

Brazil Economic Overview

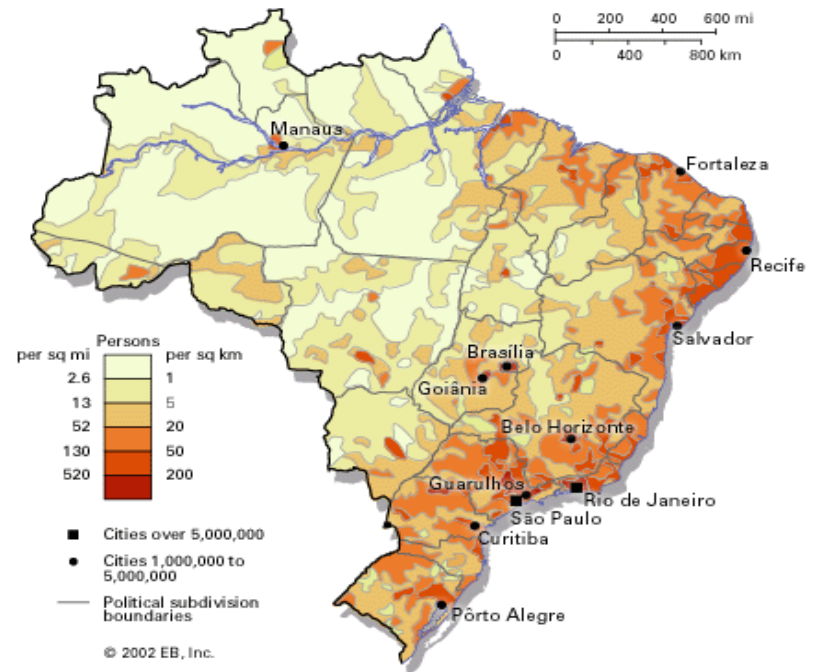
Tokyo

Alexandre Tombini
Governor

October 15, 2012

Brazil

- 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



- 6th largest GDP: US\$ 2,475 billion (2011)
- Continental country: 5th largest area 8,514,877 km²
- 5th largest population: 191 million people (2010)

Executive Summary

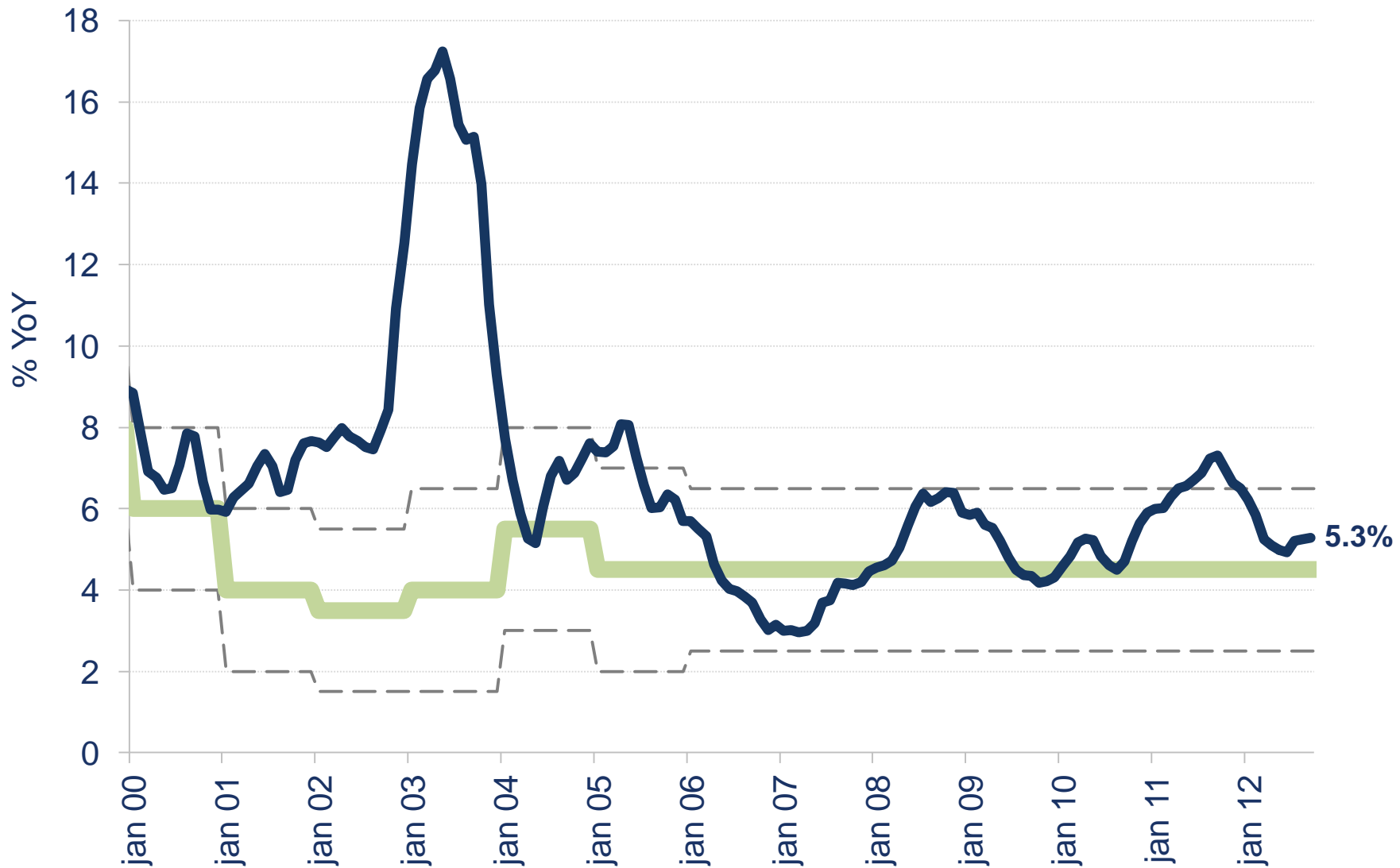
- **Macroeconomic and financial stability, sustainable economic growth and targeted social policies have all contributed to poverty reduction and better income distribution**
- **Economic growth is accelerating in the second half of 2012, with inflation under control**
- **The outlook is for sustainable economic growth over the coming years, with substantial investment opportunities, particularly in infrastructure**

Economic and Social Achievements

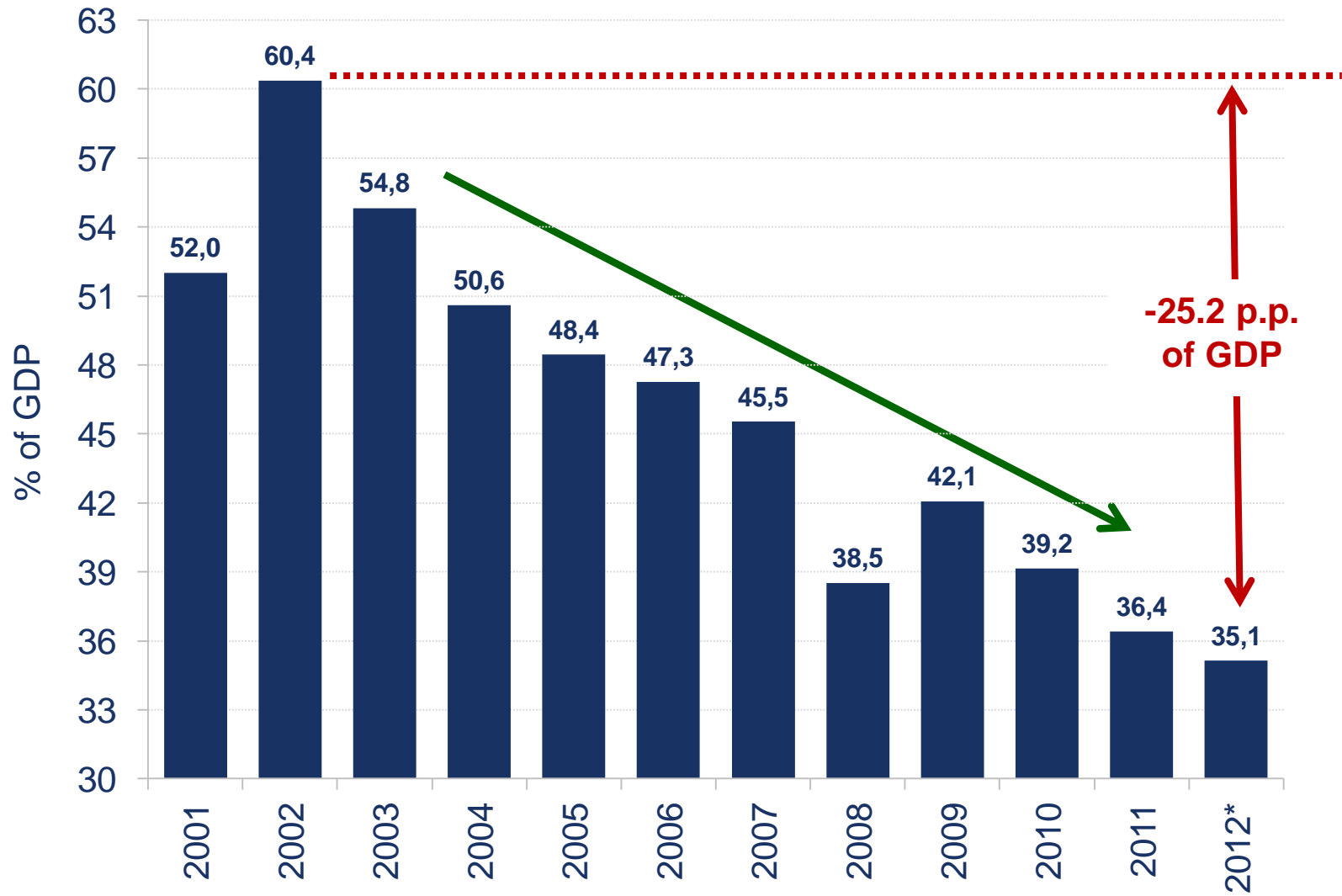
Macroeconomic Policy

- The main features of the macroeconomic policy framework are inflation targeting, fiscal responsibility, and exchange rate flexibility
- The macroeconomic fundamentals, combined with strong prudential policy and intensive bank supervision, have led to macroeconomic and financial stability and sustainable economic growth
- Economic growth and stability, together with inclusive social policies, have reduced poverty and inequality and helped 40 million people join the middle class

Achieved Inflation Target Eight Years in a Row

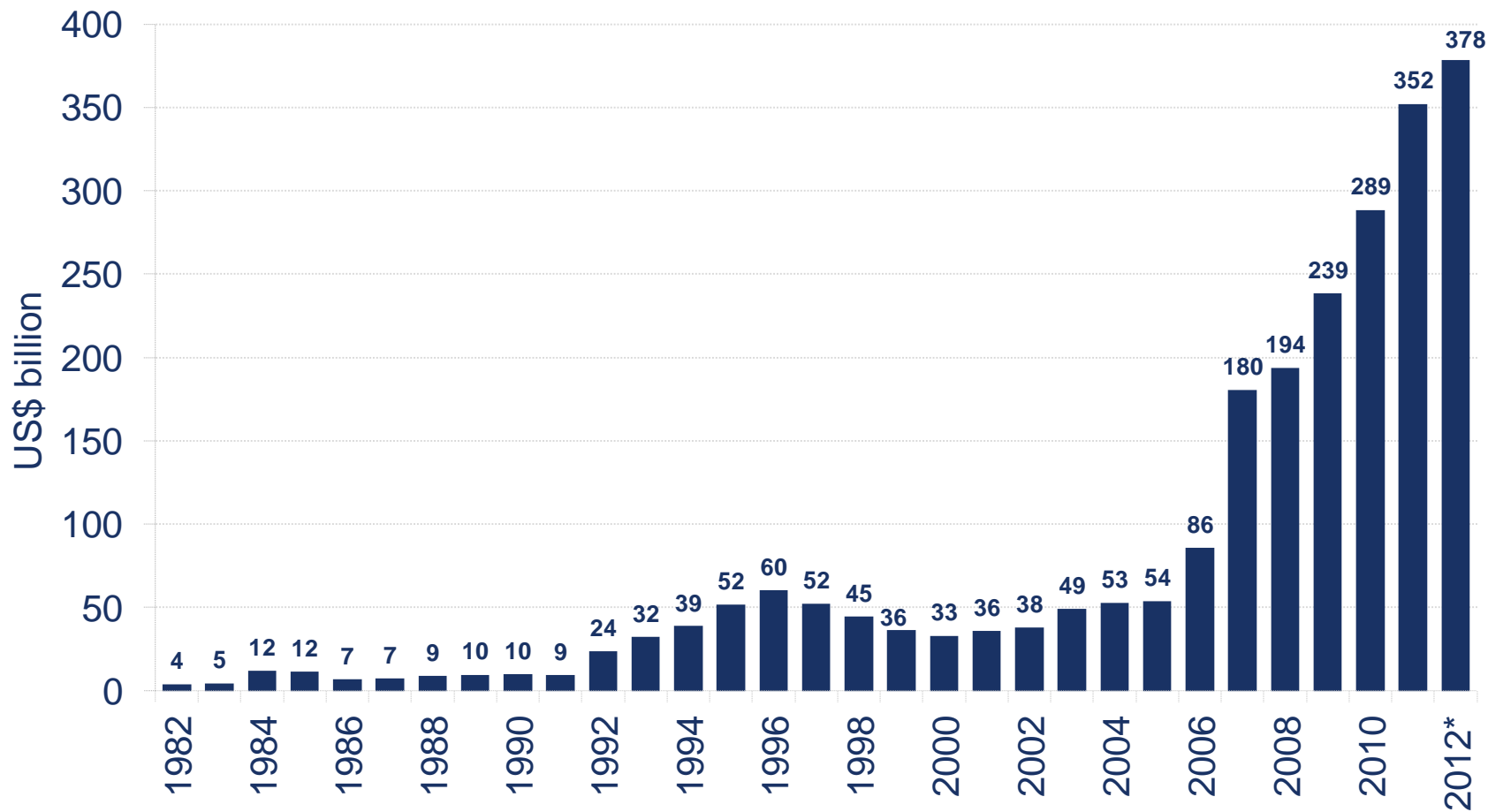


Declining Net Public Debt



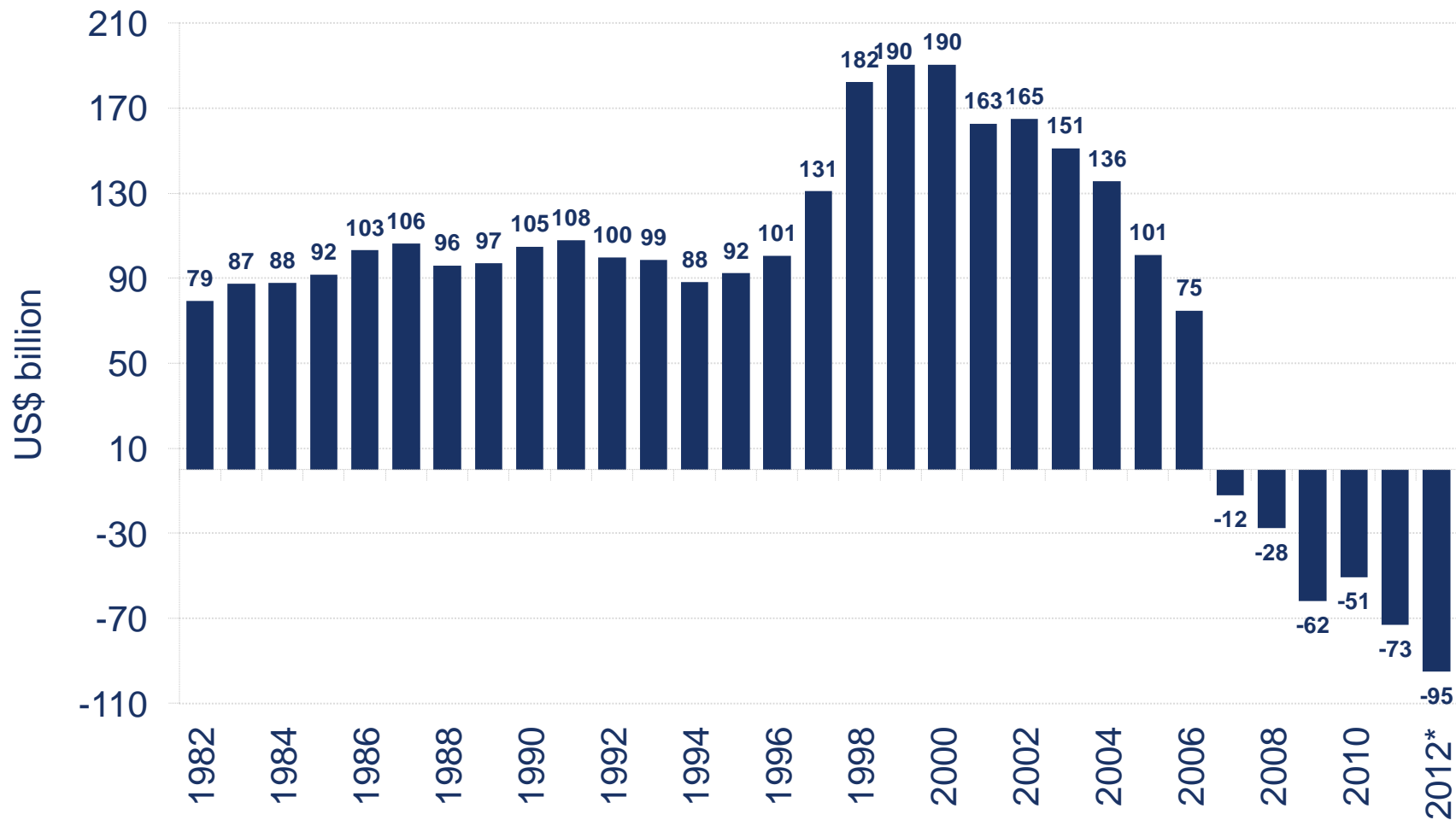
*Aug 12

Robust International Reserves



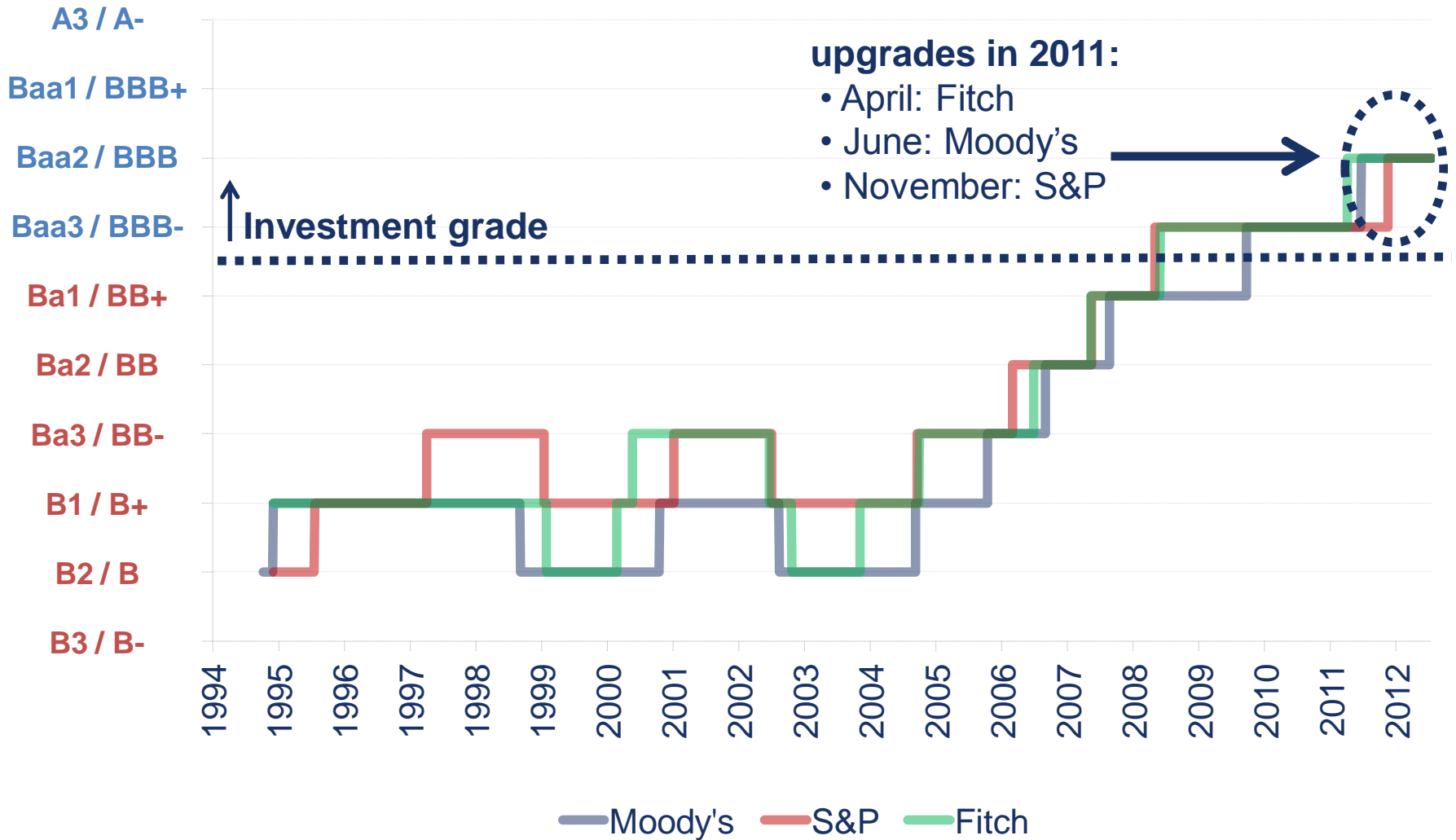
*Oct 9th

Brazil Has Become a Net External Creditor

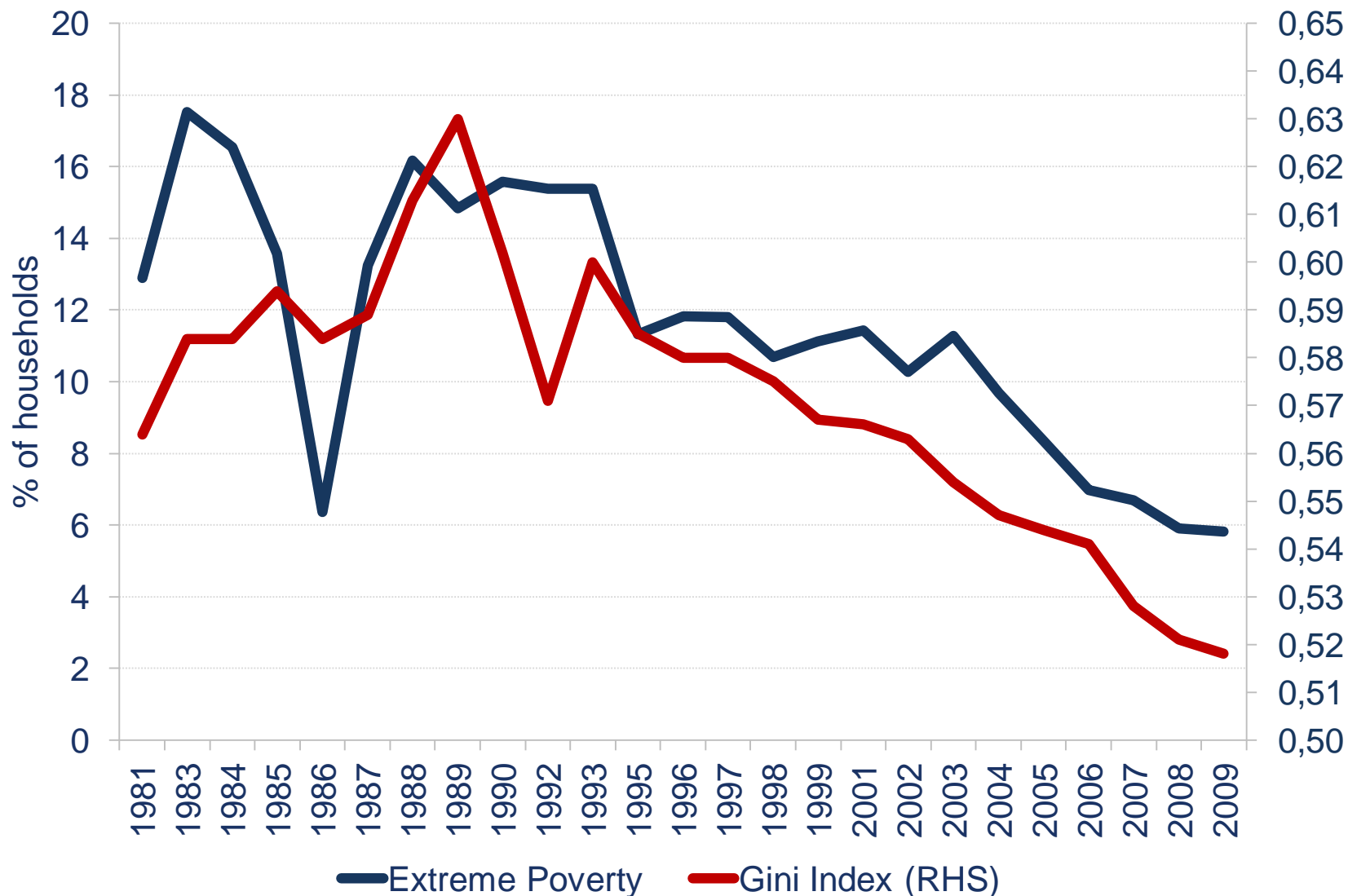


*Aug 12 estimate

Improvements Reflected in Sovereign Credit Ratings



Declining Poverty and Inequality



Recent Economic Developments

Activity

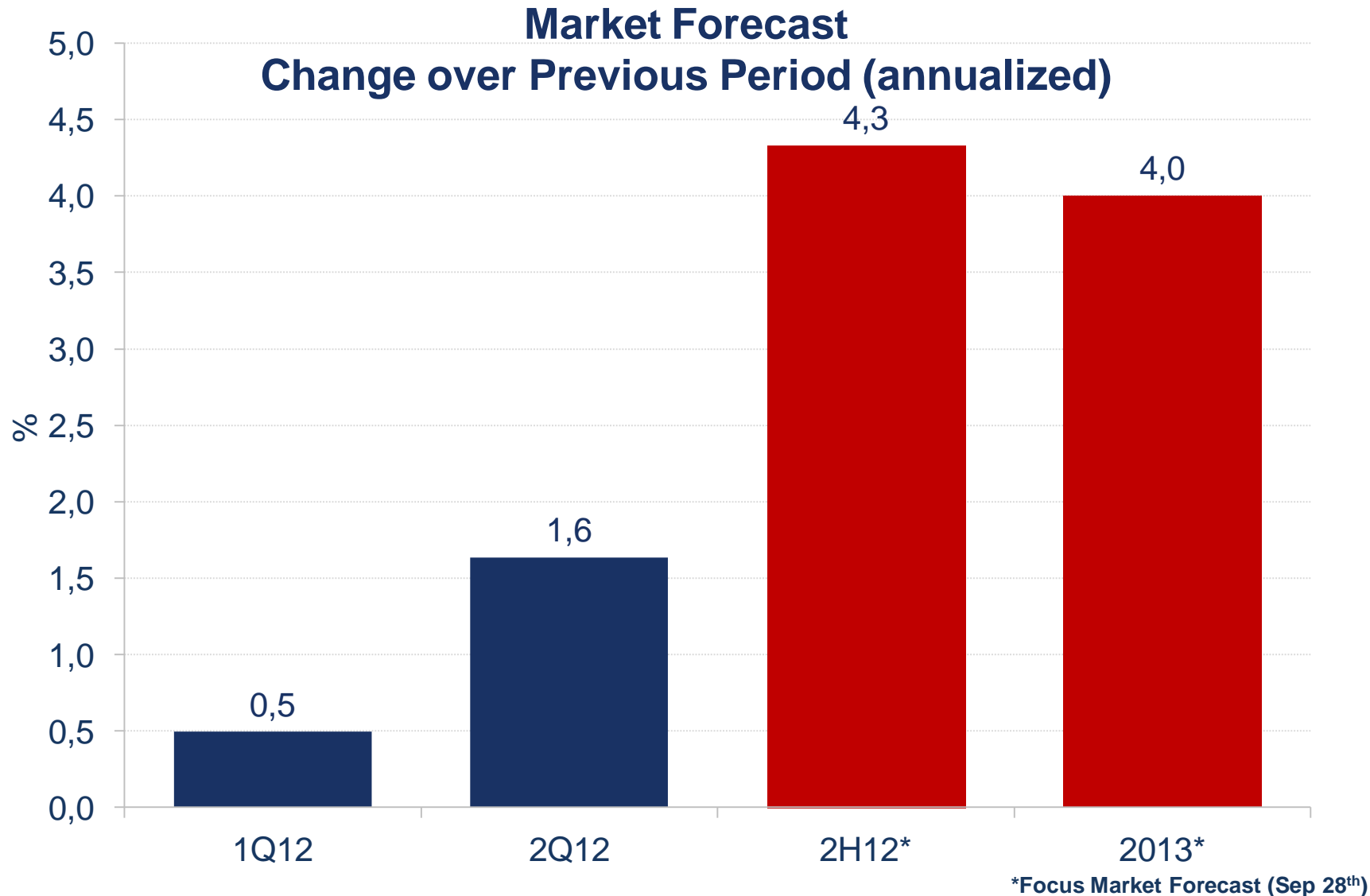
Inflation

Credit & Financial System

Economic Activity

- Brazil underwent a typical business cycle downturn
- There are consistent signs that growth is accelerating
- Industrial production has grown for three consecutive months
- Agriculture: record grains crop expected for 2012
- The services sector continues to expand faster than the overall economy
- Demand is underpinned by a strong labor market and increasing incomes

Growth Will Accelerate in the 2nd half of 2012

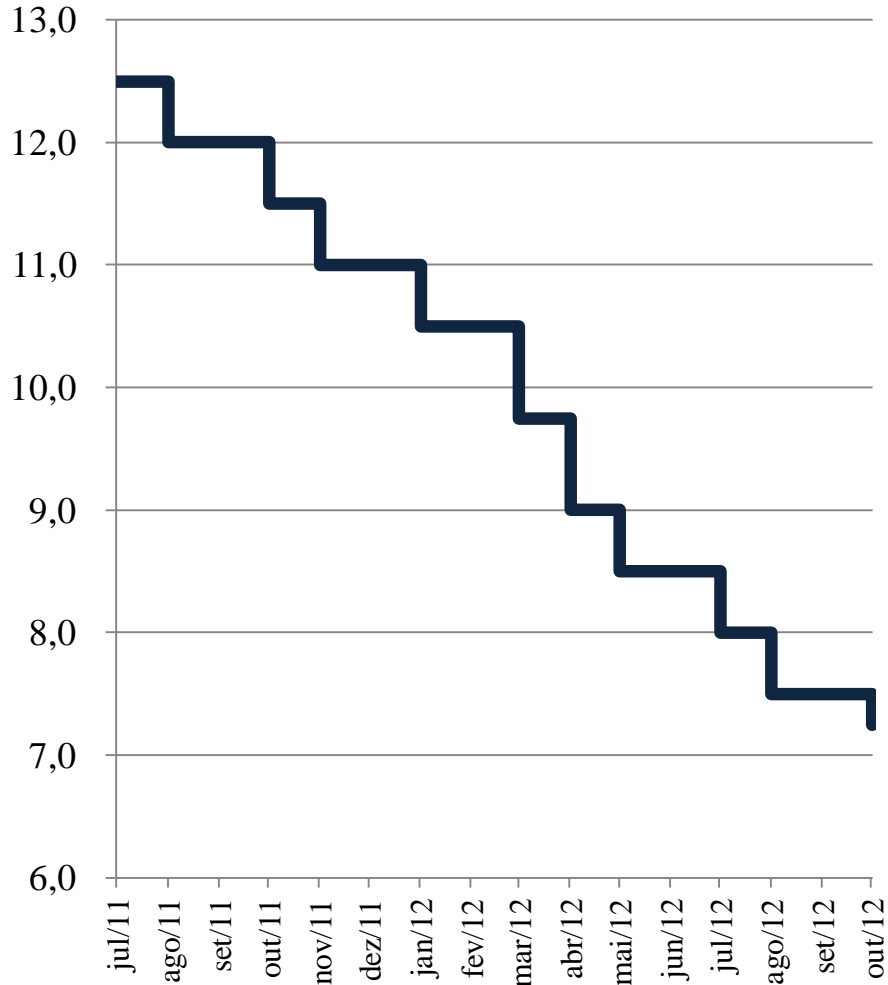


Economic Stimulus Measures

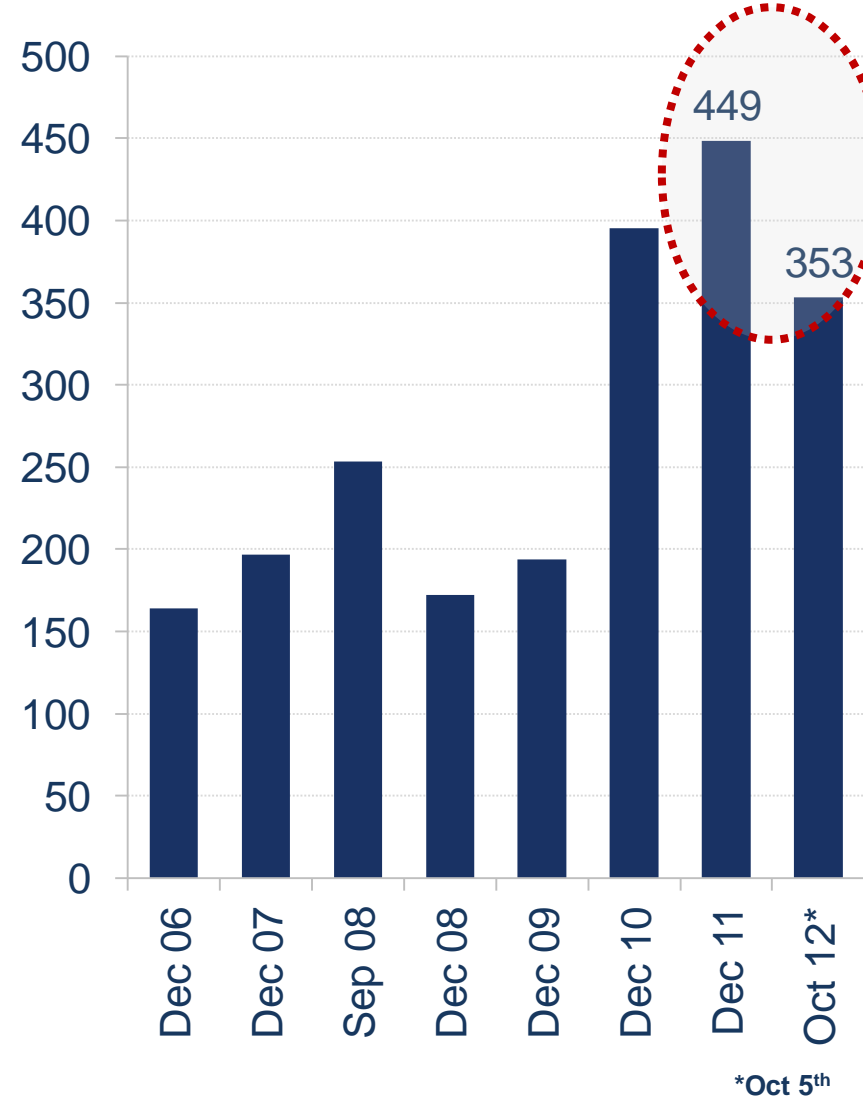
- A set of stimulus measures have been introduced since 2011 in order to help the economy resume its growth path
- These measures impact the real economy with lags
- Stimulus measures in place:
 - Lower interest rates
 - Improved liquidity conditions for the financial system
 - Better financing conditions for households and firms
 - Fiscal and tax incentives

Monetary and Liquidity Stimulus Measures

Policy Interest Rate (% annual)

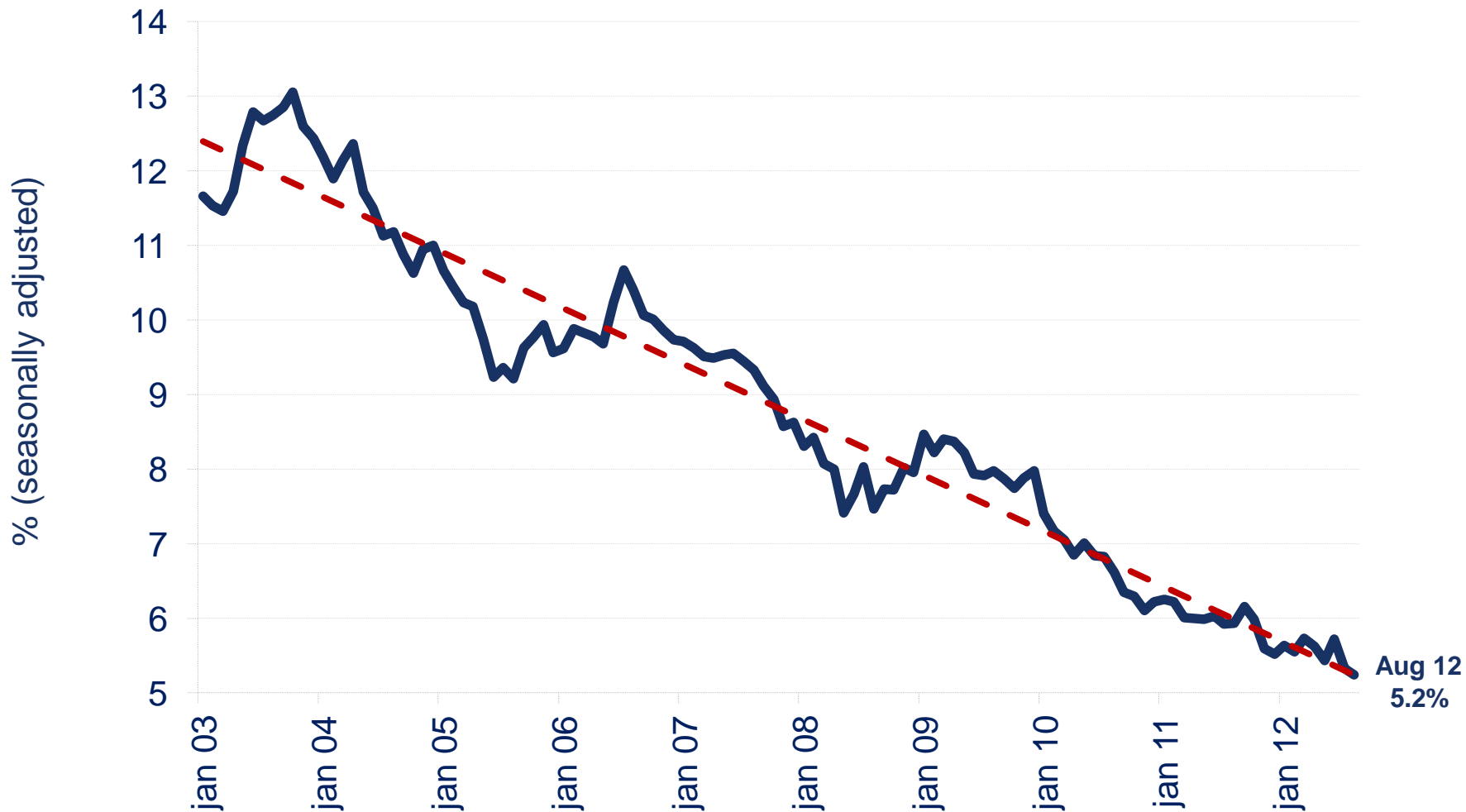


Required Bank Reserves (R\$ billion)

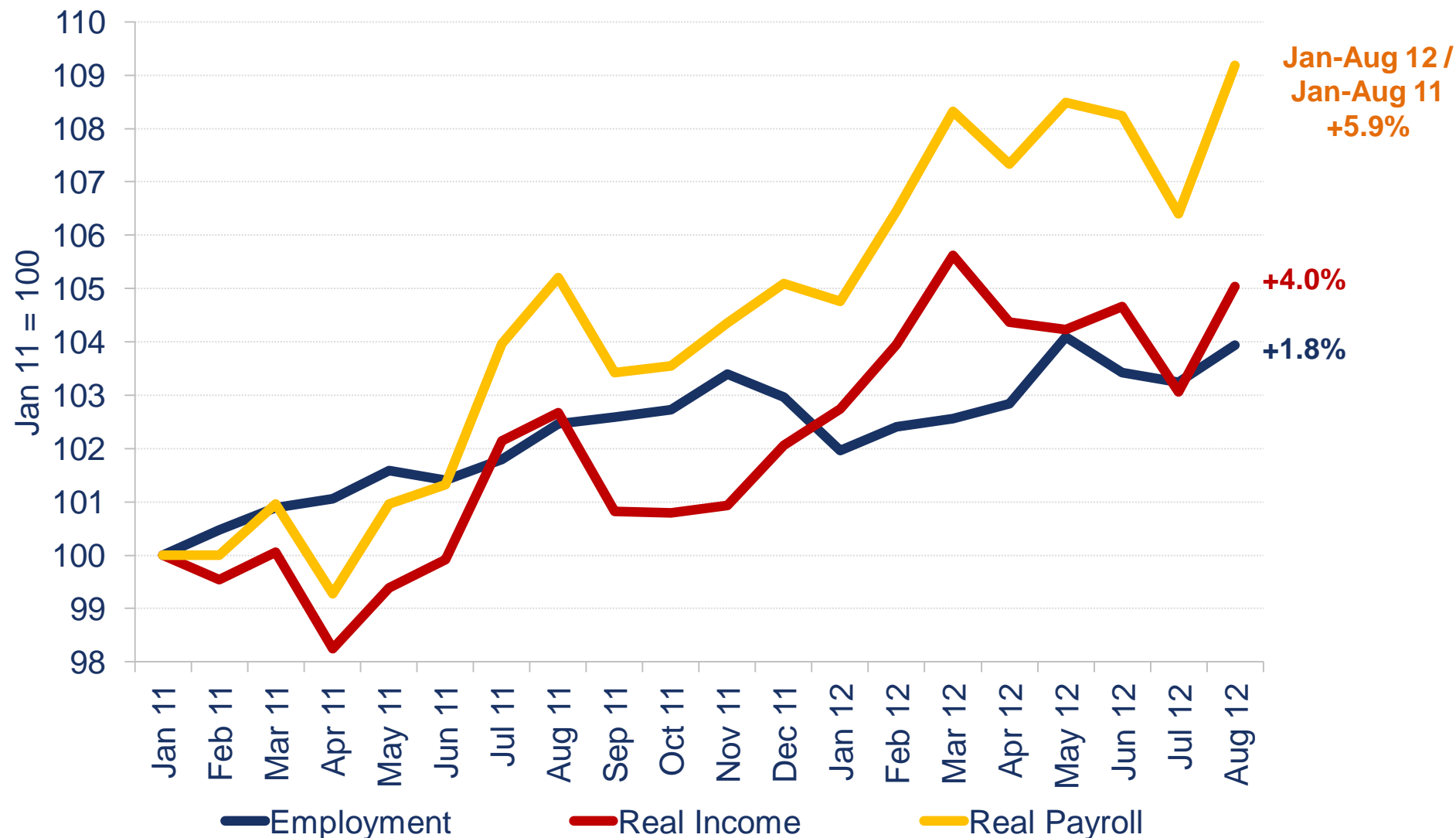


*Oct 5th

Unemployment Rate at Historical Low



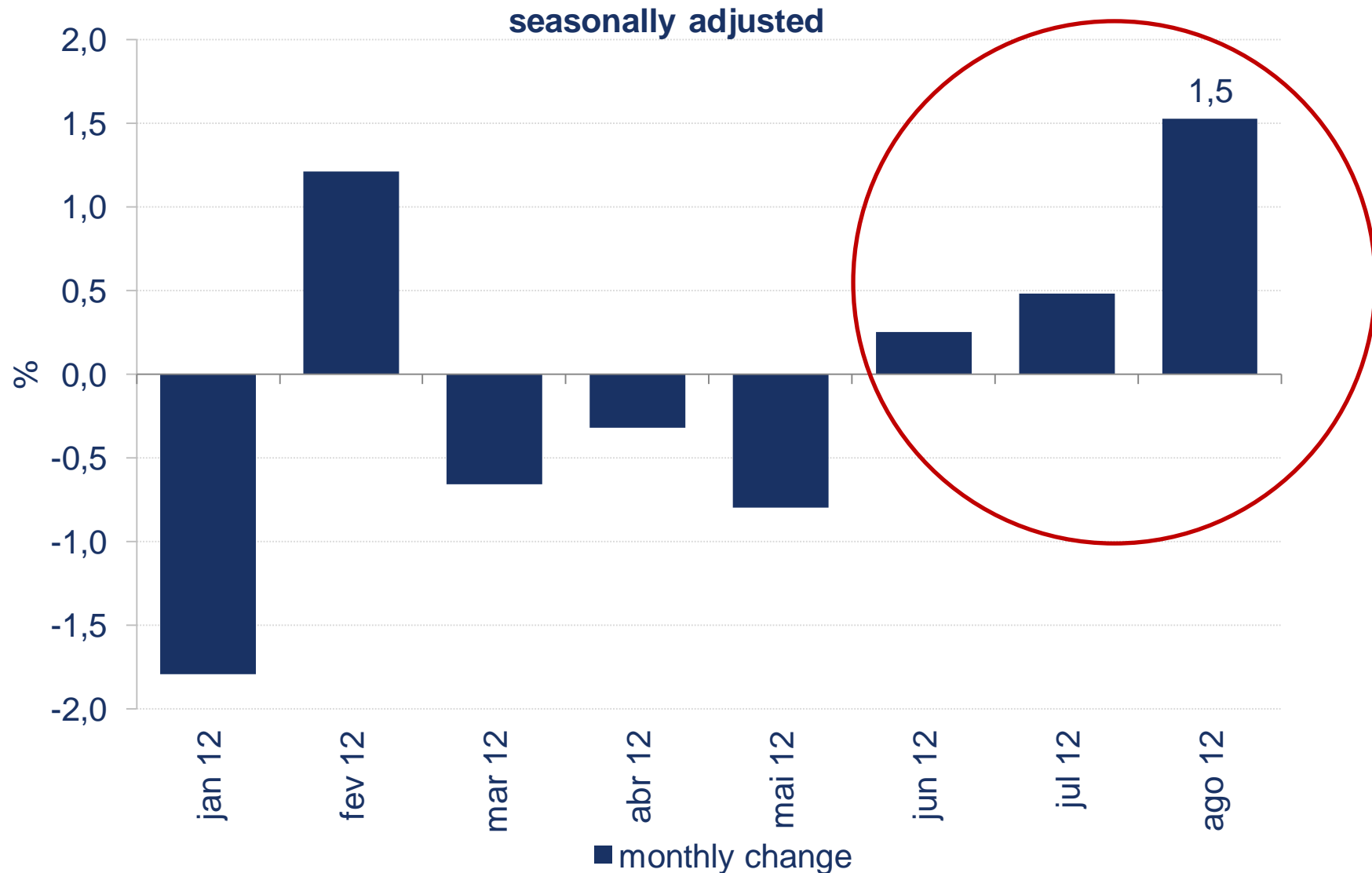
Growing Incomes and Payroll



Supply

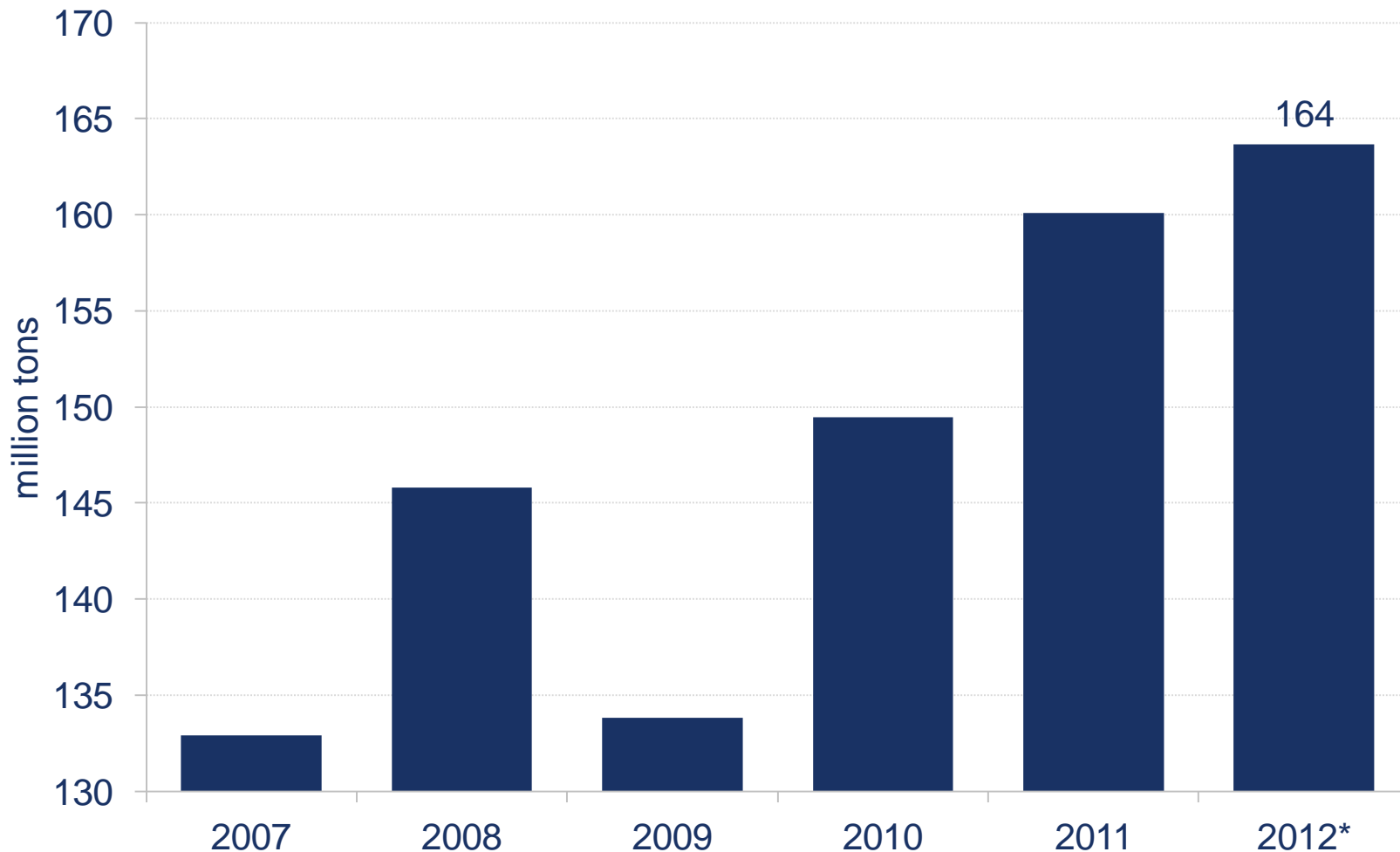
- Industry: consistent indications that a moderate recovery is under way
 - Three consecutive months of output growth
 - Improving business confidence
 - Increased capacity utilization
 - Growth in industrial employment
- Agriculture: 2012 grains crop to be record
- Services: expected to continue to grow faster than overall economy
 - Strong performance reflects structural changes in the Brazilian economy over the last decade

Growing Industrial Production



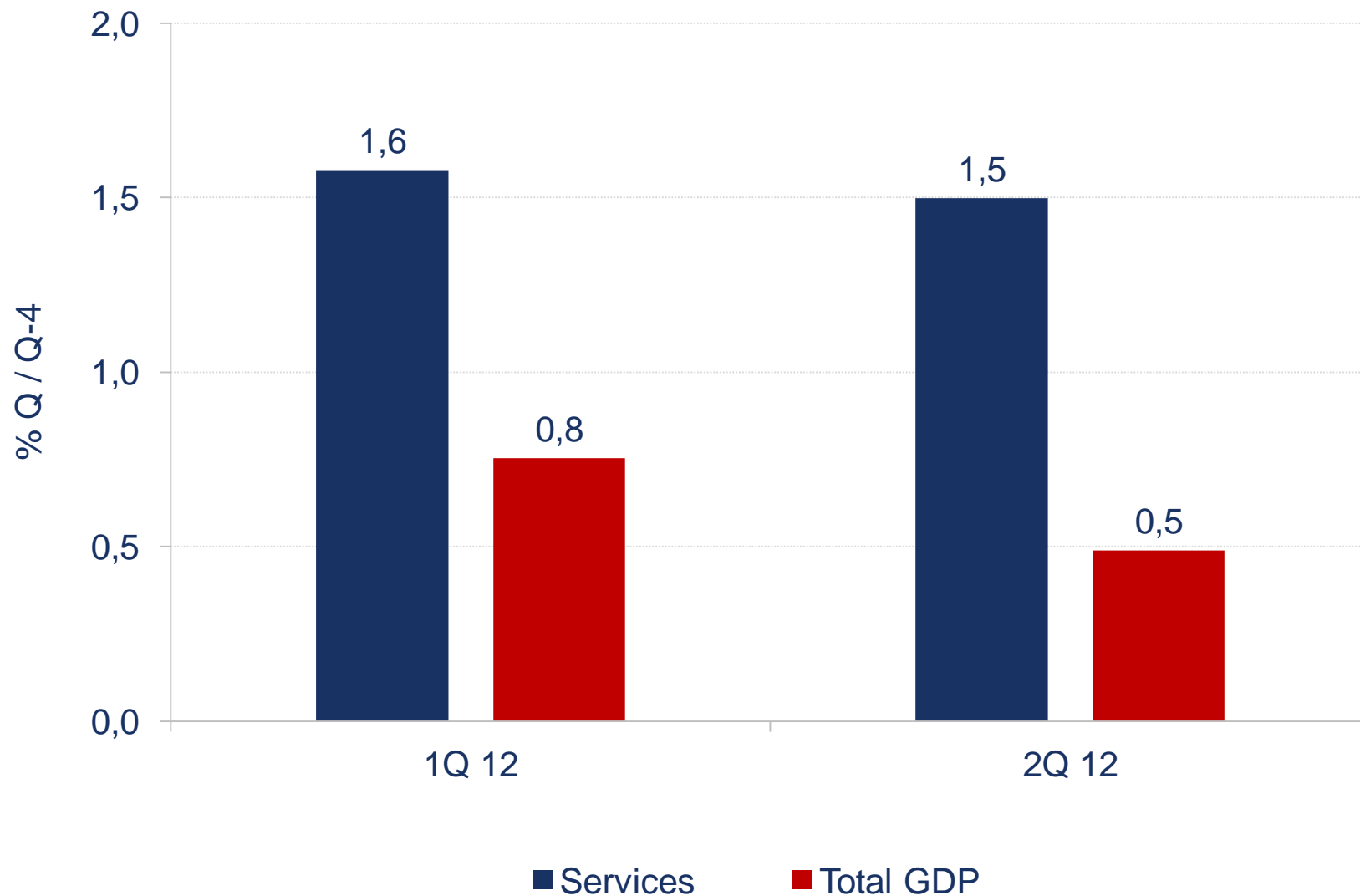
Agriculture: 2012 Grains Crop to be Record

production of grains



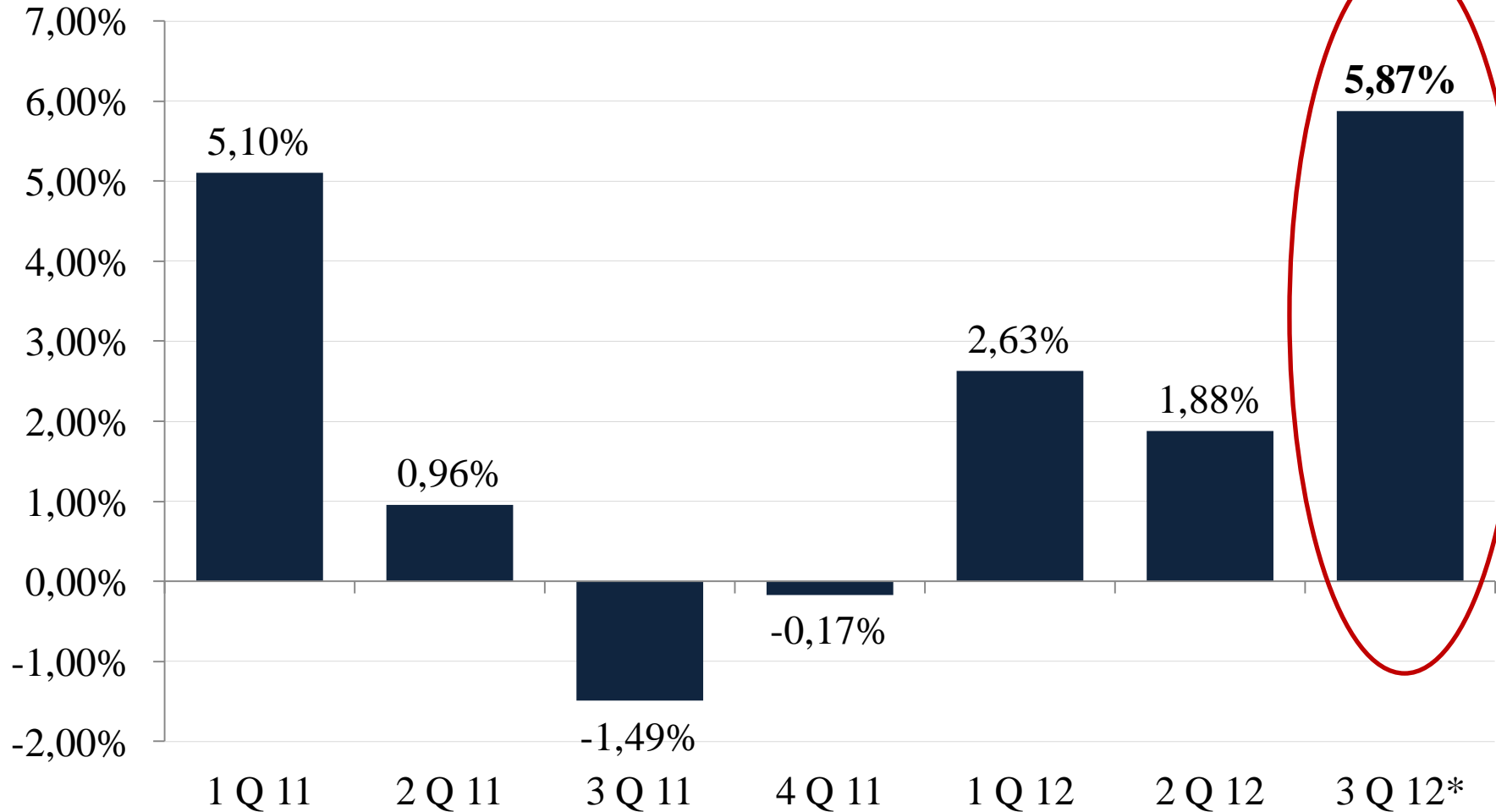
*Sep 12 Estimate

Services Growing Faster than Overall Economy



GDP Coincident Index

Quarterly Growth (annualized) – Seasonally Adjusted



Recent Economic Developments

Activity

Inflation

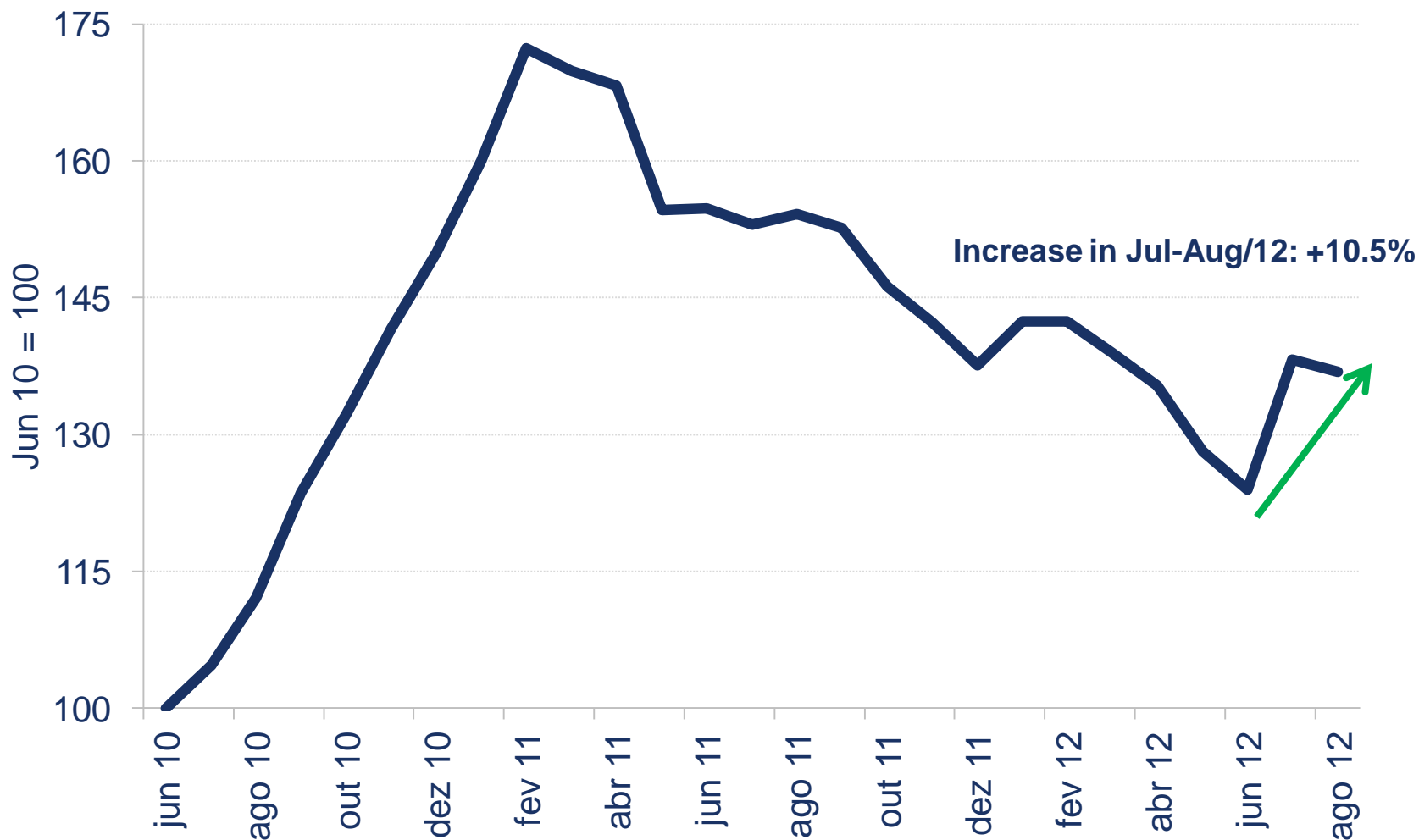
Credit & Financial System

Inflation is Under Control

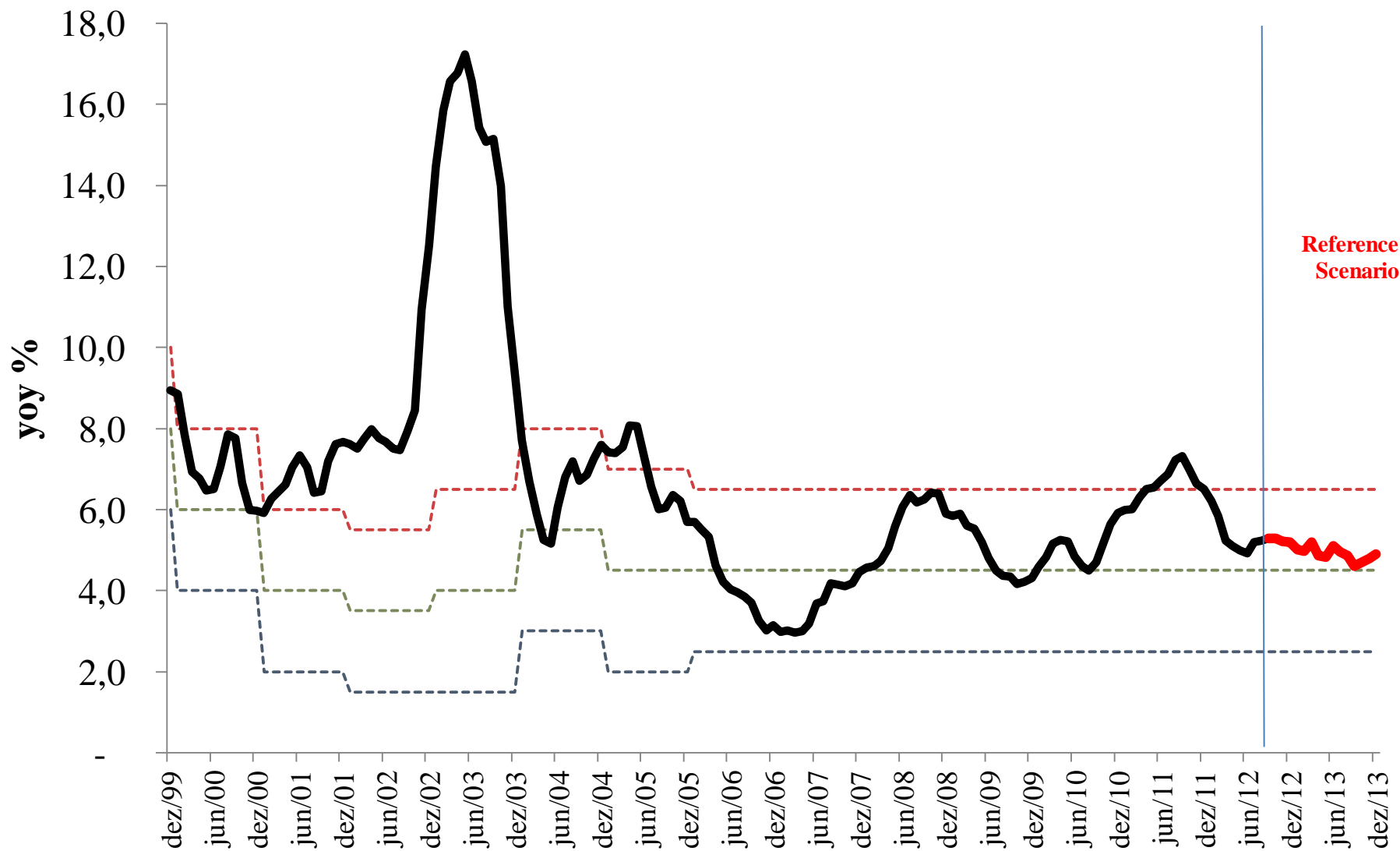
- Inflation is converging to the target in a nonlinear fashion
- Short term: adverse supply shock
 - External: agricultural commodities due to weather conditions in the United States
- In the medium term, the global economy should have a disinflationary influence on domestic prices
- The outlook for inflation, although negatively impacted in the short term by adverse supply shocks, is favorable in the medium term

Commodity Price Shock

Agricultural Commodities (IC-Br in US\$)



Achieved Inflation Target Eight Years in a Row



Recent Economic Developments

Activity

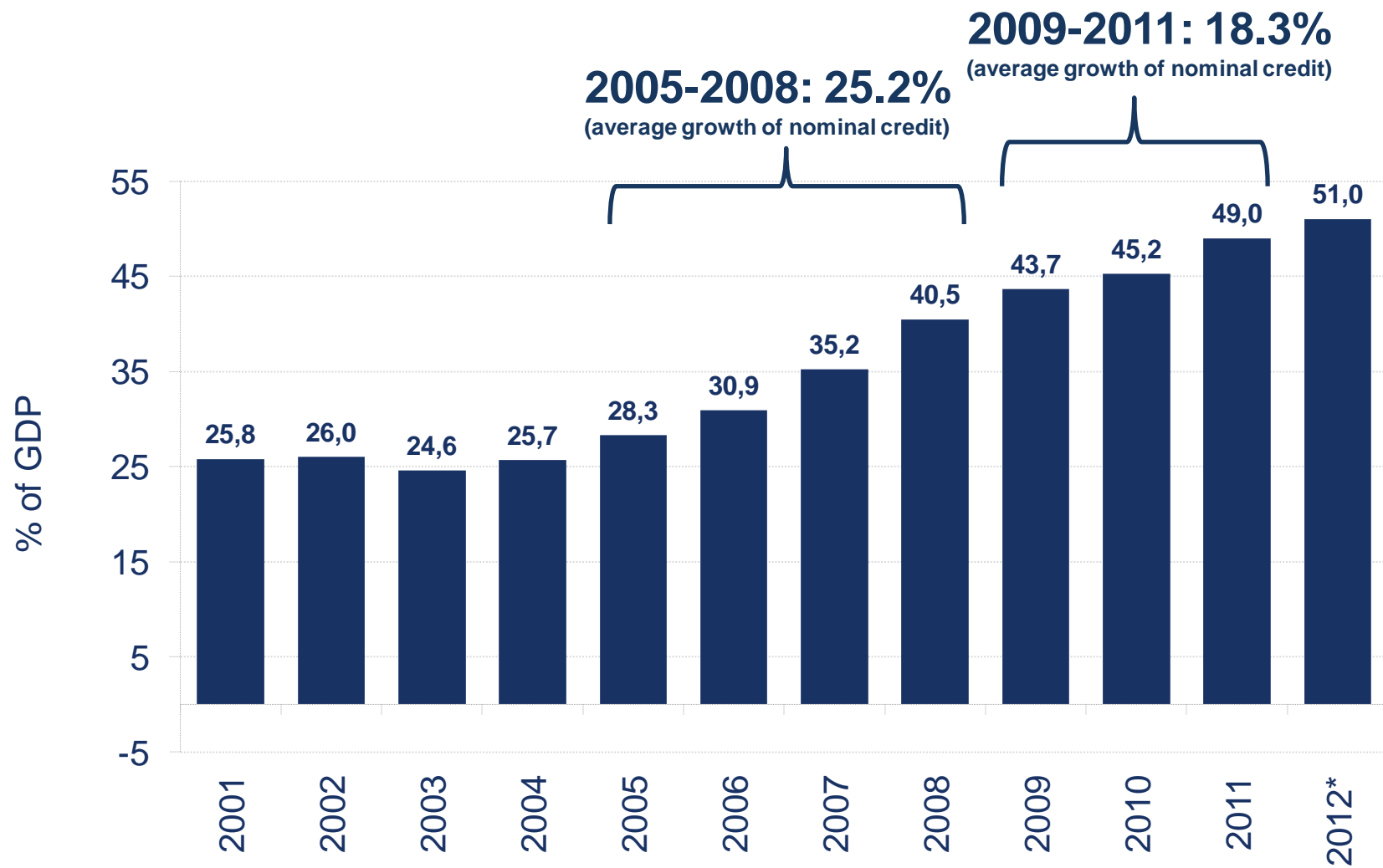
Inflation

Credit & Financial System

Credit and Financial System

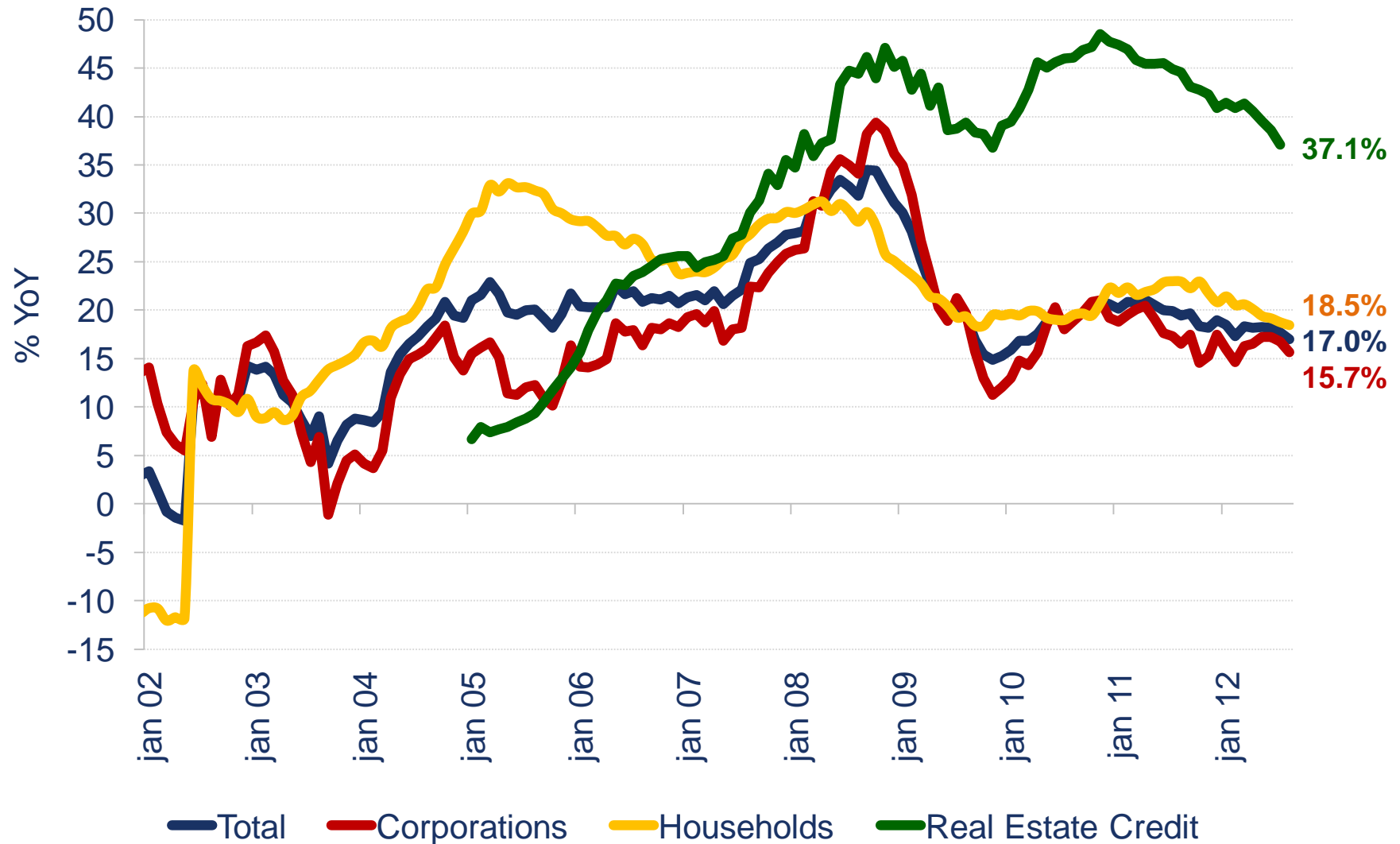
- **Credit is growing at a sustainable pace**
- **The Brazilian financial system is well capitalized, liquid and holds ample provisions**
- **Access to banking services is improving**

Credit / GDP



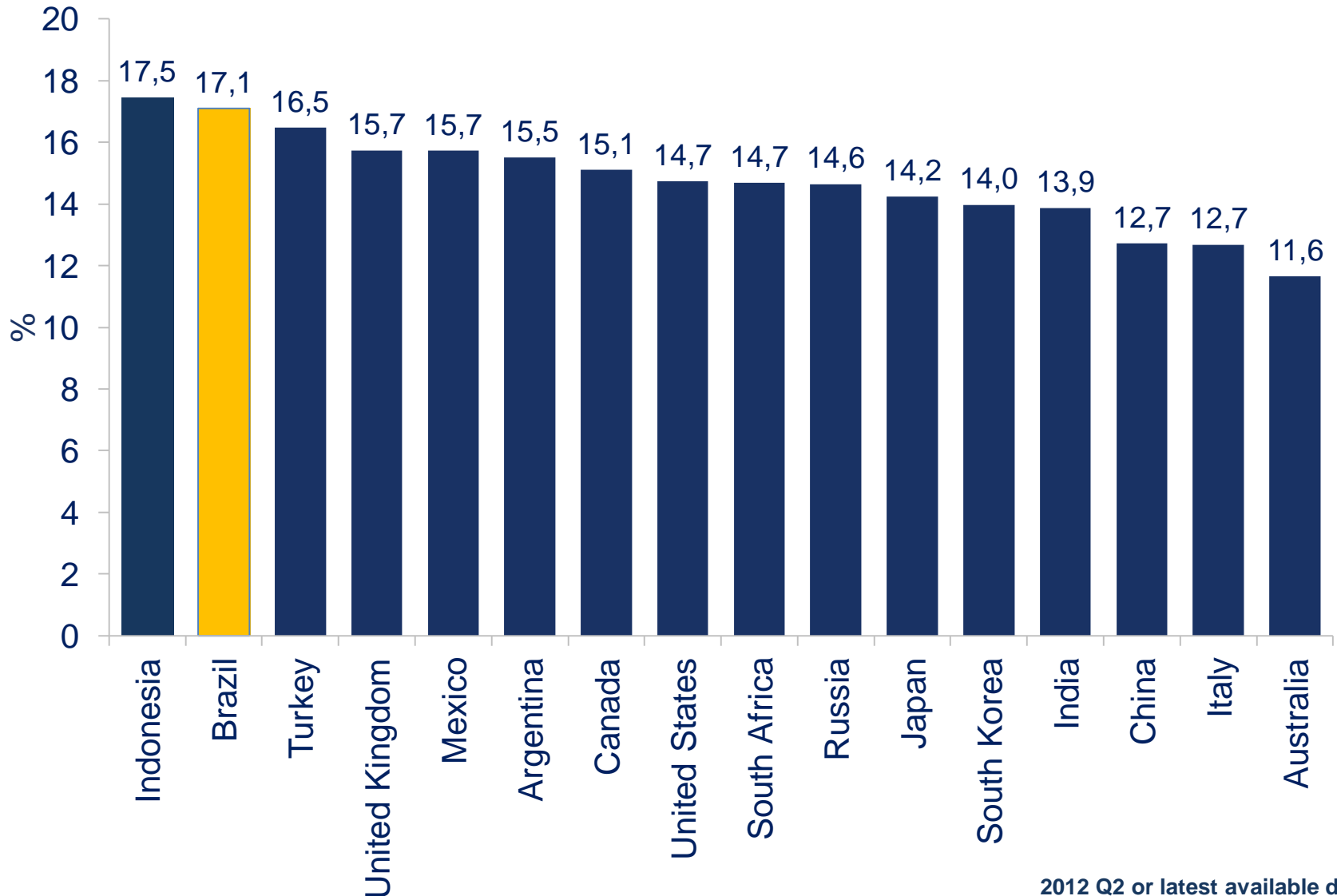
*Aug 12

Real Estate Credit is Leading Credit Growth



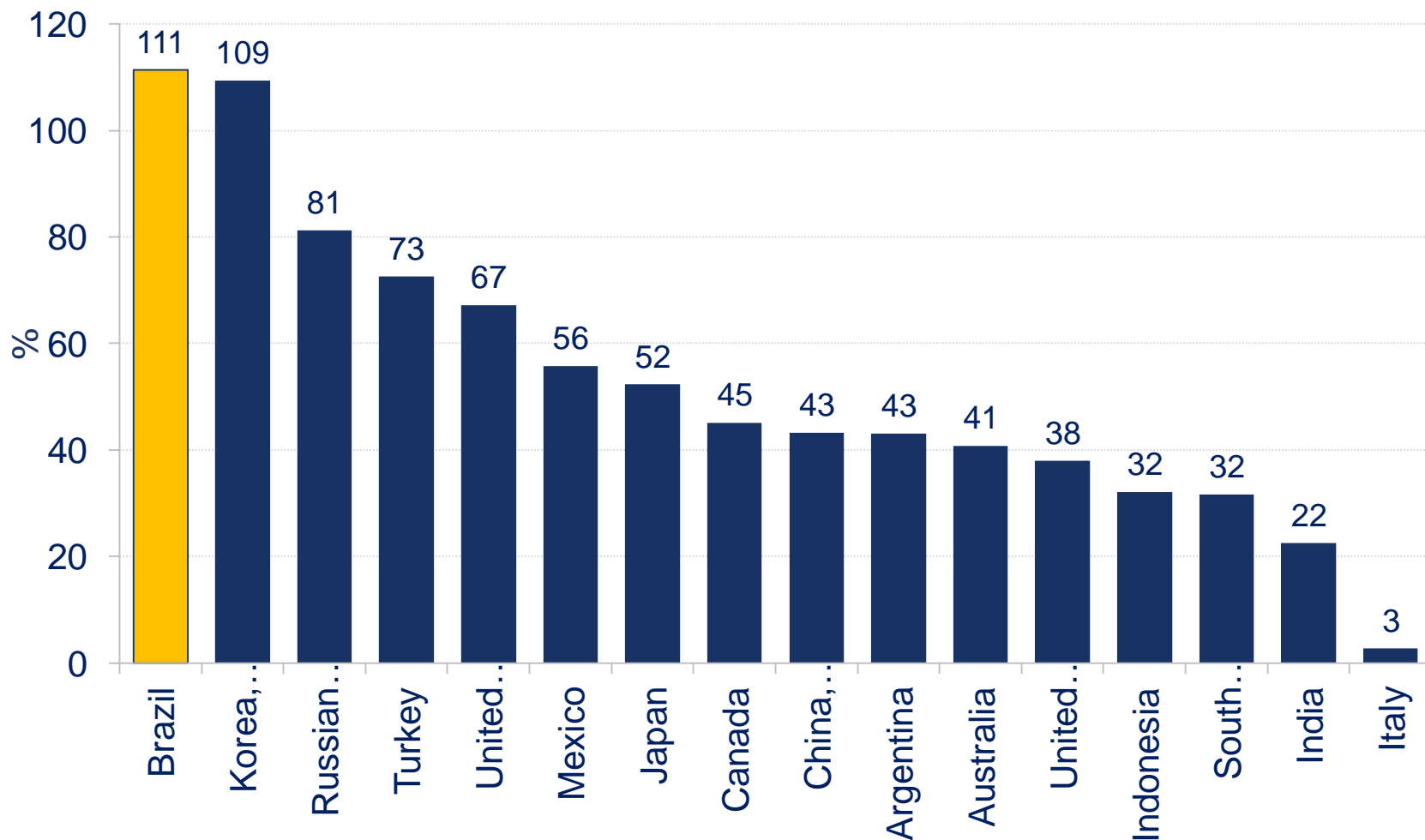
up to Aug 2012 / Real Estate up to Jul 12

Regulatory Capital / Risk-Weighted Assets



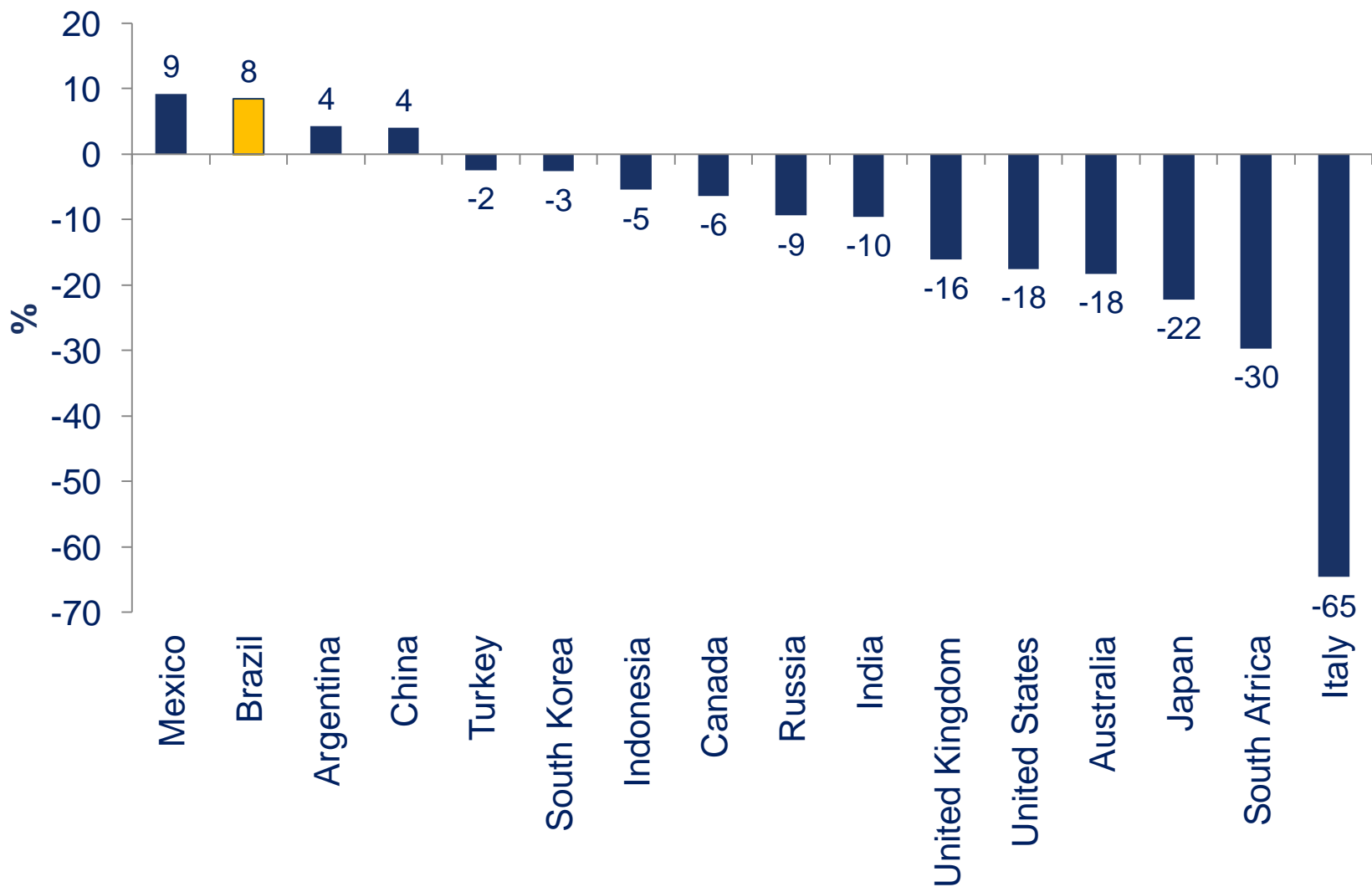
2012 Q2 or latest available data

Liquid Assets / Short Term Liabilities



2012 Q2 or latest available data

Provisions Net of Non-performing Loans / Capital

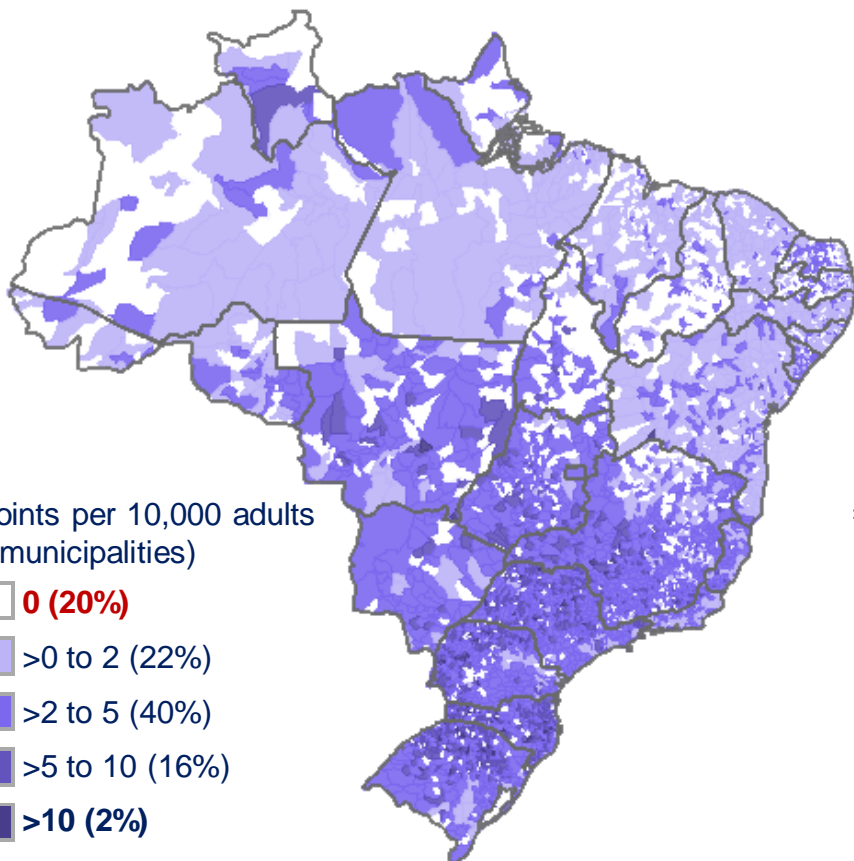


2012 Q2 or latest available data

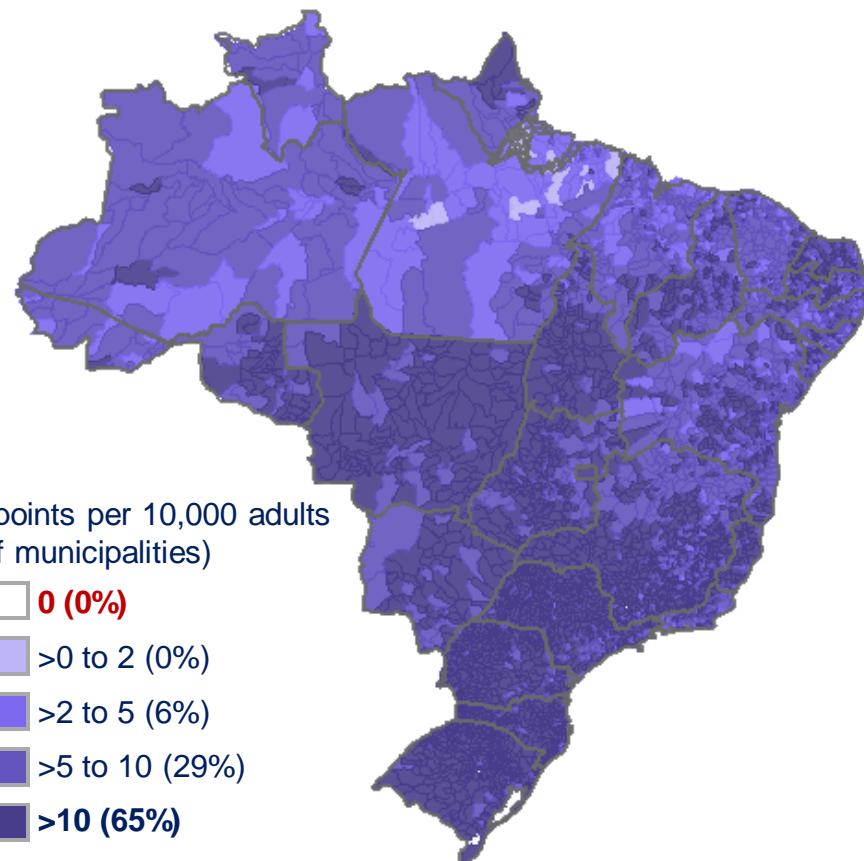
Access to Banking Services

All municipalities have a least one bank branch, outpost or correspondent.

2000



2010



Bank branches, bank advanced outposts (PAA), credit cooperatives (headquarters and outposts) and bank correspondents

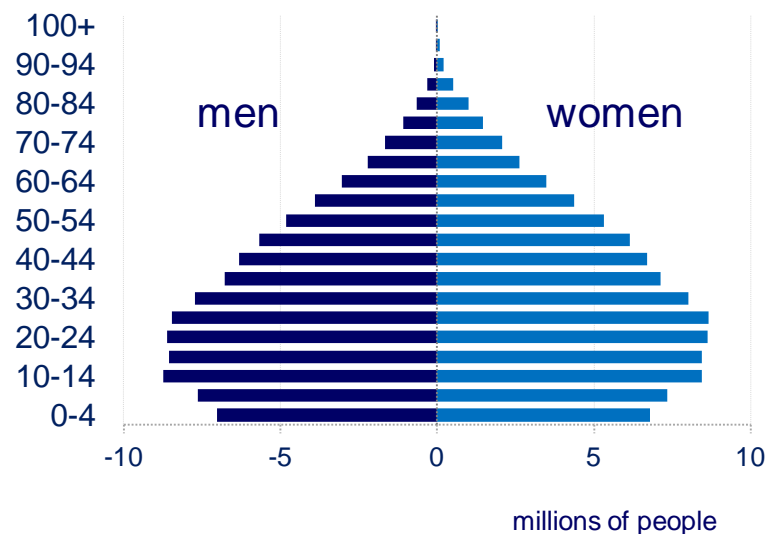
Looking Forward

Outlook for Brazil

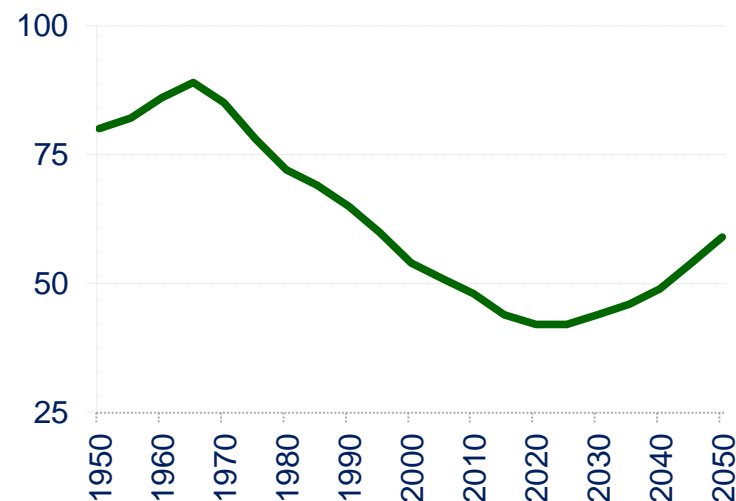
- Sustainable GDP growth in the coming years
- Demographic bonus until 2025
- Social gains and expansion of the middle class
- Reforms to increase investment, productivity and competitiveness
- Major investment opportunities
 - Expanding and upgrading infrastructure
 - Vast reserves of mineral commodities
 - Offshore oil fields (“pre-salt” layer)
 - Potential to expand cultivated area and agricultural production
 - Major international sports events (FIFA World Cup and Olympics Games)

Favorable Demographics

Population Pyramid (2010)



Dependency Ratio

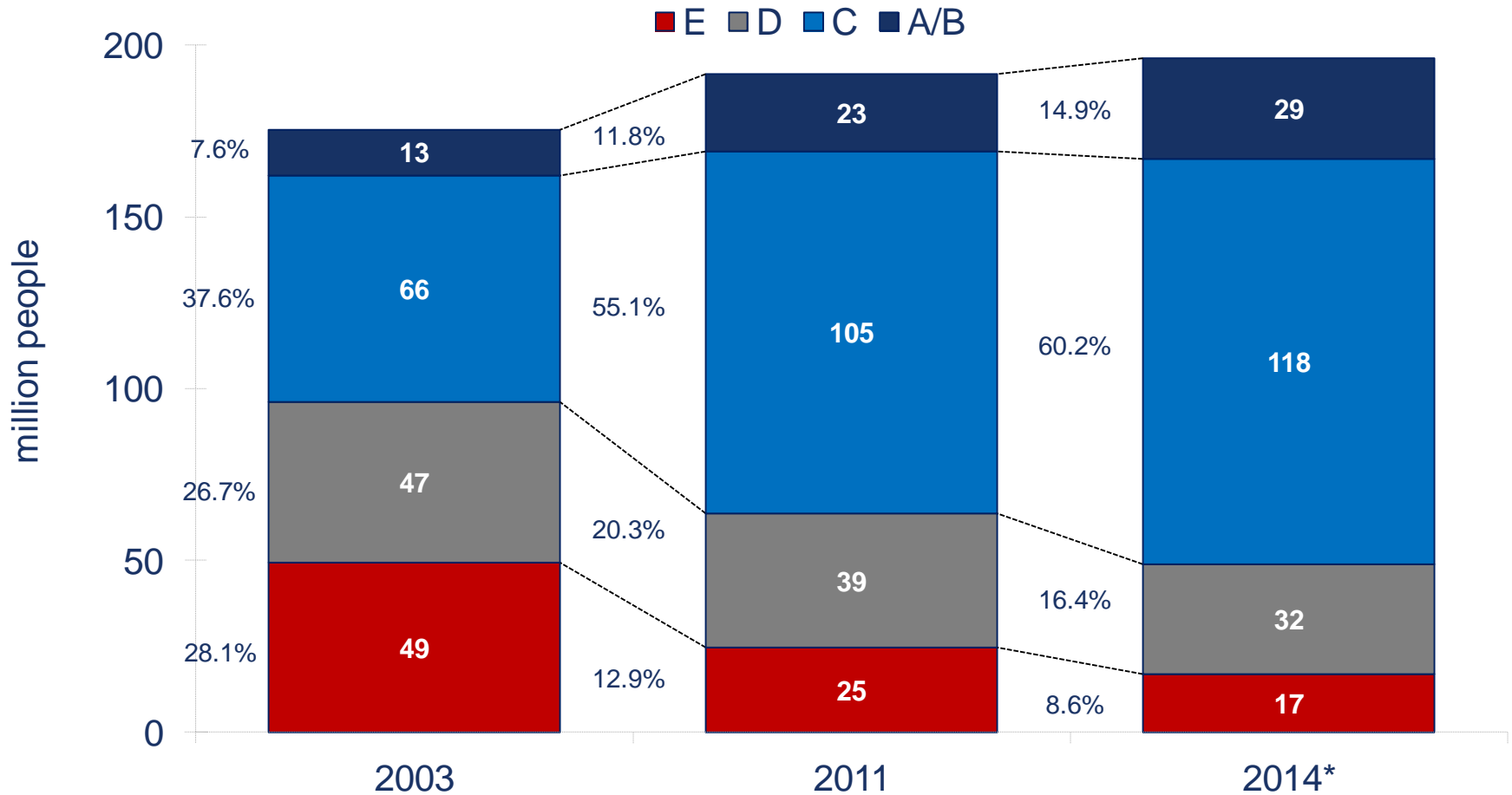


- **Brazilian population is highly concentrated within the Economically Active Population range**
- **Brazil's dependency ratio is still declining**

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

Growing Middle Class → Expanding Consumer Market

Social Stratification



*FGV forecast

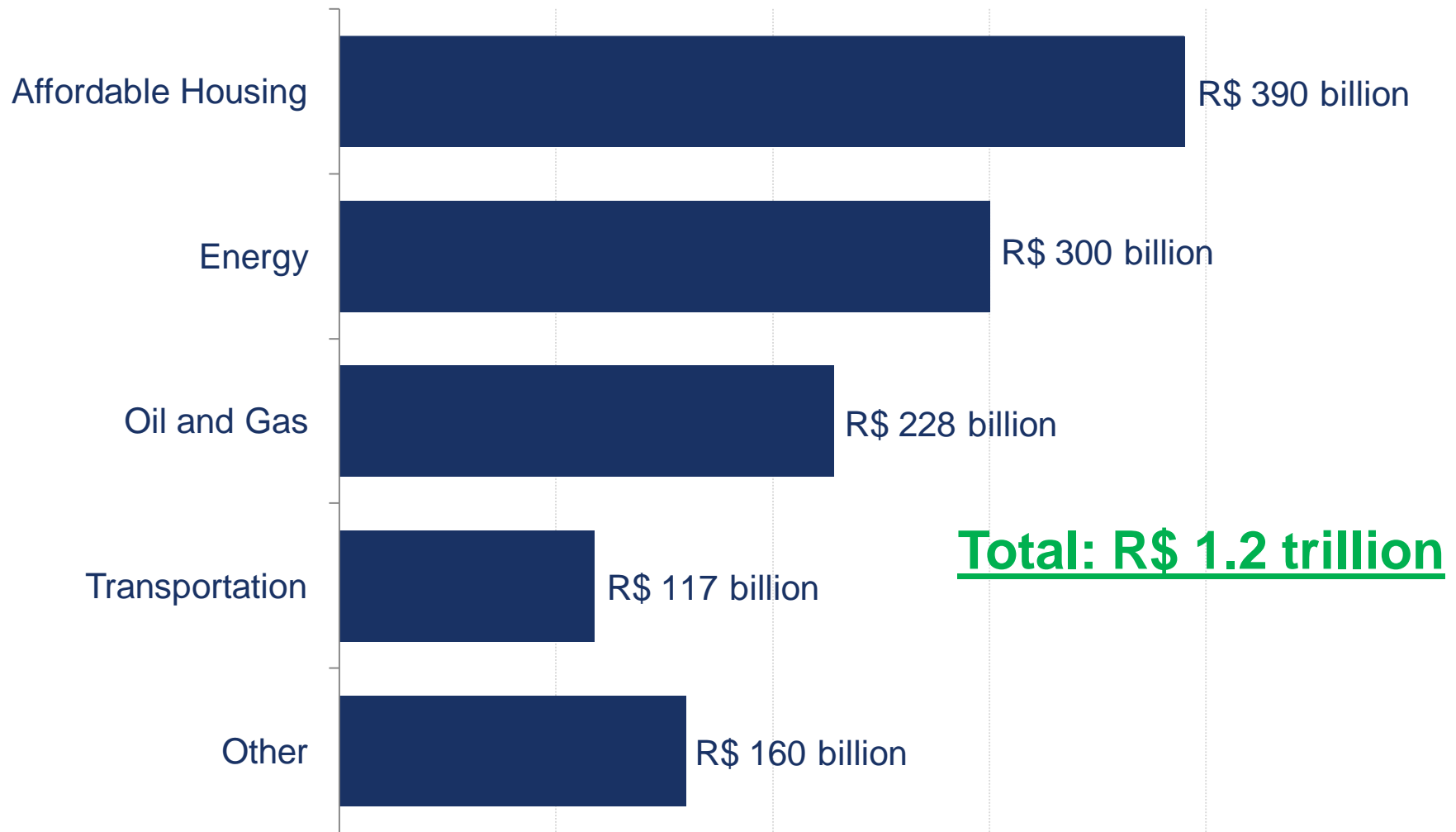
Reforms to Boost Growth

- Pro-growth fiscal and tax reforms
 - Payroll tax cuts
 - Public sector pension reform
 - Tax-advantaged bonds for infrastructure and R&D investment
- Reduced electricity costs due to lower taxes and renewal of concessions

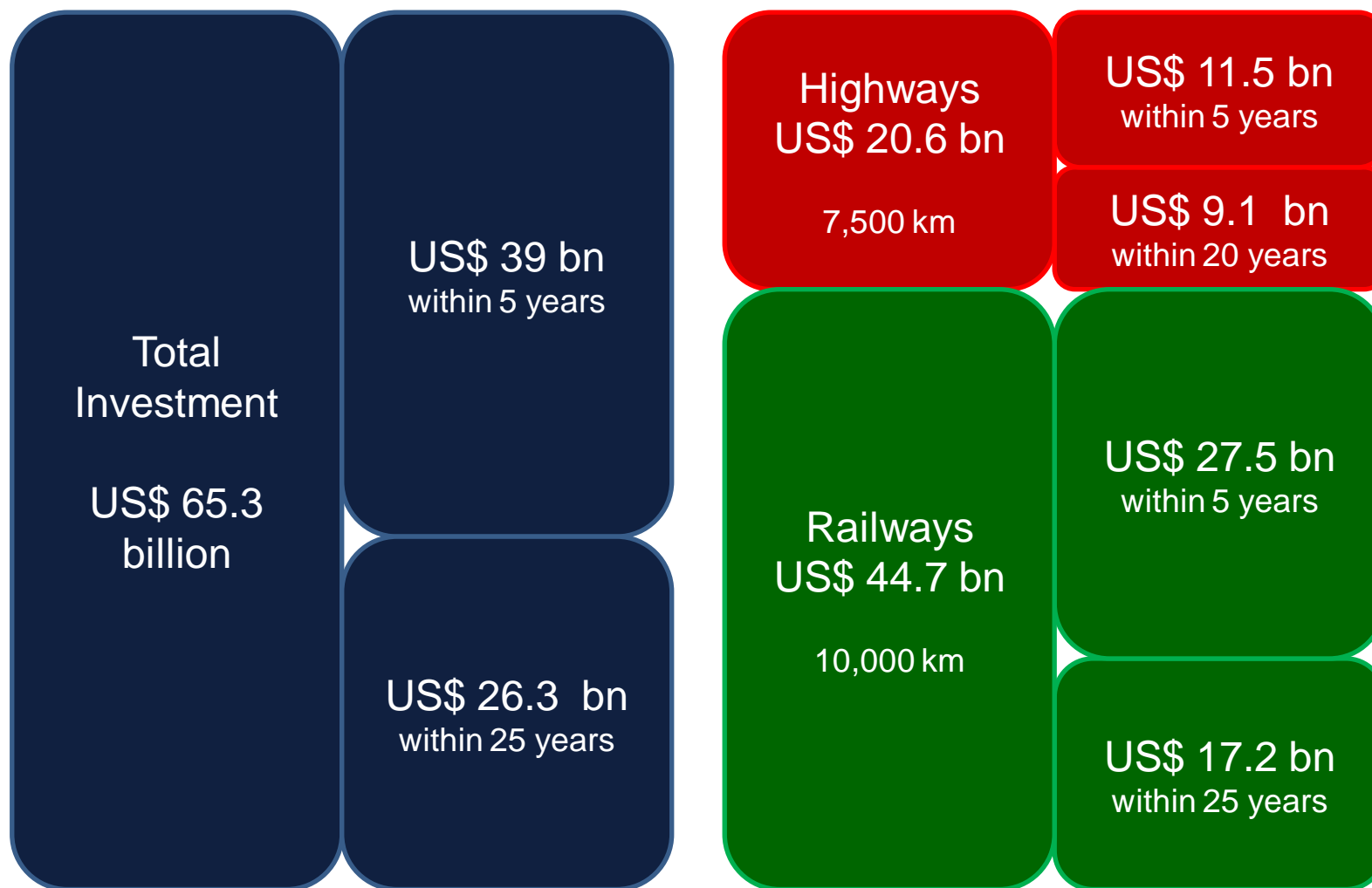
Reforms to Boost Growth

- Building a skilled labor force
 - “Science without frontiers” – 100 thousand scholarships for undergraduate and graduate studies abroad
 - *Pronatec* – expansion of professional and technological education, totaling 8 million trainees over four years
- Increased public and private investment in infrastructure
 - Concessions and public-private partnerships for highways and railways
 - Initiative for ports and airports to be announced (4 airport concessions already auctioned)

Major Infrastructure Investments Planned for 2012-2015



Logistics Investment Program

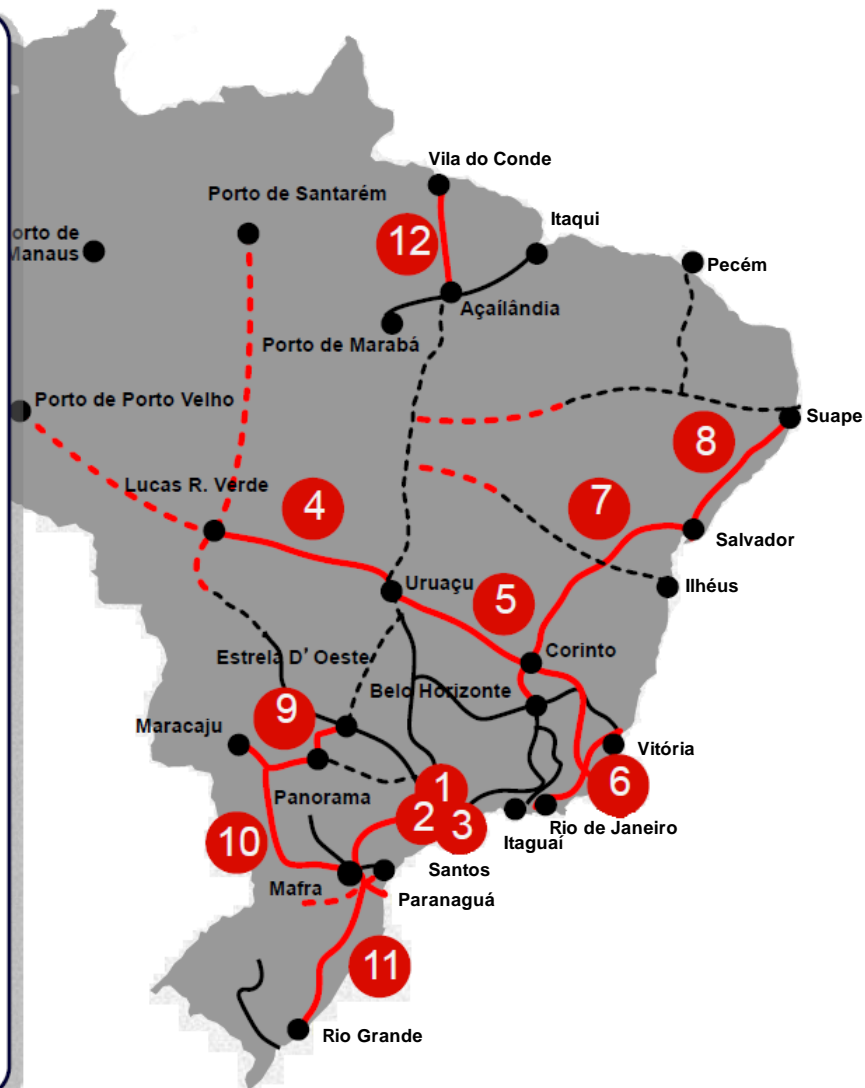


Exchange Rate on August 31st

Railways

Railways

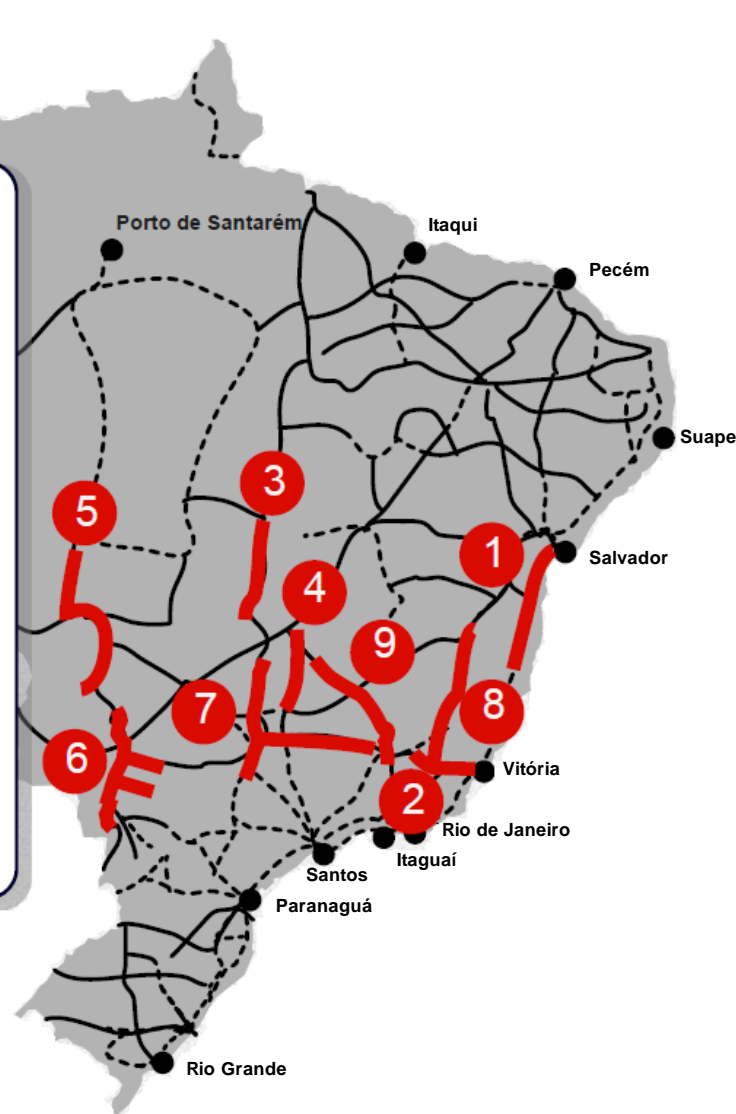
- 1 Circular Railway SP – Northbound
 - 2 Circular Railway SP – Southbound
 - 3 Access to the Port of Santos
 - 4 Lucas do Rio Verde – Uruaçu
 - 5 Uruaçu – Corinto – Campos
 - 6 Rio de Janeiro – Campos – Vitória
 - 7 Belo Horizonte – Salvador
 - 8 Salvador – Recife
 - 9 Estrela d'Oeste – Panorama – Maracaju
 - 10 Maracaju – Mafra
 - 11 São Paulo – Mafra – Rio Grande
 - 12 Açailândia – Vila do Conde
- - - - - New projects – Under evaluation
 - - - - - Under construction (PAC)
 - Current railway system



Highways

Highways

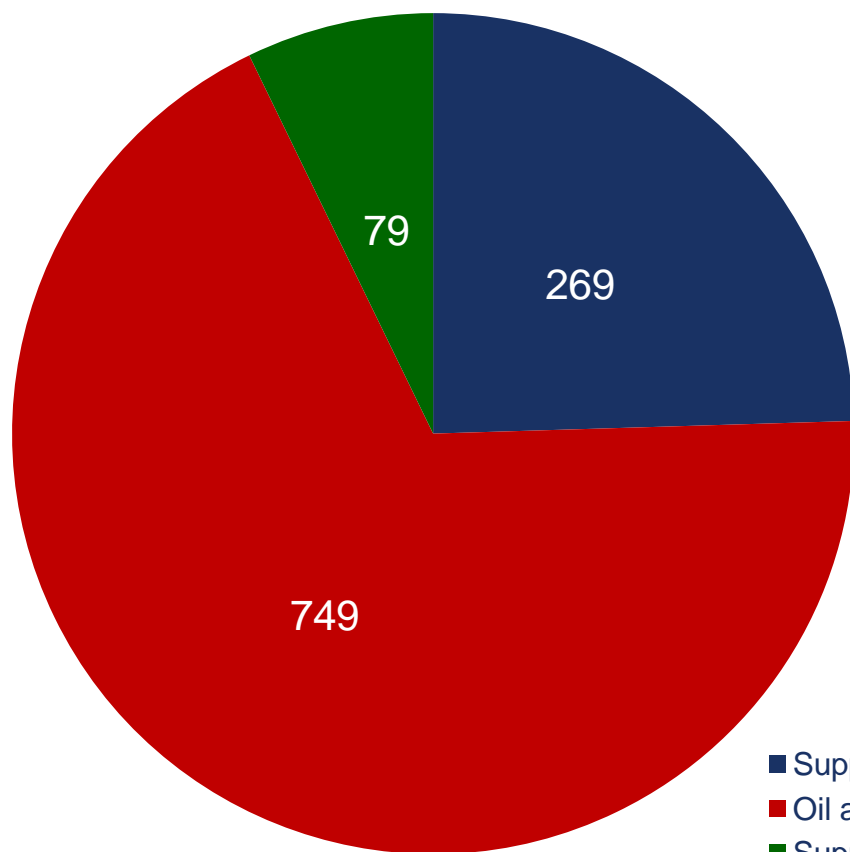
- | | | | |
|---|---------------------------------------|---|-------------------------------|
| 1 | BR-101 BA | 7 | BR-060 DF/GO, BR-153 GO/MG |
| 2 | BR-262 ES/MG | 8 | BR-262 MG |
| 3 | BR-153 TO/GO | 9 | BR-116 MG |
| 4 | BR-050 GO/MG | | BR-040 DF/GO/MG |
| 5 | BR-163 MT | | |
| 6 | BR-163 MS, BR-262 MS, BR-267 MS | | |
- Under construction (PAC)
— Current highway system



Energy Investment

Estimated Investment (2012-2021)

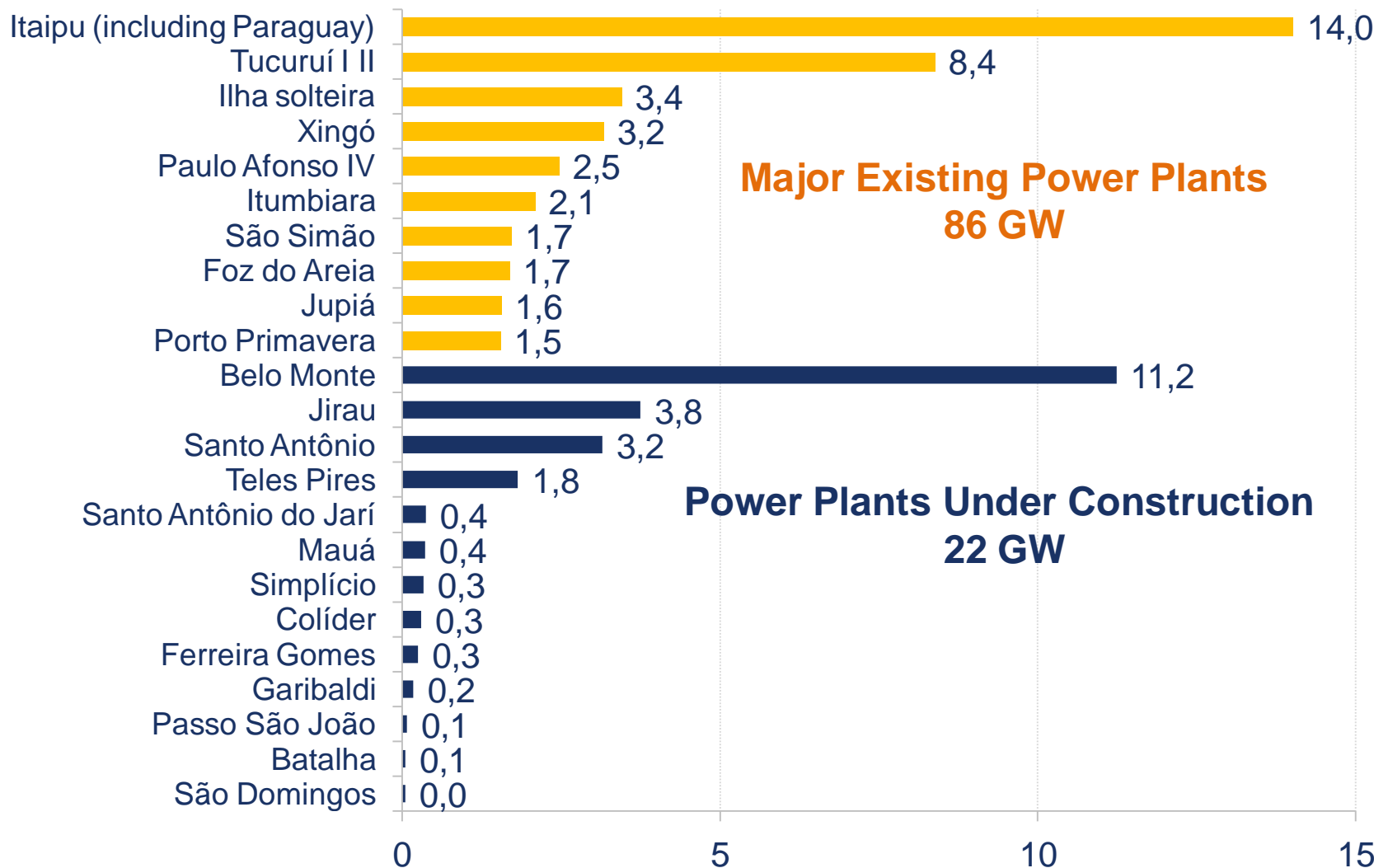
R\$ billion



| | R\$ billion 2012-2021 |
|---|--------------------------|
| Supply of electricity | 269 |
| Generation | 213 |
| Transmission | 56 |
| Oil and natural gas | 749 |
| Exploration and production of oil and natural gas | 547 |
| Supply of petroleum products | 198 |
| Refining | 174 |
| Transportation infrastructure | 24 |
| Supply of natural gas | 4 |
| Supply of liquid biofuels | 79 |
| Ethanol (production plants) | 71 |
| Ethanol (pipeline and port infrastructure) | 7 |
| Biodiesel (production plants) | 1 |
| Total | 1097 |

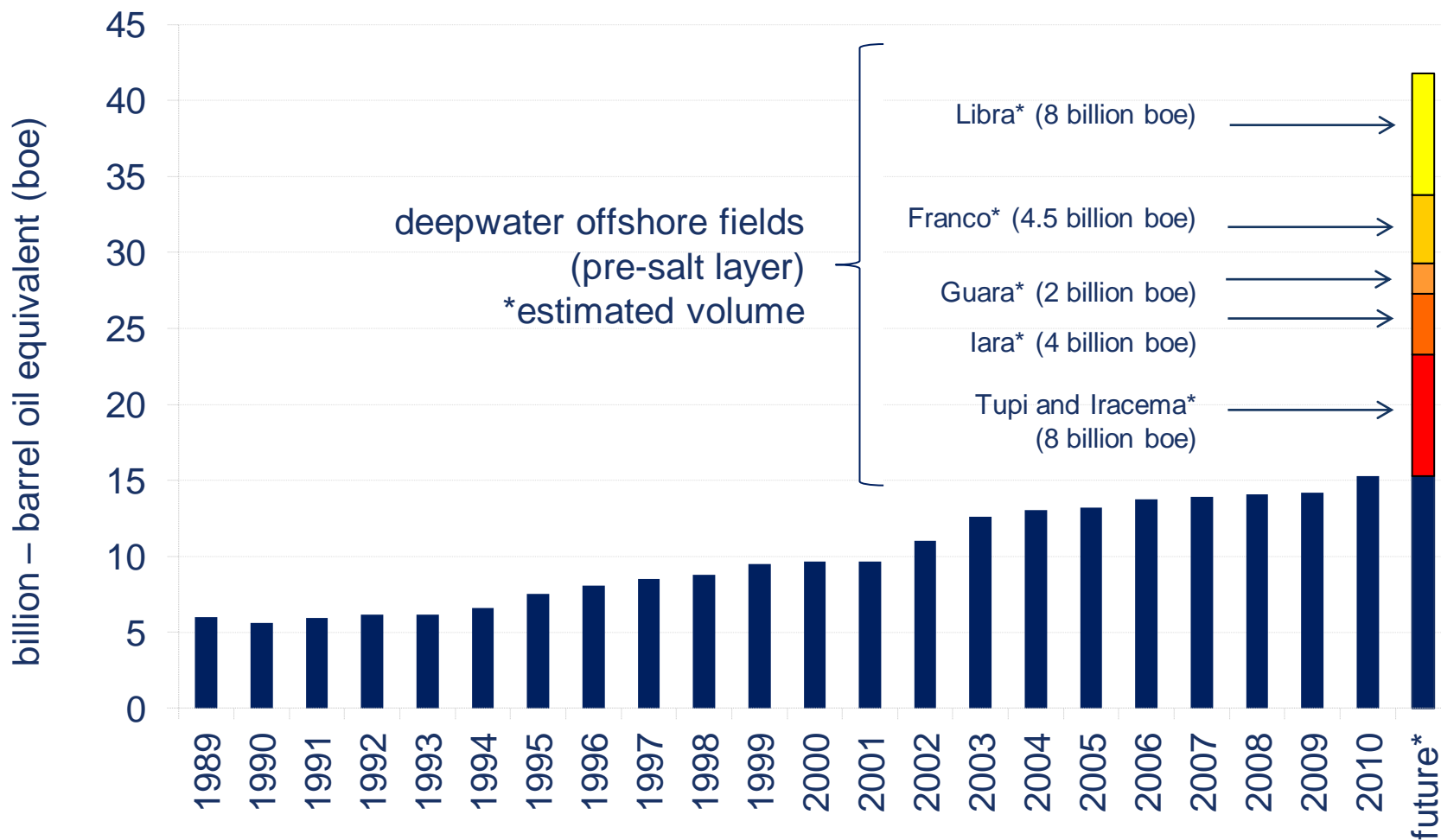
Major Hydroelectric Plants under Construction

Potency (GW)



Oil Reserves Set to Grow

crude oil, LNG and natural gas



Final remarks

- **Macroeconomic stability**

- Inflation under control
- Declining net public debt (long term trend)
- Low external vulnerability – net external creditor

⇒ Growth is accelerating

- **Financial stability**

- Financial sector is well capitalized, liquid and provisioned
- Room for credit growth

- **Expansion of the middle class (consumer class)**

- **Multiple investments opportunities**



Brazil Economic Overview

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Governor