

## **FITCH RATING AGENCY UPGRADES BRAZIL TO BB**

The Fitch upgraded Brazil's credit rating from BB- to BB, with a stable outlook. The agency's decision corroborates the efforts undertaken by the government to strengthen the economic environment and promote fiscal consolidation.

The upgrade considers not only past efforts, but also expectations regarding the country's capacity and willingness to continue with the economic reform agenda. One of the highlights is the reform in consumption taxes, which is being discussed in the National Congress and aims to solve one of the biggest bottlenecks in Brazil's competitiveness: simplify the current complex tax system and eliminate distortions that lead to misallocation of capital.

The ongoing measures translate into positive numbers. The agency forecasts a real GDP growth of 2.3% in 2023 (from the previous 0.7%) and convergence to structural growth of 2.0% in the medium term. In addition, Fitch recognizes that efforts to improve the fiscal balance should lead the primary result to the ranges established by the fiscal framework, of 0% of GDP in 2024 and 0.5% of GDP in 2025. Thus, debt/GDP would increase in 2023 to 75%, rising marginally in the following years, but at a lower rate compared to past projections. In a scenario in which the fiscal balance stays at the center of the target range and with higher GDP growth, the debt is expected to stabilize. Progress on the reforms could lead to further improvements in these figures.

Still among the elements supporting Brazil's upgrade, the agency points out that Brazil is a large and diversified economy. The country demonstrates shock-absorbing capacity, supported by a flexible exchange rate, robust international reserves (US\$ 346 billion) and a sovereign net external creditor position. In public debt management, it highlights the position of the liquidity cushion (11% of GDP) and the predominant share of local currency in debt composition, with a well-developed domestic capital market. These are factors that provide flexibility to sovereign financing in Brazil.

Finally, Fitch points out that, despite persistent political altercations of recent years, they have not prevented progress in essential reforms to increase growth and improve public finances. The agency



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believes that governability and the approval of reforms, decisive elements for today's rating upgrade, will continue.

The Ministry of Finance reinforces its commitment to the ongoing reform agenda, which will not only lead to a stronger fiscal outlook but will also contribute to the reduction of interest rates and the improvement of credit conditions, while ensuring price stability. This will bring conditions for the growth of public and private investments, job creations, higher income and greater economic efficiency, essential elements for the economic and social development of the country.

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