

Country Insight Snapshot

Brazil

October 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:

Stable



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 barriers.

KEY DEVELOPMENT

Economic signals remain mixed but contraction gradually decelerates as business confidence and expectations show small signs of improvement.

CREDIT ENVIRONMENT OUTLOOK

A

Key Development has had a neutral 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 neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

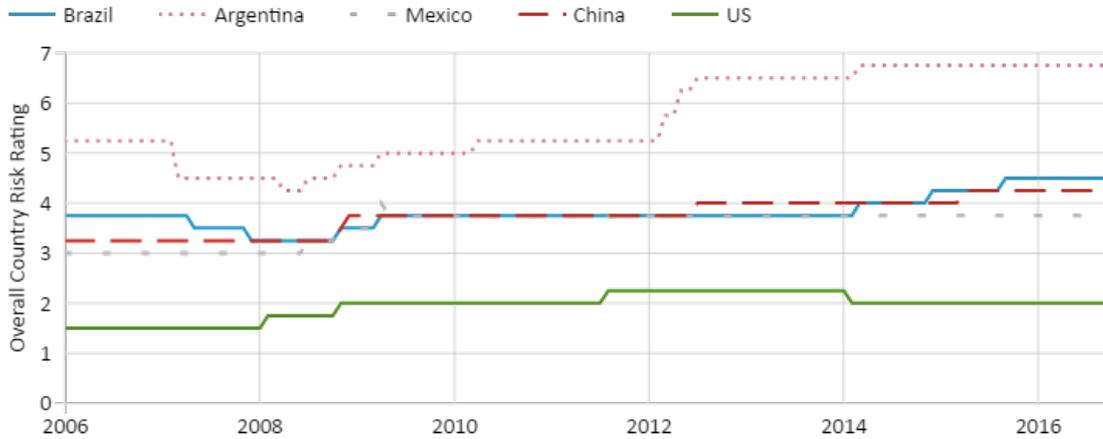
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Key Development has had a neutral impact on the outlook.



KEY INDICATORS

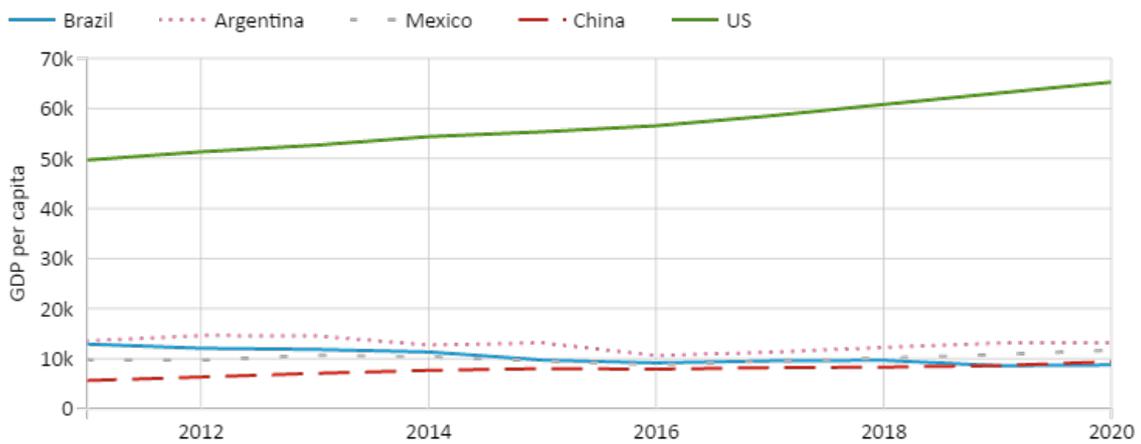
Rating History and Comparison



Source : Dun & Bradstreet

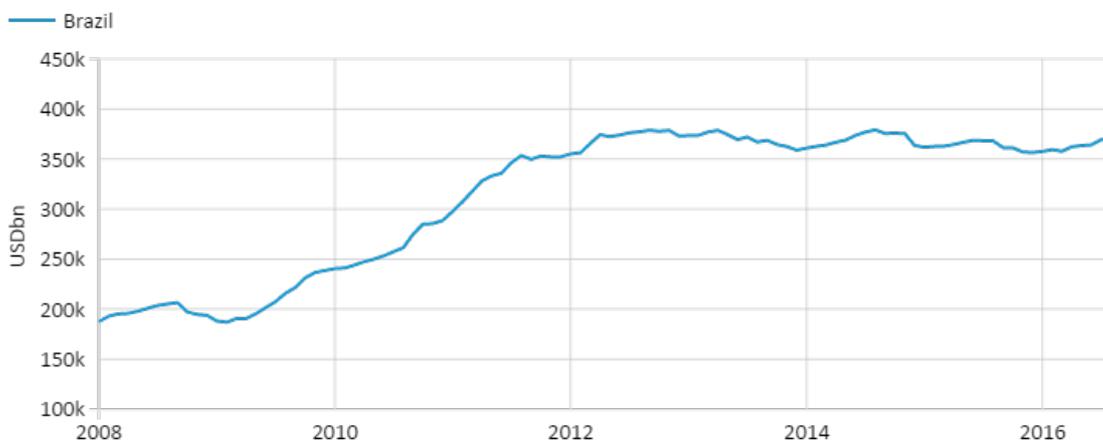
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Foreign Reserves (Excluding Gold)



Source : International Monetary Fund/Haver Analytics



Economic Indicators

Indicator	2013	2014	2015	2016f	2017f	2018f	2019f	2020f
C/A balance % GDP	-3.8	-4.4	-2.9	-0.9	-1.0	-1.4	-2.2	-2.9
Govt balance, % GDP	-3.0	-6.0	-10.3	-10.4	-9.1	-8.0	-7.4	-7.0
Inflation, annual avge %	6.2	6.2	9.0	8.4	5.5	4.9	4.6	4.5
Real GDP Growth, %	2.3	0.1	-3.8	-3.0	0.9	1.0	1.6	2.0
Unemployment, %	5.4	4.8	6.8	9.2	10.2	10.4	10.2	10.0

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

In early October the Real stayed close to recent highs as investors responded positively to newly-appointed President Michel Temer's reform agenda, including his push to cap government spending to turn around the Brazilian economy, which is currently in its second consecutive year of recession. The currency which strengthened around 23% for the year so far traded at BRL3.2337 on 5 October. The Real has been supported by recent increases in some commodity prices and continued relaxed monetary policy in major advanced economies, including the US and the EU which supported inward investment inflows recently. On 8 September, Mario Draghi confirmed that further ECB stimulus is unlikely in the near term while the US Fed Funds target-rate hike is now more likely to occur toward the year's end. Meanwhile, in September total foreign reserves were up 2.5% y/y to USD370.42bn, and are expected to continue to rise as the aforementioned factors keep inward FDI flows on an uptrend in Q4.

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

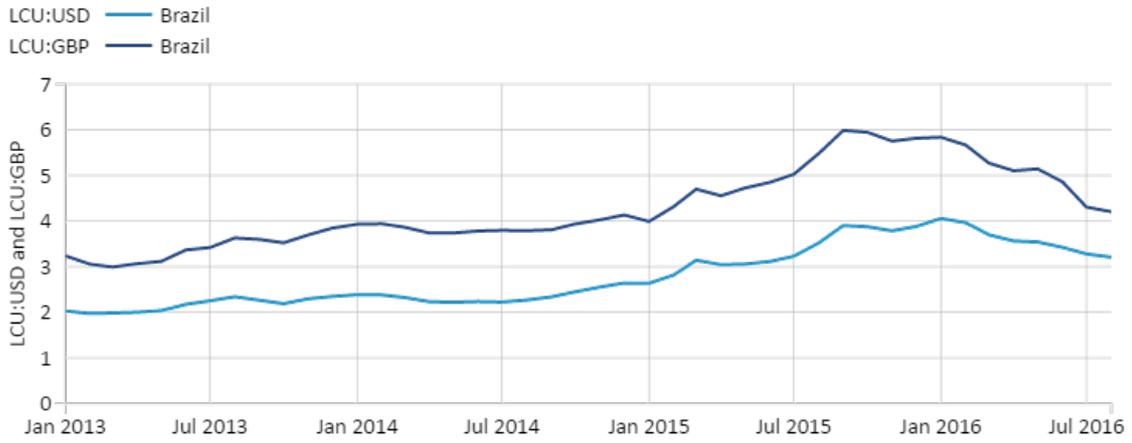
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



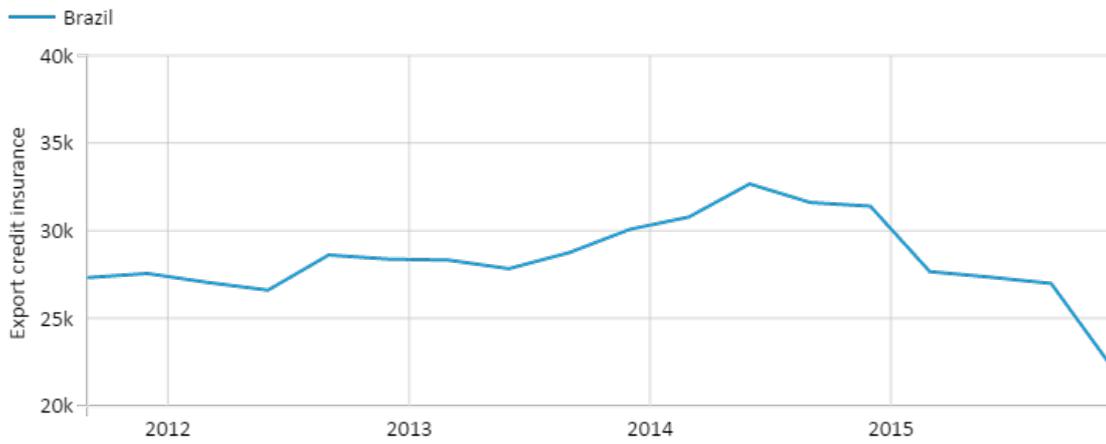
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Brazilian Real

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm



RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Economic signals mixed

Economic signals remain mixed. Industrial production fell by 3.8% m/m in August to erase five months of consecutive increases. However, most of the fall is attributable to a sharp decline in vehicle production, due to a dispute between a local VW plant and a foreign supplier which caused a halt in production. More positively, in September, the IHS Markit Purchasing Managers' Index (PMI) rose from 45.7 to 46.0 in August but remains under 50 which separates contraction (below 50) from expansion (above 50). The main reasons cited for the still-low PMI level were the weak economy, lower demand and tighter liquidity. Another positive indicator is the increase in business confidence to its highest level since July 2014; it reached 86.1 in August, and 88.2 points in September, according to the FGV Manufacturing Confidence Index; this measures companies' perceptions of current conditions as well as their expectations. We have thus nudged up our 2016 real GDP forecast by 0.2% and now expect the economy to contract by 3.0%. Elsewhere, the Selic remains at 14.25% where it has been since July 2015, despite signs of easing inflationary pressures. The extended national CPI registered a 0.77% m/m increase in August from 0.88% in July, while the IPCA-15 index which measures inflation expectations over the next 12 months, has consistently declined from 6.44 in January to 5.01 in September. Consequently, sustained easing in inflationary pressures has increased the likelihood of a 25bp cut in the Selic in Q4.

Political/Insecurity Risk

PT defeated soundly

Dilma Rousseff's Workers Party (PT) suffered a crushing defeat at municipal elections held on 2 October; the pro-business PSDB won the largest number of seats after the first round of voting. The unsurprising result for the PT is largely attributable to the still-unfolding Petrobras corruption scandal, as well as Brazil's severe economic recession. While President Michel Temer's PMDB party failed to retain the mayoralty of Rio de Janeiro, the party won most of the other mayoral races. However, with voter disenchantment, extremely high results of the recent mid-term municipal elections underscore the difficulty in predicting the outcome of the next presidential election, due in 2018.

Long-Term Economic Potential

New education model signed

President Temer has signed a new education model, which significantly reduces the number of mandatory high school subjects, provides technical training as an alternative, and aims to gradually extend the school day to full time. With the high school drop-out rate at around 12%, the government plans to invest USD0.46bn to implement the reforms. While acknowledging the need for reform, the new model has drawn criticisms from experts who regard the changes as superficial in its failure to address issues such as better student-teacher ratios, infrastructural shortcomings, teacher training and the modernisation of teaching methodologies.



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 in 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 Michel TEMER
Capital	Brasilia
Timezone	GMT -03-00
Official language	Portuguese
Population (millions)	208.8
GDP (USD billions)	2,028.5
GDP per capita (USD)	9,717
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	2,028
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	9,717
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	3.3
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	-2.9
FX reserves (year-end, USDbn)	350.4	369.6	356.2	363.6	354.2
Import Cover (months)	13.0	10.8	8.7	7.2	7.4
Inflation (annual avge, %)	6.6	5.4	6.2	6.2	9.0
Govt Balance (% GDP)	-2.5	-2.5	-3.0	-6.0	-10.3

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2016f	2017f	2018f	2019f	2020f
Real GDP growth (%)	-3.0	0.9	1.0	1.6	2.0
Nominal GDP in USDbn	1,931	2,037	2,081	1,867	1,915
Nominal GDP in local currency (bn)	6,740	6,927	7,199	6,833	7,277
GDP per Capita in USD	9,160	9,568	9,675	8,596	8,731
Population (year-end, m)	210.8	212.9	215.0	217.2	219.3
Exchange rate (yr avge, USD-LCU)	3.49	3.4	3.46	3.66	3.8
Current Account in USDbn	-16.5	-20.3	-29.5	-40.4	-55.5
Current Account (% of GDP)	-0.9	-1.0	-1.4	-2.2	-2.9
FX reserves (year-end, USDbn)	376.4	383.9	391.6	399.4	407.4
Import Cover (months)	6.4	5.4	5.5	5.6	5.7
Inflation (annual avge, %)	8.4	5.5	4.9	4.6	4.5
Govt Balance (% GDP)	-10.4	-9.1	-8.0	-7.4	-7.0

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Brazil	Argentina	Mexico	China	US
Income per Capita (USD)	9,717	13,159	9,579	8,000	55,326
Country Population (m)	208.8	43.4	121	1,376	321.8
Internet users (% of population)	59.1	69.4	57.4	50.3	74.5
Real GDP Growth (% p.a., 2016 - 2025)	1 - 2	1.5 - 2.8	2.5 - 5	3.5 - 6.5	1.8 - 2.5

Source : Various sources/Dun & Bradstreet



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