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Article

Financialization and the politics of credit rating agencies in Brazilian presidential transitions

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Abstract

This paper analyzes credit rating agencies' actions in Brazilian presidential transitions in the light of what is understood as financialization. It argues that the agencies, from their position in the international financial system, express and promote the financialization process during presidential transitions. To that end, they resort to forms of political activism in favor of the orthodox agenda defended by financial markets enthusiasts. The methodology draws on the case study of Brazil, with reference to the five presidential transitions that took place there between 2002 and 2018. The analysis is based mainly on the Brazilian sovereign ratings issued by S&P Global, Moody's and Fitch Ratings, and on the country reports published by these agencies.

Keywords: financial globalization; financialization; credit rating agencies Brazilian elections.

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Introduction

> The Ministry of Finance and the Central Bank of Brazil regret the decision taken by the credit rating agency Fitch to downgrade Brazil's sovereign rating. The decision is extemporaneous and mistaken – extemporaneous due to a preconceived vision of the future design of economic policy; mistaken because it is based on deficient analytical content. The backdrop to Fitch's argument is the political transition in Brazil. It is based, therefore, on what the next government may or may not do.

In October 2002, the Brazilian government of Fernando Henrique Cardoso (FHC) responded with this message to the decision by Fitch credit rating agency (CRA) to downgrade Brazil's sovereign rating in view of the imminent victory of Lula, of the Workers' Party (*Partido dos Trabalhadores*, PT), in the presidential elections ("Nota oficial da Fazenda e BC: decisão da Fitch é extemporânea e equivocada." 2002). This event illustrates the relevance of CRAs to national socioeconomic stability. Although the risk information provided by the agency was intended primarily for financial market investors, its effects went much further, accentuating the crisis of confidence affecting the country at the time.

The problem signaled by the FHC government would become a matter of concern to the academic literature, which has begun to study the political dimension of CRAs behavior. Seeking to understand its impacts on democratic processes, studies have been showing that discrimination against political parties has meant that countries ruled by left-wing governments tend to be rated less favorably by the CRAs – and vice versa (Barta & Johston 2018; Vaaler et al. 2006). Meanwhile, theoretical consideration of CRAs' modus operandi has identified one of their goals as being the dissemination of neoliberal policies, thus promoting the interests of investors who operate on capital markets (Sinclair 2005; Paudyn 2014).

The larger picture shows financialization expanding and tensions between capitalism and democracy intensifying (Streeck 2014). This issue thus needs to be examined more closely in order to understand the mechanisms by which it is operationalized. Thence the questions that guide this article: in what forms can the political dimension of CRAs' modus operandi be perceived in national political processes? How does it relate to the current context of financialization? What harm does it entail as regards the space for democracy and national policy?

Against this background, this study brings a systematic analysis of CRAs' behavior during presidential transitions to this debate. If the agencies are concerned with the government's party/political ideology and seek to advance a specific agenda, electoral processes can be expected to be critical events in this regard. This should be particularly dramatic in the cases of emerging economies, which financial markets regard as riskier[1] (Mosley 2003).

The working hypothesis here is that, from their position in the international financial system, the CRAs express and promote the financialization process during presidential transitions. This study draws on the case of Brazil from 2002 to 2018, with reference to the five presidential elections and the impeachment process that took place there. Throughout that period, there were transitions between governments of different ideological orientations, which triggered varied reactions from CRAs. Moreover, as an emerging economy, Brazil is particularly vulnerable to global financial dynamics, which makes it a suitable case for study.

The case study is based on Brazil's ratings issued by S&P Global, Moody's and Fitch Ratings – these three agencies constitute an oligopoly in the rating sector – and on their reports and releases on Brazil. These materials are analyzed in the light of critical theories about the constraints of

[1] For analytical purposes, the academic literature often refers to *financial markets* without mentioning the nuances that differentiate the many different actors they comprise. Hardie (2012) analyzes this issue thoroughly. Although the study reported here focuses on the ratings agencies, references will be made to *financial markets* in general for the sake of simplifying the analysis.

financial globalization and financialization on national governments' autonomy, in general, and about the CRAs' modus operandi, in particular.

This paper makes two main contributions. First, it develops the literature on the political dimension of CRAs' modus operandi, by shedding light on their behavior in presidential transitions. This is achieved mainly by analyzing their reports, which are still hardly used in academic research. Second, it offers a new perspective on Brazilian political and economic events by analyzing some of them from the CRAs' perspective and in the light of the financialization process that has been taking shape in the country.

The paper is organized into four sections, in addition to this introduction. The second section explains what is meant by financialization and discusses the academic debate around the CRAs, including the theoretical background to the analysis. The third section, describing the Brazil case study, is divided into five subsections, covering the five presidential elections and one impeachment process. The fourth section examines some of the implications of the CRAs' actions for the conflicts between capitalism and democracy. The last section concludes the article.

Financialization and the credit rating agencies

The first step in our argument is to conceptualize "financialization". This can be defined comprehensively as "the increasing role of financial motives, financial markets, financial actors and financial institutions in the operation of the domestic and international economies" (Epstein 2005, 3). This process triggered by financial globalization (Krippner 2011) has been spreading and developing worldwide since the 1980s, taking distinct shapes in different countries, depending on the evolution of their institutional frameworks and their economic and political paths. All cases converge, however, on the shift in the economic center of gravity from the productive to the financial sectors of society, which affects the behavior of economic agents and national macroeconomic dynamics[2] (Stockhammer 2008; Foster and Magdoff 2009; Krippner 2011; Lapavitsas 2014).

Given the multifaceted nature of the financialization process (Chesnais 2019), the academic literature has been exploring its various different dimensions. As regards its political consequences, one challenge is to understand how financialization impairs national democratic processes. Studies on this point seek to understand the political hegemony of financial sectors in society, which have been dictating governments' economic policies. Nölke (2020) identifies three decisive elements: the size of the financial sector and of its institutions, its highly networked structure, and its technical complexity. Taken together, these amplify the influence wielded by financial market representatives on national political and economic processes. As a result, Pagliari and Young

[2] Krippner (2011) locates the political origins of financialization in financial liberalization policies of American governments during the 1970s. From then on, as financial globalization took shape, other countries started experiencing this process.

(2020, 121) note: "the financialization of the economy can be understood as a process creating the political conditions for its own reproduction".

Underlying this is the disproportionate prominence of the agenda pursued by financial market actors (Palley 2013). As a rule, it comprises "neoliberal"[3] policies, including structural reforms to liberalize the economy, fiscal austerity and delegating decision-making power on economic policy issues to non-elected actors – and other measures that favor economic resource allocation through market mechanisms in general, and financial markets in particular. This is the background to the crisis of democracy, whose analysis by Streeck (2014) is based on the clash between citizens' demands – which are often at odds with neoliberal tenets – and the demands made by financial markets' agents in their interactions with national governments.

Thanks to financial globalization, though, governments have more reason to fear investors than citizens, whose retribution depends on the occurrence of periodic electoral cycles. Indeed, actors from the international financial system are constantly monitoring the actions of governments – especially when it comes to emerging economies – and are able to react to them at any time (Mosley 2003; Paula et al. 2015). If they implement policies inconsistent with the orthodox agenda, the possible loss of market confidence can translate into higher interest rates charged for government bonds and, in extreme situations, capital flight and exchange crisis (Streeck 2014).

By intermediating this interaction, the CRAs figure as significant actors in financial globalization. As gatekeepers of states' access to the financial resources available on capital markets, S&P, Moody's and Fitch inform investors about the risk of default posed by government bonds. They issue "sovereign ratings," which indicate the government's ability and willingness to honor the public debt with the state's private creditors. The table below shows the three CRAs' ratings scales. The better the rating, the lesser the likelihood of default – and vice versa. One key distinction is between an "investment grade" rating, which suggests greater creditworthiness, and the "speculative grade" category, indicating more substantial risk of default. This grouping is important because many investment funds are legally obliged to hold only financial assets rated as investment grade (Cash 2019).

[3] This study does not address the dense debate around the conceptualization of *neoliberalism*, which will be conceived here as defined by Duménil and Levy (2005): it is a mode of social organization designed to ensure that the interests of society's upper classes prevail, which happens mainly through financial channels and institutions. This is supported by an ideology that praises the virtues of market self-regulation and proposes the commodification of further areas as a way of optimizing the use of economic resources. In this vein, Saad-Filho (2020) states that "the most significant feature of neoliberalism is financialization," while Palley (2013) considers that "a simple alternative definition is that financialization corresponds to financial neoliberalism."

Table 1. S&P, Moody's and Fitch rating scales.

Investment grade		
S&P	**Moody's**	**Fitch**
AAA	Aaa	AAA
AA+	Aa1	AA+
AA	Aa2	AA
AA-	Aa3	AA-
A+	A1	A+
A	A2	A
A-	A3	A-
BBB+	Baa1	BBB+
BBB	Baa2	BBB
BBB-	Baa3	BBB-

Speculative grade		
S&P	**Moody's**	**Fitch**
BB+	Ba1	BB+
BB	Ba2	BB
BB-	Ba3	BB-
B+	B1	B+
B	B2	B
B-	B3	B-
CCC+	Caa1	CCC-D
CCC	Caa2	–
CCC-	Caa3	–
CC	Ca	–
C	C	–
SD	–	–
D	–	–

Source: Prepared by the author from data from the S&P ("Intro to credit ratings." 2021), Moody's ("Rating scale and definitions." 2021) and Fitch ("Rating definitions." 2021) websites.

In a word, sovereign ratings are key to a state's financial capacity because they guide the pricing of government bonds. They are of even greater consequence to emerging economies, because the information publicly available to financial market agents – on which to base their investment decisions – may be of uncertain quality, leading them to place more faith in the CRAs' assessments (Block & Vaaler 2004). CRAs also publish reports on the countries they rate, which explain their rating actions, assess the government's performance, comment on current topics in national political and economic processes, and instruct the government on how to improve the rating (Barta & Makzsin 2020).

CRAs present their work as technical and politically neutral. However, political bias in their behavior – which is particularly relevant to this paper – has become a subject of interest to academic research. The literature addresses at least three ways to approach this issue. Firstly, the bias stems from the ideological foundations underpinning the sovereign rating process. Given the neoliberal nature of the parameters and variables used by CRAs to assess a country's creditworthiness, governments with an orthodox agenda tend to benefit from better ratings (Sinclair 2005; Paudyn 2014). Also, since ratings function as performance indicators, they influence public opinion as to the government's competence in managing the economy. Ultimately, this means that citizens are influenced to consider neoliberal governments more competent in economic matters (Buenfil 2017; Paudyn 2014).

Secondly, quantitative studies have observed CRAs' discrimination against governments by party/political ideology. Countries governed by left-wing (right-wing) parties tend to receive worse (better) ratings, regardless of their economic policy outcomes (Barta & Johston 2018;

Vaaler et al. 2006). This behavior is accentuated during electoral periods, when the ratings can be considered a tool agencies use to "vote" (by indicating the candidate of their preference) or to pressure governments to adopt the agenda they set (Vaaler et al. 2005).

Thirdly, and most importantly to this study, in their interaction with national governments, CRAs can be considered echo chambers for investors' interests. They perform this function by issuing ratings and reports, among whose goals it is to promote the orthodox agenda in countries integrated into financial globalization. In other words, their activities cannot be seen as merely technical or politically neutral, since they spread a specific worldview favorable to investors' interests. Moreover, CRAs' actions intertwine with capital market expansion, which is central to their own profitmaking as private companies. That interpretation is supported by Sinclair's (2005) theory.

One important point is his diagnosis of CRAs as embedded knowledge networks in capital markets. Their origins date from the early twentieth century, when S&P, Moody's and Fitch were founded to meet internal demands of the then incipient United States' bond markets. From then on, they evolved in step with the expansion of those markets, of which investors see them as a constitutive part. With financial globalization and the global projection of US financial norms, practices, and institutions, CRAs began to operate on a global scale. Outside the Anglo-Saxon world, however, they have also been guiding and disseminating practices and rules to be followed by financial agents, thus organizing the context in which capital markets are expanding. In the process, they shape and homogenize the institutional frameworks of countries integrated into financial globalization, bringing them into line with neoliberal tenets.

To achieve this, they have at their disposal three forms of power (Sinclair 2005). First, there is relational power, which can be seen at work when governments are punished with lower ratings when they fail to adopt policies recommended by the CRAs. Second, a form of structural power is revealed when a government implements a policy in anticipation of punishment by CRAs. Third, they also exercise power through their epistemic authority in financial markets. This is because, in that environment, the ratings issued by S&P, Moody's and Fitch constitute social facts[4], which affect agents' behavior even if they are known to be wrong. As a result, a left-wing government, for instance, even if it disagrees with the evaluations of its country, inevitably ends up being constrained to incorporate them into its rational calculations regarding management of the economy, because it knows that financial agents will do so.

Against this background, CRAs can be understood as both expression and cause of the financialization process. On the one hand, the agenda they promote in their interactions with governments helps to expand financial market activities and profits, which drives the process of financialization[5]. On the other, their informational function illustrates the technical complexity and the networked nature of finances, which Nölke (2020) argued is critical to understanding

[4] This follows Durkheim's (1982, 52) definition of social facts: "they consist of manners of acting, thinking and feeling external to the individual, which are invested with a coercive power by virtue of which they exercise control over him."

[5] From another perspective, Besedovsky (2018) shows how CRAs shape and propagate the financial calculation practices that are central to the financialization process.

the political effects of financialization. Lastly, CRAs also fit the broad definition proposed by Epstein (2005): they are companies offering a financial service, which came into being for financial reasons, and profit from the expansion of financial markets.

On the working hypothesis, presidential transitions in an emerging economy constitute opportune occasions for observing the political dimension of ratings agencies' behavior in favor of the agenda pursued by financial market enthusiasts. In general form, the mechanism is as follows: given the possibility that a left-wing government will come to power, the agencies publish negative forecasts for the country's economy and/or punish it with downgrades; conversely, if the prospect is for a right-wing government, they project positive scenarios for the country. This is what will be examined in the Brazil case study below.

The Brazilian experience reflected in ratings agencies' actions

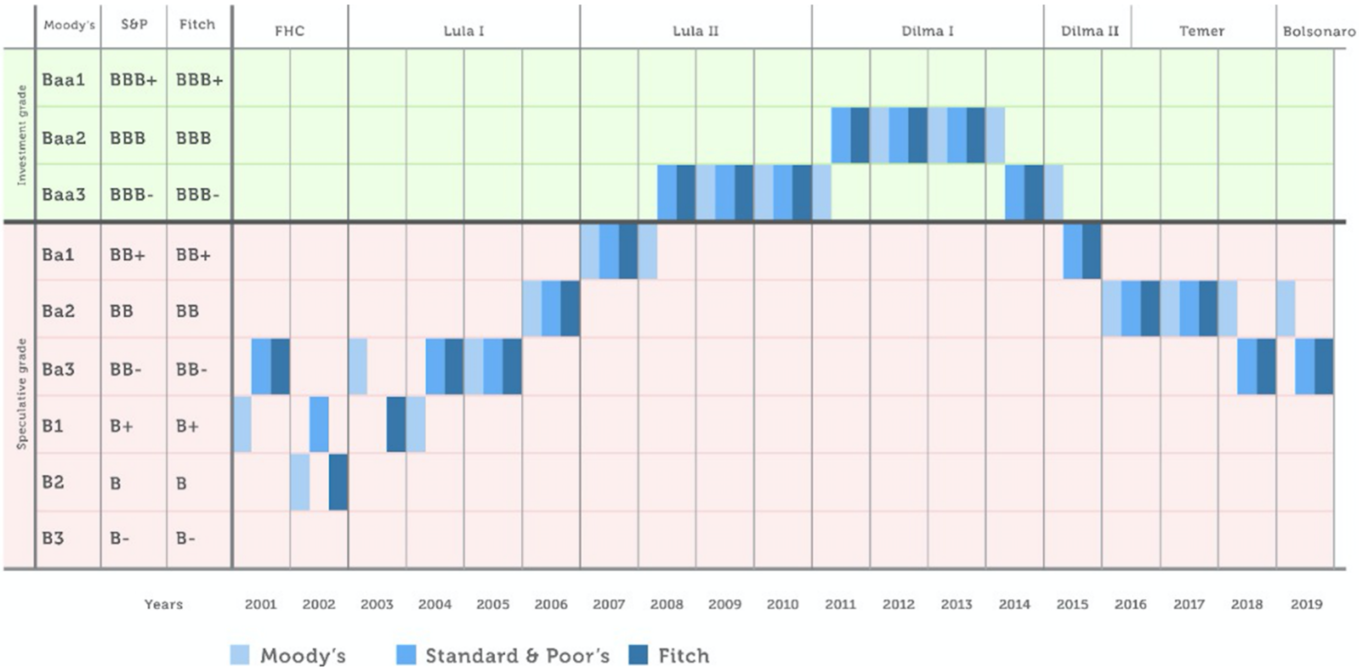
Throughout the 1990s, the governments of Brazil carried out many institutional reforms inspired by the Washington Consensus[6] and designed to liberalize the economy. It was during this period that the country returned to the international sovereign debt market and was thus integrated into financial globalization. That process was boosted by the Brady Plan, which ended the debt crisis inherited from the 1980s. In addition to liberalizing its capital account and deregulating the national financial system, Brazil undertook unilateral import liberalization and privatizations of state-owned enterprises. In 1994, the inflation problem was solved by the Real Plan, which restructured the domestic economy in line with the current international financial regime (Paula 2011; Saad Filho & Morais 2018).

In 1999, to restore stability following the collapse of the Real Plan and a further economic crisis, the FHC government proposed a new macroeconomic structure. Known as the macroeconomic tripod, the new policy framework was to be guided by an inflation targeting system, floating exchange rate and fiscal primary surpluses. In this arrangement, fiscal policy was subordinated to monetary policy, which was adjusted according to the capital flows in the country and their impacts on the exchange rate. In 2000, the macroeconomic tripod was complemented by the Fiscal Responsibility Law, which restricted government spending (Paula 2011; Saad Filho & Morais 2018). Under this institutional framework, conditions developed for the financialization of the Brazilian economy (Lavinas et al. 2017; Bresser-Pereira et al. 2019).

It is against this backdrop that CRAs' behavior towards countries should be analyzed, especially its political dynamics. By way of contextualization, the figure below shows Brazil's ratings during the study period. As the following subsections will show, some of the changes were to be critical to the political processes analyzed here.

[6] The Washington Consensus was a set of economic policy recommendations – sustained by neoliberal ideology – designed to help countries, particularly emerging economies, to integrate into globalization. See Williamson (1993).

Figure 1. Sovereign ratings of Brazil (2001-2019).



Source: Prepared by the author from Trading Economics ("Brazil: credit rating" 2021).

2002: crisis of confidence

As the 2002 elections approached, financial market agents regarded the possibility that the PT candidate, Lula, would win as a threat to the institutional framework established in Brazil in the 1990s[7]. Until the previous year, PT had advocated defaulting on the public debt, and many of its members were considered left-wing radicals. This precipitated a crisis of confidence in the course of the year, triggering capital flight, currency devaluation and inflationary pressures (Saad Filho & Morais 2018). The turmoil was also expressed in the creation of a "Lulometer" by a Goldman Sachs analyst, who developed a mathematical model linking the dollar exchange rate to Lula's chances of victory in the election (Dávila 2002).

Reflecting this scenario, on June 20, Fitch announced a negative outlook for Brazil's rating, then at B+. The rating was downgraded to B on October 21, as mentioned in the introduction to this article, and the outlook continued negative until March 2003, when it stabilized. In S&P's assessment, Brazil's rating did not worsen, but remained at B+ with a negative outlook between July 2002 and April 2003. Moody's assessed the outlook for Brazil's rating as negative in June 2002; then, less than two months later, downgraded it to B2. Note that, throughout this period, Brazil's sovereign rating remained speculative grade, suggesting to investors a high probability of default.

[7] It is worth noting, however, that not all of financial markets actors reacted the same way in face of Lula's imminent victory. This issue is explored by Hardie (2006), through the analysis of the behavior of international bond market investors.

These actions by CRAs were often attributed to the likelihood of Lula's electoral victory. On June 19, 2002, for instance, Fitch released a political risk analysis entitled "Would the real Lula please stand up [...]" (2002a). The document emphasized that:

> the PT leader is still viewed as a fundamental political risk by the markets, and this can have an important effect on voter behavior. [...] While Lula has moderated his own image, the PT itself would appear, at its core, to be a party still rooted in its radical past.

In the same vein, on August 27 an S&P report offered the negative assessment that "all the main candidates wish to distinguish themselves from aspects of Cardoso's record and future policy could be somewhat less neoliberal". The agency warned vaguely that "some policies that have been espoused by members of Brazil's political class would, if implemented, tarnish Brazil's credit standing" ("Brazil [Federative Republic of]" 2002). On October 25, just before the second round of the presidential elections, another Fitch report, entitled "All eyes on Lula," linked stabilizing Brazil's economy to the future president's choosing an economic team that was credible to the financial markets ("Daily alert: all eyes on Lula." 2002b).

Pressured by the crisis of confidence, Lula and the PT decided to signal moderation. On June 22, the future president released a "Letter to the Brazilian people," in which he pledged to respect the contracts signed and to maintain the FHC government's economic policy guidelines. In the following months, he also promised to comply with the provisions of the IMF loan agreement, which was signed in the month before the elections. Once elected, the economic team he chose to manage the national economy throughout his first term was aligned with financial market demands (Saad Filho & Morais 2018).

The practical effects of this accommodation were soon manifest in CRA assessments. In the first half of 2003, the outlook for Brazil's ratings was already given as stable or positive. In their reports, the three agencies praised the Lula government's commitment to fiscal austerity and abidance by the macroeconomic tripod.

2006 and 2010: Credibility earned

Unlike the 2002 presidential election, the 2006 and 2010 contests were free from turmoil on financial markets. In 2006, Lula was re-elected without difficulty and, in 2010, Dilma Rousseff, from the PT, was elected his successor. During the first two PT terms, the economy stabilized and experienced sustained growth, while poverty and social inequalities were reduced. In that context, orthodox macroeconomic policies were reconciled with social policies, expanding access to credit for low-income groups and steady increases in the minimum wage (Saad Filho & Morais 2018; Carvalho 2018). This was facilitated by the favorable external environment that prevailed during Lula's two terms, which eased financial market constraints on government policy space (Campello 2015).

Over these years, the credibility built up with financial markets translated into continuous improvement in Brazil's ratings. Investment grade was attained in the midst of the global financial crisis: between April 2008 and September 2009, the three agencies granted the country their seal of creditworthiness. In 2010, Brazil was rated BBB- and Baa3, with Fitch and Moody's classing the outlook as positive, while S&P considered it stable.

Reflecting this situation, the CRAs behaved calmly in the two electoral periods. Specifically, the political consensus on maintaining the macroeconomic tripod was praised repeatedly in their communications, as were Brazil's growing international reserves and the buffering they could provide against financial instabilities (Machado 2020). For example, in June 2005, Moody's projected this scenario for the following year's election:

> [...] we do not expect any changes in the overall trust or spending patterns of any level of governments since fiscal discipline appears to have become an important value for the Brazilian electorate and the institutional framework epitomized by the Fiscal Responsibility Law approved in 2000 has proved effective. In our view, that [sic] a political shock similar to that of the 2002 election year is significantly less likely to happen in 2006. ("Brazil." 2005)

In a report released on March 2, 2010, Fitch ("Political risk analysis: PT campaign puts pressure on PSDB." 2010) reassured investors about a possible turn to the left by the Dilma government, recalling that "Lula stated in a recent newspaper interview with *O Estado de São Paulo* that her government would not be more left-wing than his own, acknowledging that governments tend to be more pragmatic than party hardliners may lead the public to believe." In June, the agency praised the country's "relatively prudent" economic policy and said it did not expect changes from the next government (Folha 2010).

At the beginning of Dilma's term, an S&P analyst published an article (Schineller 2012) summarizing the CRAs' evaluations of the PT governments thus far. Refuting the idea that Brazil's economic success was due only to high demand for commodity exports, the analyst praised the respect shown by the Lula and Dilma governments for the institutional economic policy framework established by the FHC government. In her evaluation, the country's success had also resulted from their reconciling their social agenda with prudent macroeconomic management, supported by the tripod. But this model would come to an end in the years to come.

2014: CRAs vote for the opposition

Financial market reactions to the approaching 2014 elections partly reflected the failure of the economic policy of Dilma's first term. The New Economic Matrix, as it was known, not only failed to keep GDP growth but was also seen as excessively interventionist by investors. It also thwarted financial sector interests by forcing reductions in bank loans spreads. In 2014, in a context of poor economic growth and inflationary pressure, a primary deficit in the government budget strengthened the narrative that the macroeconomic tripod was collapsing. This brought explicit opposition to Dilma's reelection from financial sectors (Carvalho 2018).

As regards the CRAs, the process can be considered to start in June 2013, a month marked by social upheavals across the country. For the first time since 2002, Brazil's rating was assigned a negative outlook – in this case, by S&P. The downgrade came in March 2014. In September, on the eve of the election, it was Moody's turn to lower the rating, while maintaining the negative outlook.

The first downgrade in a decade was widely echoed by the media. When S&P analyst Lisa Schineller came to Brazil on March 16, *O Estado de S. Paulo* newspaper (Zanatta et al. 2014) nicknamed her "Hurricane Lisa," comparing the apprehension caused by her visit to Brazil's relationship with the IMF in the 1980s. A few days later, in the report explaining the downgrade in Brazil's rating, the agency pointed to the government's loss of credibility from its fiscal policy management ("Rating do Brasil em moeda estrangeira rebaixado para 'BBB-' e em moeda local para 'BBB+': perspectiva alterada para estável." 2014a). On July 31, S&P released a further statement in favor of opposition candidates:

> We believe that the policy profile of Dilma's second term will be similar to that of her current government, with the President continuing to oversee political decisions intensively. While we expect certain staff and economic policy changes, we foresee generally "more of the same" as regards uneven policy. We believe that an Aécio or Campos government would seek a more consistent and market-oriented economic policy, with stronger initial focus on domestic and international investor confidence. ("Análise complementar: República Federativa do Brasil." 2014b)

Note that the "market-oriented economic policy" referred to by the CRA echoes the ideological foundation of financial globalization, which helps boost financialization. As Dilma's economic policy in her first term countered this logic, S&P used its epistemic authority to support her right-wing opponents in the elections. This pattern of behavior illustrates the argument advanced in this study.

In the same vein, on September 9, Moody's ("Rating action: Moody's changes outlook of Brazil's rating to negative from stable; affirms Baa2 government bond rating." 2014a) attributed the deteriorating outlook for Brazil's rating to "negative investor sentiment driven by widespread market perception about the interventionist approach of the current administration". Just after Dilma's close election victory, Moody's released a new report entitled "Political Polarization and Structural Problems to Challenge Re-Elected Rousseff" (2014b). It noted that "both stock and currency markets signaled a clear preference for regime change, and the immediate aftermath of the election has seen a significant correction in both the Ibovespa index and the Brazilian real." Moreover, it was pessimistic with regard to any significant change in economic policy direction during the second term.

The turnaround in economic policy management that followed in the next few months surprised both Dilma's voters and financial market agents. After running for re-election in clear opposition to the investor agenda (which the PT's electoral campaign associated systematically with her opponents), the president chose a prominent financial market representative, Joaquim Levy, as Ministry of Finance. Thus, in the first months of Dilma's second term, fiscal austerity became an economic policy imperative, which was soon praised by the agencies (S&P 2015). This appeasement, however, would not last.

2016: Implicit support for impeachment

Dilma's brief second term was marked by worsening economic crisis, heightened by a political crisis. The attempt to promote "expansionary fiscal contraction," in an effort to regain market confidence, ended up exacerbating the deteriorating fiscal situation[8] and worsening the economic recession ongoing since the second semester of 2014. This was all amplified by conflict in relations between government and Congress, which systematically enacted measures that increased public spending, undermining the Executive's attempts to reduce it. Throughout 2015, the crisis created a climate for Dilma's impeachment, a process admitted by the lower house on December 2 and concluded in the Senate on August 31, 2016 (Carvalho 2018; Saad Filho & Morais 2018).

This was a period of intense CRA activity. On July 28, 2015, S&P assigned a negative outlook to Brazil's rating, which caused apprehension in the government, because a possible downgrade would mean the loss of its investment grade. The setback came on 9 September, with the downgrade to BB +. In February 2016, during the impeachment process, S&P further downgraded the sovereign rating to BB, while maintaining the outlook negative.

This downward trend was accompanied by the other agencies, which also withdrew Brazil's investment grade ratings. In April 2015, Fitch announced a negative outlook for the rating, which was downgraded on October 15 of that year. Two new downgrades by the agency followed in December 2015 and May 2016. Moody's lowered Brazil's rating in August 2015 and February 2016. In all, Brazil suffered four downgrades during the impeachment process alone, as its ratings sank into speculative grade.

The CRAs' declarations over this period can be grouped into two distinct stages. In the first, through 2015, they defended the economic strategy pursued by Joaquim Levy's staff. The second, during the impeachment process, featured implicit approval for the destitution of the president (Machado & Arienti 2020). These can be attributed, respectively, to Joaquim Levy's alignment with the orthodox agenda and to the signs coming from Michel Temer (who was then vice-president) that he was committed to implementing neoliberal reforms of Brazil's economy. Those signs were made explicit when, in October 2015, he announced his government plan,

[8] This is well illustrated by the primary results obtained by the government from 2014 to 2016. In 2014, a primary deficit of 0,57 of GDP was registered - the first one since 1997. In 2015, it deteriorated to 1,88 of GDP and, in 2016, escalated to 2,47% of GDP (Carvalho 2018).

"A bridge to the future," which showed Temer's political party's willingness to apply policies based on fiscal austerity and liberalizing structural reforms (Carvalho 2018), as demanded by the CRAs.

This behavior pattern became further evident when Fitch threatened to downgrade Brazil if Levy was removed from office and the economic policy changed (Cavalcanti 2015) - two events that ended up happening. On May 16, 2016, with the impeachment process still ongoing, S&P attested to the Temer government's credibility:

> [...] the new government should benefit from an initial vote of confidence from the private sector, given the strength of the economic team, which includes former president of the Central Bank, Henrique Meirelles, as Minister of Finance, and former Central Bank director, Ilan Goldfajn, as governor of the Central Bank, in addition to the political signal already sent by Vice-President Temer. ("Como o impeachment da presidente do Brasil afeta seus ratings soberanos." 2016)

Temer indeed proved well aligned with financial market interests, committing to fiscal austerity and to extending liberalizing reforms. In 2016 and 2017, his government pushed through Constitutional Amendment 95, which froze primary public spending for twenty years, and a liberalizing labor reform. Unsurprisingly, Temer became the world's most unpopular president ("Ranking põe Temer como líder mais impopular do mundo." 2017) and decided not to stand in the next election.

2018: The financial market agenda prevails

The 2018 electoral contest marked a troubled year in Brazil. The outcome might possibly threaten the austerity agenda that had been hegemonic there since 2015. This was because polls showed that PT's Lula was once again favored to win the election (Gielow 2018). As he was legally barred from standing, however, the dispute polarized between his anointed successor, Fernando Haddad, and Jair Bolsonaro, who represented continuance of the orthodox agenda – and who eventually won. Meanwhile, the Temer government's agenda of liberalizing reforms was paralyzed[9].

In that context, when Temer gave up on a proposal for pension reform which was being emphatically supported by the CRAs (Machado 2018), S&P immediately downgraded Brazil's rating to BB- in January 2018. The next month, Fitch followed suit. There was no further change in the sovereign rating that year. Nonetheless, the agencies expressed discursive support for Bolsonaro's candidacy.

In September, a month prior to the elections, the *Correio Braziliense* (Hessel 2018) newspaper published an article entitled "Ratings agencies show concern over elections in Brazil". The news compiled statements from CRA analysts that made an upgrade in Brazil's ratings conditional on it extending its liberal reforms and committing further to fiscal austerity – an agenda that was allegedly threatened by possible victories by left-wing candidates. In the same vein, a detailed analysis of

[9] This was caused by the "Joesley Day" scandal, when a recording revealed that President Temer could be involved in corruption.

the Brazilian elections released in September by Fitch ("Fitch solutions election view: Bolsonaro most likely to win in close election." 2018) considered the dispute as the most momentous for the country since 2002. Moreover, it projected short-term scenarios for victories regarding by both Bolsonaro and Haddad. To the agency, a victory by the left-wing candidate would mean that:

> Financial markets would likely sell off significantly in light of the leftist candidates' campaign pledges to undo key reforms pursued over the last two years. The real would likely hit historic lows, bond yields would spike and equities would decline sharply. The sudden drop in financial markets and business sentiment would likely push the economy back into recession heading into 2019.

On the other hand, the prognosis for Bolsonaro's election was more optimistic:

> Brazilian financial markets would likely rally because Bolsonaro has appointed investor-friendly advisors and pledged support for pension reform and privatizations. Market participants also appear to believe that the leftist candidates represent a threat to fiscal stability and growth and would likely show relief on the reduction of uncertainty. With confidence growing, economic activity growth would broadly pick up heading into 2019.

Unlike this prediction, however, Brazil's economy would remain stagnant in the first year of the Bolsonaro government, even though the pension reform passed. In March 2020, it was announced that GDP had grown only 1.1% in the previous year, contradicting the government's optimistic expectations, which were also reflected in the positive outlook that S&P assigned to Brazil's rating in December 2019. However, the socioeconomic collapse caused by Covid-19 would soon bury any incipient optimism.

Credit ratings agencies versus democracy

The CRAs' actions during Brazilian presidential transitions allow certain lessons to be drawn regarding the tensions between capitalism and democracy in the current context of financialization. In the six presidential transitions examined, the electoral imbalance favoring forces ideologically aligned with the CRAs has become evident. This raises substantial implications for national political processes, which may be observed in three forms.

First, it is clear that one tool often used by CRAs to promote financialization draws on the pricing of voters' democratic choices. This translates into discrimination against election candidates from left-wing political parties, as pointed out in the literature (Barta & Johston 2018; Vaaler et al. 2006). This mechanism represents the relational power enjoyed by S&P, Moody's and Fitch: if a left-wing government is or may be elected, the country is – or is threatened with being – downgraded. This tends to have adverse impact on the national economy, as downgrades undermine the state's financial capacity and the threat of a downgrade undermines economic agents' expectations regarding the economy. In other words, it becomes more expensive for a country to be ruled by a left-wing government. In Brazil's experience, this is what happened in the 2002 elections. In 2014 and 2018, the threat of a downgrade remained latent, while the CRAs' discourse was explicit in its support for right-wing candidates.

Second, following from the previous observation, candidates who diverge ideologically from the CRAs may have their reputations tarnished in public opinion. Ratings function as a proxy for the government's performance in managing the economy and, as a result, voters are led to see left-wing candidates as less competent. This perception is heightened by the fact that, in the context of financialization, most voters – by virtue of their holding financial assets – are also investors, which in itself would encourage them to act in line with the CRAs' epistemic authority. As a result, electoral disputes become even more skewed in favor of the political forces ideologically aligned with the agencies. That is the context in which all the presidential transitions examined here took place.

How do these two points find expression in Brazil? It is no easy task to measure the CRAs' influence on, for instance, Dilma's impeachment or Bolsonaro's election. Would these two processes have ended so conveniently for the financialization agenda if the agencies had not participated? Given the complexity of both contexts, such a counterfactual exercise cannot offer a conclusive answer. On the other hand, what can be affirmed is that the CRAs' actions constituted an external interference in favor of the Temer and Bolsonaro governments and were significant in both scenarios.

Third, left-wing governments are constantly pressured by the CRAs to adapt their economic policies to the orthodox agenda. When they do so, they are rewarded with rating upgrades and more muted opposition from the CRAs' in their reports and media releases. This is what happened in the 2006 and 2010 elections, when S&P, Moody's and Fitch did not regard Lula and Dilma as threats to the financialization agenda. Meanwhile, Brazil's ratings improved and attained investment grade – which, as Ywata (2012) observes, was a stated aim of the Lula government. This indicates the PT administrations' awareness of the structural power and epistemic authority wielded by the agencies: knowing the benefits accruing from adherence to the orthodox agenda, they were encouraged to implement it, at least at the macroeconomic level[10]. Broadly speaking, this illustrates how the CRAs operationalize the constraints that financial globalization and financialization impose on the policy space of national governments – at least those of emerging economies.

Lastly, despite the peculiarities of the Brazilian political and economic process, some generalizations can be drawn from the analysis conducted here, because all countries integrated into financial globalization are subject, to some extent, to the actions of CRAs. Accordingly, it is plausible to consider that presidential transitions in emerging economies are constrained by the

[10] Prates et al. (2020) show that, despite the developmental policies implemented by the PT governments, orthodox policies were dominant at the macroeconomic level.

pattern of CRAs behavior observed here. In other words, as signaled by the working hypothesis, CRAs take advantage of developing countries' electoral cycles to promote the financialization process, which is contingent on the opportunities offered by national conditions.

Conclusion

This article examined CRAs' behavior during presidential transitions, based on a case study of Brazil. The analysis of Brazil's last five presidential elections – in 2002, 2006, 2010, 2014 and 2018 – and the 2015-16 impeachment process sustained the working hypothesis. On those occasions, through their ratings and discourse, S&P, Moody's and Fitch acted to promote the financialization agenda.

The study findings have implications for understanding how the conflicts between capitalism and democracy may take shape in the context of financial globalization. National political processes are constantly subject to interference from CRAs, which unbalances the electoral arena in favor of political forces that align with them ideologically. As this study has shown, the pressures exerted by S&P, Moody's and Fitch constrained the government's agenda and may have impacted public opinion of its competence. Furthermore, citizens' electoral choices were priced – through the ratings – according to whether or not they aligned with the agencies' demands. Awareness of this political bias in CRAs' modus operandi is critical, therefore, to improving national democratic governance. While it is unlikely that the CRAs will ever change the way they interact with national processes, one achievable goal in this regard would be to foster the realization that their actions are not just technical or politically neutral.

That perception opens up promising paths for further research on the subject. Indeed, the discursive dimension of CRAs' declarations is territory to be explored by the academic literature. This could be done both by expanding case studies and by analyzing situations, besides electoral processes, where the agencies' modus operandi is observed. Furthermore, there is still a lack of research into the multiples dimensions of the financialization process to shed light on the mechanisms by which it constrains national policymaking. In any case, this is an issue to which this study hopes to have contributed.

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