Brazil Economic Outlook

London

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Governor

October 2013

BANCO CENTRAL DO BRASIL

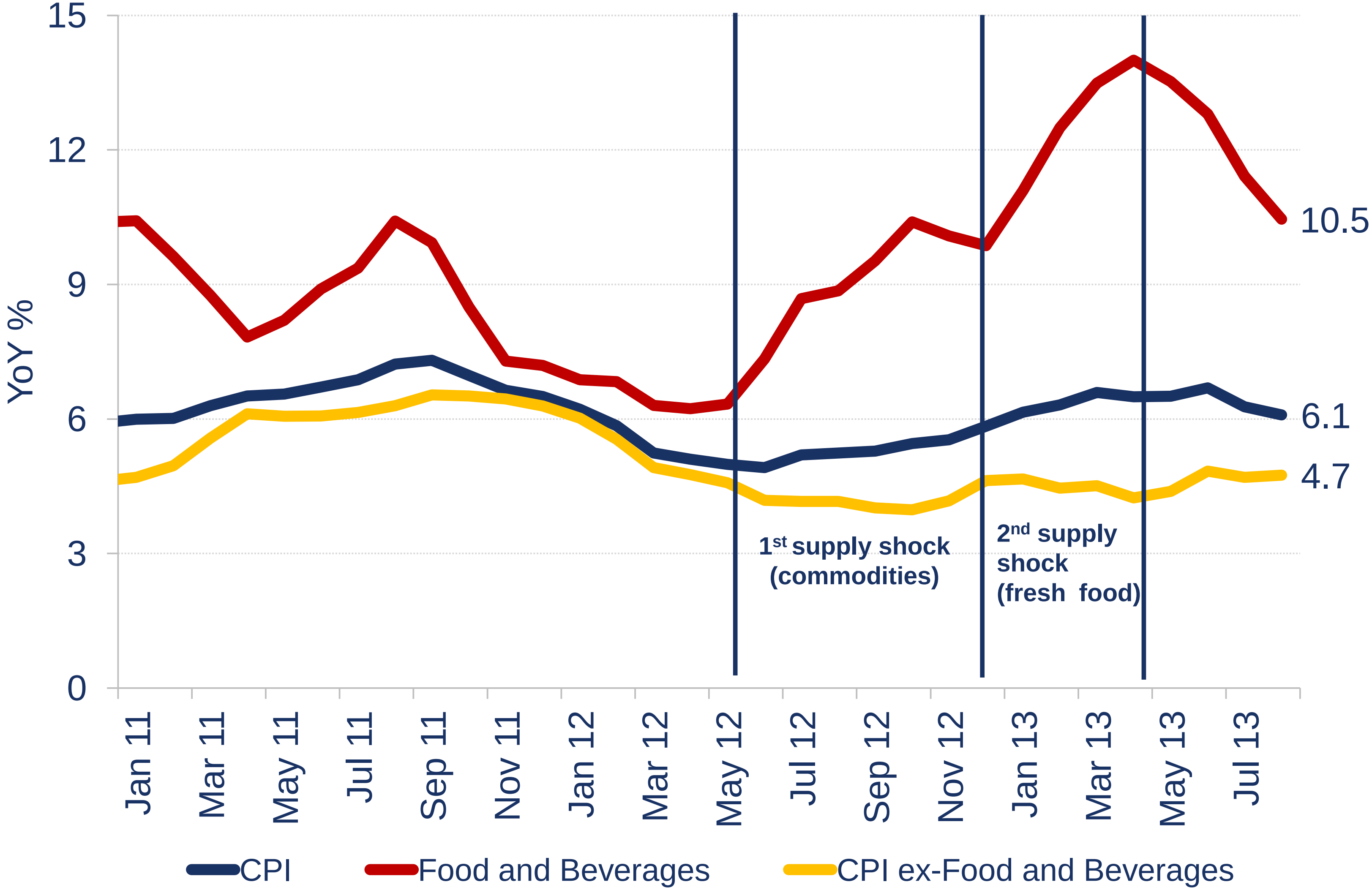
Main topics

Inflation

Growth

UMP Exit

Inflation adversely affected by supply shocks



Source: IBGE

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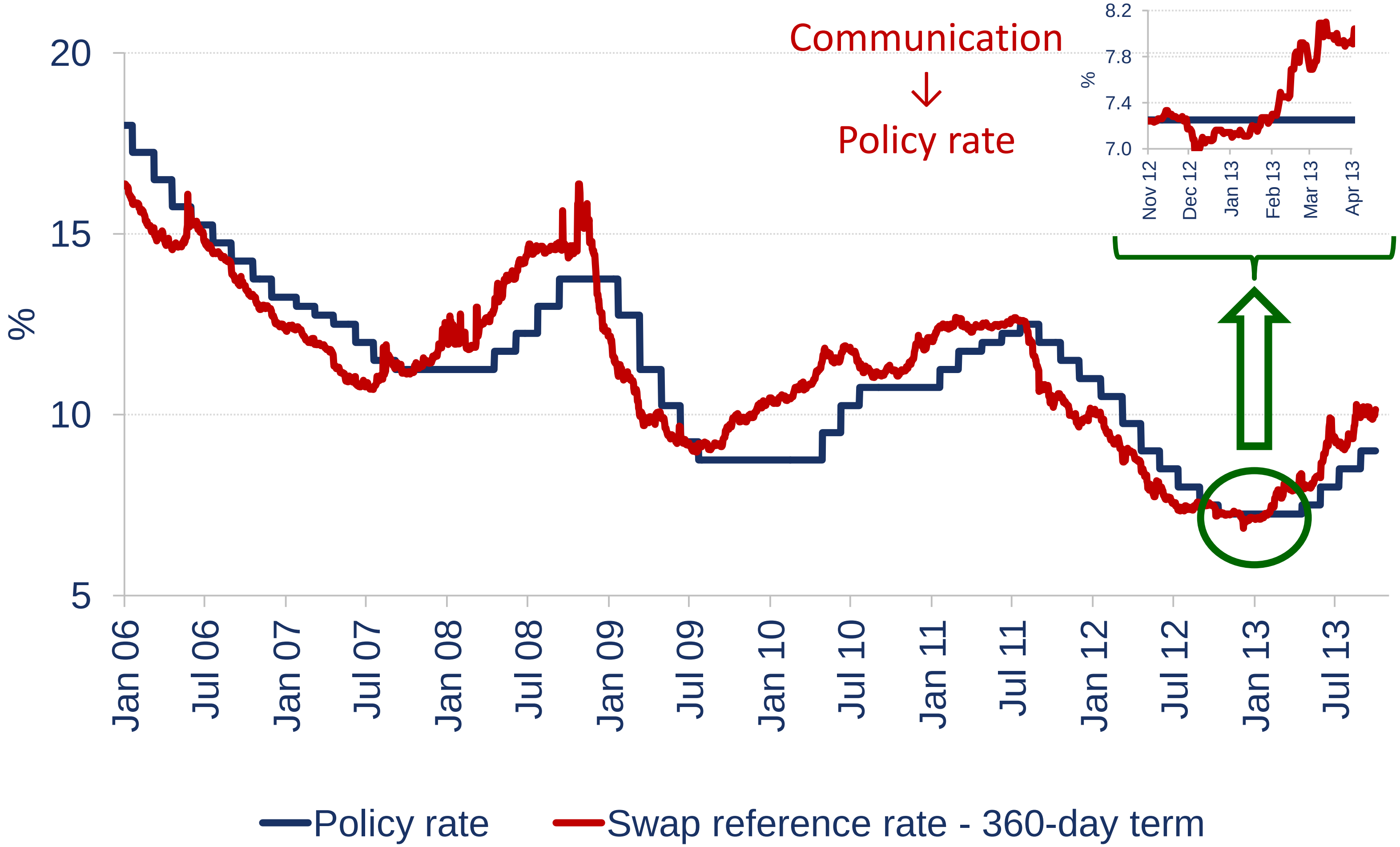
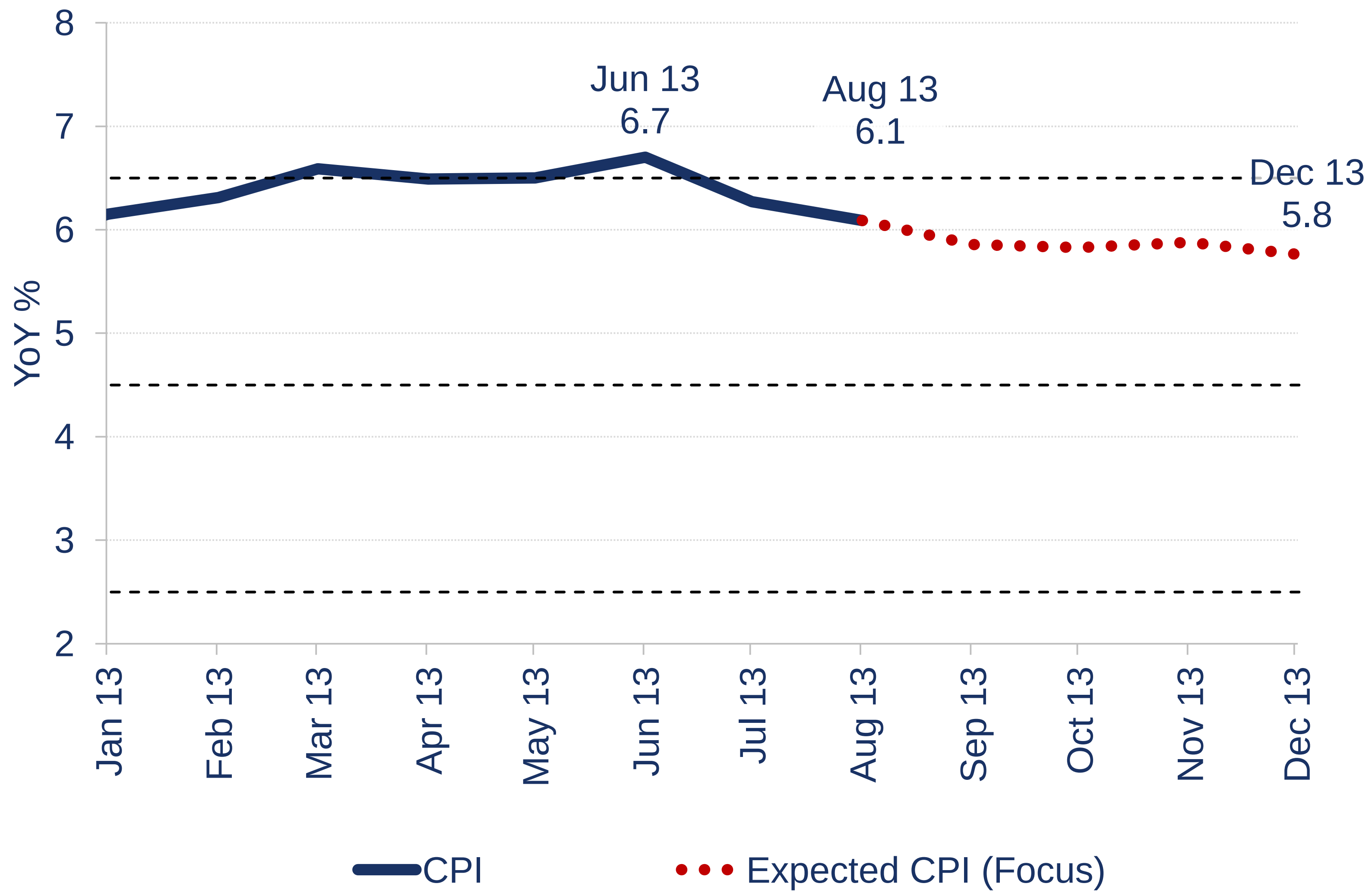
Monetary policy actions

BCB acted in early 2013 to mitigate second order effects of supply shocks. After tapering signaling, BCB mitigate the ER pass-through risk



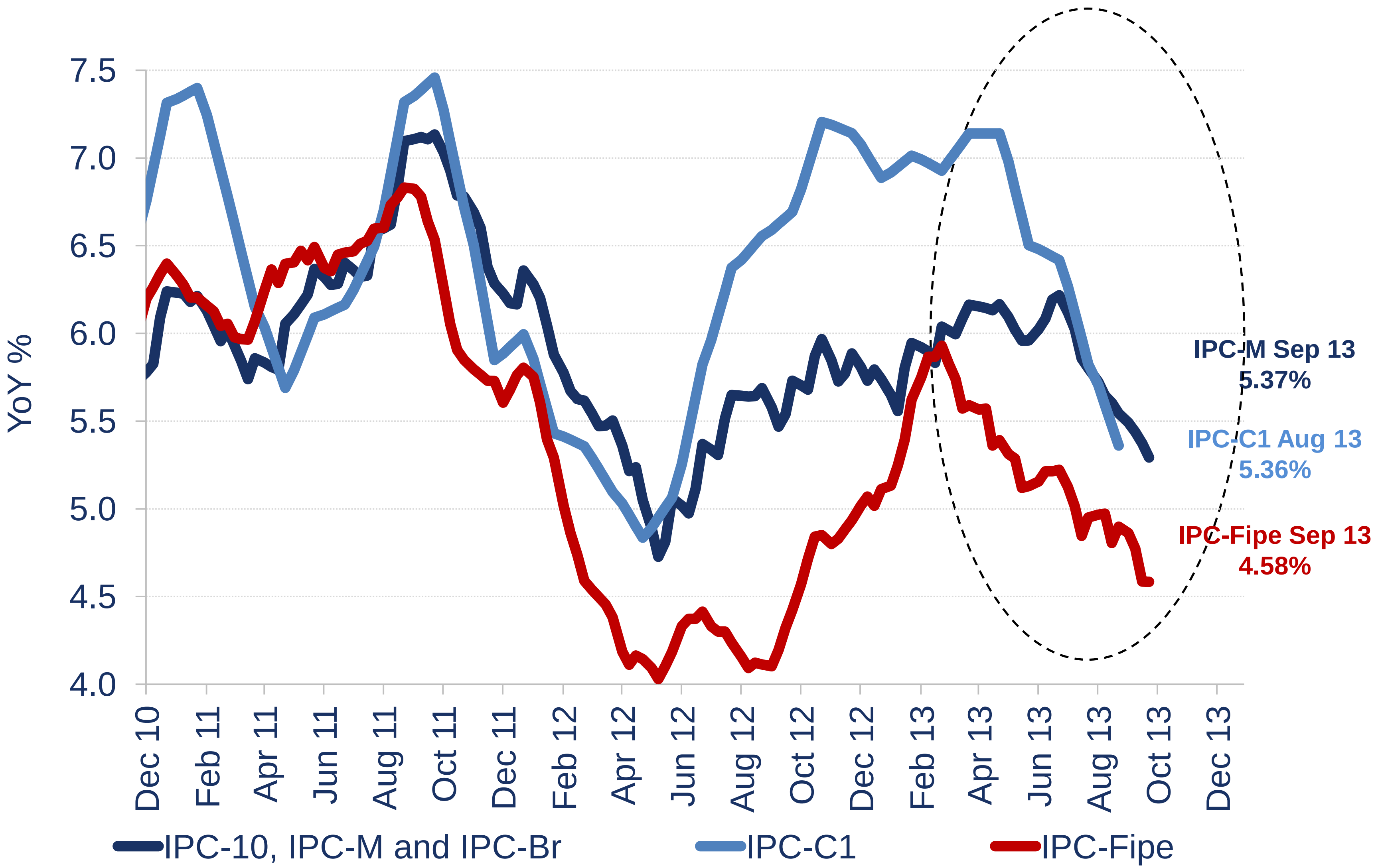
Source: BCB/BM&F

Inflation is receding



Source: IBGE / BCB (Focus)

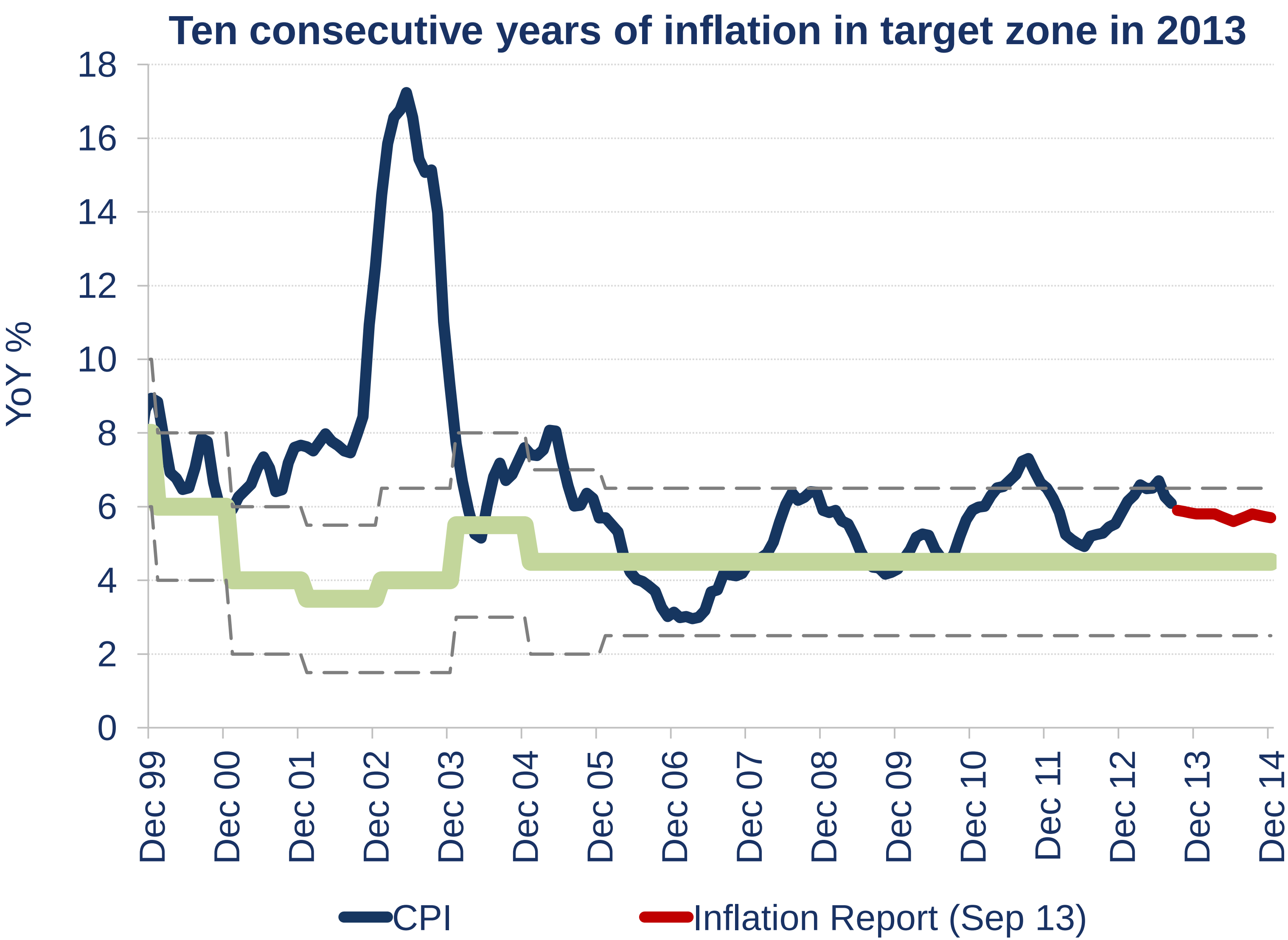
Other CPIs also decelerating



Chained series of IPC-10, IPC-M and IPC-Br; Chained series of IPC-Fipe weekly data

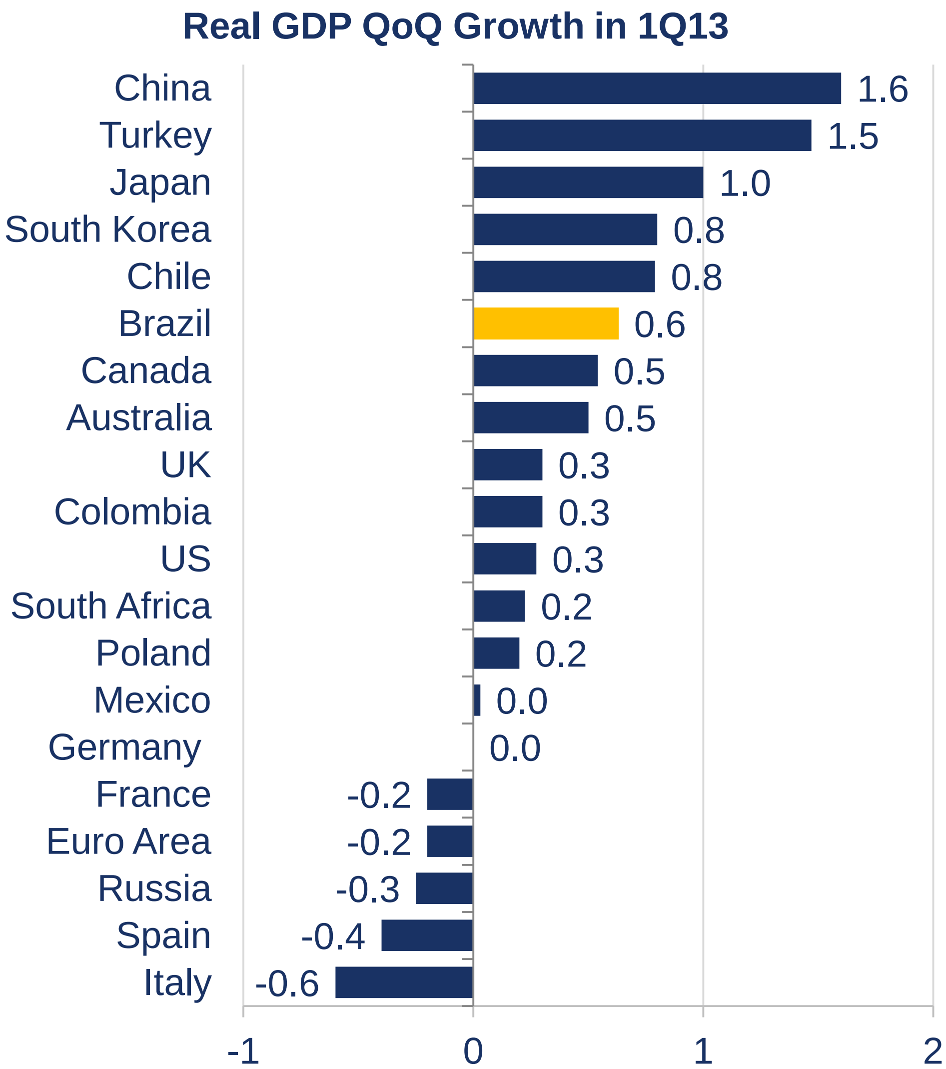
Source: FGV / Fipe

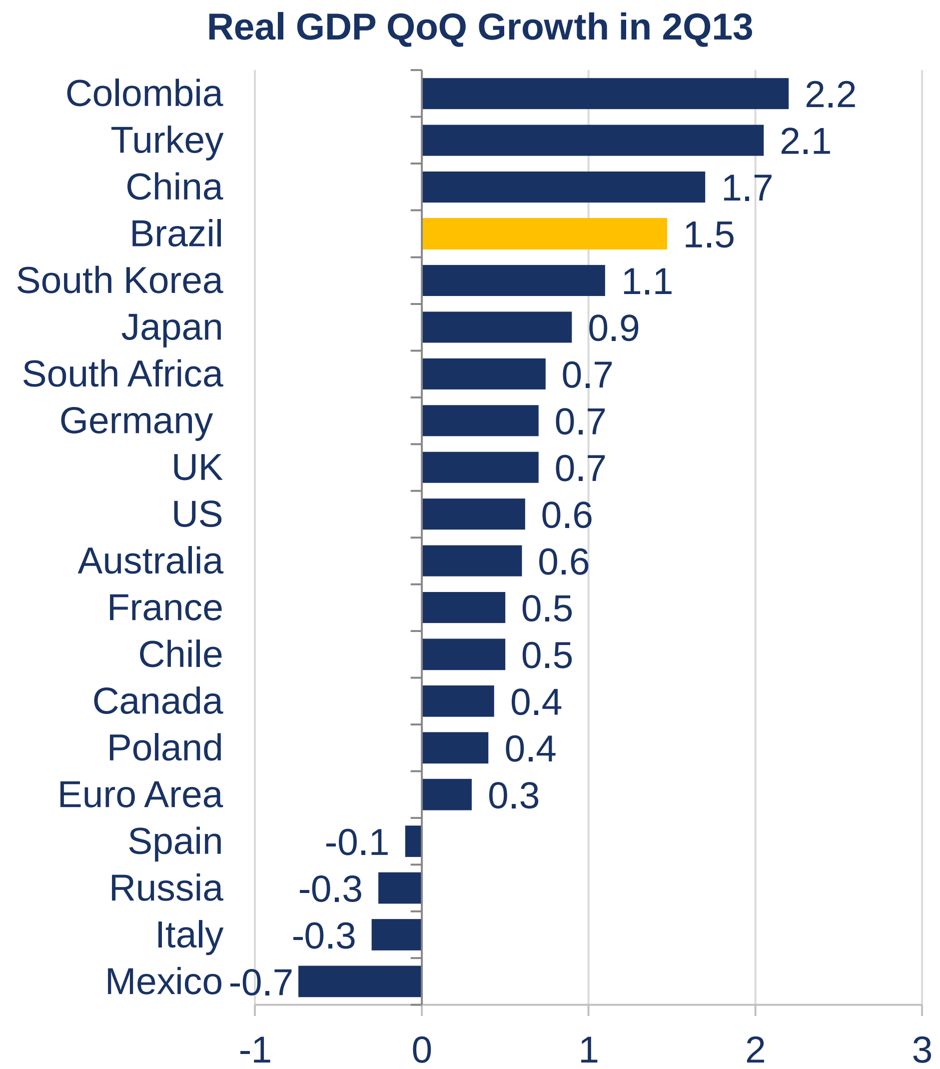
Inflation within target bands



Source: IBGE / BCB

Growth dynamics in 2013





* qoq sa

Source: Bloomberg

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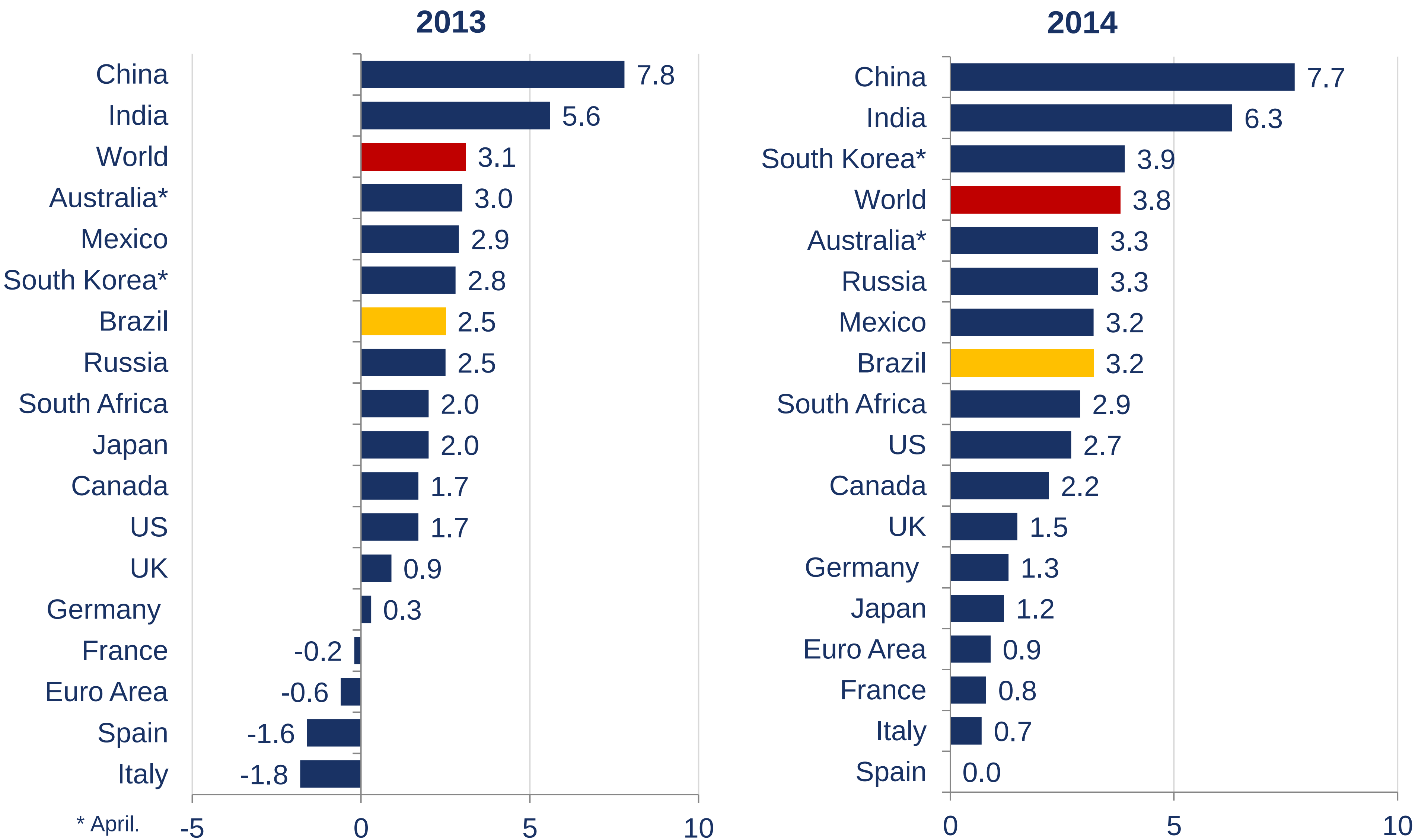
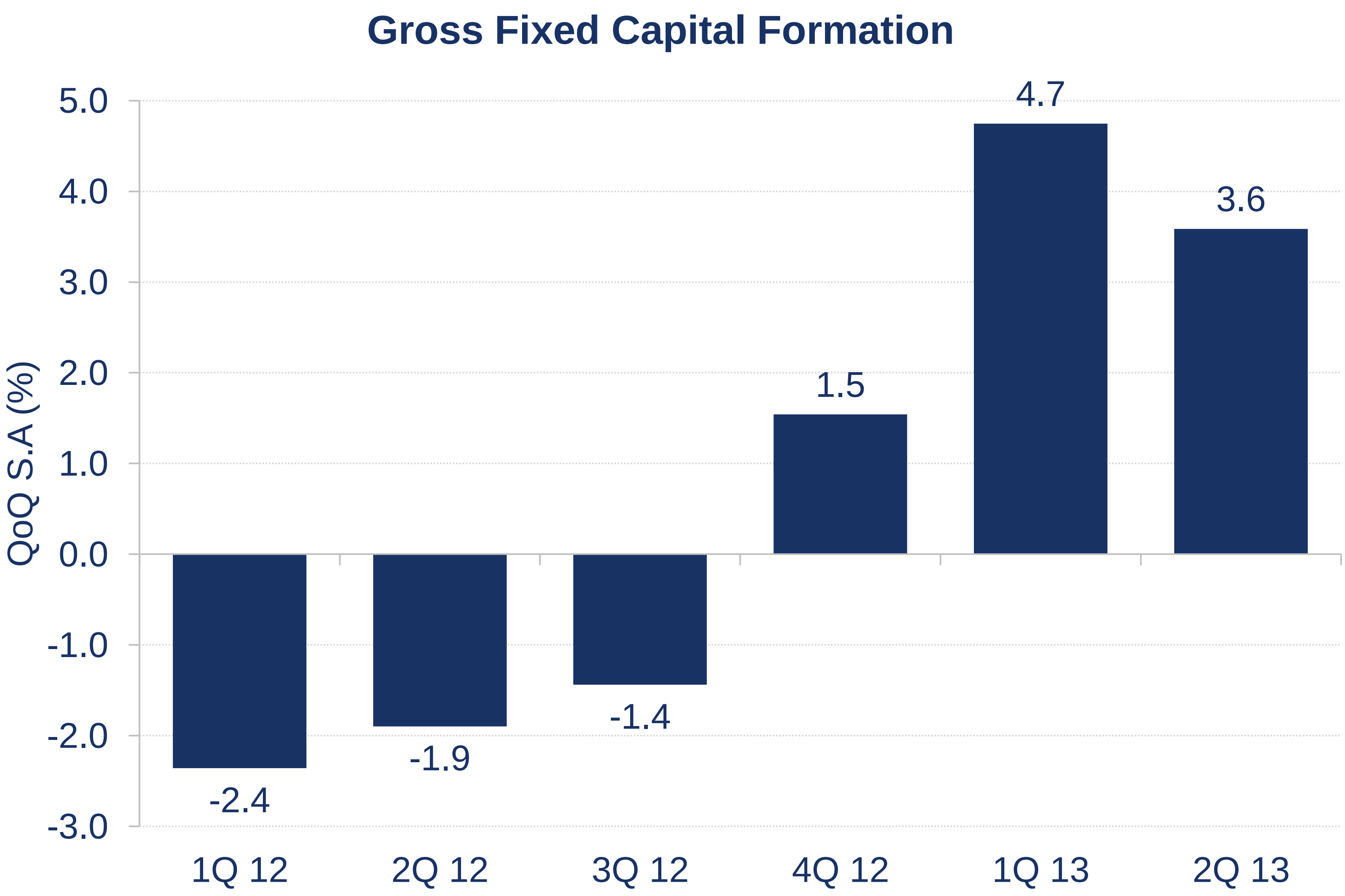
Economic growth is expected to gather pace



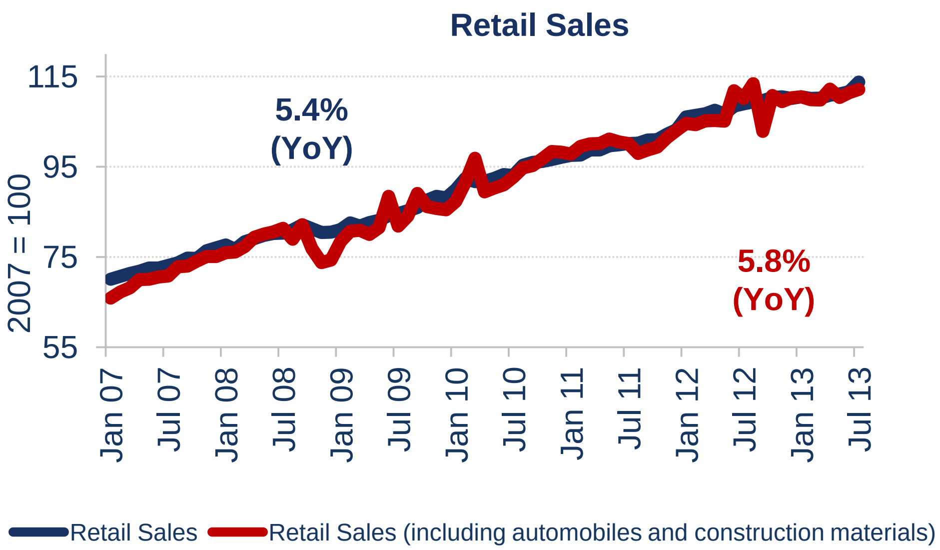
Source: IMF (WEO forecasts, April and July 2013)

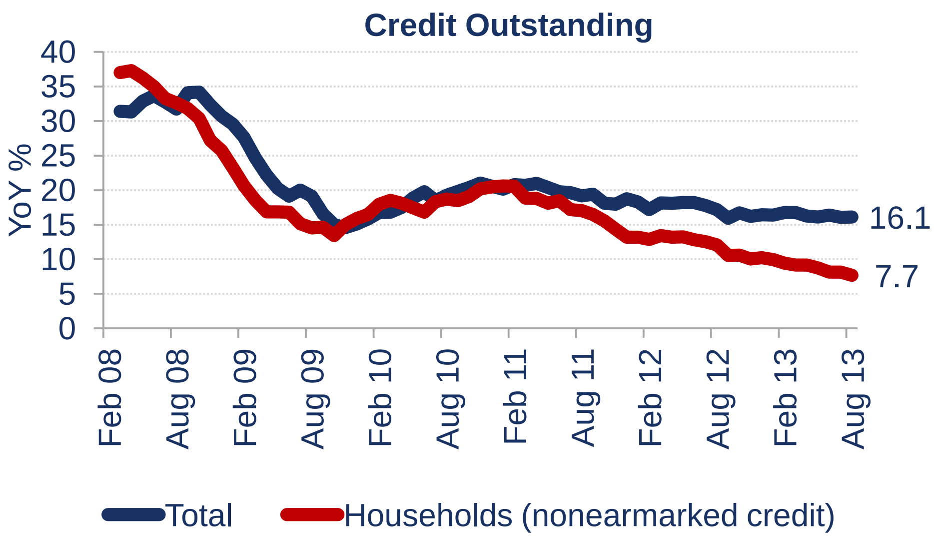
Stronger investment

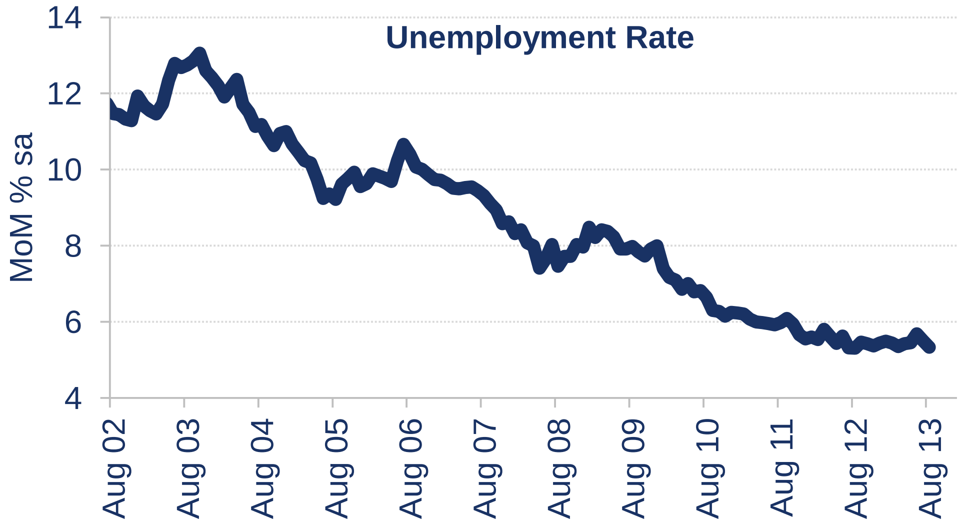


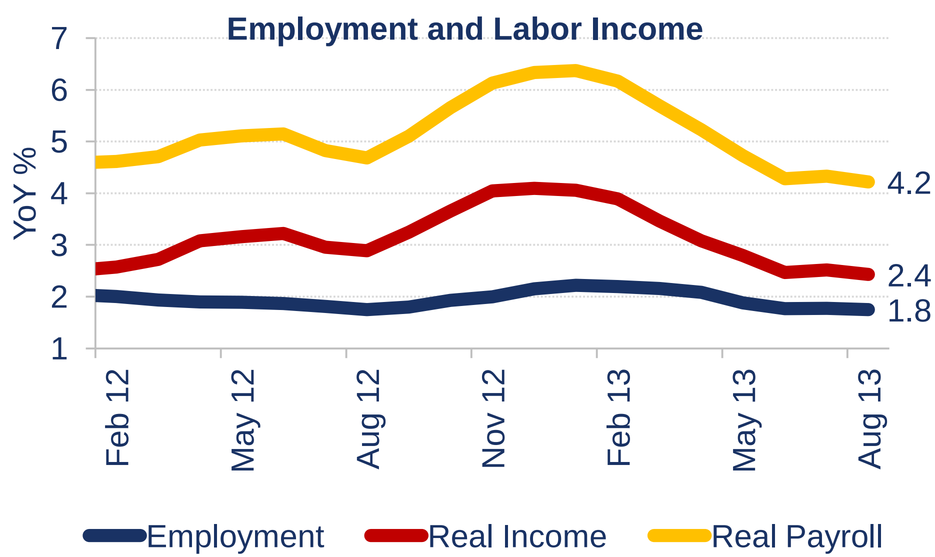
Source: IBGE

Support for domestic demand









Source: BCB/IBGE

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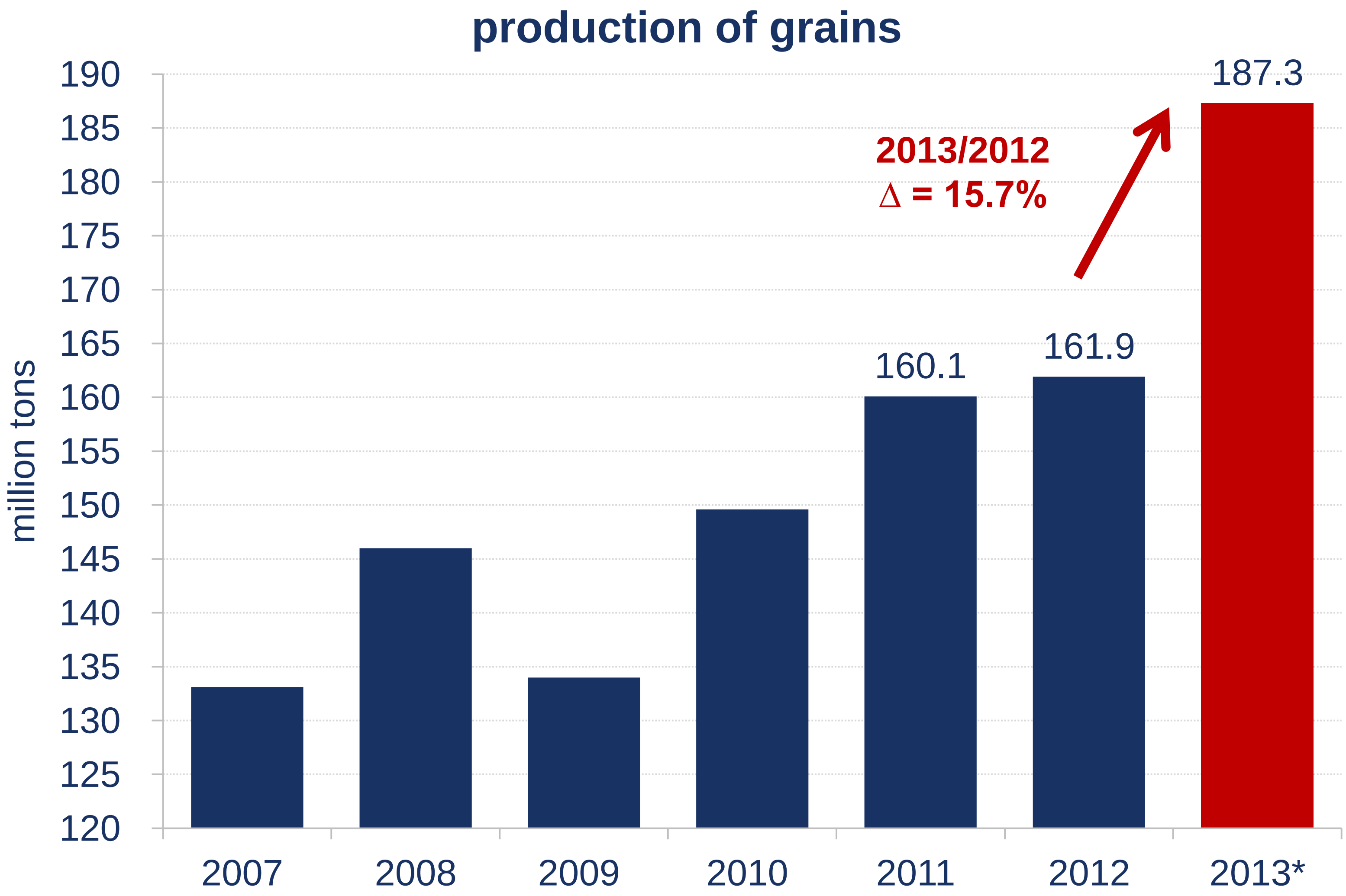
Record grain harvest expected in 2013



Estimated in August 2013

Source: IBGE

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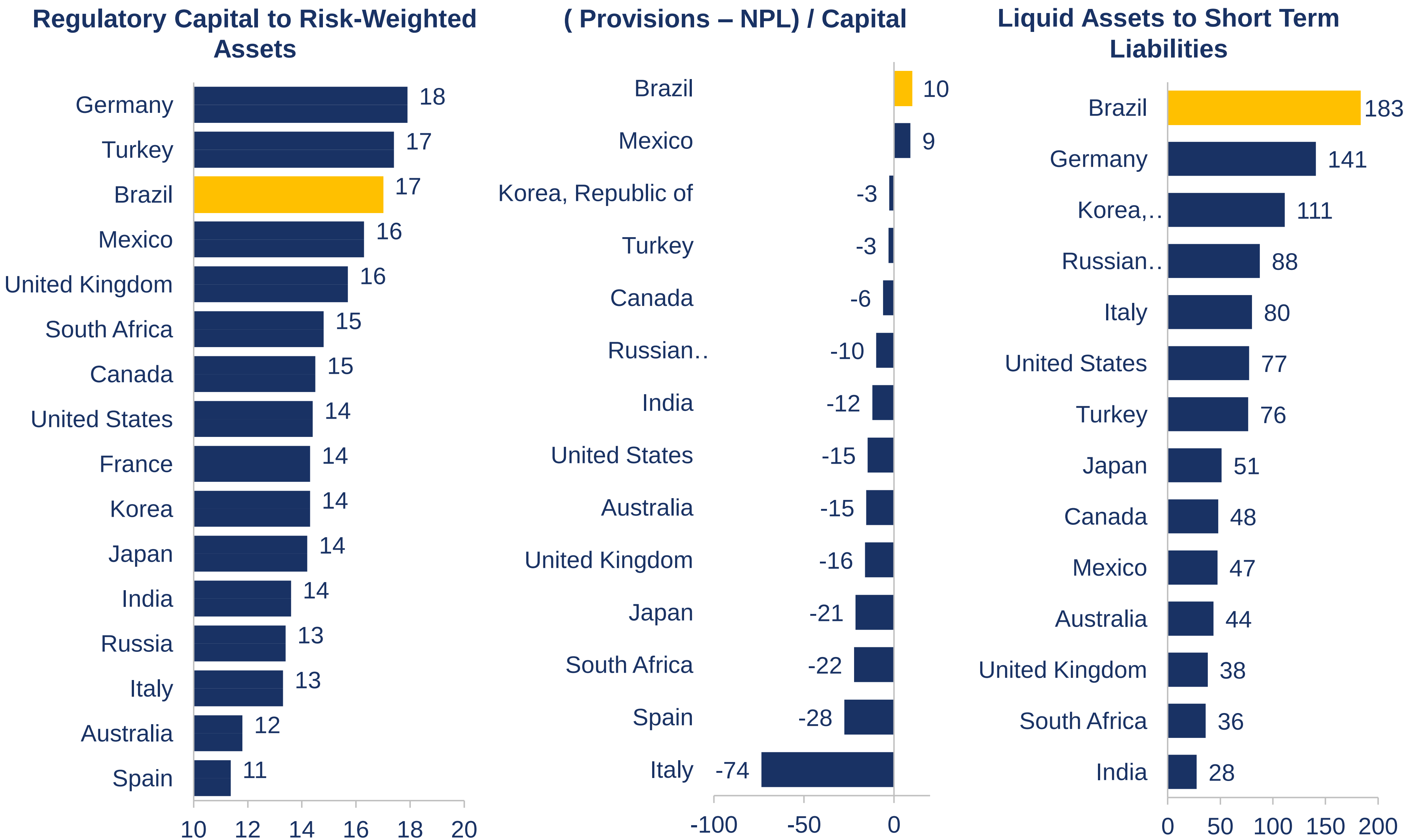
Reforms to boost growth

- Tax reforms to simplify the tax system and reduce costs
  - Payroll tax cuts
  - Tax incentives for infrastructure and R&D investment bonds

- Measures to increase competitiveness and investments
  - Building a skilled labor force (Science without Frontiers and Pronatec Programs)
  - Concessions program revamped
    - Highways, railroads, ports and airports
    - Oil & gas

Brazil has a sound financial system



Source: IMF /FSI (latest available data)

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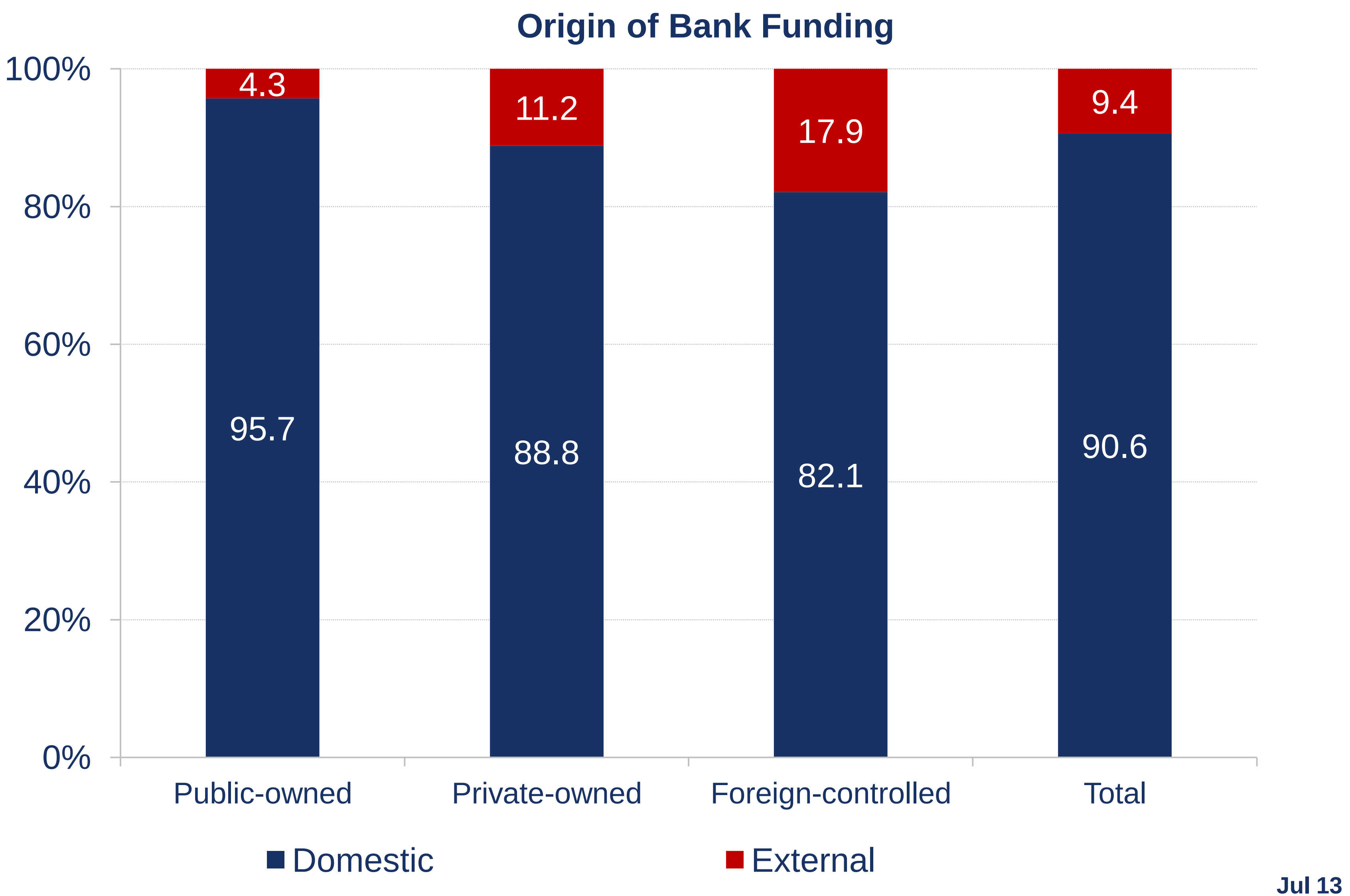
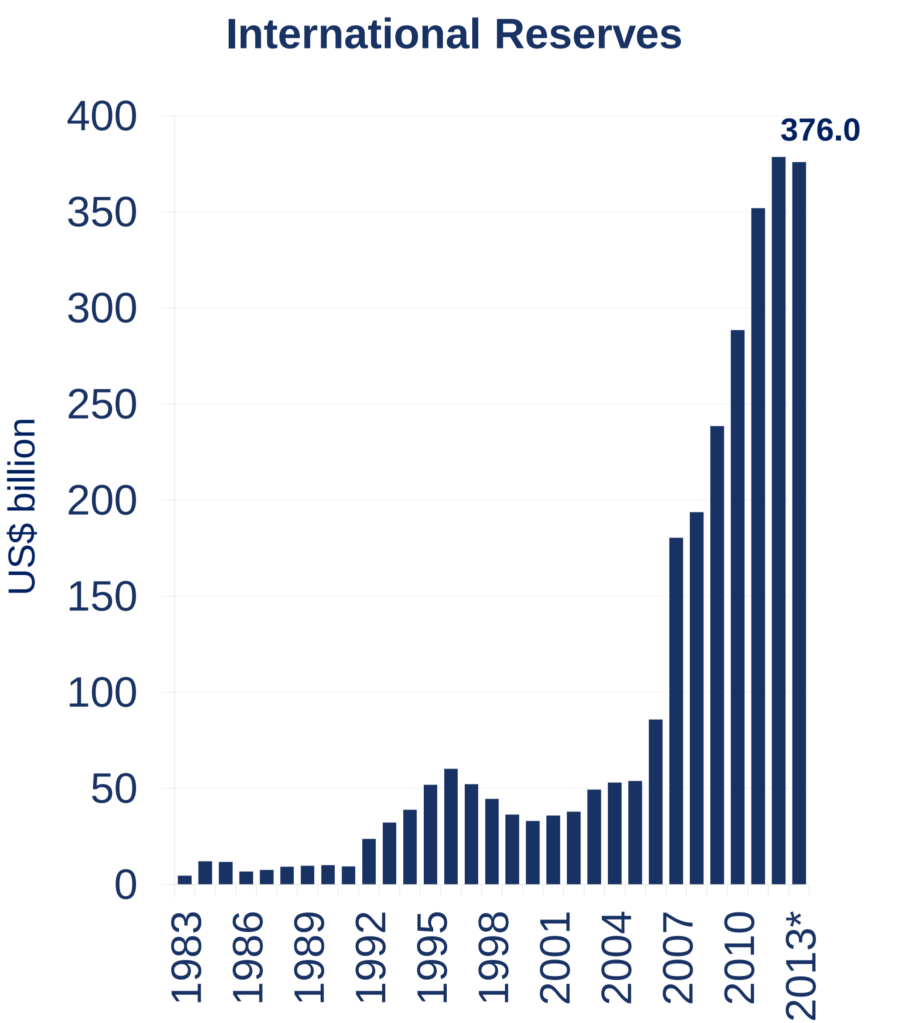
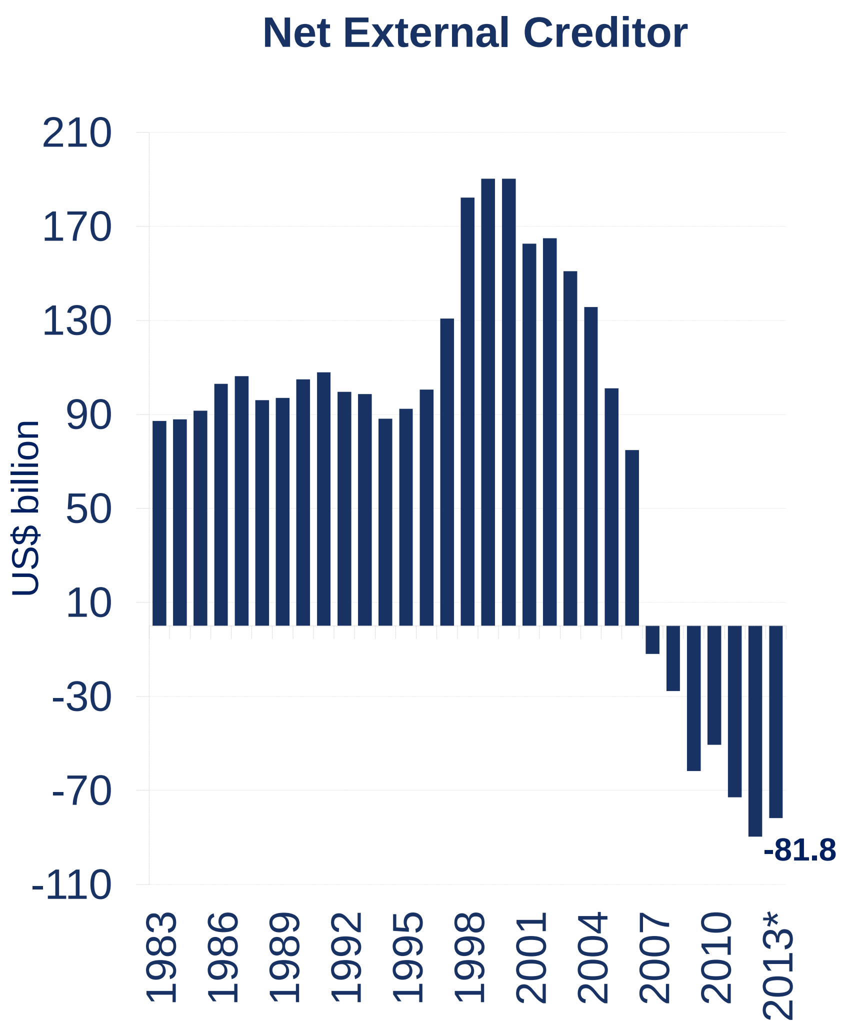
Banks have a low share of external funding



Source: BCB

Brazil – Net External Creditor



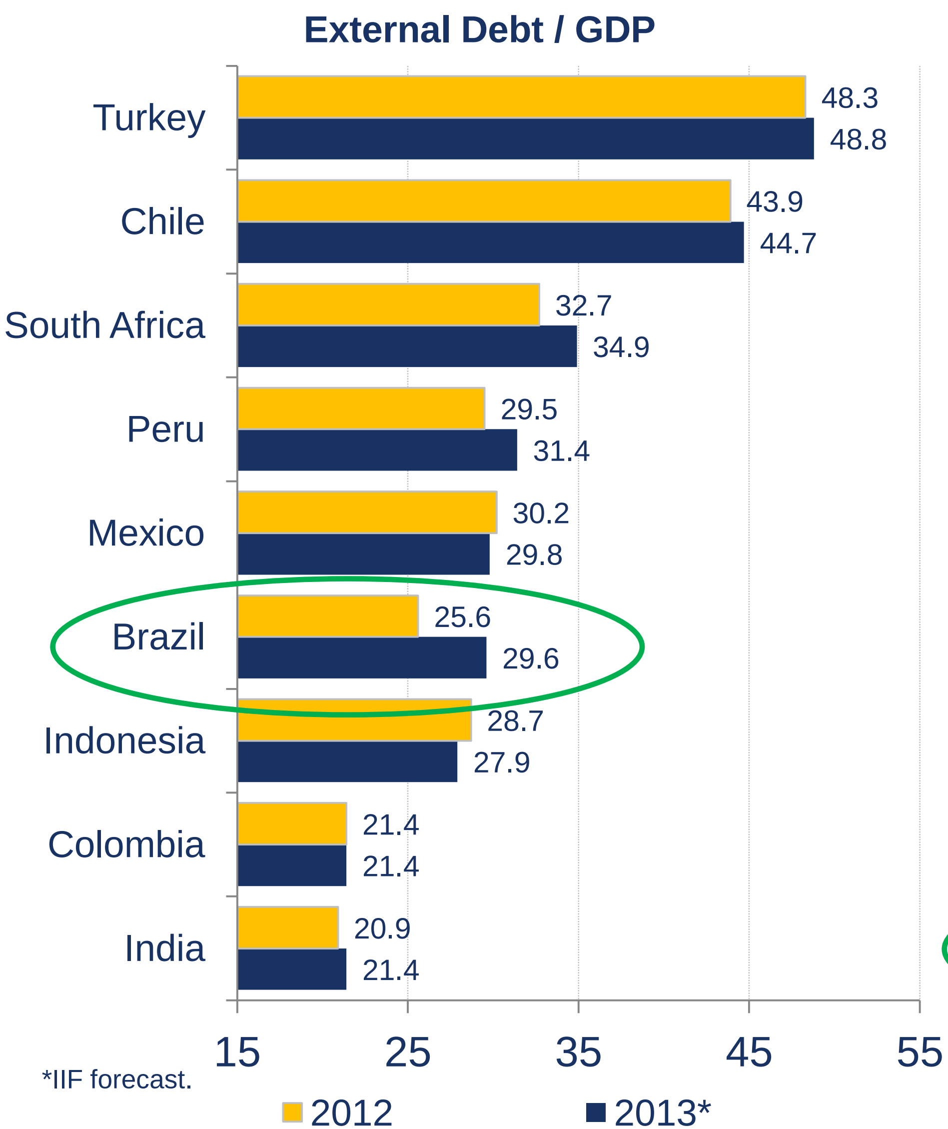


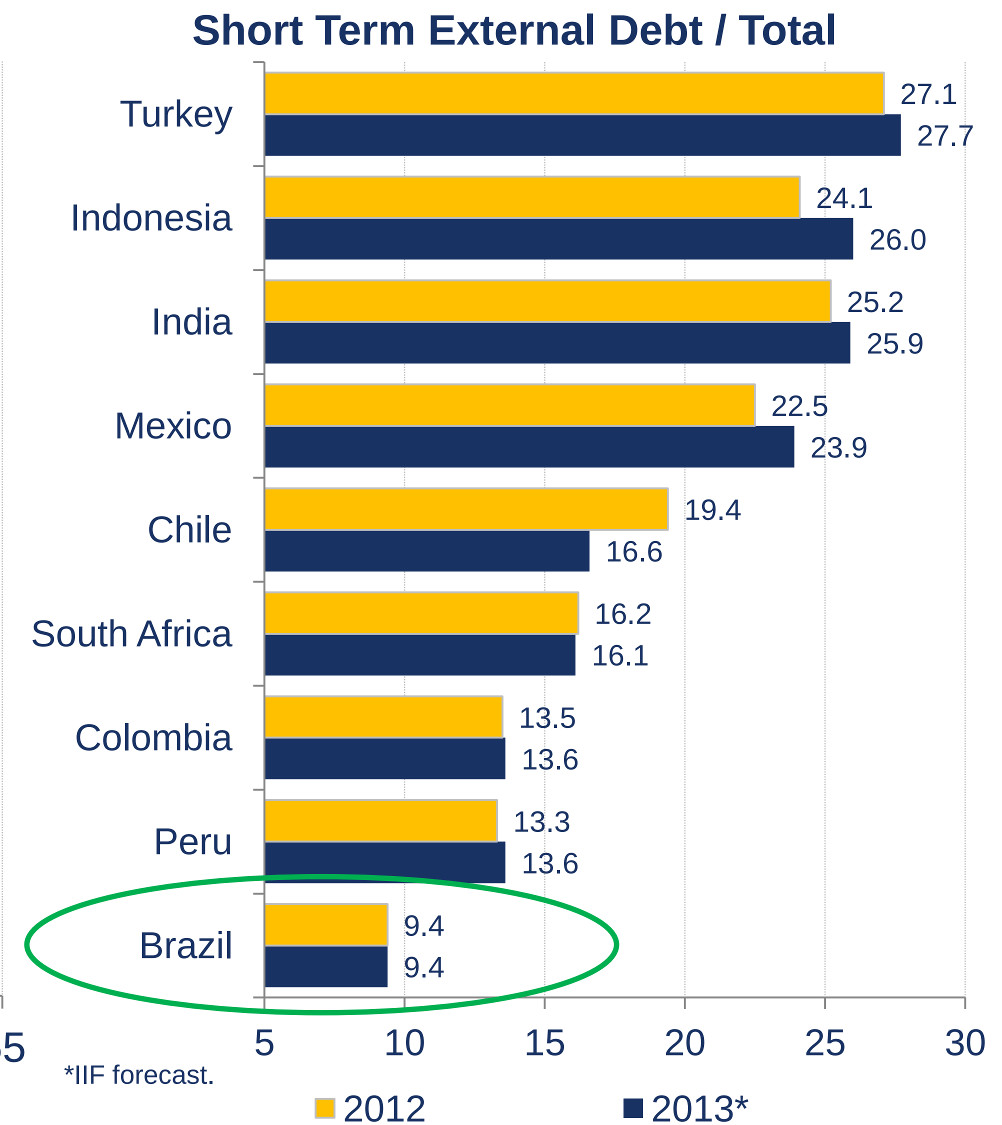
as of Oct 1st

*Aug 2013

Source: BCB

External Debt of EMEs





Source: Datastream / IIF

* Brazil data includes intercompany debt transactions and domestic debt in hands of foreign investors

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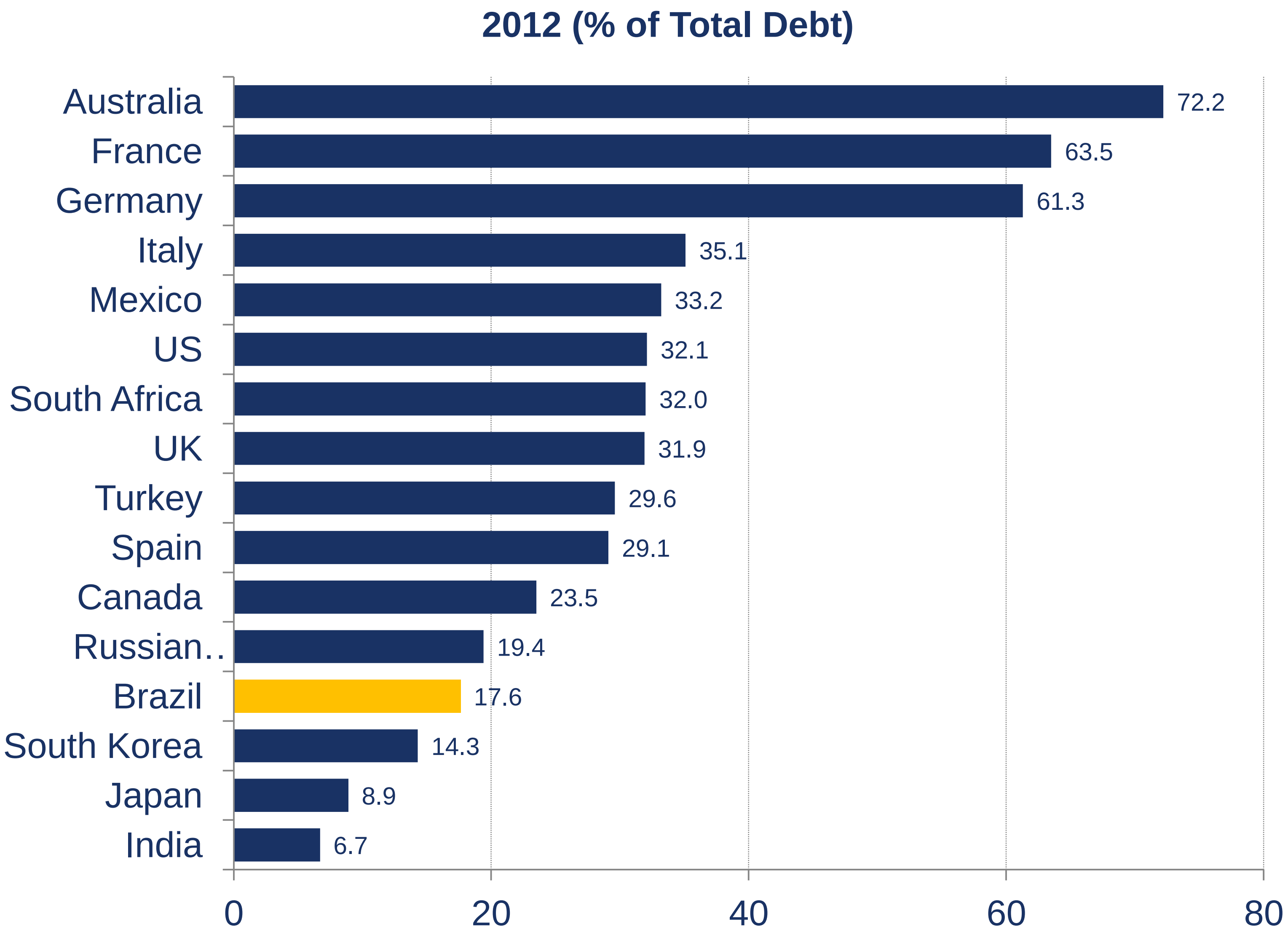
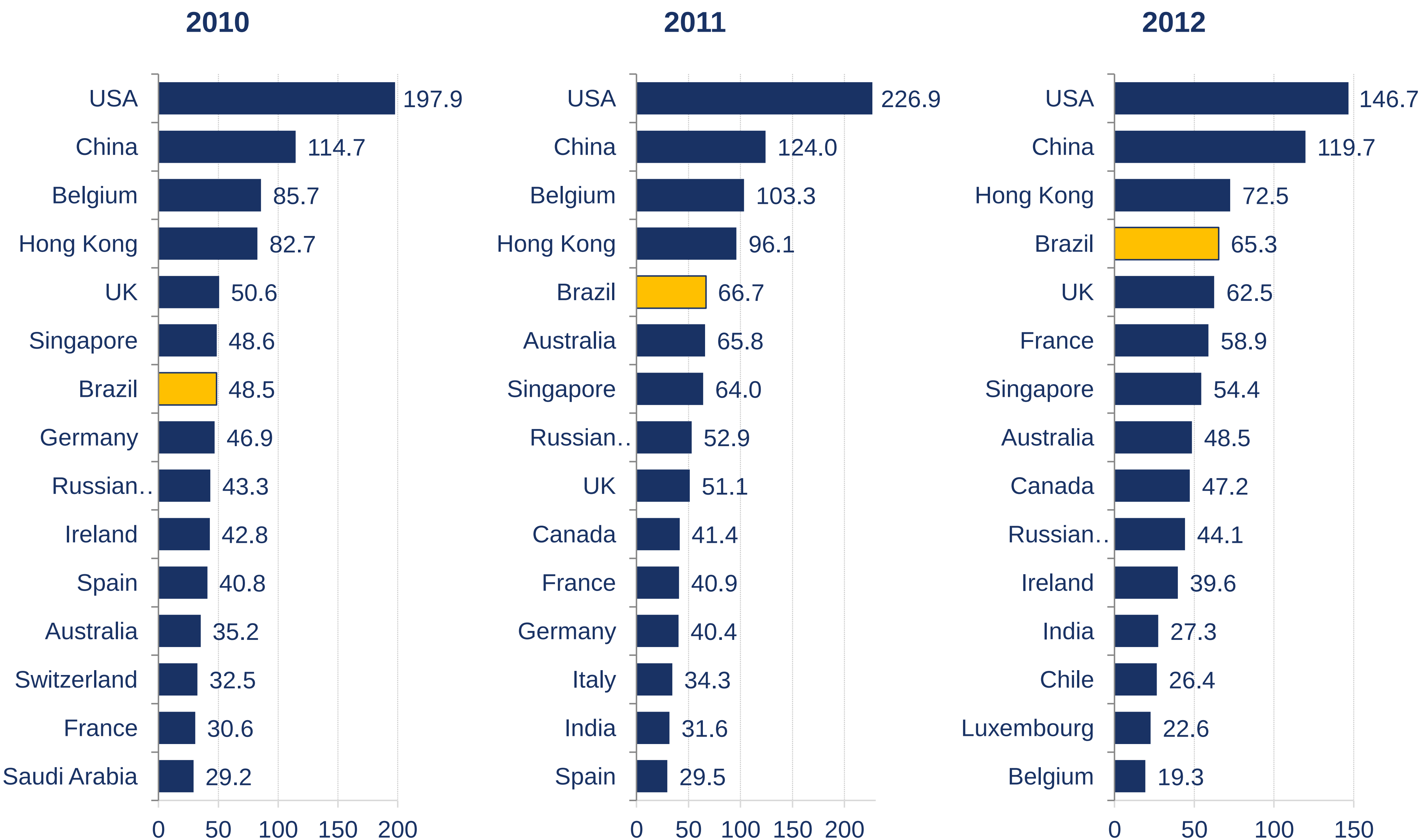
Low nonresident holdings of Gov. debt



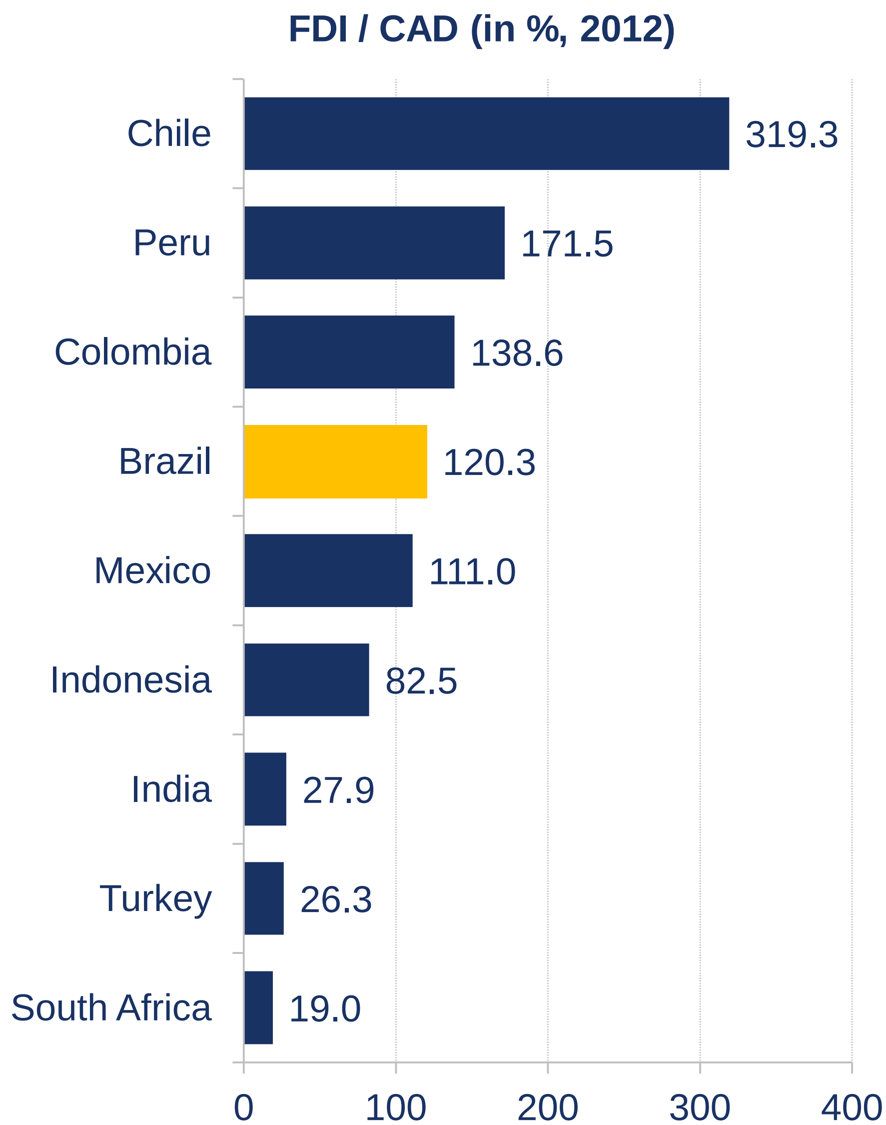
Source: IMF (Fiscal Monitor April 2013)

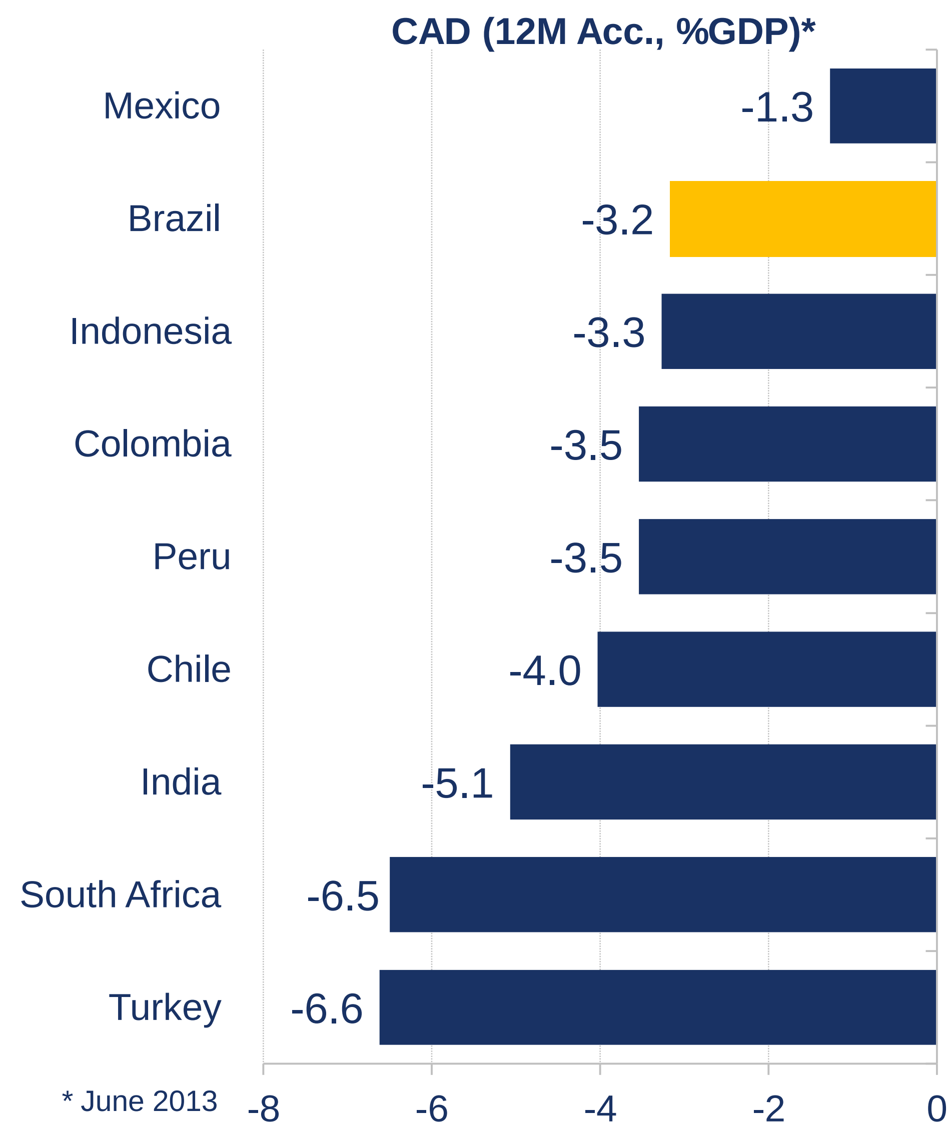
Brazil is leading recipient of FDI



Source: UNCTAD

CAD comfortably financed by FDI





* June 2013

Source: UNCTAD

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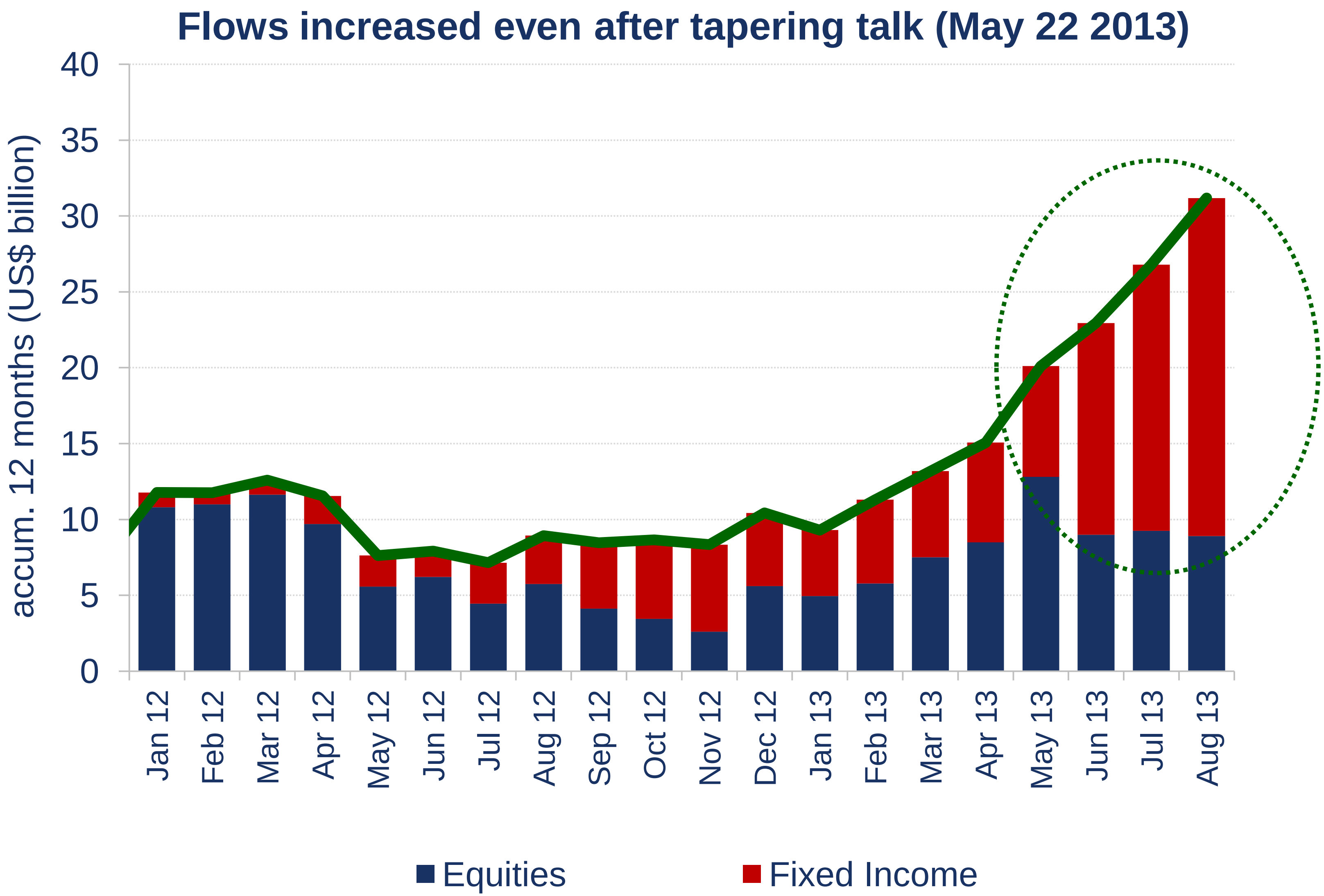
Capital flows



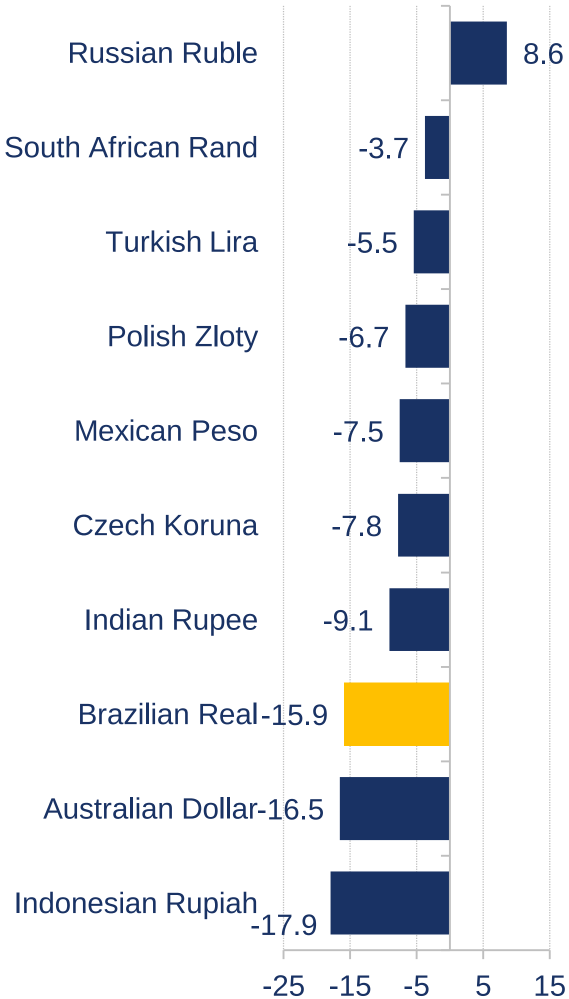
Source: BCB

Timely Central Bank action to mitigate risks

- FX interest rate swaps and FX repo program (launched on Aug 22)
  - Goal: provide hedge to economic agents, liquidity to domestic FX market and reduce excessive market volatility
  - Measures (weekly auctions during 2013):
    - FX interest rate swap auctions: USD2 billion
    - FX Repo: USD1 billion
- USD100 billion (equivalent) until the end of 2013, considering issues before the program announcement
- The program succeeded in taming ER volatility and providing FX hedge and liquidity

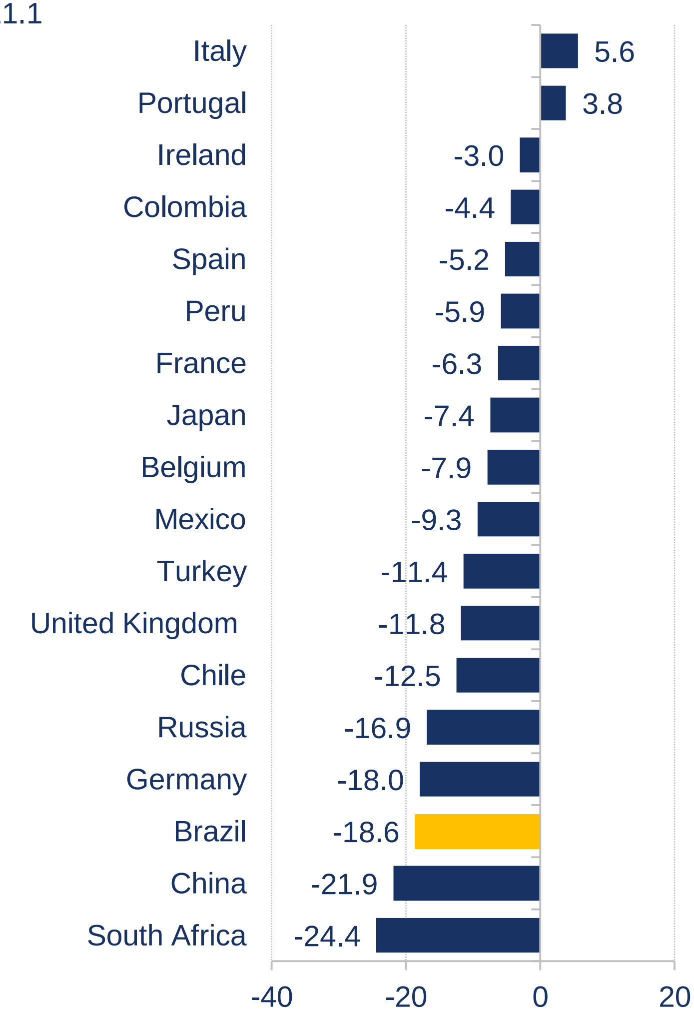
Efforts to reduce risks are successful

% Change in 1M ATM Implied Volatility*



BRL leads appreciation since the FX program*

CDS USD SR 5Y Corp - % Change since BCB's Announcement of Regular FX Intervention in 2013*



* From Aug 22 through Oct 2.

Source: BCB

1/ The Bloomberg U.S. Dollar Index tracks the performance of a basket of ten leading global currencies versus the U.S. Dollar (JPY, MXN, AUD, GBP, CAD, SGD, CHF, CNH, KRW and EUR).

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Glossary

BCB	Central Bank of Brazil
BM&F	Brazilian Exchange Company
CAD	Current Account Deficit
EME	Emerging countries
FDI	Foreign Direct Investment
FGV	Getúlio Vargas Foundation
Focus	Brazilian Market Survey sponsored by BCB
IBGE	Brazilian Institute of Geography and Statistics
IMF	International Monetary Fund
UMP	Unconventional Monetary Policy
UNCTAD	United Nations Conference on Trade and Development