

An aerial photograph of Rio de Janeiro, Brazil, featuring the Christ the Redeemer statue on the peak of Corcovado Mountain. The city's dense urban landscape is visible below, with numerous high-rise buildings and green spaces. The sky is a clear, bright blue, suggesting a sunny day.

# BUSINESS RISKS IN BRAZIL

An aerial, high-angle photograph of a city street. The street is dark asphalt with white crosswalk markings. Several cars and a yellow bus are visible on the road. Buildings with various roof colors (red, grey, blue) line the street. The lighting suggests late afternoon or early morning, with long shadows cast across the buildings and street.

Brazil is a challenging and interesting market for Swedish companies. Low production costs, large and cheap reserves of raw materials, good market access to suppliers, services and clients, together with one of the largest domestic markets in the world makes Brazil very appealing to companies around the world.

More than 200 Swedish companies are established in Brazil through Brazilian subsidiaries or local distributors and partners. Covid-19 is a particularly critical health and economic situation in the country, causing a severe decline in demand for goods and services, and restricting supply. Brazil has reported the third highest number Covid cases in the world, surpassed only by USA and India. Over 550,000 Covid-related deaths have been reported in Brazil, with over 19 million recorded cases.

Despite the tumultuous circumstances, 70 percent of Swedish businesses conducting businesses in Brazil were profitable during 2020. In the first quarter of 2021, Brazil economy has grown 1.2 percent despite reaching its highest peak in the Covid-19 pandemic in March 2021. With the recovery of Brazil's economy, 90 percent of Swedish companies expect a growth in sales in Brazil during 2021.

This report presents the current economic circumstances in Brazil, focusing on consumption and production in the domestic market and explores the risks that Swedish businesses must consider when conducting businesses in Brazil. This global risk monitoring and strategic foresight paper is an essential read for Swedish business leaders with interests in Brazil.

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# BRAZIL, A STRATEGIC MARKET

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## FOR SWEDISH COMPANIES

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### ECONOMIC OVERLOOK

Brazil had one of the fastest growing major economies in the world from 2000 to 2012. Brazilian recovery started in 1994 with the Real Plan (*Plano Real*), which decreased hyperinflation from record levels. The Real Plan was effective because it created a new and floating currency, combined with contracting and effective monetary policy. Apart from its commodity super-cycle, Brazil was able to exploit its large reserves of raw materials together with lower labour and production costs to benefit from growing economies demanding raw materials. Moreover, Brazil received global liquidity like others emerging markets after the 2008 global recession. This international investment helped develop Brazil's economy even more.

After more than a decade of growth, a decrease in non-energy commodity prices in 2011 revealed the structural fragility of Brazil's economy, which had long been hidden by high global demand of its export commodities (e.g. iron ore, soybeans and raw sugar), and the risks to companies operating in Brazil. At this time, inflation began to rise alongside interest rates and Brazil entered a budget deficit. Consequently, Brazil's economy collapsed and suffered a drop by 3.8 and 3.6 percent in 2015 and 2016, respectively. By 2018, Brazil's GDP growth was barely more than one percent. Brazil's worsening corruption, even in the face of worsening economic prosperity, further undermined private investor confidence.

When Covid struck Brazil, it was still recovering from its 2014-2016 economic crisis, exposing an already fragile economy to unprecedented health and economic challenges. In 2020, the Covid-19 pandemic and the health implemented measures to contain its impact, caused a severe decline of external and domestic demand, and also restricted supply. The impacts of Covid are also threatening to counteract years of progress in poverty reduction and human capital accumulation. The poverty rate temporarily fell to 21 percent in 2020 (from 29 percent in 2019) due to social emergency transfers (*Auxilio Emergencial*) to 66 million individuals and the expansion of the pre-existing Conditional Cash Transfer program.

Notwithstanding the economic challenges, Brazil remains the world's thirteenth-largest economy and the largest economy in Latin America. The Brazilian Institute of Geography and Statistics (*Instituto Brasileiro de Geografia e Estatísticas*: IBGE) recorded a GDP growth of 1.2 percent in the first quarter of 2021. According to the International Monetary Fund, Brazil's gross domestic product increased \$1.49 trillion in 2021 first quarter. Rising commodity prices boosted exports and tax revenues in Brazil, motivating this growth. Exports of iron ore and soybeans raised strongly. Credit also continued to grow, supporting Brazilian investment. Nevertheless, government and private consumption remained low in 2021 first quarter.



Brazil is the largest economy in South America

And the 13<sup>th</sup> largest economy in the world

Labour market recovery remains weak due to the second wave of the pandemic, unemployment also remains relatively high (14.7 percent) and, according to the IBGE, wages did not rise in 2021.

Economic recovery has remained weak and poses a risk to companies investing in Brazil. The weak

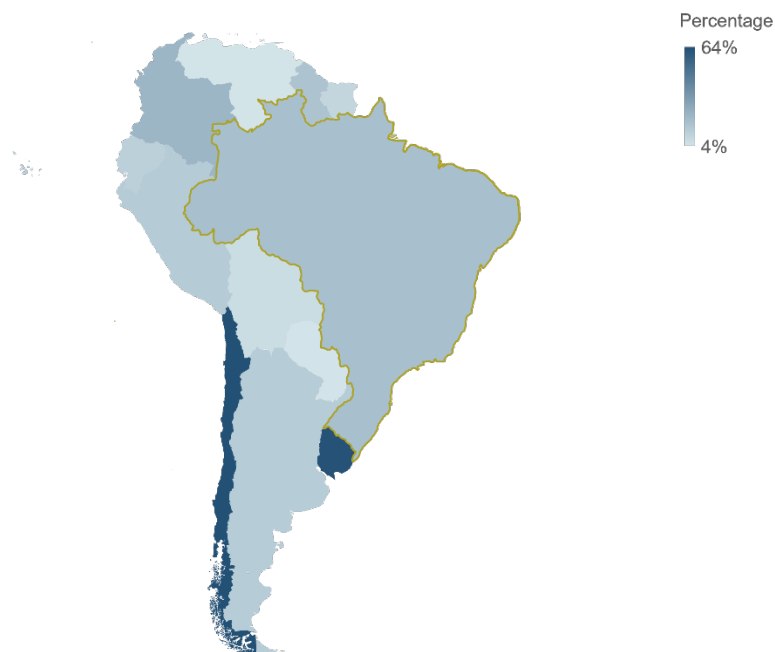
recovery has resulted in scepticism in the macroeconomic policy framework employed by the Government, especially in the fiscal area, bringing downside risks. International investors are demanding a stronger fiscal policy in Brazil and the implementation of structural reforms, as soon as the spread of the disease is controlled.

### COVID-19 STRUCK BRAZIL

In March 2021, the pandemic peaked in Brazil. The critical situation was a consequence of a combination of several factors, amongst them:

- The new and more contagious Covid-19 variant discovered in Manaus in early 2021.
- The health system not being prepared to handle a huge volume of cases; by end of March 2021, the majority of states experienced over 90 percent of ICU occupancy rate, with shortages of critical supplies such as oxygen and sedatives. This situation has reflected problems of planning and coordination between the federal and subnational levels.
- A slow-moving vaccination program. A total of 123,291,610 vaccine doses had been administered by 23 July 2021. Brazil's vaccination campaign has been slow because of a lack of shots primarily stemming from supply issues, as well as misinformation about vaccines. In early June, it was reported that the two main vaccine production hubs in Brazil paused their production due to a shortage of chemical ingredients, mainly delivered from China. Fiocruz is manufacturing AstraZeneca vaccine, while Butantan is producing a shot developed by China's Sinovac Biotech Ltd.

Percentage of people fully vaccinated in South America by 27<sup>th</sup> July, 2021



## DOMESTIC MARKET



A population of 213 million



The 6th largest consumer market in the world



The average age is 33.5 years with 62 percent of Brazilians 29 years or younger



87.6 percent of the population live near or in urban areas



47 percent of households consist of two or three people



49 percent of adults aged 25-64 have finished upper secondary education



The services sector employs 71.3 percent of the active workforce



Industry sector employs 19.6 percent of the active workforce



Agriculture sector employs 9.1 percent of the active workforce

During the first quarter of 2021, Brazil's GDP per capita reached USD 15,640 based on PPP. Brazil's Private Consumption Expenditure was reported at USD 225.296 billion in March 2021. This means that Brazil's consumer spending in goods and services has been reduced a 26.58 percent since January 2020, before the Covid-19 crisis started. The second wave of the pandemic has also hit consumer

expenditure's in Brazil, which have dropped by 4.83 percent since January 2021.

Therefore, as Brazil's consumer purchasing power has decreased, Swedish companies that conduct sales in Brazil might be affected by this reduction caused by the ongoing economic crisis.

Despite being the thirteenth-largest economy in the world, economic inequality in Brazil has reached critical levels. Brazil has boosted 28 million people out of poverty in the last 15 years, dropping poverty to less than ten percent of the population. However, between 2001 and 2015, 10 percent of the richest people accounted for 61 percent of the economic growth. Women in Brazil earned 20.5 percent less than men on average in 2018 and the gender wage gap is estimated to have expanded even further during Covid. Moreover, Brazil has different standards of living across the different regions, with the best areas in southern Brazil, and the poorest in the north and northeast. For this reason, Brazil has developed tax concessions for businesses choosing to locate in the poorer Northeast and Amazon regions, including reductions in federal income tax.

**Private Consumption Expenditure  
(Billion USD)**



## HOUSEHOLD CONSUMPTION EXPENDITURE

In 2020, the average of Brazil's household expenditure per capita reached USD 6,742.734 (constant 2010), the second highest in South America only after Chile (USD 8,643.525). Meanwhile, the average per capita in the European Union was USD 18,407 and USD 25,893 in Sweden.

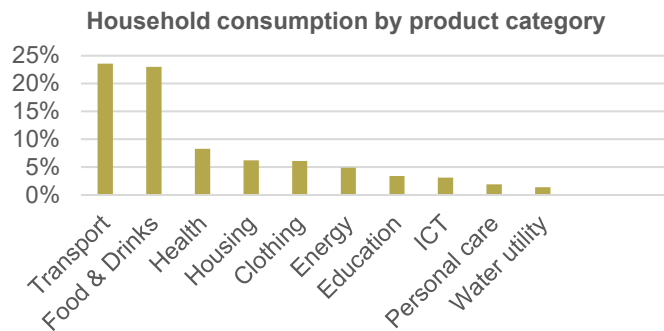
## CONSUMER BEHAVIOUR

The consumer confidence index reached 83.4 in September 2020 but declined in October and November 2020, according to the Fundação Getulio Vargas. Nowadays, 75 percent of Brazilians have a tendency to save as much as they can and spend less when they go shopping. Although, consumers generally remain loyal to their favourite brands, the reputation and popularity of the brand matter more than before. Additionally, 19 percent of consumers carry out product research and look for deals before making a purchase to find retailers selling a specific brand or product at lower prices and 14 percent wait for sales. Also, Brazilian consumers frequently shop in discount chains.

Brazilians tend to spend their money on experiences as much as they spend on products and they expect good quality products. Furthermore, customers demand high-quality sales service and customer support. Card use in Brazil is relatively high and Brazilians, especially between the middle class but cash is still the most used payment method in some regions. Moreover, three quarters of consumers frequently make payments in instalment, especially online, and one third of consumers will not make a purchase if the shop does not offer the option to pay in instalments.

The overall environmental awareness of the Brazilian consumers has improved over the recent years. Brazil is home to many international collaborative platforms. For example, Uber and Airbnb are often used.







Brazil has the 14th largest e-commerce market in the world and the most developed e-commerce market in Latin America, with a revenue of USD 21 billion in 2020, placing it ahead of Italy and behind Spain. Electronics and media is the largest segment in Brazil and accounts for 27 percent of the e-commerce revenue in Brazil. This is followed by fashion and



beauty with 21 percent, toys and hobbies with 19 percent, furniture and appliances with 17 percent, and food and personal care with the remaining 16 percent. Online customers expect a fast response when they contact companies via social media, as they generally hope to have an answer in less than one hour. Brazilian consumers are very influenced by social media comments and they will consider not making an online purchase if there is a significant number of negative reviews about a product on social media.

## HOW THE COVID-19 PANDEMIC HAS AFFECTED BRAZILIAN CONSUMER BEHAVIOUR

Brazilians are struggling because of the effects of the pandemic on their finances. More than half of Brazilians perceive their current economic situation as in trouble. New purchase decisions and behaviours are appearing due to the pandemic:

-  Up to 50 percent prioritize their mental and physical wellbeing
-  Up to 50 percent of consumers focus on value and essentials spends
-  Up to 70 percent prefer to remain using digital channels post covid-19
-  47 percent is changing to less expensive products to save money
-  43 percent is doing a research of brands and products prices before buying
-  37 percent do a shopping list and spend time preparing the shopping plan



## BRAZIL'S PRODUCTION

The Brazilian economy has long been driven by manufacturing, mining and agriculture. Swedish companies are active within these sectors with many major companies having a long history on the Brazilian market.

Brazil has a diversified and developed industrial sector. The country was the eighth largest producer of crude, biofuels and petroleum in the world during 2020, accounting for 3.9 percent of world oil production. Other than this, Brazil's main industries are automotive, cement, iron and steel production, paper and pulp, chemical production, and aerospace. Abundance of raw materials and a cheap labour force are the main factors that have helped Brazil in its industrial development. Also for these reasons, the food and beverage industry is a very important part of the manufacturing sub-sector.

Manufacturing outputs rose between 2002 and 2011 in Brazil because of lower labour- and production costs, together with bigger investment in Brazil infrastructures. However, since 2011 manufacturing outputs have halved. The dramatic reduction in outputs was because of the appreciation of the Real (BRL), a rise in labour costs and also, a decrease in non-energy commodity prices. These factors put Brazil's competitiveness at risk.

Today, the manufacturing sector alone accounts for around 9.4 percent of the value added to Brazil's GDP despite Covid-19 pandemic outbreak. The sectors most affected by the Covid-19 crisis have been manufacturing, retail, accommodation and food services. During the first months of the pandemic in 2020, Brazilian manufacturing and production took a great hit, reflecting the impact of industrial plant shutdowns and restrictions to contain Covid-19. In April 2020, a 31.7 percent decrease in manufacturing compared to the previous year was observed. However, in April and May 2021, we saw an increase in of 40.2 and a 25.8 percent over the same months in the previous year, with industrial manufacturing outputs increasing to significantly above pre-pandemic levels.



## BRAZIL'S INTERNATIONAL TRADE

Brazil Ministry of Economy published a USD 51 billion trade surplus in 2020, showing a six percent increase from 2019 as the Covid pandemic hit imports harder than exports. Brazilians exports remained fairly stable during the pandemic due to a higher demand of agricultural goods from Asian countries and a depreciated Real (BRL). Meanwhile, a lower domestic demand caused a drop

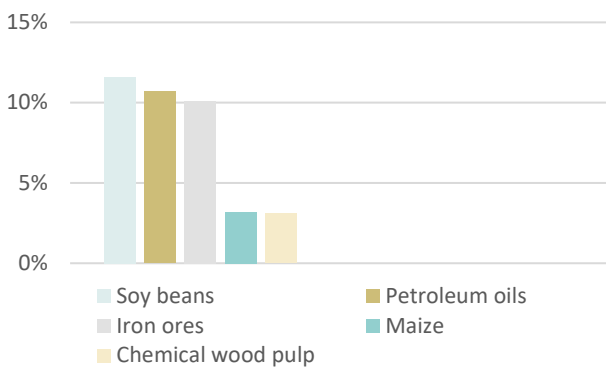
in the volume of imports. Although, total trade volume fell 7.7 percent in Brazil in 2020.

Brazil's  
greatest  
commercial  
partner

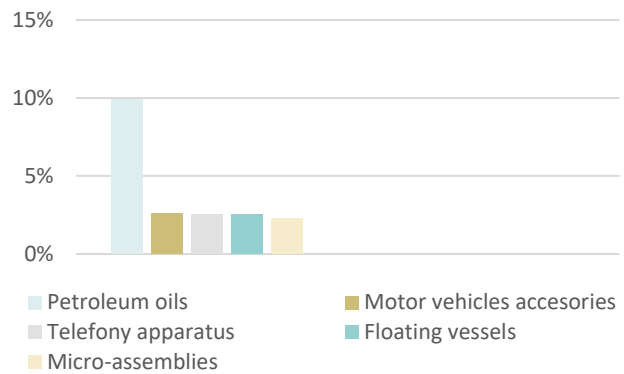
China

The trade balance in Brazil is structurally positive. However, it has deteriorated in recent years because of a fall in raw materials prices, a rise in energy imports and a drop in the competitiveness of Brazilian products.

Brazil's main exports



Brazil's main imports





## WHAT ARE THE MAIN RISKS FOR SWEDISH BUSINESSES OPERATING IN BRAZIL?

### THE HURDLES TO SETTING UP OPERATIONS IN BRAZIL

Establishing production or business in Brazil remains complex. The World Bank ranks Brazil at 124 out of 190 in terms of ease of doing businesses, while, Brazil have been ranked in the top 10 of largest receptors of foreign direct investments over the last years. These seemingly contradictory points is best explained by the high tariffs cost and tough non-tariffs barriers for imported products



Brazil's high import tariffs, as well as a high and complicated tax system.



Non-tariff barriers: tough regulatory system, lack of adequate or effective intellectual property protection and implementation and an inefficient customs processes.



Rigid labour legislation.



Infrastructure below EU standards that might increase logistics costs.



Bureaucratic delays and non-transparent public procurement processes.



High levels of corruption.

The other side of risk is opportunity and Brazil remains an attractive market for international investors because of a large domestic market (213 million inhabitants), good access and exploitation of raw materials, a strategic geographic position that

In terms of doing businesses, Brazil was ranked 109 out of 190 in 2019, while in 2020 dropped until 124 position due to the current economic crisis, which has driven down some business and consumer demand, and a weak Real that has downgraded Brazilian buying power.

Apart from these factors that have affected Brazil, the challenges of establishing operations in Brazil that Swedish business should consider are:

facilitates access to other South American markets and a diversified economy that reduce vulnerability to face international crises. Foreign direct investment in Brazil rose in commodities, although investment in utilities and services increased as well in 2019.

## PAYING TAXES

The Brazilian tax system is complicated and costly, which may be a deterrent for many Swedish companies. In 2019, the average time it took to for businesses globally to file and pay taxes was 232 hours. The corresponding average time in Brazil was 1,501 hours.

Brazil's average Most Favoured Nation (MFN) applied tariff rate was 13.4 percent in 2018 (latest data available). However, Brazil's simple average bound tariff rate, according to World Trade Organization (WTO), is much higher (31.4 percent) since Brazil could decide to increase its tariff rates to the bound rates.

Brazil applies both federal- and state taxes as well as fees to all imports. This double-taxing of imports increases the cost of imported products and inhibits growth. Brazil's tariffs vary frequently which increase uncertainty for Swedish exporters interested in the Brazilian domestic market. There are three main taxes that account for import costs: the Import Duty (abbreviated in Portuguese as II), the Industrialised Product tax (IPI) and the Merchandise and Service Circulation tax (ICMS). Moreover, multiple cascading taxes and tax disputes among the various states in Brazil, also challenge Swedish companies operating in and exporting to this country.

## UNEMPLOYMENT

In 2014, Brazil's unemployment rate was down to 6.66 percent following a decrease that started fifteen years earlier. In 2014/2015, the labour market bubble burst, catapulting unemployment rates to 12.8 percent over the course three years. Between 2018 and 2019, Brazil saw a small decrease in unemployment but many in the lower struggled to recover from the economic crisis with increasing income losses.

The Covid pandemic caused devastating effects in many communities. Data from the Brazil's Ministry of Economy show a negative balance of more than 1

million formal jobs between March and April 2020 when the number of unemployed persons rose by 4.9 million. Moreover, working hours and wages were reduced for 8.1 million workers under a special programme for the formal labour market. The official unemployment rate in May 2020 was 10.1 percent, slightly smaller than in January and February 2020, before the pandemic hit Brazil. During the first quarter of 2021, unemployment rose to 14.7 percent with no new jobs in sight for many people already struggling to meet their financial obligations. The pandemic also caused an increase in informalisation of work, outsourced, subcontractors and part-time workers. The average monthly salary of a Brazilian is BRL 2,544 (SEK 4,263.91 by July 29, 2021) in March 2021.

*As a result of the high rate of unemployment in the country, Brazil's consumer purchasing power has been reduced. This might affect Swedish businesses sales in the country. Swedish companies must adapt their marketing plans to respond new Brazil's customer behaviours due to the critical economic situation in the country.*



Only  
10%

of Brazil's  
workforce  
can work  
from home

Only ten percent of the workforce in Brazil have been able to work from home. This has mainly benefitted employees already enjoying a relatively high standard of living. The vast majority of people in Brazil that have been able to work from home have a university degree and do managerial or administrative work. Most jobs available to workers with limited formal schooling cannot be performed remotely.

## CRIME

Production decisions are regularly guided by the confidence of entrepreneurs. Several independent variables have been suggested to affect business confidence with crime being one. The findings indicate that both high levels of crime as well as violence, has negative effect on business confidence, in turn making investments in local production less palatable.

Brazil has the seventh highest crime rate in the world. Violent crimes, organize crime, drug trafficking, corruption, and domestic violence are all prevalent problems in Brazil. The high prevalence of violent crime in Brazil affects Swedish companies with employees based in, and travelling to Brazil.

*The implementation of robust travel-risk management measures such as pre-departure security briefs, security trainings and travel tracking will mitigate Swedish businesses employees' security risks travelling to Brazil. Real-time travel tracking has showed an indispensable tool in several incidents that 2Secure has managed in around the world.*

Like much of the world, cyberattacks are assessed as the main threat for business in Brazil. Cyber-incidents have grown a 39 percent in the world in the last year due to the pandemic outbreak. In the first 6 months of 2020, 2.6 billion attempts at cyber-attacks were recorded in Brazil. Moreover, this country is the third in global ranking of cyber threats distributed via email and ransomware, behind the United States and China.

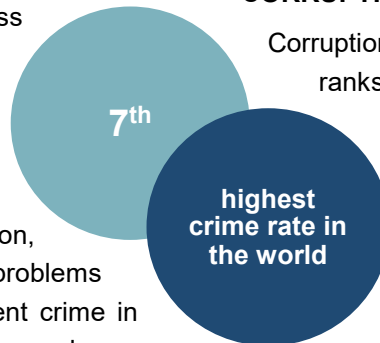
For this reason, Swedish businesses must be prepared to handle cyber exposures in this country implementing cyber-security risk assessments and having a plan of action for responding to this problem. Moreover, Swedish companies must be aware that the rise in cyber-crimes is also affecting Brazilian

customers' confidence when shopping online. As such, working to increase customer trust and implementing robust data protection measures has become even more relevant since the pandemic started.

## CORRUPTION

Corruption is a major issue in Brazil. The country ranks 94 out of 180 countries (lower is better), with a Transparency International CPI score of 38 out of 100 (higher is better). Over the last decades, corruption has created uncertainty in Brazil and undermined the confidence of private investors. For this reason, Brazil government has focused on new laws and anti-bribery enforcement activity the last years.

Therefore, Swedish business not being careful could find themselves involved in scandals that would affect their global reputation, so it is important to be aware and cautious of the issue. To avoid this risk, Swedish companies must develop an effective plan to prevent, detect and react to bribery.



## BUSINESS INTERRUPTION

Business interruption is a risk that several companies had suffered in the past, and this has been exacerbated during 2020. In Brazil, business interruption has been identified by the Allianz Risk Barometer as the main threat to businesses in 2021, after cyberattacks. Business interruption can affect your business directly or indirectly, if an unexpected event occur to your suppliers.

In April, ten automakers including Volvo, Scania, VW, Mercedes, and Renault suspended production forcing more than 50,000 employees home for two weeks due to Covid concerns. Difficulties with supply chains, including spare parts shortages have also contributed to factory shutdowns.

## ENVIRONMENTAL THREATS

The states of Minas Gerais, Goiás, Mato Grosso do Sul, Paraná and São Paulo in Brazil are facing the worst drought recorded in at least 90 years. The consequences are higher electricity prices, the threat of water rationing and a disruption of crop growing cycles. Agriculture, which is one of Brazil's main economic drivers, is now at high risk due to dependence on hydropower.

However, this risk should be considered by Swedish businesses from different industries located in Brazil or with Brazilian providers because energy outages

*It will be critical for Swedish business to handle business interruption events in future in Brazil building greater resilience in supply chains and business models. Other potential causes for large-scale business interruption events in Brazil in the future could include environmental or natural disasters, further disease outbreaks, civil protests, a large-scale cyberattack, or even solar storms. Enterprise risk management teams will need robust risk monitoring systems in place.*





might occur and this would led to business interruption. Moreover, a rise in electricity bills would have a negative impact both for Brazilian companies and consumers economy.

Other environmental risk is the fire season that in Brazil traditionally begins in July. The arid landscape and a rise in illegal deforestation over the past months in the Amazon rainforest, could lead to a devastating fire season this year.





## WHAT IS AHEAD IN BRAZIL?

<b>GDP growth</b> 3-4 % 	<b>Unemployment rate above 14 %</b> 	<b>BRL appreciation</b> 	<b>Inflation</b> 4-5 % 
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### THE MERCOSUR- EU FREE TRADE AGREEMENT

Signed in June 2019, it will facilitate trade between Europe and the Mercosur countries: Brazil, Argentina, Paraguay and Uruguay. Venezuela is suspended, Bolivia in the process of accession and Chile, Colombia, Ecuador, Guyana, Peru and Suriname are associate countries. With the new agreement, 91 percent of tariffs on EU exports to the Mercosur countries will be removed, including key exports such as vehicles, technology, machinery, chemicals and textiles. The Agreement also has included a commitment to reduce non-tariff barriers in order to facilitate trade in services, which is expected to grow faster after Covid-19 outbreak.

The Agreement will affect:

1. Swedish business exporting or planning to export to Mercosur members
2. Swedish companies with local establishment or expansion plans in Mercosur countries
3. Swedish business sourcing from Mercosur members
4. Swedish service providers and investors

# 2SECURE RECOMMENDS

1. Brazil suffers from high levels of corruption across the Government and business sectors. Brazilian anti-corruption laws do not require intent to be proven for a legal entity to be liable of corruption. Companies operating in Brazil must have robust anti-corruption risk management systems in place including whistle blowing and reporting systems, and clear anti-corruption policies and staff training on company tolerance of corruption and bribes.
2. A comprehensive understanding of the tax system in Brazil is required before entering the market. The Brazilian domestic market has a lot of potential for global companies, especially as trade tariffs could be lifted on most EU products as part of the Mercosur – EU free trade agreement. Close monitoring of tax law and trade policies is required for successful navigation of the market in Brazil.
3. When employees visit Latin America, either permanently or for temporary business travel, ensure proper pre-deployment training. Risk levels vary throughout the region and ensuring that personnel know how to act, both to minimise their risk exposure as well as in case of an incident, is key to fulfilling your Duty of Care when employees travel for business.
4. Due to the high risk of violent crime in Brazil, companies must have incident response systems and 24/7 emergency support for employees working in, and travelling to Brazil. This should include real-time monitoring of security incidents as they occur, as well as proactive notification to employees of incidents in their vicinity. Travel risk management solutions are equally applicable for travelling personnel, as well as those employees and consultants permanently based in Brazil.



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