

Fitch: Issues Brazil Sovereign Report on Debt Rollovers, Teleconf 6-13 10:30 ET

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Fitch Ratings-New York-09 June 2006: Fitch Ratings has released a Special Report on Brazil, 'Brazil: Watch Domestic Debt Profile & Rollovers,' which argues that a key driver of Brazil's sovereign credit story in the coming months will be the ability of the Federal Treasury to roll over its domestic debt and to limit any deterioration in the debt profile, in light of recent volatility in the capital markets. Roger Scher, Fitch's Managing Director for Latin American Sovereign Ratings, will discuss the report in depth on Tuesday, June 13, 2006 at 10:30 EDT (15:30 BST). Brazil's external balance sheet and balance of payments have continued to improve and public sector external exposure has been reduced since Oct. 11, 2005, when Fitch revised the Outlook on Brazil's 'BB-' sovereign Issuer Default Rating to Positive from Stable. As a result, Brazil's external financing risk has been reduced, though by no means is it de minimus as can be seen in price action during the latest market turbulence. Yet the recent bout of volatility underscores Brazil's principal vulnerability with respect to market sentiment; that is, in the local domestic debt market, which in turn is not immune to external shocks. Brazil's persistent heavy domestic-debt rollover needs underscore what Fitch has argued since last fall, namely, that improving public finances would be the key driver of any future rating upgrade. In spite of major strides made in paying down public external debt and in reprofiling the domestic debt over the last three to four years, Brazil's public sector has maintained roughly the same heavy debt burden in GDP terms (approximately 75%), near-term domestic debt maturities (in double digits in GDP terms), and exposure to interest rates (nearly 70% of domestic debt repricing over 12 months). Success in the domestic debt auctions and improving the debt profile will depend not only on market conditions, but also on the credibility of current and likely future fiscal and monetary policies. The Brazilian Federal Treasury cancelled a domestic debt auction on May 25 due to market conditions. The Treasury re-entered with a rather modest placement on June 2 of fixed-rate securities (R\$3.9 billion), more than half of it for a short seven-month maturity, and then again on June 8 with a placement of (R\$9.8 billion), 57% of which were floating rate securities and 21% were seven-month fixed-rate securities. The Treasury has roughly 18% of GDP (R\$377 billion) of domestic debt held by the public due in the 12 months from May 2006 (a high level of annual debt maturities compared to other Fitch-rated sovereigns), including R\$60 billion due in July. Therefore, critical to improving sovereign creditworthiness will be smooth sailing in the upcoming debt auctions, in addition of course to continued positive trends in Brazil's balance of payments, inflation, and interest rates, as well as efforts to stem the recent slippage in public spending and the decline of the primary budget surplus. The report is available on the Fitch Ratings web site at 'www.fitchratings.com', under the 'Public Finance' header and then 'Sovereigns,' on the 'Special Reports' page. Contact: Roger M. Scher +1-212-908-0240, New York. Media Relations: Kris Anderson, London, Tel: +44 20 7417 4361; Christopher Kimble, New York, Tel: +1 212-908-0226. Fitch's rating definitions and the terms of use of such ratings are available on the agency's public site, 'www.fitchratings.com'. Published ratings, criteria and methodologies are available from this site, at all times. Fitch's code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance and other relevant policies and procedures are also available from the 'Code of Conduct' section of this site.