Development prospects and challenges for Brazil

João Carlos Ferraz
Setting the scene: the Brazilian past

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
The heritage: sand on the wheel or where is the wheel?

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....
Brazil: an emerging model on the way?

- 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**

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

- 1999: 8.9
- 2000: 6.0
- 2001: 7.7
- 2002: 9.3
- 2003: 7.6
- 2004: 5.7
- 2005: 3.1
- 2006: 4.5
- 2007: 4.3
- 2008: 6.5
- 2009: 5.2
- 2010: 5.9
- 2011: 5.9
- 2012: 6.0

**Real interest rates (% per year)**

(*) Accumulated in 12 months up to Aug. '12

**Gross and Net Debt (% GDP)**

Sources: Brazil's Central Bank, Ministry of Finance and IBGE. Produced by BNDES
BRAZIL – Stratification of social groups (millions of persons)

<table>
<thead>
<tr>
<th>Year</th>
<th>A &amp; B</th>
<th>C</th>
<th>D &amp; E</th>
</tr>
</thead>
<tbody>
<tr>
<td>1993</td>
<td>8.8</td>
<td>92.9</td>
<td></td>
</tr>
<tr>
<td>1995</td>
<td>12.9</td>
<td>83.3</td>
<td></td>
</tr>
<tr>
<td>2003</td>
<td>13.3</td>
<td>96.2</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>22.5</td>
<td>105.5</td>
<td>63.6</td>
</tr>
</tbody>
</table>

Source: FGV
## Investment plans and prospects

![BNDES Logo]

<table>
<thead>
<tr>
<th>Sectors</th>
<th>US$ billion</th>
<th>%</th>
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<tbody>
<tr>
<td></td>
<td>(A) 2008-2011</td>
<td>(B) 2013-2016</td>
</tr>
<tr>
<td>Industry (ex Oil &amp; Gas)</td>
<td>135</td>
<td>132</td>
</tr>
<tr>
<td>Oil &amp; Gas</td>
<td>133</td>
<td>202</td>
</tr>
<tr>
<td>Infrastructure</td>
<td>171</td>
<td>240</td>
</tr>
<tr>
<td>Electric Power</td>
<td>73</td>
<td>79</td>
</tr>
<tr>
<td>Telecom</td>
<td>41</td>
<td>51</td>
</tr>
<tr>
<td>Railroads</td>
<td>13</td>
<td>38</td>
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<tr>
<td>Roads</td>
<td>21</td>
<td>34</td>
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<tr>
<td>Sanitation</td>
<td>16</td>
<td>21</td>
</tr>
<tr>
<td>Ports</td>
<td>6</td>
<td>11</td>
</tr>
<tr>
<td>Airports</td>
<td>1</td>
<td>4</td>
</tr>
<tr>
<td>Housing</td>
<td>298</td>
<td>430</td>
</tr>
<tr>
<td>Total</td>
<td>603</td>
<td>802</td>
</tr>
</tbody>
</table>

Source: BNDES
BNDES at a glance

Gross Fixed Capital Formation (GFCF) & BNDES disbursements

<table>
<thead>
<tr>
<th>GFCF (US$ Billion)</th>
<th>BNDES disbursement for GFCF (*)</th>
</tr>
</thead>
<tbody>
<tr>
<td>35.1</td>
<td>16.4</td>
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<tr>
<td>40</td>
<td>34</td>
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<tr>
<td>47.1</td>
<td>64.9</td>
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<tr>
<td>52.3</td>
<td>92.2</td>
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<tr>
<td>64.9</td>
<td>49.8</td>
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<tr>
<td>92.2</td>
<td>137.4</td>
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<tr>
<td>71.6</td>
<td>96.3</td>
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<tr>
<td>168.4</td>
<td>139.7</td>
</tr>
</tbody>
</table>

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

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%
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

Source: ABDIB and Ministry of Finance. *ABDIB projection
The map: demand driven, policy induced development

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!
Challenges

- 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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