Country Insight Snapshot

Brazil

February 2020

Written 07 February 2020

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 an 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, in addition to pensions, profitability for the foreseeable future will be affected by protectionism, a burdensome tax regime and infrastructure barriers.

KEY DEVELOPMENT

The government's current legislative agenda, which includes taxation overhaul and fiscal consolidation, will be presented to congress shortly.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Improving

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 neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

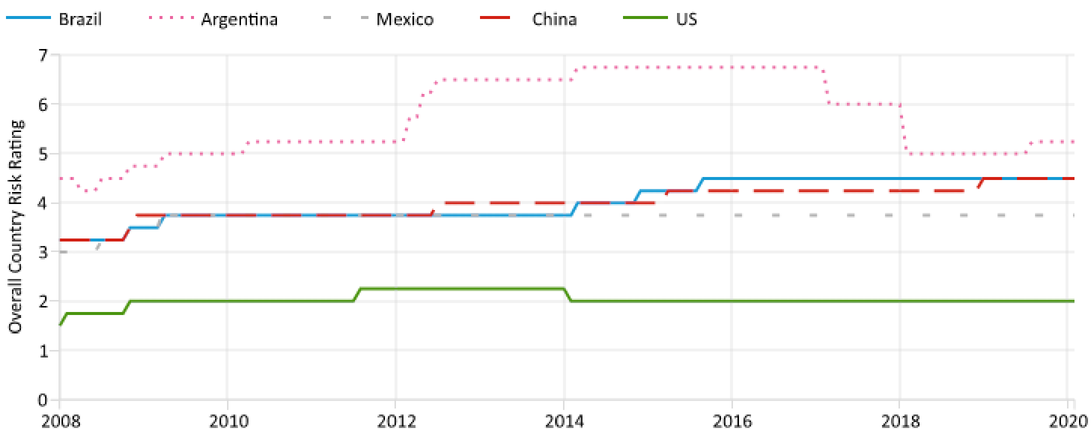
A

Trend: Stable

Key Development has had a neutral impact on the outlook.

KEY INDICATORS

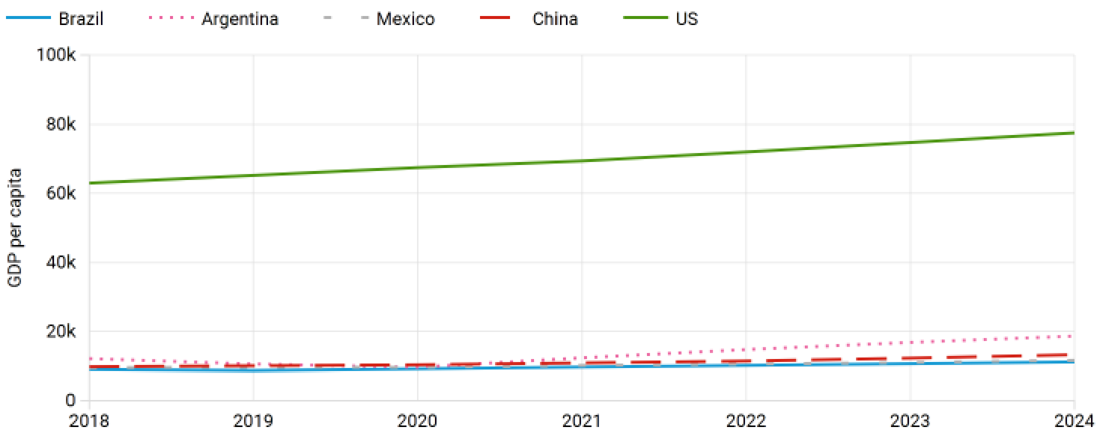
Rating History and Comparison



Source: Dun & Bradstreet

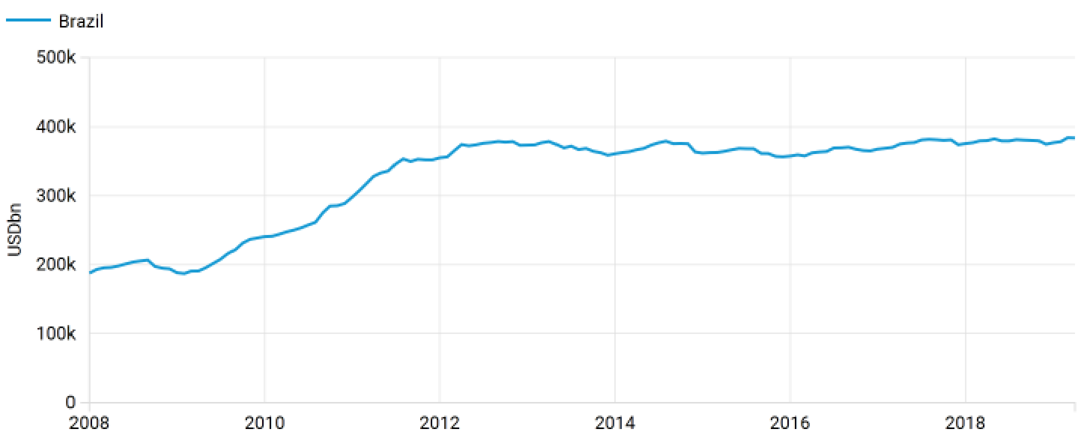
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Foreign Reserves (Excluding Gold)



Source: International Monetary Fund/Haver Analytics

Economic Indicators

Indicator	2017	2018	2019e	2020f	2021f	2022f	2023f	2024f
C/A balance % GDP	-0.7	-2.2	-2.8	-2.7	-2.9	-3.0	-3.0	-3.2
Govt balance, % GDP	-8.0	-7.1	-5.7	-4.7	-4.6	-4.5	-4.6	-4.4
Inflation, annual avge %	3.4	3.7	3.7	3.5	3.7	3.6	3.5	3.5
Real GDP Growth, %	1.3	1.3	1.2	2.3	2.4	2.3	2.2	2.4
Unemployment, %	12.8	12.3	11.8	10.8	10.0	9.7	9.5	9.4

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

On 5 February the central bank ended its current easing cycle with a 25bps cut in the Selic to 4.25% which is an unprecedented low for the benchmark rate. The rate has been cut by 225bps - through four consecutive 50bps reductions and one 25bps cut - since the bank embarked on a loosening cycle which began in July 2019. The monetary policy committee (Copom) noted that continued progress on reforms and necessary economic adjustments were crucial for consolidation of the fall in the structural interest rate and sustained economic recovery. Moreover, it elected to interrupt the monetary easing process given the lagged effects of the latest easing cycle. The bank projects convergence to its 2020 inflation targets in its current baseline scenario; the mid-point of the 2019 inflation target is 4.25%, 25 basis points lower than in 2018, while the 2020 and 2021 targets are 4.0% and 3.75% respectively with a +/-1.5% tolerance margin. FX reserves accumulation continues to provide good currency protection and excellent import cover; international reserves stood solid at USD359.39bn on 10 February.

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.

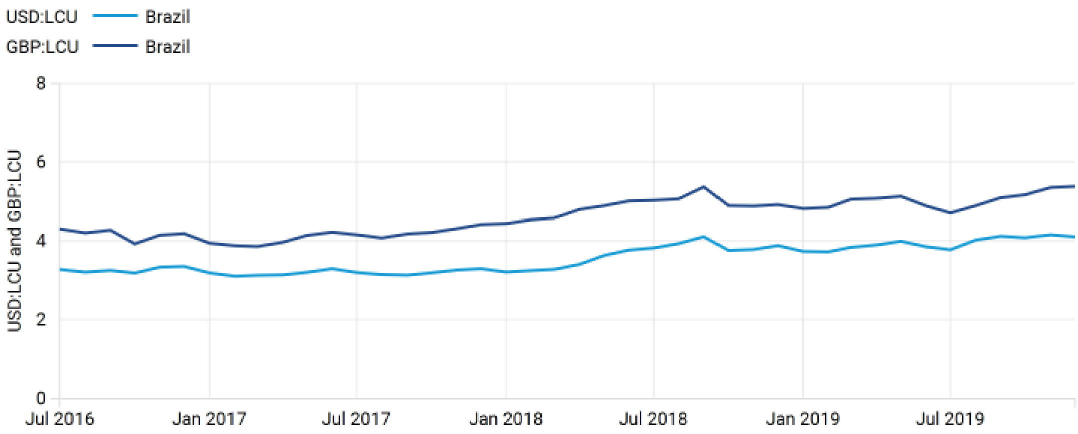
Local Delays: 0-1 month

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: No delays expected

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.

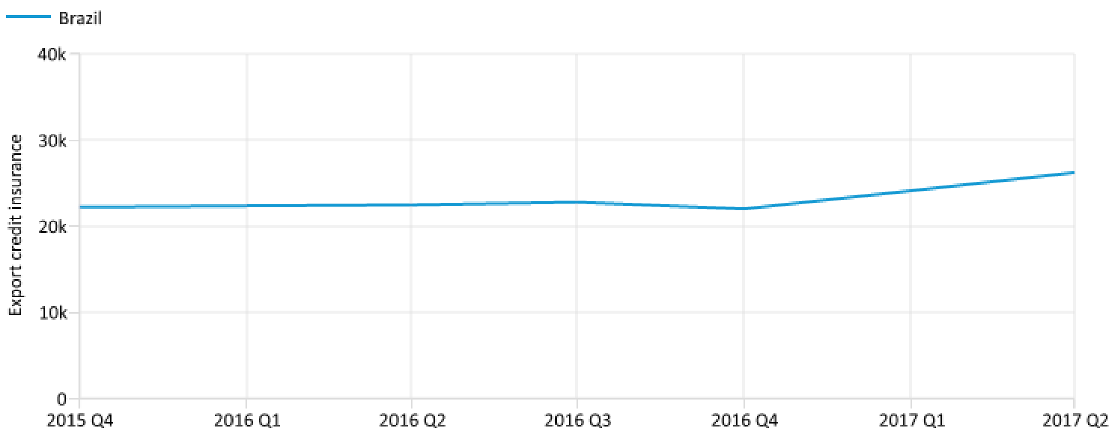
Exchange Rate



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

Business Regulatory Environment

Legislative agenda push

Tax reform and fiscal flexibility are among key objectives of the government's current legislative agenda. Fiscal decentralisation is intended to be facilitated by a proposed federal pact to ensure spending at all levels of government (federal, state and local) adhere to established limits. In addition, the government is also seeking to reform the country's notoriously complex and uncompetitive taxation system. As such, in addition to introducing a single federal value-added tax to replace three federal sales tax, restructuring of the income tax system is planned. There is broad consensus among political parties for several of the proposed measures which suggests that the 60% approval threshold in the Chamber of Deputies and Senate for the requisite constitutional amendments is achievable. However, proposals to lower public expenditure which could draw public backlash such as those related to the civil service may prove contentious ahead of municipal elections in 2020 and might fail to be approved.

Pension reform which had been decades in the making was a victory for the president who contend that it would boost investor sentiment and invigorate inward FDI. The resultant savings from the pension reform are estimated at BRL800bn (USD195bn) over ten years and an attendant reduction in the projected public debt-to-GDP ratio to roughly 100% by 2029/2030 compared to over 120% if pension reform had failed. It remains unclear to what extent pension reform would accelerate investment spending by firms in coming quarters. However, if the majority of the government's latest reforms fail to win approval (contrary to our baseline scenario), investor sentiment will be dented.

Short-Term Economic Outlook

Growth outlook improves

We have increased our real GDP forecast for 2020 to 2.3% on the back of higher household spending and a rise in investment expenditure. The 225bps cut in the benchmark Selic since July 2019 will contribute to an expansion in credit creation and drive consumer spending. Simultaneously, investor sentiment is gradually improving as evident by a return of the FGV's manufacturing confidence index to positive territory in January. At 100.2, just above the 100-point mark which separates business' optimism and pessimism, this is the highest the index has been since April 2018 when it reached 100.5. Importantly, there are still noteworthy downside risks to our growth forecast that are linked to weak global growth.

Meanwhile, the rate of inflation rose to 1.15% m/m in December, from 0.51% month-on-month (m/m) in November, to take the cumulative headline rate to 4.3%. This was the largest m/m rise since 2002 with the main drivers of the uptick in price pressures being meat prices. The upsurge in prices in December took the rate above the mid-point of the central bank's 2019 target range of 4.25% but within the bank's tolerance range of 2.75-5.75%. This created room for the bank's cut in February, as it pursues growth stimulation and a reduction of structural interest rates. We forecast decelerating inflationary pressures to contribute to an annual average inflation rate of 3.5% in 2020 from 3.75% in 2019.

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)	210.0
GDP (USD billions)	1,817.8
GDP per capita (USD)	8,658
Life expectancy (years)	75.3
Literacy (% of adult pop.)	93.2
Surface area (sq km)	8,514,880

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2015	2016	2017	2018	2019e
Real GDP growth (%)	-3.6	-3.3	1.3	1.3	1.2
Nominal GDP in USDbn	1,813	1,796	2,054	1,871	1,818
Nominal GDP in local currency (bn)	6,001	6,267	6,554	6,828	7,162
GDP per Capita in USD	8,909	8,753	9,934	8,972	8,658
Population (year-end, m)	203.5	205.2	206.8	208.5	210.0
Exchange rate (yr avge, USD-LCU)	3.3	3.5	3.2	3.7	3.9
Current Account in USDbn	-54.5	-24.2	-15.0	-41.5	-50.8
Current Account (% of GDP)	-3.0	-1.3	-0.7	-2.2	-2.8
FX reserves (year-end, USDbn)	354.2	365.0	374.0	374.7	356.9
Import Cover (months)	14.6	18.0	16.9	14.8	13.4
Inflation (annual avge, %)	9.0	8.7	3.4	3.7	3.7
Govt Balance (% GDP)	-10.2	-9.0	-8.0	-7.1	-5.7

Source: Haver Analytics/Dun & Bradstreet

Forecasts

Metric	2020f	2021f	2022f	2023f	2024f
Real GDP growth (%)	2.3	2.4	2.3	2.2	2.4
Nominal GDP in USDbn	1,928	2,051	2,166	2,284	2,407
Nominal GDP in local currency (bn)	7,578	8,040	8,514	8,999	9,530
GDP per Capita in USD	9,122	9,641	10,122	10,610	11,118
Population (year-end, m)	211.4	212.7	214.0	215.3	216.5
Exchange rate (yr avge, USD-LCU)	3.9	3.9	3.9	3.9	4.0
Current Account in USDbn	-51.7	-59.1	-66.0	-68.8	-75.9
Current Account (% of GDP)	-2.7	-2.9	-3.0	-3.0	-3.2
FX reserves (year-end, USDbn)	359.0	360.8	362.6	364.4	366.3
Import Cover (months)	12.6	11.7	10.9	10.3	10.4
Inflation (annual avge, %)	3.5	3.7	3.6	3.5	3.5
Govt Balance (% GDP)	-4.7	-4.6	-4.5	-4.6	-4.4

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Brazil	Argentina	Mexico	China	US
Income per Capita (USD)	9,122	9,593	9,546	10,291	67,428
Country Population (m)	211.4	45.2	127.1	1,439.3	331.0
Internet users (% of population)	59.7	70.2	59.5	53.2	76.2
Real GDP Growth (% p.a., 2020 - 2029)	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

LINKS

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Please click here to visit our online user guide.

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