

# Brazil's Opportunities for Investment

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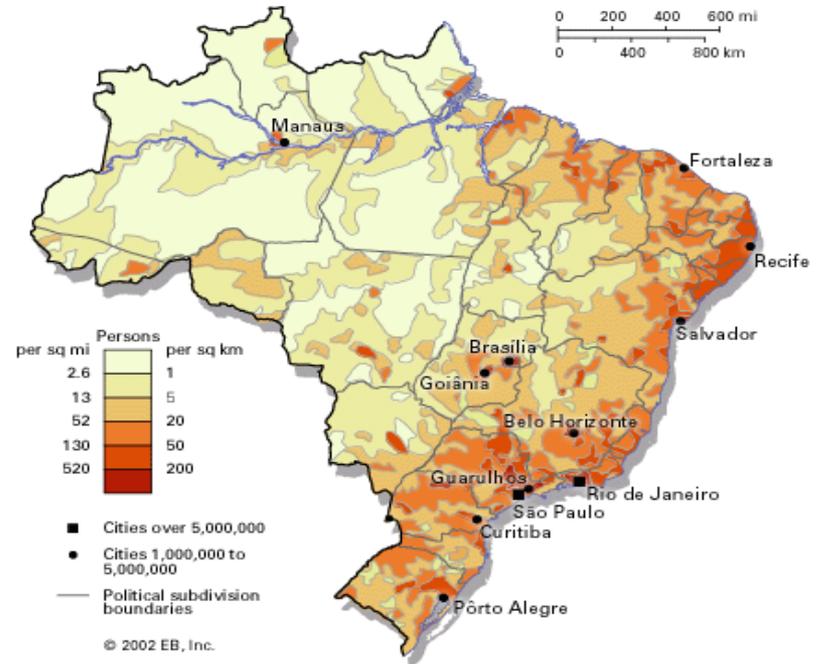
Bilateral Annual Meeting  
Conselho Empresarial Brasil-China (CEBC)  
Brasília – July 17, 2014

# Summary: Good Reasons to Invest in Brazil

- 1. Large and diversified economy**, potential to be used as a regional hub for production and exports
- 2. Strong fundamentals** capable of ensuring macroeconomic and financial stability
- 3. Sustainable development model aiming at increasing social and financial inclusion**; meeting environmental standards; fostering more investment (infrastructure)
- 4. Capacity to react timely and respond to shocks and challenges**; demonstrated resilience to crisis using textbook macro policies, domestic and external buffers
- 5. Pragmatism**: neither excessive optimism nor pessimism; awareness of potential for higher TFP, “Low Hanging Fruits”

# A Large and Diversified Economy

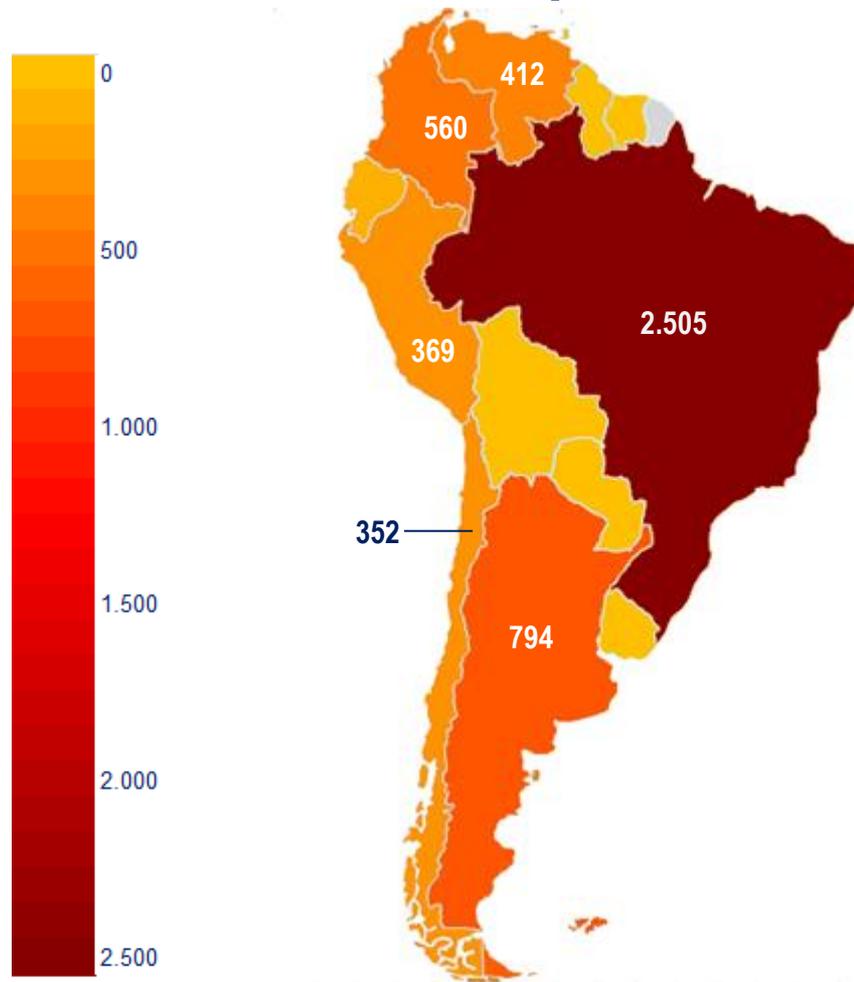
- One of the largest countries in terms of territory, population and GDP
  - 7th largest GDP: US\$ 2,243 billion (2013)
  - Continental country: 5th largest area 8,515,767 km<sup>2</sup>
  - 5th largest population: 201 million people (2013)
- Vast natural resources, including recently discovered large offshore oil fields
- Diversified industrial base, dynamic and sophisticated private sector, and well-structured public sector
- Strong institutions, social inclusion and democracy with stable political system



- Brazil has good relations with all its neighbors and has increased its ties with all regions of the world

# Brazil is Well Positioned in South America

## South America GDP (PPP, USD bi, 2014)

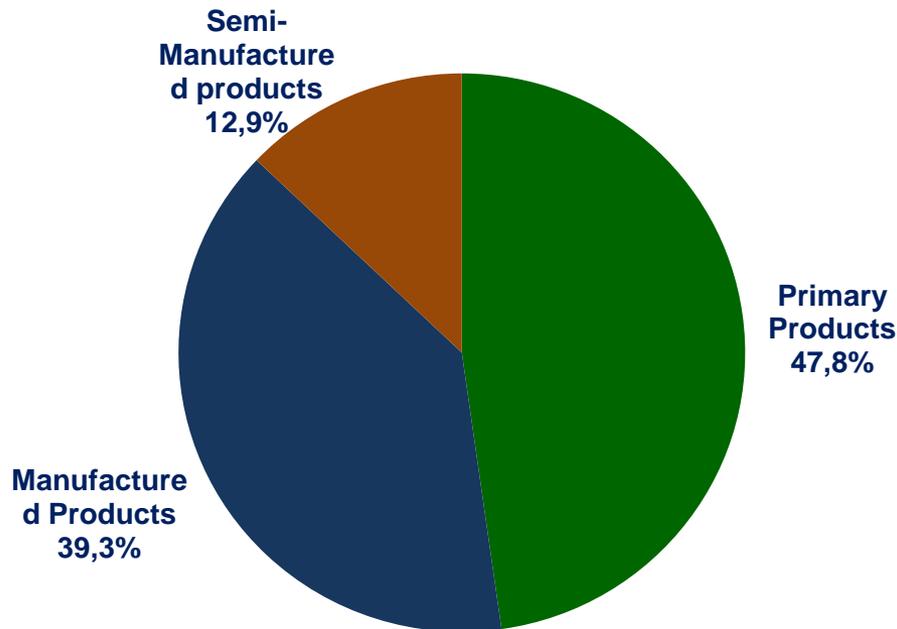


**Total GDP  
US\$5.3 trillion**

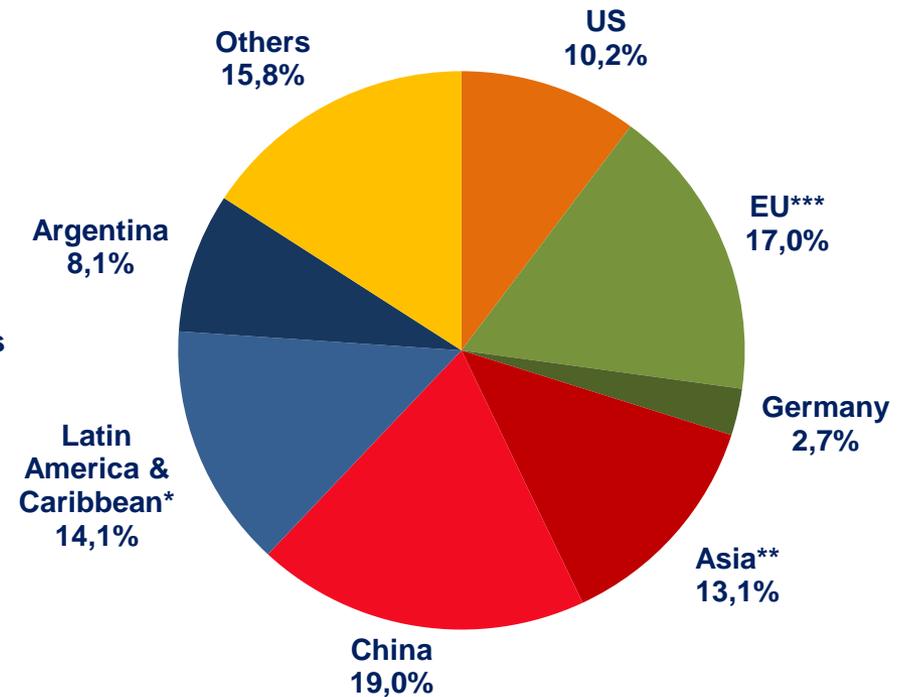
# Brazilian Exports are Very Well Diversified

## Exports in 2013

### Composition



### Destination



\* excluded Argentina

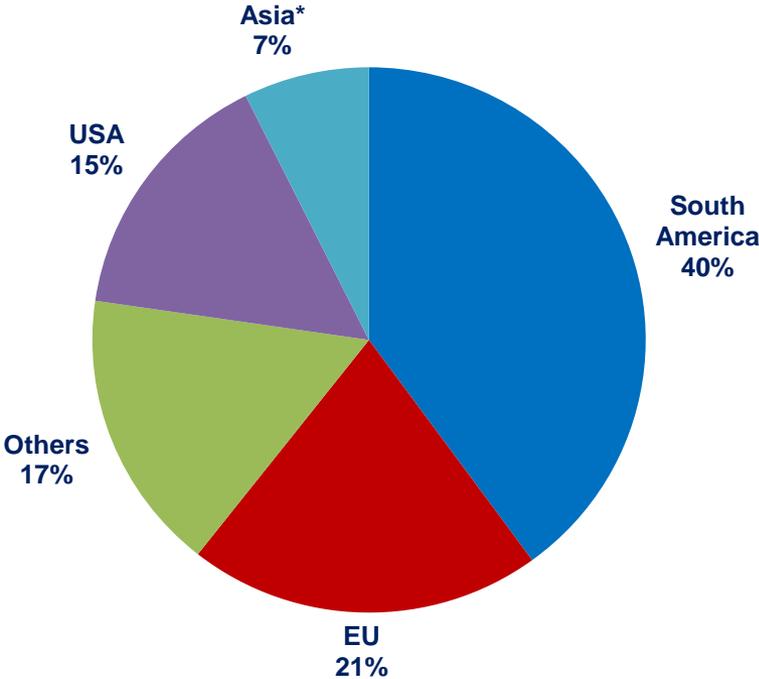
\*\* excluded China and Middle East

\*\*\* excluded Germany

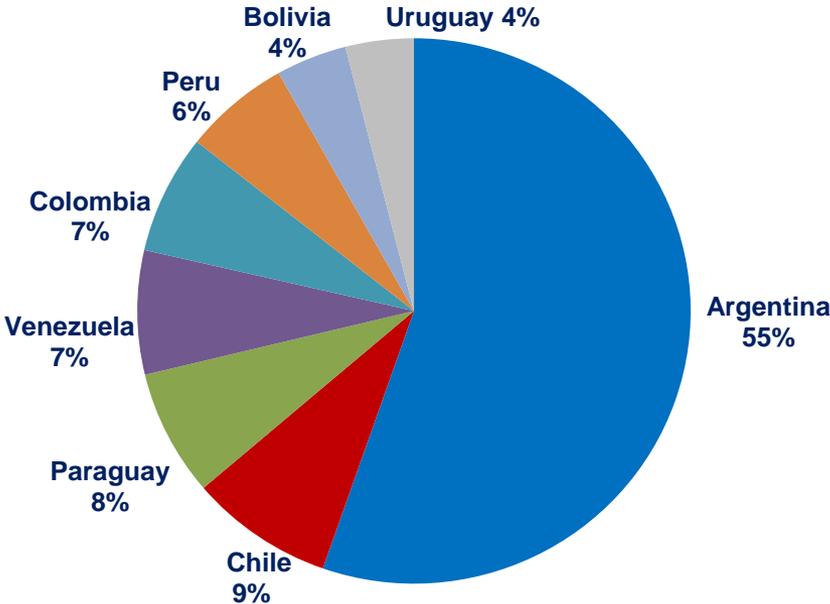
# South America is a Key Market for Manufacturing Goods

## Manufacturing Exports in 2013 US\$85,1 billion

### Regional Destination

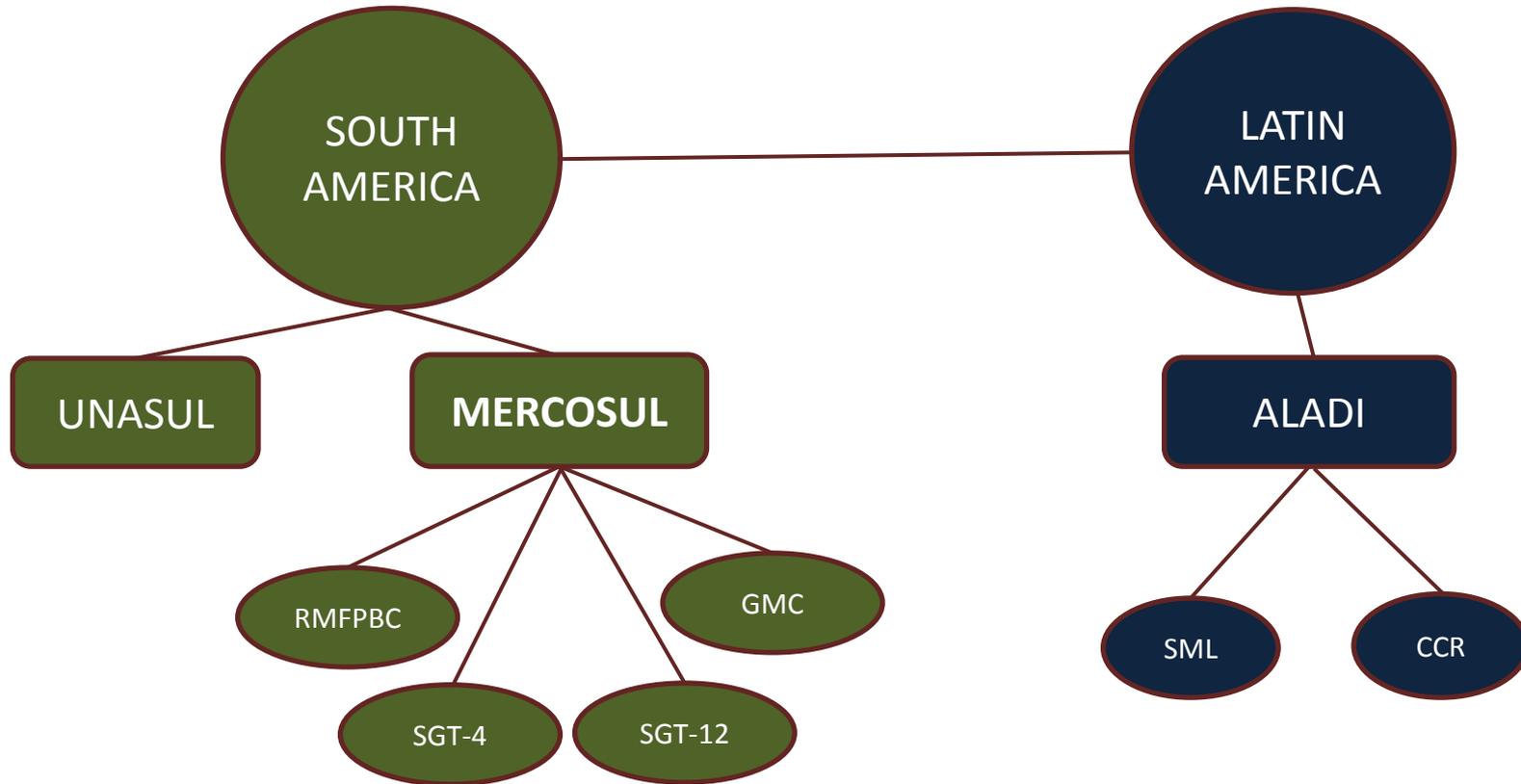


### Country Destination within South America



\*excluded Middle East

# Organizations and Forums Enhance Regional Integration



# Brazil Has Firms as Global Players



- Largest brewer in Latin America. One of the largest beer producers in the world



- World leader in meat production. World's largest exporter of animal protein



- Third largest manufacturer of commercial jets in the world



- Largest long steel producer in the Americas and the second largest in the world



- Operates in 23 countries (engineering, construction, infrastructure, energy, industry)



- The only steel sheet producer in Brazil and the world 5<sup>th</sup> larger producer



- Largest world producer of iron ore and second largest of nickel



- Largest producer of thermoplastic resins in the Americas



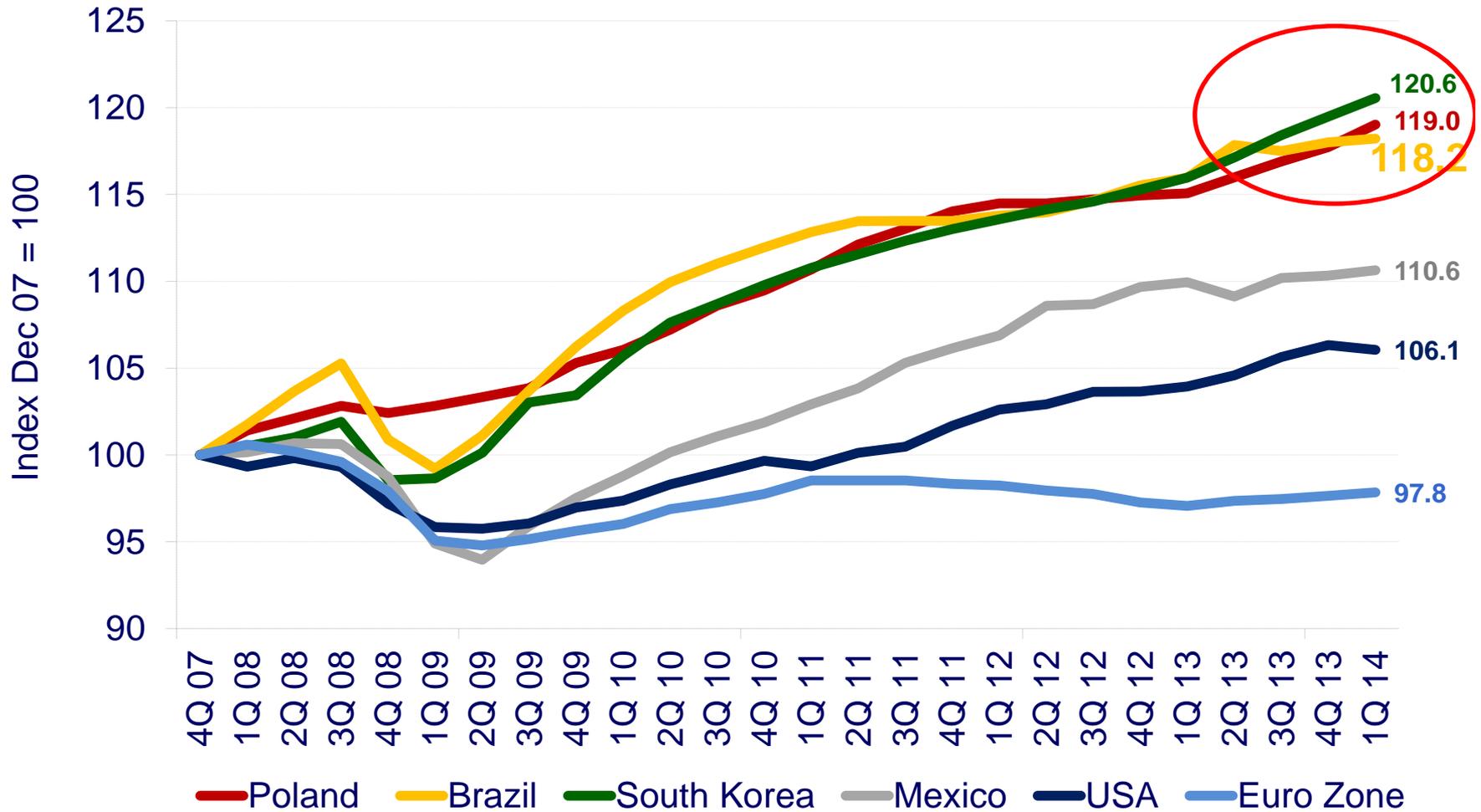
- One of the 10 largest food companies in the world, exports to 140 countries

# Brazil's Strong Macroeconomic Fundamentals

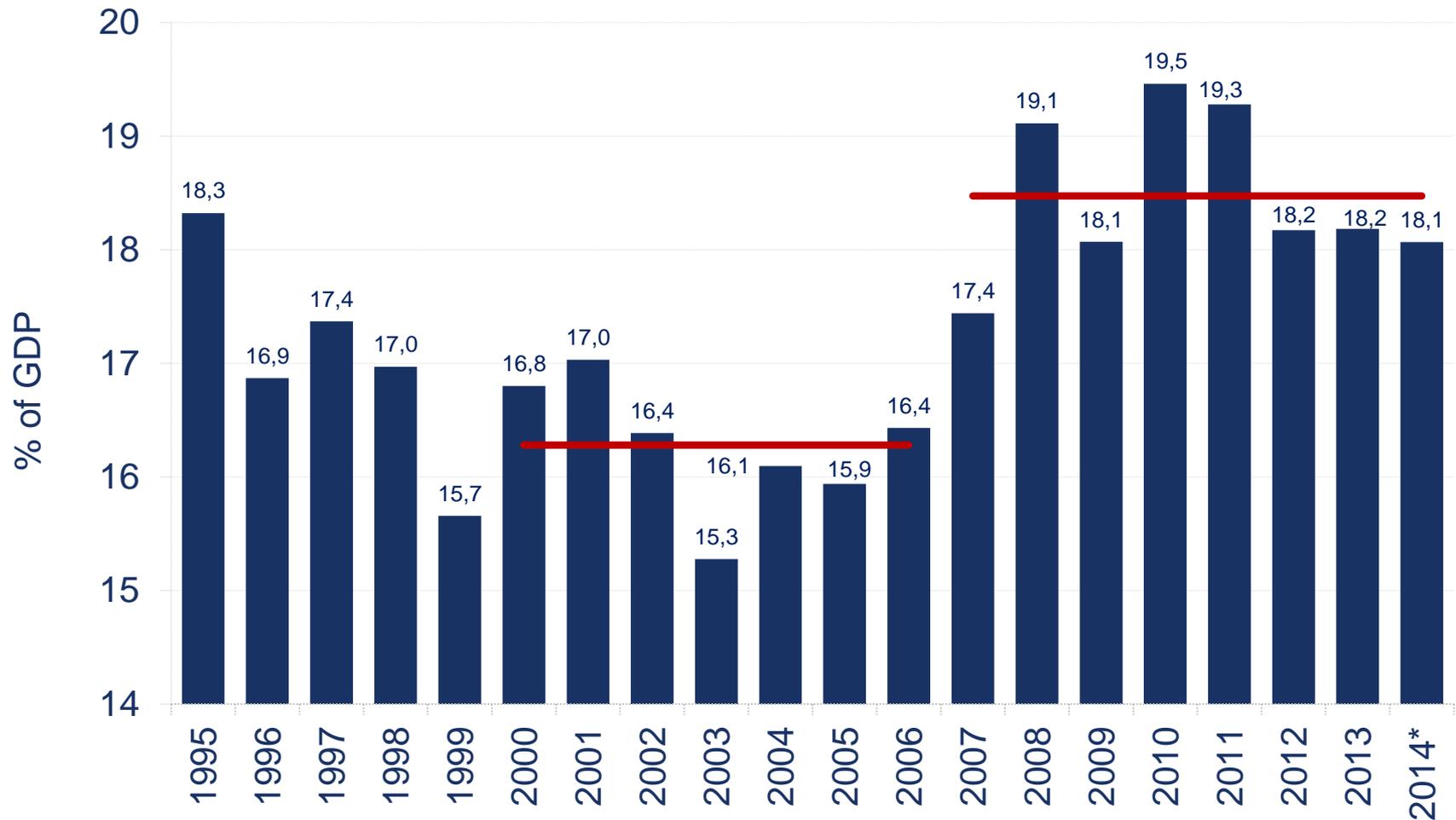
- Main features of the macroeconomic policy framework:
  - Inflation targeting
  - Fiscal responsibility
  - Exchange rate flexibility
- The macroeconomic fundamentals, combined with adequate prudential policy and strong bank supervision, resulted in:
  - Capacity to absorb internal and external shocks
  - Macroeconomic and financial stability
  - Sustainable growth
  - Credit and capital market development
  - Social and financial inclusion

# Brazil's Economy Weathered Well the Global Crisis

## Cumulative Real GDP Growth

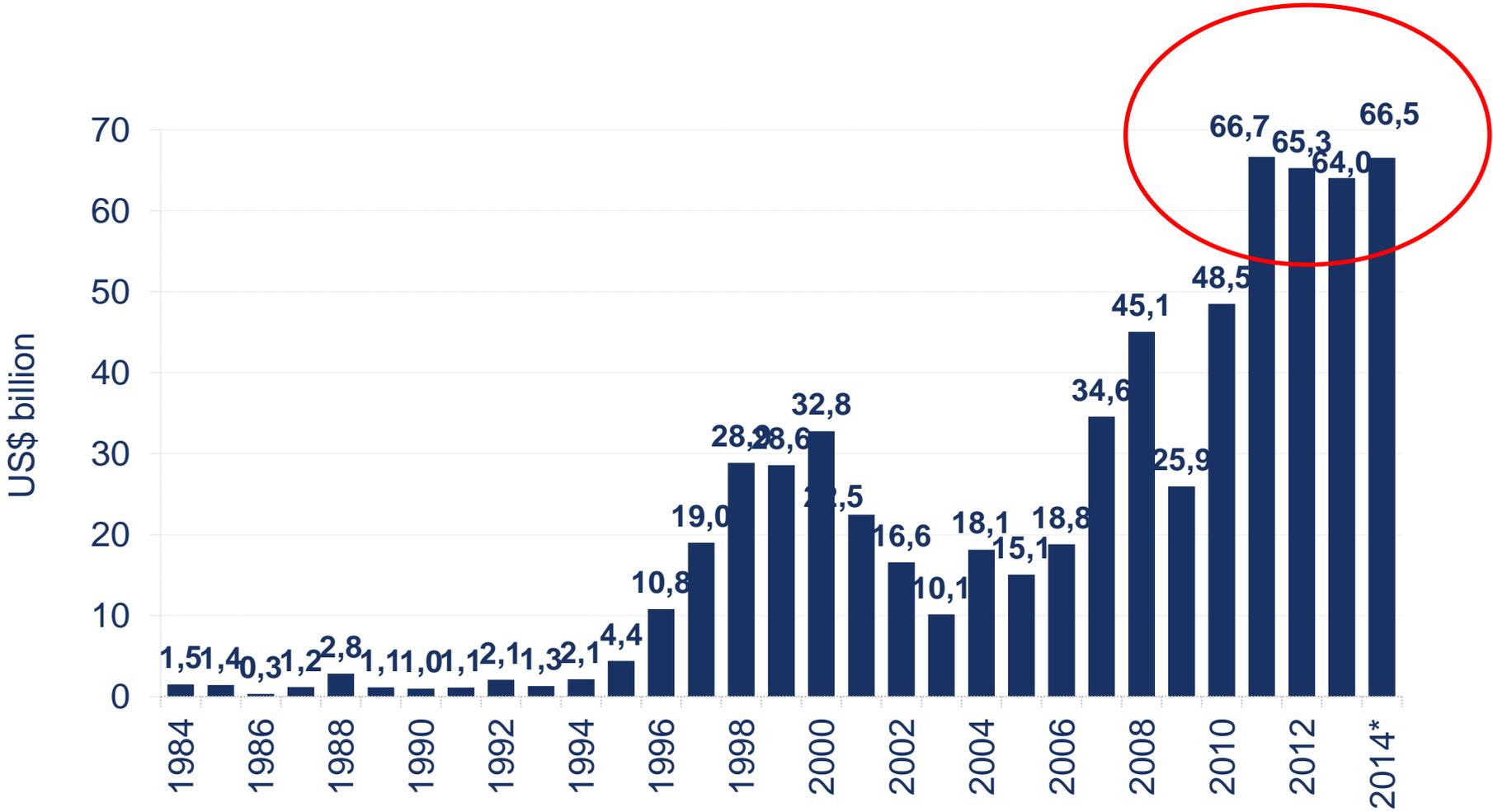


# Brazil's Investment Ratio at New Level



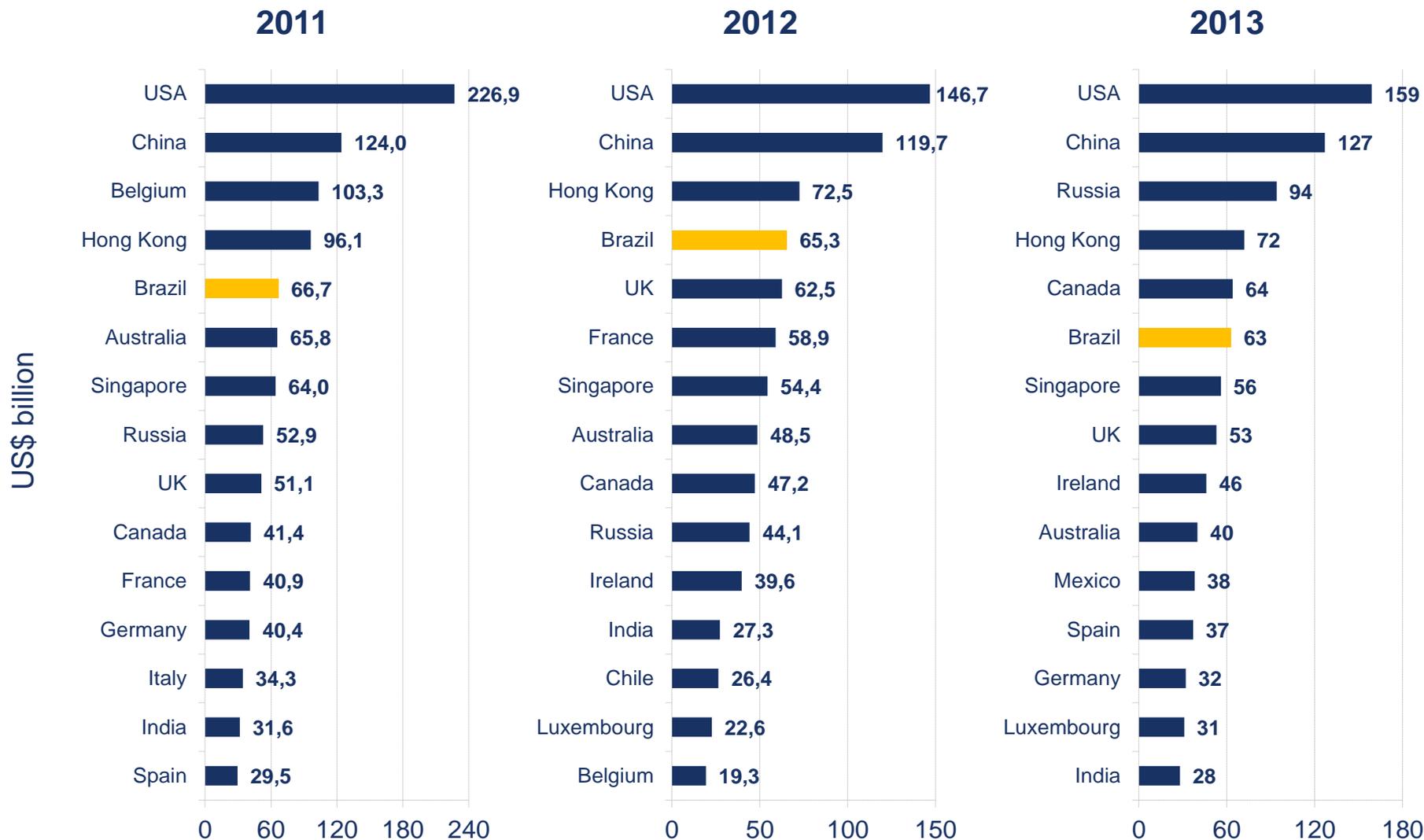
\*1Q 2014 (12 months)

# FDI into Brazil is Strong and Remained Stable



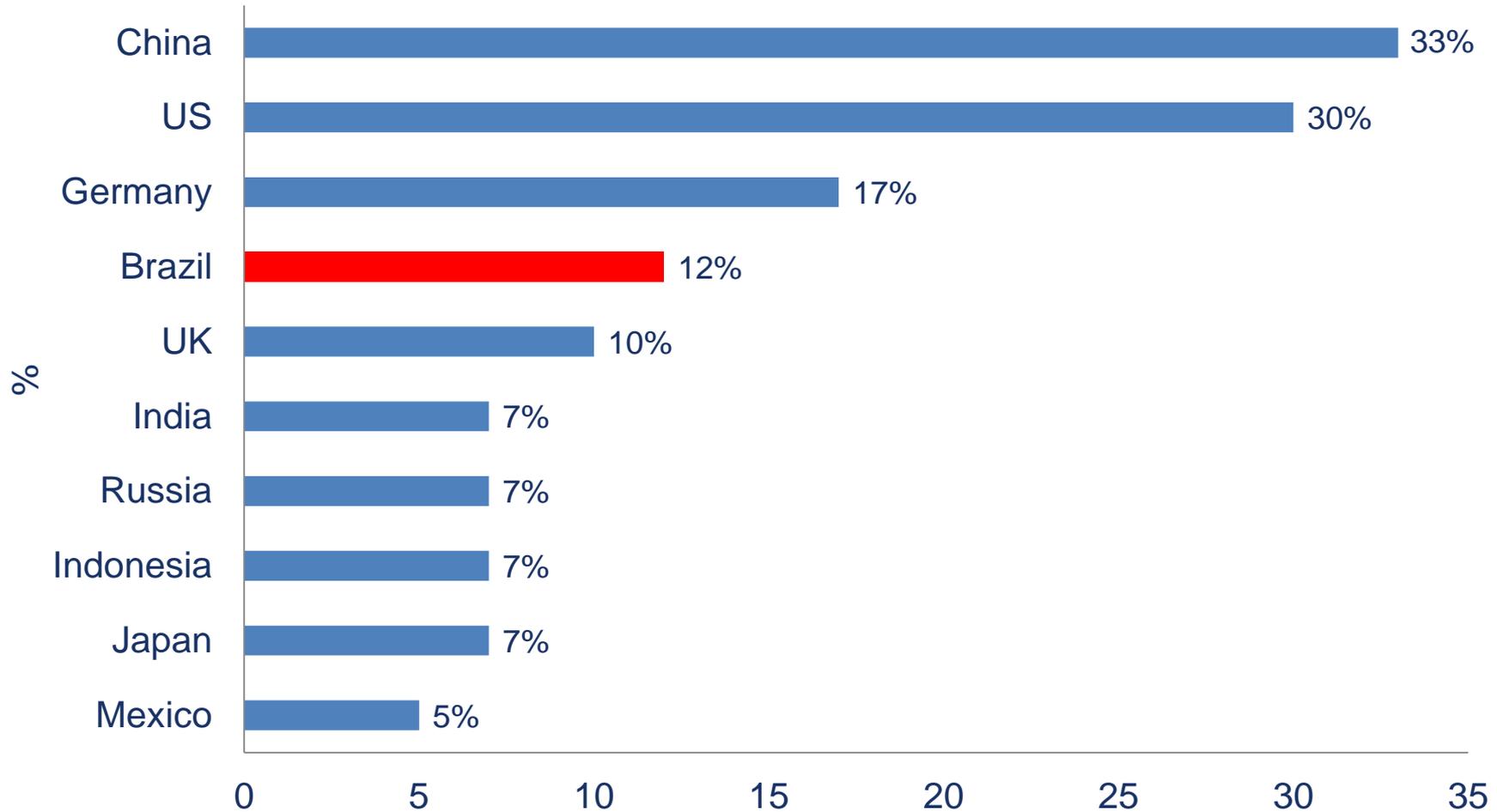
\*May 14 (12 months)

# Brazil is One of the Leading Recipients of FDI



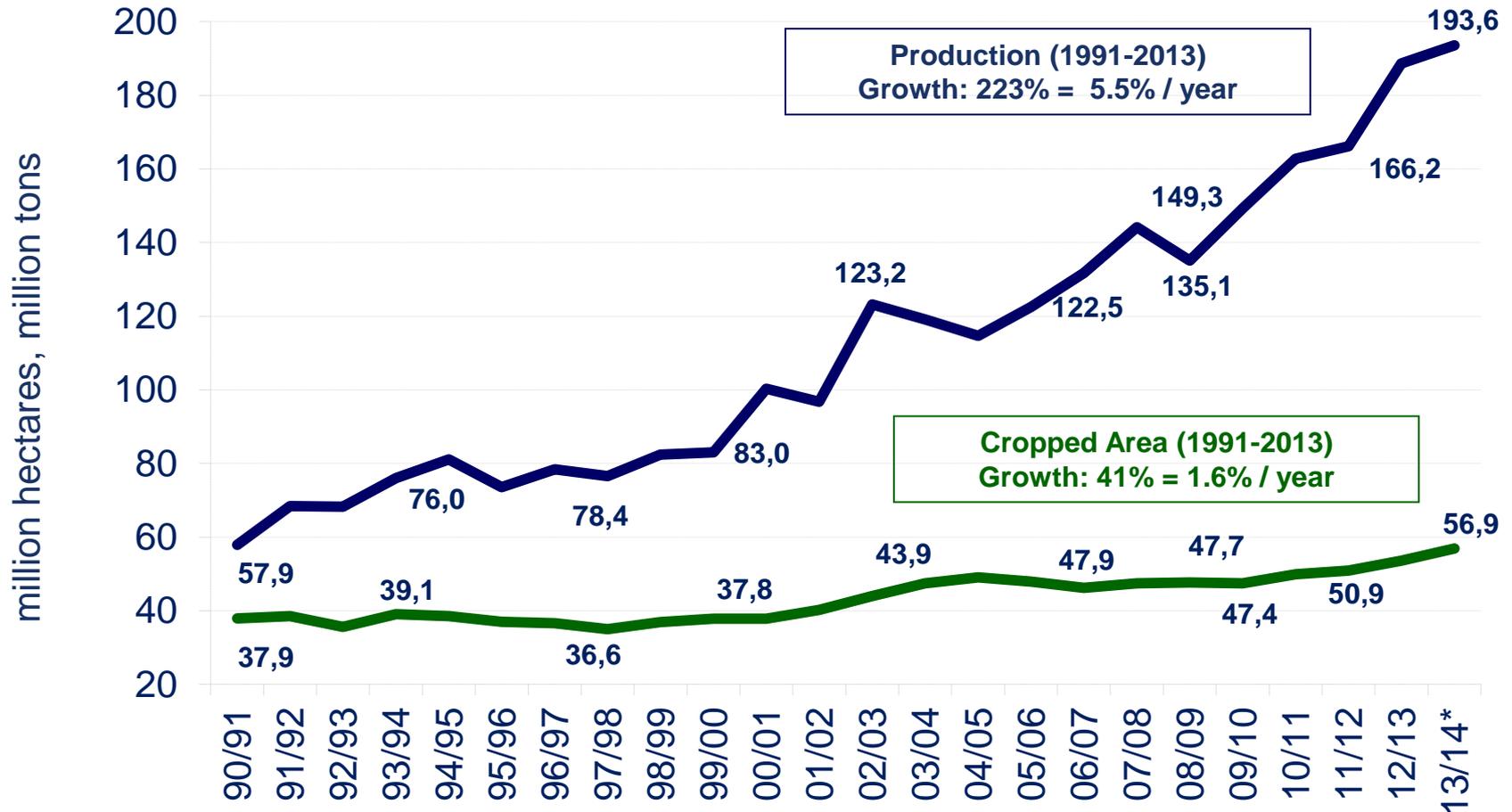
# Global CEO Survey 2014: Brazil is a Key Country

Which 3 countries, excluding the country in which the CEO is based, do they consider most important for their overall growth prospects over the next 12 months? \*



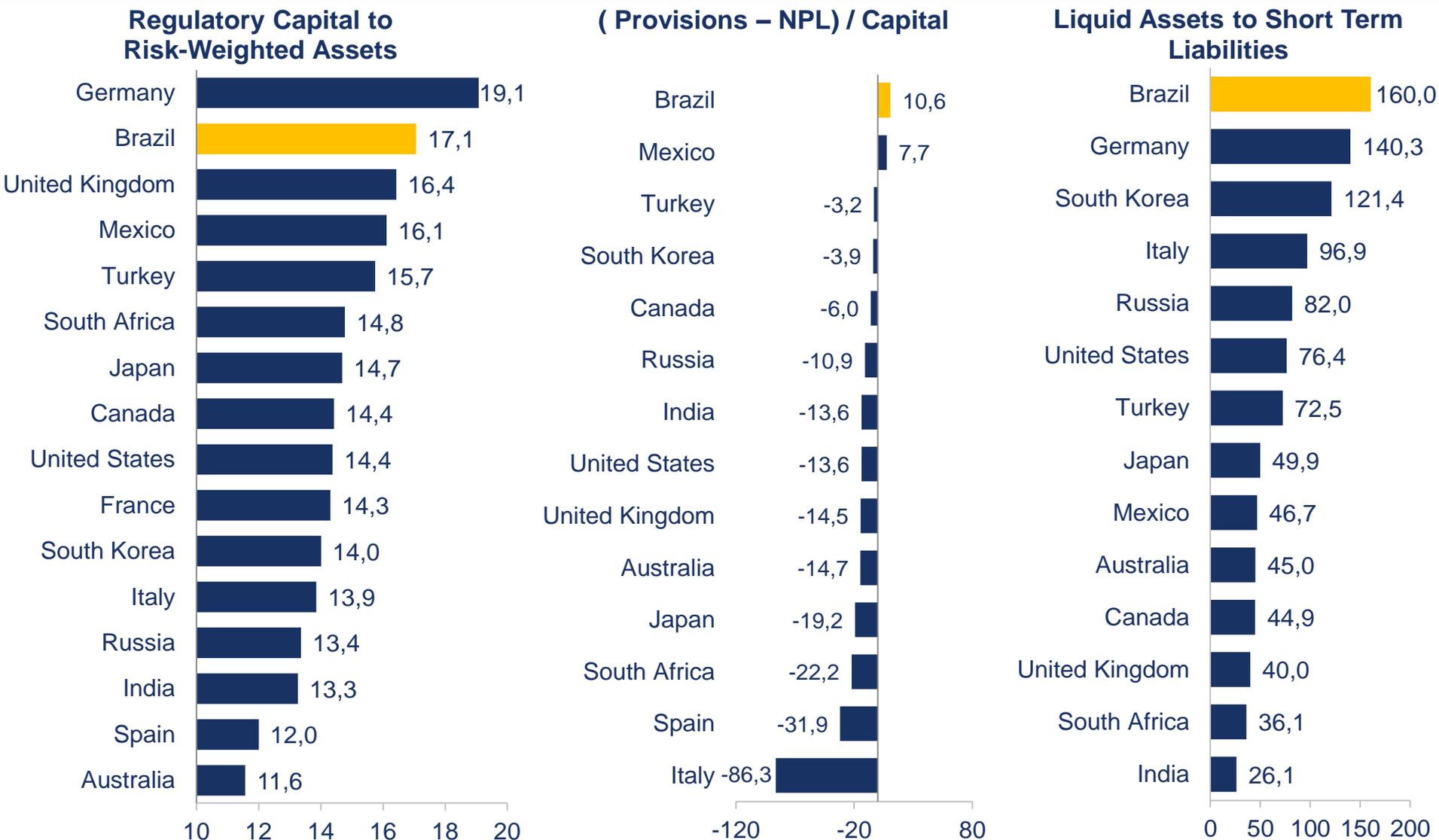
# Brazil's Agricultural Performance is Remarkable

## Grains: Production and Cropped Area



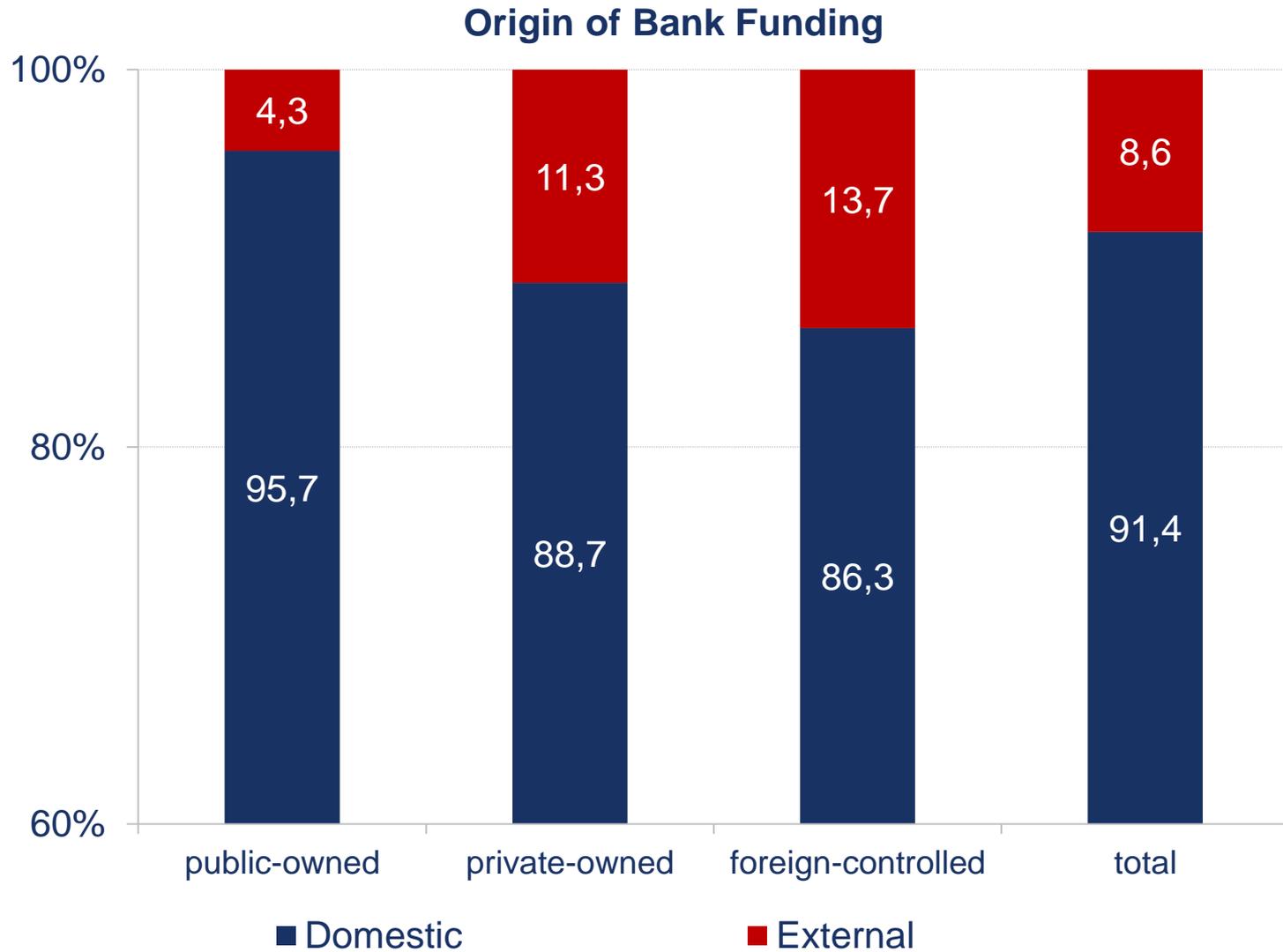
\*estimate in June

# Brazil's Financial System is Sound...



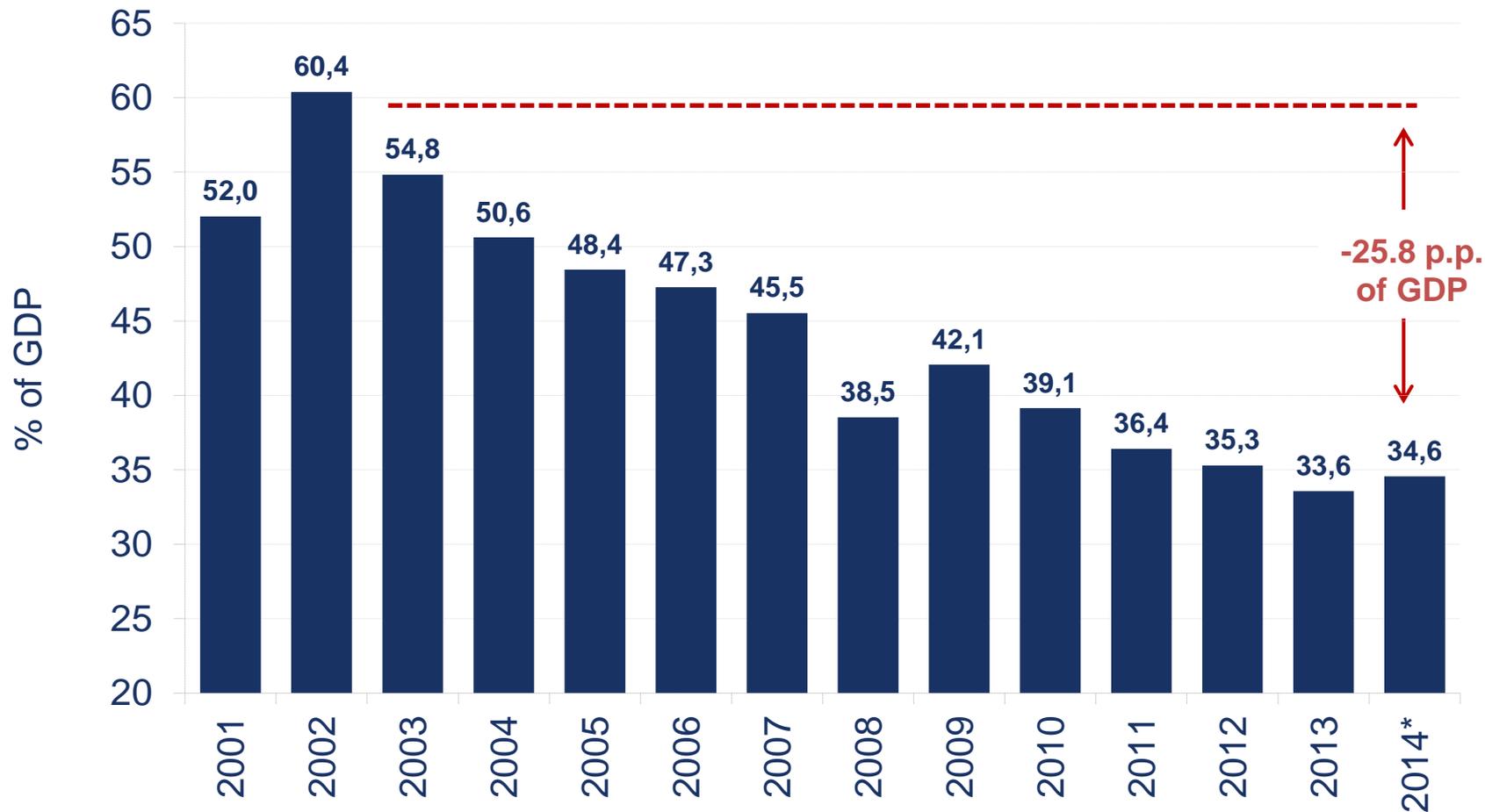
Source: IMF (FSI – latest available data)

# Brazil's Banks Not Dependent on External Funding



Mar 14

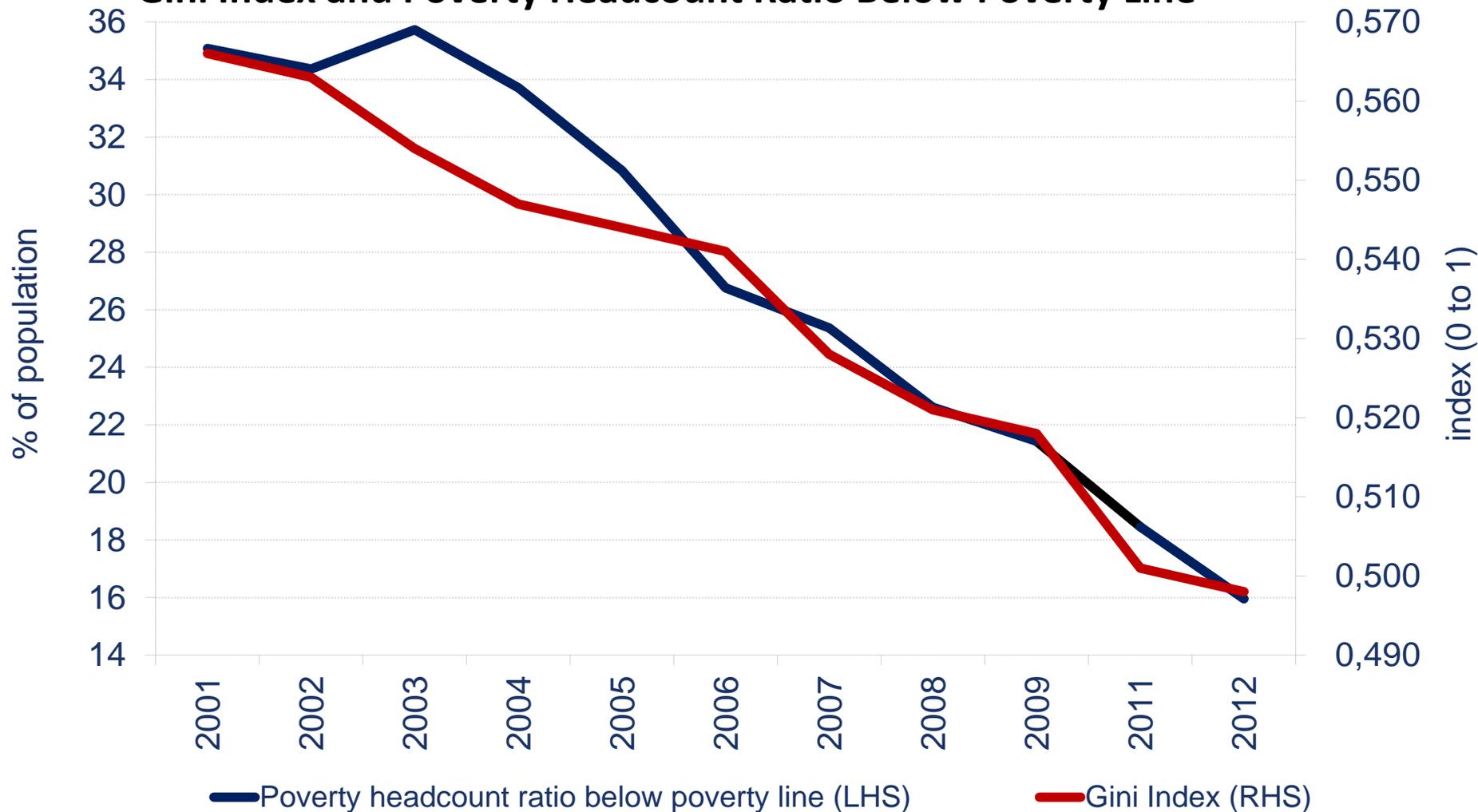
# Brazil's Net Public Debt Falling Despite the Crisis



\*May 14

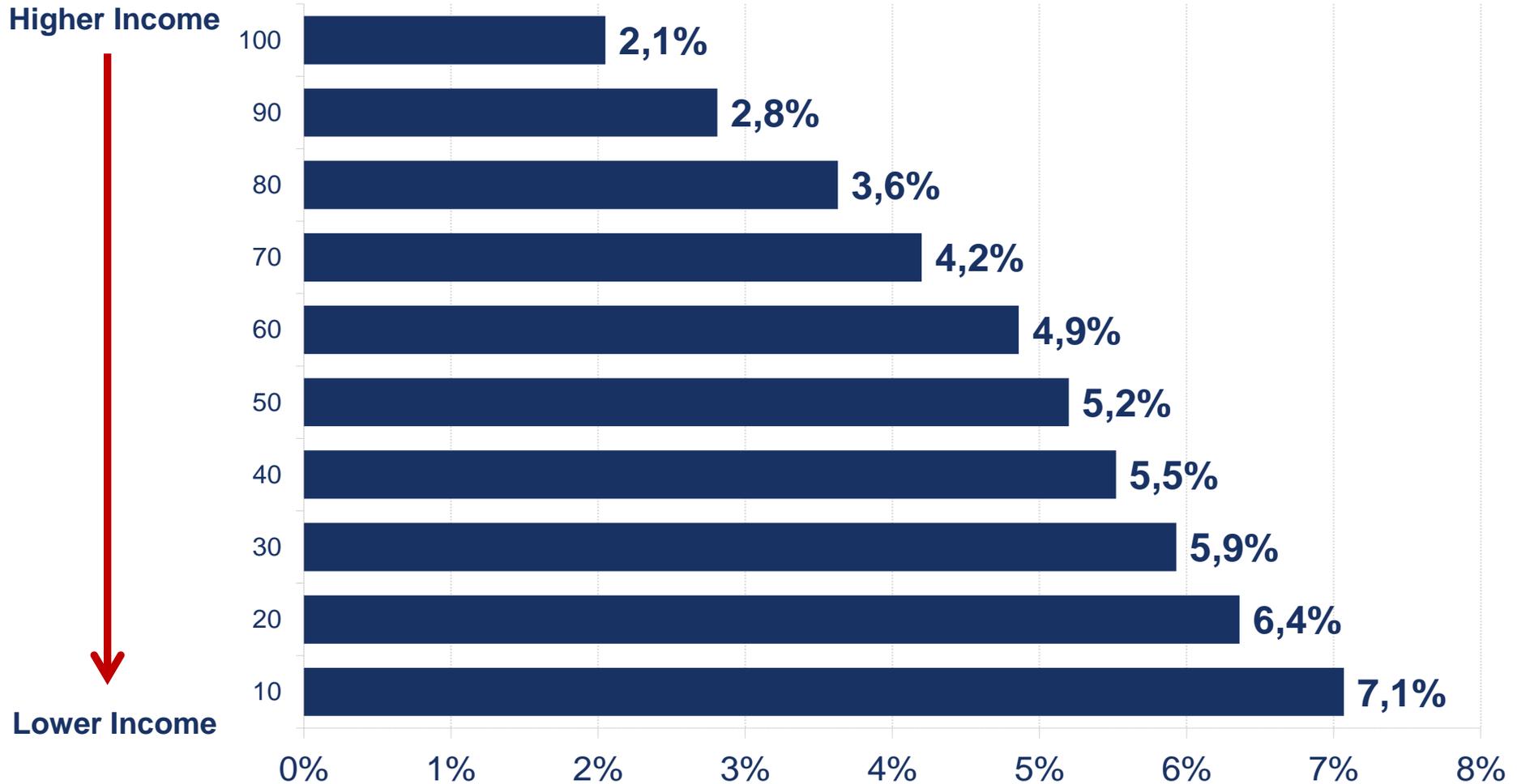
# Income Inequality, Poverty Have Declined in Brazil

## Gini Index and Poverty Headcount Ratio Below Poverty Line



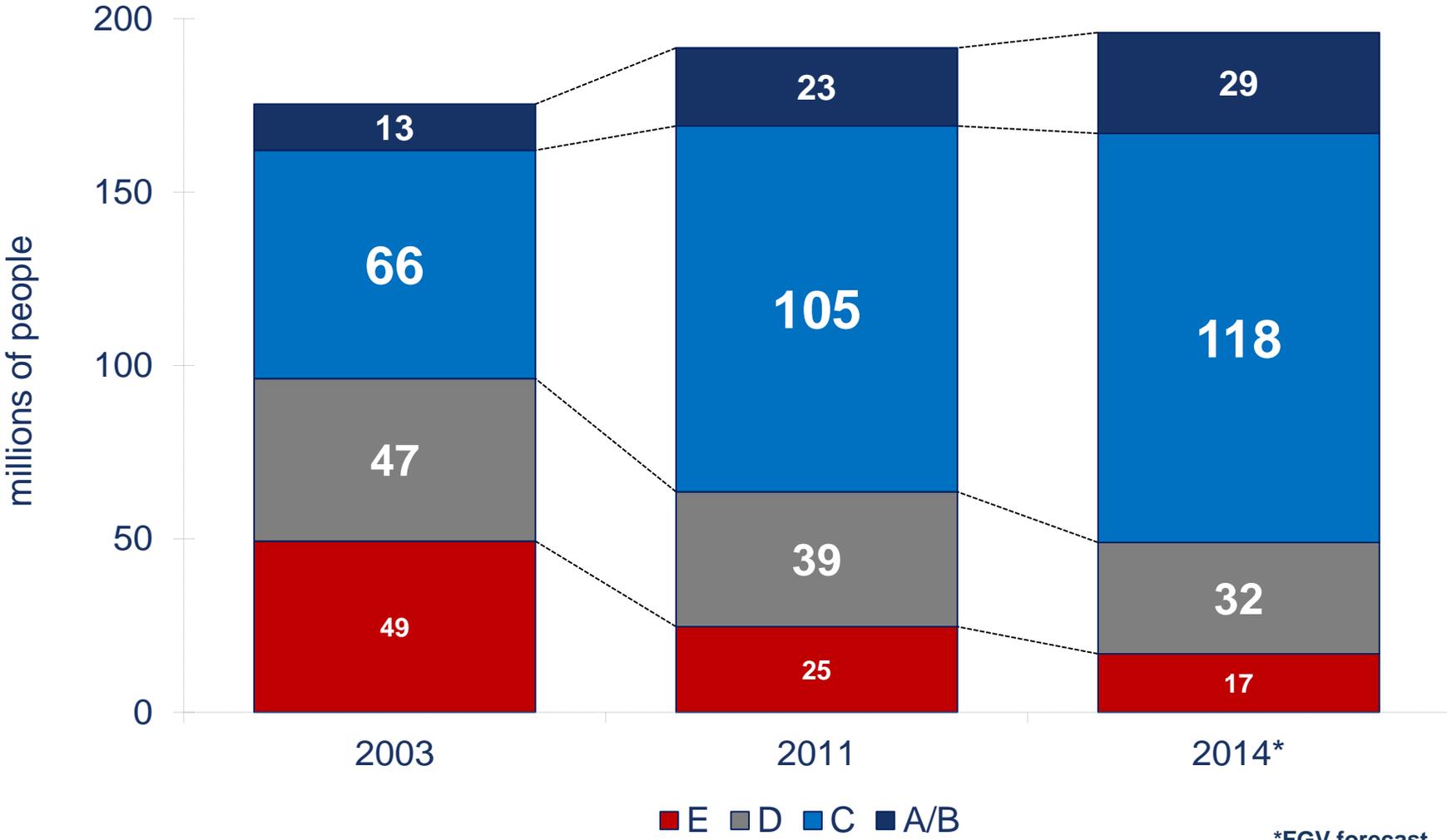
# Redistributive Growth Across Income Brackets

Per Capita Income Growth (Per Percentile)  
annual average 2001-2012



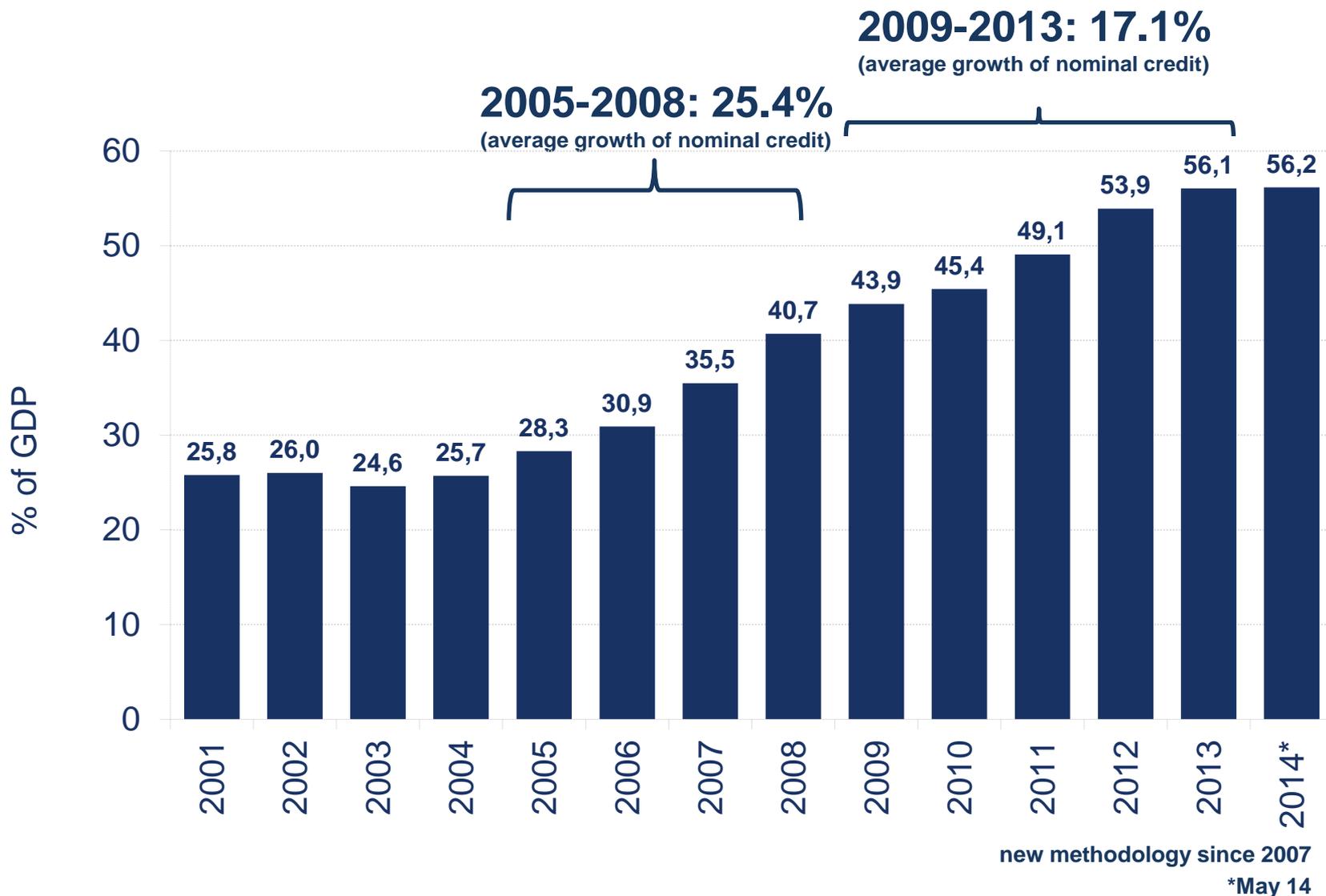
# Resulting Social Mobility: New Middle Class

Social Classes



\*FGV forecast

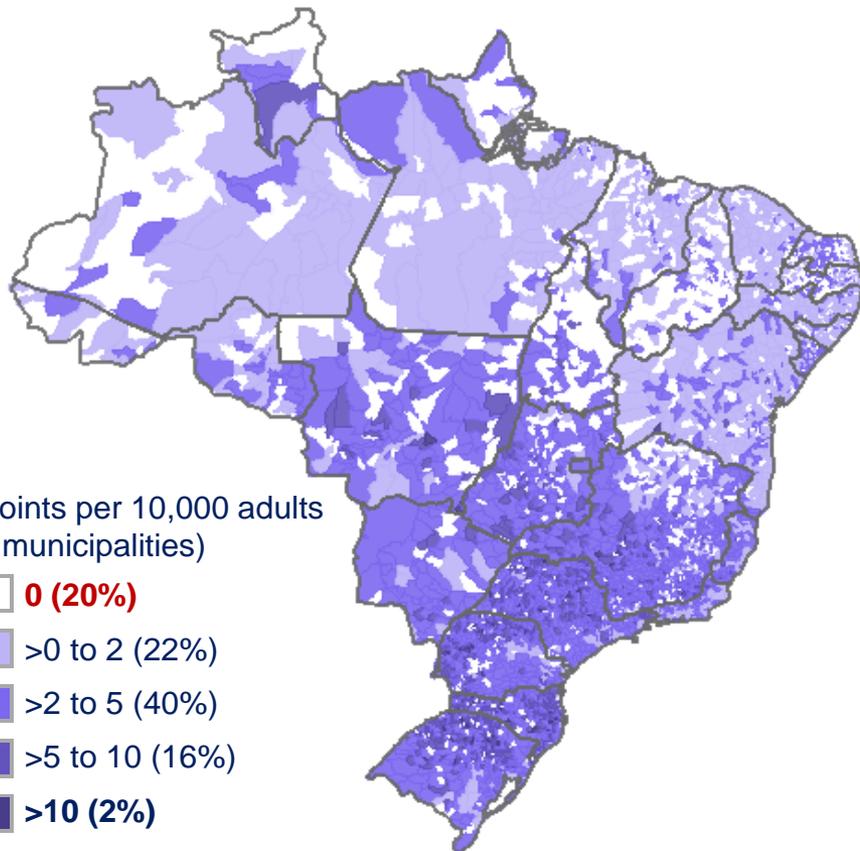
# Brazil's Growth of Credit / GDP ratio



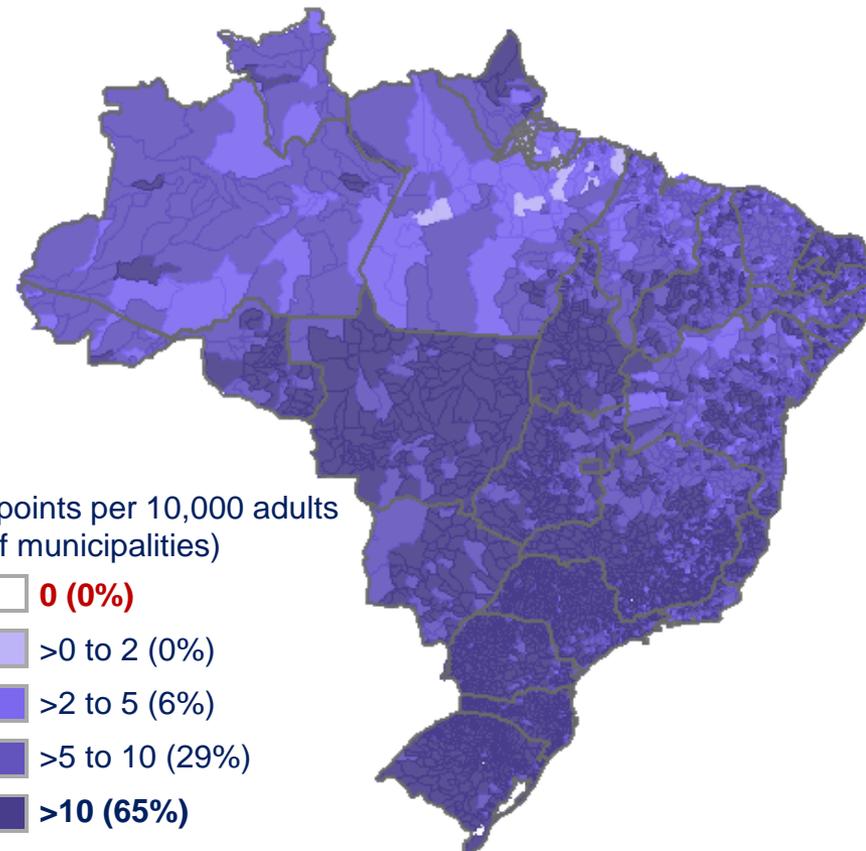
# Access to Financial Services

Geographic Coverage Increased: 82% of municipalities had less than 5 points per 10,000 adults in 2000; in 2010, 94% were above this level.

2000



2010

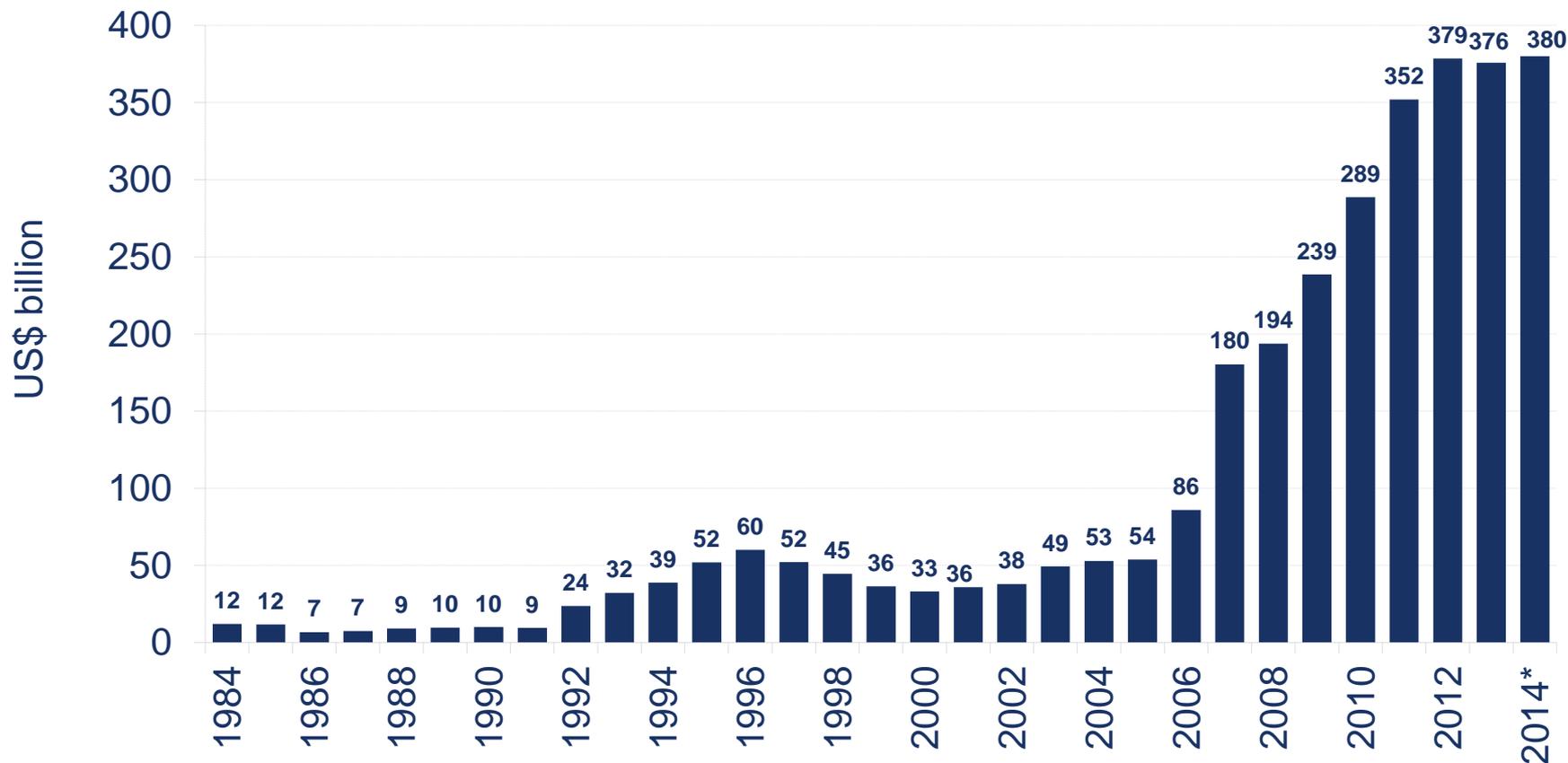


Bank branches, bank advanced outposts (PAA), credit cooperatives (headquarters and outposts) and correspondents

# Brazil Eco. Policy Timely Reactions to QE, Tapering

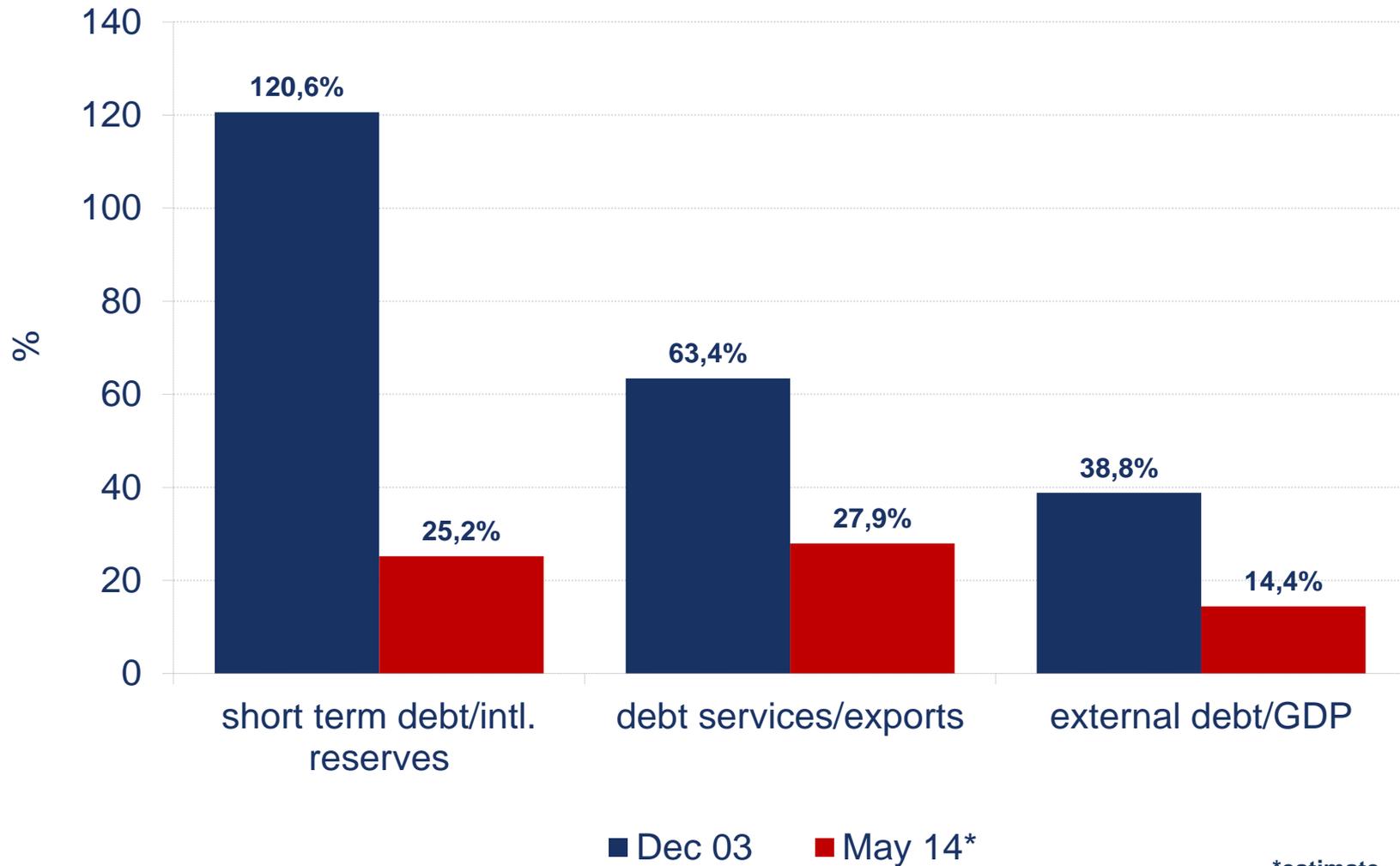
- After the GFC and UMP, we knew that there will be ups and downs in market sentiment so we prepared ourselves keeping textbook macro policies
  - Flex ER as 1<sup>st</sup> line of defense; accumulated sizeable reserves
  - adopting preventive measures during upswing (MaPs for tightening excessive credit growth);
  - keeping strong capital, provisions & liquidity in our financial system; and cautious reliance on external sources of funding
- Ahead of curve, we took early and sizeable action on monetary policy to address inflation pressure
- Implemented successful FX auctions program to provide FX hedge to investors, firms, and liquidity to the market in a predictable manner

# Brazil's International Reserves Worked as a Buffer



as of Jul 3<sup>rd</sup>

# Brazil's Low External Debt Ratios



\*estimate

# Brazil's Development Strategy is Clear

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- More investment & capital, physical (infrastructure) and human (education) to complement strong base of domestic consumption
- Foster more productivity gains (TFP) & externalities
- Brazil has “low hanging fruits”, i.e. well-identified infrastructure projects with high return and relatively low financing cost

# Investment in Infrastructure is Key

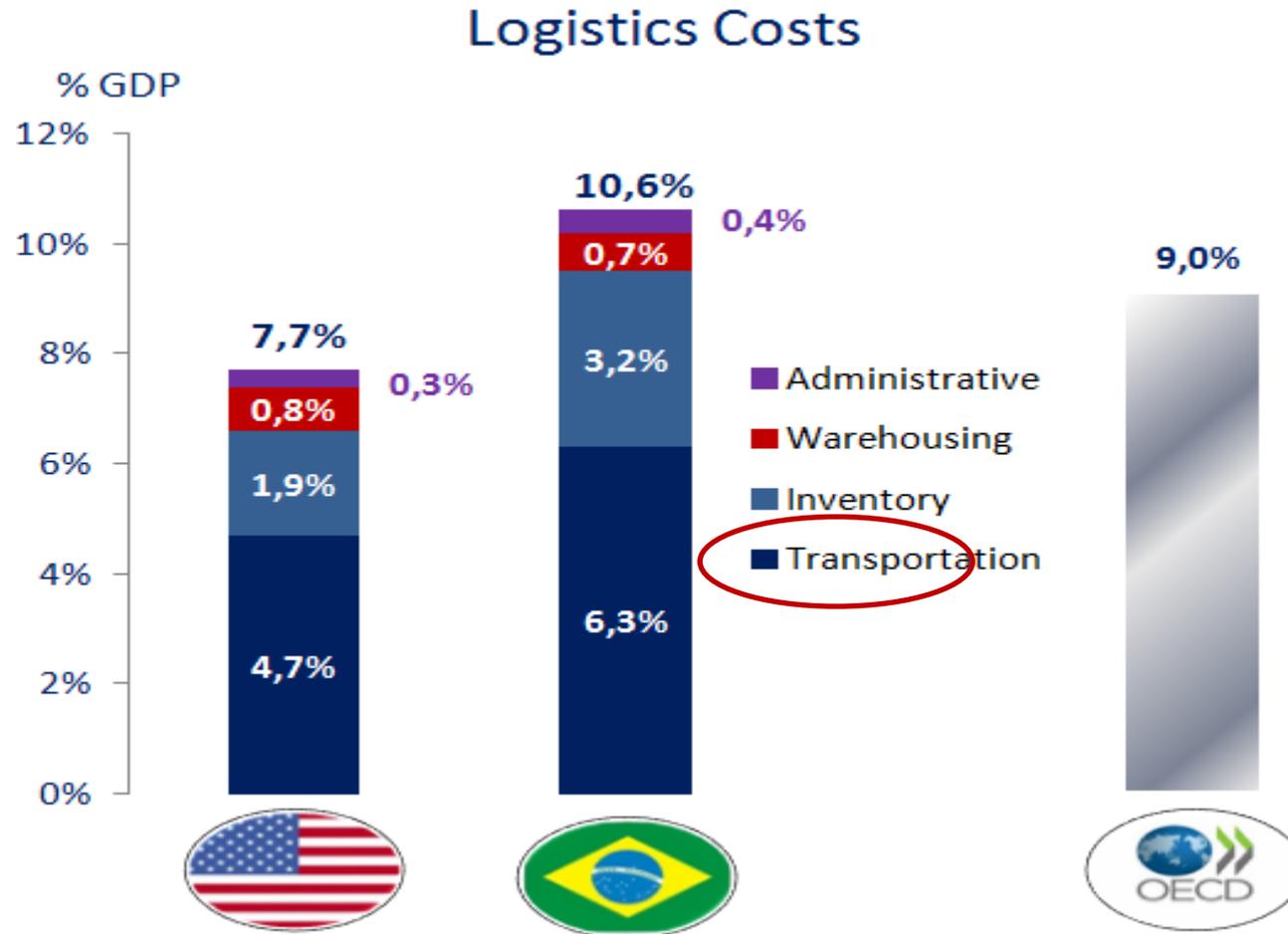
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- The need for more investment in infrastructure is clear
- Externalities from investment in infrastructure are larger than those coming from “other investments” (e.g., machinery, equipment, etc.)

Two pillars:

- Public investment: Growth Acceleration Program(PAC)
- Broad program of concessions

# Brazil's Logistics Costs Can Fall



# Brazil's Concessions Program is Huge

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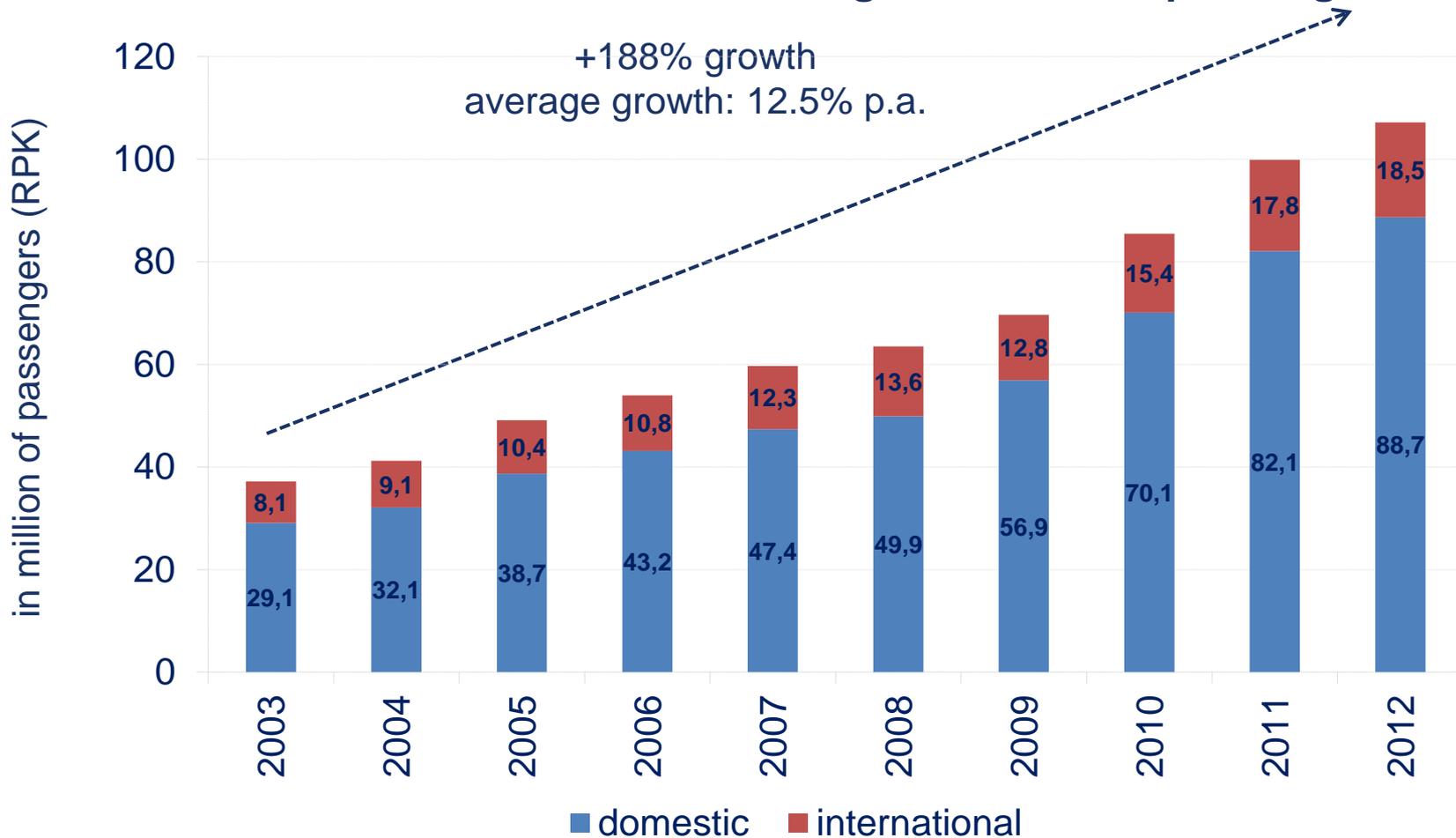
- To support accelerated and sustainable development:
  - Extensive and modern infrastructure network
  - Efficient logistics
  
- New phase:
  - Integration between highways, railways, waterways, ports and airports
  - Interaction with supply chains

# Logistics Investment Program (PIL)

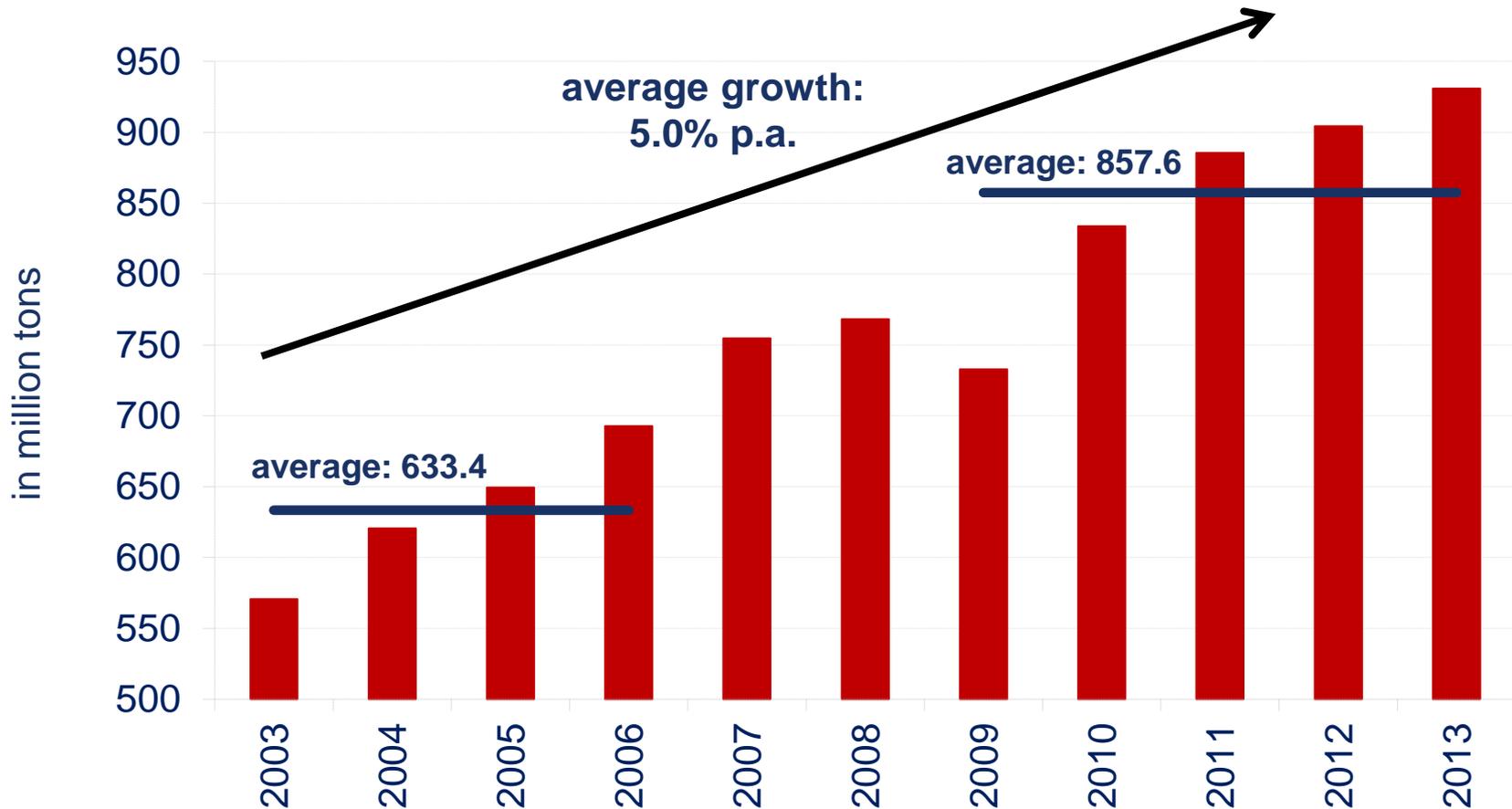
- Highway Concessions: 7,000km
  - Estimated investment: US\$ 23 billion
- Railway Concessions: 11,000km
  - Estimated investment: US\$ 49.8 billion
- Ports
  - Estimated investment: US\$ 27.3 billion
- Airport concessions
  - Two major airports (Galeão (RJ) and Confins (MG)) and 270 regional airports. Estimated investment: US\$ 8.2 billion
  - Previously: Guarulhos (SP), Campinas (SP), Brasília (DF) and S. Gonçalo do Amarante (RN) — auctioned before the launch of PIL

# Brazil's Air Traffic Growing Fast

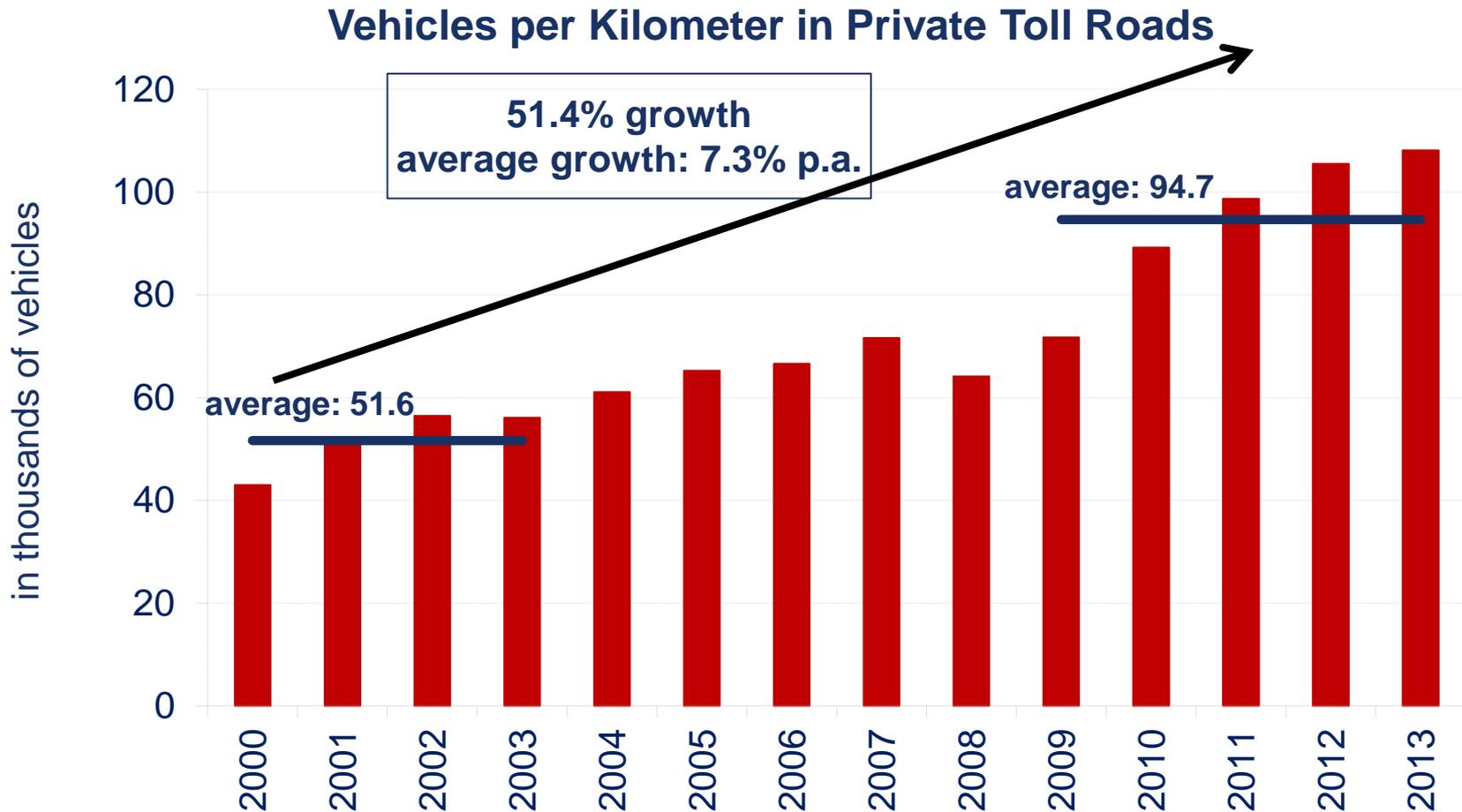
## Domestic and International Flights: Million of passengers



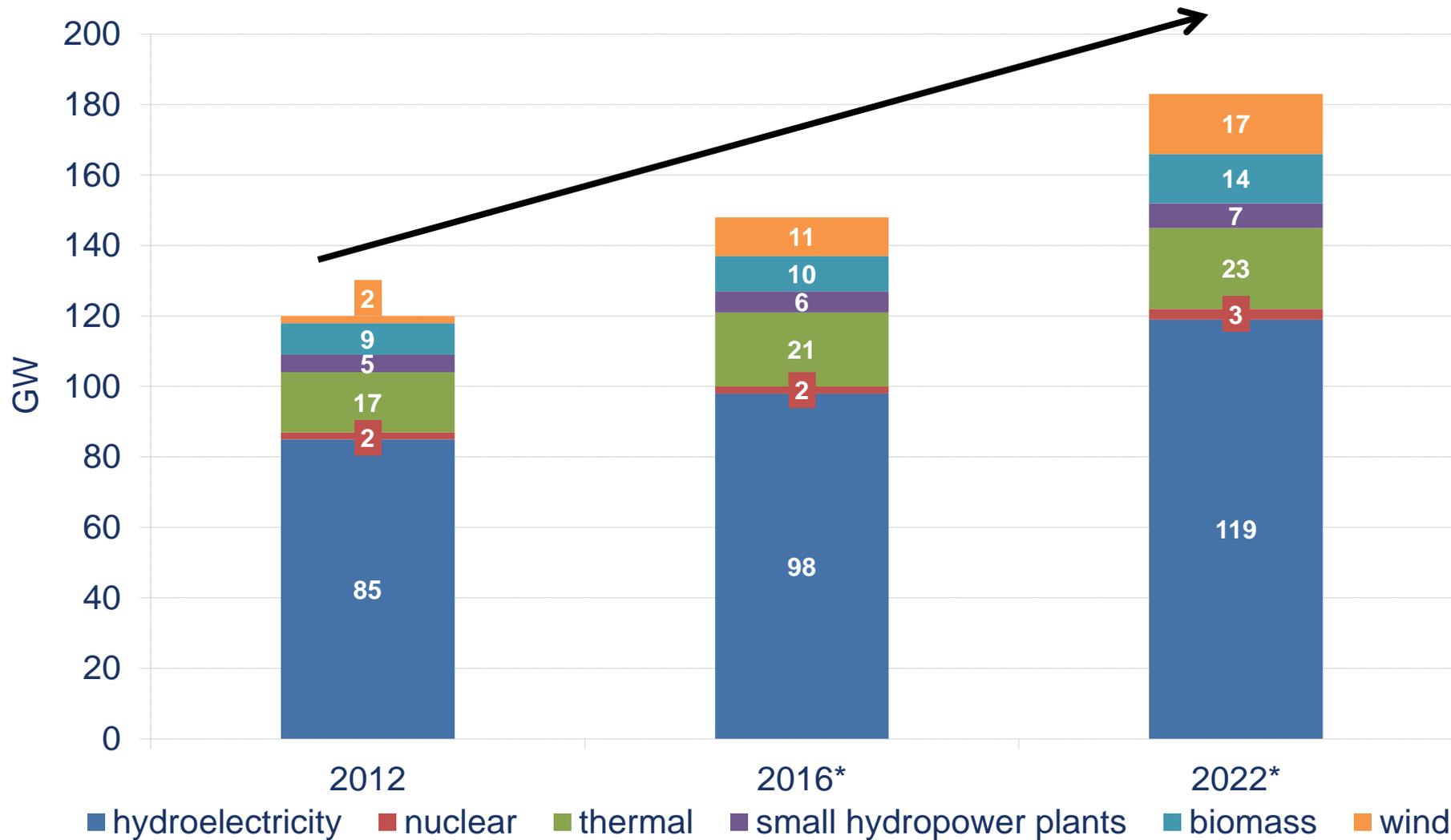
# Growing Cargo Movement in Brazilian Ports



# Growth in Road Traffic is High as Well

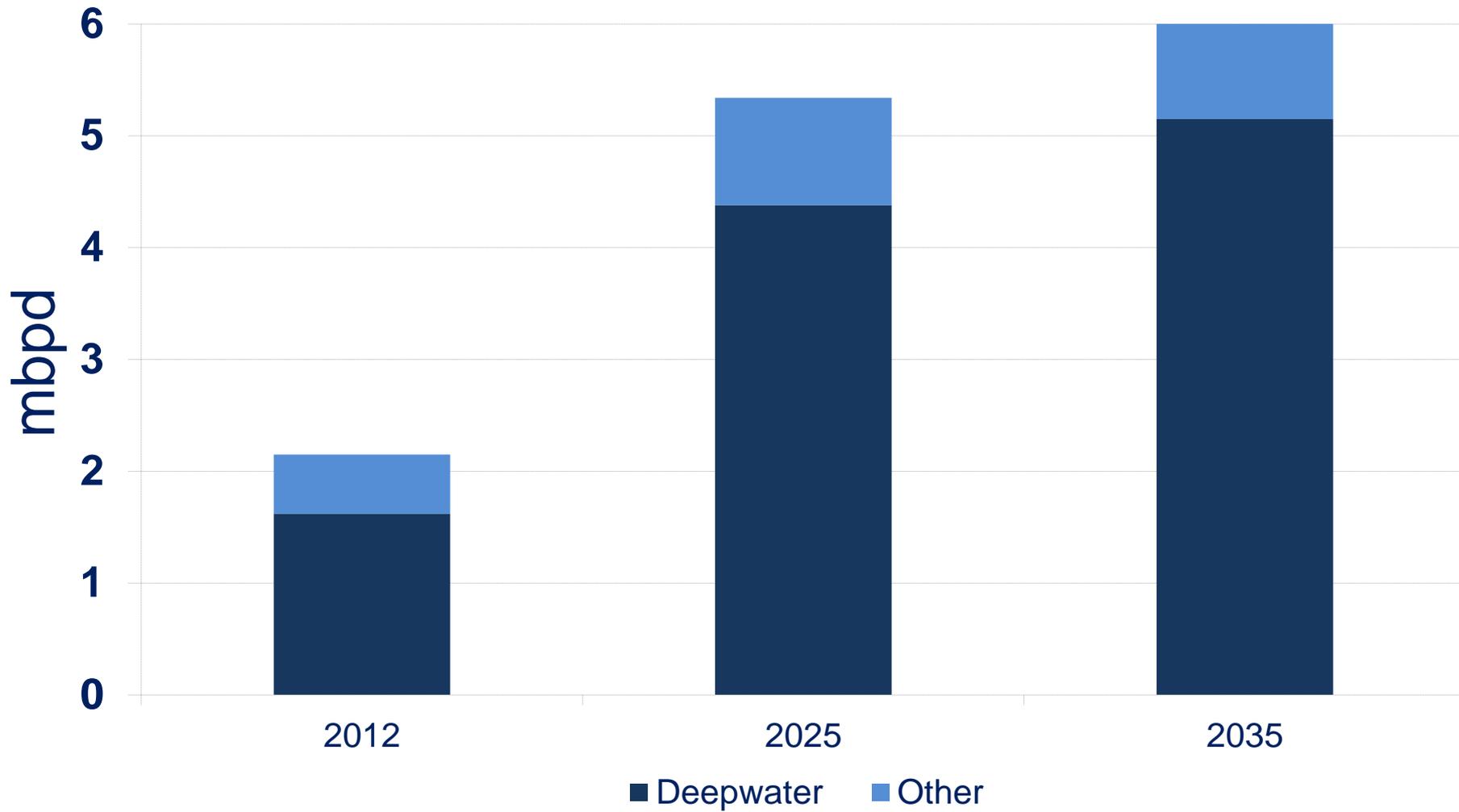


# Electricity Generation Capacity



\*EPE estimates

# Oil Production

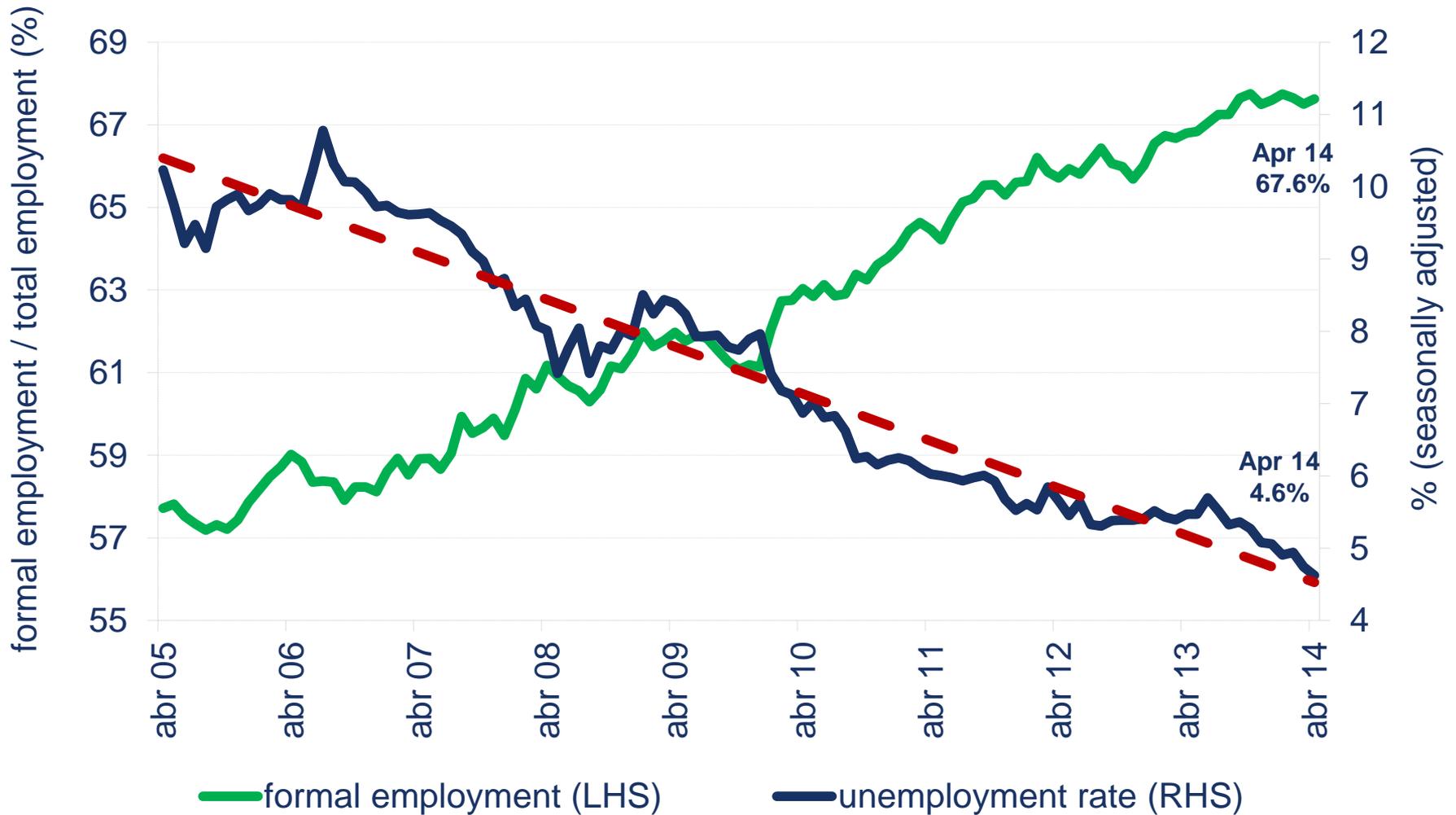


# Investment in Human Capital

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- 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

# Formal Employment and Unemployment Rate



# Investment in Human Capital

## Number of Schooling Years Have Increased

Average of schooling years by class of age



Quality of Education Has Improved as Well,  
Although There is a Long Way Ahead

# Conclusions

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- Brazil's economy has strong fundamentals, kept macro & financial stability, sailed well through the crisis
- Brazil has clear development strategy that requires and offers large investment opportunities to foster “productivity” (TFP)
- Education and infrastructure play a key role in attracting investments and creating better long-term growth conditions
- Brazil has long tradition to host FDI in a stable and conducive macro, social environment