Brazilian Economic Outlook

Minister of Finance

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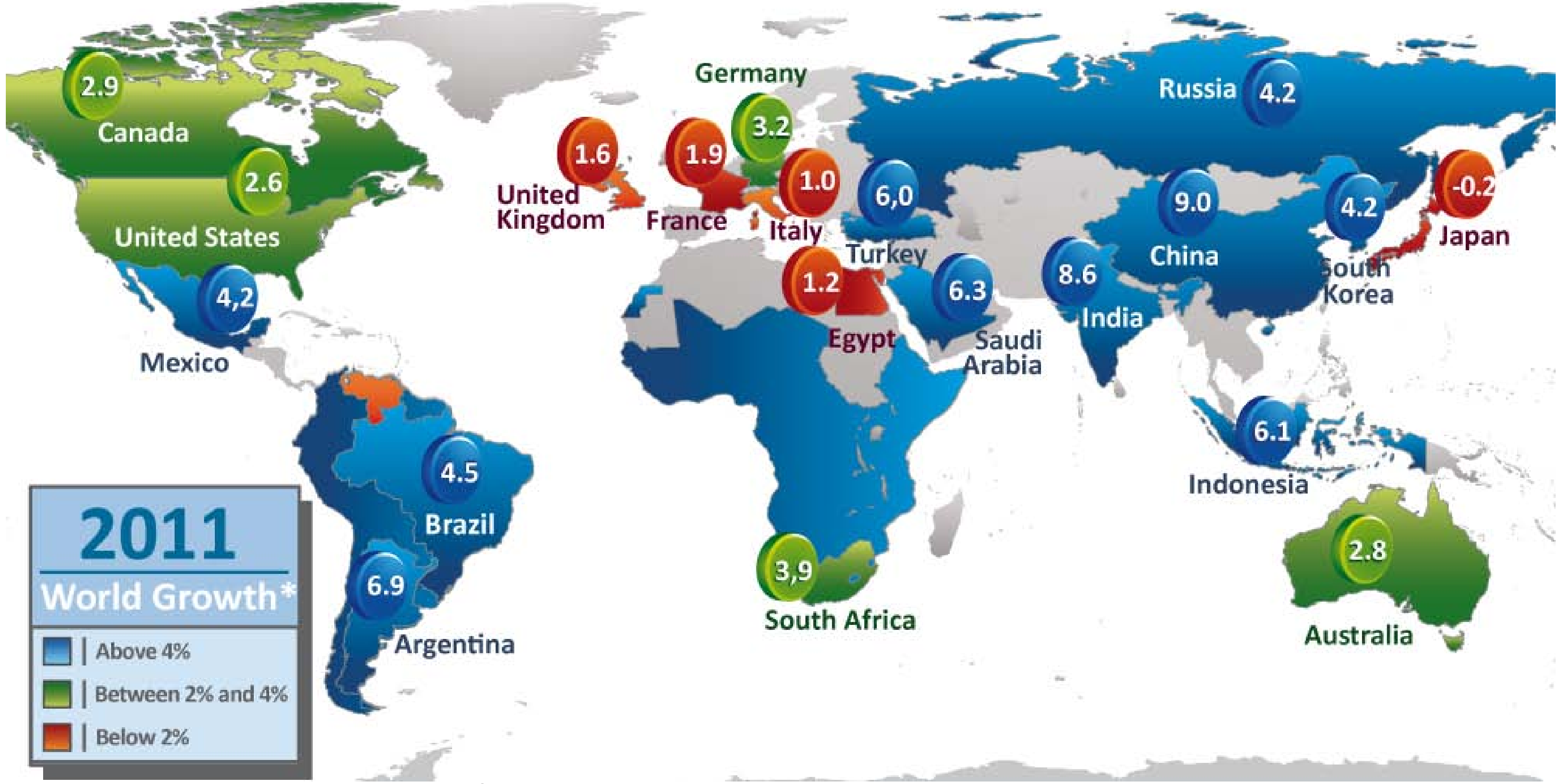
Ministry of
Finance

The 2nd Brazil Business Summit

Paris, 7th July 2011

2011: World divided between countries which have and have not overcome the crisis

GDP forecast, in % YoY

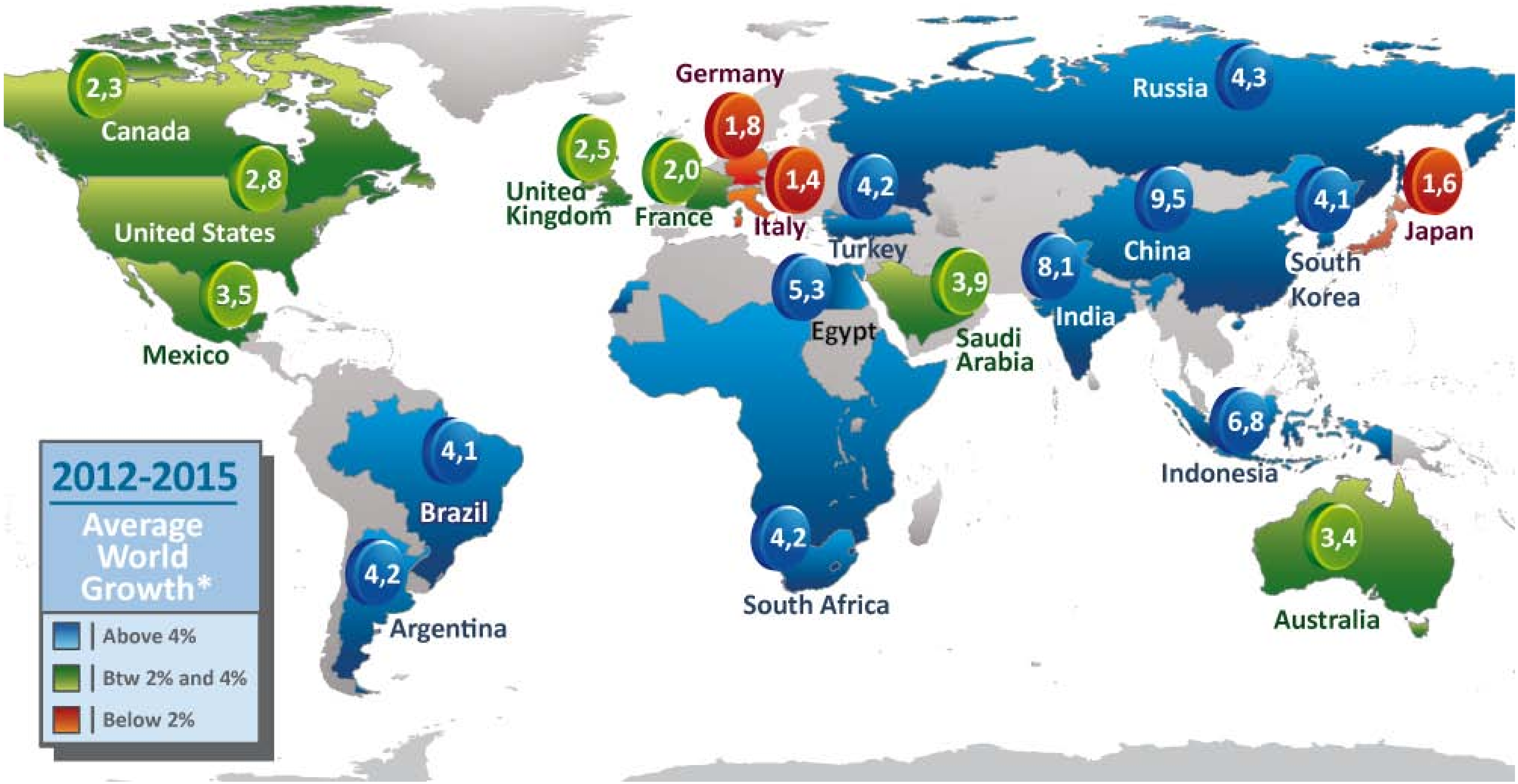


* *The Economist* forecast (July 2nd, 2011); for Brazil: Ministry of Finance forecast.

Source: The Economist
Produced by: Ministry of Finance

Dynamic and non-dynamic countries: emerging and advanced

GDP forecast, in % YoY



Source: IMF

* World Economic Outlook forecast (April 2011 update).

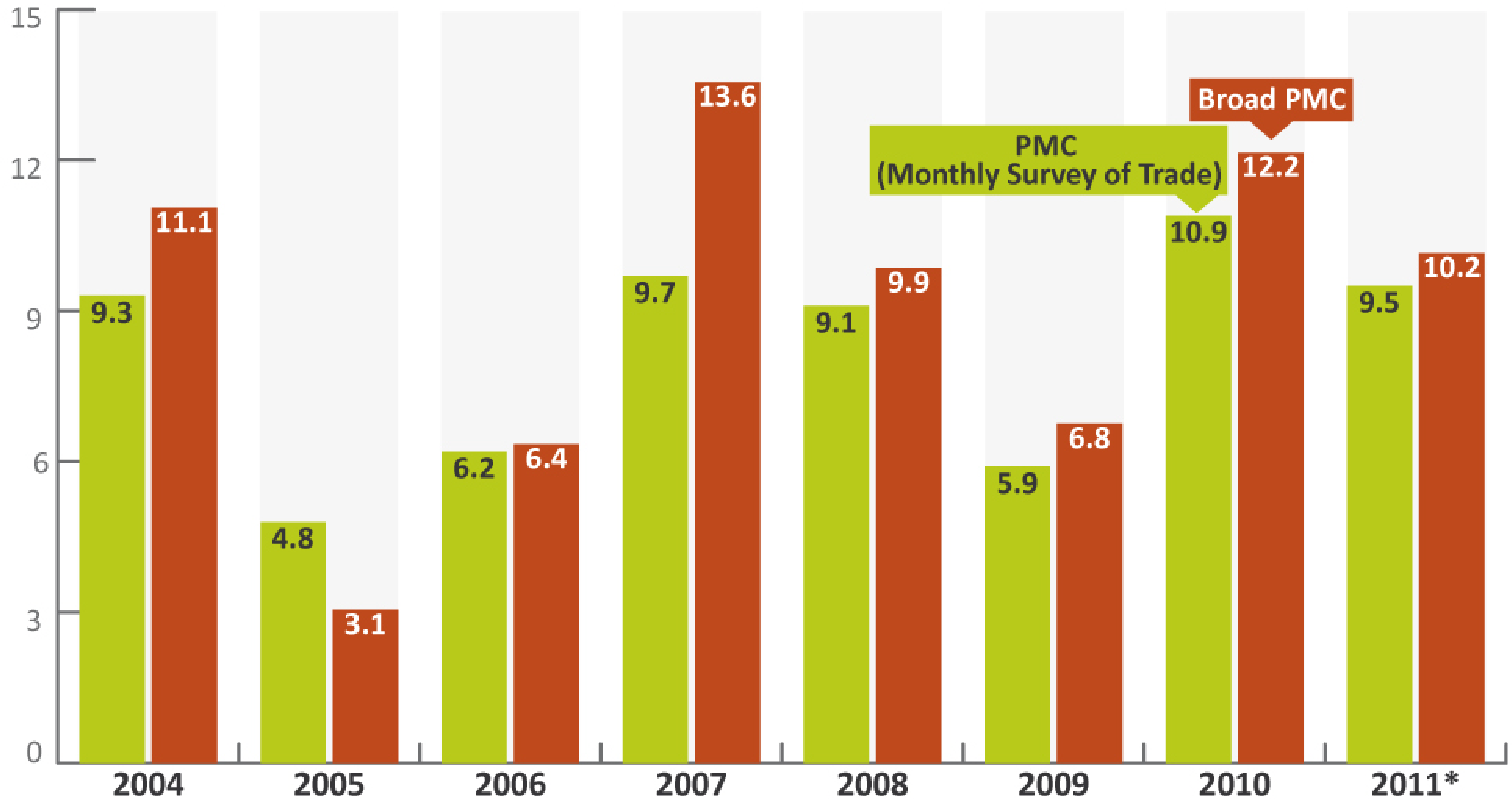
Produced by: Ministry of Finance

Brazil: Sustainable Growth

- ✓ Strong domestic market
- ✓ Increasing investment rate
- ✓ Sound fundamentals: fiscal and monetary
- ✓ Overcome challenges

Brazil has a broad consumer market

Retail sales growth, Monthly Survey of Trade, in % YoY



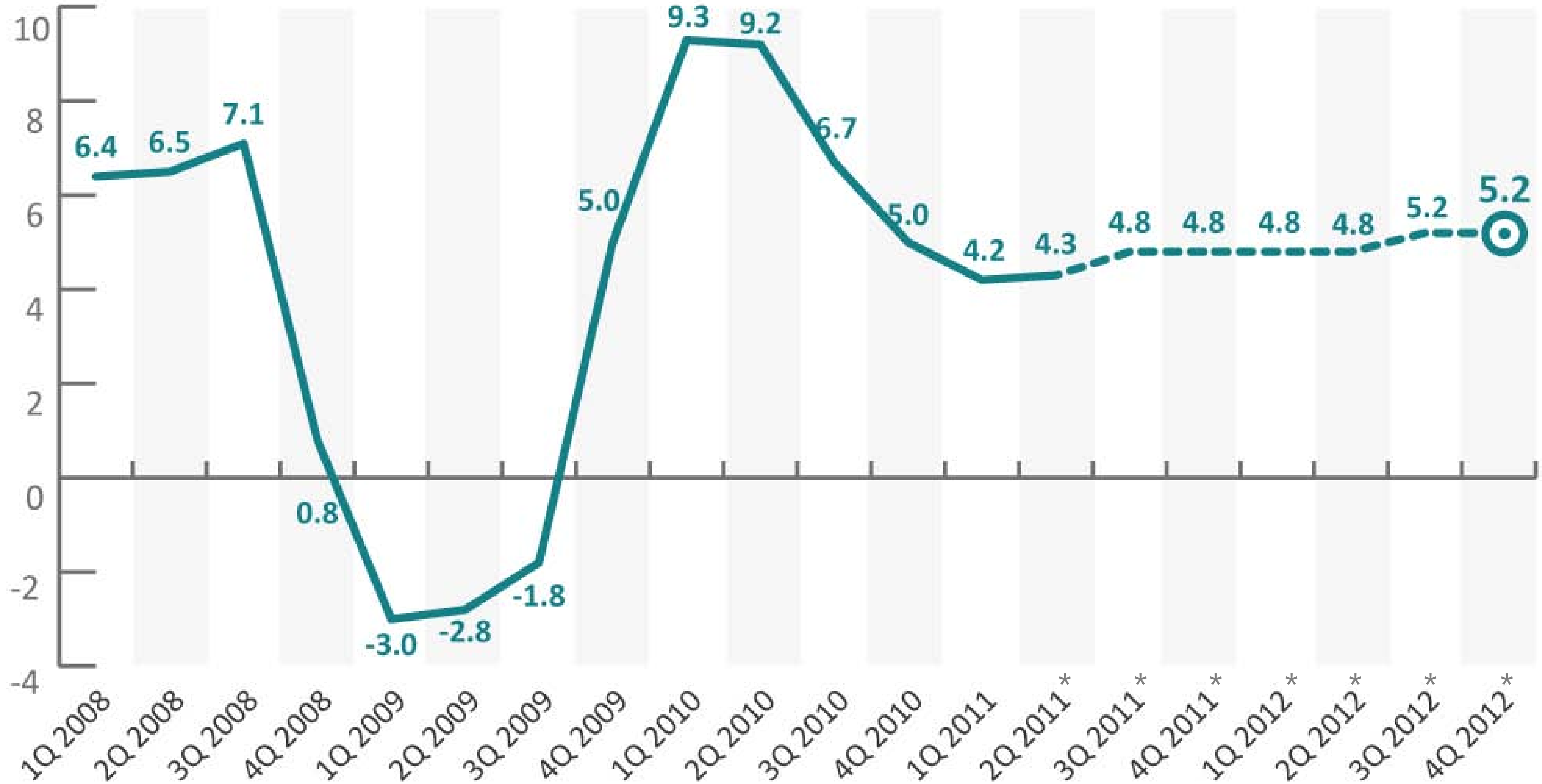
* In a 12-month basis by April 2011.

Source: IBGE

Produced by: Ministry of Finance

Growth deceleration

GDP growth, in % change from the same quarter of the preceding year



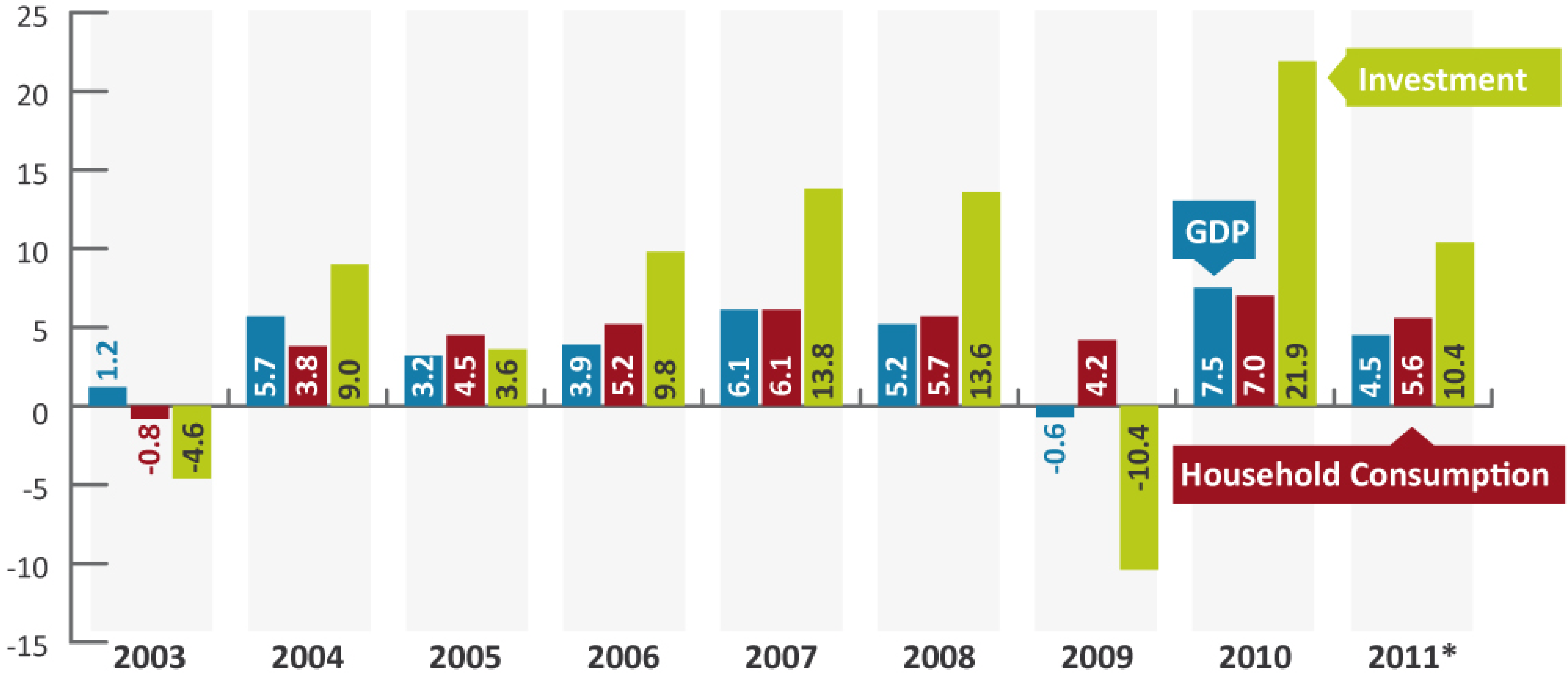
* Ministry of Finance forecast.

Source: IBGE

Produced by: Ministry of Finance

Investment faster than GDP and consumption growth

In % YoY



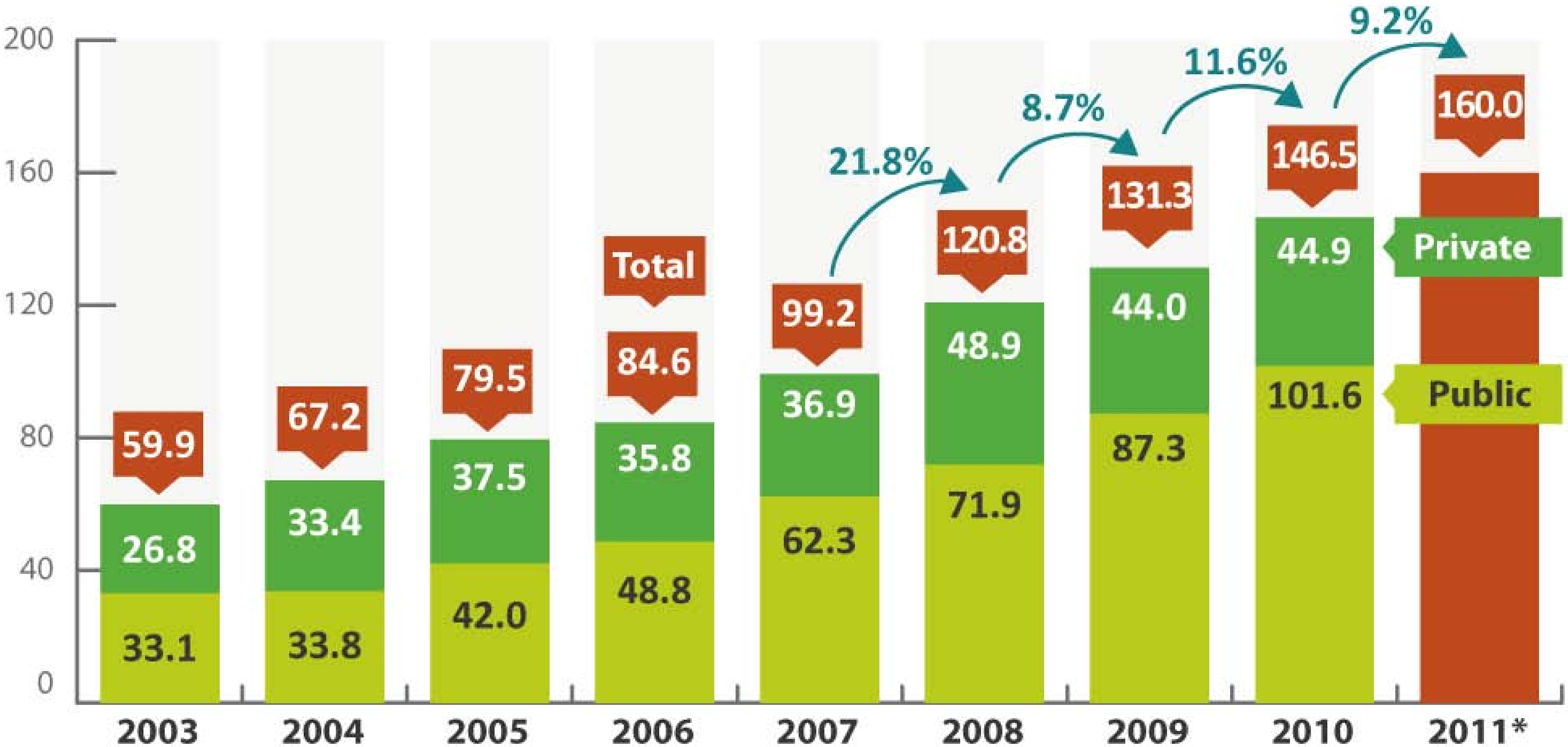
* Ministry of Finance forecast.

Source: IBGE

Produced by: Ministry of Finance

Investments in infrastructure reached record levels in 2010

In US$ billion at 2010 constant prices



* ABDIB forecast.

Source: Brazilian Infrastructure and Heavy Industry Association - ABDIB
Produced by: Ministry of Finance

Many investment opportunities from PAC

In US$

Investment Opportunities	
Sectors	**Investment**
Highways	US$ 5.2 bi
Railroads	4,498 km in extension (2,794.9 miles)
High Speed Train	US$ 20.8 bi
Airport - Big Concession Program	
Ports	US$ 462.5 mi
Stadiums	US$ 3.1 bi
Power Generation	US$ 24 bi
Power Transmission	US$ 17.3 bi

Investment Opportunities	
Sectors	**Investment**
Oil and Natural Gas	
New Refineries	US$ 57.8 bi
Petrochemicals	US$ 212.5 mi
Fertilizers	US$ 6.8 bi
My House My Life 2	US$ 78.6 bi
Olympic Games	US$ 18.8 bi
Urban Mobility	US$ 7.4 bi
Hotels	US$ 1.3 bi

Source: Ministry of Planning, Budget and Management
Produced by: Ministry of Finance

Is the Brazilian economy overheated?

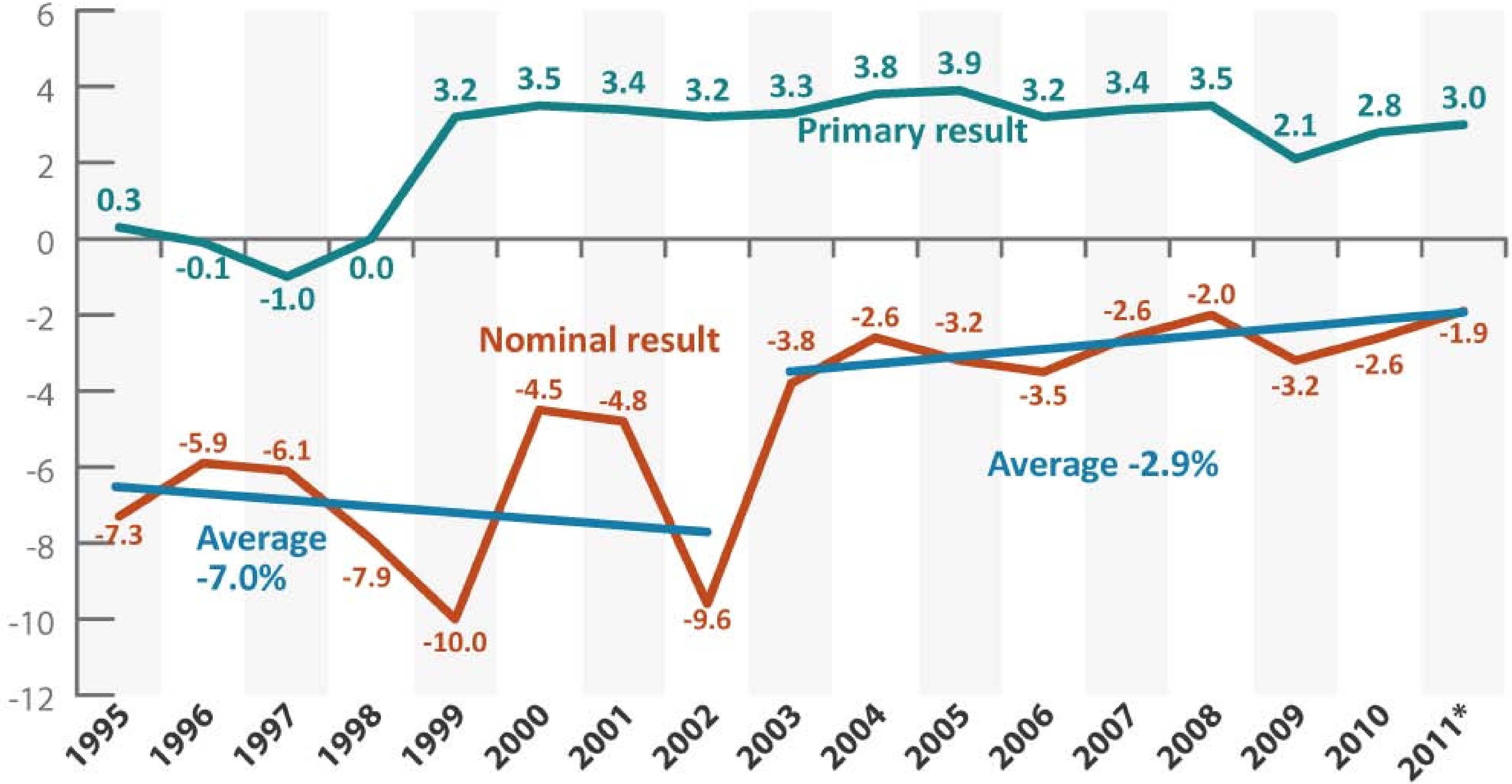
- ✓ Excessive credit expansion – there is no bubble
- ✓ Rising inflation – going down
- ✓ GDP growing faster than the previous ten years – within potential GDP
- ✓ Flood of capital inflows – contained

Brazilian economy adjusted to the post-2008 crisis situation

- ✓ Reversal of 2009-2010 economic stimulus
- ✓ Increasing primary surplus
- ✓ Spending efficiency - Government expenditures increasing below GDP growth
- ✓ Public saving

Robust primary surplus reduces nominal deficit

In % of GDP

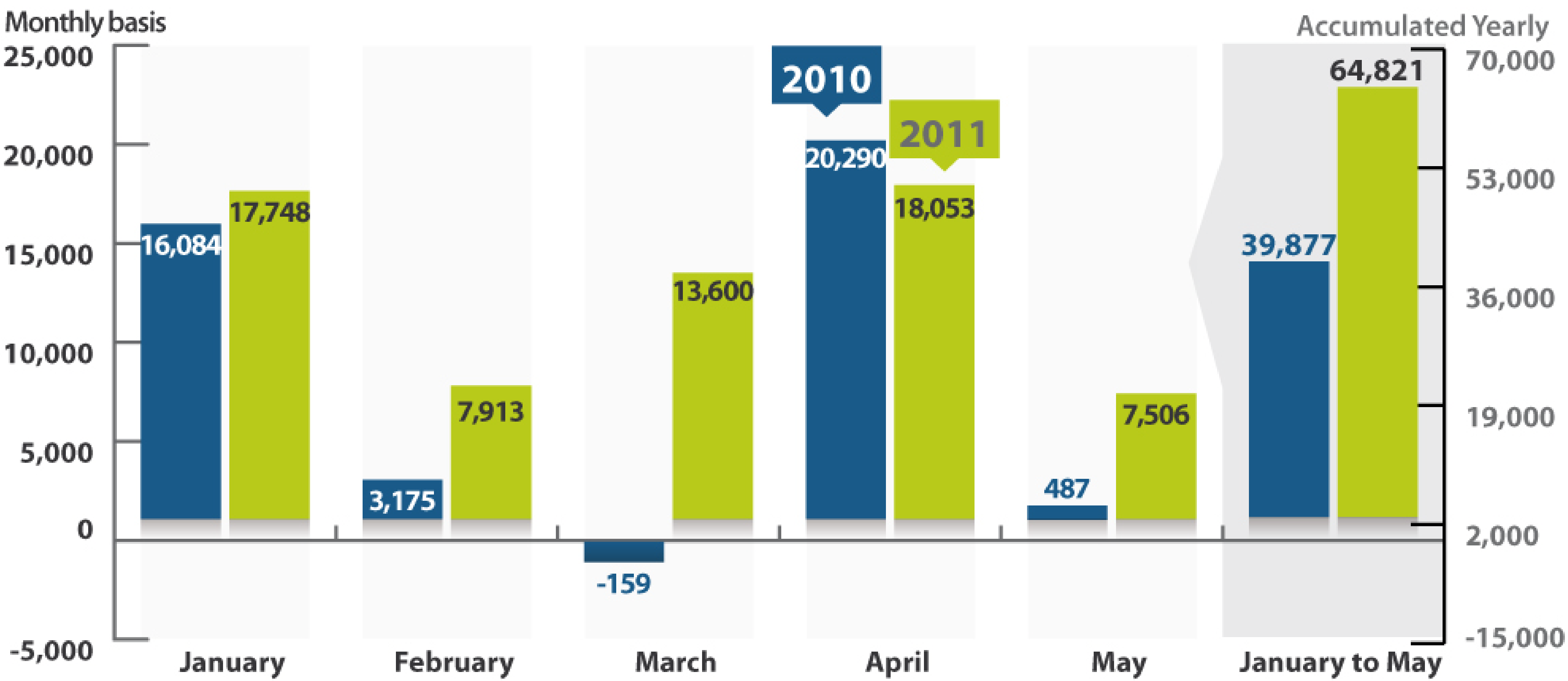


* Ministry of Finance forecast.

Source: Brazilian Central Bank
Produced by: Ministry of Finance

Public Sector primary result

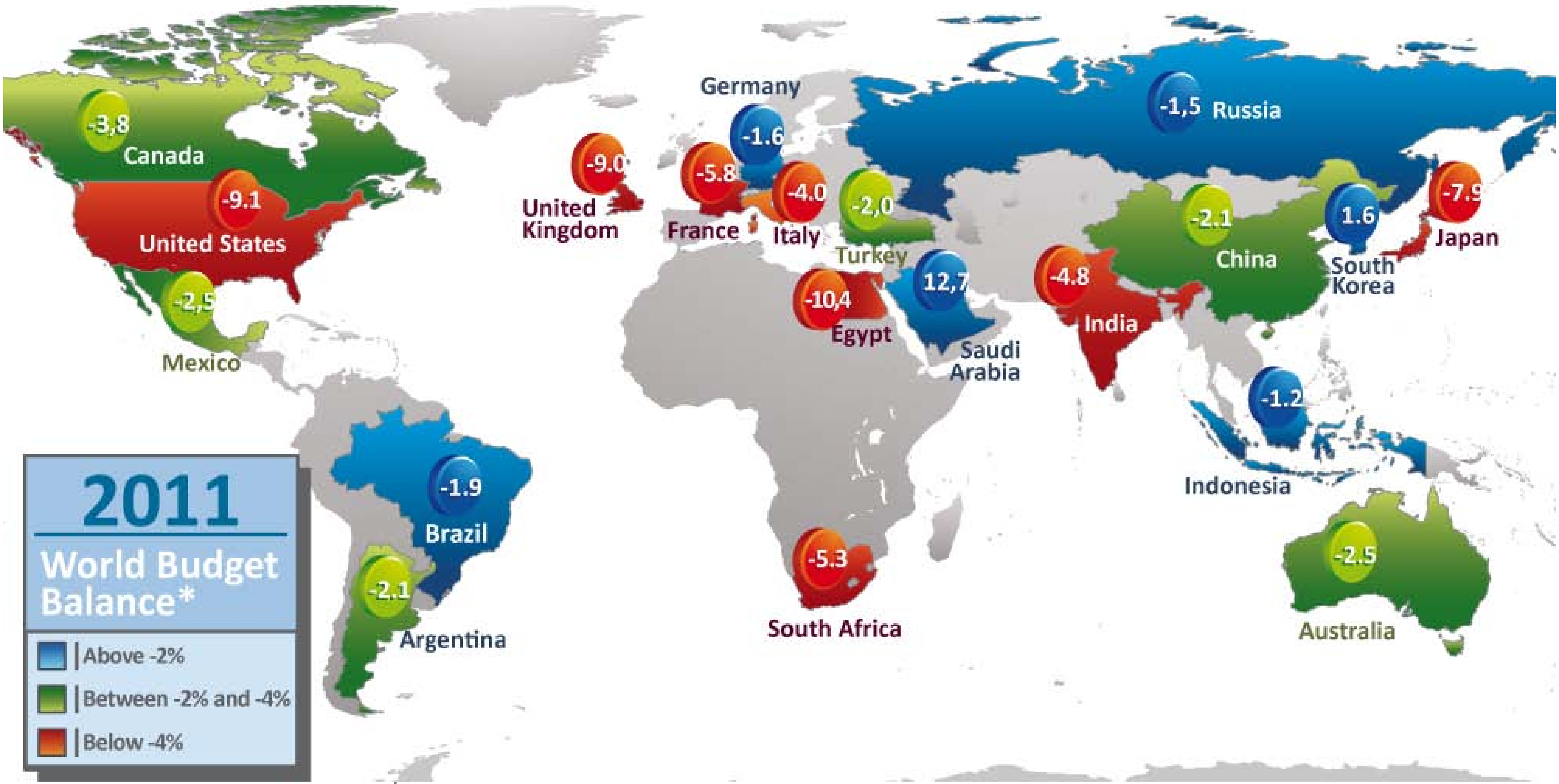
In R$ million



Source: National Treasury
Produced by: Ministry of Finance

Sound fiscal situation when compared to other countries

Budget balance forecast, in % GDP



* *The Economist* (July 2nd, 2011 Ed.)
for Brazil: Ministry of Finance forecast.

Source: The Economist
Produced by: Ministry of Finance

Measures to moderate growth and contain inflation

- Compulsory requirements increase
- Brazilian Central Bank’s macroprudential measures
- SELIC interest rate rise
- Credit cards indebtedness discouragement
- Reduction of activity level and public expenditure
- 1.5% IOF tax increase in credit operations for households

Important adjustment: inflation control

Consumer price change, 12-month basis, in %

* April 2010 and April 2011 data.
** The Economist (July 2nd, 2011 Ed.)

Source: The Economist
Produced by: Ministry of Finance

Inflation within the bounds set by the targeting regime

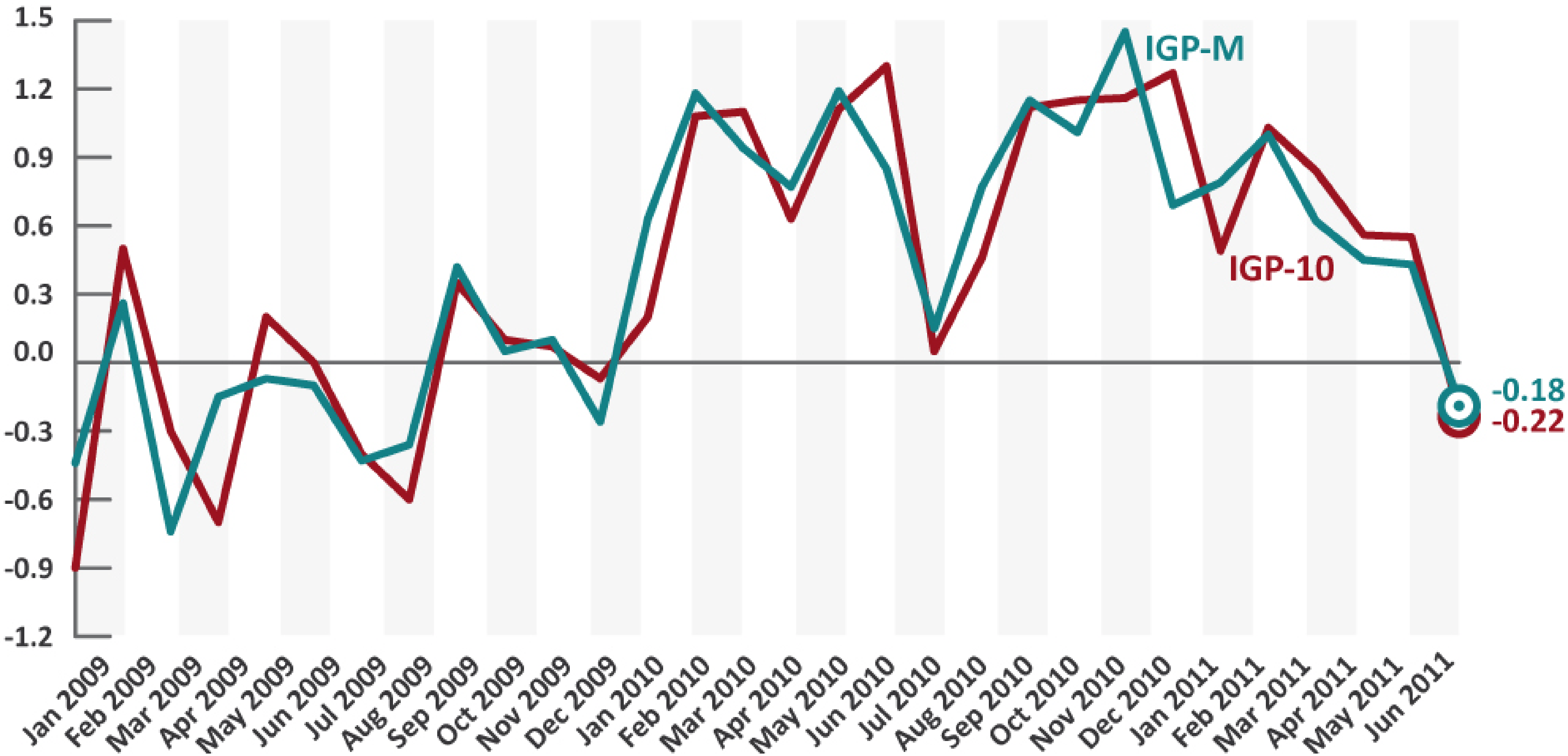
Consumer Price Index (IPCA), in % YoY

*Brazilian Central Bank forecast.

Source: IBGE and Brazilian Central Bank
Produced by: Ministry of Finance

Inflation under control

In % change from preceding month

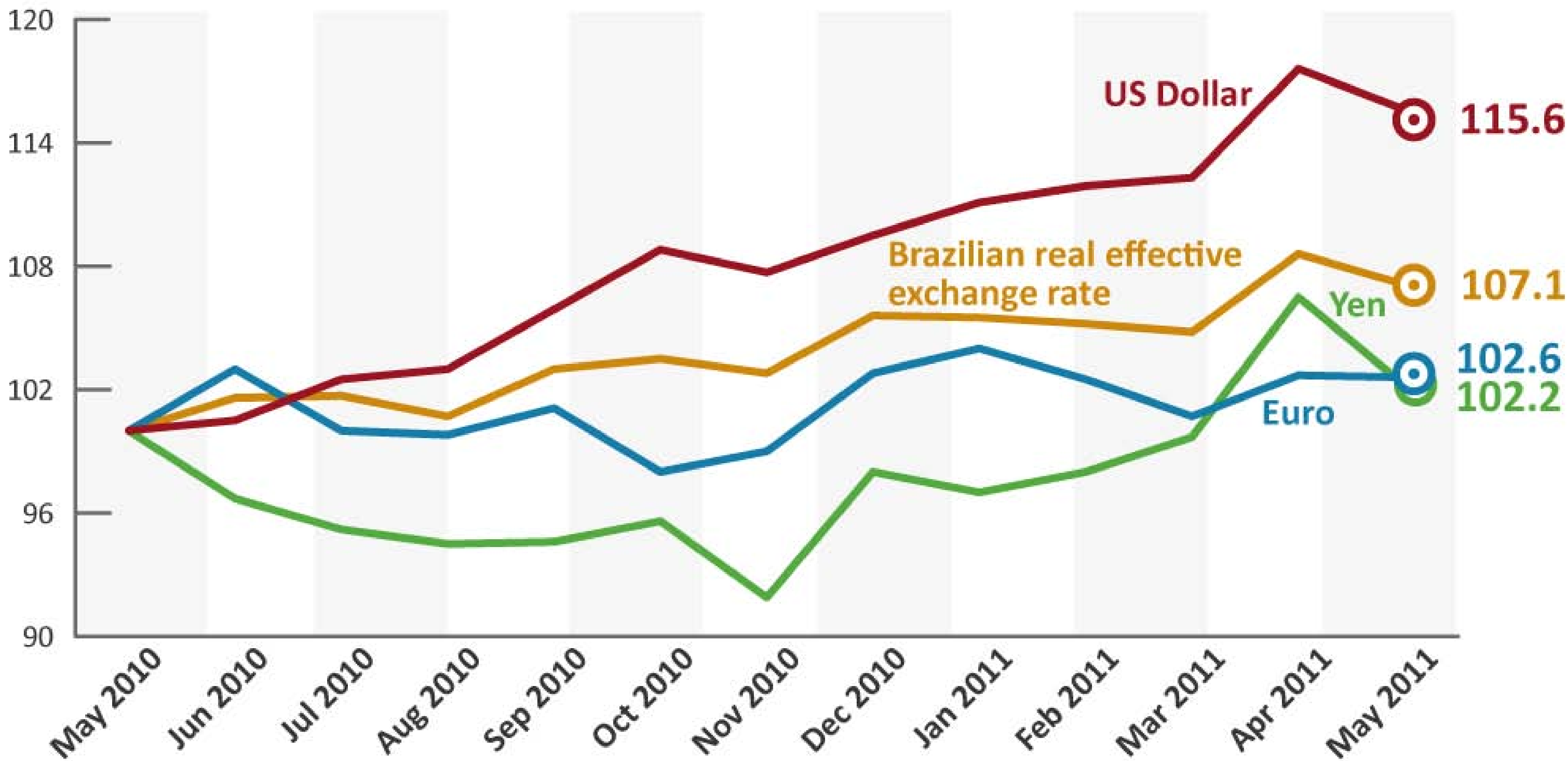


Source: IBGE

Produced by: Ministry of Finance

Brazilian Real appreciation: the "war" goes on (after QE2)

Index (June 2010 = 100), exchange rate deflated by inflation differentials



Source: Brazilian Central Bank
Produced by: Ministry of Finance

The Brazilian experience: capital management measures

A) Reserve accumulation: US$ 335 billions

B) Tax on Financial Transaction - IOF

	03/12/2008	10/19/2009	10/04/2010	10/18/2010	At present time
Portfolio . Fixed Income	1.50%	2.00%	4.00%	6.00%	6.00%
. Equity	0.00%	2.00%	2.00%	2.00%	2.00%
Derivative margin deposit	0.38%	0.38%	0.38%	6.00%	6.00%
External Loan up to . 90 Days	5.38%	5.38%	5.38%	5.38%	6.00%
. 270 Days	0.38%	0.00%	0.00%	0.00%	6.00%
. 360 Days	0.38%	0.00%	0.00%	0.00%	6.00%
. 720 Days	0.38%	0.00%	0.00%	0.00%	6.00%

C) Monetary Policy Mix

- ✓ Interest rate hikes (8.75% in March 2010 to 12.25% now)
- ✓ Macroprudential measures (domestic and currency related)
- ✓ More capital requirement for long term loans

D) Reserve requirements

Brazil faces external challenges

- ✓ Currency war and overvalued real
- ✓ Slow recovery of advanced countries
- ✓ Expansive monetary policies
- ✓ Intensification of competition on manufactured sectors

Brazil faces internal challenges

- ✓ Investment boost to 24% of GDP
- ✓ Reduction of infrastructure costs
- ✓ Increase of public saving and interest rate reduction
- ✓ Labor qualification and improvement of education
- ✓ Tax system modernization
- ✓ Poverty reduction

Government Strategy: productivity agenda

- ✓ **PAC**
  - "Minha Casa MV"
  - Infrastructure and Energy
- ✓ **Reform of Tax System**
  - ICMS and Payroll
  - Social Security
- ✓ **"Pronatec"**
  - Qualification of labor
- ✓ **"Brasil sem miséria"**
- ✓ **Increases in R & D**

Ministry of Finance

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