

Highlights of Brazil

2009 - 2010 Edition



Brazil has overcome the turbulent international 2008/ 2009 economic scenario and international crisis stronger and more attractive. Brazil is the first Latin American country and, probably one of the first countries worldwide, to emerge from the international recession context.

Albeit the global environment remains difficult and the export sector therefore continues to struggle - also as a result of a strongly appreciated real - the size of Brazil (2009 GDP estimated at US\$1.6 trillion) and the strength of its domestic demand (60% of the GDP) has propelled the economy to the start of a recovery.

A high degree of diversification of its economy and trading partners, as well as a solid financial system – leveraged by active regulators and Central Bank, have also helped to mitigate the effect of the crisis in Brazil.

The economic impact of the global financial crisis and demand downturn has been less severe for Brazil than for the USA, Europe and Asia. This is a consequence of successful long term combined public and private effort to growth. A combination of factors such as more than fifteen years of political stability, search for fiscal discipline, strong international reserves, solid macroeconomic indicators (based on a strong focus on inflation control) and strengthening of the middle class consumption power led Brazil to this position.

Also, it need to be said that the government reacted quite promptly with the implemetation of anticyclical measures to sustain consumption level of durable goods and credit flow, particullary for the automotive and construction industries and for households. These measures contributed to lower unemployment rate and for economy recovery.

One year after Lehman Brother's bankruptcy, the start of the international financial crisis, the public awareness grows that Brazil was one of the most successful countries in fighting the crisis. While most of the countries recovered slowly, Brazil appears to be one of the first countries to leave the crisis behind.

Financial and strategic investors are seeing these opportunities and know they have to be in Brazil. Cross border merger and acquisitions and strong capital markets will play an important role.

Brazil was selected as the venue for soccer's 2014 World Cup. Rio de Janeiro was voted to host the 2016 Olympics. Long term strategies and investments (including pre-salt oil exploration opportunities) are now on top of the agenda. Indeed, Brazil is a tremendous potential economic powerhouse.

The country's social and economic unbalanced income distribution are also being addressed. The government has made significant progress in attacking poverty. This effort is expected to bring results in the medium & long term. Some regions, namely the northeast, now have the challenge to reach out to opportunities that are already available for the rest of the country.

Brazil deserves close attention while its preparing itself for the future. The country has huge infrastructure demands, and a need for further public and private investment in education and healthcare. Top priorities on the government's agenda should include structural tax reforms and tight control on government expenses to spur the country's economic growth.

PricewaterhouseCoopers is teaming up with the country and its leadership to explore these opportunities. The material presented herein aims to provide the reader with new insights supported by historical statistical data, of why Brazil has performed such way during the crisis, and the implications on the Mergers and Acquisitions market. It presents the country's "response to the crisis".

Macroeconomics 2

Brazil endured a relatively short economic recession in 2009, while the developed world is experiencing a wider, harder and longer one. Economic growth already re-bounced in Q2 2009 with 1.9% GDP growth on a quarterly basis, after two consecutive quarters of contraction.

The Government's anticyclical economic stimulus package, that was promptly implemented by regulators and the Central bank, reduced the impact of the liquidity crunch and its potentially damaging results.

After experiencing a five year period (2003 to 2008) of vigorous economic growth and an improvement of macroeconomic fundamentals, Brazil acquired the ability to implement financial and economic stimulus policies to fight crises.

Expansion of the monetary policy through reduction of compulsory reserve and interest rates as well as the implementation of an aggressive economic stimulus policy involving tax reductions, (reducing taxes on Industrial Products (IPI) such as automobiles, trucks, building construction materials, kitchen appliances and capital goods, among other products), tax refinancing programs (REFIS), expansion of public investments, housing ("Programa Minha Casa Minha Vida") and agriculture programs ("Plano Safra") and active credit expansion to public and private banks are showing results.

Brazil's recovery was founded on a range of stimulus measures designed to stimulate internal consumption. Credit also has played an important role and achieved some 45% of GDP in 2009. Brazil has created new jobs and unemployment rates have gone down. Public retail sales data indicate consumer spending is recovering.



Did you know? 3

- Brazil has the fifth largest population after China, India, the United States and Indonesia.
- Its largest city is São Paulo, with some 11 million people in the city and 18 million in the whole São Paulo metropolitan area; 20 other metropolitan areas in the country have more than 1 million inhabitants.
- Population:
 - c.190 million people (5th largest population in the world):
 - 70% of the people are concentrated in the Southeast and Northeast regions.
 - 80% of the population live in the urban area.
 - 30% of the population lives in the ten largest cities.
- 2008 GDP contribution:
 - 30% - agriculture and agribusinesses.
 - 40% - industrial activity.
 - 30% - banking and services.
- Primary economic sectors: agriculture, automotive, utilities, transport, industrial products, mining and energy.
- Brazil trades regularly with over one hundred nations, with 74% of exports represented by manufactured or semi manufactured goods. Its main partners are:
 - EEC (representing 26% of the balance).
 - US (24%).
 - Mercosul/ Latin America (21%).
 - Asia (12%).
- Brazil became Investment Grade in 2008/2009 (S&P, Moodys and Fitch). This has attracted long-term investors, particularly big endowments, pension funds, and insurance companies.
- BM&F BOVESPA is the world's third largest Stock and Futures exchange in terms of market capitalization.
- A new corporate law introduced in the beginning of 2008 is converting local GAAP towards IFRS.



4 Main economic indicators

	2009 ⁽¹⁾	2008	2007	2006	2005	2004	2003
GDP (US\$ billion) ⁽²⁾	1426.7	1573.0	1334.0	1089.0	882.0	664.0	554.0
Real GDP growth (% per year)	(1.1)	5.1	5.7	4.0	3.2	5.7	1.1
Unemployment rate (% of labor force)	^(Nov) 7.4	6.8	7.5	10.0	9.9	11.5	12.4
General price index - IGP-DI (% per year)	(1.4)	9.1	7.9	3.8	1.2	12.1	7.7
Consumer price index - IPCA (% per year)	4.3	5.9	4.5	3.1	5.7	7.6	9.3
Exchange rate at year's end (R\$/US\$)	1.75	2.39	1.78	2.18	2.44	2.93	3.08
Exchange rate change (% per year)	(25.3)	34.1	(16.9)	(5.9)	(15.8)	(7.1)	(19.3)
Public sector deficit (% of GDP)	^(Nov) 3.2	2.0	2.7	5.2	6.6	2.3	4.6
Public sector debt (% of GDP)	^(Nov) 43.0	38.8	43.9	45.9	48.0	48.2	53.5
(in US\$ billion)							
Goods export	153.0	197.9	160.6	137.8	118.5	96.7	73.1
Goods import	127.6	173.0	120.6	91.4	73.6	62.8	48.3
Trade balance	25.3	25.0	40.0	46.5	44.9	33.8	24.8
Current-account balance	^(Sep) (11.9)	(28.3)	1.5	13.6	14.0	11.7	4.1
International reserves	239.1	206.8	180.3	85.8	53.8	52.9	49.3
Foreign direct investment ⁽³⁾	^(Nov) 20.9	45.0	34.6	18.8	15.1	18.1	10.1
Total foreign debt	^(Nov) 283.6	262.9	240.5	199.4	188.0	220.2	235.4

⁽¹⁾ 2009 figures are based on the last published data.

⁽²⁾ At the year-average exchange rate. IBGE

⁽³⁾ Including intercompany loans.

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