

Woodrow Wilson International Center for Scholars
Brazil - U.S. Business Council - U.S. Chamber of Commerce

July, 2010

*Challenges for Industrial Policy, Innovation
and Competitiveness in Brazil*

Luciano Coutinho



- Brazilian assets & challenges
- Brazilian growth trends and prospects
- The State: acting for the short and for the long term
- The profile of a strategic agent: BNDES
- Summary and implications

Brazilian assets & challenges

- Growth in check... for some time... New and old poles of growth.
- Negative externalities associated with climate change.
- Fierce competition in markets.
- Rapid pace of technical progress.
- States actively defending national interests.

- Institutional & political stability
- Sound economic policy
 - Inflation and public debt
 - Reserves
- A complex and diversified economic base
- Infrastructure in need of expansion
- More innovation efforts are needed
- Economic inclusion n the making
- The best performance: job creation



Brazilian growth trends and prospects

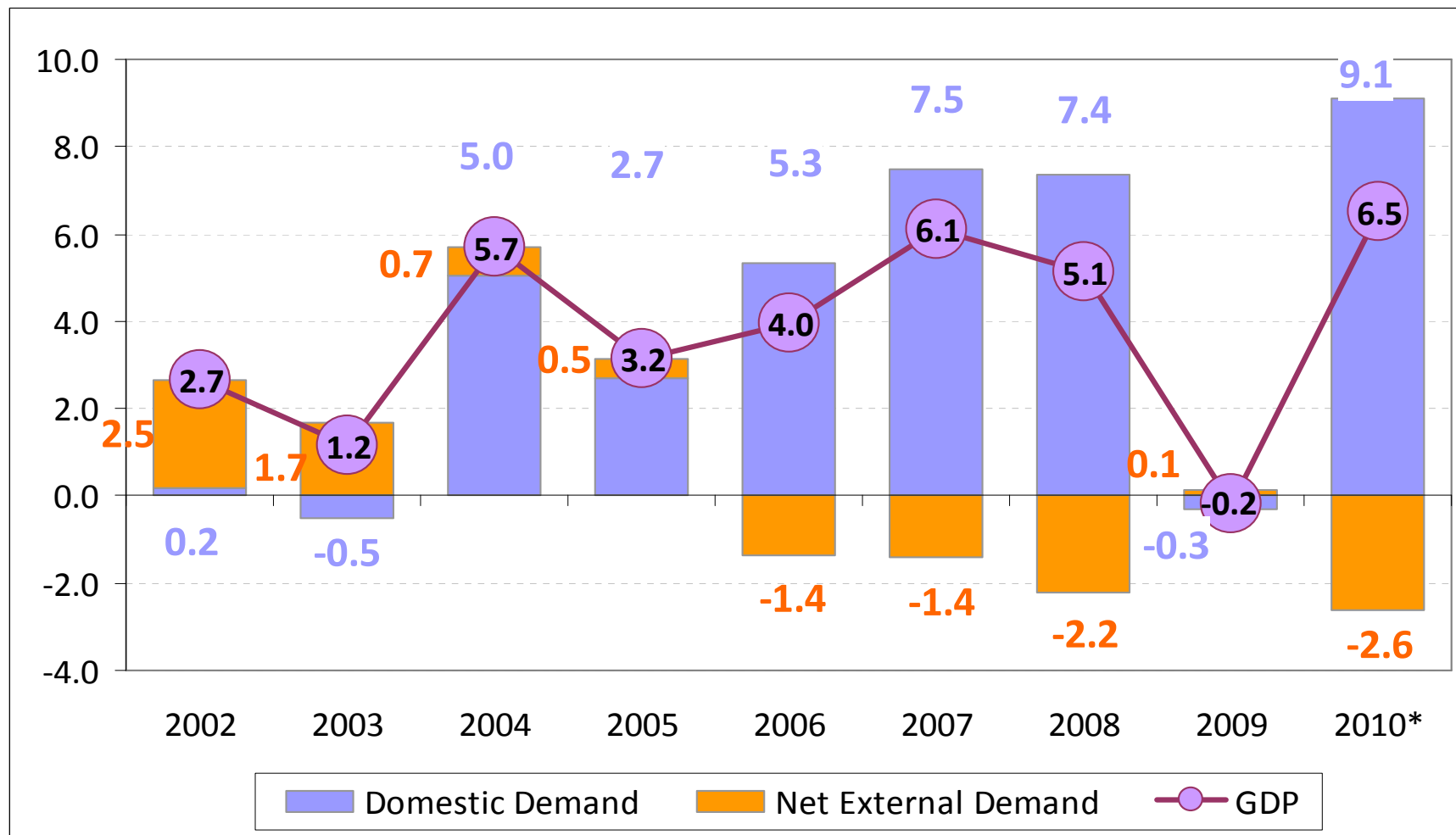
Domestic market explains 2004-2008 growth cycle and 2010 recovery



Contribution to GDP

(in percentage points)

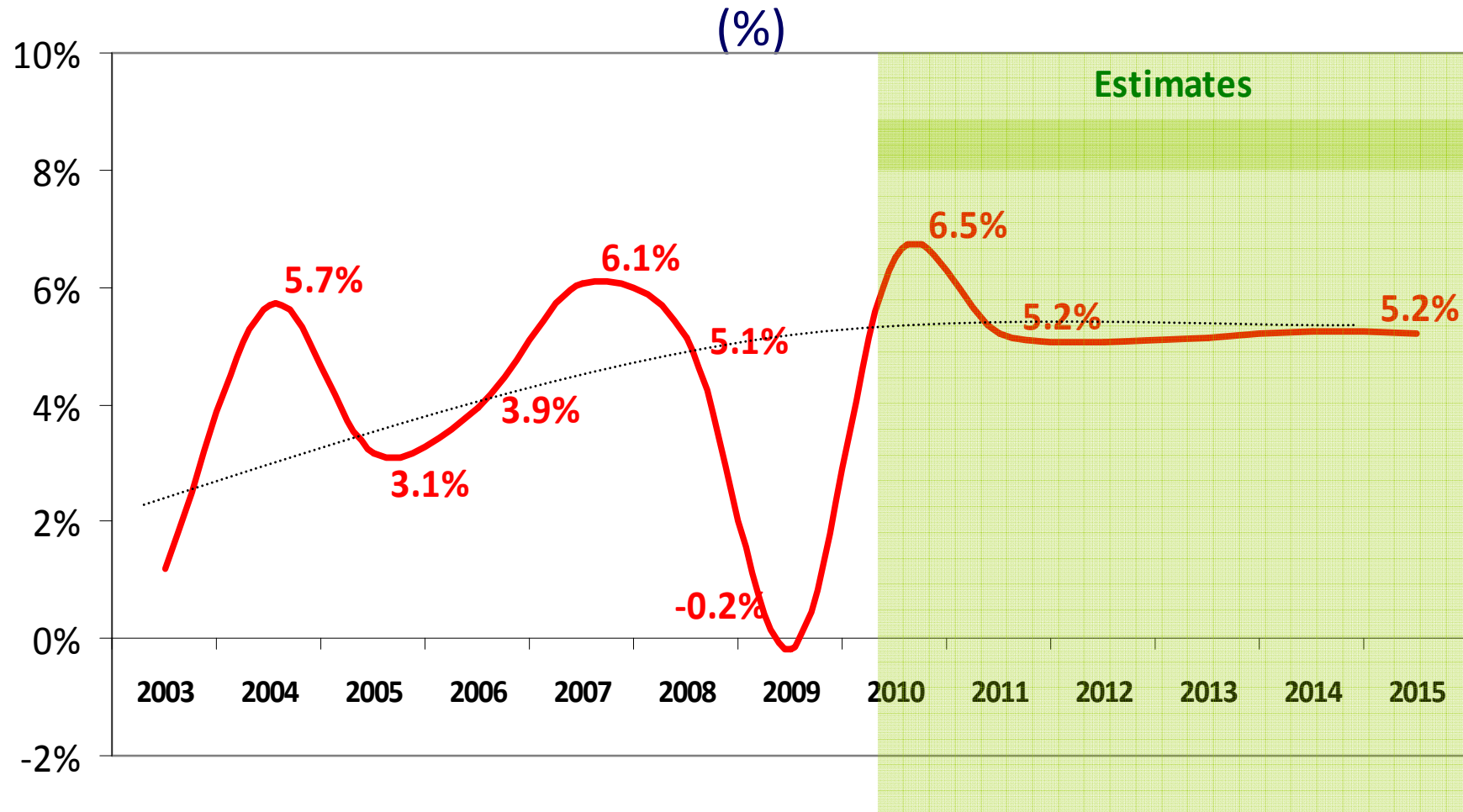
* Forecast



An average 5% p.a. growth is feasible over the next 5 years...



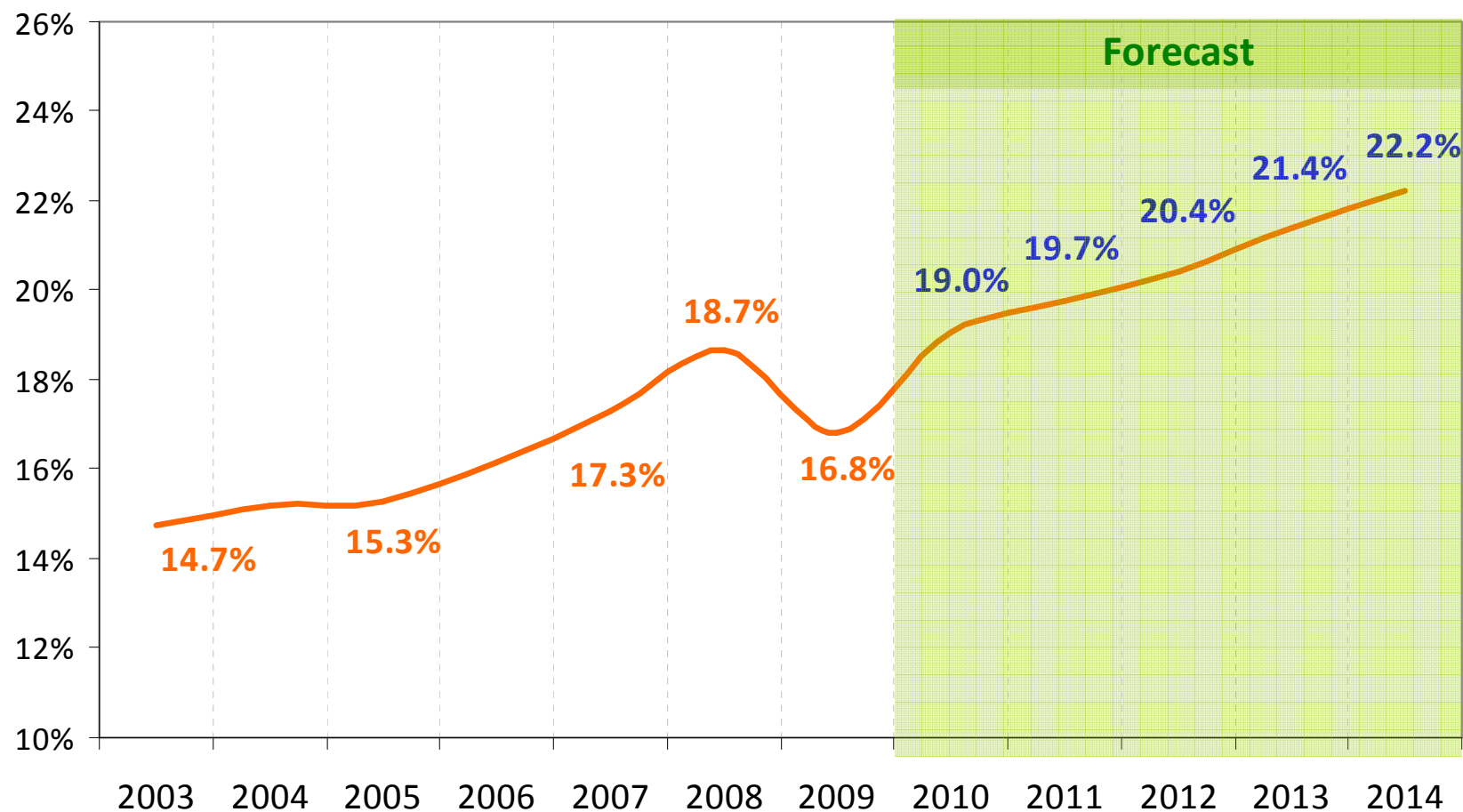
Brazil: GDP Annual Growth Rate



... with investment leading the way...



Investment/GDP (%)



... as investment plans are robust and rising



US\$/R\$ = 1.80

Sectors	US\$ billion		Growth
	2005-8 (observed)	2010-13 (forecast)	Implicit p.a. 2010-13 (%)
Infrastructure	111	172	9.3
Industry	174	305	11.8
Housing	191	258	6.3
Total	476	736	9.1

Based on Corporate Investment Plans from 13 sectors – Last Forecast: April 2010

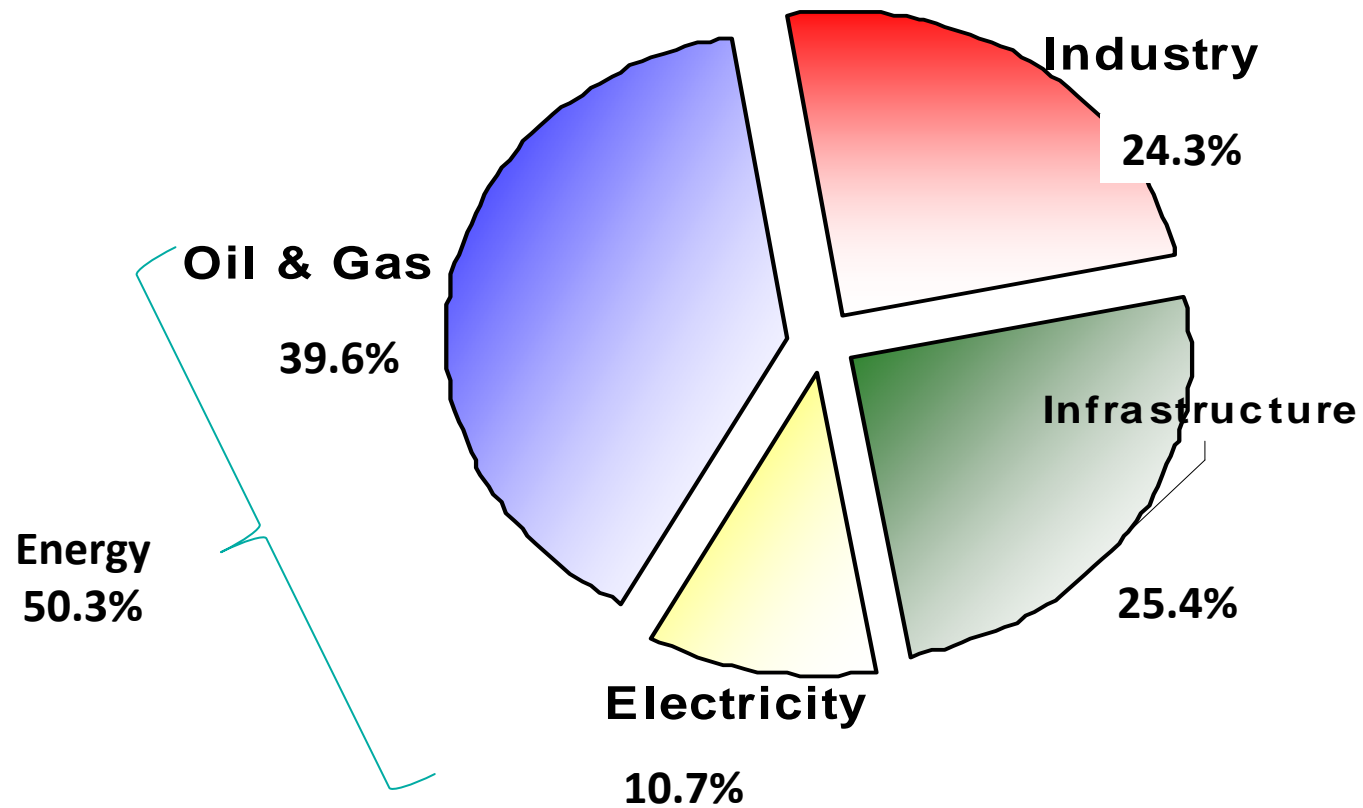
Sample features:

- 10% of GDP
- 52% of Gross Fixed Capital Investment
- 60% of Manufacturing investments; 90% of Infrastructure investments

Investments in Energy stand out



Petrobras' Annual Investments: US\$ 45 billion (2010-2014)



The State:
acting for the short and for the long term

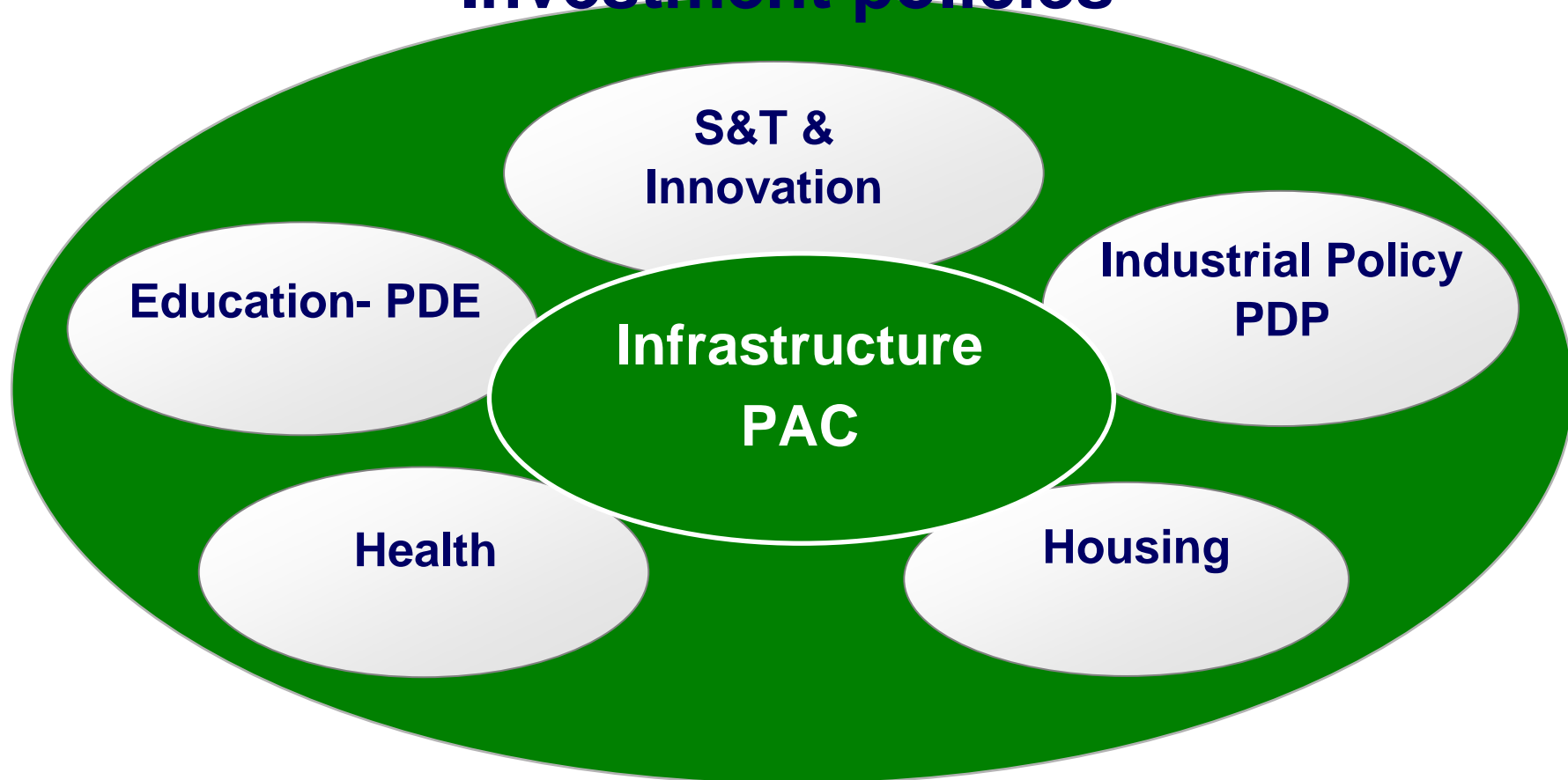
The short term: managing crisis, but with an eye on keeping growth momentum



- Strong financial regulation in place and liquidity ensured
- Effective counter-crisis policies, at low cost (1.2% of GDP)
 - Tax relief on durable goods to maintain household consumption (Incentives have been delivered!!!)
 - Credit expansion thanks to State-owned banks
 - Strong incentives for investment



Investment policies



The challenge: to have them as permanent State policies

Planned investments - US\$ billion

	PAC 1 2007-2010	PAC 2 2011-2014	Total
Logistics	49.4	52.3	101.7
Energy	151.8	232.8	384.6
Social & Urban development	130.8	194.5	325.3
Total	332.0	479.6	811.6

Effective management by Minister of Coordination and Internal Affairs,
close to Presidency

BNDES in PAC 1: 331 projects

Financing US\$ 76 bn for US\$ 138 bn of investments (70% → energy)

Highlights

- **Political priority:** President leadership
- **Direct involvement & partnership with relevant actors:** Ministry of Industry and Trade, Ministry of Finance, Ministry of S&T, BNDES
- Policy focus: **Investment, Innovation, Exports, SMEs.**
- **Systematic interaction with private sector**
- **Effectiveness:** over 95% of proposed measures are operational

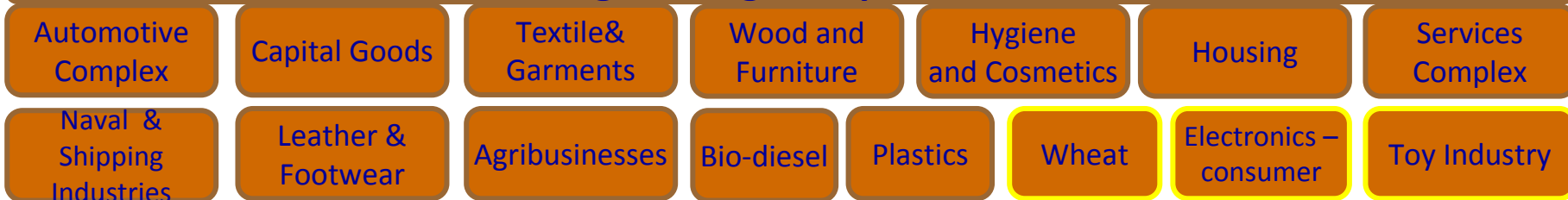
A complex policy framework for a complex productive structure



Consolidating and Expanding Leadership



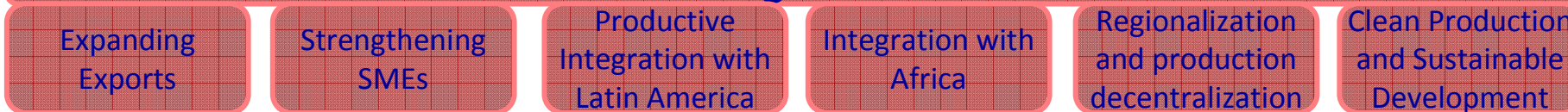
Strengthening Competitiveness



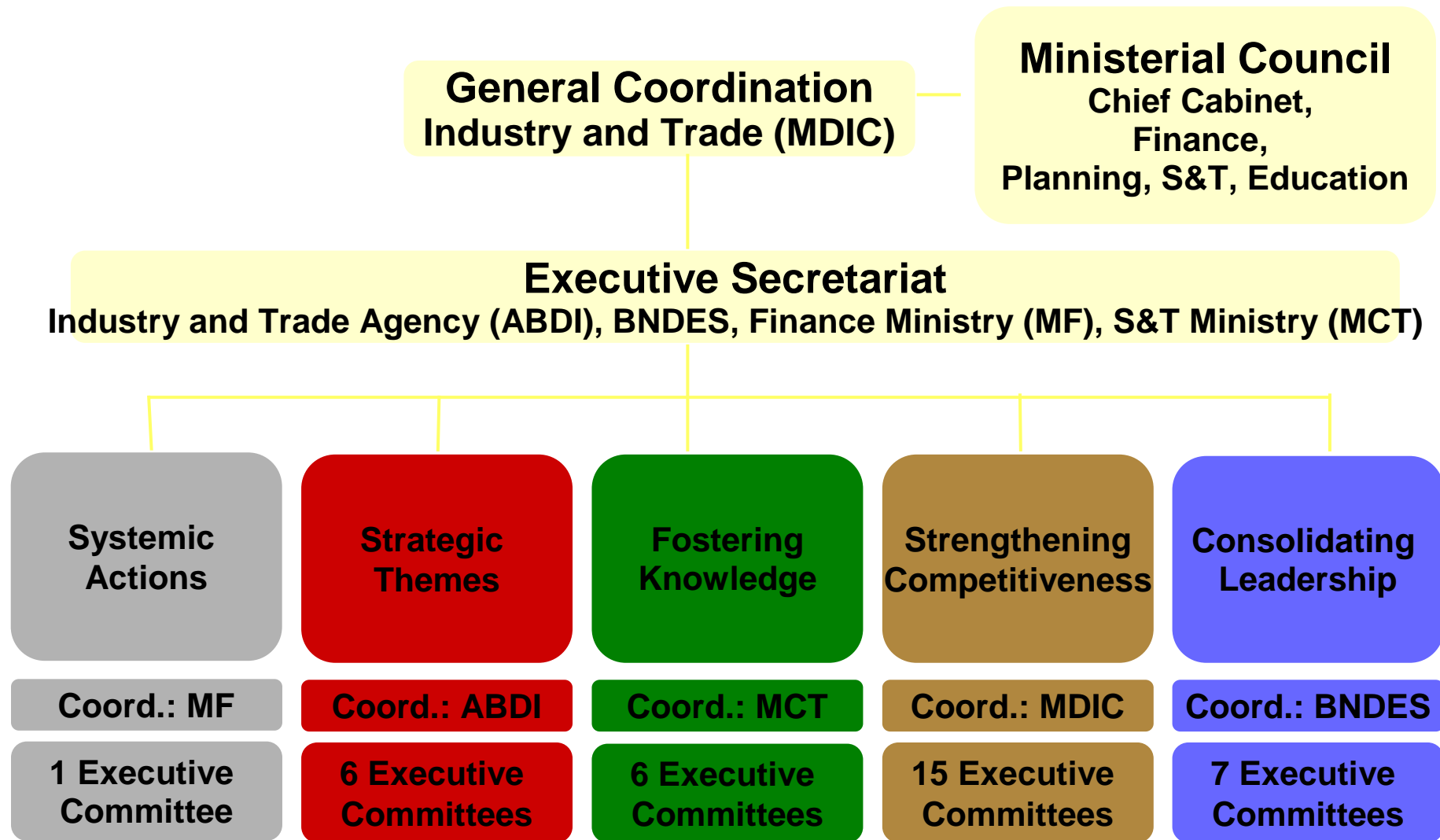
Fostering Knowledge



Strategic Issues



Governance: hierarchical structure and well defined terms for relevant agencies



The challenge: coordinating 500 civil servants; over 60 public agencies

BNDES

The profile of a strategic agent

Scale and scope matters



- ✓ **Main provider of long-term financing in Brazil** 
- ✓ **100% State-owned company under private law**
- ✓ **Institutional funding** 
- ✓ **2,500 employees**
- ✓ **Instruments**
 - **Direct operations** 
 - **Indirect operations** 
 - **MSME (financing & guarantee)** 
 - **Exim** 
 - **Project finance**
 - **Equity investments** 
 - **Grants**

Development Banks

US\$ billion

	Assets	Equity	Disbursement
World Bank	275.4	40.0	18.6
BNDES	222.0	15.9	68.8
IADB	84.0	20.7	11.4

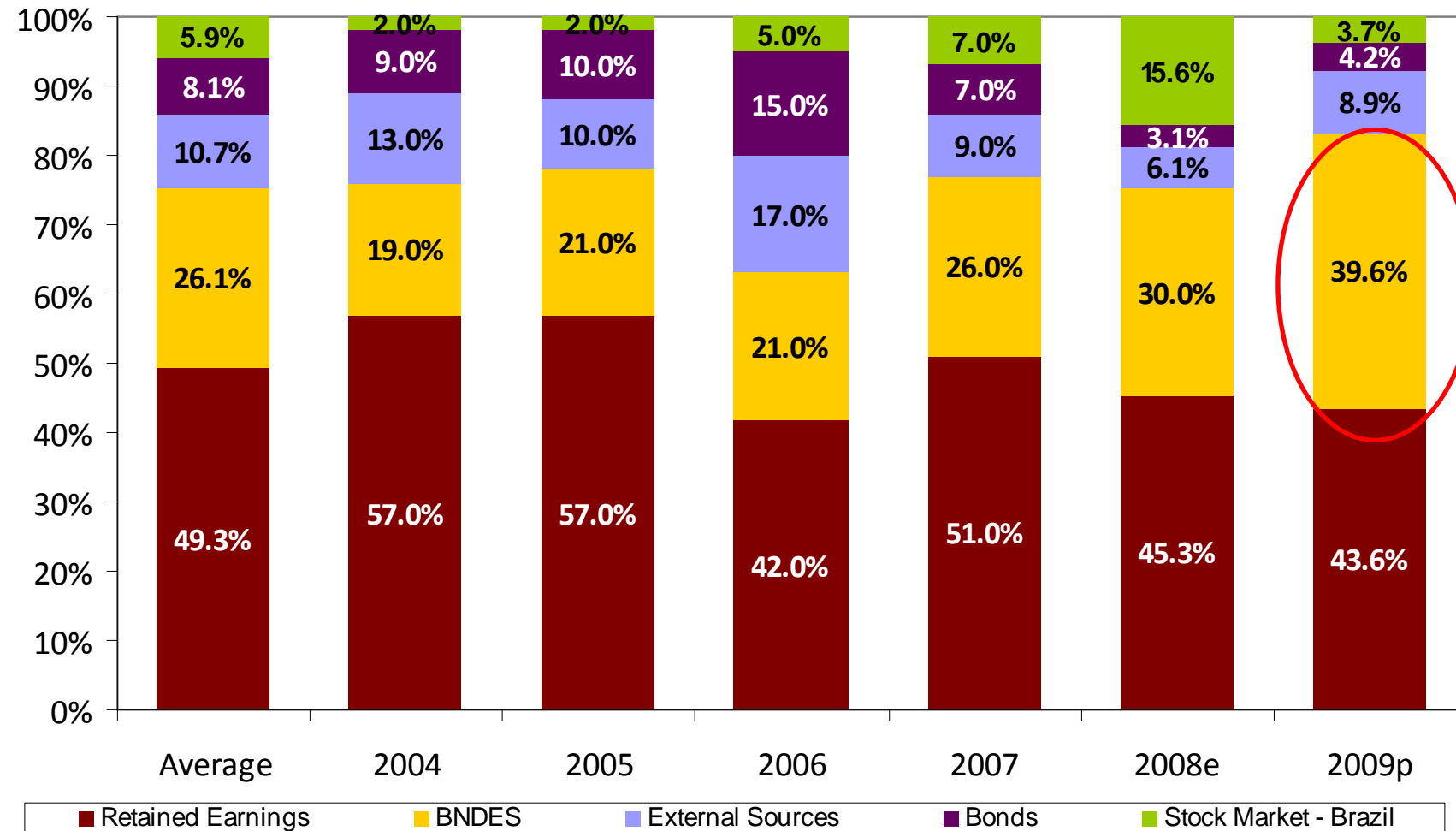
Source: BNDES, IADB (Dec./09) and World Bank (June/09).
World Bank as of June 30.

**Non-performing Loans 2009: 0.20%
of total outstanding debt**

The importance of BNDES' financing



Financing sources for Investment in Manufacturing and Infrastructure (%) (2004-2009)



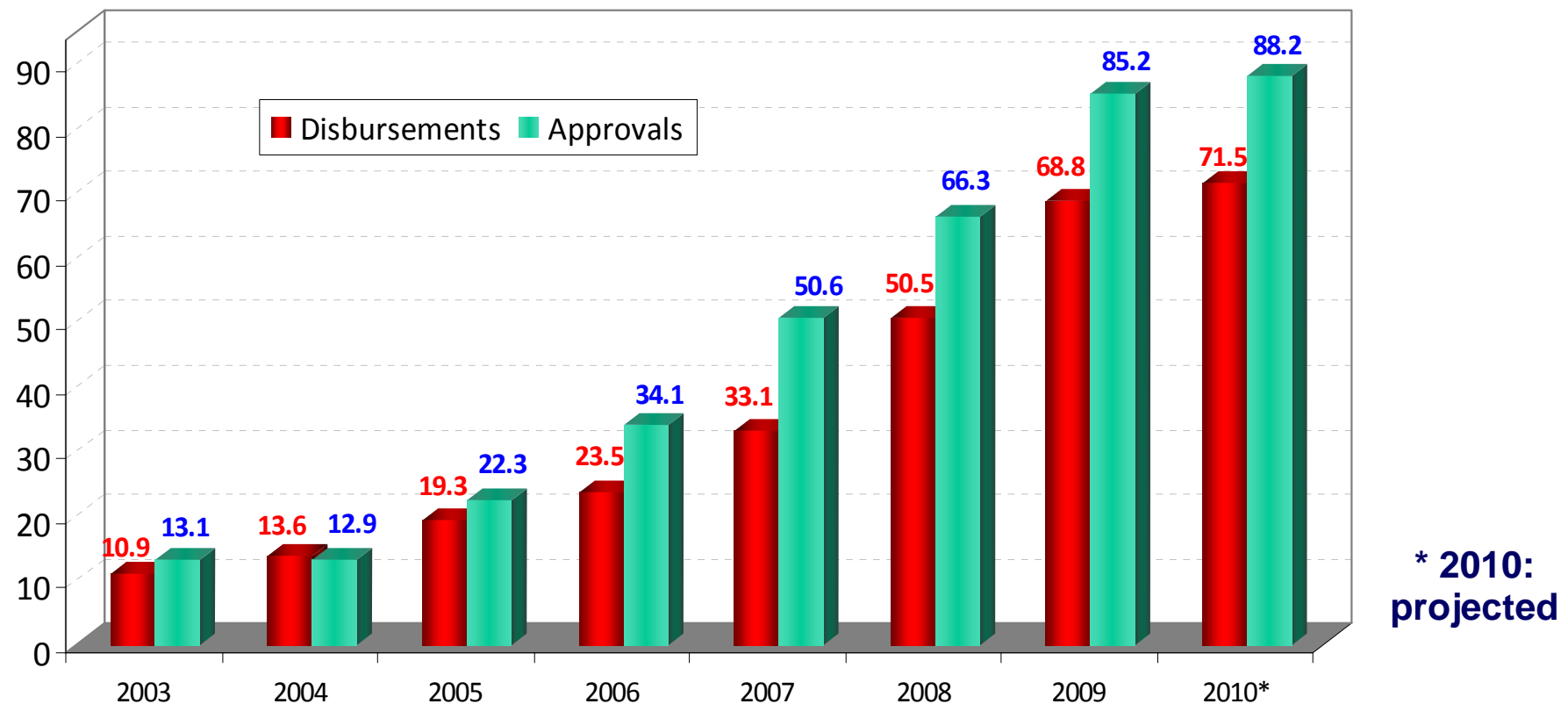
e-estimated p-forecast

The BNDES' performance is associated with Brazil's investment-led growth process



Approvals and disbursements

US\$ billion



2009: BNDES financed US\$ 46.8 bn for US\$ 93 bn in fixed investments. This generated or maintained 4.5 million jobs (direct/indirect and income effects)

Summary and implications

- ✓ Success in facing the international financial crisis
- ✓ Brazil may grow 5% p.a. over the next few years
- ✓ Domestic market will lead growth:
 - ✓ Consumption: emerging middle class
 - ✓ Investments: oil & gas, electricity, logistics, large events (World Cup, Olympic Games), housing

Coming up:
Large number of high-return & low-risk projects

Ingredients to ensure sustained development

- ✓ **State:** permanent and effective investment policies
- ✓ **Financing:** institutional investors, capital markets, domestic savings, public institutions supporting investment
- ✓ **Social:** more and better jobs; quality education
- ✓ **Infrastructure:** more and better projects; more complex finance/insurance solutions
- ✓ **Industry:** innovation and competitiveness capabilities

Private sector mobilization and foreign investors are essential!

- **Priority for investment, innovation & competitiveness.**
Challenges: clean production; competent labor force; renewable energies; health; urban infrastructure; e-gov.
- **Industrial policy as a permanent State policy.** The need to strengthen Intra-State cooperation in Industrial, S&T, Infrastructure and Education policies
- **Public-Private interaction: essential for success**

Strategic partnership: In a challenging and competitive world, the US & Brazil - private and public domains - should develop project-based cooperation to develop each others' capacities

Woodrow Wilson International Center for Scholars
Brazil - U.S. Business Council - U.S. Chamber of Commerce

July, 2010

*Challenges for Industrial Policy, Innovation
and Competitiveness in Brazil*

Luciano Coutinho



Woodrow Wilson International Center for Scholars
Brazil - U.S. Business Council - U.S. Chamber of Commerce

July, 2010

*Challenges for Industrial Policy, Innovation
and Competitiveness in Brazil*

ANNEX – Tables and Figures

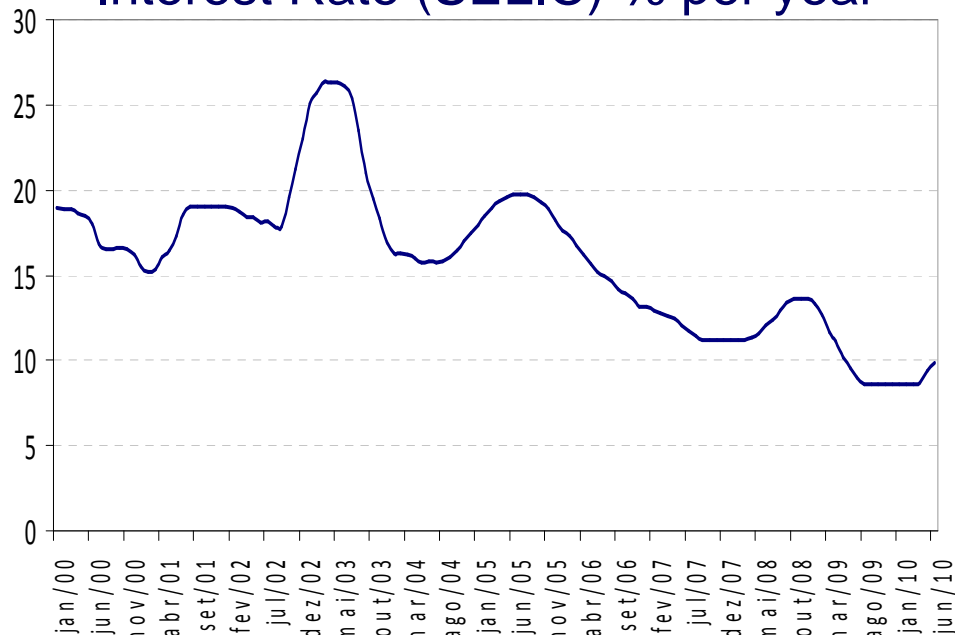


Brazilian assets & challenges

Interest Rate and Public Debt

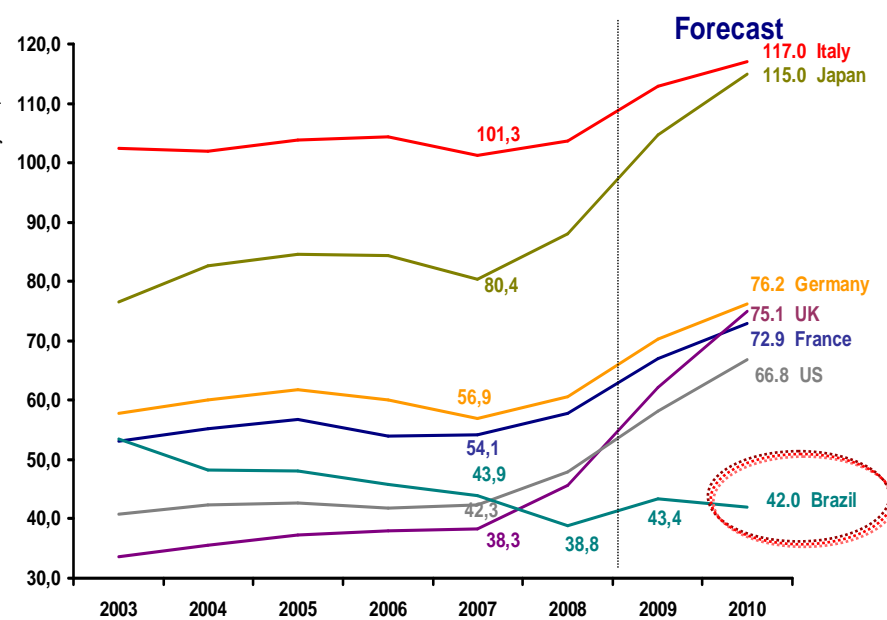


Interest Rate (SELIC) % per year



Decreasing interest rate

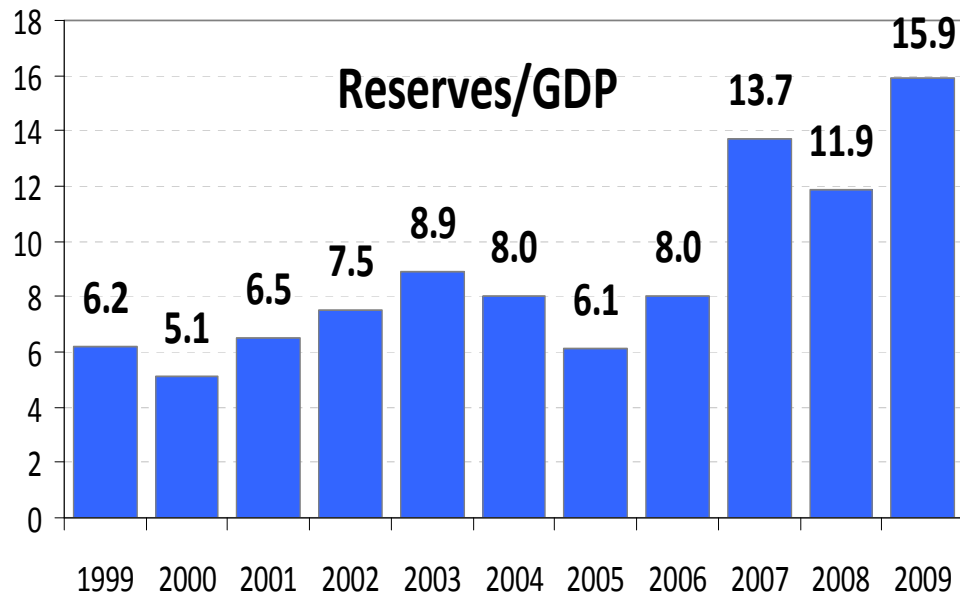
Public Sector Net Debt (% GDP)



Net debt is low & under control

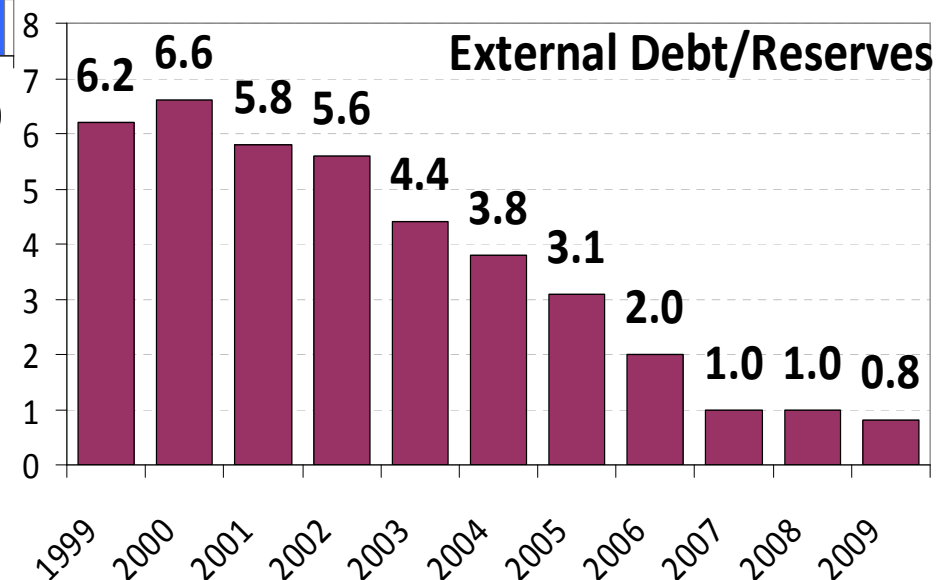
Source: IMF and Brazilian Central Bank.

Strong defenses against external vulnerability

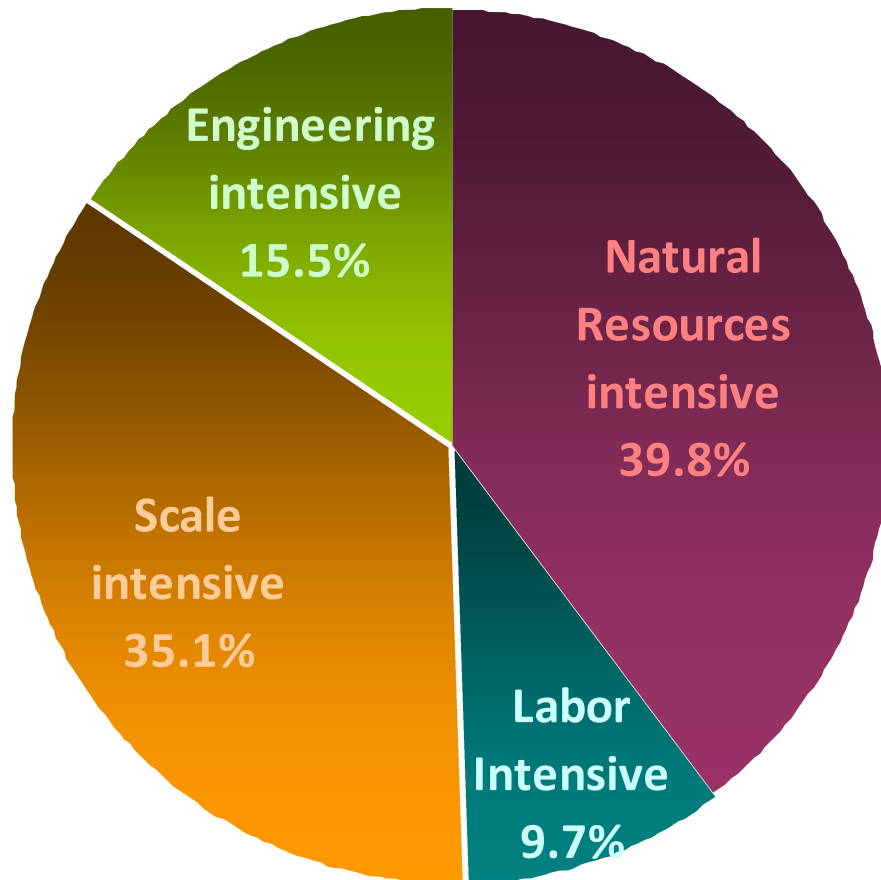


High levels of international reserves...

...reduced external debt (vulnerabilities)



Industrial Production, 2009



Source: IBGE.

An attractive economy

	FDI/GDP		
	2004	2006	2008
Brasil	2.7	1.7	2.7
China	2.8	2.9	3.4
India	0.8	2.2	3.2

Source: IMF

Underdeveloped infrastructure



	Area (million km ²)	Paved Roads (1,000 kms)	Railroads (1,000 kms)
Brazil	8.5	212 1,500 unpaved	29
Russia	17.0	755	87
India	3.0	1,570	63
China	9.3	1.572	77

Source: Institute of Logistics and Supply Chain, COPPEAD, UFRJ

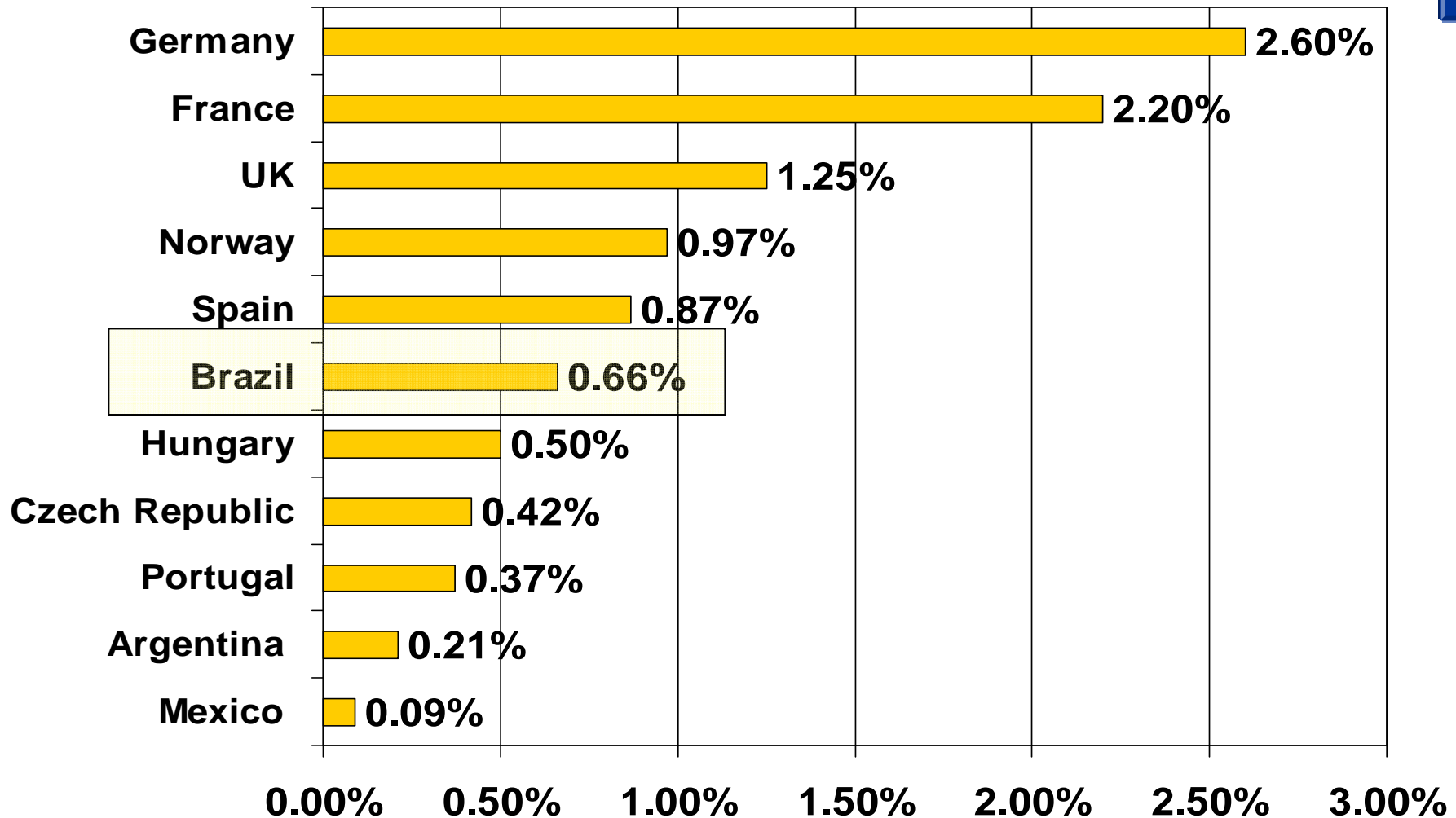
Immediate opportunity: São Paulo – Rio de Janeiro High Speed Train

- Inv: US\$ 19 billion - BNDES financing: US\$ 10 bn – Exim: US\$ 3.5 bn
- Call to bid: from 7/14/2010 to 11/29/2010
- Emphasis: development of local capacity and transfer of technology



Innovation capabilities are not strong

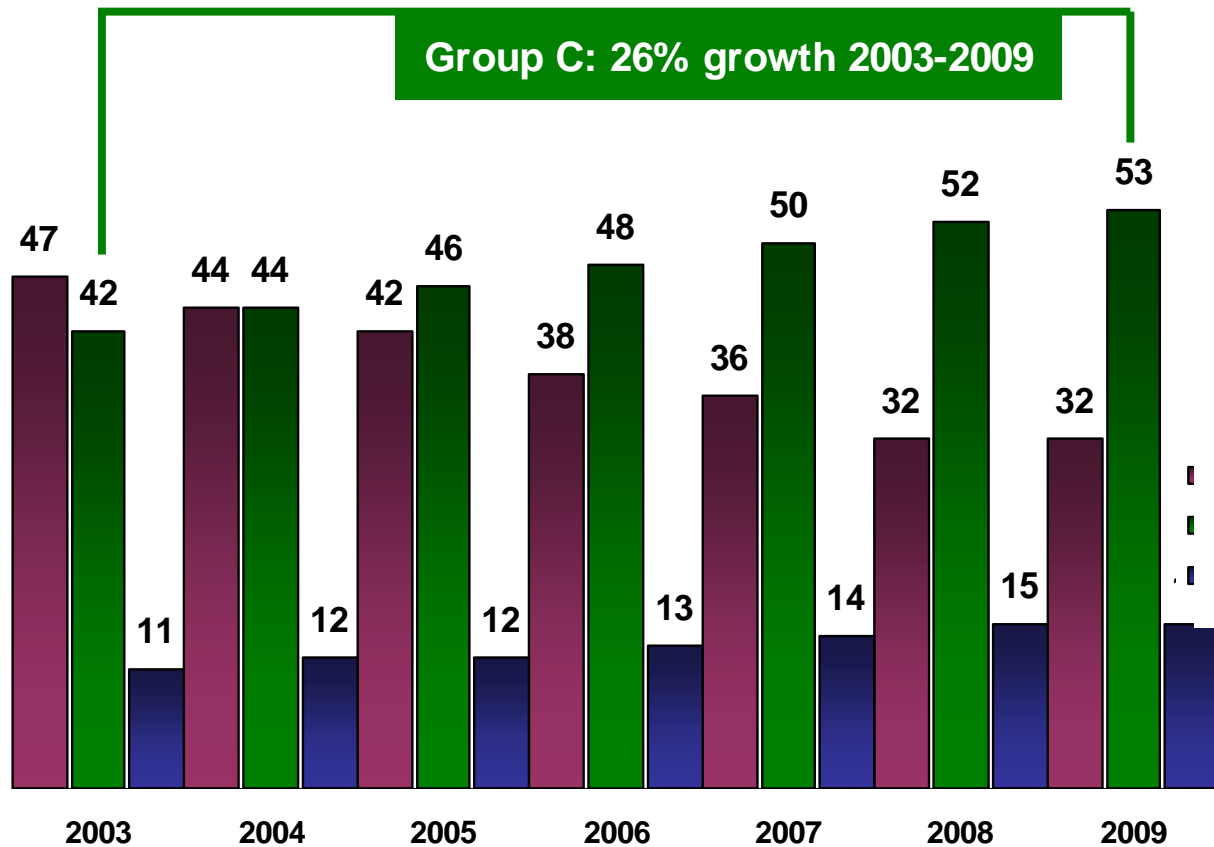
R&D/Sales (most recent available data)



Mass markets are being expanded



Social Groups (% of total population)



Social Groups monthly earnings

A&B: US\$ 2,700 +

C : US\$ 620 –
2,700

D&E: up to US\$ 620

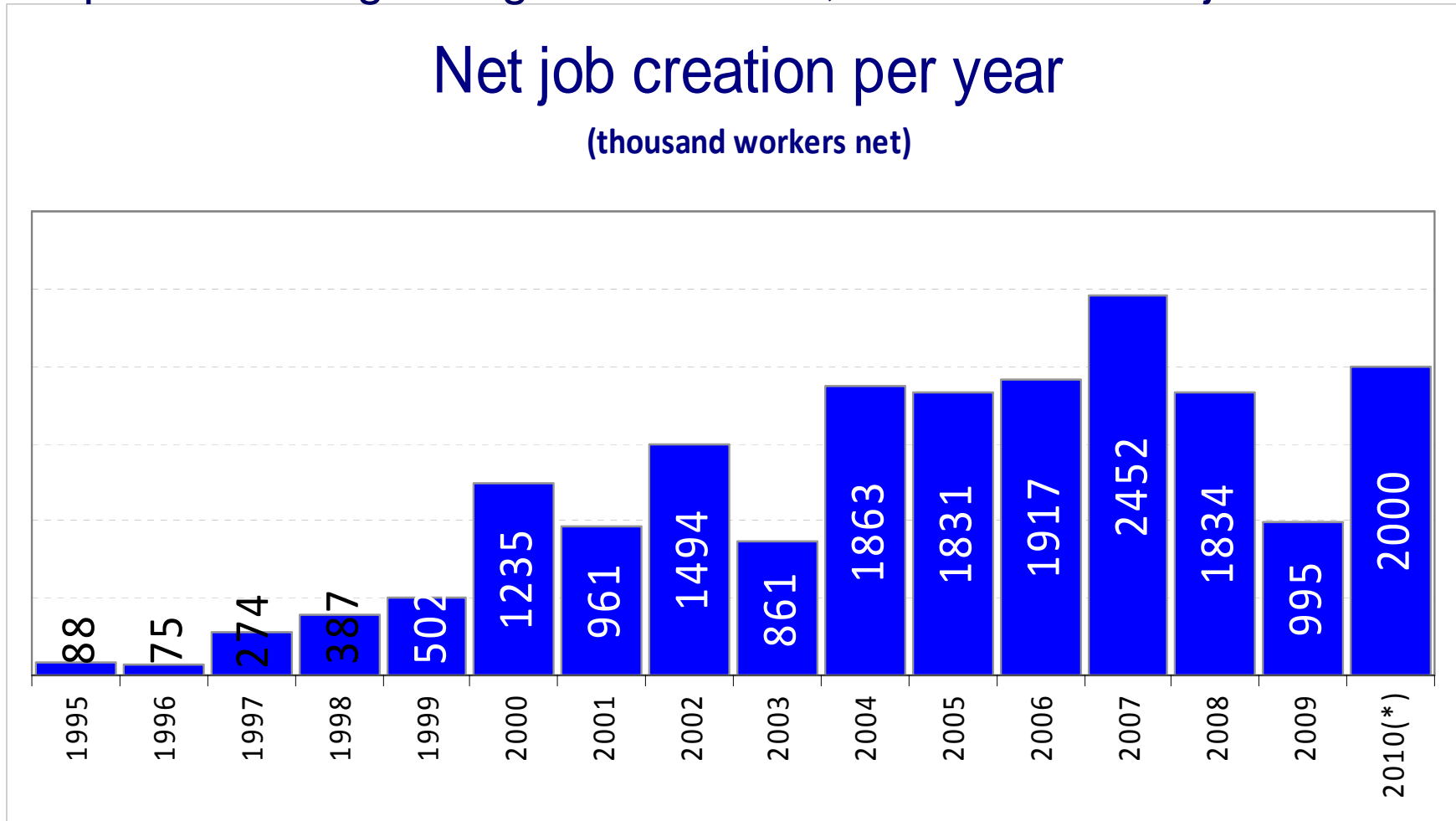
* Values in December 2008

Source: FGV and Finance Ministry

GDP (2009): US\$ 1.6 trillion
Per capita: US\$ 8,200



Despite 0.2% negative growth in 2009, almost 1 million jobs created



Source: MTE/Caged (*) estimated

The State:
working for the short and for the long term

The cost of keeping the economy running



Anti-crisis policy measures	R\$ billion
Total	312.6
Loan to BNDES	100.0
Freeing retained reserves to banks	100.0
Tax relief	15.0
Popular Housing Programme	1.6
Loans to States and Cities	2.0
Loan to Caixa Econômica Federal	6.0
Withdrawing Petrobrás from primary surplus	15.0
Reduction of primary target	24.0
Minimum wage increase	20.0
Wage increase for public servants	29.0

Source: Finance Ministry

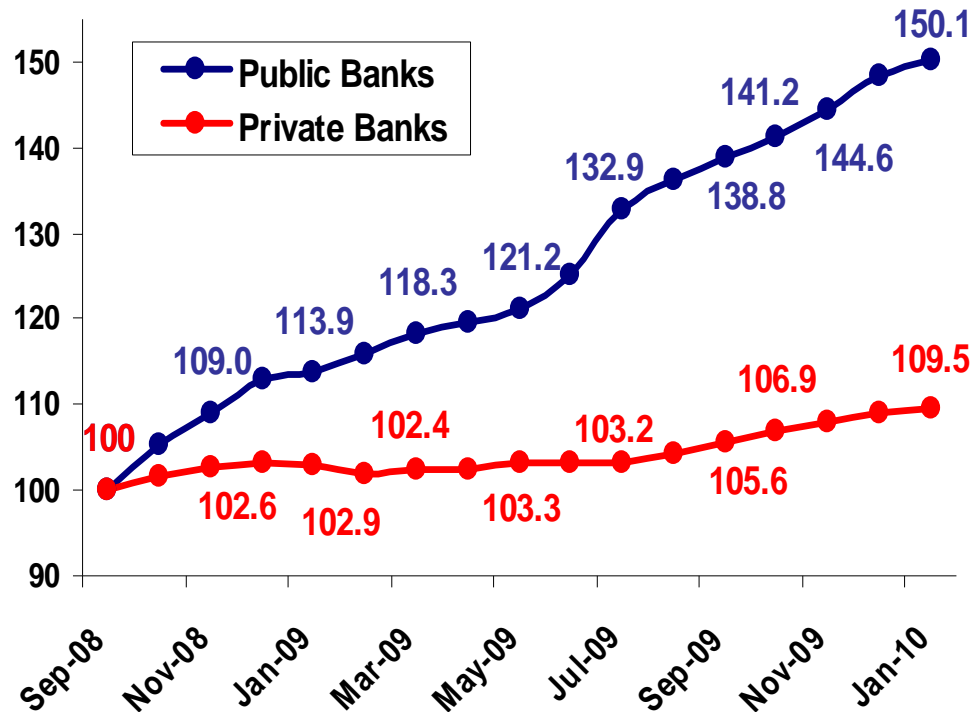


During crisis, State-owned banks sustained credit expansion



Credit Growth

(September 2008 = 100)

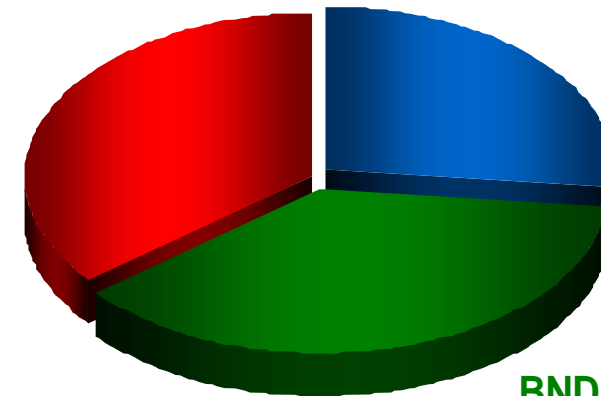


Contribution to Credit Growth

(Sept/08-Jan/10)

Other State-owned Banks 36%

Private Banks 27%



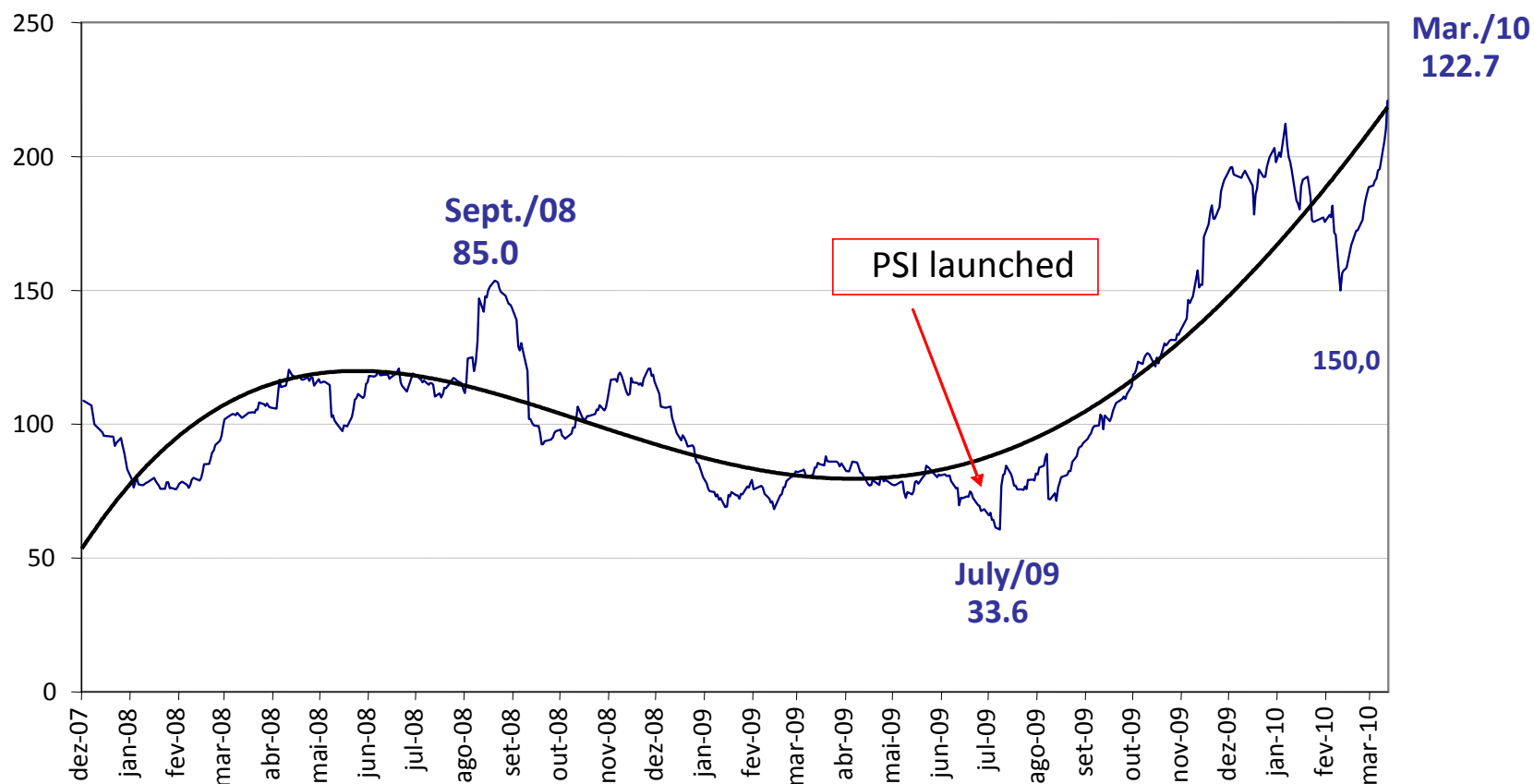
BNDES 37%

Policy action for investment & Private Sector reaction: interest rate reduction and growth in demand



PSI: Interest rate equalization program

BNDES daily disbursement for acquisition of Capital Goods - Direct and 2nd tier operations (US\$ million)



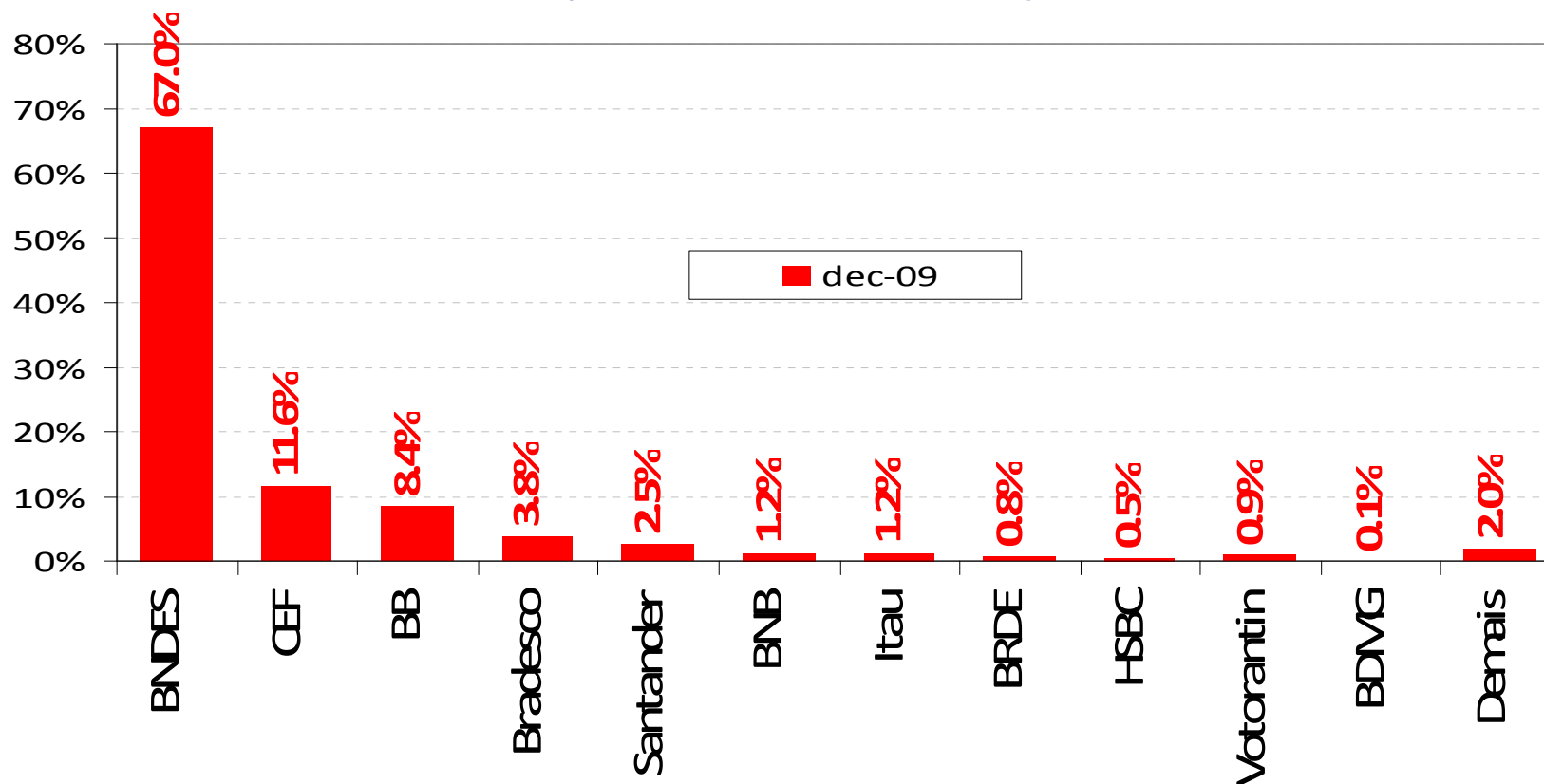
BNDES

The profile of a strategic agent

Long-term credit in Brazil: the BNDES and commercial banks



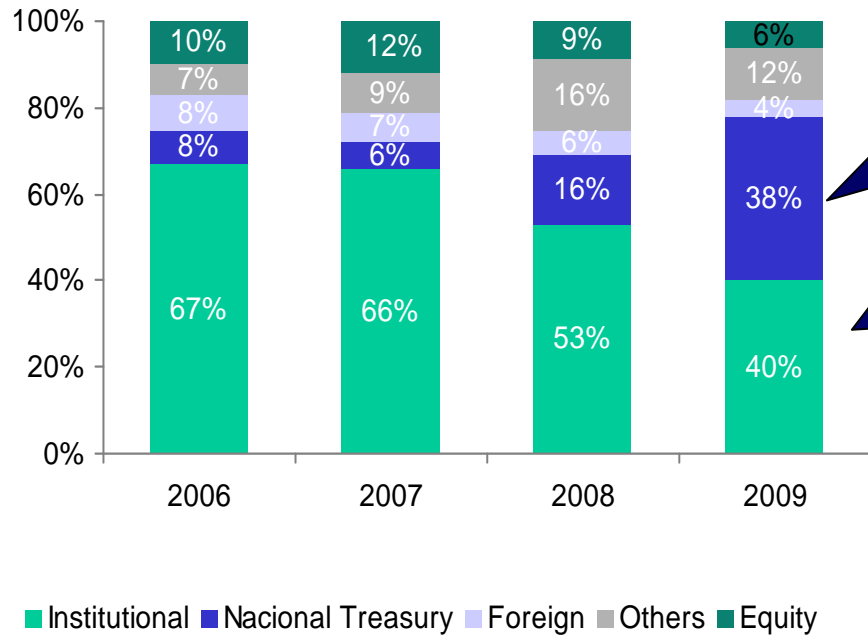
Banks' revenue from loan portfolio with duration of over 5 years
(% of total revenue)



The BNDES is practically alone in providing (and profiting from) long-term loans

Institutional funding

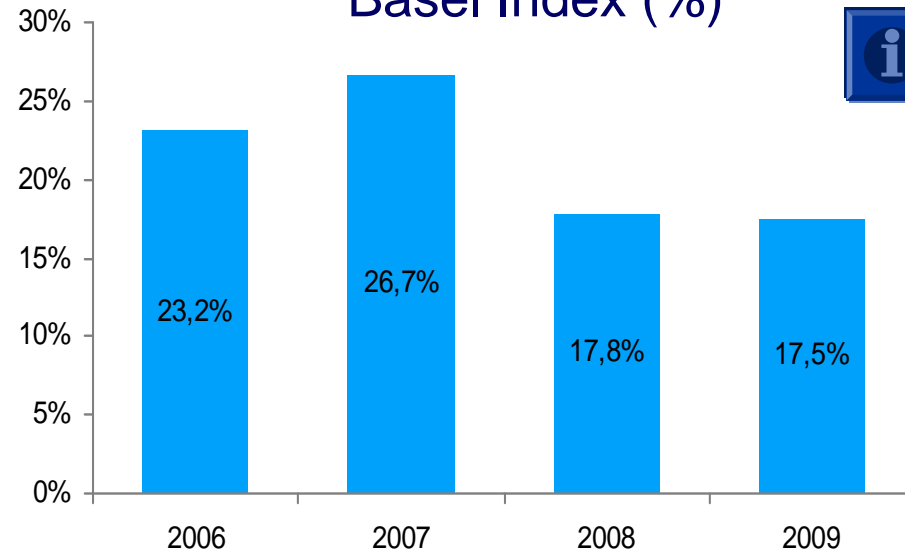
Funding Composition



Recent expand in demand required support from the National Treasury

Institutional Funding (Workers' Assistance Fund)

Basel Index (%)

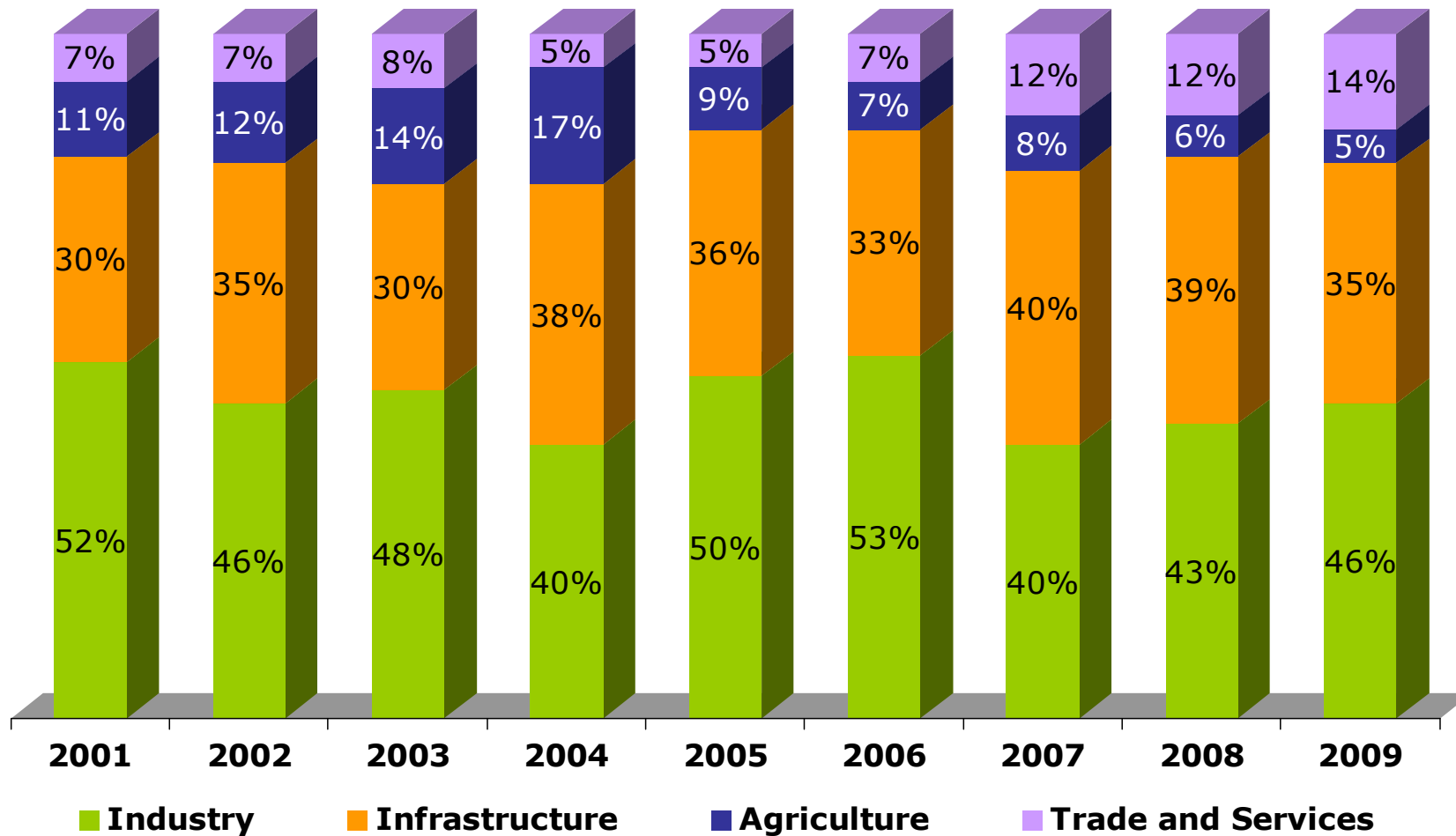


Prudential behavior is an asset of credibility

80% of the BNDES' loans goes to industry and infrastructure

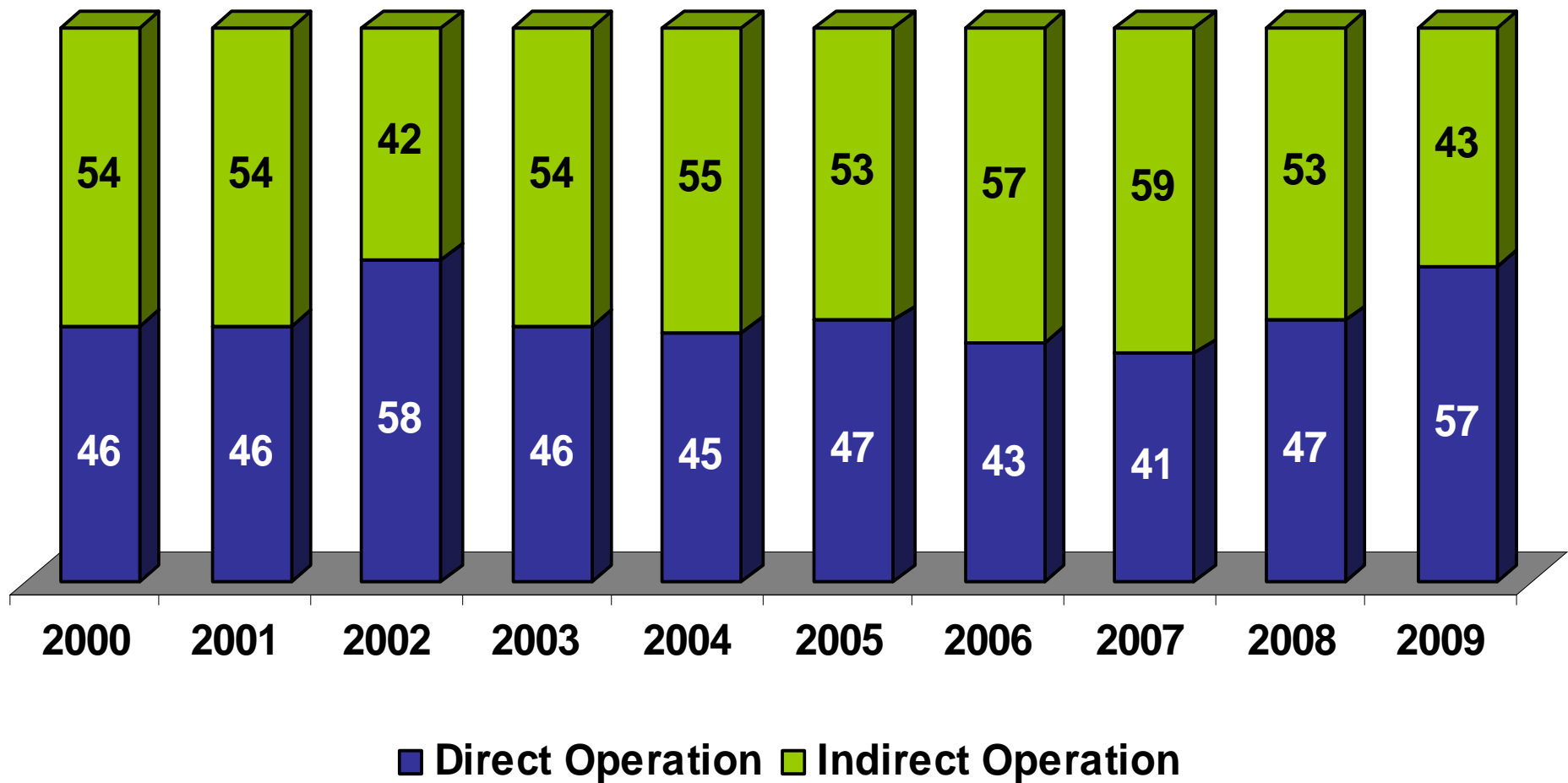


Disbursements by business sector (%)



Half the disbursements are through commercial banks

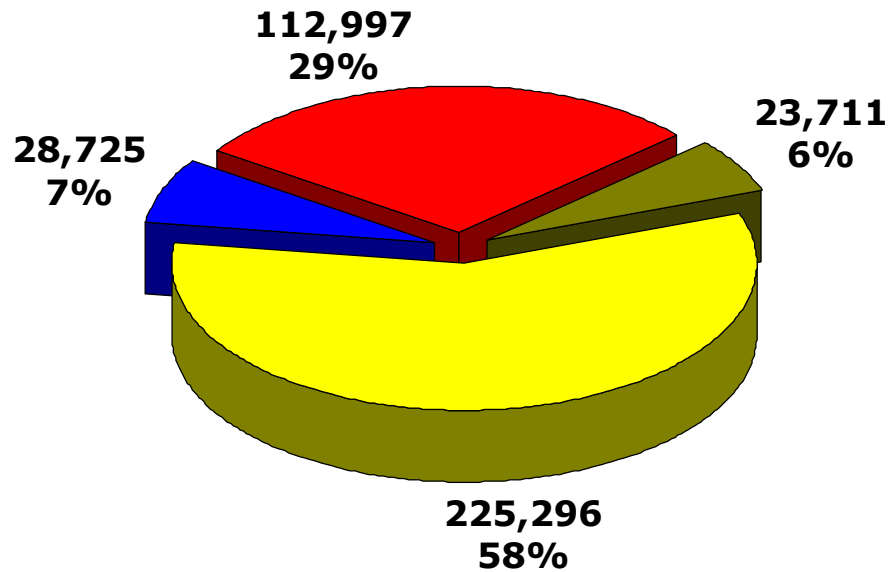
Disbursements per type of operation (%)



Number of operations & disbursement per size: a contrast

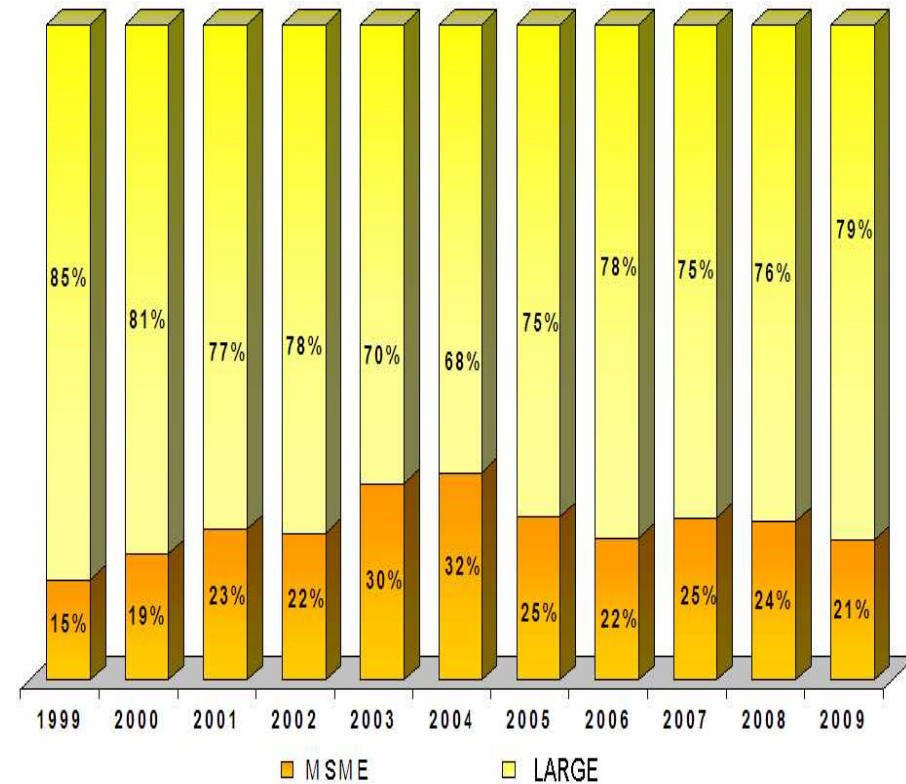
2009 Number of Operations

Total: 304,843

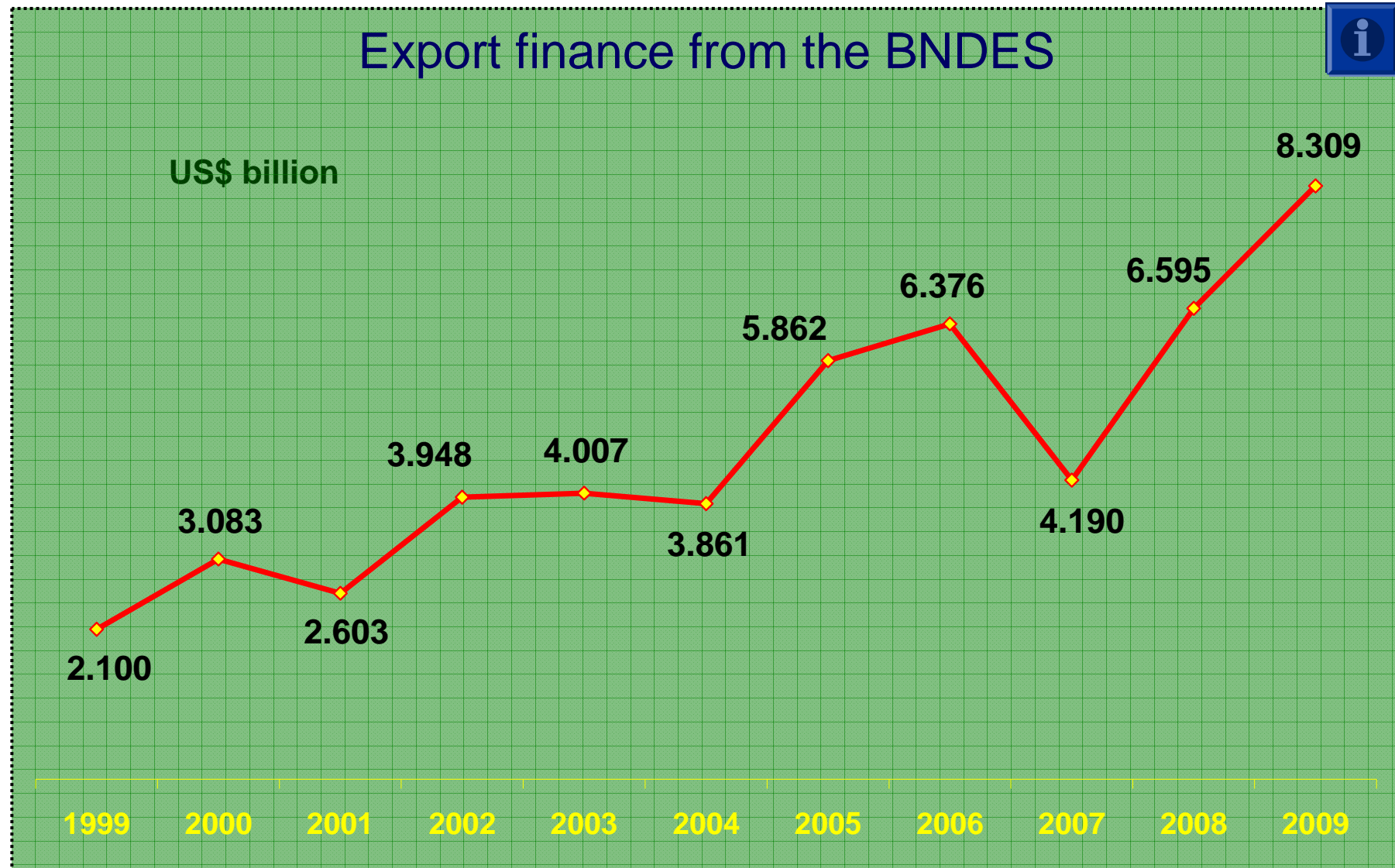


- micro and small
- medium-sized
- individuals
- large

Disbursements per size (% total)

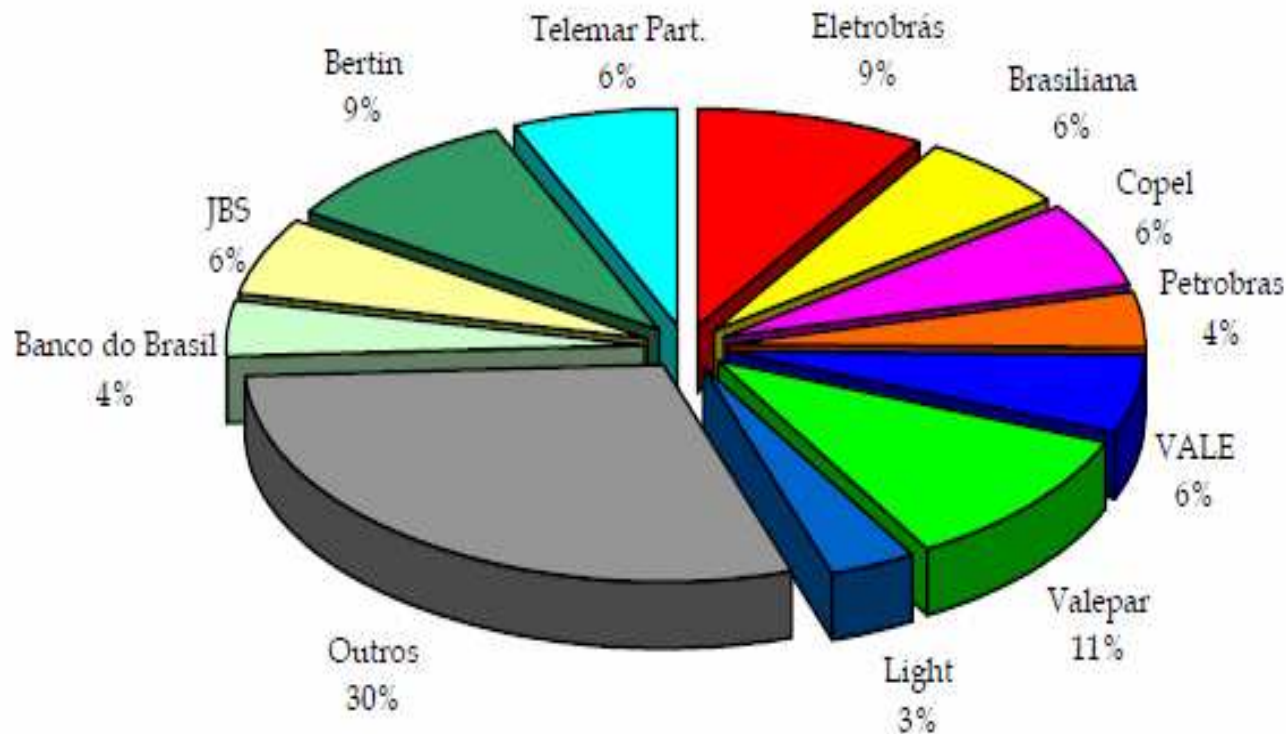


Export finance is increasing steadily in the recent past



A large and diversified equity portfolio

Sectorial distribution of BNDES equity portfolio (%)



**Total Equity Portfolio:
US\$ 47.5 billion (Dec.'09)**

Woodrow Wilson International Center for Scholars
Brazil - U.S. Business Council - U.S. Chamber of Commerce

July, 2010

*Challenges for Industrial Policy, Innovation
and Competitiveness in Brazil*

Luciano Coutinho

