

## Press Release

### **Brazil LT FC Sovereign Credit Rating Raised To Investment-Grade 'BBB-'; Outlook Stable**

NEW YORK April 30, 2008--Standard & Poor's Ratings Services said today that it raised its long-term foreign currency sovereign credit rating on the Federative Republic of Brazil to 'BBB-' from 'BB+', and its long-term local currency sovereign credit to 'BBB+' from 'BBB'. Standard & Poor's also raised its short-term foreign currency sovereign credit rating on Brazil to 'A-3' from 'B' and its short-term local currency rating to 'A-2' from 'A-3'. The outlook on the long-term ratings is stable. Standard & Poor's raised its transfer and convertibility assessment for Brazil to 'BBB+' from 'BBB'. The national scale credit rating on the republic was affirmed at 'brAAA'. Standard & Poor's withdrew its recovery rating of '3' on the republic, as such ratings are only assigned to speculative-grade foreign currency ratings.

According to Standard & Poor's credit analyst Lisa Schineller, Brazil is the 14th sovereign whose foreign currency debt has been raised to investment grade. "The upgrades reflect the maturation of Brazil's institutions and policy framework, as evidenced by the easing of fiscal and external debt burdens and improved trend growth prospects," said Ms. Schineller. "Net general government debt remains higher than that in many 'BBB' peers, but a fairly predictable track record of pragmatic fiscal and debt management policies mitigates this risk," she added.

Standard & Poor's said that the country's external debt net of liquid external assets has declined dramatically, with net debt amounting to a projected 3% of current account receipts (CAR) in 2008 from in excess of 100% of CAR as recently as 2004. While some deterioration is likely as the current account slips back into deficit, we expect the rise in the external debt burden to be modest.

Ms. Schineller explained that pragmatic macroeconomic policy strengthened the foundation for sustained real GDP growth of 4%-4.5%. A broader consumer market, capital market deepening, and increasing levels of formalization support improved investment prospects. Despite tighter global credit conditions, Brazil's maturing growth outlook continues to attract foreign direct investment (FDI), diverse in terms of size and destination. FDI inflows accumulated through April 2008 are estimated at US\$12.4 billion, on track to match last year's record

US\$34.6 billion. FDI is expected to cover the current account deficit, estimated at US\$20 billion for 2008.

"Inflation has trended higher in Brazil, to 4.7% in March 2008, owing not only to global food and energy price pressures but also to robust domestic demand," said Ms. Schineller. "In contrast with unchecked inflationary pressures in other lower-rated sovereigns, Brazil's central bank initiated a forward-looking tightening cycle on April 16, 2008, to ensure that the hard-won benefits associated with low inflation will be maintained," she added.

Fiscal policy and indicators are Brazil's foremost credit weaknesses. Net general government debt stood at 47% of GDP (including 7% of GDP in central bank repurchase operations) at year-end 2007, higher than in similarly rated credits and above 20% of GDP for the 'BBB' median. Fiscal results through March 2008 suggest the government is positioned to accommodate the absence of Contribuição Provisória sobre Movimentação Financeira (CPMF) revenue and generate a 3.8% of GDP nonfinancial public sector primary (noninterest) surplus—consistent with a 10-year track record of delivering on its primary targets.

Ms. Schineller said that the stable outlook balances Brazil's high level of government debt against maturing economic prospects and low net external indebtedness, and that improved creditworthiness should follow from a more pronounced decline in government debt and fiscal imbalances.

"Policy steps to reduce the level of, and rigidity in, current government spending, or both, would strengthen Brazil's fiscal stance and facilitate a further decline in real interest rates, with positive implications for investment and growth and a faster decline in the country's debt burden," noted Ms. Schineller. "Passage of tax or social security reform, which Standard & Poor's does not expect within the rating horizon, would be a positive shock to confidence and contribute to stronger creditworthiness. Conversely, if this or a future government's commitment to pragmatic fiscal and monetary policy weakens, if policy setbacks to the investment climate occur, or if the government fails to adequately respond to unforeseen shocks, the ratings could come under downward pressure," she concluded.

Complete ratings information is available to subscribers of RatingsDirect, the real-time Web-based source for Standard & Poor's credit ratings, research, and risk analysis, at [www.ratingsdirect.com](http://www.ratingsdirect.com). All ratings affected by this rating action can be found on Standard & Poor's public Web site at [www.standardandpoors.com](http://www.standardandpoors.com); select your preferred country or region, then Ratings in the left navigation bar, followed by Credit Ratings Search.

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