

WASHINGTON  
OCTOBER - 2008



## Brazilian Outlook – Why are we different?



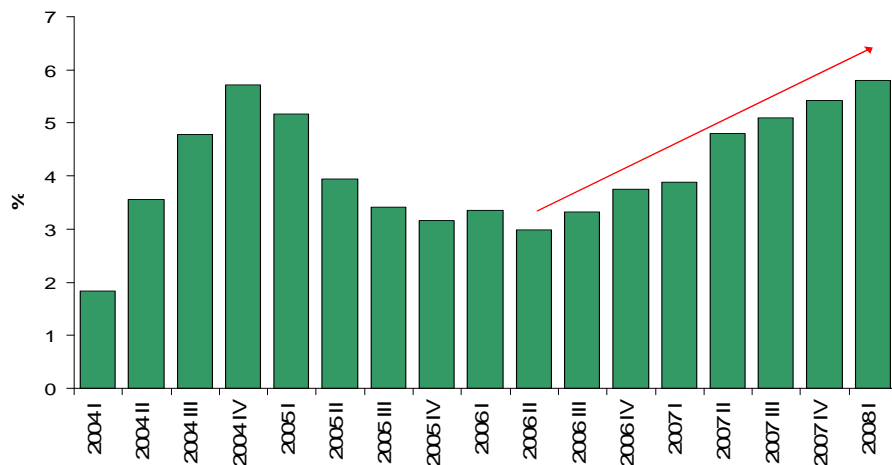
# Brazilian Federal Public Debt

**Macroeconomic Overview**

**Public Debt Management**

## Brazilian growth has been remarkable

### GDP Growth (Q-o-Q accumulated)



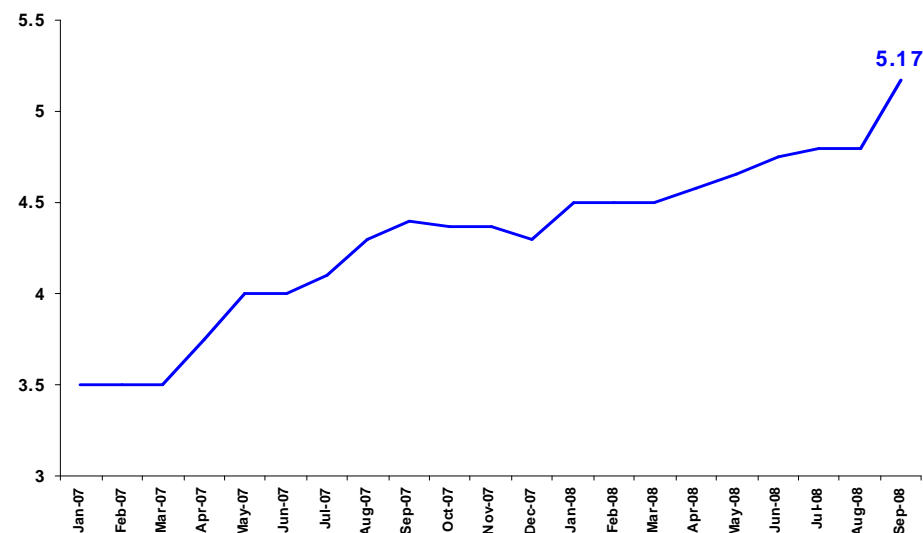
Source: Ipeadata

- Average GDP growth was 4.5% in the last 4 years.
- Even though the subprime crisis has shown to be more profound than imagined by the end of 2007 market expectations for the 2008 GDP have been constantly increasing in the last periods. This indicates that market analysts tend to be very conservative in its forecasts.

- The GDP growth achieved 6.0% in the first semester of 2008, the best result since 2004. Brazilian GDP has been growing at increased rates in the last 7 quarters.

- The carryover effect for this year points to a 4.7% growth compared to a market expectation of 5.17%.

### Market Expectations for the 2008 GDP Growth

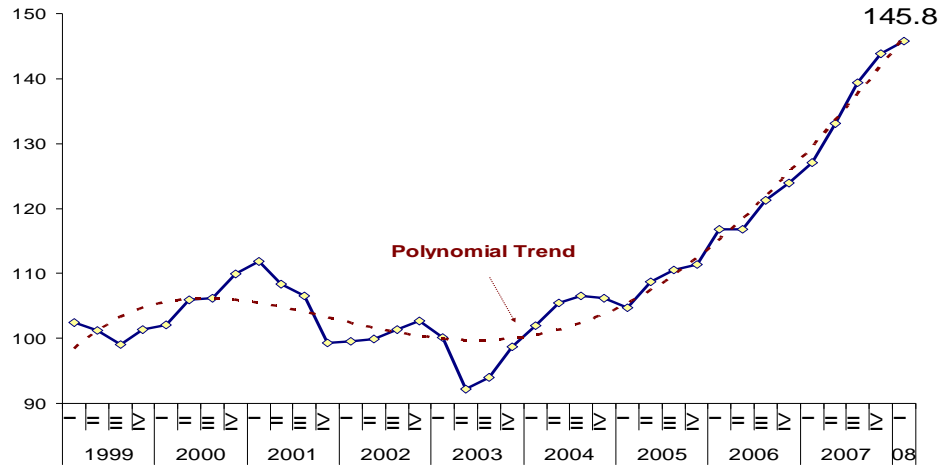


Source: FOCUS/Central Bank



# More investment and more production...

## Investment Growth - Seasonally Adjusted (1995=100)

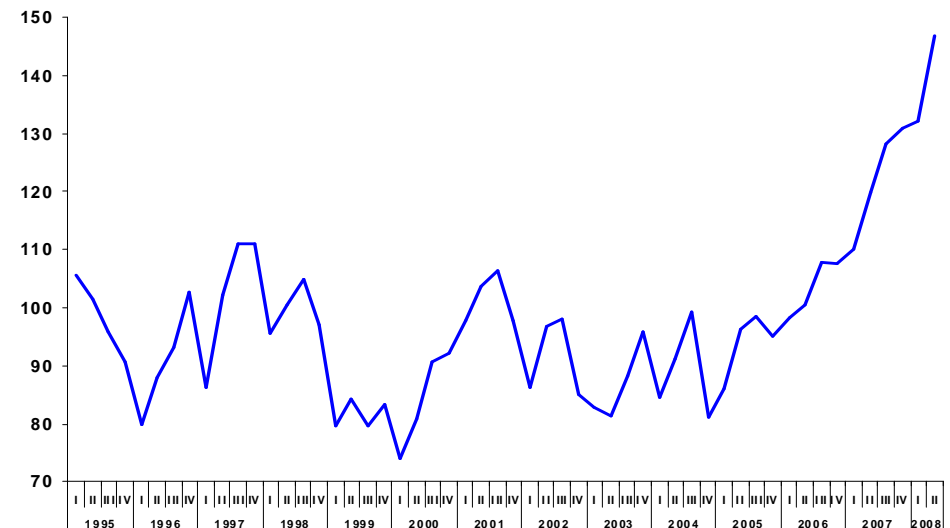


Source: IBGE

Note: Gross Fixed Capital Formation (GFCF)

- The Gross Fixed Capital Formation has achieved its peak since the beginning of the series in 1996 as well as the Apparent Machine Consume Index, which measures the domestic consume of machines. These data suggests that investments have followed the increase in the demand side reducing risks of future bottlenecks.

## Apparent Machine's Consume\*

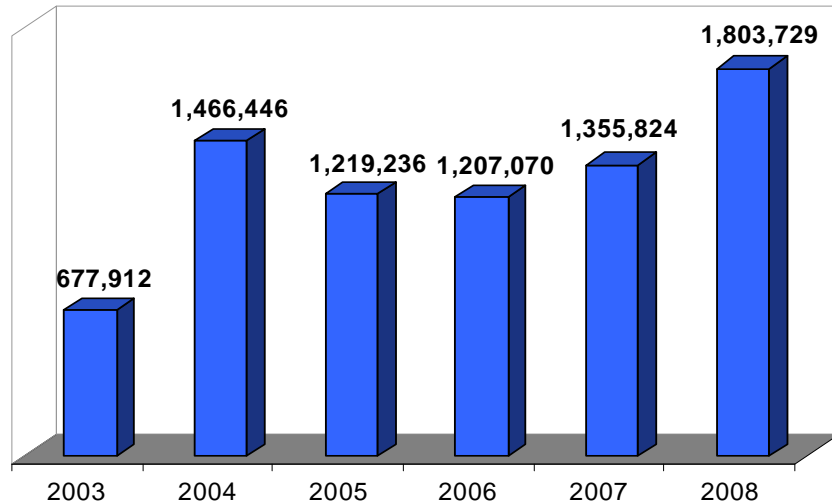


Source: IPEA \*1995 Average = 100



# More jobs and more income...

## Job Creation (January to August - 2008)

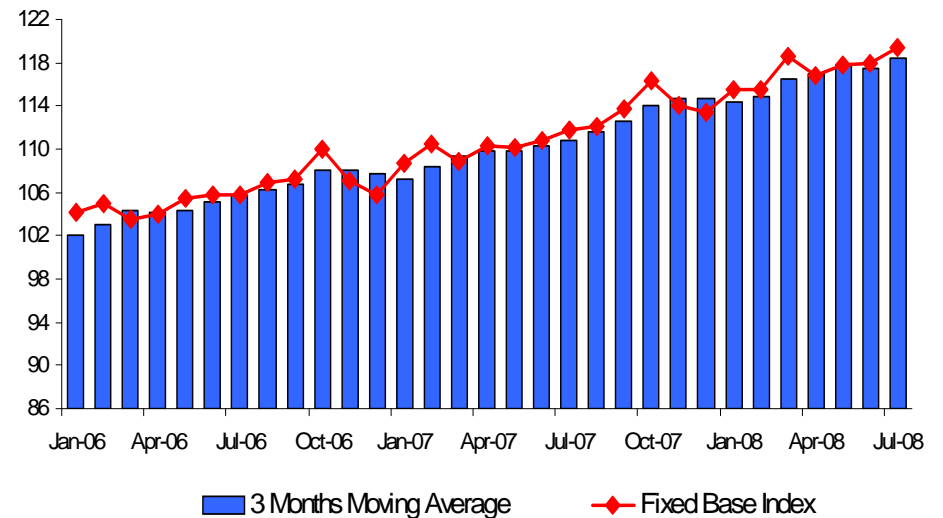


Source: Caged - Ministry of Labor and Employment

- In 2008, 13 out of 18 researched sectors increased the amount of their overall payroll.

- In the last 12 months, job creation has been for the first time in the time series of CAGED superior to 2 million (2.065.297 new employers), which represents an increase of 7.19% compared to the same period of the previous year.

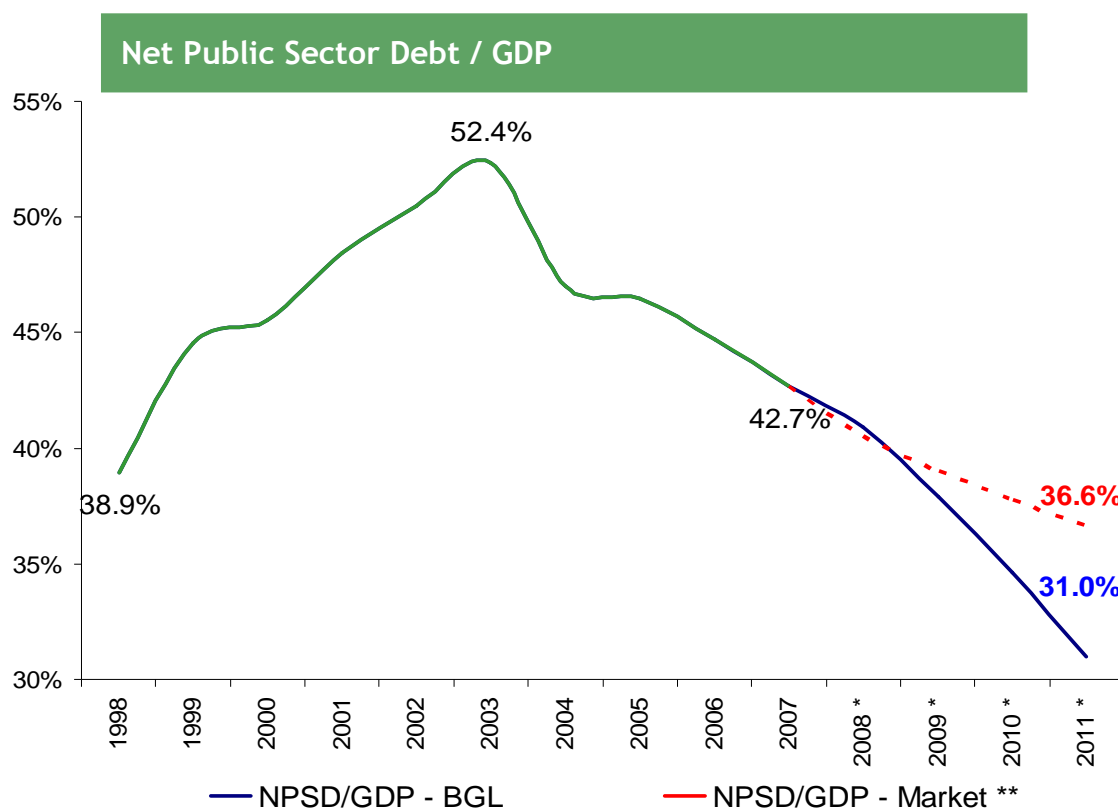
## Real Payroll Amount



Source: IBGE

## Meanwhile, Fiscal Commitment remains untouchable...

- The Brazilian Government decided to raise primary surplus for 2008 from 3.8% to 4.3% of GDP and already restated its commitment to achieve 3.8% of GDP in 2009, again with the possibility of additional 0.5%.
- In 2008, the primary surplus accumulated in the first six months was 6.19% of PIB and the Nominal Balance was -0.19% of GDP in the same period.

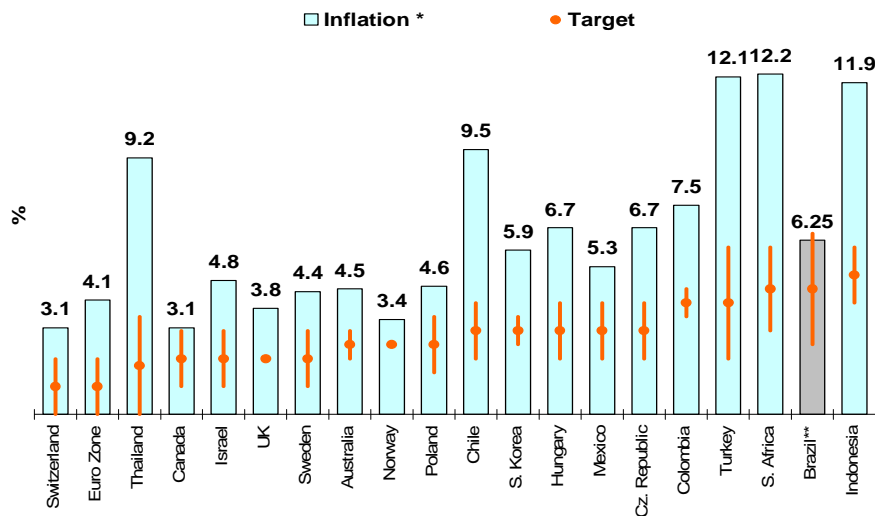


\* Expectations \*\* NPSD / GDP according to market expectations for interests, inflation and growth.

Source: Up to 2007, Central Bank. From 2008 on Draft BGL 2009 and Market Expectations (Focus of 10/03/2008)

# Inflation has been controlled...

## Countries utilizing Inflation targeting



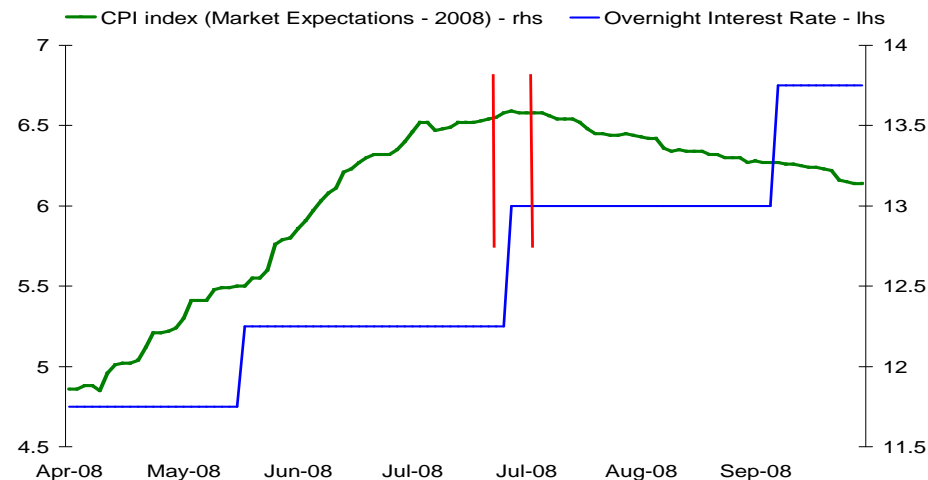
\*CPI inflation (accumulated in 12 months - as of July/08) \*\* as of September/08

Source: Bloomberg

- The Brazilian Central Bank started a monetary tightening cycle in April-2008, rising the overnight interest rate (Selic) by 250 basis points until now.
- This policy, allied to the government fiscal commitment, has been determinant to tame inflationary pressures.

- Brazil is committed to keep inflation under control
  - Market Forecasts show that CPI index:
    - should be close to the upper bound in 2008 (inside the range)
    - should move towards the median in 2009

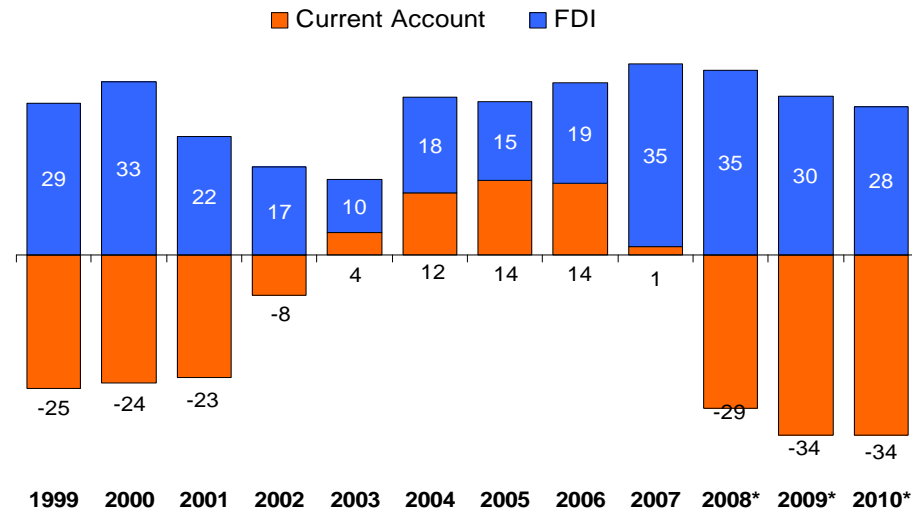
## Overnight (Selic) interest rate vs. CPI Index forecast





# Macroeconomic Overview - Reduction in the External Vulnerability

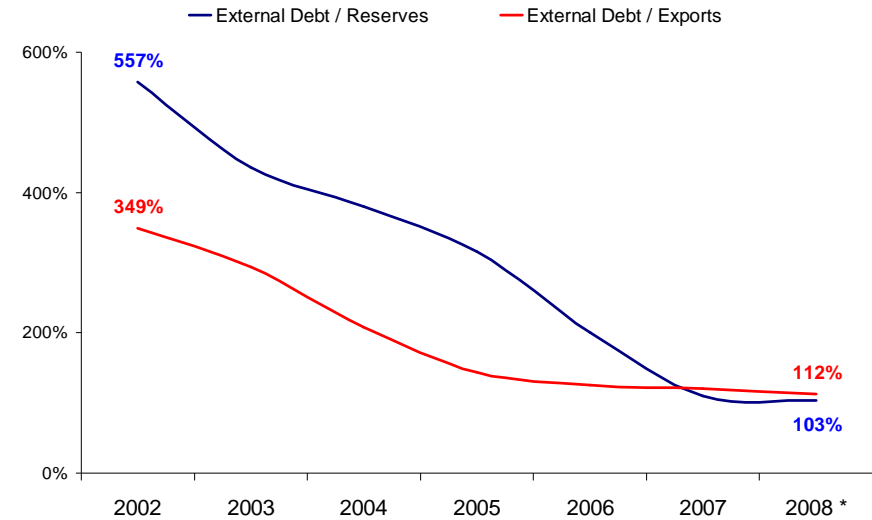
### Current account x FDI (12 months accumulated - US\$ bn)



Source: Central Bank

\*Market Expectations (Focus of 10/03/2008)

### External Debt / FX-Reserves and Ext. Debt / Exports (%)



Source: Central Bank

\* Until Aug-08

MACROECONOMIC OVERVIEW

- According to market expectations, FDI compensates the CA deficit in 2008 and converge in 2009 and 2010.
- Non-Financial Public Sector External Debt/ FX-Reserves ratio fell from 292% in December 2002 to 33.5% in August 2008.
- The External Debt (R\$ 212 Bn) / Reserves (public and private\*) ratio reached value below 1. **Brazilian Net External Debt is negative in R\$ 16.5 Bn (Aug-08).**

\* Commercial banks assets and Brazilian credits abroad.

## Less vulnerability on commodities

### Brazilian Exports are diversified across countries and products

- Brazil shows a more diversified export bundle than it's peers in Latin America.
- Excerpt of IIF's report: "In Brazil, where commodities (primary and commodity linked to manufactured products) account for 55% of total exports, the negative impact of a correction in commodity prices will be moderated by several factors:

(1) the cumulative terms of trade gains have been far from massive (just 5 percent in the six years to 2007);

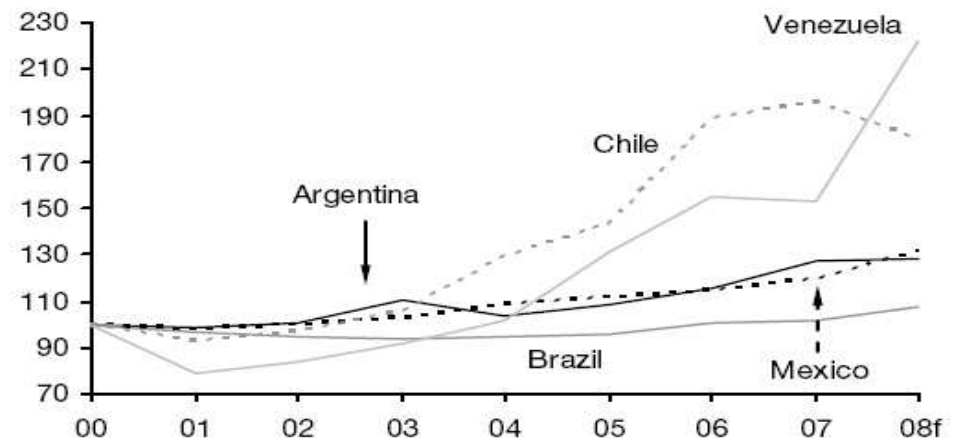
(2) the trade linkage is weak, as merchandise exports account for 15% of GDP;

(3) the country has accumulated substantial international reserves to ease pressure on the BRL (Real) if necessary;

(4) the potential pass-through of a depreciation of the local currency to inflation will be limited by the ongoing tightening monetary policy. "

### Terms of Trade

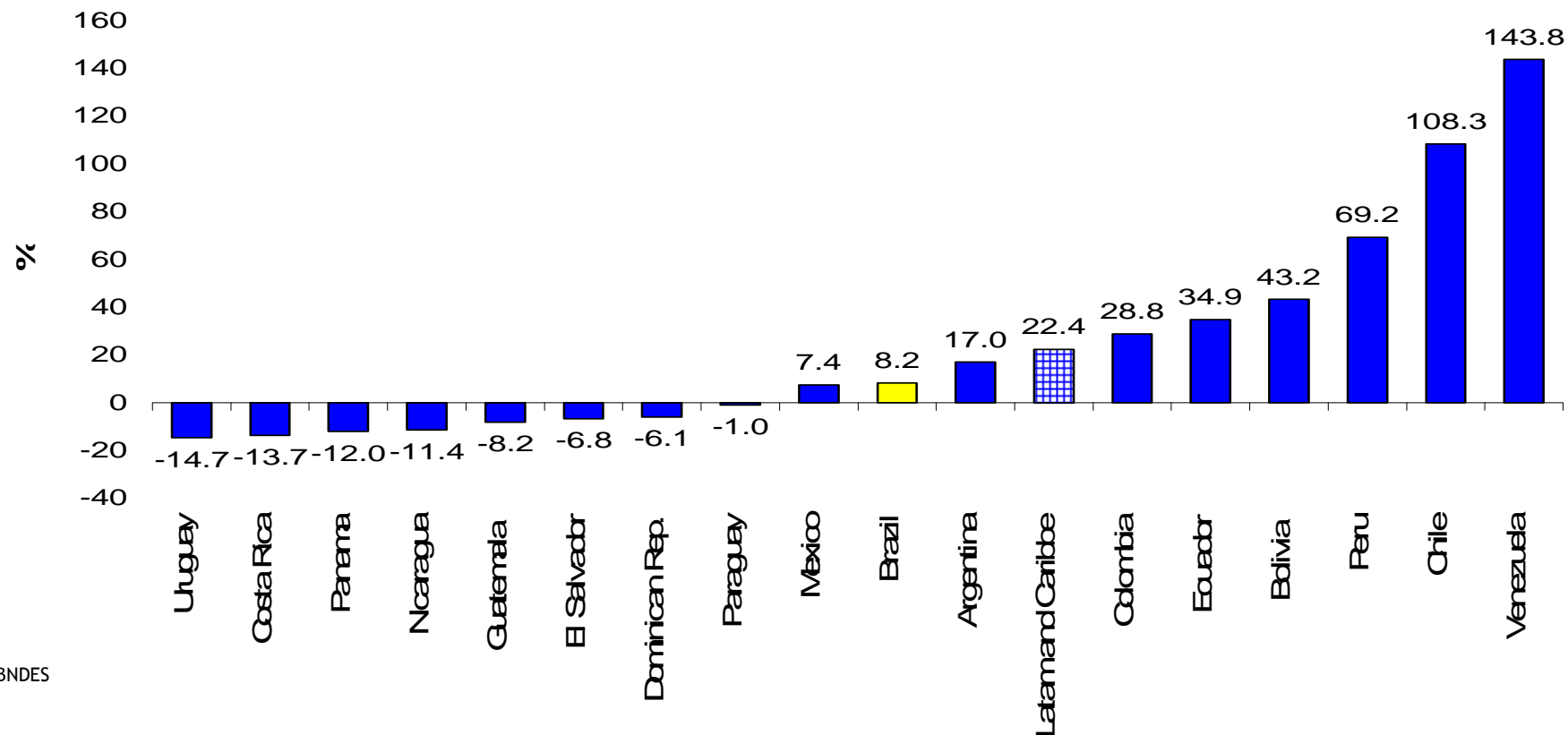
Terms of Trade  
Index 2000=100



Source:IIF

## Additional buffer in the external sector

### Terms of Trade (variation % 2001-2007)



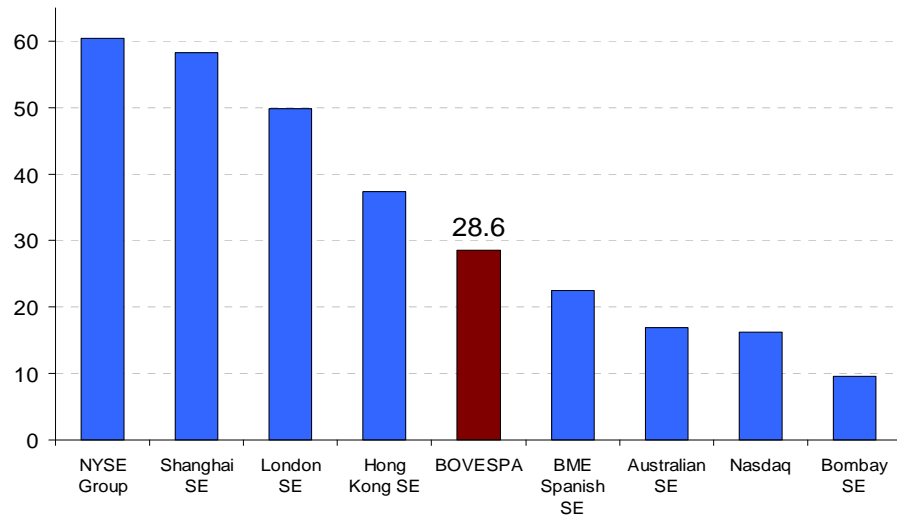
Source: BNDES

- Considering the trade balance in 2007:
  - if the prices of iron ore, oil and natural gas decreased to the average prices forecasted by World Bank for the period 2008/2010, Brazil would face a reduction of only US\$ 8.4 billion (-13.7%).
  - This puts Brazil in a relatively comfortable position



# Private Companies are cashed up

## IPO's in 2007 (US\$ Billion)



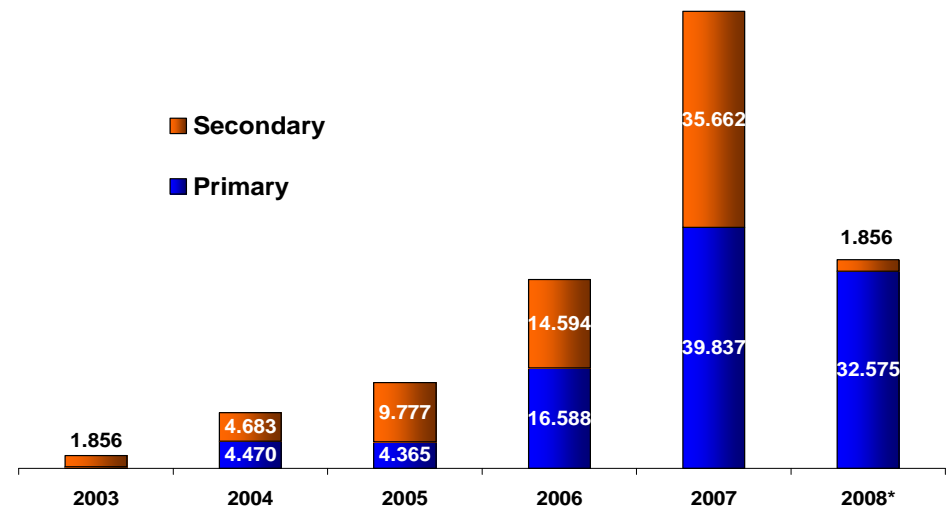
Source: WFE

- According to MSCI index, Brazil is now the largest Emerging Market in the world, representing 14.95% of the index.

- Bovespa and BM&F merge creates the 3<sup>rd</sup> biggest exchange in the world in market value.

- Brazilian companies have financed themselves in the past years and are ready to go on with their projects once the external outlook improves.

## Stock - Public Offering (R\$ Mn)



Source: CVM

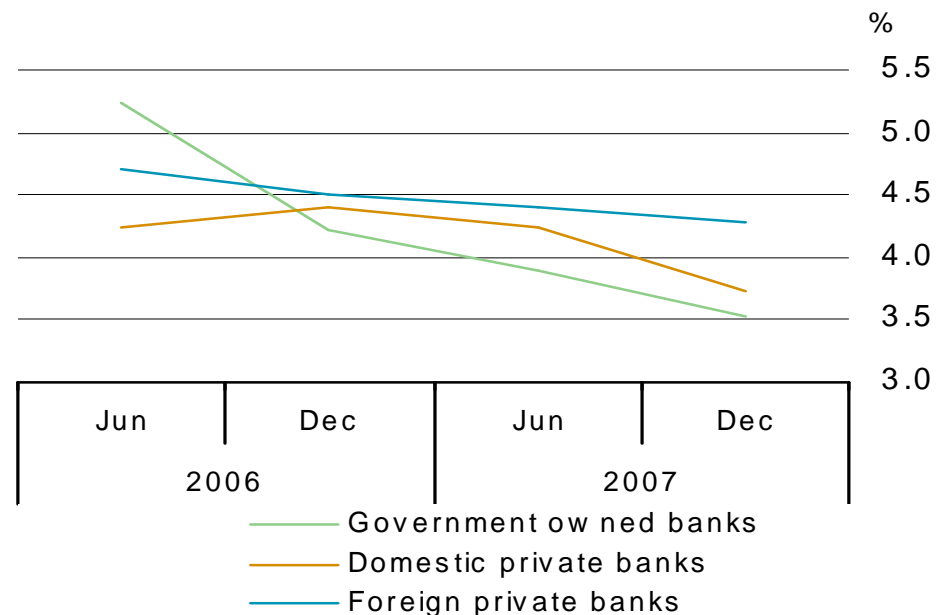
\* Until October 3rd

# Financial market wealth has been kept

## Financial System Strength

- Central Bank monitors, in daily terms, financial institution positions. The Brazilian Payments System (electronic) uses online data to check for liquidity needs.
- The Central Bank has a credit risk controlling area that monitors all credits above R\$ 5,000, which represents around 80% of all credit.

### Default in credit operations



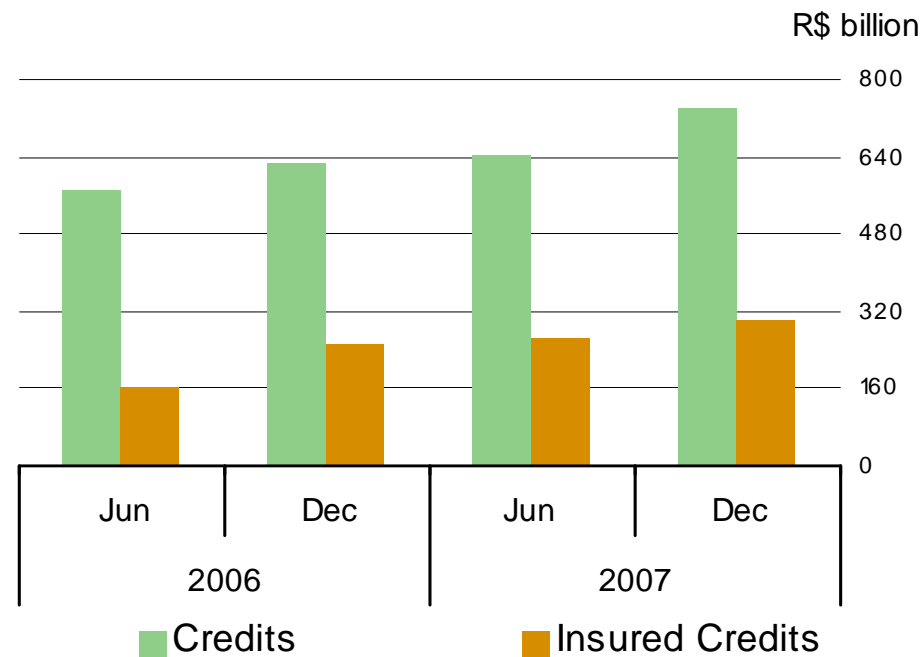
Source: Central Bank

# Financial market wealth has been kept

## More confidence for depositors...

- The *Fundo Garantidor de Crédito* (Deposit Insurance Fund) insures accounts reserves up to R\$ 60,000, amount that covers integrally 99.1% of depositors and 40.7% of credits in the National Financial System.
- Coverage for checking accounts, savings accounts and certificate of deposits.

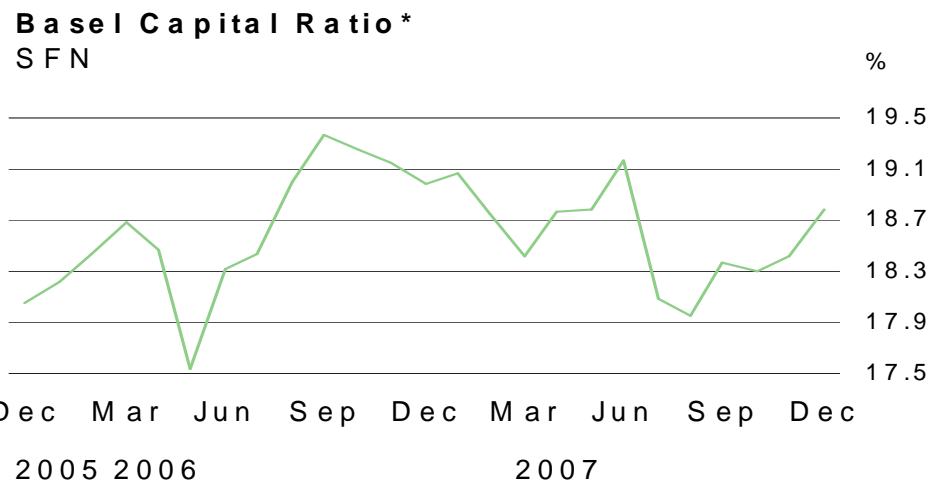
### Deposit Insurance Fund



Source: Central Bank

# Financial market wealth has been kept

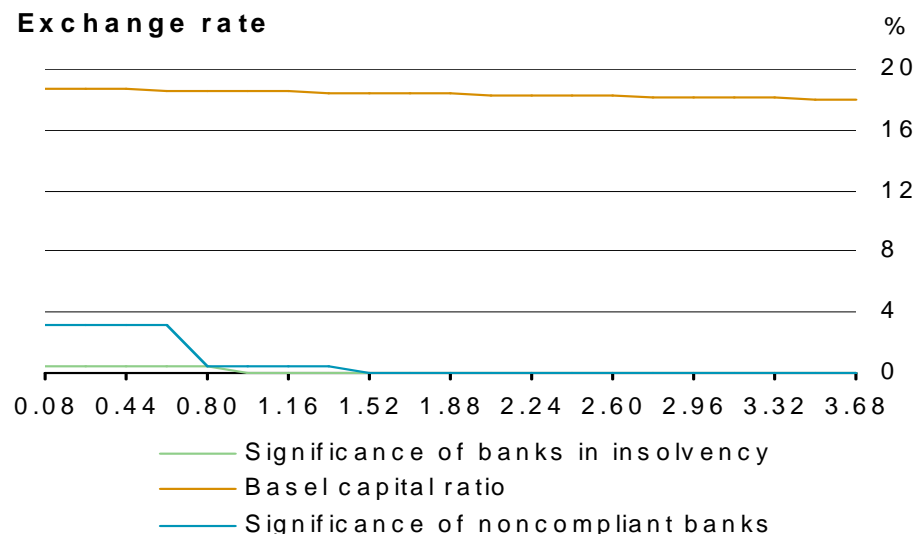
... And greater confidence in banks



Source: Central Bank

- Brazil sets a minimum requirement for capital ratio of 11%,
- This is higher than the Basel's I (8%)
- Brazilian financial institutions have, on average, 18.8%.
- Among commercial banks, none is below 11% capital ratio.

## Sensitivity Analysis - Exchange Rate - Dec/07



Source: Central Bank

■ The Central Bank carries out, every semester, stress tests to evaluate the adequacy of Financial Institutions Capital Ratio to Basel limits in stress scenarios of:

- fixed rate interest, exchange rate and downgrade of credit operation ratings.

■ No relevant Financial Institution would present insolvency condition in the considered scenarios.



# Financial market wealth has been kept

## Controlling Liquidity

- Central Banks has been very active during this turmoil:
  - It's recently boosted liquidity (diminishing reserve requirements) in R\$ 13.2 bn - Oct-1st
- This measure has reduced financing costs for financial institutions and allows extra credit to exporting companies
- On Oct-8<sup>th</sup>, Central Bank reduced the reserve requirements. The measures consisted on:
  - Additional deduction (R\$ 400 mn) for cash requirements
  - Reduction from 8% to 5% on contributions on short and long term deposits
  - This provided extra R\$ 23.2 bn to the market
- MoF and Central Bank announced that they could use FX-reserves to support export credits, which posed a positive stance in flooding the market with additional liquidity
  - BNDES has increased credit line to export operations to R\$ 15.0 bn. This measure aimed at preventing any locks in this sector, as external credit has diminished



## What else?

- Tax reform is now being discussed in the special commission of Lower House. It's in the government agenda.
- Social Security Deficit is forecasted at R\$ 38 billion in 2008, which represents a sharp reduction compared to the performed value in 2007 (R\$ 46 billion).
- Brazil expects a historical record in 2008 crop.
  - The forecasted production between Jul-07 and Jun-08 reaches 143.87 mn tons ( 9.2% growth)
  - Sugar cane (source for ethanol) should reach 710.28 mn of tons - overall record

## Will Brazil be affected by the crisis?

S&P and Fitch granted the Investment Grade Status for Brazil on April and May 2008, respectively

- Brazil's kept its positive economic path amidst the external turmoil. Stability and pragmatism are values widespread across society. In this context, 5 out of 6 agencies granted the Investment Grade.

Brazil	2003	2004	2005	2006	2007	2008
S & P	B+	BB-	BB-	BB	BB+	BBB-
Fitch	B+	BB-	BB-	BB	BB+	BBB-
Moody's	B2	B1	Ba3	Ba2	Ba1	Ba1

- Strengths

- Track record of policy continuity through political transitions based on a inflation-targeting regime and floating FX-regime;
- Remarkable reduction on external vulnerabilities
- Improving debt profile

- Challenges

- Large Net Debt ratio and relatively high debt burden
- Budgetary rigidities
- Structural deficiencies - Tax and Social Security reforms are necessary



## Market Expectations for 2008-2011

Market Expectations -- Median of the Sample Collected by the Brazilian Central Bank

	Sample Date	2008	2009	2010
Primary Balance (% GDP)	12/28/2007	3.63	3.60	3.50
	10/03/2008	4.30	4.00	3.80
Current Account Balance (US\$ billion)	12/28/2007	-3.50	-7.40	-8.50
	10/03/2008	-29.00	-34.00	-34.00
Exchange Rate Year End (R\$/US\$)	12/28/2007	1.80	1.90	2.00
	10/03/2008	1.80	1.82	1.90
Inflation (IPCA in %)	12/28/2007	4.30	4.00	4.00
	10/03/2008	6.14	4.85	4.50
Central Bank Year End Interest Rate -- %	12/28/2007	10.75	10.00	9.50
	10/03/2008	14.75	13.50	12.00
GDP Growth (%)	12/28/2007	4.50	4.06	4.00
	10/03/2008	5.20	3.50	4.20
Foreign Direct Investment (US\$ billion)	12/28/2007	27.00	25.00	25.00
	10/03/2008	35.00	30.00	28.00
Net Public Sector Debt (% GDP)	12/28/2007	42.00	40.00	37.75
	10/03/2008	40.50	39.00	37.75

Source: Central Bank - Market Expectations



## Brazilian Federal Public Debt

### Macroeconomic Overview

### Public Debt Management

- Annual Borrowing Plan
- External Debt Strategy
- Domestic Debt Strategy



## Annual Borrowing Plan 2008

### Objectives of Federal Public Debt Management

*Minimize long-term financing costs, while ensuring the maintenance of prudent risk levels and contributing to the smooth operation of the public bonds market.*

### Guidelines

- Subject to market conditions, the guidelines for the DPF management are to:
  - Lengthening of average DPF maturities and reducing the percentage of DPF maturing in 12 months;
  - Gradual substitution of floating-rate bonds for fixed-rate or inflation-linked bonds;
  - Improvement of the external liability profile through issuance of benchmark bonds, early redemption program and structured operations;
  - Incentives to the development of the interest rate term structures for federal public bonds on domestic and external markets; and
  - Expansion of the investors base.



## New Targets for the Annual Borrowing Plan 2008

### Changes in 3 limits

Federal Public Debt - DPF

Indicators	Dec/07	Previous Limits	New Limits
<b>Stock (in R\$ billion)</b>	1,333.8	1,480 - 1,540	1,360 - 1,420
<b>Composition (%)</b>			
<i>Fixed Rate</i>	35.1	35 - 40	29 - 32
<i>Inflation Linked</i>	24.1	25 - 29	25 - 29
<i>Floating Rate</i>	30.7	25 - 30	31 - 34
<i>Exchange Rate</i>	8.2	7 - 9	7 - 9
<i>Others</i>	1.9	1 - 3	1 - 3
<b>Maturity Profile</b>			
<i>Average Maturity (months)</i>	39.2	42 - 46	42 - 46
<i>% maturing in 12 months</i>	28.2	24 - 27	24 - 27

- The Treasury's decision aims to avoid that short term fluctuations harm financing costs of the DPF in the medium and long run



# Annual Borrowing Plan 2008

## Federal Debt (DPF) Indicators\*

Indicators	2003	2004	2005	2006	2007	Aug-08	2008	
							Minimum	Maximum
Stock of DPF* held by the public (R\$ billion)	965.8	1,013.9	1,157.1	1,237.0	1,333.8	1,319.5	1,360.0	1,420.0
Average maturity - Federal Outstanding Debt (months)	39.0	35.3	33.3	35.5	39.2	42.7	42.0	46.0
% Maturing in 12 months	30.7	39.3	36.3	32.4	28.2	23.4	24.0	27.0
Share of DPF (%)								
Fixed rate	9.5	16.1	23.6	31.9	35.1	29.9	29.0	32.0
Inflation Linked	10.3	11.9	13.1	19.9	24.1	27.0	25.0	29.0
Floating rate	46.5	45.7	43.9	33.4	30.7	34.2	31.0	34.0
Exchange rate	32.4	24.2	17.6	12.7	8.2	7.2	7.0	9.0
Others	1.4	2.2	1.8	2.0	1.9	1.6	1.0	3.0

\* It includes the domestic debt (R\$ 1,223.2 billion - Aug/08) and the external debt (R\$ 96.3 billion - Aug/08) under the National Treasury responsibility

- Lengthening the average maturity;
- Reducing the percentage due in 12 months;
- Consolidating the share of fixed rate bonds plus inflation linked bonds not lower than 60%.

Note: In view of the process of full integration between the guidelines and strategies of financing in domestic and external markets the National Treasury started to disclose the limits of the Annual Borrowing Plan only for the DPF. The statistics of the DPF and its subdivisions in DPMFi and DPFe will continue to be monitored in the Federal Public Debt Monthly Report that can be accessed at [http://www.tesouro.fazenda.gov.br/english/hp/public\\_debt\\_report.asp](http://www.tesouro.fazenda.gov.br/english/hp/public_debt_report.asp).



## Brazilian Federal Public Debt

### Macroeconomic Overview

### Public Debt Management

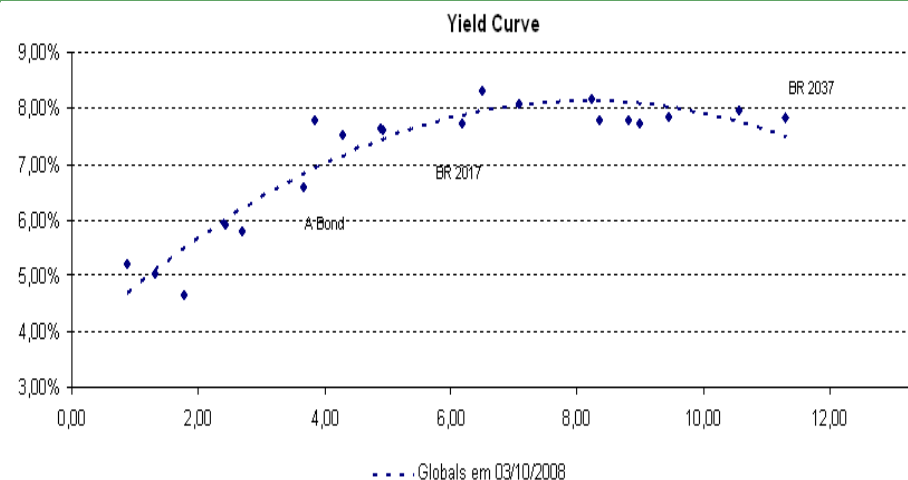
- Annual Borrowing Plan
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# Annual Borrowing Plan 2008

## External Federal Public Debt (DPFe) Strategy

- Maintenance of the early redemption program, together with structured operations, both aimed at correcting distortions in the external interest curve;
- Creation and improvement of benchmarks in the external market interest rate term structure; and
- The total issuance in dollars in 2008 will not be superior to the sum of the external debt principal maturing (approximately USD 2.8 billion) and the external debt principal repurchased in the early redemption program during the year.

### Yield Curve

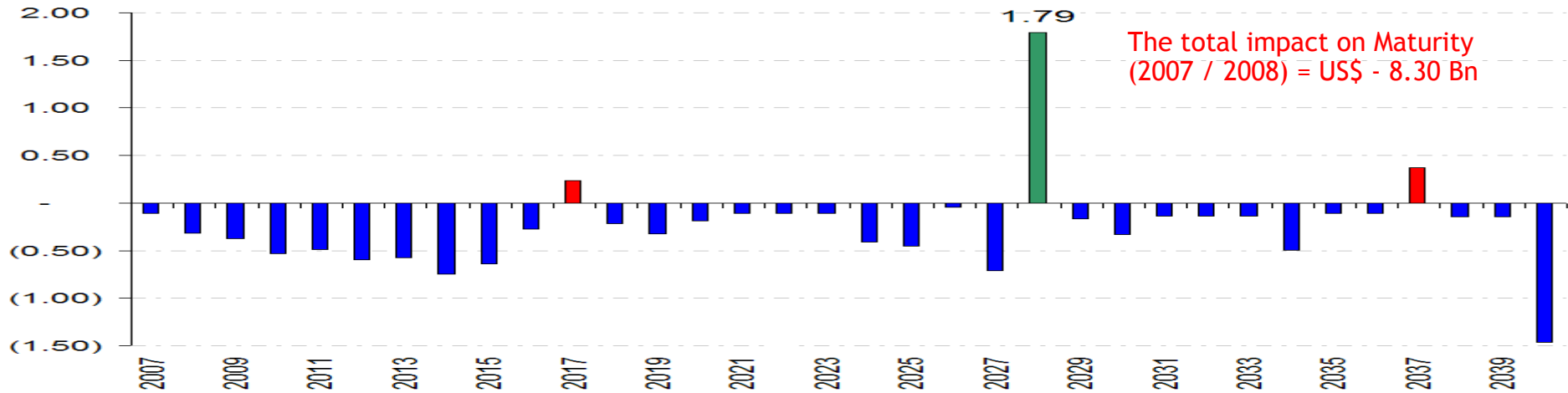


Source: National Treasury



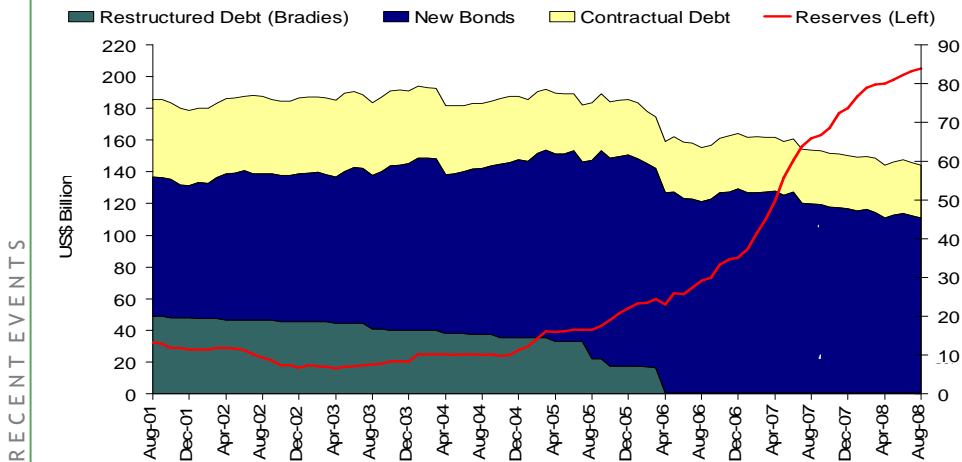
# External Public Debt - Indicators

## Early Redemption Program and new issuances - Impact on External Debt's Payment Flow in 2007 / 2008 (US\$ million)\*



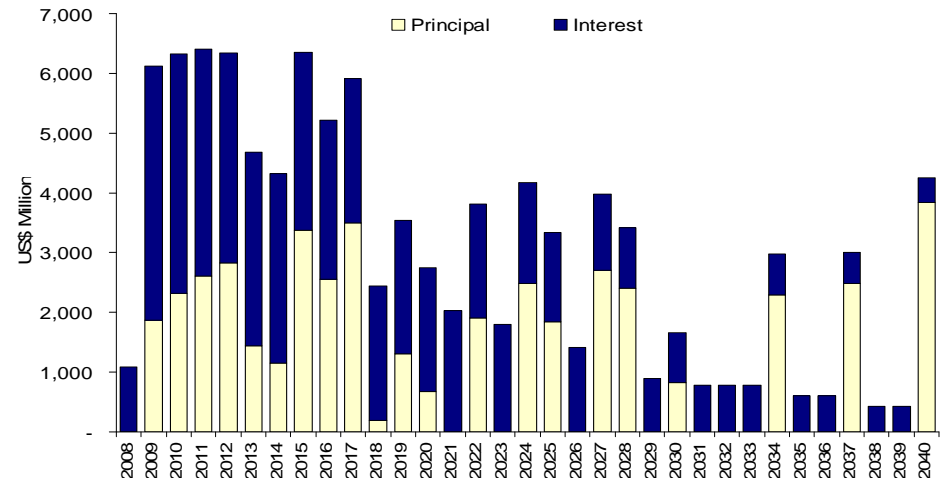
Source: National Treasury \*From January - 2007 up to August - 2008

## External Debt - National Treasury



Source: National Treasury

## External Public Debt Profile - New Bonds and Bradies



Source: National Treasury. 2008 - From August to December



## External Public Debt - Indicators

### Impact of the “Cleaning Up” on the Federal Government External Debt from 2005 to 2008

(US\$ bn)	
Operations	Face Value <sup>1</sup>
<b>External Public Debt in Bonds</b>	<b>21.2</b>
C-Bond call (Oct-05)	1.1
Brady Bonds call (Apr-06)	6.5
Tender Offer (Jun-06)	1.3
Early Redemption Program <sup>2</sup>	12.3
2006	6.0
2007	5.4
2008	0.9
<b>Contractual Debt</b>	<b>22.1</b>
IMF early payment I (Jul-05)	4.9
IMF early payment II (Dec-05)	15.5
Paris Club early payment (Jan-06 <sup>3</sup> )	1.7
<b>Total</b>	<b>43.3</b>

<sup>1</sup> It captures the impact of the operations on the outstanding public debt

<sup>2</sup> The program started in Jan/06. For 2008, value repurchased up to 08/31/2008.

The National Treasury had already bought almost **100%** of FX-needs to face 2008 maturities (US\$ 7.8 bn) and around **50%** of 2009 maturities (US\$ 7.7 bn).



## Brazilian Federal Public Debt

### Macroeconomic Overview

### Public Debt Management

- Annual Borrowing Plan
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# Annual Borrowing Plan 2008

## Domestic Federal Public Debt (DPMFi) Strategy

### ■ Fixed Rate:

- ✓ Focusing on increasing the average issuance term of these bonds;
- ✓ Issuance of shorter term LTN, with benchmarks of 6, 12 and 24 months, while maintaining 3, 5 and 10-year NTN-F, with the possibility of longer-term operations depending on market conditions.

### ■ Inflation Linked Bonds:

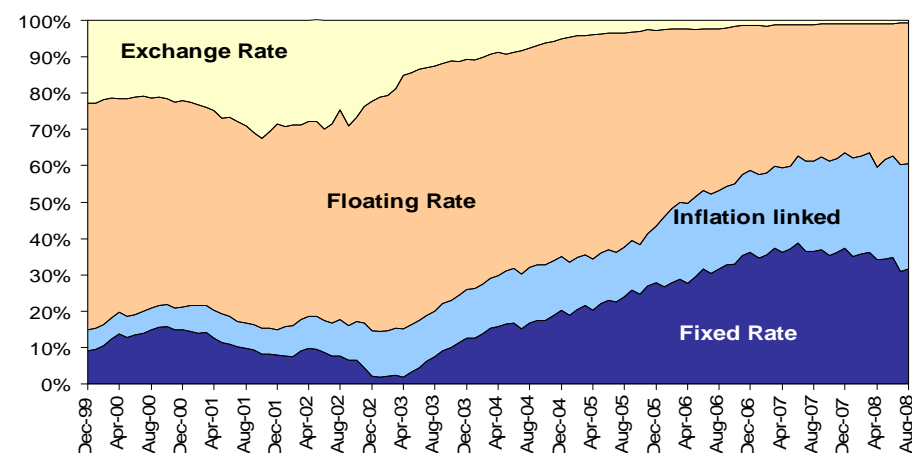
- ✓ The maturities offered in 2007, with 3, 5 10, 20, 30 and 40-year terms, will be maintained. Depending on market conditions, new maturity dates may be introduced with the objective of aiding in creation of additional medium and long-term interest curve points;
- ✓ With regard to NTN-C, which are referenced to the Wholesale Price Index - IGP-M, there will be no issuance according to the 2008 borrowing strategy.

### ■ Floating Rate Bonds:

- ✓ Net redemptions of floating-rate bonds - LFT are forecast, with the new bonds issued maturing in the third month of each quarter;
- ✓ The average issuance term of these bonds is expected to be greater than the average 2007 term of DPF .

- The Public Bonds Pricing Methodology can be found at [http://www.tesouro.fazenda.gov.br/english/public\\_debt/download/s/pricing\\_methodology.pdf](http://www.tesouro.fazenda.gov.br/english/public_debt/download/s/pricing_methodology.pdf)

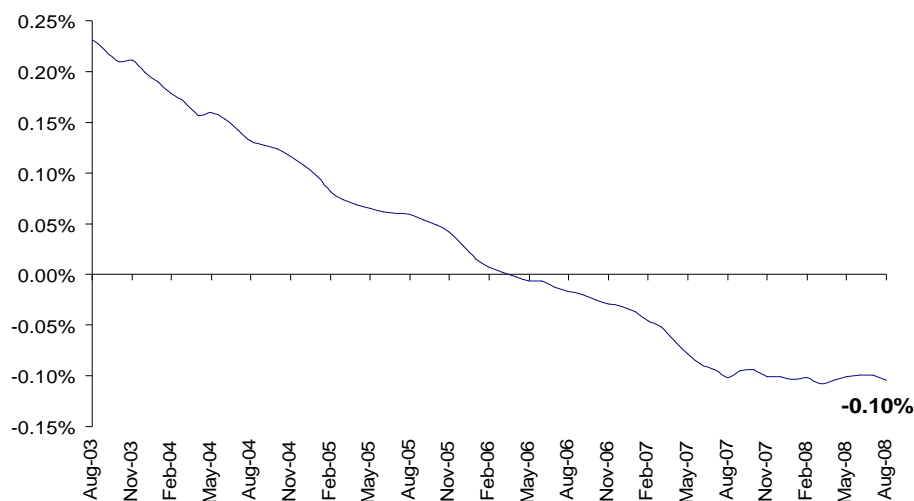
## DPMFi Composition



Source: National Treasury

## The improvement on the Public Debt composition has reduced risks

### Impact of 1% FX devaluation on Net PS Debt/GDP

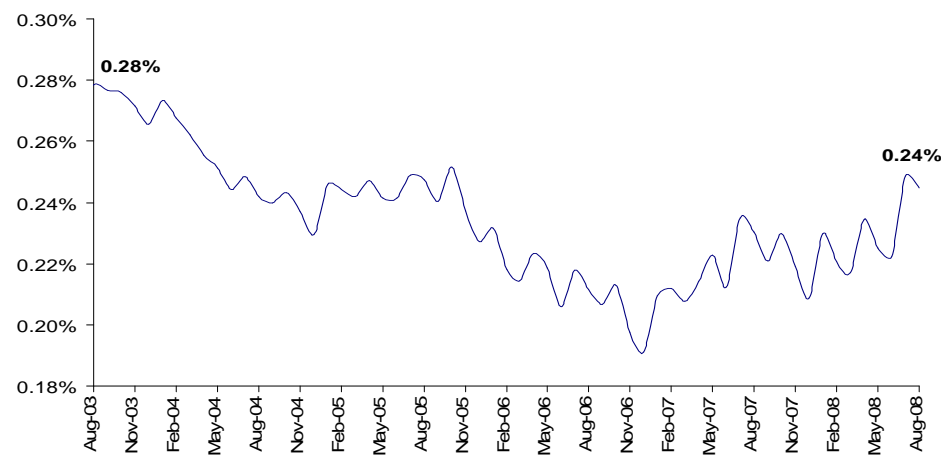


Source: National Treasury

■ The risk of NPSD/GDP not only was reduced in **20.5%** of GDP in four years, but the protection created by the fact that we have more FX assets than liabilities has compensated the interest rate risk. This shielded the NPSD against market risks.

■ Considering the reduction on the sensibility of the NPSD to variations on exchange and floating rates, a stress scenario (overshooting of **56.6%** on exchange rate, followed by an increase of **7.8 pp** on the SELIC rate - three standard deviations in both), in December 2002 would increase the Net Debt to GDP in **16.5%**. On June 2008, this same scenario would decrease the debt in **4%**, being the increase of 2% on interest rates compensated by the reduction of 6% caused by the currency.

### Impact of 1% SELIC change on Net PS Debt/GDP\*

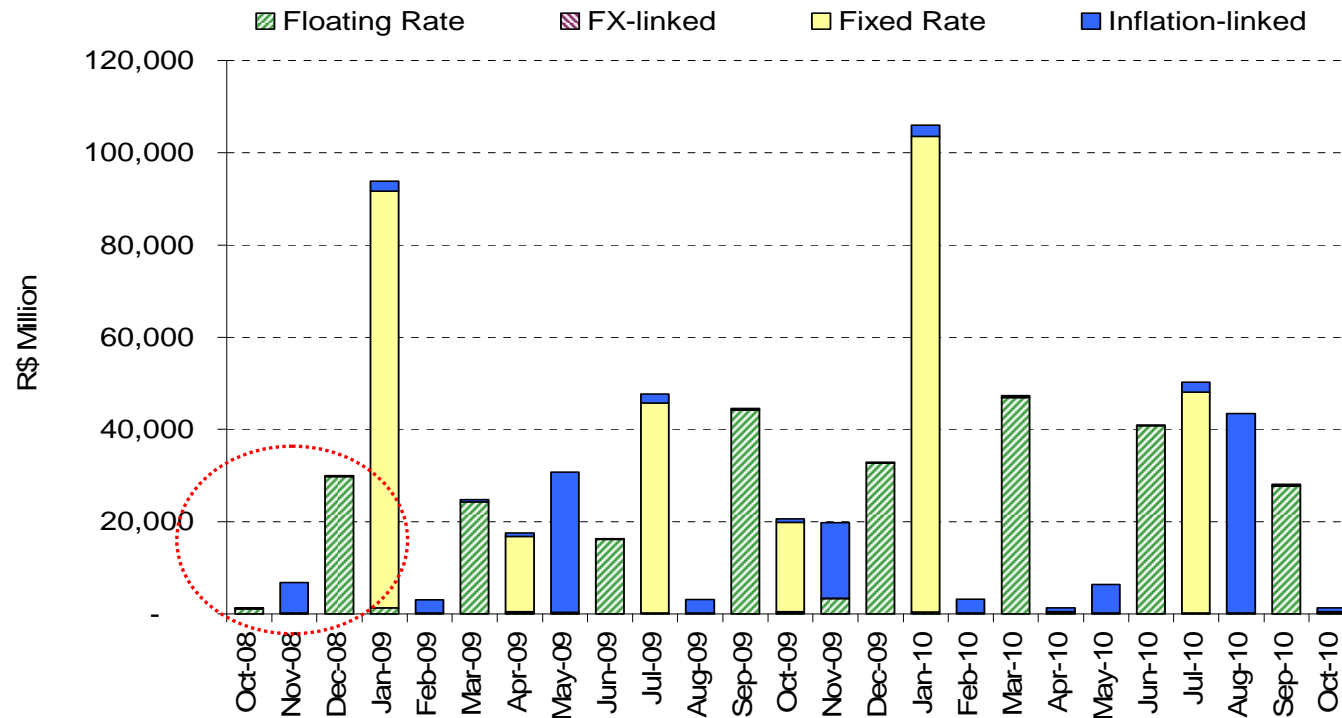


Source: National Treasury

\*In 12 months

## Relief in the end of the year

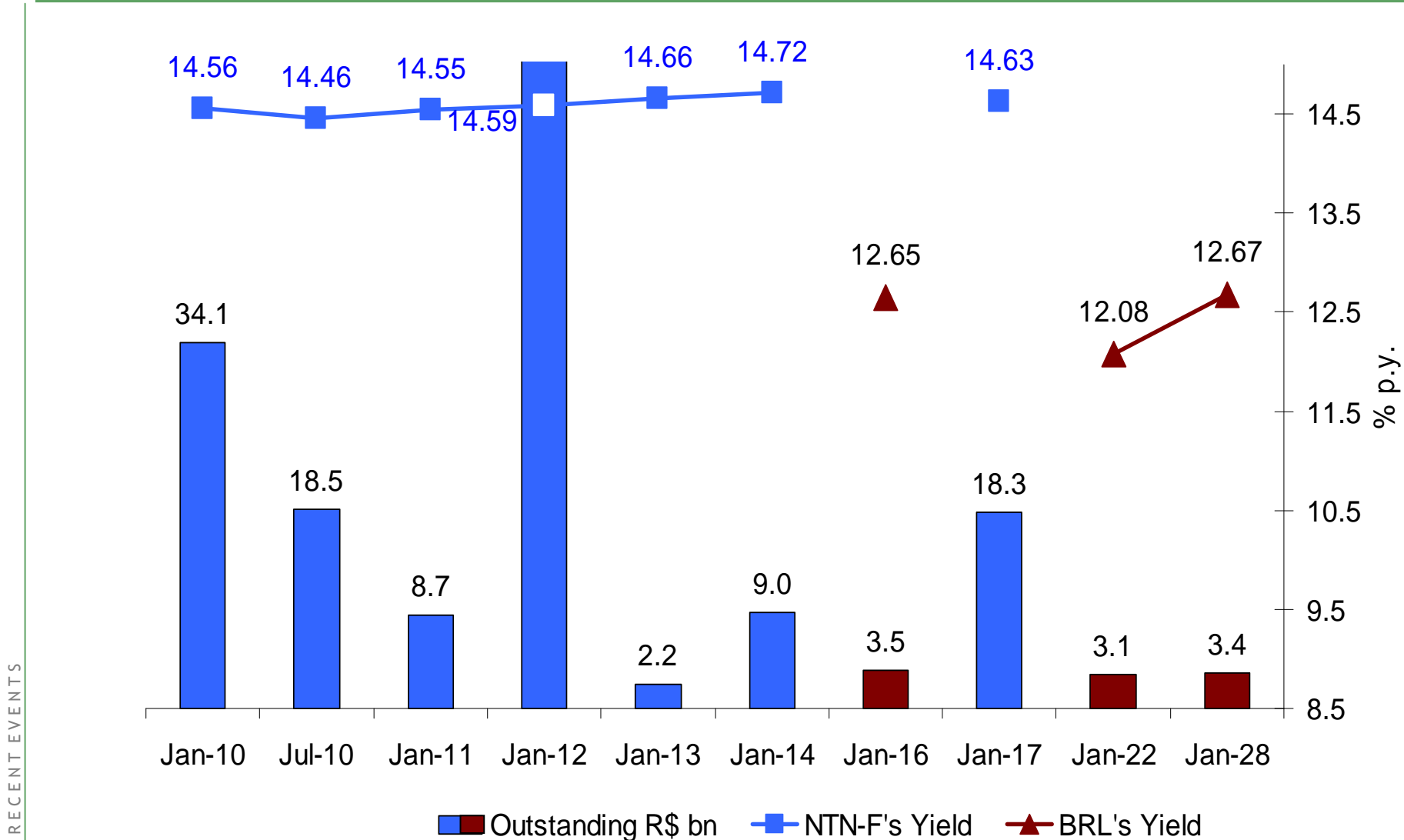
### Monthly Maturity Profile



- The amount of bonds maturing until the of 2008 is not high. National Treasury will have serenity to raise money to face 2009's maturities.
- Moreover, the National Treasury managed extra R\$ 40 bn from past financial surpluses
- Liquidity cushion around 3 to 5 months
- Great primary surplus

## National Treasury Performance - *Big opportunities merge in the domestic market*

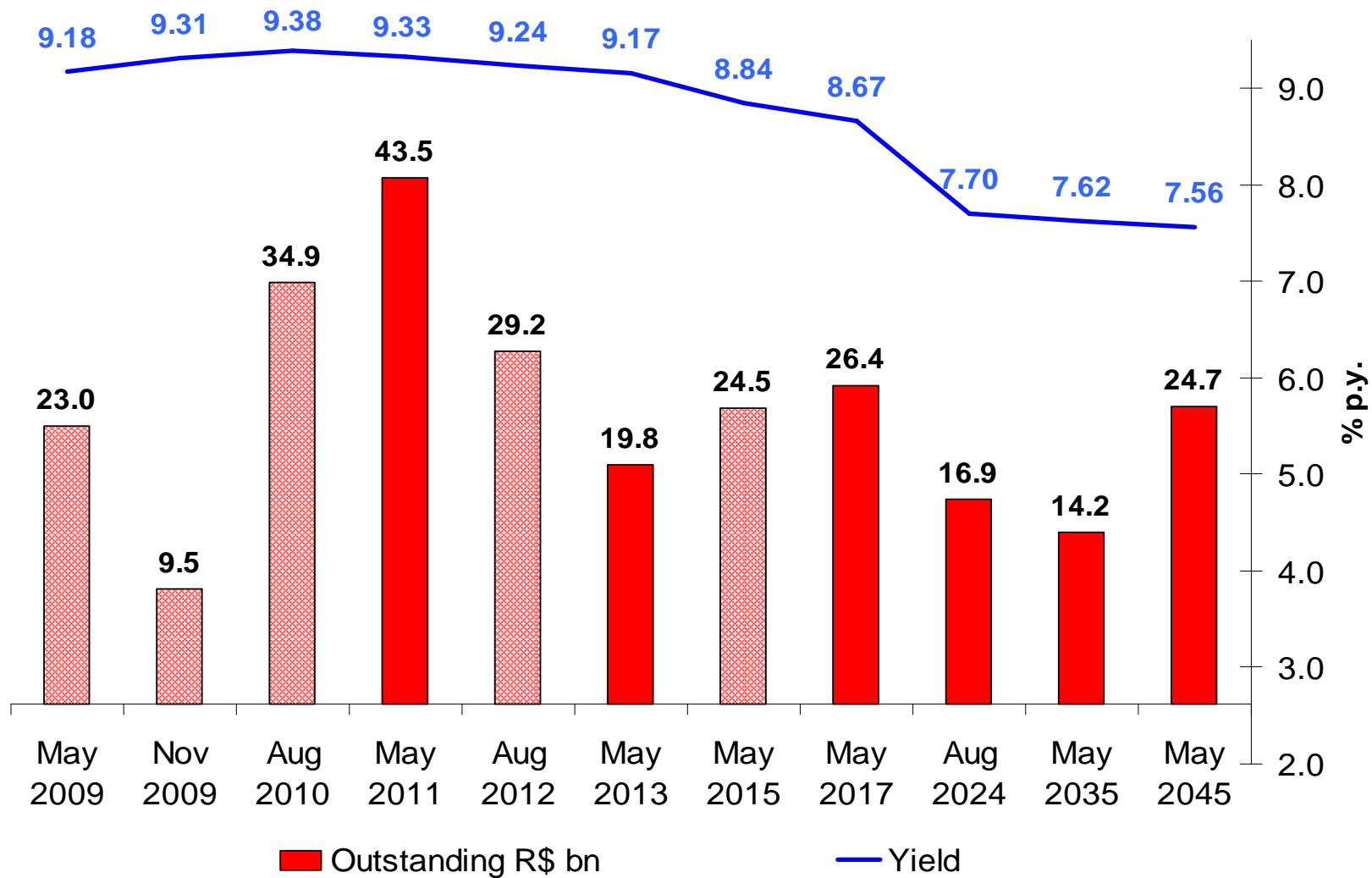
Domestic medium term fixed rated bonds (NTN-F) and BRL's - Outstanding and yields (as of 10/03/2008)



Source: ANDIMA and Bloomberg

## National Treasury Performance - *Big opportunities merge in the domestic market*

Inflation linked bonds (NTN-B) - Outstanding and yields (as of 10/03/2008)



Source: ANDIMA

Note 1: The may/09, aug/10, may/11 and may/15 NTN-B are not issued anymore.

Note 2: There are NTN-Bs with other maturities.

RECENT EVENTS

## Dealers system of National Treasury and Central Bank

- The dealers system is a useful tool in improving public debt management.
- Dealers are the most active financial institutions in National Treasury auctions and in the secondary market.
  - Their targets are related to their participation on the primary market and to their efforts as market makers for a specified group of government securities.
- Dealers that succeed in fulfilling the targets are given **the right to purchase bills and bonds at non-competitive auctions and participate on some buyback auctions exclusive for dealers.**
- Dealers have to place bid/ask spreads on electronic trading systems.
  - More transparency to market quotes and improved efficiency of price formation.
- The size of the non-competitive auctions and the length of time in which it remains open for bids have been raised.
  - Enhanced benefits for dealers that meet their targets.

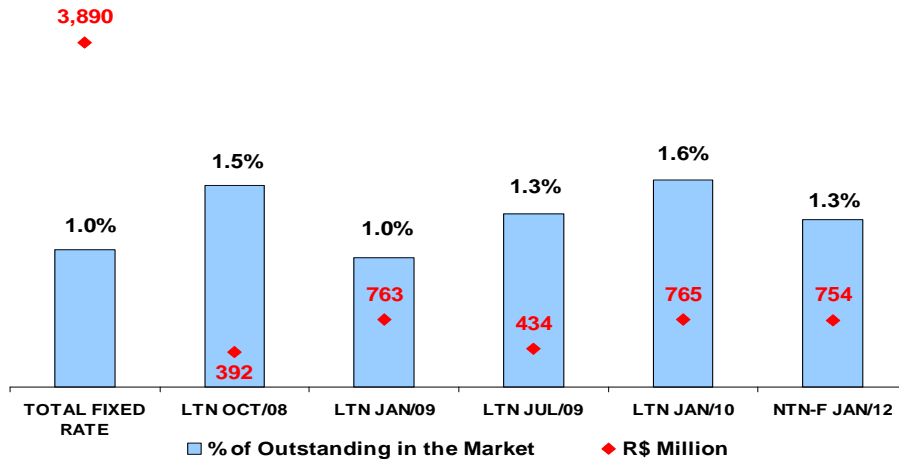
## Improving the secondary market

- A securities lending system (SET) is starting to operate under BM&F
  - ⇒ Efficient pricing along the yield curve, as market participants can short sell bonds
  - ⇒ Improved liquidity in the secondary market
- Transparency measures have been taken by the association of secondary market participants (Andima) as well
  - Andima, on its website, publishes intraday reference prices. Sources are brokers (calls), electronic trading platforms and Andima itself.
  - On Sept 15th, Andima started publishing its reference price intervals (“tunnels”). Andima’s prices are specific for 3 times of the day: 11:00 AM, 3:15 PM and market close (around 4:30 PM).
  - Historical reference prices can be easily accessed and compared to actual trades via Andima’s “Compare” system.
  - ⇒ Transparency to market prices. Pension funds that were constrained by compliance issues are stimulated to get back to the secondary market. The electronic trading systems also work in this direction.



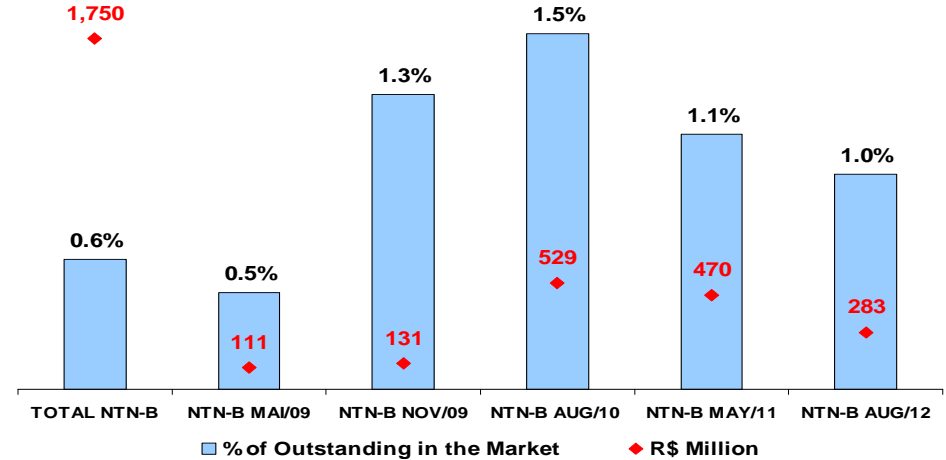
# Performance in Domestic Market - Liquidity Indicators

## Daily Turnover\* - Fixed Rate Bonds



Source: National Treasury \* as of August-08

## Daily Turnover\* - Inflation linked



Source: National Treasury \* as of August-08

### YIELD x Spread\* 10/3/08

	NTN-B 15/8/10	NTN-B 15/8/12	NTN-B 15/5/11
Yield	9.39	9.27	9.37
Spread (bps)	13	26	31

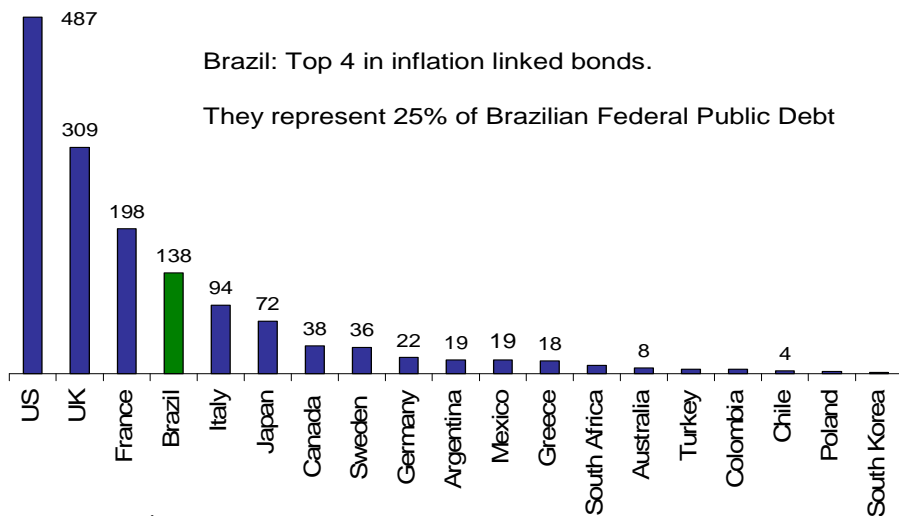
  

	LTN 1/1/09	LTN 1/7/09	NTN-F 1/7/10
Yield	14.05	14.54	14.71
Spread (bps)	5	5	12

\* The difference between Maximum and Minimum Rate from ANDIMA

## National Treasury Performance - *Big opportunities in the domestic market*

### GILB index - Domestic Inflation linked Bonds

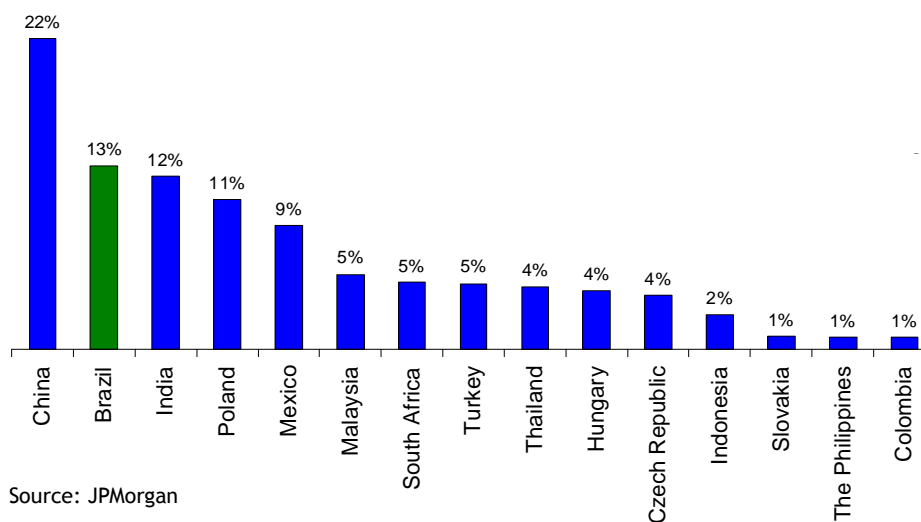


Source: Barclay's World GILB index

- Brazil represents about **13%** of EM market cap in domestic fixed rate bonds, according to GBI-EM Broad index.

- Brazil represents about **11%** of world's total market cap in domestic inflation-linked bonds, according to Barclay's World GILB index, and it is the most representative EM country, far ahead of the second one.

### GBI-EM Broad Index- Domestic Fixed Rate Bonds

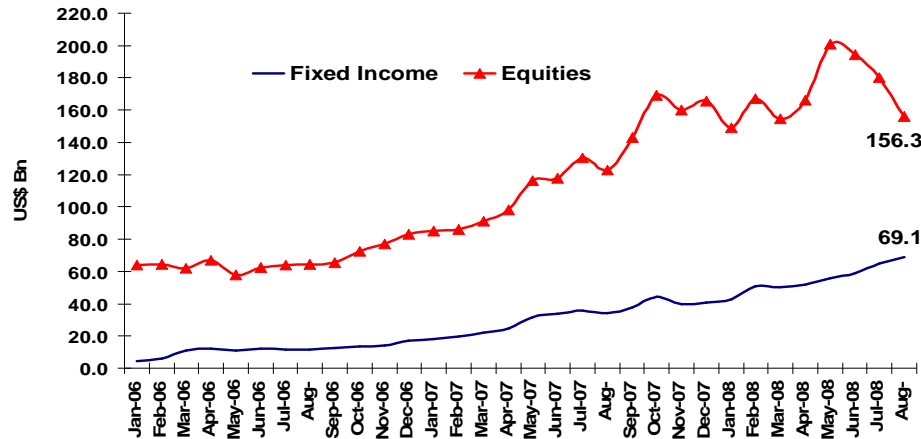


Source: JPMorgan



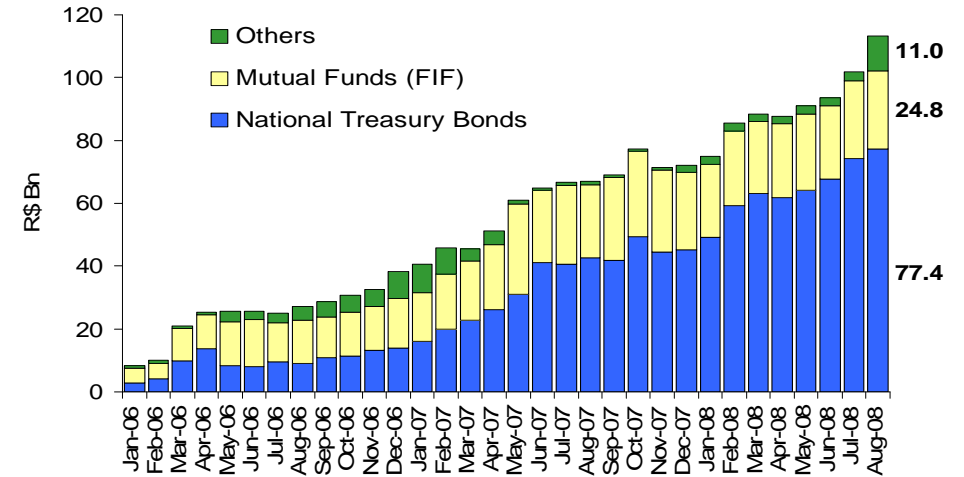
# Foreign investors stance in domestic market

### Foreigner's Investors: Portfolio level (US\$ bn)



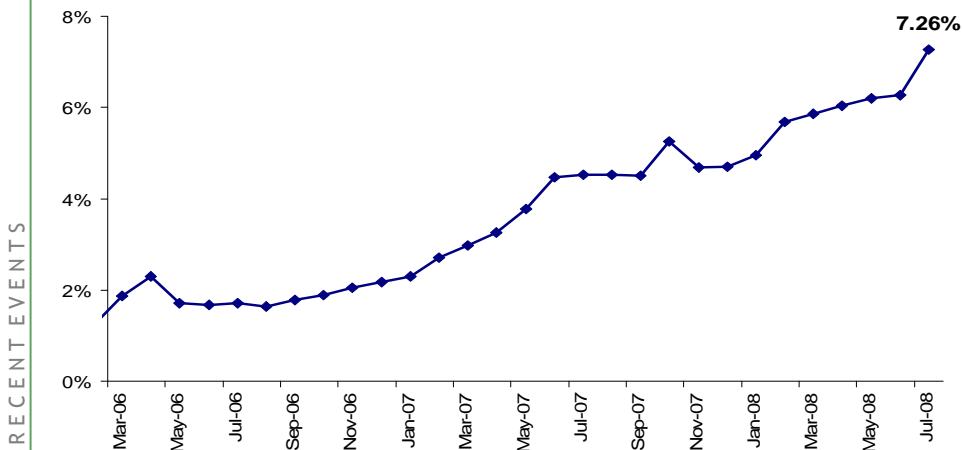
Source: CVM

### Foreigner's Investors: Distribution among Fixed Income instruments (R\$ bn)



Source: CVM

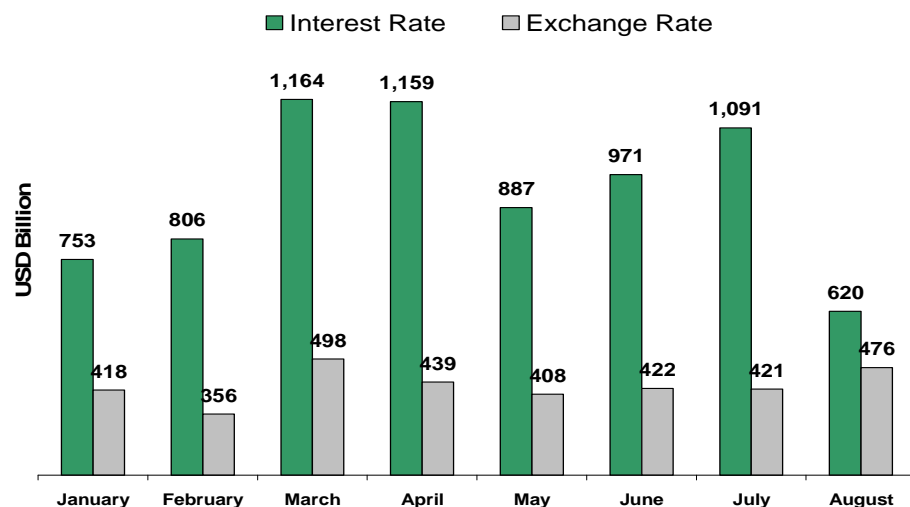
### Foreigner's Investors: Domestic Debt Participation



Source: CVM and SELIC

## Derivatives Market

### Negotiated Amount in BM&F (2008)



- The average daily negotiated amount in interest rate market is about R\$ 75 bn.
- One should highlight that there is huge dispersion among investors trading these contracts, where banks, institutional and nonresidents investors play an important role.

- Derivatives Market for interest rate and exchange rate is liquid, giving more confidence to investors while doing hedge operations.

### Investors Profile in interest rate future market

1 - DAY INTERBANK DEPOSIT FUTURES				
	Long		Short	
	Contracts	%	Contracts	%
<b>Financial Institutions</b>	1,816,683	34.61	3,221,569	61.38
Banks	1,778,233	33.88	2,772,690	52.83
Brokers & Dealers	-	0	760	0.01
Other	3,845	0.73	448,119	8.54
<b>Institutional Investors</b>	1,681,471	32.04	1,590,650	30.46
Domestic	1,681,471	32.04	1,598,658	30.46
<b>Nonresident Investors</b>	1,707,934	32.54	399,806	7.62
Nonresident Investors - RES, 2686	1,707,934	32.54	399,806	7.62
<b>Corporations</b>	37,604	0.72	200,275	0.54
<b>Individuals</b>	4,691	0.09	75	0
<b>Total</b>	5,248,303	100	5,248,303	100



**For additional information access  
Brazilian National Treasury site:**

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

**Or contact Institutional Relations area:**

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

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Ministry of Finance



# ANNEX



## Auctions Modalities

- The great majority of the domestic bonded debt issuances take place in a competitive manner, through auctions held by the National Treasury, through an electronic system. For each public auction, a National Treasury Regulation is announced, making the offerings public.
- The traditional auctions normally take place on Thursdays. The NTN-B auctions normally take place every other Tuesday. Public bond exchange and purchase auctions are also held, and normally take place on Wednesday.
- Traditional Auctions
  - Most of DPMFi - Domestic Public Debt- issuances are conducted under competitive process, through auctions, with multiple prices (except the NTN-B and the LFT auctions, Dutch bid-pricing). These auctions are operated on a electronic system<sup>1</sup>. Each participant (banks, brokers distributors and other institutions registered in the Selic) is allowed to submit up to 5 bids.
- Other Types of Auctions
  - Purchase auctions: Through this instrument, the National Treasury acquires securities transacted in the market. These auctions have two purposes:
    - To smooth maturities;
    - To provide liquidity to the secondary market;
  - Exchange Auctions: They have the same purposes of purchase auctions. However, the National Treasury offers new securities and receive, as counterpart, other securities transacted in the market, which are previously defined in each auction legal authorization (issue a decree).
- The monthly auctions schedule can be found at [http://www.tesouro.fazenda.gov.br/english/public\\_debt/auctions.asp](http://www.tesouro.fazenda.gov.br/english/public_debt/auctions.asp)



## Recent FX Measures

### IOF impact in public bonds performance

- The measures aimed at recovering part of the tax loss due to the end of CPMF;
- The 1.5% IOF tax on incoming FX transactions related to investments in the local fixed income market aimed at discouraging short-term capital;
- The impact in long-term capital is small due to the regressive IOF in time; and
- Exports are incited by the IOF exemption and the elimination of the FX coverage on exports operations.
  - The underlying idea of these set of measures is to create incentives to exports and to stimulate the trade balance.



## Choosing a Representative - The first Step

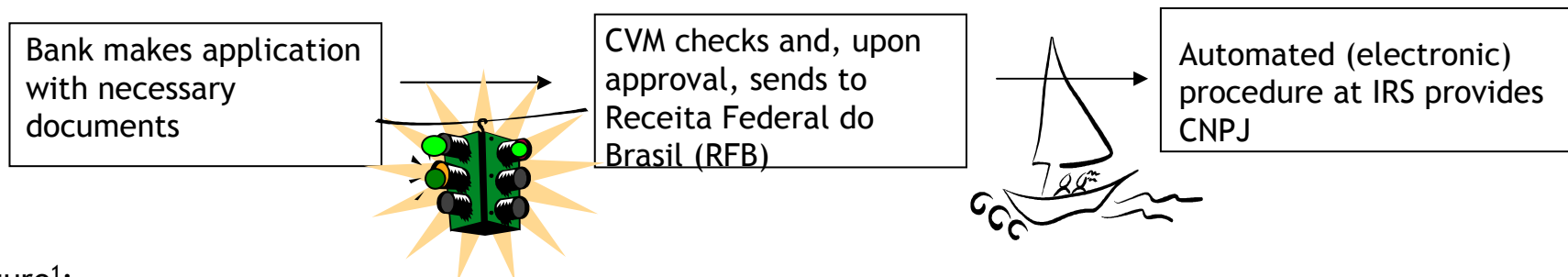
- Prior to starting its operations a non-resident investor must appoint one or more representatives in the Country: Custodian (securities custody in the SELIC system), a Broker (OTC, screen or clearing trading), Foreign Exchange Bank (managing inflows and outflows of foreign reserves) and Local representative (representing the investor at the Central Bank, CVM (Brazilian Securities and Exchange Commission) and IRS (Internal Revenue Service). In general, a single institution provides all services in one package. CVM publishes a list of those [institutions](#).
- When such representative is an individual or a non-financial institution the investor must also appoint a financial institution or institution authorized to operate by the Brazilian Central Bank that will be jointly and severally responsible for the performance of the representative's obligations. The representative does not necessarily perform the requirements of the tax legislation although in practice he may also perform such duties.

### Representative's Responsibilities - Know your Customer

- You can find detailed information on ANNEX 1.1 or on BEST investor's guide at [http://www.bestbrazil.org.br/pages/publications/BrazilianCapital/Pratical\\_Guide.pdf](http://www.bestbrazil.org.br/pages/publications/BrazilianCapital/Pratical_Guide.pdf)

## Registration with the CVM - Steps 2 and 3

- After filling out the identification form (see a model on ANNEX 1.2 or from [BEST investor's guide](#)), the non-resident investor should, through its representative, obtain registration at CVM. The application is made electronically forwarding the following documents to the **CVM Gerência de Investidores Estrangeiros** at the e-mail address **gie@cvm.gov.br** or fax no. +55 (21) 3233-8370:
  - Non-Resident Representative Identification Form;
  - Custodian Identification Form.
- **CVM will respond to the registration within 24 hours from the application made by the representative, allowing the investor to operate in local market.**



### ■ Structure<sup>1</sup>:

- Conta Ônibus- “Bus account”: (in the name of Global Custodian);
- Passageiros - “Passengers”: (individual investors).
- Both require CVM and CNPJ numbers. In general, the biggest “Global Custodians” already have a “Conta Ônibus” ready to receive individual investors.

<sup>1</sup> See annex for the advantages and disadvantages of each type of account



## Foreign Exchange (FX) and Tax Regime

### Tax Treatment<sup>3</sup>

#### ■ Fixed Income:

- IOF<sup>1</sup>: 1.5% tax on incoming FX transactions related to investments in the local fixed income market;
- Local representative is in charge of collecting taxes;
- There is no restriction of any nature on foreign currency flow in Brazil. The single register requirement is for statistical purposes solely (RDE - Electronic Declaratory Register);
- Investors are exempted from Withholding taxes\*
- FX settlement can either be performed at spot market (D+0) or at term.

#### ■ Variable Income:

- There are no taxes in this kind of investment.

1- Tax on financial operations

2- Tax on financial transactions

3- See Annex for details

\* Note :Non-resident investors domiciled in tax havens are taxed at the same rates as local investors, that is, ranging from 22.5% to 15% according with the investment maturity.



## Brazil - the first country that satisfied all the investor relations best practice criteria in Institute of International Finance (IIF) report

### Investors Relations: An approach to Effective Communication and enhanced transparency

- Assessment of 30 key borrowing countries in Investor Relations and Data Transparency Practices.
- Measures:
  - Staff reachable through website
  - Reciprocal links between government agencies
  - Investors able to register for website subscription
  - Investor conference call
  - Regular self-assessment of investor relations activities.
- **Release (Apr-08):** Based on the combined score (Gerin, operated by the Central Bank of Brazil, and Investor Relations Office of the National Treasury), Brazil has individually become the first country to score 38 out of 38 in prioritized terms in both IROs.
- **BEST 2008:** National Treasury has an important participation in promoting Brazil to big international investors. This year BEST is present in Dubai, London, Luxemburg, Geneva, Toronto, Boston, New York, Tokyo, Seoul and Singapore.