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International

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Brazil downgraded by Moody's to Baa3

- On 11th August 2015, Moody's Investors Service downgraded Brazil's foreign currency long term credit rating to **Baa3** from **Baa2**. The rating agency also changed the outlook on the rating to *stable* from *negative*.
- According to the ratings agency, the downgrade was driven by:
 1. Weaker-than expected economic performance, the related upward trend in government expenditures and lack of political consensus on fiscal reforms will prevent the authorities from achieving primary surpluses high enough to arrest and reverse the rising debt trend this year and next, and challenge their ability to do so thereafter.
 2. As a result, government debt burden and debt affordability will continue to deteriorate materially in 2015 and 2016 relative to the rating agency's prior expectations, to levels materially worse than Brazil's Baa-rated peers. Moody's expects the rising debt burden to stabilize only towards the end of this administration.
- Moody's noted that, despite the downgrade, Brazil still benefited from certain "credit strengths" namely its ability to withstand external financial shocks given ample international reserve buffers; a government balance sheet with relatively limited exposure to foreign currency debt and non-resident debt holdings compared with its peers; and a large and diversified economy.
- Brazil is rated **BBB-** with a *negative* rating outlook by Standard & Poor's while it has a **BBB** credit rating and a *negative* rating outlook from Fitch Ratings. The downgrade to Baa3 means that the rating is now equivalent to that of Standard & Poor's and one notch below that of Fitch Ratings.

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