REPUBLIC OF BRAZIL

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

Rating Analysis - 8/16/24

Recent economic activity data have shown higher growth rates in various components of demand, demonstrating the resilience of domestic activity and the sustained consumption over time. This contrasts with the originally anticipated scenario of gradual deceleration. New upward surprises in activity have been concentrated in Gross Fixed Capital Formation and household consumption, primarily driven by the labor market, social benefits, and court-ordered payments.

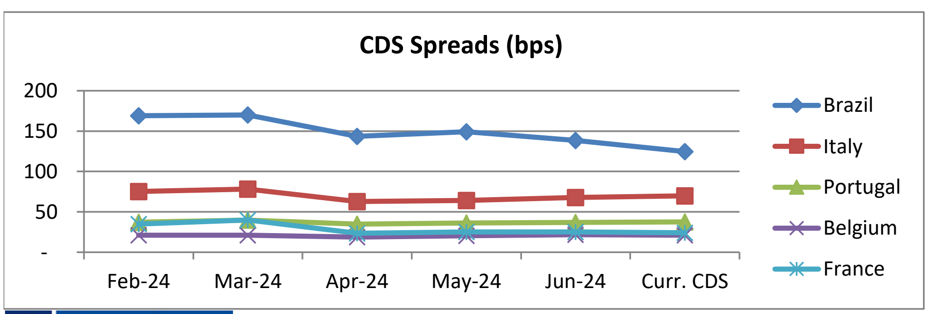
Experts believe that re-anchoring inflation expectations is essential to ensure inflation convergence to the target, regardless of the sources behind the currently observed de- anchoring. Despite restrictive monetary conditions, the cycle of monetary easing is already being transmitted to the credit market, in line with expectations. While household indebtedness remains historically high, the demand for household credit remains strong. This suggests that while there are ongoing concerns about debt levels, the overall economic conditions are supporting continued borrowing by households. Affirming.

Annual Ratios (source for past results: IMF)

CREDIT POSITION	2021	2022	2023	P2024	P2025	P2026
Debt/ GDP (%)	81.5	81.4	88.4	94.2	102.0	111.8
Govt. Sur/Def to GDP (%)	-2.6	-2.8	-7.3	-2.6	-4.6	-6.7
Adjusted Debt/GDP (%)	81.5	81.4	88.4	94.2	102.0	111.8
Interest Expense/ Taxes (%)	27.3	32.0	34.3	36.1	38.0	40.0
GDP Growth (%)	16.9	11.4	8.7	2.5	3.6	3.6
Foreign Reserves/Debt (%)	26.0	18.7	16.5	15.2	13.7	12.2
Implied Sen. Rating	BBB+	BBB+	BBB	BBB	BBB	BBB-

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	64.0	-2.6	64.0	3.8	6.3	AA+
French Republic	AA	117.2	-4.8	117.2	5.9	6.2	A-
Kingdom Of Belgium	AA	108.6	-3.9	108.6	6.8	5.5	BBB
Republic Of Italy	BBB-	151.4	-6.8	151.4	12.7	6.2	BB+
Portugal Republic	BB+	105.8	1.1	105.8	8.6	9.6	BBB-

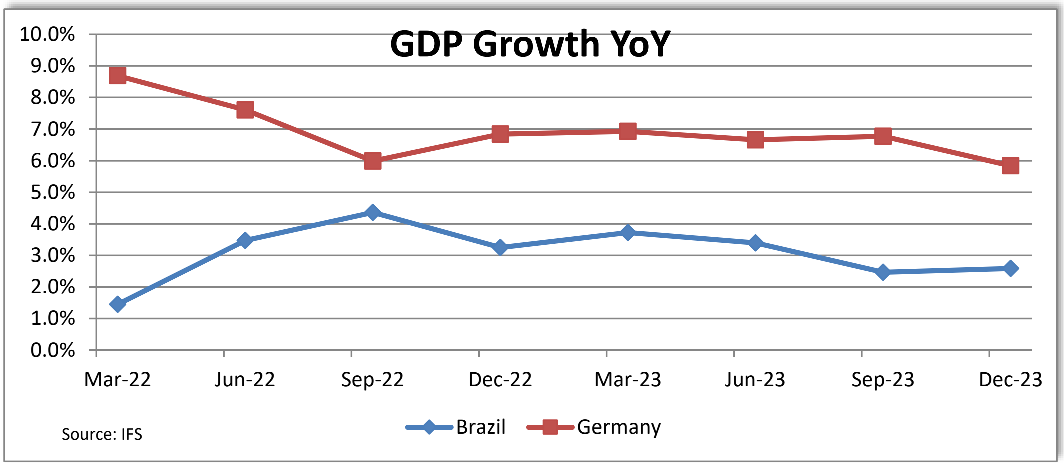


Country	EJR Rtg.	CDS
Brazil	NR	125
Italy	BBB-	70
Portugal	BBB-	38
Belgium	BBB	21
France	A+	24

Egan-Jones Ratings Company

Economic Growth

Brazil's economy rebounded in the first quarter of 2024, growing by 0.8% compared to the previous quarter. This expansion was fueled by stronger investments and consumer demand, which added to the cautious stance of the central bank in slowing the pace of interest rate cuts. The year-on-year growth of 2.5% exceeded the expected 2.2%, boosting the outlook for Latin America's largest economy. However, concerns remain about the impact of disastrous flooding in southern Brazil last month, which left a trail of destruction, opened the door to more government spending, and pushed up food prices. The robust labor market spurred household consumption 1.5% higher from the previous quarter, while government spending remained flat. The stronger domestic demand is consistent with the central bank's cautious stance since its decision to reduce the pace of rate cuts in May and stop providing forward guidance. Services-sector activity rose by 1.4% in the three months through March compared to the previous quarter.



Fisical Policy

The Brazilian Central Bank (BCB) is targeting 3% inflation this year, with an upper limit of 4.5%. With inflation within the target range, the BCB cut the Selic policy rate by 50 basis points in March to 10.75%. Further rate cuts of at least 150 basis points are expected this year, bringing the Selic down to 9.25% or lower. The federal government has targeted a primary budget balance (excluding interest payments) of 0% of GDP this year, moving to a 0.5% surplus in 2025 and 1% in 2026. This is meant to stabilize the federal debt, which has grown to 60.1% of GDP in 2023.

	Surplus-to-GDP (%)	Debt-to-GDP (%)	5 Yr. CDS Spreads
Brazil	-7.30	88.40	124.66
Germany	-2.55	64.01	11.51
France	-4.84	117.19	24.00
Belgium	-3.85	108.57	21.16
Italy	-6.85	151.35	69.77
Portugal	1.08	105.78	37.73

Sources: Thomson Reuters and IFS

Unemployment

The unemployment rate in Brazil has continued to decline, dropping to 7.4% in March. Employment growth has accelerated since October, with employment up 2.5% from a year earlier. Tight labor market conditions have driven strong nominal wage growth, with wages up 8.4% year-over-year in March. This has translated to real wage growth of 4.0%, up from 3.1% in December. However, the pace of real wage growth has varied across different worker groups.

Unemployment (%)

	2022	2023
Brazil	9.23	7.95
Germany	3.07	3.03
France	7.32	7.34
Belgium	5.58	5.53
Italy	8.08	7.67
Portugal	6.16	6.58

Source: Intl. Finance Statistics

Banking Sector

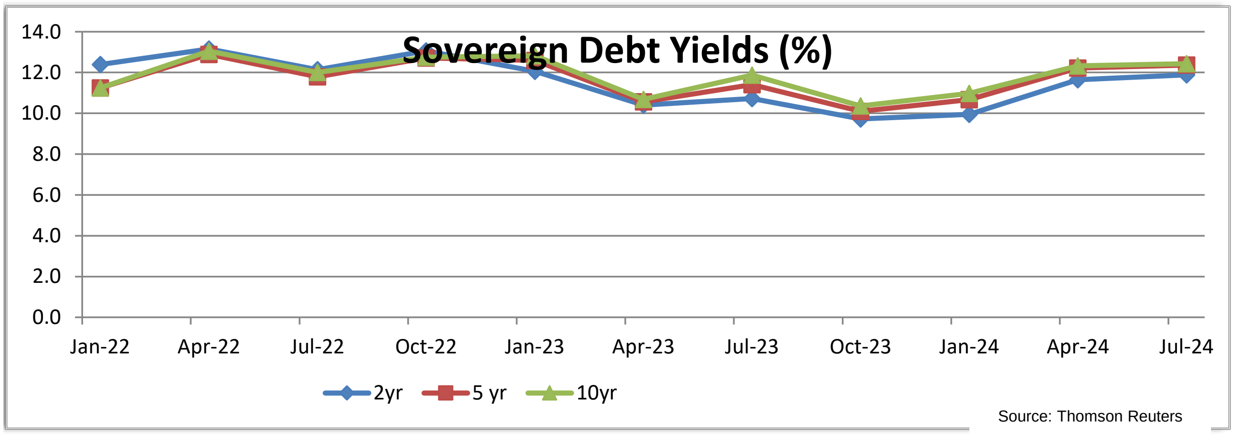
Brazilian banks are facing continued revenue headwinds due to further expected interest rate cuts by the central bank in 2024. The pace and magnitude of these Selic rate cuts remain uncertain, but they will have a mixed impact on bank profitability. Central bank policies in developed economies could also limit the pace of domestic monetary easing in Brazil. This interest rate risk can increase market risk for banks, leading to volatility in net interest margins through loan and funding repricing.

Bank Assets (billions of local currency)

	Assets	Mkt Cap/ Assets %
BANK OF BRAZIL	2,172.5	6.95
Total	2,172.5	
EJR's est. of cap shortfall at 10% of assets less market cap		66.2
Brazil's GDP		10,780.0

Funding Costs

The Central Bank of Brazil (BCB) kept its benchmark Selic interest rate at 10.5% in its June meeting, in line with expectations. This decision came amid a challenging global environment marked by uncertainty over US monetary policy and global inflation trends. Domestically, economic indicators have shown unexpected resilience, with consumer inflation trending downwards, though core inflation remains above the BCB's target.



Source: Thomson Reuters

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.

Economic Freedom

As can be seen below, Brazil is mediocre in its overall rank of 53.2 for Economic Freedom with 100 being best.

Heritage Foundation 2024 Index of Economic Freedom
World Rank 53.2*

	2024 Rank**	2023 Rank	Change in Rank	World Avg.
Property Rights	49.1	49.7	-0.6	53.4
Government Integrity	36.9	39.1	-2.2	43.7
Judical Effectiveness	55.0	55.3	-0.3	48.8
Tax Burden	69.7	70.9	-1.2	78.1
Gov't Spending	34.9	55.0	-20.1	64.2
Fiscal Health	30.9	2.7	28.2	52.1
Business Freedom	67.0	63.6	3.4	62.1
Labor Freedom	56.9	57.0	-0.1	55.9
Monetary Freedom	71.6	73.7	-2.1	67.2
Trade Freedom	66.8	65.0	1.8	69.8

*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 3.9% per annum in the last fiscal year which is disappointing. We expect tax revenues will grow approximately 3.9% per annum over the next couple of years and 3.9% 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	Yr 3,4,5
Taxes Growth%	5.4	3.9	**3.9**	**3.9**
Social Contributions Growth %	6.4	(20.8)	**0.5**	**0.5**
Grant Revenue Growth %	0.0	(9.6)	**0.5**	**0.5**
Other Revenue Growth %	0.0	(10.2)	**3.5**	**3.5**
Other Operating Income Growth%	0.0	(10.2)	**(10.2)**	**(10.2)**
Total Revenue Growth%	6.4	(4.5)	**(4.5)**	**(4.1)**
Compensation of Employees Growth%	6.3	0.2	**0.2**	**0.2**
Use of Goods & Services Growth%	5.0	11.0	**11.0**	**11.0**
Social Benefits Growth%	4.4	7.5	**7.5**	**7.5**
Subsidies Growth%	(2.5)	32.2		
Other Expenses Growth%	19.5	19.5	**19.5**	**17.6**
Interest Expense	1.8	9.3	**9.3**	
Currency and Deposits (asset) Growth%	(8.2)	0.0		
Securities other than Shares LT (asset) Growth%	12.0	0.0		
Loans (asset) Growth%	(57.9)	(94.7)	**3.9**	**3.9**
Shares and Other Equity (asset) Growth%	(74.8)	0.0		
Insurance Technical Reserves (asset) Growth%	8.3	0.0		
Financial Derivatives (asset) Growth%	(18.0)	0.0		
Other Accounts Receivable LT Growth%	(0.5)	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%	0.8			
Currency & Deposits (liability) Growth%	(2.1)	0.0		
Securities Other than Shares (liability) Growth%	9.1	9.2	**6.4**	**6.4**
Loans (liability) Growth%	(0.5)	(1.2)	**0.5**	**0.5**
Insurance Technical Reserves (liability) Growth%	2.8	0.0		
Financial Derivatives (liability) Growth%	0.0	0.0		
Additional ST debt (1st year)(billions BRL)	0.0	0.0		

ANNUAL INCOME 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)

	2020	2021	2022	2023	P2024	P2025
Taxes	1,717	2,201	2,497	2,595	2,696	2,801
Social Contributions	799	895	1,019	807	811	815
Grant Revenue	0	0	0	0	0	0
Other Revenue	371	548	783	703	727	753
Other Operating Income	371	548	783	703	703	703
Total Revenue	2,886	3,644	4,298	4,104	4,936	5,071
Compensation of Employees	980	1,034	1,173	1,175	1,177	1,179
Use of Goods & Services	392	446	540	600	666	739
Social Benefits	1,740	1,468	1,664	1,788	1,921	2,064
Subsidies	14	15	22	29	29	29
Other Expenses	120	164	205	245	293	350
Grant Expense	4	5	10	5	2	1
Depreciation	122	142	156	164	164	164
Total Expenses excluding interest	3,371	3,273	3,770	4,000	4,252	4,526
Operating Surplus/Shortfall	-485	371	527	104	685	545
Interest Expense	434	602	800	890	974	1,065
Net Operating Balance	-919	-231	-273	-787	-289	-519

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	2020	2021	2022	2023	P2024	P2025
Currency and Deposits (asset)	2,110	2,504	2,694	2,582	2,857	2,857
Securities other than Shares LT (asset)						
Loans (asset)	-9	-73	-74	-4	-4	-4
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					93	93
Additional Assets	232	224	149	93		
Total Financial Assets	2,333	2,655	2,769	2,671	2,946	2,945
LIABILITIES						
Other Accounts Payable						
Currency & Deposits (liability)					0	0
Securities Other than Shares (liability)	6,882	7,563	8,018	8,755	9,318	9,918
Loans (liability)	424	452	443	437	726	1,246
Insurance Technical Reserves (liability)						
Financial Derivatives (liability)						
Other Liabilities	0	0	0	0	0	0
Liabilities	7,306	8,015	8,461	9,192	9,756	10,275
Net Financial Worth	-4,973	-5,360	-5,692	-6,521	-6,810	-7,329
Total Liabilities & Equity	2,333	2,655	2,769	2,671	2,946	2,945

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 Ratios

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

SEC Rule 17g-7(a) Disclosure

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+) other than those deep into speculative grade; for CC, C, and D there are no 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 methodology version #16 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 page 3 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 dependant 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 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, and other similar sources. In some cases, the information is limited because of issues such as short operating histories, the lack of reported data, a delay in reporting data, restatements, inaccurate accounting, and other issues. Such shortcomings 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 10Q and 10K statements, quarterly reports, 8K filings, earnings reports, governmental filings and other similar sources for ratings on publicly-traded issuers. In the case of private issuers, EJR relies on information provided mainly by 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 high quality and readily avail.

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%	3.9	7.9	(0.1)	BBB	BBB	BBB-
Social Contributions Growth %	0.5	3.5	(2.5)	BBB	BBB	BBB-
Other Revenue Growth %	3.5	6.5	0.5	BBB	BBB	BBB
Total Revenue Growth%	(4.5)	0.1	(6.5)	BBB	BBB	BBB
Monetary Gold and SDR's Growth %	5.0	7.0	3.0	BBB	BBB	BBB

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: **Today's Date**

Aug 16, 2024

Subramanian NG
Senior Rating Analyst

Reviewer Signature: **Today's Date**

Steve Zhang

Aug 16, 2024

Steve Zhang
Senior Rating Analyst

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 the 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.