

Highlights of the Sovereign Rating on the Federative Republic of Brazil

Updated Rating

Long-term Local Currency: A_i

Long-term Foreign Currency: A_i

Outlook: Negative

Previous Rating

Long-term Local Currency: A_i+

Long-term Foreign Currency: A_i+

Outlook: Negative

Ratings updated on

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Rating Opinions

United Ratings has decided to downgrade the long-term local and foreign currency ratings of the Federative Republic of Brazil (hereinafter, "Brazil") from A_i to A_i, with Negative outlook.

Various corruption cases have exacerbated the instability of the interim government, giving rise to political uncertainties. The severe economic recession is continuing, while the political chaos has contained the Brazilian government's ability to deal with the recession. As a result, the economy would hardly bounce back in the short run. The fiscal deficit remains high, and due to uncertainties in the process of constitution revision, fiscal consolidation is unpredictable. High interest rate and worsening economic recession have brought downward risks for the assets quality of the Brazilian banking sector. The deficit in current account is narrowing, but the external risks remain high. In summary, the Brazilian federal government's payment ability will continue to decline in the short run. Once the trend is magnified, the country is likely to face further downgrading pressure.

Reasons for Downgrading Ratings

- Various corruption cases have exacerbated the instability of the interim government, giving rise to political uncertainties.
- The severe economic recession is continuing, while the political chaos has contained the Brazilian government's ability to deal with the recession. As a result, the economy would hardly bounce back in the short run.
- The fiscal deficit remains high, and due to uncertainties in the process of constitution revision, fiscal consolidation is unpredictable.
- High interest rate and worsening economic recession have brought downward risks for the assets quality of the Brazilian banking sector.
- The deficit in current account is narrowing, but the external risks remain high.

In summary, the increasing pressure of political uncertainties, continuous economic recession, expanding government debts, and impact of exchange rate fluctuation all magnify Brazil's debt servicing risks in local and foreign currencies.

In view of the points above, United Ratings downgraded Brazilian sovereign ratings in local and foreign currencies from A_i+ to A_i, with Negative outlook.

Key Indicators of the Sovereign Rating on the Federative Republic of Brazil

	2011	2012	2013	2014	2015	2016 ^f
Nominal GDP (billion USD)	2,611.20	2,458.80	2,464.00	2,416.50	1,772.30	1,705.00
GDP per capita (USD)	13,228.10	12,340.70	12,256.80	11,917.60	8,668.40	8,280.00
Real GDP growth (%)	3.9	1.9	3	0.1	-3.8	-3
Inflation rate (%)	6.6	5.4	6.2	6.3	9	8.2
Total lending/GDP (%)	129.1	136.1	151.4	176.1	183.7	159.1
Domestic credit growth (%)	14.8	16.8	9.6	12.1	7.4	8.4
M2 growth (%)	18.7	9.1	10.9	9.9	6.3	8.4
Budget balance of governments/GDP (%)	-2.3	-1.7	-2.8	-6.5	-10.5	-8.1
Primary balance of governments/GDP (%)	2.1	2.4	1.9	1	-2	-2.5
Public debt/GDP (%)	51.3	53.8	51.7	57.2	66.5	75
Current-account balance/GDP (%)	-3	-3	-3	-4.3	-3.3	-1.3
Total foreign debt/GDP (%)	15.5	17.9	19.6	23	30.6	31.7
Total external debt/Current-account credit (%)	123.4	146.1	158.5	193.3	218.9	205.3
Short-term foreign debt/Total foreign debt (%)	10.4	7.4	6.9	10.4	9.4	8.4
International reserves/Total foreign debt (%)	87.1	84.7	74.2	65.3	65.7	66.5
Gross external financing requirement/GDP (%)	7.1	6	6.9	7.5	10.7	8.7

Source: Sovereign Rating Database of United Ratings.

Note: "f" stands for forecasts.