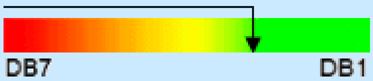
D&B Country RiskLine Report

BRAZIL

Region : The Americas
Edition : January 2014

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

Deteriorating

The country's overall risk profile is deteriorating owing to adverse political, commercial, economic and/or external developments

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

The Real continued to be supported by central bank intervention in the FX market. The currency traded at BRL2.3783 on 6 January as global demand fell below expectations in December. We expect the bank to continue to intervene in the market, albeit on a smaller scale, through foreign currency swaps to enable investors to hedge against a possible further weakening of the Brazilian currency. Although the central bank's international reserves decreased to USD362.41bn in November 2013 from USD364.50bn in the previous month, this level continues to provide an adequate buffer against moderate external shocks. D&B anticipates low cross-border payment risks for the outlook period and recommends SD as minimum terms.

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

	2011	2012	2013	2014f	2015f
Real GDP growth, %	2.7	0.9	2.5	2.6	3.0
Inflation, annual ave, %	6.6	5.4	6.3	5.8	5.5
Govt balance, % GDP	-2.5	-2.7	-3.0	-3.2	-3.2
Unemployment, %	6.0	5.5	5.4	5.1	5.0
C/A balance, % GDP	-2.1	-2.4	-3.8	-3.2	-3.3

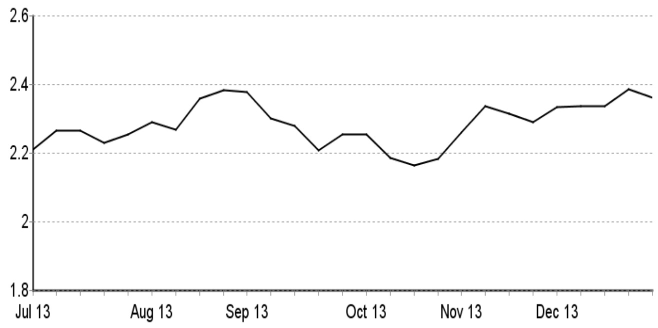
Inflation is measured by the IPCA Index

Currency Information

Exchange Rates (London, 06 Jan 14)	
EUR	3.2339
GBP	3.9054
JPY*	2.2737
USD	2.3755

*(x 100)

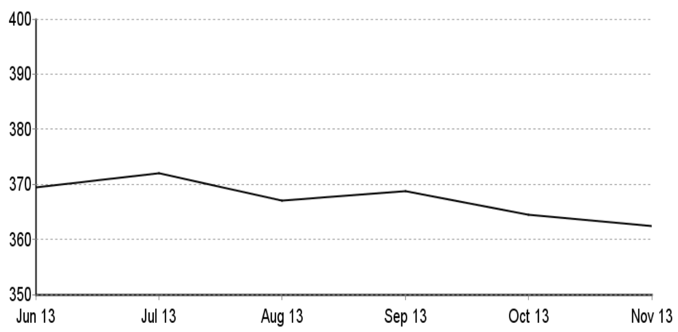
Local Currency (Real [BRL]: USD)



	Local Currency (Real [BRL]: USD)					
	Jul 13	Aug 13	Sep 13	Oct 13	Nov 13	Dec 13
Week 1	2.209	2.288	2.377	2.254	2.260	2.333
Week 2	2.265	2.268	2.301	2.186	2.337	2.335
Week 3	2.264	2.358	2.278	2.162	2.314	2.337
Week 4	2.228	2.382	2.207	2.183	2.290	2.384
Week 5	2.253		2.254			2.360

Foreign Reserves (excluding Gold)

Foreign Reserves (excluding Gold) (USDbn)



Data Table					
Jun 13	**Jul 13**	**Aug 13**	**Sep 13**	**Oct 13**	**Nov 13**
369.4	371.97	367.0	368.7	364.5	362.4

Risk Factor

We believe that real GDP in 2013 expanded by 2.2% (up from 0.9% posted in 2012) as the economy exhibited a lackluster performance largely due to a less supportive external environment and internal supply-side constraints. This underscores the inefficacy of the government's fiscal choices, which include tax incentives and higher spending to prise the economy out of its malaise. In the lead up to the presidential election, the incumbent, Dilma Rousseff, has committed to introducing political and social reforms (such as those on healthcare and education), and to stamping out corruption. However, it is doubtful whether the breadth and scope of these moves, if implemented, will effectively tackle core issues, such as rigidities in the labour market, infrastructural inadequacies, institutional weaknesses and other capacity constraints. Investor confidence is waning as evidence mounts that the economy is stagnating. Indeed, it is extremely unlikely that the necessary hard fiscal measures with be adopted in the lead-up to presidential and congressional elections in October 2014, as the government seeks to woo unconvinced voters of its ability to meet their needs. Against this backdrop, we reiterate our belief that political risks will continue to be elevated in the near term. Therefore, we urge firms to closely monitor developments and to implement contingency plans in order to limit disruption to operations. We expect real GDP growth of 2.3% in 2014.
In November, the central bank's board voted unanimously to raise the overnight rate (selic) by 50 basis points to 10.0%. This is the sixth consecutive hike and the rate's highest level since March 2012, and comes against a backdrop of government spending and a weaker Real. We believe that the tightening cycle will extend into Q1 2014, keeping the selic in double-digit territory, and among the highest policy rates in the region and key emerging economies. Rising production costs (exacerbated by a weaker currency) will erode competitiveness and, combined with lower external demand, will exert pressure on the profitability of firms, particularly those operating in the manufacturing sector.

Meanwhile, Brazil's trade balance for 2013 posted its worst performance in 13 years; this is because demand for imported consumer goods rose by 3.2% year on year, the value of fuel purchases surged, commodity prices softened and global growth cooled. The trade surplus for 2013 stood at USD2.56bn as imports grew by 6.5% to USD 240bn, while exports declined by 1.0% to USD242bn, according to the Trade Ministry. The government projects a more robust trade balance for 2014 on the back of higher oil production and expectations of a good grains harvest. The government has provided subsidies to exporters of manufactured goods. However, they remain less competitive than their regional peers in view of Brazil's consistently higher operating costs.

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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