Brazil

CRT-4

August 22, 2018

Region: Latin America

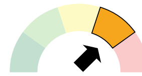
Country Risk Criteria Procedures

Guide to Best's Country Risk Tiers

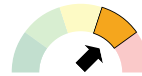
- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Brazil, a CRT-4 country, is the largest economy in Latin America and has high levels of economic and political risk and a moderate level of financial system risk. Corruption scandals reaching the upper echelons of government and upcoming general elections result in policy uncertainty. Brazil's economy returned to growth at a rate of 1.0% in 2017; growth is anticipated to surpass 2.3% in 2018, supported by positive global economic conditions. Inflation is expected remain moderate in the medium term, which will allow for more monetary policy flexibility.
- The map depicts the countries A.M. Best evaluates in Central America, South America, and the Caribbean. Most of the Latin American countries are considered CRT-4 or CRT-5, with the exceptions of Chile (CRT-2), Mexico (CRT-3), and Peru (CRT-3).

Vital Statistics 2017		
Nominal GDP	USD bn	2054.97
Population	mil	207.7
GDP Per Capita	USD	9,895
Real GDP Growth	%	1.0
Inflation Rate	%	3.4
United Nations Estimates		
Literacy Rate	%	92.6
Urbanization	%	86.2
Dependency Ratio	%	43.8
Life Expectancy	Years	74.0
Median Age	Years	32.0
Insurance Statistics		
Insurance Regulator	Superintendencia de Seguros Privados	
Premiums Written (Life)	USD mil	46,874
Premiums Written (Non-Life)	USD mil	36,441
Premiums Growth (2016 - 2017)	%	1.4
Regional Comparison		
	Country Risk Tier	
Brazil	CRT-4	
Argentina	CRT-5	
Chile	CRT-2	
Colombia	CRT-4	
Mexico	CRT-3	
Venezuela	CRT-5	

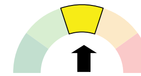
Source: IMF, UN, Swiss Re, Axco and A.M. Best



Economic Risk



Political Risk



Financial System Risk

Country Risk Tier 1 (CRT-1) Very Low Level of Country Risk

Country Risk Tier 2 (CRT-2) Low Level of Country Risk

Country Risk Tier 3 (CRT-3) Moderate Level of Country Risk

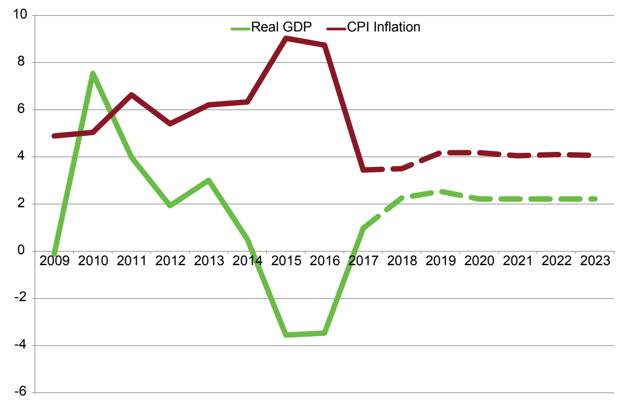
Country Risk Tier 4 (CRT-4) High Level of Country Risk

Country Risk Tier 5 (CRT-5) Very High Level of Country Risk

Regional Summary: Latin America

- Growth in the region is likely to continue in 2018 due to expanding global growth, rebounding commodity prices, and strengthening domestic demand. However, risks are tilted to the downside owing to rising domestic political uncertainty, currency volatility, growing trade protectionism, rising fiscal deficits, and negative spillover effects from international financial markets.
- Conditions are largely positive, but several countries in the region are experiencing heightened risk. Years of unsustainable social programs, higher spending, and growing corruption have led to significant challenges for Venezuela, as well as Brazil and Argentina, albeit to a lesser extent.
- So far this year, there have been several presidential elections in Colombia, Mexico, and Venezuela; Brazil's is scheduled for later this year. The election environment is complex owing to mounting social conflicts, corruptions scandals, and policy uncertainty. According to the IMF's 2017 estimates, four countries are responsible for the largest proportion of the region's economic output: Brazil at USD2,055 billion, Mexico at USD1,149 billion, Colombia at USD309 billion, and Venezuela at USD210 billion.

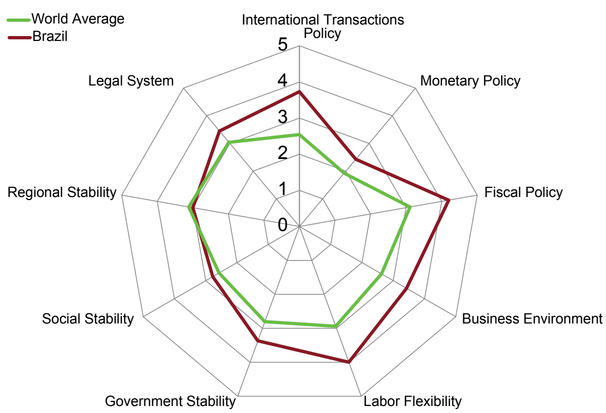
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

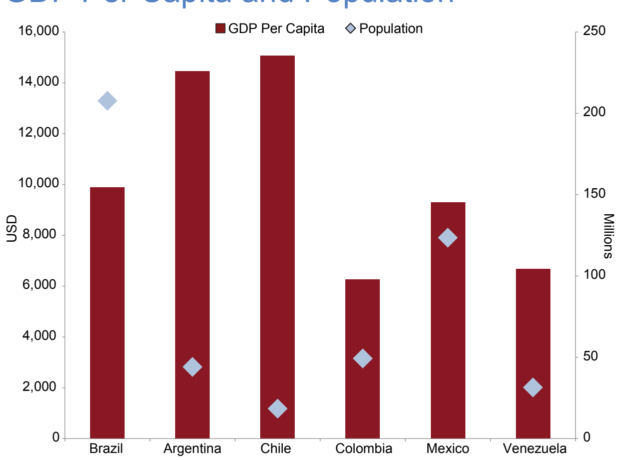
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: High

- Brazil returned to growth in 2017, after two years of economic contraction. Global growth and higher commodity prices have been supportive. However, economic conditions are projected to remain sluggish in the short term.
- The main industries include agribusiness, oil, telecommunications, and automotive manufacturing. The government is attempting to become less reliant on external energy sources.
- Brazil benefits from significant hydrocarbon and oil reserves, a large and diverse economy, and the current government's pro-business agenda.
- There is strong trade protectionism and state intervention in the economy. Taxation is high and unlikely to decline owing to congressional pressure and high fiscal debt. The high cost of doing business makes operations difficult, although this is easing slightly under President Michel Temer, who supports privatization and welcomes foreign investments.

Political Risk: High

- Temer took office after former president Dilma Rousseff's impeachment. His government is generally pro-business and open to foreign investment.
- Corruption scandals and investigations, along with slow legal enforcement and cumbersome regulations, have destabilized Brazilian politics and caused policy paralysis, constraining investment and development levels.
- Upcoming general elections in October 2018 have led to rising uncertainty. The likelihood that the next president will not adhere to Temer's pro-business agenda is halting some investments.
- Pension spending has grown to unsustainable levels. Pension reform was recommended by the IMF in light of the aging population but was struck down by Congress.
- There are no known terrorist groups and Brazil enjoys positive relations with its neighbors. Elevated violent crime rates, however, put public security at risk.

Financial System Risk: Moderate

- The insurance industry is supervised and regulated by the National Council for Private Insurance (CNSP), and its executive arm, the Superintendency of Private Insurance (SUSEP).
- Brazil's banking system liabilities constrain its financial position, although they are partly offset by the country's large foreign reserve holdings.
- Policies to address inflation have not been effective enough; more remedies are needed.
- The European Commission granted Brazil provisional Solvency II equivalence for ten years through 2026. The country will now be required to meet forward-looking solvency mandates.