

## Brazilian development prospects and challenges

João Carlos Ferraz

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# Brazilian development prospects and challenges

The Danish-Brazilian and the Norwegian-Brazilian Chambers of Commerce

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João Carlos Ferraz

Vice President



- Development prospects
- The social dimension
- The economic and investment dimensions
- Development policies and BNDES
- Relations with Denmark and Norway
- The way ahead

# Development prospects

- ✓ Increasing **diversity**, amidst a crisis of long duration
  - ✓ New poles of dynamism but advanced economies will remain in the central stage
- ✓ **Fierce competition** in all markets
- ✓ Extremely rapid rhythm of technical change and increasing investments in **innovation** by countries and corporations
- ✓ Climate change as a source of concern and opportunities.
- ✓ **State activism** but “a role model” does not exist.

## **Recent development trajectory**

- Economic & social inclusion
- Macroeconomic stability
- Investment ahead of GDP

## **Current and upcoming challenges**

- Competences and capabilities
- Unbalanced growth
- Permanence of development policies

# The social dimension

✓ Improvements in **income distribution**



✓ Strong **formal job creation**



✓ **Lower income** families experiencing “Chinese” growth



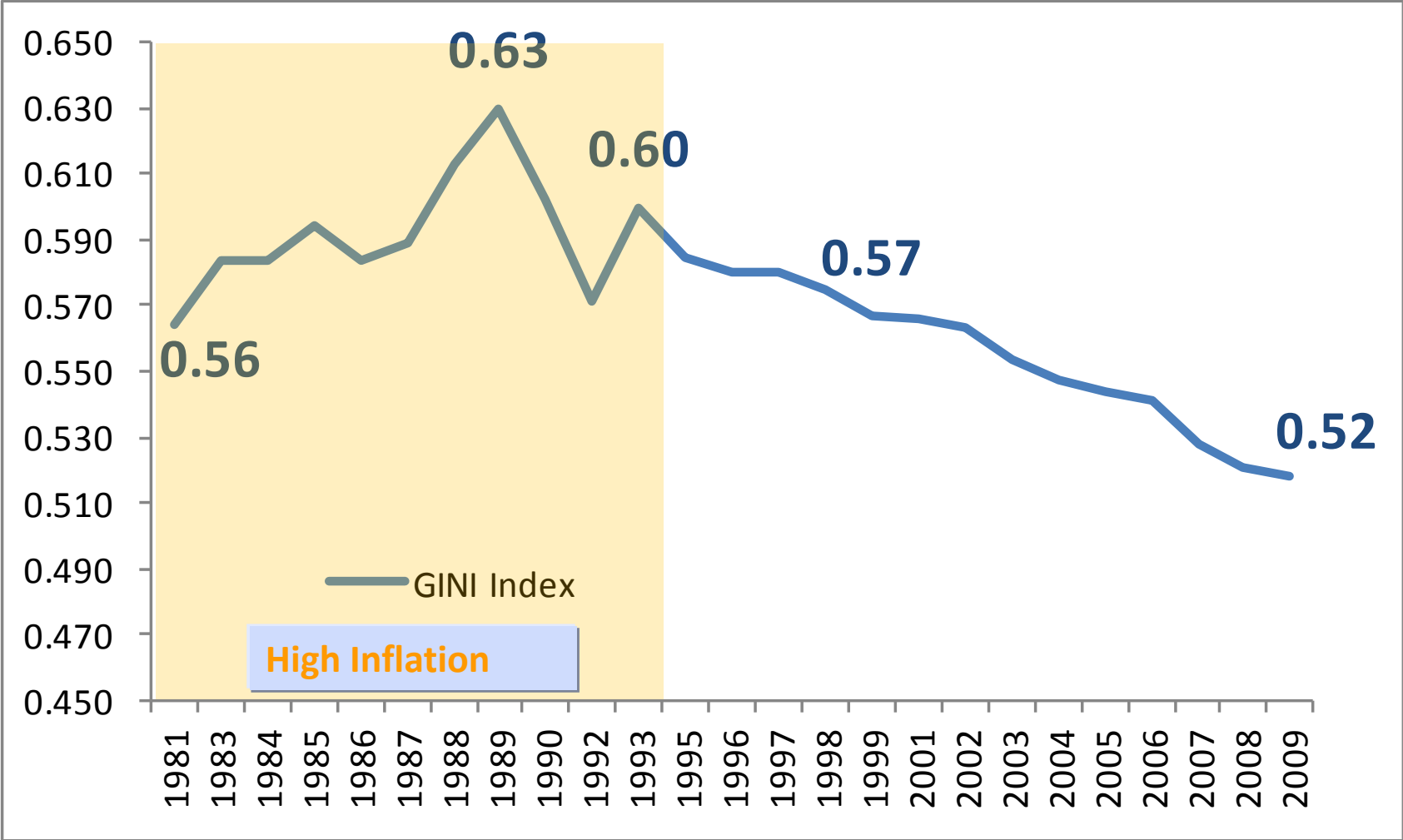
**Social and economic inclusion**



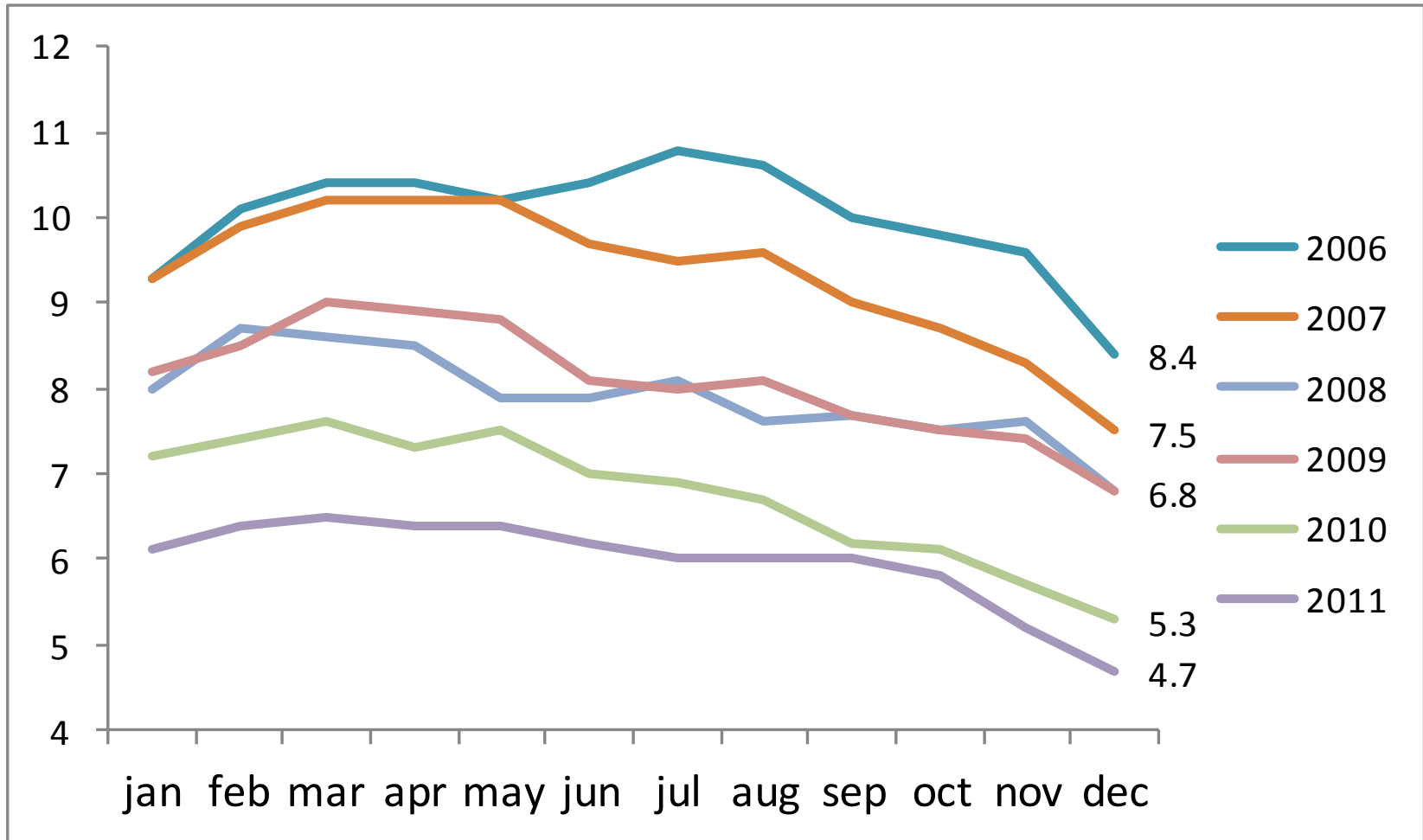




## Gini Index



## Unemployment Rate (%)



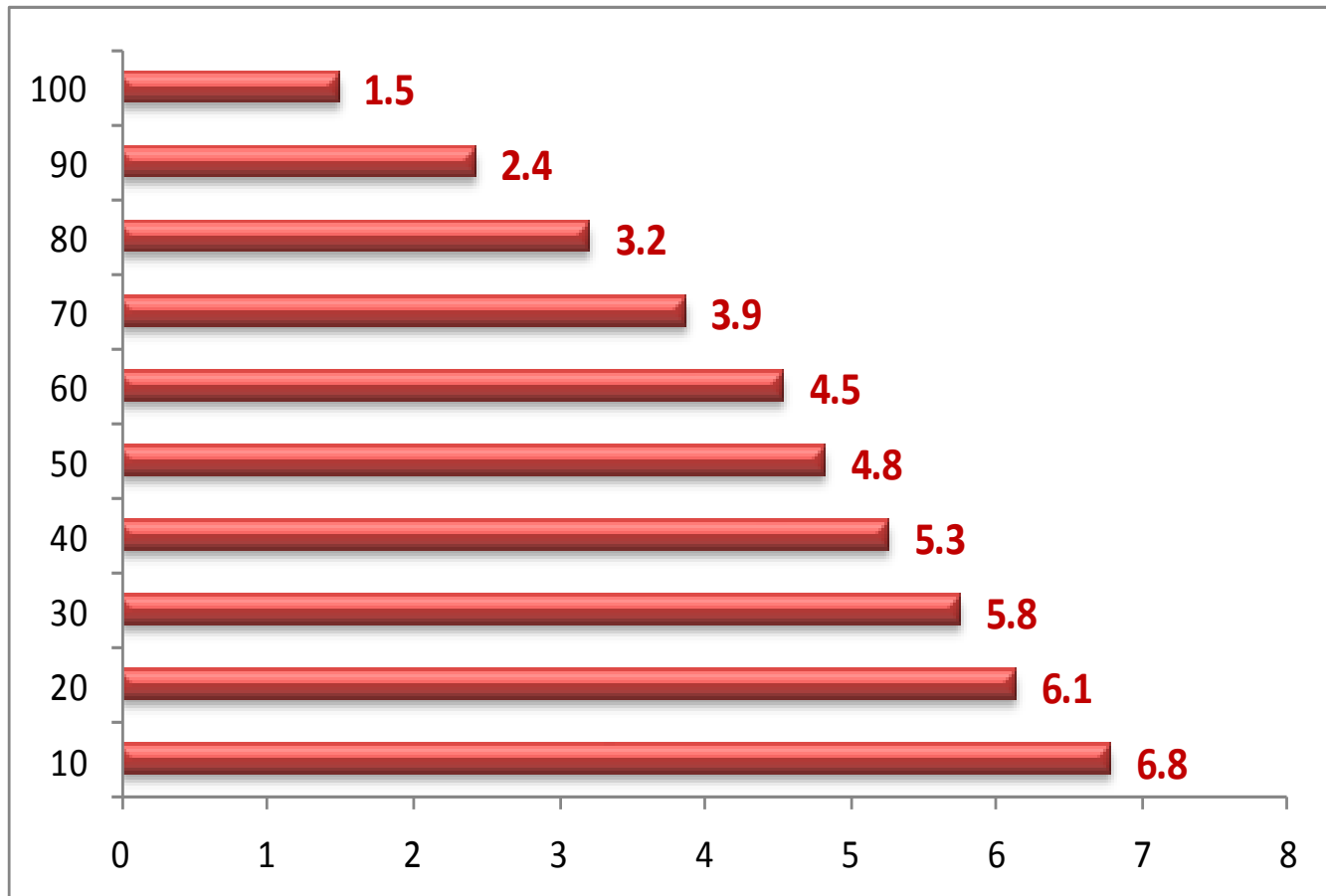
# Lower income families experiencing “Chinese growth rates”

Per capita income growth (per percentile) %  
(annual average 2001-2009)

Higher Income

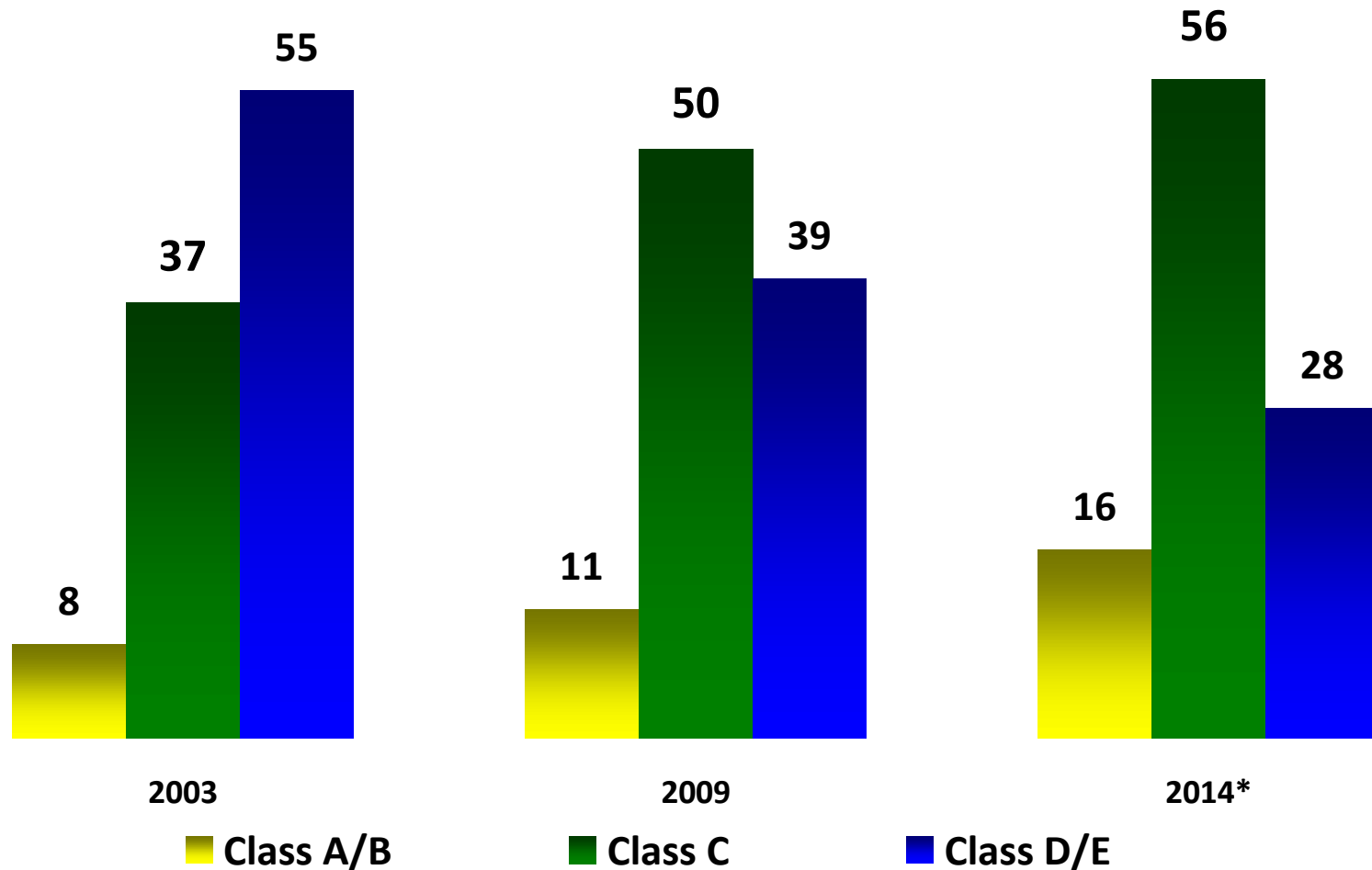


Lower Income



# Emerging consumers and citizens are becoming very relevant

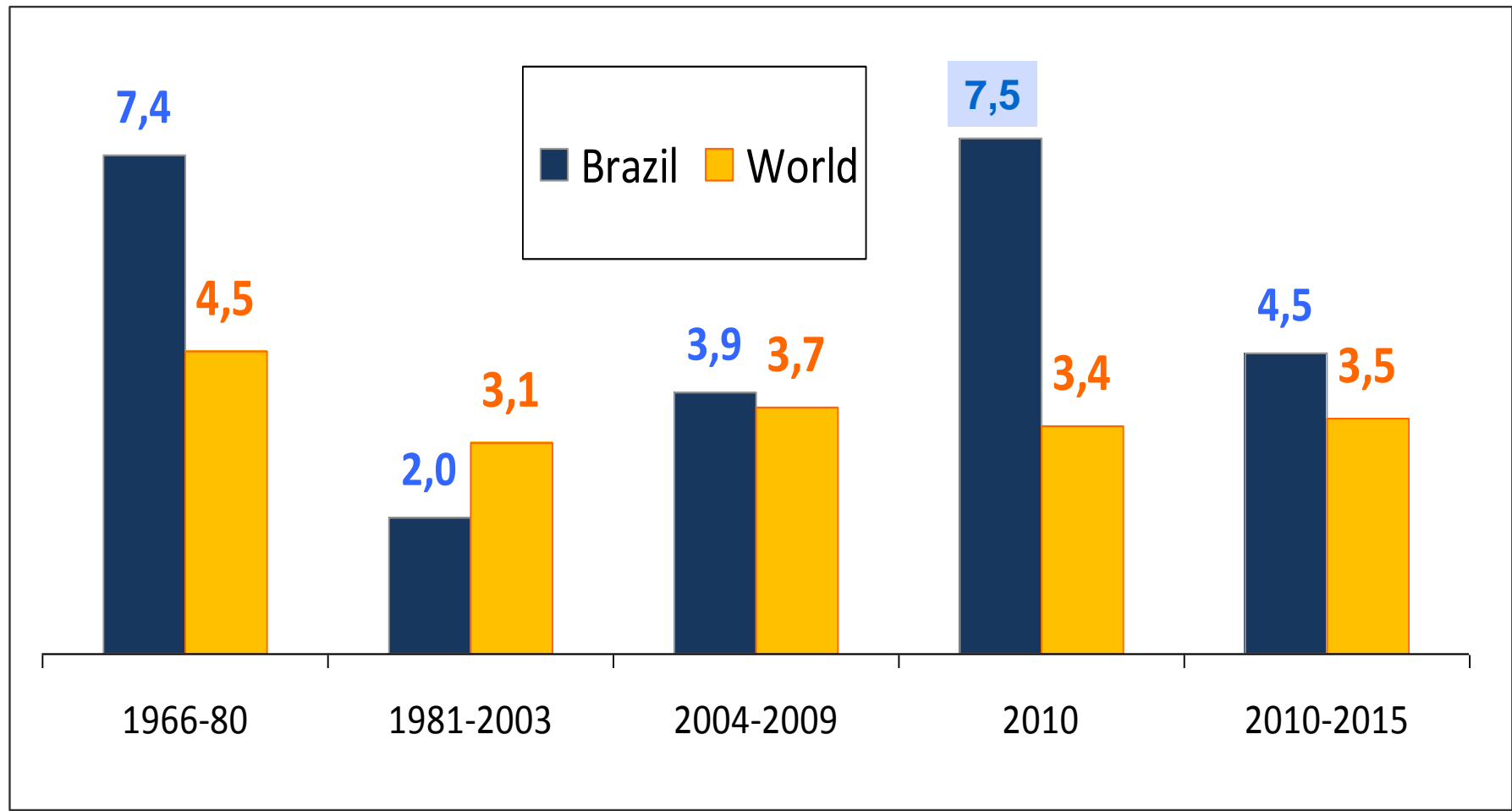
## Share of social groups in total national income %



# The economic and investment dimensions

- ✓ Growth perspectives ahead of world average 
- ✓ Domestic market has led the growth 
- ✓ Investment growing ahead of GDP 
- ✓ Investment frontier is vast 
- ✓ Steadiness of macroeconomic policies
  - ✓ Inflation targeting 
  - ✓ Stable Fiscal policies: declining public debt 
  - ✓ Flexible exchange rate and accumulation of reserves 

## Brazil and the World: GDP Growth Rates ( % )

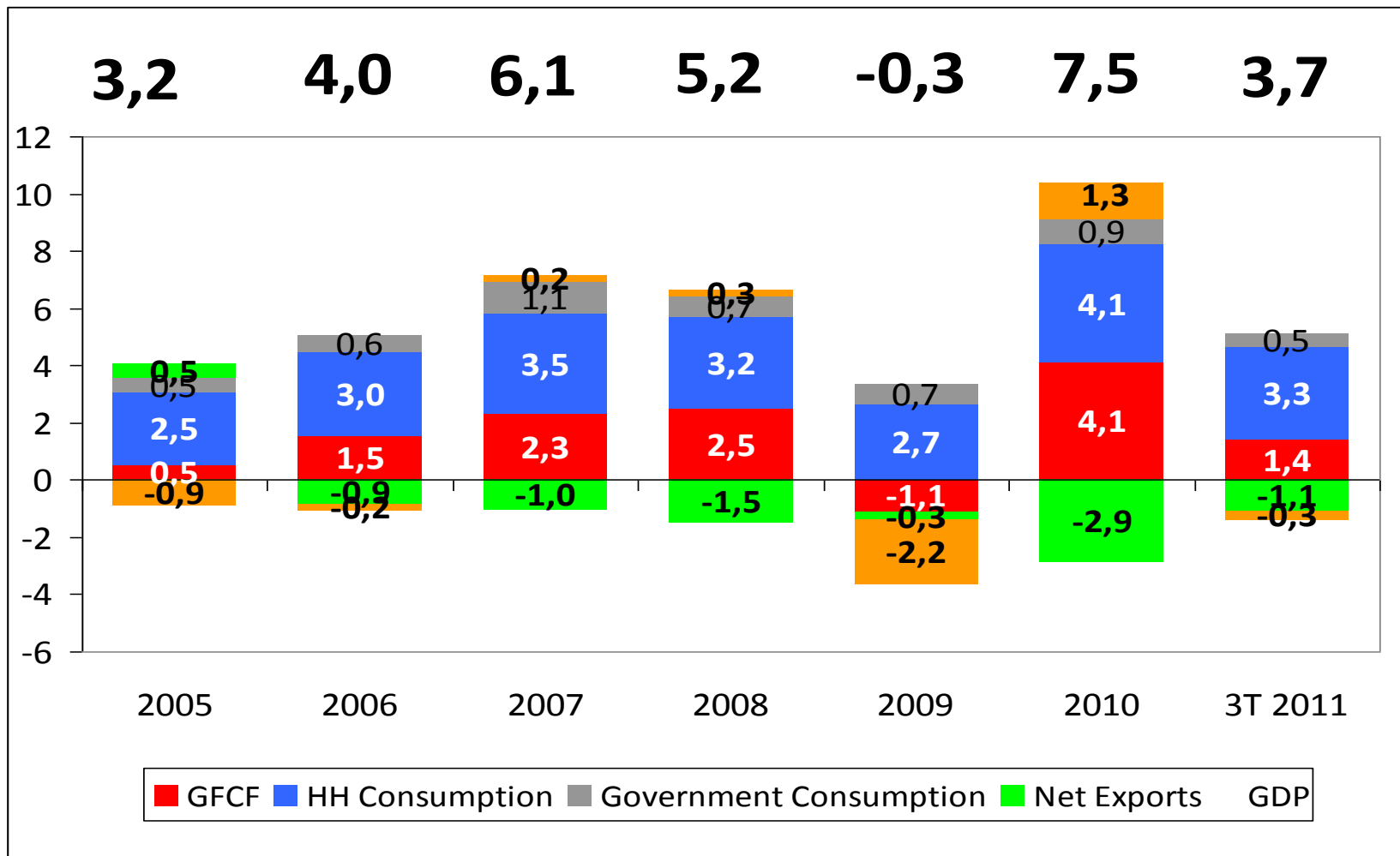


Source: Ipeadata and IBGE. Elaborated by APE/BNDES

(\*) Forecasts based on IIF /IMF (World) , BACEN – FOCUS /BNDES (Brazil)

# Domestic market is leading economic growth, especially household consumption

## Breakdown of GDP Growth (% p.y.)

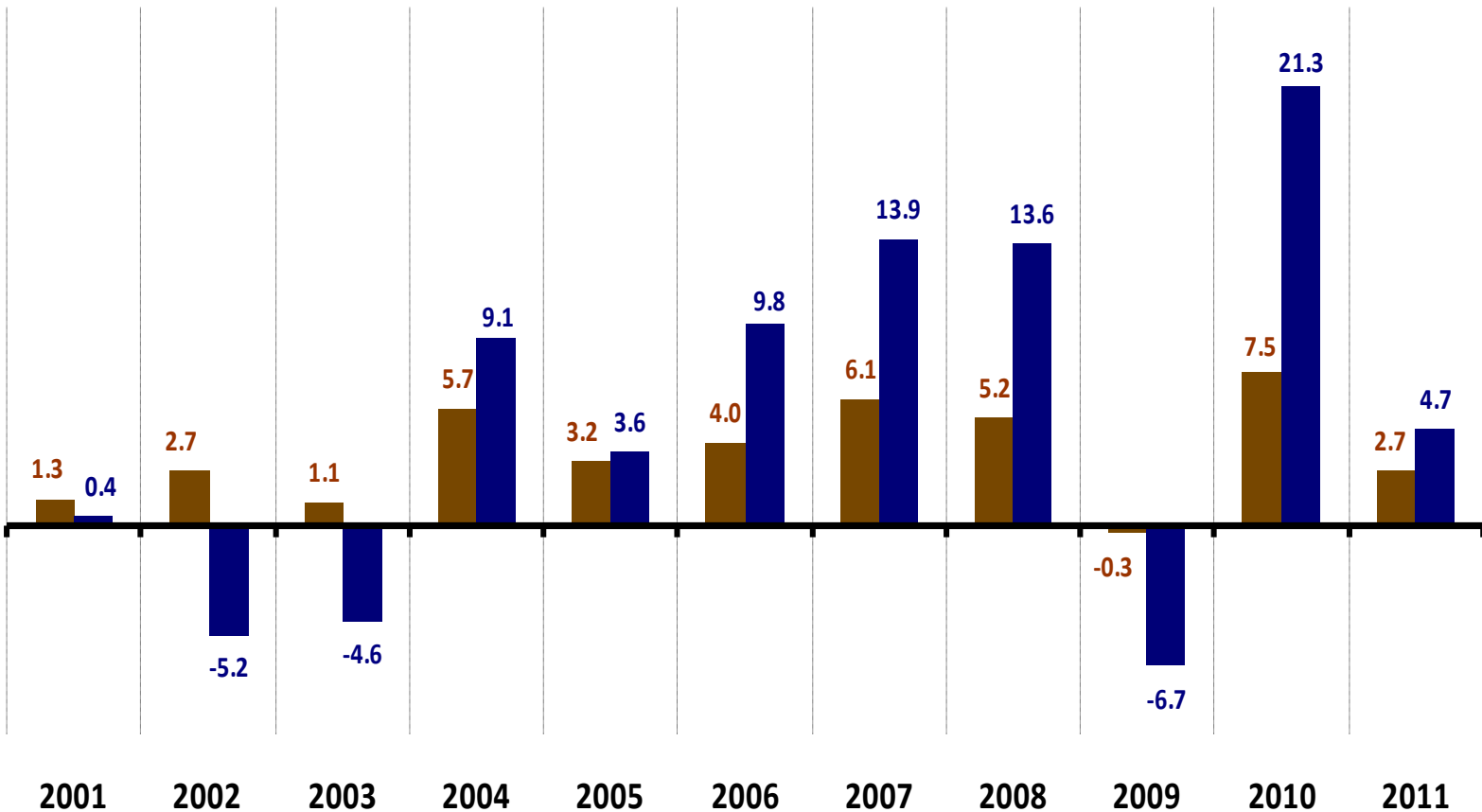




# Investment is growing ahead of GDP



## Gross Formation of Fixed Capital – Annual Variation Rate (%)



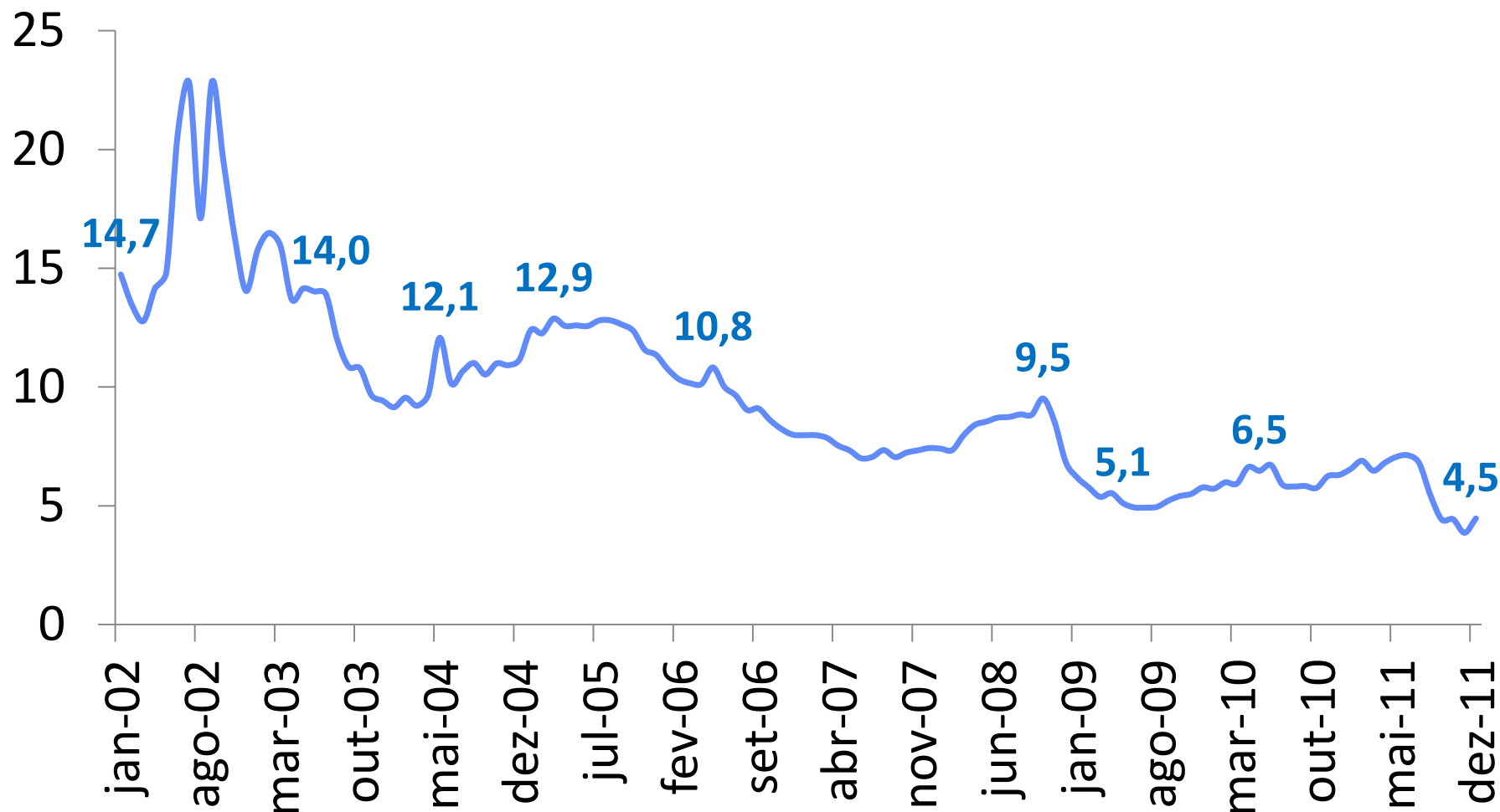
\*Accumulated result over the last 4 quarters

■ GDP ■ GFFC

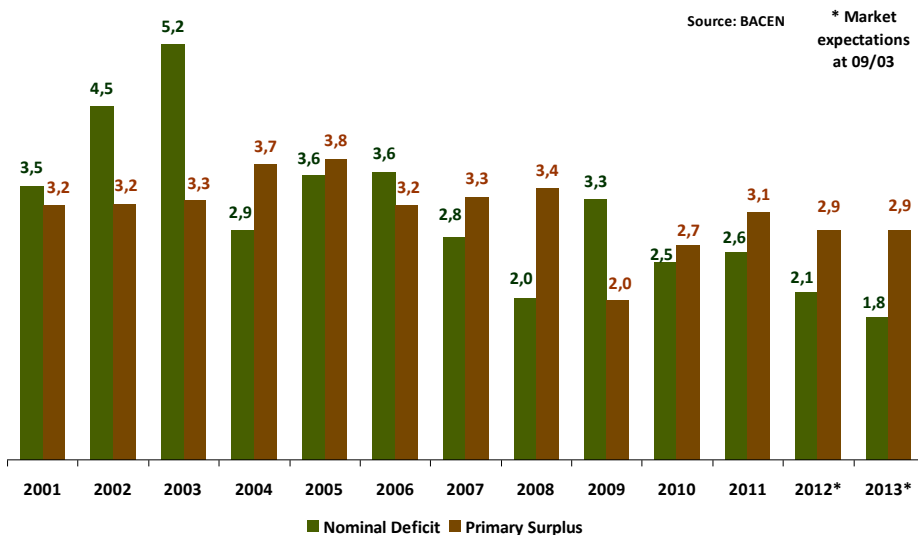
Sectors	US\$ billion		Growth
	2007-2010	2012-2015	%
<b>Industry</b>	<b>257</b>	<b>341</b>	<b>32.5</b>
Oil & Gas	136	202	48.5
Mining	39	29	(25.2)
Steel	18	18	0.6
Petrochemical	14	17	19.5
Vehicles	18	31	74.0
Electronics	13	18	37.1
Pulp & Paper	11	12	8.3
Textile and Apparel	6	8	33.3
Aviation	2	5	198.6
<b>Infrastructure</b>	<b>184</b>	<b>227</b>	<b>23.3</b>
Electric Power	81	90	10.6
Telecoms	41	42	4.6
Sanitation	18	25	33.5
Railroads	14	26	76.8
Roads	23	30	32.9
Ports	5	9	61.9
Airports	1	6	333.9
<b>Housing</b>	<b>341</b>	<b>491</b>	<b>44.2</b>
<b>TOTAL</b>	<b>782</b>	<b>1058</b>	<b>35.4</b>



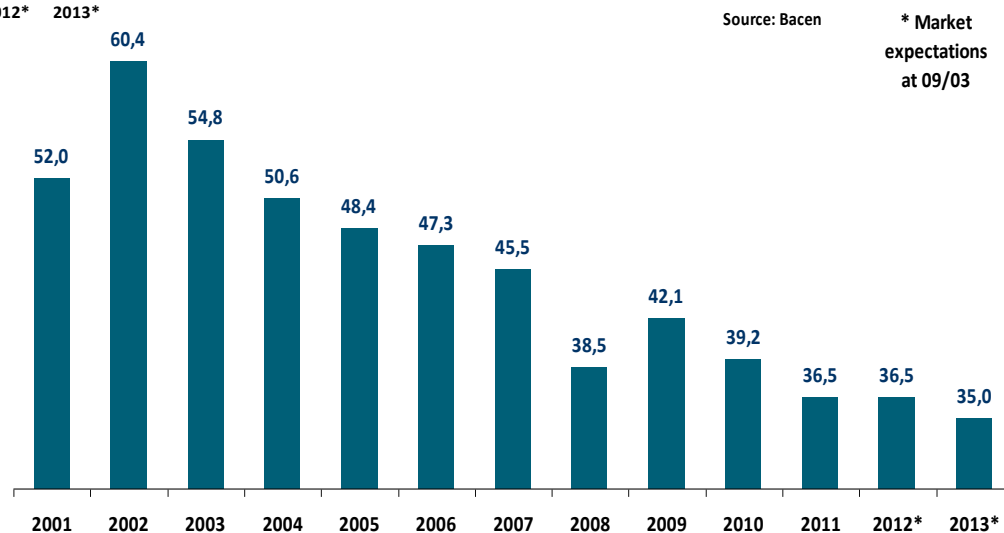
## Real Interest rate — (PreXDI360 – Expected Inflation)



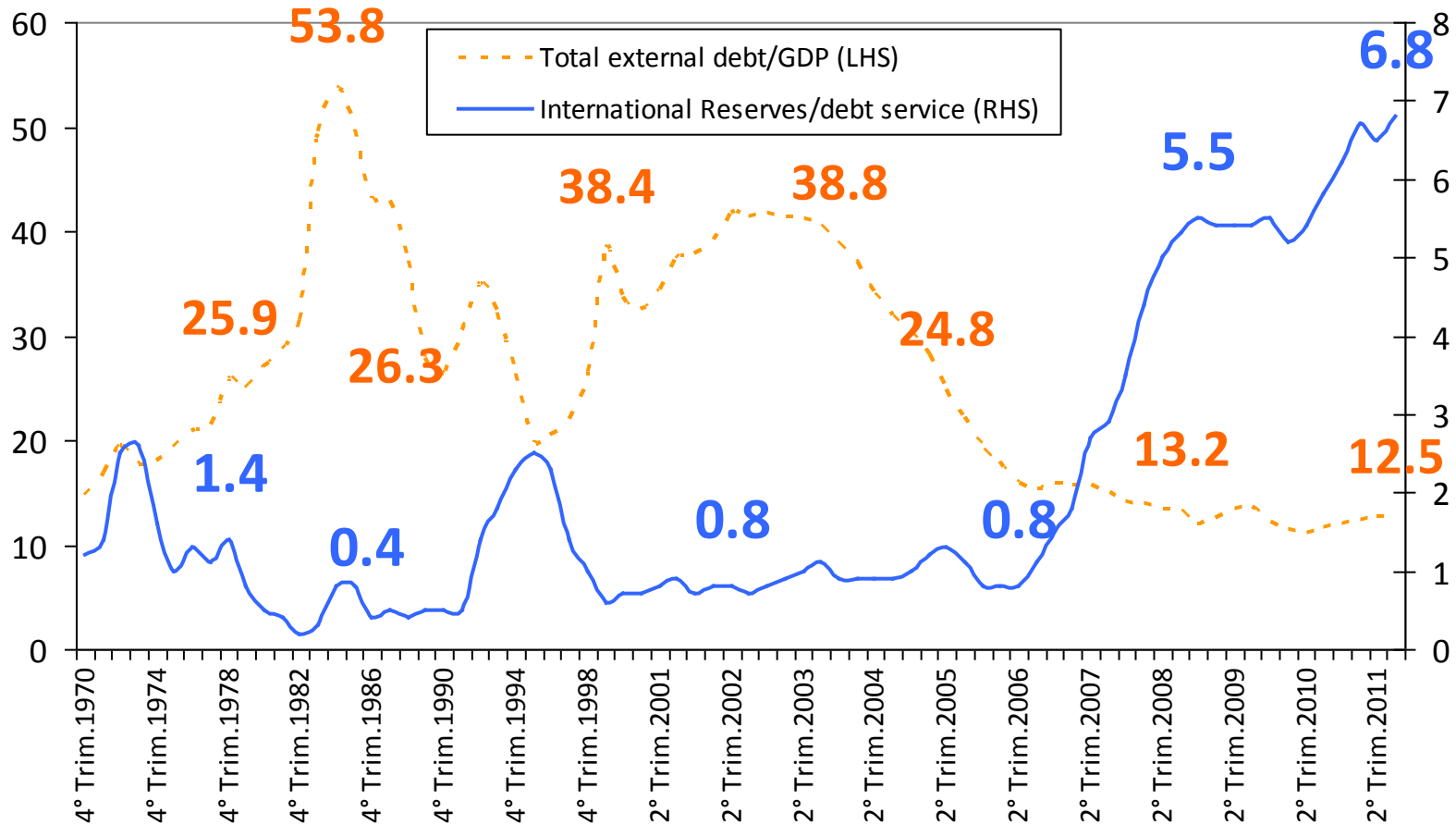
## Consolidated Nominal Deficit and Primary Surplus in Public Sector (% of GDP)



## Consolidated Net Debt in the Public Sector (% GDP) – End of Period

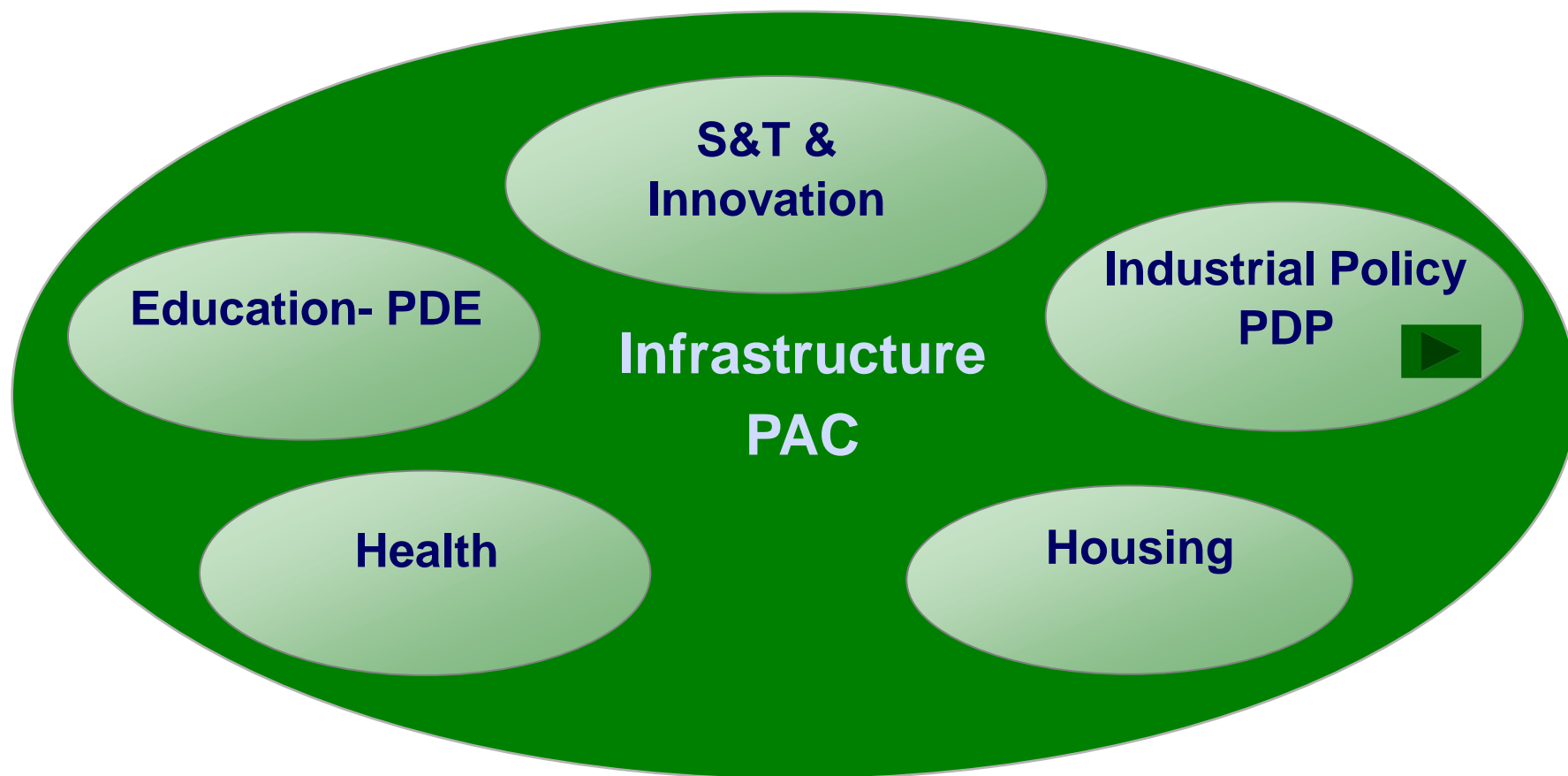


## External Debt and International Reserves



# Development policies and BNDES

## Development policies



# 2004-2011 Industrial Policies

- **PITCE (2004-2007): Industrial, Technology and Trade Policy**
  - Foster technology based sectors
  - **The return of Phoenix**
- **PDP (2008-2010): Productive Development Policy**
  - Innovate and invest to sustain growth
  - **Riding favourable winds and the storm**
- **PBM (2011-2014): Plano Brasil Maior**
  - Innovate to compete; compete to grow
  - **Against a hostile environment, aggregate value through innovation**



- **Long term policy but adaptable to face changing challenges**
- **Industrial policy: a team player of development policies**



## Long term financing serves purposes

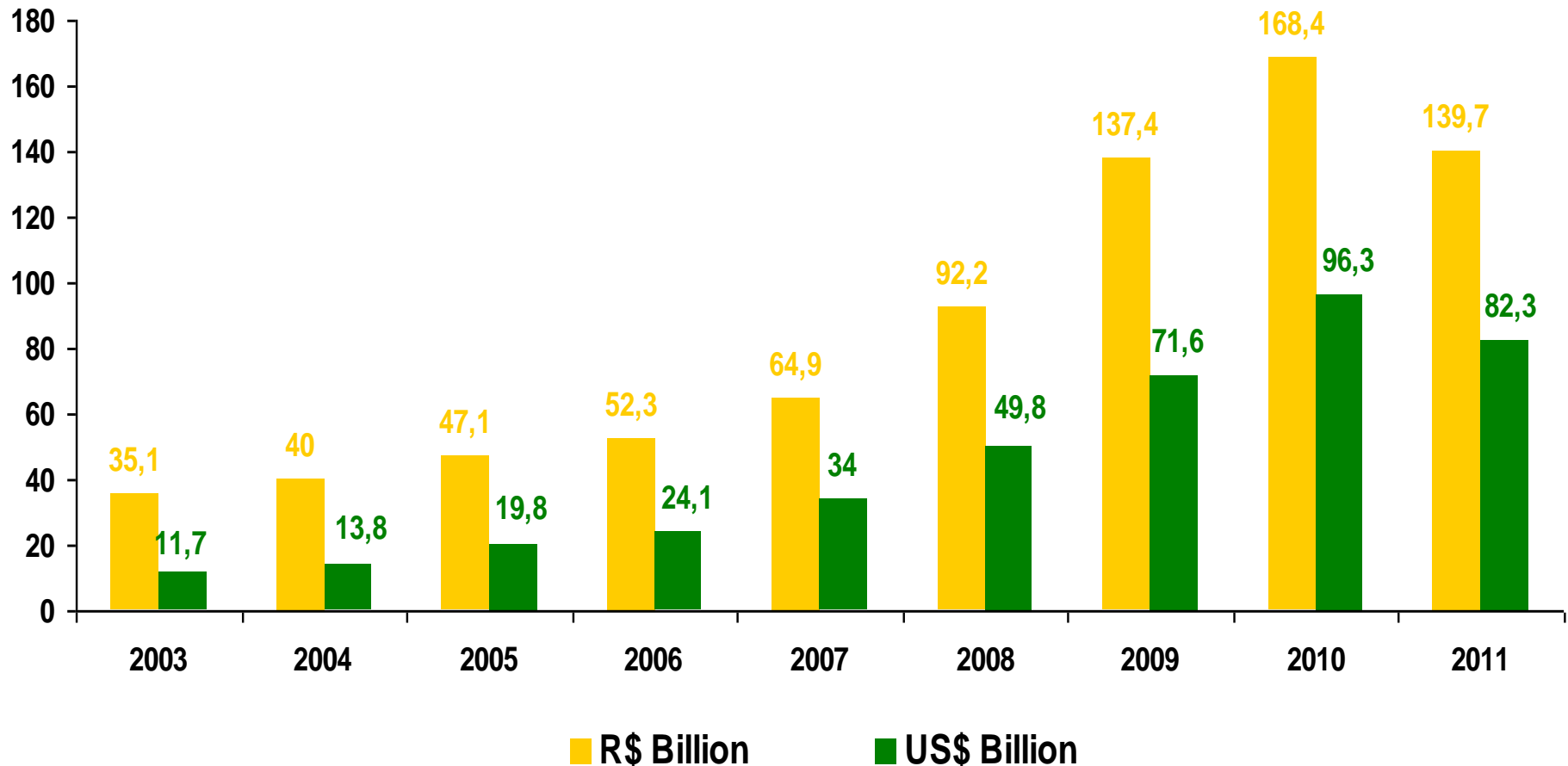
- More and better work opportunities.
- More and better infrastructure
- More and better competitive capabilities

## As markets are pro-cycle

- A development bank is an instrument of systemic stability
- But... Attention!! **Scale and scope matters...** Banks must have adequate resources and instruments

# Recent high growth rates will tend to recede in the years to come

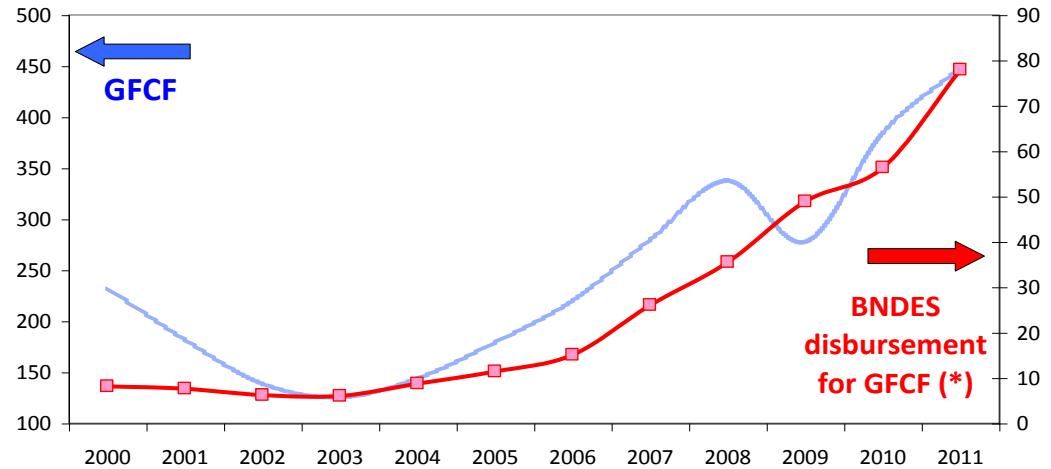
## BNDES: Approvals and Disbursements



# Scale and scope matters

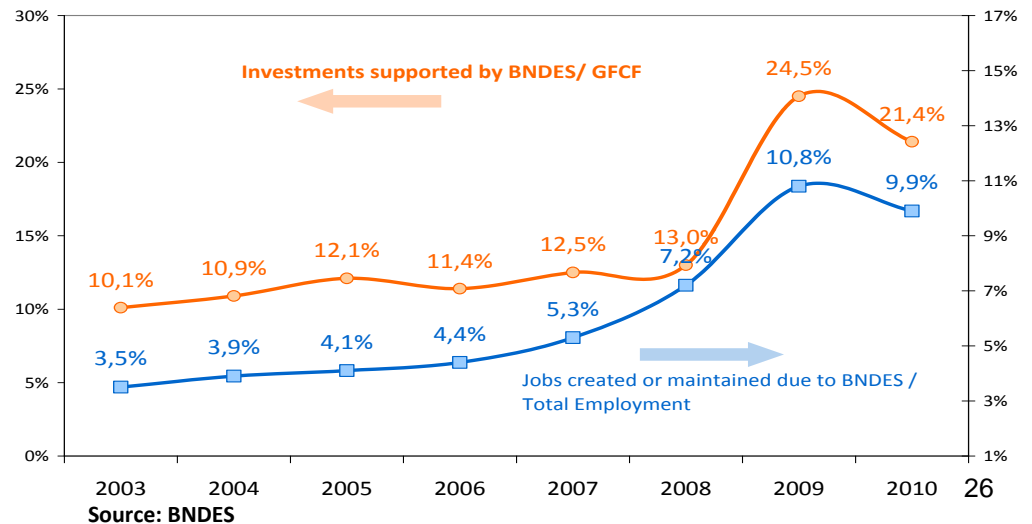
- ✓ Main provider of long-term financing in Brazil
- ✓ 100% state-owned company under private law
- ✓ Institutional funding
- ✓ 2,500 employees
- ✓ Instruments
  - Direct operations
  - Indirect operations
  - MSME (financing & guarantee)
  - Exim
  - Project finance
  - Equity investments
  - Grants

Gross Fixed Capital Formation (GFCF) & BNDES disbursements (US\$ Billion)

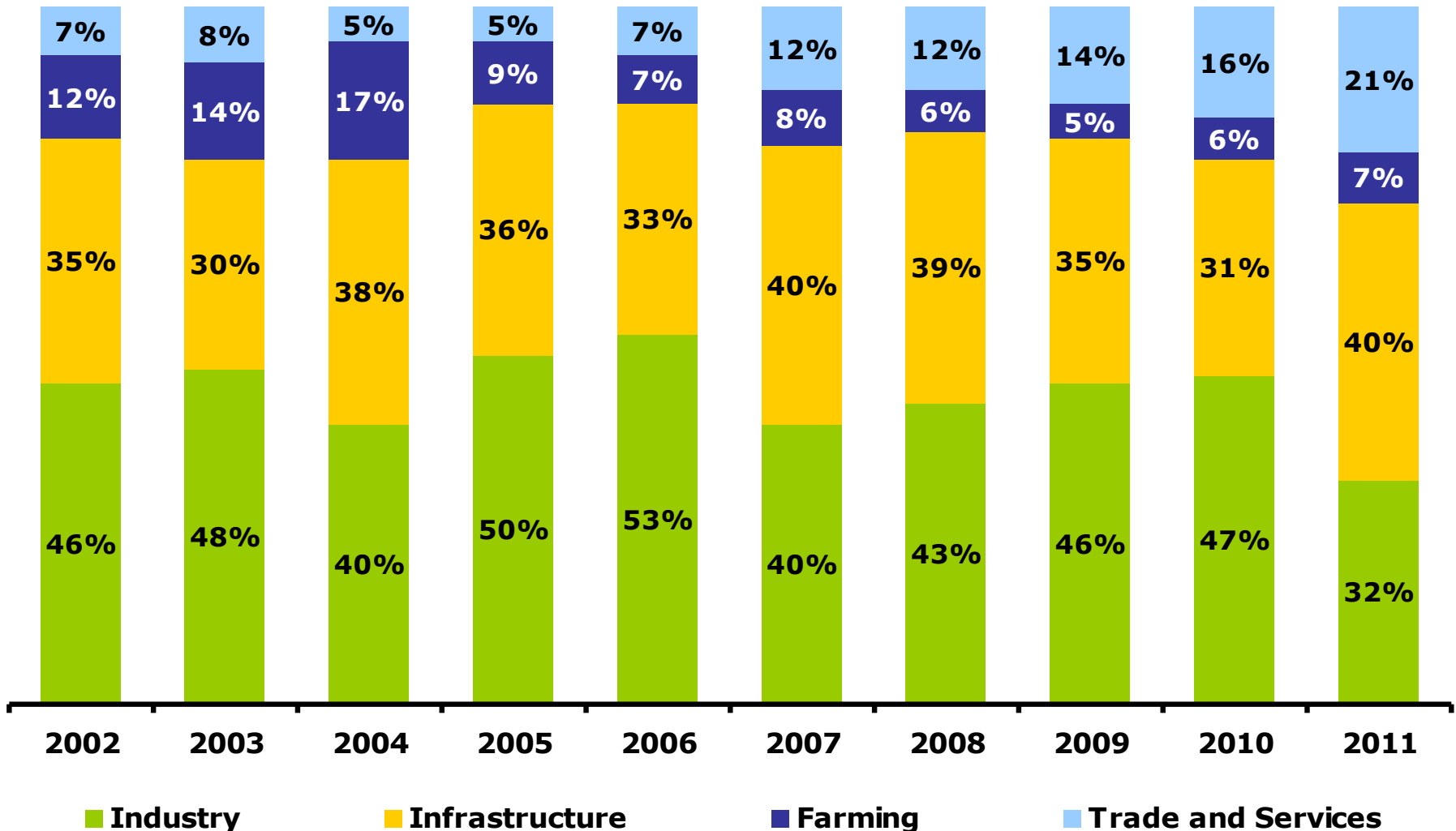


(\*) exc. BNDES Exim; working capital, M&A and Equity Financing.

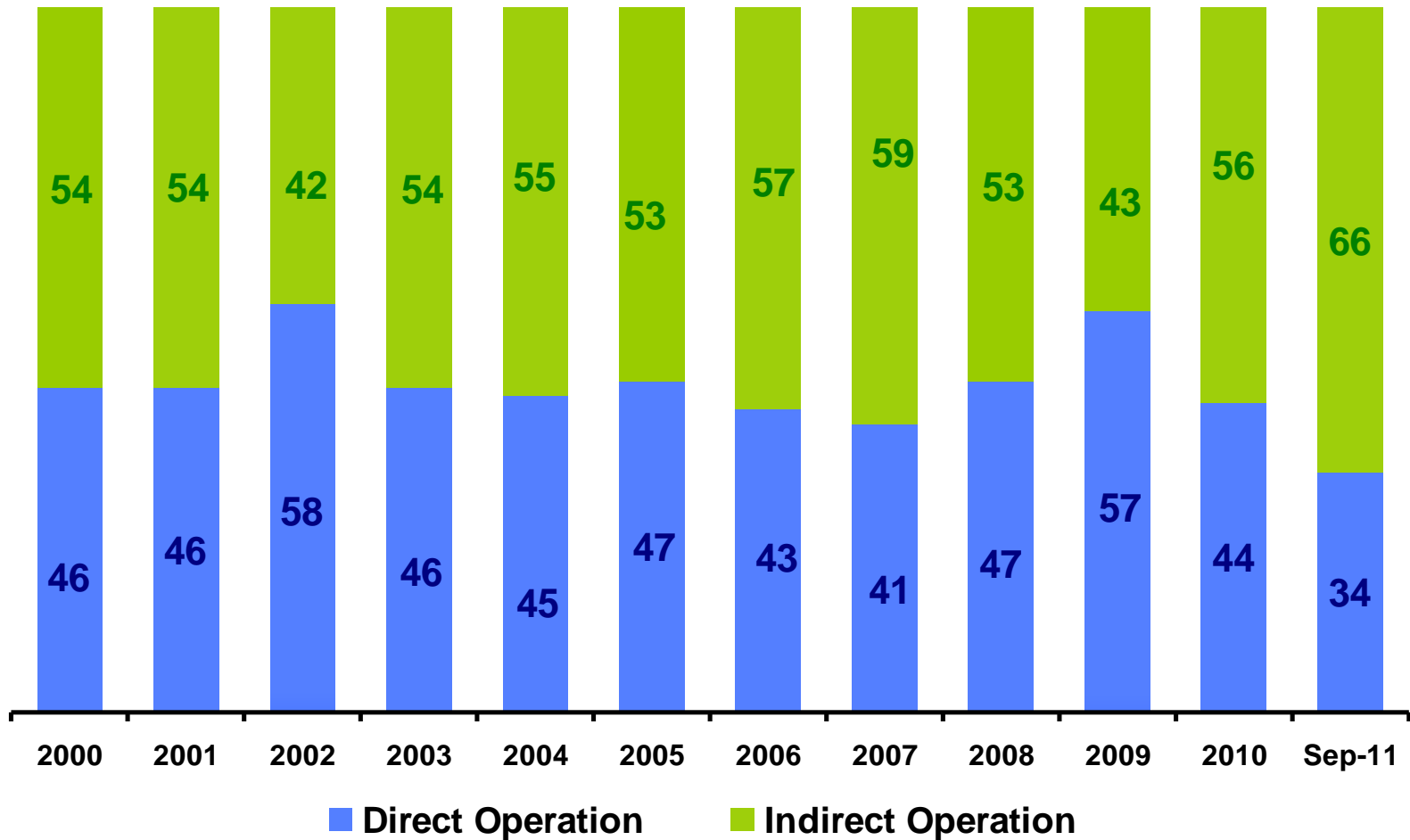
BNDES contribution to investment & employment



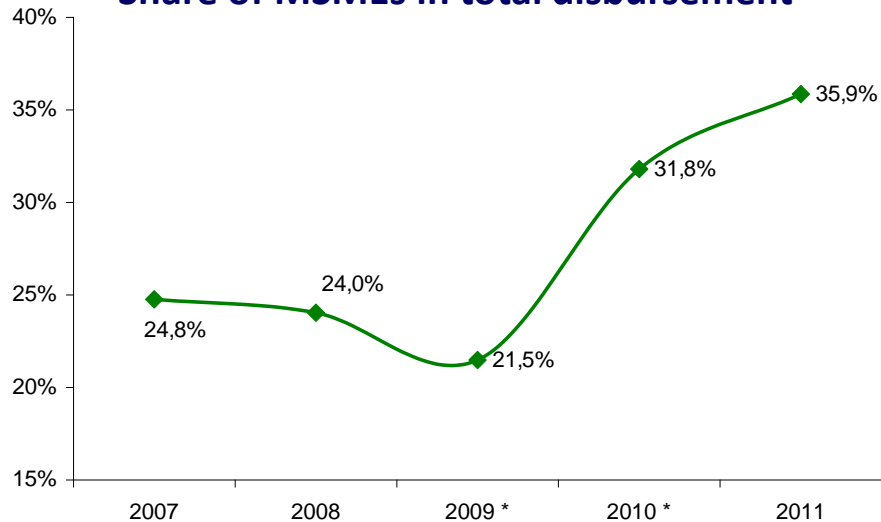
# Disbursements by business sector (%)



## Disbursements by type of operation (%)



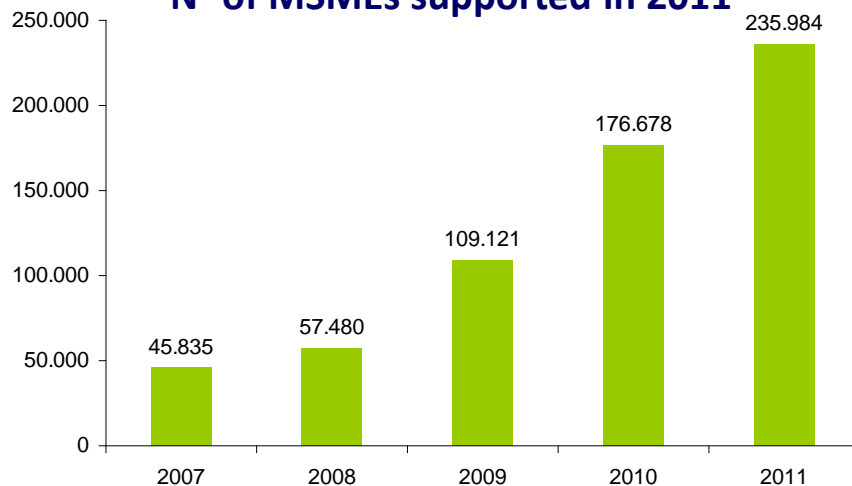
## Share of MSMEs in total disbursement



**Cartão BNDES: 95% of townships with active operations**



## N° of MSMEs supported in 2011



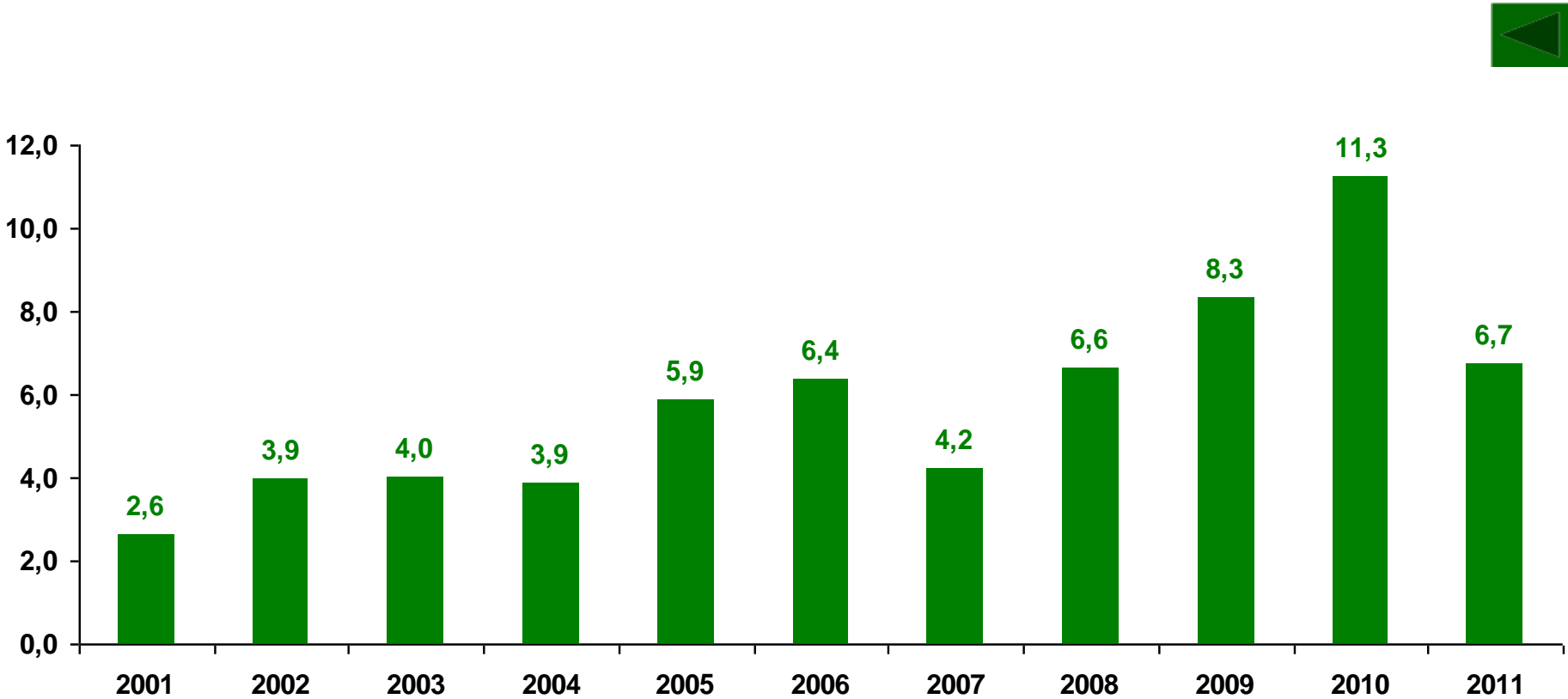
- 470,000 active cards
- 2011: R\$ 7.6 bi
- 2012: R\$ 11. bi (expected)

# Disbursements to Finance Exports



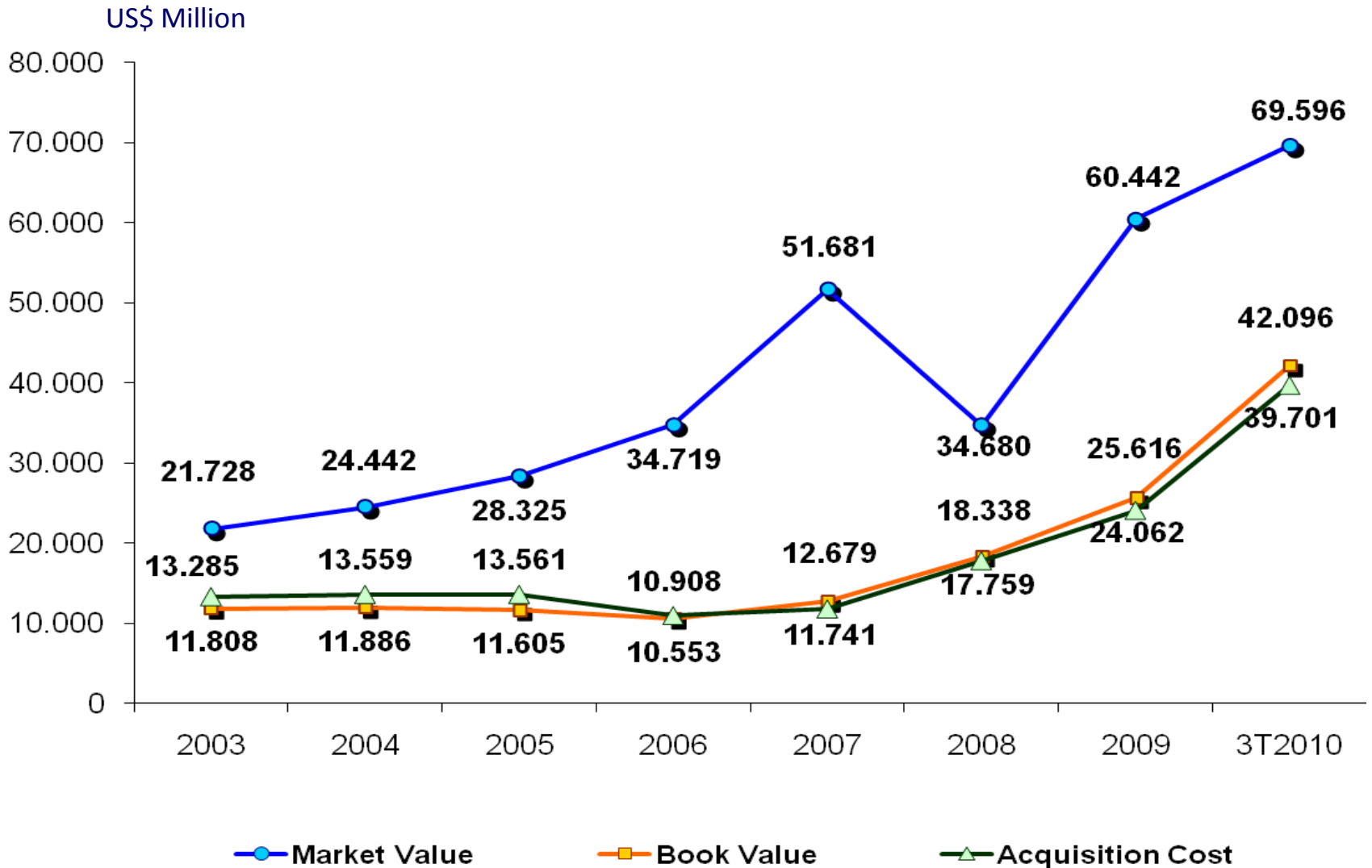
US\$ billion

Converted to US dollar on the disbursement dates



Source: BNDES

# BNDES equity portfolio



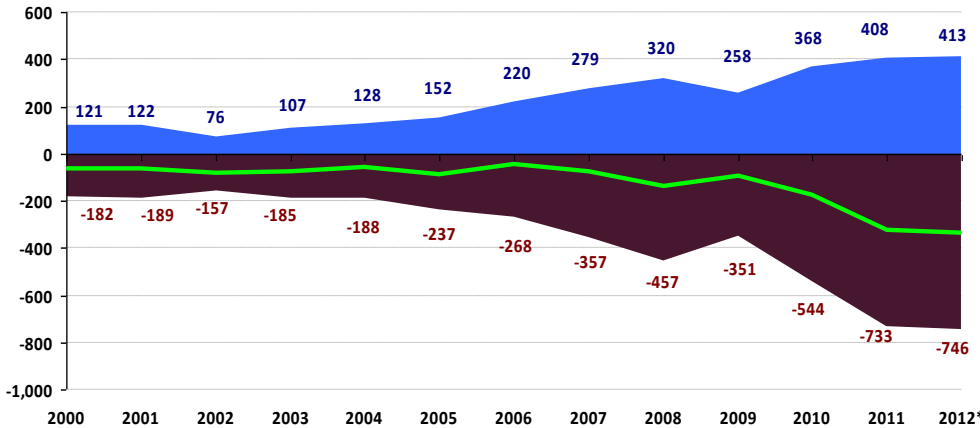
Source: BNDES.



# Relations with Denmark and Norway

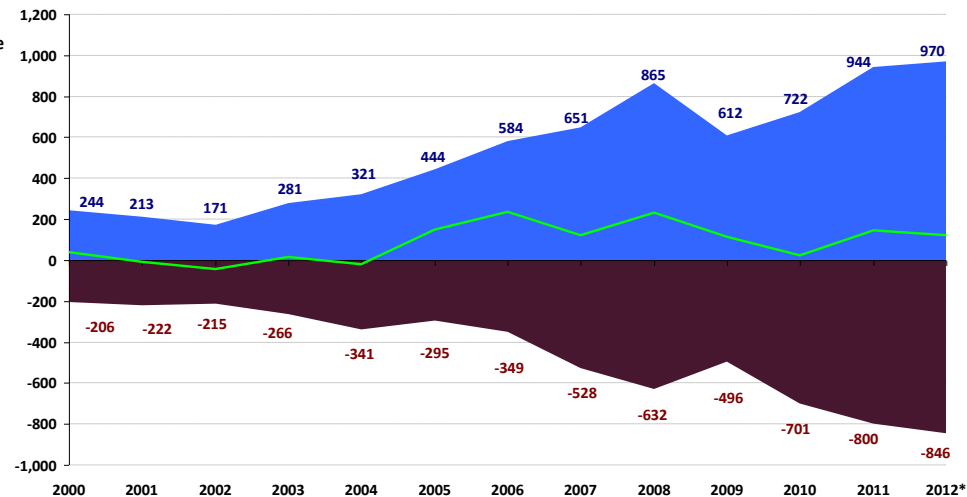
# Denmark + Norway and Brazil: stable trade waiting for opportunities

**Brazil-Denmark Trade, in millions of dollars F.O.B.**



**Brazil is a net importer of Danish products...**

**Brazil-Norway Trade, in millions of dollars F.O.B.**



**... and a net exporter to Norwegian markets**

\* Accumulated result over 12 months up to Jan.  
Source: Ministry of Development, Industry and Foreign Trade

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Source: Ministry of Development, Industry and Foreign Trade

**Based on mutual economic and political interests:**

- ✓ **Oil & gas, mining and shipping industries**
- ✓ **Engineering industries**
- ✓ **Social economic sustainability**
- ✓ **Science, Technology and Innovation**
- ✓ **Foreign and Development Policies**

# The way ahead

## Consolidate

- ✓ Demand driven, policy induced development:
  - ✓ **Foreign markets:** through trade and investment, provide food, energy and resource security to partner nations
  - ✓ **Domestic markets:** emerging middle classes and infrastructure

## Foster

- ✓ A long-term development strategy based on:
  - ✓ Investments in capacity expansion and innovation
  - ✓ Domestic savings and a strong financing industry

- ✓ **Macroeconomic policies:** Maintain strong fundamentals
- ✓ **Development policies:** Permanent and effective policies
- ✓ **Savings & financing:** efficiency in public expenditures + incentives for domestic savings and for a long-term financing industry
- ✓ **Competences:** more and better jobs; high-quality education
- ✓ **Infrastructure:** more and better projects; more complex financing/guarantee/insurance solutions
- ✓ **Industry:** innovation and competitiveness capabilities

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