

# Focus on: Brazil

## International Business Report 2010 – Country focus series

### The recovery

After a brief and – by global standards – shallow recession in early 2009, the largest economy in Latin America returned to positive economic growth by the third quarter and should attain trend economic growth by late 2010. While the recovery has been led by commodity export sales and consumer spending, business and state investment may remain depressed until 2011.

The key indicators<sup>1</sup> are highlighted below:

- the economy showed unexpected strength in growing by 1.1 per cent in the three months to June following two consecutive quarters of contraction; growth then accelerated to 1.3 per cent in the third quarter; the contraction for 2009 is forecast to be -0.6 per cent
- this robust Q3 performance was underpinned by a 2.9 per cent quarter-on-quarter increase in industrial activity whilst growth of 6.5 per cent was observed in gross fixed capital formation
- imports (-25 per cent) fell faster than exports (-22 per cent) meaning that Brazil's total trade surplus grew in 2009 to US\$25.3 billion
- having peaked at nine per cent in April 2009, the unemployment rate fell back to 6.8 per cent in January this year.

### Impact on businesses

The Grant Thornton International Business Report (IBR) 2010 surveyed the views of over 7,400 privately held businesses (PHBs) in 36 economies around the world. This report focuses on Brazil, the experiences and attitudes of its privately held businesses and how they have been affected by the economic crisis along with how they are dealing with the recovery, as illustrated in figure 1.

The IBR survey tells us that businesses in Brazil are considerably more optimistic about the economy over the year ahead than they were in 2009, with two-thirds of businesses expecting to see an upturn in the global economy by the end of 2010 at the latest. Expectations for revenue, profitability and employment growth are all markedly more positive this year, but bureaucracy continues to stifle growth.



<sup>1</sup> Source: International Monetary Fund, The Economist and Experian.

## Looking ahead

After a brief interruption in 2009, Brazilian economic growth is forecast to reach 3.6 per cent this year, accelerating to 3.9 per cent in 2011. Commodity export sales to Asia are likely to be the main growth driver, helped along by vibrant consumer markets and some pro-cyclical fiscal policy. Investment spending could prove disappointing, especially in the public sector where demands for infrastructure improvement are critical.

The net trade contribution to growth will scale back in the short-term. Global commodity demand is unlikely to be as strong as it was in 2008 while the consumer and public spending will increase import volumes. Much will depend on demand from China – particularly for iron ores and metals – which overtook the United States as Brazil's top export market in 2009 and is now the destination for 13 per cent of total exports.

Price inflation is expected to remain close to its 4.5 per cent target, despite the domestic demand conditions and some gradual depreciation of the real. The central bank is likely to hold its Selic policy rate at the current 8.75 per cent in 2010 before gradually reducing rates again over 2011 as the new government works on reducing the fiscal deficit. Progress on unemployment may be slow while the working-age population continues to expand and the participation rate increases.

Short-term risks lie with Brazil's industrial concentration on commodities, the lack of policy focus in public spending which is likely to continue until October's election and the particular vulnerability of Brazil's financial markets to investor mood swings, creating bouts of volatility for the real's value and for bond yields.

As the economy exits recession, all businesses will need to face new challenges and take advantage of new opportunities to achieve consolidated growth and lead the way to recovery.

Figure 1: Key indicators for PHBs

Brazil compared to the Latin America average	2008 Brazil	2009 Brazil	2010 Brazil	2010 Latin America
<b>Outlook for the economy over the next 12 months</b>				
Balance of optimists over pessimists	+69%	+50%	+71%	+48%
<b>Change in employment levels</b>				
Balance of PHBs expecting an increase over those expecting a reduction	+71%	+20%	+59%	+42%
<b>Constraints on expansion</b>				
Regulations/red tape	64%	39%	37%	39%
Shortage of working capital	40%	37%	36%	32%

Source: Grant Thornton IBR 2010

Talk to us to find out how we can help you deal with the challenges of a new world economic order.



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# International Business Report results

The Grant Thornton IBR 2010 reveals that businesses in almost all countries are more optimistic about economic prospects for the year ahead. Businesses in Brazil are much more optimistic about prospects for 2010; their optimism/pessimism balance<sup>2</sup> has risen 21 per cent, from +50 per cent in 2009 to +71 per cent in 2010.

For the first time in six years, India has been overtaken as the most optimistic country by Chile. Chile now tops the league table with a net balance of +85 per cent (-24 per cent in 2009), India comes in a very close second with +84 per cent, whilst Japan remains at the bottom with a balance of -72 per cent.

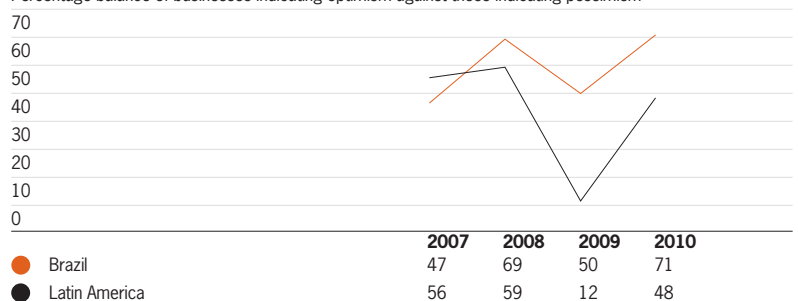
Overall optimism amongst businesses globally has risen from 2009; this year a balance of +24 per cent of businesses across all countries are positive about their country's economy – compared to a balance of -16 per cent in 2009.

## Optimism/pessimism

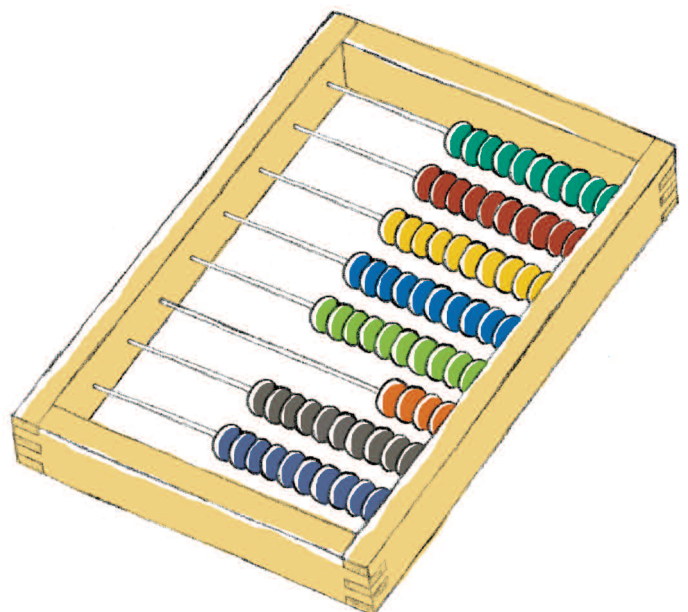
- businesses in Brazil are considerably more optimistic about their country's economic outlook (+71 per cent) compared with 2009 (+50 per cent)
- the balance of businesses in Latin America<sup>3</sup> indicating optimism for the year ahead has risen by 36 per cent this year, from +12 per cent to +48 per cent.

**Figure 2: Outlook for the economy over the next 12 months: 2007-2010**

Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2010



<sup>2</sup> the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

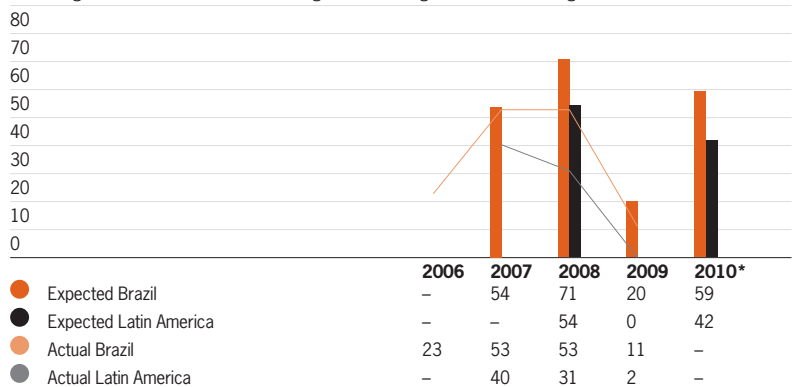
<sup>3</sup> for the purposes of IBR, the term 'Latin America' refers to those Latin American countries covered by our survey – Argentina, Brazil, Chile and Mexico.

### Employment

- a balance of +59 per cent of businesses in Brazil expect to expand the size of their workforce in 2010, compared with +42 per cent of businesses in Latin America
- actual employment growth reported by businesses in Brazil in 2009 (11 per cent) was less impressive than expected 12 months previously (20 per cent).

**Figure 3: Employment history: 2006-2010**

Percentage balance of businesses indicating an increase against those indicating a decrease



\*actual 2010 data will be documented in IBR 2011

Source: Grant Thornton IBR 2010

### Revenue expectations

- a balance of +73 per cent of businesses in Brazil expect their revenue to increase across 2010; this represents a 37 per cent increase from 2009
- expectations of businesses in Latin America as a whole have bounced back just as strongly, this year posting a 37 per cent increase from 12 months ago.

**Figure 4: Revenue expectations: 2007-2010**

Percentage balance of businesses indicating an increase against those indicating a decrease



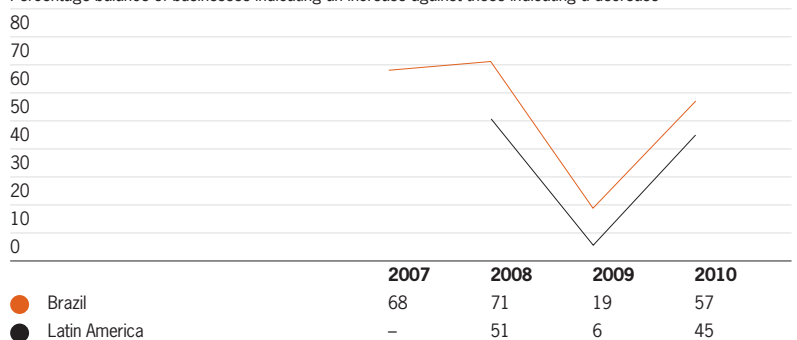
Source: Grant Thornton IBR 2010

### Profitability expectations

- profitability expectations of businesses in Brazil have also risen this year; a balance of +57 per cent expect their profits to increase across 2010 compared with just +19 per cent 12 months ago
- the Latin American average has increased by 39 per cent, from just +6 per cent in 2009 to +45 per cent this year.

**Figure 5: Profitability expectations: 2007-2010**

Percentage balance of businesses indicating an increase against those indicating a decrease



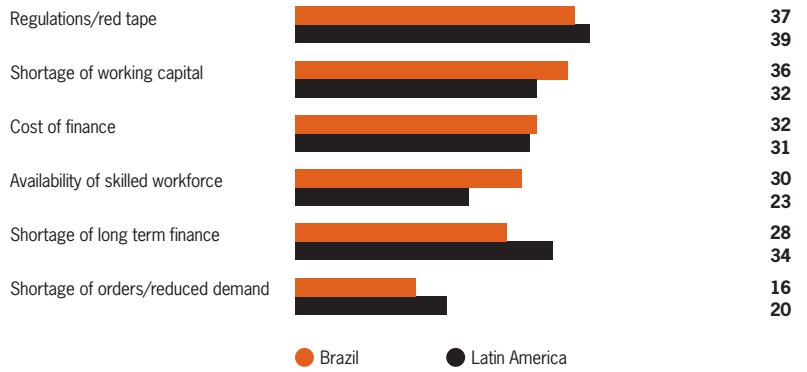
Source: Grant Thornton IBR 2010

### Constraints

- regulations/red tape has been cited as the major constraint restricting expansion for businesses in Brazil since joining the survey in 2007; this year it is cited as a major constraint by 37 per cent of businesses and 39 per cent of all businesses in Latin America
- a shortage of working capital is viewed as the second greatest constraint (36 per cent)
- a lack of availability of a skilled workforce (30 per cent) is more of a problem for businesses in Brazil than for Latin American businesses in general (23 per cent).

**Figure 6: Constraints on expansion**

Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



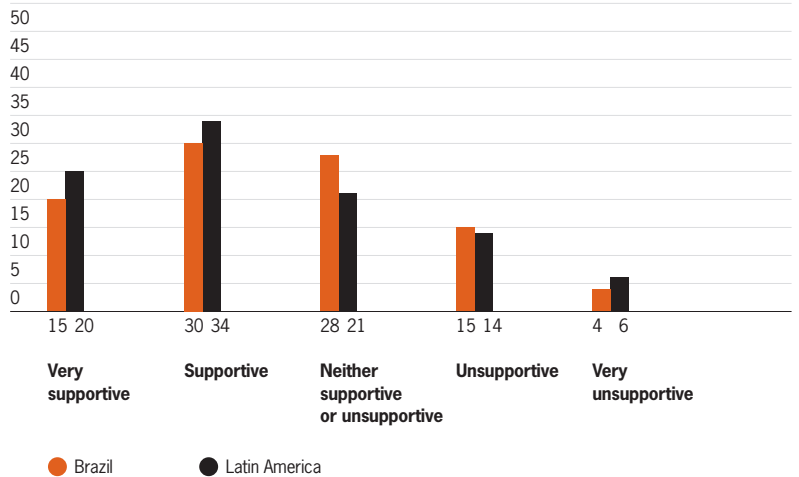
Source: Grant Thornton IBR 2010

### Support of lender

- less than half of businesses in Brazil are happy with the level of support provided by lenders; 45 per cent class lenders as supportive or very supportive towards their business
- by comparison, just 54 per cent of businesses across Latin America class lenders as supportive or very supportive towards their business
- 19 per cent of businesses in Brazil believe that lenders are unsupportive or very unsupportive of their business, compared to 20 per cent regionally.

**Figure 7: Level of support provided by lenders**

Percentage of businesses



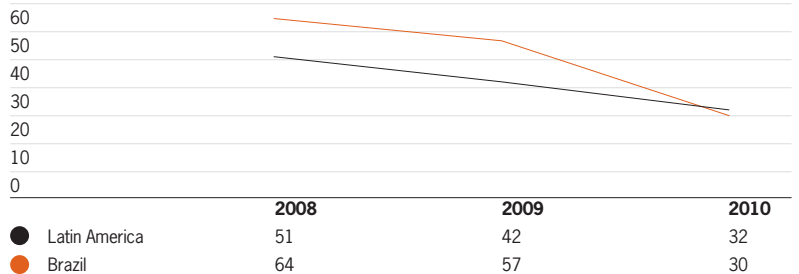
Source: Grant Thornton IBR 2010

### Mergers & acquisitions

- the proportion of businesses in Brazil planning to grow through acquisition fell again this year, from 57 per cent to below the regional average at just 30 per cent; it now stands at less than half the figure observed in 2008 (64 per cent)
- the Latin America business average has fallen more steadily from 51 per cent in 2008 to 32 per cent this year.

**Figure 8: Plans to grow through acquisition in the next three years**

Percentage of businesses planning to grow through acquisition

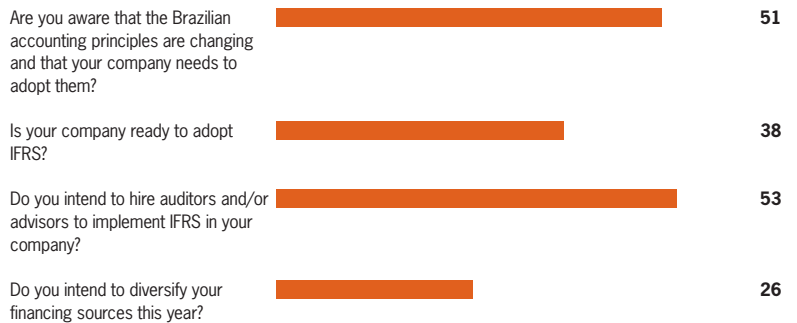


Source: Grant Thornton IBR 2010

### Finance issues

- just over half of businesses in Brazil are aware that they need to adapt to new accounting principles
- even fewer (38 per cent) of businesses are ready to adopt International Financial Reporting Standards (IFRS)
- of these businesses, 53 per cent will hire auditors/advisers to implement IFRS
- and just over a quarter of businesses in Brazil intend to diversify their financing sources this year.

**Figure 9: The major factors in the poor economic performance across 2009**  
Percentage of businesses responding "yes"

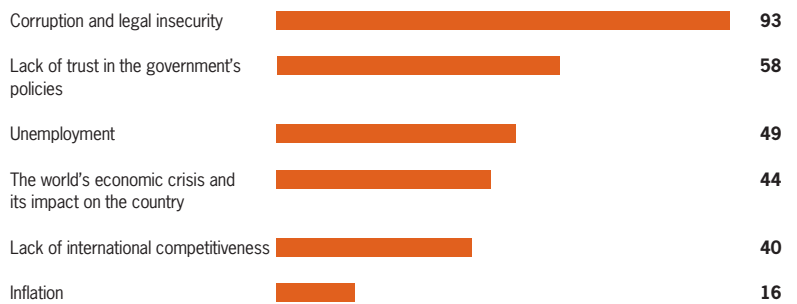


Source: Grant Thornton IBR 2010

### The economy – looking forward

- corruption and legal insecurity (93 per cent) is cited as the major issue facing the Brazilian economy
- this issue is rated just ahead of two more internal issues: a lack of trust in the government's policy (58 per cent) and unemployment (49 per cent)
- the economic crisis and its impact on Brazil (44 per cent) and a lack of international competitiveness (40 per cent) are also rated as major problems.

**Figure 10: The major problems facing the Brazilian economy**  
Percentage of businesses rating problem 4 or 5 on a scale of 1 to 5 where 1 is not a problem and 5 is a major problem

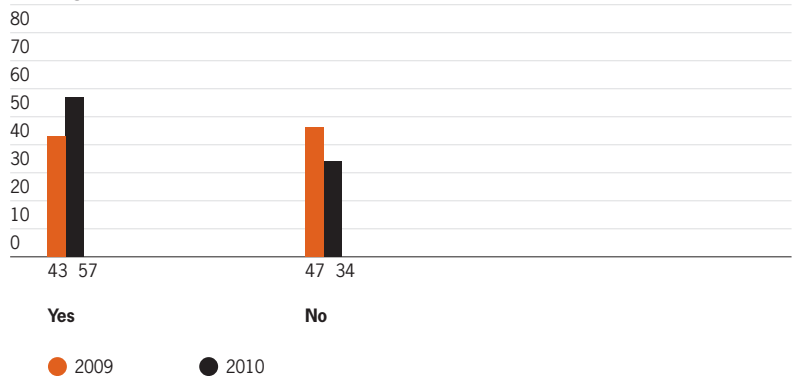


Source: Grant Thornton IBR 2010

### Environmental issues

- the proportion of businesses in Brazil willing to introduce environmentally-friendly practices even if it was to impact on profits has gone up this year, from 43 per cent to 57 per cent
- last year, 47 per cent of Brazilian businesses, 37 per cent of Latin American businesses and 36 per cent of businesses globally said they would not introduce such practices.

**Figure 11: Willingness of Brazilian businesses to introduce environmentally-friendly practices**  
Percentage of businesses



Source: Grant Thornton IBR 2010

The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,400 PHBs in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the 'engine' of the world's economy. In Brazil 150 businesses were surveyed across all industry sectors. These businesses ranged from small to large in size with total employment of 50-499.

To find out more about IBR and to obtain copies of reports and summaries visit: [www.internationalbusinessreport.com](http://www.internationalbusinessreport.com). The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

#### Participating economies

Argentina	Japan
Armeria	Malaysia
Australia	Mexico
Belgium	Netherlands
Botswana	New Zealand
Brazil	Philippines
Canada	Poland
Chile	Russia
Mainland China	Singapore
Denmark	South Africa
Finland	Spain
France	Sweden
Germany	Taiwan
Greece	Thailand
Hong Kong	Turkey
India	United Kingdom
Ireland	United States
Italy	Vietnam



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