

## BRAZIL BECOMES INVESTMENT GRADE BY MOODY'S

Moody's rating agency has announced in September 22nd of 2009, that the long term foreign currency and the long term domestic currency ratings were changed to Baa3, upgrading the country to the Investment Grade category. Furthermore, the outlook on the new ratings were changed to positive. With this upgrade, Brazil has become investment grade by all three major rating agencies: on 30th of April 2008 *Standard and Poor's* have granted this position to the country, followed by *Fitch Ratings* in May 29th. The country is also considered investment grade by the Canadian rating agency *Dominion Bond Rating Service* besides - the Japanese agencies *Rating and Investment Information* and *Japan Credit Rating Agency*.

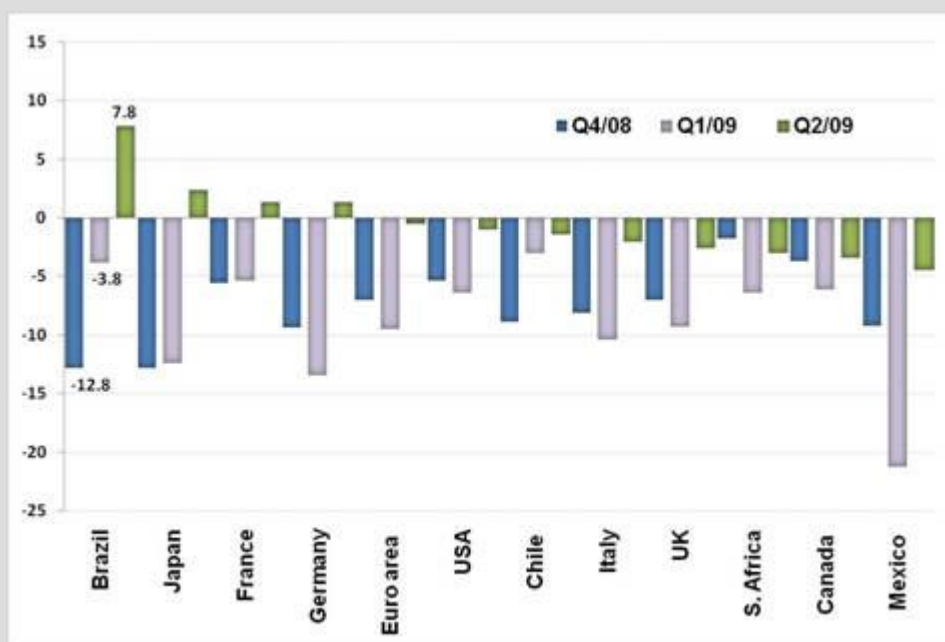
**Evolution of the Brazilian Rating in the recent past**

Brazil	2003	2004	2005	2006	2007	2008	2009
<b>S &amp; P</b>	B+	BB-	BB-	BB	BB+	BBB-	BBB-
<b>Fitch</b>	B+	BB-	BB-	BB	BB+	BBB-	BBB-
<b>Moody's</b>	B2	B1	Ba3	Ba2	Ba1	Ba1	Baa3

Source: Rating Agencies

Among the factors stated by *Moody's* for the upgrade, the agency highlighted "*the notable improvement reported in the government debt structure*". Besides the responsible conduction of monetary and fiscal policies in the last years, the agency also mentioned the exceptional performance of Brazil during the crisis. The turbulence in the market was able to reveal the structural strengthening occurred in the last years, which resisted well to the real tests imposed by the crisis. Beyond that, the efficient measures taken by Brazilian authorities in its response were timely and efficient. At last, the strong recovery of economic activity: among the main countries that experienced technical recession due to the crisis, Brazil showed the highest GDP growth rate in the second quarter of 2009 (compared to the first quarter), recovering the recent negative oscillation. As a result, *Moody's* highlighted that "*the overall performance proved to be better than that of several Baa-rated investment-grade countries – the rating category to which Brazil now belongs*".

### Quarterly GDP growth of the main countries that were in technical recession



\* Quarterly annualized rates seasonally adjusted

Source: JPMorgan and Bloomberg.

The agency believes “the chances that Brazil will stay on a multi-year path of improved creditworthiness are reasonably high”. Besides that, “improved growth prospects and the likelihood that continued macroeconomic stability would help secure single-digit interest rates are conditions that could potentially change government debt dynamics”. The positive outlook granted by Moody’s also “denotes the absence of macroeconomic imbalances in the Brazilian economy, a condition that places the country in a privileged position relative to other sovereign credits in the same rating category, some of which face fundamental external or fiscal challenges”.

The ratings granted by credit rating agencies reflect their opinion on a sovereign government’s capacity and willingness to timely honor all its debt obligations. A country rated as investment grade is considered to have a low level of risk associated to its assets, allowing it to obtain better financing conditions due to lower funding costs. Investment grade status benefits not only the country’s public sector by generating increased demand for government bonds, as a consequence of large institutional investors subject to regulatory restrictions on investments in countries that have not obtained this rating, but also benefits its private sector, since sovereign ratings are used as a reference for private ratings.

Since September 2008, the peak of the international crisis, marked by the bankruptcy of the North-American bank *Lehman Brothers*, Moody’s has downgraded the rating\* of 18 countries, and only 6 countries were upgraded. Brazil figures among them. In this period, also, Brazil was the only country to have its rating upgraded to investment grade by Moody’s. This fact shows that the pragmatism of the economic policy, without losing the austerity and the responsibility that has been

guiding it, at the same time that helped the country to avoid the economic deceleration, allowed public debt management to reduce its costs and risks.

\* Long term foreign currency.

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