

## **Euler Hermes report: World Cup highlights weakness of Brazilian economy**

*Low growth, increased insolvencies and inflation until 2020  
could lead to social unrest, shape Brazil's political agenda*

**PARIS – JUNE 11, 2014** – The 2014 FIFA World Cup and the 2016 Summer Olympic Games have not and will not have a major positive impact on Brazil's economy, according to [Euler Hermes](#), the world's leading trade credit insurance provider.

In its latest [economic research outlook](#), Euler Hermes reports that the two mega events will create more inflation than growth for Brazil. Lack of infrastructure, chronic under-investment, protectionism, high levels of taxation and a complicated business environment prevent Brazil from fully benefitting from the additional economic activity these events will generate.

“While research on mega events has shown positive short-term effects on real activity, there is often a negligible or even negative long-term result – and Brazil's economy poses particular problems,” said Ludovic Subran, Euler Hermes' chief economist. “Not only has the country been unable to reap the full economic benefits of the World Cup, it now faces significant inflation that is impacting Brazilians' everyday lives.”

Preparations to serve as World Cup and Olympic host have not prevented a sharp slowdown of the country's economy during the last three years, with the trend unlikely to change. In 2014, Euler Hermes estimates that the positive impact of these events on real GDP growth will be limited to 0.2 percentage points (pp), at best. However, the impact on inflation could reach 0.5pp in 2014. Overall, the two events are expected to add around 2.5 percentage points (pp) to consumer price increases throughout the 2009-2016 period. The impact on economic activity is expected to decline gradually after 2014; consumer price effects could remain until 2020. The surge in inflation is already causing social unrest, which could result in deep structural reforms and a new political agenda.

In addition to increased inflation, other Brazil World Cup impacts include:

### **1. Minor impact on GDP and investment growth**

Total infrastructure investment for the World Cup could reach BRL 26 billion (0.5 percent of GDP) between 2009 and 2014; spending for the Olympic Games is anticipated to be approximately BRL 12 billion (0.2 percent of GDP) between 2010-2016. These are small amounts relative to the country's economy. From 2009-2013, Euler Hermes estimates the investments have only added 0.5pp-0.8pp on average per year to real investment growth, and 0.1pp-0.15pp per year to real GDP growth. The impact is expected to decline gradually after 2014.

### **2. No long-lasting impact on employment**

Authorities hope that the World Cup will generate about 700,000 jobs through 2014. With a Brazilian labor force estimated at over 100 million, the impact will be small, especially in the long run. Many new construction sector jobs will disappear once investment projects are concluded; tourism employment will be predominantly short-term and low-skilled.

### **3. Insolvencies to increase despite the mega events**

Corporate insolvencies have been rising since 2011 as a consequence of the sharper-than-expected economic slowdown. The trend is predicted to continue due to the weakening of domestic demand, a



tightening of monetary policy and rising bank interest rates. Euler Hermes expects that corporate insolvencies will increase by 9 percent in 2014 and a further 3 percent in 2015, despite the surge in infrastructure activity.

While these forecasts highlight Brazil's inherent economic weaknesses, it's not all negative news. The report predicts that no real estate bubble will be created in Brazil due to the mega events organization. Additionally, the impact of the events on public finances will be limited and does not represent a major threat for fiscal figures; Euler Hermes estimates they will only add 1pp to the fiscal deficit for 2009-2016.

“As social unrest continues to grow in response to the surge in inflation, it would not be surprising to see the sporting calendar shape the political calendar during October’s presidential elections,” said Subran. “Ultimately, deep structural reforms could be the real mega event for the Brazilian economy.”

To learn more about Euler Hermes' perspective, view the full report, "[2014 World Cup: More Inflation than Growth for Brazil](#)" and [infographic](#).

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#### Contacts

**Euler Hermes Group Media Relations**  
Remi Calvet – +33(0)1 84 11 61 41  
[remi.calvet@eulerhermes.com](mailto:remi.calvet@eulerhermes.com)

**Publicis Consultants**  
Romain Sulpice +33 (0)1 44 82 46 21  
[romain.sulpice@mslfrance.com](mailto:romain.sulpice@mslfrance.com)

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