2010 Brazil Economic Conference

Henrique de Campos Meirelles

Brazilian-American Chamber of Commerce
October 2010
Brazil in 2003

- 60% of total sovereign debt denominated in dollars
- IMF debtor country
- High public debt to GDP ratio: 60.6%
- Policy rate at 25%
- Rising inflation
- High country risk premiums and sovereign debt rated as speculative grade
- Unemployment rate at 12%
- Minimum wage at US$ 60
Changes in Economic Policy

2003: Monetary and fiscal policy stance

Austere monetary policy  Strong fiscal adjustment

- Quick disinflation
  - Jan 03: 30% (annual rate)
  - Jul 03: 0%
- Inflation on target since 2004
- Decrease in the public debt
- Decrease in sovereign debt exposure on FX
- As a result: decrease in country risk premium
Floating Exchange Rate Regime and Build Up of International Reserves

International reserves allow for a safe fluctuation of the exchange rate.

Source: Central Bank of Brazil
Net External Debt and Risk

Sources: Central Bank of Brazil and S&P
Macroeconomic Responsibility

Virtuous Circle:

- responsible policies → macroeconomic stability → lower risk premiums
- lower risk premiums → more credibility → stronger growth
- stronger growth → greater efficiency
- greater efficiency → lower interest rates
- lower interest rates → lower interest on public debt
- lower interest on public debt → decline in public debt to GDP ratio
- decline in public debt to GDP ratio → higher growth rate
- higher growth rate → expectations anchored
- expectations anchored → increased credibility
Macroeconomic Policy Framework

✓ Macroeconomic fundamentals of inflation targeting, fiscal responsibility, exchange rate flexibility, combined with

✓ Adequate prudential policy and solid bank supervision, resulted in

➤ capacity to absorb internal and external shocks
➤ macroeconomic and financial stability
➤ sustainable growth
➤ investment growth
➤ credit and capital market development
Investments x Country Risk

Sources: IBGE and JPMorgan
Credit – Outstanding Balances

consistent growth throughout the period

Source: Central Bank of Brazil
Capital market – primary issues

Source: CVM (Brazilian Securities Commission)  *12 months to August
Net Foreign Direct Investment

USD billion

Source: Central Bank of Brazil (market consensus)
3rd preferred host economy for FDI for the 2010-12 period

Source: UNCTAD
Brazilian External Liabilities

as a percentage of the gross external liabilities

2001

- Others: 26.4%
- FDI: 32.8%
- Fixed income: 30.9%
- Stocks (domestic and foreign): 9.9%

2010*

- FDI: 37%
- Others: 13.2%
- Fixed income: 18.6%
- Stocks (domestic and foreign): 31.3%

Source: Central Bank of Brazil

*August
Exports

Source: Central Bank of Brazil (market consensus)
Exports’ Diversification

Source: Central Bank of Brazil

* July
Price Stability and Real Payroll Growth

stability generates increasing well-being

Source: Central Bank of Brazil
Formal Job Creation

from January to August

14 million jobs created since 2003

Source: MTE/CAGED
Unemployment in Brazil

seasonally adjusted

Source: IBGE
Unemployment Rate

Source: Bloomberg

relatively dynamic labor market
Income Inequality Reduction

Gini Index

Source: IBGE/PNAD
Middle Class Growth and Poverty Reduction

- From 2003 to 2009
  - 35.7 million people have entered the middle class
  - 20.5 million have crossed the poverty line upwards

- 2010-2014 forecast for the current trend
  - 36.0 million more will enter the middle class
  - 14.5 million more will come out of poverty

- Family Grant Program (Bolsa Família): reduction of people in extreme poverty from 12% to the 4% level

Source: FGV-CPS
Lower Level of Poverty

% of population

2003: 28.1
2004: 25.4
2005: 22.8
2006: 19.3
2007: 18.3
2008: 16.0
2009: 15.3

Source: CPS/FGV
Social Mobility

Source: Finance Ministry; * estimated
Performance Before and After the Crisis

compared to other emerging markets

GDP real growth %

2007 2008 2009 2010

Brazil

6.1 5.1 -2.1 (*) 7.5 (*)

EME ex. Brazil, India and China

5.8 3.5 -0.2 5.6 (*)

Source: FMI (WEO Oct 2010); * estimated
GDP Growth

annual real growth rate

Sources: IBGE and Central Bank of Brazil
Agenda for the Future

- Level of Domestic Saving
- Quality of Public Expenditures
- Investment Rate and Infra-Structure
- Education
- Review and Simplification of the Tax System
- Legal Environment more favorable to Business
- Incentive to Long Term Investment
## Investment prospects - industry

<table>
<thead>
<tr>
<th>Industry</th>
<th>BRL billion 2005-2008</th>
<th>BRL billion 2010-2013</th>
<th>Growth %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Oil and Gas</td>
<td>160</td>
<td>340</td>
<td>112.9</td>
</tr>
<tr>
<td>Mining</td>
<td>53</td>
<td>52</td>
<td>-2.7</td>
</tr>
<tr>
<td>Steel</td>
<td>26</td>
<td>51</td>
<td>99.5</td>
</tr>
<tr>
<td>Petrochemical</td>
<td>20</td>
<td>34</td>
<td>70.9</td>
</tr>
<tr>
<td>Automobile</td>
<td>23</td>
<td>32</td>
<td>37.8</td>
</tr>
<tr>
<td>Electric/Electronics</td>
<td>15</td>
<td>21</td>
<td>39.0</td>
</tr>
<tr>
<td>Pulp and Paper</td>
<td>17</td>
<td>19</td>
<td>10.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>314</strong></td>
<td><strong>549</strong></td>
<td><strong>74.8</strong></td>
</tr>
</tbody>
</table>

Source: BNDES
## Investment prospects - infrastructure

<table>
<thead>
<tr>
<th></th>
<th>BRL billion</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005-2008</td>
<td>2010-2013</td>
</tr>
<tr>
<td>Electricity</td>
<td>67</td>
<td>98</td>
</tr>
<tr>
<td>Telecommunication</td>
<td>66</td>
<td>67</td>
</tr>
<tr>
<td>Sanitation</td>
<td>22</td>
<td>39</td>
</tr>
<tr>
<td>Railways</td>
<td>19</td>
<td>56</td>
</tr>
<tr>
<td>Highways</td>
<td>21</td>
<td>36</td>
</tr>
<tr>
<td>Ports</td>
<td>5</td>
<td>15</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>199</strong></td>
<td><strong>310</strong></td>
</tr>
</tbody>
</table>

Source: BNDES

BRL billion Growth