Brazil Economic Outlook

London School of Economics

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Governor

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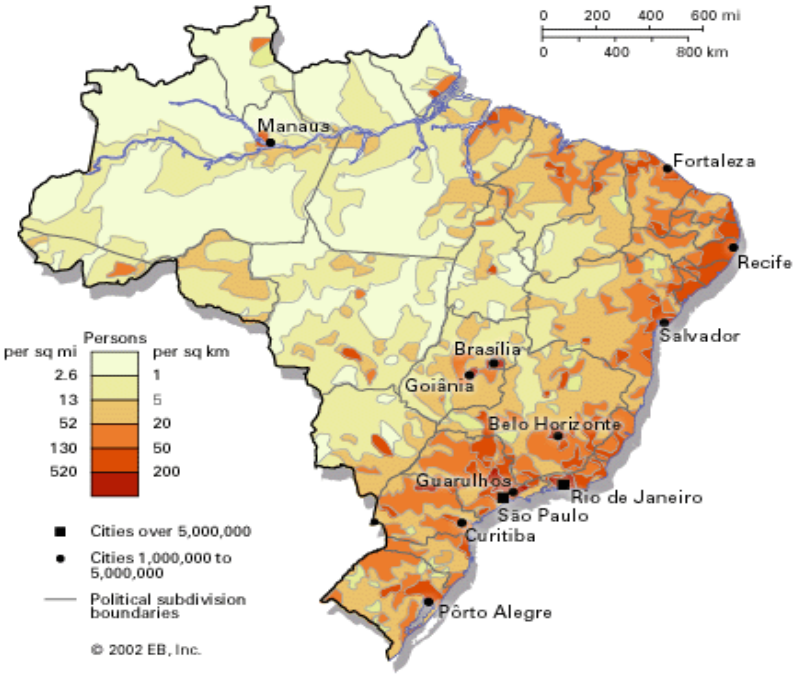
BANCO CENTRAL DO BRASIL

Brazil overview

- **Brazil is among the largest countries in terms of territory, population and GDP**
- **Brazil has vast natural resources, including recently discovered large offshore oil fields, a diverse industrial base, a dynamic and sophisticated private sector, and a well-structured public sector**
- **Brazil is a vigorous democracy, with free multiparty elections and a stable political system**
- **Brazil has good relations with all its neighbors and has increased its ties with all regions of the world**



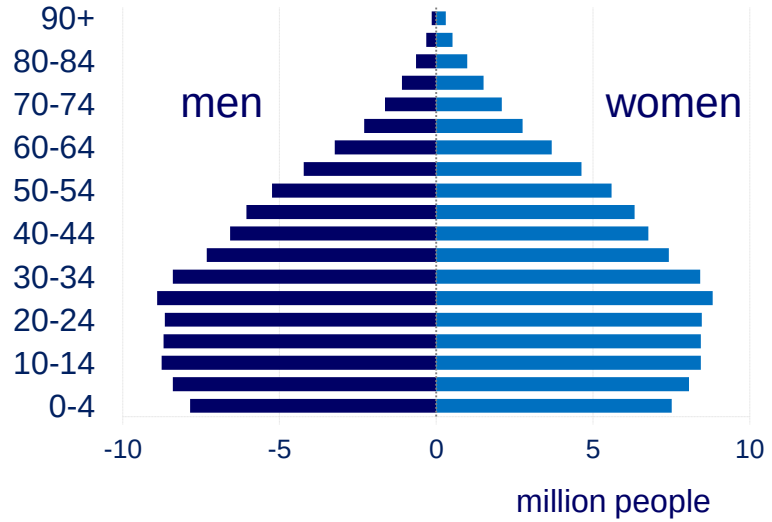
- **7th largest GDP: US$ 2,253 billion (2012)**
- **Continental country: 5th largest area 8,515,767 km²**
- **5th largest population: 199 million people (2012)**

Source: IBGE / BCB / IMF

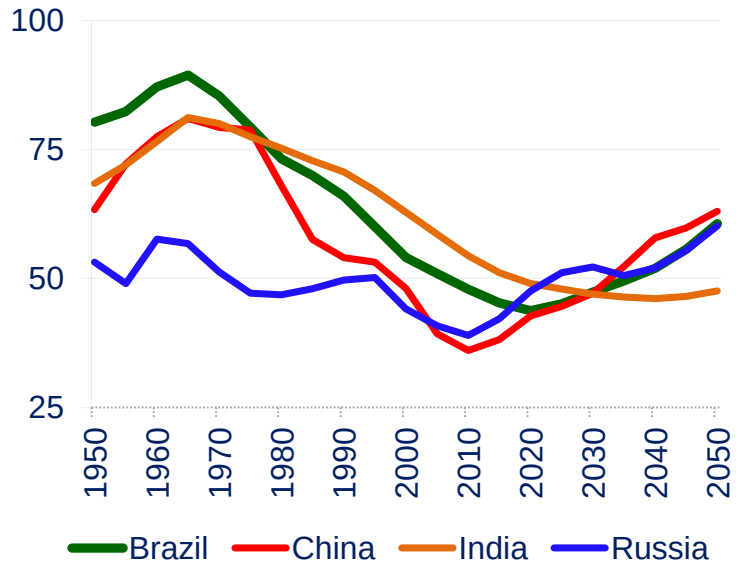
BANCO CENTRAL DO BRASIL

Demographics

Population Pyramid (2012)



Dependency Ratio



- **Brazil's population is highly concentrated within the Economically Active Population range**
- **Brazil's dependency ratio is low and declining**

Note: The dependency ratio is the ratio of the sum of the population aged 0-14 and that aged 65+ to the population aged 15-64

Source: IBGE / UN

Social achievements in the past decade

- Reduced poverty: from 27% to 12% of the households
- Reduced inequality
- Grew the middle class: +40 million people
- Created jobs: more than 18 million additional formal jobs (2003-2012); record low unemployment at present
- Increased access to credit and banking services

Source: IPEA / IBGE / FGV / BCB

Main topics

Inflation

- Central bank is acting to bring inflation to target

Growth

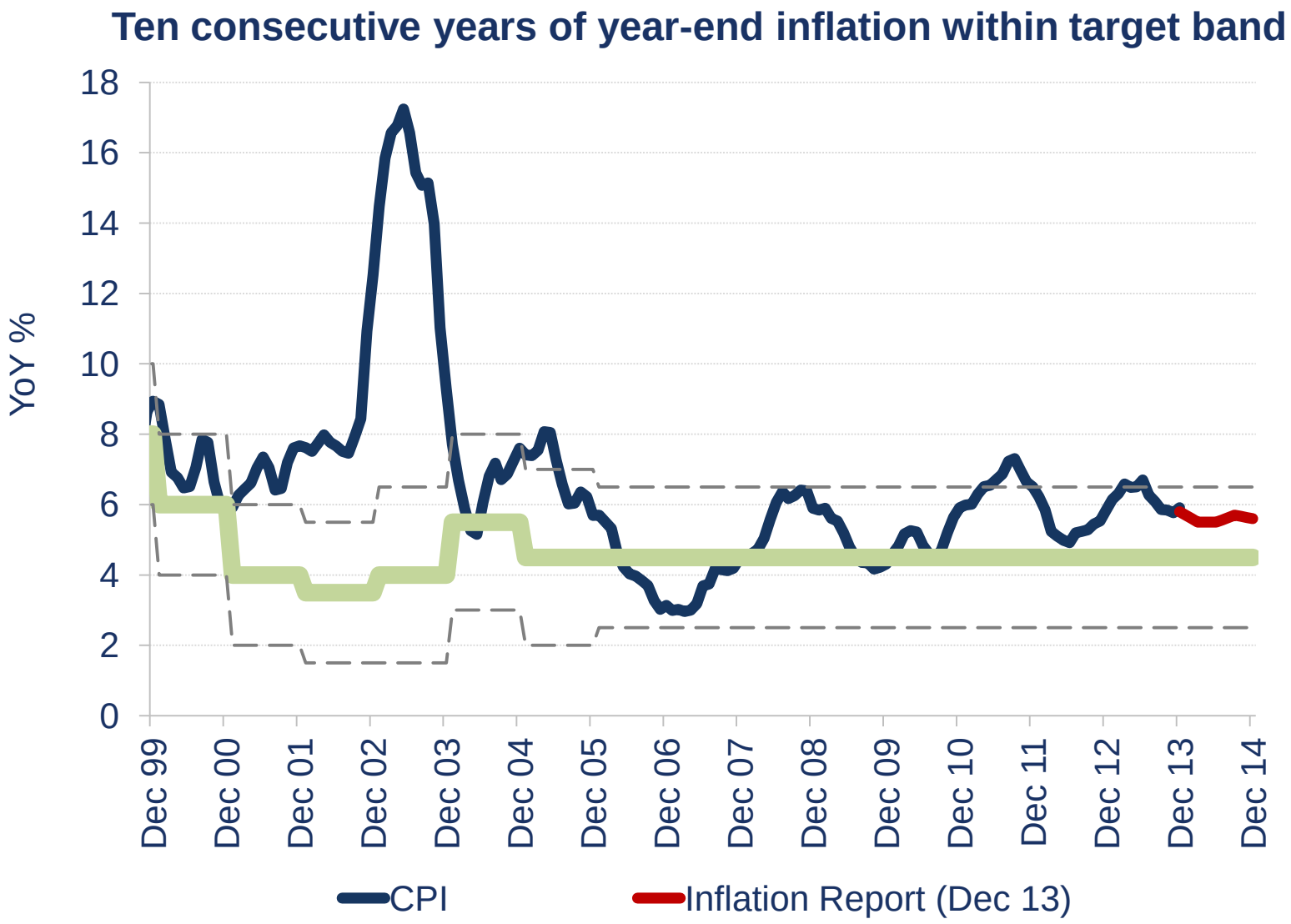
- Moderate economic expansion
- Rebalancing consumption and investment
- Supply-side initiatives to raise potential growth

UMP Exit

- Net positive for emerging markets
- Brazil has flexible policy framework
- BCB has buffers to smooth the adjustment process

Inflation

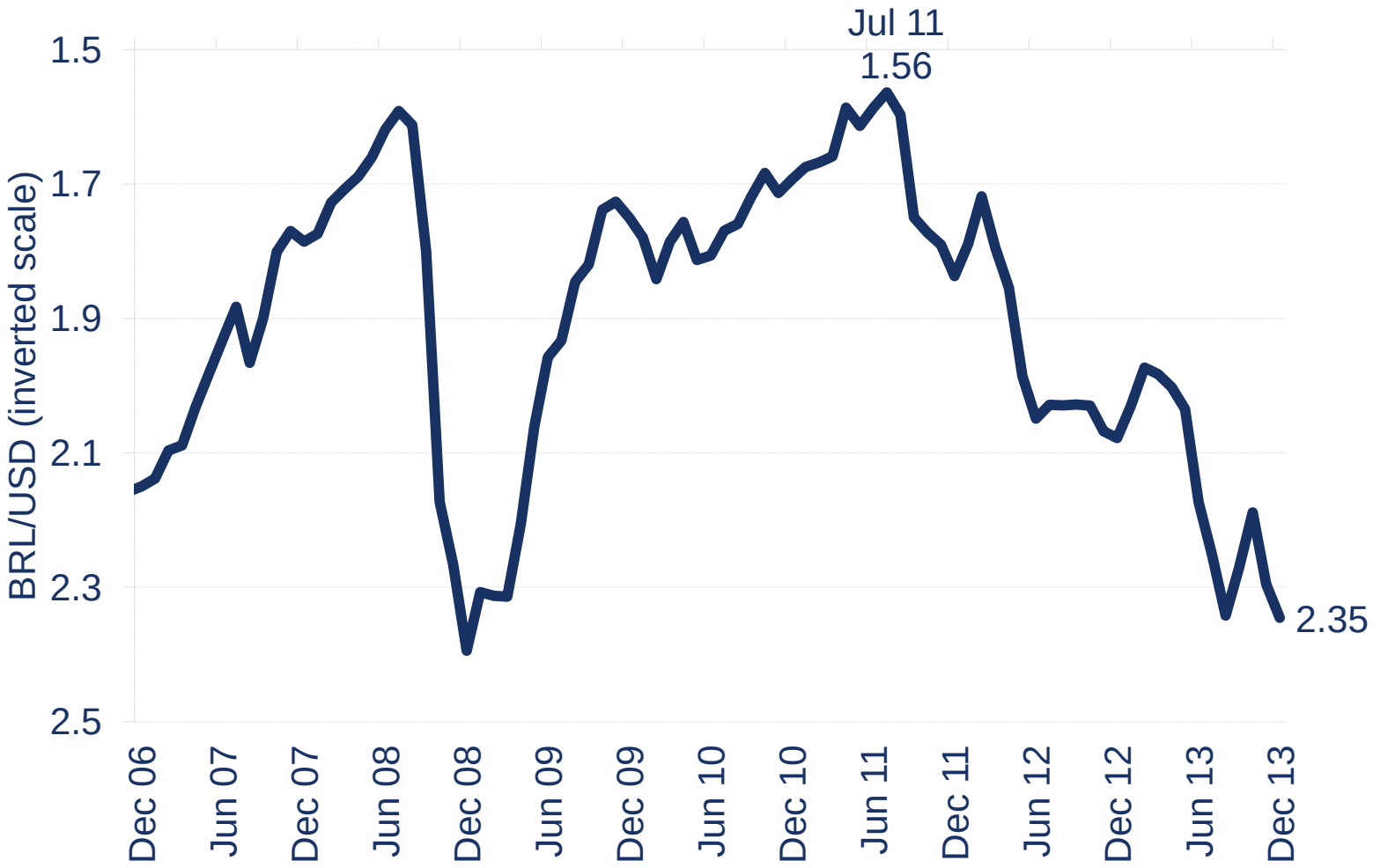
Inflation high but within target band



Source: IBGE / BCB

ER depreciation pressuring inflation

Central bank acting to limit pass-through to domestic prices



Source: BCB

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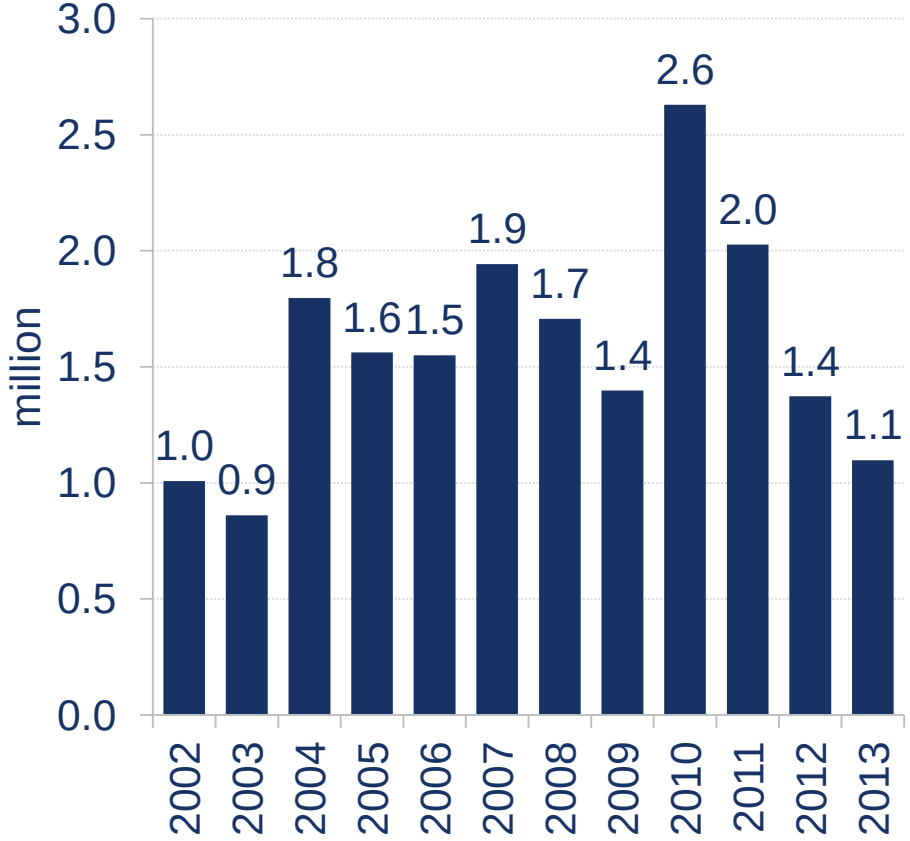
Labor market remains tight

Labor market continues to tighten, but some signs of moderation can be observed

Unemployment Rate

Up to Nov 13

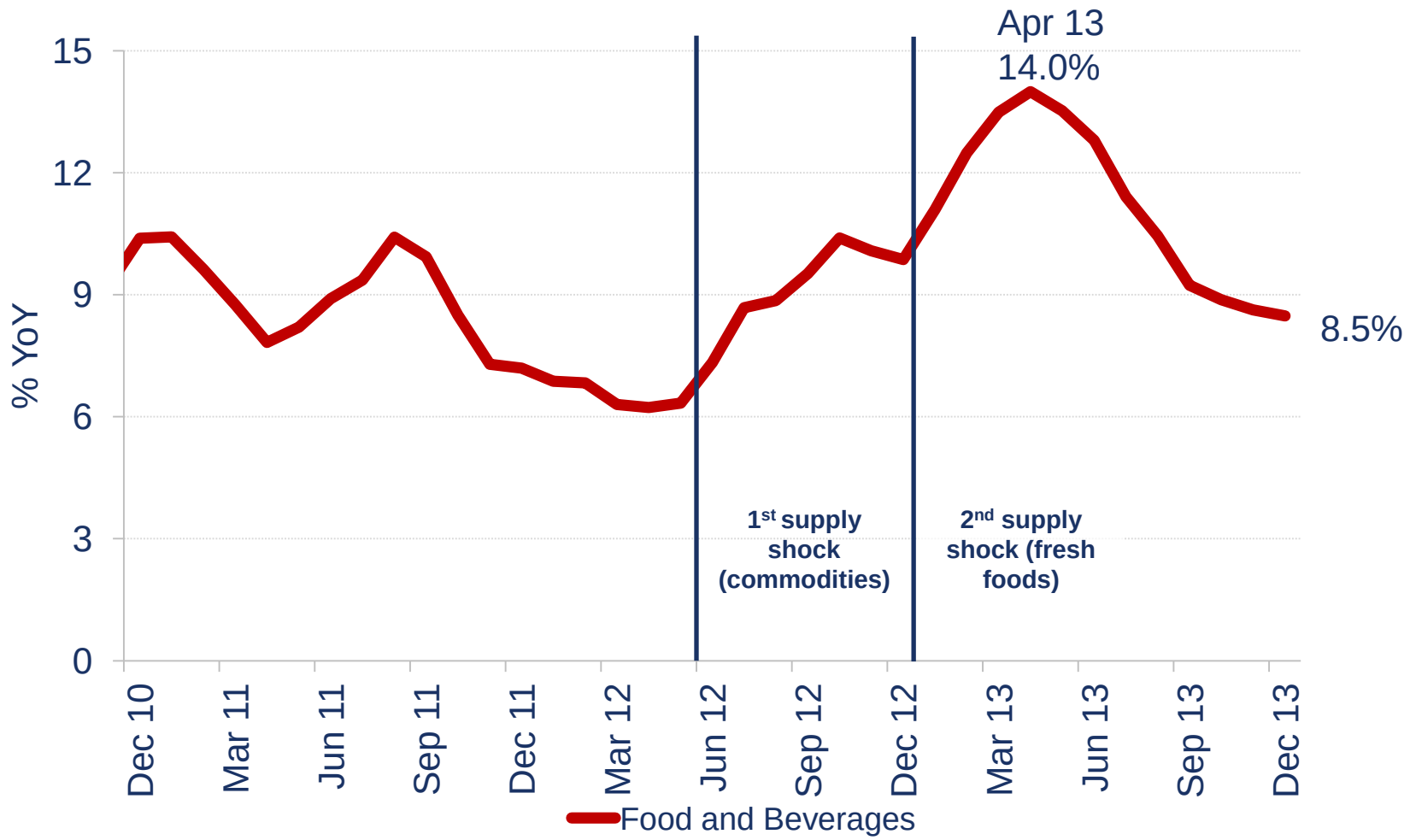
Formal Jobs Creation



Source: IBGE / MTE

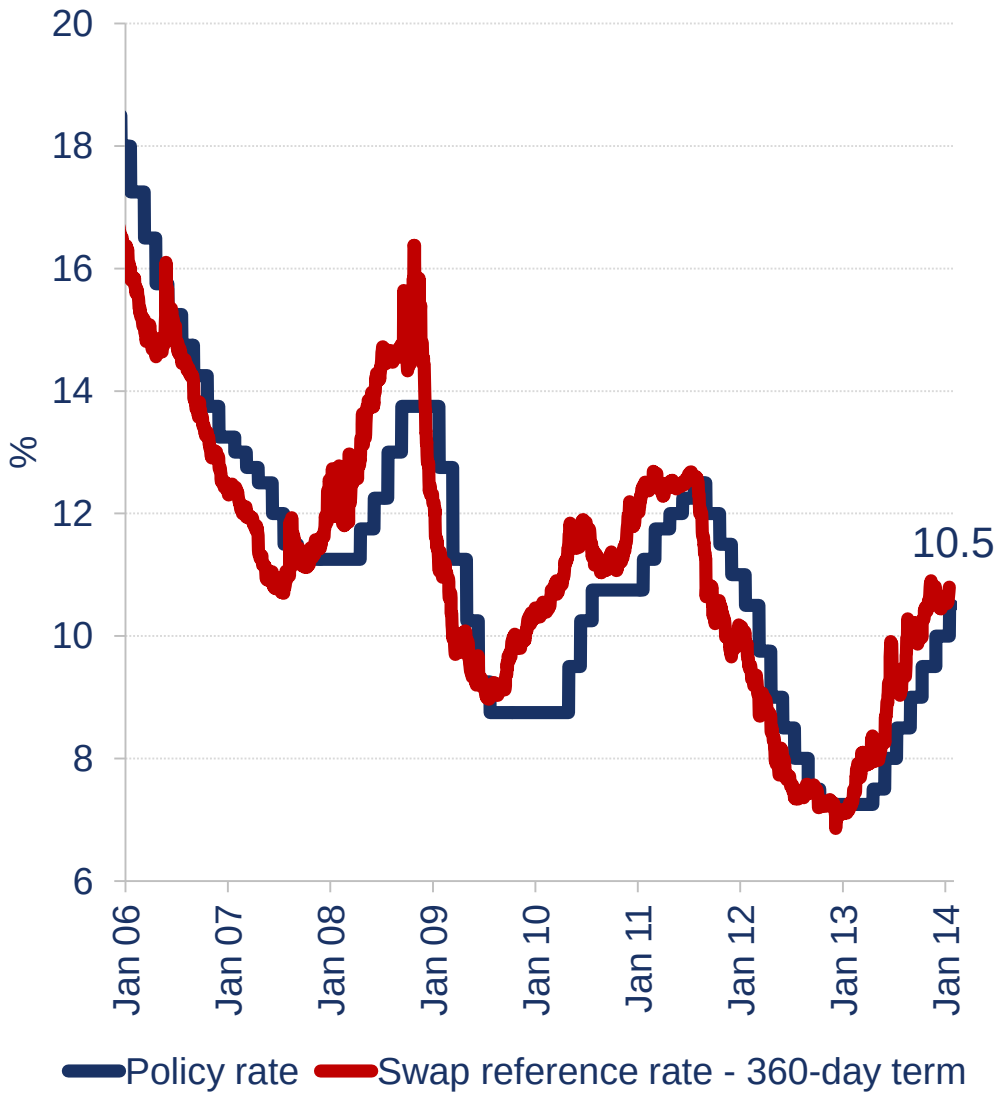
Food price shocks in 2012-2013 hit inflation

Brazil suffered idiosyncratic shocks on top of the global food commodity shocks



Source: IBGE

Central bank acting to bring inflation to target



Source: BCB / BM&FBOVESPA

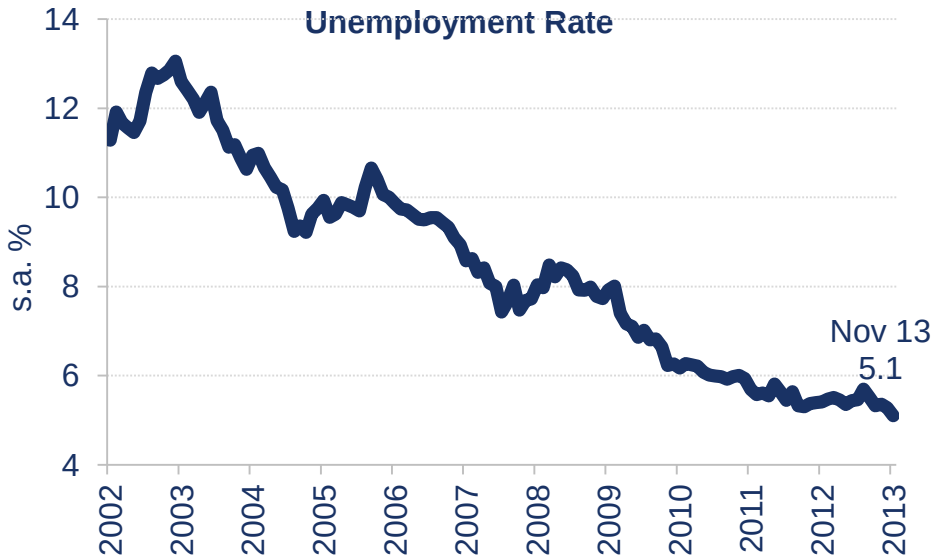
Growth

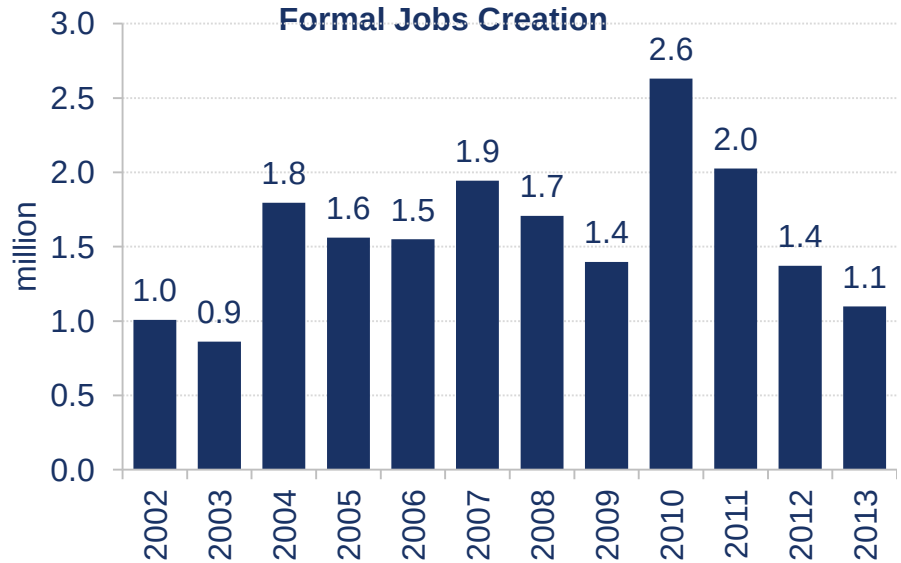
Moderate economic expansion

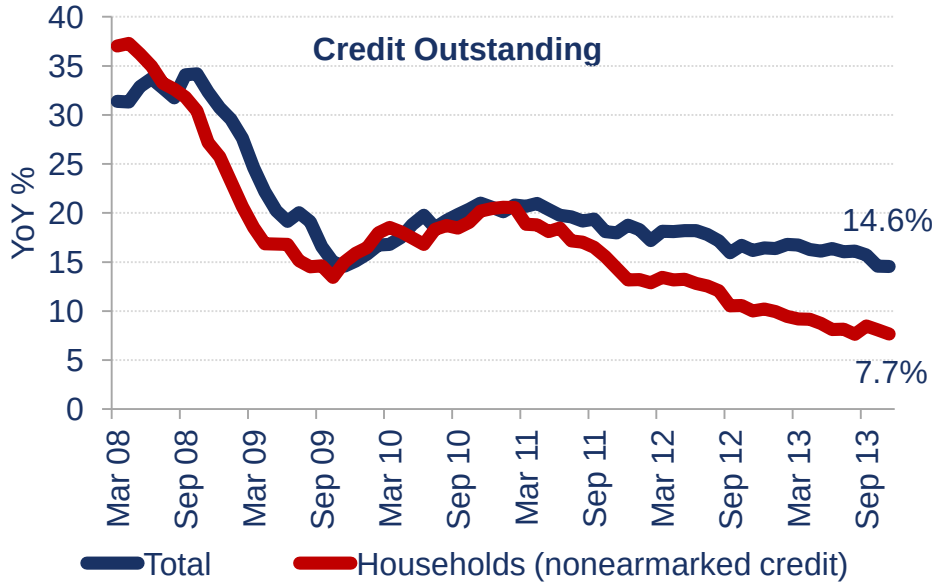
- Moderate growth to continue in 2014
- Economic growth drivers
  - Employment, wages and credit support consumption
  - Pent-up demand for infrastructure investment
  - More favorable contribution from net exports
- Rebalancing consumption and investment
- Faster growth requires strengthening confidence

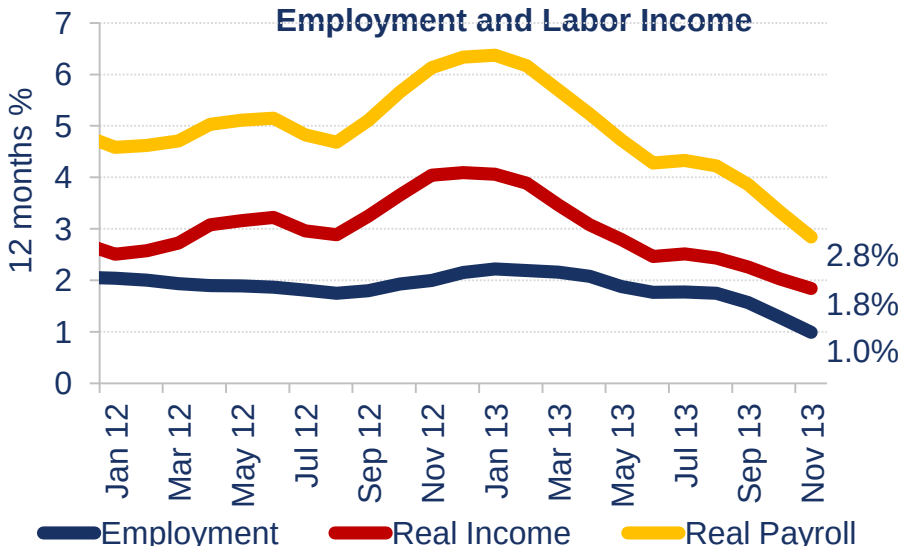
Growth Demand

Support for domestic demand









Source: IBGE / MTE / BCB

* 12 months up to november

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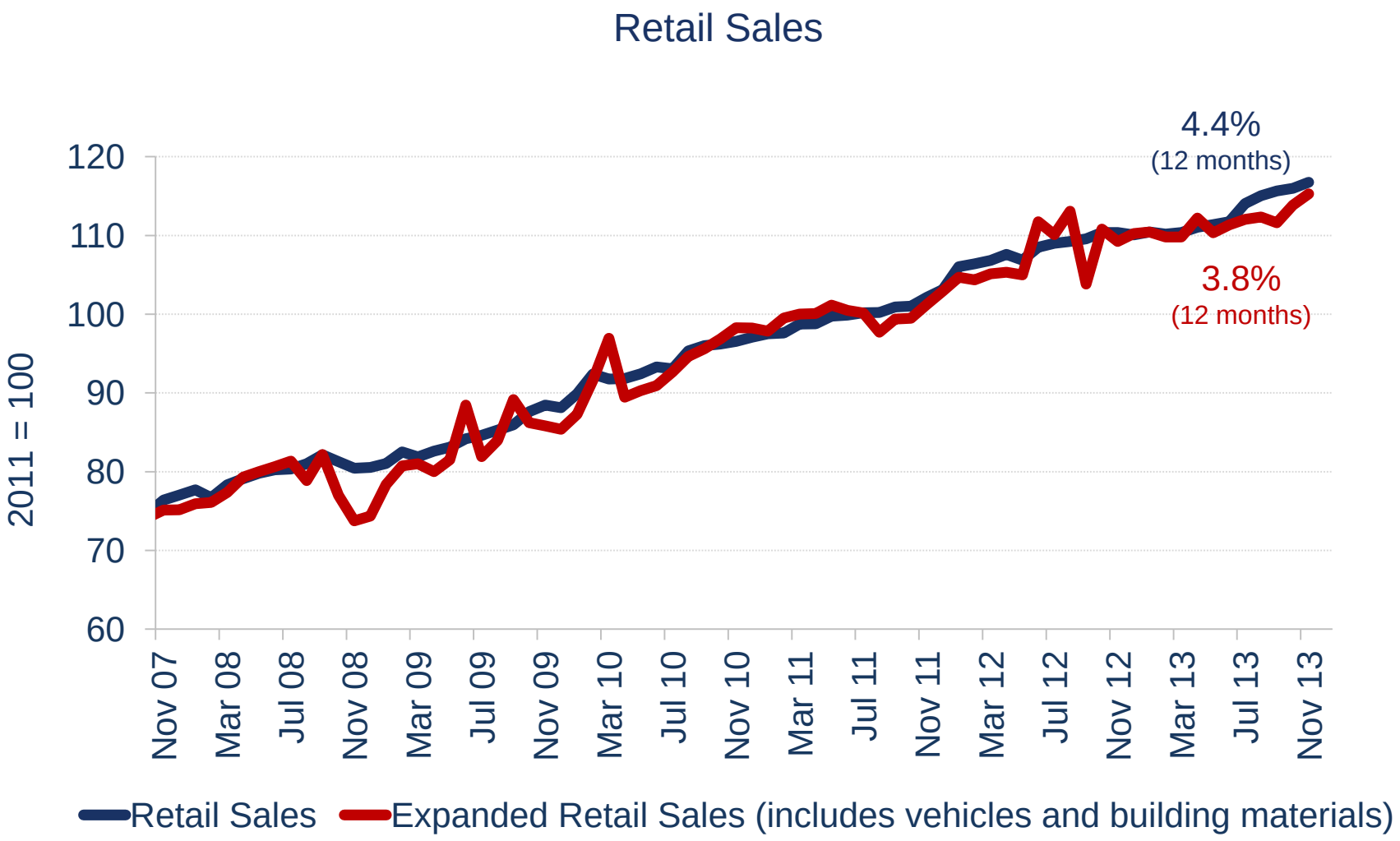
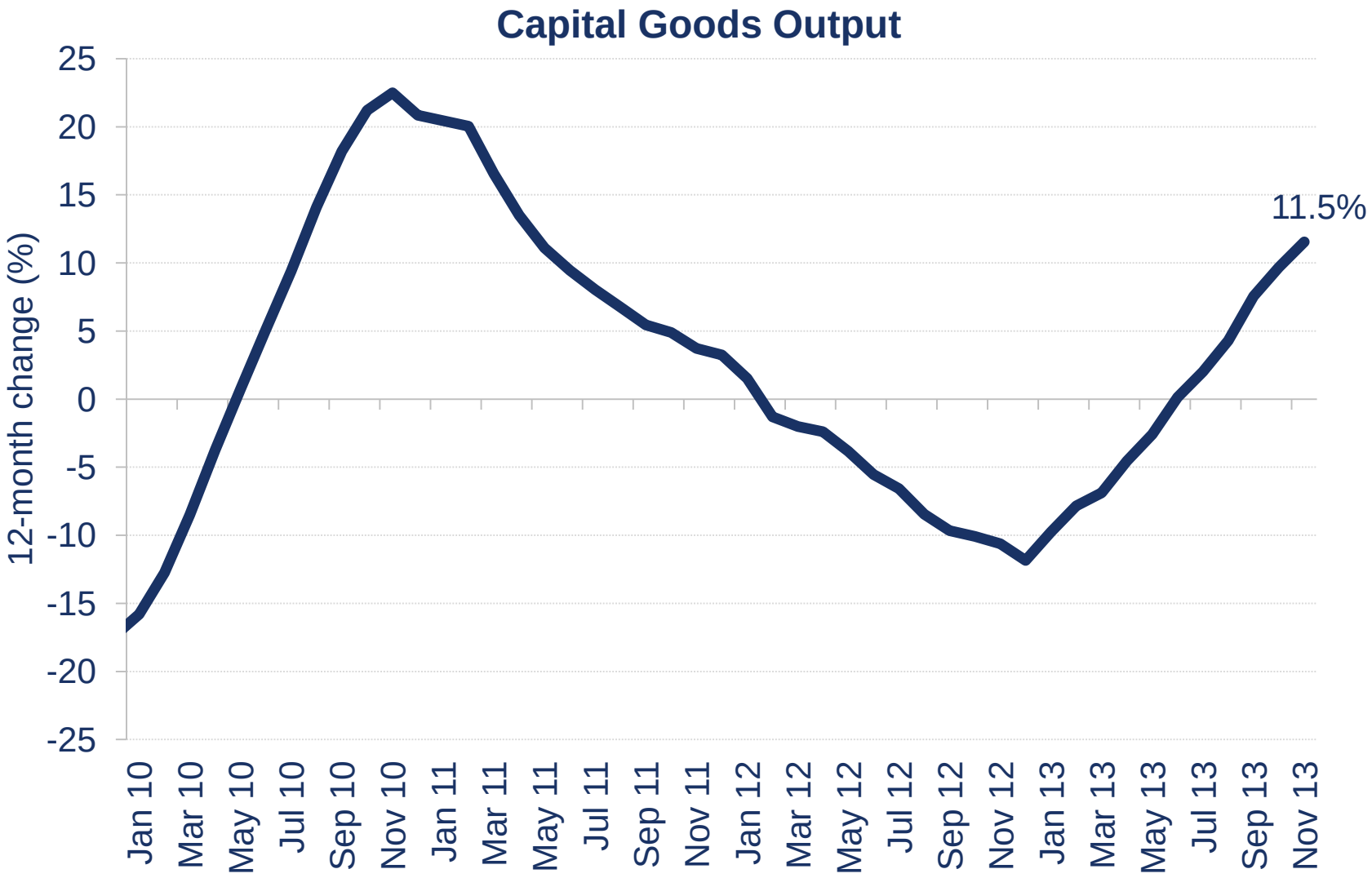
Consumption remains strong



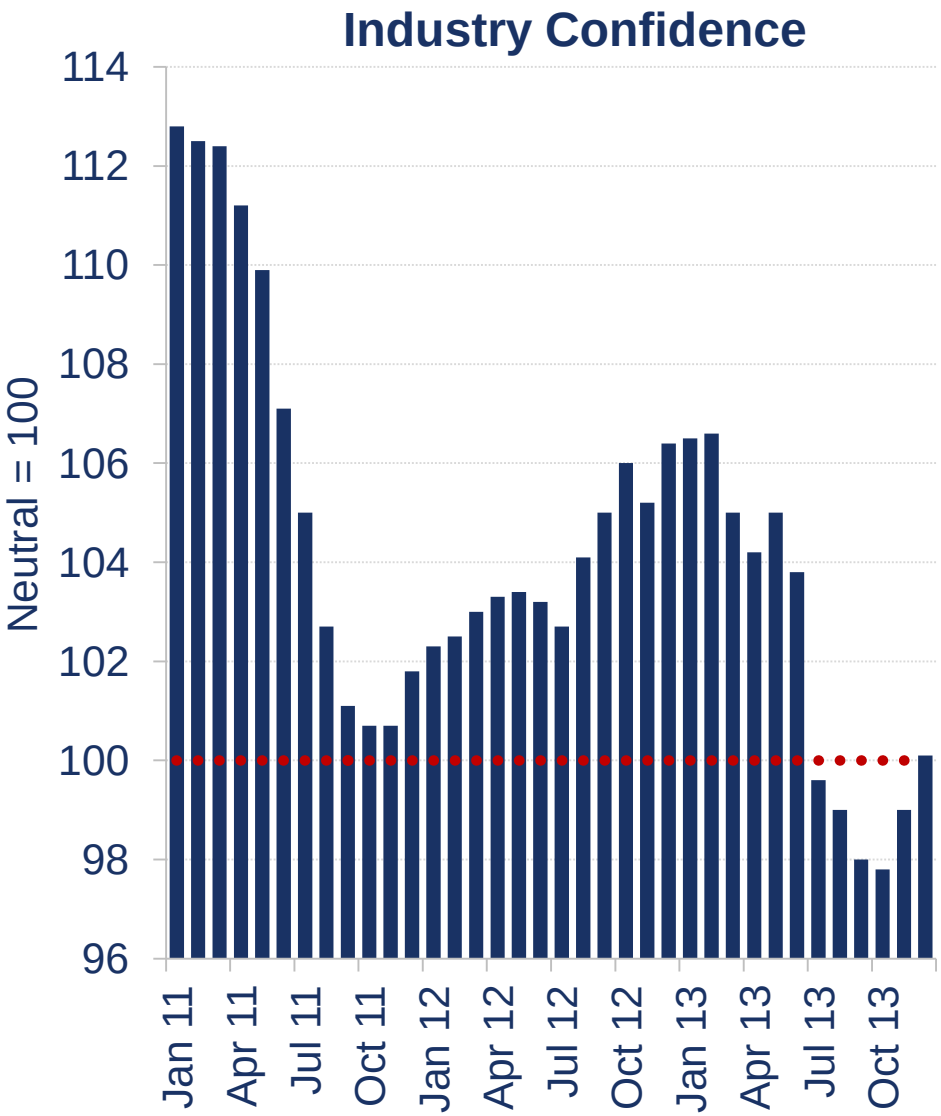
Source: IBGE

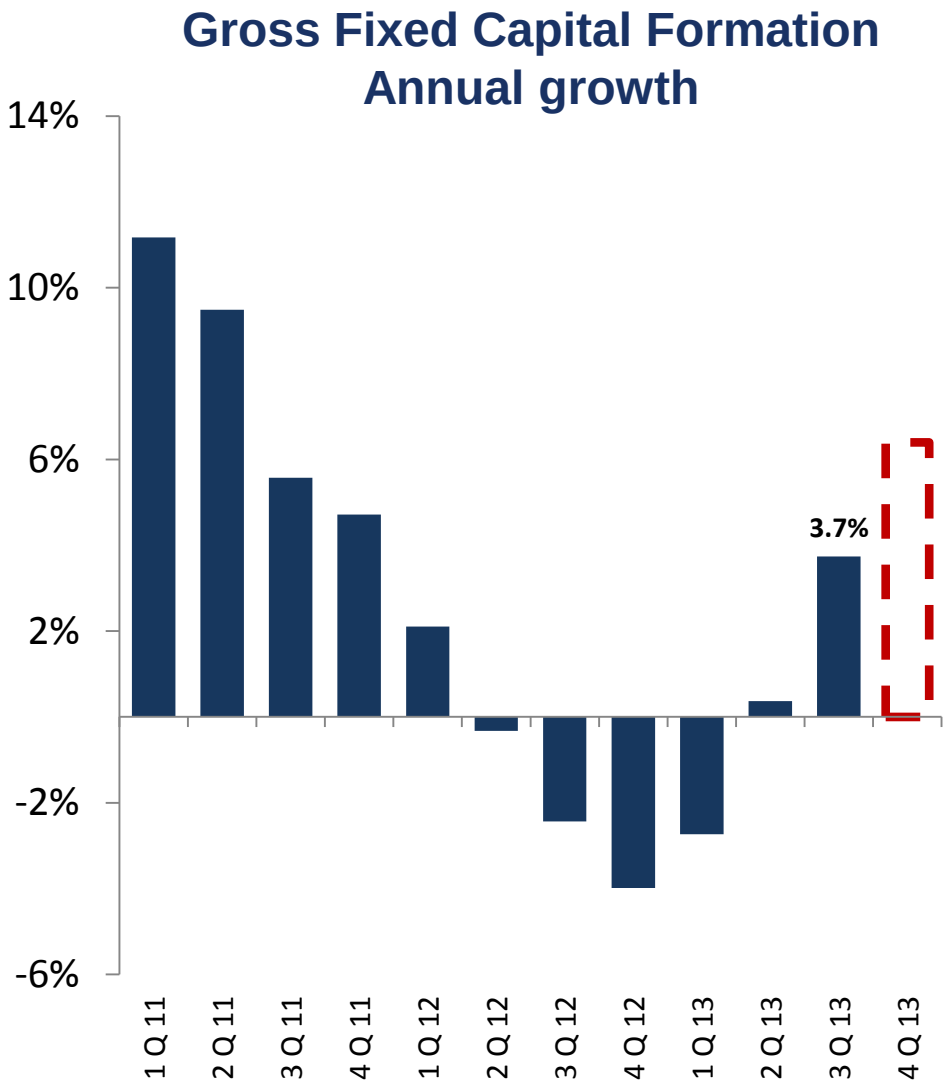
Investment strong in 2013



Source: IBGE

Confidence key for investment

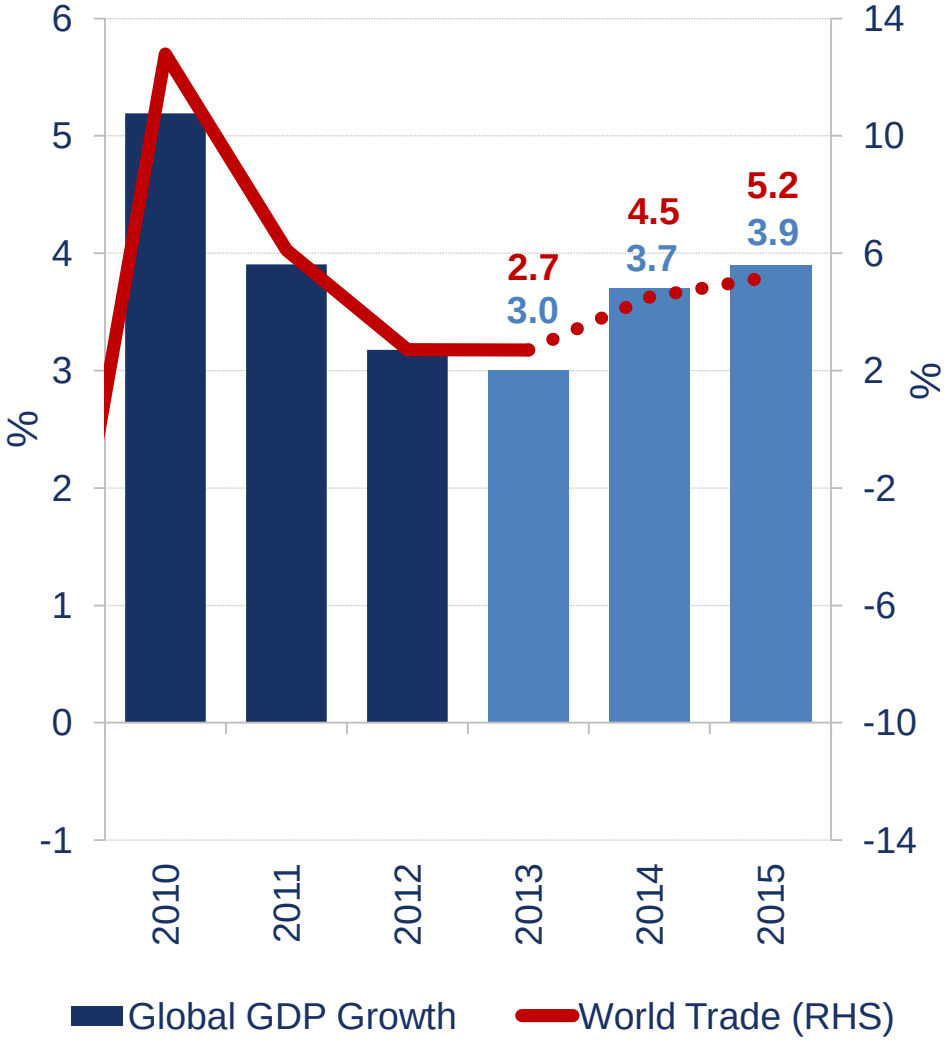




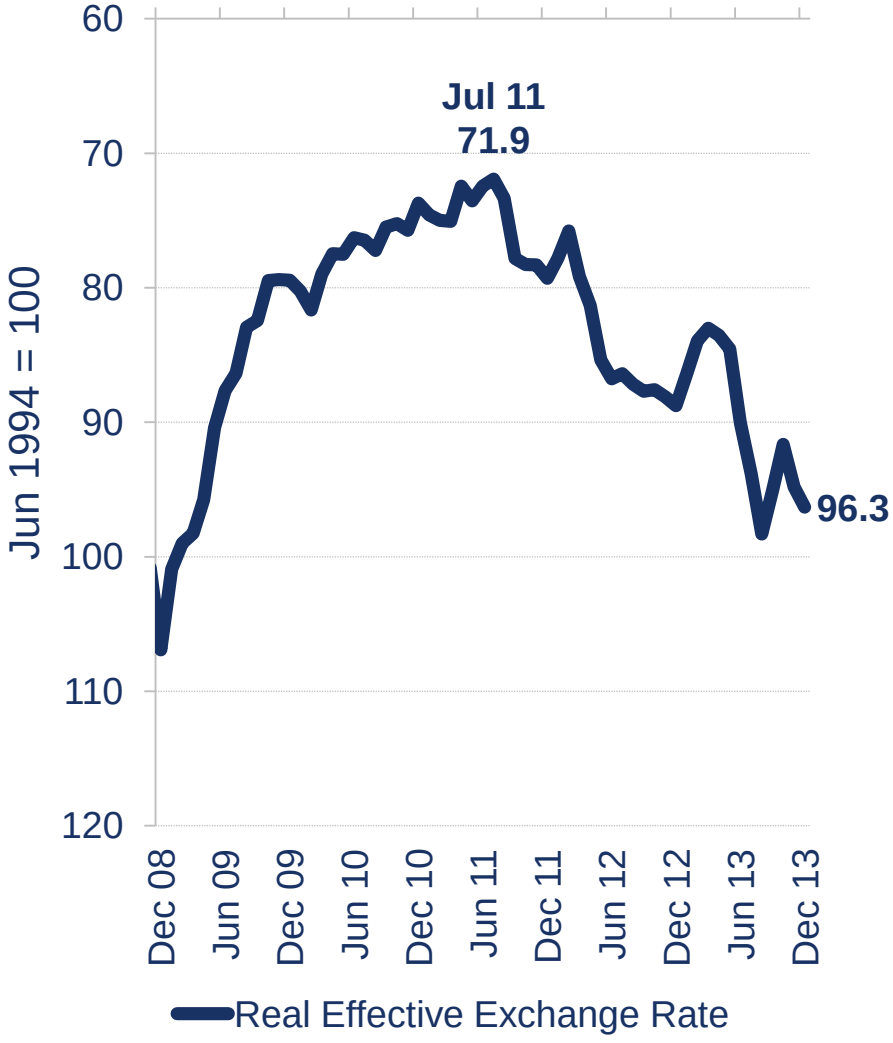
Source: FGV / IBGE

Net exports drivers

Global activity and trade gain traction

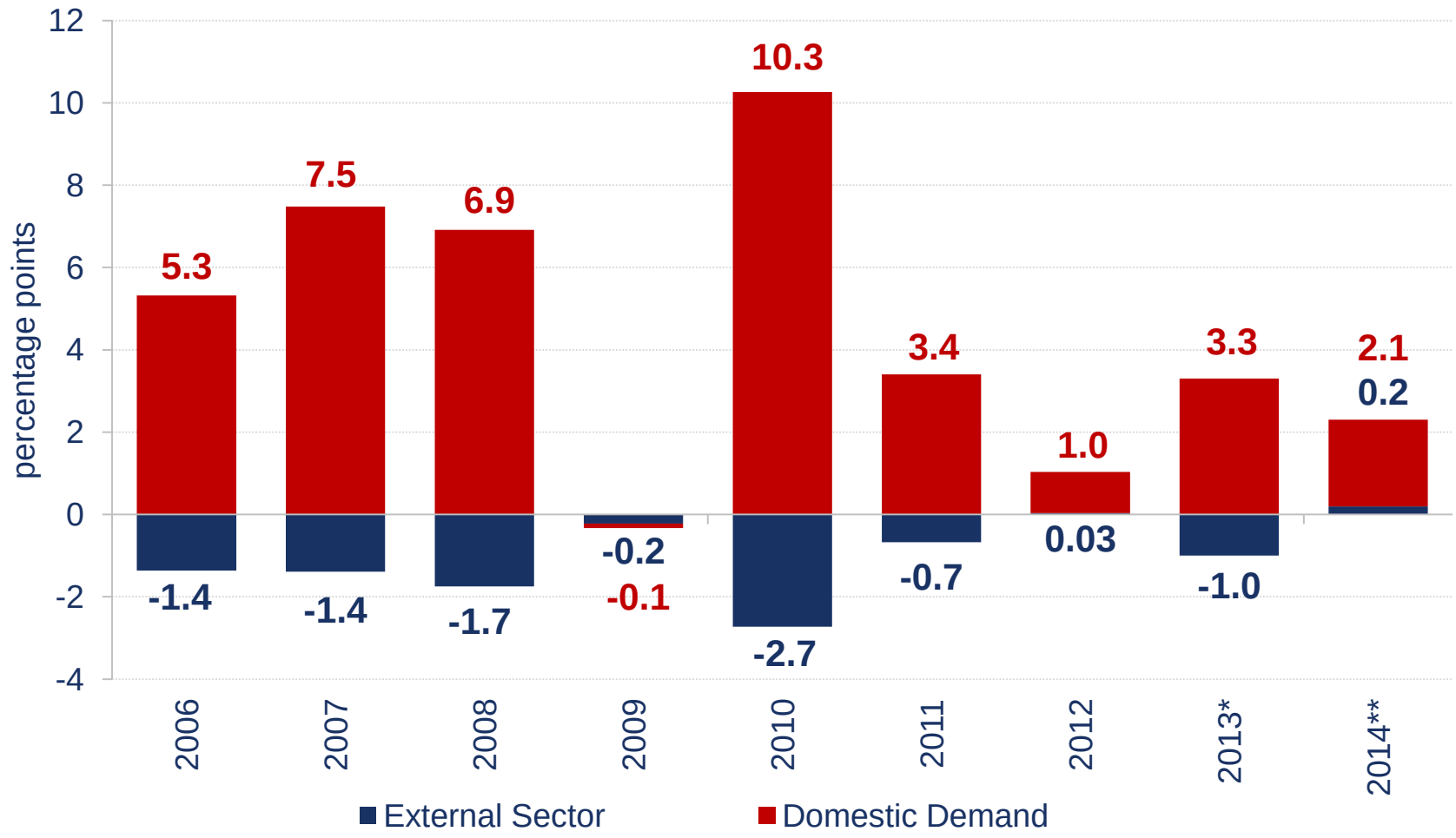


Real exchange rate has depreciated



Source: IMF / BCB

Net exports should contribute to growth



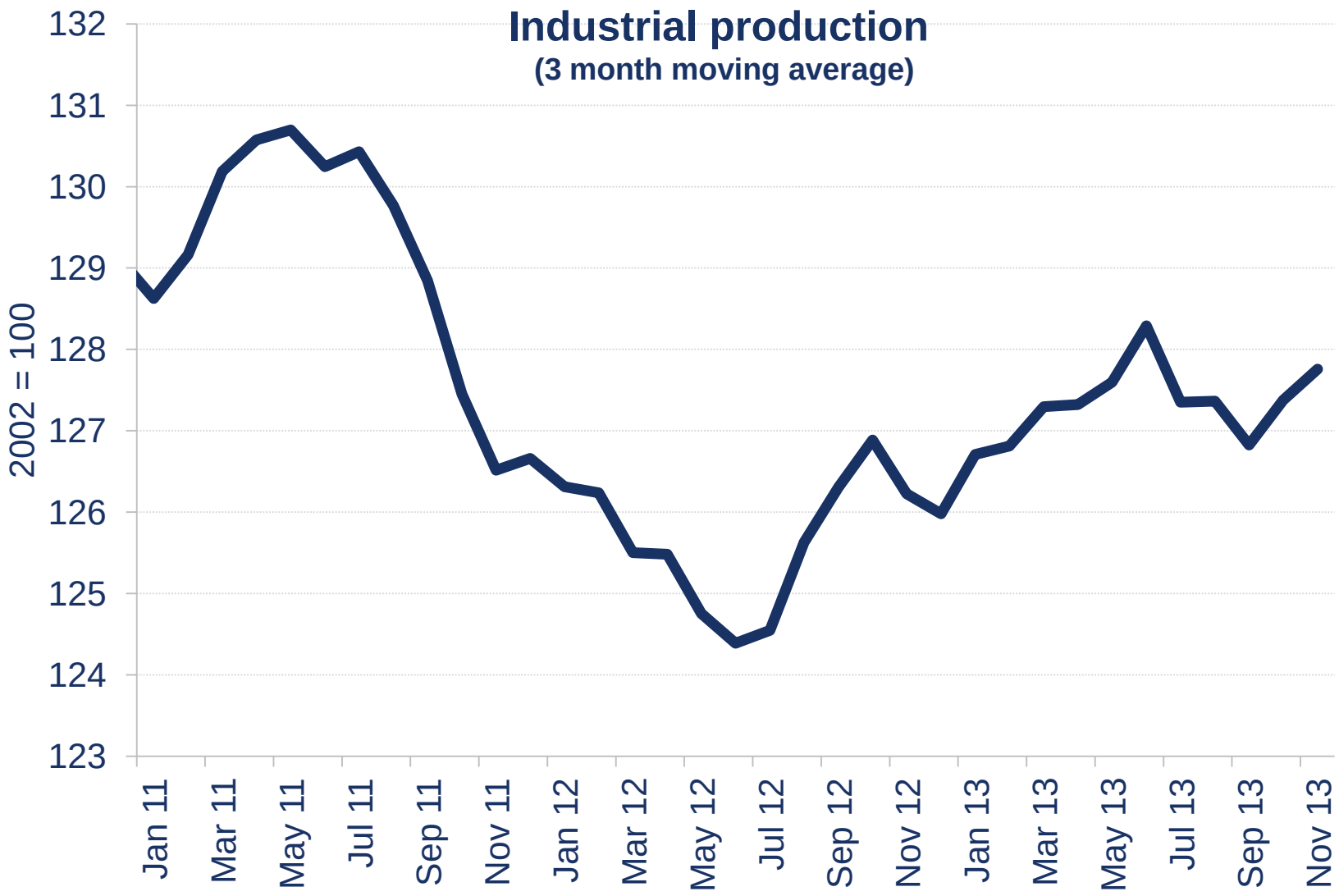
* Forecast (Inflation Report Dec 2013)

** Up to 3rd quarter (accumulated over 4 quarters)

Source: IBGE / BCB

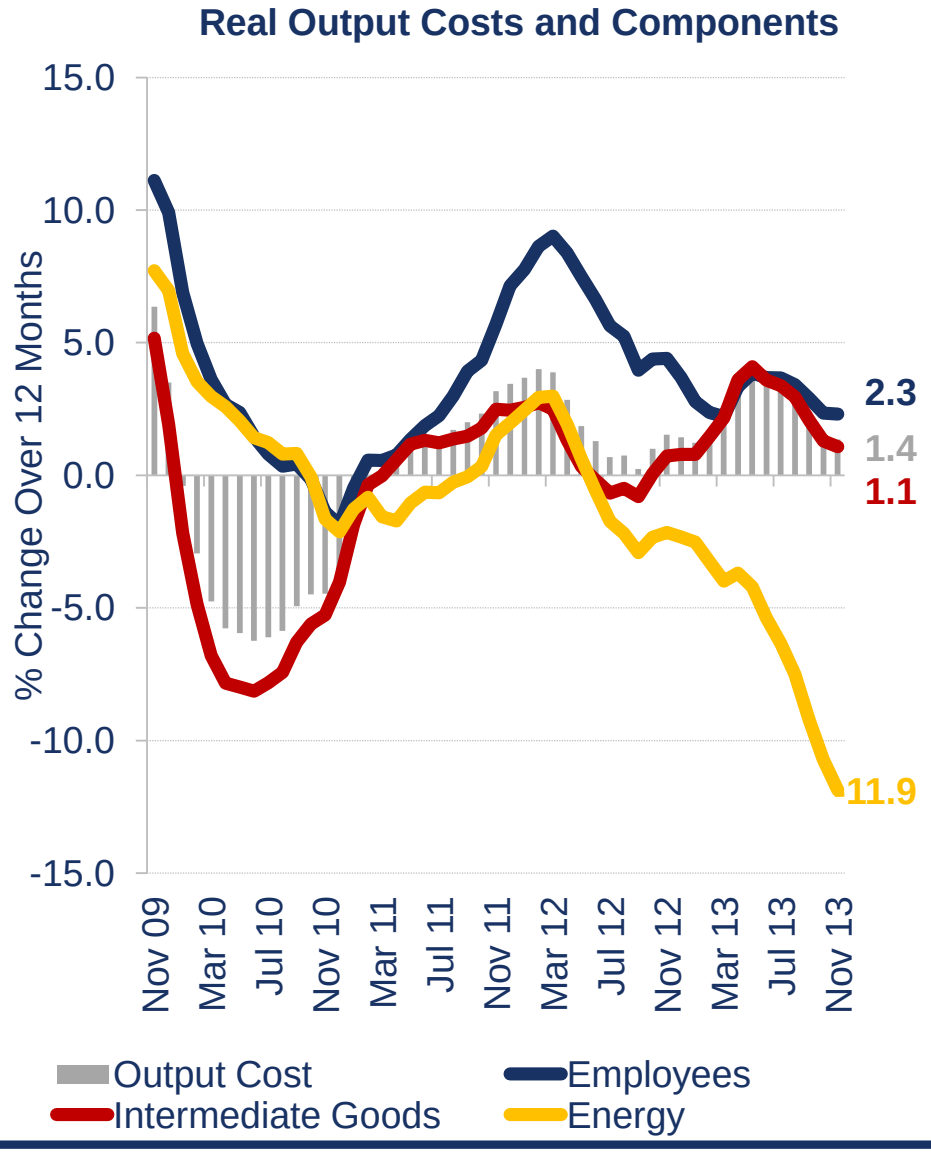
Growth Supply

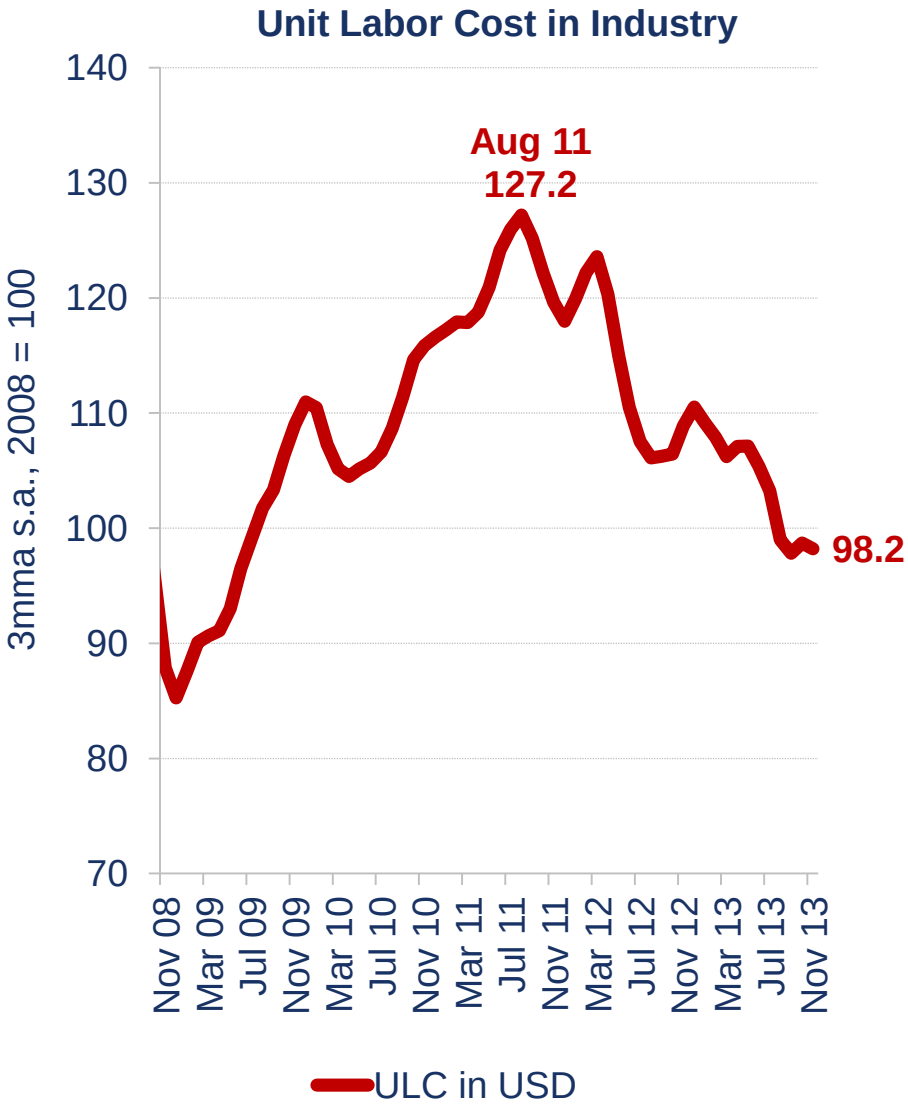
Industrial sector recovery



Source: IBGE

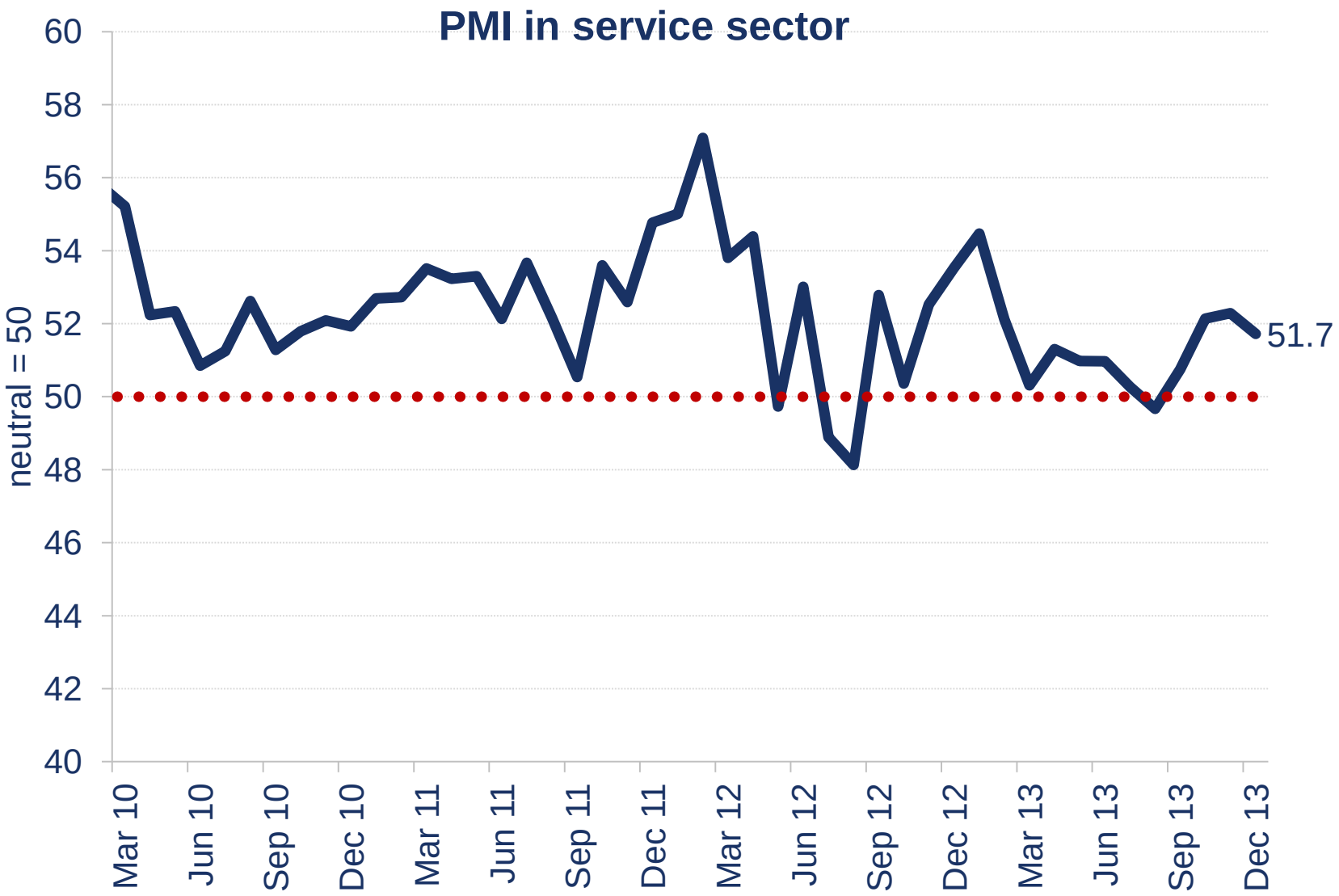
Improved industrial competitiveness





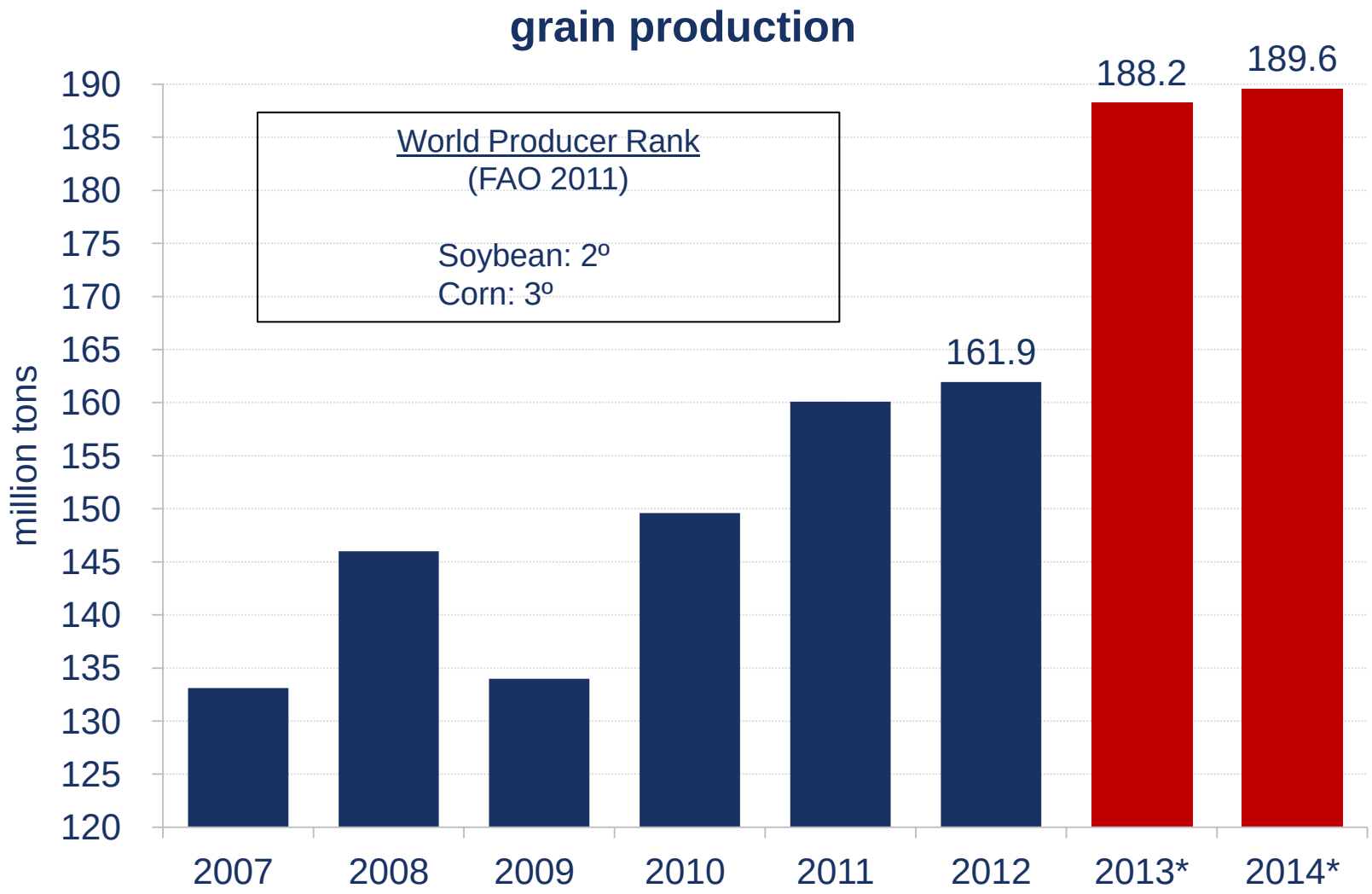
Source: CNI / IBGE / BCB

Service sector shows moderate growth



Source: Markit

Record grain harvests in 2013 and 2014



*December 2013 estimate

Source: IBGE / FAO

Supply-side initiatives to boost growth

- Investment in human capital
- Infrastructure (airports, roads, railways and ports): attracting private sector capital and expertise
- Development of the oil and gas sector

Investment in human capital

- Programs aimed at increasing access to technical schooling and higher education:
  - Technical and professional education:
    - Pronatec: 5.5 million students in technical and professional education since 2011 (goal is 8 million by end of 2014)
  - Higher education:
    - Prouni: almost 250,000 undergraduate scholarships in private institutions for disadvantaged students in 2013
    - Science without frontiers: 100,000 scholarships abroad up to 2015
      - Currently almost four thousand undergraduate and graduate students in the UK

Source: MEC

Education: room for further improvement

Mean years of schooling of adults increased sharply in the last decades, but Brazil still lags developed and many developing nations

Countries	1990	2000	*% Change*	2010	*% Change*
Brazil	3.8	5.6	***47.4***	7.2	***28.6***
Chile	8.1	8.8	*8.6*	9.7	*10.2*
China	4.9	6.6	*34.7*	7.5	*13.7*
India	3.0	3.6	*20.0*	4.4	*22.2*
Russian Federation	9.2	11.3	*22.8*	11.7	*3.5*
South Africa	6.5	8.2	*26.2*	8.5	*3.7*
United States	12.3	13	*5.7*	13.3	*2.3*

Average number of years of education received by people ages 25 and older

Source: UN

Infrastructure and energy reforms

- Infrastructure (airports, roads, railways and ports) and energy: attracting private sector capital and expertise

- Concession auctions have proved attractive
  - 6 airports: 85 million passengers transported in 2012
  - 5 roads: 4,268 km (2,652 miles)
  - Oil and gas auctions in 2013:
    - 11th and 12th rounds of oil and gas concessions
    - 1st production sharing round (pre-salt layer: Libra) – BRL15 billion signing bonus

UMP Exit

Brazil prepared for UMP exit

- Net positive for emerging markets, which will benefit including through international trade

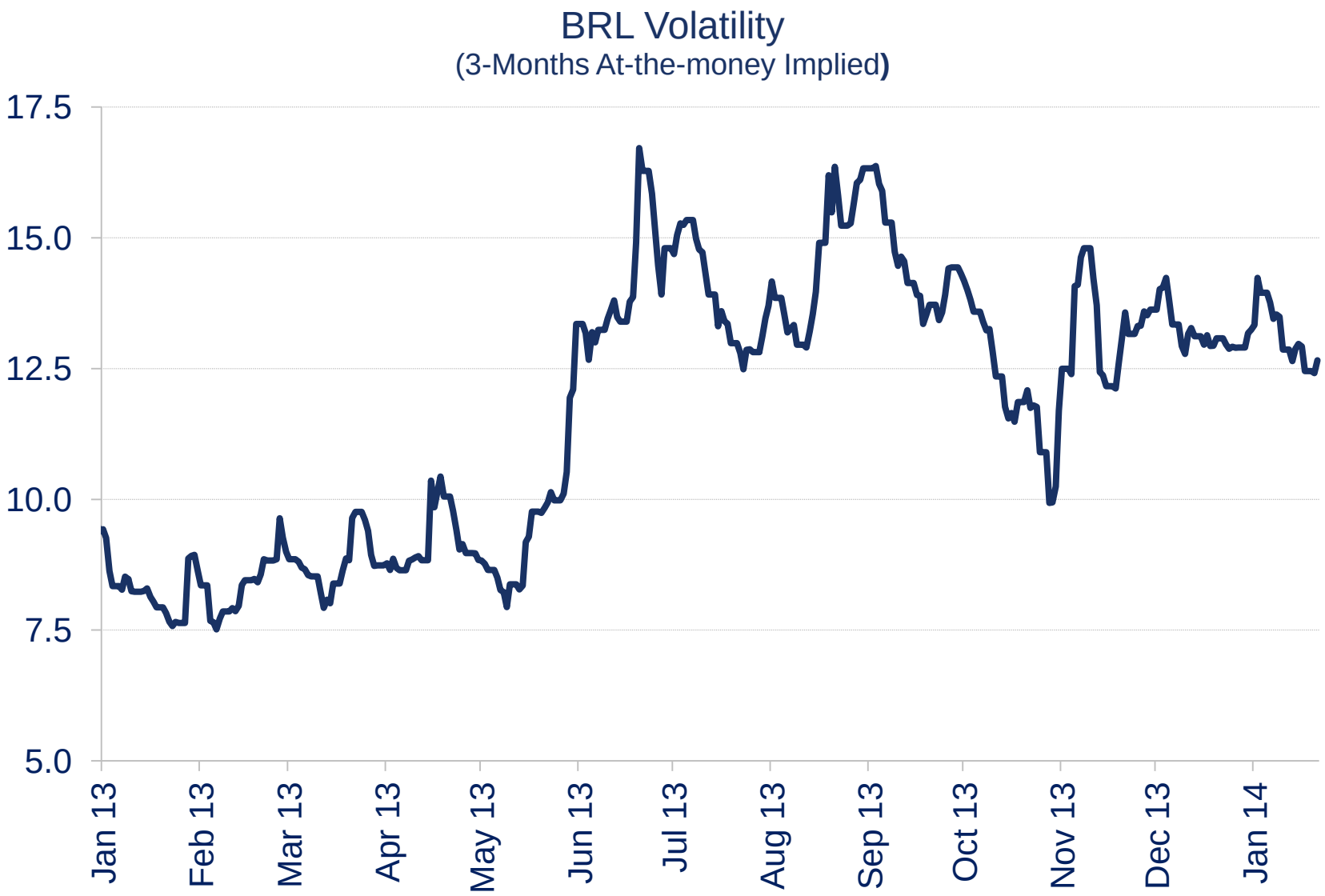
- Sound financial system

- Strong external indicators

Classic policy response

- Exchange rate flexibility
- Policy tightening
- Use of buffers

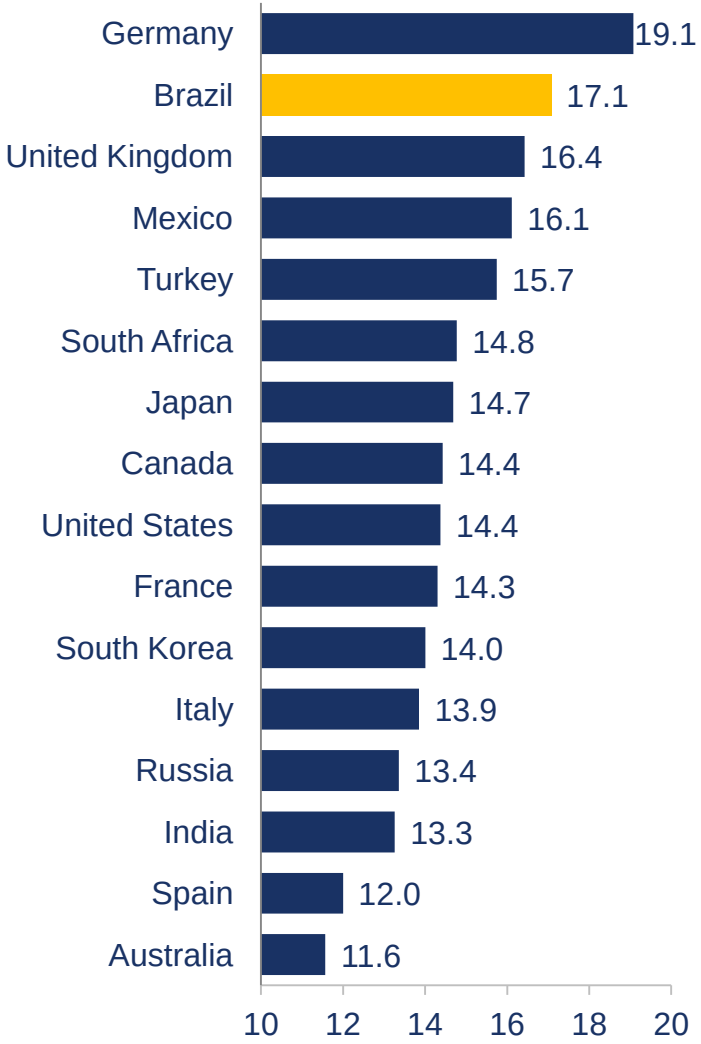
UMP exit prospects led to higher volatility



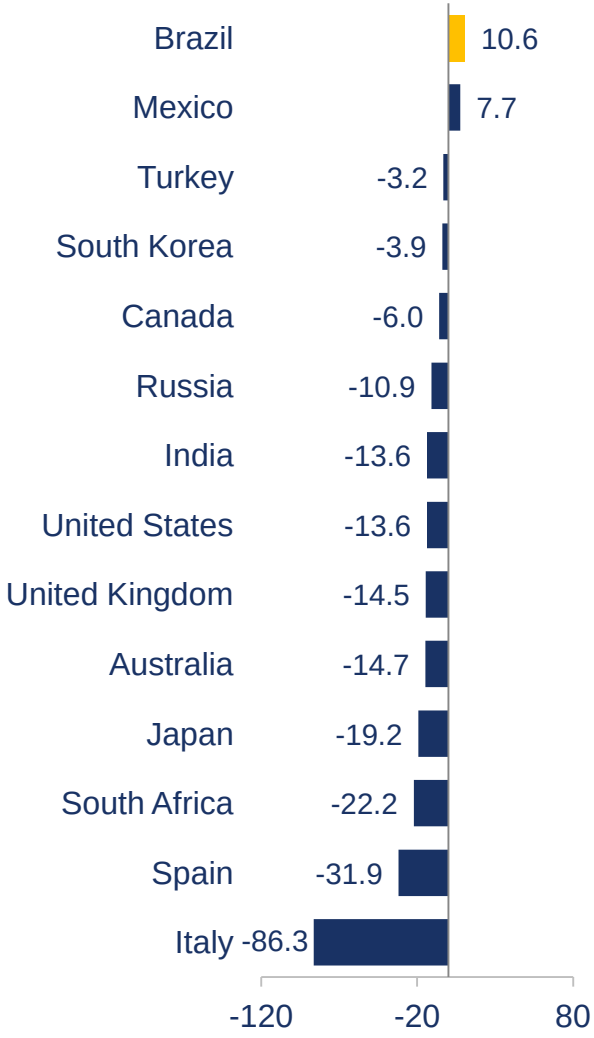
Source: Bloomberg

Sound financial system

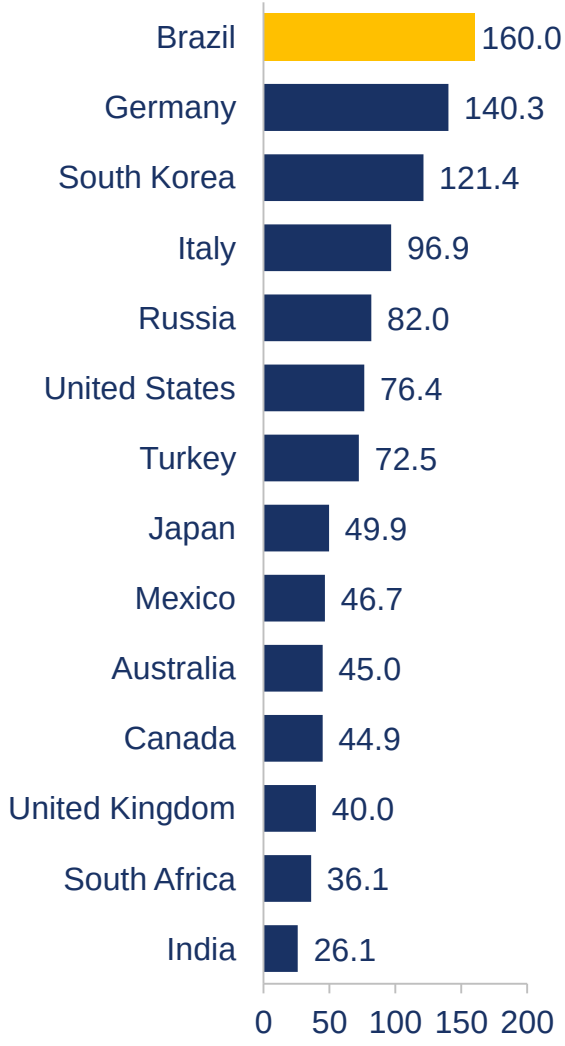
Regulatory Capital to Risk-Weighted Assets



(Provisions – NPL) / Capital

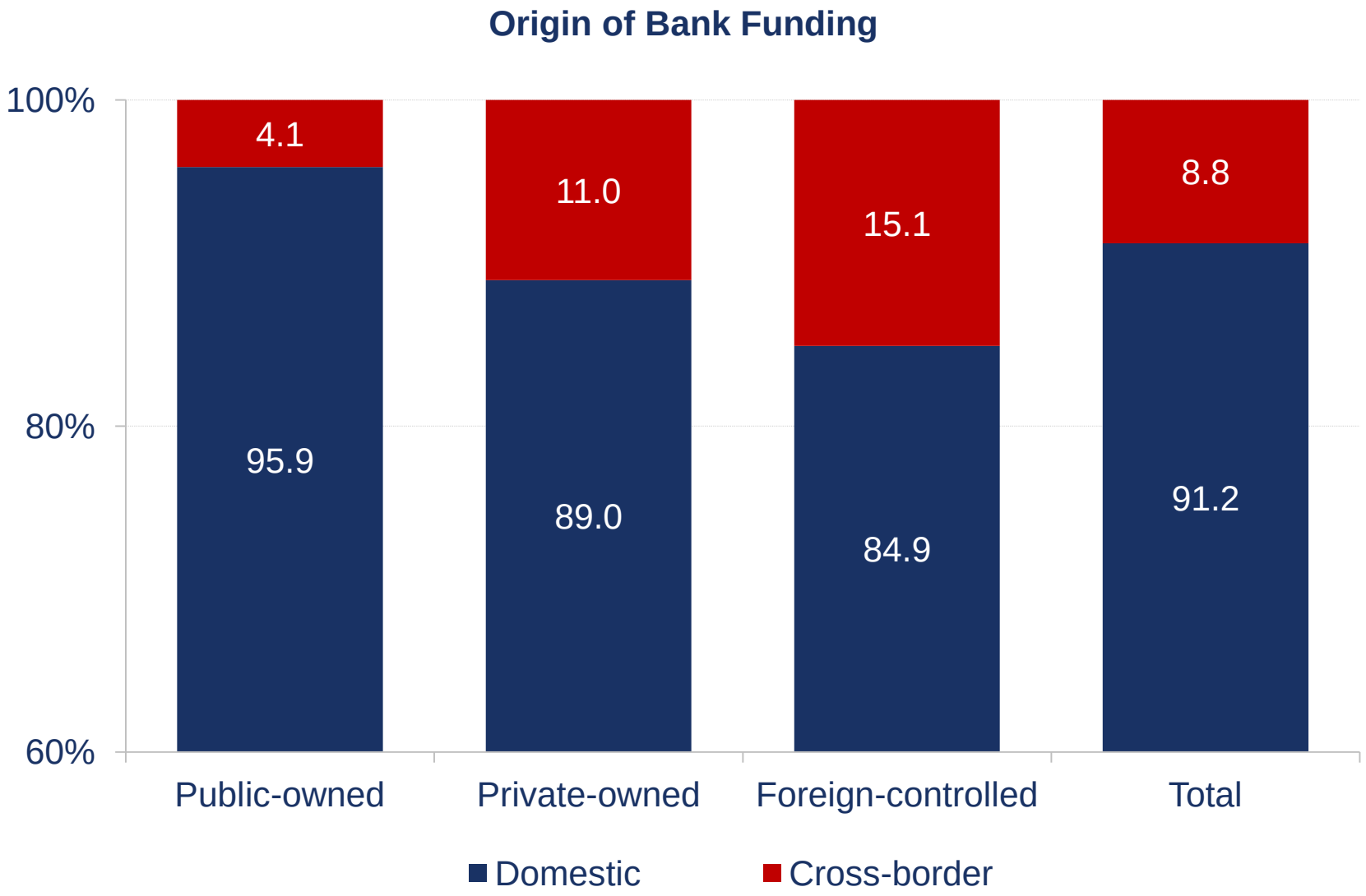


Liquid Assets to Short Term Liabilities



Source: IMF (FSI – latest available data)

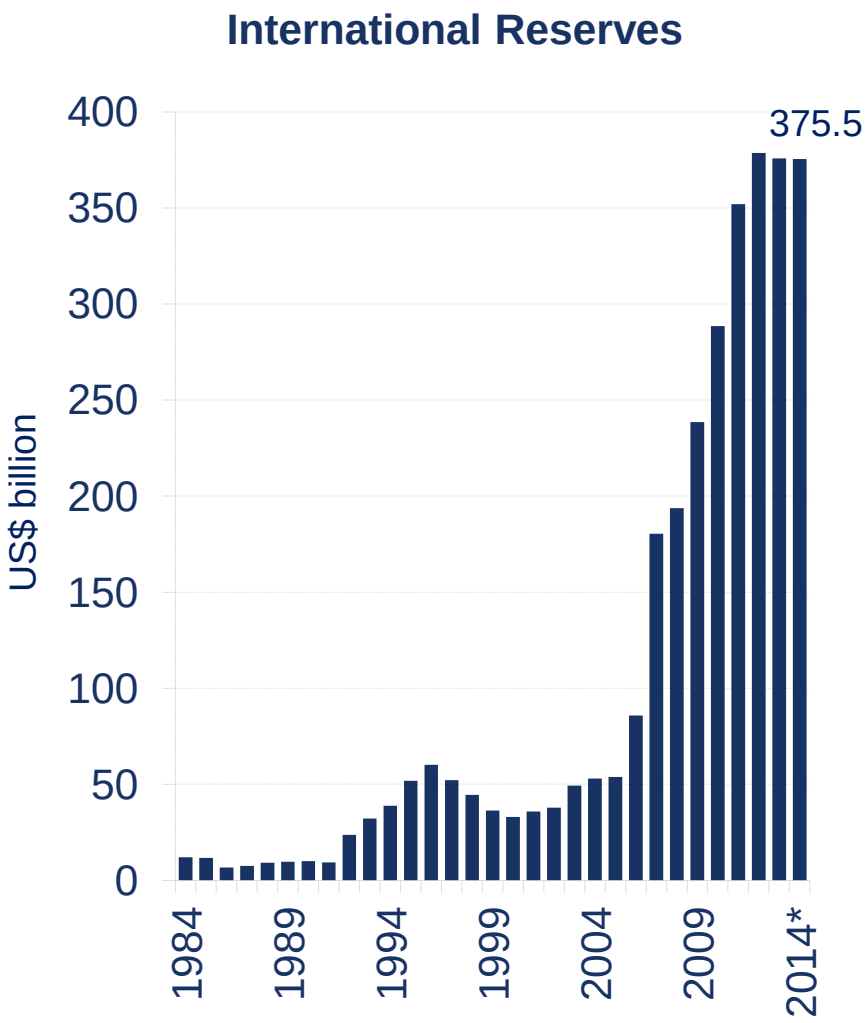
Banks: low reliance on cross-border funding



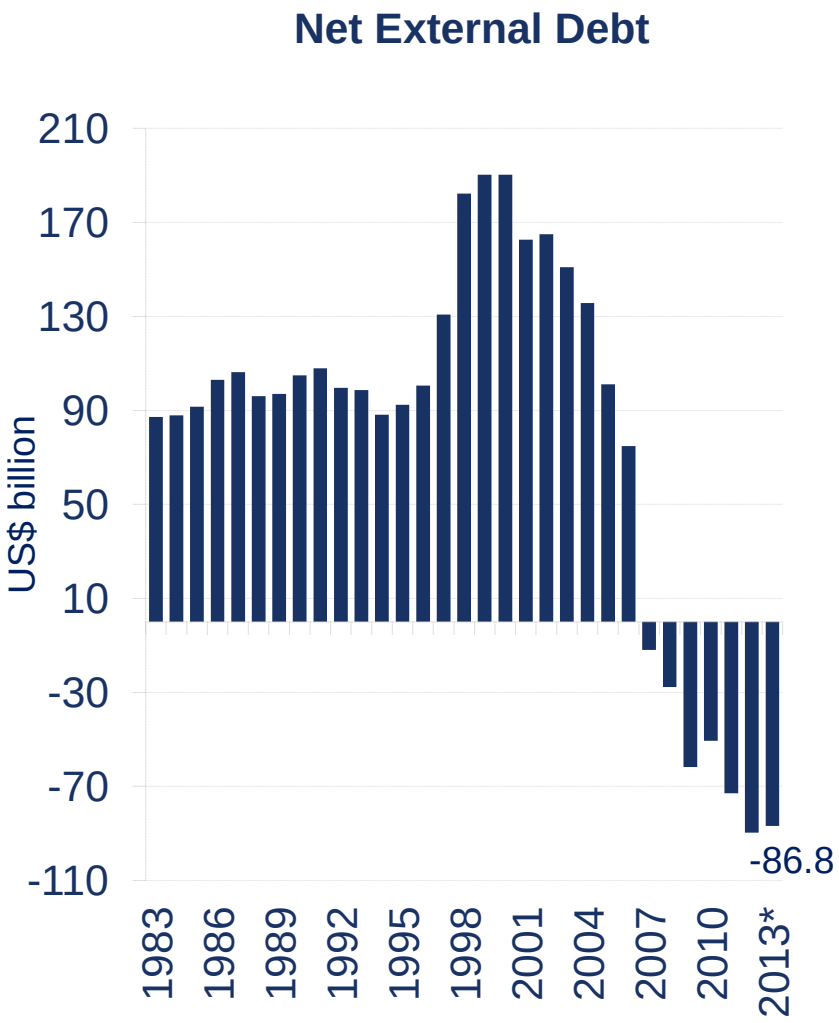
Sep 13

Source: BCB

Brazil is net external creditor



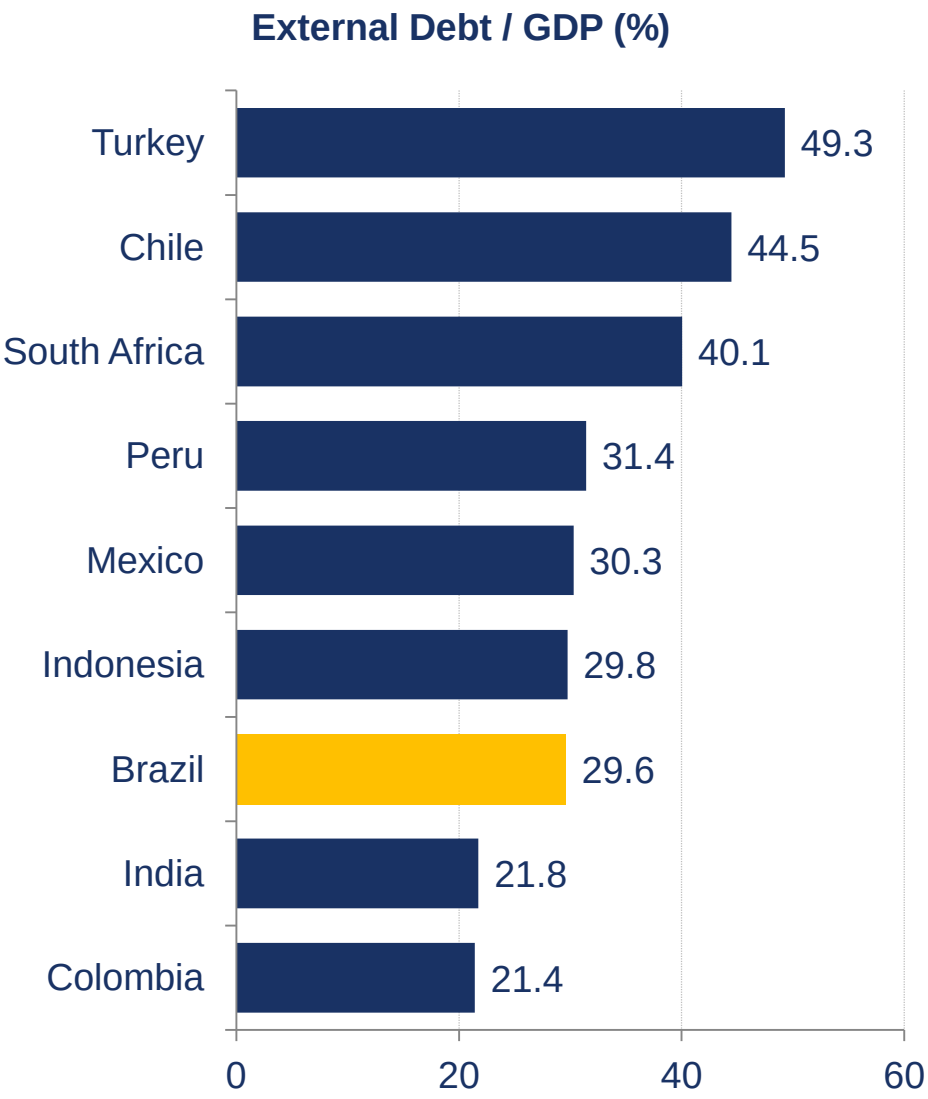
*as of Jan 20th

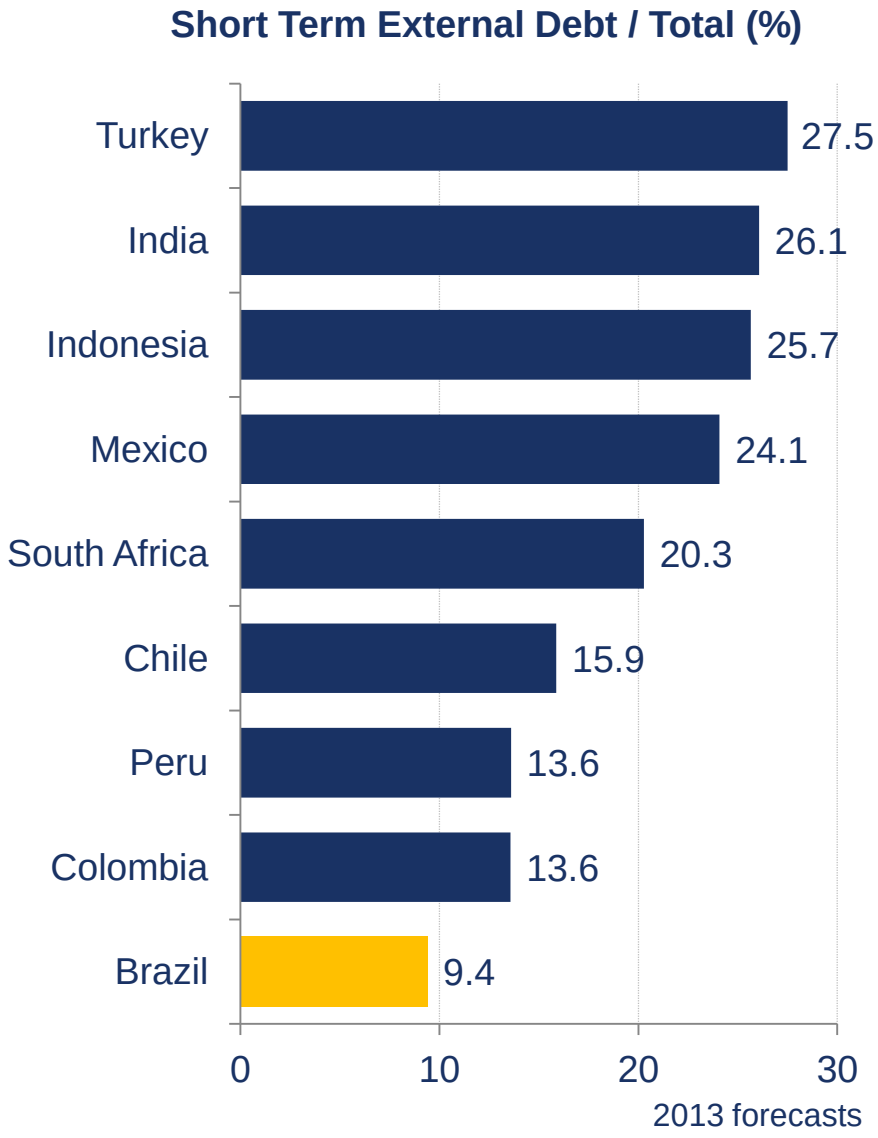


*Nov 2013

Source: BCB

Strong external debt indicators

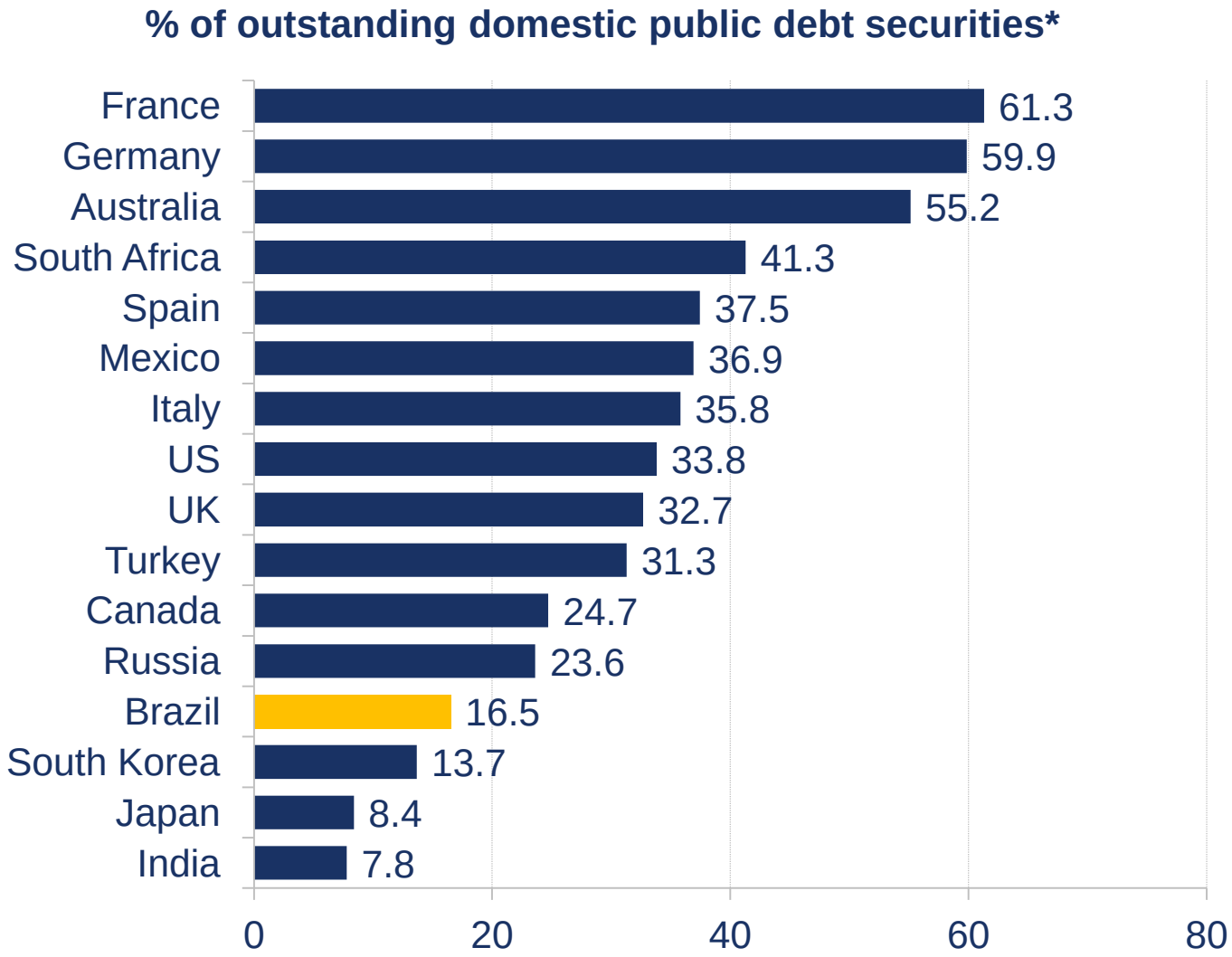




Source: IIF * Brazil data includes intercompany debt transactions and domestic debt in hands of foreign investors

BANCO CENTRAL DO BRASIL

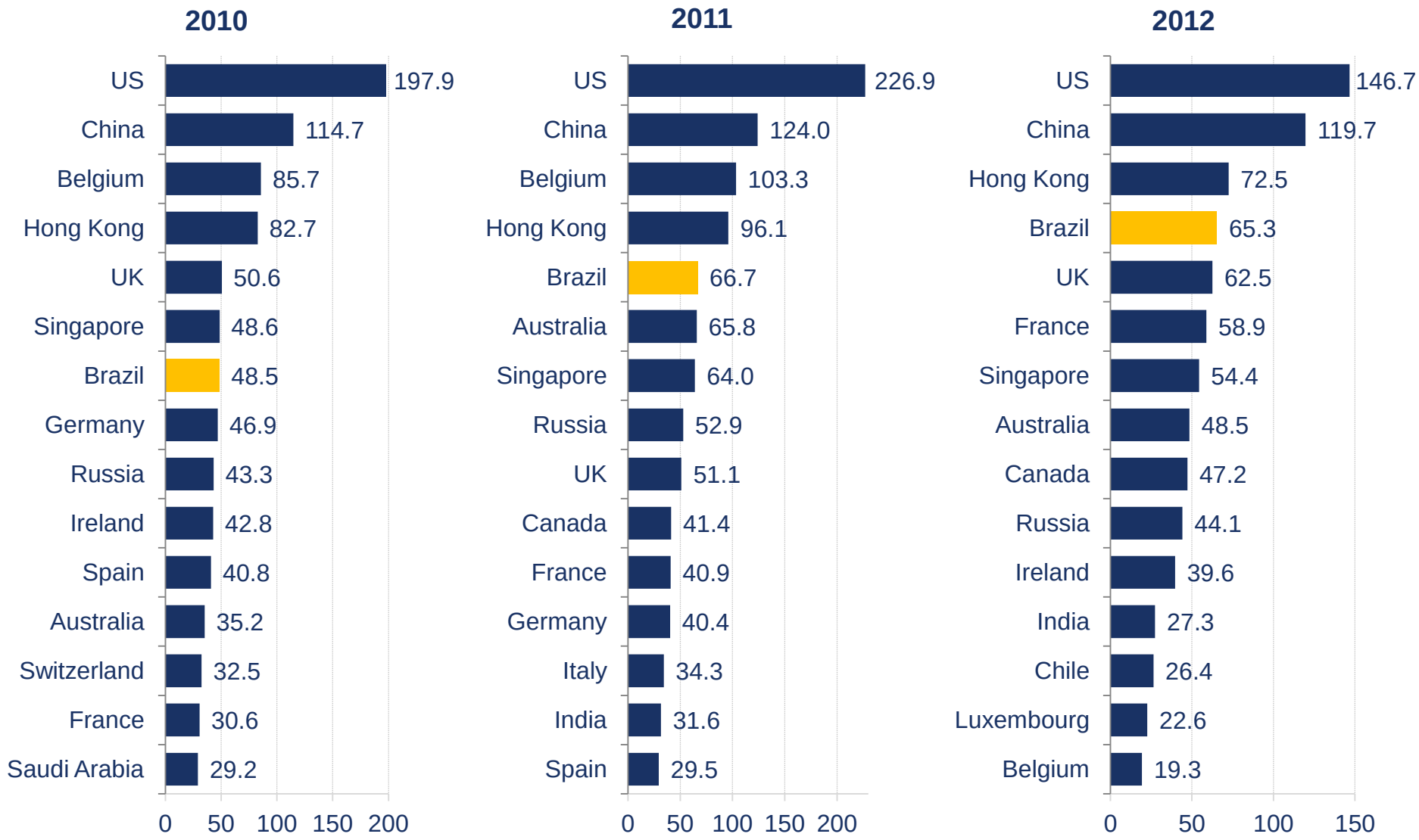
Low nonresident public debt share



* The latest data reported by the IMF Fiscal Monitor in October 2013. For Brazil, data from November, as reported by *Secretaria do Tesouro Nacional* (STN).

Source: IMF / STN

Leading destination for FDI



Source: UNCTAD

Brazil Economic Outlook

London School of Economics

Alexandre Tombini
Governor

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BANCO CENTRAL DO BRASIL

Glossary

BCB	Banco Central do Brasil
BM&FBOVESPA	Brazilian Securities, Commodities and Futures Exchange
CNI	Confederação Nacional da Indústria
EME	Emerging Market Economy
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
FGV	Fundação Getúlio Vargas
IBGE	Instituto Brasileiro de Geografia e Estatística
IIF	Institute of International Finance
IPEA	Instituto de Política Econômica Aplicada
MEC	Ministério da Educação
MTE	Ministério do Trabalho e Emprego
STN	Secretaria do Tesouro Nacional
UMP	Unconventional Monetary Policy
UNCTAD	United Nations Conference on Trade and Development