## Consumer confidence stable

After hitting the bottom in December 2008, consumer confidence has recovered quickly since the second quarter of 2009, rising by November to near the pre-crisis level. Since November the index has fallen slightly, partly reflecting the end of the fiscal measures to boost consumption and an acceleration of inflation rates. In comparison with other countries and the European Union, in Brazil consumer confidence has been much less affected by the international crisis that broke out in 2008.

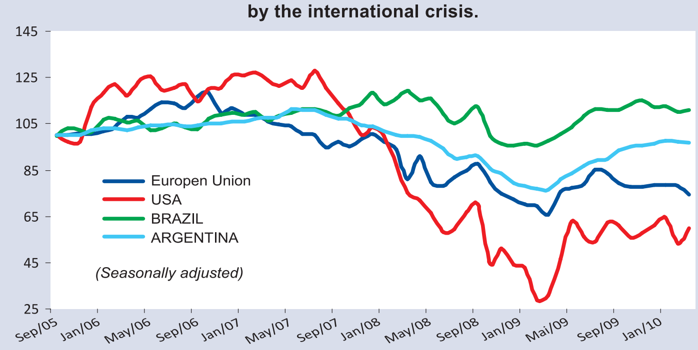
## Inflation on the rise

Inflation expectations have been rising steadily since September 2009. The latest Central Bank weekly survey showed that inflation expectations for 2010 have risen 3 basis points to 5.3%, the thirteenth consecutive increase. Expectations of real GDP growth also increased, from 5.6% to 5.8%, after healthy economic activity was reported last week. Acceleration of growth in emerging countries, particularly China, has caused international commodity prices to rise. The increase is being gradually passed on to final prices. The Central Bank in its late March inflation report now projects inflation of 5.2% for 2010.

## External current account widened

Despite a gradual recovery starting in June of last year, Brazilian exports are still 20.8% below their highest level, recorded in May 2008. Imports were less affected by the international crisis because of the strength of the Brazilian domestic market. As a result, the external trade balance, which averaged US$2 billion a month in 2008 and 2009, fell to US$1.4 billion in February 2010, causing the external current account to widen.

Consumer confidence in Brazil was the least affected by the international crisis.




Sources: IBRE-FGV, (Brazil), Conference Board (US), European Commission (EU), and Centro de Investigacion en Finanzas (Argentina).

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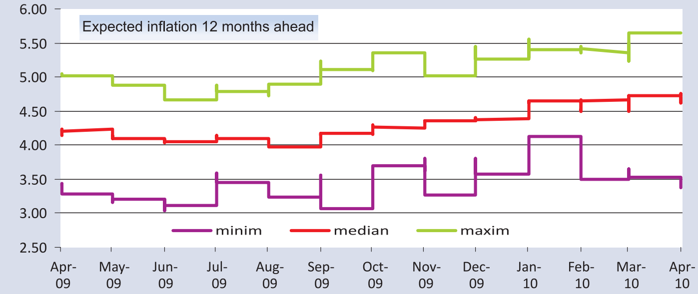
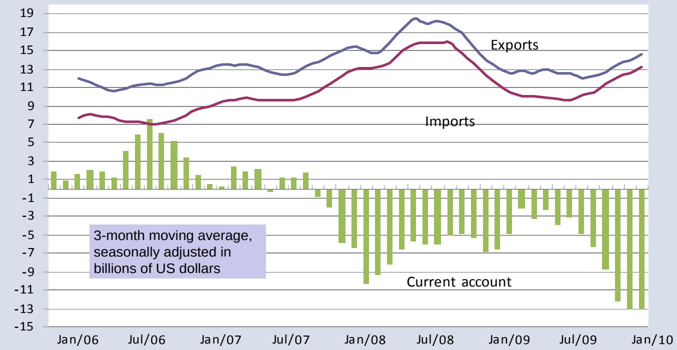


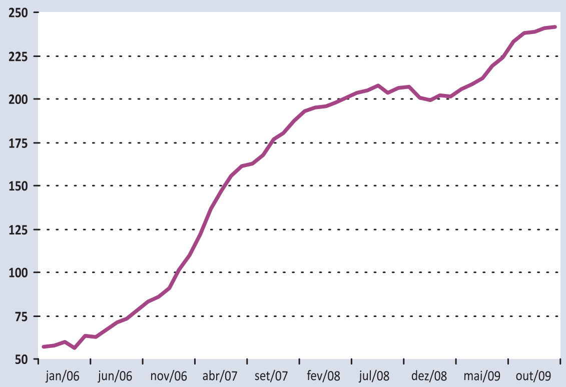

Source: Central Bank of Brazil.

External current account has widened, as exports remain low and imports strong




Source: Central Bank of Brazil.

Brazil: International resreves (billions of US dollars)




Source: Central Bank of Brazil

## Excess reserves?

Despite the increase in the external current account deficit, the inflow of foreign currency for financial applications and direct investment caused the exchange rate to appreciate in the second half of 2009. To avoid excessive appreciation, the Central Bank has sterilized these inflows of resources, building up international reserves to US$241 billion, which represent about 15% of Brazilian GDP and more than 100% of Brazilian foreign debt. The cost of carrying these reserves — the difference between domestic and international interest rates — is estimated at US$17 billion a year (1% of GDP). The high cost has triggered a debate on whether there is still a need to continue accumulating reserves.