



# BRAZILIAN INFRASTRUCTURE FORUM 2013

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The Brazilian development bank



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# Investment Opportunities in the Brazilian Economy

London – March, 2013

**Luciano Coutinho**  
President

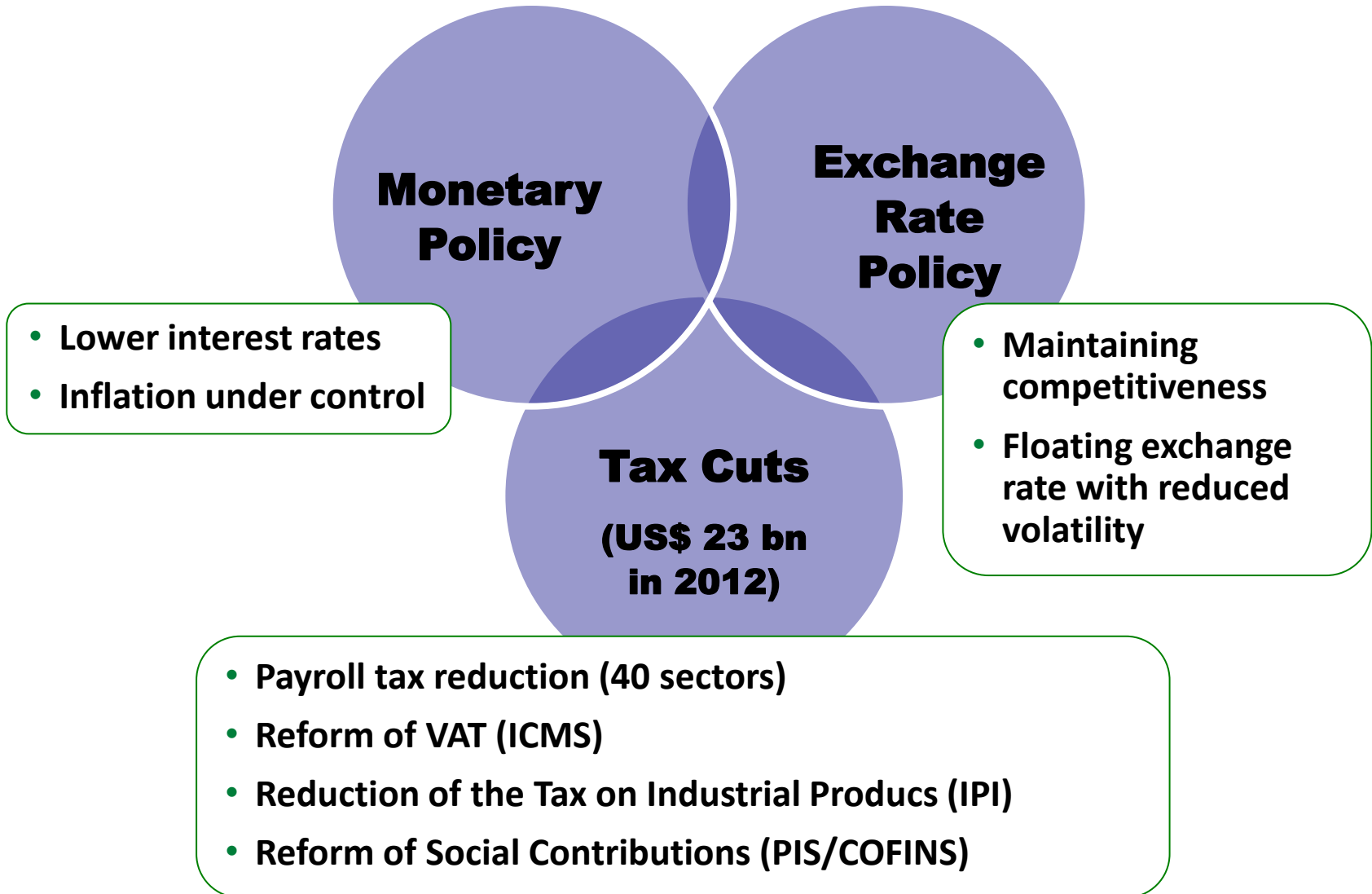


- 1** **Fundamentals of the Brazilian Economy**
- 2** **Investment Outlook & Infrastructure Perspectives**
- 3** **The Financing of Infrastructure**

**1**

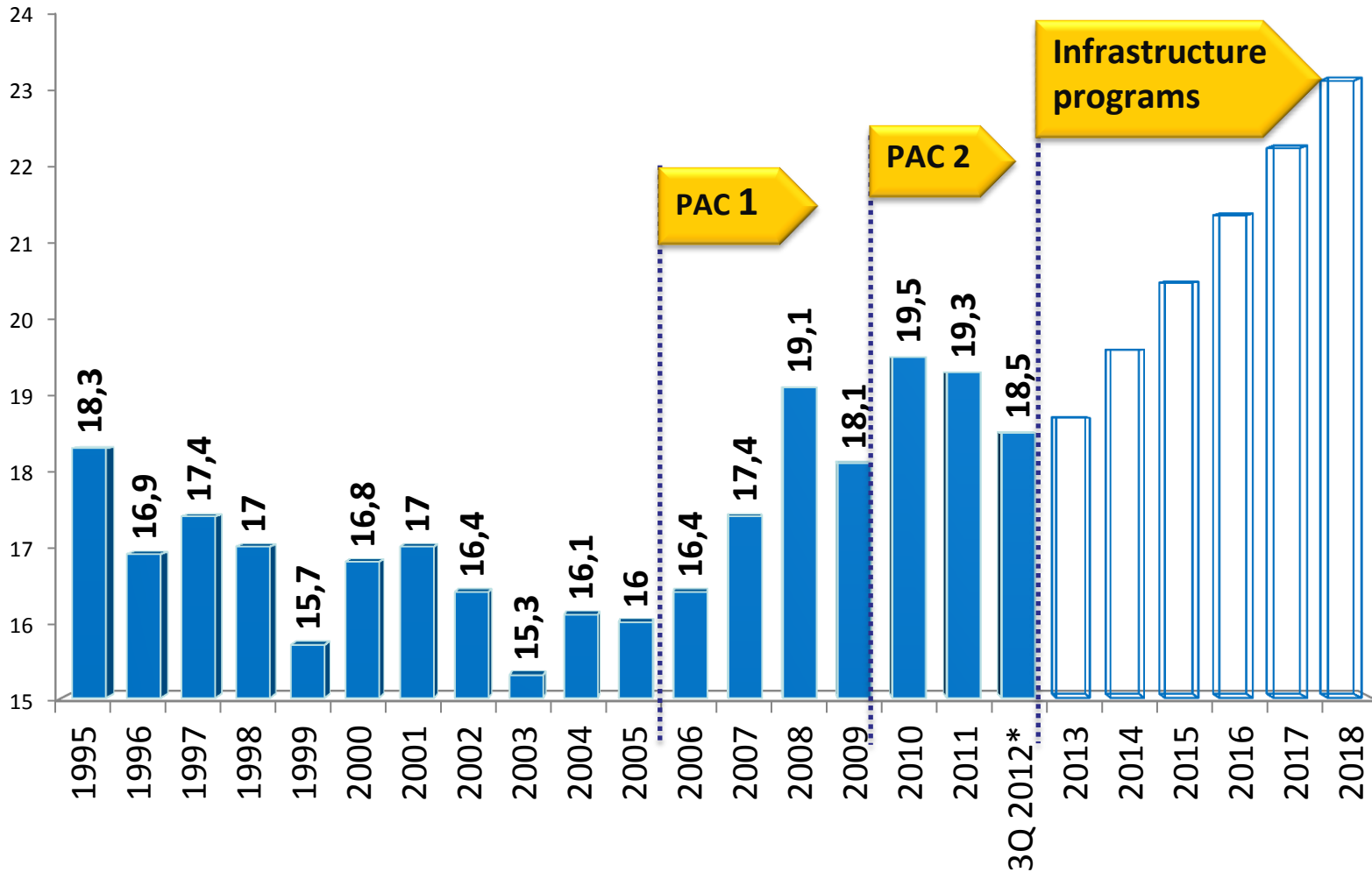
# **Fundamentals of the Brazilian Economy**

- **Stable legal and institutional framework;**
- **Social inclusion has spurred the domestic market;**
- **Healthy banking sector not exposed to troubled assets;**
- **Robustness of the external sector;**
- **Strengthening of long-term planning;**
- **Government has conditions to foster growth:**
  - Fiscal and monetary instruments;
  - Improvement of regulatory framework;
  - Partnership with private sector.



# Expansion of investment is a major government priority

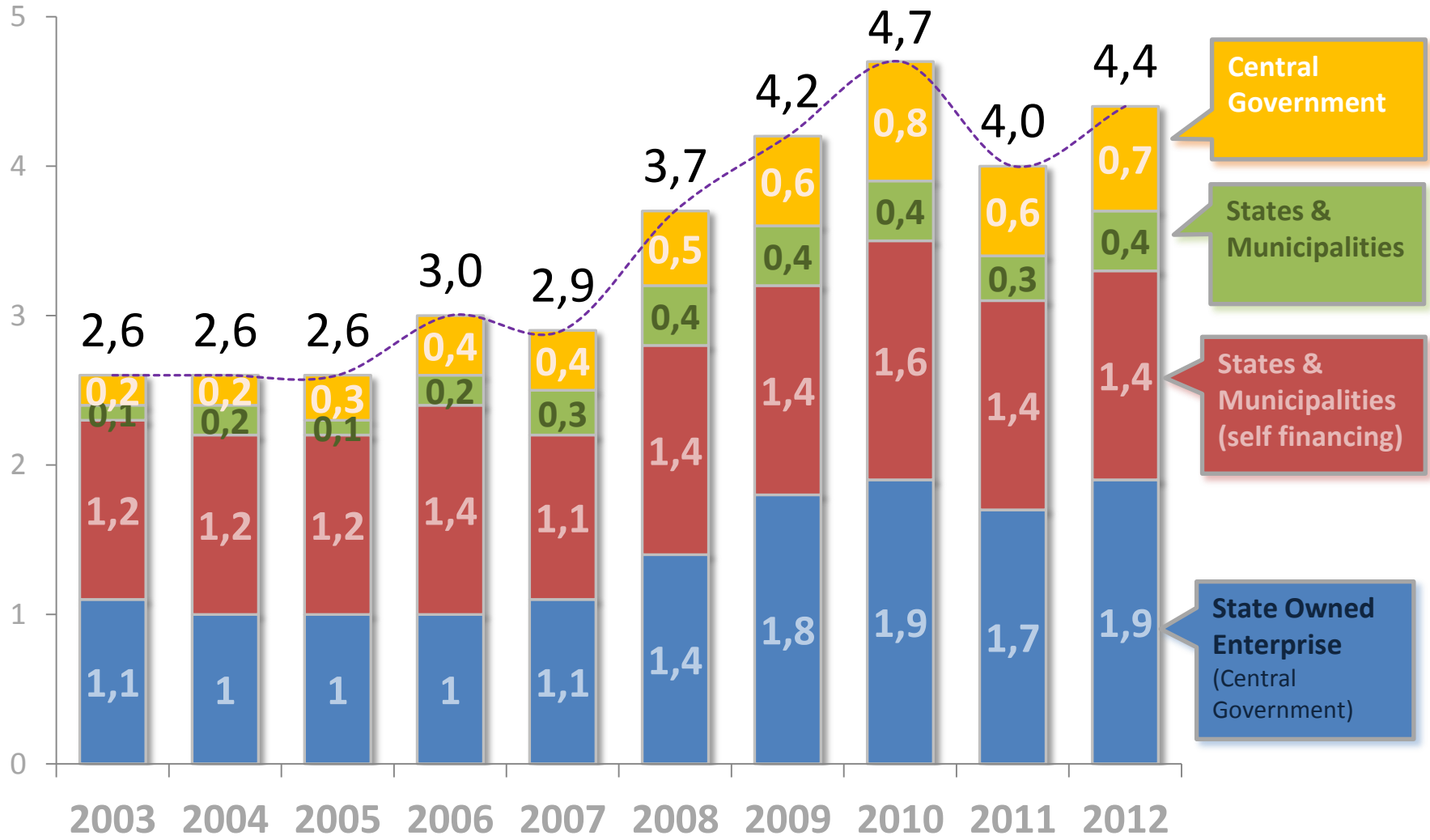
## Gross Fixed Capital Formation (as % of GDP)



# Increasing investments by the public sector



Public Sector Investment (as % of GDP)

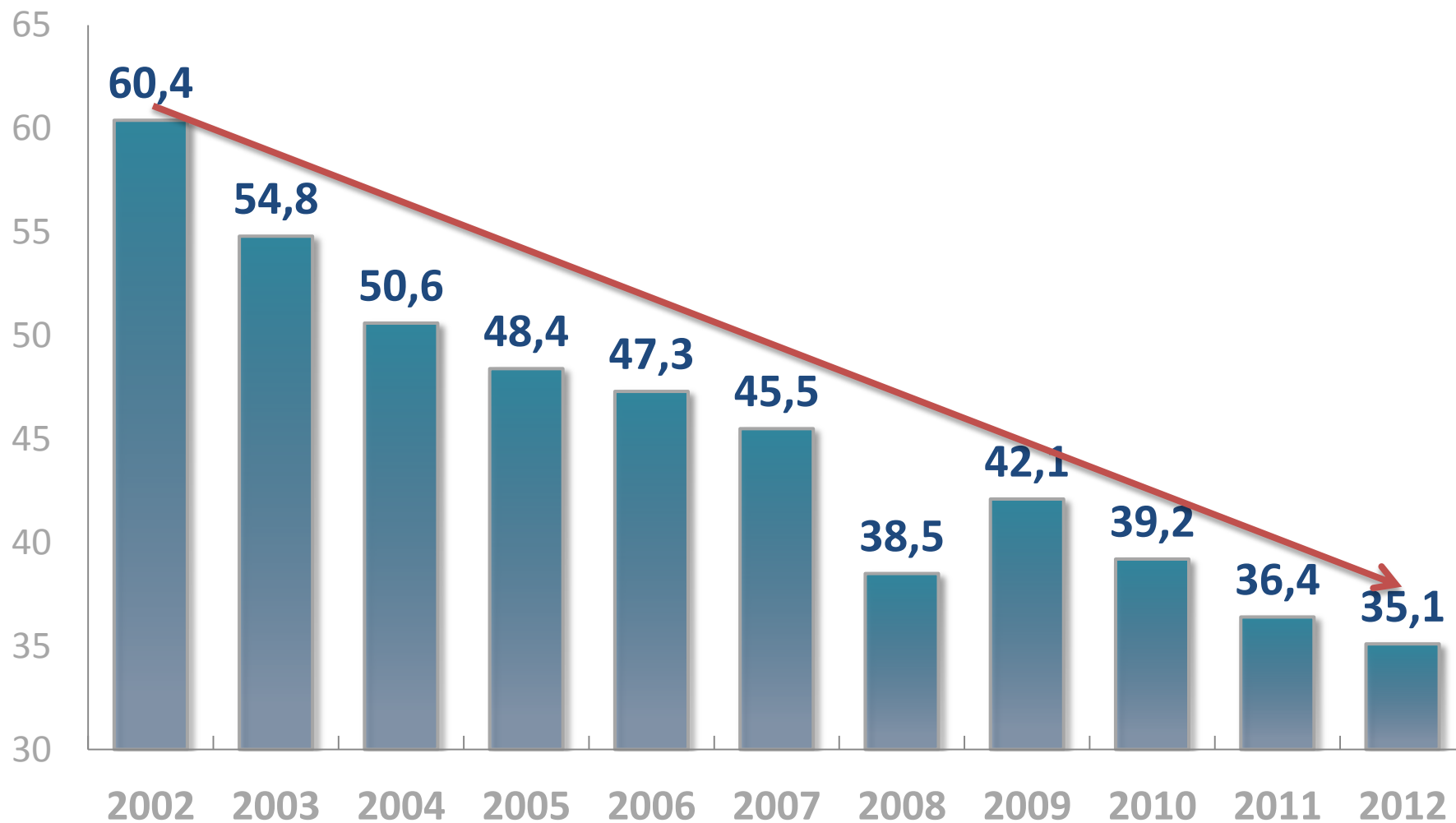


Source: IPEA.



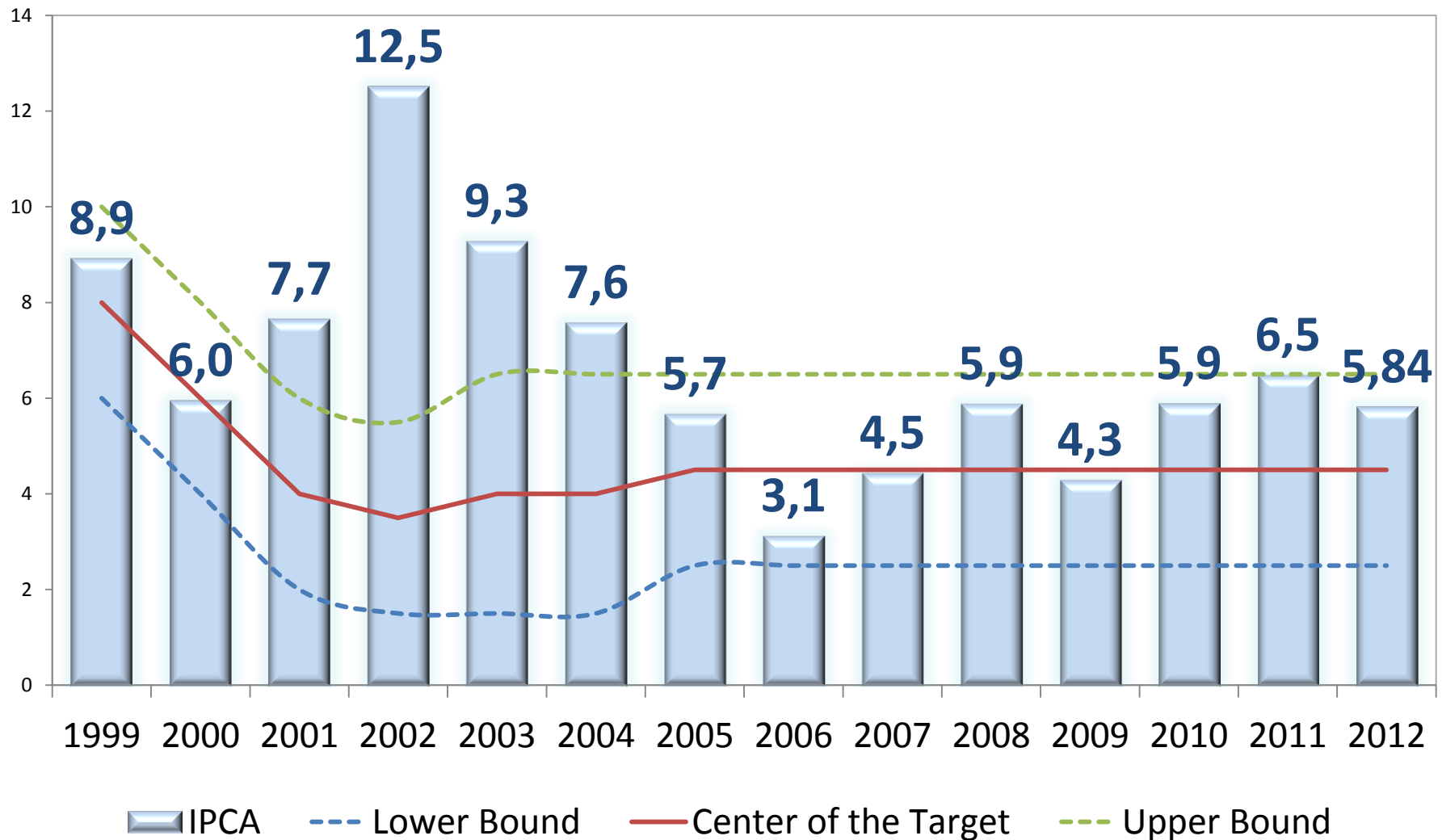
# Sound macroeconomic fundamentals: Declining Net Public Debt/GDP

## Consolidated Public Sector Net Debt (as % of GDP)



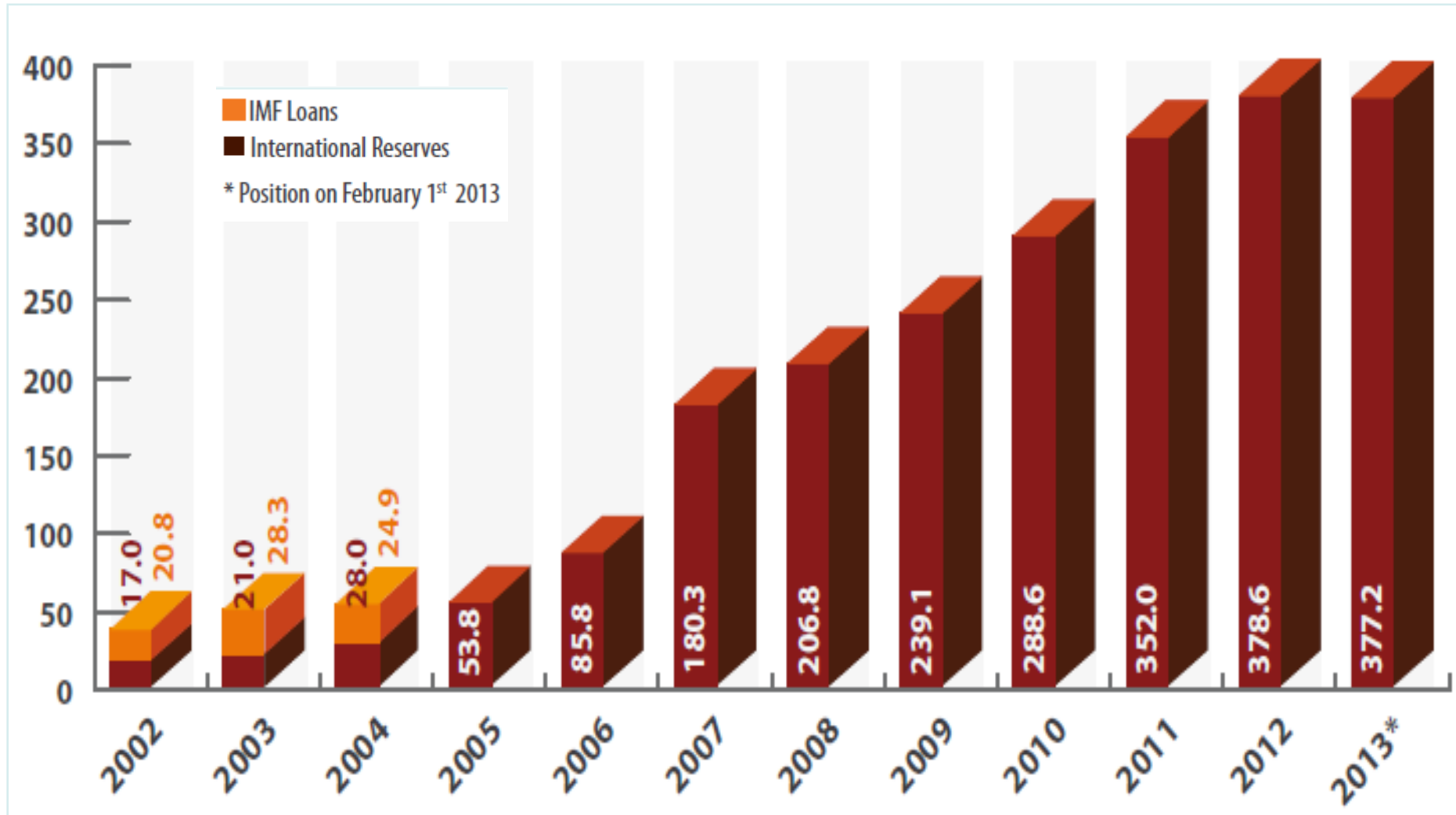
# Sound macroeconomic fundamentals: Inflation under control

## CPI Inflation (IPCA index, % YoY)

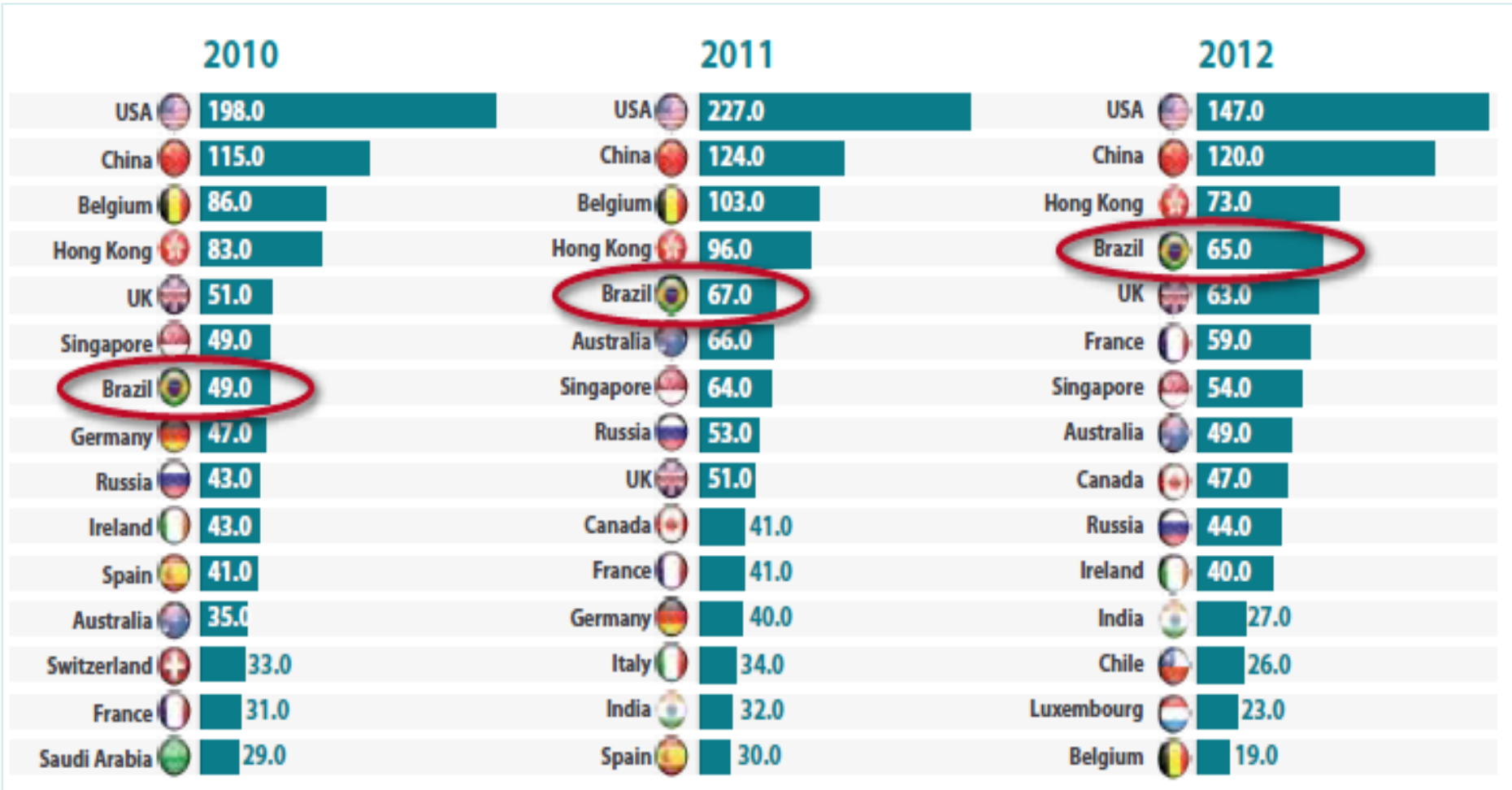


# Sound macroeconomic fundamentals: Strength of the external sector

## International Reserves (US\$ billion)



## Foreign Direct Investment - FDI (US\$ billion)

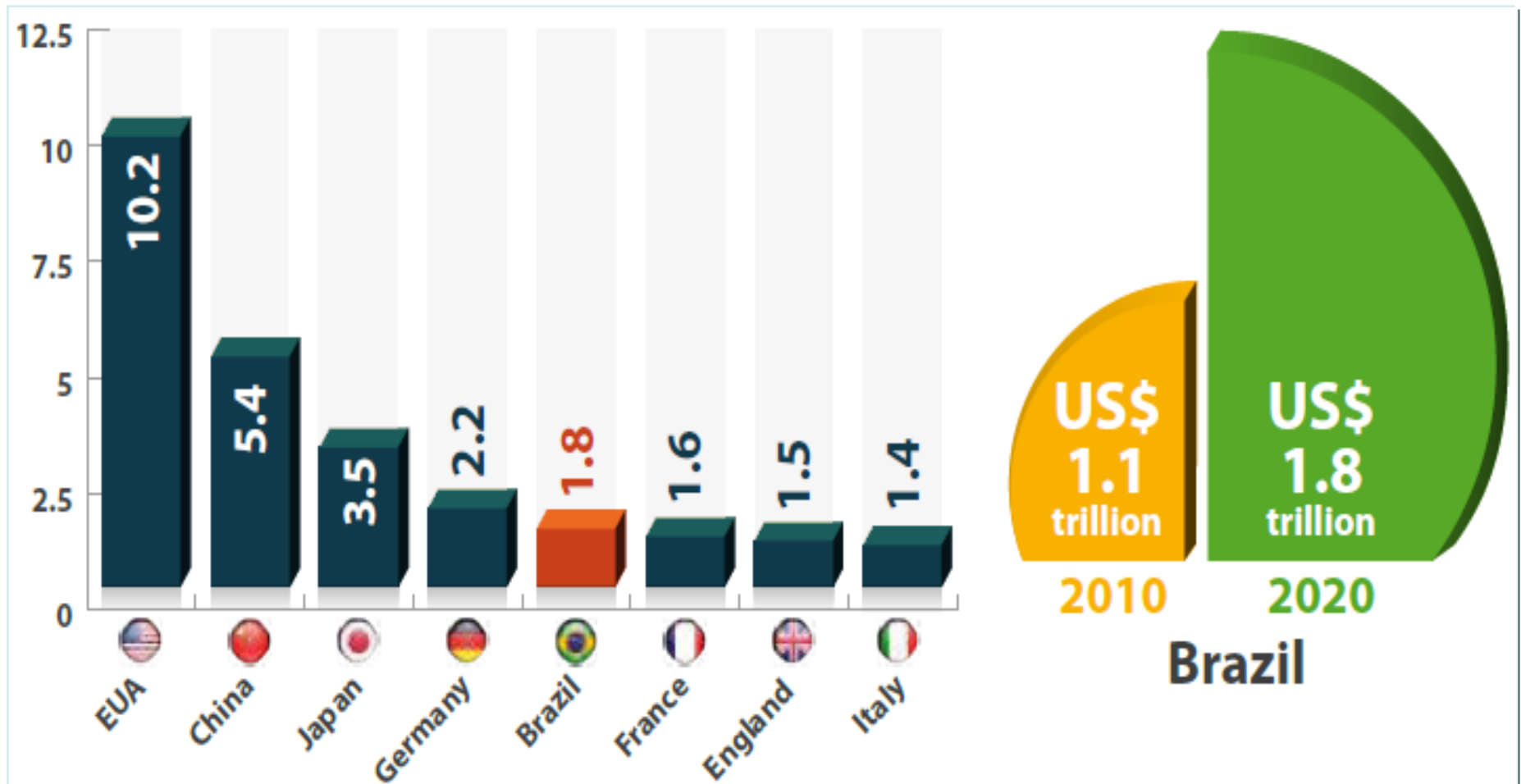


Source: UNCTAD

# Brazil will be the fifth largest global market in 2020

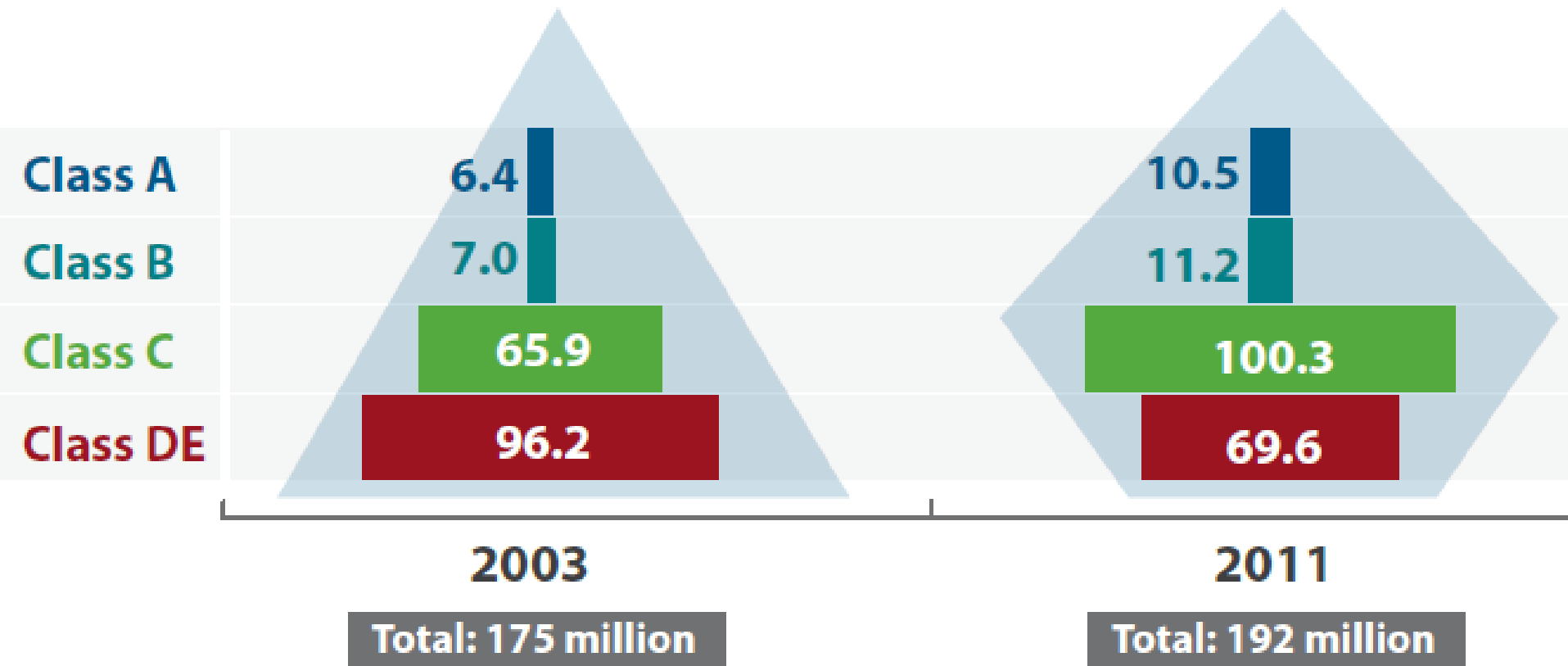
## Global Consumer Market

in US\$ trillion



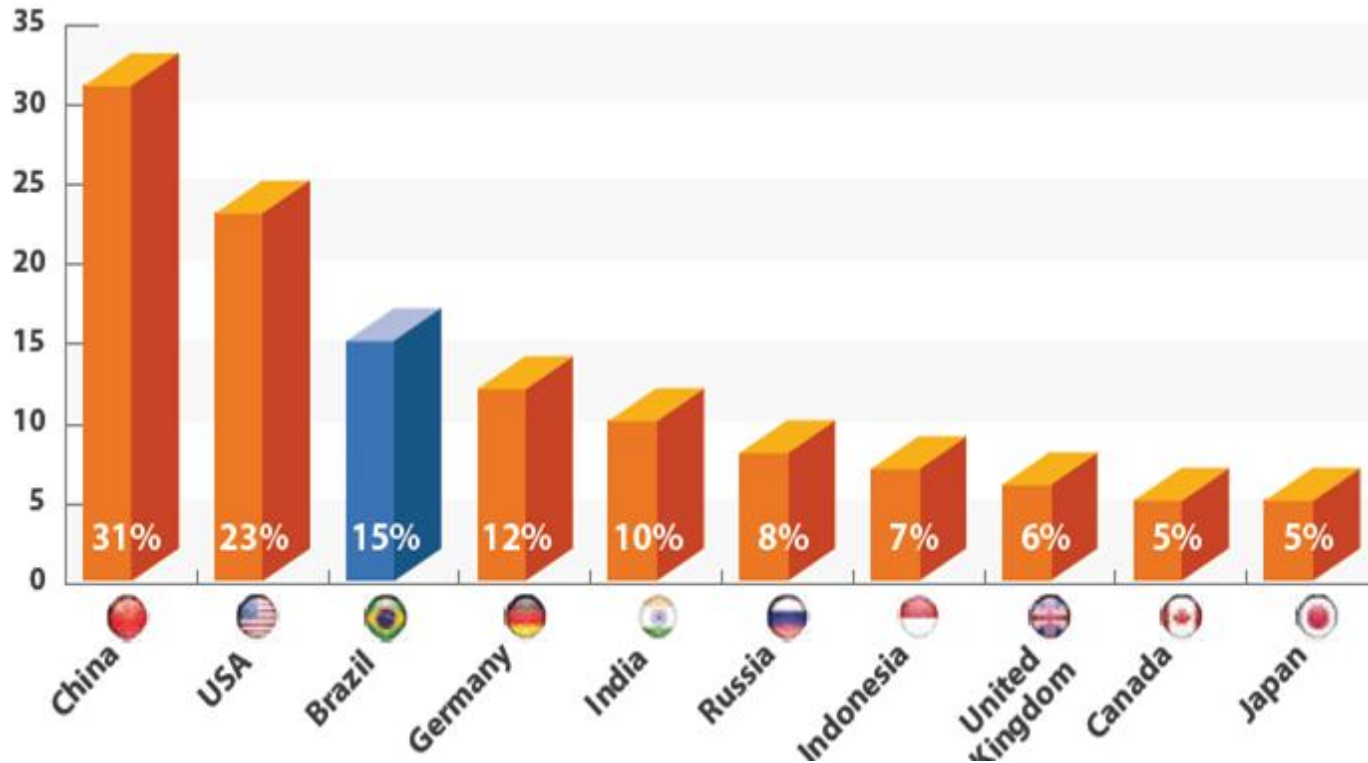
# Ongoing economic inclusion fuels a dynamic market

## Population by income class strata (# of people)\*



\* Source: IPEA, based on PNAD/IBGE data. Prepared by Ministry of Finance

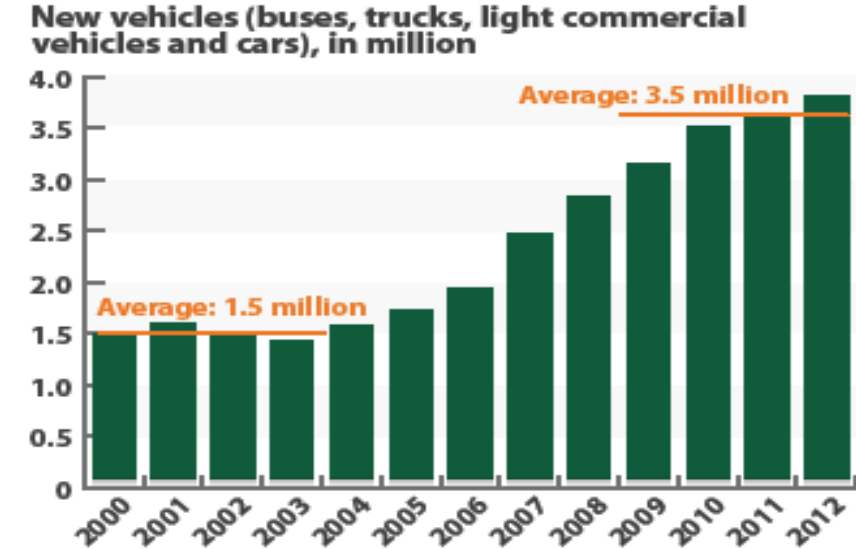
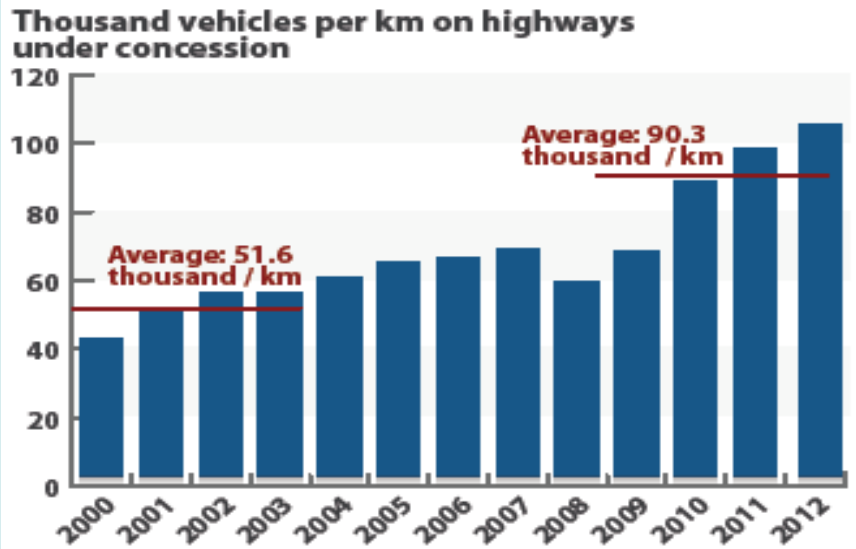
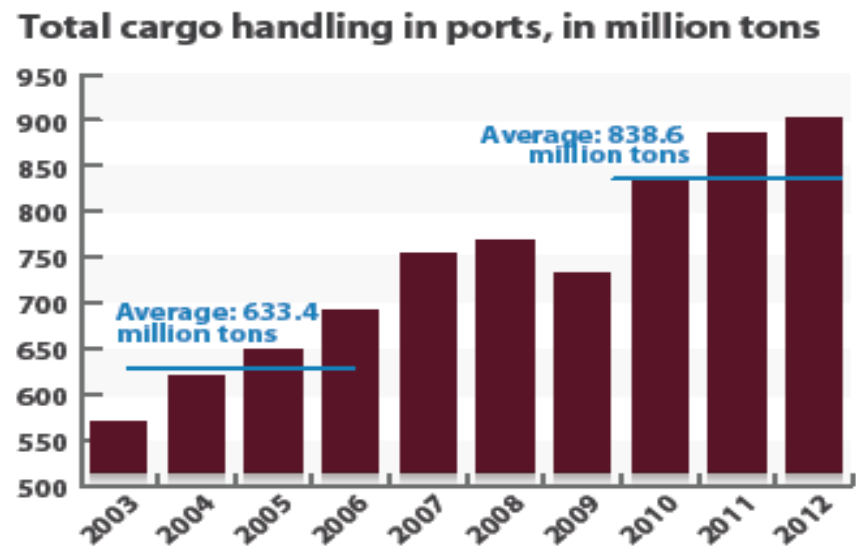
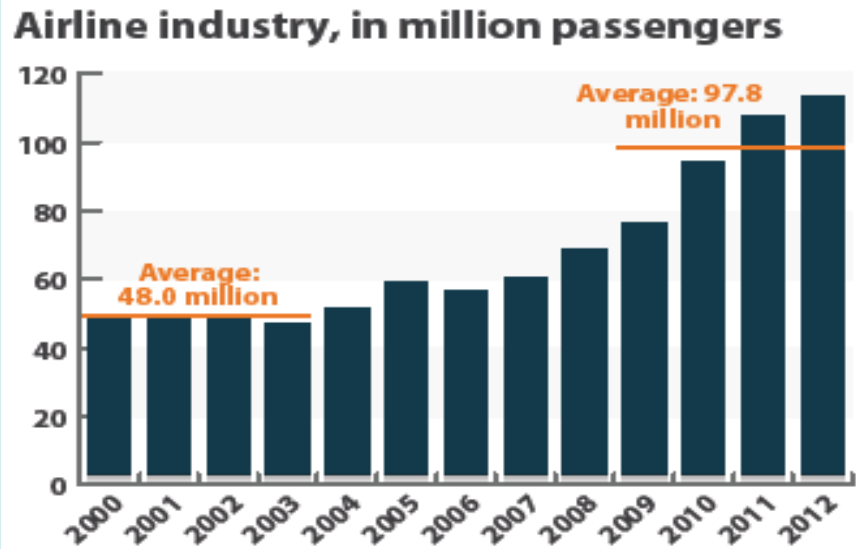
## Countries where companies expect to expand their business (% of total answers)



Recent survey\* (with more than 1,300 CEOs), indicated Brazil as the third most often mentioned country for expanding business over the next 12 months

\* *“Dealing with disruption, adapting to survive and thrive”,  
PricewaterhouseCoopers, 16th Annual Global CEO Survey, January 2013, p.12.*

# Increasing demand for infrastructure

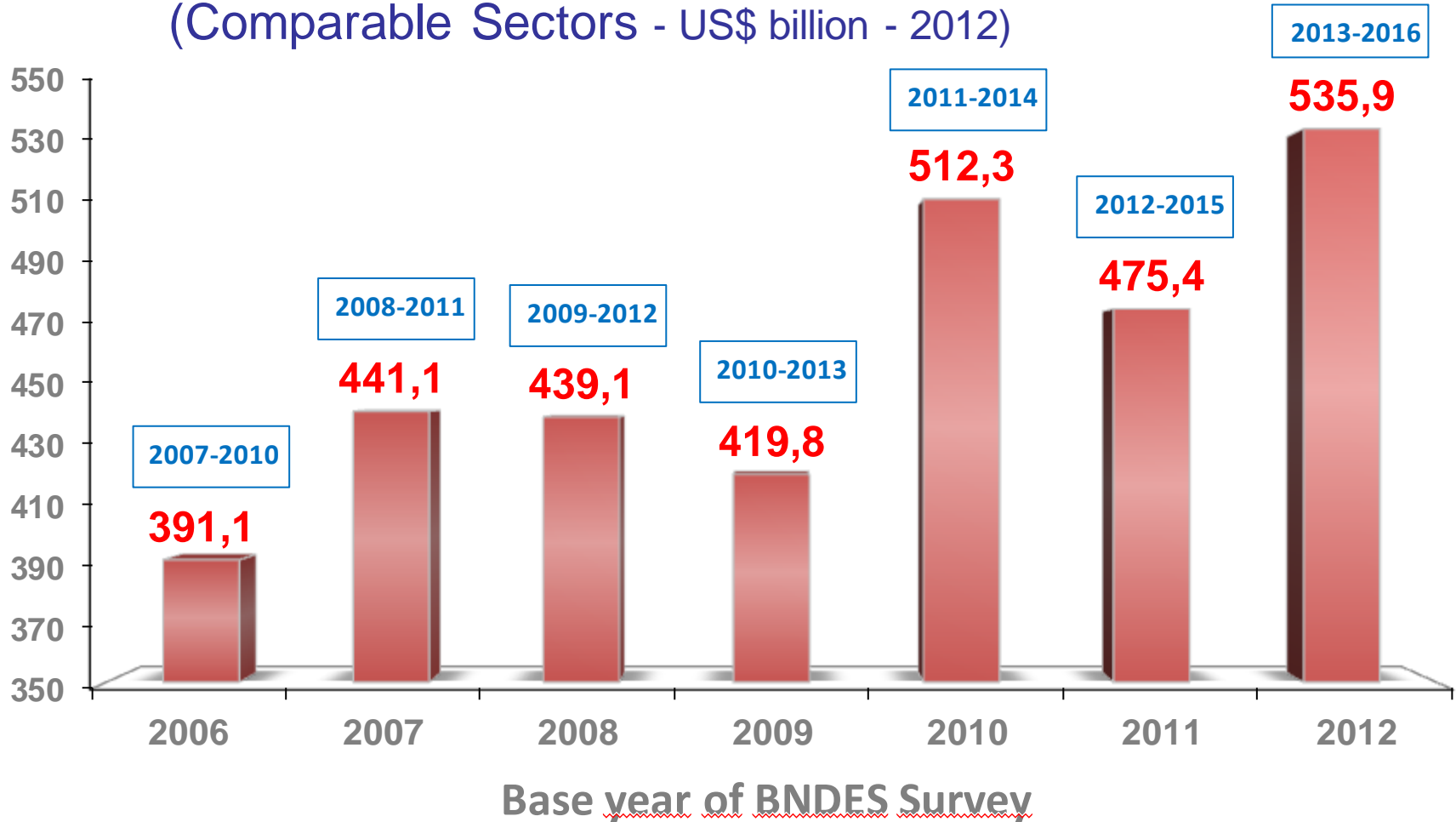


Sources: National Agency for Civil Aviation (ANAC), National Agency for Aquatic Transportation (ANTAQ), Brazilian Association of Highway Concessionaires (ABCR) and Brazilian Association of Automotive Vehicle Manufacturers (ANFAVEA).



## 2 Investment Outlook and Infrastructure Perspectives

## Investment Outlook for 4 years ahead (Comparable Sectors - US\$ billion - 2012)



# Investments will reach at least US\$ 1.9 trillion in coming 4 years

## Investment Outlook for Brazil (2013-16)

(US\$ billion - Constant prices)

Sectors	2008-2011	2013-2016	Δ (%)	CAGR %
Industry	434,4	529,7	21,9	4,0
Infrastructure	184,1	257,1	39,7	6,9
Housing	305,6	394,9	29,2	5,2
Agriculture and Services	589,2	776,1	31,7	5,7
<b>Total</b>	<b>1.513,3</b>	<b>1.957,8</b>	<b>29,4</b>	<b>5,3</b>

Source: BNDES

(\*) Note : The BNDES research on the investment outlook for 2013-2016 covers 66% of the total industrial investments, and 100% of investments in infrastructure, totaling about 58% of the investments in the economy (excluding residential construction). Agriculture and Services investments are based on queries to Sectorial entities and/or econometric forecast.

# Investments in logistics will increase 123% in coming 4 years



(US\$ Billion)

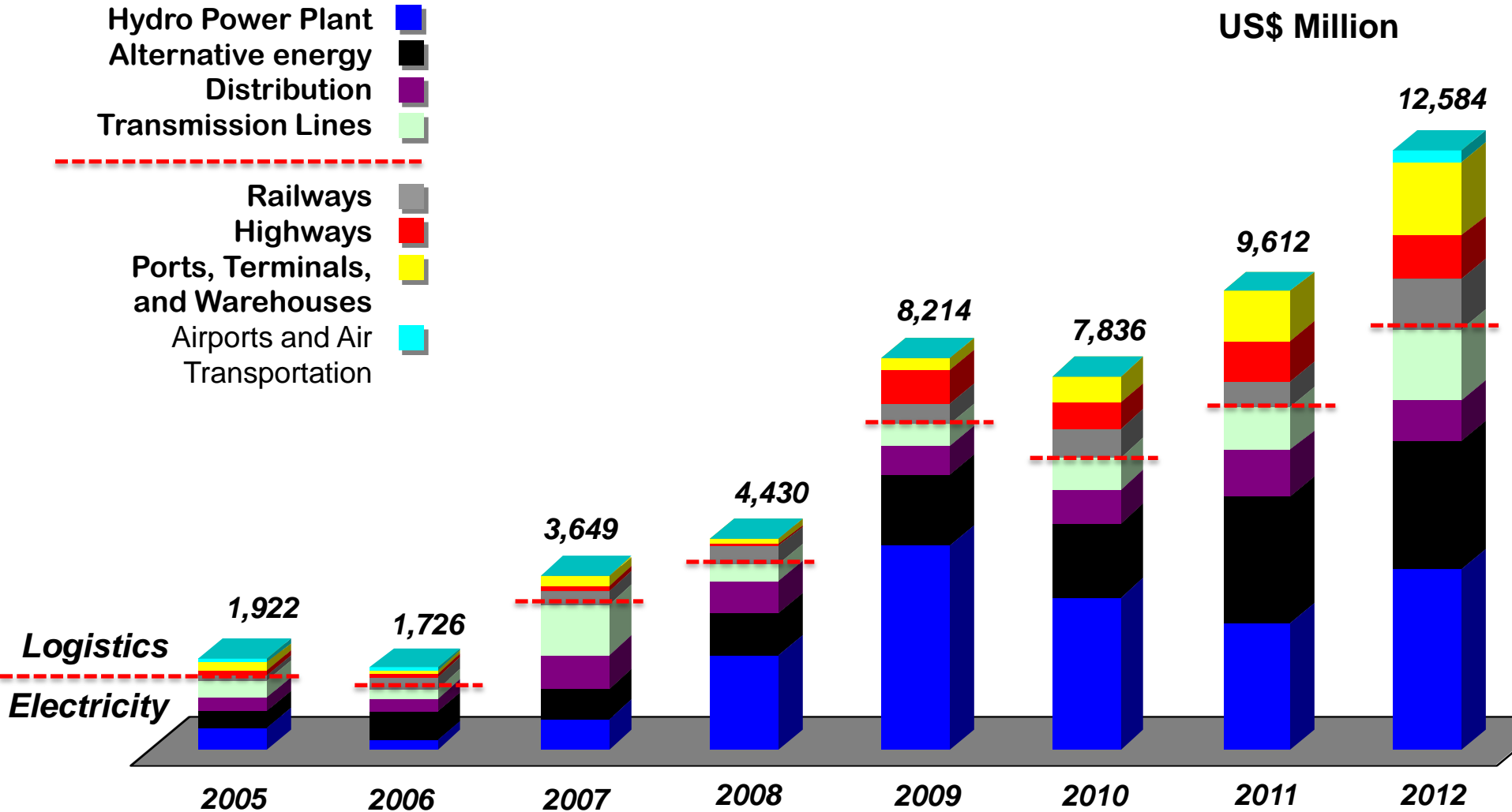
Sectors	2008-2011	2013-2016	Δ(%)
<b>Infrastructure</b>	<b>184.1</b>	<b>257.1</b>	<b>39.7</b>
<b>Electricity*</b>	<b>82.2</b>	<b>91.3</b>	<b>11.0</b>
Power Generation	52.5	57.2	9.0
Transmission	6.9	13.6	97.1
Distribution	22.8	20.5	-10.0
<b>Telecommunications</b>	<b>43.5</b>	<b>52.2</b>	<b>20.1</b>
<b>Sanitation</b>	<b>17.4</b>	<b>21.7</b>	<b>24.9</b>
<b>Highways</b>	<b>20.5</b>	<b>35.2</b>	<b>71.8</b>
<b>Railways</b>	<b>14.0</b>	<b>39.4</b>	<b>182.6</b>
<b>Ports</b>	<b>5.0</b>	<b>12.5</b>	<b>150.1</b>
<b>Airports</b>	<b>1.7</b>	<b>4.7</b>	<b>170.9</b>
<b>Logistics</b>	<b>41.2</b>	<b>91.9</b>	<b>123.0</b>

\* It represents an expansion 44.5 GW of power capacity and 23,600 Km Transmission Lines

**3**

## **Financing of Infrastructure**

# BNDES Disbursements in Electricity and Logistics



(US\$ million)

Sector	# Projects	Amount Financed	Total Investment
Hydroelectric Power Plants	13	24.830	39.854
Wind Power Plants	44	7.096	11.608
Distribution	45	7.670	14.650
Transmission Lines	56	6.942	12.138
Thermal Plants	18	3.624	7.094
Nuclear	1	3.073	5.244
Small Hydros	30	963	1.489
Cogeneration	8	439	575
Energy Rationalization	14	63	84
Roadways	37	8.123	15.094
Ports, Terminals and Warehouses	44	6.425	12.406
Railways	16	3.899	6.655
Airports/ Air Transportation	9	3.678	5.253
Pipeline Transportation	1	2.051	4.345
Navigation	11	1.007	1.456
Others	5	32	36
<b>TOTAL</b>	<b>352</b>	<b>79.914</b>	<b>137.979</b>

## Logistic



## Electricity





**Large Private Banks**

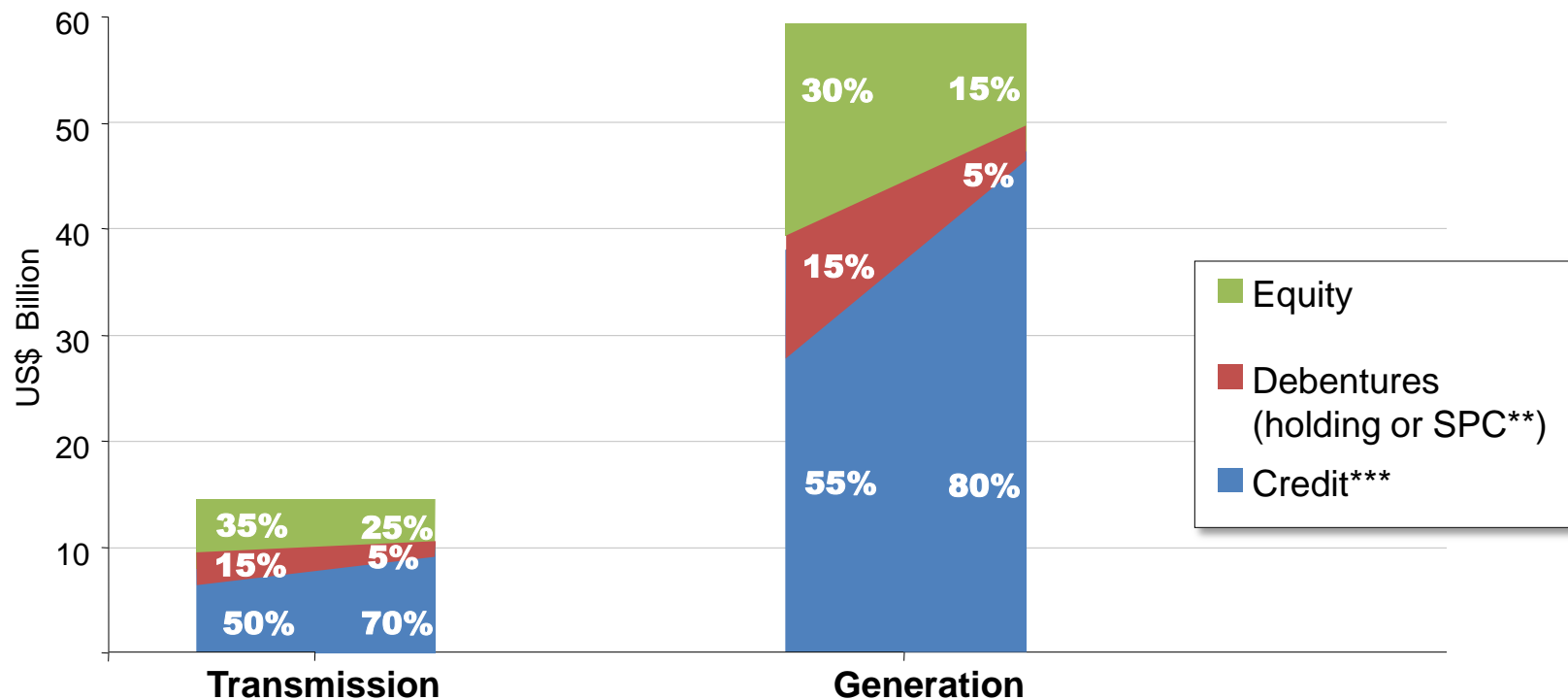
**Infrastructure Funds**

**Pension Funds**

**Asset Managers**



# Financing structure: Electricity (2013-2016)\*



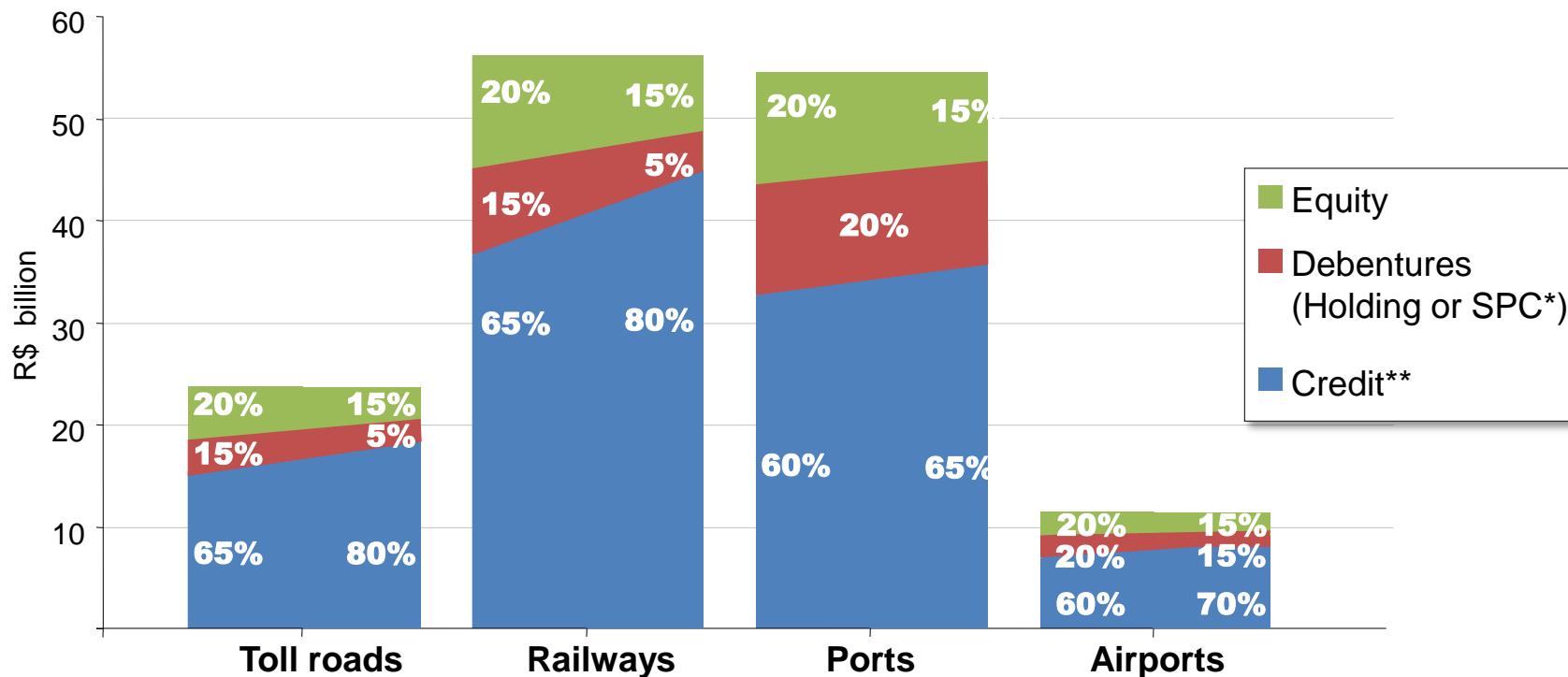
<b>R\$ Billion</b>	<b>26,4</b>	<b>111,4</b>
<b>US\$ Billion</b>	<b>13.6</b>	<b>57.2</b>

Values in US\$ billion

\* Figures according to BNDES forecast

\*\* SPC leverage ≤ 80%

\*\*\* Amount of loans should observe DSCR ≥ 1.2



<b>R\$ billion</b>	<b>23,5</b>	<b>56,0</b>	<b>54,2</b>	<b>11,4</b>
<b>US\$ billion</b>	<b>12.1</b>	<b>28.7</b>	<b>27.8</b>	<b>5.8</b>

\* SPC leverage ≤ 80%

\*\* Amount of loans should observe DSCR ≥ 1.2

Values in US\$ billion

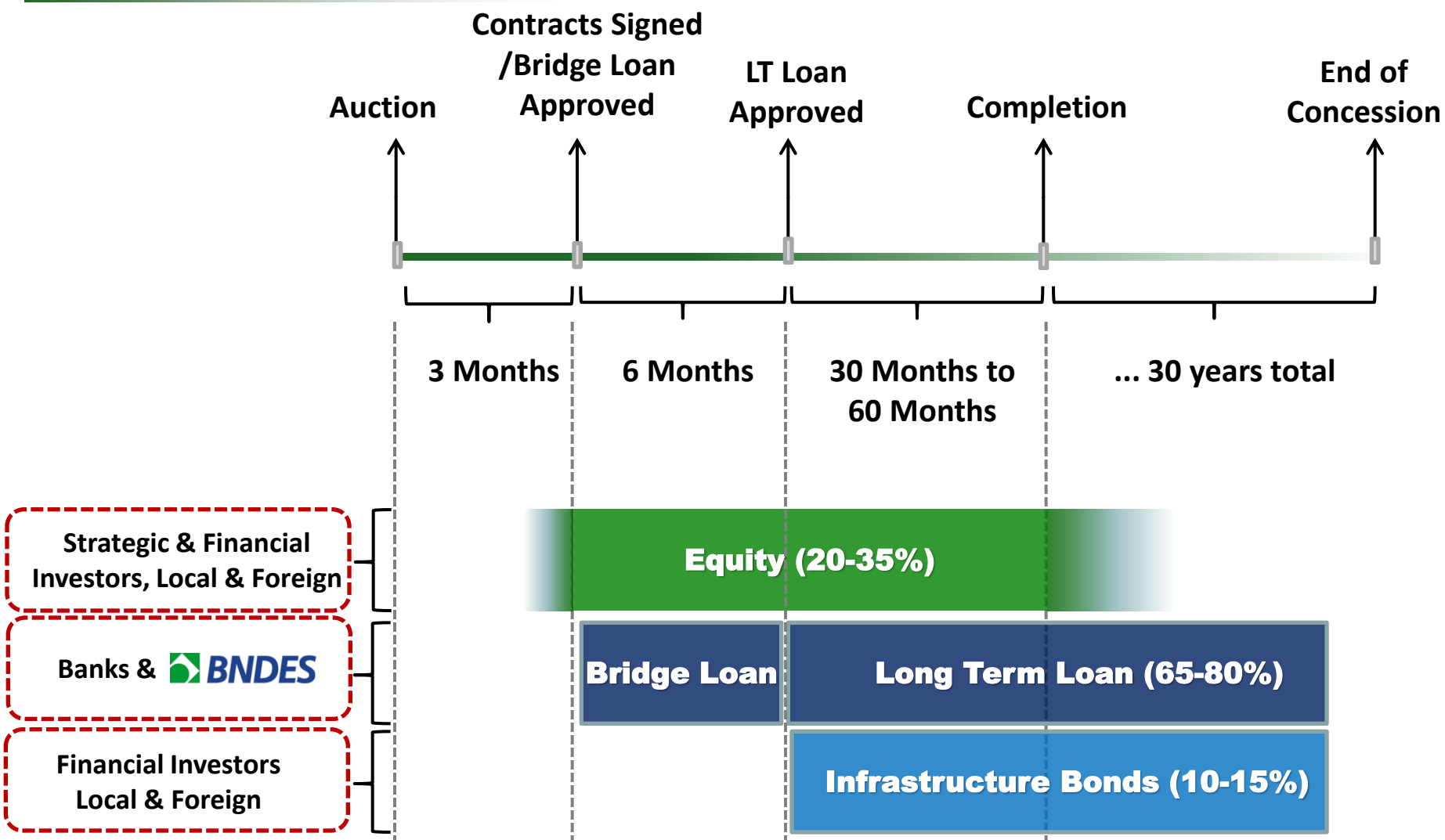
# Credit Lines for electricity and PIL

## government guidelines



Sectors	Amortization Schedule (up to – in yrs)	Grace Period (up to – in yrs)	BNDES Credit (% - up to)	Financial Cost	Spread (% p.y.)
<b>Power Generation</b>					
Hydropower	20	5	70	5 % *	0.9 + Risk rate
Alternative Energy	16	5	80		1.8 + Risk rate
Thermal (Coal & 1 Oil)	14	4	50		1.3 + Risk rate
<b>Transmission</b>	14	3	70		
<b>Railways</b>	30	5	65 - 80	5 % *	1.0
<b>Toll roads</b>	25	5	65 - 80		1.5
<b>Airports</b>	20	3	70		0.9 + Risk rate
<b>Ports</b>	20	3	65		2.5

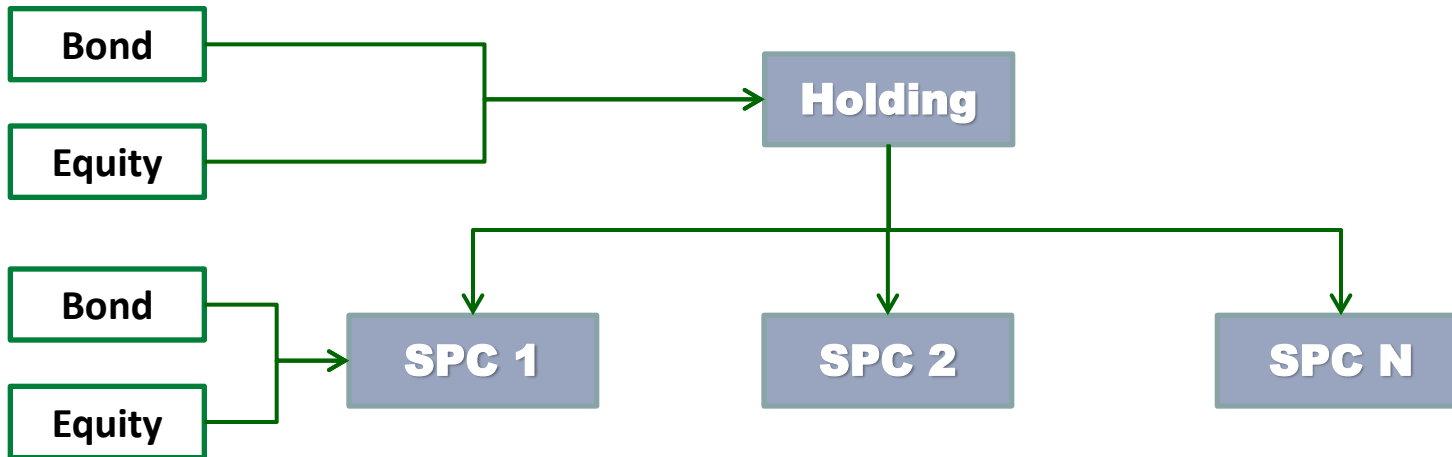
## Timing of Events



Source: BNDES

Brazilian Infrastructure Bonds and infrastructure investment funds – benefits for non-resident investors:

- (i) zero Income Tax rate
- (ii) zero IOF (Financial Operation Tax)



**Government Banks/Funds may co-invest with strategic and financial investors, either directly in the SPC's or through the holding company's equity, taking minority equity stake**

- **Induces economic integration of production clusters and increases efficiency of supply chains**
- **Increases competitiveness by reducing production costs...**
- **Therefore: generates systemic productivity gains...**
- **... and contributes to improve life standards**

**Each 1% increase in supply of infrastructure can add up to 0.5 percentage points to Potential GDP**

- Brazilian growth will be led mainly by infrastructure investments
- Infrastructure pipeline: many opportunities of low risk and attractive yields
- Government financial institutions, like BNDES, will retain a role in financing Brazilian development, but...
- **Investment financing in larger scale requires new private players and investors,**
- **making use of project finance and capital market instruments, led by private financial institutions**



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