cutting through complexity

Brazil is the most populous country in Latin America, the sixth biggest globally, and the world's eighth largest economy. With vast natural resources and an extensive, young labor pool, it is Latin America's economic powerhouse. Following a period of rapid growth prior to 2009, the annual rate of increase in gross domestic product (GDP) has slowed and is projected at 3 percent from 2014–2018.

Brazil

High Growth Markets country profile

Country overview

Geography and climate

- **Largest country** in Latin America; shares common boundaries with every Latin American country except Chile and Ecuador
- **Climate:** humid tropical and subtropical, except for a drier area in the northeast
- **Regions:** one federal district, 26 states and 5,564 municipalities
- **Major cities:** São Paulo (19.9 million), Rio de Janeiro (11.8 million), Belo Horizonte (5.7 million) and Porto Alegre (4 million)
- **Tier two cities:** Brasilia, Campinas, Porto Alegre and Recife

Political system

- **Type of government:** federal republic
- **Capital:** Brasilia

Population, language and religion

- **Population:** 201 million
- **Urban population:** 87%
- **Immigration:** a net recipient of immigrants; the southeast being the prime destination
- **Demographics:** 0–14 years: 24%; 15–64 years: 69%; 65 years and over: 7%
- **Median annual household income:** 14,791 US dollars (US$)
- **Official language:** Portuguese
- **Prominant religions:** Roman Catholic and Protestant

Currency and central banking

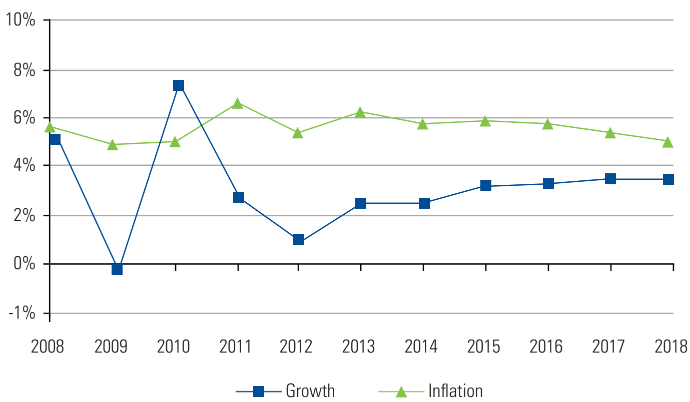
- **Local currency:** Real (R)
- **Exchange rate:** R1 = US$0.42283 (1 January 2014)
- **Interest rate (average annual rate):** 10.75% (as of Feb 2014); 8.38% (2013); 8.47% (2012); 11.78% (2011); 10.03% (2010); 9.81% (2009)
- **Foreign exchange reserves:** US$373.1 billion
- **Total debt (2013):** external: US$482.1 billion; internal public debt: 59.1% of GDP (2013 estimate)

Business environment

Economic environment

- **GDP in 2013 was US$2.4 trillion and is expected to grow by 3% annually** from 2014–2018; with some upside risks linked to the possible adoption of reforms designed to enhance competitiveness. The median household income is expected to increase to US$19,138 by 2017.
- **Foreign direct investment (FDI) (billions):** inbound: US$45.1 (2008); US$58.7 (2013); US$70.7 (2018); outbound: US$20.5 (2008); US$2.5 (2013); US$3.2 (2018 forecast)
- **Exports free on board (FOB) (billions):** US$242.6 (2012); US$242.5 (2013); US$373.7 (2018)
- **Imports FOB (billions):** US$223.2 (2012); US$241.9 (2013); US$364.1 (2018)
- **Sector breakdown:** service sector: 66%; industrial sector: 20%; agriculture sector: 14%
- **Trade balance (billions):** surplus of US$19.4 (2012); US$0.6 (2013); US$9.6 (2018)
- **Stock exchanges:** NYSE (3), NASDAQ (0), BOVESPA (152), BJRJ (0)

GDP growth and inflation (average consumer price index (CPI))



Source: International Monetary Fund, 2014

Investment climate

Key considerations

- **Fiscal and monetary policy:** New spending initiatives on health, education and public transport in response to the mid-year 2013 protests, plus the impact of the electoral cycle, means that fiscal policy should remain expansionary throughout 2014, with any adjustment likely to be postponed until 2015. Brazilian policy makers will also have to address the financial burden of an aging population. The maintenance of fiscal discipline should ensure that the gross public debt decreases towards 40 percent of GDP. Monetary policy should remain focused on taming inflation and postponing upward adjustments until 2015.
- **Competition policy:** Although antitrust and competition laws and regulatory agencies have been in place since the 1960s, until recently there was little active enforcement of rules against market dominance. Brazil's new antitrust legislation, in force since 29 May 2012, applies fines of 0.1–20 percent of a company's gross revenues for anti-competitive practices. Mergers and acquisitions in petroleum, energy and telecommunications must be examined and approved by the respective regulatory agency. Mergers are ruled out only where it is felt they could create monopolistic conditions.
- **FDI policy:** Despite a falloff in FDI in 2012, Brazil remains an attractive destination. This reflects its macroeconomic and political stability, economic opportunities and large domestic market. Foreign ownership is limited to 30 percent in open-broadcast and print media companies and to 49 percent for cable television companies (Law 10,610 of 2002). There is a 20 percent limit on foreign investment in domestic airlines, and the government administers commercial airport operations. FDI continues to be welcomed, but domestic investors receive preferential treatment in some areas. By 2018, a rise in tax incentives for both foreign and domestic investors should increase Brazil's attractiveness as an export base.
- **Financing policy:** During 2014–2015, domestic capital markets should develop further, but long-term financing will remain costly and hard to obtain. Subsidized lending through the state development bank should ease financing for larger firms. During 2016–2018, renewed growth in domestic equity and bonds is expected, while greater competition should support a gradual fall in borrowing costs.
- **Taxes:** The effective tax rate on corporate income is 34 percent. This figure comprises two taxes: corporate income tax, which has a base rate of 15 percent plus a 10 percent surcharge on monthly income exceeding R20,000 or annual income of R240,000, plus a social contribution on net profit, which is generally levied at 9 percent. A 15 percent tax applies to capital gains. Cities levy a municipal tax on services at 2–5 percent. Most large municipalities charge 5 percent on each billing. Efforts are being made to simplify the tax system. By 2016–2018, revenue from taxation on strategic oil and mining operations is likely to increase.

KPMG in Brazil

KPMG member firms are among the world's leading providers of Audit, Tax and Advisory services. In Brazil, KPMG has approximately 4,000 professionals and 22 offices distributed across 13 states and the Federal District.

KPMG in Brazil aims to respond to complex business challenges facing customers and to take a comprehensive approach that spans professional disciplines, industry sectors and national boundaries.

For more information, please visit the KPMG in Brazil website: kpmg.com/br/en

Sources: Economist Intelligence Unit, 2014; Central Intelligence Agency, 2014; International Monetary Fund, 2014

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