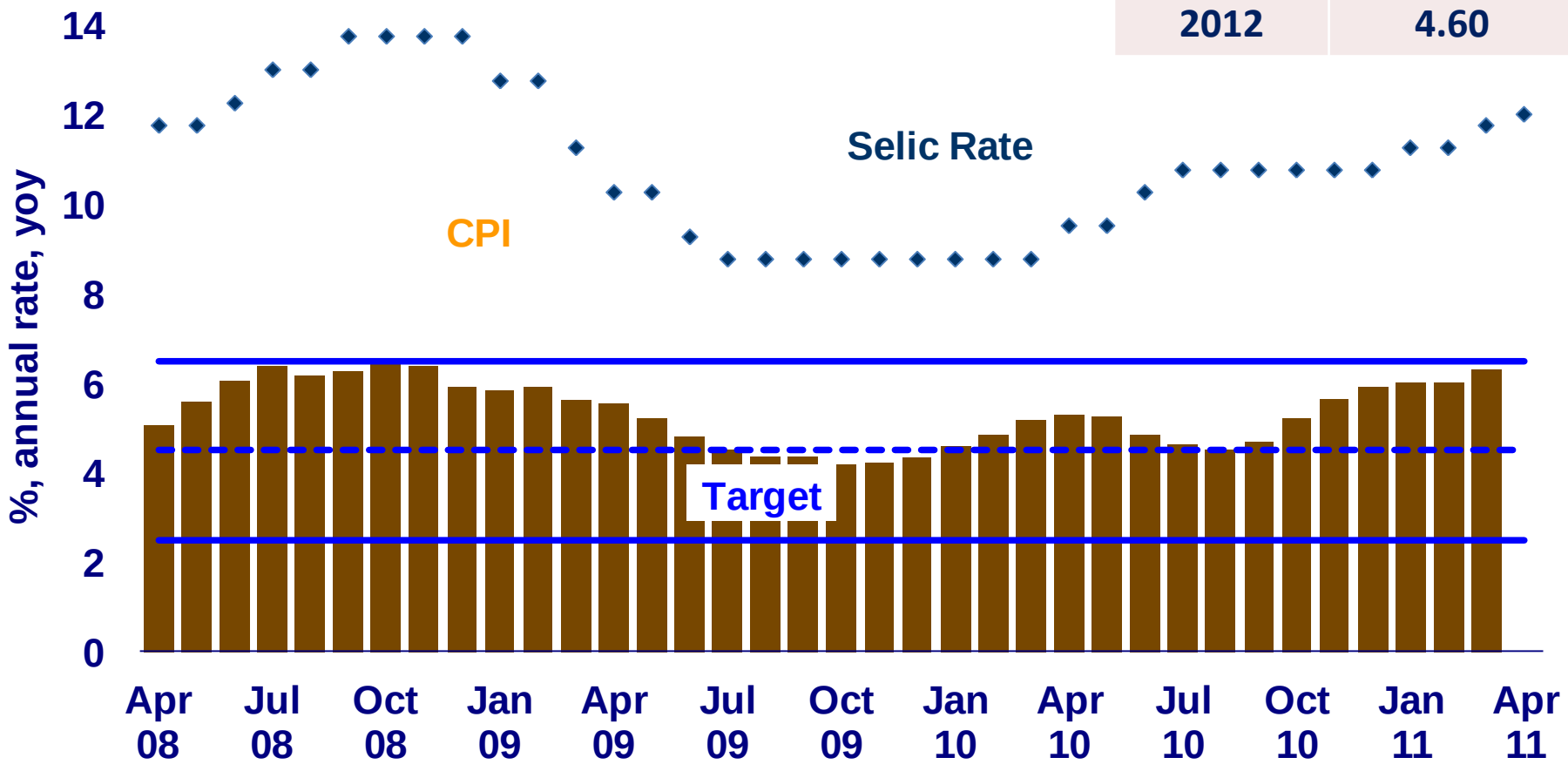
Abril 2011

Easing	Holding	Tightening	Target	CPI (YoY)
-	7 countries **Australia** (4.75%) **UK** (0.5%) **South Korea** (3.0%) **Canada** (1.0%) **Mexico** (4.5%) **Hungary** (6.0%) **Turkey** (6.25%)	6 countries **Poland** (3.75% to 4.0%) **Peru** (3.75% to 4.0%) **Chile** (4.0% to 4.5%) **Thailand** (2.5% to 2.75%) **Sweden** (1.5% to 1.75%) **Brazil** (11.75% to 12.0%)	**Poland** (2.5% +/- 1 p.p.) **Peru** (2.0% +/- 1 p.p.) **Chile** (3.0% +/- 1 p.p.) **Thailand** (0.5% to 3.0%) **Sweden** (2.0%) **Brazil** (4.5% +/- 2 p.p.)	Mar/10 **Poland (Feb/11)** (3.6%) **Peru** (2.7%) **Chile** (3.4%) **Thailand** (1.6%) **Sweden** (1.4%) **Brazil** (6.3%)

Source: Bloomberg.
* Up to Apr 25th

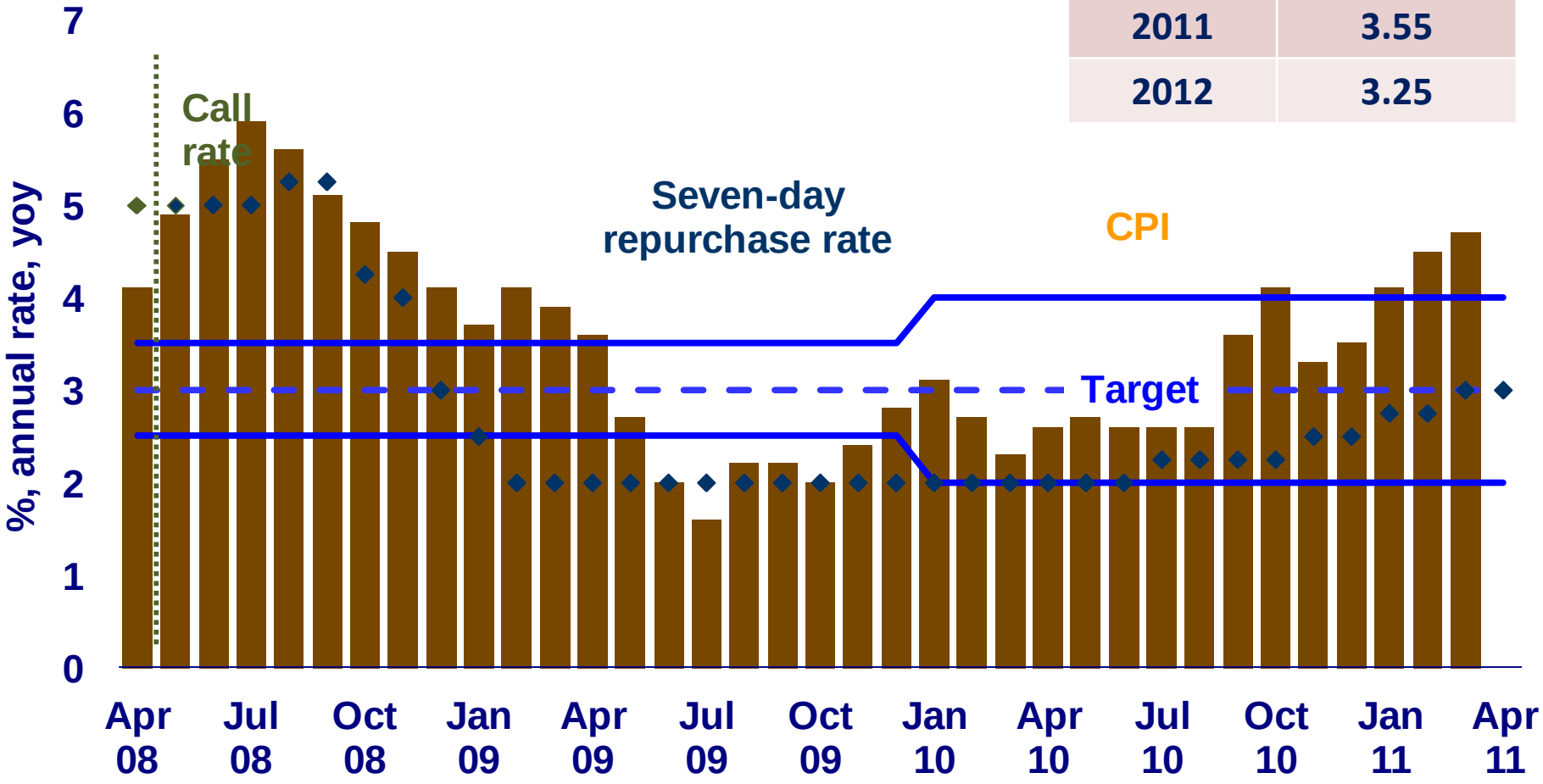
Brazil: inflation target, inflation delivered and policy rate

Forecast	CPI (%)
2011	5.50
2012	4.60

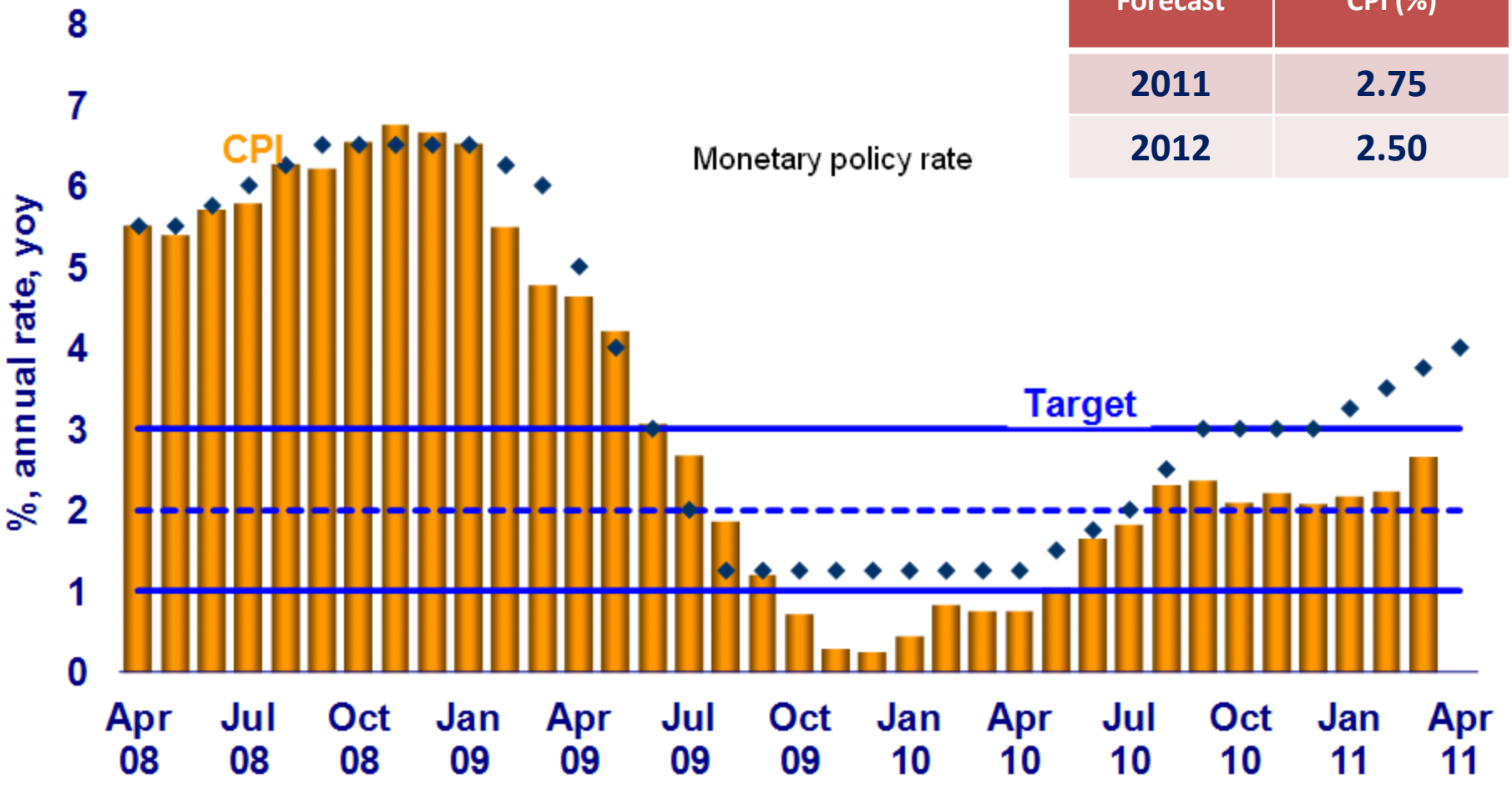


Korea: inflation target, inflation delivered and policy rate

Forecast	CPI (%)
2011	3.55
2012	3.25



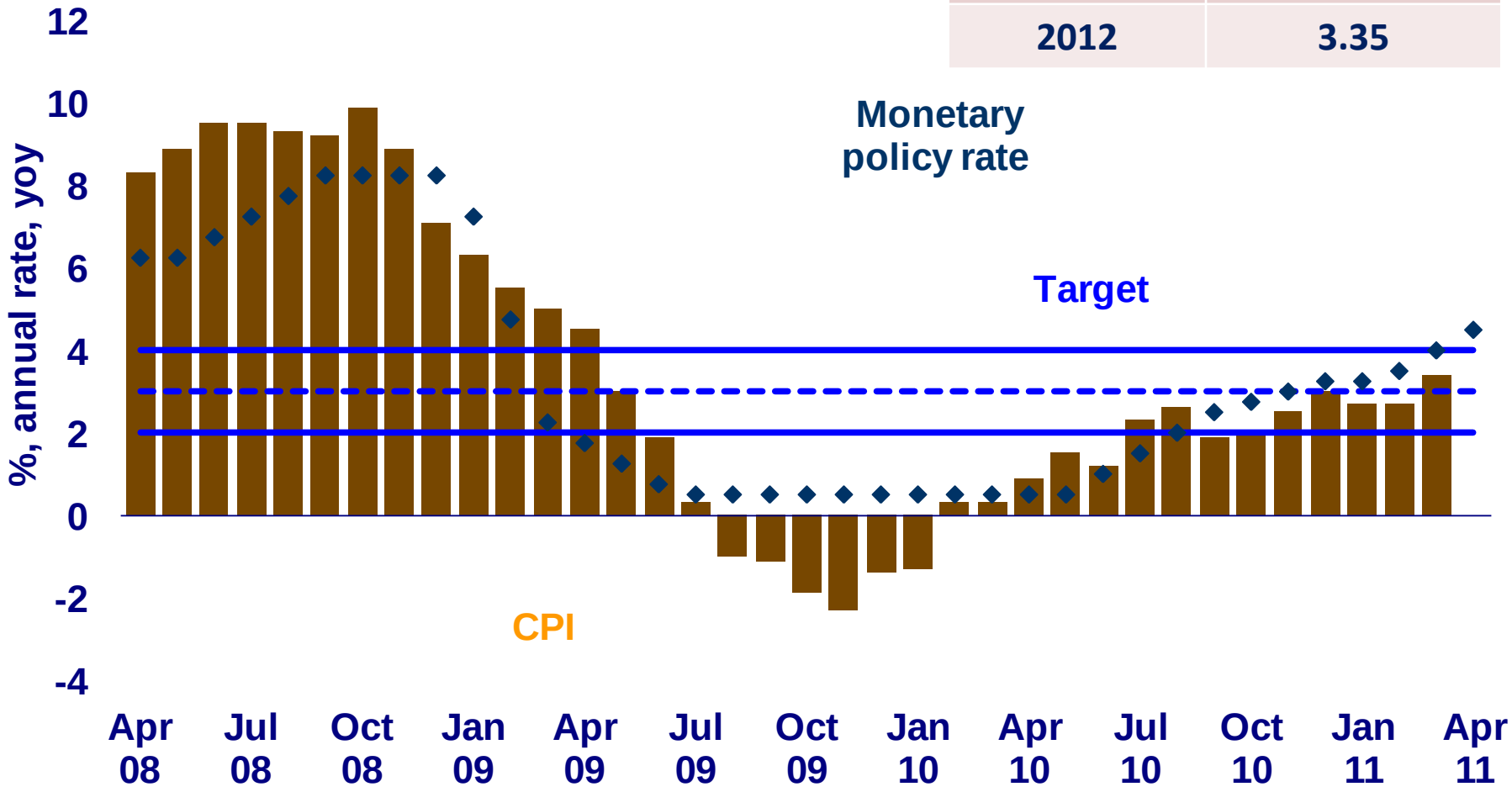
Peru: inflation target, inflation delivered and policy rate



Forecast	CPI (%)
2011	2.75
2012	2.50

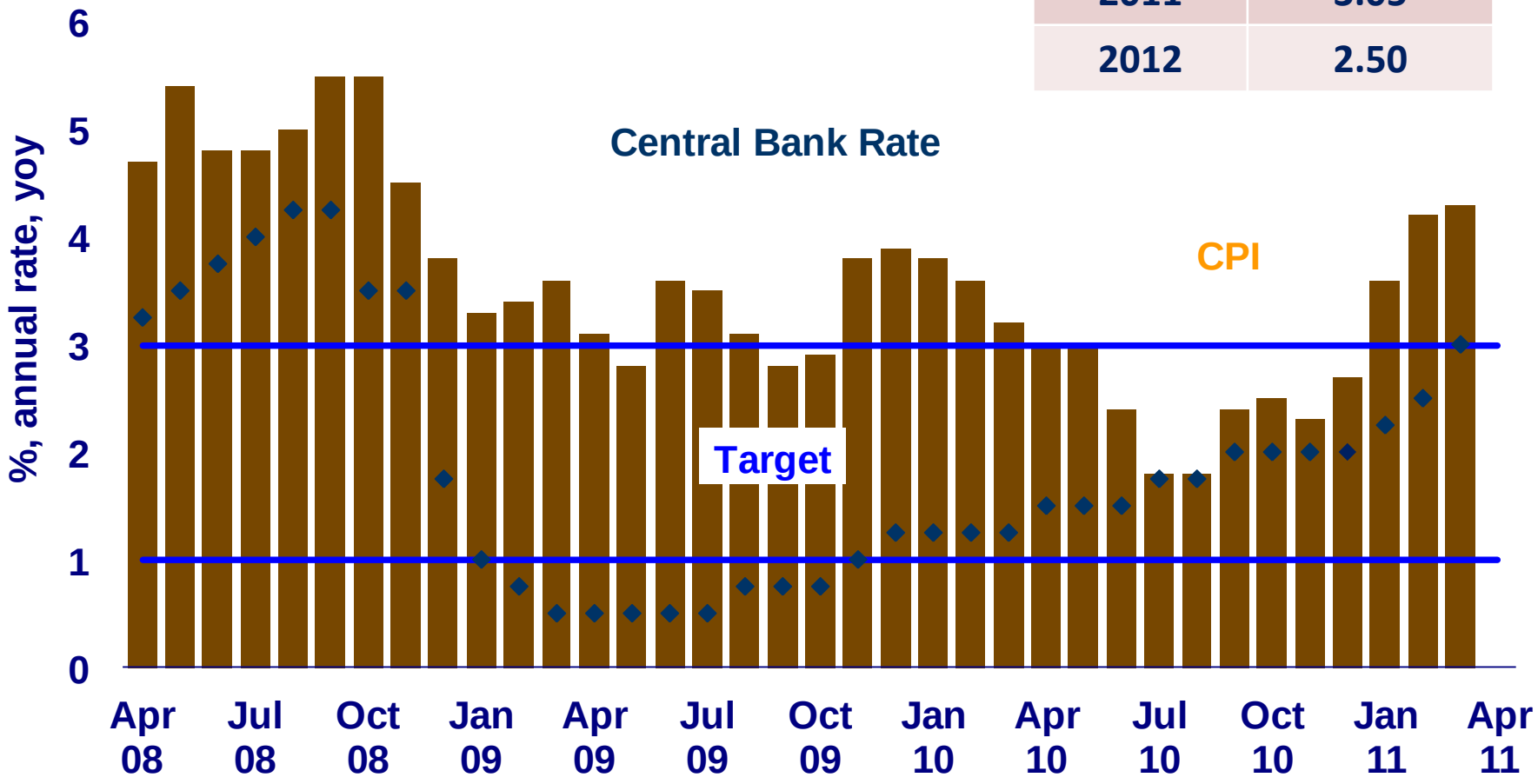
Chile: inflation target, inflation delivered and policy rate

Forecast	CPI Headline(%)
2011	4.50
2012	3.35



Israel: inflation target, inflation delivered and policy rate

Forecast	CPI (%)
2011	3.05
2012	2.50



*Monetary policy meeting on April 28th

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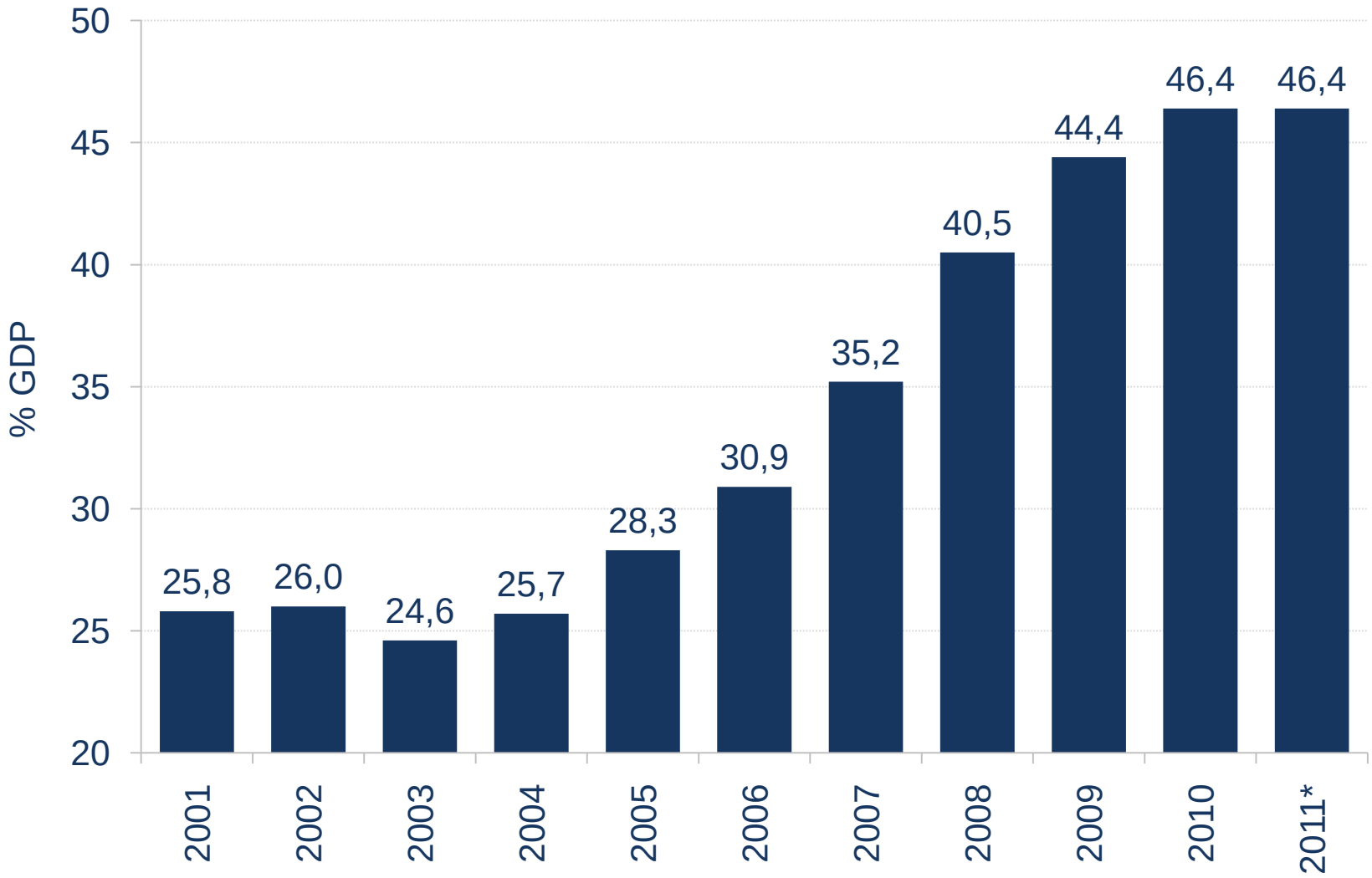
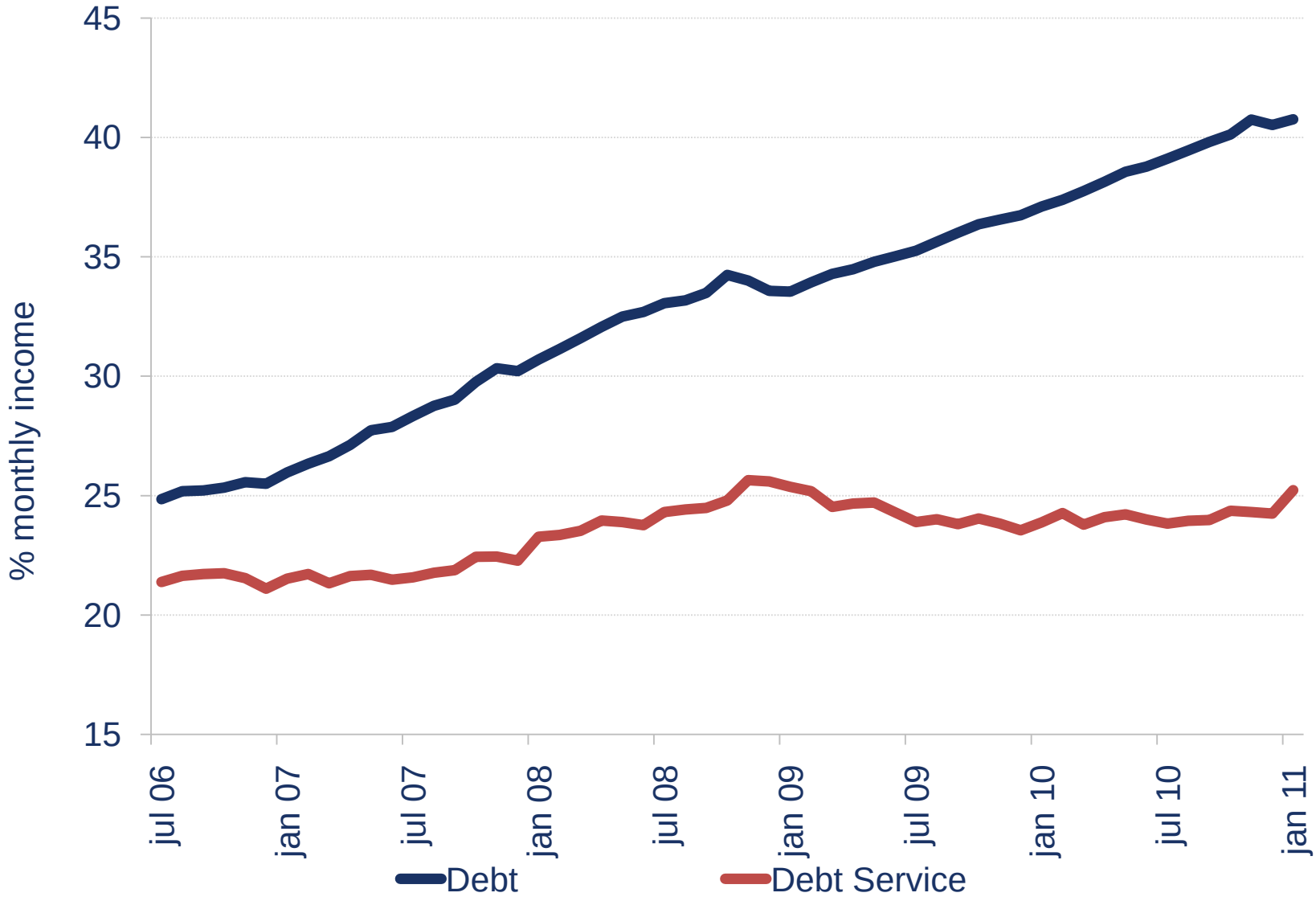
Credit / GDP



*March 2011

Source: BCB

Household Indebtedness



Source: BCB

Recent Macroprudential Measures

- Increased capital requirements for consumer loan exposures involving longer maturities and higher LTVs. The risk weight for such exposures was increased from 100 to 150%.

Operation	Maturity and LTV	Risk Weight
Vehicles (financing and leasing)	between 24 and 36 months and LTV > 80%	150%
	between 36 and 48 months and LTV > 70%	
	between 48 and 60 months and LTV > 60%	
	more than 60 months and any LTV	
Payroll-deducted loan	more than 36 months	
Personal loan	more than 24 months	
Other consumer loans		100%*

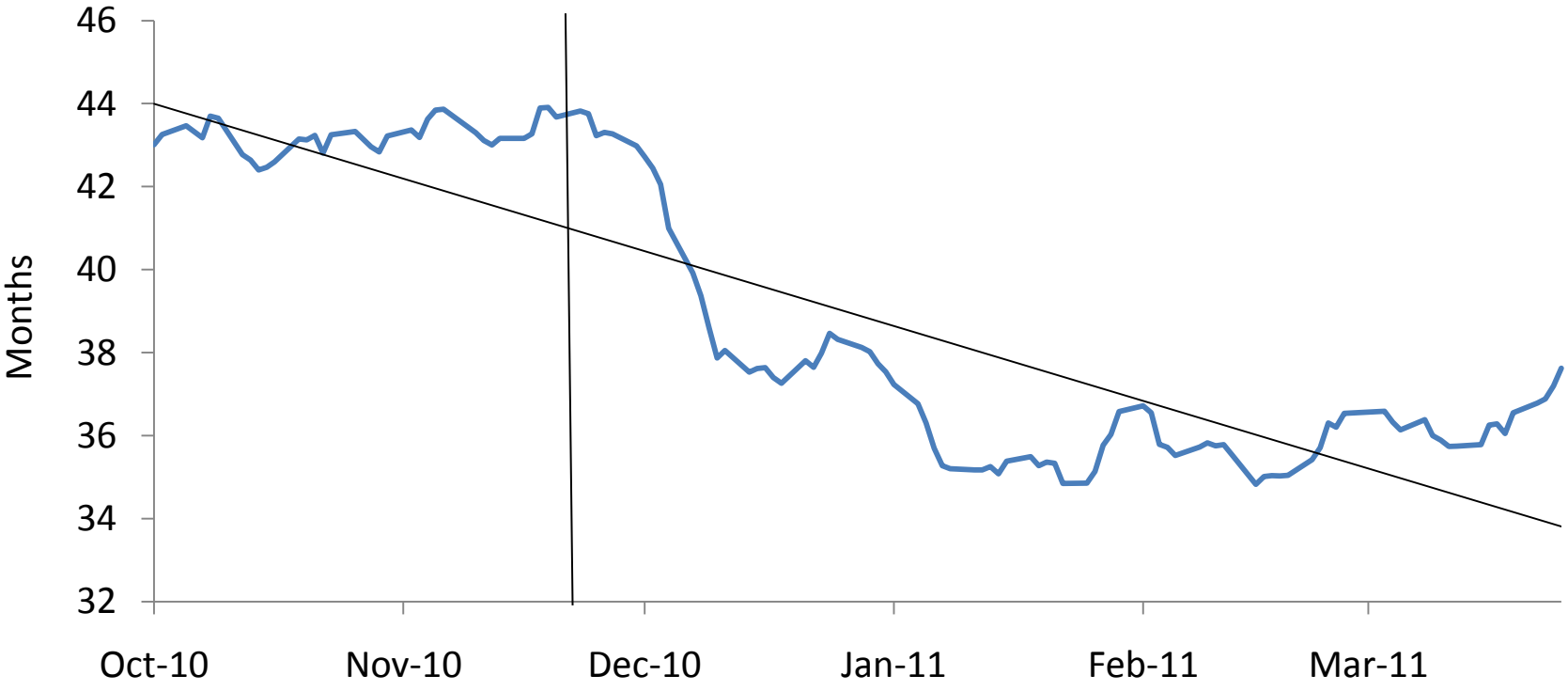
*Unchanged

Recent Macroprudential Measures

- Increased bank reserve requirements on demand and time deposits
  - Volume estimated: R$ 65 billion
- Established unremunerated reserve requirement on short spot FX positions above a limit
  - Limit: the lower of US$3 billion or the bank's capital base
- Minimum payment for credit card bill
  - 15% (June 2011)
  - 20% (December 2011)

Effects of Macroprudential Measures

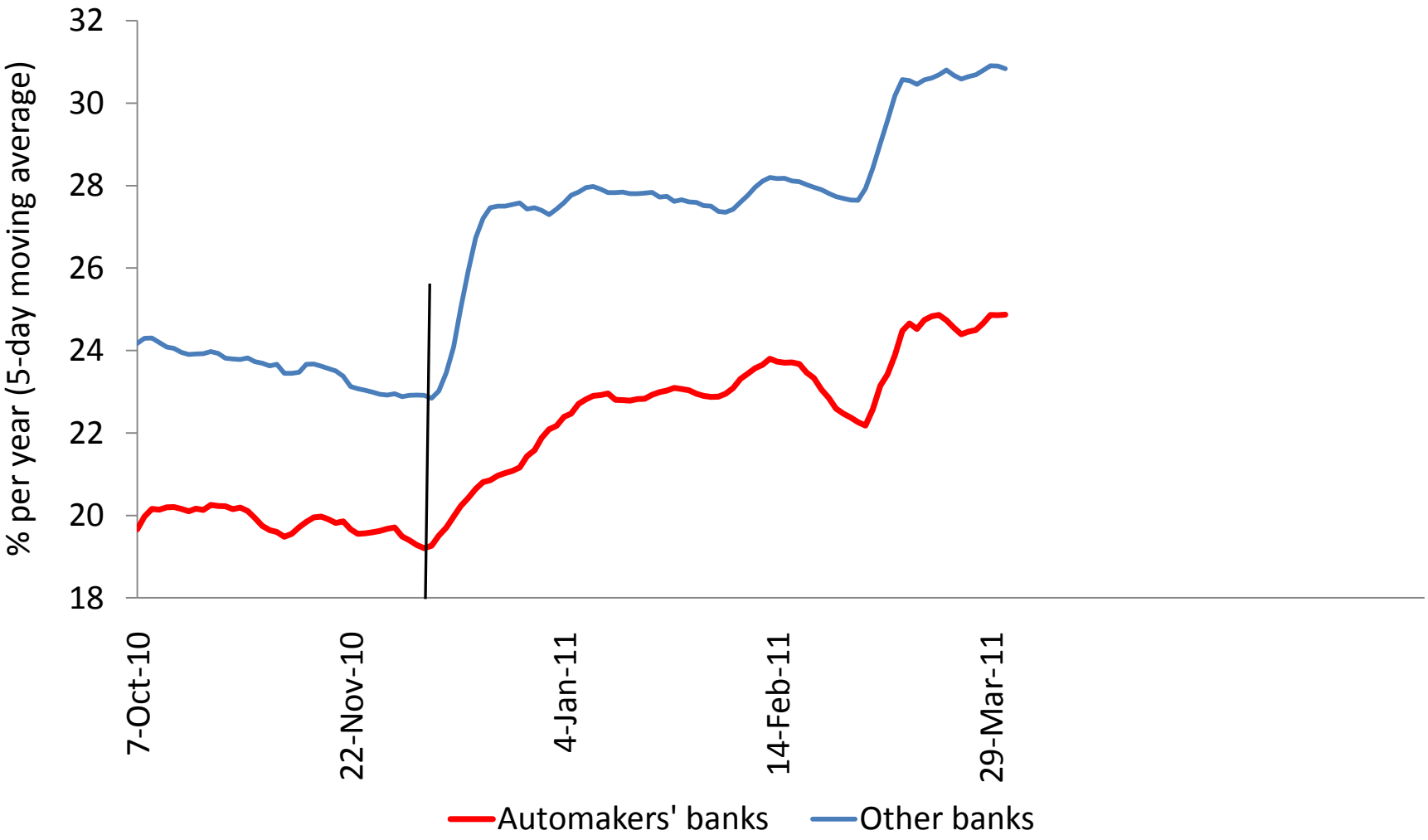
Vehicle Financing – Maturity of New Loans



Source: BCB

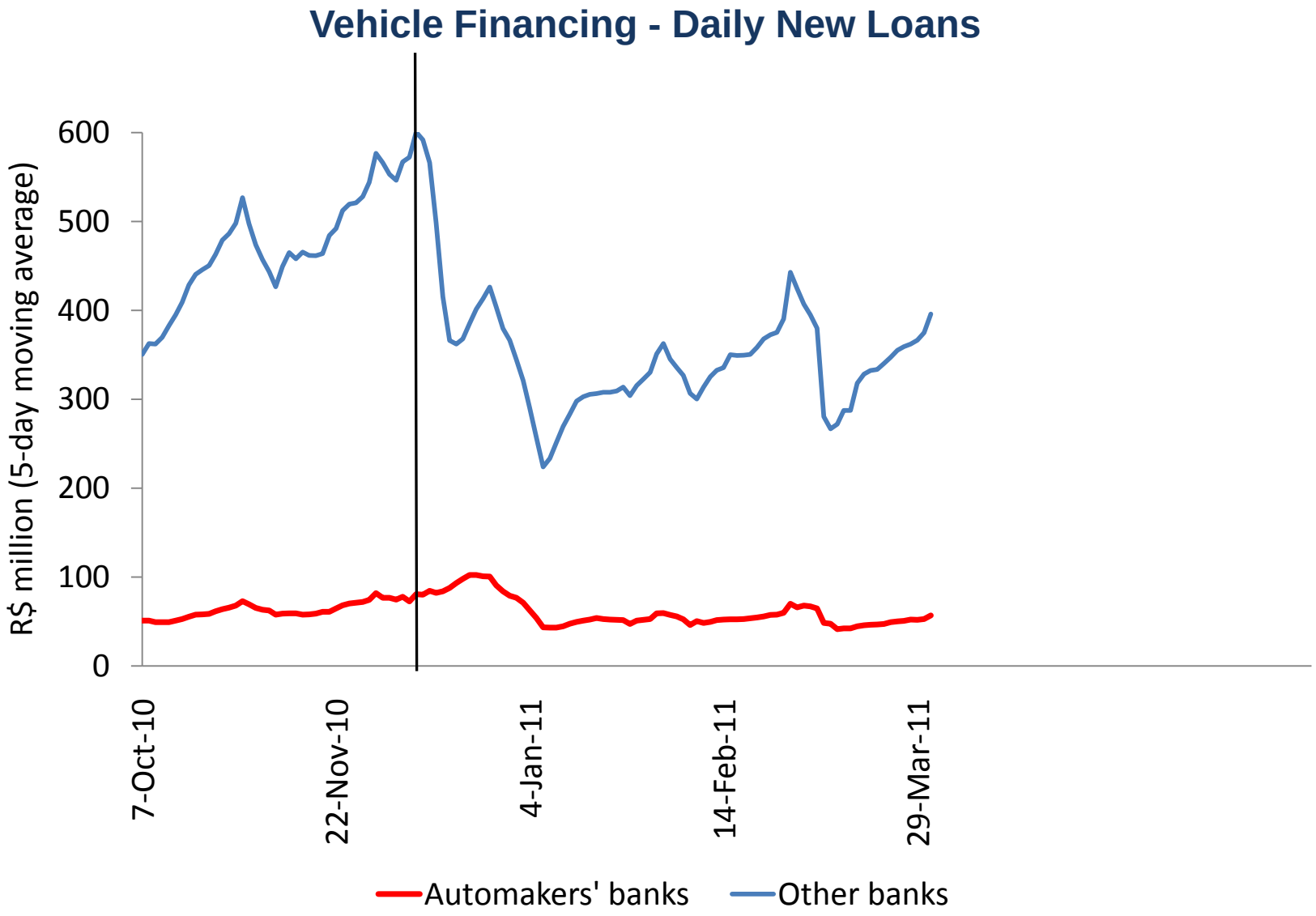
Effects of Macroprudential Measures

Vehicle Financing – Interest Rate



Source: BCB

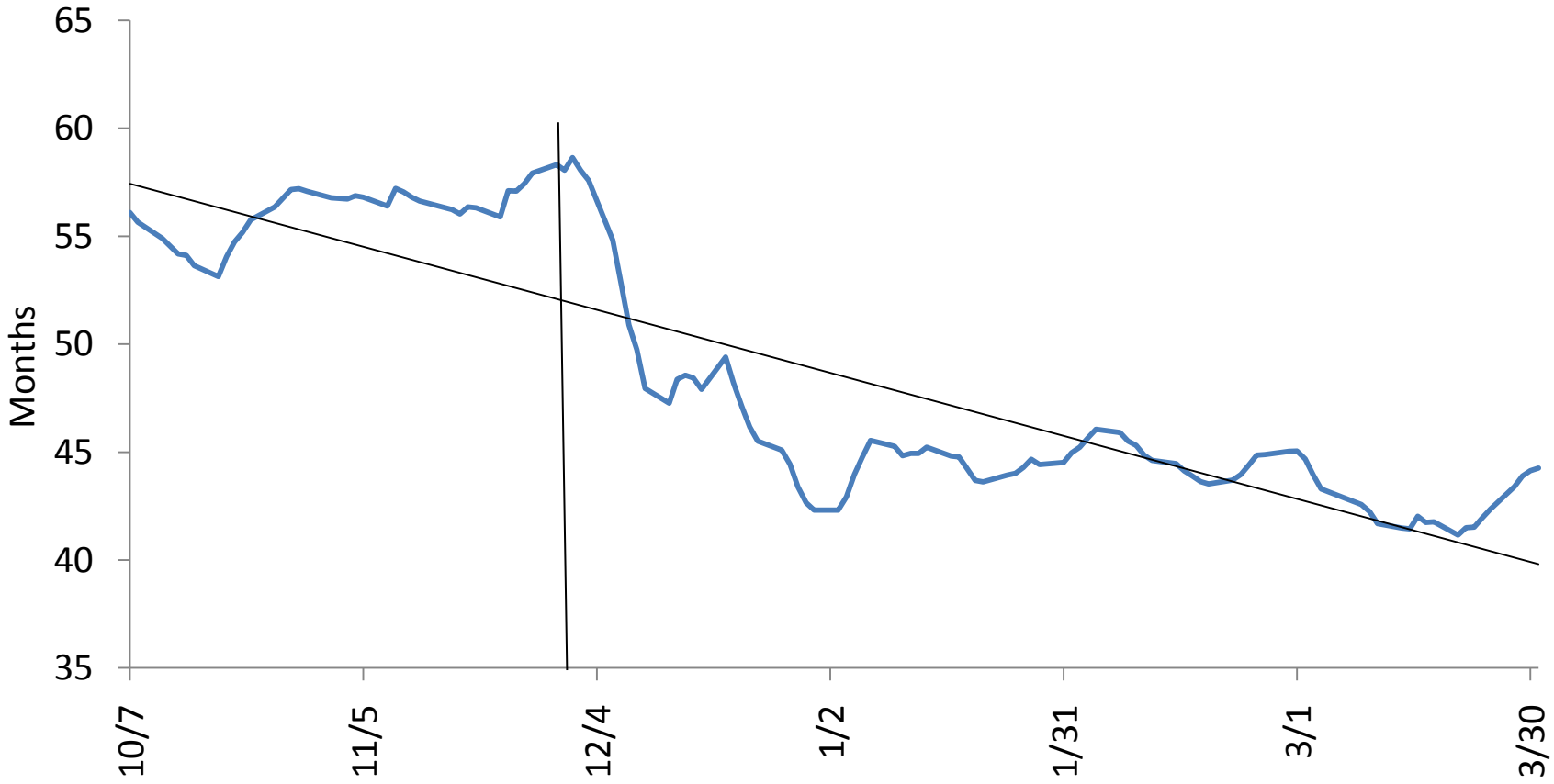
Effects of Macroprudential Measures



Source: BCB

Effects of Macroprudential Measures

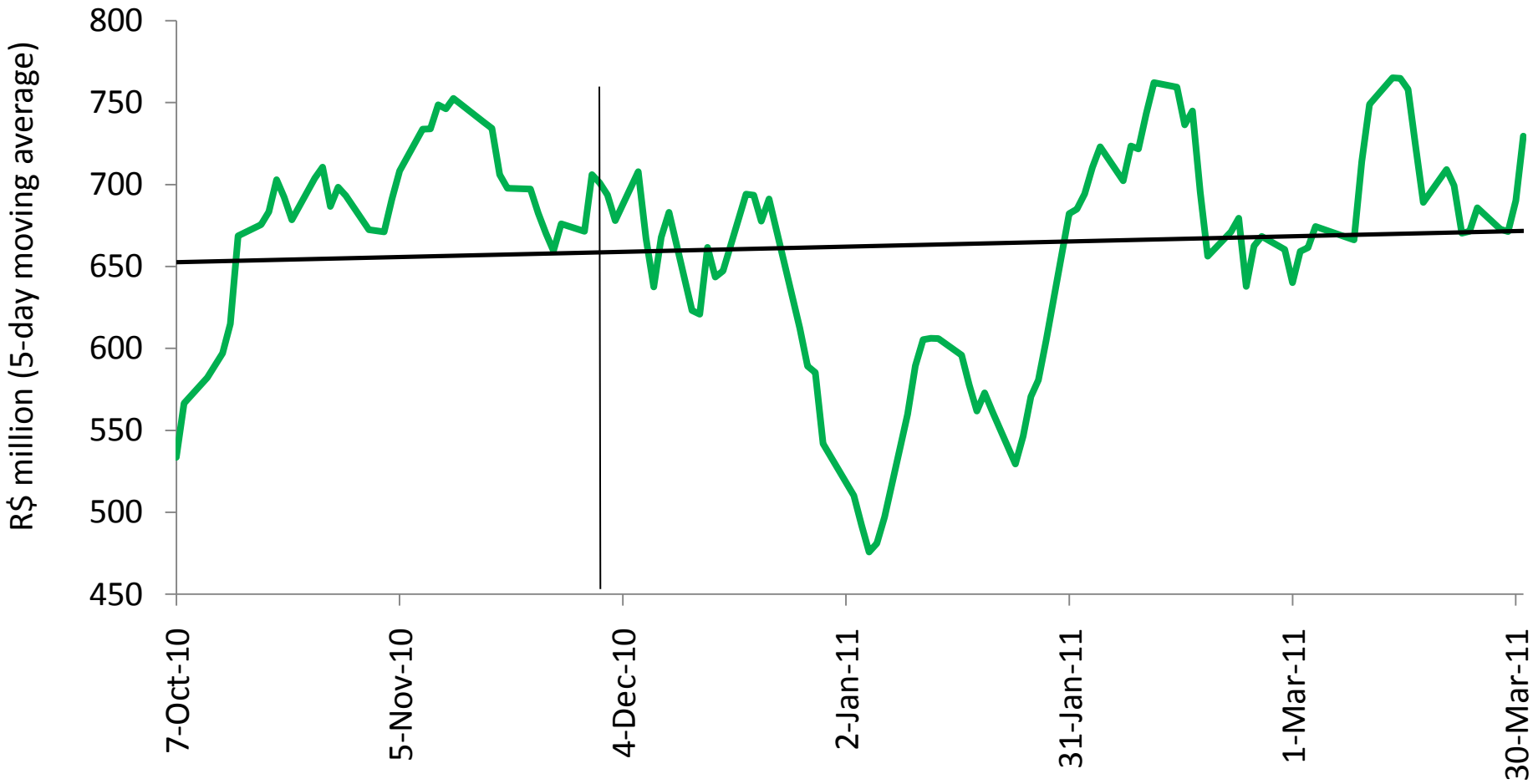
Personal Credit - Maturity of New Loans



Source: BCB

Effects of Macroprudential Measures

Personal Credit - Daily New Loans



Source: BCB

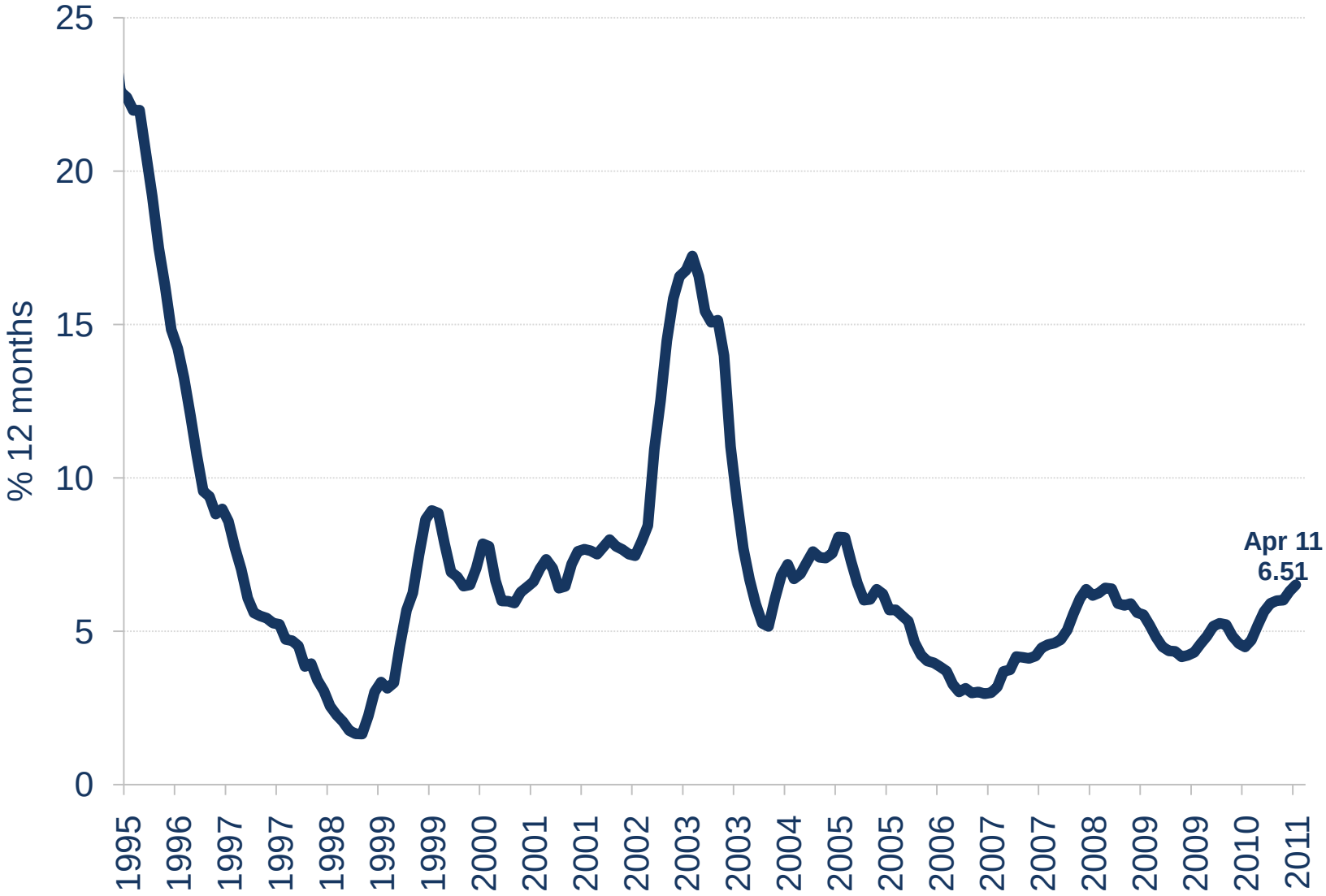
Contents

- ❑Brazilian indicators
- ❑Global environment
- ❑Inflation abroad
- ❑Credit in Brazil and macroprudential measures
- ❑Challenges for monetary policy

Macroeconomic Policy

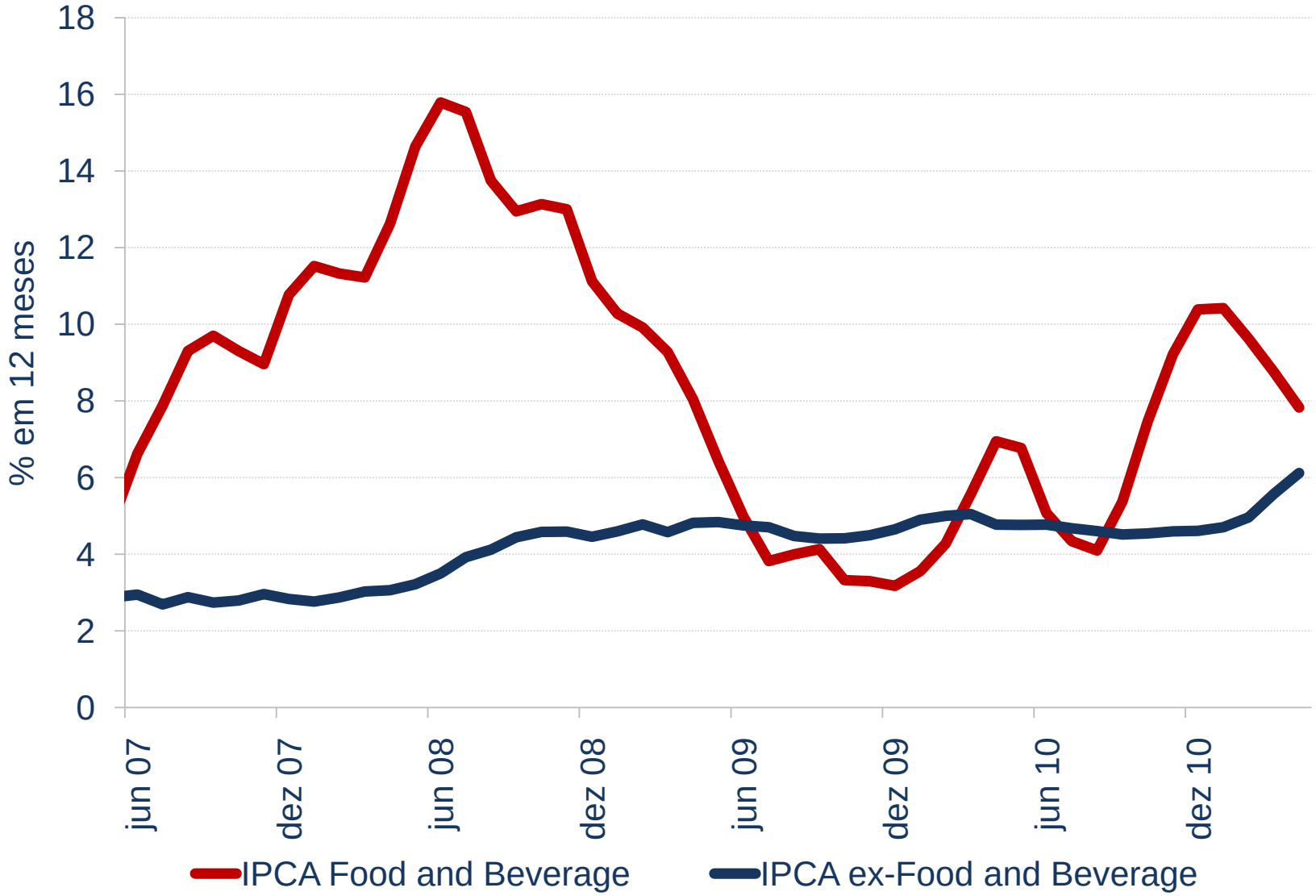
- Main features of the macroeconomic policy framework:
  - inflation targeting
  - fiscal responsibility
  - exchange rate flexibility
- The macroeconomic fundamentals, combined with adequate prudential policy and strong bank supervision resulted in:
  - capacity to absorb internal and external shocks
  - macroeconomic and financial stability
  - sustainable growth
  - credit and capital market development
  - investment growth

Consumer Price Index



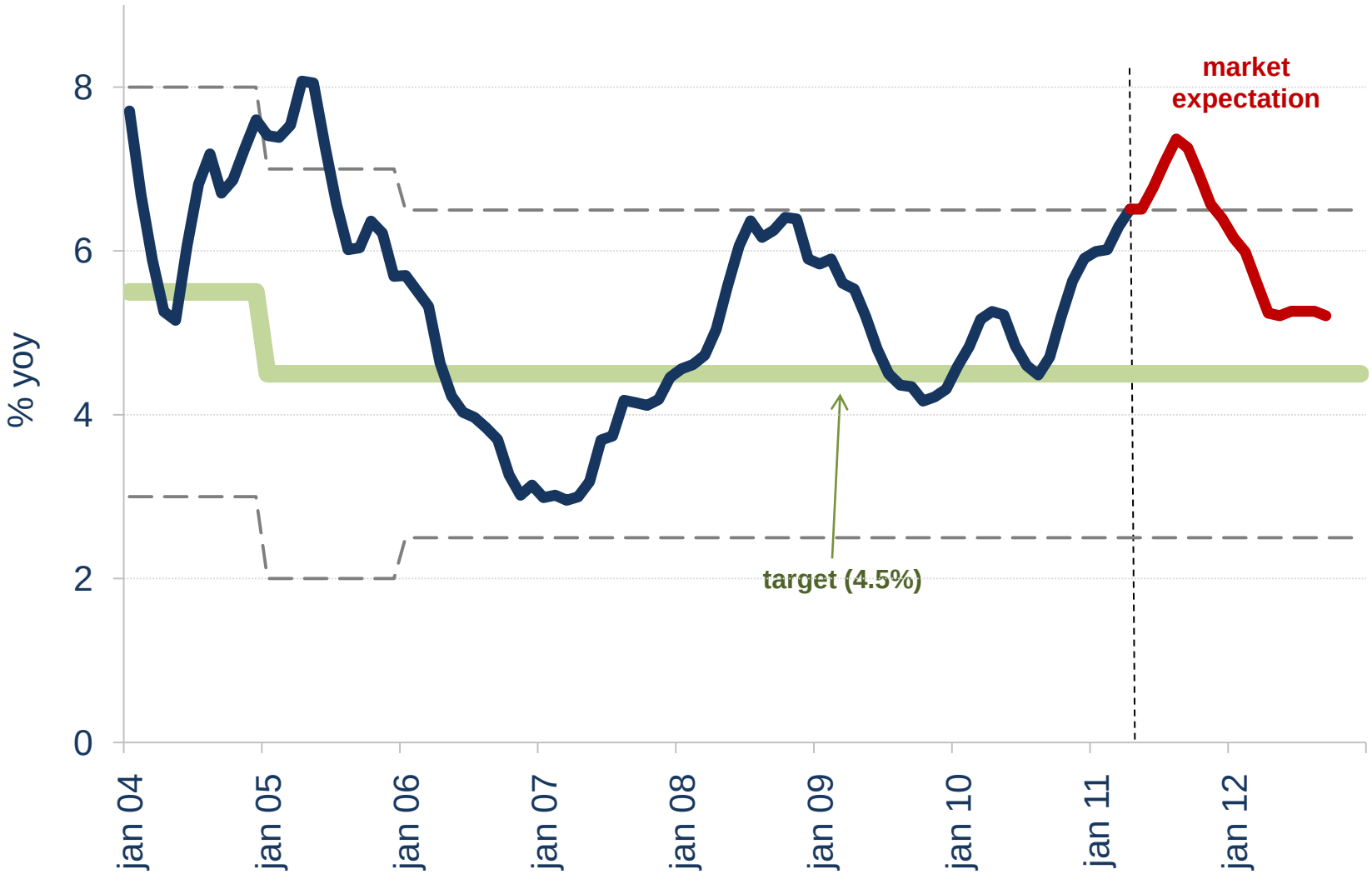
Source: IBGE

CPI ex-Food and Beverage



Source: IBGE

Inflation – Convergence to Targets

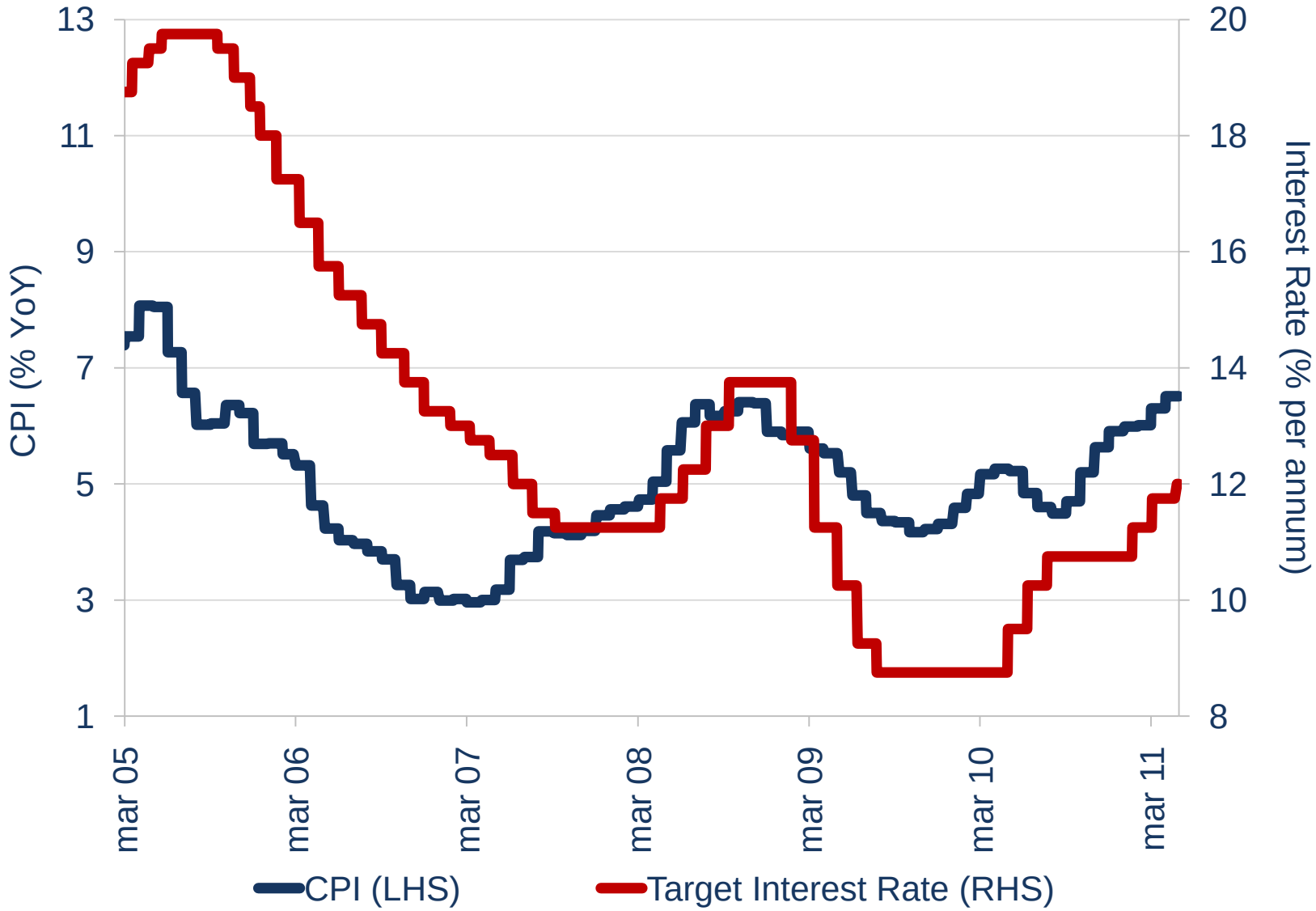


market expectation: April 29th

Sources: BCB / IBGE

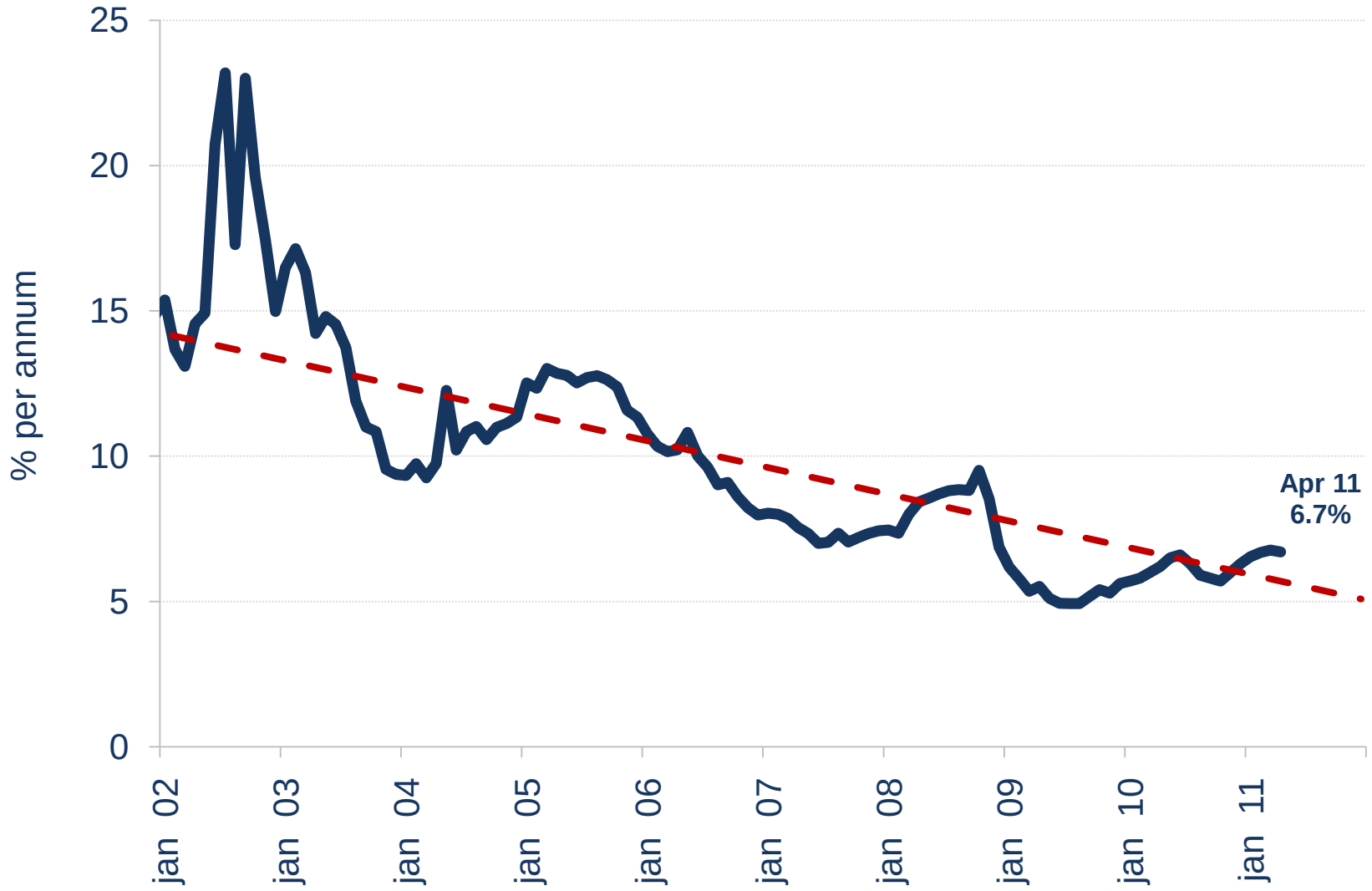
BANCO CENTRAL DO BRASIL

Inflation Targeting Regime



Sources: BCB / IBGE

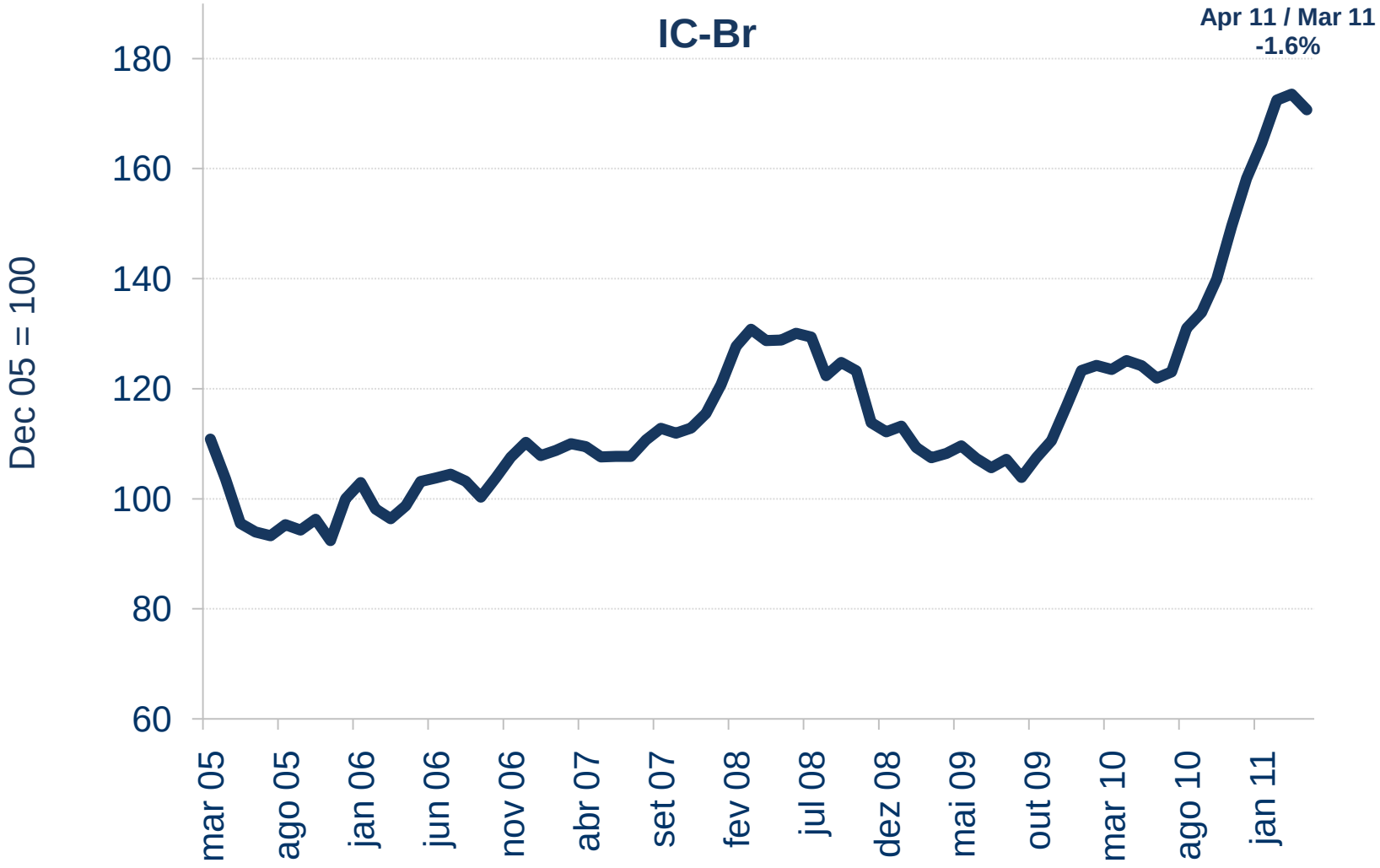
Real Interest Rate



Market Rate 360 days and IPCA expected 12 months (Focus)

Sources: BM&FBovespa / BCB

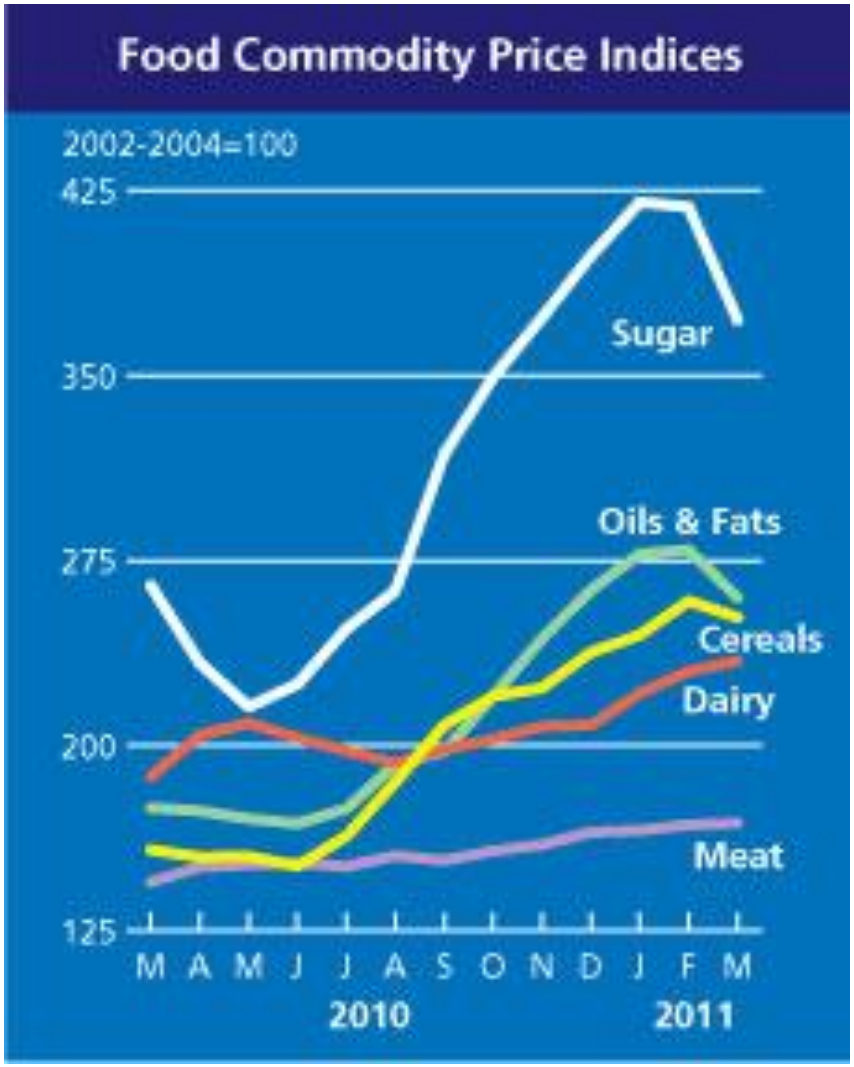
Commodity Price Index

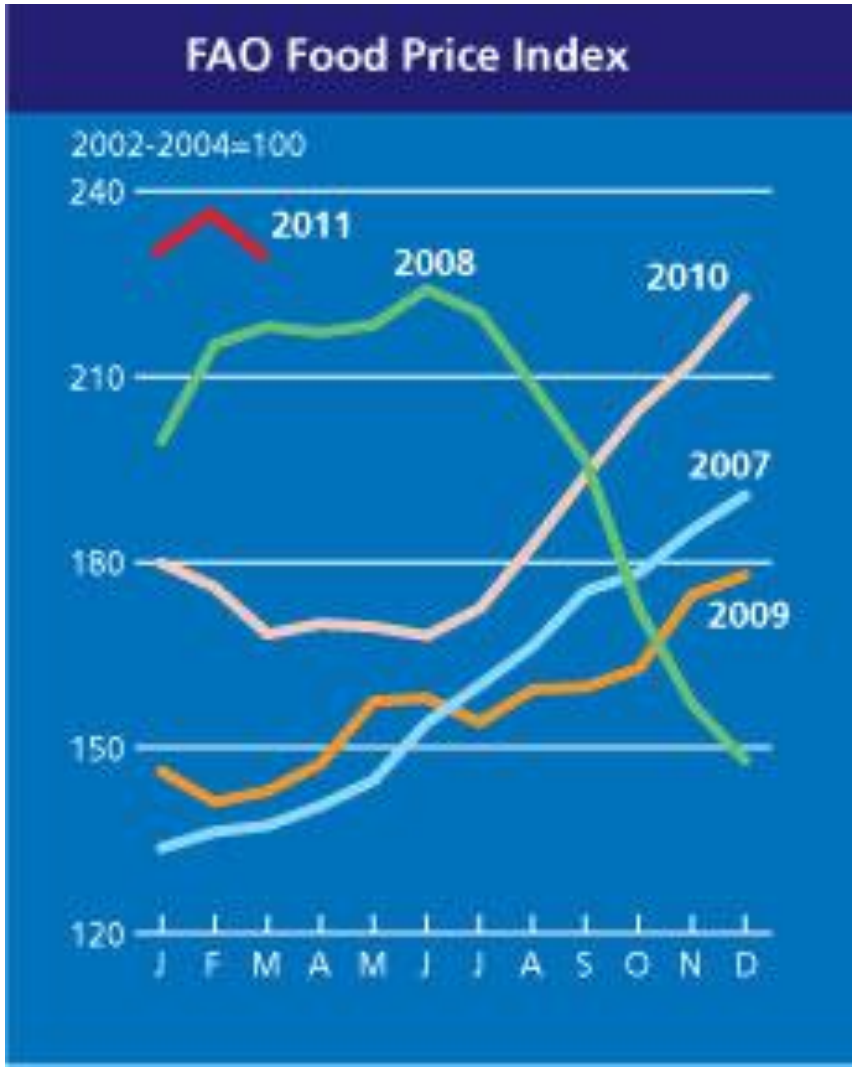


IC-Br: Brazilian Commodity Price Index in Brazilian Currency

Source: BCB

Commodity price indices





Aldo Mendes

May 2011