



# Brazil Economic Outlook

London

Alexandre Tombini  
Governor

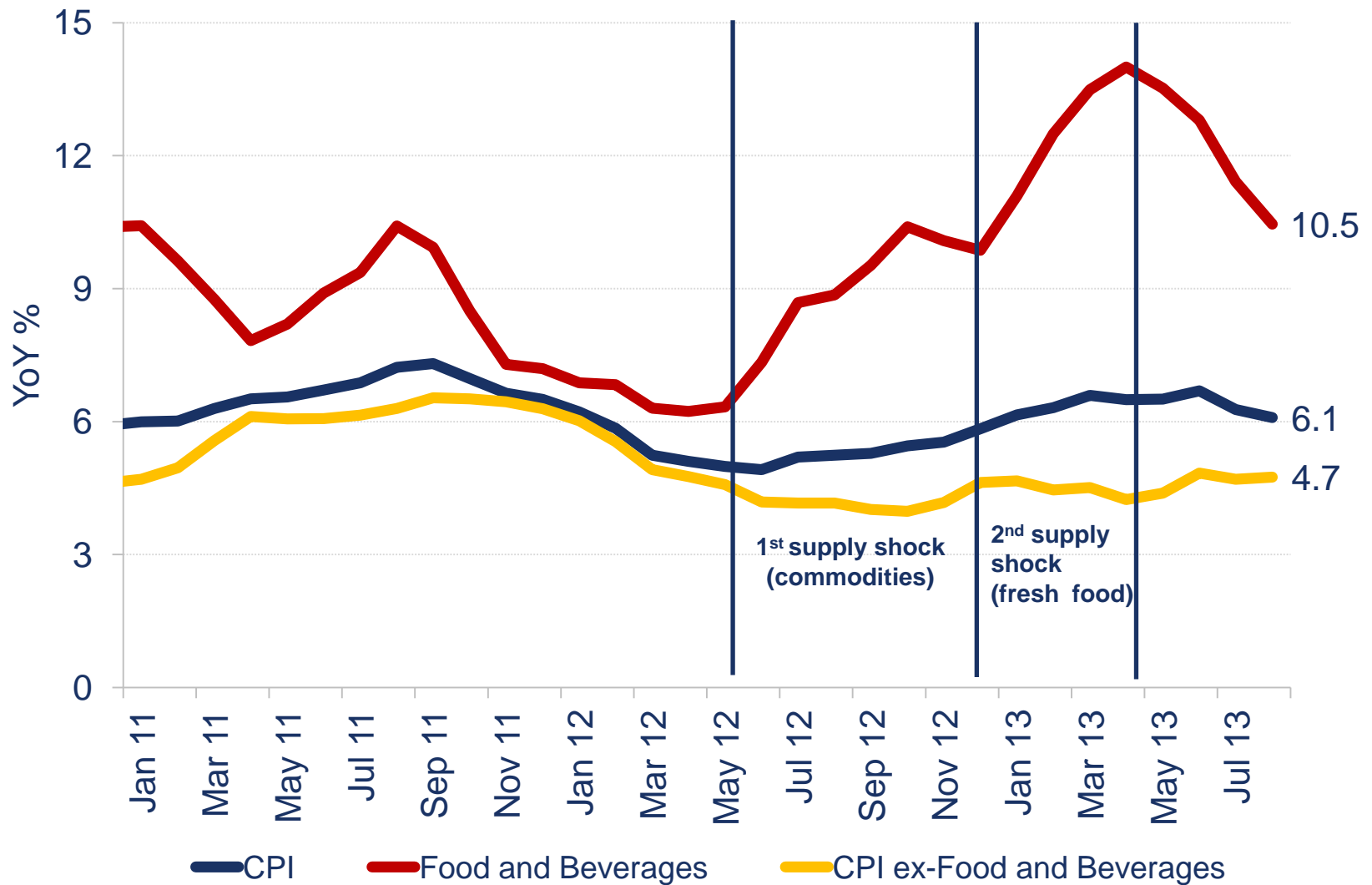
October 2013

**Inflation**

**Growth**

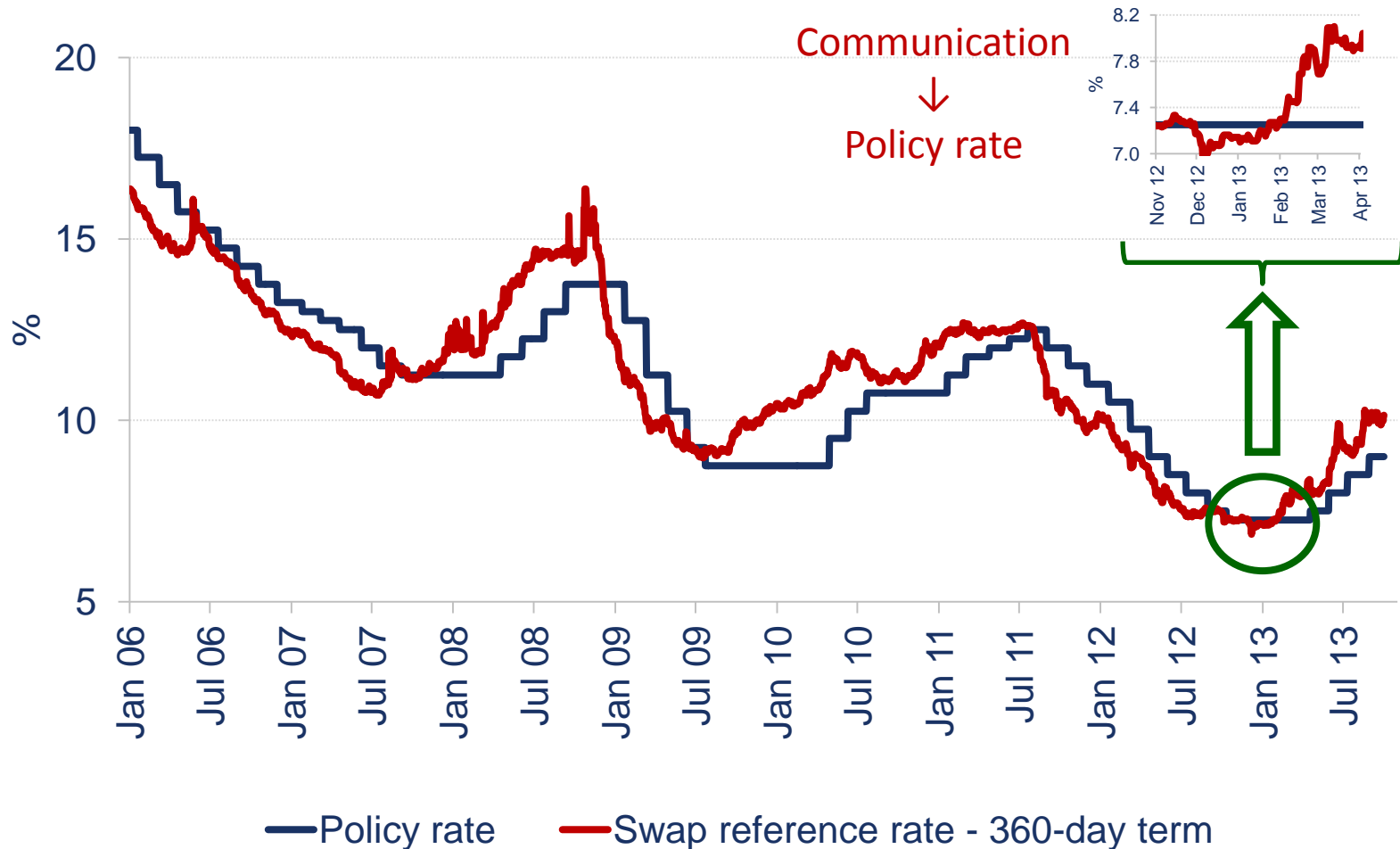
**UMP Exit**

# Inflation adversely affected by supply shocks

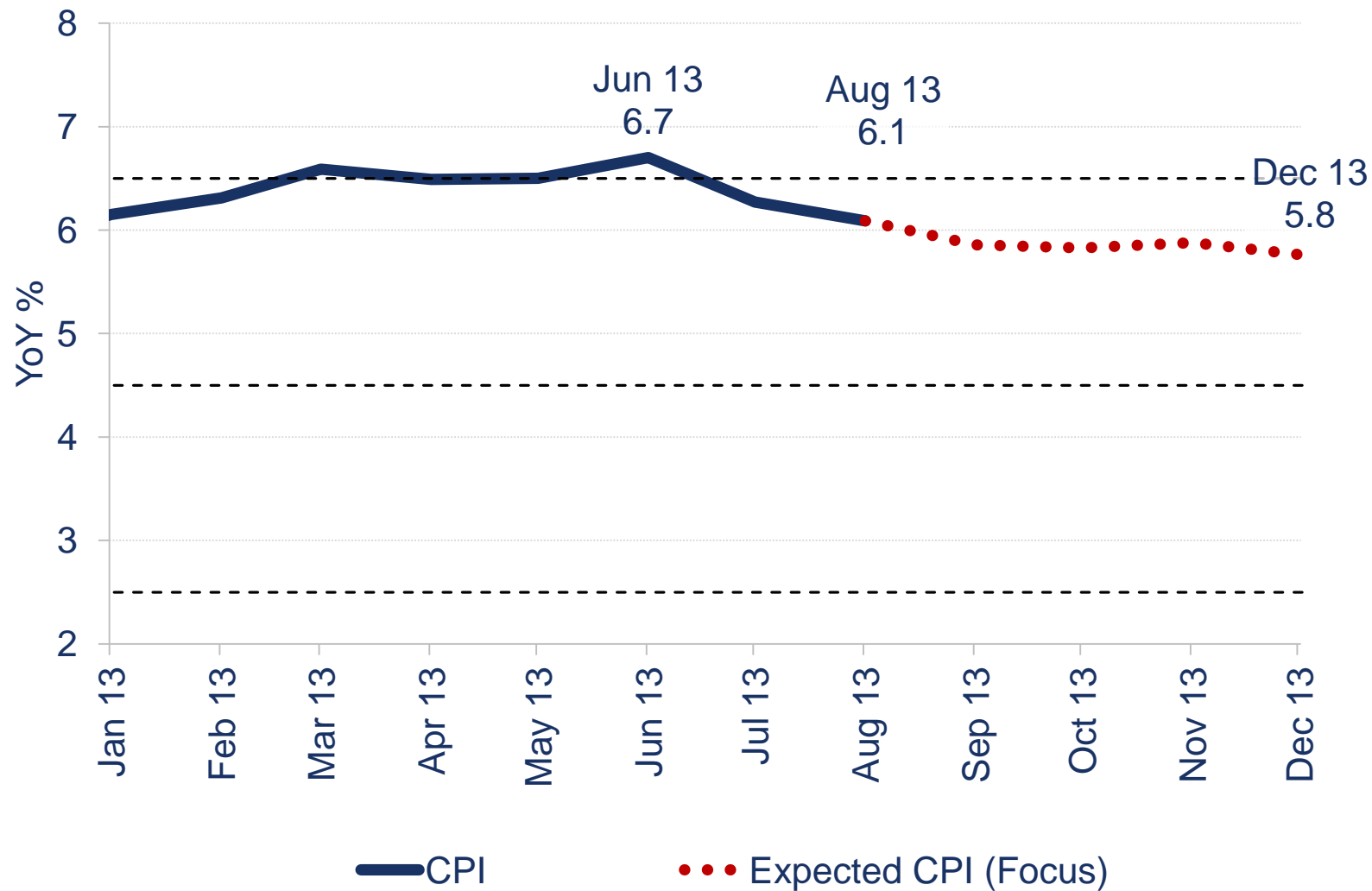


# Monetary policy actions

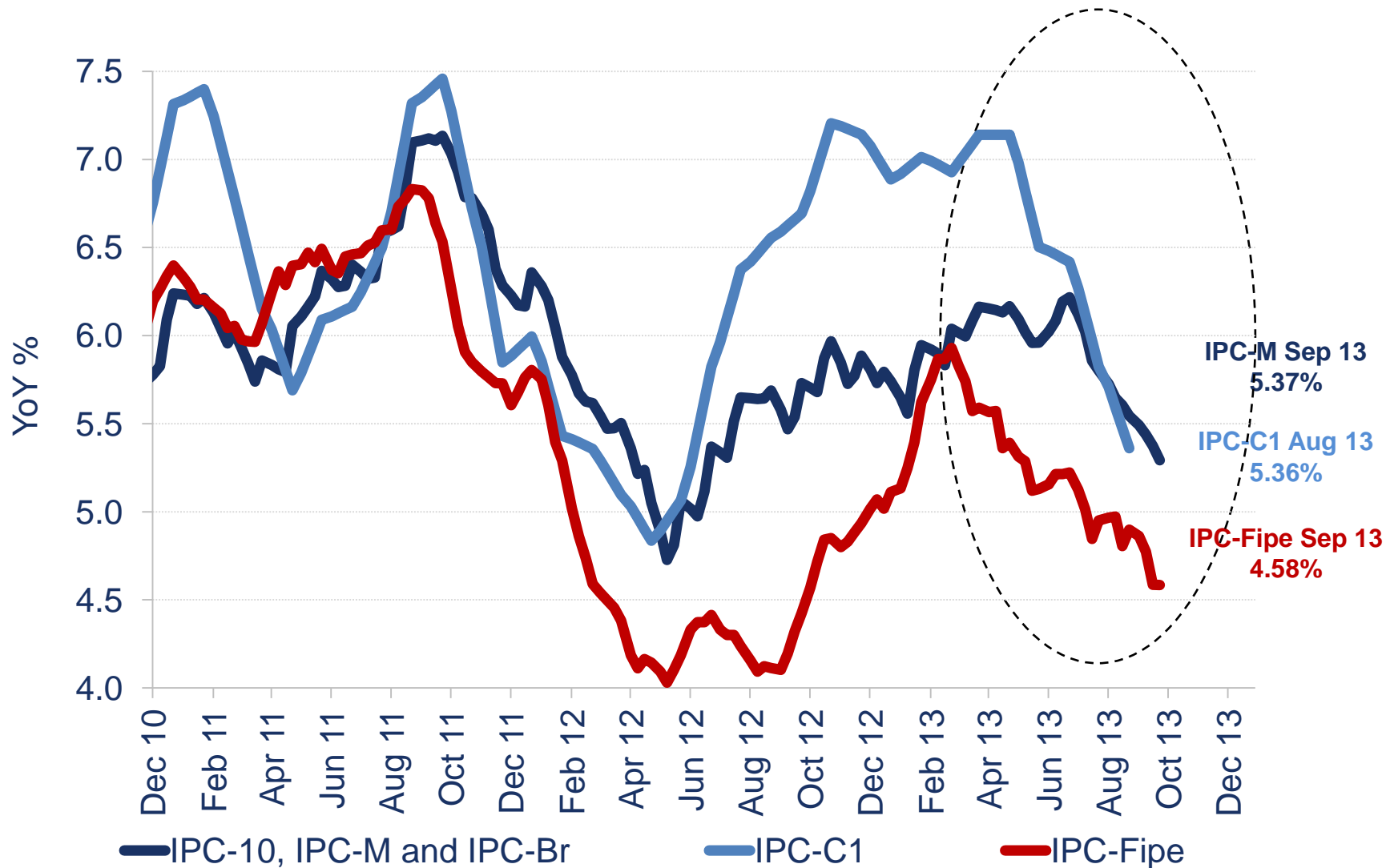
BCB acted in early 2013 to mitigate second order effects of supply shocks. After tapering signaling, BCB mitigate the ER pass-through risk



# Inflation is receding

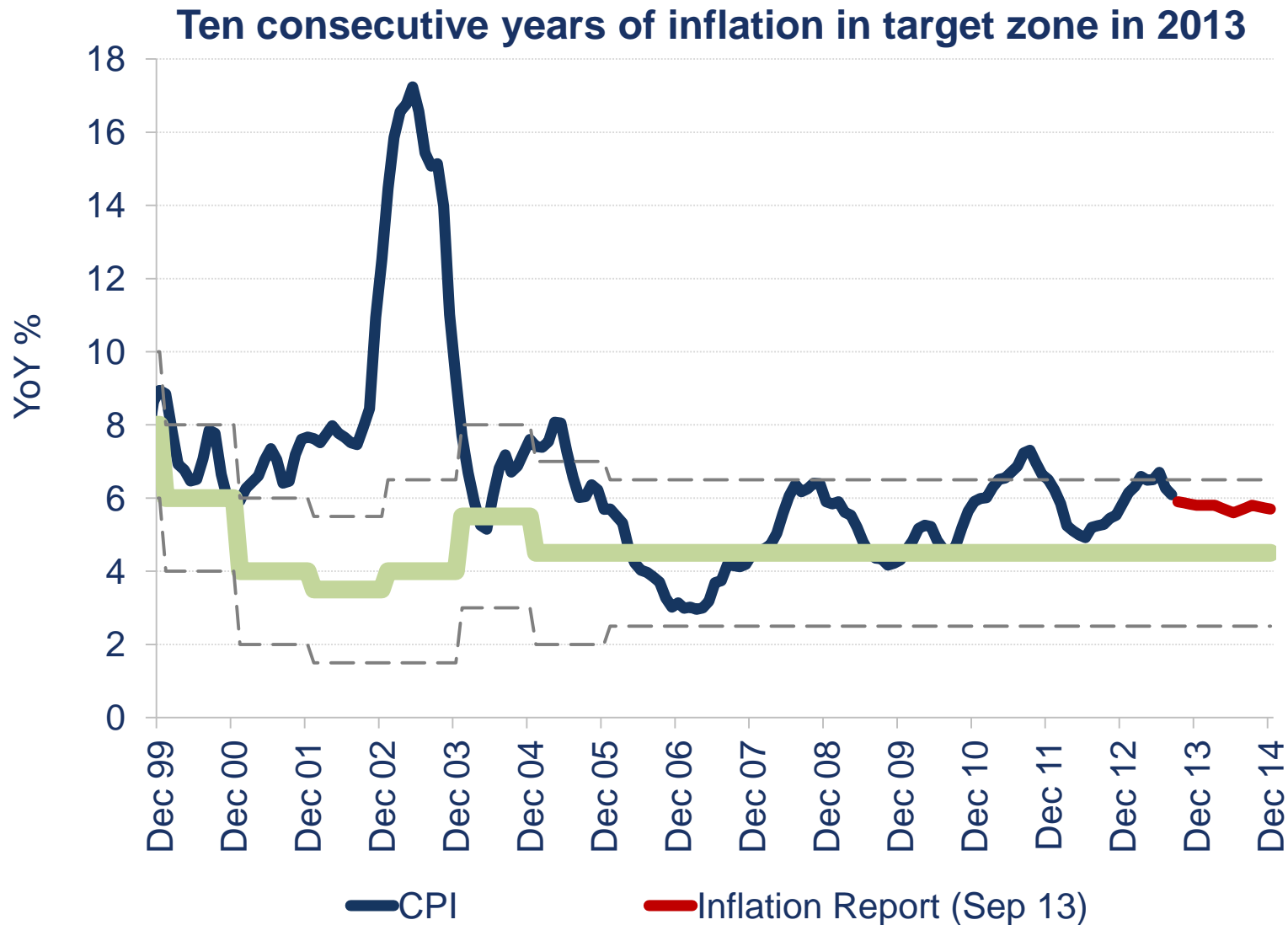


# Other CPIs also decelerating



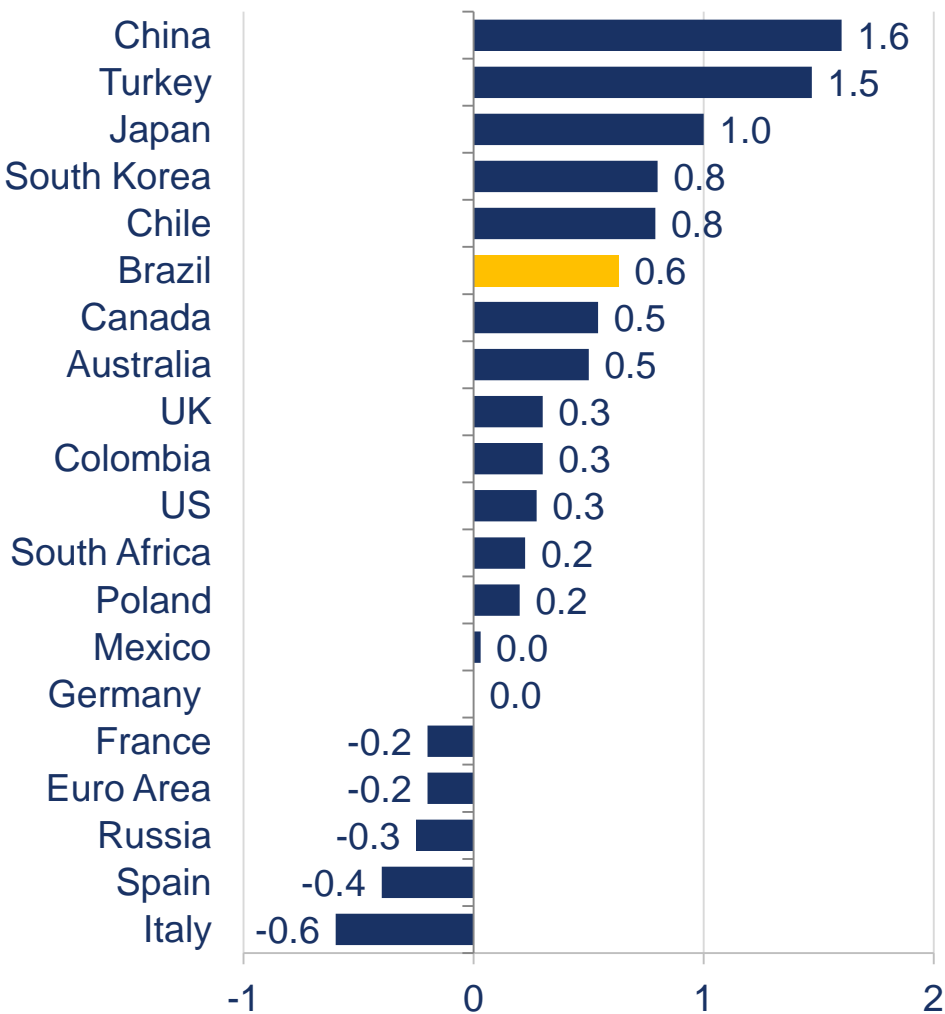
Chained series of IPC-10, IPC-M and IPC-Br; Chained series of IPC-Fipe weekly data

# Inflation within target bands

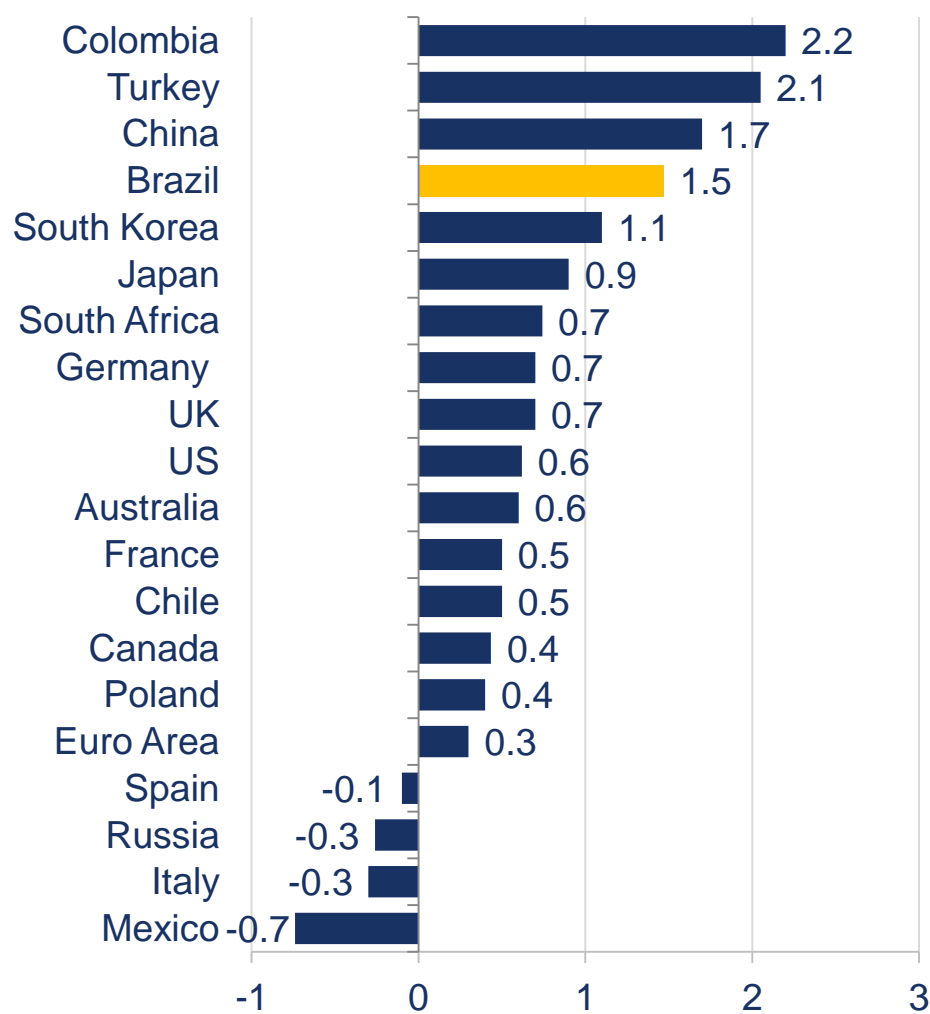


# Growth dynamics in 2013

## Real GDP QoQ Growth in 1Q13



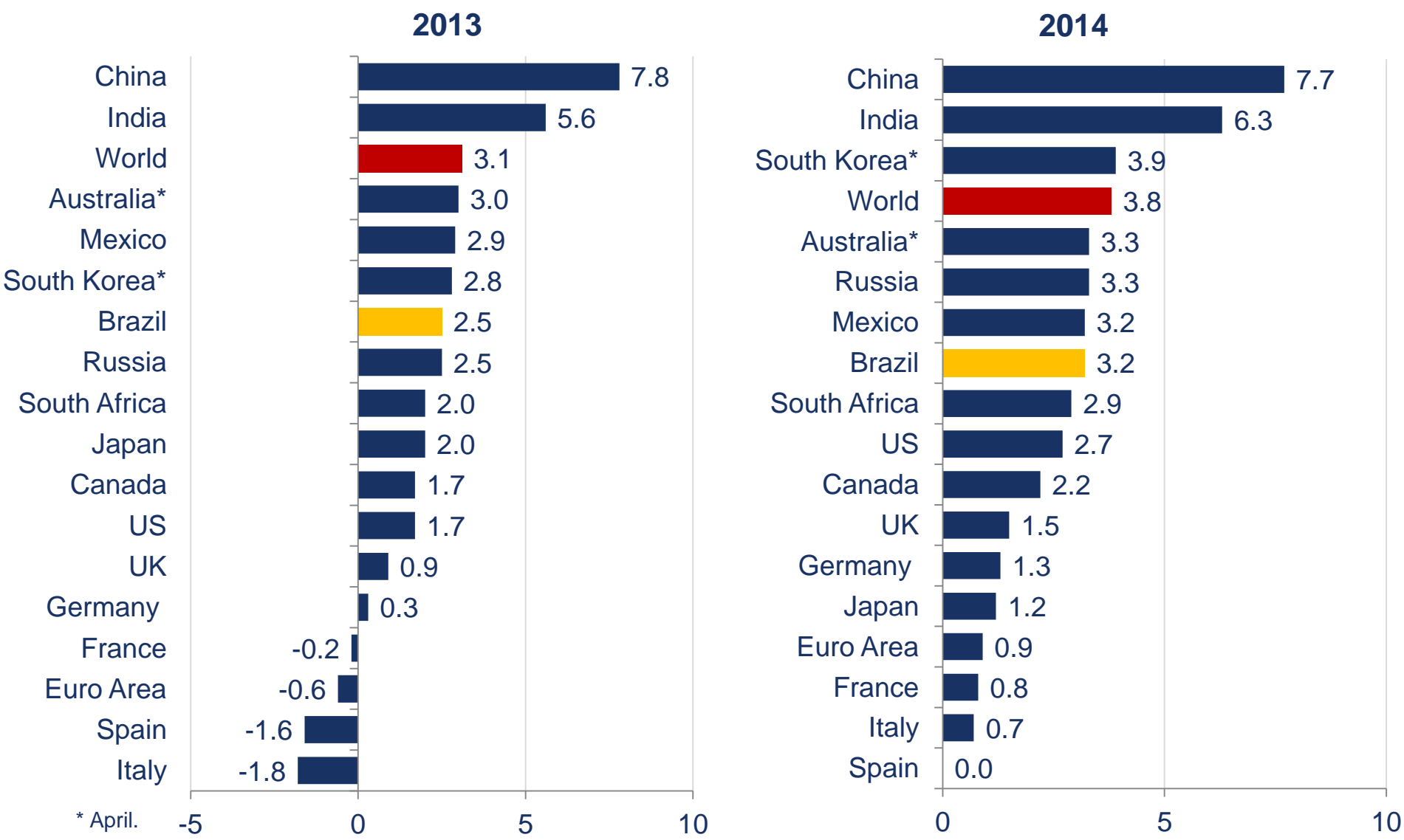
## Real GDP QoQ Growth in 2Q13



\* qoq sa



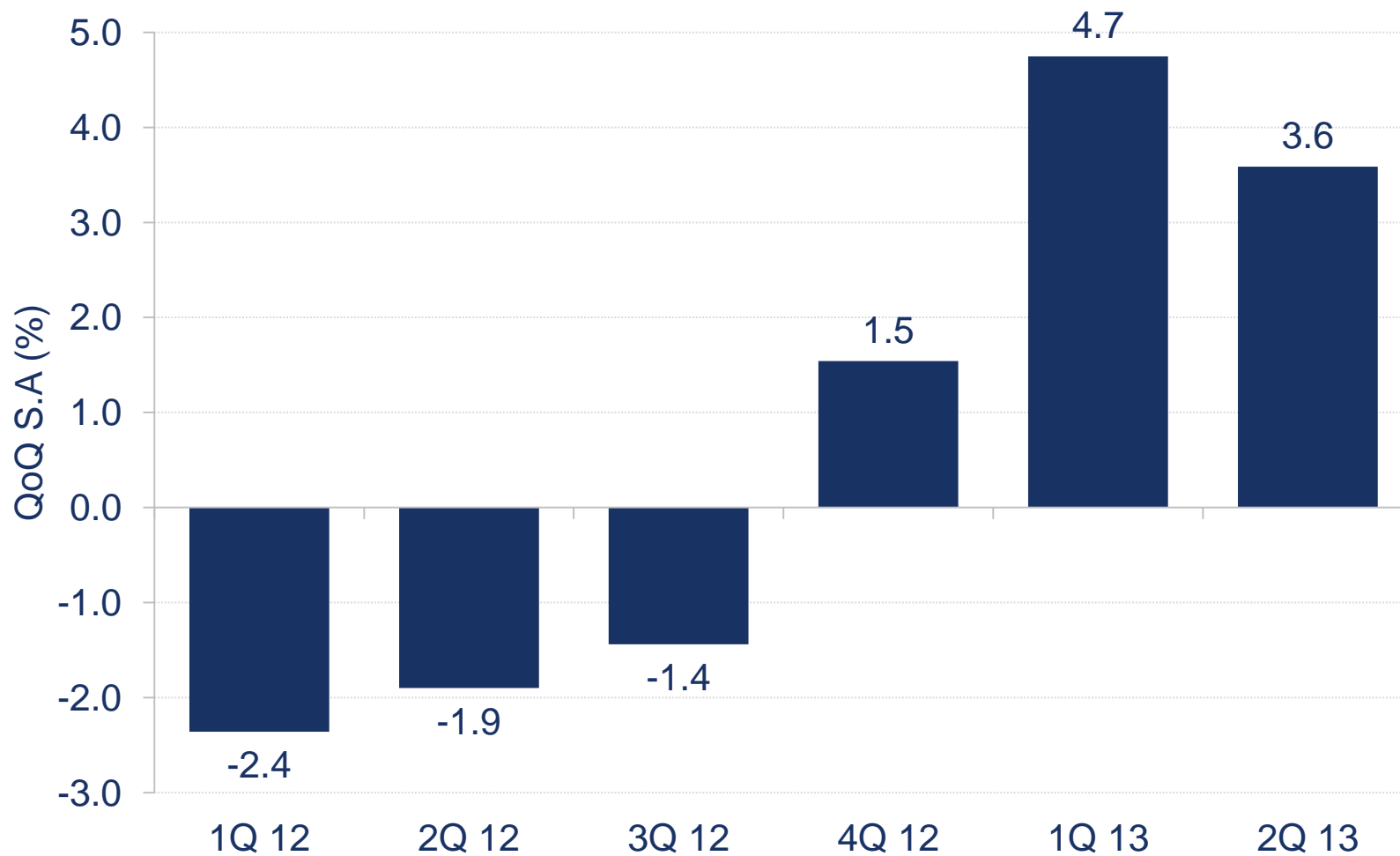
# Economic growth is expected to gather pace



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

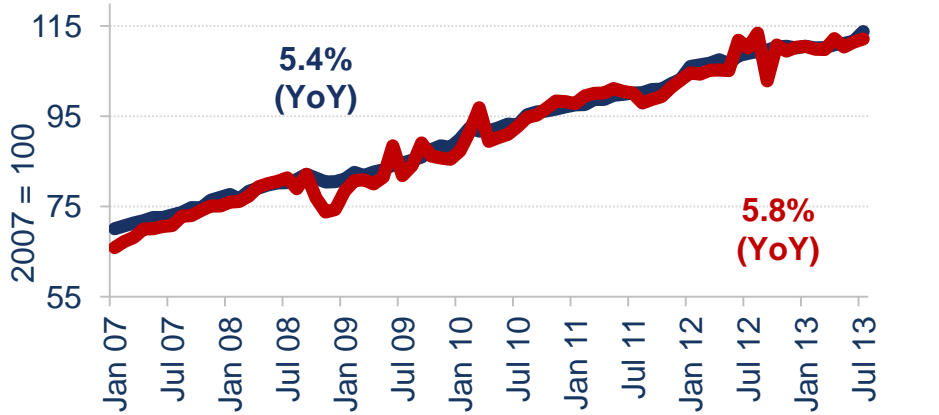
# Stronger investment

## Gross Fixed Capital Formation

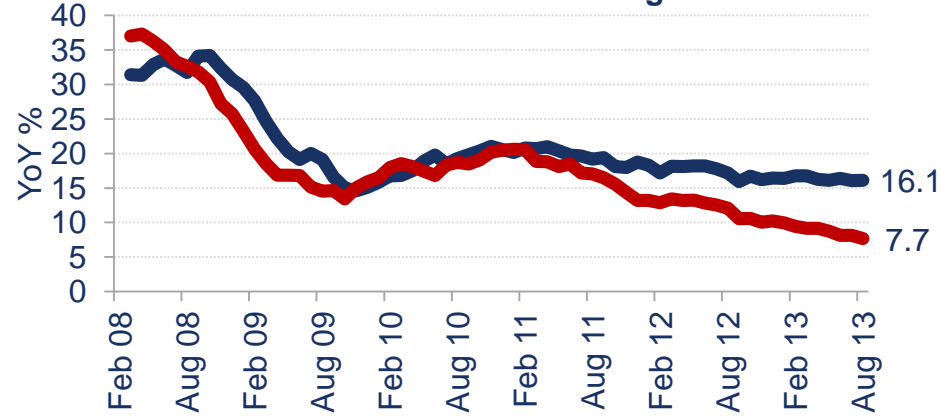


# Support for domestic demand

## Retail Sales



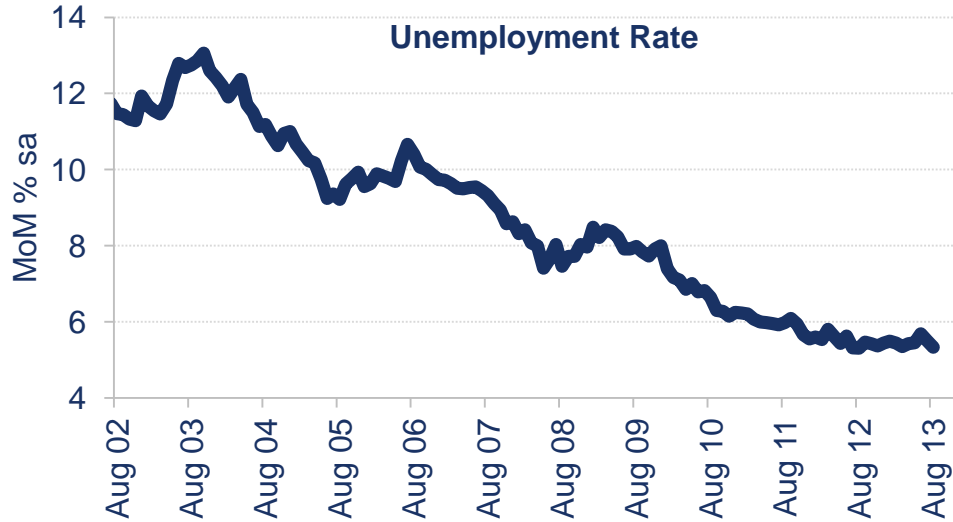
## Credit Outstanding



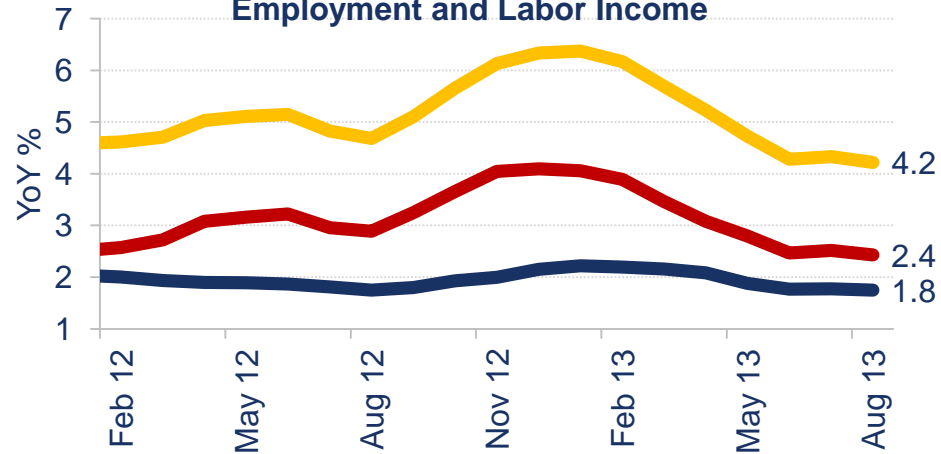
— Retail Sales — Retail Sales (including automobiles and construction materials)

— Total — Households (non earmarked credit)

## Unemployment Rate

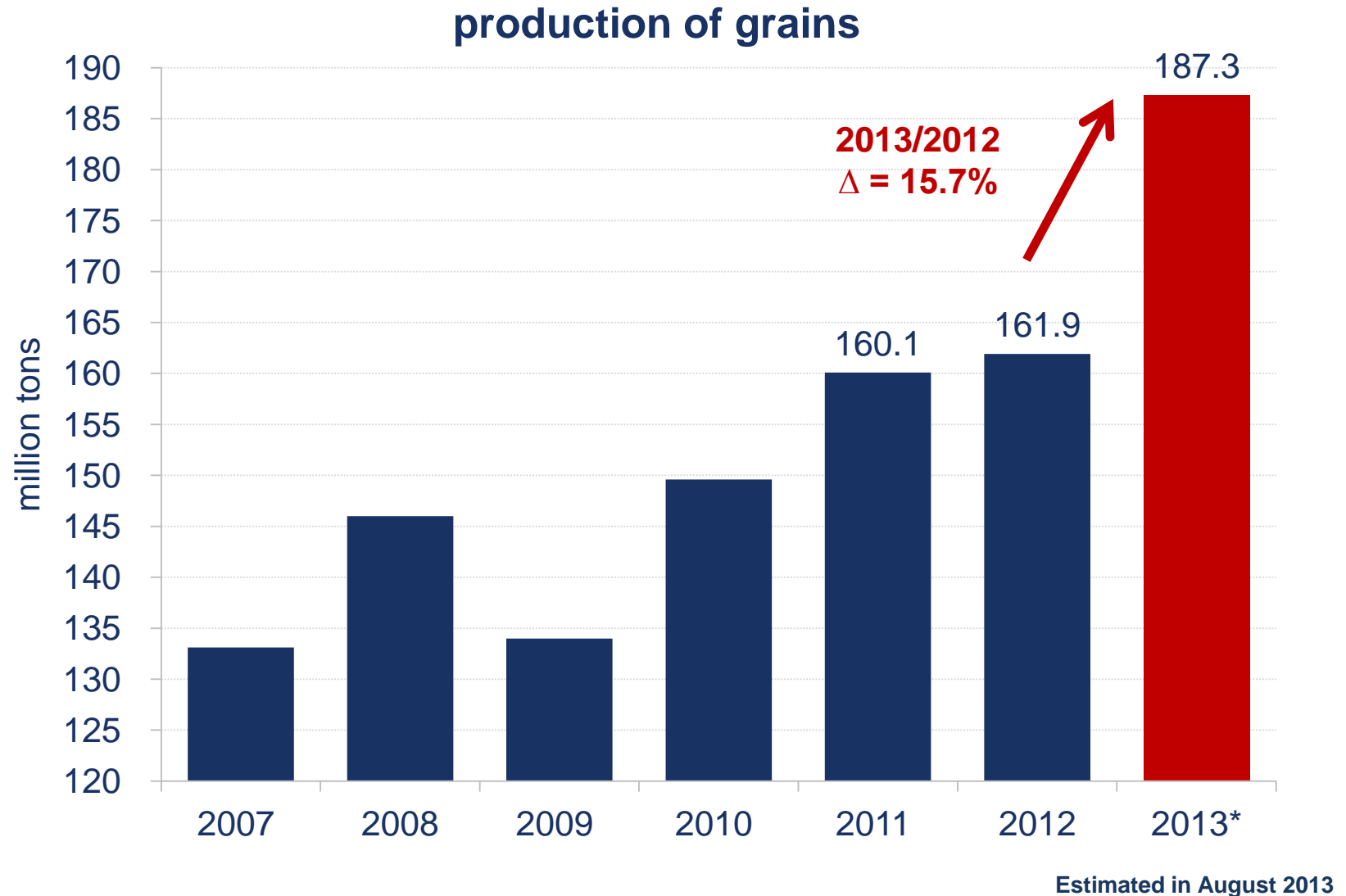


## Employment and Labor Income



— Employment — Real Income — Real Payroll

# Record grain harvest expected in 2013



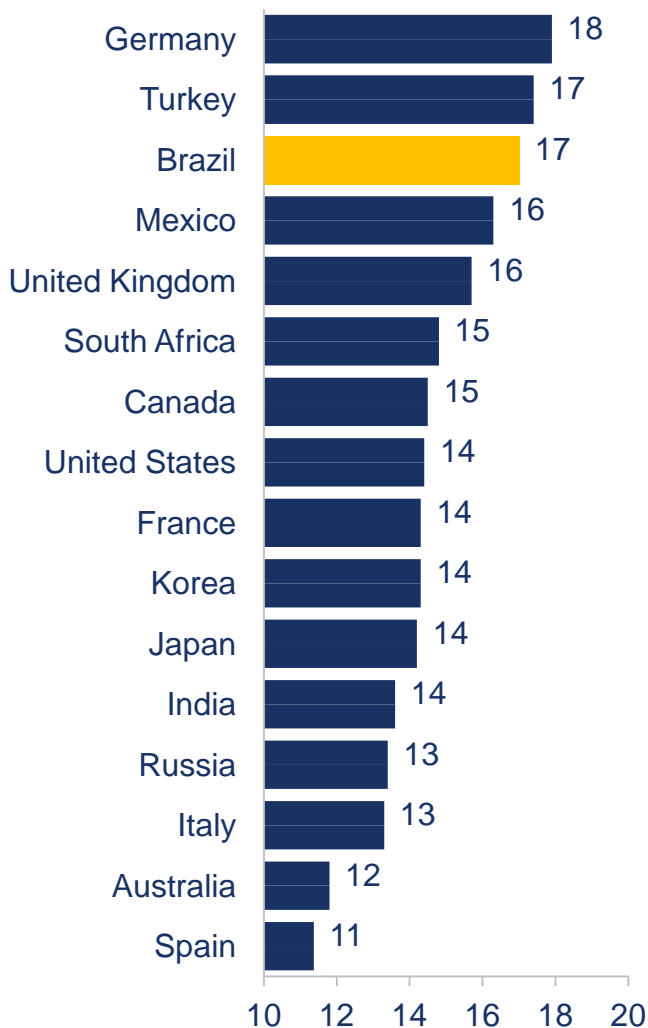
# Reforms to boost growth

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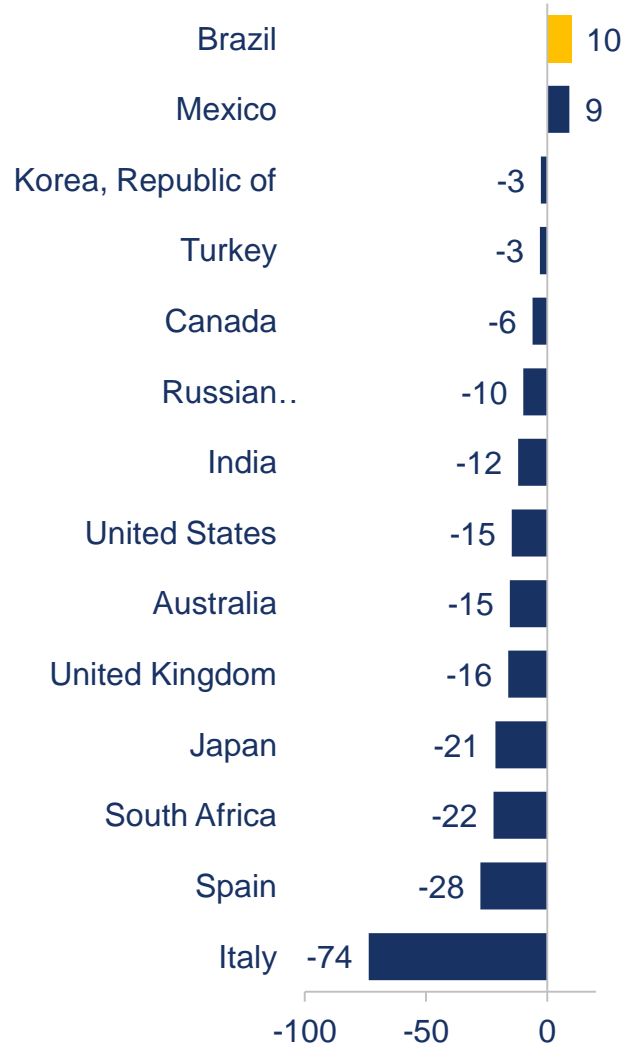
- Tax reforms to simplify the tax system and reduce costs
  - Payroll tax cuts
  - Tax incentives for infrastructure and R&D investment bonds
  
- Measures to increase competitiveness and investments
  - Building a skilled labor force (Science without Frontiers and Pronatec Programs)
  - Concessions program revamped
    - Highways, railroads, ports and airports
    - Oil & gas

# Brazil has a sound financial system

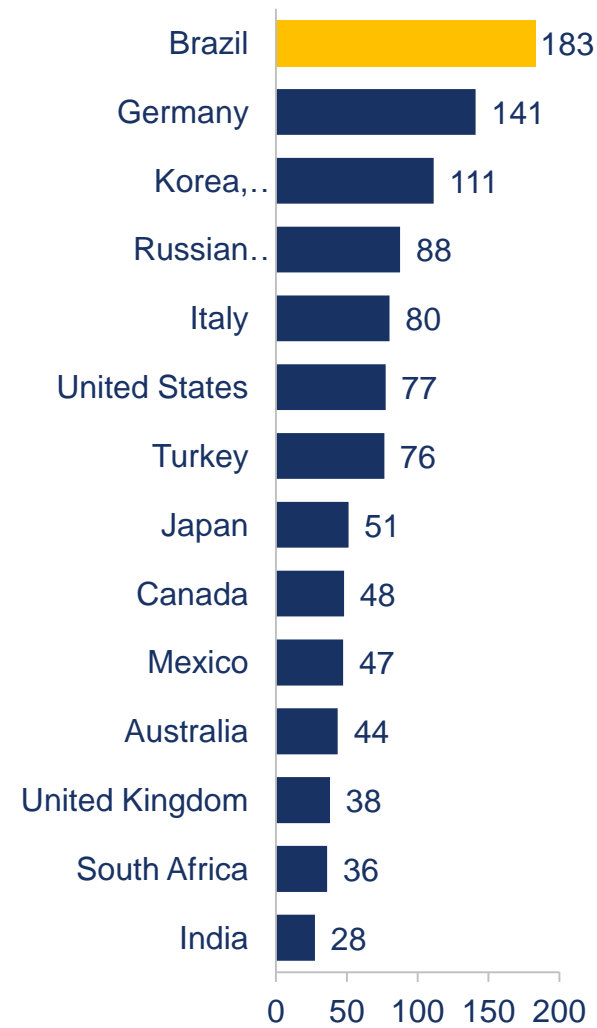
Regulatory Capital to Risk-Weighted Assets



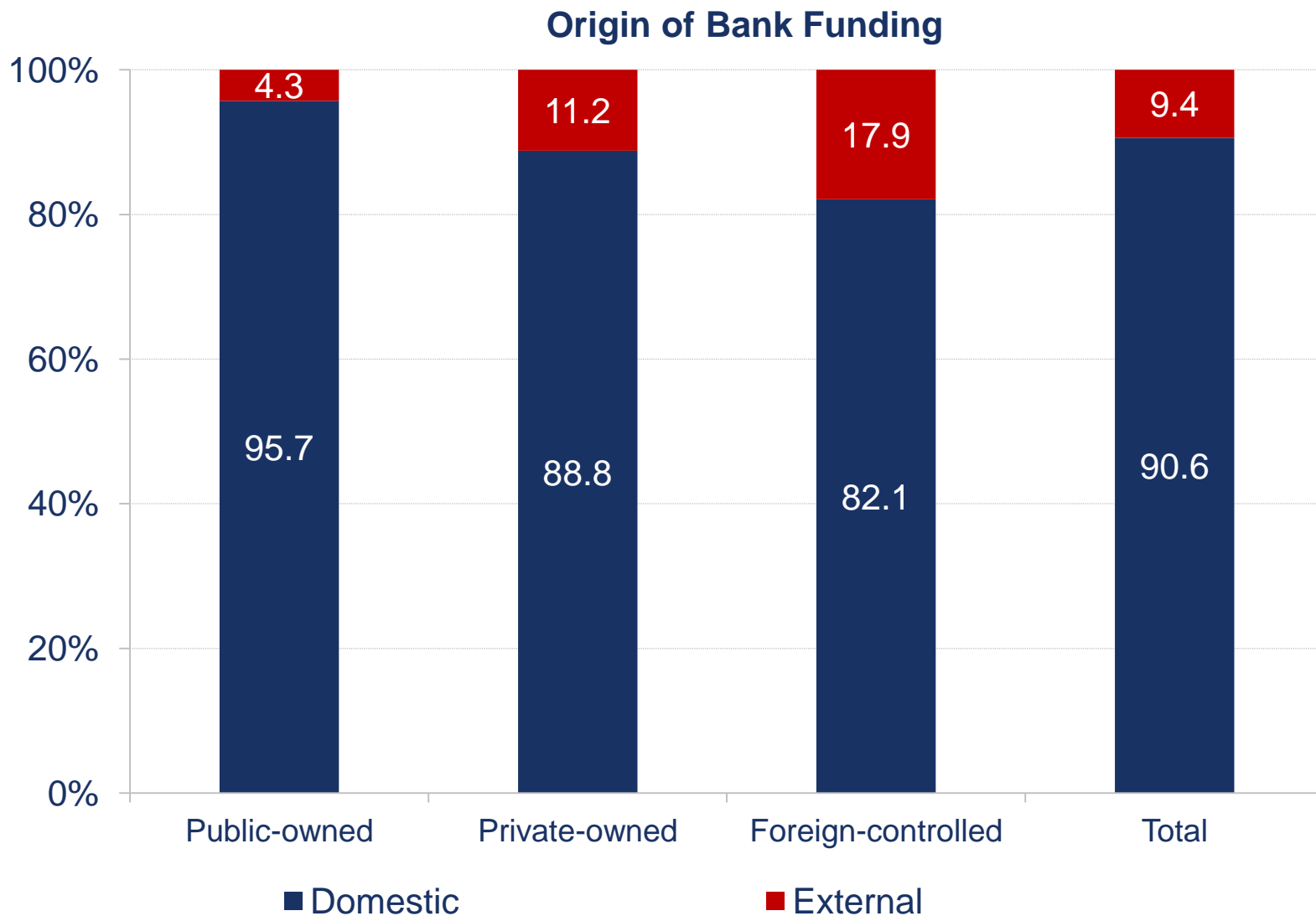
( Provisions – NPL) / Capital



Liquid Assets to Short Term Liabilities



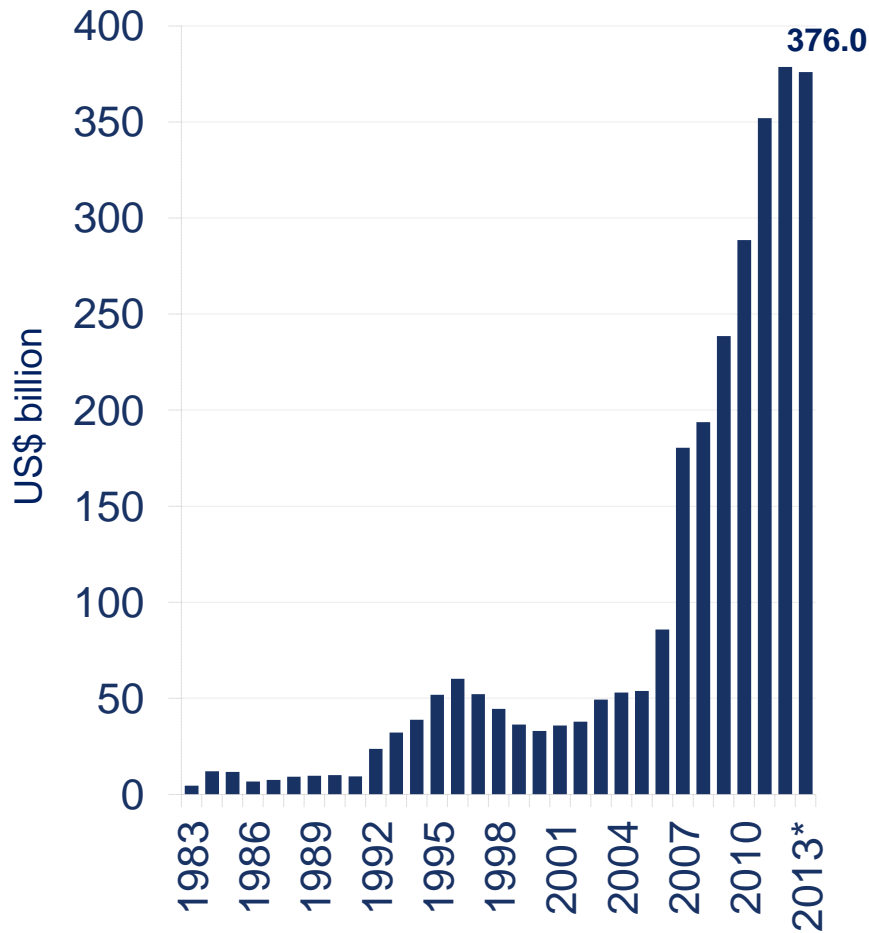
# Banks have a low share of external funding



Jul 13

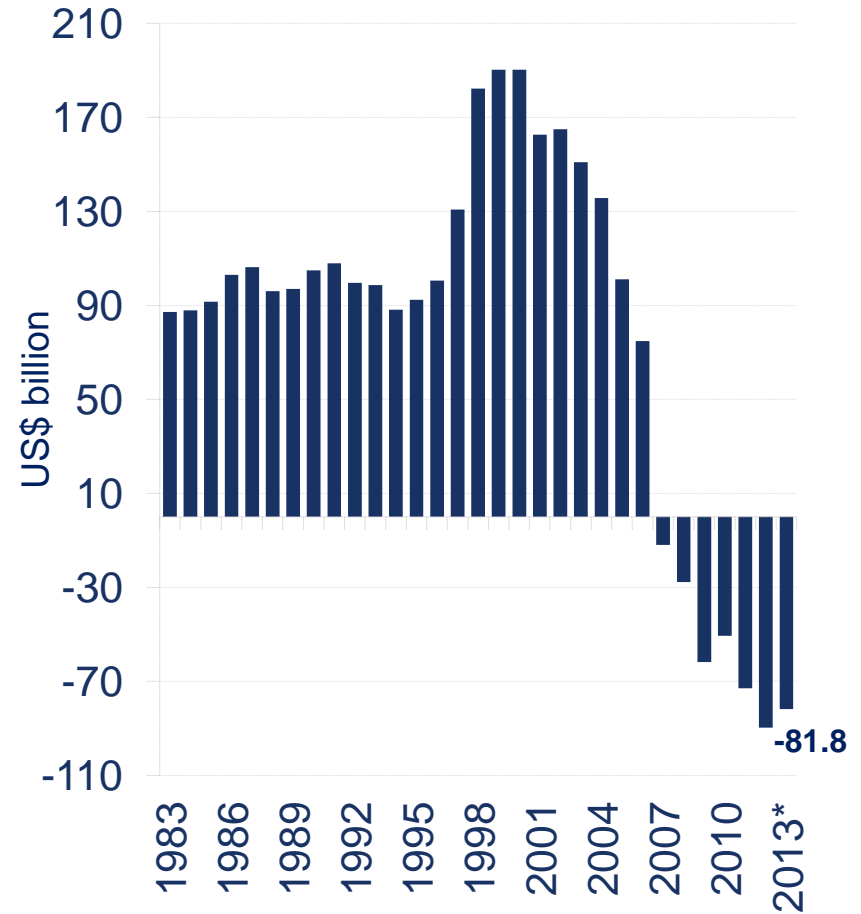
# Brazil – Net External Creditor

## International Reserves



as of Oct 1<sup>st</sup>

## Net External Creditor

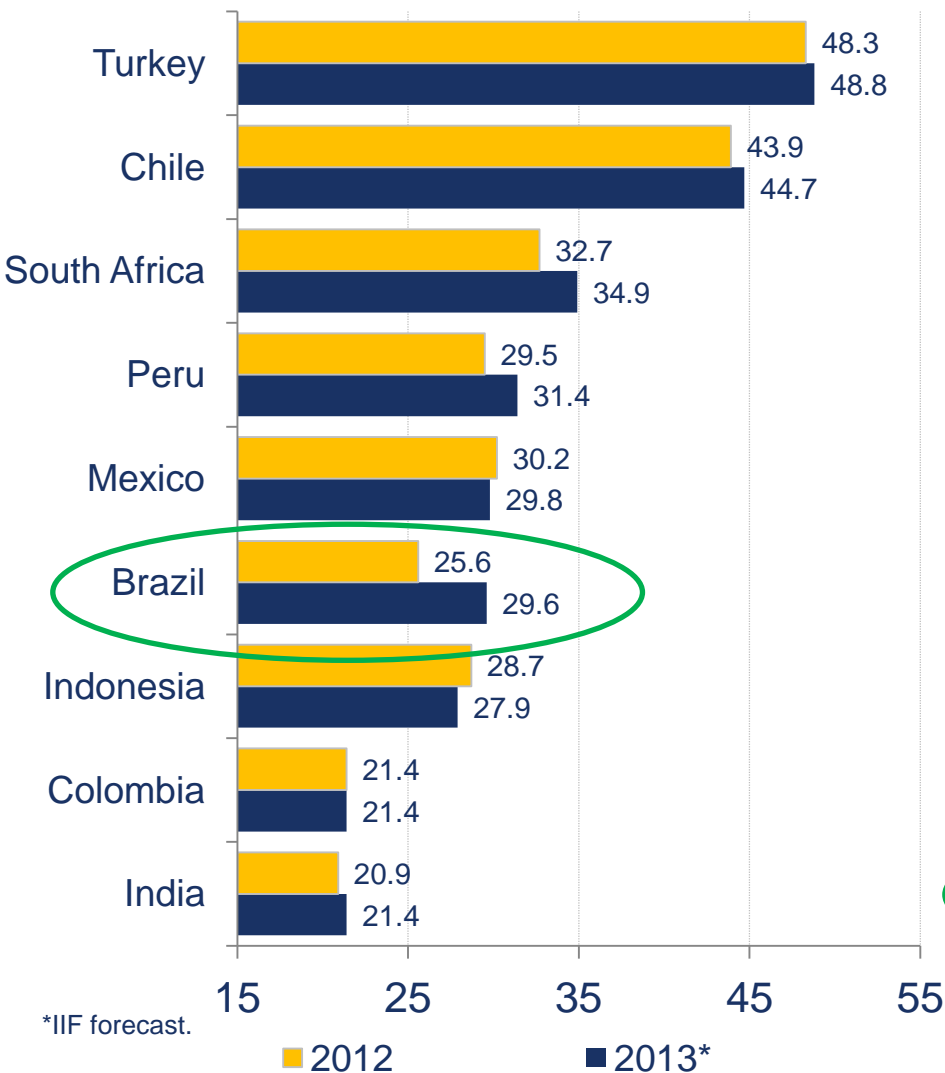


\*Aug 2013

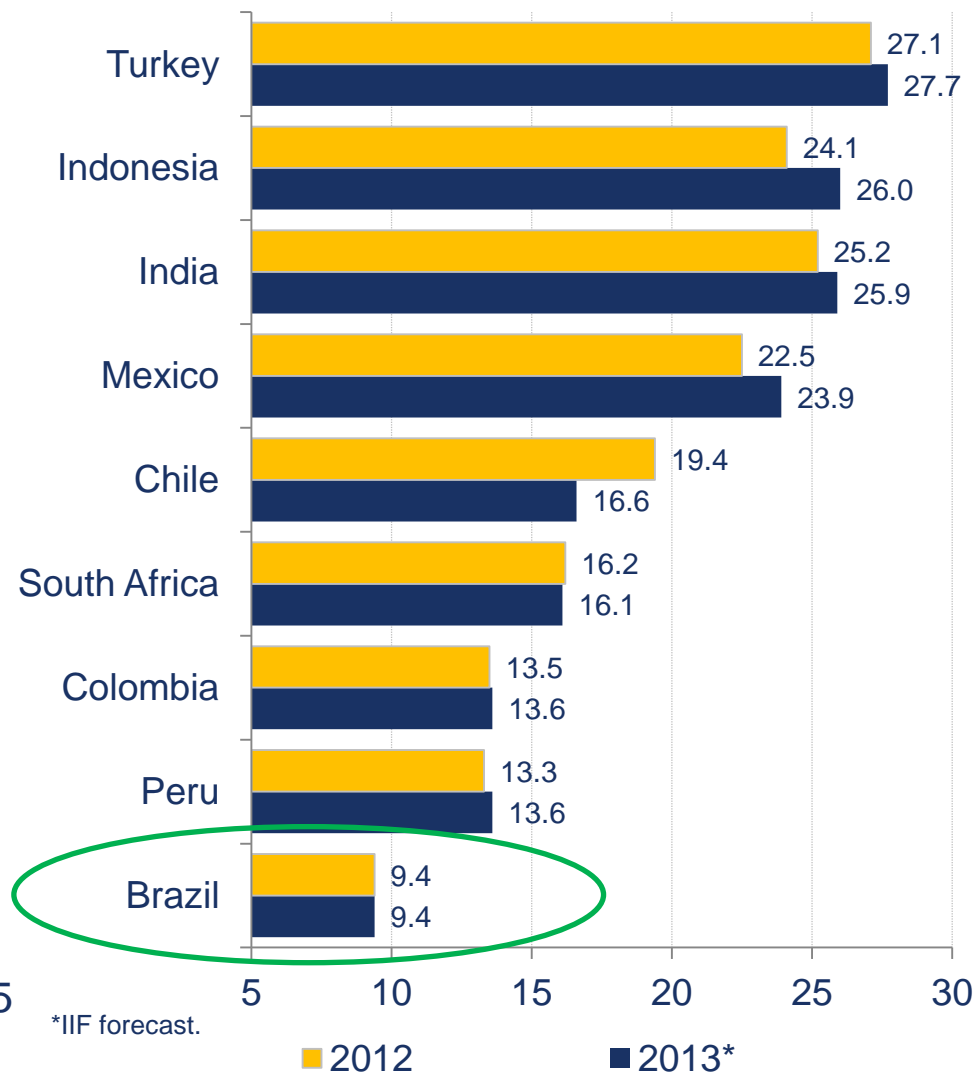


# External Debt of EMEs

## External Debt / GDP



## Short Term External Debt / Total

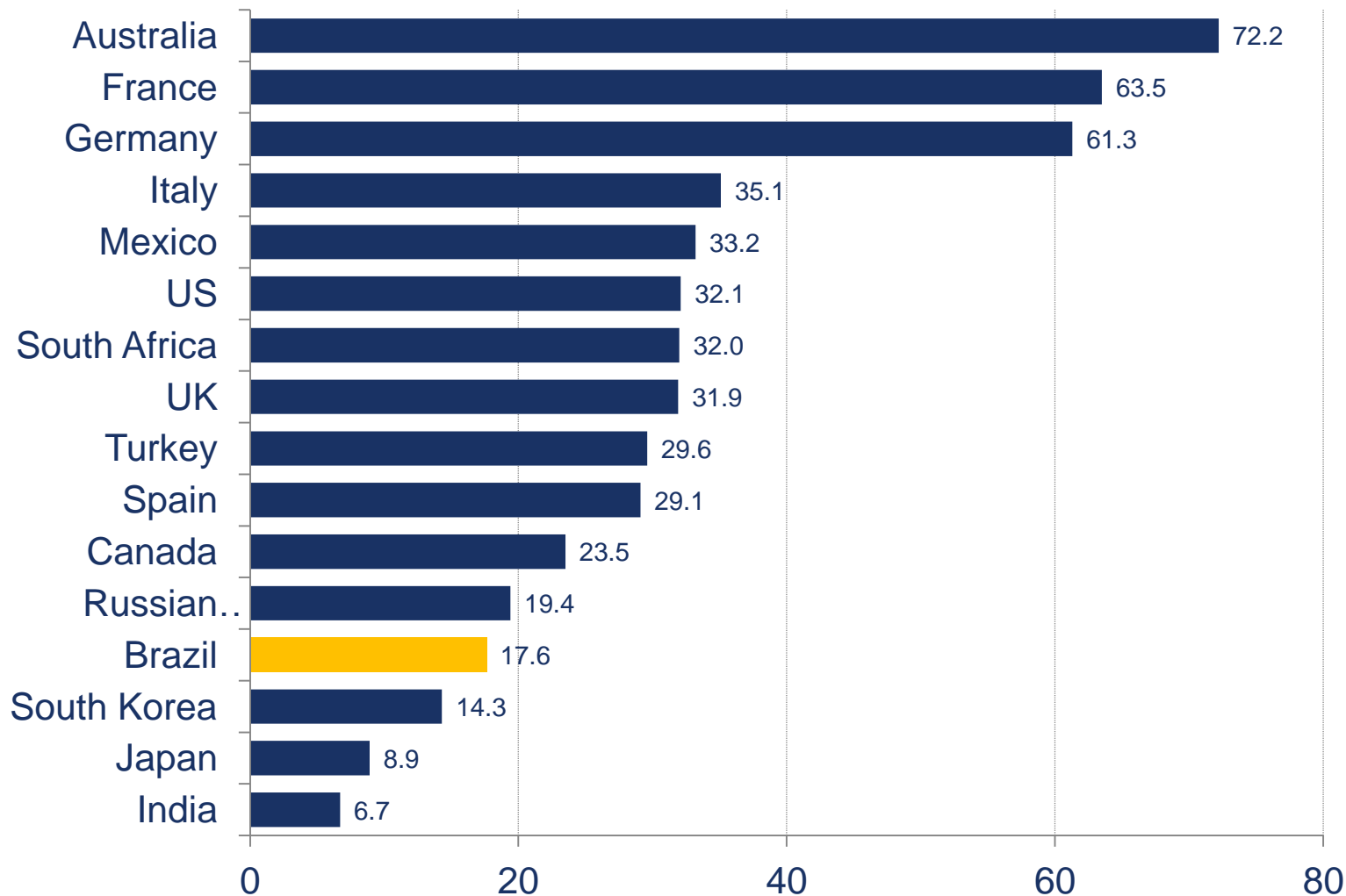


\*IIF forecast.

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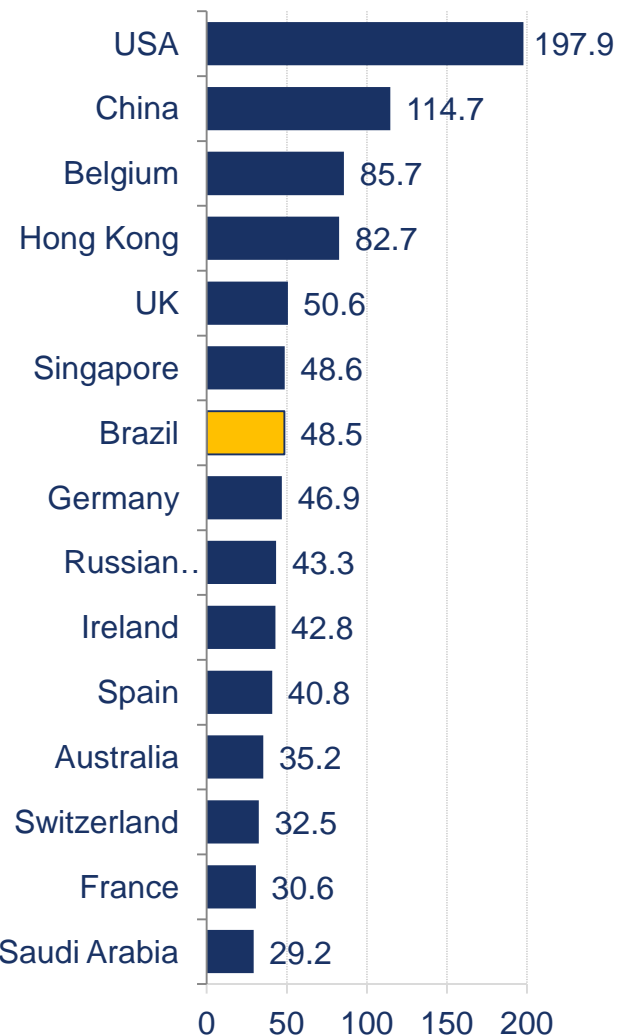
# Low nonresident holdings of Gov. debt

2012 (% of Total Debt)

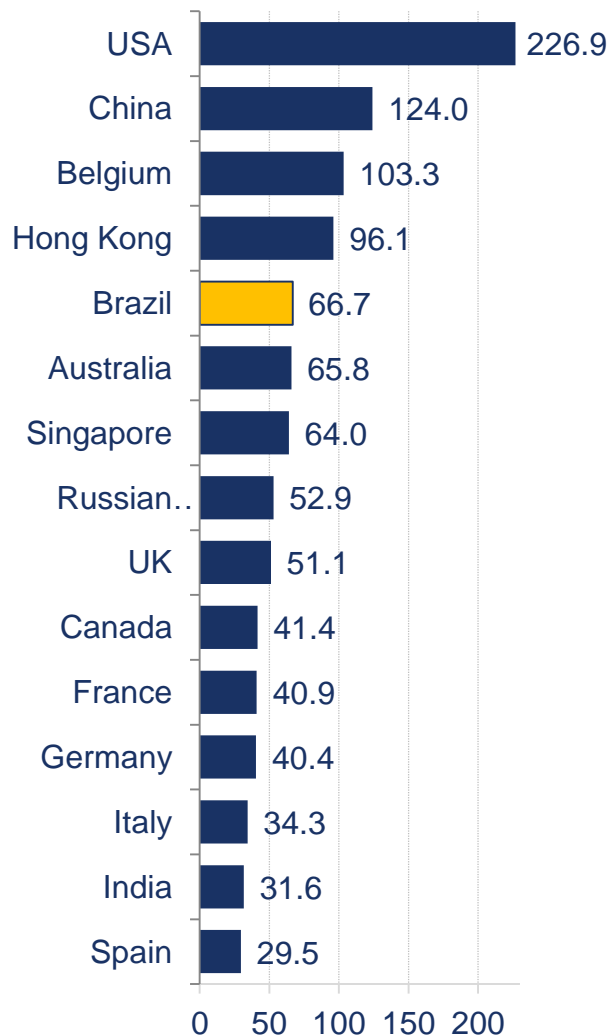


# Brazil is leading recipient of FDI

2010



2011

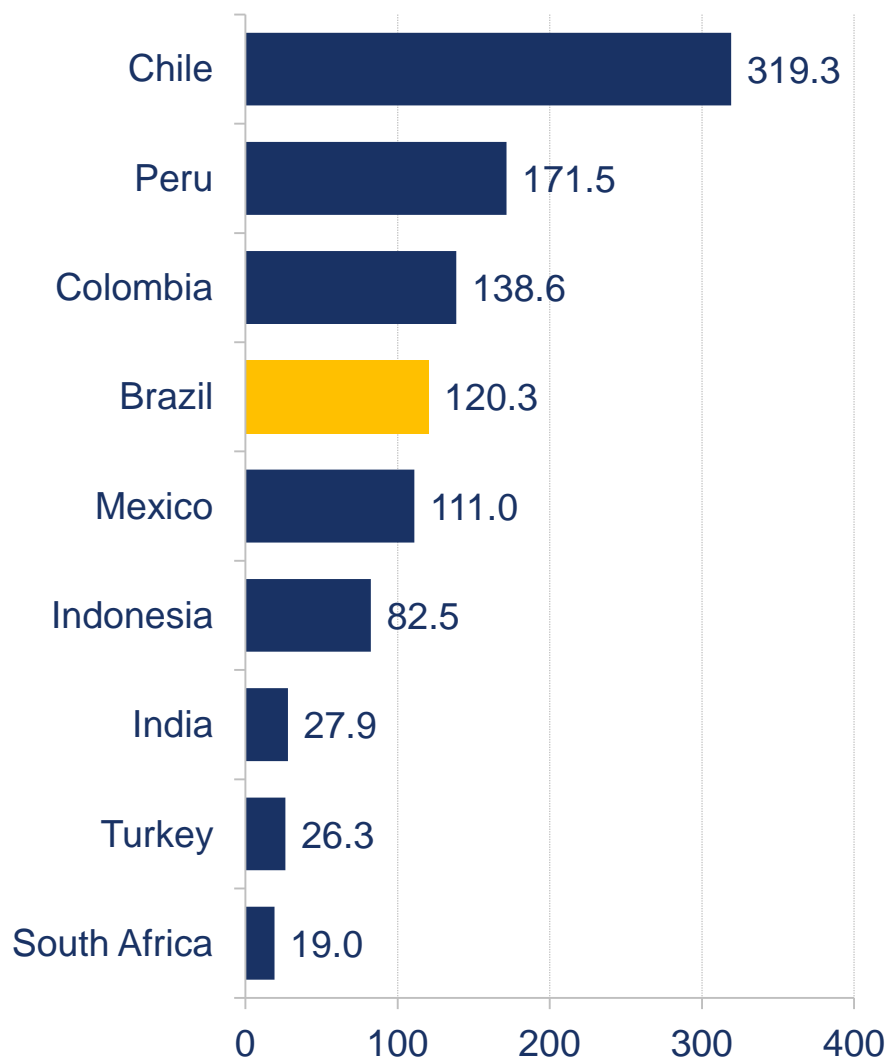


2012

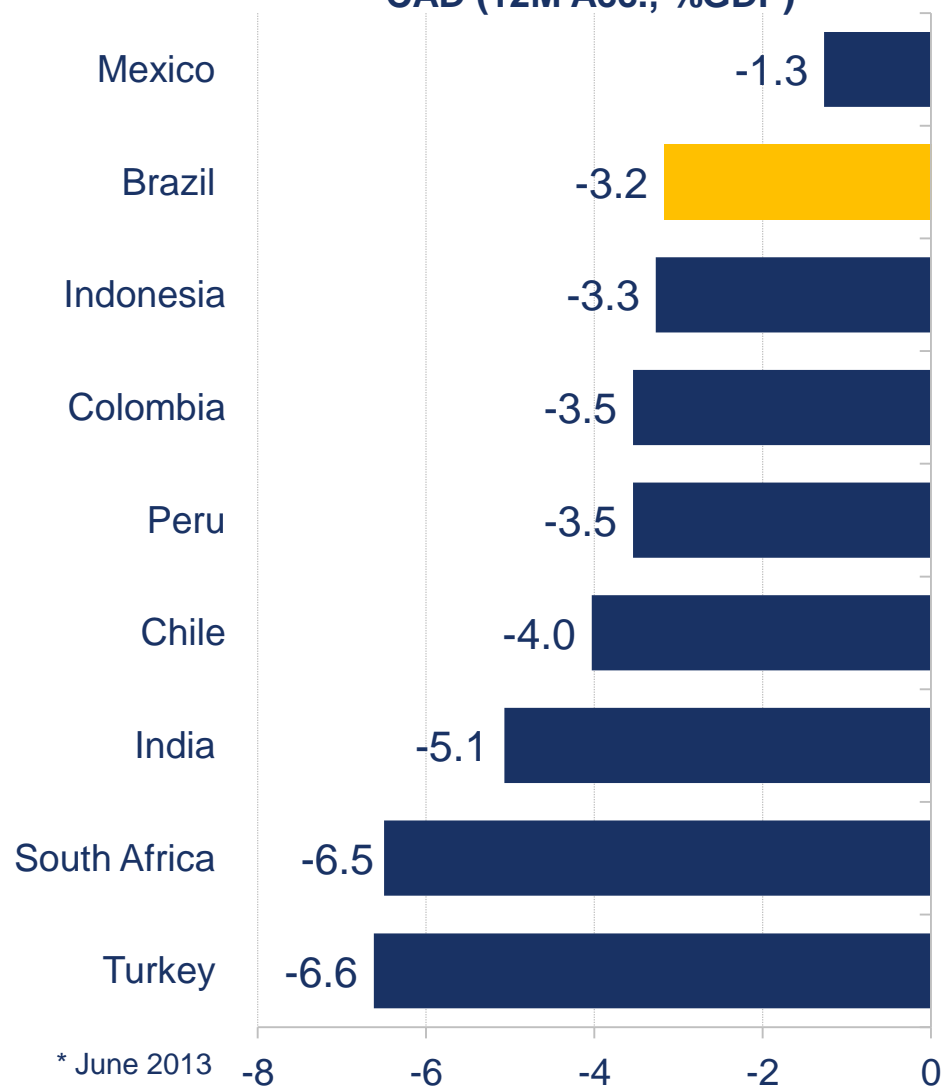


# CAD comfortably financed by FDI

FDI / CAD (in %, 2012)



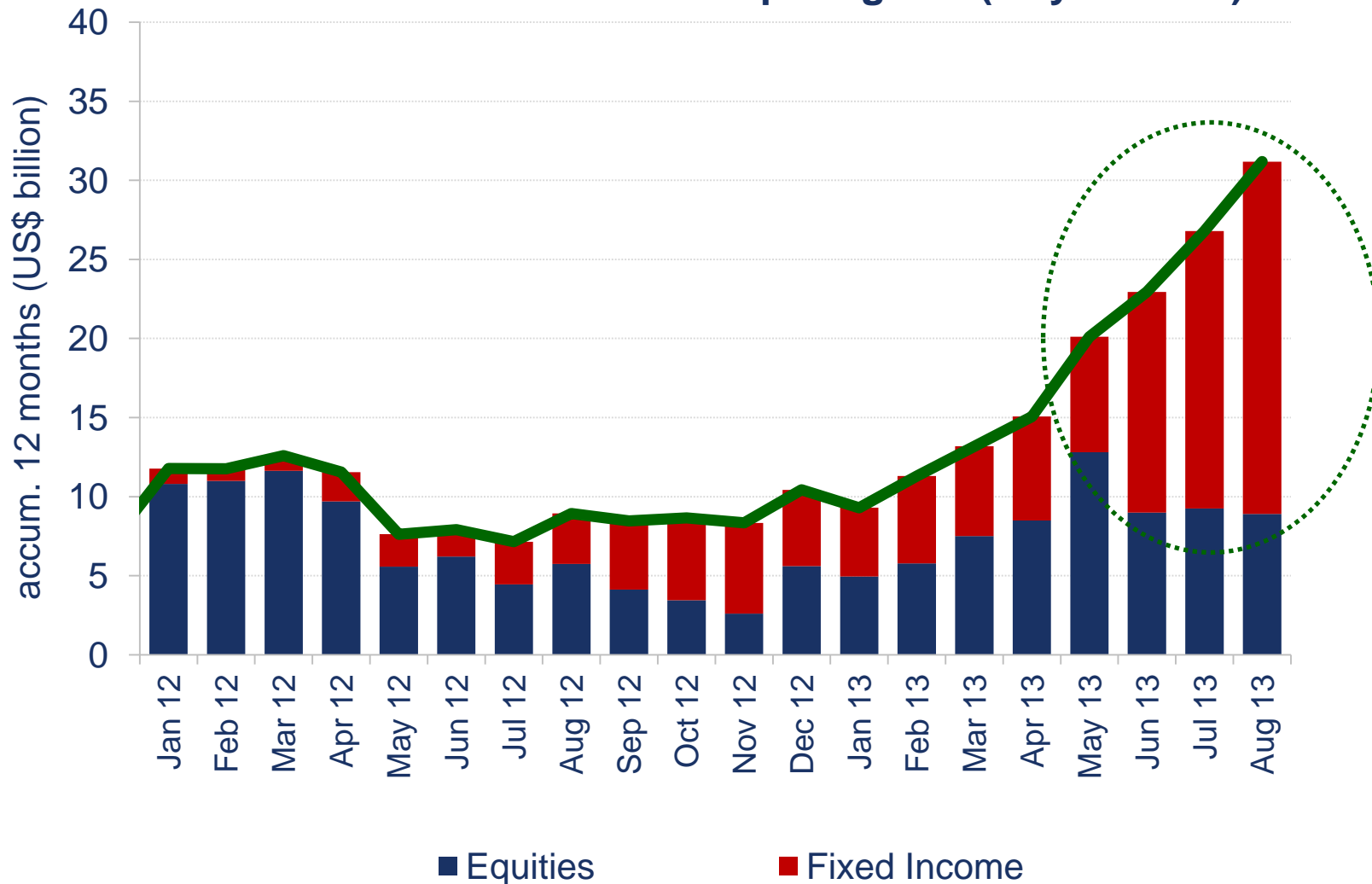
CAD (12M Acc., %GDP)\*



\* June 2013

# Capital flows

## Flows increased even after tapering talk (May 22 2013)

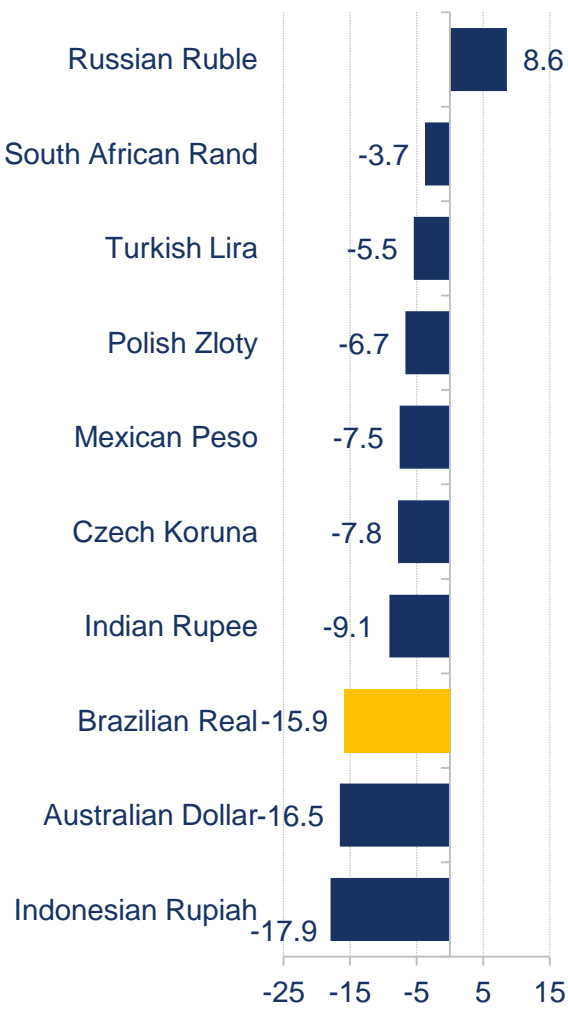


# Timely Central Bank action to mitigate risks

- 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

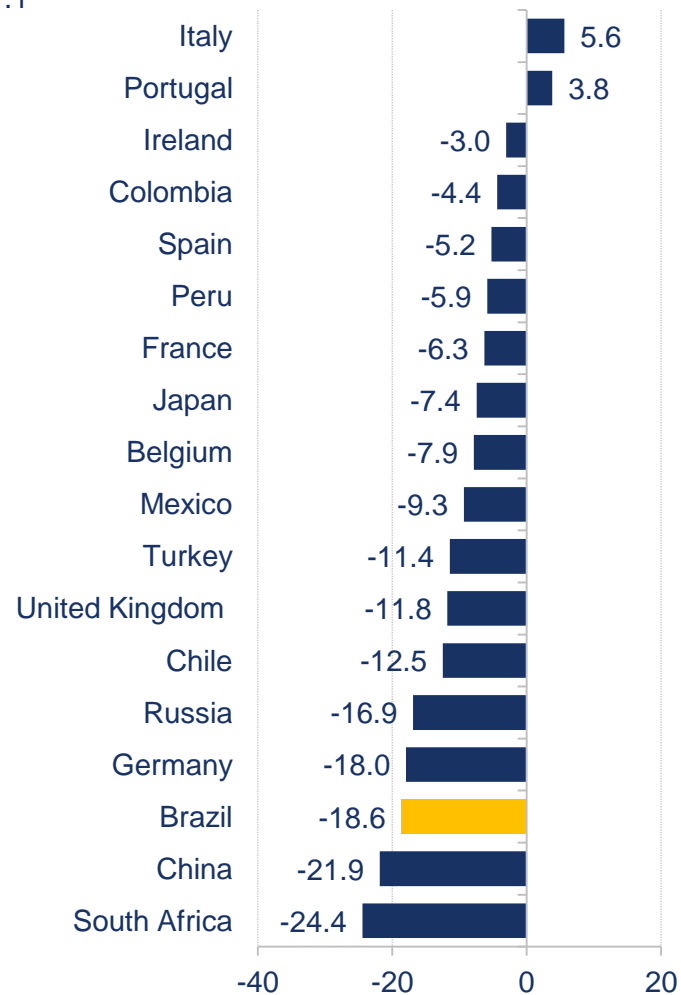
% Change in 1M ATM Implied Volatility\*



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.



# Brazil Economic Outlook

London

Alexandre Tombini  
Governor

October 2013



# Glossary

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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