COUNTRY RISK CATEGORY
4
OF 7

OCTOBER 2024

COUNTRY ANALYST
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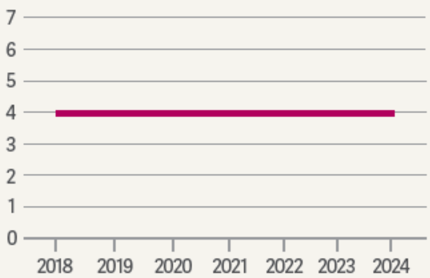
Brazil

Basic facts (2023)

Population: 212 million
GDP, nominal: USD 2 174 billion
GDP/capita: USD 10 268

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 sufficient buffers

Weaknesses

– Historically low growth rate
– Fiscal imbalances with a high level of public debt
– Large and inefficient public sector

A market with unique characteristics

Brazil is the world's eighth-largest economy, boasting a substantial domestic market of 204 million inhabitants and a nominal GDP per capita of 10,642 USD (WEO, April 2024). The economy is diversified, encompassing industries such as engineering, a growing services sector, and significant natural resource reserves. While fundamentally market-oriented, trade barriers have historically shielded domestic industries from foreign competition, which has also hindered the country's export and growth potential. Over the past decade, however, exports as a share of GDP have increased, reaching 16 percent of GDP in 2023. More than half of Brazil's exports comprise goods such as iron ore (the world's second-largest exporter), soybeans, and crude oil. China has become an increasingly important trading partner and is now the primary destination for Brazilian exports, with over 30 percent of exports directed there in 2023. The corresponding figure for the country's second-largest export destination, the United States, was eleven percent. Brazil's strengths include a robust external position, with a large foreign exchange reserve, a flexible exchange rate, and a monetary policy with an inflation target, conducted by an independent central bank. The domestic capital markets are well-developed, reducing the need for external financing and mitigating the risks of fluctuating capital flows and market sentiment.

Average economic growth, at 0.5 percent per year between 2014 and 2023, has long been lower than that of comparable emerging economies. This sluggish growth is largely attributed to stagnant productivity, hampered by low investment levels, limited foreign competition, and significant public ownership in the business sector. A lack of economic reforms during the 2010s has also seen Brazil fall behind in several comparisons of countries' business and investment climates. Corruption remains a major challenge in Brazil; in Transparency International's Corruption Perceptions Index, the country ranks 104th out of 180 nations, and in the World Bank's Worldwide Governance Indicators, Brazil's ranking in terms of corruption control has worsened over the past decade. Brazil also faces substantial challenges with security issues and crime, which constrain economic development and impose costs, particularly on smaller businesses.

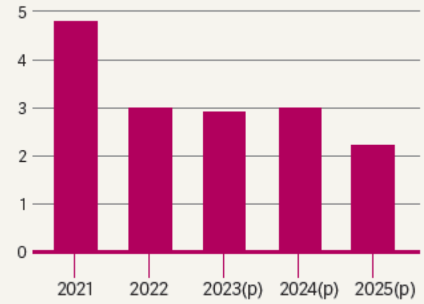
Strong external position provides resilience

The Brazilian market has demonstrated resilience in recent years. The country's ability to withstand external shocks is bolstered by its extensive natural resources, flexible exchange rate, large foreign currency reserves, and limited exposure to international capital markets. Moderate current account deficits are covered by foreign direct investments, allowing Brazil to build up its already substantial reserves, which offer a buffer against unforeseen events. While market volatility remains a possibility—due to factors such as reduced demand from trading partners, geopolitical tensions, and renewed inflationary pressures—there are buffers in place to absorb these shocks.

Brazil's medium-term growth outlook has improved, with the IMF projecting economic growth of just over two percent annually over the next five years. Historically low growth rates have been one of the market's main challenges. Key

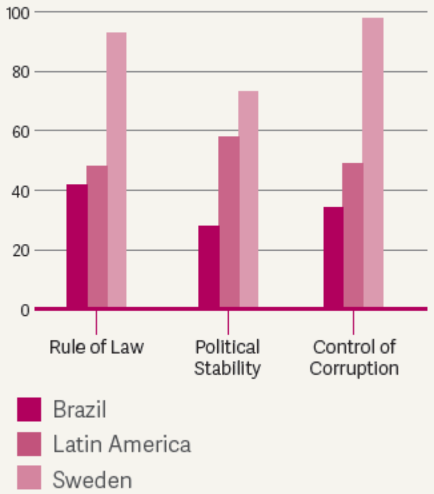
Brazil

Real GDP growth (constant prices, % per annum)



Source: IMF WEO, Macrobond

Business environment



Ranking from 0 (worst) to 100 (best)

Source: The World Bank, Macrobond

Swedish export to Brazil

	MSEK
2023	17 244
2022	16 858
2021	10 291
2020	10 034
2019	9 473

Source: SCB

EKN:s exposure

	MSEK
Guarantees	54 542
Offers	551

drivers include favourable commodity prices, oil production, and productivity-enhancing structural reforms. In 2023, Brazil decided to introduce VAT and simplify its complicated tax system, a move seen as a major breakthrough in this regard. Furthermore, a series of initiatives under the banner of the 'Ecological Transformation Plan' have the potential, if well-implemented, to stimulate green investments and jobs. The plan includes the introduction of carbon emission allowances, financing instruments for green investments, and goals and mechanisms to curb illegal deforestation—a significant issue in Brazil, primarily driven by soybean production and cattle farming. While deforestation has brought short-term economic gains in terms of agricultural exports, it has long-term negative effects on the economy by threatening biodiversity and accelerating climate change.

The policies under Lula da Silva—a representative of the Brazilian Workers' Party, governing in a centrist-liberal coalition since 2023—include several social and industrial initiatives. While these may indeed present opportunities for companies in sectors like construction and manufacturing, they also put pressure on an already constrained fiscal space. Public debt stands at nearly 87 percent of GDP, and Brazil has one of the highest debt servicing costs in the region, with close to 14 percent of budget revenues going toward interest payments. Public finance risks are somewhat mitigated by the economy's size and a favourable debt composition; only just over 10 percent of the debt is external, with a small portion denominated in foreign currency. Nonetheless, the expansive fiscal policy restricts the central bank's ability to lower interest rates, crowding out private investment that could pave the way for long-term economic development. Fiscal policy suggests a cautious approach to further rate cuts from the central bank, which is likely to dampen investment and place continued pressure on highly indebted companies. Social reforms and declining unemployment, however, are expected to support robust household purchasing power.

Business environment

The availability of financial information in Brazil is generally good. Imports on open credit are common, and EKN's overall experiences have been positive. The use of letters of credit in export transactions is traditionally low. Private property rights are respected and well-defined. The regulatory environment is relatively sound, with technical and/or economic considerations, rather than political ones, guiding government decision-making. The complex and intricate tax system has been a limiting factor for business operations, as has the inadequate infrastructure, which often leads to supply chain bottlenecks and contributes to inflation. Additionally, the complicated legal system makes legal processes lengthy and costly. As a result, the country ranks relatively low in the World Bank's Doing Business index, at 124 out of 190 countries. The Brazilian currency, the real, is floating, convertible, and transferable, allowing EKN to consider transactions financed in local currency.

The Brazilian banking system is generally resilient. The banking sector is well-capitalised, profitable, and liquid, demonstrating its ability to withstand short-term pressures. For instance, the sector remained stable throughout the pandemic, underscoring its resilience. The proportion of non-performing loans has started to decline after peaking in mid-2023 and remains at manageable levels. The five largest banks dominate the market, accounting for over 60 percent of the banking system's total assets. The federal government plays a central role in the sector through its ownership of the country's largest banks—Banco do Brasil, Caixa Econômica Federal, and several development banks (BNDES and others). Overall, state-owned banks account for about 40 percent of the sector's total assets. Foreign ownership is more limited, representing a small portion of assets, primarily through Banco Santander's holdings. Historically, the state-owned banks have been able to offer subsidised credit to politically prioritised sectors, resulting in reduced competition and inefficient capital allocation. Ambiguities around land rights issues, the division of responsibilities at the governmental level regarding environmental permits, and a deteriorating situation for human rights defenders complicate environmental and social risk assessments.

EKN's policy

There are no specific restrictions regarding transactions with the state, banks, or the private sector, meaning that transactions are assessed on their own merits without special requirements or conditions. For transactions with public buyers, EKN requires a letter of credit, state, or bank guarantee to consider risk coverage.

EKN's commitment and experience

EKN's outstanding guarantees amount to just over 54 billion SEK, with a large portion tied to an export transaction related to the JAS Gripen aircraft. The remaining commitments are spread across several sectors, with the pulp and paper industry being dominant. Overall, payment experience has been positive, although there have been compensation payments in transactions involving public buyers. There is a delay of 1.5 million SEK in a transaction where the maximum guarantee commitment is relatively small. Outstanding claims amount to 99 million SEK, relating to commercial losses in over 20 transactions conducted between 2002 and 2018.