



Brazil Economic Outlook

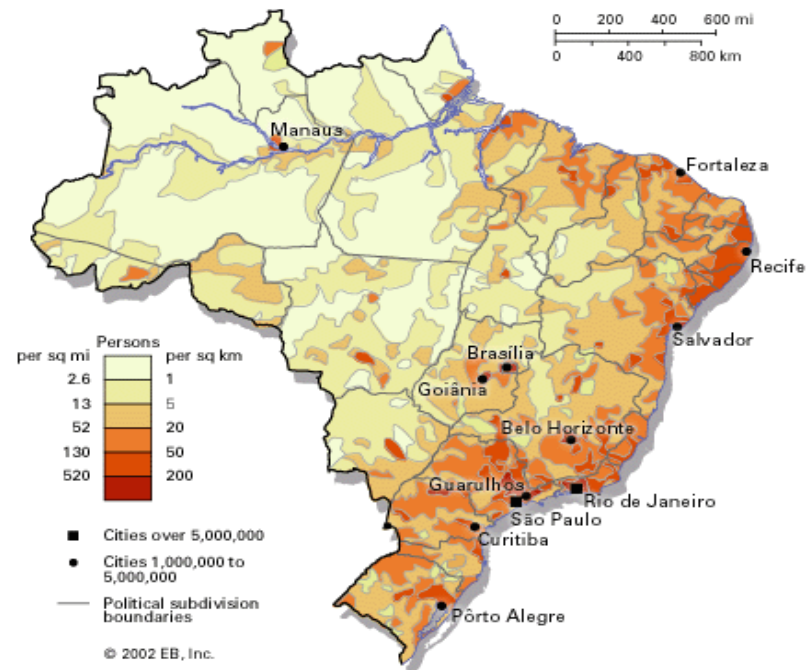
London School of Economics

Alexandre Tombini
Governor

January 2014

Brazil overview

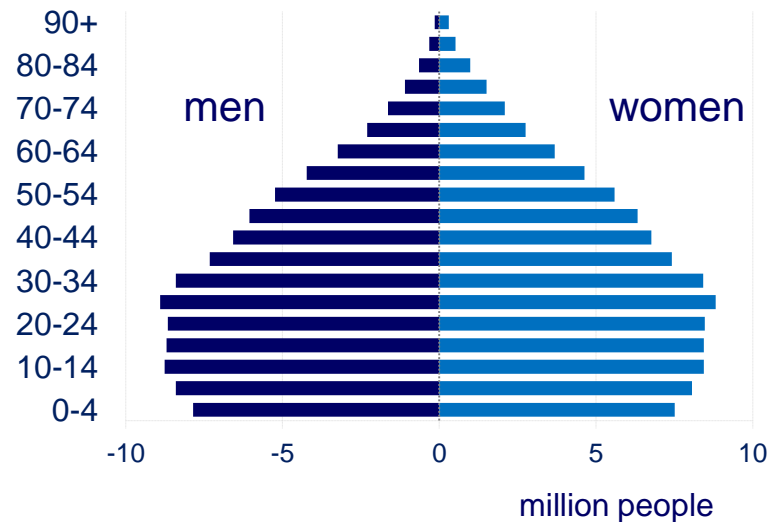
- Brazil is among the largest countries in terms of territory, population and GDP
- Brazil has vast natural resources, including recently discovered large offshore oil fields, a diverse industrial base, a dynamic and sophisticated private sector, and a well-structured public sector
- Brazil is a vigorous democracy, with free multiparty elections and a stable political system
- Brazil has good relations with all its neighbors and has increased its ties with all regions of the world



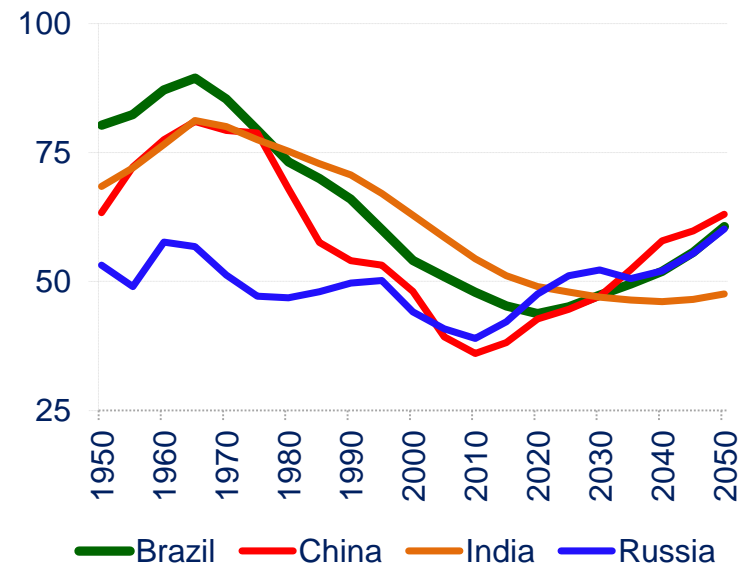
- 7th largest GDP: US\$ 2,253 billion (2012)
- Continental country: 5th largest area 8,515,767 km²
- 5th largest population: 199 million people (2012)

Demographics

Population Pyramid (2012)



Dependency Ratio



- Brazil's population is highly concentrated within the Economically Active Population range
- Brazil's dependency ratio is low and declining

Note: The dependency ratio is the ratio of the sum of the population aged 0-14 and that aged 65+ to the population aged 15-64

Social achievements in the past decade

- Reduced poverty: from 27% to 12% of the households
- Reduced inequality
- Grew the middle class: +40 million people
- Created jobs: more than 18 million additional formal jobs (2003-2012); record low unemployment at present
- Increased access to credit and banking services

Main topics

Inflation

- Central bank is acting to bring inflation to target

Growth

- Moderate economic expansion
- Rebalancing consumption and investment
- Supply-side initiatives to raise potential growth

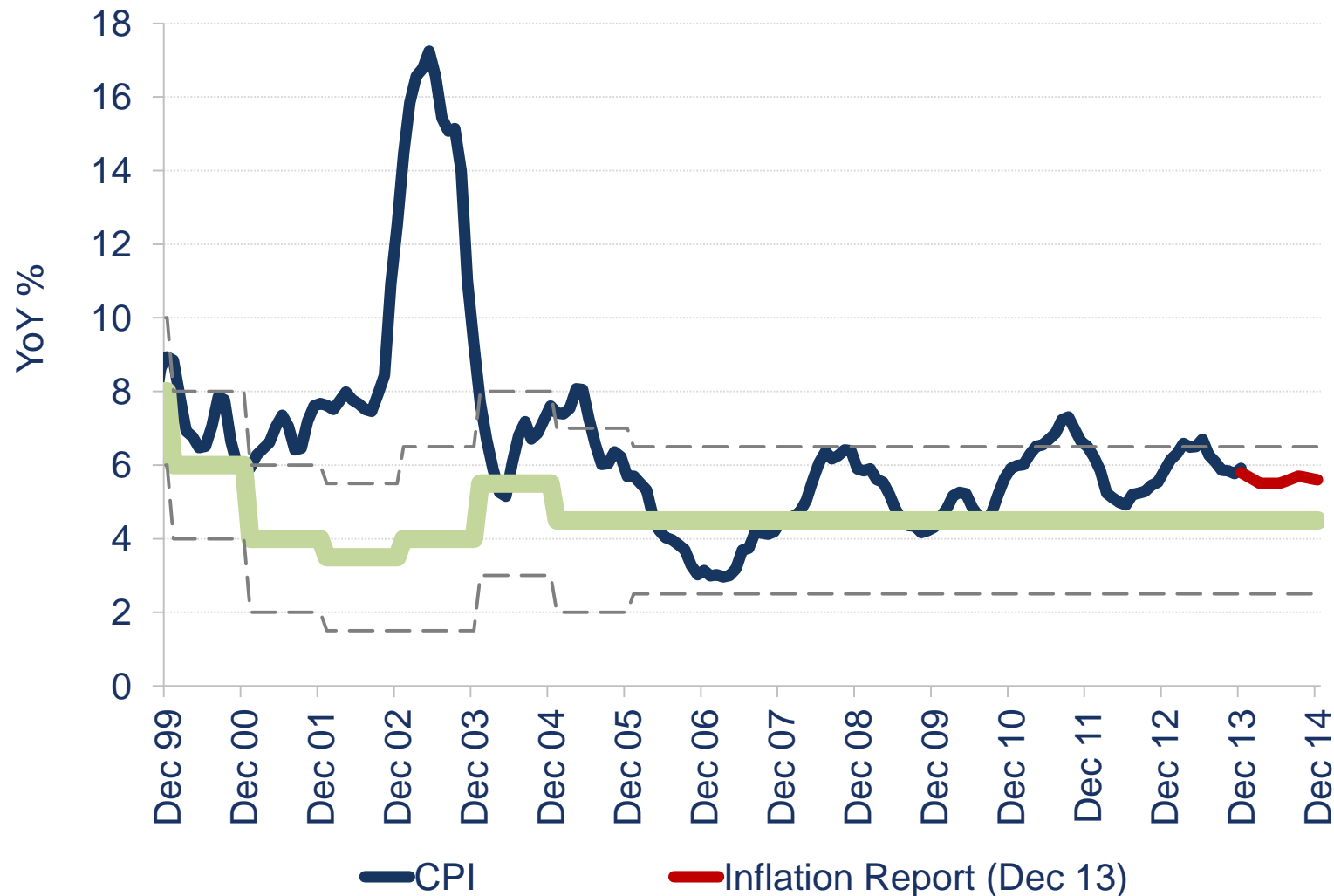
UMP Exit

- Net positive for emerging markets
- Brazil has flexible policy framework
- BCB has buffers to smooth the adjustment process

Inflation

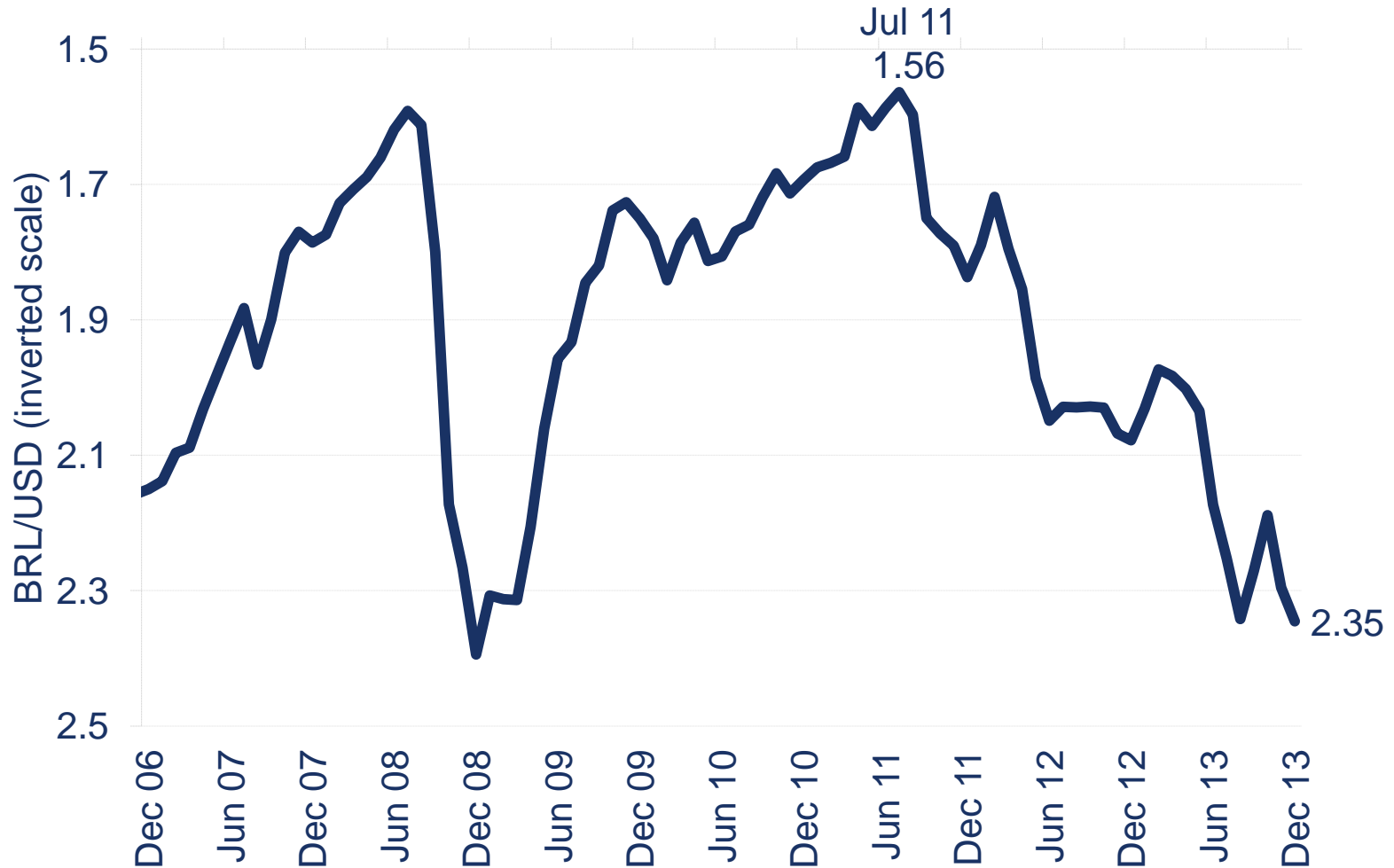
Inflation high but within target band

Ten consecutive years of year-end inflation within target band



ER depreciation pressuring inflation

Central bank acting to limit pass-through to domestic prices



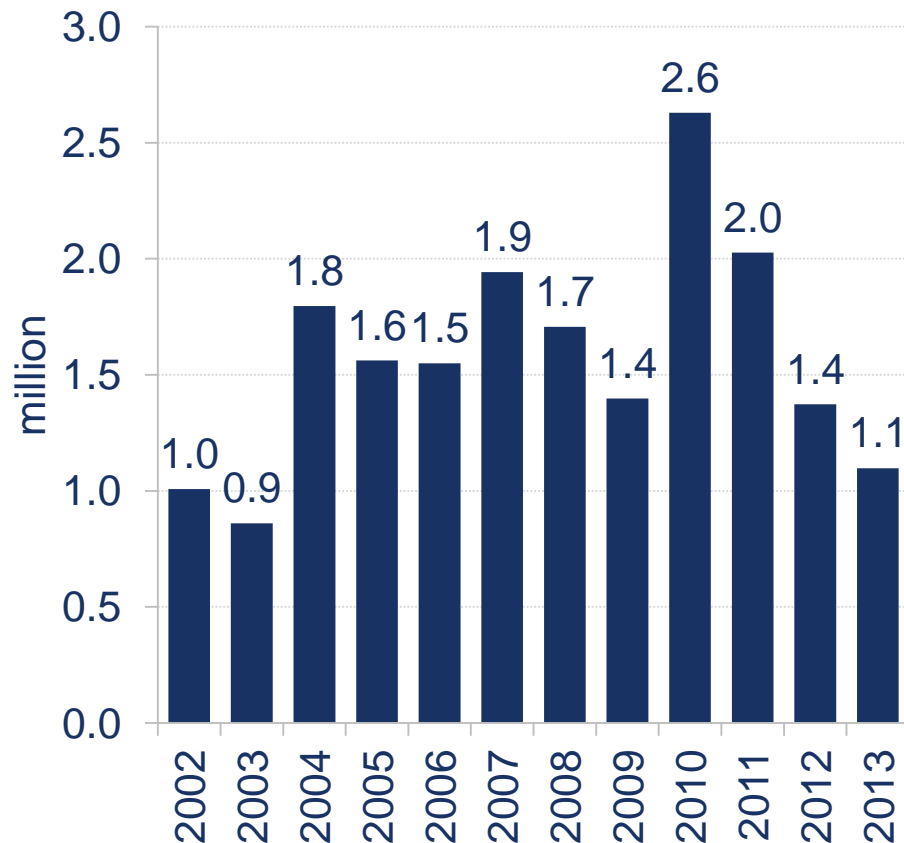
Labor market remains tight

Labor market continues to tighten, but some signs of moderation can be observed

Unemployment Rate

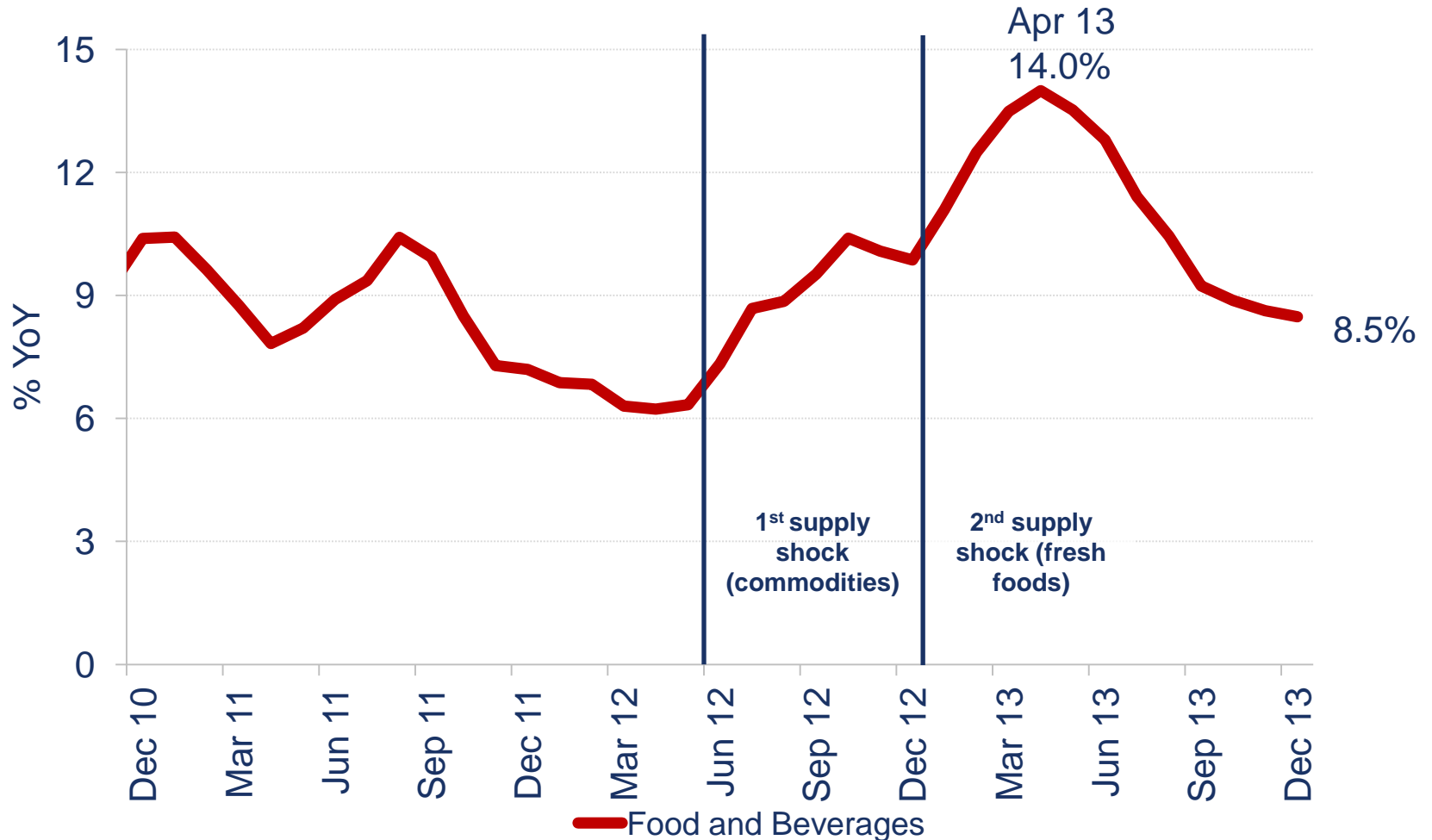


Formal Jobs Creation

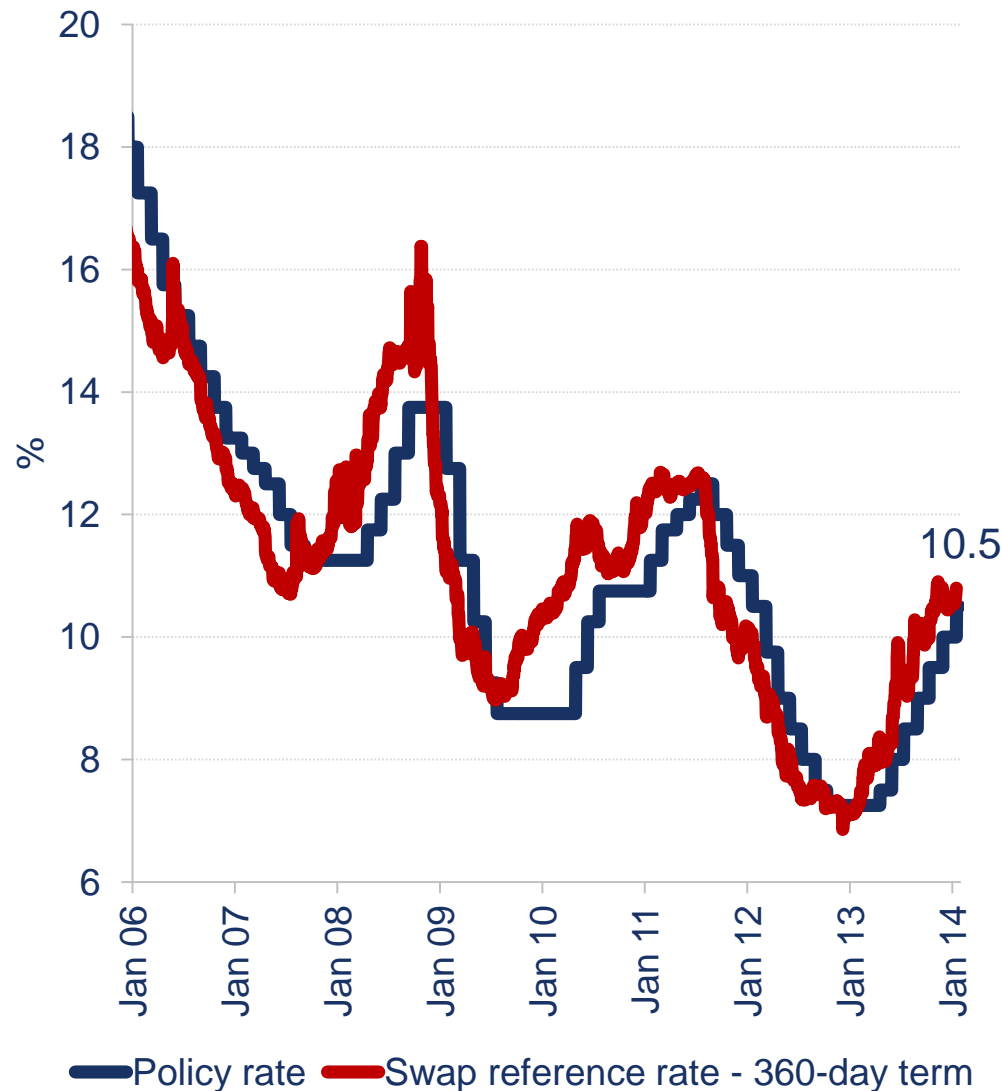


Food price shocks in 2012-2013 hit inflation

Brazil suffered idiosyncratic shocks on top of the global food commodity shocks



Central bank acting to bring inflation to target



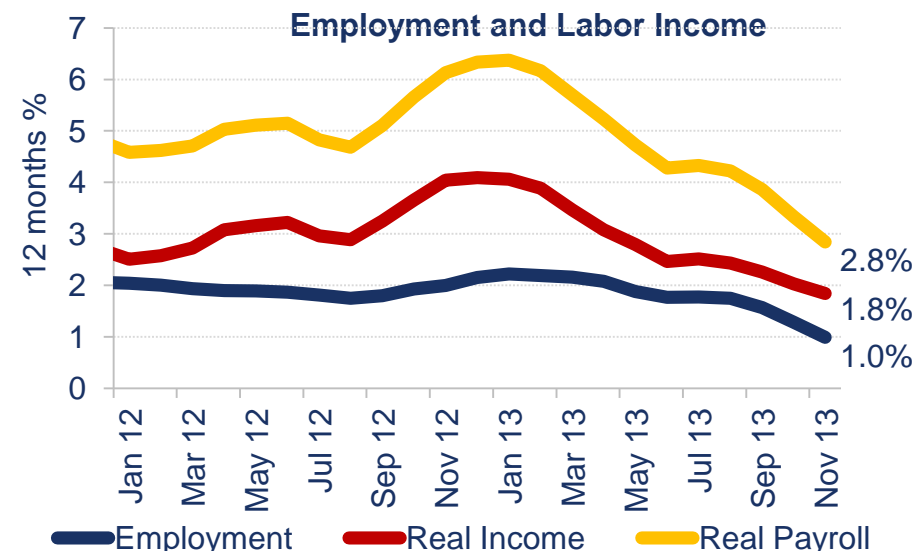
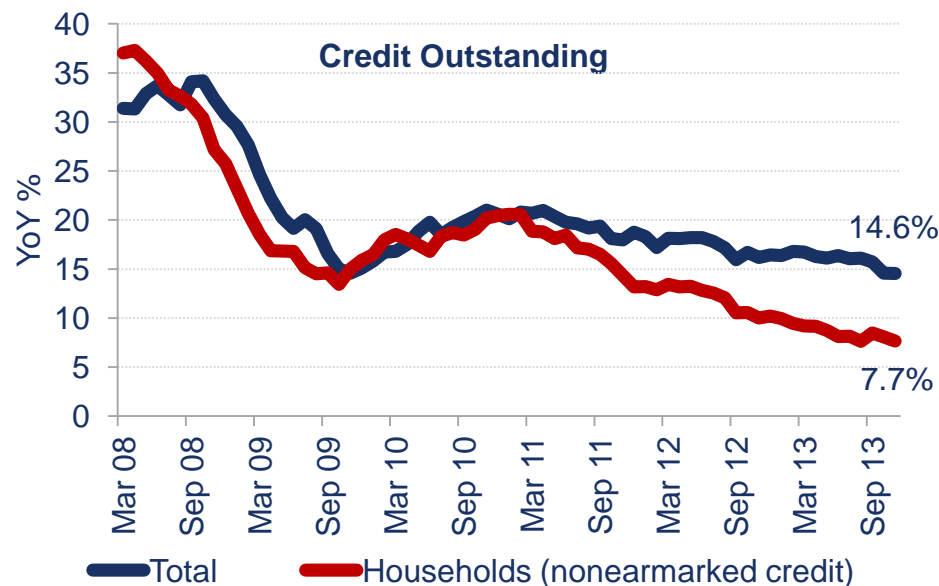
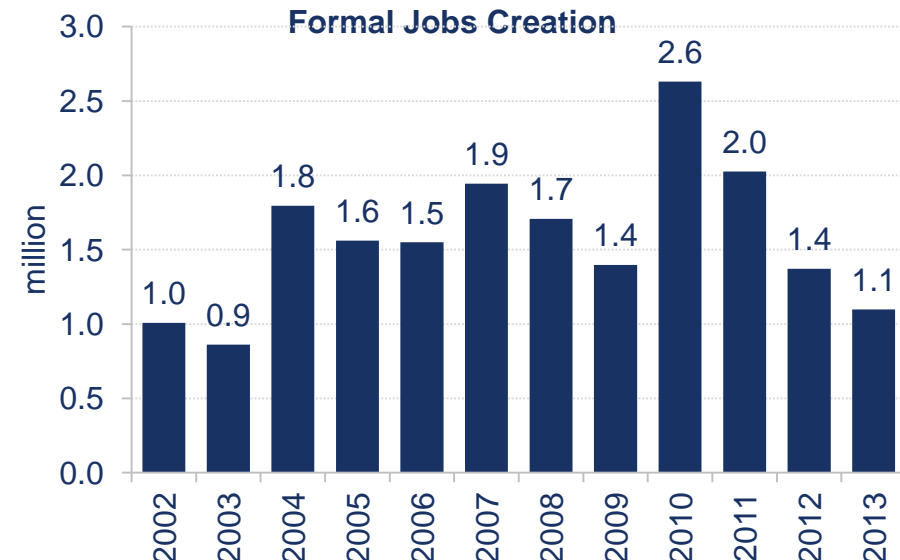
Growth

Moderate economic expansion

- Moderate growth to continue in 2014
- Economic growth drivers
 - Employment, wages and credit support consumption
 - Pent-up demand for infrastructure investment
 - More favorable contribution from net exports
- Rebalancing consumption and investment
- Faster growth requires strengthening confidence

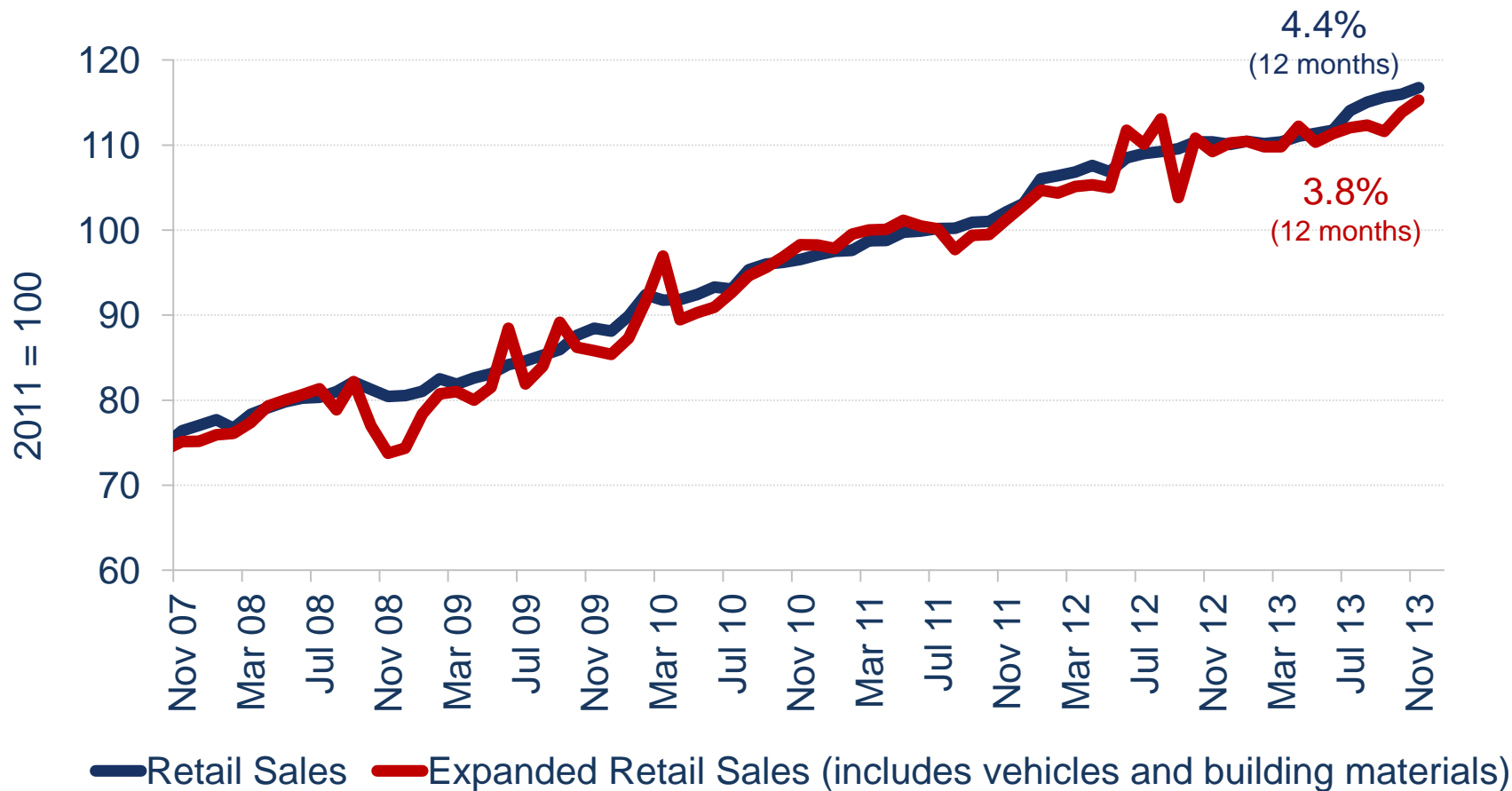
Growth Demand

Support for domestic demand

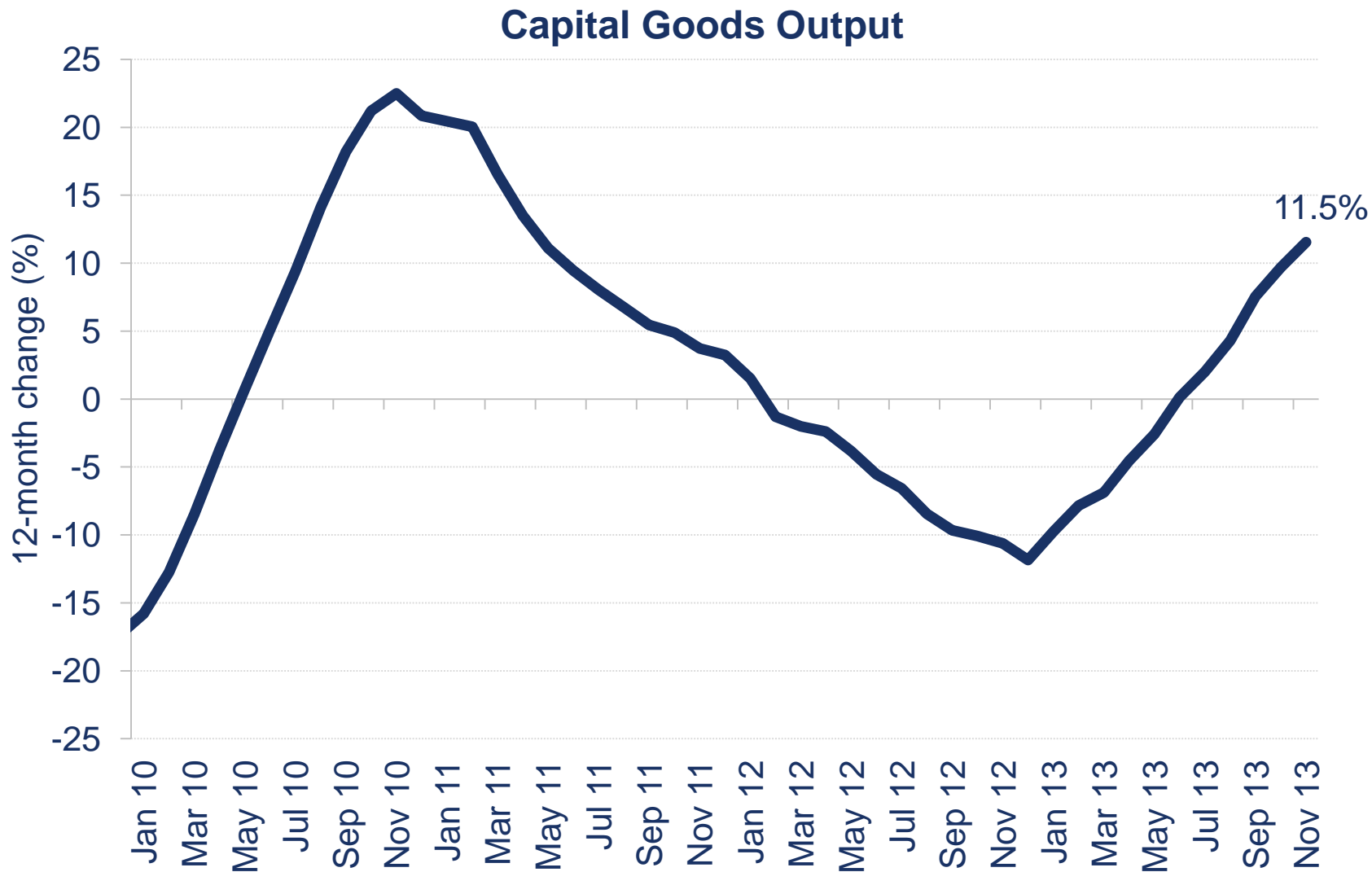


Consumption remains strong

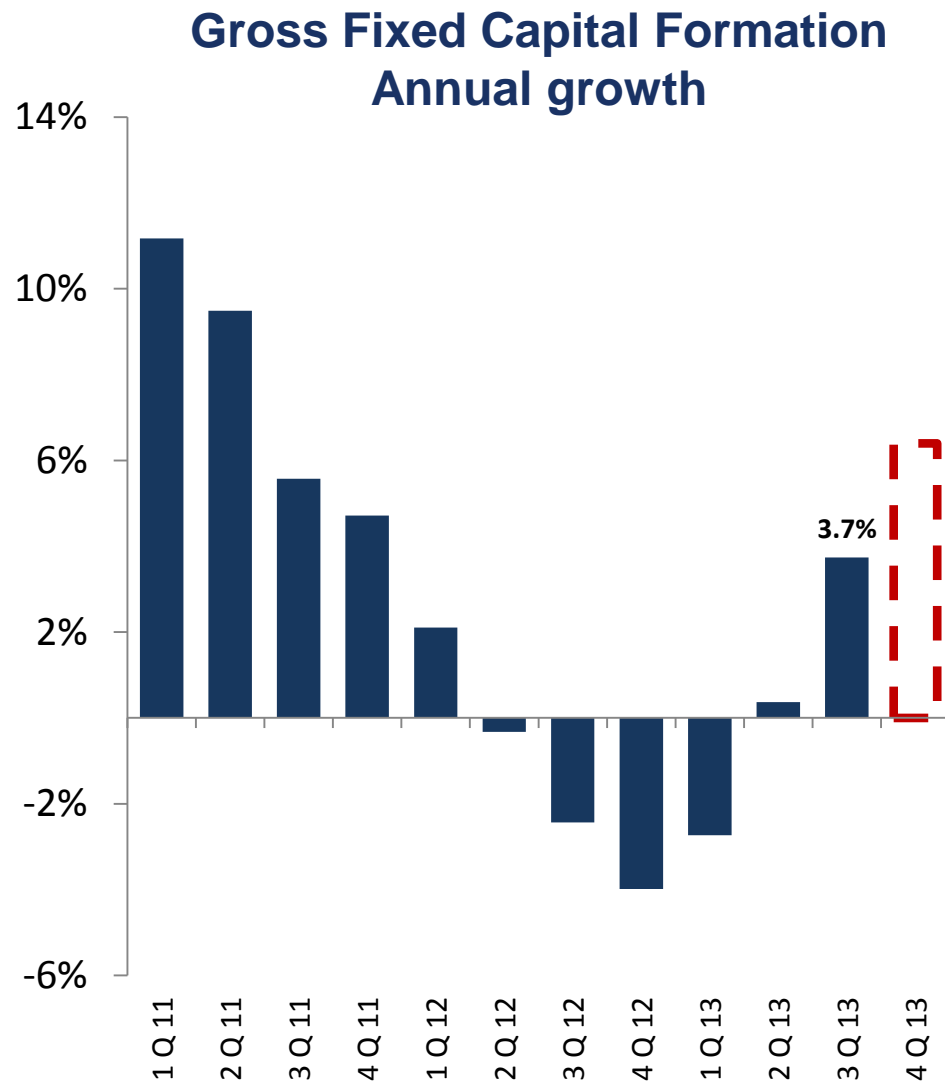
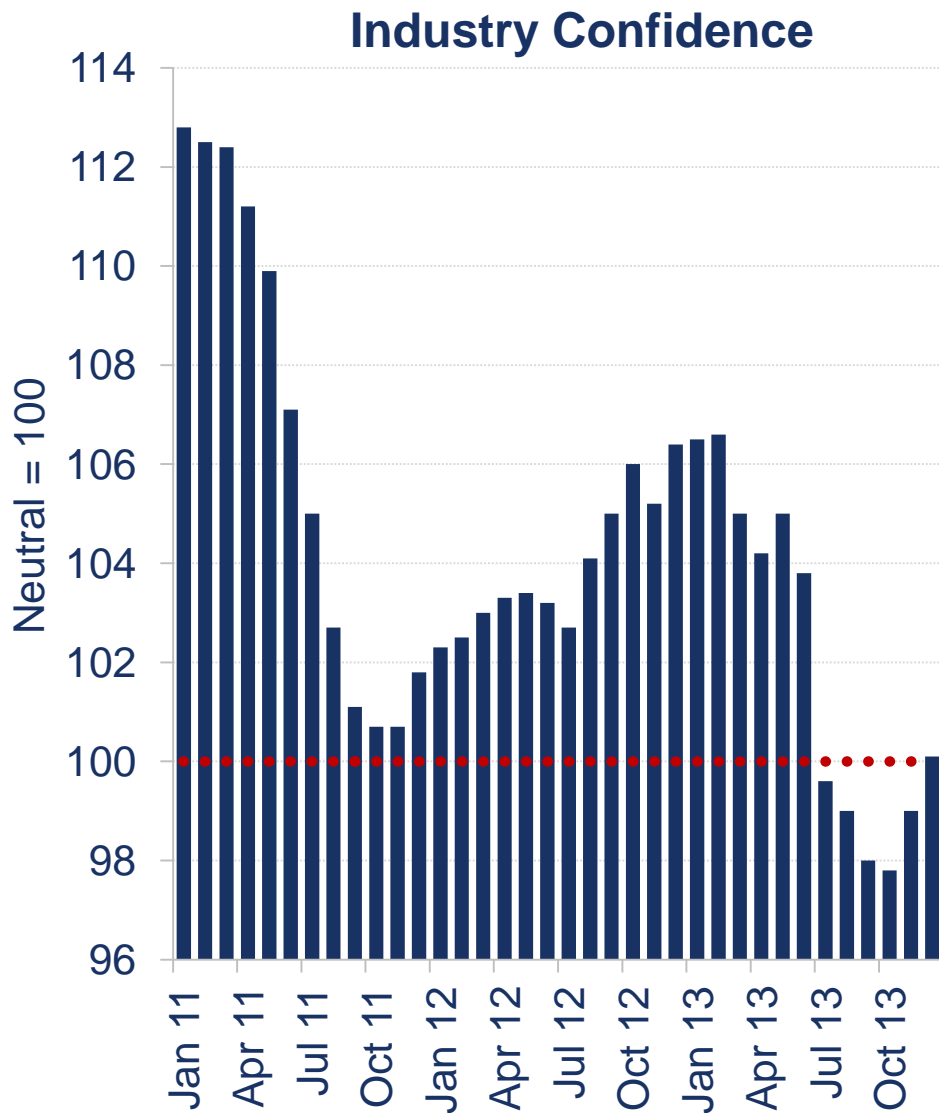
Retail Sales



Investment strong in 2013

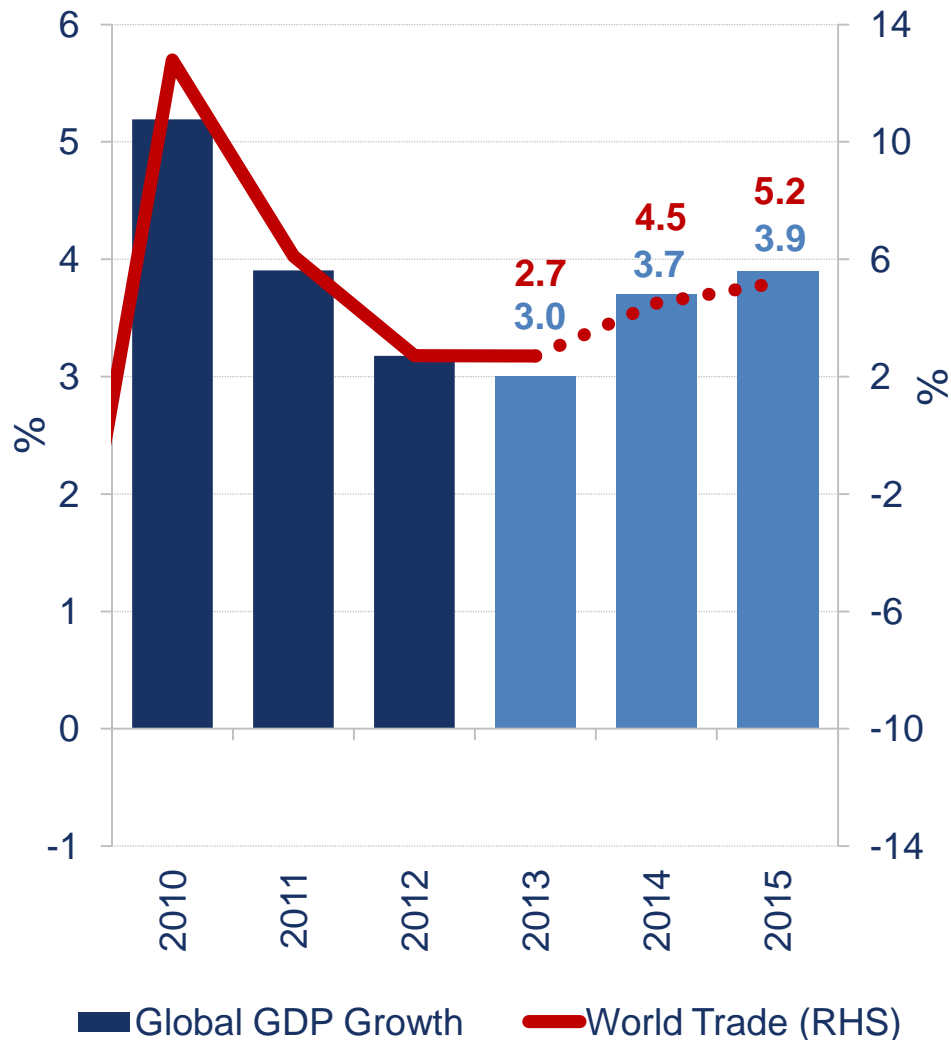


Confidence key for investment

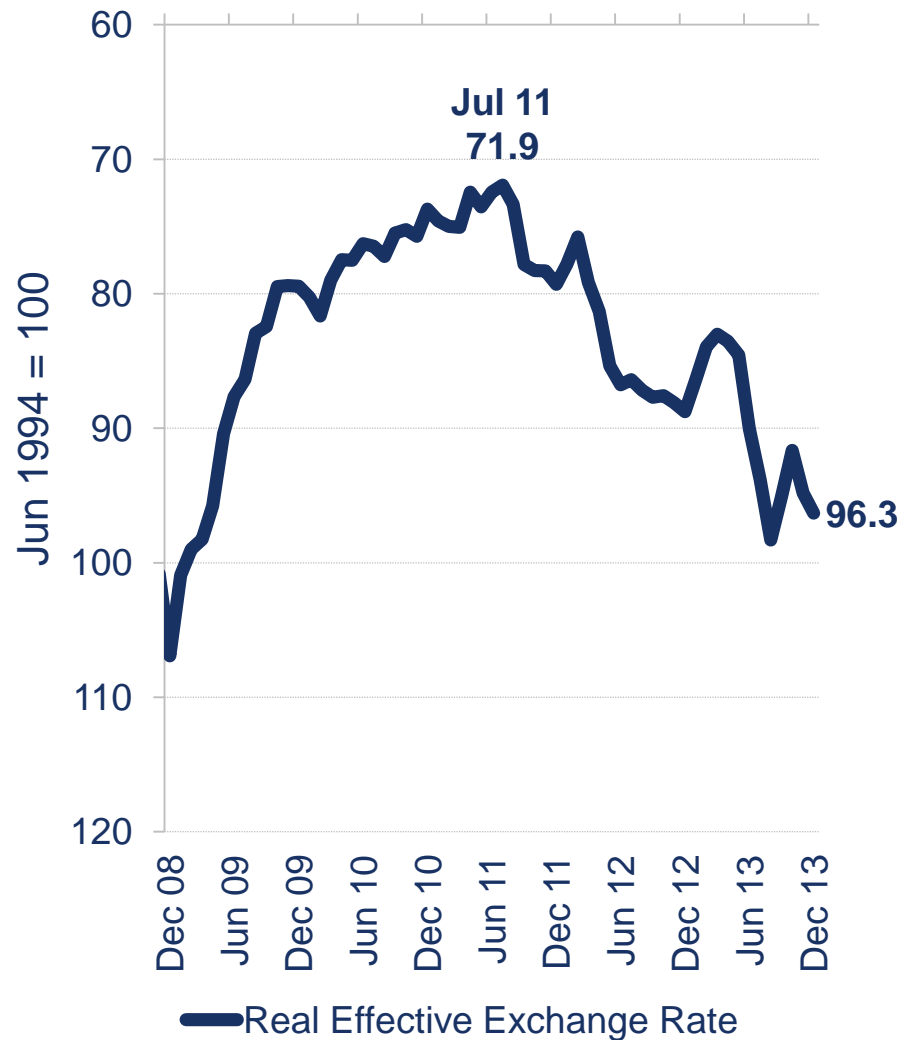


Net exports drivers

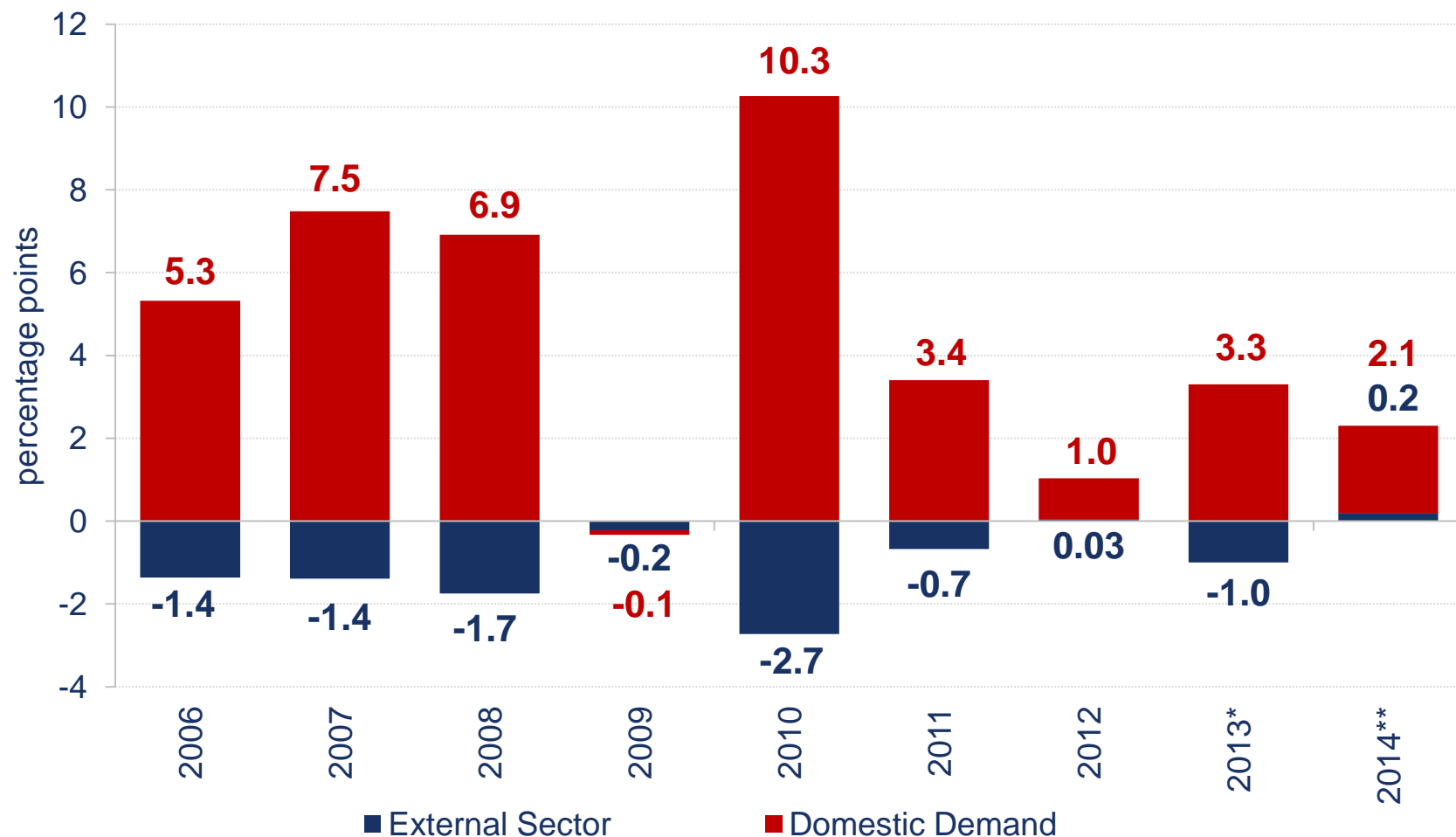
Global activity and trade gain traction



Real exchange rate has depreciated



Net exports should contribute to growth

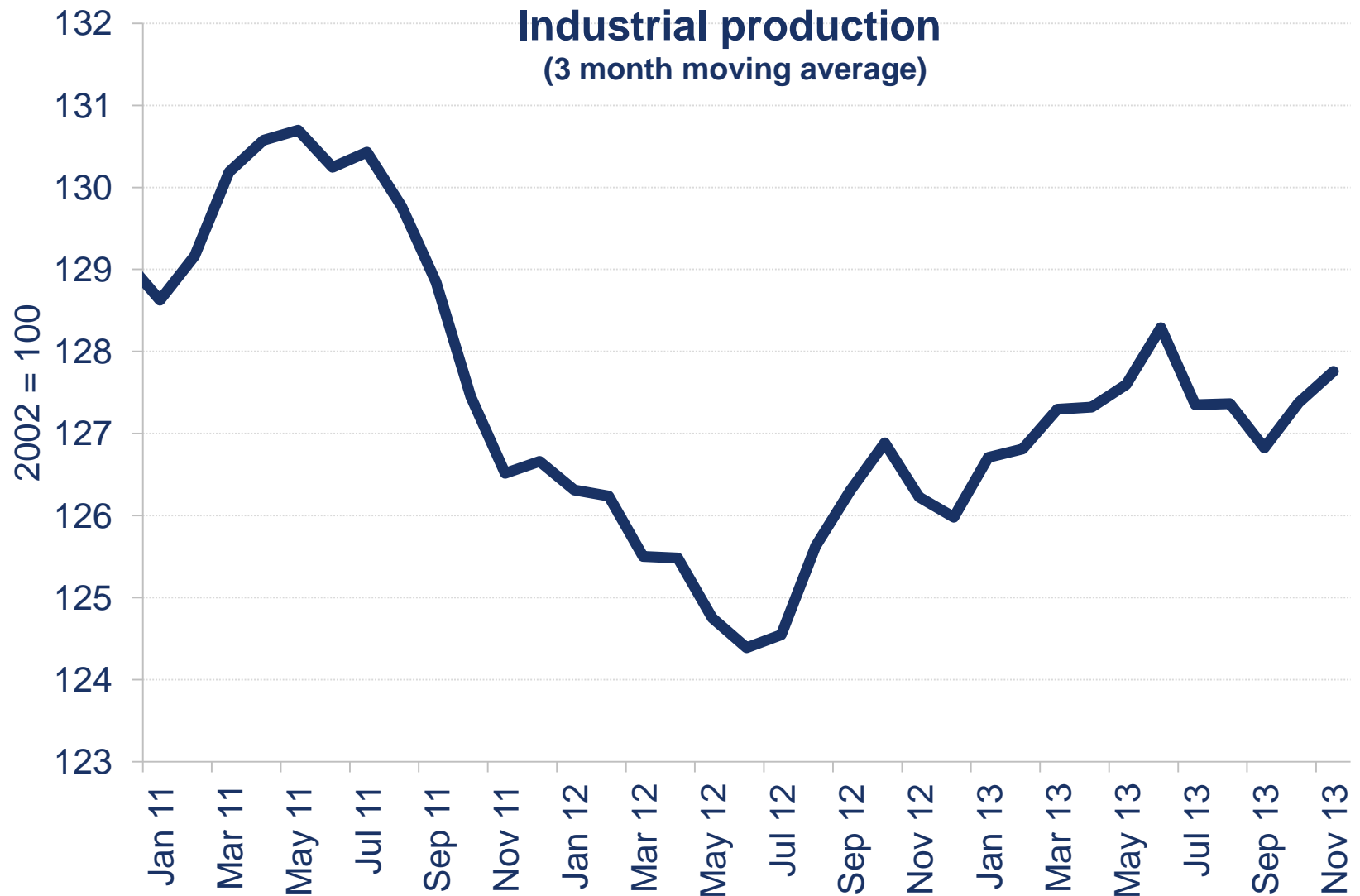


* Forecast (Inflation Report Dec 2013)

** Up to 3rd quarter (accumulated over 4 quarters)

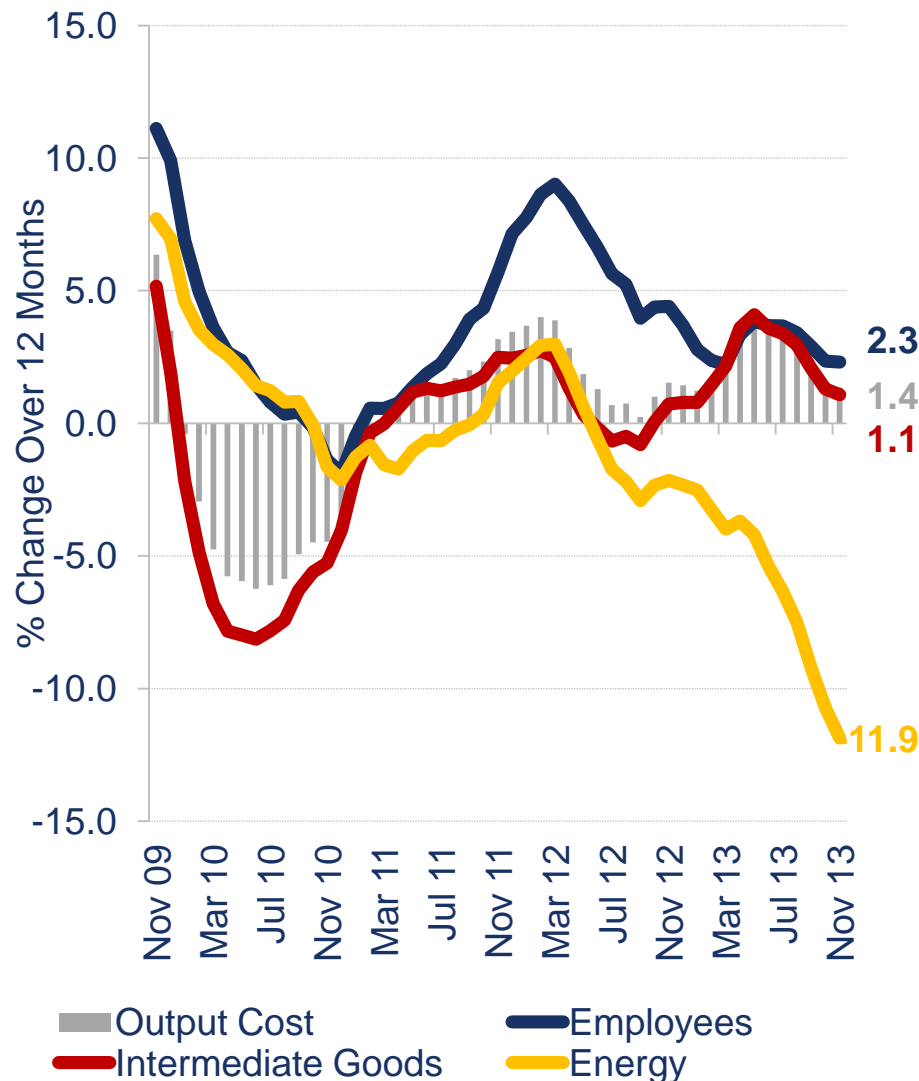
Growth Supply

Industrial sector recovery

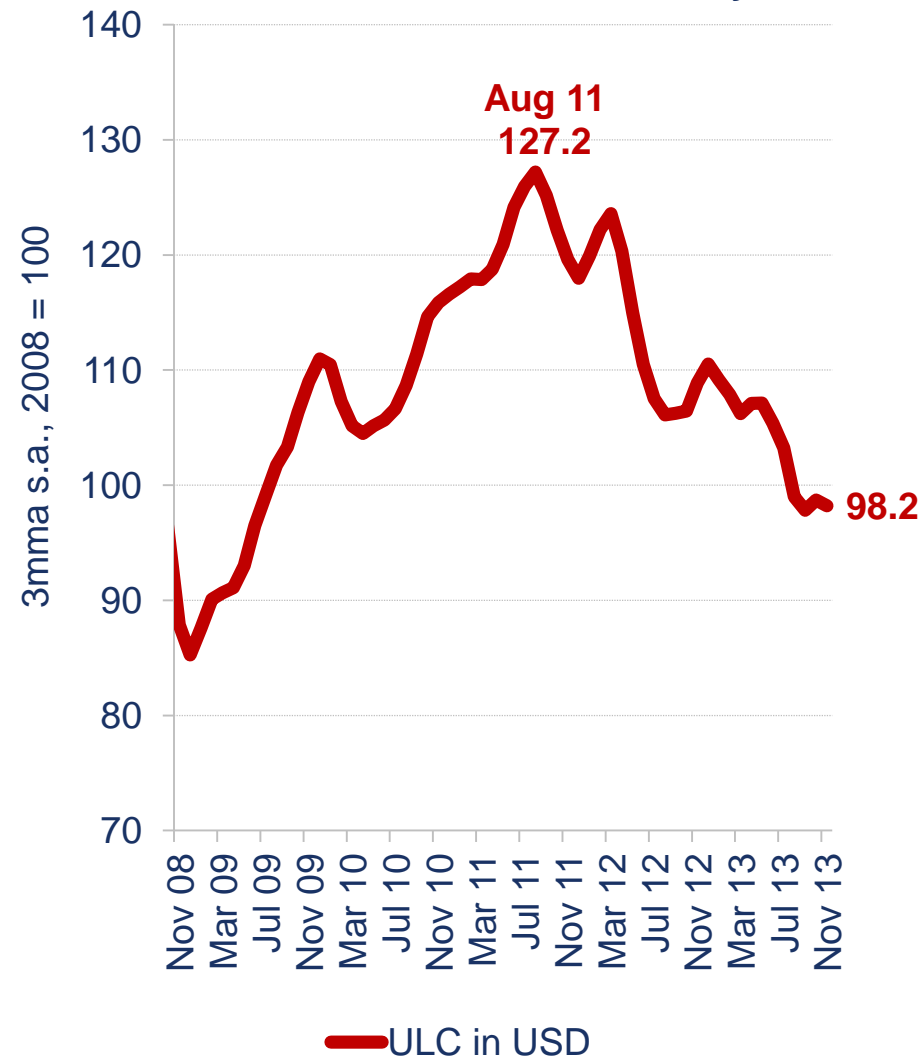


Improved industrial competitiveness

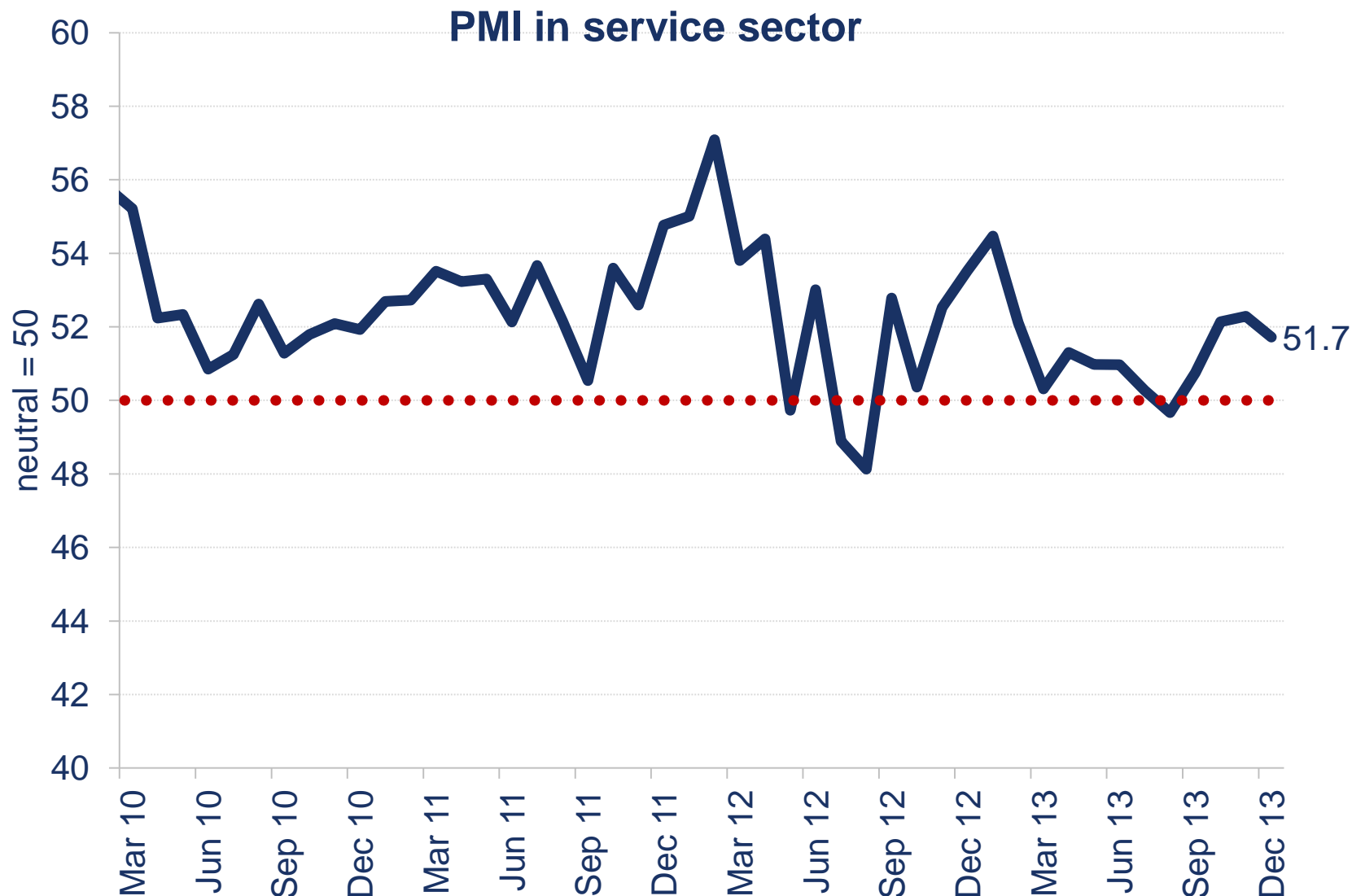
Real Output Costs and Components



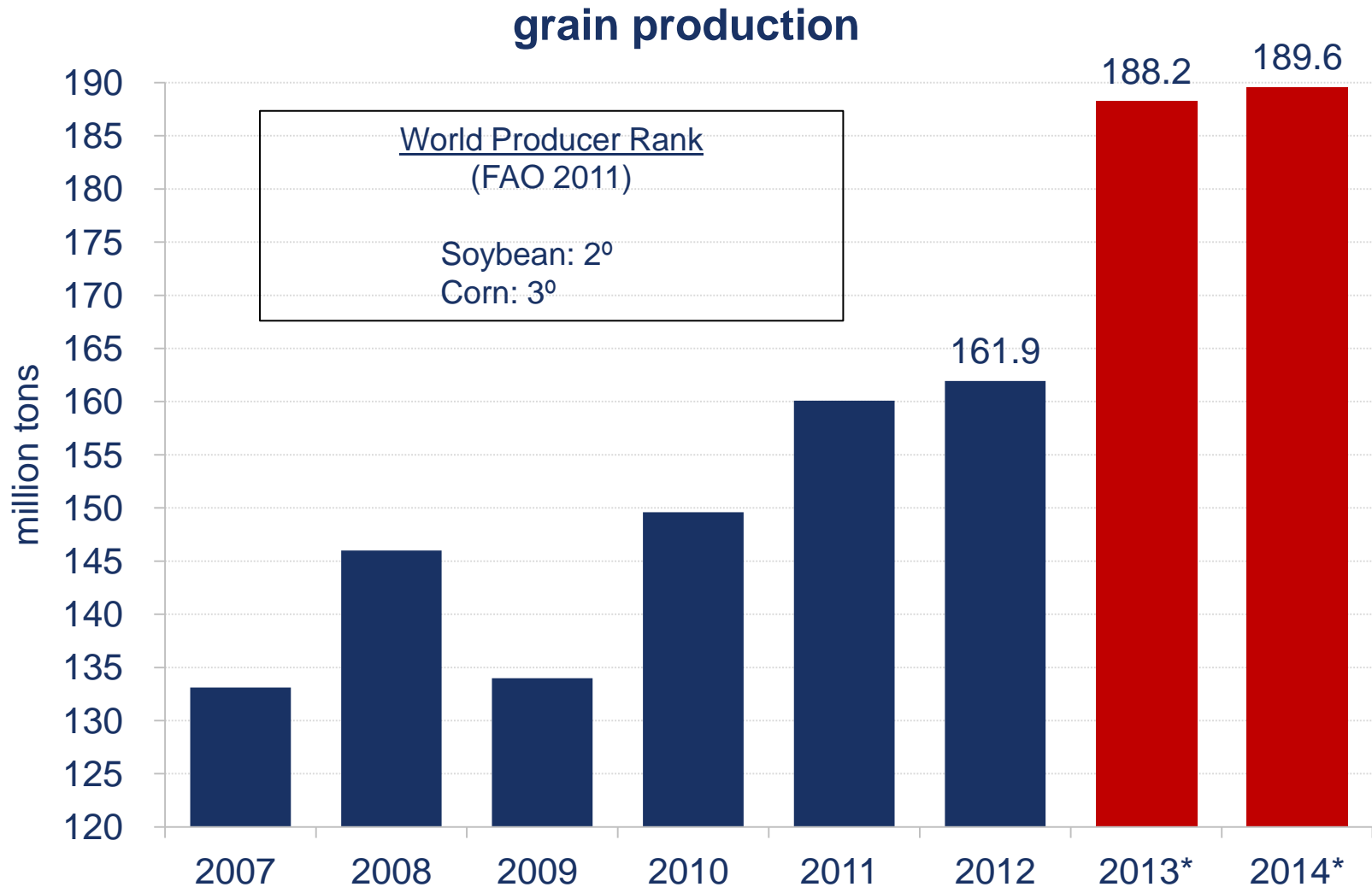
Unit Labor Cost in Industry



Service sector shows moderate growth



Record grain harvests in 2013 and 2014



*December 2013 estimate

Supply-side initiatives to boost growth

- Investment in human capital
- Infrastructure (airports, roads, railways and ports): attracting private sector capital and expertise
- Development of the oil and gas sector

Investment in human capital

- Programs aimed at increasing access to technical schooling and higher education:
 - Technical and professional education:
 - Pronatec: 5.5 million students in technical and professional education since 2011 (goal is 8 million by end of 2014)
 - Higher education:
 - Prouni: almost 250,000 undergraduate scholarships in private institutions for disadvantaged students in 2013
 - Science without frontiers: 100,000 scholarships abroad up to 2015
 - ❖ Currently almost four thousand undergraduate and graduate students in the UK

Education: room for further improvement

Mean years of schooling of adults increased sharply in the last decades, but Brazil still lags developed and many developing nations

Countries	1990	2000	% Change	2010	% Change
Brazil	3.8	5.6	47.4	7.2	28.6
Chile	8.1	8.8	8.6	9.7	10.2
China	4.9	6.6	34.7	7.5	13.7
India	3.0	3.6	20.0	4.4	22.2
Russian Federation	9.2	11.3	22.8	11.7	3.5
South Africa	6.5	8.2	26.2	8.5	3.7
United States	12.3	13	5.7	13.3	2.3

Average number of years of education received by people ages 25 and older

Infrastructure and energy reforms

- Infrastructure (airports, roads, railways and ports) and energy: attracting private sector capital and expertise
- Concession auctions have proved attractive
 - 6 airports: 85 million passengers transported in 2012
 - 5 roads: 4,268 km (2,652 miles)
 - Oil and gas auctions in 2013:
 - 11th and 12th rounds of oil and gas concessions
 - 1st production sharing round (pre-salt layer: Libra) – BRL15 billion signing bonus

UMP Exit

Brazil prepared for UMP exit

- Net positive for emerging markets, which will benefit including through international trade
- Sound financial system
- Strong external indicators

Classic policy response

- Exchange rate flexibility
- Policy tightening
- Use of buffers

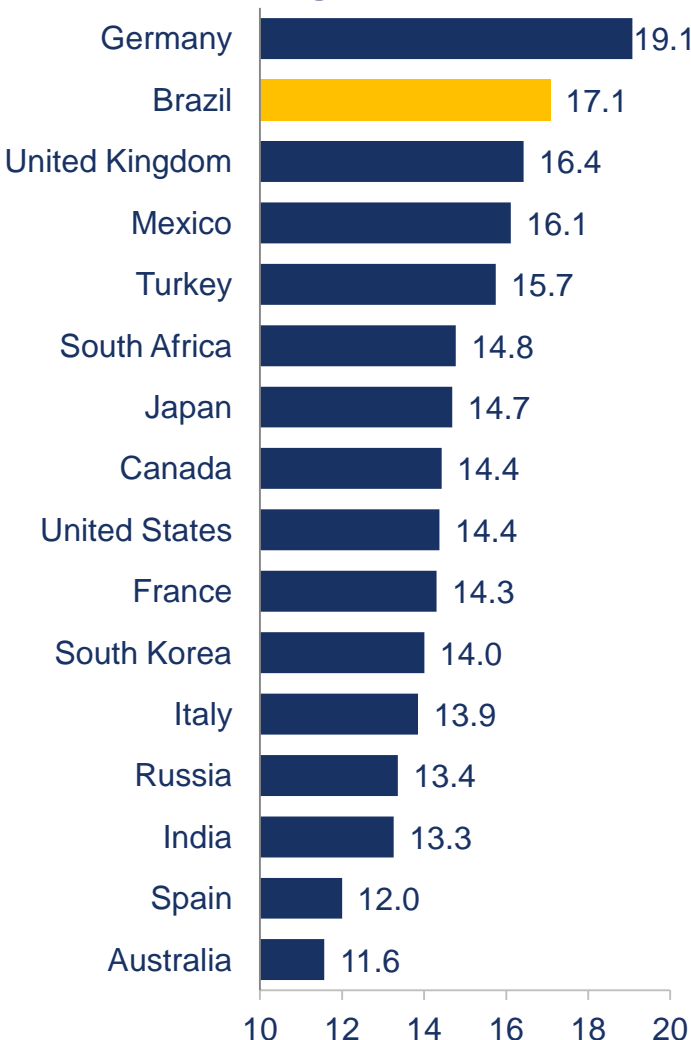
UMP exit prospects led to higher volatility

BRL Volatility
(3-Months At-the-money Implied)

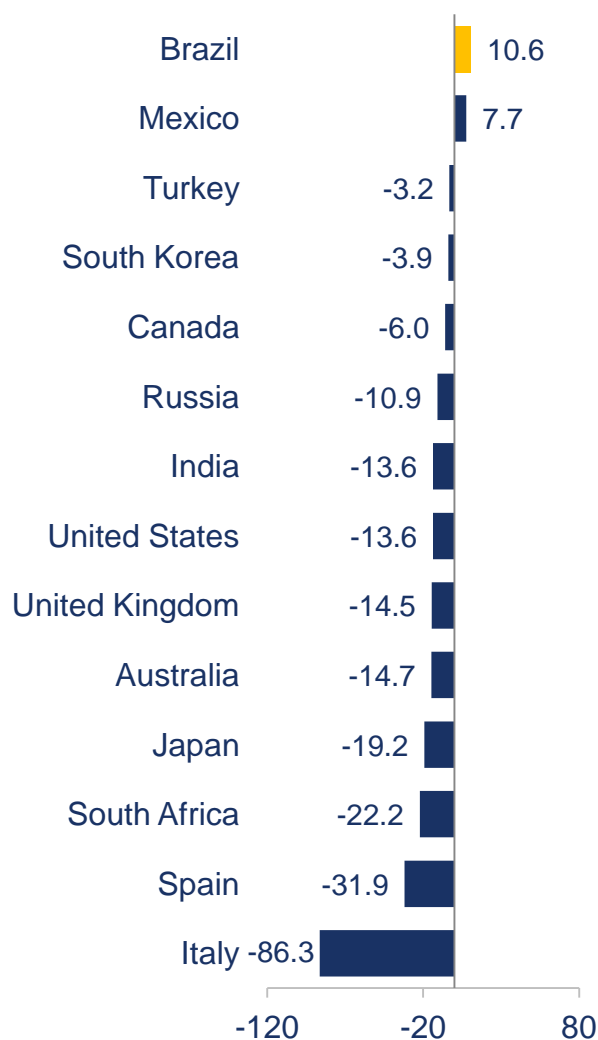


Sound financial system

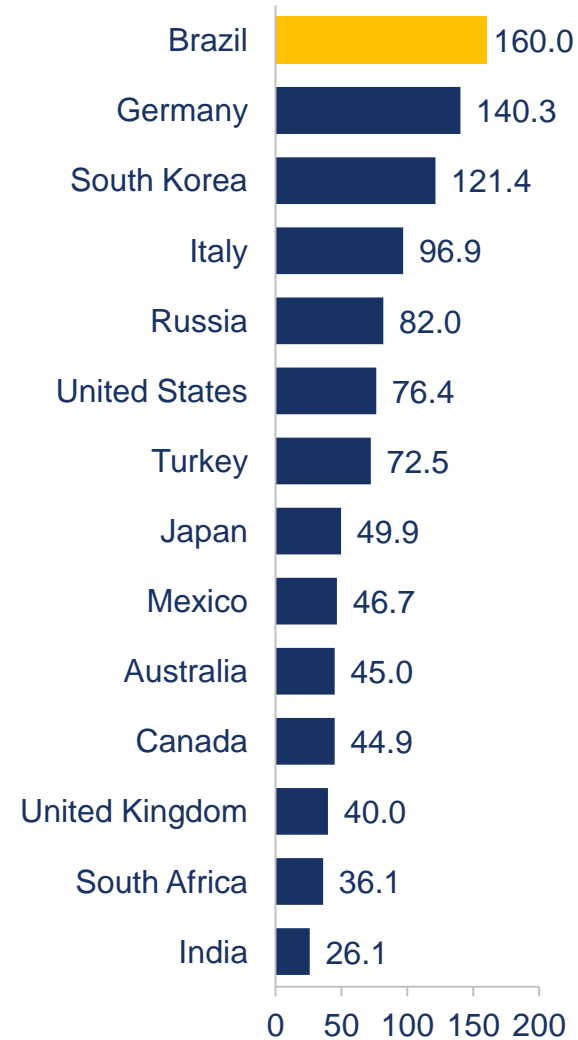
Regulatory Capital to Risk-Weighted Assets



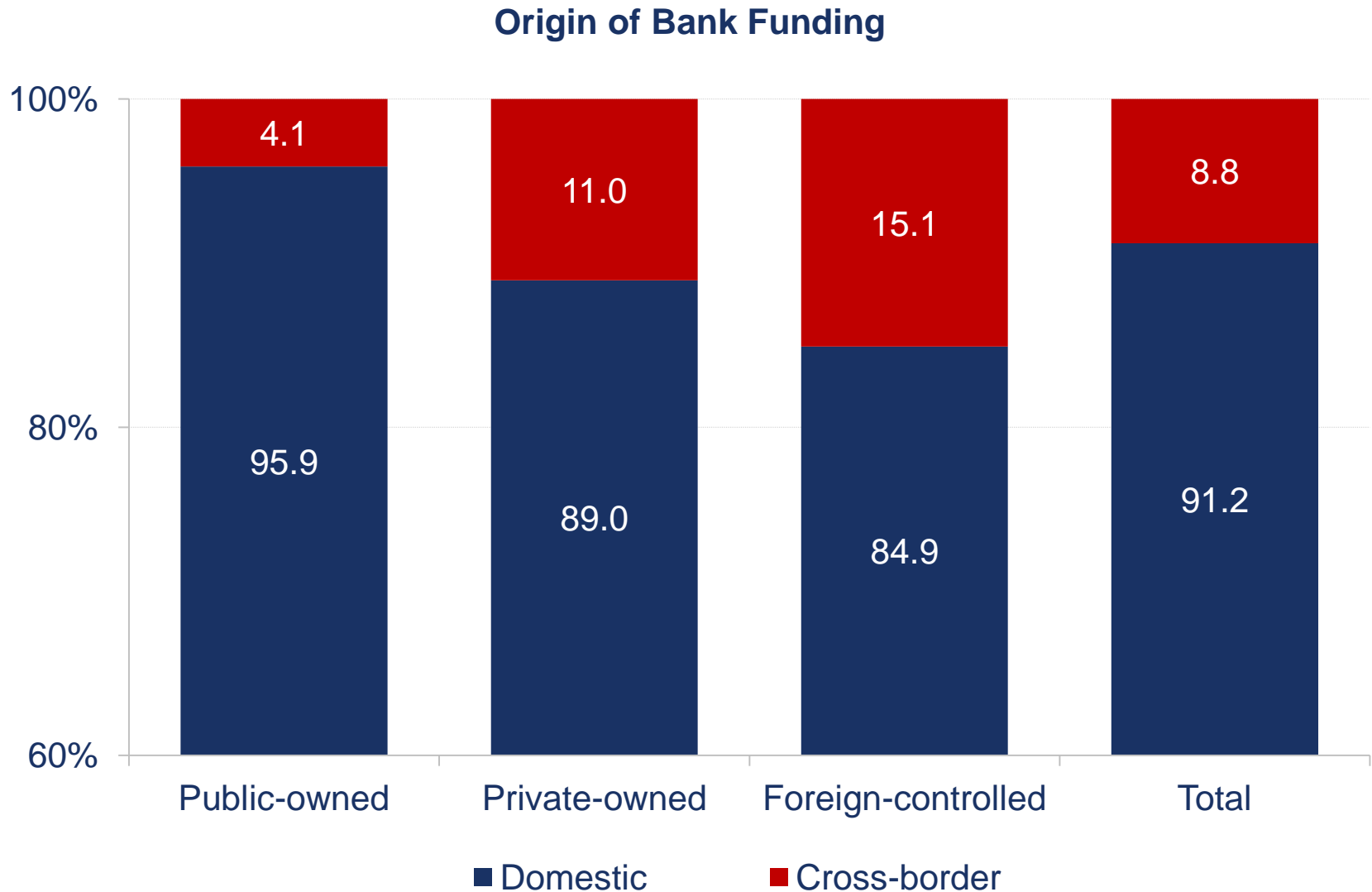
(Provisions – NPL) / Capital



Liquid Assets to Short Term Liabilities



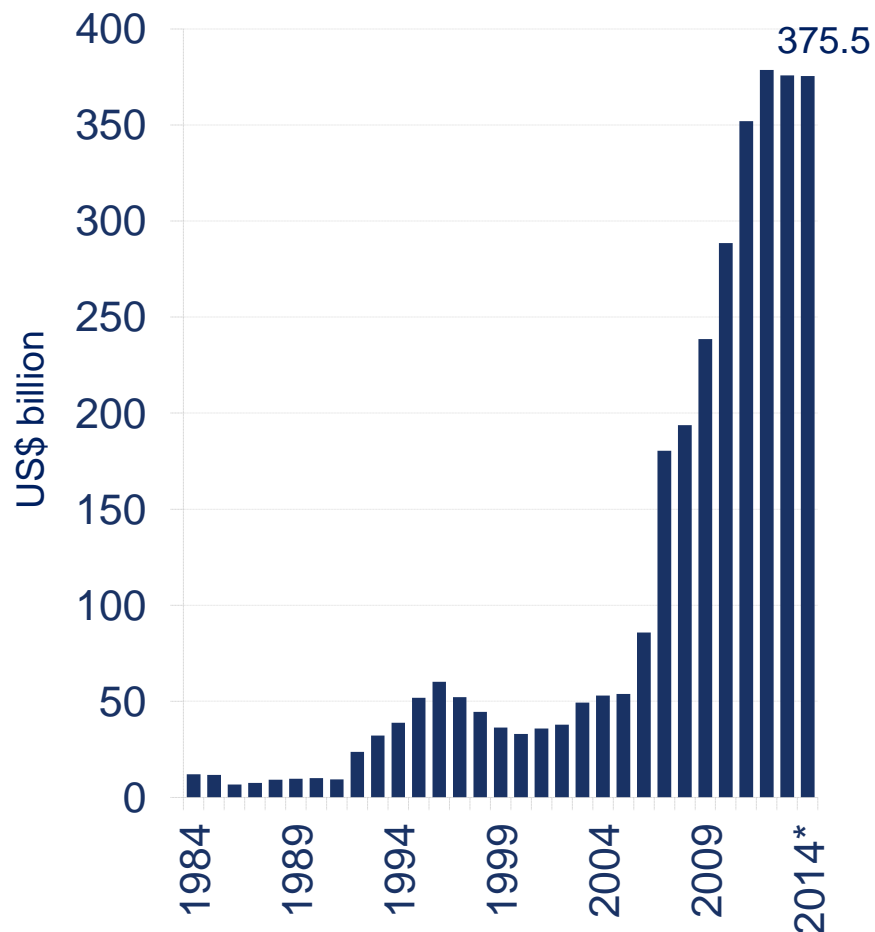
Banks: low reliance on cross-border funding



Sep 13

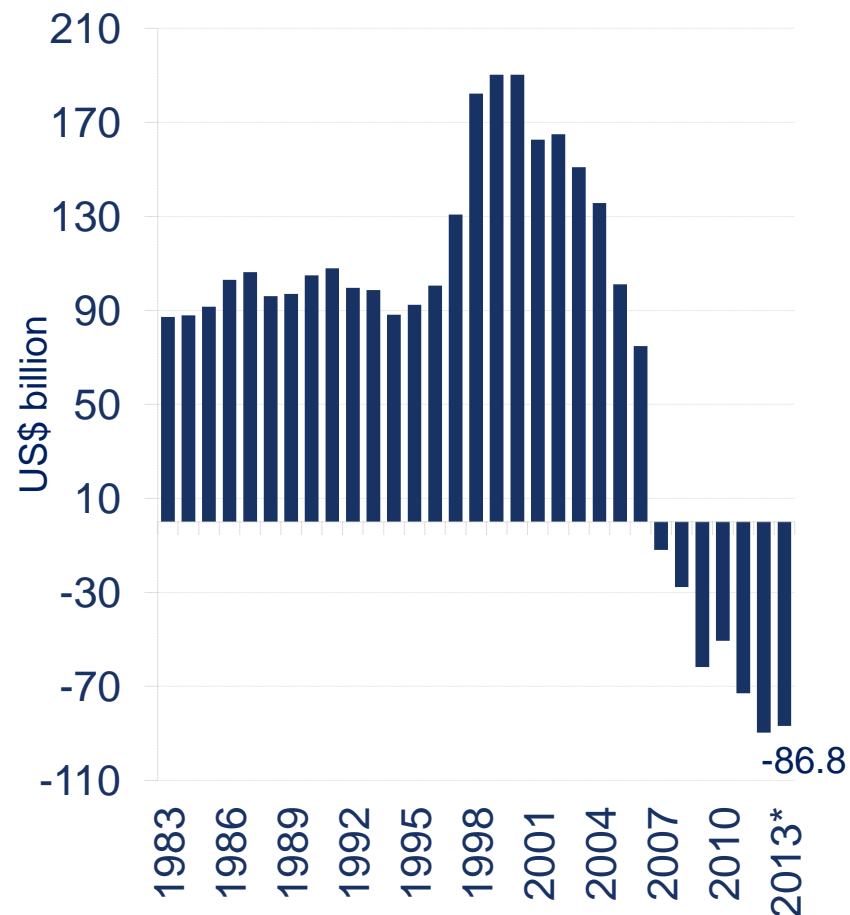
Brazil is net external creditor

International Reserves



*as of Jan 20th

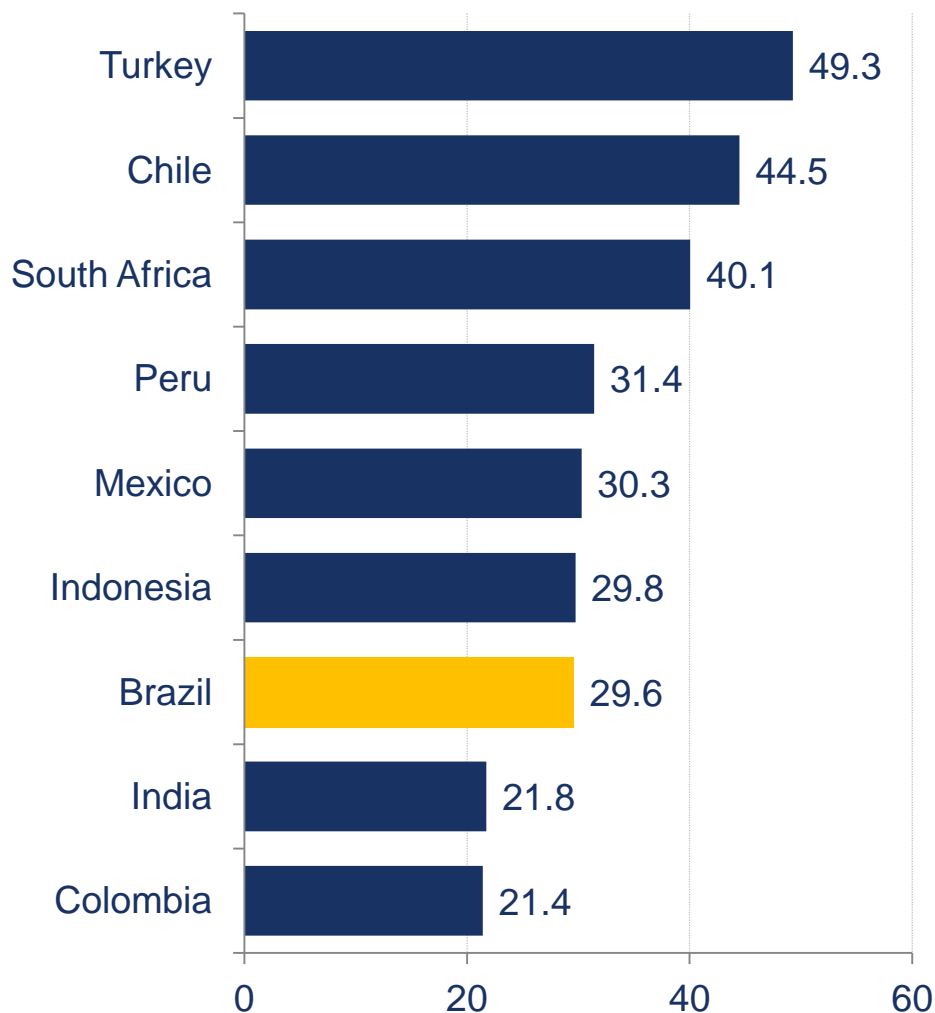
Net External Debt



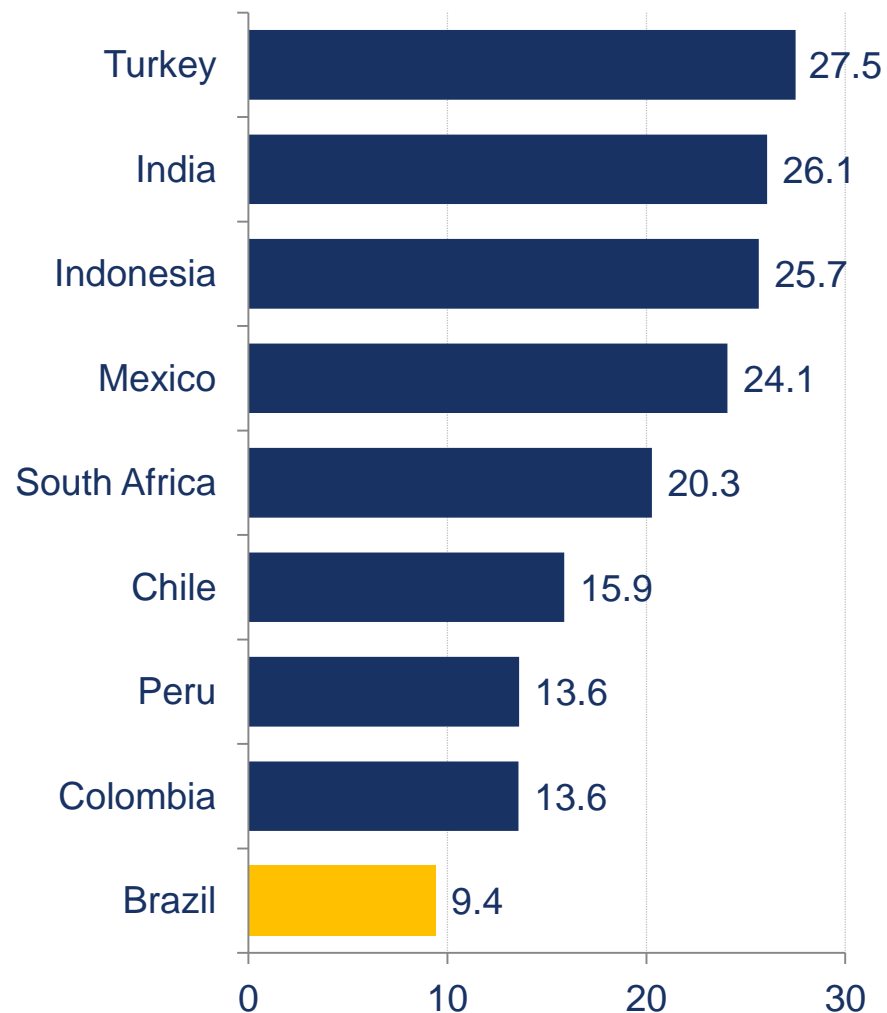
*Nov 2013

Strong external debt indicators

External Debt / GDP (%)

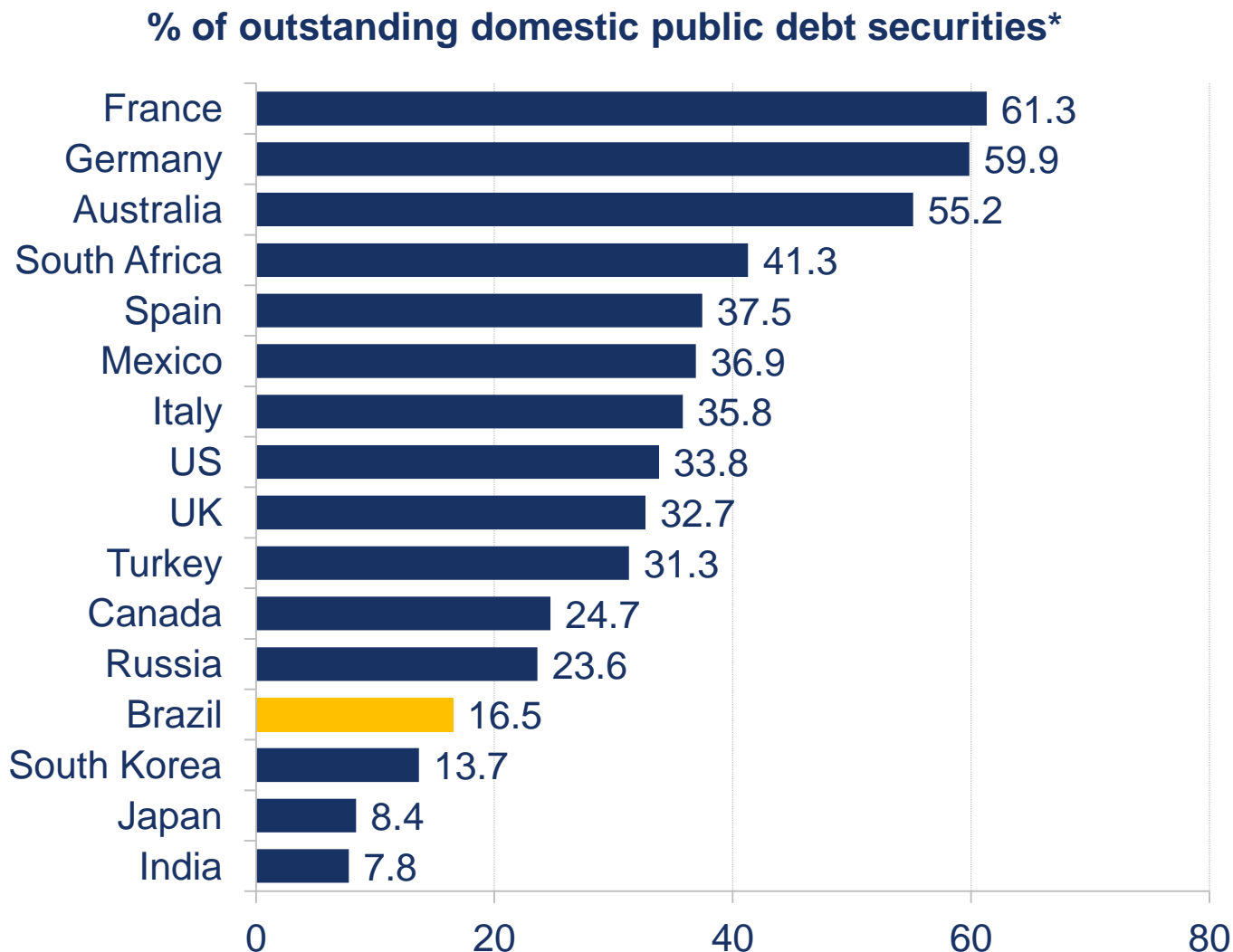


Short Term External Debt / Total (%)



2013 forecasts

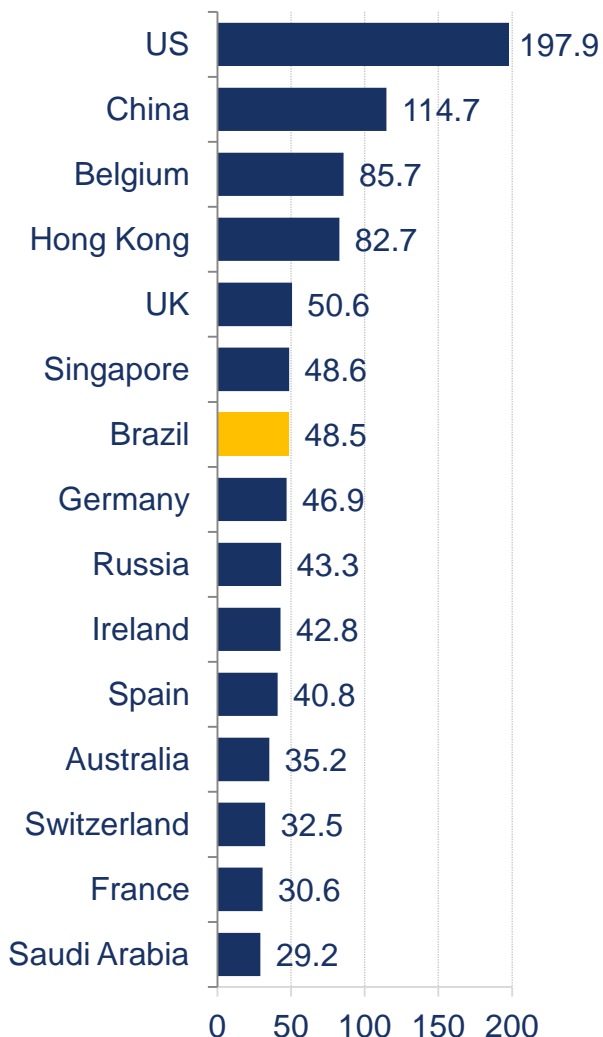
Low nonresident public debt share



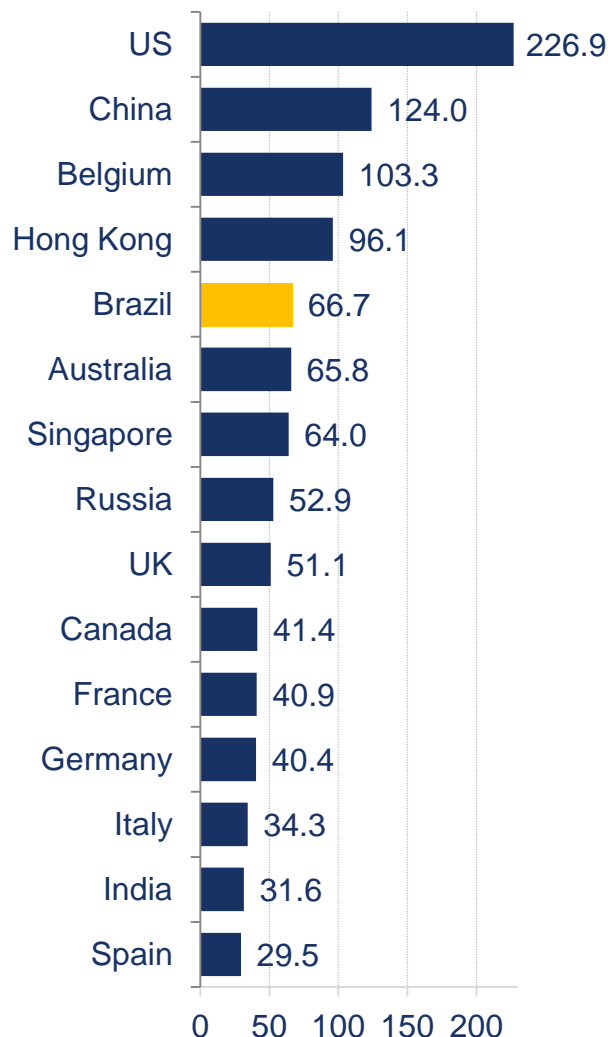
* The latest data reported by the IMF Fiscal Monitor in October 2013. For Brazil, data from November, as reported by *Secretaria do Tesouro Nacional (STN)*.

Leading destination for FDI

2010



2011



2012





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Glossary

BCB	Banco Central do Brasil
BM&FBOVESPA	Brazilian Securities, Commodities and Futures Exchange
CNI	Confederação Nacional da Indústria
EME	Emerging Market Economy
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
FGV	Fundação Getúlio Vargas
IBGE	Instituto Brasileiro de Geografia e Estatística
IIF	Institute of International Finance
IPEA	Instituto de Política Econômica Aplicada
MEC	Ministério da Educação
MTE	Ministério do Trabalho e Emprego
STN	Secretaria do Tesouro Nacional
UMP	Unconventional Monetary Policy
UNCTAD	United Nations Conference on Trade and Development