Brazilian development prospects and challenges

João Carlos Ferraz
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The Danish-Brazilian and the Norwegian-Brazilian Chambers of Commerce

São Paulo, March 19, 2012

João Carlos Ferraz
Vice President

BNDES Brazilian development bank
- Development prospects
- The social dimension
- The economic and investment dimensions
- Development policies and BNDES
- Relations with Denmark and Norway
- The way ahead
Development prospects
Increasing **diversity**, amidst a crisis of long duration

- New poles of dynamism but advanced economies will remain in the central stage

**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.
Brazil in a nutshell

Recent development trajectory

• Economic & social inclusion
• Macroeconomic stability
• Investment ahead of GDP

Current and upcoming challenges

• Competences and capabilities
• Unbalanced growth
• Permanence of development policies
The social dimension
The social dimension

✓ Improvements in **income distribution**

✓ Strong **formal job creation**

✓ **Lower income** families experiencing “Chinese” growth

Social and economic inclusion
Income inequality is being reduced

High Inflation

GINI Index

Source: IBGE
Quality change in the labor market

Unemployment Rate (%)

Source: IBGE.
Lower income families experiencing “Chinese growth rates”

Per capita income growth (per percentile) %
(annual average 2001-2009)

Source: IBGE and FGV
Emerging consumers and citizens are becoming very relevant

Share of social groups in total national income %

<table>
<thead>
<tr>
<th>Year</th>
<th>Class A/B</th>
<th>Class C</th>
<th>Class D/E</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>8</td>
<td>37</td>
<td>55</td>
</tr>
<tr>
<td>2009</td>
<td>11</td>
<td>39</td>
<td>50</td>
</tr>
<tr>
<td>2014*</td>
<td>28</td>
<td>56</td>
<td>28</td>
</tr>
</tbody>
</table>

Source: IBGE
The economic and investment dimensions
Growth trajectory is on:

- Growth perspectives ahead of world average
- Domestic market has led the growth
- Investment growing ahead of GDP
- Investment frontier is vast
- Steadiness of macroeconomic policies
  - Inflation targeting
  - Stable Fiscal policies: declining public debt
  - Flexible exchange rate and accumulation of reserves
Growth ahead of world average

Brazil and the World: GDP Growth Rates ( % )

<table>
<thead>
<tr>
<th>Period</th>
<th>Brazil</th>
<th>World</th>
</tr>
</thead>
<tbody>
<tr>
<td>1966-80</td>
<td>7.4</td>
<td></td>
</tr>
<tr>
<td>1981-2003</td>
<td>4.5</td>
<td>3.1</td>
</tr>
<tr>
<td>2004-2009</td>
<td>3.9</td>
<td>3.7</td>
</tr>
<tr>
<td>2010</td>
<td>7.5</td>
<td>3.4</td>
</tr>
<tr>
<td>2010-2015</td>
<td>4.5</td>
<td>3.5</td>
</tr>
</tbody>
</table>

Source: Ipeadata and IBGE. Elaborated by APE/BNDES

(*) Forecasts based on IIF /IMF (World) , BACEN – FOCUS /BNDES (Brazil)
Domestic market is leading economic growth, especially household consumption.

Source: IBGE

Breakdown of GDP Growth (% p.y.)

<table>
<thead>
<tr>
<th>Year</th>
<th>GFCF</th>
<th>HH Consumption</th>
<th>Government Consumption</th>
<th>Net Exports</th>
<th>GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>0.5</td>
<td>2.5</td>
<td>-0.9</td>
<td>-0.2</td>
<td>3.2</td>
</tr>
<tr>
<td>2006</td>
<td>0.6</td>
<td>3.0</td>
<td>-0.2</td>
<td>-0.2</td>
<td>4.0</td>
</tr>
<tr>
<td>2007</td>
<td>0.5</td>
<td>3.5</td>
<td>-1.0</td>
<td>-1.0</td>
<td>6.1</td>
</tr>
<tr>
<td>2008</td>
<td>0.3</td>
<td>2.3</td>
<td>2.3</td>
<td>-1.5</td>
<td>5.2</td>
</tr>
<tr>
<td>2009</td>
<td>0.7</td>
<td>2.7</td>
<td>-1.1</td>
<td>-0.3</td>
<td>-0.3</td>
</tr>
<tr>
<td>2010</td>
<td>1.3</td>
<td>4.1</td>
<td>-2.9</td>
<td>-1.1</td>
<td>7.5</td>
</tr>
<tr>
<td>3T 2011</td>
<td>0.5</td>
<td>3.3</td>
<td>-1.1</td>
<td>-0.3</td>
<td>3.7</td>
</tr>
</tbody>
</table>
Investment is growing ahead of GDP

Gross Formation of Fixed Capital – Annual Variation Rate (%)

*Accumulated result over the last 4 quarters

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP</th>
<th>GFFC</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>1.3</td>
<td>2.7</td>
</tr>
<tr>
<td>2002</td>
<td>0.4</td>
<td>2.7</td>
</tr>
<tr>
<td>2003</td>
<td>-5.2</td>
<td>1.1</td>
</tr>
<tr>
<td>2004</td>
<td>5.7</td>
<td>9.1</td>
</tr>
<tr>
<td>2005</td>
<td>3.2</td>
<td>3.6</td>
</tr>
<tr>
<td>2006</td>
<td>4.0</td>
<td>9.8</td>
</tr>
<tr>
<td>2007</td>
<td>6.1</td>
<td>13.9</td>
</tr>
<tr>
<td>2008</td>
<td>5.2</td>
<td>13.6</td>
</tr>
<tr>
<td>2009</td>
<td>-0.3</td>
<td>-6.7</td>
</tr>
<tr>
<td>2010</td>
<td>7.5</td>
<td>21.3</td>
</tr>
<tr>
<td>2011</td>
<td>2.7</td>
<td>4.7</td>
</tr>
</tbody>
</table>

Source: IBGE
## Corporate plans: wide investment frontier

**Source:** BNDES

<table>
<thead>
<tr>
<th>Sectors</th>
<th>2007-2010</th>
<th>2012-2015</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Industry</strong></td>
<td>257</td>
<td>341</td>
<td>32.5</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>136</td>
<td>202</td>
<td>48.5</td>
</tr>
<tr>
<td>Mining</td>
<td>39</td>
<td>29</td>
<td>(25.2)</td>
</tr>
<tr>
<td>Steel</td>
<td>18</td>
<td>18</td>
<td>0.6</td>
</tr>
<tr>
<td>Petrochemical</td>
<td>14</td>
<td>17</td>
<td>19.5</td>
</tr>
<tr>
<td>Vehicles</td>
<td>18</td>
<td>31</td>
<td>74.0</td>
</tr>
<tr>
<td>Electronics</td>
<td>13</td>
<td>18</td>
<td>37.1</td>
</tr>
<tr>
<td>Pulp &amp; Paper</td>
<td>11</td>
<td>12</td>
<td>8.3</td>
</tr>
<tr>
<td>Textile and Apparel</td>
<td>6</td>
<td>8</td>
<td>33.3</td>
</tr>
<tr>
<td>Aviation</td>
<td>2</td>
<td>5</td>
<td>198.6</td>
</tr>
<tr>
<td><strong>Infrastructure</strong></td>
<td>184</td>
<td>227</td>
<td>23.3</td>
</tr>
<tr>
<td>Electric Power</td>
<td>81</td>
<td>90</td>
<td>10.6</td>
</tr>
<tr>
<td>Telecoms</td>
<td>41</td>
<td>42</td>
<td>4.6</td>
</tr>
<tr>
<td>Sanitation</td>
<td>18</td>
<td>25</td>
<td>33.5</td>
</tr>
<tr>
<td>Railroads</td>
<td>14</td>
<td>26</td>
<td>76.8</td>
</tr>
<tr>
<td>Roads</td>
<td>23</td>
<td>30</td>
<td>32.9</td>
</tr>
<tr>
<td>Ports</td>
<td>5</td>
<td>9</td>
<td>61.9</td>
</tr>
<tr>
<td>Airports</td>
<td>1</td>
<td>6</td>
<td>333.9</td>
</tr>
<tr>
<td><strong>Housing</strong></td>
<td>341</td>
<td>491</td>
<td>44.2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>782</td>
<td>1058</td>
<td>35.4</td>
</tr>
</tbody>
</table>

Source: BNDES

*US$/R$ = 1.75*
Real interest rates: new equilibrium

Real Interest rate – (PreXDI360 – Expected Inflation)

Source: Brazilian Central Bank and IBGE
Solid fiscal indicators

Consolidated Nominal Deficit and Primary Surplus in Public Sector (% of GDP)

Source: BACEN

* Market expectations at 09/03

Consolidated Net Debt in the Public Sector (% GDP) – End of Period

Source: Bacen

* Market expectations at 09/03
High external solvency

External Debt and International Reserves

Source: Brazilian Central Bank
Development policies and BNDES
Development policies in place and becoming permanent policies

Development policies

- Education - PDE
- S&T & Innovation
- Industrial Policy PDP
- Infrastructure PAC
- Health
- Housing
2004-2011 Industrial Policies

  - Foster technology based sectors
  - The return of Phoenix

- PDP (2008-2010): Productive Development Policy
  - Innovate and invest to sustain growth
  - Riding favourable winds and the storm

- PBM (2011-2014): Plano Brasil Maior
  - Innovate to compete; compete to grow
  - Against a hostile environment, aggregate value through innovation

• Long term policy but adaptable to face changing challenges
• Industrial policy: a team player of development policies
The strategic role of development financing

Long term financing serves purposes

• More and better work opportunities.
• More and better infrastructure
• More and better competitive capabilities

As markets are pro-cycle

• A development bank is an instrument of systemic stability
• But... Attention!! Scale and scope matters... Banks must have adequate resources and instruments
Recent high growth rates will tend to recede in the years to come

Source: BNDES

BNDES: Approvals and Disbursements

Converted to US dollar on disbursement dates
Main provider of long-term financing in Brazil

100% state-owned company under private law

Institutional funding

2,500 employees

Instruments

- Direct operations
- Indirect operations
- MSME (financing & guarantee)
- Exim
- Project finance
- Equity investments
- Grants

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

BNDES disbursement for GFCF (*)

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

BNDES contribution to investment & employment

Investments supported by BNDES/ GFCF

Jobs created or maintained due to BNDES / Total Employment

Source: BNDES
Disbursements by business sector (%)

Source: BNDES
BNDES financing through the banking industry

Disbursements by type of operation (%)

Source: BNDES
Share of MSMEs in total disbursement

N° of MSMEs supported in 2011

- 470,000 active cards
- 2011: R$ 7.6 bi
- 2012: R$ 11. bi (expected)

Source: BNDES
Disbursements to Finance Exports

Converted to US dollar on the disbursement dates

US$ billion

Source: BNDES
Relations with Denmark and Norway
Denmark + Norway and Brazil: stable trade waiting for opportunities

Brazil is a net importer of Danish products...

... and a net exporter to Norwegian markets

Source: Ministry of Development, Industry and Foreign Trade

* Accumulated result over 12 months up to Jan.

Source: BNDES
An avenue to be widened and extended

Based on mutual economic and political interests:

- Oil & gas, mining and shipping industries
- Engineering industries
- Social economic sustainability
- Science, Technology and Innovation
- Foreign and Development Policies
The way ahead
Brazilian prospects: we must

Consolidate

✓ Demand driven, policy induced development:
  ✓ **Foreign markets**: through trade and investment, provide food, energy and resource security to partner nations
  ✓ **Domestic markets**: emerging middles classes and infrastructure

Foster

✓ A long-term development strategy based on:
  ✓ Investments in capacity expansion and innovation
  ✓ **Domestic savings and a strong financing industry**
Ingredients to ensure sustained development

✓ **Macroeconomic policies:** Maintain strong fundamentals

✓ **Development policies:** Permanent and effective policies

✓ **Savings & financing:** efficiency in public expenditures + incentives for domestic savings and for a long-term financing industry

✓ **Competences:** more and better jobs; high-quality education

✓ **Infrastructure:** more and better projects; more complex financing/guarantee/insurance solutions

✓ **Industry:** innovation and competitiveness capabilities
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