



Brazilian Economic Outlook



Ministry of
Finance

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The High-Growth Markets Summit 2012
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The world economy remains in a deep crisis, while growth resumes in Brazil

- ✓ Advanced economies: slow growth and decrease in consumption. *Too little, too late.*
- ✓ The global crisis also affects emerging economies, although with lower intensity than in advanced economies.
- ✓ Monetary policies alone do not solve advanced economies' problems and bring side effects to everyone.
- ✓ The 2012 crisis is already as harmful as the 2008 crisis.

World economy: Crisis continues in 2013 and the following years

GDP growth forecast for 2013, in % per year



Source: IMF
Produced by: Ministry of Finance

But the Brazilian economy has the conditions to resume growth

Quarterly GDP growth, in % YoY



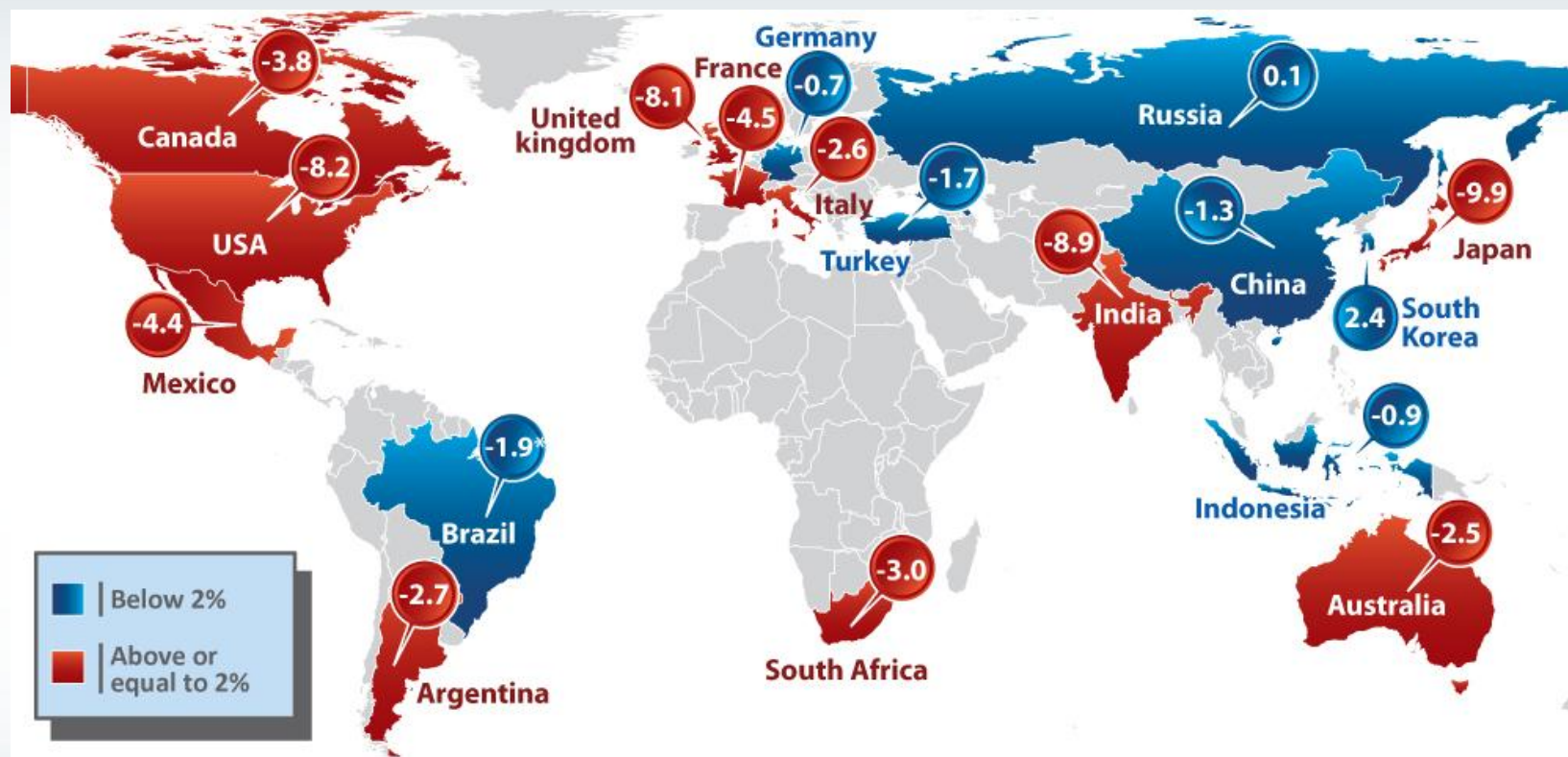
* Market projections.

Sources: IBGE, Central Bank of Brazil, Credit Suisse and Itaú

Produced by: Ministry of Finance

Fiscal soundness allows for anti-cyclical policies

Budget balance forecasts for 2012, in % of GDP

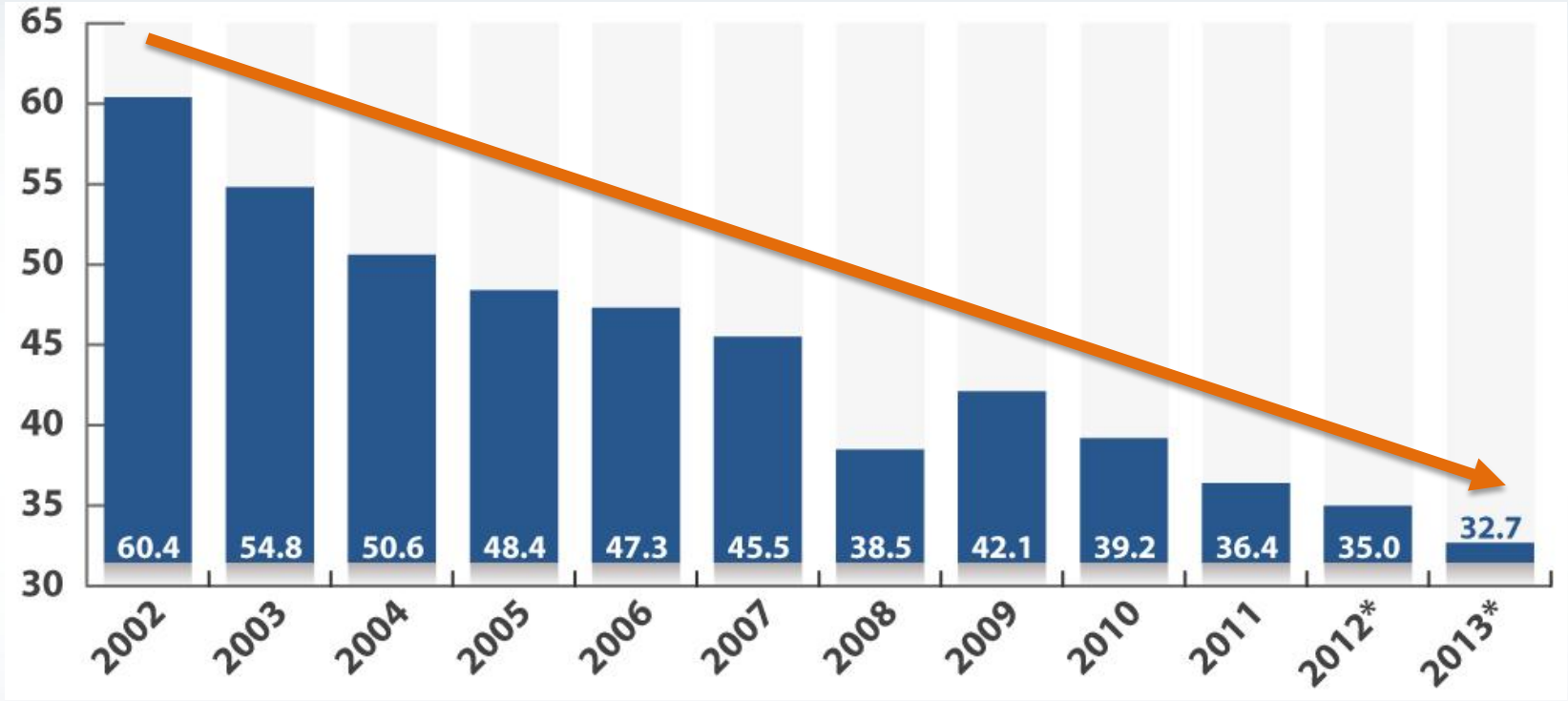


* Ministry of Finance estimates -1.6% for Brazil

Source: IMF
 Produced by: Ministry of Finance

Declining public debt

Net Public Sector Debt, in % of GDP

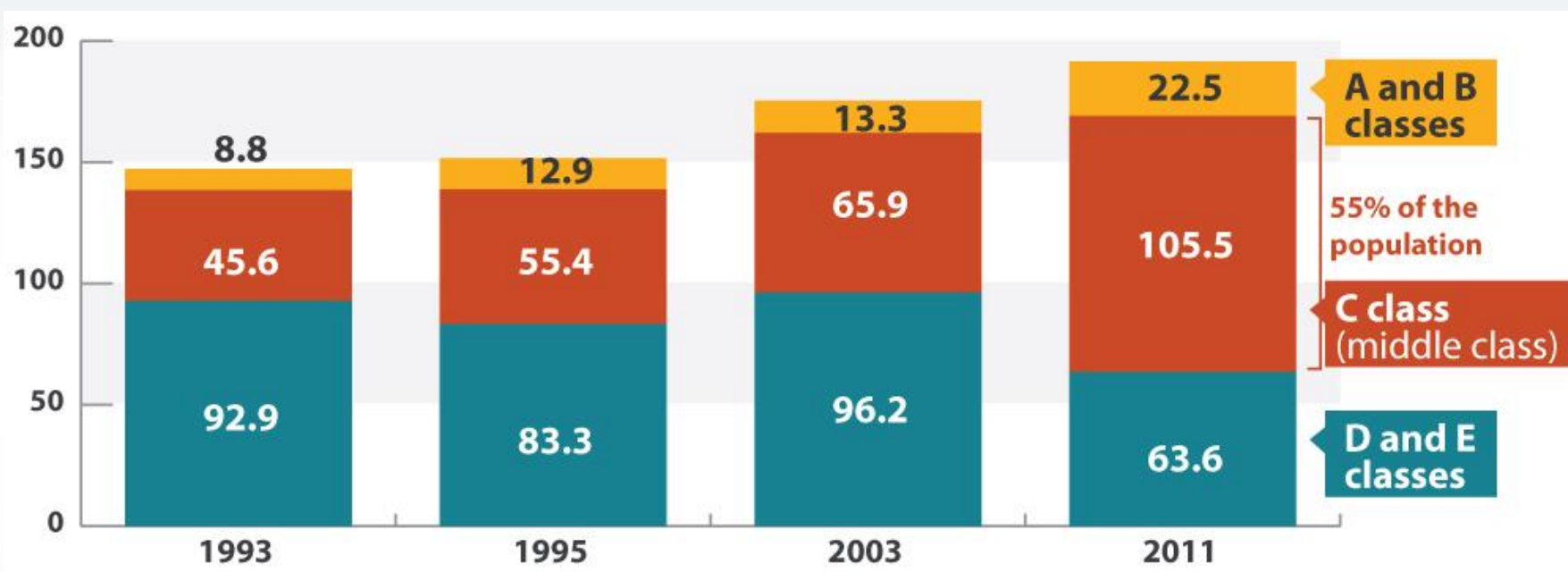


* Estimated by Ministry of Finance, based on market parameters and the full accomplishment of the primary result target.

Sources: Central Bank of Brazil and Ministry of Finance
Produced by: Ministry of Finance

Expansion of the middle class

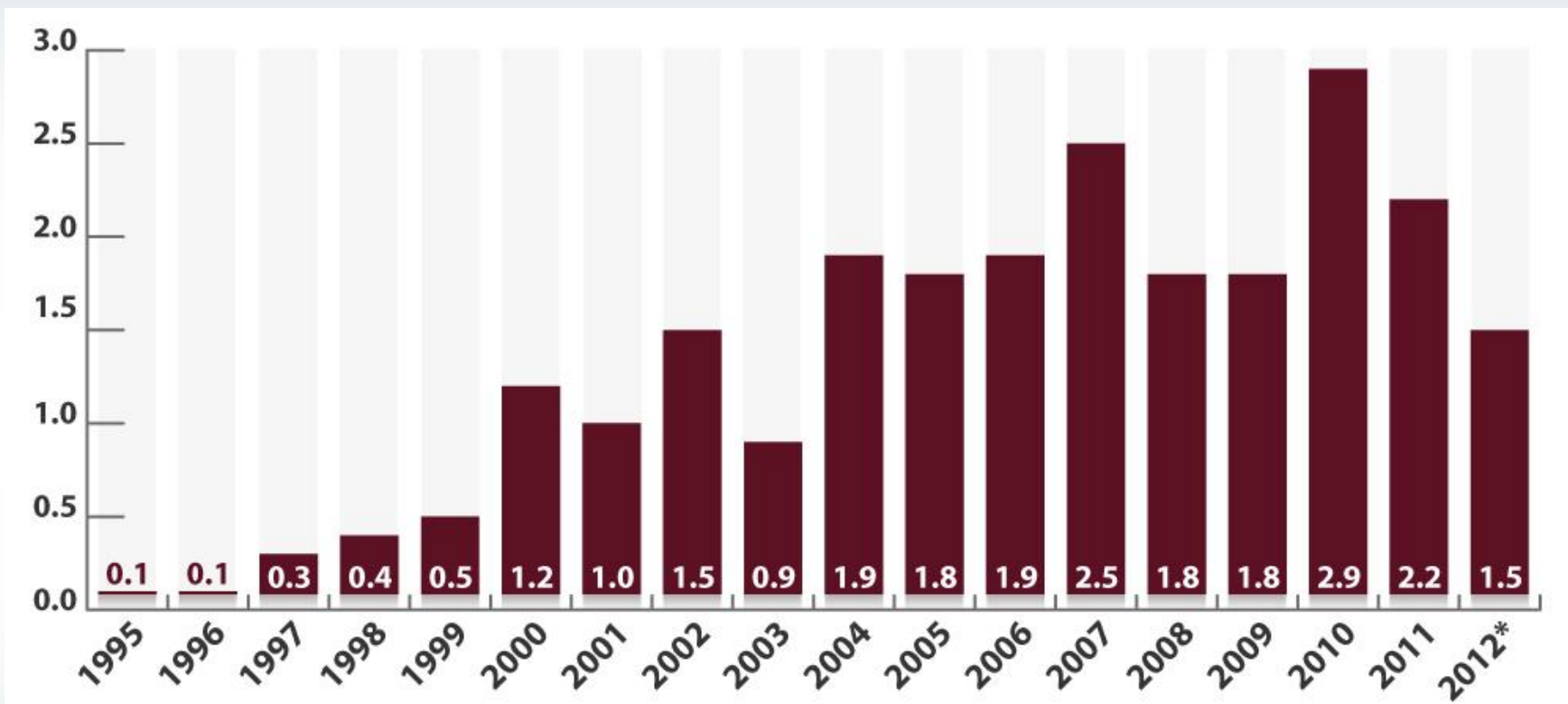
Brazilian Population: Economic Classes, in millions of people



Source: Fundação Getúlio Vargas
 Produced by: Ministry of Finance

Full employment

New formal jobs, in millions

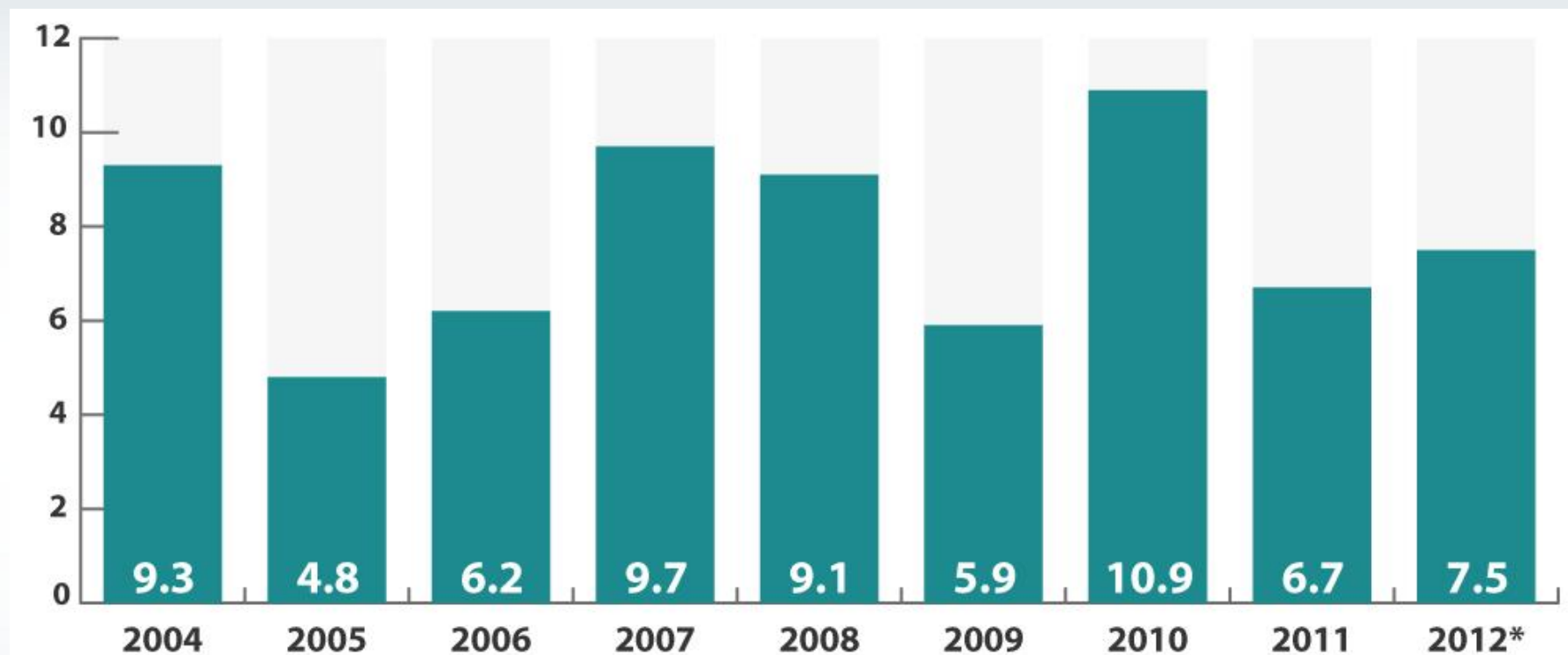


*12-month accumulated up to July 2012.

Source: Ministry of Employment
 Produced by: Ministry of Finance

A dynamic consumer market

Retail sales growth, % YoY



* 12-month accumulated growth up to July 2012.

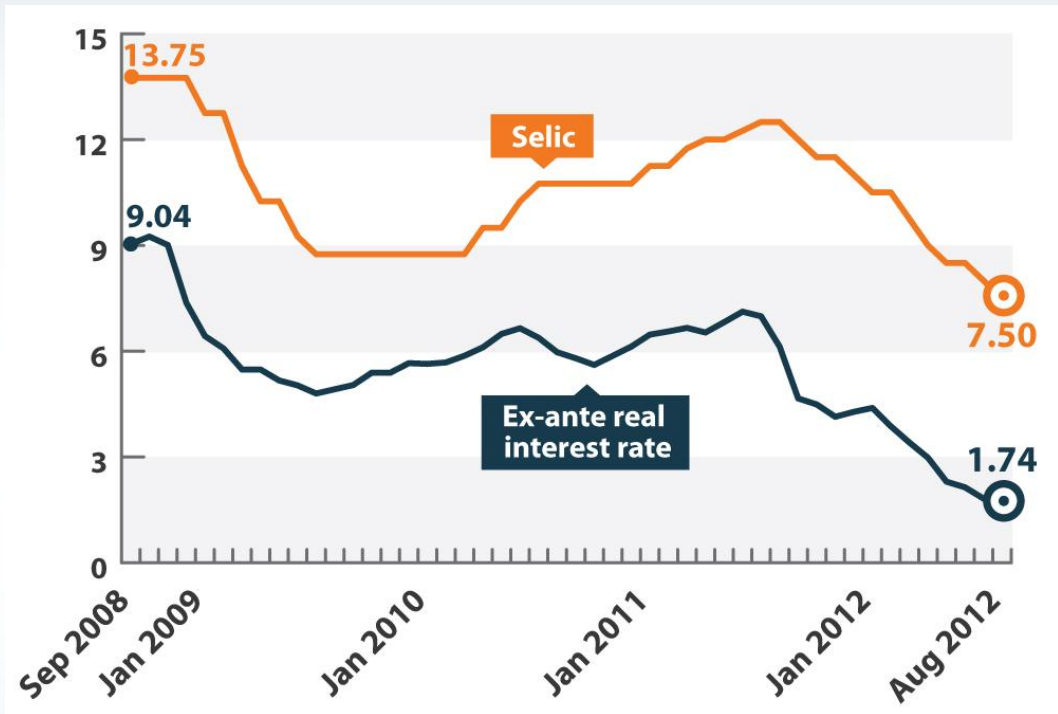
Source: PMC-IBGE
Produced by: Ministry of Finance

Brazil is implementing a set of policies that sustains economic growth

- ✓ Expansive monetary policy
- ✓ Solid and anti-cyclical fiscal policy
- ✓ More competitiveness for the Brazilian real
- ✓ Promoting investments and consumption
- ✓ Reduction of financial, tax and infrastructure costs

Economy in transition: Reduction of interest rates

Benchmark interest rate (SELIC) and *ex-ante** real interest rate, in % per year

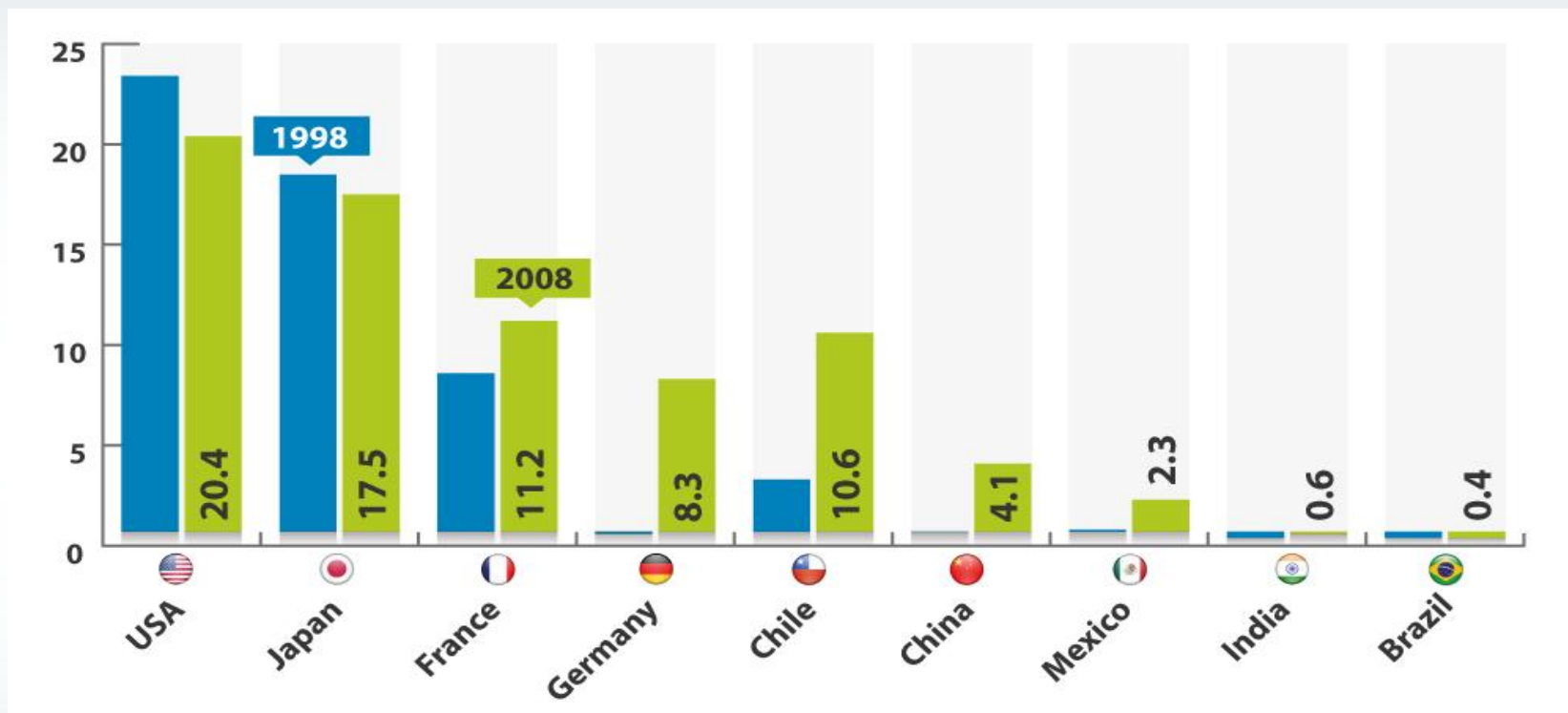


* Ex-ante real interest rate corresponds to the difference between the 30/360 interest swap rate and the median IPCA 12-month ahead inflation expectation.

Source: Central Bank of Brazil
Produced by: Ministry of Finance

Brazilian corporate bond market has great growth potential

Stock of corporate bonds, in % of GDP



Sources: BIS and IEDI
 Produced by: Ministry of Finance

Tax cuts in 2012

Measures	Impact 2012 (in R\$ bi)
CIDE reduction to zero for petrol and diesel	8.8
IPI tax cuts (vehicles, trucks, construction equipments, appliances, furniture, wallpaper, etc.)	8.6
Reduction to zero of the period of ownership of the PIS / COFINS on purchases of capital goods	7.6
Increase of the monetary limits for applying the reduced taxes of SIMPLE and MEI systems (small enterprises)	5.7
REINTEGRA - Refund Regime for Exporting Companies	4.6
Payroll tax cut for 15 sectors	3.0
Tax reductions on financial operations (IOF) on credit to individuals (from 3% to 1.5%)	2.8
Reduction to zero rate for PIS/COFINS on wheat and pasta	1.1
Internet Broadband Networking	0.4
Personal income tax (IR) deduction for employer contribution paid by the domestic employer	0.4
Others	0.4
TOTAL	43.4

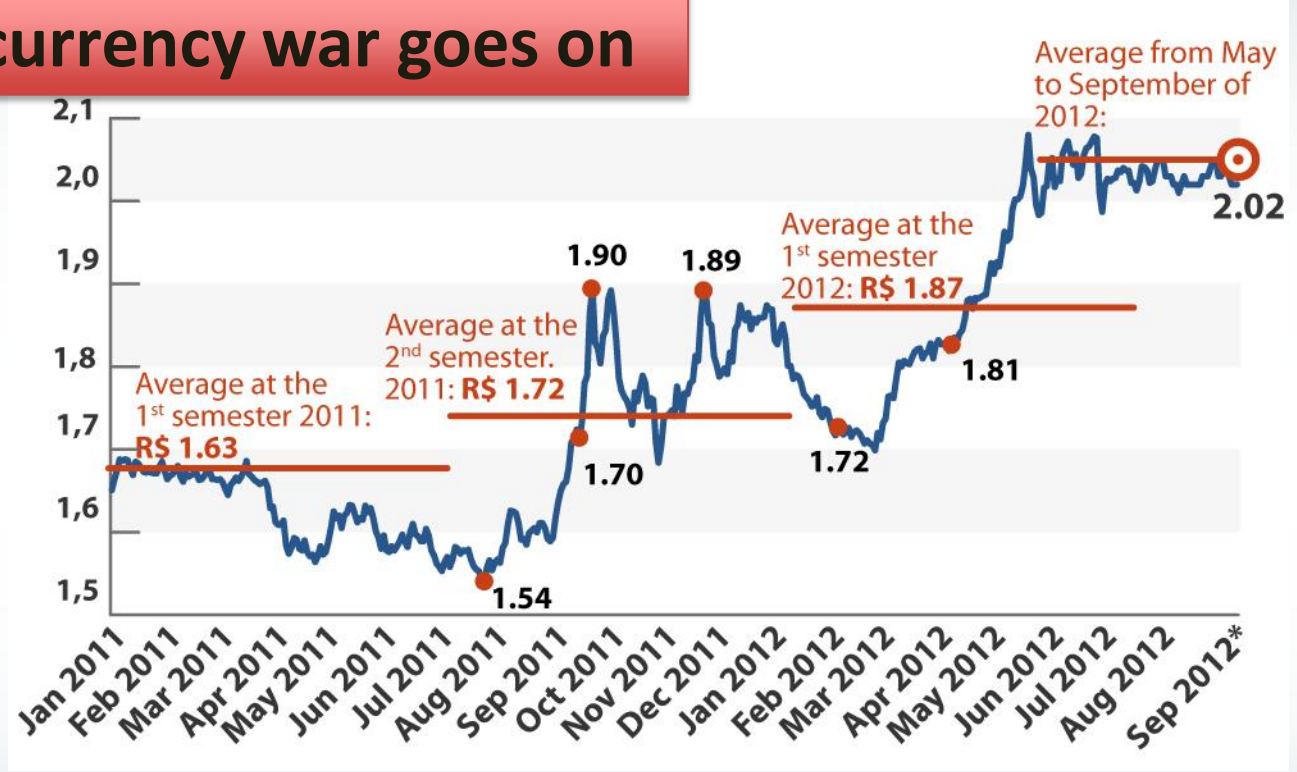
Reducing labour costs: Payroll tax cuts

Estimates for 2013, in R\$ billion		
BEFORE: Contribution over payroll	NEW MEASURE: Contribution over revenue (1% a 2%)	Reduction
21.6	8.7	12.8

Active exchange rate policy: Brazilian real (BRL) is more competitive

Nominal exchange rate, in R\$/US\$

The currency war goes on

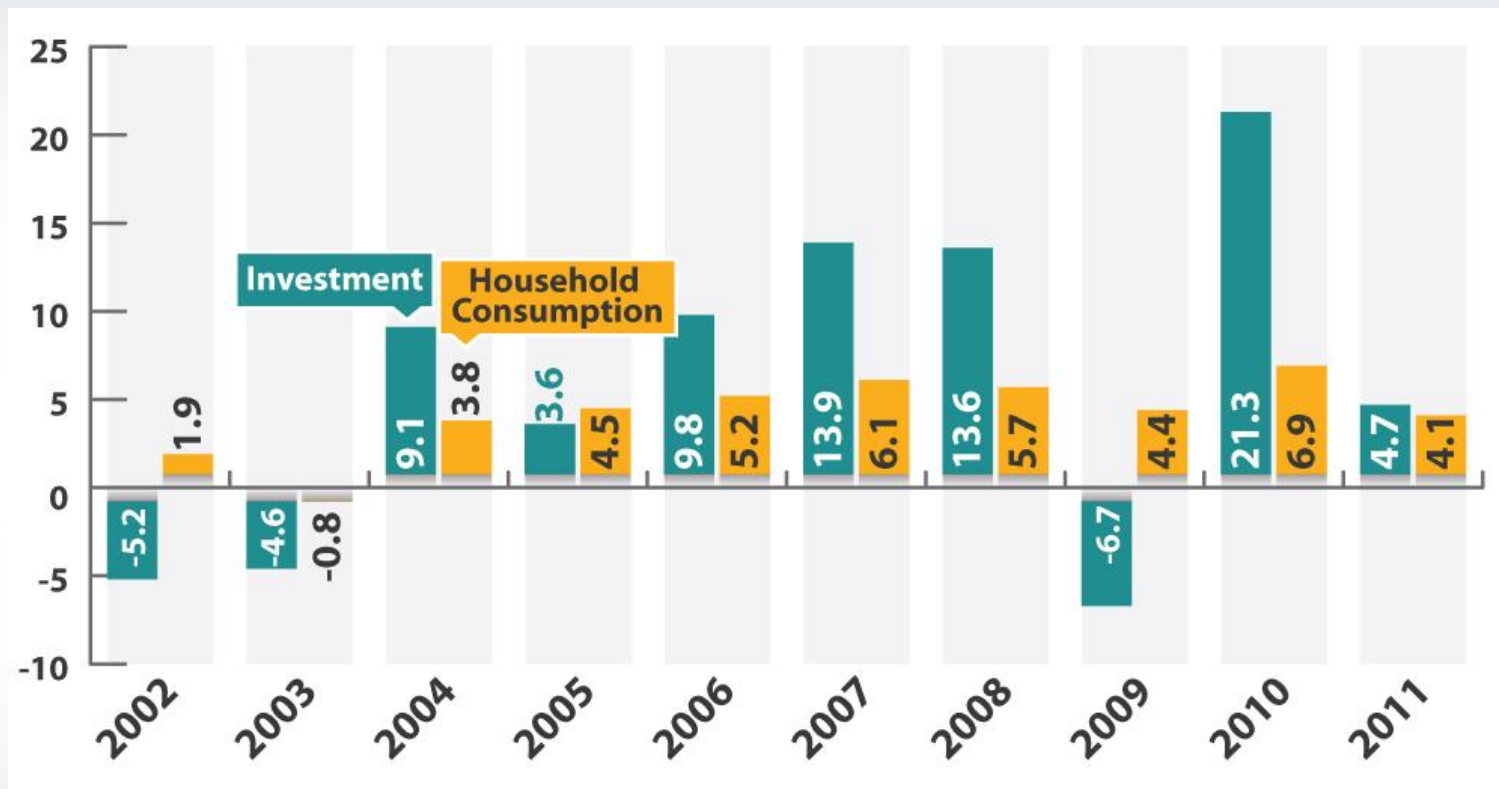


* Up to 12th September, 2012.

Source: Central Bank of Brazil
Produced by: Ministry of Finance

Investment grows faster than consumption

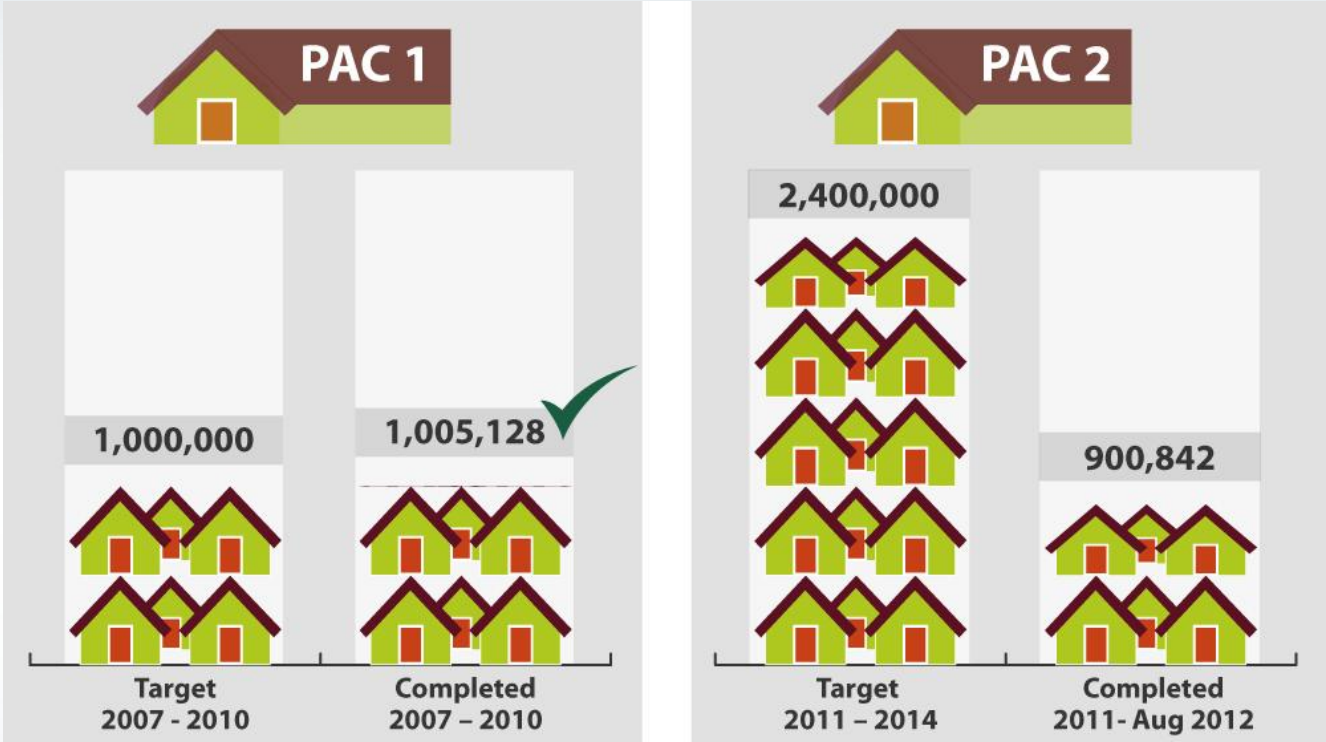
Gross Fixed Capital Formation and household consumption, in % YoY



Source: IBGE
 Produced by: Ministry of Finance

Housing Programs Minha Casa, Minha Vida (My Home, My Life)

Investments, in new house units



Source: Brazilian National Treasury/ Ministry of Finance
Produced by: Ministry of Finance

Petrobras sustains high investment in Brazil

Petrobras Business Plan*, from 2012 to 2016, in US\$ billion

Exploration and Production	141.8
Refining, Transportation and Commerce	65.5
Gas & Energy	13.8
Petrochemical	5.0
Distribution	3.6
Biofuels	3.8
Corporate	3.0
Total	236.5

* Announced on 14th June, 2012.

Source: Petrobras
 Produced by: Ministry of Finance

Airport concession plan



Source: Civil Aviation Secretariat
Produced by: Ministry of Finance

Railway and roads concessions

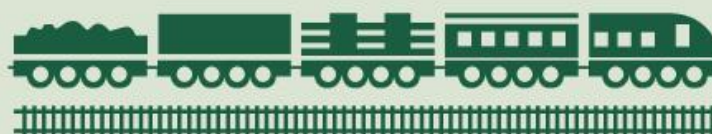
In US\$ billion

Total investment: US\$ 66.5 billion

**Investment in Roads:
US\$ 21 billion (7,500 km)**



**Investment in Railways:
US\$ 45.5 billion (10,000 km)**



Source: Ministry of Transport
Produced by: Ministry of Finance

Cost of Energy: more competitiveness for industry

AVERAGE ELECTRICITY PRICE REDUCTION TO CONSUMERS OF DISTRIBUTION COMPANIES*

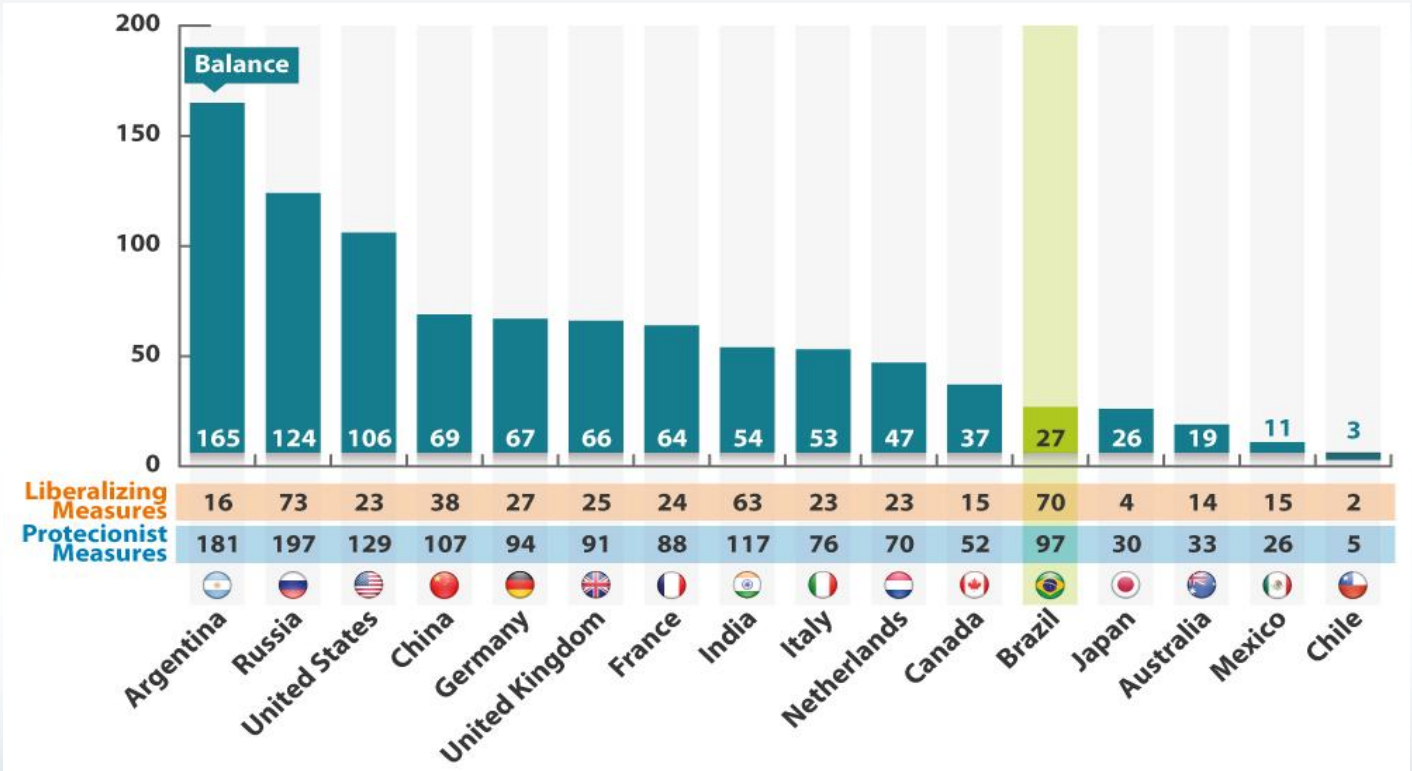
Group	Tariff	Tension magnitude	Tariff Price Reduction (%)
High Tension A	A1	230 kV and above	28.0
	A2	From 88 to 138 kV	24.7
	A3	69 kV	21.5
	A3a	From 30 to 44 kV	20.0
	A4	From 2.3 to 25 kV	19.4
	AS	Underground	19.7
Low Tension B	B	Below 2.3 kV	16.2
Average			20.2

* Starting in January 2013.

Source: Ministry of Energy
Produced by: Ministry of Finance

Protectionism is not the best response to the world crisis

Balance of protectionist and liberalizing measures, in number of measures, since January 2008

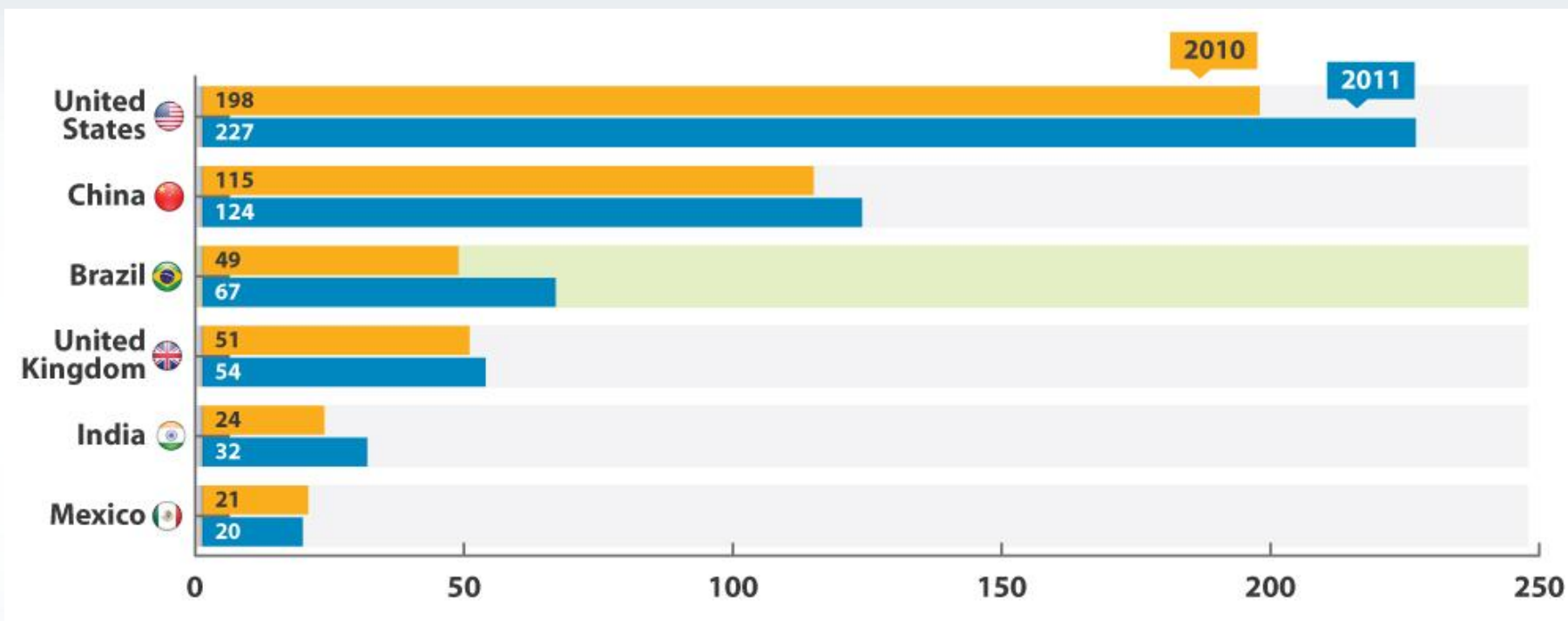


* Balance = protectionist - liberalizing measures

Source: Global Trade Alert
Produced by: Ministry of Finance

FDI flows to Brazil and other countries

Net foreign direct investment flows, selected countries, in US\$ billion

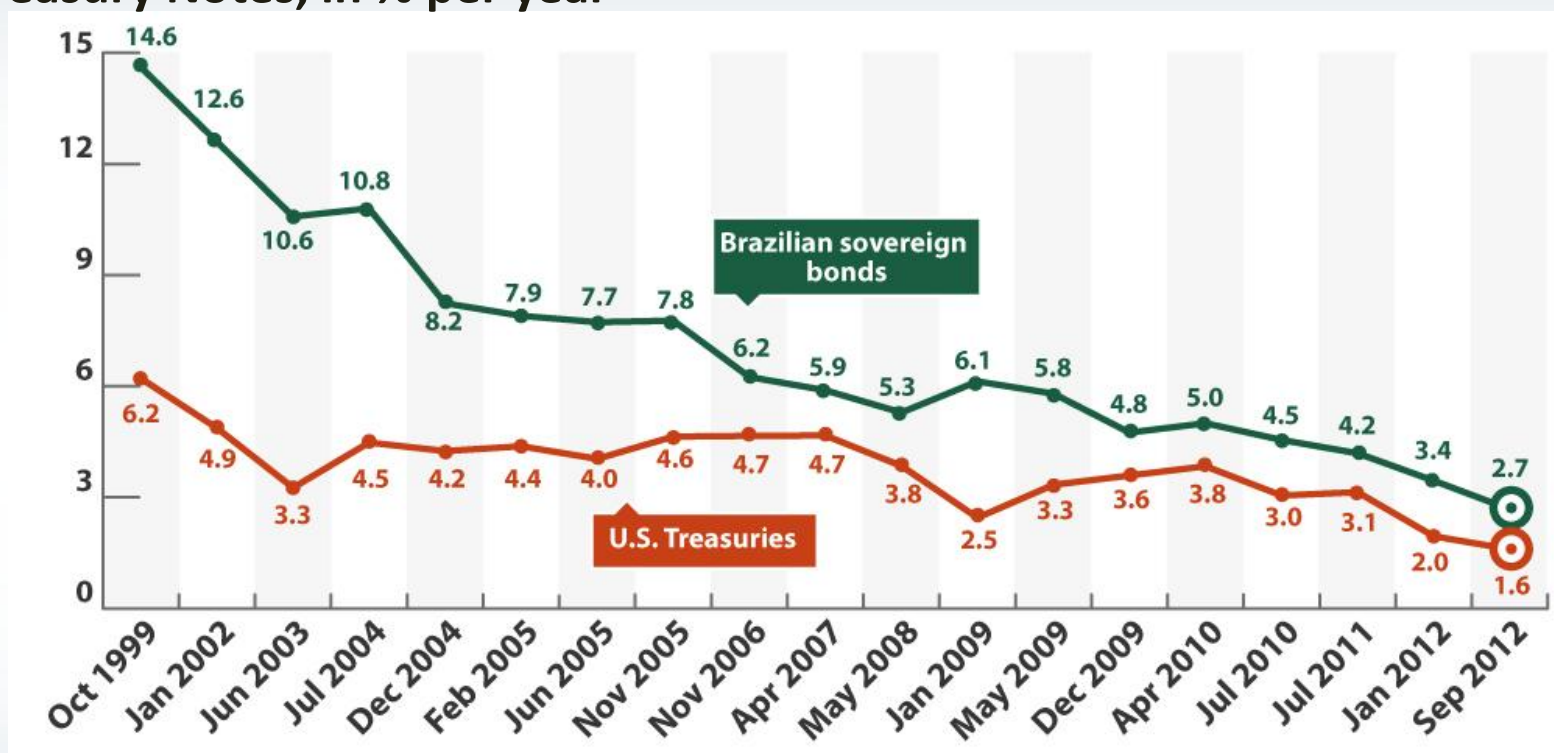


Source: UNCTAD
 Produced by: Ministry of Finance

CONFIDENCE

Decreasing yields of sovereign bonds

Yields* of 10-year benchmark Brazilian sovereign bonds and 10-year U.S. Treasury Notes, in % per year



* Issuance yields of the 10-year Brazilian sovereign dollar-denominated bonds; and secondary market yields of the 10-year U.S. Treasury Notes.

Source: Brazilian National Treasury
 Produced by: Ministry of Finance

Presentation available at www.fazenda.gov.br



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Finance

BRAZILIAN GOVERNMENT

