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Political risk and the politics of risk:
perceptions and interferences by the rating agencies in Brazil and Argentina

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Tese apresentada, como requisito parcial para a obtenção do título de Doutor, ao Programa de Pós-Graduação em Ciência Política, da Universidade do Estado do Rio de Janeiro.

Orientador: Prof. Dr. Luiz Fernando de Paula

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DEDICATION

To my mother, Tânia.

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Most of this thesis was developed during the Bolsonaro government and the Covid-19 pandemic. Writing it during “normal” times would have been challenging enough. Given the adverse circumstances that marked my doctoral journey, I am certain that this work became possible only due to the unwavering support of friends, colleagues, and professors, to whom I am eternally grateful. I highlight some of them below.

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ABSTRACT

MACHADO, Pedro Lange Netto. *Political risk and the politics of risk:* assessments and interferences of the rating agencies in Brazil and Argentina. Orientador: Luiz Fernando Rodrigues de Paula. 2023. 273 f. Tese (Doutorado em Ciência Política) – Instituto de Estudos Sociais e Políticos, Universidade do Estado do Rio de Janeiro, Rio de Janeiro, 2023.

This thesis examines the behavior of rating agencies in the face of political and economic events in developing countries. It starts from the diagnosis that Standard & Poor's (S&P), Moody's Investors Service (Moody's), and Fitch Ratings (Fitch) are relevant actors in the current financial order, being capable of interfering in the political and economic dynamics of rated countries, especially developing ones, which are more vulnerable to global financial dynamics. The central argument of this research posits that the credit rating agencies act to influence the political process and the execution of economic policy in developing countries through a coordinated issuance of sovereign ratings, reports, and press releases. This influence is made possible by the role played by S&P, Moody's, and Fitch within the international order of financial globalization, which enables them to advance the financial market agenda while interacting with governments of developing countries. In pursuit of this objective, they frequently resort to forms of political activism that tend to mirror the political risk conditions they assess in the rated country. This argument is theoretically supported by the literature on the restrictions imposed by the context of financial globalization and financialization on the autonomy of national governments and by studies in the field of International Political Economy (IPE) on rating agencies' behavior. The analysis is built on the case studies of Brazil and Argentina, over the first two decades of the 21st century, when both countries experienced the rise and fall of the "pink tide", as well as relevant variations in the international environment. The research is based on sovereign ratings, reports, and press releases published by S&P, Moody's, and Fitch, as well as reactions from the governments of Brazil and Argentina to these actions, documented in newspapers, magazines, and official notes. Examining this interaction, in the light of the referred theoretical framework and the contextualization offered by the academic literature, allows for reaching conclusions aligned with the argument. Thereby, this study contributes to advancing the IPE research agenda on rating agencies, in particular, and the impacts of financial globalization and financialization on democracy, in general.

Keywords: international financial order; rating agencies; Brazil; Argentina.

RESUMO

MACHADO, Pedro Lange Netto. *O risco político e a política do risco:* percepções e ingerências das agências de rating no Brasil e na Argentina. Orientador: Luiz Fernando Rodrigues de Paula 2023. 273 f. Tese (Doutorado em Ciência Política) – Instituto de Estudos Sociais e Políticos, Universidade do Estado do Rio de Janeiro, Rio de Janeiro, 2023.

Esta pesquisa examina o comportamento das agências de *rating* frente a eventos políticos e econômicos de países em desenvolvimento. Parte-se do diagnóstico de que Standard & Poor's (S&P), Moody's Investors Service (Moody's) e Fitch Ratings (Fitch) são atores relevantes na ordem financeira corrente, sendo capazes de interferir na dinâmica política e econômica dos países que avaliam, sobretudo países em desenvolvimento, que são mais vulneráveis à dinâmica financeira global. O argumento central é que as agências de rating atuam para influenciar o processo político e a implementação da política econômica de países em desenvolvimento por meio da emissão coordenada de ratings, relatórios e *press releases*. Essa influência é viabilizada pelo papel desempenhado por S&P, Moody's e Fitch na ordem da globalização financeira, que as permite promover a agenda do mercado financeiro quando interagem com governos de países em desenvolvimento. Para tanto, as agências frequentemente recorrem a formas de ativismo político que tendem a refletir as condições de risco político que avaliam haver no país em questão. Tal argumento é sustentado teoricamente pela literatura sobre as restrições que o contexto de globalização financeira e financeirização do capitalismo impõe à autonomia de governos nacionais e por estudos do campo da Economia Política Internacional (EPI) sobre o comportamento das agências de rating. A análise se constrói sobre os estudos dos casos de Brasil e Argentina, ao longo das duas primeiras décadas do século XXI, quando ambos os países experimentam a ascensão e o declínio da "maré rosa", bem como variações relevantes na conjuntura internacional. A pesquisa se baseia nos *ratings* soberanos, relatórios e *press releases* publicados por S&P, Moody's e Fitch, bem como em reações dos respectivos governos de Brasil e Argentina a essas ações, documentadas em jornais, revistas e notas oficiais. O exame dessa interação, à luz do referido marco teórico e da contextualização oferecida pela literatura acadêmica, permite alcançar conclusões alinhadas ao argumento da pesquisa. Desse modo, o estudo contribui para avançar a agenda de pesquisa de EPI em torno das agências de *rating*, em particular, e dos impactos da globalização financeira e da financeirização do capitalismo sobre a democracia, de forma mais ampla.

Palavras-chave: ordem financeira internacional; agências de *rating*; Brasil; Argentina.

LIST OF FIGURES AND TABLES

LIST OF ABBREVIATIONS

AFJP	Administradoras de Fondos de Jubilaciones y Pensiones
AUH	Asignación Universal por Hijo
BCB	Banco Central do Brasil
BIRD	Bank for Reconstruction and Development
BIS	Bank for International Settlements
BCRA	Banco Central de la República Argentina
CDS	Credit Default Swap
CFK	Cristina Fernández de Kirchner
CPMF	Provisional Contribution on Financial Transactions
CRA	Credit Rating Agency
EC-95	Constitutional Amendment nº 95
ESMA	European Securities and Markets Authority
Fed	Federal Reserve
Fiesp	São Paulo State Industries Federation
FHC	Fernando Henrique Cardoso
Fondea	Fondo para el Desendeudamiento Argentino
FpV	Frente para la Victoria
GDP	Gross Domestic Product
IMF	International Monetary Fund
Iosco	International Organization of Securities Commissions
IPE	International Political Economy
NK	Néstor Kirchner
NME	New Economic Matrix
NRSRO	Nationally Recognized Statistical Rating Organization
PEC	Proposed Constitutional Amendment
PJ	Justicialist Party
PSDB	Brazilian Social Democracy Party
PT	Worker's Party

CONTENTS

INTRODUCTION

In February 2015, a legal battle between Standard & Poor's[1] (S&P) and the United States government came to an end. The settlement forced the credit rating agency (CRA) to pay $1.5 billion in compensation to the U.S. Department of Justice and 19 states for damages caused by its participation in the global financial crisis of 2008[2]. Two years later, Moody's Investors Service (Moody's) was similarly punished (THE GUARDIAN, 2017). In the context of the European Union, the ratings assigned to the countries known as PIIGS[3], which aggravated the sovereign debt crisis in the periphery of the eurozone, prompted reprisals in the form of new regulations on CRAs' activities. In the words of Michel Bernier, responsible for the issue at the European Commission: "the credit rating agencies will have to be more transparent when rating sovereign states, respect timing rules on sovereign ratings and justify the timing of publication of unsolicited ratings of sovereign debt" (REUTERS, 2012).

At the same time, the political and economic process in developing countries was also severely affected by CRAs' actions. In 2015, for example, Argentina faced a critical electoral cycle in its history, in the midst of a severe economic crisis, but with blocked access to financial resources available in the global sovereign debt market. The previous year, the government of President Cristina Fernández de Kirchner (CFK) tried to return to capital markets as a debt issuer, but was frustrated by a court decision in the United States, which led the CRAs to rate the country as in default. The backdrop was the litigation with vulture funds, which resulted in the judicial blockage of public debt servicing and the consequent controversial deterioration of the sovereign creditworthiness profile. As a result, the socio-economic crisis worsened and Peronism was defeated at the polls.

In Brazil, the CRAs' actions were part of the calamitous scenario that took place during Dilma Rousseff's second term as president. As the political and economic crisis deepened, the

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[1] From 2016 on, *S&P Global* became the rebranded name of Standard & Poor's.

[2] *Rating* agencies were closely involved in the making of the financial assets that were at the epicenter of the crisis, such as *subprimes*, then evaluated as highly secure. This theme will be resumed in chapters 2 and 3 of this work. In the case of this compensation, half went to the country's Department of Justice and the other half, to 19 states and the District of Columbia (REUTERS, 2015).

[3] This is an acronym that became popular to designate Portugal, Ireland, Italy, Greece and Spain - the euro zone countries that suffered most from the impacts of the global financial crisis triggered in 2008. Its sound is purposely negative, since it is identical to the pronunciation of the word *pigs,* which in itself produces deleterious effects for the countries of the group in investment decisions in the global financial circuit. On the subject, see LSE (2014).

country quickly lost the credibility it had built up with the financial market over more than a decade. In this process, the rating agencies downgraded Brazil several times during the impeachment proceedings against the president. Additionally, in their reports and press releases, S&P, Moody's, and Fitch Ratings (Fitch) - the three agencies that dominate the global rating sector and are known as the "Big Three" - harshly criticized the economic policy implemented in Dilma's first term, questioning her credibility to remain in office, while extolling the program of her then-vice president, Michel Temer, who would soon replace her.

In the era of financial globalization and financialization, examples like these abound to illustrate the weakening of the national governments' autonomy *vis-a-vis* the financial market and, ultimately, the heightening of tensions between democracy and capitalism (STREECK, 2014). With financial globalization, governments have their actions constantly monitored by investors and their representative institutions. In this scenario, governments that advance the liberal orthodox agenda[4] tend to be seen as more "trustworthy" to enjoy the resources available in sovereign debt markets[5] (MOSLEY, 2003). However, if they confront the policies advocated by the financial market, reprisals become more likely in their various forms[6]. Ultimately, they may negatively affect the state's financing capacity and interfere with democratic processes in national politics and policymaking (RODRIK, 2012). The constraints this imposes on the policy space of governments are then evident, especially for emerging economies[7], which are more vulnerable to global financial dynamics (PAULA; FRITZ; PRATES, 2017).

In light of this, scholarship has sought to understand the mechanisms that operationalize the restrictions of the financial market on state autonomy, so as to clarify ways to overcome the damage that this reality causes to national political and economic processes. This is a goal that benefits from the tradition of International Political Economy (IPE) as an area of knowledge, given

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[4] As will be further discussed in chapter 1, this agenda may also be framed as "neoliberal".

[5] As will be explained in chapter 2, it should be noted that not all players that make up what is conventionally called "financial market" necessarily have the same interests. In any case, for analytical purposes, this paper will frequently refer to the "financial market" in general. On aggregating and disaggregating the actors that compose it, see Hardie (2012).

[6] There is extensive literature, to be presented in chapter 1, that documents the discipline that market actors impose on governments through the pricing of public securities and capital flows (for example, see Mosley, 2003; Hardie, 2012; Campello, 2015). In this research, the discursive dimension of this process will receive particular attention.

[7] This research adopts the same conception of an emerging economy that underlies Mosley's research (2003), originally proposed by the International Financial Corporation (IFC), a financial arm of the World Bank, but whose database was eventually sold to S&P. Thus, an emerging economy is understood to be a country that meets one of the following two criteria: "(1) it is located in a low- or middle-income economy and (2) its investable market capitalization is low relative to its most recent GDP figures" (MOSLEY, 2003, p. 104).

its attention to the power structures embedded in global finance, which conditions the interplay between financial market's actors and the states integrated into financial globalization (HELLEINER, 1994; STRANGE, 1994, 1998). As the literature recognizes, understanding this scenario demands examining how the different actors and institutions comprising what is conventionally called “the financial market” operate, shedding light on their motivations and demystifying their supposedly technical and politically neutral essence (DE GOEDE, 2021; PERRY; NÖLKE, 2006; PETRY, 2021; SINCLAIR, 2005).

This leads to the choice of *credit rating agencies* as the object of study in this research. Considered "black boxes" in the financial world[8], S&P, Moody's, and Fitch constitute the nerve centers of the international order of financial globalization, as they help guide capital flows and function as gatekeepers of national states' access to financing available in sovereign debt markets[9]. In this context, the ratings they assign to public debt securities inform investors about the likelihood of default, impacting a government's financing conditions by influencing factors such as pricing and maturity demands from state creditors.

At the same time, the CRAs also publish reports on the rated country and comment on its political and economic performance in media channels. In this discursive dimension of their *modus operandi*, they often criticize or praise the government's actions while proposing or condemning economic policy measures, among other things. Understanding the repercussions of these expressions presents a challenge for studies on this topic, to which this work aims to contribute.

In any case, as suggested in the opening of this introduction, the implications of the CRAs' actions are not trivial for the targeted countries, as they affect real variables in their economies and, consequently, influence the fate of their governments and citizens. Understanding these implications thus becomes a relevant necessity for enhancing the quality of state governance within the foundations of representative democracy. This relevance is particularly pronounced in emerging economies, which are perceived as riskier by financial investors (MOSLEY, 2003), yet rely heavily on access to sovereign debt markets to promote economic policy objectives and balance of payments' stability. Moreover, from the perspective of market agents, the opinions of

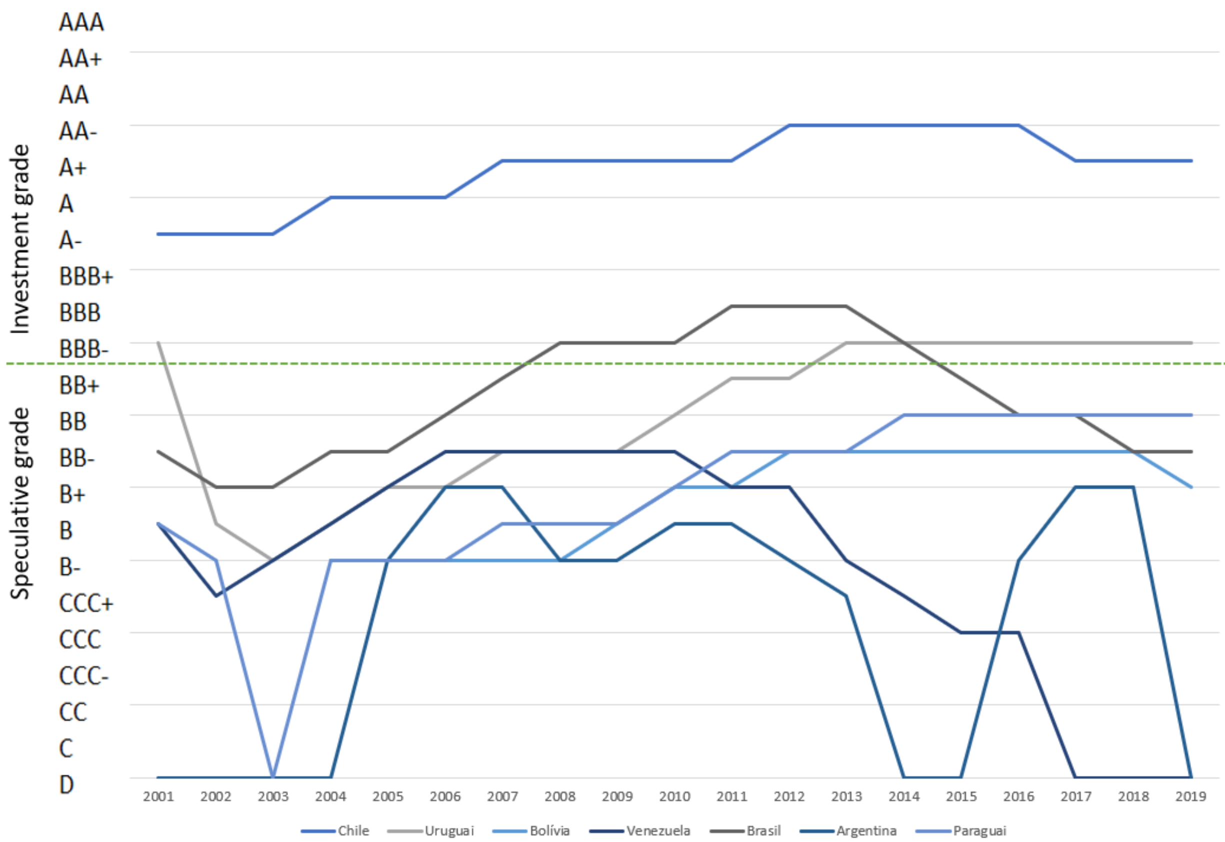
[8] By "black boxes" of the international financial system, one should have in mind the supposedly technical institutions whose activities are complex and not very transparent or absolutely inaccessible to external actors. On the subject, see Mackenzie (2005).
[9] Although the focus of this research is the evaluation of government bonds by CRAs, they also rate financial assets issued by various actors such as companies or subnational governments. In addition, they play a prominent role in the creation of structured finance products (GUTTMANN, 2016; SINCLAIR, 2021).

rating agencies about developing countries hold greater significance. This is due to the lower reliability of their public information for supporting investment decisions (BLOCK; VAALER, 2004). In other words, the assessments and statements made by the CRAs exert a more substantial impact on the reality of developing countries compared to advanced economies.

In addition to this observation, a series of problems already documented by the literature regarding the *modus operandi* of S&P, Moody's, and Fitch should be noted. First, quantitative studies indicate that sovereign ratings can be politically contaminated by the partisan ideology of governments so that left-wing (right-wing) governments tend to receive worse (better) ratings than right-wing (left-wing) ones (BARTA; JOHNSTON, 2017; VAALER; SCHRAGE; BLOCK, 2006). Second, the formulation process of sovereign ratings is ideologically guided by neoliberal tenets, which privileges a socioeconomic organization that prompts the interests of financial market actors. Third, this means that the CRAs act as vectors of an ideologically identifiable political economy, which has tangible political and economic repercussions and ultimately benefits and harms specific social groups (SINCLAIR, 2008; PAUDYN, 2014). In other words, the CRAs are relevant actors in the international order of financial globalization, but their actions have political consequences and are prone to leading to democratic deficits in the countries on which they impact.

Beyond these factors, the historical experience of emerging economies with credit rating agencies also reveals nuanced interactions that require understanding. In the case of Latin American countries, for instance, it is evident that their most prosperous period in terms of sovereign ratings coincided with the rise of left-wing governments in the early 21st century, a phenomenon commonly referred to as the “pink tide” (see Figure 1). However, as demonstrated by the aforementioned examples of Brazil and Argentina, the CRAs also seem to have played a strategic role in the decline of the progressive cycle in the region. Within this context, the interplay of failures and successes in economic policy strategies and significant shifts in the international environment add to the equation that allows us to comprehend the actions of CRAs and their impacts on the subcontinent.

Figure 1 - Sovereign ratings of some of the pink tide's countries (2001-2019).



Source: The author, 2023. Based on Trading Economics, 2021.

In order to understand this reality, this research is guided by the following questions: how do rating agencies behave when faced with political and economic events in a developing country? Why does the way they interact with their governments vary over time? What may be the implications of CRAs' *modus operandi* for supposedly democratic national processes? How does this interaction relate to the configuration of the prevailing international financial order?

To address these issues, the main objective of this dissertation is to analyze the behavior of CRAs in response to political and economic events in Brazil and Argentina. As will be further elaborated in this section, these are selected cases to study the interaction between CRAs and developing countries. To achieve this goal, the following specific objectives will be pursued: to understand the context in which the agencies operate; to identify the political dimension of their *modus operandi*; to confront their actions with the political and economic trajectory of the rated countries.

The central argument of this research posits that the credit rating agencies act to influence the political process and the execution of economic policy in developing countries through a coordinated issuance of sovereign ratings, reports, and press releases. This influence is made possible by the role played by S&P, Moody's, and Fitch within the international order of financial globalization, which enables them to advance the financial market agenda while interacting with governments of developing countries. In pursuit of this objective, the CRAs frequently resort to forms of political activism that tend to mirror the political risk conditions they assess in the rated country.

This argument is supported by theoretical studies on the constraints imposed on national governments by financial globalization, in general, and CRAs' actions, in particular. In the case of the former, it draws upon contributions by Streeck (2013, 2018) regarding the conflicts between citizens and the financial market's demands, which conditions the actions of national governments in contemporary capitalism. This reality, in turn, stems from the configuration of a particular international financial order (SATO, 2012; NÖLKE; PETRY, 2022), which was driven by decisions of advanced economies' governments based on political conveniences that emerged from the collapse of the Bretton Woods regime (HELLEINER, 1994). As a result, in the international order built over the last quarter of the 20th century, financial market actors came to have the power to discipline national governments, especially drawing on international capital mobility (MOSLEY, 2003; RODRIK, 2012). This resulted in the process of financialization of the capitalist economy, which translates, *inter alia*, into the prominence of the interests of financial sectors of society in national political and economic dynamics, as well as in their greater capacity to influence them (KRIPPNER, 2011; PALLEY, 2013; NÖLKE, 2020; PAGLIARI; YOUNG, 2020).

Such a reality gives rise to democratic deficits in countries integrated into the order of financial globalization, as citizens lack comparable instruments to assert their demands (STREECK, 2018). This challenge is particularly pronounced for "riskier" developing countries (MOSLEY, 2003), where macroeconomic variables are more susceptible to influence by global financial dynamics compared to those of advanced economies (PAUL; FRITZ; PRATES, 2017). In the case of Latin American commodities exporters countries, the room to manoeuvre of their governments is also conditioned by the vicissitudes of the international environment (CAMPELLO, 2015), as will be further explained in chapter 1.

This is the scenario in which the CRAs operate, which makes academic insights into their *modus operandi* crucial to support the argument to be developed. In particular, Sinclair's theoretical studies (2005, 2021), which build the CRAs as political actors endowed with specific objectives and mechanisms of action, stand out as particularly relevant. In his perspective, S&P, Moody's and Fitch are vectors of the financial market's interests and players in the global financial governance to promote the homogenization of governments' agenda and countries' institutional frameworks around a "mental framework of rating orthodoxy" - which, as will be seen in chapter 2, overlaps with neoliberal precepts.

To operationalize the stated objectives, this research employs a methodology that draws on the case studies of Brazil and Argentina. The focus is on analyzing the behavior of CRAs within the political and economic dynamics of these two countries, spanning the years 2002 to 2018 for Brazil and 2002 to 2019 for Argentina. The choice of these cases and the proposed time frame can be attributed to three reasons. Firstly, Brazil and Argentina are emerging economies and developing countries that, in the 1990s, implemented structural reforms inspired by the Washington Consensus. This integration into the global financial order led to instances of instability arising from their interactions with actors within the international financial system, including the CRAs. Secondly, both countries composed the emergence and decline of the "pink tide" phenomenon in Latin America. Consequently, within the proposed time frame, governments of different ideological orientations alternated in power. This makes these cases particularly suitable for examining how CRAs responded to different governments throughout this period. Thirdly, the initial two decades of the 21st century witnessed notable changes in the international environment (such as the rise and fall of commodities prices) that affected the interaction between the financial market and governments, as will be theoretically explained in chapter 1.

Based on the objective and central argument of this research, it follows that the behavior of CRAs serves as the dependent variable within this study, while the independent variable is the prevailing political risk conditions that influence their actions. Operating as a conditioning factor between these two, the international order of financial globalization functions as the contextual variable. As will be explained upon in Chapters 1 and 2, the concept of political risk is partially shaped by the ideological orientation of a government and the prevailing conditions of the international environment. This further reinforces the rationale behind the selection of cases and the chosen time frame. In other words, in line with the proposed argument, the research aims to show that the political activism of the agencies in favor of the interests of the financial market varies in form and intensity over time, tending to mirror the assessed political risk conditions in the rated country.

The materials employed in the development of this thesis are aligned with this objective. On one hand, to explore the configuration of the international financial order and comprehend the political and economic trajectories of Brazil and Argentina, it is imperative to engage with a literature review on these topics. On the other hand, the analysis of the activities of S&P, Moody's, and Fitch is built upon materials sourced directly from these companies. Thus, the sovereign ratings[10] assigned to government bonds of Brazil and Argentina during the specified time frame, along with the reports and press releases concerning both countries issued by these three CRAs, are essential elements for this research. In addition to these materials, declarations and interviews with their representatives in media channels such as newspapers and magazines are also considered.

In relation to the CRAs' reports, certain clarifications are warranted. First and foremost, it should be noted that the CRAs' business model involves selling these reports to financial investors. While occasional excerpts from these reports are published by specialized financial media outlets, the bulk of these reports are sold to investors. However, through direct contact with S&P, Moody's, and Fitch, a total of 234 reports on Brazil and Argentina were obtained for the purpose of this research[11]. Secondly, it is important to acknowledge that the structure and level of detail of these reports evolve over the nearly two decades covered in this thesis. The more recent the report, the greater its length and the more detailed the explanations provided by the agencies regarding their assessments or evaluations of the country in question. Consequently, the structure of these reports also undergoes changes, becoming more detailed and incorporating subsections as required by the agencies' arguments. This evolution leads to a potential imbalance in the narrative analysis pursued in this study, as the availability of data for analysis within these documents increases over time. To mitigate this potential imbalance, the research resorts to newspaper and magazine coverage of CRAs' actions, aiming to maintain a coherent analysis depth.

[10] All the sovereign ratings issued to Brazil and Argentina are available in the Trading Economics (2021) database.

[11] For the case of Brazil, 110 reports were obtained, with 31 from S&P, 30 from Moody's, and 49 from Fitch. As for Argentina, 124 reports were obtained, with 34 from S&P, 62 from Moody's, and 28 from Fitch.

Drawing upon these materials, the methodology employed in this study unfolds as follows. Initially, a literature review establishes the contextual framework within which this thesis evolves. It delineates the concepts employed in the work and introduces the CRAs as the subject of investigation. In the subsequent phase, the case studies are operationalized. Here, a return to academic literature is necessary to outline the political and economic trajectories of Brazil and Argentina during the specified time frame. Subsequently, the materials from CRAs are integrated into the established contexts, and the argument's causality mechanisms are explored. To this end, after scrutinizing the CRAs' responses to the political and economic dynamics within each country, the designated time frame is dissected into distinct situations of perceived political risk by the CRAs, which are informed by the ideological orientation of the government in force and the conditions of the international environment. At each juncture, the patterns of political activism exhibited by S&P, Moody's, and Fitch are examined to verify the argument's validity.

After completing these procedures, this research is expected to contribute to the academic literature on three fronts. Firstly, by shedding light on the *modus operandi* of the credit rating agencies, which remain relatively underexplored despite their significance within the international financial system. Notably, the qualitative analysis of the discursive dimension of their operations, primarily manifested through the issuance of reports on rated countries, stands out as one of the main contributions of this thesis. This analysis addresses a gap in the existing literature concerning the political bias inherent in CRAs' actions, a topic previously touched upon by quantitative (BARTA; JOHNSTON, 2017; VAALER; SCHRAGE; BLOCK, 2006) and theoretical studies (SINCLAIR, 2005; PAUDYN, 2014). As a second contribution, by examining the interaction between governments and CRAs, this study adds to the literature on the constraints imposed by financial globalization and financialization upon the autonomy of national governments. More broadly, the academic exercise carried out here presents a new and contemporary dimension of the tensions between capitalism and democracy. Understanding these tensions gains heightened relevance in a world characterized by the rise of authoritarian regimes following socio-economic crises and the ascent of populist and extremist governments and movements in Western countries[12]. Lastly, this research updates the literature on the political and economic trajectories of Brazil and Argentina. By embedding and analyzing the CRAs' actions within the political and economic

[12] This issue will be discussed again in the conclusion of this work.

processes of these countries, a deeper comprehension of their unfolding and ramifications is achieved.

The thesis is structured in four chapters and a conclusion, besides this introduction. Chapter 1 delves into the implications stemming from the configuration of the international order of financial globalization for the political and economic dynamics of states. To achieve this, the chapter conducts a narrative analysis of the evolution of international financial orders, starting from the gold standard regime and extending to the contemporary stage characterized by financial globalization and the process of financialization. Through this analytical description, the chapter contemplates how this reality influences the margin of manoeuvre for national governments, with a particular focus on those of developing countries. With this aim, the theoretical frameworks supporting the argument are explored, and key concepts central to the analysis are introduced. Considering the cases to be studied, the chapter dedicates special attention to the 'pink tide' phenomenon in Latin America, seeking to understand its achievements and limitations in light of the parameters of the international order of financial globalization.

Chapter 2 is dedicated to presenting the credit rating agencies as the focal subject of study and delineating them as consequential political actors within the framework of financial globalization. Initially, the chapter addresses the technical elements intrinsic to the CRAs' modus operandi. This clarification serves to elucidate their activities, their (presumed) role in the international financial system, and the methodology underlying the assignment of ratings to government bonds. Once understood what the agencies are and the general characteristics of their operations, the chapter delves into the examination of S&P, Moody's, and Fitch in terms of their political repercussions for the countries they engage with. This exploration involves dissecting various dimensions of the CRAs' political conduct, drawing upon diverse academic research. This analysis accentuates the ideological underpinnings of their actions, emphasizing their potential clashes with the ideological orientation of national governments. Furthermore, the chapter delineates core concepts pivotal to the developed thesis, such as political risk and political activism, laying the operational foundations for the empirical exercise to be carried out in sequence.

Building on the contextual, theoretical, and conceptual foundations established in chapters 1 and 2, chapters 3 and 4 turn to the case studies of Brazil and Argentina, respectively. With both chapters having the same structure, an overview of the political and economic trajectory of the two countries is initially offered to present and understand the scenario in which the actions of rating agencies unfold. Particular focus is given to elements valuable to the analysis, such as each government's economic policy, its ideological orientation, and the circumstances of the international environment in which they are placed. Then, a narrative description of the agencies' sovereign ratings, reports, and other manifestations in response to the events presented in the previous section is provided. This enables the subsequent assessment of the second stage of the argument, namely, whether there is correspondence between the CRAs' political activism in favor of the interests of the financial market and the political risk they evaluate in the country in question. In doing so, the chapters also offer an assessment of the interaction between S&P, Moody's, and Fitch and the governments of Brazil and Argentina, as well as reflect on the meaning and implications of the agencies' modus operandi for the two countries' democracy and policy space.

Finally, the conclusion of the thesis revisits the results obtained in the case studies, seeking to compare them to extract possible generalizations for the experience of other countries. Despite the limited number of cases, this exercise is plausible insofar as, to some extent, all national economies integrated into the order of financial globalization are subject to the actions of rating agencies, even if their conditions of vulnerability are not homogeneous, nor are the parameters that inform the political risk in force to S&P, Moody's, and Fitch. This concluding chapter also relates the results obtained in the thesis to topics currently debated in academia, shedding light on new research agendas. In particular, more effective actions regarding the urgent global environmental breakdown and the containment of far-right populism may involve corrections to the CRAs' *modus operandi*, reflecting the imperative of setting up new international regimes focused on these issues.

1 THE INTERNATIONAL ORDER OF FINANCIAL GLOBALIZATION

> *"Why should the ultimate victory of a trend be taken as a proof of the ineffectiveness of the efforts to slow down its progress? And why should the purpose of these measures not be seen precisely in that which they achieved, i.e., in the slowing down of the rate of change? That which is ineffectual in stopping a line of development altogether is not, on that account, altogether ineffectual. The rate of change is often of no less importance than the direction of the change itself; but while the latter frequently does not depend upon our volition, it is the rate at which we allow change to take place which well may depend upon us."*
>
> Polanyi, 2001, p. 39

> "*I now understand that graffito that reportedly appeared on a wall in Poland last year. It said: 'We wanted democracy but we ended up with capitalism.' I would refine that to say: 'We wanted a parliament, but we ended up with the bond market*."
>
> Friedman, 1995

1.1 Introduction

This chapter examines the international order of financial globalization, which serves as a contextual variable in this thesis. To this end, the historical process that led to its formation and some of the concepts mobilized in the research are discussed here. In line with its objectives, special attention is given to the political repercussions of financial globalization and the financialization of capitalism. This makes it possible to understand how actors in the international financial system have become capable of interfering in national political dynamics to explore some of the consequences of this reality, especially for developing countries.

The chapter structure follows a chronological order of events that often intersect. The following section explores the concept of an *international financial order* (IFO) and offers a brief panorama of the orders that preceded the international order of financial globalization, i.e., the international orders of the gold standard and Bretton Woods. In the following two sections, relevant aspects of financial globalization and the financialization of capitalism, respectively, are addressed. This sets the stage for the fifth section to reflect on the interaction between national governments and the financial market under the parameters of the international order of financial globalization. The underlying objective is to examine the constraints that such a relationship imposes on the policy space of developing countries, as well as to explore some of its implications for national political and economic dynamics. The final section summarizes the ideas presented throughout the chapter.

1.2 The transformations of the international financial order

The argument to be advanced in this research is based on the analysis of historically situated processes that are partially conditioned by the norms, practices, and institutions that were in place in the international economy at the time of the events in question. This makes it convenient to use some taxonomy or periodization of capitalist history, which allows for identifying the context in which the argument develops and differentiating it from those that preceded it and possibly will follow it. Hence the option, as stated in the introduction to this dissertation, to refer to a specific international financial order, which functions as its contextual variable.

However, this is a concept that has been raising academic debates, and therefore, it deserves some clarification here. In the literature on IPE, various schools and theoretical approaches propose different ways of periodizing capitalist history[13]. In general, though, they converge on the diagnosis that there are at least three identifiable stages, separated by disruptive systemic crises (SATO, 2012; LAKE; LASSE; RISSE, 2021; NÖLKE; MAY, 2019).

These stages can be summarized as follows. First, from the late 19th century until the 1920s, an era characterized as "progressive" or the "gold standard" prevailed. Next, following the collapse of the capitalist economy triggered in 1929 and amplified by World War II, a new order was

[13] Relevant examples are the periodization of capitalism offered by world-systems theorists (Wallerstein, 2007; Arrighi, 1994), who propose to understand capitalist history in a systemic way and based on hegemonic cycles, and by the regulation school (Boyer, 1990; Boyer; Saillard, 2002), which identifies distinct accumulation regimes within it.

designed at Bretton Woods in 1944, commonly recognized as "Keynesian" or "Fordist." This lasted until the stagflation crisis of advanced economies in the 1970s, which was fueled by the oil shocks (1973 and 1979) and followed by the debt crisis of developing countries. Thus, from the dismantling of Bretton Woods, a new order structured around financial globalization and the financialization of capitalism emerged under the ideological hegemony of what is known as "neoliberalism" – which will receive further attention in the following sections. At the time of writing this research, the literature debates whether a new international order is underway, given the potentially disruptive moment inaugurated by the global financial crisis of 2008, to which add the climate breakdown and the Covid-19 pandemic and its consequences (LAKE; LASSE; RISSE, 2021; NÖLKE, 2017; NÖLKE; MAY, 2019). The following table lists these stages.

Table 1 - The international orders of capitalist history.

	International order	Disruptive crisis
1890s-1920s	Gold standard, progressive era	World wars and 1929 crisis
1940s-1970s	Bretton Woods, fordism	Stagflation crisis and oil shocks
1980s-2010s	Financial globalization, neoliberalism	2008 crisis and Covid-19 pandemic
2020s ~	New international order?	

Source: The author, 2023.

This panorama evokes the need to delineate a concept for the international financial order. As each of the mentioned stages is far from homogeneous, stable, or immutable during its period of validity, it is necessary to specify what allows grouping them in such a way, identifying their points of convergence. Given the objectives of this thesis, the internal patterns of the financial dimension of the order in question are particularly relevant.

To understand them, Nölke and Petry (2022) observe that an international financial order can be characterized through the study of its "underlying ideas, power structures, and institutions", based on three essential elements: "international institutions, domestic features, and the stream of interactions across borders". This diagnosis converges with the classic definition of international regimes proposed by Krasner (1982, p. 186): "regimes can be defined as sets of implicit or explicit principles, norms, rules, and decision-making procedures around which actors' expectations converge in a given area of international relations". This concept also underpins the conception of the international economic order developed by Sato (2012) to periodize the history of global capitalism. According to him, an international economic order has five constituent elements: (i) an international trade regime; (ii) an international monetary regime; (iii) an international financial regime; (iv) an international pattern of distribution of wealth and power; and (v) an implicit growth strategy in the international economy, that is, the logic that associates the actions of economic actors with the process of generating and increasing wealth. Naturally, the first three elements overlap, while the last two give meaning to the architecture of these regimes and, when they undergo changes, catalyze changes in the international economic order as a whole.

Based on this discussion, this work will refer to the international orders that run through capitalist history, but with a focus on the financial regimes that compose them. In this sense, when exploring the international order of financial globalization, which constitutes the contextual variable of this research, the objective will be to observe the norms, practices, institutions, and power structures that govern it at the international level, as well as its consequences for domestic political and economic processes and policy space. That said, the rest of this section is devoted to providing a historical overview of the two international orders that precede the order of financial globalization, which will be explored in detail in the remainder of the chapter.

In this direction, the first identifiable international financial order is the international order of the gold standard, which was in effect from the last decades of the 19th century until the 1920s. Under its parameters, the economic management of states was dictated by their balance of payments dynamics, with the value of their currencies pegged to accumulated gold reserves. If deficits (or surpluses) were recorded, the restoration of balance would require adopting deflationary (or inflationary) policies until the convertibility of their currency to gold is adjusted. In an international environment of free capital mobility, this regime was sustained by the confidence of financial agents in the commitment of Central Banks - or the institution that then played a similar role - to the system's functionality. This caused financial flows to have a stabilizing effect in the adjustment of the balance of payments of different national economies (EICHENGREEN, 2000; FRIEDEN, 2007; SATO, 2012).

Between the last decades of the 19th century and World War I, these would be, in general terms, the conditions under which the gold standard operated. The interwar period, however, demonstrated the impossibility of maintaining it in the new political and social circumstances prevailing in advanced economies, where citizens demanded measures from their governments that often compromised their currency parity with the gold, calling into question the imperative of monetary stability. In the successive crises that occurred in this context, financial flows revealed a dysfunctional and speculative character, exacerbating the socioeconomic collapse of the time (EICHENGREEN, 2000).

As a consequence, during the 1930s, the gold standard would be definitively abandoned. In this scenario, the trauma of the Great Depression made free international capital mobility be seen as an impediment to the necessary economic policy autonomy for governments to meet their different domestic demands. This was reflected in the encouragement of state control over their financial accounts, formalized in the Bretton Woods agreements. At the same time, a new monetary regime was also established under the dollar-gold standard, fixing exchange rates between major national currencies and the US dollar, which in turn became pegged to gold at approximately $35 per ounce. Indirectly, therefore, the agreements also envisaged the convertibility of other national currencies into gold, albeit under the scrutiny of the United States currency[14] (HELLEINER, 1994; KUTNNER, 2018, SATO, 2012).

The ascending monetary and financial regimes mirrored the American condition as the hegemonic power of the capitalist world[15] and translated its own experience with the economic crisis of the 1930s. Under the Roosevelt government, the New Deal represented a turnaround in the political power enjoyed by the financial sectors of society, which were surpassed by a social coalition of industrialists, labor leaders, and bureaucrats influenced by Keynesian thought[16] in the state apparatus. In this context, a series of legislations and regulatory frameworks, aimed at controlling financial flows and regulating banking activity, were instituted (HELLEINER, 1994; KUTTNER, 2018).

As Krippner (2011, p. 60) notes, some of these developments include the Banking Acts of 1933 and 1935 and the Securities Act of 1933. Within the first, restrictions were imposed on the activities of banks[17], and the control of monetary policy was centralized by the Federal Reserve

[14] This is explained by the fact that the United States held around 80% of the global volume of gold at the end of the Second World War (HELLEINER, 1994).
[15] In the preceding international order, this condition was enjoyed by the United Kingdom (SATO, 2012).
[16] Opposing the self-regulation of markets, Keynesian thought emphasizes the importance of managing aggregate demand by the state through macroeconomic policies - fiscal, monetary, and exchange rate policies - aimed at this goal. This presupposed axiomatic and ontological ruptures with the mainstream economics of the time. On this subject, see Keynes (2012).
[17] For example, Regulation Q imposed limits on interest rates from savings deposits, and the Glass-Steagall Act promoted the separation of commercial and investment banks.

Board (Fed). The second contemplated the creation of the Securities and Exchange Commission (SEC)[18], aimed at regulating the US capital market, to improve access to information for operators in stock markets. Thus, the institutional architecture erected in the critical context of the 1930s was decisive in conferring greater autonomy to the US government in managing economic policy, thereby enabling the implementation of measures necessary to overcome the crisis and establish policies focused on social welfare.

The international projection of the New Deal soon became one of the strategic objectives of the United States for the international order designed in Bretton Woods (HELLEINER, 1994, p. 31). This translated into establishing a restrictive financial regime, considered a necessary condition for exchange rate stability and a more liberal international trade regime. Moreover, the geopolitical dynamics of the Cold War favored the autonomy of governments to the benefit of their strategies of economic development and social welfare[19]. To synchronize and promote these objectives internationally, the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (BIRD, which would give rise to the World Bank) were created, as well as the General Agreement on Tariffs and Trade, in the wake of the failure to establish an International Trade Organization at the time[20] (SATO, 2012; VAROUFAKIS, 2015).

The Bretton Woods order proved functional until the late 1950s, when the circumstances that sustained it began to run out. During this period, the United States played the role of provider of liquidity, currency, and markets for the exports of other countries[21] - especially Europeans, in the wake of the devastation caused by the war. However, as international trade competitiveness was restored, US foreign investments and military spending began to pressure the parity between the dollar and gold, which would soon question the system's stability. As economist Robert Triffin warned at the time, the dilemma was that the preservation of the value of the dollar would not be sustainable in an expanding international economy, which demanded an increasingly large volume

[18] As discussed in chapter 3, the SEC would play a central role in the regulation and prominence acquired by credit rating agencies over the last quarter of the 20th century.
[19] This is because, at the time, there was a concrete alternative to the capitalist system, represented by Soviet socialism. On this subject, see Hobsbawm (1995).
[20] The World Trade Organization (WTO) would only be effectively created in 1995, when it would replace the GATT in the function of promoting rounds of negotiations aimed at the liberalization of international trade, among other functions.
[21] This was made possible, at first, through the Marshall Plan, which fulfilled the role of balancing the capital flight from Europe to the American financial system - a role that, as Helleiner (1994) evaluates, was even more relevant than the reconstruction of the war-devastated countries themselves.

of the American currency and as a consequence, put pressure for its devaluation (EICHENGREEN, 2011, p. 50).

Indeed, by the end of the 1950s, deficits in the US balance of payments already seemed to compromise the prerogative of other countries to convert their dollars into gold under the conditions agreed upon in Bretton Woods. In 1963, the "exorbitant privilege[22]" of the United States was publicly criticized by the French finance minister, Valérie d'Estaing, while speculations about the devaluation of the American currency were already a reality in a still restrictive international financial system (KUTTNER, 2018, p. 152). In this context, however, the configuration of the eurodollar market[23] - also known as the *euromarket* - began to confer unprecedented freedom to financial agents in the post-war period. In the following decades, the expansion of the euromarket undermined the monetary and financial regimes constructed in Bretton Woods, emerging as one of the main vectors of the imminent process of financial globalization (HELLEINER, 1994; VAROUFAKIS, 2015; KUTTNER, 2018).

Helleiner (1994) notes how the expansion of the euromarket was supported by the United States and the United Kingdom, which challenged multilateral cooperation in controlling international capital flows. As a consequence, despite the efforts of other governments, speculative movements gradually became more frequent, already compromising the stability of the fixed exchange rate system by the end of the 1960s. In 1971, the American government's unilateral rupture of the parity between the dollar and gold, which chose to devalue its currency instead of implementing the deflationary measures required to maintain the Bretton Woods commitment, inaugurated an era of international currency fluctuation. The Bretton Woods system was thus officially imploded (HELLEINER, 1994; KUTTNER, 2018).

The 1970s represented, as a result of these events, a turning point for the autonomy of national governments in managing their economic policies in the face of the disciplinary power that financial flows gradually began to exert. This was configured from the gradual deregulation of national financial systems and their integration at a global level - with the Eurodollar market

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[22] This is the U.S. prerogative to incur deficits in its Balance of Payments without having to bear the deleterious consequences that such a situation entails due to the central role of the dollar in the international monetary regime. On this subject, see Eichengreen (2011).

[23] As Guttmann (2016, p. 75) explains, a eurocurrency consists of a bank deposit denominated in a foreign currency outside the limits of the state that issues it. This began to occur in London around 1960 at the request of the Soviet Union, which sought to protect its dollar-denominated financial assets from potential confiscation on American soil. Aiming to regain the country's status as a global financial center, the British government chose not to interfere in the then-lucrative business opportunity presented to English banks.

being a first step in this direction. This movement resulted mainly from the instabilities arising from the stagflation[24] crisis of advanced economies. However, the transition to a liberalized international financial order would take more than a decade to complete. Meanwhile, most governments tried to resist exchange rate fluctuations and the liberalization of their national financial systems[25] to preserve autonomy in managing their respective economic policies (EICHENGREEN, 2000; TORRES FILHO, 2015).

During the critical 1970s, the trend toward financial deregulation started in the United States. This was mainly due to the distributive conflicts generated by stagflation and the resulting crisis of confidence around the dollar (KRIPPNER, 2011). This context offered the conditions for neoliberal ideology to spread in society, restoring the political power once lost by banks and other actors in the financial sector in the state apparatus since the 1930s (HELLEINER, 1994).

In line with the objectives of this research, neoliberalism will henceforth be conceived as a mode of social organization aimed at promoting the interests of the upper classes of society, which happens primarily through financial channels and institutions[26]. This is backed by an ideology that extols the virtues of self-regulation of markets and proposes the commodification of areas not yet subject to it as a means of optimizing the use of socioeconomic resources. Thus, some of the main neoliberal propositions are the minimization of state interventions in the provision of social welfare and the promotion of economic development; the use of public resources in guaranteeing an institutional framework aimed at upholding market laws and private property rights; the establishment of a regulatory apparatus favorable to mergers and acquisitions between companies; the increase in the influence of financial institutions over non-financial institutions; and the prioritization of monetary stability in the actions of Central Banks (DUMÉNIL; LÉVY, 2005). As will be presented throughout this chapter, another of its fundamental tenets is the instrumentalization of the state in imposing market imperatives, in a process that tends to replicate internationally (SAAD-FILHO; JOHNSTON, 2005, p. 3).

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[24] This refers to the simultaneous situation of economic stagnation and inflation.
[25] A notable example in this regard was the creation of the European Snake by European governments, seeking to limit the amplitude of their currencies' fluctuations. On this subject, see Eichengreen (2000).
[26] It is not an objective of this thesis to delve into the dense academic debate surrounding the concept of neoliberalism. There are different theoretical approaches and perspectives that analyze it in various ways and explore its different manifestations. For example, Palley (2013, p. 1) understands it as a political and economic philosophy based on laissez-faire, while Dardot and Laval (2016), from a Foucauldian perspective, comprehend it in terms of a rationality that permeates from the individual to the state. Saad-Filho and Morais (2018), in turn, propose to analyze it as a system of accumulation, while for Harvey (2005), neoliberalism is a theory of economic policy practices.

The neoliberal ideological offensive benefited from the opportunity left by the stagflation crisis, which was exacerbated by the oil shocks of 1973 and 1979. In this scenario, the United States government dealt with the ineffectiveness of Keynesian tools to stabilize and recover the economy while seeking to mitigate the political costs of allocating scarce credit among competing social groups. Indeed, this is a central element in Krippner's analysis (2011) to explain the impulse for deregulating the national financial system. By delegating control of the credit supply to the market, the U.S. government aimed to rid itself of the electoral burden that the choice entailed[27]. Following this logic, regulations arising from the New Deal were gradually dismantled to increase financial agents' freedom[28].

Helleiner (1994) notes how, at the same time, the lobby of banks for regulatory loosening reflected the growing competition imposed by institutional investors, which drained their financial resources in the face of the unattractiveness of bank deposits in an inflationary and tightly regulated financial environment. In this context, the Eurodollar market served as a model for the reforms sought by the U.S. financial sector, given the innovations it had introduced in favor of bank freedom since the 1960s. By the end of the 1970s, the trend of disintermediation of banking services was already evident from the increasing supply of securitized financial innovations, signaling the diffusion of a new modus operandi of banking activity, which will be better explored in the next section.

However, the process of financial deregulation also threatened to exacerbate inflationary pressures, given the amplification of the greater credit supply it generated. In addition, successive budget deficits, which continued to worsen during the Carter administration, reached critical levels for confidence in the dollar during the Reagan administration[29]. It was in this context that the monetary policy shock promoted by Paul Volcker, who then was the governor of the Fed, dramatically raised U.S. interest rates[30], restoring confidence in the value of the dollar and

[27] This trend will be explored in the next section in terms of the depoliticization of economic policy.
[28] As noted by Krippner (2011), a significant example in this regard was the end of Regulation Q, aimed at giving banks the prerogative to discipline credit applicants based on an evaluation of their credibility. This, in turn, was reflected in the interest rates charged by creditors, which required the dismantling of the ceiling previously established by such legislation.
[29] This is because, in general terms, the economic policy of the Reagan administration was based fundamentally on tax cuts and increased military spending.
[30] In October 1979, Volcker raised the Fed's interest rates by four percentage points to 15.5%. The following year, American interest rates would reach 20%.

restructuring the relationship between the U.S. economy and the international financial system (Helleiner, 1994; Konings, 2011).

The scenario of high interest rates and favorable market regulations in the financial system created the conditions for a large influx of capital into the American economy, which solved the inflationary pressures and the imbalances in the balance of payments (HELLEINER, 1994; KUTTNER, 2018). In other words, the United States was thereby able to preserve its economic policy autonomy, releasing itself from the budgetary restrictions from the previous years, which was made possible by its central position in the global financial system. This was allowed by the privileged condition of the dollar in the international monetary regime (COHEN, 2015), which ensured the American structural power over global finances[31]. This, in turn, had a significant impact on other governments' range of alternatives during the period of reconfiguration of the international financial order.

Strange (1994, p. 90) claims that the financial dimension of the structural power encompasses the arrangements for credit availability and the terms that determine inter-state monetary exchange rates. Indeed, the presented events' immediate institutional and macroeconomic effects illustrate US structural power. On the one hand, the availability of credit, which had faced the problem of scarcity in the 1970s, became abundant in the American economy thanks to the sudden attraction of capital, which also increased the value of the dollar against other currencies. On the other hand, this reality had an impact on the decisions of other governments, which found themselves constrained to implement changes in favor of a liberalized international financial order. Helleiner (1994) notes how this translated, throughout the 1980s, into the establishment of a competitive deregulation dynamic of national financial systems among advanced economies, which sought to emulate the liquidity, complexity, and openness of the American financial system to attract the resources available in capital markets[32].

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[31] Strange (1996, p. 31) defines structural power as the ability to shape the structures, including the financial structure, within which other states, as well as their companies and citizens, operate, in order to influence their *modus operandi* and the parameters that guide their relationships. This conception contrasts with the classical notion of relational power, which refers to the ability to make a certain actor do something that, in the absence of this constraint, they would not do.

[32] This process was initially driven by the Thatcher government in the UK, which had adopted a markedly neoliberal agenda since 1979. From 1984 to 1985, Australia and New Zealand followed suit by liberalizing their Capital Accounts – a commitment that the European Community countries had also made by 1988. Throughout the decade, Japan, which was emerging as a major power, also integrated into financial globalization. Even the Scandinavian countries, which were protective of their welfare states, joined the process between 1989 and 1990 (HELLEINER, 1994).

As a result, market agents began to enjoy more and more options for where to allocate their capital and greater freedom to move their resources in a financial system that was acquiring global proportions. From the perspective of national governments, while the 1970s marked the loss of state control over exchange rates, the 1980s witnessed the weakening of their autonomy in managing economic policies, given the restrictions imposed by international capital flows[33]. The exception was the United States, for whom the liberalized financial order functioned to safeguard its policy space, given its structural power over global finances, which ultimately guaranteed the financing of its successive budget and current account deficits. Indeed, the conception of risk that would underly transactions in capital markets, from then on, was structured around the value of the dollar and the pricing of the bonds issued by the US Treasury, which were considered the lowest risk assets in the global financial system (AQUANNO, 2009).

This process was complemented by the financial liberalization of emerging economies over the last two decades of the 20th century. During the 1980s, the debt crisis of Latin American countries[34] culminated in structural reforms in their economies in exchange for financial assistance from the IMF[35]. This occurred through the imposition of an institutional architecture aimed at integrating these states into financial globalization, while their debts were securitized and traded in capital markets with US backing[36] (HELLEINER, 1994; KONINGS, 2011). As will be analyzed in section 1.5, this resulted in the submission of the stability of these economies to the confidence of investors in their economic management.

Under the aegis of the Washington Consensus[37], the set of prescriptions that guided structural reforms included measures aimed at financial and trade liberalization of national economies, as well as institutional adjustments aimed at removing barriers to foreign direct investment, restricting public spending, and granting independence to the Central Bank, which should focus entirely on the objective of monetary stability. The underlying goal was to adapt

[33] This will be further explored in section 2.5.

[34] With the sudden increase in interest rates, these countries found themselves unable to meet the external debt commitments contracted in the previous decade. Throughout the 1980s, a series of Latin American countries declared a moratorium or suspension of payment of their external debts. This movement began with Mexico in 1982 and soon spread to Uruguay, Chile, and Argentina in 1983, Bolivia in 1984, and Brazil in 1987.

[35] Regarding the behavior of the IMF in the 1980s, see Carvalho (2004), who compares it to the way the Fund acted under the Bretton Woods system.

[36] This process occurred through the Brady Plan, which promoted the securitization of the external debt of these countries, by transforming it into Brady Bonds - financial instruments denominated in dollars and purchased by commercial banks with the support of the US Treasury and the IMF. See Mosley (2003, p. 105) for more on this topic.

[37] This is an allusion to the American capital, which hosts the IMF, the World Bank, and the US Department of Treasury - the entities that formulated the agenda.

emerging economies to the context of financial globalization, in line with the reality prevailing in advanced economies (WILLIAMSON, 1993). Thus, during the 1990s, reforms inspired by the Washington Consensus proliferated, both as an instrument of bargaining by multilateral organizations to grant loans to countries in financial difficulties[38] and through electorally victorious agendas of politicians aligned with the neoliberal ideology (FRIEDEN, 2007).

Konings (2011, p. 139) analyses the financial liberalization process of advanced and emerging economies in terms of a whirlpool, whose epicenter, in the United States, rapidly absorbed other countries. Indeed, they were constrained to adopt American norms, practices, and institutions, which demonstrates the functionality of the new configuration of the international financial system for the US economy. As shown, this new reality is rooted in the international order of Bretton Woods, which already reflected a privileged position of the US in the global economy and gestated the American structural power over it. From another perspective, it should be noted that the biggest beneficiaries of the emerging international order were the financial sectors of societies worldwide, which began to enjoy an unprecedented degree of freedom of action and political influence, now operating on a global scale (HELLEINER, 1994; STRANGE, 1998). This laid the foundations of the international order of financial globalization, whose main features are analyzed in the next sections.

1.3 Financial globalization

The financial globalization process consolidated trends developed in the last quarter of the 20th century, which gave a new dynamic to global capitalism. Firstly, thanks to financial disintermediation[39], the issuance of securitized assets[40] in financial markets became the main source of financing for public and private entities, given its advantages compared to traditional

[38] An example in this sense occurred with the East Asian countries in the wake of the 1997 financial crisis. Financial crises related to the context of financial globalization will be explored in the next section.

[39] In the outlined context, financial disintermediation appeared as an option - often more advantageous, given the lower costs for borrowers - to access to financial resources intermediated by banks. A comparison between the two borrowing routes is made by Sinclair (2021, p. 35).

[40] Regarding securitization, it should be understood as an "operation that involves the transfer of rights over the amortization and interest flows of debt contracts to credit securities, so that they can be traded (distributed) to third parties in a definitive manner" (TORRES FILHO, 2015, p. 15). Thereby, securitized instruments can be easily originated and sold in capital markets, presenting transparency in their profitability, terms, and risks from the perspective of investors.

loans[41]. This was added to the proliferation of financial derivatives[42], as a reaction to the established currency and interest rate volatility scenario. Since a large part of derivatives are traded in over-the-counter markets, tailored to the bilateral interests and demands of the parties involved, two characteristics of these financial instruments are their opacity and complexity, which makes regulatory activities difficult and enables more leveraged action by the agents involved in the contract. Consequently, their diffusion of derivatives exacerbates the speculative dynamics of capital markets, which is often exploited by the short-term investment decisions of institutional investors (GUTTMANN, 2016; TORRES FILHO, 2015).

As noted in the previous section, institutional investors gained prominence during the last decades of the 20th century, when they started to manage large sums of financial resources. *Institutional investors* refer to mutual funds, pension funds, insurance companies, and hedge funds[43] operating in capital markets. In the emerging financial order, the investment decisions of these actors began to strongly impact the balance of payments of states integrated into financial globalization. This implies that their actions affect real variables of national economies[44] and, as a consequence, the fate of governments and citizens (MOSLEY, 2003; TORRES FILHO, 2015).

Secondly, in reaction to the increasing power of institutional investors, the banking system's *modus operandi* transformed. Under the Bretton Woods order, the activity of banks consisted, in general terms, of intermediating loans from the deposits they collected, which occurred in a strictly regulated environment. However, the opportunities provided by financial disintermediation, backed by processes of deregulation and securitization, led to the reconfiguration of the sector. Gradually, the new institutional environment made it possible for the formation of universal banks (GUTTMANN, 2016, p. 88), which began to combine different activities, such as commercial, investment, provision of insurance, and portfolio management advice. This redefined the position of large banks in the global financial system, making them take

[41] As Guttmann (2016, p. 87) notes, securitized assets can be quickly resold in capital markets, providing greater security to creditors. At the same time, it also implies lower costs for their issuers, given the faster access to required financing and lower informational requirements than a traditional bank loan would require.

[42] The various types of derivatives that exist are analyzed by Guttmann (2016, p. 81). In general terms, the purpose of these contracts is to protect investors from future uncertainties, by establishing conditions and values for their remuneration - which, in turn, derives from another asset to which it is linked.

[43] *Hedge funds* differ from other institutional investors due to the low regulation they are subject to and their greater appetite for risk in their financial operations. Indeed, the autonomy of these "investor condominiums" in the pursuit of profitability made it so that "over the 1980s and 1990s, hedge funds went from being secondary figures to gradually becoming leading actors in different speculative markets" (TORRES FILHO, 2015, p. 20).

[44] As happened in 1992, during the crisis of the British pound, which had to be devalued due to the speculative attack led by the Quantum Fund, led by George Soros.

the lead in the process of financial globalization[45], in association with the actions of institutional investors.

Such reality translated into the establishment of networks between universal banks and a myriad of other non-bank financial institutions, which serve to multiply financial resources, manage the risks involved in operations, and evade regulatory activities - such as contractual relationships that are established between banks and insurers, CRAs, and hedge funds in the process of creating financial instruments. In this complex financial network, the banking modus operandi is based on the securitization of loans, which are associated with derivatives and then traded on capital markets, to disappear from their balance of payments (GUTTMANN, 2016).

In this process, a series of fees, commissions, and other gains provide them with profits that, in turn, function as a stimulus for the universal banks to keep promoting financial innovations to leverage their operations. Thus, financial resources also originate endogenously, no longer depending solely on bank deposits (GUTTMANN, 2016; TORRES FILHO, 2015). Outside the supervision of regulatory entities, therefore, shadow banking[46] ended up boosting the instabilities of the global finance system (GUTTMANN, 2016). Given the high level of leverage and connectivity established between banks and various actors operating in capital markets, this behavior raises the occurrence of systemic financial crises.

Indeed, the recurrence of speculative bubbles is the third trend that has consolidated in the international order of financial globalization. On this subject, when listing the ten biggest financial bubbles in the history of capitalism, Kindleberger and Aliber (2005, p. 9) place half of them in the context following the liberalization of the international financial regime analyzed here: the bubble in the stock and real estate market in Japan, between 1985 and 1989; the similar process that happened in the Nordic countries of Europe between 1985 and 1989; the bubble formed in several East Asian countries - especially Thailand, Malaysia, and Indonesia - between 1992 and 1997, which would trigger the financial crisis that also strongly impacted Russia and Latin American countries; the crisis in Mexico, in the context of the liberalization of its financial account, between 1990 and 1994; and the over-the-counter market bubble formed in the United States from 1995,

[45] It is worth noting, in the midst of this scenario, the repeal of the Glass-Steagal Act in 1999 by the Clinton government, which shows how the US government provided the institutional conditions for the observed trend.

[46] Guttmann (2016, p. 125) defines shadow banking as "relatively less regulated or entirely unregulated financial intermediaries creating a web of interwoven networks to circulate credit instruments for the purposes of maturity, liquidity, and credit intermediation".

bursting at the turn of the century. In addition to these events, in 2008, the subprime crisis, extensively analyzed by Guttmann (2016) and Sinclair (2021), emerged as the largest in the history of capitalism since the Great Depression. Originating from shadow banking, the cataclysm that emanated from the US financial system to the rest of the world became representative of the dangers and instabilities engendered by financial globalization.

In response to such a scenario, regulatory frameworks (mainly) that provide guidelines for the actions of banks and non-bank financial institutions have been developed within the BIS - such as the Basel agreements of 1988, 2004, and 2008 - and other multilateral organizations. Indeed, Helleiner (1994) assesses the *locus* for dialogue provided by the BIS as essential for maintaining the liberal financial order, since it is the environment in which the pro-market regulations that sustain it are defined. In the face of the periodic financial crises, the coordination of measures that seek to mitigate their effects is a condition for preserving its liberal character, especially in light of the memory of anti-market regulations that were in force during the Bretton Woods order. Thus, with a similar purpose, other bodies focused on financial regulation gained relevance in this context, such as the SEC, created under the New Deal, the International Organization of Securities Commissions (IOSCO), founded in 1974, and the Committee of European Securities Regulators, established in 2001 and later replaced by the European Securities and Markets Authority (ESMA).

All these organizations prompt the homogenization of states' regulatory frameworks towards conferring legitimacy to market entities as gears of the international financial system. A relevant challenge to this aim, as noted by Guttmann (2016, p. 75), can be understood in terms of a regulatory dialectic[47]: in the relationship between public regulations and financial sectors, the latter is always looking for innovations and mechanisms that give them greater freedom to move and expand their resources. Hence the perennial need to improve financial governance practices that contain the instabilities of the recurrent bubbles in this context.

Finally, the liberalization of the international financial order has led to a trend of depoliticization of economic policy as a governance strategy for national economies. This process can be understood in terms of the non-accountability of elected politicians for certain decisions made in the economic arena, which are delegated to external and non-elected actors. Three underlying motivations distinguish the depoliticization of economic policy from forms of

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[47] In this dialectical relationship, regulation would be the thesis; financial innovation seeking to circumvent it, the antithesis; and the new regulation focused on innovation, the synthesis. An illustrative example in this regard is the formation of the Euromarket, analyzed in this chapter.

governance that guarantee greater discretion to elected politicians in the socio-economic management - as was the case under the Bretton Woods order. First, the aim is to shield the government from the negative repercussions of any unpopular policies that may be implemented. Second, it also seeks to provide greater transparency to decision-making processes to gain greater credibility with market actors. Third, it seeks to optimize the acceptance of binding norms and rules established supranationally by multilateral organizations, which restrict national governments' policy space (BURNHAM, 2001; BULLER; FLINDERS, 2006).

As Krippner (2011, p. 145) analyzes, the process of depoliticization presents two dimensions related to the mechanisms that guide it. The first concerns the locus of decision-making, which involves its transfer to the control of non-elected bureaucracies or private actors external to the government. An emblematic example in this sense would be the management of monetary policy by an independent central bank, as advocated by the Washington Consensus. The other dimension relates to the content of the decisions taken. Justified by the need for technological expertise to carry them out, depoliticization promotes social and temporal distancing between measures implemented and the public upon which they reverberate. This is because, given the epistemic authority of the actors who execute them, the political process becomes detached from depoliticized issues, which come to affect politics without being affected by it.

A relevant implication of the process of depoliticization of economic policy is, therefore, the loss of control over its results and the consequent erosion of social consensus around the socioeconomic objectives to be achieved (KRIPPNER, 2011, p. 147). In the Bretton Woods order, state autonomy in macroeconomic management made commitments in favor of social welfare and strategies for economic development possible. In return, governments bore the consequences of their choices regarding resource allocation. However, with the promotion of institutional changes that gradually delegated economic decisions to market actors, the consensuses that underpin social life became less evident. Ultimately, this situation compromises the State's ability to deal with distributive conflicts and the crises resulting from the liberalization of the international financial order.

It should be noted that, despite the terminology in question, depoliticization does not imply the retraction of politics from certain decisions concerning socioeconomic management. In fact, it is rather an ideological mobilization that changes it both in its form and in the discursive maneuvers used to justify them, in order to influence public perception. Understanding this process, therefore, requires understanding the relationship between those who articulate and implement the economic policy, on the one hand, and those who end up being affected by it, on the other. Hence the relevance of the internal political dynamics of countries and their historical experiences regarding this subject. Since the State is the actor responsible for providing the institutional framework that shapes the boundaries between what is subject to market self-regulation and the discretion of elected officials, the process of depoliticizing economic policy is eminently political and path dependent (BURNHAM, 2006; BULLER; FLINDERS, 2006; KRIPPNER, 2011).

Although analyzed separately, the four presented trends overlap and are guided by the same economic theories that support the financial globalization process. In general, they are based on the theory of market efficiency and the hypothesis of rational expectations of economic agents (PAULA, 2011, p. 10), as well as on the assumption that speculation is a stabilizing activity for the economy, as Friedman's argument (1953) posits. In this sense, the financial market would have the attributes for being particularly receptive to this theoretical and ideological background – which also explains its expansion.

First, it is an environment that favors the rapid adjustment of the pricing of traded assets, based on the incorporation of information available to financial agents. Second, it has the function of channeling the allocation of savings by economic agents, while enabling the spread of risks involved in the financing of various actors - which, as already presented, occurs through the production of financial instruments aimed at this end. Finally, a third reason is their prominent role in promoting capital accumulation. In financial markets, this is fostered by the liquidity of the traded assets, which end up serving as collateral in the financial operations, which allegedly favors the investment level of a given economy and, as a result, its own expansion (PALLEY, 2013, p. 3).

In order to achieve this, as advocated by Camdessus (1999), some preconditions must be observed. On the one hand, from the point of view of debt issuers, honoring contracts and - in the case of national governments - pursuing a stable macroeconomic environment, guided by institutional frameworks aligned with the international standards of economic governance, are imperative. To this end, legislative and regulatory frameworks that favors transparency and the provision of information necessary for investors are also a condition. On the other hand, from the creditors' perspective, the stability of the international financial system demands the development of appropriate techniques for assessing, pricing, and managing the risks inherent in their investments.

It is with these objectives in mind that the depoliticization of economic policy, as previously defined, would also serve to mitigate the occurrence of financial instabilities resulting from the pursuit of profitability by a range of actors operating in the globalized financial system: universal banks, institutional investors, sovereign funds, and so on[48]. Under this scenario, a new dynamic of capitalism has emerged, consolidated by the trends analyzed in this section.

1.4 Financialization

When the Federal Reserve harshly increased the American interest rates in October 1979, its objective was to force a reduction in the credit demand by economic agents, especially the government itself, which incurred in successive budget deficits. As the gradual deregulation of the American financial system made credit more accessible, Volcker's strategy was to make it more expensive, in order to discourage public and private indebtedness. However, as analyzed in section 1.2, this also resulted in an intense capital inflow, which, instead of disciplining access to credit, as intended, made it abundant (KRIPPNER, 2011).

As a result, inflationary pressures were redirected towards financial assets, leading to a tendency of speculative bubbles and the indebtedness of economic agents. The mechanism of restriction of access to credit then shifted from its supply to its pricing - hence the prominence that monetary policy would acquire in the national macroeconomic management. Based on this experience of the United States, Krippner (2011, p. 27) identifies the increasing role of financial activities as a source of profit for economic agents. The implications of this trend, which projects globally with the liberalization of the international financial order, produced a new dynamic for the capitalist system, which can be understood in terms of its *financialization*.

This context was marked by the growing relevance of financial markets, financial motives, financial actors, and financial institutions in the operation of domestic and international economies - a comprehensive definition proposed by Epstein (2005, p.3), which is justified by the multifaceted nature of the phenomenon in question. Indeed, financialization has showed different characteristics in different countries, given its essential political character, which draws on the promotion of institutional adjustments by state authorities, thereby creating the conditions for its further path

[48] Regarding the possibilities of disaggregation of the actors operating in the international financial system and their characteristics, see Hardie (2012).

dependent development (STOCKHAMMER, 2008, p. 186; PALLEY, 2013, p. 201). The common axis of the process worldwide, as highlighted by Palley (2013), is the constant prevalence of the interests of the financial sectors of society, which dictate economic policies and national macroeconomic dynamics.

Regarding economic policy, the underlying economic growth model under financialization reflects the political hegemony of finance and the spread of neoliberalism. In the virtuous cycle of the Keynesian era, wages grew in line with the increase in productivity, in an institutional environment based on full employment of productive forces, which stimulated new investments and the Gross Domestic Product (GDP) expansion. Under the neoliberal paradigm, as analyzed in section 1.2, full employment gave way to inflation control as the governments' main goal. In this context, the political power once enjoyed by workers and their representative institutions - especially labor parties and unions - has been undermined by globalization, which pressure for the labor market flexibilization, the reorientation of State actions in the economy in favor of the market, and the dismantling of social welfare policies (PALLEY, 2013, p. 203). This helps to understand why the redistributive implications of financialization are often a topic in studies on this process, given the increasing concentration of income[49] observed benefiting the financial sectors of societies (GUTTMANN, 2016, p. 108) - which, as will be seen later, ends up conditioning the actions of the other economic agents.

Against this backdrop, the macroeconomic impacts of financialization are analyzed by Stockhammer (2008) in terms of an accumulation regime[50] dominated by finance. Based on the experience of European countries, the author identifies some key characteristics of financialized capitalism, which will be listed below and further analyzed in the following paragraphs. Under financialization, first, consumption tends to become the driving force of economic growth, due to easy access to credit and the stimulus for private indebtedness. Second, there is a slowdown in the investment level of companies, mainly due to the imperative of shareholder value maximization. Third, the freedom and mobility of international financial flows provide exchange rates with excessive volatility, affecting economic agents' confidence and translating into the propensity for

[49] About this topic, see Milanovic (2016) and Piketty (2014).

[50] This is a category of analysis from the French regulation school. The author uses the term "accumulation regime" to refer to the macroeconomic dynamics in a country, which is conditioned by its institutional apparatus, that is, by the "modes of regulation" in force (STOCKHAMMER, 2008, p. 185). For a literature review on the concepts and categories of analysis used by regulation theorists, see Mello Filho (2019).

Balance of Payments crises. Fourth, there is a stagnation of national governments' participation in GDP, which, despite the neoliberal agenda, remains essential for economic stability. Finally, economic growth, in the accumulation regime dominated by finance, has become fragile, moderate, and vulnerable to crises emanating from the financial sector.

As previously indicated, the consumption pattern prevailing in the era of financialization is directly related to dismantling the social pact constituted under the Bretton Woods order. Filling the gap left by the breakdown of social welfare policies and macroeconomic management focused on full employment, access to credit by middle and lower classes gained relevance in the composition of national income. This began to be reflected not only in the mortgage market, as illustrated by the subprime crisis, but also in the expansion of consumer credit, easy access to credit cards, and the proliferation of bank accounts (STOCKHAMMER, 2008). Worldwide, financial inclusion policies have become central to national governments' social welfare and development strategies[51]. Consequently, the growing indebtedness of families, especially from the 1990s, gave rise to what Crouch (2009) calls private Keynesianism: instead of governments borrowing to stimulate economic growth, individuals began to do so.

This dynamic of private indebtedness must be observed in light of the trend of wage compression imposed by the neoliberal agenda. Since income from wages is more likely to be used for consumption than income from financial asset profits, private indebtedness ends up cushioning the impact of increasing unemployment and wage precariousness on this component of aggregate demand, attenuating its decrease. On the other hand, due to the dismantling of public social security systems and the consequent rise of private mechanisms for their replacement, the need to save has the opposite effect on consumption. This is the scenario that leads Stockhammer (2008) to conclude that financialization produces contradictory effects on consumption: while it enhances it through easy access to credit, the proportion of income allocated to consumption ends up being partially compromised and reallocated to pension funds and mutual funds, for example - which ultimately makes families also become, directly or indirectly, holders of financial assets.

The changes in corporate governance are another manifestation of financialization, which affects the investment level of a given economy. Under the hegemony of financial interests, the shareholder value maximization prevails. Historically, the agency problem related to this issue had already been identified by mainstream economics: modern corporations are ruled by managers who

[51] About the case of Brazil, see Lavinas (2017).

may make decisions that are not always aligned with shareholders' interests. In the context of financialization, this issue has been solved by offering company shares as a form of payment to its managers, which encourages them to maximize shareholder value in the short term. As a result, this behaviour leads to a tendency for companies to buy back their own shares using profits obtained, which comes at the expense of distributing dividends, which are often more taxed[52]. The resulting increase in demand for shares can artificially inflate their prices – in line, therefore, with the interests of shareholders – but may have the effect of compromising the company's future profitability, given the short-term horizon guiding managers' actions (PALLEY, 2013, p. 32).

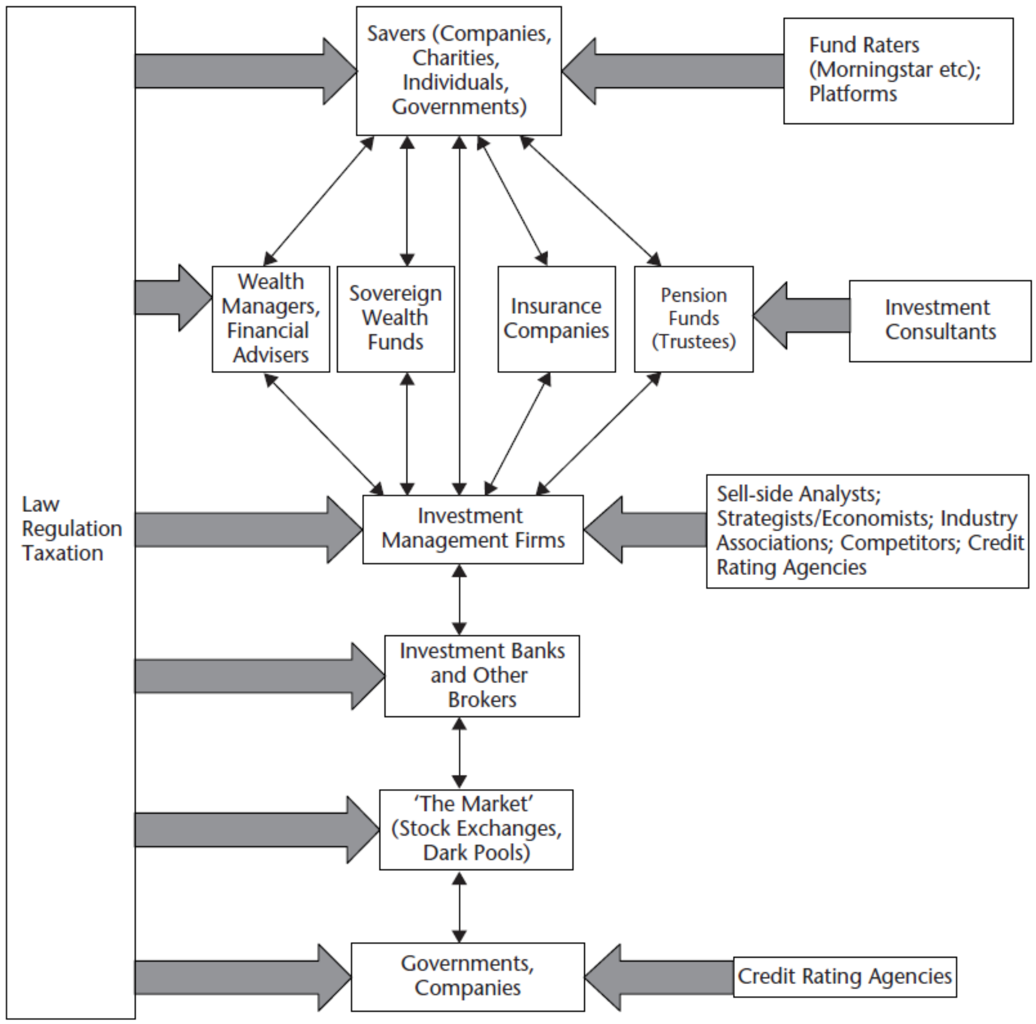
According to Stockhammer (2008), the investment level decline in proportion to corporate profits is also related to the uncertain environment resulting from the inherent volatility of the liberalized financial order. In this context, firms have stopped borrowing to finance new investments and have assumed a neutral or creditor position, resorting to financial assets as a source of profit. Palley (2013, p. 33) analyzes this trend in terms of a "cult of debt financing" that guides the modus operandi of managers of non-financial companies, leading them to adopt typical behaviors of the financial market in their decision-making processes.

In other words, family and companies' ownership of financial assets appears as a central element in the capitalism of the international order of financial globalization. Based on this diagnosis, Braga et al. (2017) understand financialization as a systemic pattern of financial logic predominance over the decision of spending and resources allocation by economic agents. The implications of this affect the social conception of wealth itself, given the central role played by financial gains[53] in interest and asset appreciation. As already suggested, the dynamics of production, income, employment, and living conditions have been restructured according to the parameters and motivations of the financial sector. Given its inherent volatility and instabilities, both economic expansion and contraction cycles tend to be exacerbated. The interconnection established among various economic agents and institutions of the financial world is schematized in the figure 2.

[52] Regarding this issue, it should be noted that Brazil is a global exception, since there is no taxation on dividends in the country.

[53] Not surprisingly, another influential definition of financialization is proposed by Lapavitsas (2014), who perceives it through structural changes in the relationships, practices, and needs of economic agents as a result of financial imperatives.

Figure 2 - The investment chain.



Source: Ajarliès et al., 2017, p. 5.

Two other central aspects of financialization can be deduced from this. On one hand, as a result of financial globalization, the capital account assumes prominence in the Balance of Payments - as evidenced by the financial crises listed in the previous section and their impacts on the exchange rate of various countries. On the other hand, economic growth has acquired sluggishness and moderation tendency (STOCKHAMMER, 2008; PALLEY, 2013). This however may not be an inexorable characteristic of financialized capitalism, since it would only act to exacerbate its economic cycles (BRAGA et al., 2017, p. 850).

This observation aligns with the tendency towards systemic crises Guttmann (2016) identified in finance-led capitalism[54]. Indeed, it is in managing the recurring crises that occur under financialization that the state's role has become essential for economic stability. In critical situations, the role of lender of last resort and market maker of Central Banks takes on a new dimension, as they are constrained to rescue financial institutions with liquidity and solvency problems, whose bankruptcies can have systemic consequences - given the high connectivity of a networked financial sector that permeates all dimensions of contemporary capitalism (BRAGA et al., 2017).

This reality, in turn, often translates into the privatization of profits and socialization of losses, given the actions of the government to rescue the private sector from collapse at the expense of its own budget, which ultimately intensifies demands for fiscal austerity made by the financial market[55] (BRAGA et al., 2017). Despite this, the level of public spending and revenue has not changed drastically under financialization, at least not in the European reality, despite the spread of the neoliberal agenda. According to Stockhammer (2008, p. 195), this seems to be related to changes in the composition of public spending rather than its volume, which is reflected in the preservation of the bureaucracy of the state and social welfare mechanisms, even though privatization of state-owned enterprises and deregulation of the financial sector have reduced their influence in the economic sphere.

Therefore, from its impacts on macroeconomic dynamics and its influence on national economic policy, the multiple facets of the financialization process may be revealed (CHESNAIS, 2019) and have structured diversified research agendas. From the financialization of labor relations (RUESGA, 2012) and the financialization of commodity markets (ZAREMBA, 2015) and social policies (LAVINAS, 2017) to the financialization of water (BAYLISS, 2014), the myriad of topics related to the process demonstrates the need to understand it in an interdisciplinary manner and from different theoretical perspectives (MADER; MERTENS; ZWAN, 2020). Ultimately, this also

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[54] Regarding the differences between "finance-led capitalism" and "financially dominated capitalism," see Stockhammer (2008, p. 185). As both categories of analysis focus on the process of financialization, this research uses them interchangeably. It should also be noted that the propensity for systemic crises in this stage of capitalism is explained by Guttmann (2016) based on the theory of Minsky (2010). According to Minsky, there is an inherent tendency for the financial structures of economic agents to move from a state of robustness to a state of fragility over time, which occurs due to changes in agents' expectations during the economic cycle. Based on this logic, one can understand why the process of financialization, which involves the progressive indebtedness of economic agents, becomes particularly illustrative in this sense, as it potentiates economic cycles and amplifies financial crises, as observed by Braga et al. (2017).

[55] This topic will receive further attention in the next section of this chapter.

supports the broad definition proposed by Epstein (2005, p.5), presented at the beginning of this section and which will continue to guide the analysis developed in this research.

Considering the multiple dimensions of the financialization process, its repercussions on national politics and policymaking also become inevitable. In this sense, Pagliari and Young (2020) note that the expansion of the financial industry, by enhancing its financial resources and influence mechanisms, favors the defense of its interests with policymakers. Indeed, even in the absence of this lobby, the structural dependence of governments on the financial market to finance public debt would already promote the influence of investors in the management of economic policy – as will be explored in the next section.

In a similar vein, Nölke (2020) questions the democratic character of the decision-making processes of governments in the context of financialization. This arises from both the prevalence of financial interests over implemented public policies and the depoliticization of economic policy, intensified by the size and depth of the financial sector, as well as the technical complexity of its instruments and practices. Furthermore, these aspects give it a material and discursive foundation, which operates politically in its favor by legitimizing its lobbying for financial resources and demands for fiscal austerity[56]. Against this backdrop, the constraints imposed by the financial market on governments' policy space are now analyzed.

1.5 National governments and the financial market

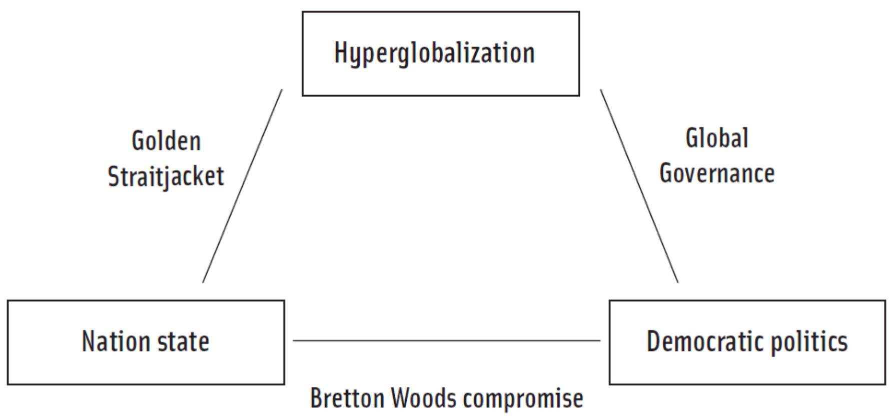
Financial globalization and financialization have unprecedentedly expanded access to financing for individuals, companies, and governments, but have subjected them, as a consequence, to the financial market's discipline. In this context, given the objectives of this research, the sovereign debt market acquires special relevance for analyzing the constraints on governments' autonomy in managing national economies. This is because, by the end of the 20th century, the issuance of government bonds in capital markets became the main channel of public financing to

[56] A symptom of this reality is the practice known as the "revolving door", in which individuals from the financial world move between positions of public power, regulatory bodies, and financial institutions, which end up having their interests met by the actions of the former.

compensate for falls in state revenue or to finance economic policy objectives[57] (MOSLEY, 2003; CORMIER, 2022).

In this indebtedness process, governments are constrained to adopt an agenda that signals to investors the commitment to honor the service of public debt, to safeguard their confidence. Conversely, the policies implemented for this purpose may be incompatible with voters' demands. Ultimately, this can end up compromising the national democratic governance[58] (STRANGE, 1998; MOSLEY, 2003; RODRIK, 2012; STREECK, 2018), as indicated by figure 2 and as will be further analyzed throughout this section.

Figure 3 - The trilemma of the globalization era.



Source: Rodrik, 2012, p. 201.

In Rodrik's trilemma (2012), only two of the three framed items can coexist. This means that globalization tends to be incompatible with democracy in a world organized into nation-states,

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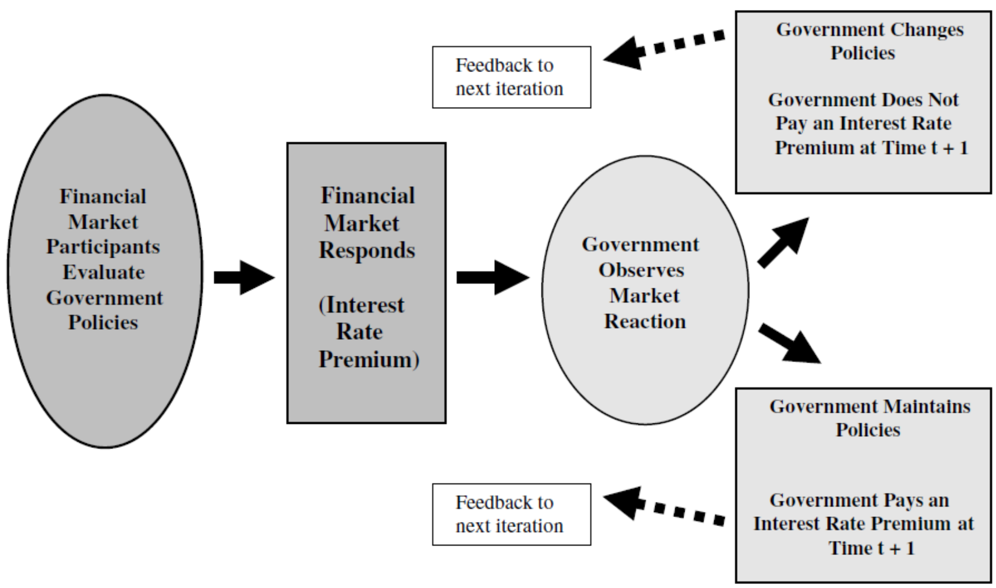
[57] This is because the issuance of government bonds in capital markets has emerged as a more advantageous option for financing national economies. In this process, as described by Mosley (2003, p.18), governments announce the debt instrument to be issued and the desired amount of funding. Subsequently, investors make their bids, pricing the government security in the form of interest rates charged to acquire it. The government then selects those that offer the best conditions. In the case of middle-income countries, Cormier (2022) observes that the credit available in sovereign debt markets, even when more expensive than that offered by official institutions, is prioritized by their governments, given the absence of conditions in this model of indebtedness.

[58] There are different conceptions of democracy in academic literature. In this work, which does not aim to delve into such a debate, reference is made to the ability of citizens to influence decision-making processes of their rulers (especially through voting), in order to align implemented policies with the expectations of voters. In general terms, this is the conception that guides the analyses of Scharpf (1999), Streeck (2018) and Nölke (2020), for example.

which claim sovereignty in managing their internal affairs[59]. Regarding the financial dimension of this conflict, the constraints imposed on governments can be understood in the light of different variables, differing in time and space. In general terms, the common axis of the process is summarized by the sequence of events presented in the following model. In the depicted interaction, financial market's participants assess the creditworthiness of governments based on the policies implemented, which translates into the risk premium of their public bonds. On the other hand, based on investors' reactions, a government may or may not promote changes in national economic management, bearing the pricing of its resulting financing (MOSLEY, 2003).

Figure 4 - The interaction between governments and financial market.



Source: Mosley, 2003, p. 15.

However, this relationship does not occur homogeneously for all states, presenting nuances that put them in distinct conditions of external vulnerability. In this sense, Mosley (2003) notes that the strength and scope[60] of the constraints imposed by the financial market on governments'

[59] In this research, in line with what is proposed by Sinclair (2008, p. 119), a broad conception of sovereignty is adopted, which is built upon the prerogative of political autonomy of nation-states.
[60] *Strength* and *scope* are the two dimensions of the financial market's influence capacity identified by Mosley (2003, p. 28). By strength, the author refers to the market's ability to punish governments that do not align with good governance practices in the context of financial globalization - which is reflected in the interest rates charged by investors and in the flow of capital in an economy. The strength of the market's action stems from both the freedom to

room for maneuver are related to the degree of development of the given country. In the case of an advanced economy, investors' capacity to react to implemented policies is strong, but the indicators monitored by the market are few and restricted to the macroeconomic level. This gives the government greater autonomy in managing its economic policy, especially if there is stability in the level of public debt relative to GDP and inflation control, as well as a tendency to reduce budget deficits[61]. In other words, with macroeconomic balance, fiscal policy continues to enable different economic strategies from governments of various ideological backgrounds[62], as noted by the literature (i.e., BOIX, 2000; GARRETT, 1998).

On the other hand, in the case of emerging economies, the market not only enjoys broad responsiveness, but also imposes greater surveillance, affecting policies implemented at the microeconomic level. As a consequence, in addition to macroeconomic indicators, investors observe, *inter alia*, the composition of public spending, the sources of state revenue, the structure of public debt, the exchange rate situation, and the degree of fiscal flexibility for times of crisis. This implies a lower degree of autonomy for the government, since microeconomic policies misaligned with the neoliberal framework may compromise investors' confidence in its ability and willingness to honor the agreed-upon debt commitments[63].

Indeed, the different treatments given by investors to advanced and emerging economies reflect the risks perceived by public bond holders. In the case of the former, market agents presume that there is no default risk, since there is confidence in the service of public debt regardless of the political party or coalition that runs the government[64]. In the case of emerging economies, however, the risk of default is more salient, especially in the face of the historical difficulty they present in bearing the costs of external debt[65] (MOSLEY, 2003). Moreover, their governments may be

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move financial resources globally and the similarity of indicators used to make decisions in this regard. Scope refers to the number of indicators considered by investors for capital allocation.

[61] As Mosley (2003, p. 76) clarifies, the fear of public debt accumulation and budget deficits by market agents is justified by the possible incentive they may create for the government to resort to inflation as a means of devaluing its debt obligations - or, in the case of emerging economies, to default on its debt.

[62] On the other hand, there is a loss of autonomy in monetary policy, whose dynamics are now subject to inflationary control.

[63] As discussed in the next chapter, the ability and willingness of a government to honor its debt commitments constitute the definition of sovereign ratings issued by credit rating agencies.

[64] Thus, as noted by Mosley (2003), the remaining risks relate to inflation and exchange rates, hence the constant monitoring of the aforementioned macroeconomic indicators.

[65] A mapping of external debt defaults by emerging economies is presented by Cantor and Packer (1996a). As will be discussed in the next chapter, the history of default is a relevant variable in the formulation of credit ratings by rating agencies.

politically incentivized to default, which makes its partisan ideology and national electoral processes taken into account in the pricing of public bonds[66] (BERLEMANN; MARKWARDT, 2003; MOSLEY, 2003, p. 130; VAALER; SCHRAGE; BLOCK, 2005). In addition to exchange and inflation risks, therefore, the risk of default - which, as will be seen in the next chapter, concerns a political choice - imposes greater restrictions on the management of an emerging economy, which ends up reducing its policy space and increasing the risk premium of its public bonds.

The effects of the informational costs involved in this process go in the same direction. Since perceiving more risks implies the need to collect more information for investment decisions, acquiring emerging economies' bonds becomes more expensive for market agents than those of advanced economies. Two observations follow from this: on the one hand, it increases the financial market pressure on these countries to adhere to supranational norms for the disclosure of economic data of their interest; on the other hand, the possible poor quality of this information encourages investors to resort to benchmarks that better guide their decisions (MOSLEY, 2003), such as the ratings issued by rating agencies - which will be the subject of the next chapter.

To reduce their government bonds' risk premiums, emerging economies are forced to assume some of the risks that would initially fall on the creditors by issuing debt instruments denominated in foreign currency - a phenomenon that Eichengreen and Hausmann (2005) call *original sin*. With the same objective, emerging economies' governments are often forced to assume short-term commitments, which increases the pressure on debt service. As Mosley (2003) notes, this is a combination that ends up making the risk of default even more salient, since the accumulation of debt under these conditions demands reserves that may not be available to the government within the bonds' maturity period, especially during unfavorable external situations, as will be seen later.

This situation reflects the asymmetries that characterize the integration of emerging economies into financial globalization. In a hierarchical international monetary regime, in which different currencies play distinct functions at the international level[67], investors prefer to compose their portfolios with assets denominated in the currencies of advanced economies, which have

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[66] Vaaler, Schrage, and Block (2005) note that, in the case of emerging economies, investors perceive higher (lower) risk when left-wing (right-wing) incumbents can be replaced by left-wing (right-wing) challengers, which is reflected in higher (lower) spreads of their public bonds.

[67] Regarding this topic, see Cohen (2015). It should be noted that in this context, the US dollar occupies the top position in the international hierarchy of currencies, followed by other currencies from advanced economies, such as the euro and the yen.

greater liquidity. This makes the capital flows into an emerging economy to be driven mainly by exogenous factors - especially by US interest rates, which influence investor risk appetite. Consequently, their policy space becomes even more restricted (PAULA; FRITZ; PRATES, 2017).

Regarding this issue, it is worth noting that, although investors allocate only a small portion of their portfolios to bonds issued by emerging economies, their financial markets' low depth and liquidity mean that any capital reallocation strongly impacts their balance of payments. This vulnerability to sudden capital inflows or outflows and the resulting currency volatility produces deleterious effects on real variables of the economy, which end up conditioned by short-term investment decisions of investors operating globally in search of profitability[68]. Ultimately, this might compromise national economic growth, which makes capital controls a frequent proposal by the literature to mitigate the effects of the financial asymmetries that affect developing countries and emerging economies (KALTENBRUNNER; PAINCEIRA, 2017; PAULA; FRITZ; PRATES, 2017).

The oscillations that circumscribed the developments of the 2008 financial crisis illustrate this condition. Between 2003 and the start of the crisis, emerging economies received a large volume of investments, reflecting investors' greater appetite for risk and their search for asset diversification in their portfolios. With the onset of the crisis and the risk aversion that ensued, there was a strong capital flight to advanced economies and their low-perceived-risk assets. However, the monetary expansion in these countries - part of their governments' strategy for recovery from the crisis - soon led investors to redirect investments to emerging economies. In other words, the external vulnerability of these countries conditioned their economic trajectories both before the crisis and during and after its development (KALTENBRUNNER; PANCEIRA, 2017).

At the domestic level, Kaltenbrunner and Panceira (2017) analyze how this translates into a pattern of subordinate financialization in emerging economies, perpetuating the asymmetries that originated it[69]. This is because they resort to international reserves accumulation to mitigate the harmful effects of a sudden capital outflow, which smooths out currency volatility and curb

[68] In this logic, lower US interest rates tend to increase the risk appetite of investors, who incorporate into their portfolios assets denominated in currencies of emerging economies, which offer higher returns and risk. On the other hand, when the Fed raises interest rates, the effect is to attract capital to safer assets, resulting in capital outflows from emerging economies.
[69] On the research agenda that has been structured around the concept of subordinated financialization, see Alami et al. (2022).

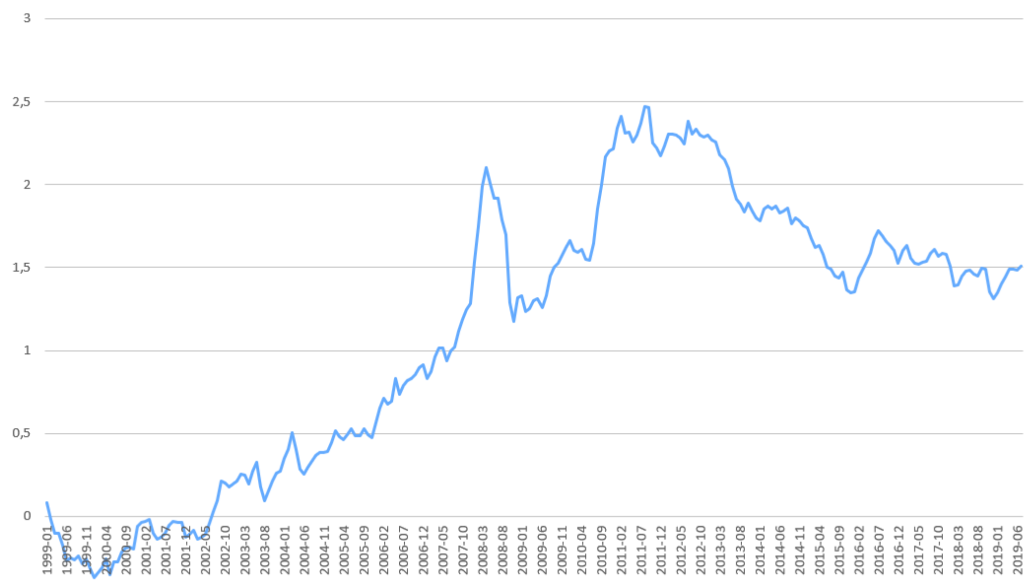
potentially triggered macroeconomic instabilities. However, the accumulation of reserves also presents two perverse effects: on the one hand, it promotes a constant transfer of financial resources from emerging to advanced economies, since the reserves accumulated by the former are allocated in the public bonds of the latter; on the other hand, it alters the behavior of the economic agents in the country in question, as its banks, aware of the better solvency and liquidity conditions of the State, prioritize short-term financing, mainly focused on consumption, to the detriment of productive investments. Ultimately, this translates into a harmful pattern of financialization for economic growth - as analyzed in the previous section.

Nevertheless, the recent experience of South American countries shows that there is room for implementing policies that deviate from the financial market agenda even in the case of emerging economies. As examined by Campello (2015), this is related to the conditions of the international environment in force. Indeed, when it comes to commodity-exporting countries with low levels of domestic savings, the international commodity prices and external liquidity conditions (determined by US interest rates) are relevant variables that influence their policy space. This is because these exogenous factors condition the supply and demand of foreign currencies in this group of countries, which allows their governments to be situated in "good" or "bad times" to rule[70].

Based on the two elements above, the international environment situation can be observed in a historical perspective in the following indicator developed by Campello and Zucco (2020). In figure 5, the higher (lower) the values of the " good economic times index," the better (worse) the international environment is for South American governments. In this sense, one can note a period of improvement in the external conditions at the beginning of the 21st century, while in its second decade this situation is reversed, breaking with the “good times” trend.

[70] In light of "good" and "bad times", Campello and Zucco (2020) observe how they relate to the popularity of governments, as well as their possibilities for reelection and susceptibility to being overthrown.

Figure 5 - The “good economic times” (GET) index.



Source: Adapted from Campello and Zucco, 2020.

In the best-case scenario, high commodity prices and good international liquidity conditions positively impact governments' room for manoeuvre, as there is less need to raise financial resources through the issuance of debt securities in capital markets, due to the abundant foreign currency inflow from exports. At the same time, lower international interest rates increase investors' risk appetite, making them more willing to invest in emerging economies. In the worst-case scenario, the situation is reversed: low commodity prices translate into lower foreign currency inflows, which may lead the government to bonds issuance to raise financial resources; meanwhile, higher international interest rates make market agents more risk-averse and, as a result, less willing to include emerging economies’ bonds into their portfolios. In other words, the external vulnerability of South American countries is primarily conditioned by these two variables.

As demonstrated by Campello (2015), this translates into the changing ability of the financial market to discipline left-wing governments that come to power in the region. In "good times," this ability is low, while in "bad times" it is high and tends to lead to a moderation of their political agendas, bringing them closer to the market agenda[71]. In this context, one may better understand the trajectory of the governments that composed the “pink tide” phenomenon - concerning the election of left-wing governments in Latin American countries in the early 21st century - and its subsequent decline. This also underscores the relevance of the external environment for the analysis carried out in chapters 3 and 4 of this research.

It is then relevant to note the parameters that allows identifying a government as being left or right-wing. In the Bretton Woods international order, this ideological orientation translated, in advanced economies, into a trade-off between social welfare and full employment policies, on the one hand, and monetary stability, on the other hand. In this sense, left-wing governments tended to prioritize welfare and full employment, even at the expense of inflation control. In contrast, right-wing governments would tolerate higher levels of unemployment in favor of monetary stability (HIBBS JR., 1977). As already analyzed, however, the constraints of financial globalization have promoted the convergence of macroeconomic management by ideologically divergent governments (MOSLEY, 2003), which is explained in light of the trends observed in section 1.3. This means that left-wing governments have been implementing traditionally right-wing economic policies aligned with the neoliberal framework and promoting dismantling the welfare state, even in advanced economies[72] (KUTTNER, 2018; PALLEY, 2013).

In the Latin American context, the pink tide meant the election of governments that had the reduction of poverty and social inequalities as a central objective in their programmatic agendas - in contrast to the neoliberal governments that proliferated in the region during the 1990s. This is the left-wing concept that should guide the analysis of the pink tide phenomenon, which included Argentina, Bolivia, Brazil, Chile, El Salvador, Ecuador, Nicaragua, Paraguay, Uruguay, and Venezuela (LEVITSKY; ROBERTS, 2011). To achieve poverty and social inequalities reduction, their governments employed different strategies, but that always relied on the state’s leading role in this purpose.

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[71] Campello and Zucco (2020) note a series of other trends resulting from the international environment in which South American governments are placed. For example, in favorable conjunctures, these governments tend to achieve higher popularity ratings, which is associated with greater chances of reelection. As the authors argue, this is due to the prevalence of economic voting in Latin American countries, which, given the relevance of exogenous factors for the success or failure of their economies, calls into question it as a mechanism for optimizing democratic representation. In other words, the quality of representative institutions themselves ends up being harmed by the economic volatility caused by factors that do not depend on the government's action: the prices of commodities exported by their countries and international interest rates.

[72] This applies especially to governments of the Democratic Party in the United States and European governments belonging to the "third way," such as Tony Blair's in the United Kingdom and Gerhard Schroeder's in Germany.

In the literature on this topic, this has translated into different typologies of Latin American left-wing movements based on different aspects of these governments. Many of them are structured around these governments' greater or lesser adherence to the parameters of globalization. A first classification was proposed by Castañeda (2006), who argued that within the pink tide there were a "good left" and a "bad left". The first - represented by Brazil, Chile, and Uruguay – was modern, reformist, and adherent to the rules of globalization and liberal democracy. The second, on the other hand, was populist[73], nationalist, and "strident", encompassing mainly the governments of Argentina, Bolivia, and Venezuela. In a similar vein, Reid (2007) classifies the Latin American left-wing governments into "social democrats" or "populists", while Kaufman (2011) categorizes them as "social liberals" or "anti-liberals"[74]. Da Silva (2010), in turn, criticizes the binarity present in various typologies, presenting a continuum in which these governments can move over time, allowing them to be considered as belonging from a "renewing left" to a "refounding left"[75]. Furthermore, he argues that it is important to point out not only the points of dissent but also what they have in common.

Indeed, these commonalities are also addressed by scholarship. For example, Stokes (2009) analyzes Latin American left-wing movements in light of their relationship with globalization. In this sense, the pink tide was not a movement to reverse globalization, but rather a reaction to what, based on the experience of advanced economies, would have constituted an anomaly: the simultaneous reduction of the "size" of the state and the economic liberalization that occurred during the 1990s[76]. Thus, the wave of left-wing electoral victories in the region would have served to rebalance the exposure of these countries to the adverse effects of globalization and the public spending that compensates them, which made their governments more responsive to popular demands through the expansion of spending than through the reversal of economic openness.

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[73] As Castañeda (2006) clarifies, populism, in this sense, relates to experiences of historical leaders considered benefactors of the working classes of their countries, such as Cárdenas, Vargas, and Perón.

[74] According to Kaufman (2011), the "social liberal" left (Brazil, Chile, and Uruguay) comes from relatively better institutionalized party systems whose governments have a greater commitment to macroeconomic stability. On the other hand, the "anti-liberal" left (Bolivia, Ecuador, Nicaragua, and Venezuela) would include governments related to populist machines or social movements, presenting anti-globalization rhetoric.

[75] Da Silva (2010) uses the parameters of party institutionalization, integration into the political system, integration into representative democracy, and criticism of neoliberalism in his proposed typology. Therefore, governments of Brazil, Uruguay, and Chile belong to the "renewing left," while those of Bolivia, Ecuador, and Venezuela belong to the "refounding left." The author does not include Argentina in his analysis.

[76] As the author presents, the academic literature perceives that the opening of advanced economies to globalization has led to an increase in public spending to compensate for the economic losses and insecurity resulting from the process.

Another almost consensual point is the relationship between the dependence of these economies on commodity exports and the agenda pursued by their governments. Weyland (2009), for example, observes that their degrees of radicalism or moderation are related to the benefits derived from the rise in commodity prices - in partial agreement with the theorizing of Campello (2015). This would explain the radicalism of the agendas of Chavez (Venezuela), Correa (Ecuador), and Morales (Bolivia), as opposed to those of Bachelet (Chile), Lula (Brazil), and Vásquez (Uruguay), while the Kirchner governments (Argentina) oscillated between the two categories. Santos, Almeida, and Silva (2018), in turn, argue that the viability of more radical redistributive policies is conditioned by the institutional and economic structure of the country in question: if there is a high (low) level of capital mobility and if the legislature (does not) constitute a veto actor, radicalism is less (more) likely.

In any case, for the purposes of this research, what matters is the widespread recognition that there has been a proliferation of left-wing governments in Latin America during this period. However, in the second decade of the 21st century, the decline of the pink tide and the resurgence of right-wing governments - whether through elections or new forms of coup[77] (DA SILVA, 2018) - have raised questions about the achievements of the left in the region. While it is undeniable that there was a poverty reduction, the resilience of social inequalities reflects the absence of structural reforms aimed at mitigating them during the progressive cycle (LAVINAS, 2019). At the same time, in the case of advanced economies, the last four decades have revealed a trend of progressive concentration of income, the precariousness of employment, increased unemployment, and shrinking middle classes (PIKETTY, 2014; MILANOVIC, 2016). Running through the period of the ideological turn of Latin American governments and the recent experience of the United States and Europe, the reactions of financial market actors can shed light on the restrictions faced by governments of different ideological orientations.

In this context, Streeck (2018) analyzes how the demands of state creditors, in the order of financial globalization[78], restrict the policy space of governments and potentially conflict with the demands of their voters. In line with the literature presented so far, this tension can be understood

[77] In contrast to the military coups that frequently occurred in the region during the 20th century, these are less obvious forms of coup, which occur through distortions in the use of institutional mechanisms of the countries, as happened with Fernando Lugo in Paraguay and Dilma Rousseff in Brazil. However, the electoral strengthening of the right is also a reality in the period, as demonstrated by the victory of Mauricio Macri in Argentina in 2016 (DA SILVA, 2018).
[78] In particular, the author's analysis concerns the post-2008 financial crisis period, when public debt levels reached unprecedented levels.

as a *bondholder value* that constrains the indebted state, in line with the *shareholder value* that conditions corporate management under financialization, as discussed in section 1.4 of this chapter. In the words of Streeck (2018, p. 124):

> Much as an increase in shareholder value requires management to hold down the workforce or – better still – to lock it into common efforts to boost the share price, so does the trust of creditors require that governments persuade or compel their citizens to moderate their claims on the public purse in favor of the 'financial markets'.

As economic policy must simultaneously respond to creditors and voters, it is convenient to distinguish the characteristics and *modus operandi* of both in the distributive conflict that arises. To this end, table 2 presents the differences between what Streeck (2018) calls the "people of the state" (*Staatsvolk*) and the "people of the market" (*Marktvolk*). In the case of the former, reference is made to citizens linked to a nation-state, in which they enjoy inalienable civil and political rights, periodically expressing their will through the vote. In the intervals between elections, their ability to influence the decision of their constitutional representatives is materialized in forming a "public opinion," with their loyalty to the government being based on the provision of general interest services arising from democratic demands. The second "people" refer to investors who hold government bonds, with whom they establish a contractual relationship and for whom they express their will in public debt auctions. In this environment, as already analyzed, the decision to finance or not the state and the conditions of the financing in question constitute the public opinion of the "people of the market" and signal the confidence that this group has in the capacity and will of a given government to honor the contracted agreements.

Table 2 - The people of the state (*Staatsvolk*)and the people of the market (*Marktvolk*).

Staatsvolk	*Marktvolk*
national	international
citizens	investors
civil rights	claims
voters	creditors
elections (periodic)	auctions (continual)
public opinion	interest rates
loyalty	'confidence'
public services	debt service

Source: Streeck, 2018, p. 127.

Based on conflicts between these two constituencies, Streeck (2018) presents a series of stylized facts that shed light on the interaction between democracy and financialized capitalism, as well as the constraints that the latter imposes on the realization of electoral demands by governments - especially in the post-financial crisis of 2008[79]. These observations partly summarize some of the theoretical contributions presented in this chapter so far. It should be noted, however, that the observed restrictions on democracy are particularly harmful to implementing government agendas that are misaligned with the interests of the financial world. In addition, they vary according to the degree of development of the economies and - particularly in the case of South American countries - according to the international environment in which they are situated.

In this sense, first, Streeck (2018) perceives that the increasing public indebtedness - which emerges as a central feature of capitalism in the order of financial globalization - implies the reduction of national sovereignty, since it submits the actions of governments to the constant scrutiny of financial market actors. These, in turn, enjoy an organizational advantage over the States integrated into financial globalization, which lack coordination and whose governments must respond to heterogeneous demands from their citizens. In the face of the interests of investors,

[79] As analyzed by Streeck (2018), after the global financial crisis, the public debt level of OECD countries reached unprecedented levels, suddenly reversing the downward trend that had been observed through the fiscal consolidation process of these states since the 1990s.

States often incur problems of collective action - as observed in section 1.2 of this chapter in the context of dismantling the Bretton Woods order.

Secondly, the objective of state creditors is to ensure that, especially in times of crisis, their contractual rights will prevail over those of citizens. As analyzed in section 1.3, this is reflected in establishing an institutional framework aimed at guaranteeing the service of public debt and monetary stability - which was presented here in terms of the depoliticization of economic policy. Given this process, the degree of isolation of the management of national economies from democratic pressures is reflected in the risk premiums of public debt securities: the more protected the interests of creditors, the less risky the investment in question and the cheaper the credit for governments.

Thirdly, governments have to struggle to always be in a position to honor their debt commitments credible. This makes fiscal austerity a permanent imperative in their economic policies, aimed at obtaining creditworthiness in the financial market. The amount of austerity needed to maintain investor confidence is purposely vague and undefined: as Streeck (2013, p. 15) notes, there will be no complain from financial market actors if a government promotes more spending cuts than supposedly necessary for this purpose.

Meanwhile, in fourth place, excessive cuts in state spending can be detrimental to the public debt service itself, as it can reduce aggregate demand and compromise economic growth, thereby deteriorating the relationship between debt and GDP. Indeed, fiscal austerity as a way to economic expansion - a thesis recognized as "expansionary fiscal contraction" - lacks empirical evidence to validate it (BLYTH, 2017). According to Streeck (2018, p. 131), this situation emerges as one of the main dilemmas of political economy in contemporary times: how to reconcile the need for economic growth and the imperative of reducing public spending, since both are, to some extent, required for improving the debt/GDP ratio.

The fifth observation concerns the financialization of the capitalist economy, analyzed in section 1.4. Although, for analytical purposes, the separation between the "state people" and the "market people" is convenient, the reality is that both often overlap and incur conflicts of interest. In political terms, this dual condition means that citizens can be won over by both an austerity agenda, given their virtual position as investors, and by social welfare policies that require an increase in public spending. In sociological terms, this growing population segment under the effect of conflicting interests can be identified as a differentiated social group, typical of the stage of capitalism that emerged in the last two decades of the 20th century.

Finally, in sixth place, the ability of the financial market to discipline national governments is associated with the synchronized action of its actors, who respond similarly to the signals they obtain from the political action of governments and the economic indicators of their countries. As Mosley (2003) points out, this gives the benchmarks that guide investor decisions a prominent role in the international order of financial globalization. This is one of the aspects to be explored in the next chapter, dedicated to examining the role played by credit rating agencies in this international financial order.

1.6 Conclusion

This chapter presented the main characteristics of the international order of financial globalization, which is the contextual variable in this research. First (section 1.2), it situated it historically, identifying the international orders that preceded it and examining the process of liberalization of the international financial regime that gave rise to it. Next, the order of financial globalization was analyzed more thoroughly, with reference to the main features of financial globalization (section 1.3) and the financialization of capitalism (section 1.4). An analytical exercise on the political repercussions of these processes was also included (section 1.5), with a special focus on developing countries.

A relevant conclusion of the narrative presented is that the context of financial globalization and the financialization of capitalism imposes constraints on the autonomy of national governments. Although it was not an objective of this chapter to explore all the mechanisms through which this occurs, it was shown that they are related to demands from investors operating in global capital markets. In the midst of the international financial system's instabilities and the need to minimize the perception of risk of their creditors, national states find themselves pressured to promote institutional reforms suitable for this purpose. These, in turn, have inevitable repercussions for their internal political dynamics, affecting the governing prospects of political parties with an agenda that is *a priori* misaligned with the neoliberal framework.

For a developing country, the interaction between its government and the financial market is particularly problematic, often conditioned by exogenous factors, and prone to causing democratic deficits in its political process. As will be demonstrated in chapters 3 and 4, this is the case of Brazil and Argentina, which experienced the rise and fall of the pink tide, always under the constraints arising from the interaction with the financial market's actors. This is the scenario in which the credit rating agencies operate, as will be analyzed next.

2 THE RATING AGENCIES IN THE INTERNATIONAL ORDER OF FINANCIAL GLOBALIZATION

"*Ratings may seem obscure and mundane. They are, in fact, an enormously ambitious form of human knowledge. […] Rather than being measurements, as people may assume, ratings are better understood as ideas about, or theorizations of, the future*."

Sinclair, 2021, p. 24

"*As a company, we are politically neutral*."

Ewout Steenbergen, executive vice-president of S&P, 2019

"*We do not make political judgments or consider the [ideological] orientation of the government.*"

David Beers, global president of S&P, 2005

2.1 Introduction

Understanding the restrictions imposed by the financial market on national governments requires examining how the different actors that composes it act in this regard. To this end, this chapter explores the CRAs, whose actions will be central in the subsequent chapters. In the international order of financial globalization, the agencies function as gatekeepers to states' access to capital markets, conditioning their financial capacity through the issuance of public debt securities. This prerogative, as well as the nuances surrounding it, gives S&P, Moody's and Fitch a certain degree of influence over the economic, social and political dynamics of the countries they evaluate, as will be demonstrated.

This chapter is divided into seven sections, in addition to this introduction. In the second one, some preliminary information about the CRAs is presented, such as the purpose of their services, how the rating industry works, and some of the tensions and contradictions inherent in their *modus operandi*. The third section aims to clarify how the agencies have acquired such relevance in the international order of financial globalization. To this end, it retraces some aspects of their historical trajectory, which spans different international financial orders. In the fourth and fifth sections, the CRAs' methodology for formulating sovereign ratings and the conception of political risk that will guide this research are explored, respectively. The sixth section seeks to elucidate the varied political dimensions of the agencies' actions. The seventh section, in turn, explores the forms of political activism often employed by the CRAs, thereby shedding light on the empirical strategy to be pursued in the case studies. The conclusion summarizes the main elements presented in the chapter.

2.2 About the credit rating agencies

Credit rating agencies are companies specialized in rating the creditworthiness of debt instruments traded in capital markets. For historical reasons, which will be explored in section 2.3, the rating industry is oligopolized by three agencies known as "Big Three": Standard & Poor's (S&P), Moody's, and Fitch Ratings. There are numerous CRAs around the world[80], but these three companies hold about 95% of the global rating market[81]. The main product they offer is the credit rating of bonds issued by companies and governments and structured finance securities. S&P (2021) defines them as follows[82]:

> Credit ratings are forward-looking opinions about an issuer's relative creditworthiness. They provide a common and transparent global language for investors to form a view on and compare the relative likelihood of whether an issuer may repay its debts on time and in full. Credit Ratings are just one of many inputs that investors and other market participants can consider as part of their decision-making processes.

From this follows that the relevance of the rating is directly related to the internal dynamics of capital markets. The information about default risk is intended to mitigate the informational asymmetries between investors and debtors. Thus, the CRAs act as a third party that intermediates this relationship. As information collection for risk analysis can be costly for investors, given the variety and complexity of financial assets issued in capital markets, the rating function as a

[80] Cash (2018, p. 6) observes that there are more than one hundred CRAs in the ratings industry, many of which are dedicated only to local economies or specific market niches. For example, Austin Rating is a Brazilian CRA, whereas Dagong Global Credit Rating is a Chinese one.
[81] This is why they are also known as the "Big Three."
[82] The other CRAs considered in this work use the same definition.

benchmark[83] that guides investment decisions. In addition, debt issuers benefit from sharing information with a third party specialized in this activity, as they save time and resources required for this with their potential creditors. Therefore, the position between investors and borrowers is strategic for rating agencies' services (CASH, 2018).

As presented in the previous chapter, the CRAs' role aligns with the ideological foundation of financial globalization. By providing information to financial agents, they operate for the efficiency of markets and the optimization of the global allocation of financial resources. To do so, they use a grading system that enables comparisons between the creditworthiness of different assets[84]. The credit rating, in turn, guides the interest rates investors charge to acquire them and influence international capital flows. The grading systems used by S&P, Moody's, and Fitch are presented in Table 3.

Table 3 - Ratings' scales of S&P, Moody's and Fitch.

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: The author, 2023, based on data from S&P (2021), Moody's (2021) and Fitch (2021).

It should be noted that each credit rating carries specific risk information, which is detailed by the CRAs on their websites[85]. For the purposes of this research, it is important to note the

[83] For more information on benchmarks in the international financial system, see Arslanalp et al. (2020) and Lau, Sze, and Wong (2020).
[84] This is how the CRAs explain the purpose of their services (S&P, 2021; MOODY'S, 2021; FITCH, 2021).
[85] Furthermore, Ywata (2012, p. 119) provides a panoramic presentation of the meaning of each of these ratings.

distinction between ratings categorized as *investment grade* and those belonging to the *speculative grade*. In general, the investment grade certifies the creditworthiness of a given bond, while the speculative grade suggests a default risk. This division is a convention widely used in financial markets and its origins will be addressed in the next section.

In addition to the credit rating issuance, the CRAs also assign a perspective to their issued ratings, which can be positive, stable or negative, depending on its short-term prognosis. Thus, if the agency expects the rating to improve (worsen) in the subsequent evaluation, they announce that their perspective is positive (negative). If there is no indication that the rating will change, the perspective is disclosed as stable.

As this work contemplates the interaction between CRAs and national governments, the rating of public debt bonds is particularly relevant, taking the form of a *sovereign rating*. As defined by the CRAs, the sovereign rating reflects the *capacity and willingness of a government to honor debt commitments under the conditions and terms agreed with States' private creditors*[86]. Its impacts on the pricing of government bonds have been widely documented in the literature (SINCLAIR, 2005; YWATA, 2012). *Ceteris paribus*, better (worse) ratings imply lower (higher) spreads charged by investors. This causal relationship is especially salient when transcending the barrier between investment grade and speculative grade: if a given country achieves (loses) the investment grade, credit becomes cheaper (more expensive). In addition, research shows that a downgrade has a stronger impact on the pricing of public bonds than an upgrade, as market agents usually anticipate the latter (REISEN; MALTZAN, 1999).

The consequences of the sovereign rating for national economies are therefore significant. Since the rating affects the state's financing capacity, the fate of governments is partially conditioned by it. If good ratings are assigned to a country, its government tends to pursue economic policy objectives and implement its agenda more easily. Worse ratings, on the other hand, represent an external constraint on the management of the national economy due to the deterioration of credit access conditions they entail. At worst, they may trigger capital flight and potentially exacerbate a balance of payments crisis (GANDE; PARSLEY, 2004). As will be analyzed in section 2.6, these implications of the sovereign rating are not trivial for the national socio-political dynamics.

[86] The three CRAs converge in this definition. To Fitch (2020 p. 1), for instance, a sovereign rating can be defined as: "a forward-looking assessment of the capacity and willingness to honor debt obligations to private-sector creditors in full and on time".

Beyond the sovereign rating, the CRAs also publish reports on their object of evaluation - in the case of interest in this research, countries and their respective economic, political, and social situations. Whenever a new rating is issued, a report is released justifying the rating action and projecting more or less likely scenarios in which the rating can improve, worsen or remain stable, depending on the perspective attributed to it. However, as will be seen in the next chapters, the disclosure of reports and comments by the CRAs does not necessarily require a rating action to happen, which provides them with a random periodicity. When it comes to countries, Cordes (2014) and Barta and Markszin (2020) note that the reports are a reference for governments and policymakers to better understand the received rating and what could theoretically improve it. As stated in the introduction to this thesis, these materials will be central to the analysis to be developed in chapters 3 and 4.

The rating issuance can be requested or not by the assessed entity, and it can also be the result of cooperation between them and the rating agency[87]. In the rating industry, this business model is relevant to understanding some of the main controversies surrounding the agencies' activities. A frequent focus of criticism is the potential conflict of interest inherent in the evaluation process. In the case of companies, which can request one or more CRAs to evaluate them, the controversy is more evident. This is because, once they pay for the rating service, it becomes plausible to assume that the CRA that offers them the most convenient rating will be hired. Indeed, this behavior, recognized by the literature as *rating shopping*, ends up raising anomalies in the rating market, which becomes more efficient when monopolized by only one of the three agencies since competition among them may have compromising effects on the quality of the issued ratings (BOLTON et al., 2012). On this subject, Cash (2018) notes that the CRAs themselves have improved their methodologies to mitigate this conflict of interest[88].

Since sovereign ratings are not usually requested by the rated countries, the risk of this problem occurring is eliminated. However, another form of conflict of interest arises from the relationship between CRAs and states, resulting from the latter's ability to regulate the rating

[87] According to Finch (2015), the cooperative assessment model is the most beneficial for the rating accuracy, as it maximizes the access of information - which is provided directly by the evaluated entity and does not result solely from the agency's collection - and reduces potential conflicts of interest that could arise from the rating agency being hired by the evaluated entity.
[88] Cash (2018, 17) notes that one of the self-imposed mechanisms by the CRAs to avoid compromising the quality of sovereign ratings due to potential conflicts of interest is the assignment of the final decision on the rating to a committee that approves or disapproves the rating proposed by the rating analysts. The CRAs' sovereign rating methodologies will be further explored in section 2.4.

industry. Given the pro-cyclical nature of CRAs' behavior (FERRI; LIU; STIGLITZ, 1999), rating upgrades and downgrades tend to occur due to cycles of economic expansion and contraction (IOANNOU, 2016). In this sense, in times of crisis, downgrades often prompt retaliation from governments of advanced economies against the CRAs, with the promotion of legislation that constrains them and requires greater accountability for their actions.

Abundant examples of this could be observed in the post-2008 financial crisis. In 2010, the Dodd-Frank Act significantly impacted the regulatory framework that protected the CRAs in the United States, forcing them to be more transparent in their rating processes and their relationships with their clients. In addition, it instructed the SEC to establish an Office of Credit Ratings to monitor them. When investigated for its role in the subprime crisis, S&P accused the US government of persecuting them because of the downgrade suffered by the country in the aftermath of the crisis (CASH, 2018, p. 24). In the European context, the supervision of the CRAs by ESMA was also strengthened after numerous criticisms of downgrades suffered by Southern European countries (MANNS, 2015). As will be analyzed in section 2.4, much of the controversy surrounding the sovereign ratings is due to the excessive discretion of the CRAs in their formulation, which is based on many quantitative and qualitative variables that are difficult to measure or contest.

However, in the case of emerging economies and developing countries, this conflict of interest does not exist since their ability to impose regulations and restrictions on CRAs' activities is limited or nonexistent. As a result, these countries are more vulnerable to the issued ratings, often unsolicited by them (MANNS, 2015, p. 122). Nevertheless, the sovereign ratings are also a relevant public good for their economies, as it serves as a parameter and a ceiling for the credit rating of all other entities evaluated in their territory, whether they are companies or subnational governments (CANTOR; PACKER, 1996b; CORDES, 2014, p. 32). This can be explained by the assumption that the state's default is less likely than that of companies or municipalities since, ultimately, the federal government has more instruments to prevent it – a topic that will receive more attention in section 2.5.

Finally, other relevant aspects of the ratings are the distinction between domestic and foreign currency-denominated public bonds and the differentiation between short-term and long-term debt. Regarding the former, scholarship notes a convergence between the ratings of domestic and foreign currency-denominated securities, although the former may eventually be better rated since they are ultimately backed by the central bank of the given country. Regarding the second distinction, long-term debt has a greater weight in the CRAs' evaluations, although they also rate bonds with shorter maturities (CANTOR; PACKER, 1996b; PANIZZA, 2017). This is because, as will be seen later, the sovereign rating is based on long-term trends and factors that underpin a country's creditworthiness. Thus, the following chapters will reference the sovereign ratings and reports related to long-term, foreign currency-denominated debt securities.

In summary, this section introduced some elements central to the *modus operandi* of the CRAs, which play a prominent role in the interaction between states and the financial market. Since, in the context of financial globalization, the issuance of government bonds has become the most convenient means of financing national economies, the CRAs' actions significantly impact the reality of countries worldwide. Given the oligopolistic nature of the rating sector, S&P, Moody's, and Fitch have acquired prominence in the international order of financial globalization. Understanding how they came to enjoy this condition is the subject of the next section.

2.3 The rating agencies and the transformations of the international financial order

The origins of the CRAs date back to the early decades of the 20th century. In 1909, John Moody published his first rating manual, which compiled information on the creditworthiness of bonds issued by railway companies that were driving the expansion of the United States capital market. Given the dynamism that the financial sector was acquiring, the rating sector seemed to be promising, which soon led to the creation of competing companies: in 1916, the Poor's Publishing Company was founded, followed by Standard Statistics in 1922 and Fitch Publishing Company in 1924 (WHITE, 2013).

The first sovereign ratings were published by Moody's in 1918. At the time, only ten countries, in addition to the United States, were evaluated[89]. However, the global economic recovery period in the post-war period caused the sector to grow: by the end of the 1920s, Moody's was already rating about 60% of the then existent countries (DE SOUZA, 2015, p. 111). These developments align with the parameters of the international financial order then in force, as presented in the previous chapter. Under the gold standard, international capital mobility turned the information about governments' creditworthiness into a market to be explored.

[89] As noted by De Souza (2015, p. 110), the first foreign countries to be rated were Argentina, Canada, Cuba, Dominican Republic, France, Japan, Norway, Panama, Switzerland, and the United Kingdom.

But the Great Depression and its effects soon caused this market to collapse. In the 1930s, the wave of defaults that followed the crisis and the abandonment of the gold standard compromised the viability of the sovereign rating business. After World War II, the Bretton Woods international financial order, based on the control of capital flows, represented a restraint on the sector, which would remain repressed for the following decades. In 1975, for example, Moody's rated only five countries besides the United States (GAILLARD, 2012; DE SOUZA, 2015) - in stark contrast to pre-crisis reality.

For the rating industry, however, the 1930s were the watershed that gave the CRAs unprecedented prominence. To curb the economic crisis, US authorities began to incorporate the ratings into various regulatory frameworks targeted at the financial sector, aiming to make it safer and, above all, safeguard banking solvency. In this direction, in 1936, federal government regulators determined that banks could only invest in financial assets that reached a certain rating level assigned by "recognized rating manuals" (WHITE, 2013). The same movement would soon be followed by regulations imposed on insurance companies and pension funds. This forged the distinction between investment and speculative grade, giving rise to the convention that persists to this day (SINCLAIR, 2005, p. 35).

In other words, the 1930s witnessed the beginning of the transformation of the use of ratings from a voluntary practice to a partially legal obligation. Moreover, when American regulatory bodies outsourced to "recognized rating manuals" to certify which assets could be incorporated into the portfolios of regulated financial agents, the oligopolization of rating industry began to take shape. Since the four mentioned CRAs - soon to be three, with the future merger of Standard with Poor's[90] - were already dominant in the market, this position was thereby cemented[91]. With the pegging of investment decisions to their ratings, the CRAs gained a captive audience, which guaranteed a minimum repercussion to their actions (WHITE, 2013).

This intertwining between ratings and regulatory frameworks continued to be a trend in the following decades, with the consequent expansion of the market reserve of the main CRAs. In 1975, their privileged condition was reinforced by the SEC's decision to create the category of "nationally recognized statistical rating organization" (NRSRO), in order to delimit legally and

[90] The merger occurred in 1941, as noted by White (2013, p. 10).

[91] However, Sinclair (2021) notes during the 20th century, Fitch was much smaller in size and influence than Moody's and S&P - which, in fact, exercised a duopoly in the rating market. In the 21st century, however, after a series of mergers in the 1990s, Fitch acquired a similar size to the other two competitors.

explicitly which CRAs should be taken into account by banks and institutional investors in their investment decisions. Immediately, S&P, Moody's, and Fitch were recognized as such. White (2013) notes that at the turn of the century, twenty-five years later, only four CRAs, in addition to the Big Three, were certified as NRSROs, illustrating the concentration of the rating market[92].

Indeed, the SEC's NRSRO certification became an important barrier to entry for other rating agencies in this market - a fact that received little attention in public debate until the end of the twentieth century. However, thanks to the involvement of the few NRSROs in various financial crises, which will be addressed later, the SEC was led to clarify the criteria for such categorization and soon expanded the number of certified agencies. As a result, by the end of the first decade of the 21st century, the number of NRSROs had already jumped to ten, although this did not threaten the dominant position of S&P, Moody's, and Fitch in the market (SINCLAIR, 2005; WHITE, 2013).

The 1970s were also marked by a significant change in the CRAs' business model. Until then, their operation consisted of selling ratings to investors interested in the information on the creditworthiness of debt issuers. However, technological developments in communication devices made this model obsolete, given the ease with which the product sold by the CRAs - the information on default risk - could spread without their control. In this context, the CRAs started selling their services to debt issuers, inverting the logic of the business previously in force[93]. This change was made possible by embedding ratings in regulatory frameworks, making them almost essential to obtaining credit in capital markets. Indeed, companies and governments seeking to optimize financing costs already depended on being rated so that regulated banks and institutional investors were authorized to hold their bonds (SINCLAIR, 2005; WHITE, 2013).

Against this backdrop, the deregulation of the international financial system and the configuration of globalized capital markets projected the CRAs' relevance around the world. With regard to the sovereign ratings, the last decade of the twentieth century witnessed a revitalization of the sector, mainly due to the re-inclusion of emerging economies and developing countries in the global sovereign debt markets, from which they had been excluded since the 1930s. As

[92] According to the SEC (2021), there are currently six other NRSROs, in addition to the Big Three: A. M. Best Rating Services; DBRS; Egan-Jones Ratings; Japan Credit Rating Agency, Kroll Bond Rating Agency; and HR Ratings de México.

[93] This change in the agencies' business model raised debates around conflicts of interest, as presented in the preceding section.

suggested in the previous chapter, this was largely due to the overcoming of the external debt crisis of Latin American countries - through the Brady Plan - and the collapse of the socialist bloc of the Cold War, whose members integrated into globalization. Consequently, between 1990 and 2000, about a hundred countries were already rated by the CRAs, which had the sovereign ratings as a relevant source of business expansion in the period (DE SOUZA, 2015, p. 111).

This is the context in which the CRAs became prominent actors in the interaction between states and the financial market. Not surprisingly, despite the end of the Cold War, Friedman (1995) considered that "we live again in a two-superpower world. There is the U.S. and there is Moody's. The U.S. can destroy a country by leveling it with bombs; Moody's can destroy a country by downgrading its bonds". In his view, the CRAs have come to play the function previously performed by multilateral development agencies and the IMF, becoming the most critical interlocutor an emerging economy country could have, given their relevance to the state's financing conditions.

Other dimensions of the role played by the CRAs in the international order of financial globalization can be understood in light of the trends discussed in section 1.3. In this context, they became key players in the transaction of securities in capital markets, as financial disintermediation made their services valuable to investors and debt issuers. In addition, S&P, Moody's, and Fitch also became actively involved in manufacturing financial assets, such as derivatives and structured finance products, in association with universal banks. In this process, the CRAs are responsible for certifying their creditworthiness[94], performing a central task in the multifunctional network that interconnects banks, institutional investors, and other non-bank financial institutions (GUTTMANN, 2016; BESEDOVSKY, 2017; SINCLAIR, 2021).

Indeed, when analyzing the structure of shadow banking, Guttmann (2016) places the CRAs as one of its private assurance mechanisms. In this environment, since financial operations occur in the “shadows” of legal frameworks and hidden from regulators, the CRAs would guarantee the financial contracts' reliability, providing predictability to transactions and anchoring the expectations of the agents involved. Thus, by promoting trust among them, they function as one of the gears in the machine of innovations and self-expansion of capital markets, fostering their speculative and opaque dynamics.

[94] Structured finance operations aim to mitigate risk by diversifying the assets that make up a securitized asset. See Guttmann (2016, p. 8) on this topic.

Problems arise, however, when the CRAs fail to perform this function, issuing wrong ratings to the assets they help produce. This was the case in the 2008 financial crisis, for example. At the time, the assignment of low or nonexistent default risk to mortgage-backed securities and collateralized debt obligations issued by US commercial banks - which, traded in capital markets, soon came to be part of the portfolios of foreign financial institutions - was at the origin of the crisis that shook the international financial system, leading banks to bankruptcy and national economies to collapse[95]. As a result, the subprime crisis turned the CRAs into defendants in US courts, when much of the conflicts of interest and methodological deficiencies inherent in the rating process came to light (SINCLAIR, 2021; GUTTMANN, 2016; WHITE, 2013). In this adverse scenario for S&P, Moody's, and Fitch, new regulations imposed by US authorities, as pointed out in the preceding section, highlighted the widespread concern with the quality of the ratings.

In the aftermath of the crisis in Europe, the CRAs also became the target of criticism from national authorities and were subjected to intense public scrutiny of their actions. In this case, the focus was on sovereign ratings assigned to peripheral countries in the European Union, which were repeatedly downgraded after the 2008 crisis[96]. In the wake of these downgrades, the CRAs were accused of acting precipitously and exacerbating the financial crisis faced by the PIIGS countries - Portugal, Ireland, Italy, Greece, and Spain[97]. These, in turn, experienced a substantial increase in the spreads charged by creditors, and were forced to implement fiscal austerity measures that accentuated their socio-economic crises (IOANNOU, 2016; PAUDYN, 2014). As already indicated, European authorities reacted to the controversial actions of the CRAs by imposing new regulations on their actions through the ESMA.

But the 2008 financial crisis and its aftermath were not the first time that the actions of the CRAs were called into question. More than a decade earlier, the crisis of the East Asian emerging economies triggered in 1997 and the bankruptcy of Enron in 2001 had already inaugurated a period of mistrust around the methodology used in their ratings. In the first case, the CRAs delayed downgrading Thailand, Malaysia, and South Korea, resulting in severe financial losses to investors. When they finally did it, they revealed a pro-cyclicality that stimulated the capital flight from the

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[95] Sinclair (2021) and Guttmann (2016) analyze in detail the unfolding of the crisis, pointing out the prominent role played by the CRAs in this process.
[96] An emblematic case in this regard is Greece, analyzed in detail by De Santis (2012).
[97] Indeed, Ioannou (2016) argues that the downgrade of these countries by S&P, Moody's, and Fitch was excessive and incompatible with their rating methodology. According to the author, the CRAs, like other economic agents, were influenced by a deteriorated state of expectations due to the international financial crisis.

countries and contributed to the spread of the confidence crisis to other emerging economies between 1997 and 1999 (FERRI; LIU; STIGLITZ, 1999; SINCLAIR, 2005, p. 161).

Shortly thereafter, the epicenter of a new legitimacy crisis for the rating agencies was within the United States. In 2001, in the week of its bankruptcy, Enron (a giant in the US energy sector) was still rated as investment grade by S&P, Moody's, and Fitch - a condition that allowed it to keep financing its operations even under high default risk conditions. The unexpected insolvency then implied considerable financial losses for institutional investors and American citizens, who believed they were depositing resources in a safe investment. As a result, in the wake of the crisis, the SEC was constrained to clarify the criteria taken into account to recognize a CRA as an NRSRO, as well as to correct flaws in the legal entanglements of investment decisions of regulated investors with the ratings issued by NRSROs (SINCLAIR, 2005, p. 167).

Given this, it would be plausible to assume that the listed crises and their correspondent regulatory reactions would have compromised the relevance of the CRAs in the international financial system, given the potential reputational damage[98] they inflicted and the greater supervision to which the agencies have been subjected. However, even after these events, the position of S&P, Moody's, and Fitch in the financial market remains the same (BINICI; HUTCHISON; MIAO, 2018; SINCLAIR, 2021). As Kruck (2016) notes, this can be explained by the institutionalization of the use of ratings in decades of global finance regulations, which translated into the Basel Accords - from 1988, 2004, and 2010 - and contemplate initiatives of national and supranational bodies, such as the SEC, ESMA, and IOSCO. Throughout this period, both the encouragement of rating usage by investors and financial institutions and the new regulations imposed on the CRAs in the post-crises had the effect of cementing their legitimacy among financial agents. Thus, discouraging the use of ratings due to methodological errors and weaknesses seems to be an unfeasible task (KRUCK, 2016).

As seen in the previous chapter, the strategy underlying the regulations aimed at mitigating financial crises is often the depoliticization of the economic policy, which is one of the main trends and features of the international order of financial globalization. In this movement, the CRAs also play a prominent role. This is because, as analyzed by Paudyn (2014), one of the effects of the sovereign rating is the establishment of a "politics of limits," which affects the state’s fiscal

[98] In addition, Mathis, McAndrews, and Rochet (2009) argue that the rating agencies do not attach as much importance to their respective *reputations* as raters as would be expected.

management. In this sense, obtaining better or worse ratings reflects the adoption or distancing of the fiscal conduct that CRAs deem appropriate – an issue that will be further explored in the following sections of this chapter.

One implication of this modus operandi is that S&P, Moody's, and Fitch end up both promoting and benefiting from the depoliticization of economic policy: in the first case, by assigning better ratings to countries that delegate their economic management to bureaucracies shielded from democratic pressures, as will be seen in the next section; in the second case, to the extent that they themselves can be perceived as one of these technical entities that guide state economic management, given the nature of the informational service they offer. As a result, Paudyn (2014) observes that it is in part due to the actions of the CRAs that an artificial bifurcation between the spheres of the economy and politics has been deepening since the last decades of the twentieth century. As will be analyzed in section 2.6, one implication of this is that they should not be seen as merely technical and politically neutral actors.

In summary, in light of the trends presented in section 1.3, one can best grasp the relevance of the CRAs in the architecture of the international order of financial globalization. In this context, they appear as central actors in the processes of financial disintermediation and in the securities transactions that underlie the dynamics and expansion of globalized capital markets. They have also frequently become involved in the systemic financial crises that characterize this international financial order. At the same time, however, their ratings are often included in regulatory frameworks aimed at mitigating financial instabilities. This relates to their role in the movement towards depoliticization of the national economic policies, thereby strengthening their position in the international financial system.

In this context, moreover, the CRAs can also be perceived as expressions and catalysts of the financialization process. Indeed, considering Epstein's definition (2005) presented in the previous chapter, the link between both becomes evident. After all, the prominence of the CRAs in the international order of financial globalization represents and illustrates "the growing relevance of financial markets, financial motives, financial actors, and financial institutions in the operation of domestic and international economies." Also, their very origin relates to investors' demand for information on creditworthiness of financial assets in the US capital market in the early twentieth century.

But the intertwining between the CRAs and financialization can be observed in even greater detail. For example, Besedovsky (2017) analyzes it based on the calculative practices that sustain the dynamics of structured finance, in which agencies assist banks in producing securitized assets to be traded in the financial market. In addition, since financial activities gain prominence as a source of profit for various economic agents (KRIPPNER, 2011), they become potential consumers of ratings, which help guide their investment decisions. Finally, as Palley (2013) advocates, financialization can also be understood as the predominance of the interests of the financial sectors of society in economic policies and national macroeconomic dynamics. As will be evidenced in the following chapters, promoting these interests is a relevant dimension of the modus operandi of CRAs, which frequently try to interfere in national politics and policymaking, especially in situations where they assess a high level of political risk.

This historical panorama illustrates how, since their foundation, the CRAs have played distinct roles in the international financial orders that were established throughout history, which have shaped their respective trajectories and conditioned the power they exercise. If, during the gold standard order, the sovereign rating industry was built on the freedom of international capital flows, the restrictions imposed by the Bretton Woods order greatly diminished the relevance of the CRAs in the international financial system. Despite this, it is in this international order that S&P, Moody's, and Fitch entrenched their ratings in regulatory frameworks, which created the conditions for them to be raised to a prominent position in the order of financial globalization. In this context, they have simultaneously constituted a cause and symptom of the financialization process.

2.4 The sovereign rating's methodologies

Once the CRAs were introduced as objects of study and their trajectories in the international financial system have been presented, this section aims to explore the main aspects related to the formulation of sovereign ratings. To do so, it references the documents published by S&P (2017), Moody's (2019), and Fitch (2020) concerning their sovereign rating methodologies. It should be noted, however, that these methodologies undergo modifications over time, mainly due to pressures for greater transparency and efficiency in the rating process, which often occur in the wake of flawed evaluations and financial crises. Thus, the documents might not accurately reflect the rating process carried out on dates different from those of their own issuance, since certain criteria may have been altered or improved. Even so, it is assumed that the variables and parameters listed indicate the general aspects that characterize the sovereign rating formulation over the years.

Given the relevance of sovereign ratings on the international financial system, understanding their underlying methodologies has raised academic debates since the 1990s. In a seminal work, Cantor and Packer (1996b) sought to identify the explanatory variables for the ratings assigned by S&P and Moody's to a set of 49 countries[99]. As their methodologies became public, criticisms of the procedures adopted by the CRAs proliferated, stimulating them to make the rating process more transparent and understandable to the public debate (BARTA; JOHNSTON, 2017; CASH, 2018). Thus, the literature has also been able to focus on understanding the weight of specific variables in the rating process[100].

That said, the following subsections present an overview of the methodologies employed by S&P (2017a), Moody's (2019a), and Fitch (2020) for the formulation of their sovereign ratings. It should be noted that the objective of this section is purely descriptive, in order to provide the reader with the general functioning of the process. In subsequent sections, new considerations will be made about these procedures, with a view to the chapter’s objective of understanding the CRAs as political actors.

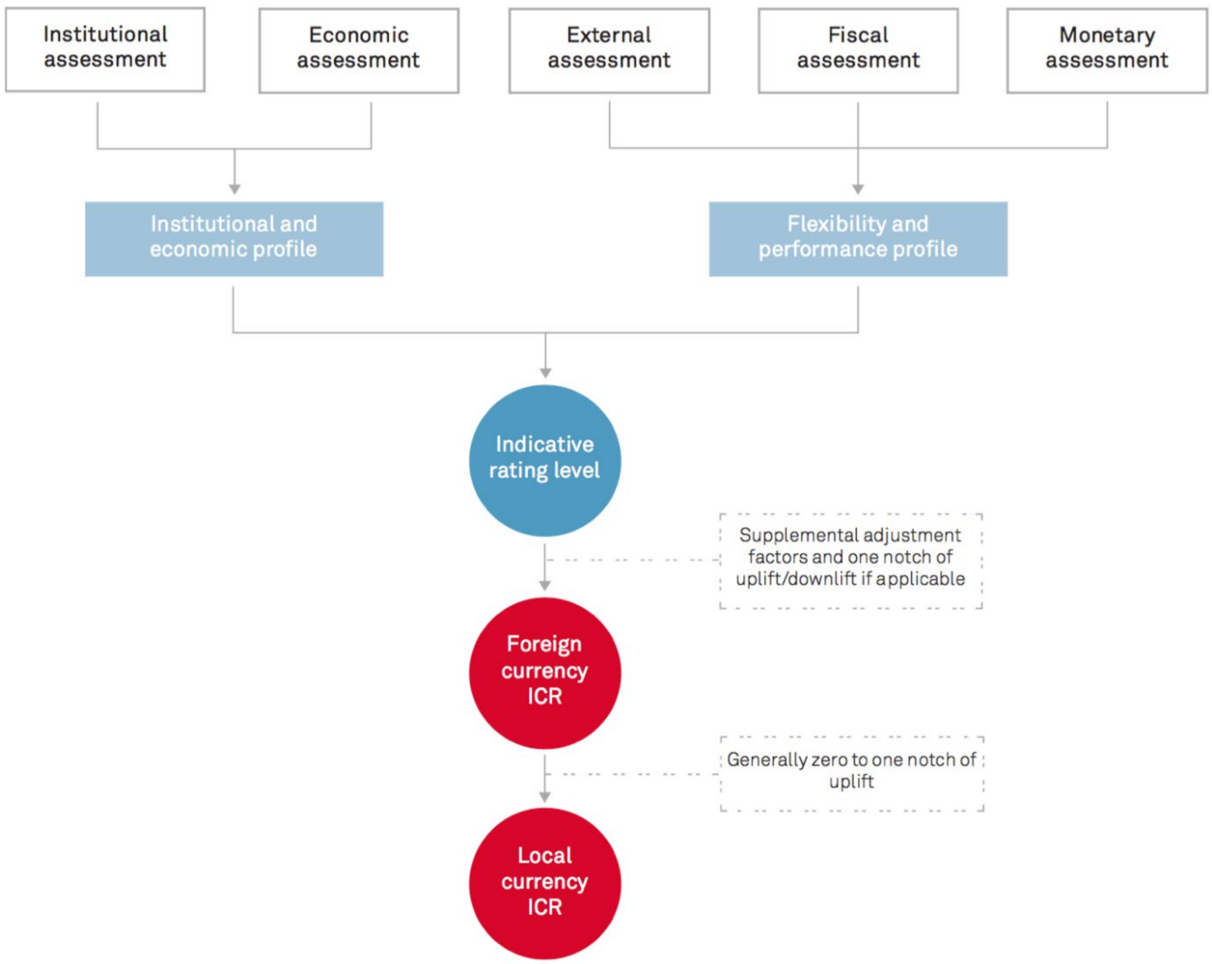
2.4.1 S&P’s methodology

In the document outlining their methodology for formulating sovereign ratings, S&P (2017a) presents the five basic assessments they make of a country to begin their rating process: an "institutional assessment," an "economic assessment," an "external assessment," a "fiscal assessment," and a "monetary assessment." Each assessment receives a score ranging from 1 to 6, based on specific criteria listed in the document. The first two assessments create what the company calls an "economic and institutional profile," while the last three form the "flexibility and performance profile." Together, these profiles indicate the preliminary rating that should be

[99] The authors' reference year was 1995. At the time, the identified explanatory variables were: per capita income, GDP growth, inflation, external debt, level of economic development, and default history.
[100] For instance, see Panizza (2017) for an analysis of the weight of the variable "corruption" in the sovereign ratings of the three agencies.

assigned but is subject to adjustments based on predetermined elements[101]. Figure 6 illustrates this process.

Figure 6 - Sovereign ratings' methodology of S&P.



Source: S&P, 2017.

According to S&P (2017a, p. 5), the institutional evaluation "comprises our analysis of how a government's institutions and policymaking affect its credit fundamentals by delivering sustainable public finances, promoting balanced economic growth, and responding to economic or political shocks." To carry out this evaluation, the company seeks to measure (i) "the effectiveness, stability, and predictability of its policymaking and political institutions" and (ii) "the transparency

[101] According to the CRA, these are the elements: extremely weak external liquidity; extremely high fiscal debt burden; very high institutional risk and high debt burden; event risk; very large liquid financial government assets.

and accountability of its institutions, data, and processes, and the coverage and reliability of statistical information." This measurement, in turn, follows criteria specified in the document. For example, item (i) receives the highest score if the country's government demonstrates "ability and willingness to implement reforms to ensure sustainable public finances and economic growth over the long term." On the other hand, a low score may be assigned if "policy choices likely weaken capability and willingness to maintain sustainable public finances and balanced economic growth, and thus, debt service," among other factors.

The economic assessment is based on the country's income level, per capita GDP, economic growth prospects, and the diversity and volatility of its economy. According to S&P (2017a, p. 12), "economic concentration and volatility are important because a narrowly based economy tends to correlate with greater variation in growth than a more diversified one." Thus, less complex economies are penalized with a lower score.

The external assessment is based on three elements: the status of the national currency in international transactions, its external liquidity, which indicates the ability to generate the necessary currencies to honor public and private debt commitments, and its external position, which demonstrates the condition of assets and liabilities of its residents in relation to the rest of the world. For each of these items, specific evaluation criteria are presented, as well as corresponding scores. For example, a country that holds a more internationalized currency - that is, that functions as a store of value for financial agents and, as a result, is less subject to fluctuations in investor risk appetite - receives a better evaluation.

The fiscal assessment, in turn, "reflects the sustainability of a sovereign's fiscal balances and debt burden" (S&P, 2017a, p. 18). To be carried out, it takes into account fiscal flexibility, long-term fiscal trends and vulnerabilities, the structure of public debt and its access to financing, and potential risks associated with contingent liabilities. The CRA segments this evaluation based on the country's fiscal performance and flexibility and its debt burden, so the final evaluation is the average of these two dimensions. In this evaluation, the variation of the percentage of debt as a proportion of GDP, for example, is one factor that guides the score obtained by the rated country - among a series of other quantitative and qualitative variables also taken into account and listed in the document.

Finally, the fifth evaluation presented by S&P (2017a, p. 27) is the country's monetary assessment, which is based on the analysis of its exchange rate regime and the credibility of its monetary policy. Regarding the exchange rate regime, the CRA claims that it influences the country's ability to enjoy an independent and adjusted monetary policy to the demands of the domestic economy. On the other hand, the credibility of monetary policy is measured, among other factors, by observed inflationary trends and the impact of market-oriented monetary mechanisms. For example, the score attributed to the credibility of monetary policy is directly influenced by the degree of independence of the national monetary authority, so that the more (less) subject it is to political interference, the worse (better) the assessment received. In this direction, the operational and legal independence of the Central Bank is explicitly taken into account by the CRA.

Based on these five assessments, the sovereign rating is generated, although still being subject to adjustments according to supplementary factors that impact the creditworthiness profile. According to S&P (2017a, p. 30), "the dominance of negative supplemental adjustment factors is based on our judgment that the supplemental risks can jeopardize debt-service capacity more than positive developments can improve them". In this regard, the political risk appears as particularly relevant to this research, once it may trigger institutional instabilities in a given country. Indeed, the CRA reiterates that the history of sovereign debt defaults suggests that institutional risks are among the main causes of economic policies that lead to insolvency - which justifies the high weight attributed by the company to the institutional evaluation.

2.4.2 Moody's methodology

Moody's methodology (2019a) resembles that of S&P (2017a), being structured around four evaluation factors: "economic strength", "institutional and governance strength", "fiscal strength", and "susceptibility to event risk." These four factors are subdivided into a series of quantitative and qualitative variables, which the following paragraphs summarize. For each of them, the CRA presents the metric taken into account and its weight for the final evaluation. In addition, adjustment criteria safeguard the agency's discretion, in case it considers that the score assigned to the country in question does not adequately reflect its creditworthiness profile.

In the case of the "economic strength", the sub-factors that determine it are the dynamics of GDP growth, the scale of the economy, and national income. According to the CRA, a slow or volatile pace of GDP growth can compromise debt sustainability. The scale of the economy, in turn, indicates its diversity and complexity, which influence the government's revenue-generating

capacity for debt service. National income has a direct correlation with the probability of default. In addition to these variables, the agency also presents some adjustment factors that influence the evaluation of a country's economic strength. For example, the degree of flexibility of its labor market is taken into account by Moody's (2019a, p.8) in the analysis:
"Labor markets that facilitate a broad equilibrium between demand and supply are better able to withstand downturns by redeploying labor towards the most efficient sectors. Legislation or regulatory changes which aim to increase the flexibility of employment terms, including working time, wage and hiring or firing practices, may weigh positively in our assessment."

The "institutional and governance strength" is determined by the "quality of institutions" and the "effectiveness of macroeconomic policies" implemented by the government. Regarding the quality of institutions, executive and legislative institutions are evaluated, as well as the strength of civil society and the judiciary. The parameters taken into account relate to the transparency, predictability, and robustness of these institutions, as well as the rule of law. The effectiveness of policies implemented by the government is measured from the effectiveness of its fiscal and monetary policy - an aspect in which the operational and legal independence of the Central Bank again has a prominence, as it guarantees its insulation from possible political interference. The criteria considered in measuring these variables are detailed in the document. An example is the existence or not of institutionalized fiscal targets or a ceiling on public spending, as Moody's (2019a, p.13) explicitly states:

> The existence of fiscal targets or expenditure ceilings and consistent compliance with those targets or ceilings over a number of political cycles generally signals stronger fiscal policymaking and implementation. [...] A track record of adherence to the targets or limits is typically viewed positively in our assessment, to the extent that they are designed to maintain a good fiscal performance or to improve the fiscal trajectory.

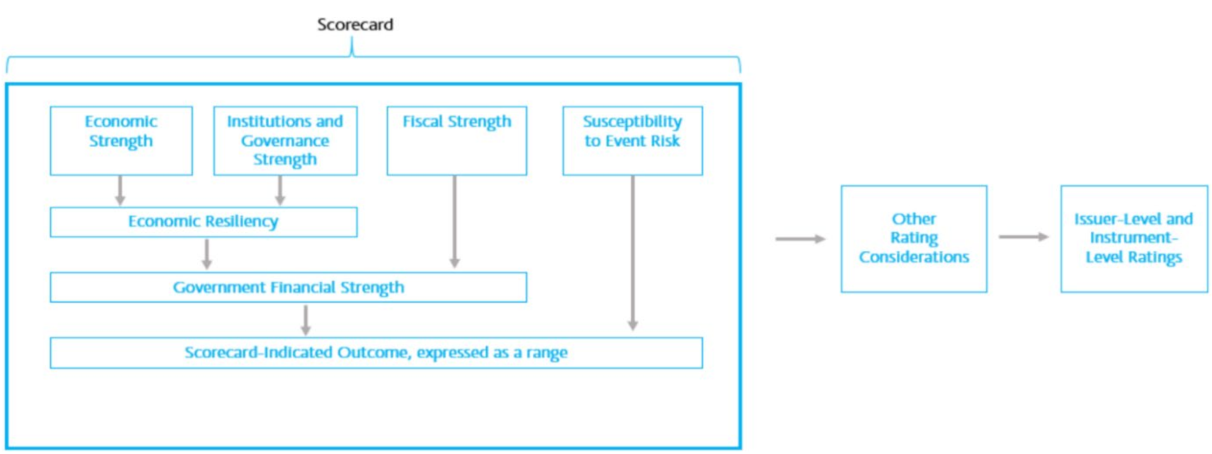
In turn, the "fiscal strength" of the rated country is measured based on the burden of public debt and its structure. In the case of the first sub-factor, the trend of the debt-to-GDP ratio is evaluated. In the second, the CRA analyses the government's ability to service the debt, taking into account the conditions of its refinancing. These elements signal the country's fiscal strength because fiscal imbalances often manifest themselves through high leverage or difficulties in rolling over public debt.

Finally, "susceptibility to event risk" takes into account "political risk," "government liquidity risk," "banking sector risk," and "external vulnerability risk." According to the CRA, sudden and extreme events of these natures can harm a country's economy and institutions or constrain public finances in a way that compromises its creditworthiness profile. In the case of *political risk*, Moody's (2019a, p. 34) assessment is informed by the country's socioeconomic characteristics that can affect its stability. For example, a high (low) unemployment or social inequality index signals a high (low) political risk, making the score in this area worse (better). Political stability in the country is also interpreted similarly: if there is continuity in implemented policies, despite the alternation of power between parties of different ideological orientations, a lower political risk is assessed. On this topic, further considerations will be made in the next section of this chapter.

Regarding the government liquidity risk, the conditions and mechanisms of access to public debt financing are preponderant factors related to the status of the country's currency in the international monetary system. In turn, the evaluation of banking sector risk is based on the systemic dimension banks play in the economy’s functioning. External vulnerability risk, on the other hand, concerns the country’s dependence on financial flows to finance current account deficits. Thus, it is also conditioned by the status of the national currency internationally and by the country’s economic complexity.

In a broader perspective, the CRA clarifies that the analysis of economic strength and the strength of institutions and governance originate the country's "economic resilience profile." When associated with assessing its fiscal strength, this profile allows the agency to identify the "government's financial strength." This, in turn, when added to the susceptibility of event risk, indicates the score range for the assignment of a sovereign rating. A committee then determines the rating, as shown in Figure 7.

Figure 7 - Sovereign ratings’ methodology of Moody’s.



Source: Moody’s, 2019a.

2.4.3 Fitch's methodology

Fitch's (2020) sovereign ratings methodology combines its sovereign rating model - a multiple regression model that considers eighteen variables of the rated country - with a qualitative overlay that adjusts it according to a series of predefined qualitative criteria. This process is structured in four steps: the first, of greater importance, is a "structural characteristics" analysis of the country; the second concerns its "performance, policies and macroeconomic prospects"; the third contemplates its "public finances"; and the fourth assesses its "external finances". The following paragraphs summarize the variables taken into account in each of these stages.

In evaluating the sovereign structural characteristics, the CRA analyses the country's governance indicators (which include, for example, the rule of law and the fight against corruption), its per capita GDP, its GDP in proportion to global GDP, and its historical commitment to servicing public debt. In this analytical dimension, the qualitative adjustment is made based on the stability and political capacity of the government and the risks of the national financial sector. Additionally, the country's business environment and ability to attract investments are considered.

In turn, the national performance, policies, and macroeconomic prospects are assessed based on the dynamics of GDP growth and its inflationary tendencies. According to Fitch (2020, p.15), "track record of macroeconomic stability, underpinned by a credible policy framework, has a material positive influence on sovereign creditworthiness and ratings." Thus, the qualitative adjustment takes into account the existence of an institutional framework for economic policy that favors responsible fiscal and monetary policies aimed at the sustainability of public debt in the long term.

The analysis of the country's public finances is based on the government's gross debt as a percentage of GDP, the cost of servicing public debt, the government's fiscal balance as a percentage of GDP, and the proportion of debt denominated in foreign currency in relation to total debt - concerning this element, the CRA explains the potential harms of the original sin, presented in chapter 1. Qualitative adjustments, in turn, draw on the flexibility of access to debt financing, its structure and sustainability, the degree of budgetary rigidity of the government, and its relationship with official creditors. In this case, Fitch (2020, p.20) notes that:

> Relations with the international community, including with IFIs (ie the IMF and development banks) and major global or regional powers, may also influence the assessment of financing flexibility. Unwillingness for political or other reasons to secure policy-

> conditional financing from the IMF and other IFIs reduces the sovereign's financing options in a distress scenario.

Finally, the country's balance of payments conditions and external liquidity determine the analysis of external finances. Thus, issues such as the international status of its currency, level of accumulated international reserves, and dependence on commodity exports are taken into account. These elements are further unfolded in the qualitative adjustment that overlaps with the sovereign rating model: for example, the country's vulnerability to exogenous shocks and its historical trajectory of access to international capital markets are also considered in this step.

2.5 Political risk

This section aims to clarify the notion of *political risk* that underlies the main argument of this research. To do so, both the relevant literature on political risk and the nuances of CRAs' methodology and definition of sovereign ratings are taken into account. Based on this section discussion, the understanding of the CRAs as political actors, which will be further elaborated on, will also be facilitated.

As seen in section 2.2, the sovereign rating is an evaluation not only of a government's *ability* but also of its *willingness* to honor public debt commitments. This adds an unavoidable political dimension to rating process. Ultimately, assessing the *willingness* of a government to service public debt implies the recognition that nation-states cannot go bankrupt and cease to exist, as happens with private companies. On the other hand, governments may be encouraged to default for reasons unrelated to the state's financial capacity. This political dimension of the default probability is recognized by the CRAs in their own sovereign ratings methodologies. According to S&P (2017, p. 9):

> Willingness to default is an important consideration when analyzing a sovereign's creditworthiness, partly because creditors have only limited legal redress. As a result, a sovereign can, and sometimes does, default on its obligations even when it possesses the capacity for timely debt service.

Similarly, Moody's (2019, p. 12) notes that "there has been a clear linkage between institutional weaknesses and sovereign defaults, arising in part from erosion in governments' willingness to pay." The CRA also highlights some prerogatives of a sovereign state that cast doubt on its bankruptcy possibility, such as the ability to minimize public expenditures and increase tax revenues to pay off pending debt service. However, in their relationship with a sovereign state, private creditors are disadvantaged by the lack of a supranational authority that can constrain its government to act in this direction (MOODY'S, 2019, p. 2). This is the same diagnosis as Fitch's (2020, p. 3):

> Because the sovereign is the highest authority and has the power to enforce its will in the jurisdiction it governs, creditors have very limited legal or other recourse in the event that the sovereign is unable or unwilling to service its debt. This is also the case at the international level, given the limitations of international law and its enforceability with respect to sovereign nations. Consequently, whether in terms of local- or foreign-currency debt, the analysis of sovereign credit risk must take into account the willingness to pay, as well as financial capacity.

Once a government chooses not to honor the contract with creditors, the default can take various forms, as Gaillard (2014) observes from historical experiences. For example, one extreme way it can happen is through repudiation of the contracted debt. In this case, there is a refusal to admit it as legitimate, usually in the wake of revolutionary processes or territorial secession. More frequent in the international order of financial globalization, the non-observance of agreed-upon deadlines or a debt moratorium constitute other forms of default. In addition, governments often promote the restructuring of some contractual terms, both unilaterally and through negotiation. A less evident way of defaulting can also result from the imposition of capital controls, which prevent payment of debt denominated in foreign currency, or through the erosion of the currency's value - that is, through inflation - in the case of debt denominated in the national currency[102].

These mechanisms indicate that the commitment level of a sovereign government to service public debt - that is, its *willingness* to do so – can lead it to default directly or indirectly. Indirectly, the government influences macroeconomic policies that affect its own capacity to service public debt. As it deteriorates, the government chooses when and how the default will occur, determining it directly. Understanding the political nuances of this process ends up being a challenge for both academic literature and the CRAs in their respective rating methodologies (SOTTILE, 2013).

Against this backdrop, Cordes (2014) uses a database of more than 1,200 sovereign rating reports to observe which political elements and initiatives of governments of 145 countries were considered positive by CRAs in their statements. The goal was to identify what was interpreted as a signal of governments' willingness to honor the service of public debt. In 72% of the CRAs' reports, political factors were used to sustain rating decisions, which referred more to the *willingness* than to the *capacity* of the government to fulfill agreements with State creditors.

[102] However, as Gaillard (2014) observes, this case does not amount to a form of default under international law.

Cordes (2014) then concludes that three factors are especially relevant to the CRAs in this regard, which have in common the fact that they are easily interpretable by the financial market and present high reversal costs. The first is the implementation of economic liberalization policies - especially the promotion of privatizations of state-owned companies. The second is the existence of veto actors[103] who are able to impose obstacles to a possible default decision by the government. Thus, an independent Central Bank and judiciary, for example, are viewed by CRAs as elements that decrease the chances of a default occurring. Third, international agreements can also favor the perception of governments' willingness to honor public debt service. To do so, they need to generate binding commitments in favor of their fulfillment, as is the case with financial support agreements signed with the IMF.

The sovereign rating methodologies presented in the previous section also suggest elements assessed by S&P (2017), Moody's (2019), and Fitch (2020) to measure a government's commitment to debt service. In the case of S&P (2017), they seem to relate to the “institutional assessment” carried out in the rating process, including the government's willingness to promote liberalizing reforms in the economy, for example. In addition, the CRA considers political risk in its rating adjustment criteria - although it does not offer any definition for political risk, pointing out only that it can threaten the established national institutional framework (S&P, 2017, p. 34).

Moody's (2019), in turn, includes these elements in two of the four assessed factors in the sovereign rating process: "institutional strength and governance" and "susceptibility to event risk". In the first, as indicated in the previous section, a government's willingness to pay debt commitments is indicated by the quality of the country’s institutions and governance conditions, which shape the trajectory of economic policy and delimit the policy space for its management. In the second, the CRA makes explicit reference to political risk. Despite the absence of any definition for political risk, the agency clarifies that it can originate from domestic political dynamics or geopolitics, resulting in instabilities that negatively affect predictability and policymaking stability. Such situations may ultimately compromise the government's liquidity conditions (MOODY'S, 2019, p. 32).

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[103] According to Cordes (2014, p. 115), "veto players are individual or collective decision-makers whose agreement is required for the change of the status quo", which favors political inertia and stability. In the case of public debt, the status quo consists of its payment. In addition to the mentioned independent central bank and judiciary power, the parliament and the existence of a coalition government, which has a pro-status quo bias, can also be considered veto players in this sense.

According to Fitch (2020), the factors that influence a government's willingness to honor its public debt service are primarily related to the evaluation of the "structural characteristics" of a given country. In this regard, the agency considers its governance indicators and what it calls *political capacity and stability*, for example. According to Fitch (2020, p. 12), this includes "the level of political risk, the risk of fundamental regime change and/or military conflict, broader geopolitical risks, the ability of the political system to address economic and fiscal challenges, and willingness to pay." However, the CRA acknowledges that political risk can also be triggered by other variables considered in the rating process, which suggests its lack of solid definition.

Scholarship's definitions of political risk go in a similar direction. For example, Bekaert et al. (2014) define it as the risk that government actions or institutional imperfections in a country will harm the value of investments in its territory. Other authors converge in understanding it as the potential damage that political behavior can cause to business conducted in a given state (e.g., BRINK, 2004; MCKELLAR, 2010). Rice and Zegart (2018), in turn, share the same definition[104], although they note that political actions, in the 21st century, can also be carried out by non-state actors.

In all these cases, the political risk appears as a threat to the process of depoliticization of economic policy, which, as seen in the previous chapter, is one of the pillars of financial globalization. Indeed, by promoting expropriations or failing to comply with public debt contracts, for example, a government goes against the prevailing rules that underlie the investors' decisions in capital markets. In the same vein, Sottile (2013) notes that a government may indirectly promote default by implementing macroeconomic policies that harm its ability to honor its debt service. Hence, the formal insulation of state bureaucracies - in this particular case, those responsible for its economic management - from political pressures would act to avoid such behaviors, in order to mitigate political risk. In other words, the depoliticization of economic policy serves the purpose of deactivating the national governments' *willingness* factor in situations with political incentives for defaulting[105].

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[104] Rice and Zegart (2018) list ten types of contemporary political risk: those arising from global geopolitics, such as wars between states; those arising from internal conflicts within countries; those arising from changes in laws, regulations, or government policies; those arising from government repudiation of contracts; those arising from corruption; those arising from extraterritorial actions, such as sanctions or proceedings from other countries; those arising from the manipulation of natural resources; and those arising from social activism, terrorism, and cyber threats.

[105] As will be seen in the next two chapters, this observation is corroborated by CRAs' statements about political risk in Argentina and Brazil. For example, Moody's (2012), commenting on developments in the Brazilian rating, links political risk to possible difficulties in approving liberalizing reforms by the government: "given policy continuity,

In light of this debate and the argument to be developed in this research, political risk will henceforth be understood as *the potential compromise of the willingness of a sovereign government to honor debt commitments agreed with State creditors on time and in full*. Thus, based on what was presented in the previous chapter, it is assumed that two elements predominantly impact CRAs' perception of political risk. Firstly, the *political-party ideology* of a given national government. Secondly, the *international environment conditions* in which it is situated.

Political-party ideology is relevant because the initiatives regarded by the CRAs to assess a government's willingness to fulfill debt contracts are points of distinction between what is traditionally understood as a left or right-wing government agenda. Indeed, policies aimed at liberalizing the economy and guiding state actions in favor of markets - which are valued by the CRAs – are typically right-wing agendas. On the other hand, left-wing governments tend to be more lenient with public spending, promoting greater state participation in poverty mitigation and social welfare provision. Ultimately, this makes political risk, as previously defined, more (less) salient under left-wing (right-wing) governments.

Simultaneously, the international environment conditions appear as an exogenous factor that can also influence the willingness of an emerging economy government to honor its debt commitments. In the particular case of South American countries, we saw in chapter 1 that the commodities prices and liquidity conditions in capital markets (influenced mainly by US interest rates) are the most salient factors affecting the external scenario - as theorized by Campello (2015)[106]. Thence the conclusion that an adverse international environment can offer political incentives for governments to default on public debt, as the scarcity of financial resources potentially pressures them to choose between servicing the debt and fulfilling their voters' demands.

In other words, both the government's ideological orientation and the international environment conditions can be considered elements that influence a government's commitment to sovereign debt service. From the CRAs' perspective, these two factors can indicate the political risk in a given developing country. Nevertheless, what would motivate them to interfere in national politics and policymaking, and the distinct forms that such interference takes remain to be clarified. That is the objective of the following section.

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political risk is mostly related to difficulties passing reforms required to remove structural obstacles that constrain Brazil's ratings".

[106] The theory of Campello (2015) was presented in more detail in the previous chapter.

2.6 The politics of risk

A central argument in this research is that the intensity of CRAs' interventions in a developing country's national political and economic processes mirrors its level of political risk. To develop this thesis and understand how these interferences take shape, it is necessary to clarify some of its premises. Therefore, this section explores how the political bias of rating agencies' actions can be perceived and what could justify it. This objective is operationalized in the following three subsections.

2.6.1 The sovereign rating's methodology: bias and contradictions

The first point to be highlighted is that the sovereign rating methodology used by S&P, Moody's, and Fitch is informed by an identifiable worldview that inevitably discredits other competing perspectives on State management[107]. This ideological foundation guides the metrics and parameters considered by the CRAs for evaluating the variables listed in section 3.4 - both in terms of their measurement and selection. As scholarship notes, these are fundamentally neoliberal criteria that are reflected in the policy recommendations known as the Washington Consensus, presented in the previous chapter (PAUDYN, 2014; SINCLAIR, 2008, 2021; YWATA, 2012).

Consequently, the assessment of the variables in the rating process draws on the imperative of monetary stability and inflation control, in order to assign a positive perspective, for example, to a fiscal austerity agenda built on the implementation of pro-market and depoliticized economic policy initiatives. However, if viewed in light of the goal of measuring the default probability of a given government bond, this evaluation becomes problematic and its parameters questionable. This is because many of its premises have been called into question in academic debate, and the results of its implementation remain in dispute. Ultimately, this may shed light on some contradictions of the rating process.

Indeed, this realization seems to have influenced the way the CRAs present the criteria in their sovereign rating methodologies. In this sense, Barta and Johnston (2017) note how this ideological bias has become less evident in the methodology documents over the years. For

[107] In the words of Sinclair (2021, p. 59): "While the rating process is not ideological in the conscious sense, it clearly does have semantic content, and thus does favor certain actions and policies by issuers rather than others".

example, in earlier versions of the models presented in section 3.4, S&P, Moody's, and Fitch explicitly advocated the privatization of state-owned enterprises, associating it with benefits such as reducing the fiscal deficit, reducing public debt, and increasing GDP (CORDES, 2014, p. 89). Nevertheless, these effects have been contested by relevant literature. For instance, it is known that, among other consequences, unrestricted privatization of state-owned enterprises can harm public finances by extinguishing sources of state revenue[108] (e.g., IRWIN, 2012).

The same conflict with the goal of preventing sovereign debt default is illustrated by other examples present in the documents explored in section 3.4. As stated by the three CRAs, the level of public debt as a proportion of GDP is one of the variables taken into account for measuring sovereign creditworthiness, even though serious flaws in academic research that have delimited the appropriate level for this relationship have already been revealed (KRUGMAN, 2013). Similarly, the idea that the sustainability of public finances requires an economic policy institutional framework that freezes state expenditures is also losing credibility in the 21st century (BLYTH, 2017). As indicated in the previous chapter, studies also relate fiscal austerity to increased social inequality and income concentration, factors that, as also presented by CRAs, contribute to the increase in political risk and, as a result, to the worsening of sovereign ratings. Meanwhile, the absence of considerations by S&P, Moody's, and Fitch regarding the improvement of state finances through increasing state revenue - as would occur through progressivity in the tax system[109] - is also an indicator of the ideology that underpins their actions

Furthermore, as presented in section 3.4, it is consensual among the CRAs that a complex[110] and low-volatile economy is an important factor for obtaining a good rating. However, the Washington Consensus agenda has already shown to be counterproductive for countries - especially those with emerging economies - to achieve such condition (BELLUZZO; CARNEIRO, 2003). On the other hand, the role of the State in this process, which tends to result in downgrades, is supported by both historical experiences (AMSDEN, 2001; CHANG, 2004; GALA, 2017) and economic development strategies conceived in the context of financial globalization (BRESSER-PEREIRA; JABBOUR; PAULA, 2020; MAZZUCATO, 2021). Therefore, it follows that an

[108] This is because state-owned enterprises, when profitable, can be significant sources of revenue for the state. Even when they are not profitable, they can perform social functions that are not tied to public finances.
[109] On this topic, see Furman, Summers e Bordoff (2007).
[110] The complexity of an economy is measured by the diversity and ubiquity of its exportations. The more diverse and less ubiquitous they are, the more complex the economy is. On this topic, see Gala (2017).

unrestricted alignment with neoliberal principles of economic management can ultimately be counterproductive to improving the creditworthiness profile of the rated country, even though it is a condition *a priori* favored by CRAs' methodologies.

In summary, shedding light on the underpinning ideology of CRAs' sovereign rating process is a first step to frame them as political actors in the state arena. This is relevant not only for clarifying contradictions in the objective of mitigating sovereign default, given that measures contrary to those propagated by the CRAs could improve the evaluated metrics, but also for identifying political repercussions of their actions within countries. One of the dimensions in which this occurs is in the electoral and partisan arena.

2.6.2 Political and partisan repercussions

Concerning national economic management, the CRAs' criteria to assess sovereign creditworthiness can also be seen as an economic policy agenda. If a government adheres to the parameters deemed appropriate by the CRAs in this regard, *ceteris paribus*, it is plausible to assume that the sovereign rating will improve[111]. Conversely, governments that deviate from these parameters tend to receive worse ratings. This reality has inevitable implications for national political-party dynamics.

This is because the ideological convergence or divergence between political parties and the CRAs can unbalance electoral competition, given the weight of ratings for financing the economy and the government's credibility before the public opinion[112] (PAUDYN, 2014; BUENFIL, 2017). This problem is exacerbated to the extent that political-party ideology influences the sovereign rating regardless of whether it affects the variables listed by the CRAs in their methodologies[113]. Such a situation means that in practice, countries are penalized or benefited based on the party label

[111] This disregarding, for the purposes of this analysis, the effects of the contradictions pointed out in the previous subsection.

[112] From the perspective of citizens, the ratings assigned end up constituting a performance indicator for the national governments in managing the economy, leading to their expectations converging around the "proper" management of public finances - in this case, around neoliberal parameters. As noted by Paudyn (2014) and Sinclair (2005), one of the techniques used by the CRAs to promote this effect is to give greater emphasis to the quantitative criteria of their methodologies in public statements, making it appear more technical and scientific, and obscuring the subjectivities of the process. This observation is in line with the academic literature on the socioeconomic impacts of performance indicators. For more on this topic, see Le Galès (2016).

[113] This is because, *a priori*, there is nothing preventing a government from going against the ideological orientation of its political-party when it comes to the implemented policies.

of their governments. Indeed, scholarship observes this partisan discrimination by S&P, Moody's, and Fitch in both advanced (BARTA; JOHNSTON, 2017) and emerging economies (VAALER; SCHRAGE; BLOCK, 2005, 2006). In the case of the latter, however, this tends to have more repercussions on the state's financing capacity since investors, faced with developing countries' less reliable public information, places more weight on the CRAs' opinions to make decisions related to them (BLOCK; VAALER, 2004).

One consequence is that governing under a left-wing label becomes more expensive, given the perception of higher risk informed by ratings to investors. The nuances of this causality are documented in the literature: if a left-wing (right-wing) government comes to power or is slated to come to power, the sovereign rating worsens (improves), and the spreads charged by creditors increase (decrease). As noted by Vaaler, Schrage, and Block (2005), this is one of the means that the financial market has to "vote" in presidential elections or pressure elected governments to adhere to the liberal orthodox agenda[114]. Indeed, this ideological bias has been calling into question the very use of the ratings in regulatory frameworks that structure the architecture of the international financial system (UNCTAD, 2015).

The explanations for this biased behavior also lead to academic debates. On the one hand, this situation can be understood from the imperative of default risk assessment (CORDES, 2014). In this case, as advocated by Barta and Johnston (2017, 2020), partisan discrimination function as a prevention or insurance mechanism for the CRAs against any less credit-friendly policies that an ideologically divergent government may implement. Since the rating aims to make a long-term prospective assessment and therefore demands a certain degree of stability over time, this would safeguard the CRAs from having to promote a rating change in a short period of time that could compromise their credibility with financial agents. Another perspective, however, attributes to the CRAs a function that goes beyond the rating issuance in the international financial system, as will be analyzed next.

[114] Similarly, Hanusch and Vaaler (2013) view the rating agencies as "fiscal discipline guardians" in emerging economies. Based on an econometric analysis that includes 32 presidential elections in 18 countries between 1989 and 2004, the authors identify a correlation between better (worse) ratings and less (more) public spending in election years.

2.6.3 The agencies as vectors of a political economy

For Sinclair (2005, 2021), the CRAs are also responsible for organizing the environment in which financial agents operate, shaping their behaviors and adjusting their expectations around the norms and practices necessary for the functioning of capital markets[115]. In other words, S&P, Moody's, and Fitch act as promoters of the underlying political economy of the international financial order. Understanding this approach requires going back to the origins of these companies, as well as the expansion of their services in the context of financial globalization.

As presented in section 2.3, the CRAs were set up in response to the demands of the U.S. capital market at the beginning of the 20th century. In this context, as presented throughout this chapter, the purpose of their services was to mitigate the informational asymmetries endemic to the interaction between investors and debt issuers. The evolution of the U.S. capital markets translated into the expansion of rating agencies' services, which were perceived by financial agents as a constitutive part of the environment in which they operate. In Sinclair's words (2005, p. 15), this makes them seen as "embedded knowledge networks," which gives them a perennial legitimacy in providing information and generating knowledge for the financial market.

However, such an approach, which Sinclair (2005) calls rationalist or synchronous, does not allow us to understand the entirety of the CRAs' modus operandi in the context of financial globalization. This is because the condition of embedded knowledge networks enjoyed by the CRAs in the Anglo-Saxon reality is challenged in other regions of the world, where the practices, norms, and institutions they propagate conflict with historically established traditions in other countries, which underlie the functioning of their respective societies and economies. Thus, Sinclair (2005) combines the rationalist or synchronous approach with another approach, which he calls constructivist or diachronic: in this case, the CRAs operate worldwide promoting the norms, practices, and institutions that make it possible to develop the Anglo-Saxon model of capital markets, as well as the ideological substrate that underlies them[116].

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[115] In his most recent work, Sinclair (2021) refers to this approach as the "social foundations view," which is essential to understanding the activities of rating agencies in the global financial order.

[116] As noted in the introduction, Sinclair (2005, 2021) refers to this set of norms, practices, and institutions as the 'mental framework of rating orthodoxy.' This, in turn, is intertwined with the neoliberal prescription, as observed in this research.

To do so, they use the power instruments at their disposal. As the author observes, the most evident is relational power, which indicates the ability to make another actor behave differently from what would occur without this constraint. In the case of the interaction between CRAs and governments, this can be exemplified by the threat of a downgrade if the government does not adopt the measures considered necessary for its credibility by the CRA. The second form of power is a consequence of the first. Aware of the CRAs' prerogative to punish them, the rated countries seek to anticipate the agencies' actions by already implementing the policies aligned with their agenda, in order to avoid possible sanctions: this is a form of structural power[117].

The third form, in turn, stems from the epistemic authority enjoyed by the CRAs in the financial market. This element causes financial agents, regardless of whether they agree with the information produced by the CRAs, to always take it into account in their operations. This is because the ratings issued by S&P, Moody's, and Fitch are seen as social facts[118] in capital markets, thereby influencing the behavior of other agents even if they are known to be mistaken. Thus, even if it disagrees with the ratings obtained for its country, a left-wing government ends up inevitably constrained to incorporate them into its rational calculation for the management of the economy, because it knows that financial agents will do so.

In light of this, Sinclair (2005) argues that the CRAs should be seen as agents of global economic governance, in which they act as promoters of the norms, practices, and institutions necessary for the expansion and organization of capital markets. For this purpose, they actively seek to influence constitutional and corporate governance arrangements. This translates into the promotion of a convergent institutional standard worldwide, increasingly less subject to democratic intervention and in line with the depoliticization of economic policy demanded by a globalized financial system.

This approach is illustrated and reinforced by Andrews' argument (1994), who posits that the international financial system is a structure that overlaps with the international system of nation-states[119]. In this sense, in addition to interacting with each other, national governments are also led

[117] On *structural power*, see Strange (1996), as presented in the previous chapter.
[118] This is the conception of social fact developed by Durkheim (2007).
[119] Andrews' theory (1994) engages in dialogue with the neorealist school of International Relations, which conceives the international system as a structure with equal nation-states coexisting in an anarchic situation, so that each state must interact both with one another and with the structure of the international system itself. Therefore, the international system appears as an analytical category in academic research that adopts a neorealist approach. For more information on neorealism, see Waltz (1979).

to respond to the constraints imposed by this structure, which has its own dynamics, as well as particular interests and needs. As Sinclair (2005) argues, these are vocalized by the CRAs in their manifestations, which seek to influence the political and economic organization of countries in favor of the international financial system's demands. In the particular case of the sovereign ratings, the CRAs can thus be considered a mechanism of remote government in favor of the interests of states' creditors.

Finally, it is worth highlighting the channels through which the CRAs' pressures on national governments materialize. This is the objective of the next section, which proposes a way to identify and measure the political activism practiced by the CRAs in relation to national political and economic processes. This will also result in establishing the operational guidelines of this research's main argument.

2.7 The political activism of rating agencies

In the previous chapter, we saw that the international order of financial globalization imposes constraints on the policy space of a developing country. In light of what was presented in the preceding sections, the CRAs appear as one of the mechanisms that operationalize these constraints, given the unavoidable political dimension of their actions. In this section, we examine the instruments that S&P, Moody's, and Fitch have at their disposal, reflecting their political activism' mechanisms in national political and economic processes.

By *political activism*, we mean the practice of *activities more or less directed at influencing presidential elections or government decisions and policies*. This conceptual delimitation is based on Verba, Nie, and Kim's classic definition (1978), which guides the literature on political activism. As Norris (2007) observes, this literature is structured around three axes: one focused on forms of political participation, another that seeks to understand the process that fosters them, and a third that seeks to understand the consequences of political activism. Since the previous sections have already sought to clarify the latter two axes, the following paragraphs explore the first one, namely, the forms of political participation.

In this sense, for political activism to occur, the actor in question needs to have a repertoire that operationalizes it. In the case of citizens, the available tools for this purpose include, for example, voting, participation in political campaigns and party activities, and even involvement in strikes or street protests (NORRIS, 2007). Regarding a company, Ferracuti, Michaeli, and Wellman (2021) note the instrumentalization of financing political campaigns, lobbying, and using direct contact channels with policymakers to plead their interests[120].

In the same direction, the CRAs have their own repertoire to exercise political activism, which, in line with the argument to be advanced in this research, characterizes their *modus operandi*. As suggested, this repertoire comprises the ratings they assign to evaluated countries, the reports and press releases they issue about them, and their statements in media channels. As also indicated throughout this chapter, each of these instruments has its own mechanisms that serve to constrain national governments in favor of financial market interests - a result that is enhanced when they are combined.

In this sense, sovereign rating presents the most evident mechanism, as it prices governments' political choices by guiding the spreads charged by state creditors. In the case of reports and press releases, it should be noted that their purpose is not only to explain a rating action to investors, but also to guide policymakers on how to allegedly improve the country's creditworthiness and, as a result, the state's financing capacity. In this process, the CRAs explicitly state a normative view of national political dynamics - both at the policy and politics level - and link it to the sovereign rating perspective. The problems arising from this are summarized by Barta and Markszin (2020):

> Judging policy choices and political developments (even from the perspective of their effects on future credit quality) is an inherently value-laden, ideologically loaded and contentious exercise, which implies taking sides on politically sensitive issues at the very heart of democratic contestation.

From this observation, the issuance of reports and press releases as a mechanism of interference in national and supposedly democratic processes can be clarified. Once the CRAs discursively link the sovereign rating to a particular policy or government action, the government feels pressured to act in line with the demand. Otherwise, it will have to bear the adverse effects related to the pricing of its public bonds, which produces tangible consequences in real economic variables and, consequently, has political and electoral repercussions. In other words, the reports and press releases shed light on the sovereign rating’s feature as a mean of punishment or reward for governments' political choices, thereby influencing them by promoting neoliberal precepts of socioeconomic organization.

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[120] Indeed, Ferracuti, Michaeli, and Wellman (2021) conclude that political activism is vital for the growth and expansion of firms’ market power.

A subsidiary mechanism arises from the CRAs' epistemic authority before the financial market. This is because, given the context of financialization that characterizes the current international financial order, a good portion of citizens are simultaneously voters and investors - as explained in section 1.4. As a result, public opinion is also partially impacted by the content of the reports issued by S&P, Moody's, and Fitch - which often have their repercussions amplified by their reproduction in media channels. These same conclusions apply to other statements by CRAs representatives in newspapers and magazines, with the difference that, in these cases, their opinions are expressed more clearly and confidently, as they are devoid of the formal characteristic of reports.

Once established the premise that the CRAs’ political activism tools are often articulated in favor of promoting the interests of the financial market, it is then worth noting that this use tends not to be homogeneous over time. Indeed, as indicated in the main argument of this dissertation, the political activism of S&P, Moody's, and Fitch may present different levels or intensities in different periods, reflecting the perceived political risk conditions in a given country. However, observing this reality requires a way to measure and compare different levels of activism, in order to verify if that there is a correspondence between the CRAs’ political activism and the political risk assessed by them. With this purpose, the following subsections indicate the parameters that enable such an exercise, in order to guide the case studies of Brazil and Argentina in the following two chapters.

2.7.1 About the conditions of political risk

As indicated in section 2.5, political risk refers to the potential compromise of the willingness of sovereign governments to honor debt commitments agreed with State creditors. Based on what was analyzed in sections 1.5 and 2.5, two variables are relevant to evaluating it: the ideological orientation of the government and the circumstances of the international environment. Regarding the ideological orientation of the government, it is assumed that a left-wing (right-wing) government has more (less) incentives to default on public debt. In the case of the international environment conditions, it is presumed that during "good times" ("bad times"), a government is less (more) prone to default. The interaction between these factors results in three possible situations of political risk, depicted in the table 4.

Table 4 - Political risk situations.

	Left-wing government	Right-wing government
Favorable international environment	Moderate political risk	Low political risk
Adverse international environment	High political risk	Moderate political risk

Source: The author, 2023.

In the case of the "high political risk" situation, the likelihood of default would be exacerbated by the ideological orientation of a government whose mandate occurs in an adverse international context. In other words, on the one hand, servicing public debt would not be at the top of the government's list of priorities; on the other hand, commodity prices and liquidity conditions in the international financial system would work against the government's ability to raise foreign currency, also contributing to the deterioration of macroeconomic variables and the intensification of distributive conflicts. Therefore, the two elements would tend to sharpen the perception of political risk by financial market actors.

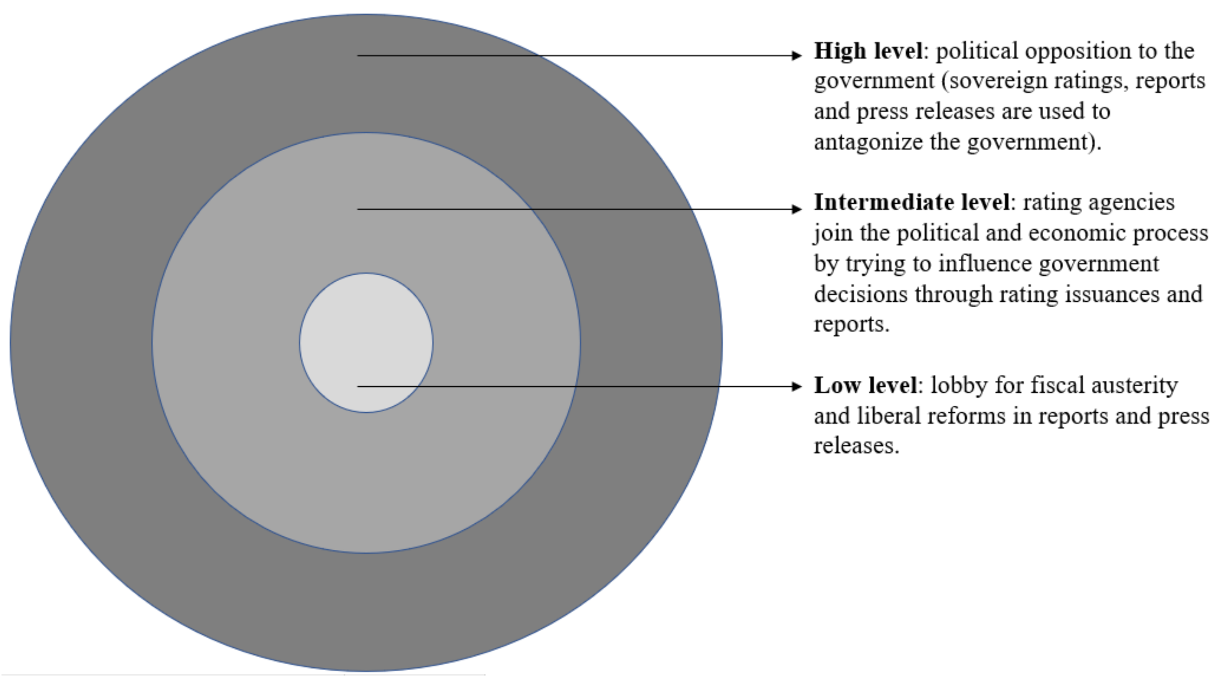
In the case of the "moderate political risk" situation, two combinations are possible. On the one hand, the ideological orientation of a left-wing government could contribute to accentuating the perceived political risk, but with a benign external scenario serving to attenuate it. On the other hand, a right-wing government could unfold amid an adverse external scenario. Hence, the incentives for a potential default would be simultaneously catalyzed and mitigated by different elements.

In the case of the "reduced political risk" situation, both the ideological orientation of the government and the international context would act to discourage default. In other words, there would be an ideological convergence between the financial market and a government whose mandate unfolds during the "good times" of the international environment. The two elements, therefore, would attenuate the perception of risk by financial market actors.

2.7.2 About the intensity of political activism

The different political risk situations influence the CRAs' behavior towards a given emerging economy or developing country. The assessment made by the CRAs about it shapes the form of their political activism, which acquires different intensities over time. This section proposes understanding this reality based on the identification of three levels of political activism, which are operationalized from the repertoire of S&P, Moody's and Fitch to advance it. Figure 8 shows the instruments used by the agencies at each of these levels of intervention.

Figure 8 - The different levels of rating agencies' political activism.



Source: The author, 2023.

It should be noted that higher levels of political activism add new forms of intervention in the national political and economic process in favor of the interests of the financial market. In other words, high-level activism (intermediate) enhances the strategies already present in low-level activism (intermediate), as suggested by concentric circles. The stylization of these three intensities is the result of a preliminary examination of the reports qualitatively analyzed in this work and the conclusions of the quantitative analysis carried out by Barta and Markszin (2020) on over 635 S&P reports focused on the creditworthiness profile of European countries between 1999 and 2012.

Therefore, it can be established that a low level of political activism consists of a “standard” defense of the orthodox neoliberal agenda by the rating agencies. This translates into discursive manifestations in favor of liberalizing reforms in the national economy in question, always towards reducing public spending and using market mechanisms in resource allocation. In this case, the CRAs only emphasize the need for these measures for a country's sustainable economic growth dynamic, without addressing specific issues of the national political and economic process. It should be noted that such behavior is can be regarded as constant in the *modus operandi* of S&P, Moody's, and Fitch.

An intermediate level of political activism, on the other hand, can be characterized by CRAs’ interventions in specific issues of the national political and economic process. In this case, not only discursive instruments are used, but also the sovereign rating itself, which appears linked to government decisions on its economic policy. Thus, using the rating to punish or reward its choices becomes explicit, which can be complemented by criticism or praise of government measures. In addition, this level of activism also includes the actions indicated at the lower level.

Finally, a high level of political activism explicitly shows the CRAs as opponents of a particular government. In this case, in addition to the behavior concerning the previous levels, S&P, Moody's, and Fitch would call into question the government's credibility and economic policy, repeatedly emphasizing its lack of willingness to adopt the measures supposedly necessary to improve the national creditworthiness profile. In addition, during presidential elections, the CRAs would openly position themselves in favor of the opposition candidate. It should be noted that this political activism pattern requires a government ideologically misaligned with the CRAs, contributing to the exacerbation of perceived political risk and, as a result, to the corresponding activism pattern. However, in situations of transition from a right-wing to a left-wing government, such behavior can be anticipated to seek to stop it from happening, thus safeguarding the market's interests.

Based on these three patterns of political activism and their corresponding political risk situations, therefore, this research’s argument is ready to be developed. This will be done through the case studies of Brazil (Chapter 3) and Argentina (Chapter 4), through the analysis of the CRAs’ behavior towards their national political and economic processes.

2.8 Conclusion

If the context of financial globalization and financialization restricts national governments' policy space, the CRAs appear as central actors in this tension. Given the objectives of this research, this chapter sought to clarify this reality by delineating relevant elements of the modus operandi of S&P, Moody's, and Fitch, which allow for an understanding of their prominence in the order of financial globalization. Based on the foundations laid out here, the political repercussions of the behavior of these agencies are beginning to become clear.

Whether rating agencies intend to politically influence the states they rate is an open question in academic debates and is secondary in this research. Indeed, what matters here are the practical effects of their actions. As sought to be demonstrated, these actions are informed by a worldview that serves the interests of investors. This ideological bias, in turn, reverberates on the national political-party dynamics, translating into the conditions of state financing.

As analyzed, the pricing of a government's political choices by the CRAs occurs, in part, based on their assessment of the capacity and, above all, the willingness of these governments to honor public debt. This can be understood in terms of the perceived political risk, which, in turn, is reflected in the pressure exerted by the CRAs on the government in favor of the economic policies they present as required for minimizing the default risk. As seen in the last section, this translates into forms of political activism inherent in the *modus operandi* of S&P, Moody's, and Fitch.

Based on the discussion in the previous chapter, these constraints have different impacts and intensities on countries integrated into financial globalization. In the case of emerging economies and developing countries, like Brazil and Argentina, they tend to manifest according to the political-party ideology of their governments and the international environment in which they are situated. The following chapters intend to demonstrate this.

3 THE POLITICAL ECONOMY OF RATING AGENCIES IN BRAZIL

"*By failing to provide any technical reason to support its decision, the rating agency turns it into an exercise of speculation about the future course of events, an exercise that could be applied to any country, leading to the same kind of mistaken conclusions*."

Ministry of Finance and Central Bank of Brazil, 2002

"*When I won the election, I put the ministers on a plane to go to the poor places in Brazil. It was important for them to know that they were not governing just for the rating agencies*."

Lula, 2015

3.1 Introduction

This chapter operationalizes the case study of Brazil in order to illustrate the research's argument. Thus, this chapter seeks to observe how, in the Brazilian experience, rating agencies have acted to influence the national political and economic process in favor of financial market interests. In the same sense, we also intend to examine whether there is a correspondence between the political activism exercised by S&P, Moody's and Fitch - through their ratings, reports and media statements - and the political risk they assess to exist in the country.

To this end, the chapter is structured in three sections, in addition to this introduction and a conclusion. The first section, predominantly descriptive in nature, establishes the context in which the rating agencies' actions take place, so as to present the Brazilian political and economic trajectory in the proposed time frame (2002-2018). In the second section, the agencies' actions are inserted into this scenario, which implies addressing their ratings, reports and statements in media channels also in a predominantly descriptive manner. This enables, in the following section, the analytical exercise in light of our argument. With this objective, the third section is divided into five subsections, concerning different political risk situations in force during the period of analysis, which are added to an assessment of the interaction between agencies and Brazilian governments.

3.2 A political and economic overview of Brazil

Throughout the 1990s, Brazilian governments carried out a series of institutional reforms, inspired by the Washington Consensus, aimed at liberalizing the national economy. This period was marked by Brazil's integration into financial globalization, with its consequent reintegration into the international sovereign debt market. This process, as pointed out in the first chapter, was made possible by the Brady Plan, which resolved the external debt crisis bequeathed by the 1980s. In addition to liberalizing its capital account and national financial system, the country also experienced the unilateral liberalization of imports and advanced the agenda of privatization of state-owned companies (PAULA, 2011; SAAD-FILHO; MORAIS, 2018).

In 1994, under Itamar Franco's government, the inflationary issue was resolved by the Real Plan, which restructured the national economy in line with the prevailing international financial order. The success of this strategy enabled the electoral victory of his former Minister of Finance, Fernando Henrique Cardoso (FHC), of the Brazilian Social Democracy Party (PSDB), in the presidential elections of 1994 and 1998. During FHC's first term, the agenda of privatization and financial and commercial liberalization of the Brazilian economy deepened (ARAUJO; GENTIL, 2021). In his second term, however, the collapse of the Real Plan required a new macroeconomic framework to restore economic stability (SAAD-FILHO; MORAIS, 2018).

It is in this context that, in 1999, a new macroeconomic framework was established, based on a regime of inflation targets, primary fiscal surplus targets and a floating exchange rate. In this arrangement, known as the macroeconomic tripod, fiscal policy is subordinated to monetary policy, which is adjusted via interest rates according to capital flows into the country and its impact on the exchange rate. To this end, the Central Bank must enjoy operational independence and guide its actions by the imperative of monetary stability. In 2000, the tripod was further complemented by the Fiscal Responsibility Law, which began to limit government spending in order to meet the fiscal targets (PAULA, 2011; SAAD-FILHO; MORAIS, 2018).

This macroeconomic institutional structure would condition much of the economic, political and social events that permeate the period analyzed in the following subsections. In fact, as will become evident in the next section, the respect for its parameters would be central also in the CRAs' manifestations about the country. It follows that the starting point of the narrative to be developed is the electoral year 2002, when the victory of a center-left coalition, headed by the Workers' Party (PT), over FHC's successor, under whose government the tripod was established, took place. Table 1 below presents macroeconomic and social indicators relevant to the narrative examination that follows.

Table 5 - Some macroeconomic and social indicators of Brazil (2002-2018).

Indicadores	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Real GDP growth rate (%)	3,58	1,23	5,66	3,01	3,69	5,8	4,68	-0,1	7,5	3,74	1,61	2,88	0,46	-3,15	-2,9	1,25	1,8
Inflation: IPCA (%)	12,5	9,3	7,6	5,7	3,1	4,5	5,9	4,3	5,9	6,5	5,8	5,9	6,4	10,7	6,3	2,9	4,19
Selic rate (%)	25	16,5	17,7	18	13,2	11,2	13,7	8,7	10,7	10,9	7,1	9,9	11,7	14,2	13,7	6,9	6,5
Foreign exchange reserves (US$ bi)	37.823	49.296	52.935	53.799	85.839	180.334	193.783	238.520	288.575	352.012	373.147	358.808	363.551	356.464	365.016	373.972	374.715
Reserves/gross external debt (%)	18	22,9	26,3	31,7	49,7	93,3	104,3	120,6	112,4	113,7	115,5	120,2	106	110,2	114,1	120,4	
External public debt (% GDP)	41,8	38,8	30,3	19,2	15,9	14,1	12	12,2	12	11,8	13,3	12,7	14,4	18,6	18,2	15,4	
Domestic public debt (% GDP)	59,9	54,3	50,2	47,9	46,5	44,6	37,6	40,9	38	34,5	32,2	30,5	32,6	35,4	46,1	51,4	
Primary fiscal result (% GDP)	3,2	4,3	4,5	3,7	3,2	3,2	3,3	1,9	2,6	2,9	2,2	1,7	-0,6	-1,9	-2,5	-1,7	-1,7
Gini coefficient	0,589	0,583	0,572	0,57	0,563	0,556	0,546	0,543	0,537	0,532	0,53	0,527	0,518	0,524	0,549	0,549	0,545
Unemployment rate* (%)	11,7	12,4	11,5	9,9	10	9,3	7,9	8,1	6,7	6	6,9	6,86	6,2	9	11,6	12,8	13,1

Sources: BCB (2022), IPEADATA (2022) e IBGE (2022).

*The methodology for unemployment statistics was changed in 2010, when the Monthly Employment Survey was replaced by Continuous PNAD, both conducted by IBGE.

3.2.1 Lula I: from the crisis of confidence to the achievement of creditworthiness

Lula's victory in the 2002 presidential elections was marked by a crisis of confidence in Brazil on the part of financial markets. As polls pointed to the imminent victory of the leftist candidate, a scenario of capital flight, currency devaluation and inflationary pressures took shape[121]. The country risk[122] skyrocketed and investors' fear of a PT government, in the wake of an adverse international situation[123], was soon reflected in the deterioration of public debt financing conditions[124]. The situation reached its peak with the creation of a "Lulometer" by an analyst of Goldman Sachs, that linked the quotation of the dollar to Lula's chances in the electoral race in a mathematical model (FOLHA, 2002a). In August, fearing the collapse of the balance of payments, the Cardoso government resorted to the financial assistance of the IMF.

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[121] It should be noted, however, that two other elements, observed by Serrano and Summa (2011 *apud* ARAUJO; GENTIL, 2021, p. 462), should not be neglected in the analysis of this currency crisis. The first was the BCB's decision not to raise the Selic rate in the context of capital flight. The second was the adoption of mark-to-market in investment funds as of June 2002, which caused losses to them and heightened volatility in the financial markets.

[122] Country risk is based on the value of the EMBI+. According to Ipeadata (2022), "the EMBI+ (Emerging Markets Bond Index Plus) estimates the daily performance of emerging country debt securities relative to US Treasury securities. The index is based on the bonds (debt securities) issued by this group of countries and shows the financial returns earned each day by a selected portfolio of securities. The EMBI+ helps investors understand the risk of investing in a country, the higher its value, the greater the perception of risk. It was created to classify only countries that presented a high level of risk according to the *rating* agencies and that had issued bonds of a minimum value of US$ 500 million, with a maturity of at least 2.5 years. The measurement unit of this index is the basis point, where ten basis points are equivalent to one tenth of one percent. The points show the difference between the rate of return on emerging country bonds and that offered by bonds issued by the US Treasury. That difference is the spread, or the sovereign spread."

[123] Two events that occurred at the beginning of the 21st century were particularly harmful to the international scenario at the time: the serious economic crisis in Argentina, then the main destination for Brazilian exports, and the terrorist attacks of September 11, 2001, which had a negative impact on investors' appetite for risk (ARAUJO; GENTIL, 466).

[124] This process is analysed by Saad and Morais (2018, p. 138). At the time, the IMF also expressed fear of a public debt default, according to Folha (2002b).

Figure 9 - Country-risk (EMBI+) of Brazil.

Source: The author, 2023. Based on Ipeadata, 2022.

To a certain extent, the market panic was justified by the PT history of defending the default on public debt (ARAUJO; GENTIL, 2021, p. 462) - despite the evident moderation of the party's "Government Program 2002" in this regard[125], if compared to previous ones. Lula was then pressured to make explicit the moderation of his agenda, which culminated in the disclosure of his "Letter to the Brazilian People", where he committed to fulfil the contracts signed by the previous government and to maintain the economic policy guidelines previously established (LULA, 2002). Furthermore, he also had to publicly commit himself to the clauses of the agreement with the IMF[126] signed by the FHC government. Indeed, this accommodation was in line with the breadth and contradictions of the social coalition that supported his candidacy: as Saad-Filho and Morais (2018, p. 134) note, it was a diversified "loser's alliance"[127], composed of the sectors of society that were harmed by the neoliberal reforms carried out in the 1990s.

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[125] On the subject, see PT (2002).

[126] As Araujo and Gentil (2021, p. 465) note, among the main presidential candidates at the time, only Anthony Garotinho did not sign such a commitment.

[127] Saad-Filho and Morais (2018, p. 134) list the sectors that comprised it: unionised urban and rural workers, informal workers, part of the national business class and the "oligarchs, landowners and right-wing political leaders from poorer regions" of the country.

It was in this scenario that, in October 2002, Lula was elected president with 61% of the votes in the second round of elections, easily beating off competition from José Serra of the PSDB. Once elected, he reiterated his accommodation with the financial market by nominating Antonio Palocci to the Finance Ministry, who soon committed himself to preserving the macroeconomic tripod. To head the Central Bank (BCB), Lula chose Henrique Meirelles, former global president of BankBoston and recently elected federal deputy for PSDB. The continuity and deepening of the economic policy implemented by the Cardoso government in the first PT administration was evident.

On the macroeconomic level, the first acts of the Lula government consisted of promoting contractionary fiscal and monetary policies, in light of the scenario of exchange rate crisis in which he had taken office. In this sense, he increased the tax burden and contained public spending in order to meet the established targets for primary surpluses. At the same time, the Selic rate was raised at an early stage to ease inflationary pressures. In the second half of 2003, it was gradually reduced, but soon went through a new cycle of increases as of the following year. This set of measures generated a gradual exchange appreciation and deceleration in inflation. As a result, during Lula's first mandate, the net public sector debt as a percentage of the GDP was reduced from 59.9% to 46.5%, while the average growth of the GDP was around 2.4%.

To be understood, these macroeconomic dynamics must be placed within the changing international context that conditioned the government's actions. As presented in the chapter 1, two variables are particularly relevant for understanding the trajectory of commodity exporter developing country such as Brazil: *commodity* prices and liquidity conditions in the international financial system. Regarding the first item, the international prices of its exported agri-mineral products[128] had entered, since 2002, into a period of increase, especially due to the strong demand from China[129] . The *commodities* “super cycle” that then began to take shape had a major impact on the economic trajectory of South American countries during the first decade of the 21st century. In addition, there was an improvement in international liquidity conditions: after the terrorist

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[128] In the particular case of Brazil, soy and iron ore exports have gained prominence on the country's export list.
[129] Between 1980 and 2010, China recorded GDP expansion rates of about 10% per year and increased its share of global GDP from 1.9% to 9.3%. Chinese participation in international trade was particularly favored by the country's entry into the WTO in 2001 (ACIOLY; PINTO; CINTRA, 2011 *apud* ARAUJO, 2021).

attacks of 2001, the FED reduced US interest rates, favoring the capital flows to emerging economies[130] (ARAUJO, 2021).

The configuration of these "good times" - according to the terminology of Campello and Zucco (2020) - increased the Lula government policy space to implement an agenda of social policies, which laid the foundations for the dynamization of the Brazilian domestic market. Indeed, although external demand had greater relative importance in the resumption of GDP growth during this period (SAAD-FILHO; MORAIS, 2018, p. 143; ARAUJO, 2021, p. 483), three elements complemented this process at the domestic level. First, from 2004, the labor market entered a trend of generating new occupations in the service sector and formalizing jobs. At the same time, a systematic increase in labor income started, due to the exchange rate appreciation and the appreciation of the purchasing power of the minimum wage, which had been rising since the Real Plan. Second, also in 2004, the Lula government instituted the “Bolsa Família” Program (PBF), based on the targeted transfer of income, with a view to alleviating poverty in the country. Third, a policy to promote credit access was initiated - for example, through the creation of consigned credit, which occurred at the end of 2003 (ARAUJO, 2021).

The signs of recovery of the domestic market and the strong inflow of foreign currency into the country (drawing on the favorable international environment and the conservative economic policy pursued by the government) were soon reflected positively in the country-risk indicators and in the movements of the São Paulo Stock Exchange. As Saad-Filho and Morais (2018, p. 144) note, "the rapid growth in 2004 was presented as 'proof' that the PT's neoliberal strategy was sound". Strengthening this narrative, in 2005, after accumulating primary surpluses of 4.3% and 4.5% in the previous two years, Brazil paid off the remainder of the debt contracted by the previous administration with the IMF.

In the second half of Lula's mandate, however, the government weakened. Amidst the context of economic recovery, a corruption scandal, known as the "mensalão", hit the upper echelons of the PT[131] . One of its immediate consequences was the fall of Palocci from the Finance Ministry, being replaced by Guido Mantega - an economist from the developmentalist wing of the PT. In addition, the minister of civil house, José Dirceu, was replaced by Dilma Rousseff, who

[130] As Araujo (2021) observes, the US monetary expansion would persist until 2005, when the FED opted to raise the interest rate. With the 2008 financial crisis, however, a new liquidity cycle would begin.
[131] As Saad-Filho and Morais (2018, p. 146) note, these were allegations that the government was buying votes from parliamentarians with monthly cash payments - hence the name "mensalão".

until then occupied the ministry of mines and energy. As will be seen in the following subsections, these changes would have relevant implications for fiscal policy carried out by the PT governments in subsequent years.

In short, Lula's first mandate was marked by the continuity of the macroeconomic guidelines established in 1999 by the Cardoso government. The results achieved, however, benefited greatly from the favorable international context that emerged, which guaranteed that the country would attract capital and trade surpluses, which were subsequently reflected in the consolidation of public accounts and the expansion of GDP. At the same time, the domestic market was dynamized by the social policies implemented, which served to alleviate poverty and reduce social inequality. In this context, not even the "mensalão" scandal would be enough to prevent the re-election of the president.

3.2.2 Lula II: The “lulism” and the "good times”

Despite the damage caused to his image by the "mensalão" crisis, Lula achieved an easy victory in the 2006 elections, obtaining 61% of the valid votes in the second round against 39% for the PSDB candidate, Geraldo Alckmin. However, as Saad-Filho and Morais (2018, p. 152) note, there was this time a qualitative change in his electoral base. Instead of the "alliance of losers" that had sustained him in 2002, Lula's re-election can be attributed to an "alliance of winners", made up of the sectors that had benefited economically throughout his first government. Thus, while there was a reduction in the participation of the middle class and social sectors with higher income and education in his base, for example, the president's popularity among the lower income strata increased[132] (SINGER, 2009).

Lula's second mandate would see the apex of the weak reformism promoted in his government, which the political scientist André Singer (2009, 2018) calls "lulism". In this political *modus operandi*, there is the expectation that state action should be strong enough to promote the reduction of social inequalities, but without threatening the established order or the prevailing institutionality, so as to avoid conflicts between distinct societal groups. This objective was operationalized by reconciling a State that was more active in promoting income distribution and economic growth, but still within the framework of the tripod macroeconomic structure. This, in

[132] The electoral realignment thesis proposed by Singer (2009) is, however, contested by Limongi and Guarnieri (2014).

turn, was only possible because of the maintenance of a favorable international environment, despite the occurrence of the 2008 financial crisis, as will be discussed below.

This period was notable for the consolidation of the domestic market as the engine of growth in the Brazilian economy, which had already been underway since 2006, when Mantega took over as finance minister. On the other hand, the importance of exports was reflected in the easing of balance of payments restrictions and the accumulation of international reserves, a policy pursued by the government since the settlement of its debt with the IMF. Table 1 depicts the macroeconomic results achieved. Note that the average GDP growth rate was 3.5% during Lula's second term, compared with 2.4% during the previous one - which led economist Edmar Bacha to call it the "little miracle", in allusion to the period known as the "economic miracle" during the military dictatorship[133] .

According to Carvalho (2018), three pillars supported the "little miracle". The first was the deepening of income distribution policies, translated mainly in the expansion of the PBF and the policy of minimum wage appreciation. The second was the advancement of financial inclusion of the population and the expansion of access to credit, both for consumption and for investments. The third pillar, in turn, consisted of an agenda of public investments, announced in January 2007, when the Growth Acceleration Program (PAC) was launched, aimed at improving the physical and social infrastructure of the country.

The prominence of public investments in economic policy also signaled a re-signification of the role that the state should play in managing the economy, in favor of stimulating the expansion of GDP. Not surprisingly, part of the literature identifies the contradictions between the government's agenda and the macroeconomic institutionality of the time: for Oreiro and Paula (2021), there was an "inconsistent developmentalism"[134], while Saad-Filho and Morais (2018) call it "neoliberal developmentalism". In any case, the tripod was not unscathed by these contradictions. In addition to benefiting from the external scenario, the fiscal space demanded by the expansion of public investments drew on the gradual reduction of the government's primary targets, which also began to exclude from their calculation part of the public sector investments - such as, for example, those made by Petrobras and Eletrobras (CARVALHO, 2018).

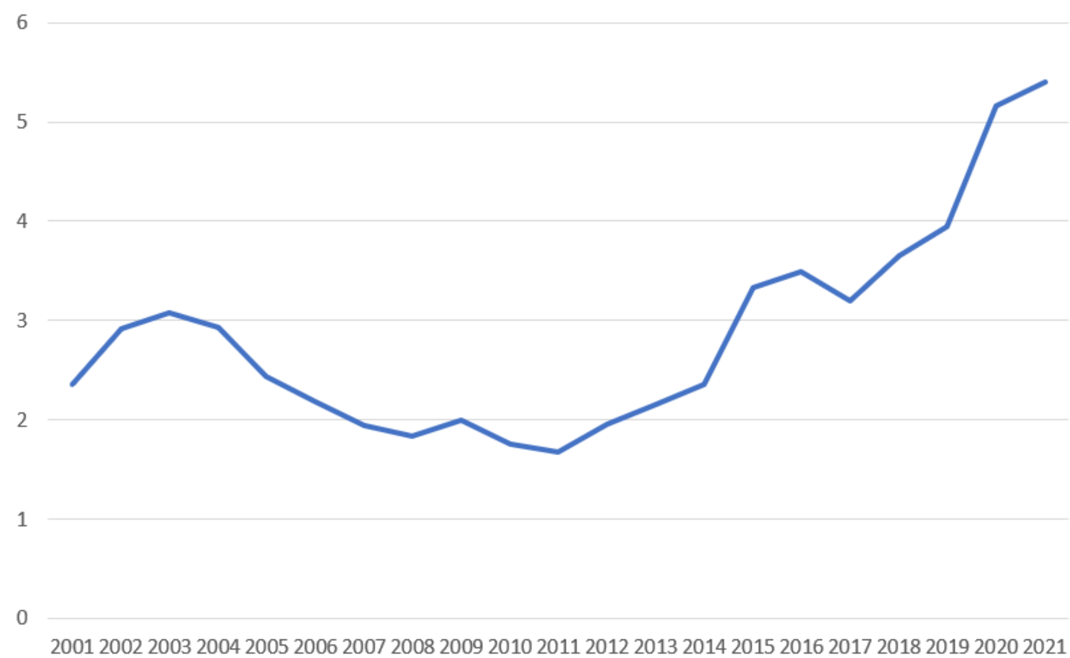
[133] On the topic, see Carvalho (2018, p. 13).
[134] According to the authors, this inconsistent developmentalism can be observed from 2008. Before that, they call the macroeconomic regime implemented by Mantega as "tripé flexibilizado".

Fiscal expansion became a hallmark of the second Lula administration, especially in the wake of the 2008 financial crisis. On that occasion, in the midst of the capital flight that was taking place[135] , the president went on television to reassure the Brazilian population, emphasizing the strength of the domestic market and the protection that the accumulated international reserves then conferred to the national economy. At the same time, the government implemented a series of countercyclical policies, which ensured the resumption of economic growth in 2009, after two quarters of GDP contraction. Among them, one can highlight the creation of new lines of credit offered by public banks - BNDES, Caixa Econômica Federal and Banco do Brasil - and the reduction in compulsory banking deposits required by the BCB. In addition, the government promoted tax exemptions for private companies and launched, in March 2009, the “My House My Life” Program[136] (CARVALHO, 2018).

In addition to the tripod flexibilization through fiscal expansion, there was a gradual reduction of the interest rate in the period. In particular, in the context of the 2008 financial debacle, monetary expansion constituted the package of countercyclical measures to cool down the crisis' effects. At the end of 2009, however, accelerating inflation prompted the BCB to promote another cycle of Selic rate increasing, which would persist until mid-2011. With regard to the exchange rate, the appreciation of the real persisted, emerging as a relevant factor for inflationary control. The government's attempts to contain this trend by accumulating international reserves and introducing measures to control capital inflows proved ineffective - at the same time that, in practice, they meant a flexibilization of the exchange rate fluctuation that sustained the macroeconomic tripod (OREIRO; PAULA, 2021).

[135] One consequence was the contraction of credit offered by the private sector. In addition, the conjunctural adversities also included a momentary drop in the international prices of *commodities,* which would rise again as China resumed economic growth.
[136] Other measures include the creation of new income tax bands, with lower rates for the lower middle class and the extension of the duration and value of unemployment insurance.

Figure 10 - Exchange rate of one Brazilian real to one US dollar.



Source: The author, 2023. Based on Ipeadata, 2022.

In any case, as Table 1 indicates, Brazil was successful in overcoming the first impacts of the global financial crisis. More than that, an appraisal of Lula's second mandate shows a trend towards economic growth - in 2010, GDP would expand by 7.5% - and a fall in inflation and public debt as a proportion of GDP. During this period, income distribution improved, with the lowest decile of the Brazilian population' income rising by 91% between 2001 and 2009, although the upper decile also managed to increase its income. This was reflected in the reduction of the Gini coefficient and the international celebration of the PBF as an international model of a targeted social policy for tackling poverty[137] (CARVALHO, 2018).

However, two other unfolding trends of the Brazilian economy since the 1990s were confirmed during the Lula administration. One of them was the loss of the relative participation of industry in GDP, which was associated with the reprimarization of the country's exportations. This

[137] For criticisms of the PBF, see Saad-Filho and Morais (2018, p. 165) and Lavinas (2017). Among them is the assessment of the program as fundamentally conservative, to the extent that it does not attack the causes of poverty, but palliatively mitigates its symptoms. Moreover, through the imperative of financial inclusion to access it, it has become one of the channels of financialization of the Brazilian economy.

process of deindustrialization[138] has had a significant impact on the Brazilian labor market, to the extent that jobs in the industrial sector, which offer better salaries, have been disappearing alongside the expansion of the services sector of the economy, which requires lower-skilled and poorly paid workers. It is in this context that the formalization of work, which gained momentum during the Lula government, should be situated, as well as the rise of a new middle class, which greatly expanded the domestic consumption market, also benefiting from the facilitated access to credit by the government (CARVALHO, 2018; SAAD-FILHO, MORAIS, 2018).

The other trend was the process of financialization of the Brazilian economy - in line, as seen in the first chapter of this thesis, with the dynamics of the current international order. In the particular case of Brazil, Lavinas, Araújo and Bruno (2017) observe that the phenomenon developed in different ways over time: until 1994, financialization occurred in a restricted manner, based on inflationary gains derived from the indexation of public securities; in the following two decades, it expanded greatly, based on interest income and other financial gains from assets derived from domestic and private public debt, as well as on social policies that fostered the financial inclusion of the population[139] . This process, in turn, would serve the interests of a financial-rentier coalition in the country, whose configuration is observed by Bresser-Pereira, Paula and Bruno (2019) during the 1990s.

In any case, at the end of 2010, the Lula government's approval rating was close to 90%, while only 4% of Brazilians considered it “bad” or “terrible”. At the same time, after the turbulence of the initial impacts of the 2008 crisis, the "good times" of the international environment were reconstituted, with the re-establishment of Chinese demand for commodities and abundant liquidity in the international financial system - resulting from monetary expansion of the US economy, as a strategy to confront the crisis. In this context, “lulism” remained on the rise, now to the benefit of Dilma Rousseff, Lula's successor in the PT for the 2010 presidential elections.

3.2.3: Dilma I: the breakdown of stability

The voting pattern in the 2010 elections was similar to that of 2006, with Dilma Rousseff, the PT candidate, obtaining 56.05% of the valid votes, against 43.95% for José Serra of the PSDB.

[138] On this topic, see Oreiro and Feijó (2010).
[139] This process is analyzed in detail by Lavinas (2017).

In the first semester of 2011, Dilma's government kept the conservative economic policy that had already been implemented at the end of Lula's government. In view of a possible overheating of the economy in the wake of a 7.5% expansion of the GDP, it promoted contractionary fiscal and monetary policies in order to cool down economic activity. Rousseff's team for the economy was practically the same as Lula's, except for the command of the BCB, where Henrique Meirelles was replaced by Alexandre Tombini - a career employee in the institution and more likely to align with the priorities of the new president (SAAD-FILHO; MORAIS, 2018).

This was because, in that period, there was a shared perception between the government and part of the economists that advised it that the growth model that sustained the "little miracle" had been exhausted. If, in the second Lula government, the engine of GDP expansion was the promotion of the domestic market, in line with the assumptions of social-developmentalism[140], the current diagnosis pointed to the need to promote the competitiveness of the Brazilian industrial sector, based on new-developmentalist precepts[141] . In fact, Dilma's own presidential campaign was guided by the theme[142], while Bresser-Pereira (2013), one of the theoretical formulators of the new-developmentalism, acclaimed the new president as a leader capable of leading the country to this model of economic growth.

To this end, Oreiro and Paula (2021, p. 30) note that it would be necessary to promote it at the appropriate time, when inflationary pressures were properly contained. This window of opportunity happened in mid-2011, with the intensification of the financial crisis in the European Union, which was reflected in the sovereign debt crisis of the peripheral countries of the euro zone. In this context, the government began implementing what would become known as the “New

[140] In general lines, social-developmentalism as a strategy for economic development is based on the promotion of domestic consumption, which is catalyzed by income distribution policies and access to credit. The formation of a mass consumer market, in turn, would create conditions that would encourage industrial production and sophistication. On the subject, see Carneiro (2012) and Bastos (2012).

[141] According to Bresser-Pereira (2009), the new-developmentalism is a national development strategy based on Keynesian and structuralist precepts. Its main objective, in general terms, is the promotion of an industrial *catch-up of* middle-income economies in relation to developed ones, which can only be made possible through the manipulation of macroeconomic variables - in particular, the exchange rate, which should remain at competitive levels that favor the flourishing of domestic industry. A relevant difference between the new and the social-developmentalism is that, while the latter is based on the dynamization of the domestic market, the former is guided by competitiveness in the external market.

[142] A report in Estadão (2009), for example, pointed out that Lula's strategy for the following electoral year was "to put the stamp of the 'new developmentalism' on Dilma in order to face the thorny debates on public spending with the PSDB".

Economic Matrix" (NME) - a set of economic policies aimed at rescuing and promoting the competitiveness of the industrial sector and inspired by new-developmentalism postulates.

In an interview to Valor (2012), the Secretary of Economic Policy of the Ministry of Finance, Márcio Holland, explained the three pillars of the NME that would make this goal possible: the reduction of interest rates, a more competitive exchange rate and a "fiscal consolidation friendly to growth and investment". To this end, the government expanded the tax exemptions granted to the private sector[143] and sought to promote improvements in infrastructure - in particular, with the managed reduction of electricity tariffs and an unsuccessful package of railway and highway concessions. In addition, it made intensive use of the BNDES in the provision of subsidized credit, resumed industrial policy through the "Brasil Maior" Plan, raised taxes on importations as a way to protect the domestic product and instituted capital controls to prevent the appreciation of the real (SINGER, 2018, p. 44). In the monetary plan, between August 2011 and October 2012, the Selic rate was successively reduced, falling from 12.5% to 7.25% per year[144], from when it remained stable until the following year (CARVALHO, 2018).

At first, the NME's package of measures enjoyed broad political support among the representative sectors of national industry and industrial workers. In an article published in Folha de S. Paulo, for example, the presidents of the Federation of Industries of the State of São Paulo (FIESP) and unions' organizations ("Central Única dos Trabalhadores" and "Força Sindical") praised the dynamism that the domestic market had acquired during the Lula government, but warned of the danger of deindustrialization and the consequent need for government support to the industrial sector (SKAF; HENRIQUE; SILVA, 2011). It is no wonder, therefore, that part of the literature attributes to the NME the nickname FIESP Agenda (CARVALHO, 2018) or industrialist agenda (MELLO; ROSSI, 2017): the measures implemented in its wake were in line with the main demands of the sector in the period.

At the same time, however, the NME entailed conflicts with the financial sectors - which must be situated in the context of financialization explored in this thesis. Through what Singer (2015, 2018) called the "battle of the spreads", for example, the government used public banks to

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[143] According to Singer (2018, p. 44), in April 2012, fifteen labor-intensive sectors were benefited by the exemption of their payrolls. In 2014, the tax exemption policy would include 42 sectors, saving entrepreneurs about R$ 25 billion annually. It should be noted, therefore, that, although it was a measure in force as a countercyclical action since the first impacts of the 2008 crisis, the tax relief policy was taken to unprecedented levels within the NME.

[144] As Carvalho (2018) notes, discounting inflation, this represented a real interest of less than 1% at the end of the downsizing cycle.

force the private ones to reduce the spreads charged on credit operations. In addition to directly intervening in a source of bank profit, the government's intransigent approach in negotiations for the reduction of roads' tolls and the price of electricity created points of tension with the private sector (SAAD-FILHO, 2018, p. 177). The willingness for confrontation in the achievement of government objectives thus signaled a break from the conciliatory *modus operandi* of *"*lulism".

This became a problem as the NME proved ineffective in promoting economic growth. As showed by table 1, GDP growth slowed during Rousseff's first term, reaching only 1.61% in 2012, when the effects of the NME should have been apparent. To make matters worse, fiscal expansion through tax exemptions and subsidies to the private sector - to the detriment of public investment, which had boosted GDP expansion in the "little miracle" years - undermined government revenues and would soon put the public accounts on a deterioration path (ORAIR; GOBETTI, 2017). In other words, the government's bet to promote a change in the economic growth model, which should be catalyzed by private investments, proved to be mistaken.

The first signs of collapse of the NME came in April 2013. To contain the acceleration of inflation, the BCB began a new cycle of Selic rate increases, breaking with one of the pillars of economic policy. From then on, to compensate for the progressive monetary contraction, the government expanded the range of sectors benefiting from tax breaks, which further compromised its own revenues. Although the reasons for the failure of the NME remain open in the academic debate, part of the literature converges on the diagnosis that fiscal expansion via tax incentives is not very efficient[145] to promote economic growth, above all in a context of deterioration in the state of economic agents' expectations. In fact, this strategy seems to have served only to recompose the profits of companies benefited by the tax breaks (CARVALHO, 2018; ORAIR; GOBETTI, 2017).

As the economy skidded, the favorable external environment reversed and the "good times" for governing came to an end. In May 2013, the FED announced that its monetary expansion policy, which was part of the US recovery strategy from the 2008 financial crisis, would be gradually eliminated. As US interest rates increased, the risk appetite of financial market investors decreased and liquidity conditions in the international financial system worsened. At the same time, since

[145] It is a point of agreement that the multiplier effect of subsidies and tax exemptions is smaller than that of public investments, for example (CARVALHO, 2018; ORAIR; GOBETTI, 2017; SAAD-FILHO; MORAIS, 2018).

2012, the commodities supercycle showed signs of exhaustion, with the gradual fall in their prices and the consequent deterioration of the terms of trade of commodities' exporters[146] .

On the socio-political level, the adverse conjuncture became evident for the government in June 2013. In that month, a series of street demonstrations spread across the country, creating a climate of social upheaval and catalyzing a political polarization that, in the following years, would only become more pronounced. Initially triggered by the increase in public transport fares, the protests gradually took on heterogeneous and diffuse agendas. Lacking leadership, they ended up politically capitalized by right-wing and extreme right-wing groups, heavily damaging the popularity of President Dilma: before the demonstrations, 57% of Brazilians evaluated her management as great or good; after, this rate fell to 30% (SINGER, 2018, p. 99).

Singer (2018, p. 125) notes how poorly the government reacted to the instability climate that had been established. Amid the NME's collapse, the president waved to the right and left, committing to potentially conflicting policies, such as fiscal responsibility and better health and education provision by the state, as demanded in the streets in June. While taking a defensive stance, the government also witnessed the deflagration of the Car-Wash Operation ("Operation Lava-Jato") in the 2014 election year, which, under the pretext of fighting corruption, would act ostensibly against the PT, aiming at damaging the party in the coming electoral processes[147].

The scenario that was drawn up for the 2014 elections was, therefore, nothing like those of the PT victories in the two previous elections. On the economic front, signs of crisis were abundant: GDP growth slowed, inflationary pressures increased, a primary deficit was recorded and public debt as a proportion of GDP rose again, reversing the downward trajectory that had begun in 2004. On the other hand, the economy was operating at almost full employment, which was one of the government's few assets. In parallel, the socio-political dynamics reflected a highly polarized society (CARVALHO, 2018; SAAD-FILHO; MORAIS, 2018; SINGER, 2018).

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[146] This scenario would become particularly dramatic between 2014 and 2016. As Carvalho (2018, p. 141) notes: "Between June and December 2014, the commodity price index released by the IMF suffered an accumulated drop of 29.3%. A fall that, incidentally, reached as high as 55% before being halted in January 2016."

[147] On the political character of Operation Lava-Jato, see Cittadino (2021) and Kerche and Tanscheit (2021).

3.2.4 Dilma II: a confluence of crises

Rousseff was reelected president in October 2014 with the smallest advantage until then recorded in presidential elections since the re-democratization of Brazil: 52% of the valid votes against 48% of the PSDB candidate, Senator Aécio Neves. Although the election marked two decades of stability of the Brazilian party system[148] (LIMONGI; GUARNIERI, 2014), the PSDB candidate chose to contest the electoral result, accusing it of fraud. This would be associated with the policy switch committed by the president, the deepening of the economic crisis and the unleashing of a political and governability crisis. These elements, which will be analyzed in the following paragraphs, conferred a toxic climate to the Brazilian political dynamics and culminated in the impeachment of Rousseff in August 2016.

Regarding the first item, it should be noted that the PT campaign for reelection abandoned the conciliatory tone that marked its three previous victories, adopting a discourse more to the left[149]. Indeed, as Saad-Filho and Morais (2018, p. 184) note, Rousseff's narrow victory was made possible through a "progressive alliance" that included organized workers, the low-income population, left-wing parties, social movements and NGOs - in contrast to the "alliance of winners" that guaranteed the two previous PT victories[150] . Throughout the electoral race, Dilma's campaign accused her main opponent, Aécio Neves, of wanting to implement a neoliberal agenda in the country, which would compromise the social gains achieved during the PT governments. According to this narrative, only a new PT victory would avoid such setbacks and enable a new cycle of economic growth[151] .

To the surprise of her voters and her opponents, the president, once re-elected, decided to do what had been the alleged ambition of her opponents: she appointed a financial market

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[148] Limongi and Guarnieri (2014) analyze how, between 1994 and 2014, all presidential contests centered on the dispute between coalitions led by PT and PSDB.

[149] This can be explained by the patent conservative rise in the country since June 2013 and the growing opposition to the PT, which encompassed even the industrial sectors whose demands were met under the NME, such as FIESP.

[150] Saad-Filho and Morais (2018, p. 264) counterpose to the "alliance of winners" and the "progressive alliance" a "neoliberal alliance", which was gradually strengthened throughout these electoral cycles. This coalition of social classes would include, according to the authors, who start from a Marxist reading of the Brazilian historical process, the internationalized bourgeoisie, most of the urban middle class and small entrepreneurs, the mainstream press and sections of informal workers.

[151] In an interview to G1 (2014), in the month of the elections, Minister Mantega was adamant: "We have adjustments that are necessary, regardless of who is in office. The developmentalist policy continues. President Dilma will not make a neoliberal policy, a conservative policy. We know that it was practiced in the past and it did not work. She will continue with a developmentalist policy, but it requires adjustments.

representative, Joaquim Levy, to the Ministry of Finance, adhering to an agenda of fiscal austerity and re-establishment of the macroeconomic tripod. The shift to the right in economic policy, contrary to what the president had promised, had the effect of collapsing the "progressive alliance" that supported her and the quick corrosion of her social support base. As a result, the president would become increasingly vulnerable to the dynamics of interaction of the executive with the parliament (SINGER, 2018) - which, as will be seen below, would be critical to her government's fate.

The fiscal adjustment targeted by Levy was based on the thesis of "expansionary fiscal contraction", whose effectiveness is contested by the literature, as pointed out in chapter 1. In other words, the objective of the economic team was, through a strong reduction in public spending, to regain the confidence of investors and thus restore the country's business environment. In this sense, still in November 2014, when he was announced finance minister, Levy promised a primary surplus of 1.2% of GDP already next year. After only a semester of the new Dilma government, however, the worsening of the economic crisis was already evident: with a growing imbalance in public accounts, the primary surplus target had to be reduced to 0.15% in 2015, as well as those planned for the following years. In addition, despite the monetary tightening promoted by the BCB, the real depreciated and inflation increased[152]. The recessionary situation was reflected in the contraction of 3.5% of GDP at the end of the year and the increase in unemployment from 6.2% to 9% between 2014 and 2015 (CARVALHO, 2018).

Two elements are essential to understanding the Brazilian economic collapse. One is the deterioration of the international environment, as the fall in international commodity prices intensified between 2014 and 2016. Indeed, the transition from the "good" to the "bad times" to govern (see graph 2 in chapter 1) was consolidated between the two mandates of Dilma (CAMPELLO; ZUCCO, 2020), which in itself would already represent a serious external constraint for the national economy. But the Brazilian crisis can only be properly understood if analyzed in the light of the serious political crisis that arose in the period. In the national Congress, part of the coalition that officially composed the government's parliamentary base acted, in practice, as the opposition, sabotaging the economic policy that Levy's team was trying to

[152] It should be noted that the increase in inflation in the period was largely due to the sharp readjustment of prices that had been dammed under the NME.

implement[153]. In particular, this was due to the actions of the president of the chamber of deputies, Eduardo Cunha, who was a public disaffected of the president[154]. In the end, the conflict between them and Dilma's inability to deal with congressmen would only harm the economic management (SINGER, 2018).

At the same time, new demonstrations against the government took to the streets and a climate of social upheaval took shape. In addition to the worsening economic crisis and the deterioration of the conditions of governability, the Car-Wash Operation advanced and new protests were systematically called by the opposition and echoed by the media. Throughout 2015, the climate for an impeachment of the president matured. As Singer (2018) notes, the articulations for Rousseff's removal from office relied on the leadership of her own vice-president, Michel Temer, in association with opposition sectors. Also in October, his party – the Brazilian Democratic Movement Party (PMDB) – launched a government program entitled "A Bridge to the Future", with a markedly neoliberal character, which denounced his presidential pretensions, nodding to the demands of the financial market (CARVALHO, 2018; SINGER, 2018).

The acceptance of the impeachment request against the president came on 2 December 2015. Under the pretext that Rousseff had committed budget crimes, which would become known as "*pedaladas fiscais*"[155], Cunha initiated the process that would abbreviate the president's second term. The timing of these political developments suggests, however, that the president of the chamber of deputies actually only reacted to the support of PT congressmen to the continuation of the process for his impeachment in the house ethics council[156]. When analyzing the fall of the Dilma government, Singer (2018) notes that the president was betting that Car-Wash Operation would get to Cunha before he could reach that extreme. At that time, it was not yet clear that the

[153] One of the mechanisms that Congress used to sabotage the government's economic policy was the systematic approval of what became known as "bomb agendas". As defined in the Folha report (2015a), these were "bills such as wage adjustments, or the blocking of new forms of tax collection that make it difficult to put the economy on track, save spending and achieve the fiscal target". Thus, the fiscal adjustment proposed by Levy was undermined.

[154] This became manifest when the government did not support Eduardo Cunha in the election for the presidency of the chamber in February 2015. On the contrary, on that occasion, it supported federal deputy Arlindo Chinaglia, also from the PT.

[155] As Carvalho (2018, p. 154) explains, the "*pedaladas fiscais*" consisted of alleged credit operations from public banks to the government, which is prohibited by law and would constitute a crime of fiscal responsibility. This would have been identified in postponements of the transfer of funds from the national treasury to banks, which would characterize a form of loan.

[156] Cunha's cassation process was due to the MP lying to the Petrobras Parliamentary Inquiry Commission (CPI) about having secret bank accounts in Switzerland as part of the Lava-Jato investigations.

operation, in reality, had as its priority target the criminalization of the PT and its political downfall, as the "Vaza-Jato" scandal would evidence in the future (DUARTE, 2020).

Rousseff would still remain in office until 12 May 2016, when the Senate officially approved the opening of the impeachment process, determining her removal and the rise of Michel Temer to the presidency as interim president. Until this occurred, she tried - albeit in vain - to promote changes in the economic management, given the failure of the economic policy implemented in 2015. In this sense, in December, Nelson Barbosa replaced Levy in the finance ministry, which was interpreted as an attempt to promote a more gradual fiscal adjustment[157]. Barbosa's management pointed out the need to establish a fiscal rule that would limit public spending and the government beckoned with a pension reform, but the political paralysis made it impossible for any impact measure to be taken until the impeachment took place. This occurred on 31 August 2016, when the president's mandate was officially interrupted and Temer assumed the presidency (CARVALHO, 2018; SINGER, 2018).

3.2.5 Temer: a coup against the 1988 social contract

An influential narrative in the literature proposes to understand the political developments in Brazil in the 21st century based on the clash between the different social coalitions present in the country. In this sense, the rise and decline of the PT governments - as well as the initial moderation of its economic agenda, followed by a period of greater flexibility of the tripod and then an attempt to resume it - can be explained by the greater or lesser strength that competing social groups enjoyed. For example, Singer (2009, 2015, 2018) analyses the political process in terms of the conflict between a “productivist coalition” and a “rentier coalition” in Brazilian society[158]. Ianoni and Cunha (2018), in turn, seek to frame it in the dispute between a “social-

[157] A heterodox economist, Barbosa was until then in the planning portfolio. In retrospective analysis, the former minister observed how the coup jeopardized the recovery of the economy, which was already growing again in early 2016, still under the Dilma government. For Barbosa (2021), as well as the analysis conducted in this paper sought to record, understanding the size of that economic crisis necessarily involves the negative impacts caused by Operation Lava jet and the bombshell agendas then approved by Congress.

[158] In Singer's (2018, p. 57) words: "the rentier one would bring together finance capital and the traditional middle class, while the productivist one would be composed of industrial entrepreneurs associated with the organized fraction of the working class. Hovering over both, with the support of the subproletariat, the Lula government would arbitrate conflicts according to the correlation of forces, sometimes winning the cause for one, sometimes for the competing coalition".

developmentalist coalition" and another one of "neoliberal" character[159] . Boito Jr. (2018), on the other hand, opposes a "neodevelopmentalist front" to what he calls the "orthodox neoliberal camp"[160] - a perspective with which Saad-Filho and Morais (2018), who establish the various "alliances" to which the previous subsections referred, dialogue.

Despite the differences between them, arising from the different approaches and theoretical affiliations of the authors in question, all these cases place the PT on one side, leading sectors interested in reinvigorating Brazilian industrial production, and the PSDB on the other, leading, in particular, societal groups aligned with financial interests. In this context, despite the decline of the PSDB in the following presidential election[161], the impeachment of Dilma meant a victory for the coalition that opposed the PT governments, and can be seen as a result of its gradual strengthening, especially since June 2013. Indeed, the offensive of this neoliberal coalition would have created the conditions for the removal of the president, which for many constituted a legal and parliamentary coup. As will become clear in the next section, it is in this coalition that the rating agencies should be situated.

Representing these interests, the Temer government advanced an agenda aligned with orthodox liberal precepts, guided by liberalizing reforms in the economy and the imperative of fiscal austerity, which was associated with a conservative monetary policy[162]. To this end, the economic team, then proclaimed as a "dream team", became led by Henrique Meirelles, at the Finance Ministry, and Ilan Goldfajn, ahead of the BCB. But the results achieved by the government were disappointing. As shown in Table 1, between 2015 and 2018, a period that includes the shift to the right in Brazilian economic policy since the Dilma government, the Brazilian economy went from recession to stagnation. In the same direction, the other macroeconomic indicators did not show signs of improvement either.

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[159] According to the authors, the social-developmentalist coalition, stimulated by the PT, was constituted by an alliance between productive capital and labor, while the neoliberal coalition comprised "the large business community in general, politicians and the public bureaucracy".

[160] According to Boito Jr. (2018), the orthodox neoliberal camp includes the large international financial capital, the fraction of the Brazilian bourgeoisie fully integrated to it, most of the large landowners and the upper middle class. On the other hand, the neodevelopmentalist front is also heterogeneous and full of contradictions, encompassing the Brazilian domestic big bourgeoisie, the lower middle class, the urban workers and peasants.

[161] In the 2018 elections, the PSDB candidate, Geraldo Alckmin, finished in fourth place, obtaining around 5% of the vote in the first round - which was the worst performance in the party's history so far (FOLHA, 2018a).

[162] In fact, Oreiro and Paula (2021, p. 48) criticize the excess of conservatism of Goldfajn's management at the head of the BCB, which delayed to promote reductions in the Selic rate - which only began to occur, in an inexpressive way, in November 2016. As a result, we began to observe a resumption of the exchange rate appreciation, to the detriment of manufactured exports, a contraction in bank credit and an increase in defaults by individuals and companies.

At the fiscal level, a point of divergence of the Temer government from the contractionary policy promoted in the Dilma government was the diagnosis that a cyclical fiscal adjustment, such as the one carried out by Levy, was insufficient to stabilize public accounts[163]. In this sense, still in 2016, a new fiscal regime was instituted with the approval of Constitutional Amendment 95 (EC-95), which established a ceiling for primary public spending for the next twenty years. According to the rule, the primary expenses of the state budget would remain frozen at 2016 levels, and should be corrected only by the inflation of the previous year. Given the growth trend of the government's mandatory expenses, this would imply the gradual reduction or disappearance of its discretionary expenses - unless institutional reforms that reduce mandatory expenses were carried out, as was the intention. On the other hand, spending on public debt servicing remained exempt from any limit (CARVALHO, 2018).

In practice, EC-95 consolidated the tendency to veto the social pact incorporated by the 1988 Federal Constitution - which had already been somehow disfigured by the institutional reforms implemented since the 1990s. With the spending cap, however, the government lost its fiscal space to advance the incipient Brazilian welfare state, foreseen as a goal in the Constitution. As primary expenditures were now frozen at the levels of those made in 2016, not even a considerable increase in public revenue, as had occurred in the "good times" of the first decade of the 21st century, would impact on its spending possibilities - only the untying of its mandatory expenses could do so, although always within the budget limit of 2016 (ORAIR; GOBETTI, 2017; CARVALHO, 2018).

It is with this goal that the Temer government sought to promote a labor reform and a social security reform in the country. In the case of the former, approved in July 2017, it managed to change sensitive points of the Consolidation of Labor Laws in force, in order to make the labor market more flexible. In line with the neoliberal ideological framework, employers acquired greater freedom to hire and fire workers, which, in theory, would favor job creation and economic growth - effects that have not materialized. On the contrary, what was observed was the permanence of high unemployment rates, while labor relations became more precarious and the "uberization"[164] of society advanced (OREIRO; PAULA, 2021). In the government discourse, however, the advancement of the reformist agenda was the only way to overcome the economic crisis.

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[163] As Carvalho (2018, p. 156) notes, this was already signaled in the aforementioned " A Bridge to the Future" program.

[164] On the phenomenon of the uberization of the labor market, see Santana and Antunes (2021).

But Temer was not able to deliver a pension reform, which was a requirement of the financial market, even with a broad parliamentary base of support for his government. This was due to the outbreak of crises of various natures, which came to threaten his permanence in the presidency. Indeed, if the Dilma government became unviable due to a governability crisis, the Temer government would lead the country into a crisis of representativeness, exacerbated by the loss of credibility of the representative institutions of Brazil. Amid the progress of Car-Wash Operation, the president appointed eight ministers investigated for corruption by the task force. The situation reached a climax when he himself was secretly recorded by businessman Joesley Batista, owner of the JBS company, who had signed a whistle-blowing agreement[165] with the Attorney General's Office within the scope of the Car-Wash Operation. In audio widely reported by the media, Temer supposedly sanctioned the purchase of the silence of former president of the Chamber of Deputies Eduardo Cunha, then already imprisoned for corruption.

The disclosure of the recording, on the day known as "Joesley day", in May 2017, caused a sharp drop in the São Paulo Stock Exchange and caused a sudden rise in the dollar[166]. The financial market panic stemmed from the possibility of the president's resignation, which would jeopardize the continuity of his reformist agenda. In this context, the president went on television to guarantee that he would not resign. His direct involvement in an alleged new case of corruption, however, added to the deepening of the policy switch carried out since 2015, translated into the patent incompatibility between the agenda that was being implemented and the one elected in the 2014 elections. Not surprisingly, in 2017, the consultancy Eurasia named Temer as the most unpopular leader on the planet (DW, 2017). At the same time, the population's climate of disbelief in the government was reflected in the statistics released by Latinobarómetro (2018) the following year: for 90% of Brazilians, the government was "for the few", while only 7% declared they trusted the government and only 9% were satisfied with democracy - the lowest rates among Latin American countries.

In February of the 2018 election year, any possibility of carrying out the pension reform was ruled out when Temer announced a federal intervention in the security of the state of Rio de

[165] This is, as Politize (2016) clarifies, "a judicial mechanism whereby an accused collaborates with investigations by revealing details of the crime, such as the names of co-participants, location of the victim (if any) or details that help recover property that was lost because of the crime. In exchange, the accused may receive some benefits" related to his or her sentence.
[166] On "Joesley *Day*", the stock market fell by 10.47% and the value of the dollar against the real increased by more than 8% (INFOMONEY, 2020).

Janeiro[167]. Following that, the president also had to deal with a national strike of truck drivers, which lasted ten days and paralyzed various sectors of the economy, bringing it to the brink of collapse. Meanwhile, Car-Wash Operation was progressing, the economy remained stagnant, and a turbulent electoral process was looming. Temer, in this context, chose not to run in the elections[168].

In the electoral race, it was clear that Jair Bolsonaro represented the continuity and deepening of the economic agenda implemented in the Temer government[169]. His team to lead the national economy would include Paulo Guedes – who hold an Economics a degree from the University of Chicago and had worked in Chile during the Pinochet dictatorship - at the head of the finance ministry. His competitor in the election was Fernando Haddad, candidate for the PT, since Lula had been prevented from competing when he was arrested, in another development of Car-Wash Operation[170]. In October 2018, Bolsonaro won the elections and would promote, from the following year, a deepening of the austerity agenda and liberalizing reforms that had already been guiding the Brazilian economy (OREIRO; PAULA, 2021). The ensuing developments, however, are beyond the scope of this research.

3.3 The politics of rating agencies in Brazil

This section aims to introduce the CRAs' actions in the scenario presented so far. For this purpose, the ratings attributed by S&P, Moody's and Fitch to Brazil during the period considered will be presented in a descriptive manner, as well as their reports and press releases about the country. In the following section, this behavior will be analyzed in the light of the argument advanced in this research.

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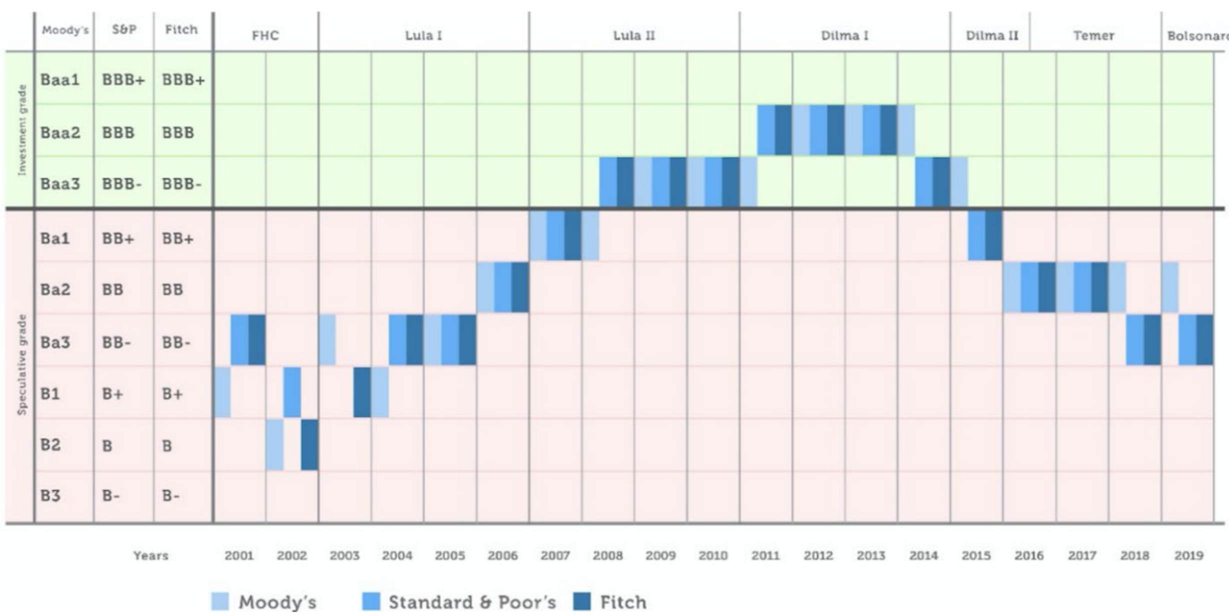
[167] The Federal Constitution forbids changes in its text during the period of validity of this type of intervention. Thus, on 19 February 2018, the Temer government officially announced the withdrawal from promoting a pension reform, as reported by Estadão (2018).
[168] Campello and Zucco (2021, p. 205) note that Temer governed in "bad times", which, according to the theory they propose, would considerably reduce his chances of success in subsequent elections. This may also have encouraged him to pursue a notoriously unpopular economic agenda, since electoral failure was likely.
[169] As Temer himself said of the Bolsonaro government in an interview with the BBC (2019), "the way things are going, the government is going well, because it is following on from our government".
[170] In August 2018, Datafolha indicated Lula's favoritism for the elections: the former president had 39% of voting intentions, against 19% of the second-placed, Jair Bolsonaro (FOLHA, 2018b). On the *lawfare* promoted by Lava-Jato against Lula, see Cittadino (2021).

That said, it should be noted that, unlike the previous section, this section is not subdivided according to the different governments in the course of the CRAs' actions. This option is due to the expectation that eventual discontinuities or alterations in their behavior do not obey the limits of presidential mandates, but occur according to the criteria established in the argument: the international conjuncture and the political-party ideology of the government. In order for this to be observed, however, it is first necessary to proceed with the description proposed here. The following graph shows the trajectory of the Brazilian rating over the time period in question.

Figure 11 - Sovereign ratings of Brazil.



Source: The author, 2023. Based on data from Trading Economics, 2021.

As presented in the previous section, the 2002 election year was critical for the confidence of financial market's agents in the country, which was reflected, between the months of June and October, in successive downgrades of Brazil's ratings by the three CRAs. The first such action was taken by Fitch on June 20, when it downgraded the sovereign rating from BB- to B+, giving it a still negative outlook. Less than two weeks later, S&P made the same change. On August 12, Moody's went in the same direction, downgrading Brazil from B1 to B2. On October 21, Fitch downgraded the country to B. All these ratings, it should be noted, signaled to investors a high probability of default on the public debt, since they belong to the speculative grade, as the three agencies' scales indicate[171].

The justifications presented by the Big Three for these downgrades were largely related to the risk that the electoral victory of Lula, of the PT, represented to the stability of the Brazilian economy. In this sense, in a report published on 19 June and entitled "Would The Real Lula Please Stand Up....", Fitch (2002a) attributed the instability in the country's balance of payments to the probable election of the PT candidate: "the truth is that, as in 1989, 1994 and 1998, the PT leader is still viewed as a fundamental political risk by the markets, and this can have an important effect on voter behavior". In the document, although recognizing Lula's efforts to present himself as a more moderate candidate, the CRA questioned the "ideological regeneration" of the PT, which would be worsening the crisis situation in the country:

> 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. [...] The problem with Brazil's PT is that, not only has it not finished its ideological regeneration, but crucially, it continues to be led by the old faces. This is a critical point. Moderate voters and markets alike cannot assimilate "Lula Light".

A similar evaluation was divulged by S&P (2002a) on July 2. According to it, the worsening of the Brazilian creditworthiness profile was explained by the upward trajectory of the public debt, which would then require a fiscal adjustment to maintain it at the current level, and by the political uncertainties posed by the October presidential elections. In this way, the agency determined that the next government should take a proactive stance in the sense of reversing the growth of the debt and reducing Brazil's external vulnerabilities. The following targets were presented by S&P (2002a) for the country if it wanted to see its rating improved:

> Key challenges in achieving these goals include the possible further tightening of the primary (noninterest) fiscal stance coupled with an advance of the reform agenda that addresses the public-sector pension system and distortionary tax regime. Implementation of this reform has proven difficult even for the current disciplined financial team, and will certainly prove no easier for the next government.

As the elections approached, S&P (2002b, 2002c) made new statements. At the end of August, after the financial bailout agreement signed between the FHC government and the IMF, the agency published a long report on Brazil's creditworthiness evaluation. For S&P (2002b), the establishment of the macroeconomic tripod was beneficial to the country[172], although the BCB's

[171] The rating scales of S&P, Moody's and Fitch are presented in Table 3 in Chapter 2.

[172] In the report, the agency presents the benefits arising from the floating exchange rate, inflation targets and the institutional framework aimed at stimulating primary surpluses.

lack of formal independence left it vulnerable to political interference, especially after the Cardoso administration. It also praised the agreement with the IMF[173], defended the need to advance in trade liberalization[174] and to remain on the path of fiscal austerity so that the Selic rate could be reduced in the future. In face of this agenda, the political environment regained prominence in the analysis. This is because, according to its diagnosis (S&P, 2002b):

> all the main candidates wish to distinguish themselves from aspects of Cardoso's record and future policy could be somewhat less "neoliberal. All the presidential candidates are less ideologically committed to privatization, against which there is a general backlash across Latin America in the wake of the Argentine crisis.

This meant that the scenario was uncertain for reforms that would reduce public expenditures, such as those advocated by the CRA. Indeed, S&P (2002b) observed that "some policies that have been espoused by members of Brazil's political class would, if implemented, tarnish Brazil's credit standing". At the same time, however, it praised the institutional engineering of the Cardoso government, which knew how to immobilize future administrations regarding a possible lack of control of public spending. In particular, the following elements were praised: fiscal responsibility legislation (FRL, state debt renegotiation agreements), closing down/cleaning of public-sector banks, privatization, and ongoing development of a trained civil service.

Immediately after the first round of elections, S&P (2002c) once again released a statement, making it clear that "Standard & Poor's will be looking for immediate signals from the president-elect with regard to intended macroeconomic policies". Among these signals, it stressed that, regardless of the winning candidate, it was imperative to reverse the fiscal deterioration and the trajectory of public indebtedness. This would require a commitment from the new president's team with potentially unpopular policies, in favor of balancing public accounts. Thus, according to S&P (2002c), "Brazil's credit standing could stabilize with further indications of broad political support for maintaining a tight fiscal stance (no less than that outlined in the IMF agreement) and plans to advance the reform agenda to reduce economic vulnerabilities".

These actions by the CRAs, which exacerbated the confidence crisis context, gave rise to the indignation of the Cardoso government. In a communiqué from the Ministry of Finance and the Central Bank of Brazil (2002), for example, the government accused deficiencies in the Fitch's

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[173] According to S&P (2002b), the US$ 30 billion loan agreement provided the country with the necessary liquidity to get out of the crisis, depending on the following management's compliance with the stipulated fiscal targets.
[174] Within this scope, he defended the signing of free trade agreements with the United States and the European Union. The underlying logic is that the Brazilian economy would become more competitive in international trade.

analysis, which would be based on forecasts of the future and not on technical criteria. It also insinuated, listing several points of disagreement, that the CRA had acted hastily and lacked responsibility in its mission to guide investment decisions:

> The Ministry of Finance and the Central Bank regret the decision taken by the rating agency "Fitch" to downgrade the rating attributed to the Brazilian domestic and external sovereign debt. The decision is both extemporaneous and mistaken. Extemporaneous because it is based on a preconceived vision of the future design of economic policy; mistaken because it is based on deficient analytical content. Fitch's argument has the political transition as background. It is based, therefore, on what the next government could do or could not do.

On the eve of the second round of elections, on October 25, Fitch (2002b) issued a new message, entitled "All eyes on Lula". On the occasion of the leftist candidate's imminent victory, the agency observed how market indicators, in view of the president's signs of accommodation with the orthodox agenda, were returning to stability[175] . Nevertheless, it made it clear that the maintenance of the situation depended on the president's behavior immediately after his victory:

> Of course, much will depend on Lula's behavior immediately after Sunday's election. If he appoints a credible economic team, and sets out a clear policy program, the current more positive environment may continue. [Indeed, the recent asset rallies appear to have already priced in a more positive scenario. Should Lula fail to deliver on expectations of a market-friendly economic team next week, investor sentiment may show a rapid turnaround.

As presented in the previous section, Lula did not frustrate the market's expectations. As a result, already in April of his first year in office, Fitch (2003a) praised the president's commitment to fiscal austerity[176] and the conservatism of monetary policy, while S&P (2003a) praised his signs of commitment to strengthening the country's fiscal position. The following month, Moody's (2003a) praised the primary surplus targets set by the government, which, if achieved, would translate into better sovereign ratings. In a report published on June 3rd, Fitch (2003b) reviewed the first semester of the Lula administration:

> The performance of President Lula's administration since taking office on January 1, 2003, has been supportive of sovereign creditworthiness and has eased one of Latin America's most marked political transitions from the center-right to a coalition dominated by the left. Credible economic policy appointments were made, monetary and fiscal policies were tightened, a commitment to push through important structural reforms was affirmed, and a coalition with enough votes to amend the constitution has been assembled. Given that

[175] According to Fitch (2002b): "Not only has the real recouped some of its losses to trade around the BRL3.8000/US$ area, but the Bovespa stock index has risen back above the 9,000 level to 9,736 points, while the US$ 2014 C bond has surged from 51.37 at the end of last week to test upside resistance at the 56.80 level during early trading on Friday".
[176] According to Fitch (2003a): "After raising the minimum wage by 20.0%, below union demands, Lula provided further demonstration of his commitment to fiscal austerity by hiking public sector wages by 1.0% for now, far below the 46.0% demanded by the public sector. This sends a clear message that the president is not prepared to sacrifice fiscal discipline in response to union pressure".

> President Lula has largely adopted the reform program of his opponents, there now appears to be a higher degree of policy consensus in Brazil than before the election.

On September 29, a new S&P report (2003b) corroborated this assessment. The agency celebrated the institutional transparency and predictability that Brazilian policymaking presented. It praised the efforts of the Lula government to consolidate the macroeconomic tripod and praised the political capacity of the president, who had broad support from Congress in favor of his economic policy agenda. On the other hand, while recognizing the operational autonomy that the new government continued to grant the BCB, it called for the formalization of its independence. The optimistic tone of the report, in any case, already contrasted with that of the previous year, when a climate of distrust in relation to Lula predominated.

This was soon reflected in the performance of Brazil's rating, with 2003 marking a turning point in its deterioration trajectory. In fact, as can be seen in graph 5, the Brazilian rating entered into a period of uninterrupted improvement that would last about a decade, including the achievement of investment grade, as will be seen in this section. This trend began to take shape as early as March, when the outlook for the sovereign rating stabilized and soon became positive. From then on, in a politically stable environment and as the economy recovered, the upward trajectory of the sovereign rating consolidated.

In November 2003, Fitch upgraded it to B+. In September of the following year, the three CRAs raised Brazil's rating: Fitch and S&P to BB- and Moody's to B1. In 2005, Moody's promoted a new upgrade, to Baa3, while the other agencies gave it a positive outlook for the following year. In the context of the improvement of the economic indicators, the Lula administration sent the main names of its economic team to lobby the agencies in the United States for better evaluations[177]. At that time, the “mensalão” crisis was already a source of political instability, but the climate of optimism with the economic performance prevailed (FOLHA, 2005).

Before improving Brazil's rating in 2004, Moody's (2004a) published a report on the country in June, praising the government coalition's commitment to orthodox economic policies. The CRA praised the primary surplus achieved the previous year - 4.37% of GDP - and pointed to the low risk that political developments could affect the government's compliance with fiscal targets. On September 9, in a report justifying the rating upgrade, the company highlighted the benefits resulting from a substantial increase in exports. Moreover, Moody's (2004b) evaluated that

[177] As reported by Folha (2005), the treasury secretary, Joaquim Levy, the finance minister, Antonio Palocci and the president of the BCB, Henrique Meirelles, have been in meetings with investors and rating agencies for this purpose.

"the positive developments in the overall Brazilian economy are closely linked to the maintenance of a tight fiscal policy and a fully flexible exchange rate regime".

On January 18, 2005, Fitch (2005a) reviewed the first half of Lula's mandate. In its assessments, Lula's victory in 2002 was a historic milestone in Brazilian politics and his good performance, until then, had taken the credibility of the "alarmists" who, in that context, warned of the danger he supposedly represented[178]. The CRA highlighted the high personal popularity of Lula and the success of his team in macroeconomic management. For the second half, it declared it expected the government to remain committed to fiscal prudence and that the proximity of the election year would not influence the conduct of economic policy: "This year, broadly speaking, we expect more of the same from the Lula government. The macroeconomic fundamentals point to another strong year for the Brazilian economy and Lula's popularity ratings make his re-election in 2006, while not a foregone conclusion, a high probability".

Moody's (2005) shared the same assessment in its June 2005 report:

> Political noise is bound to increase the closer it gets to the '06 general election. However, at present, 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 a political shock similar to that of the 2002 election year is significantly less likely to happen in 2006.

From mid-2005 onwards, the outbreak of the "mensalão" corruption scandal would transitorily guide the CRAs' reports. On August 15, 2005, for example, Fitch (2005b) commented on the possibility of Lula being involved in the case: "If Lula is directly implicated in the current corruption scandals, the political situation would deteriorate markedly - we could not rule out moves to impeachment". Given this possibility, however, Fitch (2006a) reassessed the question: "Barring direct implication in corruption, Brazil looks set to re-elect Lula for a second term". At the same time, it praised the reduction of the country's external vulnerability, then attributed to the good management of the economy by the government (FITCH, 2006b):

> the economy is relatively buffered from external shocks, with a diminishing net external debt to GDP ratio, which we forecast to fall to 17.8% this year, from an estimated 21.3% last year, thanks to the government's foresighted debt management strategy. According to Credit Suisse, 60% of the government's external financing needs for this year have already been met, which, in an election year, is particularly prudent.

The other CRAs' manifestations in the 2006 election year were in the same tone. In line with the good performance of the Brazilian economy, S&P and Fitch classified Brazil as BB in

[178] Among these, as this research has shown, was the rating agency itself.

February and June, respectively. On August 31, justifying Brazil's upgrade to Ba2, Moody's (2006) considered the improvement in the public debt structure and profile. Nevertheless, it warned that future upgrades would require measures to reduce the government's primary expenditures, whose upward trend was, in its view, incompatible with the declared target of fiscal sustainability. On October 25, during the elections, Fitch (2006c) also recalled the need for reforms and attributed the occurrence of the second round to the corruption scandals that fell upon the PT leadership, which would have compromised the victory already in the first turn: "This raises doubts over Lula's ability to implement necessary reforms over the next four years. In any event, we expect policy continuity in the next term".

Once the President's re-election was confirmed, Fitch (2006d) expressed its concerns about possible discontinuities in economic policy, given the replacement of Palocci by Mantega at the Ministry of Finance and the pressures for greater GDP growth in the country: "recent comments by Minister of Institutional Relations, Tarso Genro, stating that the ‘Palocci era’ of orthodox economics was over, has led to concerns over Lula's ability to fend off the pro-expansionary elements within his party". On the other hand, the CRA was assertive in defense of its agenda: "Lula must pursue an agenda that focuses on continued macroeconomic stability and fiscal reform". In the same direction, it warned that if the president succumbed to pressure and intervened in the BCB for lower interest rates, he would compromise the credibility of the monetary policy - although the CRA considered this scenario unlikely, given the history of the first mandate. The same report also recalled that Lula had much room for improvement in the fiscal management, especially if he wanted to maintain primary surplus levels above 4.75% of GDP while advancing his social policy agenda. In this case, Fitch (2006d) proposed a fiscal reform that would reduce public spending and establish a ceiling for social expenditure.

Despite the fact that no measures in this direction were implemented during the second Lula administration, Brazil's rating continued to climb and would soon become investment grade. Indeed, at that time, this was a goal actively pursued by the government[179], even if the economic policy put into practice openly diverged from that recommended by the CRAs. In a statement to Folha (2007), for example, Minister Mantega declared that "the PAC will contribute to Brazil's faster attainment of investment grade" and recalled that the prominence of public investments in the economic agenda was based on "a different thinking from that of the Washington Consensus,

[179] The same diagnosis is made by Ywata (2012).

which considered that the State should totally exempt itself from participation [in the economy] and leave all investments to private initiative".

Mantega's expectations came true between 2008 and 2009, in the midst of the global financial crisis. In May 2007, the Brazilian rating was raised to BB+ by S&P and Fitch and, in August, Moody's upgraded it to Ba2. This meant that any subsequent improvement would imply the achievement of the investment grade. Between 2008 and 2009, this gradually happened. The first CRA to give the "good payer seal"[180] to Brazil was S&P, when it placed the sovereign rating at BBB- in April 2008. A month later, Fitch did the same. Moody's, in turn, rated the country as investment grade in September 2009, when it upgraded it to Baa3. The Brazilian ratings would remain at these levels until the end of the Lula administration, when it already enjoyed a positive - in the case of those conferred by Fitch and Moody's - or stable outlook - in the case of S&P.

The investment grade was highly celebrated by the government. In the words of the president (FOLHA, 2008a): "Brazil was declared a serious country, that has serious policies, that takes care of its finances seriously and, therefore, we became deserving of an international trust that Brazil had been needing for a long time". In the same direction, Mantega affirmed that "this is the recognition of the good management of the Brazilian economy" (FOLHA, 2009). The former President FHC, on his turn, declared to Folha (2008b) that

> I think they should have given it [the investment grade] a long time ago. All Brazilians should be rooting for this. I don't trust the rating agencies very much. Look at the risk they ran in the US, a tremendous crisis. I think Brazil is safe regardless of the rating agencies.

The CRAs' justifications for Brazil's upgrade to investment grade were generally based on three elements. Firstly, the respect for the parameters of the macroeconomic tripod was recurrently exalted and signaled, according to them, the consensus of the national political forces around the economic policy guidelines. Secondly, the national economy's good performance was reflected in the improvement of the metrics taken into account in the rating formulation process, particularly those related to public debt. Third, the good response of the Brazilian economy to the global financial turbulence was decisive for the attribution of an investment grade rating to the country in the crisis context.

However, before rating Brazil as investment grade, the CRAs were reticent about the economic measures announced by the government. In this sense, in February 2007, at the beginning of Lula's second mandate, Fitch (2007a, 2007b) published two reports commenting on its prognosis

[180] This is a terminology commonly used by Brazilian newspapers, although it is not in use by agencies.

for the Brazilian economy in the wake of the PAC's launching. Although it did not oppose the plan and considered it probable that the country would achieve the investment grade in the next few years[181], the CRA made explicit its reservations about a possible excessive optimism on the part of the government in its growth projections[182]. According to Fitch (2007b), despite the macroeconomic stability then experienced:

> the various investment measures announced in the PAC will certainly add pressure to the government's budget, which could reduce the speed at which Brazil reduces its internal debt load. This is a factor which could hinder Lula's ambitions to bring the country to investment grade status in the next few years.

Moreover, it warned that "we think that the PAC does not go far enough to address embedded structural issues such as tax reform, the size of the public sector and its antiquated labor legislation" (FITCH, 2007a). When justifying the rating upgrade in August 2007, Moody's (2007) made a similar observation: "relevant points for Brazil's credit perspective in the medium term include the future of social security and fiscal reforms, as these solutions are needed to alleviate structural pressures on fiscal accounts". The core of the statement, however, was the strengthening of Brazil's external vulnerability profile, mainly due to the accumulation of international reserves. In addition, the company highlighted the continuous and gradual decline in government debt indicators.

In line with this good economic performance, Fitch (2008a) published a report in April 2008, forecasting the attribution of investment grade to Brazil later that year. To support its assessment, it recalled that the country had achieved the status of international creditor and praised the BCB's commitment to pursue the established inflation targets. To this was added Lula's "responsibility" in managing the economy, despite the ideological orientation of the PT:

> Despite initial fears that Lula's administration would pursue decisively leftist policies, it has governed in a responsible manner. Indeed, Lula seems to be committed to a market friendly and politically inclusive second term. [The government's commitment to primary fiscal surpluses has instilled confidence in the economy. Similarly, the ongoing cuts in interest rates will continue to feed into the economy. Brazil's economy is benefiting from good underlying fundamentals, which will contribute to stability.

As a negative point, however, Fitch (2008a) noted the government's inability to promote reforms that would reduce its primary expenditure, such as a pension reform. The same diagnosis

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[181] Fitch (2007b) was clear about this: "Our projections are also based on the vast improvement in terms of macroeconomic stability, which represents a departure from the more volatile economic cycles of the past, and as such we believe that Brazil will reach investment grade status over the next couple of years".

[182] In this respect, Fitch (2007a) was explicit: "While we believe that the risks to our real GDP growth forecasts of 3.5% are to the upside, we consider it unlikely that the Brazilian economy will expand by 4.5% in 2007 and by 5.0% in the period 2008-2010".

was made by Moody's (2008a), in an extensive analysis of the Brazilian creditworthiness profile. For the CRA, the successive rating upgrades were due to the government's ability to deliver primary surpluses of around 4% of GDP, which contributed to the decline in indebtedness indicators. Furthermore, Brazil's external vulnerability was reduced due to improvements in the public debt structure - in terms of composition and maturity - and the accumulation of international reserves. Economic growth was also part of the positive scenario outlined by the CRA, as was the credibility of monetary policy: "Increased central bank credibility and stable inflation/inflationary expectations represent, in Moody's opinion, the most important factors behind the steady reduction observed in interest rates".

Once again, the rating agency praised the "limited relevance" of political developments for the continuity of economic policy and, as a consequence, for the sovereign rating. It also recalled Lula's quiet re-election, from the financial market's perspective, which contrasted with his first victory in 2002. For the CRA, this is explained by a reconsideration, by market agents, about how political and economic elements interacted in the country:

> As he came from the left side of the political spectrum, Lula was viewed initially as a direct threat to policy continuity. Instead, his actions confirmed that economic policies did not depend on political affiliations and initial fears gradually dissipated. Though political factors continue to influence economic policy decisions, social and political consensus on the basic tenets of economic policy has significantly reduced the risk of policy reversal reinforcing policy predictability. Accordingly, politics are unlikely to cause major deviations from current fiscal and monetary policy directives which will remain underpinned by (i) strong government commitment to primary surplus targets, and (ii) a stern central bank with de-facto independence and hard-earned credibility. With these quasi-institutional elements in place Brazil's exposure to political event risk has diminished significantly.

In its report, Moody's (2008) further clarified the apparent contradiction between the absence of liberalizing reforms and the improvement in the country's creditworthiness profile. In the CRA's words:

> Are reforms required for a rating upgrade? The categorical answer is: not necessarily, as the absence of reforms need not prevent improvements in a country's credit profile that could lead to higher ratings. Structural reforms, however, play an important role in as much as they support growth and fiscal trends required to assure sustained improvements in credit prospects.

In the second semester, in the midst of the global financial crisis, a new statement by Fitch (2008b) placed Brazil as one of the Latin American economies best prepared to face the turbulence of the international financial system. A few months later, in January 2009, the same Fitch (2009a) released a decade-long projection for the Brazilian economy that reflected its optimism in relation to Brazil. Entitled "From BRIC To Economic Powerhouse By 2018", the report outlined a scenario in which the Brazilian GDP would continue to expand by an average of 3.3% until 2018. In this period, according to the agency, GDP per capita would more than double. The CRA's projection, which would soon prove to be mistaken, also considered that the national socioeconomic dynamic, driven by the formation of a thriving consumer market, would attract foreign direct investment for the benefit of the country's infrastructure. Even so, the CRA signaled its preference for the following year's presidential elections:

> We see growing prospects for the opposition Partido da Social Democracia Brasileira (PSDB) to make a successful bid for the presidency in 2010, when incumbent President Luiz Inácio Lula da Silva is constitutionally forced to step down. A more centrist social-democrat administration could give rise to a series of crucial reforms in the country - should these not be achieved before the election, which currently is not our core scenario - addressing the country's inflexible and rigid labor market laws, and a highly complex and inefficient taxation system.

Despite the party preference, the resilience of the Brazilian economy in the context of the global economic crisis continued to underpin positive assessments by the agencies. In April 2009, S&P (2009) highlighted that the Brazilian government, despite the turbulence, reaffirmed its commitment to a prudent macroeconomic policy, legitimizing the investment grade achieved by the country the previous year. In the CRA's view, this was facilitated by Lula's high popularity. Moreover, as Fitch (2009b) observed, the president's high approval rating suggested that public opinion approved of the conduct of the economy in the context of the crisis, which would interdict any possible criticism from the opposition in this area in the upcoming electoral race (FITCH, 2009b).

In the same vein, on 22 September, when justifying the Brazilian upgrade to investment grade, Moody's (2009) recognized the good performance of the national economy amidst the turbulence of the international financial system. According to the report:

> The upgrade reflects Moodys recognition that the country's shock absorption capacity, including the authorities' policy response capability, points to a material improvement in Brazil's sovereign credit profile. [Evidence of strong economic and financial resilience, features typically associated with investment-grade sovereign credits, can be seen in the modest and short-lived contraction in GDP, minimal weakening in the country's international reserve position, moderate deterioration in the government debt indicators and lack of financial stress in the banking system.

In April 2010, Mantega and Meirelles made optimistic statements about Brazil's rating. In a hearing at the Chamber of Deputies, the finance minister said that "we could have better ratings" and added that "we are talking to the agencies". The president of BCB, on his turn, associated this view to the performance of the Brazilian economy amidst the global crisis (FOLHA, 2010):

> After Brazil emerges from the crisis stronger than it entered and stronger than many other countries, the tendency is for Brazilian ratings to be improved. We do our job and we hope that this will be recognized in due course, as it has been. The result of the Brazilian economy today is undoubted.

Indeed, as presented in the previous section, the 2010 election year ran without turbulence in the financial market in reaction to the presidential candidates. Immediately after the nomination of Dilma Rousseff as Lula's successor by PT, Fitch (2010a) released a political risk analysis reassuring investors about a possible shift to the left in his economic policy: "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". Once the new president was elected, Fitch (2010b) stated that it expected the economic policy guidelines implemented until then to be maintained and, as usual, stressed the need for structural reforms:

> If Brazil is to fulfill its undoubted potential and move further towards developed statehood, the new government will need to take urgent measures to tackle the country's infrastructure bottlenecks, burdensome tax structure, high labor costs and low educational standards. Although the political will is there, in our view, these reforms will need to be enacted without putting excess pressure on the country's already stretched fiscal accounts.

Fitch's expectations (2010b) were confirmed during the first half of the Dilma government, when the conservative economic policy already implemented by Lula at the end of his mandate continued. This led to new upgrades of the Brazilian rating throughout the year - which would be the last ones observed in the time frame considered in this research. In this sense, on April 4, 2011, Fitch upgraded the country to BBB, assigning it a stable outlook. In the following month, S&P assigned Brazil's rating a positive outlook, which would be confirmed on November 17, with its upgrade to BBB. In between these CRAs' actions, on June 20, Moody's rated Brazil as Baa2, assigning it a still positive outlook.

In April, after the upgrade promoted by Fitch, the new president of the BCB, Alexandre Tombini, stated that the improvement was "a recognition of the economic policy's consistency and the improvement of its fundamentals in recent years", which had been achieved "through the policies of inflation targets, floating exchange rate, accumulation of international reserves, fiscal responsibility and solidity of the financial system". In November, in the wake of the Brazilian rating upgrade by S&P, the Ministry of Finance (2011) issued a statement. In this official note released to the press, Mantega highlighted that "S&P's decision to upgrade the Brazilian rating at a delicate moment for the international economy is a recognition that the economic policy is headed in the right direction and that the country's macroeconomic fundamentals are solid".

Indeed, the CRAs' explanations for these rating actions went in the same direction. When promoting the upgrade, Fitch, for example, highlighted that "the transition to Dilma Rousseff's government was smooth and the consensus on responsible macroeconomic policies remains well anchored" (G1, 2011). These elements were also recalled by Moody's (2011a), when it raised the sovereign rating. Moreover, when explaining the action, the CRA drew a positive balance of the first six months of the Dilma government:

> The current government has been in power for approximately six months. Its strategy and economic planning has been defined in sufficient detail for us to reach a final conclusion. Since taking control of the country in January 2011, the new government has demonstrated a clear intention to adjust policies in order to address the overheating problems that have arisen. The main elements of the government's strategy involve a shift towards a neutral fiscal policy stance - underpinned by expenditure cuts - as well as a more balanced fiscal/monetary policy mix than in the past. With both the Finance Minister and the Central Bank moving the economy in the same direction, Brazil has moved toward a growth trajectory that, while lower, appears to be more consistent with a sustainable scenario.

As presented in the previous section, the Dilma government began implementing the NME in mid-2011. Until 2013, however, there would be no change in the rating or outlook for the Brazilian creditworthiness profile. This did not prevent the CRAs from continuing to comment about it throughout this period. On June 20, 2012, for example, Moody's (2012a) published an extensive report analyzing this topic, recalling the positive outlook it had attributed the previous year. In the document, the CRA highlighted the size and diversity of the Brazilian economy, as well as its reduced external vulnerability, due to the accumulation of international reserves, the near absence of foreign currency-denominated debt[183] and the dynamic domestic market that had been constituted during the previous decade[184]. Once again, the political consensus around the macroeconomic tripod was exalted as a factor that proved the country's institutional maturity. Furthermore, it gave a new guise to the recurrent demand for structural reforms:

> Having established that politics are not nearly as relevant as they used to be, we need to qualify this statement by noting that the nature of political risk has changed for countries that have achieved an investment grade status in recent years. From a ratings perspective, political risks for these countries are no longer associated with radical shifts in economic policy. Instead, politics can impact the ratings if the political establishment is unwilling - or unable - to approve structural reforms required to support an upward progression in economic, fiscal or financial trends. In the case of Brazil, the subjects in question involve pension and tax reforms with the former required to alleviate medium-term pressures on the fiscal accounts and the latter to foster private investment and elevate potential growth.

[183] As the agency noted, only 4.4 per cent of bonds were denominated in foreign currency in 2012, down from 12.7 per cent in 2006 and 45.8 per cent in 2002.
[184] Commenting on this aspect, Moody's (2012) praised the configuration of a new middle class in Brazil, resulting from policies implemented during the Lula government, and the approval of legislation that started to confer greater predictability to the value of the minimum wage.

In the same period, Lisa Schineller, an S&P analyst, published an article praising Brazil's economic success and contesting the narrative that this was due to the commodities price boom. For Schineller (2012), the origins of the country's good performance referred to the transition to democracy under the 1988 Constitution and, above all, the respect for the macroeconomic tripod by the PT governments. The Lula government, in turn, was remembered for the measures that ensured the formation of a robust domestic market, thanks to income transfer policies, formalization of work, appreciation of the minimum wage and democratization of access to credit. Schineller (2012), however, pointed out as urgent problems to be overcome the country's high interest rates and the overvaluation of the real - elements that, as already analyzed, were two of the main targets of the NME, whose implementation by the Dilma government was already in force.

Indeed, what was observed in the period was an initial endorsement, by the CRAs, of the NME guidelines. In an analysis published in May 2013, for example, Fitch (2013a) made a statement in this direction, although it then called for structural reforms aimed at liberalizing the labor market:

> Although we believe that the policies initiated by the Rousseff government in recent months, which look to increase private investment into transport infrastructure and reduce the cost of doing business in the industrial sector, are positive steps, more needs to be done in order to bolster the country's business environment.

However, as the NME proved ineffective in promoting economic growth, the tone of the CRAs' manifestations changed. The turning point occurred in June 2013[185], when S&P changed the outlook of the Brazilian rating from stable to negative. The action heralded the end of the upward trajectory of the sovereign rating, which had already lasted about a decade. At the time, S&P (2013a) explained the action by informing that:

> Brazil's slow GDP growth and the continued risk of expansionary fiscal policy (including off-budget measures) weakening the country's financial profile could, in the absence of corrective action, result in weaker fiscal performance and an increase in the government's debt burden.

The following month, in a divergent vein, Fitch (2013b) still expressed a vote of confidence in the government:

> Policy uncertainty has dented business and market confidence in recent months. However, Fitch notes that recent policy adjustments including the acceleration of the pace of monetary tightening, greater fx flexibility, renewed emphasis on fiscal discipline, and steps to promote private investment in infrastructure and the oil sector are steps in the right direction and highlight the authorities commitment to maintain stability.

[185] This was a further element in the chaotic scenario that set in for the government that month, which was marked by numerous street demonstrations, as pointed out in the previous section.

But Fitch's evaluation (2013b) was based on a projection that would soon prove to be wrong. According to its report, the assumptions of the diagnosis were that: i) commodity prices would not fall to the point of greatly harming the country's terms of trade; ii) the end of US quantitative easing would not produce many impacts on Brazil's financing conditions in capital markets; and iii) the popular demonstrations of June 2013 would not influence governability conditions.

In early October, Moody's (2013a) worsened the Brazilian rating's outlook from positive to stable. The justification consisted of the deterioration of credit metrics - especially the government debt/GDP ratio and investment/GDP -, the long period of reduced economic growth and the deterioration in the quality of disclosure of government accounts. The scenario worsened in the same month, when S&P demanded "more action and less discourse from Brazil", as reported by Exame magazine (2013). The report recalled that "S&P's warning about a possible downgrade of the Brazilian note, in June, led President Dilma Rousseff to rethink her government's economic strategy, changing its position to please rating agencies and investors". In the interview with the magazine, the CRA's analyst, Lisa Schineller, stated that these signals needed to translate into concrete actions. The CRAs' pressure on the government would, from then on, become increasingly evident.

In November, S&P (2013b) reaffirmed the negative outlook for the Brazilian rating[186]. According to the CRA, this evaluation resulted from the deterioration of the country's fiscal performance, which could compromise the primary targets to be achieved. This was critical as Brazil entered a new electoral cycle. Indeed, according to S&P (2013b):

> We believe that Brazil's commitment to a prudent and credible fiscal policy strategy remains crucial. While strong statements from the government are important, actions speak louder than words. [...] Given the continued low economic growth and the imminence of the presidential elections, it remains to be seen whether the government will maintain its willingness and be able to limit a fiscal deterioration. The implementation of economic policy becomes more difficult in an election year.

The situation reached paroxysms when S&P analysts came to Brazil in March 2014 to reassess the sovereign creditworthiness profile. On the occasion, the newspaper O Estado de S. Paulo referred to S&P analyst Lisa Schineller as "Hurricane Lisa" and compared the country's condition during her visit to the national experience with the IMF in the 1980s[187] (ESTADÃO, 2014):

[186] This statement by the agency consisted of a frequently asked questions session about the worsening of the outlook for Brazil's sovereign rating.
[187] In fact, the title of the newspaper article was "With S&P, the country relives the IMF nightmare".

> The reception to the analyst, filled with pleasantries and apprehension, recalled the visits of two other feared economists in Brazil. In the late 1980s, Chile's Ana Maria Jul, who negotiated loans from the International Monetary Fund (IMF), became famous. Wearing a tuxedo and a 007 briefcase, she embodied international meddling in the country. In the late 1990s, the person who negotiated with Brazil was Teresa Ter-Minassian, director of the Fund's fiscal area.

Indeed, the newspaper found that Schineller was even compared to Ter-Minissan behind the scenes in the government, which received her with deference. In its words, the analyst "put her interlocutors to the wall", trying to understand not only the direction of economic policy, but also the political scenario in the election year. Meeting expectations, the effects of "Hurricane Lisa" did not take long to materialize and proved to be consistent with the generated apprehension: on March 24, 2014, S&P announced Brazil’s downgrade to BBB- - the first downgrade of the country since 2002. In the report attached to the rating action, S&P (2014a) stated that:

> The downgrade reflects the combination of fiscal deterioration, the prospect that fiscal execution will remain weak in the face of low growth in the coming years, a reduced capacity to adjust its policies ahead of the presidential elections, and the slight weakening of Brazil's external accounts.

In addition, the CRA noted that "the signals are still unclear as to which policies will be used to stabilize the fiscal situation ahead of the October elections. Moreover, in our view, the prospects for adjustments after the elections are also unclear."

The agency's decision prompted an immediate reaction from the Ministry of Finance (2014), which released a "Note to the press about S&P's decision": "Standard & Poor's (S&P) decision to change Brazil's rating is inconsistent with the conditions of the Brazilian economy. The announced change is contradictory to Brazil's solidity and fundamentals". In this direction, Mantega's team contested the items listed by S&P to support the downgrade and reaffirmed the commitment with the primary surplus of 1.9% of GDP for the year.

At the opposite side of the political spectrum, the PSDB pre-candidate to the presidency, Aécio Neves, took advantage of the downgrade to criticize the government. According to the then senator, "unfortunately the predicted happened and the country had its credit rating downgraded by Standard & Poor's. The decision reflects the mistakes made by the government of president Dilma Rousseff in the economic area, but not only there" (PSDB, 2014).

In July, the first downgrade in more than a decade continued to have repercussions. On that month, S&P (2014b) released a supplementary analysis to the report in which it had communicated the downgrade. The CRA highlighted that "the government's credibility regarding the conduct of fiscal policy was systematically weakened, as the government exempted several revenue and expenditure items from its fiscal target, in addition to having reduced the target itself over time". In this sense, it also called into question the achievement of the primary surplus target of 1.9% of GDP for the year - guaranteed by the Ministry of Finance months earlier, as presented, but which would end up giving way to a primary deficit. Still in the report, S&P (2014b) explicitly expressed its preference for the upcoming presidential election:

> We believe the policy profile of a second Rousseff term would be similar to her current government, in which the President would continue to oversee policy decisions intensively. While we expect certain changes in the team and economic policies, we generally estimate "more of the same" in terms of uneven policy. We believe an Aécio or Campos government could pursue a more consistent and market-oriented economic policy, with a greater initial focus on domestic and international investor confidence.

In the following months, the Brazilian creditworthiness profile continued to show deterioration signs. In September, on the elections' eve, Moody's announced a worsening of the outlook for Brazil's rating from stable to negative. To justify the decision, it recalled the persistence of the slow pace of economic growth, the upward trend in public debt indicators and the deterioration of investor confidence in the country, which was due, in its evaluation, to the government's markedly interventionist economic policy (MOODY'S, 2014a). Between the first and the second round, it was Fitch's turn to speak out, demanding a change in the new government's economic policy course (FOLHA, 2014):

> The next government will inherit an economy that faces multiple challenges in terms of low growth, high inflation and deteriorating fiscal performance. Therefore, policy adjustments will be critical in determining the future trajectory of Brazil's sovereign ratings and outlook.

Once Rousseff's narrow victory was confirmed, Moody's (2014b) released a report entitled "Political Polarization and Structural Problems to Challenge Re-Elected Rousseff", in which it outlined an adverse prognosis for Rousseff's second term. Once again, the CRA reiterated that the president's re-election was not the financial market's preference: "In the run-up to the final vote, 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". In addition, although it was skeptical of changes in economic policy, the agency once again proposed an alternative agenda to the one the government promised in the election cycle, aligned with the tenets of economic orthodoxy:

> Since Brazil's economic problems are deep and structural in nature, fundamental reforms will be needed if medium-term growth prospects and the government's fiscal position are to improve. The government also needs to act quickly to reestablish credibility given its previous inability to deliver on policy targets.

The policy switch of Rousseff's economic policy in the immediate post-re-election period surprised not only her voters and the opposition, but also the rating agencies. At first, they saw the move as positive and praised the government's new strategy. However, as the economic crisis deepened, the sovereign rating deteriorated. Indeed, throughout the brief second Dilma administration, the three CRAs promoted successive downgrades of the Brazilian rating, which led to its return to speculative grade. As we will see below, this movement was particularly prominent during the period of the impeachment process of the president.

In the wake of the policy switch, in February 2015, Rousseff sent emissaries to talk to S&P and Fitch. The goal was to make it clear that the ongoing fiscal adjustment was feasible and, therefore, there would be no reason for Brazil to be downgraded (FOLHA, 2015b). The government's strategy, in a first moment, was successful. In a report issued in March 2015, for example, S&P (2015a) reaffirmed the Brazilian rating and expressed approval to the surprising course of the economic policy:

> Economic policy signaling has changed significantly, which was not part of our base case expectations. A broad correction in policy has been taking place to strengthen fiscal commitment, both on and off-budget, and to eliminate various economic distortions, which includes artificially omitted administered prices.

This pacification, however, would be short-lived. On April 9, Fitch changed the rating outlook to negative. In this context, on July 3, Folha (2015c) reported that the "government acts to hold the sovereign rating" worried about "the ghost of losing the investment grade". The news also brought a statement by Nelson Barbosa, then Minister of Planning, about how the “bombshell agendas” approved in Congress could compromise the fiscal effort put into practice and, as a consequence, the rating itself. The government's fear did not take long to materialize: still in the same month, on July 28th, S&P also changed the rating outlook to negative. At that point, Brazil was on the verge of losing S&P’s investment grade, but still two downgrades away from returning to the speculative grade by Moody's and Fitch.

One of them, however, came as early as 11 August, when Moody's (2015) downgraded the country to Baa3, with a stable outlook. To justify the action, it stated that:

> The weaker than expected economic performance, the upward trend in government spending and the lack of political consensus on fiscal reforms will prevent the authorities from achieving high enough primary surpluses to contain and reverse the trend of rising debt this year and next, and challenge their ability to do so thereafter.

In the course of the report, Moody's (2015a) reiterated that "there is a lack of political consensus in Brazil on the possibility of more aggressively addressing budget rigidities by promoting reforms that address the increase in mandatory spending" and also highlighted the Car-Wash Operation as a destabilizing element for the relationship between government and Congress.

Less than a month later, the government's main fear came true. On September 9, S&P (2015b) downgraded Brazil to BB+, which meant the first loss of investment grade. In the attached report, the CRA pointed out "a reduction in conviction about the fiscal policy in the President's office". This perception was due to the recent revision of the government's fiscal target: the one that had been presented in June forecasted a primary surplus of 0.7% of GDP; in August, there was a change to a primary deficit of 0.3% of GDP. As noted by S&P (2015b), this meant that, "without an outperformance, the fiscal target proposed in the budget would result in three consecutive years of primary deficits (without taking interest into account) and a continued increase in general government debt". Despite this, the agency praised the efforts of the economic team to resume the initial primary surplus target of 0.7% of GDP. The S&P report (2015b) also explicitly linked the downgrade to the unfolding of Car-Wash Operation and the political and governance crisis - partly related to it - that had taken hold in the country. In addition, there was already a first mention of the possibility of the president's impeachment[188], for which articulations were already in force, as pointed out in the previous section.

The investment grade loss had great repercussions in the political world and among the main Brazilian newspapers. One day after the event, ex-president Lula, for example, played down the event, stating that "this means nothing. It just means that we cannot do what they want. We have to do what we want" (INFOMONEY, 2015) - a statement that contrasted with the relevance attributed by him to the investment grade achievement in 2008. On September 11, the newspaper Folha de S. Paulo published, in an editorial, a divergent assessment: "The credit rating cut only made official a situation already established in practice: in the eyes of investors, Brazil has become an unreliable country, something as vexing as it is worrying" (FOLHA, 2015d). The defeated candidate in the 2014 elections, Senator Aécio Neves, declared that "unfortunately, Brazil's loss of investment grade and the perspective of negative revision in the next twelve months show that president Dilma's government is over" (EXAME, 2015).

[188] As per S&P (2015b): "these investigations have weakened short-term cohesion and coalition dynamics. We believe that the weakening of coalition dynamics between the Workers' Party (PT) and the Brazilian Democratic Movement Party (PMDB) represents a weak harbinger of approval of fiscal adjustment measures, even in the face of a looser fiscal target and a scenario of low approval ratings for President Dilma Rousseff and her government, which has fallen below 10%, and the possibility of her impeachment".

From then on, the government's goal became to retain the investment grade rating it still had from Moody's and Fitch. In this context, in September, Folha (2015e) reported that, "to calm down the rating agencies, the government sends CPMF proposal". According to the news, "at a meeting with Fitch's representatives, Minister Joaquim Levy (Finance) was warned that the delay in issuing the fiscal package measures raised doubts about the government's conviction in the proposals and the feasibility of their approval". Thus, the approval of the Proposal for Constitutional Amendment (PEC) that would recreate the CPMF was urgent. Folha (2015e) also pointed out that, in Moody's evaluation, without the CPMF re-creation, "the scenario is very bad". To a certain extent, therefore, the CRAs were already acting to guide the government's agenda.

The pressure increased when Fitch downgraded Brazil to BBB- on 15 October, leaving it just one step away from speculative grade. The next day, in an interview to Valor (2015), Fitch's chief sovereign rating analyst for Latin America, Shelly Shetty, warned that there could still be a new downgrade if Levy were removed from the finance ministry. At that point, the failure of the government's economic strategy was already evident, but the measures implemented by Levy were defended by the agencies.

In December, Brazil's creditworthiness profile continued to deteriorate. On the 9th, Moody's changed its outlook to negative. A week later, on the 16th, Shelly Shetty's threat materialized, but not in the order predicted by the Fitch analyst: first, the CRA downgraded Brazil to BB+ , which meant the loss of investment grade, and still assigned a negative outlook to the sovereign rating; two days later, Levy would be dismissed, giving way to Barbosa in the finance ministry. Fitch (2015a) justified the new downgrade by stating that:

> Brazil's downgrade reflects the economy's deeper recession than previously anticipated, continued adverse fiscal developments and the increased political uncertainty that could further undermine the government's capacity to effectively implement fiscal measures to stabilize the growing debt burden. The Negative Outlook highlights continued uncertainty and downside risks related to economic, fiscal and political developments.

The CRA attributed the fiscal policy's loss of credibility to the repeated changes in the government's fiscal targets - which, that year, included a primary deficit of 2% of GDP - and noted how the political impasse, already in the context of the impeachment process, was detrimental to the approval of corrective fiscal adjustment measures. In addition, it mentioned the "bad times" in which the second Rousseff government was operating: "the external environment remains difficult for Brazil with the slide in commodity prices, China's slowdown and tightening international financial conditions". On December 21, Fitch (2015b) also released a political risk analysis, in which it negatively assessed the replacement of Levy by Barbosa at the Treasury: "the appointment of Barbosa likely signals compromises by the Rousseff administration on its fiscal agenda and to move away from severe austerity measures, given the minister's prior support of expansionary fiscal measures".

In 2016, until Rousseff's impeachment process was concluded, the CRAs continued to promote rating actions and report releases with atypically high frequency. On 17 February, S&P (2016a) promoted a new downgrade of the Brazilian rating, which thus sank to speculative grade and remained with a negative outlook. The CRA justified the action based on the country's political and economic challenges, which, in its view, remained considerable. In the assessment released, it noted that "there are indications that the fiscal target for 2016 is being revised again, given the combination of economic and political conditions. We now perceive that the President's office has less certainty about fiscal policy". This was compounded by expectations of an increase in the public debt burden as a proportion of GDP and projections of new primary deficits for 2016 and 2017.

An underlying element of this report is the exemption of the economic policy carried out by Levy from any responsibility for the crisis experienced by the country. According to S&P's assessment (2016a), the crisis was due to the mistaken economic strategy of Dilma's first mandate and the destabilizing effects of Car-Wash Operation:

> In our view, the legacy of previous policy decisions in President Rousseff's first term has damaged business sentiment and investment prospects. The uncertainties and spillover effects associated with corruption investigations and investment cuts by Petrobras and its suppliers, however, pulled growth into negative territory.

In this direction, the CRA outlined an agenda for the post-impeachment period, in light of what had been accomplished by Levy:

> Once this [conclusion of the impeachment process] occurs, restoring macroeconomic balance and advancing microeconomic reforms will be key factors to foster investment and growth. In 2015, the government reduced off-budget spending and removed several economic distortions, including artificially contained administered prices. The government has also placed renewed emphasis on private sector participation in infrastructure projects, but in the current context, progress has been slow. These, however, have been positive steps.

Amid the economic collapse and the unfolding of the impeachment process, the Brazilian rating continued its free fall. On February 24, Moody's withdrew Brazil's investment grade rating, downgrading it to Ba2, still with a negative outlook. On May 5, on the eve of Dilma's removal from the presidency, Fitch also promoted a new downgrade to BB, also with a negative outlook. As alleged by Fitch (2016a) at the time:

> The downgrade of Brazil's ratings reflects the deeper-than-anticipated economic contraction, failure of the government to stabilize the outlook for public finances and the sustained legislative gridlock and elevated political uncertainty that are sapping domestic confidence and undermining governability as well as policy effectiveness.

The CRA also mentioned the loss of credibility of the fiscal policy due to new revisions of the fiscal target, in the wake of the primary deficit of 2% of GDP in 2015. In addition, it made new reference to the adverse external environment - due to the fall in commodity prices and less liquidity in the international financial system - and the challenges that the political and social crises imposed on the country (FITCH, 2016a): "Brazil continues to confront a very challenging political environment. The low popularity of the President, the expanding reach of the 'Lava Jato' corruption investigations, street protests, and the run-up to the impeachment of President Rousseff have all contaminated the political environment"[189].

One day after Rousseff was removed from the presidency as a result of the impeachment process, S&P (2016b) published a document entitled "How the impeachment of Brazil's president affects its sovereign ratings". The CRA recalled the situation of political paralysis, partly because of the Car-Wash Operation investigations and the impeachment process. Now, however, it saw Temer's presidency as positive, recalling his signs of alignment with the orthodox agenda:

> The new interim government should benefit from an initial vote of confidence from the private sector given the strength of the economic team, which includes former Central Bank President Henrique Meirelles as Finance Minister and former Central Bank Director Ilan Goldfajn as Central Bank President, in addition to the political signaling alreadý sent by Vice President Temer.

Once the impeachment was confirmed, S&P (2016c) once again manifested itself by answering the "Frequently asked questions: Brazil's challenges after Dilma Rousseff's impeachment". In this report, it again recalled that an important difference of the Temer government compared to Dilma's was "that Temer's economic team benefits from greater credibility in financial markets, which gives it some time to manoeuvre". Despite this, Fitch (2016b), in the same month of September, was concerned about Temer's possible involvement in the proliferating corruption scandals:

> A criminal investigation into former speaker of the house Eduardo Cunha presents a significant risk to the reform efforts of new Brazilian President Michel Temer. A Cunha plea deal implicating Temer or ministers of his cabinet in the 'Lava Jato' corruption scandal

[189] There is a dubious and contradictory perception of the agencies, manifested in the reports, in relation to Lava-Jato. On the one hand, the operation is often seen as a constant source of political instability, which threatens the execution of economic policy. On the other hand, it is considered a sign of the country's institutional maturity, given the supposed independence of investigations from the political class - a thesis that would be discredited by the Vaza-Jato scandal.

> will further undermine the administration's weak mandate, curtailing its ability to pass legislation.

The interaction between *rating* agencies and the Temer government would be marked by contradictory signals between their discourse and the issued sovereign ratings. Between mid-2016 and 2018, the ideological convergence between both would yield praise to the government's economic policy, but the Brazilian rating would only worsen during this period. As will be seen in the following paragraphs, the downgrades occurred only in 2018, in the wake of the failure to approve the pension reform. Before that, despite the turbulence generated by the "Joesley day", the CRAs' tone in relation to the government signaled a joint action in favor of advancing the reformist agenda: on one side, they presented the liberal reforms as essential to the recovery of the country's creditworthiness profile; on the other side, the government used this pressure to justify its own agenda, which was the same one advocated by the CRAs.

In this sense, in the context of the approval of EC-95, for example, Lisa Schineller, from S&P, stated that: "the initial approval of a public spending ceiling is a step in the right direction, but it will still take years and other difficult reforms will be needed for Brazil to regain the coveted investment grade rating" (FOLHA, 2016). With the approval of the ceiling and the government's clear willingness to advance liberalizing reforms, the expectation around the Brazilian rating started to improve. Indeed, on March 15, 2017, Moody's finally changed its outlook from negative to stable.

But the incipient optimism would be interrupted by the "Joesley day". A few days after the scandal involving Temer, S&P and Moody's once again assigned the Brazilian rating a negative outlook. On May 19, Fitch reaffirmed the Brazilian rating and its negative outlook, which, at the time, was seen as a victory by the government, since the expectation, in the wake of the scandal, was for a downgrade. Indeed, as reported by Folha (2017), the Ministry of Finance released a note in which it highlighted the harmony between the government and the CRA and used the rating to reinforce the need to continue with the liberalizing reform agenda: "the agency's decision mentions, in its report, the importance and the challenge of approving the reforms in progress, which will help reverse the fiscal scenario, contributing to a benign trajectory of public debt".

A few days later, on 22 May, it was S&P's (2017b) turn to speak out about what had happened. According to the agency:

> Following the recent corruption allegations against President Michel Temer, the Brazilian political scenario has become more complicated again. There is a risk of stagnation of the

> slow progress in solving the major fiscal and economic challenges faced by the country, in the context of an already long road of adjustments.

Subsequently, on the 30th of the same month, Moody's (2017a) clarified the negative outlook it had assigned to Brazil's rating: "The change in outlook was driven by (i) the rise in uncertainty regarding reform momentum following recent political events, and (ii) rising threats to Brazil's economic recovery and medium-term growth prospects". In addition, it commented specifically on the possible unfolding of the "Joesley day":

> The situation is still fluid and it is unclear how the political crisis triggered by the scandal will be resolved, and whether it will involve another political transition. Even if President Temer remains in office, the political fallout of the scandal could undermine Brazil's credit outlook, by threatening to halt or reverse the positive political and economic momentum witnessed recently. It will also distract from the focus on pushing through fiscal reforms, particularly social security reform currently in the lower House. These reforms, which are critical for improving Brazil's fiscal strength, will likely stall.

In the same direction, a new report published by Moody's (2017b) on 18 July reiterated that the corruption scandal involving Temer reduced the likelihood that his government would be successful in passing structural reforms by the end of the mandate. In particular, the CRA recalled the relevance of a pension reform, pointing out its supposed benefits for public accounts in the medium term.

A month later, the recording involving Temer also gave rise to the publication of a new statement by S&P (2017c), which reaffirmed the Brazilian rating, maintaining its negative outlook. At the time, the agency clarified that it no longer saw reasons for a downgrade due to "Joesley day":

> President Michel Temer survived the votes - in the Superior Electoral Court (TSE) in June and in Congress in August - regarding the corruption charges. In the interim, the economy seems to have stabilized despite the political fluidity, Congress approved the Labor Reform in July and the government remains committed to advancing the Pension Reform to contain spending growth in order to minimize any deviations from its primary fiscal targets, and to advance its microeconomic reform agenda.

S&P (2017c) warned, however, that "a downgrade could occur if the government relaxes its demonstrated commitment to align and constrain spending growth this year and next". The report also pointed out that "low economic growth prospects and fiscal weaknesses stand out as key factors limiting creditworthiness". In addition, the communiqué went on to blame the economic policy carried out since 2015 for the difficulty in recovering the economy from the crisis:

> Growth was deeply damaged, in part, by the uncertainties related to these investigations that also involve the main companies driving investments in the country. However, it now appears that the economy has stopped shrinking and, in recent months of heightened political uncertainties, Congress approved the Labor Reform, while political leaders remain committed to further fiscal measures later this year.

In addition to assessing the Brazilian creditworthiness profile, S&P (2017c) listed and praised the achievements of the Temer government:

> Brazil's solid economic team, which includes representatives of banks and public sector companies, is gaining wider respect in the executive sphere, in Congress and in the private sector. The more active Brazilian Court of Audit (TCU) and the Ministry of Finance work together to strengthen the transparency of fiscal accounts. The government has articulated a comprehensive macro and microeconomic agenda aimed at generating stronger growth conditions and fiscal performance in the coming years. Congress has alreadý approved part of the agenda: a Constitutional ceiling for spending, two phases of the Labor Reform, the migration law, the reopening of the oil and gas sector with fewer local content rules, and a fiscal recovery regime for highly indebted states, without resources, willing to carry out spending reform.

To the propagandistic aspect, a new demand for pension reform was added:

> Given that additional legislated and politically challenging measures aimed at reducing other budget rigidities may be needed in 2019 (under the next government) to comply with the spending cap, the approval of part of the Welfare Reform cannot wait until after the 2018 elections, in our view. [...] Given the magnitude of the fiscal and economic challenges, a failure to advance the Welfare Reform would be consistent with a limitation of the ability of Brazil's political class to enact policies that support economic prosperity and sustainable fiscal policies.

In October, this pressure became public once again. In an interview to Folha (2017), Joydeep Mukherji, an S&P analyst, stated that "if the government fails to approve the Social Security reform or if it indicates that it is trying to gain time to negotiate changes, Brazil's credit rating may suffer a new downgrade". Indeed, on January 11, the S&P threat became real, with the downgrade of the Brazilian rating to BB-. In a report released on the same day, S&P (2018a) justified the action:

> Despite several policy advances under the Temer administration, Brazil has made slower-than-expected progress in implementing meaningful legislation to correct structural fiscal slippages and high debt levels in a timely manner. Delays in advancing corrective fiscal measures, which are critical to addressing one of Brazil's important rating weaknesses, coupled with an uncertain political outlook following the 2018 elections, reflect weakening effectiveness of Brazil's political class in policymaking.

In this sense, the CRA explicitly pointed to the delay in approving the pension reform as a sign that "the government's effectiveness in formulating policies has weakened". Nevertheless, it again listed the measures taken by the Temer government, which were in the right direction, according to its assessment.

If S&P's action can be seen as a form of pressure on the government in favor of the social security reform, the next movement of the sovereign rating seems to have worked as a punishment. This is because, immediately after the pension reform became unfeasible, at the time of the federal intervention in the security of Rio de Janeiro, Fitch downgraded Brazil to BB-. As reported by Folha (2018c), the CRA considered that "the government's decision not to put the pension reform to a vote is an important setback for the reformist agenda that affects confidence in the trajectory of public finances in the medium term, as well as the political commitment to address the issue". The assessment, also shared by Moody's, was that the reform would then be subject to the will of the next government, given that in October new presidential elections would take place.

In the context of the election year, although the sovereign rating remained unchanged, the CRAs made new manifestations. In September, for example, on the eve of the elections, Fitch analyst Todd Martinez told Folha (2018d) that "the outcome of the October elections may cause the market to lose patience with Brazil and decide to allocate its resources elsewhere, given the more remote possibility that the elected government will be able -or willing- to pass the fiscal adjustment in the country".

On the 20th of the same month, Fitch (2018a) also published an extensive report on what it assessed as "a general election that is set to be its most consequential since 2002, when Luiz Inácio Lula da Silva ushered in more than a decade of leftist governance led by his Workers' Party (PT)". For the CRA, what was at stake, as it had already signaled, was the fate of the reformist agenda. It then outlined two scenarios for the cases of Bolsonaro's and Haddad's victory, which made explicit the candidate of its preference. According to Fitch (2018, p. 8), the victory of the right-wing extremist would produce the following effect for Brazil:

> 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.

The prognosis for the PT's candidate victory was much more pessimistic:

> 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.

The reasons for the CRA's concern, however, would cease at the end of October, with the electoral victory of Jair Bolsonaro. Unlike expected, however, the first year of his government would bring disappointing results for the Brazilian economy, which remained in a situation of stagnation, despite the approval of the desired pension reform (OREIRO; PAULA, 2021). In the following years, the country would also experience an unprecedented crisis, with the exogenous shock caused by the covid-19 pandemic. But these developments are beyond the scope of this research.

3.4 The rating agencies and Brazil: perceptions and interferences

The previous section described how the CRAs' actions were guided by the defense of financial market interests in the face of the political and economic process in Brazil, which was operationalized through the articulated issuance of sovereign ratings, reports and statements in media channels. This *modus operandi*, however, did not occur in a homogeneous manner throughout the regarded period, acquiring more or less intense forms at different moments. In line with this thesis' argument, we must then observe if this can be explained by a correspondence between the political activism practiced by S&P, Moody's and Fitch and the political risk they assessed in the country. In light of what was presented in section 2.7, the verification of this argument demands comparing different situations of political risk in this research's time frame, as well as the CRAs' reactions that they give rise to.

In this sense, based on the previous subsection, table 5 depicts the identification of four different moments, according to the presented political risk parameters and the correspondent CRAs' manifestations. In each of these moments, it is proposed to examine whether there is a behavioral pattern of S&P, Moody's and Fitch that reflects the conditions of ideological orientation of the government and the international conjuncture that pervade them. Thus, one may consider that the analysis starts in a period of "high political risk", according to the CRAs' perspective, given the adverse external scenario and the imminence of Lula's electoral victory. In a second moment, we can observe a situation of "reduced political risk", due to the conformation of the "good times" and despite the ideological orientation of the PT. Then, the deterioration of the international conjuncture, in a period still under PT's government, leads to a new stage of "high political risk" under the CRAs' perspective. Subsequently, despite the maintenance of the "bad times", the political risk moderates, given the ideological alignment between the CRAs and the Temer government.

Table 6 - Rating agencies' assessments and reactions regarding the political risk in Brazil.

Time frame	Political risk condition	Source of political risk	Form of activism
2002	High	Partisan ideology and international environment	Opposition against the PT candidate
2003-2012	Low	Partisan ideology	Pressure for fiscal austerity and liberal reforms
2013-2016	High	Partisan ideology and international environment	Opposition against Dilma government
2016-2018	Moderate	International environment	Interferences in the political and economic process

Source: The author, 2023.

These different stages are carefully analyzed in the following subsections. In each one of them, both the CRAs' perception of political risk and the manifestations it entails are considered in order to operationalize the research's argument. Finally, the last subsection reviews the interaction between these different governments and the CRAs.

3.4.1 2002: high political risk

The two previous sections showed that the 2002 election year was marked by tensions in the interaction between the financial market and the Brazilian political process. In the confidence crisis scenario, the CRAs played a prominent role in the national political and economic dynamics. In just one year, S&P, Moody's and Fitch downgraded the Brazilian rating four times. At the same time, the CRAs' discursive interventions reflected the political risk conditions perceived in the country in face of Lula's imminent victory in the presidential elections, which took place in an adverse international environment.

In this context, the CRAs explicitly and repeatedly manifested what Barta and Johnston (2017) call "partisan discrimination": the PT's partisan label was systematically used as an excuse to draw negative prognoses for Brazil's economy and worsen its sovereign rating. Indeed, in their reports, the CRAs presented Lula as an unreliable candidate and the PT as a radical party. The resulting political risk was, at the same time, aggravated by the country's dependence on raising funds in the capital markets. In a situation of balance of payments crisis and deteriorating public debt indicators, the possibility that a left-wing government might default, as presented in section 3.2.1, resonated among financial market agents.

In view of this scenario, the degree of political activism then exercised by the CRAs is consistent with the presented argument. Given the high political risk condition, S&P, Moody's and Fitch positioned themselves in an antagonistic way to Lula's candidacy in the electoral race, presenting him as a threat to the country's credibility before the State's creditors. This diagnosis served, in part, to justify the successive rating downgrades in the period, which exacerbated the confidence crisis experienced.

Such downgrades, in turn, cannot be dissociated from the deterioration of quantitative metrics taken into account by the CRAs for the sovereign rating formulation. In fact, given the effects of capital flight and macroeconomic instabilities observed in Brazil, the erosion its creditworthiness profile was inevitable. However, one should bear in mind that these rating changes were endogenous to the crisis process, so that its procyclicality acted to accentuate it[190]. Thereby, if the threat represented by Lula and the PT was one of the variables that supported the downgrades, these rating actions can be seen as CRAs' interventions in the Brazilian electoral process. This is because, by linking the economic crisis to the prospect of a PT victory, the CRAs used an instrument that produces tangible socioeconomic effects - once downgrades, as seen in Chapter 3, have a negative impact on the state's financing capacity - to punish the country on the basis of an electoral choice made by the majority of the population.

The evidence of this opposition to Lula also contemplates, in line with the argument put forward here, actions that fall within the other degrees of political activism. Thus, S&P, Moody's and Fitch not only signaled a veto to his candidacy, but, once the PT victory seemed likely, their reports pressed for moderation of the PT's government agenda towards orthodox precepts. Indeed, as presented in the previous section, the CRAs demanded Lula's commitment to the economic policy guidelines implemented by the Cardoso government, demanded that the new government appoint a team aligned with *neoliberal* orthodoxy - a word that is even used in one of the reports presented - and conditioned the sovereign rating's recovery to the implementation of liberalizing reforms and a fiscal adjustment. Over these constraints on Brazilian policymaking, a permanent distrust hovered around the figure of Lula[191].

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[190] Measuring this effect, however, is difficult, since *ratings* issued by agencies are only one of several sources of information available to investors to make their decisions. This recommends caution in attributing a direct causality between risk classification and capital outflows, as suggested in chapter 2.

[191] As shown in section 5.3, the climate of distrust was reflected in the titles of some of the documents published - such as "Would The Real Lula Please Stand Up...." (FITCH, 2002a) and "All eyes on Lula" (FITCH, 2002b) - and, after

It should be kept in mind that in that context, even the Cardoso government criticized the CRAs' *modus operandi* and the deleterious effects of their partisan bias for the national economy. Moreover, the PT showed its accommodation with the demands of the financial market on repeated occasions, whose apex was the emblematic "Letter to the Brazilian People". This was not enough, however, to soften the CRAs' distrust, which would persist until the Lula government took office and delivered what it had signaled to the market. Until then, the CRAs promoted double monitoring: on the one hand, the country and its government were evaluated; on the other hand, the movements of the opposition candidate were also included in the rating equation, always to its detriment.

In short, in this period of "high political risk", the CRAs made intense use of all the tools at their disposal - explicitly based on the ideological orientation of the PT - to discredit Lula in the electoral race and defend the orthodox agenda in the political process underway in the country. In this context, acting as the financial market's echo chambers, S&P, Moody's and Fitch's actions constitute a successful veto against an economic policy that contradicted the orthodox agenda. It is under these circumstances that Lula takes over the presidency, beginning a new stage of interaction between government and CRAs.

3.4.2 2003-2012: low political risk

The next phase of the relationship between Brazilian governments and the CRAs can be understood as a period of "reduced political risk". Two factors were preponderant for that. On one hand, the benign international conjuncture favored the strengthening of public indebtedness metrics evaluated by the CRAs, as well as the reduction of the country's external vulnerability. This safeguarded the confidence of the state's creditors in its financial capacity, counterbalancing the ideological orientation of the PT. On the other hand, the Lula government also won the confidence of the financial market by respecting the macroeconomic tripod's parameters[192], which reflected, from the CRAs' perspective, the consensus of the country's political forces around these economic

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Lula's victory was confirmed, it continued to manifest itself in the agencies' predisposition to keep an eye on him during his first actions as an elected representative

[192] In particular, as presented, Lula's first government began with a policy of fiscal austerity and a pension reform that, as seen, pleased the financial market.

policy guidelines. As we will see in the following paragraphs, this caused the degree of CRAs' political activism to assume a minimum level.

From the point of view of their perceptions, the period between 2003 and 2012 was marked by recurrent references to the PT governments' adherence to the macroeconomic tripod as an indispensable factor for the rise of Brazil's rating to investment grade. This was presented by the CRAs, in the discursive plan, as a detachment between the economic policy and the political developments in the country, which would attest its institutional maturity. As a result, the apparent depoliticization of economic policy served to attenuate the ideological orientation of the PT as a political risk source: from the beginning of the Lula government until midway through Dilma's first term, there were no effective threats of transgression of the tripod's tenets[193], which sedimented the relationship of trust gradually established between the PT governments and the financial market.

Even so, it should be noted how the risk posed by a left-wing party in power remained latent, in the CRAs' view. Indeed, there were several occasions in which the economic management then carried out was presented as contradictory to the presidents' party of origin. This is revealed, for example, in passages such as "Despite initial fears that Lula's administration would pursue decisively leftist policies..." (FITCH, 2008a) or "As he came from the left side of the political spectrum, Lula was viewed initially as a direct threat to policy continuity" (MOODYS, 2008a), as presented in the previous section. Not surprisingly, Lula government's economic policy was identified by the CRAs as a problem for its right-wing competitors, to the extent that such agenda was similar to the one they proposed and to the one established during the Cardoso administration[194].

In the context of this proclaimed "political consensus" around the tripod, the Brazilian rating benefited from the favorable international conjuncture. With the commodities super cycle, the strong dollar inflow favored primary surpluses' generation, improving debt indicators, and allowing the accumulation of international reserves, which reduced the country's external vulnerability. Associated to GDP expansion, these elements were the basis for successive rating upgrades. Once the government's commitments to its creditors had been safeguarded, the CRAs

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[193] As seen in section 3.2.2, what happened in Lula's second mandate was a certain flexibilization of the tripod, which did not compromise it.

[194] For example, as seen in the previous section, this diagnosis was made explicit in the context of the 2006 elections and, before that, in Fitch's (2003b) assessment of the first semester of Lula's government.

even praised the social policies implemented at the time, which, according to their assessment, gave dynamism to the domestic market in favor of economic growth.

However, the considerable improvement in the country's creditworthiness profile and the praise for the PT government's economic policy did not exempt it from criticism and pressure. Repeatedly, demands for structural reforms, aimed at reducing public spending and liberalizing the economy, were discursively present in the CRAs' manifestations[195] . Furthermore, as seen in the previous section, the demand for the formal independence of the BCB was recurrent, reflecting the pressure for the advancement of the depoliticization of Brazilian economic policy - a condition for the longevity of the austerity agenda. On the other hand, fiscal "responsibility" entailed praises for the Lula government, especially in its first term, and for the Dilma government in its first two years.

Only in the transition to Lula's second term did the CRAs express their concern about the replacement of Palocci by Mantega, which would lead to a shift to the left in economic policy. On this occasion, Fitch (2006d) warned that "Lula must pursue an agenda that focuses on continued macroeconomic stability and fiscal reform". In the same vein, the PAC prompted fears that the reform agenda would continue to be neglected, which even prompted a timid support for a PSDB candidacy in the 2010 presidential elections - which would not be sustained over time.

Therefore, throughout this period of "reduced political risk", the CRAs used only their discursive channels of communication to seek to discipline the PT governments, pleading for the advancement of structural reforms and fiscal austerity agenda. In this context, the successive upgrades of Brazil's rating were invariably attributed, in part, to the maintenance of the macroeconomic tripod, which indicated a commitment to the economic policy guidelines defended by the CRAs. On the other hand, it was clear that any deviation from its parameters could lead to a worsening of the country's creditworthiness profile - which reveals the pressure mechanism represented by this discourse. At the same time, the absence of structural reforms was recurrently presented as a weakness in the country's evaluations, which, in the current favorable international conjuncture, would not yet be capable of damaging its creditworthiness before the market.

3.4.3 2013-2016: high political risk

[195] Among the various occasions in which this was evidenced, one can highlight the citation of the Moody's report (2012a), which, as presented, incorporated the possibility of not carrying out structural reforms into its conception of political risk.

Between 2013 and 2016, a period of high political risk, according to the presented parameters, returned to the country. In this context, Dilma's government took place amid the deterioration of the international environment and the collapse of the Brazilian economy, which, in a scenario of different crises, culminated in the president's impeachment. As we will see in the following paragraphs, the CRAs played an active role in this process, exercising a political activism that reflected their antagonism to the government. In this sense, not only successive downgrades composed the established critical scenario, but also reports and statements in media channels indicated a behavior that was different from the previous period.

As argued in the previous subsection, the political risk arising from the PT ideological orientation remained latent during the years of international bonanza and respect for the macroeconomic tripod. As the first condition was exhausted, however, this element was reactivated. In 2013, this added to the low GDP growth in the years of implementation of the NME, which entailed threats to the tripod, and, from 2014, to the economic recessionary situation. As a consequence of the "bad times" and the poor results in the economy, public debt metrics gradually worsened, while primary surpluses - which marked the period of reduced political risk - turned into a succession of primary deficits. It is in this context that the government's *willingness to* generate the conditions for a correction of public accounts was called into question by the CRAs.

In fact, this is what their reports suggested already in 2013, when S&P (2013a), for example, mentioned "the continued risk of an expansionary fiscal policy" and demanded "more action and less discourse" from the government, in a statement to Exame (2013). From then on, diagnoses of "loss of credibility" or "lack of conviction about the fiscal policy" would permeate the discursive manifestations of S&P, Moody's and Fitch about the Brazilian government. This would underpin, as we shall see below, repeated interventions by the CRAs in favor of the implementation of an orthodox agenda, aligned with the demands of the financial market.

The first signs of this behavior occurred in the 2014 election year, when, in the context of the first downgrade promoted by S&P, the press reported the "Hurricane Lisa" in terms of an international intervention in the country. Subsequently, in the midst of the electoral race, S&P (2014b) defended that the end of the Dilma government would be beneficial to the Brazilian credit profile, which added to the criticism of her economic management by Moody's (2014a) and the proposition of an agenda for the next government - invariably guided by the imperative of fiscal austerity and structural reforms.

In this sense, the second Dilma government was marked by the CRAs' defense of the economic management of Levy's team, which was systematically exempted from any responsibility for the recession worsening. Moreover, amid the ineffectiveness of the "expansionary fiscal contraction" strategy, Fitch even threatened a new downgrade if the finance minister were dismissed (VALOR, 2015). When this occurred, the CRAs expressed disapproval of Barbosa's choice for the post, given his alleged lack of commitment to the fiscal adjustment program. In the context of the attempt to influence the action[196] and the composition of Dilma's ministerial team, the downgrades of the Brazilian rating were repeatedly justified, in part, by the lack of political consensus around the liberalizing reforms, which were propagated by the CRAs as essential to the recovery of the country's creditworthiness - in a similar discourse to the one from 2002, when the political risk perception was also prominent.

It is in view of this that the CRAs' political activism during the impeachment process should be examined. Between December 2015 and May 2016, period that goes from the beginning to the end of the procedures for the president's removal, the CRAs promoted four downgrades were, consolidating the return of the Brazilian rating to speculative grade. In the national experience, there is no other situation in which so many rating changes occurred in such a short space of time. If it is true that quantitative metrics taken into account by the CRAs may have deteriorated to such an extent during the period, one should also consider that other less tangible elements - such as the "political uncertainty" frequently referenced in reports - were part of the justifications for the downgrades.

This cannot be dissociated from the context in which Rousseff's vice president, Michel Temer, signaled his commitment to the economic policy defended by the CRAs, even releasing an agenda for his eventual government. As demonstrated, this caused the replacement of Dilma by Temer to be seen as positive by S&P, Moody's and Fitch during the impeachment process. The contribution of the CRAs' actions for its outcome, therefore, cannot be ruled out for two reasons. On the one hand, due to their endogenous character to the crisis, which was boosted by the downgrades and by the CRAs' epistemic authority before public opinion and the parliamentarians who voted for the impeachment. On the other hand, because their ideological convergence with

[196] At this point, it should be remembered that the agencies even advised Levy's team during the debate around the re-creation of the CPMF, actively defending the measure.

Temer and the understanding of CRAs as political agents, as discussed in chapter 3, allow us to speculate that they actively and consciously acted in favor of Rousseff's impeachment.

In any case, the fact is that, in this period of "high political risk", the CRAs represented a focus of political opposition to the Dilma government. This dimension of their behavior was revealed in the 2014 electoral context and, after Rousseff's reelection, in the successive downgrades of the Brazilian rating based on the diagnosis of a lack of government's *willingness* to carry out the measures supposedly necessary to guarantee the public debt service. In this process, the other degrees of political activism of S&P, Moody's and Fitch also became evident, with frequent CRAs' interventions in the economic policy management - which included, as seen, from lobbying for the CPMF to the attempt to secure Levy as head of the Finance portfolio - and pressure to deepen the fiscal adjustment and reformist agenda.

3.4.4 2016-2018: moderate political risk

Temer 's ascension to the presidency inaugurated a period of "moderate political risk" in Brazil, according to the parameters considered in this analysis. On the one hand, the adverse international scenario remained in force, while the Brazilian economy migrated from recession to stagnation. On the other hand, however, there was a notorious ideological alignment between the government and the CRAs, so that both were committed to defending the liberalizing reforms and fiscal austerity agenda. This was reflected in laudatory manifestations from S&P, Moody's and Fitch towards the government at the discursive level, although the pressure for reforms became more radical at a certain point. As will be seen below, this suggests an intermediate level of activism, in line with the argument put forward in this research.

From the point of view of the CRAs' political risk perception, the explicit adherence of the Temer government to the precepts of economic orthodoxy acted to mitigate it, in view of its willingness to carry out the structural reforms constantly advocated by S&P, Moody's and Fitch. Indeed, immediately after Dilma's removal from office, the credibility of Temer and his economic team before the financial market was praised in CRAs' reports. For example, S&P (2016c) even explained that this gave the president more "time to manoeuvre". However, as the economy failed to react, this time started to run out and the pressure for reforms became more intense.

As presented, the Temer government was able to deliver achievements that were very dear to the CRAs, such as the EC-95 and the labor reform. But the various turbulences arising from the corruption scandals that permeated the period compromised his ability to promote a pension reform, whose need had been explicitly and repeatedly expressed by the CRAs since the beginning of the timeframe considered in this research. This translated into an increase in the perceived political risk, to the extent that the Temer government, despite its predisposition to advance the financial market agenda, no longer proved able to do so.

The CRAs' reactions to this scenario, as suggested in the previous section, were dubious and to some extent contradictory. On the one hand, Temer's achievements led to expressions of approval and a series of compliments to the government, whose achievements were even listed and praised in published reports. On the other hand, as time went by, the CRAs showed their impatience with the government's difficulty in delivering the pension reform. In 2017, this translated into threats of downgrades if the reform were not approved, which was observed both in reports and in statements by their representatives in media channels. In 2018, the two downgrades of the Brazilian risk rating, promoted by S&P and Fitch, were explicitly attributed to the non-realization of this reform[197] .

This behavior is consistent with an intermediate level of political activism, when compared to other situations observed in the Brazilian case. This is because, if the CRAs did not represent a focus of political opposition to the Temer government, as occurred in part of the Dilma government, neither was their behavior restricted to advocating the orthodox agenda in a general manner, as occurred between 2003 and 2012. In fact, what was observed in the period was an activism from S&P, Moody's and Fitch in relation to specific issues in vogue in the Brazilian economic debate, especially the pension reform, aiming to influence the result of the economic policy management.

In the context of the 2018 election race, however, political activism almost peaked once again. On this occasion, party ideology once again catalyzed the CRAs’ perceived political risk, which outlined a bad prognosis for the country in case of the PT candidate’s victory. Indeed, a

[197] It is worth noting how revealing the lobby for the welfare reform was about the agencies' adherence to the neoliberal precepts of socioeconomic organization. According to the discourse present in the reports, there would be no other way to balance the public accounts than to carry out a reform that would reduce the State's expenditure on social security. In fact, the agencies do not mention possible solutions in this regard coming from the public revenue side, such as what could occur through a tax reform in the sense of greater progressivity.

victory of the left was proclaimed as a direct threat to the reformist agenda, while the electoral success of Bolsonaro, due to the ideological orientation of his economic team, promised to recover the Brazilian economy by deepening the agenda that was already being implemented by the Temer government. But Haddad's lower probability of victory - especially when compared to Lula's chances in the 2002 presidential race - did not trigger the use of downgrades that priced, in advance, a political choice of the Brazilian population that diverged from the preferred by the CRAs.

In short, the moderate political risk present in the Temer government was based on the deteriorated indicators of the Brazilian economy, still in an adverse international environment, and on the ideological alignment between the CRAs and the government, whose political capacity to advance the program of mutual interest proved limited. This led to an intermediate level of political activism, which was reflected in the CRAs' contradictory interventions in the country: on the one hand, there were expressions of praise and approval; on the other, there were also threats and downgrades, with the clear objective of influencing identifiable political processes. Throughout this period, therefore, the actions of S&P, Moody's and Fitch seemed to reflect the mood of the political forces aligned with the financial market: from enthusiasm and expectations about the achievement of structural reforms to frustration with the obstacles that ended up, in part, making them unfeasible.

3.5 The interplay between rating agencies and the Brazilian governments

As showed in the previous sections, the events analyzed in this chapter are consistent with this research’s argument. In the experience of interaction between Brazilian governments and S&P, Moody’s and Fitch, the CRAs used their ratings, reports and media statements to influence the national political process in and the economic policy implementation by the different Brazilian governments that went through the time frame considered. In this process, the CRAs' political activism was more (less) intense when they assessed a greater (less) political risk in the country - informed by the ideological orientation of the government and influenced by the international situation.

In this sense, the PT’s ideological orientation was always a potential source of political risk, even if it was partially deactivated during the "good times". As a result, in the context of Lula's first election, this element motivated downgrades in Brazil's rating, as well as CRAs’ manifestations unfavorable to the then-candidate at the discursive level. During the course of his administration, however, this behavior changed. This was due to the improvement of quantitative metrics evaluated by the CRAs - especially debt indicators - and the PT government's adherence to the macroeconomic tripod, which suggested the depoliticization of economic policy. Even so, it was observed in the period a constant pressure, by the CRAs, for structural reforms and the adoption of a fiscally austere conduct.

Once the tripod began to be threatened[198], in an already adverse international environment, the assessed political risk increased to the extent that the government's *willingness* to safeguard the public debt service was called into question. This led the CRAs to take a more explicit stance against the Dilma government, promoting successive downgrades of Brazil's rating. During Temer's administration, on the other hand, the moderate political risk, according to the CRAs' perspective, resulted from his political inability to carry out the structural reforms demanded by the financial market in the midst of the "bad times". In this context, the CRAs actively participated in the Brazilian policymaking, with its developments being explicitly linked to the sovereign rating's condition.

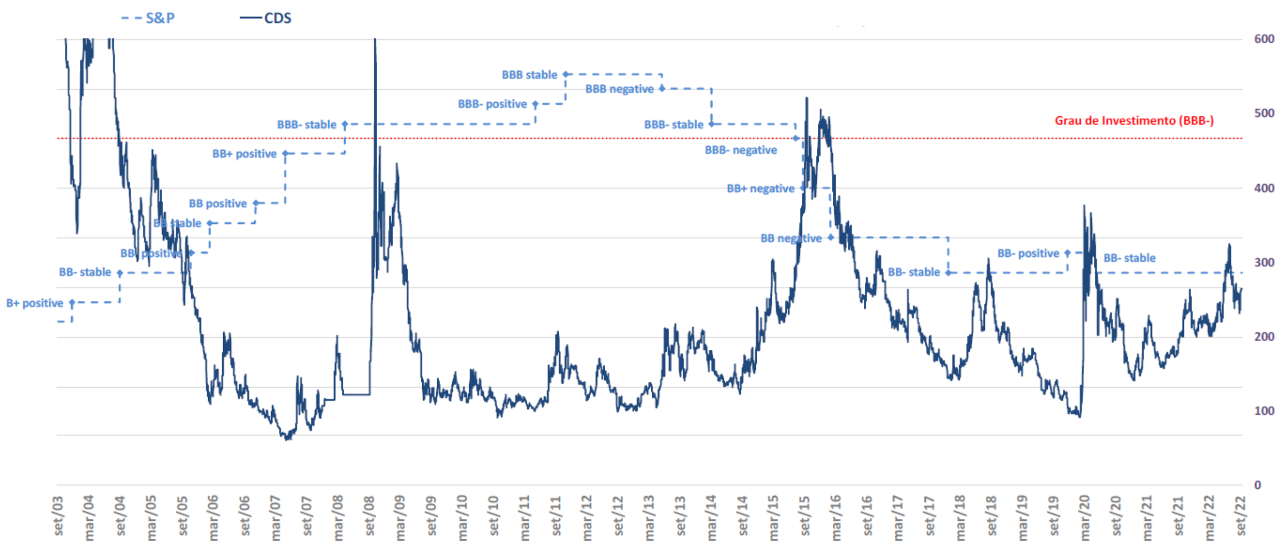
Some lessons can be drawn from the Brazilian experience with the CRAs. Firstly, the analysis carried out demonstrated *how* the sovereign rating works as an instrument of constant pressure by the CRAs on governments, given its repercussions on the State's financing capacity. This can be further illustrated by the correlation between Brazil's ratings and the credit default swap[199] (CDS) of its public bonds, as shown in Graph 6. This pressure mechanism was particularly evident on the occasion of downgrades, when, articulated with discursive manifestations, S&P, Moody's and Fitch defended a specific economic agenda for the country, invariably guided by the imperative of fiscal austerity and liberalizing reforms. In these cases, the government's vulnerability to capital flows movements and public bonds pricing added to the constraint represented by the rating agencies' recommendations, pushing it towards the orthodox agenda. On the other hand, this capacity for pressure was limited in the context of upgrades, when, at the

[198] This was reflected in the generation of primary deficits from 2014 onwards, at the end of Dilma's first mandate. Moreover, as seen in section 3.2.2, the second Lula government had already promoted a reduction in the primary surplus targets, so as to begin to make the tripod more flexible. Under the NME, capital controls were also implemented, compromising the exchange rate fluctuation. Finally, the second Rousseff administration saw inflation skyrocket, putting another of the tripod's pillars in jeopardy.

[199] This is a financial derivative that works as an insurance against the default of a given security, so that the higher its value, the more salient is the perceived risk of default.

discursive level, the CRAs had to justify the sovereign creditworthiness profile improvement, sometimes in the wake of the implementation of economic strategies that deviate from those advocated by them.

Figure 12 - Correlation between Brazilian ratings issued by S&P and CDS.



Source: National Treasury, 2022. Based on S&P and Bloomberg data.

Second, as a consequence, one may consider that this *modus operandi of* S&P, Moody's and Fitch is consistent with the diagnosis of part of the literature that the CRAs belong to a social coalition of neoliberal character, as suggested in section 3.2. Indeed, their actions were often vocalized and echoed by social actors ideologically aligned with them, such as media groups and politicians on the right of the party spectrum. This perception recommends caution in the reception of the sovereign ratings issued by the CRAs, to the extent that, as discussed in chapter 3, they are not essentially technical or politically neutral.

Third, this recommendation was notoriously contradicted by PT governments. On the occasion of the Brazilian rating upgrades, representatives of the Lula and Dilma governments systematically exalted the sovereign credit profile's improvement as proof of their good economic management. This served to legitimize the CRAs' work, cementing and generalizing their epistemic authority before public opinion - a condition, as presented, already widely enjoyed before the international financial system's actors. As a consequence, during the successive downgrades, the PT government's attempts to minimize the importance of ratings proved to be innocuous: by validating the CRAs' actions in the context of improved creditworthiness, they sabotaged their future contestations and increased their vulnerability in the opposite scenario.

Fourth, the Brazilian experience during the pink tide, based on the events analyzed here, can then be observed from a new perspective. Throughout the rise and decline of the PT governments, the CRAs played a role of constant vigilance over the policies implemented, always framing their limits under the macroeconomic tripod's parameters. In this way, they can be regarded as one of the actors that led to the "moderation" of the PT government agenda - often pointed out by the literature on South American left-wing governments - and the decline of the Brazilian expression of the pink tide in the second decade of the 21st century. Moreover, the discursive dimension of the CRAs' actions adds a new facet to the theories of Mosley (2003) and Campello (2015), presented in chapter 1. This is because the political activism exercised by them goes beyond the pressure channels documented by the literature - in particular, interest rates and capital flows – about the financial market's restrictions on domestic policy space.

Fifth, the context of presidential elections is critical for these constraints to be imposed. Indeed, our analysis showed that the CRAs systematically defend right-wing candidates, actively participating in electoral processes - and, in the Brazilian case, also in the impeachment of Dilma Rousseff. In this movement, the projection of bad scenarios for the country in case of a left-wing electoral victory was evident during adverse international conjunctures, while the "good times" gave rise to more timid manifestations of support for right-wing contenders. Ultimately, this *modus* operandi is consistent with one of financialization's main features, i. e., the prominence of the financial market's agenda in the national political and economic dynamics.

Nevertheless, a sixth lesson drew from the Brazilian experience with the CRAs challenges the alleged lack of policy alternatives for economic growth in the financial globalization IFO - whose acronym TINA, for "there is no alternative", indicates the unfeasibility of any economic agenda different from the neoliberal orthodox one. In this sense, during the upward trajectory of the Brazilian rating to investment grade, we observed the implementation of an economic policy mix, which reconciled the orthodox instrumental to developmentalist ones[200] (PRATES; FRITZ;

[200] Prates, Fritz and Paula (2019) map these policies from Lula's first mandate to the Temer government. The authors show that developmentalism could not be "blamed" for the economic crisis experienced in the country, since there was never, in fact, a developmentalist economic policy in force in the period, but only developmentalist instruments used

PAULA, 2019). Although the feasibility of this may be associated with the favorable international environment at the time (CAMPELLO, 2015), the fact is that the good performance of the Brazilian economy in the period discredited the orthodox criticism by the CRAs. Similarly, the full adherence to the orthodox agenda, in the crisis context (from 2015 on), never translated into GDP growth, as propagated by the enthusiasts of expansionary fiscal contraction. Although the CRAs, in that context, attributed responsibility for the Brazilian economic crisis to the NME and corruption scandals, this suggests that alternatives to the orthodox agenda not only may exist, but seem to be necessary for socioeconomic development.

3.5 Conclusion

This chapter operationalized the case study of Brazil. For this purpose, it first provided an overview of the economic and political events necessary to contextualize the CRAs manifestations about the country. Once this scenario was described, it proceeded to the observation of the thesis' argument in light of the Brazilian case.

As argued, in the experience of Brazil, S&P, Moody's and Fitch actively sought to influence the political process and the implementation of the national economic policy in line with the financial market's interests. In this process, the governments' ideological orientation and the international conjunctures in force - which greatly conditioned the performance of the Brazilian economy - informed different political risk conditions to the CRAs. As a result, they behaved in different ways over the period considered, exercising a more or less prominent political activism according to the perceived political risk. It should be noted, however, that other variables potentially composed this process, since economic performance, which directly influences the CRAs' assessments, is the result of a myriad of factors that remain open to identification by the academic literature. Nevertheless, the case of Brazil demonstrates how the political risk perception, informed by the two mentioned variables, shapes the agencies' behavior.

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occasionally in this time frame, almost always within orthodox macroeconomic parameters. Indeed, this *mix of* economic policies was reflected in diverging diagnoses in the literature: Singer (2015), for example, evaluates the NME as a "developmentalist essay" and proposes to compare it to the economic policy of the Geisel government; Carvalho (2018), on the other hand, proposes to compare it to the measures carried out by the Reagan's US government, since the NME was based on incentives to the private sector.

As a consequence, one of the channels through which the financial market's actors interfere in domestic political and economic processes of national states is clarified. In addition, this chapter offered a new perspective from which the Brazilian political and economic trajectory can be observed. Since the CRAs will continue to be participative players in Brazil's political and economic dynamics within the parameters of the IFO in force, understanding how they interact with governments is a necessary condition for improving democratic representation's mechanisms in order to promote national socioeconomic development.

4 THE POLITICAL ECONOMY OF *RATING* AGENCIES IN ARGENTINA

"*Moody's has the ability to continue surprising us. They already surprised us in the '90s when they showed Argentina as the best student, and when the country was collapsing, they kept dancing on the Titanic.*"

Marcó del Pont, Governor of the Central Bank, 2011

"*If the rating agencies say it's going to rain, put on your bikini.*"

Hernán Lorenzino, Minister of Economy, 2012

4.1 Introduction

This chapter develops the case study of Argentina in light of the research's argument. It thus aims to verify how, between 2002 and 2019, the CRAs acted to influence the national political and economic process in favor of the financial market's interests. In addition, it observes whether there is a correspondence between the political risk conditions perceived by S&P, Moody's and Fitch and the political activism they practice for this purpose.

The chapter is structured in three sections, in addition to this introduction and a conclusion. The first section is predominantly descriptive and establishes the context in which the CRAs' actions take place, so as to present the Argentine political and economic trajectory in the proposed time frame. In the second section, the CRAs' actions are inserted in this scenario, which implies addressing their sovereign ratings, reports and media statements also in a predominantly descriptive way. This enables, in the following section, the analytical exercise that allows illustrating the argument. To this end, the third section is divided into five subsections, concerning the different political risk situations in force during the period of analysis, which are added to a careful analysis of the interaction between the CRAs and Argentinean governments.

4.2 A political and economic overview of Argentina

In 1989, Carlos Menem's victory in the Argentinean presidential elections inaugurated a period marked by institutional reforms inspired by the Washington Consensus in the country. In order to overcome the inflationary crisis left over from the previous decade and to adapt the economy to the parameters of the IFO of financial globalization, the president, from the *Justicialista* Party[201] (PJ), adhered radically to the neoliberal agenda in vogue. In the first half of the 1990s, the Menem government promoted measures aimed at commercial and financial liberalization, as well as the privatization of state-owned enterprises and public services (BAMBACI; SARONT; TOMMASI, 2002; KULFAS, 2016).

In 1991, the launch of the Convertibility Plan signaled to the financial world the government's commitment to monetary stability. Convertibility implied institutionalizing the independence of the *Banco Central de la República Argentina* (BCRA), which was given the mission of guaranteeing a fixed parity of one US dollar to one Argentine peso. To this end, the national monetary base had to reflect the dollar reserves accumulated by the BCRA. This, in turn, demanded the sustained inflow of foreign exchange into the country - whether from the generation of trade surpluses or by raising external financial resources (BAMBACI; SARONT; TOMMASI, 2002; KULFAS, 2016).

At first, the plan was successful, and Argentina experienced a period of macroeconomic stability and an average GDP expansion of 7% between 1991 and 1994. In this context, despite successive current account deficits, it benefited from favorable liquidity conditions in the international financial system and from foreign capital from privatizations. In 1994, however, the instabilities of the Mexican crisis[202] prompted a new wave of reform to safeguard investor confidence in the national economy, which included a pension reform, more flexible labor laws and a new round of privatizations. The following year, Menem won a new mandate to try to overcome the economic turbulence (GUZMAN, 2016; KULFAS, 2016; VADELL, 2006).

This goal was momentarily achieved, but, from then on, the contradictions of Argentina's macroeconomic structure were accentuated. In an already unfavorable international conjuncture,

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[201] Bambaci, Saront and Tommasi (2002) note that the fact that Menem came from the Peronist party made it even more relevant to send blunt signals to the financial market about his government's commitment to orthodox precepts.
[202] The spread of capital flight from the Mexican economy to the other emerging economies became known as the "tequila effect".

the country began to present deficits in its financial account as well. This was compensated by the government through the issuance of public debt securities denominated in dollars to supply the inflow of foreign exchange required by convertibility (KULFAS, 2016).

In 1998, while Menem was praised by the global economic governance's institutions for the supposed success of the Argentine economy[203], the country entered a recessionary cycle that would soon result in its economic, social and political collapse. As of the following year, with social indicators progressively deteriorating, the newly elected president, Fernando De la Rúa[204], continued to bet on convertibility and deepened fiscal austerity in order to safeguard investor confidence. However, faced with internal structural problems[205] and a hostile international environment[206], the recessionary economic situation worsened, turning into a depression, while the government and other economic agents' debt levels became unsustainable (VADELL, 2006; GUZMAN, 2016; KULFAS, 2016).

In 2001, as a result, Argentina faced three waves of capital flight, which called into question the macroeconomic structure established throughout the decade and caused the national financial system to collapse. To defend the value of the peso within the parameters of convertibility, the government decided to freeze bank deposits[207], in a measure that became known as *corralito*. The action triggered a series of popular mobilizations against the political class, under the slogan "*Que se vayan todos,*" marked by episodes of looting and violence[208] (VADELL, 2006; GUZMAN, 2016; KULFAS, 2016).

With the country in turmoil, De la Rúa resigned on 21 December, beginning a period in which four different presidents would be in office in just ten days (RAUS, 2017). In this

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[203] For example, Guzman (2016, p. 3) notes that "In 1998, the president of Argentina, Carlos Menem, was invited to the IMF annual conference to talk about the Argentine miracle: Argentina had become the poster child of the IMF".

[204] It should be noted that De la Rua's party was the *Unión Cívica Radical*, then the main rival of the *Partido Justicialista*, representative of Peronism. This demonstrated the degree of consensus around economic policy then, as well as the trauma of the inflationary past that motivated it.

[205] For example, Argentina began to face a serious fiscal crisis, both at the federal and provincial levels, enhanced by the pension reform. In addition, the country had high unemployment rates - which reached 18% as early as 1995 - and the process of deindustrialization advanced with the commercial liberalization (KULFAS, 2016).

[206] In addition to the "bad times" that characterized the late 1990s, the financial crises in East Asia, Russia and Brazil generated waves of financial instability in Argentina. In particular, the devaluation of the Brazilian currency negatively affected Argentina's trade balance (KULFAS, 2016).

[207] The ceiling for withdrawals was 250 pesos per week.

[208] It should be borne in mind that the *corralito* profoundly affected both the middle classes and the lowest income sectors of the country: the former because they were deprived of access to the financial resources saved; the latter because they operated informally and depended on access to currency in ciculation to carry out their activities. In a context of high levels of unemployment and poverty, the *corralito* then acted as the trigger for popular uprisings.

interregnum, Rodrígues Saá's brief tenure decided to stop servicing public debt with private creditors[209] (GUZMAN, 2016). From then on, Argentina would enter a cycle of political and socioeconomic transformations, which constitute the starting point of the analysis to be developed in this chapter. Table 2 presents some social and macroeconomic indicators relevant to the narrative examination that begins below.

[209] The *default* paralyzed the debt service contracted with private creditors and the Paris Club, but not with international organizations. According to Kulfas (2016, p. 116), this is the largest *default to* date in the context of financial globalisation.

Table 7 - Some macroeconomic and social indicators of Argentina (2002-2019).

Indicadores	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Real GDP growth rate (%)	-10,9	8,8	9	8,9	8	9	4,1	-5,9	10,4	6,2	-1	2,4	-2,5	2,7	-2,1	2,8	-2,6	-2
Inflation: IPC (%)	41	3,7	6,1	12,3	9,8	23,7	23,5	15,3	26,6	21,9	24,5	27,2	37,7	29,2	40,1	25,5	47,9	40,1
Interest rate (%)	7,2	1,57	2,26	6,62	8,02	9,99	15,21	8,89	9,42	10,96	10,21	15,31	19,99	20,52	24,75	28,78	59,1	63
Foreign exchange reserves (US$ bi)	10.485	14.119	19.646	28.076	32.037	46.176	46.386	47.967	52.145	46.376	43.290	30.599	31.443	25.563	37.853	55.581	56.977	44.357
Reserves/ gross external debt (%)	7,1	8,7	11,7	21,5	26,9	38,2	35,7	35,9	41,2	32,4	30,9	20,3	20,4	14,4	21,1	24,5	23,8	15,9
External public debt (% GDP)	164,2	135,4	89,4	47,4	42,3	37,9	32,8	34,7	27,2	24,8	25,3	28,5	30,1	36,4	36,3	38,8	65,1	69,9
Domestic public debt (% GDP)			28,7	33,1	28,3	24,2	21	20,8	16,3	14,1	15,1	15	14,6	16,1	16,8	17,7	20,1	19,9
Fiscal primary result (% GDP)	0,86	3	4,36	3,02	3,75	1,05	1,31	-0,57	0,18	-1,4	-2,06	-1,85	-2,34	-3,9	-4,6	-3,9	-2,3	-3
Gini coefficient	0,533	0,528	0,501	0,49	0,479	0,468	0,458	0,453	0,443	0,432	0,425	0,42	0,421	0,415	0,42	0,41	0,434	0,439
Unemployment rate (%)	19,7	17,3	13,6	11,6	10,2	8,5	7,9	8,7	7,7	7,2	7,2	7,1	7,3	6,5	8,5	8,4	9,2	9,8

Sources: Indec (2022), BCRA (2022) e World Bank (2022).

4.2.1 Duhalde: the transition from the crisis to the recovery

In January 2002, Eduardo Duhalde, senator for the PJ, was appointed president by the Congress to continue De la Rúa's mandate until the following year's elections. In the dramatic scenario of that time, Duhalde's intention was to manage a political and economic model transition in the country. As we will see below, the president was successful in this goal, despite the difficulties faced in the first months of his mandate (KULFAS, 2016; RAUS, 2017; ZÍCARI, 2017).

Indeed, the Duhalde government can be seen as a turning point in Argentine economic history, to the extent that it broke with the neoliberal precepts that had guided national economic policy since the country's last military dictatorship, which began in 1976[210]. This process implied privileging society's productive sectors - industry and agribusiness - from a greater interventionism of the State in the economy, which occurred to the detriment of the financial sectors, whose interests guided the economic policy in force during the 1990s (ZÍCARI, 2017). Not surprisingly, Raus (2017, p. 54) notes that this was "the most difficult political period since the democratic restoration", being marked by numerous conflicts, both between social groups with divergent interests and between the government and external actors that sought to intervene in national economic policy.

From January to April 2002, Duhalde's economic team was headed by Remes Lenicov. As one of his first measures, the economy minister decided to abandon convertibility, devaluing the Argentine peso[211]. For the government, this was an indispensable measure to recover external competitiveness and dynamize the country's domestic market, which emerged as short-term goals. In addition, Lenicov opted to maintain the default on public debt - thus safeguarding the government's budgetary space - and began a gradual pesification of the national economy, in order to reverse the dollarization prevalent in the previous decade[212] (GEZMIS, 2017; ZÍCARI, 2017).

[210] As Kulfas (2016, p. 25) notes, however, the neoliberal agenda lost momentum during the 1980s, with the Alfosín government, and then was advanced radically in the 1990s.
[211] The exchange controls implemented for this purpose also included the obligation to liquidate foreign currency from exports. Another development was the immediate establishment of an official foreign exchange market - in which one dollar became equivalent to 1.4 peso - and another free market.
[212] For example, the government promoted the pesification of the tariffs of public utilities privatized in the 1990s, when they were dollarized. Another focus of the government was the "asymmetric pesification" of banking sector assets and liabilities, which took place within the parameters of the devaluation of the peso and the corralito. The recovery of the value of deposits in dollars, in turn, was restricted by the government, in a measure that became known as *corralón*.

The Duhalde government's economic activism also aimed to cool the social crisis. With poverty, unemployment and hunger reaching critical levels[213] , the government established a policy of withholding *("retenciones")* profits from exports (mainly commodities exportations), which were then benefiting from the currency devaluation[214]. These resources would be used to finance the *Jefes y Jefas de Hogar* Program, to be launched in May, which would guarantee a cash transfer to the families most affected by poverty. At the same time, the government banned new layoffs in the private sector of the economy for a period of 90 days (PORTA, SANTARCÁNGELO, SCHTEINGART, 2017; RAUS, 2017; ZÍCARI, 2017).

With BCRA reserves at low levels and public debt out of control, however, the socioeconomic crisis continued to deepen. In this context, a particularly problematic issue for Lenicov's team was what to do with the *corralito*. If, on the one hand, its maintenance was necessary to avoid the collapse of the banking system, on the other hand, the measure continued to give rise to revolts and popular mobilizations. Faced with this crossroads and the other effects of the crisis, the government decided to turn to the IMF for a financial bailout (KULFAS, 2016; ZÍCARI, 2017).

However, contrary to the expectations of the economic team, the IMF was not willing to help the country: from a model to be followed in the 1990s, Argentina, according to the IMF's perspective, had become a bad example to other countries and no longer deserved easy access to its resources[215]. In this context, the socio-economic crisis worsened and Lenicov resigned, being replaced in April 2002 by Roberto Lavagna in the Ministry of Economy. From then on, Lavagna kept the measures already implemented by Lenicov, but changed the approach to the IMF: faced with its intransigence, the new minister decided to wait until the economy showed signs of reaction - given the effects of the measures already implemented - to then resume negotiations in a more comfortable position (ZÍCARI, 2017).

This would begin to happen in June, when inflation started to decelerate, the fiscal situation stopped deteriorating, the dollar presented a slight drop and the BCRA started buying

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[213] According to the measurement of the *Instituto Nacional de Estadísticas y Censos* (Indec), poverty in Argentina then exceeded 51.7% of the population (RAUS, 2017, p. 59).

[214] The tax ranged from 5% to 20% of profits from the export of various products, such as commodities and manufactured goods of agro-industrial origin.

[215] The occasion marked a change in the IMF's *modus operandi*. Until then, agreements with emerging countries involved the granting of financial resources in parallel to the imposition of conditionalities to be fulfilled by the government. This time, however, the IMF required the government to implement a series of measures before any agreement could be negotiated. Pressured by the crisis, Lenicov sought to meet the demands presented: for example, he promoted the unification of the exchange market, modified the *Leys de Quiebra and Subverción Económica,* established with the provinces a fiscal agreement without a floor on transfers from the federal government and arrived at a public budget without a primary deficit. The initiatives, however, proved innocuous, as Zícari (2017) notes.

reserves again. In the last quarter of 2002, the recovery trend was already evident: the export sector was benefiting from the significant exchange devaluation and the beginning of commodity price increases, the domestic market was heating up with the increase in consumption and unemployment began a downward trend. In December, the price index already seemed under control, public revenue was recovering, the banking system was stabilizing and the *corralito* was finally extinguished (ZÍCARI, 2017).

Reflecting this positive scenario, in January 2003, the government finally managed to reach an agreement with the IMF in relatively favorable terms for the country - without having to give in on its autonomy in economic policy and committing to generating primary surpluses of 2.5 percent of GDP. By May, at the end of Duhalde's mandate, the worst of the economic crisis seemed to have been overcome (ZÍCARI, 2017). At the same time, however, the government had to work to resolve the internal political conflicts within the *Justicialista* Party, where the dispute over the presidential succession set various Peronist cadres on a collision course (RAUS, 2017).

The main conflict was between Menem and Duhalde. Indeed, the former president had behaved as opposition throughout the crisis management, defending the dollarization of the economy and adherence to the orthodox agenda propagated by the IMF. As his mandate neared its end, Duhalde moved to find a candidate capable of defeating Menem in the electoral race in March[216]. In the context of presidential elections that involved three Peronist candidates, he ended up supporting the governor of the province of Santa Cruz, Néstor Kirchner (NK). Subsequently, after a first round of voting that foreshadowed his defeat, Menem decided to abandon the contest, giving Kirchner the electoral victory[217] (RAUS, 2017).

The Duhalde government stands out, therefore, as a prehistory of the Kirchnerist cycle that would be established for more than a decade in Argentina. During his administration, Duhalde promoted measures that allowed to overcome the most acute moment of the socioeconomic crisis and managed a gradual recovery of the country, laying the foundations of a new economic model, which represented a break with the orthodox agenda prevailing in the previous decade. At the same time, the "good times" of the international environment were taking shape to the benefit of the newly elected government.

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[216] The date of the presidential elections was eventually brought forward to March in the context of the mounting crises faced by Duhalde - who also pledged not to be a candidate. In this context, a new president would take office from May 2003.

[217] The first round of elections gave Menem 24.2% of the vote and Kirchner 22%. For the second round, opinion polls indicated a clear victory for Kirchner over the former president, who then decided to abandon the election. This decision was seen by Kirchner and his supporters as a strategy to weaken his future government, which would not have the opportunity to rise to power with the expected large majority of votes (RAUS, 2017).

4.2.2 Néstor Kirchner: the recovery of economic policy autonomy

To achieve electoral victory, Kirchner captained a center-left alliance within the peronism, called the *Frente para la Victoria* (FpV). The new president took office on 25 May 2003, in a scenario in which, although the socio-economic prospects were already positive, stability seemed uncertain. In this context, he sought to take a firm stance against the neoliberal agenda that had prevailed in the previous decade[218]. As Zelaznik (2008) notes, one of the president's objectives was to reorganize the Argentine party system around the left-right axis[219], positioning himself as a representative of the left-wing camp, in opposition to the neoliberal politicians that preceded Duhalde.

The NK government would be, in this sense, marked by the consolidation of a macroeconomic regime that favored GDP expansion, so as to sediment what was already being implemented by Lavagna since mid-2002 (WYLDE, 2012). At the end of his mandate, the results would be undeniable. As shown in Table 2, between 2003 and 2007, the Argentine economy grew by an average of 8.8% per year, while social indicators and public debt gradually improved. At the same time, the country risk decreased (see graph 7). This translated into high popularity ratings for the president, which gave impetus to the Kirchnerist cycle that would last for more than a decade (KULFAS, 2016).

To sustain accelerated economic growth with social inclusion, the government advanced a heterodox agenda mediated by state action. At the macroeconomic level, three aspects were prominent in this process. First, exchange devaluation became one of the pillars of the government's economic policy. Secondly, the configuration of the "good times" in the international environment played a relevant role in the socioeconomic achievements. Third, these were also due to the political autonomy acquired with the renegotiation of the public debt in default since 2001, as well as the full discharge of the debt with the IMF, as presented below (WYLDE, 2012; KULFAS, 2016; PORTA, SANTARCÁNGELO, SCHTEINGART, 2017).

Regarding the exchange rate policy, the government's actions in the foreign exchange market were guided by the maintenance of a stable and devalued exchange rate, with the Argentine currency fluctuating between 2.8 and 3.1 pesos per dollar. The objective was to confer external competitiveness to the national manufactured goods, in favor of investments

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[218] In the words of the president, "*Hay que alejarse definitivamente del modelo neoliberal menemista*" (CLARÍN, 2003).

[219] Zelaznik (2008), however, notes that the president was not successful in this aim, so that the country's party system remained structured around Peronism.

and jobs generation. This was coupled with an expansionary monetary policy[220], which, in line with the import substitution strategy and export-led growth, fostered the recovery of domestic industry[221] - in stark contrast to the deindustrialization process prevailing in the 1990s (WYLDE, 2012; GEZMIS, 2017; PORTA, SANTARCÁNGELO, SCHTEINGART, 2017).

At the same time, the commodities' supercycle continued to increase the profitability of the agro-export sector. Benefiting from the "*retenciones*" policy established during the Duhalde administration, the Kirchner government was able to redistribute part of the profits from the export of primary goods in line with the priorities of its agenda, namely industrial expansion and job creation[222]. It is worth noting that in 2006, when the government ordered an increase in the *retenciones'* rates, the tension with the agro-export sector became explicit, with the occurrence of a first lockout as a form of protest - a type of action that, in the following government, would be dramatic for the destiny of Kirchnerism. In addition, high commodity prices also favoured the accumulation of international reserves by the BCRA (KULFAS, 2016; PORTA, SANTARCÁNGELO, SCHTEINGART, 2017).

This aspect would be strategic for the debt reduction policy, which emerged as one of Kirchner's priorities to regain autonomy in the management of national economic policy. In this sense, the president acted on two fronts. On one hand, he managed to renegotiate the defaulted public debt under more favorable terms for the country. In 2005, the agreement signed with state creditors contemplated 76% of Argentine debt[223] and included the issuance of new bonds with longer maturities, lower interest rates and, in part, linked to GDP growth[224] - which conferred greater legitimacy to Kirchnerist economic policy guidelines before the financial market. As a result, the country risk reduced considerably, reaching, in 2006, the lowest levels in national history[225] (WYLDE, 2012; KULFAS, 2016).

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220 This trend was slightly altered in 2006, when inflationary pressures were already present (KULFAS, 2016).

221 At first, the recovery of the industrial sector benefited from the existing idle capacity and from the exchange rate devaluation, which made the relative price structure favorable to industrial performance. Subsequently, however, there was a proliferation of small and medium-sized enterprises in the country. In 2006, manufactured products accounted for 30% of Argentina's exports (WYLDE, 2012).

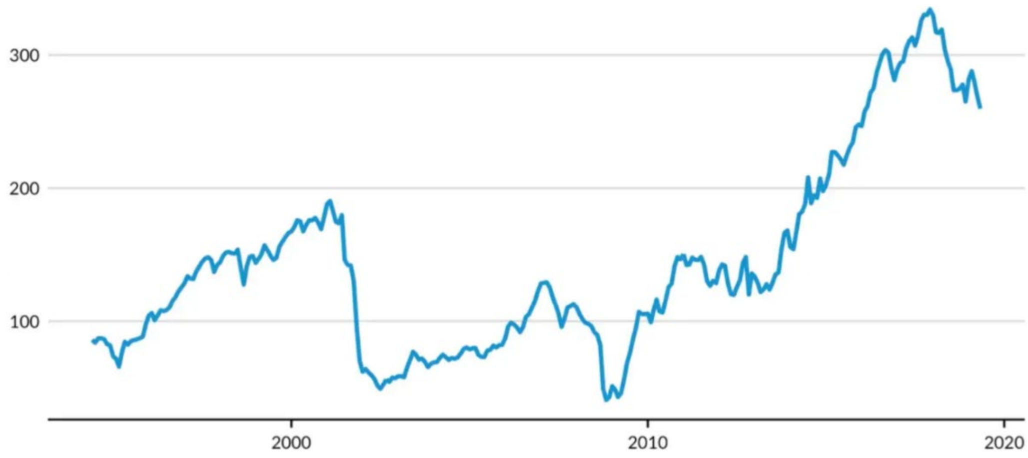
222 This translated into policies to foster employment in the industrial sector, from, for example, the *Ley de Promoción Industrial*, as noted by Campello (2015).

223 This benefited from the "good times" of the international situation, which provided the international financial system with liquidity. It should be noted, however, that the rest of the defaulted debt remained in the hands of holdout investment funds and vulture funds, which, as will be seen in subsection 4.2.4, would catalyze a critical situation for the country in Cristina Fernández de Kirchner's second term.

224 Furthermore, 44% of the new debt was denominated in national currency and almost 50% under Argentine law (KULFAS, 2016).

225 Immediately after the renegotiation of the debt in 2005, the country risk was reduced from 6700 points to less than 800. The following year, it reached just 100 points, the lowest level in Argentina's history.

Figure 13 - Country-risk (EMBI+) of Argentina.



Source: World Bank, 2022.

On the other hand, in the same year, the NK government paid in full the external debt with the IMF by using the BCRA's international reserves. This measure was also symbolic, since the IMF represented one of the main channels for external interference in the Argentine economy in favor of the orthodox agenda. This kind of interference, in turn, was constantly blamed by Kirchner for the socioeconomic collapse of 2001, so that the president sought to signal, with the discharge of the debt, the end of the IMF's influence on national economic policy (CAMPELLO, 2015; KULFAS, 2016)).

Driven by the de-indebtedness[226], by the exchange rate policy and by the "good times" of the external environment, the economy experienced a period - unprecedented in its history - of twin surpluses, both in current transactions and in the fiscal sphere. This allowed Kirchner's economic team to make interventions also at the microeconomic level, in line with its programmatic objectives, without compromising the solidity of public finances. In effect, between 2003 and 2007, the government's fiscal expansion included nationalizations[227], subsidies[228], social programs aimed at job creation[229], increases in the minimum wage and

[226] The final balance of the strategy was the reduction of Argentina's external debt from 129% of GDP in 2003 to 48% in 2007, as Porta, Santarcángelo and Schteingart (2017) note.
[227] The nationalizations carried out by the government contemplated, for example, *Correos Argentinos,* as well as the water and rail transport services.
[228] Subsidies, as already suggested, have impacted on the generation of new jobs in the private sector and the dampening of public service tariffs, for example.
[229] For example, in October 2003, the government launched the program "*Más y Mejor Trabajo"* to subsidize job creation in companies that already had installed capacity. The initiative made up the government's "*Plan Integral para la Promoción de Empleo"*, which aimed to promote the generation of 475,000 jobs in the country without the need for new investment in the economy (LA NACION, 2003). As Wylde (2012, 2016) notes, within the logic of

pensions[230] and the reintegration to the public pension system of part of the population that had been displaced to the private system in the 1990s[231] (CAMPELLO, 2015; KULFAS, 2016; PORTA, SANTARCÁNGELO, SCHTEINGART, 2017).

All these elements interacted in favor of the virtuous cycle established in the Argentine economy, marked by the expansion of jobs and investments, as well as of private consumption and public revenue. This scenario was reflected in the composition of GDP between 2003 and 2007: during this period, private consumption accounted for about 50% of economic growth, while investments accounted for approximately 35% and exports, on average, 10% (KULFAS, 2016, p. 119). As Porta, Santarcángelo and Schteigart (2017) note, the bonanza to some extent covered all sectors of the economy[232] .

A problem for the government, however, was the gradual return of inflation, as shown in Table 7. In this context, the approach to the inflationary issue put the BCRA's governor, Alfonso Prat-Gay[233], and the government's economic team on a collision course. For the former, the country should adhere to a policy of inflation targeting, in line with the practices propagated by global economic governance's institution. However, Lavagna and the president advocated a heterodox approach based on price agreements, tariff freezes - especially on previously privatized public services - and trade controls established by the newly created *Secretaría de Comercio*[234] (PORTA, SANTARCÁNGELO, SCHTEINGART, 2017). Such measures, however, did not present the intended effectiveness, so that inflation approached 25% in 2007 and would soon become, as Kulfas (2016) notes, the "Achilles heel" of Kirchnerism.

But this was not enough to shake the climate of optimism in the country during the period. In 2005, the legislative elections attested to the popular approval of Kirchner's administration, which succeeded in appointing his wife, Cristina Fernández de Kirchner (CKF), as senator for the Buenos Aires province - also backed by the FpV. Subsequently, the president

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fighting poverty through job creation, the first Kirchnerist government even discontinued the *Jefes y Jefas de Hogar Program,* replacing it with smaller cash transfer policies.

230 As Campello (2015) notes, Argentina's minimum wage reached 980 pesos (US$300) in 2007, while in the 1990s it was equivalent to just 200 pesos (US$50).

231 This occurred from the *Programa de Inclusión Provisional*, which incorporated, in 2005, about 1.6 million people to the public pension system - a measure that, according to Kulfas (2016), occurred in an optional way for contributors.

232 The authors, however, point out that the agricultural and financial sectors registered growths below the country's average. This can be explained by the fact that the profitability of the agro-exporting sector, whose product prices are determined in the international market, was not affected by the exchange devaluation. The financial sector of society had been the privileged sector during the 1990s and, during the Kirchnerist cycle, its interests were put in the background.

233 This would result in Prat-Gay being replaced in September 2004 by Martín Redrado as president of the BCRA.

234 Some of the measures implemented by the *Secretaría de Comercio* included requiring import licences and taxing exports (CAMPELLO, 2015).

requested Lavagna's resignation, replacing him with Felisa Miceli at the Ministry of Economy. According to Kulfas (2016, p. 123), this action was part of a Kirchnerist strategy to end the traditional role of "superministers" in Argentina, in order to avoid the division of the political capital derived from the good results in the economic management.

In the 2007 election year, therefore, Kirchnerism was in a comfortable situation in the Argentine political scenario: the government had succeeded in promoting a period of strong GDP growth with social inclusion, during which the domestic market became more dynamic, the debt issue was partially solved, industry recovered and there was a considerable wage adjustment. This did not prevent, however, some latent problems to manifest. At the economic level, for example, by the end of Kirchner's mandate, inflationary pressures were already a reality, signaling the return of distributive conflicts in Argentine society. At the political level, as also pointed out, the agro-export sector was making explicit its dissatisfaction with the *retenciones* policy intensified by the government. At the same time, the virtues of the growth experienced would not prove to be sustainable for much longer.

4.2.3 CFK I: the return of political and economic instabilities

In October 2007, CFK was elected president in the first round with 47% of the votes. The result reflected the high popularity of kirchnerism in the wake of the good socioeconomic results achieved during Néstor Kirchner's mandate. More than that, the FpV's success suggested there was a degree of political consensus in the country that gave little space to sectors opposing the government in the public debate. As Kulfas (2016, p. 129) notes, the widespread perception was that the Kirchners were in a position to circumvent the rule that limited their tenure as president to two consecutive terms, taking turns in the role from then on.

But this prognosis became unfeasible in the face of the turbulences that marked CFK's first mandate -which put the opposition back on the country's political stage- and the death of Néstor Kirchner, as will be presented below. In any case, the socioeconomic balance of the second Kirchnerist government would also prove to be positive. As shown in Table 7, the GDP continued to expand at a fast pace - despite the recession caused by the global financial crisis - and social indicators continued to improve, although inflationary pressures had increased and the advanced economic model was already showing its contradictions[235]. In this process, the first two years of CFK's mandate would prove particularly dramatic.

[235] As Porta, Santarcángelo and Schteingart (2017, p. 104) note, the bottlenecks in the economy were several: there was an energy deficit in the country due to high industrial and residential demand; infrastructure, transport and

Already in March 2008, a crisis between the government and the agro-exporting sectors was set in motion[236]. The trigger of the conflict was Resolution 125, issued by the Minister of Economy, Martín Losteau, to modify the *retenciones* policy in force since 2002. Under the new regulation, the tax rates charged by the government for the export of primary goods would be raised and linked to the international prices of the exported products. A practical effect of the measure, therefore, would be that any increase in commodity prices would no longer mean a corresponding increase in profits for the agro-export sector (KULFAS, 2016; WYLDE, 2016; PUCCIARELLI, 2017).

The reaction to Resolution 125 was the formation of the *Mesa de Enlace*, which united - in an unprecedented way in national history - small, medium and large agricultural producers in common cause against the government measure. This articulation resulted in road blockades, shortages of various products and episodes of violence, which formed the backdrop of an unexpected crisis in the country. The government, in turn, adopted an intransigent stance, deciding not to give in on its initiative (PUCCIARELLI, 2017).

This bellicosity soon made the conflict agglutinate other sectors of society, so as to transcend its initially sectorial character. Thus, political actors that until then had been ostracized by the success of Kirchnerism returned to the scene, supporting the resistance of the *Mesa de Enlace*. This resulted in a climate of strong political polarization: in addition to the agroexport sectors, media groups, middle classes and business corporations revitalized opposition to the government (PUCCIARELLI, 2017; WYLDE, 2016). As Kulfas (2016, p. 136) notes, everything would be different for Kirchnerism from then on.

Firm in its objective of passing Resolution 125, the government decided to send it to Congress so that it could be passed with greater legitimacy - even though the government had institutional mechanisms that allowed its approval unilaterally. The measure was then easily approved in the Chamber of Deputies, but the decision around it ended in a tie in the Senate, which required the Vice President, Julio Cobos, to cast the deciding vote. Surprisingly, however, Cobos voted against the ruling proposal, imposing the biggest political defeat of Kirchnerism until then (PUCCIARELLI, 2017).

Still worn down by the "agro crisis", the government soon had to deal with the effects of the international financial crisis unleashed in the second half of 2008. Although Argentina was to some extent shielded from the financial consequences of the crisis -due to its isolation

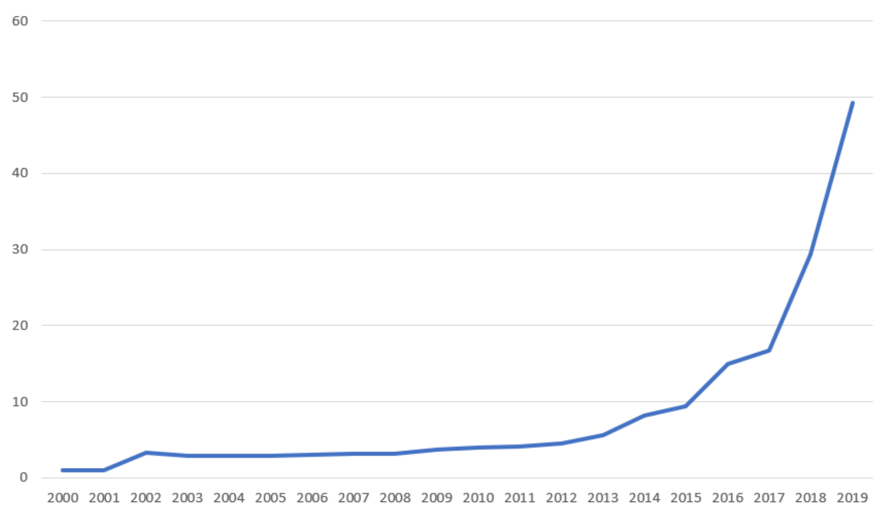
logistics problems were increasingly evident; there was already a deficit of skilled workers to meet the demand of the labour market; among others.

[236] For a detailed description of the unfolding crisis, see Pucciarelli (2017).

from capital markets and the international reserves it had been accumulating-, the national economy was severely affected by the paralysis of international trade and the sudden, albeit temporary, drop in commodity prices (KULFAS, 2016). In effect, this was largely responsible for the slowdown in GDP growth in 2008 and the recession experienced the following year - see Table 2.

In the face of the crisis, the BCRA reacted with monetary contraction, aiming to safeguard bank liquidity. This was coupled with the exchange rate policy promoted by the government, aimed at containing the tendency of the peso to appreciate - so that the exchange rate ended up appreciating from 3 to 3.80 pesos per dollar. At the same time, to counteract the contraction of credit by private banks due to high interest rates, the government offered new credit lines through the *Banco Nación*. The fiscal plan also included a series of countercyclical policies aimed at stimulating economic activity. In effect, public spending continued to expand, focusing on social policies, public works and a series of subsidies to the private sector[237] (KULFAS, 2016; PORTA, SANTARCÁNGELO, SCHTEINGART, 2017).

Figure 14 - Official exchange rate of the Argentine peso against the US dollar.



Source: The author, 2023. Based on data from *Billetes Argentinos,* 2022.

This package of measures, together with the re-establishment of international trade and the "good times" in the international environment, soon led to a strong economic reaction, but

[237] Among these, the *Programa de Recuperación Productiva (Productive Recuperation Programme),* known as *Repro,* whereby the government paid part of the salaries of employees of private companies affected by the crisis in order to avoid layoffs.

not in time for the legislative elections of June 2009. In order to contain the political wear and tear caused by the crises, Néstor Kirchner decided to run as a deputy for the province of Buenos Aires, but he was defeated, in another setback for Kirchnerism in a short space of time. From the last quarter of 2009 onwards, however, socioeconomic indicators began to recover vigorously: in 2010 and 2011 GDP expanded by 10.4% and 6.2%, respectively, while per capita income reached the highest levels in national history (KULFAS, 2016).

One of the most relevant social policies in this process was the *Asignación Universal por Hijo* (AUH), launched by the government in November 2009. Consisting of a cash transfer to families based on the number of children under 18 years of age, AUH ended up establishing a floor on family income, playing an important role in the fight against poverty. In just a few years, AUH's success was reflected in the millions of the program's beneficiaries, to the benefit of schooling levels and the Gini index[238]. More than that, as assessed by Kulfas (2016, p. 143), the AUH helped to offset the social debt caused by the neoliberal reforms carried out throughout the 1990s, becoming one of the most important social policies in Latin America in the period.

The fiscal expansion promoted by the CFK government was largely supported by the nationalization of the *Administradoras de Fondos de Jubilaciones y Pensiones* (AFJP) in the context of the global financial crisis. In 1993, the pension reform promoted by the Menem government gave these private pension funds the task of managing the capitalization system, which took over from the pay-as-you-go system, still managed by the public sector. But the discrediting of these actors, as a result of both the financial crisis and problems in their performance[239], offered the CFK government the opportunity to nationalize them. As a result, the state started to own large sums of government bonds and shares in private companies that constituted the AFJP's investment portfolio. This, in turn, translated into greater fiscal space for the government in its economic policy (KULFAS, 2016).

At the end of 2009, when the economy was already recovering, the CFK government had yet another crisis to deal with - this time in its relationship with the BCRA. Faced with a high burden of public debt maturities the following year, a clash arose between Martín Redrado, the BCRA's governor, and Amado Boudou, Minister of Economy, over how to approach the issue. This resulted in what became known as the "reserves crisis": the government decided to use the international reserves accumulated by the BCRA to establish a *Fondo para el Desendeudamiento Argentino* (Fondea) and thus pay off most of the remaining public debt, but

[238] According to Kulfas (2016, 143), during the first year of the program, the level of schooling in the country increased by between 2 and 3 per cent. In addition, AUH also explains a 2.5% drop in the Gini index.
[239] On this topic, see Kulfas (2016, p. 138).

Redrado put a brake on the process, receiving support from the political opponents of Kirchnerism. In the end, the government won the tug-of-war and implemented the Fondea, while Redrado was replaced by Marcó del Pont as president of the BCRA (KULFAS, 2016).

Once these turbulences were overcome, the second half of CFK's mandate was marked by accelerated GDP growth, falling unemployment, rising wages and booms in consumption, investment, imports and exports. In this context, a new round of negotiations with the state's creditors was successful and resulted in the restructuring of 93% of the debt that had been in default. Also in 2010, the national commotion generated by Néstor Kirchner's death attested to the high popularity of Kirchnerism, despite the instabilities experienced. However, a series of problems were becoming evident in the country's political and economic panoramas (MANZANELLI; BASUALDO, 2016; KULFAS, 2016).

In particular, the inflationary issue was already proving problematic, while the era of twin surpluses seemed to have come to an end, with government revenues no longer keeping pace with public spending[240]. Moreover, official economic data were put in check due to alleged government interventions in Indec[241], which compromised its credibility and impartiality. At the same time, the climate of political polarization was sharpening, while the "good times" of the external environment were close to exhaustion (MANZANELLI; BASUALDO, 2016; KULFAS, 2016).

4.2.4 CFK II: the frustrated return to the sovereign debt market

In October 2011, CFK was re-elected president again in the first round, with 54% of the votes and a difference of more than 37% over the second-placed candidate, Hermes Binner, from the *Frente Amplio Progresista* (Broad Progressive Front)[242]. Despite the electoral success, the second CFK government was the end of the Kirchnerist cycle, mainly due to the macroeconomic maladjustments, which eroded the government's electoral support. As Kulfas (2016) notes, what happened during this final stage of Kirchnerism was not a deepening of the model that was being implemented, as desired by the government, but an effort to protect the

[240] It should be noted that 2009 was the first year of fiscal deficit under Kirchnerism. From then on, the country's fiscal account would assume a trend of progressive deterioration, as noted by Porta, Santarcángelo and Schteingart (2017).
[241] Kulfas (2016, p. 15) assesses how the management changes at Indec, promoted since the government of Néstor Kirchner, were one of the biggest mistakes of Kirchnerism, which undermined the credibility of the institute and gave rise to the parallel proliferation of other unofficial measurements of economic statistics - in particular of inflationary indices.
[242] This was the biggest difference recorded in a presidential contest in the country since Juan Domingo Peron's victory in 1973.

achievements of the two previous Kirchnerist administrations. Table 2 provides an overview of this scenario, indicating the achievements and breakdowns in question.

The main challenge facing the second CFK government was the foreign currency shortage caused by capital flights and the reversal of the "good times" in the international environment. Indeed, since the end of 2011, the international reserves problem had been increasing with the exchange rate devaluation in a context of fiscal deficit and deterioration of the trade balance, especially due to bottlenecks in the energy sector, which required fuel importation. In parallel, profit remittances from multinational companies, benefited by the consumption boom, and the "flight to the dollar" as a result of escalating inflation, both by the middle classes and financial sectors, composed a scenario of pressure on international reserves (MANZANELLI; BASUALDO, 2016; KULFAS, 2016; PORTA; SANTARCÁNGELO; SCHTEINGART, 2017).

Already in the first semester of its new mandate, the government took three impact measures aimed at overcoming these challenges. First, it established a series of restrictions on the exchange market aimed at making it difficult for companies and families to acquire dollars, giving rise to what became known as *cepo cambiario*. An immediate consequence of this action was the creation of parallel markets for the purchase and sale of foreign currency, where the dollar began to be negotiated at prices different from the official[243], which soon accentuated speculative movements around the peso's value. Second, the government tightened control over foreign trade with the aim of curbing imports[244]. Third, it nationalized 51% of the shares of YPF - an oil company founded by the Argentine state in 1922 and acquired by Spain's Repsol in 1999 - with the aim of reversing the country's energy deficit by investing in the sector[245] (KULFAS, 2016; GEZMIS, 2017; PORTA; SANTARCÁNGELO; SCHTEINGART, 2017).

In this context, after the economic activity contraction recorded in 2012, the government entered the election year of 2013 seeking to stimulate GDP expansion. This goal was achieved, driven by private consumption and public spending and investment, but the dysfunctionality of the national economic dynamics soon became apparent: while the rise in consumption pressured for increased imports, the trade balance continued to deteriorate, at the expense of the stock of foreign exchange reserves. To make matters worse, the gap between the official exchange rate and the "dollar blue" already exceeded 50% of the rate established by the BCRA. The BCRA,

[243] The dollar traded at rates other than the official rate is known as the *dollar blue*.
[244] This occurred, from the establishment of a regime of *Declaraciones Juradas Anticipadas de Importaciones*. On the subject, see Kulfas (2016, p. 162).
[245] As Kulfas (2016, 166) notes, however, the action would prove to be late, so that the CFK government would benefit from it over the course of the mandate.

in turn, was prevented by the economic team[246] from promoting monetary contraction - then considered necessary to cool the inflationary pressure and curb the exchange rate race (KULFAS, 2016).

This scenario left the government with no choice but to return to the sovereign debt market, since it was no longer in a position to sustain the Kirchnerist banner of debt reduction. Thus, after the setback in the 2013 legislative elections, an economic strategy was set up with the aim of stabilizing the exchange rate situation while sending signals to the financial world in order to re-establish bridges with investors. In this sense, in January 2014, the government promoted a significant devaluation of the peso, which was followed by a monetary contraction to contain new speculative movements against the Argentine currency (MANZANELLI; BASUALDO, 2016; PORTA; SANTARCÁNGELO; SCHTEINGART, 2017).

In the following months, three other major actions were part of the strategy. First, a new consumer price index was announced to compensate for Indec's loss of credibility due to accusations of interference in the economic data released since CFK's first term. Second, the government reached an agreement with Repsol, resolving the dispute over the nationalization of YPF. Third, the imbroglio over the external debt with the Paris Club was also resolved[247]. In this way, a return to the global sovereign debt market finally seemed feasible (MANZANELLI; BASUALDO, 2016; KULFAS, 2016).

But this attempt was frustrated when, in June 2014, the Supreme Court of the United States refused to review the decision of New York judge Thomas Griesa in favor of the "vulture funds", which had claimed, in the US courts, full payment of the Argentine government bonds they acquired after the 2001 default[248]. According to the first instance judge’s ruling, issued in November 2012, the country could not even continue to pay the debt that had been restructured in the renegotiation rounds of 2005 and 2010 until the outstanding debt with the vulture funds was settled. This not only made the government’s intended return to the capital markets impossible, but also prohibited the servicing of the restructured debt and led it to incur a new

[246] The economic team underwent changes throughout the second CFK government. After the poor results in the 2013 elections, Axel Kicillof took over as Minister of Economy, while Juan Carlos Fábrega became head of the BCRA. The BCRA's *charter was* amended in 2012 to include a mission to not only ensure monetary stability, but also to promote full employment and equitable economic development.
[247] This is a debt that dated back to the first loans obtained by the country in 1956. In the words of Minister Kicillof: "The search for a solution to the outstanding debt with the Paris Club has always been an objective of this Government, which in 2008 took the decision to settle it in full with a single payment. With the decree already signed, the decision was frustrated by the outbreak of the global financial crisis and the collapse of the Lehman Brothers house. The initiative was postponed until the current date" (EL PAÍS, 2014).
[248] Vulture funds held about 1% of the Argentine debt in default that was not contemplated by the restructuring in 2005 and 2010. In other words, they were a small portion of the creditors that remained in holdout after 92% of the debt had been renegotiated (GUZMÁN, 2016).

default[249] (GUZMÁN, 2016). In the words of Stiglitz and Guzmán (2014), "it was the first time in history that a country was willing and able to pay its creditors, but was blocked by a judge from doing so".

From a political perspective, the clash between Argentina and the vulture funds earned the CFK government expressions of support and solidarity[250]. Internally, this served to cool, albeit temporarily, the climate of polarization that had been established in the national political dynamic in previous years, promoting the union of diverse sectors of society around the feeling of indignation against the "common external enemy". Internationally, the quarrel stimulated discussions on how to curb the activities of vulture funds in the international financial system by other countries and global economic governance institutions (KULFAS, 2016).

From an economic point of view, however, the legal victory of the vulture funds meant the continuation of the situation of foreign currency scarcity and the return of pressure on the exchange market and the devaluation of the peso. In light of this, the government drew up a new strategy to reach a level of reserves that would give it some stability until the end of its mandate. In this sense, firstly, it sent signals that there would not be another major currency devaluation, as had occurred in 2013, so that the exchange rate policy would only promote smooth changes in the exchange rate from then on. Second, it sealed a currency swap agreement with China to replenish foreign exchange in the BCRA[251]. Third, it also reached an agreement with commodity-exporting sectors for an advance on the settlement of their foreign exchange. Thereby, the exchange rate tension was eased until the second CFK mantle came to an end (KULFAS, 2016).

Indeed, in the 2015 election year, the country's economic outlook was showing signs of improvement, as shown in Table 7. With the promotion of new freezes on public service tariffs and an exchange rate appreciation, the inflation rate moderated, staying below 30%. This led to an expansion in private consumption, in the wake of a slight wage adjustment, which contributed to 2.7% growth in GDP that year. On the other hand, the consequent increase in the level of imports and the sharp drop in international commodity prices caused Argentina to record its first trade deficit since 1999. To make matters worse, by the end of the CFK

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[249] This is because, due to the *Right Upon Future Offers* (RUFO) clause present in the renegotiation agreements, the Argentine government would have been obliged to extend to all other creditors the payment conditions made to the vulture funds, which would have greatly increased the value of the debt (GUZMÁN, 2016).

[250] The Argentine government began to systematically denounce the vulture funds in international forums. In the UN General Assembly, for example, CFK even accused the funds of financial and economic terrorism: "*No solamente son terroristas los que andan poniendo bombas, también son terroristas los que desestabilizan un país provocando hambre a partir de la especulación*" (LA NACION, 2014).

[251] In October 2014, Fábrega stepped down as head of BCRA, making way for Alejandro Vanoli.

government, international reserves were at their lowest levels since 2006 (KULFAS, 2016; PORTA; SANTARCÁNGELO; SCHTEINGART, 2017).

In any case, an assessment of this second mandate should consider that the social achievements made during the first stages of the Kirchnerist cycle were sustained, although not deepened. This was reflected in the maintenance of poverty levels in the country and the slight reduction observed in the Gini index. One explanation for this lies in the deepening of the social policies implemented by the government. In 2014, for example, public spending on social security was 16% higher than in 2011. This made it possible to sustain the purchasing power of pensions and the AUH, despite the inflationary escalation observed in the period. In addition, new pension plans were launched, as well as subsidy policies aimed at students and access to home ownership[252] (KULFAS, 2016; PORTA; SANTARCÁNGELO; SCHTEINGART, 2017).

But this was not enough to give Daniel Scioli, CFK's successor candidate for the PJ's FpV, victory in the 2015 presidential race. In the second round of the election, a tight vote consecrated Mauricio Macri, who headed the *Cambiemos* coalition, with 51.34% of the votes. The Kirchnerist cycle thus came to an end, giving way to a government situated on the right of the country's political spectrum.

4.2.5 Macri: rise and fall of a neoliberal project

Macri's victory meant that, for the first time in Argentine history, a government with an avowedly neoliberal agenda was elected by popular vote[253] (VOMMARO, 2019). As a consequence, the implementation of his programme would imply the dismantling of a series of policies implemented during the Kirchnerista cycle, in order to change the economic model then in force. As a result, if the State's actions had been guided by GDP expansion and income redistribution, the “Macrista” strategy would consist in abandoning this interventionist role, seeking to confer protagonism to the private sector (FREITAS; GHIBAUDI; CRESPO, 2021). At the macroeconomic level, this was to be reflected in the replacement of consumption financed by public spending and wage increases for private investment and exports as the economy’s engine (AMICO, 2020).

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[252] Examples are *Progresar*, aimed at students, and *Procrear*, aimed at obtaining housing.

[253] It should be noted that Carlos Menem, despite having adhered to the precepts of the Washington Consensus in his government, was elected with a traditional Peronist party platform, by the PJ.

To achieve this goal, the diagnosis of Macri's economic team[254] was that it would be essential to control the public deficit and reduce the "size" of the Argentine State in order to restore the country's business environment. In line with the thesis of expansionary fiscal contraction, the government started to carry out a strong fiscal adjustment in order to attract investments to the national economy. As this process would occur concomitantly with the reduction of the tax burden, it also decided to adopt a strategy presented as "gradualism": a transitional policy in which the public deficit would be gradually adjusted, being financed by public indebtedness. Hence, a return to the international sovereign debt market was central to Macri's economic plan. In other words, the agenda to be implemented had as one of its pillars the reintegration of Argentina into the IFO of financial globalization (AMICO, 2020; FREITAS; GHIBAUDI; CRESPO, 2021).

The results achieved at the end of the mandate would, however, fall well short of the government's expectations. As Table 7 shows, some of the country's main macroeconomic indicators deteriorated significantly between 2015 and 2019. Throughout this period, amid the more or less acute crises that occurred, the economic policy implemented was far from homogeneous, contradicting at times the neoliberal precepts present in the government discourse. Hence the three-stage periodization that will guide the narrative developed in this subsection, in the light of which these indicators will be clarified[255] .

The first phase of Macri's government extends from December 2015 to June 2016 and can be characterized as a "shock" stage in the national economy. During this period, a series of policies aimed at financial, exchange rate and foreign trade liberalization were adopted, while the first fiscal adjustment measures were implemented[256]. In the case of the former, the government eliminated a large part of the existing capital controls - such as the *cepo cambiario* - and reduced import restrictions and the *retenciones*[257] . In the case of the latter, it promoted the end of several subsidies to public services, leading to a strong increase in their respective

[254] Until the end of 2016, the functions of Minister of Finance and Finance were concentrated in Alfonso Prat-Gay.
[255] The periodization in question is proposed by Amico (2020), who offers an overview of the Argentine macroeconomy during the Macri government.
[256] As Freitas, Ghibaudi and Crespo (2021) note, the Macri government also attempted to carry out a labor reform that would make the labor market more flexible, but gave up after a wave of popular protests.
[257] Such a measure would prove dysfunctional for reducing the public deficit, leading to a revenue loss in 2016 equivalent to 1.5% of GDP. On the other hand, the loss was partially and temporarily offset by the *tax sincerity law*, which made it possible for families and companies to repatriate undeclared dollars abroad, exempting them from sanctions. In any case, what was observed in 2016 was an increase in the primary deficit recorded in 2015: from -3.9% of GDP to -4.6% of GDP (AMICO, 2020).

tariffs[258]. In parallel, the BCRA adopted an inflation targeting regime with free floating exchange rate (AMICO, 2020).

In February 2016, an agreement with the vulture funds was announced, putting an end to the dispute that made it impossible for the country to access the global sovereign debt market[259] . The conflict was resolved with the payment of U$ 9.3 billion by the Argentine State - which, in turn, was made possible by the largest debt issue ever made by an emerging economy since 1996. Thus, the way was open for a new period of external indebtedness in Argentina's history (FREITAS; GHIBAUDI; CRESPO, 2021; SANTARCÁNGELO; PADÍN, 2021).

The government's projection was that the measures implemented would bring about a "*lluvia de inversiones*" (a rain of investments) as early as the second half of 2016. But these expectations were far from being fulfilled. In the opposite direction, the year would end up marked by an intense devaluation of the peso, escalating inflation[260], shrinking GDP and increased poverty and unemployment. At the same time, exports and investments reacted only timidly to government policies (AMICO, 2020; FREITAS; GHIBAUDI; CRESPO, 2021).

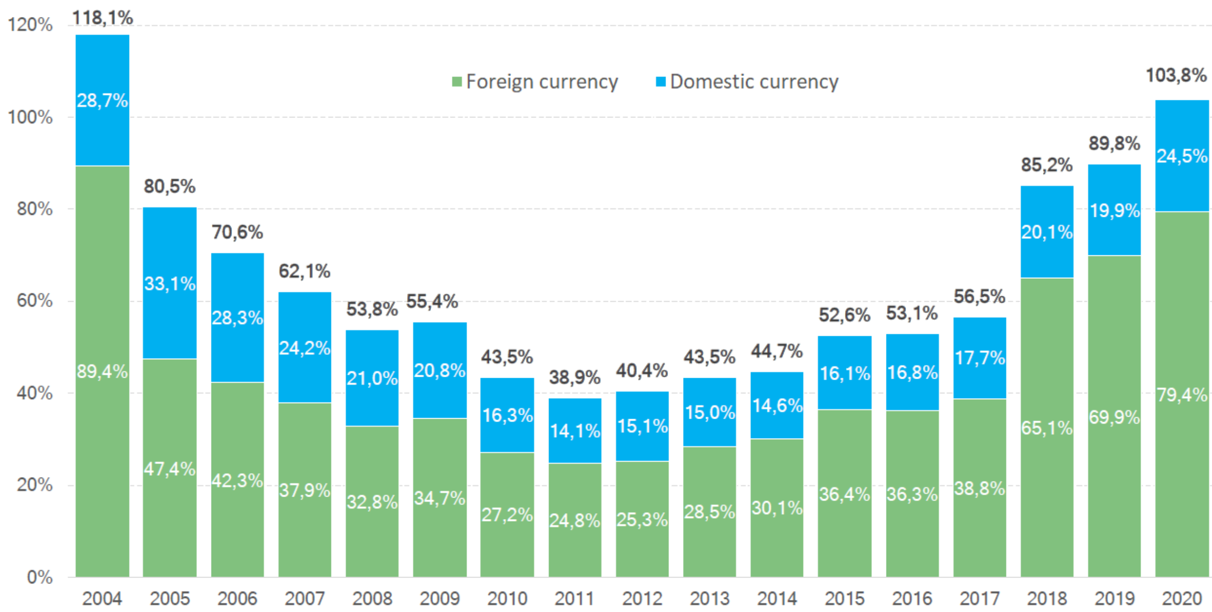
This situation was a problem as the 2017 legislative elections approached. To avoid a setback, the government promoted a substantive change in the economic policy, which allows us to situate it in a new phase, which extends from July 2016 to November 2017. During this period, Macri's economic team adopted a more active fiscal policy, which relied on the expansion of public spending as a way to stimulate consumption and, as a consequence, the GDP expansion. In addition, the readjustment of public service tariffs was curbed as a way to slow down inflation. At the same time, the BCRA initiated a period of "dirty floating" in the exchange rate policy, acting to depreciate the peso, in line with the government's strategy. In other words, it opted to adopt some of the "populist" measures that it had criticized so much in the Kirchnerist governments, which translated into economic growth and ended up earning the government a good performance in the legislative elections (AMICO, 2020).

It is worth noting that, throughout these first two years, Macri's economic policy promoted a sharp increase in the country's foreign debt - the largest in Argentina's history[261] . In this process, as Freitas, Ghibaudi and Crespo (2021, p. 13) observe, financial liberalization

[258] For example, between October 2015 and 2018, there were increases of 1053% to 2388% in electricity tariffs, 832% in water tariffs and 462% to 1356% in gas tariffs (FREITAS; GHIBAUDI; CRESPO, 2021).
[259] To public opinion, Macri justified the agreement with the vulture funds by saying that, without it, the choice would be between "*Ajuste o hiperinflación. No hay alternativa*" (ÁMBITO, 2016).
[260] This prompted a strong monetary contraction promoted by the BCRA, so that between November 2015 and April 2016, the Argentine interest rate increased from 21% to 37% (AMICO, 2020).
[261] As Freitas, Ghibaudi and Crespo (2021) note, the increase in Argentina's foreign debt during the Macri government ($39 billion) exceeded those observed during the decade in which the Convertibility Plan ($14 billion) and the Falklands War ($21 billion) were in force.

fed "an explosive scheme that promoted a capital outflow that was financed by public external indebtedness in international markets". This aspect is key to understanding the stage that begins in late 2017, after the elections, and extends until the end of Macri's term: it is a period in which a strong economic recession took shape, being marked by sequential exchange rate crises. At the beginning of this phase, in parallel to the growth of debt, the country already recorded a trade deficit - also the largest in its history - and faced a capital flight process (FREITAS; GHIBAUDI; CRESPO, 2021).

Figure 15 - Gross public debt (% of GDP) of Argentina.



Source: *Ministerio de Economía*, 2022.

It is then that a sequence of events would lead to the collapse of the Balance of Payments and an even greater loss of international reserves. First, still in December 2017, the government announced a change in its exchange rate policy: from then on, it would more actively pursue an appreciated exchange rate, signaling greater leniency with inflation. Second, in January 2018, a large volume of dollar-denominated government bonds was issued, which caused the market to start rationing the credit supply to the country[262]. This intensified when, third, the FED announced, at the end of March, an increase in the US interest rate, which occurred at the same

[262] At the time, the government raised about $9 billion in the capital markets (AMICO, 2020).

time that a tax on financial income from foreign investments would come into force in Argentina (AMICO, 2020; FREITAS; GHIBAUDI; CRESPO, 2021).

These events triggered an exchange rate race against the peso, at the same time as the country risk, which had been falling since 2014, rose again considerably[263]. In the critical context that emerged, Macri and his team went public to guarantee that it would not be necessary to resort to the IMF financial bailout. But the BCRA's attempts to intervene to contain dollarization proved ineffective and, at the end of May, the government requested the IMF’s assistance to regain market confidence and halt the exchange rate race. In June, this led to the conclusion of the largest loan in the history of both the IMF and Argentina, with a loan of US$ 57 billion and many conditionalities on the economic policy management for the following years[264]. The financial aid, however, was not enough to stop the race against the peso (AMICO, 2020; SANTARCÁNGELO; PADÍN, 2021).

At the end of August, an imbroglio was formed when the government announced an advance on the credit promised by the IMF, but which it was soon discovered had not been approved by the institution. The confusion then only served to deepen the confidence crisis in the financial market. In this context, the exchange rate race continued to escalate, to the detriment of the remaining international reserves, so that the loan granted by the fund ended up financing the capital flight. The crisis would only cool down at the end of September, when the government obtained a restructuring of the agreement with the IMF, which promoted a gradual stabilization of the exchange rate situation (AMICO, 2020; FREITAS; GHIBAUDI; CRESPO, 2021, SANTARCÁNGELO; PADÍN, 2021).

It is under this financial vulnerability condition that Argentina entered the 2019 electoral year. In the midst of the economic recession and deteriorating socioeconomic indicators, the *Cambiemos* was defeated in the primary elections held in August. This triggered new exchange rate instabilities, which led the government to impose capital controls -even stricter than those that were in place under the *cepo cambiario*- to stem the flight of foreign exchange (SANTARCÁNGELO; PADÍN, 2021). In October, Macri was defeated by Alberto Fernández, of the PJ, already in the first round of the elections. This marked the failure of the neoliberal experiment carried out by his government, which, on the other hand, succeeded in becoming

[263] As Amico (2020) notes, at the end of 2017, the Argentine EMBI+ was at 350 points. In a little less than a year, it would exceed 2,000 points.
[264] The agreement diagnosed the need to promote a strong fiscal adjustment in the country, which should promote further cuts in public spending, privatization, end of subsidies and salary reductions in the civil service. The issue is analyzed in detail by Santarcángelo and Padín (2021).

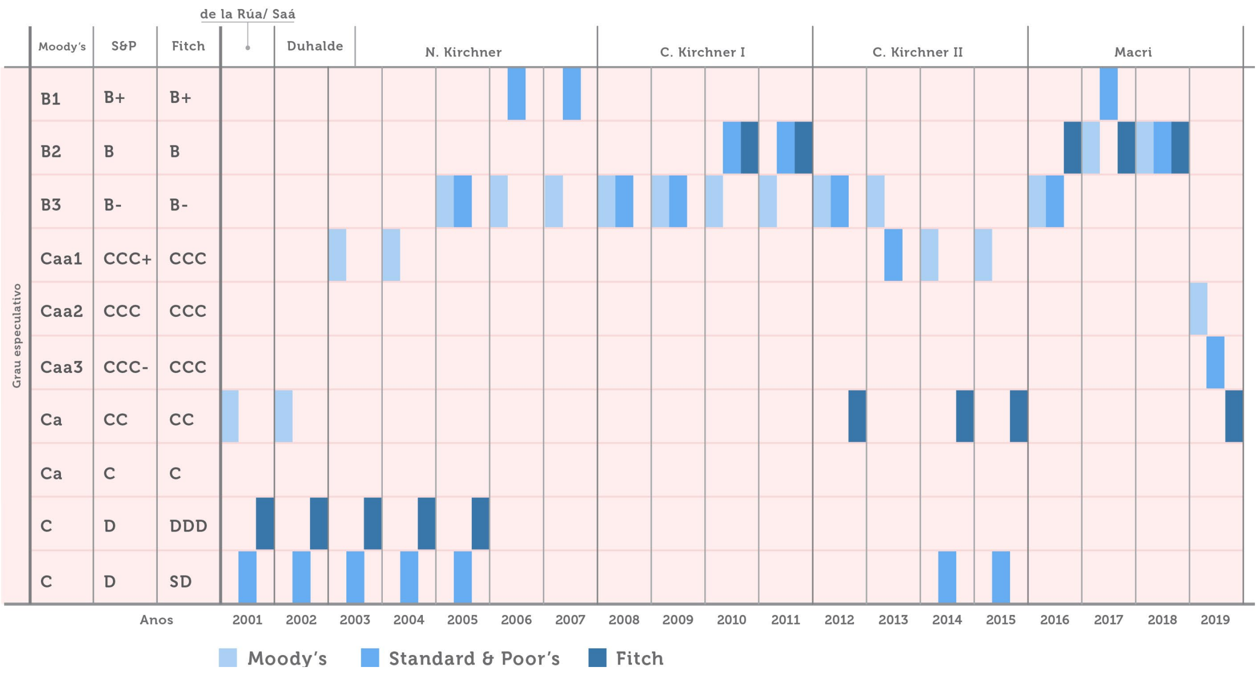
the first of a non-peronist party - the *Propuesta Republicana* - to complete the mandate in Argentina since 1930.

4.3 The politics of rating agencies in Argentina

This section aims to describe the CRAs' actions based on the context outlined in the previous section. To this end, the ratings, reports and media statements of S&P, Moody's and Fitch about Argentina's political and economic process will be presented. In the following section, these materials will be analyzed in light of the argument advanced in this research.

Unlike the previous section, the events will be presented here in a continuous manner, that is, without the division into subsections previously adopted. This is due to the expectation that eventual changes in the CRAs' behavior do not occur as a function of presidential term limits, but of party-political ideology and the international conjuncture - as conjectured in the research's argument, through the "political risk" variable. That said, graph 10 below shows the trajectory of the Argentine sovereign rating in the time frame considered. It is against this backdrop that the interaction between the CRAs and Argentina's governments unfolds, as will be presented below.

Figure 16 - Sovereign ratings of Argentina.



Source: The author, 2023. Based on Trading Economics, 2021.

As shown in graph 10, the Argentine rating is decisively influenced by events that, in the CRAs' evaluation, characterized situations of default. One of these situations is the starting point in the time frame considered, followed by a gradual recovery of the sovereign rating, which experiences another instability period in the second decade of the 21st century. During this trajectory, at no time did the Argentine rating ceased to be categorized as speculative grade, which indicates a high probability of default.

Indeed, already at the end of 2001, with the interruption of the public debt service by the brief Saá administration, the CRAs placed the Argentine rating in default, without any prospect of change. Before this occurred, their discursive manifestations reflected the escalation of the political and socioeconomic crisis at the time. For example, in early December, in the wake of the fiscal austerity policies and the defense of convertibility implemented by the De la Rúa government, Moody's (2001a) praised "the government's valiant efforts to restore confidence to financial markets and regain political control". Among reports and media statements, it defended the *corralito*[265] (MOODY'S, 2001b) and the economy's dollarization[266] (LA NACION, 2001). On the day when default became official and the sovereign rating was downgraded to Ca, however, it adopted a different tone (MOODY'S, 2001c):

> Moody's had already noted for some time that the government's economic policies were not sustainable and that, consequently, the most likely outcome would involve unorthodox solutions to the country's financial problems that would force foreign and domestic investors to absorb a significant loss on their bond holdings.

Subsequently, in the following month, the CRA proposed a deepening of the socialization of the losses that the crisis entailed (MOODY'S, 2002): "the government's simplest option would seem to be to 1) declare the banks insolvent, 2) nationalize them, 3) convert deposits into devalued pesos or into government bonds, 4) recapitalize the banks with peso bonds, and 5) auction them off".

Moody's suggestion occurred at the beginning of the Duhalde government, which, as seen in the previous section, adopted measures that were not very sympathetic to the financial sectors. In this context, the clash with the CRAs became explicit. Already in the first month of his administration, Fitch condemned the emergency measures adopted, claiming that the country's industrial competitiveness would be rapidly eroded with government interventions in the economy (LA NACION, 2002a). On the other hand, the Argentine president did not hide his dissatisfaction with the CRAs' behavior (LA NACION, 2002b):

> There is something very unfair, which is the rating agencies that rate badly and this has repercussions on the economy and creates a climate that is not right. I talked about this with Cardoso (the president of Brazil, Fernando Cardoso) and he told me the same thing. An economist or a market opinionator speaks badly of a country's economy and can throw everything that has been built overboard.

In March 2003, near the end of the Peronist transition government, Moody's (2003b) released a detailed analysis of the national creditworthiness profile. Among Argentina's strengths, it highlighted the agreement signed with the IMF, the gain in external competitiveness resulting from the exchange rate devaluation, the exchange rate and financial stabilization and the modest economic recovery that was already being observed. Among the challenges to be faced by the country, it highlighted the public debt pending restructuring with private creditors, the limited access to credit for a long period to come, the difficulties in

[265] In the words of Moody's (2001b): "A generalized freeze might potentially provide the breathing room needed to tackle the asset quality issues facing the banking system. In times such as these, shareholders, bank borrowers, depositors and the government usually share the cost of recapitalizing the banks through a combination of capital injections, debt workouts, deposit losses or other subsidies. Given the nature of the Argentine problem it appears that domestic depositors will have to shoulder a major share of the burden".

[266] The agencies, however, changed their opinion about dollarization after the Argentine crisis. As noted by La Nacion (2003), if in the 1990s this process was seen as a source of stability, in the twenty-first century it came to be seen as a vector of risk.

reaching a fiscal sustainability level and stability in the relationship between public debt and GDP, and the "political uncertainties" and internal conflicts within the Peronist party.

For the CRA, an eventual sovereign rating improvement would require the formation of a government capable and willing to support the adjustments established in the agreement with the IMF. In its perspective, "while effective in containing in the near-term social and economic consequences of the crisis, the outgoing administration has been unable or unwilling to introduce the measures required to assure that Argentina's economic growth is restored to a sustainable path". These measures, as explained throughout the report, contemplated structural reforms targeted at cutting public spending. Moreover, Moody's (2003b) presented a criticism that would be recurrent throughout the period considered in this research: the uncertainties surrounding the national economic policy guidelines. Presented as "institutional uncertainty", such element, as will be analyzed in the following section, reflects the CRAs' constant demand for the depoliticization of Argentinean economic policy.

During the NK government, the sovereign rating would leave the default condition and reach the levels where it remained more or less stable until CFK's second term, as shown in graph 10. As would become explicit in the CRAs' discourse, the debt restructuring round that took place in 2005 was essential for that. In June, after its conclusion, S&P upgraded the rating to B-, while Moody's placed it at B3, both with a stable outlook. Fitch, on the other hand, continued to rate Argentina as DDD until 2010, indicating it was still in default. In a report released that same month, the CRA justified the decision by highlighting that the relationship with creditors had not yet been normalized, given that "the government has ceased payment on bonds not tendered in the debt exchange with face value of approximately US$18.9 billion, or 24% of eligible securities" (FITCH, 2005c). The pressure for a normalization of the relationship with the holdouts would be recurrent from then on.

The debt renegotiation issue started to be discussed by the CRAs already at the beginning of the Kirchnerist administration. In September 2004, for instance, the newspaper *La Nacion* (2004a) published an interview with representatives of S&P and Moody's about the Argentine situation. On the occasion, both stressed the imperative of fiscal reforms that would increase the primary surplus so that a new default could be avoided after restructuring. In Moody's words: "it is necessary to reach a surplus higher than 4% sustained over time; in addition, there are tariffs and other reforms that guarantee legal security so that there is more access to financing and, therefore, the country can continue growing". The same point was addressed by S&P the following month: "there is still a certain level of mistrust in Argentina's institutional or legal framework." (LA NACION, 2004b).

In February 2005, however, the CRAs were surprised by the result achieved by the government in the renegotiation with creditors and the tone of concern turned to optimism with Argentina's credit profile. Moody's director Mauro Leos said: "Honestly, the result was better than expected and is in line with what the banks expected and what the government wanted". Joydeep Mukherji, analyst at S&P, evaluated the scenario for negotiating the debt with the IMF: "If the Government succeeds with the IMF, there will not be much debt to pay and the rating may improve once again" (LA NACION, 2005a). The first half of the year was then marked by positive expectations regarding the imminent rating upgrades.

About a month earlier, however, David Beers, one of S&P's directors, showed concern about political aspects that condition Argentina's rating to *La Nacion* (2005b). Beers recalled that the sovereign rating formulation process takes qualitative variables into account and is not a "purely mathematical equation*"*. While pointing out that "a sovereign default is basically a political act", he pointed to the lasting loss of confidence of the financial market in the country after the 2001 default, which placed the Kirchner government's creditworthiness in jeopardy in a scenario of "institutional uncertainty". In any case, he gave the president a vote of confidence:

> But we also note that beyond President Kirchner's confrontational style, his macroeconomic policies have been notoriously cautious. What we are trying to determine is whether the environment favored him or whether it is part of a conviction, but more time is needed to find out.

On the other hand, a negative factor pointed out by Beers was the BCRA's actions: "*the fact that the Central Bank does not have the degree of autonomy that is needed worries us*. As will be seen throughout this section, the CRAs' pressure for the BCRA's independence would become a constant in their manifestations during the Kirchnerist cycle. In October 2005, for example, S&P again addressed the issue when analyzing the outlook for Argentina's rating: "the monetary policy is not as independent as it should be, but rather depends on the government's fiscal needs." (LA NACION, 2005c). Furthermore, it mentioned inflationary pressures and the high level of public debt (68% of GDP) as elements that would make an upgrade unfeasible in 2006. On the other hand, the CRA praised the primary surpluses achieved and the GDP expansion as the country's strengths.

Between 2006 and 2007, in the wake of the debt settlement with the IMF and the economic growth in the "good times" context, Argentina's rating continued to improve. On March 23, S&P upgraded it to B and on October 2 to B+, with a stable outlook. In January 2007, Moody's changed the rating outlook to positive, although it kept it at B3. Fitch, in turn, still maintained the Argentine rating in default, assigning it, since December 2005, the RD status, which indicated the existence of an uncured default.

Despite these improvements, the CRAs combined criticism of the government's economic policy with occasional praise for some economic results during the NK administration. In this sense, in an interview for La Nacion (2006a), Mauro Leos, Moody's analyst, admitted that the government's course "worries many analysts, because there is an unorthodox focus in some areas, such as fiscal policy". In the same report, Lorna Martins, an analyst at S&P, called for structural reforms that would reduce public spending.

In two reports released in the year, Fitch issued a similar opinion. On 21 March, the CRA praised the Argentine economy performance (FITCH, 2006e):

> Sovereign creditworthiness in Argentina has been supported by recent economic performance. GDP growth was an impressive 9.2% last year, and though expected to slow this year, should be above 6%. Moreover, in spite of negative real interest rates, inflation, though high, has not accelerated. [...] At 79.5% of GDP in 2005, general government debt is high but moving rapidly lower due to economic growth and an Argentine peso strengthening in real terms.

On the other hand, it criticized the implemented heterodox policies:

> Yet price controls and moral suasion rather than monetary policy and market mechanisms have been employed in Argentina to contain price pressures, suggesting that an efficient allocation of resources over the medium term toward higher return investment projects may be at risk, especially in the critical energy sector, limiting the country's long-run growth potential.

In addition, as usual, it recalled the imperative of structural reforms and a deal with the holdouts so that the sovereign rating could be upgraded: "Should structural reforms move ahead that increase the use of market mechanisms, underpin growth, and improve the quality of public finances, and should the government deal productively with the holdouts, then Argentina's sovereign ratings could be upgraded".

In August 2006, a new report corroborated the assessment. The CRA assessed that the country's creditworthiness was improving, but some issues remained to be solved, so that rating changes would depend on changes in economic policy. In particular, Fitch (2006f) again recommended pro-market reforms in the allocation of economic resources and criticized the price controls and export restrictions policies: "Undoing these unorthodox microeconomic policies would underpin more effective monetary policy management and also support the credit". It also stated that "Argentina must normalize its relations with creditors in order to bring its LTFC IDR out of Restrictive Default".

In new interviews with *La Nacion* and in the S&P report that justified the rating upgrade, the CRAs' statements followed a similar script. On the one hand, praise for the macroeconomic results obtained; on the other, criticism of the economic policy that allowed them to be achieved. As a rule, they focused on the government's interventionism in the economy through heterodox policies and the economic policy's "unpredictability" (LA NACION, 2006b, 2006c, 2006d). Despite the criticism, Felisa Miceli, economy minister, highlighted the improvement of Argentina's creditworthiness: "Credit rating agencies have begun to express themselves favorably regarding Argentina with concrete credit requalification measures" (CRONISTA, 2006).

In the report attached to the rating outlook's improvement, Moody's (2007b) stressed that "continued improvement in the fiscal accounts that, combined with robust economic growth and substantial accumulation of international reserves, has contributed to strengthening the government's overall credit profile and to reducing external vulnerabilities". However, it questioned the government's willingness to make the necessary adjustments in the event of a reversal of the favorable external scenario. In addition, the CRA criticized the heterodox economic policy pursued - in particular, inflation repressed by price controls - and pointed to the dependence of public revenue on the *retenciones* as a potential weakness.

In the 2007 election year, a new source of criticism became explicit in the CRAs' manifestations: the manipulations of the Indec by the government. This issue was particularly sensitive for the CRAs because part of Argentina's bonds had inflation-linked yields. Hence, the manipulation of inflationary data could work as a subterfuge for these assets' lower remuneration. In November, S&P criticized the price index reform proposed by the newly elected CFK government: "Argentina's inflation-linked bond is under controversy because many market participants believe that the CPI [consumer price index] understates inflation substantially." (LA NACION, 2007). Meanwhile, Fitch's (2008c) proposed agenda for the new government went in the same direction:

> The incoming administration has the important task of adjusting the current economic model through the rationalization of fiscal expenditure, policies to address both inflationary pressures and transparency issues regarding official data, and the normalization of relations with external creditors to increase the availability of financing sources.

In April 2008, S&P raised the tone of criticism. While acknowledging the importance of the fiscal surpluses and accumulated international reserves, the CRA assessed the first months of the CFK management by stating that (LA NACION, 2008a):

> There is nothing on the agenda of this new government that shows that they are taking care of the issues that are important for improving the country's credit rating: reducing price controls, providing more certainty for the private sector in terms of energy supply, managing inflation in a transparent way, expanding the channels for obtaining financing. There have been no good signs in this direction since the government took office.

Furthermore, it took the opportunity to link the conflict with the agro to the excessive centralization of power in the federal government. In the same month, S&P still worsened the Argentinean rating's outlook to negative and, in August, downgraded it to B. Between these two actions, it was Moody's turn (2008b) to criticize the inflation index manipulation, which would put in check the government's willingness to honor its debt commitments: "lower reported inflation generates significant savings for the government by reducing interest payments on its inflation-indexed bonds, raising questions about the country's willingness to pay". Subsequently, the CRA worsened the rating outlook from positive to stable. In an interview for *La Nacion* (2008b), Gabriel Torres, Moody's analyst, attributed this action to political factors: "We made it clear that the main problem is political because the economic variables are relatively good. There is a lack of will to address the problems."

At the same time, however, the damage to the credibility of S&P, Moody's and Fitch as a result of the 2008 financial crisis offered the CFK government the opportunity to initiate a strategy of questioning the CRAs' *modus operandi*, making explicit a bellicose climate between them. According to the president (CRONISTA, 2008):

> Some of the rating agencies that rate us - and which are the same ones that had the mortgage crisis in the United States in their ears and had not realized it - want to convince us Argentines that we are in trouble. [...] Some sectors of the international financial establishment may never forgive us for having negotiated our foreign debt, for having recovered the decision-making system in the national economy after the cancellation of debt with the IMF, and may believe that it is possible to reinvent old formulas.

In October, S&P promoted a new downgrade, this time to B-, partly justified by the nationalization of the pension system: "the surprising initiative of transferring the private pension system to the State has shaken the local financial market and impacted on the level of general confidence" (LA NACION, 2008c). In reaction, former President NK defended the AFJP nationalization and attributed the pension system's privatization in 1994 to the generation of "an external debt to the country of 100 billion dollars". In light of this, he declared that the CRAs "have been intentionally wrong in their assessments" and that "they are paid by the same people who want to come and financially plunder our nations". (LA POLITICA, 2008).

The AFJP nationalization also led to the publication of a new report by Fitch (2008c), criticizing the measure. On the occasion, the CRA took the opportunity to once again remind the government of the need to "normalize" the relationship with the holdout creditors. In addition, it criticized the package of anti-cyclical policies adopted to contain the global financial crisis' effects:

> The government's inadequate policy response to the global financial crisis has heightened concerns about the sustainability and credibility of the current policy framework as well as reduced available sources of financing for the sovereign against a backdrop of already limited access to international capital markets and multilateral lenders.

The government's offensive against the private pensions gave substance to the CRAs' criticism of the political unpredictability's impacts on the sovereign rating. In *La Nacion* (2009a), Moody's vice-president for Latin America, Gabriel Torres, stated again that the problem for Argentina's rating was not economic, but political and legal. Fitch, on the other hand, was harsher in its diagnosis (LA NACION, 2009b):

> Despite the country's high per capita income and level of human capital, other qualitative factors, such as weak institutions and lack of respect for law and property rights, have negatively influenced the sovereign's willingness to honor its financial obligations.

Despite these criticisms, by the end of CFK's first term, the CRAs would only upgrade Argentina's rating. In September 2010, S&P placed the sovereign creditworthiness profile back at B, with a stable outlook. With the completion of the debt restructuring's second round with private creditors, Fitch (2010c) decided to upgrade the rating to the same level. In its words:

> The completion of the second defaulted debt swap ended with a 67% participation rate. As a result of this last transaction and the one in 2005, Argentina has completed the restructuring of over 90% of the 2001 defaulted bonds. In Fitch's view, this represents a positive step toward normalizing relations with creditors.

Fitch (2010c) also pointed out that Argentina's rating was supported by its high level of per capita income, the high GDP expansion rates, the fiscal surpluses then being achieved and the composition of its public debt. On the other hand, it criticized the government's interventions in the economy, the constant fiscal expansionism and the unpredictability in the economic policy management.

In the same vein, S&P (2010) justified the upgrade based on the improvement of the country's financial profile, due to the reduction of the debt load and less pressure for liquidity in the short term. In addition, it recalled that, despite the use of BCRA reserves to pay off part of the external debt, accumulated reserves in 2010 exceeded the levels of the previous year. The CRA also recalled that all this took place in a context of recovery of the national economy amid the re-establishment of the "good times". On the other hand, the factors that could jeopardize the sovereign rating were the ones usually mentioned: "An economic approach based on increasing levels of policy discretion in a context of high inflation has shortened the planning horizon of economic agents in Argentina. Increasing problems with government statistics constitutes another constraint in this regard."

The 2011 election year was marked by an escalation of the CFK government's hostility towards the CRAs, which, although without changing Argentina's rating, continued to assess the government's performance and the economy. Fitch (2011) and S&P (2011), for example, coincided in calling into question the economic policy's sustainability, pointing to the rigidity of public spending, distortions in official statistics of macroeconomic data and the capital flight process in force. On the other hand, they praised the accumulated reserves and the reduction of the debt burden, in a surplus scenario of the country's current transactions.

President CFK, however, took advantage of the European crisis to criticize the CRAs again: "It's curious. When they were rating us, everything was fine, it was wonderful. Now when they rate them, they want to eliminate the rating agencies, (a measure) that we agree with, but we had said it a long time ago." (LA INFORMACION, 2011). In the same direction, the economy minister, Amado Boudou, stated that the CRAs "are the origin and transmission mechanism of the problems of the international financial system." (CLARIN, 2011). On another occasion, he claimed that S&P, Moody's and Fitch "are not professional or transparent, but the front of political issues that hide the objectives of concentrated economic groups" (CRONISTA, 2011). The government's finance secretary, Hernán Lorenzino, meanwhile, complained about their frequent criticism of the government's discretion in handling economic policy, claiming that the CRAs' assessments are made "subjectively and not with concrete economic data ". For the secretary, "when a rating agency says that in the post-electoral scenario policies will not be changed, in reality it is a message of tranquility and means that we are doing the right thing" (LA NACION, 2011a).

After CFK's reelection, Moody's and Fitch warned that "the government is dealing with the symptoms but not the problems it faces" and criticized, as usual, the continuity of its heterodox policies. In a report released in December, Moody's (2011b) once again criticized the political issue:

> Institutional strength concerns remain the key ratings constraint for Argentina. The impact of politics in Argentina's ratings affects the government's ability to pay through a combination of unsustainable macro and micro policies and a highly contentious political process. Politics also have an impact on our assessment of willingness to pay, as evidenced by the authorities' decision to underreport inflation when 23% of government debt is indexed to inflation.

Indeed, the Argentine rating would deteriorate significantly during the second CFK government. As we will see below, this process was catalyzed by two factors that, until then, had not been present in the interaction between the CRAs and the Kirchnerist governments: on the one hand, the main macroeconomic indicators worsened during this period; on the other hand, the conflict with vulture funds made it impossible for the government to pay the debt renegotiated in 2005 and 2010, isolating the country even more from the international financial system. At the same time, the "good times" of the international environment were reversed.

Between April and May 2012, the three CRAs published reports making further criticisms of the unpredictability of economic policy and government interventions in the economy. According to Fitch (2012a):

> The incumbent's landslide victory in October 2011 presidential elections intensified the concentration of power in the office of the president, a risk for further unpredictable economic policies. Policy uncertainty in Argentina remains high as shown by the recent measures to tighten capital controls and nationalize YPF.

Moody's (2012b), for its part, recalled once again that the government's political dynamics negatively affected the sovereign rating, highlighting the underreporting of inflationary data and the nationalization of YPF, which would underpin "our expectation of a continued haphazard policy environment". In addition, it recalled the lack of resolution of the outstanding debt with the Paris Club, which would suggest the government's unwillingness to honor its payment. S&P (2012a), on its turn, justified the rating's outlook change to negative based on the policies implemented since the government's reelection, which could harm the country's macroeconomic performance:

> These policies include rising restrictions on international trade and access to foreign currency, a modification to the Central Bank charter, and a growing level of public-sector intervention into different sectors of the economy. The government implemented these changes unilaterally and with little negotiation with the other participants, underscoring the weakening system of checks and balances in Argentina, in our view.

In October, Moody's and Fitch also placed the Argentine rating's outlook as negative, prompting strong criticism from the government. For the minister of economy, Hernán Lorenzino, the CRAs " make terrorist reports that, without changing the rating, scare off investors" (PAGINA 12, 2012a). Furthermore, he pointed out "that the problem is that the rating agencies have abandoned the analysis of economic fundamentals to incorporate subjective assessments based on orthodox prescriptions.". In his view, this would lead to incontrovertible damage to the Argentine state's financing capacity (INFOCAMPO, 2012):

> The rating agencies were designed to independently assess the repayment capacity of a debt, but once again, these assessments influence the value of the debts they evaluate, generating negative processes in the form of "self-fulfilling prophecies". For the rating agencies, in Argentina, everything is always about to enter into crisis, but Argentina has been growing and fulfilling its financial obligations for 10 consecutive years. So what is their predictive and evaluative capacity?

As of mid-2012, a new element would become increasingly present in the CRAs' evaluations about Argentina: the conflict with the vulture funds. In October, for example, Fitch (2012b) had already mentioned that judge Griesa's decision, still to be endorsed or not by higher courts in the United States, could have negative repercussions on Argentina's rating. S&P (2012b), two months later, anticipated these possible effects and downgraded the country:

> The downgrade reflects our view that the government of Argentina could face increasing debt management risks. This follows the ruling by the Second Circuit Court of Appeals of the U.S. affirming the judgment of the New York District Court granting summary judgment to plaintiffs on their claims for breach of an equal treatment provision in the terms of the bonds. This ruling could effectively increase Argentina's liabilities and the government's debt service.

Once again, the Argentine government reacted, hinting at collusion between the CRAs and vulture funds. In an interview with Rio Negro (2012), Minister Lorenzino stated that "the rating agencies and vulture funds will not prevent Argentina from honoring its commitments." Weeks later, he stated that "some people are betting a lot of money that some rating agency will say that Argentina has failed its obligations, regardless of whether or not this happens, and that this will trigger the payment of an insurance policy that they bought in the market". On this occasion, the minister went further and denounced the CRAs' *modus operandi* (PAGINA 12, 2012b).

> Not only do credit rating agencies not fulfil the role for which they were created, but they also exacerbated the international financial crisis. These companies adopt a political and ideological, rather than technical, position on risk assessment. They want to install the idea that something is going to fail, as they have been doing unsuccessfully for many years.

At the end of November, Fitch (2012c) downgraded Argentina to CC, linking the action directly to Judge Griesa's decision, which would make a default more likely. In the report, the CRA took the opportunity to criticize the CFK government:

> Argentina's economy has decelerated sharply in 2012 owing to the increased state intervention. [...] The concentration of power in the executive continues to undermine policy predictability and contributes to a tense and polarized political climate in Argentina. The recent massive protests indicate a general public dissatisfaction with issues ranging from high inflation, stringent FX controls, weakening infrastructure and corruption allegations. The authorities' disregard for popular protest and their rhetoric suggests that interventionist policies that lead to further concentration of power and increase economic distortions are likely to intensify.

Immediately, Lorenzino rebutted the CRA, ironically stating that "Fitch punishes Argentina for having economic policy autonomy". In the aftermath, he explained that Griesa's sentence contradicted Argentine laws (INVESTING, 2012):

> Fitch says, "if they pay the vultures we will raise their rating", now they are not only rating. They are also judges. […] The payment formula proposed by Judge Thomas Griesa is contrary to Argentine law. A proposal that would transfer to the bondholders who did not enter the restructuring the conditions of the 2010 swap would have some semblance of reasonableness that would allow for a legislative debate.

Throughout 2013, the CRAs continued to condition Argentina's rating to Judge Griesa's decision, while maintaining the usual criticism of the government's excessive discretion in the economic policy management. In April, for example, S&P (2013c) explained the sovereign rating as follows:

> The rating reflects Argentina's limited access to funding, the lack of predictability in economic policies in the context of high inflation, and growing rigidities in government spending. It also reflects diminished debt levels relative to GDP and a relatively high level of international reserves, despite the use of central bank reserves to pay external debt.

In September, however, after downgrading Argentina to CCC+, it claimed that "we are lowering our ratings on Argentina because of increased risks to debt service stemming from a lawsuit over the debt the government of Argentina still maintains in default" (S&P, 2013d). Two months later, without mentioning the legal dispute, Moody's (2013b) also reviewed the country's creditworthiness profile:

> Argentina's B3 government bond rating with a negative outlook balances the country's economic development and improved debt metrics against credit weaknesses linked to lack of political and policy predictability. [...] Helping to constrain credit quality, however, is Argentina's haphazard economic policies. Decisions such as the one to nationalize YPF, the country's largest oil company, in 2012 with no compensation have hurt foreign investment. [There are also questions about the reliability of official statistics for Argentina, which make it difficult to determine Argentina's real economic conditions with certainty.

On December 18, S&P (2013e) again analyzed the inflation escalation and the loss of international reserves. For the CRA, despite the ministerial changes that had taken place in the government, it could not be trusted in its willingness to correct the direction of economic policy towards a more sustainable model. Furthermore, the document explicitly linked the sovereign rating to the US judicial dynamics:

> We could lower our rating on Argentina if we perceive legal risks to its debt servicing have increased or have become more imminent. Among other developments, a decision by the U.S. Supreme Court not to hear the appeal, or the implementation of an exchange proposal that makes alternative payment arrangements that, in our view, materially alter the terms of its bond indentures to the detriment of creditors, could prompt a downgrade. On the other hand, if the U.S. Supreme Court agrees to hear the case or if, in our view, the attendant legal risks moderate, the ratings could stabilize.

Similar reasons would be pointed out by Moody's (2014c) to worsen Argentina's rating outlook, in March 2014, and to downgrade it to Caa1 in a space of a few days: loss of reserves and lack of credibility of the government's economic policy amid a scenario of capital flight. In parallel, however, S&P (2014c) acknowledged the government's efforts in its goal of returning to international sovereign debt markets:

> The government has recently made some policy adjustments in the face of worsening economic conditions, including introducing a new measure of inflation that enjoys more market credibility, agreeing to compensate Spain-based oil and gas company Repsol for the expropriation of Argentine energy company YPF, and again approaching the Paris Club of official bilateral creditors to negotiate the defaulted debt owed to them.

However, with the US Supreme Court's decision not to annul Griesa's sentence, the Argentine government's strategy became unfeasible, to the detriment of its sovereign rating. Between June and July 2014, S&P downgraded the country twice: first to CCC- and then to SD, indicating a controversial default, as will be seen in the following paragraphs. This action was followed by Fitch, which, also in July, rated Argentina as RD. Moody's, meanwhile, maintained its sovereign rating at Caa1.

In the wake of the US Supreme Court's decision, S&P (2014d) got prepared for the blocking of Argentine government's payments to the creditors that had participated in the debt renegotiation. In this sense, when downgrading the country to CCC-, the CRA noted that: "the downgrade reflects the heightened risk of default on foreign currency debt following a recent decision by the U.S. Supreme Court not to hear the Argentine government's appeal against a previous decision by the U.S". Moody's (2014d) preferred another approach, pointing out that the non-payment to vulture funds was actually an *option* of the Argentine government:

> Moody's says that Argentina has the financial means to meet its legal obligation to litigating bondholders, which the creditors put at roughly $1.5 billion when past due interest is included. However, the government has repeatedly stated that it would not pay litigating bondholders in full, which puts the portion of its bonds restructured under foreign law at heightened risk of default because of the US court rulings.

As the government did not make the payment to the holdouts, the CRAs placed the sovereign rating in default and the bellicose relationship escalated. At the end of July, S&P (2014e) justified its action as follows:

> On July 30, the grace period expired with bondholders not receiving their payment. We are therefore lowering our long- and short-term foreign currency sovereign credit ratings on Argentina to selective default ('SD') from 'CCC-/C', indicating that Argentina defaulted on some of its foreign currency obligations.

Days later, Fitch (2014) moved in the same direction:

> Argentina has not been able to cure the missed coupon payments on its discount bonds issued under foreign law after the expiration of the 30-day grace period on July 30. According to Fitch's criteria, this constitutes an event of default and Fitch has downgraded Argentina's Foreign Currency IDR to 'RD' and the affected securities to 'D'.

The situation caused indignation in the Argentine government, which repeatedly criticized the CRAs' decisions. The line of argumentation was based on the fact that the country was still honoring the renegotiated debt service and making the payments, but the creditors could not access them due to the judicial decision. This, however, would not characterize a default, since the situation did not result from a lack of capacity or willingness on the part of the country to honor its commitment. In the words of the minister of economy, Axel Kicillof (PAGE 12, 2014a):

> People are talking about aberrations: ‘technical default’, ‘Griesa default’, ‘Griefault’. No one knows how to characterize it because it is new. It does not exist. This situation did not occur to anyone. This situation is not defined as default. Argentina paid. It has money. It will keep paying the next installments. We hold Griesa responsible.

On another occasion, the Minister stated that "this is not a default. It is absurd nonsense to say that today we are in default. [...] Argentina has reserves and wants to keep paying. This money (blocked in New York) is not Argentina’s, it belongs to the creditors and they have to collect it." Meanwhile, President CFK stated that "selective default does not exist, preventing someone from paying is not default. [...] We live in a profoundly unjust and profoundly violent world and this is also violence, because missiles, as in war, when the missiles are financial, they also kill." (RFI, 2014).

For the government's chief of staff, Jorge Capitanich, the action highlighted the real role of the CRAs: "What interests them is to be a weapon to confront this government permanently" (PAGINA 12, 2014b). The former minister Lavagna, on the other hand, made a more considered assessment of the situation (SWISSINFO, 2014) when evaluating whether or not the default occurred:

> It depends on who is looking at it. If the Argentine government looks at it, no, because there are some rules in the contract that say that once the payment has been remitted to the bank, the country has paid. If 93% of the creditors look at it, yes, because the same prospectus (of the contract) says that the payment is considered made at the moment it is credited to the creditor's account.

In any case, he did not spare the international community’s position regarding the CRAs’ *modus operandi* from criticism:

> This is a double-standard issue: when rating agencies began to downgrade various European countries, including Italy and France, the response was that the rating agencies were acting incorrectly, and the European Union even considered the possibility of setting up an official rating agency. So it turns out that when it has to do with Europe, the rating agencies are wrong, and when it has to do with developing countries, it seems that what the rating agencies say is the whole truth, holy word. No double standards, let's be serious.

The Argentine Senate, meanwhile, issued an official statement (SENADO, 2014):

> The set of judicial decisions together with the determinations of the credit rating agencies have placed Latin America's third largest economy outside the international debt markets. This has implications not only for debt service payments but, in general, for Argentina's public finances, which, according to analysts, will tend to contract.

In fact, the CRAs did not deny the Argentine version of the story. In subsequent reports, which continued to be guided by the country’s dispute with the vulture funds, the sovereign rating remained directly linked to the judicial decision. S&P (2014f) explained this situation:

> The District Court ordered BoNY to return the funds to Argentina, preventing the sovereign from making the interest payment. As a result of its failure to pay, and after the contractual grace period of 30 days had lapsed, we lowered Argentina's foreign currency rating to SD on July 30, 2014, in accordance with our methodology.

In the electoral year of 2015, the CRA once again criticized the CFK government’s economic policy. In a report evaluating the country's creditworthiness profile, S&P (2015c) highlighted the imperative to return to the sovereign debt market and indicated it did not expect any change in Argentina's rating until the presidential elections in October:

> The winner of that election will face a weak economy, fiscal and monetary rigidities, and diminished external liquidity brought on by current policies and lack of transparency. [...] A more transparent, credible, and predictable economic framework together with measures aimed at easing capital controls and containing the fiscal deficit would most likely attract external investments and, thus, improve medium-term growth prospects.

S&P's criticism was followed by Moody's (2015b):

> Argentina's institutional weakness and expansionary fiscal policy have increasingly led to its reliance on central bank money printing and affected the ability to pay its debts. Manipulation of the country's official economic data, specifically the

> underreporting of inflation data, has significantly decreased the debt payments bondholders have been able to receive. Moody's said the lack of certainty about the country's economic indicators, coupled with broad government intervention in the private sector, has deterred investment and hurt the profitability of Argentine companies. Moody's analysts noted that utilities firms have been particularly negatively affected by the governments interference in the energy sector.

With Macri's victory in the presidential race, Moody's (2015c) immediately improved the Argentinean rating's outlook to positive. In a report entitled "Election Outcome is Key Driver Behind Changing Outlook to Positive", the CRA expressed its optimism towards the coming administration. Among the positive measures likely to be implemented under the promised liberalism, it highlighted the resolution of the conflict with the holdouts and the reversal of Kirchnerist policymaking's "unpredictability". In its words:

> Mr. Macri has consistently and increasingly made clear his administration's policies will be market-friendly and represent a major break from those in place during three consecutive Kirchner administrations (12 years). Over the course of his campaign he has promised to embark on a series of economic reforms which would improve Argentina's growth prospects and institutional accountability in the medium- to long-term, including tackling persistently high levels of inflation and lack of data accountability. The new government aims to install new leadership at the central bank and legally establish central bank independence. [We continue to be cautiously optimistic that the new government will find a timely resolution to debt default negotiations and advance market-oriented economic reforms.

As showed in graph 10, the Argentine rating would assume an unstable trajectory during Macri's government. In the first three years of the neoliberal administration, the creditworthiness profile improved, matching the one observed in Kirchnerist times. In the last year of the government, however, the sovereign rating worsened significantly. As we will see below, S&P, Moody's and Fitch's ratings correspond to the three stages of Macri's government presented in the previous section: at the beginning of his administration, positive ratings were based on the expectation of an economic policy ideologically aligned with the agenda advocated by the CRAs; then, the positive rating actions were supported by some liberal reforms carried out and the resolution of the conflict with vulture funds; finally, in the last two years of the government, the country's socioeconomic collapse made further positive rating actions impossible.

Already in Macri's first month in office, Moody's (2015d) made explicit its enthusiasm for the government's agenda:

> The initiatives that Argentina's (Caa1 positive) President Mauricio Macri announced this week to reduce the country's economic distortions, should boost the economy in the long run. [...] Most notably, the government lifted capital controls and allowed the Argentinian peso to float freely. Initially, this has prompted a sharp depreciation of the currency, but in the longer-run it should attract increased overseas investment and help stabilize the country's foreign exchange reserves.

In March and April 2016, it was Fitch's (2016c, 2016d) turn to speak out in praise of the government. The CRA noted that the capital controls' removal "should contribute towards improving the capacity of the economy to absorb external shocks and relieve pressure on international reserves" (FITCH, 2016c). In addition, it praised the monetary tightening and the reorientation of BCRA's actions to contain inflation.

In April, Moody's upgraded the sovereign rating to B3. In the attached report, the it pointed to the Macri government's economic policy and its willingness to resolve the conflict with vulture funds as determining factors. In addition, the CRA praised the measures already taken by the government (MOODY's, 2016a):

> Since taking office in December 2015 the Macri administration announced a series of policy adjustments designed to reduce the country's economic distortions and set the economy on a path to growth and stability. They include eliminating energy and transportation subsidies in order to reduce the country's high fiscal deficit, near and medium-term inflation targets that contemplate declining inflation, and lifting capital controls, eliminating multiple exchange rates, and implementing a managed float exchange rate.

Two new upgrades occurred in May, when S&P raised Argentina's rating to B- and Fitch to B. At that time, the agreement with the vulture funds had already been reached and the payment of the debt with the other creditors had been resumed. This would have been enough, according to the CRAs' reasoning in previous years, for the sovereign rating to be removed from default. But Fitch (2016d) and S&P (2016d) took advantage of the occasion to pay new compliments to the government. According to the former:

> The LT FC IDR upgrade to 'B' is driven by Argentina's resumption of debt payments to restructured bondholders, thus curing the default of July 2014. In addition, Argentina's ratings reflect the improved consistency and sustainability of Argentina's policy framework, reduced external vulnerability, and the easing of external and fiscal financing constraints.

At the end of September, Moody's (2016b) released a new report praising the government's performance, but showing concern about the low degree of depoliticization of the country's economic policy:

> Argentina's economic development and debt metrics would be consistent with a higher rating were it not for the credit risks that arise from its politics and economic policies. The new administration under the presidency of Mauricio Macri, that assumed power last year, has implemented a major policy shift relative to the prior presidency of Cristina Kirchner. The administration has made important changes that will impact the country's institutions regarding respecting the rule of law and the reporting of macroeconomic data. However, it will take time for the full effect of the new policymaking to materialize and there is still a high risk that a different government could reverse these policy changes.

In March 2017, Moody's improved the Argentine rating's outlook to positive, signaling an upgrade possibility in the following months. In April, the improvement was promoted by S&P, which raised the sovereign rating to B. The same agency would still improve the Argentina's rating to B+ at the end of October, while Moody's would deliver the promised upgrade at the end of November, rating the country as B2.

As clarified in Moody's (2017c) report, the outlook improvement for Argentina's rating was not due to concrete changes in the metrics taken into account in the sovereign rating's formulation, but rather to expectations that they would improve with Macri's economic policy:

> Over the past fourteen months, a number of policies have been introduced which have laid the ground for future improvements to Argentina's economic and fiscal strength, and for a reduction in its exposure to shocks. The positive outlook reflects the rising likelihood that those policies, and the improvements in Argentina's institutional strength which they illustrate, will be sustained and bring about lasting improvements in Argentina's credit profile.

Indeed, this was the CRAs' manifestations tone throughout Macri's government. The assessments were made even before the concrete effects of the implemented measures were presented, so that the government could enjoy the rating changes' beneficial effects beforehand. In this sense, in April 2017, S&P (2017d) justified Argentina's upgrade to B as follows: "the rating action reflects advances made in overall economic policy aimed at resolving large economic imbalances while restoring the country's policy credibility". In the CRA's view, the "predictability" of economic policy had improved, with the BCRA turning its efforts only to fighting inflation and Indec regaining its credibility.

At the end of October, another upgrade by S&P (2017e) was based on the economic policy as an end in itself, and not on its results: "the rating action reflects greater confidence about the government's political capacity to continue pursuing its economic agenda". The agency's expectation, as pointed out in the report, was that the greater predictability resulting from the economic policy would favor the country's business environment and, as a consequence, the investments' level in the economy. Furthermore, new reforms were expected: "we expect the government to pass important laws, including the 2018 budget and a new fiscal responsibility law, tax reform (seeking a simpler and more efficient tax structure), and legislation that would improve labor costs and education and enhance the local capital markets".

Following the 2017 legislative elections, when Macri's coalition was victorious, it was Fitch's (2017) turn to again express enthusiasm for the government's agenda, improving the rating's outlook:

> The administration's strengthened mandate could provide renewed impetus to its policy agenda, namely in the areas of fiscal consolidation and structural reforms where political headwinds have slowed progress the most. [...] Fitch expects growth will rise from 2.8% in 2017 to 3.4% in 2018, driven by investment, as fiscal consolidation and efforts to moderate salary hikes could restrain consumption somewhat.

Moody's (2017d) went in the same direction in justifying the rating's upgrade to B2:

> The key drivers of the upgrade of the rating to B2 are: (1) A record of macro-economic reforms that are beginning to address long existing distortions in Argentina's economy. (2) The likelihood that reforms will continue and in turn sustain the recent return to positive economic growth.

In the course of the report, the CRA listed the Macri governments' achievements that fed its positive expectations for the Argentine economy: financial liberalization, free exchange rate fluctuation, the BCRA independence and an end to Indec's manipulations. The combination of these policies with the reforms that the government promised for the following years, therefore, would greatly favor the national credit profile:

> The Macri administration has announced tax, pension and labor reforms following its electoral win in October's legislative midterms. The reforms announced include reducing certain corporate taxes to improve competitiveness; labor reform aimed at lowering the cost of hiring in Argentina and increasing the share of formal employment; and a change in how pension outlays are calculated, which will help reduce pension payments and in turn reduce the fiscal deficit. The government is also continuing to reduce energy subsidies to better reflect real production and distribution costs. Moody's expectation is that reforms will likely continue as midterm elections have strengthened the government's political position.

In mid-2018, Moody's (2018a) re-assessed the Argentine economy, pointing out that its weaknesses resulted from a history of "unsustainable economic policies" prior to the Macri government. With the course correction, however, the Argentine economy would recover, as projected by Fitch (2018b): "Fitch projects stronger private investment will support growth around 3% in the coming years, ending an erratic pattern seen in the past decade". Subsequently, however, the CRA announced a worsening of the Argentine rating's outlook, from positive to stable.

From then on, with the economic crisis that unfolded in 2018, the rating changes promoted by S&P, Moody's and Fitch would only be negative. Already in August of that year, S&P assigned it a negative outlook, which would turn into a downgrade in November. A year later, three new downgrades would be applied by the same CRA. In November 2018, Fitch also worsened the rating outlook, with the foreshadowed downgrade happening twice in August 2019. In the same month, it was Moody's turn to worsen the national creditworthiness profile.

Indeed, already in May 2018, Moody's (2018b) expressed its concern about the national currency's condition: "the peso's weakening reflects an increased perception of risk for Argentine assets, a credit-negative development for Argentina, which relies on portfolio flows (speculative investments in a country's stock or bond market) to fund large and growing current account deficits". The agreement with the IMF, however, reassured the CRAs, as demonstrated by S&P (2018b) in a report the following month: "we expect the government's decision to enter into an agreement with the International Monetary Fund (IMF) will help sustain investor confidence and maintain its access to capital market funding for its large fiscal deficits".

In August, however, the ineffectiveness of the agreement with the IMF in containing capital flight was already notorious, which led to the worsening of the Argentine rating's outlook to negative by S&P (2018c): "the CreditWatch negative reflects the risk of worsening creditworthiness due to potentially weakened implementation of the government's strategy to stabilize the economy". In the same direction, Moody's (2018c) commented on the capital flight situation:

> The government's inability to contain domestic financial volatility and exchange rate pressures denotes Argentina's high vulnerability to changes in investor confidence, a major weakness of its credit profile. Last week's interest rate hike was the latest in a series of policy measures that, so far, have been insufficient to restore investor confidence. [...] Argentina is highly susceptible to shifts in risk appetite due to a high reliance on short-term portfolio flows.

In November, by worsening the outlook for Argentina's rating, Fitch (2018) already expressed pessimism with the country's economic situation: "the revision of Argentina's Outlook to Negative from Stable reflects sharply weaker economic activity and uncertain prospects for multi-year fiscal consolidation and market financing availability as IMF funds are used up, posing risks to sovereign debt sustainability". In this context, the proximity of the following year's presidential elections was already a source of concern, as noted by S&P (2018d) in the same month. This was particularly problematic because the economic crisis damaged the popularity of President Macri, in favor of a possible new government less committed to the orthodox agenda. Hence, according to the CRA:

> We could lower the rating over the next 12 months if unexpected negative political developments or uneven implementation of the government's economic austerity program further damage investor confidence, worsening the government's access to market financing and potentially placing pressure on the currency, thereby worsening inflation dynamics. Similarly, perceptions that the sovereign's commitment to the economic adjustment program could waver after national elections in 2019 could create similar unfavorable market dynamics, potentially resulting in prolonged high interest rates.

In any case, S&P (2018d) highlighted the IMF agreement as a positive element amidst this scenario of uncertainty:

> Political opposition to the IMF program has contributed to rising political tension. The government has responded by segregating key social programs from spending cuts and boosting spending in some programs (such as child allowances and pensions). The IMF agreement allows for limited increases in social spending. Such flexibility could contain public opposition to the austerity program and strengthen the administration's ability to implement its program during an election year.

In the same direction, Moody's (2018d) also praised the commitment to the fund: "Despite the rise in the government's debt and interest burdens, the sovereign benefits from its strong commitment to consolidation under its IMF program, which we expect will shield it from external refinancing risks through next year as long as policy continuity persists."

However, the economic crisis did not cool down and the presidential elections became the focus of the agencies' manifestations, given the risk they represented to the neoliberal agenda. In this sense, Fitch (2019a) thus evaluated the imminent clash of political projects, supporting the continuity of the Macri government:

> Election outcomes resulting in policy disruptions or a negative market reaction pose a major downside risk, but challenges to growth, macroeconomic stability and fiscal consolidation may persist even if such a scenario is avoided. [A Macri victory would support policy continuity and market sentiment, but needed adjustment measures and reforms could prove even more politically difficult than those enacted already. The outlook is more uncertain should an opposition candidate win.

In August, the Peronist victory in the primaries motivated the rating downgrade promoted by Fitch (2019b), making explicit the CRAs' "vote" in the presidential elections. According to the CRA:

> The primary election results point to increased chances for a change in government and victory by the opposition ticket of Alberto Fernandez and former president Cristina Fernandez de Kirchner in the October elections. In Fitch's view, such a scenario increases risks of a break from the policy strategy of the current administration of Mauricio Macri guided by a program with the IMF.

Moody's (2019b) explained its downgrade for the same reason:

> The outcome of the national primary elections (the 'PASO') in August implied a high probability of a victory in the October presidential election for the opposition candidate, Alberto Fernandez, and his running mate, Cristina Fernandez de Kirchner. That outcome led to a severe market reaction which in turn raised the government's debt load, lowered debt affordability, and reduced funding sources. Second and as a consequence, the government has now announced delays in the repayment of more than $8 billion of short-term debt, and the intention to seek a 'voluntary reprofiling' of longer-term debt, including debt owed to the IMF. The exact consequences of the government's pronouncements are unclear, and some will in any event be for the subsequent administration to determine.

As presented in the previous section, however, the CRAs' vote would not be enough to prevent the opposition candidate from winning the presidential election. Thus, from December 2019, Alberto Fernández, from the Justicialist Party, assumed the presidency. The new Peronist term also had the former president CFK as vice-president of Argentina. The consequences of this event, however, are beyond the scope of this research.

4.4 The rating agencies and Argentina: perceptions and interferences

The previous section showed how the CRAs' behavior was guided by the defense of financial market interests in the face of Argentina's political and economic process, which occurred through the articulated emission of ratings, reports and statements in media channels. This *modus operandi*, however, did not occur in a homogeneous way during the analyzed period, being more or less evident at different moments. According to the second part of our argument, it is then necessary to verify if this can be explained by a correspondence between the political activism practiced by S&P, Moody's and Fitch and the political risk conditions that the CRAs evaluate as existing in the country. In light of what was presented in section 2.7, the operationalization of this argument demands comparing different situations of political risk throughout the time period considered in this thesis, as well as the reactions that they give rise to by the CRAs. In this sense, based on the previous subsection, table 6 presents four political risk situations identified in the experience of interaction between CRAs and Argentinean governments, highlighting their explanative elements and the instruments used by S&P, Moody's and Fitch to interfere with the national political and economic process.

Table 8 - Assessments and reactions of the rating agencies regarding the political risk.

Time frame	Political risk condition	Source of political risk	Form of activism
2002	High	Government ideology and international environment	Opposition against Duhalde government
2003-2011	Moderate	Government ideology	Criticisms against the economic policy
2012-2015	High	Government ideology and international environment	Opposition against CFK government
2016-2019	Moderate	International environment	Praise for economic policy

Source: The author, 2023.

These different stages are analyzed in the following subsections. In each one of them, both the CRAs' perception of political risk and their entailed reactions are considered in order to operationalize the research's argument. In this sense, it will be observed whether the different levels of political activism presented in section 2.7 reflect the government's ideological orientation and the international environment's conditions - elements that constitute the political risk's perception by the CRAs. Subsequently, section 4.5 reviews the interaction between the CRAs and these different governments.

4.4.1 2002: high political risk

The immediate post-crisis period of 2001 can be understood, according to the parameters that guide the CRAs' political risk perception, as a period of "high political risk". Two elements support this diagnosis: on the one hand, the ideological orientation of the Duhalde government, whose economic policy was markedly heterodox and guided by state interventions in the economy to the detriment of financial sector interests; on the other hand, the external environment was still hostile to foreign exchange raising by an emerging economy, with liquidity conditions in the international financial system and international commodity prices working against it. In line with our argument, this scenario would have led S&P, Moody's and Fitch to participate more actively in the country's political process, behaving in a manner antagonistic to the government.

In this context, since the sovereign rating was already registering the default declared by the Saá government in December 2001, the CRAs' instruments available for this purpose were restricted to the discursive manifestations. Furthermore, since the public debt servicing interruption was already a fait accompli, it should be kept in mind that the political risk in force was acting to impede or postpone the national creditworthiness profile's recovery, so that payment to creditors could be resumed or renegotiated in the future. It follows that, according to the CRAs' perspective, the government's actions would be counterproductive to this purpose.

As seen in section 4.2.1, the Duhalde government decisively broke with the orthodox agenda that had predominated in Argentina in the previous decade. This process, however, was preceded by pressures from S&P, Moody's and Fitch for its continuity. At the most acute moment of the country's socioeconomic collapse, on the eve of the default, the CRAs praised the De La Rua government's efforts to try to safeguard the financial market's confidence. This translated into their defense of the *corralito* and the dollarization of the economy. In the wake of the banking system's collapse, Moody's (2002) explicitly proposed a program to further socialize the losses entailed by the crisis, suggesting the nationalization of insolvent banks, their recapitalization with public funds and subsequent privatization. Although we do not intend to analyze here the merits of this proposal, it is clear that its major beneficiaries would be the national and international financial system's actors.

But the Duhalde government, despite provisionally maintaining the *corralito*, soon changed the course of the national economic policy. In this process, it abandoned the convertibility, initiated the pesification of the economy and waited for the appropriate moment to agree on a loan with the IMF in a position of less vulnerability regarding possible conditionalities. The Peronist transition government's agenda was, then, constantly criticized by the CRAs, which continued to press for reforms in line with the neoliberal prescriptions. Not surprisingly, in a context of economic recovery, Moody's (2003b) continued to question the government's *willingness* to promote the measures supposedly necessary to recover Argentina's creditworthiness: "the outgoing administration has been unable or unwilling to introduce the measures required to assure that Argentina's economic growth is restored to a sustainable path". Such measures, as pointed out in the previous section, consisted, according to the CRA, of liberalizing economic reforms that would entail public spending reduction.

Indeed, in line with this thesis' argument, this represents an innate pressure in the CRAs' *modus operandi*.

Before that, the CRAs used a strategy that is recurrent in their line of action: the disclosure of negative forecasts for the national economy when measures discordant with the orthodox agenda are implemented[267]. Given their epistemic authority condition before public opinion and the financial market, this behavior's effects are not trivial for the national political and economic process, acting to destabilize and constrain the government that advances measures that go against the demands of the financial world. This led to the indignation of the Argentine president himself, who publicly criticized these actions and made clear the CRAs' antagonism in relation to the government (LA NACION, 2002b).

In this phase of their interaction with the Argentinean governments, S&P, Moody's and Fitch also focused on a criticism that would be constant throughout the time period considered in this research: the low depoliticization of the national economic policy, which would acquire different guises in their discourse. In this case, this element was always presented as a weakness of the Argentine creditworthiness profile in terms of its "institutional uncertainty", which refers to the government's discretion in conducting economic policy[268]. As this means that the interests of financial market players may eventually be overruled by the government's action, the CRAs would repeatedly press for its reversal.

In short, in the context after the 2001 default, the Argentinean experience with the CRAs seems consistent with our argument. In this brief period, S&P, Moody's and Fitch exercised an activism in favor of the financial market's agenda compatible with a "high political risk" situation. To this end, they used of their discursive instruments, since the sovereign rating already reflected a situation of public debt default, and could not be changed to an even worse level as a form of pressure. Through reports and media statements, therefore, they presented a behavior that contemplates the three levels of political activism presented: from pressure for liberalizing reforms and fiscal austerity, to interventions in concrete themes of the national economic process, to explicit criticism of the government, often calling into question its *willingness* to recover the country's creditworthiness before the market. Not surprisingly, the Duhalde government itself recognized the CRAs as a problem for national economic stability.

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[267] For example, this can be seen in the position of Fitch (2002c), which, as presented in the previous section, foresaw the loss of industrial competitiveness if the government pursued its interventionist agenda.
[268] As stated by Moody's (2003b) in a report presented in the previous section.

4.4.2 2003-2011: moderate political risk

The period between 2003 and 2011 can be regarded as a phase of "moderate political risk" under the CRAs' perspective. In this context, although the ideological orientation of the Kirchnerist governments acted to accentuate the political risk, the configuration of "good times" in the external environment acted to mitigate it. In line with the argument put forward in this thesis, this would trigger an intermediate political activism degree by S&P, Moody's and Fitch, which exerted pressures that went beyond the defense of the orthodox agenda in their manifestations, but that did not represent a focus of explicit opposition to the Argentinean governments[269] .

On the CRAs' perception side, the economic agenda carried out by the NK and CFK governments directly confronted the orthodox precepts propagated as beneficial to the sovereign rating. This ideological divergence, however, was counterbalanced by the positive effects of the external environment, which acted to strengthen the quantitative metrics considered in the rating process. Thus, with the strong foreign currency inflow resulting from the commodities price boom and favorable liquidity conditions in the international financial system, the political risk moderated.

In the CRAs' reports and statements, this translated into ambiguous manifestations: on the one hand, criticism of the government's heterodox measures was recurrent; on the other hand, the agencies could not fail to register the improvement in the national creditworthiness profile[270]. In this case, for example, the strong GDP expansion observed in the period, in the midst of recurrent fiscal and trade surpluses, contributed to improve the state's financial and indebtedness profile. At the same time, the international reserves accumulation served to reduce its external vulnerability. This scenario ended marked the CRAs' political activism in the period: in their discourse, criticism of the policies implemented proliferated and pressure on the government became evident; regarding their ratings, however, successive upgrades relieved the weight of the discursive manifestations.

This mismatch, however, was only possible due to the rounds of debt renegotiation (in 2005 and 2010), which re-established the sovereign rating as an instrument subject to the country's political and economic developments. Since the debt renegotiation answered to the

[269] At one point, by contrast, the NK management even received praise from S&P, as pointed out in the previous section (LA NACION, 2005b).
[270] These contradictory manifestations can be observed, for example, in the Fitch report (2006e) presented in the previous section and in the statements of the agencies' analysts to La Nacion (2006a). In this movement, while the sovereign *rating* improved, the ruling economic policy was criticized and liberalizing reforms were demanded.

CRAs' frequent demand of "normalizing the relationship with creditors", these rounds favored Argentina's rating. Indeed, this was made explicit by S&P, Moody's and Fitch in their reports, as presented in the previous section[271] .

In any case, in line with an intermediate level of political activism, the CRAs sought to influence some of the country's policymaking at this stage of their interaction with Argentinean governments. In particular, two elements related to their diagnosis of low depoliticization of national economic policy stood out in this process: on the one hand, the lack of independence of the BCRA, which the CRAs presented on various occasions as a source of concern; on the other hand, the government's heterodox approach to contain inflation. In this case, the price controls policy and the interventions in the Indec elicited repeated criticism in the released reports and media statements. Indeed, these were elements presented as weaknesses that negatively impacted the sovereign rating, which reveals the CRAs' mechanism of interference in a national policy issue: if a correction does not take place, the rating is penalized, which negatively impacts the state's financing capacity in the sovereign debt markets. This *modus operandi* is further complemented by the proposition of an agenda aligned with the imperative of fiscal austerity and liberalizing reforms, such as Fitch (2008c) presented to the recently elected CFK government.

It is also worth noting how, in the context of the instabilities resulting from the 2008 financial crisis, the CRAs adopted a more aggressive tone in their statements. In this sense, S&P even declared that "there is nothing on the agenda of this new government that shows that they are taking care of the issues that are important for improving the credit rating of the country" (LA NACION, 2008) and Moody's (2008b) explicitly called into question the government's willingness to service the public debt. This can be explained by a transitory perception of the international environment's deterioration in the critical context, which caused a sudden and temporary drop in commodity prices and a lower risk appetite of investors. In other words, for a brief period, the CRAs' political risk perception accentuated.

Moreover, the mentions to the *willingness* factor in their statements seems to be related to the strengthening of the quantitative metrics that underpin the rating in relation to the government's *capacity to* honor its debt commitments. Not by chance, S&P, Moody's and Fitch declared on several occasions that the problems surrounding Argentina's rating belonged more

[271] In this sense, it should be noted that even after the first round of renegotiation of the defaulted debt with the creditors was completed, Fitch (2005c) opted to maintain the country's rating in default as a way of pressuring for progress in the "normalization of the relationship with creditors".

to the political than to the economic field[272]. In this case, the *unpredictability* of government actions, resulting from its discretion in conducting economic policy, was presented as a negative factor for the national creditworthiness profile. In this sense, the AFJP's nationalization offered the CRAs a pretext to illustrate their claim and criticize more incisively the country's "institutional weakness".

It should be noted, however, that at no time did the NK and CFK governments attempt to appease the relationship with the CRAs. Conversely, they often sought to spell out their ideological differences with S&P, Moody's and Fitch, as well as the political bias of their assessments and statements. This was evident in the discourse of the two presidents and their economic teams, particularly in the election year of 2011. In this context, the CRAs reaffirmed the criticisms already mentioned, presenting them as weaknesses in the national creditworthiness profile and thus pressing for their correction. By confronting them, however, the Kirchnerist administrations acted to delegitimize the CRAs' epistemic authority, which would prove to be strategic in the near future, when the bellicose climate between them escalated.

In this phase of "moderate political risk", therefore, the CRAs used only their discursive instruments to promote the financial market's interests in the Argentine political and economic process. This drew on an intermediate level of political activism, in which the criticisms presented in their reports and media statements were undermined by the contradictory sovereign rating's improvement trajectory. In this process, the CRAs' behavior reflected a political risk condition potentiated by the ideological orientation of the Kirchnerist governments, but attenuated by the "good times" of the international environment.

4.4.3 2012-2015: high political risk

Between 2012 and 2015, a scenario of "high political risk" took shape in Argentina, according to the political risk parameters that are considered to guide the CRAs' perception vis-à-vis developing countries. This is explained both by the ideological orientation of the CFK government and the deterioration of the external scenario, with the transition from "good" to "bad times" for governing. As a result, S&P, Moody's and Fitch used their ratings, reports and press releases to act as political opposition to the government.

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[272] As stated in the previous section, Moody's statement to La Nacion (2008a) is emblematic in this sense: "*dejamos en claro que el principal problema es político porque las variables económicas están relativamente bien. Falta voluntad para encarar los problemas*."

The worsening of political risk conditions is directly related to the deterioration of the international environment in which CFK's second mandate unfolded, given that the ideological orientation of the government did not change. From 2012 onwards, international commodity prices reversed and plummeted, especially from 2014 onwards. Two harmful effects on the public finance stand out in this process. On the one hand, the Kirchnerist administrations relied on the *retenciones*' revenue, which was levied on exported primary products. Indeed, the CRAs often pointed out as this factor as a potential weakness of the country's creditworthiness profile, given the possibility of falling commodity prices. As a result, public revenue was negatively impacted, to the detriment of the quantitative metrics taken into account by Moody's, S&P and Fitch in the rating process. On the other hand, liquidity conditions in the international financial system also worsened in this context, with the end of the US quantitative easing policy. This exacerbated investors' aversion to risk at a time when Argentina needed to get funded in the sovereign debt market.

As a consequence, the CRAs' political activism in favor of financial market interests became more evident. In fact, this is what can be seen in their usual criticism of the Kirchnerist economic policy, in a scenario of greater government vulnerability due to the deterioration of the national economy. In this context, S&P, Moody's and Fitch repeatedly criticized the "unpredictable" nature of economic policy, in line with the constant plea for its depoliticization. In 2012, the YPF nationalization strengthened the CRAs' argumentative line, which was already drawing on the government interventions in the Indec and other heterodox policies implemented, such as the ones targeted at inflation[273]. Recurrently presented as an institutional weakness that affected the sovereign credit profile, the rationale behind the CRAs' pressure was that such an element was incorporated to the sovereign rating and, ultimately, would have a negative incidence on public bonds' pricing by investors. Hence, the government would be forced to alter the course of its economic policy or face the consequences on its financing capacity.

But this attempt to influence the government's agenda was heightened by the legal conflict with vulture funds, which began to dominate the CRAs' reports as early as 2012, throughout CFK's second mandate. This process took place in two stages: the first extending from Judge Griesa's ruling in November 2012 to the US Supreme Court's approval in June 2014; the second, from the registration of default on Argentina's public debt. In the first stage, the CRAs sustained worsening of the sovereign rating or its outlook on the default risk resulting

[273] For example, this has been made explicit by Moody's (2012b), which refers to Argentine policymaking as being guided by a "continued haphazard policy environment".

from Griesa's ruling, taking advantage of this constraint to advocate changes in economic policy in line with the orthodox agenda[274]. In the second stage, to course of action was added the side taken by S&P, Moody's and Fitch in the conflict with the holdouts: by promptly indicating the sovereign default, the three CRAs sought to force payment to the vulture funds, ignoring the controversies around the case. At the time, Moody's (2014d) even stated that what the country lacked was not the financial capacity to honor the debt with the vulture funds and thus re-establish the payment to the other creditors, but the political will to do so.

However, although vulnerable to the capital flight process and the established economic crisis, the Argentinean government chose not to give in to these pressures and made public the bellicosity that characterized the relationship with the CRAs in this phase of their interaction. Indeed, the tension between them only escalated until the end of the CFK government: on one side, S&P, Moody's and Fitch promoted downgrades *in* sequence, pointing out the government's lack of credibility and political will to promote measures favorable to the national creditworthiness profile; on the other side, the government denounced the CRAs' collusion with the vulture funds. In this case, both President CFK and her ministers explicitly pointed out the antagonistic character of S&P, Moody's and Fitch to the government, accusing their behavior of being politically motivated and putting their technical character in check (INFORCAMPO, 2012). This *modus operandi*, as presented, was framed as "terrorism" (PAGINA 12, 2012) or "violence" (RFI, 2014) by the government, with the Kirchnerist chief of staff, Jorge Capitanich, even declaring that the CRAs' role was to permanently question the CFK government (PAGINA 12, 2014b).

The 2015 election year offered S&P, Moody's and Fitch the opportunity to influence even more decisively national politics in favor of the orthodox agenda. Unlike the 2011 election, when two left-wing candidates were favorites, the presidential race was then between Daniel Scioli, CFK's Peronist successor, and a right-wing candidate, Mauricio Macri. In this context, the CRAs left aside the legal dispute with the vulture funds in their discourse and turned their attention to criticizing the government's economic policy once again. In this process, they pleaded for an agenda based on less state intervention in the economy and for more predictability and transparency in the coming administration, highlighting the country's economic disarray caused by the Kirchnerist administrations[275]. In other words, the ideological convergence with the opposition candidate in the dispute was evident, to Macri's electoral benefit.

[274] This becomes explicit, for example, in the Fitch (2012b) report presented in the previous section.
[275] For example, as highlighted by Moody's (2015b).

At this point, once again it should be considered that the epistemic authority condition enjoyed by the CRAs was beneficial for politicians situated on the right of the country's ideological spectrum, in view of the programmatic convergence between both. In this context, although the Peronist governments have never hesitated to denounce the political character of the CRAs' actions, the unfolding economic crisis seems to have caused wear and tear that composed the political climate favorable to change. Hence, the financial market could see its political aspirations met in the 2015 electoral process.

In short, during this period of high political risk, the CRAs used all instruments at their disposal to act as opposition to the CFK government. This translated into successive downgrades, together with reports and media statements to plead for changes in economic policy in favour of the orthodox agenda. In the midst of the dispute with vulture funds, the CRAs explicitly sided with the holdouts, advocating, from the very first moment, payment according to the Griesa judicial decision, despite the controversies surrounding the case. After registering the Argentine default, they continued exercising their political activism in the discursive dimension, which gained new significance in the midst of the 2015 electoral race. In line with our argument, this is a behavior that corresponds to the political risk conditions prevailing in the country, due to the ideological divergence with the Kirchnerist management and the "bad times" in force.

4.4.4 2016-2019: moderate political risk

The last phase of interaction between the CRAs and Argentinean governments analyzed in this research can be understood as a period of "moderate political risk". According to the perspective of S&P, Moody's and Fitch, this would result from their ideological alignment with the Macri government, which is in force, however, during an adverse international conjuncture. Hence, the CRAs would exercise an intermediate level of political activism, using their instruments of intervention in the national political and economic process to influence the country's policymaking, but without antagonizing the government. As we will see below, such behavior was manifested in their ratings, reports and media statements.

Regarding the CRAs' perceptions, the ideological convergence's role in mitigating political risk became clear when Macri won the 2015 presidential elections: as soon as this happened, the sovereign rating outlook improved, despite the fact that it remained in default[276].

[276] In effect, the title of Moody's report (2015c) already explains the determining element for the improvement in the rating: "*Election Outcome is Key Driver Behind Changing Outlook to Positive*".

In this context, although the new government's agenda was surrounded by positive expectations, the unfavorable external environment continued to represent a serious constraint to its performance. The resulting political risk materialized in the possibility of reversing or abandoning the neoliberal agenda carried out by Macri in the wake of his eventual departure from government, which became feasible as his economic agenda failed, to the detriment of his popularity. Indeed, this was an evident concern in the CRAs' manifestations, especially in the last two years of his government[277] .

On the political activism side, the CRAs' interventions in national issues to favor the financial market's agenda were abundant. A central element to this *modus operandi* was the recurrent improvements in the Argentine rating based only on positive expectations resulting from the government's neoliberal agenda, without being supported by its concrete results[278]. Given the rating's endogenous character to the national political and economic process, this meant that the CRAs favored the government with which they aligned ideologically through benefits to its financing capacity in capital markets. To this tangible incentive to continue the orthodox economic policy, it is added the reverberation on public opinion of the frequent praise from S&P, Moody's and Fitch to the governing agenda - which, as already indicated throughout this research, is not trivial given the position they occupy in the international financial system.

Indeed, during Macri's mandate, the actions of the government and the CRAs have fed off each other. Already at the beginning of his term, the resolution of the dispute with the vulture funds had the immediate result of re-establishing the sovereign rating as a rewarding instrument by the CRAs for the advancement of his economic agenda. In this way, sequential upgrades were granted as liberalizing reforms were implemented or announced, and interventionist policies left over from the Kirchnerist era were dismantled. In the CRAs' discourse, particular relevance was attributed to advances in the depoliticization of economic policy, as can be seen in the praise for the new BCRA's *modus operandi*[279] . All these measures, according to S&P, Moody's and Fitch, promised benefits to the Argentine economy in the short term, which justified the positive rating actions in the first half of Macri's mandate.

However, with the crisis scenario established from 2018 and the deterioration of quantitative metrics that underpin sovereign ratings, the upgrades had to turn into a profusion

[277] To a lesser extent, however, since the first year of Macri's mandate this concern was already present, as Moody's (2016b) recorded in a report presented in the previous section: "it will take time for the full effect of the new policymaking to materialize and there is still a high risk that a different government could reverse these policy changes".
[278] Abundant examples to this effect were presented in the previous section, such as the justifications present in reports by Moody's (2016a, 2017c), S&P (2017e) and Fitch (2016d, 2017).
[279] As present in Moody's (2017d).

of downgrades. On the discursive level, however, the CRAs' initial strategy was to place a vote of confidence in the government's agenda; they then turned to defending an agreement with the IMF as a solution to stem capital flight and restore investor confidence[280]. In this context, the worsening of Argentina's rating was related, according to the reports, more to the deterioration of the government's *capacity to* continue honoring its public debt commitments than to its *willingness* - a situation opposite to that observed under Kirchnerist governments, illustrating the relevance of the government's ideological orientation as a catalyst of the political risk perceived in the country.

With the economic crisis in place, the proximity of the 2019 elections represented a new critical moment for S&P, Moody's and Fitch's political activism. Faced with the increasing probability of a Macri defeat to the Peronist candidate, Alberto Fernández, the CRAs began to explicitly link the sovereign rating to the elections' outcome, so that a Peronist victory would necessarily be bad for Argentina's creditworthiness profile[281] . In other words, a democratic choice that displeased the CRAs received as punishment a worsening of the state financing capacity, even before the new government could announce and implement its agenda, as well as achieve the results therefrom. In effect, this behavior was evident both in the issued ratings, which worsened with the imminence of the Peronist victory, and in the discursive dimension, which foreshadowed a bad scenario for the national economy - despite the disastrous results of the Macri government in this area, whose continuity was defended by the CRAs.

In short, the Macri government emerged as a period of moderate political risk according to the CRAs' perspective on Argentina. This led to an intermediate level of political activism by S&P, Moody's and Fitch in favor of financial market interests in the national political and economic process. Given the ideological alignment between the CRAs and government, this was reflected in the incentives granted to the country via better ratings and support for the ruling agenda at the discursive level. During Macri's mandate, however, the results promised by the neoliberal economic policy did not materialize and a serious crisis broke out in the country. From then on, the CRAs advocated an agreement with the IMF in order to safeguard fiscal austerity and reinforce the imperative of the reformist agenda, while downgrades became inevitable. Still, in the 2019 elections, they explicitly supported Macri's continuity in the

[280] For example, as presented in the previous section, the defense of the IMF agreement is made explicit in the reports by S&P (2018d) and Moody's (2018d).
[281] The agencies' positioning in favor of Macri and against Fernández is explicit in reports by Fitch (2019a, 2019b) and Moody's (2019), as set out in the previous section.

presidency, despite the disastrous economic results of his government. This *modus operandi*, therefore, is consistent with the argument advanced in this research.

4.5 The interplay between Argentine governments and the rating agencies

In view of the events presented, the Argentine experience with the CRAs serves to illustrate the argument developed in this research. In their interaction with the different governments that ran through the analyzed time frame, the CRAs articulated the use of ratings, reports and media statements to promote the interests of the financial market in the national political and economic process. This political activism, in turn, seems to have reflected the political risk conditions prevailing in the country.

In this sense, in the wake of the 2001 socioeconomic collapse, the CRAs emerged as actors antagonistic to the Duhalde government, which promoted a rupture with the orthodox agenda that would last throughout the subsequent Kirchnerist cycle. The latter, in turn, began under moderate political risk conditions, given the conformation of the "good times" in the international environment. As a result, throughout the NK government and CFK's first mandate, S&P, Moody's and Fitch sought to interfere in specific policies and issues in vogue in the country, but without representing a focus of explicit opposition to these governments. This situation changes with the reversal of the international conjuncture observed during CFK's second mandate. In this context, tension reached its peak, especially in the context of the conflict with the vulture funds, which further clarified the government and CRAs’ positioning in opposing political and ideological camps. Subsequently, however, the political risk moderated again due to the ideological alignment of the Macri government with the CRAs, which began to use their instruments in favor of the government, despite the adverse external scenario in force.

From this process, lessons can be drawn about the Argentine experience with S&P, Moody's and Fitch. First, it should be noted that such interaction is marked by critical events, which produced abrupt changes in the sovereign rating. In particular, the sovereign rating was placed as in default twice: in the first occasion, the default of 2001 was solved by the two rounds of debt renegotiation in 2005 and 2010; in the second one, the "*griesafault*" came to an end with the payment to vulture funds by the Macri government in 2015. Since these rating changes did not precisely reflect changes of the same magnitude in the national political and economic dynamics, they lose part of its explanatory power to understand the relationship between governments and CRAs. On the other hand, this gives even more relevance to the discursive dimension of S&P, Moody's and Fitch's manifestations, which is reflected in their positions disclosed in reports and media channels.

Second, such manifestations, as presented in section 2.6.1, reveal some of the sovereign rating's inconsistencies, which arise from political and ideological biases in the CRAs' actions. Indeed, the reports show that the economic policies implemented are often approached in different ways, depending on their orthodox or heterodox character. In this process, the economic agenda appears as an end in itself, disconnected from its concrete results: if based on orthodox precepts, the rating is benefited beforehand thanks to positive outlooks that not necessarily translate into upgrades; if it deviates from orthodox parameters, *ceteris paribus,* the rating tends to be penalized. In the Argentine experience, this *modus operandi* translated into a frequent mismatch between ratings and the discursive dimension of the CRAs' manifestations. For example, throughout the Kirchnerist cycle marked by the "good times", upgrades were combined with criticism of the heterodox measures implemented. On the other hand, during the Macri administration, the CRAs did not spare praise for the government's economic policy, but ended up losing empirical basis to continue promoting improvements in the national creditworthiness profile.

In this sense, it should be noted that the improvement cycle of the Argentine rating during the Macri government was largely based on expectations that the economic policy implemented would improve the metrics evaluated - as the CRAs explicitly explain in their reports. Given the rating's effects on the state's financing capacity, this finding supports one of the most problematic conclusions of the literature about the CRAs' behavior, namely, that in the context of financial globalization, it is cheaper to govern under the banner of the right than of the left - which produces deleterious effects on supposedly democratic national political and economic processes. In this sense, if the literature's diagnosis resulted from quantitative studies based on ratings issued to countries under governments of different ideologies[282], this research shed light on the issue from a new perspective: the justifications offered in the reports for rating actions. Moreover, ultimately, as the CRAs' manifestations are endogenous to the national political and economic process, one must assume that such distortions' influence it beyond the pricing of public bonds, even if the nuances of this process are difficult to identify and measure.

Third, the reports also illustrate the CRAs' uncompromising defense of the depoliticization of economic policy, which, as presented in Chapter 1, is one of the pillars of the financial globalization IFO. With the 2001 socioeconomic collapse and Argentina's

[282] As demonstrated by Barta and Johston (2017) and Vaaler, Schrage and Block (2006).

isolation from the international financial system, the national economic policy - particularly in the Kirchnerist cycle - became subject to the national political dynamics and heterodox solutions to the problems faced by the government. In this context, the CRAs systematically referred to this situation as a source of risk concerning the country's "institutional profile", which would be too fragile and susceptible to "political events". This behavior once again revealed their position as echo chambers of financial market interests, insofar as the depoliticization of economic policy serves to protect the rights of investors over the citizens', in line with Streeck's (2014) studies – see chapter 1.

On the other hand, in the wake of the traumatic 2001 crisis experience, resulting from a decade of neoliberal policies' implementation, the left-wing governments that succeeded it adopted a stance antagonistic to any external interference in their economic policy decisions. It is in this context that the tense climate between Kirchnerist governments and the CRAs should be viewed. As showed in our analysis, this relationship was characterized by harsh government statements targeted at delegitimizing S&P, Moody's and Fitch's assessments in the light of past trauma, whose legacy remained latent through the dispute with the holdouts. In turn, throughout the Macri government, despite the systematic praise given by the CRAs to the economic policy management, the risk represented by the low degree of economic policy depoliticization remained latent in the reports released: indeed, as they pointed out, a negative element of Argentina's creditworthiness profile was the possibility that the Macri government's measures could be reversed by a possible new government with a different ideological orientation.

That is why, as found by Cordes (2014), financial assistance agreements signed with the IMF are viewed positively by the CRAs. Given their binding nature, these agreements make national economic policy more predictable and aligned with orthodox precepts - when not entirely submitted to the IMF's demands, which tends to converge ideologically with the CRAs'. Indeed, Argentina's experience shows how the Big Three considered the financial aid obtained in the aftermath of the 2001 crisis and during the Macri government to be positive for the sovereign creditworthiness profile. In the latter case, in particular, the conditionalities based on a strong fiscal adjustment, which would require liberalizing reforms in the economy, illustrate the convergence between the CRAs' demands and the IMF's conditionalities. In the former's case, however, the policy space enjoyed by the Duhalde government in the wake of the default and already in a context of economic recovery allowed it to reach an agreement with fewer constraints on its economic policy autonomy, only establishing primary surplus targets - which, with the commodities supercycle that soon took shape, became recurrent.

Fourth, the conflict between the CFK government and the vulture funds offered a new perspective on how the CRAs act to promote the interests of the financial market's actors. In the wake of years of pressure for the "normalization of the relationship with creditors", as shown in the reports presented in section 4.3, S&P, Moody's and Fitch put in check the very sovereign rating definition presented in their methodologies by linking Argentina's rating to the judicial decision that blocked its public debt servicing. Since the sovereign rating is based on the assessment of a government's *ability* and *willingness* to honor its debt commitments, conditioning it to an exogenous factor, such as Judge Griesa's decision and its subsequent validation by the US higher courts, calls into question the rating methodology and strengthens the thesis that the CRAs act in collusion with other financial market actors in defense of their interests.

Ultimately, a rhetorical analysis could consider that the judicial order blocking the bank transfer from the State to its creditors affected the government's *capacity* to pay its debt. This interpretation, however, goes against the spirit of the CRAs' official methodology, which associates the *capacity* factor with objective and measurable quantitative metrics, as presented in chapter 2 of this study. Once recognized that downgrades are endogenous to the economic crisis, the CRAs' use of the rating as an instrument to constrain the government to pay the holdouts becomes evident: with the foreign currency shortage experienced by the country and its need to access the sovereign debt market, the incentive to give up the litigation and proceed with the payment is clear. Indeed, following the Argentine political process, one of the first measures taken by the Macri government was the resolution of the dispute with the vulture funds, which, when accomplished, generated the immediate removal of the sovereign rating from a default situation.

Fifth, when analyzed in the light of the rise and fall of the pink tide, the Argentine experience illustrates how the CRAs contributed to dismantling it. In fact, as presented in chapter 1, the Argentine manifestation of the phenomenon is often situated by the literature as more "radical", "populist", or, at best, as an intermediate case between these categories and the more "moderate" or "responsible" ones. As a result, the CRAs' role as an pressure instrument for moderation of the Kirchnerist governments' agenda became even more salient, with systematic criticism of various government actions. Subsequently, when the "good times" of the international situation ran out, the CRAs' performance was decisive for the decline of the Argentine pink tide. This is because, in face of the country's need to return to the capital markets to raise foreign currency, being rated in as in default by the CRAs boosted the economic crisis experienced, since it was critical to maintaining the scarcity of foreign currency situation. This conditioned the last year and a half of the second CFK government and, therefore, cannot be dissociated from the scenario that resulted in Macri's electoral victory for the presidency.

4.5 Conclusion

This chapter presented the case study of Argentina. In order to do so, it first provided a descriptive narrative of the its political and economic trajectory and the main CRAs' manifestations about the country in the time frame considered. Then, it analyzed the presented data in in light of the argument put forward in the thesis.

The Argentine experience showed that the CRAs actively acted to influence the national political and economic process in favor of financial market interests through the articulated use of their ratings, reports and statements in media channels. This *modus operandi*, which assumes different forms over time, was guided by the political risk conditions that S&P, Moody's and Fitch assessed in the country, which determined the political activism exercised. It follows that the constraints that fell upon their Argentina's governments had greater or lesser intensity depending on their ideological orientation and the international environment in force.

This does not imply, however, that other variables are not part of the observed process. In fact, given the social nature of the phenomenon studied, a myriad of other elements circumscribes the interaction between CRAs and governments, so that other factors potentially relevant to it ended up neglected in the analysis. For example, to what extent the performance of the economic policies carried out by the different Argentinean governments affected the CRAs' behavior in the period remains a question to be clarified, although it does not invalidate the conclusions reached in this chapter.

In any case, the case studied demonstrates how the CRAs operationalized some of the constraints that affect the political and economic process of developing countries in the financial globalization IFO. From their position in the international financial order, which allows them to act as gatekeepers of State's access to financial resources available in capital markets, S&P, Moody's and Fitch use of the instruments at their disposal to influence developing countries' reality. Ultimately, this is another dimension of the tension between capitalism and democracy, which constitutes this study's background.

CONCLUSION

The political scientist Colin Crouch (2004) calls “post-democracy” the scenario that has taken shape in the Western world in the IFO of financial globalization. In this model, the formal representative democracy’s procedures remain intact, but the content of political decisions is increasingly disconnected from voter’s demands. This would be explained, to a large extent, by transnational actors’ high degree of influence on national economic policies’ implementation. Crouch's (2004) analysis emphasizes the role of large corporations in this process, either by lobbying policymakers or through the practice recognized in the literature as "revolving door"[283]. Complementing this scenario, this research showed that part of the causes for the crisis of democracy resides in the current international financial order.

How do the CRAs fit into the post-democracy era? Based on case studies of Brazil and Argentina, the thesis showed how S&P, Moody's and Fitch can interfere in the political process and economic policy implementation of rated developing countries in favor of the financial market's agenda. This is due to the privileged position they occupy in the financial globalization IFO, which provide them with a wide repertoire - whether through the attribution of sovereign ratings, or through the discourse present in reports and media channels - to exercise a political activism with this aim. This, in turn, tends to reflect the political risk conditions perceived by the CRAs. This is how one of the many dimensions of the democratic deficit inherent in the contemporary capitalism’s dynamics materializes, especially in developing countries’ reality.

This argument was developed in four stages. In Chapter 1, we saw that the capacity of financial market actors to interfere in states’ domestic issues results from the configuration of a particular IFO that emerged at the end of the 20th century. With financial globalization, the process of financialization spread globally, to the detriment of national governments' autonomy *vis-à-vis* the financial market. In particular, developing countries had their policy space increasingly restricted. Closely monitored by investors, their governments are constrained to favor the orthodox liberal agenda, in line with the demands of the financial world. If they do not do so, they are subject to worse financing conditions in sovereign debt markets and, in extreme situations, to capital flight and its deleterious consequences for the national economy.

[283] The term refers to the transit of agents from the private sector - in this particular case, the financial sector - to positions of power in government, especially those related to the economic policy management, and their subsequent return to their sector of origin. This in-and-out movement, which can be illustrated by a revolving door, is characteristic of financialized capitalism and puts into question the impartiality and goals of those who manage the national economy.

With this context as a reference, Chapter 2 presented the CRAs as this research's object of study. In the international order of financial globalization, S&P, Moody's and Fitch mediate the interaction between states and the international financial system, acting as gatekeepers for governments' access to financial resources available in capital markets. This strategic position allows them to act politically in favor of investors' interests. As we have seen, they do so by using all the tools at their disposal to exercise political activism, which includes the issuance of sovereign ratings, reports and manifestations in media channels. Drawing on these instruments, the CRAs act to influence the political process and interfere in national economic policy. Thereby, they operate as vectors of the financialization process and illustrate how the current international order restricts national governments' autonomy.

While chapters 1 and 2 launched the theoretical bases and established the context for the development of the thesis, chapters 3 and 4 served to operationalize our argument. In each one of them, the CRAs' behavior regarding the political and economic process in Brazil (chapter 3) and Argentina (chapter 4) was analyzed. As seen, the argument was supported by the actions of S&P, Moody's and Fitch in favor of the orthodox agenda, which proved to be more (less) accentuated in conditions of high (reduced) political risk. In this process, the CRAs' actions reflected national particularities, which recommend the observation of the differences between the two cases studied.

Indeed, despite the CRAs' behavioral pattern indicated in the argument, the Brazilian and Argentine experiences differ in relevant aspects, which reveal characteristics innate to their national political and economic processes. For example, there was not, in the Argentinean case, a situation of "reduced political risk", as observed in the Brazilian case between 2003 and 2012. This is explained by the different economic policies implemented by the PT and kirchnerist governments. On the one hand, the predominantly orthodox macroeconomic policy carried out by the Lula government and part of the Dilma government signaled to the CRAs the depoliticization of the Brazilian economic policy - something relevant to the international order of financial globalization, as seen in chapter 1. This was reflected in the cooling of political activism practiced by S&P, Moody's and Fitch, in favor of the creditworthiness achieved by Brazil before financial market agents.

On the other hand, in the Argentinean case, economic policy always remained "politicized", that is, subject to the vicissitudes of the government's ideological orientation, which greatly influenced the economic measures implemented. Hence, the Kirchnerist administrations always represented a source of political risk for the CRAs, which was reflected in a perennial tension between them. As a consequence, there was no record, in the Argentine experience, of a reduced degree of political activism practiced by S&P, Moody's and Fitch. On the contrary, even in the midst of the "good times" to govern, the three CRAs acted incisively to promote the orthodox agenda, in the face of the predominant heterodoxy in the terms of Néstor Kirchner and Cristina Fernández de Kirchner.

Another difference concerns the political party landscape in the two countries. In the case of Brazil, the party label worked as an indicator of the ideological orientation of the political groups competing for the presidency - at least until the 2014 election[284]. Thus, the PT candidates were seen by the CRAs as carrying greater political risk, while those of the PSDB were seen as more ideologically aligned with the financial market. In other words, in Brazil, the party label matters - especially the PT's label. [285]

The same does not apply to the Argentine case. In fact, under the rubric of the PJ, Peronism implemented diametrically opposed economic policies: during Menem's governments, there was unconditional adherence to neoliberal precepts, which the Kirchnerist administrations firmly opposed. In addition, elections were marked by disputes between different Peronist candidates, who defended ideologically divergent agendas. Hence, the party label has less relevance for the financial market's actors - even though, at the time of writing, Peronism seems to be consolidated on the left of the Argentine party spectrum.

The analysis also showed that the sovereign rating does not have the same explanatory power for the interaction of the CRAs with the two countries. This is mainly due to the sudden default situations in the case of Argentina, which made its rating changes not necessarily consistent with the dynamics of its relationship with the CRAs. It follows that their discursive manifestations acquired greater relevance to understand it. In the case of Brazil, on the other hand, the sovereign rating movements followed the nuances of the CRAs' behavior regarding the national political and economic process. Thus, rating downgrades and upgrades were always available to the CRAs as instruments of intervention in the country's political and economic developments.

But if the differences between the cases are not trivial, their similarities are striking. Beyond the common axis represented by the argument advanced in this research, the analysis showed the vulnerability of both, which share the condition of developing countries, to interventions by external actors, from the international financial system. The imbalances in the

[284] From then on, the party system that was structured on the clashes between PT and PSDB collapsed, so that in the 2018 elections, the PT was antagonized by Bolsonaro, a candidate for a hitherto nationally unimpressive party.
[285] In fact, the literature has been observing how the national political dynamic has been guided by "petism" *versus* "antipetism". On the topic, see Samuels and Zucco (2018) and Nicolau (2020).

national political dynamics were thus evidenced: in both experiences, the CRAs represented constraints to the left-wing governments that ran through our time frame and played a major role in the dismantling of the Brazilian and Argentine expressions of the pink tide. Subsequently, they functioned as guarantors of governments ideologically aligned with the neoliberal precepts they advocate, even though the agenda then implemented was notoriously ineffective in promoting socioeconomic development. In other words, as suggested by Sinclair (2005, 2021), the CRAs' actions can be framed as a form of "government at a distance" over states integrated into financial globalization, to the detriment of their domestic policy space. In this sense, by promoting the financial market's interests in national political and economic dynamics, they also help to operationalize the bondholder value imperative, as examined by Streeck (2018).

Amidst this scenario, the two case studies showed how electoral processes and presidential transitions appear as critical events for the political activism of S&P, Moody's and Fitch, which is explained by the fact that they decisively impact the prospects for implementing the liberal agenda. In view of this, the CRAs seem capable of influencing the election in two ways. On the one hand, by declaring their "vote", both by issuing ratings and through the discourse present in reports and press releases, whose repercussion is boosted by the epistemic authority they hold in the context of financialized capitalism. Ultimately, this ends up pricing democratic choices made by voters, to the extent that rating actions are reflected - for better or for worse - in the state financing capacity. On the other hand, the CRAs also exert pressure to align the winning government's agenda with orthodox precepts. In both lines of action, the projection of scenarios - benign or calamitous, depending on the ideological orientation of the government - is common practice to constrain the choice of voters or the government's programmatic agenda.

This allows us to speculate on possible generalizations of the conclusions reached in the research. Indeed, since any state integrated into financial globalization is subject to interaction with the CRAs, the behavioral pattern of S&P, Moody's and Fitch observed here can be replicated - especially in the cases of other developing countries and/or emerging economies, which are more vulnerable to global financial dynamics, particularly during the "bad times" of the international environment. In other words, these are States that tend to experience even more serious tensions between capitalism and democracy - which, as seen, appear as a mark of the contemporary stage of capitalism.

That said, this research's contributions to the academic literature can be resumed with greater clarity. First, our findings allowed shedding light on dimensions of the CRAs' *modus* *operandi* that have been little studied so far. This was mainly due to the use of S&P, Moody's and Fitch's reports as a data source - which is still not frequent in works on the subject, but appears as fertile ground to be academically explored. Secondly, understanding how the CRAs operate and the consequences of their actions also means better understanding the political repercussions of the financialization of capitalism. More broadly, this favors the search for solutions to mitigate the democratic deficit arising from this process. Indeed, the perception of the CRAs as political actors that vocalize the interests of identifiable societal groups seems to be *a sine qua non* condition for state's governance improvement under the auspices of representative democracy. Third, the analytical exercise carried out in the case studies of Brazil and Argentina served to update the literature on their political and economic trajectory, from the perspective of their interaction with the rating agencies. Indeed, the analysis showed that nuances of critical and controversial processes in both countries - such as the impeachment of Dilma or the Kirchnerist decline - become more understandable in light of S&P, Moody's and Fitch's behavior.

The conclusions reached here also point to academically promising paths related to the subject. In particular, theorizing about the agencies' *modus operandi* could benefit from the expansion of the number of cases studied, which would require the use of other methodological tools and different approaches to the issues that emerge from the interaction between CRAs and national processes. Alternatively, the adoption of other CRAs as the object of study could shed further light on how S&P, Moody's and Fitch operate. Although the "Big Three" have their oligopoly consolidated in the sector, other rating agencies have already challenged them, causing upheavals in this market. A notorious example is the experience of Dagong, a Chinese agency whose sovereign ratings caused controversy in the wake of the 2008 financial crisis[286]. By assigning lower ratings than S&P, Moody's and Fitch to the United States and European countries and better grades to China's geopolitical allies, Dagong was accused of practicing "financial terrorism", supposedly aimed at damaging the US financing capacity (FERRIS; SANT, 2012). What can comparisons between the rating methodology of the "Big Three" and other agencies reveal about their objectives in the international financial system? What does this tell us about CRAs' political instrumentalization by their respective states of origin? These are questions that only future research can answer, although the political bias of S&P, Moody's and Fitch, extensively explored in this thesis, is quite suggestive.

[286] On the topic, see Machado and Arienti (2019).

At the same time, the CRAs' actions can be framed as part of the cause of, and possible solutions to, urgent problems that have been the focus of contemporary international debate. In the following paragraphs, two examples in this sense are introduced, benefiting from the conclusions reached in this paper. First, the rise of extreme right populist movements, which threaten the survival of the liberal democratic order in the Western world. Second, the environmental crisis, which poses a threat to human survival on the planet. As presented in Chapter 1 ("The international order of financial globalization"), the 2008 financial crisis and the Covid-19 pandemic have been interpreted as a possible moment of transition between international orders, given their critical and potentially disruptive character. Nevertheless, the power and influence of the CRAs remain untouched in this context (SINCLAIR, 2021), which allows us to speculate about the role they may play in relation to these two mentioned issues.

The rise of right-wing populism

An underlying problem of the processes analyzed in this research is the ineffectiveness of the neo-liberal agenda to promote socio-economic development. The international order of financial globalization, which evolves under the hegemony of neoliberalism and translates into the financialization of the capitalist economy, has as its hallmark the advancement of income concentration and social inequalities, the dismantling of social welfare networks, the interdiction of developmentalist strategies, the unbridled exploitation of natural resources and a limited expansion of GDP in the Western world. In contrast, the "winners" of the globalization era and responsible for most of the expansion of the global economy and the reduction of interstate income inequalities are Asian countries, especially China, which resist the liberal orthodox script (RODRIK, 2012; MILANOVIC, 2016; KUTTNER, 2018).

The rise of populist movements appears then as a frequent reaction in the group of "losers", that is, Western countries that have not reaped the benefits promised by globalization (RODRIK, 2018). This can be seen especially in the aftermath of the 2008 financial crisis, when disillusionment with a capitalism driven by finance seems to have reached its peak, in the wake of government aid packages to financial sectors responsible for the economic cataclysm that spread around the world. In addition to the socialization of losses, the pressure for fiscal austerity advocated by the financial sectors acted to worsen the aforementioned socio-economic woes. From this stem, to some extent, the social yearning for significant changes in the management of national economies, which, since it has not occurred, has left fertile ground for populism to gain political appeal (KUTTNER, 2018).

At this point, it is worth clarifying what is meant by the term *populism*. Based on the academic debate that has been building up in the second decade of the 21st century, it can be understood as an ideology (MUDDE; KALTWASSER, 2017) or way of doing politics (MÜLLER, 2016) that is built on popular dissatisfaction with the political establishment. This forges an opposition between the *people*, purposely treated as homogeneous, and *elites*, invariably presented as corrupt. In the face of this antagonism, populist leaders or movements present themselves as the legitimate representatives of the people in the struggle against the "system" that prohibits popular desires. This strategy demands the discrediting of other channels of democratic representation, such as parliament or political parties, while direct bridges of communication with their electoral bases are established, such as online social media and plebiscites. In this process, only the supporters of the populist leader or movement are treated as *people*, so that all others constitute their enemies. In other words, the phenomenon of populism can be regarded as intrinsically authoritarian and often appears at the centre of the academic debate around the crisis of liberal democracy (URBINATI, 2019).

One of the explanations offered by the literature for the rise of populism is the convergence of the economic policies of parties located on the left and right of the ideological spectrum around neoliberal precepts - which, as seen in chapter 1 of this paper, is one of the hallmarks of the international order of financial globalization - and the diagnosis that they have failed to deliver the promised economic prosperity (KUTTNER, 2018; RODRIK, 2018). The underlying logic is that voters, lacking options for meaningful change within their political establishment, turn to 'anti-establishment' alternatives, which act to politically capitalize on popular dissatisfaction with their traditional representatives, as well as with the prevailing institutions of representation. This process is analyzed by Kuttner (2018) based on the experience of the United States, the United Kingdom and other European countries. In the American case, the timid differences with regard to economic management by Democrats and Republicans would thus have resulted in the election of Donald Trump in 2016. The same applies to the case of *Brexit* in the United Kingdom and the strengthening of populist candidacies in several European countries, in the wake of the "third way" movements that proliferated during the 1990s.

This line of argumentation also seems to apply to the cases studied in this thesis. In Brazil's experience, the populist rise is symbolized by the electoral victory of Jair Bolsonaro in 2018 (PAULA; MACHADO; CANNONE, 2023). Before that, as examined in Chapter 3, PT governments remained aligned with orthodox parameters in most of their administrations, at least at the macroeconomic level. This acquired dramatic contours in Dilma Rousseff's second term, when the orthodox agenda predominated as an economic and political crisis escalated. Following the Temer government, which institutionalized the imperative of fiscal austerity and initiated a series of liberal reforms, voters would then have been encouraged to opt for an anti-establishment candidacy.

In Argentina, on the other hand, where economic policy did not undergo the same shielding of the political process, populism took longer to flourish. As seen in chapter 4, there were significant changes in the management of the national economy as a result of the rise and decline of Kirchnerist governments. In fact, it was only in the 2021 legislative elections, in the midst of the government of Peronist Alberto Fernández, that populist candidacies began to gain space in parliament (EL PAÍS, 2021), which is in marked contrast to what occurred in Brazil. In other words, where the depoliticization of economic policy was less intense, voters seem to have had less incentive to seek solutions outside the system - although this assertion, of course, requires deeper research to be academically supported.

In light of these processes, it is then worth reflecting on how the CRAs can be seen as a cause of the populist threat and how they can become part of the possible solution to contain it. The answer seems to reside in their *modus operandi*, as analyzed theoretically (chapter 2) and empirically (chapters 3 and 4) in this research. By promoting the orthodox liberal agenda, constraining governments of different ideologies to adopt it, S&P, Moody's and Fitch contribute, albeit indirectly, to the scenario of popular dissatisfaction with their traditional representatives. After all, what is the point of having ideologically divergent parties alternating in power if the economic policy does not change or changes only timidly? Hence, the depoliticization of economic policy - which, as we have seen, constitutes one of the pillars of the international order of financial globalization and guides the agencies' evaluations - works as fuel for the advance of populism.

However unlikely it may be, the containment of this phenomenon could benefit from the review of practices and methodology of S&P, Moody's and Fitch. In fact, the political dimension of their *modus operandi* constitutes a strong obstacle to any government implementing an economic policy alternative to neoliberal orthodoxy. Recognizing the legitimacy of other economic development strategies, as well as the shortcomings of the orthodox agenda in this regard, could therefore be a contribution by rating agencies to sustaining the liberal democratic order. In the same sense, the correction of practices that result in "partisan discrimination", indicated both by quantitative empirical research presented in chapter 2 and by the analytical exercise carried out in this study, appears as urgent, given the constraint they mean for any possibility of change in the management of national economic policy.

This does not mean, however, that CRAs alone would be capable of promoting changes in the ideological substratum that guides investment decisions in capital markets. In fact, they represent only one among several sources of information available to financial agents operating on a global scale. Still, as this research has shown, their epistemic authority could be a powerful cog in this movement.

What might drive the revision of their practices and methodologies in this regard, however, remains an enigma. As Sinclair (2021) notes, the recent experience of state regulation of agencies' actions has not been successful in promoting qualitative improvements in their services. Even so, as the historical experience of the interaction between national states and global finance suggests, the search for solutions in this field seems to be related more to improving the forms of stimulus and regulation of financial actors than to abstaining from government action in this regard.

The climate crisis and environmental challenges

Financial infrastructure is also a relevant *locus* for actions aimed at containing the environmental challenges facing international relations and humanity as a whole. There is scientific consensus that climate change has been occurring due to greenhouse gas emissions resulting from human action, mainly related to the use of fossil fuels and deforestation. The consequences of global warming are already being felt and are expected to worsen in the short term[287], with particularly dramatic effects for the poorest countries and populations. This requires that measures aimed at the green transition, with a view to a global low-carbon economy, be implemented urgently (EYRAUD; CLEMENTS; WANE, 2013; SAAD-FILHO; FEIL, 2022).

It is to this end that a series of initiatives have been proposed at the supranational level. In 2015, for example, the Paris Agreement brought together 194 countries in an effort to curb greenhouse gas emissions. In the same year, the UN launched the 2030 agenda for sustainable development, establishing a global action plan based on economic, social and environmental goals that contribute to eliminating extreme poverty and reducing social inequalities. A prominent goal in this international coordination is the promotion of green investments, i.e., the

[287] These effects can be seen, for example, in rising temperatures, rising sea levels and the occurrence of severe climatic events - such as floods, hurricanes, droughts and forest fires.

investments necessary to reduce the emission of greenhouse gases and other pollutants, without substantially compromising the production and consumption of other non-energy goods[288] (EYRAUD; CLEMENTS; WANE, 2013; FALCONE, 2020).

This makes the international financial system a key board for actions aimed at environmental challenges. In particular, what is known as green finance has the role of stimulating socially and economically sustainable investments that contribute to the transition to a global low-carbon economy (HÖHNE et al., 2018). Although there is still much to evolve in this area[289], there is a coordinated effort by financial institutions and other actors operating in the financial market to promote green finance (FALCONE, 2020).

In this sense, the rating agencies have been gaining prominence in the certification of green bonds[290] . The attribution of this label has been recognized by the academic literature as a challenge, to the extent that the very categorization of a bond as *green* can be problematic. On the one hand, because it demands to objectively identify the climate and environmental benefits inherent to the bond in question. On the other hand, because it is not a binary process, as there are several gradations of *green* to be observed and classified. Given these difficulties, S&P and Moody's have become notable in the green finance arena by offering an external view to investors on the qualification of a possible investment as *green* (EHLERS; PACKER, 2017).

Moody's, for example, pioneered the launch, in March 2016, of *Moody's Green Bond Assessments*, the first public green bond assessment methodology by a CRA. The objective is to inform the probability that the financial resources invested will indeed be reverted into environmentally sustainable projects. As occurs with assessments of other financial assets, the process takes into account criteria explained on the agency's website, which favors its replication and transparency (EHLERS; PACKER, 2017). The following year, S&P introduced its *Green Evaluations*, bringing the innovation of offering a technical environmental impact assessment of the security in question. As Ehlers and Packer (2017) explain, "a score between zero and 100 is intended to evaluate the relative ranking of the overall expected lifetime

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[288] Chitimiea et al. (2021), however, point out that *green investments* is a rather broad term that still lacks consensus on its definition.

[289] In particular, due to some of its characteristics, which, in theory, would discourage investments of this type. For example, their returns are long-term and more dependent on state support, which is seen, in the financial world, as a catalyst for risks (FALCONE, 2020).

[290] As Ehlers and Packers (2017) note: "Green bonds are fixed income securities which finance investments with environmental or climate-related benefits. Green bonds are an integral component of 'green finance' more generally, which aims to 'internalize environmental externalities and adjust risk perceptions' for the sake of increasing environmentally friendly investments". Green bond issuance, however, represents only 1.6% of bond issuance in capital markets.

environmental impact relative to maintaining the status quo - after discounting for qualities of the governance and transparency of the bond's use of proceeds".

While these initiatives show that rating agencies are indeed promoting green finance, there is a fundamental problem in their *modus operandi* that can undermine efforts in this direction. As seen throughout this research, the CRAs promote neoliberal precepts of socio-economic organization in their interaction with national governments - either through sovereign rating or discursively. In this way, they become one of the channels of reproduction of the ideological substratum underlying the international order of financial globalization.

But overcoming the environmental issue seems to be incompatible with neoliberalism, which encourages commodification and unbridled exploitation of natural resources (JONES; STAFFORD, 2021; LIN, 2020). In this direction, Saad-Filho and Feil (2022) note that:

> It is impossible to gradually change the current concentrated and highly polluted mode of production within the distributional framework imposed by global financialized neoliberalism. This is because the dominant interests are locked into a logic of short-termist financialized profit extraction incompatible with high-cost, long-term investment to change the pattern of economic reproduction. Neoliberalism and financialization will delay and downgrade all efforts to address climate change while profitable.

Indeed, the possible solutions to climate and environmental challenges involve the coordination of actions between States, which should, as the authors posit, promote a more equitable income distribution and, at the same time, reconcile green industrial policies with democratic social and macroeconomic policies. This imperative, however, clashes with the neoliberal dogma that state interventions in the economy should be limited to creating the political and institutional conditions for the market's dynamics to prevail in all spheres of social life.

Moreover, as discussed in the previous subsection, neoliberalism is associated with the crisis of liberal democracy and the rise of far-right populism worldwide. Hence, the intertwining between rating agencies, neoliberalism, populism and environmental devastation can be illustrated by the case of Brazil under the Bolsonaro government. As seen in chapter 4, Bolsonaro's candidacy in the 2018 presidential election was explicitly promoted by the agencies, given their ideological convergence in the economic agenda. Throughout Bolsonaro's mandate, an ultraliberal economic policy and the populist behavior of the president (PAULA; MACHADO; CANNONE, 2023) became associated with a scenario of environmental destruction.

Silva and Fearnside (2022) list the sequence of events and decisions of the Bolsonaro government that led to the worsening of the environmental situation in Brazil. For example, the president emptied the environment ministry and substantially decreased its budget, laying off employees, transferring its responsibilities to other ministries, suspending agreements signed with NGOs, and weakening or abolishing councils and agencies aimed at protecting the environment - such as IBAMA (Brazilian Institute for the Environment and Renewable Natural Resources) and FUNAI (National Indian Foundation). In addition, the federal government issued many decrees and provisional measures, which resulted in the inhibition of the control of environmental violations, deforestation, forest fires, illegal mining and land invasion. Interference in the inspection and control of environmental agencies were frequent, leading to a dramatic decrease in the application of fines and the approval of 1682 new pesticides by June 2022. Added to this are a range of other government actions that have resulted in an increase in Brazil's greenhouse gas emissions and the destruction of part of the Amazon rainforest, which already emits more carbon dioxide than it is capable of absorbing. As expected, Bolsonaro did not attend the COP26 (Conference of the Parties to the Climate Convention), held in Glasgow in 2021, which illustrates his lack of commitment to containing global warming. The following year, after being defeated in the presidential elections, the president also ignored COP27, held in Egypt, where president-elect Lula had a prominent participation.

In light of this, criticism of the Bolsonaro government has become abundant in the international media and academia. What is less frequent, however, is the association of the ongoing environmental crisis to the parameters of the current international order and the actions of actors that promote it, such as the CRAs. This risks making efforts to overcome the environmental issue innocuous, which end up being sustained by palliatives that, at best, only postpone the point of irreversibility that looms ahead. In any case, these contradictory movements of the CRAs - promotion of green finance, on the one hand, and of neoliberalism, on the other - may constitute yet another sign of the disruptive moment experienced by the international order of financial globalization.

How to ensure that CRAs, in an eventual new international order, can become promoters of a greener and more sustainable development model? This is a question that goes beyond the objectives of this study, but which would benefit from the suggestions presented in the previous subsection. After all, the recognition of the shortcomings of the neoliberal model and the possible merits of other development strategies, which possibly confront many of its precepts, seems increasingly supported and required by the reality imposed by the 2008 financial crisis, the climate and environmental crisis and the Covid-19 pandemic and its aftermath.

Naturally, the rating agencies would only be one actor within a new architecture of the international financial system. As it happened in previous orders, they would probably have a lesser role, especially if interstate regulation in the control of international financial flows is somehow strengthened. Even so, the century-old expertise of S&P, Moody's and Fitch in understanding and assessing financial assets should not be disregarded in the construction of a post-neoliberal international order. Alternatively, neither should the CRAs be neglected as pieces of resistance to this movement. It will then be up to the leading States and international organizations to know how to manage the role to be played by the CRAs in this process.

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