

JUNE 2007  
BEST



## Brazilian Federal Public Debt Management



## Annual Borrowing Plan 2007

### 2007 Guidelines

- Lengthen the DPF average maturity, primarily by increasing the average term of the securities issued in auctions;
- Reduce the share of debt due in 12 months, thus reducing refinancing risk;
- Gradually replace Selic-linked and FX-linked bonds by fixed rate and price index ones, thus reducing the market risk;
- Issue foreign currency bonds based on qualitative aspects, observing market conditions;
- Stimulate the development of the yield curves for federal public securities on domestic and external markets; and
- Broaden the investor base.



## Annual Borrowing Plan 2007

### Domestic Federal Public Securities Debt (DPMFi) Strategy

- **Fixed Rate Bonds:** increase the share of this instrument, lengthening the issuance average maturity. Currently the LTN will have benchmarks maturing in 6, 12 and 24 months while the NTN-F will have maturities of 3, 5 and 10 years;
- **Floating Rate Bonds (basic interest rate - Selic):** net redemptions and maintenance of average maturities at issuance on similar levels to those observed in 2006 (approximately 44 months);
- **Inflation-linked Bonds:** Exclusive NTN-B (CPI indexed) issuance. Existing maturities by end 2006 (3, 5, 10, 20, 30 and 40 years) will be maintained. Nevertheless, new maturity dates may be created for adjustment to the benchmark structure. There will be no issuance of NTN-C (wholesale price indexed);
- **Exchange Rate Bonds:** As has happened since 2003, no NTN-D issuance - FX-linked security - is planned for 2007.

## Annual Borrowing Plan 2007

### Federal External Public Debt (DPFe) Strategy

- Development of the *Real (local currency denominated)* yield curve in the external market;
- Creation and refining of benchmark points on the dollar yield curve;
- Maintenance of the **buy-back program**, observing market conditions, as well as the strategy of correcting the foreign yield curve distortions;
- The Program will cover all Federal External Public Debt Bonds, independently of their maturities;
- Since 2007, the Early Redemption Program have been carried out by the National Treasury's operations desk.



# Annual Borrowing Plan 2007

## Federal Domestic Debt Indicators

Indicators	2003	2004	2005	2006	May-07	2007	
						Minimum	Maximum
Stock of DPMFi held by the public (R\$ billion)	731.4	810.3	979.7	1,093.5	<b>1,173.9</b>	1,230.0	1,300.0
Average Maturity of DPMFi (months)	31.3	28.1	27.4	31.1	<b>33.3</b>	32.0	36.0
% Maturing in 12 months	35.3	46.1	41.6	35.7	<b>33.8</b>	29.0	33.0
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Share of DPMFi (%)							
Fixed rate	12.5	20.1	27.9	36.1	<b>37.0</b>	37.0	43.0
Inflation Linked	13.6	14.9	15.5	22.5	<b>22.9</b>	23.0	27.0
Floating rate	61.4	57.1	51.8	37.8	<b>36.7</b>	29.0	36.0
Exchange rate	10.8	5.2	2.7	1.3	<b>1.1</b>	1.0	2.0
Others	1.8	2.7	2.1	2.2	<b>2.3</b>	2.0	4.0

## Federal Debt Indicators\*

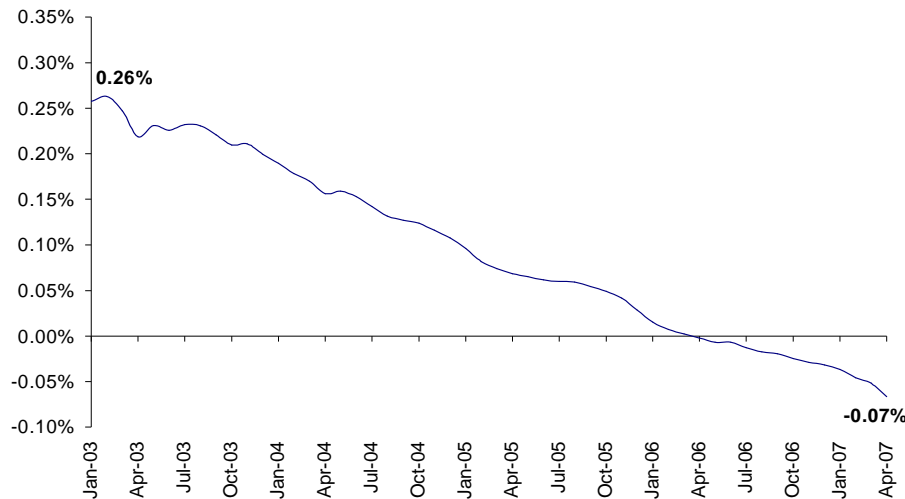
Indicators	2003	2004	2005	2006	May-07	2007	
						Minimum	Maximum
Stock of DPF* held by the public (R\$ billion)	965.8	1,013.9	1,157.1	1,237.0	<b>1,299.3</b>	1,370.0	1,450.0
Average maturity - Federal Outstanding Debt (months)	39.0	35.3	32.9	35.5	<b>36.9</b>	37.0	42.0
% Maturing in 12 months	30.7	39.3	38.2	32.4	<b>31.3</b>	27.0	31.0
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Share of DPF (%)							
Fixed rate	9.5	16.1	23.6	31.9	<b>34.2</b>	33.0	39.0
Inflation Linked	10.3	11.9	13.1	19.9	<b>20.7</b>	20.0	24.0
Floating rate	46.5	45.7	43.9	33.4	<b>33.1</b>	26.0	32.0
Exchange rate	32.4	24.2	17.6	12.7	<b>9.9</b>	10.0	12.0
Others	1.4	2.2	1.8	2.0	<b>2.1</b>	1.0	3.0

\* It includes the external debt under the responsibility of National Treasury



# The improvement on the Public Debt composition has reduced the exchange rate and floating rate risks

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

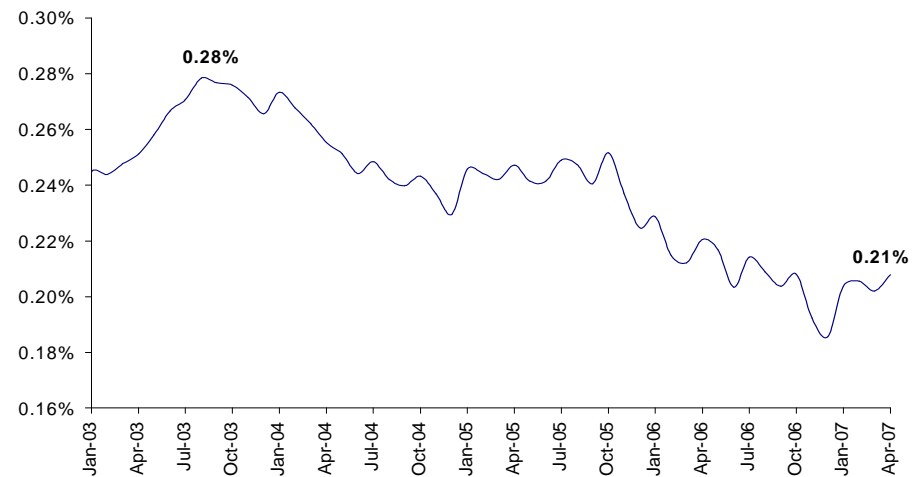


Source: National Treasury

■ The risk of NPSD/GDP not only was reduced in 17.8% 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 the variations on the currency and on the SELIC rate, in a stress scenario that generates an overshooting of **56.6%** on currency and a following increase of **7.8 bps** on the SELIC rate (three standard deviations), **NPSD/GDP in December of 2002 would increase 16.5%** in one year. On march of 2007, this same scenario would represent a **decrease of 1.3%** in the **NPSD/GDP** yielding the increase of 1.56% on interest rates compensated by the reduction of 2.83% caused by the currency.

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



Source: National Treasury

\*In 12 months



## Market Measures - Facilitating foreign investment

### Integration and streamlining of registration procedures

#### ■ Decreasing Bureaucracy:

- The Ministry of Finance and CVM (Brazilian Security Exchange Commission) have worked to open the Brazilian markets for many years.
- Processing time at CVM and IRS was reduced from up to 30 days to 24 hours.
- Investors still rely on a custodian bank, which will also be the responsible for paying all due taxes.

#### ■ Cutting Taxes - exempting foreigners from withholding taxes

- Since Feb-06 MP #281. (Law #11.312 - 06/27/2006)

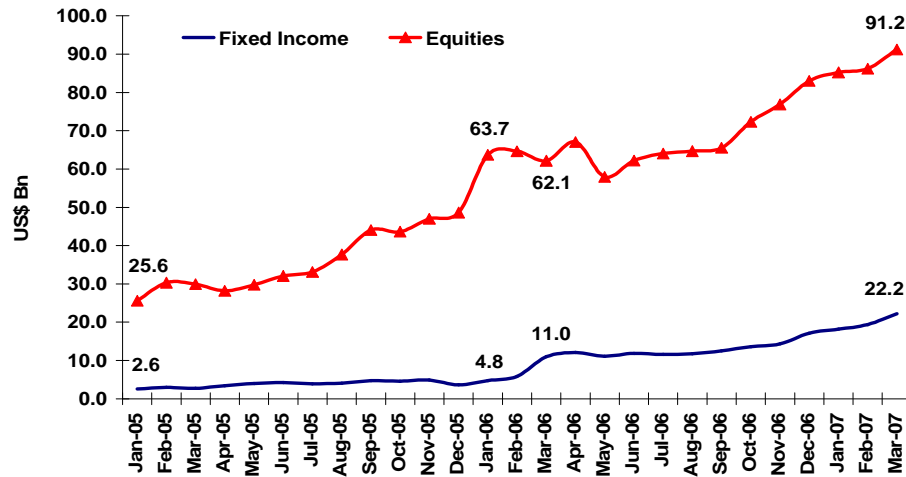
#### ■ Improving Liquidity and Transparency

- Screen Trading and the COMPARE system.



# THE NEW FRONTIER: increasing foreign access to the fixed income market

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

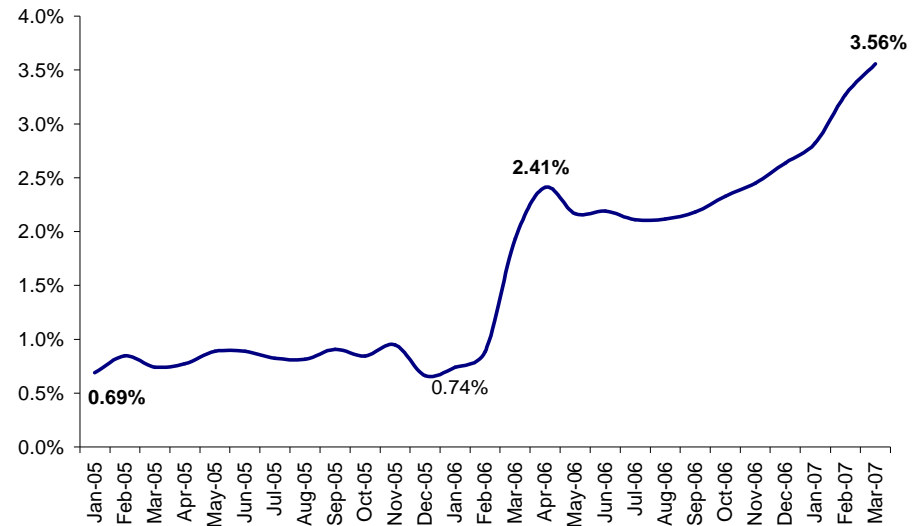


Source: CVM

The good fundamentals of the Brazilian economy are attracting foreign investors to the domestic debt, but there is still much space to grow.

The participation of foreign investors is consistently increasing in the equity market and also in the fixed income market, representing over US\$ 110 billion in 2007.

## Foreigner's Investors: Domestic Debt Participation\*

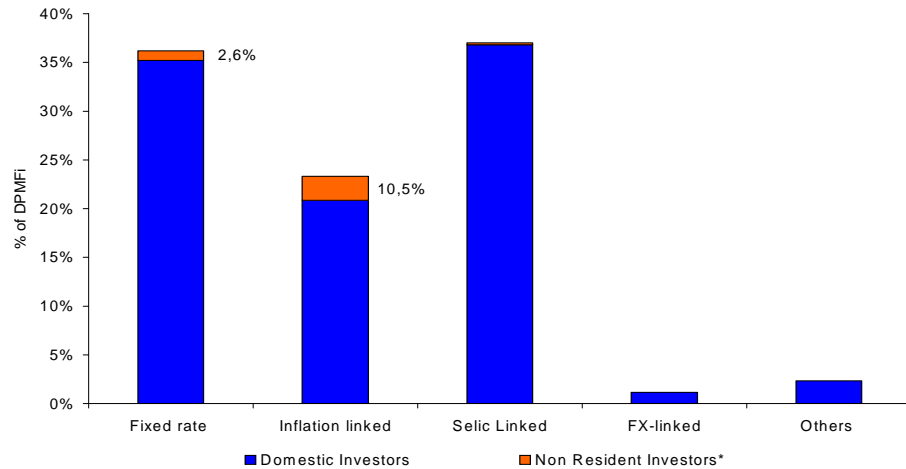


Source: CVM \* The sum between values directly invested in Public Bonds and 95% of Investment Funds (FIF's) over the DPMFi stock.



# THE NEW FRONTIER: increasing foreign access to the fixed income market

## Domestic Public Debt Profile

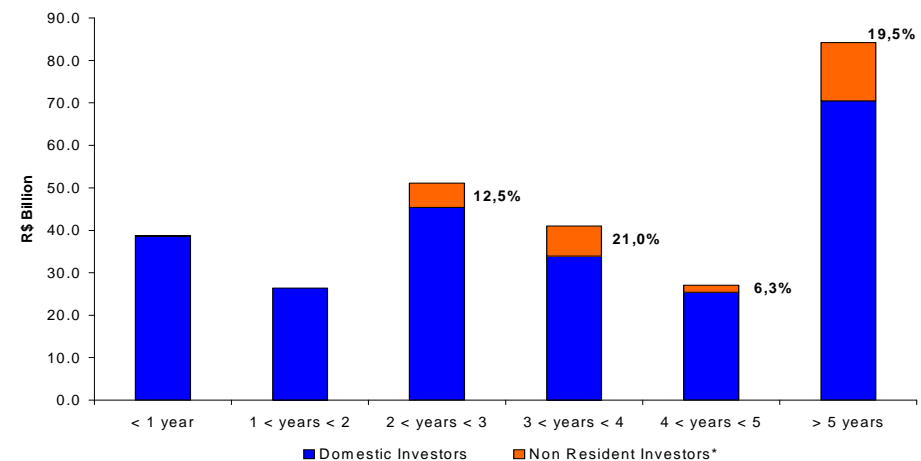


\* Estimated Source: National Treasury Apr - 07

Considering the guidelines stated in the Annual Borrowing Plan for 2007, in particular the development of the secondary market, the lengthening of the fixed rate and inflation linked bonds and the broaden of the investor base ...

... we believe the foreign investors have an important role to help us in reaching these targets as they usually have a higher participation on fixed rate and inflation linked long term bonds.

## Maturity Distribution of Inflation Linked Bonds

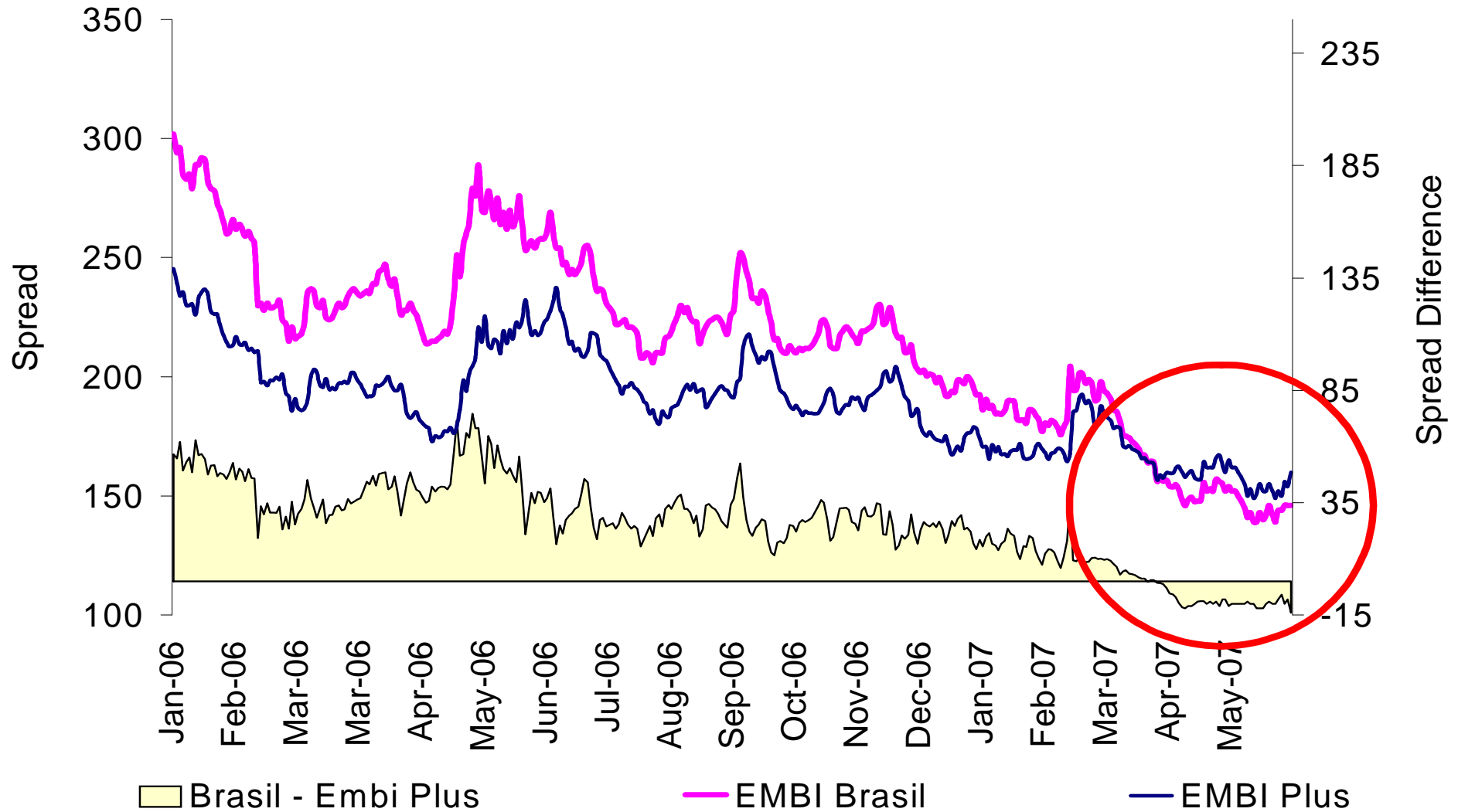


\* Estimated Source: National Treasury Apr - 07



# Risk Perceptions

## Spread Performance - Brazil and Emerging Markets



RECENT EVENTS

Source: JP Morgan



## 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.
- **First Release (Dec-05)** - Brazilian's Government reached 37 out of 38 in prioritized terms.
- 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.
- **Second Release (Sep-06)**: Based on the combined score (Gerin, operated by the Central Bank of Brazil, and Investor Relations Office of the National Treasury), Brazil has become the first country to score 38 out of 38 in prioritized terms.



**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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