

Country Insight Snapshot

Brazil

July 2022





Overall Country Risk Rating: DB5a

Last change: March 2022



High risk: Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high return transactions only.

Rating Outlook: Stable

WorldWatch Headline

President Bolsonaro's claim that electronic voting is vulnerable to fraud heightens concerns that the October presidential election results will be bitterly disputed, leading to increased political risk.

Recent Changes

- Political risk heightens in anticipation of pre-poll violence and a contested election.
- We have upped our 2022 GDP forecast to 1.5%, but foresee slower growth ahead for the rest of the year, and have thus downgraded the short-term economic outlook.
- Annual inflation eased slightly in June, but still rose 12% from a year ago, with the biggest monthly impact coming from food and beverage prices.
- Political pressure forced the federal oil company Petrobras to cut gasoline prices at its refineries by about 5%, the first price cut since late 2021.

Events to Watch

- Further hikes in the BCB's policy rate (SELIC) in 2022 will further increase borrowing and debt-servicing costs and weigh on growth.
- Political/insecurity risks remain elevated ahead of presidential elections in October.
- Proposed changes to the corporate tax regime will avoid double taxation, and prevent tax avoidance through the transfer of profits to other locations.

Call to Action

- Note that because Brazil is a net exporter of crude oil, industrial metals and agricommodities, a prolonged war in Ukraine is an economic boon.
- Take account of high energy costs and higher financing and debt-servicing costs when business planning.
- Expect policy-making, particularly pertaining to taxation and administrative reforms, to grind to a halt as election campaigning heats up.



Country Insight Headlines

Credit Environment

Score: DB5a



Last change: July 2022 (DB4d→DB5a)

Rating Outlook: Deteriorating

Risks and Opportunities

- The credit environment score has been downgraded to DB5a on a 'stable' trend: due to slowing growth momentum, and aggressive monetary tightening is driving up borrowing and debt-servicing costs.
- Annual inflation eased slightly in June, but still rose 12% from a year ago, with the biggest monthly impact coming from food and beverage prices.
- The government is considering a welfare package including a payout for truckers, benefits for taxi drivers, and increases in social welfare payments, which will put pressure on the fiscal balance.
- The rapid deforestation in the Amazon could increase carbon emissions, lower regional rainfall, and have negative implications for biodiversity and forest-dependent people.

Trade Terms

Description	
Minimum Terms	SD
Recommended Terms	LC
Usual Terms	60-90 days

Source: Dun & Bradstreet

Note: OA: Open Account; SD: Sight Draft (Documentary Collection); LC: Letter of Credit; CLC: Confirmed Letter of Credit; CiA: Cash in Advance.

Export Credit Cover

Agency	Cover
US Eximbank	Full cover available
Eksport Kredit Fonden	Full cover available, conditions apply
ECGD	Full cover available
Euler Hermes AG	Full cover available

Source: Export Credit Agencies

Call to Action

- Expect firms in the oil, minerals and agricultural sectors to record higher export earnings as a result of increased demand and prices triggered by the war in Ukraine.
- Conversely, assess the effect on production processes of higher imported input costs and reduced availability.
- Assess the impact of higher financing costs as the BCB continues to hike the policy rate.
- Make sure to [conduct due diligence against risks](#) in procurement processes.



Supply Environment

Score: DB6a

Last change: July 2022 (DB5d→DB6a)



Rating Outlook: Stable

Risks and Opportunities

- Our supply environment score has been downgraded to DB6a due to the increase in political risk score.
- In May, IPI taxes on industrial goods were cut by 35% to help stimulate the economy.
- Brazil imports the largest chunk of nitrogen fertilisers from Russia, which are under threat following the sanctions on Russia.
- Brazil has been reporting a daily average of deaths caused by Covid-19 above 200, with an upward trend.
- The global shortage of semiconductors, which led to forced production cuts in the automotive sector in 2021, will continue until at least the end of 2022.

Call to Action

- Note that Congress has approved a cut in federal taxes on diesel and gasoline.
- Consider the impact of additional financial sanctions and export bans imposed by Russia and by the US and its western allies.
- Recall that labour disputes are frequent and could cripple supply chains, the agrisector and export-oriented industries.
- When managing supply chains, take account of Brazil's expansive geography and inconsistent quality of transport infrastructure across the country.



Market Environment

Score: DB5d

Last change: May 2022 (DB5c→DB5d)



Rating Outlook: Stable

Risks and Opportunities

- Proposed reforms to Corporate Income Tax (IRPJ) will reduce the current nominal corporate tax rate of 34% to 26%, more aligned to the OECD standard.
- Political pressure forced the federal oil company Petrobras to cut gasoline prices at its refineries by about 5%, the first price cut since late 2021.
- The BCB's aggressive monetary tightening will lead to further increases in borrowing and financing costs this year; the SELIC is at its highest rate since 2016.
- Brazil has increased its food exports to members of the League of Arab States during the first quarter of 2022.

Call to Action

- Be aware that monetary tightening will result in higher borrowing and debt-servicing costs through Q3, as the SELIC is hiked above its current level of 12.75%.
- Expect growth to slow to less than 1% in 2022 as inflation, higher borrowing costs and a slowdown in global growth weigh on the pace of recovery.
- Monitor fissures in Mercosur which stymie the bloc's ability to unlock the region's trade-related growth potential.



Political Environment

Score: DB4c



Last change: July 2022 (DB4b→DB4c)

Rating Outlook: Stable

Risks and Opportunities

- Political environment risk has been increased to DB4c in anticipation of a rise in political violence in the run-up to the election.
- Most opinion polls place former president Luiz Inacio Lula da Silva of the left-wing Workers' Party ahead of President Bolsonaro, the conservative Liberal Party candidate.
- Bolsonaro's assertion that electronic voting in Brazil is vulnerable to fraud heightens the risk of the 2022 presidential election results being bitterly disputed.
- Strong and independent institutions, and vociferous opposition parties, are a check on the president's more radical impulses, but he continues to test the limits of his power.

Call to Action

- Expect political and insecurity risks to remain elevated ahead of elections in October.
- Be aware that companies should take out insurance cover against cargo theft and unrest, as appropriate.
- However, note there is little need for expropriation insurance.
- Remember that trade unions are powerful, and strikes were frequent prior to the pandemic, which curbed public gatherings.



User Guide

User Guide

Please click [here](#) to visit our online user guide.

Other Dun & Bradstreet Products and Services

Sales

Email: countryinsight@dnb.com
Telephone
UK: +44 20 7149 5000
US: +1 800 234 3867
Rest of World
contact your local office
or call +44 20 7149 5000

Publisher

Dun & Bradstreet
The Point
37 North Wharf Road
London W2 1AF
United Kingdom
Tel: +44 20 7149 5000
Email: countryinsight@dnb.com

Dun & Bradstreet, a leading global provider of business decisioning data and analytics, enables companies around the world to improve their business performance. Dun & Bradstreet's Data Cloud fuels solutions and delivers insights that empower customers to accelerate revenue, lower cost, mitigate risk, and transform their businesses. Since 1841, companies of every size have relied on Dun & Bradstreet to help them manage risk and reveal opportunity. Visit www.dnb.com for details.

For further information on Country Insight Group products and services please visit:

UK: <https://www.dnb.co.uk/products/finance-credit-risk/country-insight-for-global-risk-management.html>

US: <https://www.dnb.com/products/finance-credit-risk/country-insight-for-global-risk-management.html>

Canada: <https://www.dnb.com/ca-en/products/finance-credit-risk/country-insight-for-global-risk-management.html>

Hong Kong: <https://www.dnb.com.hk/Country-Insights/page.htm>

Legal and Copyright Notices

While the editors endeavour to ensure the accuracy of all information and data contained in this Country Insight Report, neither they nor Dun & Bradstreet Limited accept responsibility for any loss or damage (whether direct or indirect) whatsoever to the customer or any third party resulting or arising therefrom.

© All rights reserved. No part of this publication may be reproduced or used in any form or by any means graphic, electronic or mechanical, including photocopying, recording, taping, or information storage and retrieval systems without permission of the publisher.

Disclaimer

Whilst Dun & Bradstreet attempts to ensure that the information provided in our country reports is as accurate and complete as possible, the quantity of detailed information used and the fact that some of the information (which cannot always be verified or validated) is supplied by third parties and sources not controlled by Dun & Bradstreet means that we cannot always guarantee the accuracy, completeness or originality of the information in some reports, and we are therefore not responsible for any errors or omissions in those reports. The recipients of these reports are responsible for determining whether the information contained therein is sufficient for use and shall use their own skill and judgement when choosing to rely upon the reports.