

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



BNDES

*Brazilian
development bank*

- Brazilian assets & challenges
- Brazilian growth trends and prospects
- The State: managing for the short and for the long term
- The profile of a strategic agency: 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 on the making
- Strengthening formal job creation

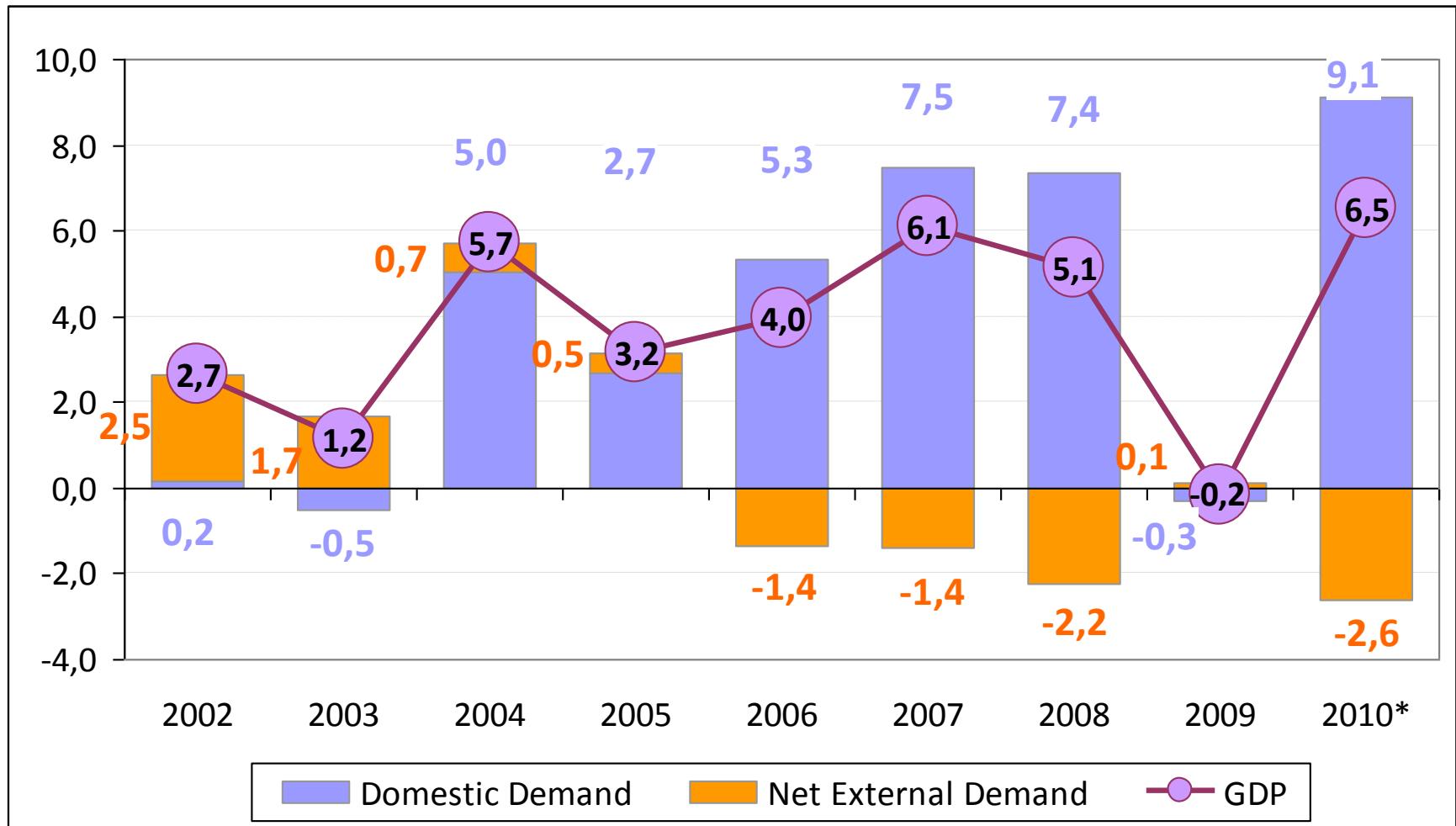


Brazilian growth trends and prospects

Domestic market explains 2004-2008 growth cycle and 2010 recovery

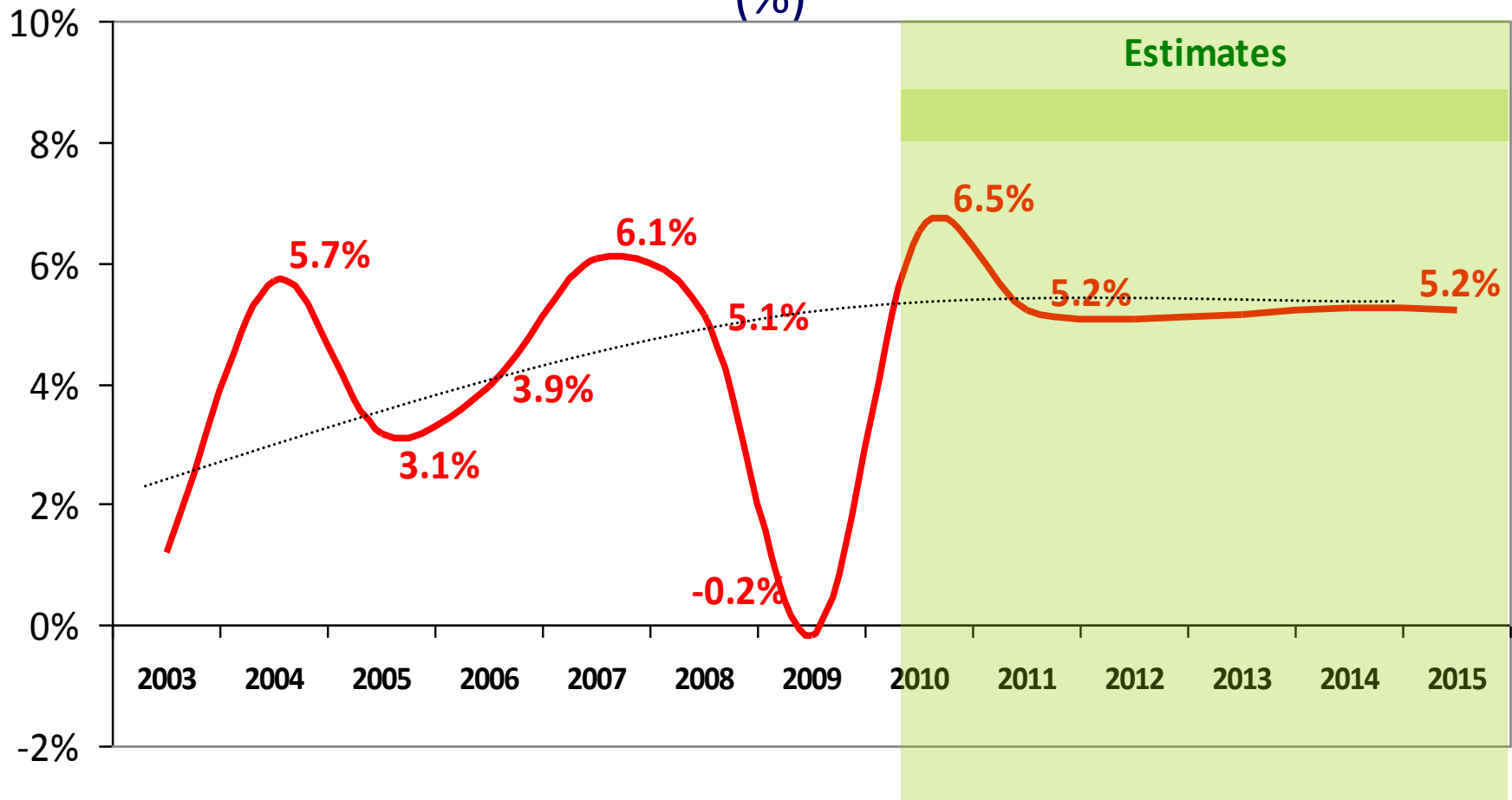
Contribution to GDP (in percentage points)

* Forecast



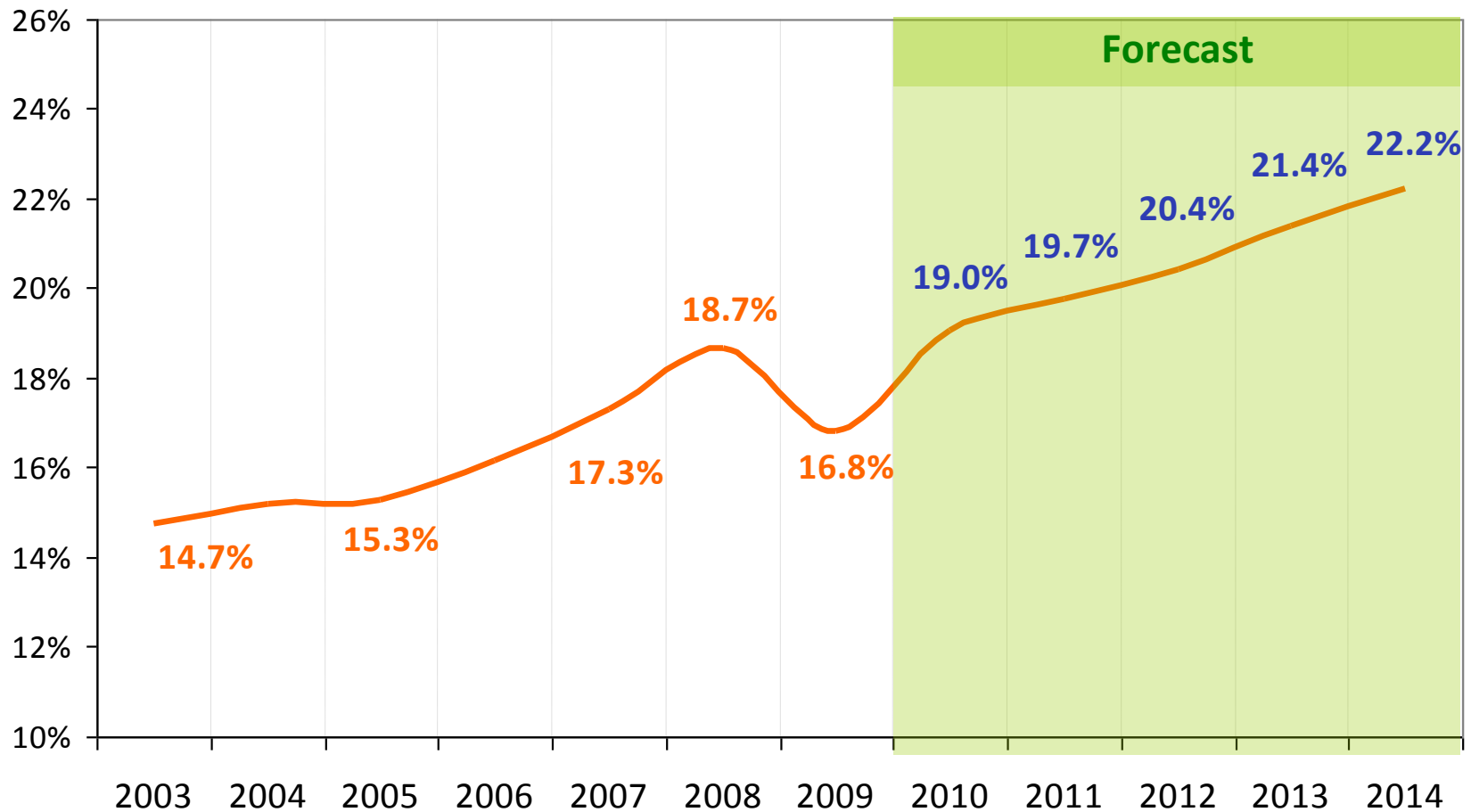
An average 5% p.a. growth is feasible over the next 5 years...

Brazil: GDP Annual Growth Rate (%)



... with investment leading the way...

Investment/GDP (%)



... as investment plans are robust and rising

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

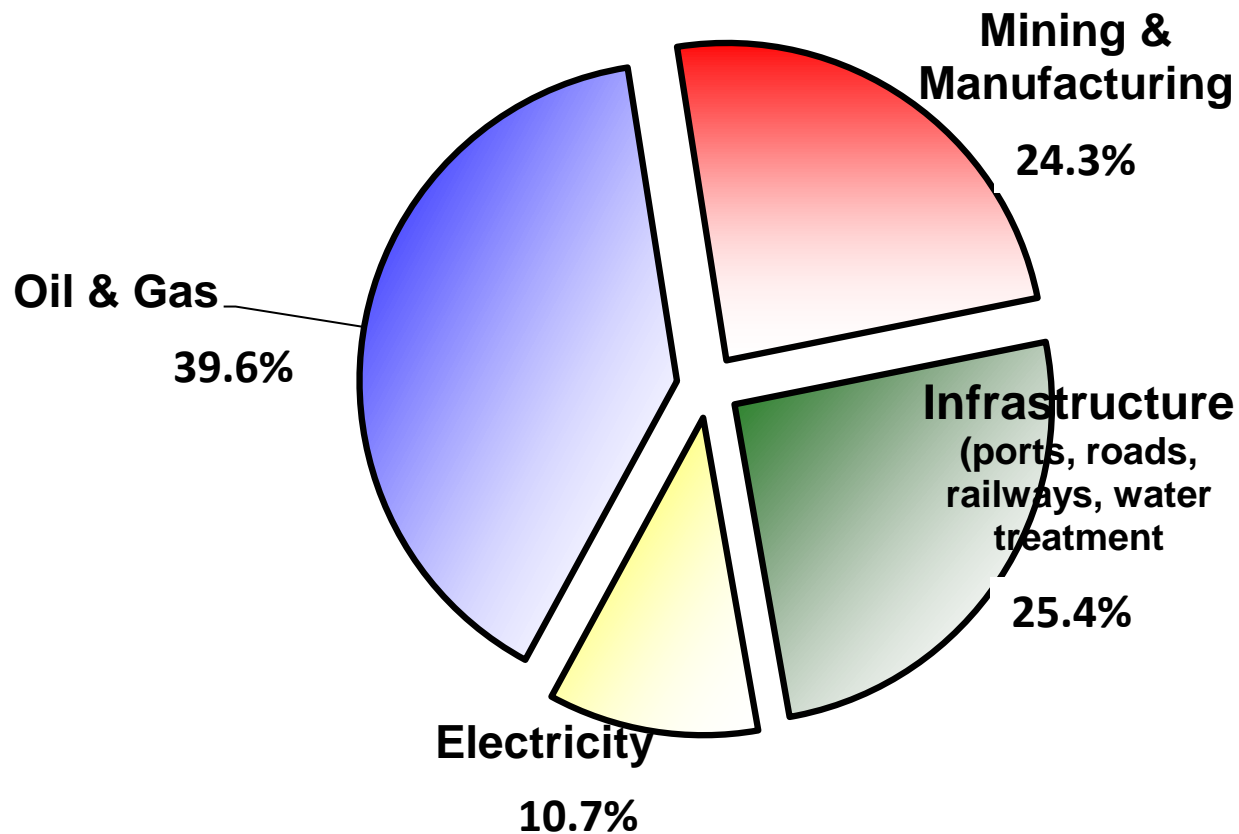
Based on Corporate Investment Plans from 13 sectors – Last Forecast: April 2010

Sample :

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

Investments in Oil & Gas and Infrastructure stand out

Petrobras' annual investments: US\$ 45 billion (2010-2014)



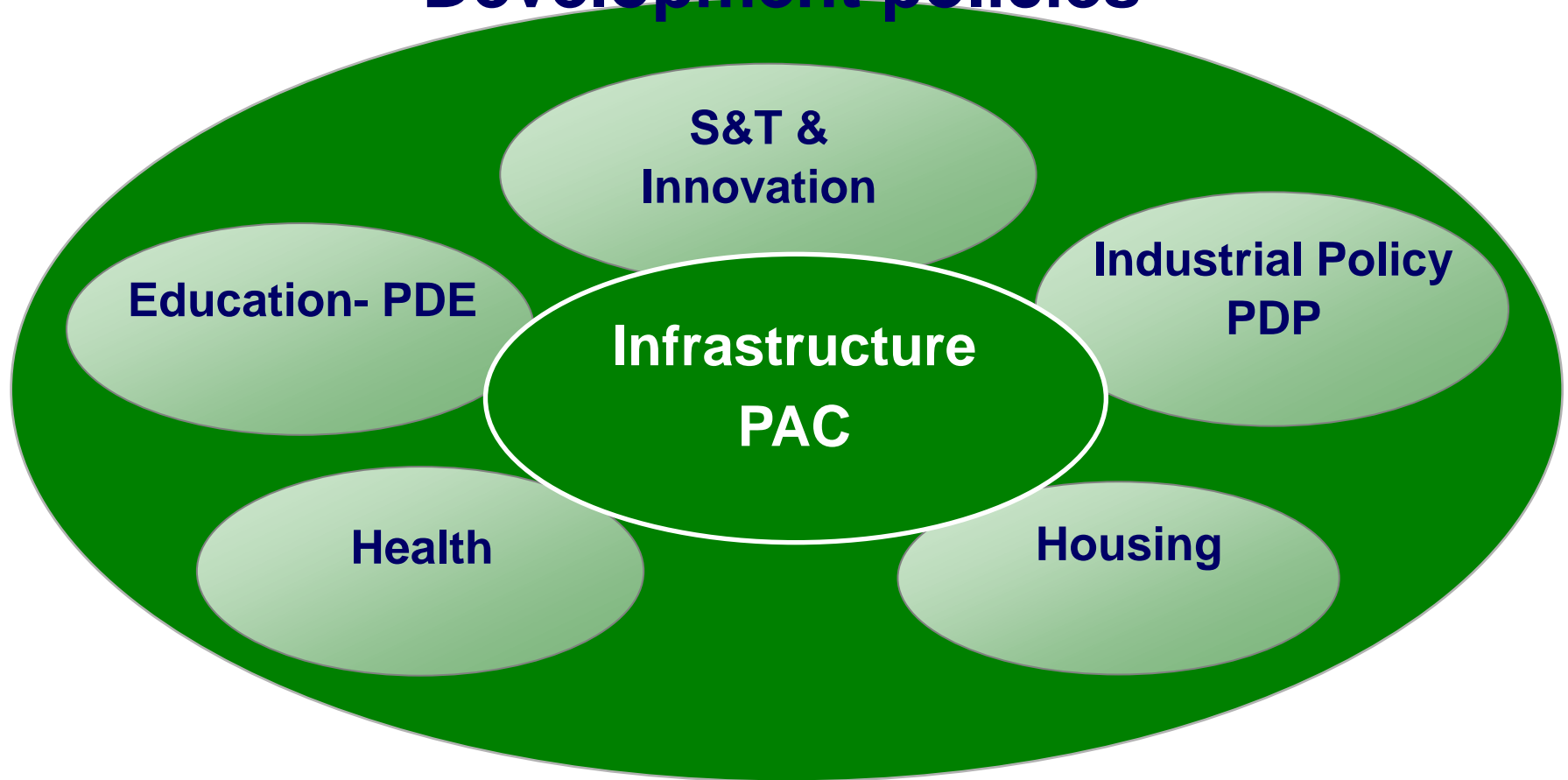
The State:

managing for the short and for the long term

- 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 removed)
 - Credit expansion thanks to State-owned banks
 - Incentives for investment



Development 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 Chief of Staff of the 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

Aeronautics

Oil, Gas and
Petrochemicals

Bio-ethanol

Meat

Mining

Steel

Pulp and
Paper

Strengthening Competitiveness

Automotive
Complex

Capital Goods

Textile &
Garments

Wood and
Furniture

Hygiene
and Cosmetics

Housing

Services
Complex

Naval &
Shipping
Industries

Leather &
Footwear

Agribusinesses

Bio-diesel

Plastics

Wheat

Electronics –
consumer

Toy Industry

Fostering Knowledge

Industrial Health
Complex

Information and
Communication
Technologies

Nuclear Energy

Defense Complex

Nanotechnology

Biotechnology

Strategic Issues

Expanding
Exports

Strengthening
SMEs

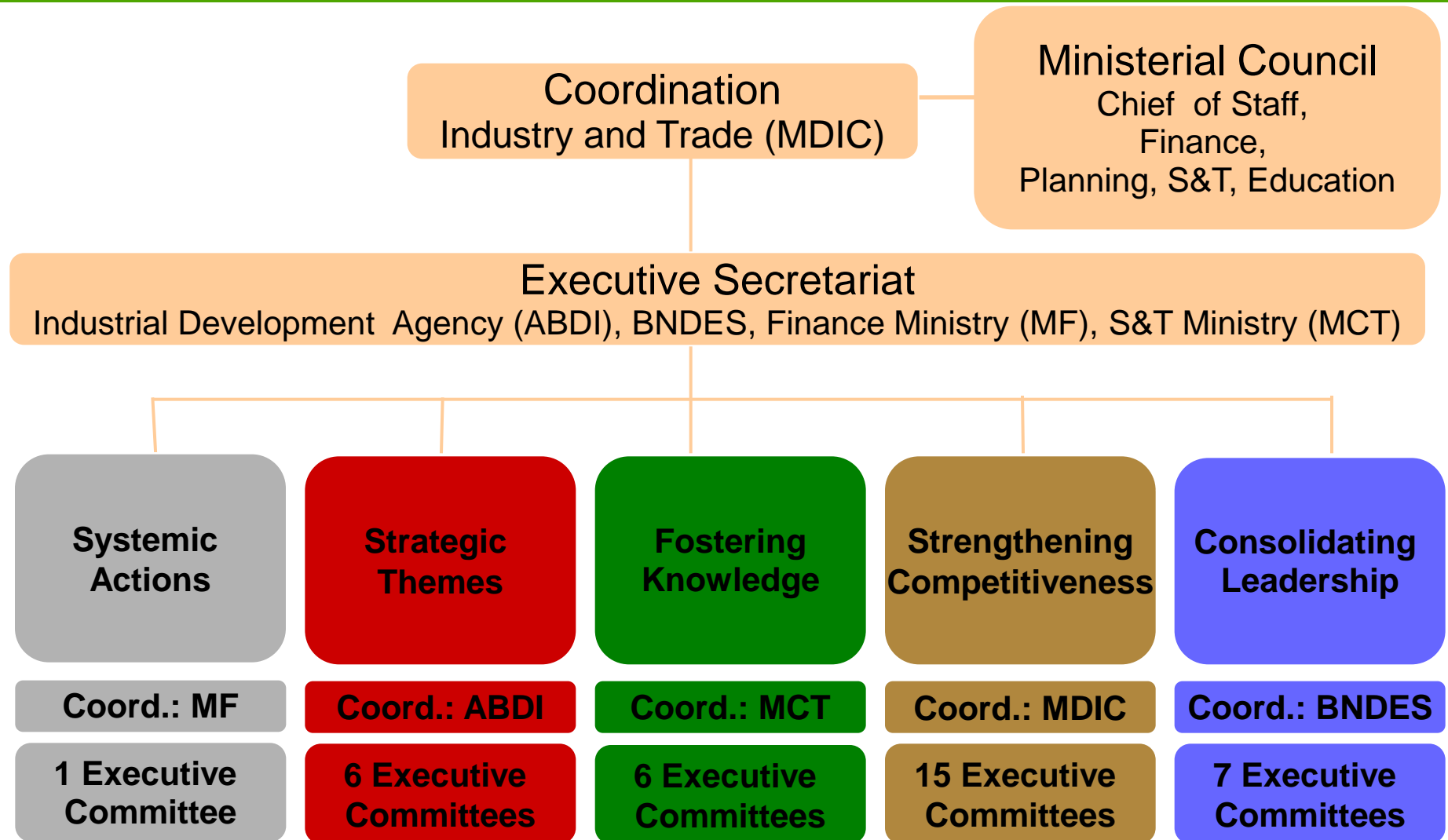
Productive
Integration with
Latin America

Integration with
Africa

Regionalization
and production
decentralization

Clean Production
and Sustainable
Development

Governance: hierarchical structure and well defined roles for relevant agencies



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

BNDES

The profile of a strategic agency

- ✓ **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

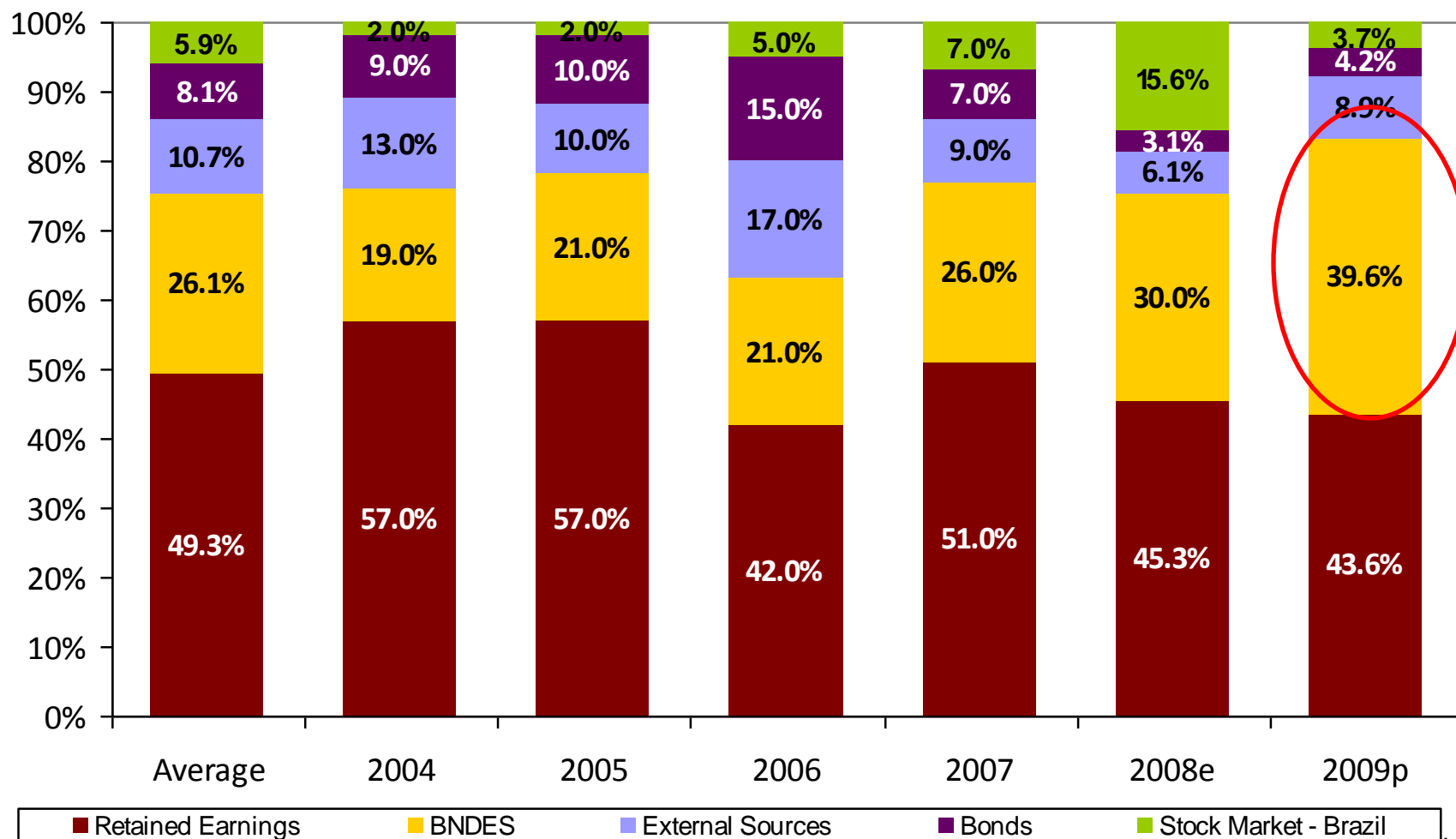
Source: BNDES, IADB (Dec./09) and World Bank (June/09).

* Book value

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

The importance of BNDES' financing

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



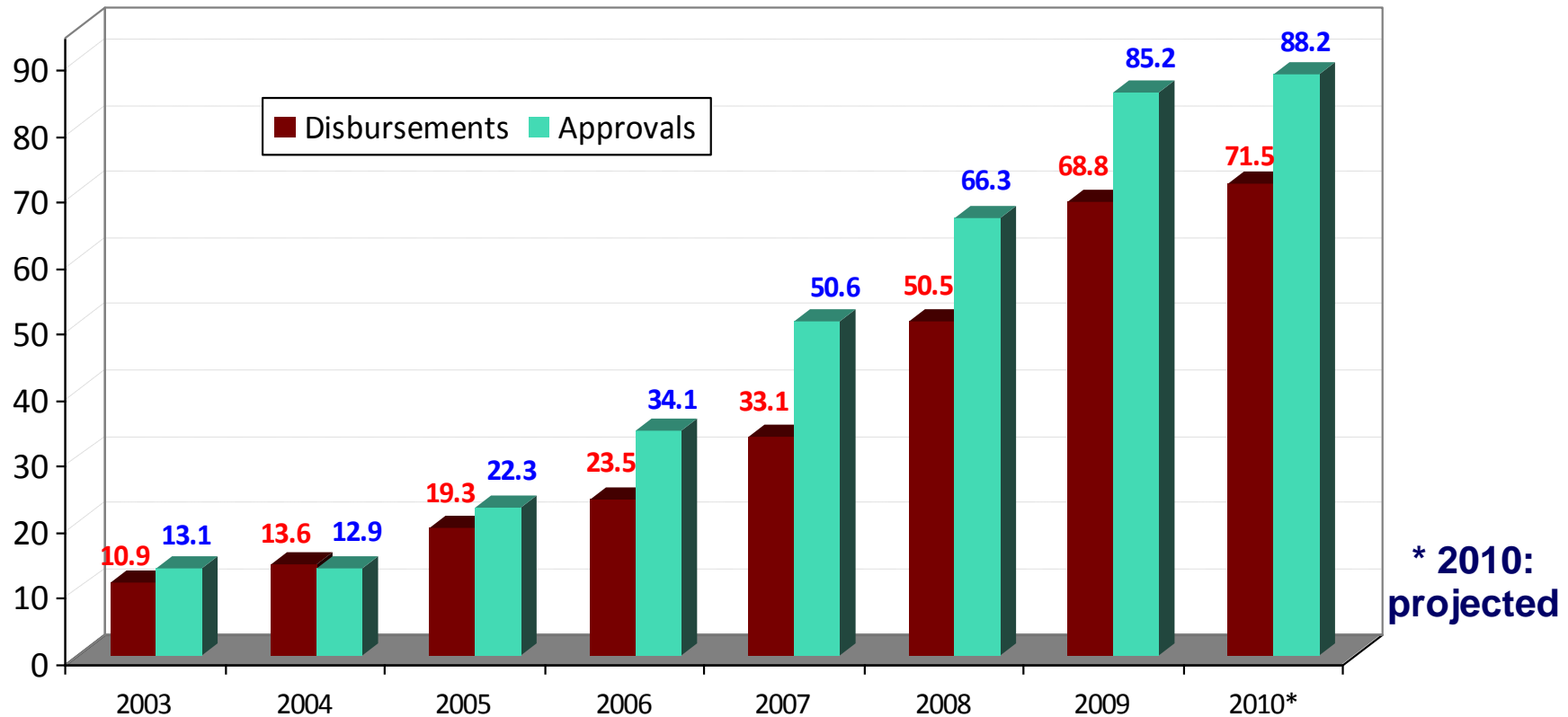
e-estimated p-forecast

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



Approvals and disbursements

US\$ billion



2009: BNDES financed US\$ 46.8 bi for US\$ 93 bi of fixed investments.
These 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
 - ✓ Investment drivers: oil & gas, renewable energies, agribusinesses, logistics, large scale events (World Cup, Olympic Games), housing

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

- ✓ **State:** permanent and effective investment policies
- ✓ **Financing:** institutional investors, private banks & capital markets, public institutions
- ✓ **Social:** more and better jobs; quality education
- ✓ **Infrastructure:** more and better projects; more complex finance/guarantee/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; ICT and its applications (broadband, e-gov, e-learning, etc)
- **Development 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, US & Brazil – private and public institutions- must foster and implement project-based cooperation.

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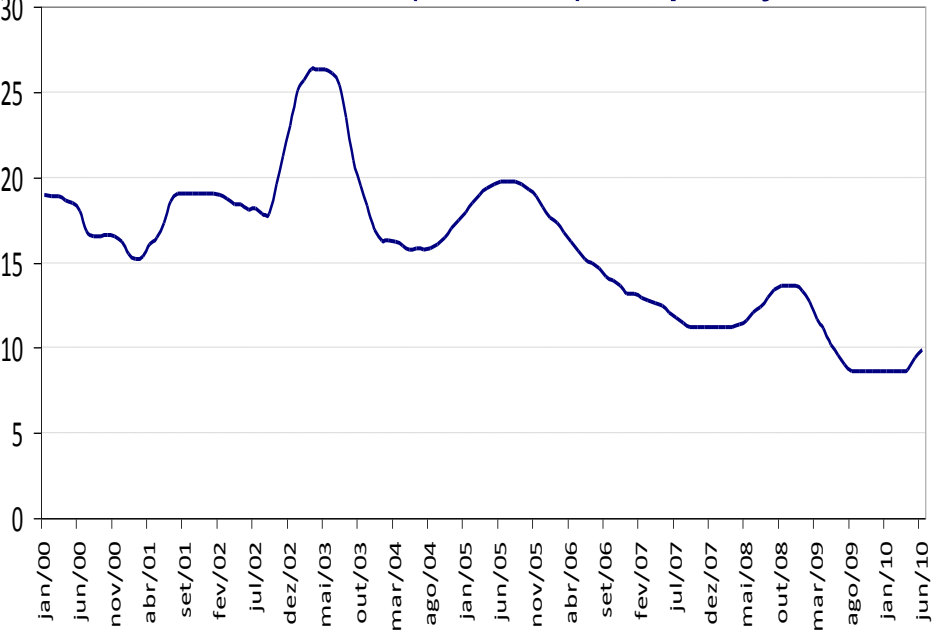
ANNEX – Tables and Figures



Brazilian assets & challenges



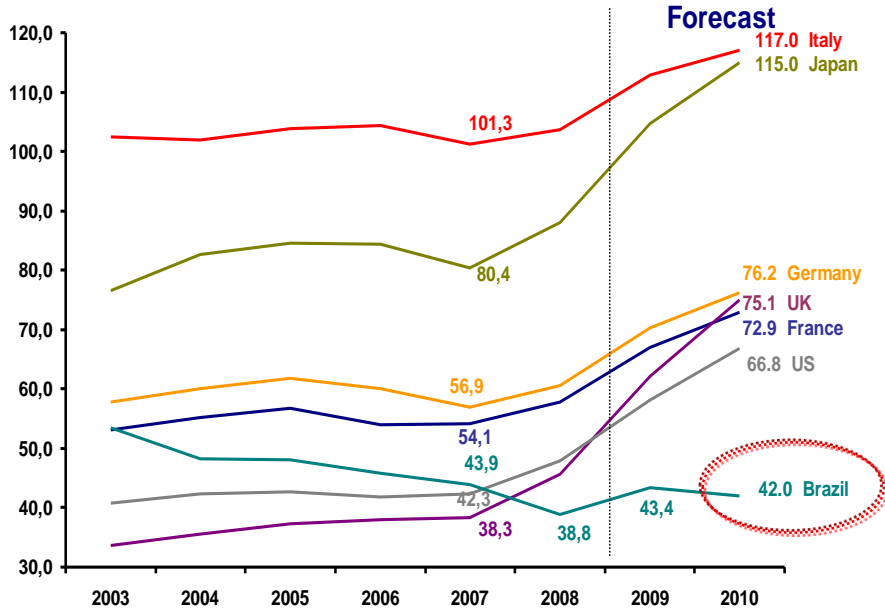
Interest Rate (SELIC) % per year



Decreasing interest rate



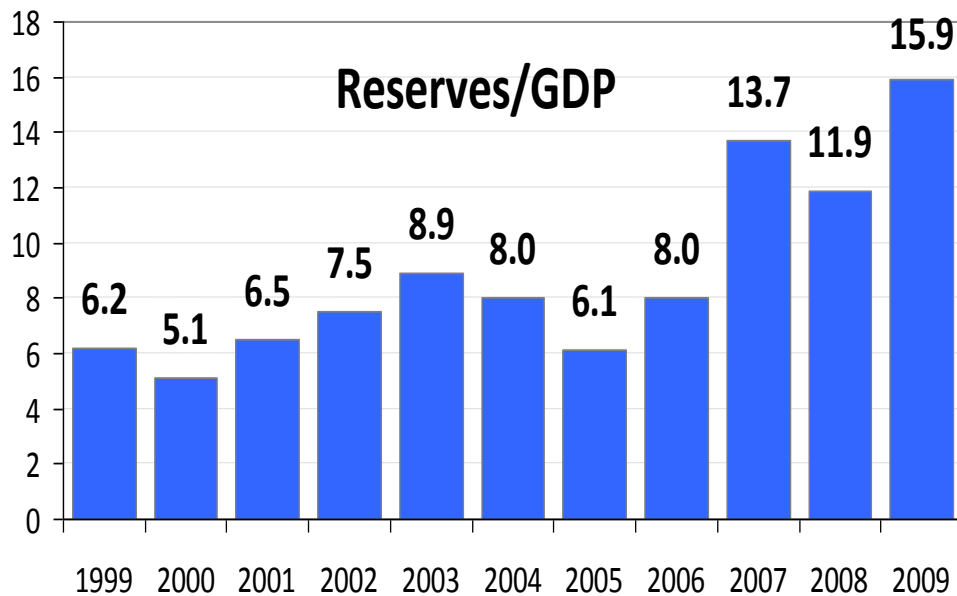
Public Sector Net Debt (%) GDP



Net debt is low & under control

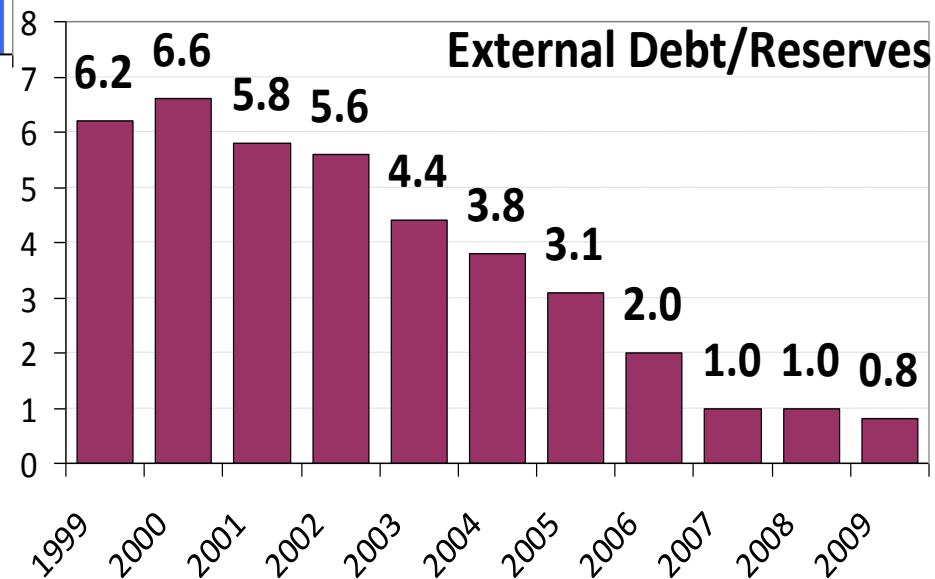


Strong defenses against external vulnerability

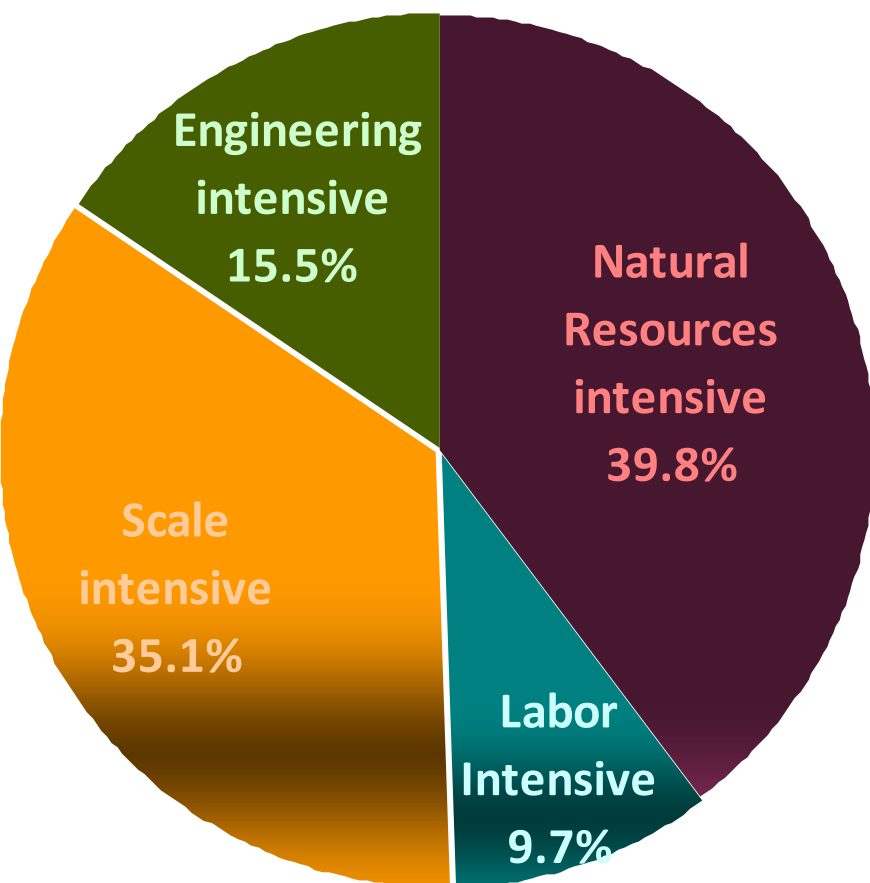


High levels of
international reserves...

...reduced external debt
(vulnerabilities)



Industrial Production, 2009



An attractive economy

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

Source: IMF



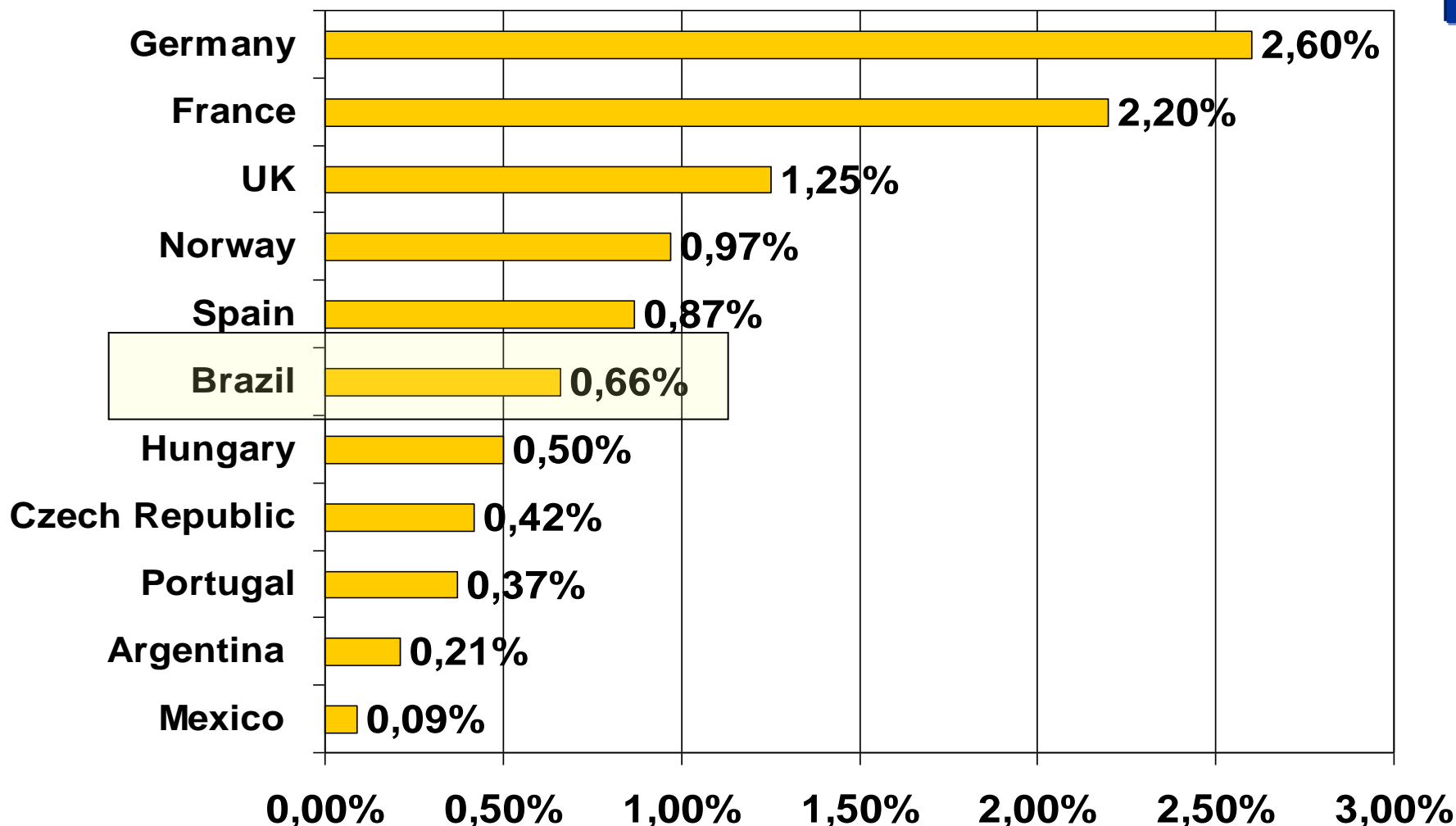
	Area (million km2)	Roads (1,000 kms)	Railroads (1,000 kms)
Brazil	8.5	1,7200	29
Russia	17.0	755	87
India	3.0	1,570	63
China	9.3	1.572	77

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

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

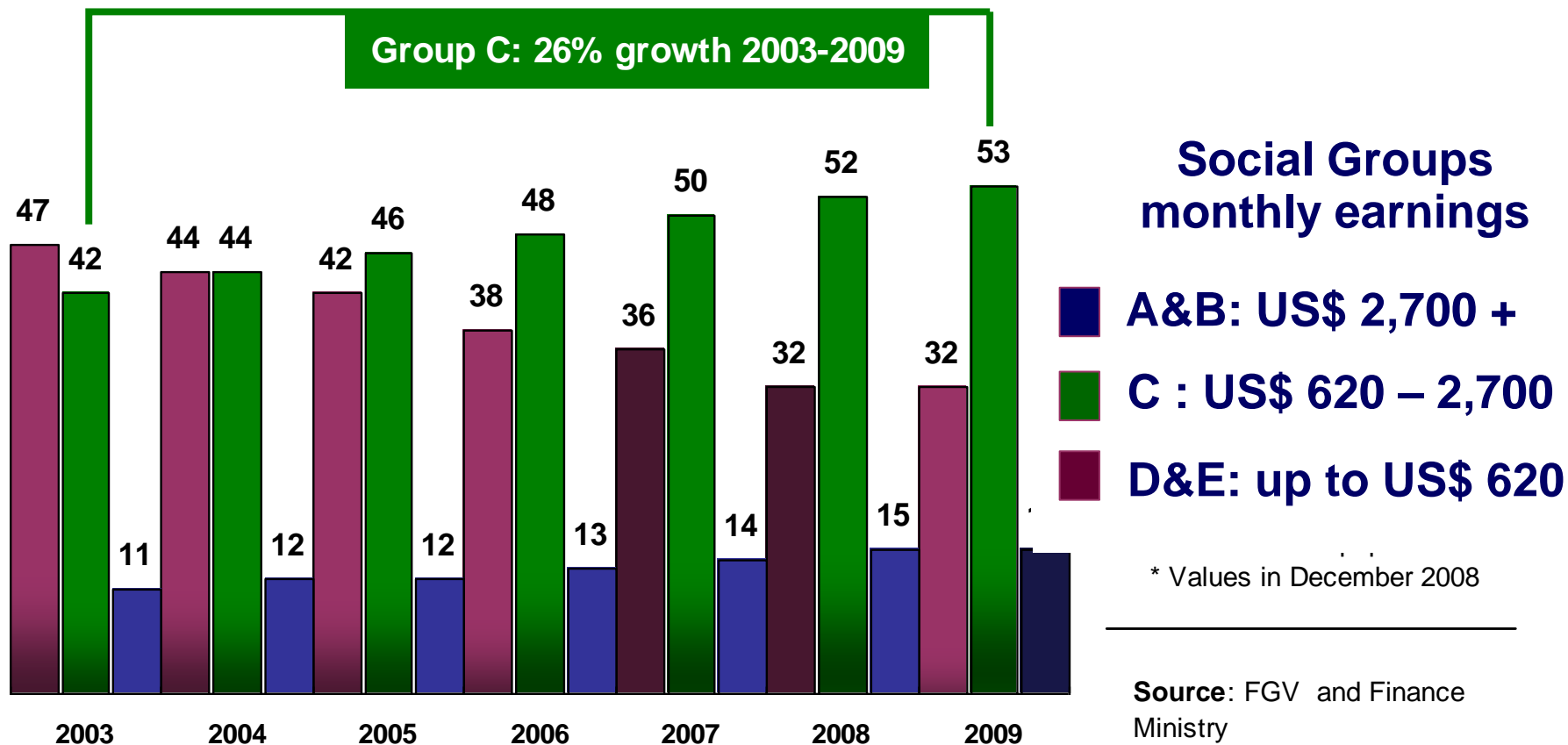
- Inv: US\$ 19 billion - BNDES financing: US\$ 10 bn – Exim: US\$ 3.5 bn
- Call to bid: from 7/14/2010 to 11/29/2010
- Emphasis: development of local capacity and transfer of technology

R&D/Sales (most recent available data)





Social Groups (% of total population)

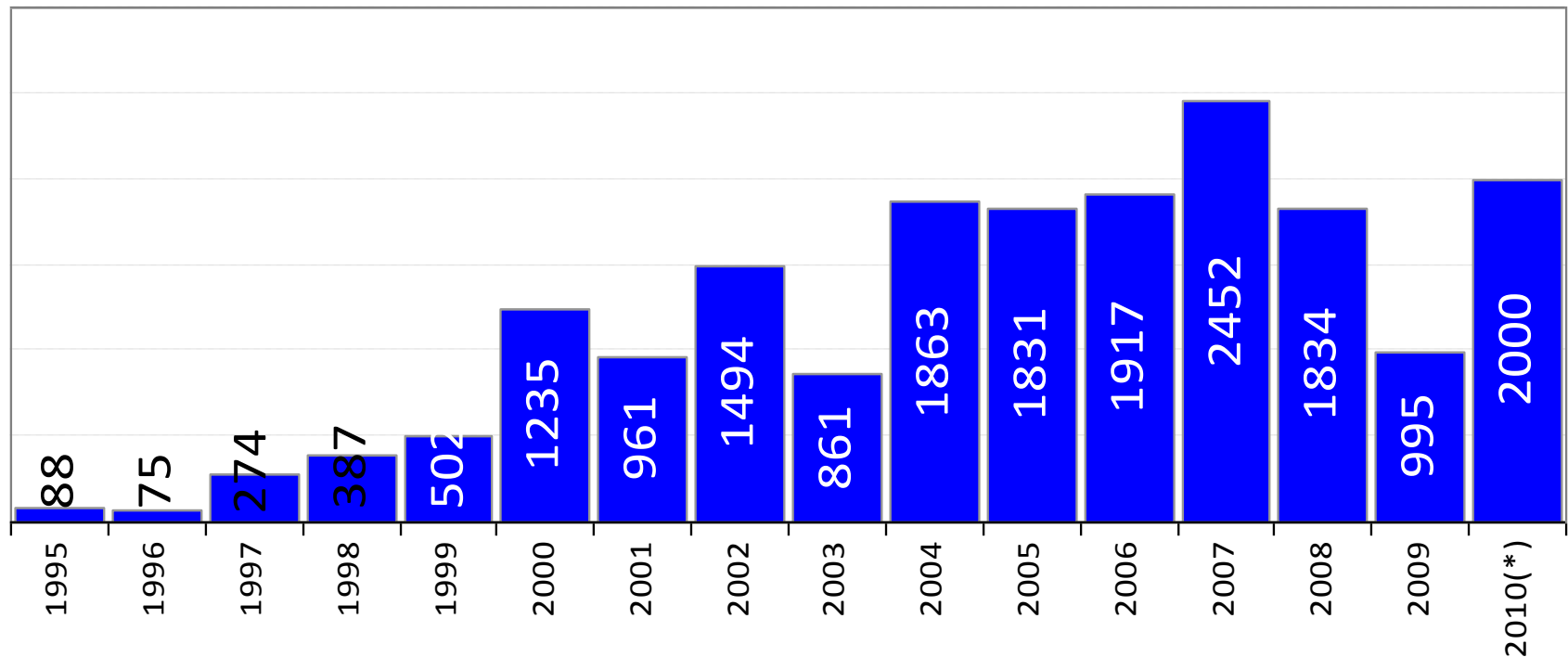


GDP (2009): US\$ 1.6 trillion
Per capita: US\$ 8,200



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

Net job creation per year (thousand workers net)



The State:

working for the short and for the long term

The cost of keeping the economy in a grow path

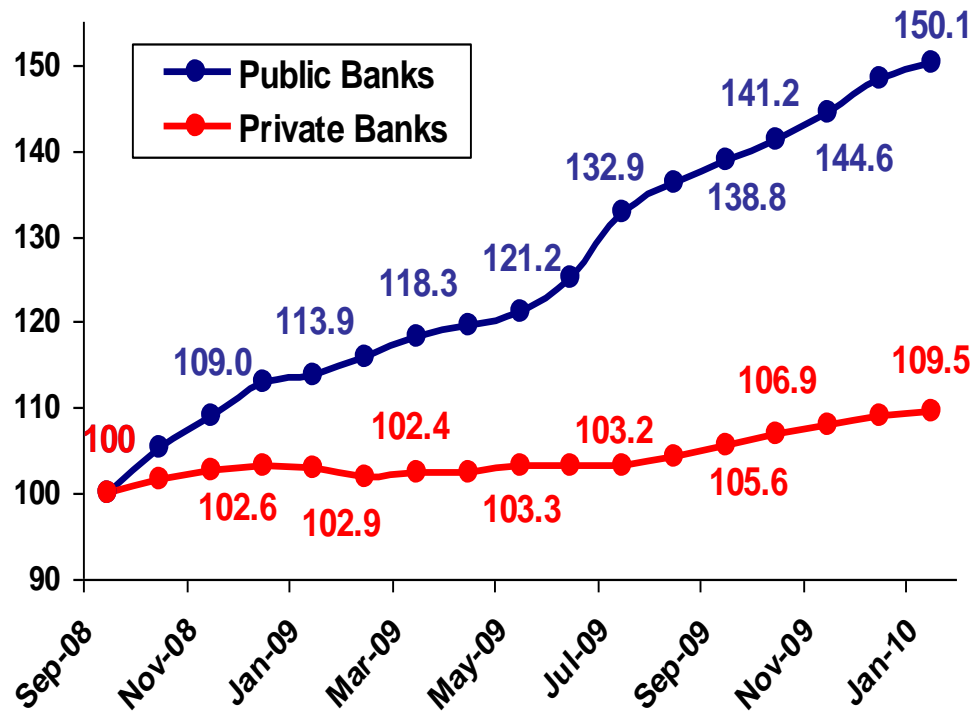


Anti-crisis policy measures	R\$ billion
Total	312.6
Loan to BNDES	100.0
Freeing retained reserves to banks	100.0
Tax relief	15.0
Popular Housing Programme	1.6
Loans to States and Cities	2.0
Loan to Caixa Econômica Federal	6.0
Withdrawing Petrobrás from primary surplus	15.0
Reduction of primary target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

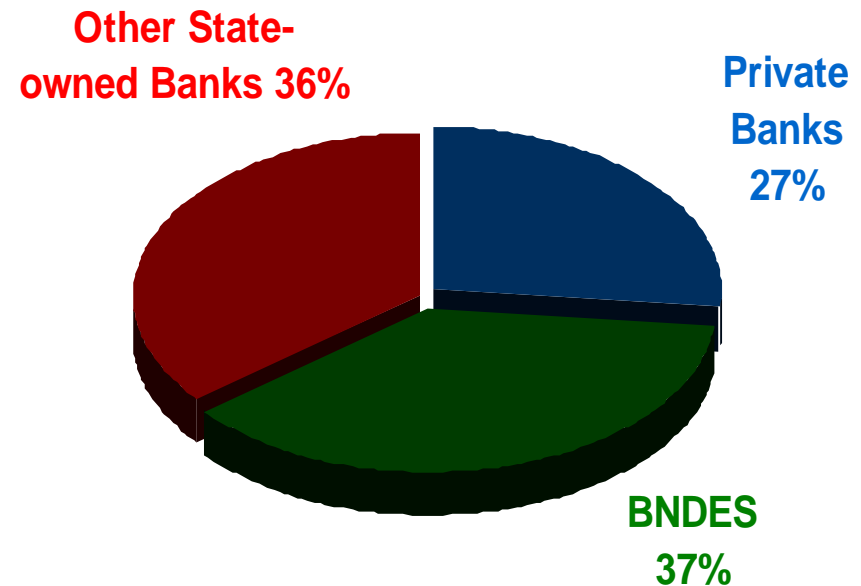
During crisis, State-owned banks sustained credit expansion



Credit Growth (September 2008 = 100)



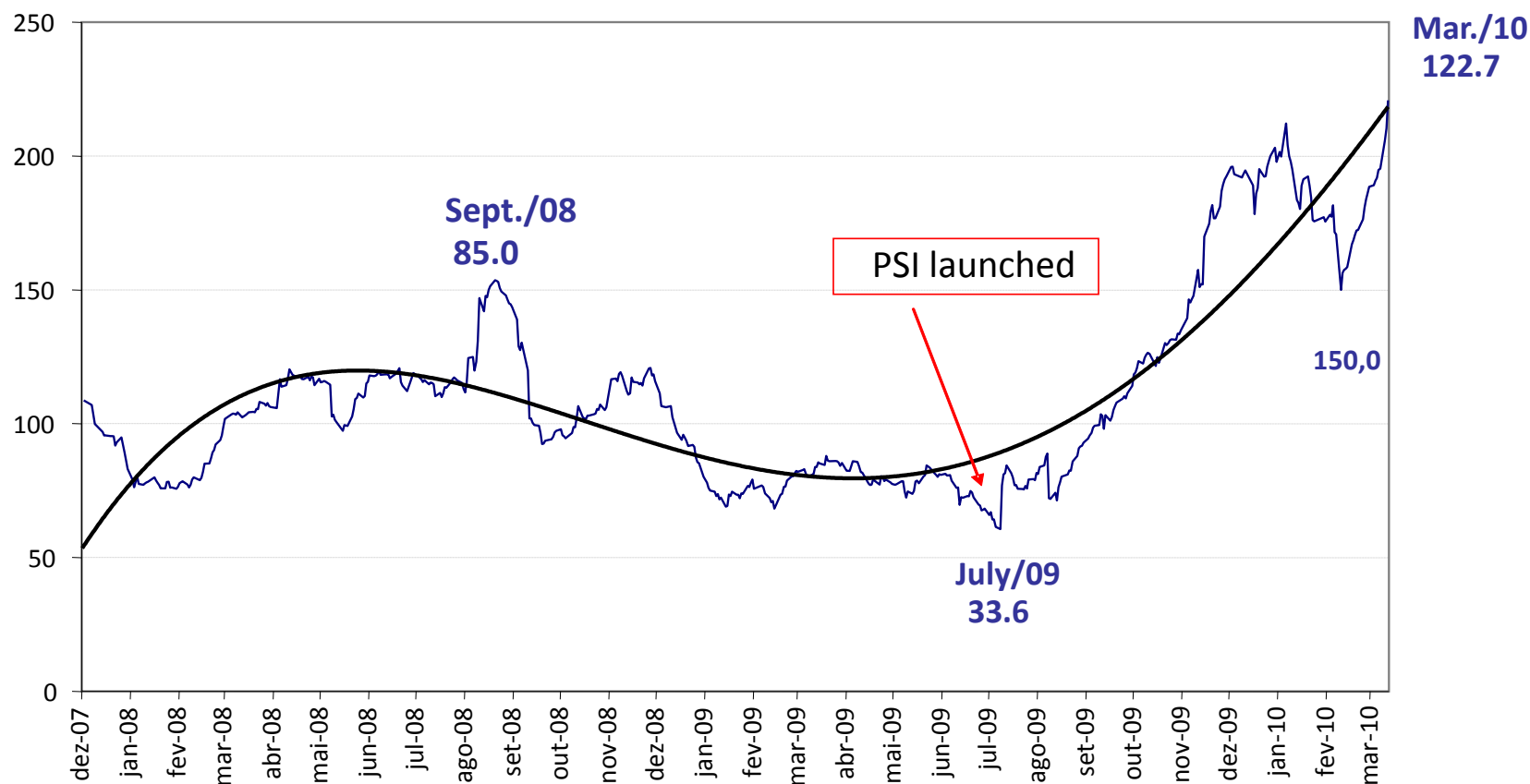
Contribution to Credit Growth (Sept/08-Jan/10)





PSI: Interest rate equalization program

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

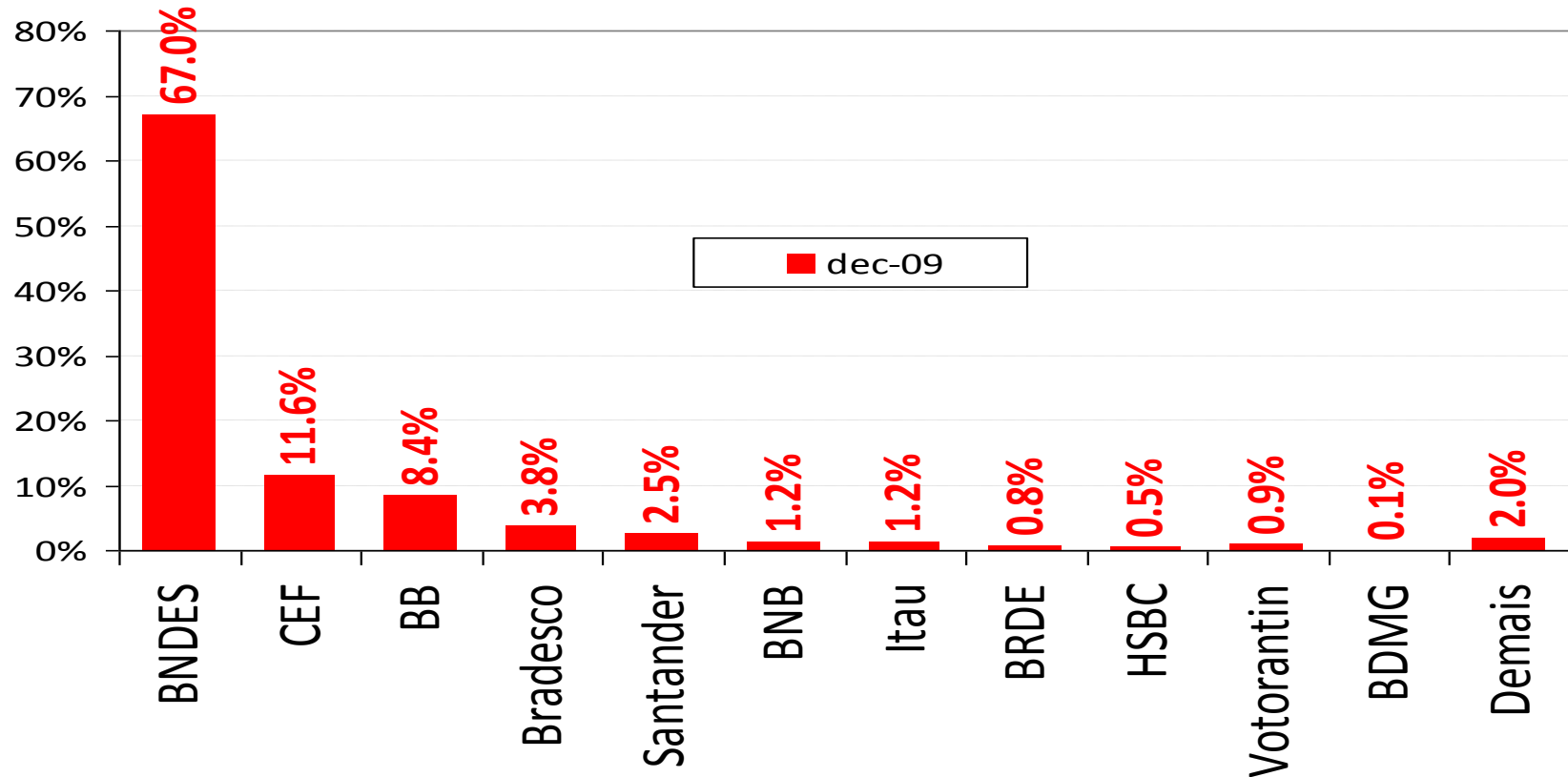


BNDES

The profile of a strategic agent

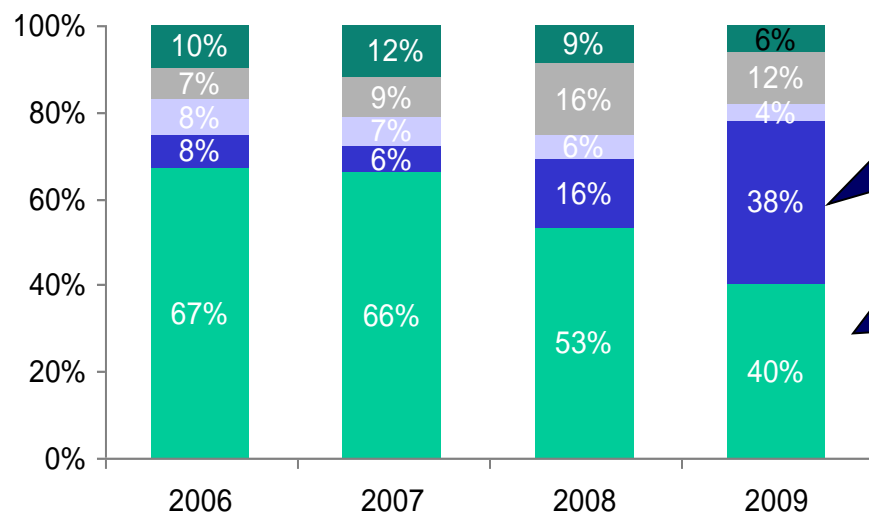
Long-term credit in Brazil: the BNDES and commercial banks

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



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

Funding Composition

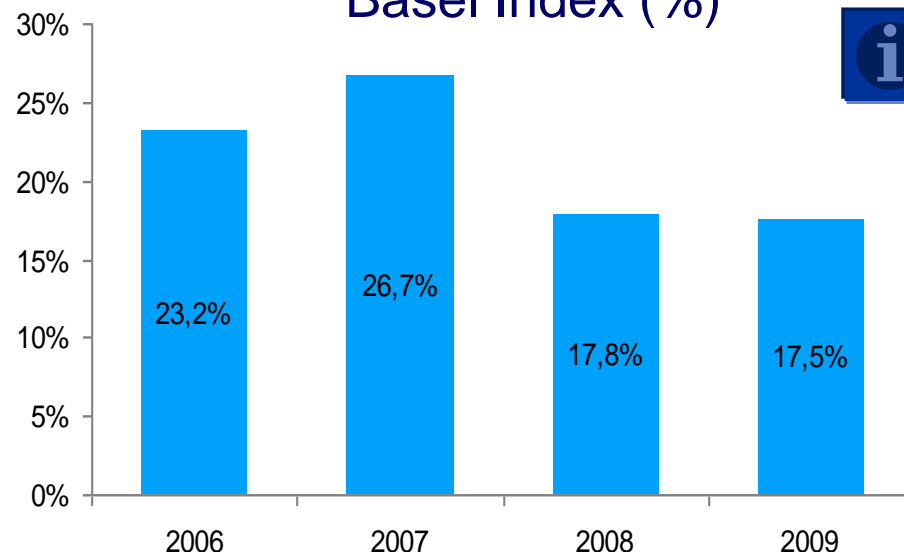


■ Institutional ■ Nacional Treasury ■ Foreign ■ Others ■ Equity

Recent expansion of demand required more support from National Treasury

Institutional Funding (Workers' Assistance Fund)

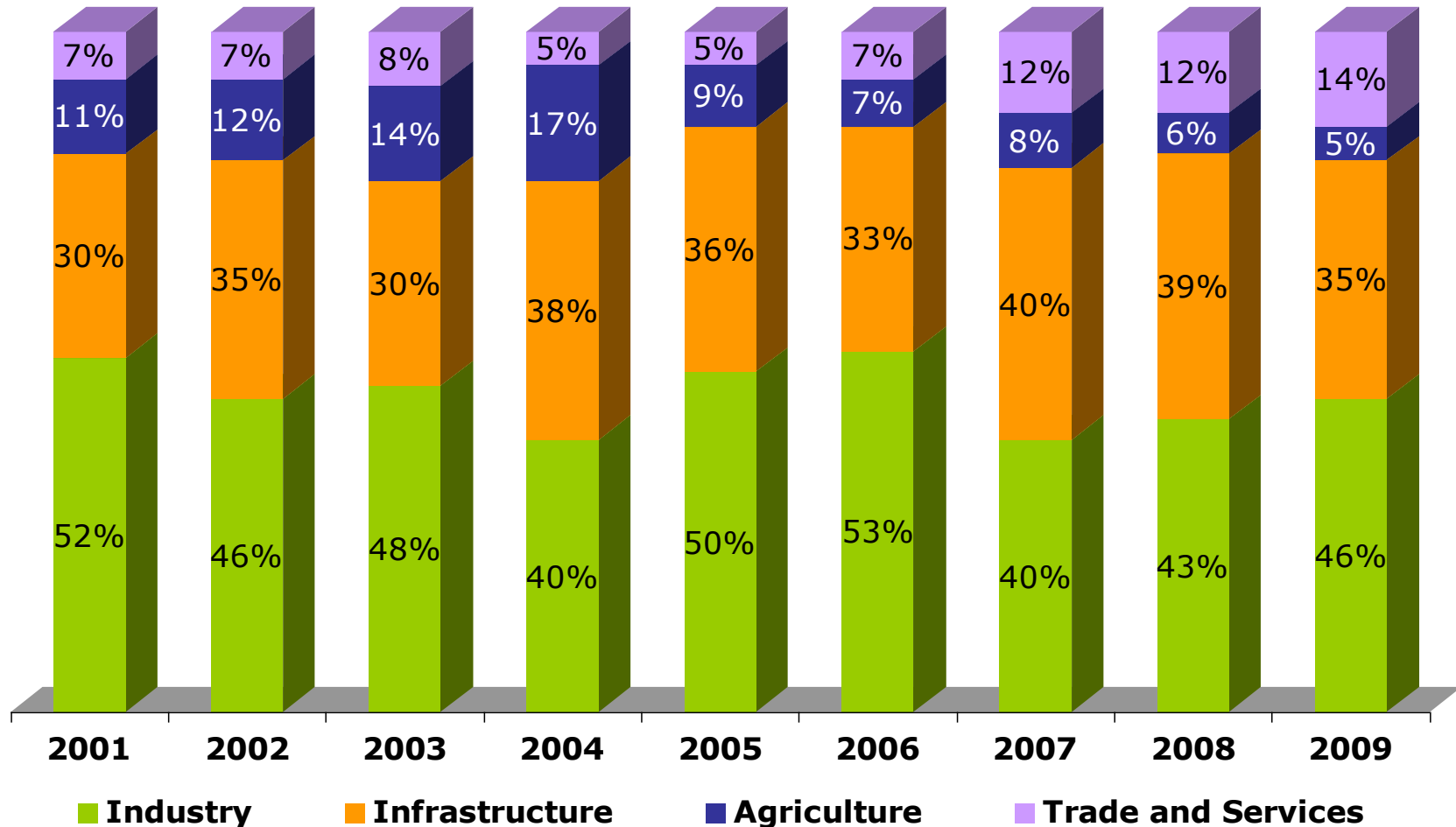
Basel Index (%)



Prudential behavior is an asset of credibility

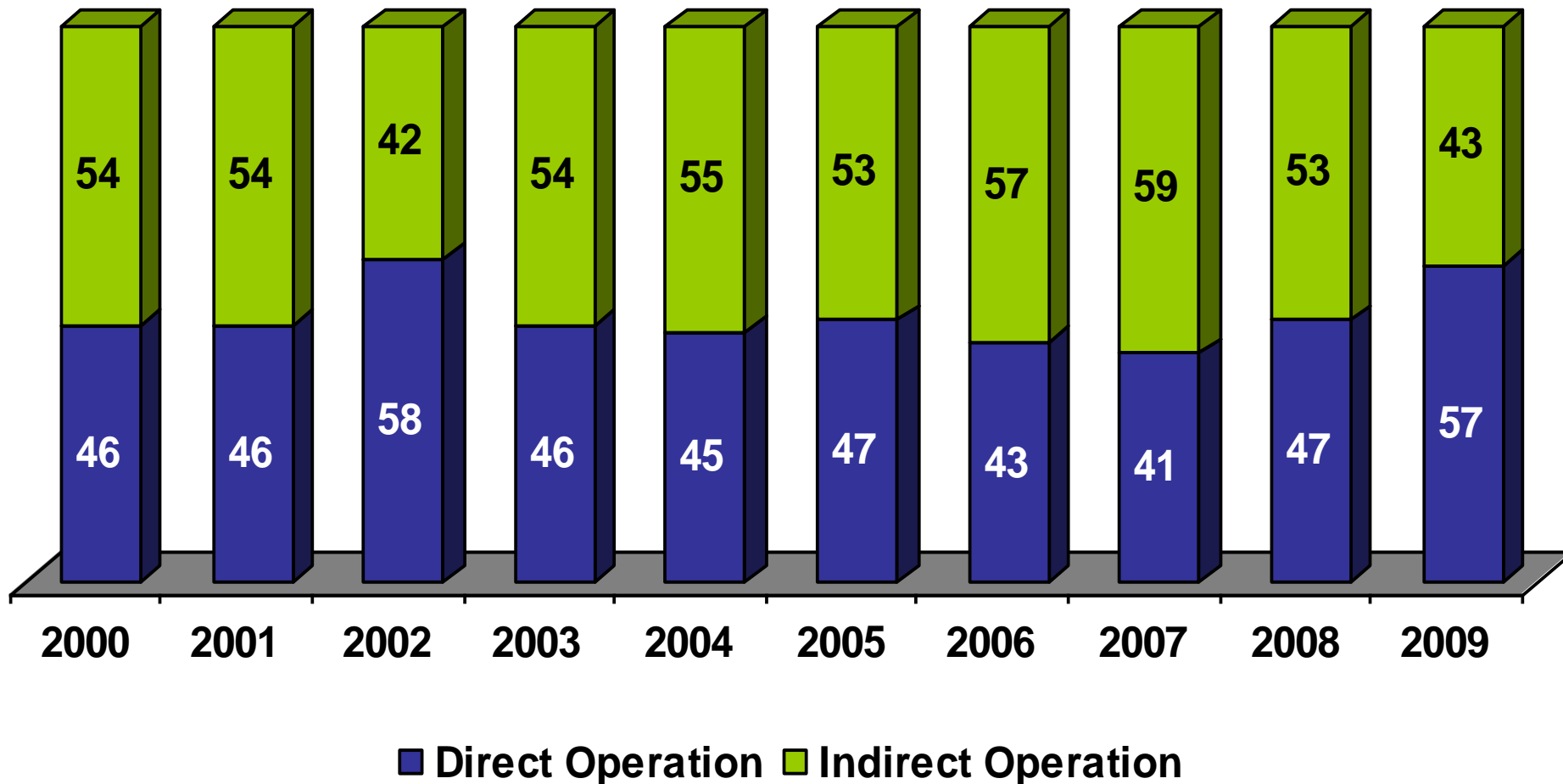
80% of the BNDES' loans goes to industry and infrastructure

Disbursements by business sector (%)



Half of the disbursements made through commercial banks

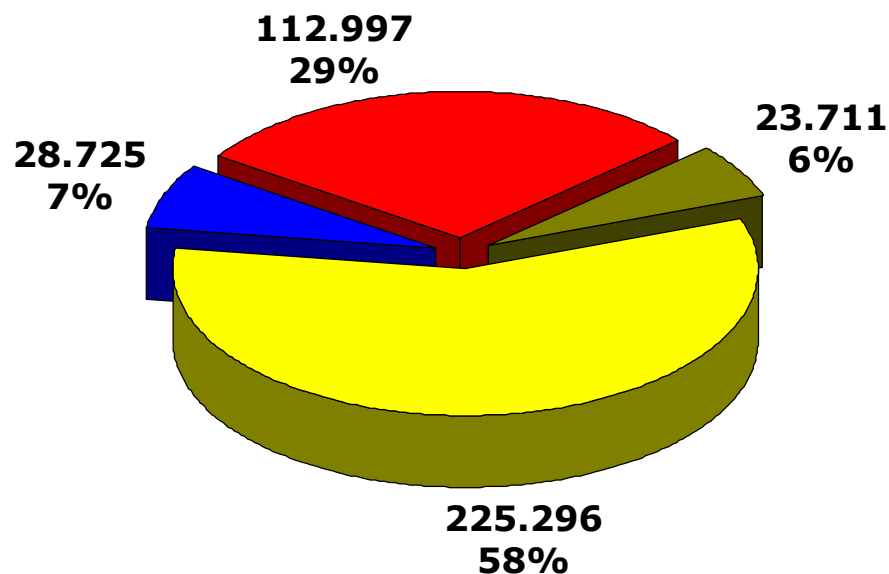
Disbursements per type of operation (%)







Number of operations & disbursement per size: a contrast

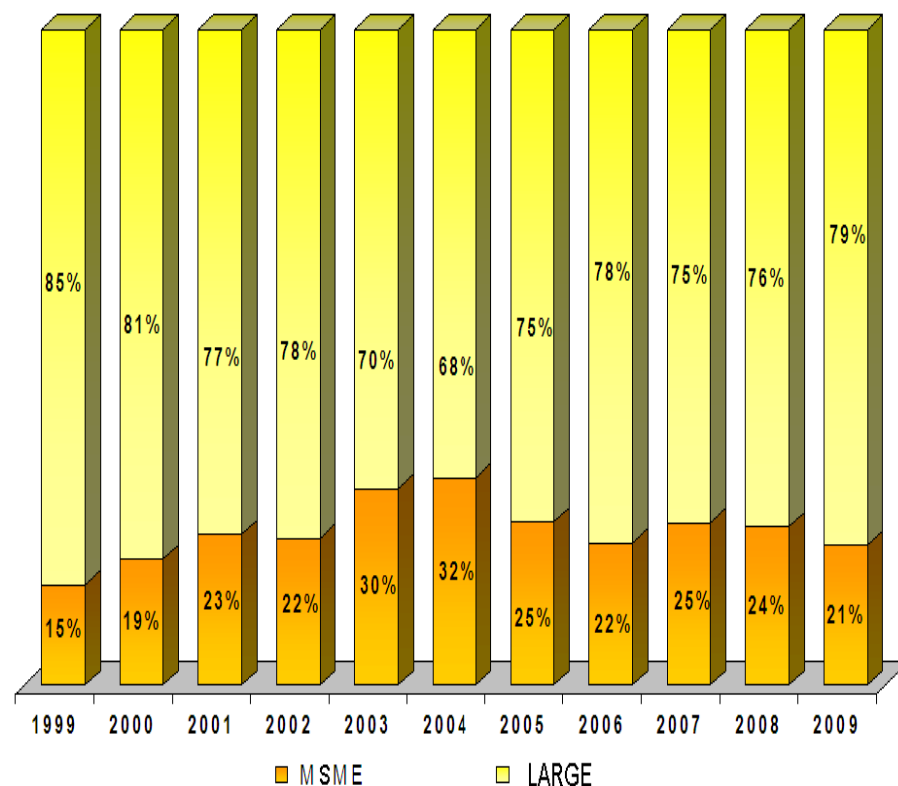
2009 Number of Operations

Total: 304,843

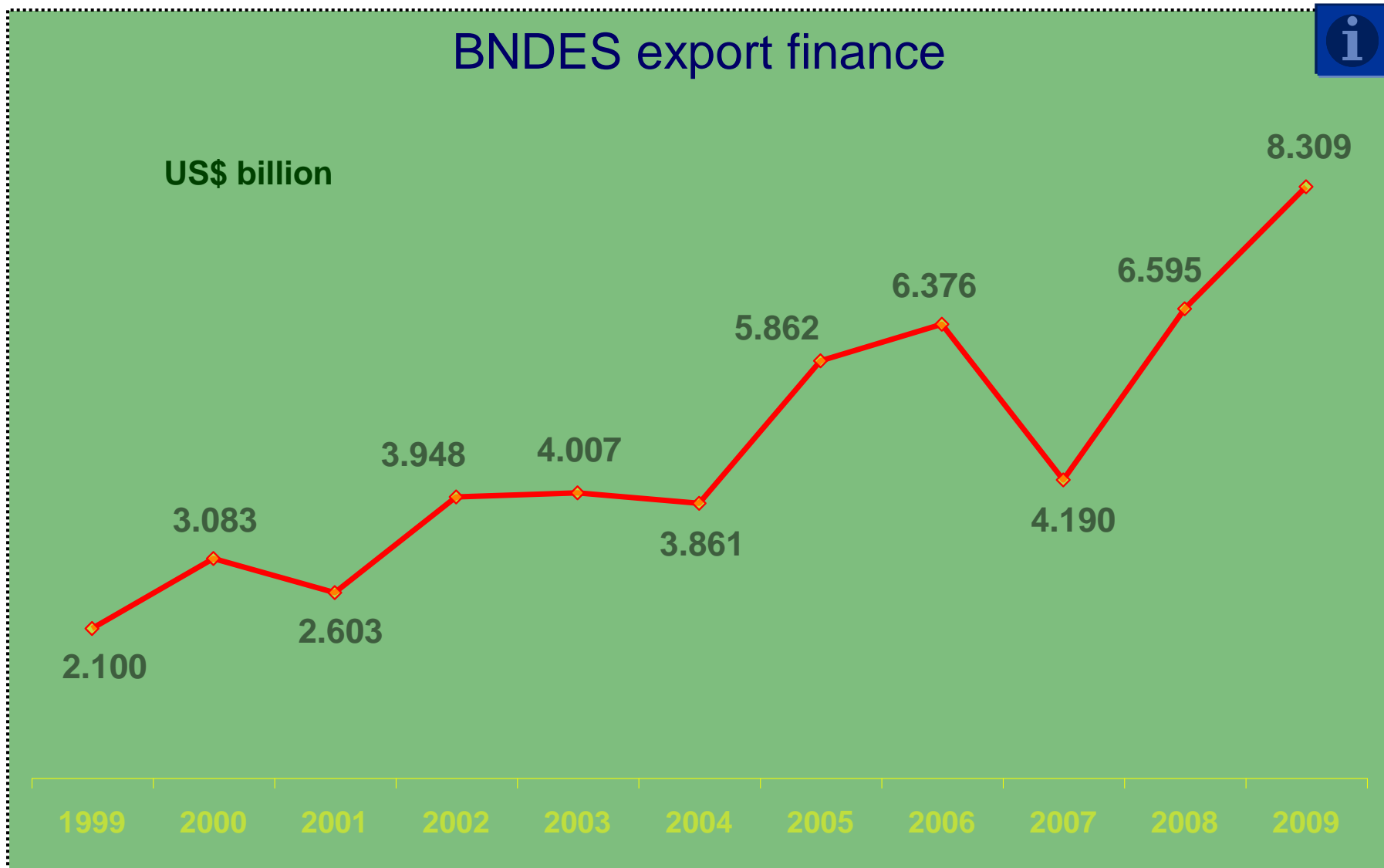


 micro and small  medium-sized
 individuals  large

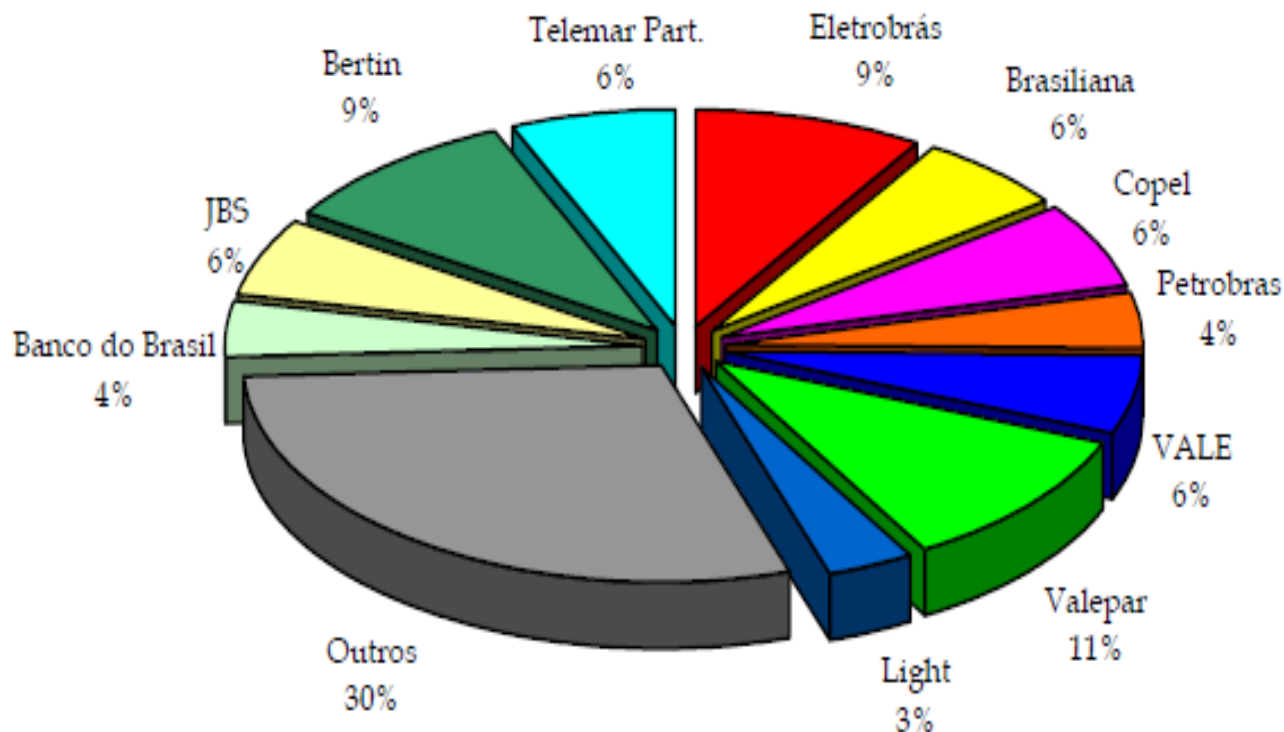
Disbursements per size (% total)



Export finance increased steadily along the years



Sectoral distribution of BNDES equity portfolio (%)



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

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