

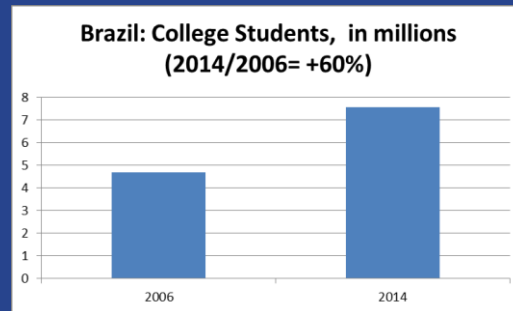
BRAZIL – 2015 Outlook



Joaquim V. F. Levy

New York – February 18 2015

BRAZIL 2015 – LEARNING BY DOING



BRAZIL 2015 – LEARNING BY DOING

Hitachi Feb 2014



Nissan Apr 2014



Brotas 2014



Saint Gobain May 2014



Knauf June 2014



Itaipava Brewers Apr 2014



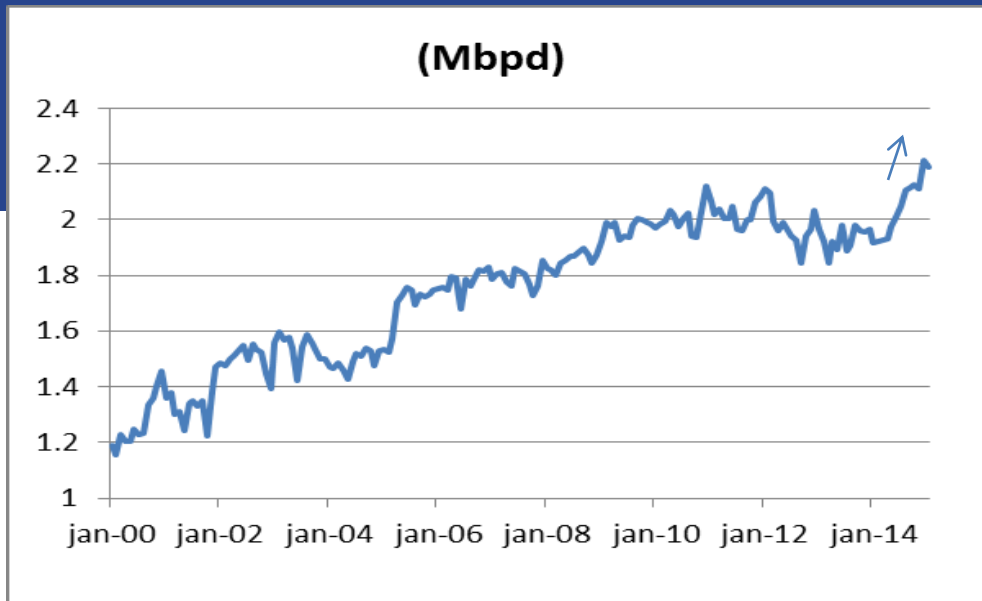
Basf 2014



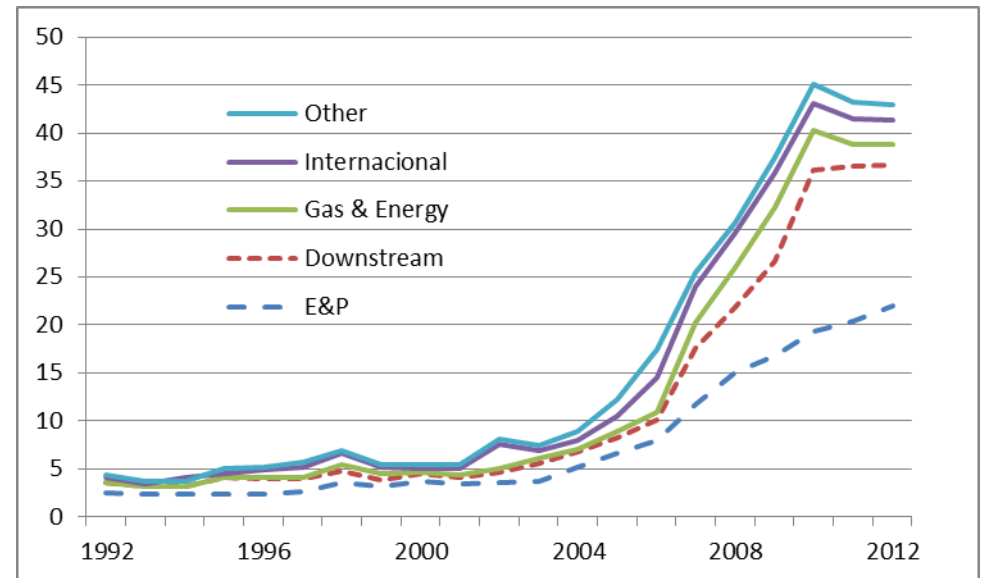
And dozens of others...

BRAZIL 2015 – LEARNING BY DOING

Brazil Monthly Average Oil and Gas Production



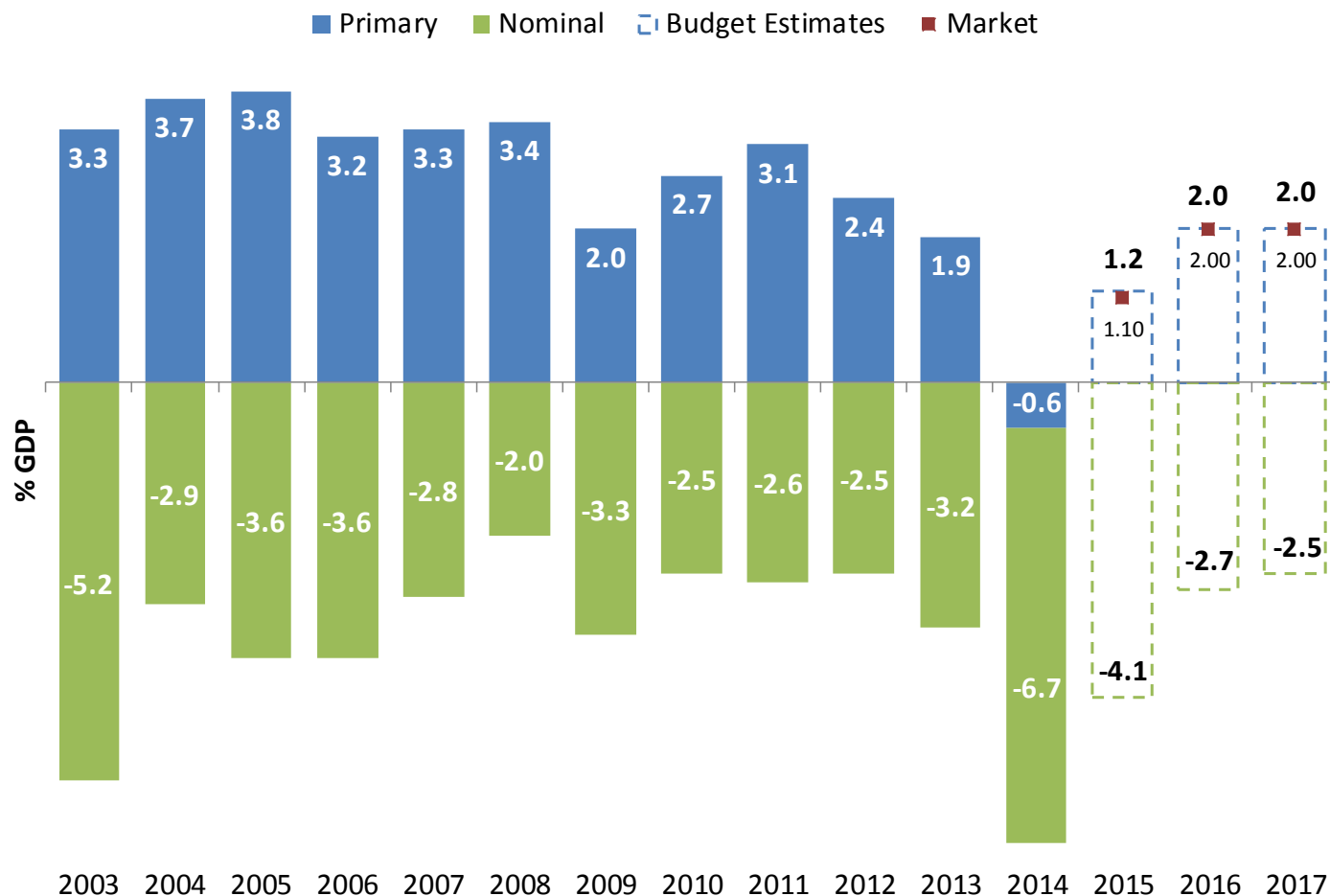
Petrobras – Investment Spending (R\$ Billion)





The fiscal slippage was significant in 2014 – and it is being corrected!

*Non Financial Public Sector Primary and Nominal Balance**



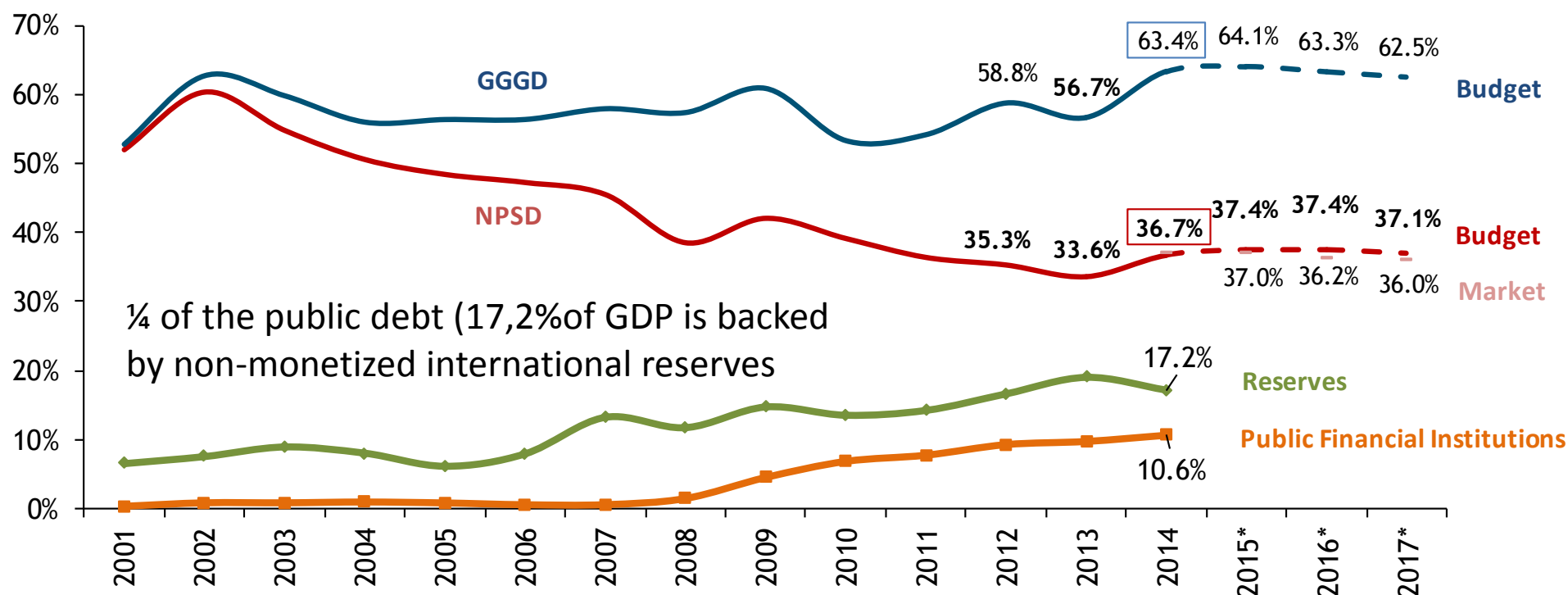
Source: Central Bank / Projections from 2015 to 2017: Budgetary Guidelines Law Revised Draft 2015 for “Budget”, and Focus Report as of (01/30/2015) for “Market”.

* The projections assume Real GDP growth equal 0.8% in 2015, 2.0% in 2016, 2.3% in 2017.



Expansionary Fiscal Policies led to a rise in the Gross Debt / GDP ratio

*General Government Gross Debt vs. Net Public Sector Debt (as % of GDP)**



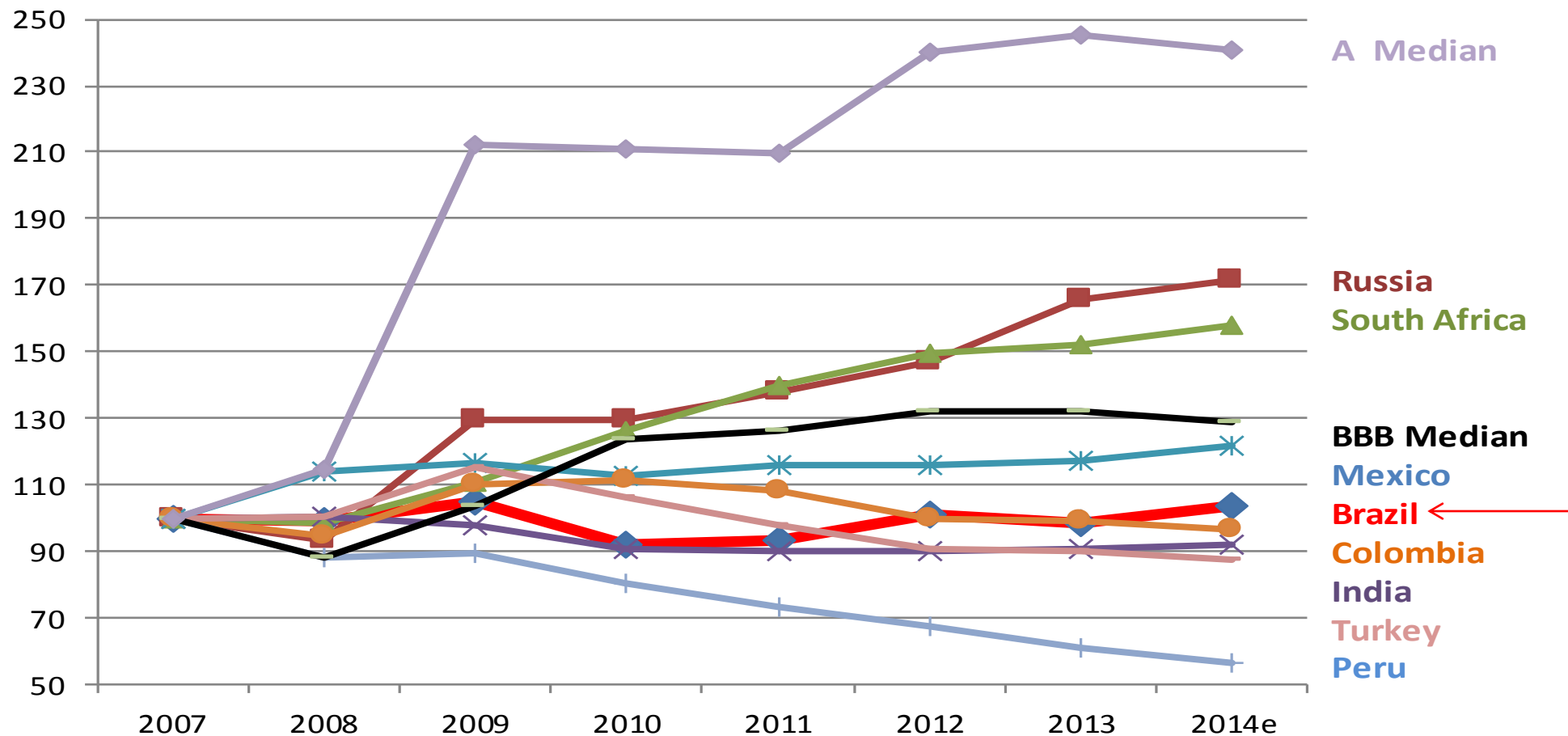
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* The projections assume Real GDP growth equal 0.8% in 2015, 2.0% in 2016, 2.3% in 2017.



Expanding Debt/GDP ratios have not been uncommon in recent years

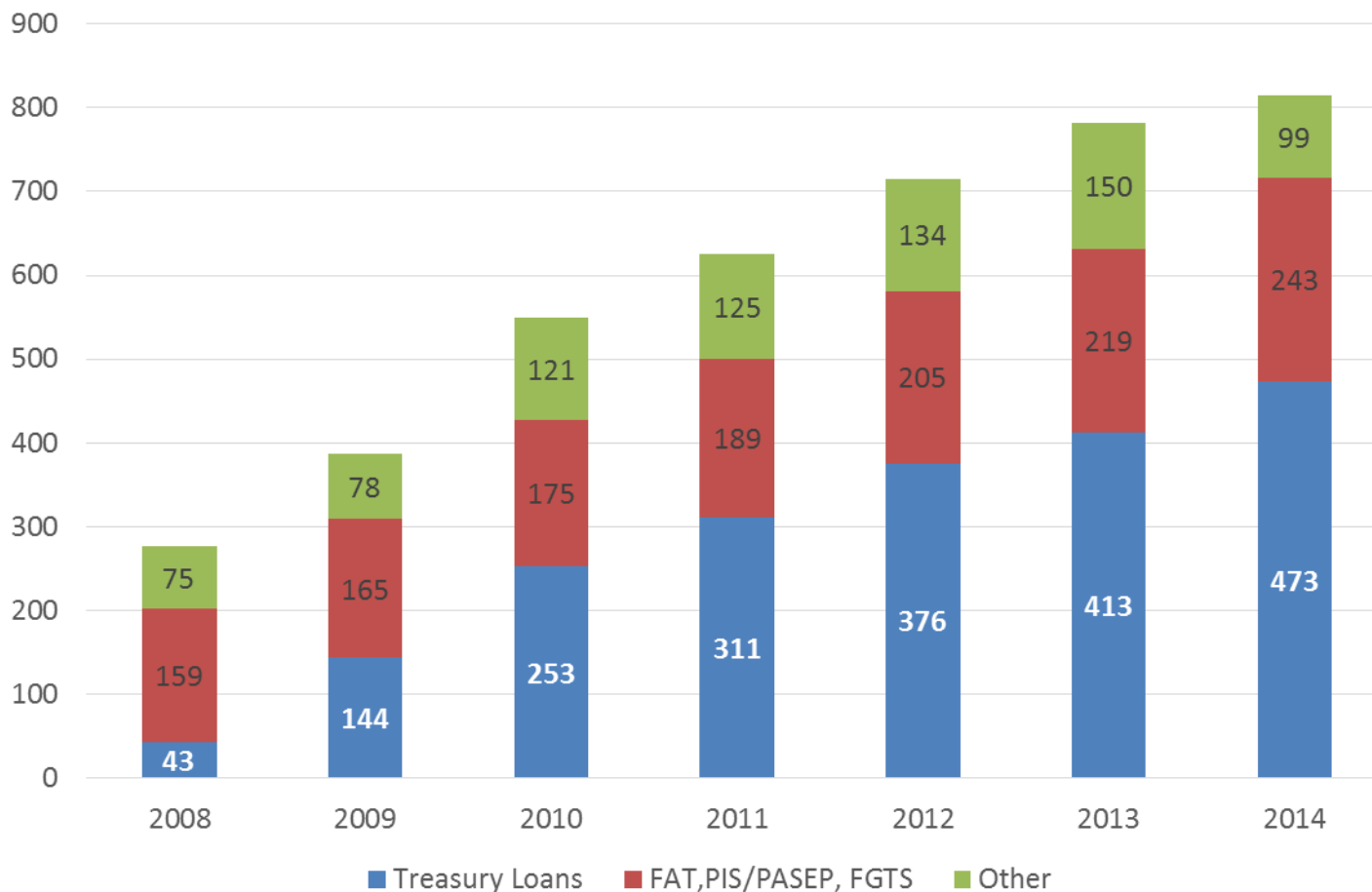
General Government Gross Debt / GDP Ratio – Selected Emerging Markets (Base 100 = 2008)





Additional Treasury Loans to BNDES are not a policy instrument anymore

BNDES funding sources – BRL bn - cumulated





Tax breaks and tax expenditures contributed to the fiscal slippage

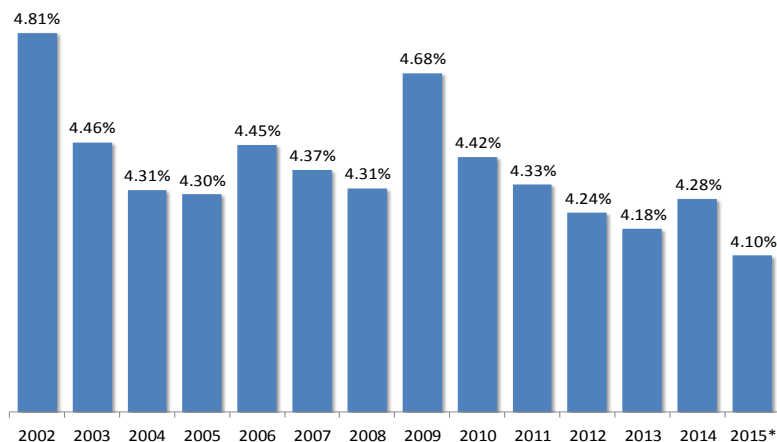
Revenue losses doubled in the 2012-2014 period, reaching 2% of GDP

Tax/Contribution – BRL bn	2012	2013	2014
Payroll for selected sectors	3.7	12.3	21.6
CIDE-fuel	8.5	11.5	12.7
IPI (industrialized) –all categories	9.7	11.8	10.8
Cesta Básica (Ninimum Consumption Basket)	1.0	6.8	9.3
“Simples” and MEI (Individual Micro-entrepreneur)	5.7	6.3	7.2
IOF – (Consumer’s Credit Lines)	2.3	3.6	4.0
Nafta and Ethanol	-	1.9	3.6
Corporate Profit	-	1.7	1.8
Public Transportation	-	0.7	1.4
Broad band Telecom Networks	-	0.6	1.0
Other	15.6	21.4	30.6
Total	46.5	78.6	104.0

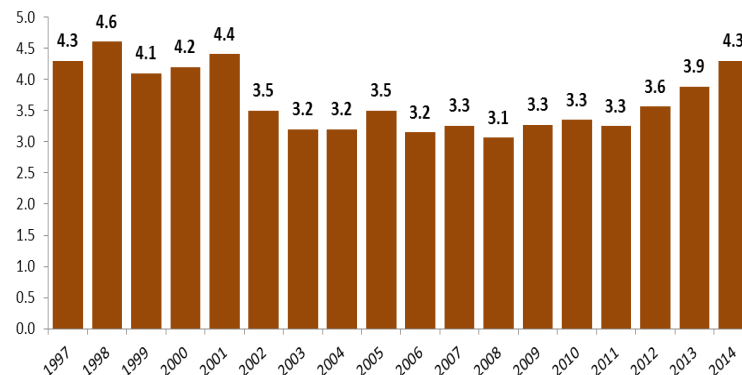


Social Transfers rose faster than the Federal Public Sector Payroll

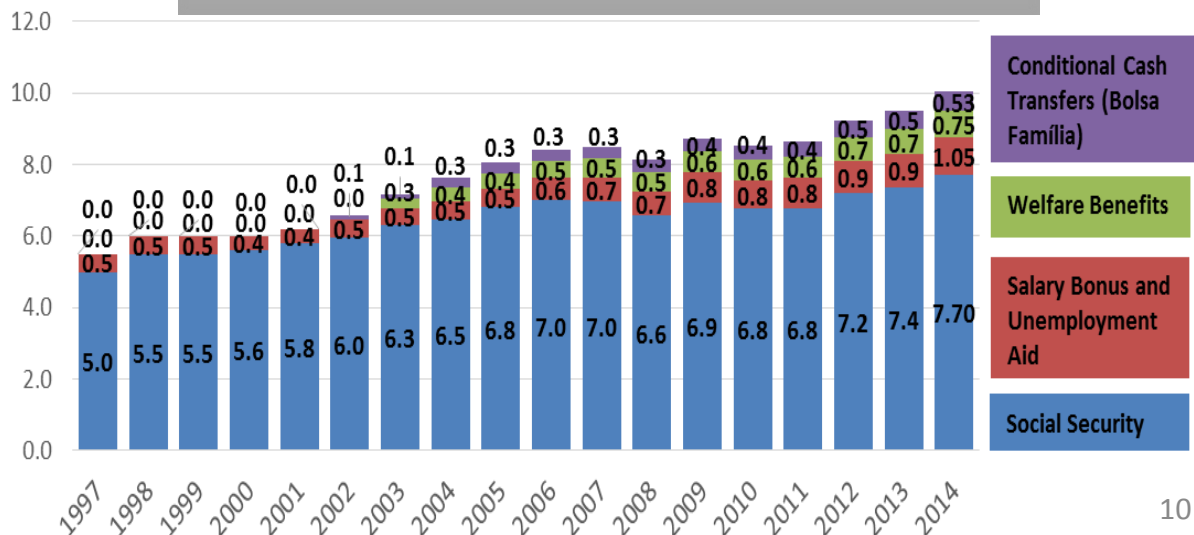
Payroll - % of GDP



Other Expenditure - % of GDP



Main Social Transfers - % of GDP

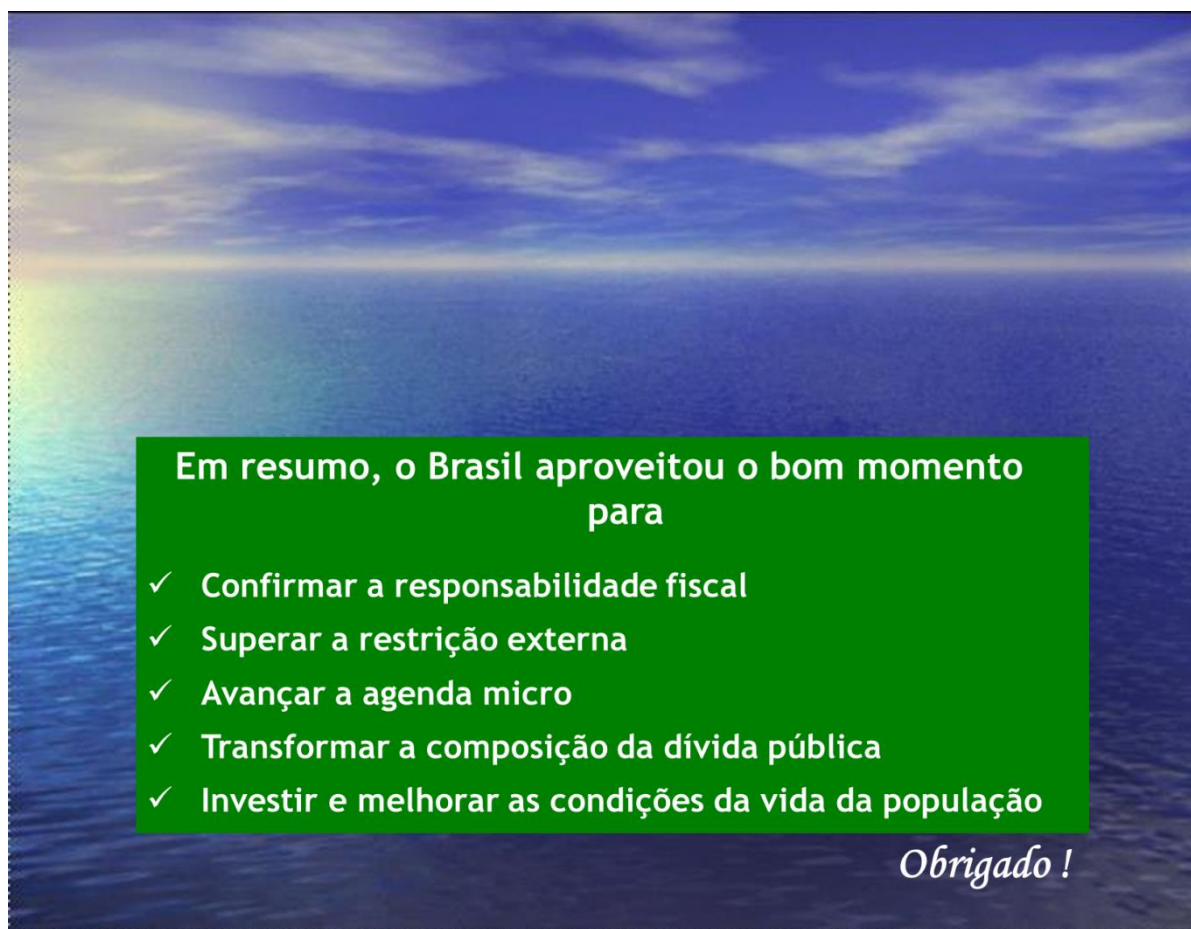


Unemployment Benefits rose from 0,5% of GDP to 1,1% of GDP

The General Regime Social Security transfers rose from 6,0% to 7,2%



There are some short terms challenges, but we have NOT wasted the commodities bonus



Em resumo, o Brasil aproveitou o bom momento para

- ✓ Confirmar a responsabilidade fiscal
- ✓ Superar a restrição externa
- ✓ Avançar a agenda micro
- ✓ Transformar a composição da dívida pública
- ✓ Investir e melhorar as condições da vida da população

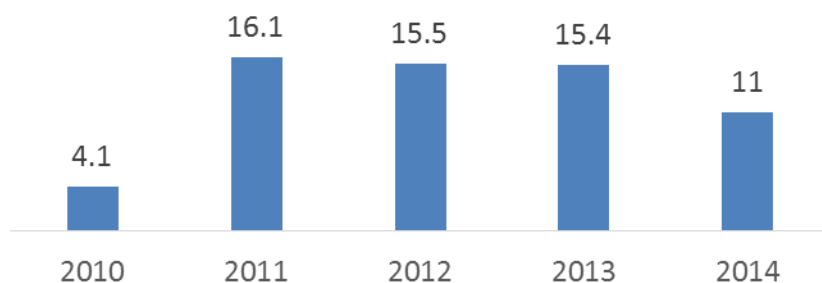
Obrigado !

The message from 2005 is still true, and despite some slippages, the government has the will and the means to make the necessary adjustments to respond to the new global environment and foster a new cycle of growth, with improved fiscal indicators and increases in labor productivity

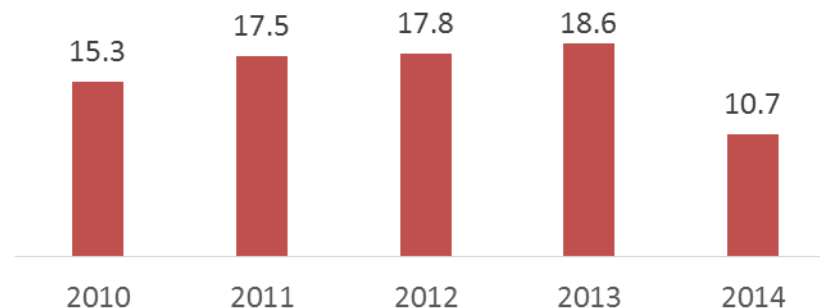


Adjustments include significant structural reforms (MP 665)

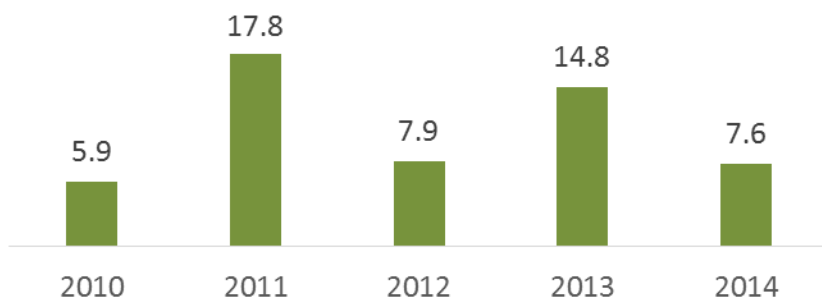
Nominal Expenditure Growth - % Y-o-Y



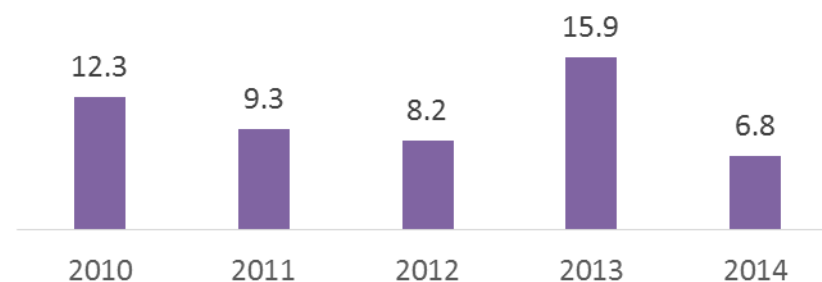
■ Unemployment Insurance
3.5% of total expenditures



■ Wage Bonus
1.6% of total expenditures



■ Disease-Related Benefit
2.1% of total expenditures

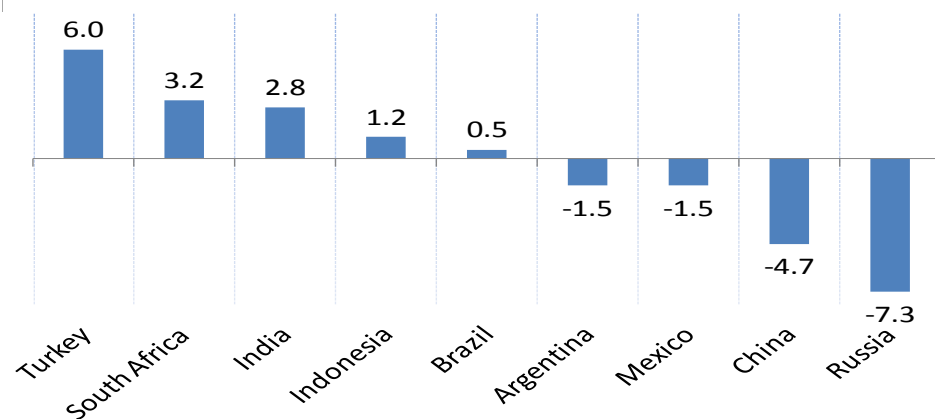


■ Death Pension
8.5% of total expenditures

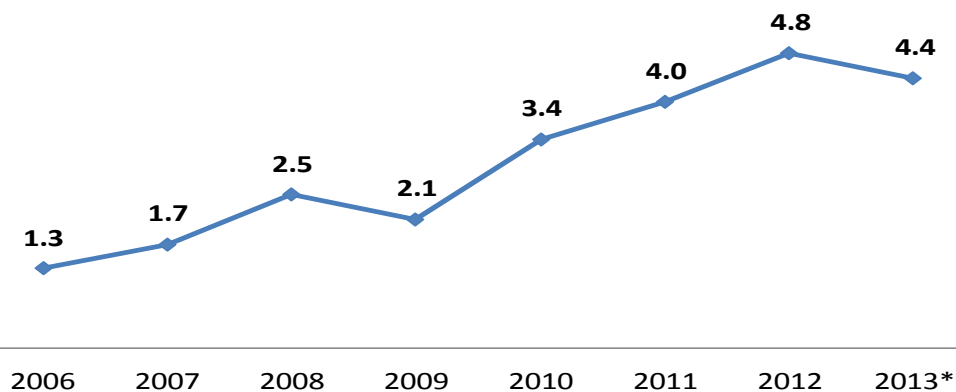


The Current Account Deficit has widened, but FDI remains strong

$[(\text{Current Account Deficit} + \text{FDI}) * (-1)] - \% \text{ of GDP}$



Brazilian share on world's FDI (%)



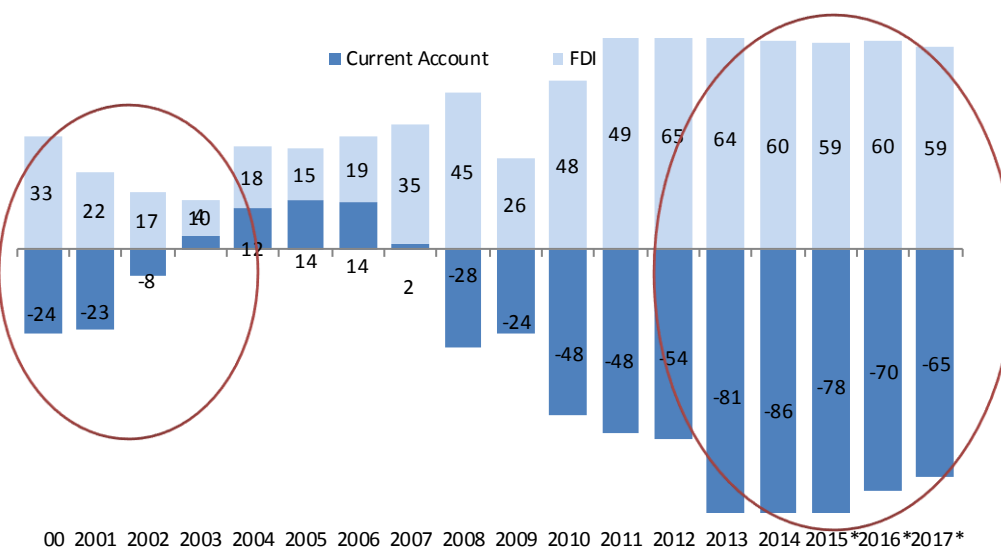
Current Account Balance x FDI (US\$ bn)

» High FX linked debt

» '02 FX-Reserves: USD 38 bn

» Low FX linked debt

» FX-Reserves: USD 374.015 mi (Jan/15)



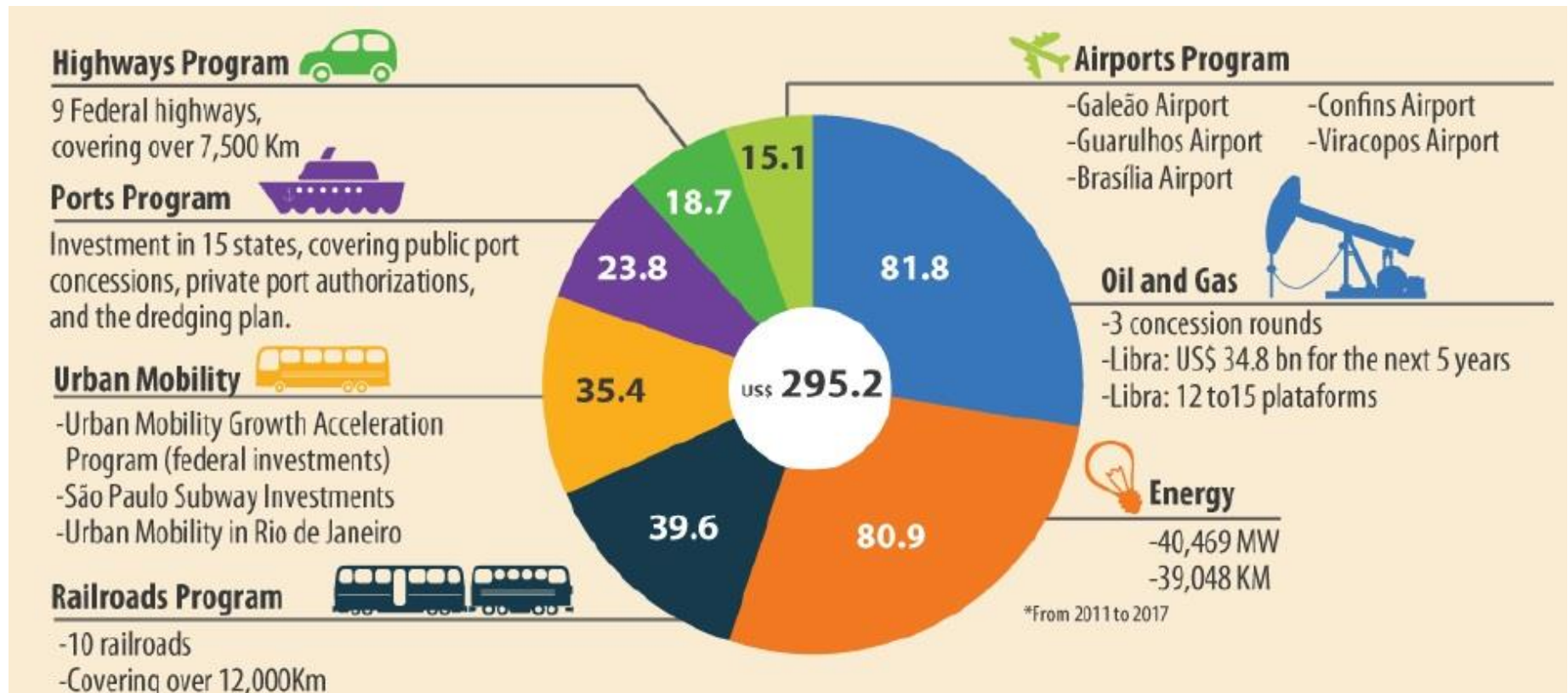
Source: Central Bank - Market Expectations (FOCUS 01/30/15)

FDI in USD has doubled in the 2010s vis-à-vis the 2000s



The participation of the private sector in infrastructure investment is a reality

Infrastructure Program (US\$ bn)

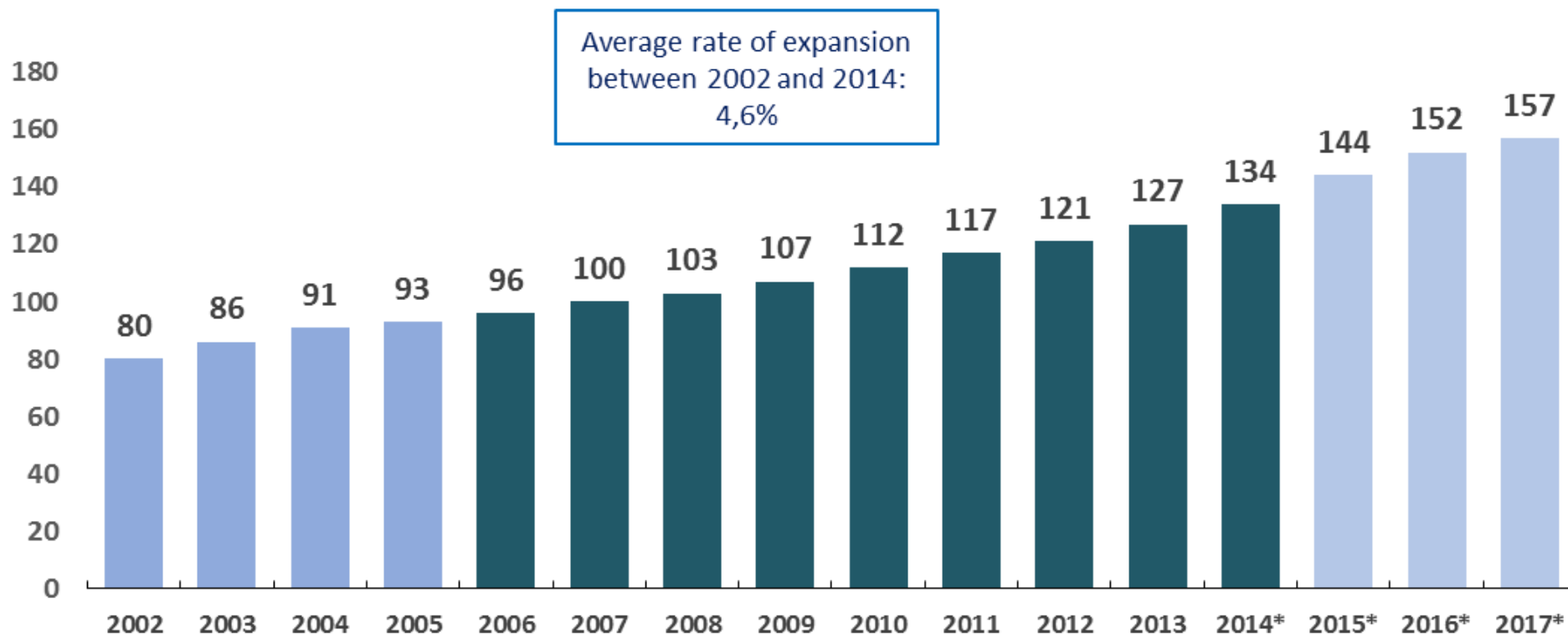


Concessions have been a successful way to expand the infrastructure in the last 20+ years



Electricity Potential Production keeps increasing

Growth in installed capacity in GW





Electricity Consumption has grown significantly – especially among households

Growth in Consumption GWh

	2010		2011		2012		2013		2014	
	GWh	var. %	GWh	var. %	GWh	var. %	GWh	var. %	GWh	var. %
Brasil	415.683	8,2%	433.034	4,2%	448.105	3,5%	463.335	3,4%	473.395	2,2%
Residential	107.215	6,4%	111.971	4,4%	117.646	5,1%	124.896	6,2%	132.049	5,7%
Industrial	179.478	10,9%	183.576	2,3%	183.475	-0,1%	184.609	0,6%	178.055	-3,6%
Services (commerce)	69.17	6,0%	73.482	6,2%	79.226	7,8%	83.695	5,6%	89.819	7,3%
Other	59.82	8,2%	64.006	4,2%	67.758	3,5%	70.136	3,4%	73.472	5,2%

Consumption in 2014 compared with previous years

	2010	2011	2012	2013
Brasil	113.97%	109.37%	105.67%	102.20%
Residential	123.17%	117.98%	112.25%	105.70%
Services	129.72%	122.15%	113.31%	107.30%

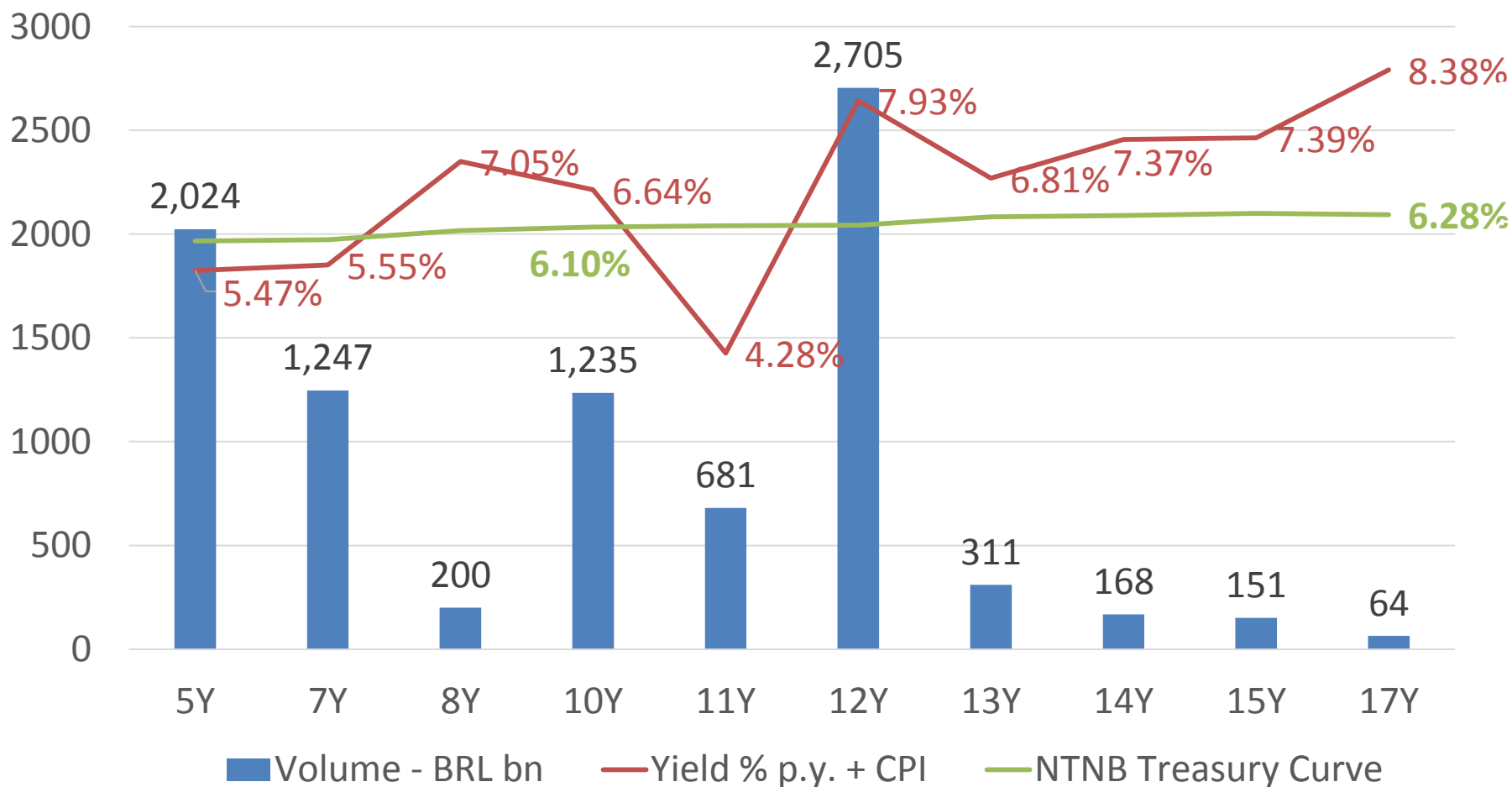
Consumption share by segment

	Residential	Industrial	Service
2010	25,8%	43,2%	16,6%
2011	25,9%	42,4%	17,0%
2012	26,3%	40,9%	17,7%
2013	27,0%	39,8%	18,1%
2014	27,8%	37,8%	18,9%



Local-currency Project Bonds have shown new ways to finance infrastructure

Outstanding volume (BRL mn) and Yield (% p.y.)



Source: National Treasury, Anbima, Bloomberg

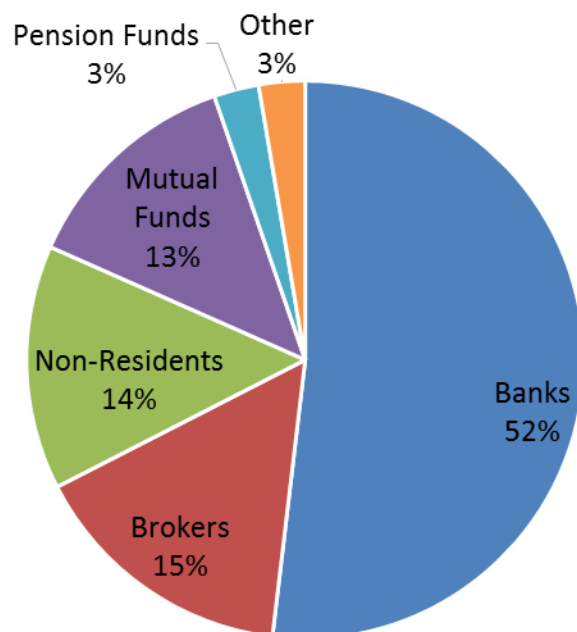
Note: Debentures' Yield Rates represented by and average at issuance date. NTN-B curve reflect secondary market rates as of Feb-10th-2015.



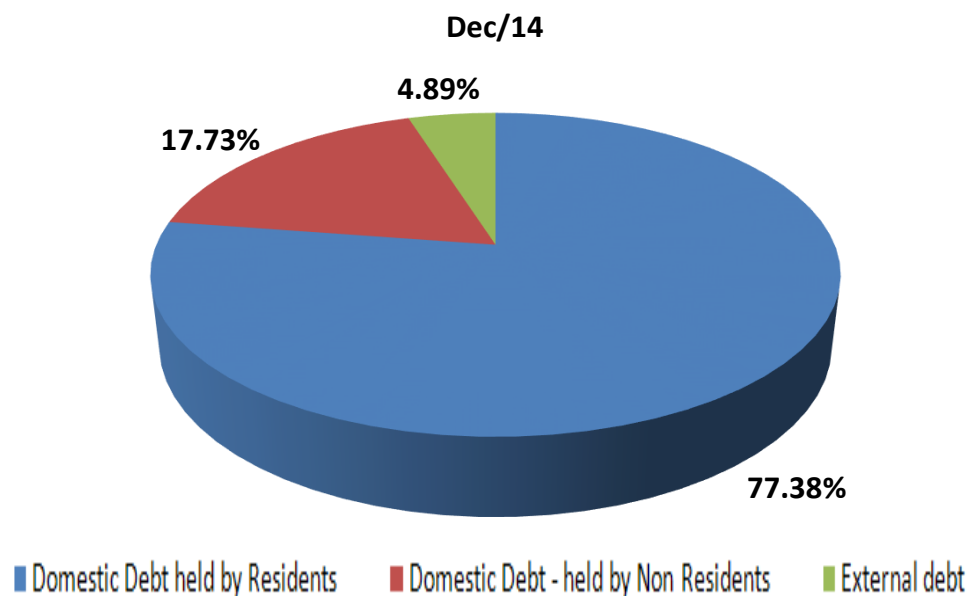
Infrastructure Debentures Holders - as of Dec-14

Total Outstanding – BRL 15.14 bn

Debentures Main Holders-



Public Debt Holders



- » Non resident investors hold roughly 14% of these debentures compared to 18% of domestic debt
- » Retail Investors hold BRL 5.20 bn (34.35%) of the outstanding debentures. They are deposited either in banks or brokers.



Real Interest Rates have shown a secular decline and Inflation expectations are converging again

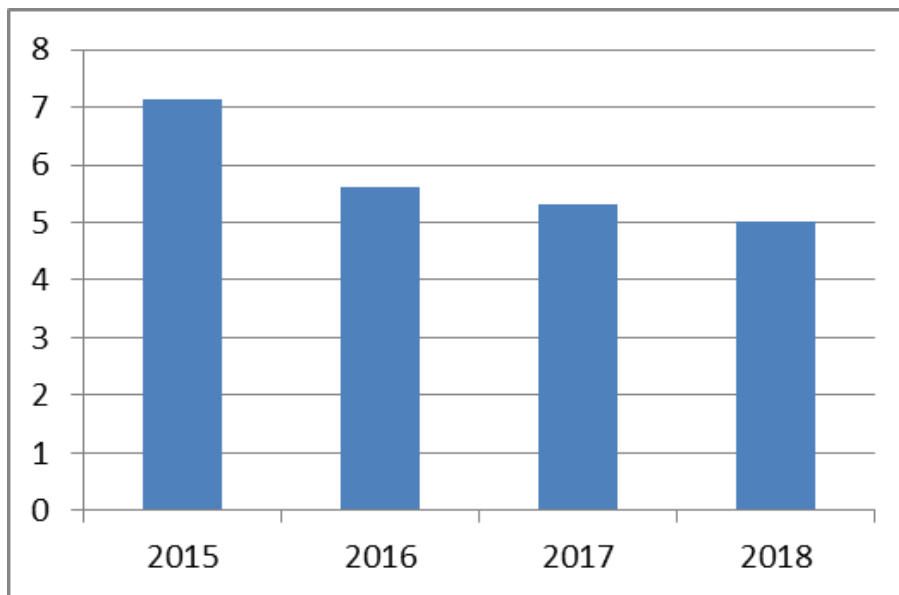
*Medium and Long Term Real Interest Rate**



Source: National Treasury

* NTN-B: CPI linked bonds. Until Jan-10, maturing in 2024, 2035 and 2045, after that maturing in 2030, 2040 and 2050.

Expected Inflation (%)



Source: Central Bank

* Market Expectations – Central Bank – FOCUS January 30nd 2015



Long Term Securities yields continue to be attractive (and above the Selic)

Average Return of Public Bonds–ANBIMA Market Index (IMA) vs Overnight Rate (CDI)

Return	2010	2011	2012	2013	2014	Average 2010 -2014
	1st IMA-B 17.00%	IMA-B 15.10%	IMA-B 26.70%	CDI 8.10%	IMA-B 14.50%	IMA-B 12.66%
	2nd IRF-M 11.90%	IRF-M 14.50%	IRF-M 14.30%	IRF-M 2.60%	IRF-M 11.40%	IRF-M 10.94%
	3rd CDI 9.70%	CDI 11.60%	CDI 8.40%	IMA-B -10.00%	CDI 10.80%	CDI 9.72%

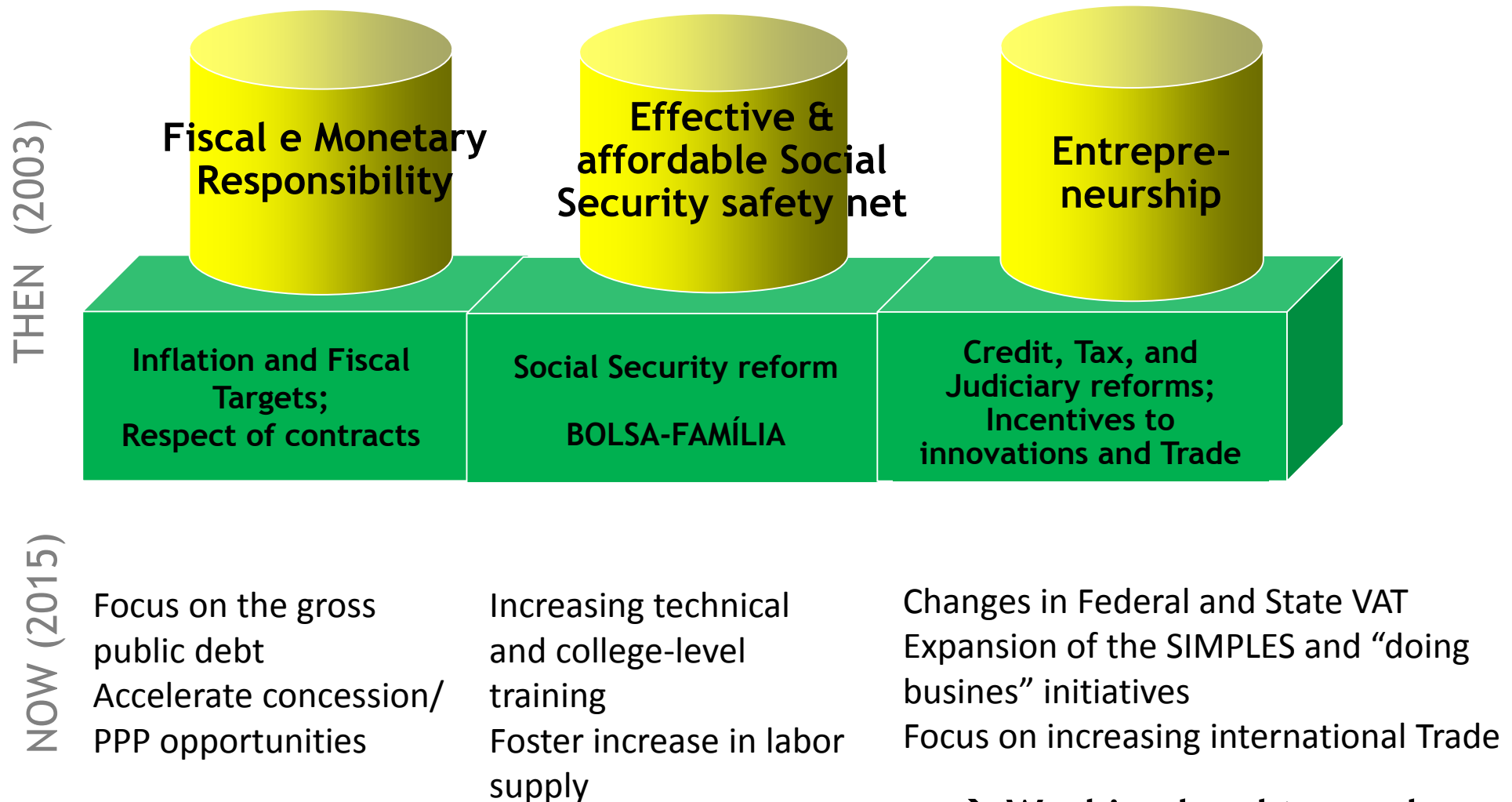
Source: ANBIMA

Obs.: IRF-M considers all fixed rate bonds outstanding (LTN and NTN-F). IMA-B considers all inflation linked bonds outstanding (NTN-B). IMA-Geral is the most comprehensive index and is the sum of IRF-M, IMA-S (floating rate index), IMA-C (NTN-C) and IMA-B.

» Brazilian Local Government Bond market presents opportunities in both fixed rate and inflation-linked securities.

Remembering policy commitments & goals

Pillars of Development



→ Working hard towards...²¹

... getting ready for 2016 !



Thank you