
The Potential of Latin America in the Global Economical Context

Itaú Unibanco Macroeconomic Research

December 2, 2009



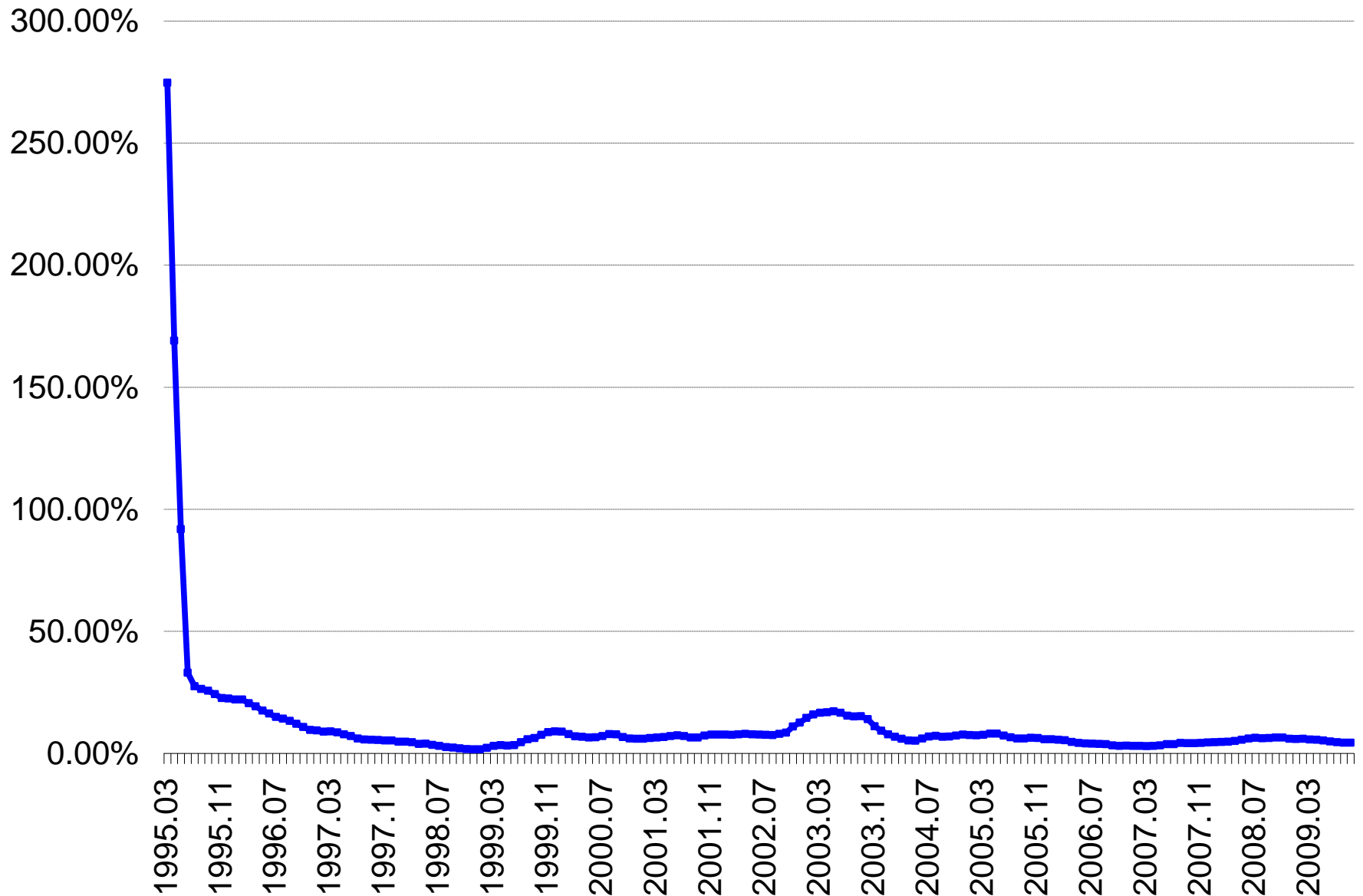
Macroeconomic Scenario

My Talk Today

1. Brazil 1994: What a Difference 15 years Make?
2. Brazil 2010: Perspective for Brazil next year
3. Brazil 2020: What is the road ahead?

1. What a Difference 15 years Make: Policies

Real Plan: 15 years of inflation control (IPCA YoY%)

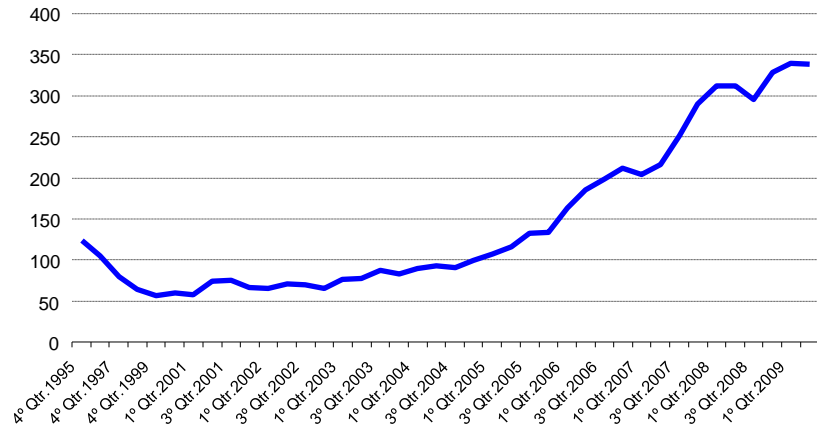


Financial System - Proer

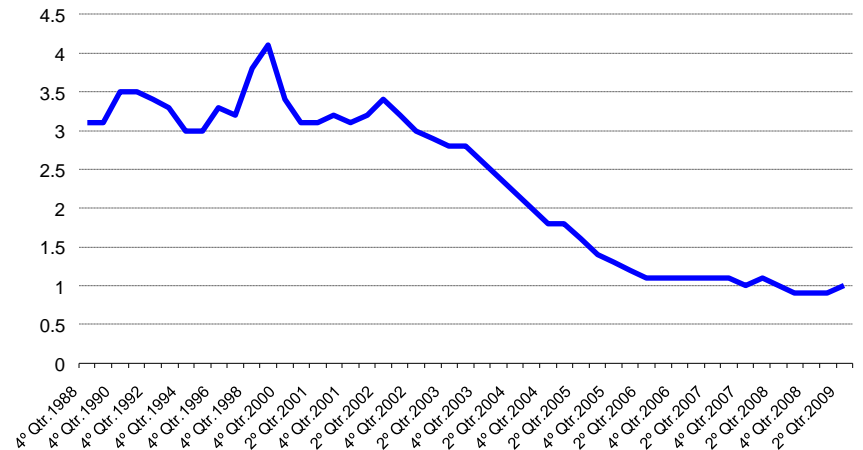
- The Government restructured the Brazilian banking system under the Restructuring Program (Proer), implemented in 3/11/95. The program was a set of measures that allowed the Central Bank to enhance the oversight of financial Institutions.
- Under the program, the Central Bank required weak financial institutions to either increase their capital, transfer shareholder control or to merge or be acquired by another bank.
- As result, the strength of the Brazilian financial system was enhanced and instruments were developed to avoid future financial crises.

External Solvency Indicators

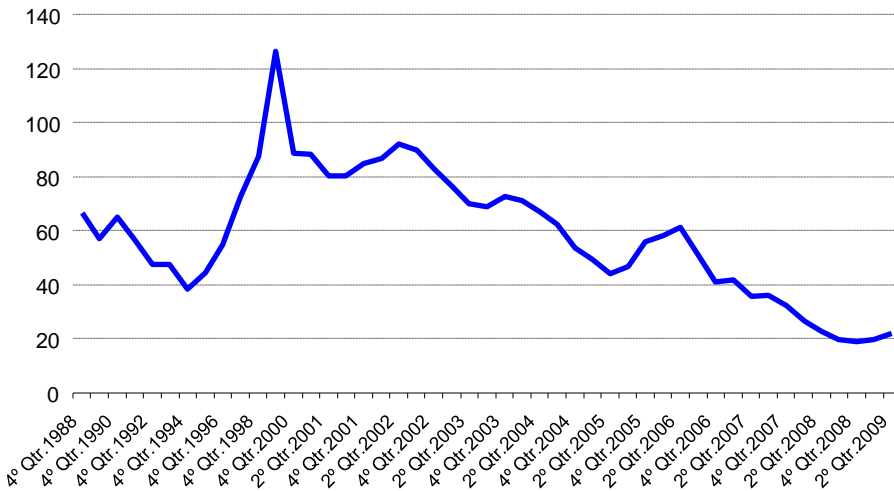
International Reserves/ Short Term External Debt (%)



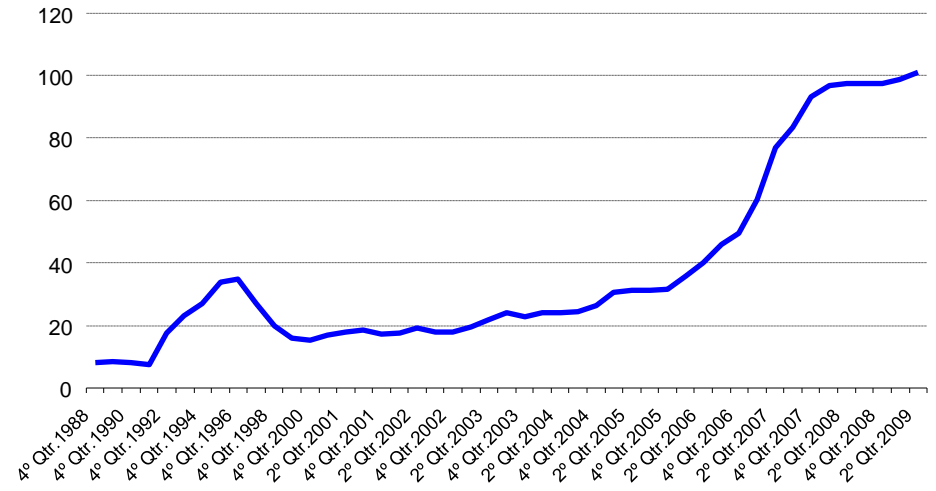
External debt / Exports (%)



Debt service/ Exports (%)

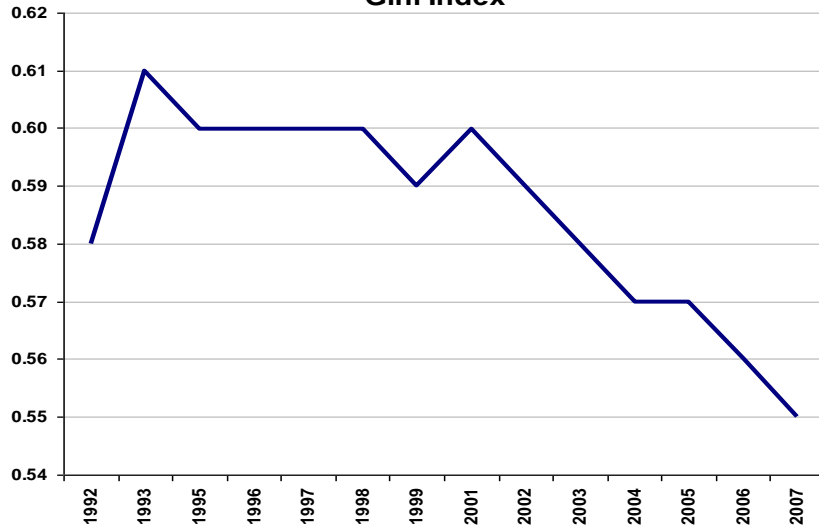


International reserves/ total debt (%)

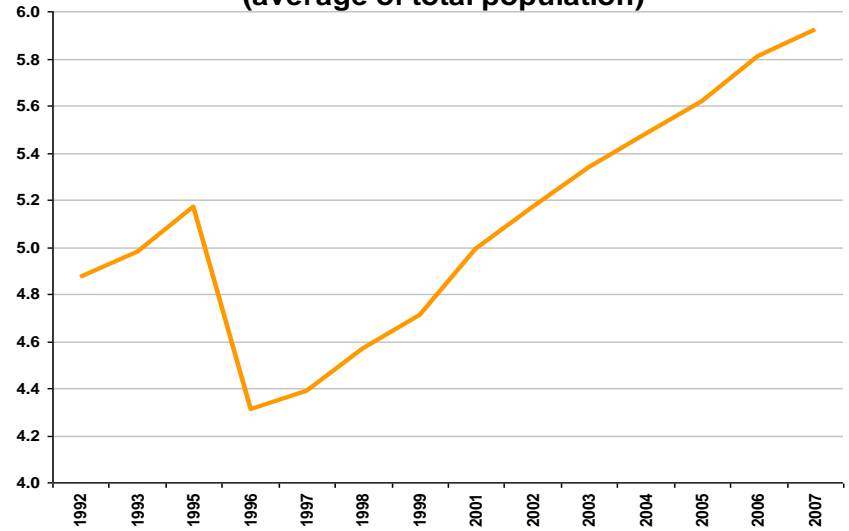


Long term Social improvements

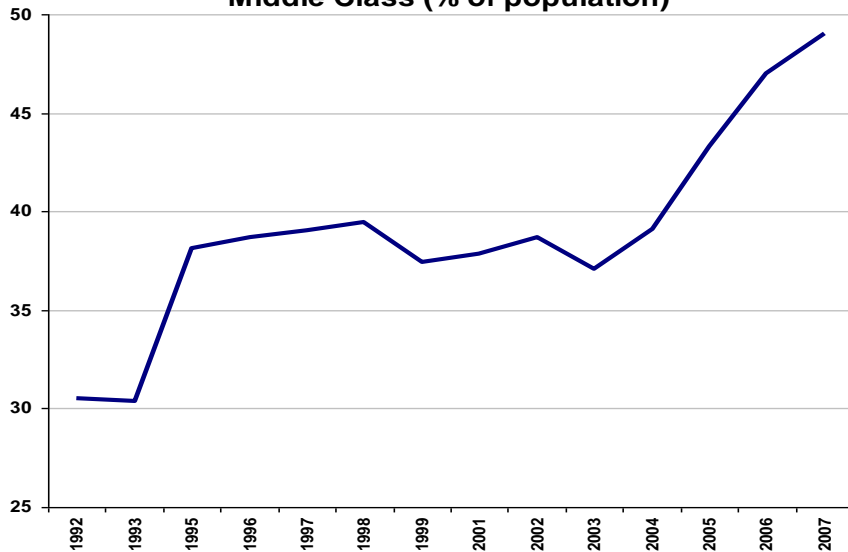
Gini Index



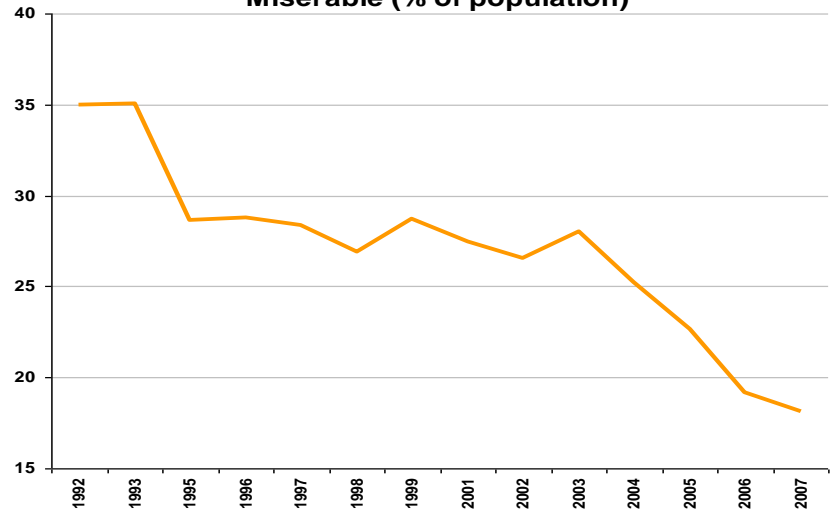
**Years of Schooling
(average of total population)**



Middle Class (% of population)

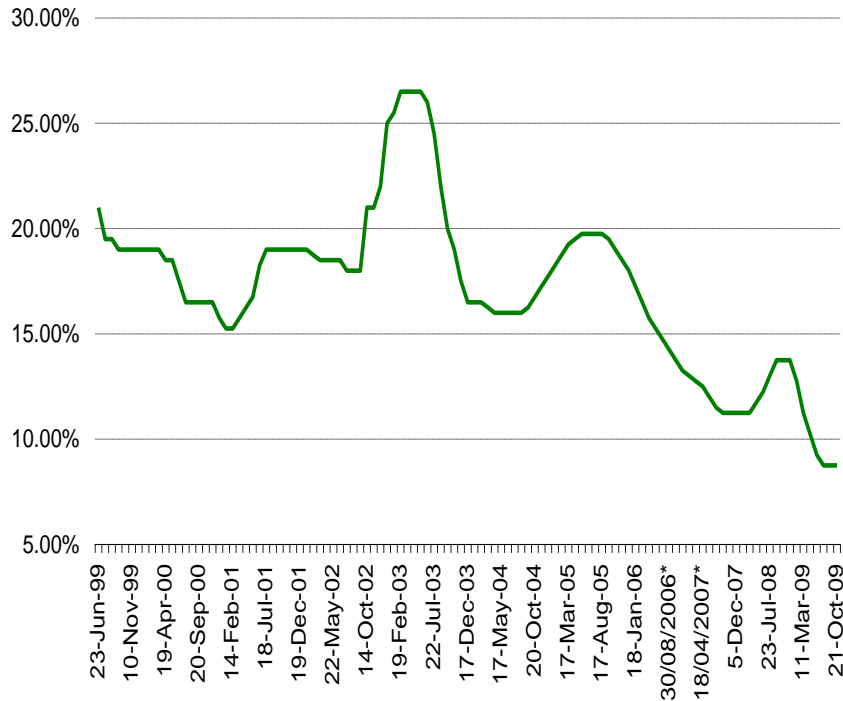


Miserable (% of population)

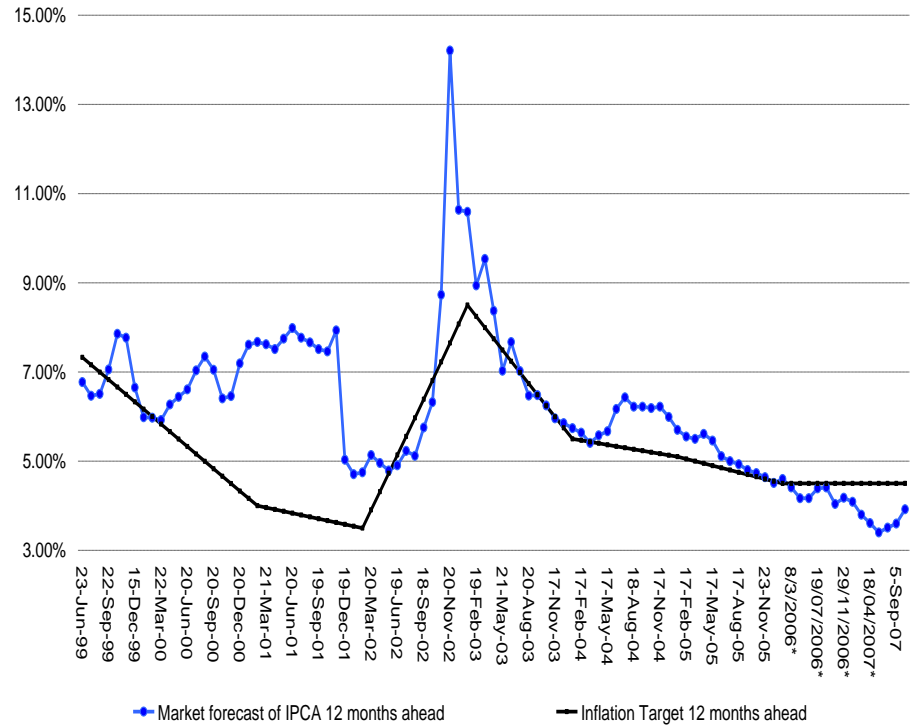


10 years of inflation targeting

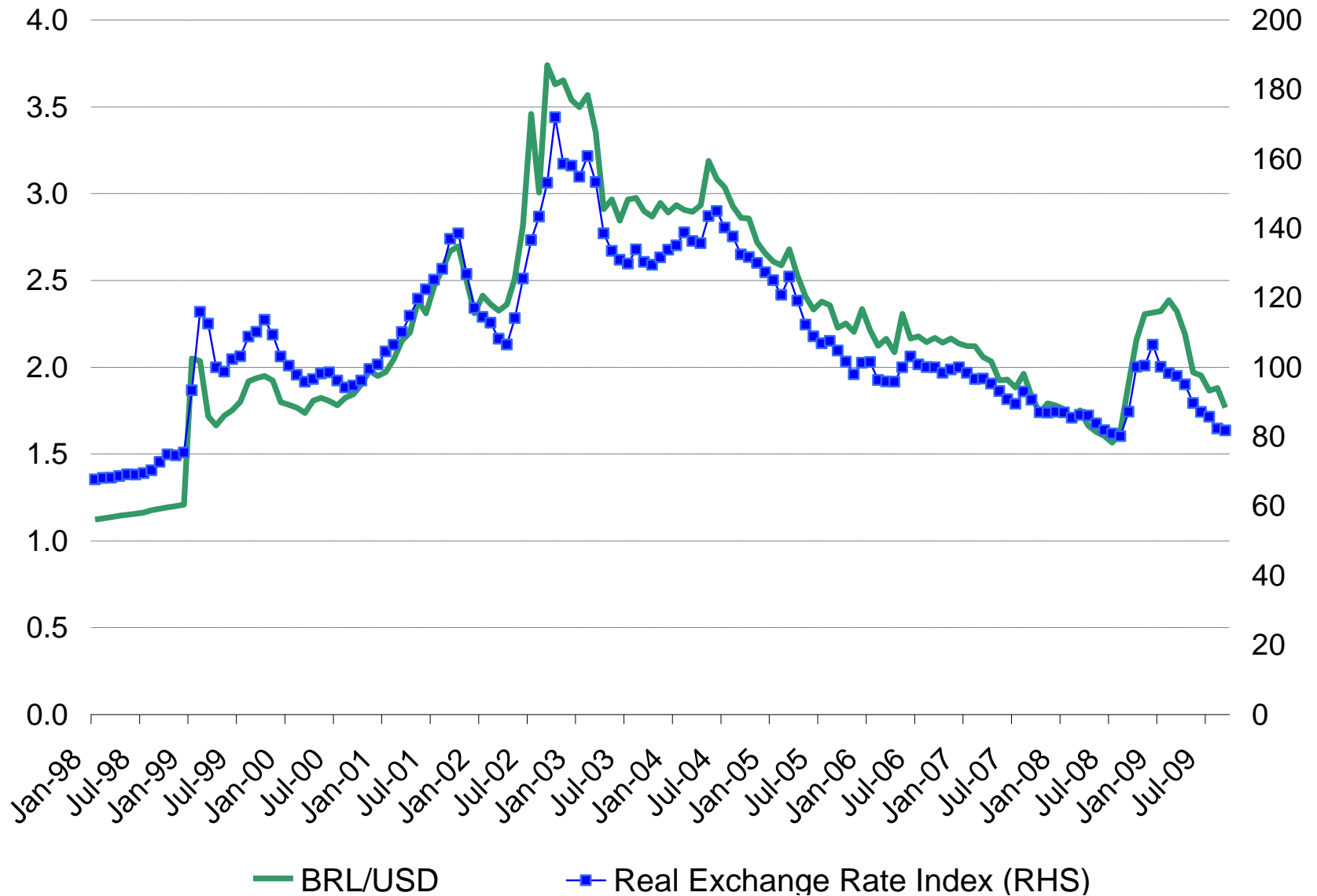
Selic Rate (%)



Inflation Target and inflation forecasts (%)



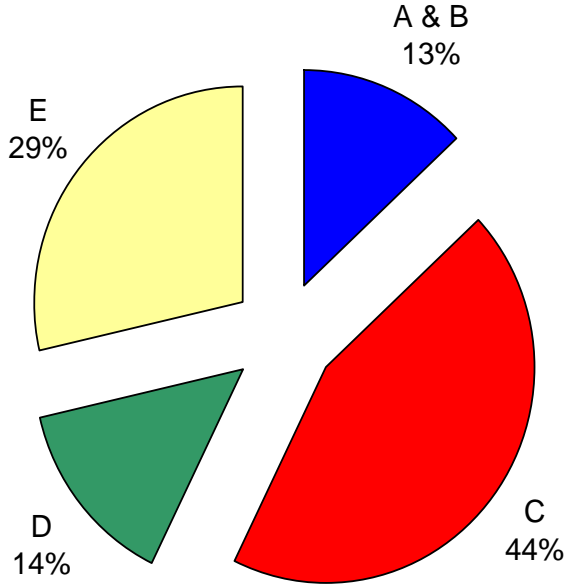
10 years of floating exchange rate



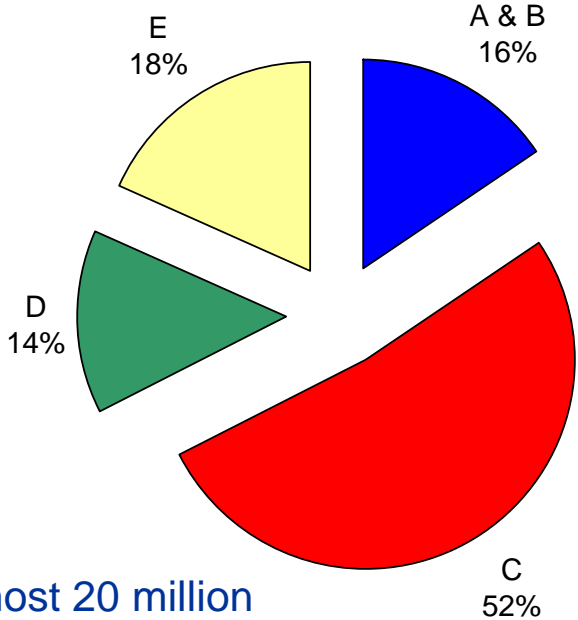
Increase in Consumption Market



Class Participation as a % of total population
2004

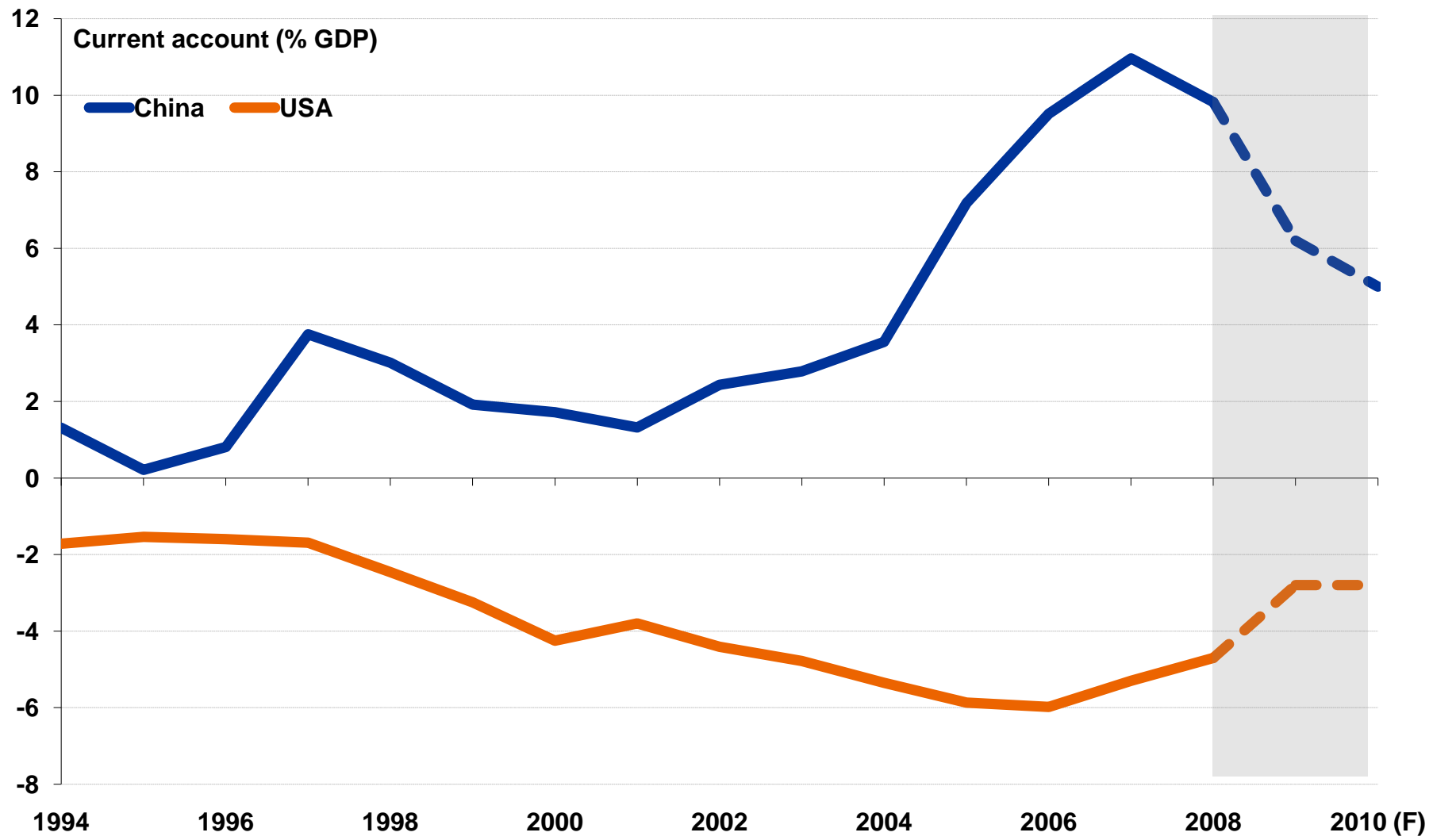


Class Participation as a % of total population
2008

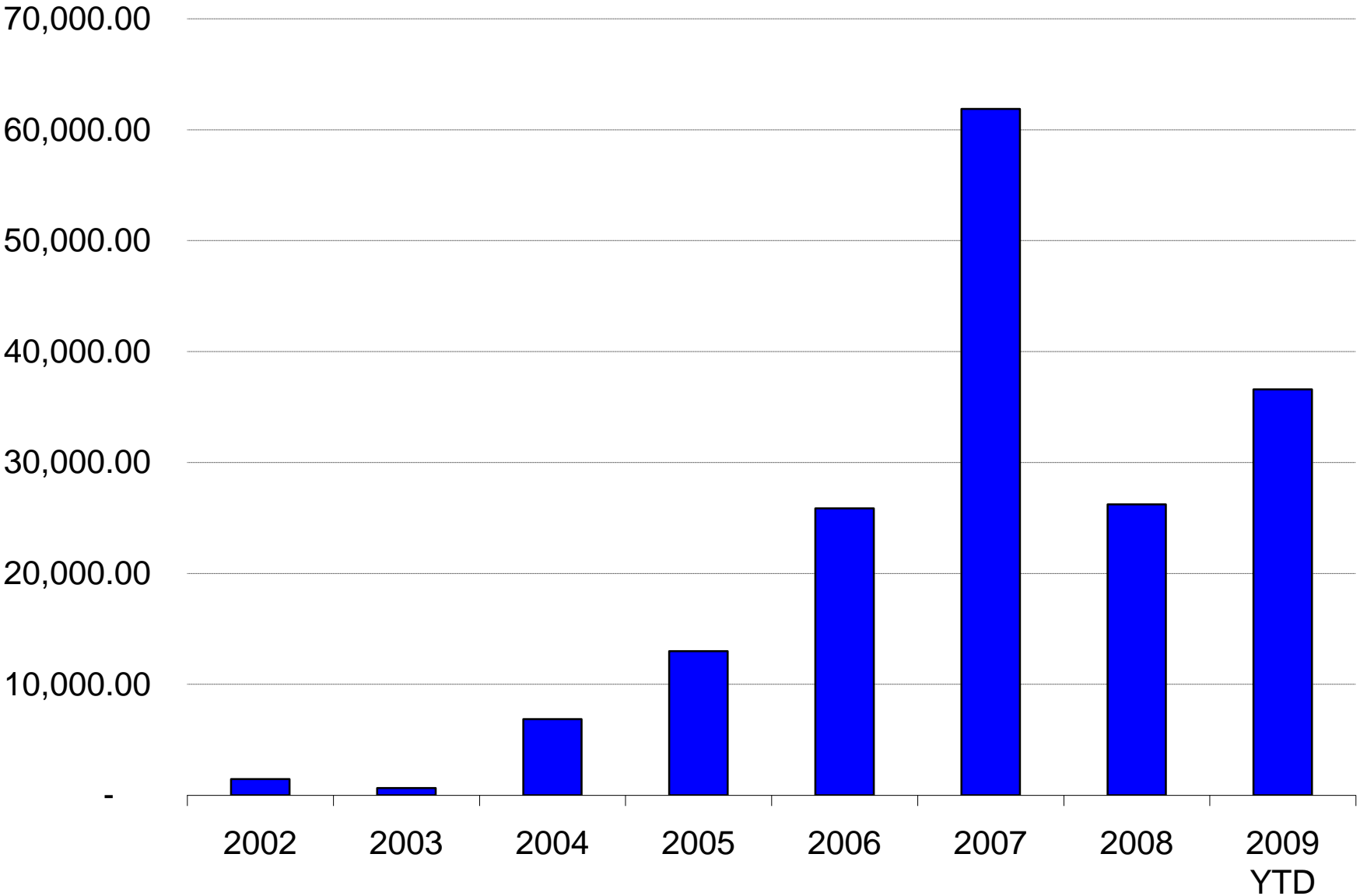


In the past 4 years, almost 20 million people (10% of Brasil's total population) shifted from classes E and D to Class C.

Global rebalance under way: In search of consumer of last resort



Capital Markets : Equity Offerings (\$ Millions of Reais)



Macroeconomic Scenario

Perspective 2010

- GDP unchanged in 2009 and growing by 5.5% in 2010;
- Exchange Rate at 1.72 BRL/USD at the end of 2010;
- Inflation remains well contained in 2010, but heated economic activity flares up risks for 2011;
- BCB starts to hike the Selic rate in April. Total tightening (in 2010) is 200bps;
- Main risk to this scenario is still the pace of global economic growth.

Itaú Unibanco Projections

Basic Scenario				
Data and Projections		2008	2009	2010
External Sector				
Exchange Rate	Dec.	2,39	1,70	1,72
Current Account	% GDP	-1,8	-1,2	-3,1
Economic Activity				
Real GDP growth (Real)	%	5,1	0,0	5,5
Real GDP growth (Potential)		4,7	3,8	4,2
Inflation				
IPCA	%	5,90	4,30	4,10
IGP-M	%	9,81	-0,94	4,30
Monetary Policy				
Selic rate - year	Dec.	13,75	8,75	10,75
Real Interests Rate (effective) - year	Dec.	7,41	5,6	5,5
Real Interests Rate (equilibrium) - year	Dec.		7,0	6,6

Source: MCM, MB Associados and Brazil's Central Bank/Compiled by Itaú Unibanco

Macroeconomic Scenario

Perspective 2020

- Investment should be one of the growth catalysts over the next ten years;
- Increase in rate of investment should lift Brazil's potential GDP;
- In the baseline scenario, financing is external. Current-account deficit widens.

An alternative would be a fiscal adjustment that increases domestic savings and finances growth.

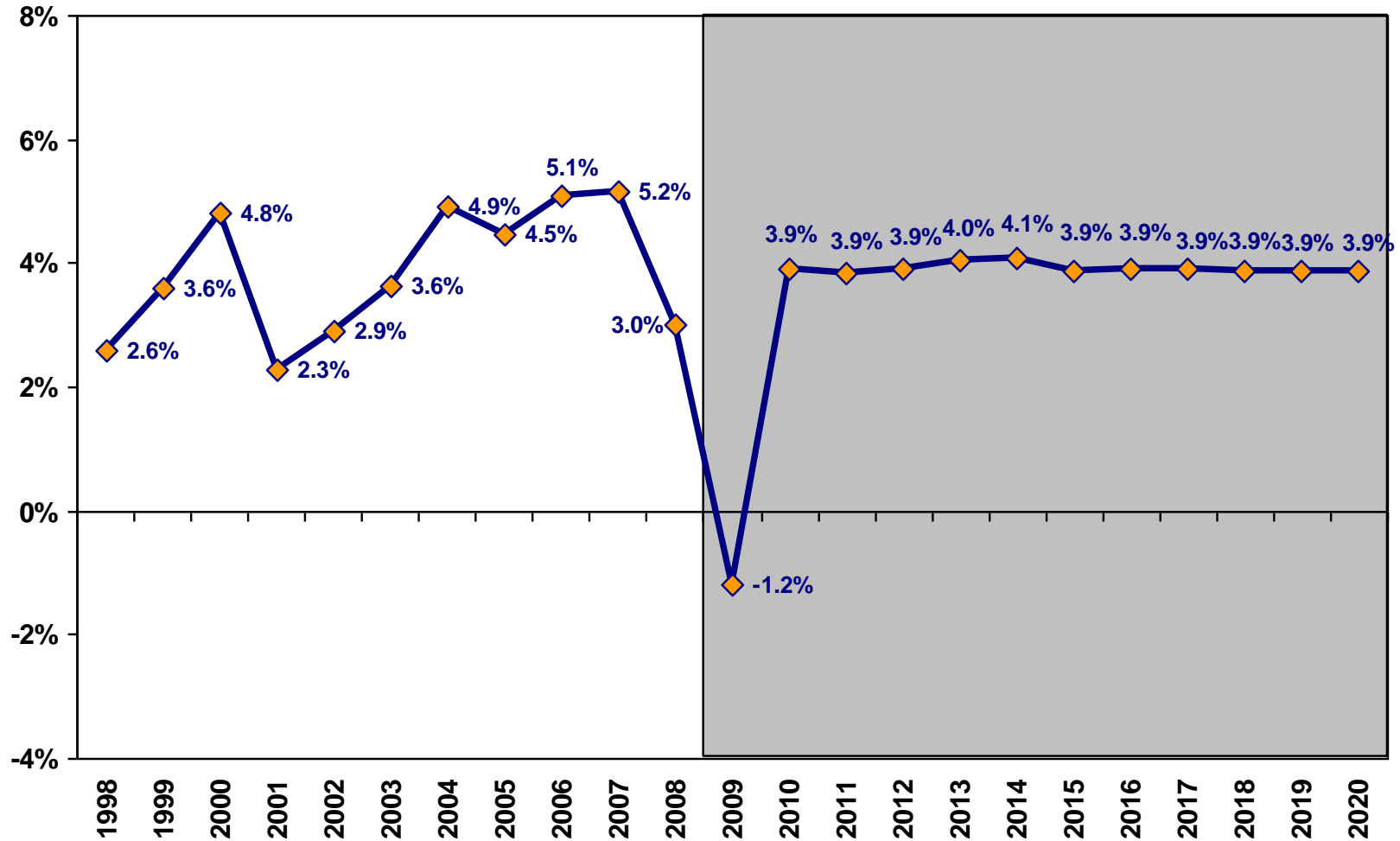
International Scenario in Brief

Forecasts of Real GDP growth - %		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
USA	Potential	2,4	1,4	0,9	1,2	1,6	1,8	1,9	1,9	1,9	1,8	1,8	1,8	1,8
	Real	0,4	-2,4	2,6	2,2	2,2	2,2	2,2	2,2	2,2	2,1	2,1	2,1	2,1
Euro Area	Potential	1,3	0,6	0,8	1,5	1,5	1,5	1,5	1,2	1,2	1,2	1,2	1,2	1,2
	Real	0,6	-3,8	1,4	2,0	2,0	2,0	2,0	1,6	1,6	1,6	1,6	1,6	1,6
Japan	Potential	0,2	0,1	0,4	0,5	0,7	0,7	0,7	0,7	0,8	1,0	1,0	1,0	1,0
	Real	-0,7	-5,5	1,5	1,0	1,0	1,2	1,2	1,1	1,1	1,0	1,0	1,0	1,0
China	Potential	9,7	9,3	9,1	8,9	8,7	8,6	8,4	8,1	7,8	7,7	7,5	7,3	7,1
	Real	9,0	8,4	9,0	8,5	8,5	8,6	8,4	8,1	7,8	7,7	7,5	7,3	7,1
World	Potential	3,5	2,8	2,7	3,2	3,5	3,7	3,7	3,6	3,6	3,6	3,6	3,6	3,6
	Real	3,0	-1,2	3,9	3,9	3,9	4,0	4,1	3,9	3,9	3,9	3,9	3,9	3,9

Source: Itaú Unibanco

Potential GDP - World

World GDP growth



Source: Itaú Unibanco

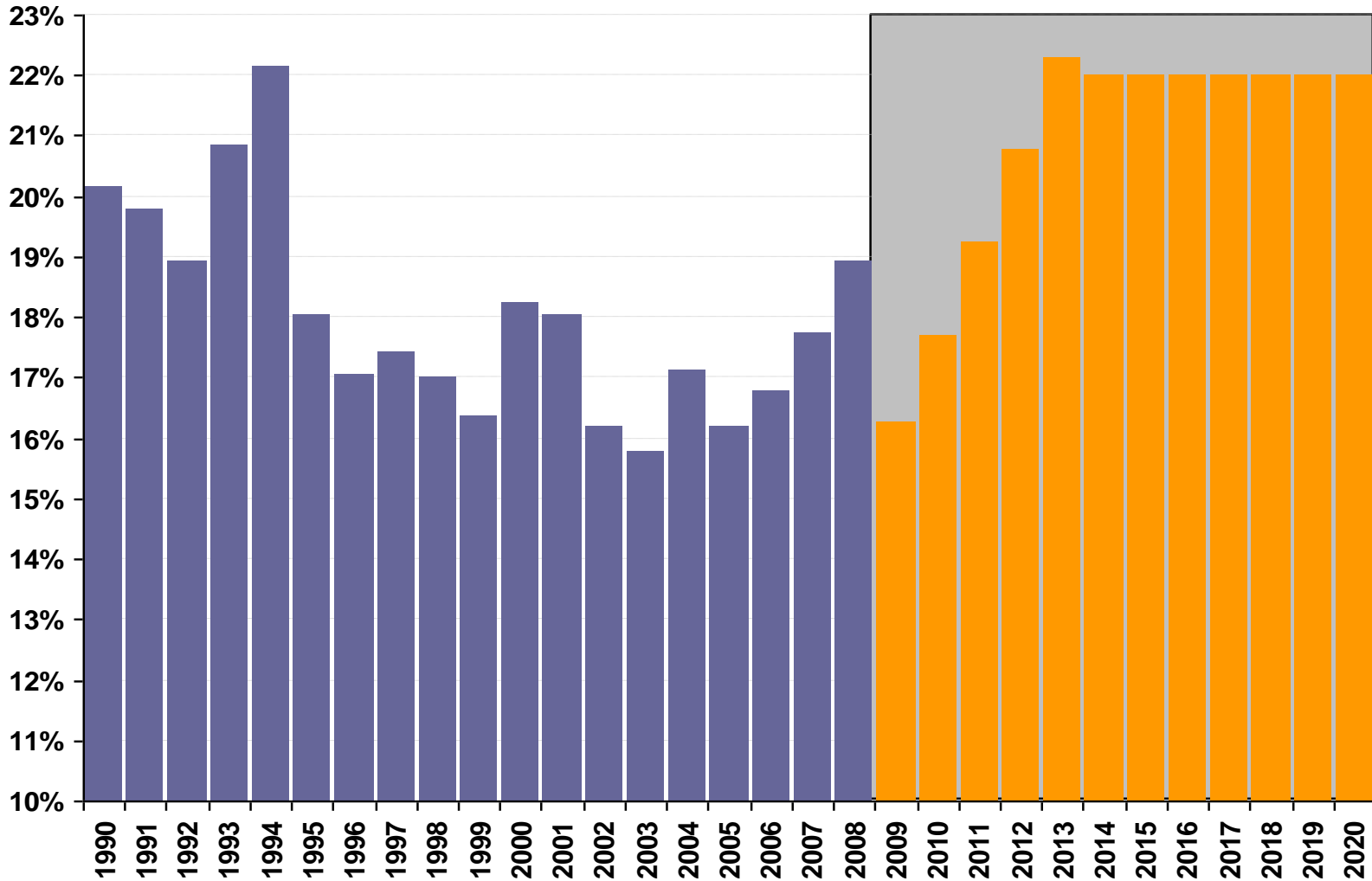
Long Term Brazil: Investment Rate

Brazil: investment should surge. Six reasons:

- 1. Local Context (Alt Local Backdrop): Growing domestic market, IPOs, developing capital markets”;**
- 2. Global Context (alt Global Backdrop)o Global: (“In search of the Consumer of Last Resort”);**
- 3. Real Estate market tends to develop at a faster rate;**
- 4. Neutral real interest rate continues to fall;**
- 5. Exploration of Pre-Salt oil fields (USD \$56,5 billion invested by 2020);**
- 6. Impact of the World Cup and 2016 Olympics.**

Brazil Investment Rate: Baseline Scenario

Investment Rate



Source: Itaú Unibanco

Brazil's World Cup 2014

Host Cities to Brazil's 2014 World Cup

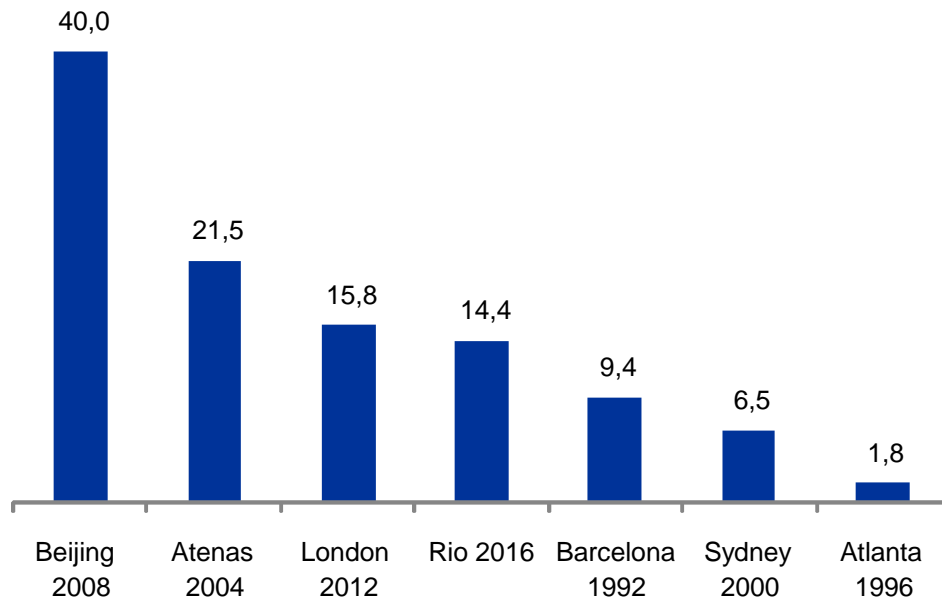
BNDES will finance reforming and building venues in the 12 host cities, and the planning includes:

- **Infra-structure investments**
- **Airport improvements**
- **Urban transports including subways and railroads**
- **Hotels**

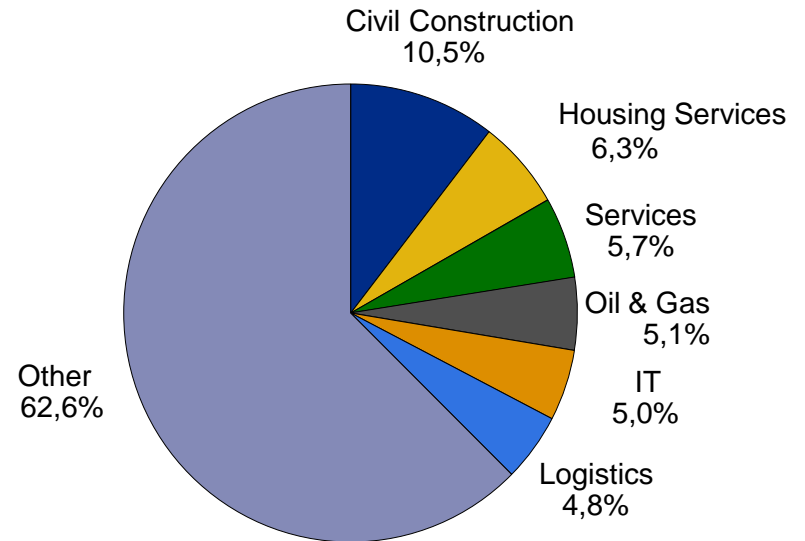


Rio 2016 - Opportunities

Total Rio 2016 expenditure should be around US\$ 14,4 Billions...



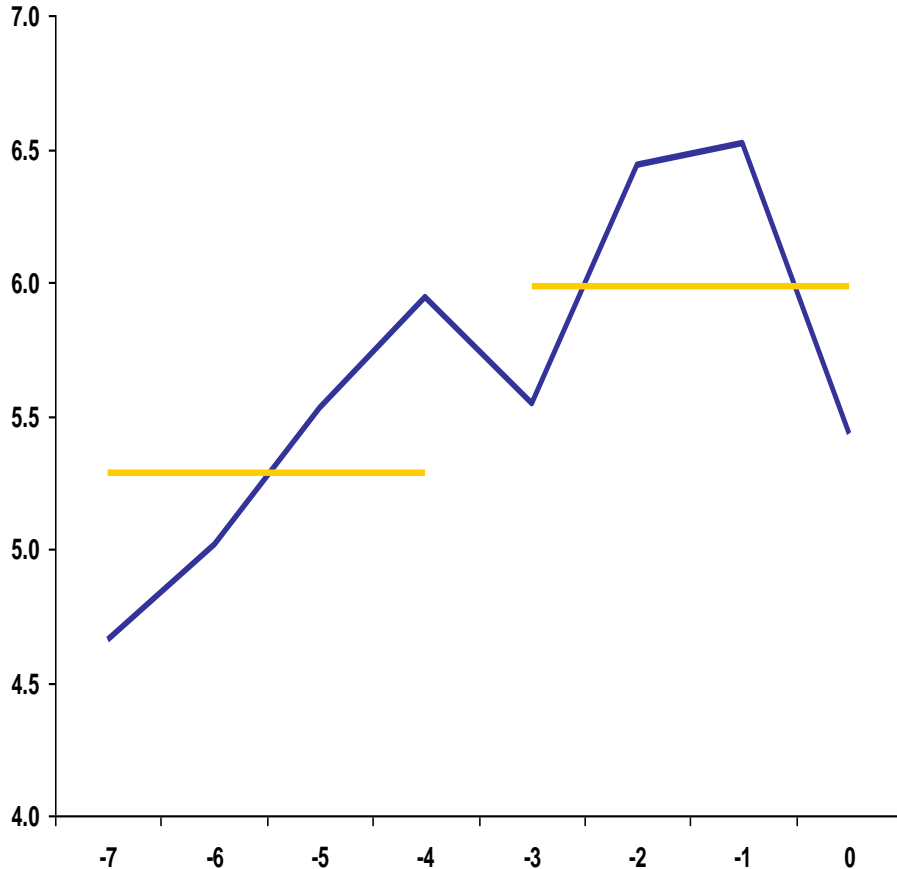
Whith focus on transports and urbanization:



Olympiad and World Cup: 4 Years Earlier

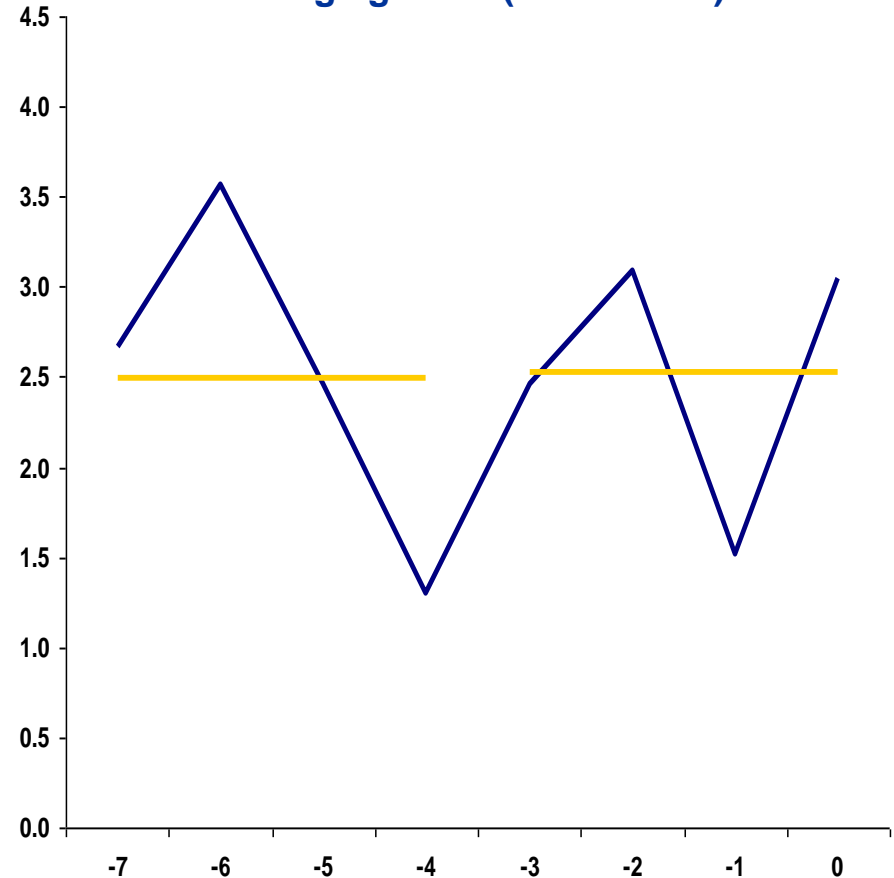
Olympics

Average growth (6 countries)



World Cup

Average growth (6 countries)



Olympics: Australia(2000), China (2008), Greece (2004), Spain (1992), USA (1996) e Korea (1988)

World Cup: France (1998), Germany (2006), Italy (1990), South Africa (2010), Japan/Korea (2002) e USA (1994)

Source: Itaú Unibanco

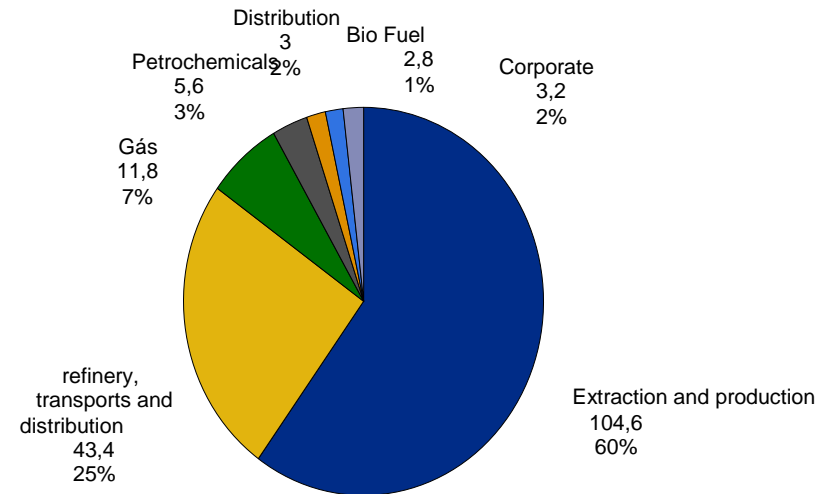
Petrobrás and Sub Salt

Sub Salt – Forecasts for total revenues and Capex (US \$ Billion)

Sub-Salt: Scenario for 2010-2020 /1

	Capex US\$ billion	Production million / barrels	Gross Revenues US\$ billion
2010	700	-	-
2011	1,683	-	-
2012	1,981	3.9	0.3
2013	2,476	34.1	2.6
2014	3,805	34.1	2.6
2015	5,623	38.0	2.9
2016	6,390	60.9	4.6
2017	9,900	123.9	9.3
2018	10,197	145.4	10.9
2019	14,362	170.8	12.8
2020	14,793	232.9	17.5
Total:	72	844	63

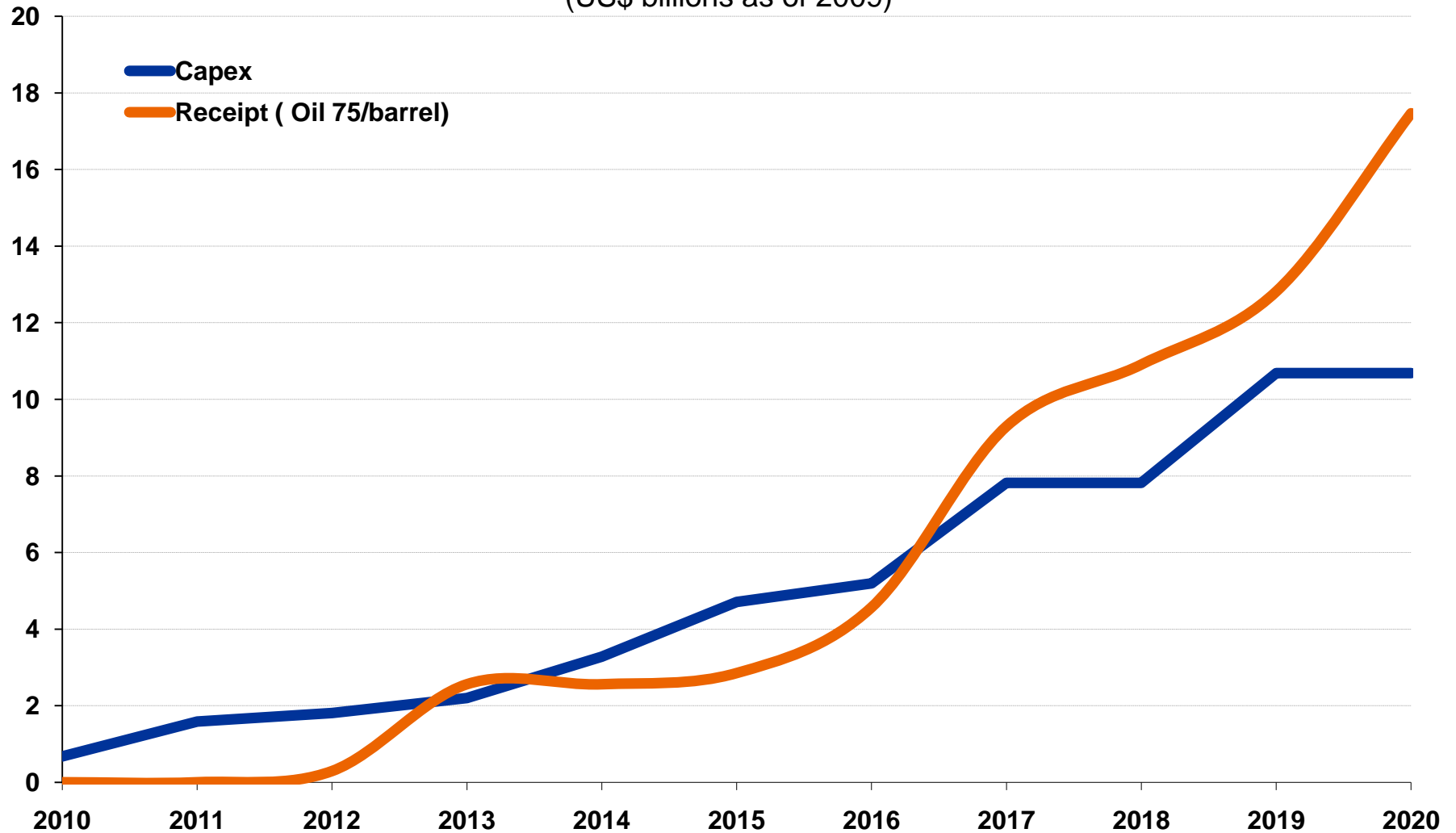
Petrobrás total investments plan over 2009 – 2013 - US\$ 174 Billions



1/ Assumes oil prices at USD 75/barrel in coming years, and a 4-year interval between the start of investment in each of the fields. Figures at current prices.

Pre-Salt Oil

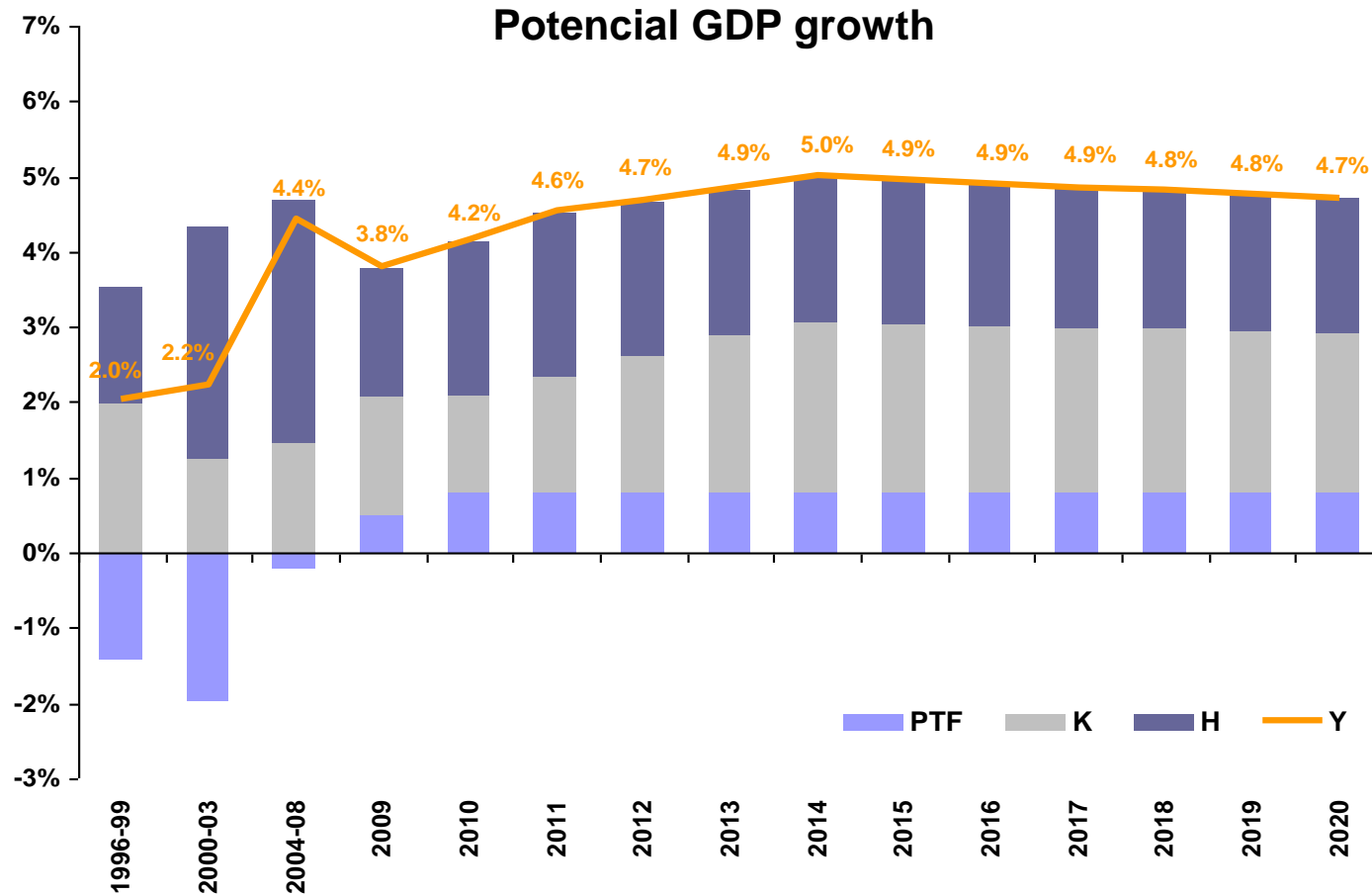
Scenario: Investments & Receipt: 2010 - 2020
(US\$ billions as of 2009)



Source: Itaú Unibanco

Potential GDP: Baseline Scenario

- Productivity grows at 0.8% annual rate;
- External Savings (current-account deficit) converges to 3.5% of GDP;
- Investment rate reaches (alt averages?) 22,0% of GDP



Source: Itaú Unibanco

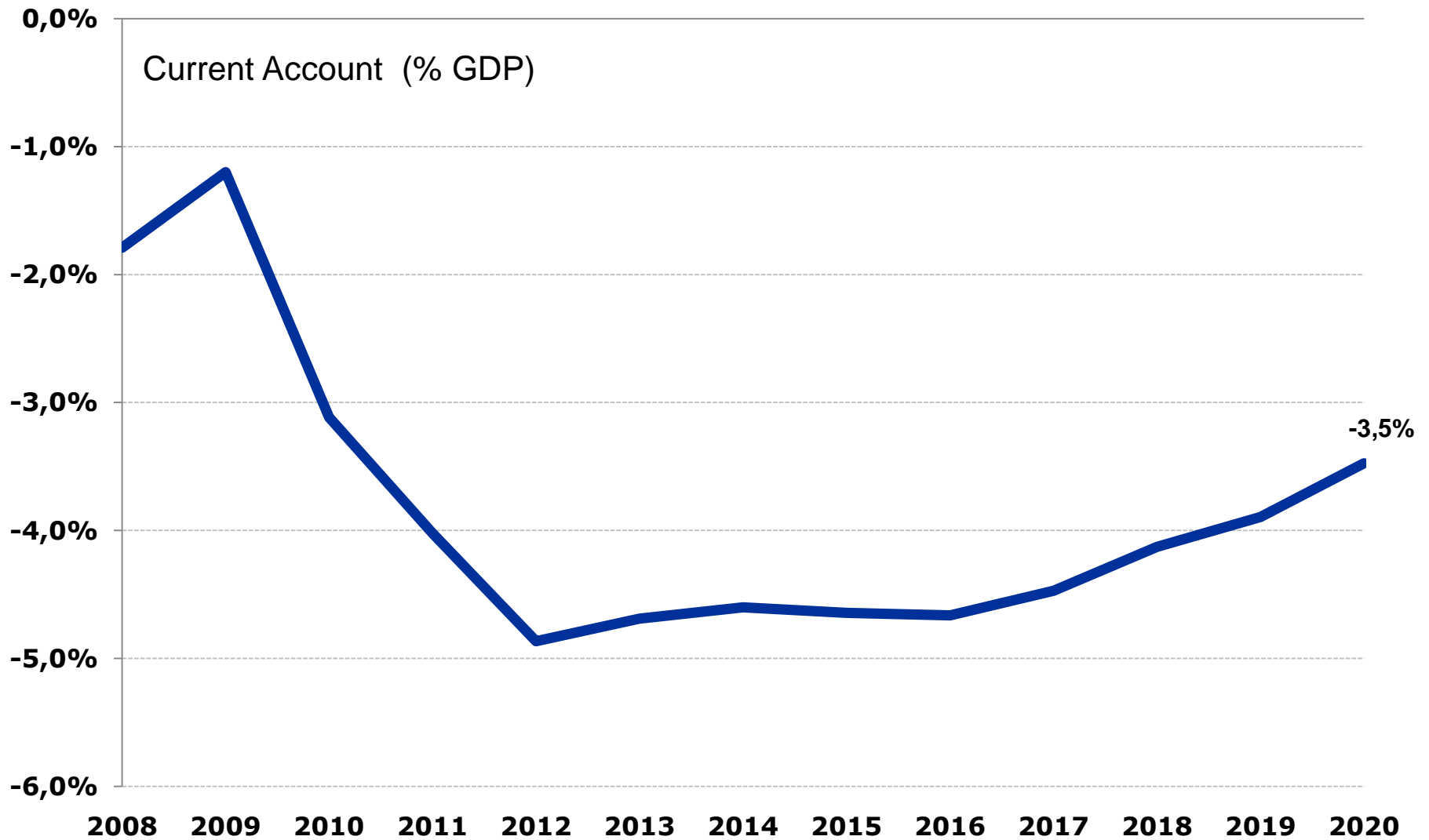
Investment Financing

BASIC SCENARIO (Savings % GDP)	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Non-Financial Institutions	11,5	11,5	11,5	10,7	10,3	10,7	11,0	11,3	11,3	11,2	11,0	11,0	11,0	11,0	11,0
Financial Institutions	4,0	4,0	4,0	3,4	3,4	3,5	4,0	4,4	4,0	4,0	4,0	4,0	4,0	4,0	4,0
Administração pública	-2,8	-2,8	-2,8	-3,5	-3,5	-3,6	-3,9	-3,2	-3,0	-2,9	-2,9	-2,7	-2,3	-2,1	-1,7
Families	4,7	4,7	4,7	4,3	4,3	4,5	4,7	5,0	5,0	5,0	5,0	5,0	5,0	5,0	5,0
ISFLSF	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1	0,1
Internal Savings	17,6	18,1	16,9	15,0	14,6	15,2	15,9	17,6	17,4	17,4	17,3	17,5	17,9	18,1	18,5
External Savings	-0,8	-0,4	2,0	1,2	3,1	4,0	4,5	4,7	4,6	4,6	4,7	4,5	4,1	3,9	3,5
Investment	16,8	17,7	18,9	16,2	17,7	19,2	20,8	22,3	22,0	22,0	22,0	22,0	22,0	22,0	22,0

External Savings financing
investments

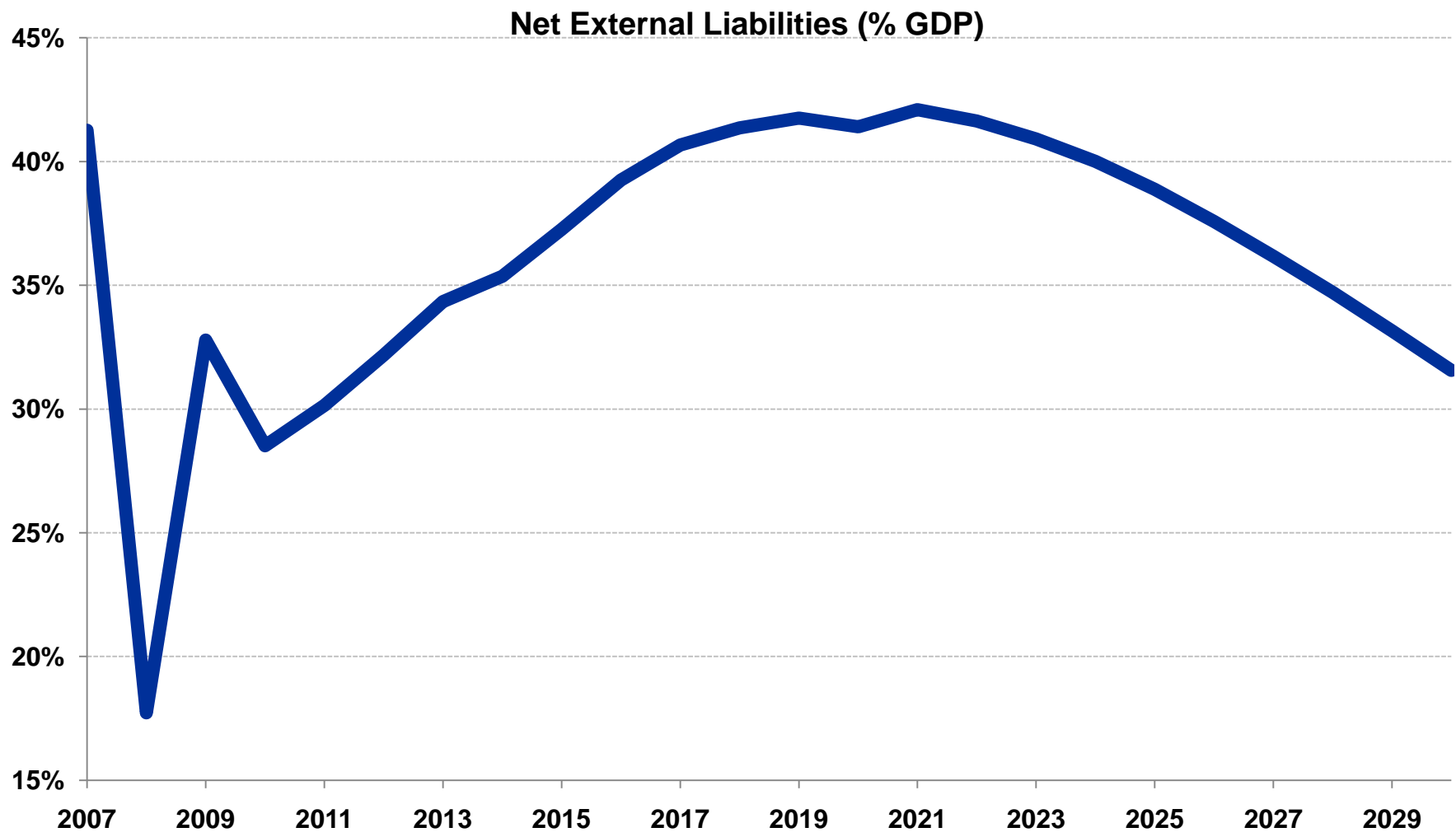
Source: IBGE/ Compiled by Itaú Unibanco

Brazil: Current-Account Basic Assumptions



Source: Itaú Unibanco

Long-Term Net External Liabilities



Source: Itaú Unibanco

Itaú Unibanco Long-Term Projections

		Basic Scenario												
Data and Projections		2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
External Sector														
Exchange Rate	Dec.	2,39	1,70	1,72	1,75	1,80	1,82	1,90	1,95	1,96	1,97	2,00	2,05	2,15
Current Account	% GDP	-1,8	-1,2	-3,1	-4,0	-4,9	-4,7	-4,6	-4,6	-4,7	-4,5	-4,1	-3,9	-3,5
Economic Activity														
Real GDP growth (Real)	%	5,1	0,0	5,5	4,9	4,7	4,9	5,0	4,9	4,9	4,9	4,8	4,8	4,7
Real GDP growth (Potential)		4,7	3,8	4,2	4,6	4,7	4,9	5,0	4,9	4,9	4,9	4,8	4,8	4,7
Inflation														
IPCA	%	5,90	4,30	4,10	4,60	4,39	4,26	4,13	4,00	3,88	3,77	3,66	3,55	3,50
IGP-M	%	9,81	-0,94	4,30	5,00	4,50	4,26	4,13	4,00	3,88	3,77	3,66	3,55	3,50
Monetary Policy														
Selic rate - year	Dec.	13,75	8,75	10,75	10,75	10,50	10,00	9,50	9,00	9,00	8,25	7,75	7,50	7,25
Real Interests Rate (effective) - year	Dec.	7,41	5,6	5,5	5,9	5,8	5,5	5,1	4,8	4,5	4,2	4,0	3,7	3,5
Real Interests Rate (equilibrium) - year	Dec.		7,0	6,6	6,2	5,8	5,5	5,1	4,8	4,5	4,2	4,0	3,7	3,5

Source: MCM, MB Associados, BCB and Itaú Unibanco

Conclusions

1. What a difference fifteen years make: macro regime (inflation targeting, floating regime, fiscal surpluses), privatization, banking reform, new corporate leaders, external indicators.
2. Brazil should grow at or above potential based on stronger labor market and credit recovery. Inflation still comfortable in 2009-2010.
3. CB likely to raise Selic rate in second quarter of 2010. Fiscal accounts deteriorated on 2009, but debt dynamics are benign.
4. Global and local factors should attract capital inflows that will probably continue to put upward pressure on the currency. Current account deficit should widen.
5. Higher investment and potential output growth ahead (Brazil 2020). Subsalt oil investments promise high export receipts beyond 2020.

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