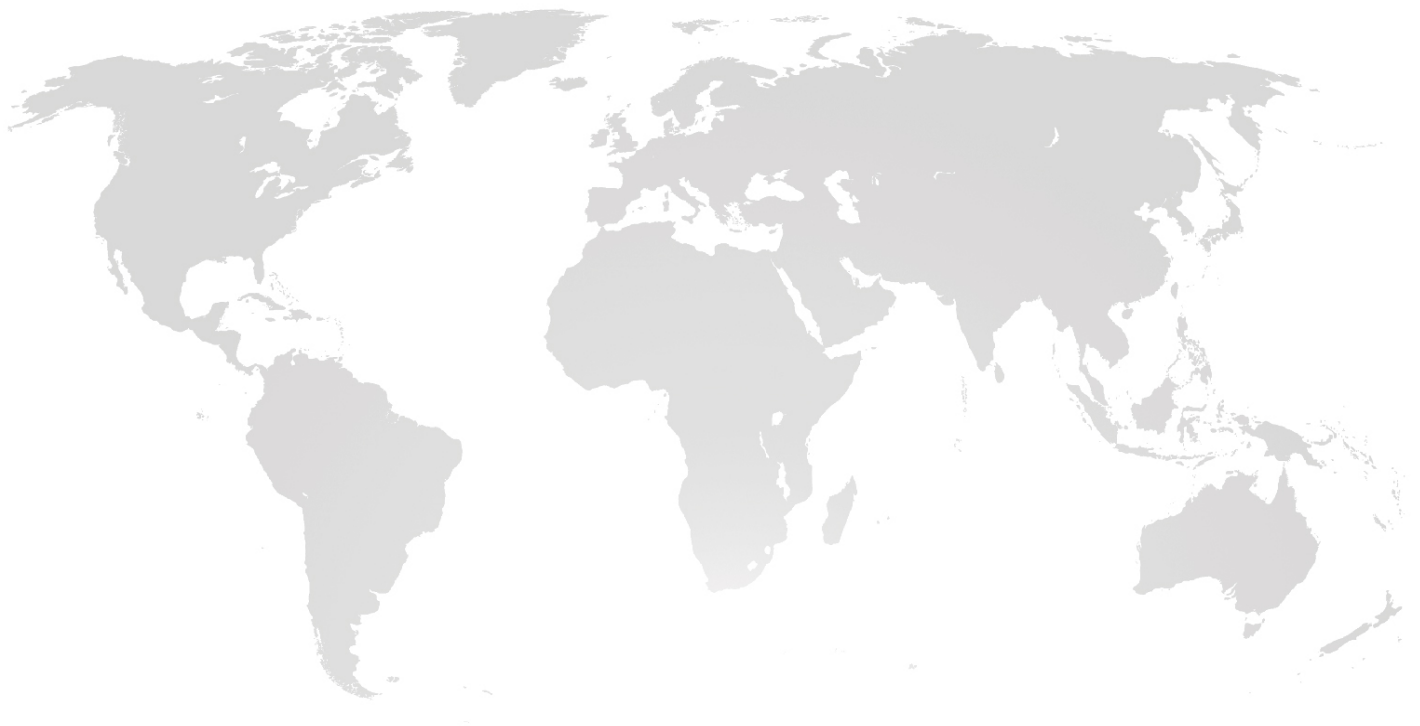


Country Insight Snapshot

Brazil

April 2016






OVERVIEW

OVERALL COUNTRY RISK RATING: DB4C

Moderate risk: Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

A

Rating Outlook: Deteriorating 

CORE OUTLOOK

- + Provided Brazil addresses supply-side bottlenecks, it will remain among the world's most attractive investment destinations.
- + Given promising demographic data and the expanding middle class, we believe Brazil's human capital will increase significantly in the long term.
- + Brazil will continue to enjoy huge natural wealth.
- Without structural reform, profitability for the foreseeable future will be affected by protectionism, a burdensome tax regime and infrastructure bottlenecks.

KEY DEVELOPMENT

President Dilma Rousseff moves closer to an impeachment trial as the lower house of Congress votes overwhelmingly in favour of the proceeding.

CREDIT ENVIRONMENT OUTLOOK

A

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

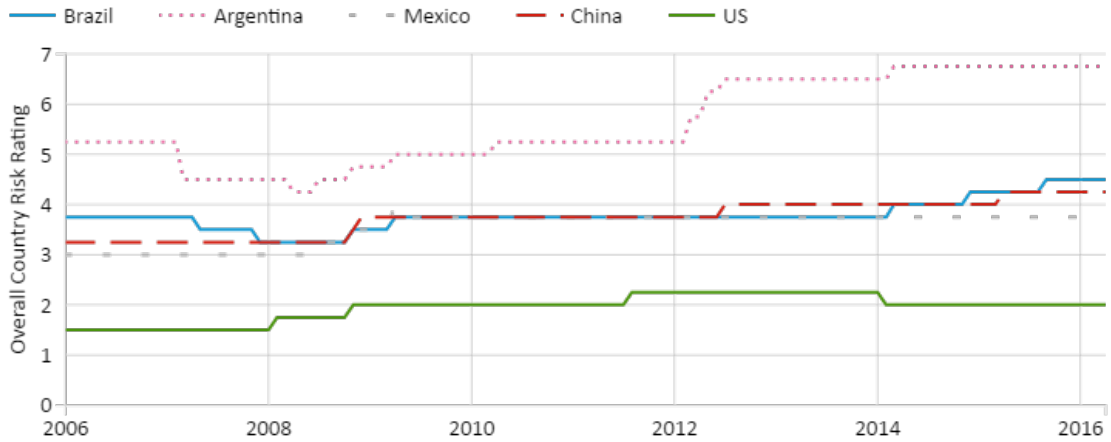
A

Key Development has had a negative impact on the outlook.



KEY INDICATORS

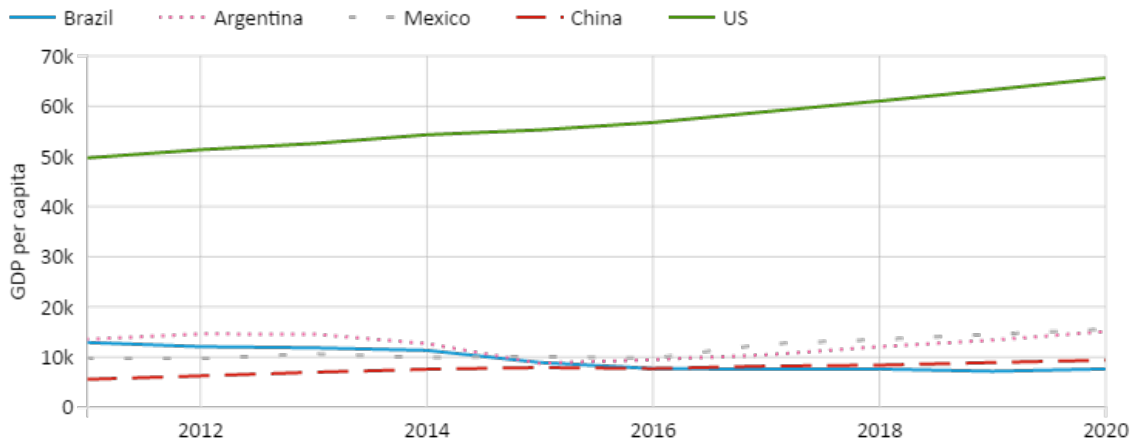
Rating History and Comparison



Source : Dun & Bradstreet

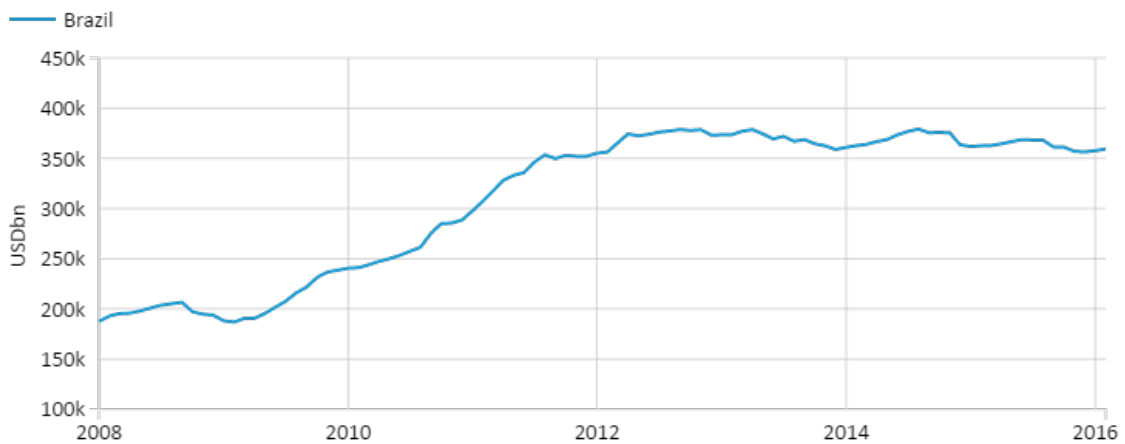
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Foreign Reserves (Excluding Gold)



Source : International Monetary Fund/Haver Analytics



Economic Indicators

Indicator	2013	2014	2015e	2016f	2017f	2018f	2019f	2020f
C/A balance % GDP	-3.8	-4.4	-3.2	-2.0	-1.8	-2.1	-2.5	-2.5
Govt balance, % GDP	-3.3	-6.1	-6.0	-5.4	-4.4	-3.5	-3.3	-3.3
Inflation, annual avge %	6.2	6.2	9.5	8.5	6.6	6.2	6.0	5.9
Real GDP Growth, %	2.3	0.1	-3.8	-3.8	0.5	0.8	1.2	1.5
Unemployment, %	5.4	4.8	6.8	7.3	6.8	6.0	5.9	5.6

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

The Real slid 1.7% to BRL3.7036 against the dollar on 7 April following central bank intervention to halt the currency's appreciating trend via the sale of 19,520 foreign currency reverse swaps at end-March. The Real is expected to average BRL4.0:USD this year, contributing to already-resilient inflation which, at 10.51% y/y in Q1, is expected to remain above the central bank's upper threshold of 6.5%. In addition, political turmoil centred on the probable start of impeachment proceedings against President Rousseff, weak commodity prices, decelerating Chinese demand for exports, and inadequate domestic fiscal and structural reforms keep investor concerns elevated and depress FDI. Foreign reserves stood at USD359.37bn (down 0.88% y/y) at end-February. Despite a 0.52% m/m rise in reserves, concerns over sovereign debt repayment persist, while cross-border payment risks are up for firms with foreign currency-denominated debt. Monitor changes in FX rates and reserves and adjust payment terms accordingly.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: SD

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: LC

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 60-90 days

Normal period of credit associated with transactions with companies in the stated country.

Local Delays: 0-1 month

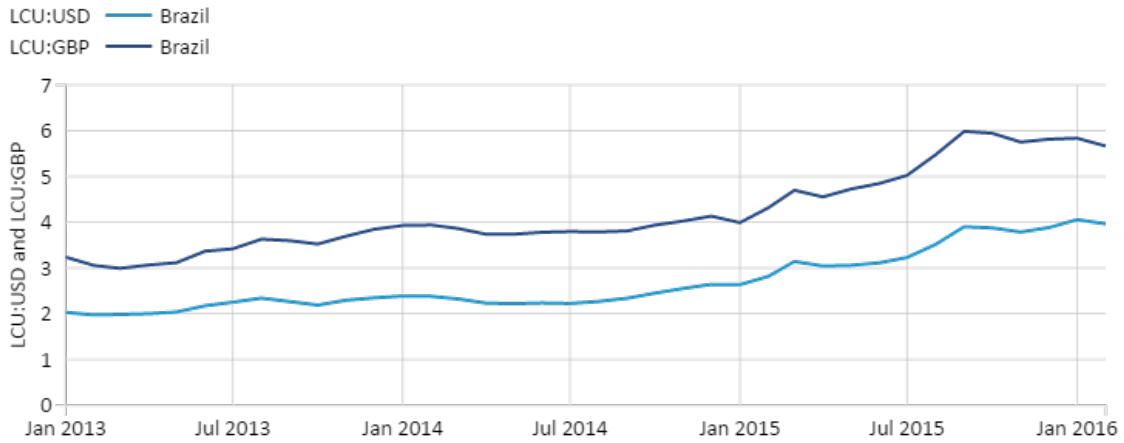
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 month

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.



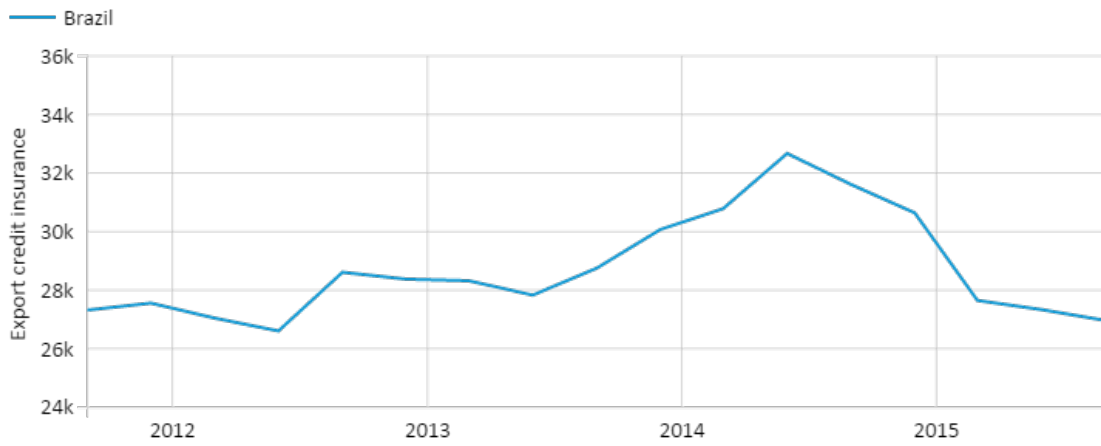
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU = Local Currency Unit

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm



RISKS AND OPPORTUNITIES

Political/Insecurity Risk

Impeachment looms for president

President Dilma Rousseff has moved a step closer to an impeachment trial. On 17 April the lower house of Congress voted 367 to 137 in favour of impeachment proceedings. This pushes the matter to the Senate, where 81 senators will vote by 17 May: if a simple majority is in favour of the proceedings, a formal trial will begin; the process will last 180 days. Following the trial, if two-thirds of the senators vote to impeach the president, she will be barred from holding office for eight years. If, however, no decision is taken within the 180 day period, Rousseff could resume the presidency. During the impeachment proceedings, Vice-President Michel Temer (who on 6 April resigned as leader of the PMDB party, which was the ruling PT's former coalition partner) will assume the presidency. However, worryingly, Temer is also facing possible impeachment given that a Supreme Court judge recently ordered the Chamber of Deputies to set up a commission to decide on such a proceeding.

Both Rousseff and Temer are accused of breaking fiscal laws to hide the actual size of the budget deficit and increase government spending ahead of Rousseff's presidential campaign in 2014. President Rousseff has argued that the accounting methodology used was common practice among previous administrations and, furthermore, is not an impeachable offence. Recently Rousseff has accused her political opponents of using the impeachment proceedings to disguise a coup and has implicated Temer in the 'plot'. It is expected that an impeachment trial could be concluded by end-May given the extent of the political crisis that has engulfed Brazil. At present, the odds are heavily against the president, who lacks political support in the Senate. The likelihood of impeachment rose for Rousseff when the ruling party's ally, the Brazilian Democratic Movement Party (the PMDB is country's largest party) severed ties with the PT in late March; notably, the PMDB has 18 senators.

Short-Term Economic Outlook

Growth forecast downgraded again

We have downgraded Brazil's growth forecast for 2016 to -3.8% (from -3.5%). A key contributory factor is the weakness in public finances: the public sector primary deficit for the previous 12 months rose to 2.1% of GDP in February, from 1.9% in December, in part due to automatic increases in government spending. Indeed, gross general government debt rose to 67.6% of GDP in February. This is exacerbated by the absence of an agenda for fiscal and/or economic and structural reforms. Adding to the poor outlook are low investor and consumer confidence and ongoing uncertainty in the external environment. Elsewhere, Brazil's 'junk' investment rating and negative outlooks have recently been confirmed by credit ratings agencies on the back of policy uncertainty linked to the current impeachment process that is at the centre of Brazil's political crisis. This has effectively hiked Brazil's external borrowing costs and weighs on the country's access to external financing.



COUNTRY PROFILE AND STATISTICS

Overview

Brazil is the largest country in South America by both land mass and population, making it a natural candidate for regional leadership. It has a long coastline and shares a land border with all but two of the continent's countries. Brazil's economy is the largest in Latin America, with vast natural resources and a large labour pool. The primary sector, as well as manufacturing and services, are among its key economic drivers.

Despite its endowments, economic expansion is constrained by several institutional and structural factors. Its onerous and complex tax system supports a bloated public sector (discouraging greater levels of private investment). In addition, income distribution is highly unequal, contributing to the country's high rate of violent crime (and occasional large-scale social disorder).

Moreover, the political environment is highly fragmented, with a large number of political parties represented at the national legislature. As a result, governance relies heavily on consensus-building, which encourages corruption and hinders reform.

Key Facts

Key Fact	Detail
Head of state	President Dilma Vana ROUSSEFF
Capital	Brasilia
Timezone	GMT -03-00
Official language	Portuguese
Population (millions)	208.8
GDP (USD billions)	1,859.4
GDP per capita (USD)	8,907
Life expectancy (years)	74
Literacy (% of adult pop.)	91.5
Surface area (sq km)	8,514,880

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2011	2012	2013	2014	2015
Real GDP growth (%)	3.9	0.9	2.3	0.1	-3.8
Nominal GDP in USDbn	2,590	2,446	2,422	2,341	1,859
Nominal GDP in local currency (bn)	4,143	4,403	4,845	5,150	6,694
GDP per Capita in USD	12,908	12,073	11,836	11,325	8,907
Population (year-end, m)	200.6	202.6	204.7	206.7	208.8
Exchange rate (yr avge, USD-LCU)	1.6	1.8	2.0	2.2	3.6
Current Account in USDbn	-73.2	-84.4	-90.9	-103.6	-58.9
Current Account (% of GDP)	-2.8	-3.5	-3.8	-4.4	-3.2
FX reserves (year-end, USDbn)	350.4	369.6	356.2	363.6	356.5
Import Cover (months)	13.0	10.8	8.7	7.2	7.5
Inflation (annual avge, %)	6.6	5.4	6.2	6.2	9.5
Govt Balance (% GDP)	-2.6	-2.8	-3.3	-6.1	-6.0

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2016	2017	2018	2019	2020
Real GDP growth (%)	-3.8	0.5	0.8	1.2	1.5
Nominal GDP in USDbn	1,624	1,611	1,636	1,556	1,671
Nominal GDP in local currency (bn)	6,740	6,927	7,199	7,002	7,520
GDP per Capita in USD	7,703	7,566	7,608	7,164	7,618
Population (year-end, m)	210.8	212.9	215.0	217.2	219.3
Exchange rate (yr avge, USD-LCU)	4.15	4.3	4.4	4.5	4.5
Current Account in USDbn	-32.5	-29.5	-35.0	-39.6	-41.0
Current Account (% of GDP)	-2.0	-1.8	-2.1	-2.5	-2.5
FX reserves (year-end, USDbn)	350.1	357.1	364.2	371.5	379.0
Import Cover (months)	6.0	5.0	5.1	5.2	5.3
Inflation (annual avge, %)	8.5	6.6	6.2	6.0	5.9
Govt Balance (% GDP)	-5.4	-4.4	-3.5	-3.3	-3.3

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Brazil	Argentina	Mexico	China	US
Income per Capita (USD)	8,907	8,738	10,090	7,902	55,262
Country Population (m)	208.8	43.4	121	1,376	321.8
Internet users (% of population)	57.6	64.7	44.4	49.3	87.4
Real GDP Growth (% p.a., 2016 - 2025)	3 - 6.8	2.2 - 7	2.5 - 5	3.5 - 6.5	1.8 - 2.5

Source : Various sources/Dun & Bradstreet



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