



Decide with Confidence

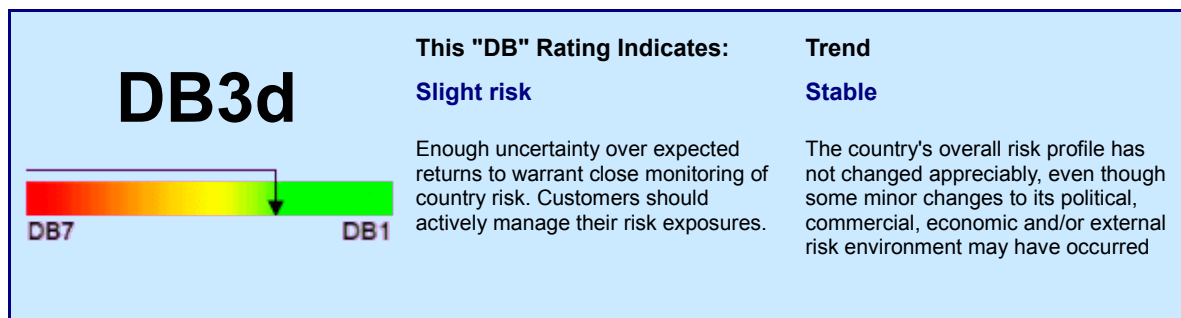
## D&B Country RiskLine Report

# BRAZIL

Region : The Americas

Edition : August 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>	195.4m
<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>	2.1trn
<b>GDP per capita (USD):</b>	10,677
<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
-----------------------	----

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
---------------------------	----

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
---------------------	------------

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

### Transfer Situation

<b>Local Delays:</b>	0-1 month
----------------------	-----------

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
------------------------	-----------

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. Brazil's attractiveness as a destination for FDI has been greatly enhanced by its increasing trade integration both with developing and developed countries. Furthermore, improvements in infrastructure and a sophisticated financial market have also contributed to boosting the business environment. Nevertheless, capital controls designed to mitigate an appreciation of the Real will pose a constraint over the short term, while corruption and bureaucracy remain problematic.

### 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

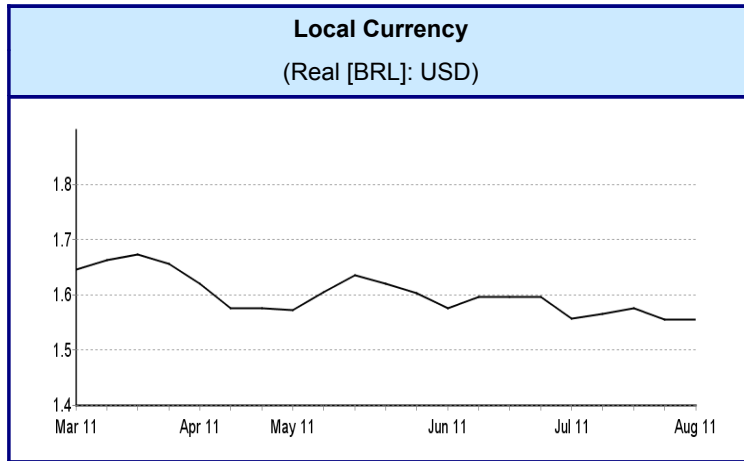
### Economic Indicators

	2008	2009	2010e	2011f	2012f
<b>Real GDP growth, %</b>	5.2	-0.7	7.5	4.5	5.0
<b>Inflation, annual ave, %</b>	5.6	4.9	4.9	6.2	6.0
<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

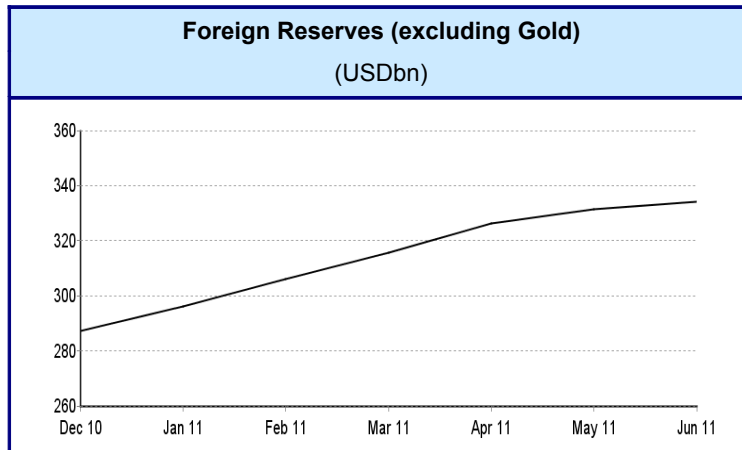
<b>Exchange Rates</b>	
(London, 25 Jul 11)	
EUR	2.2342
GBP	2.5368
JPY*	1.9848
USD	1.5552
*(x 100)	



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

	Mar 11	Apr 11	May 11	Jun 11	Jul 11	Aug 11
<b>Week 1</b>	1.645	1.619	1.573	1.576	1.557	1.555
<b>Week 2</b>	1.663	1.575	1.604	1.596	1.566	
<b>Week 3</b>	1.673	1.575	1.636	1.597	1.576	
<b>Week 4</b>	1.656		1.620	1.596	1.555	
<b>Week 5</b>			1.602			

### Foreign Reserves (excluding Gold)



**Data Table**

Dec 10	Jan 11	Feb 11	Mar 11	Apr 11	May 11	Jun 11
287.1	296.3	306.0	315.6	326.4	331.4	334.1

## Risk Factor

The central bank raised its benchmark interest rate by 25 basis points (bp) to 12.5% at its July monetary policy meeting, meaning that the bank has now raised interest rates by 175bp so far this year. The central bank has been tightening monetary policy in response to significant inflationary pressures (resulting from rising domestic liquidity and a rapid rise in private credit).

However, there are signs that economic activity could be stalling as a result of easing global demand for Brazil's commodity exports (notably iron ore) and the tighter fiscal and monetary policies being pursued by the government and the central bank respectively. Stock market activity eased markedly over June, with the benchmark BOVESPA stock index falling by 2.9% year on year (y/y); several medium-sized companies have decided to postpone IPOs as a result of lower demand. Furthermore, the government is putting pressure on state oil company Petrobras to limit expenditure on its offshore oil exploration and production facilities, meaning that the rapid increase in oil sector investment seen over 2010 will be less of a stimulus for the economy over 2011. Inflation also appears to be easing; the CPI inflation rate fell to 0.2% month on month (m/m) in June, down from 0.5% in May as tighter fiscal and monetary policy begin to have an effect. Nevertheless, y/y inflation remained high at 6.7% in June, although we expect this to ease over the second half of the year.

Easing inflation and the need to temper the appreciation of the Real mean the the central bank is likely to pause in its monetary tightening cycle for the next few months. The Real has continued on its appreciating trajectory over June-July partly as a result of carry trade, whereby foreign investors borrow in lower-yielding currencies such as the US dollar or euro and invest in higher-yielding currencies such as the Real. Therefore there is a strong possibility that the government could further tighten capital controls in order to discourage speculative foreign capital inflows. In 2010, the government increased its Financial Transaction Tax (IOF, which is charged to foreign investors when they purchase Real-denominated bonds) from 2% to 6%, while the central bank has also increased the level of bank reserve requirements. The government is now pondering increasing taxes on currency futures and other derivatives. However, while capital controls will have some effect, this will be limited owing to the fact that Brazil has the highest interest rates in the G20 (meaning it will continue to attract speculative capital in the absence of marked monetary tightening in the US, euro zone and elsewhere). The strength of the currency will continue to undermine Brazil's export competitiveness and will increase the cost of operating in Brazil in foreign currency terms.

## 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

## Customer Service & Support

© Copyright 2010 Dun & Bradstreet - Provided subject to the terms and conditions of your contract.

### D&B Country Risk Services

For information relating to D&B's Country Risk Services.

#### UK

Telephone: 01628 492700

Fax: 01628 492929

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

#### USA Inquiry

Telephone: 1-800 234-3867 option 1, 1 and then 2

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

#### Rest of World

Telephone: +44 1628 492700

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

### D&B Customer Services

For all other information or queries relating to D&B products and services.

#### UK

Telephone: 0870 243 2344 (UK) / 1 890 923296 (IR)

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

#### USA

Telephone: 1-800 234-3867 option 1, 1 and then 2

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

#### Rest of World

You can contact your local D&B Customer Services departments by clicking [here](#).

Whilst D&B attempts to ensure that the information provided is accurate and complete, by reason of the immense quantity of

detailed matter dealt with in compiling the information and the fact that some of the data are supplied from sources not controlled by D&B which cannot always be verified, including information provided direct from the subject of enquiry as well as the possibility of negligence and mistake, D&B does not guarantee the correctness or the effective delivery of the information and will not be held responsible for any errors therein or omissions therefrom.

© Dun & Bradstreet Inc., 2010.



Decide with Confidence