

Basic facts (2021)

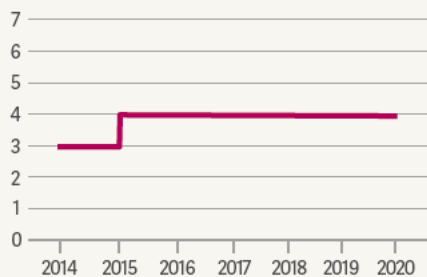
Population: 213 million

GDP, nominal: USD 1 432 billion

GDP/capita: USD 6 728



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 high government debt
- Large and inefficient public sector

Growth conditions continue to be weak

Brazil is the world's eighth largest economy, with a large domestic market and approximately 210 million inhabitants. The economic structure has a number of different aspects, including a large workshop industry, a growing services sector and extensive commodities assets. Brazil has a fundamental market orientation but has historically protected domestic industry from competition by means of trade barriers. This policy has tended to limit the country's foreign trade and exports contribute only 13 per cent of GDP (cf. Sweden 44 per cent). Brazil's economic growth has long been lower than that of comparable emerging economies. The low rate of growth is largely explained by a productivity growth that is inhibited by low investment, limited foreign competition and extensive public ownership of the country's industries, among other things.

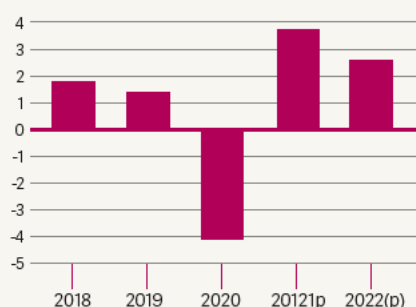
Another challenge to long-term development is the large deficit in public finances. Government debt currently equates to 90 per cent of GDP. However, the composition of the debt is favourable, with a low proportion in foreign currencies. But the high debt level risks contributing to increased inflation and a weakening of the local currency (real) as a consequence.

Reform efforts paused during the pandemic

Since assuming office in 2019, president Jair Bolsonaro has had the ambition of tackling the structural deficits in public finances and reducing the extensive government ownership of companies. In the short term, the reform agenda will not be a priority, since political efforts will continue to be focused on pandemic-related measures. Brazil has been hard hit, with a large proportion of pandemic-related deaths in relation to the population.

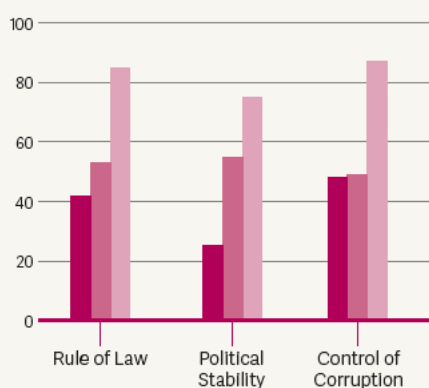
The fall in GDP in 2020 was considerably more limited than what was initially feared, mainly as a result of considerable fiscal support to households, which helped to maintain private consumption during the pandemic. At the same time, the government's budget deficit amounted to ten per cent of GDP. Because of this the government's fiscal consolidation going forward will be key to its ability to attract foreign investors. The Brazilian currency – real – has continued to weaken in spite of the country's positive current account and the general weakening of USD during 2020. The public finance deficit combined with a positive current account means that the private sector (households and companies) is financing the public deficit. In itself, this is not negative, but the size of the public borrowing needs means that private investment risks being crowded out. Low investments combined with the lack of reform of the publicly owned company portfolio means that there is also a risk that long-term growth will continue to be low in relation to comparable countries. Also, in 2022 the country will hold a presidential election, which will reduce the focus on reform work. Bolsonaro's approval ratings are currently at their lowest level ever during his time as president, which is largely explained by his handling of the pandemic. The ratings further indicate a second-round presidential race between a left-wing candidate and a moderate centre-right candidate.

GDP growth (fixed prices, % per annum)



Source: IMFWEO 2020

Business environment



■ Brazil
■ Latin America
■ Upper Middle Income

Ranking from 0 (worst) to 100 (best)

Source: The World Bank

Swedish export to Brazil

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

Source: Kommerskollegium

EKN:s exposure

	MSEK
Guarantees	53 635
Offers	1 374

Business environment

Access to financial information is usually good in Brazil. Import on open credit is common and generally speaking, EKN's experiences of this are good. Demand for letters of credit is low. Private ownership rights are respected and are well defined. The regulatory environment must be considered to be relatively favourable, since it is the technical and/or economic aspects rather than political ones that guide the authorities' decision making. The tax system, which is intricate and difficult to understand, is a burdensome factor for commercial activities, as is the defective infrastructure. The complicated judicial system also means that legal processes can be long drawn out and costly. This means that the country is relatively low in the World Bank's Doing Business ranking at number 124 out of 190 countries. The Brazilian currency, the real, is free floating, convertible and transferable, which means that EKN can cover transactions financed in the local currency. The Brazilian banking system is generally resilient. Despite extensive losses during the economic downturn of 2015-2016, the banks are well capitalised, profitable and liquid. Capital adequacy is over the minimum requirement and the buffers are judged to be adequate and able to withstand moderate to severe macro financial shocks. The five largest banks represent about 70 per cent of the banking system's total assets. The federal government has a major role in the sector through its ownership of the country's largest bank – Banco do Brasil – as well as Caixa Economica Federal and various development banks (BNDES et al.). Altogether, the government controls about 45 per cent of the total assets. Foreign ownership is more limited and account for about 15 per cent of the sectors assets, primarily through Banco Santander. The publicly owned banks have historically been able to offer subsidised credit to politically prioritised sectors, which has led to a weakened competition situation and an suboptimal allocation of capital. Finally, lack of clarity regarding land rights issues, the distribution of official responsibility for environmental permits and a weakened position for defenders of human rights make environmental and social risk assessment more difficult.

EKN policy

EKN places Brazil in country risk category 4, after a downgrading from country risk category 3 in November 2015. There are no special restrictions on transactions with the private sector, which means that transactions are judged on their own merits without any special requirements or conditions. For transactions with public buyers, EKN requires a sovereign guarantee or central bank guarantee in order to offer risk cover.

EKN commitment and experience

EKN's outstanding guarantees amount to just under SEK 54 billion, much of which relates to the JAS Gripen export transaction. The remaining commitments are distributed across a number of sectors, dominated by the pulp and paper industry. Payment experience is generally good, but there have been indemnifications in transactions relating to public sector buyers. There are arrears amounting to SEK 4 million in three transactions, where the maximum guarantee commitments represent modest amounts. Outstanding claims amount to SEK 116 million and pertain to commercial claims in some 30 transactions performed between 2001 and 2018.