dun&bradstreet

Country Insight Snapshot
Brazil
February 2019

OVERVIEW

OVERALL COUNTRY RISK RATING: DB4c

Moderate risk: Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

A

Rating Outlook: Improving ↗

CORE OUTLOOK

+ Provided Brazil implements structural reforms, it will remain among the world's most attractive investment destinations.

+ Given promising demographic data and the expanding middle class, we believe Brazil's human capital will increase significantly in the long term.

+ Brazil will continue to enjoy huge natural wealth.

- Without fundamental reform, profitability for the foreseeable future will be affected by protectionism, a burdensome tax regime and infrastructure barriers.

KEY DEVELOPMENT

Subdued consumer price inflation will help keep the policy rate at its lowest level in H1, but gradual tightening from the start of H2 could occur as economic activity accelerates.

CREDIT ENVIRONMENT OUTLOOK   **A**

Trend: Stable →

Key Development has had a positive impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK   **A**

Trend: Stable →

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK   **A**

Trend: Stable →

Key Development has had a positive impact on the outlook.
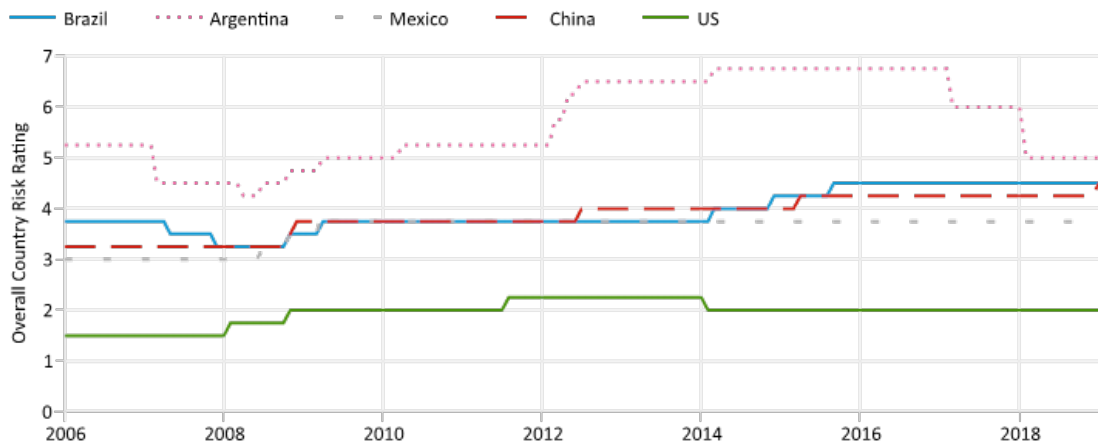
POLITICAL ENVIRONMENT OUTLOOK   **A**

Trend: Stable →

Key Development has had a neutral impact on the outlook.
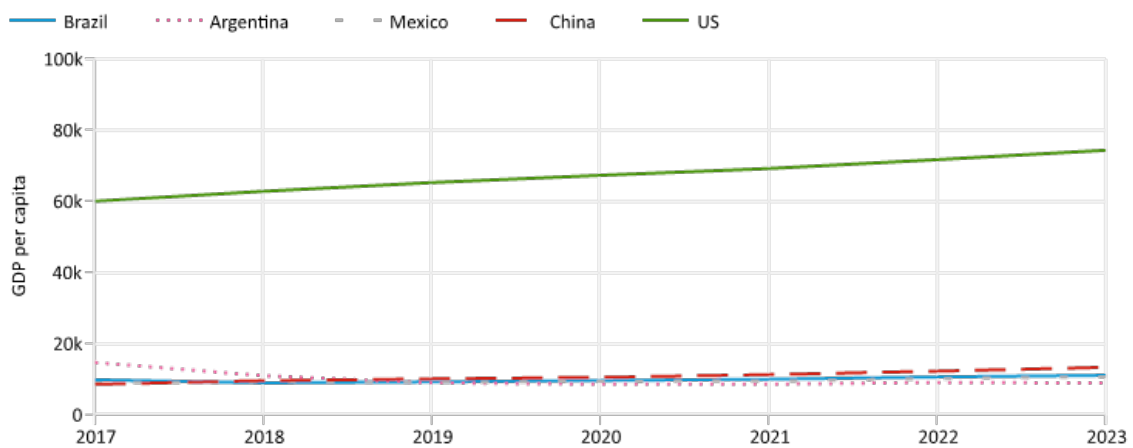
KEY INDICATORS

Rating History and Comparison
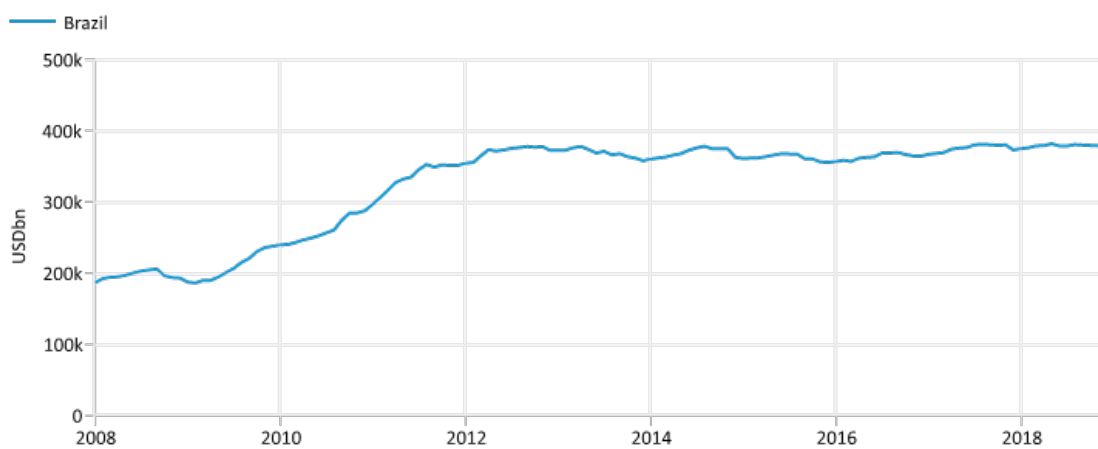

Source : Dun & Bradstreet

Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons

Source : Haver Analytics/Dun & Bradstreet

Foreign Reserves (Excluding Gold)

Source : International Monetary Fund/Haver Analytics

Economic Indicators

Indicator	2016	2017	2018e	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	-1.3	-0.3	-0.8	-1.3	-1.7	-2.3	-2.5	-2.8
Govt balance, % GDP	-9.0	-8.0	-7.2	-5.8	-5.0	-5.1	-5.4	-5.5
Inflation, annual avge %	8.7	3.4	3.7	4.0	3.9	3.9	3.9	3.8
Real GDP Growth, %	-3.5	1.0	1.2	2.3	2.4	2.5	2.4	2.3
Unemployment, %	12.0	11.9	12.2	11.5	10.0	10.2	10.0	9.8

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

On 6 February the central bank held its benchmark interest rate, the Selic, at 6.50% (its lowest level) as the monetary policy committee cited an easing in inflationary risk since its meeting in December. The mid-point of the bank's inflation target has been lowered by 25 basis points, to 4.25% in 2019. The Real has strengthened against the dollar since September and the US Federal Reserve's recent dovish tone will keep short-term interest rate differentials with the US stable and relieve some pressure on the Real. Our baseline forecast is for the Selic to remain low in H1, although gradual tightening could commence at the beginning of H2 as economic activity accelerates. FX reserves stood solid at USD374.72bn in December to provide good currency protection and solid import coverage. Pending approval by Congress, Roberto Campos Neto, a former trader and treasury executive, is expected to succeed Ilan Goldfajn as governor of the central bank by end-March. Campos is expected to implement policies that maintain the bank's credibility, which improved markedly under Goldfajn's leadership.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: SD
The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: LC
Dun & Bradstreet'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.

**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.
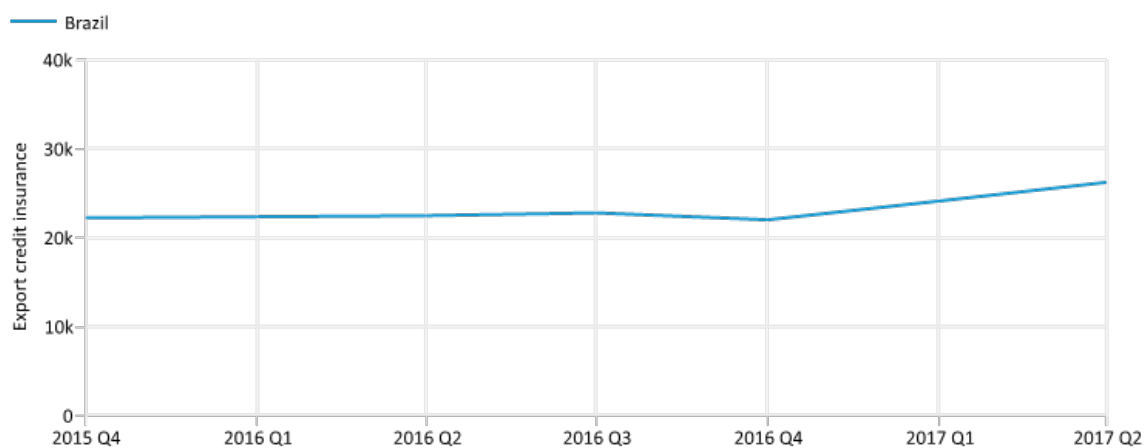
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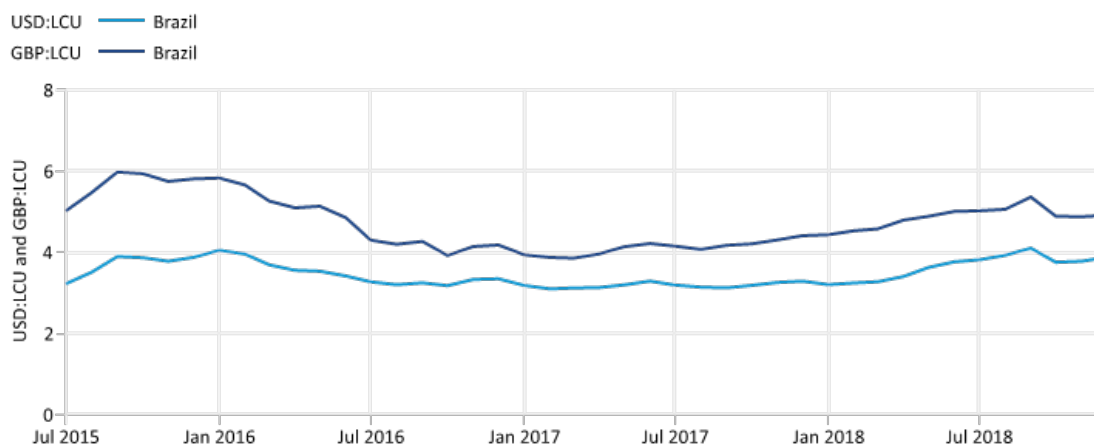
Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Brazilian Real

Credit Conditions

Source : Export Credit Agencies

Insured export credit exposures, USDm

RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Inflation to remain subdued

Consumer prices are expected to remain tame in H1 following subdued inflation in December. Headline inflation ended the year at 3.75%, well below the central bank's 2018 mid-point target of 4.5%. The main contributors to the fall in prices in the past few months were lower transportation prices (on the back of a significant oil price decline) and lower electricity prices. We estimate average consumer price inflation for 2018 at 3.65%, but expect headline inflation to accelerate to 4.2% in 2019 as economic activity accelerates.

Meanwhile, the recovery gained more traction as growth surprised on the upside in Q3. Recently-released data put real GDP growth at 0.8% q/q in seasonally-adjusted terms and 1.3% y/y. Lower interest rates and a steady fall in the jobless rate supported household credit demand, which was a main contributor to Q3 growth. While the fiscal spending cap has restrained government consumption, significant capital investment in the hydrocarbon sector gave a major boost to gross fixed investment, which spiked to its highest level since Q4 2015. Intermediate goods production will remain under pressure as Argentina, a major trade partner, records a second consecutive year of negative growth in 2019. We estimate growth of 1.2% for 2018 and project an acceleration to 2.3% in 2019.

Political/Insecurity Risk

Allies take leading congressional roles

Government allies secured leadership positions in the upper and lower houses of Congress on 1 February, auguring well for the Bolsonaro administration's legislative agenda. In an upset, Davi Alcolumbre of the centre-right DEM beat the incumbent Renan Calheiros of the centrist MDB in a fiercely-fought Senate leadership race. In contrast, Rodrigo Maia of the DEM handily won the vote for leader of the House of Deputies (the lower house).

Since the start of his term on 1 January, President Bolsonaro's mixed policy messages have raised investor concerns about the government's willingness and ability to implement key structural reforms. Bolsonaro is expected to propose a gradual rise in the retirement age, rather than the much deeper - albeit extremely unpopular - pension reforms that are needed to stop pension benefits from ballooning to 18% of GDP in the next few years. If uncontained, pension obligations will widen the fiscal deficit even further and raise concerns about public debt sustainability.

Though a divisive figure in Brazilian politics because of his stance on minorities and the use of the military to address the country's seemingly-intractable crime problem, Bolsonaro is expected to seek cross-party support for his agenda. He campaigned on a hardline approach to corruption in public office and crime and has appointed Sergio Moro, a federal judge who led the prosecution in the historic Lava Jato corruption trials, as the new Minister of Justice and Security.

COUNTRY PROFILE AND STATISTICS

Overview

Brazil is the largest country in South America by both land mass 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 and a large labour pool. The primary sector, as well as manufacturing and services, are among its key economic drivers.

Despite its endowments, economic expansion is constrained by several institutional and structural factors. The onerous and complex tax system supports a bloated public sector, discouraging greater levels of private investment. In addition, income distribution is highly unequal, contributing to the country's elevated rate of violent crime (and occasional large-scale social disorder). Moreover, the political environment is highly fragmented, with a large number of parties represented in the national legislature. As a result, governance relies heavily on consensus-building, which encourages corruption and hinders reform.

Key Facts

Key Fact	Detail
Head of state	President Jair Messias BOLSONARO
Capital	Brasilia
Timezone	GMT -03-00
Official language	Portuguese
Population (millions)	209.2
GDP (USD billions)	1,883.6
GDP per capita (USD)	9,003
Life expectancy (years)	75.3
Literacy (% of adult pop.)	92.0
Surface area (sq km)	8,514,880

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2014	2015	2016	2017	2018e
Real GDP growth (%)	0.5	-3.6	-3.5	1.0	1.2
Nominal GDP in USDbn	2,459	1,813	1,796	2,054	1,884
Nominal GDP in local currency (bn)	5,779	6,001	6,267	6,553	6,875
GDP per Capita in USD	12,128	8,866	8,713	9,892	9,003
Population (year-end, m)	202.8	204.5	206.1	207.7	209.2
Exchange rate (yr avge, USD-LCU)	2.4	3.3	3.5	3.2	3.7
Current Account in USDbn	-104.2	-59.4	-23.5	-5.5	-15.6
Current Account (% of GDP)	-4.2	-3.3	-1.3	-0.3	-0.8
FX reserves (year-end, USDbn)	363.6	354.2	365.0	374.0	374.7
Import Cover (months)	11.4	14.6	18.0	16.9	15.1
Inflation (annual avge, %)	6.2	9.0	8.7	3.4	3.7
Govt Balance (% GDP)	-5.4	-10.3	-9.0	-8.0	-7.2

Source : Haver Analytics/Dun & Bradstreet

Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	2.3	2.4	2.5	2.4	2.3
Nominal GDP in USDbn	1,956	2,053	2,142	2,294	2,410
Nominal GDP in local currency (bn)	7,375	7,882	8,310	8,945	9,520
GDP per Capita in USD	9,285	9,677	10,034	10,680	11,152
Population (year-end, m)	210.7	212.1	213.5	214.8	216.1
Exchange rate (yr avge, USD-LCU)	3.8	3.8	3.9	3.9	4.0
Current Account in USDbn	-25.9	-34.0	-49.6	-56.9	-67.3
Current Account (% of GDP)	-1.3	-1.7	-2.3	-2.5	-2.8
FX reserves (year-end, USDbn)	378.5	382.2	383.0	384.9	386.9
Import Cover (months)	14.2	13.4	12.5	11.6	11.0
Inflation (annual avge, %)	4.0	3.9	3.9	3.9	3.8
Govt Balance (% GDP)	-5.8	-5.0	-5.1	-5.4	-5.5

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Brazil	Argentina	Mexico	China	US
Income per Capita (USD)	9,285	9,008	9,128	10,135	65,308
Country Population (m)	210.7	45.1	125.9	1,420.1	329.1
Internet users (% of population)	59.7	70.2	59.5	53.2	76.2
Real GDP Growth (% p.a., 2019 - 2028)	1.0 - 2.0	1.5 - 2.8	2.5 - 5.0	4.5 - 6.5	1.8 - 2.5

Source : Various sources/Dun & Bradstreet

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