



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



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BASIC FACTS

Population 209 million (2018)
GDP, nominally USD 1,909 billion (2018)
GDP/capita USD 9,127 (2018)
Source: IMF WEO

COUNTRY CLASSIFICATION HISTORY



Sources: EKN

Sources: IMF report, BMI country report,
ADB April report, Moody's

Rising expectations and reduced political concerns

In November 2018, when Jair Bolsonaro was elected President of Brazil, this meant that for the first time in almost 20 years, the Labour Party will not hold the presidency. The period since the turn of the millennium has been characterised by significant welfare investments that have been financed by rising raw material prices and borrowing, which has led to the country being in a strained position today in terms of public finances. The main challenges within economic policy will therefore be to reduce the large public deficits and strengthen the long-term growth rate.

The Brazilian economy is diversified, the domestic market is large and the country has a well-developed and healthy capital market. The country is recovering from the deep recession of 2015–2016 which was triggered by falling raw material prices. The expectations on President Bolsonaro to implement the necessary reforms and revitalise the economy are therefore great, but as a president and alliance builder in the Congress, he is still untested. The second chamber of the Congress is fragmented and currently consists of 28 different parties. Traditionally, it is difficult for presidents to gather support from these, especially for decisions requiring a qualified majority.

THE COUNTRY'S STRENGTHS AND WEAKNESSES

STRENGTHS

- + Diversified economy
- + Basic market orientation
- + Healthy and well-regulated banking sector

WEAKNESSES

- Large and inefficient public sector
- Excessive government control and overworked constitution
- Inadequate infrastructure and education system

SWEDISH EXPORT TO BRAZIL, MSEK

	MSEK
2018	7 970
2017	7 337
2016	6 791
2015	7 286
2014	9 157

Source: SCB

EKN:S POLICY

EKN has Brazil in country risk class 4 after a downgrade in November 2015 from country risk class 3 to 4. The background was a gradual weakening of the country's economy and increased economic imbalances, and the fact that no immediate reversal of this trend could be discerned. There are no special restrictions on transactions with the private sector, which means that the transactions are assessed on their own merits without special requirements or conditions. For transactions with public purchasers, EKN requires a sovereign or central bank guarantee to be able to offer coverage.

EKN:S EXPOSURE AND EXPERIENCE

EKN's outstanding guarantees amount to SEK 56 billion and consist largely of an export transaction regarding the JAS Gripen. Other guarantees are divided across several industries where the paper sector dominates. In 2018, 43 transactions were guaranteed at a value of SEK 238 million. Overall, payment experience is good, but indemnifications in transactions linked to public purchasers have occurred. Arrears of SEK 6 million are noted in 8 transactions, with a combined total exposure of less than SEK 70 million. Outstanding claims amount to SEK 94 million and pertain to commercial claims in 30 transactions completed between 2000 and 2017.

Uncertainties regarding land rights issues, in combination with the fact that the situation of human rights defenders has drastically deteriorated, makes environmental and social risk assessments more difficult. One example is the paper sector and risks associated with plantations and modified land use, such as the impact on local residents and water use. There are also uncertainties in the division of responsibilities at the level of the authorities with regard to the rights of indigenous peoples and which authorities (federal or state level) issue environmental permits for projects that extend across several states.

WHAT MIGHT CAUSE A CHANGE IN THE COUNTRY POLICY

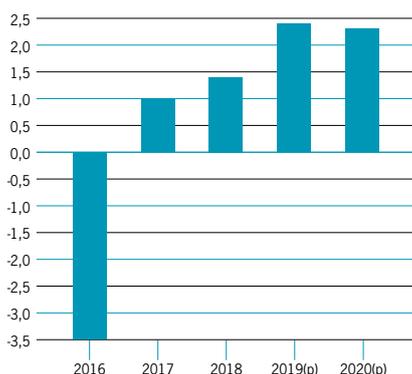
LESS RESTRICTIVE

- Faster and more comprehensive reform of public finances than is currently foreseen
- Restructuring of economic policy that significantly increases the long-term growth rate

MORE RESTRICTIVE

- Weakening of the macroeconomic conditions, for example, through weakened monetary policy credibility
- Non-existent public finance reforms that fail to lower the total public debt-to-income ratio

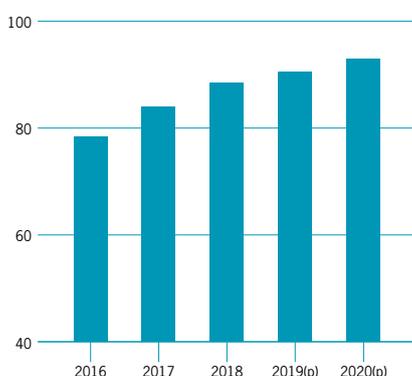
GDP-GROWTH (% PER ANNUM)



The country risk categories are arranged on a scale from 0 to 7.

Source: IMF WEO 2018

CURRENT ACCOUNT (% OF GDP)



Source: IMF WEO 2018

COUNTRY ANALYSIS

BACKGROUND

Brazil is the world's eighth largest economy with a domestic market of about 200 million inhabitants. The economic structure consists of several different legs, including a large manufacturing industry, a growing service sector and extensive primary sector. Brazil has a fundamental market orientation but has historically shielded domestic industry from competition through various types of trade barriers, which has contributed to limit the country's trade with other countries. The extensive trade barriers have entailed that several Swedish companies have long-established production in the country in order to gain access to the Brazilian market.

Economic growth has been lower than comparable emerging economies since the 1980s and has averaged 2.6 per cent per year. The growth rate is largely explained by the low productivity growth that has been hampered by low infrastructure investments, limited competition from the rest of the world as a result of trade barriers, and the central government's extensive role in the country's business sector, within the banking and energy sector, etc.

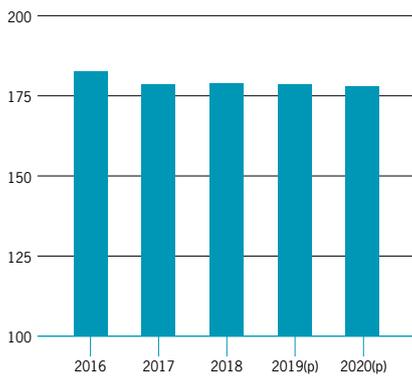
The main risk for the country's long-term development is the large deficits in public finances and the high level of debt that is expected to exceed 90 per cent of the GDP this year. Although the composition of the public debt is favourable, with a low proportion of the debt denominated in foreign currency (just under 4 per cent of total debt) and a high proportion of domestic investors, the high debt level risks contributing to increased inflationary pressure with a weakening of the currency (Real) as a result.

RECENT DEVELOPMENTS

On 1 January 2019, Jair Bolsonaro took over as president, an election result that few analysts could have predicted just a few years earlier. However, the election of the president took place in a context of very low voter confidence in the established parties due to the extensive corruption scandal of recent years (known as the Lava Jato process), which unseated and imprisoned both former presidents and leaders of the country's largest companies. The process, which in itself exposed the extensive problems of corruption that exist within all sectors of society, has at the same time demonstrated a high degree of institutional maturity insofar as the legal system has been able to operate relatively unimpeded by prosecuting and unseating leading politicians across the political spectrum.

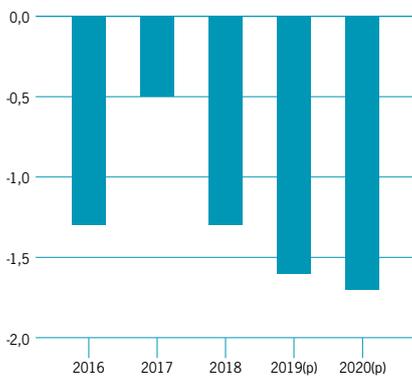
There is still uncertainty about how Bolsonaro's economic policy will be formulated in practice, but the new government will likely work for increased market orientation in order to encourage investments. The initial step to achieving this will be to increase the sustainability of public finances, primarily through a reform of the country's expenditure driving pension system, which will be implemented in 2019. For the subsequent period, the Government has announced that, between 2021–2022, it intends to carry out a review of the tax system and a privatisation programme for the currently very extensive state-owned company sector.

EXTERNAL DEBT (% of GDP)



Source: IMF Article IV 2018

PUBLIC EXTERNAL DEBT (% OF GDP)



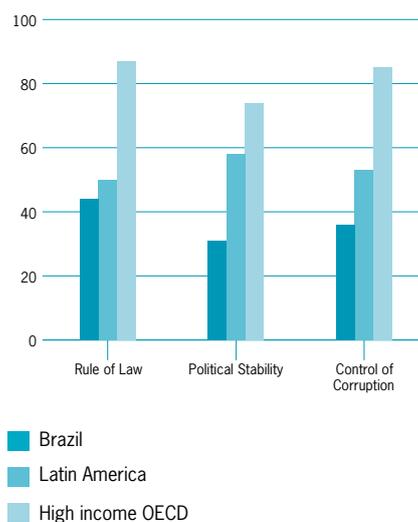
Source: IMF WEO 2019

LONG-TERM DEVELOPMENT

Brazil is expected to strengthen its public finance position in the coming years, and economic activity will increase as reforms are implemented with a view to limiting the public debt. The external situation, with limited foreign borrowing, small current account deficits and large buffers in the form of international reserves, is expected to continue. Additionally, monetary policy will continue to promote external trade and foreign investment by focusing on stable and low inflation in combination with a free floating exchange rate. Over time, regional integration is expected to increase, primarily with neighbouring Latin American countries, through deeper economic partnerships that will simplify trade between the countries and diversify the export base.

The planned reform of several of the state's major company holdings can be expected to lead to an improved competitive situation and increased productivity growth that will support the long-term growth rate. In particular, a revised mandate for state-owned banks will contribute to a more level playing field in the credit market, which will to a greater extent lead to capital being allocated to productive investments. The policy aimed at safeguarding domestic industries from foreign competition will stand back in the coming years and be replaced by a focus on seeking bilateral agreements with large trading partners. This will ultimately open the Brazil market up for increased business opportunities for Swedish exporters.

BUSINESS ENVIRONMENT



Ranking from 0 (worst) to 100 (best)

Source: The World Bank

BUSINESS ENVIRONMENT

Access to financial information is generally good in Brazil. Imports on open credit are common, and the experiences of EKN are generally good. Demand for letters of credit is low. Private ownership is respected and is well-defined. The regulatory environment must be considered to be relatively favourable as technical and/or economic aspects, rather than political, guide the decision-making of authorities.

A distinctive feature of the Brazilian market is that Brazilian authorities sometimes have regulations on foreign lending that do not harmonise with the OECD's rules for export credit guarantees, for example with regard to loan repayments. Similarly, according to Brazilian legislation, there are requirements for dividends that deviate from international standards. The difficult-to-understand and complex tax system is another aggravating factor for business, as well as the inadequate infrastructure. In addition, the complicated legal system also entails that legal processes can be lengthy and costly. This means that the country falls relatively far down the list in the World Bank's Doing Business rankings, currently number 109 out of 190 countries.

The Brazilian currency, the Real, is free floating as well as convertible and transferable, which is why EKN can consider local currency-financed transactions with the country.

The Brazilian banking system is generally resilient despite major losses during the recession of 2015–2016, so the banks are well capitalised, profitable and liquid. Brazil, like Sweden, survived a serious crisis in the banking system during the 1990s, and on this basis it has built up an adequate regulatory framework and supervisory mechanisms for the banking sector. The capital ratio is above the minimum requirements and buffers are deemed sufficient to be able to withstand moderate to severe macro-financial shocks.

The five largest banks make up about 70 per cent of the banking system's total assets. The federal government plays an active role in the sector through ownership of the country's largest bank – Banco do Brasil – as well as Caixa Economica Federal and various development banks (BNDES et al.). Overall, the state controls about 45 per cent of the total assets. Foreign ownership is more limited and amounts to around 15 per cent of the assets, mainly through the ownership of Spain's Banco Santander. The state-owned banks have historically been able to offer subsidised credit to politically prioritised sectors, which has led to reduced competition and inefficient capital allocation.

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