Data and Profiles - Market Profiles

Brazil: Market Profile

23 March 2021

Fitch Solutions

1. Overview

With an estimated population of more than 210 million, Brazil is one of the world's most populous countries, after Mainland China, India, the United States and Indonesia. Brazil has a diversified economy with large, well-established companies in the agricultural, commodities, industrial and service sectors. It also has a large middle class and is among the top 10 largest economies in the world in terms of purchasing power parity. Furthermore, 2019 heralded a change of government to one with a new platform based on austerity and major reforms, such as social security/pension reform, tax reform and labour reform. The Covid-19 pandemic found Brazil with a fragile recovery and limited fiscal policy space following the 2015/16 recession. Brazil's GDP is projected to decline in 2020 as a result of demand and supply shocks, after which it is expected to rebound in 2021 and 2022. However, Brazil's relatively rapid economic rebound is likely to decelerate as the government reduces stimulus spending. Despite the recession and uncertainties brought about by the pandemic, Brazil's macroeconomic framework is expected to remain broadly adequate, albeit with substantial downside risks, calling for strong fiscal consolidation and the adoption of structural reforms in 2021, some of which have already started to remove critical bottlenecks for productivity growth. A lack of progress on reforms could lead to a deterioration of investors' optimistic sentiment and undermine market confidence in Brazil's long-term fiscal sustainability. Brazil has suffered low productivity growth over the last two decades. The country also lacks adequate investment in infrastructure; consequently, the federal government aims to approve new legislation for key infrastructure sectors (such as energy, telecommunications and railways). A new legal framework for the water and sanitation sector was recently approved in Congress. The government is also opening markets to private sector participation through concessions (airports), foreign investment (air passenger transport) and public-private partnerships (for example, ports).

On the trade side, the government has concluded new trade agreements to foster Brazil's integration into the global economy, starting with the Mercosur-European Union (EU) and Mercosur-European Free Trade Association (EFTA) agreements recently concluded, and ongoing negotiations with Canada, South Korea and Singapore.

Sources: World Bank, Fitch Solutions

2. Major Economic/Political Events and Upcoming Elections

July 2019
McCain Foods unveiled plans to build its first frozen french fries production facility in Brazil, at Araxá in the state of Minas Gerais. The project would entail an investment of around USD100 million and is due to be opened in the first half of 2021.

August 2019
Accelerating rates of deforestation in the Brazilian Amazon rainforest have drawn international interest, particularly because of a sharp spike in forest fires burning across the region. Thick clouds of smoke from a decade-high number of fires have reached São Paulo, thousands of kilometres from the forests. Many of the fires appear to have been started by agricultural interests to expand grazing or farmland, efforts that President Jair Bolsonaro has long promoted.

September 2019
The Brazilian government signed 30-year concession deals with three winning bidders for 12 airports divided into three regional blocks – Northeast, Southeast and Midwest – according to a press release from the Ministry of Infrastructure.

October 2019
Brazil's Congress finalised a significant deal to reform its onerous pension system. The changes are meant to slow the growth of pension expenditures. Key provisions included establishing minimum retirement ages, increasing contributions and limiting some benefits. Under the spending cap amendment, growth is limited to the rate of the previous year's inflation, with few exceptions.

December 2019
The Brazilian Revenue Authority and the Organisation for Economic Co-operation and Development (OECD) issued a joint report that outlined two potential options for aligning Brazil's transfer pricing rules with the OECD standard.

January 2020
Data released by Brazil's National Institute for Space Research showed that it had marked more than 9,000 square kilometres of rainforest with deforestation warnings, compared with just under 5,000 square kilometres in 2018. The destruction has continued at a worse rate in 2020.

Following talks between Bolsonaro and India's Prime Minister Narendra Modi, Brazil and India set a target of USD15 billion of bilateral trade by 2022 by expanding cooperation in sectors such as oil, gas and mining. The two sides signed an investment cooperation and facilitation treaty to provide a framework to increase trade and investment in high-growth areas.

March 2020
Industrial output plunged to 2003 levels as the Covid-19 pandemic made its impact economically.

Heineken announced it was investing USD180 million to expand its Ponta Grossa brewing plant in 2020 and 2021. Brazil is the company's largest market worldwide.

To mitigate the impact of COVID-19, the authorities announced a series of fiscal measures adding up to nearly 8% of GDP, of which the direct impact in the 2020 primary deficit is estimated at 4.8% of GDP. Congress declared a state of “public calamity” on March 20, lifting the government’s obligation to comply with the primary balance target in 2020. The fiscal measures included temporary income support to vulnerable households (bringing forward the 13th pension payment to retirees, cash transfers to informal and unemployed workers, and advance payments of salary bonuses to low income workers), employment support (partial compensation to workers which were temporarily suspended or have a cut in working hours, as well as temporary tax breaks and credit lines for firms that preserve employment.

The Banco Central do Brasil (BCB) enacted a range of measures to ensure credit availability during the crisis, including cuts to reserve requirements, loan guarantees and repo operations that had injected an estimated total of BRL2.7 trillion of liquidity (approximately 35.6% of GDP). The BCB has also cut its benchmark Selic target rate to 2%, a historic low, where we expected it would remain over the coming months.

In addition, the United States Federal Reserve has arranged to provide up to USD60 billion to the central bank through a swap facility that will remain in place for the next six months.

July 2020
The government unveiled the first part of its tax reform agenda, aiming to lower the overall tax burden, which would merge two federal consumption taxes into a new single 12% value-added tax on goods and services.

Waivers for statutory restrictions that constrain the deficit and spending would give the government more fiscal space. Congress recognised a 'state of public calamity' in H1 2020, exempting the federal government from meeting its fiscal deficit target of BRL124.1 billion. In addition, the government invoked an exemption under the spending cap amendment, which limits expenditure growth to the previous year's inflation rate, which would allow for exceptional health spending. At the beginning of July, the government revised its fiscal outlook for this year due to heightened emergency expenditure and the slump in tax revenue. The central bank also opened a facility to provide loans to financial institutions backed by private corporate bonds as collateral, changed capital requirements for small financial institutions, and allowed banks to reduce provisions for contingent liabilities provided the funds are lent to small- and medium-sized enterprises. The five largest banks in the country agreed to consider requests by individuals and small businesses for a 60-day extension of their maturing debt liabilities.

November 2020
The BCB launched its 'Pix' payments system, which allows consumers and business users to make instantaneous cash transfers between different mobile wallets and bank accounts. The Pix system will also allow interoperability of QR code payments, and will be free for consumers to use.

Neoenergia started construction on its 566.5MW Oitis wind complex in the Brazilian states of Piau and Bahia. The USD567 million complex would have 12 wind parks.

In municipal elections, held on November 15 with runoffs on November 29, many centre-right parties regained power. Numerous members of the 'centrão' won control of cities and municipalities throughout the country at the cost of more right-wing established parties. In particular, Democratas elected 459 mayors, including three state capitals. The results put these parties in a far stronger position to campaign for the 2022 federal election.

December 2020
Enel started construction on four wind farms and one solar plant, with a total capacity of 1.3GW, to the value of USD1.1 billion.

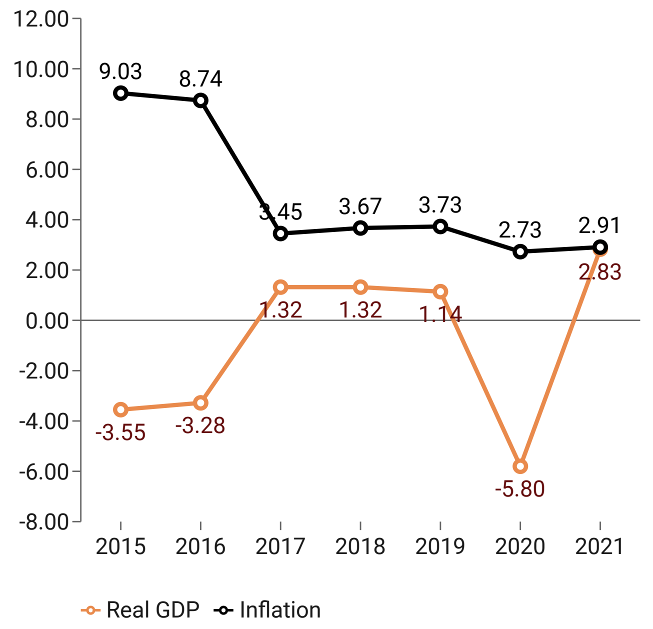
January 2021
Brazil started its Covid-19 vaccination programme after the approval of two different vaccines.

February 2021
On February 6, Brazil received the first shipment of 88 litres of active pharmaceutical ingredients (APIs) from Mainland China, required to make AstraZeneca's Covid-19 vaccine. The 2.8 million doses of the vaccines would be made in the Fiocruz biomedical centre.

Sources: BBC Country Profile, OECD, Business Today, IMF, Fitch Solutions

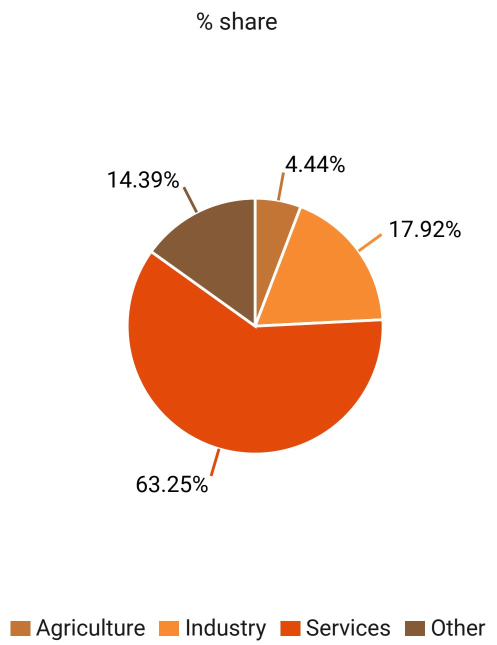
3. Major Economic Indicators

Real GDP and Inflation



2020 (estimate); 2021 (forecast)
Source: IMF
Date last reviewed: January 11, 2021

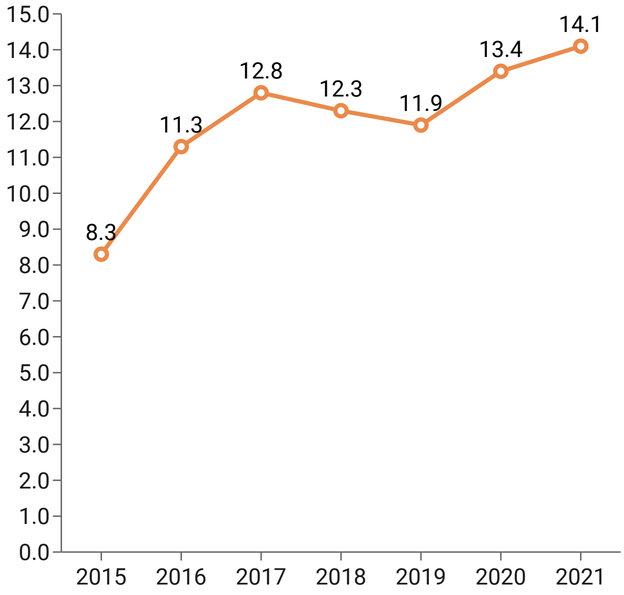
GDP by Sector (2019)



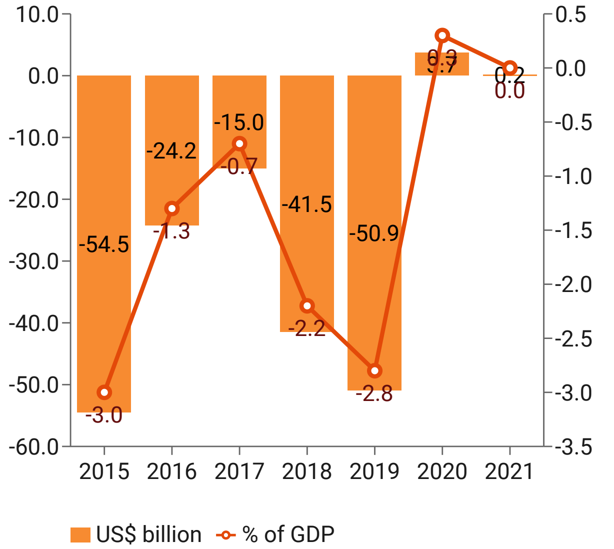
Source: World Bank
Date last reviewed: December 17, 2020

Unemloyment Rate

Current Account Balance



2020 (estimate); 2021 (forecast)
Source: IMF
Date last reviewed: January 11, 2021

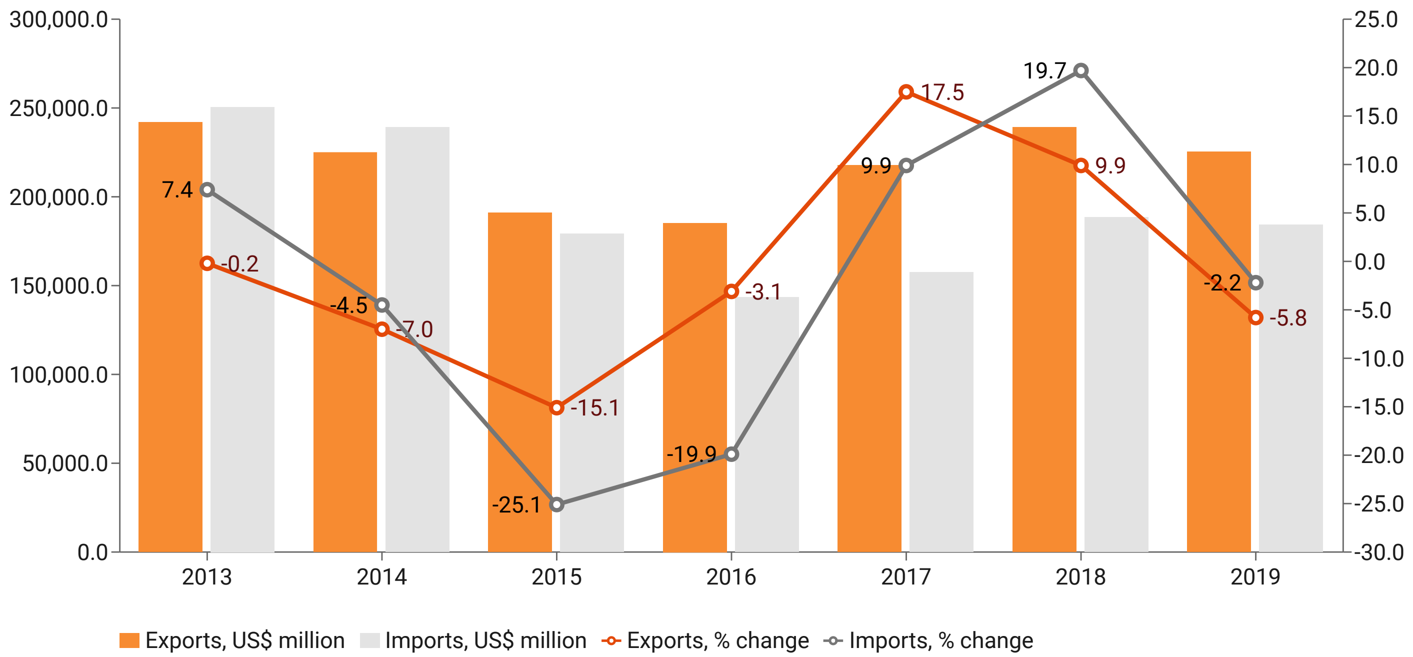


2020 (estimate); 2021 (forecast)
Source: IMF
Date last reviewed: January 11, 2021

4. External Trade

4.1 Merchandise Trade

Merchandise Trade



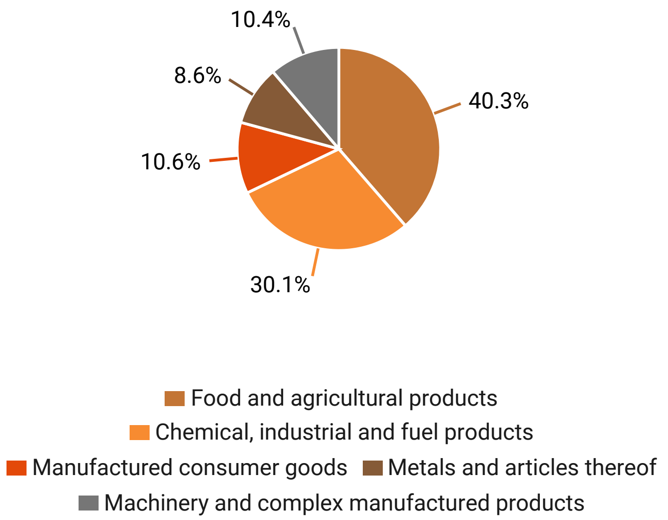
Source: WTO
Date last reviewed: January 11, 2021

Major Export Commodities (2020)

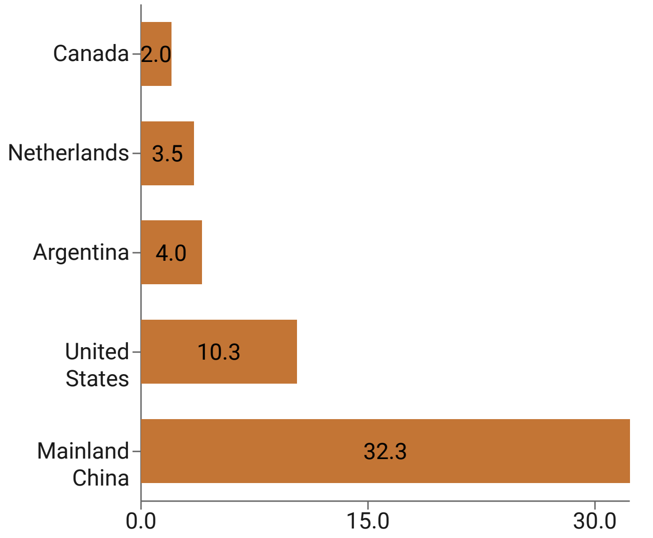
% share

Major Export Markets (2020)

% share



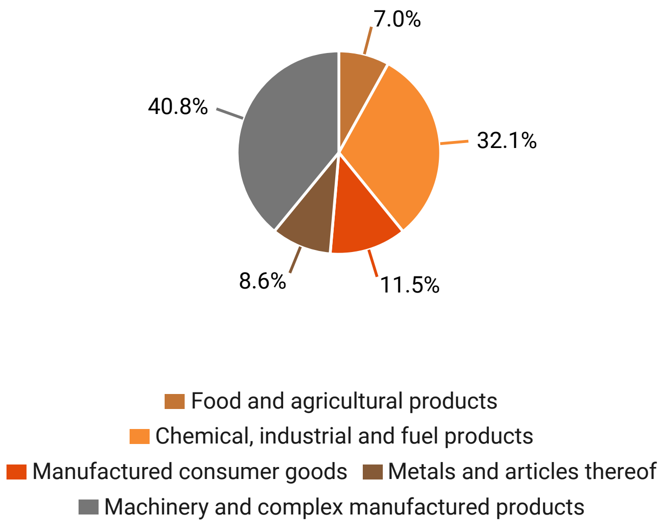
Sources: ITC-Trade Map, Fitch Solutions
Date last reviewed: March 8, 2021



Sources: ITC-Trade Map, Fitch Solutions
Date last reviewed: March 8, 2021

Major Import Commodities (2020)

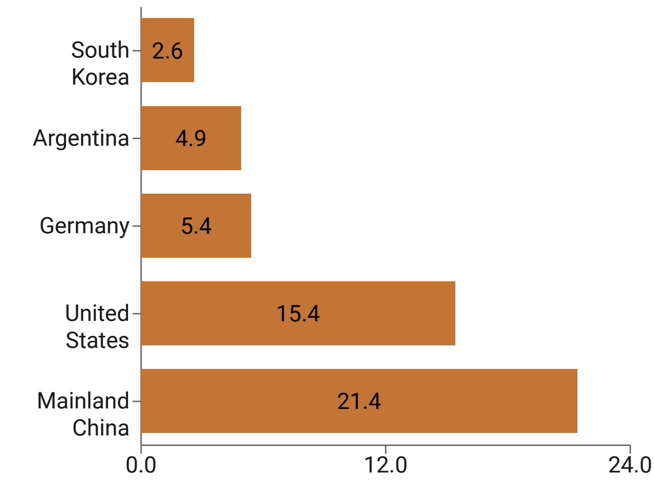
% share



Sources: ITC-Trade Map, Fitch Solutions
Date last reviewed: March 8, 2021

Major Import Markets (2020)

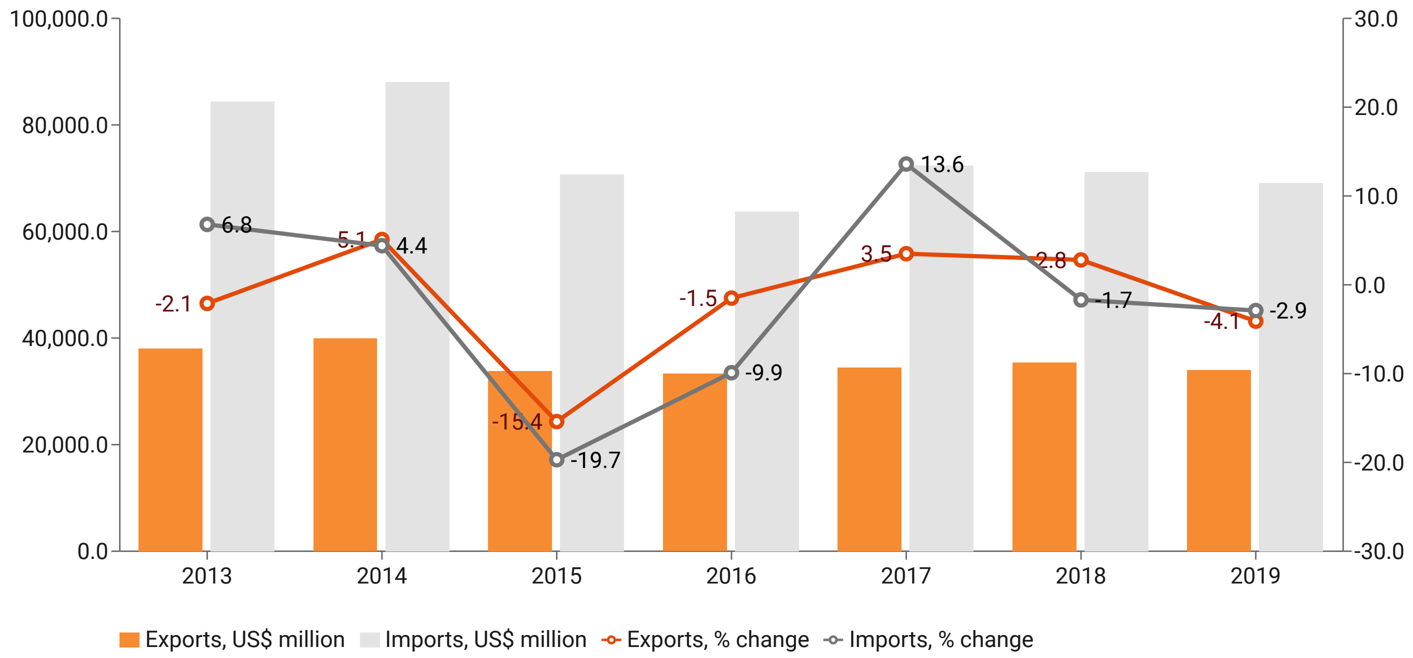
% share



Note: Brazil re-import activity means Brazil accounts for 7.9% of imports
Sources: ITC-Trade Map, Fitch Solutions
Date last reviewed: March 8, 2021

4.2 Trade in Services

Trade in Services



Source: WTO
Date last reviewed: January 11, 2021

5. Trade Policies

- Brazil has been a World Trade Organization (WTO) member since January 1, 1995, and a member of the General Agreement on Tariffs and Trade since July 30, 1948. Brazil's maximum bound tariff rates at the WTO are set much higher than the average tariff, at 35% for industrial products and 55% for agricultural products. This allows the government considerable scope to adjust tariff rates in order to protect domestic industries and manage prices, causing significant uncertainty for Brazil-based firms reliant on intermediate inputs.

- Brazil is a member of regional customs union Mercosur, along with Argentina, Paraguay, Uruguay and Venezuela (although the latter is currently suspended). It facilitates trade with these countries through the removal of tariff and non-tariff barriers, and creates common external tariffs for imports to all five members. There are also free trade agreements (FTAs) in place between Mercosur and Bolivia, Chile, India, Israel and Peru, and negotiations are ongoing with other free trade blocs and customs unions, including the Caribbean Community. A trade deal has been negotiated with the EU. It was signed in June 2019 after two decades of negotiation and is awaiting ratification by EU member states. These agreements will help to ease the process of exporting and importing, and aid the further diversification of trade partners, with the EU providing an important market for Brazilian exports.

- Brazil imposes significant duties on imports, which average 8%, the third-highest figure regionally. Although a common external tariff is applied by virtue of Brazil's membership of the Mercosur customs union, a number of exemptions are permitted that allow the government to set variable (and in most cases higher) import tariffs. Agricultural products are subject to the highest import tariffs, which can be up to 55% under WTO's most favoured nation rules, while vital commodities that are required for the basic functioning of the economy, such as refined oil, gas and coal, are not subject to customs duties. There are also non-tariff barriers to imports, which can take the form of limited entry via specified ports, high maritime transport costs, restricted storage or special processing requirements.

- Import transactions in Brazil are subject to regulation, authorisation and inspection by the Ministry of Finance's Federal Revenue Secretariat and the Ministry of Development, Industry and Foreign Trade's Foreign Trade Secretariat (SECEX). To obtain such authorisation, the importer must use the Integrated System for International Trade (Sistema Integrado de Comércio Exterior), known as the SISCOMEX – a computerised system through which customs clearance and import licensing operations are processed. Enrolment is automatic upon the execution of the company's first import transaction. Once registered with SECEX, an importer must obtain an import licence through SISCOMEX for certain goods prior to shipment. There are three types of import licences – exempt, automatic and non-automatic. Most goods are exempt from import licensing requirements. However, the importing of some products, such as spectacles and toys, currently requires licences. Overall, import licence applications are time consuming and involve lots of paperwork. Delays in the granting of licences are common. Aside from duties and taxes, certain products must comply with the applicable standards and certification requirements of the relevant national regulatory agency.

- Apart from registration and licensing, Brazil applies import duties and a range of indirect taxes on imports. Import duties are Brazil's primary instrument for regulating imports. As a Mercosur member, Brazil uses the Mercosur Common Nomenclature classification, which is consistent with the Harmonised System classification. In general, the customs value of goods is determined on a cost, insurance and freight (CIF) basis. Most imports from non-Mercosur members are subject to Mercosur's Common External Tariff (CET), which ranges up to 35%. Brazil adopted a decision by the Common Market Council in July 2015 to extend the mechanism that allows Mercosur countries to have a national list of exceptions to the CET through to December 31, 2021. The new mechanism is limited to a maximum of 100 tariff lines at the eight-digit level, down from 200 tariff lines under the mechanism that expired at the end of 2015.

- The Brazilian government applies additional federal- and state-level taxes to imports, which considerably increases the costs of inputs. The complicated tax regime, which can vary widely by state, causes difficulties for businesses importing goods, particularly if they are based in multiple locations. Over and above import duties, products imported and circulated in Brazil are essentially subject to industrial product tax (IPI), merchandise circulation tax (ICMS), social integration tax (PIS) and social contribution tax (COFINS). The IPI is a federal tax levied on most domestic and imported manufactured products. The IPI rates range between 5% and 35%, and the same rates apply for both domestically produced and imported goods. ICMS is a state government value-added tax (VAT) applicable to both imports and domestic products. Its rates range up to 25% but are generally levied at a rate of 18%. In addition, social contributions are levied at the federal level. They include the contribution for the PIS and the COFINS. These contributions are levied at a combined rate of 9.25%. All these duties and taxes are levied ad valorem on the CIF value of the imports on an accumulative basis.

- In November 2004, Brazil granted market economy status to Mainland China for the purposes of anti-dumping (AD) and countervailing (CV) duty investigations. This means that cost and pricing structures in the Chinese market are regarded as reliable and are used for calculating dumping margins. As it now stands, Brazil does not apply CV measures on imports from Mainland China or Hong Kong, but there are several AD measures on imports from Mainland China, including: vacuum flasks, loudspeakers, eyeglass frames, garlic, footwear, hairbrushes, ballpoint pens, porcelain and glass tableware, tyres for cars, motorcycles, bicycles and trucks cutlery, and pre-sensitised offset aluminium printing plates.

- Regarding exchange control, the Banco Central do Brasil does not impose a limit on the amount of currency bought by Brazilian importers. The regulation establishes that any individual or company can buy or sell foreign currency or transfer national currency to any country, with no limit on the amount, for any legal business transaction, in accordance with Brazilian tax legislation.

- On October 17, 2014, the Brazilian government ratified the United Nations Convention on Contracts for the International Sale of Goods, which is an international treaty promoting the harmonisation of rights and obligations by the parties in contracts for international sales made by companies located in different countries. Decree 8327/2014 adopts this agreement with the aim of providing greater legal certainty and predictability on international transactions, which may result in a reduction of cumbersome litigation and associated costs for companies that are involved in international trade.

- In May 2019, Brazil's Minister of Economy Paulo Guedes stated that the country plans to lower import tariffs by 10 percentage points throughout the Bolsonaro presidency (a four-year term). The reduction of tariffs is set to follow a schedule of 1% in 2019, 2% in 2020, 3% in 2021 and 4% in 2022. The cuts to the country's tariffs will need to be approved by Brazil's Congress before coming into effect. Businesses in need of imported materials will benefit from the lowering of tariffs, as will wholesalers and general traders relying on imported goods. The gradual relaxation of tariffs will also expose local businesses to new competition. Goods shipped in bulk, such as grains and cereals, may face increased price pressures from external suppliers.

Sources: WTO – Trade Policy Review, Fitch Solutions

6. Trade Agreement

6.1 Trade Updates

Negotiations between Singapore and Mercusor for an FTA are ongoing but have been delayed by the Covid-19 pandemic. The FTA is scheduled to cover issues related to market access, rules of origin, micro and small enterprises, phytosanitary barriers, safeguard mechanisms, trade in goods and services, investments, simplification in negotiations, intellectual property, e-commerce, and exchange between governments.

6.2 Multinational Trade Agreements

<u>Active</u>

1. The Southern Common Market (Mercosur): Mercosur is a regional customs union and economic integration agreement covering goods and services. The signatory countries are Brazil, Argentina, Paraguay, Uruguay and Venezuela (the latter is currently suspended). The agreement for goods was signed on March 26, 1991, and came into effect on November 29, 1991. The agreement for services was signed on December 15, 1997, and came into effect on December 7, 2005. The Mercosur agreement facilitates trade with these neighbouring countries through the removal of tariff and non-tariff barriers. In particular, Argentina and Uruguay are key trade partners of Brazil. The customs union is still in the process of being fully implemented, however, with some significant exceptions to the common external tariff in individual countries and a double application of import tariffs on goods imported to one member and subsequently moved into another. Bolivia is in the process of accession to becoming a full member. Mercosur encompasses approximately 75% of South America's GDP and is one of the world's largest economic blocs.

2. Mercosur associate members: The FTA between Mercosur and its associate members – Bolivia, Chile, Colombia, Ecuador, Guyana, Peru and Suriname – facilitates regional trade and is especially beneficial for trade with Chile, one of Brazil's top trade partners. However, Mercosur's associate members do not enjoy full voting rights or complete access to markets.

3. Mercosur-India Preferential Trade Agreement (PTA): The PTA between Mercosur and India was signed on January 25, 2004, and came into force on June 1, 2009. India is an important trade partner for Brazil, accounting in 2018 for approximately USD3.8 billion of Brazil's imports and purchasing USD4.4 billion of Brazil's exports. India is expected to grow faster than top trade partner Mainland China over the medium term, creating even greater opportunities for Brazilian exporters. In 2018, total Indian investment in Brazil was estimated at USD6 billion and total Brazilian investment in India was estimated at USD1 billion.

Awaiting Ratification

EU-Mercosur Trade Agreement: Mercosur (Argentina, Brazil, Paraguay and Uruguay) and the EU signed a trade deal on June 28, 2019, after two decades of negotiation. Although the agreement still needs to be ratified by the EU Parliament and EU member states for it to be enforced, the EU is the first major partner to make a trade pact with the Mercosur bloc. The trade agreement for goods and services will cover nearly 25% of global GDP, almost 800 million people, and gives EU-based companies easier entry into a market with an enormous economic potential. The deal is expected to cut duties on EU exports to Mercosur by EUR4 billion annually. It will also eliminate tariffs on 93% of Mercosur's exports to the EU and 91% of EU exports to Mercosur states. Currently, Mercosur–EU trade in goods amounts to approximately EUR87 billion, but this is down from EUR100 billion just a few years ago, with Mainland China having outpaced the EU as Mercosur's first trading partner. The EU is the biggest foreign investor in Mercosur, with stock of EUR381 billion, while Mercosur's investment stock in the EU is worth EUR52 billion. The agreement contains specific commitments on labour rights and environmental protection, including the implementation of the Paris climate agreement and related enforcement rules. The deal will also include access to public procurement contracts. The EU will not fully open its market for imports of agri-food products, although beef, poultry and honey imports from Mercosur member countries will be permitted to increase over a five-year phasing-in period. Mercosur states will greatly benefit from increased access to the EU for agricultural goods, which has resulted in opposition to the deal by European farmers. European firms, especially those in the manufacturing and industrial sector, will have an advantage over other competitors after the removal of high tariffs. The ratification of the agreement is particularly important for Brazil's autos industry because it will remove a 35% tariff on European car imports and up to 18% on car parts. The agreement will eliminate import tariffs for several Brazilian farm products – including orange juice, instant coffee and fruit – and give greater access through quotas for meat, sugar and ethanol.

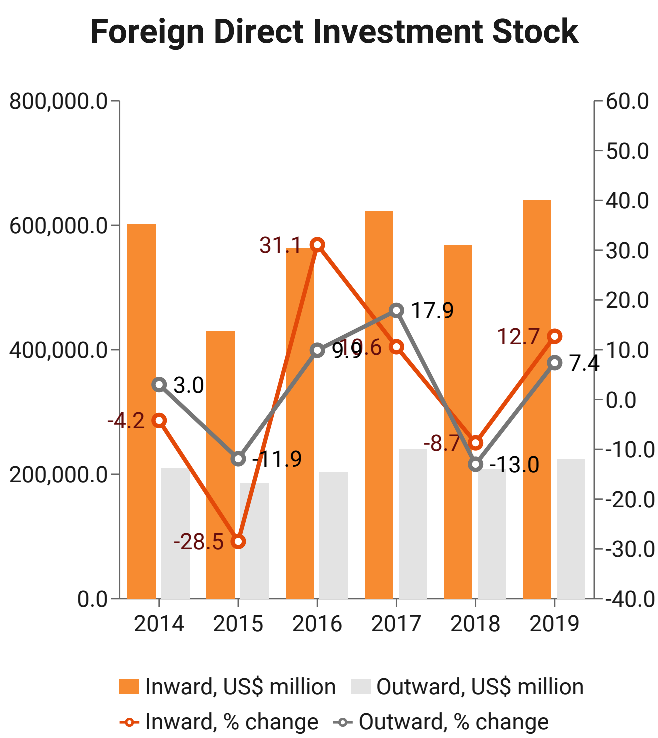
Under Negotiation

Brazil-Mexico: Brazil and Mexico signed an Economic Complementation Agreement in July 2002, which entered into force on May 2, 2003. In November 2010, the two countries began negotiations about an FTA, with both parties seeking to diversify their trading partners amid trade tensions. Brazil seeks to increase its agricultural exports to Mexico, with the latter set to benefit from increased access to the former's automotive market. A number of rounds of negotiations have been held, with the most recent in May 2019.

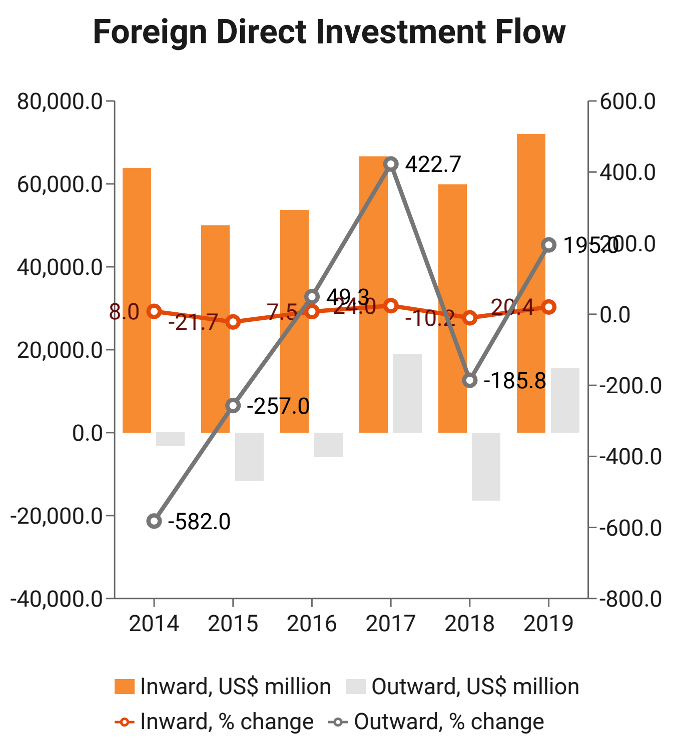
Sources: WTO regional trade agreements database, Organization of American States, Business Today, Fitch Solutions

7. Investment Policy

7.1 Foreign Direct Investment



Source: UNCTAD
Date last reviewed: October 6, 2020



Source: UNCTAD
Date last reviewed: October 6, 2020

7.2 Foreign Direct Investment Policy

1. The Brazil trade and investment promotion agency Apex-Brasil works to attract foreign direct investment (FDI) and promote Brazilian products abroad. To develop the strategic priority sectors, such as automotive, renewable energy and environmental solutions, life sciences, oil and gas, and infrastructure, the Brazilian government offers numerous tax incentives at the municipal, state and federal levels. Most of them are granted upon the submission of a project indicating the minimum invested amount, addressing job creation and other relevant matters. Apex-Brasil involves other federal bodies such as the Ministry of Development, Industry and Foreign Trade, the Ministry of Science, Technology and Innovation, the National Bank for Economic and Social Development, the Brazilian Innovation Agency and the National Council of Scientific and Technological Development, among others.

2. A major aim of incentive programmes is to entice investment into Brazil's underdeveloped regions, particularly in the northern and central areas of the country. Two development agencies have been created to serve the northeast and Amazonas regions (SUDENE and SUDAM respectively), with a licence to offer benefits for new investment. These include a 75% income tax reduction, valid for 10 years, for investment in priority sectors, and VAT exemptions offered on a case-by-case basis. A number of free trade zones have also been created in these regions.

3. In general, the government has a favourable attitude towards foreign investment and free trade, and foreign and local investors are treated equally under national legislation in most circumstances. All foreign investments must be registered with the Banco Central do Brasil in order to guarantee the payments of dividends and interest, and the repatriation of capital. The government has introduced a number of incentives to encourage FDI; these vary according to the region and industry. One of the major advantages for investors is the availability of credit from the National Bank for Economic and Social Development, which is one of the largest development banks in the world and offers attractive financing options, such as low-cost loans to both domestic and foreign investors. There are also sector-specific incentives that offer tax exemptions, reductions and credits for the automotive, IT and telecommunications industries, among others.

4. Brazil is a highly diversified economy and one of the largest consumer markets globally. To foster the competitiveness of Brazilian companies by promoting the internationalisation of their businesses and attract FDI, Brazil focuses on investment that will contribute to the development of technological innovation and new business models, strengthen industrial supply chains, have a direct impact on national job creation, and improve the volume and diversity of Brazilian exports.

5. Tax reforms have been centre stage in Brazil, as the government looks to reform the Brazilian tax system, including direct and indirect taxes in all federative levels. On the direct tax front, a reduction of the corporate income tax (CIT) is expected, while a withholding tax on dividends may be created. For indirect taxes, the various taxes and ancillary obligations that take from the companies nearly 2,000 hours to be prepared and paid should be replaced for one streamlined federal VAT in a single federal system, a dual federal/state system, or a three-layered tax that also applies at the local level, as neither states nor cities want to yield the power to divvy up revenue to the federal government. Special work has also been done to frame Brazil in the international standards of transfer pricing to reinforce the Brazilian plea to enter in the OECD.

6. Brazil has a history of interventionism in foreign investment and international trade, which makes for an unpredictable regulatory regime. This means that investing in Brazil may be profitable, but it is also subject to significant policy risk, onerous red tape and high levels of taxation. For example, when a strong currency was choking off growth and exports in 2011-2012, the government imposed several restrictions on foreign investment in Brazil in an effort to slow capital inflows. This included higher taxes on foreign investment in local fixed income and other financial instruments, and restrictions on local deposit accounts, as well as higher tariffs on imports.

7. Congressional approval is required for all large-scale land purchases, and foreign ownership of agricultural land is restricted to 25% of the land area of a given municipal district. Foreign nationals from a single country may own no more than 10% of agricultural land in a single district. Reforms under consideration may lift these restrictions as Brazil attempts to expand its agribusiness sector and open it up to foreign investors, but a bill to reverse the ban remains politically controversial, was delayed throughout 2017 and still requires congressional approval.

8. There are few foreign ownership restrictions remaining. The cap on civil aviation was lifted in December 2018, allowing 100% foreign ownership of airlines. In June 2019, a condition was removed that required air carriers operating domestic flights to entrust senior management exclusively to Brazilian nationals.

9. In April 2017, the National Energy Policy Council of Brazil relaxed local purchasing rules for the oil industry in an effort to attract foreign investment and lower costs. The requirement that oil companies operating in Brazil buy equipment locally has been lowered to 50%, and the level in the exploration of offshore oil fields to 18%.

10. The only major restriction now in place is on newspaper and television broadcasting, in which foreign ownership is capped at 30% equity interest. This will not pose a major barrier to most foreign investors seeking to enter the Brazilian market.

11. The state still plays an active role in several major industries. For instance, national oil company Petrobras retains a dominant presence in the hydrocarbons industry, hindering foreign participation in the sector. The reforms enacted in October 2016 and April 2017 will allow greater foreign involvement because the requirement for Petrobras to hold a 30% stake in an exploration of pre-salt oil fields has been removed, although it still has a 30-day first-refusal period on any new project.

12. In September 2019, procedures were simplified for foreign financial institutions willing to open branches in Brazil, or foreign investors wanting to invest in the financial sector. Furthermore, foreign and domestic investors are to be treated equally in the licensing process administered by the Banco Central do Brasil.

13. Brazil is party to one active bilateral investment treaty (with Angola). An additional 26 treaties have been signed with countries or economic unions but are not yet in force. In March 2018, Apex-Brasil and Hong Kong signed a memorandum of understanding aimed at enhancing mutual investment.

14. Brazil is party to 14 treaties with investment provisions with countries or economic unions. An additional five have been signed but are not yet in force.

15. Brazil did not feature in the 2019 FDI Confidence Index, a 25-nation assessment compiled by A.T. Kearney, having featured in all prior editions of the survey. There were no South American countries; the shift in investor sentiment perhaps reflects ongoing political and economic uncertainty in the region.

16. Brazil has reciprocity of tax treatment or double taxation treaties with 37 countries.

Sources: WTO – Trade Policy Review, UNCTAD, Apex-Brasil, Fitch Solutions

7.3 Free Trade Zones and Investment Incentives

Free Trade Zone/Incentive Programme	Main Incentives Available
Zona Franca de Manaus	Brazil's oldest trade zone, established in 1967, the Manaus Free Trade Zone (FTZ), is among the largest and most extensively developed FTZs in Latin America. - 75% income tax reduction - Lower import duties - Exemption from the tax on industrial goods
FTZs in Tabatinga, Boa Vista and Bonfim, Macapa and Santana, and Guajara-Mirim	Suspended import and industrial goods taxes

Sources: Apex-Brasil, Fitch Solutions

8. Taxation – 2021

- Value Added Tax: Between 10-15% and 18-20%
- Corporate Income Tax: 34%

Source: Secretaria da Receita Federal do Brasil

8.1 Important Updates to Taxation Information

- The Brazilian federal government has proposed a tax reform draft bill to the National Congress to create the Contribution on Transactions with Goods and Services (CBS), a federal value-added tax (IVA) that would replace the social integration programme (PIS) and the social security financing (COFINS).

- In the non-cumulative system, this new tax would be levied at a flat rate of 12% on gross revenue (instead of 9.25%) on the sales of goods, services and other main activities of the legal entities. CBS would also levy taxes on the import of goods and services, including on royalty payments and transactions with intangibles (these operations are not currently subject to PIS/COFINS), but export transactions will remain exempt. Legal entities could consider a tax credit over the total amount paid by the supplier and demonstrated on the invoice rather than those restrictions in which companies had to show the essentiality of the expense.

- Since assuming office in January 2019, Jair Bolsonaro's government has advocated structural tax changes that it argues will produce a better environment to attract foreign direct investment. This priority was restated in 2020, and a broad consensus exists in Congress that a simplification of the country's federal, state and municipal taxation system is needed, not least for a single streamlined VAT and similar reforms to help Brazil align with the generally accepted international standards of the OECD.

8.2 Business Taxes

Type of Tax	Tax Rate and Base
CIT/IRPJ	15%-34%% (the 15% CIT/IRPJ on taxable profits produces a nominal rate of 34% after allowing for social contributions at a rate of 9% and a surcharge of 10% on profits in excess of BRL240,000).

Corporate Taxpayers with Annual Taxable Income in Excess of BRL240,000	10% surchage on the annual taxable income in addition to CIT (as highlighted above)
Social Contribution on Net Income (CSLL)	- 9% - Exceptions: financial institutions, private insurance and certain other prescribed entities – taxed at a rate of 20% - CSLL is not deductible for CIT purposes - The tax base is determined as the company's profit before income tax
Capital Gains Tax	- 34% for legal entities (considered regular income and subject to CIT) - 15% (34% if surtax is included)
WHT	- 15% on interest (25% on interest paid to non-residents in low-tax jurisdictions). - 15% on royalties (25% on royalties paid to non-residents in low-tax jurisdictions).
Contribution for intervention in the economic domain (CIDE)	10% on royalties and technical and administrative service payments.
Payroll Tax	8%-8.8% on gross salaries
Severance Indemnity Fund for Employees	8% on gross salaries
Federal Excise Tax	Rates are defined by the product's tariff code (normally around 5% to 15%, but in certain cases ranging to over 300%) and essential products will attract lower tax rates.
VAT	VAT exists in two forms in Brazil – a federal excise tax on industrial goods (IPI), normally charged at the ad valorem rate (10% to 15%), and a variable state sales tax on the circulation of goods and services (ICMS). The ICMS is collected intrastate by most states at rates ranging from 17% to 19%, but certain products can attract a higher rate (usually 25%) or a lower rate (in most cases, 12%). Special rates of ICMS apply to interstate sales and services, which will be equivalent to 4%, 7% or 12%, depending on the location of the supplier and client, as well as whether the goods are imported, have certain content of imported inputs or are domestically sourced.
Municipal Service Tax	2-5% on income from services
A Municipal Property Tax (IPTU) levied annually based on the fair market value of property in urban areas	In the municipality of São Paulo, the basic IPTU rate is 1% for residential properties and 1.5% for commercial properties, but the rate varies by municipality and may be significantly lower than this.
Import Tax (II)/Customs Duty	The rates vary according to the product's tariff code based on Mercosur Harmonised System (NCM/SH), usually ranging from 10% to 20% (there are some exceptions, but the maximum consolidated rate is 35%).
COFINS	7.6% on gross income
PIS	1.65% on gross income
PIS and COFINS on imports	- 11.75% combined rate on imported goods (for the import of certain goods listed in the legislation, an additional 1% for COFINS is also applicable). - 9.25% combined rate on imported services

Source: Secretaria da Receita Federal do Brasil
Date last reviewed: February 4, 2021

9. Foreign Worker Requirements

9.1 Foreign Worker Permits

Attracting foreign workers remains somewhat difficult owing to bureaucratic obligations that must be met to obtain work permits and residence visas, as well as quotas imposed on the employment of foreigners. Employers in Brazil must apply for authorisation from the Ministry of Labour to recruit foreign workers, with both temporary (service contract) and permanent visas available. The application must include a copy of the foreign worker's passport, proof of address, curriculum vitae and supporting qualification documents. Once the application is granted, the worker is only approved for employment with the specified company. Once the worker's contract ends, or if he or she changes jobs, the worker is required to submit a new work permit application. Residence permits for foreign workers are subject to certain conditions, including the economic activity in which they may be engaged, the type of business they may establish and the region in which they may live.

9.2 Foreign Worker Quotas

For companies that employ three or more foreign workers, not more than one-third of their employees can be foreigners. In addition, they must not be paid more than one-third of the total payroll. Foreign workers with technical skills that are lacking in the Brazilian labour market are exempt from this quota. Nonetheless, this adds to the difficulties faced by businesses needing to employ highly skilled labour because these workers often come from abroad.

Sources: Government sources, Fitch Solutions

10. Risks

10.1 Sovereign Credit Ratings

	Rating (Outlook)	Rating Date
Moody's	Ba2 (Stable)	15/05/2020
Standard & Poor's	BB- (Stable)	06/04/2020
Fitch Ratings	BB- (Negative)	18/11/2020

Sources: Moody's, Standard & Poor's, Fitch Ratings

10.2 Competitiveness and Efficiency Indicators

	World Ranking		
	2018	2019	2020
Ease of Doing Business Index	125/190	109/190	124/190
Ease of Paying Taxes Index	184/190	184/190	184/190
Logistics Performance Index	56/160	N/A	N/A
Corruption Perception Index	105/180	106/180	94/180
IMD World Competitiveness	60/63	59/63	56/63

Sources: World Bank, IMD, Transparency International

10.3 Fitch Solutions Risk Indices

	World Ranking		
	2019	2020	2021
Economic Risk Index Rank	**56/201**	**55/201**	**53/201**
Short-Term Economic Risk Score	57.3	49.8	56.7
Long-Term Economic Risk Score	63.2	60.4	61.0
Political Risk Index Rank	**79/201**	**79/201**	**77/201**
Short-Term Political Risk Score	60.8	60.4	60.4

Long-Term Political Risk Score	68.9	67.4	67.4
Operational Risk Index Rank	**86/201**	**102/201**	**97/201**
Operational Risk Score	50.1	48.8	49.0

Source: Fitch Solutions
Date last reviewed: February 4, 2021

10.4 Fitch Solutions Risk Summary

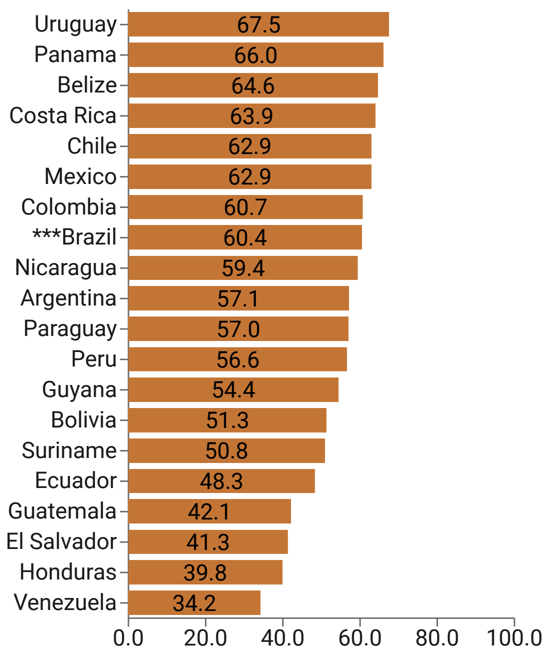
ECONOMIC RISK
The economy is expected to emerge from a deep recession as a result of Covid-19 in 2021. Inflation has decelerated rapidly, interest rates are at multi-year lows and the currency has broadly stabilised in recent months. However, a weak outlook for structural reforms suggests that investment will remain weak over the coming quarters, limiting Brazil's medium-term growth potential. Over the coming decade, Brazil will experience modest levels of growth as structural headwinds limit any quick economic solutions to the challenges faced from falling global commodity prices.

OPERATIONAL RISK
Brazil remains a key emerging market for investors. The country offers considerable opportunities for businesses in a broad range of sectors due to its attractive natural resources, large consumer and labour markets, and strategic location. However, economic growth potential continues to be constrained by a difficult operating environment, characterised by complex regulatory and legal systems, onerous taxes, an inadequate logistics network, still-weak investor sentiment and exorbitant labour costs. In addition, investor sentiment is dented by the legal risks and high level of security threat posed by criminal gangs that remain prevalent in many areas. The effects of the Covid-19 pandemic represent significant disruptions to business operations, with containment measures, policy uncertainty and movement restrictions stifling consumer spending, eroding productivity and delaying investment, while weak global demand is depressing exports.

Source: Fitch Solutions
Data last reviewed: February 5, 2021

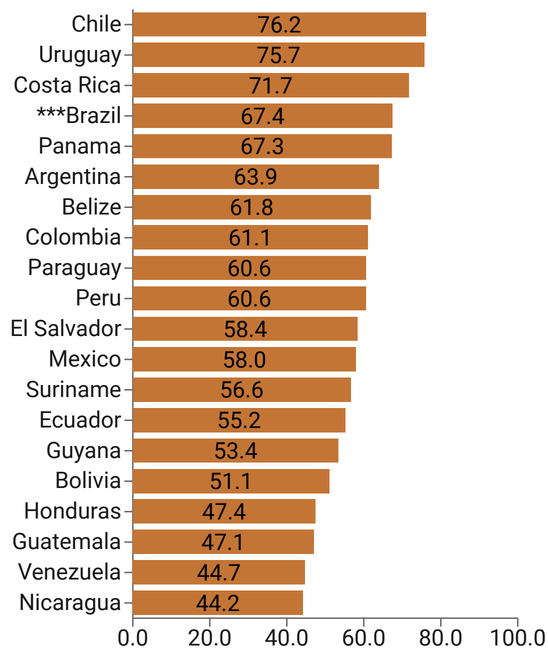
10.5 Fitch Solutions Political and Economic Risk Indices

Short Term Political Risk Index



100 = Lowest risk; 0 = Highest risk
Source: Fitch Solutions Political and Economic Risk Indices
Date last reviewed: February 4, 2021

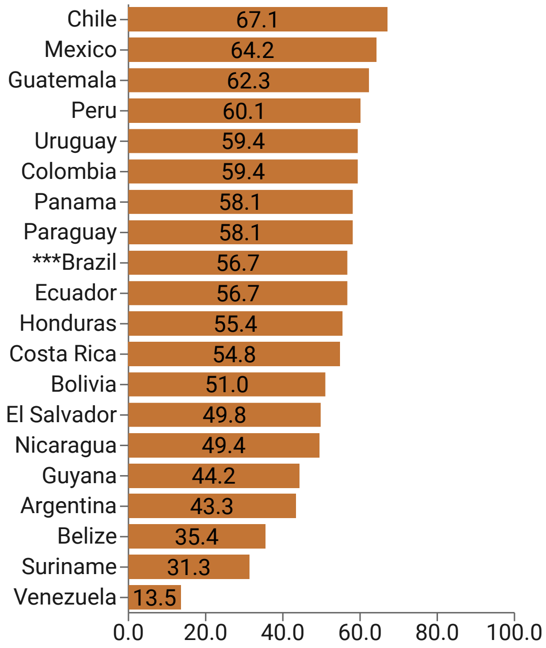
Long Term Political Risk Index



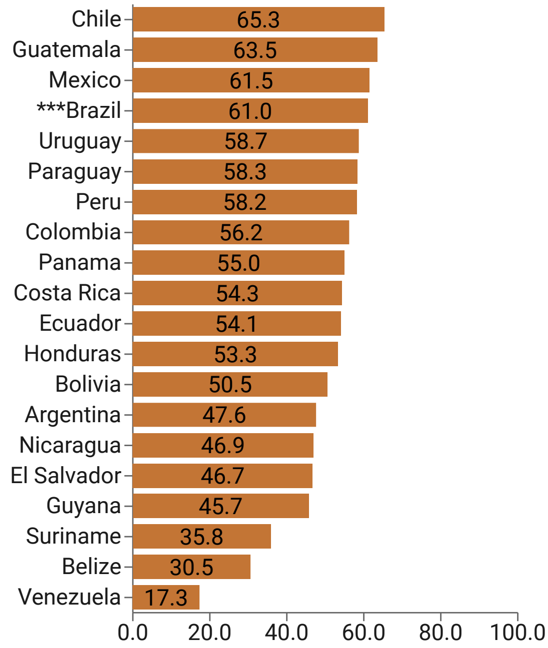
100 = Lowest risk; 0 = Highest risk
Source: Fitch Solutions Political and Economic Risk Indices
Date last reviewed: February 4, 2021

Short Term Economic Risk Index

Long Term Economic Risk Index



100 = Lowest risk; 0 = Highest risk
Source: Fitch Solutions Political and Economic Risk Indices
Date last reviewed: February 4, 2021



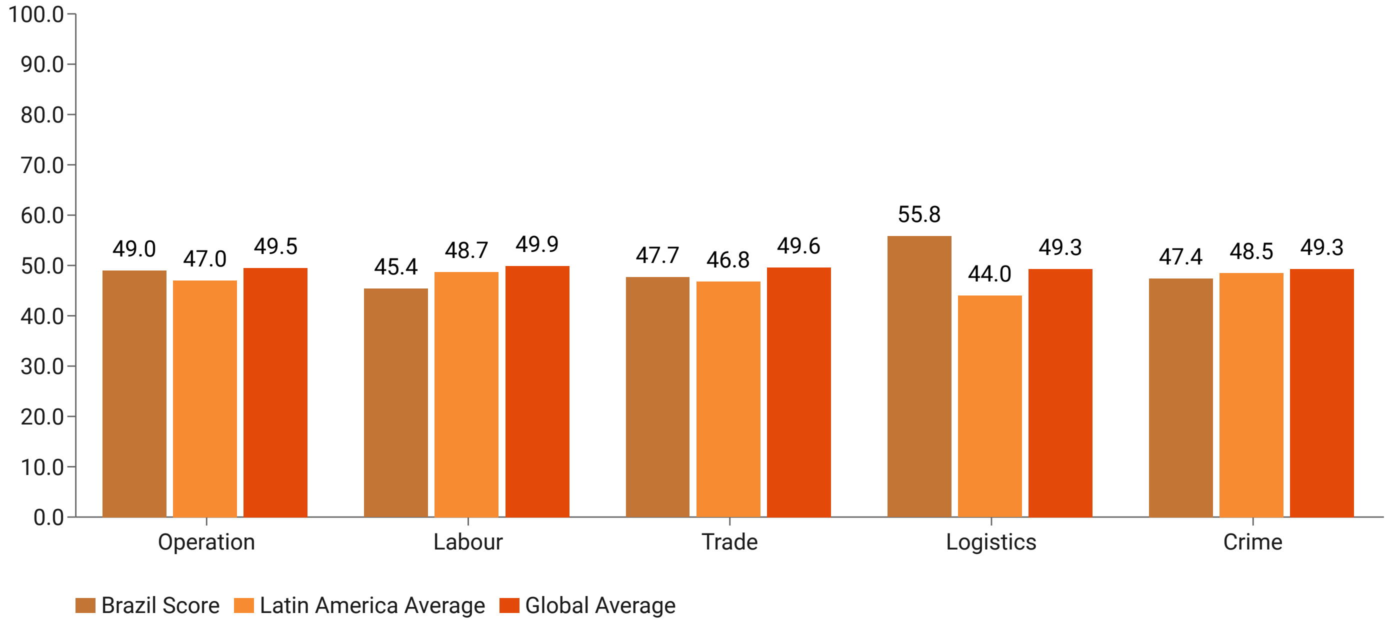
100 = Lowest risk; 0 = Highest risk
Source: Fitch Solutions Political and Economic Risk Indices
Date last reviewed: February 4, 2021

10.6 Fitch Solutions Operational Risk Index

	Operational Risk	Labour Market Risk	Trade and Investment Risk	Logistics Risk	Crime and Security Risk
Brazil Score	**49.0**	**45.4**	**47.7**	**55.8**	**47.4**
Central and South America Average	45.6	47.7	44.9	47.1	42.5
Central and South America Position (out of 20)	9	13	8	4	6
Latin America Average	47.0	48.7	46.8	44.0	48.5
Latin America Position (out of 42)	18	32	23	4	23
Global Average	49.5	49.9	49.6	49.3	49.3
Global Position (out of 201)	97	129	109	74	109

100 = Lowest risk; 0 = Highest risk
Source: Fitch Solutions Operational Risk Index

Brazil vs Global and Regional Operational Risk Averages



Note: 100 = Lowest Risk, 0 = Highest Risk
Source: Fitch Solutions Operational Risk Index
Date last reviewed: February 4, 2021

Country	Operational Risk Index	Labour Market Risk Index	Trade and Investment Risk Index	Logistics Risk Index	Crime and Security Risk Index
Chile	64.5	62.3	69.0	66.6	60.2
Panama	56.0	47.1	57.2	68.7	51.1
Costa Rica	54.8	50.2	58.9	51.3	58.7
Uruguay	53.6	49.4	51.7	54.5	58.8
Mexico	51.8	56.7	58.3	57.2	34.9
Colombia	50.7	55.2	52.4	52.9	42.4
Peru	49.9	61.4	50.3	46.1	41.7
Argentina	49.3	51.2	42.1	51.4	52.6
Brazil	**49.0**	**45.4**	**47.7**	**55.8**	**47.4**
Ecuador	46.1	51.1	36.6	53.0	43.5
Suriname	43.8	49.1	38.7	42.0	45.2
El Salvador	42.2	42.6	44.7	47.1	34.5
Belize	42.2	47.8	43.6	38.8	38.7
Paraguay	41.5	41.3	44.2	40.4	40.3
Guatemala	38.9	39.9	43.4	40.9	31.5
Honduras	38.3	37.2	43.4	39.2	33.5
Guyana	38.1	41.4	41.0	34.1	35.9

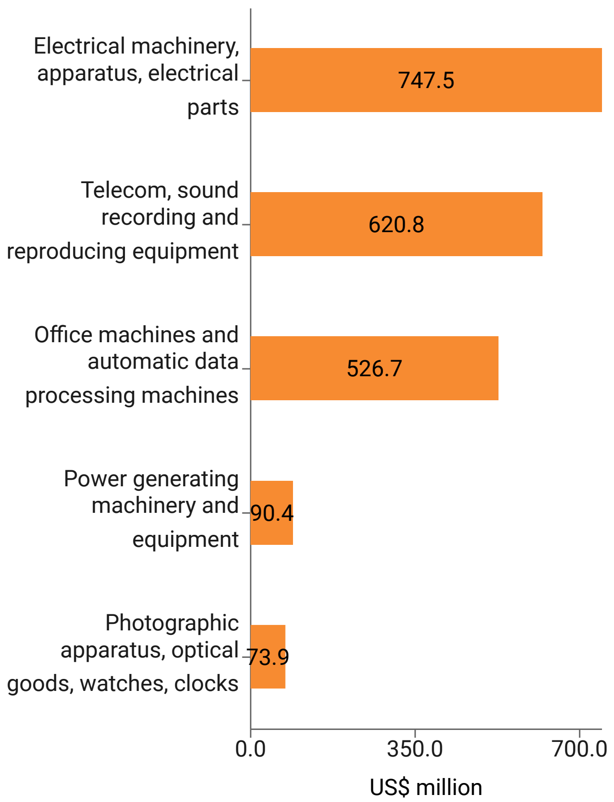
Nicaragua	36.8	36.7	35.3	36.6	38.6
Bolivia	36.2	38.7	30.5	38.8	36.7
Venezuela	27.4	48.6	9.3	27.6	24.0
Regional Averages	45.6	47.7	44.9	47.1	42.5
Emerging Markets Averages	46.8	48.3	47.1	45.8	46.1
Global Markets Averages	49.5	49.9	49.6	49.3	49.3

100 = Lowest risk; 0 = Highest risk
Source: Fitch Solutions Operational Risk Index
Date last reviewed: February 4, 2021

11. Hong Kong Connection

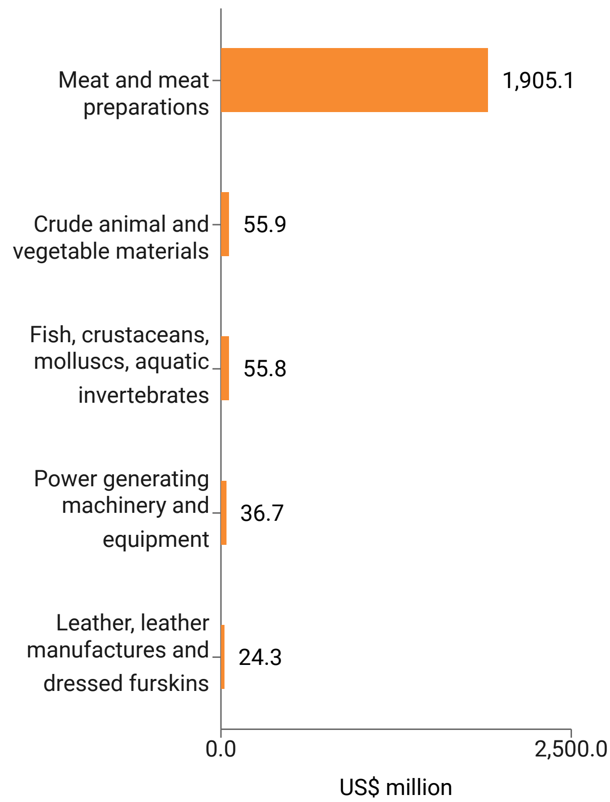
11.1 Hong Kong's Trade with Brazil

Major Export Commodities to Brazil (2020)



Note: Graph shows the main Hong Kong exports to Brazil (by consignment)
Source: Hong Kong Census and Statistics Department
Date last reviewed: February 4, 2021

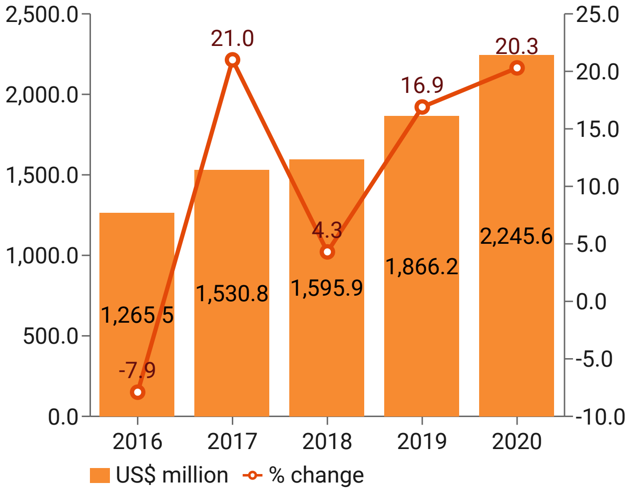
Major Import Commodities from Brazil (2020)



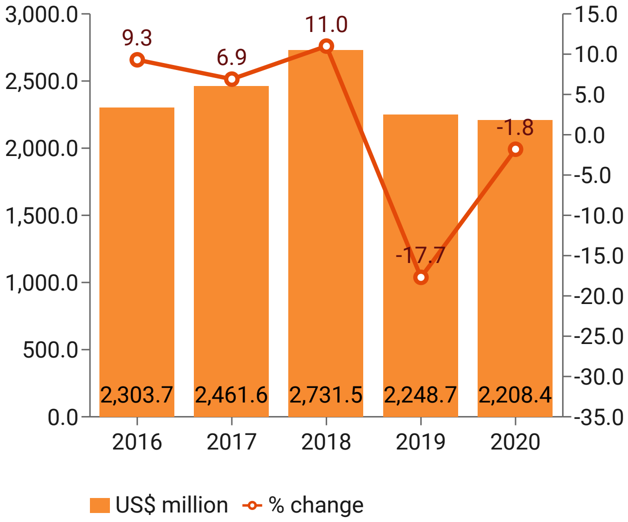
Note: Graph shows the main Hong Kong imports from Brazil (by consignment)
Source: Hong Kong Census and Statistics Department
Date last reviewed: February 4, 2021

Merchandise Exports to Brazil

Merchandise Imports from Brazil



Note: Graph shows Hong Kong exports to Brazil (by consignment)
Source: Hong Kong Trade Statistics, Census & Statistics Department
Date last reviewed: February 4, 2021



Note: Graph shows Hong Kong imports from Brazil (by consignment)
Source: Hong Kong Census and Statistics Department
Date last reviewed: February 4, 2021

Exchange Rate HK$/US$, average
7.76 (2016)
7.79 (2017)
7.84 (2018)
7.84 (2019)
7.76 (2020)

	2019	Growth rate (%)
Number of Brazilian residents visiting Hong Kong	48,500	-1.2
Number of Latin American residents visiting Hong Kong	175,111	-8.0

Source: Hong Kong Tourism Board
Date last reviewed: February 4, 2021

11.2 Commercial Presence in Hong Kong

	2020	Growth rate (%)
Number of Brazilian companies in Hong Kong	N/A	N/A
- Regional headquarters		
- Regional offices		
- Local offices		

11.3 Treaties and agreements between Hong Kong, Mainland China and Brazil

- On March 2018, Invest Hong Kong (Invest HK) and Apex-Brazil signed a memorandum of understanding (MoU) in São Paulo aimed at enhancing mutual cooperation in generating more direct investment between the two regions. The MoU was signed by the Invest HK Director-General of Investment Promotion Stephen Phillips and President of Apex-Brasil, Government of Brazil Roberto Jaguaribe. The MoU provides a framework to enhance the close relationship of Hong Kong and Brazil by further promoting both inward and outward investment in the two jurisdictions.

- An avoidance of double taxation agreement between Brazil and Mainland China came into force on January 6, 1993.

Sources: The Government of Hong Kong, OECD

11.4 Chamber of Commerce (or Related Organisations) in Hong Kong

Consulate General of Brazil in Hong Kong
Address: Rooms 2014-2021, 20/F, Sun Hung Kai Centre, 30 Harbour Road, Wan Chai, Hong Kong
Email: consular.hk@itamaraty.gov.br
Tel: (852) 2525 7002
Fax: (852) 2877 2813
Source: Consulate General of Brazil in Hong Kong

11.5 Visa Requirements for Hong Kong Residents

A tourist visa is not required for HKSAR passport holders for a stay up to 90 days. All travelers will need a passport valid for at least 90 days following the departure date from Brazil.

Source: Consulate General of Brazil in Hong Kong
Date last reviewed: February 4, 2021

Related Topics

Brazil | Central & South America | BRAZIL GDP | BRAZIL ECONOMIC STRUCTURE
BRAZIL EXTERNAL TRADE | BRAZIL IMPORT | BRAZIL EXPORT | BRAZIL TRADE POLICY
BRAZIL INVESTMENT POLICY | BRAZIL TRADE AGREEMENT | BRAZIL FDI | BRAZIL TRADE WITH HONG KONG