

CareEdge Global assigns Long Term Foreign Currency Rating of BB+ (Unsolicited) to Federative Republic of Brazil

Credit Profile

Brazil's credit assessment is primarily constrained by its low and uneven growth, coupled with weak fiscal metrics, arising from persistent deficits, and reflected by high levels of debt. This weakness is partly offset by a large and diverse economy coupled with the benefits of an upper-middle-income country. Brazil's comfortable external position and the government's low reliance on external debt also support its credit profile. Going forward, the success of its ongoing reform efforts, particularly the proposed streamlining of its tax system, would be a key enabler to enhance Brazil's growth potential and address the structural constraints in Brazil's economy.

Weaknesses

- Relatively high government debt to GDP, which is expected to rise further
- Uneven growth track record
- Complexity of tax structure and business environment

Strengths

- Robust FDI inflows
- Comfortable forex reserves
- Large and diversified economy

Key Monitorables

- Implementation of tax and fiscal reforms

Key Rating Drivers

Economic Structure & Resilience

Brazil is a diverse and resource-rich economy. A variety of mineral resources (such as iron ore and petroleum) and agricultural products (including soybeans, sugar, and wood) contribute to Brazil's significant trade footprint (combined 69% of total exports in 2021) but also expose its economy to commodity price volatility. However, significant structural challenges such as infrastructure gaps, low investment levels, and a complex tax system have constrained Brazil's structural growth and have reflected in its tepid ten-year (2014-2023) average growth rate of just 0.5%. Brazil's GDP grew by 2.9% in 2023 on the back of a strong performance from agriculture and related sectors. However, growth is expected to moderate to around 2% annually over 2024-26.

Fiscal Strength

Brazil's weak fiscal position reflects its high debt, projected to reach 86.7% of GDP by the end of 2024, and further to 92% by 2027, together with a high interest to government revenue ratio of 21.7% in 2023. A small share of foreign currency-denominated debt helps mitigate these risks to some extent.

Brazil recorded a high fiscal deficit of 7.9% of GDP in 2023, driven by higher social benefits in line with the new administration's priorities and the extension of temporary pandemic-related tax cuts. Successful progress of the planned direct tax reform, aimed at generating additional revenues and reducing inefficient tax expenditures, and reforming the indirect tax system to introduce a uniform value-added tax, is crucial. A new fiscal framework approved in June 2023, linking the allowed increase in spending to revenue growth, marks an encouraging step towards potential fiscal consolidation.

External Position & Linkages

Brazil maintains a comfortable external position with robust foreign direct investment (FDI) net inflows, averaging 3.2% of GDP between 2019-2023, indicating investor confidence. Brazil also has a relatively low dependence on external debt financing compared to many of its Latin American peers, with external debt standing at 33.7% of GDP in 2023. Foreign exchange reserves of USD 355 billion in 2023 can cover 12 months of imports, providing sufficient liquidity to manage external shocks.

Brazil's external assessment is, however, partly constrained by a modest current account deficit of 1.4% of GDP in 2023 and its significant negative net international investment position, which stood at -44.5% of GDP in 2023

Monetary & Financial Stability

Brazil operates under a floating exchange rate regime. Brazil's Central Bank (BCB) gained operational autonomy in 2021. The National Monetary Council is responsible for setting inflation targets, which are currently set at 3.0% (+/- 1.5%) for 2024-2026. CPI inflation has decreased to 4.5% YoY in July 2024 amid lower food and energy costs, and is expected to further ease to 4.1% by the end of 2024. The financial sector appears to be resilient, with BCB's recent stress test indicating systemic risks are contained and the banking sector is comfortably capitalized, but some credit risks remain and warrant careful monitoring.

Institutions & Quality of Governance

Over the last decade, Brazil has grappled with governance challenges, including corruption, systemic complexities, and rising political polarisation. Bureaucratic inefficiencies and slow judicial processes have further impeded the effectiveness of its government. Despite these obstacles, the current administration has made progress on its legislative agenda, by relying on a diverse coalition. Moreover, Brazil's democratic institutions have shown resilience and notable legislative achievements, such as the tax reform aimed at simplifying the value-added tax system, indicate forward momentum.

Brazil – Select Indicators									
	Unit	2018	2019	2020	2021	2022	2023	2024 F	2025 F
Economic Indicators									
Nominal GDP	USD Billion	1917	1873	1476	1671	1952	2174	2331	2438
GDP Per Capita (Constant-PPP)	USD	15435	15547	14968	15599	15988	16357	16618	16882
Real GDP Growth	%	1.8	1.2	-3.3	4.8	3.0	2.9	2.2	2.1
GFCF/GDP	%	15.1	15.5	16.6	17.9	17.8	16.5	-	-
Gross Domestic Savings/GDP	%	15.5	14.9	16.7	20.1	18.5	18.5	-	-
Exports (G&S)/GDP	%	14.6	14.1	16.5	19.1	19.6	18.1	-	-
Working-Age (15-64) Population (% Share in Total)	%	69.9	69.9	69.9	69.9	69.9	69.8	69.7	69.6
Old-Age (65+) Population (% Share in Total)	%	8.7	9.0	9.3	9.6	9.9	10.2	10.6	11.0
Fiscal Indicators – General Government									
Fiscal Balance/GDP	%	-7.0	-5.0	-11.9	-2.5	-3.1	-7.9	-6.3	-5.5
Revenue/GDP	%	40.5	41.8	38.0	40.4	42.6	40.0	40.9	41.2
Expenditure/GDP	%	47.5	46.8	49.9	42.9	45.6	47.9	47.2	46.7
GG Gross Debt/GDP	%	84.8	87.1	96.0	88.9	83.9	84.7	86.7	89.3
GG External Debt (by Creditor)/GG Gross Debt	%	12.7	12.7	12.4	13.9	12.5	11.9	-	-
Interest/Revenue	%	23.7	18.9	16.8	18.1	20.4	21.7	-	-
External Indicators									
Current Account Balance/GDP	%	-2.9	-3.6	-1.9	-2.8	-2.5	-1.4	-1.4	-1.5
FDI, Net Inflows/GDP	%	4.1	3.7	2.6	2.8	3.8	3.0	-	-
Outstanding FII Liabilities/GDP	%	25.9	30.4	33.1	26.1	22.8	24.7	-	-
NIIP/GDP	%	-31.1	-41.9	-37.5	-36.3	-42.2	-44.5	-	-
Foreign Exchange Reserves	USD Billion	374.7	356.9	355.6	362.2	324.7	355.0	-	-
Import Cover	Months	16.7	15.8	18.5	14.2	10.4	12.3	-	-
External Debt/GDP	%	34.7	36.1	43.3	40.1	34.9	33.7	-	-
Monetary and Financial Indicators									
CPI Inflation	%	3.7	3.7	3.2	8.3	9.3	4.6	4.1	3.0
Exchange Rate (Average)	LC per USD	3.7	3.9	5.2	5.4	5.2	5.0	-	-
Non-Performing Loans/Total Gross Loans	%	2.6	2.7	1.9	2.1	2.6	2.8	-	-
Private debt, loans and debt securities/GDP	%	74.4	77.0	86.4	86.0	87.5	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long Term Foreign Currency (Unsolicited)	BB+	October 3, 2024

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Criteria Applied

CareEdge Sovereign Rating Methodology

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