

FEDERATIVE REPUBLIC of BRAZIL

JULY 2010

CREDIT GUARANTEE COUNTRY PROFILE:

IES/02: ATTACHMENT N

<u>Country rating</u>	<u>S/T business cycle indicator</u>	<u>S/T political indicator</u>	<u>Debt recovery</u> Suggested use of a collection agent
3B	↑	→/ ↑	

Credit Guarantee experience

- We do offer open cover in this market. This is a growing market. This is not a claims free market.

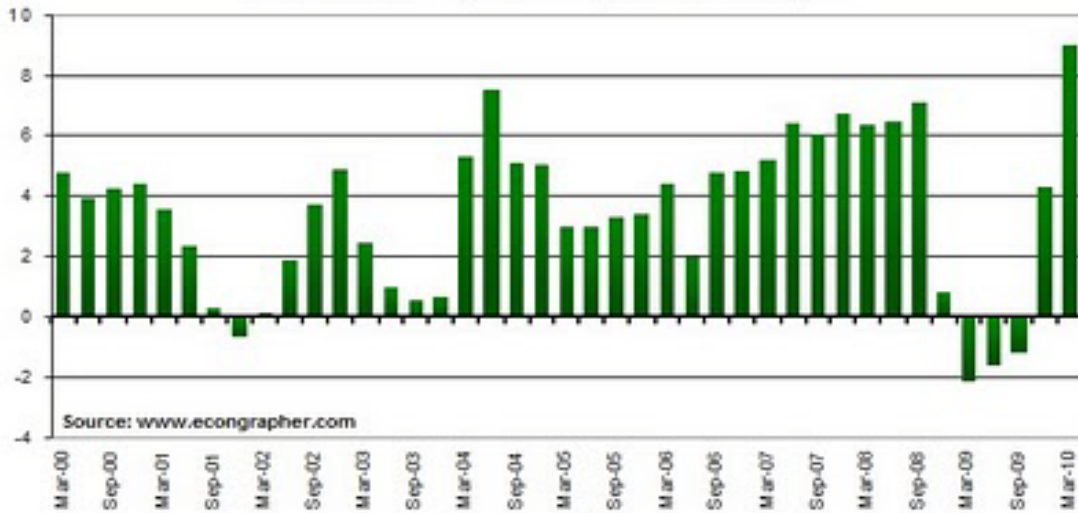
Recent Political Highlights

- Luiz Inacio Lula da Silva is the current president of Brazil, his second term ends this year and he constitutionally barred from running again having served two terms already. Economist Dilma Rousseff is currently Silva's Chief of Staff and the president's hand picked successor. If she wins the elections in October she will be become Brazil's first female president. Lula's approval ratings continue to exceed 85%.

Recent Economic Highlights

- Brazil is the fifth-largest country in the world and is dominated geographically by the Amazon River basin and the world's largest rain forest. Its population of almost 200 million is concentrated on the coast where key metropolitan areas offer direct access to the Atlantic Ocean. According to Brazil's Census Bureau the country's middle class has increased by 24% over the last four years alone, removing roughly 20 million people from the poverty line. More than one million jobs were created in Brazil last year, although only 0.2% of those were in the mining sector which is the country's largest commodity-export sector.
- Agriculture is a thriving sector in Brazil which is the world's largest sugar producer. In addition to its large agricultural and industrial sectors, Brazil's economy is driven by a growing services sector that has accounted for over 60% of GDP in recent years.
- The global financial and economic crisis has had moderate impact on the financial sector and monetary stability has been maintained. Much of Brazil's economy is driven by domestic consumer demand rather than exports - which analysts say means it is relatively insulated from Europe's debt crisis and the projected slow recovery of the US.
- Official figures confirmed Brazil's economy grew at its fastest rate in at least 14 years in the first three months of 2010. Its GDP surged by 9% compared with the same period a year earlier. The economy is projected to grow between 6 and 6.5% on average for the rest of this year. May 2010 figures showed Brazil received \$3.5 billion in FDI that month alone which is \$2.3 billion more than in April 2010 and a record for the country but with FDI slowing down analysts said growth during the remainder of 2010 could come under pressure.

Brazil GDP - year on year % Change



Source: www.econographer.com

- ❑ Sao Paulo is Brazil's business hub in terms of foreign and domestic investments. Investment property is purchased constantly. This city drives Brazil's economy with its diverse investments. Major industries in Brazil can be found in Sao Paulo, namely; telecommunications, the automotive industry, banking, pharmaceutical, electronics, construction and food processing. The service and technology industry has attracted more investments with German car manufacturers setting up base here. The city hosts more Germany company headquarters than other city outside Germany.
- ❑ Chief Executive of Brazil's development bank, Luciano Coutinho, has confirmed that the current economic conditions make investment in Brazil a great prospect. According to Coutinho the government is working hard to diversify Brazil's economy and there are a number of sectors that now present very interesting investment possibilities. The recent oil discovery is creating a highly positive investment climate and stimulating confidence to invest in Brazil.
- ❑ The sustained performance of the Amazon timber industry made Brazil one of the world's top producers of tropical timber. The timber industry is the economic base for the many cities in the northern region of the country. In Sinop alone, there are over 150 timber-related companies.
- ❑ The state dominates many areas of the economy and the efficiency and overall quality of government services remain poor despite high government spending as a percentage of GDP. Other barriers to entrepreneurial activity and job creation include a heavy overall tax burden, inefficient regulation, the relatively high cost of credit, and a rigid labour market. The judicial system remains vulnerable to political influence and corruption. Bureaucracy and administration is non-transparent, burdensome, complex, and subject to corruption. Legal disputes can be time-consuming.
- ❑ Foreign investment is restricted in nuclear energy, health services, media, rural and border property, fishing, mail and telegraph services, aviation, and aerospace. Brazilian nationals must constitute at least two-thirds of all employees and receive at least two-thirds of total payroll in firms employing three or more persons.
- ❑ Brazil uses only 25% of its hydroelectric potential. This could be better utilised since it is a renewable and clean energy that is priced competitively. Hydroelectric generation does not depend on technology or capital goods and the operating cost of the installed power plant is low. Agriculture is an even more strategic advantage for Brazil's renewable energy infrastructure. According to studies ethanol produced from sugarcane reduces carbon dioxide emissions (the principal gas contributing to the greenhouse effect) by up to 90%. Sugarcane covers only 1.25% of the 100m hectares available for farming; if this land is used to plant sugarcane Brazil could generate approximately 22bn litres of ethanol per year which is enough to reduce the world's vehicle emissions by up to 9%.

World cup 2014

- ❑ Positive macroeconomic indicators were one of the facts that led Brazil to win the right to host the 2014 Soccer World Cup and the 2016 Olympic Games. These two major events will provide new business opportunities and

investments to improve infra-structure in the transport system, hotel accommodation, food service activities and other tourism-related services. South America's largest country will host the tournament for the second time - the first was in 1950. It will be the first time two consecutive World Cups are held in countries from the southern hemisphere.

- ❑ FIFA awarded the 2014 World Cup hosting rights three years ago, but Brazil has barely begun building and renovating the 12 stadiums it needs. After FIFA publicly criticized organizers for missing deadlines, Brazil's top soccer officials have confirmed that preparations are back on track.
- ❑ When compared to other comparable cities, Brazil's largest airports are not on par and require drastic renovations. São Paulo's Guarulhos, the country's largest and most important airport, has two terminals and two runways. According to a new ranking by aviation consultancy Skytrax, Brazil's best airport (São Paulo Guarulhos) only ranks 121st in the world. Rio's Galeão is in 151st place. In all 12 of the host cities there are plans to expand highways and roads, add new metro or bus lines, and in some cases build new ports for passenger cruise ships. There is a long list of proposed projects that will collectively cost billions of dollars.
- ❑ The host cities combined urgently need as many as 30,000 new beds for tourists. Three major hotels that had been abandoned in the city of Rio have now been purchased and are currently under renovation.
- ❑ President da Silva confirmed that investments in Brazilian infrastructure between now and 2014 will total more than \$600bn which is more than has been "invested in the past 30 years".
- ❑ Despite all the early setbacks preparing for 2014, Brazil has \$239m accumulated in reserves and its development bank is one of the worlds wealthiest.

Latest Trade Developments

- ❑ Major exports: transport equipment, iron ore, soybeans, footwear and coffee
- ❑ Major imports: machinery, electrical and transport equipment, chemical products, oil and automotive parts
- ❑ Main trading partners: US, Argentina, China, Netherlands, Germany
- ❑ SA exports to Brazil in 2008 totaled R5.3bn; R2.9bn in 2009 and year to April 2010 is R1.7bn.
- ❑ SA imports from Brazil in 2008 totaled R13.9bn; in 2009 they were R10.5bn and year to April 2010 is R3bn.

Researched and compiled by Hlohelo Pule, economic services – Credit Guarantee Insurance Corporation