



Decide with Confidence

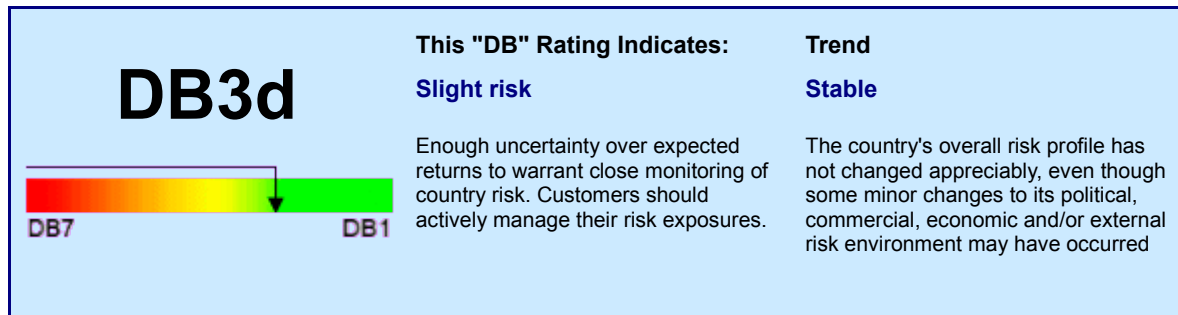
## D&B Country RiskLine Report

# BRAZIL

Region : The Americas

Edition : April 2012

### 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
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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

Following a long-running dispute with Mexico, the Brazilian government has succeeded in forcing the Mexican authorities to limit automotive exports to Brazil to an average of USD1.55bn over the next three years. Brazil's demand came after imports from Mexico surged by 70% in 2011. This sets an uncomfortable precedent for exporters to Brazil, who could face higher import duties following representations to the WTO by Brazilian trade negotiators who want to raise the 35% tariff ceiling authorised by the trade body. Finance Minister Guido Mantega has warned that Brazil plans to make unspecified hikes in import duties on up to 100 products under WTO rules. Shippers to Brazil will therefore need to keep a close eye on policy announcements.

### 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

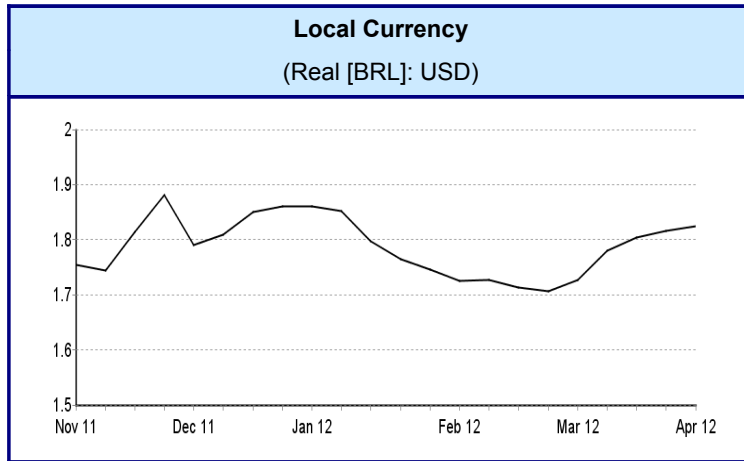
### Economic Indicators

	2009	2010	2011	2012f	2013f
<b>Real GDP growth, %</b>	-0.3	7.6	2.7	3.5	5.0
<b>Inflation, annual ave, %</b>	4.9	4.9	6.2	6.0	6.5
<b>Govt balance, % GDP</b>	-3.4	-1.2	-0.8	-1.4	-2.9
<b>Unemployment, %</b>	8.1	6.7	6.4	6.5	7.0
<b>C/A balance, % GDP</b>	-1.5	-2.3	-2.5	-3.5	-2.4

Inflation is measured by the IPCA Index

### Currency Information

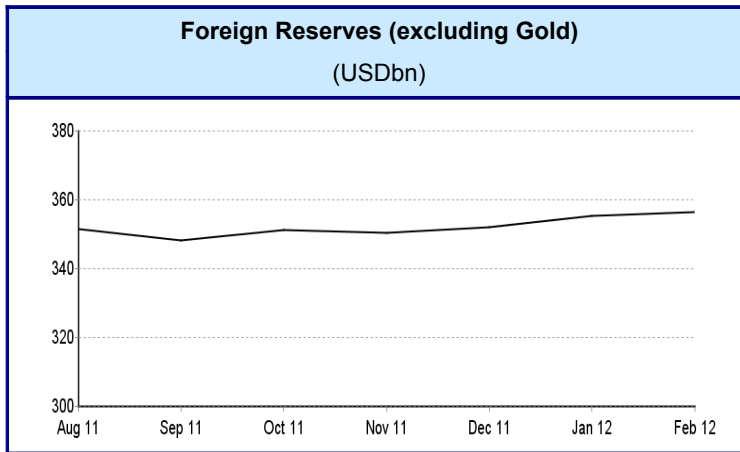
<b>Exchange Rates</b>	
(London, 26 Mar 12)	
EUR	2.4087
GBP	2.881
JPY*	2.2053
USD	1.8161
*(x 100)	



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

	Nov 11	Dec 11	Jan 12	Feb 12	Mar 12	Apr 12
<b>Week 1</b>	1.754	1.790	1.860	1.724	1.727	1.824
<b>Week 2</b>	1.743	1.809	1.852	1.727	1.781	
<b>Week 3</b>	1.814	1.850	1.796	1.713	1.803	
<b>Week 4</b>	1.881	1.860	1.765	1.706	1.816	
<b>Week 5</b>			1.746			

**Foreign Reserves (excluding Gold)**



**Data Table**

Aug 11	Sep 11	Oct 11	Nov 11	Dec 11	Jan 12	Feb 12
351.4	348.0	351.1	350.2	352.0	355.1	356.3

## Risk Factor

Underscoring the prudent policies followed by the central bank and regulatory agencies in recent years, a joint IMF/World Bank delegation has produced a favourable assessment under the Financial Sector Assessment Program (FSAP) established in 1999 to provide an in-depth analysis of a country's financial sector. Following their assessment visit in early March, the Bretton Woods institutions found that the financial system benefits from high capital buffers, underpinning low systemic risk. According to the most recent data from the IMF's Financial Soundness Indicators database, covering the period to end-Q3 2011, Brazil's aggregate Tier 1 capital asset ratio was 12.9%, more than double the 6.0% required by the new Basel III Accords. This level of capital adequacy will help the sector cope with adverse credit events such as the bankruptcy of Centrais Eletricas do Para (Celpa), part of the Rede Energia group, in March, which Fitch expects to have only a small impact on Brazil's banking system.

One reason for the strength of the financial sector is the authorities' use of pragmatic macro-prudential policies aimed at coping with volatile capital inflows and rapid domestic credit growth. In addition to strict regulation of the banking sector and a strong, cross-functional supervisory system, the authorities have employed a range of measures to ensure market stability and preserve confidence. These include improved transparency and disclosure standards and the implementation of risk-based supervision. Moreover, in insurance, solvency requirements are more risk-sensitive and public disclosure extensive. Nevertheless, capital market development continues to be impeded by high interest rates and the short duration of most financial instruments. In addition, the role of institutional investors remains limited. President Dilma Rousseff's government is taking action to encourage the domestic supply of private sector securities of longer duration by extending a 6% tax on foreign loans and bonds issued abroad by local entities with a maturity of up to five years (this also aims to weaken the Real).

The extension of the tax on 12 March followed an announcement on 1 March that loans and bonds of up to three years' duration would be covered by the tax. In addition, the central bank, Banco Central do Brasil, also announced an aggressive acceleration of interest rate cuts in March, reducing the benchmark Selic rate by 75 basis points, to 9.75%. This is only the second time rates have been below 10.00% since the adoption of inflation targeting in 1999. Forward Rate Agreements continue to indicate that the Selic will bottom out at 9.00% in the next three to four months. The rate cut and extension of the transaction tax has helped depress the real to around BRL1.8:USD, which we believe the central bank has been targeting informally.

## 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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