

**COUNTRY PROFILE:****FEDERATIVE REPUBLIC OF BRAZIL****DATED:****JULY 2011****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

<i>Export Department Comment/Opinion</i>	Rating 2B. Open cover. High value of exposure and commitments. This is not a claims free market. (Euler Hermes: BB; Atradius: 5,6) Sanctions: Nil
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***Recent Political Highlights***

- President Dilma Rousseff has been both the chief of state and head of government since 1 January 2011. The Rousseff administration has pledged to follow the same policies as their predecessor with a few changes that include more communication between the Central Bank and the Ministry of Economy resulting in the better coordination of fiscal and monetary policies. One of the most pressing concerns of her government is to encourage the country's economic growth while keeping inflation under control and to boost competitiveness in a strong currency context. According to the EIU the president remains committed to a long-discussed and much-needed reform of the tax system, but other political setbacks have caused delays. The government is also determined to rebalance trade with China by increasing value-added exports with the newly signed bilateral accords a move in the right direction.
- The next election is scheduled for October 2014.
- According to EDC Economics weak regulations and bureaucracy creates barriers to doing business in Brazil. Brazil is ranked 127 out of 183 economies in the World Bank's ease of doing business survey. Starting a business in Brazil takes 120 days against a regional average of 56.7 days. The World Bank cited that this is the result of old regulations and restrictive laws that together create a barrier to foreign investments. The judicial system is regarded as fair, but slow and complex.

***Recent Economic Highlights***

- Brazil is the largest country in area and population in Latin America and the Caribbean and is the world's eighth wealthiest economy with 2010 GDP reaching \$2.1 trillion.
- Rising agriculture and a surge in commodity prices over the last decade have fueled Brazil's boom. The massive infrastructure spending in 2010 is also expected to support strong domestic demand in coming years. Economists are concerned that Brazil's growth may have turned into a bubble. The Brazilian real recently hit a 12-year high against the dollar which is making Brazilian exports less competitive.
- The central bank has accordingly introduced spending cuts, excluding cuts in social and infrastructure programmes, in an attempt to restrain credit expansion and curb inflation. Counter cyclical policies introduced to curb domestic demand include: increasing the benchmark interest rate, the Selic, by 125bp to 12.25% since January 2011. The Central Bank also raised the reserve and capital requirements of banks and introduced taxes on consumption, credit and foreign capital. Analysts expect the Central Bank to increase rates to 12.75% by the end of this year.
- The country struggles with inflationary pressures as a result of the increased global food prices and rapid growth in private sector credit. The strong demand for the country's currency, the Real, due to favourable interest rates, is expected to remain elevated placing further upward pressure on inflation. The OECD expects inflation to increase from 5.9% in 2010 to 6.6% in 2011.
- Moody's recently lifted Brazil's debt rating from Baa3 to Baa2, the second-lowest investment grade, with a positive outlook after taking into account President Rousseff's efforts to cut spending.
- Deloitte's Global Economic Outlook Q2'11 listed the following strengths gearing the Brazilian economy for positive growth in 2011: a rising global demand for the many commodities that the country exports, improved manufacturing exports as well as Brazil's vast untapped energy production potential thereby increasing the country's attractiveness for investors. Brazil's dependence on the export of commodities however is a cause of concern as these commodities are prone to global price volatility.
- Atradius forecast that following last year's GDP expansion of 7.5%, growth will slow down to 4.3% in 2011. EDC Economics stated that the 2014 Fifa World Cup and 2016 Olympics will offer excellent opportunities for exporters and investors in Brazil over the next 5-7 years.
- Other developments taking place include Toyota's plans to produce Etios, which has been specifically designed for the Indian market, in Brazil by late 2012. The vehicle plant constructed in Sorocaba has an estimated annual production capacity of 70,000 units. Brazil has also started building four diesel-powered submarines as part of a 2008 agreement with France that includes the future construction of Latin America's first nuclear submarine, making Brazil the seventh country in the world to build a nuclear sub. Each submarine will cost about \$565m with the first to be delivered in 2016. Officials stated that the submarines will be used to protect Brazil's large offshore oil reserves and exploration platforms.
- In July BP PLC's Russian joint venture TNK-BP Ltd. agreed with Brazil's HRT Participacoes em Petroleo SA to buy a 45% stake in an exploration project in the Amazon forest. TNK-BP may pay as much as \$1 billion for the stake. HRT's stake is estimated to hold 542 million barrels of oil equivalent of which 84% is natural gas.

***Latest Trade Developments***

- Total exports increased from \$153bn in 2009 to \$199bn in 2010. Export commodities include: transport equipment, iron ore, soybeans, footwear, coffee and autos.
- Total imports increased from \$127bn in 2009 to \$187bn in 2010. Import commodities include: machinery, electrical and transport equipment, chemical products and oil.
- Main trading partners: US, China, Argentina, Germany and Japan and Netherlands.
- SA's exports to Brazil totaled R2.9bn in 2009, R5.2bn in 2010 and R1.8bn up to April 2011.
- SA's import from Brazil totaled R10.5bn in 2009, R9.9bn in 2010 and R3.4bn up to April 2011.

*Researched and compiled by Monique Daseman, economic services – Credit Guarantee Insurance*