

Economic Alert iQ



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International

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Brazil downgraded by Fitch to BB+

- On 16 December 2015, Fitch Ratings lowered its long-term foreign currency rating on Brazil from BBB- to BB+.
- According to Fitch, the downgrade was triggered by three factors:
 1. The economy's recession is deeper than previously anticipated,
 2. Continued adverse fiscal developments
 3. Increased political uncertainty that could further undermine the government's capacity to effectively implement fiscal measures to stabilize the growing debt burden.
- Brazil's economic slump is not abating as highlighted by the third quarter of 2015 (3Q15) GDP figures with both consumption and investment retreating. The economy contracted by 1.7% (quarter-over-quarter [QOQ]) and 4.5% (year-over-year [YOY]) in 3Q15. Fitch now forecasts growth of -3.7% and -2.5% in 2015 and 2016, respectively with risks skewed mainly to the downside.
- Fiscal deterioration continues against the backdrop of weaker economic conditions. In December, the government secured congressional approval for a 2% of GDP primary deficit ceiling for 2015, reflecting the adverse revenue performance, constrained ability to cut spending and potential one-time payments (of around 1% of GDP). The repeated changes in fiscal targets have undermined the credibility of fiscal policy.
- The recent start of impeachment proceedings against President Rousseff is adding uncertainty to an already difficult political environment and leading to continued political stalemate. The outcome of the proceedings is uncertain.
- Brazil's credit rating was downgraded by Standard & Poor's in September 2015 to BB+ and was placed by Moody's Investor Services on negative credit watch in December 2015. The Moody's rating of Baa3 is one level higher than the current Fitch and S&P ratings.

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