



# **Brazil: Economic Outlook and Current Challenges**

**Aldo Mendes**  
May 2011

# Agenda

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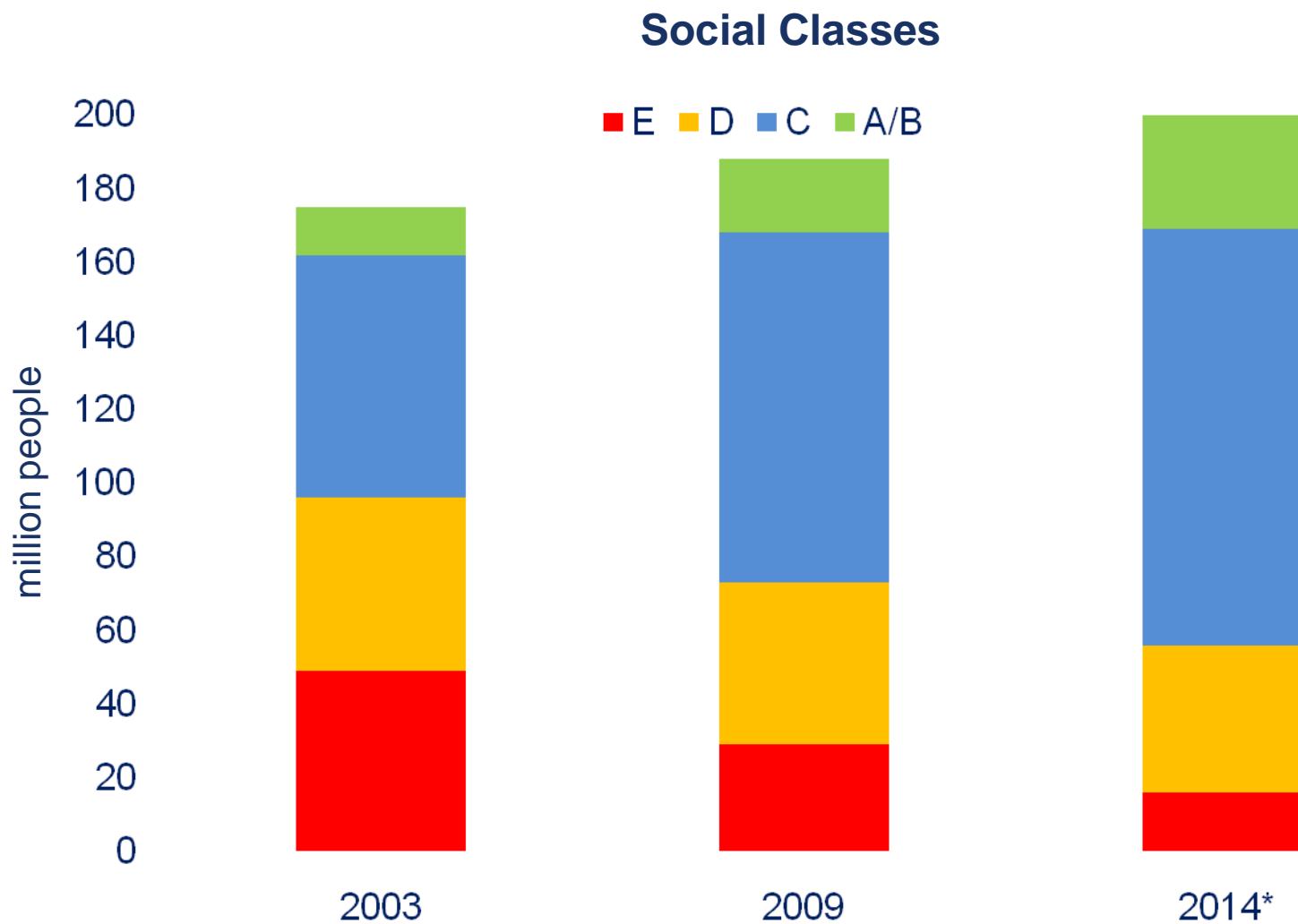
- Brazilian Social Achievements
- Brazilian Economic Achievements
- Short Term Economic Challenges
- Brazilian Economy Prospects

# Brazilian Social Achievements

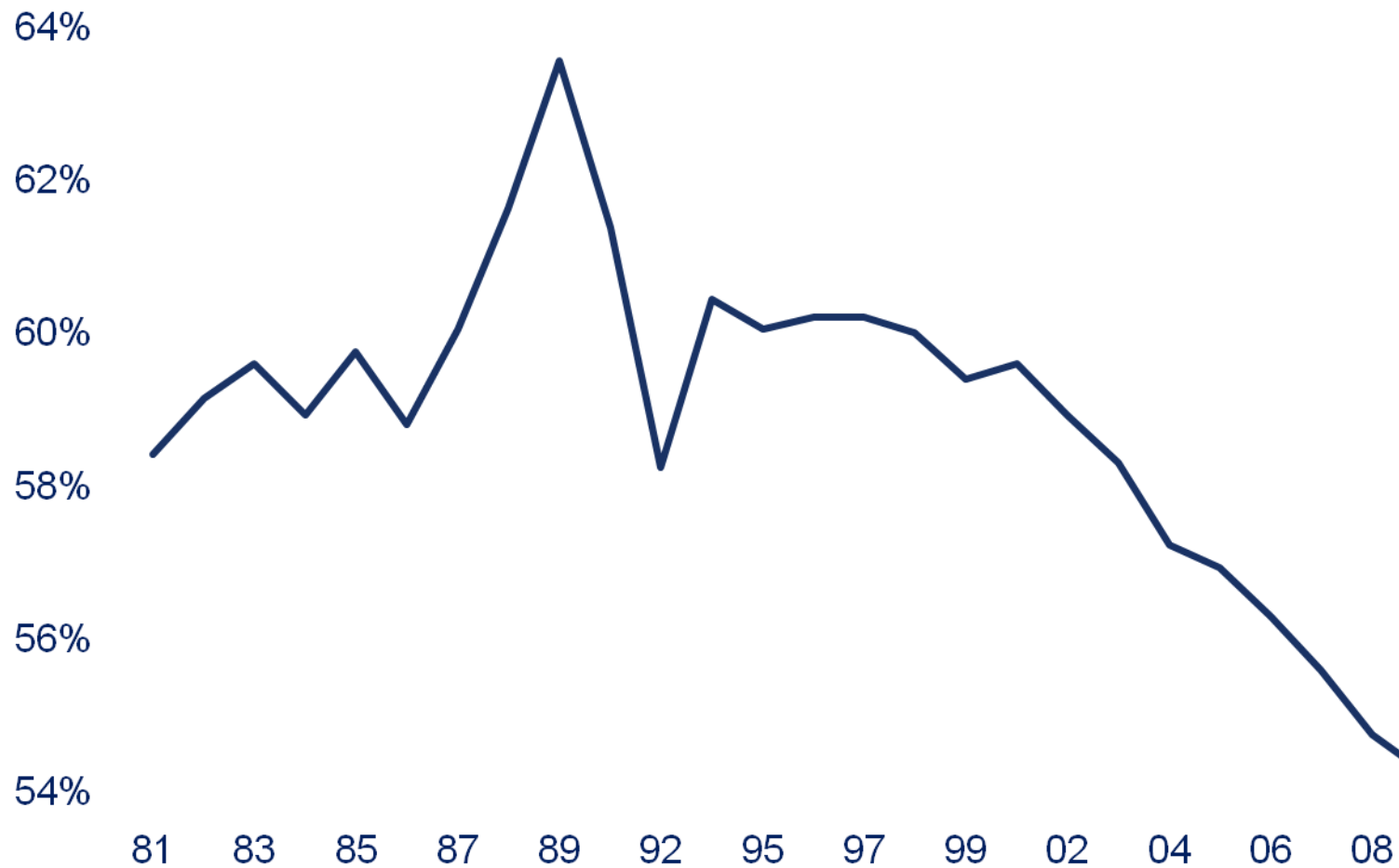
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- More than 20 million Brazilians overcame the line of poverty
- More than 36 million Brazilians were included in the middle-income class
- Reduction of inequality – in 2009 the Gini Index reached a record low for the last 30 years
- Formal job creation reached record levels
- The Brazilian society has the best welfare level of the last 30 years

# Social Mobility

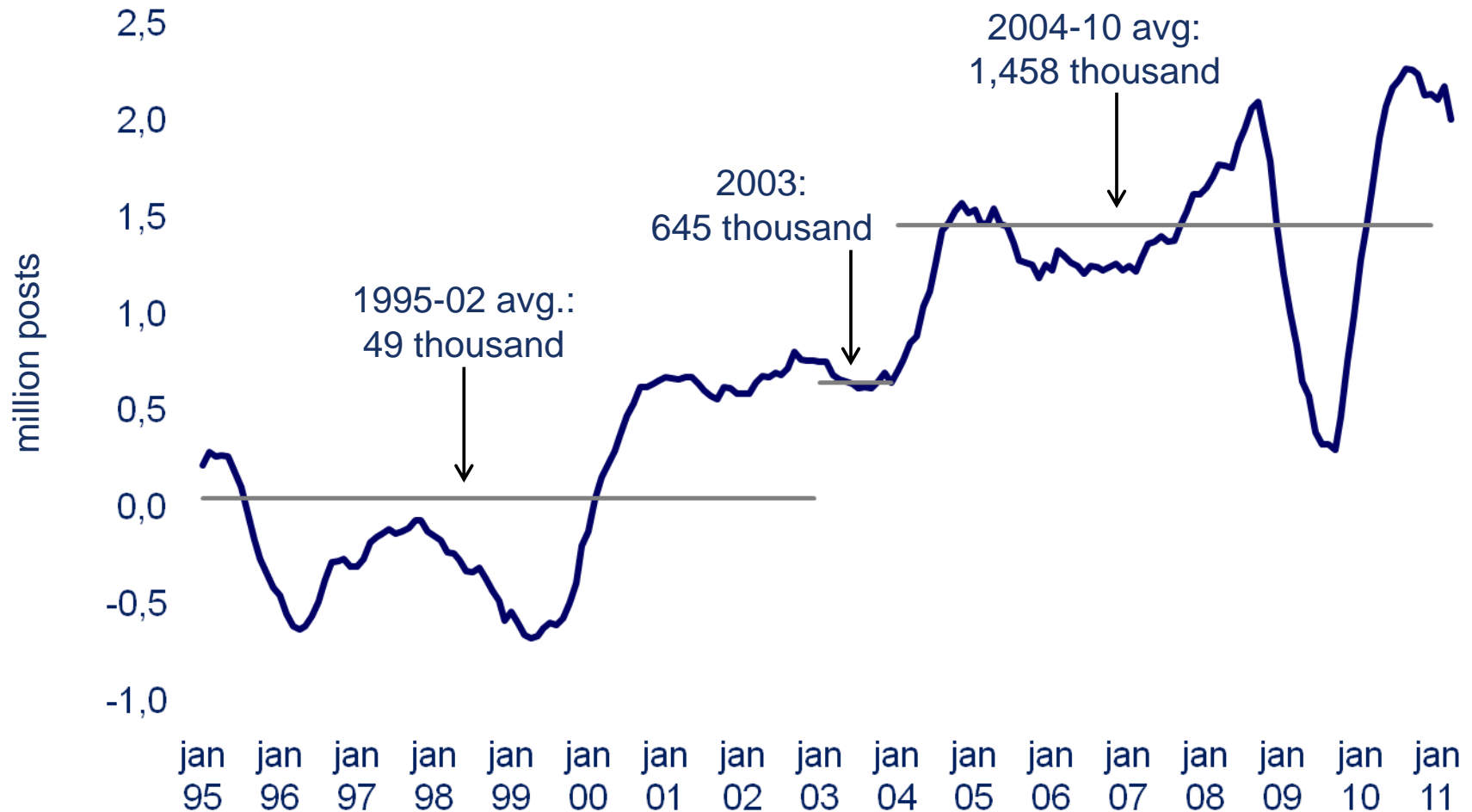


# Gini Index - Brazil



# Formal Employment - Brazil

new jobs in the last 12 months

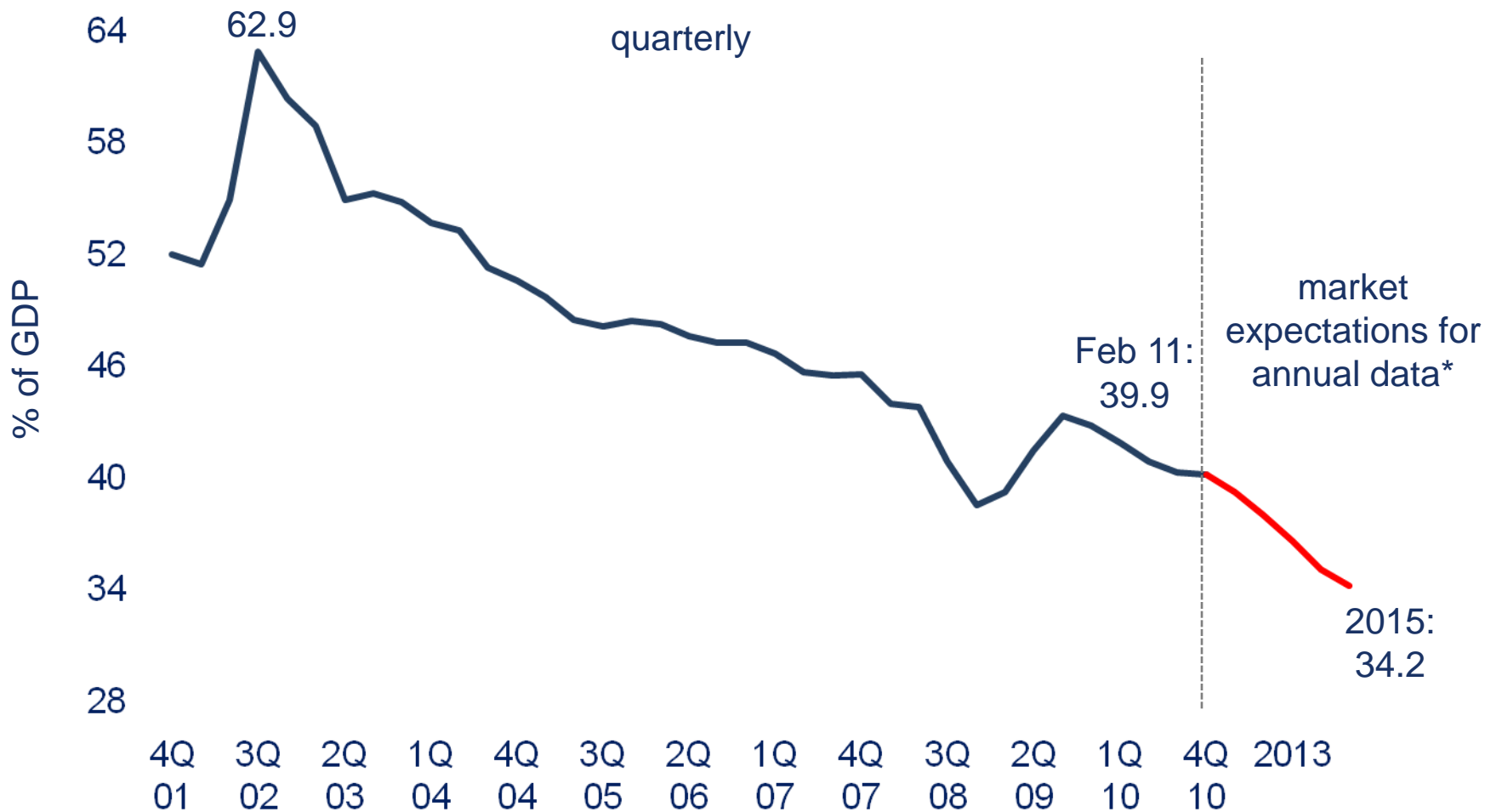


# Brazilian Economic Achievements

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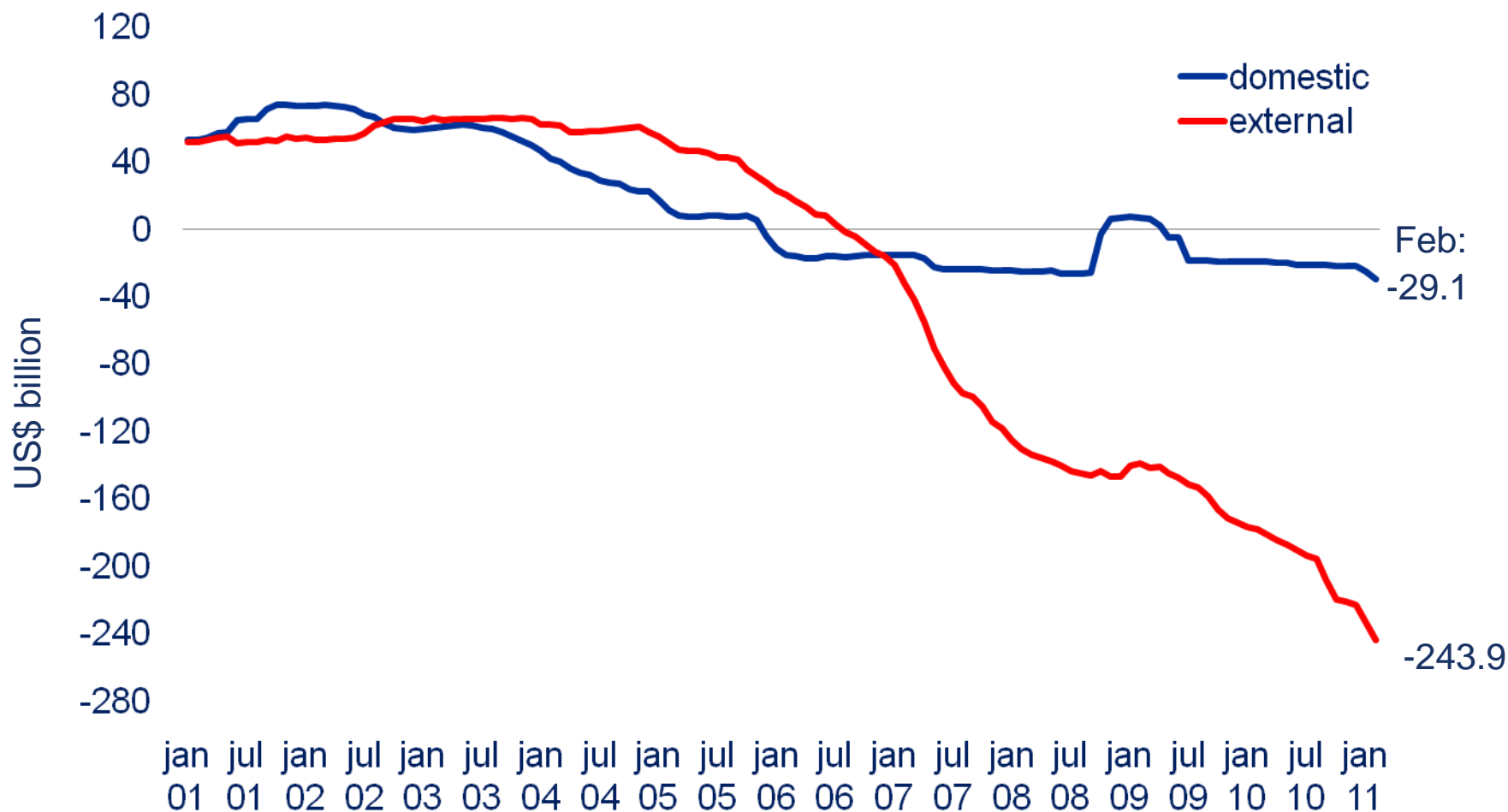
- Net public debt-to-GDP ratio in downward trajectory
- Negative net external debt – Brazil is currently an international creditor
- International reserves above US\$ 325 billion
- Credit market: almost 50% of GDP
- Solid financial system and conservative prudential regulation
- Brazil has an investment grade credit rating, with prospects of further improvement

# Debt-to-GDP Ratio

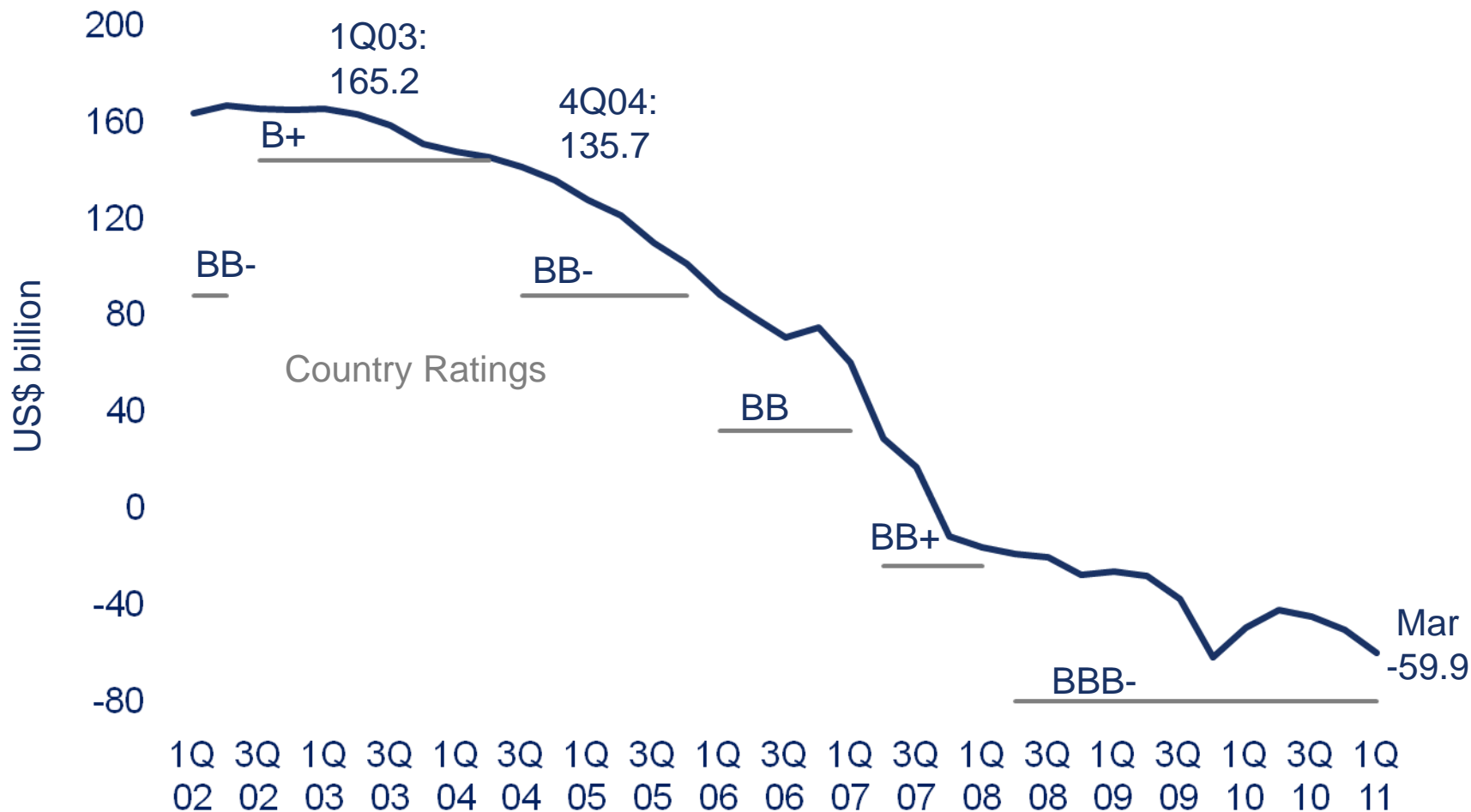




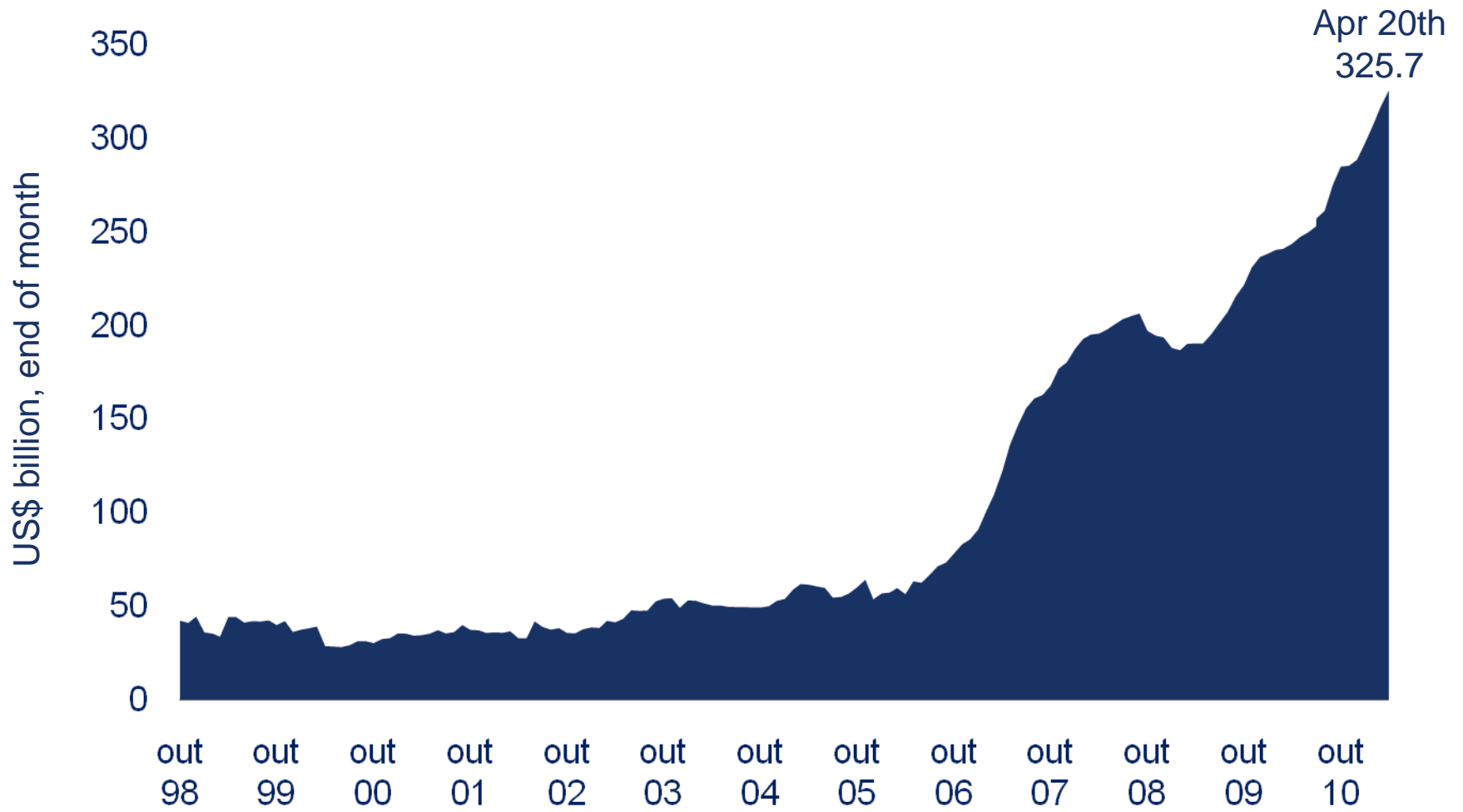
# Net Public Forex Debt



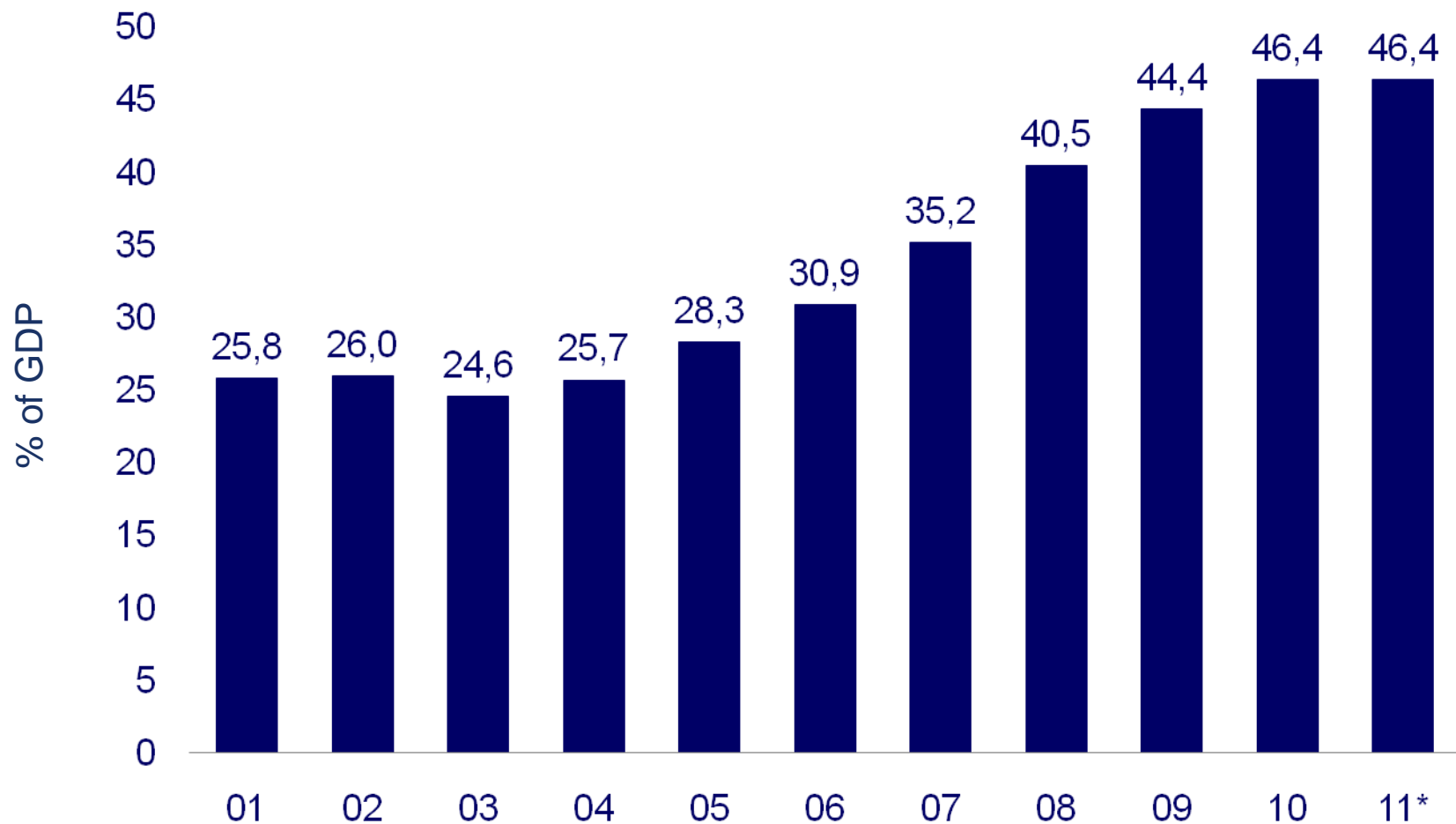
# Net External Debt (Private and Public)



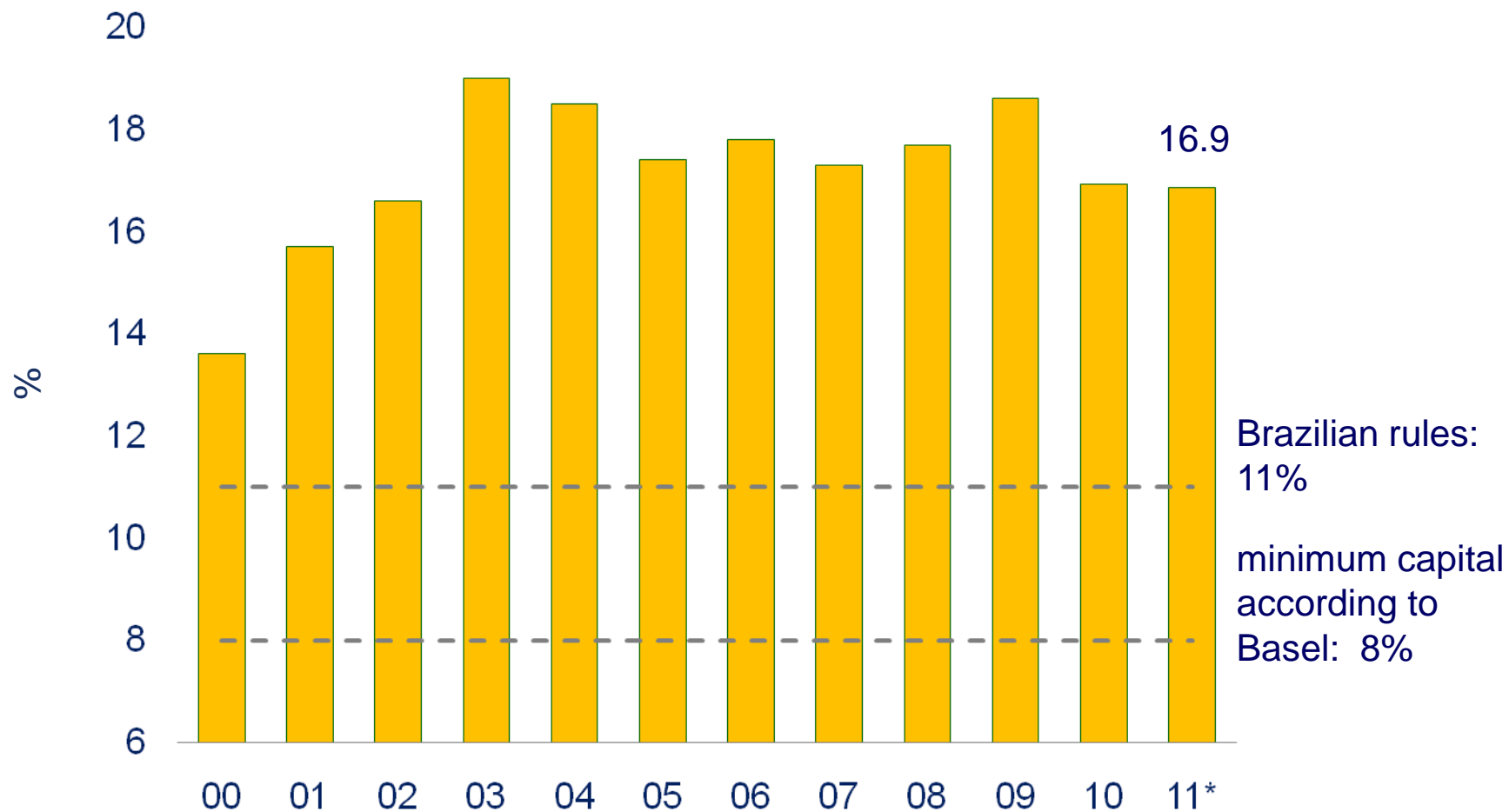
# International Reserves



# Credit/GDP



# Basel Capital Ratio – Banking System

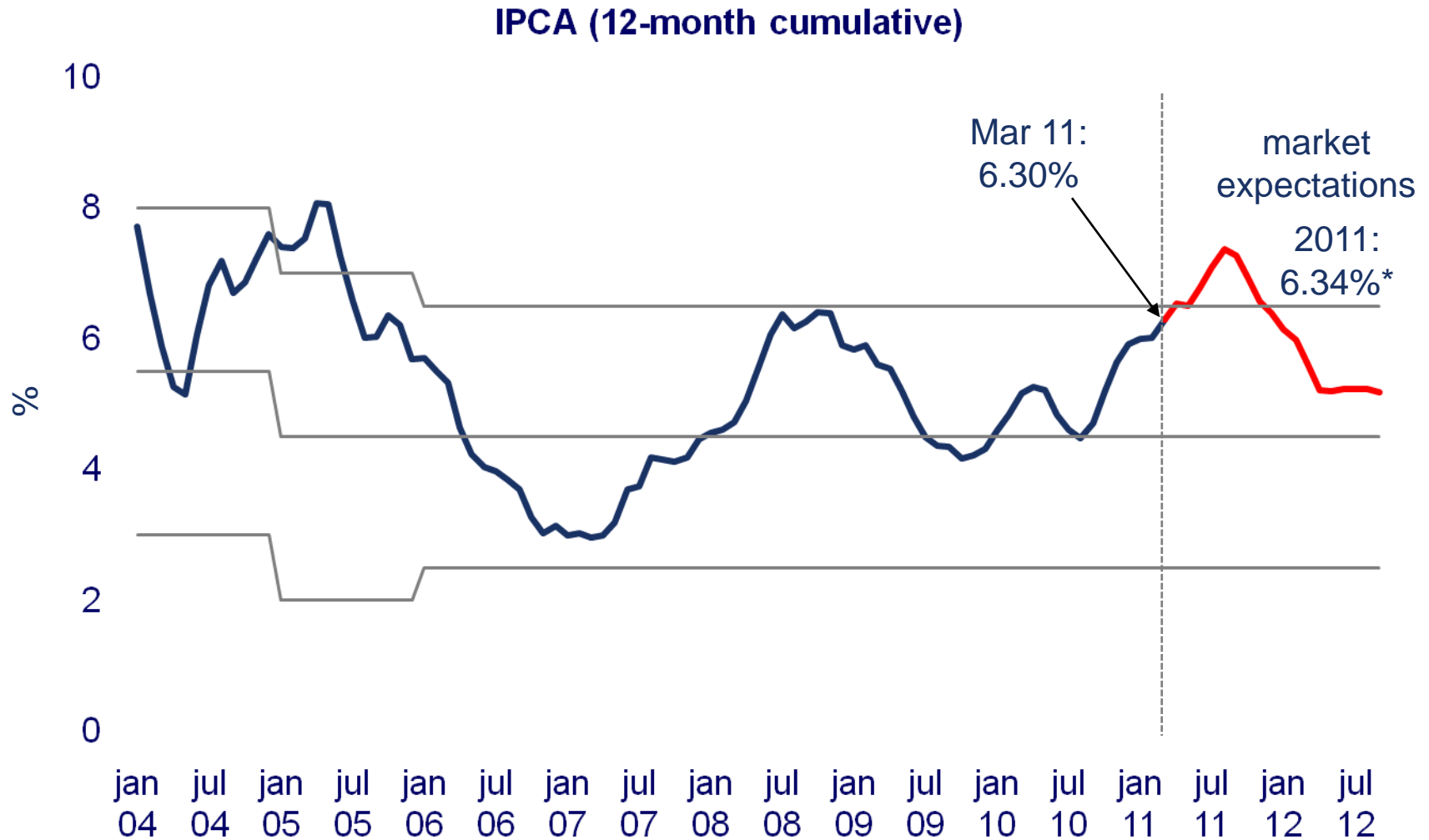


# Short Term Economic Challenges

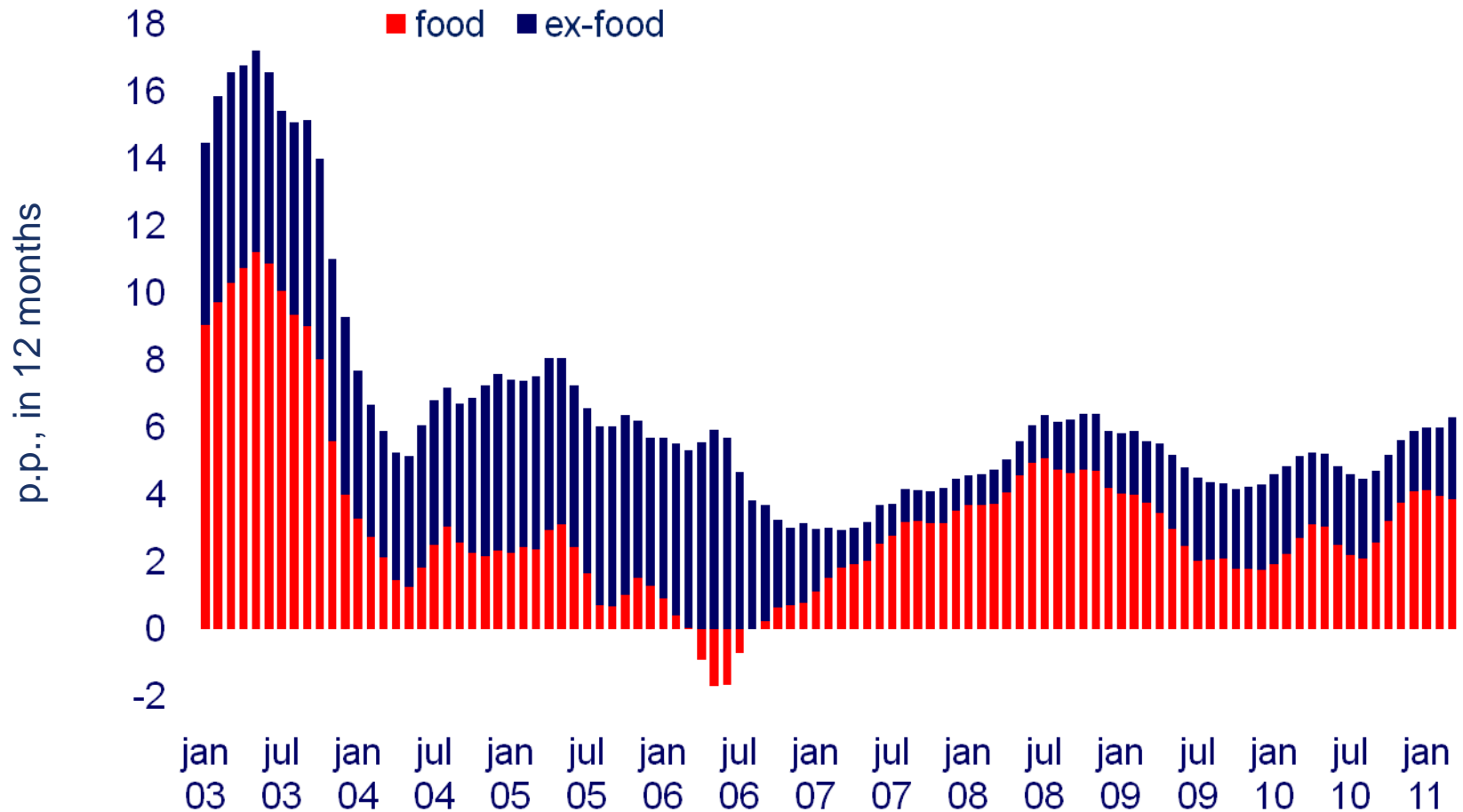
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- **Making inflation converge to the target midpoint**, even facing the strong increase of agricultural commodities and oil prices in the international context
- **Dealing with the intense foreign capital flow, which is inflationary.** The inflow is a consequence of the Brazilian economy positive prospects, but also of expansionist monetary policies adopted by other countries

# Inflation



# IPCA





# Foreign Capital Inflow

US\$ billion

	Jan – Apr			
	2008	2009	2010	2011*
FDI	12.67	8.75	7.76	21.07
Bonds	0.29	-2.60	4.05	9.33
Loans	7.03	-1.97	10.37	19.69
Stocks	3.84	0.61	8.57	0.93
Fixed Income	9.23	-1.59	5.74	-0.66
Total	33.05	3.19	36.49	50.37

\* data until April 18th

# Measures to Fight Inflation

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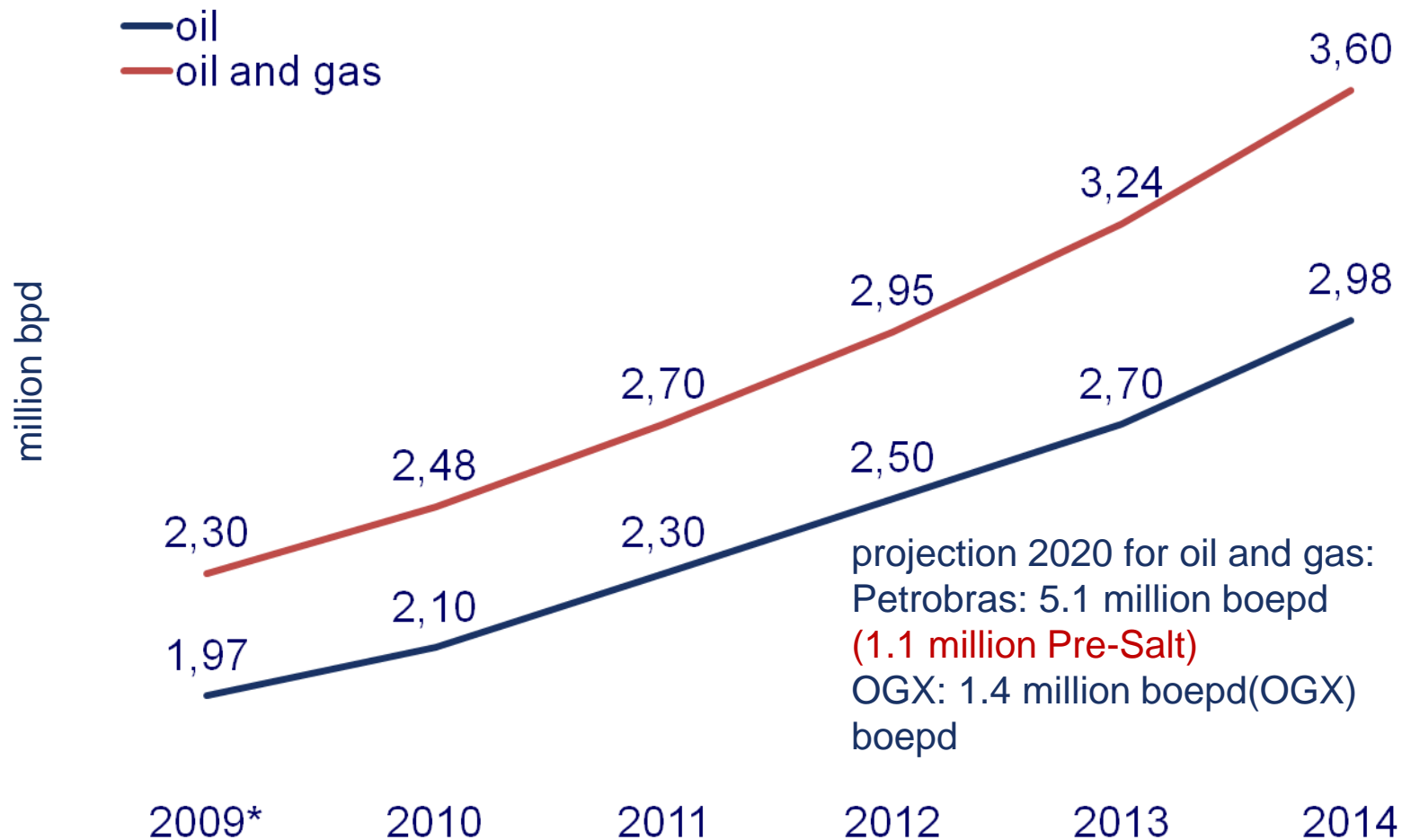
- Monetary Policy (Over-Selic rate – Copom decision)
  - + 0.50 p.p. (January 19, 2011)
  - + 0.50 p.p. (March 2, 2011)
  - + 0.25 p.p. (April 20, 2011)
  
- Fiscal Consolidation
  - Expenditure cuts: R\$ 50 billion
  - Primary Surplus in 2011: R\$ 117 billion

# Brazilian Economy Prospects

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- Strong and sustainable growth in the coming years
- Broadening of the middle income class
- Demographic bonus until 2025
- Several investment opportunities
  - Exploration of the Pre-Salt layer
  - Infrastructure modernization and expansion
  - Vast reserves of mineral commodities
  - Potential for broadening the arable land (global exception) and increasing the agricultural production
  - Soccer World Cup and Olympic Games

# Oil and Gas Production



# Investment Prospects – 2011-2014

Infrastructure	R\$ billion		growth	share
	2006-2009	2011-2014	%	%
Electricity	92	139	51.1	36.5
Telecommunications	62	70	16.1	18.9
Sanitation	26	41	57.7	10.8
Railways	20	60	200.0	15.7
Highways	30	51	70.0	13.4
Ports	5	18	260.0	4.7
<b>Total</b>	<b>235</b>	<b>381</b>	<b>62.1</b>	<b>100.0</b>

# Investment Prospects – 2011-2014

Industry	R\$ billion		growth	share
	2006-2009	2011-2014	%	%
Oil and Gas	205	378	84.4	62.7
Mining	59	62	5.1	10.3
Steel	27	33	22.2	5.5
Petrochemical	20	40	100.0	6.6
Automobile	25	33	32.0	5.5
Electric/Electronics	16	29	81.3	4.8
Pulp and Paper	18	28	55.6	4.6
<b>Total</b>	<b>370</b>	<b>603</b>	<b>63.0</b>	<b>100.0</b>



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