

## In Competitiveness Brazil Gets an F

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Brazil is 39th in international competitiveness, according to the Competitiveness Indicator (IC) calculated by the Federation of Industries of the State of São Paulo (Fiesp).

The study, which considers 83 variables in 43 countries, is designed to identify the major obstacles to increasing Brazil's competitiveness, as well as to evaluate what has already been done and what needs to be done to enhance and sustain the country's competitive capacity in relation to other countries.

According to the report that was presented, the chief factor behind the country's competitive backwardness is the high cost of obtaining bank credit.

The Fiesp study shows that Brazil ranked 37th in 1997, advanced to 36th in 1998, then slipped to 40th in 2001.

The report points out that, during the period under analysis, the country was submitted to a tough internal and external adjustment with measures that obstructed economic activity, constraining the country's growth and, consequently, hampering competitiveness.

According to the Fiesp Manager of Competitiveness and Technology Projects, Renato Corona Fernandes, the measures that had the biggest negative impact on Brazil's competitive capacity were the devaluation and fluctuation of the currency, the pursuit of a surplus to honor foreign obligations, the increase in real interest rates, fiscal adjustment, spending cuts, and, most of all, tax increases.

Fernandes explained that Brazil has specific limitations that keep it from becoming more competitive.

"In order of importance, they are capital, technology, and the domestic economy," he said.

According to Fernandes, in terms of capital, the current bank spread in Brazil is 37.94%. In 2002 this index stood at 43.5%.

"Decreasing at this pace, it will take Brazil 31 years to reach the average rate among countries, which is 5.5% per year."

The study shows that annualized interest rates amounted to 63% in 2002, dropping to 54% in 2004, as against an average of 8.3% in the other countries that were examined.

Loans to the private sector corresponded to 27% of the GDP (Gross Domestic Product) in 2002. In July, 2004, they represented 25% of the GDP.

"To attain, in 20 years, the average (85.6%) among the countries that were analyzed, this rate should grow 6.9% per year."

The tax burden in 2002 was equivalent to 34.4% of the GDP. In the first half of 2004, it got as high as 38.11%.

"Brazil has a tax burden similar to that of developed countries, but the quality and scope of the services that are provided are inferior," Fernandes argued.

In countries whose per capita income is similar to Brazil's, on the other hand, the tax burden amounts to around 20% of the GDP.

Agência Brasil  
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