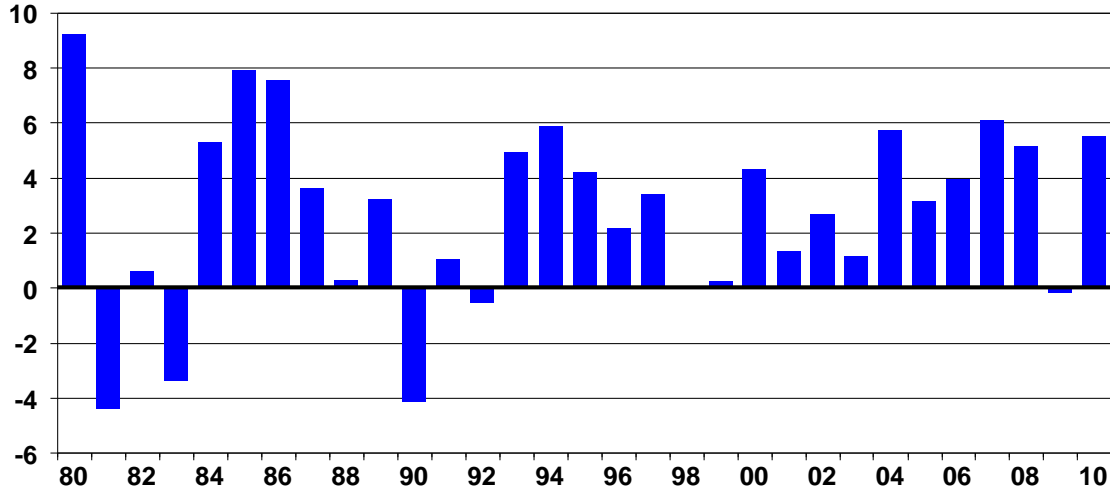


Brazil's economic growth

Real gross domestic product, 1980-2010



Percent change from preceding year



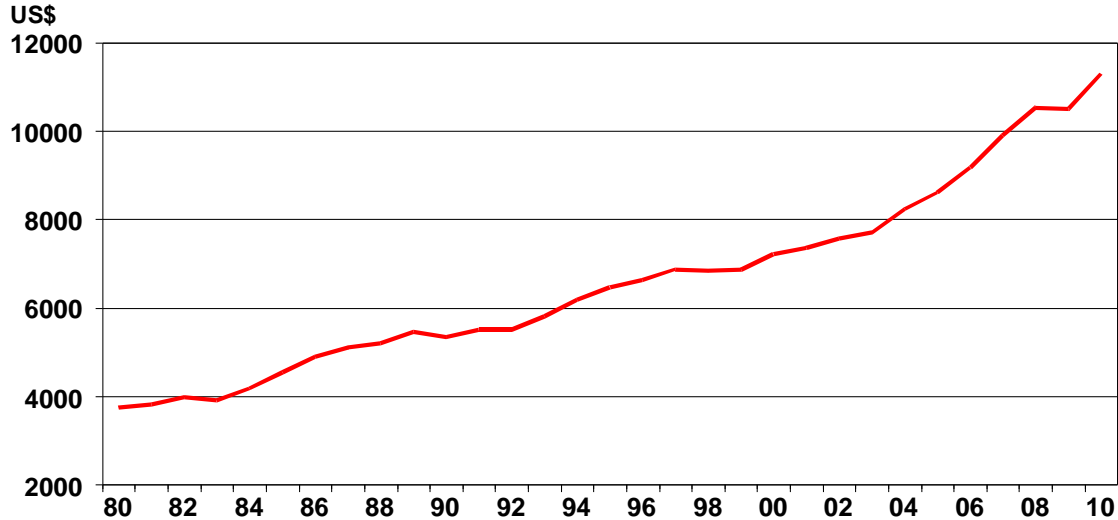
Source: International Monetary Fund, World Economic Outlook, April 2011.

Brazil's per capita GDP

Based on purchasing power parity (PPP)



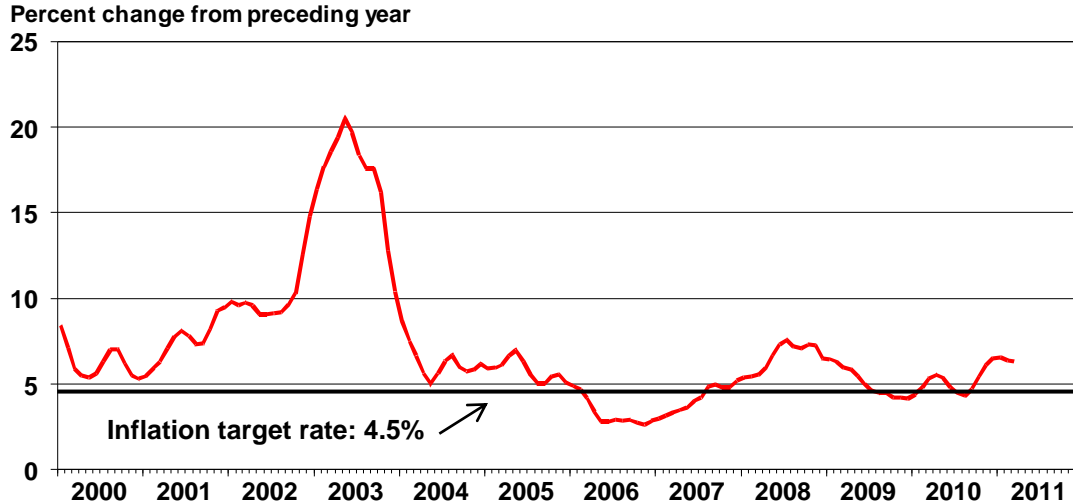
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Source: International Monetary Fund, World Economic Outlook, April 2011.

Brazil's inflation rate

Average consumer prices



Source: Brazilian Institute for Geography and Statistics (IBGE).

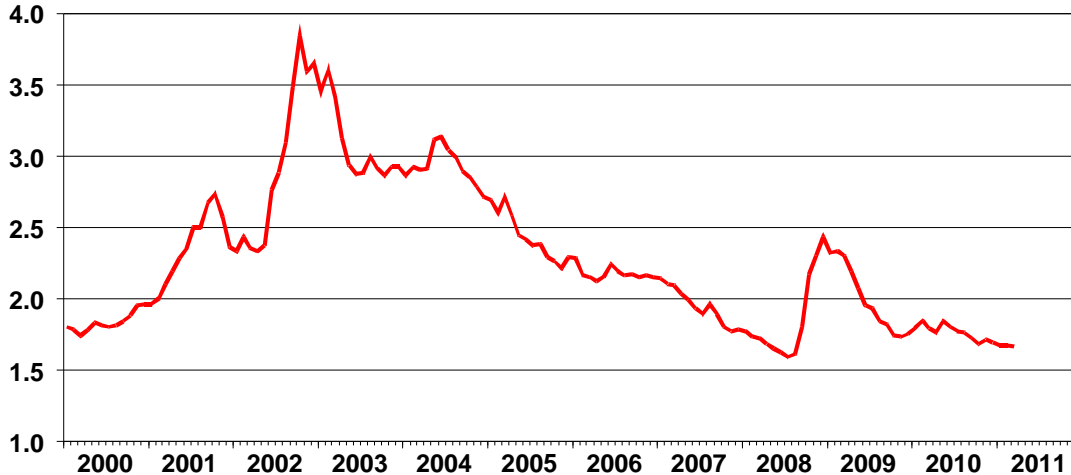
Real-ly strong

Exchange rate, January 2000 - March 2011



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Brazilian Real per US\$



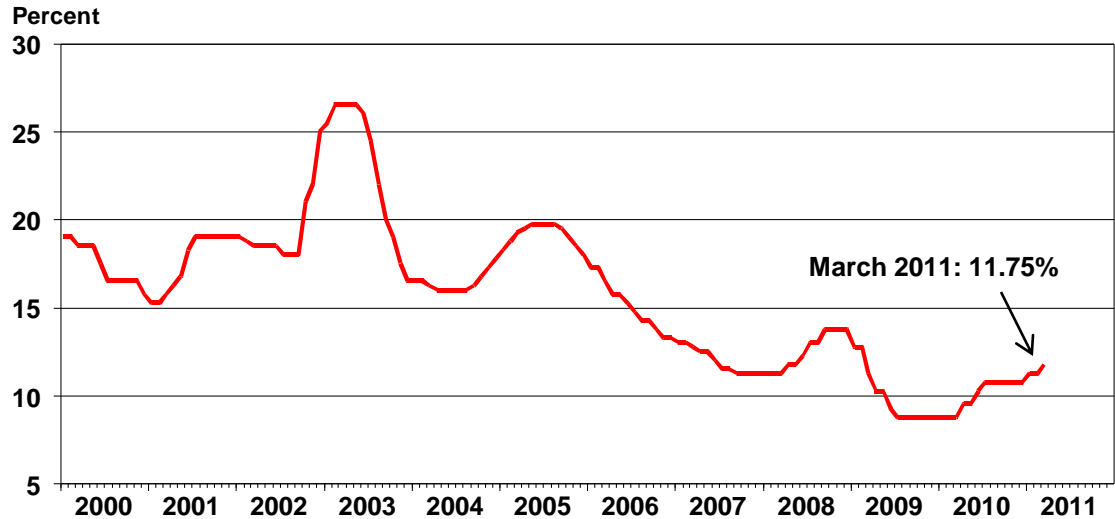
Sources: IMF-IFS, Bank of America and IHS Global Insight.

Copom determined to curb inflation



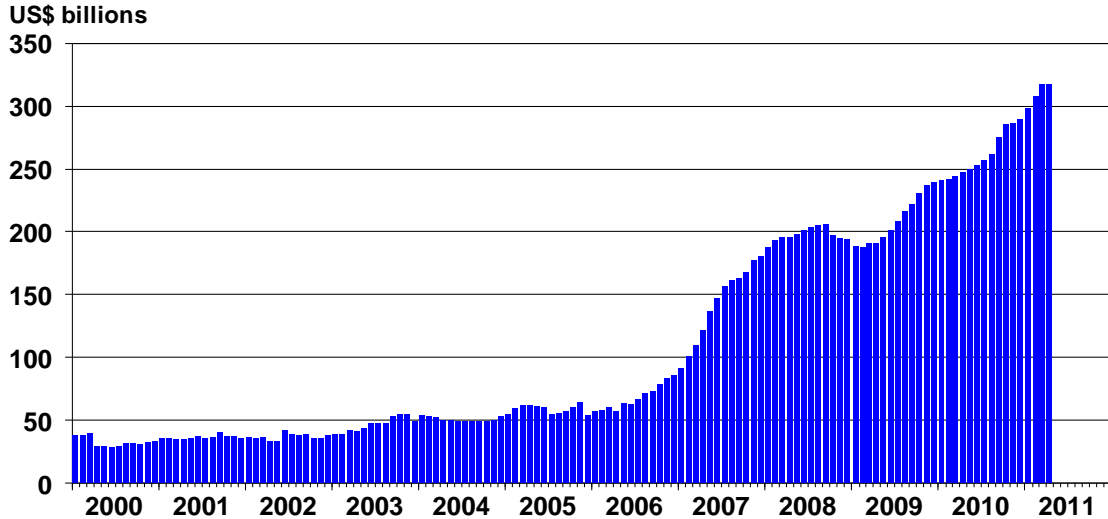
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Selic target rate



Source: Banco Central do Brasil (BCB).

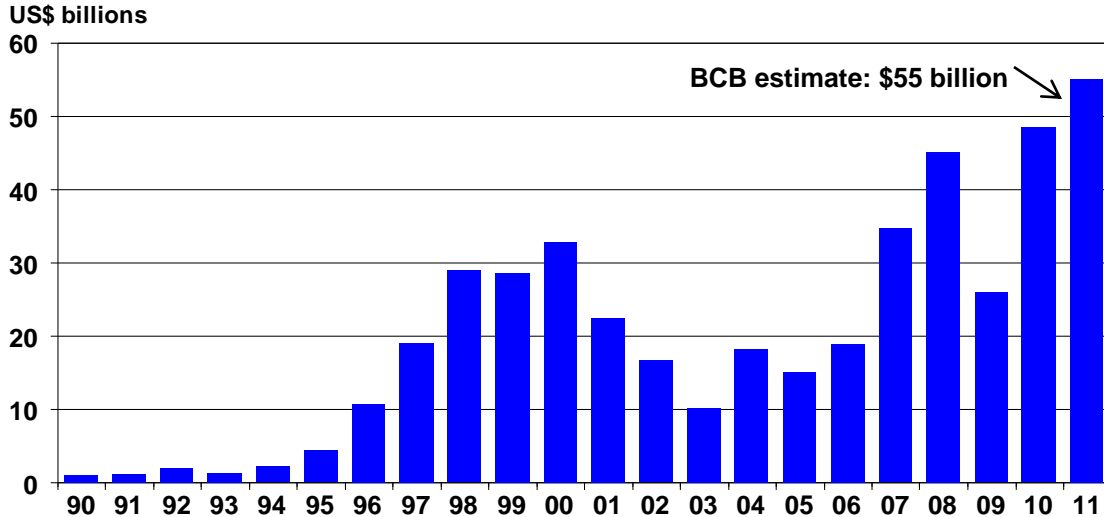
Brazil's international reserves



Source: Banco Central do Brasil (BCB).

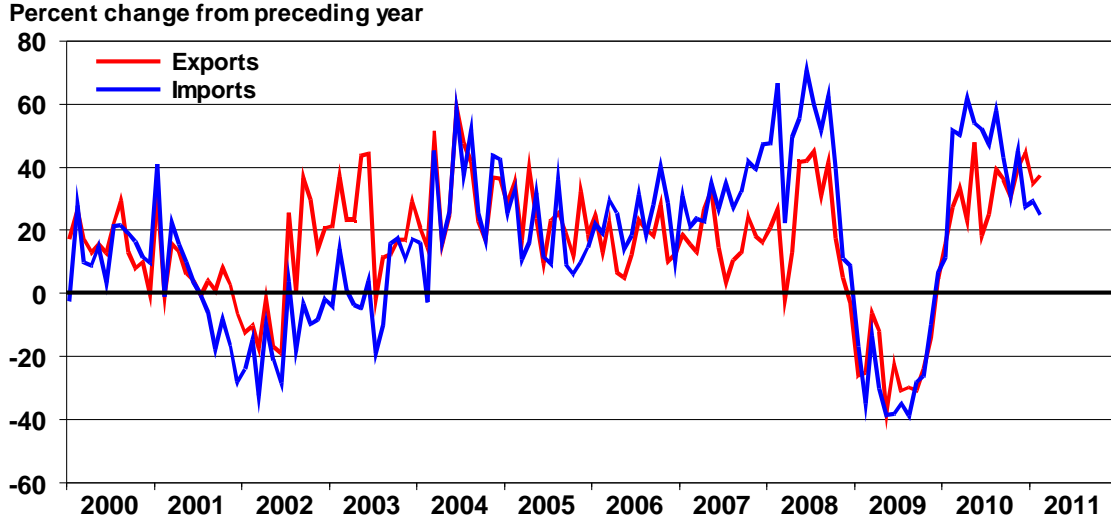
Brazil foreign direct investment

Net flow



Sources: UNCTAD, Banco Central do Brasil (BCB).

Brazil international trade

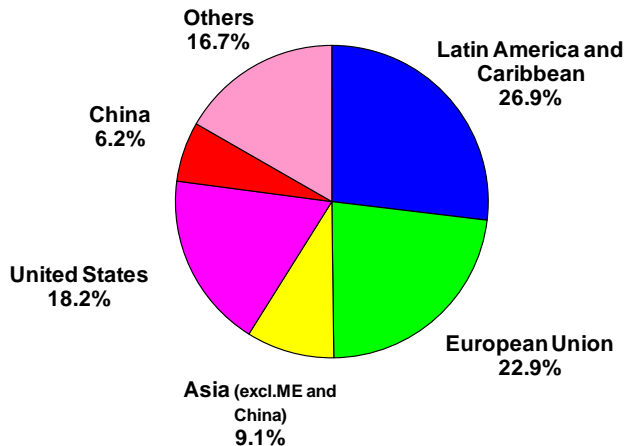


Source: IMF, International Financial Statistics (IFS).

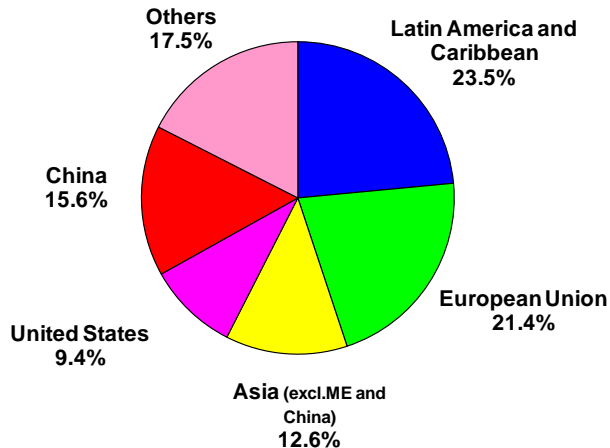
Brazil's exports destination



2006



2011



Source: Banco Central do Brasil (BCB).

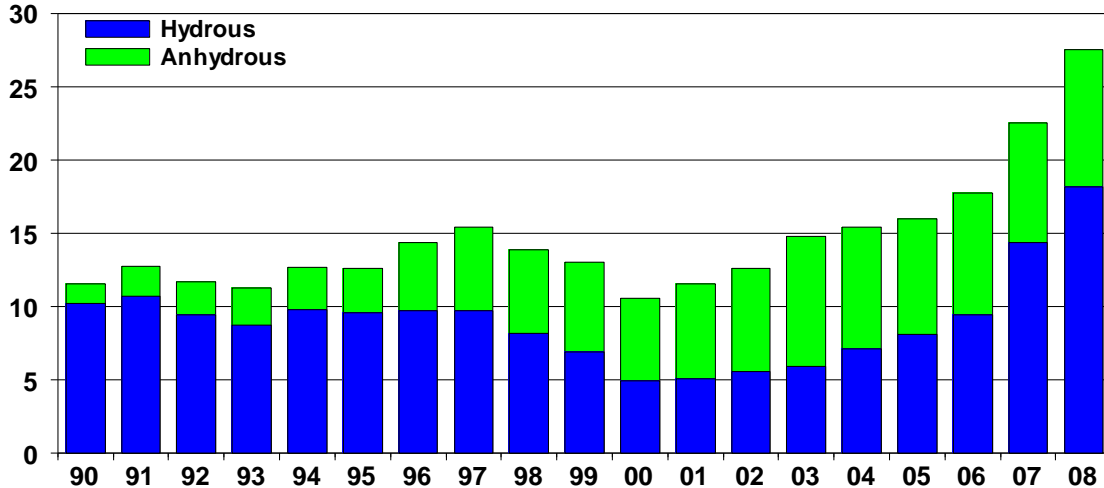
Brazil's ethanol production

By type, crop years 1990-2008



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Billions of Liters



Sources: Brazilian Sugarcane Industry Association, UNICA and Ministry of Agriculture, Livestock and Food Supply, MAPA.

Fortune Global 500

Brazilian companies, 2010



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Rank	Company	Revenues (US\$ billions)
54	Petrobras	\$91.87
117	Itaú Unibanco Holding S.A.	\$57.86
135	Banco Bredesco S.A.	\$51.61
148	Banco do Brasil	\$48.12
363	Vale	\$23.31

Source: Fortune Magazine.

Top Brazilian companies

Market cap, 2011



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Company	Market cap (US\$ billions)
Petrobras	\$231.42
Vale	\$151.81
Itaú Unibanco Holding S.A.	\$109.83
Companhia de Bebidas Das Américas	\$89.63
Banco Bredesco S.A.	\$77.80

Source: University of Western Ontario Libraries.

World's top billionaires

Brazil, 2011



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Name	Fortune (US\$ billions)
Eike Batista	\$30.0
Jorge Paulo Lemann	\$13.3
Joseph Safra	\$11.4
Marcel Herrmann Telles	\$6.2
Dorothea Steinbruch & Family	\$5.4

Source: Forbes.



**Panel – Brazil: Too Hot, Too Fast?
May 4, 2011**

Speaker: Marcela Meirelles, TCW Group

The Brazilian “Currency War” from a global perspective



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- Ample global liquidity and very low US dollar funding rates.
- Perception that G3 Central Banks will keep interest rates low for a long period of time.
- Emerging markets assets offer high returns and the cost of hedging the exchange rate risk is at historical low levels.

The Brazilian “Currency War” from a global perspective



Foreign Direct Investment



External loans to domestic firms



Foreign Portfolio Inflows (stocks and bonds)



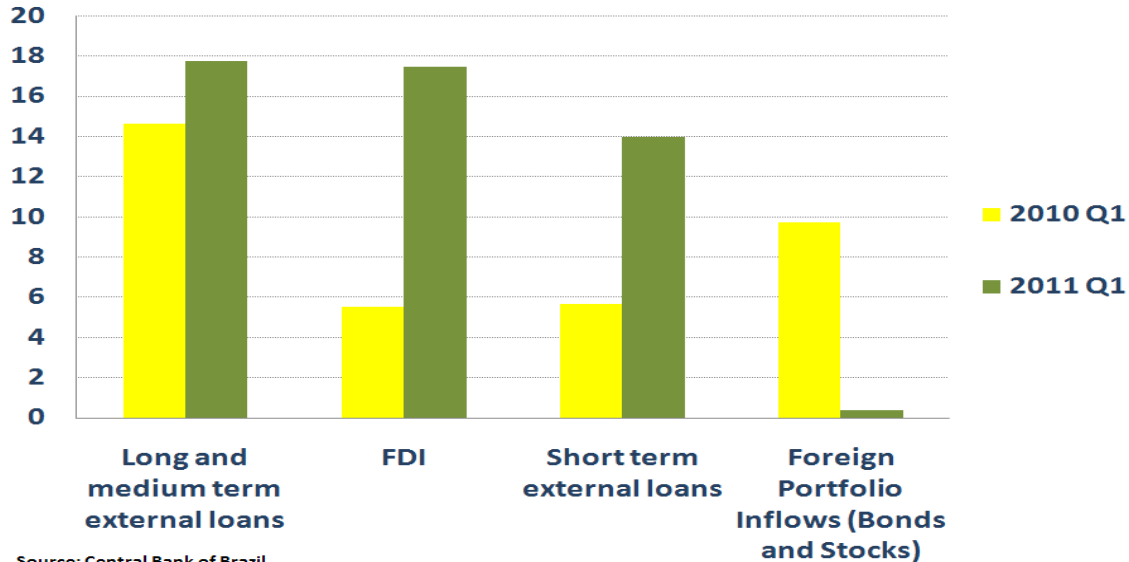
Capital controls may be effective, but at the cost of reducing stable, long term investments in the country

It can be difficult to target speculative inflows in these two categories, without running the risk of compromising important funding sources for domestic firms

Capital controls produced a shift in the type of Inflows, but the overall volume of foreign investments remains very high



Brazil - Foreign Capital Inflows (USD Billion)

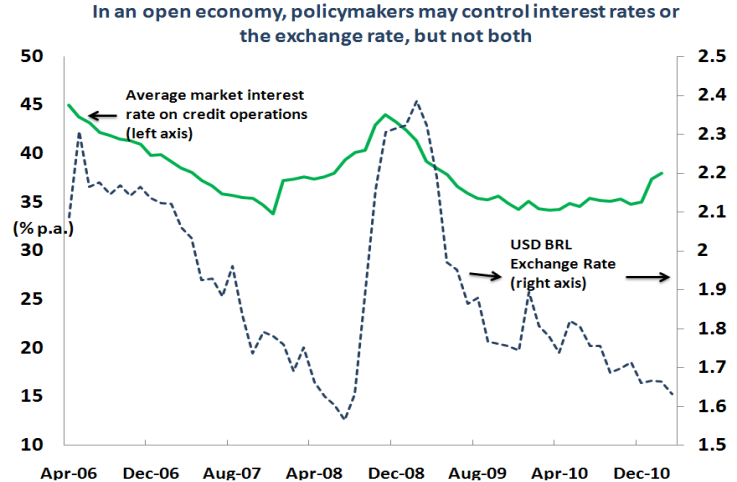


Strong foreign capital inflows may lead to overheating through two channels:

1) Lowering domestic borrowing rates- limited signs of that in Brazil

- Monetary policy rate and bank spreads remain at elevated levels
- Capital controls have made it more challenging to arbitrage between foreign and local interest rates

2) Generating an excessively strong domestic currency, which fuels domestic consumption- currently a bigger risk for Brazil





If an excessively strong exchange rate may lead to a boom in consumption and economic overheating, are further capital controls the adequate policy response?

No, they are just a temporary fix.

The long term solution addresses a change in the macroeconomic policy mix:

Current Mix

**Tight
monetary
policy
+
Loose
fiscal
policy
+
Generous
pensions
+
Boom in
public
credit**



Improved Policy Mix

**Less
conservative
monetary
policy
+
Tighter fiscal
policy
+
Pensions
reform
+
Lower public
credit
growth**

During this transition:

- Aggregate savings increase
- Investments can increase while interest rates gradually decline
- Potential GDP growth increases, which eases inflationary pressures
- Country remains a very attractive destination for foreign capital

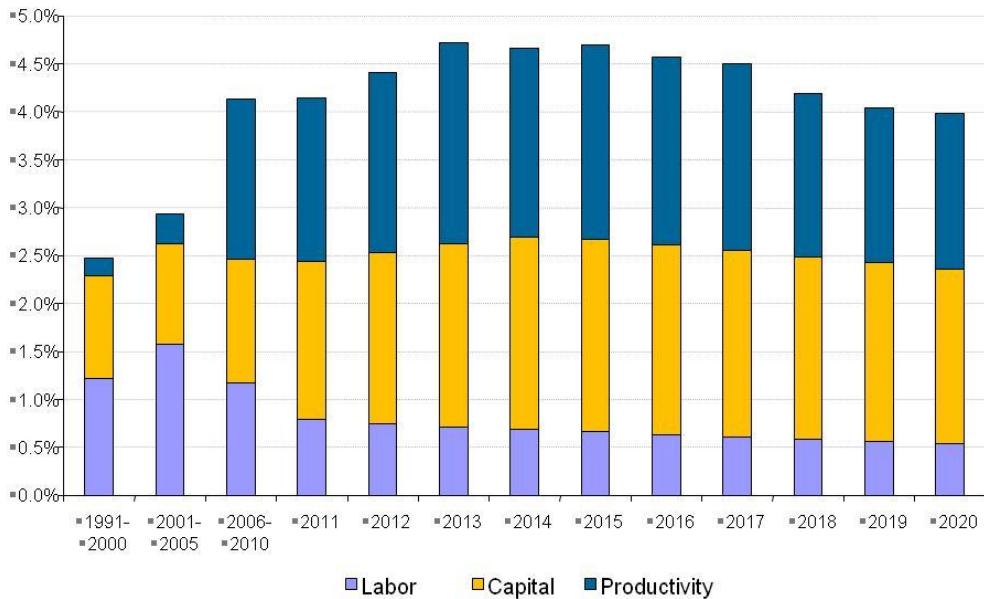


Brazil Growing Too Fast?

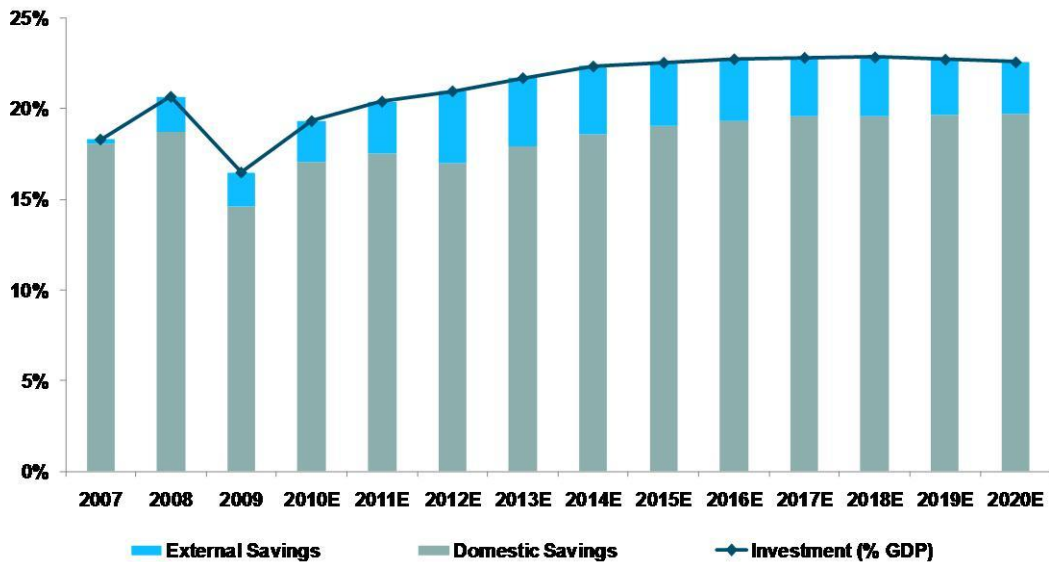
Tomas Malaga

Growth

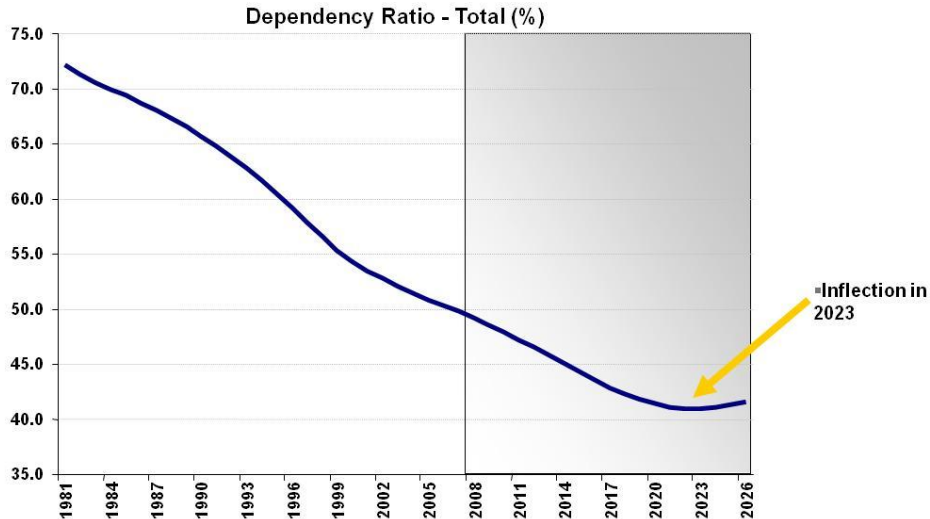
Potential GDP



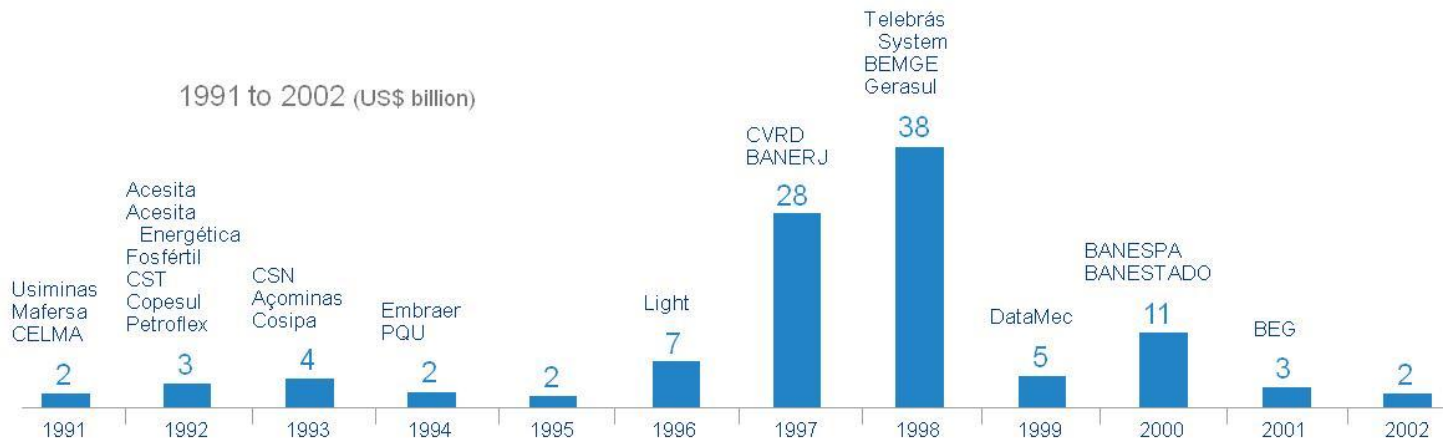
Investment and savings



Demographic bonus starts to revert in 2023, implications for labor force and savings



Productivity growth



Productivity growth



Privatized vs. Partially or Non-privatized sectors

Highlights

Privatized Sectors

Steel

Petrochemical

Fertilizers

Mining

Aerospace

Railroads

Telecommunication

Partially Privatized or not Privatized Sectors

Ports and Airports

Financial

Sanitation

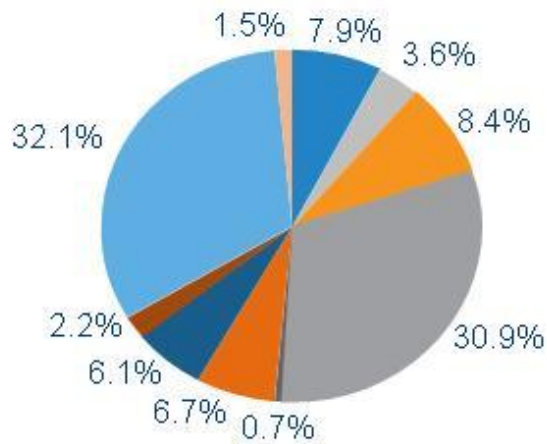
Toll-Roads

Power

Oil & Gas

Productivity growth

Proceeds – Breakdown by Sector

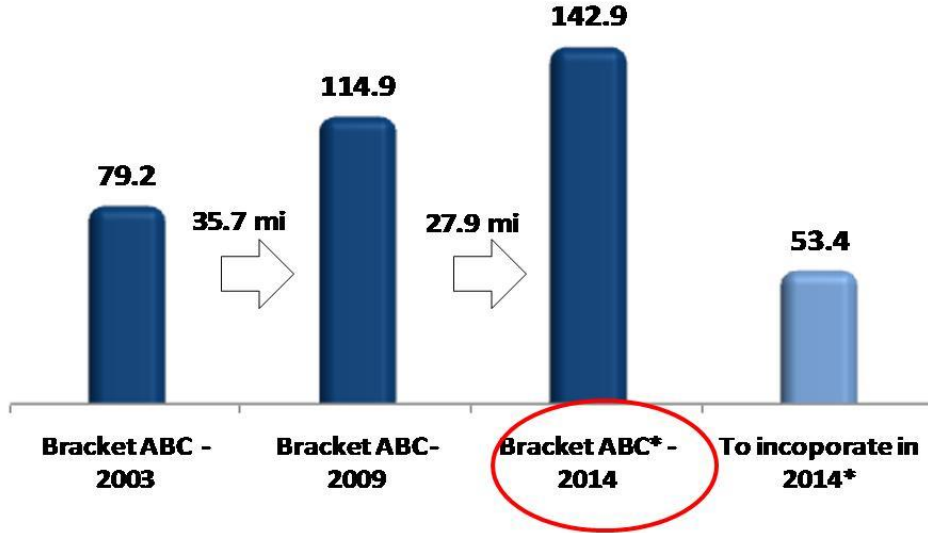


Income Distribution and Consumption



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A new middle class arising



*To incorporate after 2014?



A new middle class arising

▀ Socioeconomic Brackets (% Total Population)

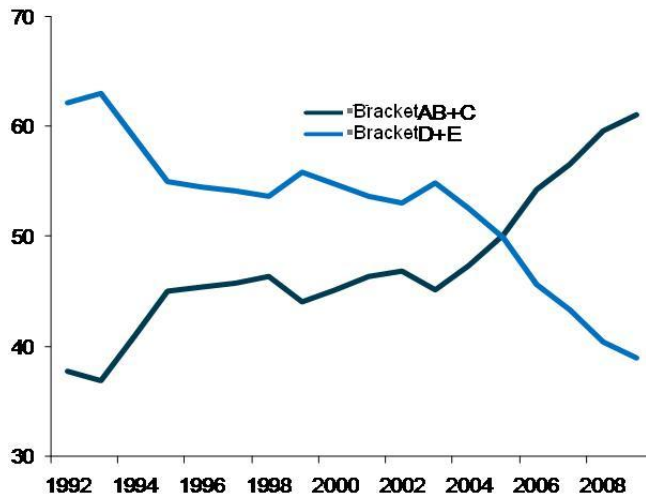
Definition of Socioeconomic Brackets

Family Income from All Sources (R\$)

	Boundaries	
	Lower	Upper
Bracket E	0	1013
Bracket D	1013	1618
Bracket C	1618	6977
Bracket B	6977	9097
Bracket A	9097	-

* POF adjusted

** May/2010 prices

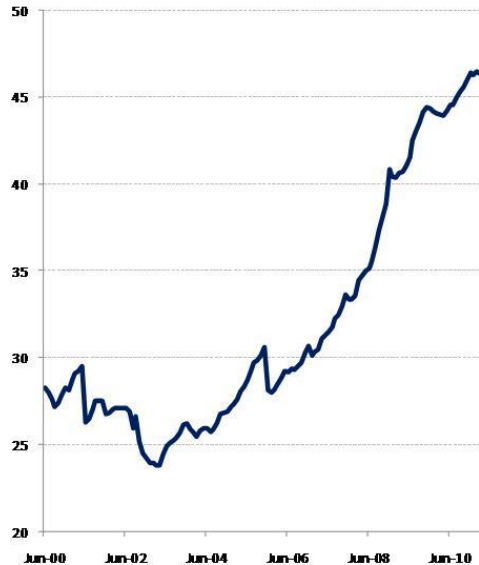


Banking Loans (% of GDP) and Delinquency Rates

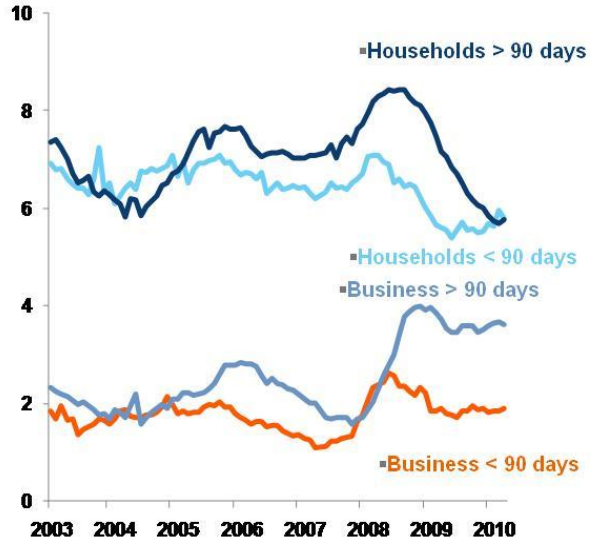


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▀Credit (% GDP)

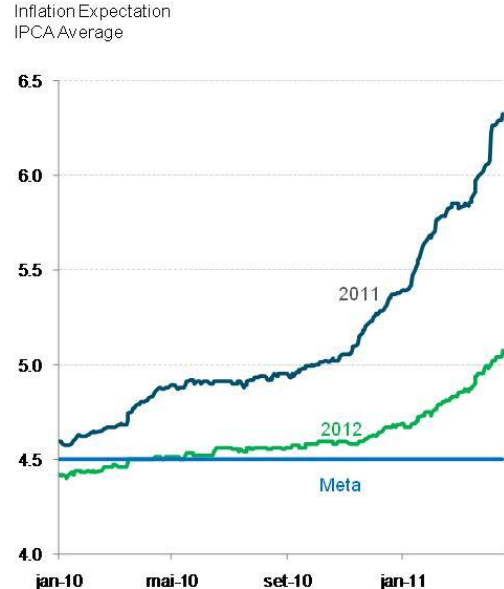
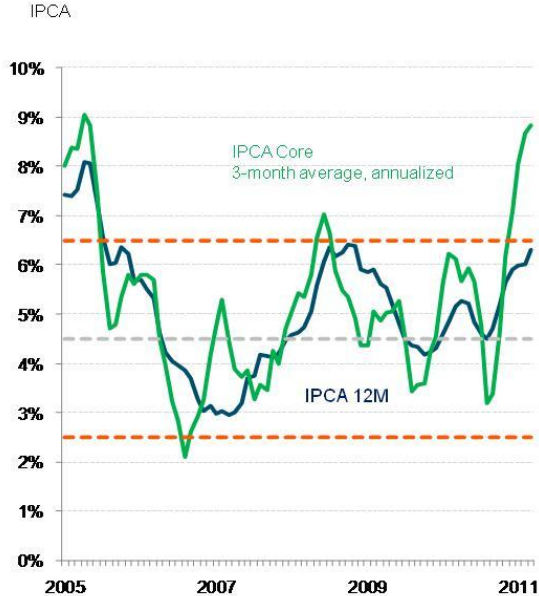


▀Delinquency rate



Inflation pressures

Several causes: commodity prices; fast growth; unanchored expectations; FX intervention



Brazil: Selected Macroeconomic Indicators

	2006	2007	2008	2009	2010E	2011E	2012E
Brazil							
External Sector & Exchange Rate							
BRL / USD - eop	2.14	1.77	2.34	1.74	1.69	1.55	1.65
BRL / USD - year avg	2.18	1.95	1.84	1.99	1.76	1.60	1.60
Exports - USD bn	138	161	198	153	202	243	254
Imports - USD bn	91	121	173	128	182	227	250
Trade balance - USD bn	46	40	25	25	20	16	4
Total Trade Flows (exp + imp) - % GDP	21	21	22	18	18	19	18
Current Account - USD bn	14	2	-28	-24	-48	-70	-102
Current Account - % GDP	1.3	0.1	-1.7	-1.5	-2.3	-2.8	-3.7
Foreign Direct Investment - USD bn	19	35	45	26	48	58	65
Foreign Direct Investment - % GDP	1.7	2.5	2.7	1.6	2.3	2.3	2.4
International reserves, cash - USD bn	86	180	194	239	288	335	361
International reserves - % GDP	7.9	13.2	11.7	14.9	13.9	13.3	13.1
Economic Activity							
Nominal GDP - USD bn	1,088.8	1,366.5	1,650.7	1,598.4	2,076.6	2,521.0	2,749.2
Real GDP growth - %	4.0	6.1	5.2	-0.6	7.5	3.6	3.8
Inflation							
IPCA - %	3.1	4.5	5.9	4.3	5.9	6.3	5.0
IGP-M - %	3.8	7.8	9.8	-1.7	11.3	6.3	5.4
Interest Rate							
Selic - eop - %	13.25	11.25	13.75	8.75	10.75	12.25	11.50
Selic - year avg - %	15.1	12.0	12.5	9.9	10.0	12.0	12.1
Public Finances							
Primary budget surplus - % GDP	3.2	3.3	3.4	2.1	2.8	2.5	1.9
Nominal budget surplus - % GDP	-3.5	-2.7	-1.9	-3.3	-2.6	-3.7	-3.0
Net Debt - % GDP	47.0	45.1	38.4	42.8	40.4	39.3	37.9