Decide with Confidence

D&B Country RiskLine Report

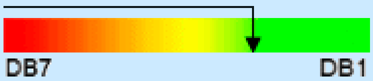
BRAZIL

Region : The Americas

Edition : May 2013

D&B Country Risk Indicator

DB3d



This "DB" Rating Indicates:

Slight risk

Enough uncertainty over expected returns to warrant close monitoring of country risk. Customers should actively manage their risk exposures.

Trend

Stable

The country's overall risk profile has not changed appreciably, even though some minor changes to its political, commercial, economic and/or external risk environment may have occurred

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

Population:	196.9m
Surface area (sq km):	8,514,880
Capital:	Brasilia
Timezone:	GMT -03:00
Official language:	Portuguese
Head of state:	President Dilma Vana ROUSSEFF
GDP (USD):	2.4trn
GDP per capita (USD):	12,374
Life expectancy (years):	71
Literacy (% of adult pop.):	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

Minimum Terms:	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.

Recommended Terms:	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.

Usual Terms:	60-90 days

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

Transfer Situation

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.

Trade & Commercial Environment

In April, Brazil's inflow of USD exceeded its outflow for the second straight month on account of record grain harvests this year. A net inflow of USD3.5bn was recorded for April, and the trend looks set to continue with net inflow of USD735m in the first three days of May. The central bank has attributed these surpluses to exporters securing advanced payment for their harvests, which will improve the trade balance in the near term. In addition, the recent sale of USD750m of the government's 2023 USD-denominated global bond will positively impact the financial accounts in the next few months. As expected, foreign reserves remained solid at USD378.66bn at end-April, up from USD376.93bn at end-March and US328.06bn one year earlier.

Export Credit Agencies

US Eximbank	Full cover available
Atradius	ST cover available
ECGD	ST cover available, restricted MT cover
Euler Hermes UK	Full ST cover available

Economic Indicators

	2010	2011	2012	2013f	2014f
Real GDP growth, %	7.5	2.7	0.9	3.1	3.5
Inflation, annual ave, %	4.9	6.2	5.3	5.5	5.2
Govt balance, % GDP	-2.7	-2.6	-2.2	-1.9	-1.9
Unemployment, %	6.7	6.4	5.9	5.8	7.0
C/A balance, % GDP	-2.3	-2.5	-4.2	-3.0	-1.8

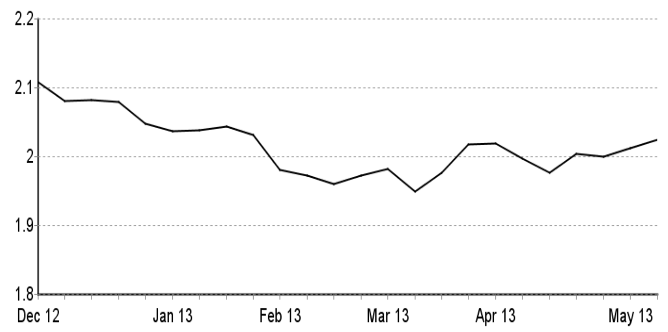
Inflation is measured by the IPCA Index

Currency Information

Exchange Rates (London, 13 May 13)	
EUR	2.6258
GBP	3.1081
JPY*	1.9888
USD	2.0242
*(x 100)	

Local Currency

(Real [BRL]: USD)

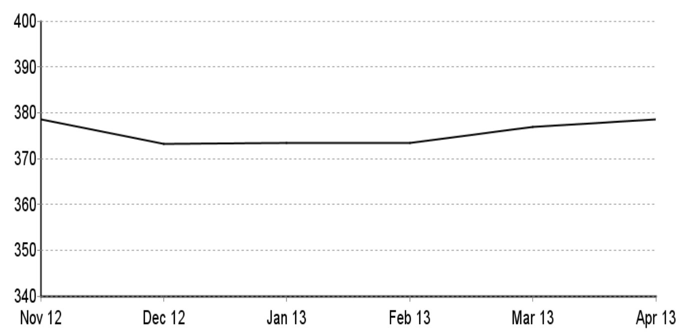


Local Currency (Real [BRL]: USD)						
	Dec 12	Jan 13	Feb 13	Mar 13	Apr 13	May 13
Week 1	2.108	2.036	1.981	1.981	2.018	2.012
Week 2	2.080	2.037	1.971	1.949	1.996	2.024
Week 3	2.081	2.043	1.959	1.976	1.977	
Week 4	2.079	2.031	1.972	2.016	2.004	
Week 5	2.048				1.999	

Foreign Reserves (excluding Gold)

Foreign Reserves (excluding Gold)

(USDbn)



Data Table					
Nov 12	Dec 12	Jan 13	Feb 13	Mar 13	Apr 13
378.6	373.1	373.4	373.4	376.9	378.6

Risk Factor

The central bank raised its benchmark interest rate, the Selic, by 25 basis points to 7.50% on April 17th despite the current sluggish economic recovery. This was the first rate hike in nearly two years. Moreover, the bank’s monetary policy committee sent a strong signal that it is likely to continue this tightening cycle to combat what it referred to as ‘resilient’ inflation. Annual inflationary pressures eased in April for the first time in almost a year. Despite the 0.55% month-on-month (m/m) increase in April (up from 0.47% m/m in March) the 12-month inflation rate eased to 6.49% from 6.59% one month earlier. Food prices continue to be a primary driver of the inflation rate in addition to a sharp increase in the price of medicines in March. The current inflation rate is barely within the central bank’s target range of 4.5% (+/-2%) for 2013. D&B expects increased government spending, demand for higher wages and strong consumer demand to place additional pressures on domestic inflation and prompt additional hikes in the Selic by year-end.

Meanwhile, economic activity slowed sharply in February with a 0.52% decline in the Economic Activity Index, following a 1.43% rise in January. In addition, industrial production contracted by 2.5% in February according to official statistics. On a positive note, in annual terms economic activity rose by 0.87% y/y in February. On the external side, deterioration was also recorded for the first two months of 2013. At end-February the 12-month trade balance fell to USD13.7bn from USD16.7bn at end-January and USD28.60bn one year earlier. The year-to-date deterioration is largely attributable to exports contracting by 13.7% m/m and 7.1% y/y in February, while imports declined by 1.5% y/y despite a 3.1% m/m rise in February. Worryingly, in contrast to previous years, central bank projections suggest that (for the first time in twelve years) annual foreign direct investment (FDI) will not offset the year’s current account deficit. USD6.6bn is the estimated current account deficit for February, compared with USD3.8bn in FDI for the month. While the official projection for FDI for 2013 is USD65bn, the central bank recently increased its forecast for this year’s current account deficit from USD65bn to USD67bn (USD2bn above expected direct investment inflows).

Elsewhere, Roberto Azevedo, a Brazilian diplomat, was elected as the Director General of the World Trade Organisation, defeating the Mexican candidate Herminio Blanco. This is the first time that the position has been held by a South American. The win is being hailed as indicative of Brazil’s growing importance as an economic power and acknowledgement of emerging markets as active participants in global economic leadership.

Glossary & Definitions

DEFINITIONS

Minimum Terms:

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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:

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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

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You can contact your local D&B Customer Services departments by clicking here.

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