

Basic facts (2021)

Population: 213 million

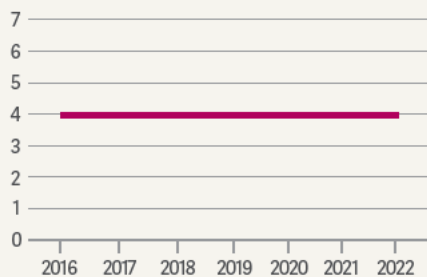
GDP, nominal: USD 1 608 billion

GDP/capita: USD 7 564



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

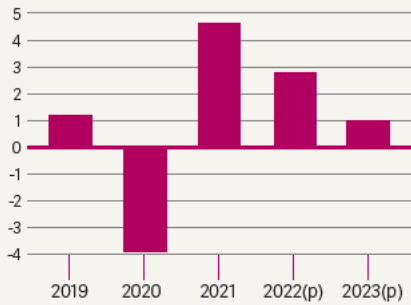
Brazil is the world's eighth-largest economy, with a substantial domestic market, 216 million inhabitants, and a nominal GDP in 2022 of USD 8,600 per capita. The economic structure is multi-layered, including an extensive manufacturing sector accounting for almost 30 per cent of GDP, a growing service sector, and substantial raw material resources. The Brazilian economy is fundamentally market-oriented, while historically protecting domestic industry from competition by means of trade barriers. This policy has been a factor in limiting the country's trade with the rest of the world and exports contribute only 13 per cent of GDP (by way of comparison, the corresponding proportion for Sweden is 44 per cent). More than half of total exports are commodities such as iron ore (the world's second largest exporter), soybean and crude oil. In recent years, China has expanded substantially as a destination for Brazilian exports. In 2020, 32 per cent of exports went to China, compared to 17 per cent 10 years earlier. At the same time, domestic capital markets are well developed, reducing the need for external financing and limiting the risk of shifting capital flows and market sentiment. Economic growth, averaging 1.4 per cent per year between 2010 and 2019, has long been lower than in comparable emerging economies, largely explained by productivity growth being hampered by low investment, limited external competition and high levels of state-owned enterprises. Limited economic reforms in the 2010s, has caused Brazil to lag behind in several comparisons of business and investment climate. 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 the public sector finances. The deficits are a consequence of the fact that a large part of the central governments expenditures is linked to various regulations governed by a very detailed constitution. The gross debt of the central government is now equivalent to 92 per cent of GDP, having increased by 30 percentage points since 2010. However, the composition of the debt is favourable, with a low proportion in foreign currency, equivalent to five per cent of the debt stock and a high level of domestic ownership. However, there is a risk that this level will contribute to rising inflation and consequent weakening of the currency.

Strong recovery after the pandemic

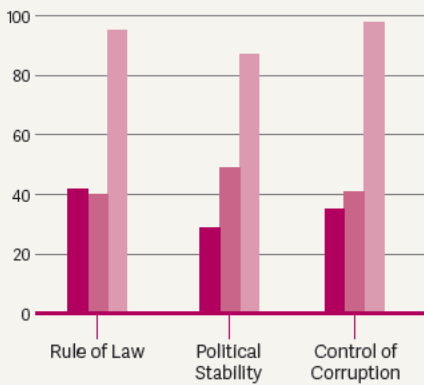
Lula da Silva will once again be Brazil's President (from 2023; Lula was previously President during two terms from 2003 to 2011) after defeating current President Jair Bolsonaro in a runoff election at the end of October. President Lula will need to negotiate support from a broader coalition in Congress, as the alliance he represents won only 16% of the seats in the lower house and 24% in the upper house. This means that he will need to secure support for his policies from the influential *centrão*, which a broad non-ideological informal group of political parties in the centre of Congress. With the influence of the *centrão*, the balance of power will shift towards the centre, thus establishing the preconditions for

Real GDP growth (constant prices, % per annum)



Source: IMFWEQ, Macrobond

Business environment



■ Brazil
■ Latin America & Caribbean
■ Sweden

Ranking from 0 (worst) to 100 (best)

Source: The World Bank, Macrobond

broad economic policy continuity.

The recovery from the fall in GDP in 2020 caused by the pandemic has been strong, with levels already recovering in the second half of 2021, assisted in large part by extensive fiscal stimuluses and elevated prices for many of Brazil's export commodities. The expansionary fiscal policy has continued in 2022, partly driven by the presidential elections in October and is contributing to growth expectations around 1.7 per cent. However, a sharp slowdown in global growth, high domestic interest rates, combined with an expected consolidation of public spending will limit GDP growth in 2023 to around 1.0 per cent. Fiscal consolidation is inevitable, notwithstanding the outcome of the presidential elections. The fiscal deficits, which have averaged 7.5 per cent of GDP between 2016-2019, peaked in 2020 at 13.3 per cent. The return to more sustainable fiscal policies is key to the ability of the government to continue to attract capital and investors from abroad. In contrast to public finances, the external position is considered favourable, with ample FX-reserves, limited current account deficits covered by foreign direct investment, and a manageable external debt.

Investments has recovered strongly, helped by initiatives to attract private investment in infrastructure via improvements of concession contracts and legal frameworks. Investments are expected to reach 18 per cent of GDP in the coming years, compared to 15 per cent in the period 2015-2020. That said, there remain significant risks given the high level of inflation, which is expected to reach 8-9 per cent this year. If inflation were to take hold, a prolonged period of restrictive monetary policy is expected, which would dampen consumption and investment, as well as increasing government borrowing costs.

Business environment

Access to financial information is generally good in Brazil. Open account import is common and EKN's experience is overall good. The demand for letters of credit is traditionally low. Private ownership is well-defined and respected whilst the overall regulatory environment is to be regarded as relatively good, as technical and economic aspects, rather than political ones, guide decision-making by the authorities. The tax system, which is both difficult to understand and complex, is an aggravating factor for businesses, as is the inadequate infrastructure, which often leads to bottlenecks in supply chains and contributes to inflationary trends. 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 has been allowed to float freely, and is convertible and transferable, which enables EKN to consider local currency-financed transactions.

The Brazilian banking system can generally be said to be resilient. After losses during the 2015-2016 recession, the banking sector is today well-capitalised, profitable and liquid. Capital adequacy ratios have not deteriorated during the coronavirus pandemic and adequate provisions are in place to cope with increased credit losses, while net interest income is expected to improve as a result of rising inflation and interest rates. The share of problem loans in the banking system remained at 2.1 per cent of lending volume at the end of 2021, which is lower than before the onset of the coronavirus pandemic. The five largest banks account for approximately 70 per cent of total assets in the

Swedish export to Brazil

	MSEK
2021	10 291
2020	10 034
2019	9 473
2018	7 976
2017	7 337

Source: SCB

EKN:s exposure

	MSEK
Guarantees	53 819
Offers	2 458

banking system. The federal government plays a central role in the sector, e.g. via ownership of the country's largest bank (Banco do Brasil), as well as Caixa Economica Federal and several development banks (BNDES and others). Collectively, the central government controls around 45 per cent of the total assets within the sector. Foreign ownership is more limited and amounts to approximately 15 per cent of the assets, primarily via the ownership of Banco Santander. State-owned banks have historically been able to offer subsidised loans to 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 complicate assessments of environmental and social risk.

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 (non-sovereign) public sector buyers, EKN requires a sovereign or central bank guarantee in order to offer risk coverage.

EKN:s commitment and experience

EKN's outstanding guarantees amount to some SEK 56 billion, consisting primarily of an export transaction related to JAS Gripen. The remaining exposure is split between several sectors dominated by the pulp and paper industry. Overall, payment experience is good, but indemnifications in transactions linked to public sector buyers have occurred. There are arrears of approximately SEK 1 million in three transactions, where the maximum guaranteed commitment is a minor amount. Outstanding claims amount to SEK 98 million and are attributable to commercial indemnifications issued between the years 2002 and 2018 in some 30 transactions.