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International

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Brazil downgraded by S&P to *junk* status

- Standard & Poor's downgraded its foreign currency, long term credit rating on Brazil from BBB- to BB+ on 9 September 2015. The rating outlook remains *negative*.
- This revision means that Brazil has lost its investment grade status.
- The downgrade was driven by what S&P sees as a weakening of Brazil's fiscal and credit profile. This stems from the agency's expectation that Brazil's ability to execute policies to improve the country's fiscal position has diminished.
- A major cause of this diminished ability is the uncertainty in the political environment. Following the Petrobras scandal, there have been signs of dissent within President Rousseff's cabinet and growing calls for impeachment. This lack of support has the potential to derail efforts to contain Brazil's fiscal slippage.
- Indeed, deviation from the initial proposals has already occurred. The proposed budget, announced in July, targeted a primary surplus of 0.7% of GDP. However the budget announced in August revealed a primary deficit of 0.3% of GDP.
- Economic weakness also raises the likelihood of further deviation as efforts to spur activity may necessitate increased spending. S&P estimates a contraction of 2.5% in 2015, followed by a 0.5% contraction in 2016.
- Brazil is currently rated Baa3/*stable* by Moody's and BBB/*negative* by Fitch. On an equivalent basis, the Moody's rating is one notch higher than S&P while the Fitch rating is two notches higher.

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