



**BANCO CENTRAL
DO BRASIL**

Consolidation of Macroeconomic Stability in Brazil

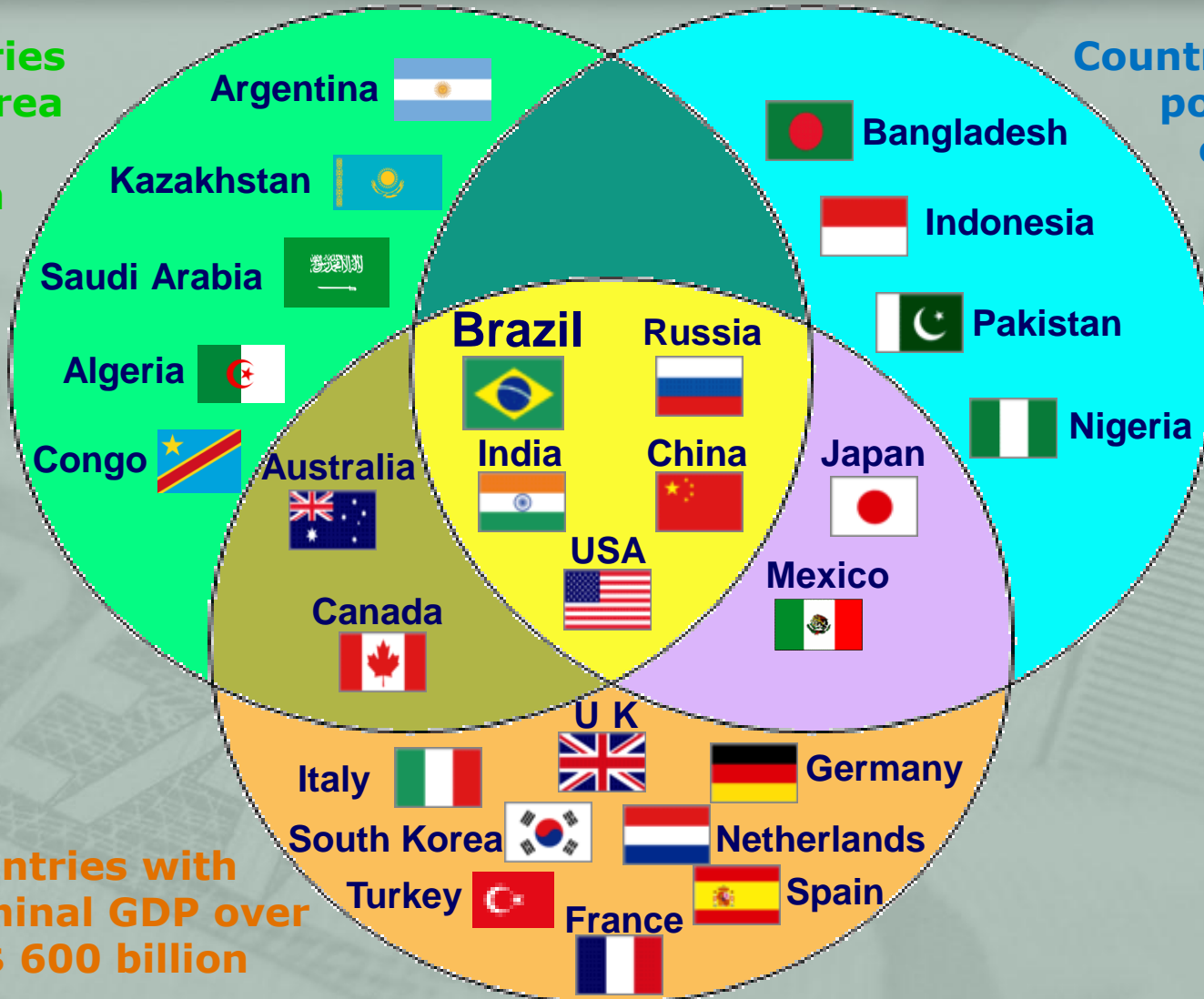
**Alexandre Pundek
New Zealand**

November 2009

Brazil – A Country within the World

Countries with area over 2 million km²

Countries with population over 100 million

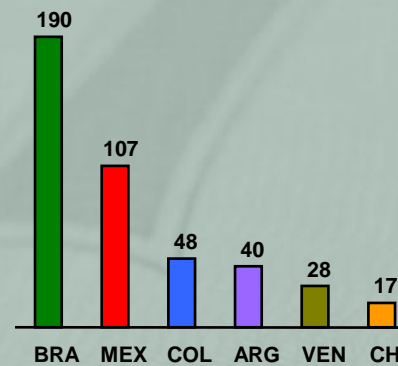


Brazil, Latin American Giant

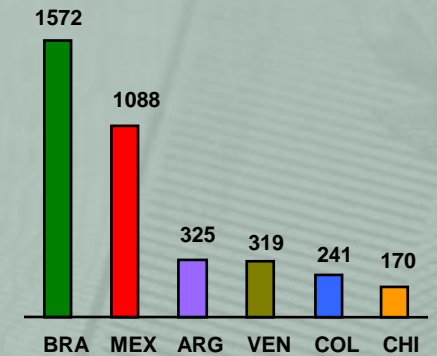


Government Regime: Federative Republic
Capital: Brasília
Chief of State: Pres. Luiz Inácio Lula da Silva

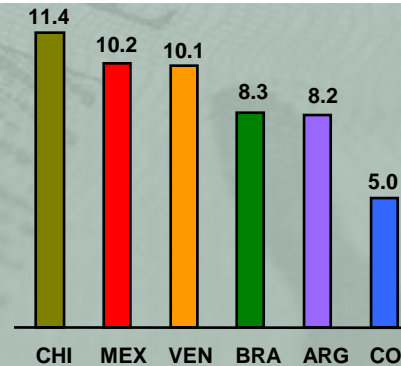
Population (2008)



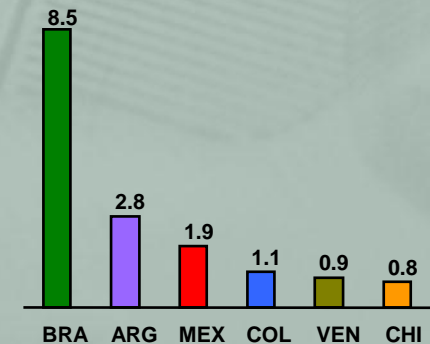
GDP (2008)



Per Capita GDP (2008)



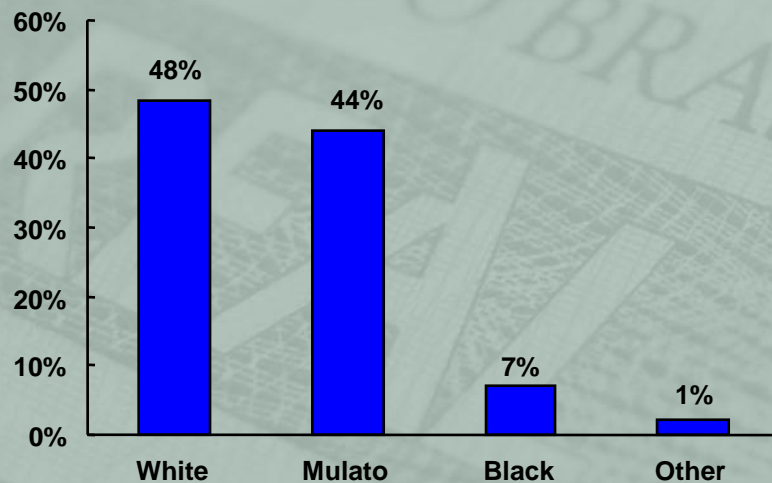
Land Area



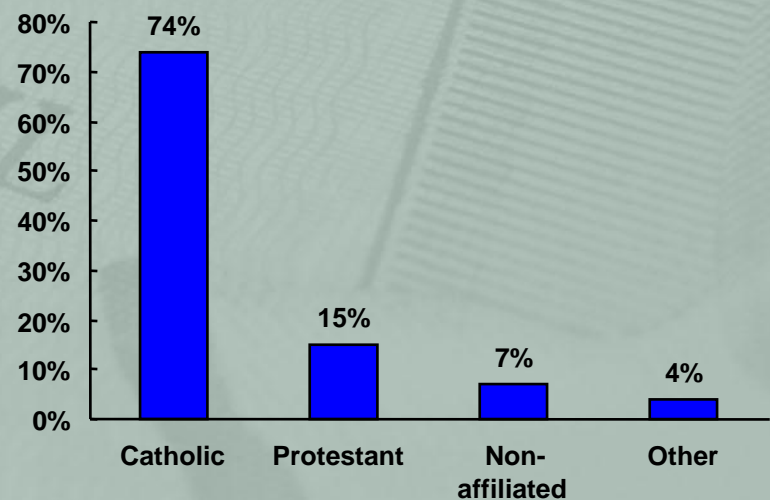
Demographics

- ✓ With a population of 191 million (est. 2009), Brazil is the world's fifth most populous country after China, India, the US and Indonesia;
- ✓ The Southeast region, the wealthiest area, contains half of Brazil's total population as well as the urbanized and industrial centre of São Paulo and Rio de Janeiro, the sixth and twenty eighth largest cities in the world;
- ✓ Annual population growth slowed from 2.2% in 1980 to 1.2% in 2008.

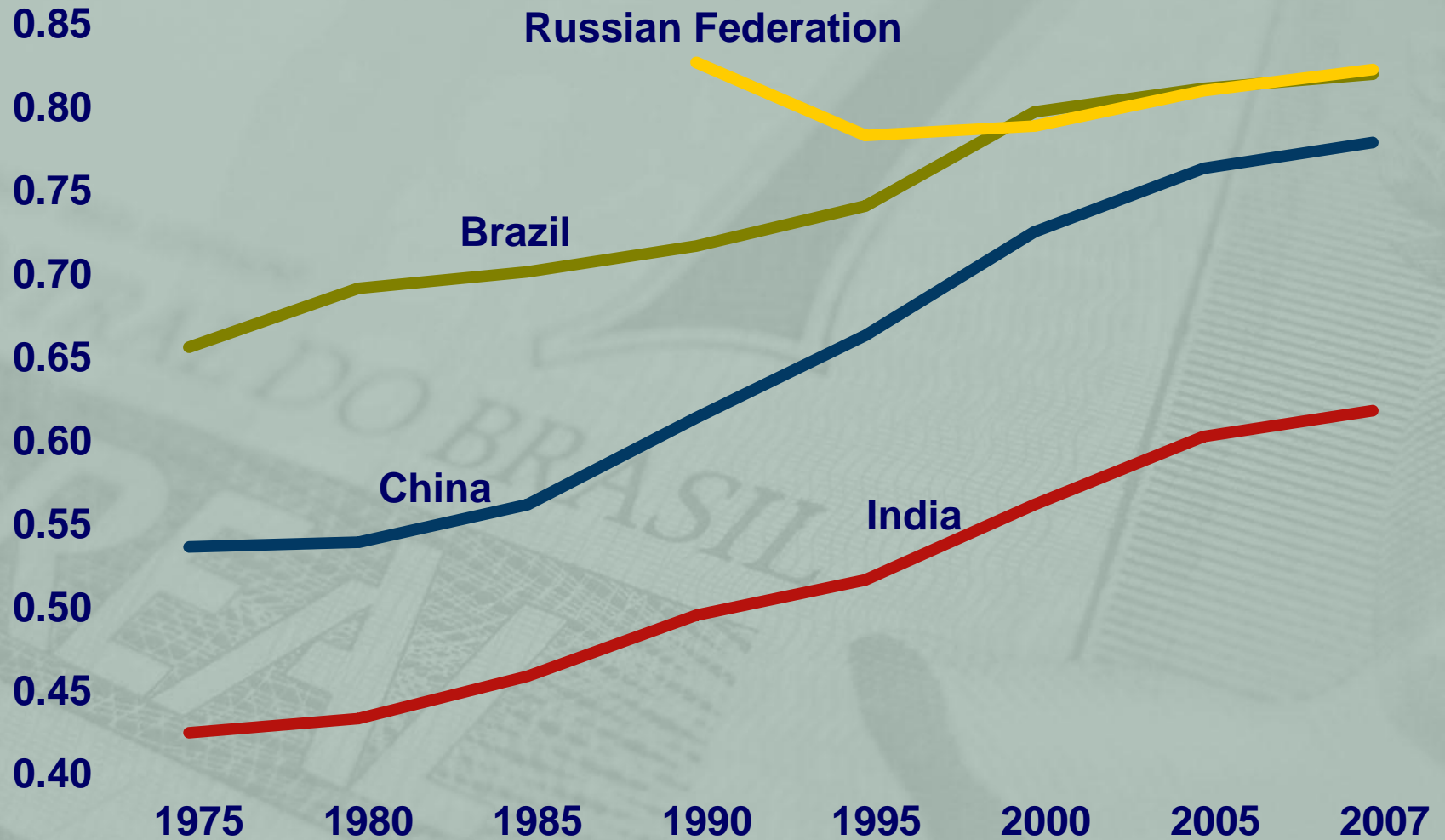
Ethnic distribution (2008)



Religious distribution



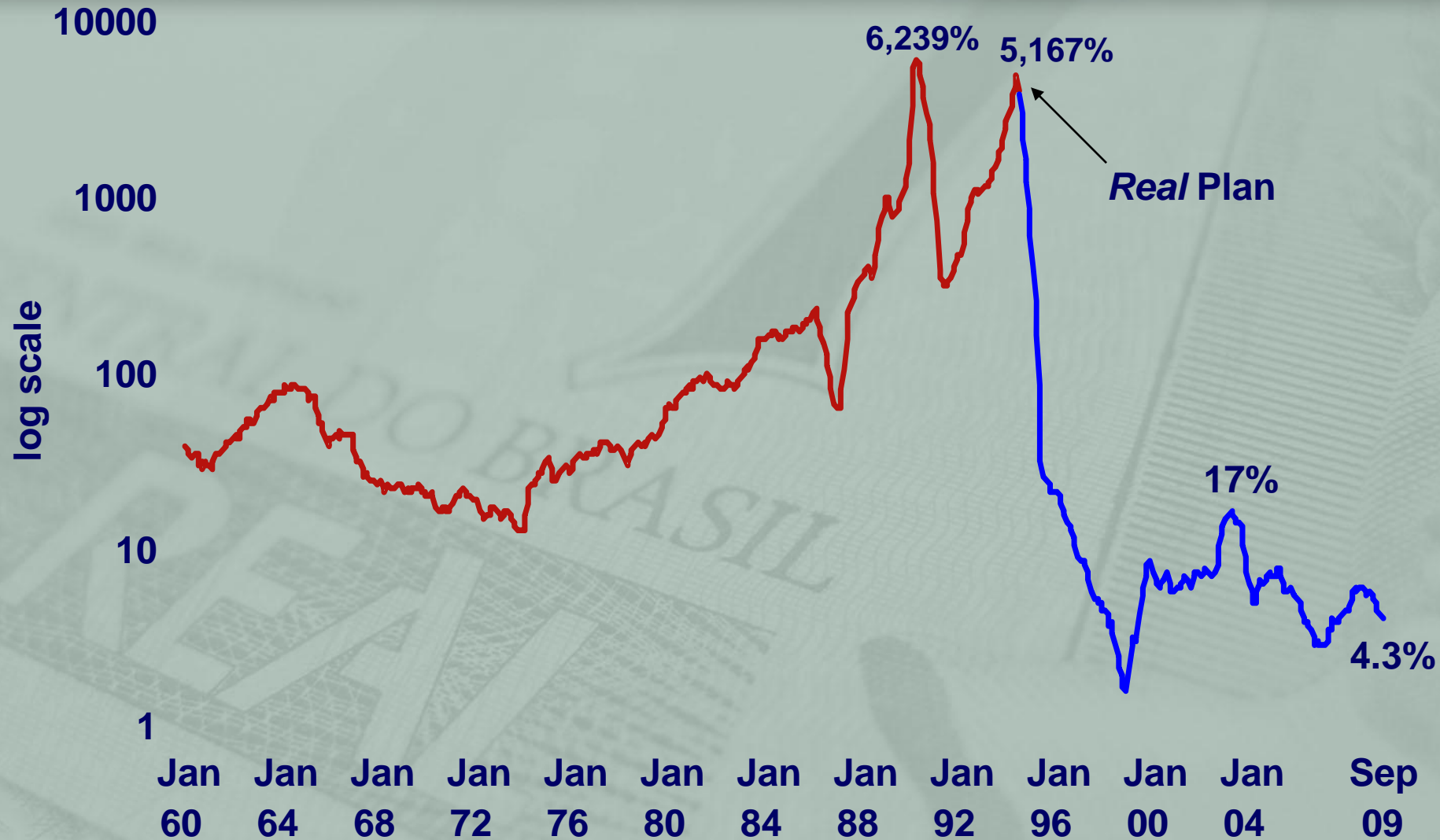
Human Development Index



Openness of Brazilian Economy



Inflation: Historic Background



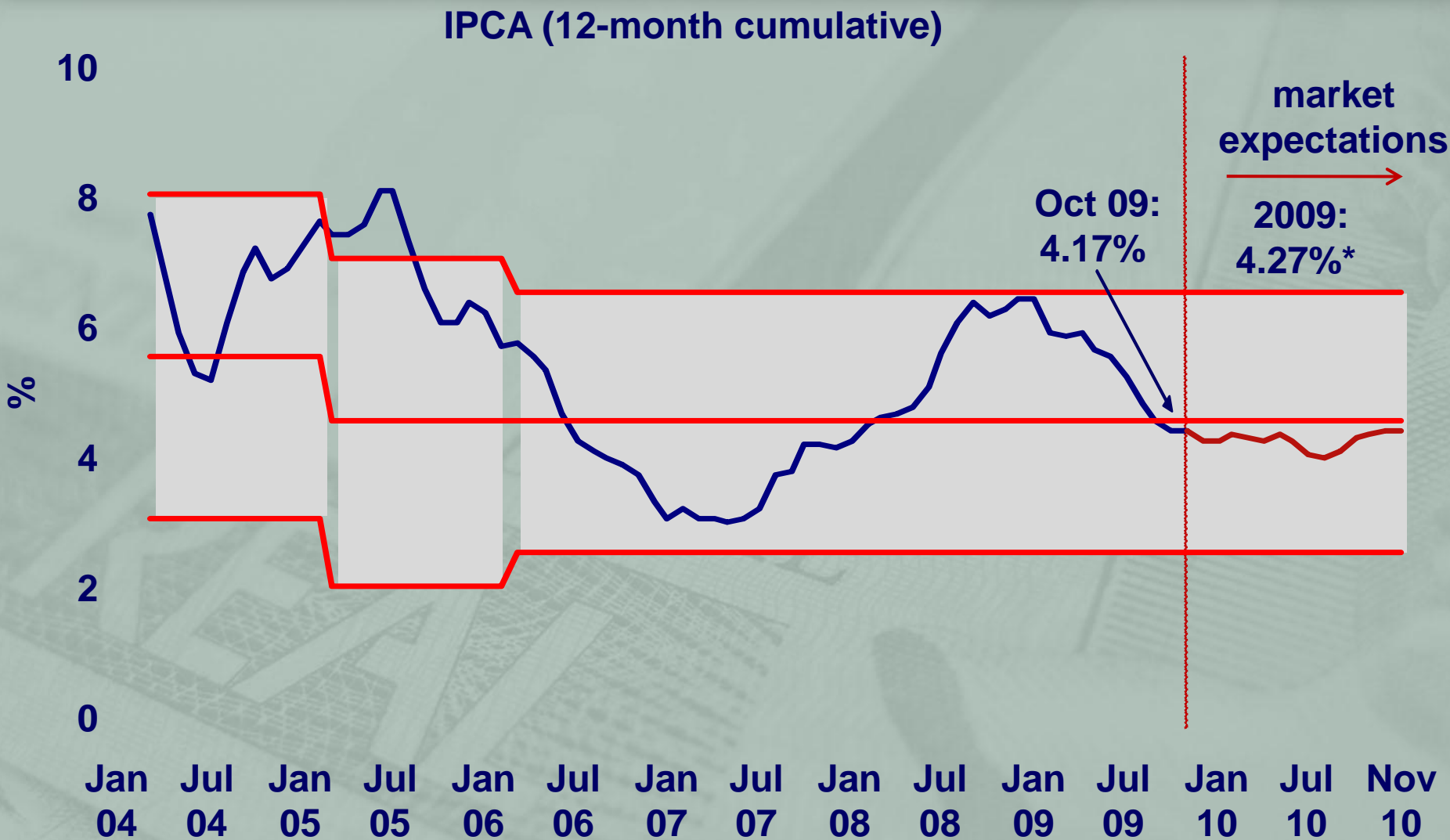
Making Brazil Grow Better

- **Since the beginning of the 90s, important macro reforms were implemented, including:**
 - ✓ **Opening the economy to trade and investment;**
 - ✓ **Privatizing public entities;**
 - ✓ **Approving Fiscal Responsibility Law;**
 - ✓ **Initiatives for reforming social security system;**
 - ✓ **Restructuring banking system;**
 - ✓ **Fiscal adjustment;**
 - ✓ **Stabilizing inflation.**
- **Micro reform agenda, targeting at modernizing rules and reducing distortions, advanced substantially in recent years.**

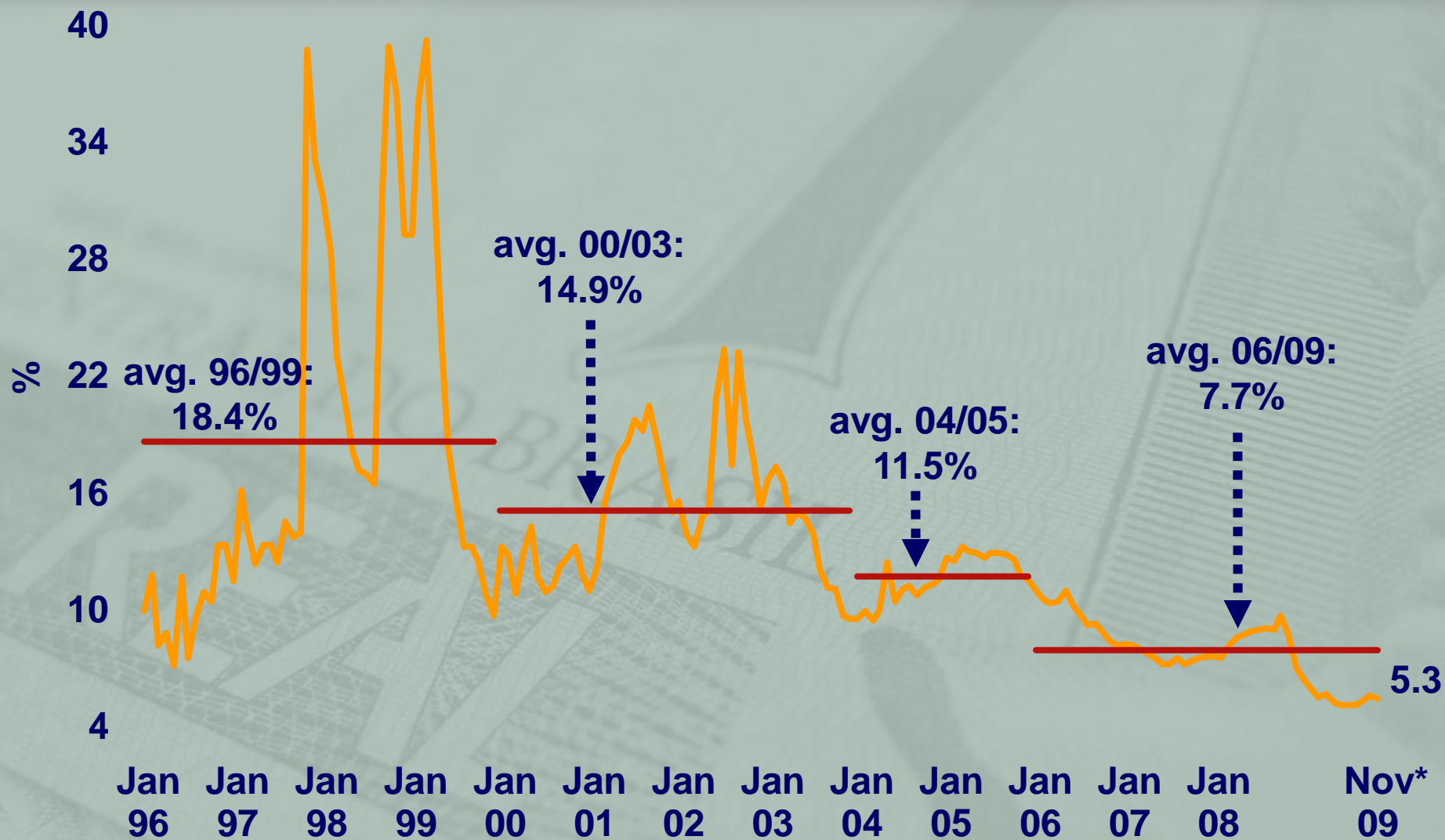
I. Monetary Policy and Inflation

- **Consolidation of current macroeconomic policy, based on three main pillars...**
 - ✓ **Inflation target** in the conduction of monetary policy
 - ✓ **Fiscal policy**, generating primary surpluses compatible with the reduction of debt-to-GDP ratio
 - ✓ **Exchange rate flexibility** as instrument to preserve external adjustment
- ... has contributed to reduce perceived macroeconomic risks and therefore to higher GDP growth rates

Inflation Convergence to Targets

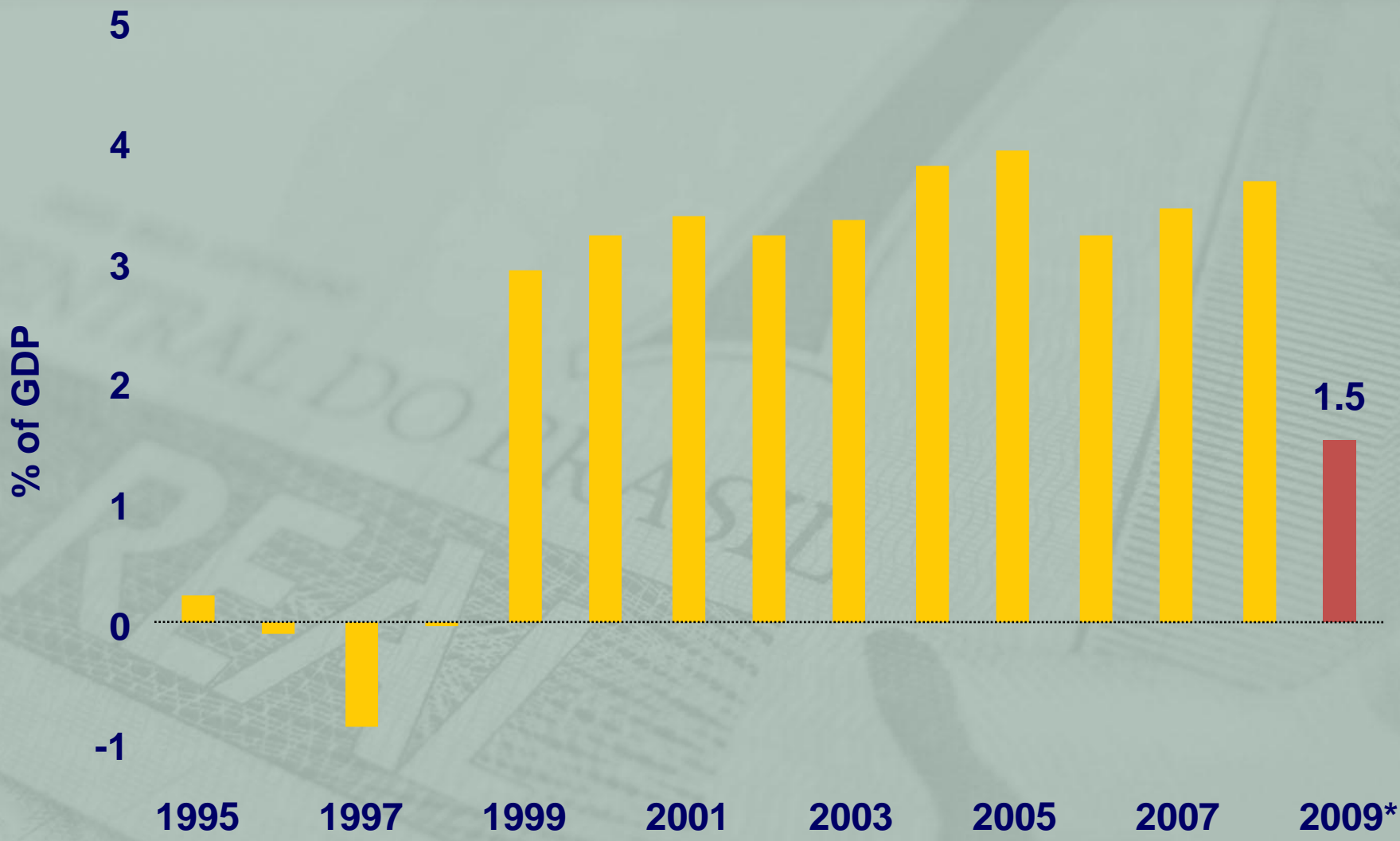


Real Interest Rate

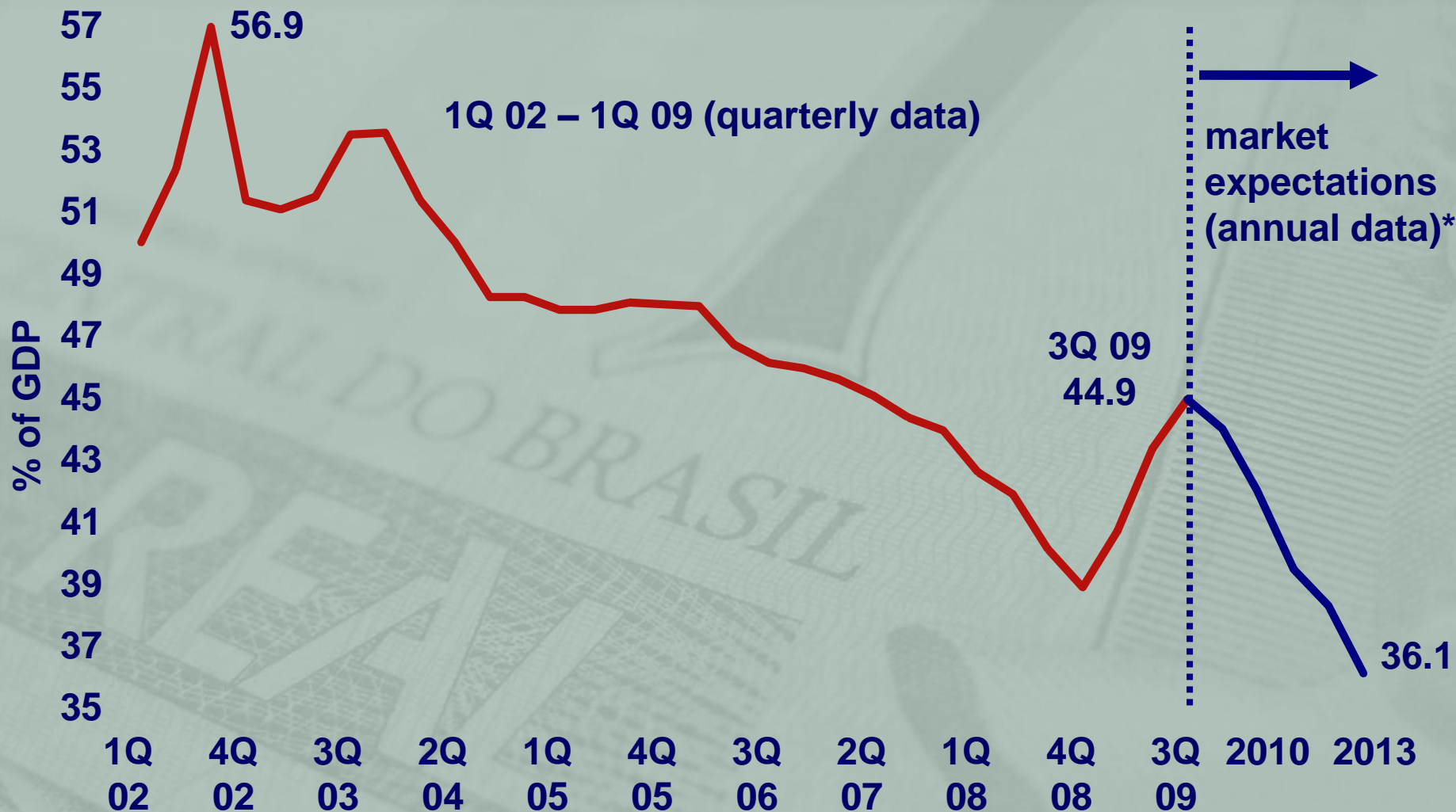


II. Fiscal Policy

Public Sector's Primary Surplus

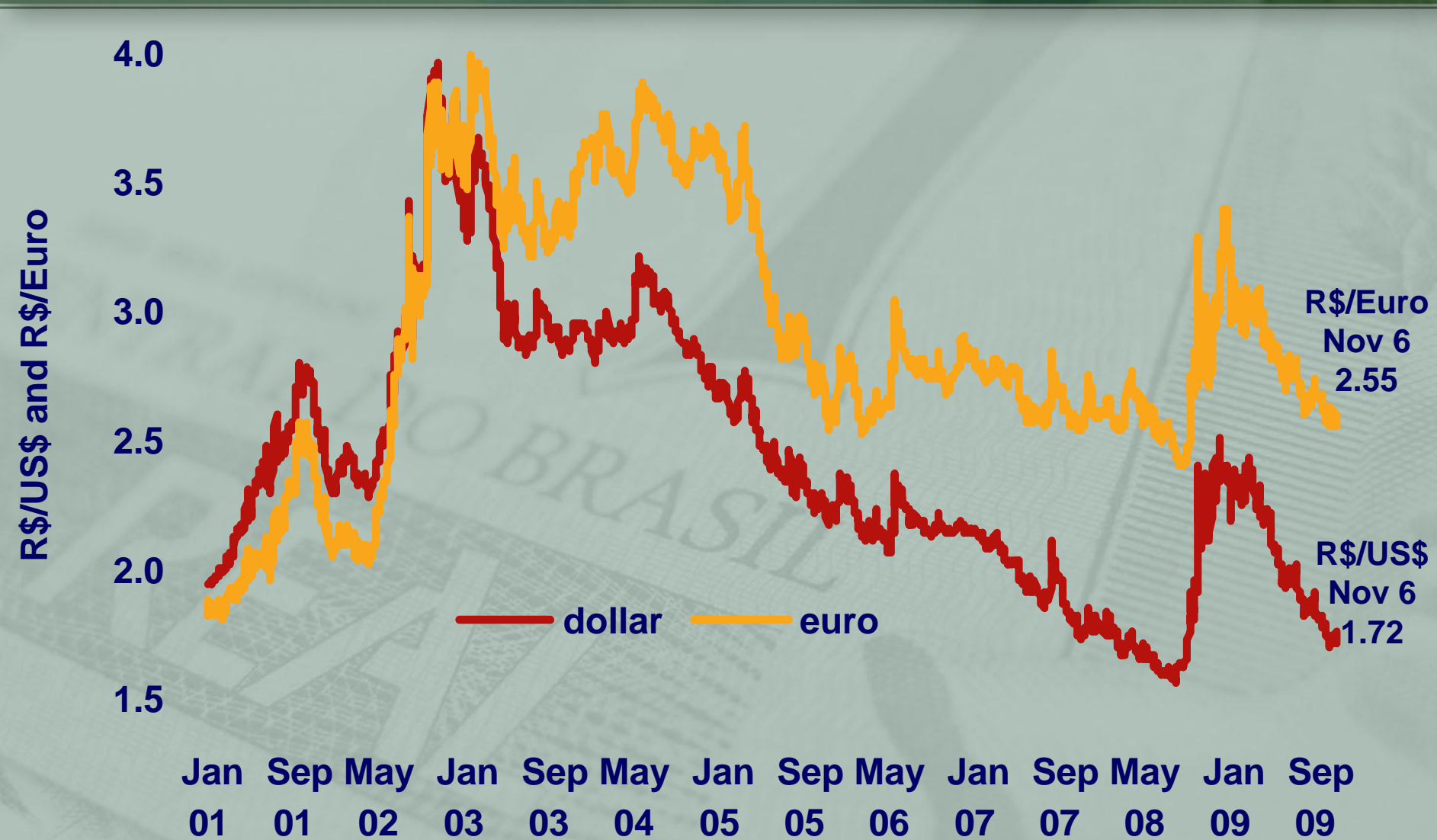


Debt/GDP Ratio Trend

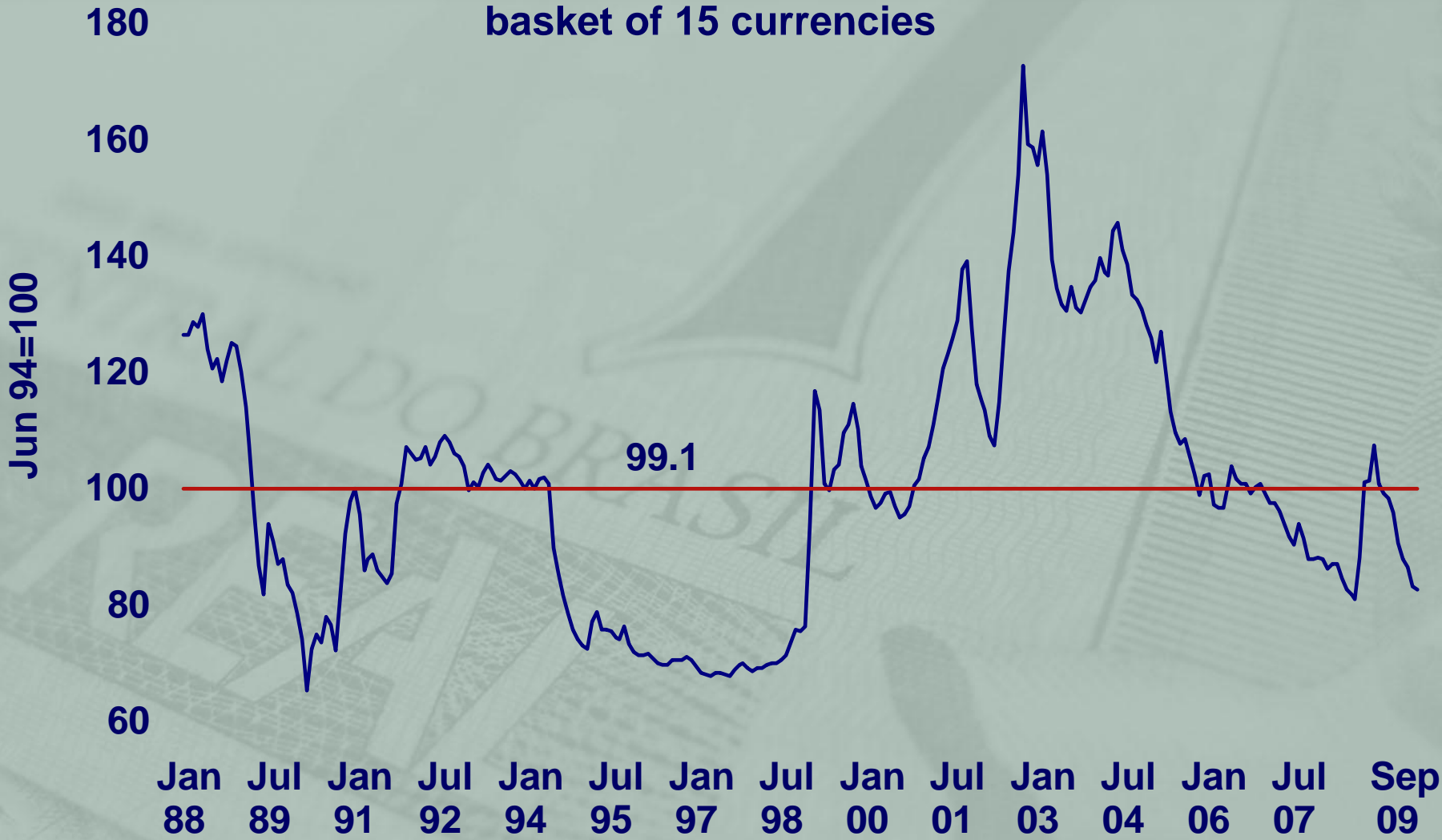


III. External Sector

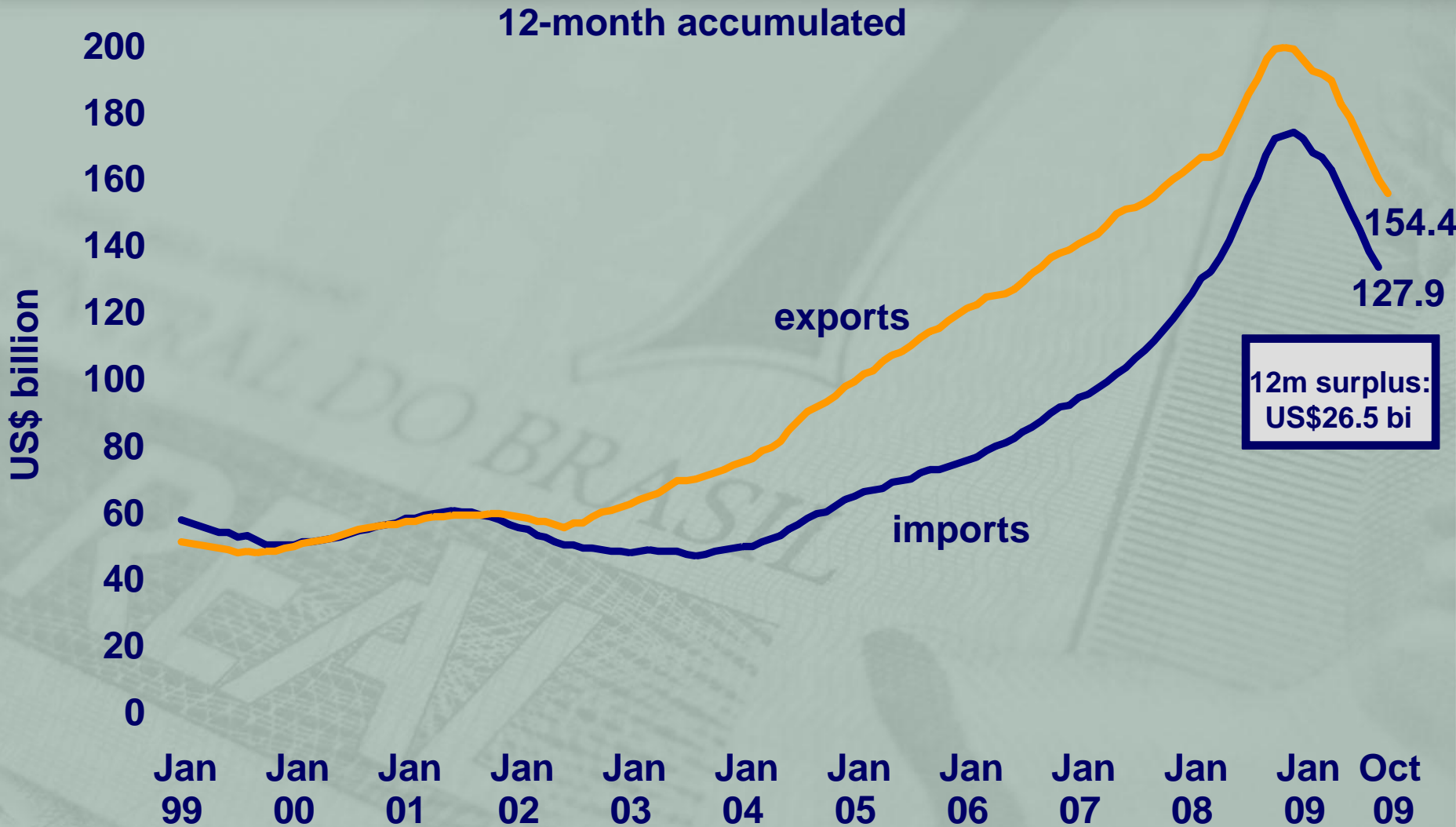
Nominal Exchange Rate



Effective Real Exchange Rate

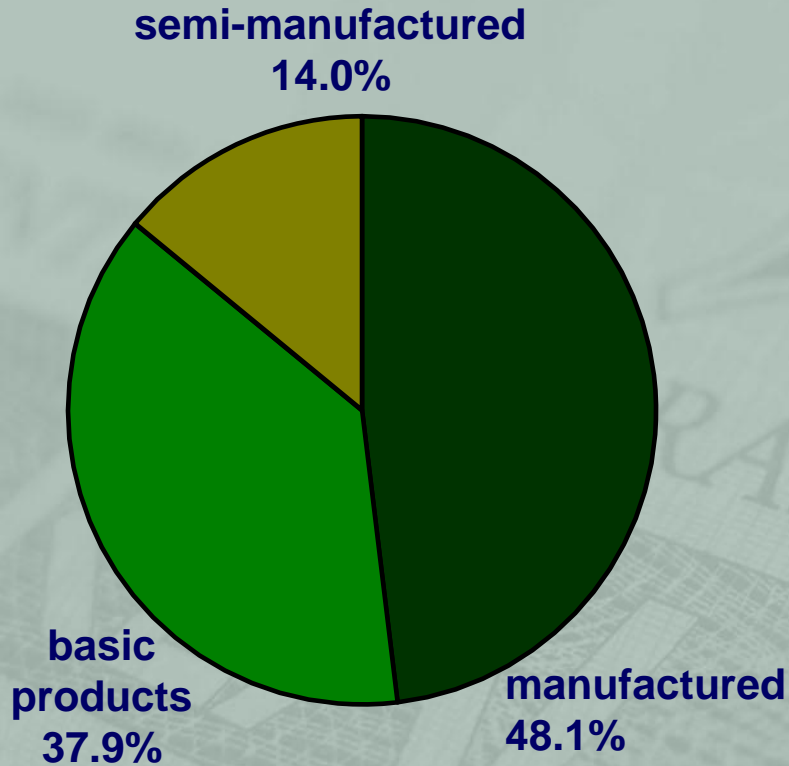


Trade Balance

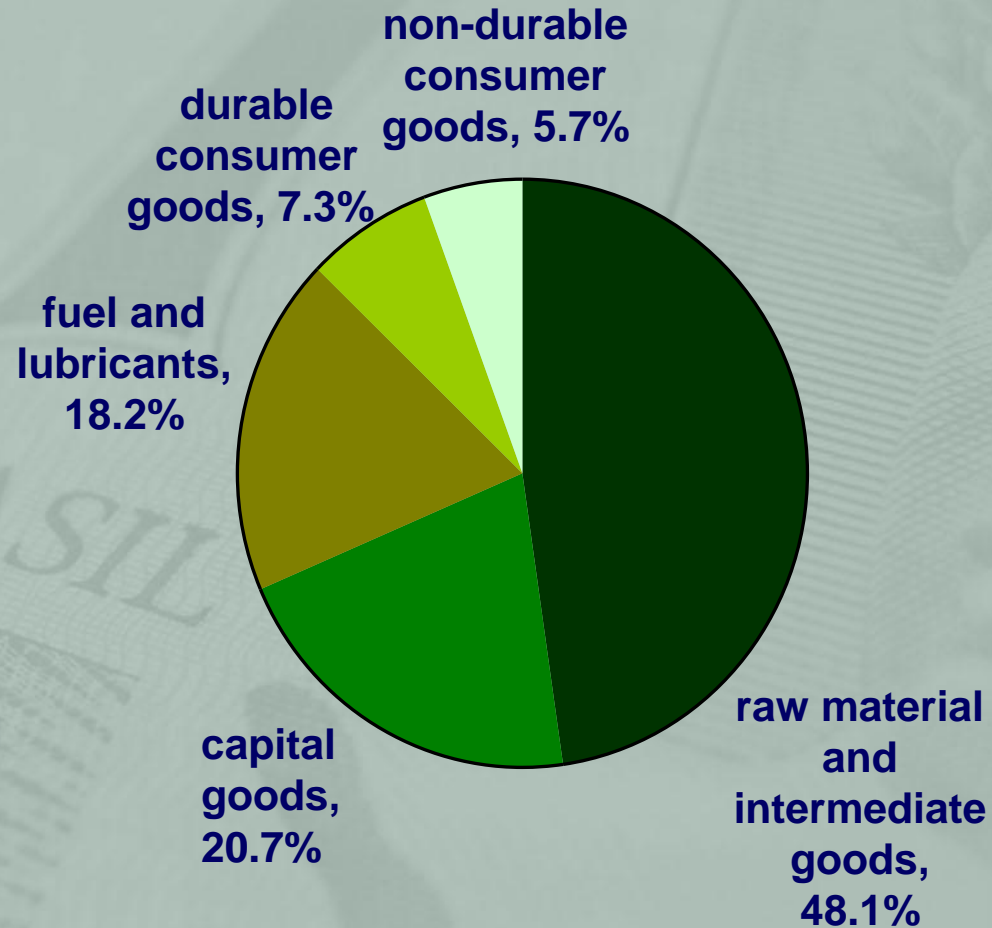


Brazil: Export/Import Composition - 2008

Exports

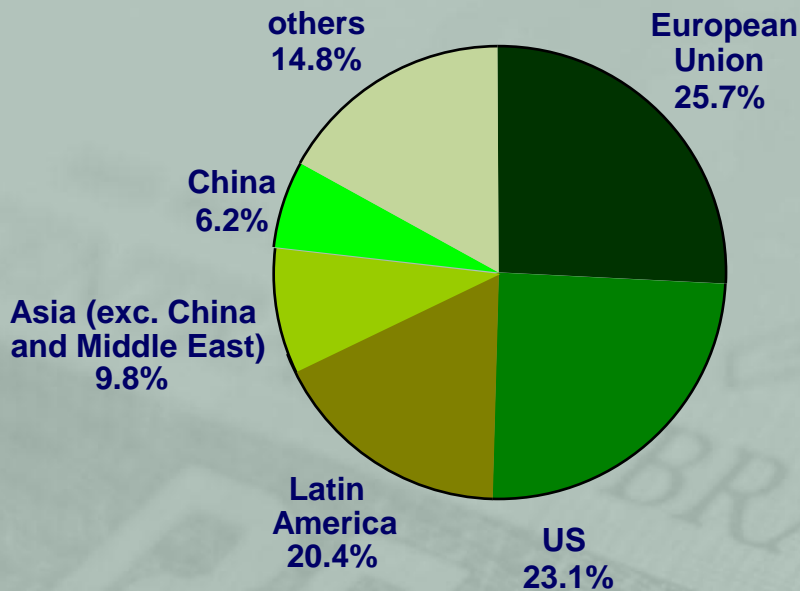


Imports



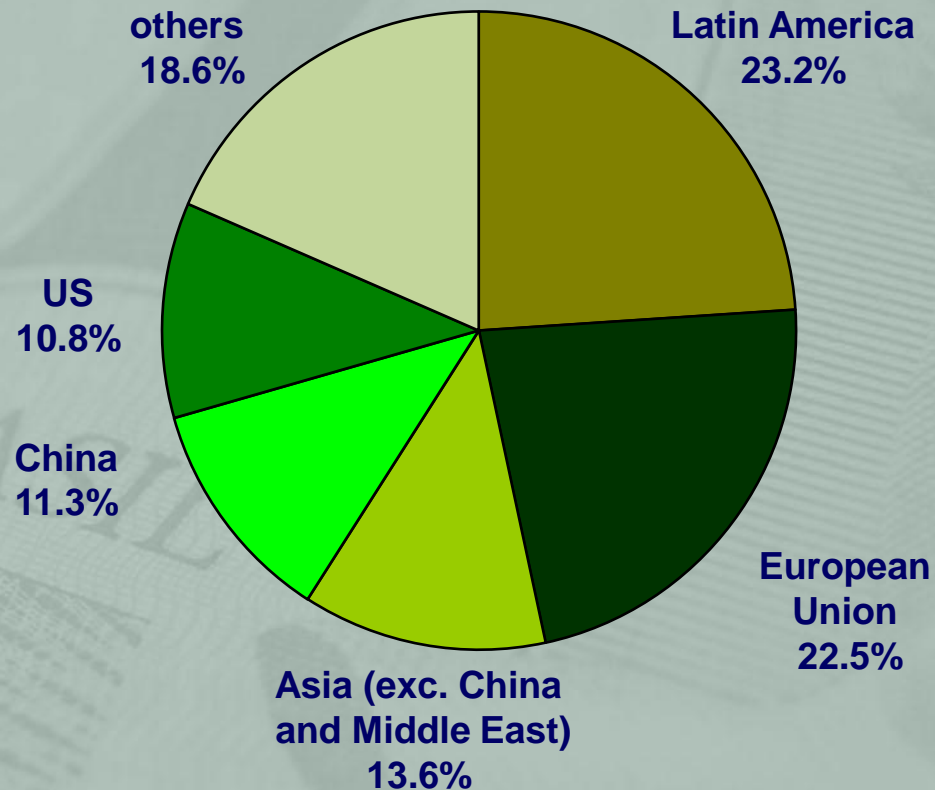
Export Markets

2003



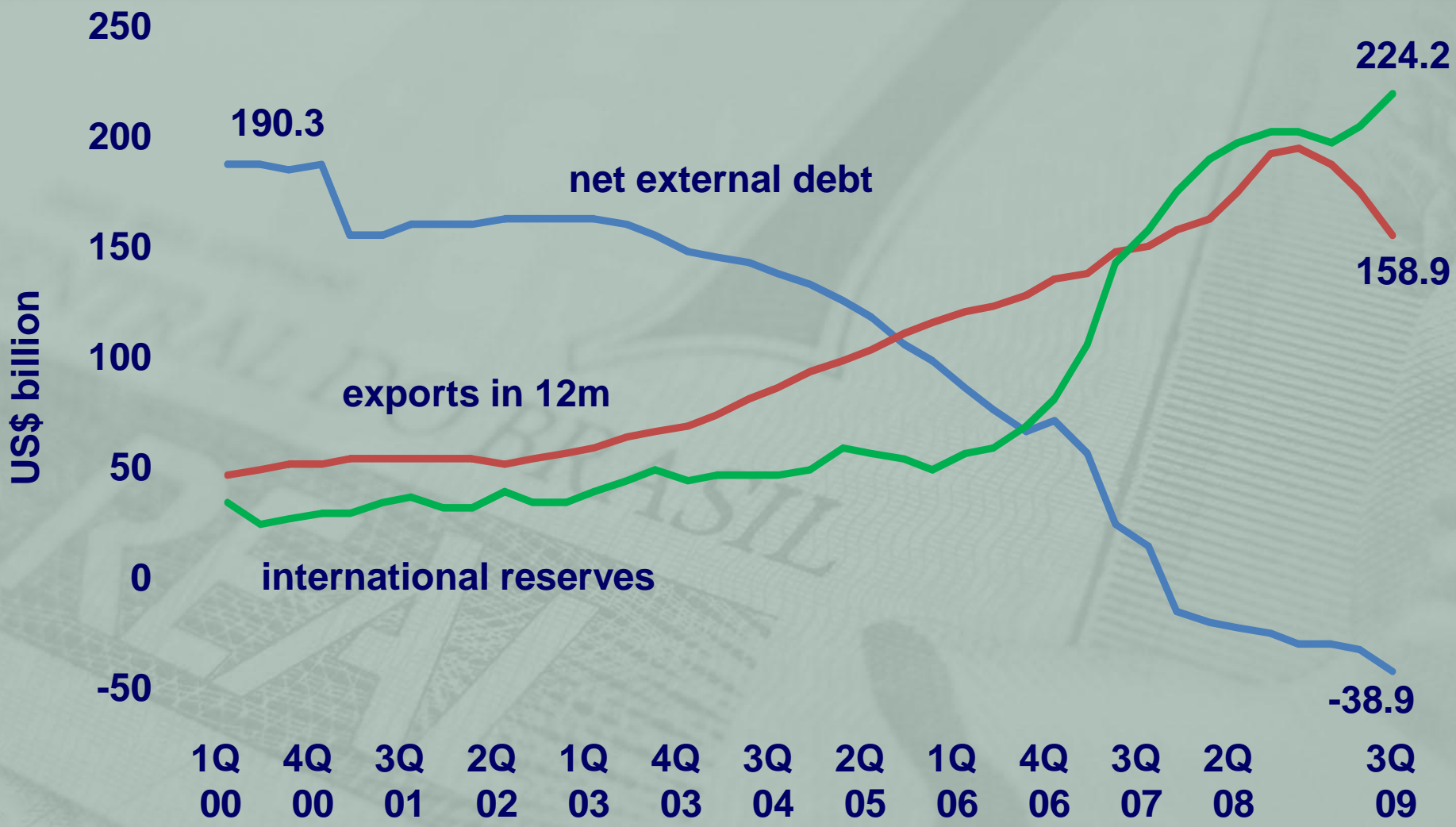
US\$ 124.7 billion

Nov 08-Oct 09



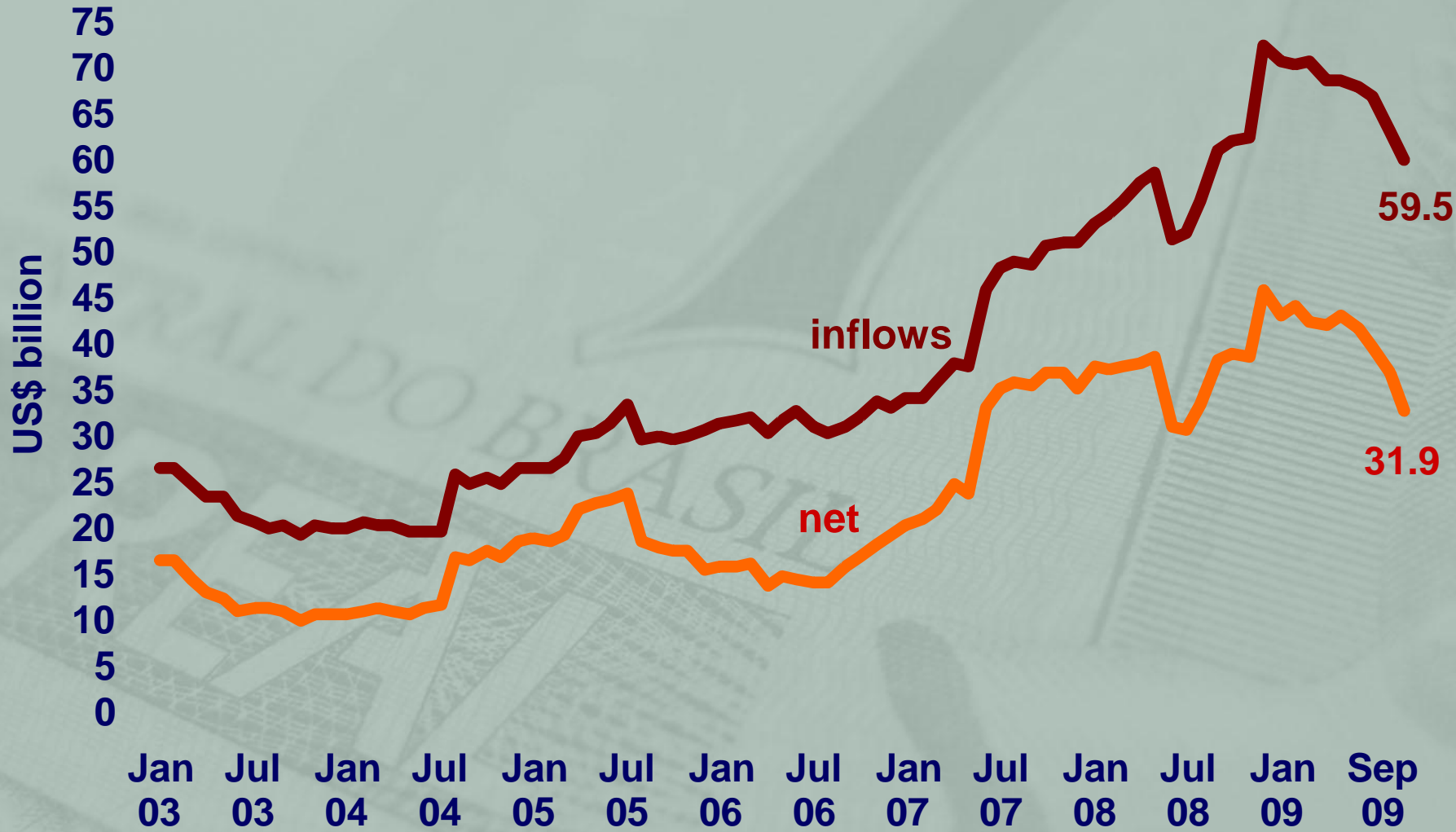
US\$ 154.4 billion

International Reserves, Net External Debt and Exports



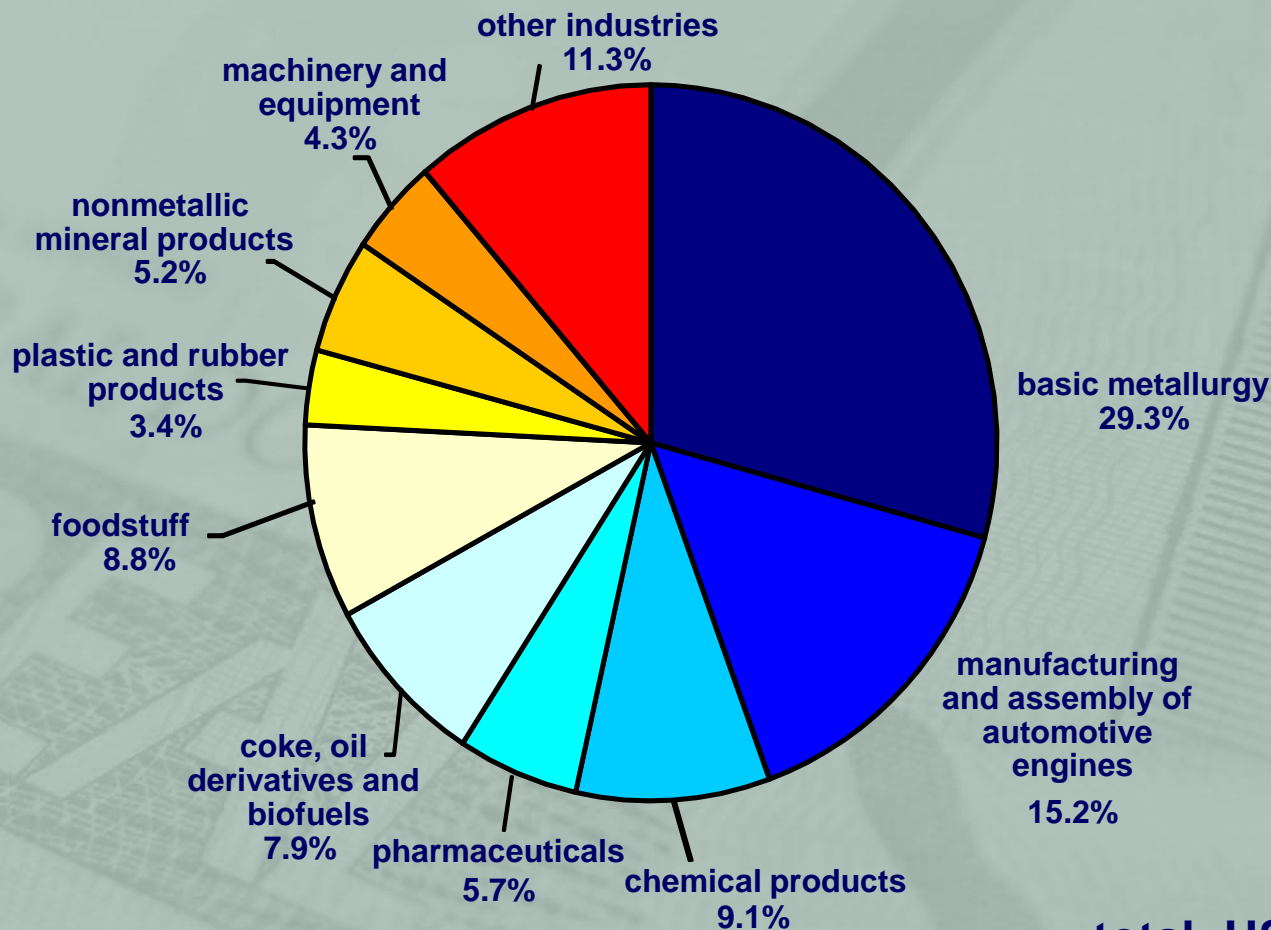
Foreign Direct Investment

accumulated in 12 months



FDI Inflows: Distribution by Sector (Manufacturing)

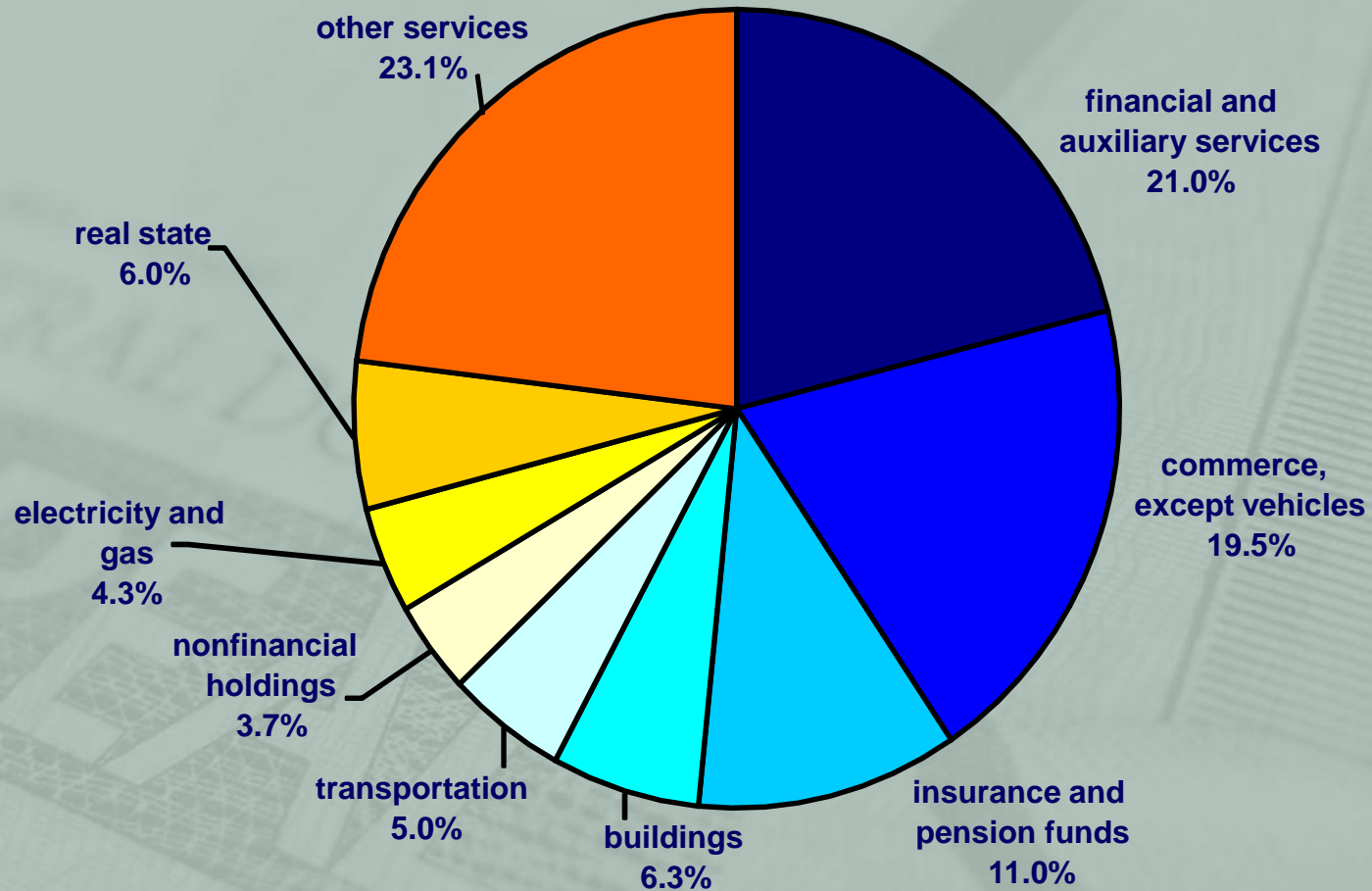
accumulated in 12 months through September/09



total: US\$14.1 billion

FDI Inflows : Distribution by Sector (Services)

accumulated in 12 months through September/09



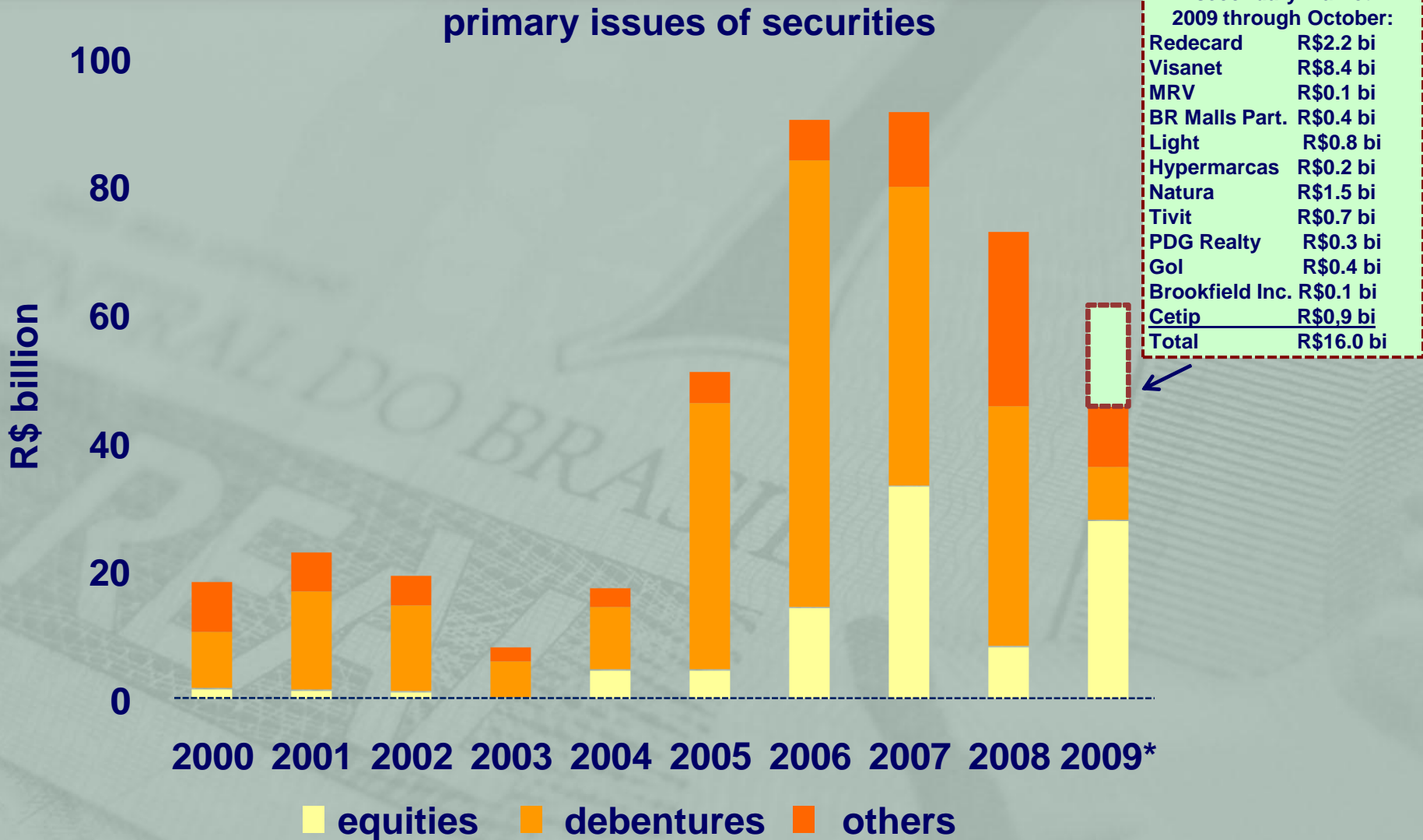
total: US\$13.2 billion

IV. Credit and Banking Sector

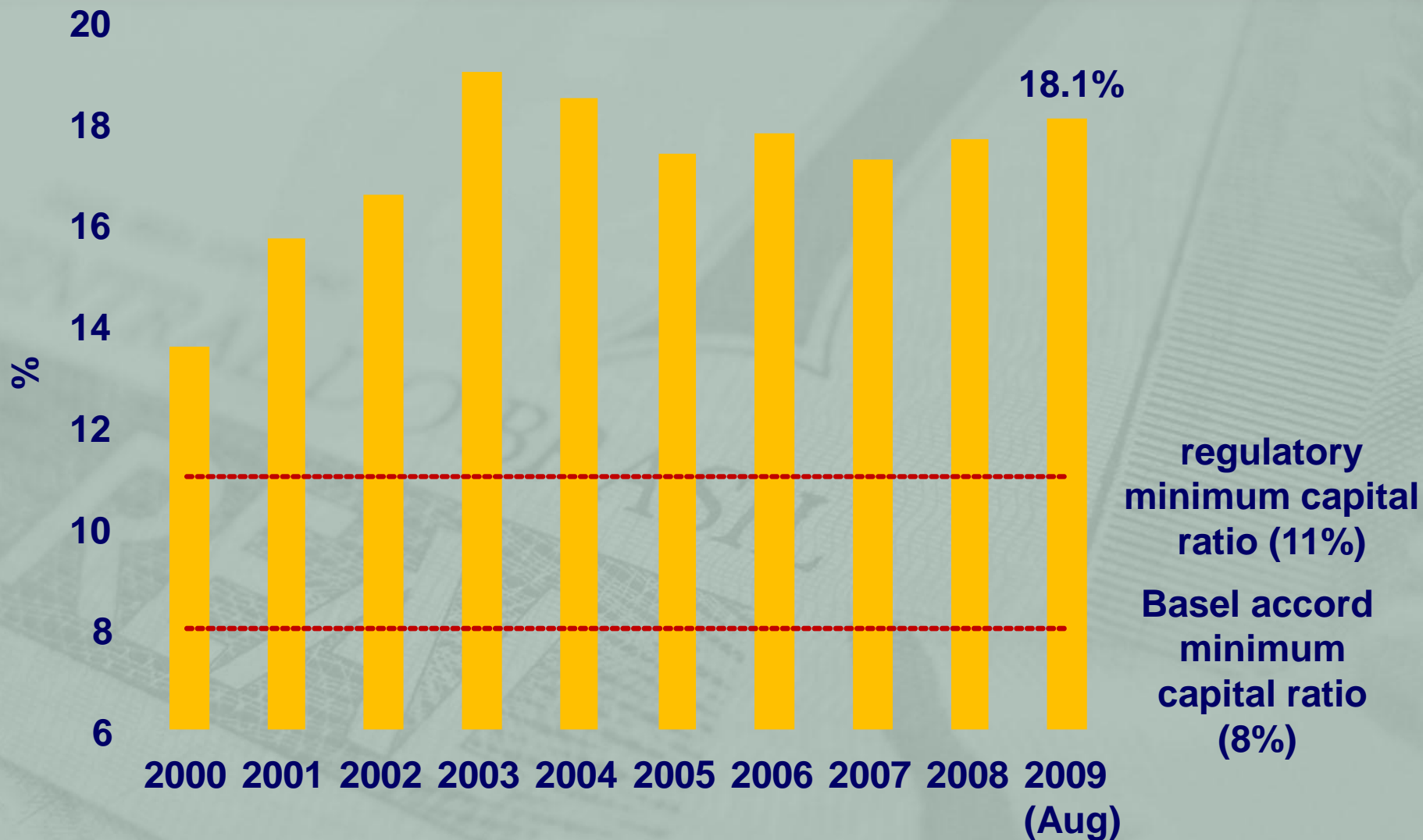
Credit/GDP: Brazil vs. Mature Economies - 2007



Capital Markets



Banking System Capital Adequacy Ratio

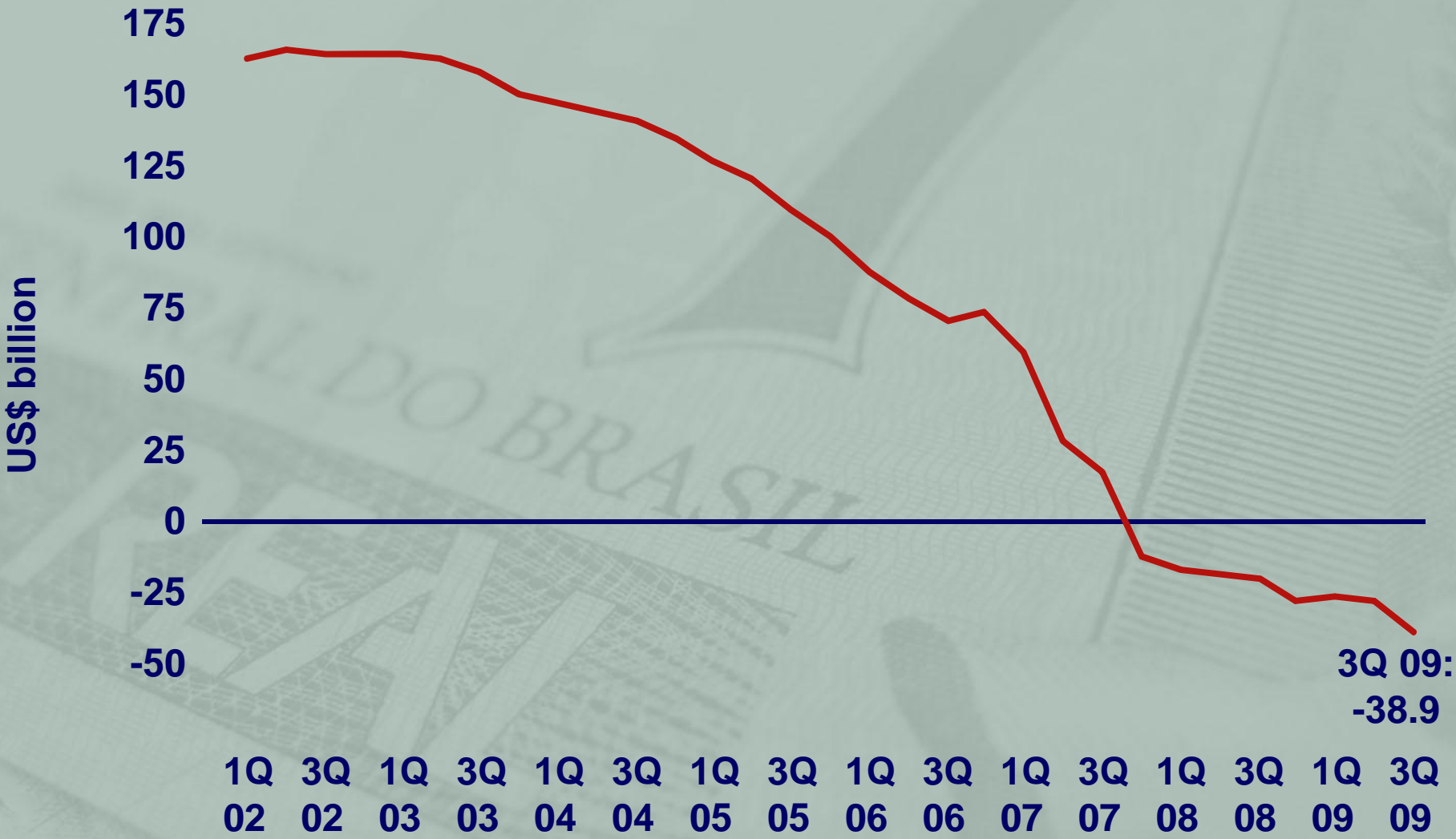


VI. Dealing with the crisis

- **Deleveraging:**
 - reduction of external debt;
 - acquisition of international reserves;
 - reduction of foreign denominated domestic debt.:

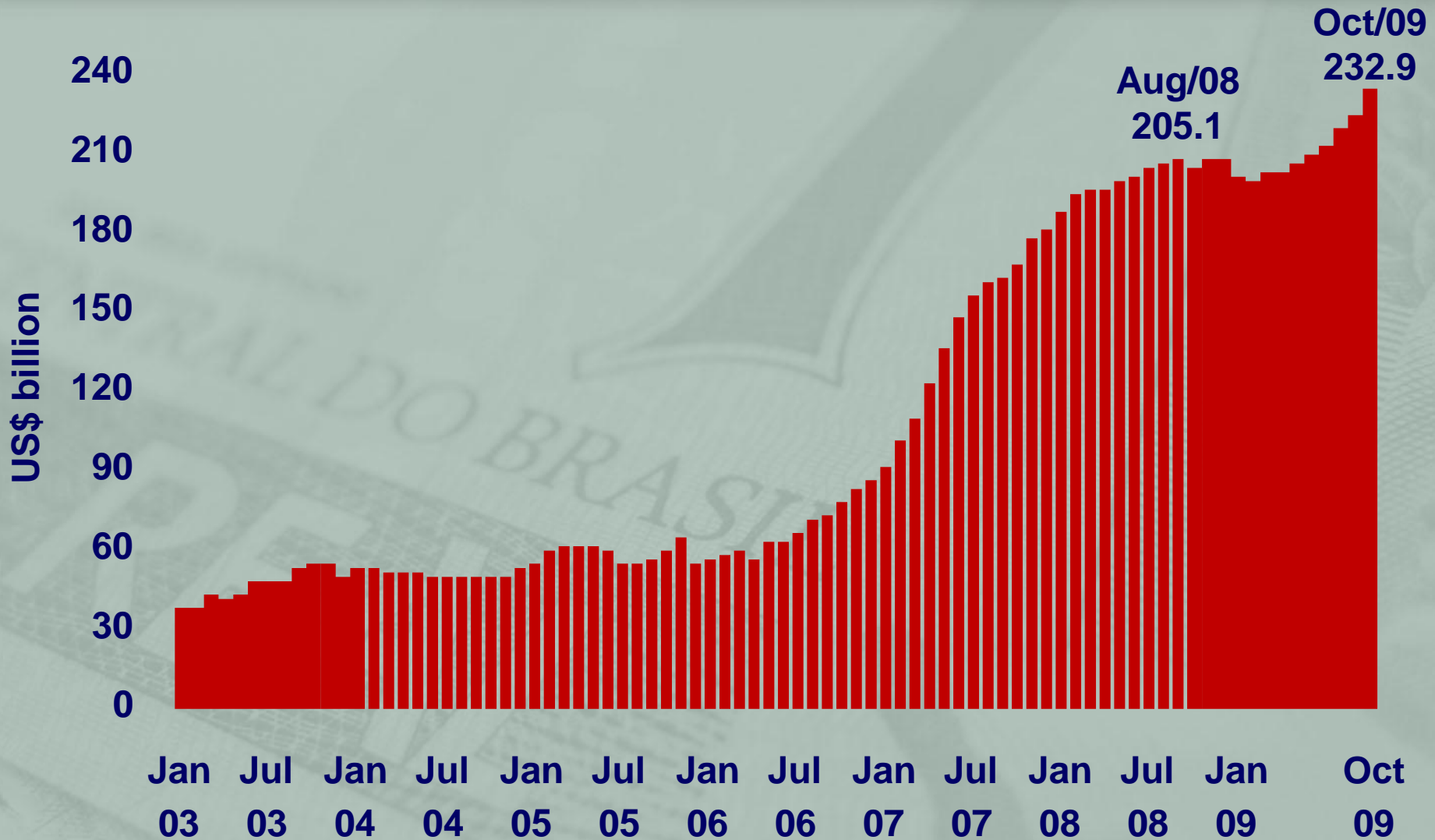
- **In consequence, the Brazilian public sector is currently long in foreign currency. Thus, net public debt drops whenever the exchange rate depreciates.**

Net External Debt



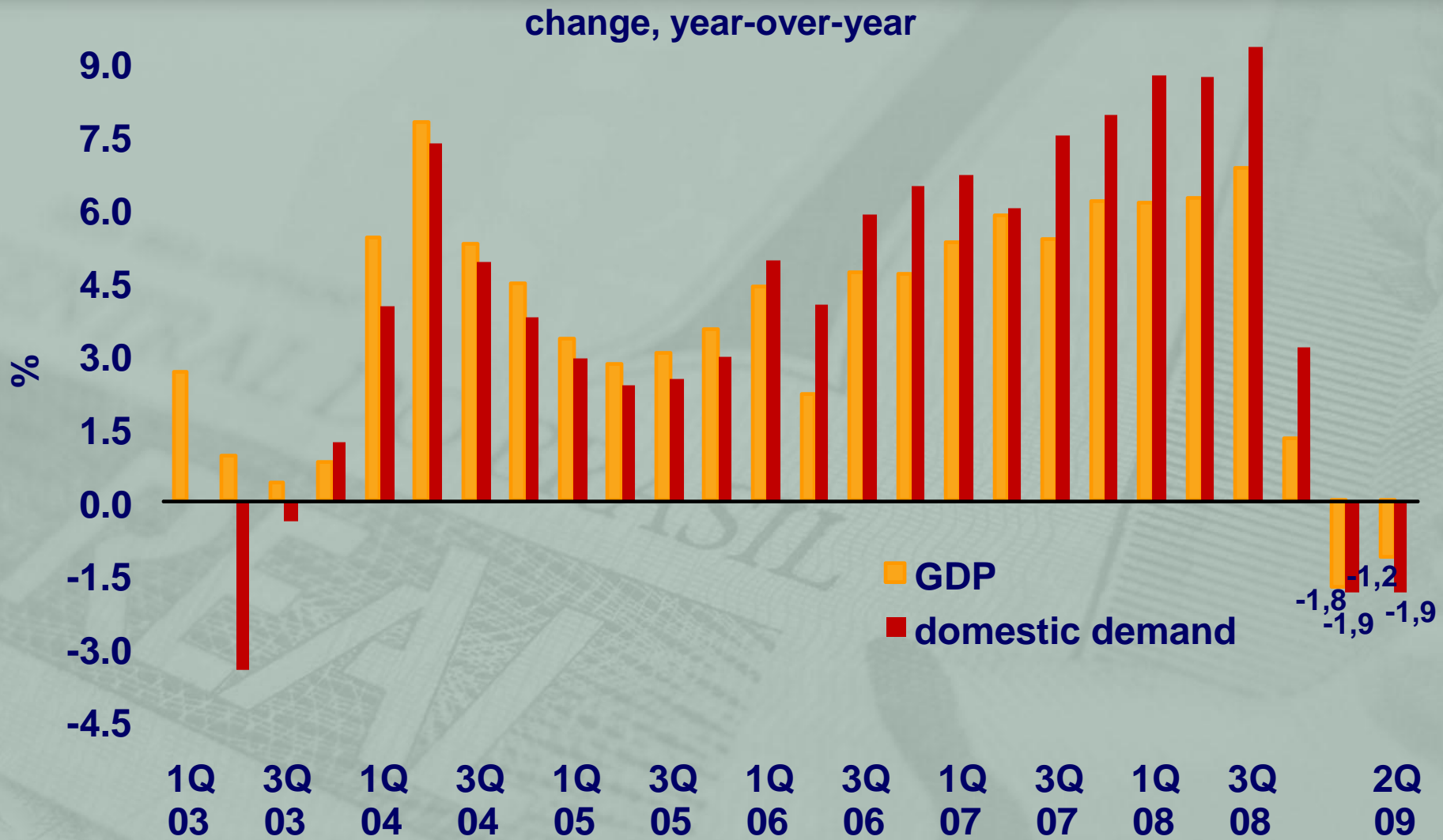
Source: BCB; 3Q 09 - estimate

International Reserves



- **In Sep/02, a 10% exchange rate depreciation increased the public debt/GDP ratio by 3.1 percentage points.**
- **Today, a 10% exchange rate depreciation reduces the public debt/GDP ratio by 1.3 percentage point.**

Domestic Demand and Supply



Recent Initiatives to Inject Liquidity in Foreign Currency Market

up to November 5, in US\$ billion

	Placements	Redemptions/Purchases	Net
Cash (spot sales)	14.5	-22.4	-7.9
Repos+ Export Financing (ACCs)	24.5	-22.9	1.6
Total	39.0	-45.3	-6.3

Initiatives to Inject Liquidity in Domestic Credit Market

- **Reduction of R\$ 99.8 billion in reserve requirements**
- **Incentives for banks (including public banks) to acquire portfolios of institutions with liquidity constraints**
- **Increase of funding to BNDES (development bank) and rural credit (up to R\$ 200 billion)**

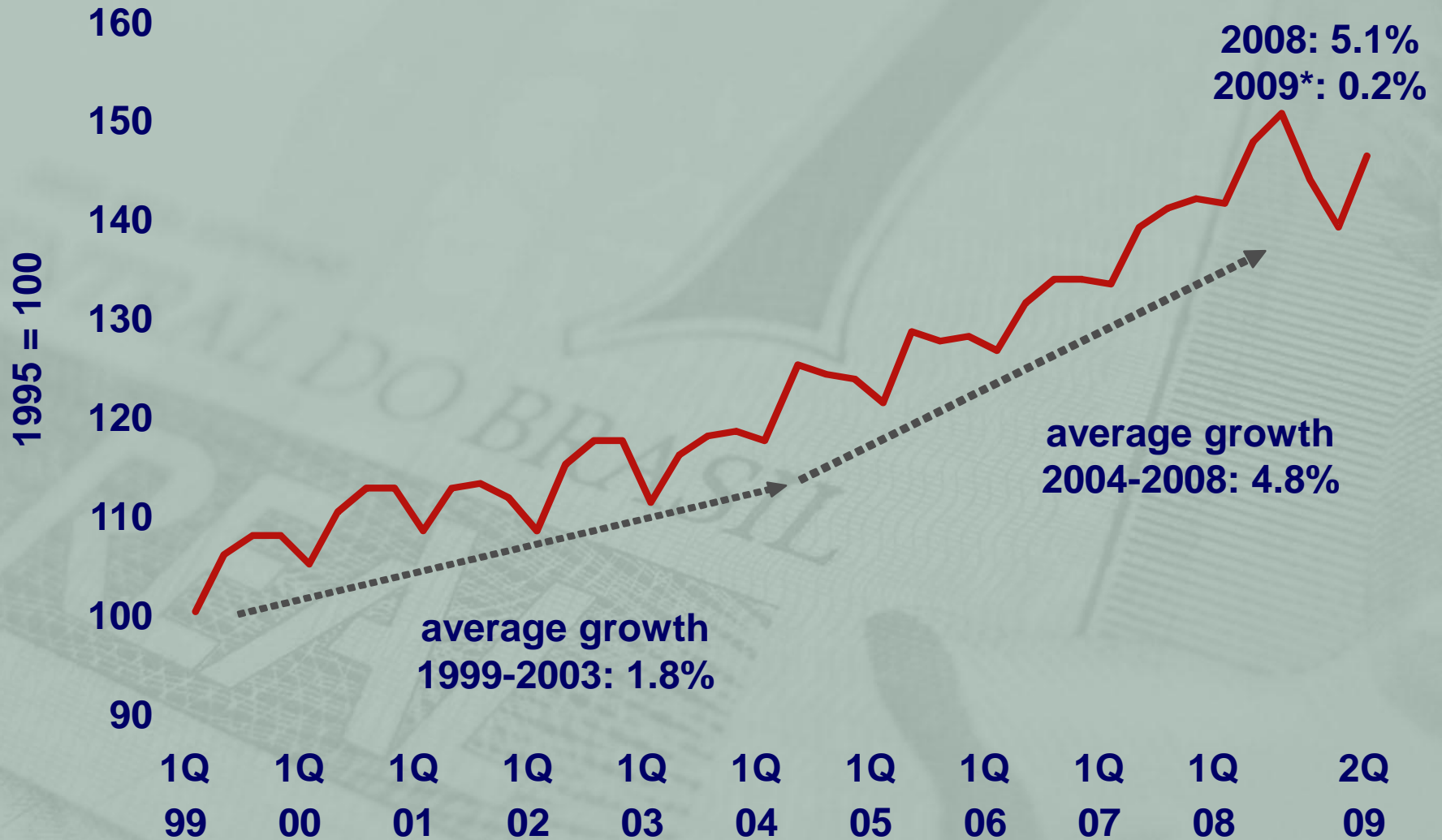
Initiatives to Inject Liquidity in Domestic Credit Market

➤ Results

- Normalization of liquidity conditions of small and medium size banks, including banks owned by carmakers
- After sharp fall in October, credit concessions recovered gradually in following weeks
- Credit rollover rates already surpasses pre-crisis levels for companies (though still somewhat below August levels for households)

V. Economic Activity

GDP: 1999-2009

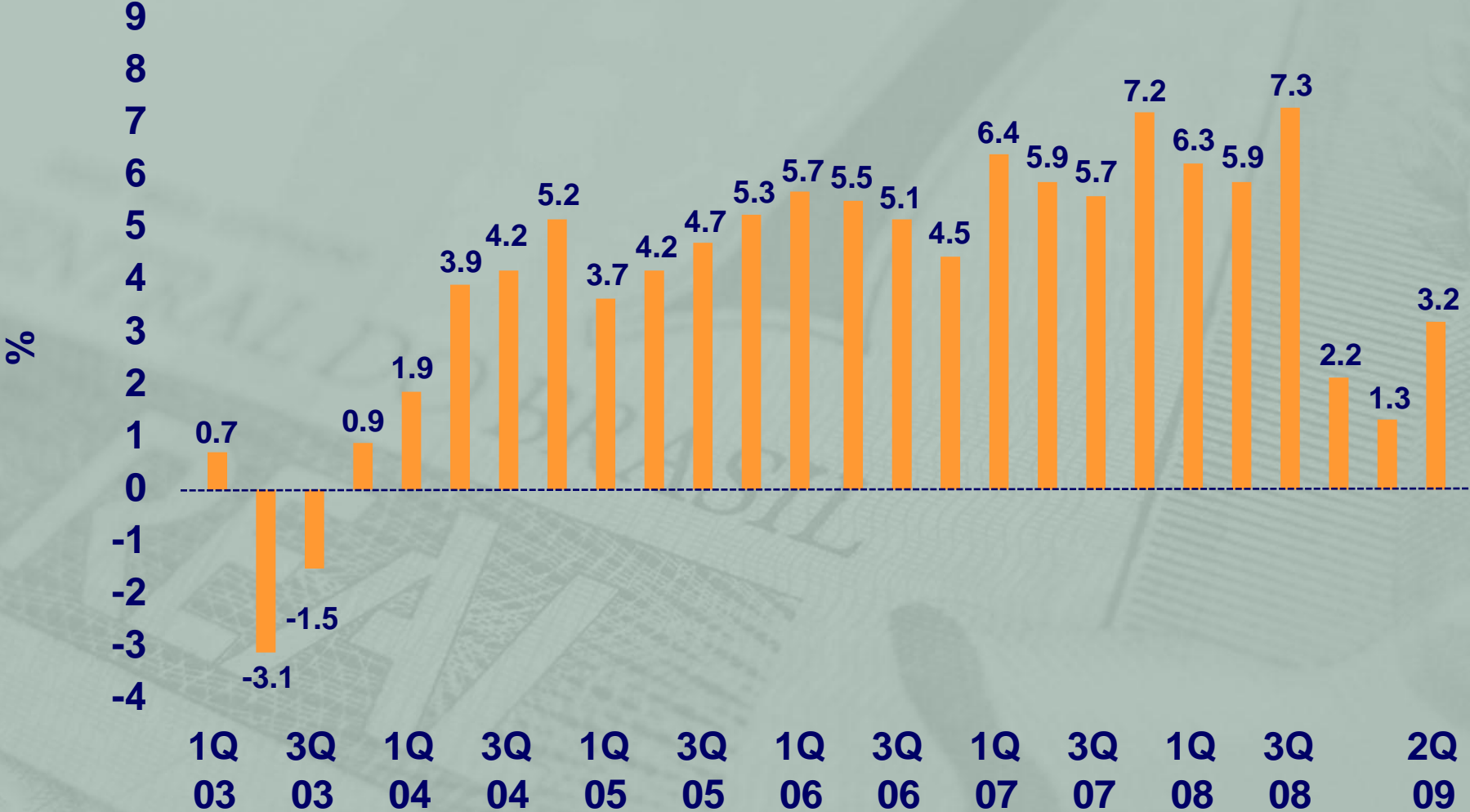


GDP Growth (YoY)

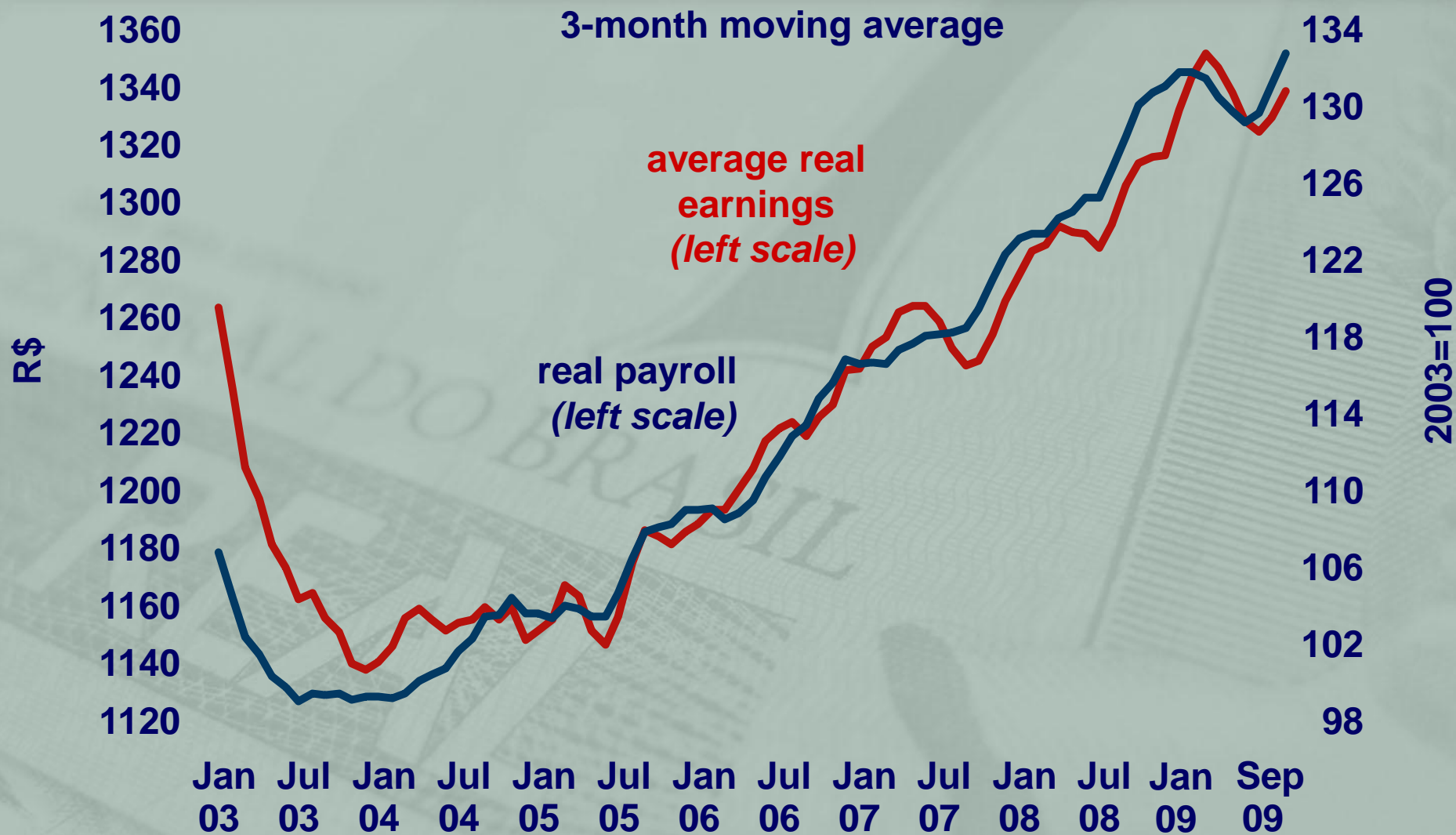


Household Consumption

compared to the same quarter in the previous year



Real Earnings and Payroll



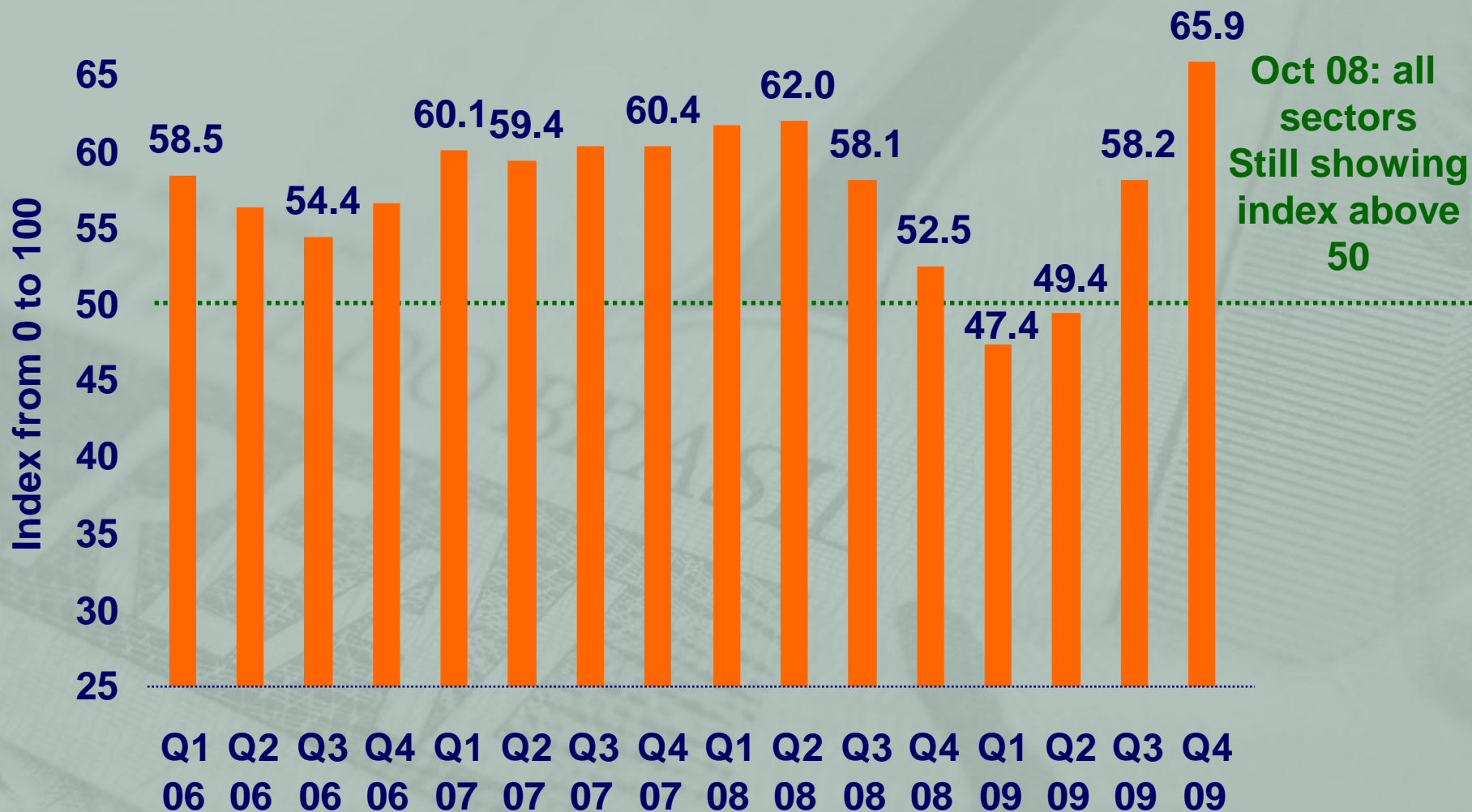
Investment

compared to the same quarter in the previous year

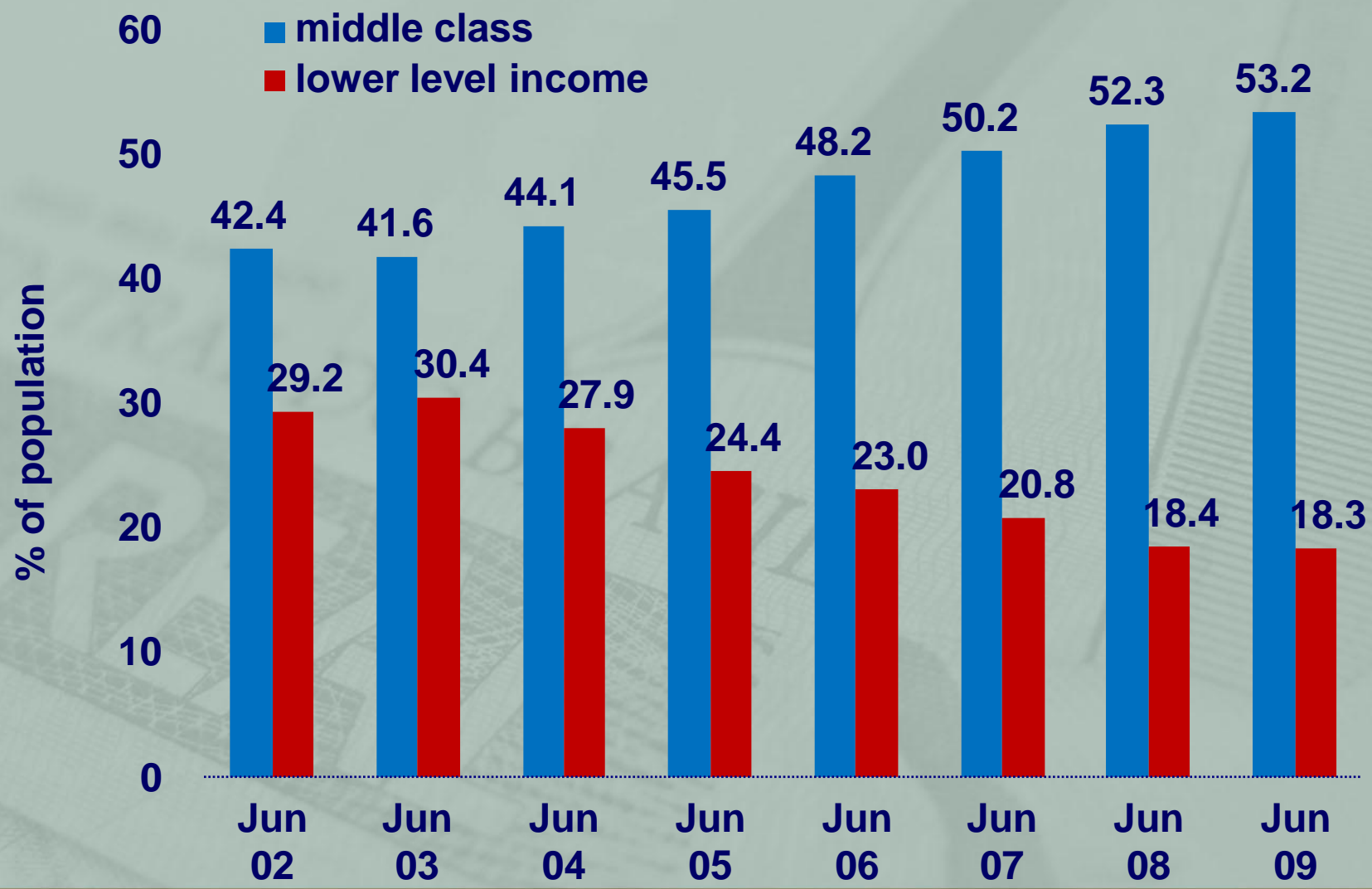


Businessmen Confidence

Seasonally adjusted

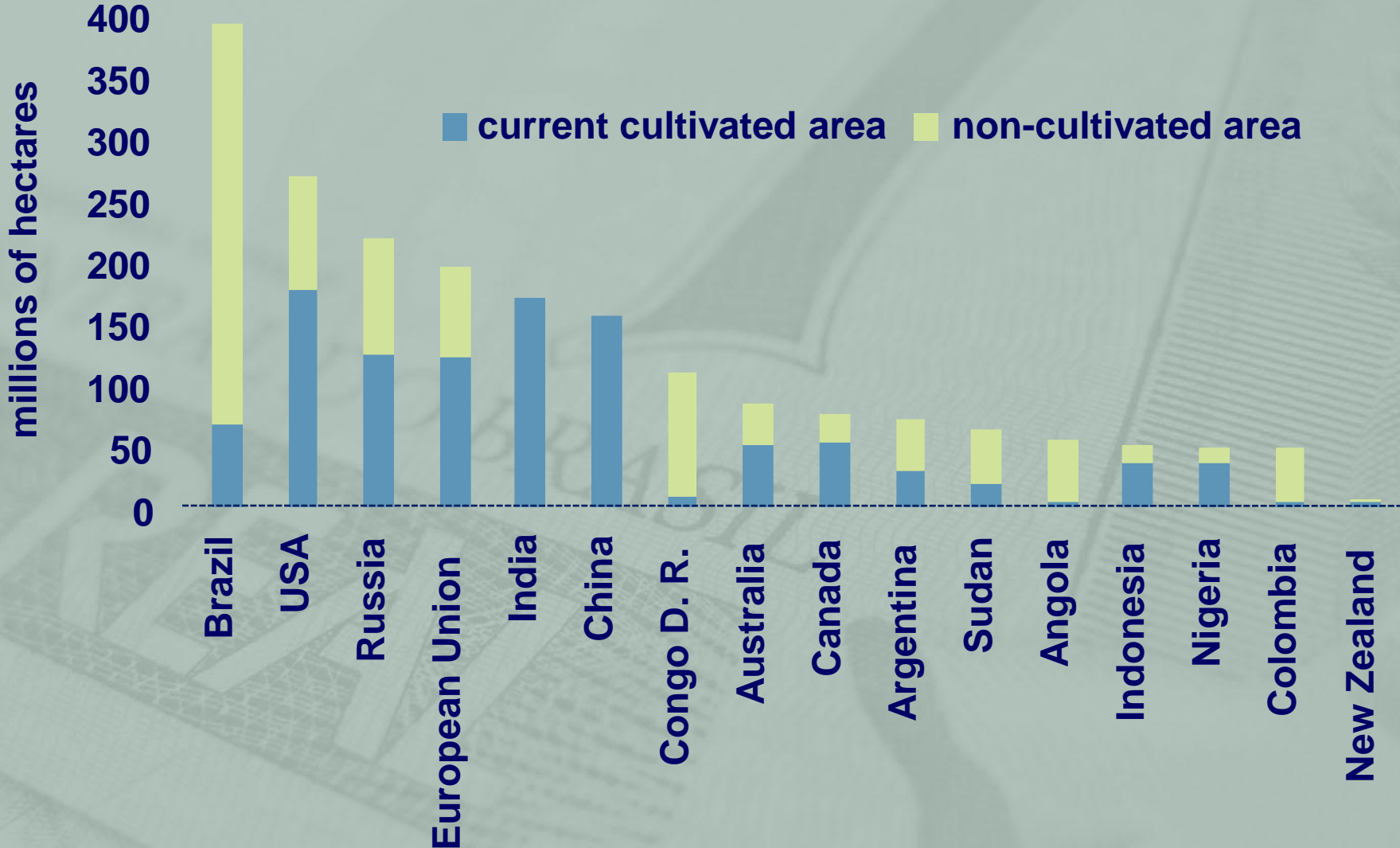


Lower Income and Middle Class



Source: FGV; lower = E class, middle = C class.

Availability of Arable Land in the World



Production Expansion: Environmentally Sustainable

	MM hectares
Amazon Rainforest	360
Protected Areas	55
Cities, Lakes and Roads	20
Arable Land	378
Pasture	220
Annual Harvests	47
Permanent Harvests	15
Agriculturable Land	91
Harvested Forests	5
Other Uses	38
Total	851

Ethanol production uses 1% of arable land

Production Expansion: Environmentally Sustainable

	herd (MM)	pasture (MM hectares)	cattle per hectare
Brazil	207.1	200-220	≈1.0
Sao Paulo	14.1	10	≈1.4

50-70 MM hectares could be used for energy-related harvests if productivity increases to 1.4 cattle per hectare

Brazil's Livestocks

According to FAO (2007), Brazil's livestock ranks as:

1st - largest for cattle

3rd - largest for pork

3rd - largest for horses

4th - largest for poultry

Agriculture: Production and Exports –Ranking 2008

Brazil - World Ranking				
Main Products	Production	Exports	Number of Markets	Total Exports
				US\$ million
Sugar	1 st	1 st	131	5,483
Coffee	1 st	1 st	126	4,763
Frozen Orange Juice	1 st	1 st	70	1,144
Soy	2 nd	2 nd	97	17,980
Beef	2 nd	1 st	151	5,325
Tobacco	2 nd	1 st	117	2,752
Alcohol	2 nd	1 st	58	2,390
Poultry	3 rd	1 st	143	6,353
Corn	3 rd	3 rd	50	1,322
Pork	4 th	4 th	75	1,478

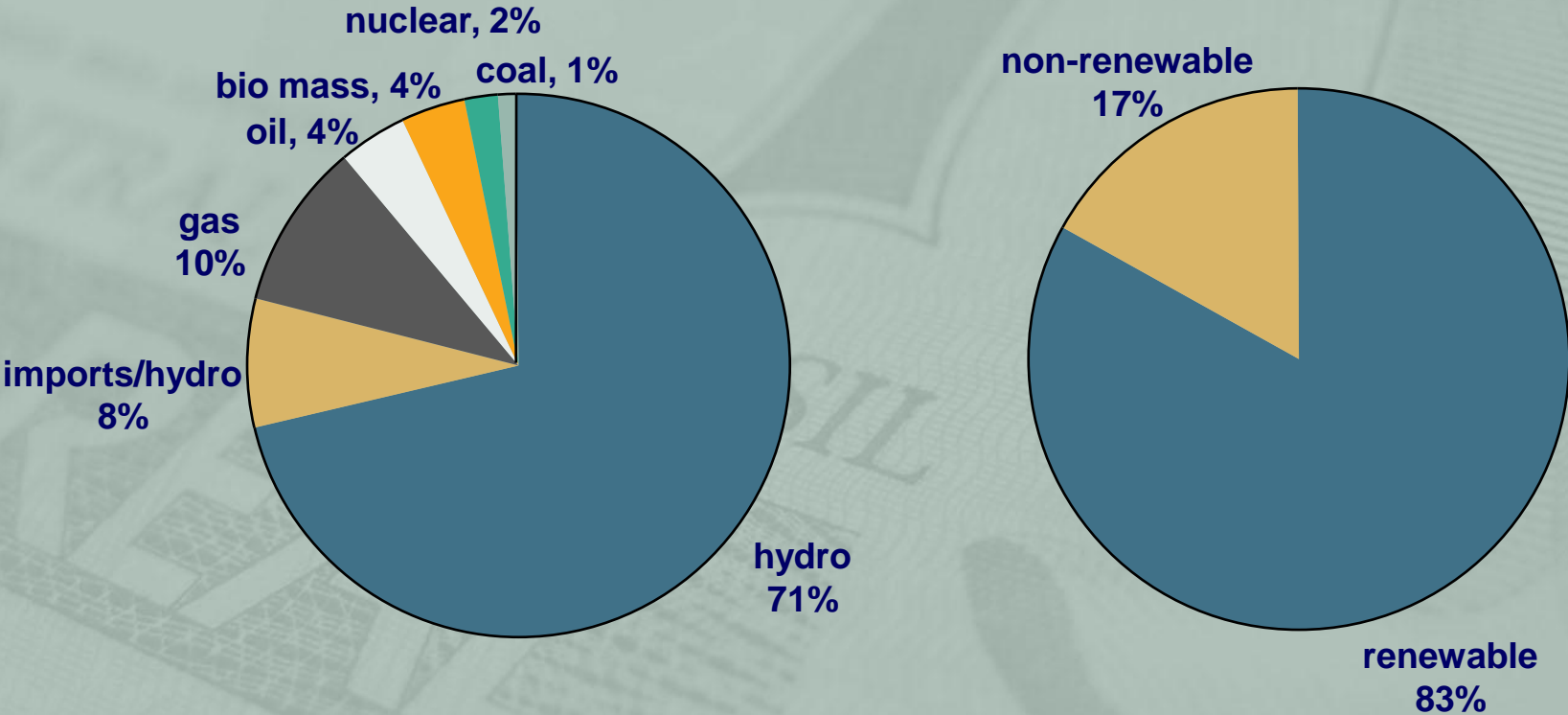
Brazil's Minerals

According to USGS estimates for 2008, Brazil's production of minerals ranks as:

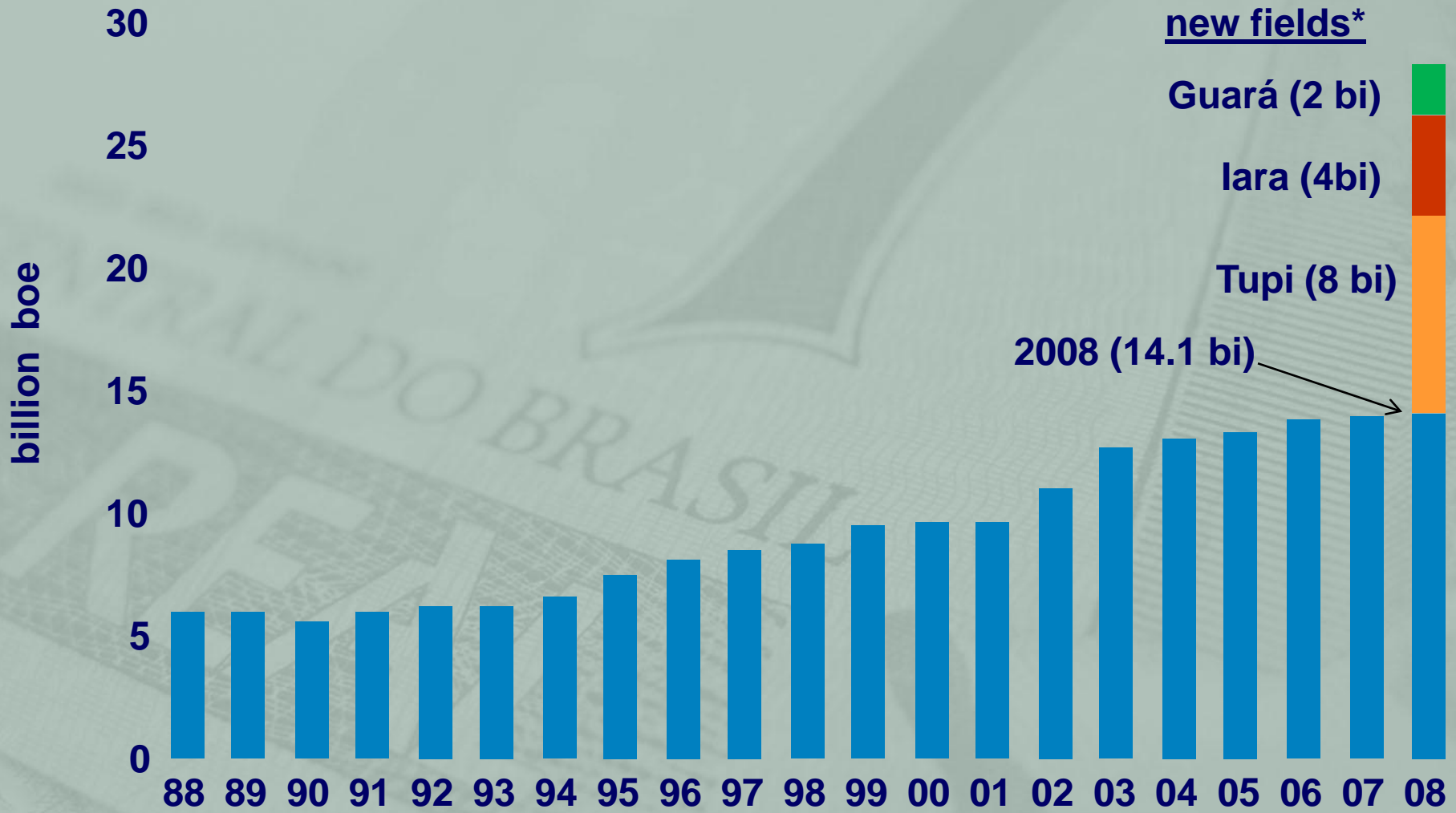
- 1st - largest for niobium**
- 2nd - largest for iron ore and tantalum**
- 3rd - largest for bauxite and graphite**
- 4th - largest for silicon and asbestos**
- 5th - largest for manganese, magnesium products, mica, tin, and zirconium**
- 6th - largest for aluminum**

Brazilian Electric Energy Production - Extensive Use of Renewable Energy Sources

Brazil is predominantly powered by water-generated energy



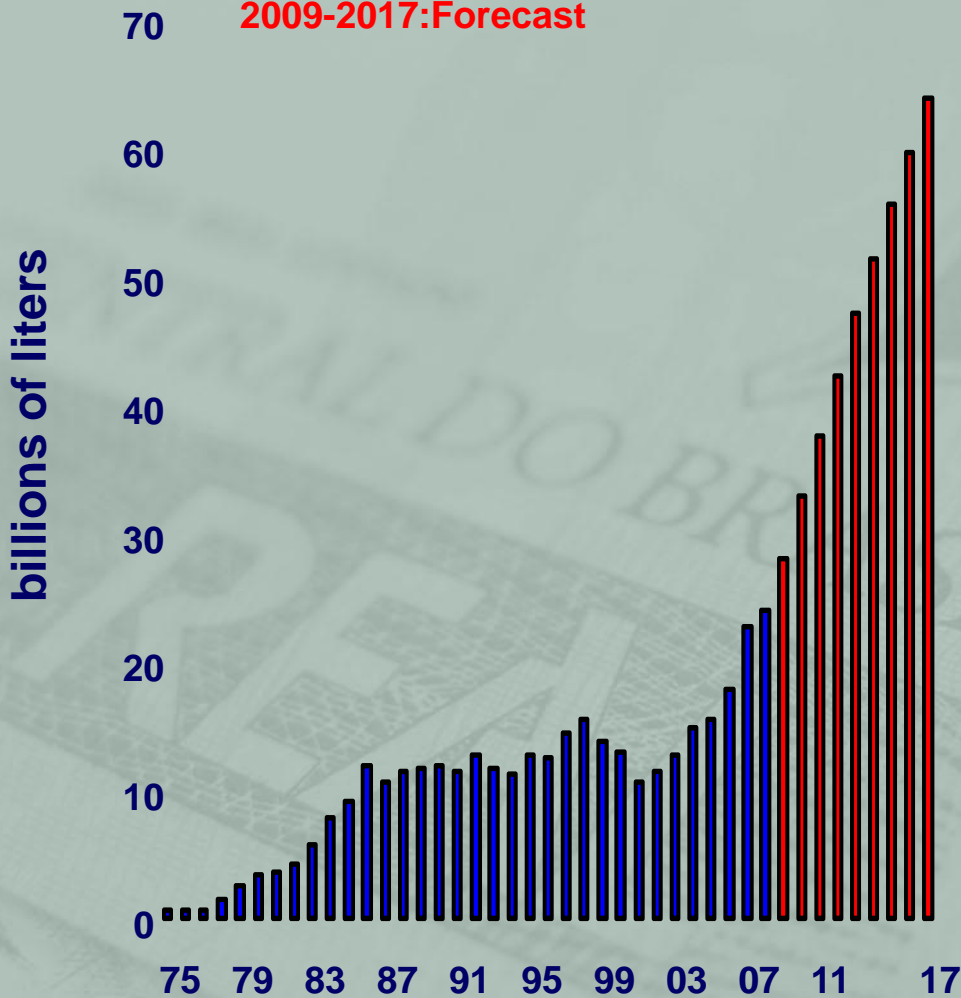
Brazilian Proved Reserves of Crude Oil, NGL and Natural Gas



Biofuels Production

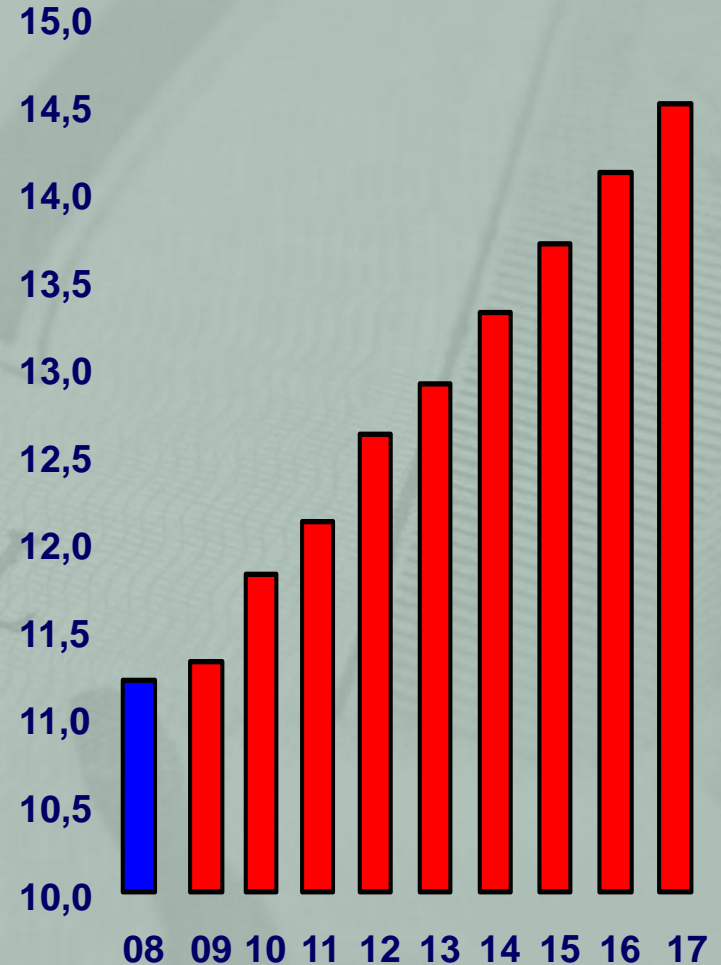
ethanol

2009-2017:Forecast



biodiesel

2009-2017:Forecast





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Thank you!

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November 2009