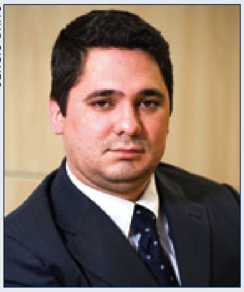
SÉRGIO BRITO



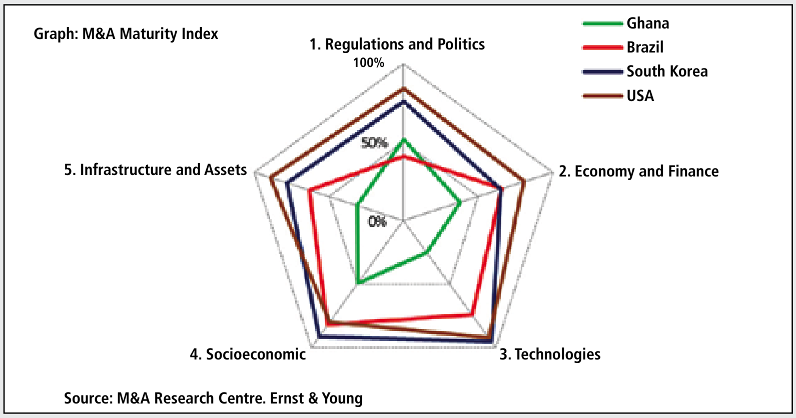
BY RICARDO JACOMASSI,
CHIEF ECONOMIST AT HEGEMONY PROJEÇÕES ECONÔMICAS
: RICARDO.JACOMASSI@HEGEMONY.COM.BR

ELEMENTS OF THE LAG

Given the not very propitious environment for doing business, it is acceptable that investors be more concerned in facing doubts regarding premises they should consider in making investments –even more so when it comes to buying and merging with other companies. Verifying the lack of data for making comparisons between countries, Ernst & Young and MARC developed the M&A Maturity Index[1], which analyzes the maturity of 148 countries in regards to mergers and acquisitions. Didactically, the index determines that the higher the maturity, lower the business risk for companies, taking into account 23 factors broken down into five groups, to wit:

(i) Regulations and Politics;
(ii) Economy and Finance;
(iii) Technologies;
(iv) Socioeconomic;
(v) Infrastructure and Assets.

When analyzing the five groups, Brazil presented a score of 41% in Regulations and Politics; 66% in Economy and Finance; 74% in Technology-related factors; 82% in Socioeconomic factors and 63% in Infrastructure and Assets. In the comparison, Brazil's posted an overall score of 65%, ranking it #34 out of the 148 countries analyzed and classified according to M&A Maturity Index criteria.



The factors that weighed the most in Brazil's ranking where Regulations and Politics, Infrastructure and Assets and Economy and Finance. In the **graph exhibited**, observe that the number one position in the ranking is occupied by the United States, South Korea being #5 and Ghana #107. The comparison between these three countries identifies the elements that contribute to the lag and lack of competitiveness of Brazil's economy in relation to the top and bottom positions in the overall ranking. In relation to regulatory aspects seen in the graph comparison, Brazil, with 41%, is behind Ghana, an African country that posted a score of 52%. To confirm how deficient regulation aspects and political factors are in the country, simply look at the World Bank[2] and PwC study that determined that roughly 2,600 hours are necessary to fulfill fiscal obligations. In Chile 316 hours are spent while in the United States, 187 hours.

As if this weren't enough, another factor contributes to Brazil's ranking as demonstrated in the graph: Infrastructure. We have long known that our infrastructure poses serious distortions to the economy's competitiveness and results in high costs for society.

Even with major sporting events on the horizon like the 2014 World Cup and 2016 Olympic Games, investments in base structure have not yet taken off. A large part of the barriers are of political and regulatory nature. So, when asking what country to invest in or demonstrate interest towards mergers and acquisitions, investors will always pay close attention on where they focus their decisions. Brazil will probably be on the table, for the time being, since it is still considered an emerging country with rapid growth. It just so happens that, on account of lower profit returns in the economy and problems due to the lack of competitiveness, investors are already saying that Brazil no longer is their country of choice. This means we need to pay attention about our future. ■

1 - Ernst & Young. < http://www.mandamaturity.com/>
2 - Banco Mundial (Paying Taxes 2011). <http://www.doingbusiness.org/data/exploretopics/paying-taxes>