

Fitch Sube Calificación Soberana de Brasil a 'BB-'; Perspectiva Estable

28 de septiembre de 2004

Fitch Ratings-New York-September 28, 2004: Fitch Ratings, the international rating agency, has today upgraded Brazil's long-term foreign and local currency ratings to 'BB-' from 'B+'. The short-term rating is affirmed at 'B'. The Rating Outlook is Stable. Fitch's rating action reflects a marked turnaround in international trade performance, declining public and external debt burdens, and a demonstrated commitment to sound macroeconomic policies. 'The 25 basis point hike in the Selic policy rate earlier this month and the fact that the authorities chose not to ramp up spending ahead of Sunday's municipal elections, even in light of strong tax performance so far this year, are further signals of the determination to run sound macro policies in Brazil,' said Roger Scher, Managing Director, Latin American Sovereigns, Fitch Ratings. Exports have expanded 34.8% in the January-August 2004 period over the same period last year, reflecting both price and volume increases and growth in a broad array of manufactured and primary exports to diverse destinations. Fitch expects the trade surplus to finish the year at US\$33 billion, yielding a current account surplus of 1.3% of gross domestic product (GDP). Economic growth has proceeded apace, with Fitch forecasting a 4.7% expansion this year, moving imports up markedly, but not creating substantive balance of payments pressures. 'It is a break with the past in Brazil, having strong GDP growth without balance of payments pressures,' said Scher. Brazil's external financing needs, which Fitch forecasts at nearly US\$33 billion next year, essentially unchanged from 2004, remain heavy due to the legacy of past borrowing. Nevertheless, current account surpluses, equity inflows and strong export growth have yielded a declining net external debt burden, forecast at under 140% of broad exports this year, down from a high of 308% in 1999. Although this ratio still compares unfavorably with the 'B' category median, forecast at 92% this year, it is projected to fall below 100% in two years time. The fiscal authorities continue to outperform their targets, with the public sector primary surplus totaling 4.95% of GDP in the 12 months to August. The authorities raised the full-year 2004 target to 4.5% of GDP this month, though the 2005 target remains at 4.25%, still 0.5% of GDP higher than the previous government's target. Exceptional tax performance has been underpinned by the economic upturn as well as by the reform of the Cofins (social security) tax last year. Domestic debt reprofiling has reduced risks to the government, resulting in only 27% of general government debt linked to or denominated in foreign currencies, versus over 40% in 2002 before President Lula took office. The monetary authorities, after bringing interest rates down from a high of 26.5% in 2003, raised the policy rate 25 basis points to 16.25% to counter rising inflation expectations. Nevertheless, Fitch expects inflation to finish 2004 at about 7.5%, within the central bank's target range. With this as a backdrop, Brazil's public and external debt burdens have moved down, with gross general government debt down 4.7% of GDP in August 2004 from year-end 2003. Fitch expects gross general government debt to finish the year at around 78% of GDP, versus 'B' and 'BB' rating category medians of 67% and 47% respectively. Thus, Brazil's ratings remain constrained by its heavy public and external debt burdens, though both are on a declining trend. 'Another constraint to the ratings,' said Scher, 'is the limited progress so far in implementing major microeconomic reforms.' Fitch points out that such structural reforms as bankruptcy legislation (which stands a good chance of passage after October's municipal elections), central bank autonomy legislation, labor reform, regulatory reform, second-stage social security and tax reforms, and privatization could ensure that Brazil moves beyond this current cyclical upswing toward high, sustainable economic and export growth rates. Political scandals and reform fatigue slowed the pace of reform this year, and Fitch emphasizes that sovereign creditworthiness would be served if reform efforts were redoubled after the municipal elections. Fitch Ratings will hold a conference call on the Brazil upgrade on Wednesday, Sept. 29, at 10:30 a.m. EDT. Contact: Roger M. Scher +1-212-908-0240, New York or Richard Fox +44 (0)20 7417 4357, London. Media Relations: Kenneth Reed +1-212-908-0540,

New York