dun & bradstreet

Country Insight Snapshot
Brazil
June 2017

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 fundamental reform, profitability for the foreseeable future will be affected by protectionism, a burdensome tax regime and infrastructure barriers.

KEY DEVELOPMENT

The Superior Electoral Court acquits the president of illegal campaign fund charges, but legal woes mount as he is accused of attempting to obstruct the Car Wash corruption probe.

CREDIT ENVIRONMENT OUTLOOK **A**

Trend: Stable →

Key Development has had a neutral impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK **A**

Trend: Stable →

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK **A**

Trend: Stable →

Key Development has had a neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK **A**
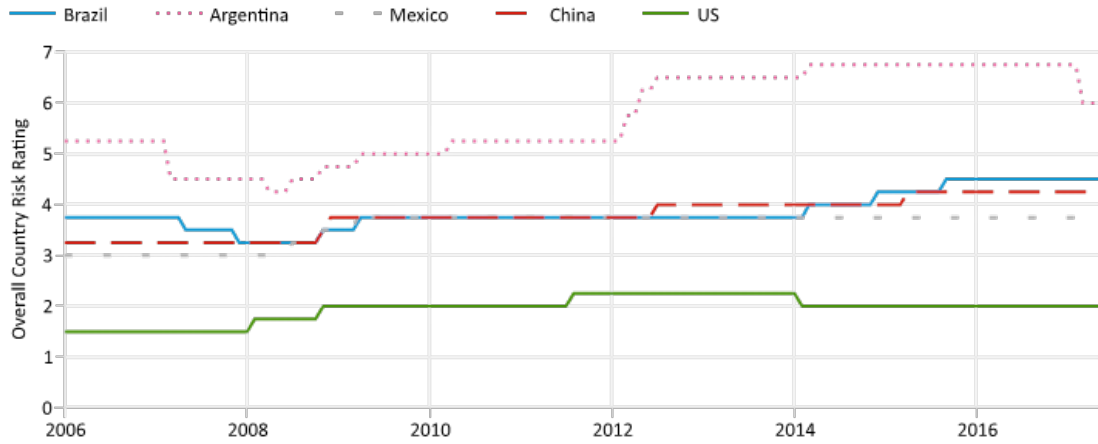
Trend: Stable →

Key Development has had a negative impact on the outlook.
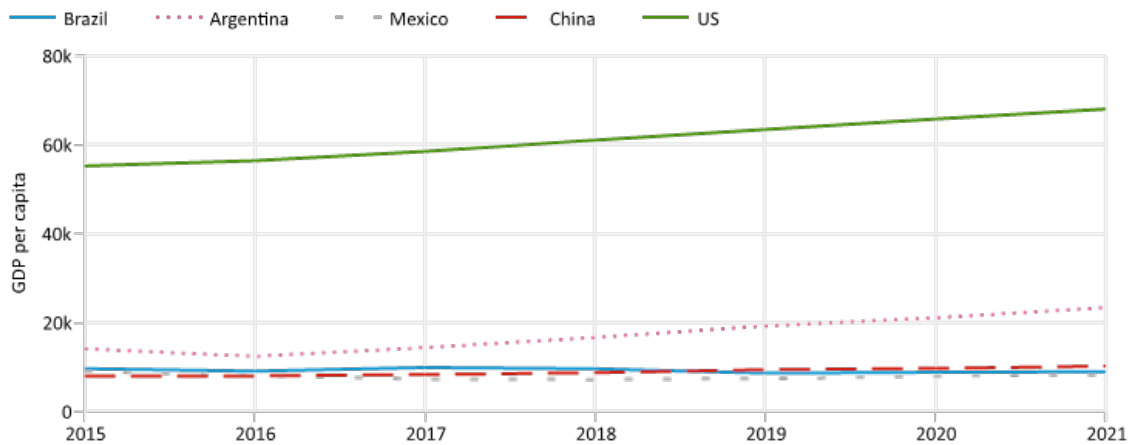
KEY INDICATORS

Rating History and Comparison
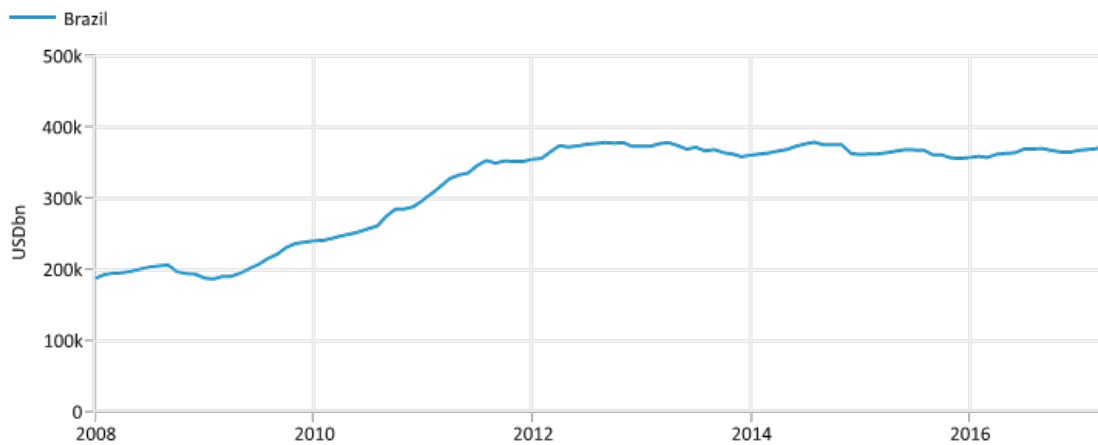

Source : Dun & Bradstreet

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	2014	2015	2016	2017f	2018f	2019f	2020f	2021f
C/A balance % GDP	-4.4	-2.9	-1.2	-1.5	-2.4	-3.1	-3.4	-3.8
Govt balance, % GDP	-6.0	-10.3	-9.0	-9.1	-7.5	-6.5	-5.5	-5.0
Inflation, annual avge %	6.2	9.0	8.7	4.4	4.6	4.6	4.4	4.2
Real GDP Growth, %	0.1	-3.8	-3.6	0.5	1.8	2.0	2.1	2.3
Unemployment, %	4.8	6.8	12.1	13.3	12.6	11.2	10.1	9.5

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Foreign currency reserves rose 0.4% m/m and 3.6% y/y to USD376.49bn in May, maintaining good currency protection and roughly 6 months of goods and services import cover. The central bank resumed its intervention in the FX market in mid-May to support the Real through the sale of USD400m in currency swaps. While the currency weakened to an average of BRL3.2091:USD in May (from BRL3.1369 in April), we expect the Real to average BRL3.26:USD in 2017 (versus 2016's BRL3.489:USD). Near-term, the currency will remain under downward pressure as political risk rises. President Temer, whose approval rating is in single digits, is fighting corruption allegations related to the historic Operation Car Wash scandal: this could significantly slow his economic reform programme (which had been cheered by the markets). Looking ahead, FX reserves accumulation will accelerate to roughly USD380bn by end-2017 given our baseline scenario for further increases in commodity prices as global demand recovers.

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.
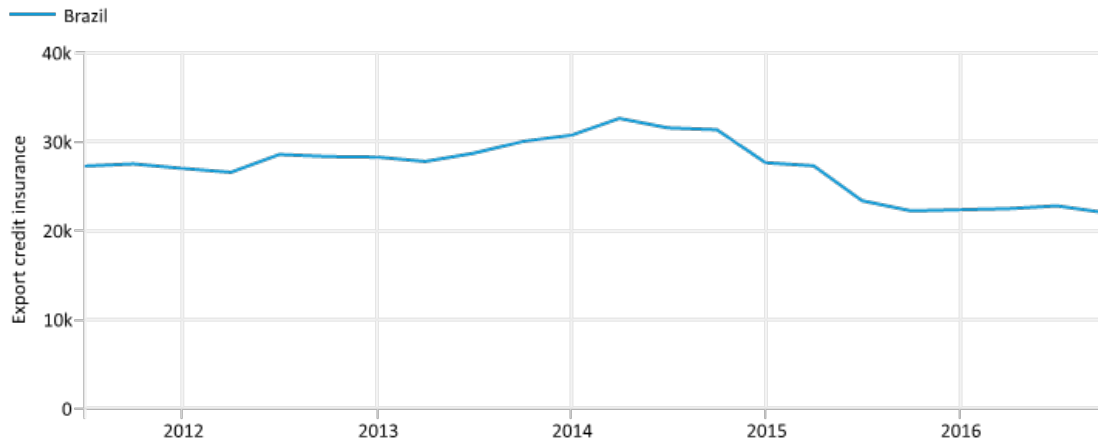
Exchange Rate
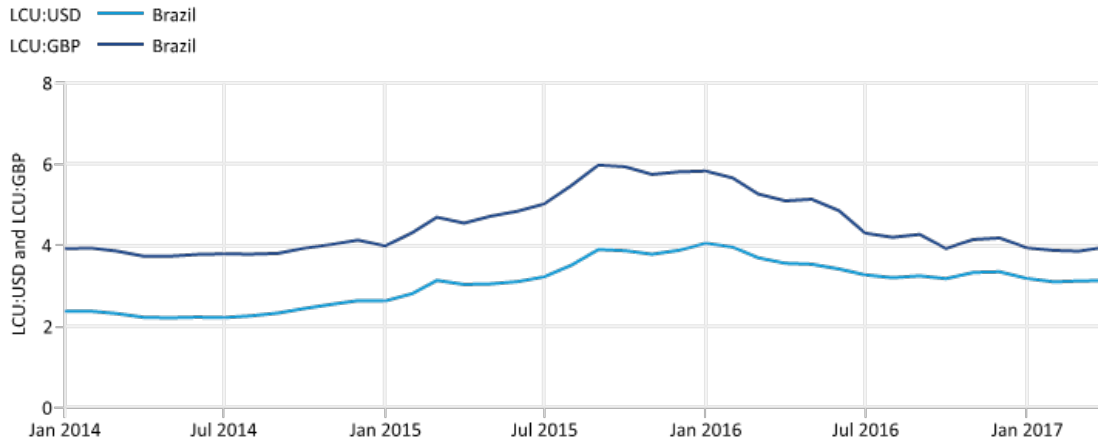
Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Brazilian Real

Credit Conditions

Source : Export Credit Agencies

Insured export credit exposures, USDm

RISKS AND OPPORTUNITIES

Political/Insecurity Risk

Temer's legal troubles continue

President Michel Temer has been acquitted of the charge of using illegal campaign funds. The Superior Electoral Court, by a vote of four to three, ruled that there was insufficient evidence to prove that illegal funds were used by former President Dilma Rousseff and Temer (who was Rousseff's running mate in the 2014 presidential election). If he had been found guilty, the 2014 election result would have been annulled, Temer ousted from office, and early presidential elections called before the constitutionally due date in 2018. While the court ruling gives the president a reprieve, his legal troubles are far from over: in mid-May Temer was formally accused of conspiring to silence witnesses to obstruct the Car Wash corruption probe. The Supreme Court has launched an investigation based on secret recordings of Temer made by executives of the JBS meat-packing company, in which the president allegedly condoned bribery of powerful politicians, including jailed ex-House Speaker, Eduardo Cunha. Attorney General Rodrigo Janot also accused Aécio Neves (president of the PSDB party which, together with Temer's PMDB, is a part of the ruling coalition) of conspiring with Temer to obstruct the probe. The pair have also been accused to manipulating the political appointment process and laws to disrupt the Lava Jato corruption case that has engulfed around 1,000 politicians on all sides of the political divide. Consequently, political/instability risk remains elevated as protesters call for Temer's resignation amid heightened uncertainty.

Short-Term Economic Outlook

Lethargic recovery

The central bank slashed its policy rate by another 100 basis points (bp) on 31 May to bring the Selic to 10.25% as headline inflation slid to 3.77% in May (well below the central bank target of 4.5%, +/-1%). Rapid disinflation has created room for the bank's current aggressive easing cycle, which began in October 2016 with a 25 bp cut that took the rate to 14.00%. We expect the Selic to be slashed by another 175 bp by end-Q4 provided inflationary pressures continue to subside. Elsewhere, in Q1 real GDP increased by 1.0% q/q after eight consecutive quarters of q/q contraction. Consequently, we have nudged up our real GDP forecast for 2017 to 0.5%, from 0.2%, as the economy recovers slowly from recession.

Business Regulatory Environment

New delays in pension reform

The recent escalation of the political crisis has further delayed crucial pension reform. President Temer had hoped to have the reform passed by end-June after watering-down his initial proposal in April. Failure to pass the reform could lead to pension benefits ballooning to 18% of GDP in the next four years, according to the IMF. Alternatively, an overly-diluted version could jeopardise the recently-approved government spending cap equivalent to the previous year's inflation rate beginning in 2019.

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)	210.8
GDP (USD billions)	1,936.8
GDP per capita (USD)	9,186
Life expectancy (years)	74.3
Literacy (% of adult pop.)	92.6
Surface area (sq km)	8,514,880

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2012	2013	2014	2015	2016
Real GDP growth (%)	0.9	2.3	0.1	-3.8	-3.6
Nominal GDP in USDbn	2,446	2,422	2,341	2,028	1,937
Nominal GDP in local currency (bn)	4,403	4,845	5,150	6,694	6,740
GDP per Capita in USD	12,073	11,836	11,325	9,717	9,186
Population (year-end, m)	202.6	204.7	206.7	208.8	210.8
Exchange rate (yr avge, USD-LCU)	1.8	2.0	2.2	3.3	3.5
Current Account in USDbn	-84.4	-90.9	-103.6	-58.9	-23.5
Current Account (% of GDP)	-3.5	-3.8	-4.4	-2.9	-1.2
FX reserves (year-end, USDbn)	369.6	356.2	363.6	354.2	365.0
Import Cover (months)	10.8	8.7	7.2	7.4	6.3
Inflation (annual avge, %)	5.4	6.2	6.2	9.0	8.7
Govt Balance (% GDP)	-2.5	-3.0	-6.0	-10.3	-9.0

Source : Haver Analytics/Dun & Bradstreet

Forecasts

Metric	2017f	2018f	2019f	2020f	2021f
Real GDP growth (%)	0.5	1.8	2.0	2.1	2.3
Nominal GDP in USDbn	2,125	2,087	1,892	1,955	2,001
Nominal GDP in local currency (bn)	6,927	7,199	6,775	7,215	7,684
GDP per Capita in USD	9,979	9,703	8,713	8,914	9,033
Population (year-end, m)	212.9	215.0	217.2	219.4	221.5
Exchange rate (yr avge, USD-LCU)	3.3	3.5	3.6	3.7	3.8
Current Account in USDbn	-31.7	-50.0	-58.8	-66.9	-77.0
Current Account (% of GDP)	-1.5	-2.4	-3.1	-3.4	-3.8
FX reserves (year-end, USDbn)	379.6	387.2	395.0	402.9	410.9
Import Cover (months)	5.3	5.4	5.5	5.7	5.8
Inflation (annual avge, %)	4.4	4.6	4.6	4.4	4.2
Govt Balance (% GDP)	-9.1	-7.5	-6.5	-5.5	-5.0

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Brazil	Argentina	Mexico	China	US
Income per Capita (USD)	9,717	14,193	9,127	8,041	55,326
Country Population (m)	208.8	43.4	127.0	1,376.0	321.8
Internet users (% of population)	59.1	69.4	57.4	50.3	74.6
Real GDP Growth (% p.a., 2017 - 2026)	1.0 - 2.0	1.5 - 2.8	2.5 - 5.0	3.5 - 6.5	1.8 - 2.5

Source : Various sources/Dun & Bradstreet

LINKS

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