REPUBLIC OF BRAZIL

Rating Analysis - 9/3/21

EJR Sen Rating(Curr/Prj) BB-/ NR

EJR CP Rating: B

EJR's 3 yr. Default Probability: 4.0%

Despite a high number of infections and fatalities, the economy recovered strongly at the end of 2020. GDP growth is expected to reach 3.7% in 2021 and 2.5% in 2022, driven by a progressive increase in household consumption and investment. Increasing inflation is making the fiscal and monetary policy mix more complicated. The Govt. has limited space for further fiscal support as public debt approaches 90% of GDP.

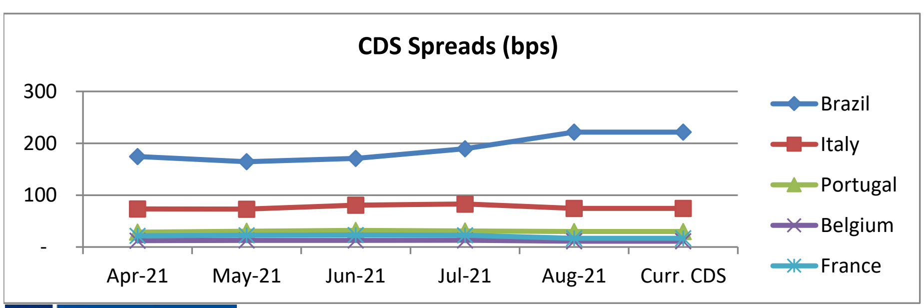
GDP above the pre-pandemic levels, but will remain below the previous trend of growth for longer. Q2 GDP fell 0.2% seq. saar, particularly because the negative effect from the agricultural sector and stronger inventories. This is the first decline of GDP since Q2'20 as the recovery started in the second half of last year, while the IPCA inflation increased 9.1% seq., SAAR in Q2. The July industrial production report suggests that supply constraints particularly over auto production continue affecting the sector. In July, IP fell 1.3% M/M SAAR, now standing roughly 2% below the pre-crisis level.   Given the recent tightening of financial conditions and the worsening of the water and electricity generation crisis, which among other effects impact the agricultural output and reduce disposable income as prices are increasing. We are affirming with a developing watch.

Annual Ratios (source for past results: IMF)

CREDIT POSITION	2018	2019	2020	P2021	P2022	P2023
Debt/ GDP (%)	85.6	89.7	97.4	106.2	115.5	119.5
Govt. Sur/Def to GDP (%)	-7.1	-5.5	-11.9	-14.1	-16.0	-16.9
Adjusted Debt/GDP (%)	85.6	89.7	97.4	106.3	115.5	119.6
Interest Expense/ Taxes (%)	37.0	30.1	25.4	25.9	26.5	26.4
GDP Growth (%)	6.4	5.8	0.6	5.8	5.2	5.2
Foreign Reserves/Debt (%)	21.9	19.8	22.8	18.2	17.6	14.1
Implied Sen. Rating	BBB	BBB	BB+	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

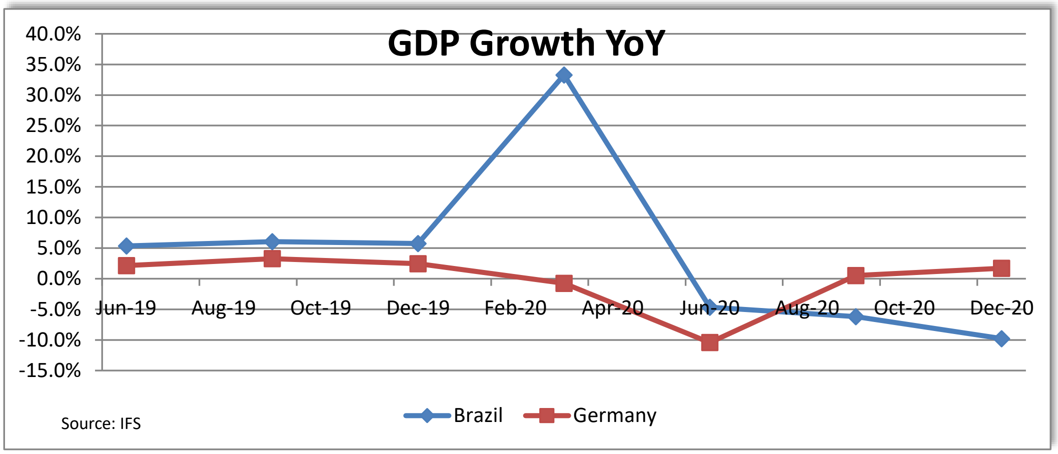
PEER RATIOS	Other NRSRO Sen.	Debt as a % GDP	Govt. Surp. Def to GDP (%)	Adjusted Debt/ GDP	Interest Expense/ Taxes %	GDP Growth (%)	Ratio-Implied Rating*
Federal Republic Of Germany	AAA	79.7	-4.2	79.7	2.9	-3.3	A+
French Republic	AA	145.9	-8.8	145.9	4.2	-5.5	BBB
Kingdom Of Belgium	AA	142.4	-9.0	142.4	6.5	-5.3	BB+
Republic Of Italy	BBB	184.1	-9.7	184.1	11.9	-7.8	BB-
Portugal Republic	BBB	155.1	-6.3	155.1	11.8	-5.4	BB



Country	EJR Rtg.	CDS
Brazil	BB-	222
Italy	BBB-	74
Portugal	BBB-	30
Belgium	BBB	11
France	A+	17

Economic Growth

The GDP declined slightly in the Q2'21 (-0.1% QoQ and 12.4% YoY), lower than consensus expectations (0.2% QoQ and 12.7% YoY). As expected, the GDP performance in the Q2'21 was hurt by the contraction in the industry (-0.2% QoQ), but favored by the expansion in the services sector (0.7% QoQ). On the supply side, private consumption kept flat, while investments plummeted by 3.6% QoQ. With this result, the GDP is now slightly lower (-0.1%) than pre-pandemic's level (Q4'19). Looking forward, EJR expects GDP to resume a gradual growth acceleration until year end, and move towards OECD's estimate of +3.7% in 2021 and +2.5% in 2022. There are rising downside risks in 2022 GDP growth estimate. linked to the potential effects of the ongoing longer monetary policy normalization on activity front.



Fisical Policy

According to the National Treasury, Central Government's primary fiscal deficit came in at BRL 19.8 Billion in Jul'21 (-73.0% MoM and -77.4% YoY). Tax collection has been surprising to the upside (+50.5% YoY), which is still being partially compensated by a slower decrease of spending (-10.8% YoY) as the government is still maintaining some COVID-19-related fiscal measures, such as the emergency aid. Now, 12-month primary fiscal deficit is at BRL311.6billion, or 3.8% of GDP (from BRL379.3billion, or 4.7% of GDP in Jun21). EJR sees long-term fiscal risks piling up and media reports point at a BRL 12.0 Billion primary fiscal deficit coming from the Public Sector in Jul21 (central government + SOEs + regional governments).

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Brazil	-11.87	97.38	221.50
Germany	-4.19	79.69	10.21
France	-8.79	145.87	16.80
Belgium	-8.97	142.45	11.16
Italy	-9.72	184.12	74.36
Portugal	-6.26	155.13	30.12

Sources: Thomson Reuters and IFS

Unemployment

Brazil's unemployment rate dropped to 14.1% in the second quarter of 2021, from 14.7% in the March quarter, and compared to market expectations of 14.4%. From April to June, the pandemic in Brazil was under control despite new covid-19 cases hitting a record in June, while economic activity showed signs of improvement. The unemployed population shrank by 361 thousand persons to 14.44 million, while the number of employed people surged by 2,141 thousand people to 87.79 million. Meanwhile, the labour force participation rate inched up by 0.9%age points to 57.7% and the employment rate rose 1.2 %age points to 49.6%.

Unemployment (%)

	2019	2020
Brazil	11.93	13.25
Germany	3.20	4.31
France	8.43	8.62
Belgium	5.36	5.55
Italy	9.95	9.31
Portugal	6.46	7.20

Source: Intl. Finance Statistics

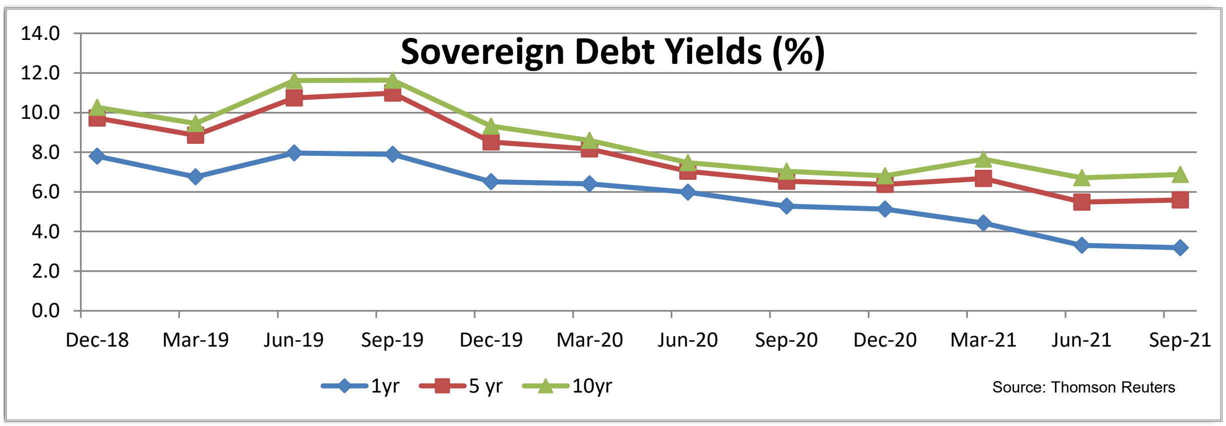
Banking Sector

According to Brazilian Central Bank, trends for the system have been stable for Q2'21 particularly for loan growth and NPLs, though a sequential improvement in spreads, helped by business loans have been noticed. System loans grew 16.2% Y-o-Y, driven by private domestic banks (+26.4% Y-o-Y), while foreign (+13.1% Y-o-Y) and public players (9.1% Y-o-Y) grew below industry pace. Individual loans were up 20.1% Y-o-Y, faster than loans to companies at +13.1% Y-o-Y. Notably, spreads increased 20bps M-o-M, mostly driven by better companies (+50bps M-o-M) more than offsetting lower individuals' spreads (-30bps M-o-M).

Bank Assets (billions of local currency)	Assets	Mkt Cap/ Assets %
BANK OF BRAZIL	1,725.7	5.05
Total	1,725.7	
EJR's est. of cap shortfall at 10% of assets less market cap		85.4
Brazil's GDP		7,447.9

Funding Costs

Brazil's central bank on Wednesday announced its fourth interest rate hike in 2021 and the biggest in almost two decades, raising the Selic rate by 100 basis points to 5.25%. The Committee aims to prevent high current inflation from spilling over into next year and foresees another adjustment of the same magnitude in September. With no inflation relief in sight, market opinion is divided over whether the Central Bank will signal aggressive monetary tightening ahead or scrap all guidance for the year's final meetings. The Brazil 10Y Government Bond has a 10.711% yield and the 10 Years vs 2 Years bond spread is 183.1 bps.



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*

	2021 Rank	2020 Rank	Change in Rank
Overall Country Rank:	**124**	**124**	**0**
Scores:			
Starting a Business	138	138	0
Construction Permits	170	170	0
Getting Electricity	98	98	0
Registering Property	133	133	0
Getting Credit	104	104	0
Protecting Investors	61	61	0
Paying Taxes	184	184	0
Trading Across Borders	108	108	0
Enforcing Contracts	58	58	0
Resolving Insolvency	77	77	0

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

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Economic Freedom

As can be seen below, Brazil is mediocre in its overall rank of 53.4 for Economic Freedom with 100 being best.

Heritage Foundation 2021 Index of Economic Freedom
World Rank 53.4*

	2021 Rank**	2020 Rank	Change in Rank	World Avg.
Property Rights	55.0	57.3	-2.3	53.6
Government Integrity	45.5	45.6	-0.1	45.9
Judical Effectiveness	47.5	46.7	0.8	45.4
Tax Burden	70.1	70.4	-0.3	77.7
Gov't Spending	56.5	54.6	1.9	67.1
Fiscal Health	5.3	4.6	0.7	72.1
Business Freedom	58.0	60.5	-2.5	63.2
Labor Freedom	50.7	49.5	1.2	59.5
Monetary Freedom	77.8	77.2	0.6	74.7
Trade Freedom	64.6	67.8	-3.2	70.7

*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 seen a decline in taxes of 2.2% per annum in the last fiscal year which is disappointing. We expect tax revenues will decline by approximately 2.2% per annum over the next couple of years and 0.5% per annum for the next couple of years thereafter.

Credit Quality Driver: Total Revenue Growth:
REPUBLIC OF BRAZIL's total revenue growth has been less than its peers and we assumed no decline in total revenue over the next two years.

Income Statement	Peer Median	Issuer Avg.	Assumptions Yr 1&2	Assumptions Yr 3,4,5
Taxes Growth%	(6.5)	(2.2)	**(2.2)**	**0.5**
Social Contributions Growth %	(1.2)	(1.6)	**0.5**	**0.5**
Grant Revenue Growth %	0.0	22.1	**15.0**	**15.0**
Other Revenue Growth %	0.0	(33.9)	**(2.0)**	**(2.0)**
Other Operating Income Growth%	0.0	122.6	**(4.4)**	**(4.4)**
Total Revenue Growth%	(5.0)	(7.3)	**(7.3)**	**(6.6)**
Compensation of Employees Growth%	2.9	0.3	**0.3**	**0.3**
Use of Goods & Services Growth%	2.2	2.3	**2.3**	**2.3**
Social Benefits Growth%	8.0	26.7	**16.6**	**18.6**
Subsidies Growth%	28.1	(29.4)		
Other Expenses Growth%	(13.6)	(13.6)	**(13.6)**	**(13.6)**
Interest Expense	1.8	0.0		
Currency and Deposits (asset) Growth%	22.9	0.0		
Securities other than Shares LT (asset) Growth%	2.2	0.0		
Loans (asset) Growth%	(108.8)	(92.4)	**(2.2)**	**(2.2)**
Shares and Other Equity (asset) Growth%	(30.6)	0.0		
Insurance Technical Reserves (asset) Growth%	1.7	0.0		
Financial Derivatives (asset) Growth%	2.0	0.0		
Other Accounts Receivable LT Growth%	2.6	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%	2.9			
Currency & Deposits (liability) Growth%	0.7	0.0		
Securities Other than Shares (liability) Growth%	14.4	13.2	**9.2**	**9.2**
Loans (liability) Growth%	2.4	18.6	**18.6**	**16.7**
Insurance Technical Reserves (liability) Growth%	10.3	0.0		
Financial Derivatives (liability) Growth%	5.5	0.0		
Additional ST debt (1st year)(billions BRL)	0.0	0.0		

EJR Sen Rating(Curr/Prj) BB-/ NR
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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)

	2017	2018	2019	2020	P2021	P2022
Taxes	1,523	1,658	1,751	1,712	1,674	1,637
Social Contributions	723	758	810	797	801	805
Grant Revenue	0	0	0	0	0	0
Other Revenue	372	420	512	339	332	325
Other Operating Income	0	0	0	0	0	0
Total Revenue	2,618	2,837	3,073	2,847	2,807	2,768
Compensation of Employees	866	910	957	960	963	965
Use of Goods & Services	326	357	383	392	401	410
Social Benefits	1,197	1,215	1,334	1,689	1,970	2,297
Subsidies	23	25	17	12	12	12
Other Expenses	94	105	142	123	106	92
Grant Expense	4	4	2	4	7	11
Depreciation	101	107	115	121	121	121
Total Expenses excluding interest	2,611	2,722	2,951	3,298	3,580	3,909
Operating Surplus/Shortfall	8	114	122	-450	-773	-1,141
Interest Expense	589	613	526	434	434	434
Net Operating Balance	-582	-499	-405	-884	-1,207	-1,575

EJR Sen Rating(Curr/Prj) BB-/ NR
EJR CP Rating: B
EJR's 3 yr. Default Probability: 4.0%

ANNUAL BALANCE SHEETS

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

	ANNUAL BALANCE SHEETS (BILLIONS BRL)					
Base Case						
ASSETS	2017	2018	2019	2020	P2021	P2022
Currency and Deposits (asset)	1,487	1,755	1,978	2,110	2,110	2,110
Securities other than Shares LT (asset)						
Loans (asset)	-22	-110	-122	-9	-9	-9
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					232	232
Additional Assets	479	459	350	232		
Total Financial Assets	1,944	2,105	2,205	2,333	2,333	2,333
LIABILITIES						
Other Accounts Payable						
Currency & Deposits (liability)					0	0
Securities Other than Shares (liability)	5,157	5,610	6,080	6,882	7,517	8,211
Loans (liability)	292	328	357	424	1,631	3,206
Insurance Technical Reserves (liability)						
Financial Derivatives (liability)						
Other Liabilities	0	0	0	0	0	0
Liabilities	5,449	5,938	6,437	7,306	8,513	10,089
Net Financial Worth	-3,505	-3,833	-4,232	-4,973	-6,180	-7,756
Total Liabilities & Equity	1,944	2,105	2,205	2,333	2,333	2,333

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 "BB+"; 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 BB-. 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 #15a 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 used 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%	(2.2)	1.8	(6.2)	BB+	BB+	BB+
Social Contributions Growth %	0.5	3.5	(2.5)	BB+	BB+	BB+
Other Revenue Growth %	(2.0)	1.0	(5.0)	BB+	BB+	BB+
Total Revenue Growth%	(7.3)	0.1	(9.3)	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:

……………………………………………………..
Subramanian NG
Senior Rating Analyst

Today's Date

September 03, 2021
……………………………………….

Reviewer Signature:

Steve Zhang
……………………………………………………..
Steve Zhang
Senior Rating Analyst

Today's Date

September 03, 2021
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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.