

Brazil Economic Overview

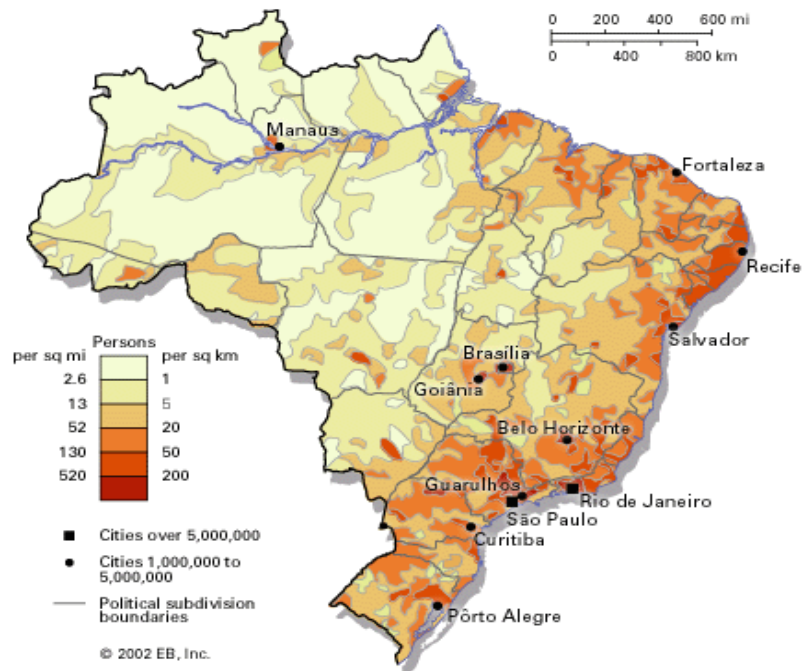
Brazilian American Chamber of
Commerce of Florida

Alexandre Tombini
Governor

March 26, 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**
- **Inflation is converging to the target and economic growth will accelerate throughout 2012**
- **Outlook is for sustainable economic growth over the coming years, with substantial investments, particularly in infrastructure**

Index

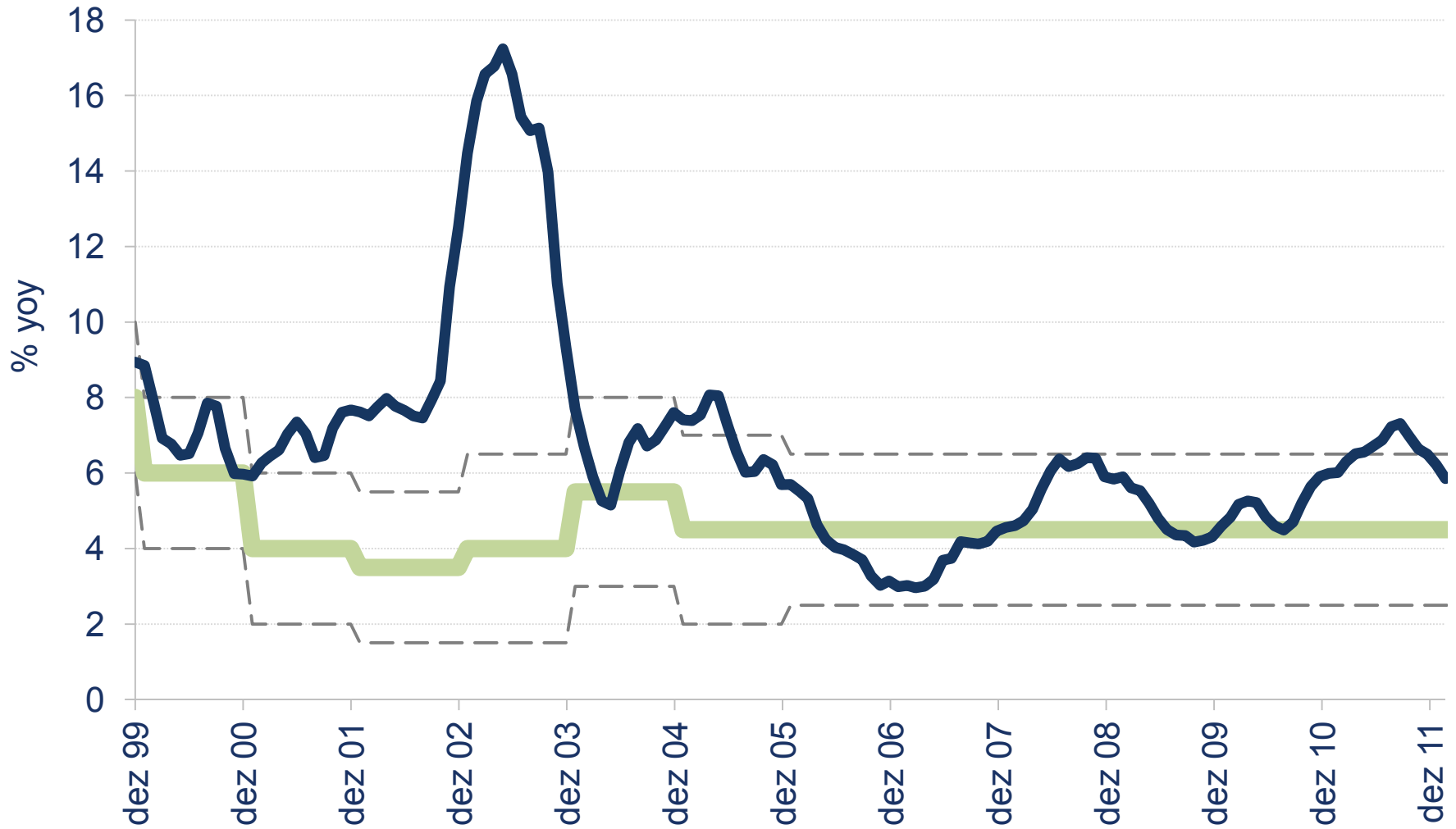
- Economic and Social Achievements
- Recent Economic Developments
- Looking Forward

Economic and Social Achievements

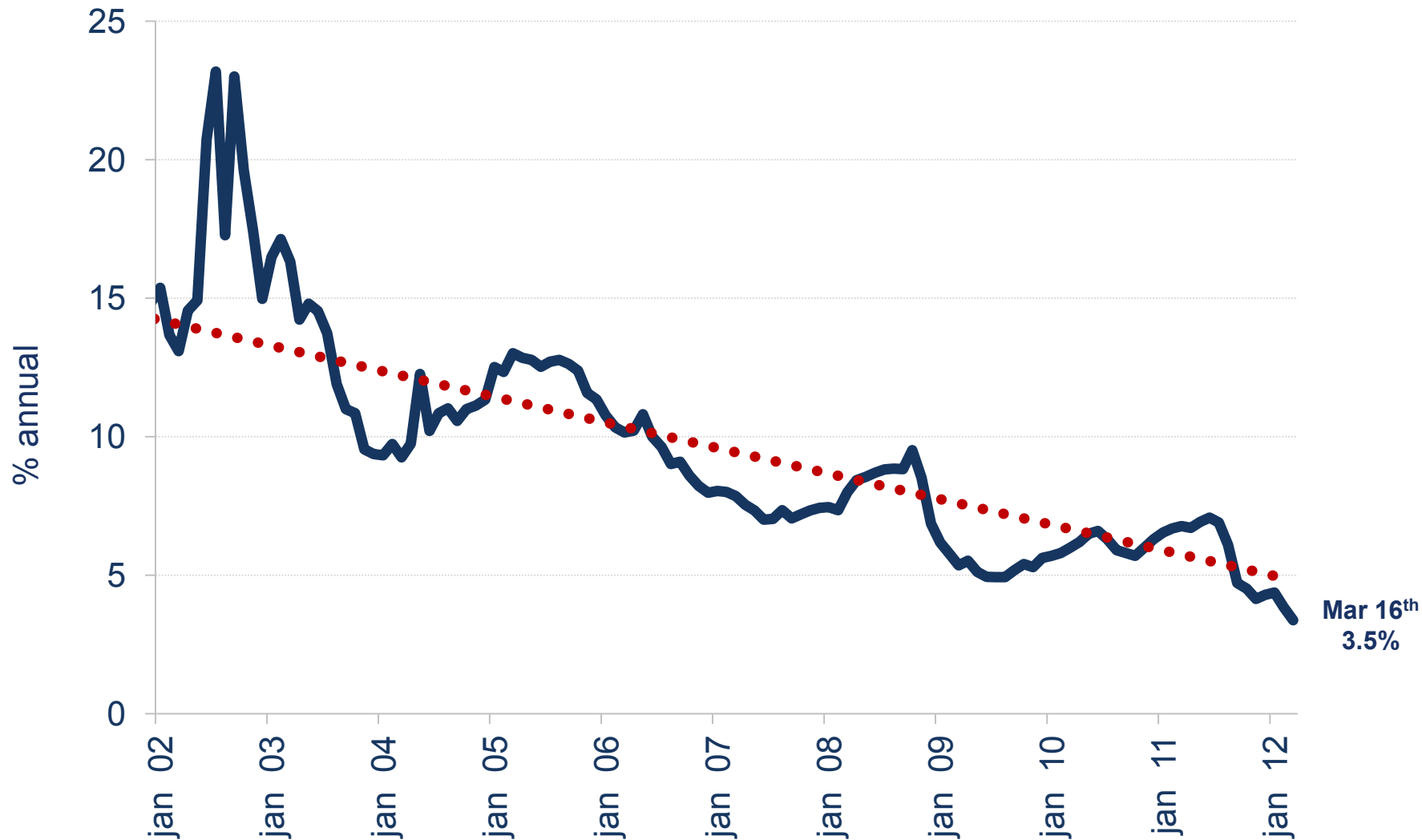
Macroeconomic Policy

- 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 economic growth
 - Credit and capital market development
 - Investment growth

Achieved Inflation Target for 8th Year in a Row

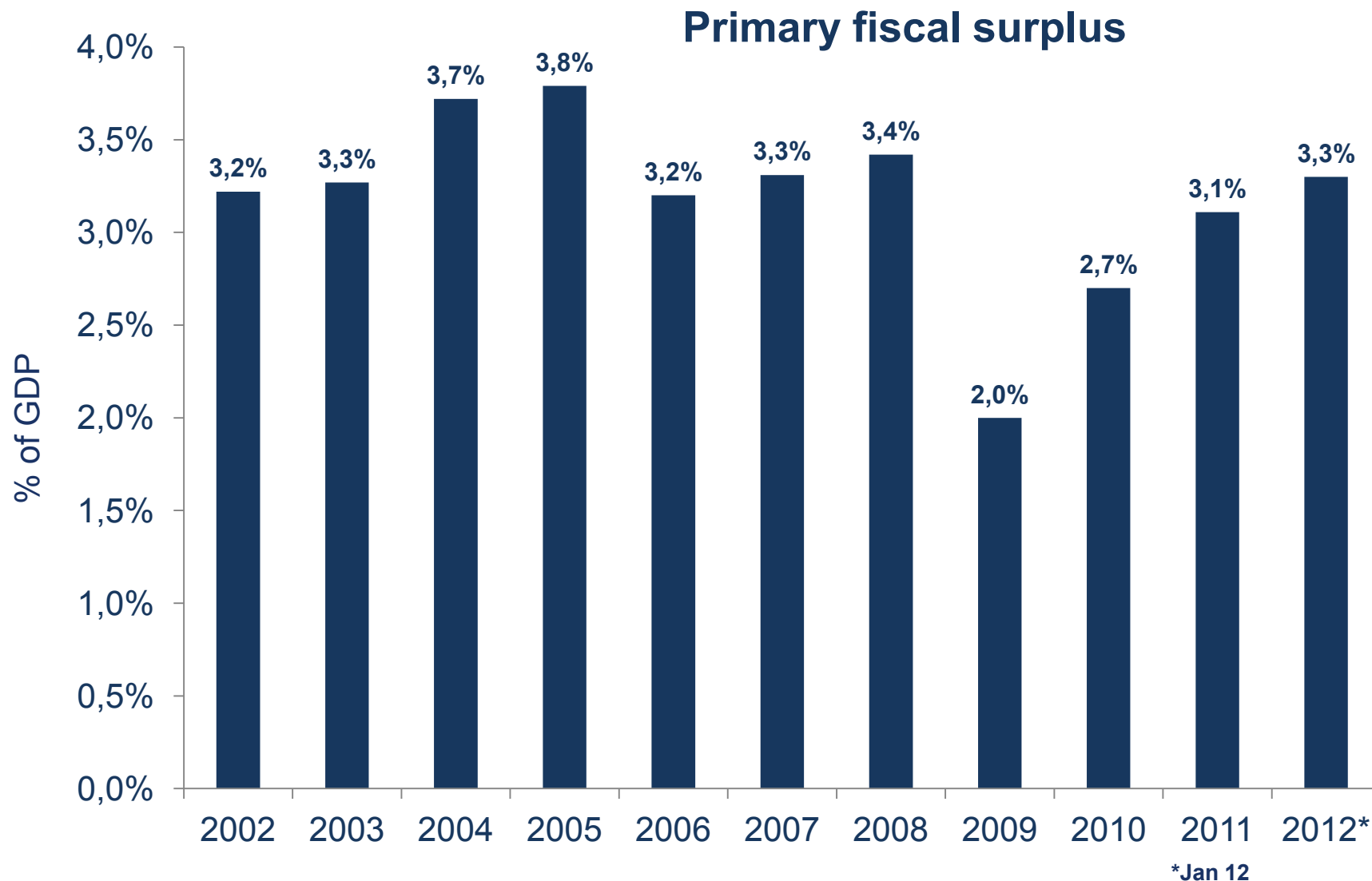


Declining Real Interest Rate

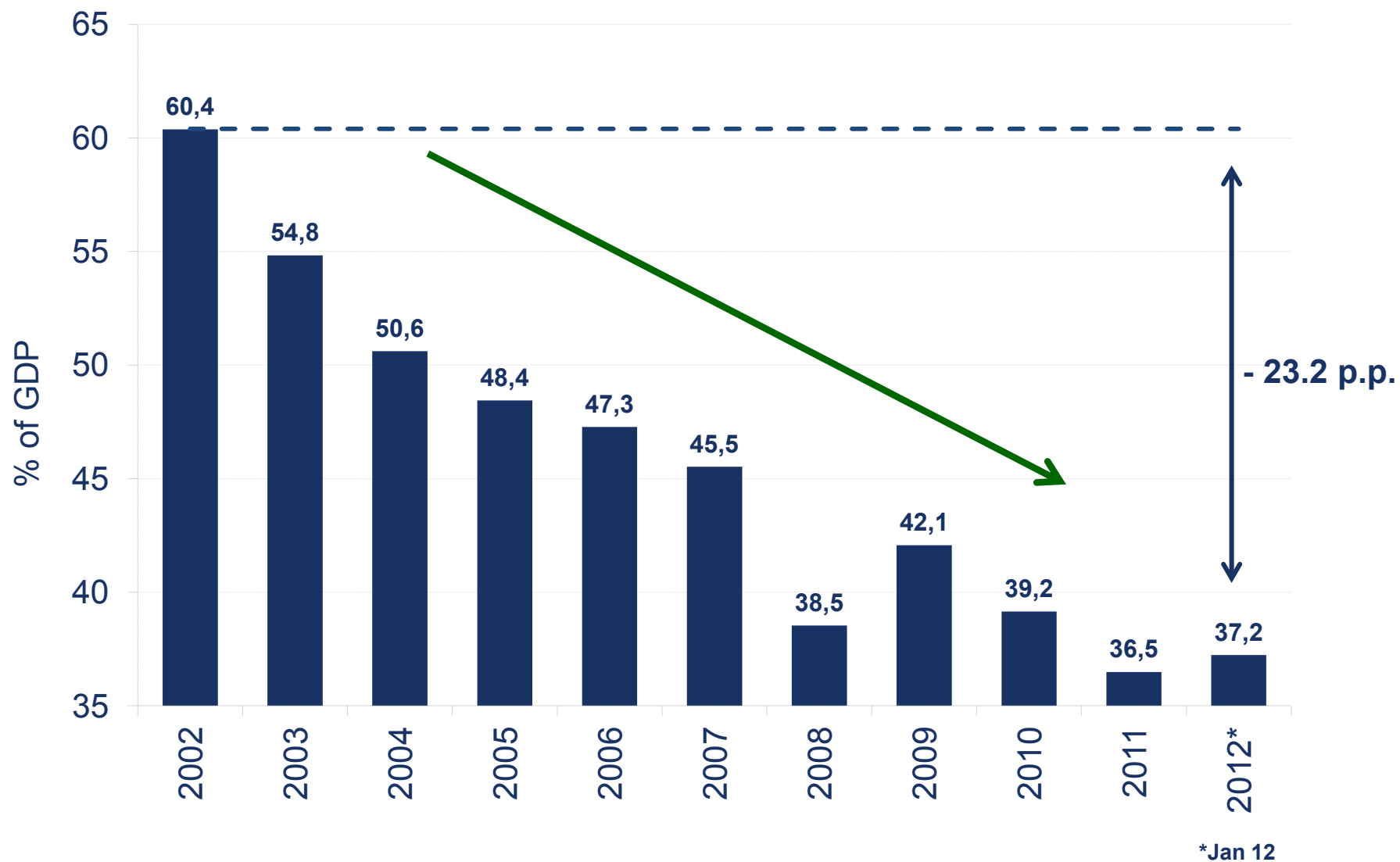


360-day market rate discounted by the IPCA expected for the next 12 months

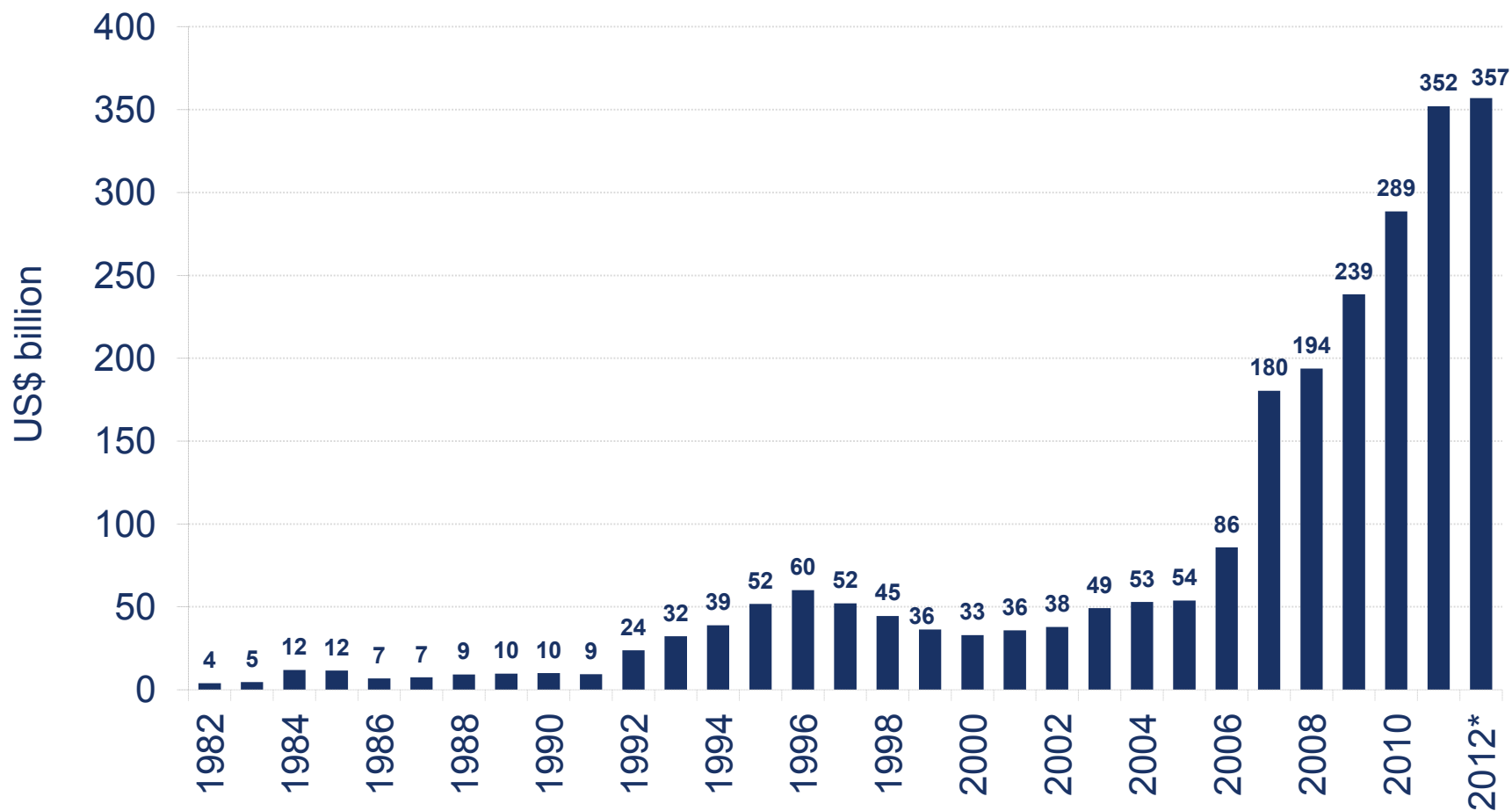
Commitment to Fiscal Targets



Declining Net Public Debt

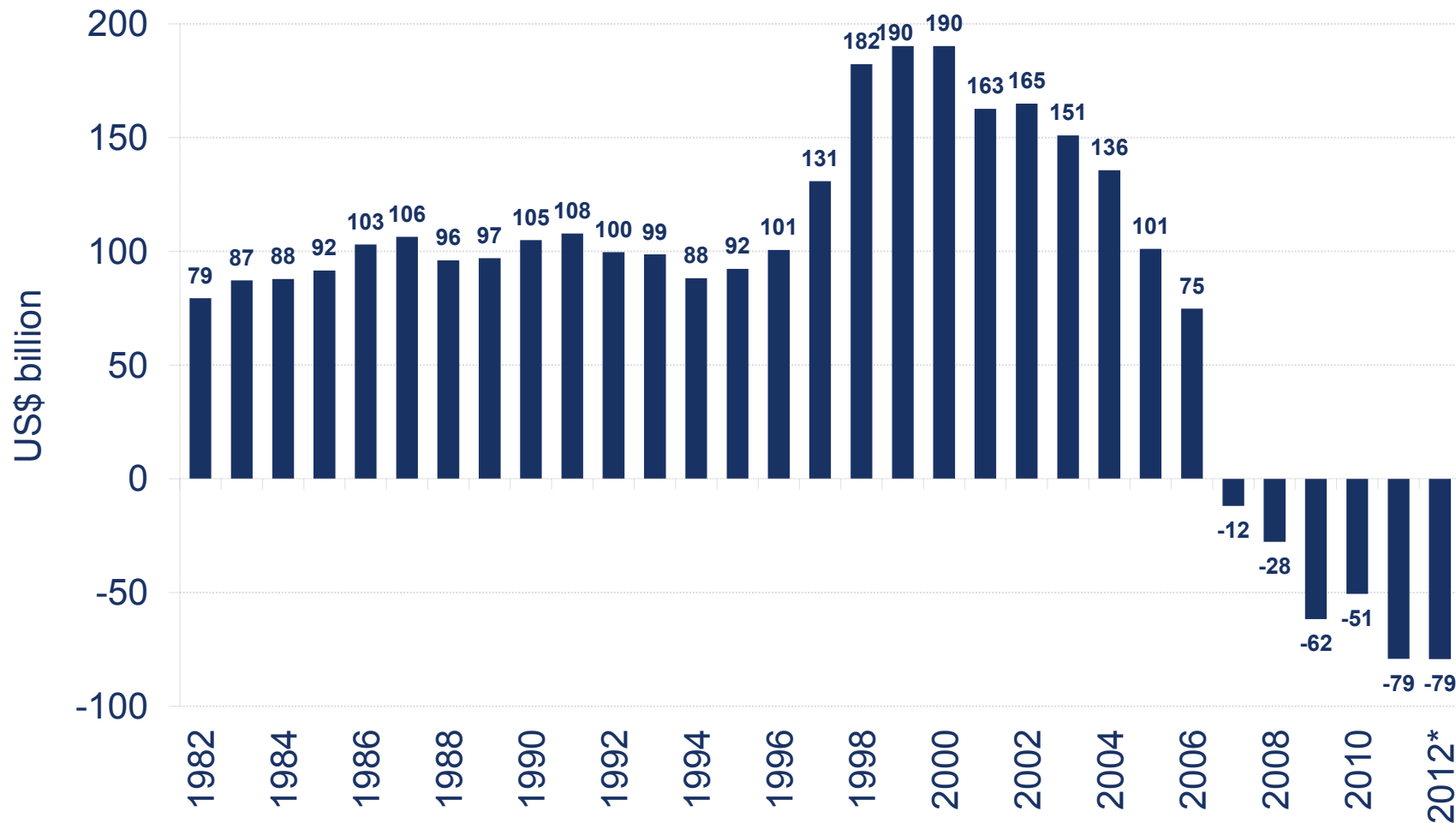


Robust International Reserves



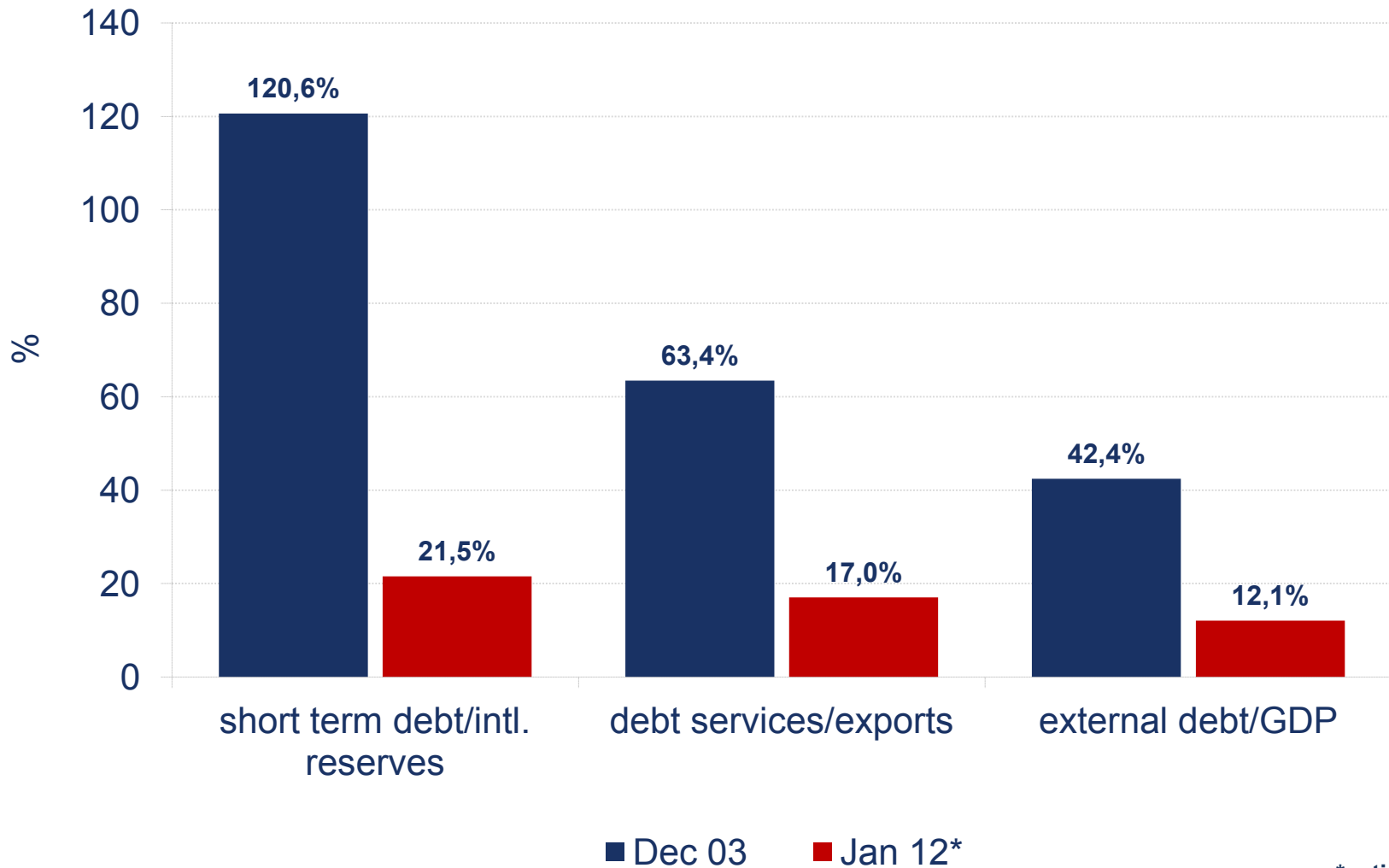
as of Mar 8th

Brazil Has Become a Net External Creditor



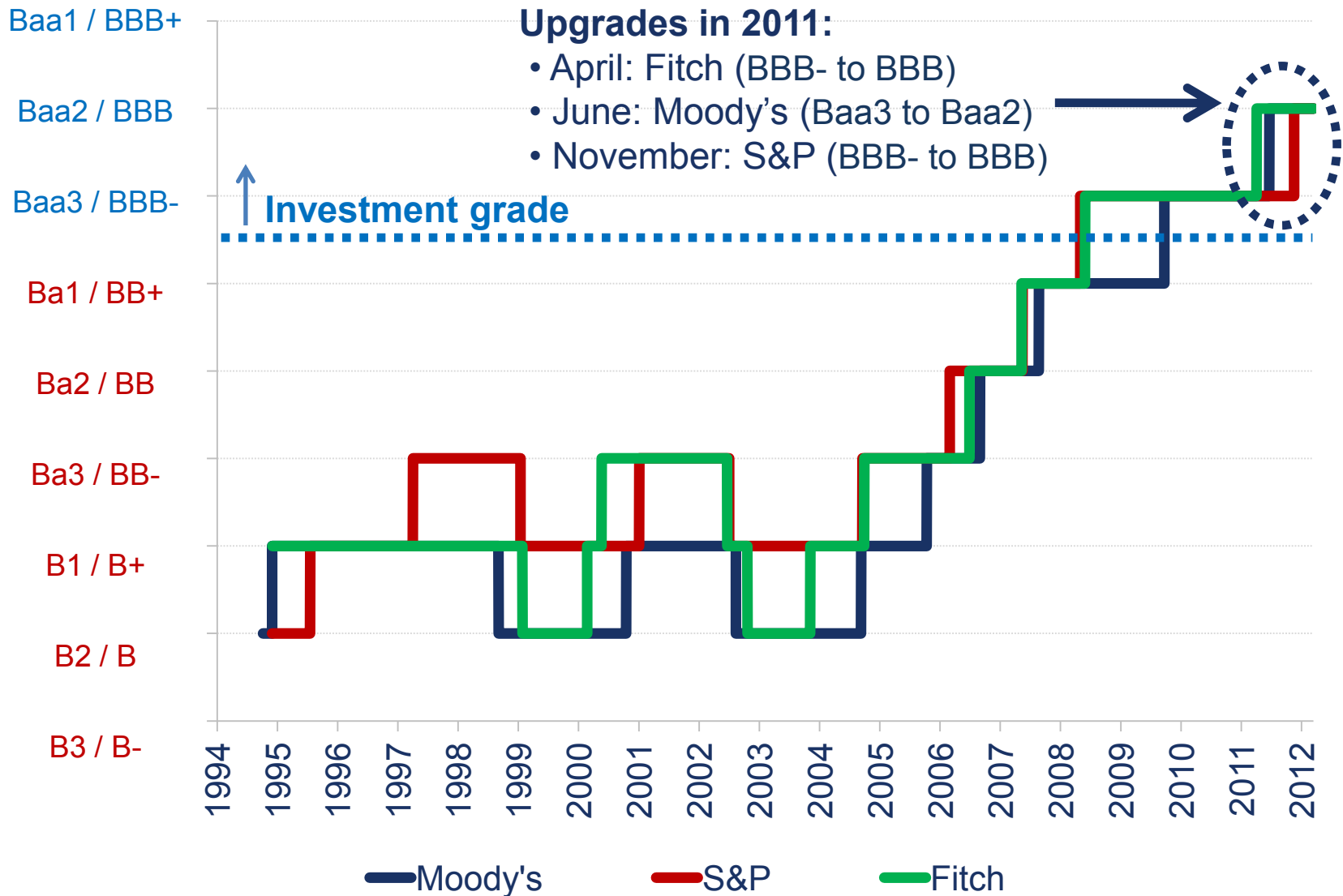
*estimate Jan 12

Strong External Debt Ratios



*estimate

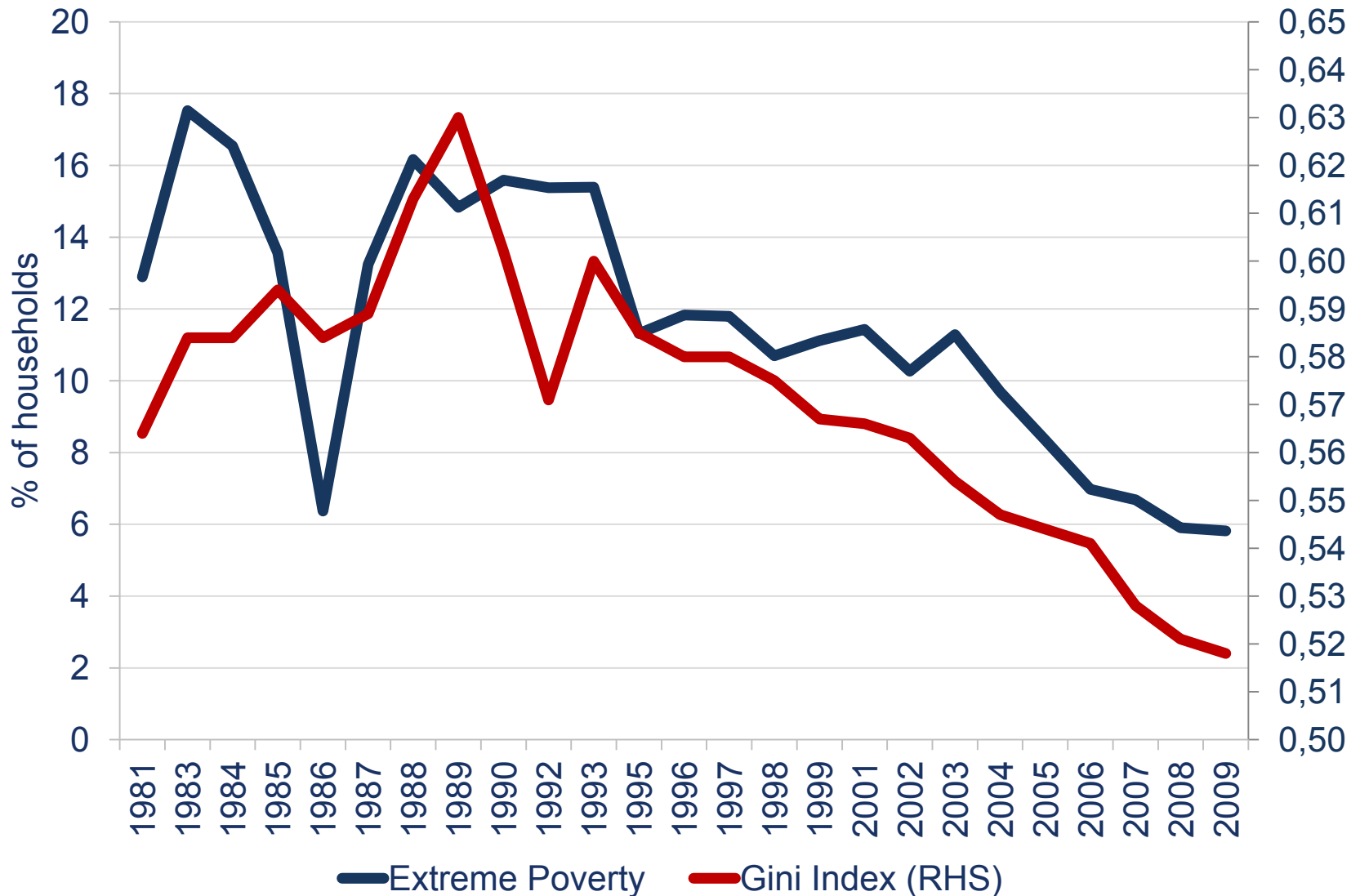
Sovereign Credit Ratings Reflect These Improvements



Social Development

- Macroeconomic and social inclusion policies have led to a marked improvement in living conditions
- A significant share of low income groups joined the middle class

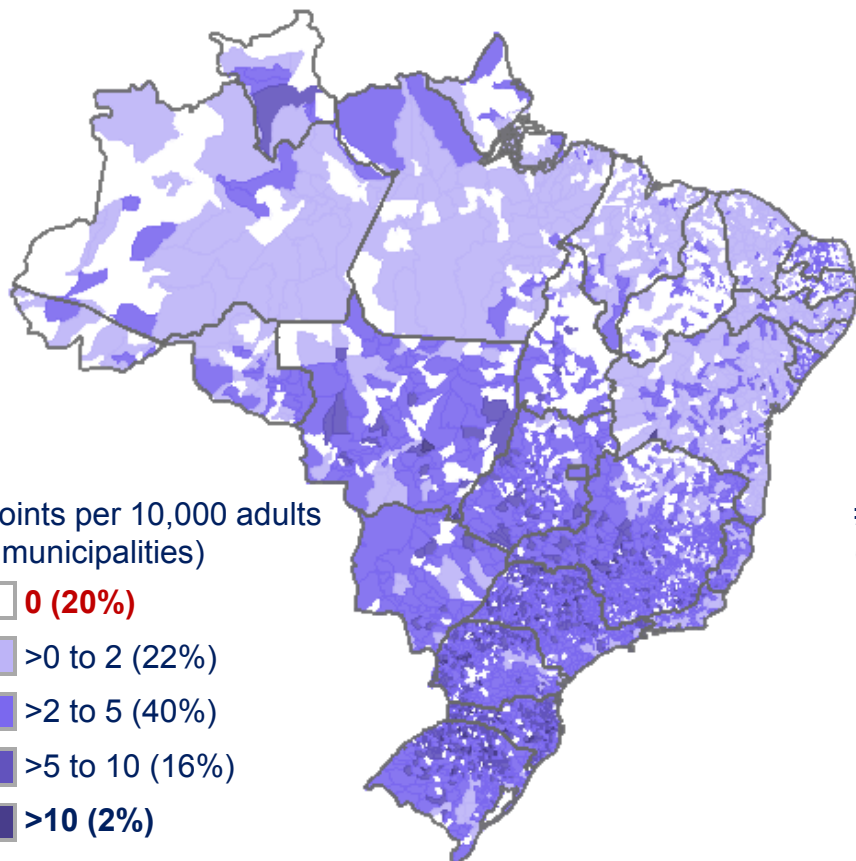
Declining Poverty and Inequality



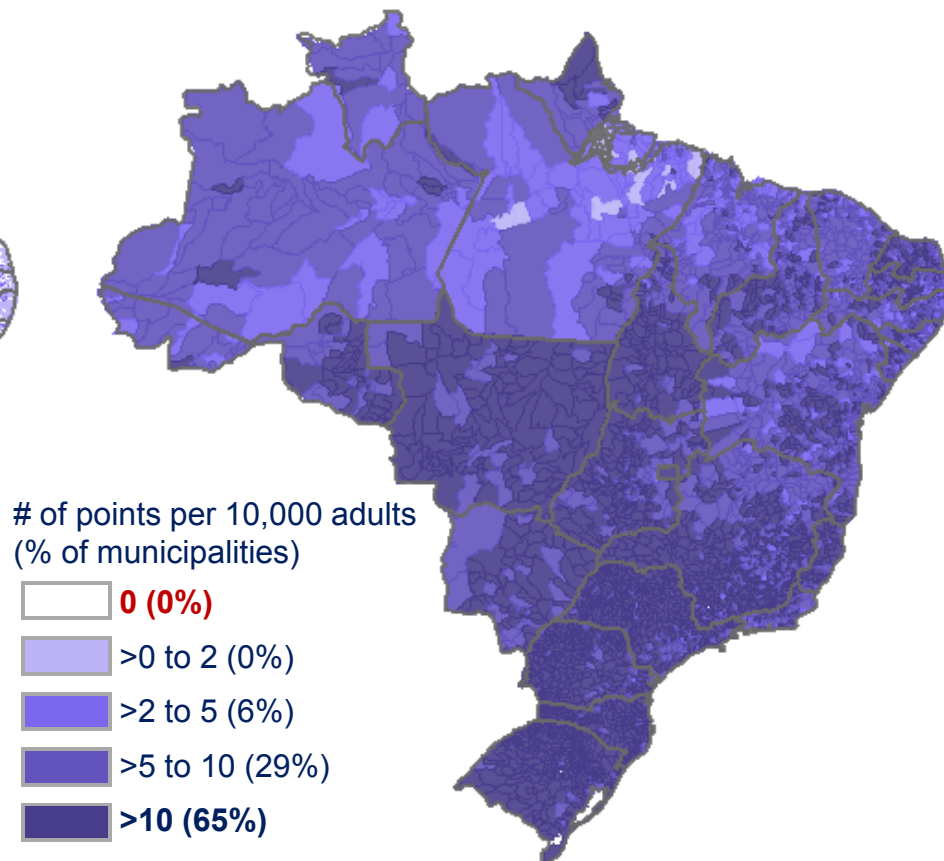
Financial Inclusion is a Priority

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

Recent Economic Developments

Inflation

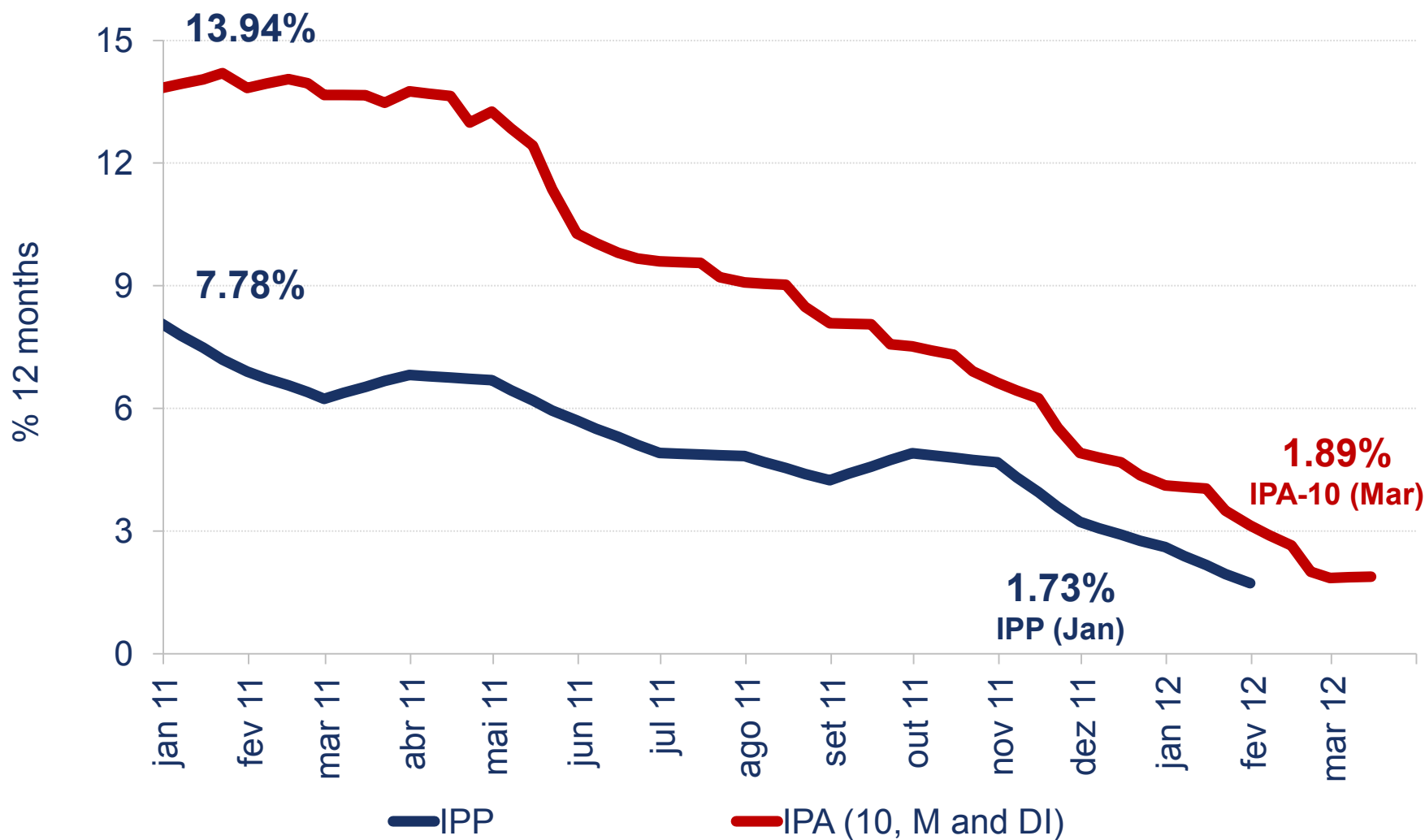
Activity

Credit & Financial System

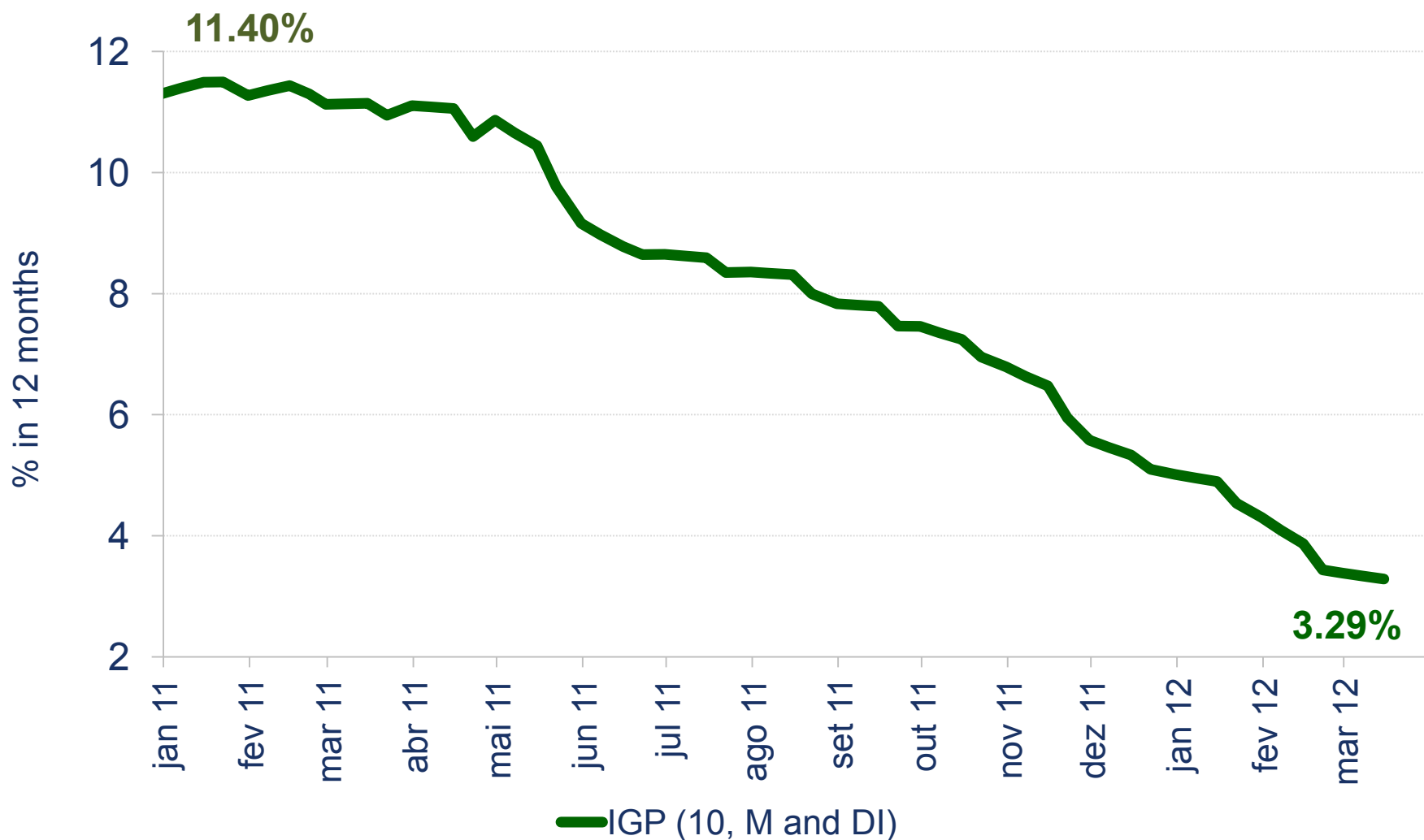
Inflation on a Downward Trend

- Producer prices inflation (IPP) and wholesale prices inflation (IPA) are **below 2%** in 12 months
- General prices index (IGP) inflation is **below 3.5%** in 12 months
- These trends are already partially reflected in consumer prices inflation, which has been **falling since the third quarter of 2011**
- Consumer inflation is converging to the central target

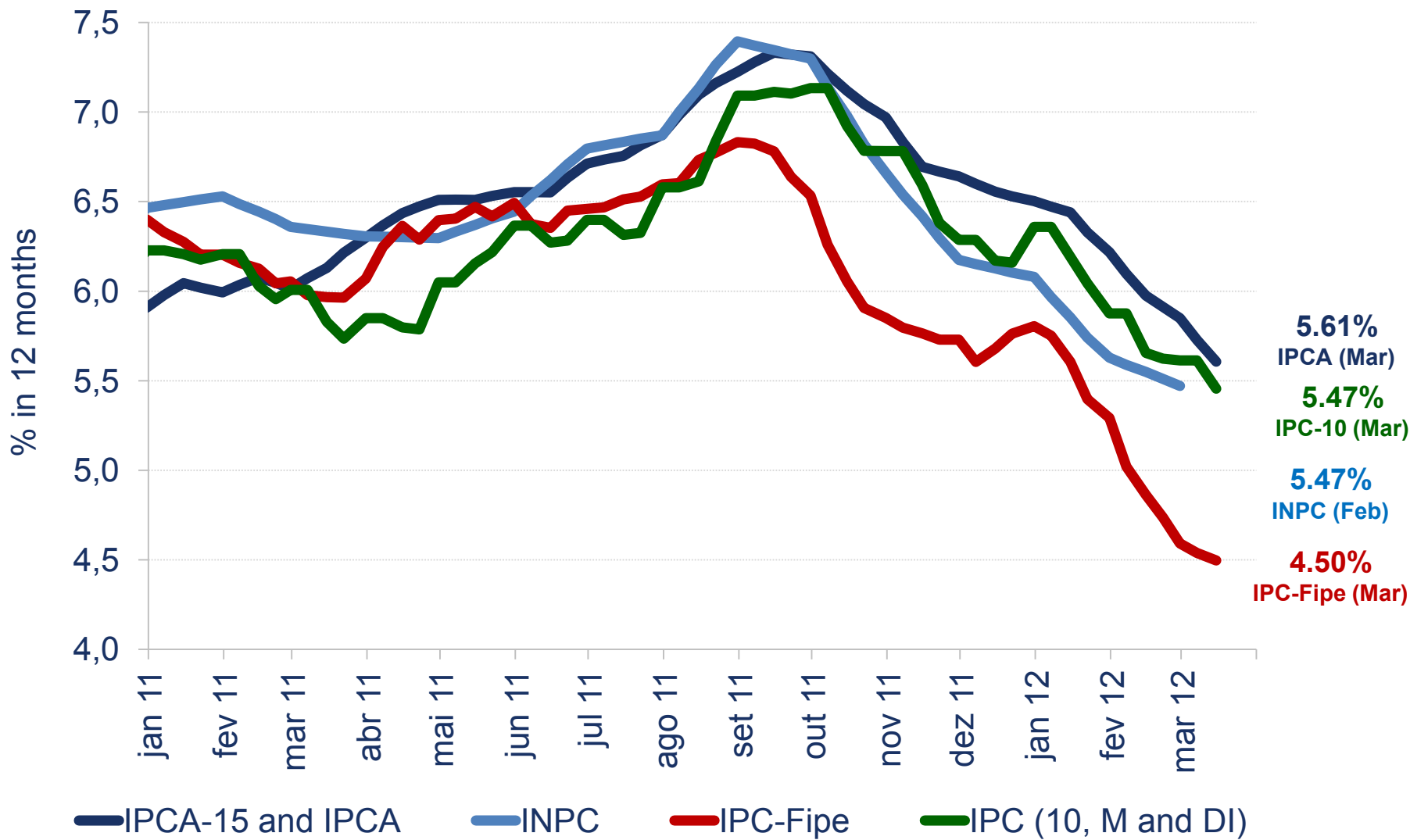
Producer and Wholesale Inflation Below 2%



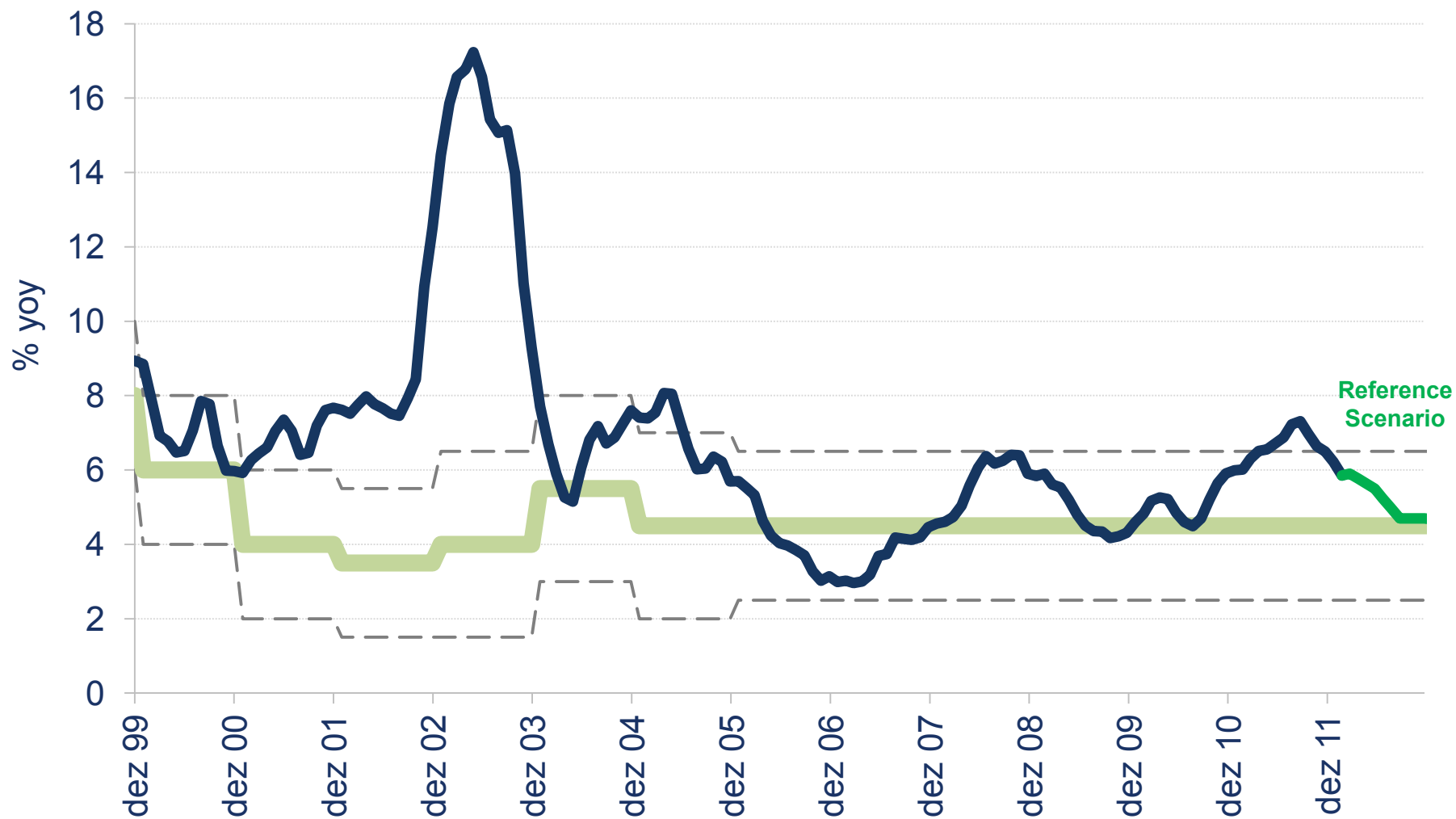
General Prices Index (IGP) Inflation Below 3.5%



Declining Consumer Inflation



Inflation Declining Towards the Central Target



Recent Economic Developments

Inflation

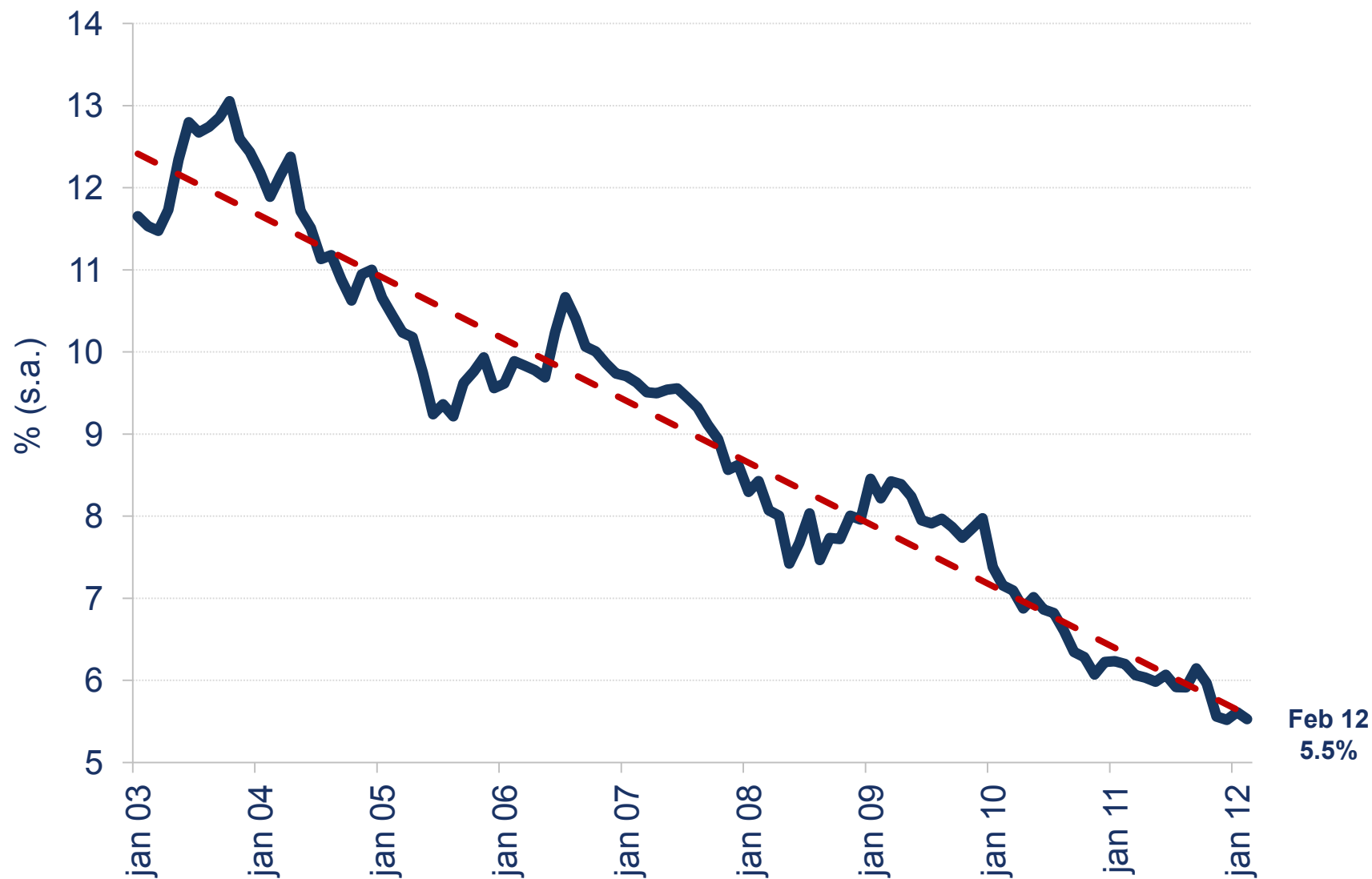
Activity

Credit & Financial System

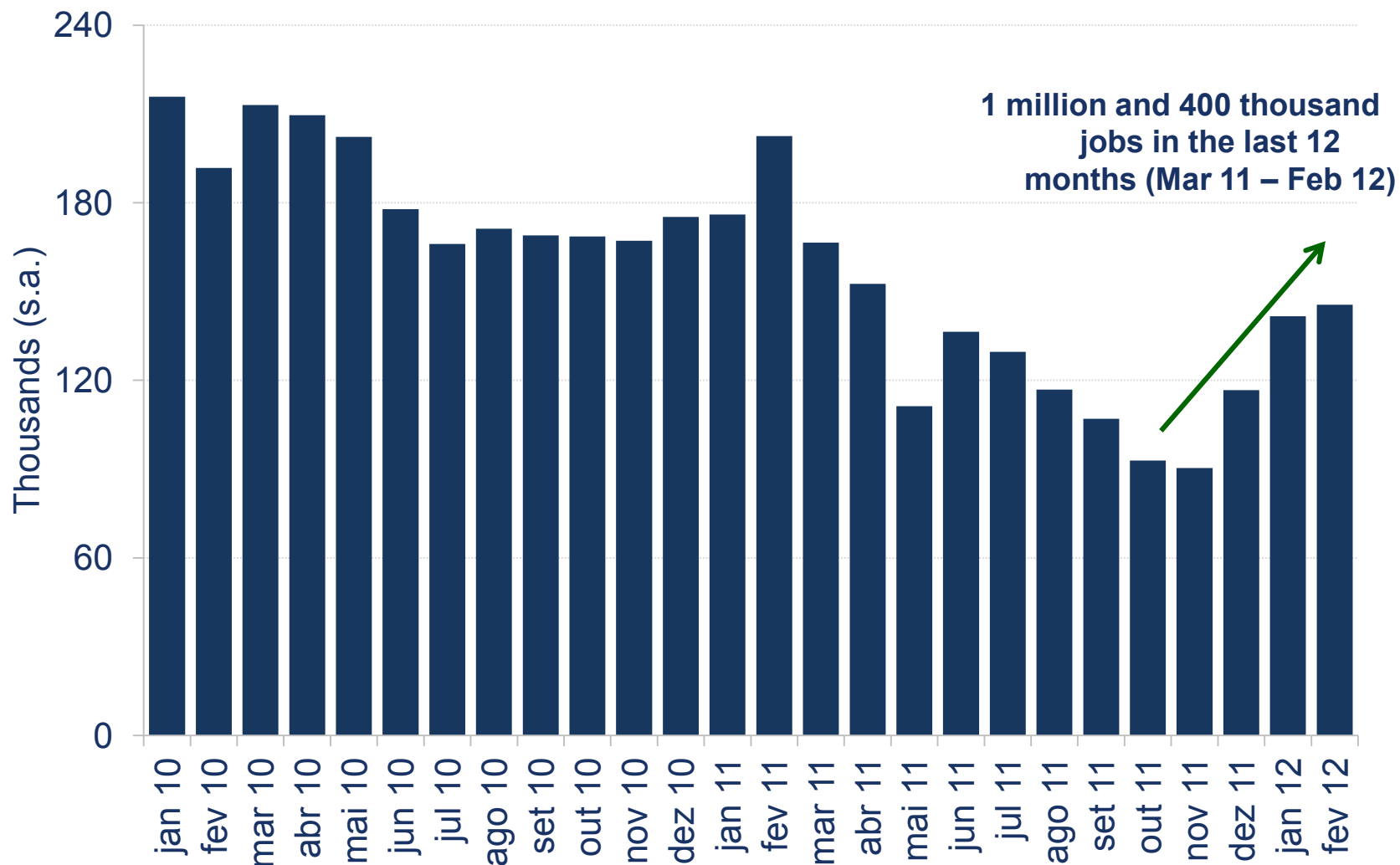
Economic Activity

- Drivers of domestic demand still present
 - Unemployment rate at record lows
 - Formal job creation still strong
 - Real labor income growing
 - Credit growing at a sustainable pace
 - Industry well positioned to resume production after rebalancing inventories over the last few months
- ⇒ **Economic growth expected to increase throughout the year**

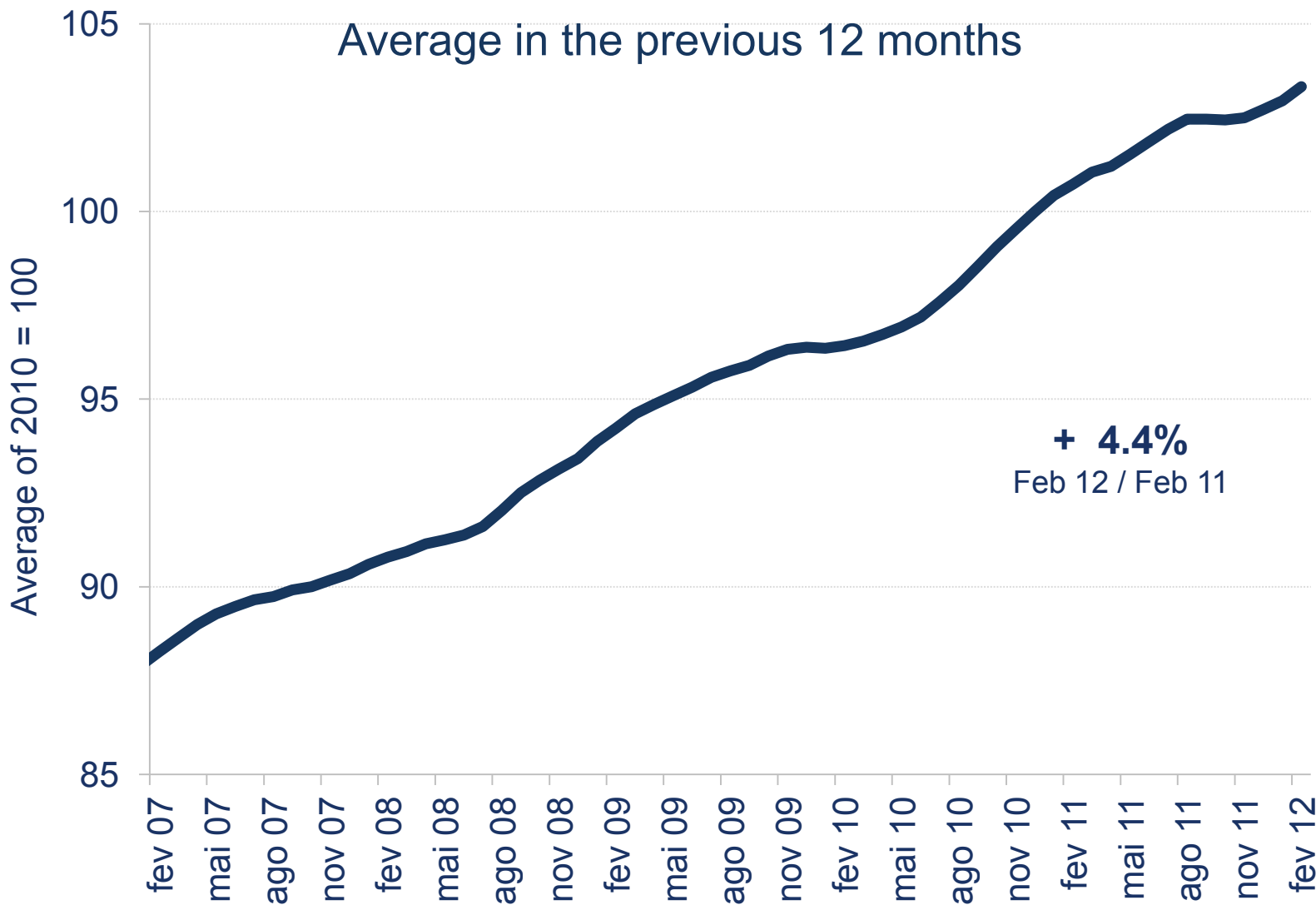
Unemployment Rate at Record Lows



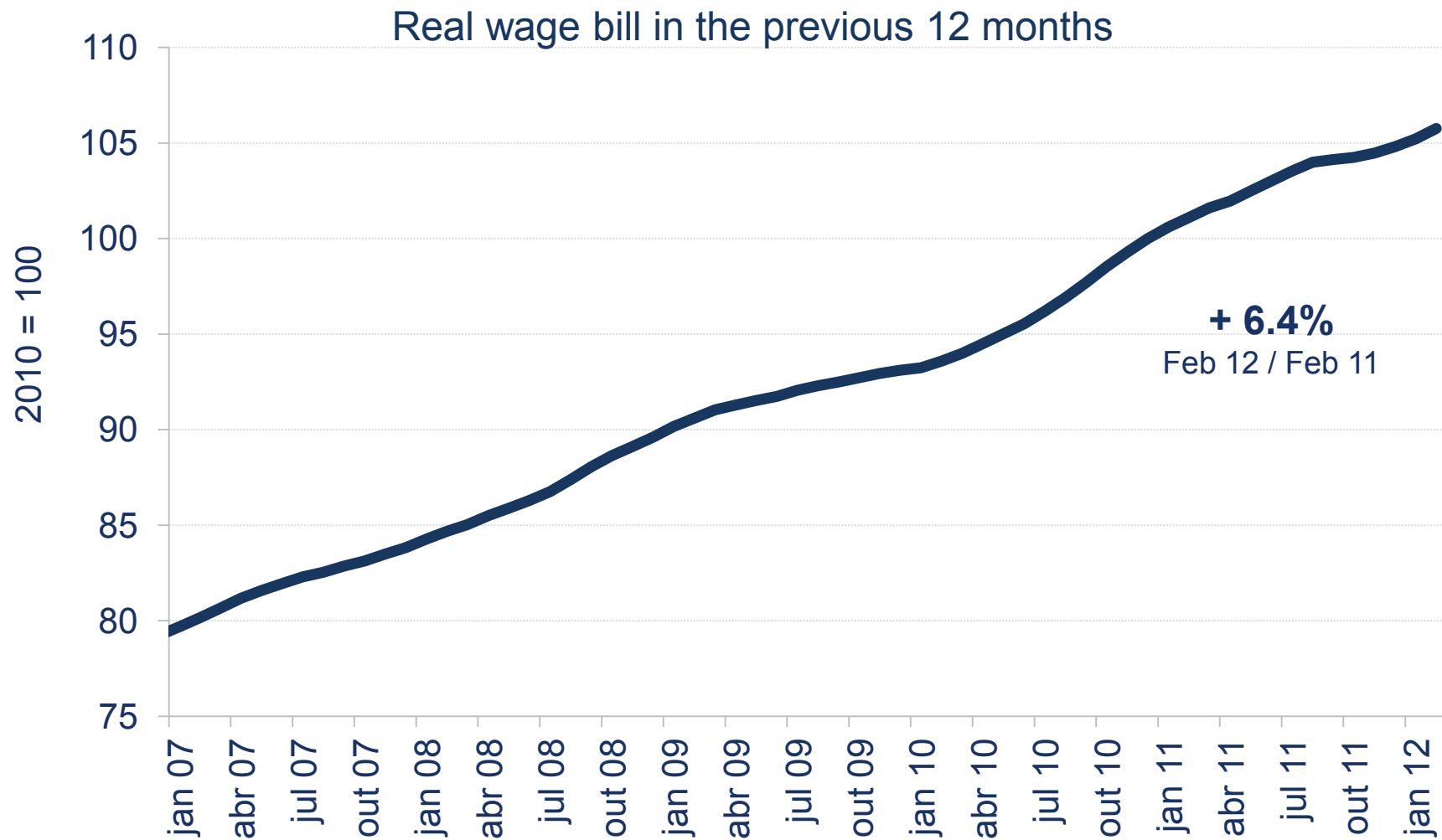
Formal Job Creation is Strong



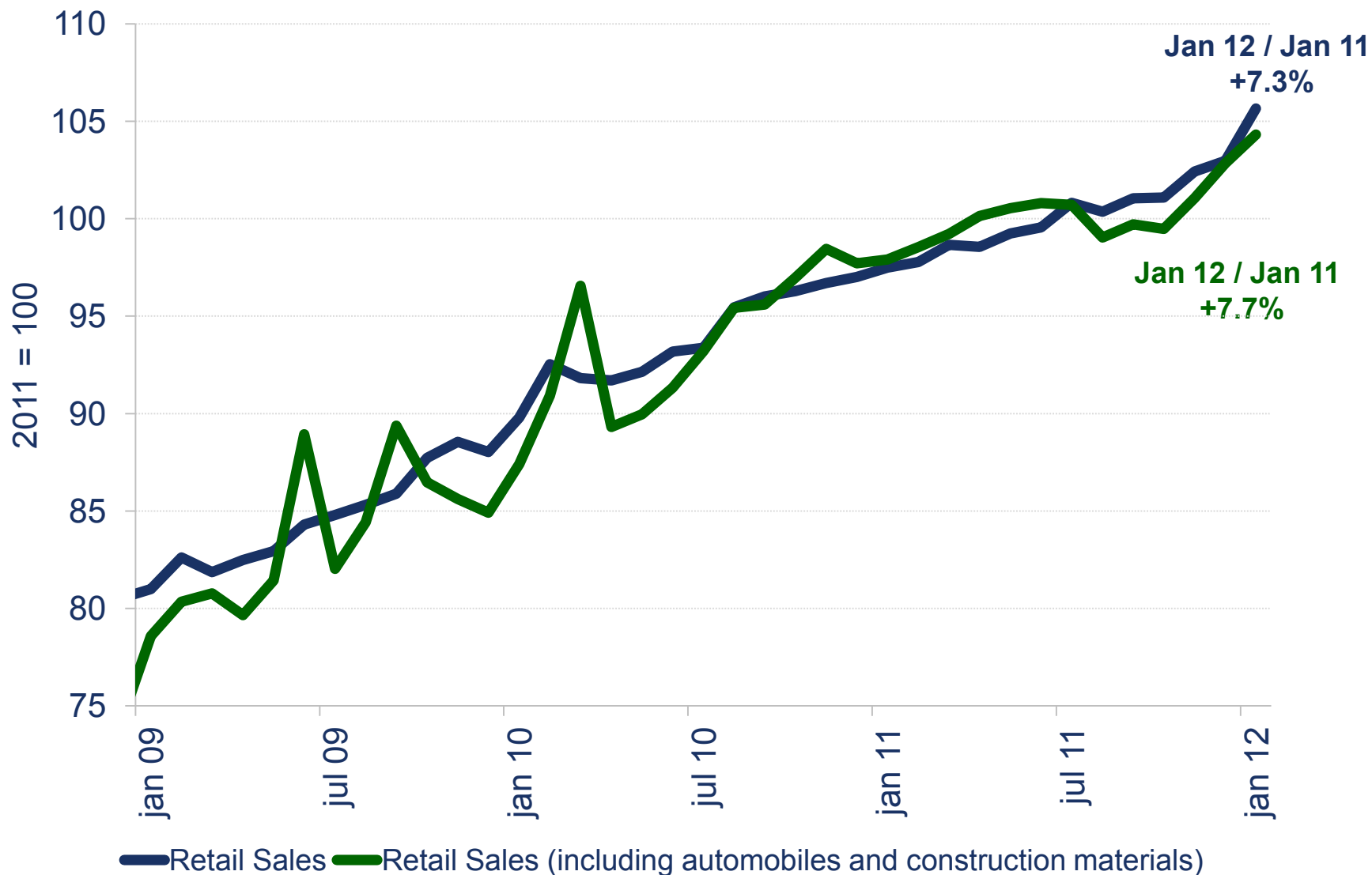
Real Wages are Growing



Expanding Real Wage Bill



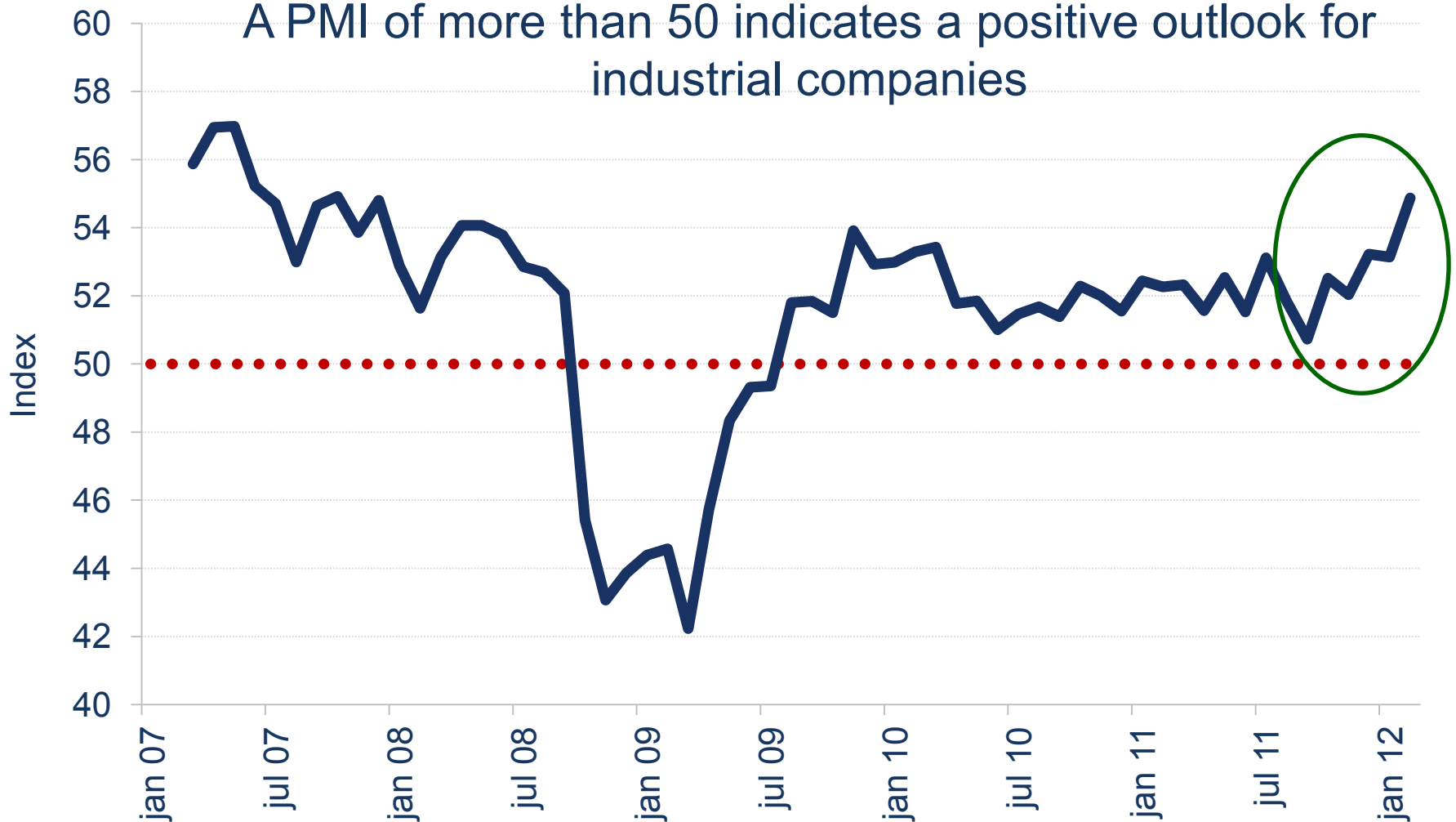
Retail Sales Continue to Grow



Business Confidence is Improving

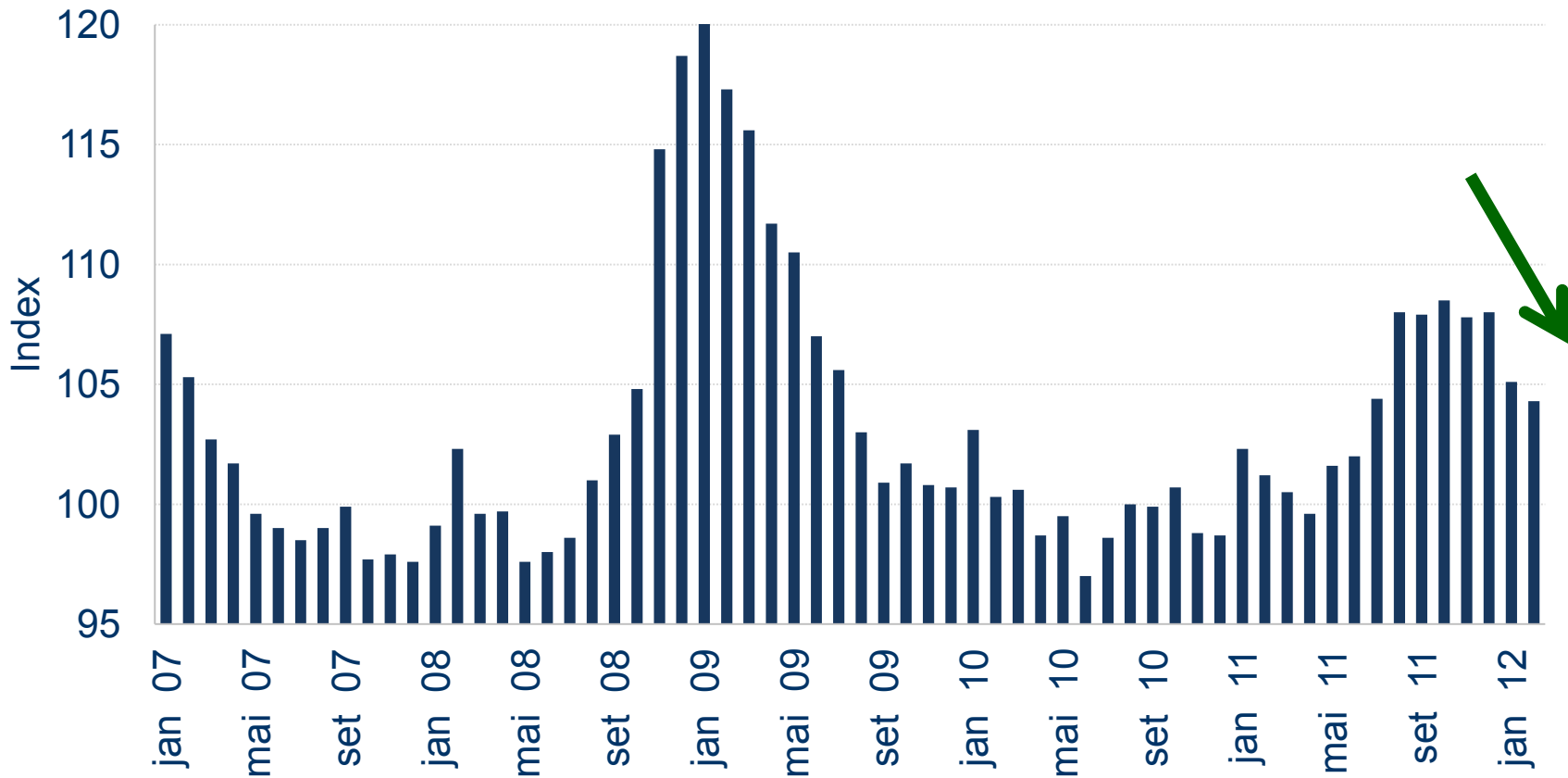
Purchasing Managers Index (PMI)

A PMI of more than 50 indicates a positive outlook for industrial companies



Rebalancing of Industrial Inventories

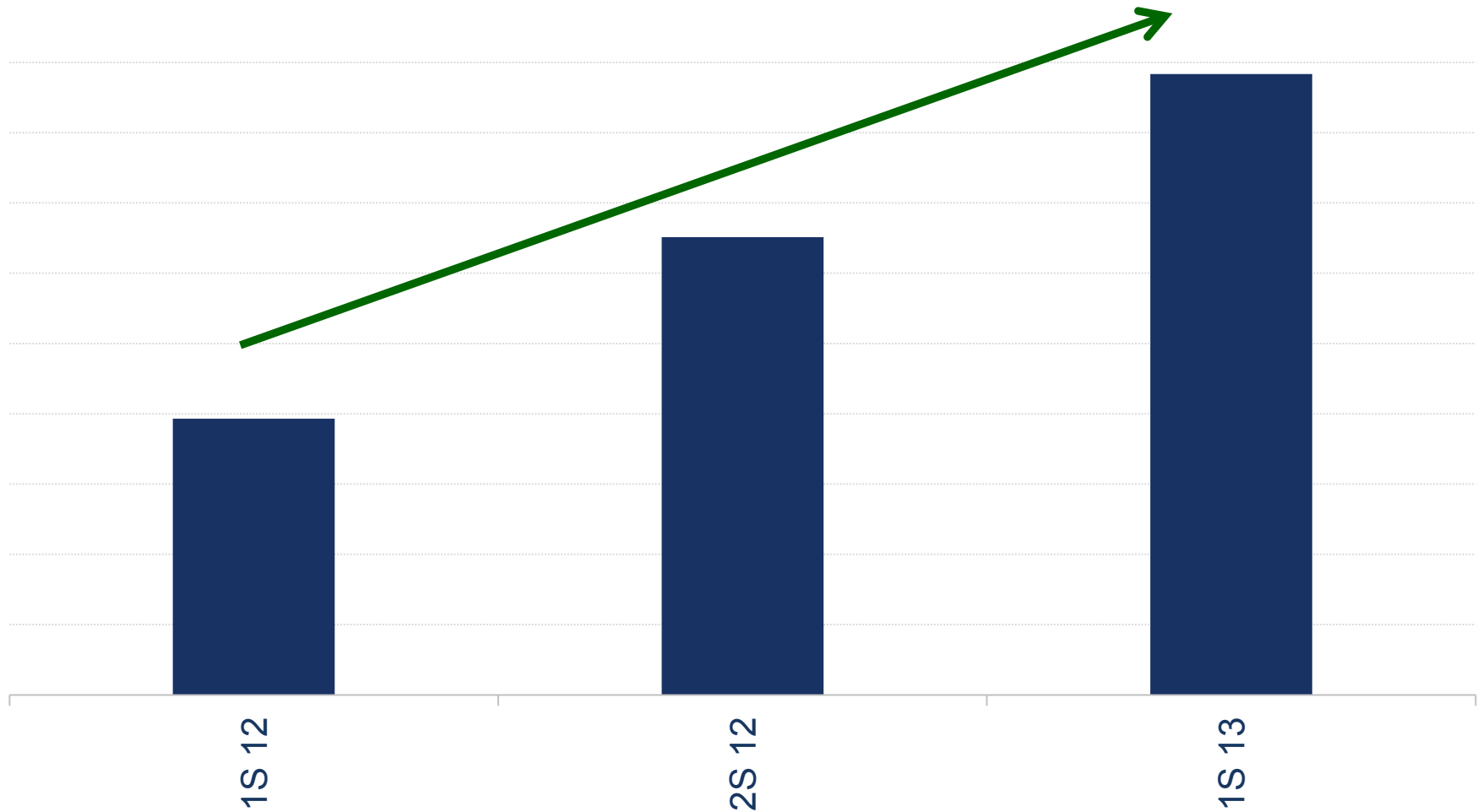
Over the last few months, industrial firms rebalanced their inventories. Together with the strong drivers for domestic demand and the adjustment to monetary conditions, this favors the resumption of growth in industrial production in the coming months



Data until Feb 12

GDP Growth

GDP growth over 12 months –
market forecast



Top 10 World Economies in 2011 (1)

	GDP (US\$ bi.)	GDP Growth (%)	Unemployment rate(%)
1° United States	15,065	1.7	8.5
2° China	6,988	9.3	4.1
3° Japan	5,855	-0.9	4.5
4° Germany	3,629	3.1	6.6
5° France	2,808	1.8	9.8
6° Brazil	2,518	2.7	4.7
7° United Kingdom	2,481	0.9	8.4
8° Italy	2,246	0.4	8.9
9° Russia	1,885	4.3	6.1
10° India	1,843	7.0	9.4

Top 10 World Economies in 2011 (2)

	GDP (US\$ bi.)	Consumer Price Index (%)	Producer Price Index (%)
1° United States	15,065	2.9	3.0
2° China	6,988	3.2	0.7
3° Japan	5,855	0.1	-0.3
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Recent Economic Developments

Inflation

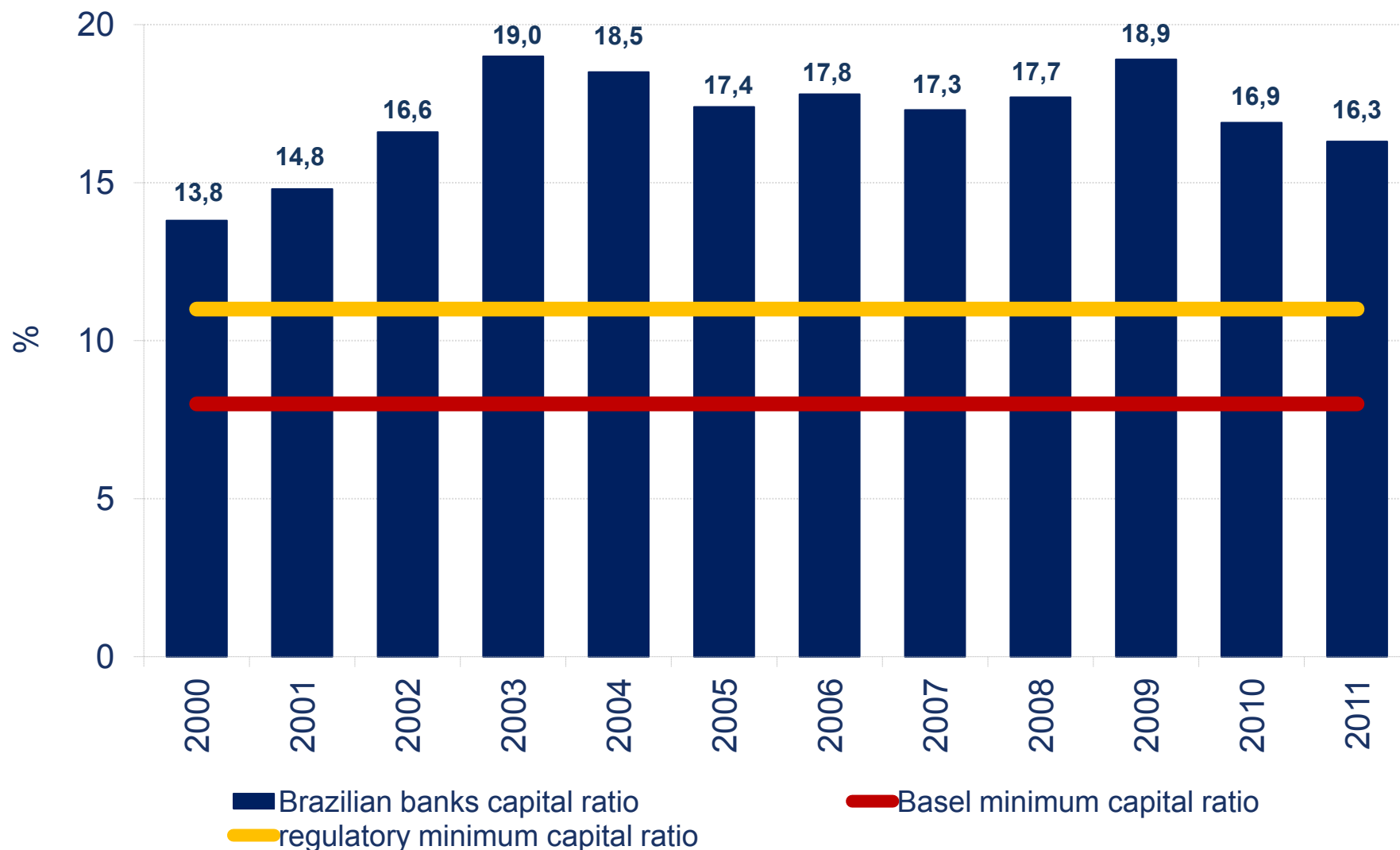
Activity

Credit & Financial System

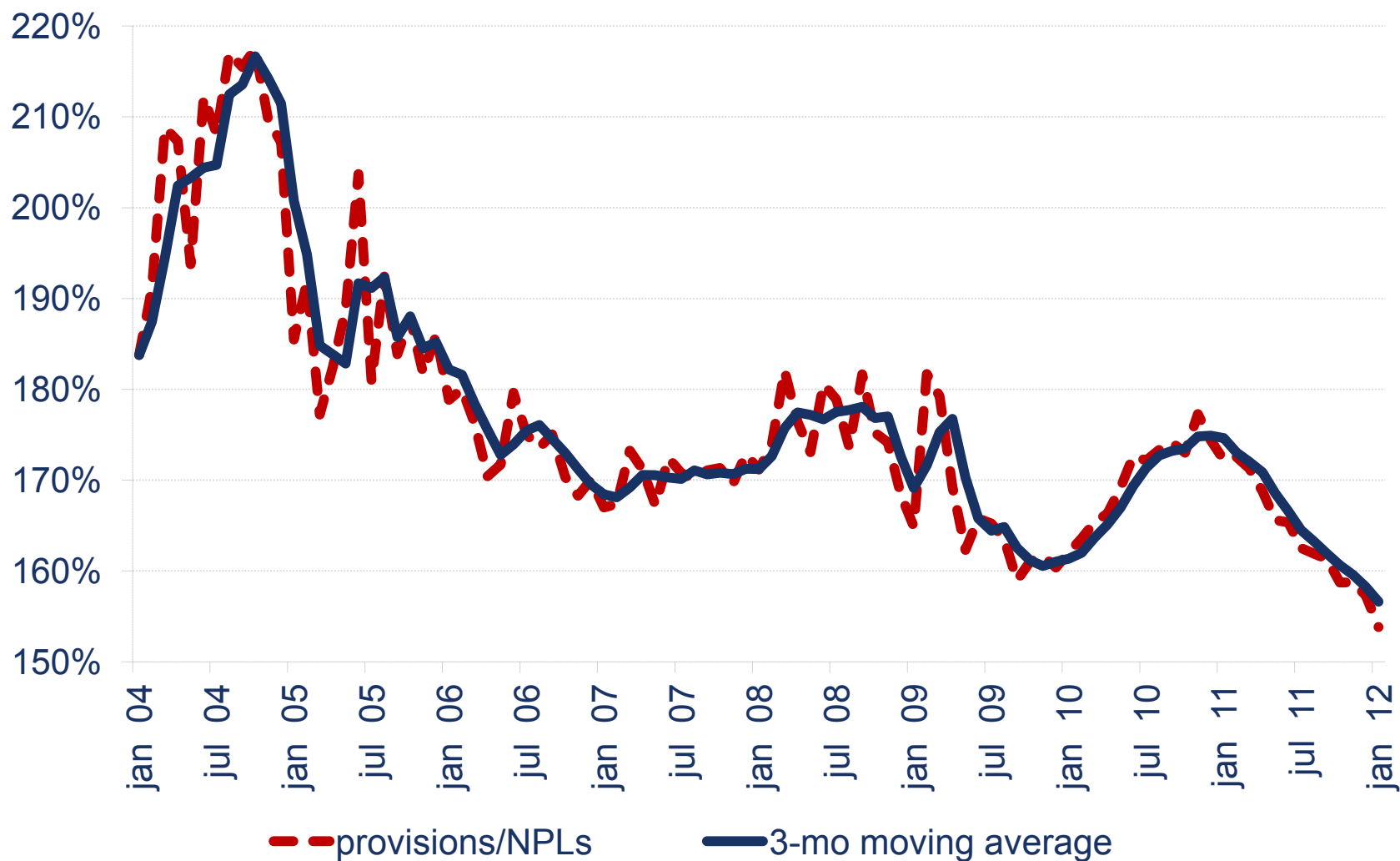
Credit and Financial System

- **Brazilian financial system is well capitalized**
- **Provisioning is rigorous**
 - Provisions are based on expected losses (but consider incurred losses also), reducing procyclicality
 - Full provisioning is required in a shorter time frame – 6 months after the first delinquency for many operations
 - Write-offs are required in a shorter time frame – 6 months after full provisioning
- **Credit is growing at a sustainable pace**
- **Access to banking services is increasing**

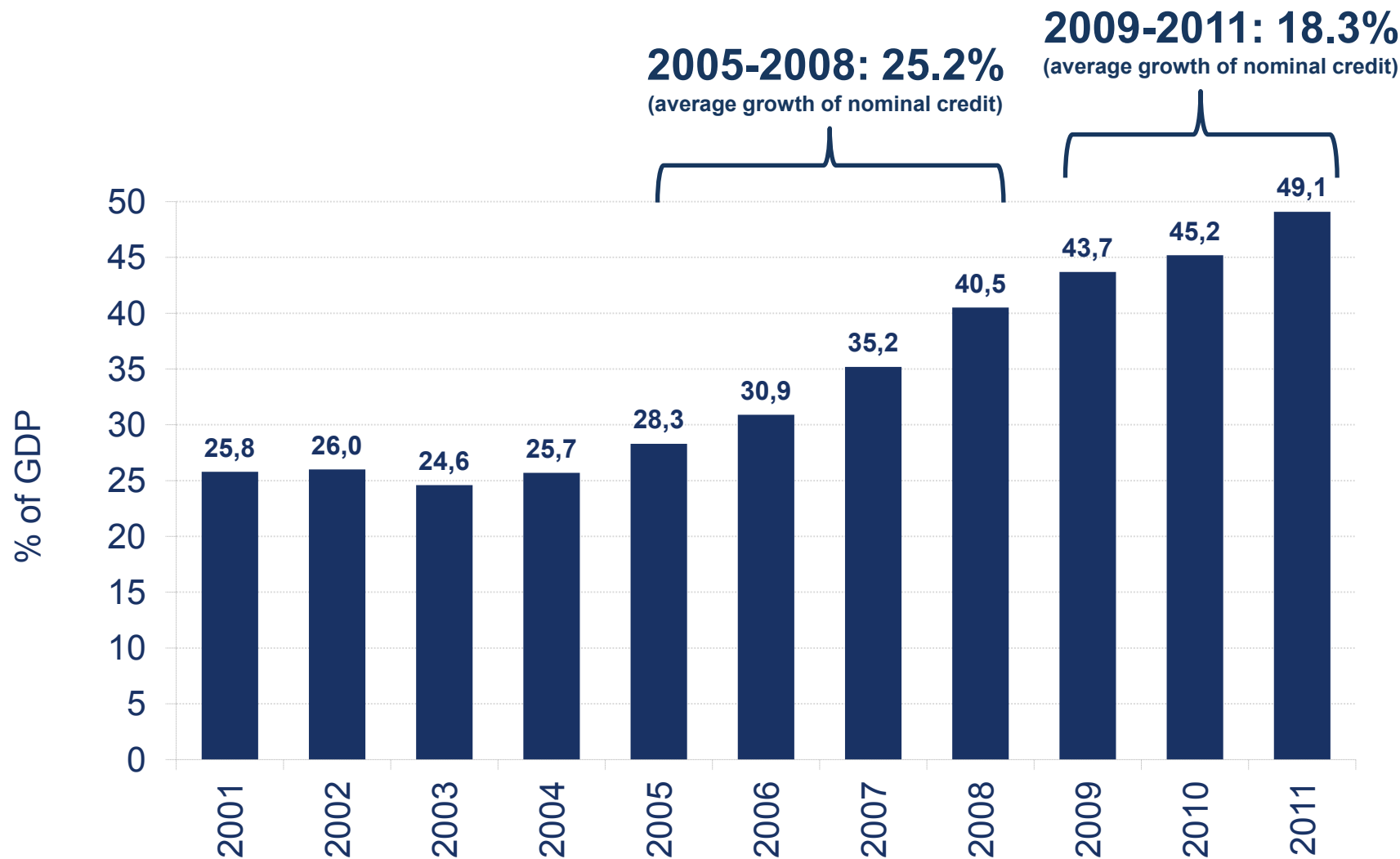
Brazilian Banks Well Capitalized



Rigorous Provisioning



Credit Growing at a Sustainable Pace



Greater Access to Banking Services

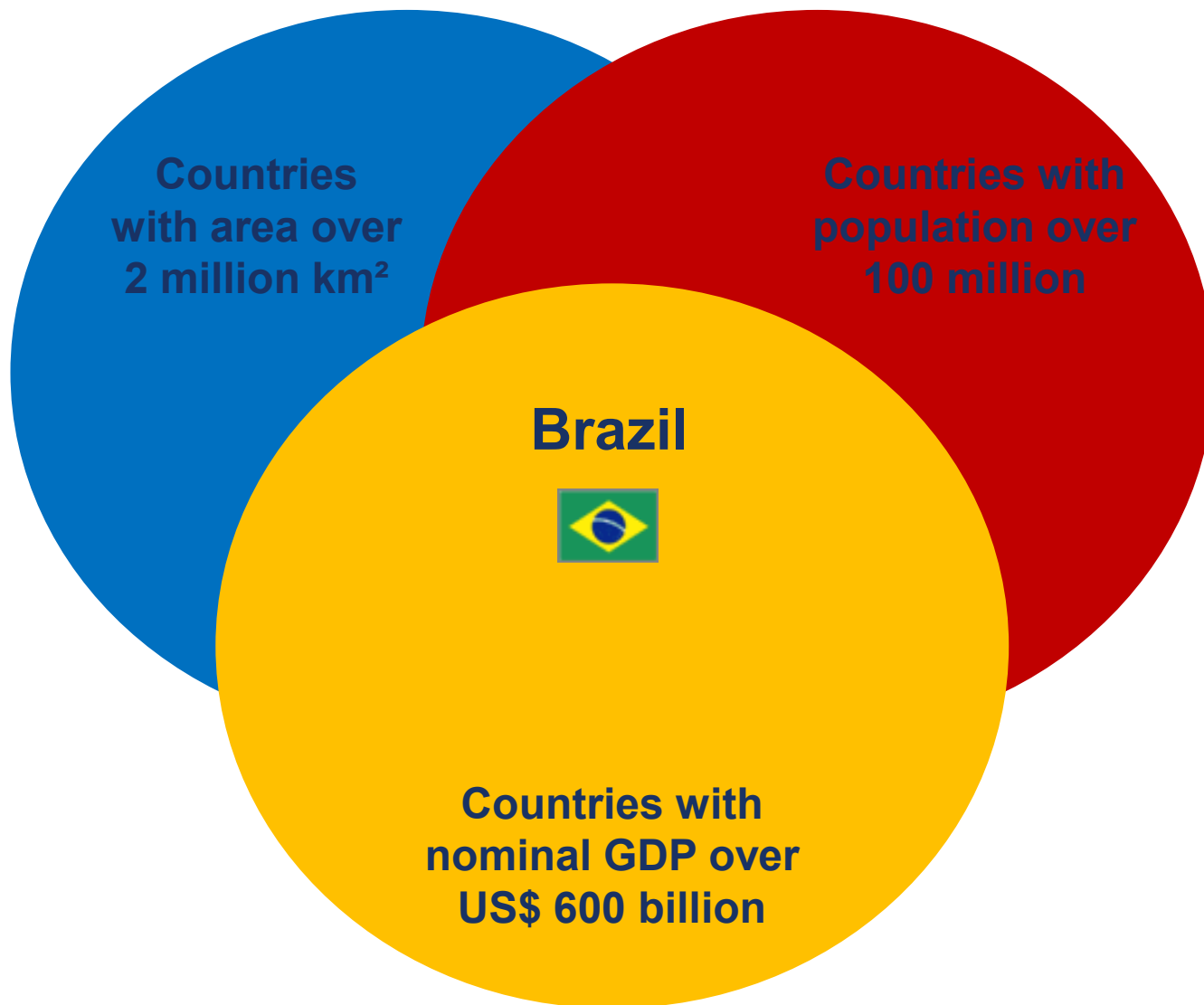
	2002	2009	2011
Accounts (banking sector)	55,708,468	83,308,800	91,944,421
Customers	87,630,527	151,102,765	174,791,126
Branches			
banking sector	17,049	20,046	21,278
all financial institutions	17,756	21,287	22,628
Posts of service (banking sector)	32,769	53,628	60,375
ATMs	129,913	165,567	174,920
Domestic correspondents	78,539	151,351	177,925
Municipalities			
Without banking services	222	-	-
With banking services	5,358	5,566	5,564
Municipalities banking services coverage	96%	100%	100%

Looking Forward

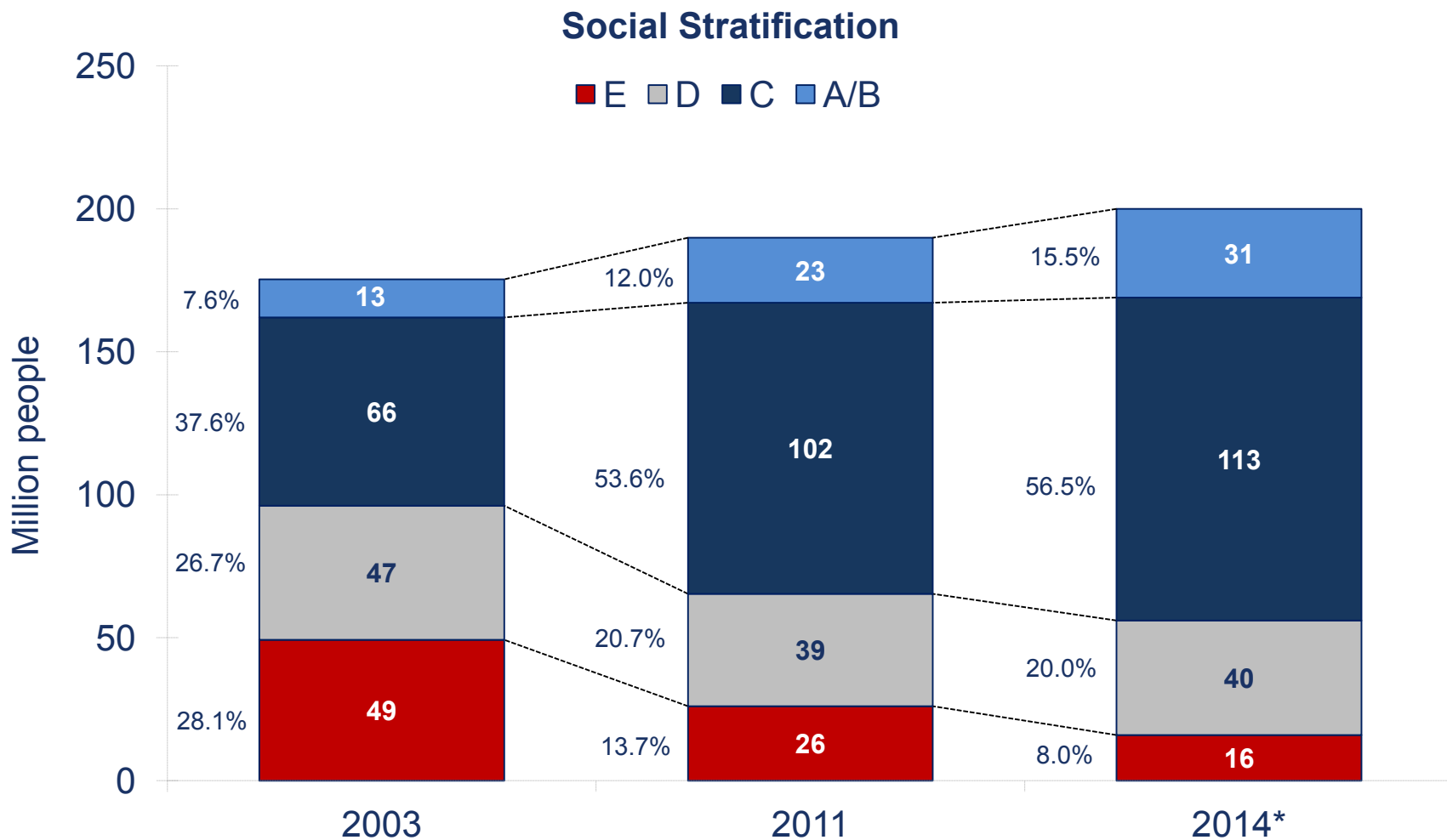
Outlook for Brazil

- Sustainable GDP growth over the coming years
- Social gains and expansion of the middle class
- Demographic bonus until 2025
- Major investment opportunities
 - Expanding and upgrading infrastructure
 - Offshore oil fields (“pre-salt” layer)
 - Vast reserves of mineral commodities
 - Potential to expand cultivated area and agricultural production
 - Major international sports events (FIFA World Cup in 2014 and Olympics Games in 2016)

Brazil in a Select Group of Major Economies



Growing Middle Class → Expanding Consumer Market



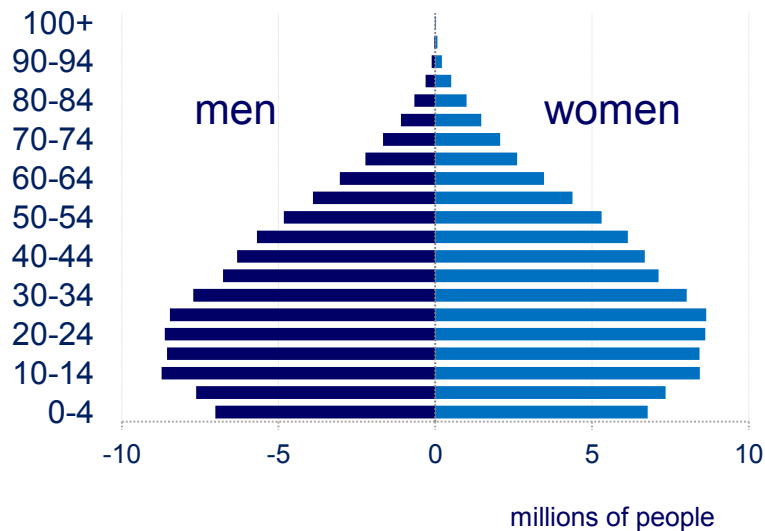
monthly per capita incomes

A/B: above BRL 923 D: BRL 135 – 214
 C: BRL 214 – 923 E: below BRL 135

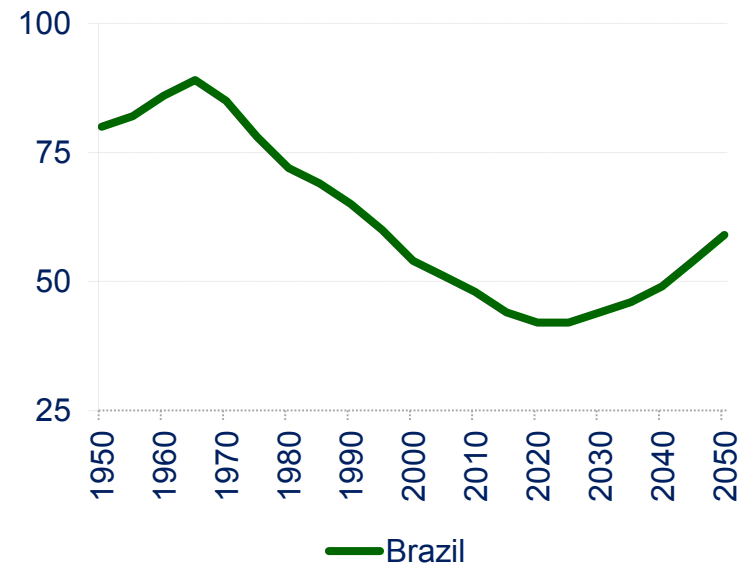
BRL 100 = USD56
 USD = 1.8 BRL (March 14, 2012)

Favorable Demographics

Population Pyramid (2010)



Dependency Ratio



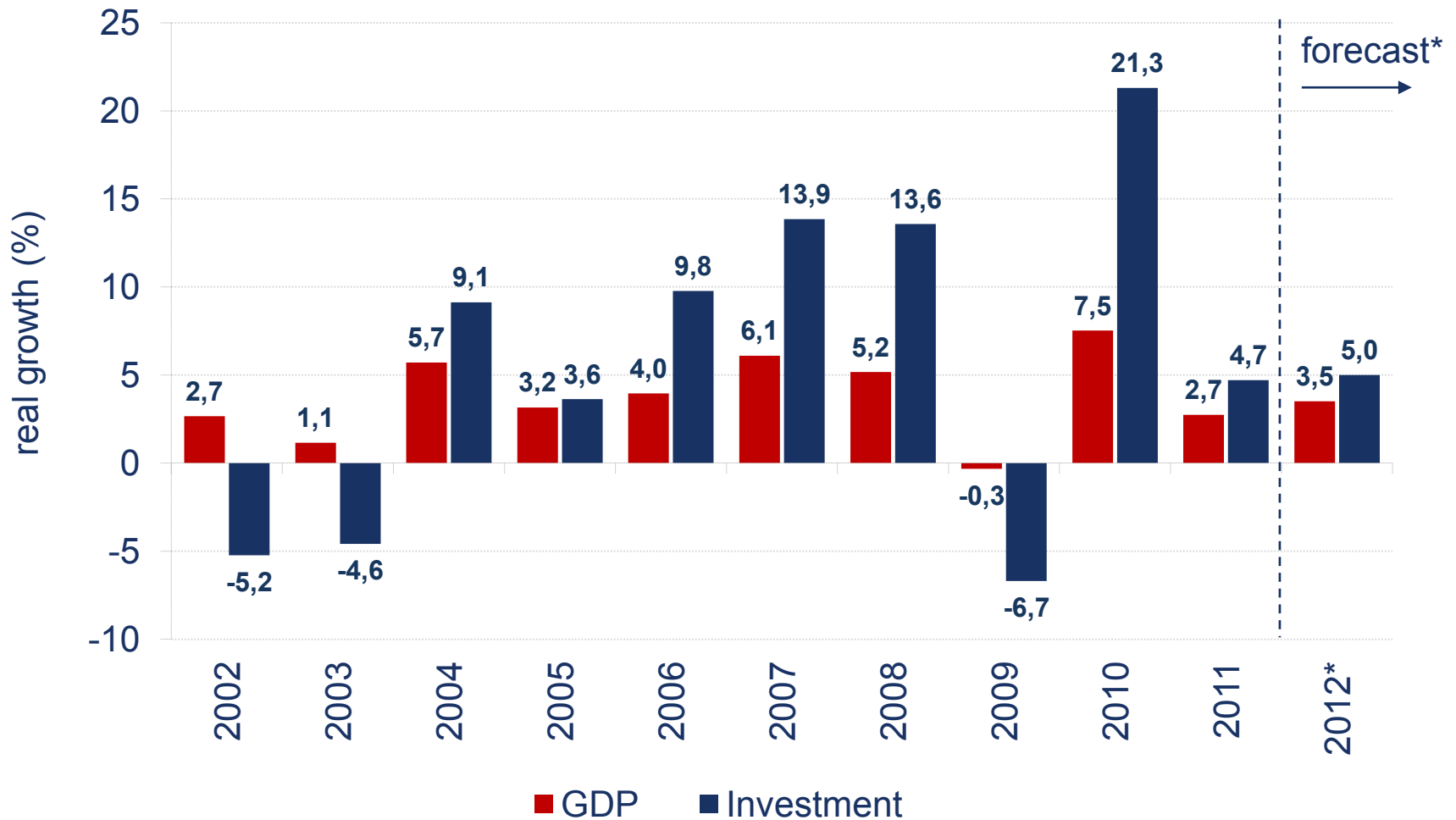
- Brazilian population is highly concentrated within the Economically Active Population range
- Brazil's dependency ratio is still declining, while other countries already face an upward trend

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

Public Pensions Reform Advances in Congress

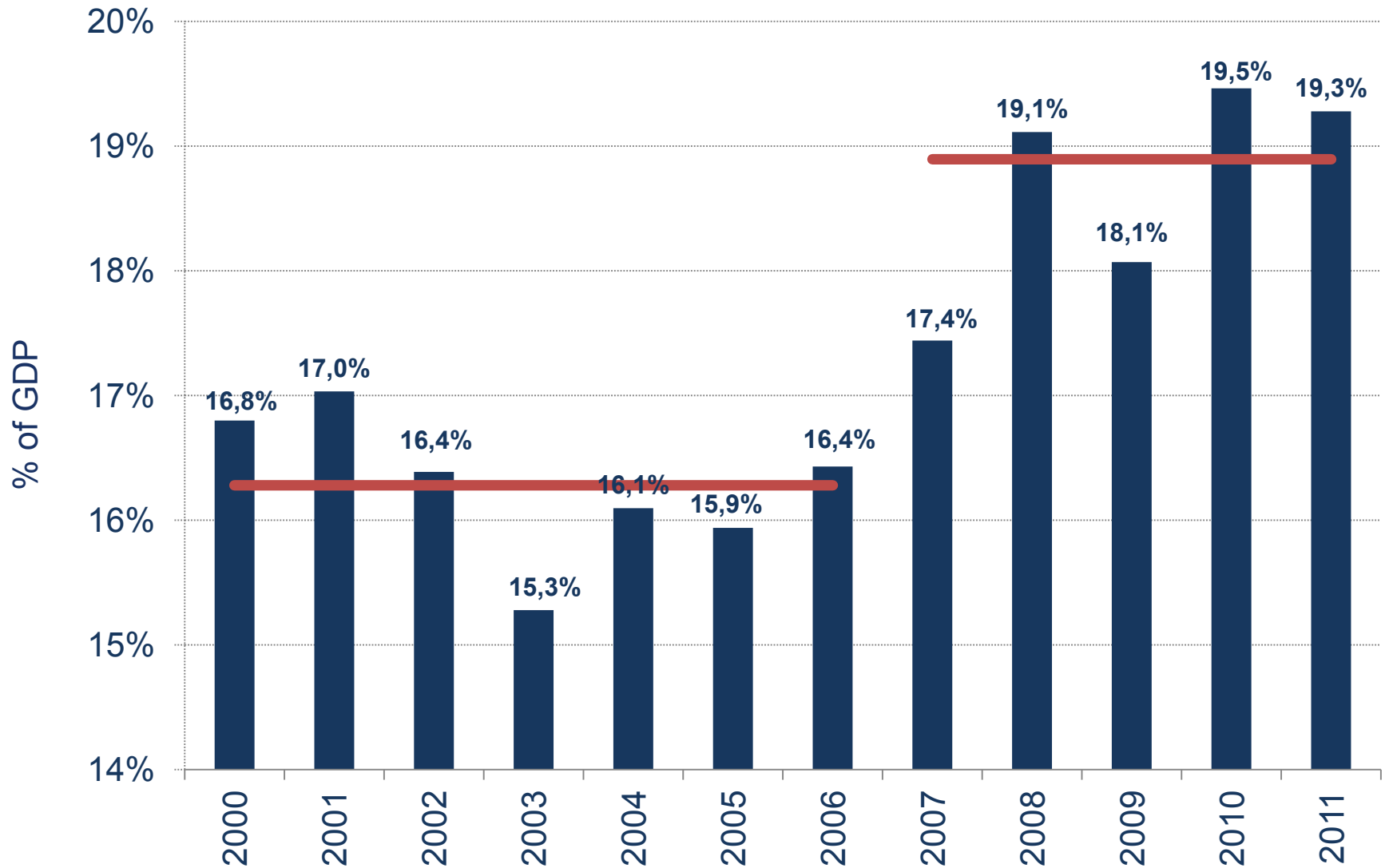
- The Lower House of Congress recently passed a new, capitalization-based, supplementary pension scheme for civil service employees. The bill is now in the Senate
- The new system will lead to higher domestic savings and a stronger public sector fiscal position in the long-term
- It will also encourage the development of local capital markets, especially for long-term debt instruments

Investment Growing Faster Than GDP

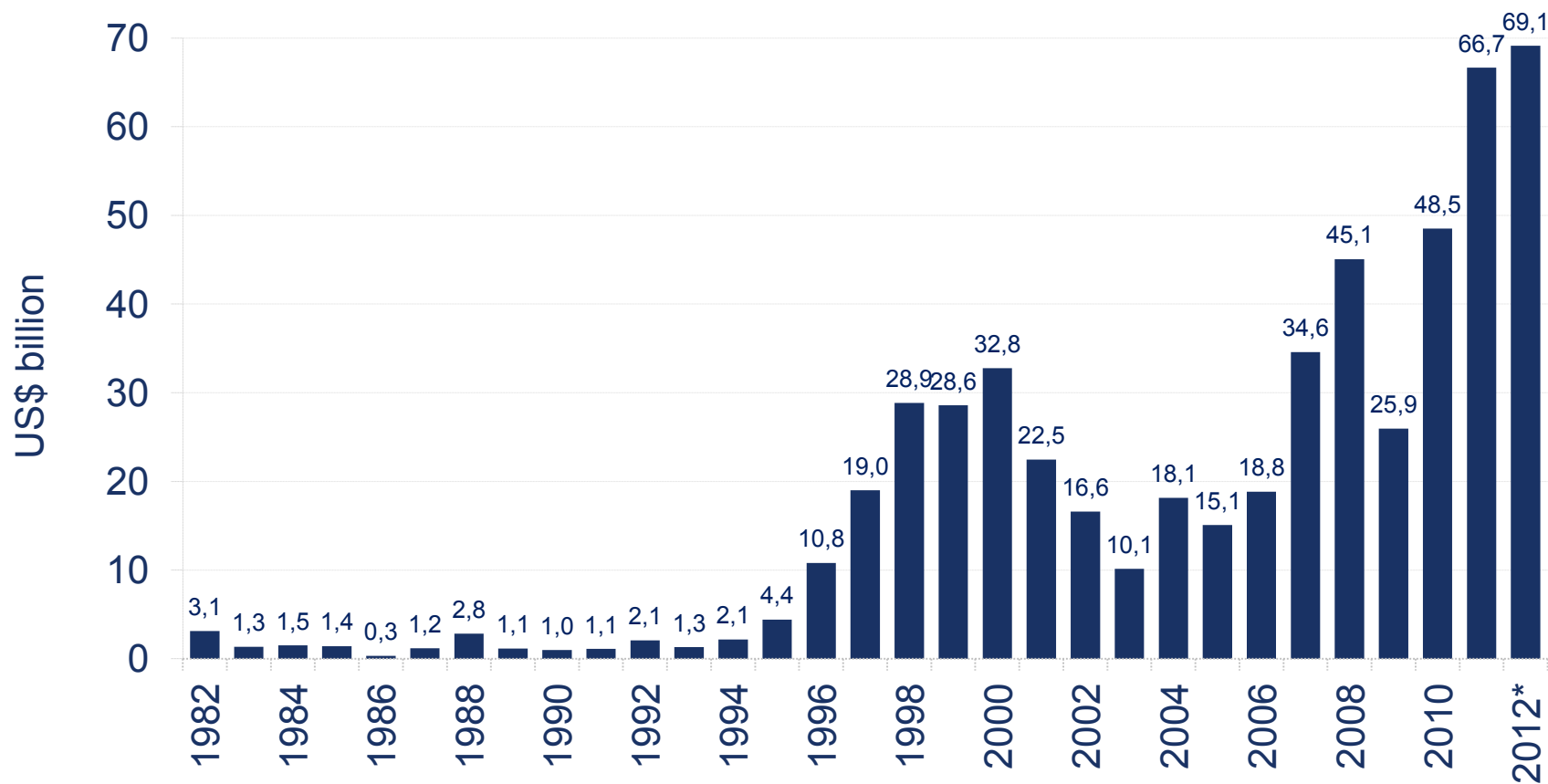


*forecast from Central Bank of Brazil (Inflation Report – Dec 11)

Investment Rate at a New Level

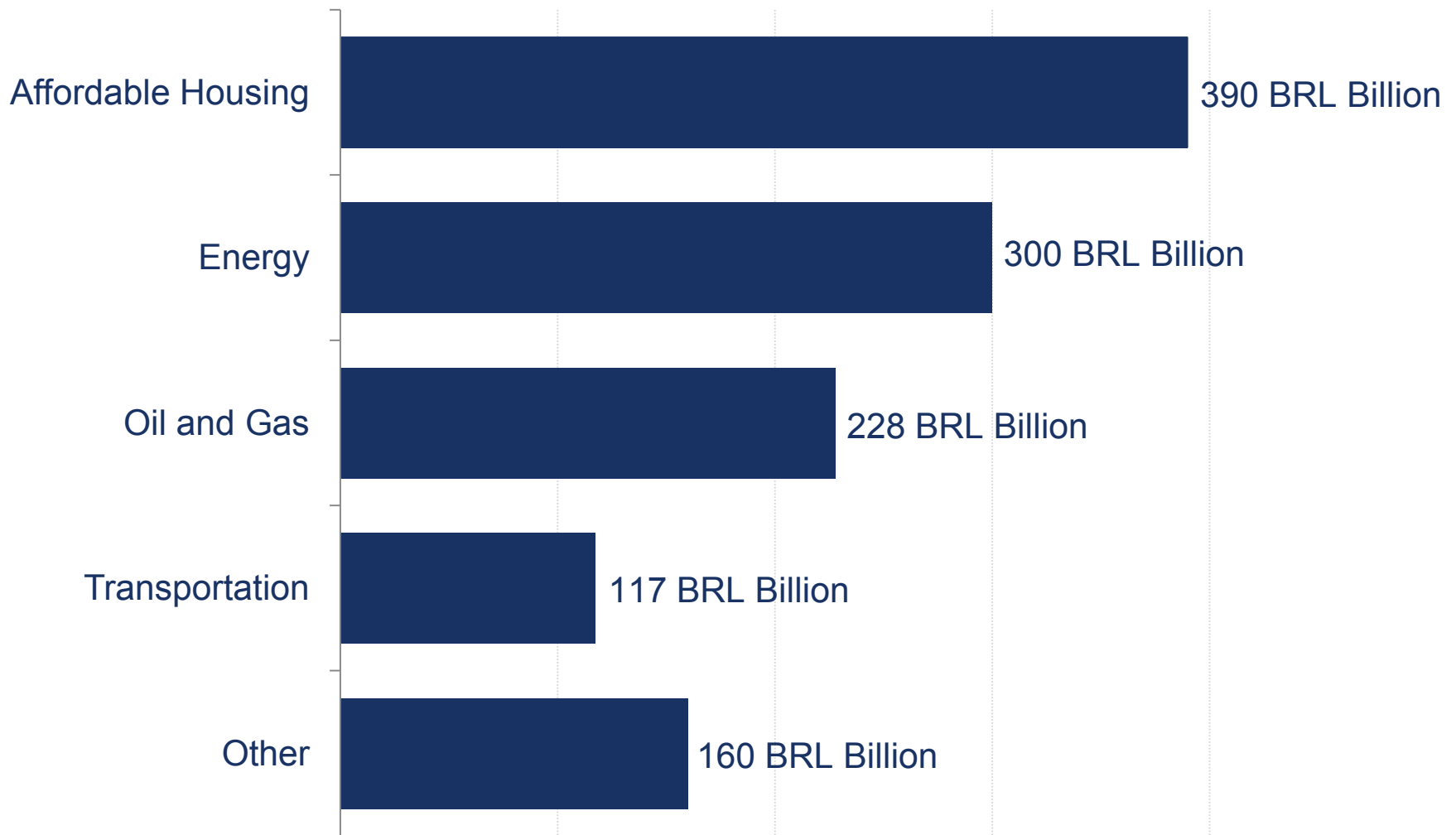


Brazil is a Major Recipient of FDI



*up to Jan 12

Major Infrastructure Investments Planned for 2012-2015

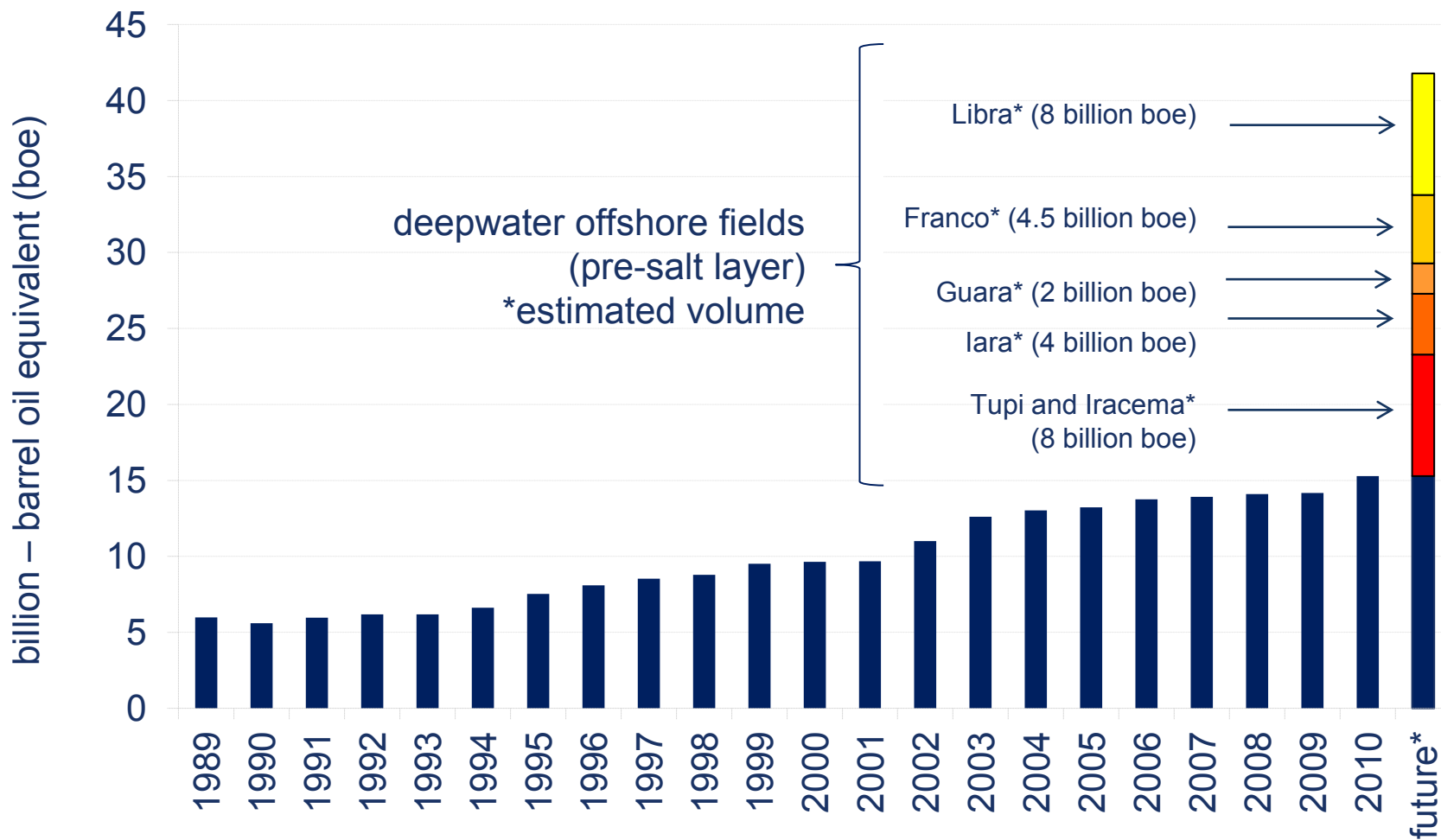


Airports Will Receive Private Investment

- Brazil is privatizing airport operations in order to boost investment and improve management
- 1st Round: São Gonçalo do Amarante (new airport)
 - Concession term: 25 years
 - Investment: US\$ 350 million
 - Capacity: 8 million passengers
- 2nd Round: Guarulhos, Campinas and Brasília
 - Concession term: 20-30 years
 - Investment: US\$ 9 billion
 - Capacity: increase from 50 to 180 million passengers

Oil Reserves Set to Grow

crude oil, LNG and natural gas



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