

Basic facts (2020)

Population: 211 million

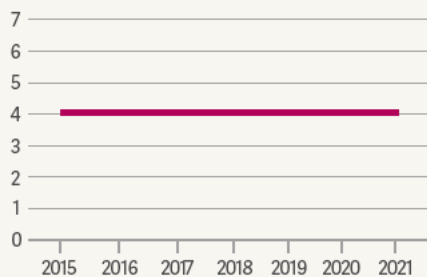
GDP, nominal: USD 1 434 billion

GDP/capita: USD 6 782



The country risk categories are arranged on a scale from 0 to 7. The lower the figure, the better the country's creditworthiness

Country classification history



Source: EKN

Strengths

- + Large and diversified domestic market
- + Well-established democracy with stable institutions
- + Limited external imbalances and adequate buffers

Weaknesses

- Low potential growth rate
- Public finance imbalances with a high level of government debt
- Large and inefficient public sector

Continued weak growth conditions

Brazil is the world's eighth-largest economy, with a substantial domestic market, a bit over 210 million inhabitants, and a nominal GDP of USD 6,700 per capita. The economic structure consists of a number of legs, including a large manufacturing industry, a growing service sector and extensive raw material resources. Brazil has a fundamental market orientation, but has historically protected its domestic industry from outside competition through trade barriers. This policy has been a factor in limiting the country's trade with the rest of the world and exports contribute approximately only 13 per cent of GDP (by way of comparison, the corresponding proportion for Sweden is 44 per cent). However, it should be added that the country's capital markets are well-developed and deep; hence, there is less need for external financing, which limits the risk of variable capital flows. Economic growth has for a long time been lower than in other comparable emerging economies, the growth rate is largely explained by slow productivity growth, which has been hampered by a number of factors, including low investments, limited external competition and significant public ownership in several key sectors. Limited reforms during the 2010s have seen Brazil lag behind in comparisons of business and investment climate in. In the World Bank's Worldwide Governance Indicators survey, Brazil was rated as equivalent to the average for Latin America in 2009. However, in the most recent compilation, the country's standing has fallen down the rankings, especially in areas such as political stability and anti-corruption.

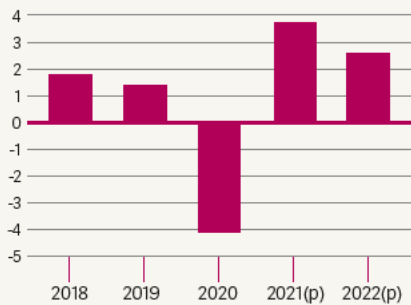
Another challenge for the country's long-term development is the structural deficits in its public finances. The central government's debt ratio currently amounts to almost 90 per cent of GDP. Nevertheless, the composition of the debt is favourable, with a low proportion in foreign currency (approximately five per cent of the debt stock). However, there is a risk that this level will contribute to rising inflation and consequent weakening of the currency (in real terms).

Reforms paused during the pandemic

Since his inauguration in 2019, President Jair Bolsonaro has had the ambition to address the structural deficits in the country's public sector finances and reduce the extensive role of state owned enterprises in the economy. In the short term, the reform agenda will not be a priority, as political efforts will continue to focus on pandemic-related measures. Brazil has been hit hard by the high number of pandemic-related deaths relative to the population size.

The fall in GDP in 2020 was considerably more limited than initially feared, primarily as a result of substantial public transfers to households, which helped to maintain consumer spending during the pandemic. However, as a result of this, the government's budget deficit amounted to ten per cent of GDP and diluted the already strained public debt situation. Managing the ongoing deficits will be key to the government's ability to continue to attract external capital and investors. In contrast to the state of the country's public finances, the external position is favourable, with a adequate international reserves, expectations of a positive current account for 2021 and good external liquidity. The Brazilian currency has gone against the currents emerging market currencies have generally experienced and continued to weaken, despite a positive current ac-

GDP growth (fixed prices, % per annum)



Source: IMFWEQ, Macrobond

Business environment



Ranking from 0 (worst) to 100 (best)

Source: The World Bank, Macrobond

count, improved terms-of-trade and reduced risk aversion. The increased political risk linked to the public sector's debt situation and President Bolsonaro's increasingly authoritarian statements ahead of the 2022 election are probably contributory factors behind the currency's weak development.

The public finance deficits, combined with a positive current account balance, mean that the private sector (households and companies) is financing the public deficit. This is not negative in itself, but the magnitude of the public sector financing needs is leading to a risk of a crowd out effect to private investment. Low investments, combined with a lack of reforms to the state owned enterprise portfolio, are leading to a risk that the long-term growth rate will continue to be limited relative to comparable countries over the coming years. In 2022, the country will also hold a presidential election, which will reduce the focus on reforms. Bolsonaro's disapproval ratings is currently at its highest level at any time during his presidential term, largely as a result of his handling of the pandemic. The low level of confidence in President Bolsonaro opens up the possibility of a decisive ballot between a left-wing candidate and a more restrained centre/right wing candidate.

Business environment

Access to financial information is generally good in Brazil. Import on open account is common and EKN's experience is overall good. Demand for letters of credit is low. Private ownership rights are respected and well-defined. The regulatory environment is to be regarded as relatively good, as technical and/or economic aspects, rather than political aspects, guide decision-making by authorities. The tax system, which is both difficult to understand and complex, is another aggravating factor for trade and industry, as is the inadequate infrastructure. The complicated legal system also leads to potentially drawn-out and costly legal proceedings. This puts the country relatively far down the list in the World Bank's Ease of Doing Business index rankings: no. 124 of 190 countries. The Brazilian currency is allowed to float freely and convertible which enables EKN to consider local currency-financed transactions.

The Brazilian banking system can be said to be resilient. Despite substantial losses during the 2015–2016 recession, banks are well-capitalised, profitable and liquid. Capital adequacy ratios are above the minimum thresholds and buffers are considered sufficient to withstand medium-to-severe macro-financial shocks. The proportion of non-performing loans amounted to 2.1 per cent of total lending volume at the end of 2020. The five largest banks account for approximately 70 per cent of the total assets in the banking system. The federal government plays a major role in the sector, e.g. through ownership of the country's largest bank (Banco do Brasil), as well as Caixa Economica Federal and various development banks (BNDES etc.). Collectively, the central government controls around 45 per cent of the total assets. Foreign ownership is more limited and amounts to approximately 15 per cent of the assets, primarily through the ownership of Banco Santander. State-owned banks have historically been able to offer subsidised loans to politically prioritised sectors, which has adversely affected competition and led to inefficient capital allocation.

Uncertainties regarding land rights issues, division of responsibilities at authority level regarding environmental permits and a deteriorating situation for human rights defenders ultimately complicate assessments of environmental and social risk.

Swedish export to Brazil

	MSEK
2020	10 034
2019	9 473
2018	7 976
2017	7 337
2016	6 791

Source: SCB

EKN:s exposure

	MSEK
Guarantees	53 166
Offers	1 506

EKN:s policy

There are no particular restrictions on transactions concerning transactions with the sovereign, banks or the private sector, which means that all transactions are assessed on the basis of their own merit, with no special requirements or conditions. As regards transactions with other public sector buyers, EKN requires a government or central bank guarantee in order to offer risk coverage.

EKN:s commitment and experience

EKN's outstanding guarantees amount to just under SEK 54 billion, largely relating to an export transaction concerning JAS Gripen-fighter jet. The remaining exposure is split between a number of sectors dominated by the pulp and paper industry. Overall, payment experiences are good, but indemnifications linked to public sector buyers have occurred. There are arrears of just under SEK 2 million in three transactions, where the maximum guarantee commitment is small. Outstanding claims amount to SEK 115 million and are attributable to commercial indemnifications in around 30 transactions between 2001 and 2018.