

International Business Guides Brazil



Together we thrive

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Covid-19 latest information

This guide is an accurate reflection of the pre-Covid-19 business environment in Brazil. Please note that due to the current situation, some circumstances may have changed in this country. Figures and data in the guide were last updated in March 2021.

Welcome to Brazil

Brazil is home to the 9th largest economy in the world and the largest in Latin America. A giant of mining, agriculture and manufacturing, the country has much to offer those wishing to do business here.

Brazil occupies half of South America's landmass – this vast country contains 7,400 km of coastline and a wide diversity of biomes, including the Amazon basin. It is known for its rich, colourful culture, a unique melding of Portuguese, native Indian, and African influences.

HSBC was established in Brazil in 1997. With a dedicated team of experienced professionals on the ground, HSBC aims to provide support to large local corporates, multinationals and foreign institutional investors. In May of 2020, HSBC Brazil implemented a full wholesale bank proposition, which serves as an ideal hub for international businesses.

I look forward to welcoming you to Brazil and providing you with solutions that will help your business grow!



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Essentials



Commercial capital city

Brasília

Other major cities

São Paulo, Rio de Janeiro, Salvador

Population

200 million¹

Size

8,358,140 sq km

GDP

US\$1839.76 billion²

Main language

Portuguese

Currency

Brazilian Real (BRL)

Top exports

Transport equipment, iron ore, soybeans, footwear, coffee, automobiles¹

Top imports

Machinery, electrical and transport equipment, chemical products, oil, automotive parts, electronics¹

Time zone

UTC-3

Typical office hours

**8am – 6pm
Monday to Friday**

Unemployment rate

14.4%²

Corporation tax

15-45%³

Dialling code

+55

Emergency numbers

**192 (ambulance),
190 (police), 193 (fire)**

Brazil: Latin America's emerging powerhouse

Rich in resources

Brazil has an abundance of natural resources, including gold, iron ore, nickel, niobium, tin and rare earth elements. It's home to one of the largest mining industries in the world.

Expanding middle class

15% of Brazil's population was in the middle class in the 1980s – today nearly a third of the population has achieved middle class status.

BRIC by brick

As a member of the BRIC economies – Brazil, Russia, India and China – Brazil is one of the nations economists expect will be a dominant supplier of raw materials by 2050.

Major market potential

Brazil's economy is a force to be reckoned with – it's the eighth largest in the world and the biggest economy in South America.

Dynamic and diversified

The country has a huge service sector – accounting for nearly 65% of GDP – a well-developed industrial sector and is one of the largest exporters of agricultural products in the world.

Sources:¹ Central Intelligence Agency (CIA), 2020

² Trading Economics, 2020 ³ PwC, 2020

Country profile

Dominating the eastern half of South America, Brazil is the fifth largest country in the world by land mass and home to one-third of Latin America's population.

The country boasts a rich natural and cultural heritage, unique in the world – from white sand beaches, to the largest virgin rainforest in the world, to the heady, exuberance of Carnival, and the dramatic cityscape of Rio de Janeiro.

Brazil is a melting pot of many different cultures, including Portuguese, African and indigenous people. Though Brazil gained independence from Portugal in 1822, the Portuguese influence is still felt strongly throughout the country in its language, food, and traditions.

This vast country is broken into 26 states, plus a federal district encompassing the capital city of Brasília. While the country has experienced periods of political turbulence in recent years, it is striving for stability and modernisation.

Brazil has one of the largest mining industries in the world and is known as a leading producer of iron ore, tin, manganese, gold and quartz, among others. It is also known for its large agricultural sector, and large and growing service sector.

Brazil is the world's top producer of coffee –
and has been for the last 150 years.

In 2014, Brazil hosted the FIFA World Cup, and in 2016 it hosted the Summer Olympic Games, indications of the country's rising status in the world.

Read on to discover more about the dos and don'ts of doing business in Brazil. Also, find out how trading in or with the country could help boost the future growth of your enterprise.

5 reasons to do business in Brazil¹

01 Energy rich

Brazil was the 8th largest producer of oil in 2019 and is one of the largest hydroelectric producers in the world. Renewables are expected to become a growing part of Brazil's energy mix.

02 Ecommerce enthusiasm

Online sales totalled BRL 9.4 billion in Brazil in April 2020, an 81% increase over April 2019. Plus, Brazilians rank 3rd in the world for amount of time spent online every day.

03 Commodities king

Brazil is a mover and shaker in commodity markets, with a huge mining industry, massive oil extraction operations, biofuel and agricultural production.

04 Large market

With a population of 211 million people, the largest economy in South America, and a growing middle class, Brazil is a huge market brimming with potential.

05 Innovation standout

Brazil ranks 16th among upper middle-income economies and 4th among the 18 economies in Latin America and Caribbean, according to the 2020 Global Innovation Index.

5 key challenges²

01 Large size

While Brazil's vast size can be an asset, it also has its drawbacks. Brazil is not homogenous and regional variations in culture and laws can take time to understand and adapt to.

02 Paying taxes

Brazil is ranked 184 out of 190 countries for paying taxes by the World Bank's 2020 Doing Business report. PwC estimates that it takes businesses 1,501 hours to comply with Brazilian tax regulations.

03 Custo Brazil

The term Custo Brazil refers to the additional costs of doing business in Brazil – from government inefficiency to bureaucratic difficulties – these things can complicate doing business in the country and often have a real cost associated with them.

04 Economic variability

Over the last 20 years, Brazil's economy has grown in fits and starts. It experienced strong economic growth between 2002 and 2012, but entered a recession in 2014, from which it has since made a modest recovery.

05 Ageing and outdated infrastructure

Brazil's infrastructure is greatly in need of modernisation and expansion. A 2019 study from Ipsos found 52% of Brazilians were either very or fairly dissatisfied with their country's infrastructure. The good news is that a government plan of public-private partnerships, leases and privatisation is aiming to fix these issues.

Sources:¹ Global Innovation Index, 2020

² World Bank Group, 2020

Society & culture

In this section

Language

Food

Religion

Values

Customs & celebrations



Society & culture

Brazil is a country dominated by beautiful natural landscapes and rich cultural traditions. It is a multi-ethnic society, shaped by colonialism, which brought Portuguese and other European traditions; slavery, which brought African people and culture; and, more recently, immigration.

Most Brazilians live along the country's eastern Atlantic coast, with São Paulo and Rio de Janeiro serving as major population centres there. Brasília, more centrally located within the country, is also a population anchor.

Brazilians are generally open and friendly. They are known for their deep love of football, music and dancing and coffee, all of which are central to the country's culture.

Language

Portuguese is the primary language spoken in Brazil, though Brazilian Portuguese differs in pronunciation and vocabulary from the language spoken in Portugal. Brazil's many immigrants have introduced words, making the language their own. For instance, tchau is a common way to say goodbye in Brazil, borrowed from the Italian ciao.

The indigenous people of Brazil speak dozens of distinct languages, and this, too, has had an influence on the Portuguese spoken there. Tupian, the primary language group in Brazil prior to the arrival of Europeans, is credited with being the reason that Brazilians enunciate more clearly and have more nasal speech patterns.

Food

Brazil's cuisine reflects its diverse society and immense geography. Its food varies across regions, but Japanese, Italian, African, Middle Eastern and Chinese cuisine are common influences.

The national dish is feijoada completa, which combines up to 20 different kinds of dried, salted or smoked meats simmered in a black bean stew. Other classic Brazilian dishes include empadas, small pies commonly filled with meat, farofa, fried tapioca flour mixed with bacon, and pão de queijo, puffs of bread made with cassava flour and filled with cheese.

Religion

Rio de Janeiro's skyline is dominated by the iconic Christ the Redeemer statue and, as this suggests, religion plays a large role in Brazilian society. Roughly 80% of the country's population identifies with a religion, with about 64% of the population affiliated with the Roman Catholic Church.

Values

Family is important in Brazilian society, and both immediate and extended family ties are strong, with families often living in close proximity to one another.

Appearance is also highly important in Brazilian culture and Brazilians put a lot of effort into the way they look, believing it is a reflection on their job, education and family.

Customs & celebrations

The pre-Lent carnival is Brazil's most famous cultural celebration. The festival combines Roman Catholic traditions with African celebrations for an event that is uniquely Brazilian. The multi-day festivities involve parades, costumes and lots of dancing. The Sambodromo is the crowning event of the festival held in Rio. At this lively gathering, the top 13 samba schools in the city show off their dancing skills.

Along with New Year's and Christmas, Brazilians also celebrate Tiradentes Day on 21 April. The holiday remembers Brazilian revolutionary hero Joaquim Jose da Silva Xavier who fought for independence from Portugal. Our Lady of Aparecida is another national holiday, celebrated every year on 12 October. It is the celebration of a miracle performed by the Virgin Mary in Brazil.

Rio de Janeiro's Tijuca National Park is considered the largest urban forest in the world.

A woman with dark hair pulled back, wearing a dark pinstriped blazer, is smiling and looking towards a man whose profile is visible in the background. The background is blurred, suggesting an office setting.

Working practices & values

Hierarchy is important in Brazilian business and decisions are usually made at the senior levels of an organisation. In addition, relationships are important – so building a positive rapport through small talk and other friendly overtures is key.

Employees in Brazil are granted rights established by the federal constitution that dictate working hours, paid vacations, bonuses, leave and more.

The work week in Brazil is limited to 8 hours a day and 44 hours a week – though enforcement of this rule is not always very strict.

According to the OECD, about 7% of employees in Brazil work very long hours, which is less than the OECD average of 11%.

For 2020, the minimum wage in the country was set at BRL 1,039 per month. This represents a 4.4% increase from 2019 and a 30% raise in pay from 2015.

Commuting can sometimes be a challenge, especially in Brazil's crowded urban centres. A recent study ranked Rio de Janeiro as the city with the worst commutes in the world, with many travel times clocking in at 90 minutes or more. São Paulo, Salvador and Brasília also ranked in the bottom ten.

Business etiquette

In this section

- Greetings
- Dress code
- Negotiations
- Business cards
- Sealing the deal
- Entertaining
- Golden rules



Business etiquette

While Brazilian culture can lean toward the relaxed and informal, workplace etiquette tends to be more traditional. Bosses have formal relationships with their employees and a strict top-down structure is often observed.

It's important to be on time and prepared for meetings, but don't be surprised if your Brazilian counterparts adopt a more relaxed attitude toward punctuality.

As might be expected in such a large and culturally diverse country, attitudes and etiquette in the workplace can vary depending on the region and the company.

Greetings

Greet Brazilian colleagues with a firm handshake, making eye contact as you do so. For women, it is recommended that you extend your hand first to initiate a handshake with male counterparts. When women greet each other, it is common to air kiss, beginning on the left side. Be sure to greet everyone when you arrive and to personally say goodbye to everyone when you depart.

Dress code

Appearance is very important in Brazilian business culture and your appearance will be considered a reflection of your job and abilities. Arrive to business meetings and functions well manicured and put together. Dress codes can vary across industries and regions, but are generally formal and elegant. If you are unsure about what to wear, it is better to be overdressed rather than underdressed for the occasion.

Negotiations

Personal relationships and trust are important in business relationships in Brazil, so it is helpful to establish both before business negotiations begin. Indirect communication is common and emotions, including disappointment, are readily expressed in business contexts.

Don't be surprised if you do not receive a firm "no" during the negotiation process. It's much more common for Brazilians to be diplomatic and avoid confrontation. Instead of a direct no, you're more likely to receive a "maybe," or "potentially at another time." These types of responses invariably mean no.

Brazilians favour oral communication over written communication, so picking up the phone or, when possible, meeting in person, is preferable.

Business cards

It's common to exchange business cards at the start of meetings or during professional introductions in Brazil. Cards should be provided to everyone present. Ideally, your business card should be in English on one side and Portuguese on the other side. When you hand over your card, ensure that the Portuguese side is presented to the recipient.

Sealing the deal

When an agreement is reached, a handshake is a common way to seal the deal. Contracts and documents will typically be presented at a later date.

Unless you have been specifically instructed to do so, don't leave immediately after your meeting has finished. It is common to be invited to lunch or dinner, with a mainly social rather than a business focus.

Entertaining

Entertaining is an important part of doing business in Brazil and a good way to forge trust and relationships. Lunches or dinners can often be lengthy affairs, with dinner lasting upwards of three hours. These events should be devoted to getting to know the people you are doing business with, so try to keep away from professional topics. Football and family are both safe areas – politics and other controversial subjects should be avoided.

If you are hosting, do so generously as this will be noted and appreciated by your guests. Many restaurants will add a 10% gratuity to the bill, but a further tip of 5-10% is customary.

Golden rules

01 **Speak the language**

An attempt at speaking the native Portuguese is appreciated. If you don't speak the language, you will do well to learn greetings and a few basic phrases to show you've made an effort.

02 **Personal space**

Brazilians can sometimes stand much closer when speaking than you might be used to. Do not step back to create more space if this happens.

03 **Plan your time**

Schedules can be a bit fluid in Brazil and it's not uncommon for meetings to run late. Avoid scheduling back-to-back meetings, as it can be viewed as impolite to leave a meeting before it is finished.

04 **Making contact**

Brazilians are known for their open, effusive nature. Even in business settings, it's common to touch someone's arm or back.

Economy

In this section

Highlights

Regional economies

Exports & imports



Highlights

- ◆ Brazil's GDP is \$1.84 trillion, making it the 9th largest economy in the world by GDP.
- ◆ Brazil's inflation rate was 3.92% in October 2020, a slight rise from 3.14% in September 2020.
- ◆ Soybeans represent about 14% of the country's exports – worth \$33.2 billion as of September 2020.

| | |
|------------------------------------|----------------------------|
| GDP (Current USD) | GDP Per Capita (USD) |
| \$1.84 trillion¹ | \$8,717² |
| Real GDP Growth | Inflation Rate |
| 2.2%¹ | 3.92%³ |

Economic Structure

| | |
|------------------------|---------------------------|
| Services (% of GDP) | 63.25%⁴ |
| Industry (% of GDP) | 17.92%⁴ |
| Agriculture (% of GDP) | 4.44%⁴ |

Brazil is one of the four BRIC economies – developing countries that are at an advanced stage of economic development and on their way to being developed nations. The country's economy has been marked by uneven periods of rapid growth, followed by slowing. At present, several challenges stand in the way of prosperity; yet, Brazil's natural and human resources offer huge potential and serve as an enormous draw to doing business in the country.

Between 2003 and 2012, Brazil experienced steady economic growth. This was halted in 2014 when Brazil entered a recession, from which it has since made a moderate recovery. This pattern of bumpy economic growth means that since 1980, the country has achieved a growth rate of less than 3%.

Brazil faces a number of challenges that will need to be addressed to ensure a buoyant and healthy economy. These include the growing environmental crisis in the Amazon, inequality and political uncertainty.

However, with 40% of the world's tropical forests, 20% of the globe's fresh water supply, an estimated \$109.6 billion in metal and coal reserves and a growing service sector, Brazil has much to offer. Though the importance of agriculture has lessened, Brazil is still the world's top producer of coffee, oranges and cassava and a leading producer of sugar, soy and beef.

As Brazil's agricultural production has eased off, its industry has come roaring to life. Brazil's manufacturing sector is the third largest in the Americas and includes consumer durables, steel, aircraft and computers.

| | Exports | Imports |
|----------------|----------------------------------|------------------------------------|
| Global Ranking | 27⁵ | 28⁵ |
| Value | \$224 billion¹ | \$177.3 billion¹ |
| % of GDP | 14.3%¹ | 14.6%¹ |

Regional economies

Brazil is comprised of five official regions:

The **North** is the largest region in Brazil and is bordered by six different South American countries. Mining and extraction of raw materials form a huge part of the economy in this part of the country. The north is also home to the Manaus Free Trade Zone, which contains both industrial and agricultural centres.

Economic activity in the **Northeast** region includes IT, oil extraction, livestock production, agriculture, honey production and shrimp fishing.

In the **Centre-West** region of Brazil, the population is mostly concentrated in urban areas. Livestock and commercial agriculture form important parts of the economy here. The industrial sector is smaller but includes pharmaceutical and fertiliser manufacturing.

The **Southeast** is home to Rio de Janeiro and São Paulo. Brazil's great cities are economic powerhouses in their own right and serve as hubs of commerce and business activity.

The service sector is large in both cities, which host telecommunication companies, banks and capital markets, among others. Tourism is another important part of the economy in the region. There is also a diverse array of industry located here, including automotive, metallurgical, petrochemical and food.

The final region is the **South**. In this part of Brazil, agriculture and livestock play an important role in the economy. Wheat and soybeans are cultivated here. Extraction activities and energy production are also vital.

Brazil's Itaipu Hydroelectric Dam, located in the southern part of the country, is the second largest operational hydroelectric power plant in the world.

Exports & imports

Brazil has a population of roughly 200 million people and an emerging middle class. Yearly product demand translates to approximately \$850 from every person in Brazil.

Brazil's top ten trading partners:

- | | |
|------------------|----------------|
| 01 China | 06 Chile |
| 02 United States | 07 Mexico |
| 03 Netherlands | 08 Germany |
| 04 Argentina | 09 Spain |
| 05 Japan | 10 South Korea |

In 2019, Brazil was the 26th largest export economy in the world. The country sent nearly \$224 billion worth of goods around the world. The country also imported \$177.3 billion worth of goods. This number has increased by 3.4% since 2015 but is down 2.1% between 2018 and 2019.

Brazil's top five imports:

- 01 Mineral fuels
- 02 Electric machinery
- 03 Machinery, including computers
- 04 Vehicles
- 05 Organic chemicals

Brazil's top five exports:

- 01 Mineral fuels
- 02 Seed oil
- 03 Ores, slag, ash
- 04 Meat
- 05 Machinery, including computers

Sustainability

In this section

Highlights

Global rankings and progress

Business opportunities

Future developments



Highlights

- ◆ Brazil has achieved the SDG goal ‘affordable and clean energy’ according to the UN’s current SDG assessment.
- ◆ Brazil plans to achieve the SDGs through multilateral cooperation from across the country, including the private sector, academia and civil society organisations.
- ◆ Brazil ranks 53rd out of 162 countries on the SDG Global Rank 2020.

Brazil has already achieved one of the UN Sustainable Development Goals (SDGs) and is making progress towards reaching several others.

The ultimate aim of the SDGs is to end poverty, protect the planet and ensure prosperity for everyone. Each goal has specific targets that need to be met by 2030 to create a sustainable global economy.

| | | |
|---|--|---|
|  | | |
| 01 No poverty | 06 Clean water and sanitation | 12 Responsible consumption and production |
| 02 Zero hunger | 07 Affordable and clean energy | 13 Climate action |
| 03 Good health and wellbeing | 08 Decent work and economic growth | 14 Life below water |
| 04 Quality education | 09 Industry, innovation and infrastructure | 15 Life on land |
| 05 Gender equality | 10 Reduced inequalities | 16 Peace, justice and strong institutions |
| | 11 Sustainable cities and communities | 17 Partnerships for the goals |

Global ranking and progress

Brazil ranks 53 out of 166 countries on the SDG Global Rank 2020. It has achieved the goal 'affordable and clean energy' and, according to the UN's current assessment, is making good progress towards:

- ◆ Clean water and sanitation
- ◆ Sustainable cities and communities
- ◆ Climate action
- ◆ Partnerships for the goals

With ready access to electricity, clean cooking fuels and CO2 emissions from fuel combustion decreasing, Brazil has achieved the UN SDG 'affordable and clean energy'.

Brazil set out its climate commitments in the Nationally Determined Contribution (NDC). Reports suggest that it has green investment potential for power, transport, buildings, waste and industrial energy efficiency worth US\$1.3 trillion. Much of this will focus on renewable energy and urban infrastructure including transport and waste.

A model example of Brazil's commitment to sustainable development is Curitiba. The capital city of the Parana state, with a population of almost two million people, drew up development plans in 1968 to include social, economic and environmental provisions. It is a framework for managing growth sustainably and includes the use of parks beside rivers – which also act as floodplains and are used recreationally; spaces dedicated to different demographic and ethnic groups; and urban growth restricted to specific corridors.

Infrastructure investment for water and sewage remains a priority – and a key opportunity in Brazil. According to one report, US\$82 billion in investment is required by 2035 to facilitate universal access to water and sewage treatment facilities.

Green finance is cited as a way to support Brazil's transformation to a low carbon economy and help mitigate the risks of climate change. Since the issue of Brazil's first green bond in 2015, the Green Bond Market is estimated to be worth more than US\$4.4 billion, and with much investment required, particularly in infrastructure, it is likely this market will grow significantly as Brazil seeks to achieve its sustainability goals.

Brazil's abundant natural resources continue to offer significant potential for renewable energy.

Business opportunities

The dual challenges of increasing urbanisation and a growing and ageing population have been putting pressure on Brazil's already stretched resources.

Such rapid growth in cities often means infrastructure development struggles to keep pace, with housing deficit a key challenge. Healthcare remains a major focus: with almost 10% of GDP invested in healthcare in 2015, the market is expected to outgrow developed markets by 2021. These present significant opportunities for investment.

Capitalising on Brazil's abundant natural resources also provides an inlet for businesses focussed on renewable energy, with unexploited potential in sectors such as wind, solar and floating solar PV.

HSBC is committed to helping businesses transition to a more sustainable future. Our network, financial expertise, tools and connections are supporting clients across the world to achieve their sustainability goals.

Future developments

Brazil has committed to a number of key partnerships to ensure it meets its obligations as set out by the SDGs. The development of a sustainable food system, which Brazil co-leads under the 10YFP Sustainable Food Systems Programme, aims to enhance food sustainability across the entire supply chain.

Domestic initiatives addressing Brazil-specific challenges are also key to future sustainability. The issue of deforestation, which surged to a 12-year high in 2020, is one such challenge. The Bolsa Floresta initiative seeks to reward Brazil's traditional rural communities for their commitments to stopping deforestation through training, education and community grants.



Labour & business

In this section

Highlights

Workforce

Productivity

Bankruptcy

Audit and accounts

Highlights

- ◆ Brazil's unemployment rate was 14.6% at the end of September 2020, largely due to effects from Covid-19. It was 11% at the end of 2019.
- ◆ Labour productivity in Brazil improved by 0.06% at the end of 2019. It had dropped by 0.47% the previous year.
- ◆ Wages were forecasted to grow by 1.6% in Brazil during 2020.

| | |
|---|-----------------------------------|
| Population | Workforce |
| 200 million¹ | 86.621 million¹ |
| Skills (Rank) | Minimum Wage (Per hour) |
| 96² | BeR\$1,039⁴ |
| Unemployment Rate (as % of Labour Force) | Maternity Leave (Days) |
| 14.6%³ | 120 |

Brazil boasts the sixth largest workforce in the world, but with an unemployment rate hovering around 14%, there is great untapped potential here. Productivity has been cited as a key issue facing the country, and Brazil will have to raise productivity to remain competitive.

In the World Economic Forum's Global Competitiveness report, Brazil ranks 71st globally, and 8th in Latin America and the Caribbean. To further rise in the ranks, Brazil will need an educated workforce that can meet the challenges of a modern labour market. In addition, social inequality and youth unemployment need to be addressed.

There are some bright spots on the horizon. Brazil has made great strides in simplifying the process for starting a business. Labour market efficiency has improved and the country is cited as having a high innovation capability level, ranking 40th in the Global Competitiveness report.

Workforce

The service sector dominates employment in Brazil. 71.29% of the population is employed by the service sector, while 19.59% work in the industrial sector and 9.12% work in agriculture.

There is still a noticeable gender gap in Brazil's workforce. About 78% of men in Brazil hold paid jobs, whereas only about 56% of women participate in the workforce here. The disparity extends to wages as well, with women earning roughly 36% less than their male counterparts.

Brazil is working to expand access to tertiary education. At present, it's estimated that 18% of adults in Brazil have attained post-secondary education, falling below the OECD average of 39%. Brazil's efforts to increase access to education are best reflected in education rates of the younger generation. Amongst 25-34 year-olds, the tertiary education rate jumped from 11% in 2008 to 21% in 2018.

Productivity

Low productivity rates have remained a challenge in Brazil. Issues with Brazil's tax system, the country's inefficient business environment and a domestic market relatively closed to external competition have all been factors contributing to productivity issues in the country.

Bankruptcy

Bankruptcy in Brazil is governed by Federal Law 11.101/05 – also known as the Brazilian Bankruptcy Act. Under the law, companies suffering financial difficulties have a number of options for dealing with insolvency issues. One option for companies is to go through bankruptcy proceedings, the goal of which is to liquidate assets and pay creditors.

Another option under the law is for companies to be restructured at the direction of the court. This option assists companies and works with employees and creditors to bring the company through its financial crises in a way that meets the needs of all parties.

Audit & accounts

Brazil is a member of the International Federation of Accountants. Financial reporting in Brazil is governed by the Corporations Law of 1976. This law was amended in 2007 when Brazil enacted new financial reporting requirements intended to bring the country in line with international benchmarks. Companies are required to prepare financial statements that meet the standards of Brazil's generally accepted accounting principles – though public interest entities are exempted from this requirement.

Official financial statements are required to have a balance sheet, profit and loss accounting, and statement of cash flows.

In Brazil, audits also fall under the purview of the Corporations Law and audits must be carried out by an independent auditor who is registered with Brazil's Securities and Exchange Commission.

Taxes & wages

In this section

Highlights

Corporate taxes

Individual tax

Withholding taxes

Indirect tax

Tax incentives



Highlights

- ◆ Brazil ranked 184 out of 189 countries in PwC's 2020 Paying Taxes ranking. According to PwC, it takes 1,501 hours to comply with Brazilian tax regulations.
- ◆ Corporates are taxed at a fixed rate of 15%, with an additional 10% on taxable income over BRL 240,000.
- ◆ Non-residents pay taxes only on Brazilian-sourced income, determined by where the taxpayer is located rather than where the work is performed.

| | |
|---|--------------------------------|
| Ease of doing business – Paying Taxes (Rank) | Corporate Income Tax (Rate) |
| 184¹ | 15-45%² |
| Personal Income Tax (Rate) | Value Added Tax (Rate) |
| 0-27.5%² | 17%³ |

Brazil's current tax system originated from the 1988 Constitution, which gave power of taxation to federal, state and municipal governments. Each of these government bodies has introduced their own regulations, and the resulting system can be complicated to navigate.

Tax reform has widespread support in Brazil, including an overhaul of direct and indirect taxes levied in the country. As of mid-2020 the Brazilian government had proposed the adoption of a new VAT system – the first phase of comprehensive tax reform for the country.

Corporate taxes

The corporate tax system in Brazil can be complex. It's estimated that companies spend roughly 1,501 hours preparing and paying taxes in Brazil.

Companies based in Brazil are subject to taxes on their global income. For non-resident companies, taxes are typically assessed on income generated within Brazil. Non-resident companies may also be responsible for withholding taxes. Corporate income tax is assessed at the federal level only.

The corporate tax rate in Brazil is 15%. Taxes are assessed on annual income using either actual profits or presumed profits. Income over BRL 240,000 is subject to a 10% surcharge.

Most companies in Brazil are responsible for paying a social contribution on net income. The standard rate for this is 9%, though certain companies, including financial institution and private insurance companies, are taxed at a rate of 15%.

Individual tax

Brazilians pay taxes on income earned globally, while taxes for non-residents are assessed only on income earned within Brazil. Non-residents pay a flat rate of 25%, with no deductions permitted. Rental income on property located within Brazil is taxed at 15%.

For Brazilian residents, tax rates are as follows:

| Income at or over (BRL) | Up to (BRL) | Tax rate (%) | Deductible tax amount (BRL) |
|-------------------------|-------------|--------------|-----------------------------|
| 0 | 1,903.98 | Exempt | 0 |
| 1,903.99 | 2,826.65 | 7.5 | 142.80 |
| 2,826.66 | 3,751.05 | 15.0 | 354.80 |
| 3,751.06 | 4,664.68 | 22.5 | 636.13 |
| 4,664.68 | and above | 27.5 | 869.36 |

Withholding taxes

Brazil’s withholding tax, known as Imposto de Renda Retido na Fonte – or IRRF – is levied on profits or dividends given to resident and non-resident beneficiaries. Payments for services, royalties and interest to non-resident companies or individuals are generally assessed at a rate of 15%, though this can rise to 25% depending on the circumstances.

For non-resident companies located in jurisdictions governed by a tax haven, payments for services, royalties and interest are taxed at 25%.

Indirect tax

There are two primary forms of VAT in Brazil. ICMS is the state sales tax and applies to the movement of goods, communications and electricity. IPI is the federal excise tax and this is paid on all goods brought into the country or manufactured in Brazil.

Tax incentives

The Brazilian government offers tax incentives for certain economic activities. For instance, tax incentives are offered for projects focused on tech innovation. Exemptions on excise tax are provided for certain investment projects.

Additionally, corporations can use a percentage of their income tax liability for investment or reinvestment in their own projects.

Investment & trade

In this section

Highlights

Ease of doing business

Foreign investment

Competitiveness

Government incentives

Capital markets & banking

Intellectual property rights



Highlights

- ◆ Globally, Brazil was the ninth largest recipient of foreign direct investment in 2019.
- ◆ Brazil is a member of a number of free trade agreements, including the Mercosur trade agreement.
- ◆ Brazil was ranked 124 out of 190 countries by the World Bank's 2020 Ease of Doing Business rankings.

FDI Net Inflows
(Current USD)

\$72 billion¹

Ease of doing business –
Starting a business (Rank)

138²

Ease of doing business –
Trading across borders (Rank)

108²

Global competitiveness
(Rank)

56³

In 2019, \$72 billion worth of foreign direct investment (FDI) flowed into Brazil, an increase of 20.4% over 2018 values. Brazil was the largest recipient of FDI in South America and the ninth biggest recipient globally.

With an abundance of natural resources, a thriving manufacturing sector, stable financial market and liberal investment policies, Brazil offers attractive investment prospects amongst emerging markets.

On the other hand, trade with Brazil can be a bit complicated. The country's economy has traditionally been very closed, though a push for trade liberalisation is gaining widespread support.

Ease of doing business

Brazil ranked 124 out of 190 in the World Bank's 2020 Ease of Doing Business rankings. The report cited a number of processes that have become easier in recent years. Starting a business has become more straightforward due to faster registration and a reduction in cost of the digital certificate. The efficiency of the land administration system has also improved, making registering property in Brazil easier. However, Brazil achieves relatively poor scores for dealing with construction permits and paying taxes, both of which can be laborious and time-consuming processes.

Foreign investment

In 2019, Brazil saw a 20.4% increase in foreign direct investment over the previous year, netting a total of \$72 billion worth of funds. Many investors were attracted by oil and gas extraction, as well as by electricity production.

In 2019, Latin America and the Caribbean became a hotspot for FDI in renewable energy – Brazil, with 42 projects announced by foreign investors – accounted for almost 40 per cent of the regional total.

Competitiveness

Brazil was ranked 71st out of 141 countries by the World Economic Forum's 2019 Global Competitiveness Index, scoring particularly high on market size (ranking 10th) and innovation capability (ranking 40th). However, Brazilian business leaders feel excessive red tape (ranking 141st) and lack of long-term vision from the government (ranking 129th) are holding them back from further competitiveness.

Government incentives

The Manaus Free Trade Zone is an area in the Amazon Region that offers free import and export privileges. This free trade zone has three economic hubs based on industrial, commercial and agricultural activities, with special incentives offered to attract investments in desired areas. Within the zone, the government offers a number of other tax incentives to encourage investment and trade, including reduction on tariffs for imported goods used in industrialisation.

The Brazilian government also offers a reinvestment scheme whereby corporate entities may use up to 30% of their corporate investment tax for reinvestment purposes.

Additionally, tax incentives are offered that can provide up to a 95% reduction on ICMS – Brazil's VAT. These incentives vary state by state and are used to encourage certain economic activities.

Capital markets & banking

As the largest economy in South America, Brazil's GDP reached US\$1839.76 billion in 2019. As its economy grows, the financial services sector remains a key driver of future growth and development.

The Bovespa is the main stock market in Brazil and has a market capitalisation of over US\$ 700 billion. The stock market is located in the city of São Paulo, widely considered as Brazil's financial centre. São Paulo ranked 66th in the Global Financial Centres Index.

With the advent of the Bolsonaro government, the Bovespa witnessed record highs, and in 2019, the Brazilian Real was one of world's best performing currencies. Ongoing political reforms are contributing to the perceived strength of the country's economy.

October 2019 saw reforms in the banking sector to allow a greater variety of company types to hold deposit accounts in foreign currencies, with plans afoot to allow individual ownership of US dollar denominated accounts.

Brazil's exchange market is controlled by the Central Bank of Brazil and is governed by the International Capital and Foreign Exchange Market regulation. Legal entities and individuals are allowed to buy and sell foreign currency, as well as perform international transfers in Brazilian Reals. Foreign investors can incorporate a company in Brazil and are able to capitalise companies through loans or by subscribing capital shares.

Intellectual property rights

The National Institute of Industrial Property (INPI) is the government entity responsible for most intellectual property rights. INPI deals with trademark registration, patents, tech transfer and franchising, industrial design registration and software registration, among other issues.

Foreigners applying for a trademark in Brazil will need to have a Foreign Personal Representative established in the country. Trademark registration is granted for a ten-year period, but you can apply for extensions on this period indefinitely.

As in many countries, applying for a patent in Brazil can be a lengthy and convoluted process. Patent applications are kept secret from the filing date for 18 months. At the end of this period, the application is published in the INPI's Industrial Property Gazette. As part of the application process, you must request that your application is examined by a patent examiner and pay all required fees.

Brazil is a signatory of the Berne Convention, the international agreement protecting copyright.

Infrastructure

In this section

Highlights

Transport infrastructure

Digital infrastructure

Infrastructure investment



Highlights

- ◆ According to the World Economic Forum's Global Competitiveness Report, Brazil's infrastructure ranks 78th out of 141 countries.
- ◆ Brazil has one of the largest roadway networks in the world, with approximately 2 million kilometres of roads.
- ◆ The government plans to double investment in infrastructure to US\$65 billion by 2022.

| | | |
|---|--|--|
| Railway Network 29,850 km¹ | Waterway Network 50,000 km¹ | Motorway Network 2,000,000 km¹ |
| Quality of Overall Infrastructure (Rank) 78² | Roads connectivity (Rank) 69² | Efficiency of Trains (Rank) 86² |
| Efficiency of seaport services (Rank) 104² | Air Connectivity (Rank) 17² | |

Over the last few years, President Jair Bolsonaro has embarked on an ambitious plan to increase infrastructure investment and boost Brazil's economy through public-private partnerships and privatisation. These investments will serve to modernise and expand the country's infrastructure and help close its infrastructure gap.

In early 2019, as part of this plan, the Brazilian government successfully auctioned off 12 airports for BRL 2.38 billion. This sum came in large part from foreign investors, indicating their keen interest in investing in Brazilian infrastructure.

This much-needed infrastructure revamp can't come soon enough for Brazilians. In many areas, Brazil's infrastructure is outdated or in disrepair. In Ipsos's 2019 Global Infrastructure Index survey, only 22% of Brazilians reported being satisfied with the country's infrastructure, while 52% said they were either very or fairly dissatisfied.

Brazil spends roughly 2.5% of GDP on infrastructure, according to a report from McKinsey. Proportionately, this is a third of the amount China spends on infrastructure and half of what India spends.

Transport infrastructure

With about 2 million kilometres of roads, Brazil's road network is one of the largest in the world. However, about 1.754 kilometres of this network remain unpaved. Paving vital arteries will be a large contributor to Brazil's productivity. For instance, paving a critical 50-km stretch of BR-163 has helped to bring down freight costs – previously lorries carrying soybeans would get stuck here during the rainy season, causing delays and blocking other shipments. Paving roads in Brazil does not come without controversy, however. Improvements to BR-319, as an example, have sparked dismay because the road runs through rainforest. Yet, maintaining and improving Brazil's roadways will be crucial to a future thriving economy. An estimated 1.2 billion people travel on Brazil's highways every year and 63% of Brazil's cargo is transported by highway.

Brazil is home to more airports than any other country in the world, except the United States. Brazil's airports are also some of the most congested in Latin America. São Paulo's Guarulhos International is Brazil's largest airport and serves 42 million passengers a year. More than 119 million passengers flew on domestic and international flights departing from Brazil in 2019.

Only about 20% of Brazil's total cargo is transported by rail, and this is primarily devoted to the transport of raw materials such as iron ore and agricultural produce, including soybeans and corn. A fraction of cargo containers are transported by rail in Brazil – just about 3-4% are moved this way, though the government has indicated it would like to raise this number to around 20%.

Brazil's rail system is in need of maintenance and modernisation before an increase in rail use can be achieved. Though over 37,000km of track has been built since the 1950s, a third of those lines are currently abandoned and another third are operating below capacity.

Digital infrastructure

As of January 2020, 150.4 million people were internet users in Brazil – an increase of 6% or 8.5 million people from 2019. Internet penetration in Brazil stands at 71%.

In July of 2020, the country reached the significant milestone of 100,000 telephony and mobile internet masts, a jump of 6% since May 2019. This is important particularly because mobile devices remain the primary way of accessing the internet for most Brazilians and 58% of the population accesses internet exclusively via their mobile phones.

Brazilians spend an average 9 hours and 17 minutes a day on the internet, ranking 3rd in the world for daily internet usage.

Brazil is slowly rolling out plans to implement 5G. A recent study from Nokia and Omdia found that the technology could have \$1.216 trillion economic impact and increase productivity by \$3.08 trillion.

Brazil is also poised to become a leader on AI, which could increase GVA by \$432 billion, according to some estimates. A 2019 study by Oxford Insights ranked Brazil as 40th in the world for government AI readiness.

Infrastructure investment

Infrastructure improvements are a priority for President Jair Bolsonaro. The goal is to bolster the country's ageing infrastructure with projects focused on modernisation and expansion – greatly needed in a country that has underspent on infrastructure in recent years. Since 2016, Brazil has spent less than 2 per cent of GDP on infrastructure. Infrastructure investment grew in 2019 to BRL 131.7 billion.

Traditionally, infrastructure projects have been financed by The National Development Bank or BNDES. BNDES has financed 50% of the country's energy expansion projects and 70% of all renewable energy projects. Going forward, the role of BNDES is changing. The new national strategy surrounding infrastructure investment includes privatisation, public-private partnerships and leases – all of which are estimated to bring in over BRL 27.7 billion in investments.

Cost of living

In this section

Highlights

Quality of life

Relocation

Commercial real estate



Highlights

- ◆ Cost of living comparisons between London and Brasília show rent costs and overall cost of living significantly lower in the Brazilian capital.
- ◆ Life expectancy in Brazil is 75 years, five years lower than the OECD average.
- ◆ Three Brazilian cities feature in Mercer’s cost of living worldwide rankings.

| | |
|--|--|
| Cost of Living Country Index | Quality of Living City Index – |
| 30.99¹ | Brasília (Rank) 107² |
| | Rio de Janeiro (Rank) 118² |
| | São Paulo (Rank) 119² |
| International Property Rights Index (Rank) | |
| 64³ | |

With significant differences between cities, Brazil overall rates as moderate in terms of its quality of living. Housing, for the most part, accounts for the biggest spend from gross income for Brazilians, while the overall cost of living is considered relatively low.

Housing is a ubiquitous issue in Brazil, particularly in those cites witnessing a rise in urbanisation. Overcrowding remains a key challenge, while access to an indoor flushing toilet ranks lower than the current OECD average.

Yet, overall, Brazilians are satisfied with their lives, pegging roughly with the OECD average. A strong sense of community and civic engagement along with economic growth in recent years account for relative happiness.

Capital Brasília, São Paulo and Rio de Janeiro all ranked within the top 120 cities on Mercer’s 2019 Quality of Living city survey. While Buenos Aires and Santiago ranked higher, Brazil remains the only South American country with three cities ranking in the survey.

Life expectancy in Brazil is 75 years, and while lower than the OECD average, it pegs as average amongst South American neighbours. For quality of life based on social factors, including wellbeing, opportunities and basic human needs, Brazil ranked in 61st place globally.

Quality of life

Monthly rent in an exclusive part of Brasília costs BRL 3,426 for a furnished 900 square foot property. Rio de Janeiro’s prices are slightly higher, at BRL 3,883 for the same size and type of residential area, while São Paulo is the most expensive, with rents likely to be in the region of BRL 4,244.

Interest rates in 2020 have dropped to historic lows in Brazil, prompting greater demand in the real estate market. Property can be bought by foreign nationals in urban areas, while purchases in rural areas are restricted. Housing prices vary across Brazil, but an underlying issue of supply remains, with some estimates suggesting Brazil lacks seven million housing units, with 20% of Brazil’s population in inadequate housing.

Relocation

Brazil offers a variety of short and long-term visas for business purposes. If you are intending to live and work in Brazil, you can either apply for a VITEM V visa, the most common working visa for foreign nationals, or a Visto Permanente – a permanent work visa – which is typically for professional researchers, scientists, or those investing over a certain amount of time.

Commercial real estate

Demand for office space has been increasing in Brazil in recent years, with space in some cities, particularly São Paulo, at a premium. Tenants in Brasília can expect to pay BRL 107 per square metre. São Paulo rental costs average BRL 123 per square metre, with Rio de Janeiro highest at around BRL 130 per square metre, per month.

| | | |
|--|-----------------|------------------|
| Average commercial real estate sale price: | | RL 9,539 per m² |
| Commercial real estate rental price: | Brazil average: | BRL 39.54 per m² |
| | São Paulo: | BRL 70.7 per m² |
| Total CBD office market: | São Paulo: | 3.809.513 per m² |



HSBC in Brazil

In this section

Highlights

Profile

Key products & solutions

Next steps

Highlights

HSBC has a global network, operating in over 50 countries and territories. Our network covers 90% of global trade and capital flows and we do business with 38,000 customers worldwide.

Profile

HSBC Brazil was established in 1997, with a wholesale banking proposition to serve large local corporates, multinationals and foreign institutional investors. We have an experienced team on the ground, and partners in different HSBC balance sheets across the globe.

Key products & solutions

- ◆ Global Markets/Treasury
- ◆ Investment Banking
- ◆ Credit & Lending
- ◆ Global Trade & Receivables Finance
- ◆ Global Liquidity & Cash Management

Next steps

If you have any questions relating to our services or would like any further information:

- ◆ Speak to your HSBC Relationship Manager
- ◆ Email corporateservices_brazil@hsbc.com
- ◆ Visit www.business.hsbc.com.br

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