

## Federal Public Debt Management

# Annual Public Debt Report 2009 Annual Borrowing Plan 2010



January 2010

B R A S Í L I A

## ABP - 10 Years

### Annual Debt Report - ADR 2009

- Results Achieved
- Risk Assessment
- Advances in Public Debt Management

### Annual Borrowing Plan - ABP 2010

- Assumptions and Guidelines
- Strategy and Expected Results

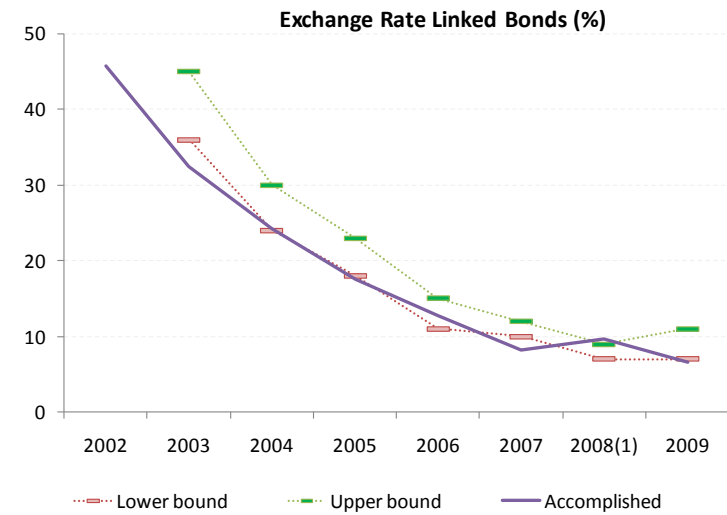
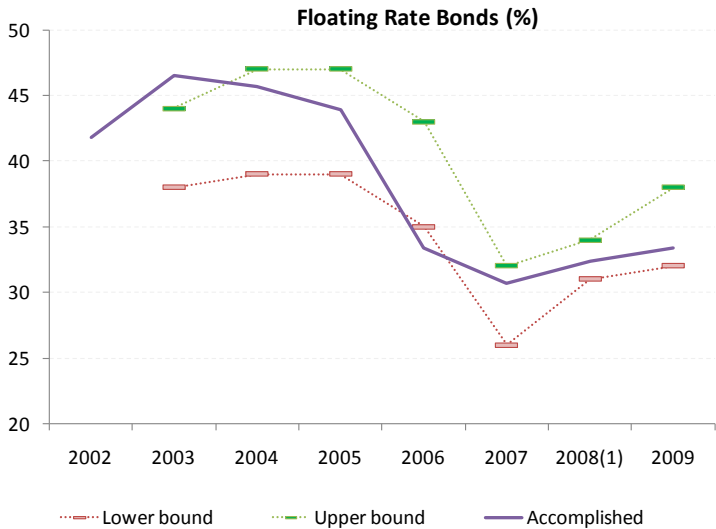
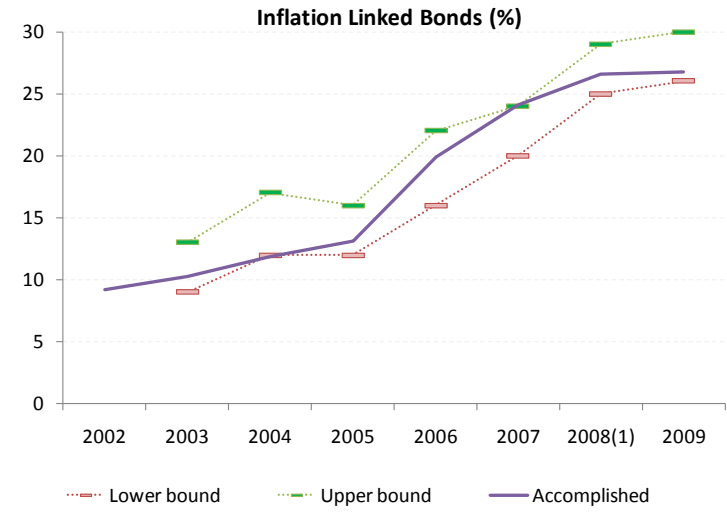
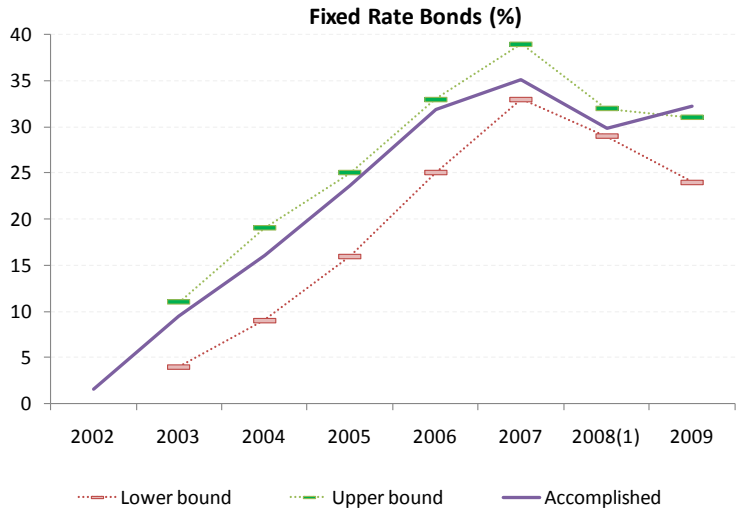
## ABP 10 Years

### ABP - Annual Borrowing Plan

- In 2001, the first ABP - Annual Borrowing Plan was published, aiming at increasing transparency and improving communication channels of debt management with investors and society.
- In 2004, the document was split in two:
  - ADR - Annual Debt Report : examines the strategy carried out referenced to previous planning.
  - ABP - Annual Borrowing Plan: deals exclusively with forward looking planning and establishment of assumptions and guidelines for Federal Public Debt - FDP management in that year.
- Several achievements and advances marked the ABPs in the past 10 years:
  - Development of strategies anchored by clear objectives and guidelines.
  - Development of an optimal FPD composition model, mapping risk factors, opportunities and constraints to achieve such composition.
  - Setting annual targets for key FPD indicators.
  - Structural changes in FPD, leading to profile improvement and reduction of financing costs and risks:
    - Increase in share of fixed rate and inflation linked bonds.
    - Lengthening of average FPD maturities and smoothing its maturity profile

# ABP 10 Years

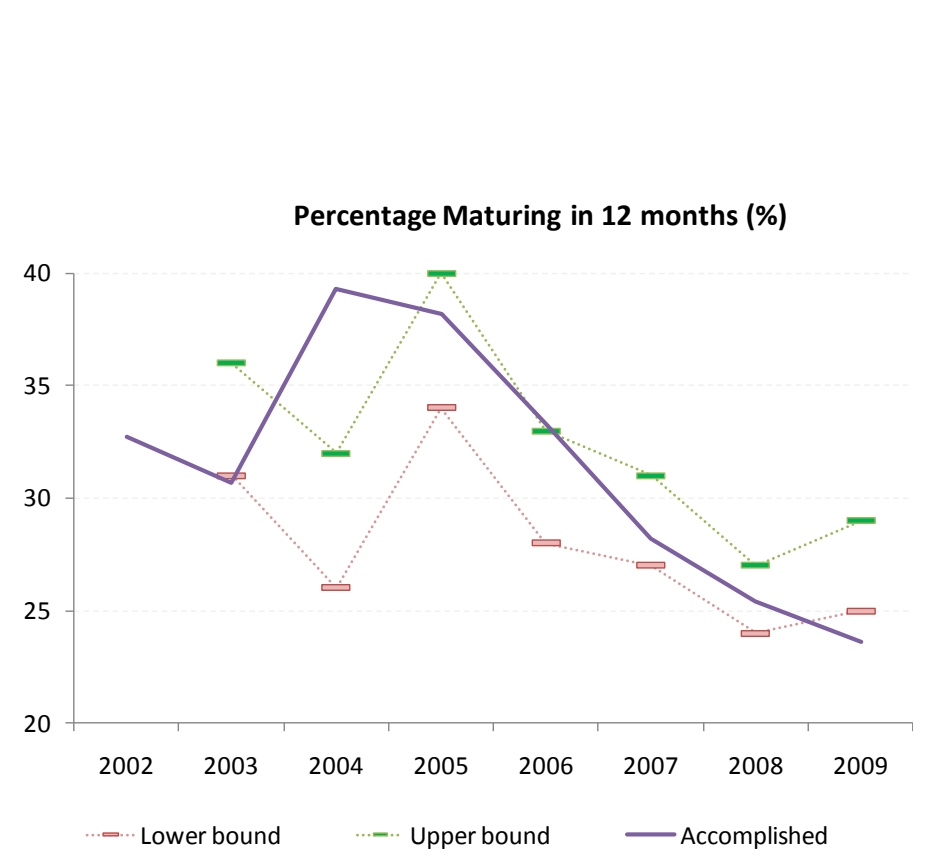
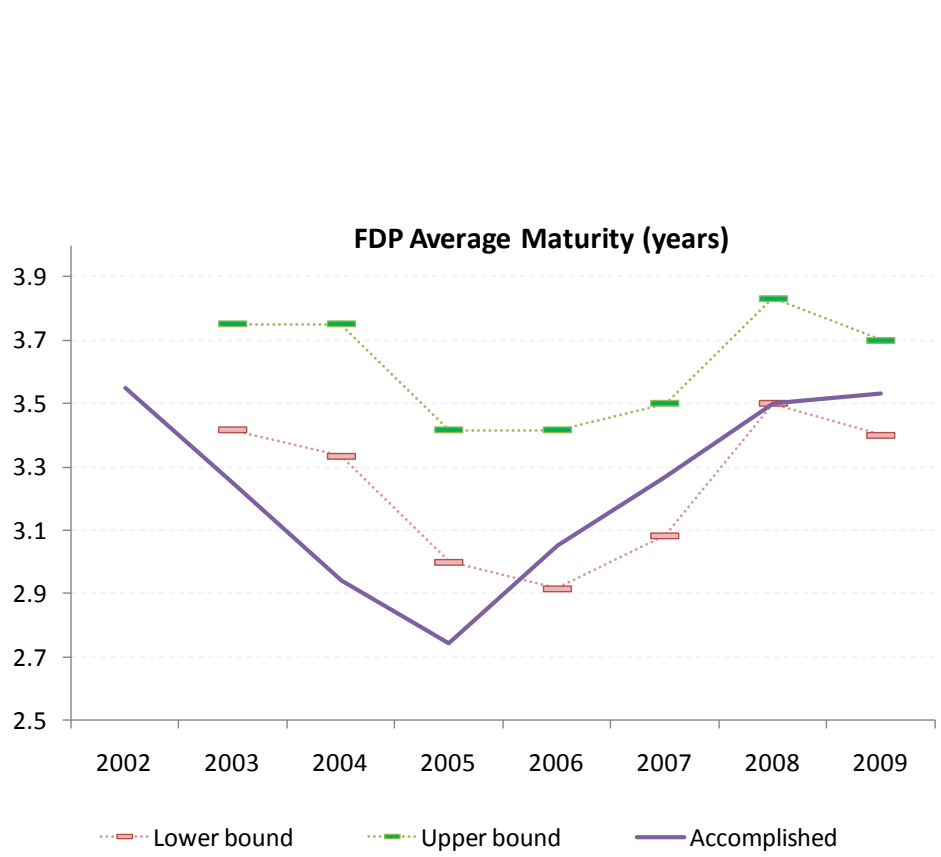
## FPD Profile Evolution



ABP 10 YEARS

# ABP 10 Years

## FPD Maturity Structure Evolution



ABP 10 YEARS

(1) The ABP was revised in August 2008  
 (2) Source: National Treasury

## ABP 10 Years

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## Results Achieved

### Evolution of the Federal Public Debt (FPD) Main Indicators

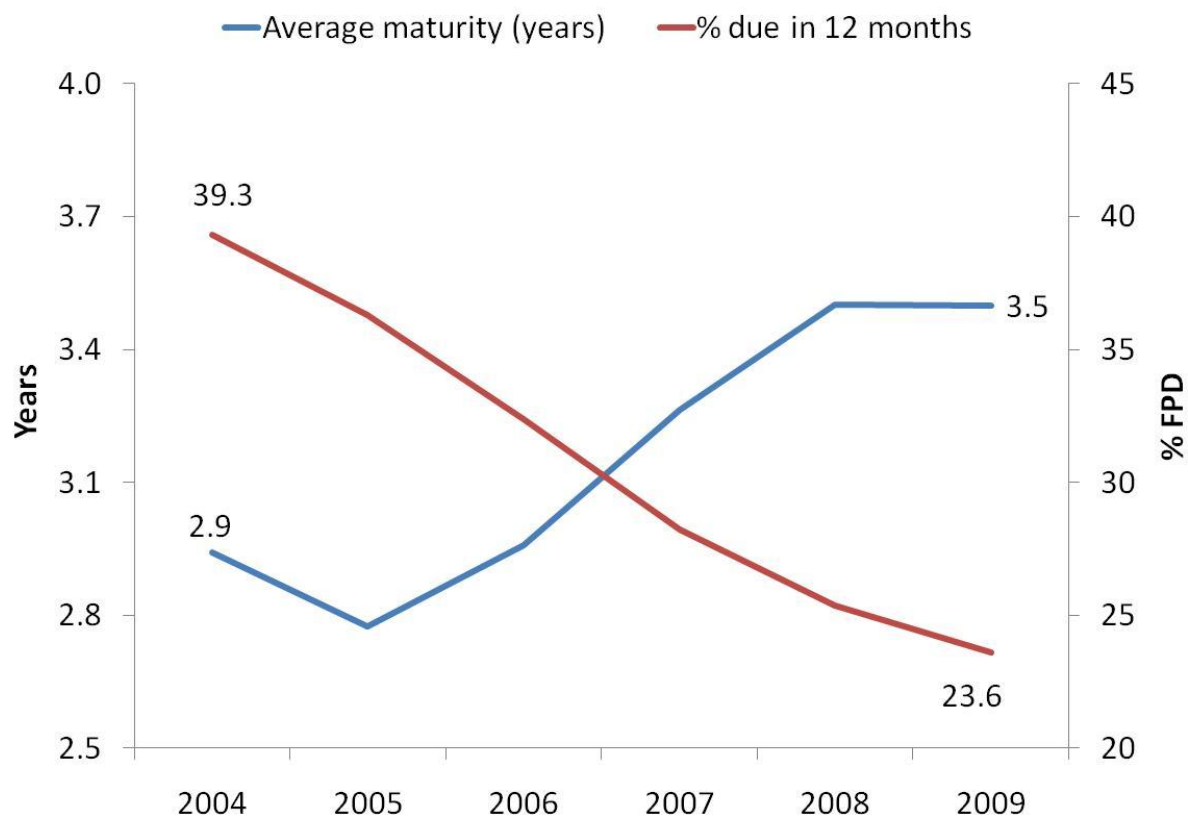
- In 2009, the economic environment was initially marked by uncertainties about the Brazilian economy and high risk aversion, but it has evolved to a state of growth recovery.
- The improvement in economic perspectives allowed the National Treasury to adopt strategies to improve debt profile, increasing the share of fixed rate bonds and lengthening average maturity, which reduced the percentage of bonds due in 12 months.

Indicators	dec/06	dec/07	dec/08	dec/09	ABP-2009	
					Minimum	Maximum
<b>Stock of FPD held by the public (R\$ bn)</b>	1,237.0	1,333.8	1,397.3	1,497.4	1,450	1,600
<b>Average Maturity (years)</b>	3.0	3.3	3.5	3.5	3.4	3.7
<b>% Maturing in 12 months</b>	32.4	28.2	25.4	23.6	25	29
<b>Share of FPD</b>						
<b>Fixed Rate (%)</b>	31.9	35.1	29.9	32.2	24	31
<b>Inflation Linked (%)</b>	19.9	24.1	26.6	26.7	26	30
<b>Floating Rate (%)</b>	33.4	30.7	32.4	33.4	32	38
<b>FX Linked (%)</b>	12.7	8.2	9.7	6.6	7	11
<b>TR and others (%)</b>	2.0	1.9	1.4	1.1	1	2

## Results Achieved

### Evolution of the Average Maturity and of the % due in 12 Months

- As a result of the strategy adopted by the National Treasury in the past years, there's been an increase in the Federal Public Debt average maturity and a reduction in the percentage due in 12 months, reducing refinancing risk.

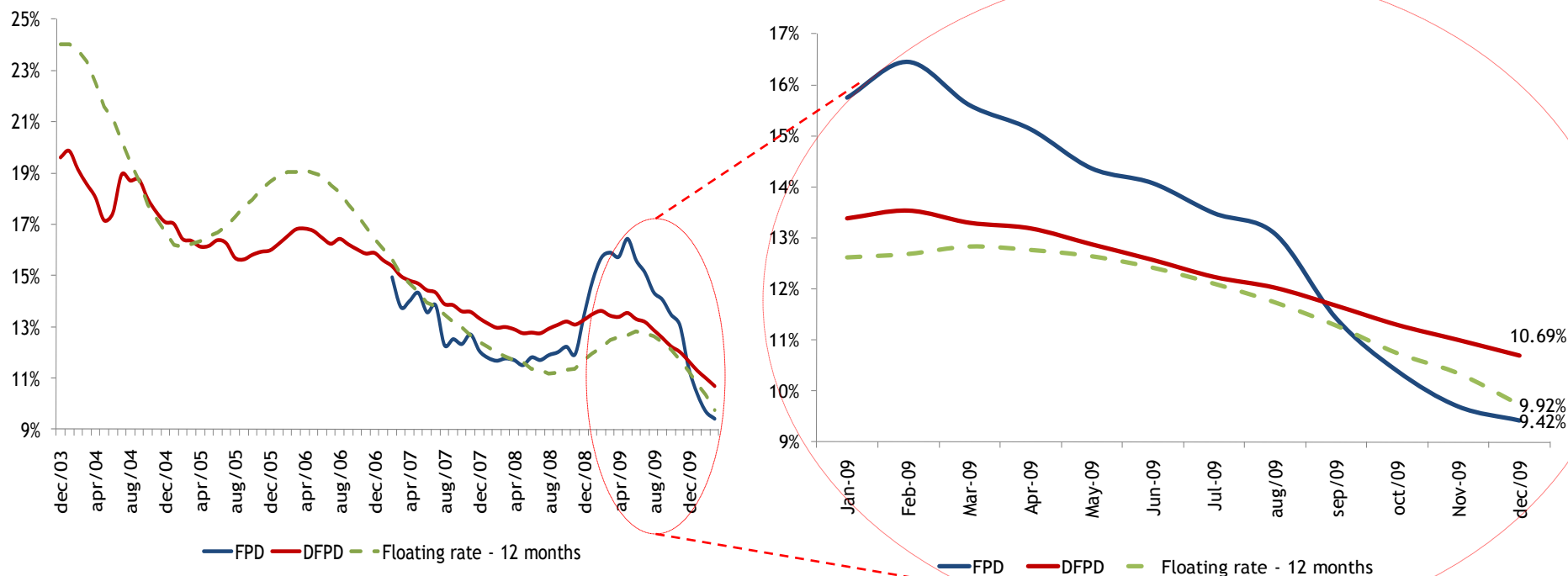


## Results Achieved

### Average FPD, DFPD Cost in 12 months vs Selic Rate

- In spite of the increase in the average cumulative FPD cost in 12 months between the last quarter of 2008 and the first quarter of 2009, due mainly to national currency devaluation during the crisis, considering a greater period of time, there is a clear trend of reduction in this indicator.

Average Cost in 12 months of FPD, DFPD x Selic (overnight) rate

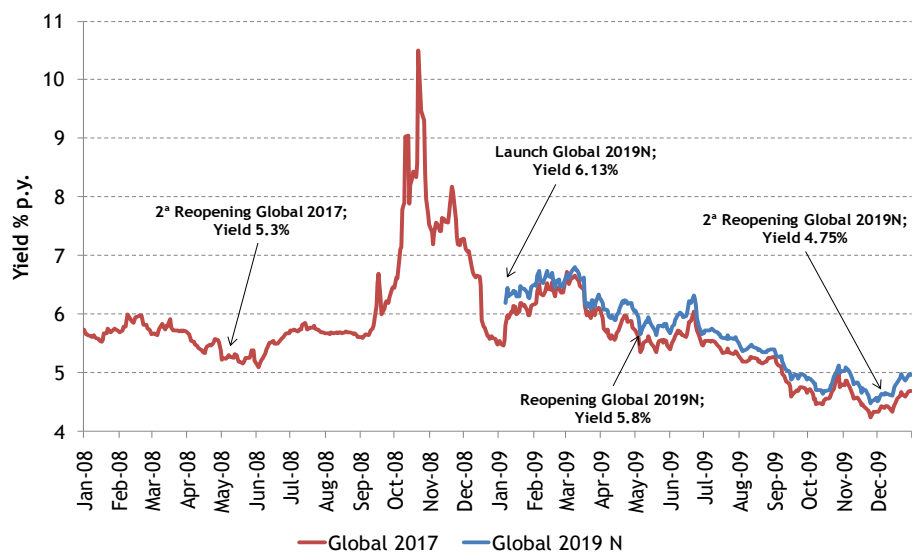


## Results Achieved

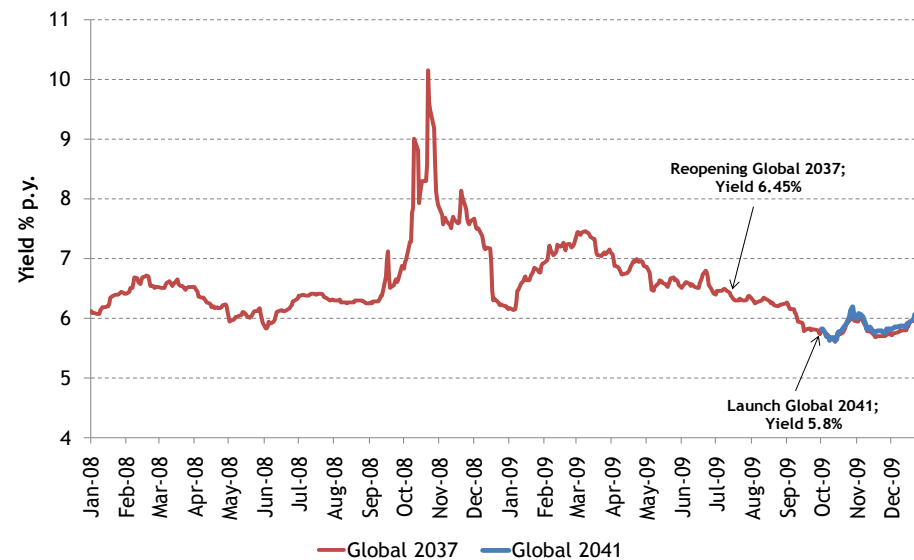
### External Market

- The National Treasury carried out 5 external operations, in US dollars, issuing US\$ 4.1 bn.
- The new 10-year benchmark bond, the Global 2019N, was launched in January and reopened in May and December. The yields at issuance were 6.1%, 5.8% e 4.75% p.y., respectively. This last reopening represented the lowest funding cost ever obtained by a Brazilian bond in the dollar market.
- In September, a longer Brazilian bond was placed, the Global 2041, as a new 30-year benchmark. Its yield at issuance was 5.8% p.y., which represented the lowest funding cost ever obtained by a Brazilian external bond with similar maturity.

#### Evolution of Yields - Globals 2017, 2019N



#### Evolution of Yields - Globals 2037, 2041



## Results Achieved

### External Market

#### Results of the Buyback Program

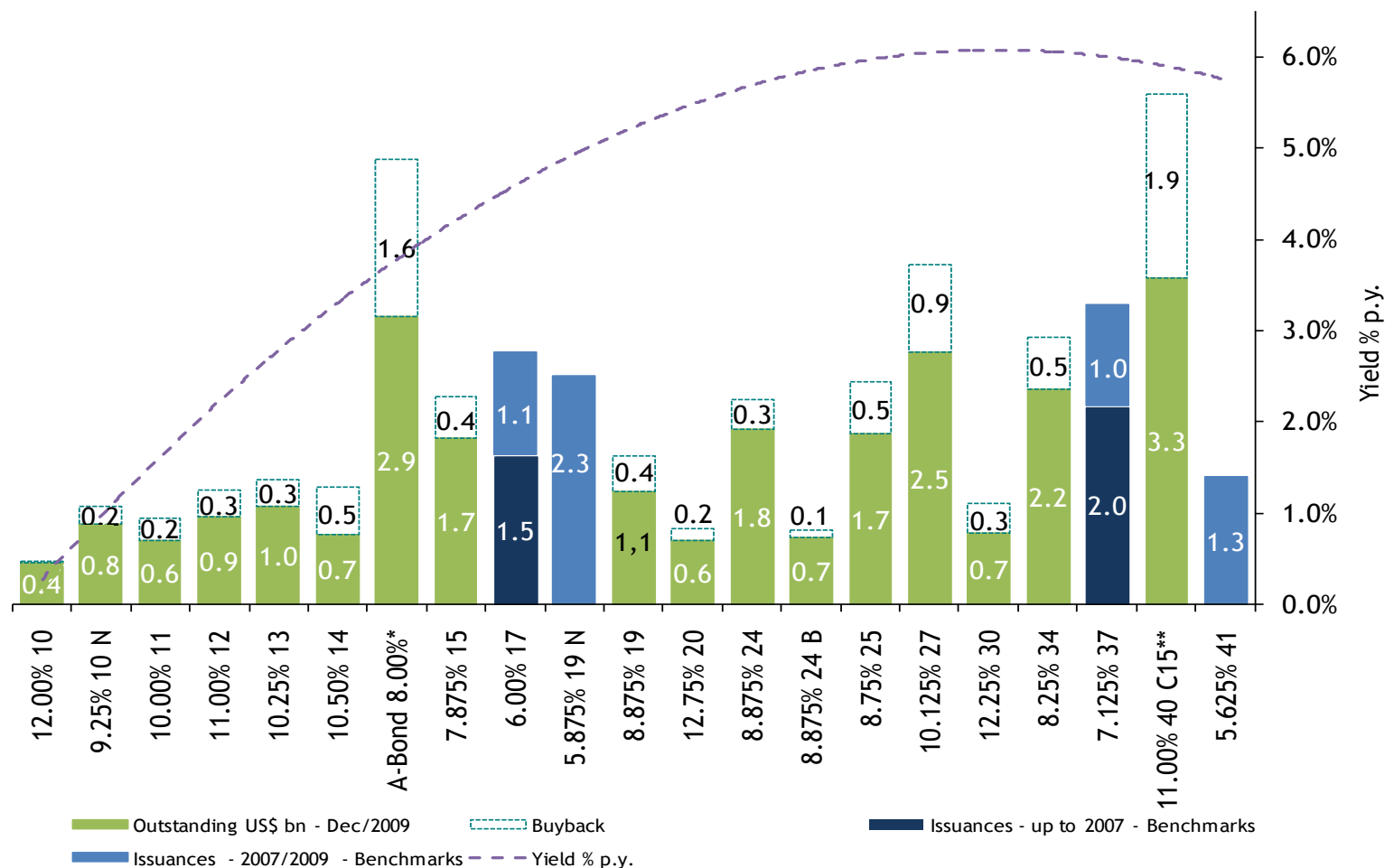
- In 2009, the Buyback Program was enlarged to euro-denominated bonds.
- Over the course of the year, buyback operations totaled US\$ 1.377 billion in financial value (US\$ 1.075 billion at face value). Since 2006, these operations have reached US\$ 13.6 billion at face value. With the buyback the volatility of FPD service is mitigated and, as a consequence, both refinancing and market risks diminish, while the profile of the curve is improved as a result of the high coupon bonds withdrawal.

#### Contractual Debt Management

- In July, the National Treasury implemented a swap with World Bank and IADB debts, converting the originally contracted interest rates to a fixed rate structure and, when applicable, the principal to US dollars.
  - The cost reduction (in present value) reached US\$ 77.56 million.
- In December, the National Treasury redeemed part of its contractual debt with World Bank in advance. Contracts with lower average maturity were chosen, totaling US\$ 870 million, which contributed to diminish the country's refinancing risk and represented savings of US\$ 16.3 million in terms of interest payments.

## Results Achieved

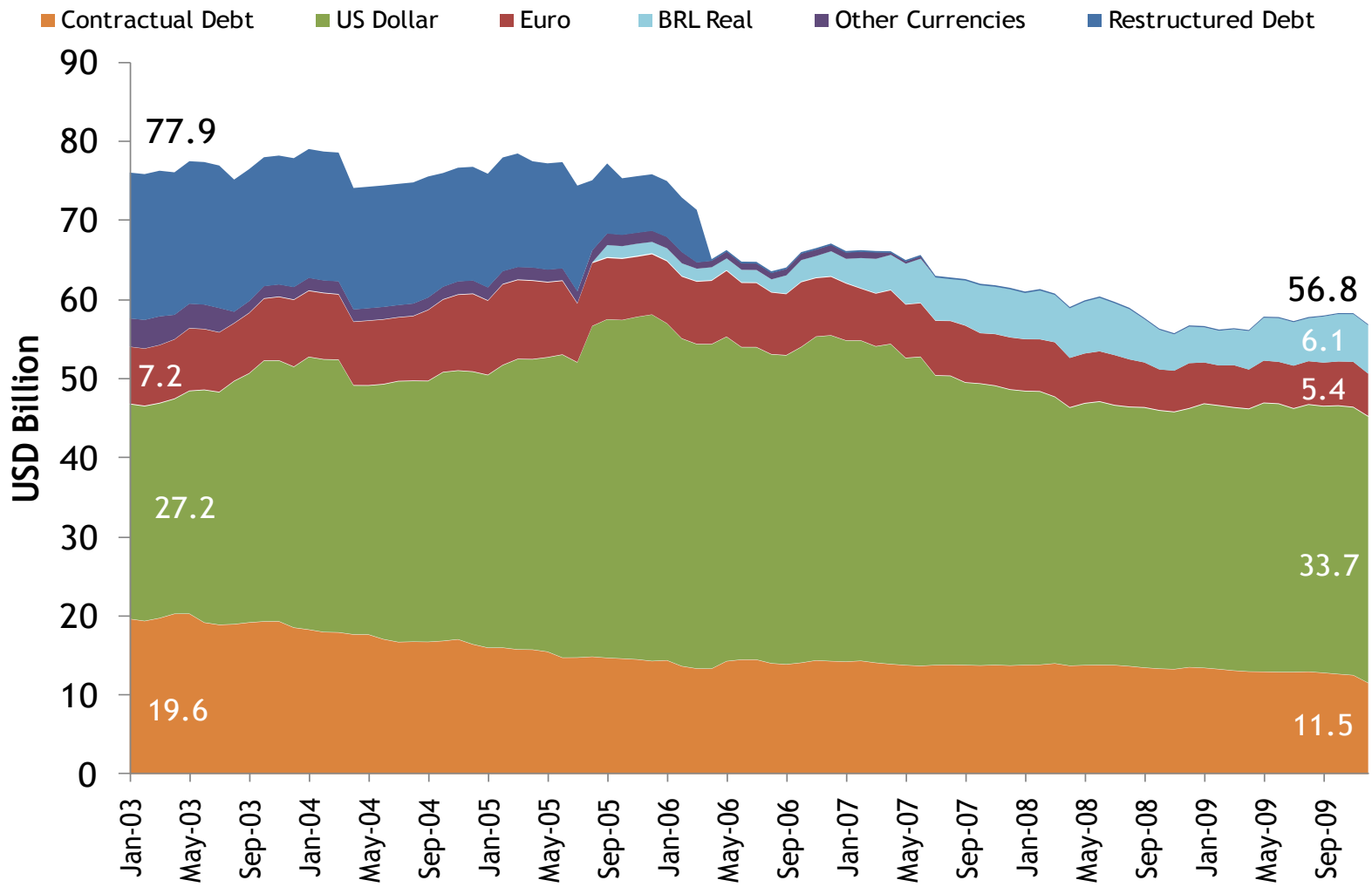
### Results of the Strategy Adopted in the EFPD from 2007 to 2009



Note: This amount includes the exchange of external debt securities for domestic debt bonds at Central Bank's portfolio, of approximately US\$ 676 million. As for the A-Bond (BR 8,00 15/01/2018), the reduction in the outstanding values includes not only the amount repurchased at the Buyback Program but also US\$ 184,5 million regarding its amortization.

# Results Achieved

## Outstanding EFPD



Source: National Treasury

BRAZILIAN FEDERAL PUBLIC DEBT

## Results Achieved

### Brazil receives another “Investment Grade”

- Moody’s, the last of the major credit rating agencies that still considered Brazilian external bonds speculative grade, announced in September, an upgrade in the sovereign rating to Baa3, the first notch in its investment grade scale.

Brazil	2003	2004	2005	2006	2007	2008	2009
S & P	B+	BB-	BB-	BB	BB+	BBB-	BBB-
Fitch	B+	BB-	BB-	BB	BB+	BBB-	BBB-
Moody's	B2	B1	Ba3	Ba2	Ba1	Ba1	Baa3
DBRS	ND	ND	ND	BB	BBH	BBBL	BBBL
JCR	ND	ND	ND	BB+	BB+	BBB-	BBB-
R&I	B+	BB-	BB-	BB+	BBB-	BBB-	BBB-

Source: Rating Agencies



Speculative Grade



Investment Grade

- The upgrades reflects the consolidation of sound macroeconomic fundamentals, such as:
  - Improvement in FPD profile, through reduction in FX exposure, while increasing the fixed rate share;
  - Maintenance of a responsible fiscal policy.

## ABP 10 Years

### Annual Debt Report - ADR 2009

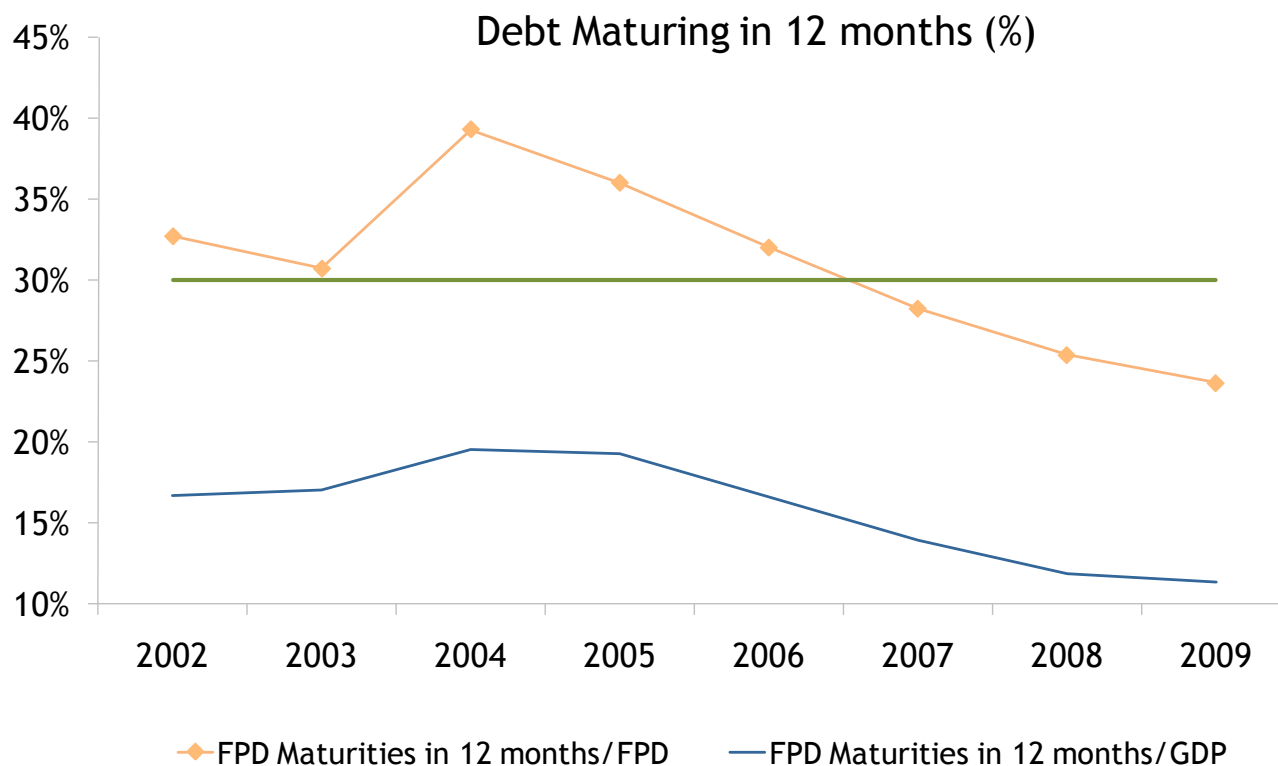
- Results Achieved
- **Risk Assessment**
- Advances in Public Debt Management

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## Risk Assessment

### Refinancing Risk Management



The reduction of the refinancing risk is strengthened by :

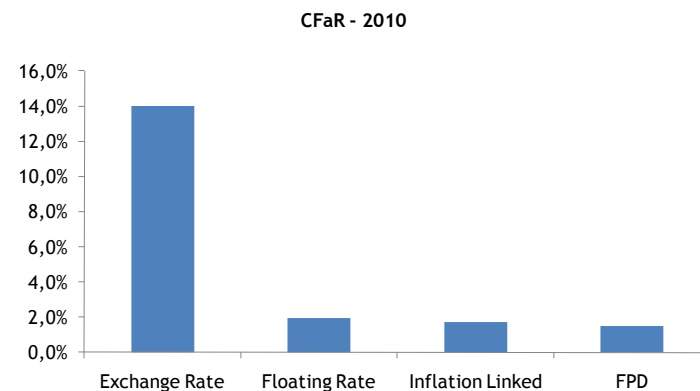
- Sizable liquidity cushion.
- Percentage maturing in 12 months below 30%.

## Risk Assessment

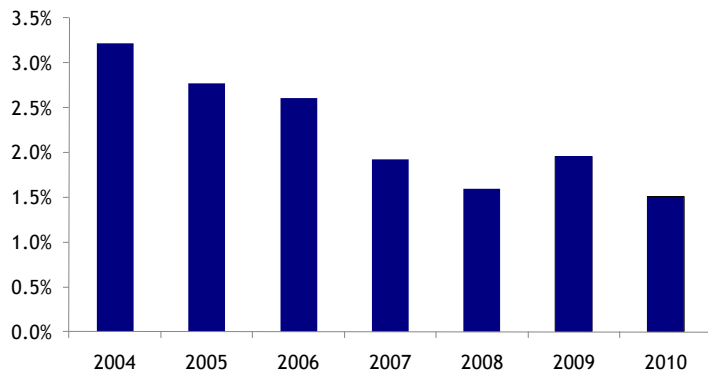
### Refinancing Risk Management

#### Cashflow at Risk - CfaR - maximum percentage of increase in the debt service under stress scenarios:

- Individually, the floating rate or exchange rate bonds have higher risk;
- However, a more balanced FPD profile achieved by the end of 2009 makes the sum of debt flows less volatile.



CFaR Evolution

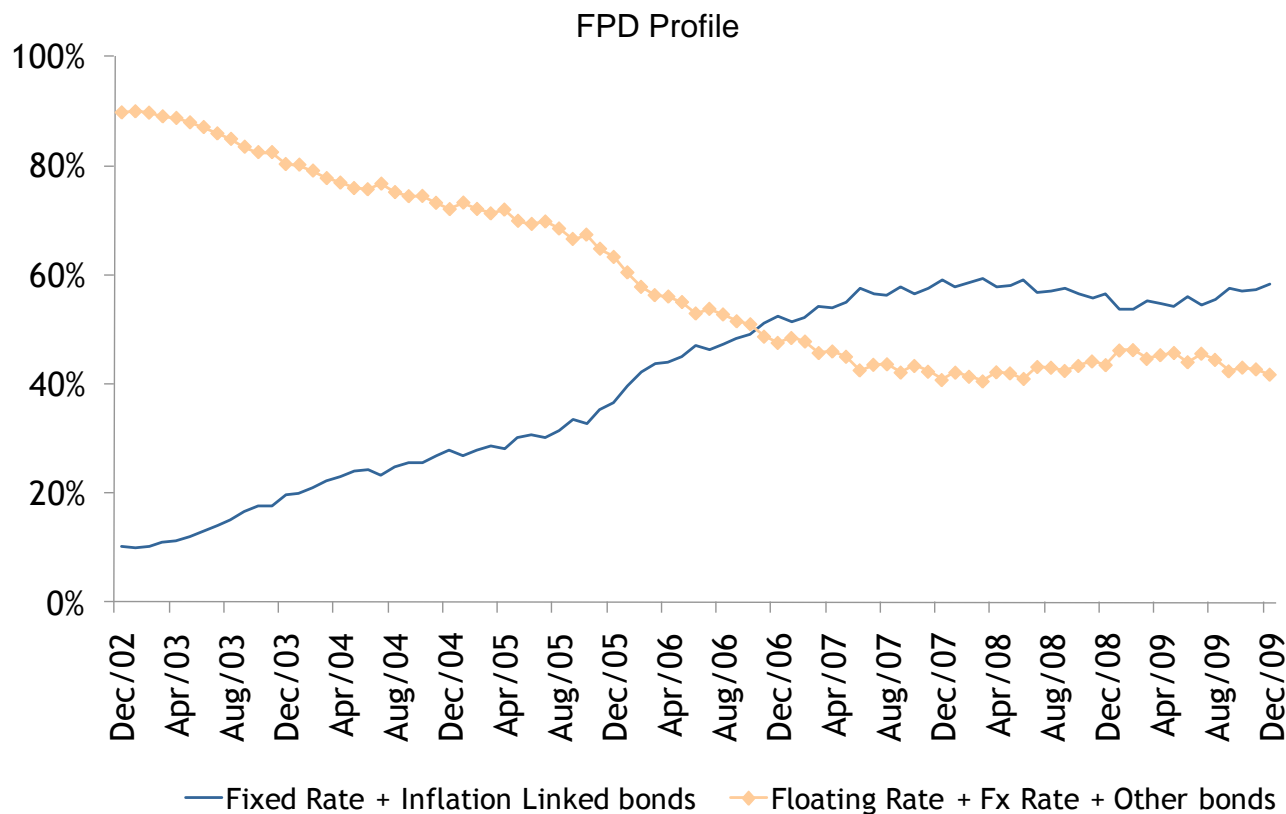


#### Predictability :

- The impact of shocks in macroeconomic variable on the payments of public debt in one year fell from 3.21% in 2004 to 1.5% in 2010, that is, a 46% reduction in the refinancing risk;
- Gradually, the changes in FPD profile have increased the predictability in the budget elaboration process and assessment of borrowing needs, reducing refinancing risk.

## Risk Assessment

### Market Risk Management



- Gradual change of the FPD since 2002, reducing the share indexed to the Selic rate and FX-rate (more volatile), gradually substituting these securities for fixed rate and inflation-linked bonds.

## ABP 10 Years

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## Advances in Public Debt Management

### Permanent institutional strengthening of Federal Public Debt management

- *LAC Debt Group* Activities - The National Treasury participated actively of the meetings held in Montevideo, in Uruguay, and Washington DC, in the USA;
- Advances in the Integrated Public Debt System (SID), enlarging the process of continuous modernization of public debt management;
- Brazil continues to lead the ranking of Investors Relations Practices and Transparency released by the International Institute of Finance (IIF), which evaluates the dissemination of information on the public accounts among emergent countries;
- The Brazilian National Treasury, in partnership with the World Bank Group, launched on August 17<sup>th</sup>, the book: “**Public Debt: The Brazilian Experience**”\*. The publication may be of special interest to academics, investors, financial analysts, credit-rating agencies, and journalists.

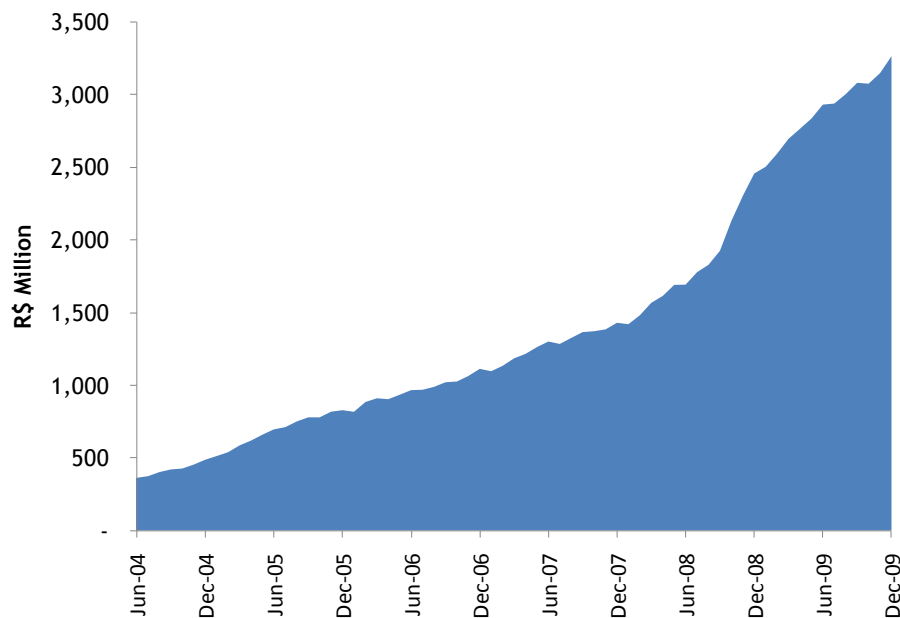
\*English version to be published soon

## Advances in Public Debt Management

### Treasury Direct Program\* - 8 years broadening the access to public debt bonds

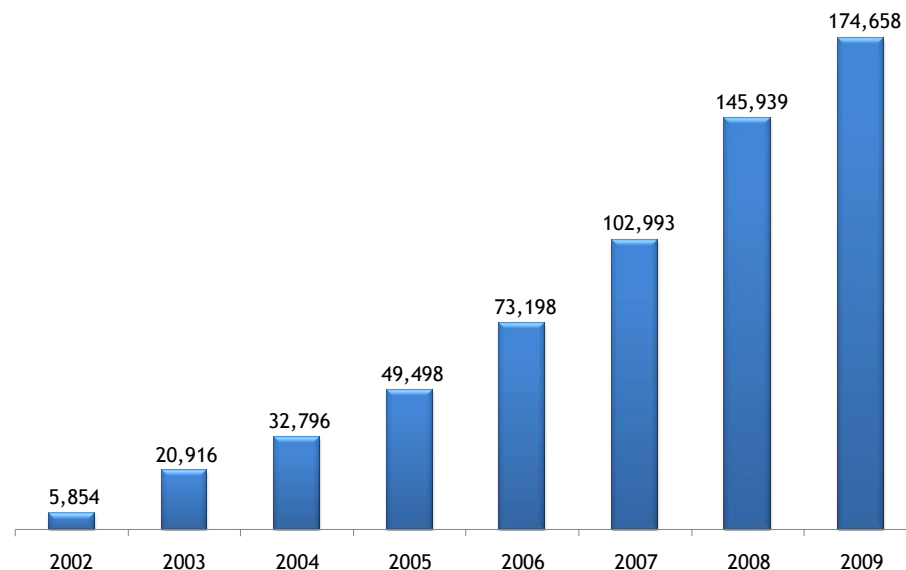
- In 2009, the total amount sold was R\$ 1,562.56 million, which represented the best result ever obtained by the program. Its total outstanding debt closed the year with an amount of R\$ 3,268.4 million, an increase of 32.9% compared to 2008.
- At the end of the year, the number of registered investors increased 19.7% compared to the same period of 2008, as 28,719 new investors were added. The total number of registered investors reached 174,658.

Treasury Direct - Outstanding Debt



Source: National Treasury

Treasury Direct - Number of Registered Investors



Source: National Treasury

\*An Internet based retail sales program

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## Assumptions and Guidelines

### Federal Public Debt Planning

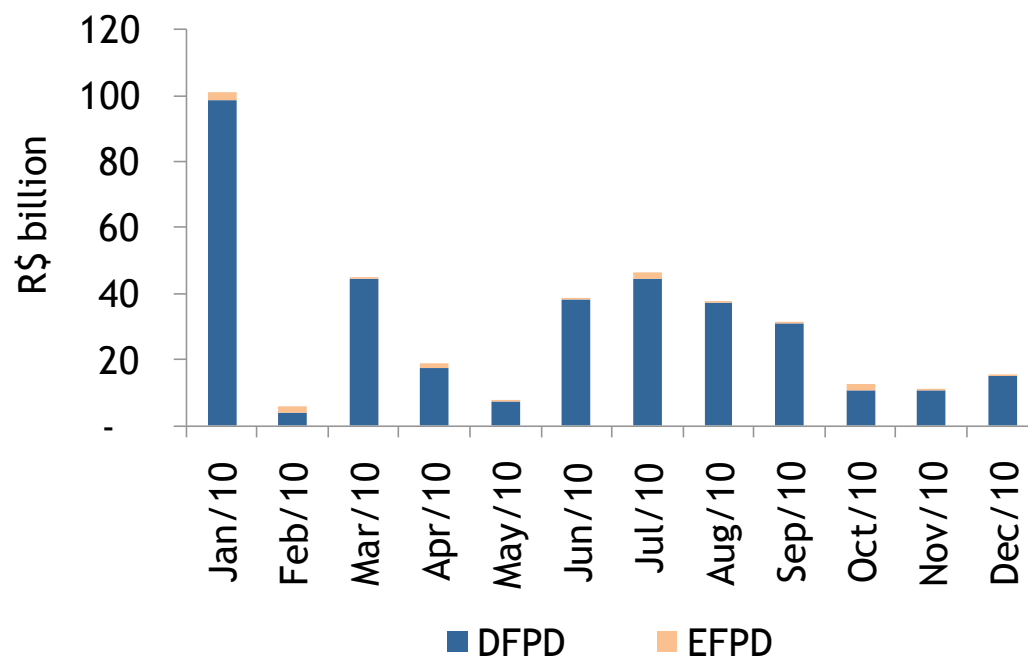
*The objective of the FPD Management is to efficiently provide the National Treasury Borrowing Requirements, at the lowest long-term financing costs, ensuring the maintenance of prudent risk levels. Additionally, to contribute to the public bond market well functioning.*

### Guidelines

- Guidelines for the FPD management, subject to market conditions :
  - Lengthening FPD average maturities;
  - Smoothing FPD maturity profile;
  - Gradual substitution of floating-rate securities for fixed-rate or inflation-linked securities;
  - Improvement of the external debt profile through issuance of benchmark bonds, buyback program and structured operations;
  - Incentives to the develop a long term interest rates structure of for federal public securities on domestic and external markets; and
  - Broadening the investor base.

## Assumptions and Guidelines

### FDP Maturities (Total = R\$ 372.3 billion)



	R\$ billion		
	Principal	Interest	Total
<b>FDP</b>	<b>285.6</b>	<b>86.7</b>	<b>372.3</b>
DFPD	280.0	79.7	359.7
EFPD	5.6	7.0	12.6

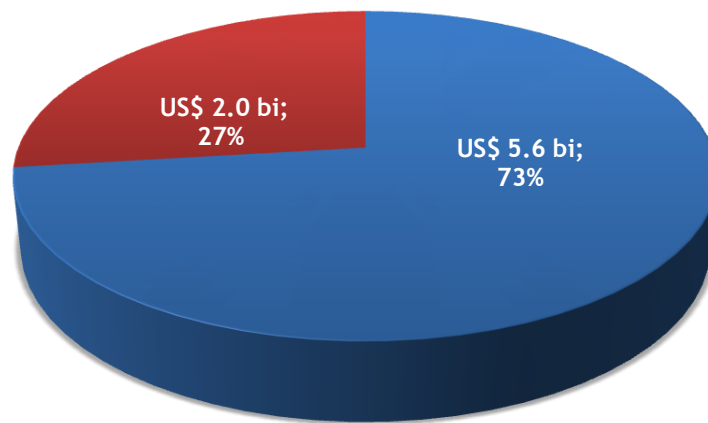
Source: National Treasury

## Assumptions and Guidelines

### External Debt Management

- Among the tools used in the external debt management, the National Treasury anticipated purchases of foreign currencies for external debt payments during 2009.
- External debt maturities correspond to US\$ 7.6 billion, of which US\$ 4.2 billion relative to interest payments and US\$ 3.4 billion refers to principal.
- In effect, the National Treasury has already bought US\$ 5.6 billion (through December 31, 2009) in foreign currencies purchases for external debt payments, reducing foreign currency needs to approximately US\$ 2.0 billion.

#### Purchased Foreign Currency for Debt Payment in 2010



■ PURCHASED ■ TO BE PURCHASED

## Assumptions and Guidelines

### National Treasury Borrowing Requirement

Estimated  
Redemptions  
R\$ 400.1 billion

-

Budgetary  
Resources  
R\$ 79.5 billion

=

Financing  
Requirements  
R\$ 320.6 billion

External Debt  
R\$ 12.6 billion

+

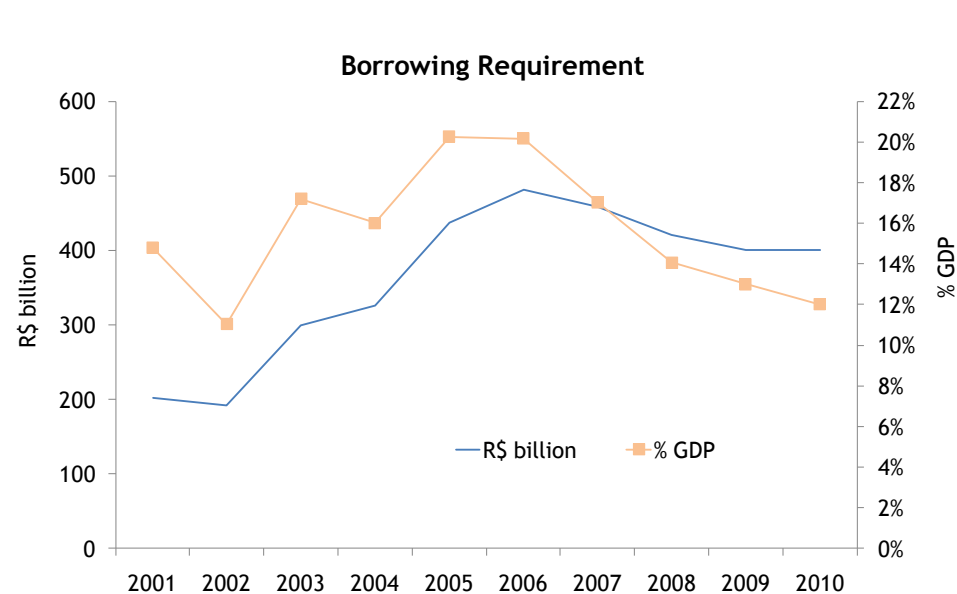
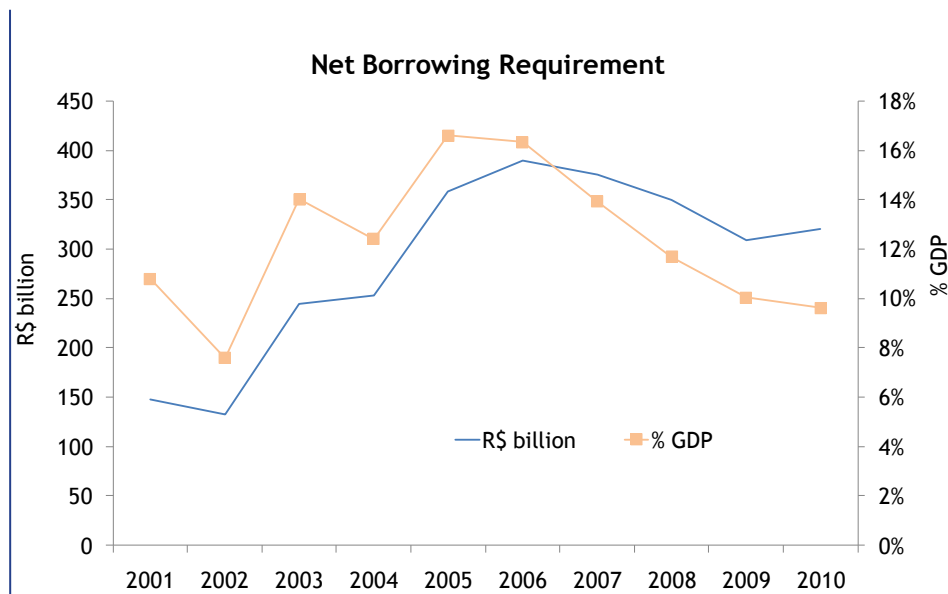
Domestic Debt Held  
by the Public  
R\$ 359.7 billion

+

Interest due to  
Central Bank  
R\$ 27.8 billion

## Assumptions and Guidelines

### Evolution of Borrowing Requirements



- Smoothing the FPD maturity profile and borrowing requirements reduction since 2006;
- The borrowing requirements are currently on their lowest level since 2002.

## ABP 10 Years

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## Strategy and Expected Results

### Issuance Strategy of Domestic Debt - DFPD

#### ■ Fixed Rate Securities:

- ✓ The LTN will have benchmarks of 6, 12 and 24 months, and the NTN-F will have maturities of 3, 5 and 10 years, emphasis on 3 and 10 years maturities;
- ✓ Consolidation of the 3- year NTN-F as a benchmark of great relevance in the FPD refinancing;
- ✓ Offering the new 10 years benchmark, represented by NTN-F due in January 2021.

#### ■ Inflation Linked Securities:

- ✓ The maturities of NTN-B offered throughout 2010 will have 3, 5, 10, 20, 30 and 40 years maturity;
- ✓ With regard to the vertices of 20, 30 and 40 years, new bonds maturing in 2030, 2040 and 2050 will be placed, offering more benchmarks for investors.

#### ■ Floating Rate Securities:

- ✓ The new bonds will have maturities in March and September;
- ✓ The average issuance maturity will be superior to the FPD average maturity at the end of 2009 (around 3.5 years).

## Strategy and Expected Results

### Strategy of External Debt - EFPD

- Creation and Improvement of benchmarks in the external market yield curve through qualitative issuances (10 and 30 years benchmarks).
- Maintenance of the Buyback Program (Dollar and Euro Bonds).
- Possibility of external liability management operations to improve the external interest rate curve efficiency.
- Maintenance of transparent relationship with the international financial community.
- Active management of Contractual External Debt, seeking alternative transactions that allows financial gains for the National Treasury.

## Strategy and Expected Results

### Other Measures

- Efforts to further development of the public securities market, particularly with respect to the secondary market and broadening the investor base;
- Reduction of the number of National Treasury exchange auctions, maintaining long-term securities buyback, in order to provide liquidity and stimulate the secondary market;
- The National Treasury will keep its role in the dissemination of IMA - Anbima Market Index and its sub-indices referenced in government bonds, to encourage its use as a fixed-income benchmark.

## Strategy and Expected Results

### Auctions Frequency

Bond	Type of Auction		
	Traditional	Exchange	Buy Back
LTN	Weekly	Quarterly	-
NTN-F	Weekly	Eventually	Monthly
NTN-B	Fortnightly	Weekly	Monthly
LFT	Fortnightly	Quarterly	-

- Traditional auctions: key function of refinancing the Federal Public Debt through issuance of fixed rate, floating rate and inflation linked securities;
- Exchange auctions: consist primarily of exchanges of securities with shorter maturities for other longer-term securities, with the overriding objective of lengthening the debt profile;
- Buyback: to provide investors with greater liquidity.

The official schedule is published every month end at the web site:  
[http://www.tesouro.fazenda.gov.br/divida\\_publica/leiloes.asp](http://www.tesouro.fazenda.gov.br/divida_publica/leiloes.asp).

## Strategy and Expected Results

### Expected Results - FPD

Indicators	2009	Limits to 2010	
		Minimum	Maximum
<b>Outstanding (R\$ billion)</b>			
	1,497.4	1,600.0	1,730.0
<b>Profile (%)</b>			
Fixed Rate	32.2	31.0	37.0
Inflation Linked	26.7	24.0	28.0
Floating Rate	33.4	30.0	34.0
Exchange Rate	6.6	5.0	8.0
Others	1.1	0.0	1.0
<b>Maturity Structure</b>			
Average Maturity (years)	3.5	3.4	3.7
Percentage Maturing in 12 months	23.6	24.0	28.0

- Percentage of fixed rate securities + inflation linked securities near 60% of the outstanding.
- Percentage maturing in 12 months below 30% and stable average maturity; and
- Outstanding limit already reflects special operations defined by law<sup>1</sup> (example: BNDES, Merchant Navy (Marinha Mercante), and Caixa Econômica Federal).

<sup>1</sup> Law 11.948/09, Provisional Measure nº 470, October 13<sup>th</sup> 2009 and Provisional Measure nº 472, December 15<sup>th</sup> 2009.

For additional information access  
the Brazilian National Treasury website:

[www.tesouro.fazenda.gov.br](http://www.tesouro.fazenda.gov.br)

Or contact the Institutional Relations area:

[brazildebt@fazenda.gov.br](mailto:brazildebt@fazenda.gov.br)