

Country Insight Snapshot

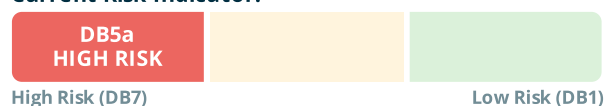
Brazil

January 2023



OVERALL COUNTRY/REGION RISK INDICATOR

Current Risk Indicator:



- Last change: March 2022 (DB4c → DB5a)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is **STABLE**

HIGH RISK Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high-return transactions only.

WorldWatch Headline

Corporates are concerned about Lula's interventionist approach as one of his first decrees as president ended privatisation plans of Petrobras.

Recent Changes

- In January, the finance minister unveiled a package aimed at improving the country's fiscal profile.
- Supporters of the former president, Jair Bolsonaro, who recently staged violent protests, will be an ongoing source of political tension for the Lula administration.
- Inflation eased for a sixth straight month in December, to 5.8%, as transportation prices declined steeply.
- President Lula will aim for more fiscal ammunition by amending the fiscal 'ceiling' law that only allows spending by the federal government to grow as much as inflation in the prior year.

Events to Watch

- The Central Bank of Brazil (BCB) again kept its policy rate (SELIC) unchanged at 13.75% in December as disinflation continued. The BCB is unlikely to begin cutting its key rate before H2 2023.
- Anticipated direct cash-transfer programmes, expansion in social housing and a debt-forgiveness programme under Lula will give the economy a short-term boost.
- President Lula may choose to slow down the drive for privatisation of the public sector and pension-sector reforms.
- Lula has promised to reach an agreement on the implementation of the EU-Mercosur trade agreement.

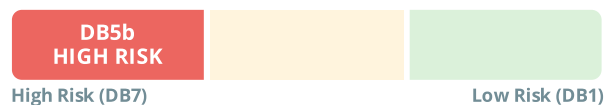
Call to Action

- Expect China's abandonment of its 'zero-Covid' policy to boost demand for Brazil's soybeans.
- Note that because Brazil is a net exporter of crude oil, industrial metals and agri-commodities, 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.
- Be aware that crucial tax and administrative reforms are now likely to be addressed in the June 2023 budget.

COUNTRY INSIGHT HEADLINES

CREDIT ENVIRONMENT

Current Risk Indicator:



- Last change: September 2022 (DB5a → DB5b)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is **STABLE**

HIGH RISK Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high-return transactions only.

Risks and Opportunities

- Brazil's inflation rate cooled to 5.8% in December from 5.9% in the previous month as transportation prices declined.
- The BCB kept the SELIC rate unchanged at 13.75% in December; we expect the BCB to hold until mid-2023 after which it will begin to cut its key interest rate.
- President Lula will aim for more fiscal ammunition by amending the fiscal 'ceiling' law that only allows spending by the federal government to grow as much as inflation in the prior year.
- Deforestation in the Amazon rainforest reached a record high for the first six months of the year, but the election of Lula as president will lead to a substantial change in Brazil's environmental agenda.

Trade Terms

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

Note: OA: Open Account; SD: Sight Draft (Documentary Collection); LC: Letter of Credit; CLC: Confirmed Letter of Credit; CIA: Cash in Advance. **Source:** Dun & Bradstreet

Export Credit Cover

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

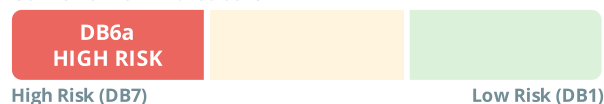
Source: Export Credit Agencies

Call to Action

- Expect firms in the oil, minerals and agricultural sectors to record higher export earnings as a result of increased demand, especially with China's abandonment of 'zero-Covid', and higher prices triggered by the war in Ukraine.
- However, assess the impact on production processes of higher imported input costs and reduced availability.
- Assess the impact of still-high financing costs as the BCB keeps its policy rate at 13.75%.
- Make sure to conduct due diligence against risks in procurement processes.

SUPPLY ENVIRONMENT

Current Risk Indicator:



- Last change: July 2022 (DB5d → DB6a)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is **STABLE**

HIGH RISK Expected returns subject to large degree of volatility. A very high expected return is required to compensate for the additional risk or the cost of hedging such risk.

Risks and Opportunities

- Sporadic anti-government demonstrations by pro-Bolsonaro protesters will create temporary disruptions to business operations in the Lula administration's first year.
- In May, taxes on industrial goods (IPIs) were cut 35% to help stimulate the economy.
- Brazil imports most of its nitrogen fertilisers from Russia; supplies are under threat following the sanctions on Russia.
- The global shortage of semiconductors, which led to forced production cuts in the automotive sector in 2021, has improved but will continue to disrupt the sector in 2023.

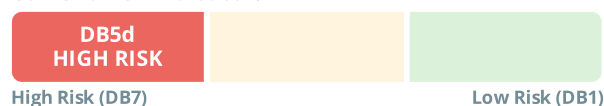
Call to Action

- Note that the government measures to lower diesel and gasoline will expire in February 2023.
- Consider the impact of financial sanctions and export bans imposed by Russia and by the US and its Western allies.
- Recall that labour disputes are frequent and may cripple supply chains, the agri-sector and export-oriented industries.
- Take account of Brazil's expansive geography and the inconsistent quality of transport infrastructure across the country, when managing supply chains.



MARKET ENVIRONMENT

Current Risk Indicator:



- Last change: January 2023 (DB5c → DB5d)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is **STABLE**

HIGH RISK Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high-return transactions only.

Risks and Opportunities

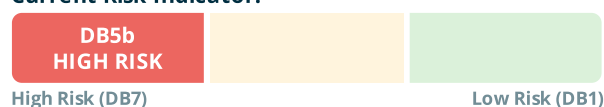
- One of Lula's first decrees as president was to end plans for the privatisation of Petrobras, which raises concerns that his administration will have a more interventionist policy.
- China's soybean imports from Brazil are expected to rise in the coming months, as abandonment of its 'zero-Covid' policy boosts demand.
- President Lula has committed to reaching an agreement on a trade deal between South America's Mercosur trade bloc and the European Union.
- Lula is expected to work on deepening bilateral ties with both China and the US.
- Proposed reforms to corporate income tax (IRPJ) will reduce the current nominal corporate tax rate of 34% to 26%, which is a rate more aligned to the OECD standard.
- A proposed new law will end mandatory inspections of meat production, which may result in chemical pollution and an increase in animal cruelty and could endanger staff health and safety.

Call to Action

- Be aware that high interest rates through mid-2023 will keep borrowing and debt-servicing costs elevated, as the BCB continues to hold the SELIC at its current level of 13.75%.
- Expect growth to slow to 1% in 2023 on the back of high inflation, elevated borrowing costs, and weaker domestic and external demand.
- Monitor fissures in Mercosur, which stymie the bloc's ability to unlock the region's trade-related growth potential.

POLITICAL ENVIRONMENT

Current Risk Indicator:



- Last change: November 2022 (DB4d → DB5b)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is **STABLE**

HIGH RISK Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high-return transactions only.

Risks and Opportunities

- The president's efforts to restore political control and purge the army of Bolsonaro loyalists after the January riots in Brasilia risk undermining his efforts to improve relations with the army.
- Lula's pragmatic approach is expected to yield cross-party support for the government's legislative priorities in the first year of government.
- It is expected that Lula will increase collaboration between Brazil and other governments with similar perspectives such as those in Argentina, Chile, Mexico and Colombia, as well as China and the US.
- The rise of resource nationalism is likely to result in higher tariffs on the mining sector.

Call to Action

- Prepare for privatisation to slow, and for increased government intervention in the markets under President Lula, who has socialist leanings.
- 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.

STATISTICAL REFERENCE

KEY INDICATORS AND FORECASTS

Historical Data/Forecasts

Metric	2018	2019	2020	2021	2022e	2023f	2024f	2025f	2026f	2027f
Real GDP growth (%)	1.8	1.4	-4.1	5.2	2.8	1	1.7	1.8	1.5	1.6
Nominal GDP in USDbn	1,917	1,873	1,449	1,609	1,884	1,983	2,116	2,222	2,333	2,447
Nominal GDP in local currency	7.0tn	7.4tn	7.5tn	8.7tn	9.7tn	10.4tn	11.0tn	11.6tn	12.1tn	12.7tn
GDP per Capita in USD	9,121	8,845	6,794	7,507	8,749	9,161	9,722	10,153	10,607	11,072
Population (year-end, m)	210.2	211.8	213.2	214.3	215.3	216.4	217.6	218.8	219.9	221
Exchange rate (yr avge, USD-LCU)	3.7	3.9	5.2	5.4	5.2	5.2	5.2	5.2	5.2	5.2
Current Account in USDbn	-54.8	-68	-28.2	-46.4	-55.6	-58.4	-68.9	-77.2	-81.1	-85.1
Current Account (% of GDP)	-2.9	-3.6	-1.9	-2.9	-3	-2.9	-3.3	-3.5	-3.5	-3.5
FX reserves (year-end, USDbn)	371.9	353.6	351.5	354.6	317.1	318.7	319	320	323.2	324.8
Import Cover (months)	13.8	13.1	15.2	13.8	12.5	12.9	12.7	12.8	12.9	12.9
Inflation (annual avge, %)	3.7	3.7	3.2	8.3	9.3	6	4	3.4	3.3	3.3
Govt Balance (% GDP)	-6.1	-5.4	-13.3	-5	-7.4	-6.4	-5.4	-4.8	-6.3	-6

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Brazil	Argentina	Mexico	Mainland China	Colombia
Income per Capita (USD)	9,161	12,807	11,257	13,512	6,788
Country Population (m)	216.4	45.8	128.5	1,425.7	52.3
Internet users (% of population)	81.3	85.5	72	70.1	69.8

Source: Various sources/Dun & Bradstreet

Transfer Situation

Type	Delay
FX/Bank Delays	No delays expected
Local Delays	0-1 month

Note: Length of delay for completion of local and foreign transfers Source: Dun & Bradstreet

Trade Payment Restrictions

Trade Payment Restriction	Brazil	Latin America	OECD Average
Restrictions on non-Residents' Accounts	0	0.8	0.06
Restrictions on Payments for Imports	1	0.35	0.06
Restrictions on Payments for Invisible and other Current Transfers	0	0.65	0.35

Note: for a definition of the Trade Payment Restrictions please see the online [user guide](#) Source: International Monetary Fund



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User Guide

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