



****Coronavirus Covid-19 Update****

The risks associated with doing business are likely to be negatively impacted by the global coronavirus pandemic. Severe disruption to supply chains caused by lockdown procedures in many countries will affect country risk ratings. Demand will also be lower than initially anticipated as export earnings will be reduced amid a global economic slowdown and falls in both business and consumer confidence, as well as lower investment due to decreasing corporate earnings. We advise clients to monitor the containment efforts, as the adverse economic and supply chain effects will persist until the outbreak is controlled.

Country Insight Snapshot

Brazil

June 2020





OVERVIEW

OVERALL COUNTRY RISK RATING: DB5a

High risk: Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high return transactions only.



Rating Outlook: Deteriorating

CORE OUTLOOK

- + 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.
- Controlling the growing coronavirus pandemic has supplanted economic reforms at the top of the national agenda.
- Tensions between the executive and legislative branches of government hamper policy-making and are leading to missed opportunities to boost competitiveness.
- The commercial environment is constrained by high trade protectionism, a burdensome tax regime and infrastructure barriers.

KEY DEVELOPMENT

Dun & Bradstreet downgrades its country risk rating for Brazil by two quartiles to DB5a as the country becomes the new hotspot of the coronavirus pandemic amid controversial policies and rising unemployment.

CREDIT ENVIRONMENT OUTLOOK



Trend: Deteriorating

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK



Trend: Deteriorating

Key Development has had a negative impact on the outlook.

MARKET ENVIRONMENT OUTLOOK



Trend: Deteriorating

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK



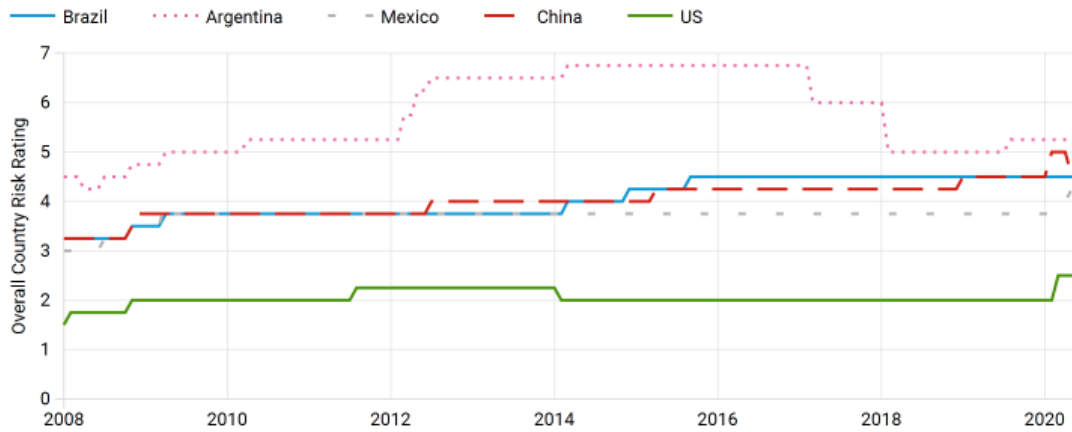
Trend: Deteriorating

Key Development has had a negative impact on the outlook.



KEY INDICATORS

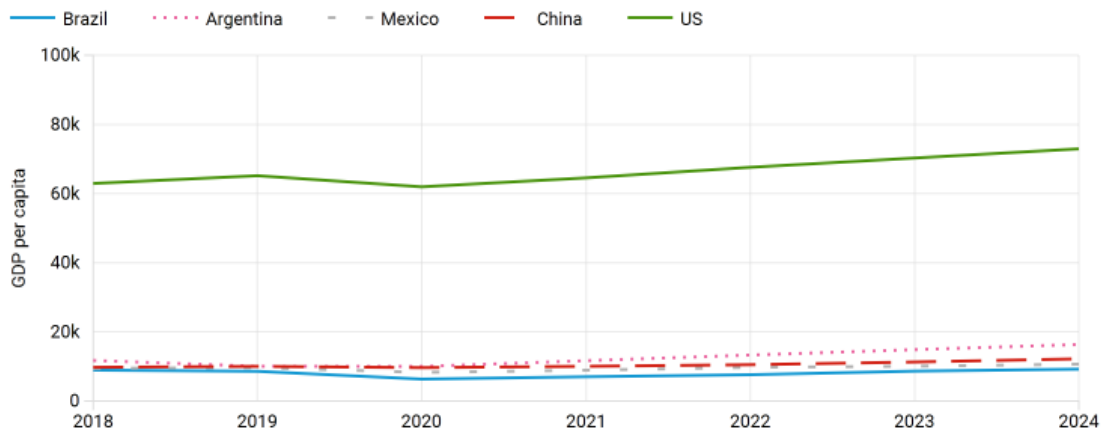
Rating History and Comparison



Source: Dun & Bradstreet

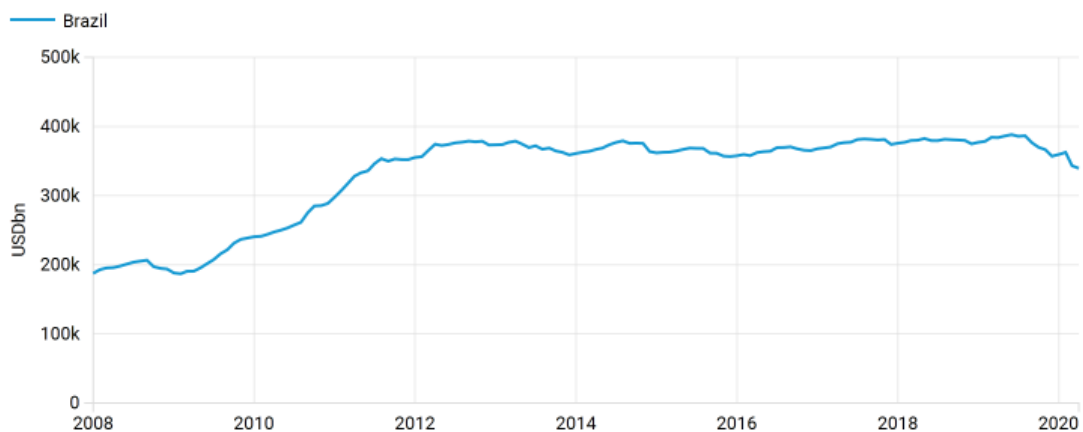
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source: Haver Analytics/Dun & Bradstreet

Foreign Reserves (Excluding Gold)



Source: International Monetary Fund/Haver Analytics



Economic Indicators

Indicator	2017	2018	2019	2020f	2021f	2022f	2023f	2024f
C/A balance % GDP	-0.7	-2.2	-2.7	-1.8	-2.5	-1.8	-2.7	-3.3
Govt balance, % GDP	-8.0	-7.1	-5.5	-9.3	-6.1	-4.9	-4.8	-4.9
Inflation, annual avge %	3.4	3.7	3.8	3.6	3.3	3.6	3.5	3.5
Real GDP Growth, %	1.3	1.3	1.1	-5.3	1.0	1.5	2.0	2.2
Unemployment, %	12.8	12.3	11.9	18.1	14.2	11.0	9.5	9.4

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Measures to boost liquidity in the financial system and provide relief for firms include an aggressive 75-basis point reduction of the policy rate (Selic) by the central bank (BCB) to 3.00% on 6 May, with a further cut possible at the June meeting of the BCB's monetary policy committee. This is in addition to a previously unveiled BRL1.2trn programme equivalent to 16.7% of GDP. Lowering the minimum reserve requirement ratio on time deposits to 17% (from 25%) is intended to provide an estimated injection of BRL68bn to expand funding for loans and financing. In March the BCB implemented a raft of extraordinary measures to limit the economic and social impact of the Covid-19 pandemic. In addition to lowering its benchmark rate to a historic low, the bank has implemented an unprecedented level of liquidity injection and capital relief to buttress the financial system and support businesses. A capital relief programme will allow for flexible regulation for debt renegotiations, while the US Federal Reserve has established a six-month USD60bn swap line with the central bank to maintain dollar liquidity. International reserves of BRL345.71bn as at end-May provide good currency protection and import cover.

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

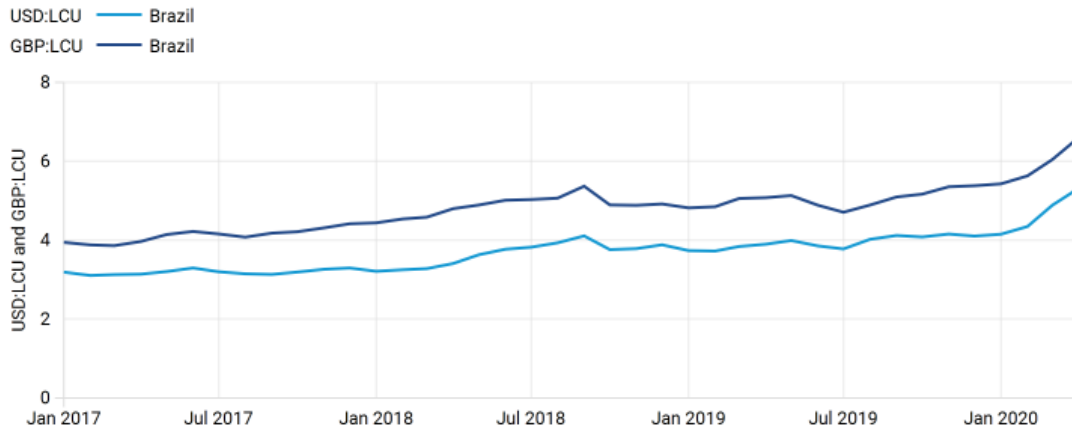
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



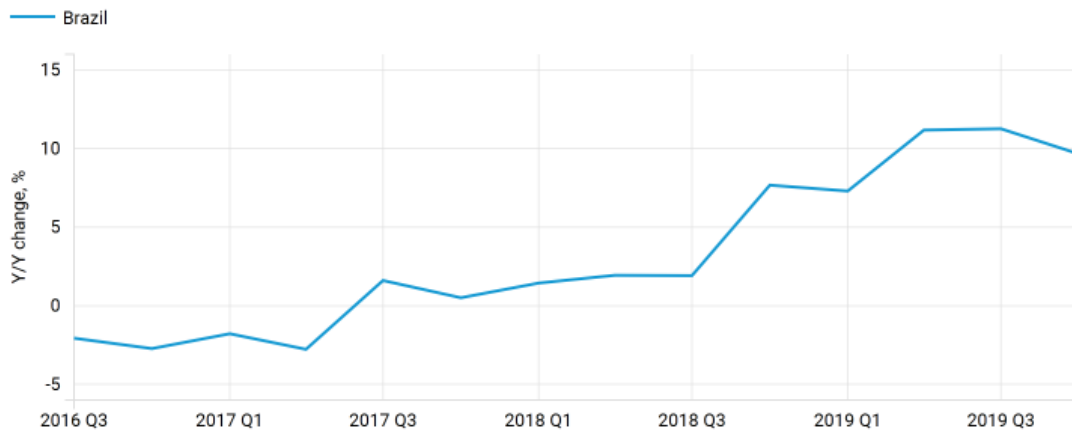
Exchange Rate



Source: International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Brazilian Real

Bank Lending to the Private Sector



Source: IMF, Central Banks, Haver Analytics



RISKS AND OPPORTUNITIES

Short-Term Economic Outlook

Risk rating downgraded

Dun & Bradstreet has downgraded Brazil's overall risk rating by two quartiles, from DB4c to DB5a, as its total confirmed coronavirus cases rose to second-highest globally and related deaths to third-highest. The infection peak is yet to be reached, as daily rates are among the fastest worldwide, according to public health officials. Despite increasingly being considered the new hotspot of the coronavirus pandemic, President Jair Bolsonaro's calls to ease stringent lockdown and quarantine measures and his apparent disregard for widely advocated behaviours such as 'social distancing' are considered by some as being obstructive to efforts aimed at slowing the spread of coronavirus. The president continues to draw criticism from various quarters, including members of his cabinet, opposition politicians and medical professionals. Unco-ordinated implementation of stay-at-home measures at local government levels and the financial imperative for low-income individuals in urban areas to continue working contributed to self-isolation rates of less than 50%.

The economy, which contracted by 1.5% q/q in Q1, is expected to post a steeper second-quarter decline, as quarantine measures were implemented in two full months (April and May) compared to just March in the first quarter. Measures adopted in March to slow the spread of coronavirus dealt severe blows to economic activity across sectors, except for essential services, driving up credit risk. Notwithstanding emergency support for households and businesses, the jobless rate is expected to reach almost 15% this year, while business failures are projected to rise. Notably, the agriculture sector, on the back of higher soybean and rice production, expanded by 0.6% q/q in the first three months of the year due to bumper crops and a weaker Real - which will contribute to y/y expansion in 2020. Worryingly, Brazil began easing quarantine restrictions/self-isolation in early June, with the resumption of non-essential services such as stores, beaches and churches in large cities including Rio de Janeiro and Sao Paulo, despite rising daily infection rates and deaths. Consequently, our real GDP forecast for 2020 is now -5.3% (from our previous projection of -3.2%), with risks still tilted to the downside.

Political/Insecurity Risk

Turmoil escalates

Escalating turmoil surrounding President Bolsonaro is keeping political risk elevated. Added to criticisms of his handling of the coronavirus outbreak, the president is still being dogged by allegations of interference in corruption investigations by the federal police against his sons and allies, directed police raids on political opponents, and an apparent disregard for constitutional checks. The resignation of Minister of Justice and Public Security Sergio Moro in late April dealt a blow to the president's credibility as a corruption fighter. Bolsonaro, whose initial pick for federal police chief was blocked by the Supreme Court, eventually selected another ally for the position, thus putting the independence of the federal police in question.

It should be noted that while the president's disapproval rating is below 50%, Brazilians are split on whether the right-wing president should be impeached. Although we believe the probability of impeachment remains low, there is a high likelihood of a deterioration in political risk given the president's combative style and recent calls for a return to military rule.



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	Brasília
Timezone	GMT -03-00
Official language	Portuguese
Population (millions)	211.0
GDP (USD billions)	1,812.3
GDP per capita (USD)	8,587
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	2019
Real GDP growth (%)	-3.6	-3.3	1.3	1.3	1.1
Nominal GDP in USDbn	1,813	1,796	2,054	1,871	1,812
Nominal GDP in local currency (bn)	6,001	6,267	6,554	6,828	7,159
GDP per Capita in USD	8,866	8,710	9,885	8,930	8,587
Population (year-end, m)	204.5	206.2	207.8	209.5	211.0
Exchange rate (yr avge, USD-LCU)	3.3	3.5	3.2	3.7	4.0
Current Account in USDbn	-54.5	-24.2	-15.0	-41.5	-49.5
Current Account (% of GDP)	-3.0	-1.3	-0.7	-2.2	-2.7
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	3.8
Govt Balance (% GDP)	-10.3	-9.0	-8.0	-7.1	-5.5

Source: Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2020f	2021f	2022f	2023f	2024f
Real GDP growth (%)	-5.3	1.0	1.5	2.0	2.2
Nominal GDP in USDbn	1,346	1,501	1,638	1,871	2,005
Nominal GDP in local currency (bn)	7,037	7,340	7,714	8,138	8,602
GDP per Capita in USD	6,330	7,014	7,605	8,636	9,204
Population (year-end, m)	212.6	214.0	215.4	216.6	217.9
Exchange rate (yr avge, USD-LCU)	5.2	4.9	4.7	4.4	4.3
Current Account in USDbn	-24.7	-37.1	-29.7	-50.4	-65.6
Current Account (% of GDP)	-1.8	-2.5	-1.8	-2.7	-3.3
FX reserves (year-end, USDbn)	303.4	333.7	433.8	436.0	438.1
Import Cover (months)	10.7	10.9	13.1	12.4	12.4
Inflation (annual avge, %)	3.6	3.3	3.6	3.5	3.5
Govt Balance (% GDP)	-9.3	-6.1	-4.9	-4.8	-4.9

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Brazil	Argentina	Mexico	China	US
Income per Capita (USD)	6,330	9,992	8,282	9,648	61,945
Country Population (m)	212.6	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)	1.5 - 2.5	1.0 - 2.3	2.0 - 3.5	4.5 - 6.5	1.5 - 3.3

Source: Various sources/Dun & Bradstreet



LINKS

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Please click [here](#) to visit our online user guide.

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