

**COUNTRY PROFILE:****FEDERATIVE REPUBLIC OF BRAZIL****DATED:****SEPTEMBER 2008****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	2B	No restrictions

*Recent Political Highlights*

- ❑ Chief of state since January 2003 has been President Luiz Inacio Lula Da Silva. Despite only being permitted to run for a single term, Lula Da Silva was re-elected in 2006. The next election is scheduled for 2010.
- ❑ The political environment will be centered around the October municipal elections and early campaigning for the 2010 presidential ballot and will delay prospects for the advance of the reform agenda that includes fiscal reform.

*Recent Economic Highlights*

- ❑ Brazil has a population of 192m people with an expected population growth rate of 1% in 2008. Brazil is Latin America's largest market, the world's fifth-most populous country and the world's tenth-largest economy.
- ❑ The economy is forecast to expand by an annual average rate of 4.1% between 2008-12 on the back of strong domestic demand and rising investments. The EIU maintains that inflation can be restricted to below 4% in the medium term, notwithstanding stronger pressures in 2008-09, but stated that the risks to its forecast have increased amid growing inflationary pressures stemming from higher commodity prices. The Economist forecasts GDP growth of 4.6% in 2008, 3.6% in 2009 and 4.2% in 2010 from 5.4% in 2007.
- ❑ The finance minister stated that Government has no intentions of reducing interest rates as long as there are risks that inflation will breach its 4.5% target. The benchmark rate is now 13%. The minister stated that the economy was slowing after several measures to reduce available consumer credit, which was having an impact on inflation. He expects inflation to be within Governments target of 4.5% with a 2% tolerance, making it 6.5%. The Economist forecasts inflation of 5.7% in 2008, 5.2% in 2009, 3.8% in 2010 from 3.6% in 2007.
- ❑ The president has advised Petrobras to order ships and equipment from Brazilian companies during the production of oil in the pre-salt layer in Espirito Santo. He defended the use of future Brazilian oil industry revenues to develop other sectors of the economy and encouraged Brazilians to industrialize the country. He stated that Petrobras would require at least 200 ships and 80 exploration probes over the next ten years (at a cost of \$700m each) and that the company must decide to produce them in the country, thereby generating technology and income.
- ❑ Beef exports fell 22% from January to August, while revenue during that period was up 18% due to an average export price increase of 50%. Exports are expected to remain low for the rest of the year as cattle prices are not forecast to decrease until 2010. Exports are expected to fall 5% this year. The Brazilian group Mafrig has announced that it will begin producing cooked beef for the British market at the old Anglo abattoir in Uruguay, which for decades was the leading beef exporter to the UK. It also plans to target the US at a later time with its product. The Mafrig group has become the fourth largest producer of beef and beef products in the world with 19 modern abattoirs in Mercosur member countries. The group said it would buy assets in Brazil and Europe from US group OSI for an initial \$680m in addition to a possible further \$220m depending on future performance of the European operations.
- ❑ The car manufacturing industry has turned around significantly from a depressed state a few years ago and was adding shifts and spending billions of dollars to keep up with demand in the country. The sector is cooling this year from the past three years of strong growth due to rising interest rates. Analysts say the slowdown will not escalate into a slump given the high pent-up demand for cars. The motor industry is set to attract \$23bn in investments in the next four years, lifting overall capacity by 2.5m vehicles to 6m a year. General Motors is expected to invest \$3bn over the next three years, as Brazil has become an engineering hub for the car manufacturer, as well as the third largest market. Volkswagen will invest \$1.86bn until 2011 where it now sells more cars than in Germany.

*Latest Trade Developments*

- ❑ Major exports: transport equipment, iron ore, soybeans, footwear, coffee and autos.
- ❑ Major imports: machinery, electrical and transport equipment, chemical products, oil, automotive parts and electronics.
- ❑ Main trading partners: US, China, Argentina, Germany and Netherlands.
- ❑ Brazil declined an invitation from Iran to join OPEC, as this would not have been advantageous for Brazil. The local oil minister claimed that OPEC member countries have no free markets and oil is exploited by state monopolies. Brazil discovered a new oil field 250km offshore that could contain as much as 8bn barrels of oil. Earlier this year, it said that nearby oilfields could contain an additional 40bn barrels of light crude oil in the so called sub salt layer over 5.000 metres below the sea bed. Proven oil reserves currently stand at 14bn barrels, but if testing confirms the claims, Brazil will be propelled to the same level as OPEC members Nigeria or Venezuela.
- ❑ South African exports to Brazil totaled R3.7bn in 2007 from R2.7bn in 2006 and R1.1bn in the year to March 2008.

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