Japan-Brazil 3.0
Fostering economic relations based on common interests

February 18th - 20th, 2014
Osaka, Nagoya, Tokyo

João Carlos Ferraz
Executive Director
World trends: where to, Japan and Brazil?

The evolution of Brazil

BNDES: a mission oriented institution

Investment trends in Brazil

The way ahead and a strategic proposition
World trends
Where to, Japan and Brazil?

World

- World leadership: negotiated or conflictive multipolarity?
- Economic inclusion in emerging countries: a new frontier but high demand for public goods.
- Very fierce competition based on innovations. In all grounds.
- Pressure on resources will increase. Are we doomed?
- Activism by States: protection against chaos; defence of national interests. But no role model.

Japan and Brazil

- Japan: the challenges of maintaining conquered wealth in a dynamic and contrasting neighbourhood
- Brazil: the challenges of unbalanced development and growth in tranquil geographical surroundings
The evolution of Brazil
A development model on the making

Democracy and predictable institutions

Macroeconomic stability

Inclusion: economic, social, cultural

Diversification of sources of dynamism
Macroeconomic stability

Gross Debt (as % of GDP)

Gross Debt (US$ billion)

Source: Brazilian Central Bank
Economic inclusion: a revolution! ... but capabilities ... high demand

2003 – 2012
Middle class: from 67 to 120 million
Per capita household $: + 51%
Income of poorest 10%: + 106%

Source: IBGE/PNAD

2007 – 2012
Public sewage: 26 to 33 million households (57% total)
Computer w/internet: 9 to 22 million households (40% total)

Source: Brazil - MCTI

% Workers with at least completed high schooling (2008)

Source: ILO

R&D/GDP (2011) - %

Source: Brazil - MCTI
BNDES: a mission oriented institution
Long term financing in Brazil is scarce

- **2003-2012:** Investment and Savings/GDP: between 15% and 19%
- **Since 2008,** Savings at around 3% below Investment

Source: BIS and World Bank, 2011
BNDES: scale and scope matters

- 2/3 of long term loans in Brazil
- 100% Publicly owned
- Stable institutional funding

Instruments
- Direct Operations
- Indirect Operations
- MSME (financing and guarantee)
- Exports (Pre and Post shipment)
- Project finance
- Grants
- Investment bank

<table>
<thead>
<tr>
<th>Equity Portfolio</th>
<th>BNDES</th>
<th>KFW</th>
<th>CDB</th>
<th>JFC</th>
</tr>
</thead>
<tbody>
<tr>
<td>Estimated market value (US $ b.)</td>
<td>45.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nº firms with direct support</td>
<td>203</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nº Investment Funds</td>
<td>44</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>2012 (in US$ billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets</td>
</tr>
<tr>
<td>Outstanding Loans</td>
</tr>
<tr>
<td>Net Profit</td>
</tr>
<tr>
<td>ROA (%)</td>
</tr>
<tr>
<td>NPL (%)</td>
</tr>
</tbody>
</table>

Source: BNDES

Source: Banks' balance sheets.

Average annual disbursement: US$ 85 billion
Public financial institutions, as BNDES, very relevant when credit crunch prevails

Gross Fixed Capital Formation (GFCF) and BNDES' Disbursement
(US$ billion)

Fonte: BNDES
BNDES principles: collegiate decisions, project quality, segregation (operation vs credit risk)

BNDES financing process and relations with beneficiaries

All Brazilian based corporations are eligible. BNDES discriminates only bad projects!
Investment trends
Investments: an positive trend but still a long road ahead

Every year BNDES forecasts investments for the following four years. 2013 forecast: highest ever.

Increasing investments a great Brazil challenge

Forecast of (Total) investments (2014-17)
(U$ billion - Constant prices)

<table>
<thead>
<tr>
<th>Sectors</th>
<th>2009-2012</th>
<th>2014-2017</th>
<th>Δ%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>421.4</td>
<td>523.9</td>
<td>24.3</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>194.4</td>
<td>242.7</td>
<td>24.8</td>
</tr>
<tr>
<td>Housing</td>
<td>338.6</td>
<td>413.1</td>
<td>22.0</td>
</tr>
<tr>
<td>Agriculture &amp; Service</td>
<td>547.6</td>
<td>716.7</td>
<td>30.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,502.0</strong></td>
<td><strong>1,896.3</strong></td>
<td><strong>26.3</strong></td>
</tr>
</tbody>
</table>

(*) Note: BNDES Investment Outlook direct research covers 66% of industrial investments and 100% of investments in infrastructure, totaling about 58% of investments in the economy. Housing, agriculture and services investment estimates were based on queries to Sectorial entities and/or econometric forecast.

Source: BNDES

Oil and Gas exploration and production 2014-2017

25 Production Platforms, 10 Drilling Ships and 75 Platform Supply Vessel (PSVs)

US$ 190 billion
On going expansion of road system

2007-2010 (1.5 thous. kms)
2011-2014 Duplication existing roads
2012-2014 New concessions and duplications (7.1 thous. kms)

Concessions already operational to be contracted

US$ 25 billion
The way ahead and a strategic proposition
The evolution of sources of growth: a demand led perspective
Brazil: necessary ingredients to sustain dynamism

- **Economic policy**: endurance and **fiducia**
- **Inclusion**: expand supply and quality of **public goods**
- **Real economy**:
  - Managing unbalanced growth
  - Innovation, innovation, ... and **innovation**
  - Productivity, productivity, ... and **productivity**
- **Long term financing**:
  - Engaging-in **private industry** while public institutions remain relevant
  - Savings, savings, ... and **savings**
Brazilian advantages and challenges

- Open society
- Negligible geopolitical risk
- No structural political differences
- A societal consensus: investment must go on
- Regulatory orientation: balance between consumer welfare and + investment
- Fair and attractive business opportunities for the private sector
- From red ... to minimum tape

- Infant but fast advancing long term planning capacity of public sector
- After 3 decades of scarce investments... not sand on the wheel but reinventing the wheel (not easy...)
- A democratic society, based on consensus building yet open to challenges and disputes
Japan 1.0 and Japan 2.0

Japan 1.0. 1910s to 1950s: manpower for the expanding agriculture frontier

Japan 2.0. 1950s to 1970s: industrial and infrastructure investments to support commodity exports


Relatively to past, more diversification and search for internal market

Sectoral entry: automotive and shipbuilding

<table>
<thead>
<tr>
<th>Year</th>
<th>Company Name</th>
<th>Shares</th>
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<tbody>
<tr>
<td>2009</td>
<td>NAMISA (CSN)</td>
<td>2.100</td>
</tr>
<tr>
<td></td>
<td>CENIBRA</td>
<td>1.600</td>
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<tr>
<td>2010</td>
<td>SUMITOMO CORP /USIMINAS</td>
<td>1.928</td>
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<tr>
<td></td>
<td>PMCC Consortium (PETROBRAS/ MITSUI/ CAMARGO)</td>
<td>1.000</td>
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<tr>
<td></td>
<td>TOYOTA</td>
<td>600</td>
</tr>
<tr>
<td></td>
<td>HONDA</td>
<td>200</td>
</tr>
<tr>
<td>2011</td>
<td>KIRIN</td>
<td>3.700</td>
</tr>
<tr>
<td></td>
<td>NISSAN</td>
<td>1.494</td>
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<tr>
<td></td>
<td>VIA QUATRO (CCR/MITSUI/RATP/ROGGIO)</td>
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<tr>
<td></td>
<td>AGC GROUP</td>
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<td></td>
<td>MITSUI</td>
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<td></td>
<td>OJI</td>
<td>313</td>
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<td></td>
<td>KIRIN</td>
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<td>SUZUKI</td>
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<td>AJINOMOTO</td>
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<td>PANASONIC</td>
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<td>MUSASHI DA AMAZÔNIA</td>
<td>99</td>
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<td>MARUBENI</td>
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<td>2012</td>
<td>KAWASAKI HEAVY INDUSTRIES</td>
<td>767</td>
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<tr>
<td></td>
<td>TOYOTA -- ENGINE PLANT</td>
<td>435</td>
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<td>MIZUHO</td>
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<td>SUMITOMO RUBBER INDUSTRIES</td>
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<td>KIRIN</td>
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<td>TAKEDA</td>
<td>246</td>
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<td></td>
<td>JOHN DEERE /HITACHI CONSTRUCTION MACHINERY</td>
<td>180</td>
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<td>KAWASAKI MOTORES BRASIL</td>
<td>141</td>
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<td>HONDA LOGISTIC</td>
<td>111</td>
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<td>YASUDA</td>
<td>102</td>
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<td>2013</td>
<td>MITSUI</td>
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<td>HONDA</td>
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<td>MITSUBISHI CORPORATION</td>
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</table>
Questions: Japan and Brazil,

- How to expand investment frontier?
- How to overcome fierce competition?

Suggestions

Brazil as...
- Provider of inputs for food and energy security
- Attractive internal and regional markets
- Reliable base to face worldwide competition

Japan as...
- Provider of production capacity where Japan excels
- Partner in new activities
- Transmitter of knowledge and experience
- Source of long term funding
Japan-Brazil 3.0

Geopolitical, market and competitive drivers can mould and forge common interests to foster a new generation of complementary economic relations
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