

## Brazil: Arriving on the World Stage?



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## Overview



## • Demographics

- Population: 192 million (5th largest)
  - 86% Urban
  - 2.73% of the world population
- Area: 8,514,877 km<sup>2</sup> (5th largest)
- Largest Cities:
  - São Paulo: 11 million
  - Rio de Janeiro: 6 million

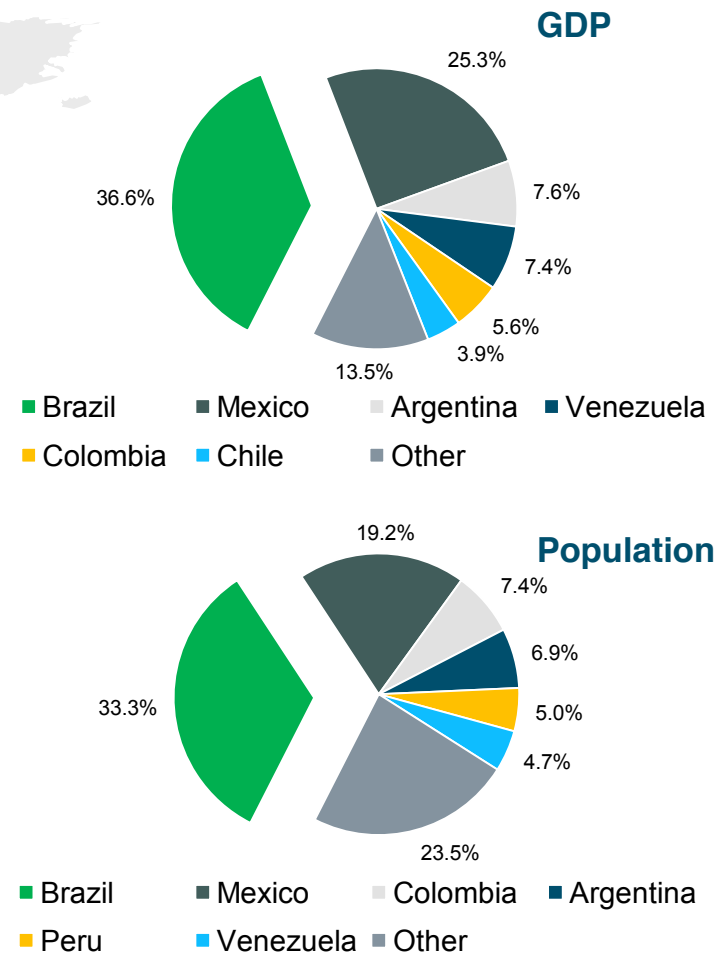
## • Government

- Democracy / Federal Republic

## • Economy

- Currency: Brazilian Real (BRL)
- S&P, Fitch and Moody's Investment Grade
- GDP (2008): US\$ 1.612 trillion (8th largest)
  - 7% Agriculture; 28% Industry; 65% Services
  - 2.85% of the world GDP (PPP)
  - GDP Per Capita (2008): US\$ 8,397
- Market capitalization US\$ 1.170 trillion
  - 2.67% of the global market capitalization

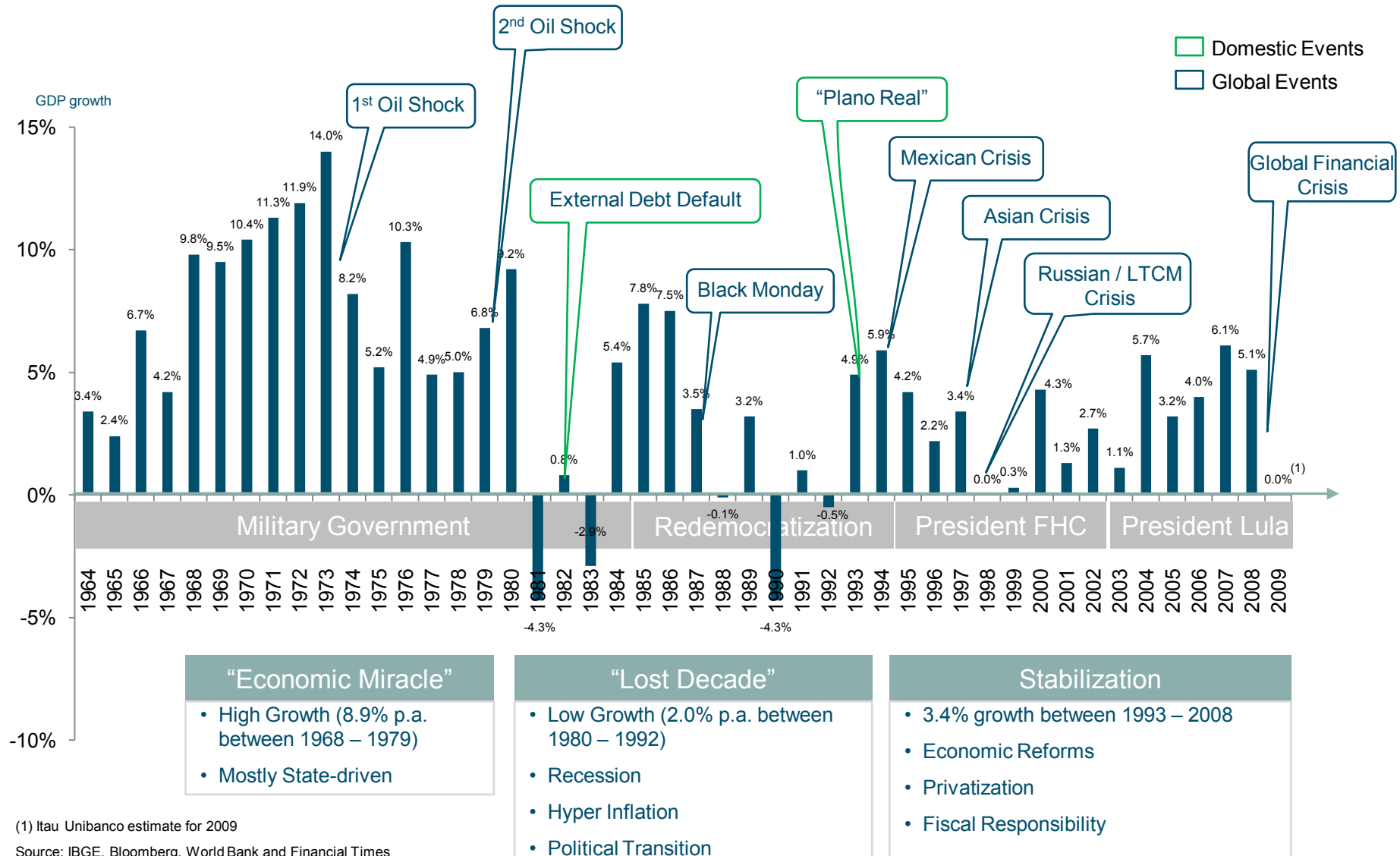
## Brazil's Relevance in Latin America



Source: IBGE and World Bank



# Recent History / Main Events





## Social Environment

**Social indicators in Brazil evolved positively, but there is still a lot to be done**

	1991	2001	2004	2008
Adult illiteracy rate (15 years and above)	20.1%	15.8%	11.4%	10.0%
% of children in school (7-14 years of age)	79.5%	94.9%	97.1%	97.5%
% of pop. with more than 10 years of education	14.1%	18.9%	26.0%	41.2%
Child (under 1 year) mortality rate	4.8%	2.9%	2.6%	2.6%

### % OF HOUSEHOLDS WITH:

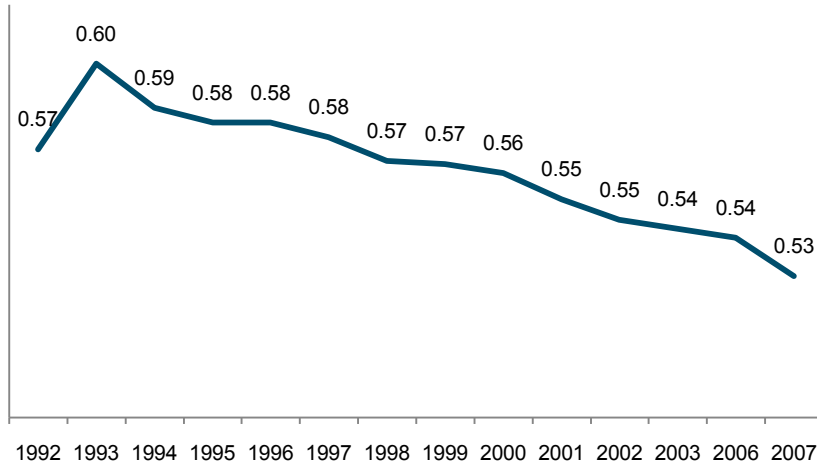
	1991	2001	2004	2008
Electricity	86.9%	93.0%	96.8%	98.6%
Garbage collection	63.9%	79.0%	84.8%	87.9%
Running water	70.5%	77.9%	82.2%	83.9%
Sewage collection	52.1%	62.3%	68.9%	73.2%
Landlines	7.3%	28.2%	27.9%	30.1%
Mobile Phones	—	17.0%	36.6%	78.1%

Source: IBGE and Anatel



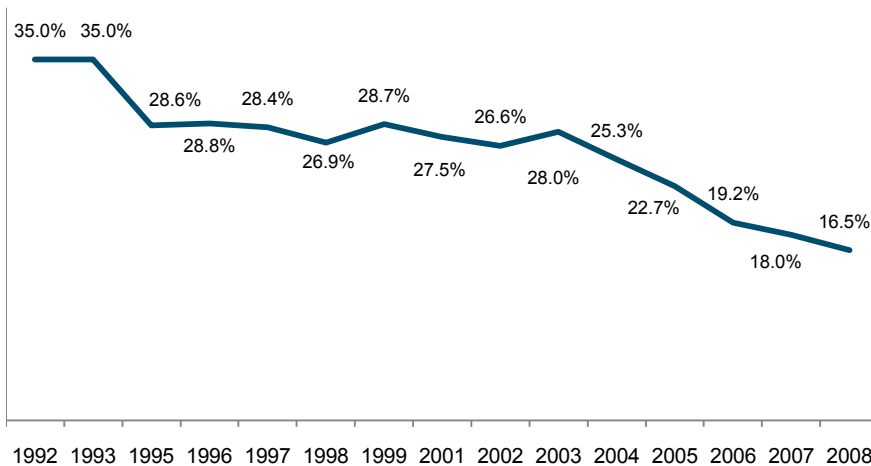
# Long Term Social Improvements

## Gini Index



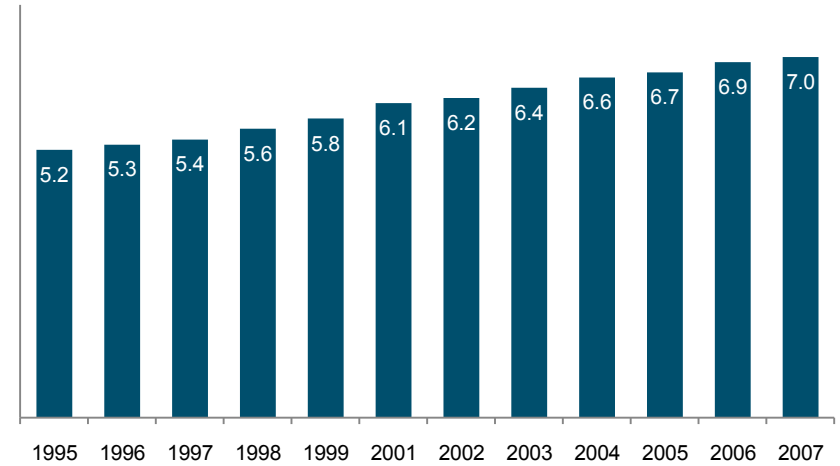
Source: CPS/FGV and PNAD/IBGE

## Poverty (% of Population)

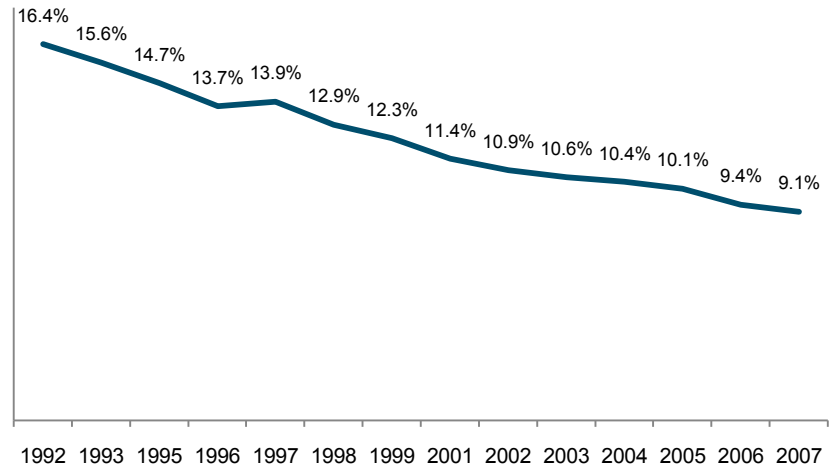


Source: CPS/FGV and PNAD/IBGE

## Years of Schooling (Average of Total Population)



## Illiteracy (% of Total Population)



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**What a Difference 15 Years Make**

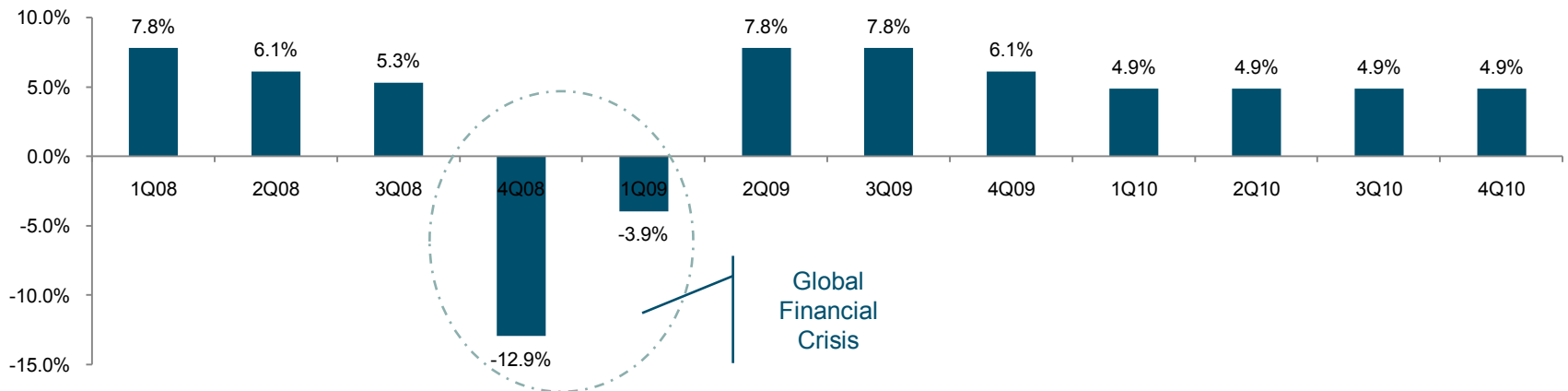


## Strong Macroeconomic Fundamentals

15 years of responsible and pragmatic macroeconomic policies allowed the Brazilian Government to implement measures to mitigate the negative impact of a global slowdown and sustain growth

- ✓ Privatization
- ✓ Lower external vulnerability
- ✓ Responsible Monetary Policies
- ✓ Healthy banking system
- ✓ Lower leverage allowing strong credit expansion
- ✓ Sound Fiscal Policy
- ✓ Domestic growth, led by private consumption and infrastructure investment

### GDP Growth – QoQ Annualized

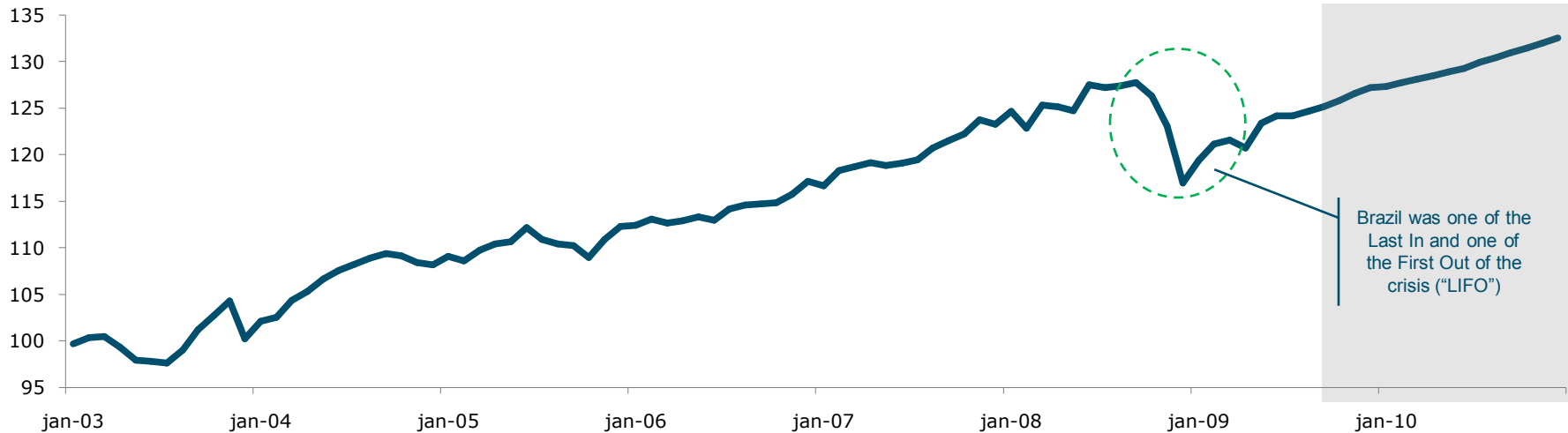


Source: IBGE and Itau Unibanco estimates



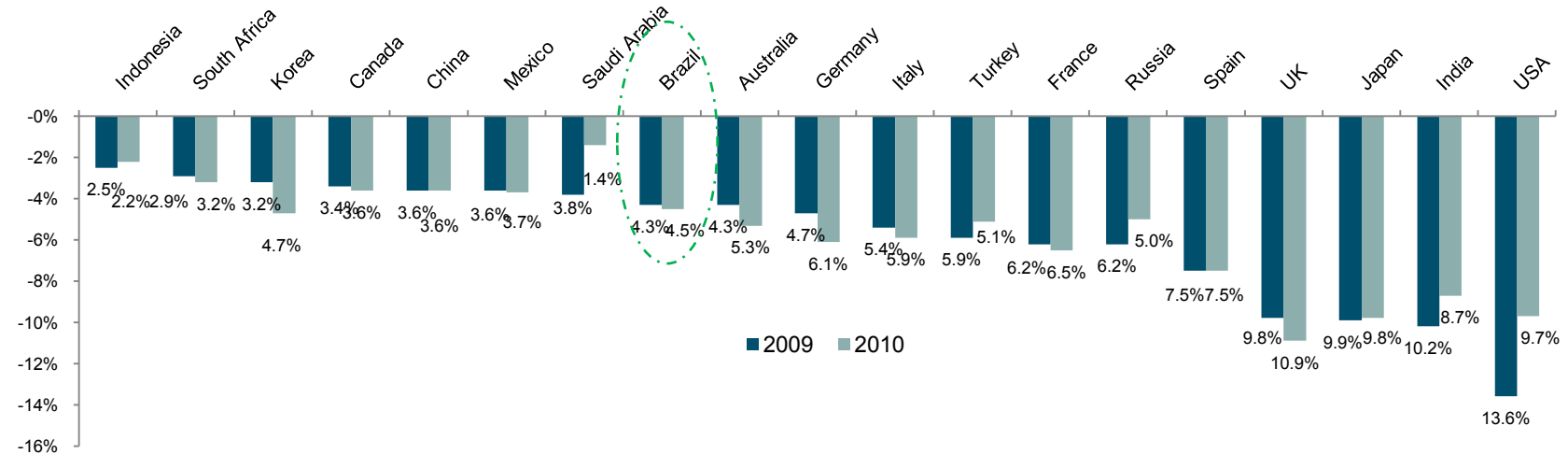
# Resilience Against Credit Crisis – The “LIFO” Effect

## Monthly Itaú Unibanco GDP Indicator



Source: Itaú Unibanco

## G-20 Fiscal Balance Estimates – Nominal Deficit (% GDP)

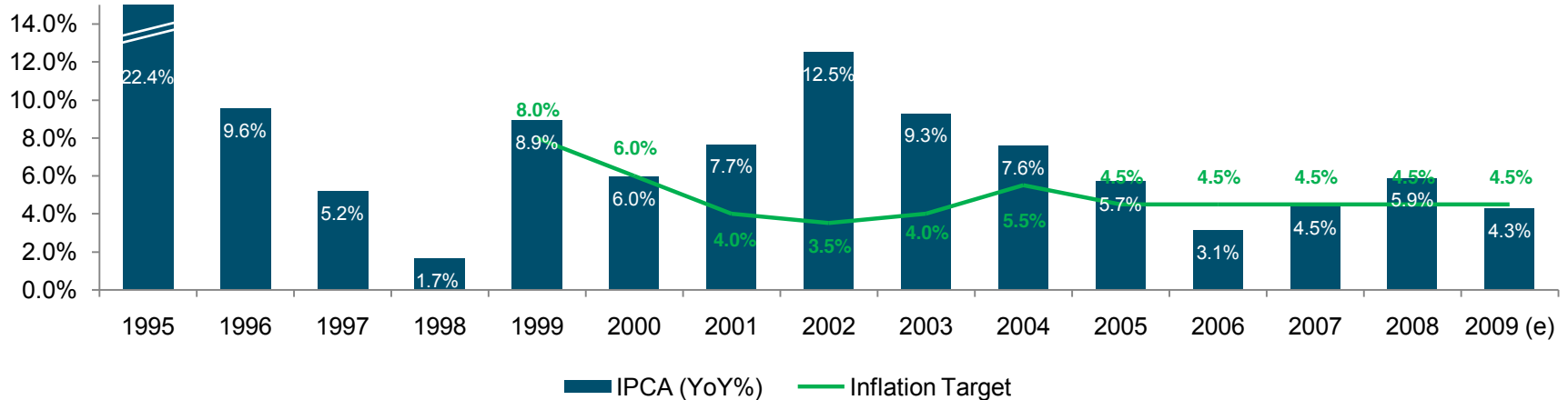


Source: IMF

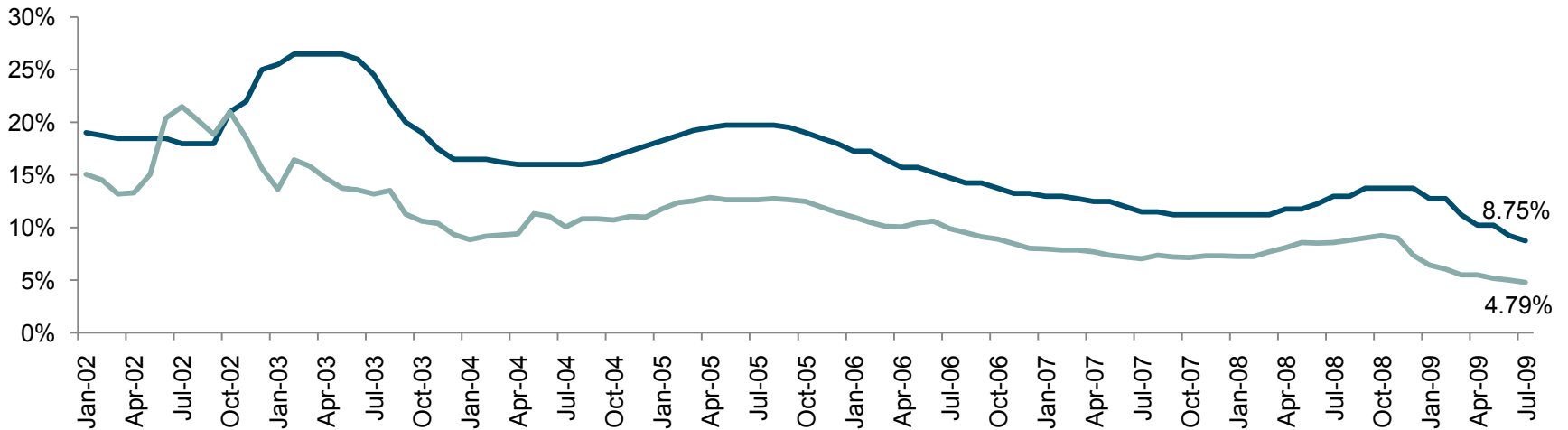


# “Plano Real” – 15 Years of Inflation Control (IPCA YoY%)

## IPCA vs. Central Bank Inflation Target



## SELIC vs. Real Interest Rate (Selic Rate Adjusted by Inflation Expectation)

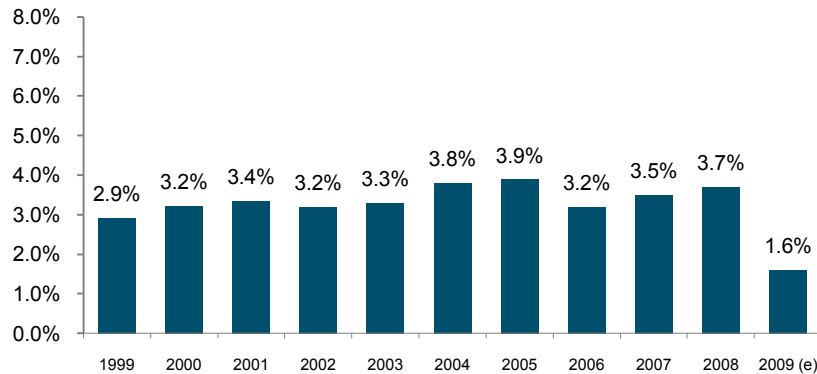


Source: Brazilian Central Bank



# 10 Years of Primary Surplus Target

## Primary Budget (% GDP)

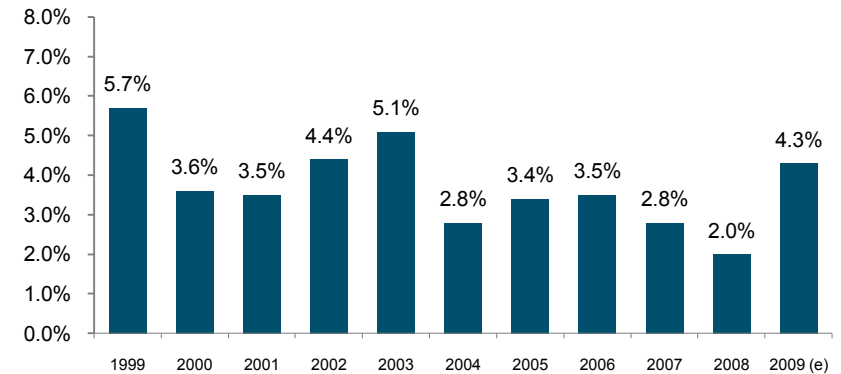


Source: Brazilian Central Bank

Note: Excluding Petrobras

(e) Itau Unibanco estimate

## Nominal Deficit (% GDP)

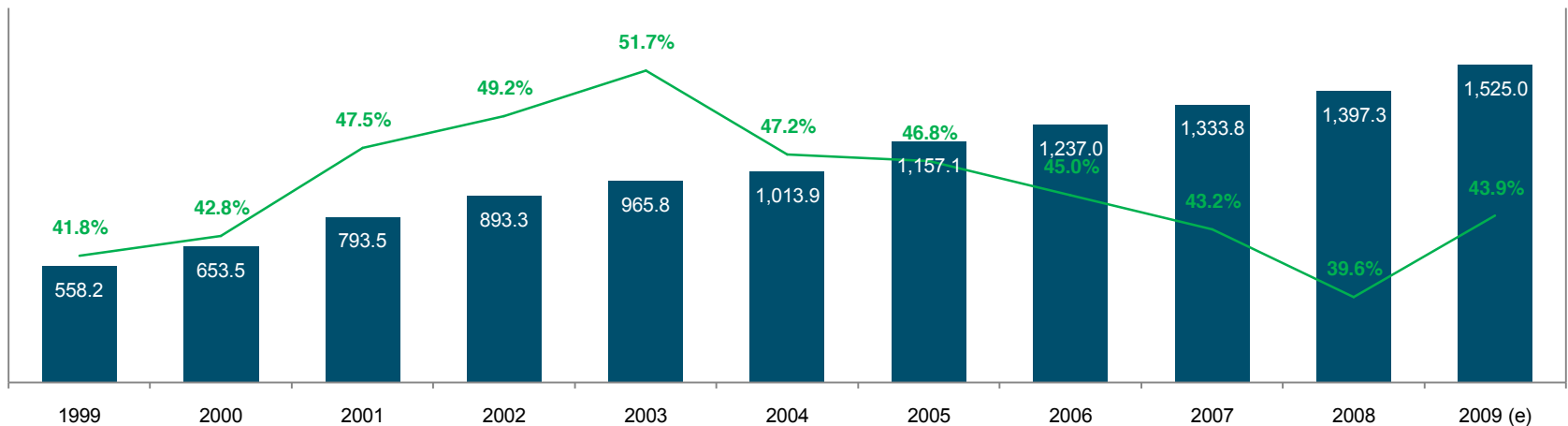


Source: Brazilian Central Bank

Note: Excluding Petrobras

(e) Itau Unibanco estimate

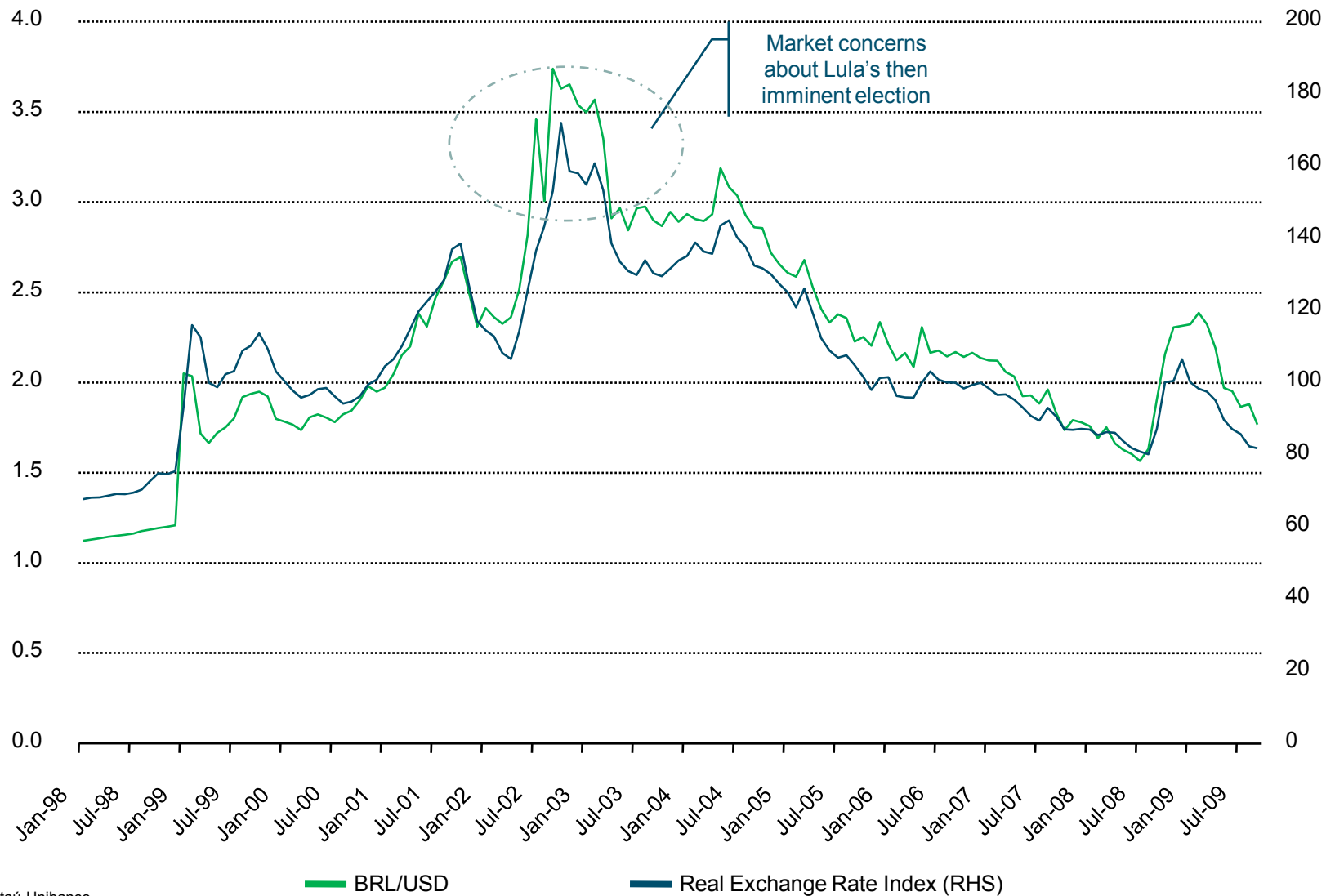
## Brazil Government Net Debt (% of GDP)



Source: Brazilian Central Bank

(e) Market Expectations

# 10 Years of Floating Exchange Rate

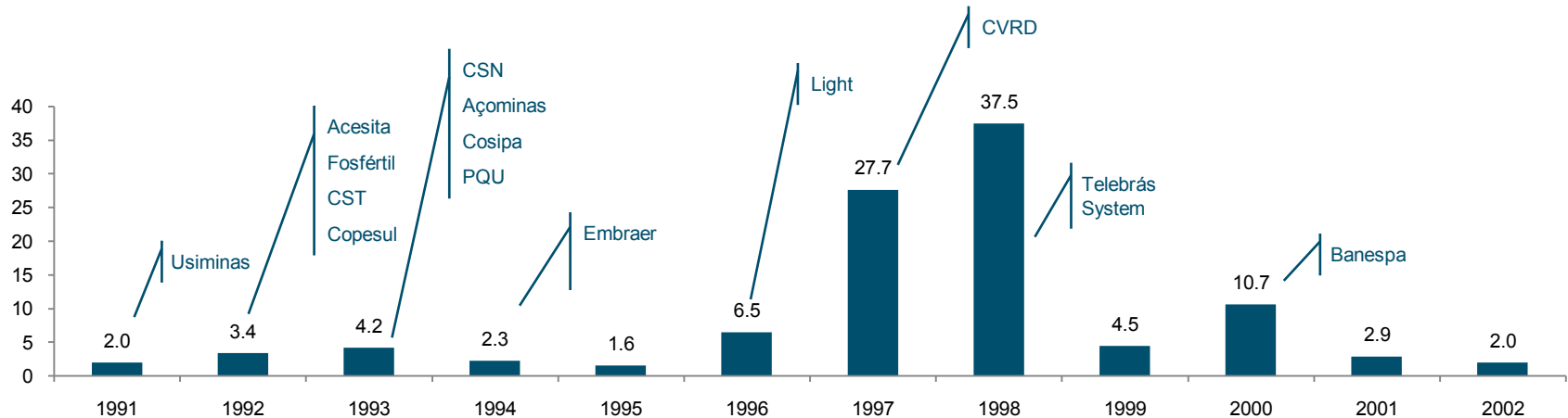


Source: Itaú Unibanco



# Privatization

## Privatization – 1991 to 2002 (US\$ billion)



## Highlights

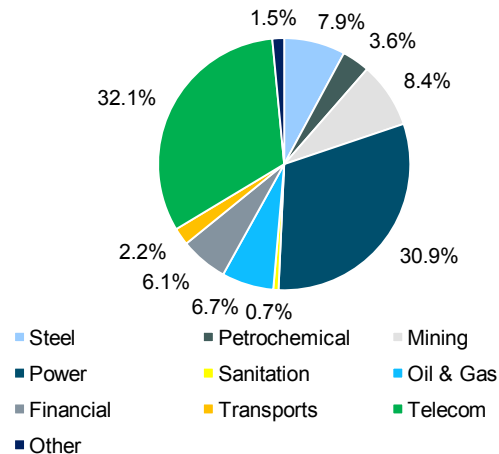
### Privatized Sectors:

- ✓ Steel
- ✓ Petrochemical
- ✓ Fertilizers
- ✓ Mining
- ✓ Aerospace
- ✓ Railroads
- ✓ Telecommunication

### Partially Privatized Sectors:

- ✓ Ports
- ✓ Financial
- ✓ Sanitation
- ✓ Toll-Roads
- ✓ Power
- ✓ Oil & Gas

### Proceeds – Breakdown by Sector



### Power

- ✓ Distribution: 63% of the sector already privatized
- ✓ Generation: 21% of the installed capacity already privately-owned

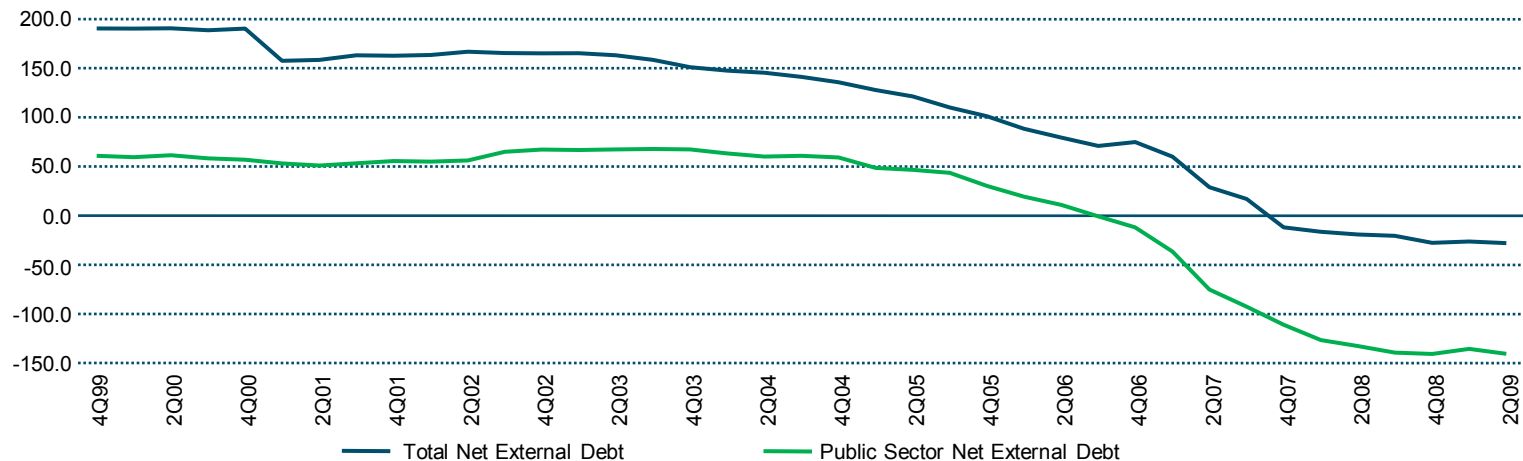
### Financial Sector

- ✓ 25% of the system total assets under government-controlled banks



# Brazil as a Net External Creditor

## External Accounts: Total and Public Sector Net External Debt (US\$ billion)



Source: Brazilian Central Bank and Itau Unibanco

## Current Account Balance x FDI (12 Month Accumulated – US\$ billion)



**CURRENT ACCOUNT DEFICITS HAVE BEEN COMFORTABLY FINANCED BY FDI**

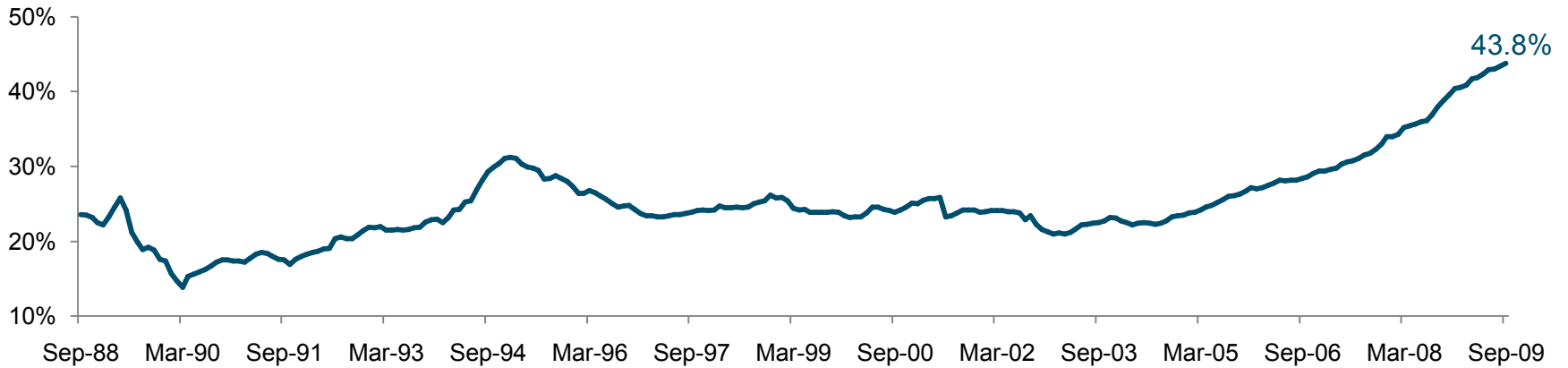
Source: Brazilian Central Bank

(e) Market expectations (Focus of 10/16/2009)

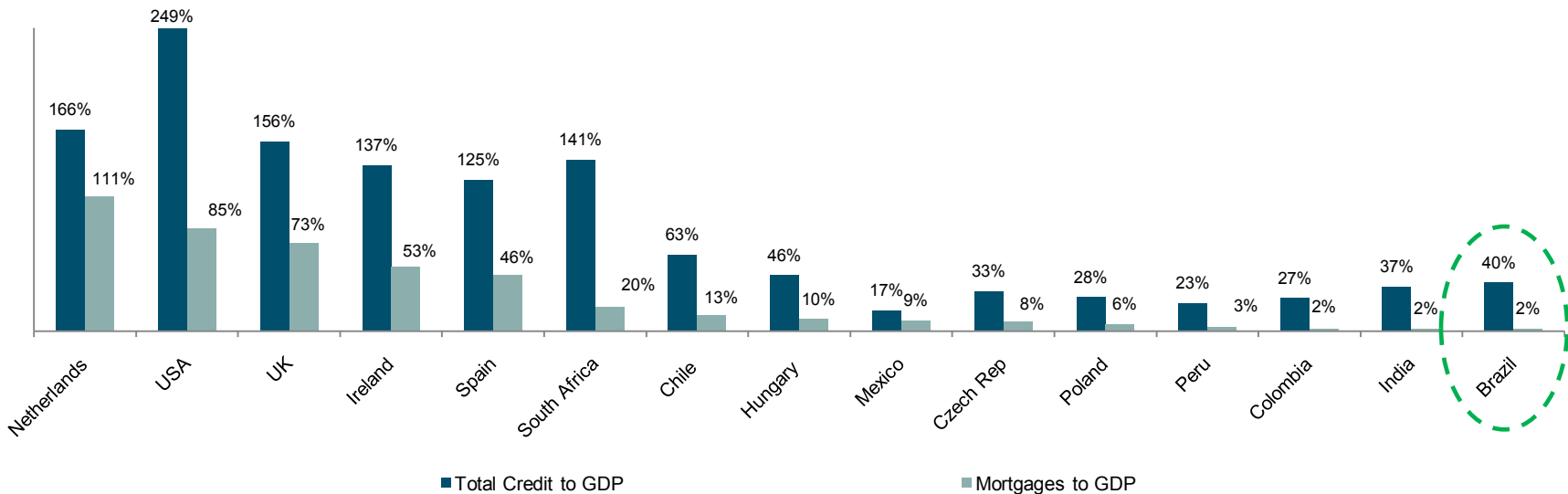


# Credit Expansion

## Total Credit as % of GDP



## Total Credit / Mortgages (% of GDP 2008)



Source: Global Property Guide and Central Banks



# Domestic Demand

Falling unemployment, rising real income and stronger consumer confidence

Over the past five years, more than 20 million Brazilians – approximately 10% of the population – have emerged from poverty and joined the Middle Class



The workforce has grown 74% over the past 20 years; 1.5 million formal jobs were created in 2008 and more than 2.0 million are expected for 2010



Real GDP per capita increased by 133% between 1995 (US\$ 3,600) and 2008 (US\$ 8,400)



Social programs have enhanced the living standards of poor families. Since 2003 the minimum wage has risen 46% over inflation. New social programs were launched in 2009, such as “Minha Casa, Minha Vida” (aimed at helping poor families acquire their first residence)

Source: United Nations, 2008 - CIA World Factbook, 2008 - CAGED, 2009



## Investment Grade

S&P, Fitch and Moody's granted Investment Grade Status to Brazil

Brazil	2003	2004	2005	2006	2007	2008	2009
S & P	B+	BB-	BB-	BB	BB+	BBB-	BBB-
Fitch	B+	BB-	BB-	BB	BB+	BBB-	BBB-
Moody's	B2	B1	Ba3	Ba2	Ba1	Ba1	Baa3



Upgrade



Stable



Downgrade

### Strengths

- Track record of macroeconomic policy continuity (despite political transitions) based on a inflation-targeting regime and floating FX-regime
- Remarkable reduction of external vulnerabilities
- Improved debt profile



## What a Difference 15 Years Made...

For the first time, in the midst of a global financial crisis, Brazil has been able to use countercyclical policies to sustain growth in a distressed macroeconomic environment

### Countercyclical Measures



Cutting interest rates



Easing Fiscal Policy

### And, despite these policies...



The Brazilian Real has appreciated



Inflation remained below the Central Bank target



FDI remained at very high levels

### Additionally...



Leverage remains considerably below that of more advanced economies



Brazilian stock markets are among the best performing in 2009

## The Sustainable Growth Challenge

A brief view on Brazil's competitiveness



# The Sustainable Growth Challenge

Sugar

Iron Ore

Orange Juice

Papaya

**LARGEST  
PRODUCER AND  
EXPORTER**

Coffee

Niobium

Ethanol

Beef

- ✓ Soybean: 2<sup>nd</sup> largest exporter and producer
- ✓ Poultry: Largest exporter; 2<sup>nd</sup> largest producer
- ✓ Pork: 3<sup>rd</sup> largest exporter and producer
- ✓ Corn: 2<sup>nd</sup> largest exporter; 4<sup>th</sup> largest producer
- ✓ Aluminum (Bauxite): 3<sup>rd</sup> largest producer
- ✓ Cotton: 4<sup>th</sup> largest producer; 5<sup>th</sup> largest exporter

Source: USDA and MDIC

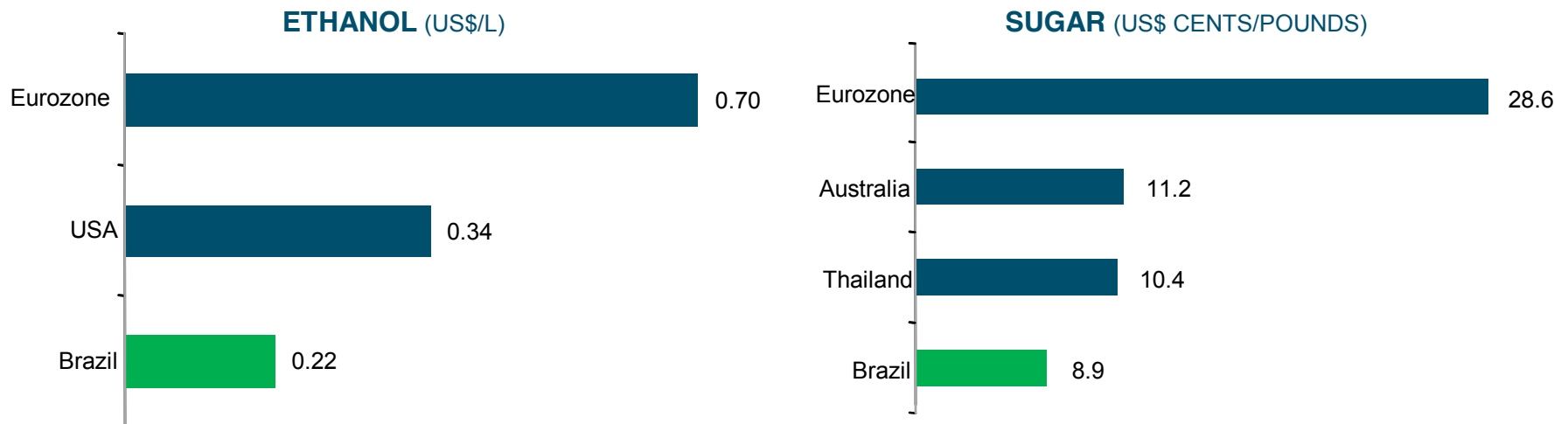


# The Sustainable Growth Challenge

## Brazil – Leading and lowest cost producer of Sugar & Ethanol

- ✓ World's lowest cost producer
- ✓ 19% of world production and 33% of world exports (2005)
- ✓ Ongoing negotiations between low cost producers (Brazil, Australia, South Africa, Thailand) and developed countries for lower trade barriers
- ✓ Increasing worldwide awareness towards the adoption of alternative/cleaner fuel sources, such as ethanol, has boosted Brazilian exports significantly

### COST PRODUCTION



Source: LMC International and USDA (ERS), Glencore

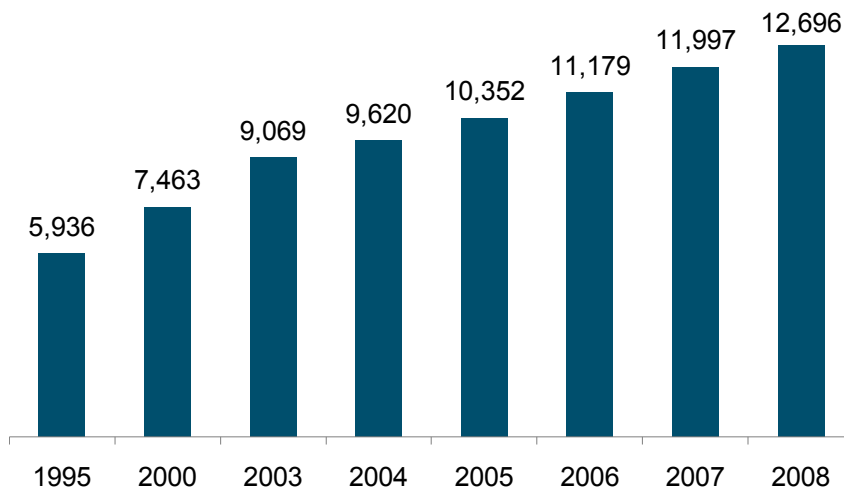


# The Sustainable Growth Challenge

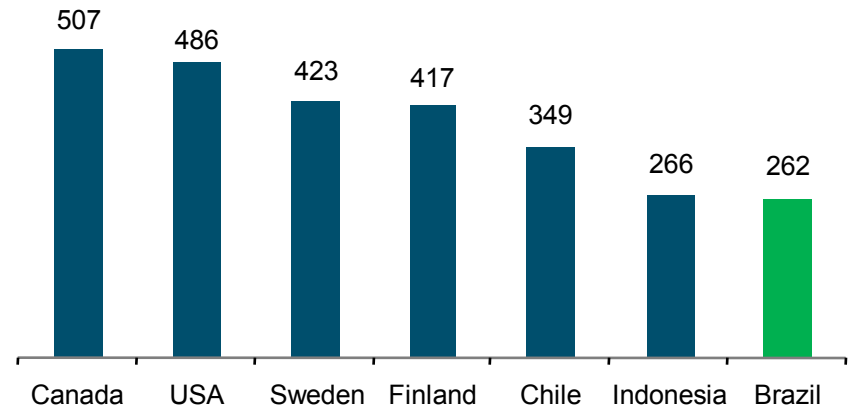
## Brazil – Most efficient Pulp and Paper producer in the world

- ✓ 7th largest producer
- ✓ World's shortest seed-to-paper cycle (7 years vs. 28 years world average)
- ✓ Higher forest yield combined with technology expertise boosts production
- ✓ Over US\$14 billion worth of investments expected until 2012

**Brazilian Pulp Production** ('000 TON)



**COST ADVANTAGE** (CASH COST – US\$/TON)



Source: Bracelpa



# The Sustainable Growth Challenge

## Brazil – Largest iron ore producer and one of the lowest cost steel producer

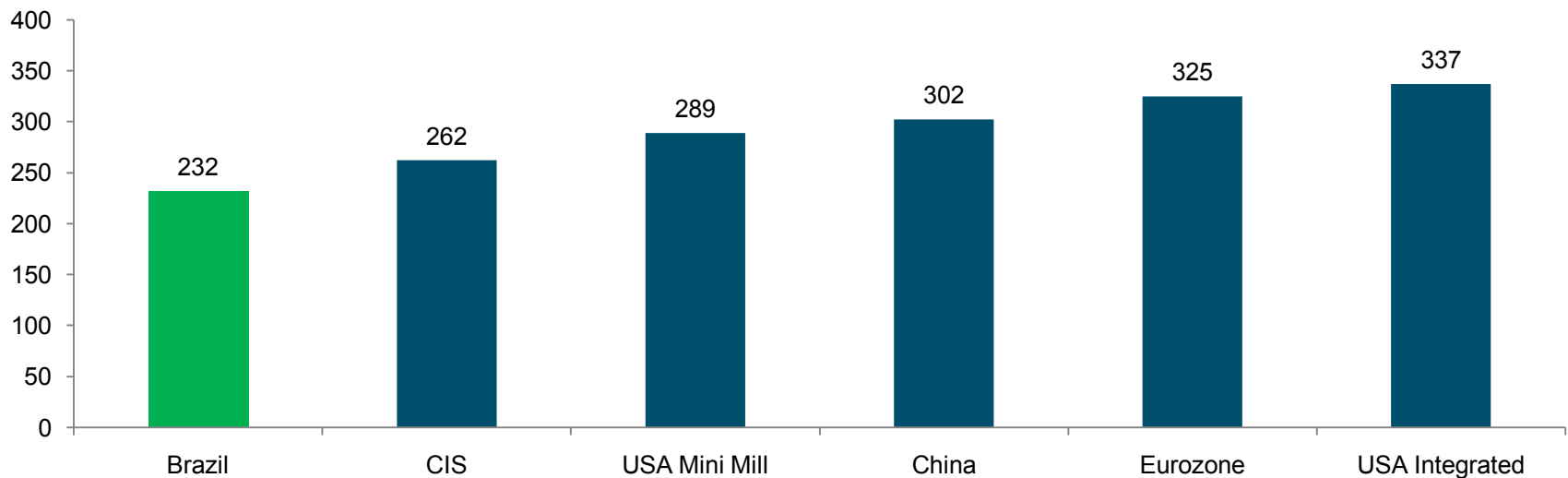
### Mining

- ✓ Low Cost – Production and Logistics (US\$ 11 / Ton FOB)
- ✓ Premium Quality
- ✓ Large reserves of high quality iron ore

### Steel

- ✓ State-of-the-art steel mills
- ✓ The best Mine-to-Port and Mill-to-Market logistics

### Slab Cash Cost (US\$/TON)



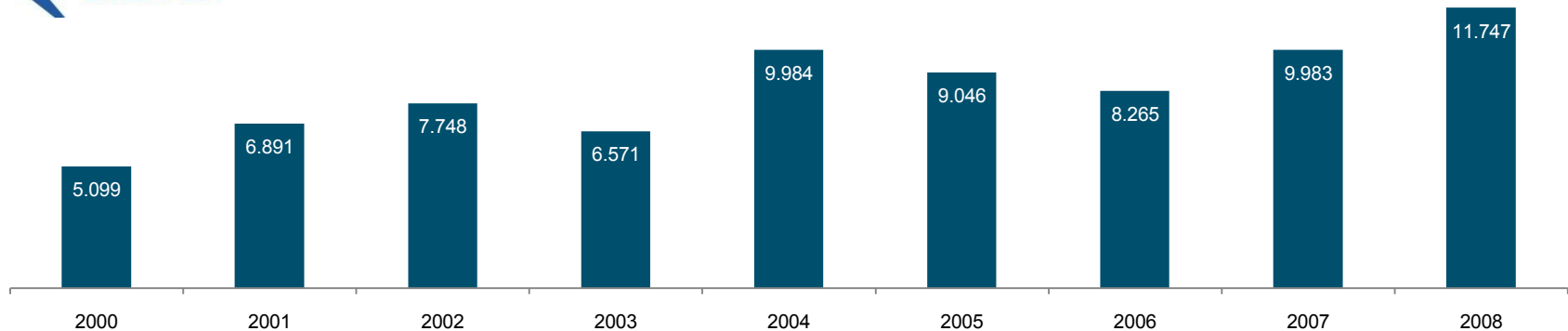
Source: Usiminas as of April 2007



# The Sustainable Growth Challenge

## Embraer – Global recognition in a technology intensive industry

### Embraer's Net Revenues (R\$ billion)



- ✓ Embraer has become one of the world's largest aircraft manufacturers:
  - 3rd Largest commercial aircraft manufacturer
  - Leading manufacturer of 30-seat to 120-seat jets
  - Focusing on specific market segments with high growth potential in commercial, defense, and executive aviation
- ✓ Investment Grade – Moody's Investor Service and Standard & Poor's
- ✓ 3rd largest Brazilian exporter in 2005 (93% of total sales)
- ✓ Market cap (inflation adjusted) as of December 1994 (privatization) = R\$ 1.2 billion
- ✓ Market cap as of November 2009 = R\$ 6.5 billion

Source: Embraer



# The Sustainable Growth Challenge

Credit expansion should boost the domestic demand for durable goods

Brazil has become the 6<sup>th</sup> largest auto producer last year, surpassing France and Great Britain



- ✓ In 2008, the auto industry set a new record, with 3.2 million vehicles produced
- ✓ Since 2000, production has been growing at a 10% p.a. pace
- ✓ Over the last years, auto finance leasing terms have been extended to over 60 months

## Sales of Durable Goods Rose by 17% Last Year

- ✓ Brazil is the 5th largest market for mobile phones in the world
- ✓ Since 2000, the number of mobile phones has grown at a CAGR of 25.3%. Brazil has 141 million mobile phones
- ✓ In 2007, sales of notebooks, plasma and LCD televisions almost tripled



Source: ANATEL, September 2008; CIA World Factbook, 2008; Organisation Internationale des Constructeurs d'Automobiles, April 2008; ANFAEVA (Brazilian Association of automotive, vehicles and manufacturers), 2008.

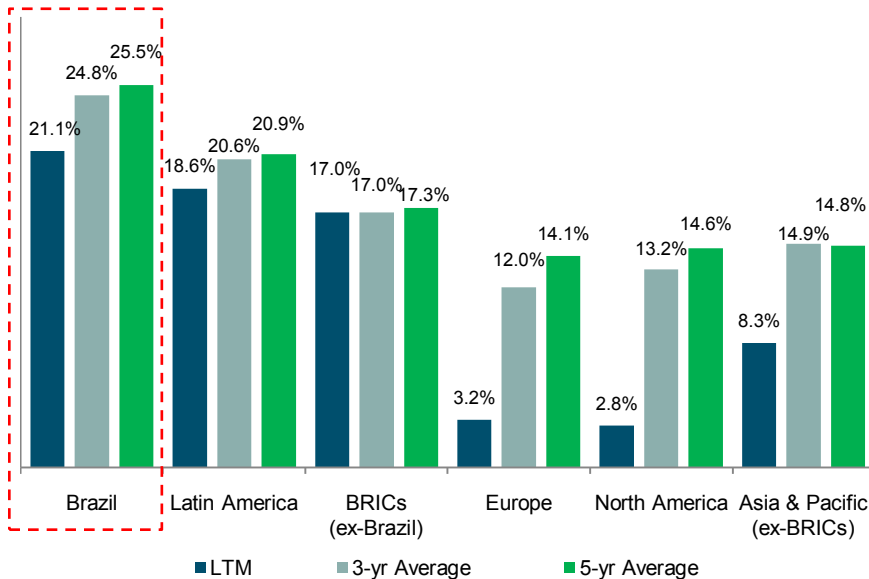


# The Sustainable Growth Challenge

## Brazilian Banking System – strong and well capitalized

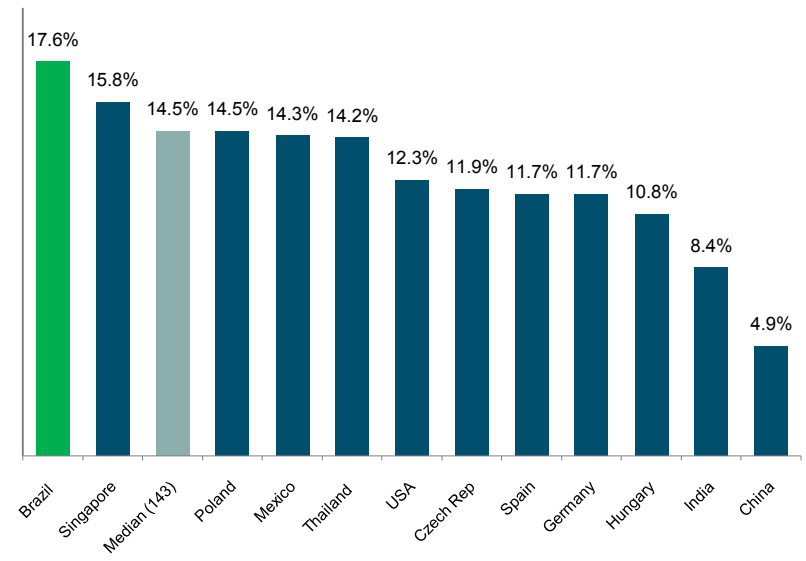
- ✓ Brazil sets a minimum requirement for Capital Ratio of 11%, considerably higher than Basel's (8%)
- ✓ Brazilian financial institutions have, on average, a 17% BIS ratio (2008)

### Banks – ROE by Region



Source: Bloomberg  
Region's ROE calculated with the average of the top 10 major banks by region

### Basel Capital Ratio

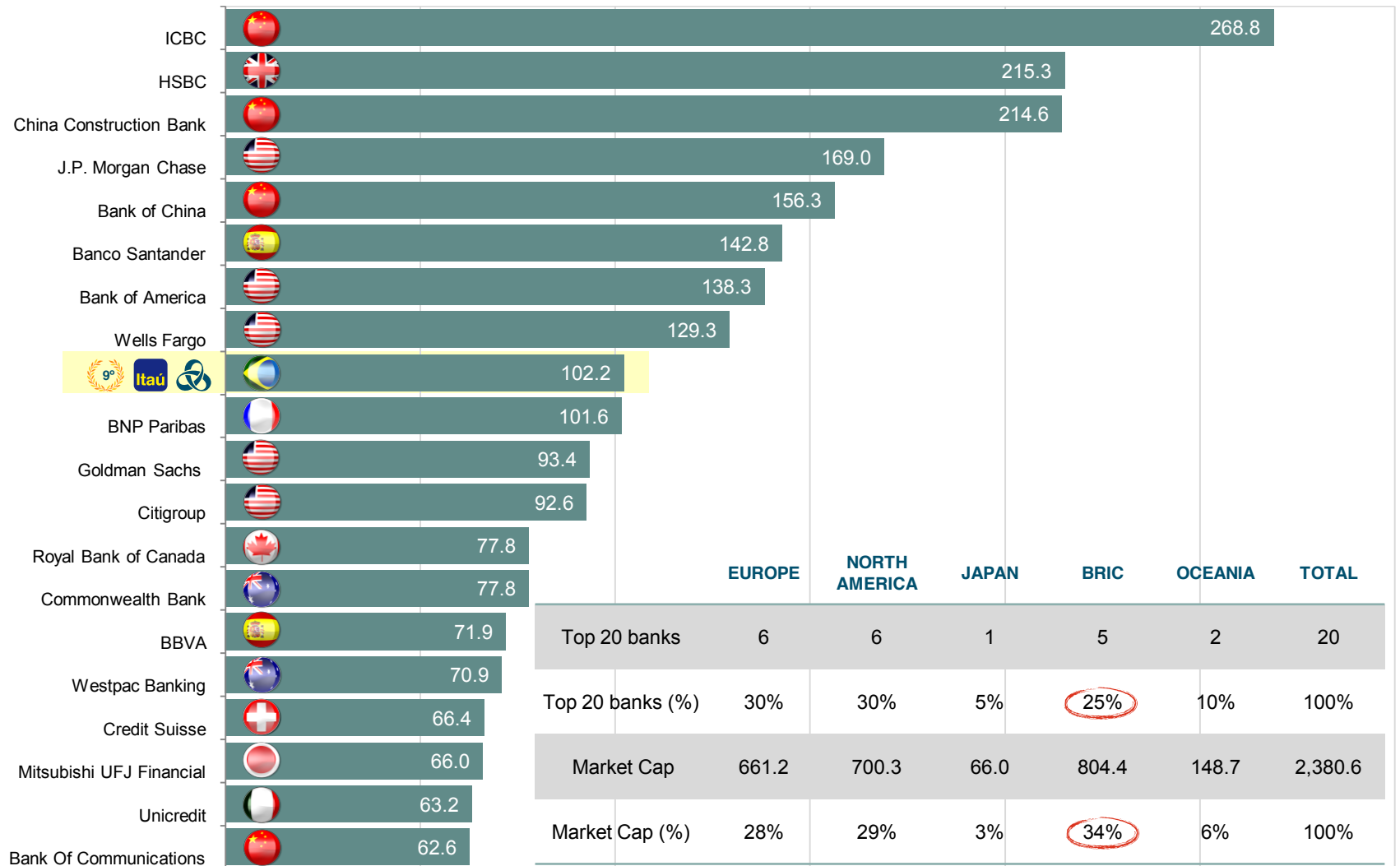


Source: World Bank and Central Bank



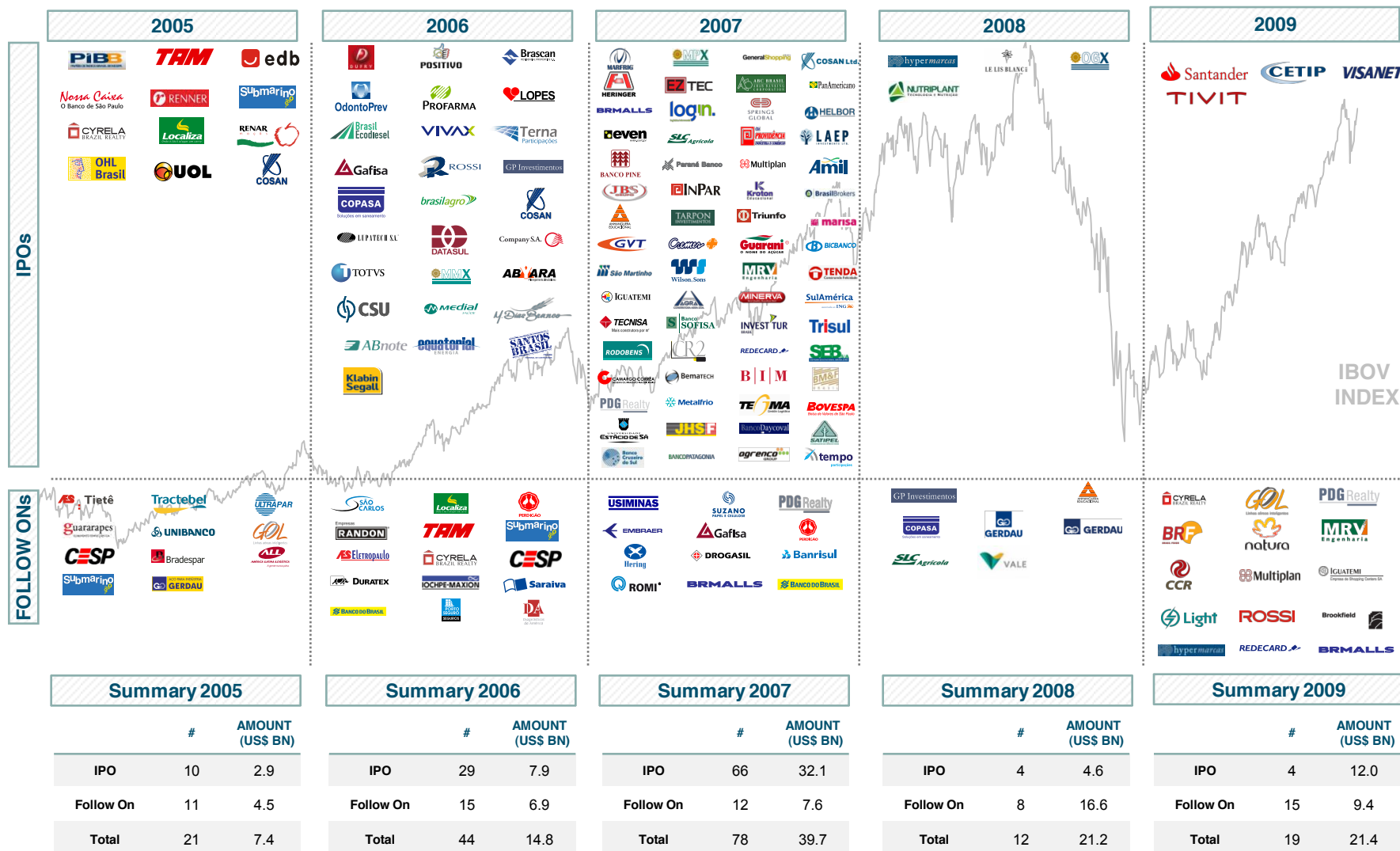
# Top 20 Global Financial Institutions – Market Capitalization

(US\$ BN)



Source: Bloomberg as of 11/13/09

# The Brazilian Equity Capital Markets



Source: Dealogic, CVM, Thomson



# Challenges for Sustainable Growth

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Infrastructure Bottlenecks



Quality of Government Spending



Widening Social Security Deficit



Cost of Capital



Excessive Tax Burden; Complexity and Inefficiency of the Tax Code



Education, Education, Education