



Decide with Confidence

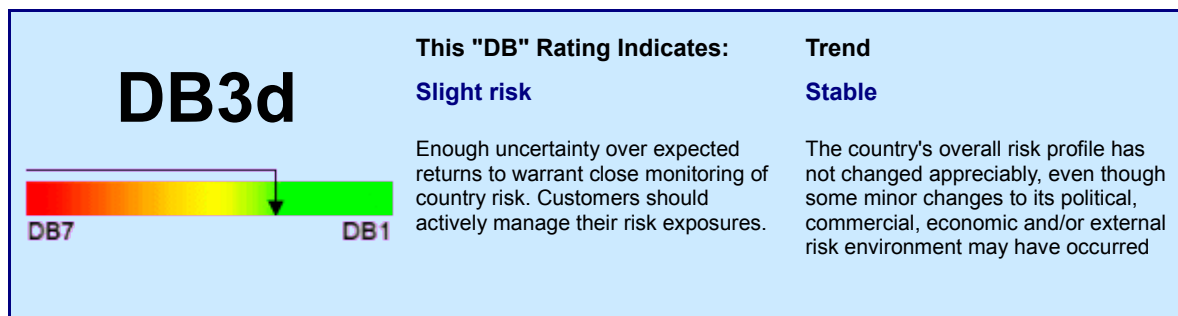
## D&B Country RiskLine Report

# BRAZIL

Region : The Americas

Edition : May 2011

### D&B Country Risk Indicator



The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

*Political risk* - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

*Commercial risk* - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

*External risk* - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

*Macroeconomic risk* - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

## Key Facts

<b>Population:</b>	192.0m
<b>Surface area (sq km):</b>	8,514,880
<b>Capital:</b>	Brasilia
<b>Timezone:</b>	GMT -03:00
<b>Official language:</b>	Portuguese
<b>Head of state:</b>	President Dilma Vana ROUSSEFF
<b>GDP (USD):</b>	1.6trn
<b>GDP per capita (USD):</b>	8,535
<b>Life expectancy (years):</b>	71
<b>Literacy (% of adult pop.):</b>	88.6

### Country Overview:

Brazil is the largest country in South America by both landmass 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 (including recently discovered oil) and a large labour pool; major sectors include manufacturing and services. Despite solid economic growth in recent years, a faster rate of expansion is constrained by an onerous and complex tax system that 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).

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.

## Trade & Commercial Environment

### Trade Terms

<b>Minimum Terms:</b>	SD
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The minimum form of documentation or trading method that D&B advises its customers to consider when pursuing export trade with the stated country.

<b>Recommended Terms:</b>	LC
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D&B'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.

<b>Usual Terms:</b>	60-90 days
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Normal period of credit associated with transactions with companies in the stated country.

### Transfer Situation

<b>Local Delays:</b>	0-1 month
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The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

<b>FX/Bank Delays:</b>	0-1 month
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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.

### Trade & Commercial Environment

The current business environment benefits from a relatively stable macroeconomic context, the increased global importance of Brazilian trans-national companies, a large and relatively affluent domestic market, and pro-investment government policy. Nevertheless, corruption and bureaucracy remain problematic. The country's international profile has increased notably in recent years, with Brazil now one of the most attractive developing countries in which to do business. Improvements in infrastructure and a sophisticated financial market have also contributed to boosting the business environment, while Brazil's attractiveness as a destination for FDI has been greatly enhanced by its increasing trade integration with both developing and developed countries.

### Export Credit Agencies

<b>US Eximbank</b>	Full cover available
<b>Atradius</b>	ST cover available
<b>ECGD</b>	ST cover available, restricted MT cover
<b>Euler Hermes UK</b>	Full ST cover available

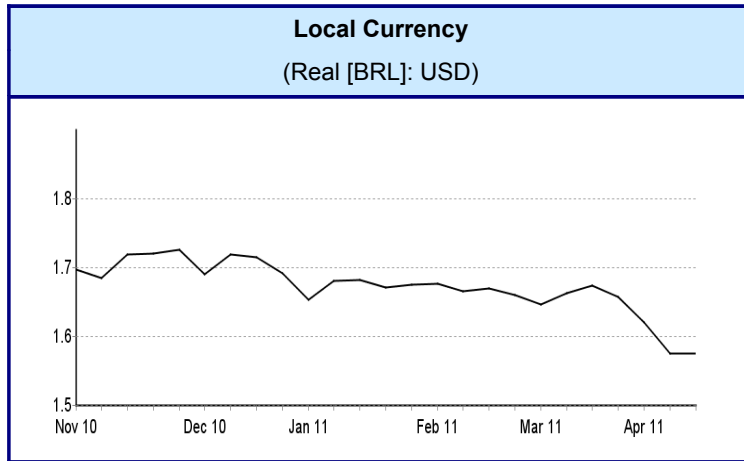
### Economic Indicators

	2008	2009	2010e	2011f	2012f
<b>Real GDP growth, %</b>	5.2	-0.1	7.5	5.2	5.0
<b>Inflation, annual ave, %</b>	5.6	4.9	5.0	5.5	4.9
<b>Govt balance, % GDP</b>	-0.8	-3.4	-1.2	-0.8	-1.4
<b>Unemployment, %</b>	7.9	8.1	6.7	6.4	6.5
<b>C/A balance, % GDP</b>	-1.7	-1.5	-2.3	-2.5	-3.1

Inflation is measured by the IPCA Index

### Currency Information

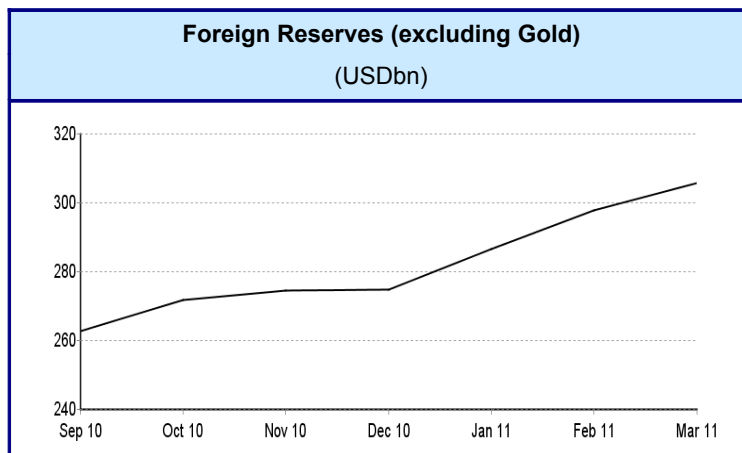
<b>Exchange Rates</b>	
(London, 18 Apr 11)	
EUR	2.2709
GBP	2.568
JPY*	1.8929
USD	1.575
*(x 100)	



**Local Currency**  
(Real [BRL]: USD)

	Nov 10	Dec 10	Jan 11	Feb 11	Mar 11	Apr 11
<b>Week 1</b>	1.697	1.690	1.653	1.676	1.645	1.619
<b>Week 2</b>	1.684	1.718	1.680	1.665	1.663	1.575
<b>Week 3</b>	1.718	1.714	1.682	1.669	1.673	1.575
<b>Week 4</b>	1.720	1.691	1.670	1.660	1.656	
<b>Week 5</b>	1.725		1.674			

**Foreign Reserves (excluding Gold)**



**Data Table**

Sep 10	Oct 10	Nov 10	Dec 10	Jan 11	Feb 11	Mar 11
262.6	271.72	274.47	274.63	286.5	297.64	305.57

## Risk Factor

Strong economic prospects and moderate political risk will continue to make Brazil one of the most appealing emerging markets over 2011-12 with significant business opportunities offered by the country as both an export platform and as a growing domestic market. However, rising inflation and the drop in external competitiveness will continue to be a key policy challenge over the forecast period. Capital controls imposed by the government to reduce the appreciation of the Real may have some limited negative implications for the commercial environment.

In 2011, we expect Brazil's robust economic expansion to continue, albeit at a lower rate of 5.2%. Nevertheless, this rate of economic growth will continue to create a significant number of business opportunities, both for the domestic market and for export companies, despite increased state control over key sectors of the economy under government-run companies. However, with inflation rising rapidly, the central bank has accelerated the increase of the target interest rate (Selic) and we expect it to maintain its tightening bias. Negatively, a rapid increase in interest rates may trigger even more demand for the domestic currency (which has appreciated by 30% against the US dollar in the past two years), harming export competitiveness and increasing the risk of a bubble of asset prices in the domestic currency. In order to reduce the appreciation of the Real the authorities have adopted a series of measures (such as raising bank reserve requirements, capital controls and reverse currency-swap sales). Brazil's external economic risk will remain low in the short term. Although we expect the current account deficit to widen over 2011 and 2012, deficits will be easily funded by inflows of foreign capital, and we expect an accumulation of FX reserves over the next two years. FDI should continue to increase rapidly over 2011-12; the government's 'investment grade' status allows the country to obtain funding at favourable terms.

President Dilma Rousseff (from the Workers' Party, PT) will benefit from the fact that the ruling coalition has a strong majority in both houses of congress; however, maintaining the support of the PSDB (the main ally of the PT) will be key. Rousseff, while following a policy agenda shaped by her predecessor, Lula, has already introduced extensive cuts in spending, while the government's policy agenda will continue to focus on social programmes and infrastructure development. However, increased state control over Brazil's rapidly developing oil sector has increased political risk somewhat, while efforts to boost Brazilian industry in the context of rapid increases in imports (from countries such as China) might prove diplomatically sensitive. However, we expect political risk to remain moderate overall with foreign investment welcomed into most sectors.

## Glossary & Definitions

### DEFINITIONS

#### Minimum Terms:

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

#### Recommended Terms:

D&B'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:

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

#### Local Delays:

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

#### F/X Bank Delays:

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.

C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:

Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:

The balance of government expenditure and receipts.

Real GDP growth, %:

GDP adjusted for inflation.

Inflation, %:

The increase in prices over a given period.

## GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

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#### USA Inquiry

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Email: [CountryRiskServices@dnb.com](mailto:CountryRiskServices@dnb.com)

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Email: [CustomerHelp@dnb.com](mailto:CustomerHelp@dnb.com)

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