

REPUBLIC OF BRAZIL

*EJR Sen Rating(Curr/Prj) BB-/ B+

*EJR CP Rating: B

Rating Analysis - 8/26/20

*EJR's 3 yr. Default Probability: 4.0%

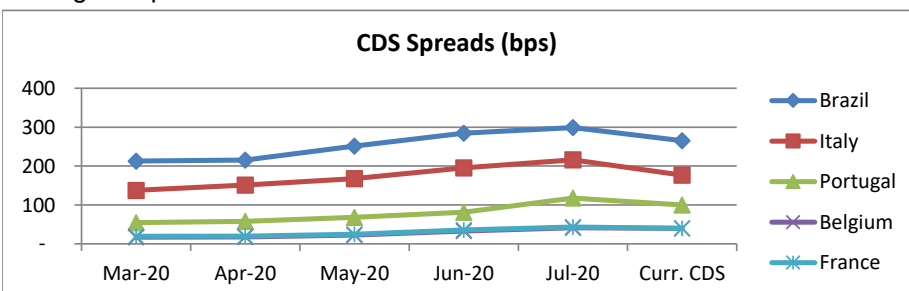
The Brazilian economy, amid very little signs of recovery from a long recession when the COVID-19 outbreak hit, is now projected to suffer a further deep recession. According to OECD, GDP is expected to fall by 9.1% in 2020 in the double-hit scenario, which assumes that a second wave of the pandemic will take place in the last quarter of 2020, and 7.4% in the single-hit scenario, which assumes there are no further outbreaks. As lockdown measures are eased and activity resumes, the economy is projected to recover slowly and partially, but some jobs and firms will not be able to survive. Unemployment will reach historic highs before receding gradually.

With the spike in oil prices, EJR expects headline inflation to pick up, but remain unconvinced that this would translate into core pressures. Brazil's GDP contracted 11.2% in Q2 compared to Q1 2020 - the collapse in April being the main reason for the quarter's negative performance. A positive being that in June alone, the Economic Activity Indicator (IAE) recorded a 0.7% increase over May. The limited fiscal space, exacerbated by the COVID19-related increase in public debt, calls for keeping the fiscal response temporary, suggests resuming efforts toward improving fiscal sustainability and public spending efficiency afterwards. Brazil is on course to post a record 800 billion reais budget deficit this year due to crisis-fighting expenditure, swelling the national debt to a high of around 95% of gross domestic product - an exceptional level for an emerging market economy. The conditions in South America are believed to get worse before they stabilize or get better. We are downgrading with a negative watch.

CREDIT POSITION	Annual Ratios (source for past results: IMF, CountryEconomy)					
	2017	2018	2019	P2020	P2021	P2022
Debt/ GDP (%)	83.7	87.0	91.6	101.5	113.2	126.7
Govt. Sur/Def to GDP (%)	-8.7	-7.2	-5.8	-7.2	-9.0	-11.2
Adjusted Debt/GDP (%)	83.7	87.0	91.6	101.5	113.2	126.7
Interest Expense/ Taxes (%)	38.6	37.0	30.4	31.0	31.7	32.5
GDP Growth (%)	5.0	4.6	5.4	2.3	2.3	2.5
Foreign Reserves/Debt (%)	21.4	21.2	16.5	15.8	11.9	11.3
Implied Sen. Rating	BBB-	BBB-	BBB-	BB+	BB	BB-

INDICATIVE CREDIT RATIOS	AA	A	BBB	BB	B	CCC
Debt/ GDP (%)	100.0	115.0	130.0	145.0	170.0	200.0
Govt. Sur/Def to GDP (%)	2.5	0.5	-2.0	-5.0	-8.0	-10.0
Adjusted Debt/GDP (%)	95.0	110.0	125.0	140.0	160.0	190.0
Interest Expense/ Taxes (%)	9.0	12.0	15.0	22.0	26.0	35.0
GDP Growth (%)	3.5	3.0	2.0	1.0	-1.0	-5.0
Foreign Reserves/Debt (%)	3.0	2.5	2.0	1.5	1.0	0.5

PEER RATIOS	Other NRSROs	Debt	Govt. Surp.	Adjusted	Interest	GDP	Ratio-
		as a % GDP	Def to GDP (%)	Debt/ GDP	Expense/ Taxes %	Growth (%)	Implied Rating*
Federal Republic of Germany	AAA	59.8	1.6	59.8	3.3	2.5	AA
French Republic	AA	98.1	-2.5	98.1	4.7	2.9	A+
Kingdom of Belgium	AA	98.7	-1.5	98.7	6.6	4.8	AA+
Republic of Italy	BBB-	134.8	-2.1	134.8	11.7	1.6	BBB+
Portugal Republic	BB+	117.7	-0.7	117.7	12.0	3.9	AA-

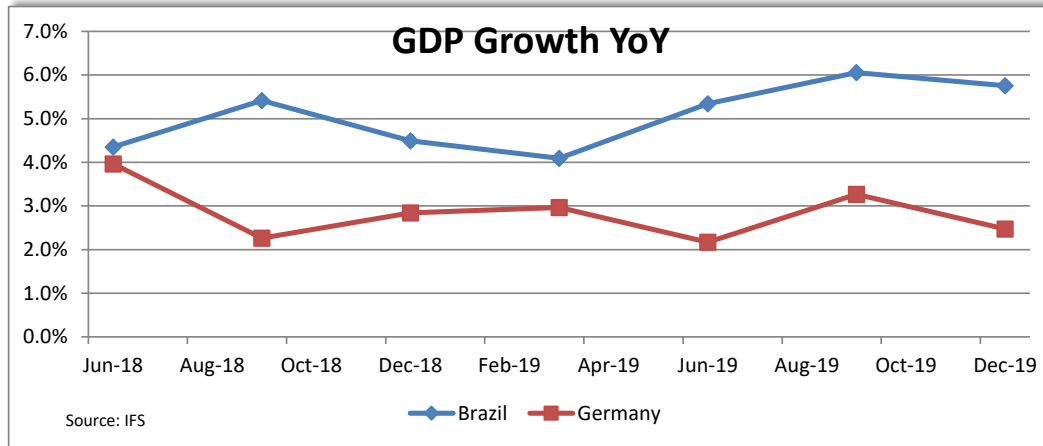


(Source: Thomson Reuters)

Country	EJR Rtg.	CDS
Brazil	BB-	265
Italy	BBB-	177
Portugal	BBB-	100
Belgium	BBB	40
France	A+	40

Economic Growth

Early indicators of activity and demand point to a sharp contraction since the beginning of the lockdown measures. Confidence and purchasing manager expectations have fallen sharply, while an early indicator of retail sales based on payment card transactions suggests average declines of 30% between 1 March and 30 May. Data to mid-July show that barely 81 million of Brazil's 170 million working-age population is at work, a figure that has fallen by an alarming 3 million in July. The underemployment rate is a record high 27.5% and set to rise further.



Fiscal Policy

Fiscal policy responses to the pandemic have been bold and sizeable, with a total fiscal impact exceeding 6% of GDP and a strong focus on the most vulnerable groups, including informal workers. Income support measures for low-income workers (2.9% of GDP) have included a new temporary emergency benefit of USD 120 per month for informal or unemployed workers earning less than half the minimum wage. The recovery in 2021 would be moderate in this scenario, with projected growth of 2.4%. A higher fiscal deficit will add at least 10 percentage points of GDP to gross public debt, which will exceed 90% of GDP at the end of 2020.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Brazil	-5.81	91.57	264.85
Germany	1.58	59.76	22.28
France	-2.53	98.12	39.75
Belgium	-1.52	98.75	39.72
Italy	-2.09	134.80	176.76
Portugal	-0.69	117.74	99.99

Sources: Thomson Reuters and IFS

Unemployment

The unemployment rate in Brazil jumped to 13.3% in the three months to June 2020 from 12.2% in the previous quarter and above market expectations of 13.2%. It was the highest jobless rate since the three months to May 2017, as the coronavirus pandemic hit the labor market. The number of unemployed fell by 0.5% to 12.79 million and employment declined by 9.6% to 83.35 million. The labor force participation rate dropped by 5.7% to a fresh record low of 55.3% and the employment rate went down by 5.6% to a new all-time low of 47.9%.

	Unemployment (%)	
	2018	2019
Brazil	12.26	11.93
Germany	3.40	3.20
France	9.11	8.43
Belgium	5.98	5.44
Italy	10.62	9.90
Portugal	7.05	6.33

Source: Intl. Finance Statistics

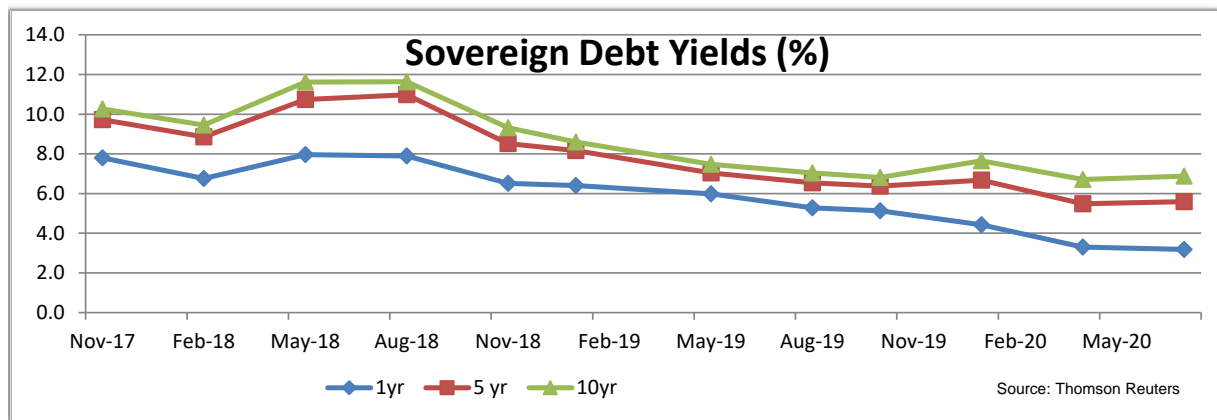
Banking Sector

Monetary policy support has taken the form of two rate cuts of a joint 125 basis points, combined with prudential and regulatory measures that would allow additional credit extension of up to 17% of GDP. Policy support for SMEs (1.4% of GDP) includes a low-interest credit line to cover wages for employees earning up to two-times minimum wages, with 85% of the credit risk borne by the federal government. Additional new corporate credit lines will be created by the national development bank. The market reaction to deteriorating fiscal accounts entails significant risks. Interest rates have recently declined on the back of improving fiscal prospects, but this could reverse if confidence about a resumption of this trend after the crisis were to fade. Loans to Private Sector in Brazil increased to BRL 574,887 Million in June from BRL 565,136 Million in May 2020.

Bank Assets (billions of local currency)		
	Assets	Mkt Cap/ Assets %
BANK OF BRAZIL	1,469.2	6.48
Total	<u>1,469.2</u>	
EJR's est. of cap shortfall at 10% of assets less market cap		51.6
Brazil's GDP		7,259.2

Funding Costs

Brazil 5 Years CDS valued is at 222.7 which reveals a 3.71% implied probability of default, on a supposed 40% recovery rate. The Brazil 5 Years Sovereign CDS reached a maximum value of 374.9 (19 March 2020) and a minimum yield of 91.8 (20 February 2020). In early Aug., Brazil's 10-year (real) yields surged 51 bps to 7.27% - trading to the highest yields since April.



Ease of Doing Business

Major factors for growing the economy are the ease of doing business and the economic freedom; although not the sole factor for determining economic growth, a country which makes it easy for businesses to operate and provides a reasonably free environment to conduct business has a good chance for growth. The chart on the right indicates that with an overall rank of 124 (1 is best, 189 worst)

The World Bank's Doing Business Survey*			
	2019	2018	Change in
	Rank	Rank	Rank
Overall Country Rank:	124	125	1
Scores:			
Starting a Business	138	176	38
Construction Permits	170	170	0
Getting Electricity	98	45	-53
Registering Property	133	131	-2
Getting Credit	104	105	1
Protecting Investors	61	43	-18
Paying Taxes	184	184	0
Trading Across Borders	108	139	31
Enforcing Contracts	58	47	-11
Resolving Insolvency	77	80	3

* Based on a scale of 1 to 189 with 1 being the highest ranking.

Economic Freedom

As can be seen below, Brazil is mediocre in its overall rank of 53.7 for Economic Freedom with 100 being best.

Heritage Foundation 2020 Index of Economic Freedom				
World Rank 53.7*				
	2020 Rank**	2019 Rank	Change in Rank	World Avg.
Property Rights	57.3	57.3	0.0	56.6
Government Integrity	45.6	51.7	-6.1	43.8
Judicial Effectiveness	46.7	28.1	18.6	45.1
Tax Burden	70.4	70.5	-0.1	77.3
Gov't Spending	54.6	55.2	-0.6	66.0
Fiscal Health	4.6	5.9	-1.3	69.1
Business Freedom	60.5	57.9	2.6	63.3
Labor Freedom	49.5	51.9	-2.4	59.4
Monetary Freedom	77.2	75.5	1.7	74.6
Trade Freedom	67.8	69.0	-1.2	73.8

*Based on a scale of 1-100 with 100 being the highest ranking.
 **The ten economic freedoms are based on a scale of 0 (least free) to 100 (most free).
 Source: The Heritage Foundation

Credit Quality Driver: Taxes Growth:

REPUBLIC OF BRAZIL has grown its taxes of 5.8% per annum in the last fiscal year which is more than the average for its peers. We expect tax revenues will grow approximately 5.8% per annum over the next couple of years and 5.2% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:

REPUBLIC OF BRAZIL's total revenue growth has been more than its peers and we assumed a 6.8% growth in total revenue over the next two years.

Income Statement	Peer Median	Issuer Avg.	Assumptions	
			Yr. 1&2	Yr. 3,4,5
Taxes Growth%	2.7	5.8	5.8	5.2
Social Contributions Growth %	3.2	7.3	7.0	7.0
Grant Revenue Growth %	0.0	NMF		
Other Revenue Growth %	0.0	19.9	5.2	5.2
Other Operating Income Growth%	0.0	(96.6)	(10.0)	(10.0)
Total Revenue Growth%	2.8	8.3	6.8	6.1
Compensation of Employees Growth%	3.1	6.2	6.2	6.2
Use of Goods & Services Growth%	2.3	1.6	1.6	1.6
Social Benefits Growth%	3.8	9.8	9.8	9.8
Subsidies Growth%	7.3	(29.4)		
Other Expenses Growth%	75.1	75.1	40.0	36.0
Interest Expense	1.8	8.0	8.0	8.0
Currency and Deposits (asset) Growth%	(2.3)	0.0		
Securities other than Shares LT (asset) Growth%	8.9	0.0		
Loans (asset) Growth%	0.8	(35.0)	5.8	5.8
Shares and Other Equity (asset) Growth%	9.7	0.0		
Insurance Technical Reserves (asset) Growth%	1.6	0.0		
Financial Derivatives (asset) Growth%	11.4	0.0		
Other Accounts Receivable LT Growth%	1.8	0.0		
Monetary Gold and SDR's Growth %	0.0	0.0	5.0	5.0
Other Assets Growth%	0.0	0.0		
Other Accounts Payable Growth%	(1.4)			
Currency & Deposits (liability) Growth%	1.0	0.0		
Securities Other than Shares (liability) Growth%	6.8	8.4	5.9	5.9
Loans (liability) Growth%	(2.4)	8.8	8.8	8.8
Insurance Technical Reserves (liability) Growth%	0.0	0.0		
Financial Derivatives (liability) Growth%	5.9	0.0		
Additional ST debt (1st year)(billions BRL)	0.0	0.0		

ANNUAL OPERATING STATEMENTS

Below are REPUBLIC OF BRAZIL's annual income statements with the projected years based on the assumptions listed on page 5.

**ANNUAL REVENUE AND EXPENSE STATEMENT
(BILLIONS BRL)**

	2016	2017	2018	2019	P2020	P2021
Taxes	1,445	1,526	1,659	1,754	1,856	1,963
Social Contributions	674	714	747	801	858	918
Grant Revenue						
Other Revenue	464	392	437	524	552	581
Other Operating Income	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total Revenue	2,583	2,632	2,843	3,080	3,265	3,461
Compensation of Employees	814	866	911	968	1,027	1,091
Use of Goods & Services	330	342	377	383	389	395
Social Benefits	1,057	1,198	1,218	1,336	1,467	1,610
Subsidies	28	23	25	18	18	18
Other Expenses	104	82	85	149	209	292
Grant Expense						
Depreciation	96	101	107	115	115	115
Total Expenses excluding interest	<u>2,434</u>	<u>2,616</u>	<u>2,726</u>	<u>2,969</u>	<u>3,224</u>	<u>3,521</u>
Operating Surplus/Shortfall	149	16	117	111	41	-59
Interest Expense	<u>624</u>	<u>589</u>	<u>613</u>	<u>533</u>	<u>576</u>	<u>622</u>
Net Operating Balance	-475	-573	-496	-422	-535	-681

ANNUAL BALANCE SHEETS

Below are REPUBLIC OF BRAZIL's balance sheets with the projected years based on the assumptions listed on page 5.

Base Case	ANNUAL BALANCE SHEETS					
ASSETS	(BILLIONS BRL)					
	2016	2017	2018	2019	P2020	P2021
Currency and Deposits (asset)	1,375	1,487	1,755	1,978	1,978	1,978
Securities other than Shares LT (asset)						
Loans (asset)	484	457	350	227	240	254
Shares and Other Equity (asset)						
Insurance Technical Reserves (asset)					0	0
Financial Derivatives (asset)						
Other Accounts Receivable LT					0	0
Monetary Gold and SDR's						
Other Assets					0	0
Additional Assets	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>		
Total Financial Assets	1,859	1,944	2,105	2,205	2,219	2,233
LIABILITIES						
Other Accounts Payable						
Currency & Deposits (liability)					0	0
Securities Other than Shares (liability)	4,581	5,157	5,610	6,080	6,437	6,815
Loans (liability)	273	292	328	357	892	1,573
Insurance Technical Reserves (liability)						
Financial Derivatives (liability)						
Other Liabilities	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Liabilities	4,854	5,449	5,938	6,437	6,986	7,681
Net Financial Worth	<u>-2,995</u>	<u>-3,505</u>	<u>-3,833</u>	<u>-4,232</u>	<u>-4,767</u>	<u>-5,448</u>
Total Liabilities & Equity	1,859	1,944	2,105	2,205	2,219	2,233

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Egan-Jones is not an NRSRO (as defined by the SEC) for sovereign/municipal issuers and structured finance/ABS issuers.

Comments on the Difference between the Model and Assigned Rating

In this case, there has been little change in the recent results and therefore we have used our best judgement in making adjustments which are reflected in the results for the projected ratings. We have assigned a rating of "BB-" whereas the ratio-implied rating for the most recent period is "BBB-"; the median rating for the peers is significantly higher than the issuer's rating.

Changes in Indicative Ratio

We have not made any adjustment in the indicative ratios at this time.

SEC Rule 17g-7(a) Disclosure (Non-NRSRO)

Below are the disclosures as required by Paragraph (a) of Rule 17g-7.

1. The symbol in the rating scale used to denote the credit rating categories and notches within categories and the identity of the obligor, security, or money market instrument as required by Paragraph (a)(1)(ii)(A) of Rule 17g-7:

For the issuer REPUBLIC OF BRAZIL with the ticker of 1323Z BZ we have assigned the senior unsecured rating of BBB-. There are three notches in our rating categories (e.g., A-, A, and A+) except for AAA and those deep into speculative grade, i.e., CC, C, and D do not have notches.

2. The version of the procedure or methodology used to determine the credit rating as required by Paragraph (a)(1)(ii)(B) of Rule 17g-7:

We are using the Methodologies for Determining Credit Ratings (Main Methodology) version #15 available via egan-jones.com under the tab at the bottom of the page "Methodologies".

3. The main assumptions and principles used in constructing the procedures and methodologies used to determine the credit rating as required by Paragraph (a)(1)(ii)(C) of Rule 17g-7:

The credit rating assigned reflects our judgement regarding the future credit quality of the issuer. Regarding the specific assumptions used, please refer to projections on pages 1, 6, and 7 of this Rating Analysis Report.

4. The potential limitations of the credit rating as required by Paragraph (a)(1)(ii)(D) of Rule 17g-7:

Our rating pertains solely to our view of current and prospective credit quality. Our rating does not address pricing, liquidity, or other risks associated with holding investments in the issuer.

5. Information on the uncertainty of the credit rating as required by Paragraph (a)(1)(ii)(E) of Rule 17g-7:

Our rating is dependent on numerous factors including the reliability, accuracy, and quality of the data relied upon in determining the credit rating. The data is sourced from publicly available information from the IMF and other similar sources. In some cases, the information is limited because of issues such as the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such issues are not always readily apparent. EJR aims to identify such shortcomings and make adjustments using its best judgement.

6. Whether and to what extent third-party due diligence services have been used in taking the rating action as required by Paragraph (a)(1)(ii)(F) of Rule 17g-7:

EJR does not utilize third-party due diligence services.

7. How servicer or remittance reports were used, and with what frequency, to conduct surveillance of the credit rating as required by Paragraph (a)(1)(ii)(G) of Rule 17g-7:

Servicer or remittance reports normally pertain to structured finance issuers; this report does not pertain to a structured finance issuer (EJR is not an NRSRO for structured finance or sovereigns/ municipal issuers). Regarding surveillance, the minimum time period for corporation issuers is normally one year.

8. A description of the data that were relied upon for the purpose of determining the credit rating as required by Paragraph (a)(1)(ii)(H) of Rule 17g-7:

EJR uses publicly available information from the IMF, governmental filings, and other similar sources for ratings on sovereign issuers.

9. A statement containing an overall assessment of the quality of information available and considered in the credit rating as required by Paragraph (a)(1)(ii)(I) of Rule 17g-7:

The information is generally adequate and acceptable.

10. Information relating to conflicts of interest as required by Paragraph (a)(1)(ii)(J) of Rule 17g-7:

This rating is unsolicited.

11. An explanation or measure of the potential volatility of the credit rating as required by Paragraph (a)(1)(ii)(K) of Rule 17g-7:

Our rating aims to assess the probability of the payment of obligations in full and on-time. Factors which affect such probability, and in turn our rating include changes in the operating performance of the issuer, changes in capital structure, and merger and acquisition events.

12. Information on the content of the credit rating as required by Paragraph (a)(1)(ii)(L) of Rule 17g-7:

Regarding the historical performance of the credit rating, our rating transition matrix is available in our Form NRSRO, exhibit 1. The expected probability of default and the expected loss in the event of default is listed on the first page of this report.

13. Information on the sensitivity of the credit rating to assumptions as required by Paragraph (a)(1)(ii)(M) of Rule 17g-7:

Below is a summary of the impact of the 5 assumptions which independently would have the greatest impact on our "ratio-implied rating":

	Assumptions			Resulting Ratio-Implied Rating		
	Base	Optimistic	Pessimistic	Base	Optimistic	Pessimistic
Taxes Growth%	5.8	9.8	1.8	BB	BB+	BB
Social Contributions Growth %	7.0	10.0	4.0	BB	BB+	BB
Other Revenue Growth %	5.2	8.2	2.2	BB	BB+	BB
Total Revenue Growth%	6.8	8.8	4.8	BB	BB	BB
Monetary Gold and SDR's Growth %	0.0	2.0	(2.0)	BB	BB	BB

14. If the credit rating is assigned to an asset-backed security, a description of: (i) the representations, warranties, and enforcement mechanisms available to investors; and (ii) how they differ from the representations, warranties, and enforcement mechanisms in issuances of similar securities, as required by Paragraph (a)(1)(ii)(N) of Rule 17g-7:

This credit rating is not assigned to an asset-backed security.

ATTESTATION FORM

In compliance with the US Securities and Exchange Commission (SEC) Rule 17g-7(a), the Egan-Jones analyst who published the report is responsible for the rating action and to the best knowledge of the person:

- 1) No part of the credit rating was influenced by any other business activities,
- 2) The credit rating was based solely upon the merits of the obligor, security, or money market instrument being rated, and
- 3) The credit rating was an independent evaluation of the credit risk of the obligor, security, or money market instrument.

Analyst Signature:

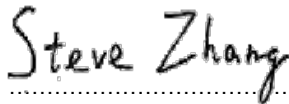


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Subramanian NG
Senior Rating Analyst

Today's Date

August 26, 2020
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Reviewer Signature:



.....
Steve Zhang
Senior Rating Analyst

Today's Date

August 26, 2020
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Sovereign Rating Methodology (Non-NRSRO)

Scope and Limitations: Sovereign Issuer Credit Quality Ratings (CQR) are a forward-looking assessment of a sovereign's capacity and willingness to honor its existing and future obligations in full and on time. Sovereigns are assigned two CQRs: a Local-Currency CQR, which reflects the likelihood of default on debt issued and payable in the currency of the sovereign, and a Foreign-Currency CQR, which is an assessment of the credit risk associated with debt issued and payable in foreign currencies.

Key Rating Drivers: EJR's approach to sovereign risk analysis is a synthesis of quantitative and qualitative judgments. The quantitative factors EJR uses are:

- Debt in relation to GDP.
- Surplus or deficit in relation to GDP.
- Debt plus potential under-funding of major banks in relation to GDP.
- Interest expense in relation to taxes.
- GDP growth.
- Foreign reserves in relation to debt.

Debt levels for many sovereign issuers have increased at an accelerating rate over the past decade, affecting implied ratings. EJR also considers unemployment levels and funding costs. EJR recognizes that no model can fully capture all the relevant influences on sovereign creditworthiness, meaning that its sovereign ratings can and do differ from those implied by the rating model. Some of the qualitative factors that impact its ultimate assessment of credit quality include the flexibility, stability and overall strength of the economy, efficiency of tax collection, acceptance of contract law, ease of doing business, trade balances, prospects for future growth and health and monetary policy, and economic freedom. These subjective and dynamic qualitative issues are not captured by the model but affect sovereign ratings.

For additional information, please see Exhibit 2: Methodologies in EJR's Form NRSRO.