

Euler Hermes: 2016 Rio Olympic Games will hinder, not help, Brazilian economy

BALTIMORE, Md. And PARIS –1 AUGUST 2016 – While the Olympic Games will generate minor short-term growth and employment in Brazil, the net impact of the Games will be negative for the host country, predicts [Euler Hermes](#), the world’s leading provider of trade credit insurance. Amidst a trend of rising public debt, hosting the Olympics will increase regional business bankruptcies and create inflationary pressures until 2020.

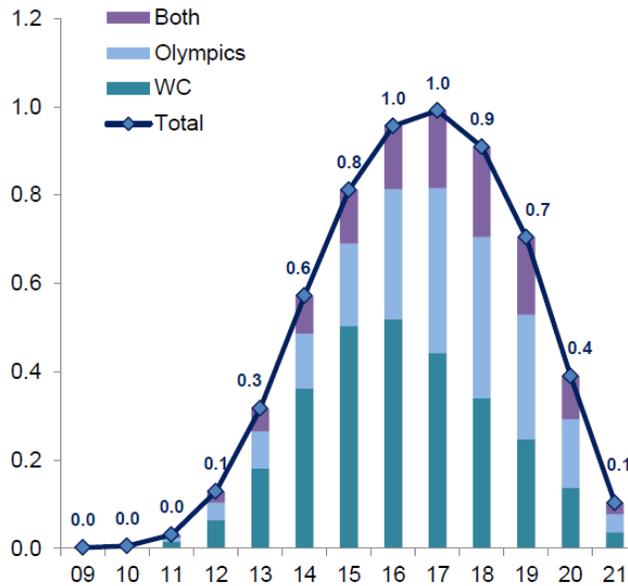
Increased investment projects and tourism linked to the Olympics will add only 0.05 percentage points (ppt) in real growth to Brazil’s GDP, which is expected to decline by 3.5 percent in 2016. According to official figures, total Olympics infrastructure investment between 2009-2015 could reach R\$38.5 billion (US\$ 12 billion), a small sum compared to the country’s economy. Tourism is expected to generate R\$1.3 billion (US\$ 0.4 billion) and increase real growth by just 0.02 ppt – less than half of the total original estimated impact.

“While these increases in jobs and tourism look good on the surface, they are just not enough to offset the severe economic turmoil that has plagued Brazil since before the Olympics. Some issues, like inflation, could even be significantly exacerbated by the Games,” said Daniela Ordonez, Latin American economist for Euler Hermes. “Infrastructure investment and public spending alone has further increased public debt by 0.04 pp of GDP, with the State of Rio de Janeiro’s debt spiking by 17 percent.”

During the investment phase leading up to the Olympic Games, the number of new companies surged, especially for micro and small enterprises. The massing of new businesses in relatively few sectors will generate a “crowding out effect” between newcomers and fragile existing companies unfit to benefit from the Games. In addition, many of the new businesses will have a short life and are expected to close after the Olympics. Overall, hosting the Olympics will inflate Rio de Janeiro’s insolvencies in 2016 by 5 percent and those of micro and small enterprises by 12 percent.

Brazil’s inflation has been a major issue for households and the private sector. Since the 2009 announcement that the country would host both the 2014 World Cup and 2016 Olympic Games, anticipation appears to have accelerated inflationary pressures. The two events will boost the country’s overall inflation rate by about 1 ppt in 2016, of which 0.4 ppt is residual from the World Cup, 0.4 ppt is due to the Olympics, and 0.2 ppt is a result of hosting both global events in such a short time period.

Direct impact of the Sporting mega-event on inflation (percentage points)



Sources: National sources, Euler Hermes estimates

“Brazil is unfortunately not in a position at this time to benefit from the potential positive impact the Olympic Games can have on a host country’s economy,” said Ordonez. “Instead, the timing of hosting the World Cup and Olympics back-to-back has had an increasingly negative impact. With everything else the country is currently experiencing, Brazil’s economy did not need more drama right now.”

View more of the story in Euler Hermes’ infographic [“Rio 2016: A False Start for Brazil.”](#)

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