

# Brazil: Country Profile

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International analysts expect Brazil's economy to contract by at least 1.3% in 2009. Some private economists are predicting an even harsher recession with GDP falling by around 2%. The recession will end three consecutive years of steady growth. Brasilia plans to invest US\$236 billion in public funds by 2011 to make much-needed improvements in infrastructure. External debt has been almost eliminated though public debt in domestic currency is still high (around 41% of GDP in 2008). Crude oil reserves have increased significantly following a number of recent oil discoveries, raising hopes that Brazil could soon become an oil exporter.

## ECONOMIC PERFORMANCE AND POLITICAL FRAMEWORK

### Area

8,511,965 square kilometres

### Currency

Real (BRL = 100 centavos)

### Location

Brazil, the largest country in South America, occupies some two-thirds of the continent's entire Atlantic coast. It is bordered by Argentina, Bolivia, Colombia, French Guiana, Guyana, Paraguay, Peru, Suriname, Uruguay and Venezuela. Much of the country's climate is tropical but in the south it is temperate. The capital is Brasilia.

### Head of State

Luiz Inácio Lula da Silva (2003)

### Head of Government

Luiz Inácio Lula da Silva (2003)

### Ruling Party

The government is formed by the Workers Party (PT) and its allies.

### Political Structure

Brazil has an executive president elected by popular mandate for a term of four years. He is answerable to a bicameral National Congress. The Chamber of Deputies has 513 members, elected for a four-year term by proportional representation. The Federal Senate has 81 members, elected by plurality vote for eight-year terms, with elections every four years for alternately one-third and two-thirds of the seats.

### Last Elections

In October 2006, Lula was re-elected with 61% of the vote. He defeated Geraldo Alckmin in a second round run-off. Congressional elections were held at the same time. One-third of the Senate seats were up for election. The Liberal Front Party took 6 of the 27 seats available followed by the Brazilian Social Democracy Party (5) and the Brazilian Democratic Movement (4). The total composition of the Senate is now as follows: the Liberal Front Party holds 16 seats, the Brazilian Democratic Movement and the Brazilian Social Democracy Party both have 15 seats and the PT has 11 seats. The remainder are divided among several smaller parties. Elections to the Chamber of Deputies occurred at the same time. The Brazilian Democratic Movement won 89 seats, the PT took 83 seats, the Brazilian Social Democracy Party received 65 seats as did the Liberal Front Party, and the Progressive Party won 42 seats. Remaining seats were scattered among an additional 16 parties. The seats awarded to most parties mean little, since so many are represented in Congress and they operate without any real form of party discipline.

### International Issues

Brazil dwarfs its fellow members in Mercosur but is not rich enough to subsidise them, nor willing to cede chunks of sovereignty. The country has a long-standing disagreement with Argentina over the use of waterways for power generation but keeps its objections muted because both countries are members of Mercosur. In the north, relations with Guyana and Suriname are sometimes strained by guerrilla activity. Relations with Venezuela are sometimes tense owing to the latter's efforts to persuade other governments in the region to adopt more radical policies.

### Economic Structure and Major Industries

Brazil has a vibrant agricultural sector, driven by increases in both productivity and in cultivated area. The country presently has

152 million acres under cultivation but the government claims that this can easily be more than doubled. Exports of farm commodities and related products account for two-fifths of the total. Brazil produces 40% of the sugar traded on world markets and output is increasing by nearly 20% per year. Brazil is also the world's top producer of orange juice and coffee, and ranks second in world production of soya and meat (beef and poultry) and third for fruits and corn. Altogether, agro-business accounts for over a quarter of total GDP but export revenues have fallen sharply owing to the decline in world prices.

Brazil's industrial base is one of the largest and most diversified of any emerging economy. The country's big manufacturers include producers of automobiles, consumer electronics, computers and software, and heavy industries. By 2008, the country had become the world's fourth largest carmaker but these firms are in serious trouble. Industrial production is rapidly dropping as the situation in the automobile industry deteriorates. In response, the government has approved US\$3.4 billion in additional loans and a cut in production taxes for the automobile industry.

Infrastructure is woefully inadequate and obsolete. The public health and education systems are far below the level an aspiring country like Brazil requires. Brasilia intends to invest US\$236 billion by 2011 to alleviate some problems. The funds will go to both infrastructure and housing. Tax cuts will also be given to the construction industry.

Brazil has an abundance of mineral deposits (for example, bauxite, iron ore, manganese, chrome, lead, zinc, tungsten and nickel). Finally, the country's stunning natural beauty offers opportunities to expand tourism. So far, however, the sector has not lived up to its potential, relying too heavily on local visitors.

### Business Environment

The tax burden is 35% of GDP, much higher than in other Latin American countries. Businesses face an even more burdensome tax bill. Taxes levied in many states average more than 100% of gross profits. This is the major reason for the country's large informal economy, which comprises more than two-fifths of GDP. Businesses also complain about the overvalued currency.

Brasilia has moved aggressively to curtail the powers of regulatory agencies but its reform programme remains a patchwork agenda made up of porous and temporary measures. The state's presence is extensive in many parts of the economy.

The government cut taxes by a modest 6.6 billion real in 2007 and by 11.5 billion real in 2008. The tax cuts are aimed at specific industries. In 2007, an auction was held with private companies bidding to improve and maintain thousands of kilometres of roadway.

Table 1 Indicators of Business Environment: 2008

|   |       |
|---|-------|
| Business start-up                                       |       |
| Procedures (no.)  | 18    |
| Cost (% of GNI per capita)                              | 8     |
| Duration (days)   | 152   |
| Dealing with construction permits                       |       |
| Procedures (no.)  | 18    |
| Time (days)   | 411   |
| Cost (% of GNI per capita)                              | 47    |
| Employing workers                                       |       |
| Rigidity of employment (index)                          | 46    |
| Firing workers (weeks of wages)                         | 37    |
| Ratio of minimum wage to average value added per worker | 0.25  |
| Tax rate  |       |
| Total tax rate (% profit)                               | 69    |
| Corporate tax rate (% of taxable profit)                | 16    |
| Labour tax and contributions (% of commercial profits)  | 41    |
| Exporting   |       |
| Documents for export (no.)                              | 8     |
| Time to export (days)                                   | 14    |
| Cost to export (US\$ per container)                     | 1,240 |
| Importing   |       |
| Documents for import (no.)                              | 7     |

|                                     |       |
|-------------------------------------|-------|
| Time for import (days)              | 19    |
| Cost to import (US\$ per container) | 1,275 |
| Registering Property                |       |
| Procedures (no.)                    | 14    |
| Cost (% of property value)          | 3     |
| Protecting investors                |       |
| Investor protection index           | 5.3   |

Source: Euromonitor International based on the World Bank

Note: Figures for dealing with construction permits refer to the time and cost of building a warehouse, including licenses and permits. Rigidity of employment takes into account the difficulty of hiring, the rigidity of hours worked (scheduling of non-standard work hours and annual paid leave) and the difficulty of firing. The index ranges from 0 to 100 with higher values indicating a greater measure of rigidity. The cost of exporting and importing is recorded as the fees levied on a 20-foot container in United States dollars. All the fees associated with completing the procedures to export or import the goods are included. The total tax rate measures the amount of taxes payable by the business in the second year of operation, expressed as a share of commercial profits. The taxes included are profit or corporate income tax, social security contributions and other labour taxes paid by the employer, property taxes, turnover taxes and other small taxes (such as municipal fees and vehicle

## Energy Markets

Brazil has 12.2 billion barrels of oil, the second largest oil reserves in South America (after Venezuela). Proven crude oil reserves have increased significantly following a number of oil discoveries offshore in the Campos Basin. Oil production has also risen steadily in recent years. As a result, Brazil is expected to become an oil exporter in 2009.

Brazil has 12.3 trillion cubic feet of natural gas reserves. Production has grown slowly in recent years. The government hopes to increase natural gas production through an expansion of the domestic natural gas transport network, ending flaring at oil-producing facilities, and increased development of existing reserves.

The government-owned oil company, Petrobras, plans to spend US\$39 billion on exploration and production upgrades through 2011. Brazil is already the largest producer and exporter of ethanol in the world. Over half of all cars in the country are of the flex-fuel variety, meaning that they can run on 100% ethanol or an ethanol-gasoline mixture.

## Overview of the Economy

Brazil's economic performance improved significantly in the past few years. The economy is much more diversified today. Brazil remains dependent on exports of iron ore, soy and other farm products and raw materials but much less so than in the past. The likely recession in 2009 will end three consecutive years of steady growth.

Most of the country's gains can be attributed to orthodox macroeconomic policies such as a floating exchange rate, tight fiscal restraints and inflation targeting. The rapid economic gains of India and China have altered the world economy in ways that directly benefit commodity exporters such as Brazil. Traditionally one of the world's most isolated economies, Brazil is finally beginning to penetrate international markets.

The public debt has been a serious problem but the situation is greatly improved. The deficit in the pension system has also been reduced. The public sector still accounts for an uncomfortably large share of GDP and is one of the main reasons why Brazil's performance is not even better.

## ECONOMIC OUTLOOK

### Key Points

- International analysts have been steadily cutting back their growth forecasts for Brazil. The latest estimate is for GDP to decline by at least 1.3% in 2009.
- The government also plans to spend US\$1.5 billion to finance further industrial development. The plan includes tax breaks for machinery modernisation, investment for research and development, and international marketing campaigns.
- The growth of private consumption is slowing, which is due to tighter credit conditions.
- The country's state-owned oil company has announced plans to invest US\$5 billion by 2010. Without significant new investment in the electricity industry, Brazil faces rationing within the next few years.
- Unemployment remains a problem but the poverty rate has been falling and is now about a quarter of the total population. In part, this is attributed to the government's successful anti-poverty programme.

### Economic Prospects

International analysts expect Brazil's economy to contract by at least 1.3% in 2009. Some private economists are predicting an

even harsher recession with GDP falling by around 2%.

Private consumption rose by more than 6.5% in 2008 but slowed in 2009, which is due to tighter credit conditions. A major structural change is the continued emergence of a large middle class, along with stable consumer spending and reduced poverty. Rapid growth in credit helps to drive domestic demand, fuelling pent-up demand for housing and other consumer durables.

Brazil's current account turned negative in 2008 and a deficit is expected over the next several years. In 2009, the deficit will be just 1.8% of GDP but any rapid deterioration will leave the country vulnerable to adverse financial conditions – especially a sharp reversal in capital inflows.

Unemployment remains a problem but the poverty rate has been falling and is now about a quarter of the total population. In part, this is attributed to the government's successful anti-poverty programme. Poor families are paid 120 reais per person per month if their children attend school and take part in public vaccination programmes. Wages are rising, providing a boost to private consumption and the minimum wage has been increased by 50% since 2004.

The authorities intend to implement a series of tax breaks and low-cost loans for at least four priority industries: semi-conductors, software, capital goods, and pharmaceuticals. The government also plans to spend US\$1.5 billion to finance further industrial development. The plan includes tax breaks for machinery modernisation, investment for research and development, and international marketing campaigns. Brasilia plans to cut the overall deficit to just 0.2% of GDP by 2010 (down from 1.3% currently).

### Political Stability and Risks

The country's judicial system is dysfunctional and many of its judges are corrupt. Brazil's largest cities are some of the most dangerous in the world. Drugs, unemployment and bad policing are behind the crime wave. The distribution of income is also inequitable and a source of unrest and violence. However, in recent years the degree of equality has improved.

The influx of cocaine and other narcotics is blamed for many of the 370,000 deaths by violence in Brazil over the past ten years. Washington argues that Brazil is now the second largest single-country market for cocaine in the world. Drugs have financed arms purchases and intensified turf wars between gangs in Rio do Janeiro and other cities.

### Evaluation of Market Potential

A recovery is expected in 2010 but growth will still be modest by historical standards. GDP should increase by just over 2% but is expected to gather momentum and turn in a stronger performance in 2011.

Most risks to the economy's prospects are external. However, Brazil has taken a number of steps which should help to isolate it from the global downturn. External debt has been almost eliminated and the banking system has strengthened substantially. However, Public debt in domestic currency is still around 41% of GDP, a figure much higher than in most other emerging economies.

Over the longer term, however, foreign capital will be essential to modernise the country's dilapidated infrastructure. Brazil, for example, is larger than the continental US, but its railway network is less than one-tenth the size. According to one estimate, Brazilian transport costs are double those of China or Russia. These constraints seriously undermine the country's competitiveness.

There are several reasons to think export expansion can be sustained once global demand begins to strengthen again. The country's competitive advantages – abundant fertile land, mineral resources and low labour costs – mean it will be able to defend market share better than its rivals.

### Statistical Summary

|                                  | 2003        | 2004        | 2005        | 2006        | 2007        | 2008        |
|----------------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Inflation (% change)             | 14.7        | 6.6         | 6.9         | 4.2         | 3.6         | 5.7         |
| Exchange rate (per US\$)         | 3.08        | 2.93        | 2.43        | 2.18        | 1.95        | 1.83        |
| Lending rate                     | 67.1        | 54.9        | 55.4        | 50.8        | 43.7        | 47.3        |
| GDP (% real growth)              | 1.1         | 5.7         | 3.2         | 4.0         | 5.7         | 5.1         |
| GDP (national currency millions) | 1,699,949.0 | 1,941,497.0 | 2,147,238.0 | 2,369,797.0 | 2,597,611.0 | 2,889,718.0 |
| GDP (US\$ millions)              | 552,384.6   | 663,732.4   | 882,043.6   | 1,089,398.2 | 1,334,120.8 | 1,575,837.3 |
| Population, mid-year ('000)      | 183,052.5   | 185,574.2   | 188,076.9   | 190,557.0   | 193,009.5   | 195,427.4   |
| Birth rate (per '000)            | 20.5        | 20.3        | 20.1        | 19.8        | 19.5        | 19.2        |
| Death rate (per '000)            | 6.3         | 6.3         | 6.3         | 6.3         | 6.3         | 6.3         |
| No. of households ('000)         | 48,453.9    | 49,243.1    | 49,979.2    | 50,710.4    | 51,432.0    | 52,141.7    |
| Total exports (US\$ millions)    | 73,203.2    | 96,677.8    | 118,529.0   | 137,807.0   | 160,649.0   | 197,942.0   |
| Total imports (US\$ millions)    | 50,881.1    | 66,433.4    | 77,627.8    | 95,836.0    | 126,564.0   | 182,408.0   |

|  |           |           |           |           |           |           |
|--|-----------|-----------|-----------|-----------|-----------|-----------|
| Tourism receipts (US\$ millions)               | 2,479.0   | 3,222.0   | 3,861.0   | 4,316.0   | 4,953.0   | 5,477.5   |
| Tourism spending (US\$ millions)               | 2,261.0   | 2,871.0   | 4,720.0   | 5,764.0   | 8,211.0   | 9,829.2   |
| Urban population ('000)                        | 148,980.1 | 152,075.9 | 155,178.4 | 158,349.8 | 161,550.9 | 164,752.8 |
| Urban population (%)                           | 82.0      | 82.5      | 83.1      | 83.6      | 84.2      | 84.8      |
| Population aged 0-14 (%)                       | 28.5      | 28.2      | 27.9      | 27.7      | 27.5      | 27.3      |
| Population aged 15-64 (%)                      | 65.6      | 65.8      | 66.0      | 66.1      | 66.1      | 66.2      |
| Population aged 65+ (%)                        | 5.8       | 6.0       | 6.1       | 6.2       | 6.3       | 6.4       |
| Male population (%)                            | 49.4      | 49.4      | 49.3      | 49.3      | 49.3      | 49.3      |
| Female population (%)                          | 50.6      | 50.6      | 50.7      | 50.7      | 50.7      | 50.7      |
| Life expectancy male (years)                   | 67.6      | 67.9      | 68.2      | 68.5      | 68.7      | 68.9      |
| Life expectancy female (years)                 | 75.1      | 75.4      | 75.6      | 75.8      | 76.0      | 76.2      |
| Infant mortality (deaths per '000 live births) | 13.7      | 13.0      | 12.6      | 12.1      | 12.0      | 11.5      |
| Adult literacy (%)                             | 88.1      | 88.6      | 88.9      | 89.6      | 90.5      | 91.1      |

## Imports and Exports

| Major export destinations  | 2008 Share (%) | Major import sources       | 2008 Share (%) |
|----------------------------|----------------|----------------------------|----------------|
| Europe                     | 31.1           | Europe                     | 28.8           |
| Latin America              | 23.7           | Asia Pacific               | 22.7           |
| Asia-Pacific               | 18.2           | North America              | 22.0           |
| North America              | 17.4           | Latin America              | 15.2           |
| Africa and the Middle East | 9.0            | Africa and the Middle East | 10.7           |
| Australasia                | 0.6            | Australasia                | 0.7            |