

# **INTERNATIONAL ADVISORY COUNCIL THIRD MEETING**

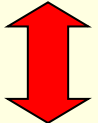
**Crucial points in relation to the future  
that we have to face**

*Remarks by*

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# IMPROVE THE POLITICAL SYSTEM

- **Political system excessively segmented** – Today we have 27 political parties. However, the most important : PMDB, PSDB, PT and DEM have the majority of the House and the Senate. Consequently... 
- **Difficult to manage** a country with such political spectrum divided and without a defined political line? Decisions are very much depending on a case by case basis.
- **Small involvement** of the **Congress** in relevant themes related for instance in Brazilian foreign policy, criticized for slow pace of activities.
- **Political reforms** – Which reform we need? Who will make it? What is possible to accomplish? Who is going to handle?
- In recent years several efforts were done to make a political reform. No results so far.

# INSUFFICIENT INVESTMENT RATE

- **Limiting growth factor** being 17% of GDP, the saving rate of Brazil. The situation right now, creates limitations for growth with structural bottlenecks, particularly **in infrastructure**.

## Low savings ratio to GDP

Brazil	17%
China	54%
India	34,7%
Russia	25%
USA	11,5%
Korea	31,5%

# INSUFFICIENT INVESTMENT RATE

**This also has implication for capital markets.**

As an example:

**Individual Investors - (in Stock Exchange)**

COUNTRY	INDIVIDUAL INVESTORS
Brazil	Less than 0,5%
USA	More than 50%

*There is a great gap in the comparison of the financial volume traded in the stock market by individual investors in 2010 . In Brazil they were responsible for **26,4%** while in Korea they represent **84,7%***

# INTERNATIONAL INSERCION

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- **BNDES** – Banco Nacional de Desenvolvimento Econômico e Social, has had an important role acting as a counter critical effect during the financial crisis. Also active in South America supporting Brazilian entrepreneurs investing in the region. Also active in venture and private equity. But the great dependence of BNDES for long term finance has to be reversed due to the exhaustion of the bank resources

# Improve Brazilian Competitiveness

- Brazil gained 8 positions in a recent **ranking of WEF** – World Economic Forum. Despite the progress, we are far away from a competitive position.
- **Brazil Cost** consequently very high and its limitative factor of competitiveness. Doing business in Brazil –Complaints about the “bureaucracy” to pay taxes! (plus high taxes burden). Brazil Cost also affected by dollar devaluation.
- Necessary to enlarge exportation of products with **larger value-added** –we cannot look at the future exclusively as great exporters of “commodities.” So far as China has been an important factor for our exports (Number one in Export value). DOUBT: Partner or unfair Competitor?
- **Innovation**: Importance of the partnership of the private sector with Universities and research centers – Important factor to be accomplished; Promoting common projects, particularly within Mercosul.

# Education

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- Several private-public partnership and recent initiatives that have received support – “**Todos pela Educação**”, as an example
- Results reached still are far away from assuming that the educational challenge will be won in the short period
- Brazil is not in a good position when compared with other emergent countries (in comparative tests)
- **Korea** – an excellent example on what has to be done.

***Inequalities, which are present , only will be solved permanently with improvement in education***

***Also:***

- **Improve Ethical Standards** – do not need further explanation.
- Last but not least: **MAINTAIN PRESS FREEDOM**

# Green Economy

## Dealing with environment challenges

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- Incentives for the use of **renewable energies**, new productive processes and research of clean technologies as wind and solar energies
- **Pre-salt** is placing in second plan the **clean energy** of the ethanol . But represents an incredible potential for Brazil.
- **Amazon Forest** – always a relevant factor in the Brazilian perspective – The world will always be very concerned about the initiatives and policies that our government will undertake in the region. The fires in the Amazon Forest continues as big challenge, even considering government efforts.

# Reforms to be done

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- **Political reform** - already mentioned
- **Pension Reform** – to diminish the deficit is essential – Brazilian population will get older, increasing the gap
- **Tax reform** - elevated tax burden and high complex system. Several years in discussion. Federal government and States do not reach a conclusion. Tax payers do not receive according to what they pay. It is always a priority for government in their plans, but no action.
- **Labor reforms** – old legislation could be reviewed. To be competitive we needed more flexible and compatible legislation with the great world competitors

# FINANCIAL REFORMS – Capital Markets

- In order to reach a compatible development with the needs of the country, we cannot be dependent of one or a few credit institutions. The Capital Market as a fundamental element.
- Improvement of the regulation mechanisms. Always looking for improvements.
- To stimulate market agents to strengthen the auto regulation mechanisms
- Strengthening of the capital market to foster Brazilian long term market for debt investments, increasing maturities term
- **Financial Education** – As in other countries, an issue to be addressed. Presently, with participants of individuals reaching market, certainly the issue of Financial Education is much relevant.



# RESUMING

## In Retrospect...

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- Political reform
- Increase the Investment Rate – More Government Savings
- Prioritize Infrastructure Projects
- Accelerate International Insertions – MERCOSUL
- Improve Competitiveness
  - *Brazil Cost*
  - *Innovation*
  - *Value Added Products*
- Education – Crucial for social development
- Tax Reform: Diminish burden and simplification
- Improve Ethical Behavior
- Protect Press Freedom