



Ministry of Finance



Tesouro Nacional

European Road Show

Joaquim Ferreira Levy
National Treasury Secretary

José Antonio Gragnani
National Treasury Deputy Secretary

September, 2004



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1- Macroeconomic Overview

2- Debt Management

- Annual Borrowing Plan
- Domestic Debt
- Foreign Debt
- Strategy in a changing international environment



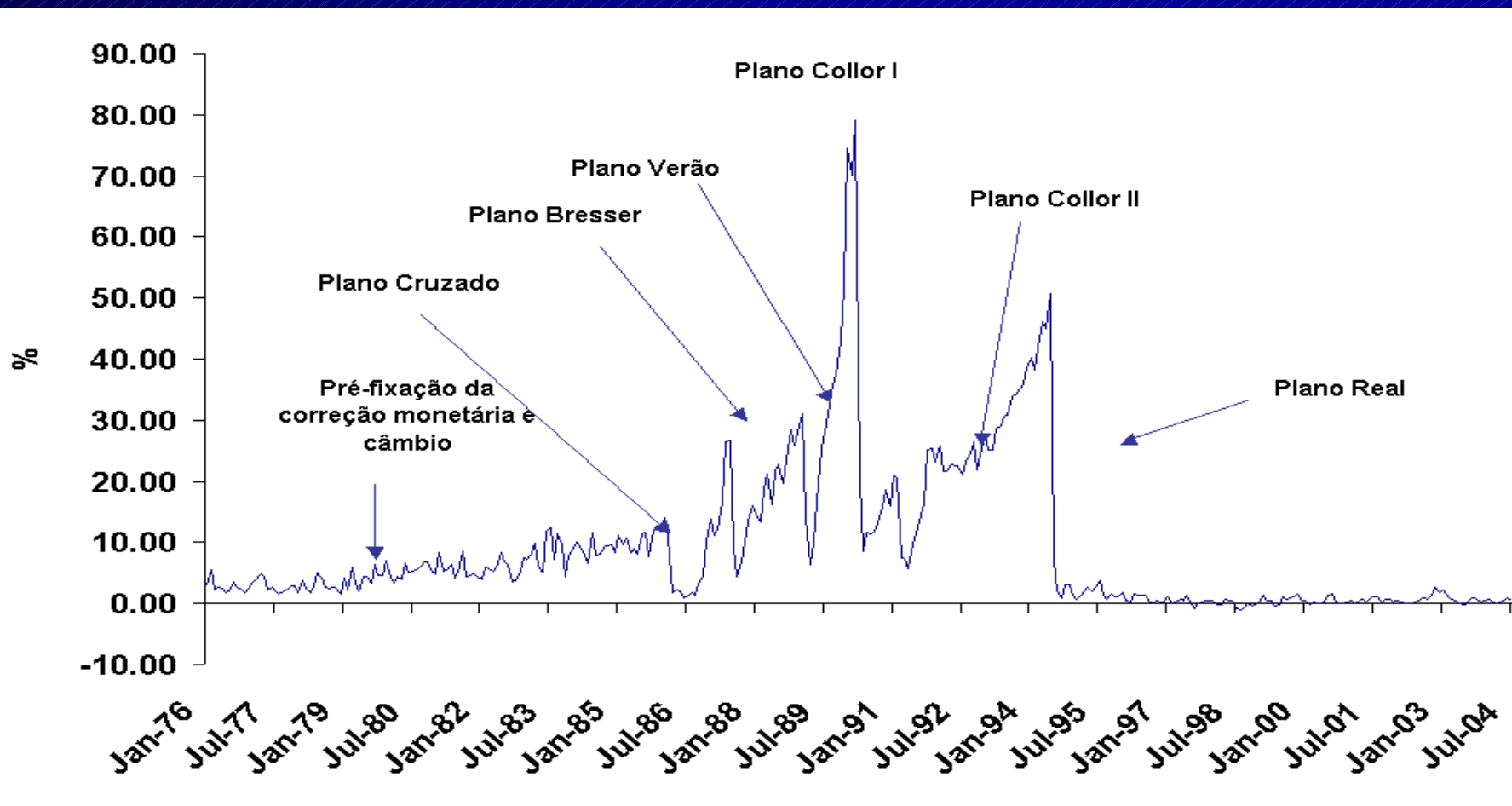
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Macro Stability is at the core of economic policies



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The era of high inflation is over, but not forgotten



* Consumer Price Index - IPC (FIPE)



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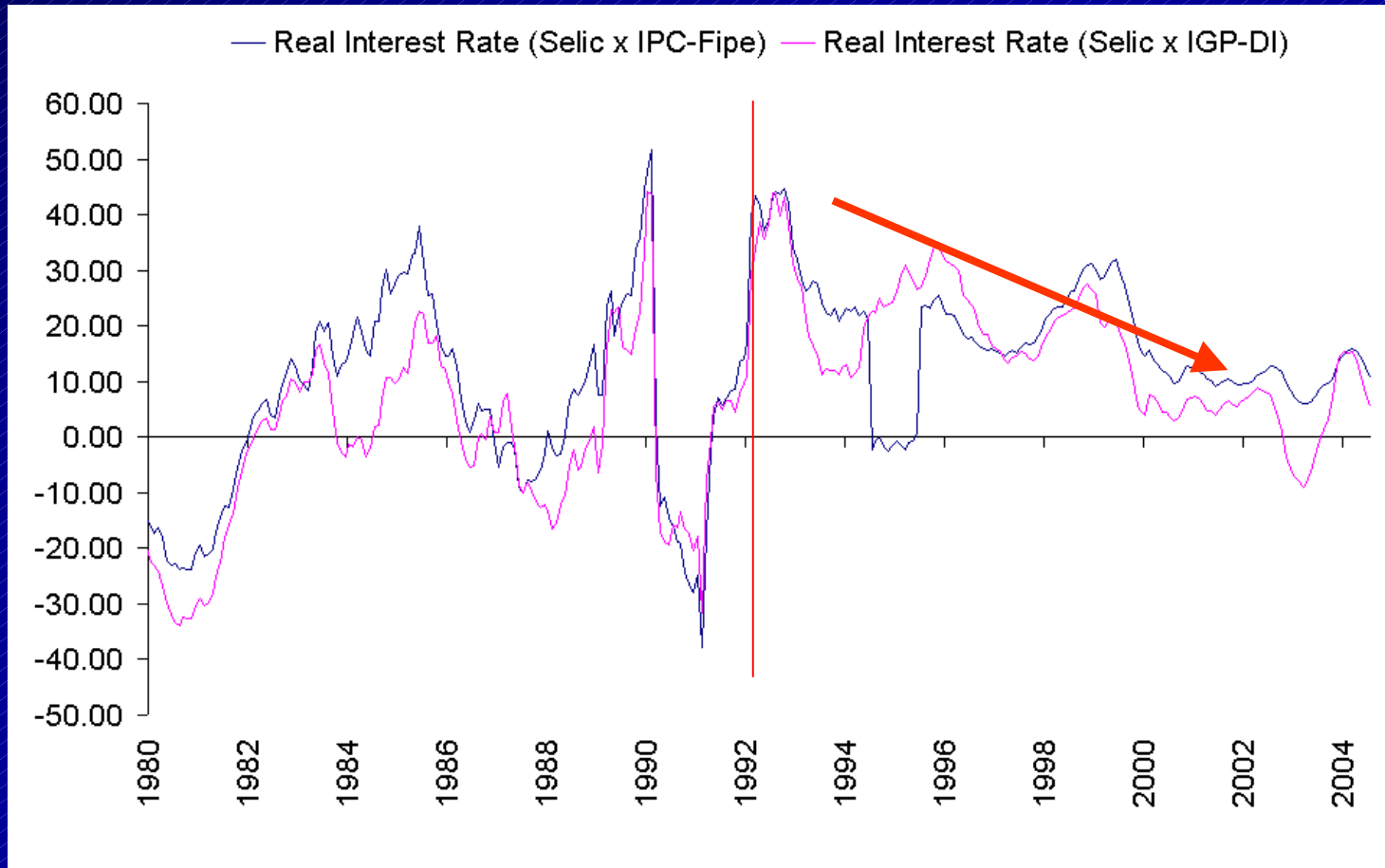
Sticking to strong policies will help making the 2000' better than the 1990'



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Interest rates have been on a downward trend since 1992, but this is a long, costly healing process

Real Ex-post Interest Rate





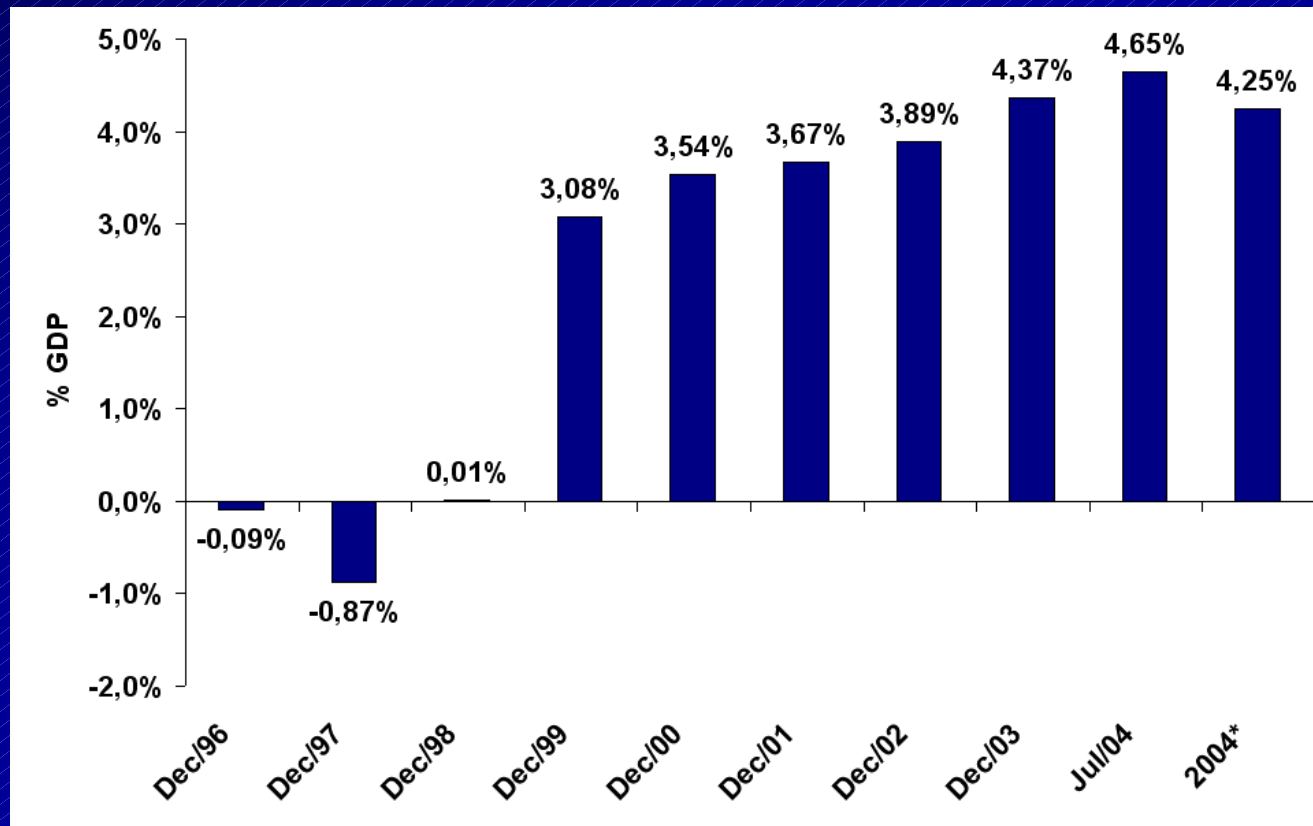
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Fiscal Commitment: the cornerstone of the economic policy



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Public Sector Primary Surplus (% GDP)



An effort shared by National, State, and Local Governments

Source: Central Bank

*Target



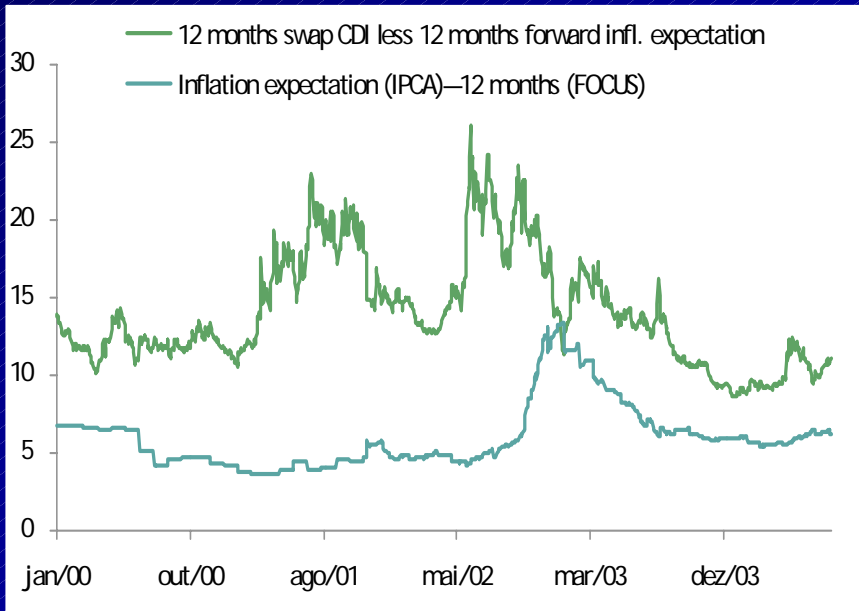
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Policies that have contributed to lower interest rates



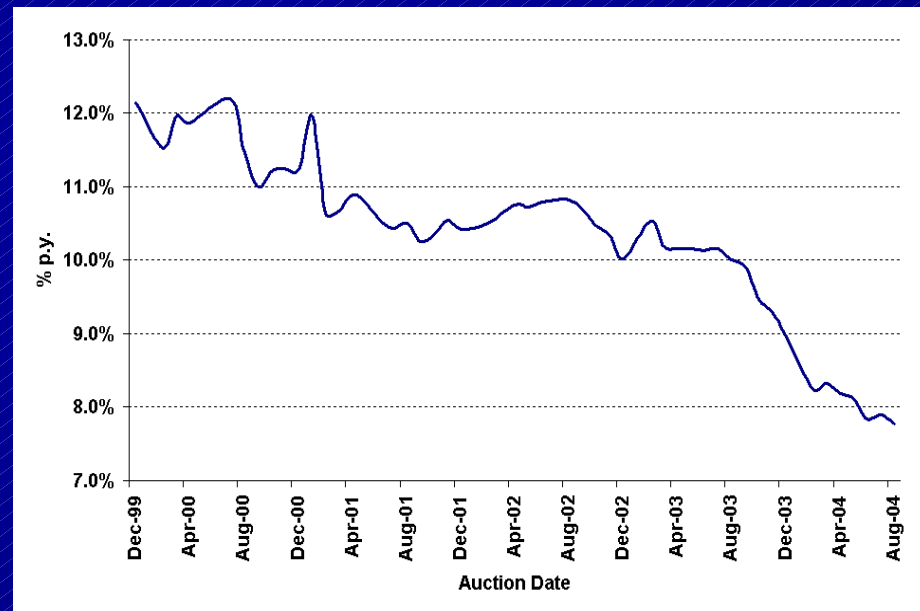
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Effective monetary policy pushes down real interest rates



Source: Bloomberg

Real Interest Rate on inflation indexed NTN-C bonds



Source: National Treasury



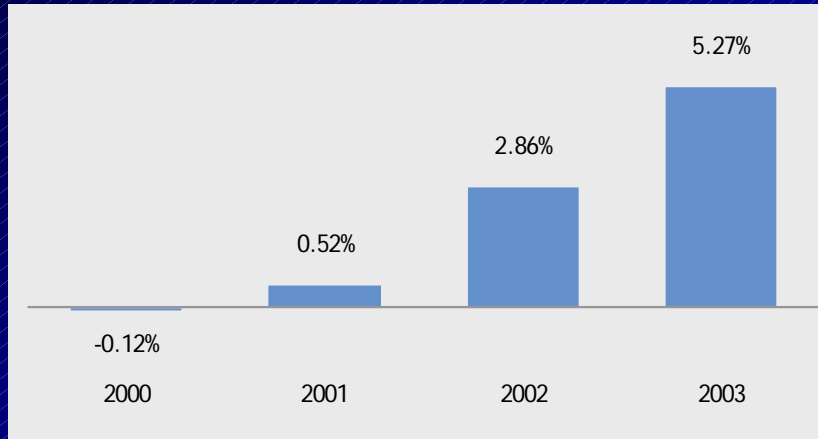
A successful external adjustment



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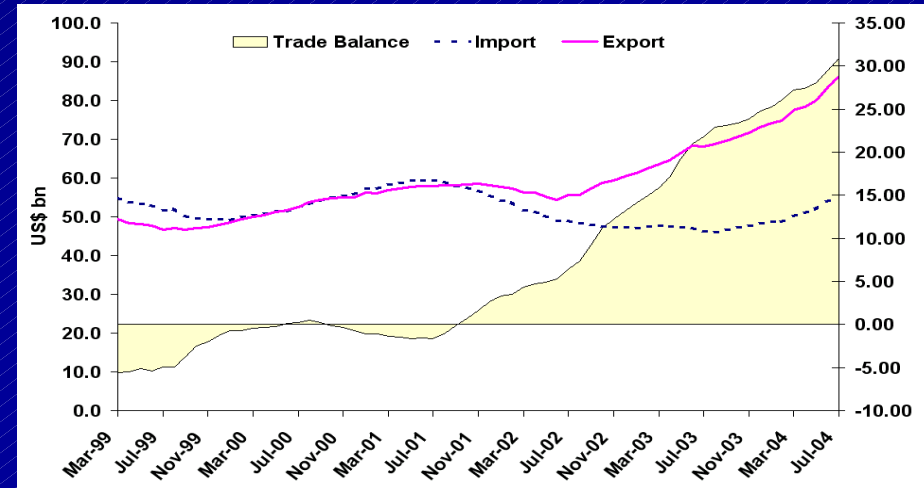
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Trade Surplus as % of GDP



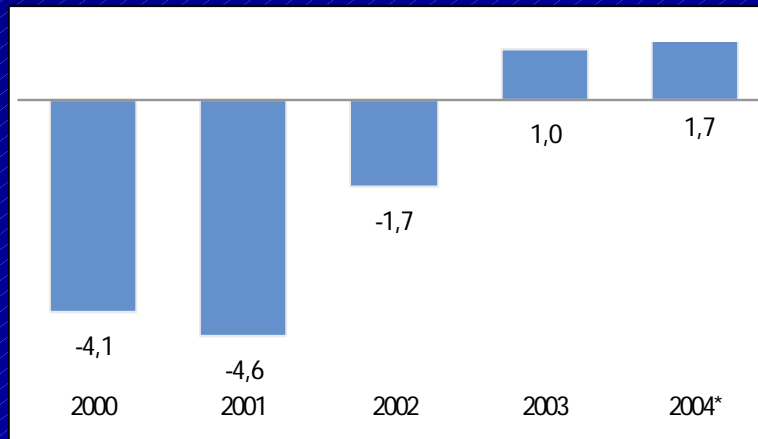
Source: Central Bank

Trade Balance (US\$ billion)



Source: Central Bank

Current account % of GDP



Source: Central Bank * 12-month cumulative current account July 2004



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Broad-based export markets



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Main Brazilian Buyers - Jan/Jul - 2004

	<i>US\$ bn</i>	<i>Annual percentage change. 04/03</i>	<i>% of total exports</i>	<i>Contrib. % growth</i>
1 - USA	10,7	11,6	24,5	2,8
2 - ARGENTINA	4,0	79,6	5,7	4,5
3 - CHINA	3,4	32,1	6,5	2,1
4 - NERTHELANDS	2,8	26,6	5,7	1,5
5 - GERMANY	2,3	34,5	4,5	1,6
6 - MEXICO	2,1	46,9	3,7	1,7
7 - ITALY	1,7	41,8	3,1	1,3
	27,0			15,6

Source: MDIC - SECEX



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Growing more through quantity than price



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Jan-Jun 2004 Change in Exports

	US\$ mn	Quantity		Price		Cross	
		US\$ mn	%	US\$ mn	%	US\$ mn	%
Exports	10 333	6 327	61%	3 484	34%	522	5%
Primary	4 043	1 389	34%	2 347	58%	307	8%
Semimanufactures	985	500	51%	449	46%	36	4%
Manufactures	5 304	4 438	84%	687	13%	180	3%

Last 12 months

	US\$ mn	Quantity		Price		Cross	
		US\$ mn	%	US\$ mn	%	US\$ mn	%
Exports	15 077	9 152	61%	5 507	37%	418	3%
Primary	4 900	704	14%	3 957	81%	239	5%
Semimanufactures	1 425	382	27%	1 020	72%	23	2%
Manufactures	8 752	8 066	92%	531	6%	156	2%

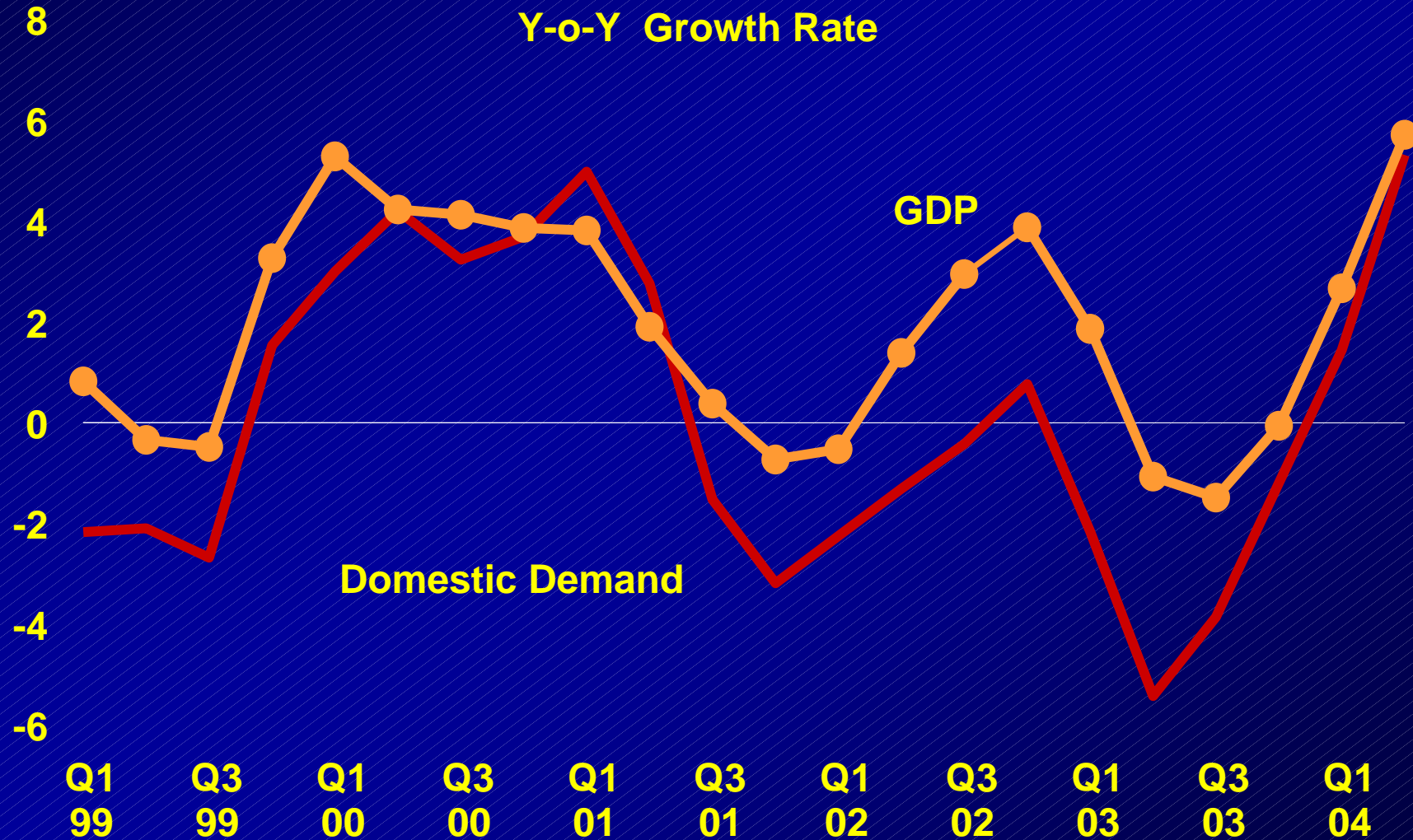


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And a reviving domestic demand



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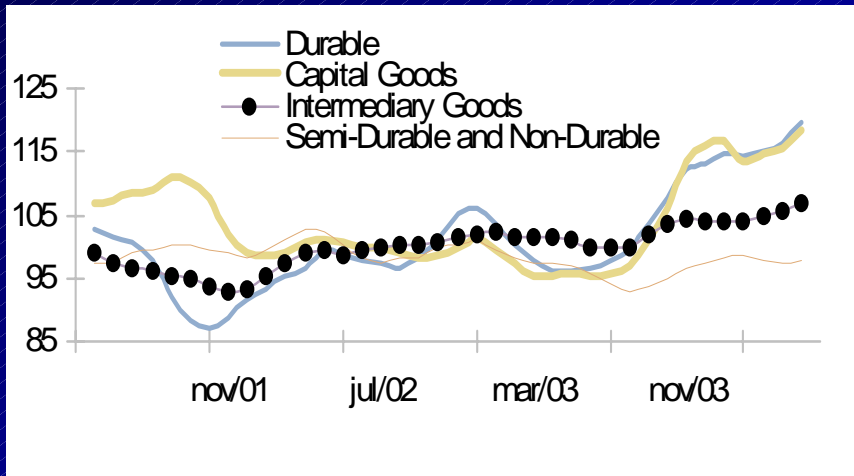
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Reflected in many indicators



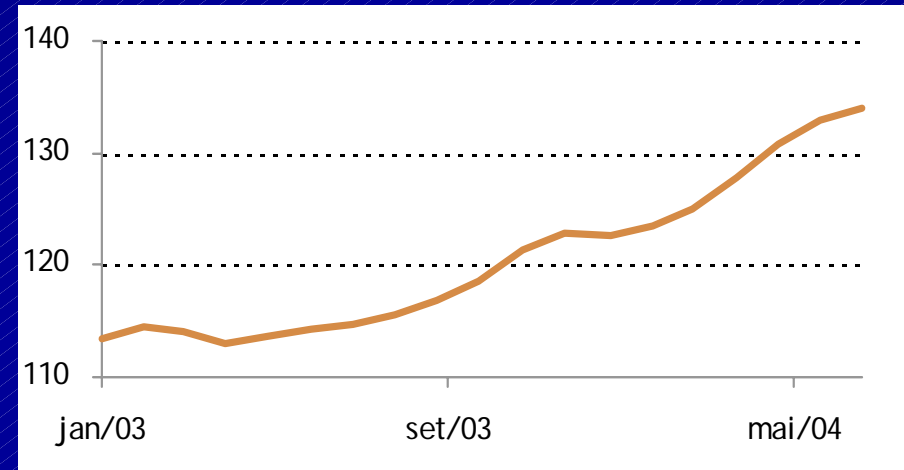
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Industrial Production - Seasonally adjusted
(Average 2002=100)

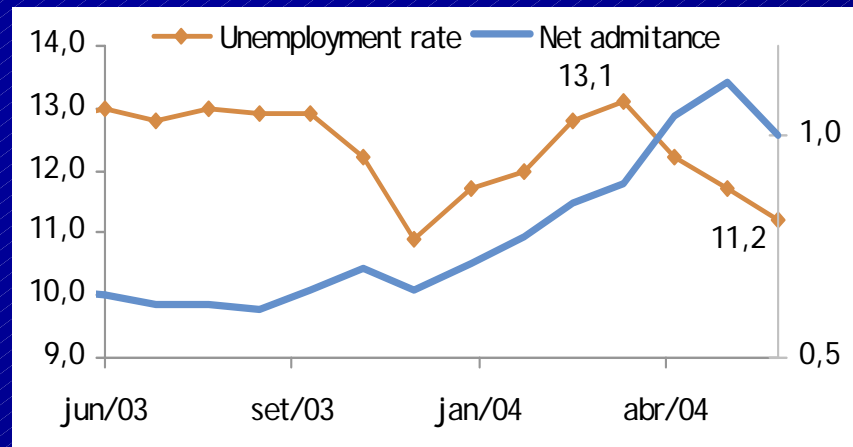


Source: IBGE

Credit to the Private Sector (Jan 2002=100)



Source: Central Bank.



Jul-04

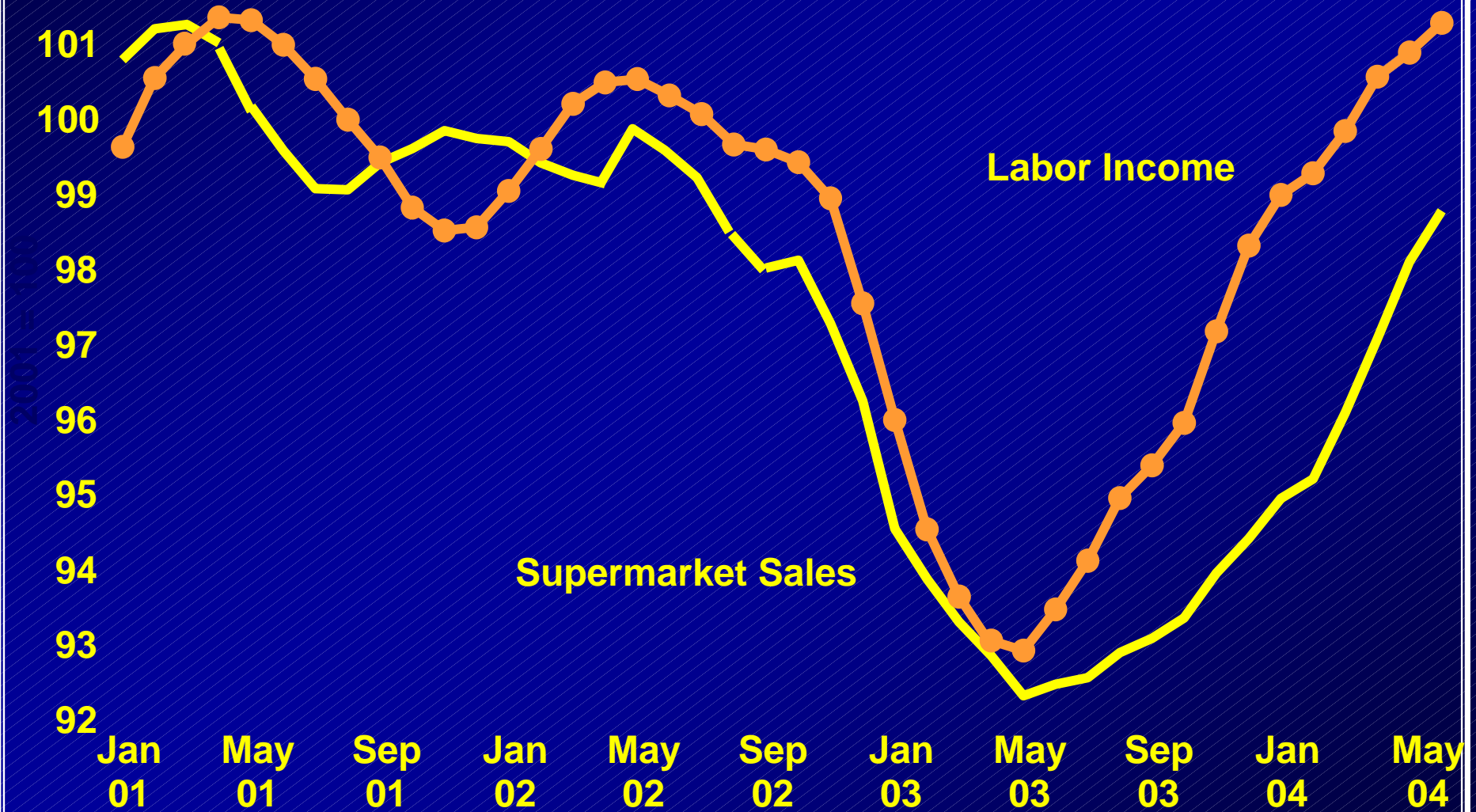


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With rising labor income



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And a long-awaited pick up in Investment



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Investment is set to recover with the improvement in the regulatory environment, GDP growth, and a government effort in boosting infrastructure with the help of the private sector





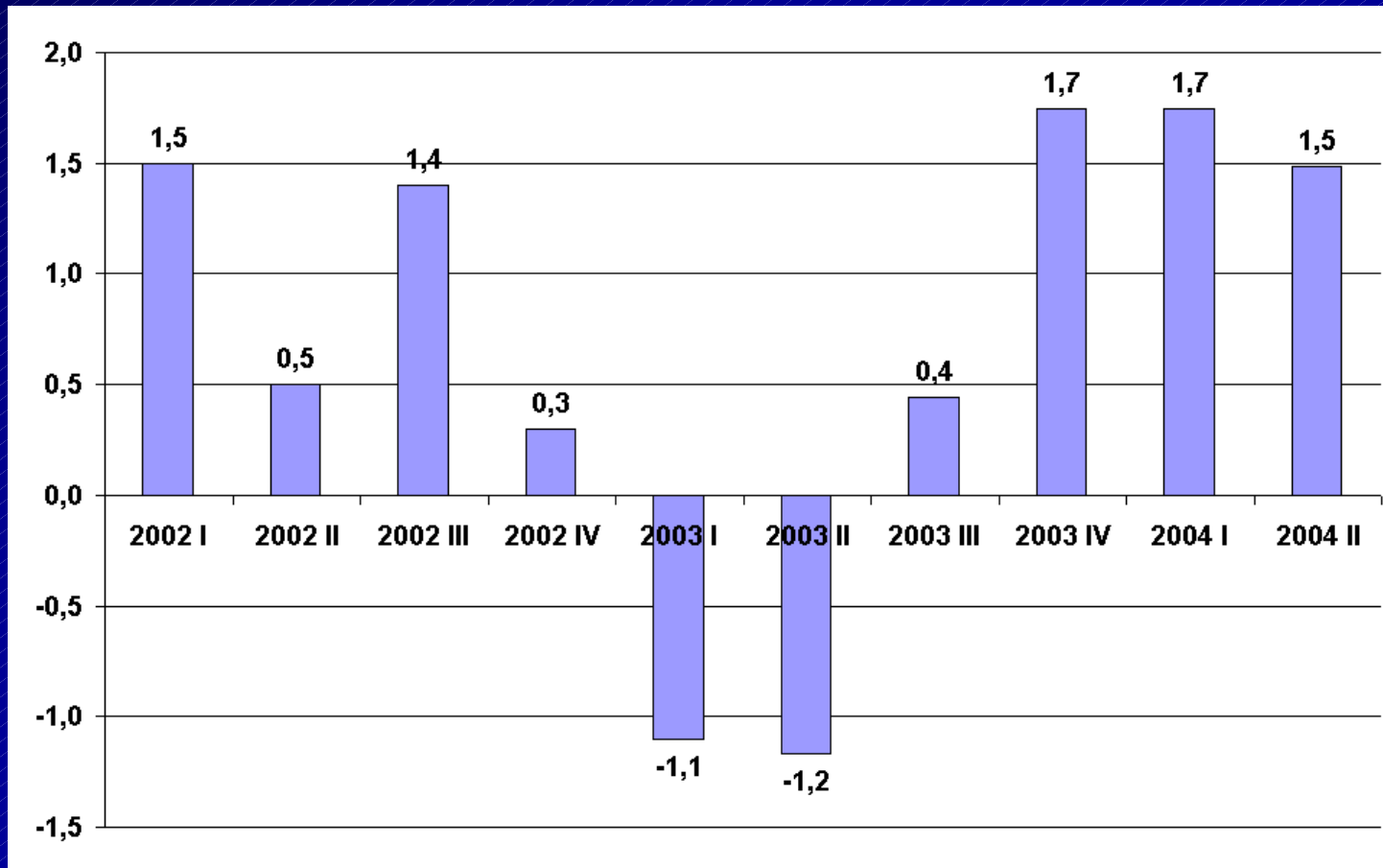
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The recovery is taking hold...



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Quarter Variation GDP
(seasonality adjustment)



Source: IBGE



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Allowing the country to play its strengths out



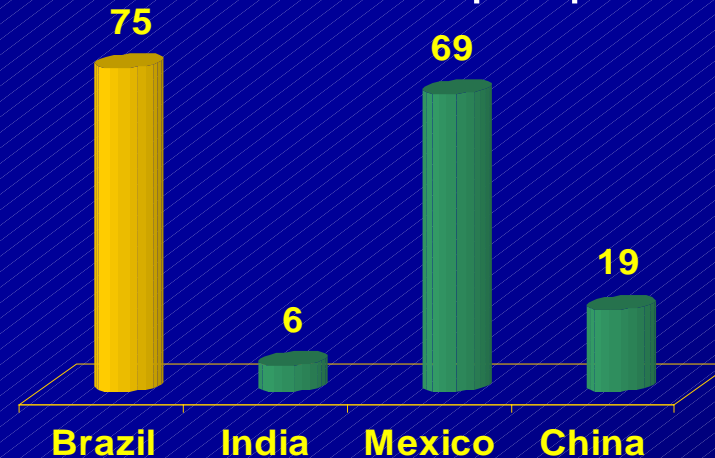
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- 97,3% of the 18.7 million income tax declarations filed in 2003 were submitted through the internet

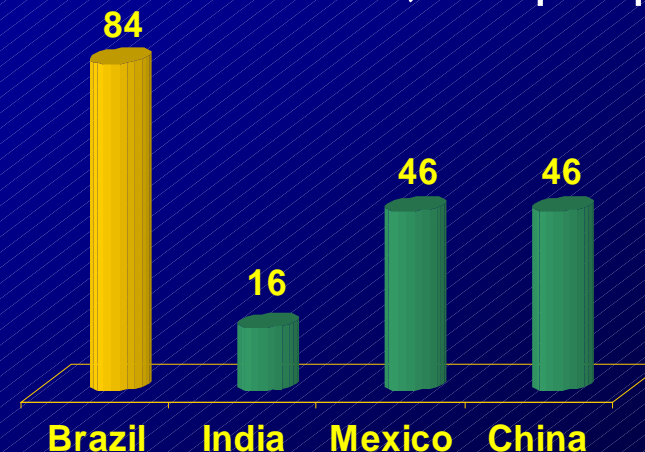
- Almost 100% of foreign trade is recorded in the Siscomex integrated computer trade system;

- Internet banking grew 28% in 2003, reaching R\$ 1.5 billion.

PCs / 1,000 people



Internet users/1,000 people





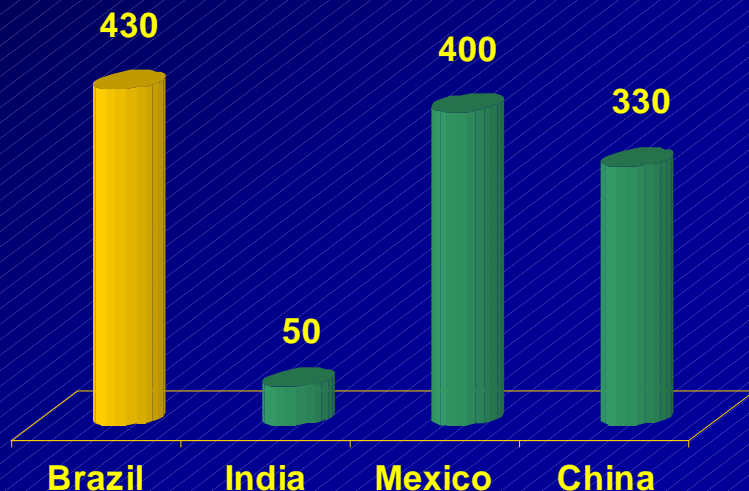
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Important assets: the domestic market, a good export record...



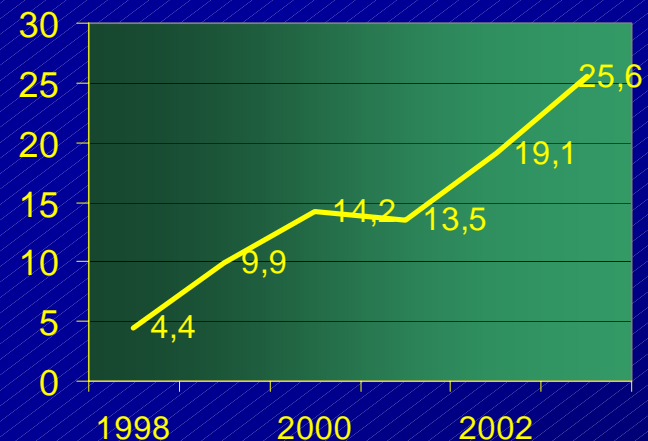
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Phone lines*/1,000 people

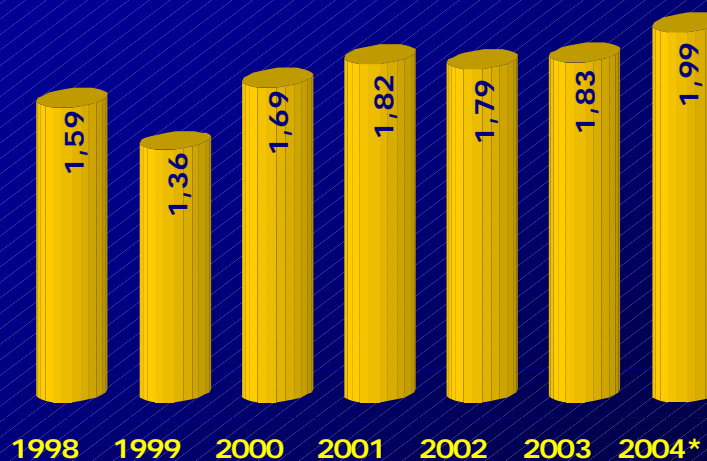


* Includes fixed and mobile phones

Cell Phone Production (million)



Auto production (million)





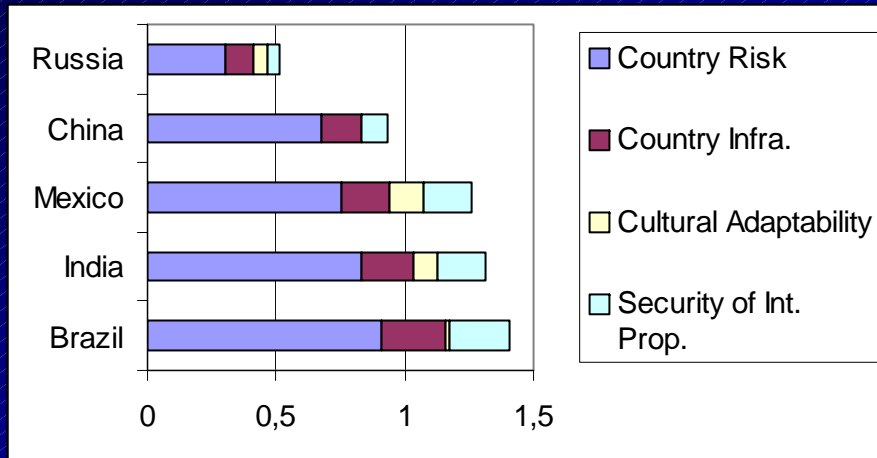
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... and institutions



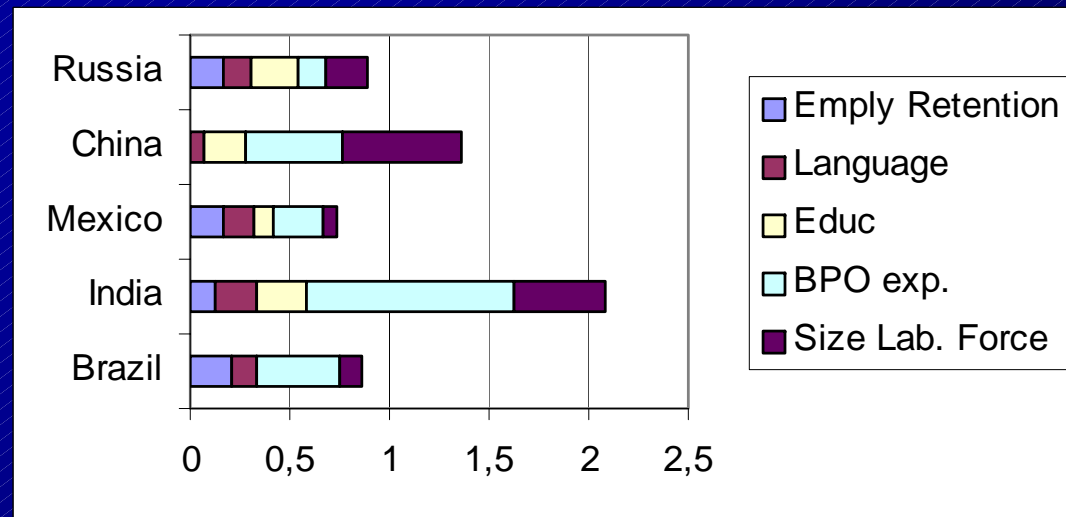
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Reading the results of the 2004 AT Kearney Survey with Global Managers:



Brazil: a country with quite a few strong points...

... and room to improve education levels, and firms' exposure to international trade





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... that are being buttressed by key policy choices of the Lula government



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Pillars of Development



Inflation and Fiscal Responsibility
Respect of contracts



Social Security reform
BOLSA-FAMÍLIA



Credit and Tax reforms/Judiciary reform:
Incentives to Innovations and Commerce



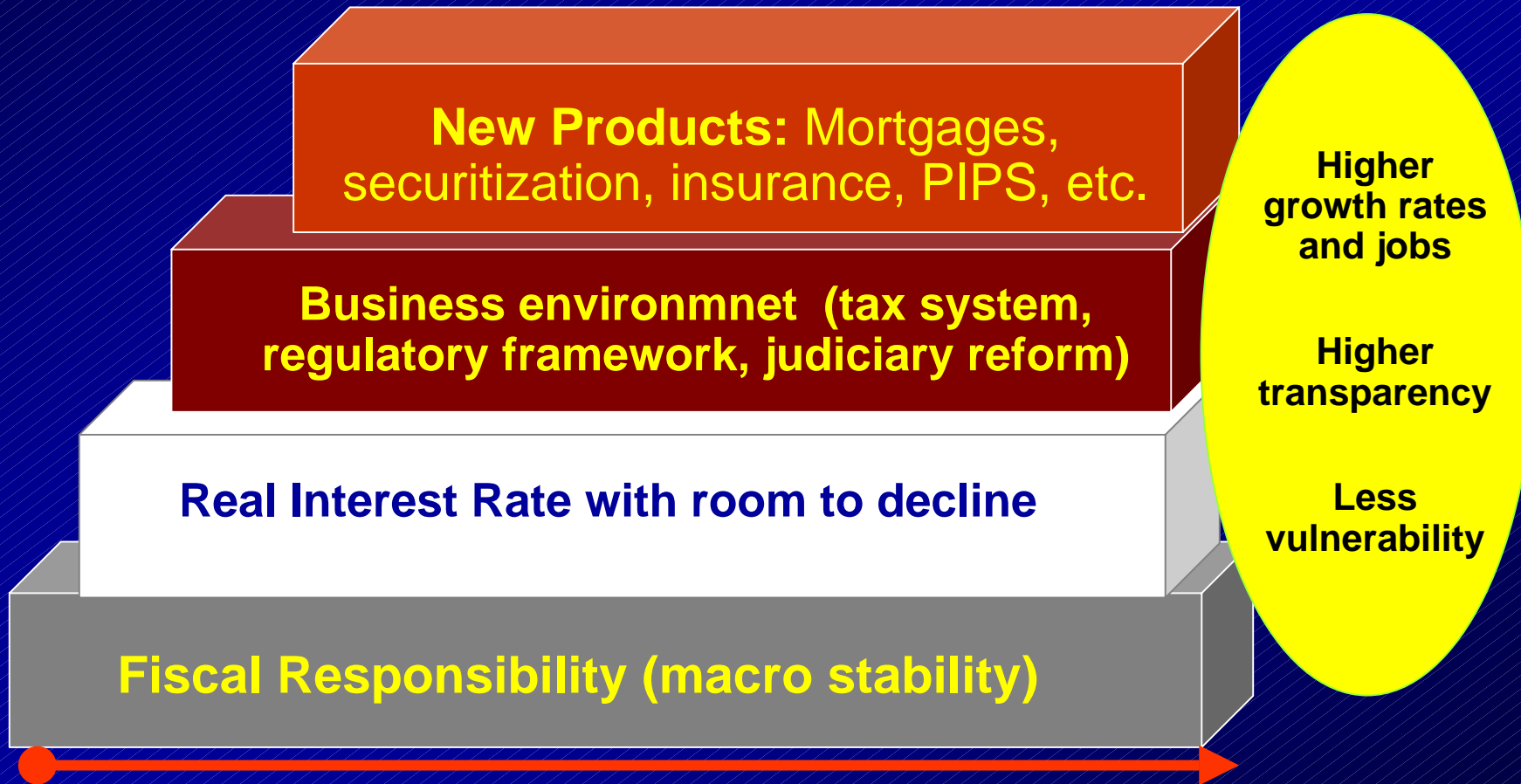
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Taking a systematic approach to reform



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- The example of the housing market





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And getting them through Congress



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Tax Reform OK

Social Security Reform OK

Energy Sector Act (ok, regulation under way)

Housing Finance Bill OK

CPMF-free Portfolio Adjustments Act OK

Reg. Agencies Strengthening Bill (at the House)

PPP (at the Senate)

Bankruptcy Law (back at the House)

Innovation and Research Incentives & Rewards Bill

Reform of the Judiciary and Competition System

& More...



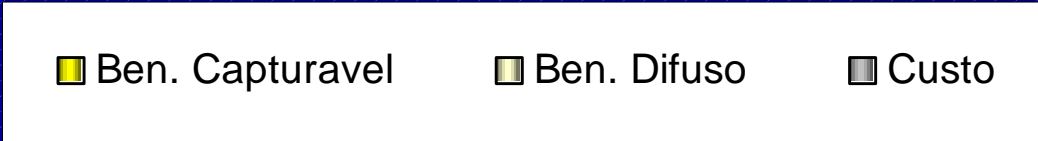
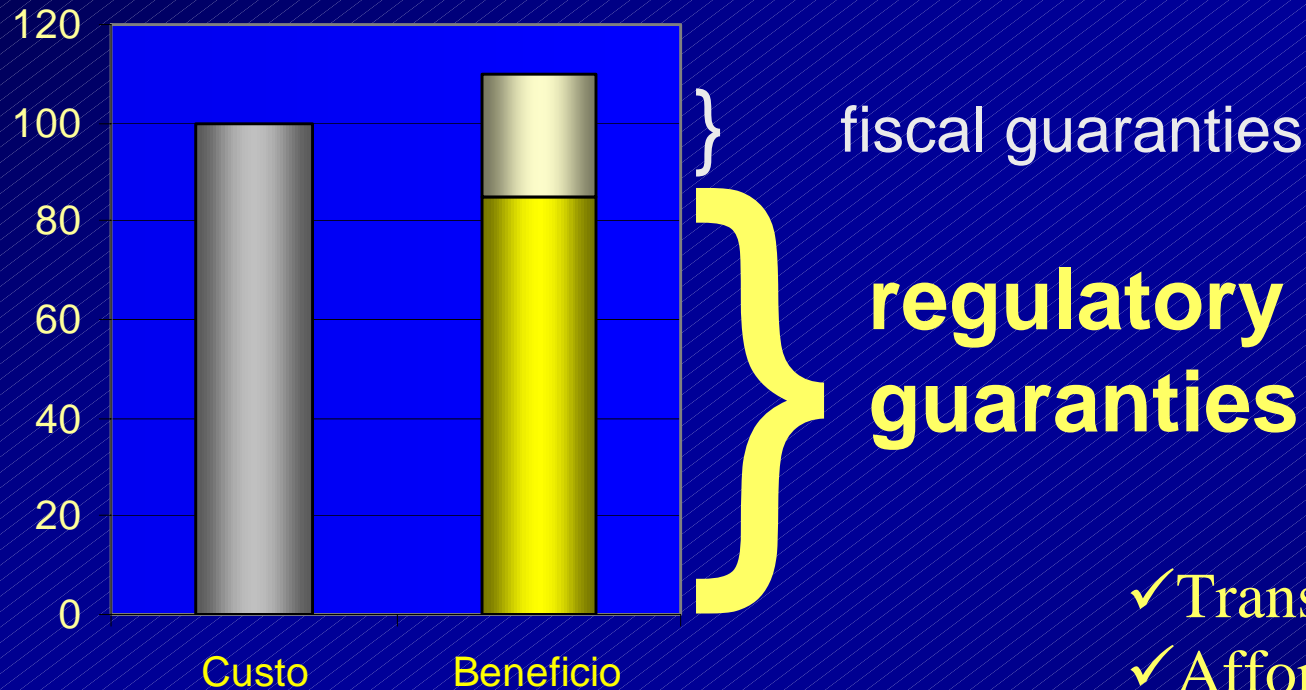
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PPP: bringing the private sector to the game



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with fiscal responsibility



- ✓ Transparency
- ✓ Affordability
- ✓ Selectivity
- ✓ Consistent Accounts

→ new opportunities for investment in roads, ports, sanitation, etc.



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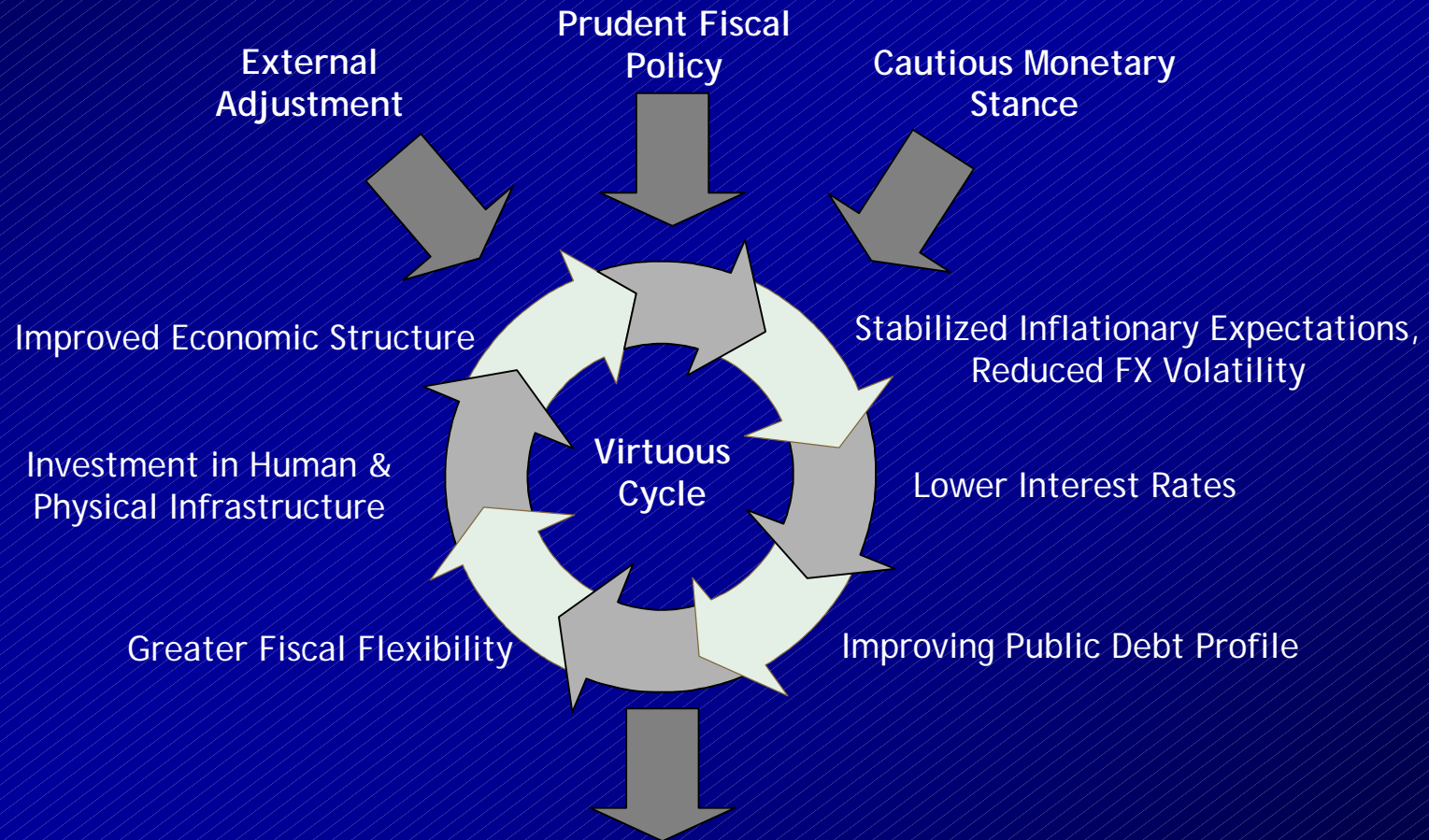
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Annual Plan built around a scenario of policy strength



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Economic Policy Mix Provides Buffer Against External Shocks



Sustainable Economic Growth & Improving Social Conditions



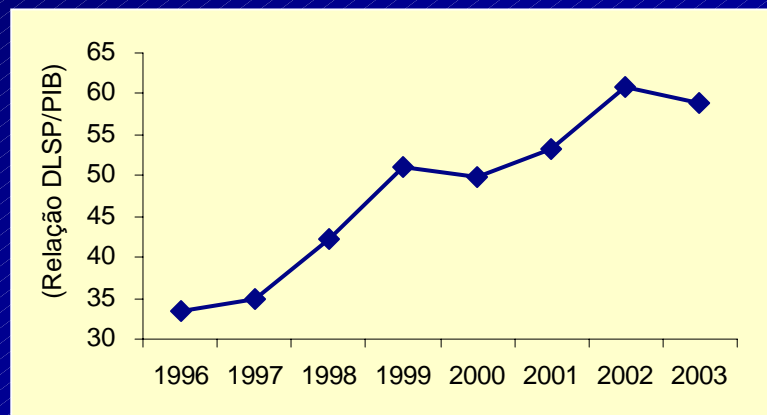
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Improved debt dynamics



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Debt/GDP (adjusted by the IPCA)



2003 Debt Dynamics Summary

	2002	2003
Net debt (R\$ billion)	881	913
GDP (R\$ billion)	1.346	1.514
Net debt/nominal GDP	65,5%	60,3%
Net debt/GDP valued by IPCA	60,9%	58,8%
Net debt/GDP valued by IGP	55,5%	59,0%



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Guidelines in the 2004 Annual Borrowing Plan



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- Lengthen the average maturity of public issued bonds;
- Reduce the share of debts maturing in 12 months;
- Replace part of the floating rate and the exchange-rate indexed bonds by fixed-rate bonds and inflation-indexed long-term bonds;
- Further develop the term structure of fixed and price-indexed rates.
- *In addition, further support the development of capital markets, dealer structures and other mechanisms to improve secondary markets and broaden the investor base*



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Results and Projections Borrowing Plan 2004



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Federal Domestic Debt Indicators

Indicators	2003	Jul/04	2004	
			Minimum	Maximum
Stock of DPMFi held by the public (US\$ billion)	241.4	250.6	270.6	290.4
Average maturity of DPMFi (months)	31.3	29.8	34.0	38.0
% Maturing in 12 months	35.3	41.9	30.0	35.0
Share of DPMFi (%)				
Fixed rate	12.5	15.1	13.0	23.0
Floating rate	61.4	59.6	50.0	61.0
Price Index	13.6	15.1	15.0	21.0
Exchange rate	10.8	8.3	5.0	7.0
Others	1.8	1.9	1.0	3.0

Federal Debt Indicators

Indicators	2003	Jul/04	2004	
			Minimum	Maximum
Stock of DPF held by the public (US\$ billion)	318.7	324.9	356.4	379.5
Average maturity - Federal Outstanding Debt (months)	39.0	38.0	40.0	45.0
% Maturing in 12 months	30.7	35.5	26.0	32.0
Share of DPF (%)				
Fixed rate	9.5	11.7	9.0	19.0
Floating rate	46.5	45.9	39.0	47.0
Price Index	10.3	11.7	12.0	17.0
Exchange rate	32.4	29.3	24.0	30.0
Others	1.4	1.4	1.0	3.0

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



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Financing Requirements 2004 Central Government



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		(US\$ billion)
	Jan to Dec ¹	Aug to Dec ²
A. Estimated redemptions	107.7	50.8
National Treasury		
Domestic Debt	86.5	42.6
External Debt	15.9	5.5
Central Bank	5.3	2.7
B. Budgetary resources	24.3	5.3
C. Financing Requirements (A - B)	83.5	45.5

¹Jan, 2004 (Annual Borrowing Plan)

² July, 2004



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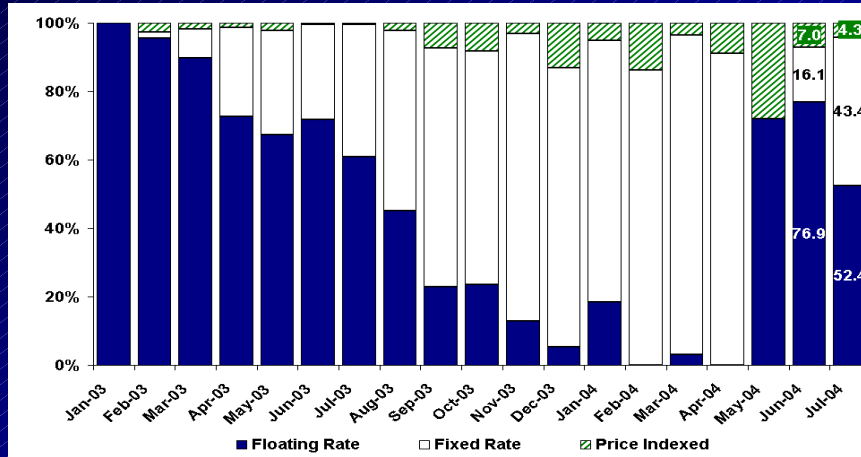
Improving Public Debt Structure



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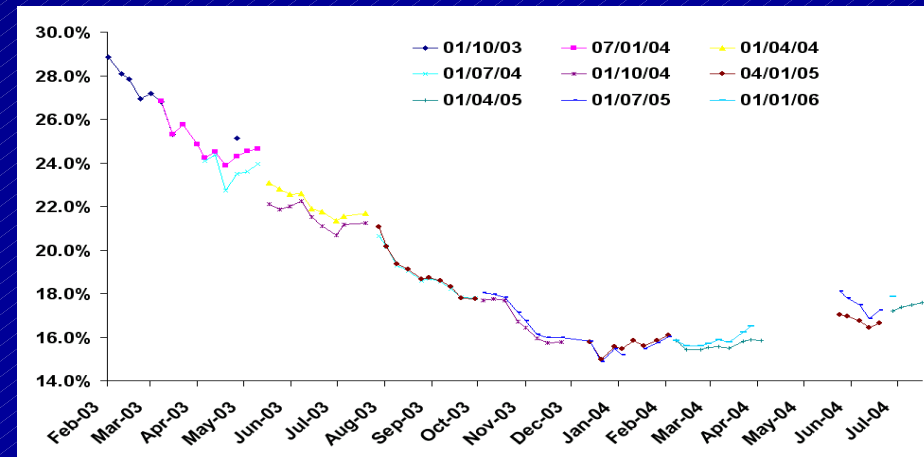
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Fixed rate instruments dominate public debt issuance



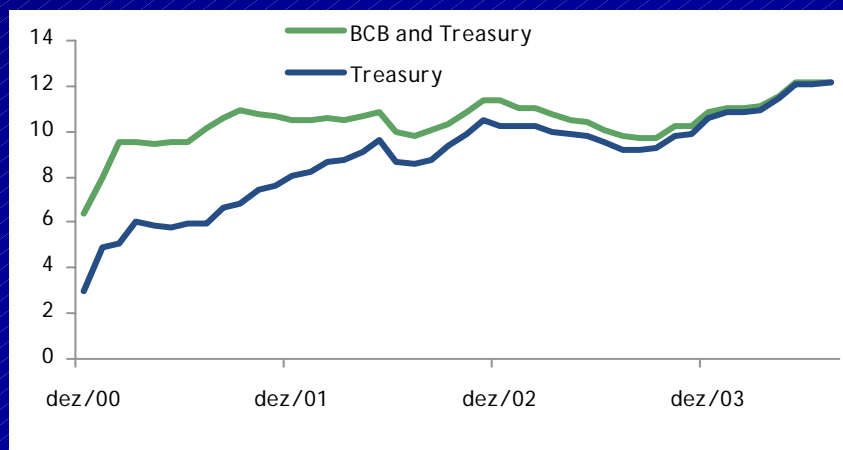
Source: National Treasury

Average rates accepted in LTN auctions



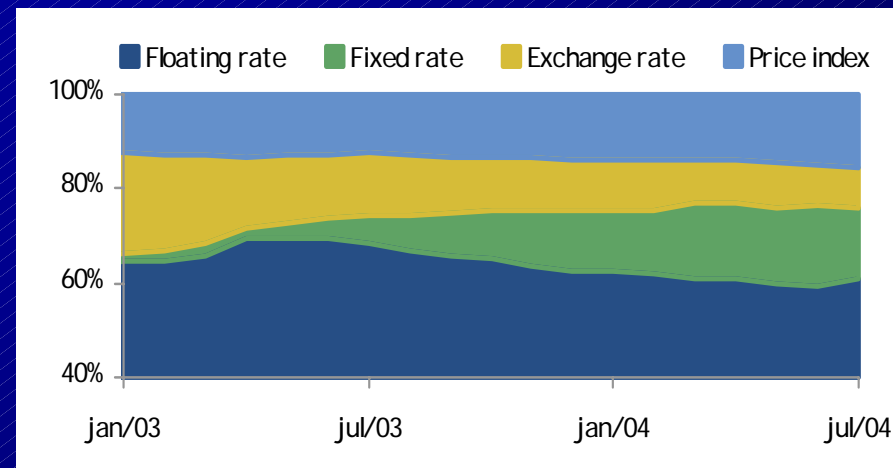
Source: National Treasury

Increasing Average Duration of Public Securities



Source: Central Bank

Domestic Debt Profile



Source: National Treasury



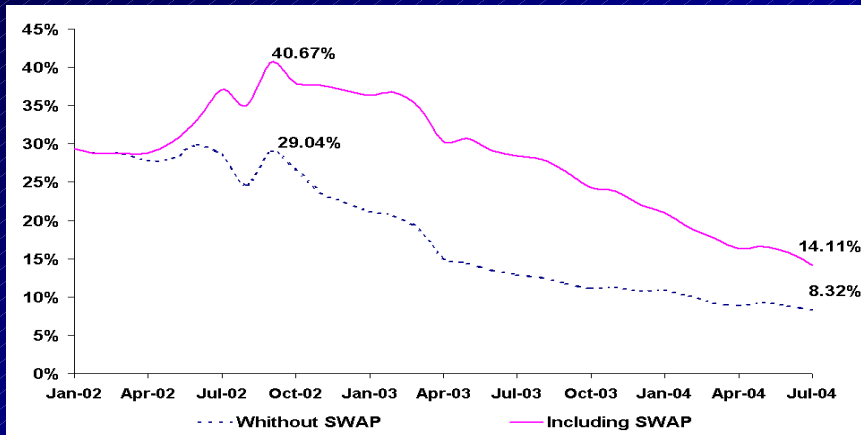
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Reduced exposure to external shocks



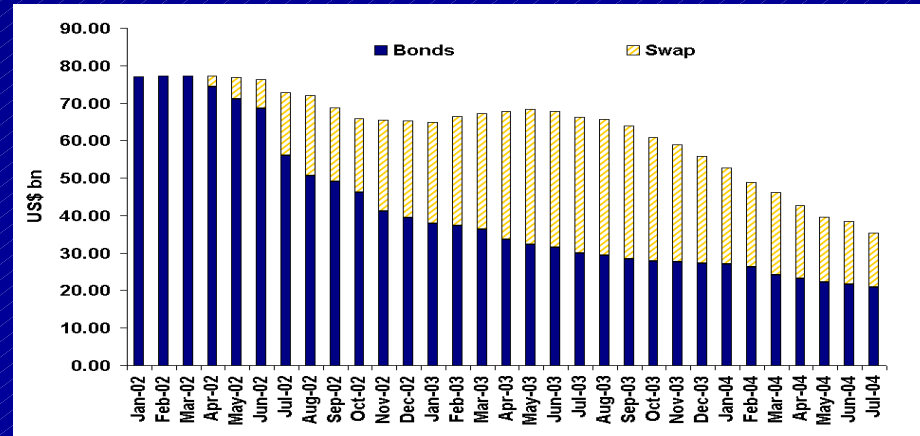
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Domestic Exchange Rate Debt (including SWAP)



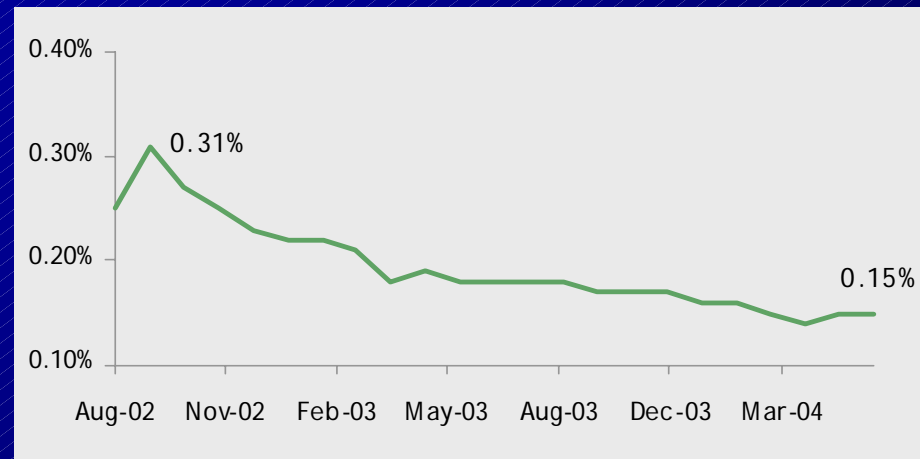
Source: Central Bank

Domestic Exchange Debt - US\$ billion



- Reducing the dollar-linked exposure as % of total debt and in US\$ billion
- Lower fiscal risk and a less volatile debt to GDP ratio;
- Impact of FX devaluation on net debt to GDP has been reduced by more than 0.15% in the last two years;

Impact of 1% FX devaluation on Net Public Debt / GDP



Source: National Treasury



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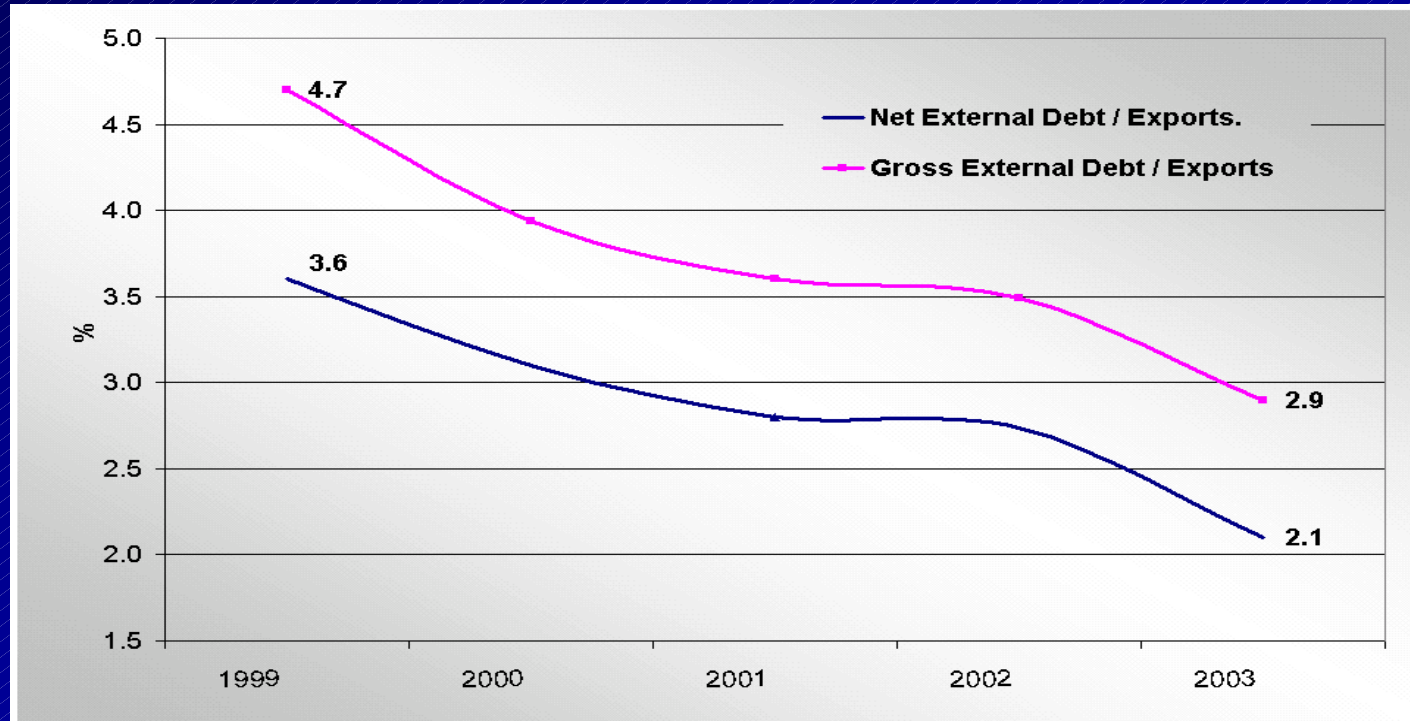
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More comfortable external debt ratios



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External Debt / 12-Month Accumulated Exports



	2003	2004 (p)
Interest/exports	21,0%	19,9%
Net Debt/exports	2,1	1,8
Net Debt/GDP	30,6%	26,0%

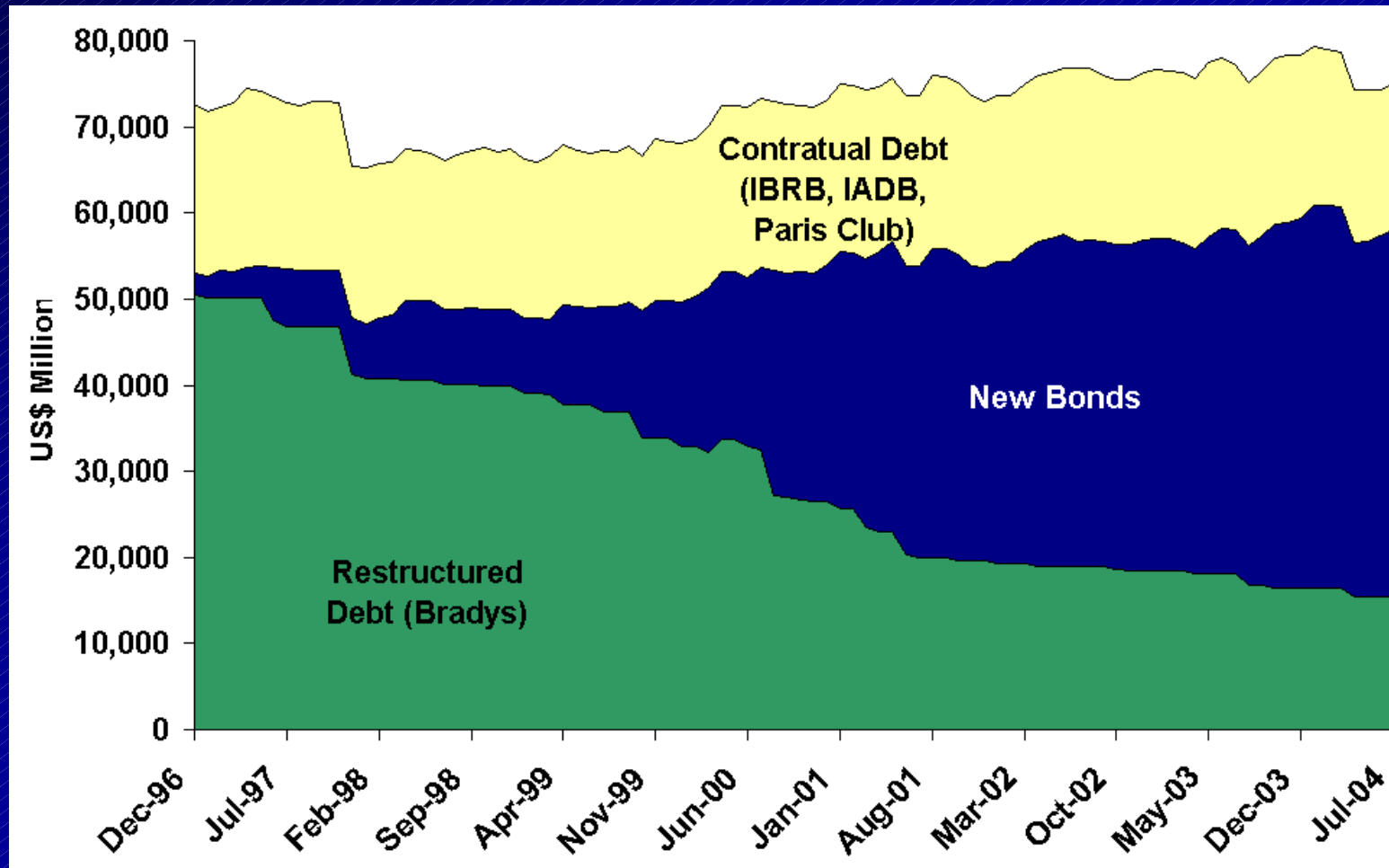


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A steady level of public external debt



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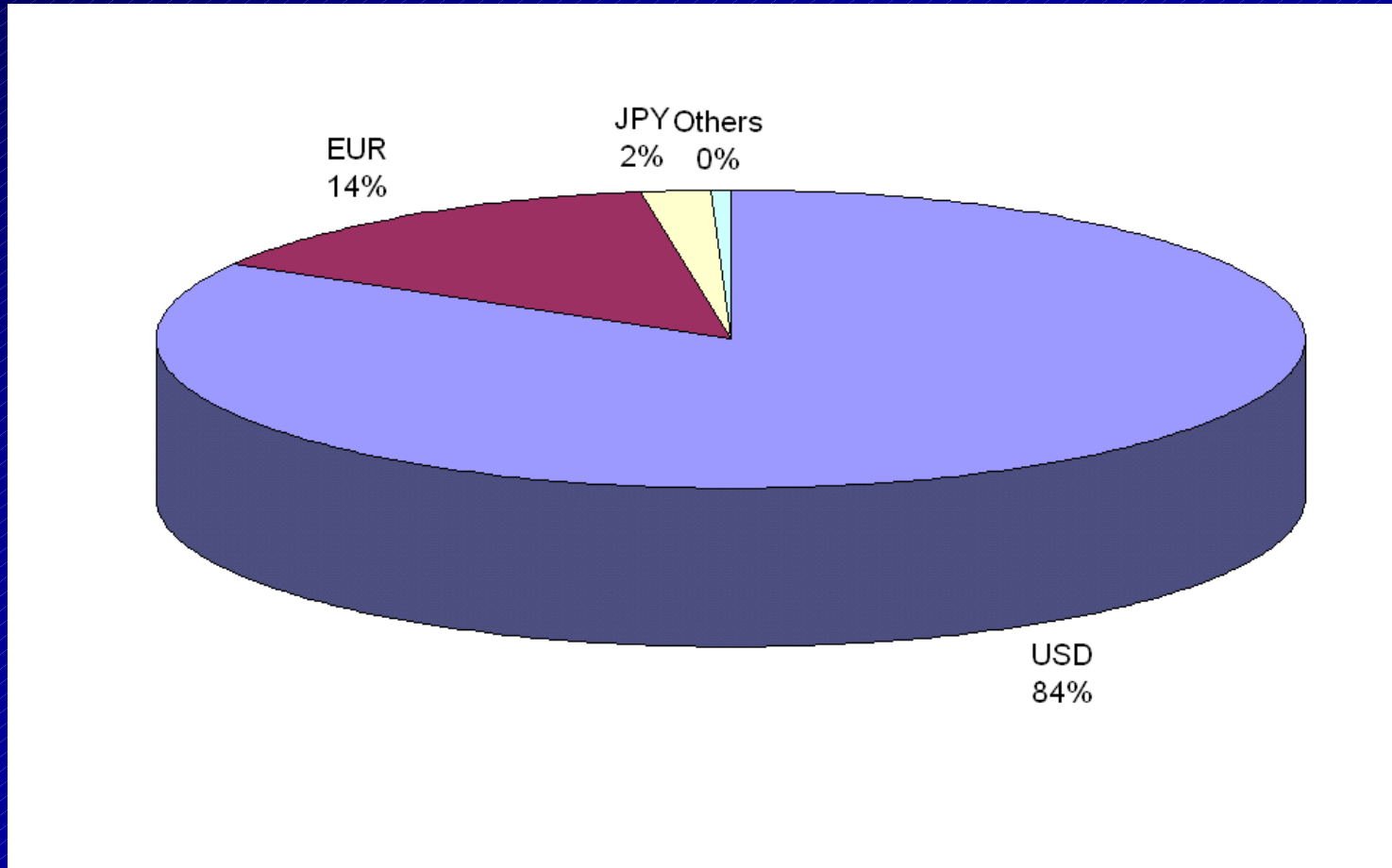
Source: National Treasury



With a strong share in US\$



External Debt Composition by currency: Jul/04



Source: National Treasury



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External debt issuance



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Issues	Issuance Date	In US\$ billion	Maturity	Yield	Spread ¹
		Total			
2003					
Global 2010 ⁴	10.22.03	1,500	7 years	9.45%	561
2004					
Global 2034	12.01.04	1,500	30 years	8.75%	376
Global 2009 (Floating)	22.06.04	750	5 years	5.93% ²	593 ³
Global 2014	07.07.04	750	10 years	10.80%	632
Total for 2004		4,500			
Remaining Issuance		1,000			
Bond Issuance (Planned)		5,500			

Source: National Treasury

¹ In basis points (local currency), at issuance date.

² Plus 3 months Libor

³ Spread over Libor

⁴ Included in the 2004 bond issuance plan



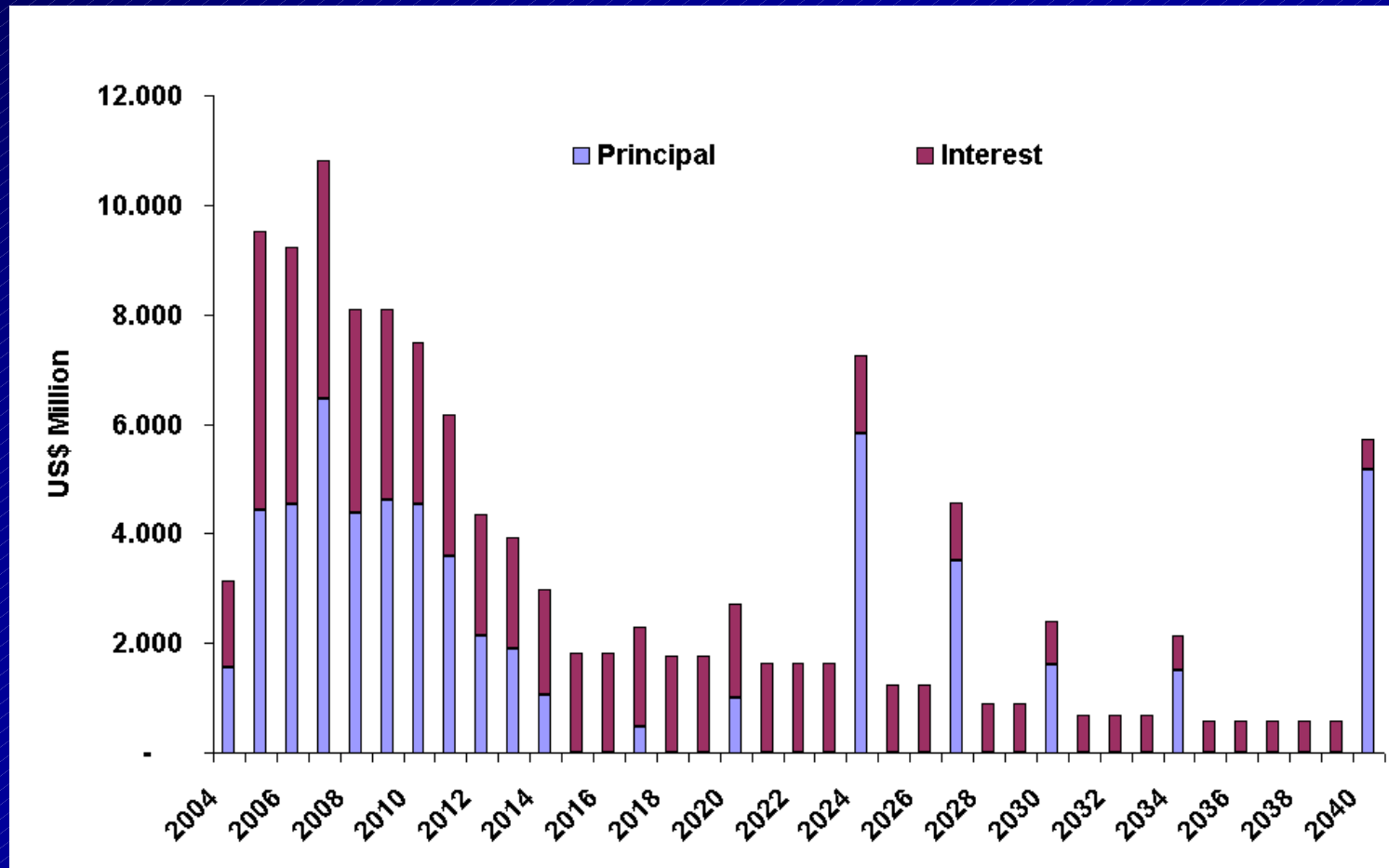
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Maturities well spread over time



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External Debt Maturity - Principal + Interest (Includes only bonds)



Source: COGEP/GERIS



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Thank you !



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The Brazil we all know... and the Brazil that increasingly matters



www.tesouro.fazenda.gov.br

or

brazildebt@fazenda.gov.br