

## Development prospects and challenges for Brazil

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## III Brazil Infrastructure Investments Forum




October 2012



**João Carlos Ferraz**  
*Vice President*

- Almost 25 years of investment growing below to GDP rate....
  - 12 years of total uncertainty and volatility
  - 12 years of price stability and institutional reconstruction
  - Since 2005 investments moving ahead of GDP

**Short economic horizon, unstable rules,  
low confidence, no investment, no infrastructure**

A white cloud with a grey shadow is positioned in the bottom right area of the slide. Inside the cloud, the text 'Cost of logistics: 12% GDP (2010)' is written in blue.

Cost of logistics:  
12% GDP (2010)

Source: ILOS

- ↪ Hardships of extending the economic horizon:
  - ↪ Steady consolidation of democracy and slow “*upconstruction*” of institutions
  - ↪ State capabilities very weakened (but in some islands of competence)
  - ↪ Slow unwinding of business sector
  - ↪ Basic financial capacity to support long term investments. But, with “BNDES dependence”

**Are the Chinese from outer space?**

**Or, just keep growth steadily for 30 years and...**

- ↪ Increasing **diversity** and a crisis of long duration
- ↪ **Economic inclusion** of many, new poles of dynamism but advanced economies will be there...
- ↪ **Fierce competition** in all markets
- ↪ Extremely rapid rhythm of technical change and increasing investments in **innovation** by countries and corporations
- ↪ **Climate change** as a source of concern and opportunities.
- ↪ **State activism** but “a role model” does not exist.

**A scenario of slow (hopefully undisturbed) growth:  
the best we can wish for....**

- Consolidated democracy and strengthening of institutions
- Solid fundamentals and economic stability 
- Expanding internal market: social and economic inclusion 
- Advantages in much valued goods (food and energy)
- Upcoming: wide and attractive investment frontier 
  - The model: “*Modicidade tarifária*”
  - The action: PAC and ... the return of the Phoenix
  - Financing: strengthening of BNDES and an emerging interest of private industry 

**Currently, a rare and most interesting consensus: investment (infrastructure) must lead the way to sustained growth**

# Economic stability

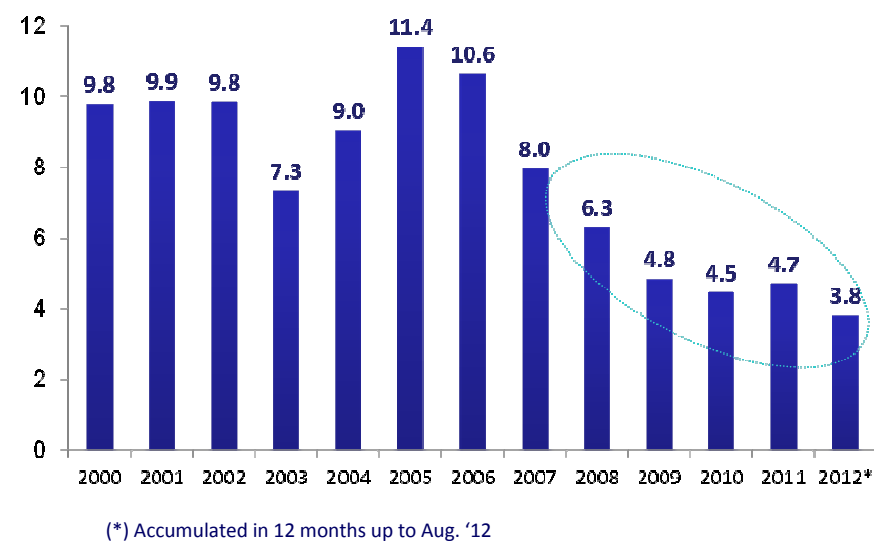


## Evolution of Inflation

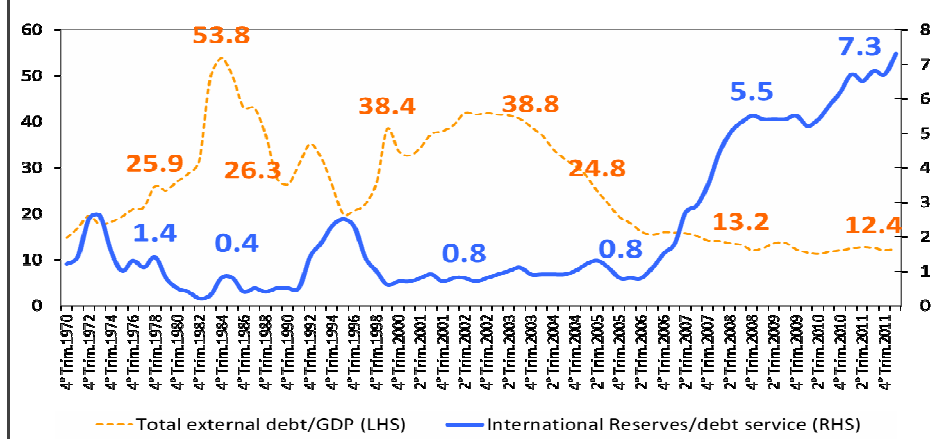


(\*) forecast by Brazil's Central Bank IPCA = Broad consumer price index

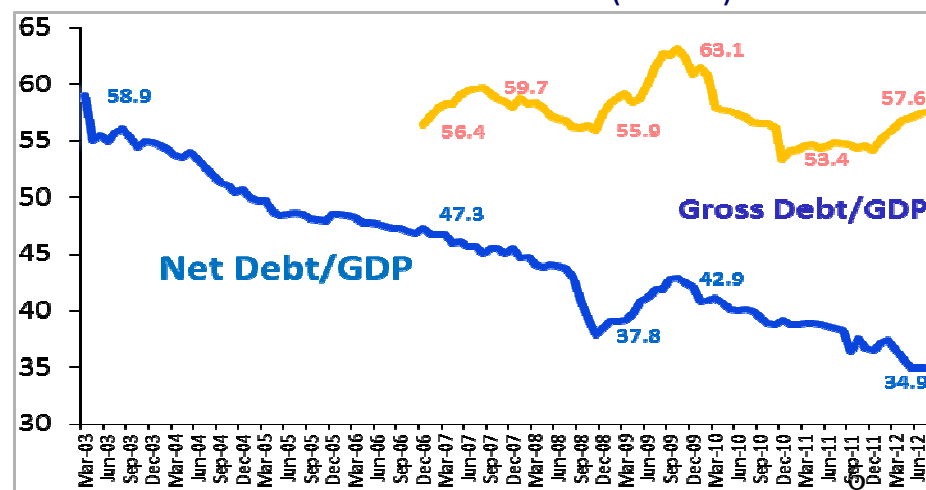
## Real interest rates (% per year)



## External Debt and International Reserves

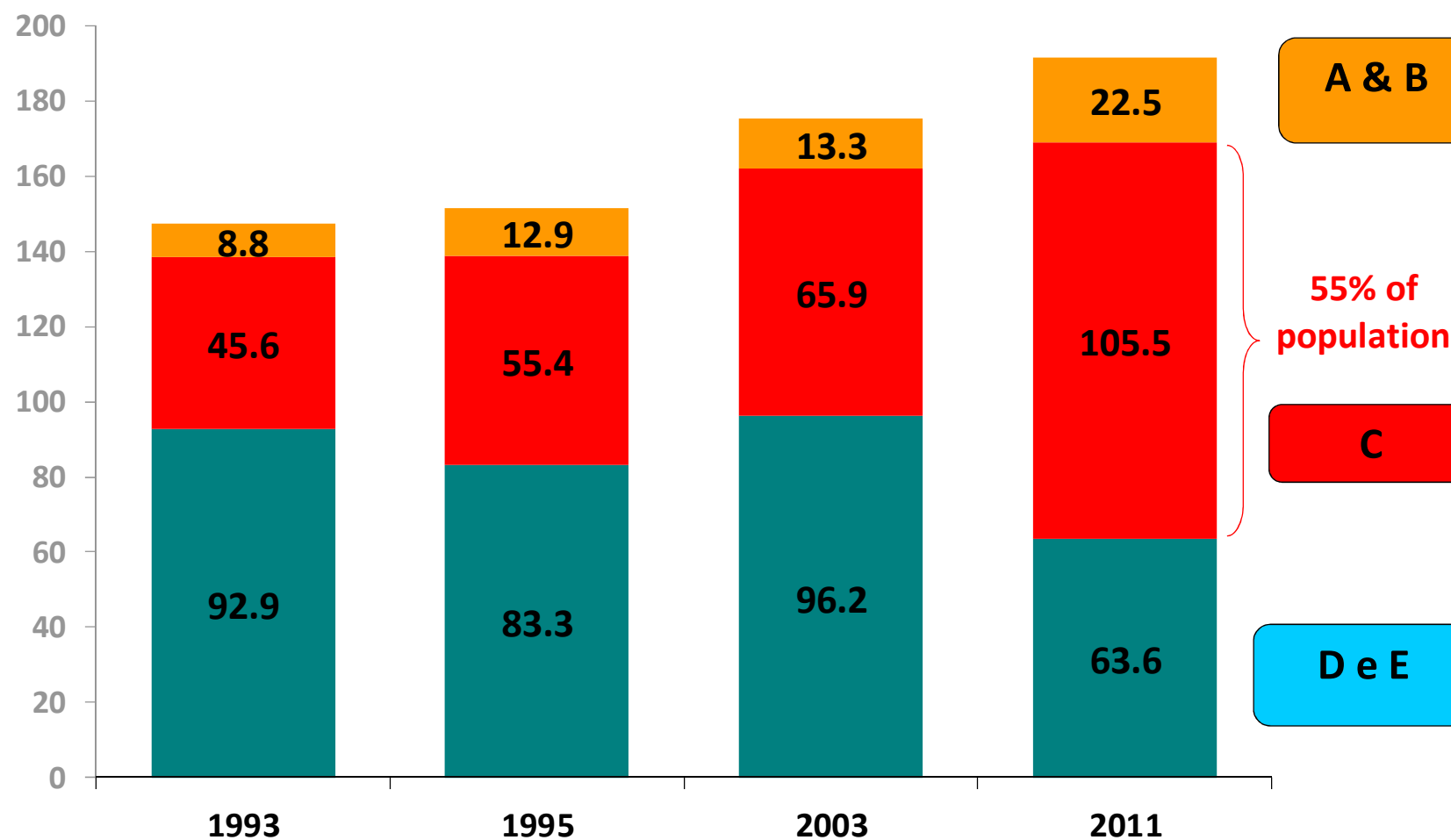


## Gross and Net Debt (% GDP)





## BRAZIL – Stratification of social groups (millions of persons)





# Investment plans and prospects



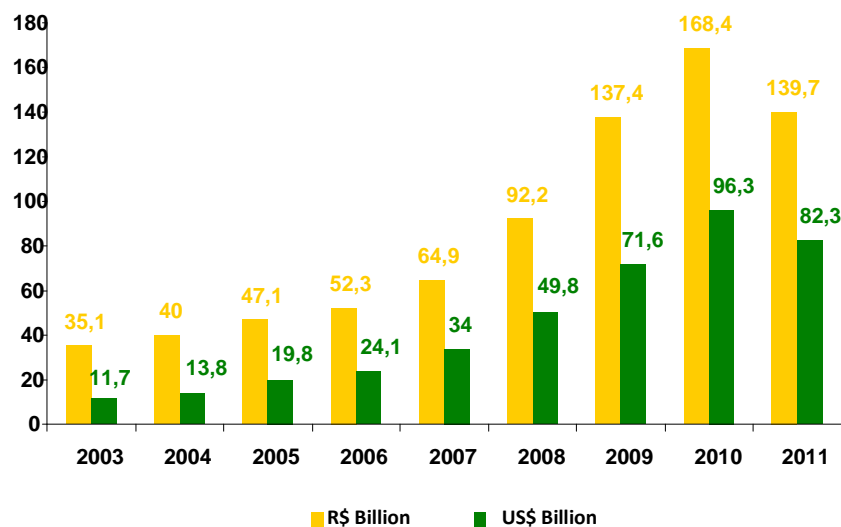
Sectors	US\$ billion		%	
	(A) 2008-2011	(B) 2013-2016	(B)/(A)	2013-16 annual growth
<b>Industry (ex Oil &amp; Gas)</b>	<b>135</b>	<b>132</b>	<b>-1,8</b>	<b>-0,4</b>
<b>Oil &amp; Gas</b>	<b>133</b>	<b>202</b>	<b>52,6</b>	<b>8,8</b>
<b>Infrastructure</b>	<b>171</b>	<b>240</b>	<b>40,8</b>	<b>7,1</b>
Electric Power	73	79	8,9	1,7
Telecom	41	51	24,8	4,5
Railroads	13	38	195,1	24,2
Roads	21	34	64,4	10,5
Sanitation	16	21	29,8	5,3
Ports	6	11	106,7	15,6
Airports	1	4	289,1	31,2
<b>Housing</b>	<b>298</b>	<b>430</b>	<b>44,2</b>	<b>7,6</b>
<b>Total</b>	<b>603</b>	<b>802</b>	<b>33,0</b>	<b>5,9</b>

# BNDES at a glance



**BNDES**

## BNDES annual disbursements



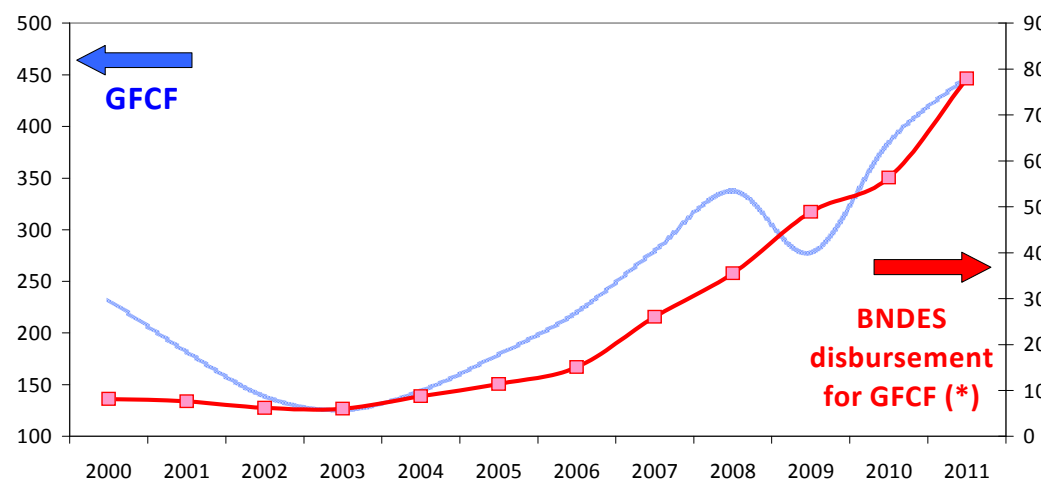
## 2011 Financial performance

- ROE: 23.1%
- Assets: US\$ 340 billion
- Equity: US\$ 32.8 billion

## 2011 Prudential behavior

- Basel Index: 20.6%
- NPL/total loans: 0.14%

## Gross Fixed Capital Formation (GFCF) & BNDES disbursements (US\$ Billion)



(\*) exc. BNDES Exim; working capital, M&A and Equity Financing.

# Policy framework: eye on the short and long terms

## ➤ Short term cost cutting measures:

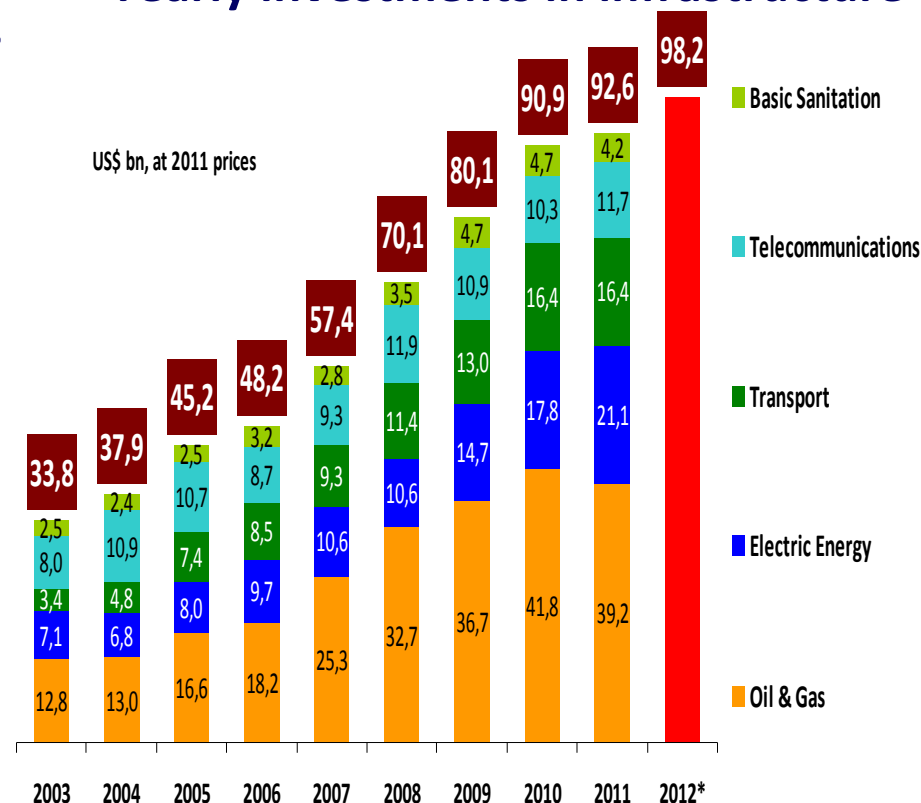
- Monetary easing of 500 basis points over the past 12 months
- TJLP reduction
- Tax cuts on indirect labor costs
- Low cost programs for capital goods acquisition
- Cut in energy costs

## ➤ Long term investment driven

- PAC and Minha Casa Minha Vida
- PAC Equipments + PAC urban mobility
- Logistics: Highways, Railways, Harbors and Airports

**2012. BNDES loans for infra: US\$ 32 billion**

## Yearly investments in infrastructure



Source: ABDIB and Ministry of Finance. \*ABDIB projection

## The internal market agenda

- Mass consumption: serve the aspirations of emerging middle classes.

## The external markets agenda

- Commodities for the inclusion of many

**Infrastructures:**  
much needed  
resource and a  
source of demand

## The government has the capacity to adapt plans, regulations and financial modes to societal needs and aspirations

- Plans: tenacity for effective implementation
- Regulations: evolving to provide welfare and investment security
- Financing: BNDES there but private sector crowd in is a must!

- Institutions: kaizen
- Efficiency: at all levels
- Competences: of all
- Savings and long term financing
- Infrastructure: much more & better

**Unbalanced growth**

**Societal management of tensions, arising from  
unbalanced growth will be decisive**

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