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Introduction to BRAZIL

With a GDP of USD 3.154 trillion after adjusting for purchasing power (PPP), Brazil is the 8th largest economy in the world (source: World Bank). It accounts for one third of Latin America and the Caribbean's GDP (PPP) and with 210 million inhabitants, it represents one third of the region's total population. It is also the 5th largest country in the world and hosts 20% of the world's rainforest. The country has abundant natural resource, the economy is well-diversified and enjoys a well supervised and robust financial system. Brazil is weakly integrated into the global economy and also suffers from a significant infrastructure gap, high income inequality, a complex tax system, a rigid labour market and weak governance. At a macro level, Brazil has a good capacity to honour payments in foreign currency thanks to large foreign currency (FX) reserves, diversified FX generating activities, a strong ability to attract foreign investment and a moderate external debt burden.

Brazil's growth profile over the past decade has been relatively volatile. While the economy has averaged 4.5% growth over period 2007-2011, economic activity since 2013 has mostly alternated between periods of relative stagnation (2014, 2017, 2018, 2019) and contraction (2015, 2016, 2020). The subdued growth trajectory of recent years can be traced back to a combination of factors, including policy mis-steps, a less supportive external environment marked by the end of the commodity super-cycle in 2014, and a string of political and industrial corruption scandals that have impacted household and investor confidence. It is also the product of a structurally low investment rate, which has further weakened in recent years. Fiscal rigidities have impeded public investment growth, while record high lending rates (and a lack of access to long-term credit) as well as high administrative burdens and reduced access to subsidized credit have strained private investment.

Since coming to power, the Bolsonaro administration has embarked on a structural reform agenda that aims to reduce the role of the state in the economy and improve the business environment by enhancing governance, reducing trade barriers, simplifying the tax code and addressing distortions in the credit market. The authorities have deployed a large privatisation and concession program (PPI). It is expected to help improve medium-term growth prospects, which currently suffer from the country's stagnant productivity and ageing population. Reforms have however stalled due to governability issues, the high threshold of votes required to amend the constitution and the COVID-19 pandemic. The administration has put together one of the largest support packages in emerging markets. This helped contain the contraction in economic activity (-4.1% in 2020) but led to a sharp increase in fiscal risks.

In 2021, the recovery has been stronger than anticipated so far (production has already reached its pre-pandemic level despite facing a strong resurgence of the epidemic in H1-2021). Prospects are favourable for the remainder of 2021 but weaker GDP growth is expected in 2022 as inflation and political risks catch up. Higher interest rates (+8% expected between end 2020 and end 2022) due to persistently high inflation will increasingly constrain both growth dynamics (lower purchasing power, slower credit growth) as well as fiscal policy (due to growing debt cost and the need to comply with fiscal rules). The run-up to a contentious Presidential election in 2022 is also likely to slow down investment. Real GDP is forecast to grow by 1.5% in 2022 after growing by close to 5% in 2021.

The BRL (which lost 22% against the USD and 30% against the EUR in 2020) has had a hard time strengthening since the start of 2021 despite rising interest rate differentials with the USA, large improvements in Brazil's terms of trade, a solid economic recovery and a weak USD. Also, unlike previous years, the currency has become increasingly decoupled from the commodity cycle. Political and fiscal risk premia appear to be significant determinants behind the currency's performance in 2021; these are likely to intensify as drivers of the currency through 2022's electoral cycle and could cap any appreciation beyond 4.90 BRL per USD.

Summary

BNP Paribas presence

BNP Paribas has been present in Brazil since 1950, with two business centres and offices in Belo Horizonte, Rio de Janeiro and Curitiba providing Wealth and Asset Management services. The bank offers comprehensive domestic and
international cash management and trade finance solutions, including access to the local clearing house. These services include local payment products (Boletos), e-banking (Connexis) and specialist capabilities in escrow accounts to manage funds related to acquisition and commercial agreements. The combination of solutions and dedicated customer services offer a highly competitive alternative to local banking services for multinational corporations doing business in Brazil, and Brazilian companies seeking expansion overseas.

### Currency

**Brazilian real (BRL)**

### Exchange Rates

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Exchange rate:</strong> BRL per USD</td>
<td>3.49</td>
<td>3.19</td>
<td>3.65</td>
<td>3.94</td>
<td>5.16</td>
</tr>
</tbody>
</table>


### Central Bank

- The Brazilian central bank is the Banco Central do Brasil (BCB - [www.bcb.gov.br](http://www.bcb.gov.br)).

#### Bank supervision

- Brazilian banks are licensed and supervised by the BCB.
- The Securities and Exchange Commission (CCVM - [www.cvm.gov.br](http://www.cvm.gov.br)) is responsible for regulating the securities market in Brazil.

### Bank accounts

### Resident / non-resident status

- A company is considered resident in Brazil if it is incorporated in Brazil.
- On certain occasions, non-residents may be treated as residents because their branches, local agents or representative offices operate in Brazil.

### Bank accounts for resident entities

<table>
<thead>
<tr>
<th></th>
<th>Within Brazil</th>
<th>Outside Brazil</th>
</tr>
</thead>
</table>
### Local Currency
- Permitted without restriction, not freely convertible
- Permitted, not freely convertible

### Foreign Currency
- Permitted with restriction, not freely convertible
- Permitted without restriction, freely convertible

## Bank accounts for non-resident entities

<table>
<thead>
<tr>
<th></th>
<th>Within Brazil</th>
<th>Outside Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Local Currency</strong></td>
<td>Permitted with restriction, convertible</td>
<td>Permitted</td>
</tr>
<tr>
<td><strong>Foreign Currency</strong></td>
<td>Permitted with restrictions</td>
<td>Not applicable</td>
</tr>
</tbody>
</table>

## Lifting fees

- **Lifting fees** may be applied on payments between resident and non-resident accounts.

## BNP Paribas Cash Management Capabilities

### Liquidity Management

- **Physical cash pooling**: Supported by BNP Paribas
- **Notional pooling - Balance compensation**: Not required / permitted in BRAZIL or not supported by BNP Paribas
- **Notional pooling - Interest optimisation**: Not required / permitted in BRAZIL or not supported by BNP Paribas

### Collections
<table>
<thead>
<tr>
<th>Service</th>
<th>Supported</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash collections</td>
<td></td>
</tr>
<tr>
<td>Cheque collections</td>
<td></td>
</tr>
<tr>
<td>Direct debit collections</td>
<td></td>
</tr>
<tr>
<td>Domestic incoming transfers</td>
<td>✔️</td>
</tr>
<tr>
<td>Virtual IBAN</td>
<td></td>
</tr>
<tr>
<td>Virtual accounts</td>
<td></td>
</tr>
<tr>
<td>International incoming transfers</td>
<td>✔️</td>
</tr>
<tr>
<td>Card acquiring</td>
<td></td>
</tr>
</tbody>
</table>

- **Supported by BNP Paribas**
- **Not required / permitted in BRAZIL or not supported by BNP Paribas**

**Payments**

<table>
<thead>
<tr>
<th>Service</th>
<th>Supported</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash withdrawals</td>
<td></td>
</tr>
<tr>
<td>Cheque payments</td>
<td></td>
</tr>
<tr>
<td>Direct debit payments</td>
<td></td>
</tr>
<tr>
<td>Domestic outgoing transfers</td>
<td>✔️</td>
</tr>
<tr>
<td>Commercial cards</td>
<td></td>
</tr>
<tr>
<td>Virtual cards</td>
<td>✔️</td>
</tr>
<tr>
<td>International outgoing transfers</td>
<td>✔️</td>
</tr>
<tr>
<td>SWIFT gpi</td>
<td></td>
</tr>
<tr>
<td>Real-time international payments through BNP Paribas' network</td>
<td></td>
</tr>
<tr>
<td>Card issuing</td>
<td></td>
</tr>
</tbody>
</table>
Channels

<table>
<thead>
<tr>
<th>Service</th>
<th>Supported by BNP Paribas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local e-Banking</td>
<td>✔</td>
</tr>
<tr>
<td>Global e-Banking - Connexis</td>
<td>✔</td>
</tr>
<tr>
<td>SWIFT/ host to host</td>
<td>✔</td>
</tr>
</tbody>
</table>

Payments & Collections

Market overview

In Brazil, cash remains the most widely used payment method for low-value retail transactions. However, payment cards now account for a larger proportion of retail payments than cheques and are the favoured online payment method (cash is the second preferred method). The use of digital wallets, such as PayPal, PicPay and Mercado Pago, is also rising. In May 2021, WhatsApp relaunched its P2P transfer service after being block by regulators in June 2020, a week after it launched.

Brazil, in recognition of the revolution taking place in payments worldwide, is in the process of updating its existing payments and financial system. In November 2020, the Banco Central do Brasil launched PIX, an instant payments scheme. The settlement infrastructure, called the Instant Payment System (SPI), is available 24 hours a day, seven days a week, via mobile devices, online banking or ATMs. PIX allows payments to be made via aliases.

Electronic banking services are available from all banks. There is no national electronic banking system in Brazil, so companies use banks' proprietary services.

Transaction and balance reporting, and transaction initiation services are available.

Many companies operating in Brazil exchange data electronically with banking and commercial counterparties via VANS (value-added networks) and EDI protocols.

The number of bank accounts with internet banking access in Brazil increased by 6% to 55.9 million in 2019. Usage of internet banking fell by 6.7%. Mobile banking has become Brazil's preferred channel for banking operations. The number of mobile banking accounts increased by 34% to 93.6 million in 2019. The number of mobile banking transactions also increased by 19% to 39.4 billion.
### Payment systems

<table>
<thead>
<tr>
<th>STR</th>
<th>Type</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>- Real-time gross settlement.</td>
</tr>
<tr>
<td></td>
<td>Participants</td>
<td>- 289.</td>
</tr>
<tr>
<td></td>
<td>Transaction types processed</td>
<td>- High-value and urgent BRL-denominated financial and commercial electronic credit transfers (transferências eletrônica disponível - TEDs).</td>
</tr>
<tr>
<td></td>
<td>Operating hours</td>
<td>- 06:30-18:30 BRT, Monday to Friday.</td>
</tr>
</tbody>
</table>
|     | Clearing cycle details (e.g. cut-off times) | - Payments are settled on a same-day basis.  
- Customer payment cut-off time = 17:30 BRT.  
- Interbank payment cut-off time = 18:30 BRT. |
|     | System holidays | - The STR is closed on Brazilian bank holidays.  
- Brazil's bank holidays are:  
  - 2nd 2021: September 7, October 12, November 2, 15, December 25.  
  - 2022: 2022 — January 1, February 28, March 1, April 15, 21, May 1, June 16, September 7, October 12, November 2, 15, December 25. |
| CIP-SITRAF | Type | - Net settlement system. |
|     | Participants | - 102 direct. |
|     | Transaction types processed | - High-value BRL-denominated electronic credit transfers (TEDs). |
|     | Operating hours | - 04:00-17:25 BRT, Monday to Friday. |
|     | Clearing cycle details (e.g. cut-off times) | - Payments are settled on a same-day basis.  
- Cut-off time = 17:00 BRT. |
|     | System holidays | - CIP-SITRAF is closed on Brazilian bank holidays. (Dates as above). |
| CIP- SILOC | Type | - Deferred net settlement. |
|     | Participants | - 128 direct. |
|     | Transaction types processed | - Low-value credit transfers (documentos de crédito - DOCs and transferências especiais de crédito - TECs) and collection orders (boleto de pagamento). |
|     | Operating hours | - 24 hours a day, Monday to Friday. |
### Credit transfers

- Credit transfers are used by companies to pay salaries and suppliers, and to make benefit payments.
- Credit transfer volume and value increased 9.1% and 18.1% respectively in 2019, on 2018 figures, to 11,865 million, with a value of BRL 49,893 billion.
- High-value and urgent domestic credit transfers (TEDs) can be settled on a same-day basis via the STR or CIP-SITRAF. There is no minimum value threshold for TEDs but TEDs must be used for transfers with a value of BRL 5,000 and above. There is currently a BRL 1 million value limit for TEDs in CIP-SITRAF (there is no value limit in the STR).
- Low-value and non-urgent payments (DOCs and TECs) are typically processed in batches electronically via CIP-SILOC, although they may also be submitted at ATMs, in bank branches or online. TECs are settled on a same-day basis, DOCs on a next-day basis. DOCs and TECs have a maximum value threshold of BRL 4,999.99.
- Paper-based credit transfers (Boletos) are bar-coded bills issued by a seller to a buyer. Boletos with a value below BRL 250,000 can be settled through CIP-SILOC with funds available on a next-day basis. Boletos with a value of BRL 250,000 and above are settled via the STR on a same-day basis.
- In November 2020, Banco Central do Brasil launched PIX, an instant payments scheme. The settlement infrastructure, called the Instant Payment System (SPI), is available 24 hours a day, seven days a week, via mobile devices, online banking or ATMs. PIX allows payments to be made via aliases. Transactions are settled on a real-time gross settlement basis. Participation in PIX is mandatory for all financial institutions and payment providers with more than 500,000 active customer accounts. There are currently 745 participants. SPI is operated by the central bank and has a centralized architecture based on the ISO 20022 messages standard.
Cross-border transfers can be made via SWIFT and settled through correspondent banks abroad. Bilateral trade transactions between Argentina and Brazil can be settled in both BRL and Argentine peso (ARS) through the Payment System in Local Currency (SML). Bilateral trade transactions between Brazil and Uruguay can also be settled through the SML in both BRL and Uruguayan peso (UYU).

Direct debits

- Direct debits (débitos diretos) are used for regular payments, such as utility bills.
- Direct debits are generally used where the originator and beneficiary have accounts at the same bank. These are settled on an intra-bank basis.
- Interbank direct debit services are available from Tecban, but are not widely used. Interbank direct debits are settled via CIP-SILOC.
- Direct debit volume fell 20% in 2019, to 6,013 million. Value fell 24% to BRL 5,180 billion.

Cheques

- The cheque is an important payment instrument, used by both consumers and companies. However, check use is in decline as alternative electronic payment methods become more popular.
- All cheques are truncated and processed as electronic items by COMPE, on a T+1 basis, regardless of their value.
- Cheque volume and value declined 13.1% and 9.0% respectively in 2019, on 2018 figures, to 550 million, with a value of BRL 1,552 billion.

Card payments

- Card payments are increasingly popular, especially for retail transactions.
- There were 348.8 million debit cards and 221.5 million credit cards in circulation at the end of 2019.
- Debit card volume and value increased 20.5% and 19.1% respectively in 2019, on 2018 figures, to 10,880 million, with a value of BRL 668 billion.
- Credit card volume and value increased 33.1% and 29% respectively in 2018, on 2018 figures, to 9,931 million, with a value of BRL 1,089 billion.
- Visa, MasterCard, American Express and Hipercard-branded payment cards are the most widely issued. Contactless payment cards are available.
- The vast majority of Visa and MasterCard payments are processed through Cielo (formerly VisaNet), Rede (formerly RedeCard) and Santander Getnet Serviços.
- The majority of cards issued have EMV chips.
- Mobile-only credit card services such as those offered by Nubank, are available.
- Contactless payment cards are issued. Transactions using NFC saw exponential growth in 2020. According to a study by Rede, the payments arm of Brazilian bank Itaú Unibanco, contactless payments saw 285% growth in November 2020 year on year. Most contactless transactions occur via credit card.

ATM/POS

- There were 171,284 ATMs in Brazil at the end of 2019.
- There were 10.5 million POS terminals at the end of 2019.
- More than 100 banks participate in the Banco24Horas shared ATM network operated by TecBan. The Rede Verde-Amarela network connects the ATM services of nine state and privately owned banks.

Electronic wallet

- The dominant electronic wallet schemes in Brazil are reloadable pre-paid stored value cards offered by banks.
- There were 33.3 million cards with an e-money function in circulation in the country at the end of 2019.
- The use of digital wallets, such as PayPal, PicPay, Bitz and Iti, is rising. In May 2021, WhatsApp relaunched its P2P transfer service after being blocked by regulators in June 2020, a week after it launched.
- The national standard QR code, the BR Code, became mandatory in September 2020.
- Payments are processed via card processing companies, such as Cielo and Redecard, or TecBan before being settled via CIP-SILOC.

**Channels**

**Market overview**

**Liquidity management**

**Domestic: notional pooling**

- Domestic notional cash pools are not available.

**Domestic: cash concentration**

- Domestic cash concentration structures are available.
- Non-resident accounts may participate in cash concentration structures. Lifting fees may apply on transfers between resident and non-resident accounts.
- Central bank reporting applies to all payments in foreign currency between resident and non-resident accounts.

**Cross-border notional pooling**

- Cross-border notional cash pools are not available.

**Cross-border cash concentration**

- Resident companies may establish a cross-border cash concentration structure in which one multi-currency account acts as a header account. Funds collected in other jurisdictions are swept to the header account prior to repatriation. BRL-denominated accounts or domestic bank accounts may not participate in such a structure and the header account may not be located in Brazil.
- Non-resident companies are not permitted to engage in cross-border cash concentration.

**Short term investments**

**Market overview**

**Interest payable on credit balances**

- Interest-bearing current accounts are not permitted.

**Demand deposits**
• Demand deposit accounts do not receive interest payments. Funds can be withdrawn at short notice. Cheques and similar payments cannot be used with demand deposit accounts.

**Time deposits**

• Time deposits (fundos de investimentos financeiros FIFs) are available in BRL and are generally issued for minimum terms of one, two and three months.

**Certificates of deposit**

• Domestic banks issue BRL-denominated certificates of deposit with terms ranging from one month to one year. They can be issued paying fixed or variable interest.

**Treasury (government) bills**

• The National Treasury auctions discounted Treasury bills (letras do tesouro nacional - LTNs, letras financeiras do tesouro - LFTs and notas do tesouro nacional - NTN-C) online on a weekly basis.
• The BCB also issues central bank bills (letras do banco central – LBCs) through daily auctions.

**Commercial paper**

• Domestic commercial paper is widely issued by companies denominated in BRL. Terms range from one month to one year.

**Money market funds**

• Domestic money market funds are popular short-term investment instruments.

**Repurchase agreements**

• Repurchase agreements are not available in Brazil.

**Banker's acceptances**

• Banker's acceptances are not used in Brazil.

**BNP Paribas insights**

**BNP Paribas Trade Finance Capabilities**

**Trade payments**

<table>
<thead>
<tr>
<th><strong>Documentary credits</strong></th>
<th>✔</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Documentary collections</strong></td>
<td>✗</td>
</tr>
</tbody>
</table>

**Supported by BNP Paribas**

**Not required / permitted in BRAZIL or not supported by BNP Paribas**
**Guarantees**

<table>
<thead>
<tr>
<th>Guarantee</th>
<th>Supported by BNP Paribas</th>
<th>Required/Supported in Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank guarantees</td>
<td>✓</td>
<td>Not required/Permitted</td>
</tr>
<tr>
<td>Standby letters of credit</td>
<td>✓</td>
<td>Not required/Permitted</td>
</tr>
</tbody>
</table>

**Supply chain management**

<table>
<thead>
<tr>
<th>Category</th>
<th>Supported by BNP Paribas</th>
<th>Required/Supported in Brazil</th>
</tr>
</thead>
<tbody>
<tr>
<td>Receivables</td>
<td>✓</td>
<td>Not required/Permitted</td>
</tr>
<tr>
<td>Payables</td>
<td>✓</td>
<td>Not required/Permitted</td>
</tr>
<tr>
<td>Inventory</td>
<td></td>
<td>Not required/Permitted</td>
</tr>
</tbody>
</table>

**Trade channels**

<table>
<thead>
<tr>
<th>Channel</th>
<th>Supported by BNP Paribas</th>
</tr>
</thead>
<tbody>
<tr>
<td>Connexis Trade</td>
<td></td>
</tr>
<tr>
<td>Connexis Supply Chain</td>
<td></td>
</tr>
<tr>
<td>SWIFTNet Trade for Corporates</td>
<td></td>
</tr>
<tr>
<td>Connexis Connect</td>
<td>✓</td>
</tr>
</tbody>
</table>

Supported by BNP Paribas
International trade

General trade rules

- As a member of the Mercosur (Mercado Común del Sur – Southern Cone Common Market) regional common market, Brazil applies Mercosur customs policies and regulations.

Trade agreements

- Mercosur has trade agreements with Bolivia, Chile, Colombia, Cuba, Ecuador, Israel, Mexico and Peru.
- Mercosur has signed a free trade agreement with the European Union. The agreement has not yet been ratified by the EU or by Mercosur member states.
- In March 2019, Brazil and Mexico renewed their automobile trade agreement allowing the free trade of light commercial vehicles and auto parts between the two countries, subject to a 40% regional content requirement. The renewed agreement eliminates quotas and fees on exports and imports and will also include heavy vehicles as of 2023.
- On October 19, 2020, Brazil and the USA signed a new protocol relating to trade rules and transparency, updating their 2011 Agreement on Trade and Economic Cooperation (ATEC).
- Brazil operates free trade zones in Manaus, Tabatinga, Macapá/Santana, Guajará-Mirim, Pacaraima, Bonfim, Cruzeiro do Sul and Brasiléia/Epitaciolândia.

Imports / exports

<table>
<thead>
<tr>
<th></th>
<th>Crude petroleum</th>
<th>Electrical equipment</th>
<th>Pesticides</th>
<th>Refined petroleum</th>
<th>Automotive parts</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary Import sources</td>
<td>China (21%)</td>
<td>USA (18.0%)</td>
<td>Argentina (6.0%)</td>
<td>Germany (6.0%)</td>
<td></td>
</tr>
<tr>
<td>Exports</td>
<td>Wood pulp</td>
<td>Iron ore</td>
<td>Soybeans</td>
<td>Corn</td>
<td>Crude petroleum</td>
</tr>
<tr>
<td>Export markets</td>
<td>China (28.0%)</td>
<td>USA (13.0%)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Import / export volumes

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Exports
- goods USD m
- services USD m

Imports
- goods USD m
- services USD m

Current account as % GDP


Trade finance - imports

Documentation

- The following documentation is required in order to import goods into Brazil:
  - customs declaration
  - commercial invoice
  - bill of lading
  - packing list
  - pro-forma invoice (for imports requiring a licence)
  - import registration
  - cargo release order
  - technical standard/health certificate
  - certificate of origin.
- Importers must be registered on the Secretariat of Foreign Trade (SECEX) Importer and Exporter Register.

Import licences

- Licences are not required for most imports.
- Licences are not required when importing from Mercosur member states, with the exception of imports of automobiles and sugar.
- Certain imports are subject to automatic or non-automatic licences.
- Goods requiring import licences are listed on the SECEX database (SISCOMEX).
- Licences are issued by SECEX and other government agencies. Licenses are typically valid for 90 days but may be extended if the delay is justified by the importer.
- Imports covered by the LAIA agreement and goods imported through the Manaus and Tabatinga free trade zones are subject to licenses with quotas.

Import taxes and tariffs

- Tariffs on imports from outside of Mercosur are set according to a common external tariff (CET), usually between 0% and 20%.
- Temporary national tariff exceptions can be set on imports from Mercosur.
- Rates of 35% may be applied on automotive products, rates of 28% are applied on certain dairy products, rates of 26% are applied to certain fabrics, and a 20% tariff is levied on imports of toys.
Financing requirements

- The BCB must be notified of external financing of imports for periods of over 360 days.

Risk mitigation

- The IRB-Brasil Resseguros (IRB-Brasil Re) reinsurance company provides political and extraordinary risk insurance.
- Commercial risk insurance is also available from private insurance companies.

Prohibited imports

- Specific imports are prohibited in order to public health, for moral and national security reasons and/or for industrial policy.

Trade finance - exports

Documentation

- The following documentation is required in order to export goods from Brazil:
  - customs declaration
  - commercial invoice
  - bill of lading
  - packing list
  - export registration
  - international shipment notification
  - certificate of origin.
- Exporters must be registered in the (SECEX) Importer and Exporter Register.

Export licences

- Licences are not required for most exports.
- Some exports are subject to export quotas, including cars (Mexico), beef (Hilton quota), poultry, milk (Colombia) and sugar (Europe).
- A number of exports are require prior authorisation from SECEX, including animals, plants, tobacco, minerals, fuel and weapons.

Export taxes and tariffs

- Tariffs are generally not set on exports.
- Tariffs of 9% are levied on raw hides.
- Duties of 150% are levied on exports of cigarettes to Latin America and weapons and ammunition exports to Central and South America (excluding Argentina, Ecuador and Chile) and the Caribbean.

Financing requirements

- None
Risk mitigation

- IRB-Brasil Re provides political and extraordinary risk insurance.
- Commercial risk insurance is also available from private insurance companies.

Prohibited exports

- Prohibited exports are published on a negative list.

Regulatory requirements

Reporting regulations

- Transactions between resident accounts and accounts held by non-residents, both within and outside Brazil, must be reported to the BCB.
- Residents making/receiving payments on accounts held abroad must report these transactions to the BCB.
- Resident/non-resident transactions involving foreign currency can only be carried out through the intermediary of an authorised financial institution. Banks are required to record these transactions into the BCB's dedicated electronic system.
- The BCB has a voluntary survey scheme for resident BRL transactions with non-residents.

Reporting method

- Residents with assets abroad of USD 100,000 and above must report annually to the BCB.
- Banks authorised to conduct foreign exchange business must record every resident/non-resident transaction involving foreign currency.

Exchange controls

- Brazil applies exchange controls. Exchange controls on foreign capital and international reserves are administered by the BCB. The National Monetary Council (CMN) directs foreign exchange policy and trade policy is implemented by the Ministry of Development, Industry and Foreign Trade through SECEX, the Secretariat of Foreign Trade.
- Foreign exchange can be traded by banks on a forward basis. This must be settled within 1,500 days for export and interbank transactions and transactions with the National Treasury, and 360 days for all other transactions.
- Certain foreign exchange transactions are subject to a financial transaction tax (IOF), usually at a rate of 0.38%.
- Certain economic activities are subject to limitations on non-resident capital transactions.
- Individuals must notify the customs authorities if they plan to import or export cash and/or cheques in excess of BRL 10,000 or its equivalent in foreign currency.
- Proceeds from exports, invisible transactions and current transfers are exempt from surrender requirements. However, non-resident capital transactions must be reported to the BCB.
- Individuals and corporations can make transfers for the purchase of shares or for direct investment abroad without restrictions. Institutions authorised by the BCB to operate in Brazil must observe specific regulations when investing abroad.
- Restrictions are applied to foreign direct investment into certain economic activities. All foreign direct investment is required to be registered with the BCB.
Resident / non-resident

- A business is considered resident in Brazil if it is incorporated in Brazil. There are specific situations in which non-residents may be treated as residents because their branches, local agents or representative offices operate in Brazil.

Tax authority

- Brazilian Revenue Service (RFB).

Tax year/filing

- The tax year corresponds to the calendar year.
- Every business entity in Brazil (including corporations, partnerships, branches and agencies of companies domiciled abroad) must file an annual income tax return for the previous calendar year by the last working day of June.
- Corporate taxes (IRPJ and CSLL) are usually due on annual adjusted profit, with monthly advance payments; excess tax paid is available to offset future taxes.
- Consolidated returns are not permitted; each company must file a separate return.

Financial instruments

- Gains and losses on financial instruments are taxed as ordinary income (subject to restrictions on the offsetting of capital losses against ordinary profits in certain cases. Capital gains derived by a non-resident on an investment registered with the central bank are subject to progressive rates ranging from 15% to 22.5%. A 25% rate applies if the gains are derived by a resident of a tax haven. Foreign investors in the financial market may be subject to different rates.

Interest and financing costs

- General anti-avoidance rules apply. Under the rules, any amount paid, credited, delivered, used or remitted directly or indirectly to an entity or individual incorporated or resident in a tax haven jurisdiction or benefiting from a preferential tax regime may be deducted only if the taxpayer can identify the beneficial ‘recipient’ of the proceeds; provide proof that the entity or individual has the operational capacity to carry out the transaction for which the payment is made and submit documentation showing the purchase price paid and the receipt of goods, rights or the use of services. In addition, ultimate beneficial owner disclosure rules apply to certain taxpayers.

Foreign exchange

- In general, companies do not need prior authorisation for foreign exchange transactions, although a record of the transaction must be filed (online) with the BCB. The BCB requires registration of all foreign investments (equity or debt) in Brazil.
- For foreign exchange gains or losses companies can chose to be taxed either on an accrual or realised basis.

Advance tax ruling availability

- While there is no advance tax ruling system, Brazil allows formal consultations on the application of tax laws to
the taxpayer's specific facts. The resulting decisions are binding only on the taxpayer, with the possibility of an appeal depending on the existence of inconsistent separate decisions, in which case an affected taxpayer may request a final statement that binds all taxpayers that have received decisions on the same facts/law.

Capital gains tax

- Capital gains are treated as ordinary income for tax purposes (subject to restrictions on the offsetting of capital losses against ordinary profits in certain cases).
- Capital gains realized by non-resident entities may be subject to withholding tax between 15% to 22.5% (15% on gains that do not exceed BRL 5 million; 17.5% on gains over BRL 5 million up to and including BRL 10 million; 20% on gains over BRL 10 million up to and including BRL 30 million; and 22.5% on gains over BRL 30 million). A 25% rate applies to gains derived by a resident of a tax haven.
- Foreign investors in the financial market may be subject to different rates.
- Capital losses realised in the current year may be relieved against ordinary income as well as capital gains.
- Capital losses may also be carried forward indefinitely, but they may only be offset against capital gains.

Withholding tax (subject to tax treaties)

<table>
<thead>
<tr>
<th>Payments to:</th>
<th>Interest</th>
<th>Dividends</th>
<th>Royalties</th>
<th>Other income</th>
</tr>
</thead>
<tbody>
<tr>
<td>Resident entities</td>
<td>0%–22.5%</td>
<td>None</td>
<td>0%–1.5%</td>
<td>N/A</td>
</tr>
<tr>
<td>Non-resident entities</td>
<td>15%/25%</td>
<td>None</td>
<td>15%/25%</td>
<td>N/A</td>
</tr>
</tbody>
</table>

- Interest paid to non-residents is generally subject to a 15% withholding tax, unless reduced by an applicable tax treaty. The rate is 25% if the recipient is resident in a jurisdiction that is deemed to be low-tax.
- Interest derived from domestic loans have rates that apply to fixed income investments, which are subject to regressive withholding tax rates as follows: 22.5% on interest due for a term of up to 180 days; 20% on interest due for a term between 181 days and 360 days; 17.5% on interest due for a term between 361 days and 720 days; and 15% on interest due for a term greater than 720 days.
- Royalty payments to non-residents are generally subject to withholding tax at a rate of 15%, or 25% if the recipient is resident in a jurisdiction deemed to be low-tax, as well as 10% CIDE (Royalty and technological services tax).
- The general withholding tax rate on technical service and technical assistance fees, administrative assistance and similar payments to non-residents is 15%, unless the rate is reduced or eliminated under a tax treaty. The rate is 25% if the recipient is resident in a jurisdiction that is deemed to be low-tax. Certain domestic professional service payments are subject to a 15% withholding tax (as well as 1% CSLL, 3% COFINS and 0.65% PIS). The CIDE is imposed at a rate of 10%.

Tax treaties / tax information exchange agreements (TIEAs)

- Brazil has exchange of information relationships with 41 jurisdictions through 33 double tax treaties and eight TIEAs.
- Brazil is a signatory of the Multilateral Competent Authority Agreement (MCAA) on the automatic exchange of country-by-country financial account information. Under this multilateral agreement, information will be exchanged between tax administrations, giving them a single, global picture on some key indicators of economic activity within multinational enterprises. There are currently 92 signatory countries.
Thin capitalisation

- Under Brazil's thin capitalisation rules, interest paid to related parties that are not located in a low-tax jurisdiction or that do not benefit from a privileged tax regime may be deducted on an accrual basis for corporate income tax purposes if:
  - The expenses are necessary for the company's activities, and
  - both of the following thresholds are met:
    - The related-party debt-to-equity ratio does not exceed 2:1 calculated based on the proportion of related-party debt to direct equity investment made by related parties; and
    - The overall debt-to-equity ratio does no exceed 2:1 based on the proportion of total debt to total direct equity investment made by the related parties.
- Interest paid to an entity or individual that is located in a low-tax jurisdiction or that benefits from a privileged tax regime (regardless of whether the parties are related) is deductible if:
  - it is necessary for the company's activities; and
  - both of the following thresholds are met:
    - The amount of the Brazilian entity's indebtedness to the low-tax jurisdiction resident does not exceed 30% of the net equity of the Brazilian entity; and
    - The Brazilian entity's total indebtedness to all entities located in a low-tax jurisdiction or benefiting from a preferential tax regime does not exceed 30% of the net equity of the Brazilian entity.
- Any excess interest is treated as a non-deductible expense for IRPJ and CSLL purposes.

Transfer pricing

- Brazilian transfer pricing rules apply only to cross-border transactions between related parties, or to transactions carried out with entities resident in countries considered by the Brazilian tax authorities to be low tax jurisdictions. The Brazilian transfer pricing rules deviate from the OECD Transfer Pricing Guidelines and require statutory profit margins to be applied, rather than the arm's-length principle.
- The transfer pricing rules also provide that interest derived from a cross-border loan is subject to certain limits regardless of whether the loan agreement is registered with the BCB. The limits vary, depending on the type of currency adopted, type of interest (fixed or variable), etc., and take into account market rates and a spread to be determined by the Minister of Finance.
- For inbound financial transactions, where the Brazilian taxpayer is paying interest to a foreign related party, the annual spread is limited to a maximum rate of 3.5%. For outbound financial transactions, where the Brazilian taxpayer is receiving interest from a foreign related party, the annual spread has a minimum rate of 2.5%.

Controlled foreign companies (CFCs)

- Profits earned by CFCs and certain foreign affiliates (non-controlled subsidiaries) of Brazilian entities are included in the base for calculating the IRPJ (Corporate Income Tax) and CSLL (Social Contribution on Net Profits) liability of the Brazilian controlling or parent company.
- Provided certain requirements are met, Brazilian taxpayers have the option to make an irrevocable election (on a calendar year-basis) to consolidate the profits and losses of CFCs until 2017 and to carry forward losses incurred by CFCs for five years. Until calendar year 2022, a Brazilian controlling entity in certain business sectors may utilise a 9% presumed credit to offset the income tax related to CFC profits included in its taxable income.

Stamp duty

- There is no stamp duty in Brazil.

Cash pooling

- There are no specific tax rules relating to cash pooling arrangements in Brazil.
Financial transactions / banking services tax

- IOF (financial transactions tax) is levied on financial transactions such as loans, foreign exchange (FX), insurance, securities and gold transactions. As IOF is considered an instrument of economic policy, its rates can be changed by Brazilian authorities at very short notice.
- The standard IOF financial rates vary depending on the type of transaction.
- The standard IOF financial rates depending on the type of transaction. The general rate for most foreign exchange transactions is 0.38%. For short term (i.e., less than six months) cross border loans, the rate is 6% on the principal amount. A maximum rate of 1.88% (calculated under specific methods and conditions) applies on the principal amount of domestic loans (where the lender is a legal entity). For security transactions, the rates depend on the type of transaction (ranging from 0% to a maximum daily rate of 1.5%).

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