



Brazil: adjusting the economy

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Adjusting the economy

1. Increasing incentives for a change in the economic policy stance:

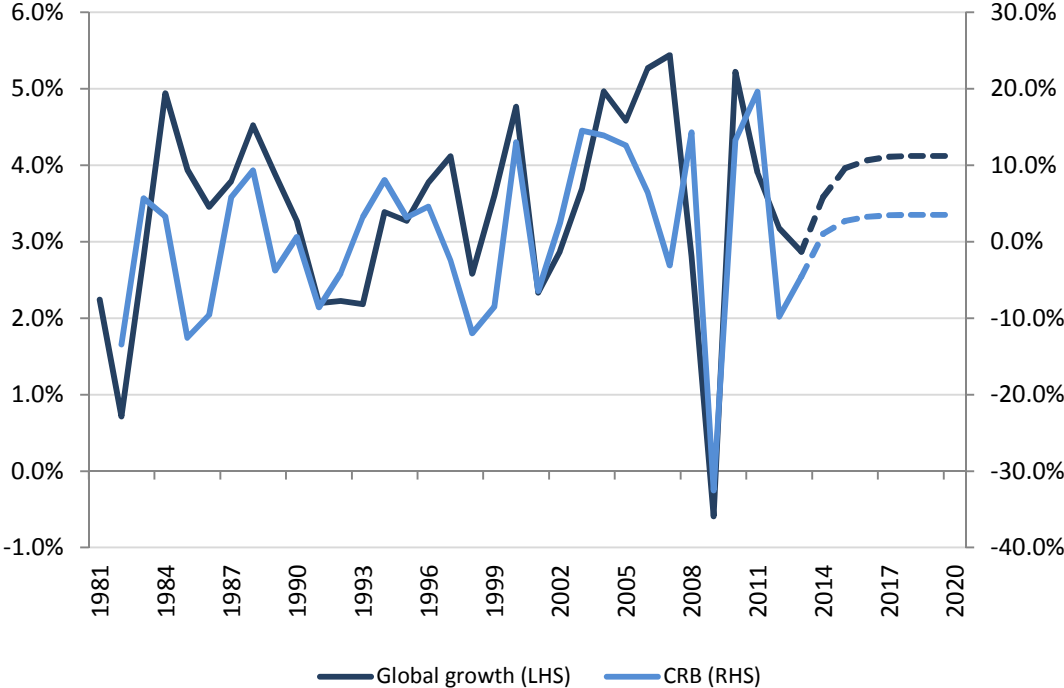
- ✓ A rebalancing of global growth has increased local constraints;
- ✓ Political cycle: real income drives political competition.

2. Despite short-term costs and challenges, Brazil is building up a new cycle of growth based on:

- ✓ Lower production costs;
- ✓ Greater confidence (current account correction and stable economic rules);
- ✓ Incentives for private investment (infrastructure).

Global growth and commodities

Global GDP, CRB index



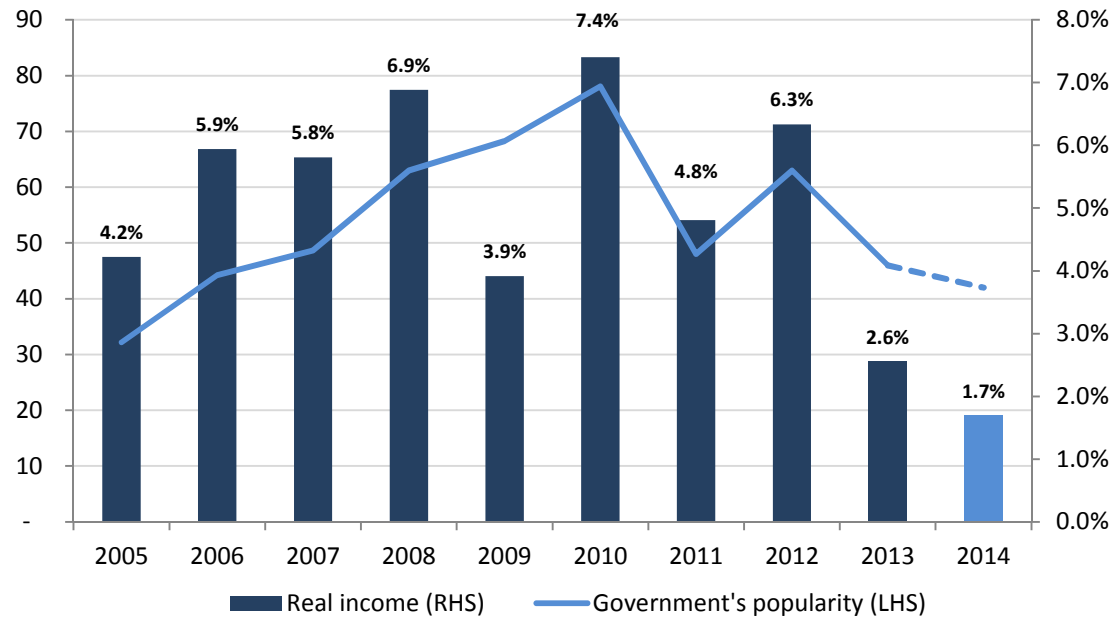
Global economic recovery is likely to support a favorable trend in commodity prices.

In the short-term, however, a rebalancing of global growth has increased uncertainty.

Source: IMF, Bloomberg , Votorantim Corretora.

Elections raise political competition

Government's popularity and real income growth



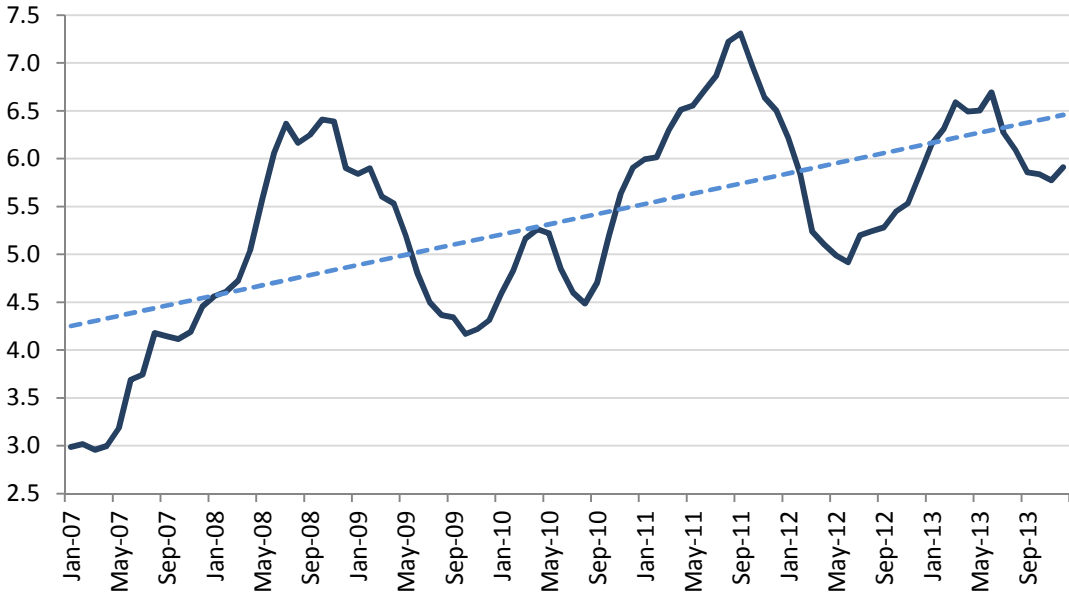
The government's popularity is linked to economic performance.

Demands for a new economic agenda and stronger opposition parties are increasing political competition.

Source: Datafolha, IBGE, Votorantim Corretora.

Inflation: long-term upward trend

IPCA (% YoY)



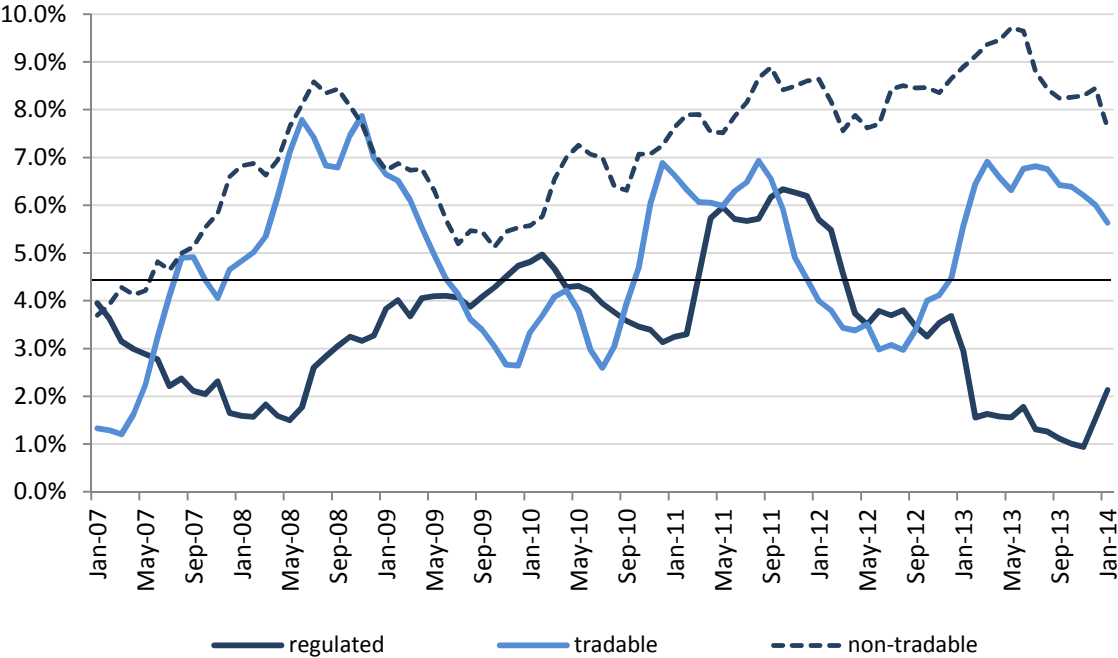
Inflation is running above the midpoint of the target range and the Latam average.

Historically, inflation raises political competition.

Source: IBGE, Votorantim Corretora.

Services inflation: the greatest pressure

IPCA (% YoY)

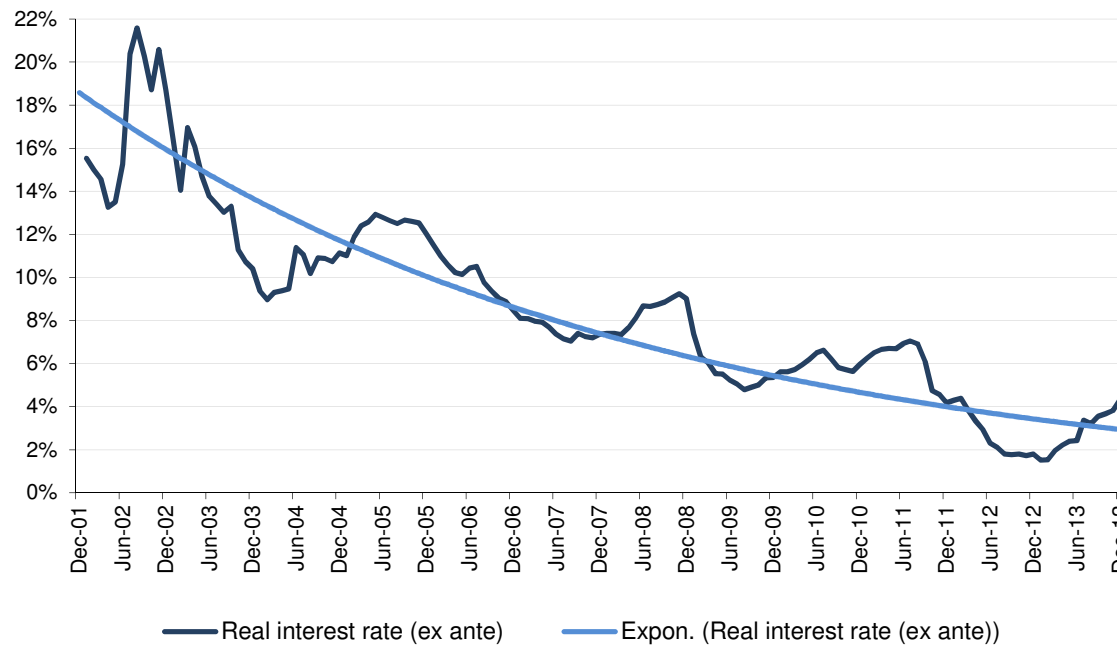


A tight labor over the past years has explained the services inflation dynamics and, as a consequence, the overall inflationary pressure.

Source: IBGE, Votorantim Corretora.

Monetary policy: adjusting the stance

Real interest rate (% Selic)

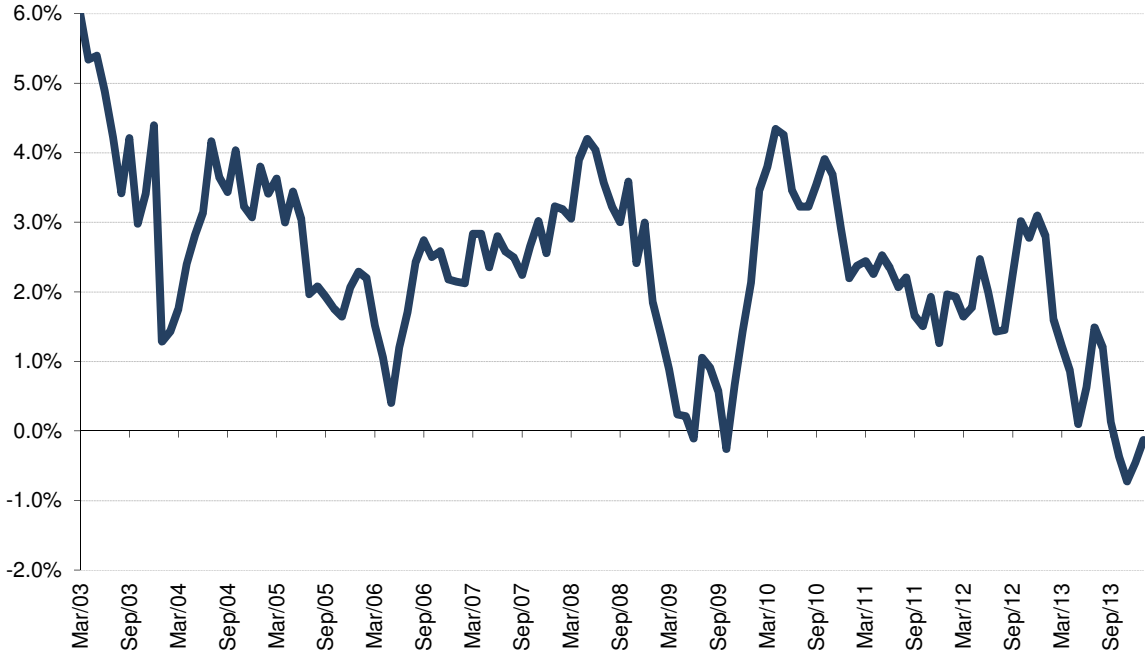


Current policy tightening came on the back of increasing inflationary risks.

Source: Bloomberg, Central Bank, Votorantim Corretora.

New cycle: labor market cooling

Employment growth (% YoY)

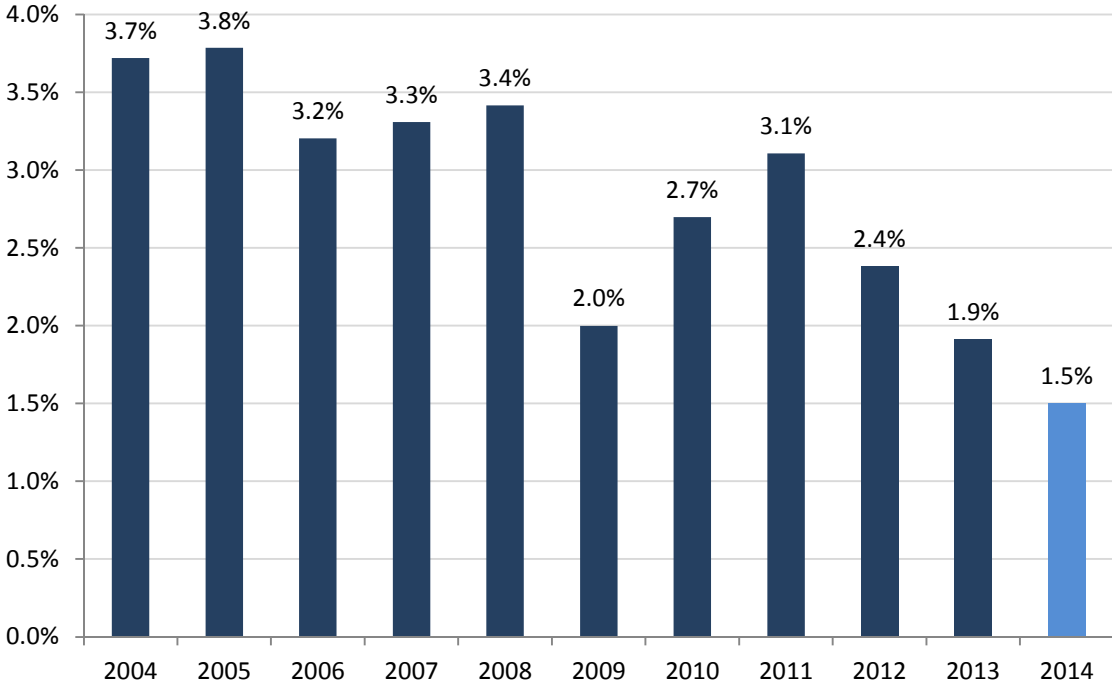


Slack in the labor market will help to reduce production costs and increase the country's competitiveness.

Source: IBGE, Votorantim Corretora.

Fiscal deterioration

Primary budget balance (% GDP)

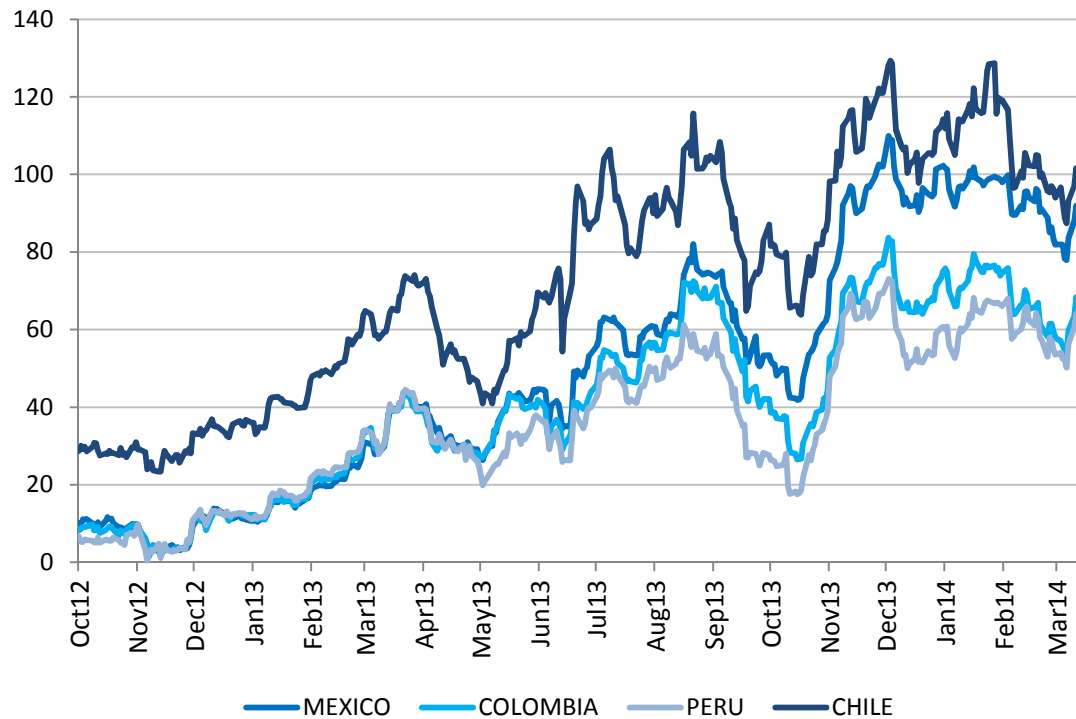


Tax relief with low transparency and commitment to targets reinforce the unfavorable impacts of the economic cycle.

Source: Central Bank, Votorantim Corretora.

Scenario: short-term costs and challenges

Brazil and Latam - CDS (bps)



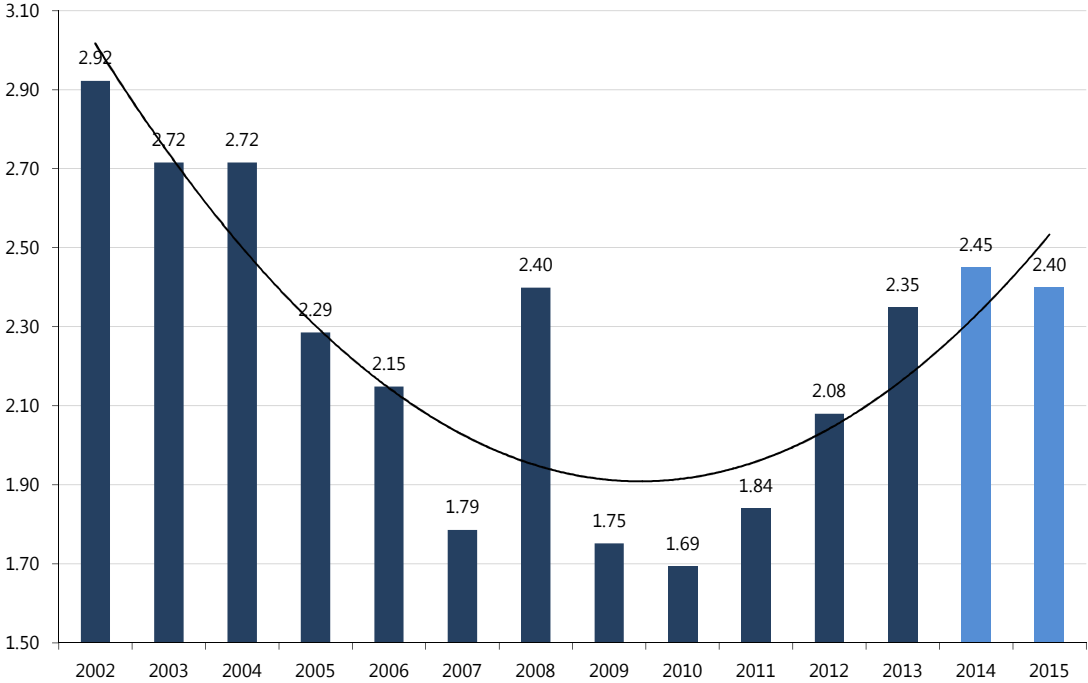
Lower growth, energy crisis and policy noises may prevent country from moving toward a better scenario.

However, a new economic cycle tends to limit downside risks.

Source: Bloomberg, Votorantim Corretora.

BRL poised for long-term devaluation

USDBRL

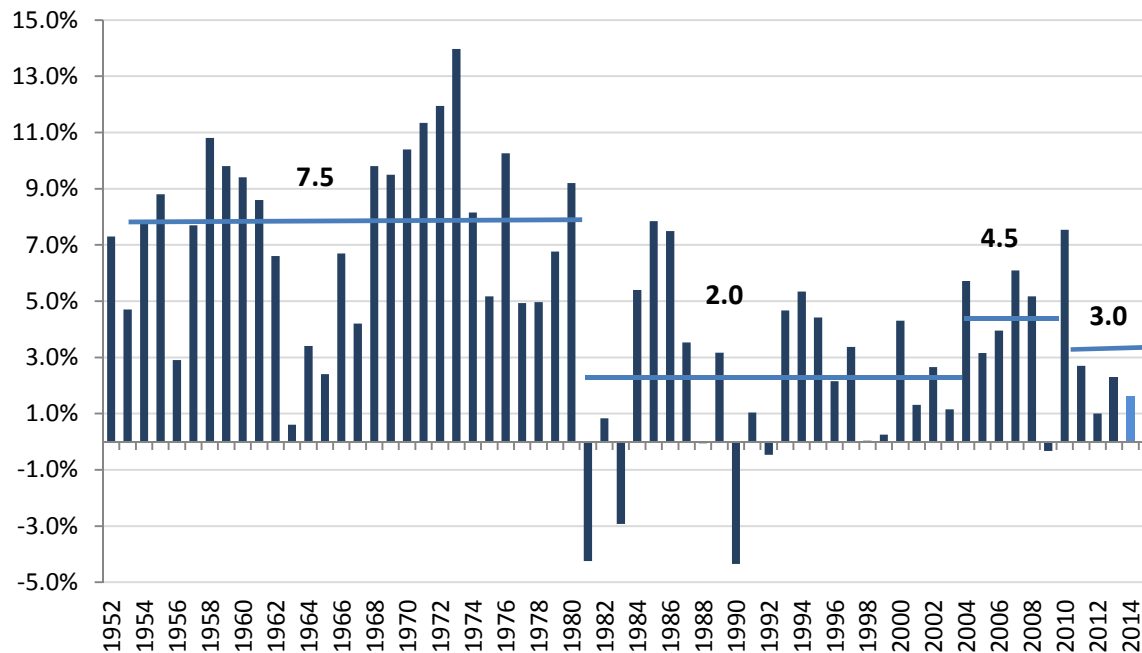


Depreciation comes on the back of an increasing current account deficit with unfavorable growth and interest rate differentials.

Source: Bloomberg , Votorantim Corretora.

New cycle based on fixed investment

Local growth (% GDP)



A new regulatory agenda, with labor constraints, lead to a new growth pattern based on fixed investment rather than on consumption.

The current credit and commodity cycle reinforces this new growth pattern.

Source: IBGE, Votorantim Corretora.

Brazilian Outlook

	2006	2007	2008	2009	2010	2011	2012	2013	2014f	2015f
GDP (USD billion)	1,089	1,366	1,651	1,626	2,139	2,474	2,247	2,242	2,147	2,302
GDP (Real Growth, %)	4.0	6.1	5.1	-0.2	7.5	2.7	1.0	2.3	1.6	2.8
Industrial Production (% , year)	2.8	6.0	3.1	-7.4	10.5	0.4	-2.6	1.1	-1.7	1.9
Retail Sales (% , year)	6.2	9.7	9.1	5.9	10.9	6.7	8.4	4.3	4.7	5.0
Unemployment Rate (% , year-average)	10.0	9.3	7.9	8.1	6.7	6.0	5.5	5.4	5.7	6.5
Real Income (% , year)	5.6	4.9	7.5	4.0	7.4	4.8	6.3	2.6	2.2	1.4
Credit Volume Growth (% , year)	20.7	27.8	31.1	15.2	20.6	18.8	16.4	14.6	14.9	11.7
Credit Volume (% GDP)	30.9	35.5	40.7	43.9	45.4	49.1	53.8	56.1	60.8	62.7
Inflation (IPCA, %)	3.1	4.5	5.9	4.3	5.9	6.5	5.8	5.9	6.0	5.4
Interest Rate (SELIC year-end, % p.a.)	13.3	11.3	13.8	8.8	10.8	11.0	7.3	9.90	11.25	12.00
Exchange Rate (year-end, BRL/USD)	2.14	1.77	2.34	1.74	1.67	1.88	2.04	2.34	2.44	2.40
Trade Balance (USD billion)	46.2	40.1	24.8	25.3	20.3	29.8	19.4	2.6	22.4	37.3
Current Account (USD billion)	13.6	1.6	-28.2	-24.3	-47.4	-52.5	-54.2	-81.4	-67.5	-42.9
Current Account (% GDP)	1.3	0.1	-1.7	-1.5	-2.2	-2.1	-2.4	3.7	-3.2	-1.9
Foreign Direct Investment (USD billion)	18.8	34.6	45.0	25.9	48.4	66.7	65.3	64.0	52.9	59.5
International Reserves (USD billion)	85.8	180.3	193.8	238.5	287.9	352.0	378.6	375.8	376.0	387.3
Fiscal Nominal Result (% GDP)	-3.6	-2.8	-2.0	-3.3	-2.5	-2.6	-2.5	-3.3	-3.5	-1.9
Fiscal Primary Surplus (% GDP)	3.2	3.3	3.4	2.0	2.7	3.1	2.4	1.9	1.5	2.5
Public Sector Net Debt (% GDP)	51.1	45.7	38.5	42.8	39.1	36.4	35.3	33.8	35.3	34.4

Source: Votorantim corretora.

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