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BRAZIL'S ECONOMIC WOES: ANY CHANCE OF A KICK START?

The archetypal emerging country, Brazil passed the test of the great crisis of 2009 with flying colors. Four years on, social protests have begun to highlight the failure of its growth model. While inequality is on the decline, it remains significant. Because of a tight labor market and major gaps in infrastructure, the infamous "Brazil cost" has placed a heavy burden on business performance.

Structural problems which have become hot topic

The Brazilian growth model, which had been driven by consumption, has broken down. Brazil is in a paradoxical situation with the lowest growth of all the BRIC nations (less than 3% in 2013 against 4.8% for the average of emerging countries) and persistent inflation.

This quasi-stagflation, one of the causes of the current social unrest, originates more in the "Brazil cost" than in monetary policy. Many structural problems are now becoming short-term issues: pressures on the labor market, disappointing productivity, a shortage of skilled labor, a significant rise in unit labor costs, infrastructure struggling to keep up.

"The remedies for Brazilian stagflation are not to be found in economic policy but in education, health and infrastructure reforms. This is also in line with the demands coming from the angry middle class, which is no longer satisfied by mere consumerism. Even though President Dilma Rousseff claims that she is determined to respond to the situation, the results will only be seen in the long term," says Yves Zlotowski, Chief economist at Coface.

Despite its handicaps, Brazil remains attractive to businesses

As a consequence of slow growth and high interest rates, Brazilian companies are being affected. Against this background, they have difficulty in paying their debts and Coface recorded a sharp rise in payment incidents involving Brazilian companies. The issue of "Brazil cost" is a major obstacle in a number of sectors:

- Upward pressure on wages is eroding the competitiveness of the **chemical industry**
- Energy costs are putting a burden on the **steel industry**
- Low level of education of small **agro-food** producers is a serious hindrance to adopting new technologies and to accessing subsidized credit.



P R E S S R E L E A S E

Despite these weaknesses, Brazil, assessed A3* by Coface, i.e. the same level as China and Poland, is still a promising market. The fabric of the Brazilian entrepreneurial world has two major advantages.

First: the strong support of the authorities, including elements of protectionism and tax relief in sensitive sectors.

Second: the resilience of demand from the middle class, particularly in two areas that are doing well, **the automotive industry**, where investments remain strong, and **retail trade**.

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About Coface

The Coface Group, a worldwide leader in credit insurance, offers companies around the globe solutions to protect them against the risk of financial default of their clients, both on the domestic market and for export.

In 2012, the Group posted a consolidated turnover of 1.6 BEUR. 4,400 staff in 66 countries provides a local service worldwide. Each quarter, Coface publishes its assessments of country risk for 158 countries, based on its unique knowledge of companies' payment behavior and on the expertise of its 350 underwriters located close to clients and their debtors.

In France, Coface manages export public guarantees on behalf of the French state. Coface is a subsidiary of Natixis, corporate, investment management and specialized financial services arm of Groupe BPCE.

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*The Coface country risk assessment measures the average level of payment defaults by companies in a given country within the framework of their commercial transactions in the short term. To determine country risk, Coface combines the economic, financial and political outlook of the country, Coface's payment experience and business climate assessment. Assessments have a seven-level scale: A1, A2, A3, A4, B, C, D and can be watch listed.