

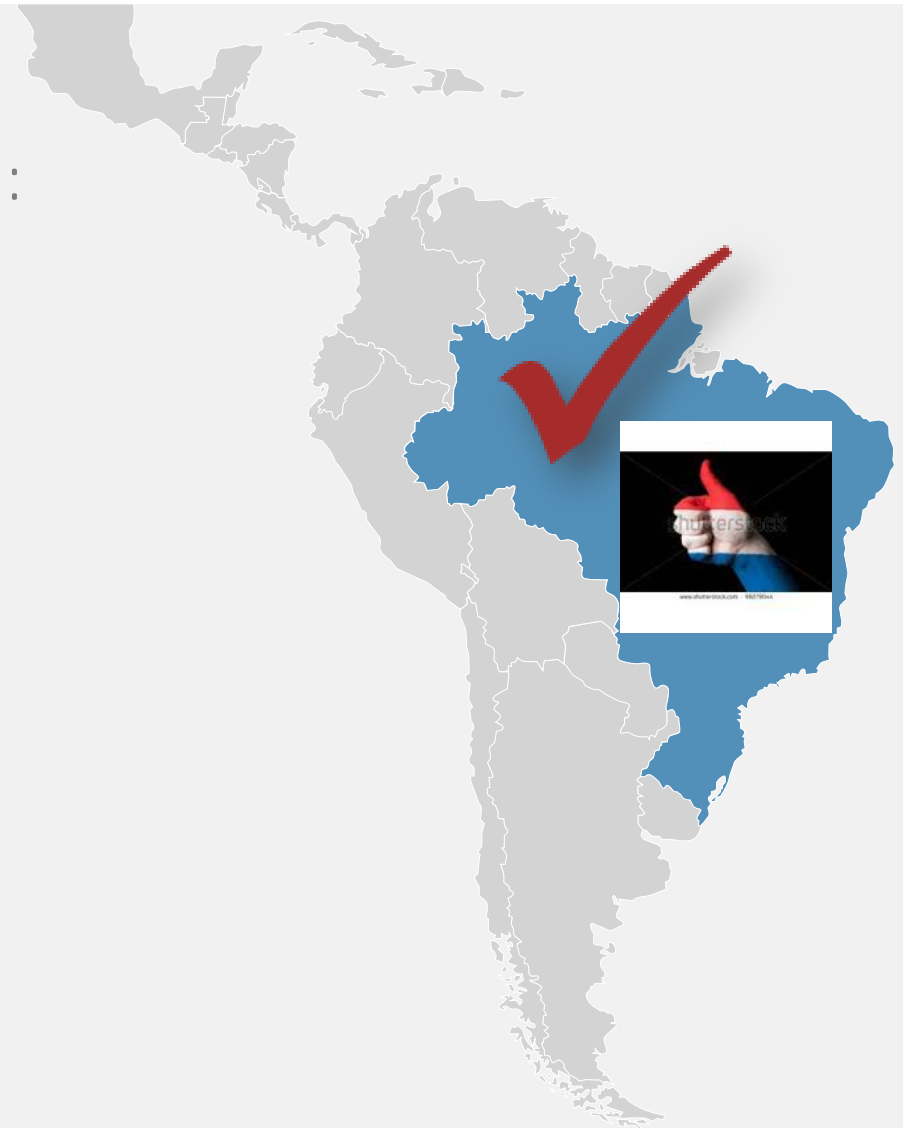


Interesting times for Brazil:

Political and macro-economic developments and opportunities

Jan Eichbaum
Consul General of Luxembourg in Brazil

Luxembourg, 3rd October 2014





Ten facts you probably didn't know about Brazil



1. Brazil is the **longest country** in the world (4,500km) and thus also has the **longest beach** (7,500km) – it covers **three time zones**
2. With approx. **201 million inhabitants** Brazil is the world's fifth largest country by population
3. With an average annual GDP growth rate of 5%, Brazil is one of the **fastest growing economies** in the world today
4. The capital **Brasilia** was built within less than 4 years (1956-1960)
5. São Paulo is the **largest Japanese city** outside of Japan and the state of Sao Paulo has more Lebanese than in Lebanon
6. Brazil is **100% energy independent**
7. Brazil produces 25% of the world's **coffee and soya** supply and most **oranges**
8. 92% of all cars in Brazil use **ethanol as fuel** produced from sugar cane
9. There are **2,500 airports** in Brazil - the 2nd highest number behind the US

The candidates



**DILMA
ROUSSEFF**

- Age: 66 years
- Degree in Economics
- Worker's Party (PT)
- Current President



**AÉCIO
NEVES**

- Age: 54 years
- Degree in Economics
- Social Democratic Party (PSDB)



**MARINA
SILVA**

- Age: 56 years
- Degree in History
- Brazilian Socialist Party (PSB)



**DILMA
ROUSSEFF**

- Age: 66 years
 - Degree in Economics
 - Worker's Party (PT)
 - Current President
- Promises 12 million **new jobs** by 2015
 - Signed a "commitment to **productive Brazil**"
 - Promises to **reduce the cost of investment and production**
 - Wants to expand the **sway** of huge state-controlled **banks** and **energy companies**
 - Promotes **antipoverty projects** and imposes controls on energy prices to keep inflation from climbing
 - Promotes a **More Doctors** Program and the Emergency **Care Units** Network
 - Different than Lula, Middle Class, private sector and the media wants her out.
 - Most of the poor people who receive social benefits tend to vote for her.
 - The most influential exposure for all the candidates is the obliged free TV Time, depending on the size of parties and supporting parties in the congress. Dilma has 24 min. a day , the second, (Aecio) 12 min. and the third (Marina 3min)
 - The others candidates, 8, have 1 min a day and together 2%of the pool.



**AÉCIO
NEVES**

- Age: 54 years
- Degree in Economics
- Social Democratic Party (PSDB)

- Pledges to create a **Ministry of Infrastructure**, which would manage investments in **railways, highways and waterways**
- Proposes the creation of an extraordinary secretariat that would **simplify the tax system and bureaucracy**
- In addition, wants to expand the **range of exemptions** in the income tax table
- Private sector and middle class will vote for him as he is from same the party of Fernando Henrique Cardoso, who reduced inflation from triple digit to one digit a year and was the turning point for Brazil become a Global leader.



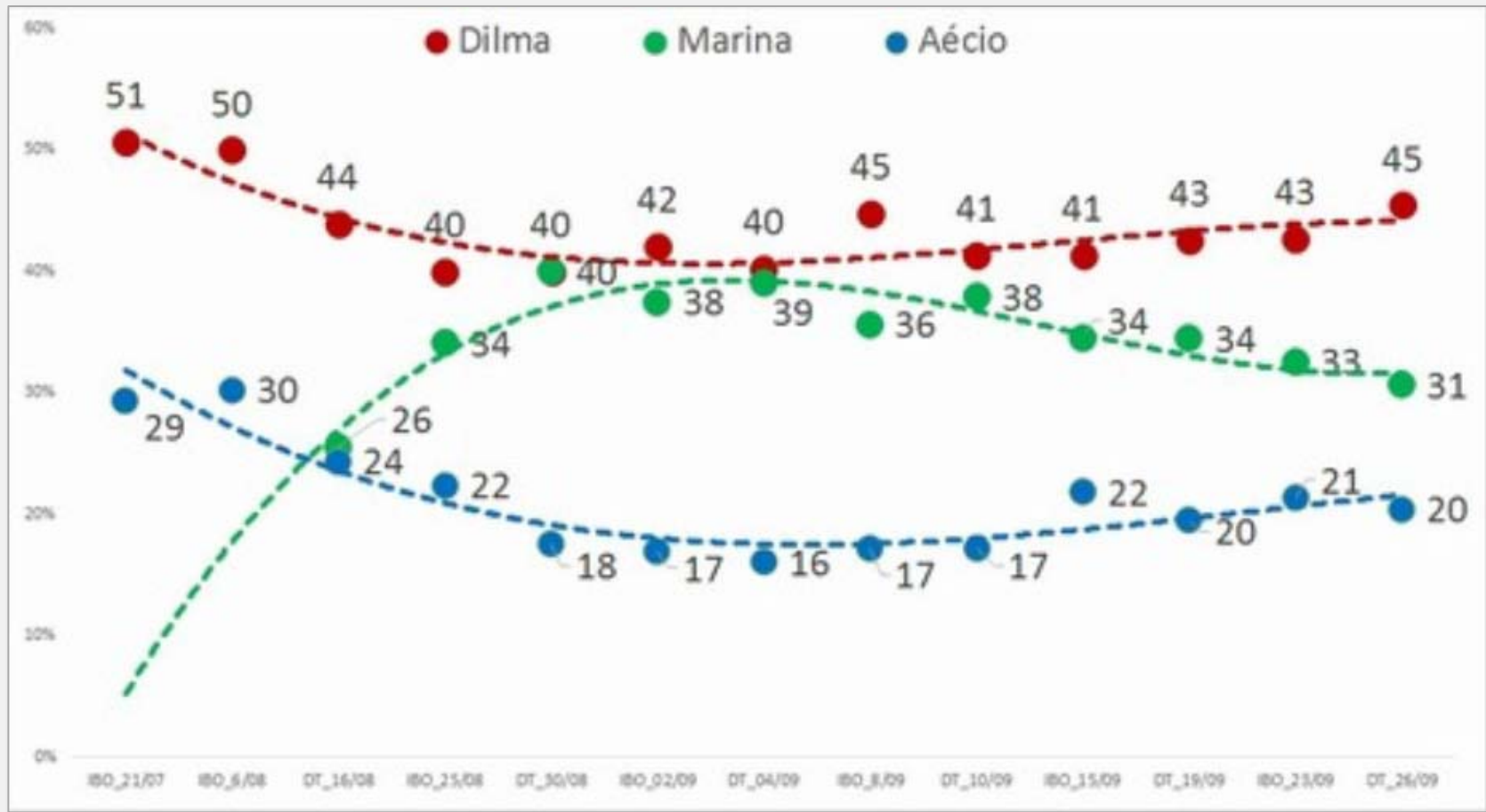
**MARINA
SILVA**

- Age: 56 years
- Degree in History
- Brazilian Socialist Party (PSB)

- Bets on **central bank independence**, with goals defined by law
- Wants to **simplify the tax system** and the new division of revenues between the states
- Proposes to **streamline the settlement of 85,000 families** who are waiting for lots, according to official figures.
- The choice of names as economists Andre Lara Resende (a parent's of Real currency) and Eduardo Giannetti, to compose the economic team, pleases the market and benefits her proposed policy.
- Was one of founder of the Labor party (PT) and Minister of the Environment under Lula, left the Party after corruption and internal scandals to create a new party, which was not achieved due to timing and in the last minute joint the social party PSB with the successful governor of Pernambuco , presidential candidate.
- Due to the large votes she received in under the Green Party in 2010 (20 million votes), was invited to become the vice president running made of Eduardo Campos.
Mr Campos who never achieved more than 5 % died 1,5 month ago in a plane crash .
Marina became the natural candidate and immediately rose to 30% and became a serious contender, as she was talking the “voice” of the streets and had a similar background as Lula , who came from the purest condition learned how to write and read with 16 years old , but different than Lula went to University and became globally known for her commitment to ecological and sustainability causes .

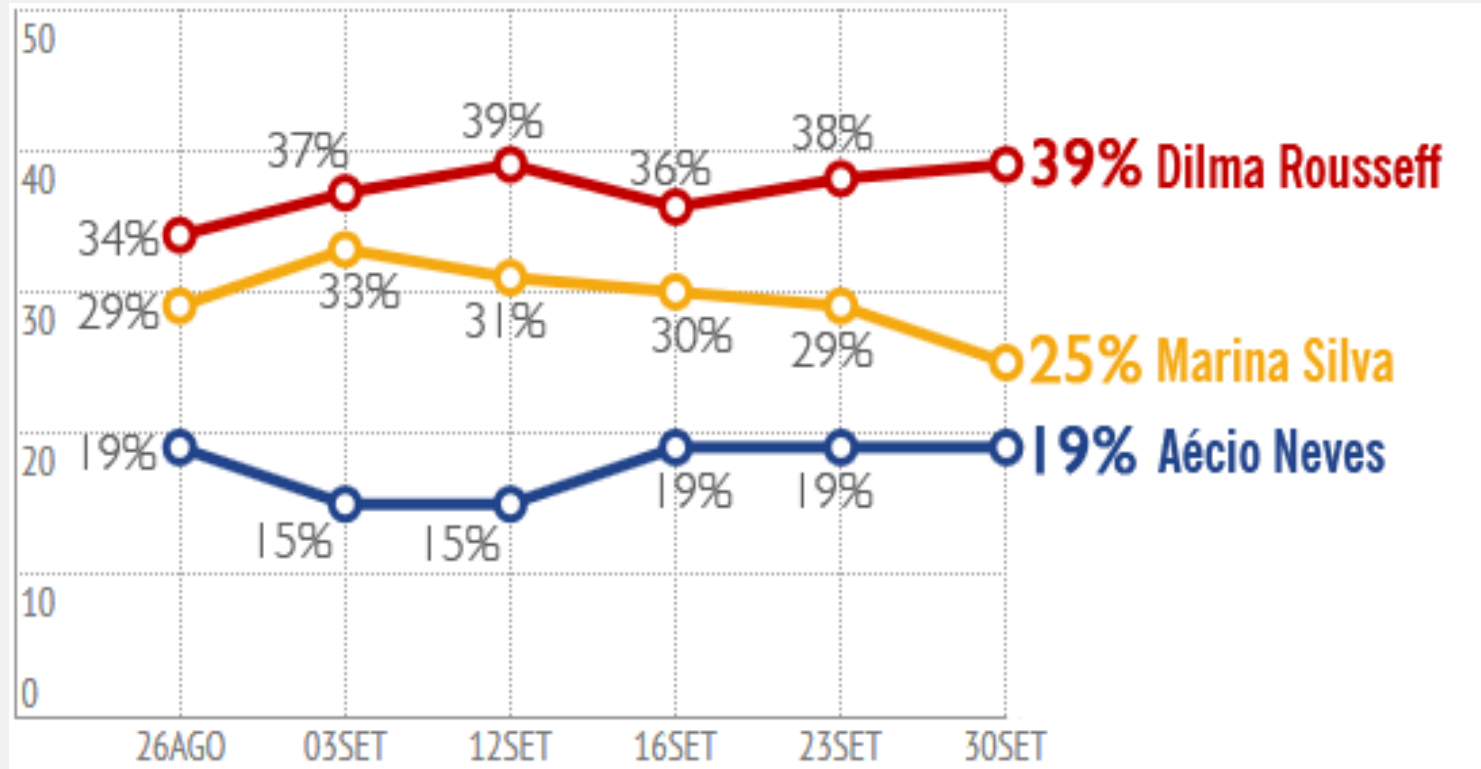
The current Situation prior the Elections

Latest Polls as of September 24th 2014



The current Situation prior the Elections

Latest Polls as of September 30th 2014



The current Situation prior the Elections

Latest Polls as of October 2nd 2014



IBOPE E DATAFOLHA PARA PRESIDENTE

Intenção de voto com resposta estimulada e única, em %



Dilma Rousseff



Marina Silva

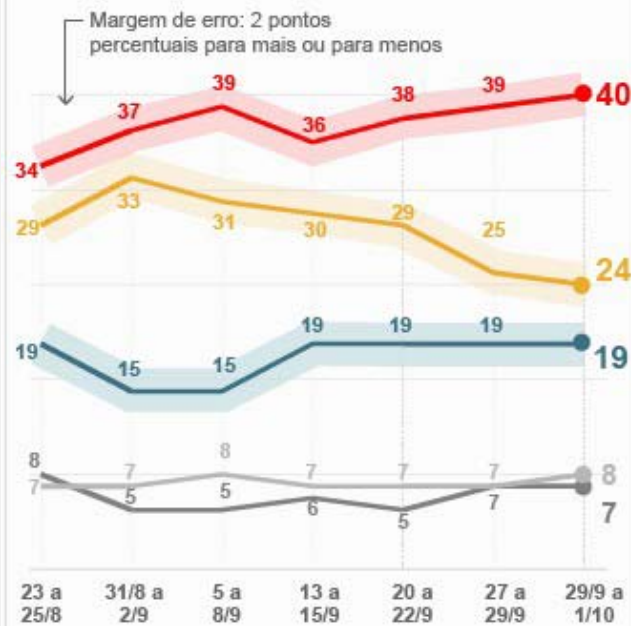


Aécio Neves

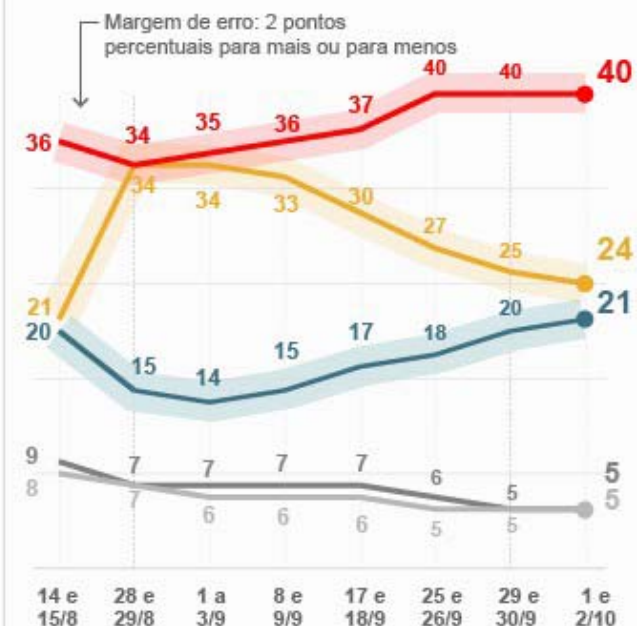
Não sabe

Branco/nulos/nenhum

IBOPE



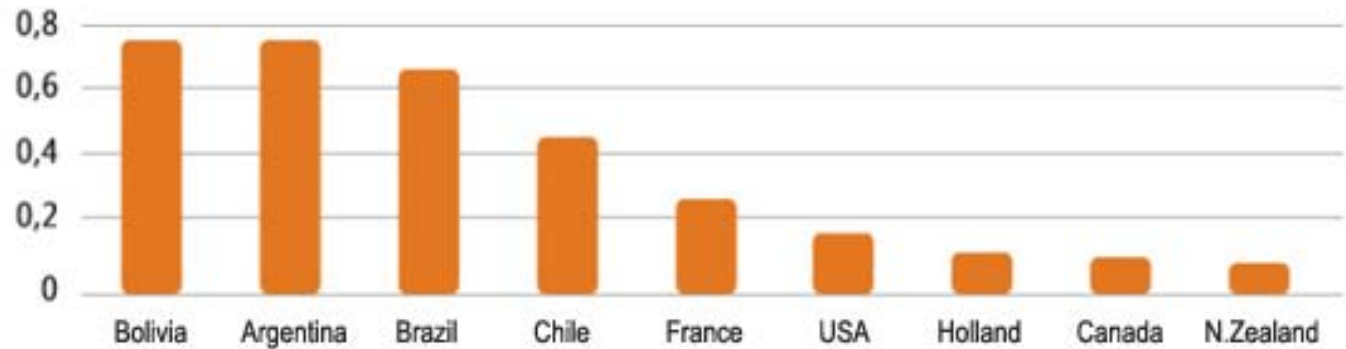
DATAFOLHA



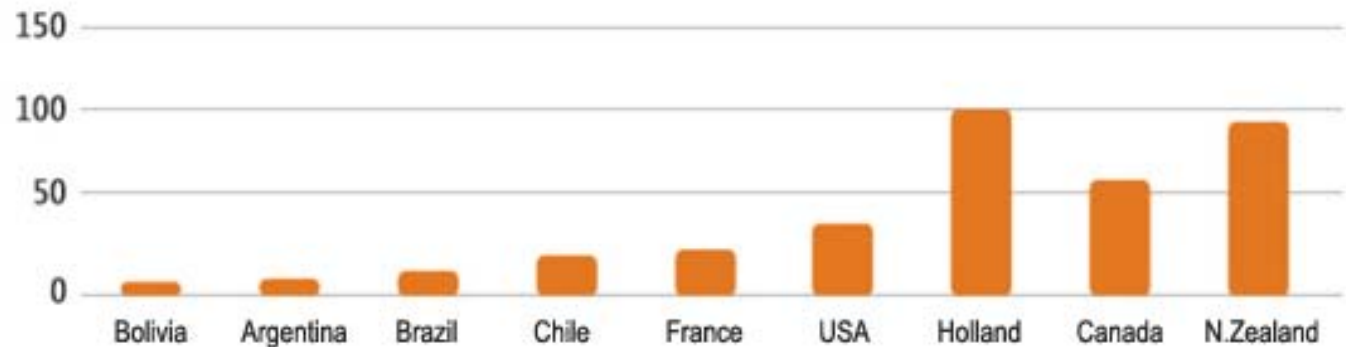
.com.br

Fonte: Datafolha e Ibope
Infográfico elaborado em 2/10/2014

BRAZIL IS NOT A CORRUPT COUNTRY



BRAZIL IS BADLY AUDITED





TODAY



95% of the families with telephone

SOCIAL INCLUSION





OUTBOUND OPPORTUNITIES



Planned investments in the Brazilian infrastructure in the coming decades



Highway Program

- 9 Federal highways, covering over 7 500 km



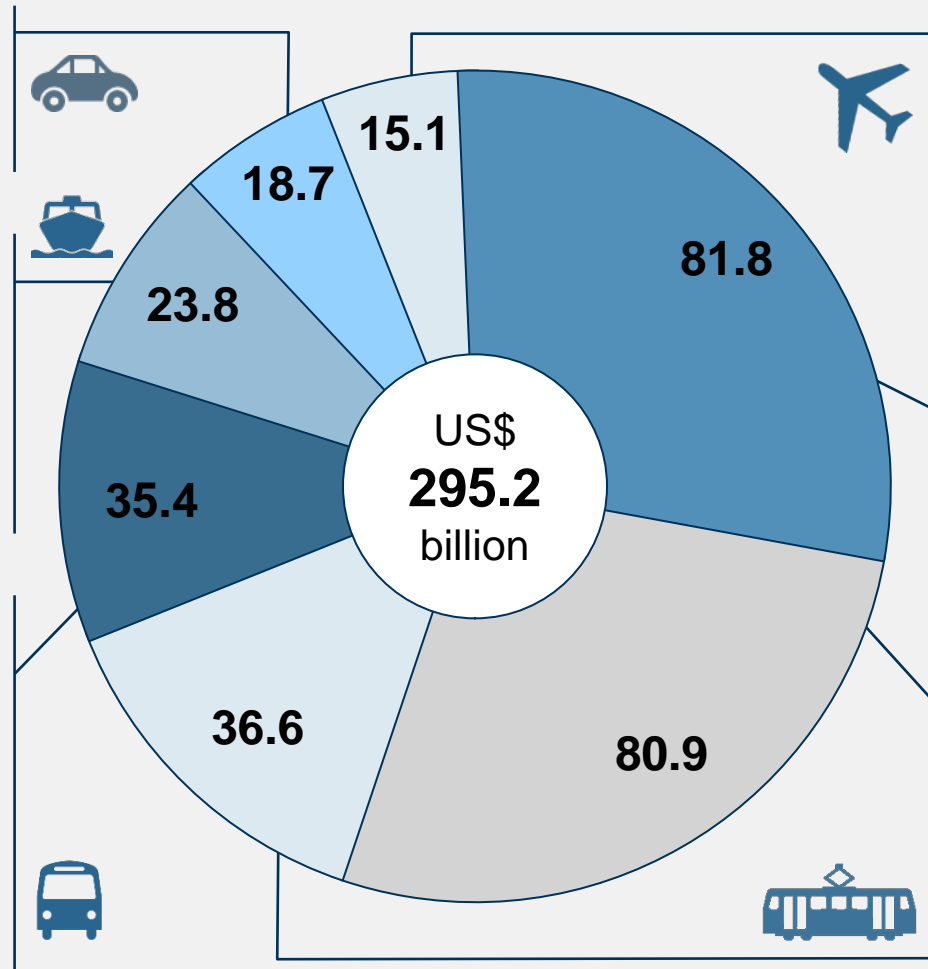
Ports Program

- Investment in 15 states, covering public port concessions, private port authorizations, and the dredging plan.



Urban Mobility

- Urban Mobility Growth Acceleration Program (federal investments)
- São Paulo: Subway Investments
- Rio de Janeiro: Urban Mobility Program



Airport Program

- Galeão Airport
- Guarulhos Airport
- Brasília Airport
- Viracopos Airport
- Confins Airport

Oil & Gas



- 3 concession rounds
- Libra: US\$ 34.8 billion or the next 5 years
- Libra: 12 to 15 platforms

Energy



- 40,469 MW
- 39,048 KM

Railroads Program

- 10 railroads, covering over 10 000 km



Source: Brazilian Ministry of Finance (2014): Investment expected 2011-2017



10 key reasons to invest in Brazil

1. Leading regional economy



- Second-largest emerging market in the world after China
- Nominal GDP of \$2.4 trillion in 2012
- With an average annual GDP growth rate of 5%, Brazil is one of the fastest growing economies in the world today
- Solid foundations of macroeconomic stability and inclusive growth

Brazil recovered from the global economic crisis in 2009 with 7.5% growth in 2010!

2. Secure investment framework



- Secure investment framework and highly competitive economy
- Open to foreign direct investment
- 3rd largest FDI recipient in 2012 and the top destination in Latin America
- Profits of multinational companies in Brazil have grown 5.5 times in only nine years

Profits of multinational companies increased from \$20.4 billion in 2002 to \$113.1 billion in 2011!



10 key reasons to invest in Brazil

3. Huge domestic market



- 201 million inhabitants: one of the largest & fastest growing consumer markets
- 40 million new middle class consumers since 2003
- 3rd largest market for beauty and healthcare products and for PCs
- 4th largest for mobile phones, automobiles and TVs
- 5th largest for medical equipment

According to a current study by PwC Brazil will be the 4th largest economy in the world by 2050!

4. Global Player



- The 'B' in BRICS – a global growth engine for today and tomorrow.
- Strengthened industry due to a series of recent market reforms, including
 - steadily declining interest rates
 - lower electricity costs
 - improved access to financing
 - reduced tax burden on companies
 - unprecedented infrastructure investments

Brazil is home to Latin America's largest aerospace, automotive, oil and gas, mining, capital goods, medical equipment and chemical industries!



10 key reasons to invest in Brazil

5. Energy Powerhouse



- Home to the world's 10th largest petroleum reserves
- Largest oil discovery made in the Western Hemisphere in the past 30 years at Brazil's southeast coast.
- Largest exporter and 2nd largest producer of ethanol biofuel in the world
- World's largest river basin and home to 12% of the planet's surface water

Hydroelectric power plants supply 73% of Brazil's energy needs!

6. Innovation Hotbed



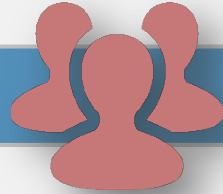
- Relevant player in research, development and innovation.
- Science Without Borders program will send 100,000 of the best and brightest Brazilian students overseas to
 - pursue graduate studies
 - do research projects at the world's best universities
 - bring new talent to Brazil

Brazil is home to Latin America's largest aerospace, automotive, oil and gas, mining, capital goods, medical equipment and chemical industries!



10 key reasons to invest in Brazil

7. World-class Workforce



- Vast majority of the population within the economically active range
- Young, dynamic workforce
- Government supports professional training programs in partnership with businesses

The positive demographic trend will at least last until the year 2020!

8. Innovation Hotbed



- Accelerated Growth Program and Logistics Investment Program account for unprecedented investments in infrastructure
- Investment projects include 10,000km of new railways and 7,500km of new highways
- Development of 270 regional airports and 4 new international airports

Projects will reduce costs for business and generate related business activities in the transportation and logistics segment!



10 key reasons to invest in Brazil

9. Agricultural Powerhouse



- Brazil is among the world's top producers and exporters of agricultural products
- Brazil is at the cutting edge of innovation, research and development in agricultural techniques, technologies and productivity gains

Sustainable: Brazil has the lowest carbon emissions among the world's largest agricultural players!

10. Gateway to Latin America

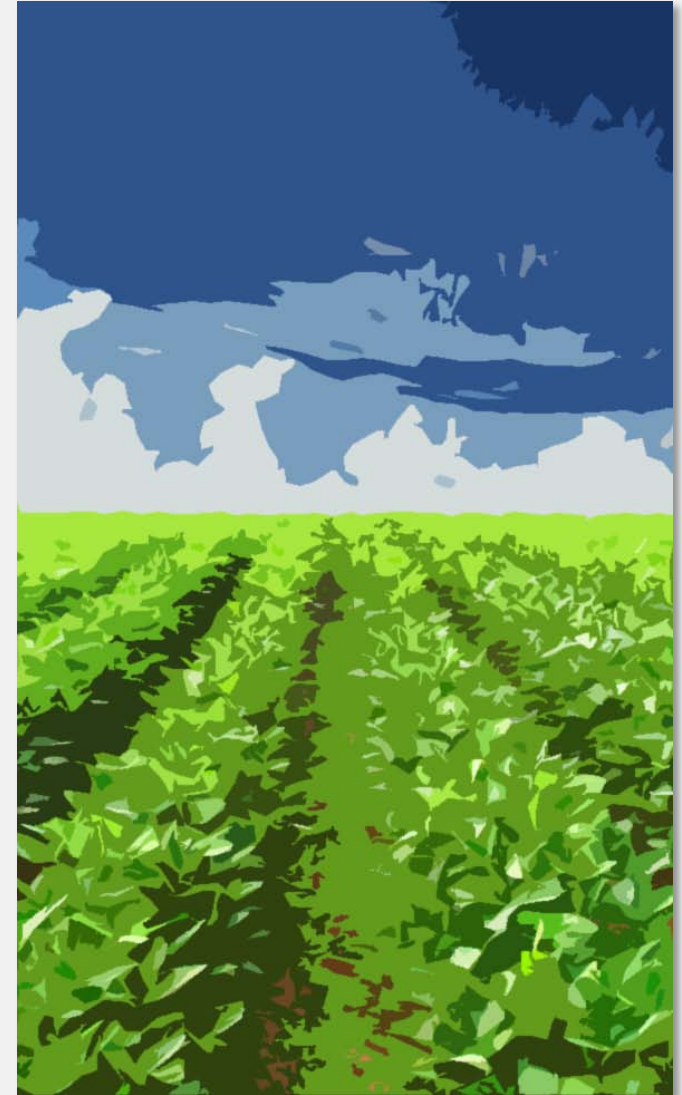


- Member of the South American Common Market (Mercosur)
- Connected to all countries in South America by free trade agreements

Brazil's largest cities are consolidating their position as global investment headquarters for Brazil and Latin America!



- **Leading country** in the agribusiness sector
- **Climate** conducive to agricultural production
- Largest **arable land** area in the world: 388 million hectares are farmable and fertile
- **Two crop cycles** per year without the need for irrigation in some regions
- **Continuous R&D and investment** in tropical farming technology



Great outlook due to the rising demand to feed a growing global population which will reach 9 billion by 2050!



- **Aerospace and Defense:** largest in the Southern Hemisphere, highly competitive and operating in a globalized market
- **Automotive:** 7th largest vehicle producer and the 4th largest vehicle consumer market in the world.
- **Energy:** 9th largest consumer of energy in the world, energy self-sufficient, massive renewable energy resources
- **Semiconductors:** young population and emerging middle class avid for new technology, many first-time buyers
- **Live Sciences:** ideal location for companies aiming to diversify in a market that offers both scale and robust growth rates





- World's largest **consumer market** and a major **global exporter**
- Depending upon **logistics** and **transportation** networks to guarantee future competitiveness
- Federal government has clearly recognized the **importance of national infrastructure** and set up respective programs
- The state of São Paulo is a **major hub** for foreign industrial and logistics projects.



Hi demand for Investing in Brazilian infrastructure!



Current Situation

- Resource windfalls and rising debt will **no longer** be able to **sustain consumption-led growth**

Actions required

- **Expand the productive capacity of the economy** by investing in **infrastructure, machinery, and skills**; this with especially strengthen the middle class
- Boost **domestic savings** and make it more attractive for companies and individuals to invest



Opportunity Areas



- **Building and Construction:** Support infrastructure projects
- **Engineering:** Provide machinery, support infrastructure projects
- **Consulting:** Provide expertise and best practices; give trainings



Current Situation

- Brazil has increasingly focused on establishing international **trade partnerships with other developing economies** and strengthening the Mercosur trade bloc
- But its emphasis on forging “**South-South**” **agreements** is not likely to open up large markets for high-value trade in the near term

Actions required

- Pursue agreements with larger and more developed markets would allow Brazil to **increase trade volumes**, integrate more fully into the production networks of multi-nationals, and **increase its access to leading-edge technology and processes.**



Opportunity Areas



- **Consulting/ Politics:** Support the Brazilian Government to reduce trade barriers
- **Finance:** Offer innovative and attractive products that foster trade partnerships

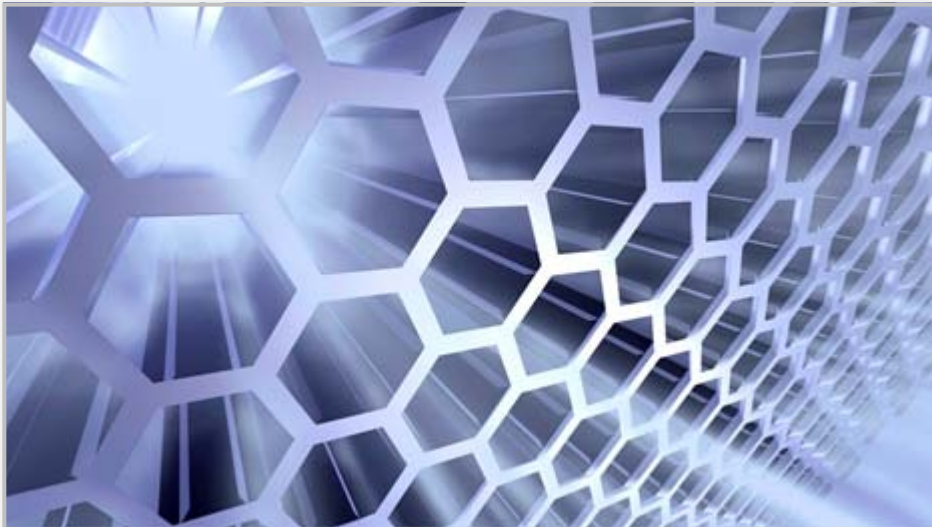


Current Situation

- Brazil needs a **long-term, integrated national infrastructure plan** that is insulated from shifting political agendas
- Infrastructure is one of the most important opportunities to **improve Brazil's global competitiveness**

Actions required

- Set up an independent oversight body that **could prioritize the most important projects** while considering how overall systems should work together.
- **Consider strategies** for maximizing and refurbishing **existing assets**, which offer a better ROI than just new construction



Opportunity Areas



- **Building and Construction, IT & Communication:** Run infrastructure projects
- **Consulting:** Support infrastructure planning processes
- **Finance:** Set up new funding models and attract a greater share of private investment



Current Situation

- Government **subsidies** for certain industries now total almost 6 percent of GDP
- “**Buy Brazilian**” procurement rules, and similar policies have introduced distortions and disincentives for companies to modernize

Actions required

- Do not only focus on Brazil’s rich resources
- Strengthen the **large consumer market** as well as diverse and well-developed **manufacturing** and **industrial sectors**



Opportunity Areas



- **Consulting:** Support the Brazilian non-resource industry in becoming more competitive;
- **Consumer Goods/ Manufacturing:** Create an ecosystem that encourages innovation and higher-value-added products
- **Finance:** Set up a regulatory, and financial infrastructure



INBOUND OPPORTUNITIES





Inbound Investment Opportunities for Luxembourg

- On June 4, 2010 the Brazilian IRS issued an updated version of the so called Brazilian Tax Havens' "blacklist" by taxing earnings.
- Amongst several small jurisdictions such as Bahamas, Cayman Islands , Virgin Islands , Kiribati and Norfolk Islands, Switzerland has been included in the list.
- The list of privileged tax regimes encompassed, amongst others, Dutch Holding companies, **Luxembourger Holding companies**, Spanish "ETVEs" and Uruguayan "SAFIs".
- Further to the Brazilian withholding income tax, only the **legal entities** or **persons located** in those jurisdictions considered "tax havens" would be affected.
- Brazilians are more pressured to invest their wealth and establish subsidiaries in secure markets with unblemished image, compliant and modern, thus large Brazilian financial institution like , Family offices, Industries have recently come to Luxembourg and more and more wanting to know more about the marketplace Luxembourg.





Inbound Investment Opportunities for Luxembourg

- Brazil's largest **pension funds** are set to begin investing billions of dollars overseas in developed economies as early as this year in a reversal of the usual pattern of global fund flows from advanced to emerging markets.
- Brazilian companies started 2014 looking for investment opportunities overseas. According to the Brazilian Central Bank, the net outflows from Brazil for the **acquisition of international shares of foreign companies** was in the order of US\$ 14,8 Billion in 2013, nearly two times more than in 2012 , but still below the average observed in 2010 and 2011 where the Brazilian participation was on average in the order of US\$ 23,2 Billion.
- These investments have been focused mainly in **financial services**. In 2013 companies have been more creditworthy. BTG, a Brazilian investment bank expects that the profit of listed companies will go up by 14,1%, and will register earnings of US\$ 80 Billion





Inbound Investment Opportunities for Luxembourg

- **Banco do Brasil SA's pension fund**, Latin America's largest, will invest in U.S. and European stocks through **funds of money managers** including Black Rock Inc. (BLK) and JP Morgan Chase & Co. (JPM) as it seeks to diversify holdings.
- **Previ**, which manages 164 billion reais (\$75.4 billion) for **Banco do Brasil employees**, has approved global investments of as much as 340 million reais this year in foreign stocks that may include Google Inc. (GOOG), said Antonio Luiz Benevides, executive manager of the fund.



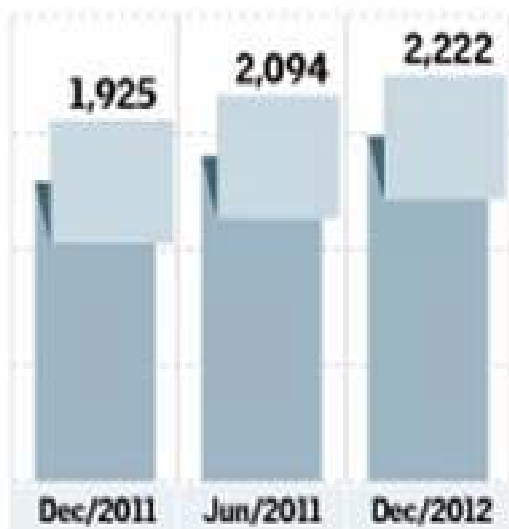


Navigating in different seas

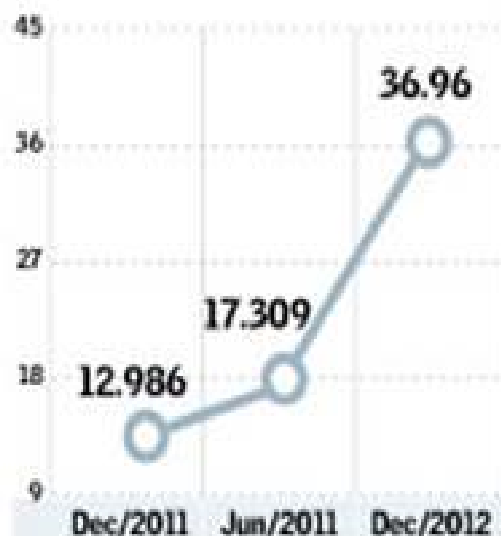
Navigating in different seas

Funds increase their investments outside of Brazil - R\$ billion

■ Industry's total assets



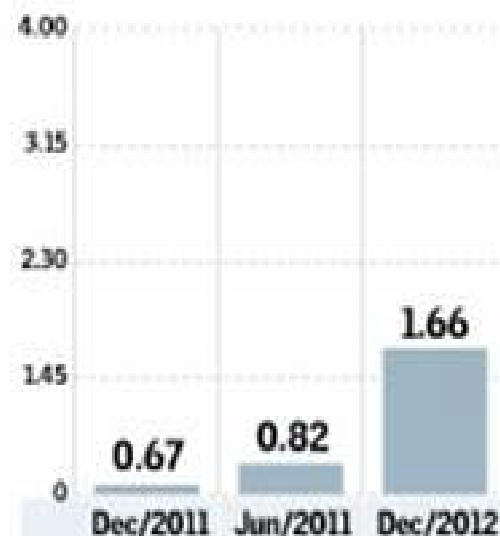
■ Investments abroad



185%

is the growth of volume invested overseas by Brazilian funds, from December of 2011 and the same month in 2012

■ Relative share (%)



Source: Arbima

Brazilian investments and wealth management are looking for new and secure Financial Market



World Class Companies

The image displays a collection of logos for various Brazilian companies. At the top left is the JBS logo. Below it is the COSAN logo. In the center is a photograph of a man in a white cap speaking at a podium with the word 'ETNIA' on it. To the right of the photo is a red heart logo with two white birds. Below the photo are logos for ARACRUZ (a stylized 'A' in a circle) and Votorantim. At the bottom are logos for Itaú, MARFRIG GROUP, Duratex, and SATIPEL. The entire collage is set against a wooden background with dice and coins at the bottom right.

STEPHEN KANITZ



Sources and some further reading



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