

**BANCO CENTRAL DO BRASIL**

# **External Sector, Inflation and Activity: The Outlook for the Brazilian Economy in 2006**

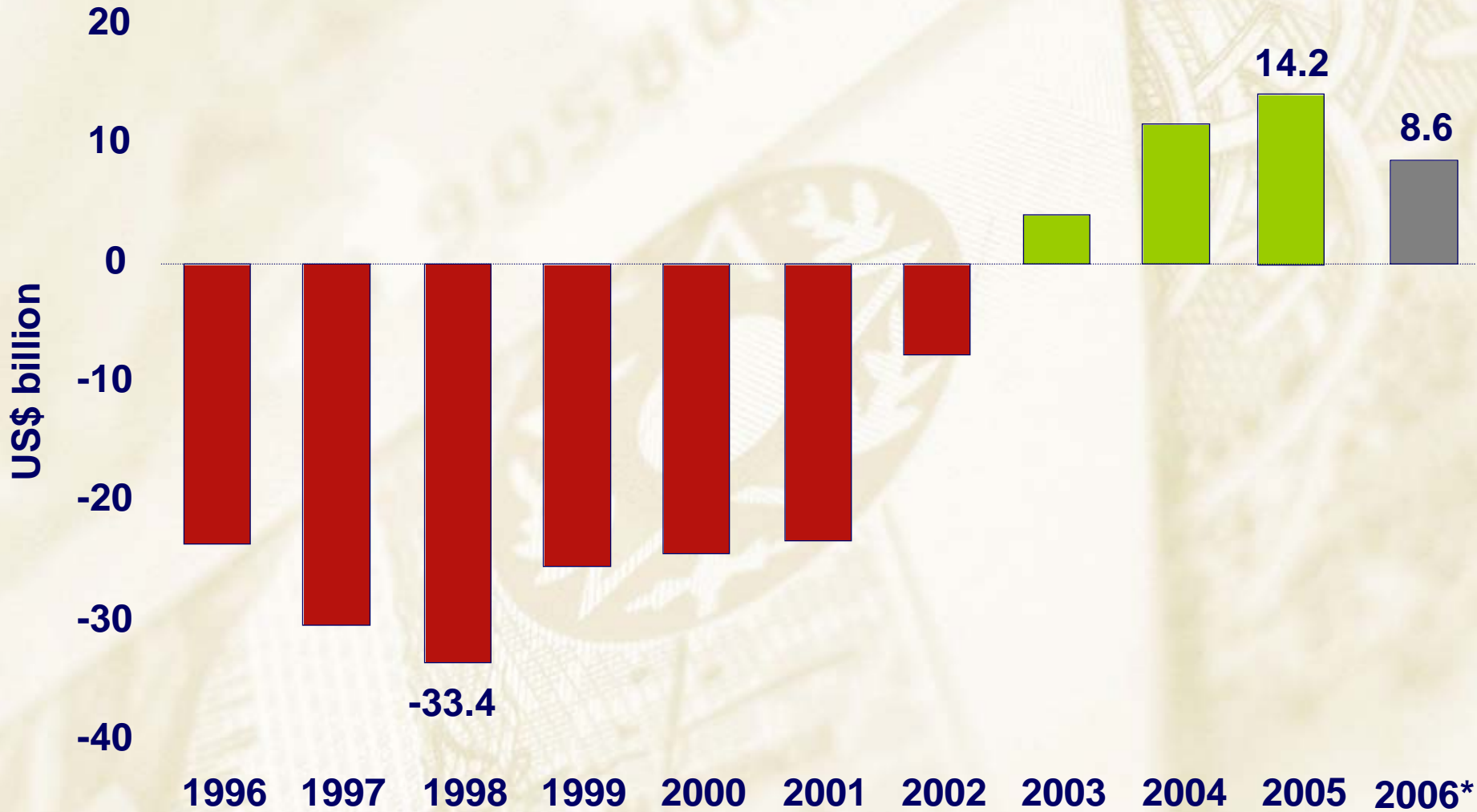
**Afonso Bevilaqua**

**April 2006**

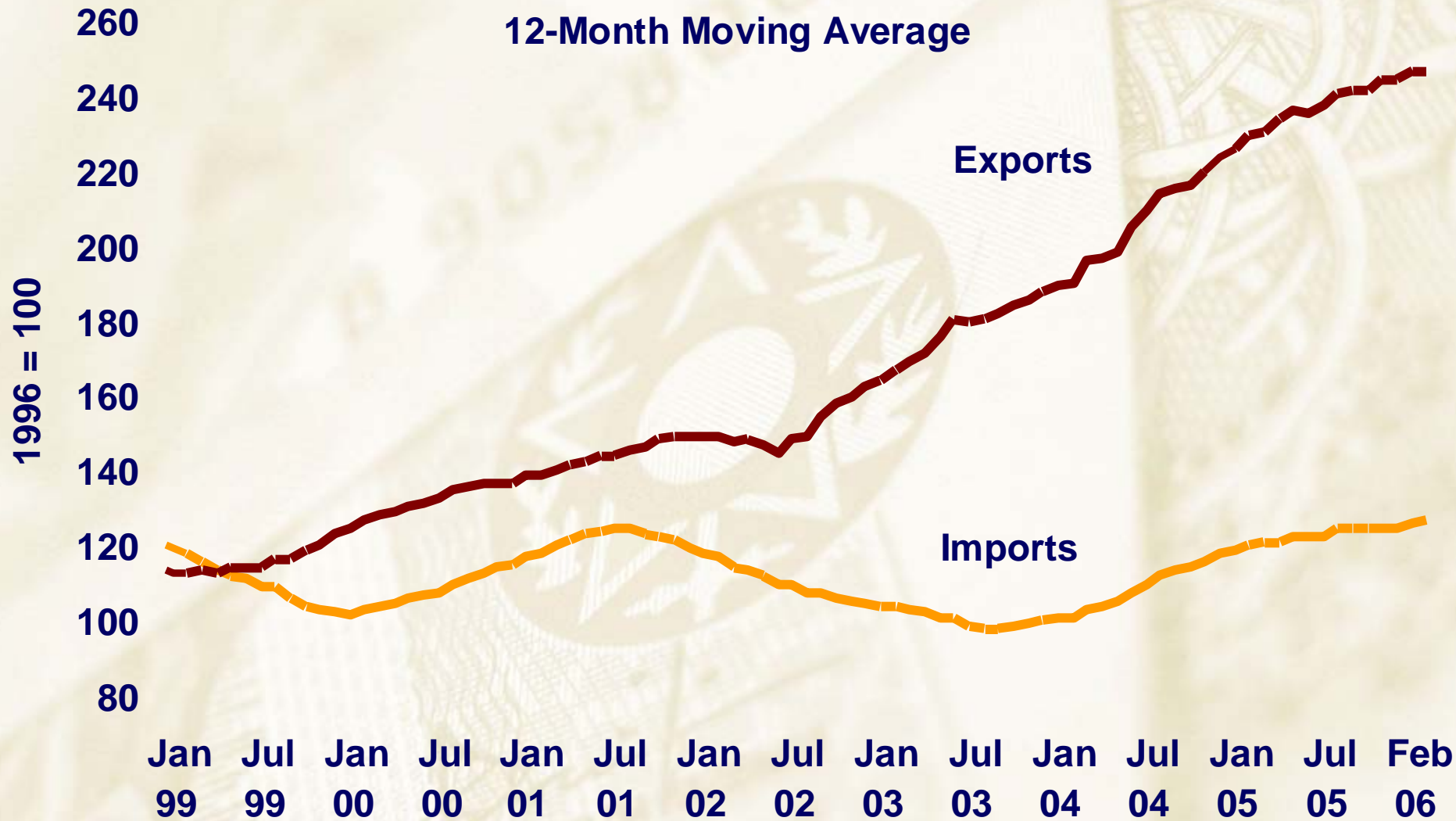
# Nominal Exchange Rate



# Current Account



# Exports and Imports Volume



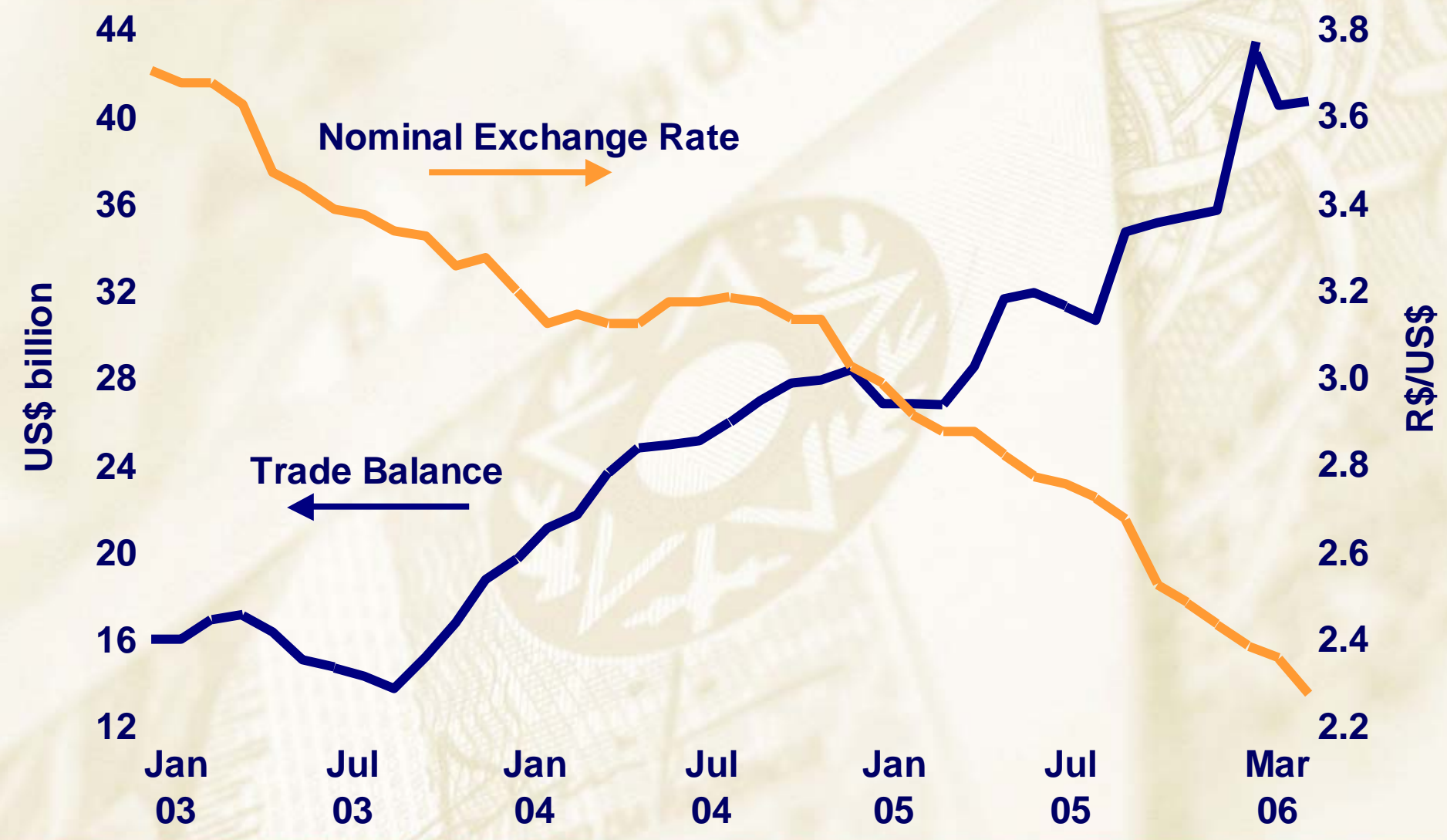
# Share of Brazilian Exports in World Trade



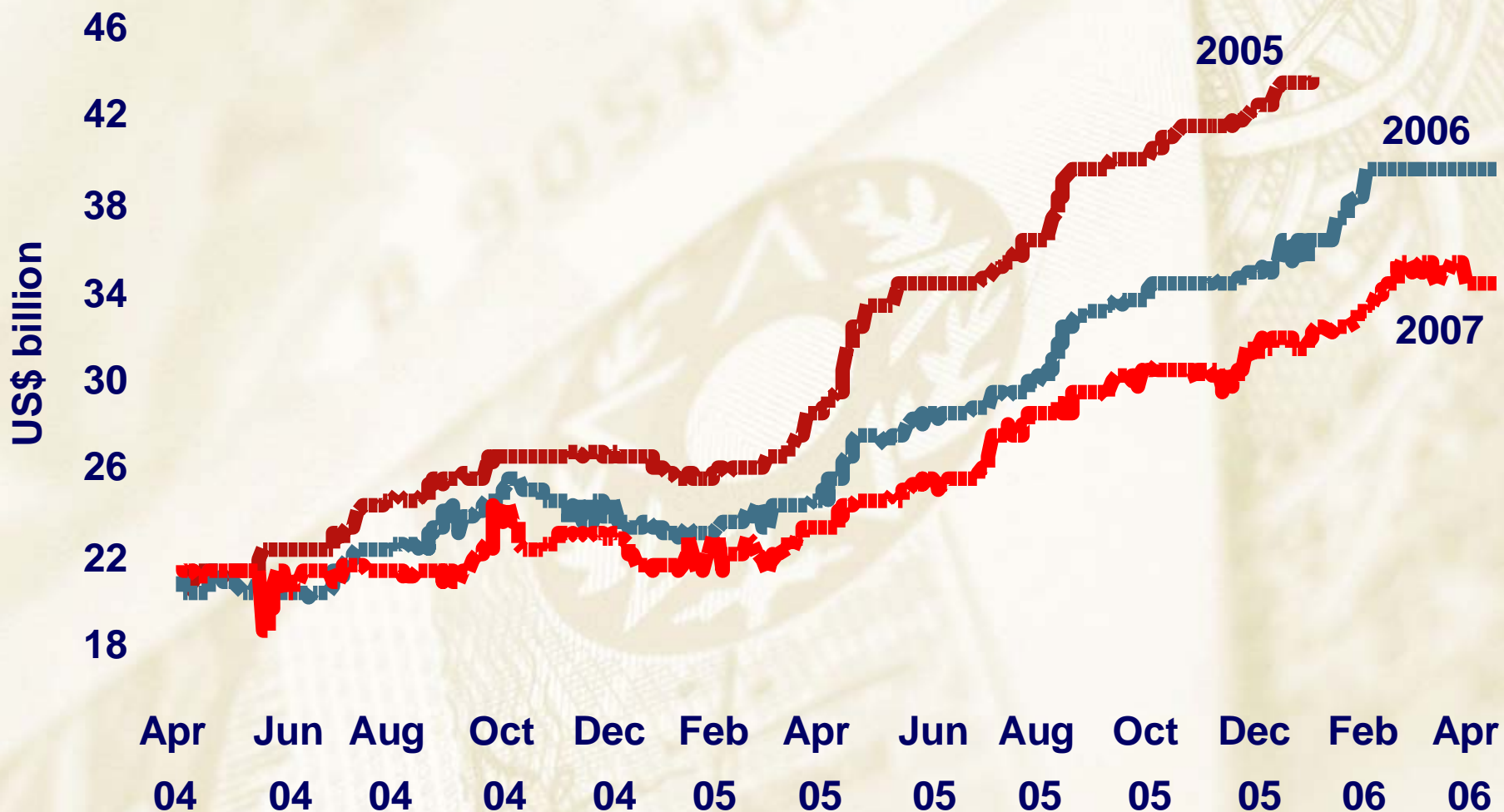
# Market Expectations for the Exchange Rate in Selected Months



# 12-Month Ahead Market Expectations for the Exchange Rate and the Trade Balance

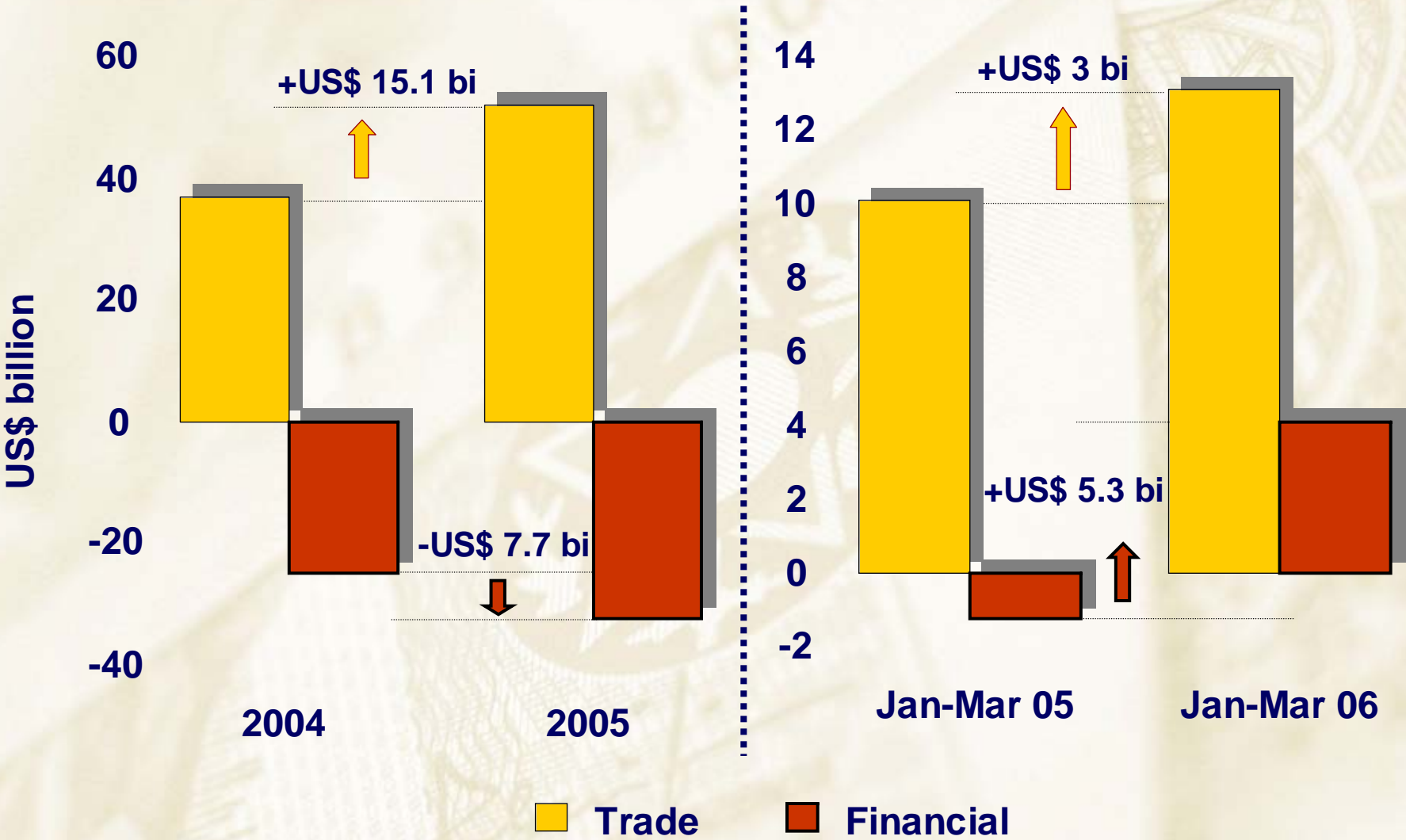


# Market Expectations for the Trade Balance

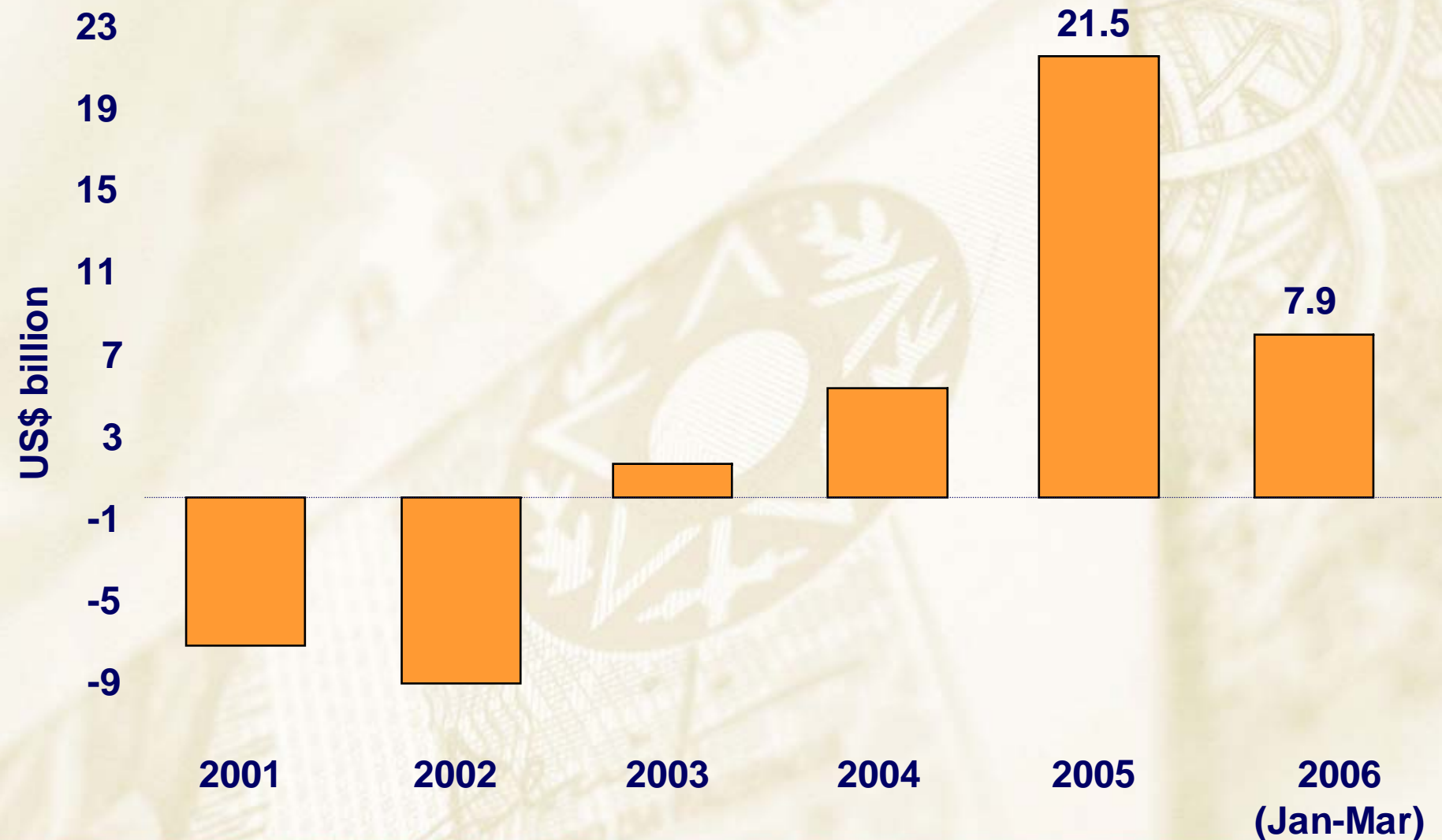




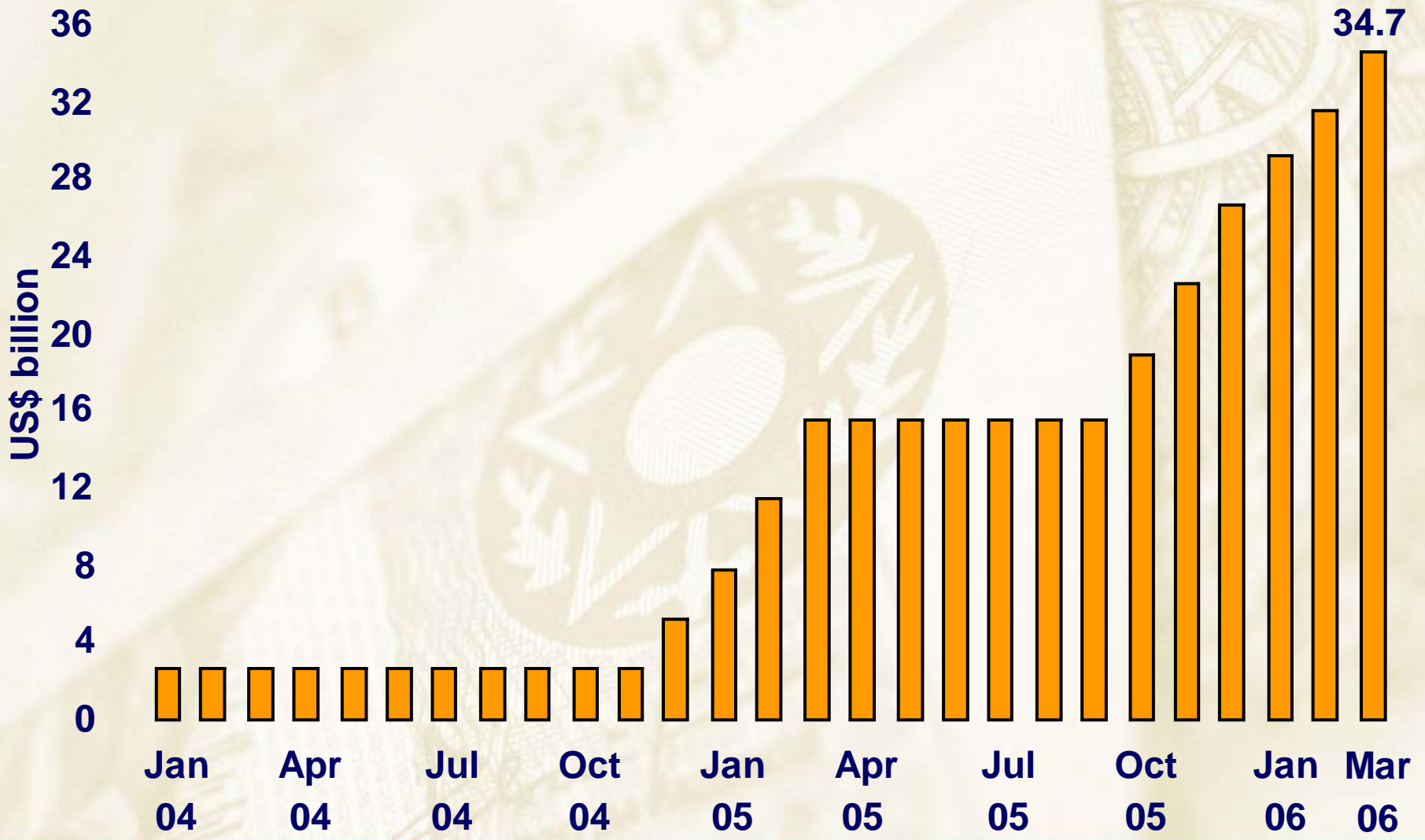
# Foreign Exchange Flows



# BCB's Acquisitions in the FX Market



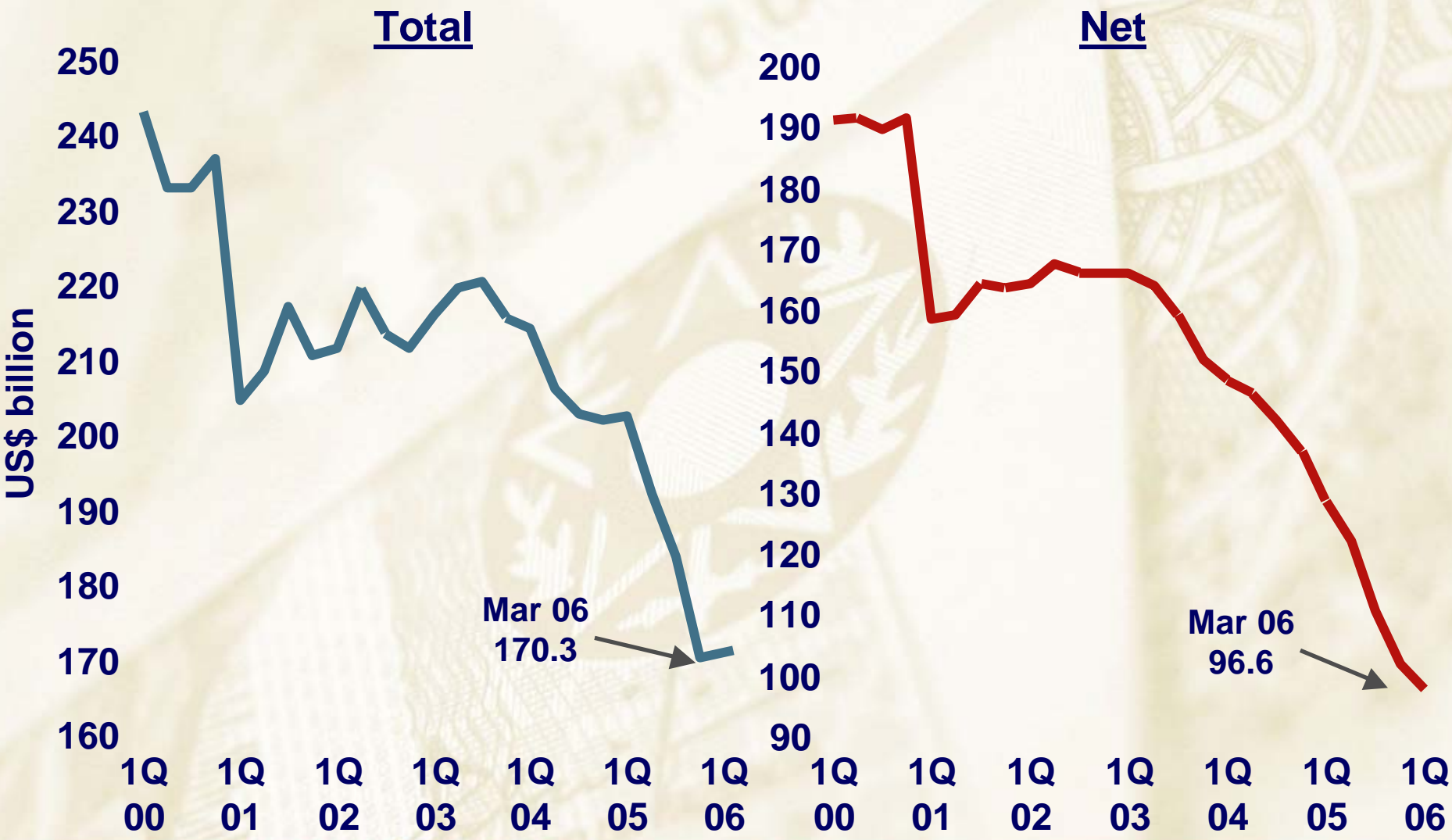
# BCB's Accumulated Acquisitions in the FX Market as of Jan/2004



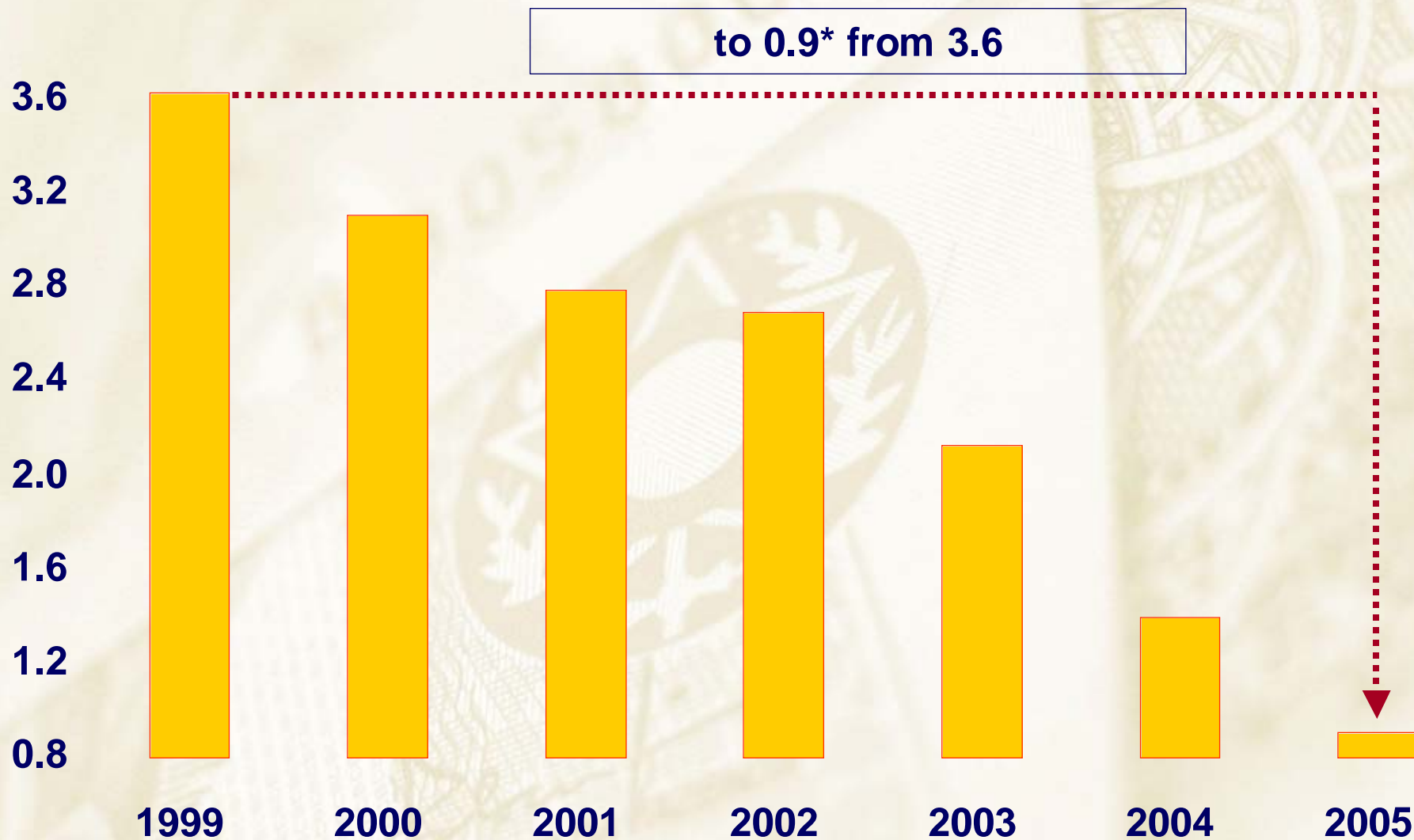
# International Reserves (ex-IMF Loans)



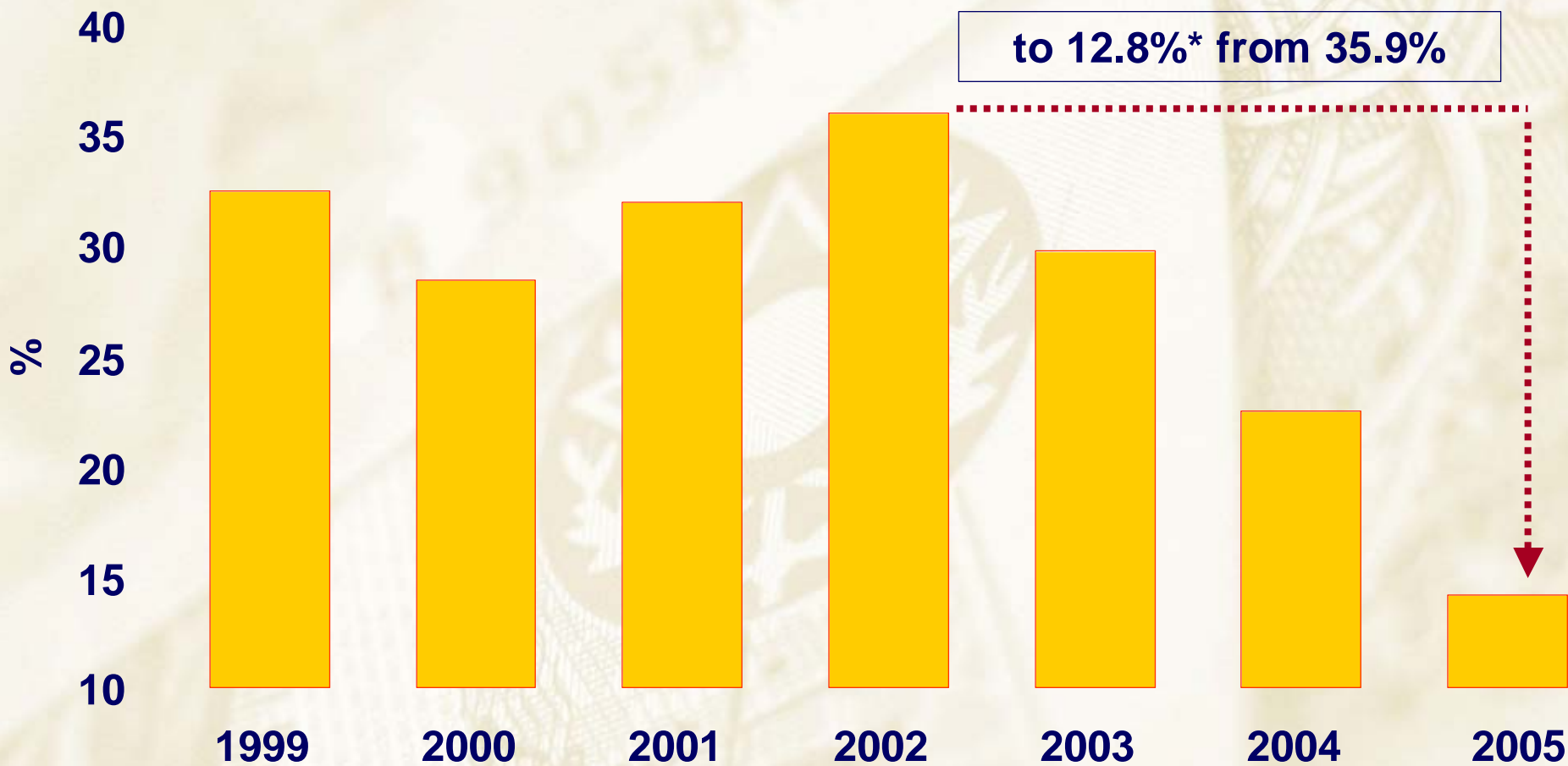
# External Debt



# Net External Debt/ Exports



# Net External Debt/GDP



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

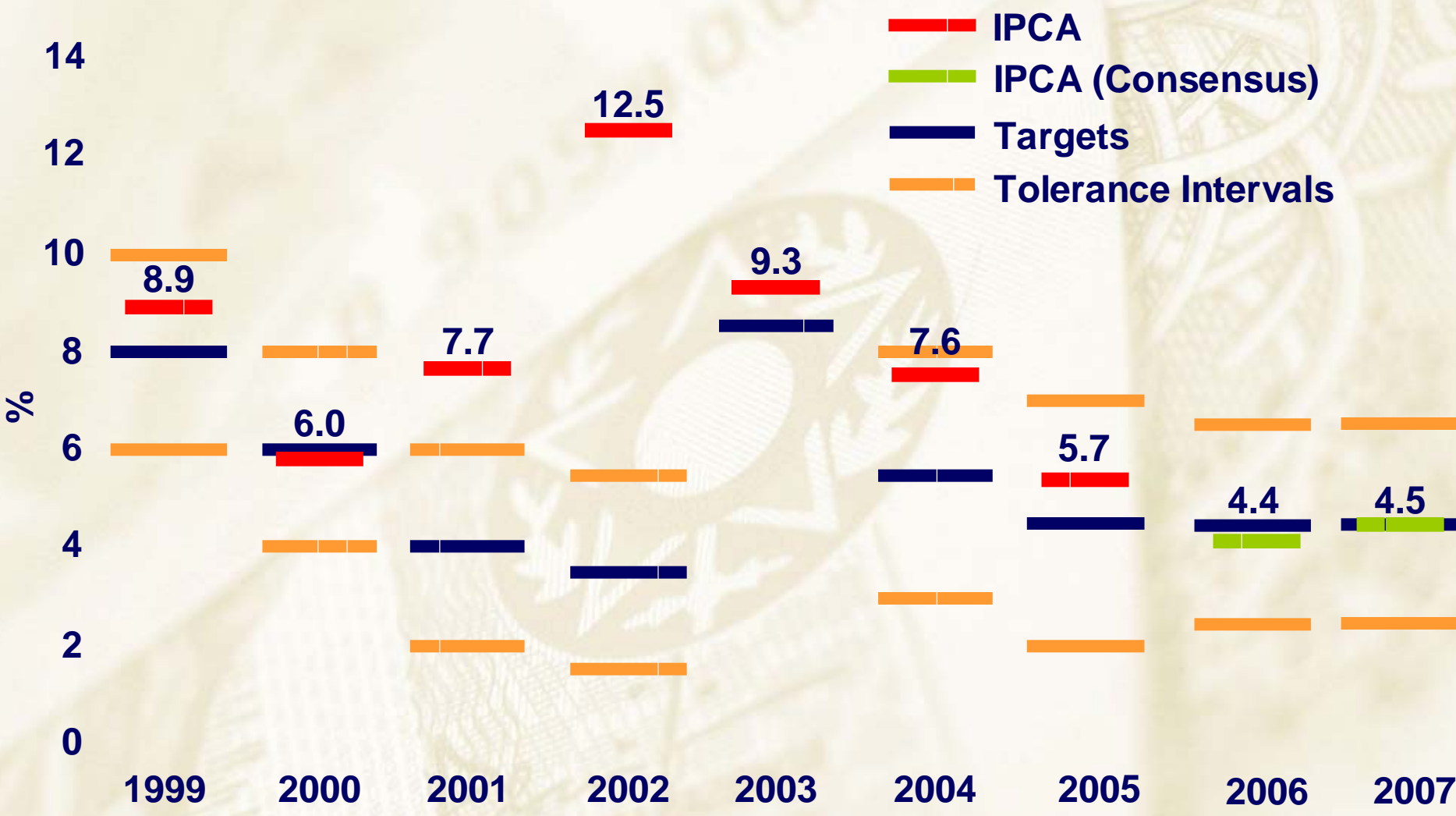




# Impact of a 1% FX Change on Debt/GDP Ratio



# Inflation Targets



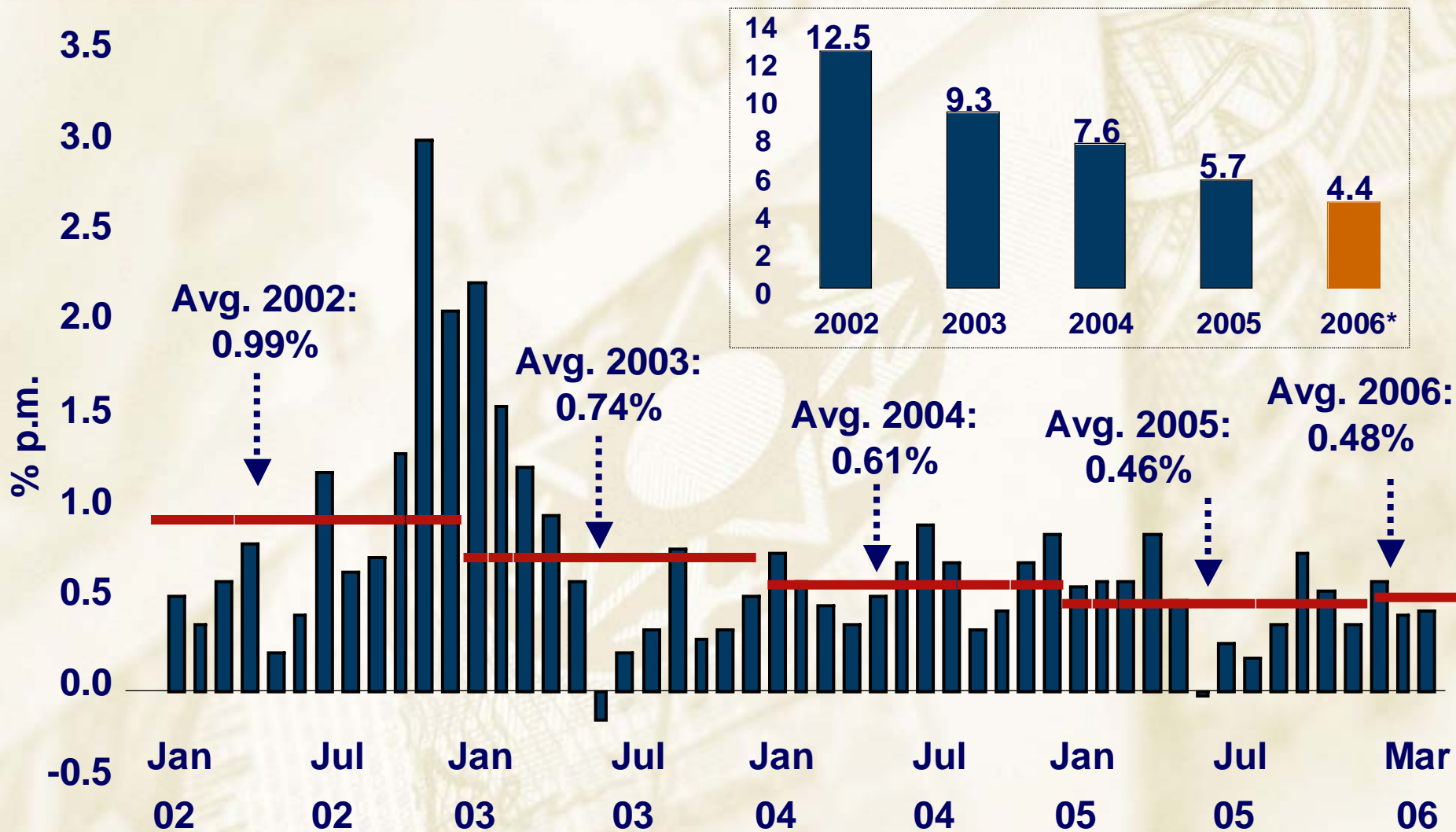
# Inflation Expectations vs. Targets (end of each year)

	Expectations year+1	Target year+1	Expectations year+2	Target year+2
1999	7.0	6.0	4.0	4.0
2000	4.3	4.0	3.8	3.5
2001	4.8	3.5	4.0	3.25*
2002	11.0	4.0**	8.0	3.75**
2003	6.0	5.5	5.0	4.5
2004	5.7	4.5	5.0	4.5
2005	4.5	4.5	4.5	4.5

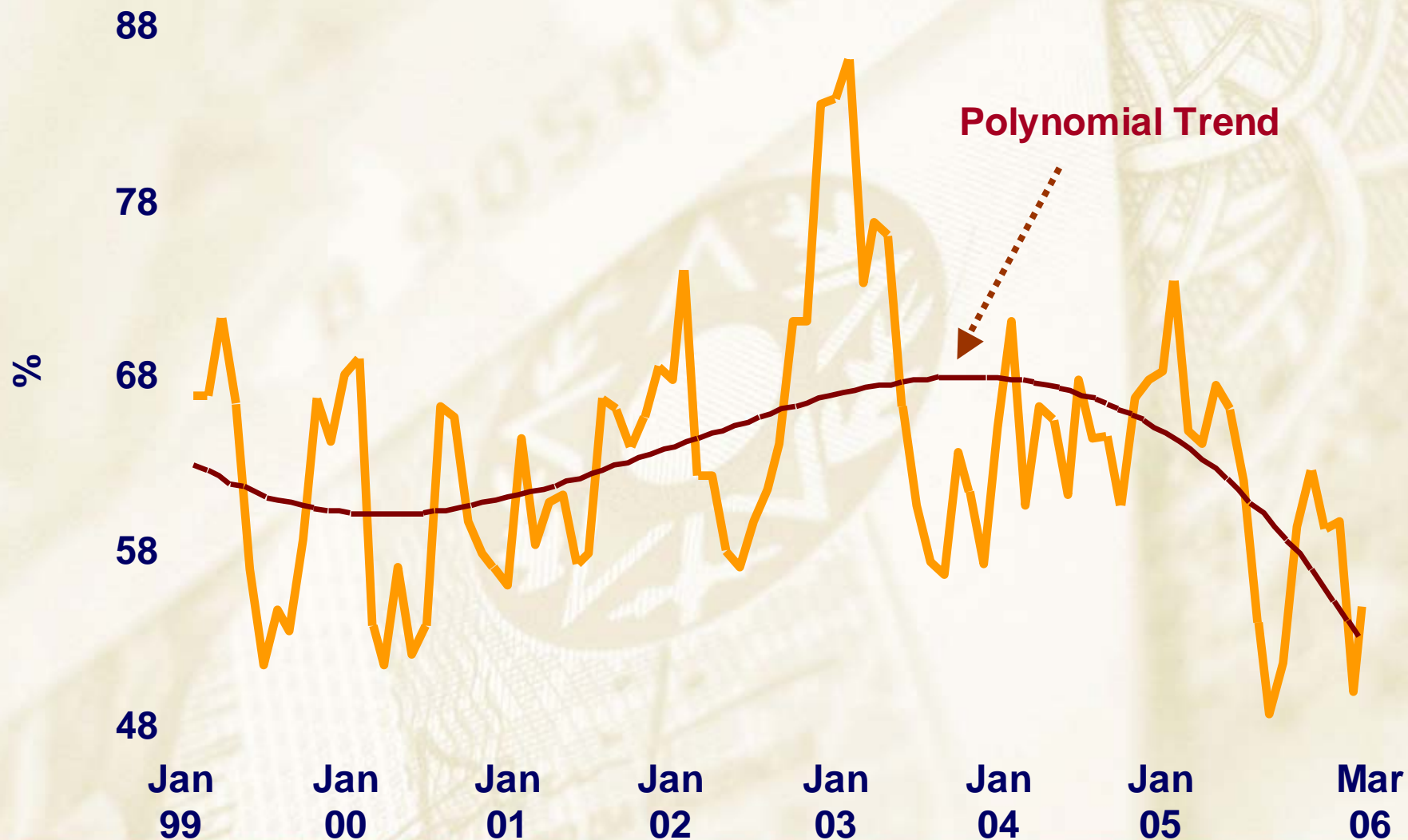
\*CMN target established on Jun 2001 (Resolution n. 2 842)

\*\* CMN target established on Jun 2002 (Resolution n. 2 972)

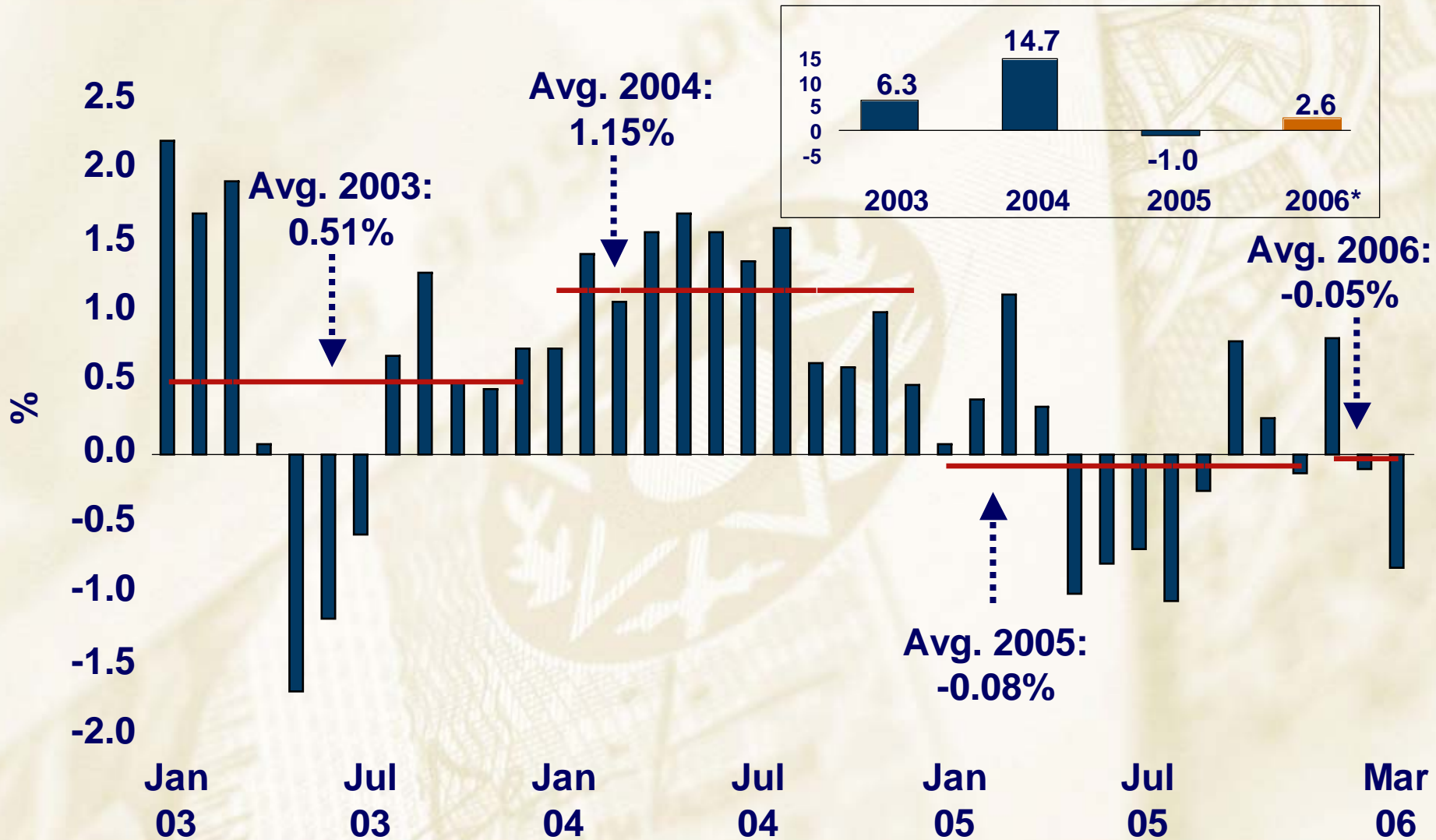
# IPCA Inflation



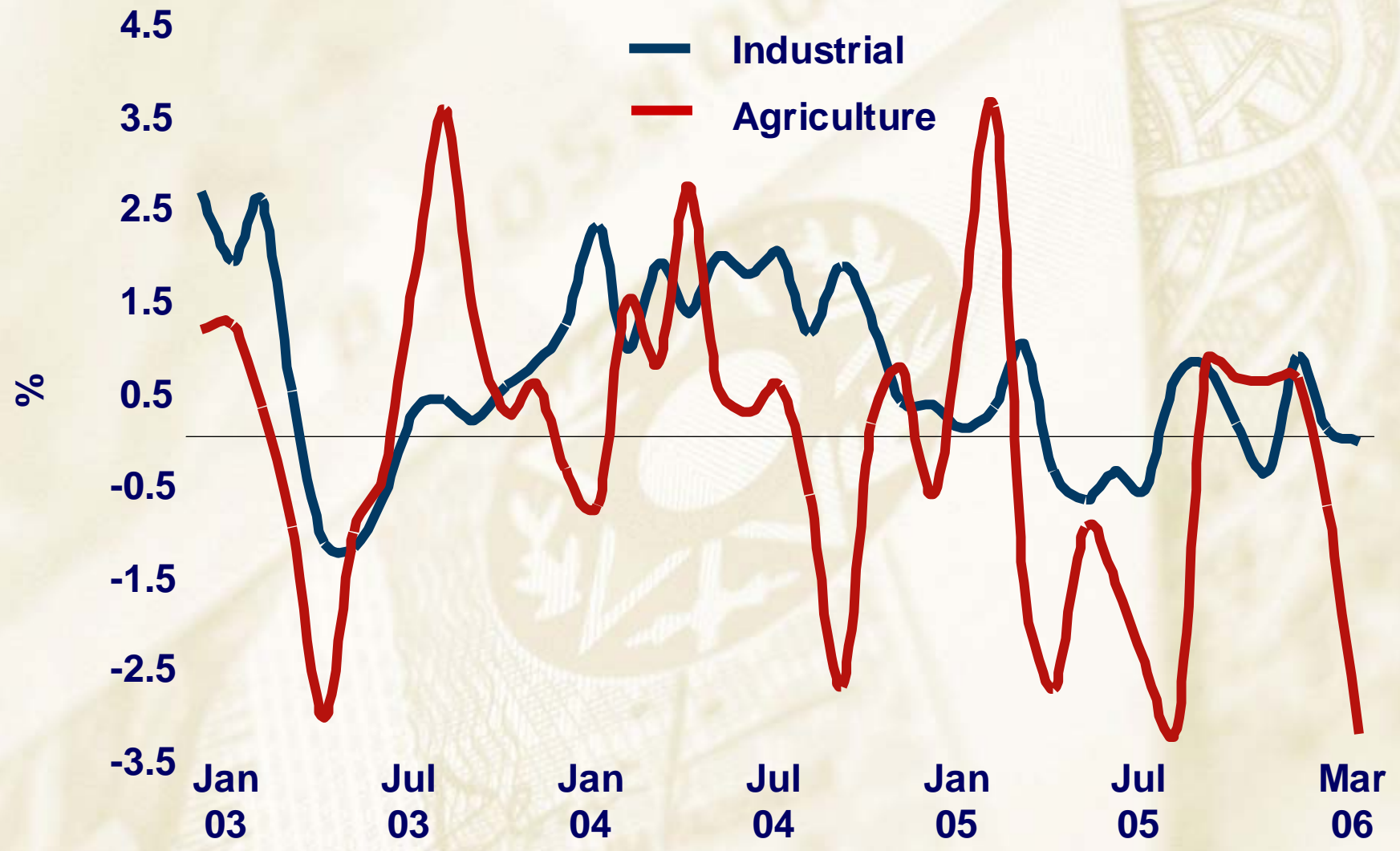
# IPCA: % of Items with Price Increases



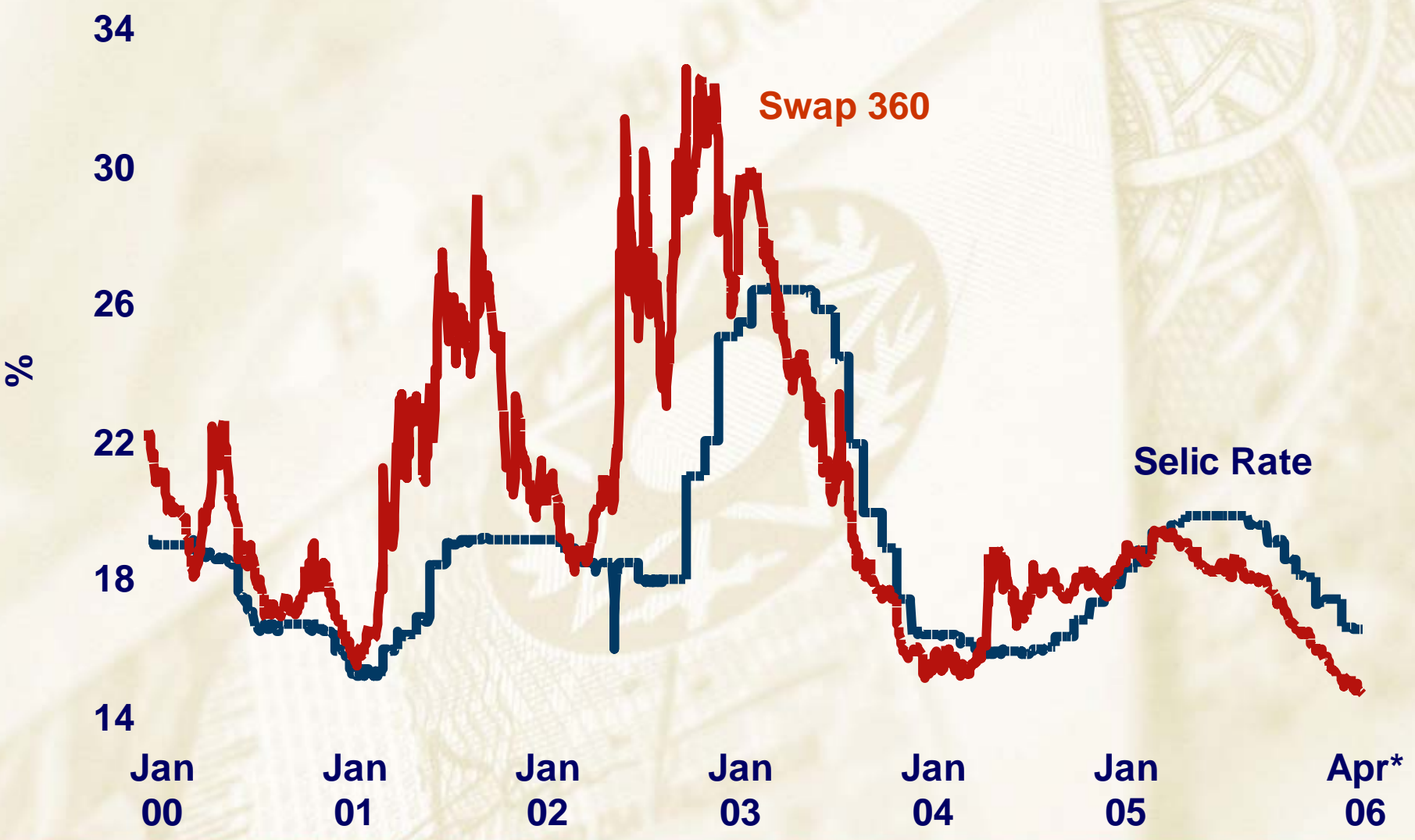
# Wholesale Prices Inflation (IPA)



# Industrial x Agriculture Wholesale inflation

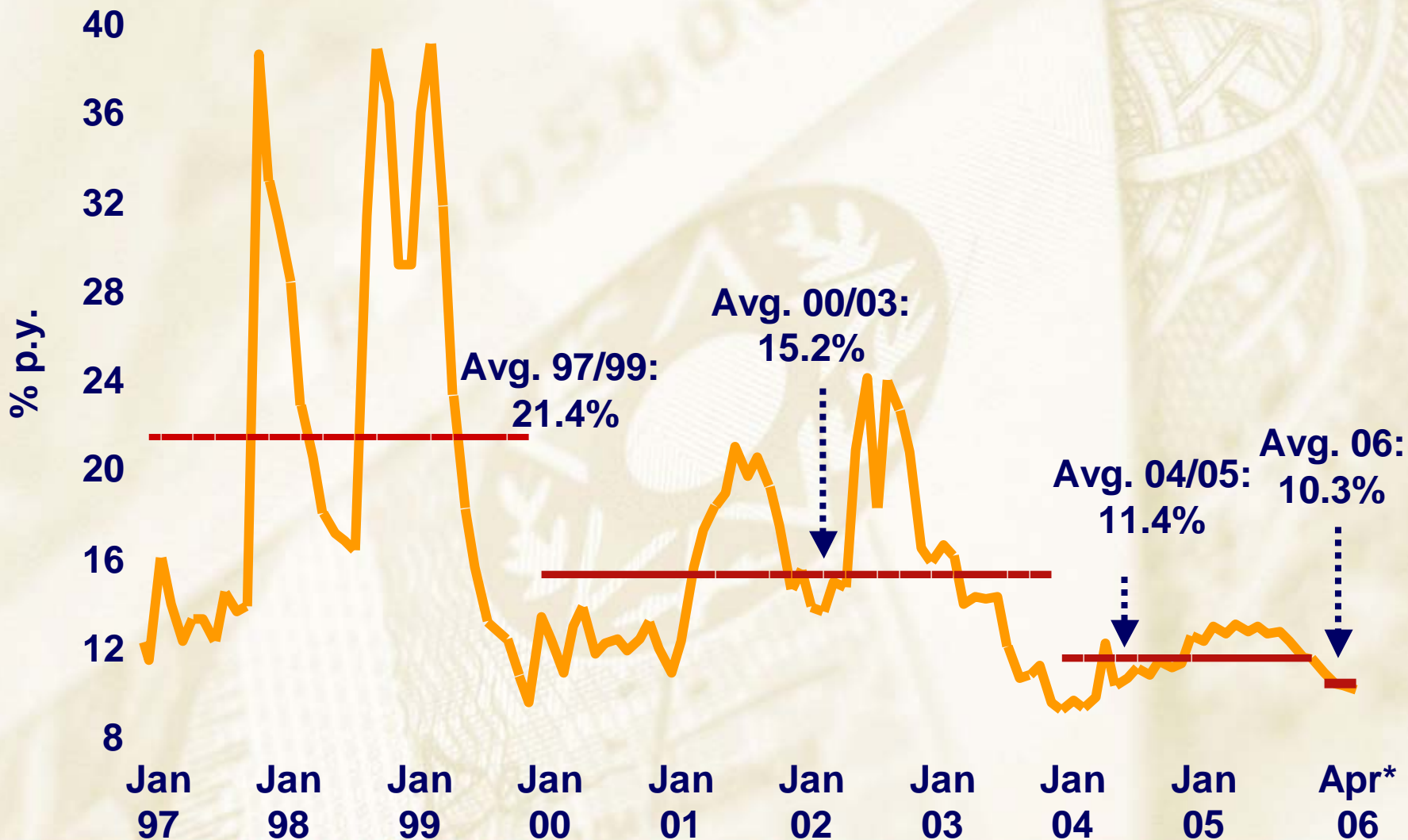


# Interest Rate (Selic and 360-day Swap)

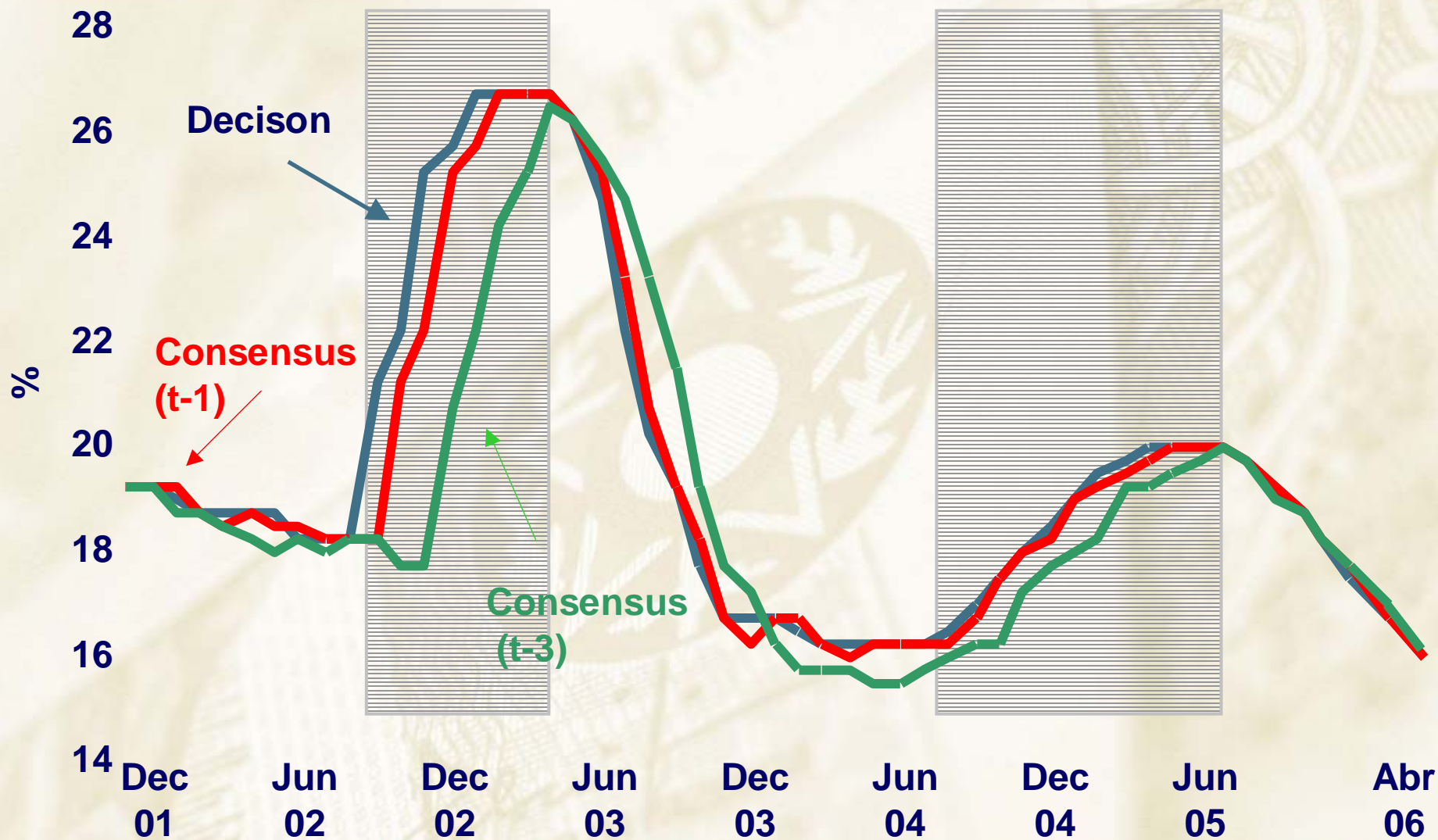




# Real Interest Rate (360-day Swap)

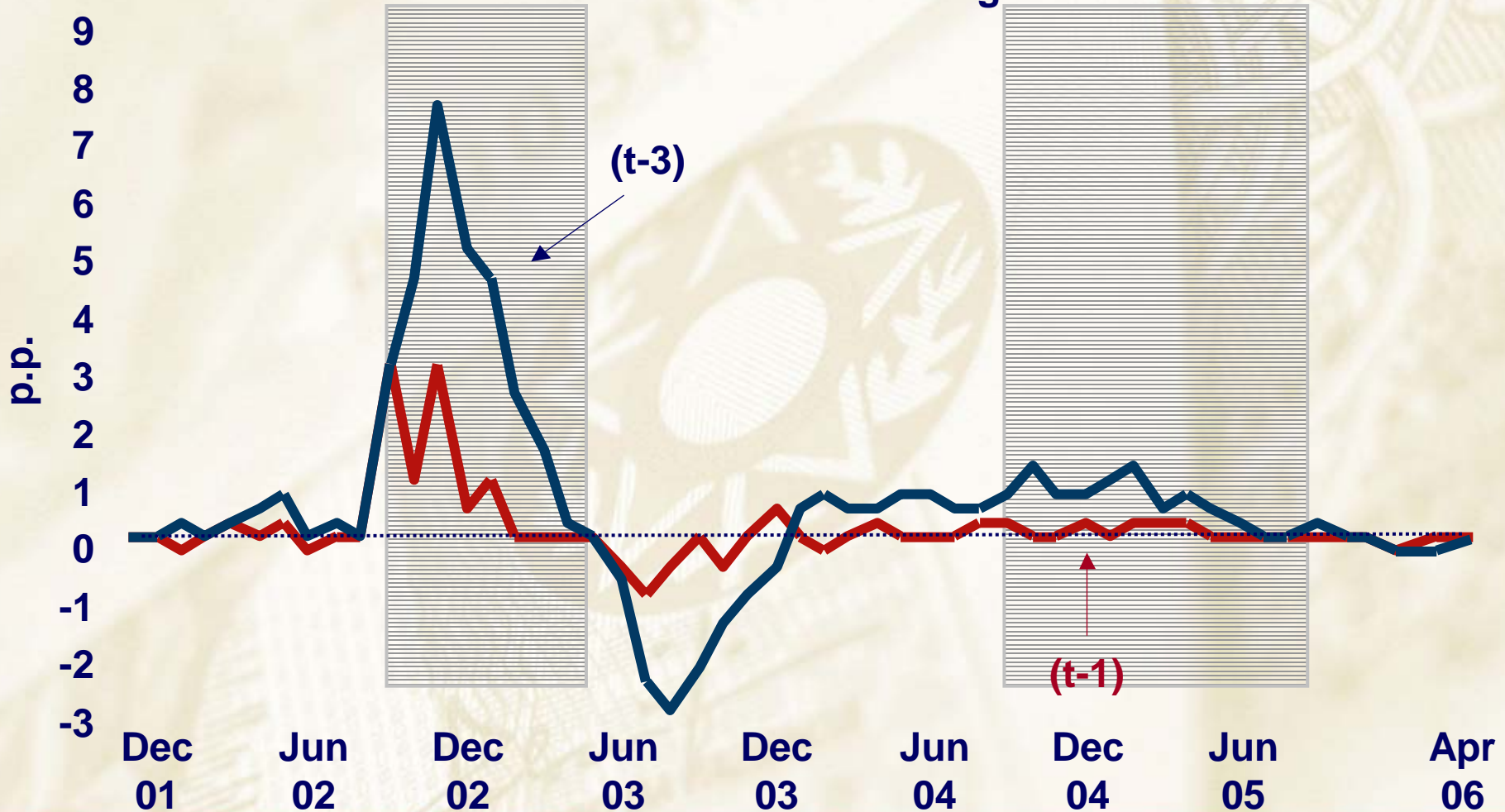


# Monetary Policy Predictability : Decision vs. Consensus (1 and 3-Month Lags)\*



# Monetary Policy “Surprises”

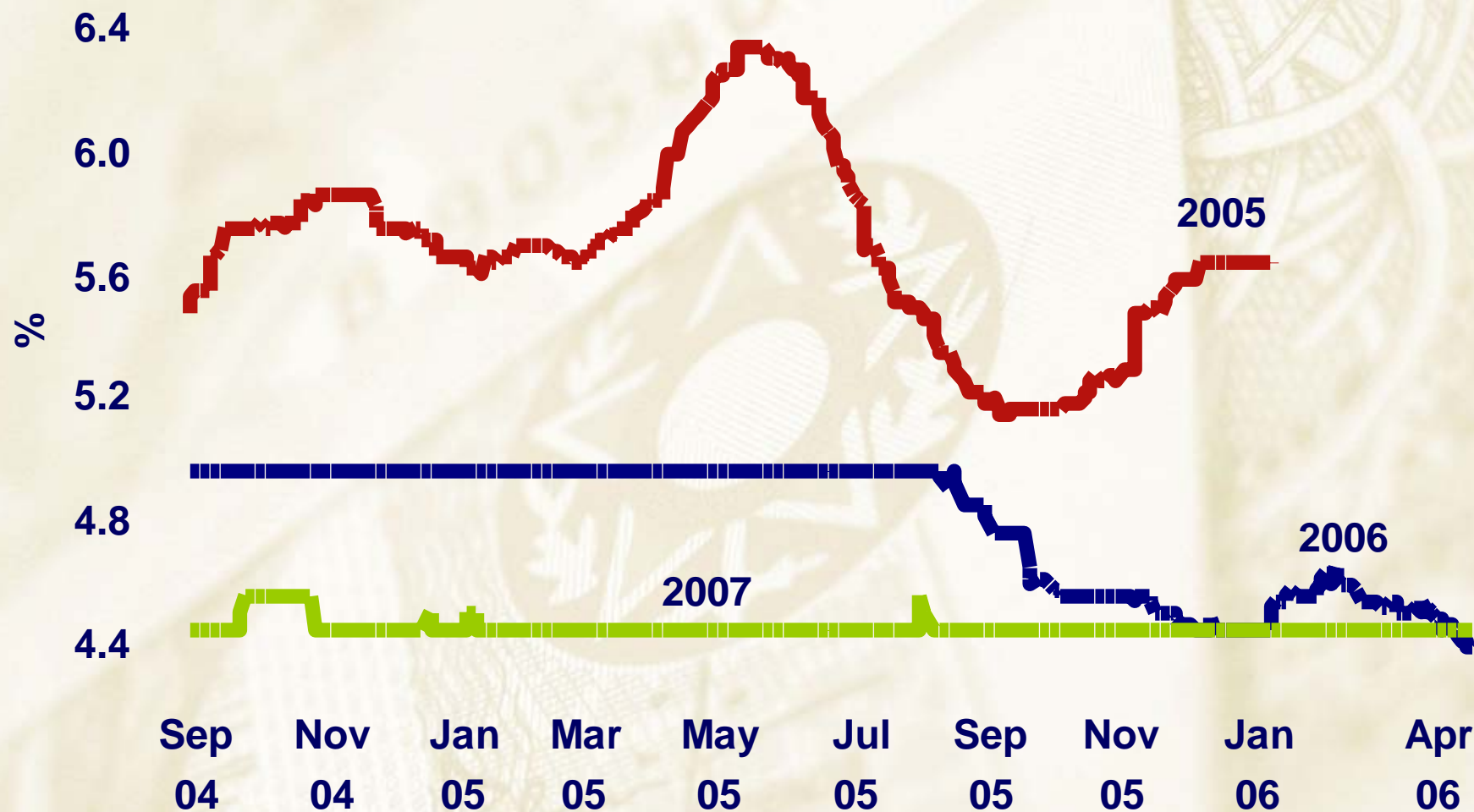
difference between interest rate decisions and market consensus  
with 1- and 3-month lags



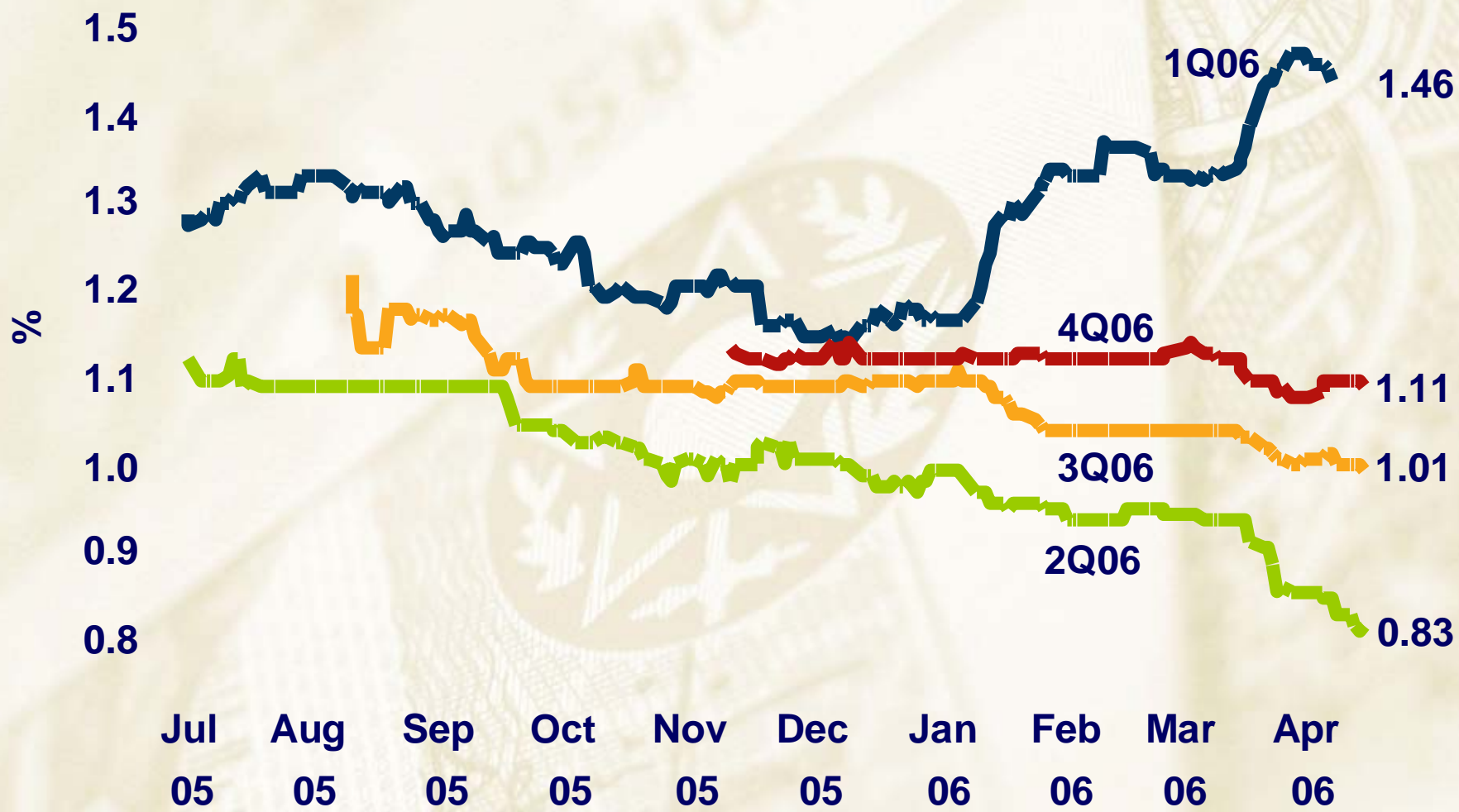
# IPCA Inflation in 12 Months



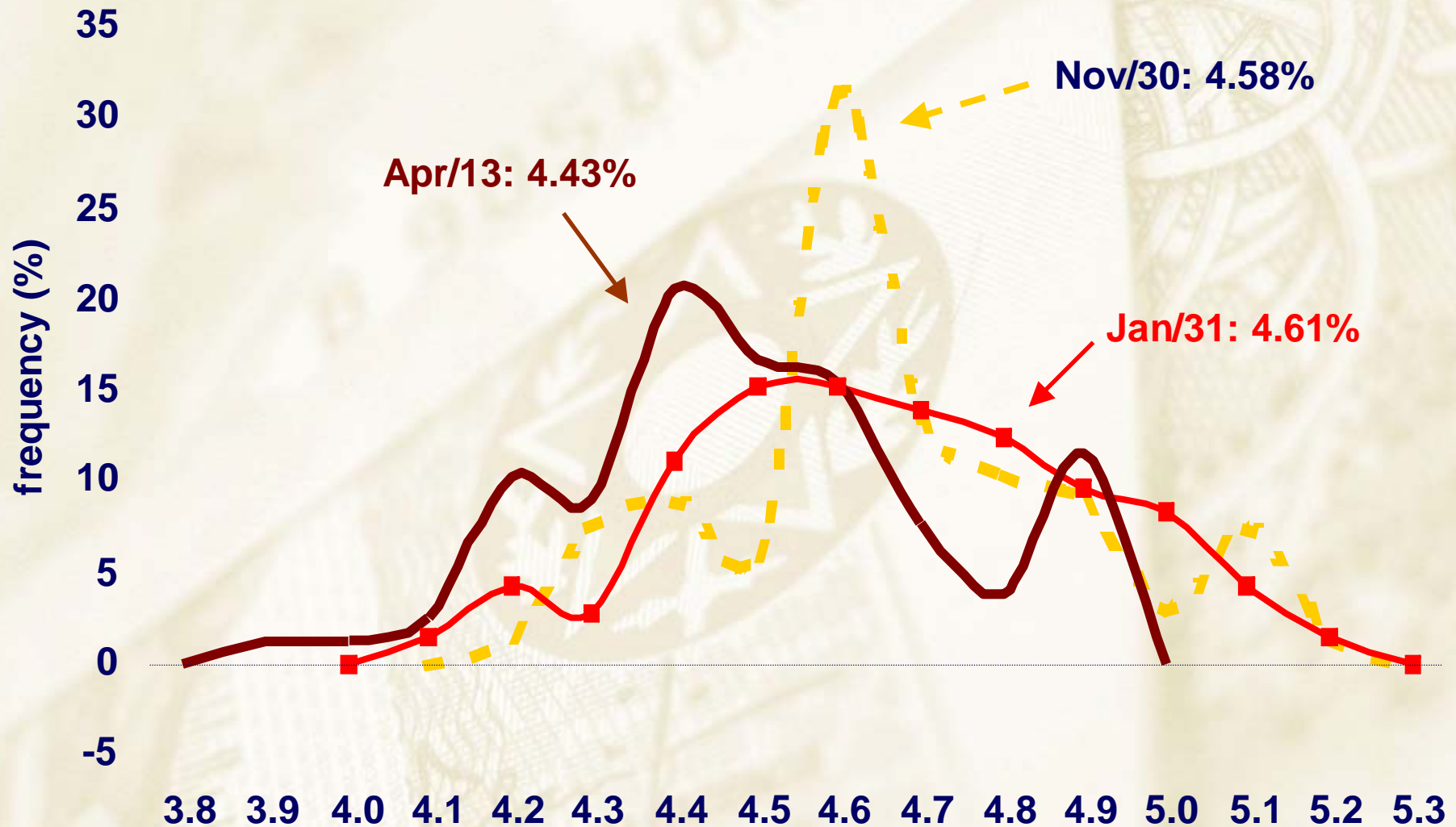
# Market Inflation Expectations



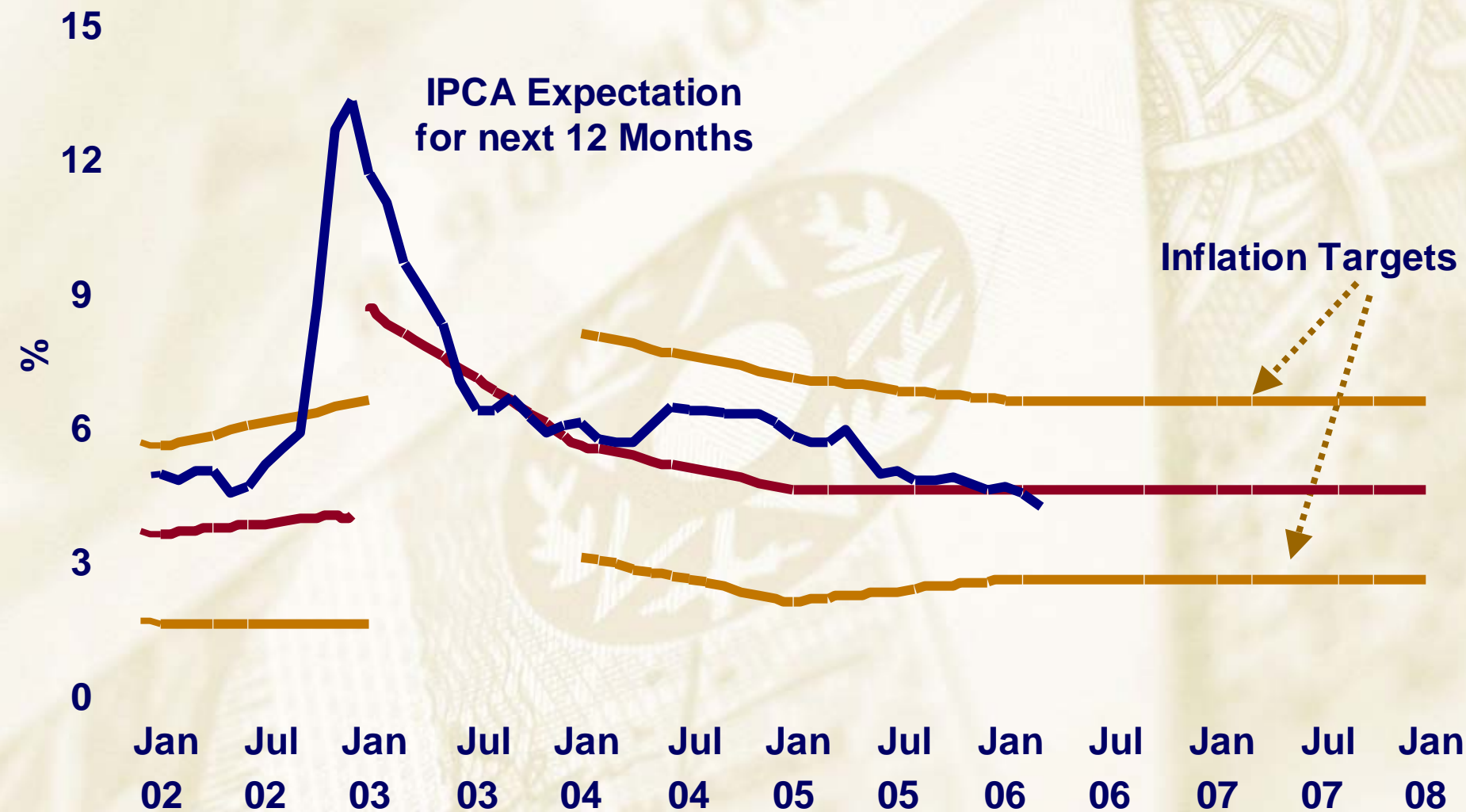
# Market Inflation Expectations for 2006: Quarterly Decomposition



# Median and Distribution of Market Inflation Expectations for 2006

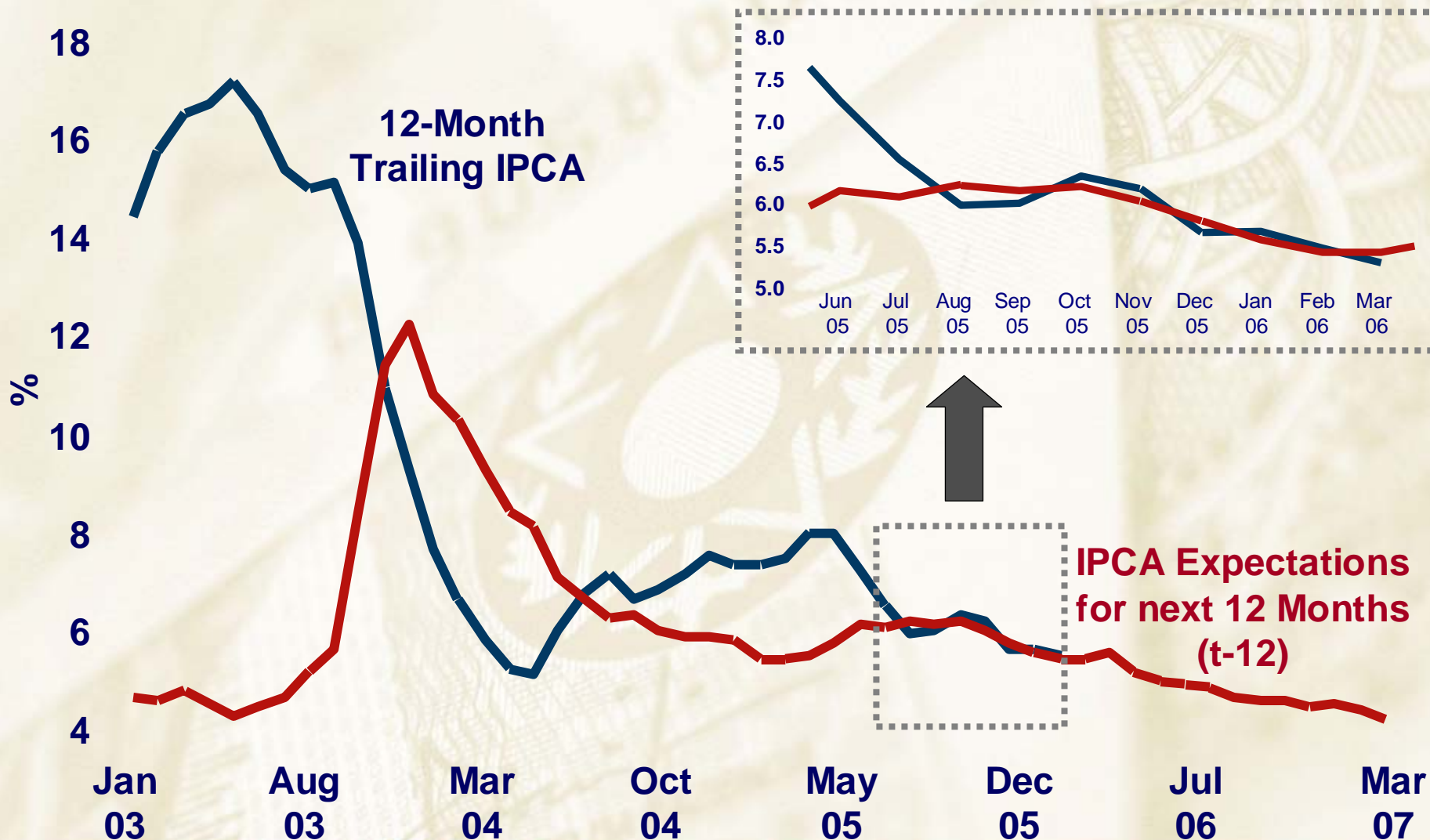


# Expectations vs. Inflation Targets

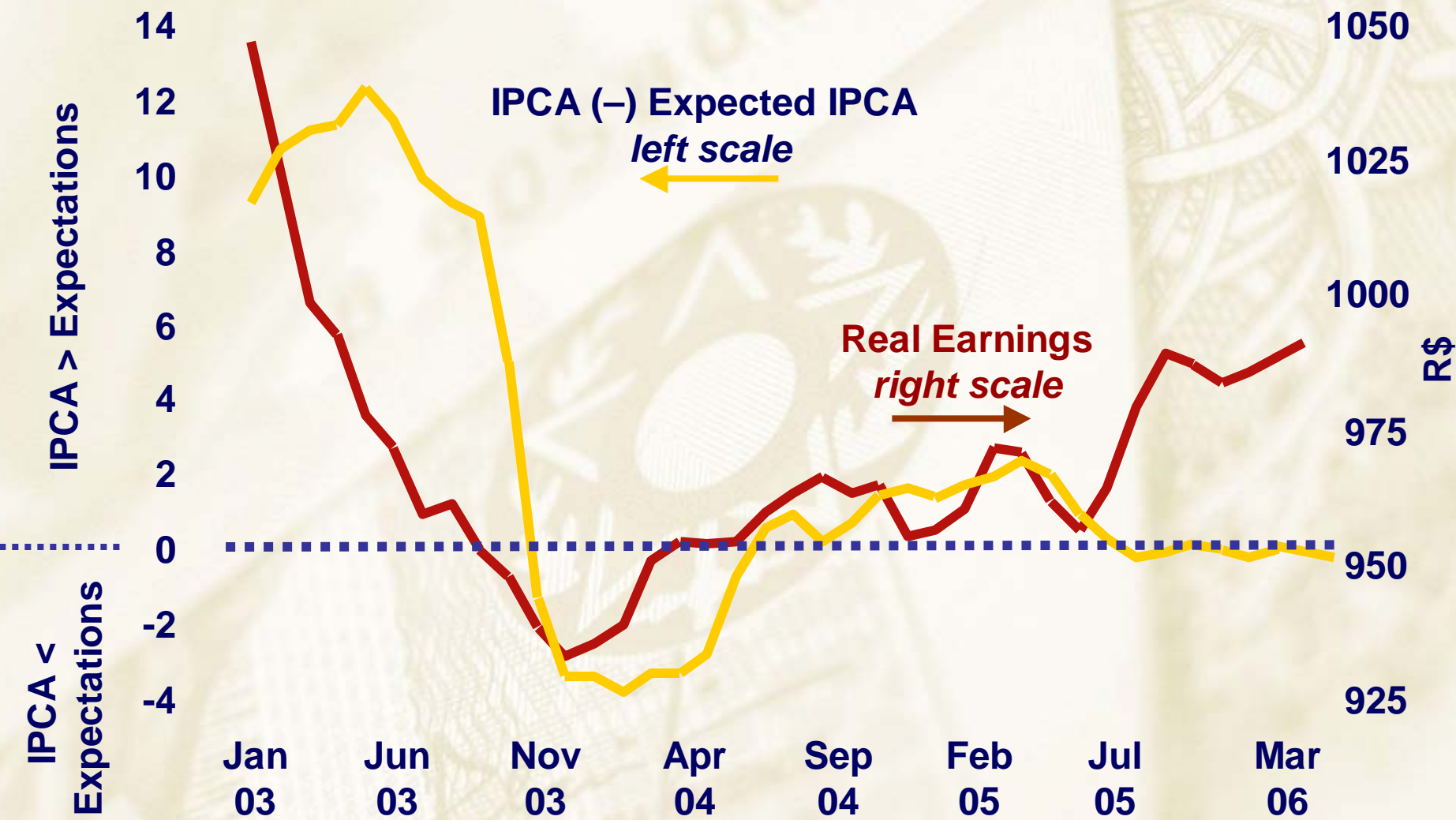




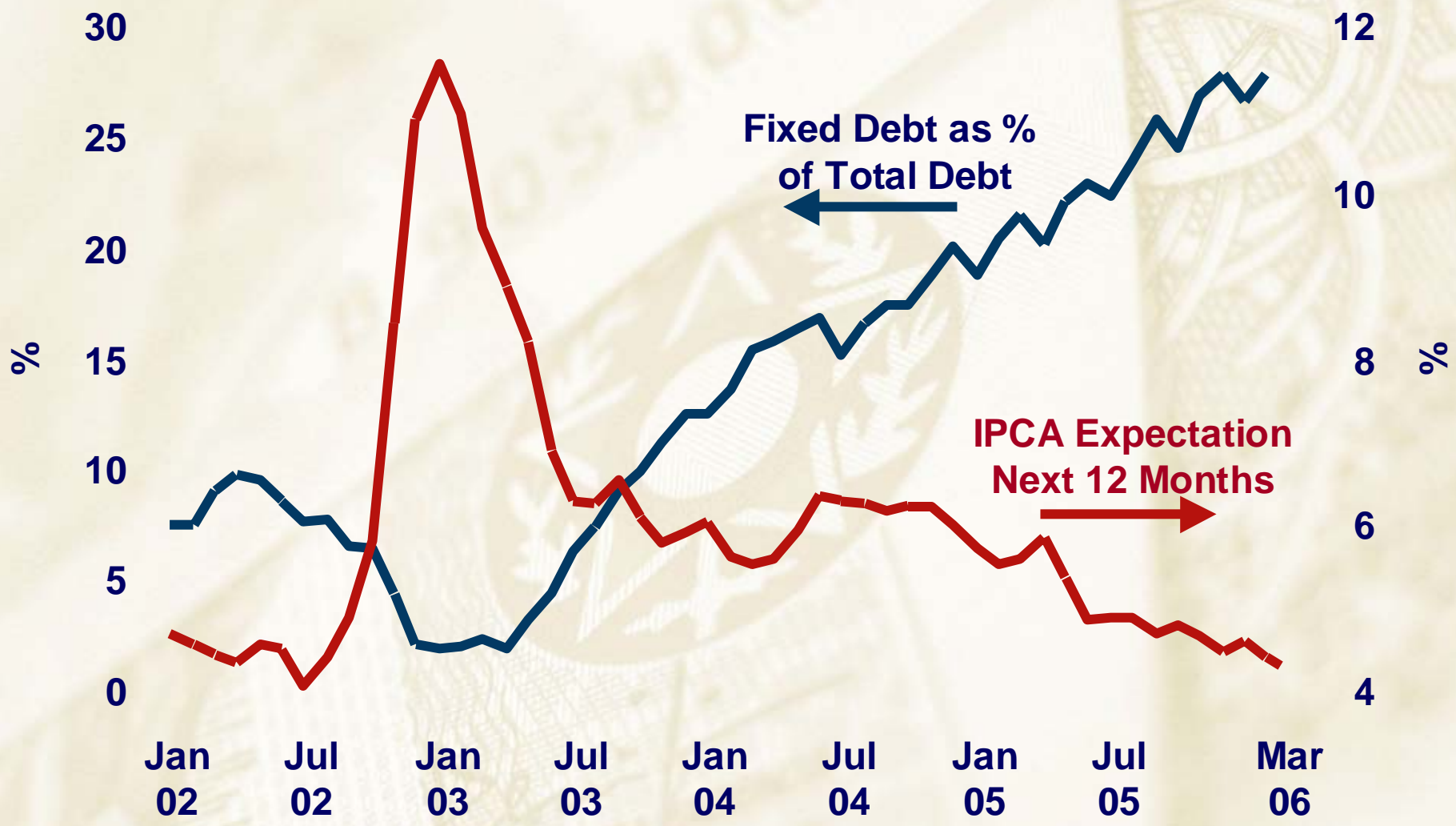
# Expectations vs. Inflation



# Average Real Earnings vs. Inflation "Surprise"

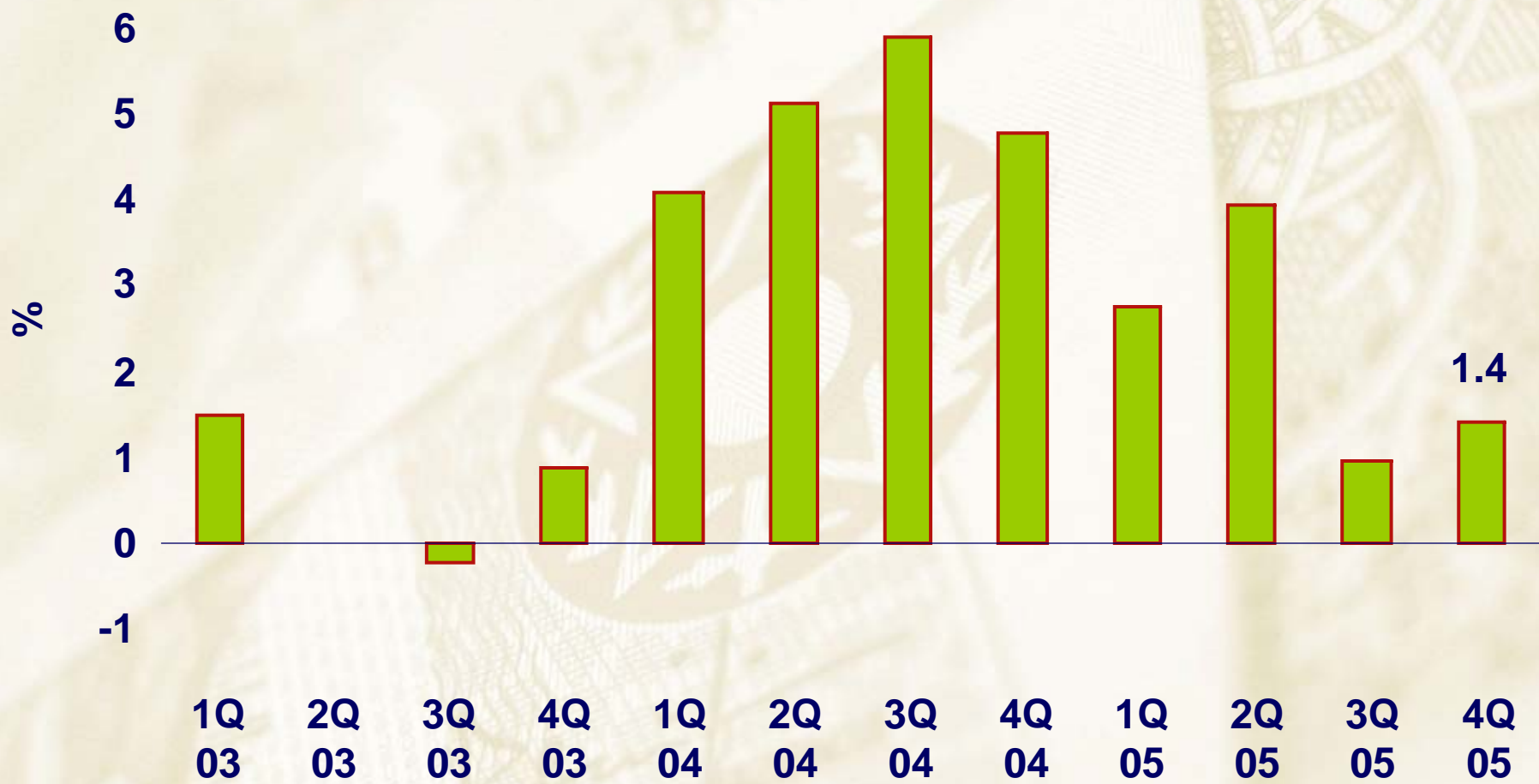


# Inflation Expectations vs. Share of Fixed Public Debt in Total



# GDP Growth

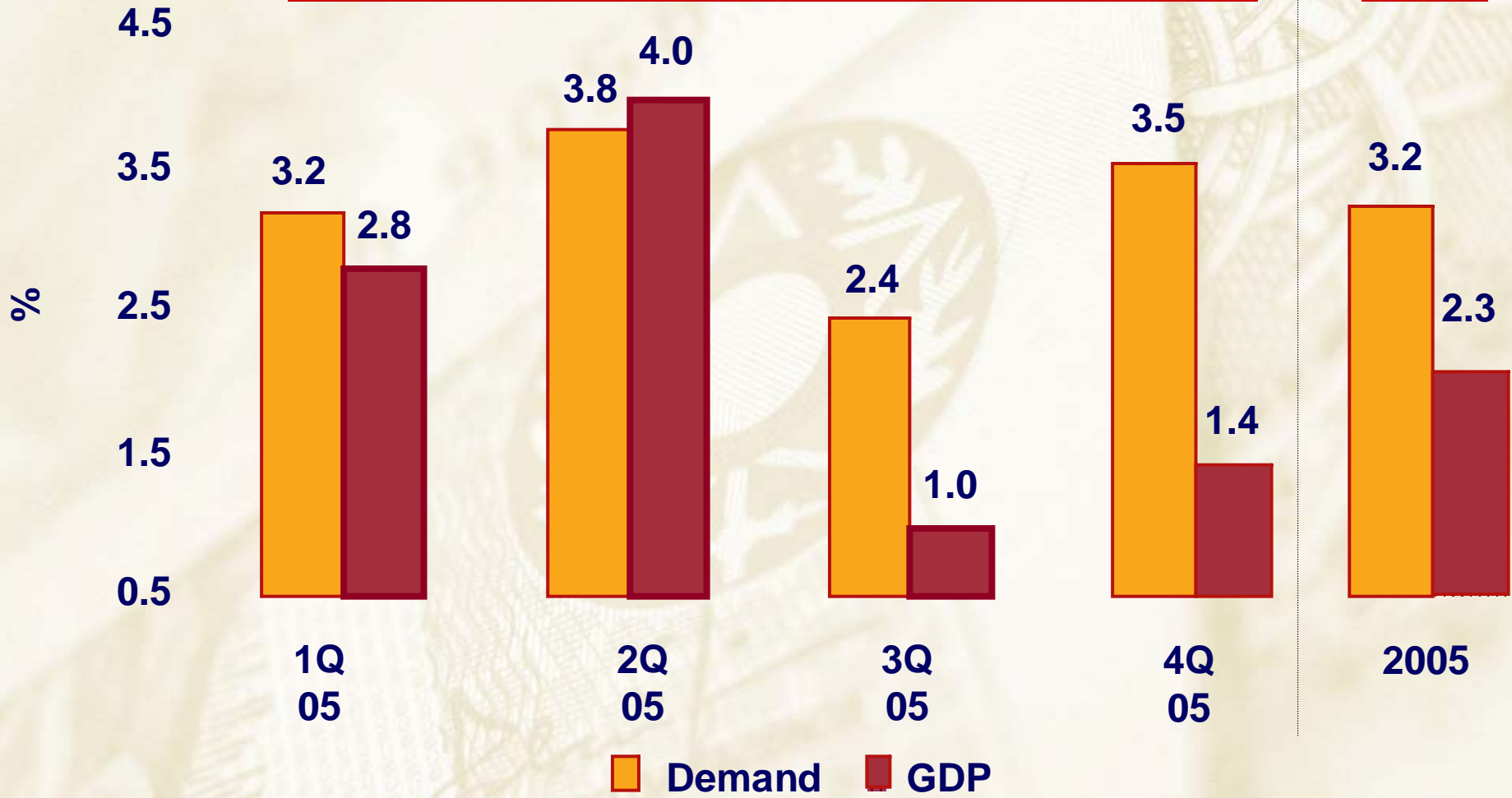
compared to same quarter of previous year



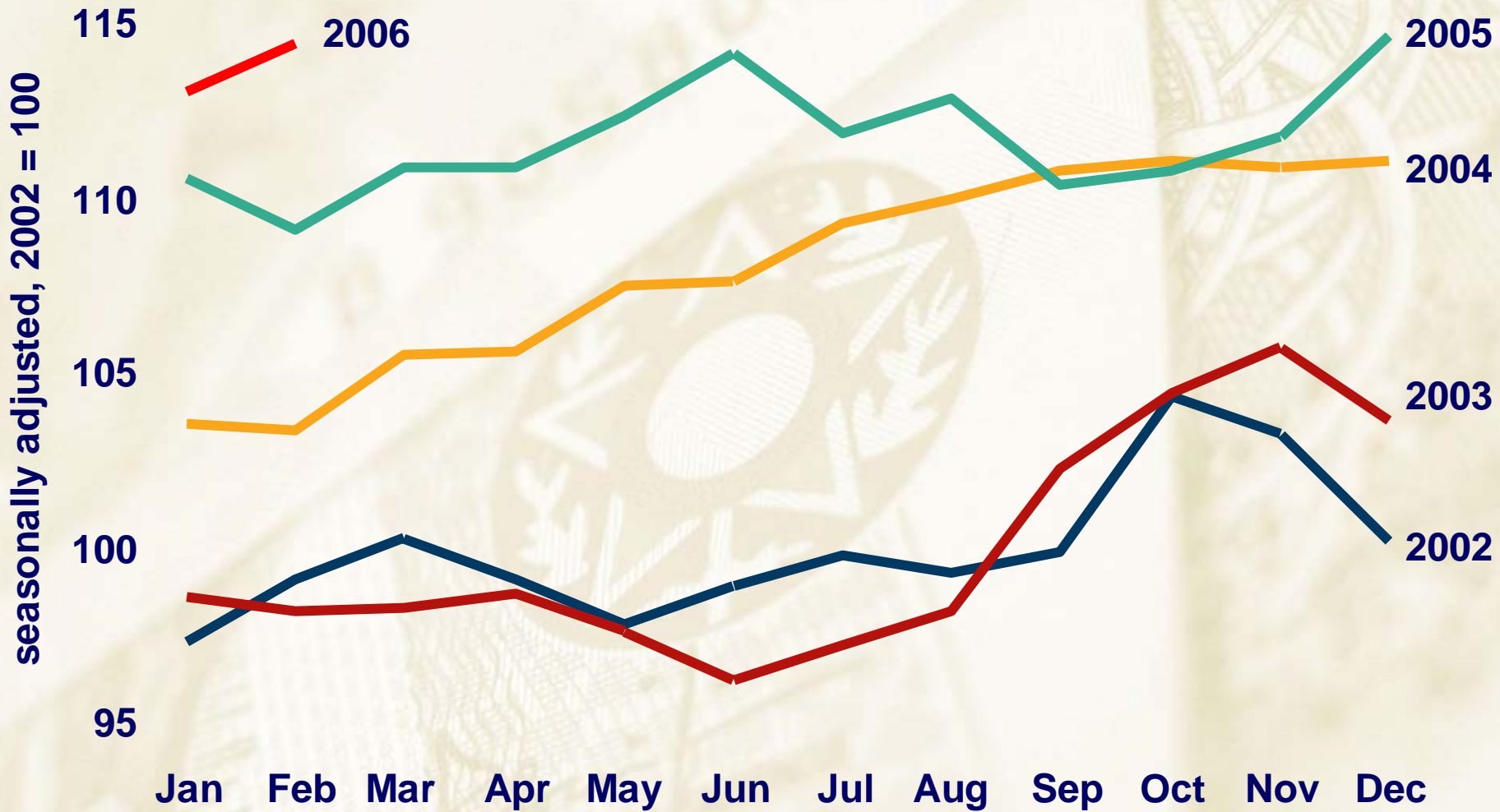
# Supply vs. Demand

quarter, compared to same quarter of previous year

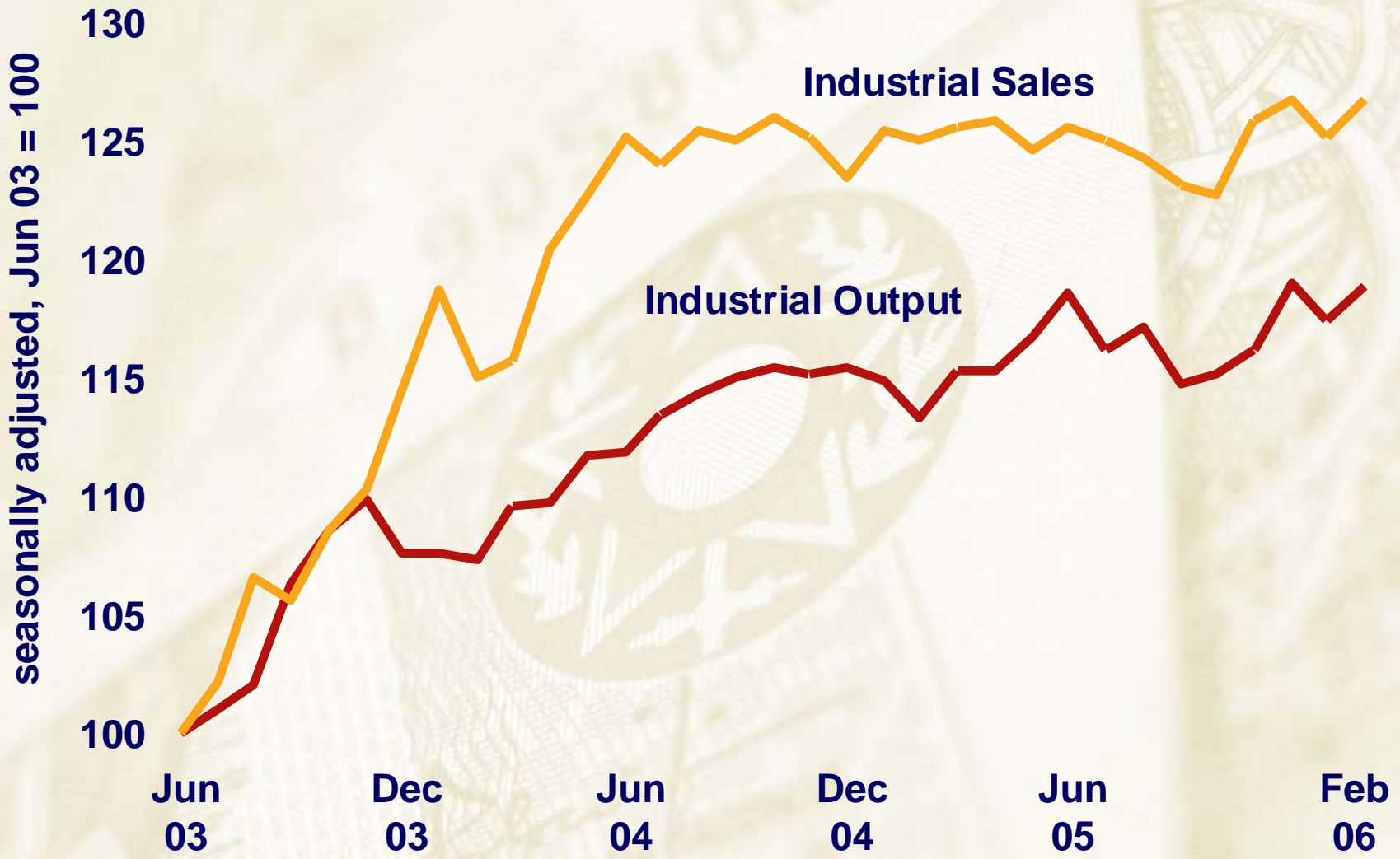
annual



# Industrial Output



# Industrial Output vs. Sales



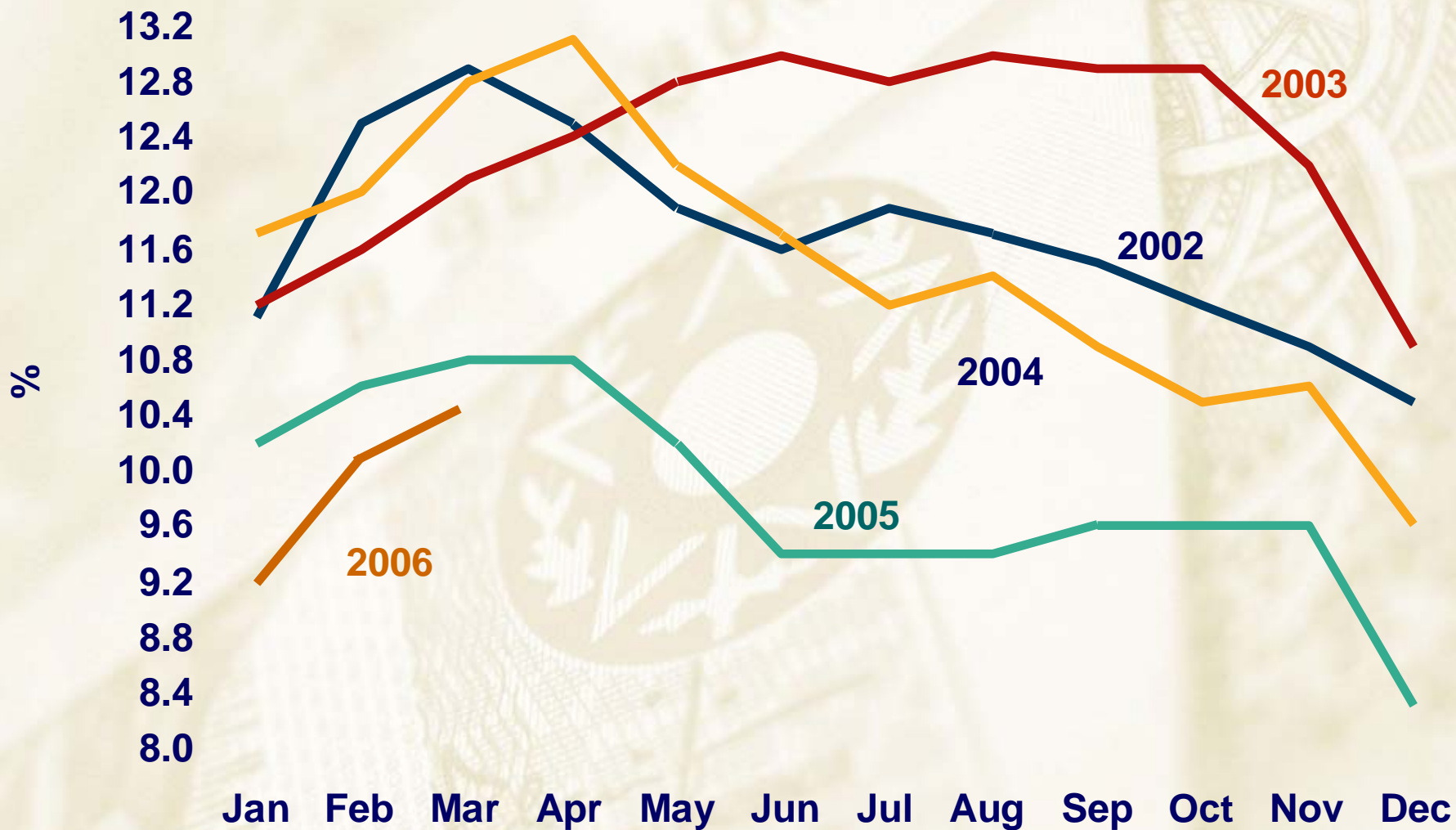
# Retail Sales

3-month moving average





# Unemployment Rate



# Formal Job Creation

accumulated in 12 months

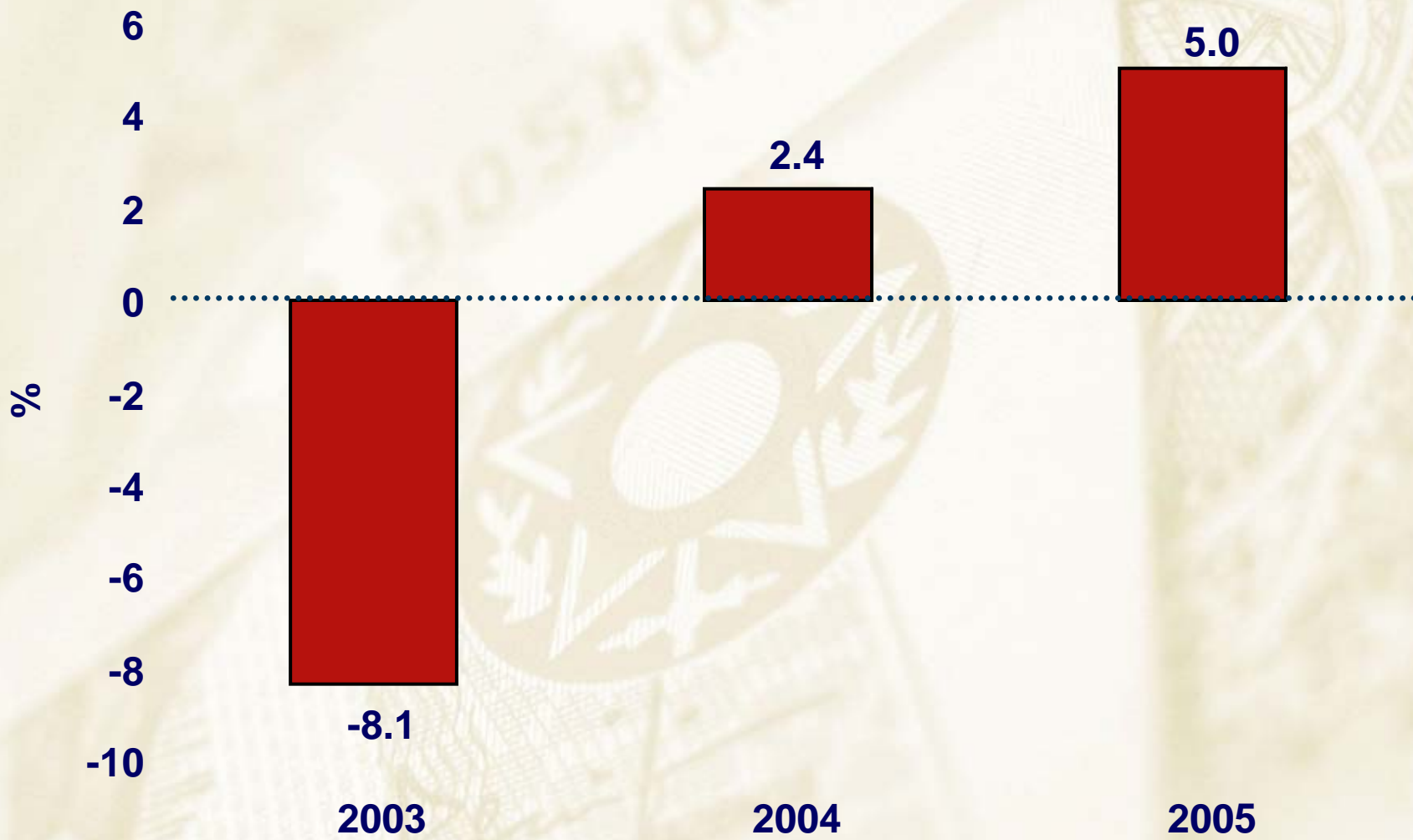


# Real Earnings

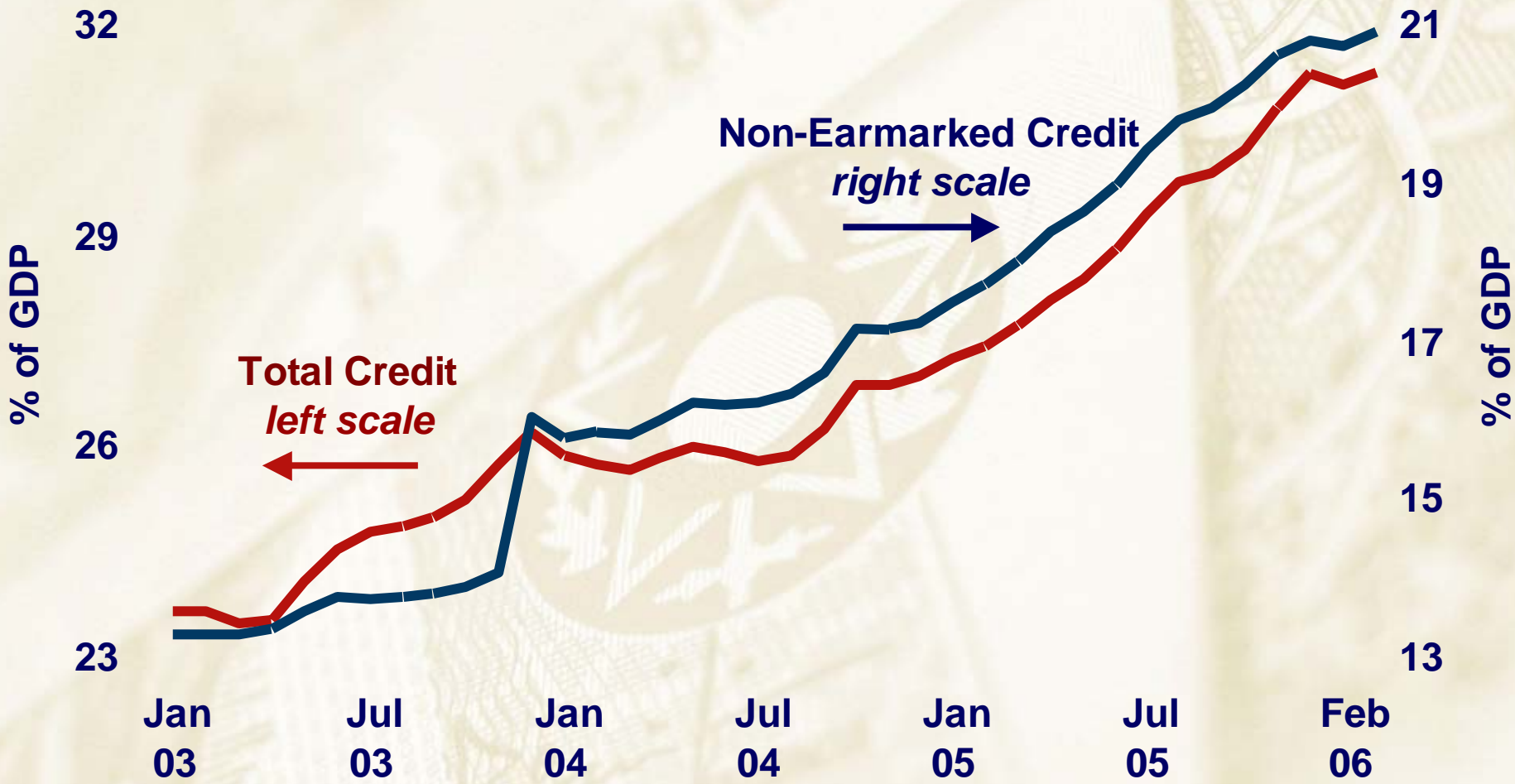
at Mar2006 prices, deflated by INPC  
(3-month moving average)



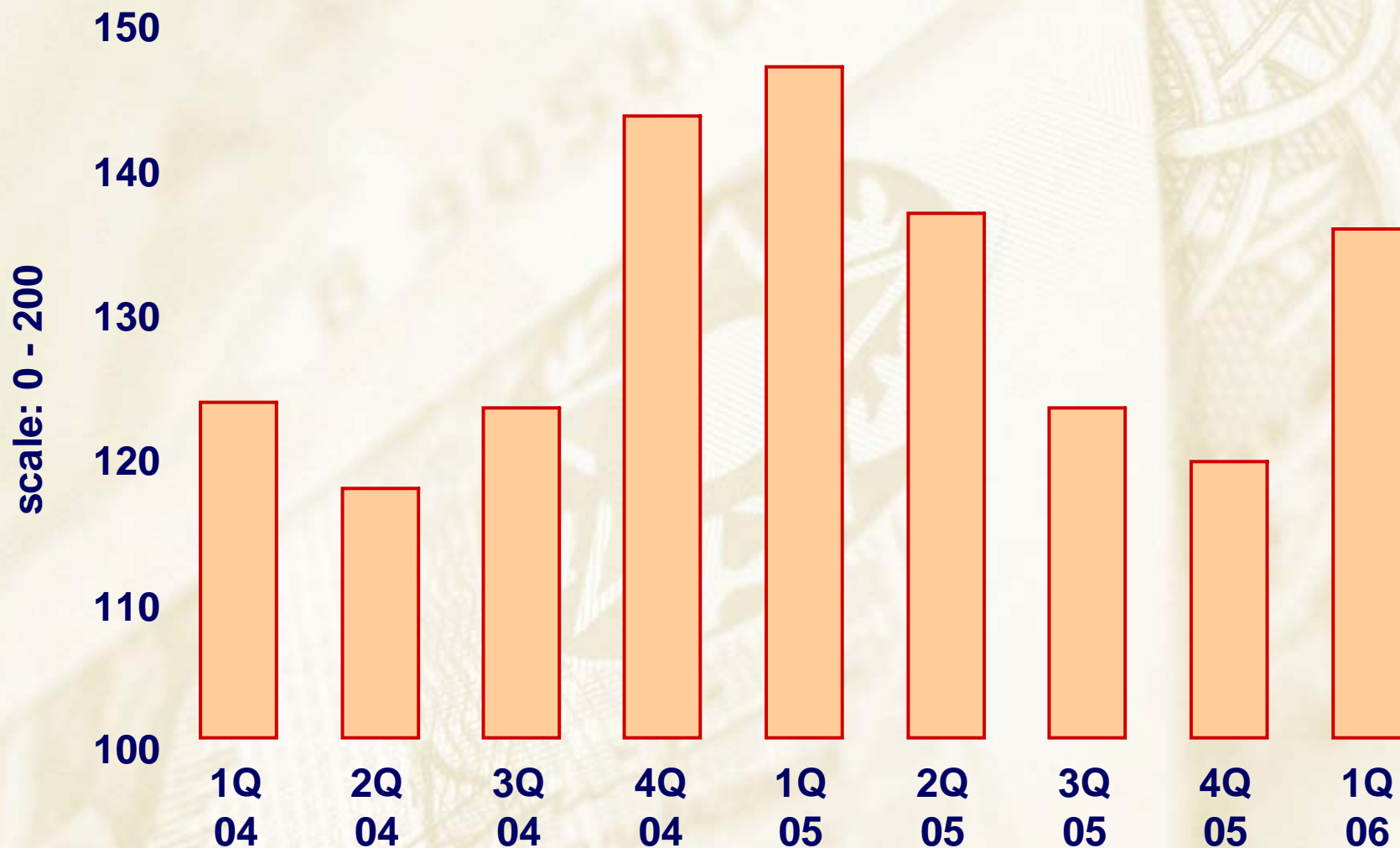
# Real Payrolls



# Credit-to-GDP Ratio

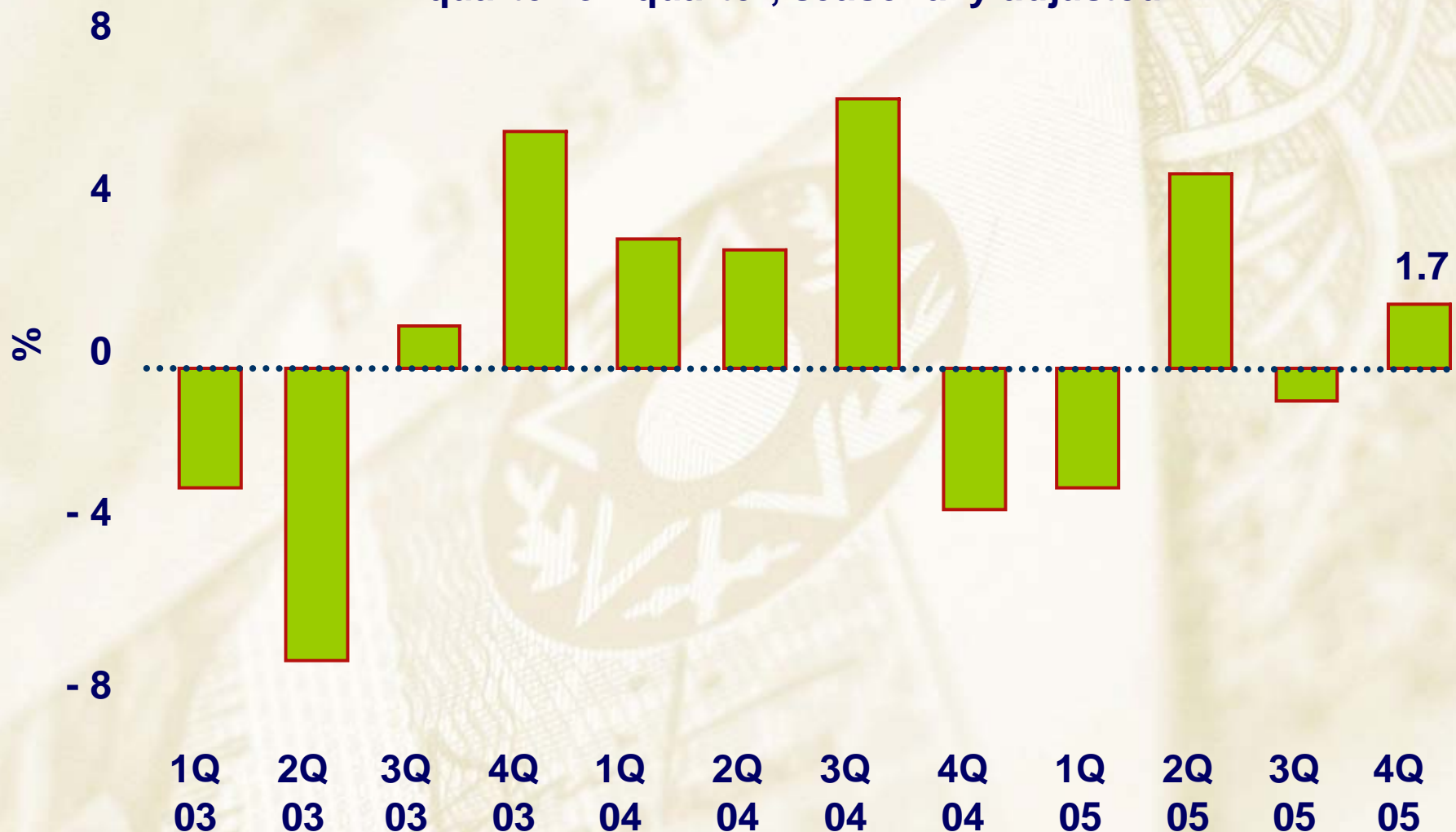


# Consumer Confidence (São Paulo)

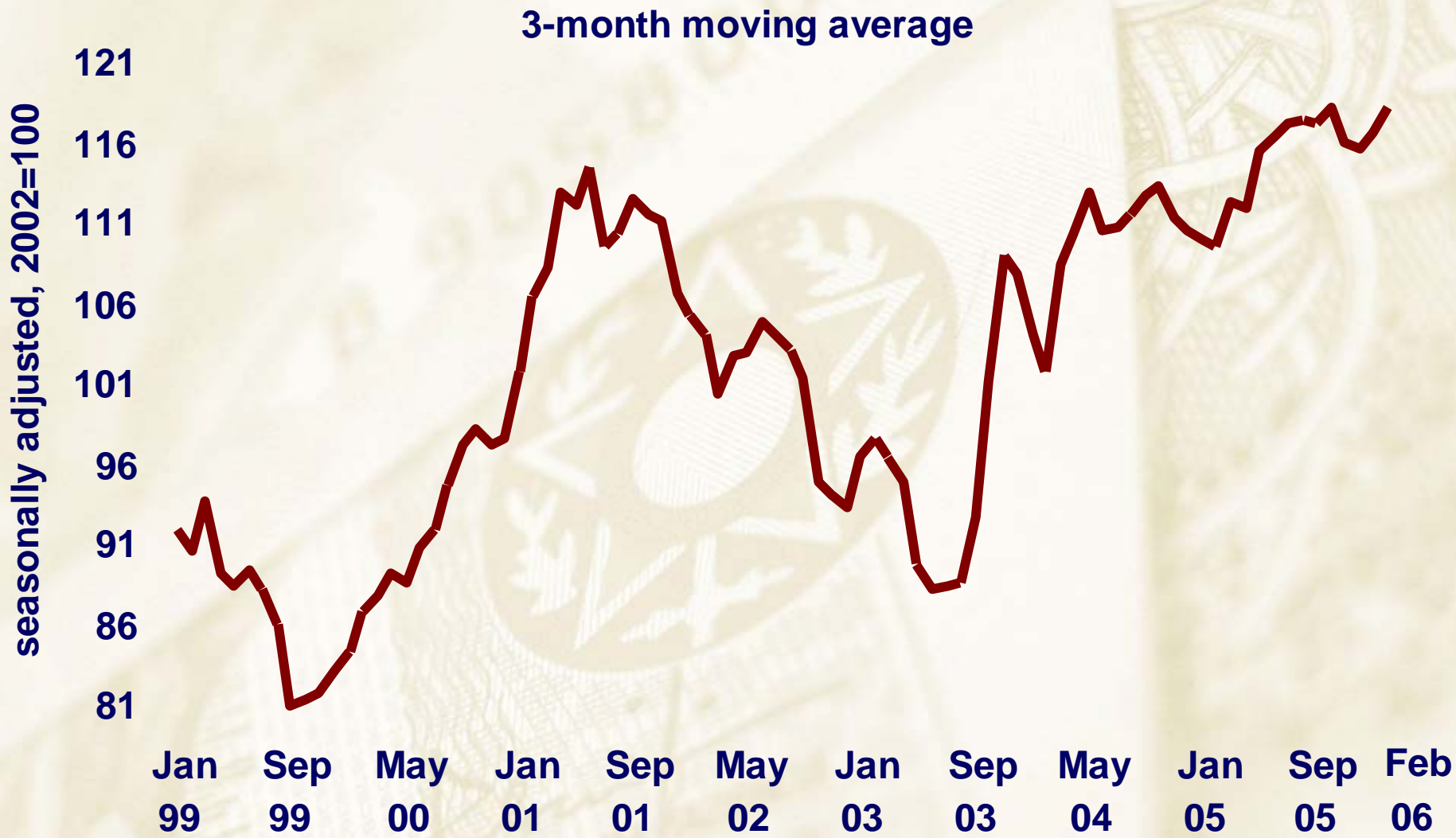


# Fixed-Capital Investment

quarter-on-quarter, seasonally adjusted

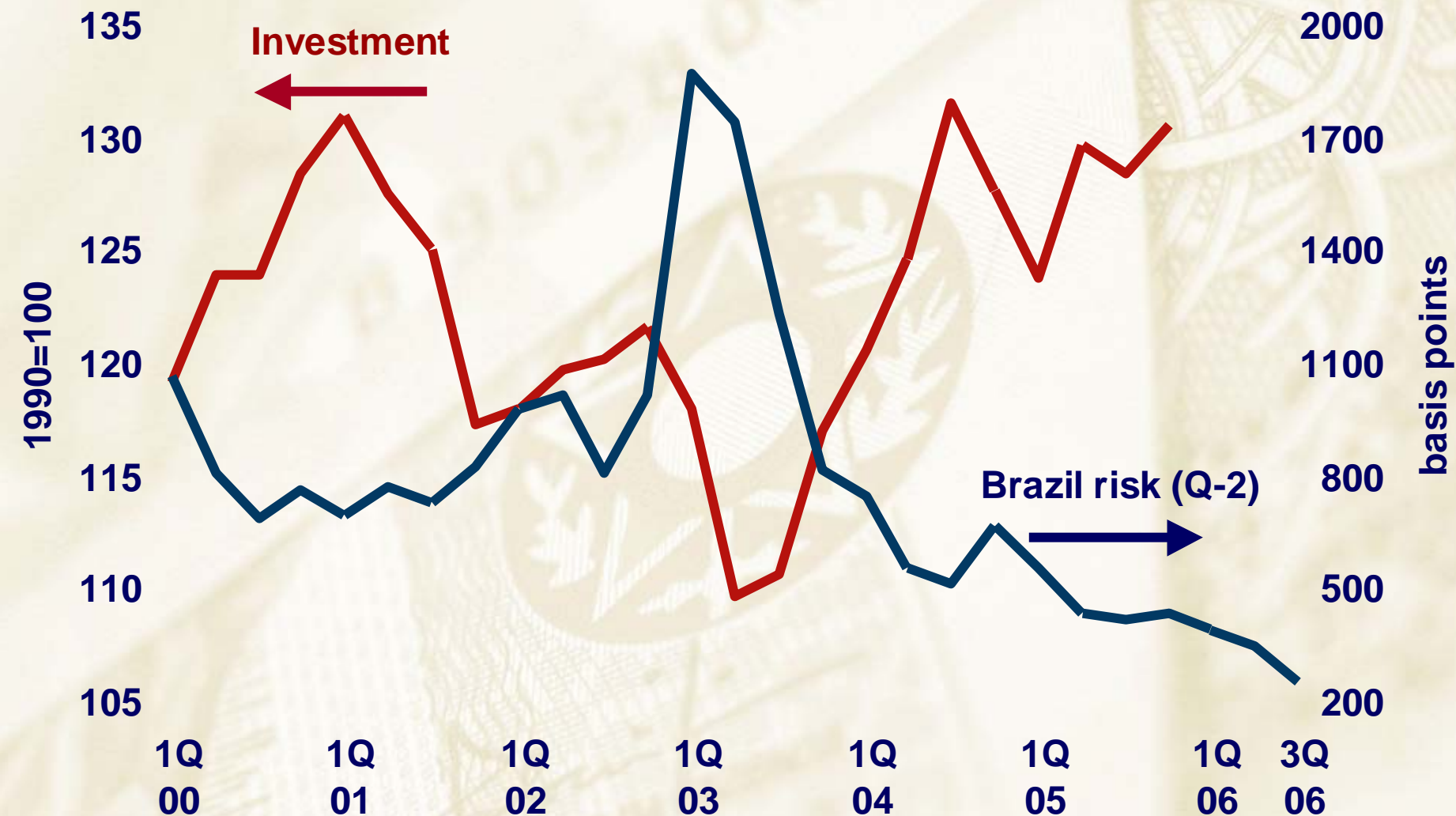


# Domestic Absorption of Capital Goods

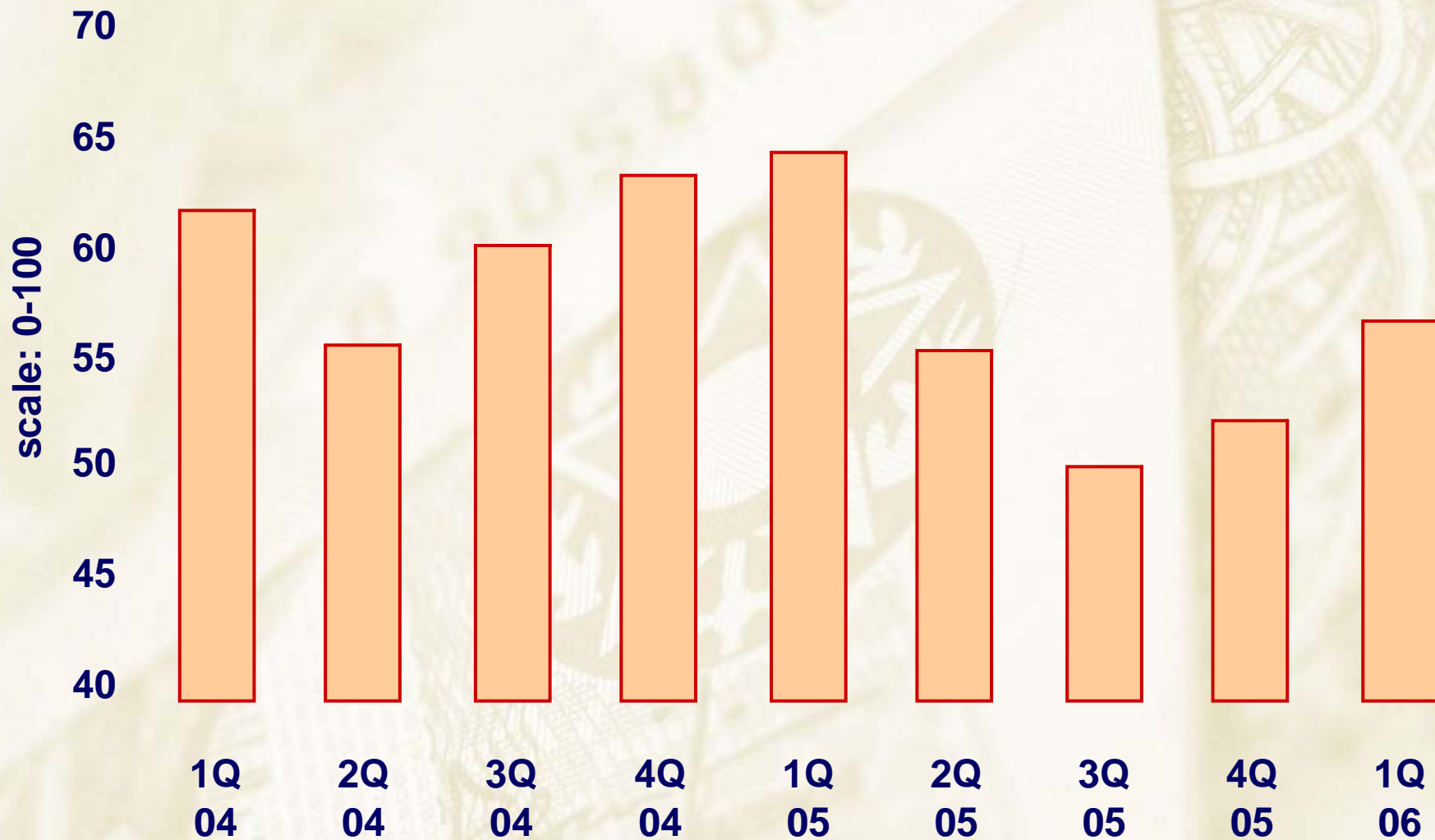




# Investment vs. Sovereign Risk

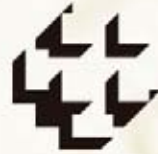


# Business Confidence



# GDP: 1999-2006





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**Afonso Bevilaqua**

**April 2006**