



**Credit Report**

Your reference : XX XXXXXX INDÚSTRIA XXXXX E EXPORTAÇÃO XXXXX  
Total number of pages : 16

Subscriber No : HK1434  
Our reference No : 982678 SK  
Type of report : Standard

Enquiry on : XX XXXXXX INDÚSTRIA XXXXX E EXPORTAÇÃO XXXXX  
XXX José Dias Bicaio X.XXX XXXXX Industrial  
XXXXXX 87507-138  
Umuarama Brazil  
Brazil

Report Date : April 04, 2023

**REPORT ON** : **X X XXXXXX - INDUSTRIA, XXXXXXXX E EXPORTACAO XXXXX**  
XXX Jose Dias Bicaio,  
XXXX - XXXXXXXX Industrial  
XXXXXX Sebastião De Mendonca  
87507-XXX - Umuarama/Pr  
Brazil

Remarks: The correct name is stated at the caption. The correct address is stated at the caption.

**Score: X (out of 10)**

Score Explanation:

It is a financial rating which assesses the probability of companies defaulting within one year.

The assessments are presented over ten distinct positions, each reflecting an average default rate in the coming year: the lower a company's credit score is, the riskier its situation is; the higher its score is, the less risky its situation is.

**Different levels and description:**

<b>Default</b>	<b>Very high risk</b>			<b>Medium high risk</b>		<b>Low risk</b>				
0	1	2	3	4	5	6	7	8	9	10

**0**: Insolvency/preliminary/debt regulation proceedings

**1**: Extremely high risk of insolvency

**2**: Very high risk of insolvency

**3**: High risk

**4**: Significant risk

**5**: Medium high risk

**6**: Acceptable risk

**7**: Moderate risk

**8**: Low risk

**9**: Very low risk

**10**: Excellent risk

**CREDIT RECOMMENDATION WITHOUT OBLIGATION**

**Recommended maximum credit: USD 1.000.000,00**

**SUMMARY:**

Founded	:	20XX
Legal form	:	Limited Liability Proprietorship
Registration date	:	02/06/20XX
Activity	:	Manufacture of upholsteries and mattresses.
Staff	:	400
Share capital	:	R\$ 10.334.300,00
Annual revenue	:	86.029.606,26 Figures Are in REAIS (year 2019)
Total assets	:	74.348.573,89 Figures Are in REAIS (year 2019)
Payments	:	No Complaints
Litigation record	:	Clear

**All figures are shown in R\$ unless otherwise stated.**

**IDENTIFICATION**

Company name : X X XXXXXX - INDUSTRIA, XXXXXXXX E EXPORTACAO XXXXX  
 XXX Jose Dias Bicaio,  
 XXXX - XXXXXX Industrial  
 XXXXX Sebastião De Mendonca  
 87507-XXX - Umuarama/Pr  
 Brazil

Tel. : 44 2031-XXXX  
 Fax : N/A  
 Email : [walter.XXXXX@XXXXXX.com.br](mailto:walter.XXXXX@XXXXXX.com.br)  
 Website : [www.XXXXX.com.br](http://www.XXXXX.com.br)

Registered address : XXX Jose Dias Bicaio,  
 XXXX - XXXXXX Industrial  
 XXXXX Sebastião De Mendonca  
 87507-XXX - Umuarama/Pr  
 Brazil

**LEGAL FORM**

Subject is established as Limited Liability Proprietorship on June 02, 20XX

Incorporation Date: 02/06/20XX  
 Register Date: 02/06/20XX  
 Balance Sheet Filing Date: 31/12  
 Tax Contributor Number(Cnpj): 05.689.380/00XX-XX  
 State Register: 902818XX-XX

**NATURE OF BUSINESS**

Manufacture of upholsteries and mattresses.

**CAPITAL**

Share Capital: R\$ 10.334.300,00  
 Last Register Of Capital: 04/01/2019

**SHAREHOLDER**

XXXX BICAIO HOLDING XXX XXXXXXXXXXXX LTDA 100,00%

XXXX BICAIO HOLDING XXX XXXXXXXXXXXX LTDA: Registration # CNPJ: 32.072.544/00XX-XX And Nire: 4120893XXXX. Headquartered At XXXX Jose Dias Bicaio, XXXX, XXX XX, Parque Industrial XXXXX Sebastiao De Mendonca Xavier Ribeiro, Umuarama/Pr, Zip Code: 87507-XXX.

**DIRECTORS****BOARD OF DIRECTORS:**

XXXXX XXXX Bicaio Manager  
 XXXX XXX Bicaio Manager  
 XXXXX XXXXX Bicaio Manager

**AUTHORIZED USE OF SIGNATURE**

The managers are authorized to sign on behalf of the company.

**MANAGEMENT**

XXXX Palma XXX: Brazilian, Married, Residential Address At XXX Jose XXXXX Ramos, XXX, Zona li, Apt. XXX - Umuarama/Pr, Holder Of Documents Rg 1.945.XXX-0 Ssp/Pr And Cpf 349.279.XXXX-04;

XXXX Dias XXXX: Brazilian, Single, Residential Address At XXXXX Getulio XXXXX, 5520, XXX lii - Umuarama/Pr, Holder Of Documents Rg 5.270.XXX-X Ssp/Pr And Cpf 611.XXXX.149-XXX.

XXXX Dias XXXX: Brazilian, Single, Residential Address At XXXX Rolandia, XXXX, Zona li - Umuarama/Pr, Holder Of Documents Cnh 00343867XXX/Detran/Pr And Cpf 668.404.XXX-XX.

Further Details Are So Far Not Known.

**HISTORY****COMPANY'S BACKGROUND**

The Subject Was Established On June 02, 20XX As "XXXXXX & Katayama Ltda" Mefurther Details Are So Far Not Known. Later It Adopted The Above The Name "X. X. XXXXXXXX & Cia Ltda - Me". On January 04, 20XX It Changed To The X X Bicaio - Industria, XXXXX E Exportacao Ltda. On July 11, 20XX It Adopted The Above-Mentioned Name And Up To Date It Is Still Operating Within The General Scene Reported Herein.

Trade Name: "XXXXXX Estofados X Colchoes".

The City Hall Has Changed The Street Nomenclature From (XXX X 1404, XXXXX Industrial, 87507-011, Umuarama/Pr) To The Present Registered One.

On January 04, 20XX The Company Went Through A Partial Split-Off With The Transference Of Its Assets To The Company "XXXXXX Transporte X Logistica Ltda" Cnpj: 32.416.215/XXXX-XX

**ACTIVITY**

Manufacture of upholsteries and mattresses.

**IMPORT AND EXPORT****IMPORTS FROM**

Japan, China, South Korea, Turkey, Italy, Hungary, England, Paraguay, Bolivia, Uruguay, United States And Panama.

**EXPORTS TO**

Uruguay, Argentina, Bolivia, Paraguay.

**MAIN CLIENTS****Domestic Clients:**

XXXXX Eletrodomésticos Ltda		
XXXX São Jorge - XXX Imp Exportação Ltda	Porto Ferreira/Sp	19 3589-XXXX
XX S/A Com. De XXXX E Eletrodomésticos		
XXXXX Utilidades Ltda		
XXXXXX Moveis E Eletrodomésticos Ltda	XXXX Do Rio Verde/Mt	65 3549-XXXX
XXXX S/A.		64 3442-XXXX
J. XXXX Ltda	S. XXXX Do Rio Preto/Sp	17 3233-XXXX
XXXX House XXX Ltda - Epp		11 3854-XXXX
XXXX Cem S/A	XXXX/Sp	11 4028-XXXX
XXXX Colombo S/A	XXXXXX/Rs	54 3268-XXXX
XXXX Salfer S/A		
XXXX Luiza S/A	XXX/Sp	16 3711-XXXX
XXXXX - XXXXX Moveis E Eletrodomestico Ltda		65 3549-XXXX
XXX Eletrosom Ltda	XXXX Carmelo/Mg	34 3849-XXXX
XXXXX Moveis E Eletrodomesticos Ltda	XXXX/Sc	49 3319-XXXX
XXXX E Oliveira Ltda		
XXX Comercial Ltda	XXXX/Sp	16 3712-XXXX

**CONCEPT AND FULFILMENT**

The Subject Is A Family-Owned Company, Operating Since 20XX. So Far It Has A Clear Trade History And Very Good Payment Behavior.

The Company Has Trade Relations With Some Suppliers In Brazil. The Suppliers Extend Credit Facilities To The Subject In Terms And Amounts According To The Company's Needs And So Far No Payment Problems Are Noted.

**MAIN SUPPLIERS****Domestic Suppliers:**

XXXXXXXXX Argi Ltda		
Cia. XXXXX De Poliuretanos		
XXXXX Camargo Ltda		
XXXXX Pereira X Freitas Ltda		
XXXXX Ind. E Com. XX Polimeros Ltda		11 2133-XXXX
XXX Brasil Industria E XXXX XX Produtos Quimicos Ltda		0800-047XXX
XXX Brasil XXXXX Indl Ltda.		0800-047XXX
XX Maringa Ltda		
XXXX Ind E XXXXX Ltda	XXXXXXXXX/Pr	44 9972-5XXX
XXX Sul Ind E XXX De Grampos Ltda		
XXXXXXXX - Ind E Com De XXXXXX Ltda	XXXXXXXXX/Pr	43 3276-3XXX
X X Lima X Cia Ltda		
XXXXXX E Souza Com XXXXX Alimenticios Ltda		
XXXXXX Ind E Com XX Metais Ltda		
XXXX Comercial XXXXX Ltda		
XXXXX Madeiras	XXXXXX Do Sul/Pr	43 3432-1XXX
XXXX Madeiras Ltda.		43 3432-1XXX

XXXXX Beretta XXXXX Ltda	Sta. XXXX D'Oeste/Sp	19 3455-XXXX
Têxtil J. Serrano Ltda	XXXX Grande Paulista/Sp	11 4158-XXXX
X XXXX Importadora Industria X Comercio Ltda		19 3406-XXXX

**VEHICLES**

Owned Vehicles Are Valued At R\$ 3.774.733,62

**MACHINES**

Owned Machines And Equipments Are Valued At R\$ 5.601.929,98

**INSURANCE**

Not available.

**PREMISES  
BRANCHES**

Address:	XXXXX Para Umuarama, S/N, XXX XX,XX F-X Da Gleba XX XXXX, Barracao X X X - Nucleo Cruzeiro
Zip Code/City:	87501-000 Umuarama/Pa
CNPJ:	05.689.380/XXXX-XX

**REAL ESTATE**

Owned Premises Are Valued At R\$ 1.913.304,10

**STAFF**

The number of staff is given to be 400

**PARENT COMPANY**

XXXX BICAIO HOLDING XXX XXXXXXXXXXXX LTDA

**AFFILIATES / SUBSIDIARIES**

A scan through outside sources showed the subject and/or directors has/have the following unconfirmed holdings:

XXXX KOMFORT INDUSTRIA XXXX E XXXXX  
 XXXX INDUSTRIA XXXX E XXXXX  
 X&X BICAIO XXXXXXXXXXXX DE BENS XXXX  
 XXXXX TRANSPORTES E XXXXXX LTDA

**FINANCE**

## FINANCIAL INFORMATION:

General Balance Sheets As Of 31/12/2019, 31/12/2018 And 31/12/2017. (Figures Are In Reais).

**Assets**

<b>Current:</b>	31/12/2019	31/12/2018	31/12/2017
Cash And Banks	8.540.089,04	10.880.645,72	3.835.630,20
Clients	28.737.195,03	26.549.382,50	23.707.794,62
Discounted Notes			-1,62
Collection Cheques	579.674,36	590.646,74	347.008,48
Advances	3.871.552,82	1.038.792,29	1.419.960,03
Recoverable Taxes	541.808,30	371.634,21	419.106,47
Pre Paid Expenses	72.634,66	2.705.308,43	2.101.995,06
Inventory	14.094.891,91	8.999.146,17	8.850.315,49
Current Accounts	3.164.520,53	1.667.019,44	60.306,63
Other	-32.491,49	-13.015,13	-12.442,68
	-----	-----	-----
Total Current Assets	59.569.875,16	52.789.560,37	40.729.672,68

**Fixed Assets:**

Investments	391.985,58	352.969,83	352.969,83
Fixed Assets	14.125.045,58	14.067.892,19	14.186.766,59
Intangible	261.667,57	208.137,57	137.445,94
	-----	-----	-----
Total Fixed Assets	14.778.698,73	14.628.999,59	14.677.182,36
	=====	=====	=====
Total Assets	74.348.573,89	67.418.559,96	55.406.855,04

**Liabilities:**

<b>Current:</b>	31/12/2019	31/12/2018	31/12/2017
Suppliers	15.625.063,33	15.088.387,91	14.217.785,47
Loans And Financing	10.396.067,14	10.683.492,76	4.204.226,82
Social / Labor Obligations	2.267.973,24	2.026.397,71	1.939.808,77
Tributary Obligations	2.254.831,22	1.551.619,15	1.458.414,91
Advance From Clients	3.597.326,00	3.358.422,51	2.167.851,94
Provisions	223.508,61	859.467,84	359.877,09
Checks To Compensate	1.964.234,20		12.344,00
Accounts Payable	2.194.927,45	373.578,88	316.565,54
	-----	-----	-----
Total Current Liabilities	38.523.931,19	33.941.366,76	24.676.874,54



**Long Term Liabilities:**

Loans And Financing	6.554.290,62	2.944.630,10	3.510.905,10
Installments Taxes Payable	1.210.036,56	1.638.320,75	1.513.340,57
	-----	-----	-----
Total Long Term Liabilities	7.764.327,18	4.582.950,85	5.024.245,67

**Net Equity:**

Share Capital	10.334.300,00	10.634.300,00	10.634.300,00
Accrued Profit (Loss)	12.282.051,42	16.646.638,25	13.458.130,73
Legal Reserves	5.443.964,10	1.613.304,10	1.613.304,10
	-----	-----	-----
Total Net Equity	28.060.315,52	28.894.242,35	25.705.734,83
	=====	=====	=====
Total Liabilities	74.348.573,89	67.418.559,96	55.406.855,04

Profit And Loss Accounts As Of 31/12/2019, 31/12/2018 And 31/12/2017. (Figures Are In Reais ).

	31/12/2019	31/12/2018	31/12/2017
Gross Sales	112.141.169,96	113.220.155,09	92.213.225,85
(-) Taxes On Sales	26.111.563,70	28.332.257,68	23.484.014,30
	-----	-----	-----
Net Sales	86.029.606,26	84.887.897,41	68.729.211,55
(-) Cost Of Sold Goods	54.937.825,85	61.179.102,81	49.898.606,88
	-----	-----	-----
Gross Profit	31.091.780,41	23.708.794,60	18.830.604,67
Operating Revenue (Expense)	-23.533.368,41	-16.921.921,23	-15.358.451,10
Financial Revenue(Expense)	-3.458.596,11	-364.035,15	-263.482,30
	-----	-----	-----
Operational Profit (Loss)	4.099.815,89	6.422.838,22	3.208.671,27
Non-Operating Result	22.574,27	583.344,71	36.680,91
Contribution/Income Tax	-439.346,45	-2.309.966,44	-1.088.942,95
	-----	-----	-----
Net Profit (Loss)	3.683.043,71	4.696.216,49	2.156.409,23

**Monthly Sales**

	2020	2019
	-----	-----
January	R\$ 14.087.340,36	R\$ 9.482.376,80
February	R\$ 11.955.421,63	R\$ 9.253.542,10
March	R\$ 8.631.264,40	R\$ 6.606.386,27
April	R\$ 1.981.819,42	R\$ 8.552.576,43
May	R\$ 9.083.252,99	R\$ 9.666.653,99
June		R\$ 7.914.089,35
July		R\$ 9.010.330,54
August		R\$ 8.968.944,58

September		R\$ 8.506.113,15
October		R\$ 10.103.788,89
November		R\$ 13.623.108,16
December		R\$ 11.320.597,56
Total	R\$ 45.739.098,80	R\$ 113.008.507,82

<b><u>Ratios:</u></b>	31/12/2019	31/12/2018	31/12/2017
Quick Ratio	1,18	1,29	1,29
Current Ratio	1,55	1,56	1,65
Accounts Receivable Turnover	2,99 Times	3,20 Times	2,90 Times
Days' Sales In Receivables	120,25 Days	112,59 Days	124,18 Days
Inventory Turnover	3,90 Times	6,80 Times	5,64 Times
Accounts Payable Period	102,39 Days	88,79 Days	102,58 Days
Return On Assets	1,16 Times	1,26 Times	1,24 Times
Sales Turnover On Net Equity	3,07 Times	2,94 Times	2,67 Times
Net Worth Tie-Up	,50	,49	,55
Indebtedness	1,65	1,33	1,16
Equity Ratio	37,74 %	42,86 %	46,39 %
Working Capital Ratio	54,63 %	55,53 %	65,05 %
General Solvency	1,61	1,75	1,87
Return On Net Equity	13,13 %	16,25 %	8,39 %
Return On Sales (Profit Margin)	4,28 %	5,53 %	3,14 %
Gross Profit Margin	36,14 %	27,93 %	27,40 %
Operational Result	4,77 %	7,57 %	4,67 %
Sales Turnover On Liabilities	2,23 Times	2,50 Times	2,79 Times
Foreign Currency On Assets			
Foreign Currency On Liabilities			

#### **EXCHANGE RATE:**

US\$ 1,00 = R\$ 5,35	- OFFICIAL RATE ON 17/07/2020
US\$ 1,00 = R\$ 4,03	- OFFICIAL RATE ON 31/12/2019
US\$ 1,00 = R\$ 3,87	- OFFICIAL RATE ON 31/12/2018
US\$ 1,00 = R\$ 3,30	- OFFICIAL RATE ON 31/12/2017

#### **COMMENTS ON THE FINANCIAL INFORMATION:**

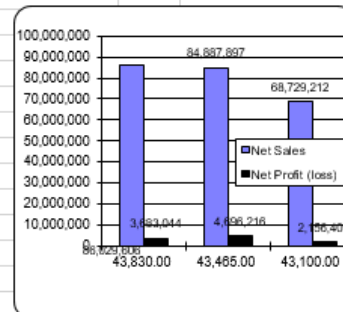
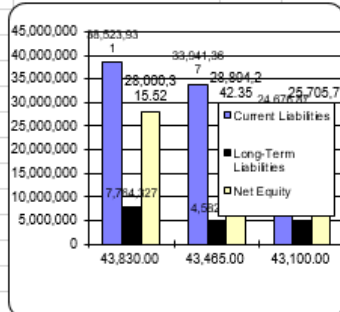
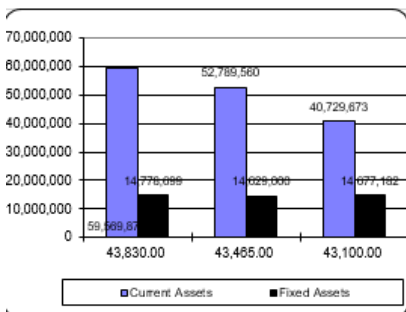
Follows Attached Worksheet With Main Financial Ratios

The Figures Available Show A Satisfactory Financial Standing. The Level Of Indebtedness Is High But It Has Good Liquidity Ratios And Positive Working Capital, Considered Sufficient To Cover The Short Term Debts. In Addition It Is Noted Drop In Sales But Posted Profit.

Z P BICAI O - INDUSTRIA, COMERCIO E EXPORTACAO EIRELI						
BALANCE SHEET ANALYSIS		FIGURES ARE IN REAIS				
	12/31/2019		12/31/2018		12/31/2017	
ASSETS		%		%		%
Current Assets	\$ 59,569,875	80.12	\$ 52,789,560	78.30	\$ 40,729,673	73.51
Fixed Assets	\$ 14,778,699	19.88	\$ 14,629,000	21.70	\$ 14,677,182	26.49
<b>TOTAL ASSETS</b>	<b>\$ 74,348,574</b>	<b>100.00</b>	<b>\$ 67,418,560</b>	<b>100.00</b>	<b>\$ 55,406,855</b>	<b>100.00</b>
<b>LIABILITIES</b>						
Current Liabilities	\$ 38,523,931	51.82	\$ 33,941,367	50.34	\$ 24,676,875	44.54
Long-Term Liabilities	\$ 7,764,327	10.44	\$ 4,582,951	6.80	\$ 5,024,246	9.07
<b>TOTAL LIABILITIES</b>	<b>\$ 46,288,258</b>	<b>62.26</b>	<b>\$ 38,524,318</b>	<b>57.14</b>	<b>\$ 29,701,120</b>	<b>53.61</b>
Deferred Income	\$ -	0.00	\$ -	0.00	\$ -	0.00
Net Equity	\$ 28,060,316	37.74	\$ 28,894,242	42.86	\$ 25,705,735	46.39
<b>TOTAL LIABILITIES + NET EQUITY</b>	<b>\$ 74,348,574</b>	<b>100.00</b>	<b>\$ 67,418,560</b>	<b>100.00</b>	<b>\$ 55,406,855</b>	<b>100.00</b>
<b>PROFIT AND LOSS ACCOUNTS</b>						
Net Sales	\$ 86,029,606	100.00	\$ 84,887,897	100.00	\$ 68,729,212	100.00
Costs	\$ 54,937,826	63.86	\$ 61,179,103	72.07	\$ 49,898,607	72.60
Gross Profit	\$ 31,091,780	36.14	\$ 23,708,795	27.93	\$ 18,830,605	27.40
Operating expenses	\$ (23,533,368)	-27.35	\$ (16,921,921)	-19.93	\$ (15,358,451)	-22.35
operational Result	\$ 4,099,816	4.77	\$ 6,422,838	7.57	\$ 3,208,671	4.67
Net Profit (loss)	\$ 3,683,044	4.28	\$ 4,696,216	5.53	\$ 2,156,409	3.14
<b>COMPLEMENTARY DATA</b>						
Inventory	\$ 14,094,892		\$ 8,999,146		\$ 8,850,315	
Accounts receivable	\$ 28,737,195		\$ 26,549,383		\$ 23,707,795	

Accounts Payable	\$ 15,625,063		\$ 15,088,388		\$ 14,217,785	
Property, plant and equipment	\$ 14,125,046		\$ 14,067,892		\$ 14,186,767	
Purchases	\$ 14,778,699		\$ 14,629,000		\$ 14,677,182	
Financial Expenses	\$ (3,458,596)		\$ (364,035)		\$ (263,482)	
Foreign Currency Assets						
Foreign Currency Liabilities						
<b>Working Capital</b>	<b>\$ 21,045,944</b>		<b>\$ 18,848,194</b>		<b>\$ 16,052,798</b>	
<b>RATIOS:</b>						
QUICK RATIO	1.18		1.29		1.29	
CURRENT RATIO	1.55		1.56		1.65	
ACCOUNTS RECEIVABLE TURNOVER	2.99	times	3.20	times	2.90	times
DAYS' SALES IN RECEIVABLES	120.25	days	112.59	days	124.18	days
INVENTORY TURNOVER	3.90	times	6.80	times	5.64	times
ACCOUNTS PAYABLE PERIOD	102.39	days	88.79	days	102.58	days
RETURN ON ASSETS	1.16	times	1.26	times	1.24	times
SALES TURNOVER ON NET EQUITY	3.07	times	2.94	times	2.67	times
NET WORTH TIE-UP	0.50		0.49		0.55	
ENDEBTEDNESS	1.65		1.33		1.16	
EQUITY RATIO	37.74	%	42.86	%	46.39	%
WORKING CAPITAL RATIO	54.63	%	55.53	%	65.05	%
GENERAL SOLVENCY	1.61		1.75		1.87	
RETURN ON NET EQUITY	13.13	%	16.25	%	8.39	%
RETURN ON SALES (PROFIT MARGIN)	4.28	%	5.53	%	3.14	%
GROSS PROFIT MARGIN	36.14	%	27.93	%	27.40	%

<b>OPERATIONAL RESULT</b>	<b>4.77</b>	%	<b>7.57</b>	%	<b>4.67</b>	%
<b>SALES TURNOVER ON LIABILITIES</b>	<b>2.23</b>	times	<b>2.50</b>	times	<b>2.79</b>	times
<b>FOREIGN CURRENCY ON ASSETS</b>	-	%	-	%	-	%
<b>FOREIGN CURRENCY ON LIABILITIES</b>	-	%	-	%	-	%



### **PAYMENT**

Suppliers Reported Payments:  
Total Amount: R\$ 792.000,00

Amount Of Invoices Paid: 70  
Total Of Prompt Payments: 88,0%  
Total Of Delayed Payments: 12,0%

### **MORTGAGE RECORD**

N/A

### **LITIGATION**

Clear

### **PUBLIC RECORDS INFORMATION:**

NO DETRIMENTAL FILES WERE FOUND.  
(RESEARCH DATE: 17/07/2020)

### **BANKER**

#### **BANKING REFERENCES**

Banco XXX S/A  
Banco XXXXXX S/A  
Banco XX XXXX S/A  
XXXX XXXXX Do Piquiri

#### **BRANCH/PHONE:**

XXXX / 44 2102-XXXX  
XXXX-5 / 44 3361-XXXX  
XXXX-6 / 44 3221-XXXX  
XXXX / 44 3624-XXXX

Remarks: In Brazil The Banks Are Prohibited By Law To Provide Information Or Any Kind Of Comments About Their Clients. Due To This Law Prohibition We Are Unable To Provide Any Banking Details.

According To The Central Bank Of Brazil Official Report, The Company Has No Returned Checks Up To Date. (In The Terms Of "Circular 1682 Brazilian Central Bank"). Date Researched July 17, 20XX.

**CREDIT OPINION WITHOUT OBLIGATION**

Based On The General Information Available It Is Believed That Good Trade Relations May Be Established. Credit Facilities May Be Extended Within Terms And Amounts Adequate To The Company's Financial Strength.

An Initial Credit Limit Of USD 1.000.000,00 May Be Considered.

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**MAJOR MACRO ECONOMIC INDICATORS OF BRAZIL \*****COUNTRY RISK ASSESSMENT\*****Country Risk Assessment:****C****MAJOR MACRO ECONOMIC INDICATORS**

	2017	2018	2019 (e)	2020 (f)
GDP growth (%)	1.1	1.1	0.9	-6.5
Inflation (yearly average, %)	3.5	3.7	3.8	3.5
Budget balance (% GDP)	-7.8	-7.1	-6.1	-5.5
Current account balance (% GDP)	-0.7	-2.2	-3.2	-3.3
Public debt (% GDP)	74.1	77.2	78.9	79.8

(e): Estimate. (f): Forecast.

**STRENGTHS**

- Varied mineral resources and agricultural harvests
- Large population (estimated at 210 million)
- Well-diversified industry
- Strong foreign exchange reserves (import coverage of roughly 25 months)
- Net creditor in foreign currency

**WEAKNESSES**

- Sensitive fiscal position
- Infrastructure bottlenecks
- Low level of investment (roughly 16% of GDP)
- Relatively closed to foreign trade (exports represents only 13% of GDP)
- High cost of production (wages, energy, logistics, credit) harming competitiveness
- Shortage of qualified labour; inadequate education system

**RISK ASSESSMENT****Economic momentum should marginally improve**

Activity registered another year of weak growth in 2019, when it was mainly led by household consumption and private investments (albeit still at low levels). Meanwhile government expenditure remained limited by tight fiscal budget and exports felt the headwinds coming from decelerating global activity (notably the recession in Argentina). This year GDP should register a relatively stronger economic

momentum. Consumption should be favoured by some improvement on the job market, low inflation and by the current expansionary monetary policy (interest rate stands at historical minimum). Meanwhile, private investment is likely to benefit from relatively higher business confidence (following the approval of the social security reform and the expected progress in pro-business reforms) and the lower lending rate. Contrarily, exports should remain at weak levels, as the recession in Argentina is not likely to ease this year and global GDP should continue to decelerate. Finally, mining activity should report some rebound in production, following the normalization of iron ore production, which has been affected by the Brumadinho dam accident in January 2019. The main risks to the economic scenario are related with a possible stronger than anticipated global economic deceleration and a strong escalation of political polarization in the country (as it has been seen recently in other neighbouring economies).

### **Sound external position continues to diverge from fiscal outcome**

Current account deficit widened in 2019, mainly driven by a lower trade balance surplus as the general slowdown in global activity took its toll on exports. Meanwhile, the deficit in services (1.9% of GDP) and the primary income imbalance of around 2.7% of GDP remained wide (mainly due to high profits and dividends remittances). In 2020, the current account deficit is expected to further widen, given the decelerating global economy and considering the scenario where the Brazilian economy gains some traction (increasing imports). Despite that, the strong foreign direct investment inflow (of roughly of 4% of GDP) and foreign reserves position will assure an adequate external position. Finally, the country remains a net creditor in foreign currency, with total external debt at roughly 18% of GDP (24% of the total debt is owed by the public sector and 38% by each non-financial and financial sectors).

The fiscal deficit marginally improved in 2019, driven by lower interest payment (because of the decline in policy rate Selic – three quarters of Brazilian debt is indexed to it) and the state owned development bank BNDES reimbursements to the Treasury. Moreover, in October 2019 the congress approved the much needed and long awaited social security reform, which is expected to save BRL 738 billion over ten years (roughly USD 180 billion or 10% of the 2019 GDP estimated value). However, this amount does not include savings of subnational entities, which are still under discussion in the Congress (their total adherence could add estimated BRL 350 billion to the 10-year savings). Finally yet importantly, the government expects to spare an extra BRL 240 billion in the same period thanks to the combat of fraud in social security benefits. Despite the relatively brighter outlook for public balance, the gains are more in the long term. In the short term, as will be the case of this year, the fiscal imbalance will remain high. In order to smoothen the high rigidity of public expenditure (at present, about 95% of public spending is compulsory), policymakers were sent to Congress in November 2019 to propose economic reforms, which aim, among other things, to decentralize the public budget and increase its flexibility.

### **A first year in office marked by controversies**

The far-right President Jair Bolsonaro has completed one year in office in early January 2020, after a year marked by controversies, even with members of his own party (prompting to his exit of the Social Liberal party in late 2019). Although his government was able to get the much-needed social security reform approved, it was more the outcome of a broad political consensus on the matter, than a merit of the ruling government alone. With the latter reform now approved, policymakers will focus on passing other important measures (such as reforming taxes, granting official independence to the central bank and selling public assets). That said, to move forward with the pro-business agenda, the executive will need to assure a cohesive political base (a point to be monitored, given the recurrent needless political noise between the executive and legislative powers). Indeed political risk has recently escalated, which could jeopardize the progress of the executive agenda in the legislative. This deterioration was triggered by the release from prison of the former President Luiz Inácio Lula da Silva (2003/2010) from the left-wing Labour party (PT) in early November 2019 (after 18 months in jail for money laundering and corruption). His release followed the Supreme Court vote that a person can be imprisoned only after all appeals to higher courts have been exhausted. Since this episode, political polarization has gained further momentum.

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