



Brazilian Economy

Recent Performance, Business Opportunities and Challenges Ahead

Banco do Brasil S.A.

Strategy and Organization Directorship
Economic Advisory Unit

July, 2013



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Summary

Global Economic Outlook: a brief summary

Latin America: some structural shifts

Brazilian Economy:

A major structural shifts

Conditions for sustained growth

Challenges ahead

Business opportunities



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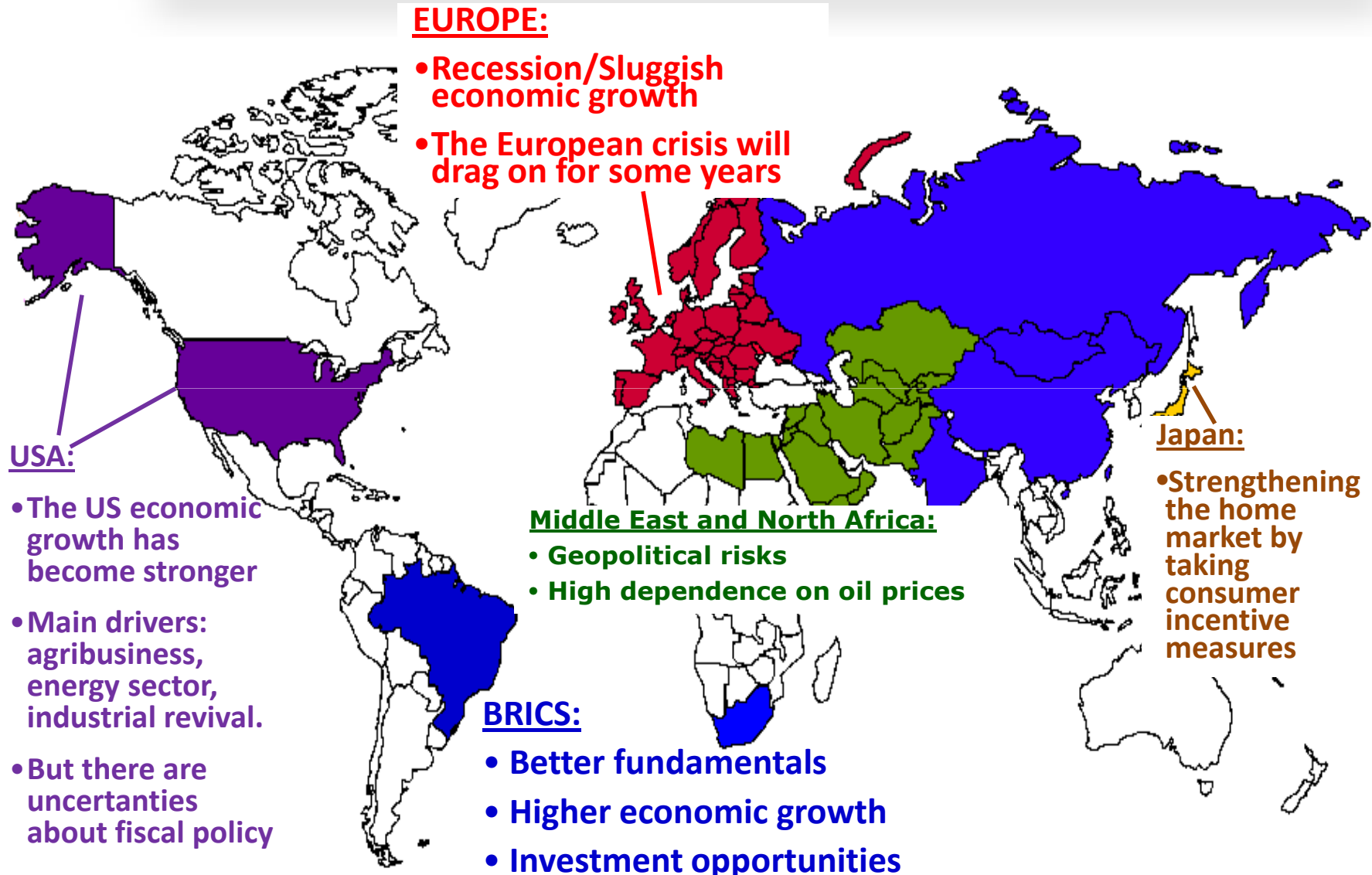
Challenges ahead

Business opportunities



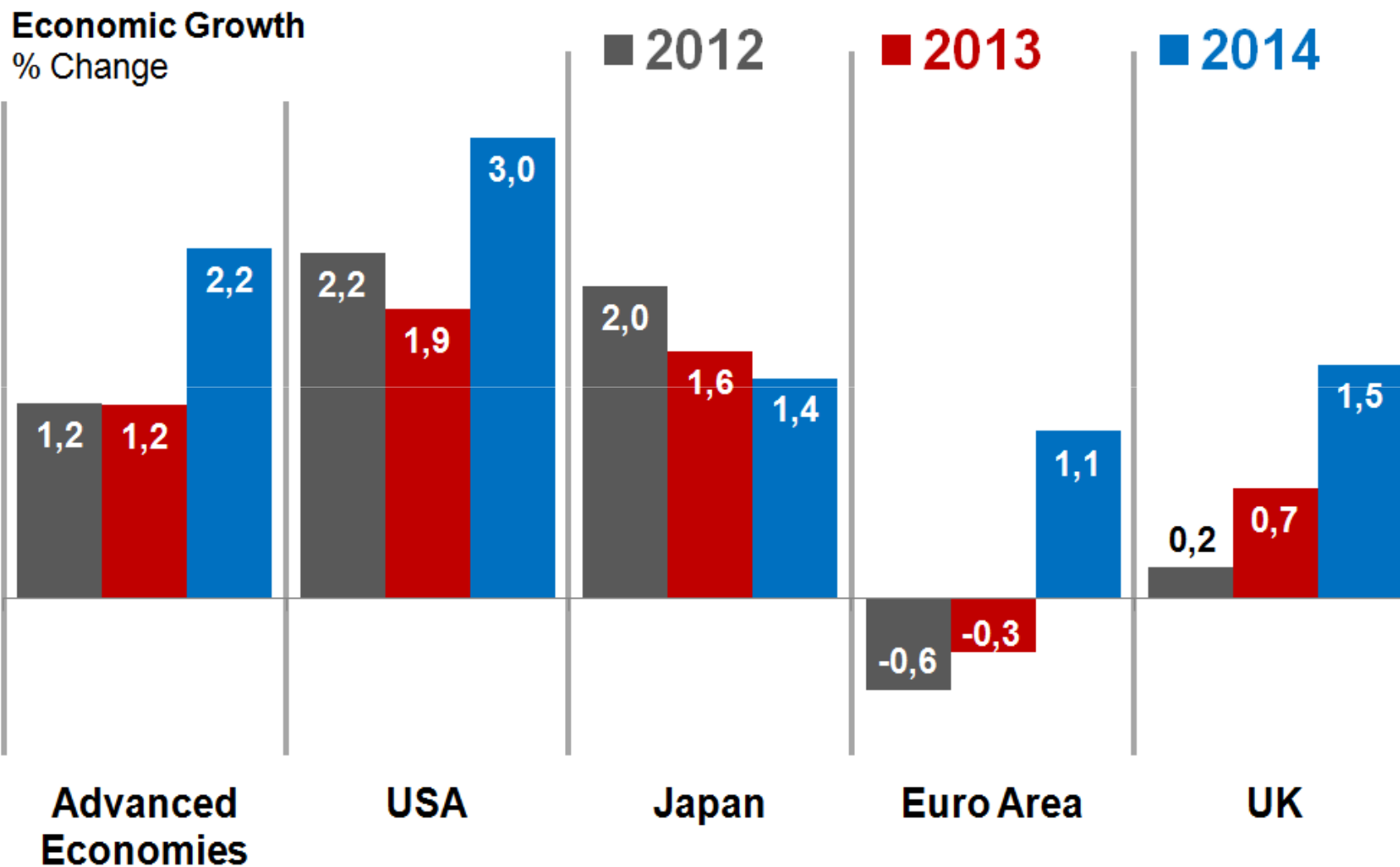
World economy:

growth, uncertainties and vulnerabilities





Advanced Economies: GDP growth forecast (in % per year)

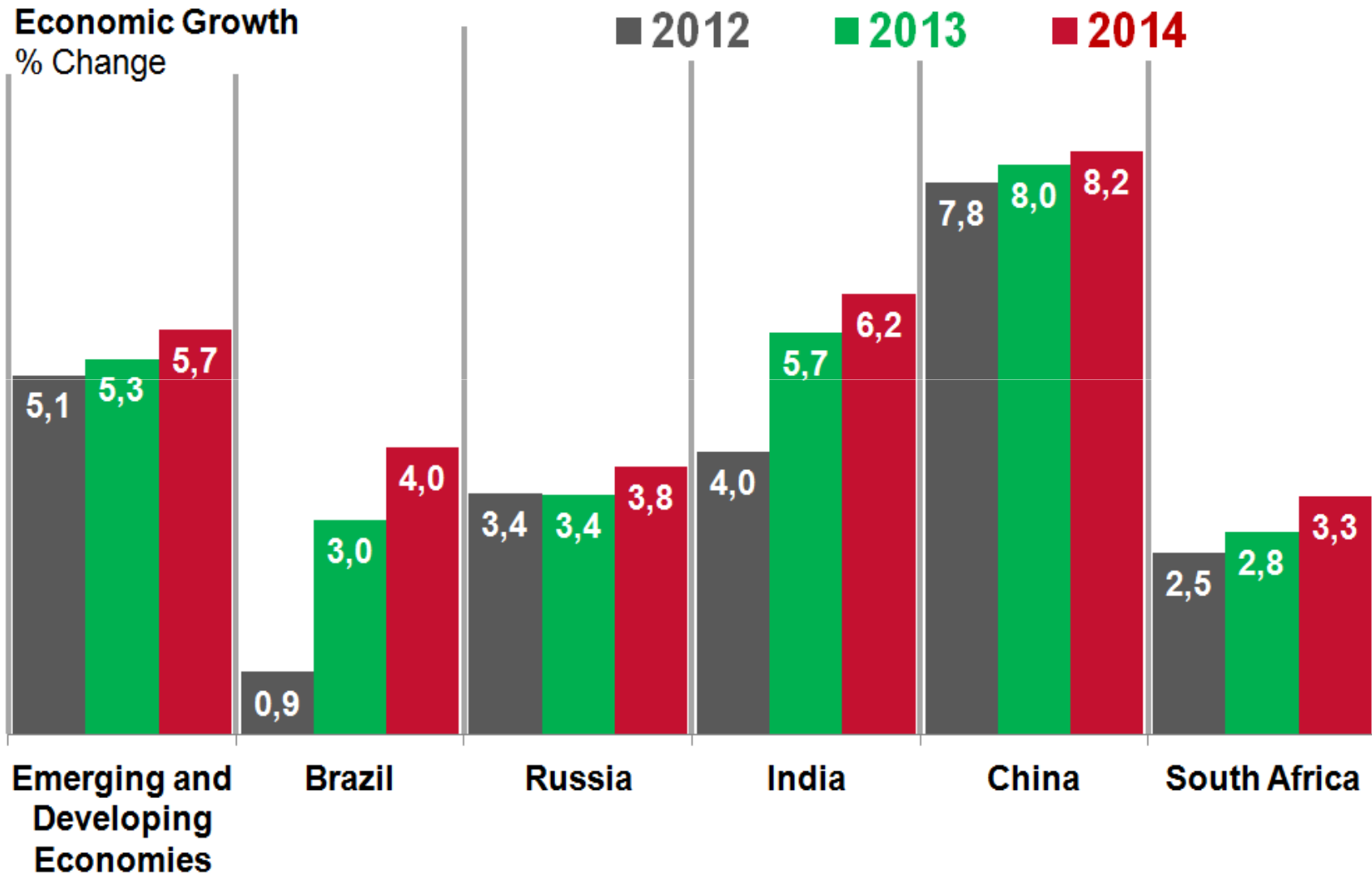


July/2013

Source and Forecasts: IMF - World Economic Outlook (Apr/13)



Emerging Economies (BRICS): GDP growth forecast (in % per year)



July/2013

Source and Forecasts: IMF - World Economic Outlook (Apr/13)



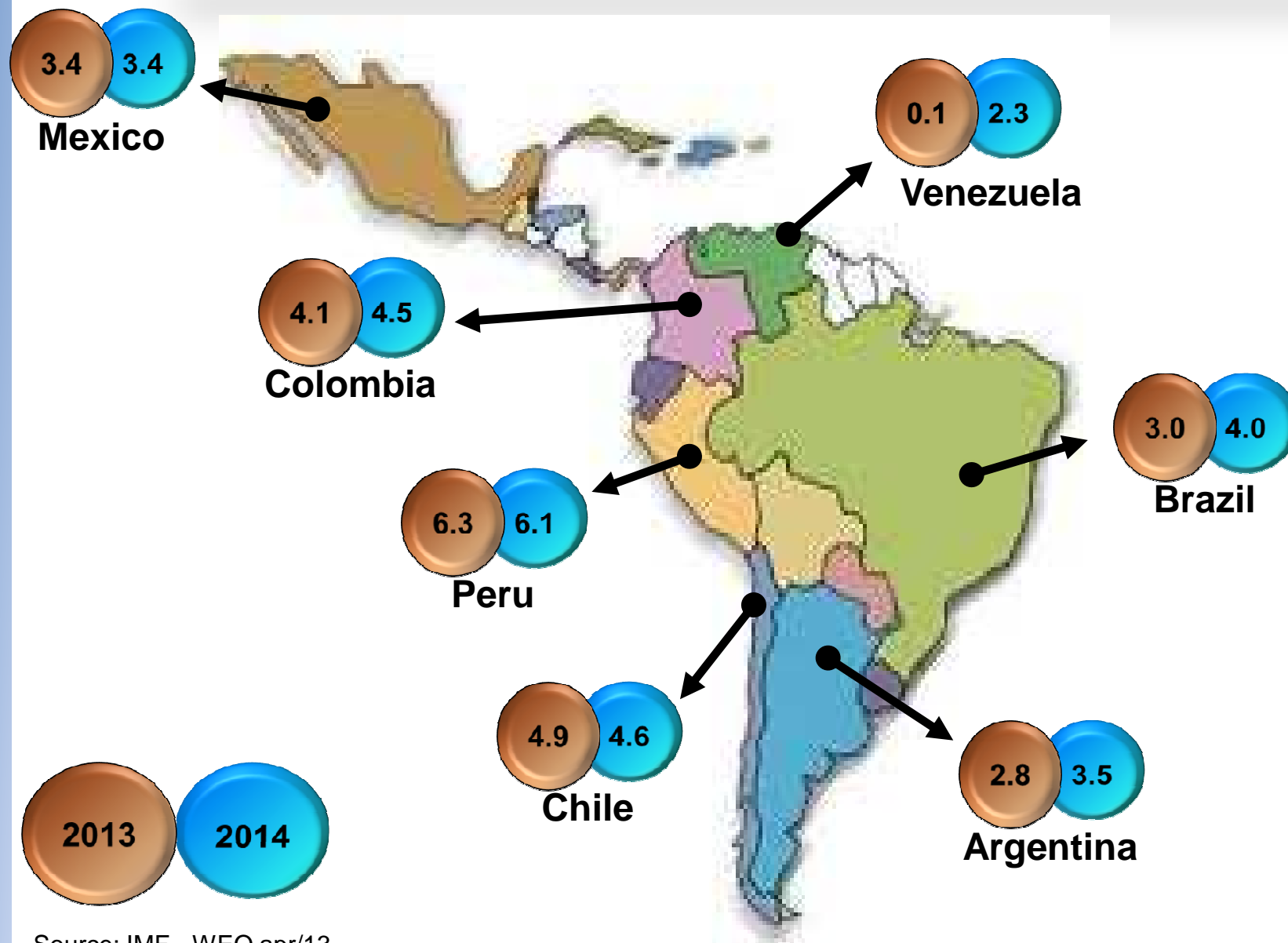
July/2013

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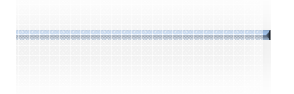
Latin America economy: GDP growth forecast (in % per year)



July/2013



Source: IMF - WEO apr/13



Brazilian Economy

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Ranking of countries per GDP

Brazil: the world's sixth largest economy

Nominal GDP: US\$ billion

Posição		2000		2011		2017
1º	United States	9.951	United States	15.076	United States	20.078
2º	Japan	4.731	China	7.322	China	13.498
3º	Germany	1.892	Japan	5.897	Japan	5.740
4º	United Kingdom	1.479	Germany	3.607	Germany	3.880
5º	France	1.330	France	2.778	Brazil	3.189
6º	China	1.198	Brazil	2.493	France	3.013
7º	Italy	1.107	United Kingdom	2.432	Russia	2.946
8º	Canada	740	Italy	2.196	United Kingdom	2.849
9º	Mexico	672	Russia	1.899	India	2.736
10º	Brazil	644	India	1.838	Italy	2.226

Source: FMI (World Economic Outlook - Apr/13)



Brazilian Economy

A major structural shift

The resilience of the Brazilian economy to adverse shocks has increased substantially in the last years



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Brazilian Economy

A major structural shift



MACROECONOMIC STABILITY:

- . Floating exchange rate/External equilibrium
- . Fiscal equilibrium
- . Inflation Targeting Regime



PRIVATIZATION:

- . Telephone companies
- . Mining and siderurgy
- . Roads, Ports, Airports



CREDIT MARKET:

- . Stability of the financial system
- . Reduction of the interest rates and banking *spreads*
- . Improvements in the financial legislation

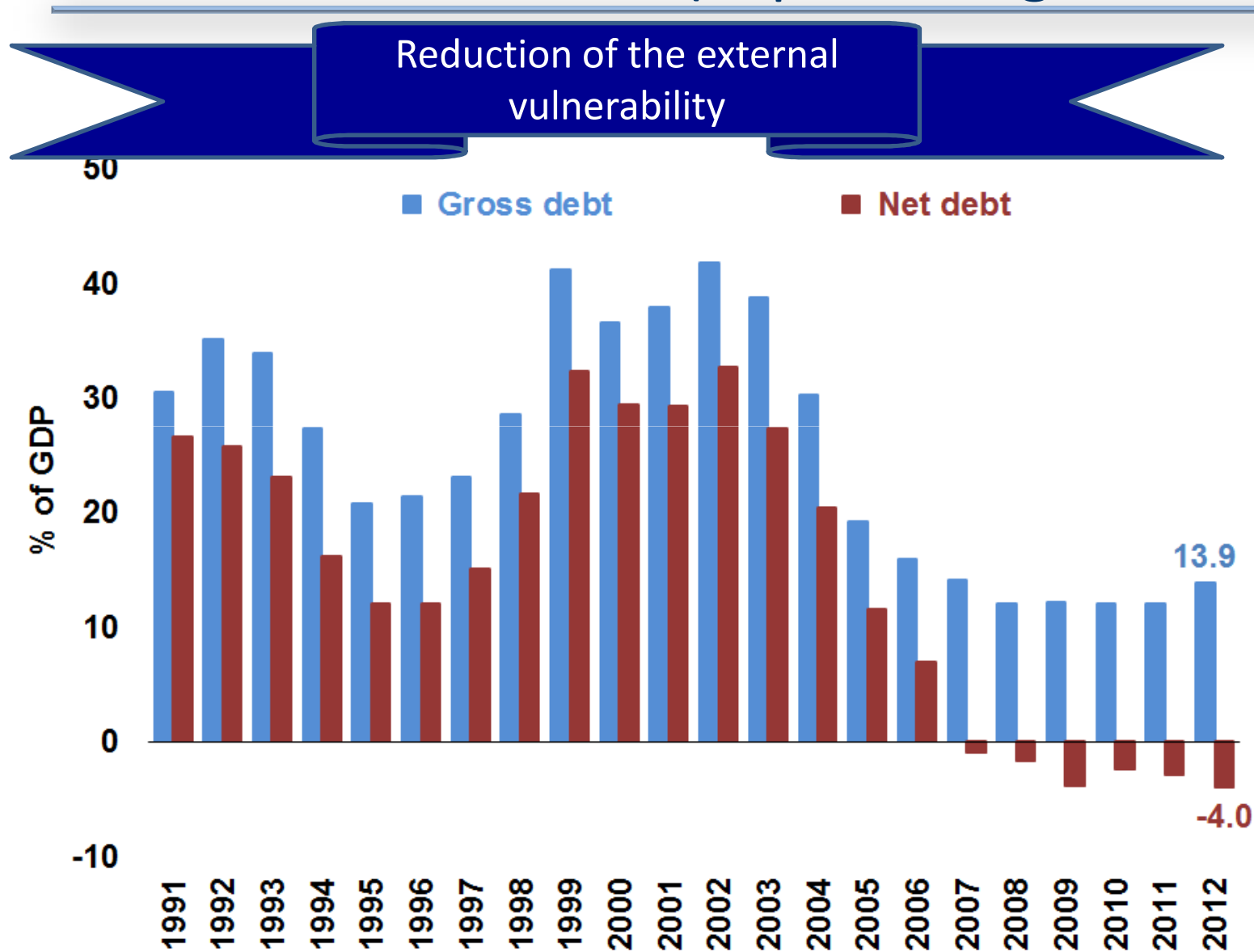


DOMESTIC CONSUMPTION:

- . Better income distribution
- . Social mobility with vertical improvements
- . Solid labor market



Gross and Net External Debt (in percentage of GDP)





International Reserves (US\$ billion)

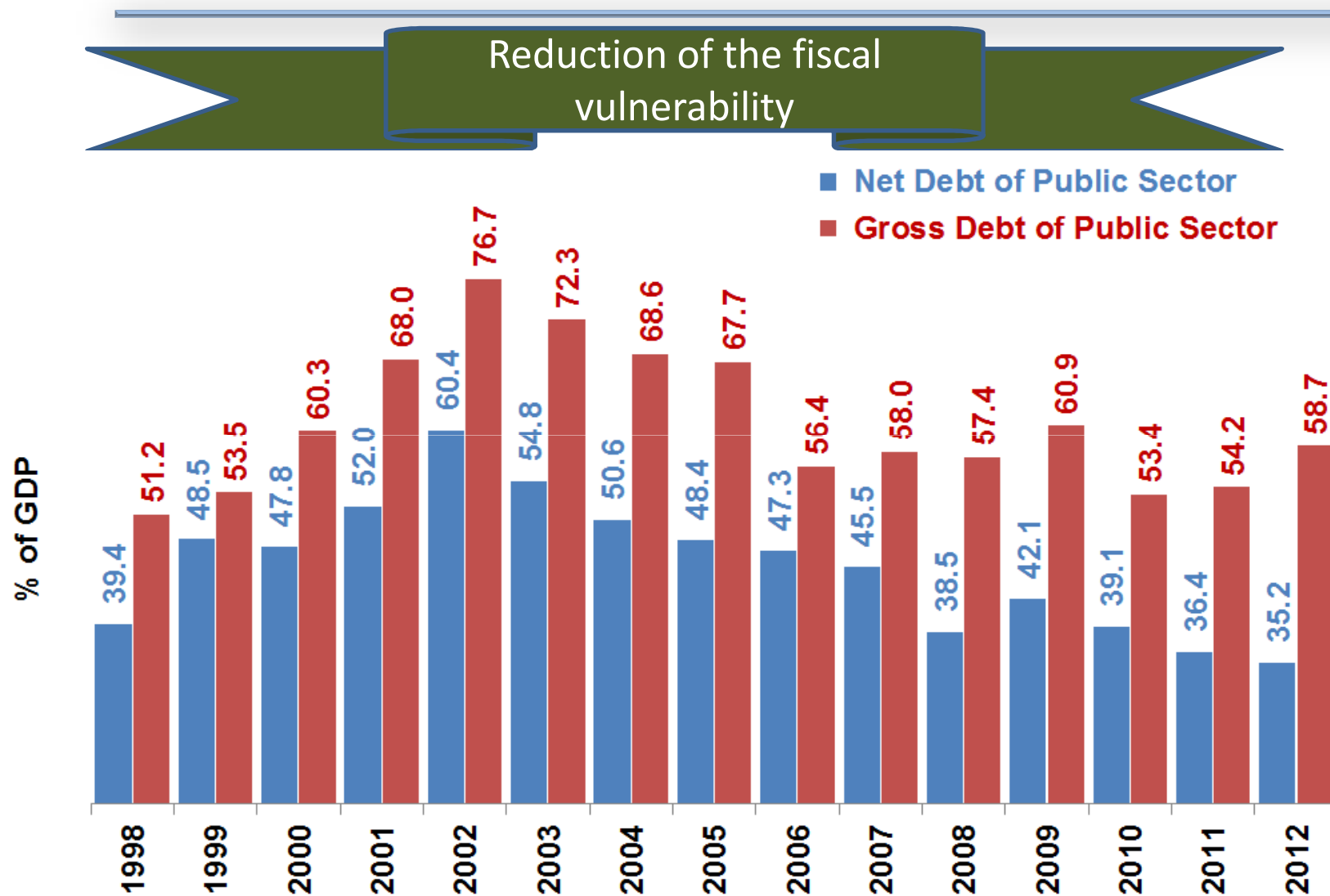
Reduction of the external
vulnerability



Source: BCB



Gross and net public debt (in percentage of GDP)

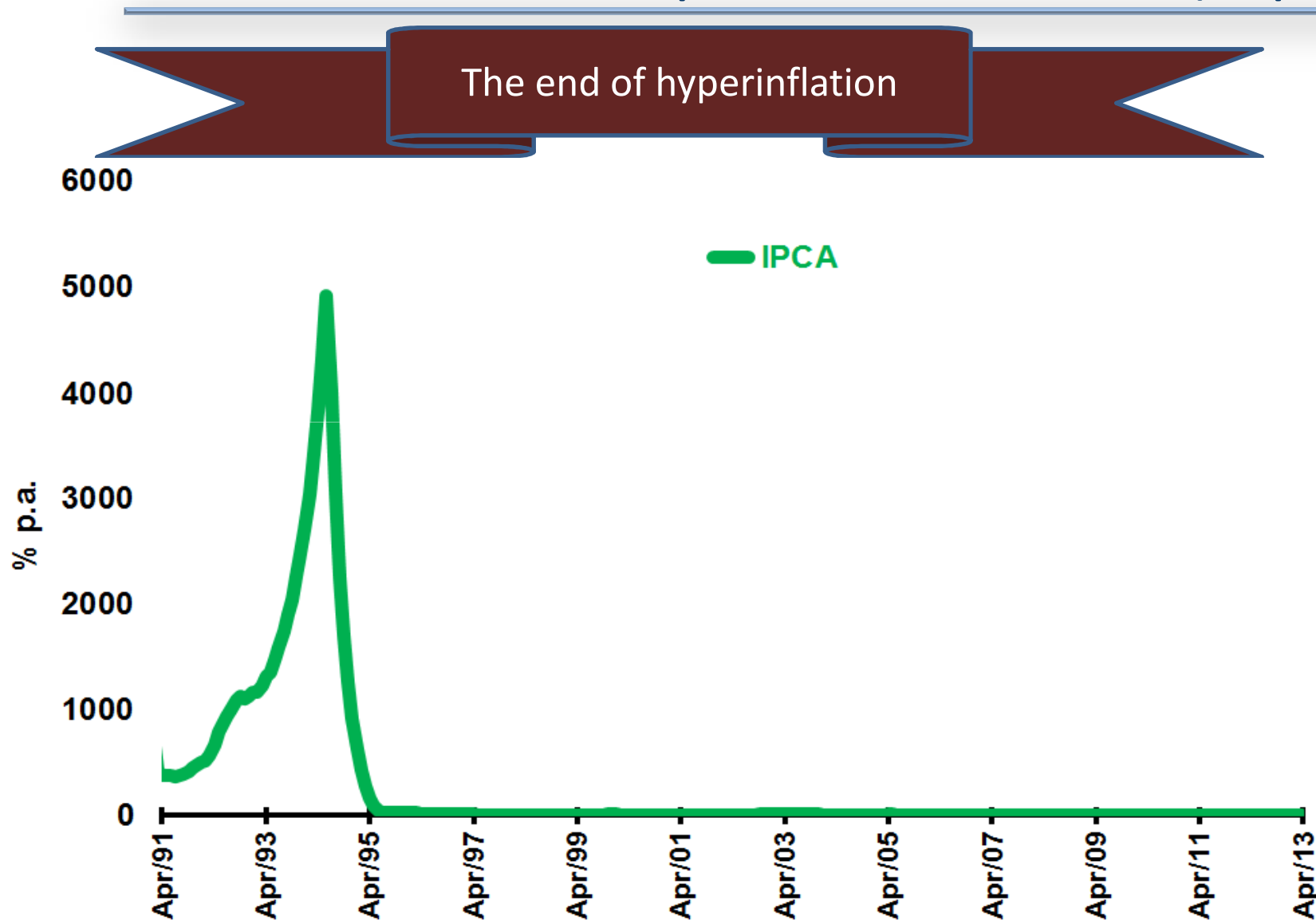


Source: BCB
New methodology from 2007



Inflation

Consumer price index – IPCA (% p.y)





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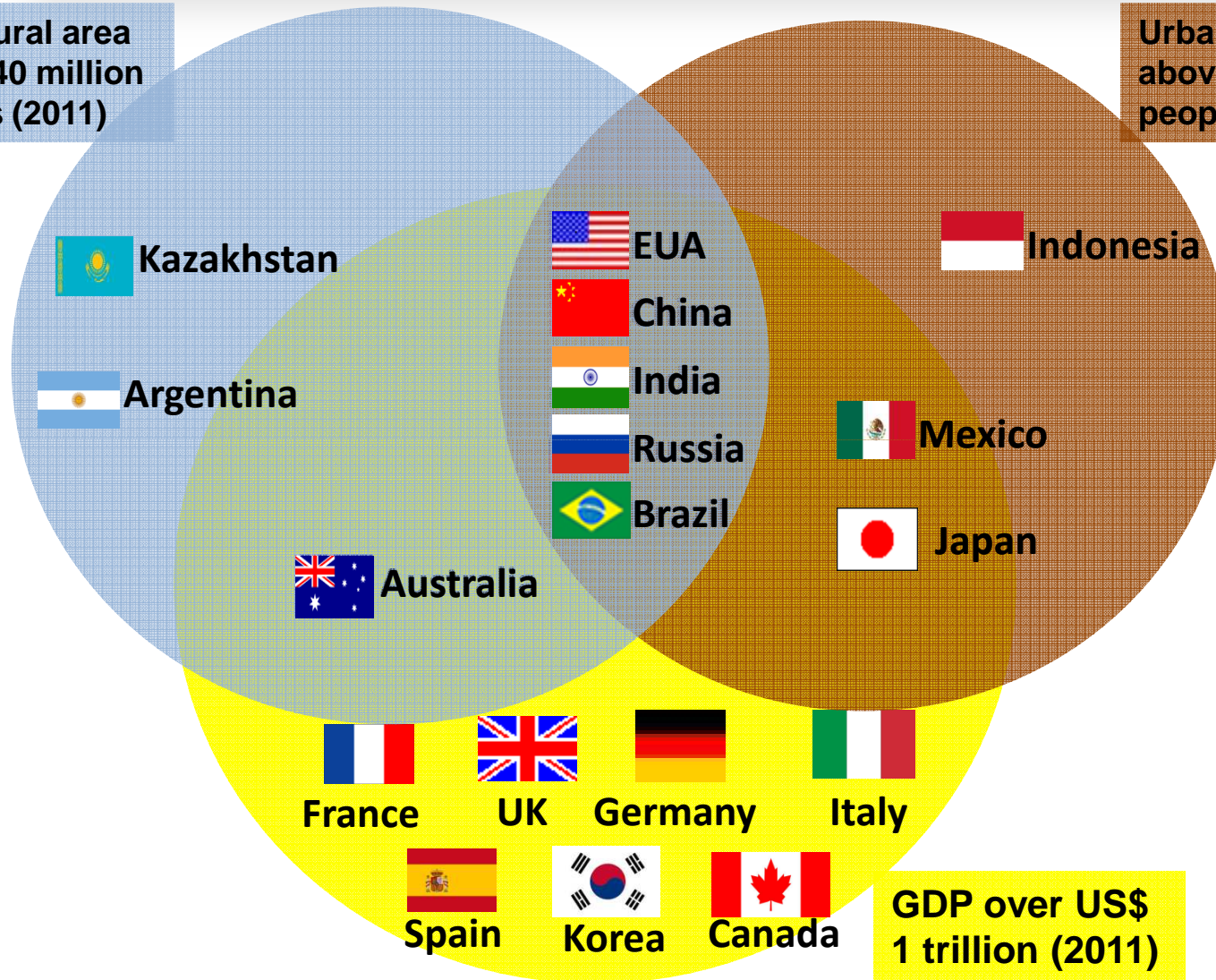


Conditions for sustained growth

There are only few countries with the potential Brazil has

Agricultural area above 140 million hectares (2011)

Urban population above 80 million people (2011)



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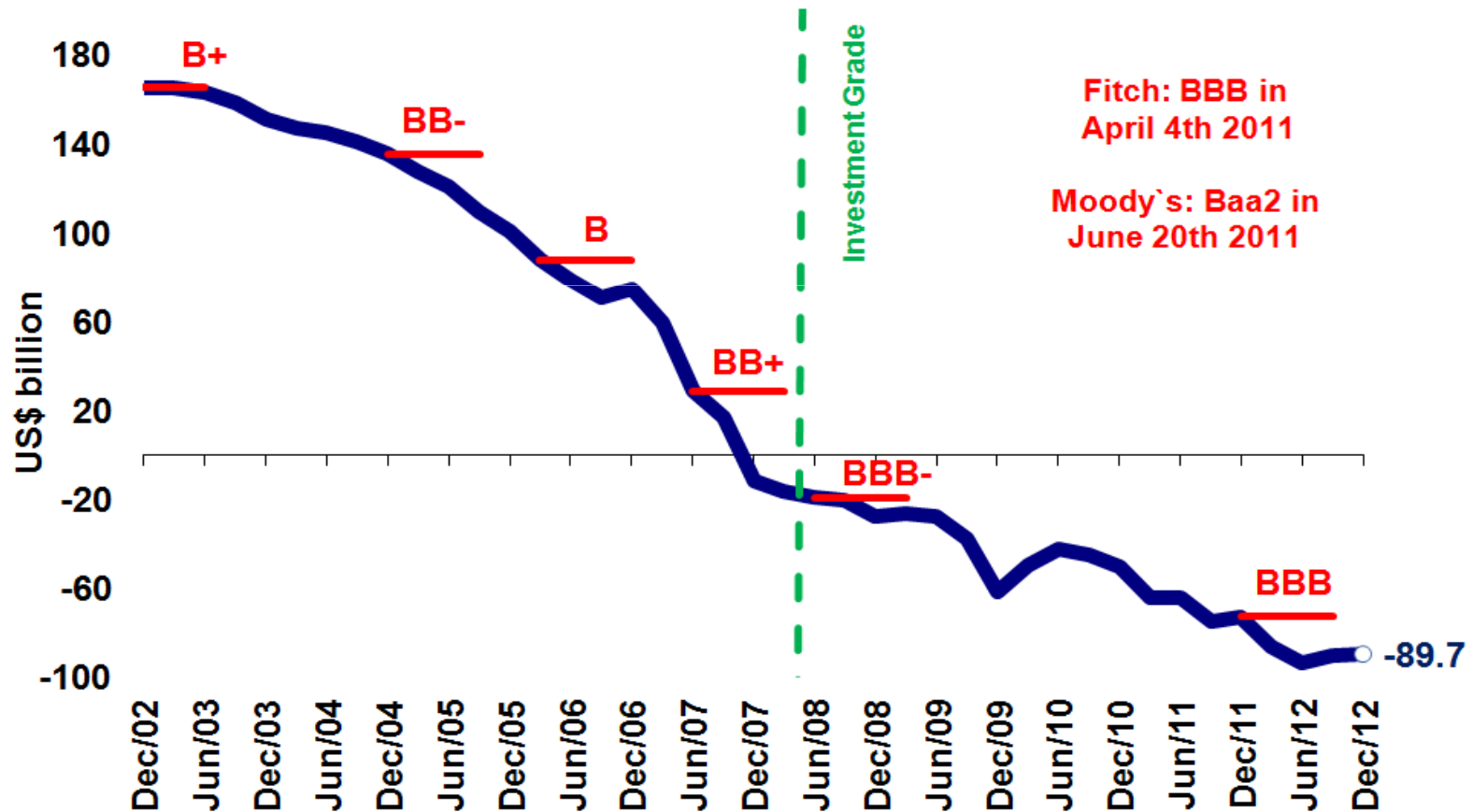
Conditions for sustained growth are established

- 1) Investment grade: lower sovereign risk



Investment grade rating

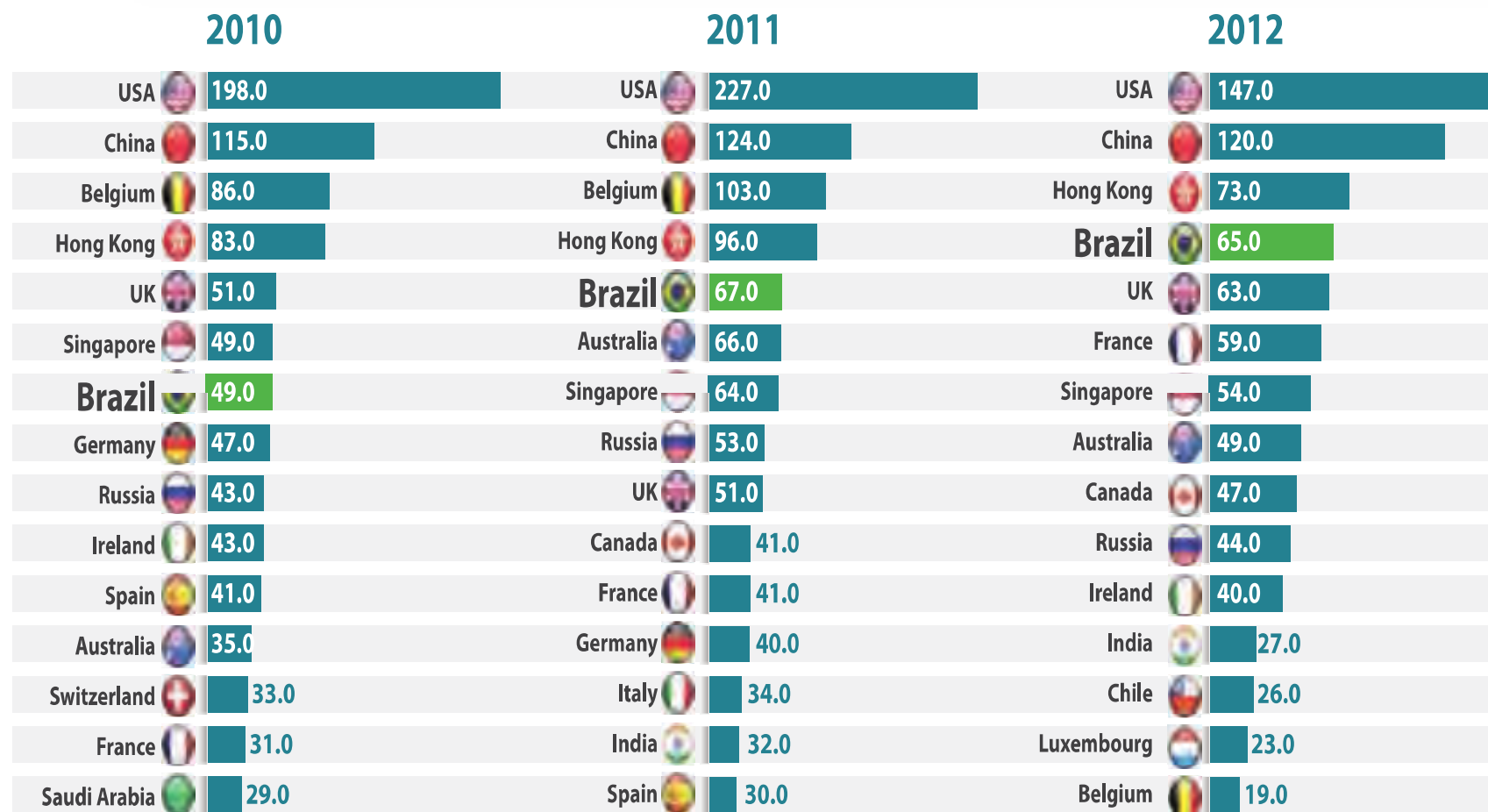
Net external debt and sovereign credit risk (foreign currency)



Source: Banco Central, Moody's, S&P e Fitch



Foreign direct investment (in US\$ billions)



Source: United Nations Conference on Trade and Development (UNCTAD)

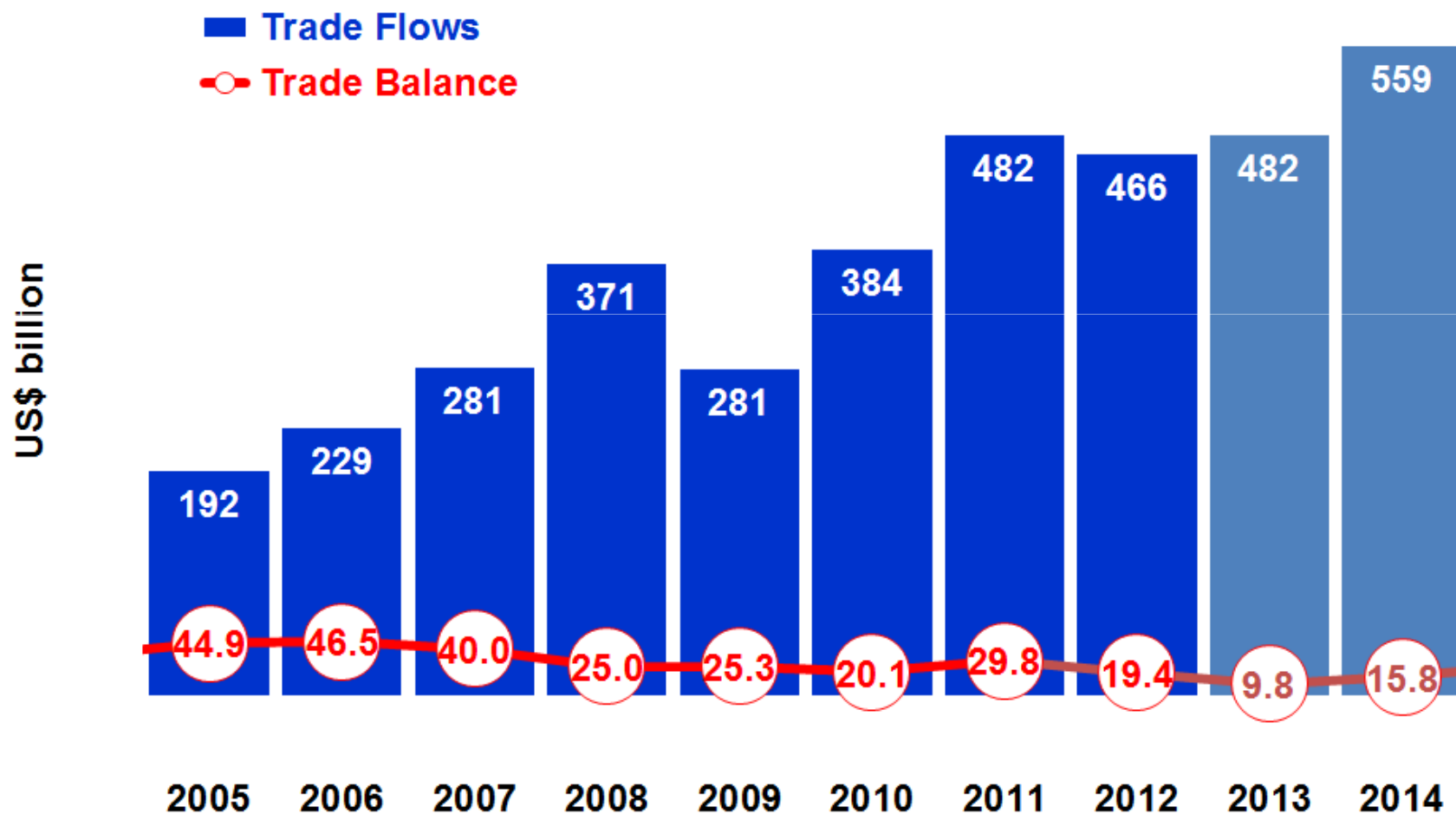


Conditions for sustained growth are established

2) Trade flow and exports
diversification



Trade Balance and Trade Flow (in US\$ billions)



Source: MDIC
Forecasts: DIREO



What does Brazil export?

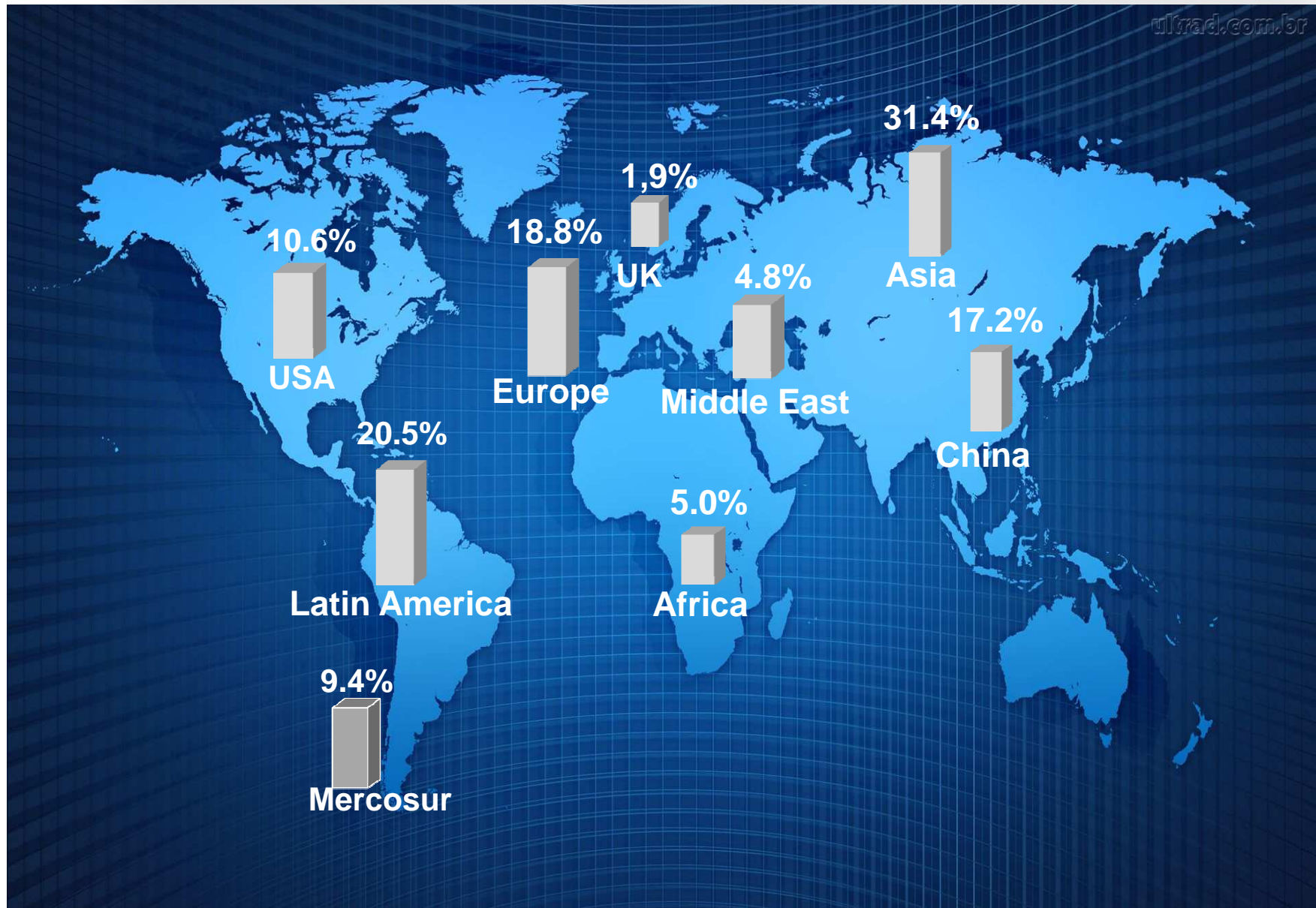
As a % of total exports



Source: MDIC
Until may/2013



Which are the main destinations for Brazilian exports?





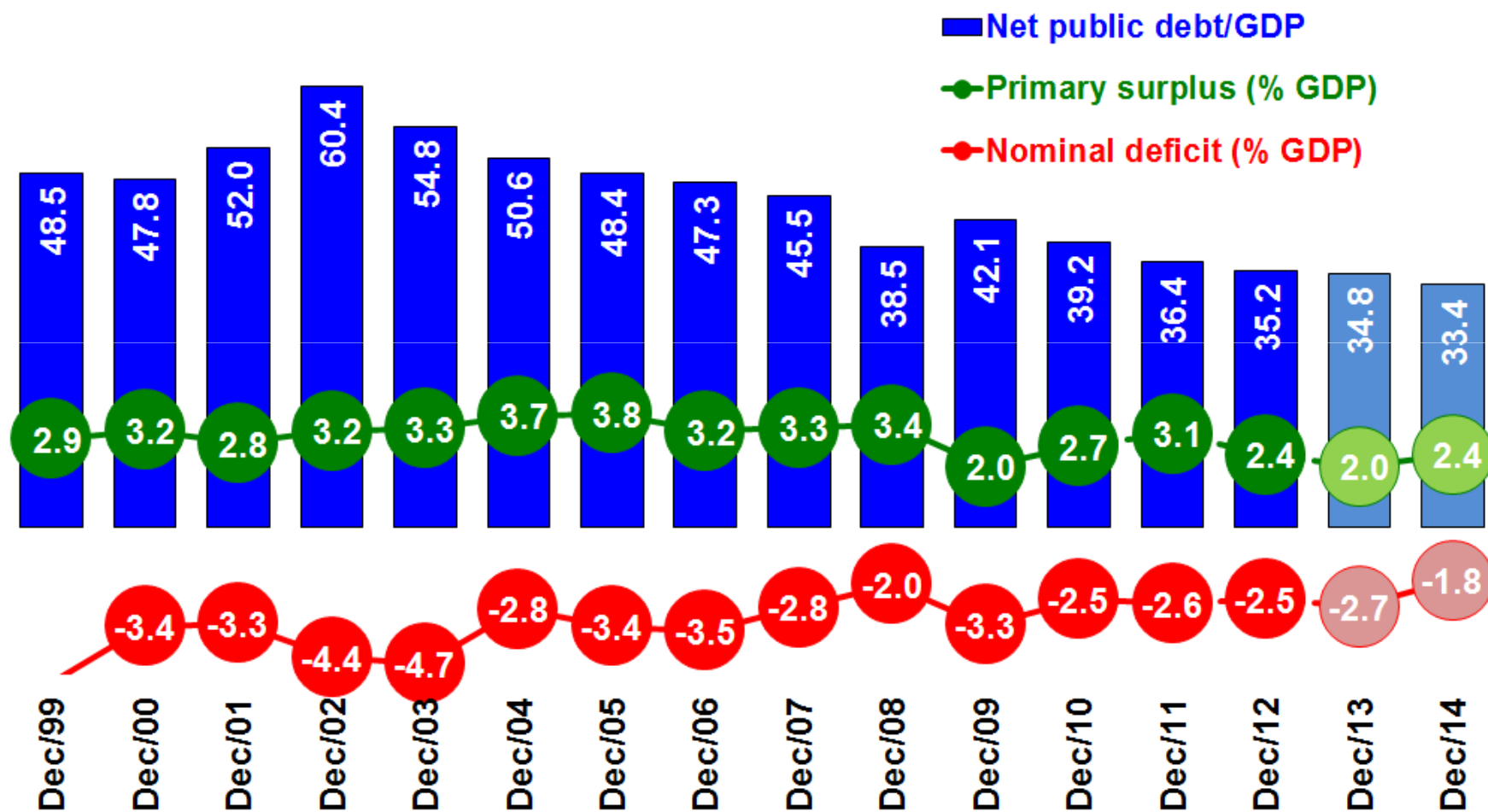
Conditions for sustained growth are established

3) Sound fiscal policy



Net Public Debt and Fiscal Results

(in percentage of GDP)



Source: Banco Central do Brasil
Forecast: Banco do Brasil



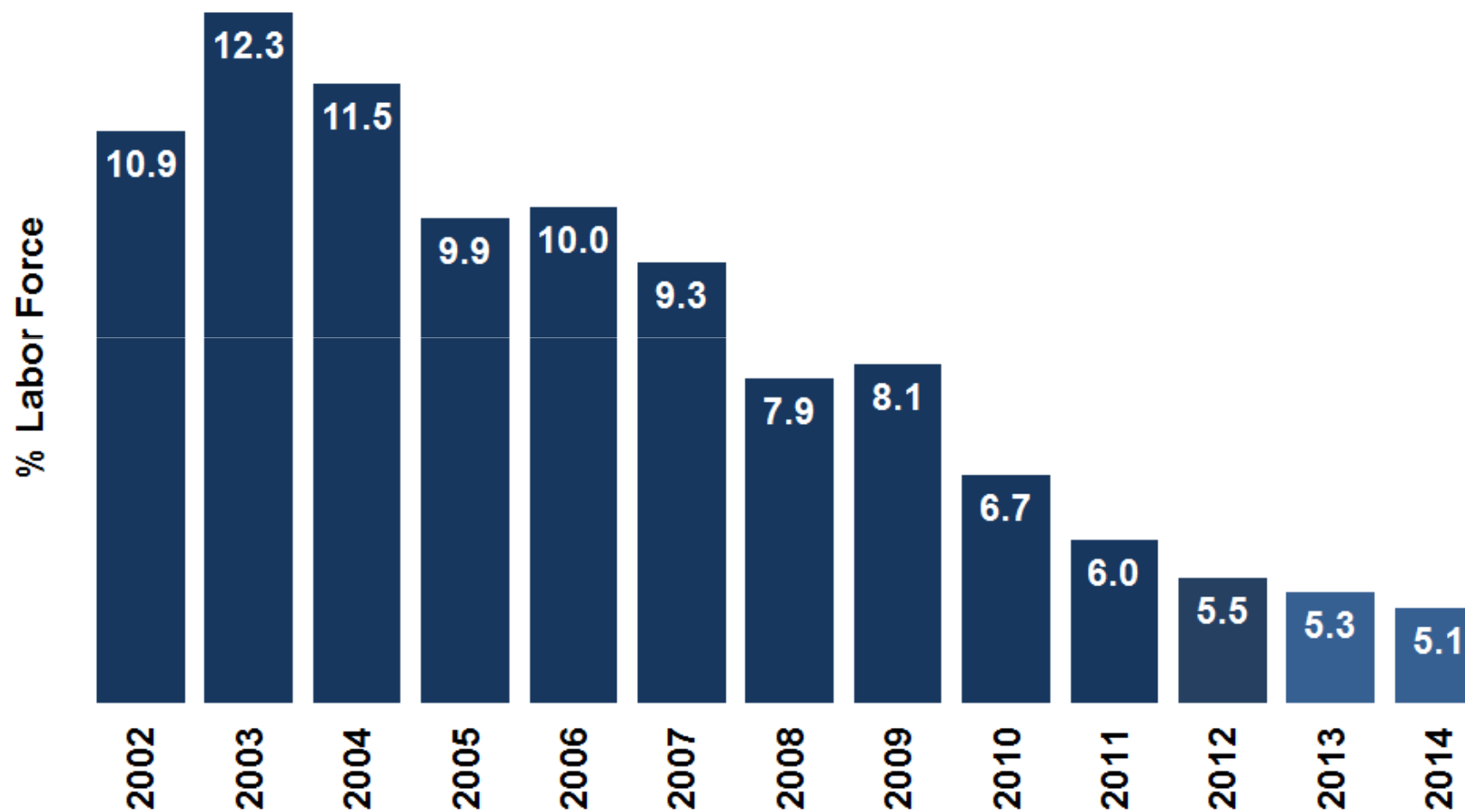
Conditions for sustained growth are established

4) Expansion of employment
and income



Labor market

Unemployment rate (% of labor force)



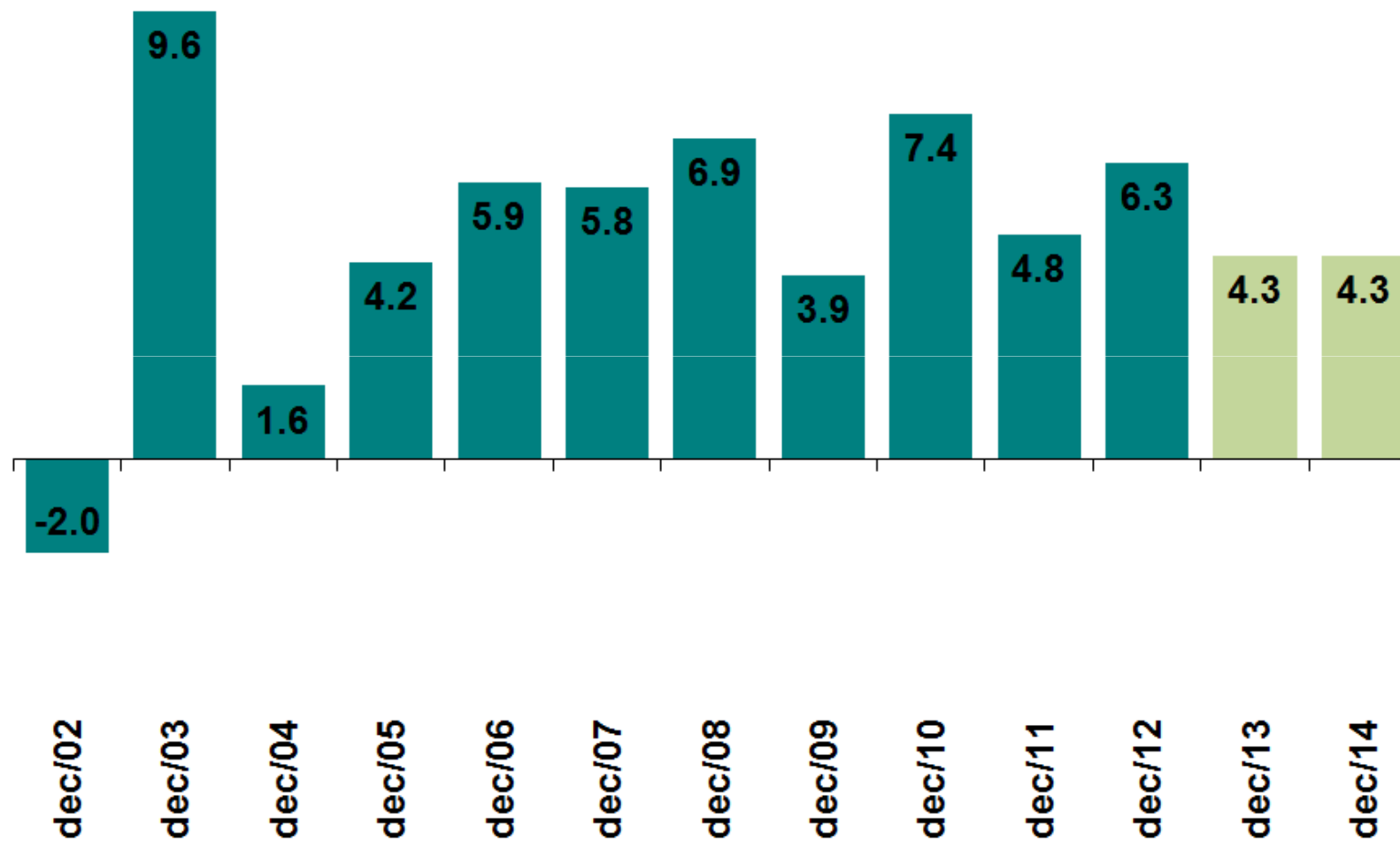
Source: IBGE
Forecasts: DIREO



Labor market

Real wage income (% yoy)

Real wage income - YoY (%)



Source: IBGE



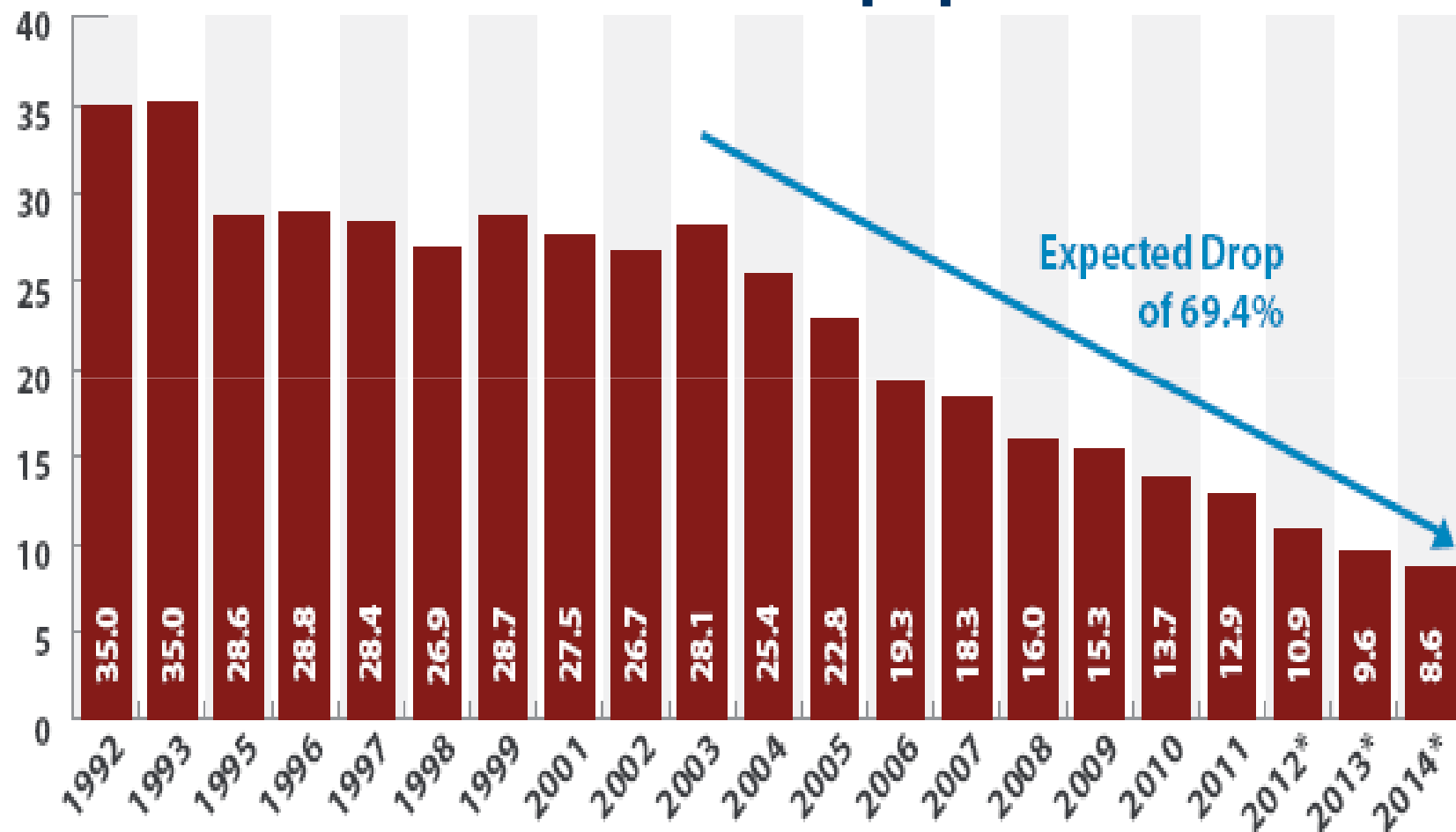
Conditions for sustained growth are established

5) Income distribution and
reduction of poverty



Poverty rate

As a % share of population



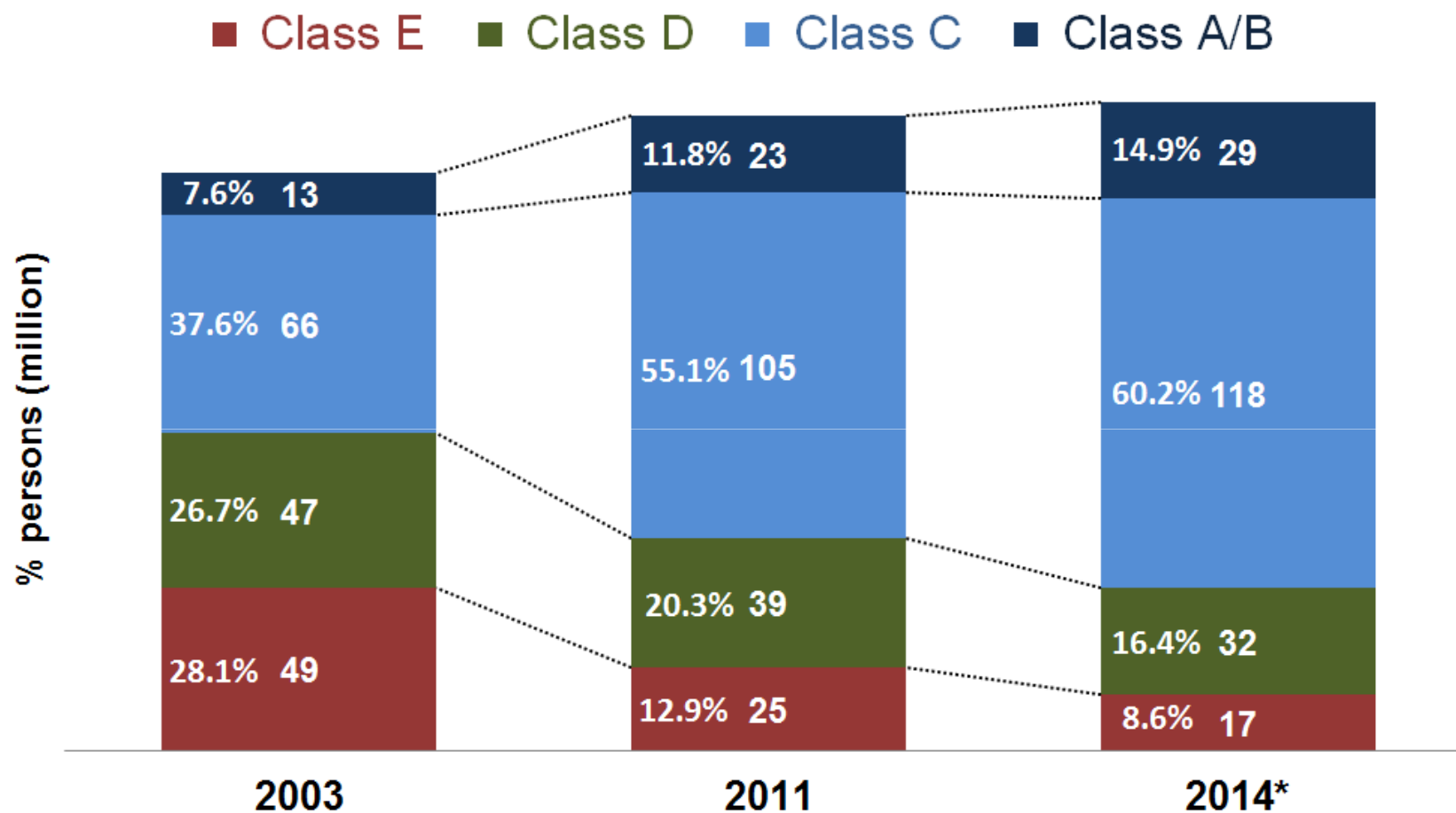
Source: Ministry of Finance

* Estimates based on IBGE data (PNAD, PME and Census)



Evolution of social economic classes

In % of population



Source: Fundação Getúlio Vargas
* Forecast: FGV

Per capita income (BRL)		
Class E	0	1.085
Class D	1.086	1.734
Class C	1.735	7.475
Class B	7.476	9.745
Class A	9.746	



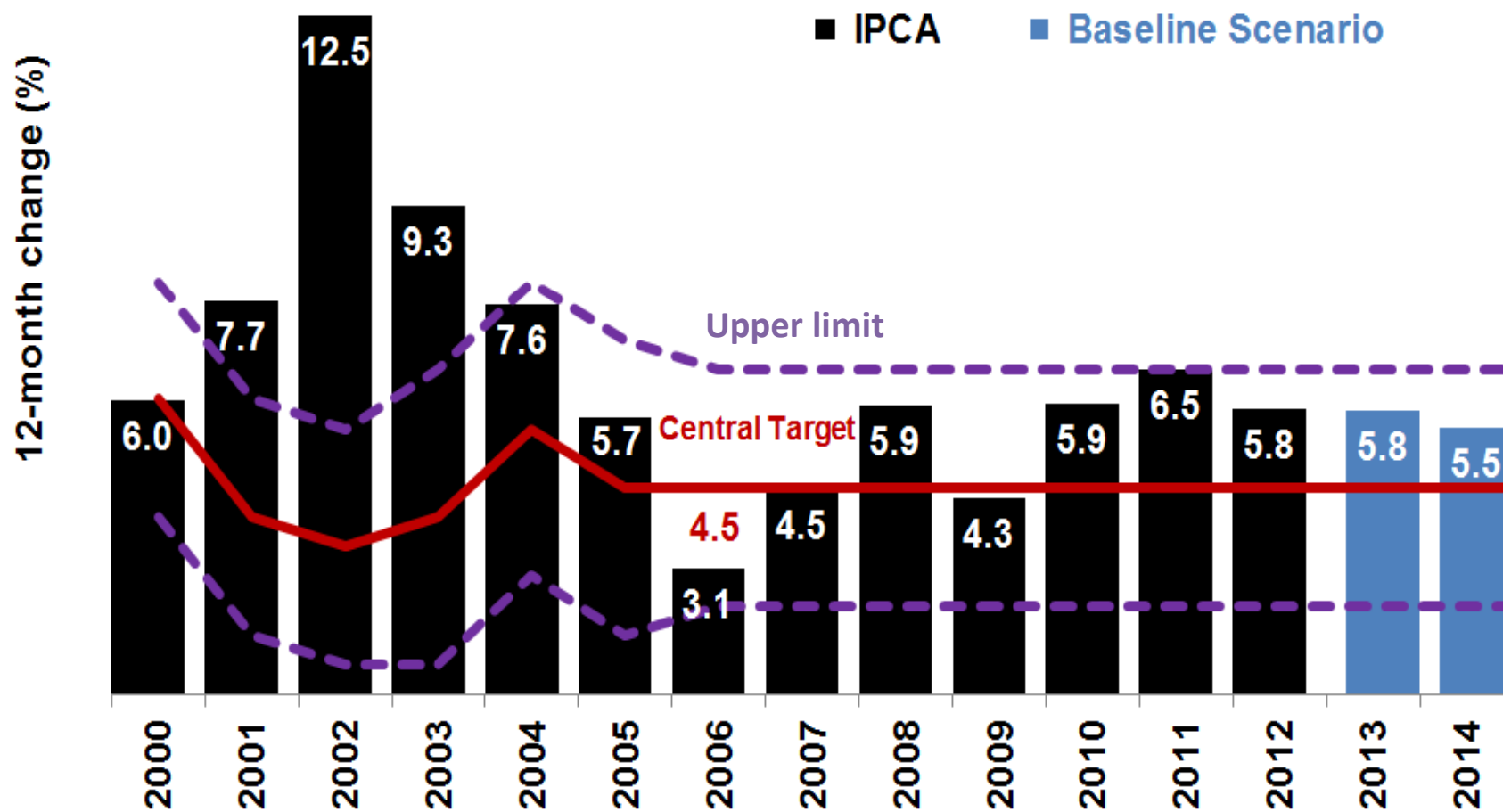
Conditions for sustained growth are established

- 6) Stable inflation rate and reduction in benchmark interest rate (Selic rate)



Inflation Targeting in Brazil

Consumer price index – IPCA (% p.y)

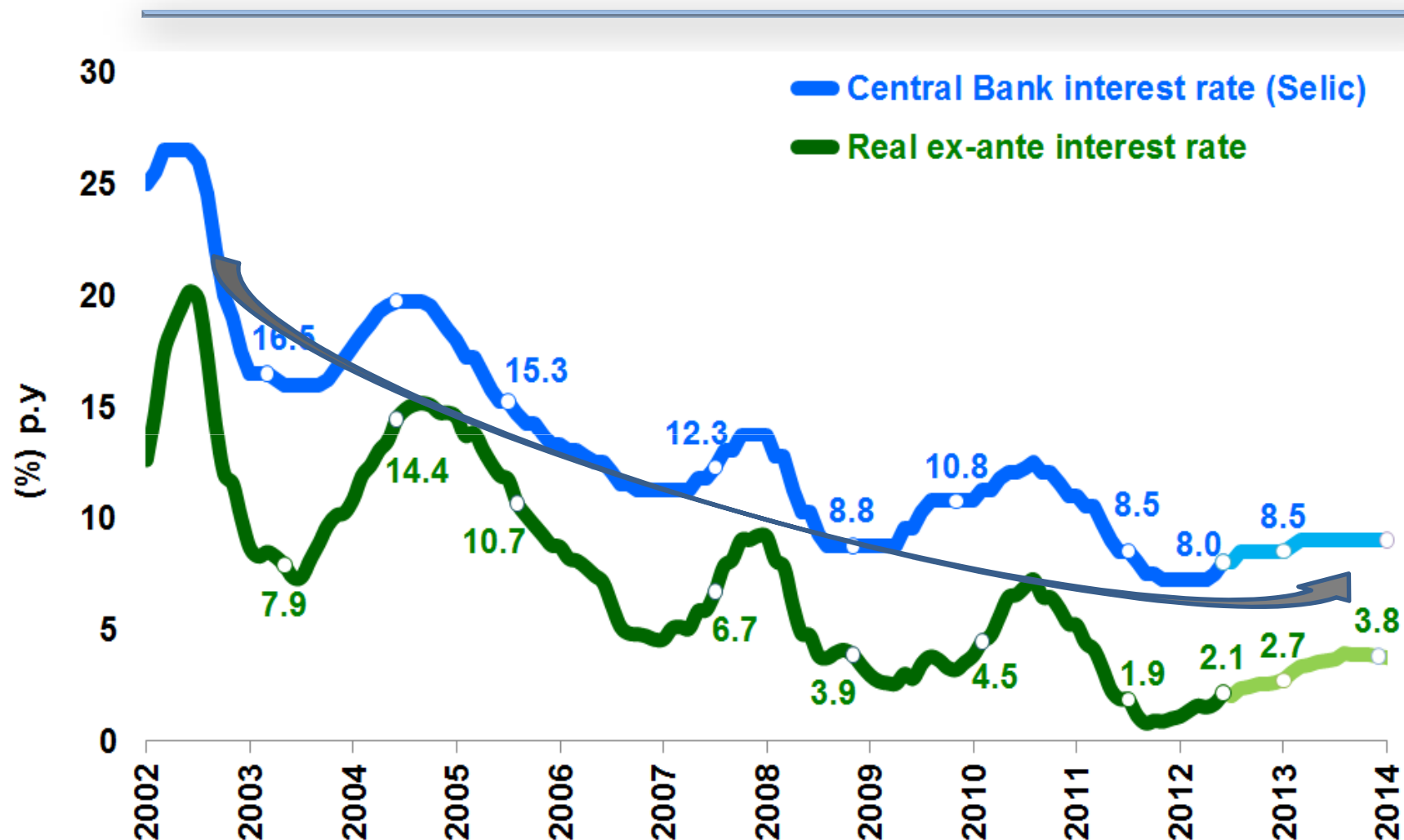


Source: IBGE and BCB – Banco Central do Brasil
Forecast: Banco do Brasil



Monetary policy

Interest Rate at historical low



Source: BCB – Banco Central do Brasil

Forecast: Banco do Brasil

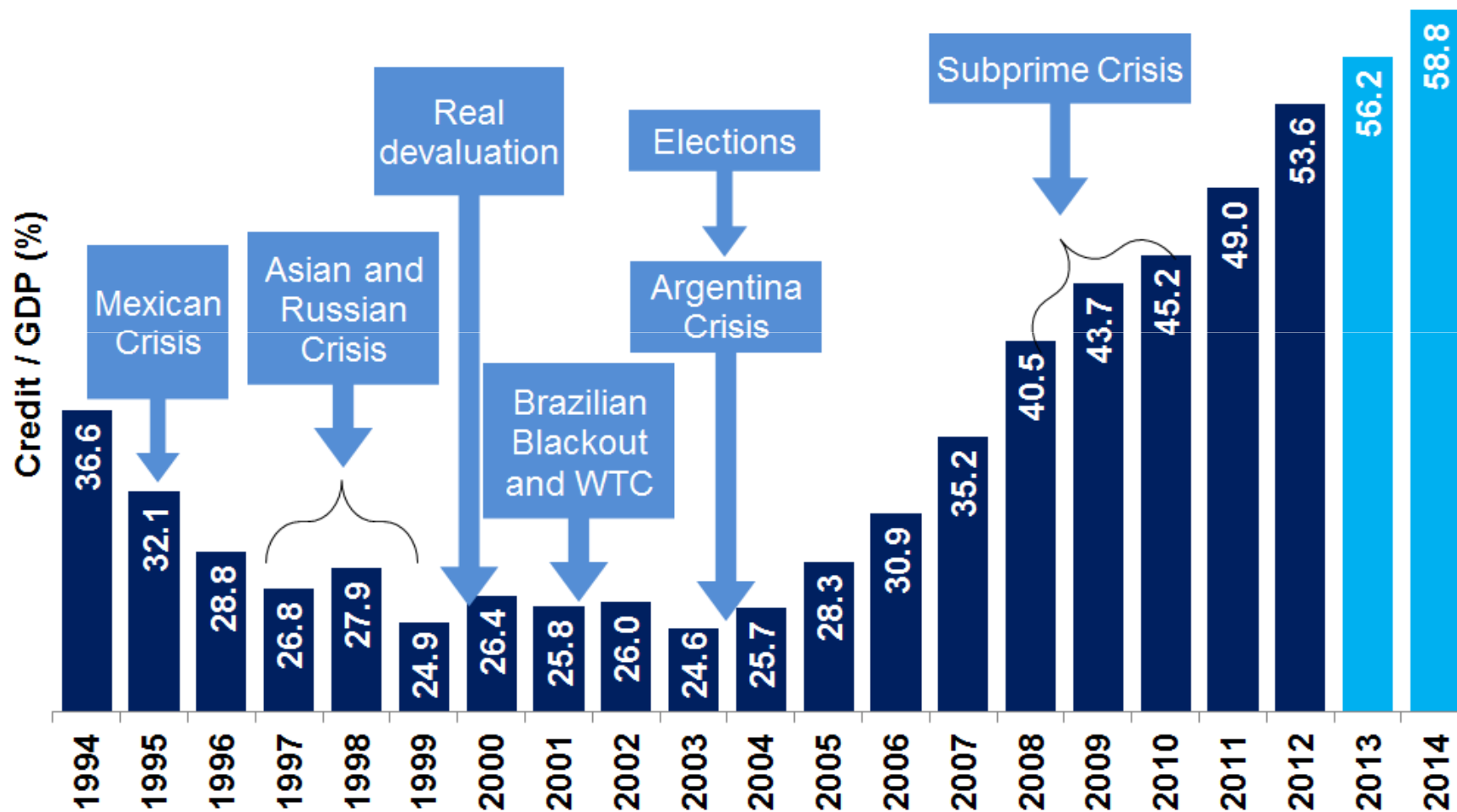


Conditions for sustained growth are established

7) Credit expansion and solid
financial system



Credit Expansion: Total Loans (% of GDP)

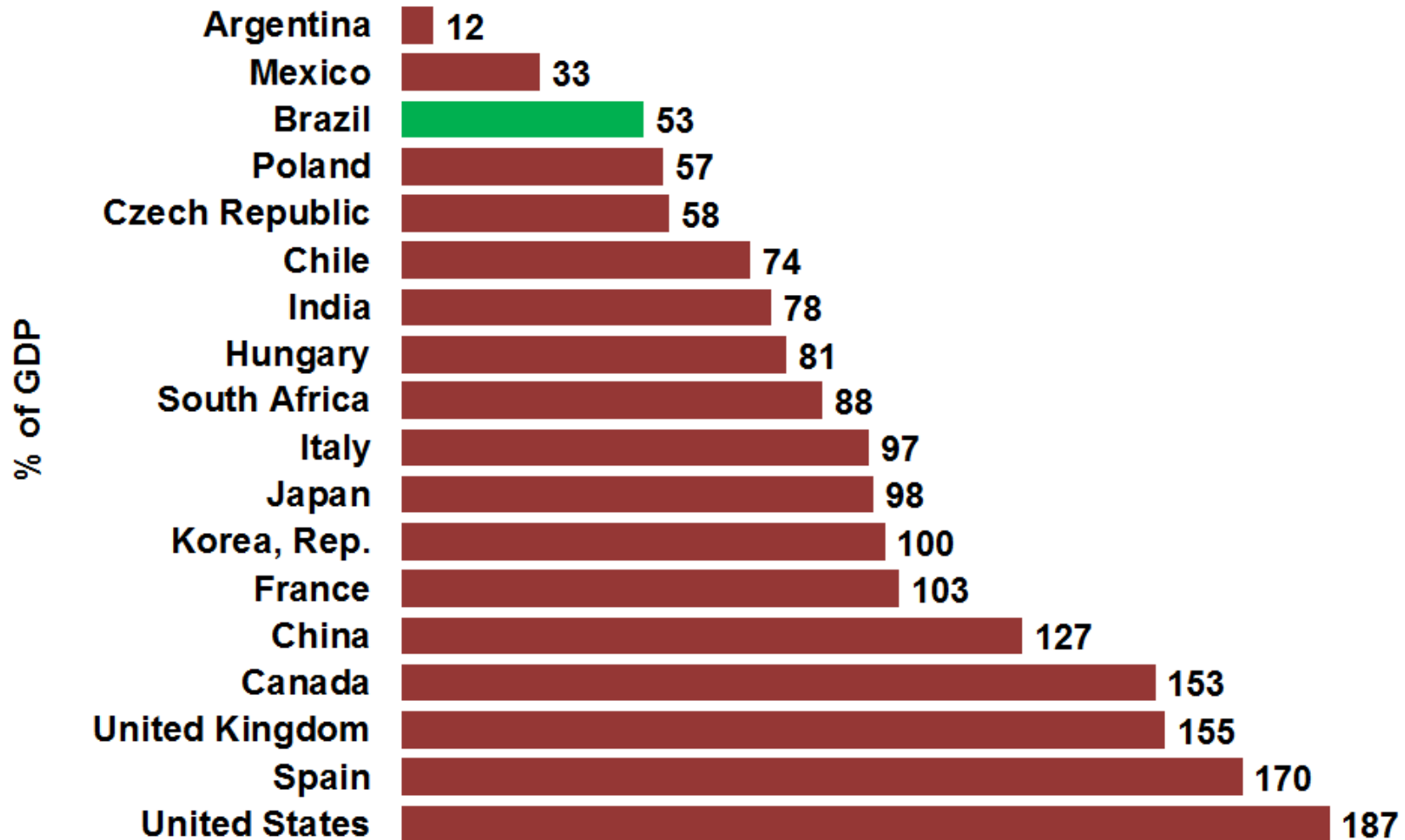


Source: BCB
Forecast: Banco do Brasil



Total Loans – % of GDP

selected countries



Source: Ministry of Finance



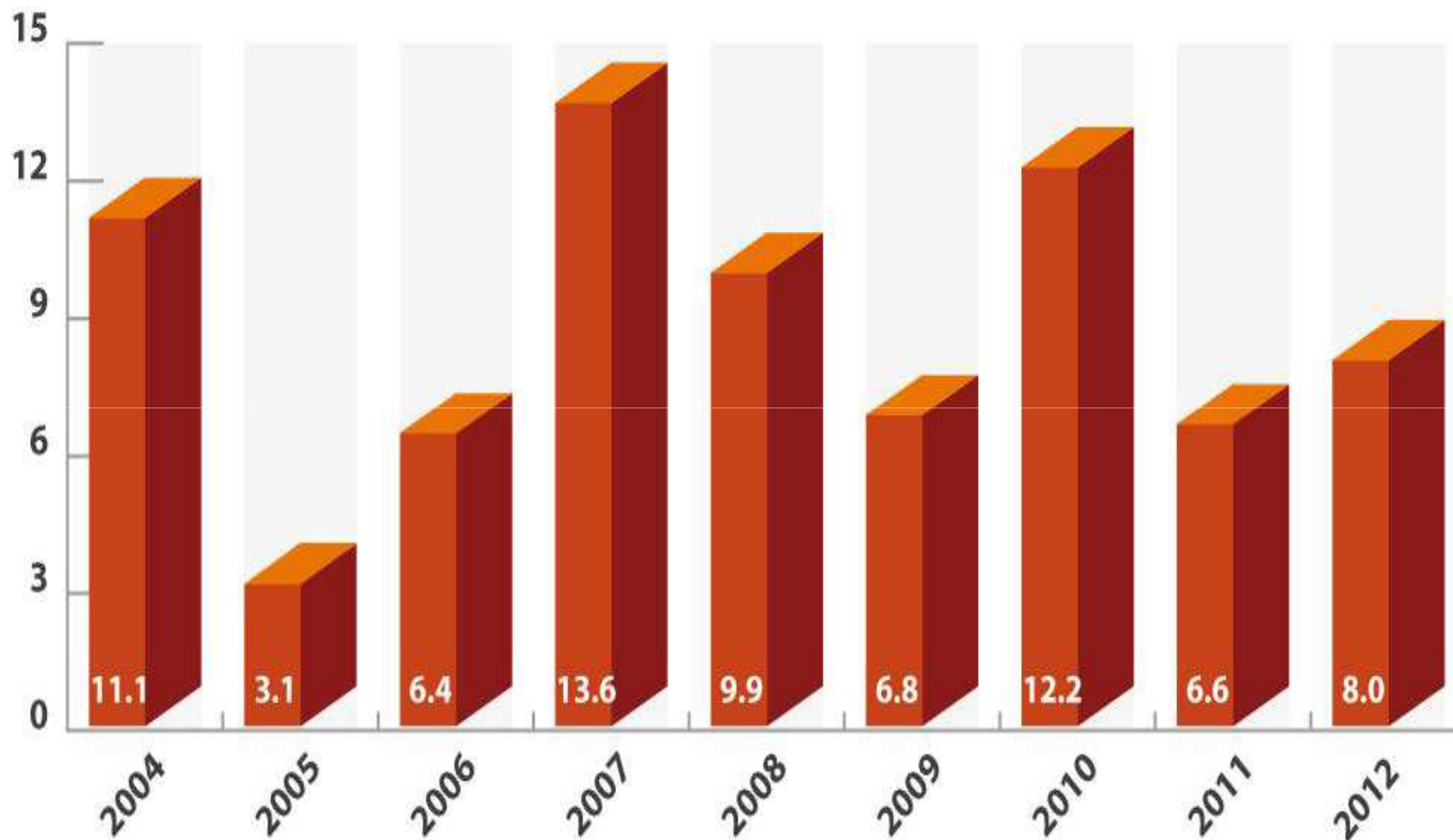
Conditions for sustained growth are established

8) Increase in household
consumption



Broad Retail Sales

Annual sales growth (in %)












Source: IBGE



Private consumption perspectives

Largest consumer markets in 2012 and 2020

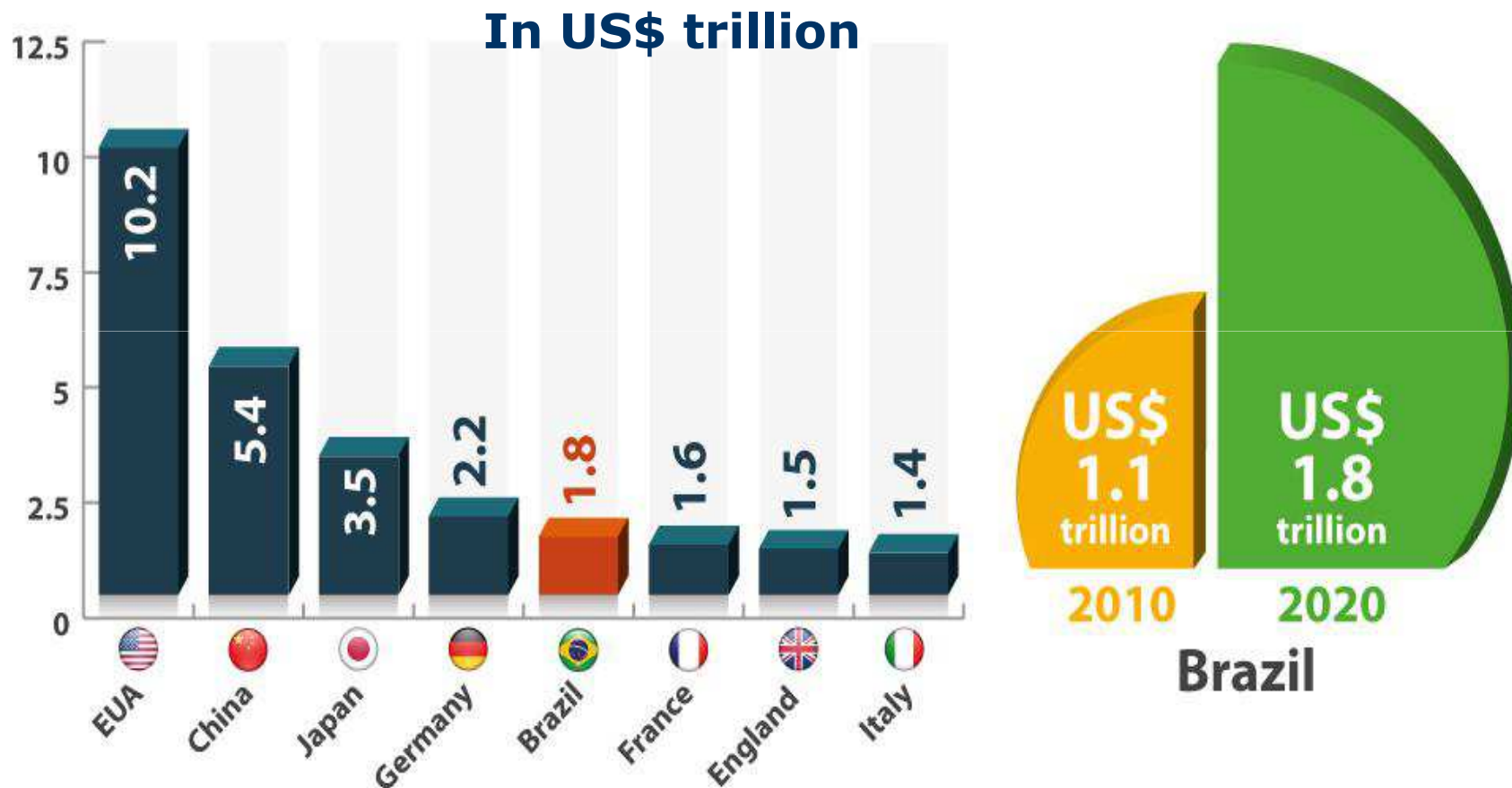
Brazilian Consumption			
Sector		2012	2020
Perfume and fragrances		1 st	1 st
Automotive		4 th	3 rd
Food and beverages		4 th	3 rd
Clothing		5 th	3 rd
Domestic aviation		4 th	-
Motorcycles		4 th	3 rd
Computers		3 rd	-
Refrigerators		3 rd	-
Pet supplies		3 rd	2 nd

Sources: EXAME (magazine), McKinsey, Escopo, Euromonitor, Anfavea and Abraciclo
Produced by: Ministry of Finance



Global consumer market

Brazilian consumer market will be the fifth largest in the world in 2020



Source: Exame Magazine and McKinsey



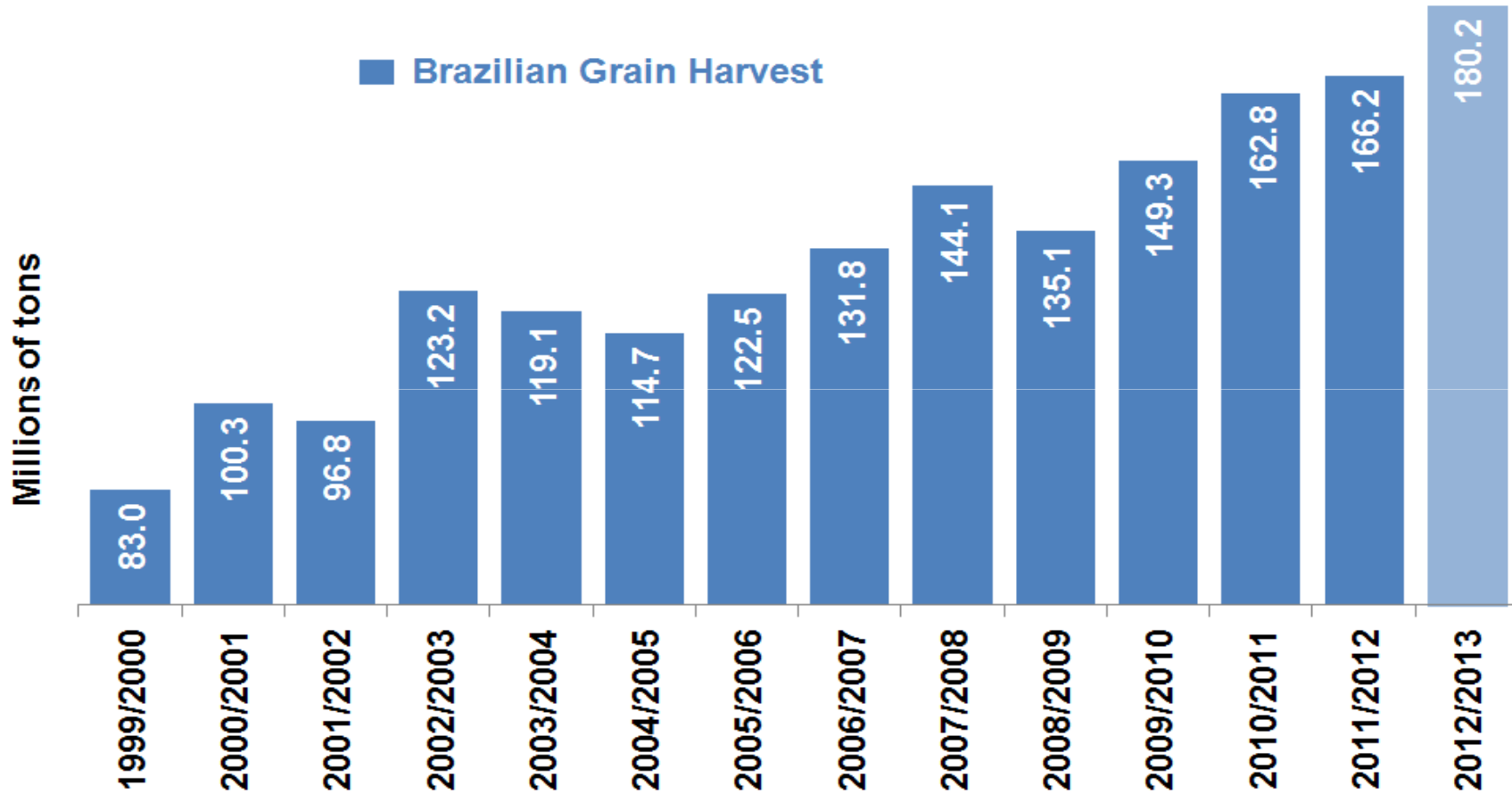
Conditions for sustained growth are established

9) Natural advantages for food
production



Brazilian Grain Harvest

Crops harvest estimates (million tons)

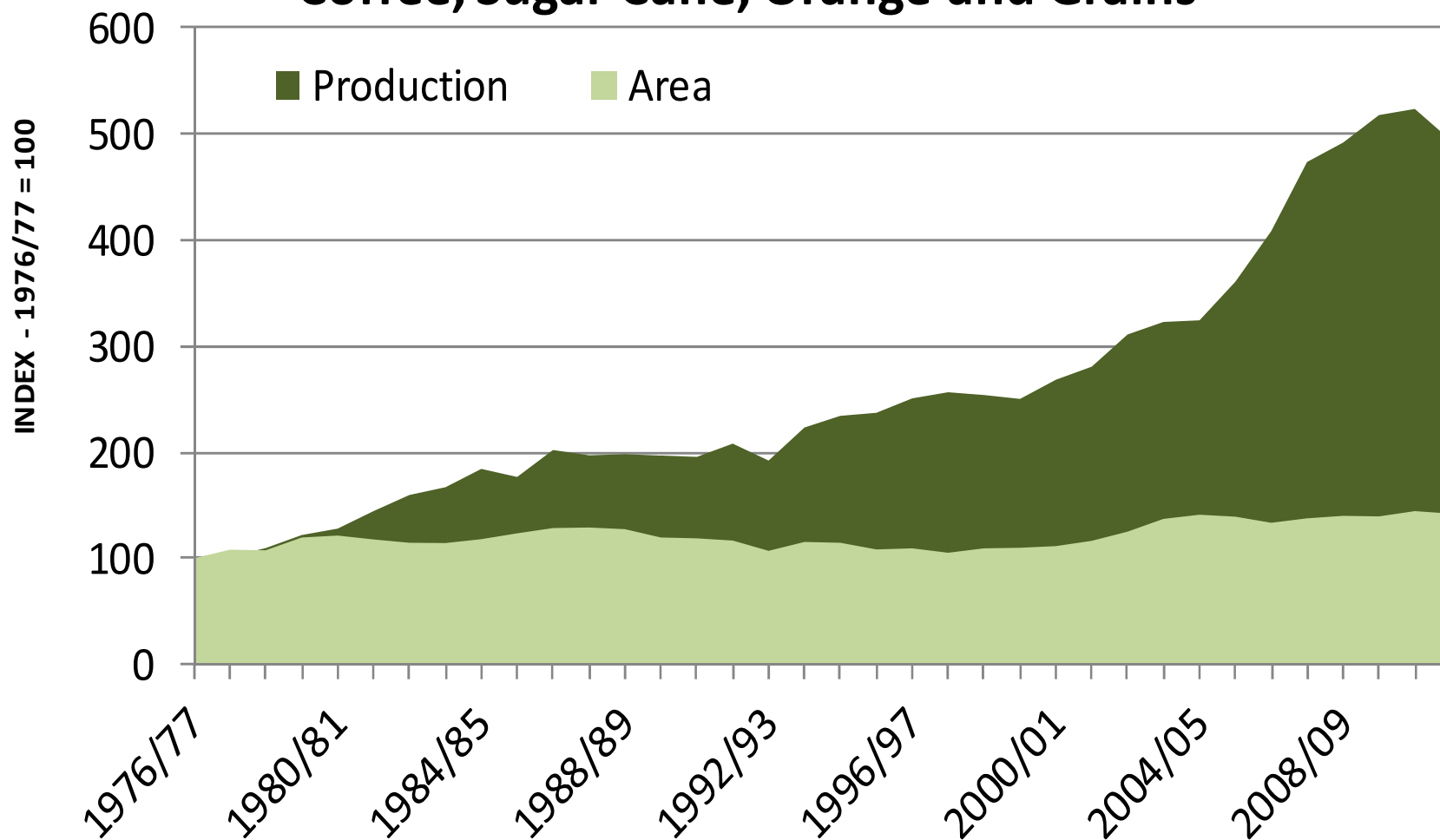


Source: Companhia Nacional de Abastecimento/Ministério da Agricultura
Forecast: CONAB/Ministério da Agricultura



Brazilian Cultivated Area and Agricultural Production

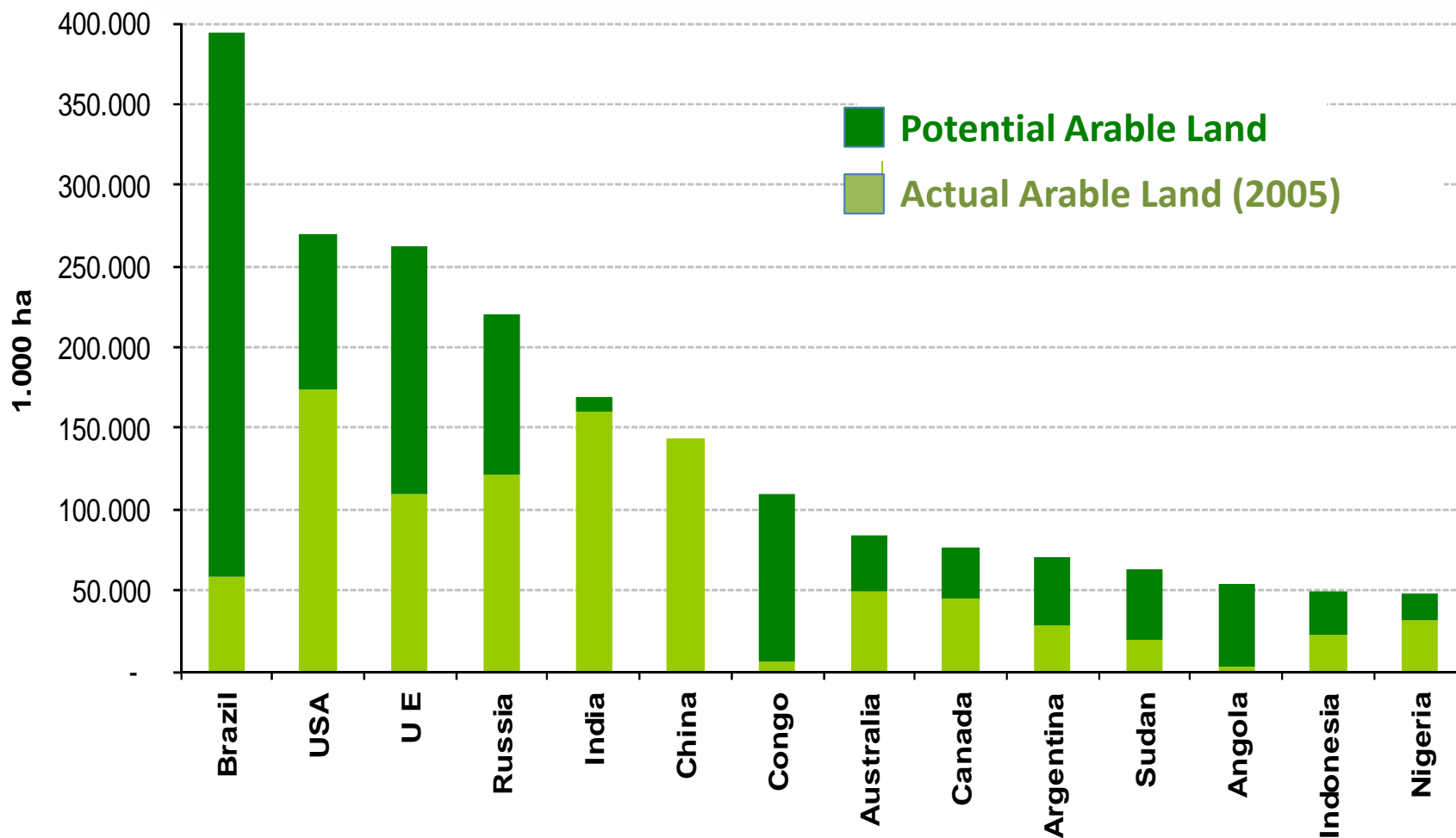
Coffee, Sugar Cane, Orange and Grains



Source: CONAB, IBGE - Prepared by: MB Agro



Potential Arable Land* (1000 ha)



Source: FAO Elaboration MBAgro

***Arable Land – brief definition:** Arable and permanent crop land is the total of “arable land” and “land under permanent crops”. Arable land is the land under temporary crops, temporary meadows for mowing or pasture, land under market and kitchen gardens and land temporarily fallow (for less than five years); and land under permanent crops is the land cultivated with crops that occupy the land for long periods and need not be replanted after each harvest.

(<http://faostat.fao.org/site/375/default.aspx>)



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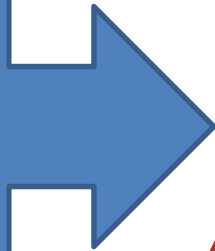
Challenges ahead

Opportunities



Brazilian Economy: Challenges ahead

Addressing these challenges is important to expand long-term investments



Investments in infrastructure

Level of domestic saving

Education and public health system

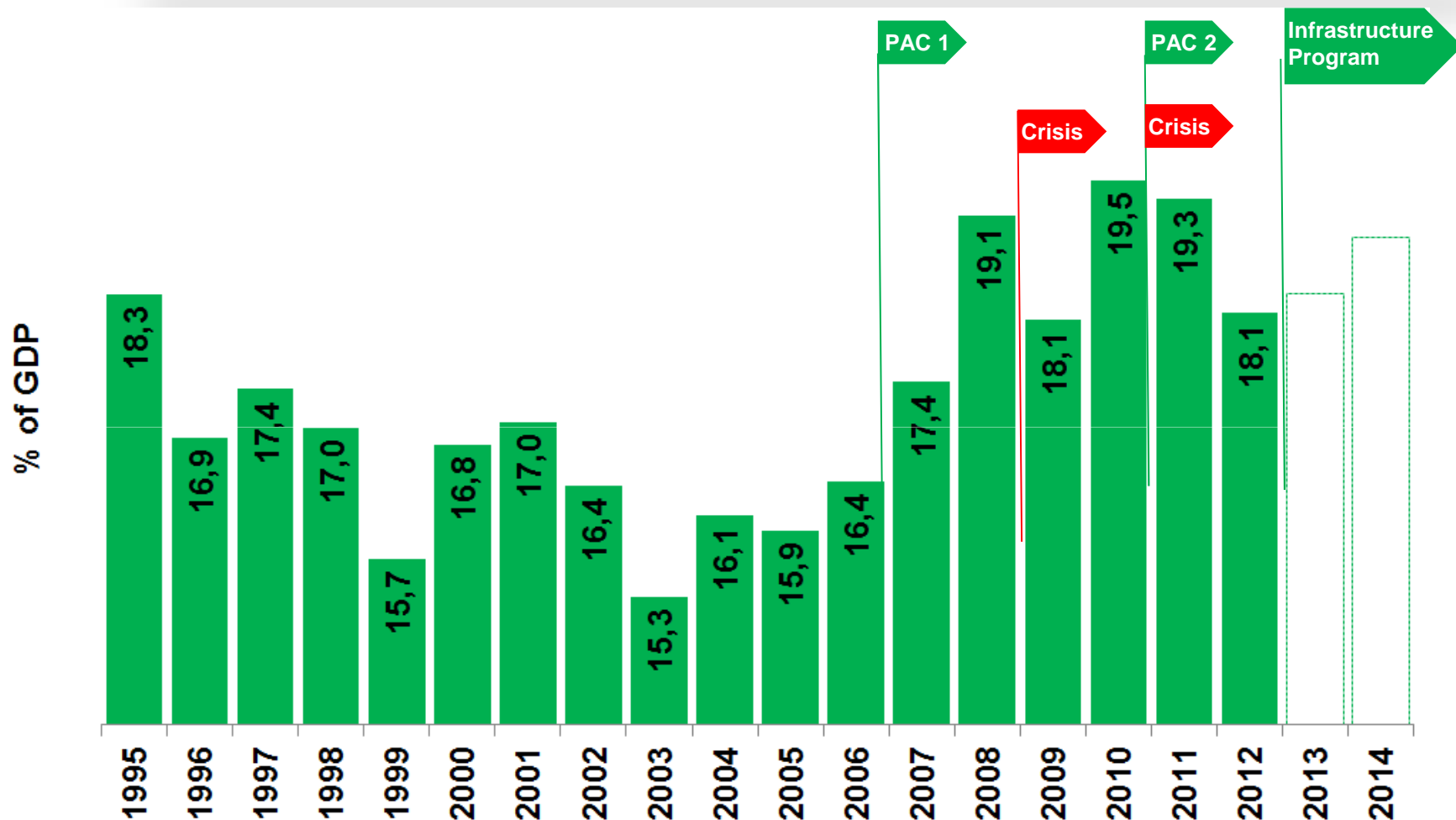
Review and simplification of the tax system

Legal environment more favorable to business



Investment Rate

Gross Fixed Capital Formation (% of GDP)



Source: IBGE

•4-Quarter accumulated up to 3rd quarter of 2012

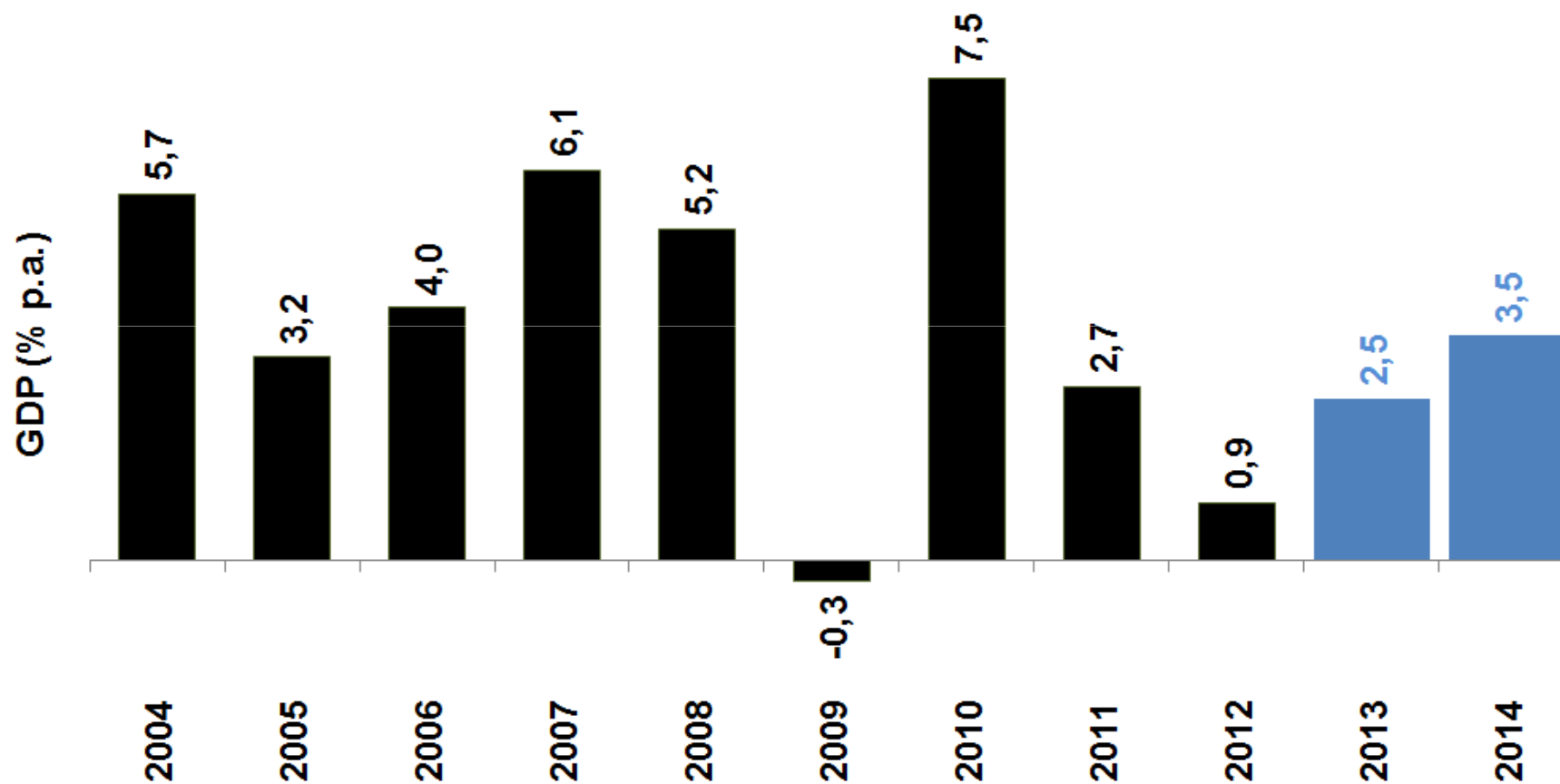
Source: Brazilian Institute of Geography and Statistics (IBGE)

Produced by: Banco do Brasil



GDP growth forecast

(in % per year)



Source: BCB
Forecasts: Banco do Brasil



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Investment opportunities in the Brazilian economy



IN THE SHORT RUN:

- . World Cup
- . Olympic Games
- . Consumers Market
- . Agribusiness
- . Service sector

Program of Investments in Logistics:
Roads and Railways

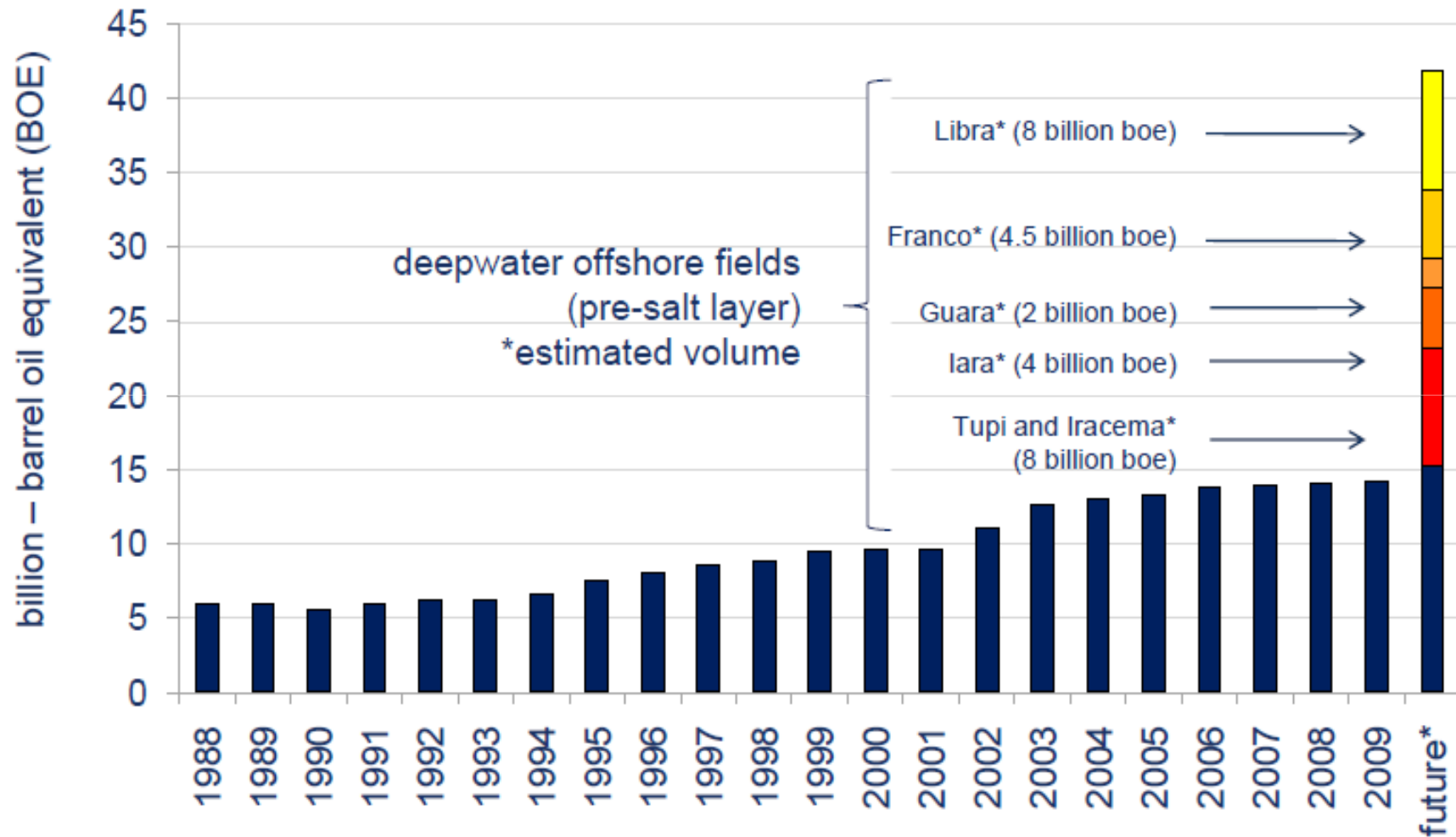


IN THE LONG RUN:

- . Infrastructure
- . Logistic
- . Energy Sector
- . Oil and Gas (subsalt layer)









Brazilian oil reserves



Source: Petrobras in: Banco Central do Brasil, Brazil: Economic and Financial Sector Overview, August 2011.



Major Investment Programs over the coming years*

Airports 	9.4*
Energy	74.0
Hydro 	39.9
Wind, Biomass and Small Hydro 	19.0
Thermal 	1.4
Distribution 	13.7
Oil & Gas 	40.0
Total	235.0

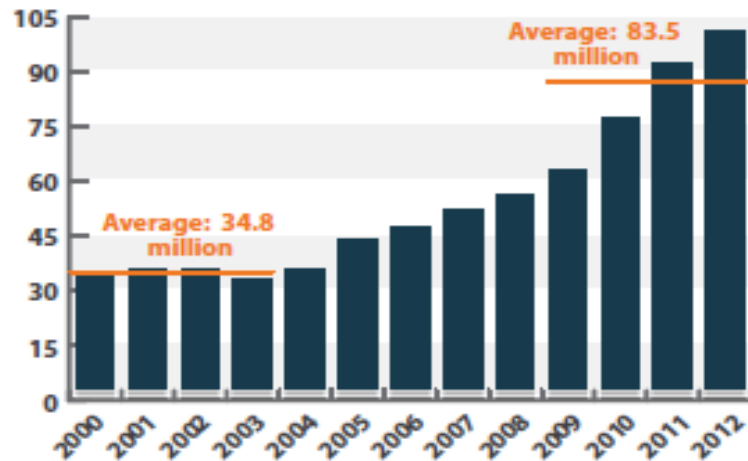
Source: Ministry of Finance, feb/13.

*The major urban infrastructure works required for the 2014 World Cup and the 2016 Olympics are not included.

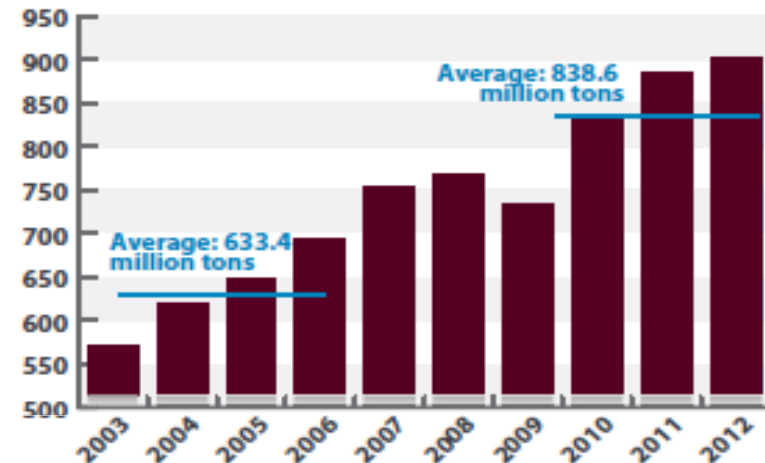


Growing Demand for Infrastructure

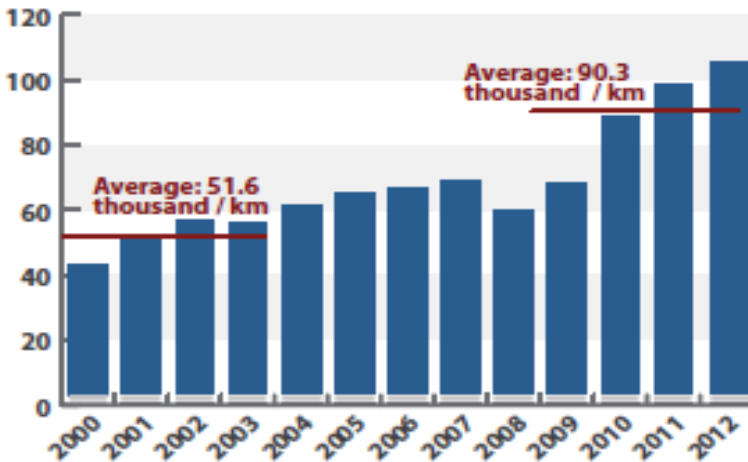
Airline Industry, in million passengers



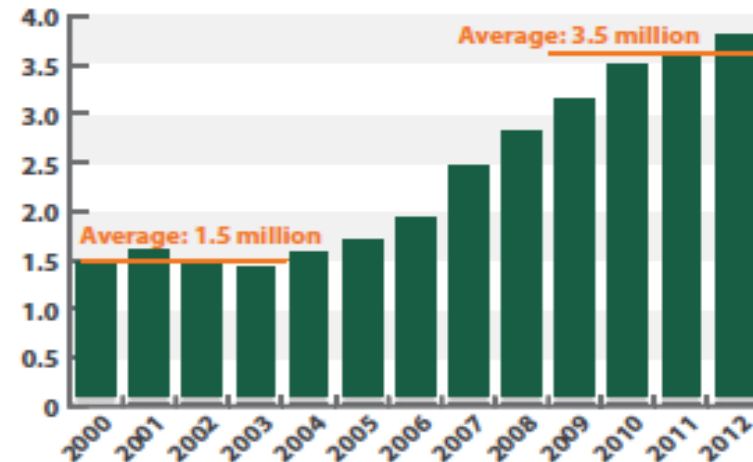
Total cargo handling in ports, in million tons



Thousand vehicles per km on highways under concession



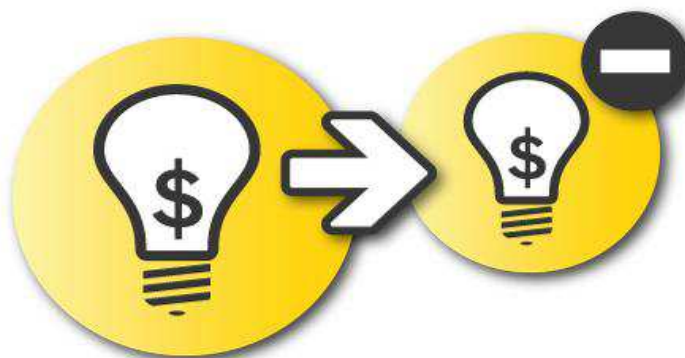
New vehicles (buses, trucks, light commercial vehicles and cars), in million



Source: National Agency for Civil Aviation (ANAC), National Agency for Aquatic Transportation (ANTAQ), Brazilian Association of Highway Concessionaires (ABCR) and Brazilian Association of Automotive Vehicle Manufactures (ANFAVEA)

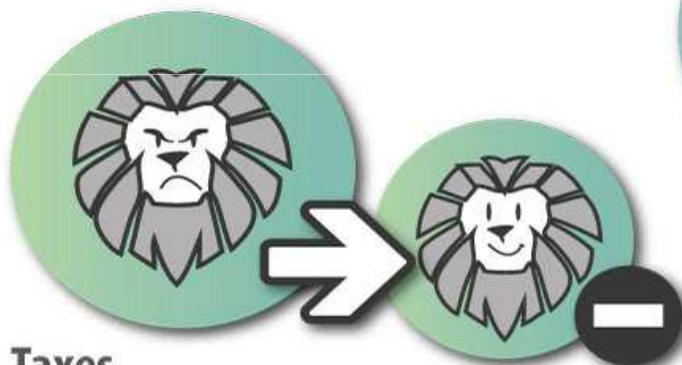


Measures to stimulate investment: cost reduction



Electricity

Reduction of energy costs (up to 32% for firms, and 18% for households)



Taxes

Reduction of tax burden



Financial

Reduction of interest rates



Infrastructure

Reduction of infrastructure costs



Thank You

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Annexes



Sources

ABCR	Brazilian Association of Highway Concessionaires	CAGED	General Registry of the Employed and Unemployed	RENAI	National Network for Investments Information
ANAC	National Agency for Civil Aviation	CMN	National Monetary Council	SAC	Civil Aviation Secretariat
ANBIMA	Brazilian Financial and Capital Markets Association	CVM	Securities and Exchange Commission of Brazil	STN	Brazilian National Treasury Secretariat
ANEEL	National Electricity Agency	EPE	Energy Research Office	TCU	Federal Court of Auditors
ANFAVEA	Brazilian Association of Automotive Vehicle Manufactures	EPL	Brazilian Logistics & Planning Company	UNCTAD	United Nations Conference on Trade and Development
ANP	National Agency for Oil, Natural Gas and Biofuels	IBGE	Brazilian Institute of Geography and Statistics		
ANTAQ	National Agency of Waterway Transportation	IMF	International Monetary Fund		
ANTT	National Agency for Road Transport	IPEA	Institute for Applied Economic Research		
APEX	Brazilian Agency for Promoting Exports and Investments	MDIC	Ministry of Development, Industry and Foreign Trade		
BM&FBOVESPA	São Paulo Stock Exchange and the Brazilian Mercantile & Futures Exchange	MME	Ministry of Mines and Energy		
BNDES	Brazilian Development Bank	RAIS	Annual Social Information Relation		



Useful Links



Portal Brasil

http://www.brasil.gov.br/?set_language=en



Ministry of Finance

<http://www.fazenda.gov.br/>



Special Secretariat of Ports

<http://www.portosdobrasil.gov.br/>



Brazilian Agency for Promoting Exports and Investments (APEX)

<http://www2.apexbrasil.com.br/en>



Planning and Logistics Company (EPL)

<http://www.epl.gov.br/index.php>



National Agency for Civil Aviation (ANAC)

<http://www.anac.gov.br>



Civil Aviation Secretariat

<http://www.aviacaocivil.gov.br/>



Brazilian Development Bank (BNDES)

http://www.bndes.gov.br/SiteBNDES/bndes/bndes_en/



Energy Research office (EPE)

<http://www.epe.gov.br>



National Agency for Oil, Natural Gas and Biofuels (ANP)

<http://www.anp.gov.br>



Ministry of Mines and Energy

<http://www.mme.gov.br>



Banco do Brasil

<http://www.bb.com.br>



National Agency for Road Transport (ANTT)

<http://www.antt.gov.br>



National Agency of Waterway Transportation (ANTAQ)

<http://www.antaq.gov.br>



National Network for Investments Information (RENAI)

http://www.mdic.gov.br/sistemas_web/renai/



CAIXA

<http://www.caixa.gov.br>



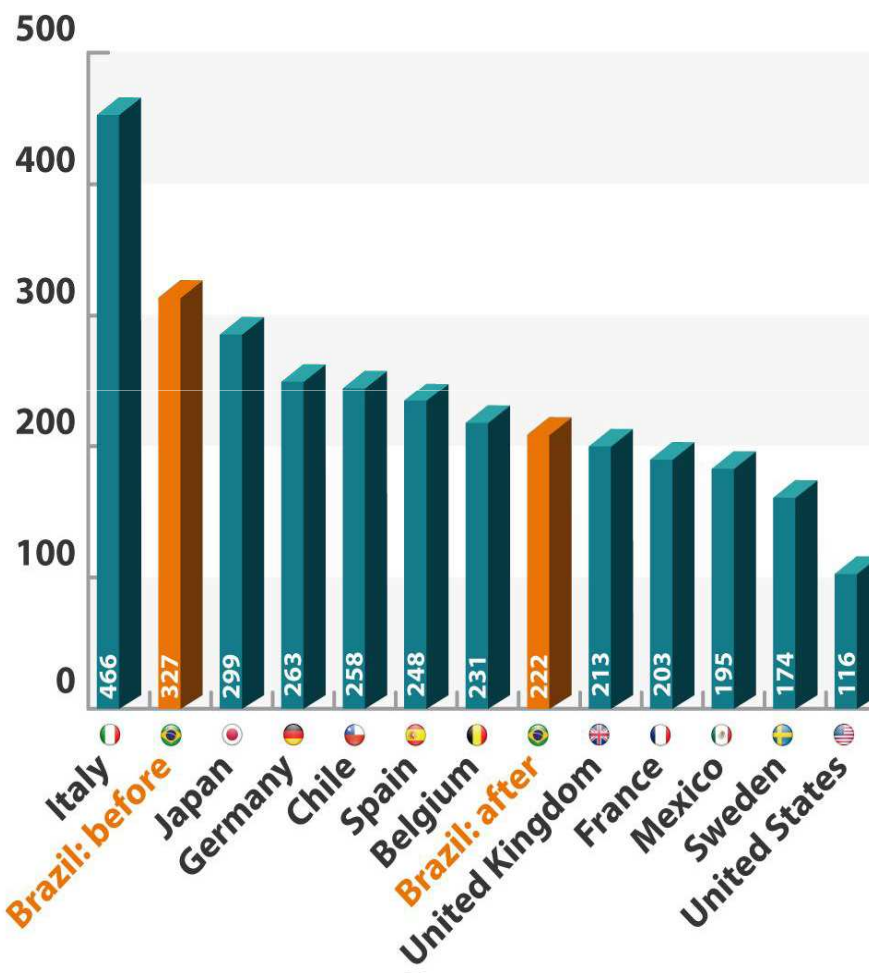
Banco Central do Brasil

<http://www.bcb.gov.br/?ENGLISH>

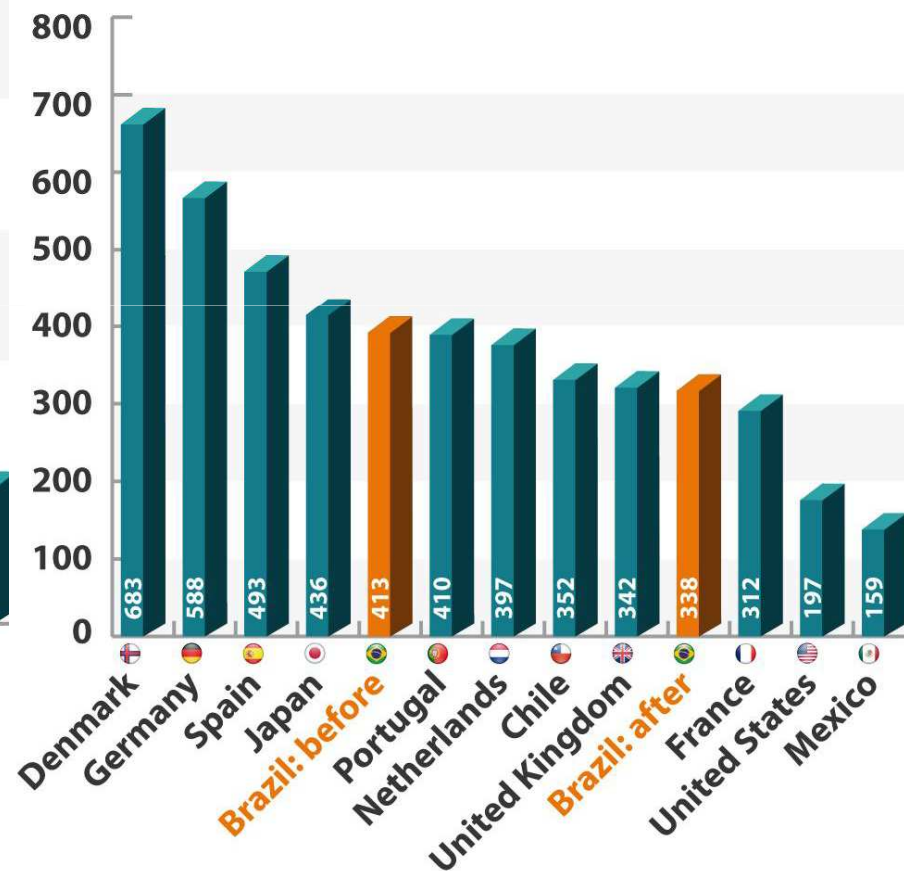


Decrease in Brazilian electricity prices

INDUSTRIAL electricity prices in selected countries, in R\$/MWh



HOUSEHOLD electricity prices in selected countries, in R\$/MWh



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Source: National Electricity Agency and International Energy Agency

* Average exchange rate in 2011 equal to R\$ 1.67 per US\$



Brazilian share in world production and export (2011)

Share Brazil 2011

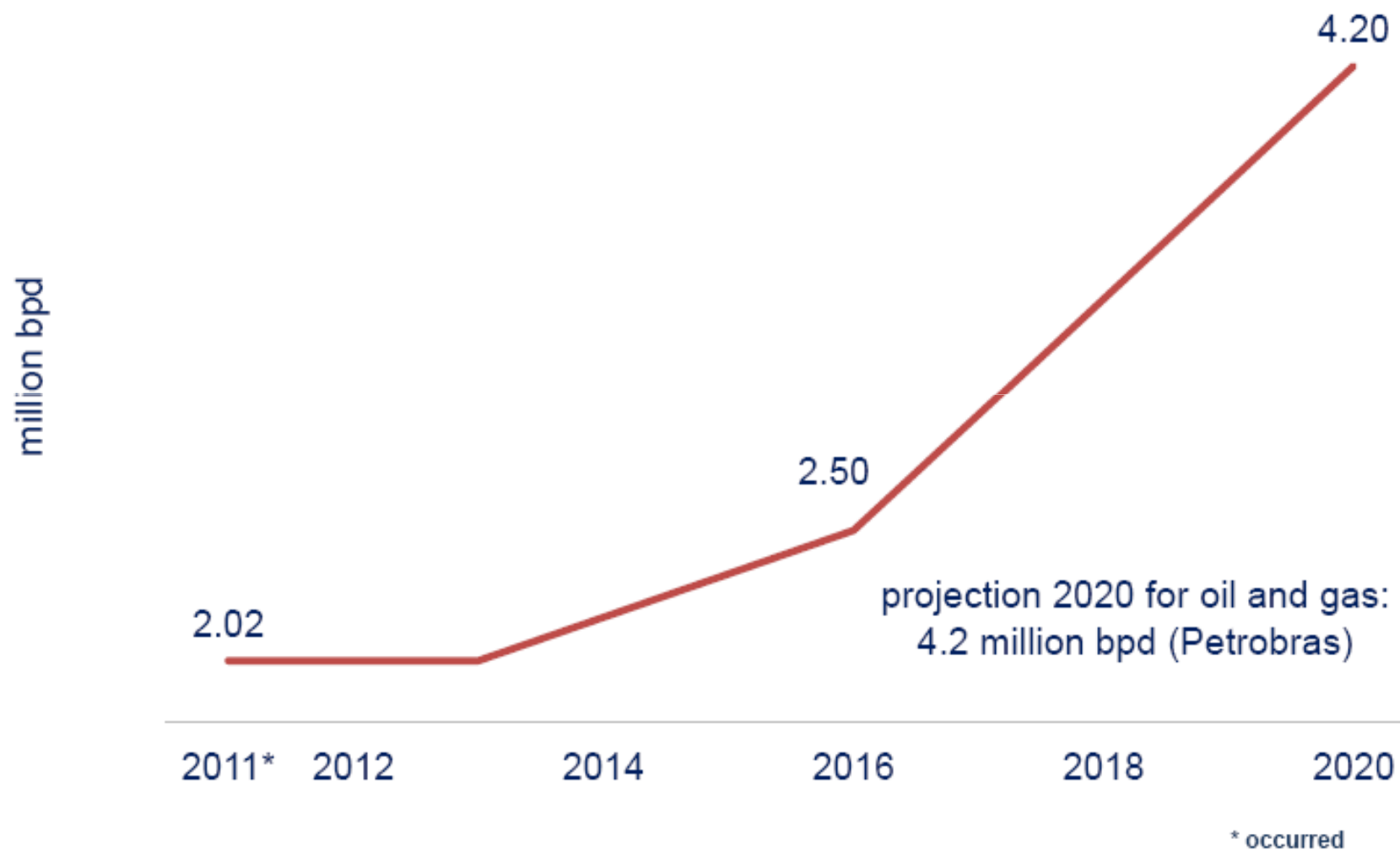
	Production	Ranking	Exports	Ranking	Main market
Sugar	24%	1	46%	1	Russia
Ethanol	31%	2	61%	1	USA
Soybean	29%	2	41%	1	China
Soybean meal	15%	4	24%	2	Europe
Corn	7%	3	9%	3	Japan
Rice	2%	9	2%	9	Niger
Orange Juice	57%	1	81%	1	Europe
Coffee	40%	1	32%	1	USA
Cotton	7%	5	10%	4	China
Suine	3%	4	9%	4	Ukraine
Poultry	16%	3	36%	1	Saudi Arabia
Beef	16%	2	17%	2	Russia

Source: USDA



Brazil:

Oil and gas production (million barrels per day)



Source: Petrobras in: Banco Central do Brasil, Brazil's Economic Chart Pack, October 2012.



Growth Acceleration Plan (PAC) New Logistic Investment Program Highways

**9 lots
4,660 mi**

CONCESSION TO BE AWARDED

- ① BR-101 BA
- ② BR-262 ES/MG
- ③ BR-153 TO/GO e TO/080
- ④ BR-050 GO/MG
- ⑤ BR-060 DF/GO, BR-153 GO/MG, BR-262 MG
- ⑥ BR-163 MT
- ⑦ BR-163 MS, BR-262 MS, BR-267 MS
- ⑧ BR-040 DF/GO/MG
- ⑨ BR-116 MG

AWARDED CONCESSION

— **Current federal highway network**

- - - **PAC under execution**





Growth Acceleration Plan (PAC) New Logistic Investment Program Railways

6,214 mi

CONCESSION TO BE AWARDED

- ① São Paulo Rail Beltway - North Section
 - ② São Paulo Rail Beltway - South Section
 - ③ Accessway to the Port of Santos
 - ④ Palmas - Anápolis - Uruaçu - Lucas do Rio Verde
 - ⑤ Uruaçu - Corinto - Campos
 - ⑥ Rio de Janeiro - Campos - Vitória
 - ⑦ Belo Horizonte - Salvador
 - ⑧ Salvador - Recife
 - ⑨ Anápolis - Estrela D'Oeste - Panorama - Dourados
 - ⑩ Maracaju - Eng. Bley - Paranaguá
 - ⑪ São Paulo - Eng. Bley - Rio Grande
 - ⑫ Açailândia - Vila do Conde
- Routes under evaluation
- - - PAC under execution
— Current Rail Network





Growth Acceleration Plan (PAC) New Logistic Investment Program Airports



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Growth Acceleration Plan (PAC) New Logistic Investment Program

High Speed Train (TAV) Rio de Janeiro - Campinas



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