

'A Serious Country:' Brazil Turns Investment Grade, Bonds Explode

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Ibovespa, Brazil's stock exchange index, jumped to a record on Wednesday, April 30, after Standard & Poor's unexpectedly raised the country's credit rating to investment grade. S&P Ratings Services Brazil's debt rating announcement from BB+ to BBB- sent domestic stocks soaring 6.3% hitting a new intraday record of 67,854.

The announcement was made a little over one hour before the stock exchange closed at 5 pm. The upgrade is a huge victory for Brazilian President Luiz Inácio Lula da Silva, elected in 2002 amid predictions by investors that the former radical union leader would wreck the economy.

"We've just been informed that Brazil became 'investment grade,' commented the president who was participating in a governors forum in Alagoas state, in the Brazilian Northeast. "I don't even know how to say this word, but if we translate it to a language that all Brazilians understand I could say that Brazil has been called a serious country, which has serious policies, which looks after its finances with seriousness and for that reason we became worthy of an international trust that we needed for a long time."

The long-awaited upgrade came two months after Brazil's Central Bank declared that the nation's debt crisis was over because Latin America's largest country had emerged as a net foreign creditor for the first time.

"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 S&P credit analyst Lisa Schineller in a statement announcing the rating boost.

"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 said.

Brazil became a net foreign creditor for the first time this year, inflation dropped to a seven-month low in February and the benchmark interest rate was at a record low 11.25% before this month's increase. The country's trade surplus was US\$ 40 billion and the economy grew 5.7% last year, the fastest since 2004.

Despite tighter global credit conditions, Brazil's maturing growth outlook continues to attract foreign direct investment, 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 34.6 billion.

Brazil's Central Bank president, Henrique Meirelles, told reporters that the upgrade illustrates the newfound stability of

Brazil's once notoriously volatile economy. Predictable government monetary policy along with steady Brazilian growth has prompted most experts to forecast that the country's traditional boom-and-bust economic cycles are a thing of the past.

Brazil is riding a boom in demand for key exports such as beef, iron ore and soy. International reserves nearly tripled from US\$ 64 billion in 2003 to US\$ 188.2 billion in February, the Central Bank said.

Brazilian companies are also raking in record profits as businesses expand rapidly and consumers take out loans in droves to buy new cars and homes.

Market observers had been expecting that Brazil would receive an investment grade rating some time this year. In early April, Fitch Ratings upgraded Peru to investment grade.

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