

Brazilian sovereign credit rating is upgraded to BBB, the second notch within “Investment Grade” level

As of April 4th 2011, Fitch Ratings published an improvement on the Brazilian sovereign credit rating, with an upgrade from BBB- to BBB with stable outlook. In its press release, the agency highlighted the economy’s growth potential ranging from 4 to 5% p.y., allowing a better mid and long-term fiscal path, as well as a continued strengthening of its net external position, which allows the country to perform well under external shocks.

Fitch Ratings mentioned the smooth political transition on President Rousseff’s administration, where the core of responsible macroeconomic policies have been kept. Moreover, the new administration has displayed signs of greater fiscal restraint, which, coupled with healthy growth prospects, should allow a fall in Brazil’s general government debt burden, still a credit relative weakness.

The benign Brazilian economic growth trajectory remits to its potential domestic market and its recent path, linked to the high diversity of the economy, to the large and the increasing middle-class plus the ongoing positive investment cycle.

As for the external sector, the net creditor position was even reinforced with FX-reserves level over USD 300 bn. That places Brazil as one of the strongest net creditors among BBB countries. Fitch notes that, while Brazil’s current account deficits are likely to remain more elevated than in the recent past, the deterioration in net external debt indicators could be contained by the expected robust foreign direct investment flows.

Government’s willingness to refrain minimum wage growth and to gradually reduce BNDES’ loans are regarded as important facts to allow further improvements on the fiscal side. The Brazilian National Treasury active debt management was also mentioned as a key factor to promote structural improvements on the domestic debt. In addition, the “National Treasury has already secured considerable resources for external debt amortizations in the coming years, which reduces the country’s vulnerability to volatility in international capital markets”.

Short-term challenges refer to taming inflation backwards to the target’s mid-point. As per Fitch, a stronger adjustment on expenditures would allow a better combination of fiscal and monetary policies, opening room to reduce interest rate levels and reducing pressure on the exchange rate. Reforms on tax and social security systems would also be very important to structurally improve public finances.

Brazilian credit rating story

Brazil	2003	2004	2005	2006	2007	2008	2009	2010	2011
S & P	B+	BB-	BB-	BB	BB+	BBB-	BBB-	BBB-	BBB-
Fitch	B+	BB-	BB-	BB	BB+	BBB-	BBB-	BBB-	BBB
Moody's	B2	B1	Ba3	Ba2	Ba1	Ba1	Baa3	Baa3	Baa3
DBRS	N/A	N/A	N/A	BB	BBH	BBBL	BBBL	BBBL	BBBL
JCR	N/A	N/A	N/A	BB+	BB+	BBB-	BBB-	BBB-	BBB
R&I	B+	BB-	BB-	BB+	BBB-	BBB-	BBB-	BBB-	BBB-

Source: Credit Ratings

Staff

Public Debt Strategic Planning Department

Investors Relations

Manager: Andre Proite
Deputy: Flávia Fernandes Rodrigues Barbosa
David Rebelo Athayde
Juliana Diniz Coelho Arruda
Marcelo Bessa
Sofia Hauschild - *Trainee*

E-mail: brazildebt@fazenda.gov.br

Fax: ++ 55 61 3412-1565
