



BANCO CENTRAL DO BRASIL

Inflation Targeting in an Uncertain External Backdrop

Mário Mesquita

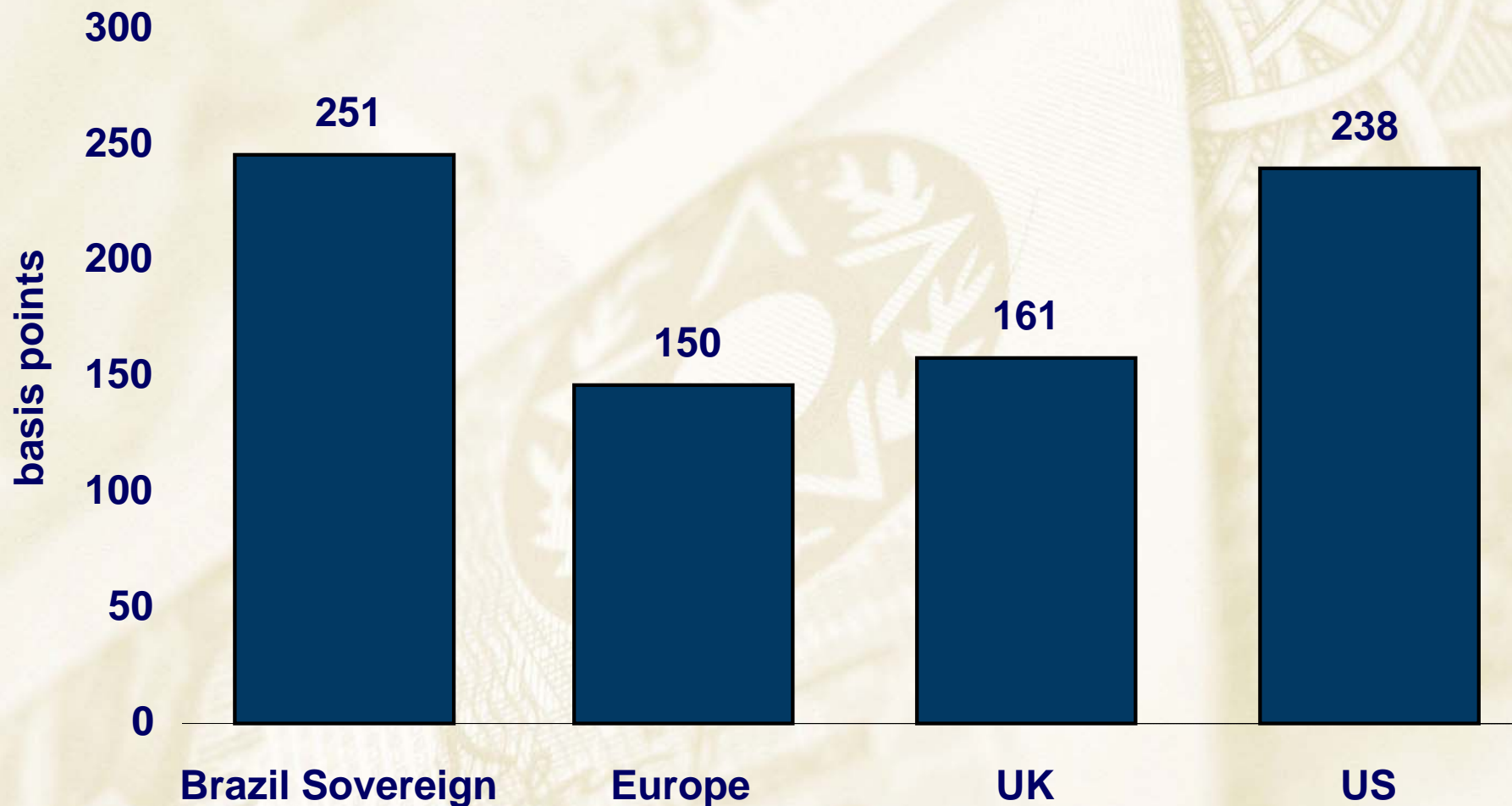
October 2008



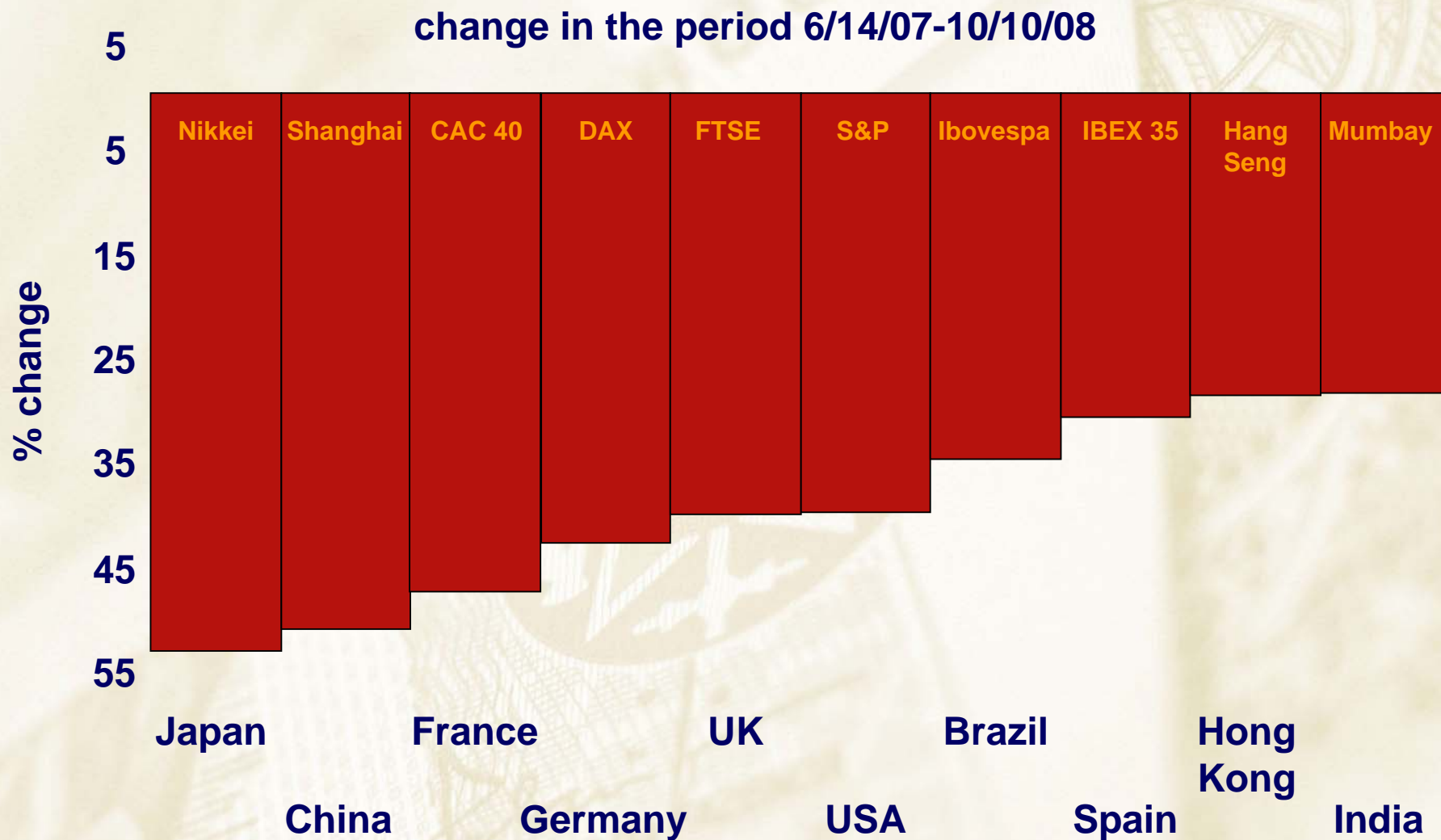
I. An Uncertain External Backdrop

Banking Sector CDS (5y): Europe, UK, and US

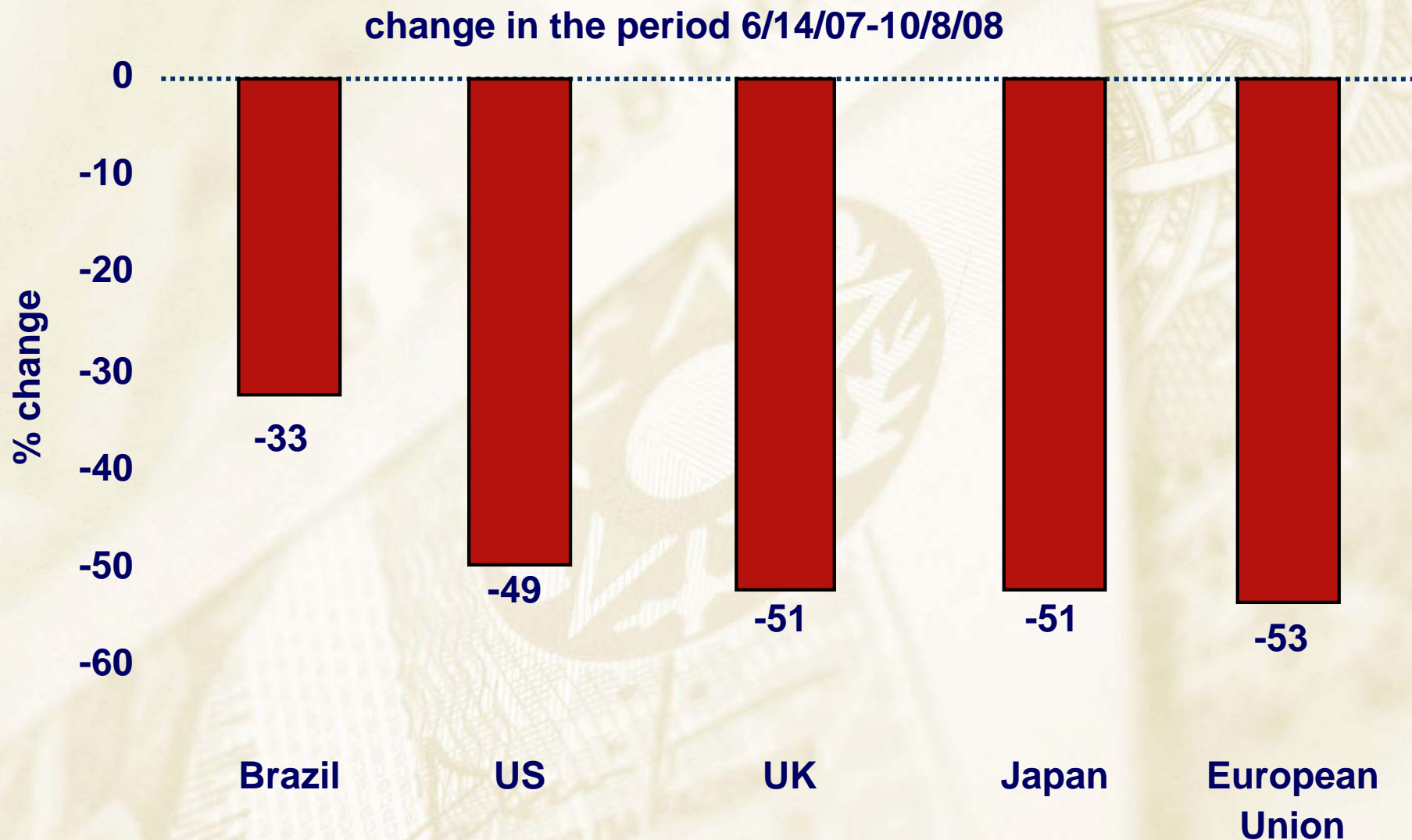
change in the period 6/14/07-10/8/08



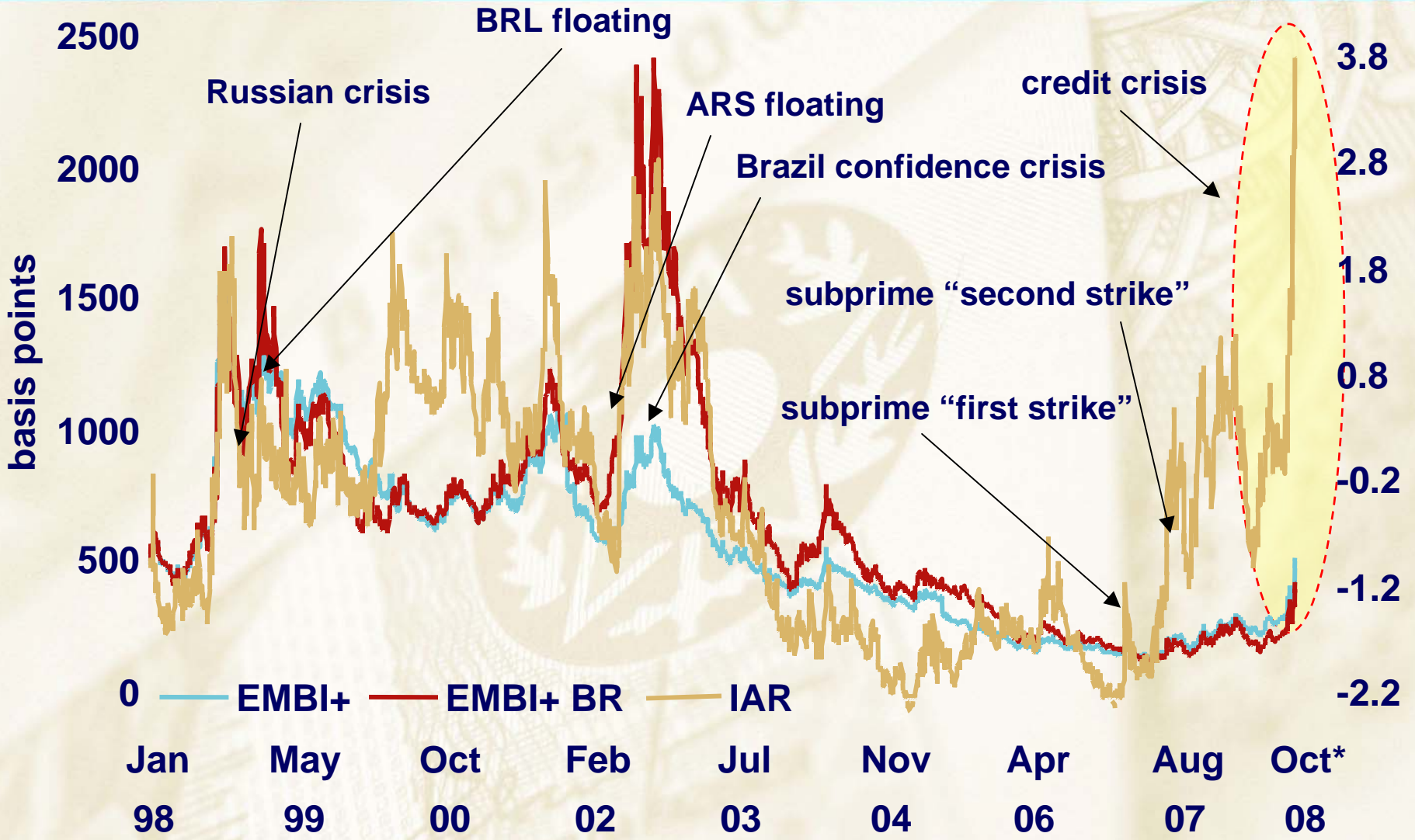
Ibovespa x Global Stock Exchange Indices



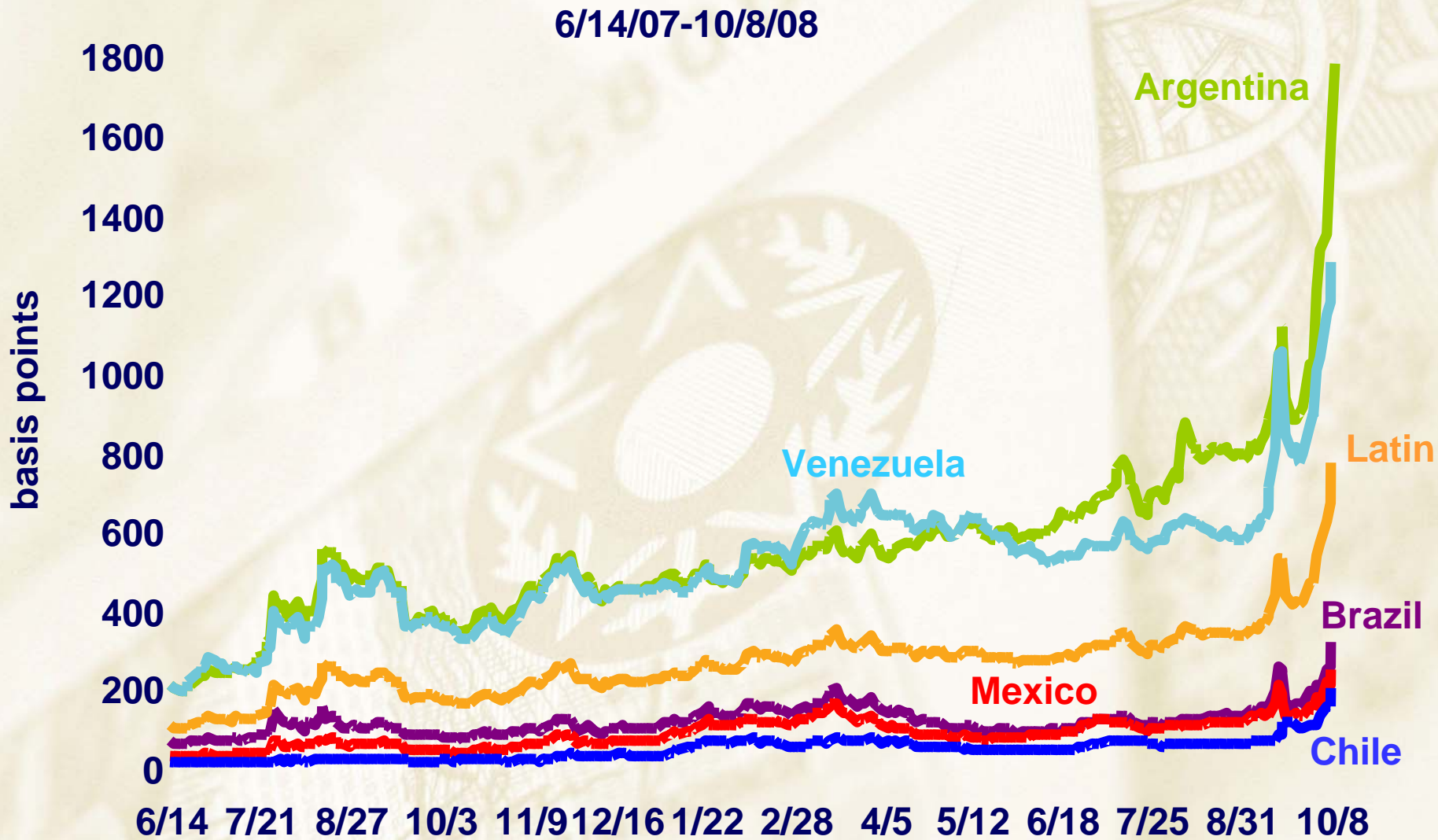
Stock Price Indices: Banking Sector



Country Risk and Risk Aversion Index (RAVI)

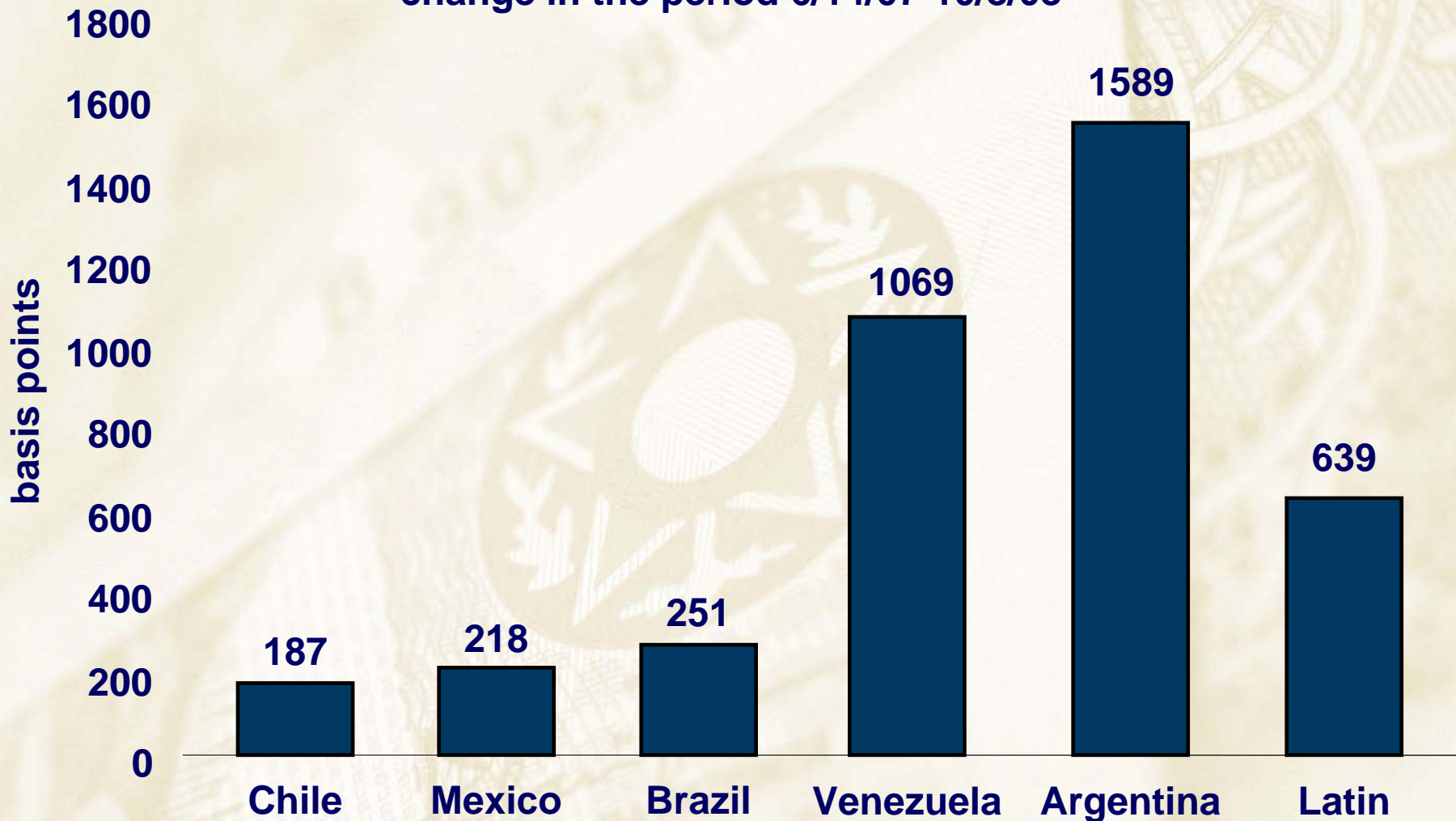


CDS (5y): LatAm



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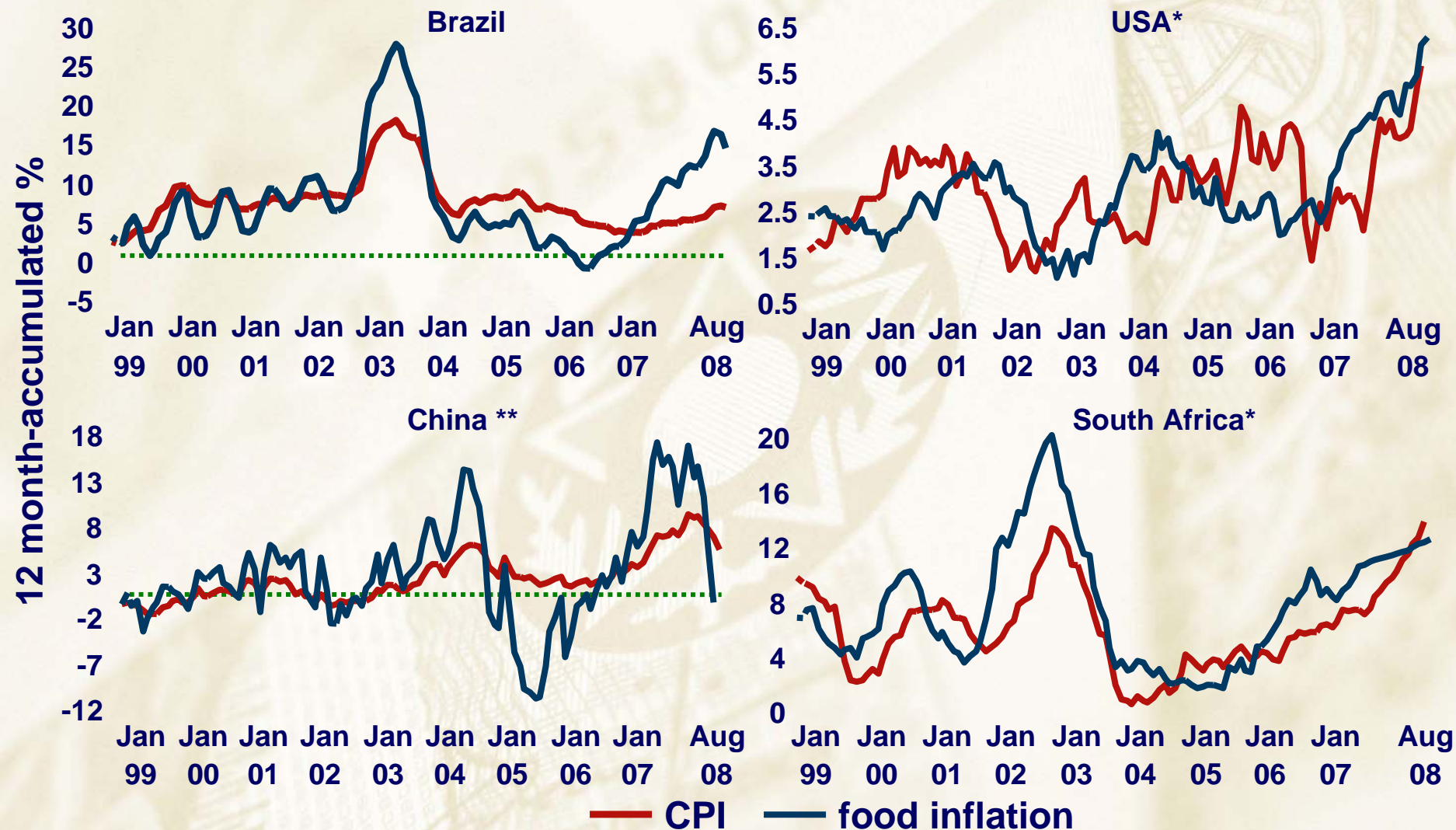
change in the period 6/14/07-10/8/08



US Dollar Weakening: trend reversal?

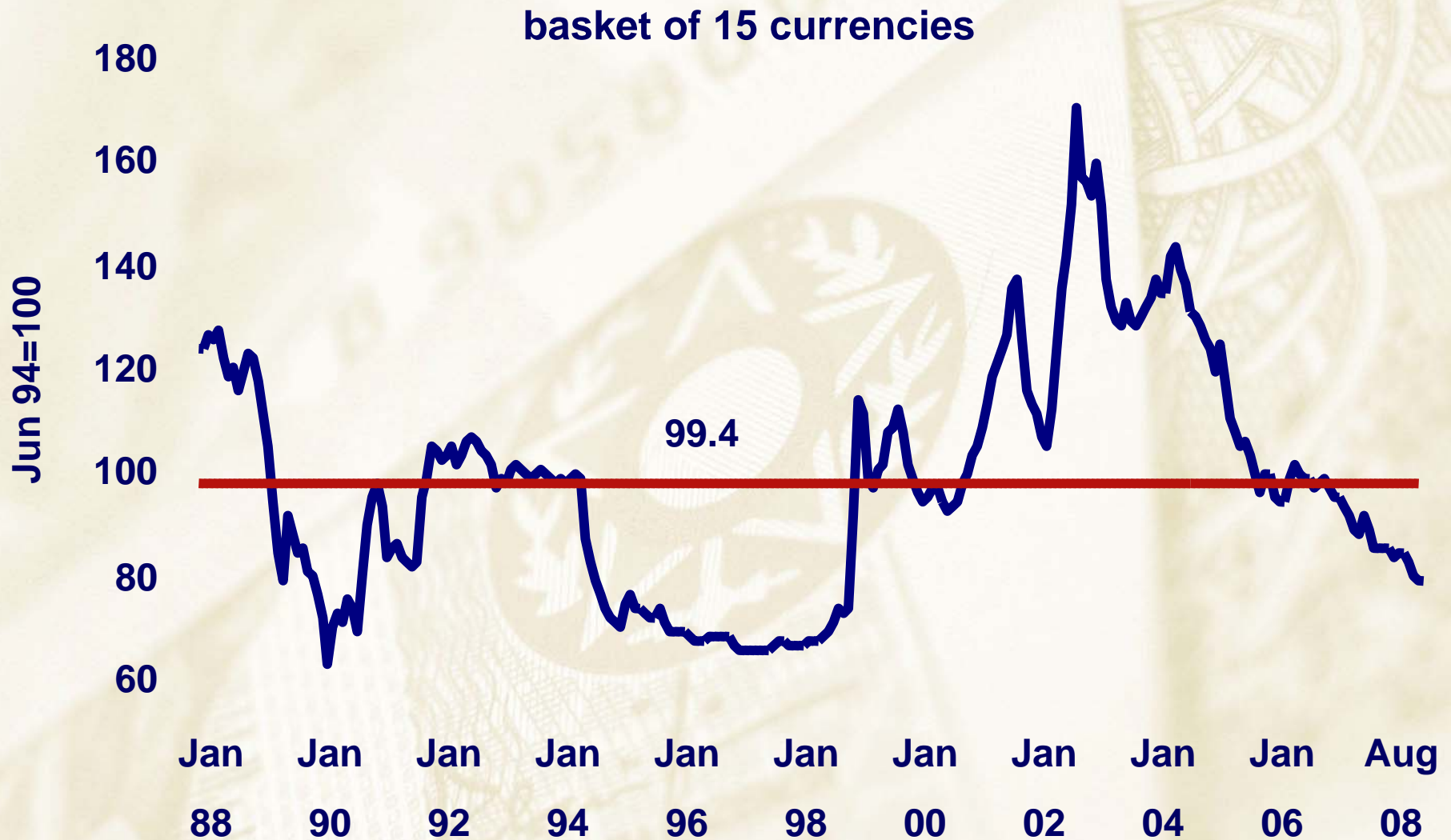


CPIs and Food Inflation - Selected Countries

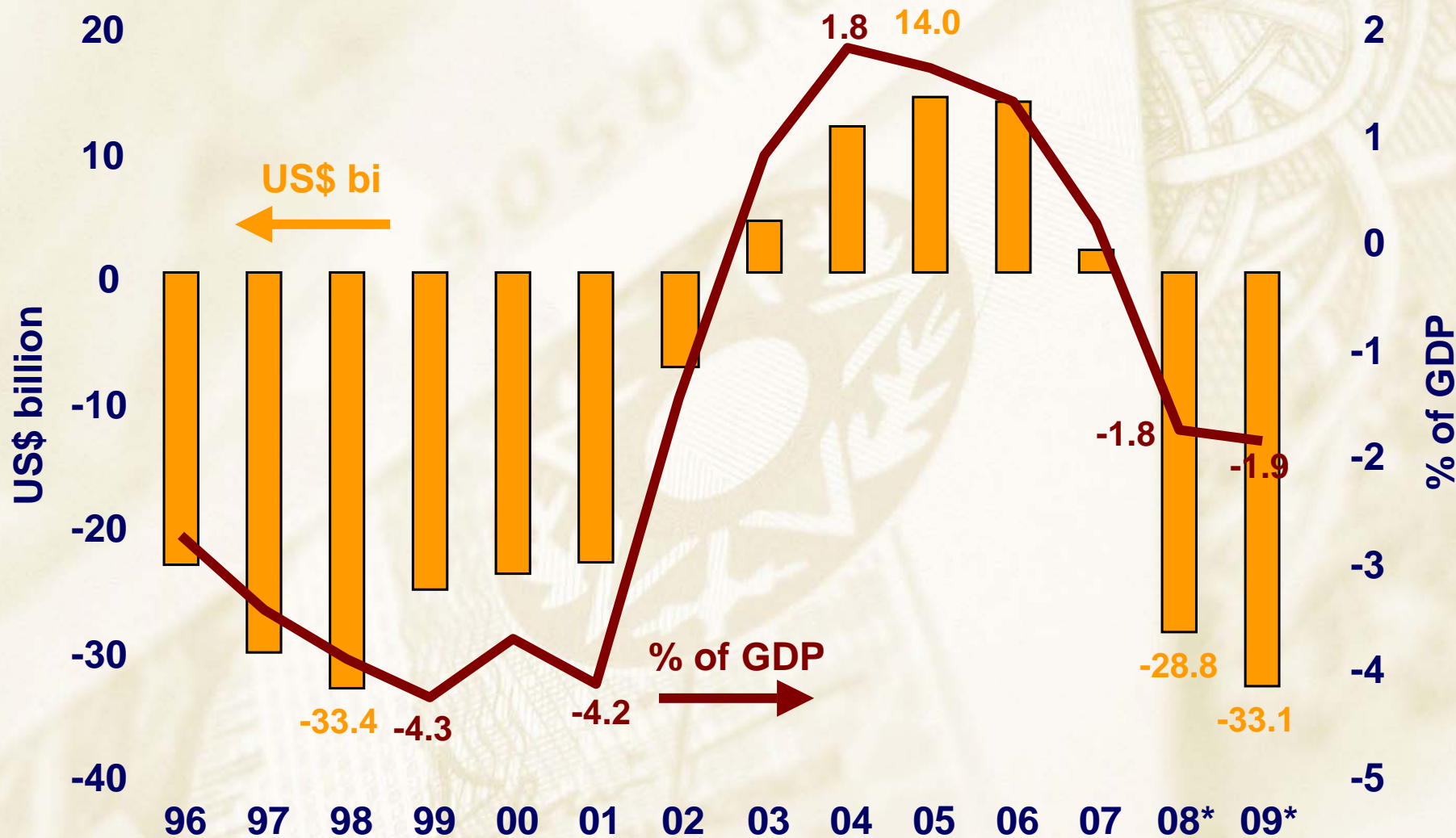


II. Brazil: Increased Resilience to Shocks

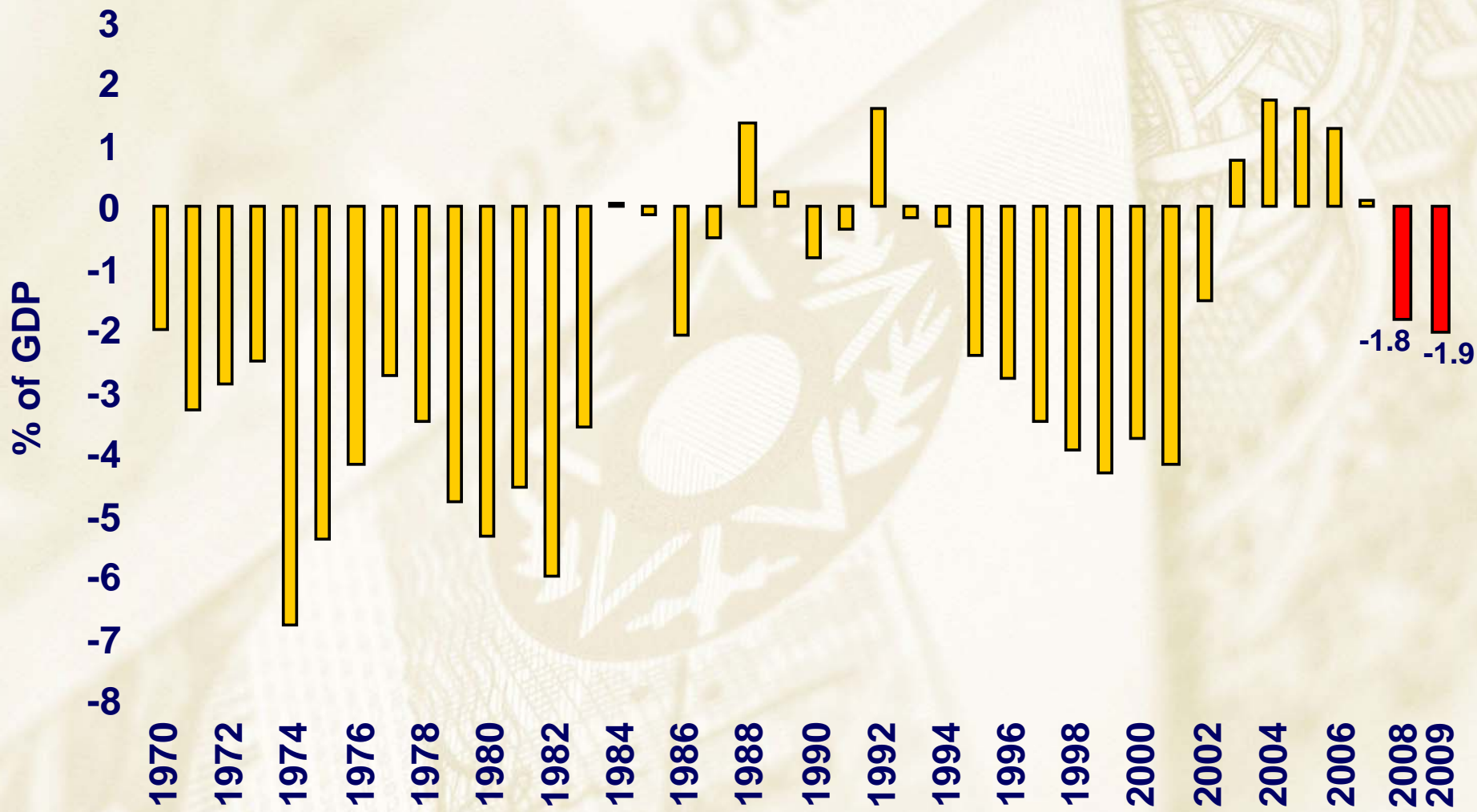
Real Effective Exchange Rate



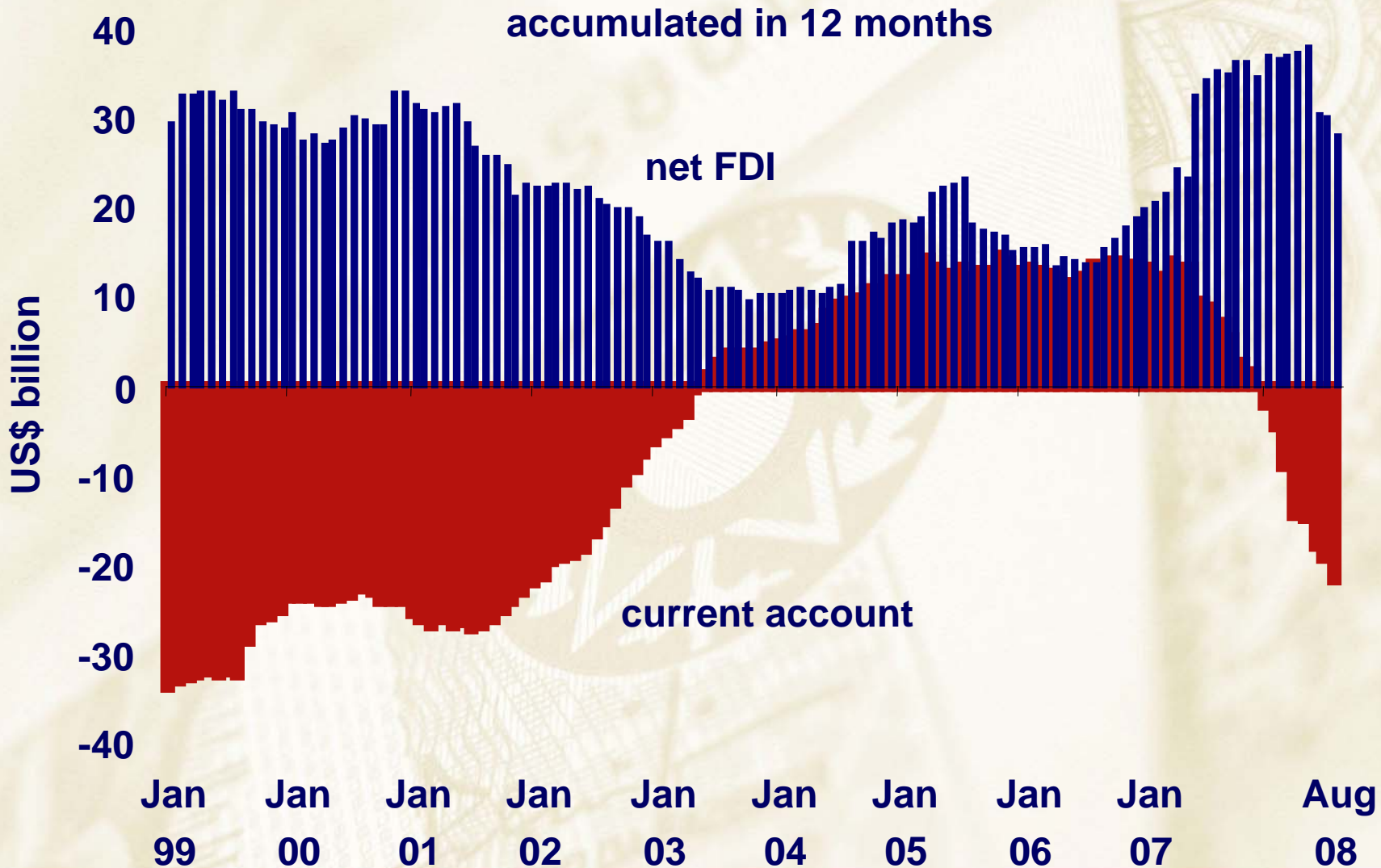
Current Account Balance



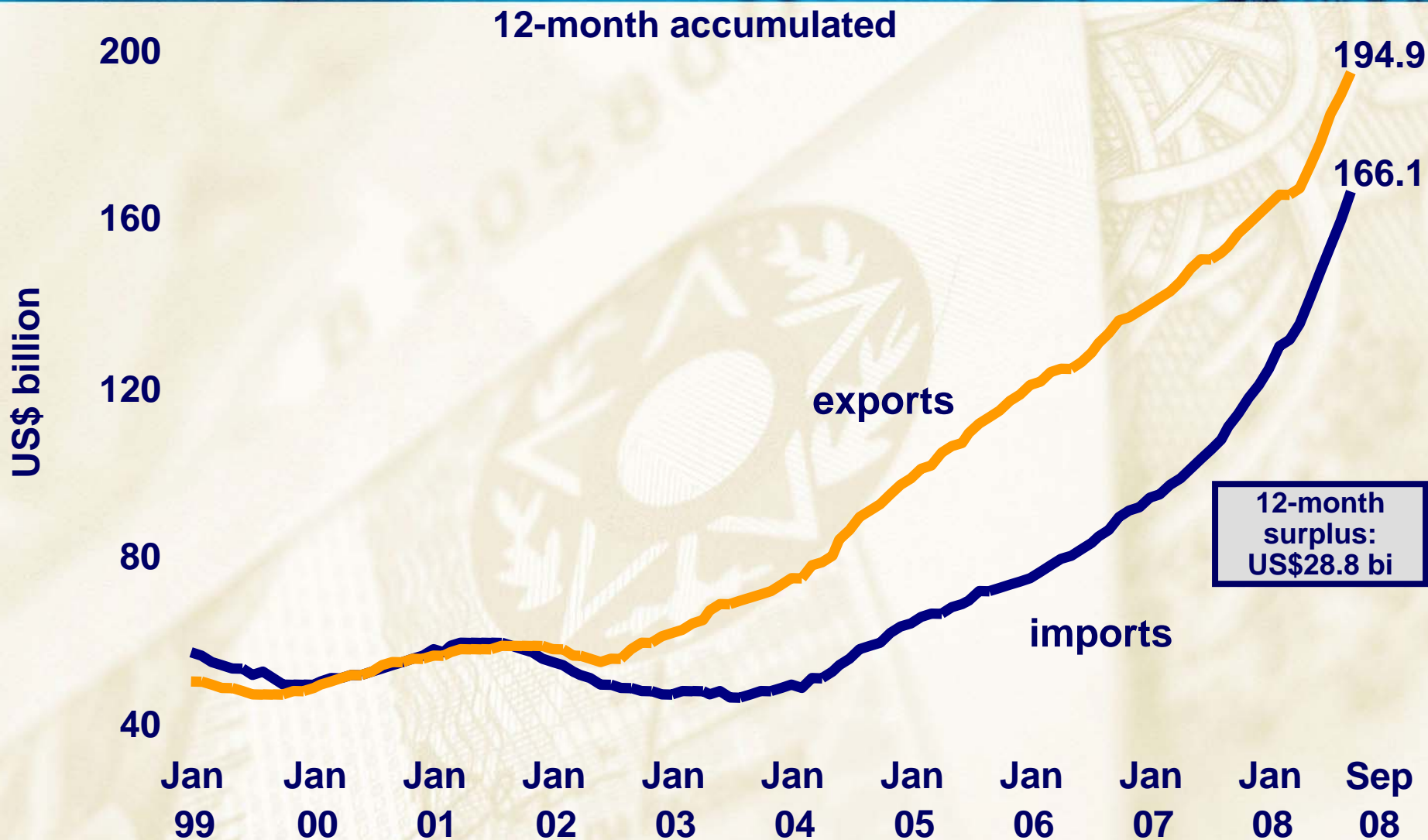
Current Account/GDP



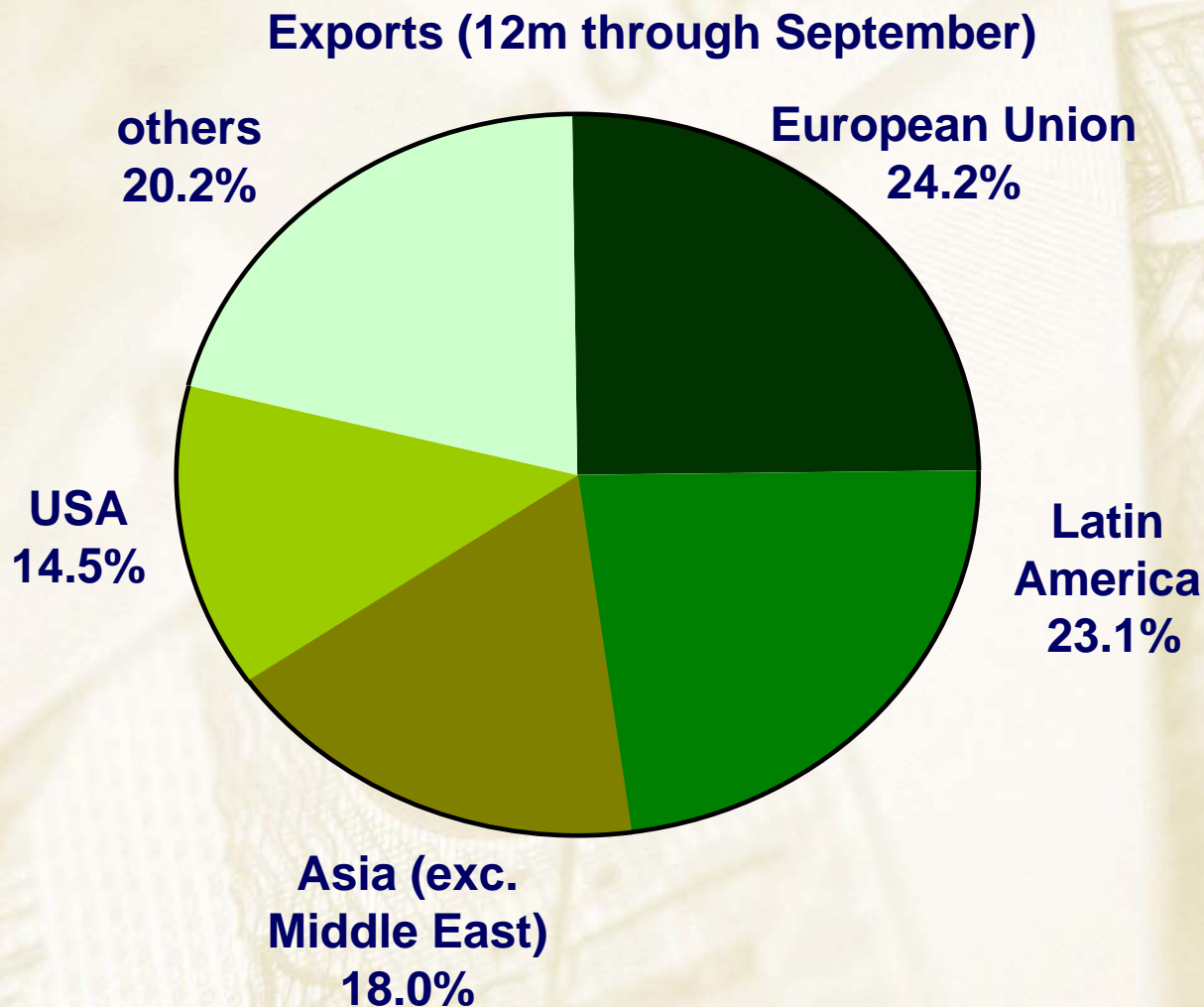
Net FDI vs. Current Account



Trade Balance

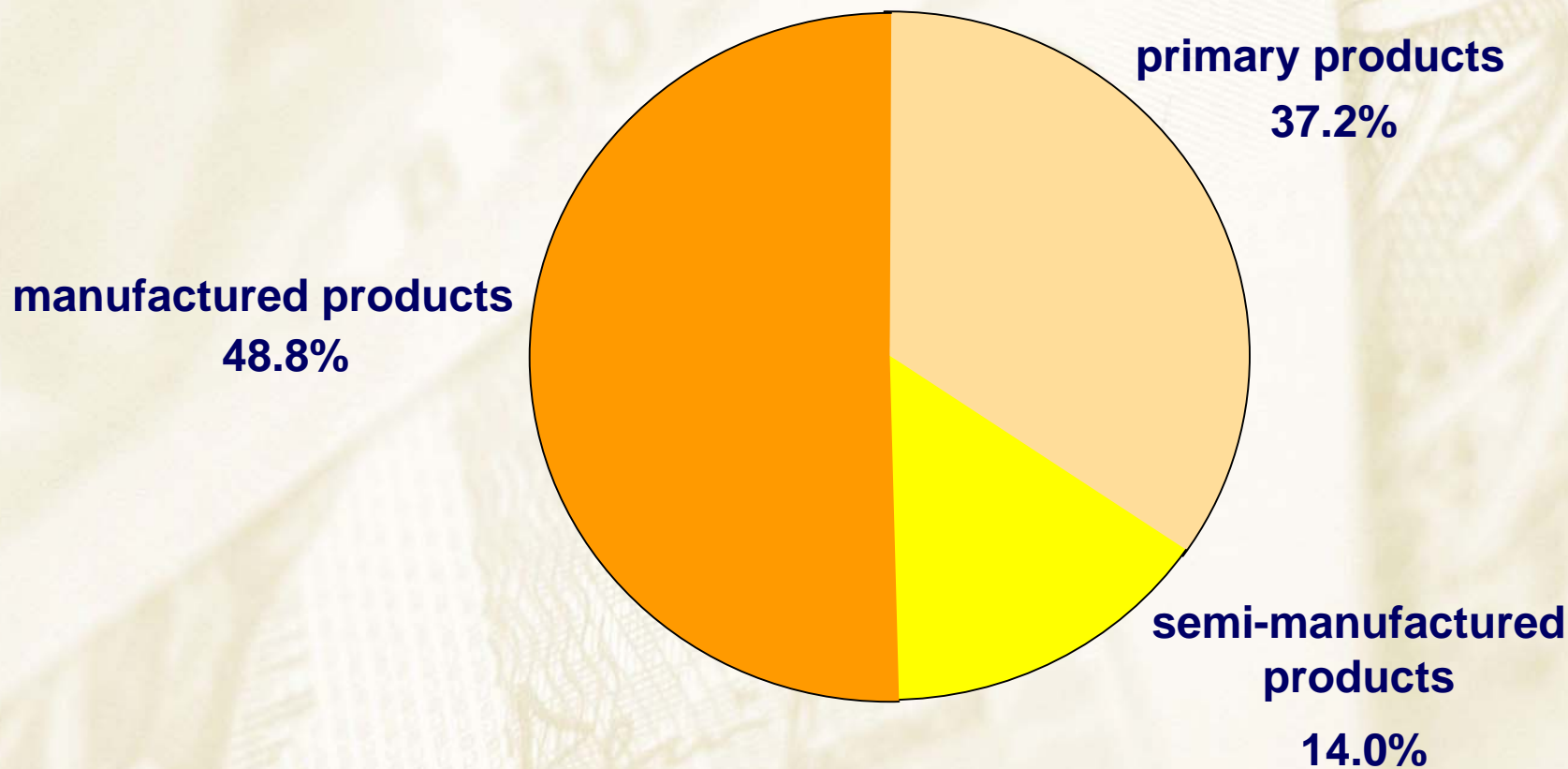


Diversification of Exports Markets: 2008

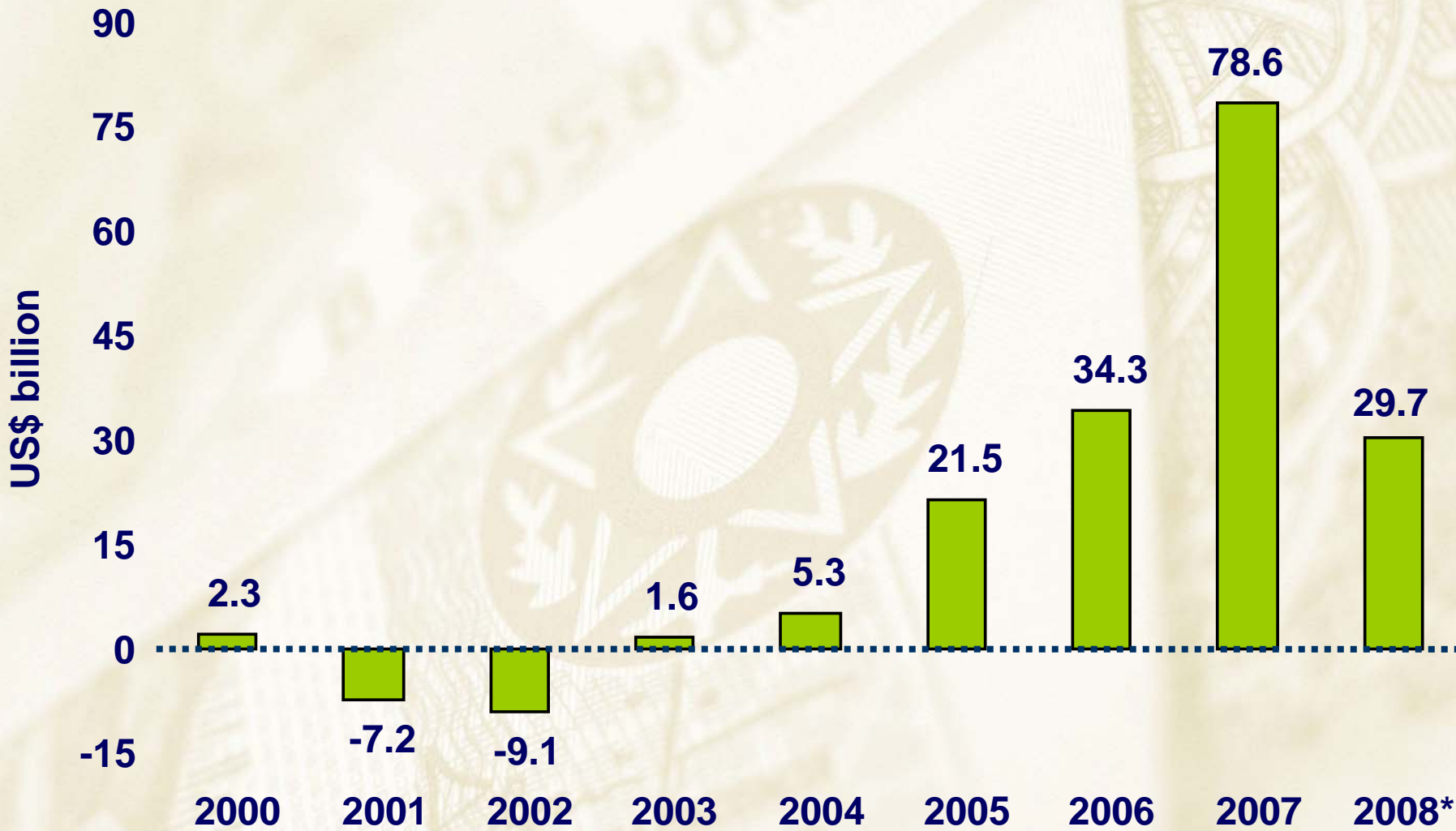


Diversification of Exports by Products: 2008

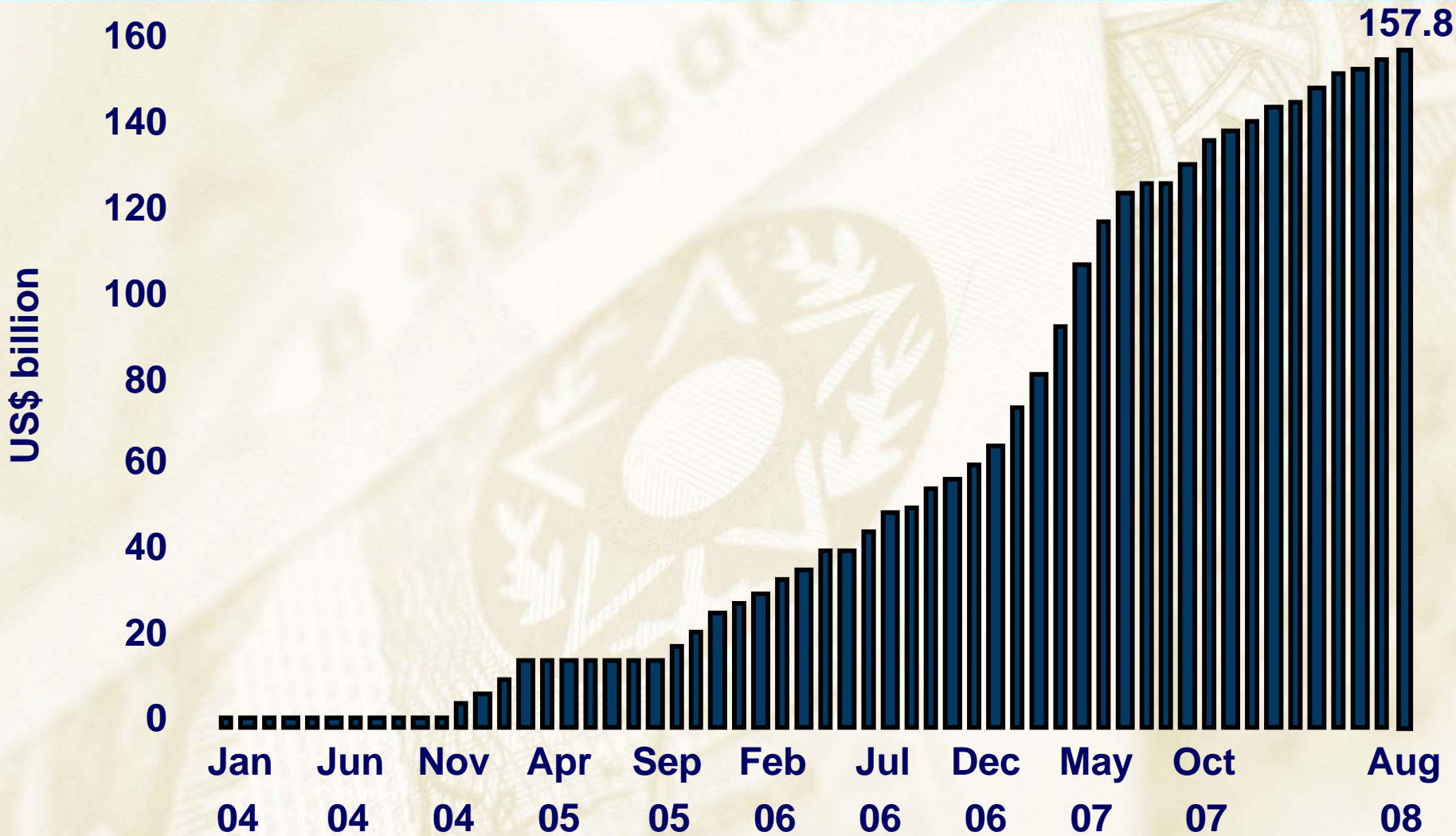
Exports (12m through September)



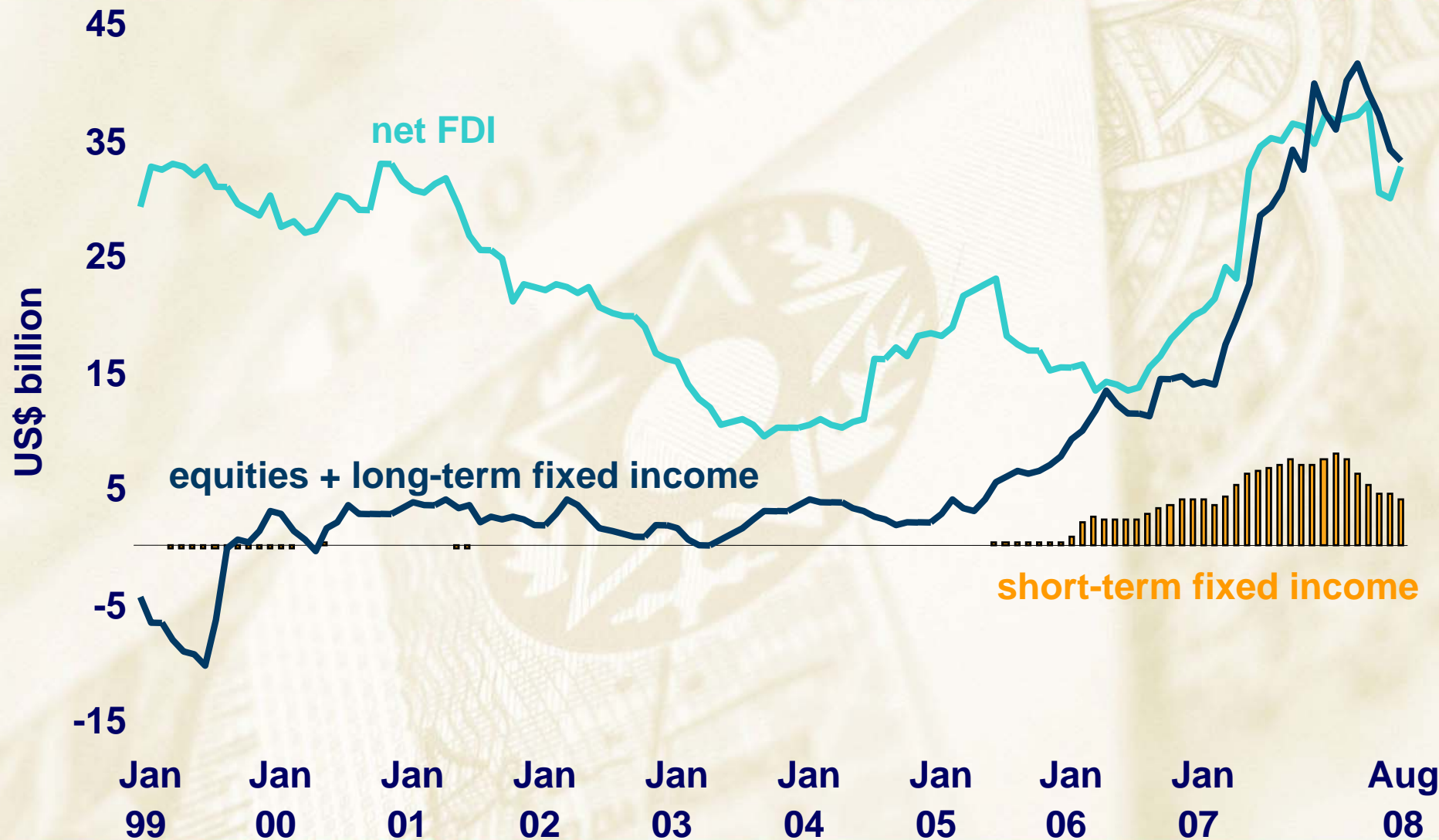
BCB Purchases in the FX Market



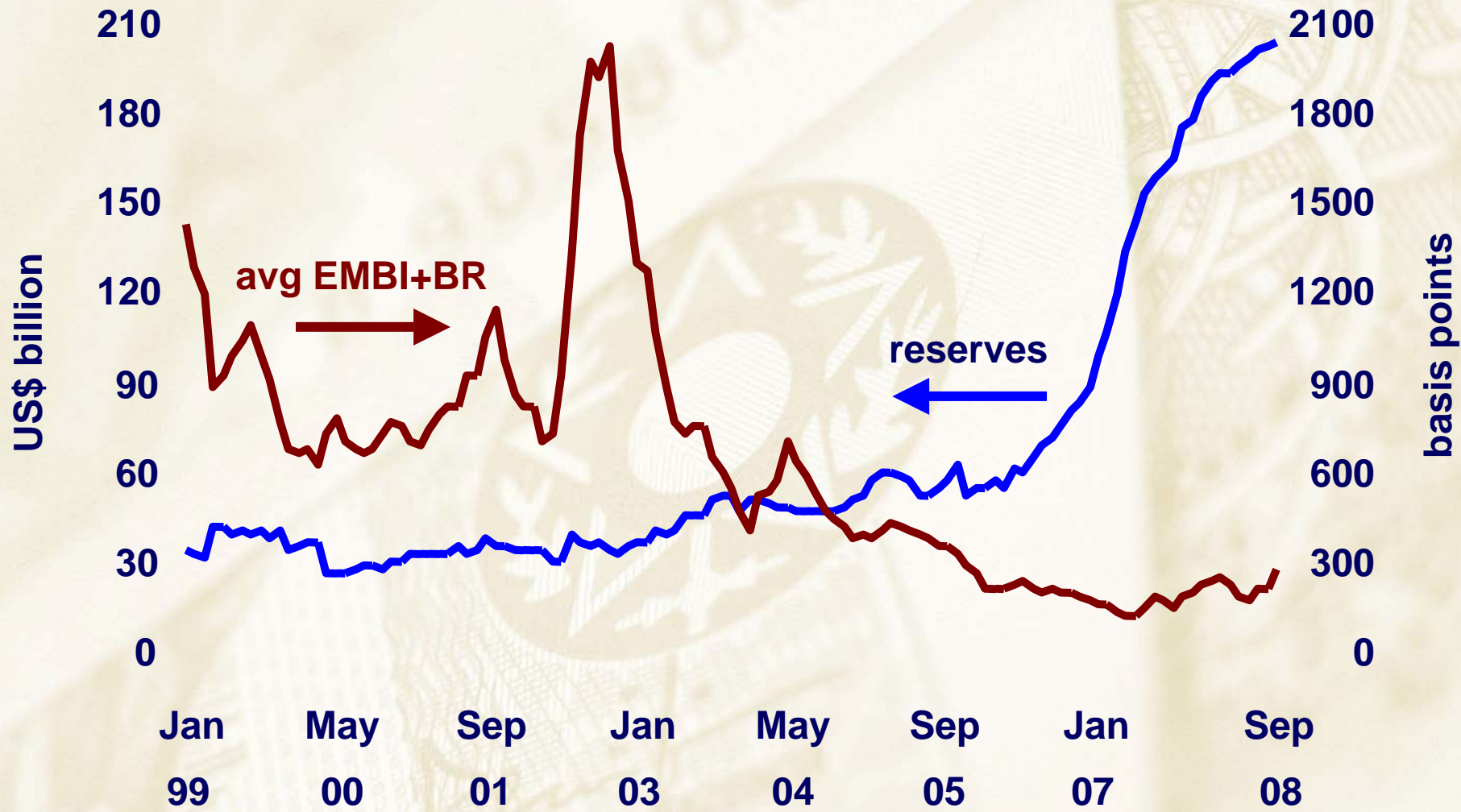
BCB Purchases in the FX Market (Accumulated Flows since Jan 2004)



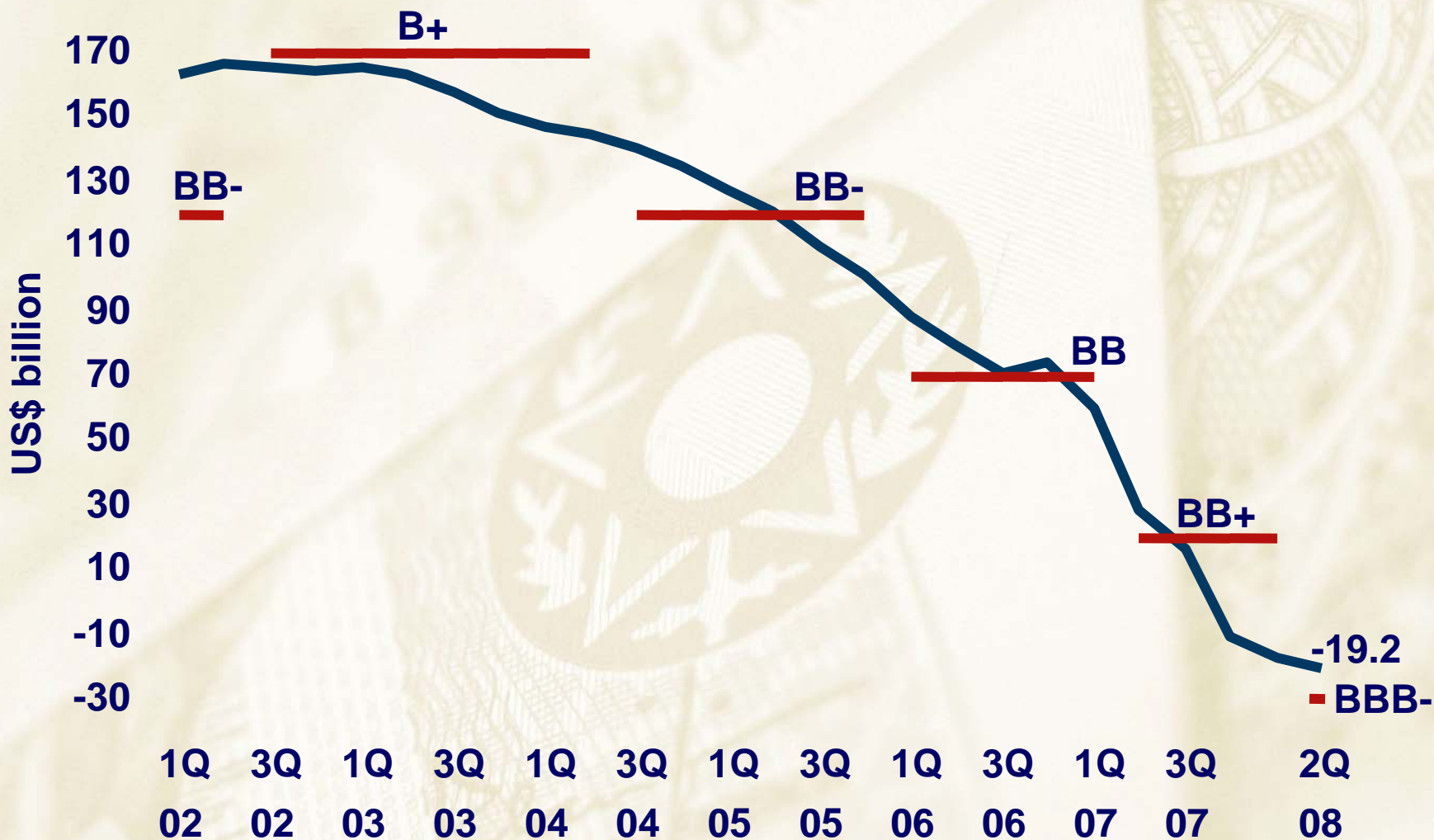
Net FDI and Net Foreign Investment in Stocks and Short- and Long-Term Fixed-Income



International Reserves and Sovereign Spread



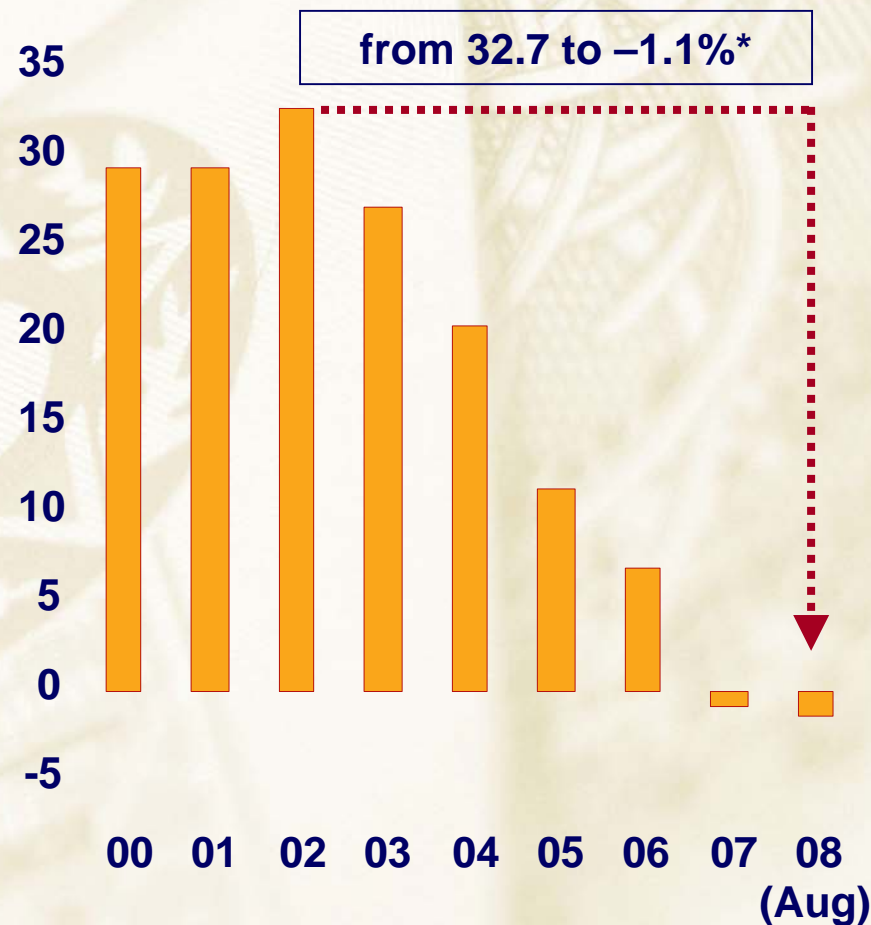
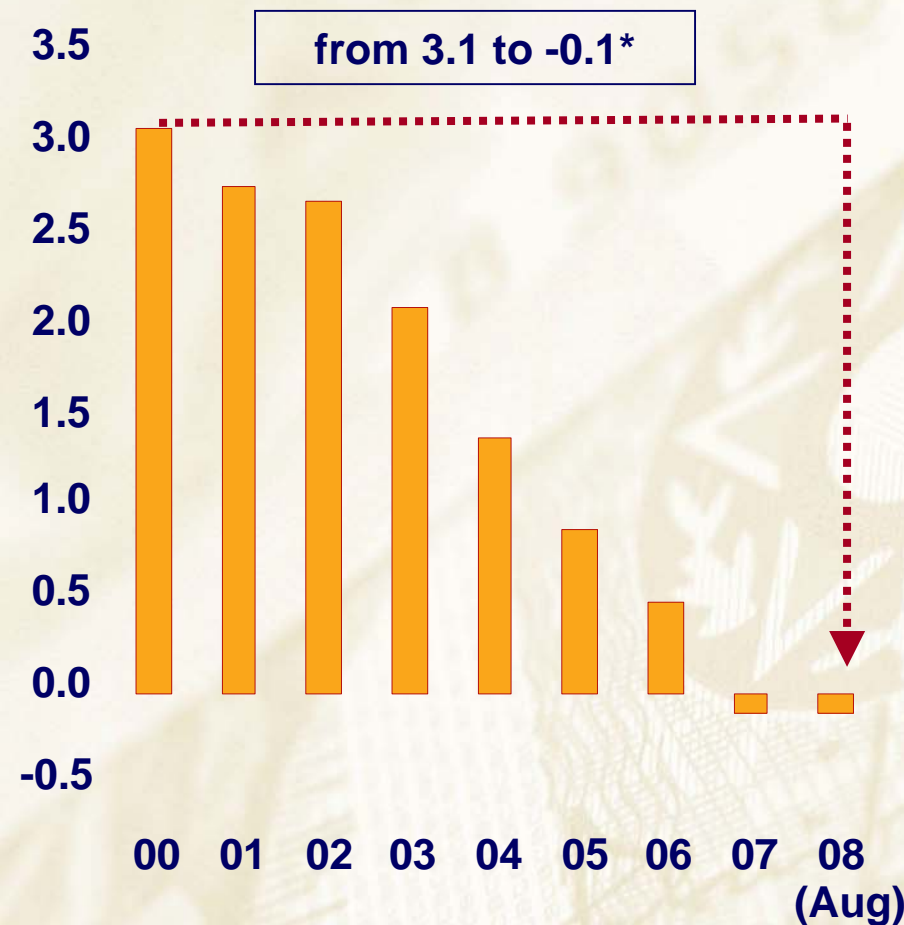
Net External Debt vs. S&P Ratings



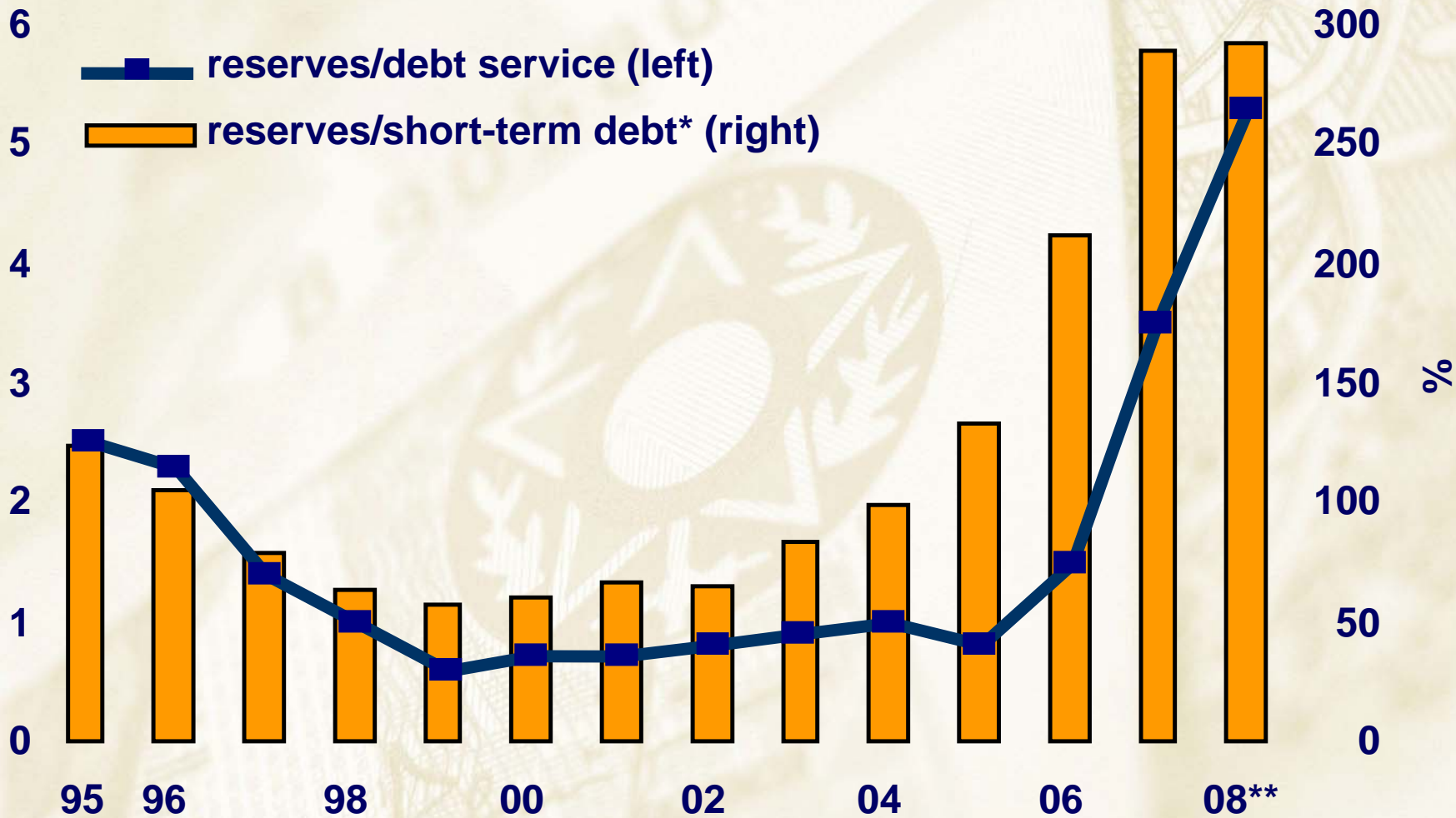
External Sustainability Indicators

net external debt/exports

net external debt/GDP



External Vulnerability Indicators – Reserves

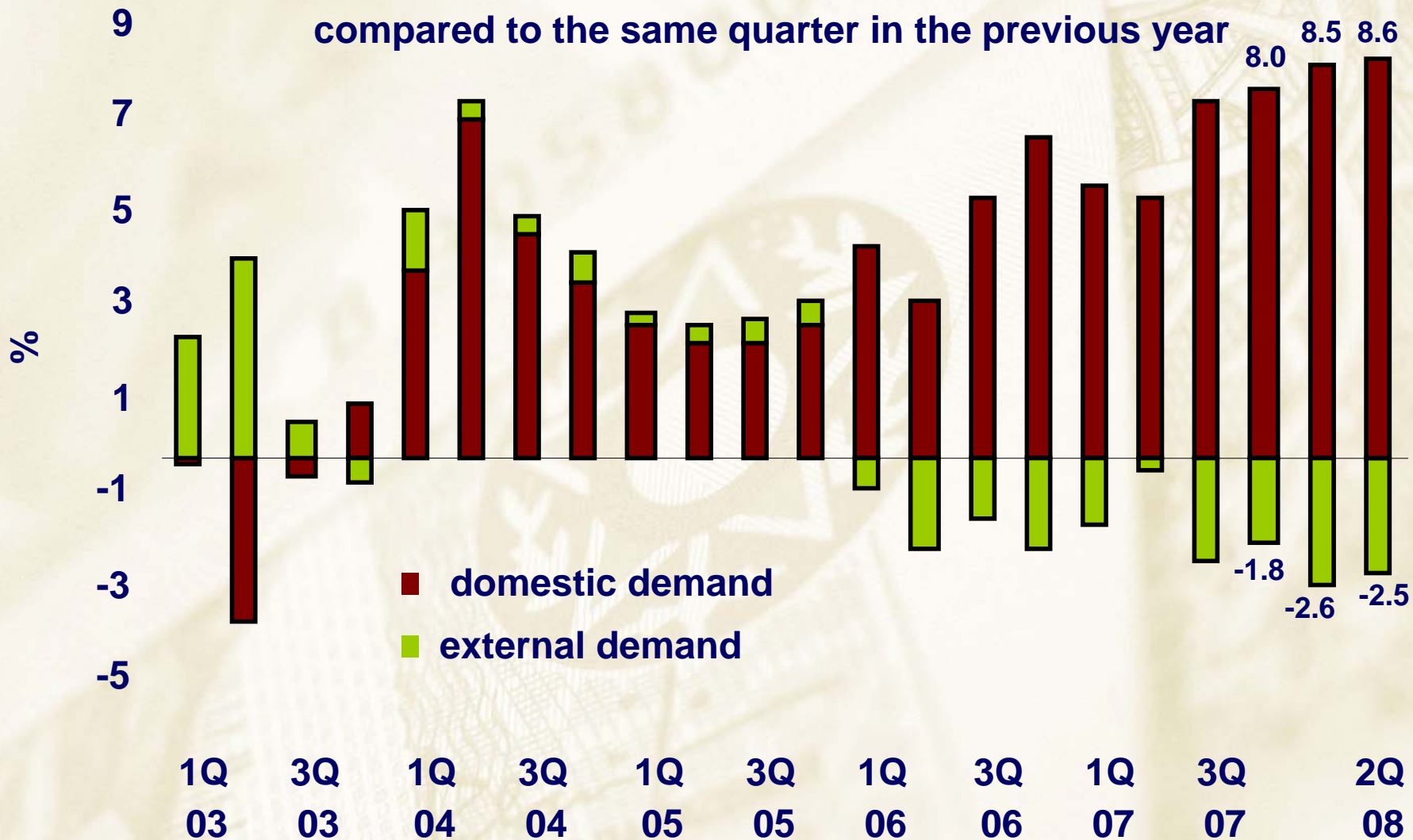


Response of Debt/GDP Ratio to a 1% Exchange Rate Change

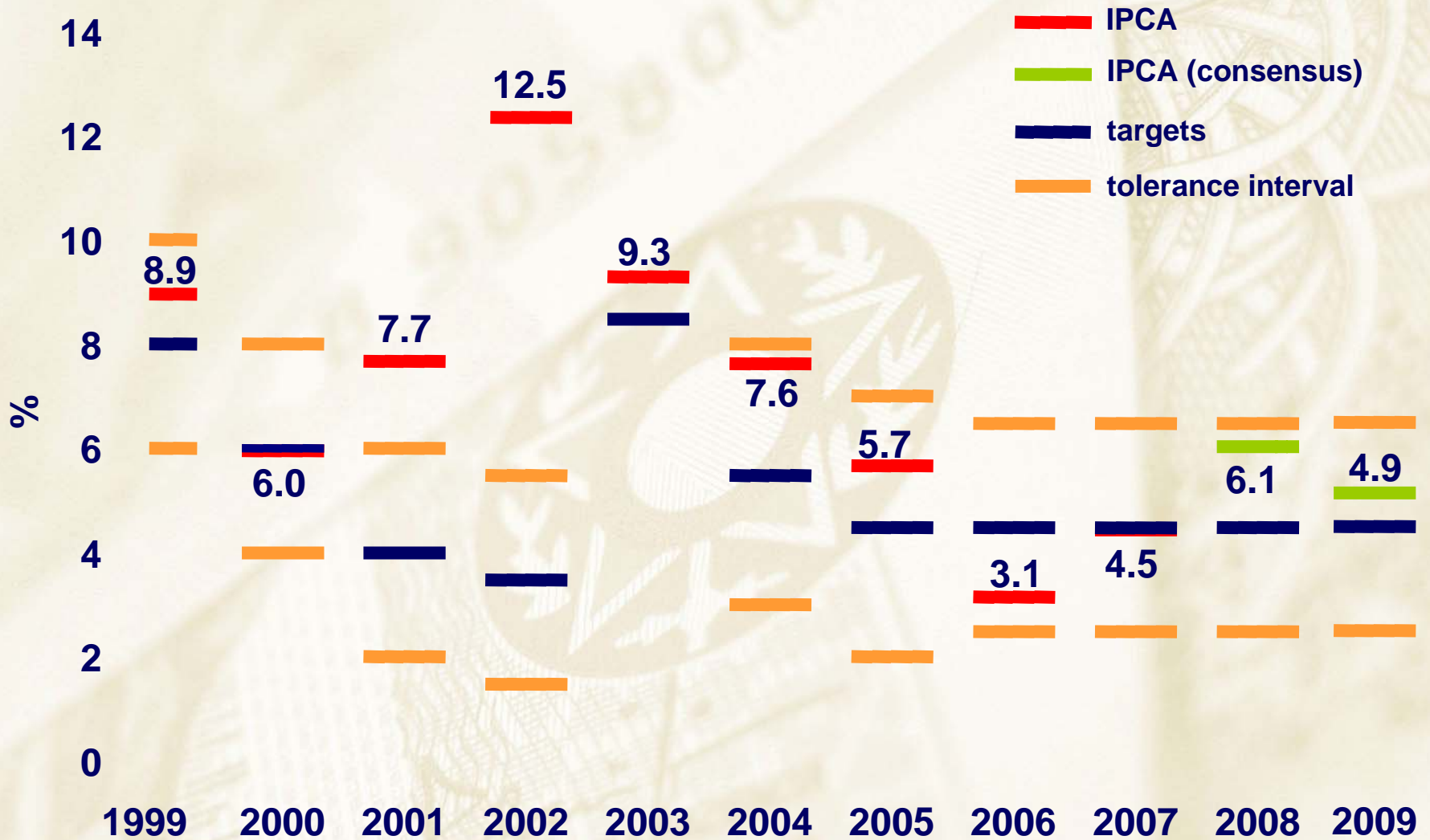


III. Brazil: Inflation Targeting in Practice

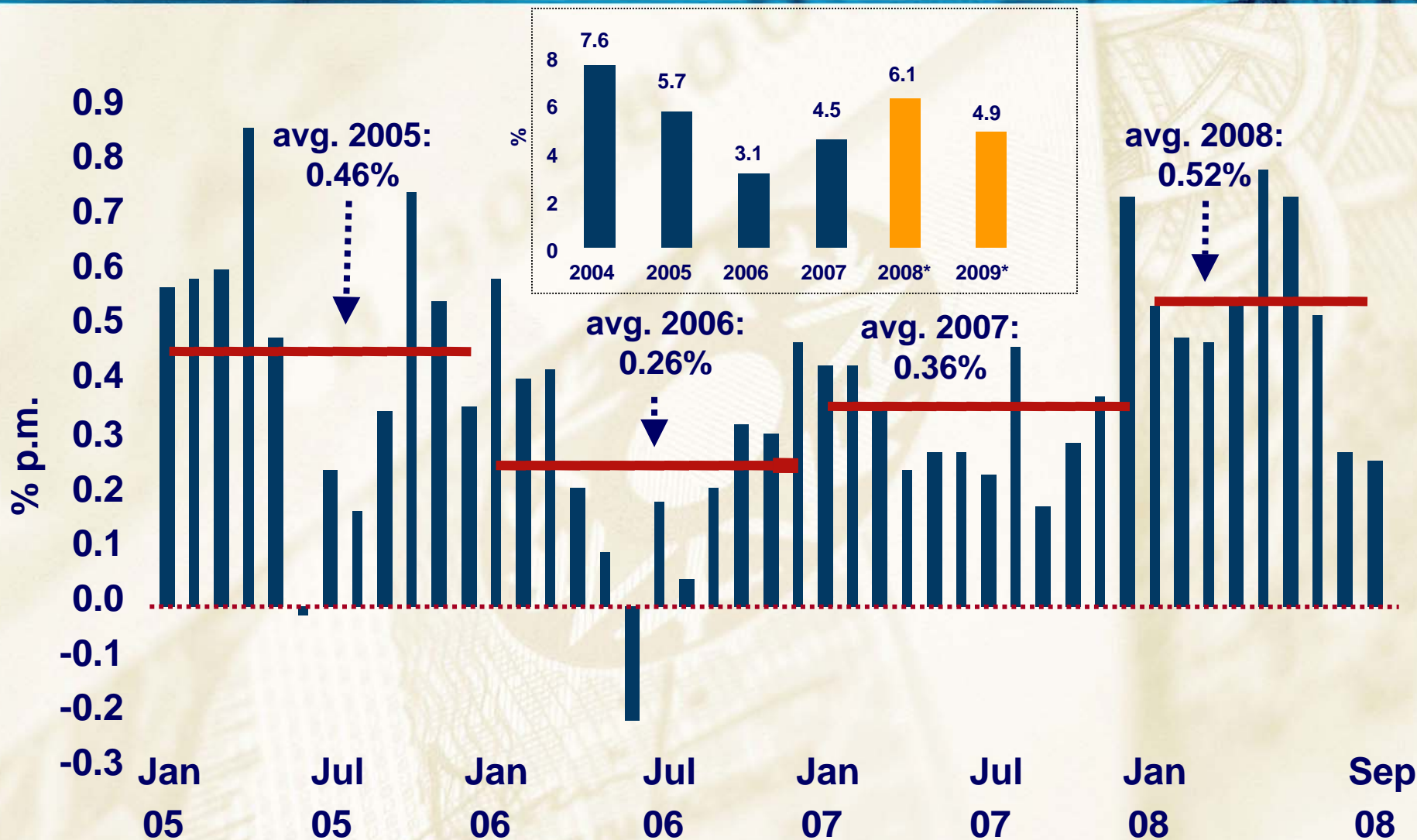
Contribution of Domestic and External Demand to GDP Growth



Inflation Targets

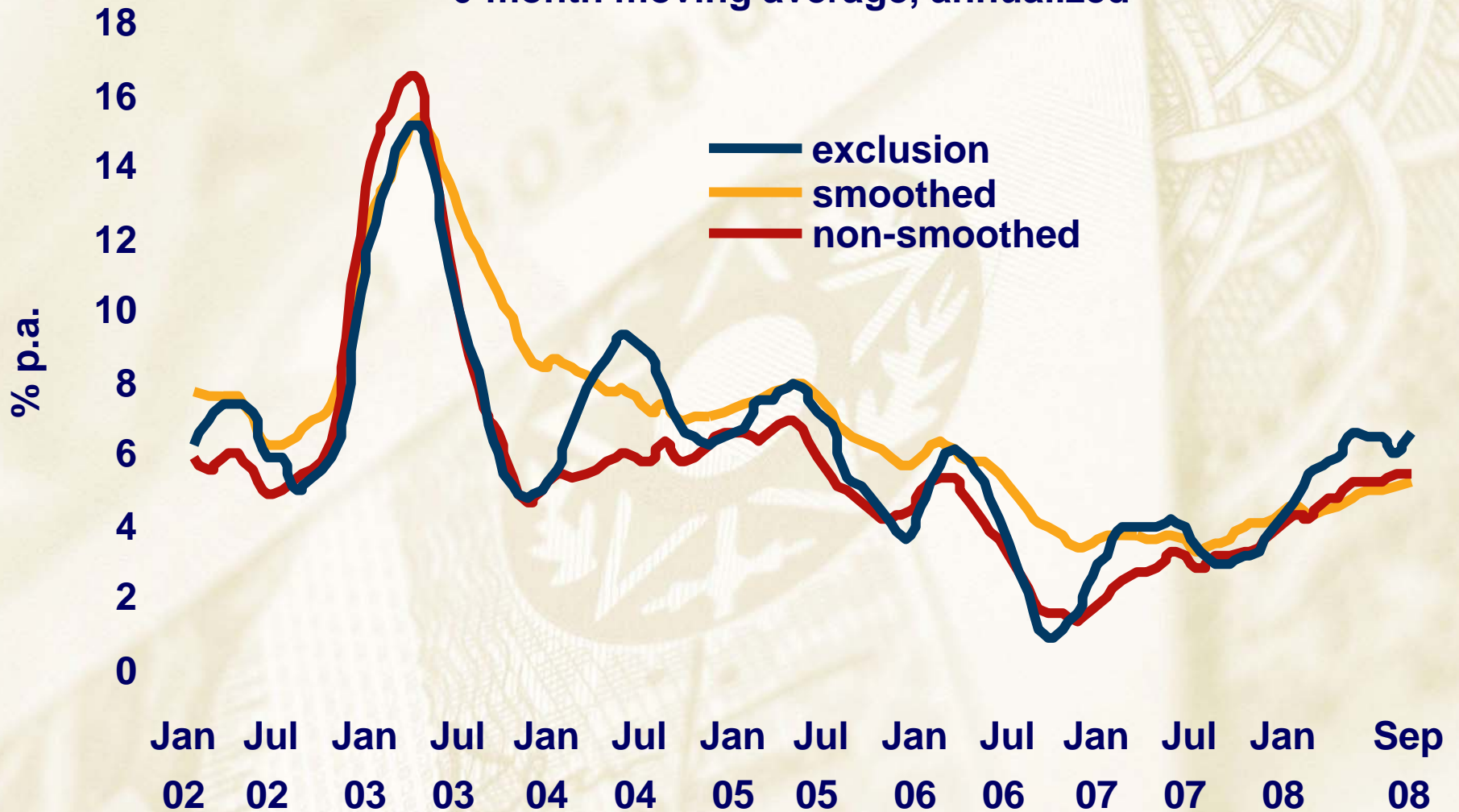


IPCA Inflation

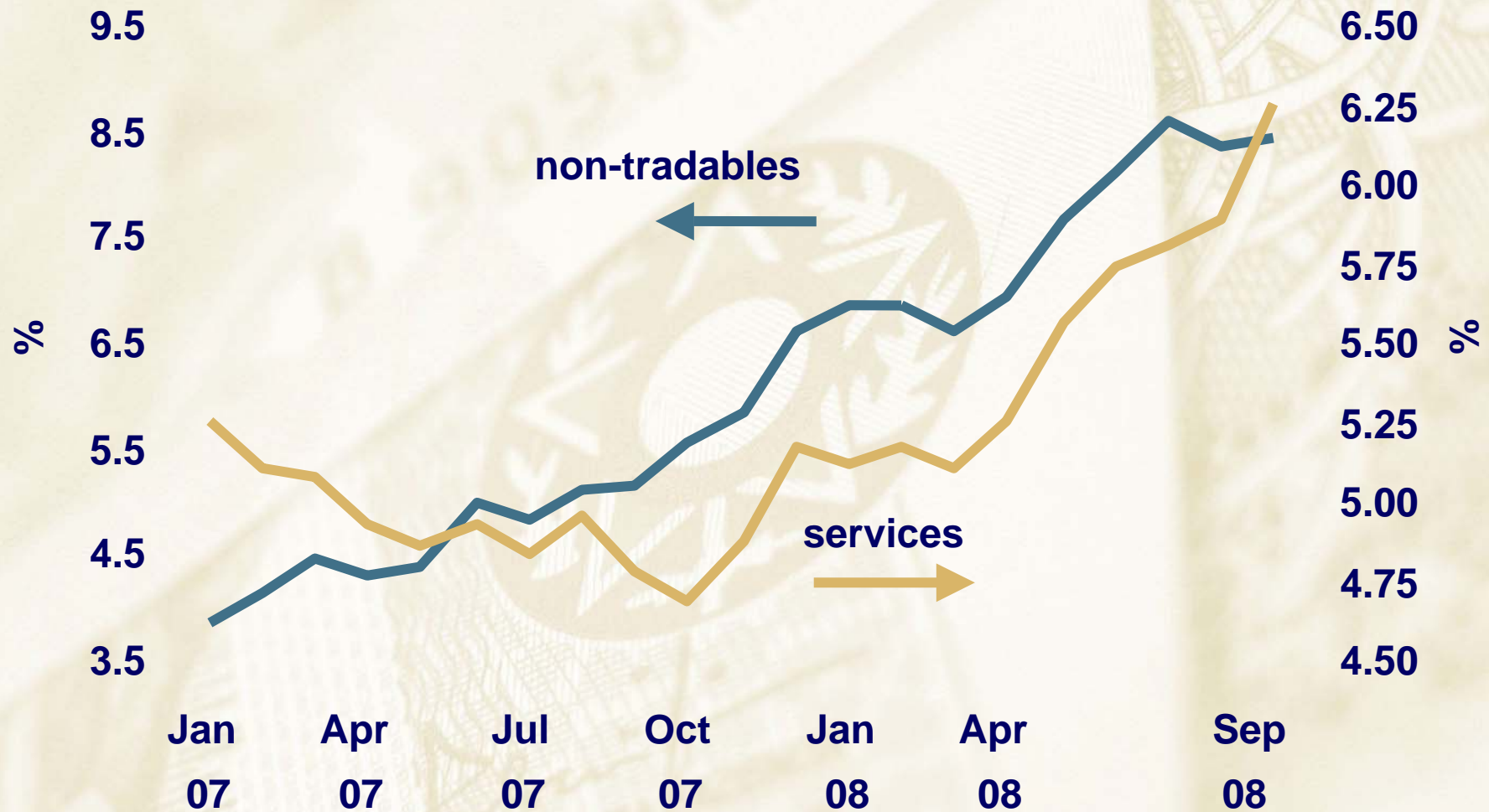


Core Inflation

6-month moving average, annualized



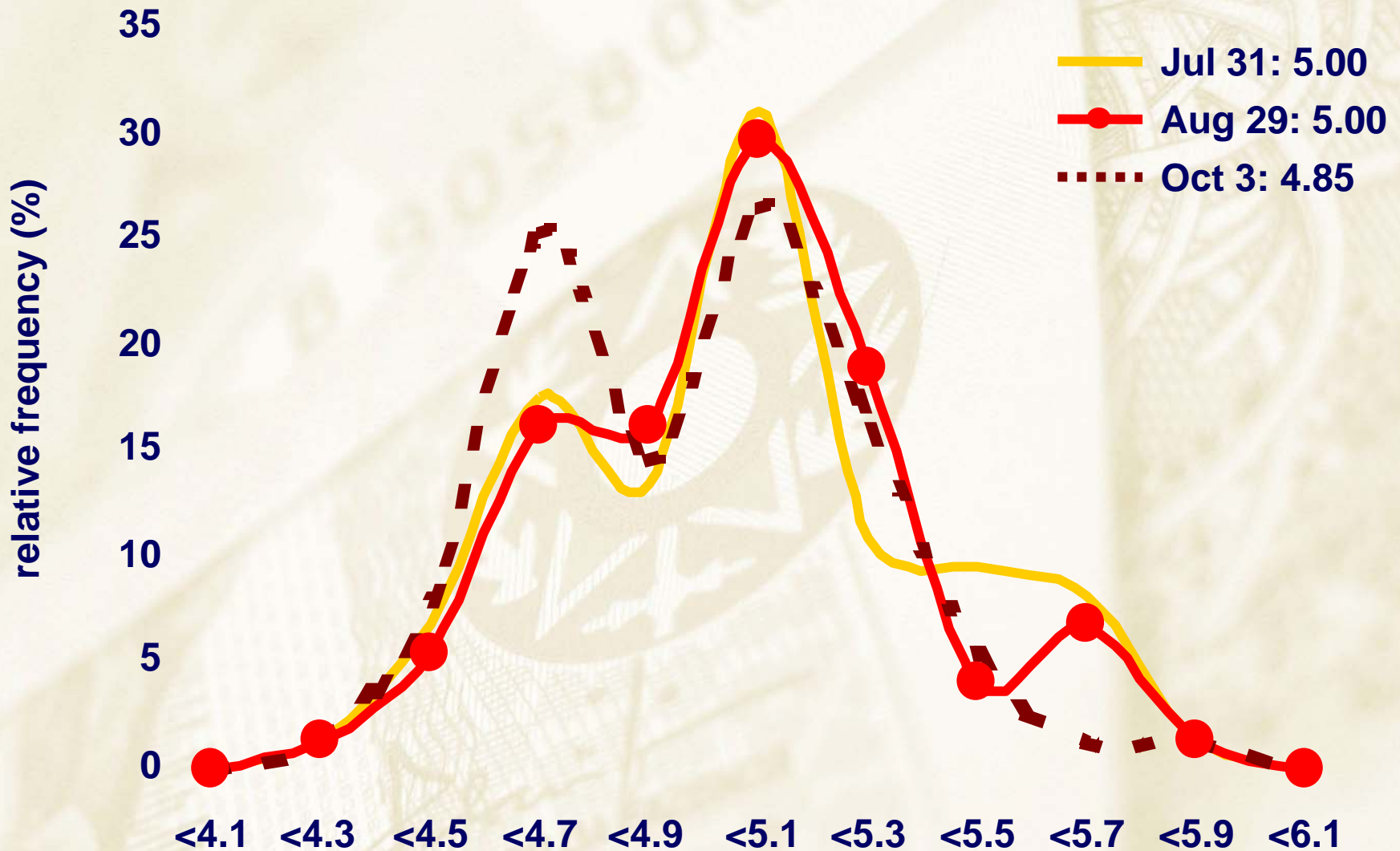
IPCA – 12-month change



IPCA Expectations and Target



2009 IPCA Market Expectations





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