

June, 2008



Brazil: The Big Picture

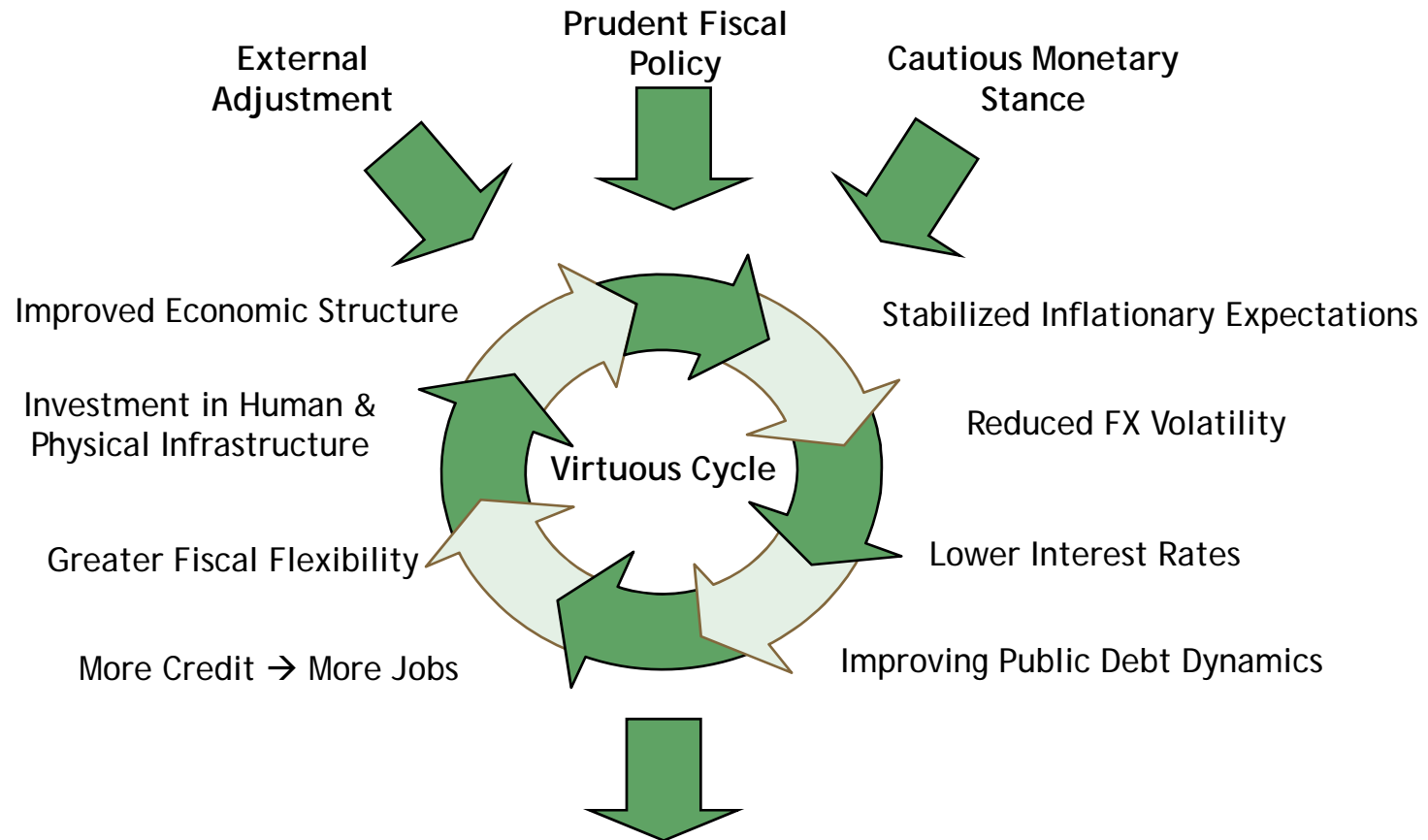
Brazil: The Big Picture

Macroeconomic Overview

Public Debt Management

On the path to sustainable growth

Economic Policy Mix Provides Buffer Against External Shocks

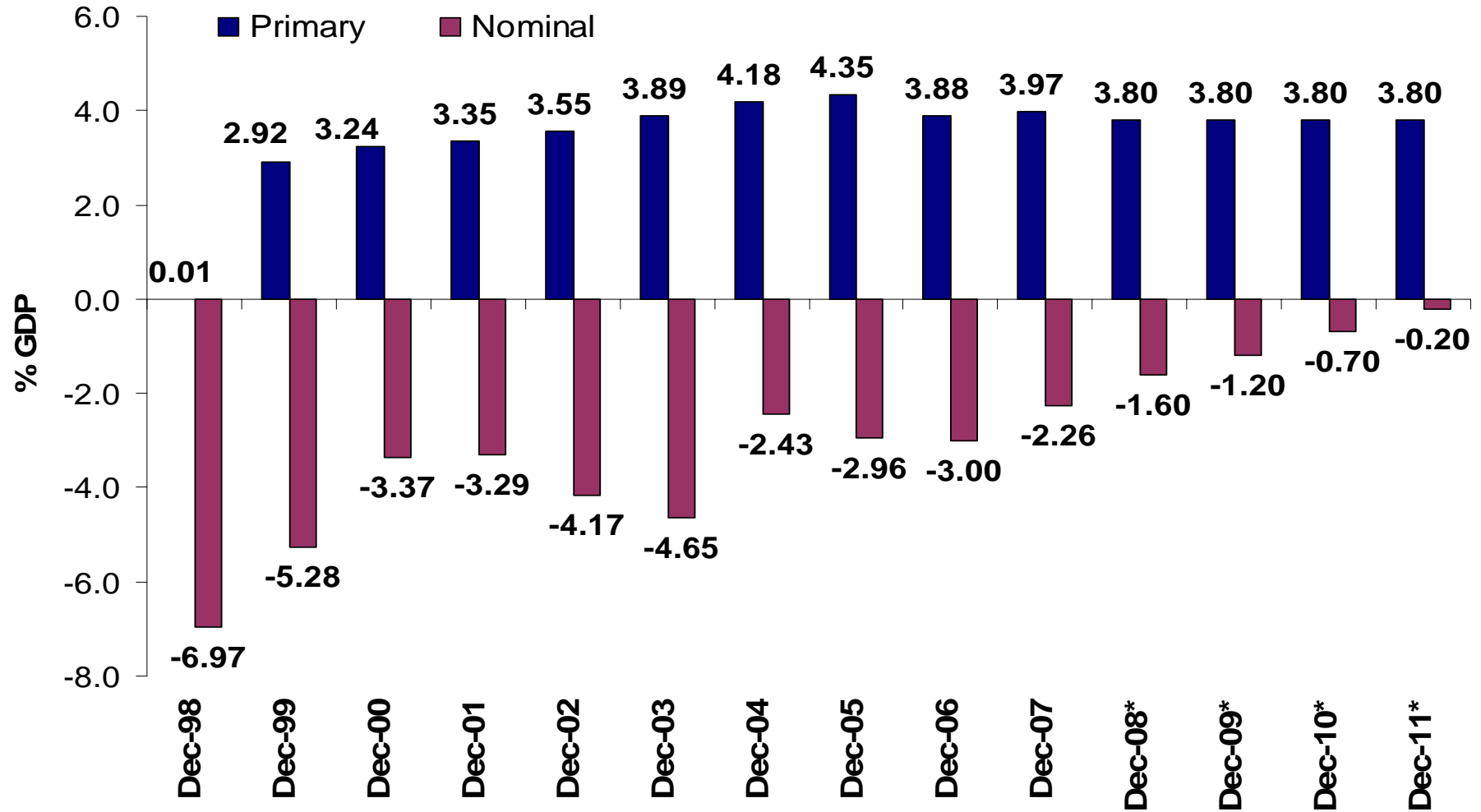


Sustainable Economic Growth & Improving Social Conditions



Macroeconomic Overview - Fiscal Commitment

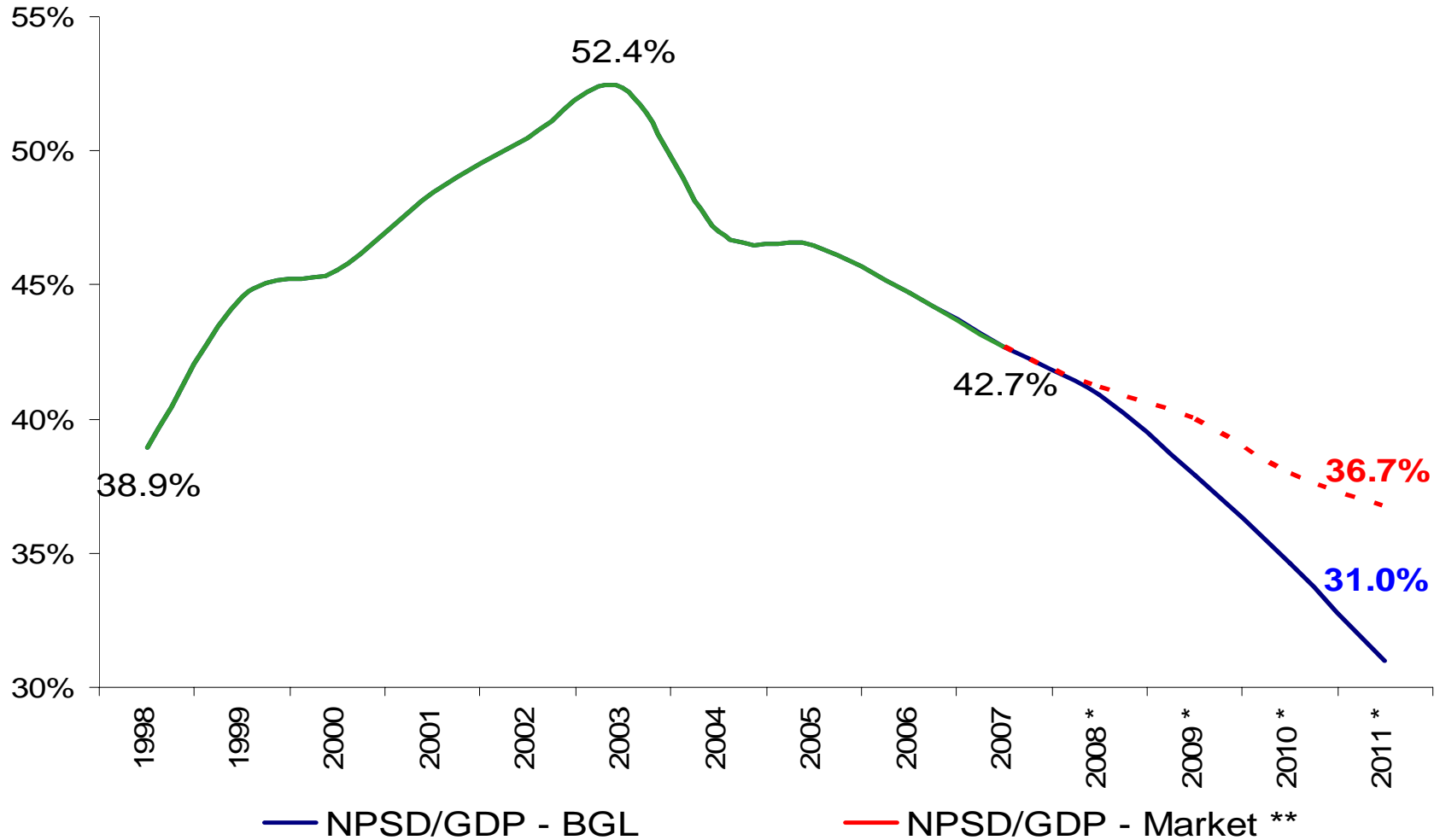
Public Sector Balance (in 12 months)





Macroeconomic Overview - Fiscal Commitment

Net Public Sector Debt / GDP



Source: Up to 2007, Central Bank. From 2008 on Draft Budgetary Guidelines Law 2009 project and Market survey (Focus of 06/06/2008)

* Expectations

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

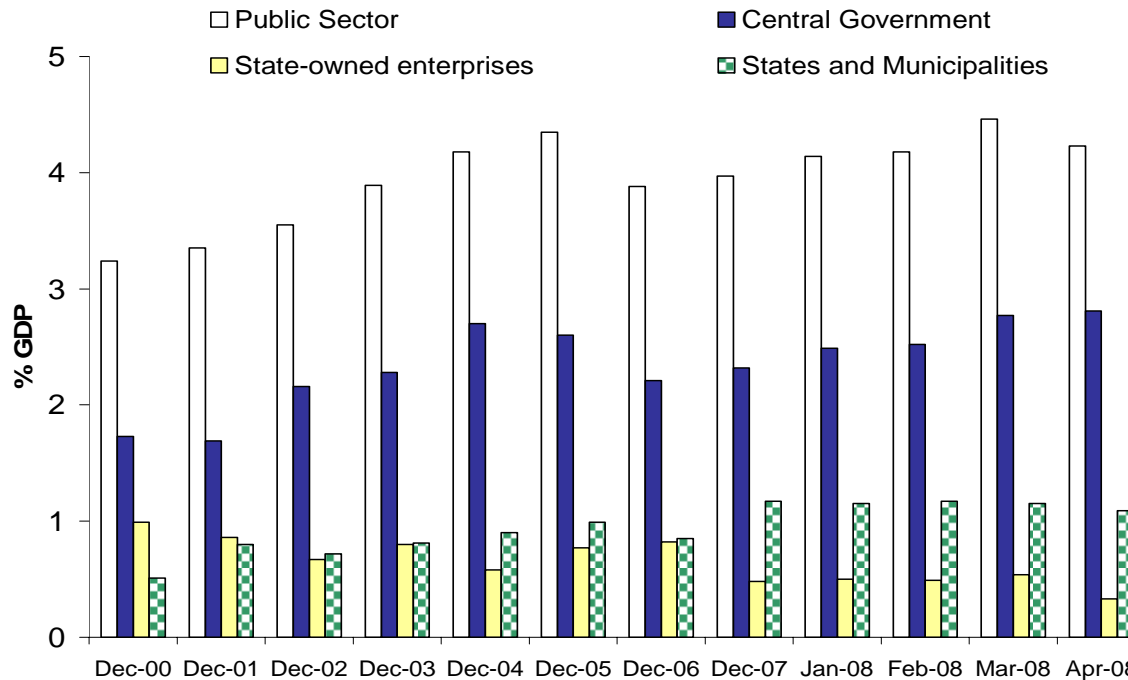


Macroeconomic Overview - Fiscal Commitment

Nominal Balance should converge to equilibrium in about 3 years

- As of Apr-08, the Primary Bal. in 12-m was 4.23% of GDP and the Nominal Bal. in 12-m was -1.90% of GDP. Primary Bal. accumulated in the first 4 months was at historical peak (R\$ 61,743 bn), or 6.82% of GDP and the Nominal Bal. reached 0.76% surplus (peak).
- From Jan to Apr, Central Gov't Primary was 5.38% of GDP, higher than the 3.8% targeted.
- Even with no CPMF, Jan to Apr-08 revenues beat a new record: real growth of 12.56%. (Jan-Apr/07).

Primary Balance by Government Level (in 12 months)



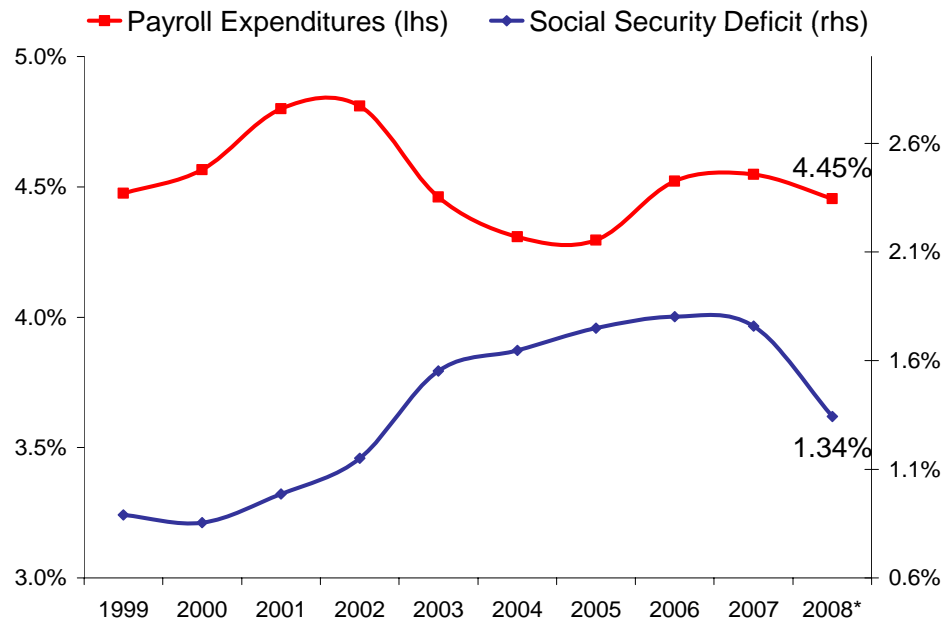


Fiscal Perspectives - Annual Budget Law (ABL) 2008

■ In 2008 ABL approved by the Legislative, the Federal government restated its commitment setting a primary balance of 3.8% of GDP to the public sector (PS), which guarantees the Net PS Debt downward trend. Additionally:

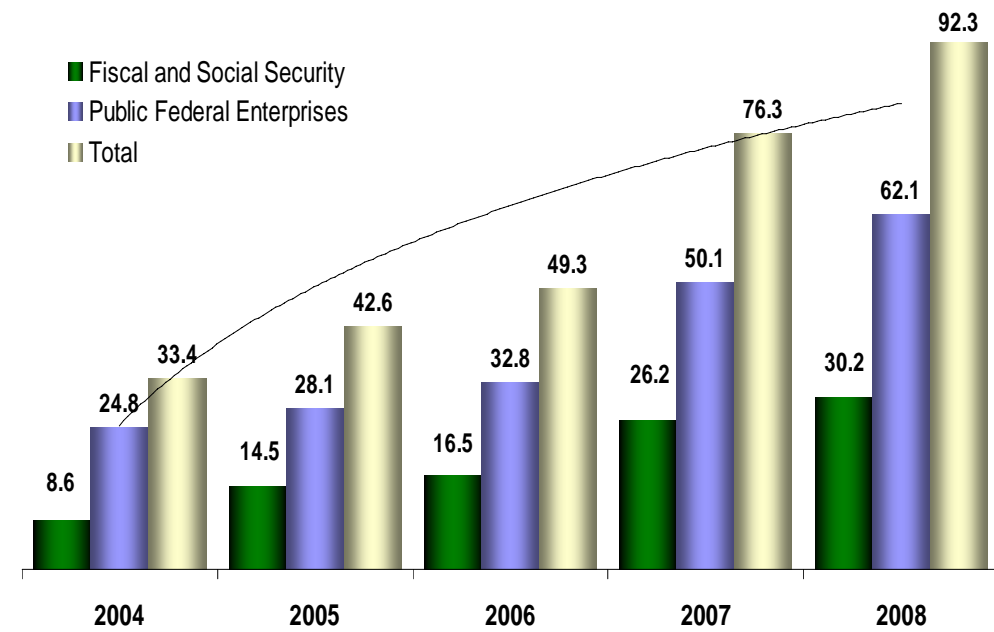
- It presents better perspectives to the public sector social security, reflecting the 1998 and 2003 reforms, which extended the retirement age and taxed the retirees.
- It amplifies public investment under the Growth Acceleration Package. Ports, airports, highways, sanitation, housing and water sources are examples of priorities.

Social Security Deficit - 2008 Budgetary Law



Source: Ministry of Planning

Public Investments - 2008 Budget Law - R\$ Bn

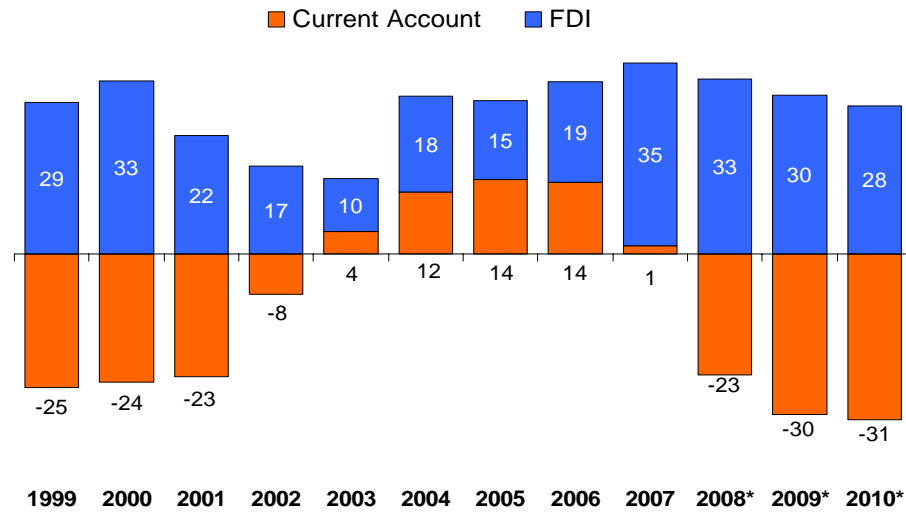


Source: Ministry of Planning



Macroeconomic Overview - Reduction in the External Vulnerability

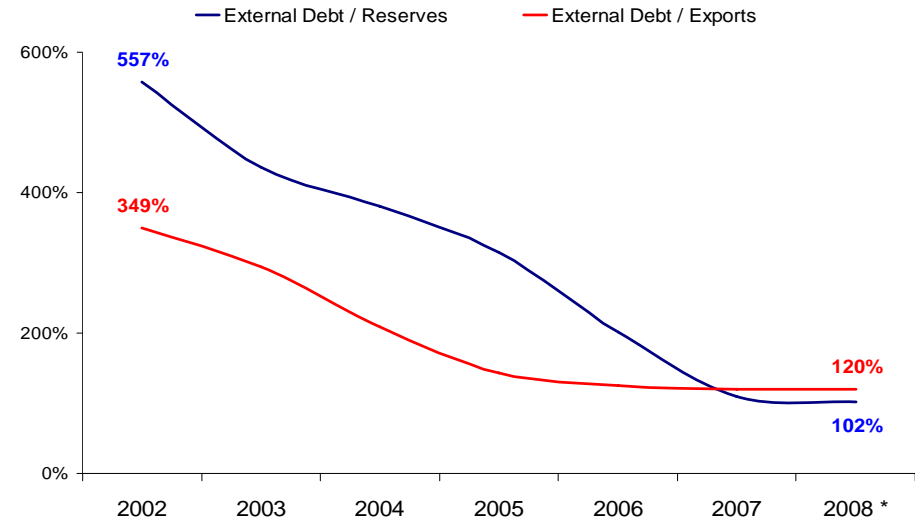
Current account x FDI (12 months accumulated - US\$ bn)



Source: Central Bank

*Market Expectations

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



Source: Central Bank

* Until Apr-08

MACROECONOMIC OVERVIEW

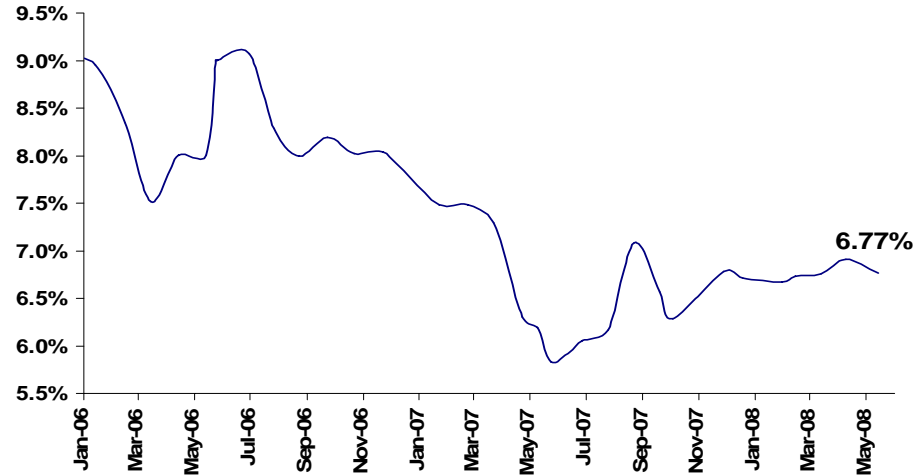
- According to market expectations, FDI compensates the CA deficit in 2008 and converge in 2009 and 2010.
- Non-Financial Public Sector External Debt/ FX-Reserves ratio fell from 292% in December 2002 to 34.7% in April 2008.
- The External Debt (R\$ 200 Bn) / Reserves (public and private*) ratio reached value below 1. **Brazilian Net External Debt is negative in R\$ 18 Bn (Apr-08).**

* Commercial banks assets and Brazilian credits abroad.



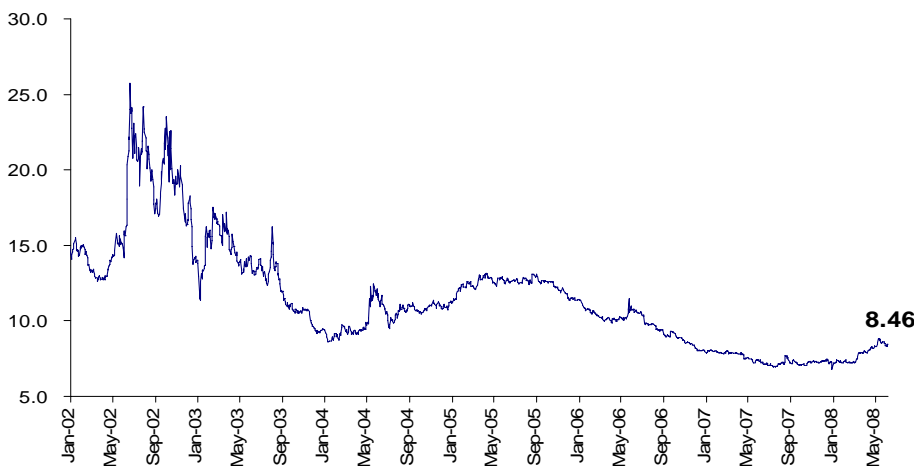
Macroeconomic Overview - Inflation under control and the economy stability

Medium and Long Term Real Interest Rate*



Source: National Treasury * NTN-B: CPI linked bonds, maturing in 2024, 2035 and 2045.

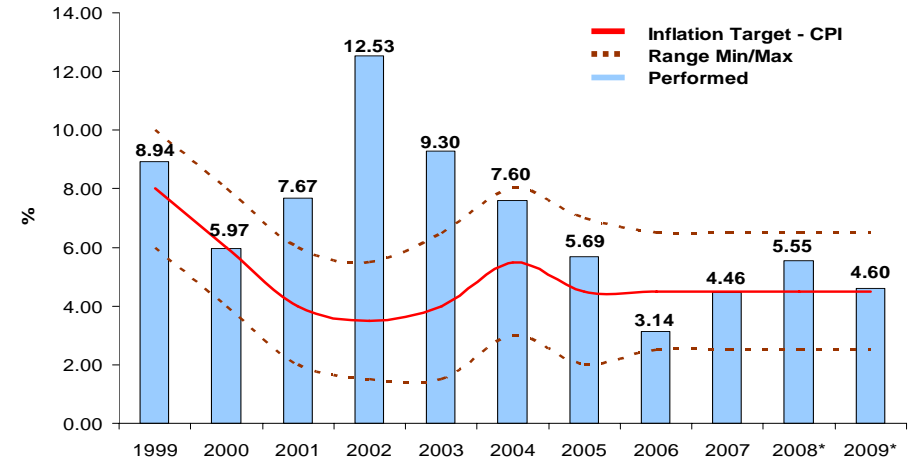
Short Term Real Interest Rate



Source: Central Bank and Bloomberg

Note: Swap 360 vs 12-month CPI forecast

Annual Inflation - Target and Performed



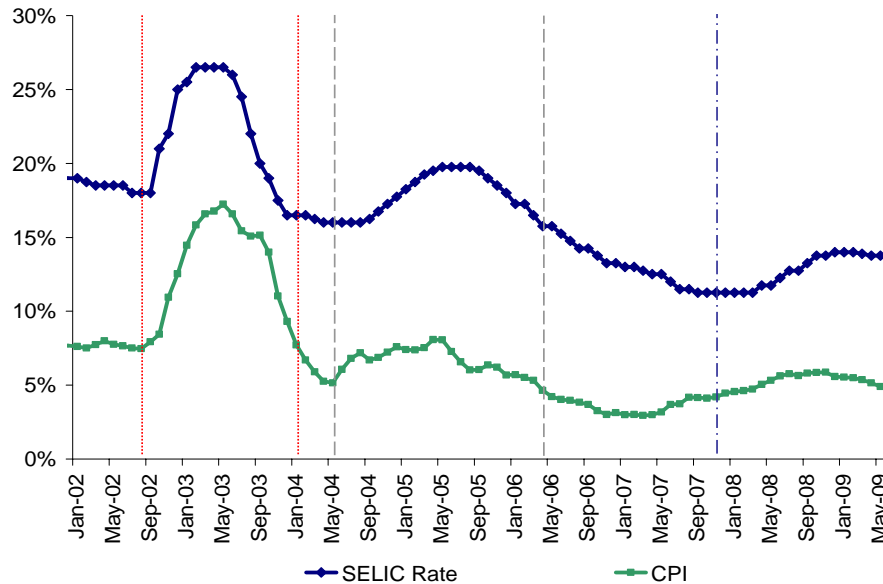
Source: Central Bank * Market Expectation - Central Bank/FOCUS - 06/06/08

- Inflation below the upper limit since 2004.
- Inflation is closer to the target and below the upper limit for 2008 and 2009.
- Medium and Long Term Real interest rate bellow 7% during 2007 and 2008, against 9% in 2005 and 8% in 2006.



Macroeconomic Overview - Inflation Surveillance

Selic Rate vs. Inflation

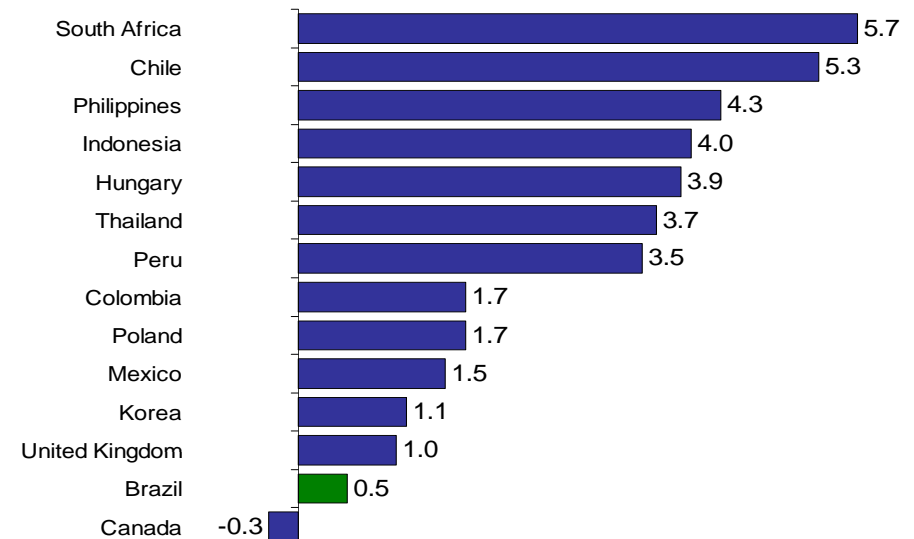


Source: Central Bank

- Brazil Inflation is the lowest among BRICs (Brazil, Russia, India, China). It has not been observed in this decade.
- Brazil has an inflation lower than most EM even when compared with historical low-inflation countries such as Chile, Peru and Eastern Asia.

- Monetary Policy cautions with inflationary pressures.
- Interest Rate hikes tend to be relatively smaller to accommodate expectations.

Inflation Gap*



Source: Bloomberg

* Inflation accumulated in 12-m over Inflation target (center) as of April-08

2008 Tax Reform

Why is it necessary?

- Motivation: High compliance costs, low neutrality
 - High complexity: Too many taxes over the same base
 - High level of distortions and fiscal war
 - Cumulative taxes
 - Different ICMS (state-VAT) across the 27 Brazilian States and more than 40 rates.
 - Excessive taxation on payrolls: High costs for the private sector
- Brazil currently has gathered the conditions to go for the reform, namely, *Fiscal Space*
- Technological changes: Electronic invoice system (SPED) will allow the government to diminish fiscal evasion and also to better calibrate the modeling parameters for economic policy purposes.

Tax reform is now being discussed in the special commission of Lower House. The expectation is to approve the reform in the Lower House until June 2008.

2008 Tax Reform

Draft Law: 6 main goals

1. Simplify taxes: reduce bureaucracy and legislation
2. Vanish Fiscal War
3. Correct distortions: increase efficiency and stimulate investments
4. Diminish the tax burden: gradually cut rates of the most distortive taxes, without affecting revenues
5. Improve regional development policy instruments
6. Improve the quality of cross-state interactions

General Overview: Dual system to be gradually phased over 5 years

- Extinction of 5 Federal Taxes and creation of a Federal Value Added Tax (VAT-F)
 - To be implemented in the second year after legislative approval
- Extinction of 27 ICMS legislations and creation of a unified State Value Added Tax, a new ICMS
- Tax should be collected in the **final destination**, not in the original site, as we currently face.

Recent Measures

Efforts to Boost Exports, Investment and Employment

- Reducing long term financing costs and cutting taxes¹
 - interest rate equalization and availability of long term credit lines to investment and to exports for those labor intensive sectors
 - tax reliefs:
 - ✓ for capital goods acquisitions. “Cumulated depreciation” prorogation - it means reducing corporate withholding taxes
 - ✓ reduction in IT payroll taxes
 - ✓ reduction in strategic sectors taxes - Ships, railways, hydro ways
- Total tax cuts and interest rate equalization until 2011: R\$ 21.1 bn
- Targets:
 - Raise Gross Fixed Capital Formation from current 18.6% of GDP to 21% until 2010
 - Increase external sales from current USD160 bn to USD 208 bn up to 2010

¹ A number of measures from this initiatives were originally to be included in the broader tax reform, already in the Legislative. Due to current fiscal space, they were anticipated.

PAC - Growth Acceleration Program

Aims for the future

- Energy (Hydroelectric, Thermonuclear and Thermoelectric power plants): 39,081 MW up to 2015
- This corresponds to an increase of roughly 40% of current electric energy installed capacity.

Main Projects in Course

TYPE	PROJECT	Investment (R\$ bn)	POWER (MW)
Hydroelectric power plant	Rio Madeira	22.30	6,500
Hydroelectric power plant	Estreito	2.3	1,087
Alternative Sources	PROINFA	9.4	2,341
Total		34.00	9,928

Rio Madeira: OK

- *Jirau* had 22% discount in the e-auction

Main Projects until 2010

TYPE	PROJECT	Investment (R\$ bn)	POWER (MW)
Hydroelectric power plant	Belo Monte	6.60	11,186
Thermonuclear power plant	Angra 3	7.2	1,350
Transmission lines	Tucuruí-Manaus	3.4	-
Total		17.20	12,536

Next Step:
Belo Monte in 2009, which means ½ *Itaipu*

Forecasted Investments in Energy (R\$ bn)

2007	2008	2009	2010	2007-2010	2011	2012	2013	2014	Total
8.80	23.95	18.00	15.18	65.93	14.56	6.83	3.13	1.22	91.64

PAC - Growth Acceleration Program

Boosting Oil Production*

- These investments will increase oil production in 40% up to 2010

Forecasted Investments (R\$ bn)

Action	Untill 2010	After 2010
Petroleum - Exploration and Production	93.4	100.2
Refinery, Transport and petrochemistry	45.2	31.7
Natural Gas	40.4	6.2
Renewable fuel	17.4	27.0
Total	196.4	165.1

*Average production in 2007: 1.8 th barrels per day

Railways

- More 2.500 Km railways
 - Integrating northern and southern regions
 - Northeastern region railway

Forecasted Investments (R\$ bn)

Source	2007	2008-2010	Total
Budget	0.558	0.235	0.793
Private and Financing	1.108	5.962	7.070
Total	1.666	6.197	7.863

Source: National Treasury (COAPI)

Civil Airports

- Investments of R\$ 3 bn from 2007 to 2010

Forecasted Investments (R\$ bn)

Source	2007	2008-2010	Total
INFRAERO	0.305	0.664	0.969
Budget	0.573	1.459	2.032
Total	0.878	2.123	3.001

Highways and Ports

- Ports represent 90% of external commerce
- 56% of investments in Ports focus on their main bottleneck: sea shallowness
- 21% of investments in highways focus on concessions, crowding in the private sector.

Forecasted Investments (R\$ bn)

Highway	34.20
Ports	1.70
Total	35.90

Beyond the 3 Pillars - Export Diversification

Brazilian Exports are diversified across countries and products

	2000		2007	
	US\$ Bn (FOB)	Share (%)	US\$ Bn (FOB)	Share (%)
EU	15,35	27,84	40,43	25,17
USA	13,19	23,93	25,07	15,6
Argentina	6,24	11,32	14,42	8,97
China	1,09	1,97	10,75	6,69
Mexico	1,71	3,11	4,26	2,65
Chile	1,25	2,26	4,26	2,65
Japan	2,47	4,49	4,32	2,69
Venezuela	0,75	1,37	4,72	2,94
Others	13,03	23,71	52,45	32,64

Source: MDIC

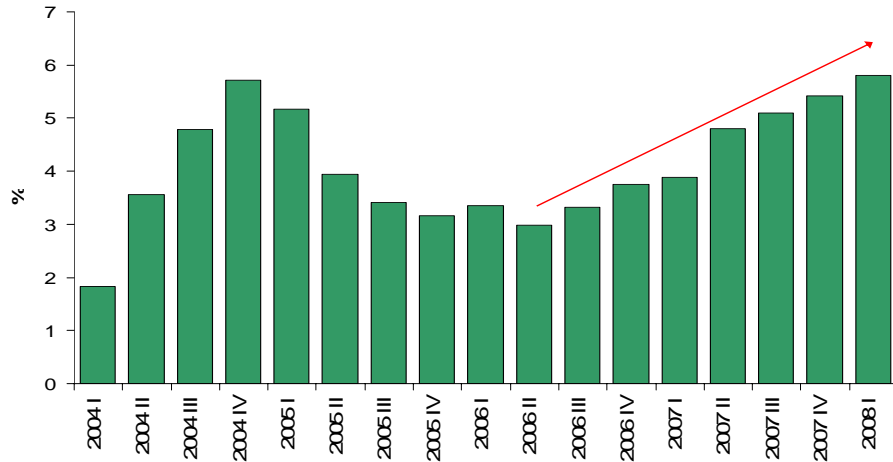
- Reduction of 76% to 67% share of the 8 main exports destinations;
- In absolute terms, the export volume has increased to all of these countries in the last years;
- Brazil shows a more diversified export bundle than it's peers in Latin America;
- Brazil: Herfindahl-Hirschman Index (2005)
 - Destination: 0.06
 - Product: 0.03

Source: OECD (2008) - data of 2005



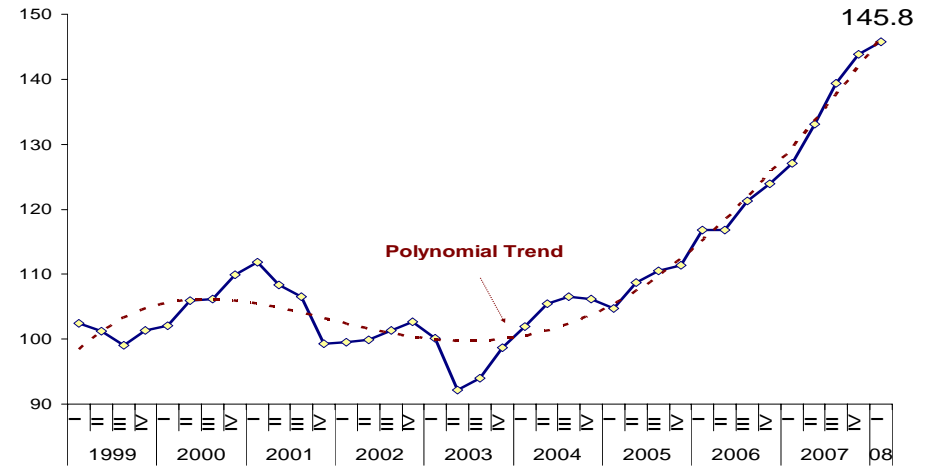
Sustainable Growth

GDP Growth (Q-o-Q accumulated)



Source: Ipeadata

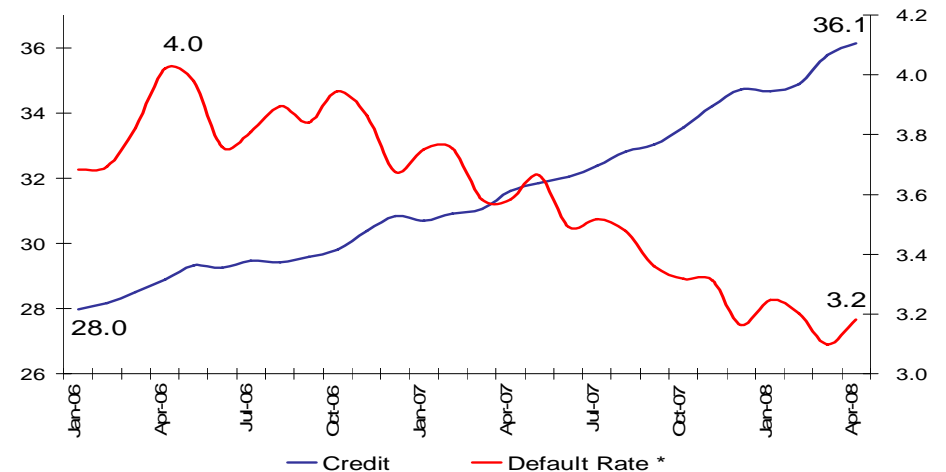
Investment Growth - Seasonally Adjusted (1995=100)



Source: IBGE

Note: Gross Fixed Capital Formation (GFCF)

Credit (% GDP) and Default Rate (% credit)



Source: Central Bank

Total credit matured by more than 90 days

- Brazilian GDP has been growing at increased rates in the last 7 quarters.
- Average GDP growth is 4.5% in the last 4 years.
- The investment increased 13.4% in 2007, the highest level since the beginning of the series (1996).

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 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

Brazil: The Big Picture

Macroeconomic Overview

Public Debt Management

- Annual Borrowing Plan
- Recent Events

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.

Annual Borrowing Plan 2008

Federal Public Debt (DPF) Indicators*

Indicators	2003	2004	2005	2006	2007	Apr-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	1,318.3	1,480.0	1,540.0
Average maturity - Federal Outstanding Debt (months)	39.0	35.3	33.3	35.5	39.2	41.7	42.0	46.0
% Maturing in 12 months	30.7	39.3	36.3	32.4	28.2	25.4	24.0	27.0
Share of DPF (%)								
Fixed rate	9.5	16.1	23.6	31.9	35.1	32.2	35.0	40.0
Inflation Linked	10.3	11.9	13.1	19.9	24.1	27.6	25.0	29.0
Floating rate	46.5	45.7	43.9	33.4	30.7	35.3	25.0	30.0
Exchange rate	32.4	24.2	17.6	12.7	8.2	7.6	7.0	9.0
Others	1.4	2.2	1.8	2.0	1.9	2.0	1.0	3.0

* It includes the domestic debt (R\$ 1,218.71 billion - Apr/08) and the external debt (R\$ 99.61 billion - Apr/08) under the responsibility of National Treasury

- Lengthening the average maturity;
- Reducing the percentage due in 12 months;
- Consolidating the share of fixed rate bonds plus inflation linked bonds above 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.



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.

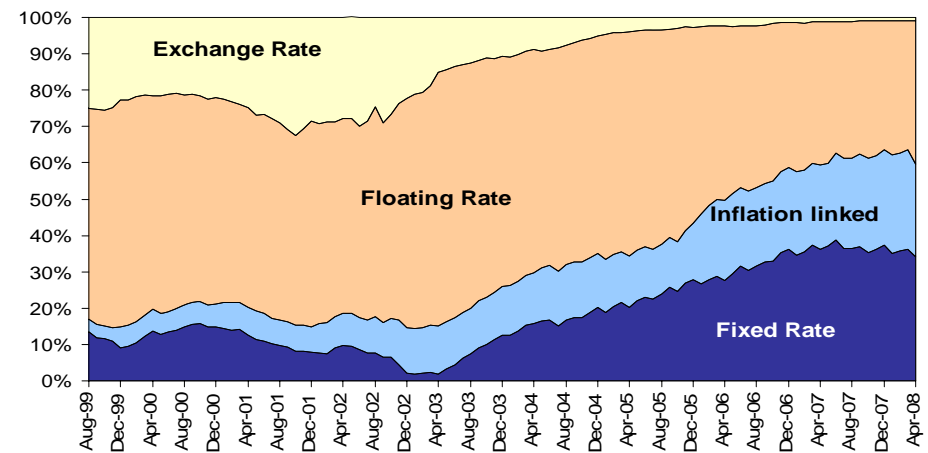
■ Inflation Linked Bonds:

- ✓ 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 .

DPMFi Composition



Source: National Treasury

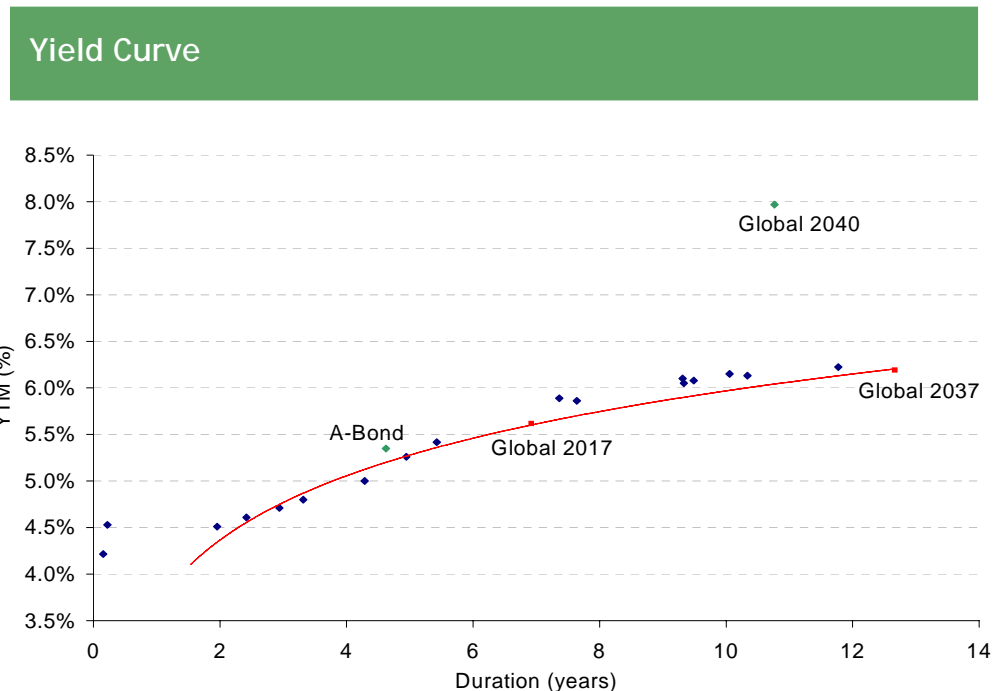


Annual Borrowing Plan 2008

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.

ANNUAL BORROWING PLAN



Source: National Treasury

Brazil: The Big Picture

Macroeconomic Overview

Public Debt Management

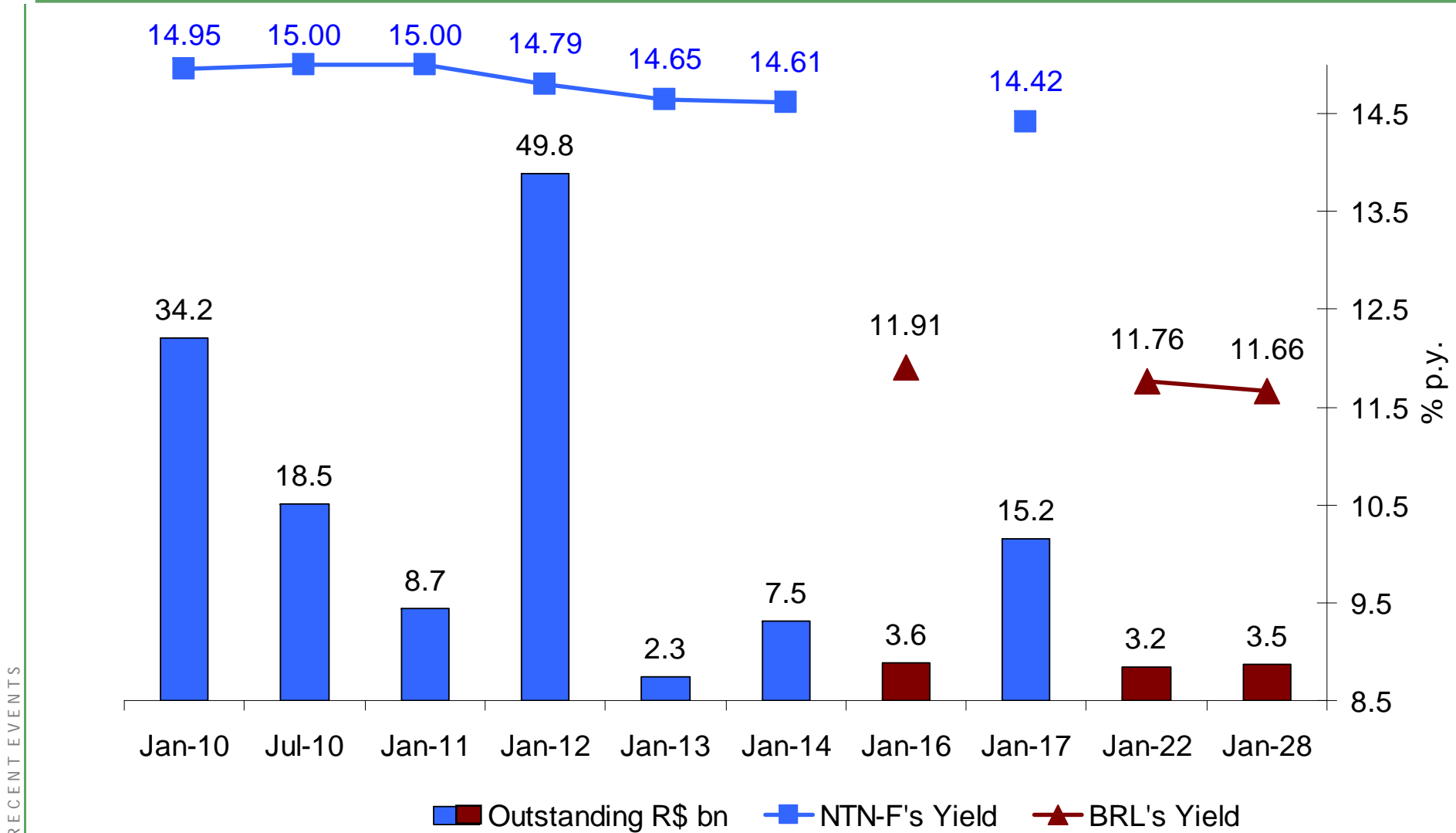
- Annual Borrowing Plan

- Recent Events



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 June-08)

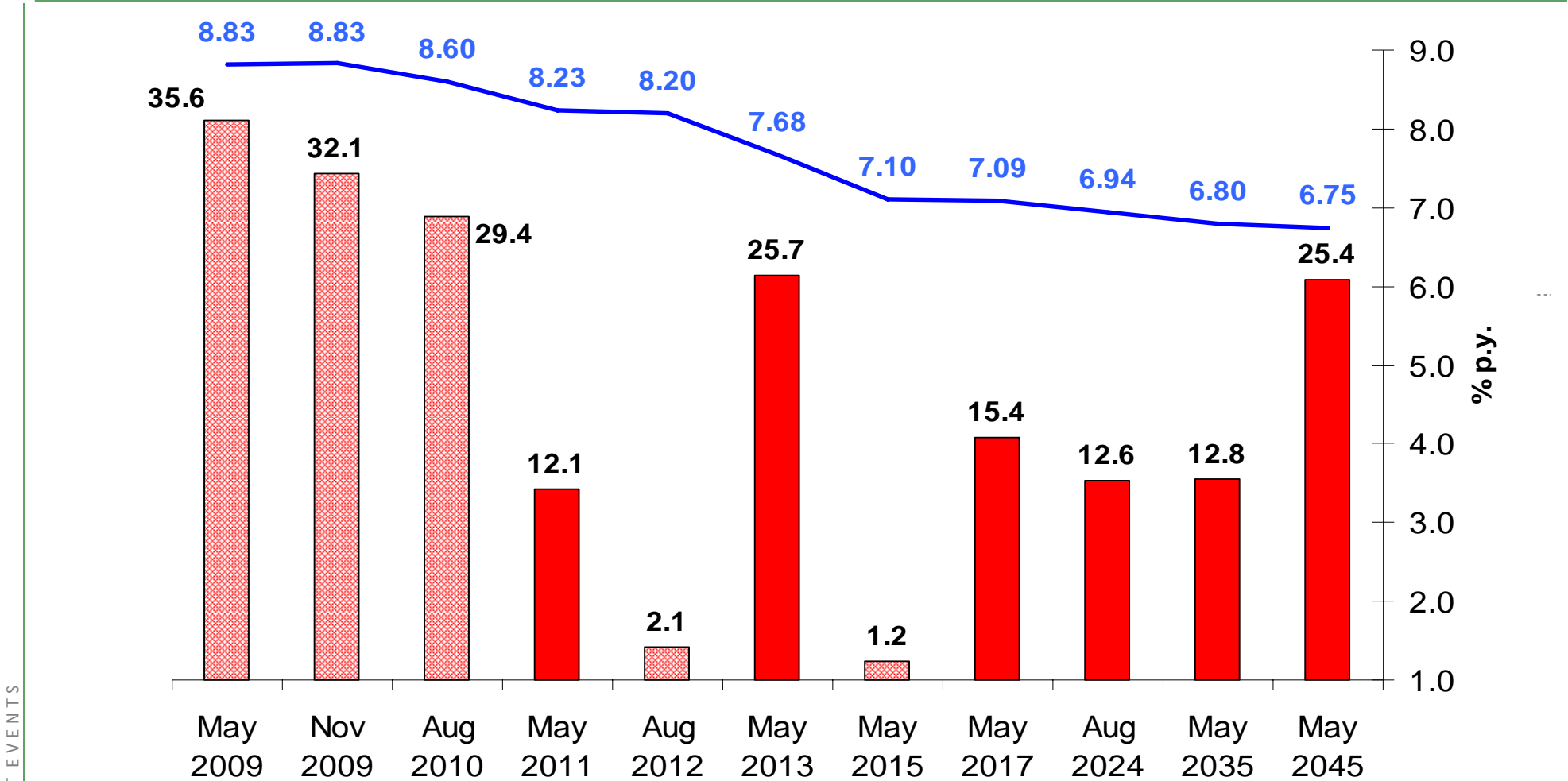


Source: ANDIMA and Bloomberg



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

Inflation linked bonds (NTN-B) - Outstanding and yields (as of June-08)



RECENT EVENTS

Source: ANDIMA

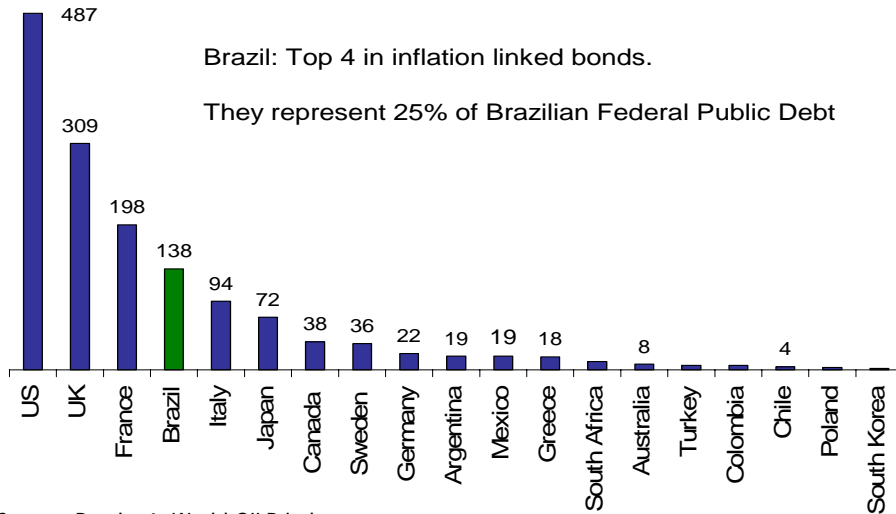
Note 1: The May/09, Aug/10, May/11 and May/15 NTN-B are not issued anymore.

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



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

GILB index - Domestic Inflation linked Bonds



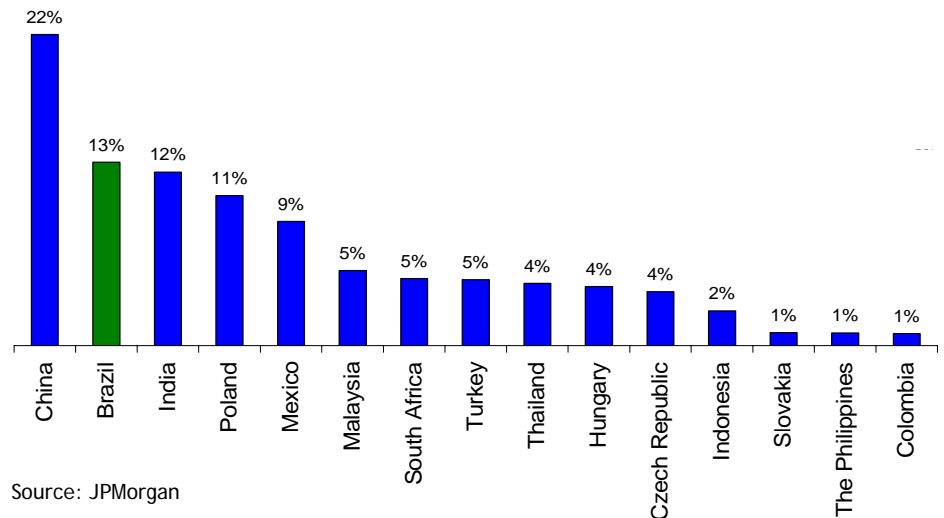
Source: Barclay's World GILB index

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

- Brazil is now part of the Lehman Brothers investment grade indices¹, which represents approximately \$13 Bn of additional demand for Brazilian bonds (about 28% of current Foreigner's Investors Debt share - US\$ 46.5 Bn, in April/2008)

- 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

RECENT EVENTS

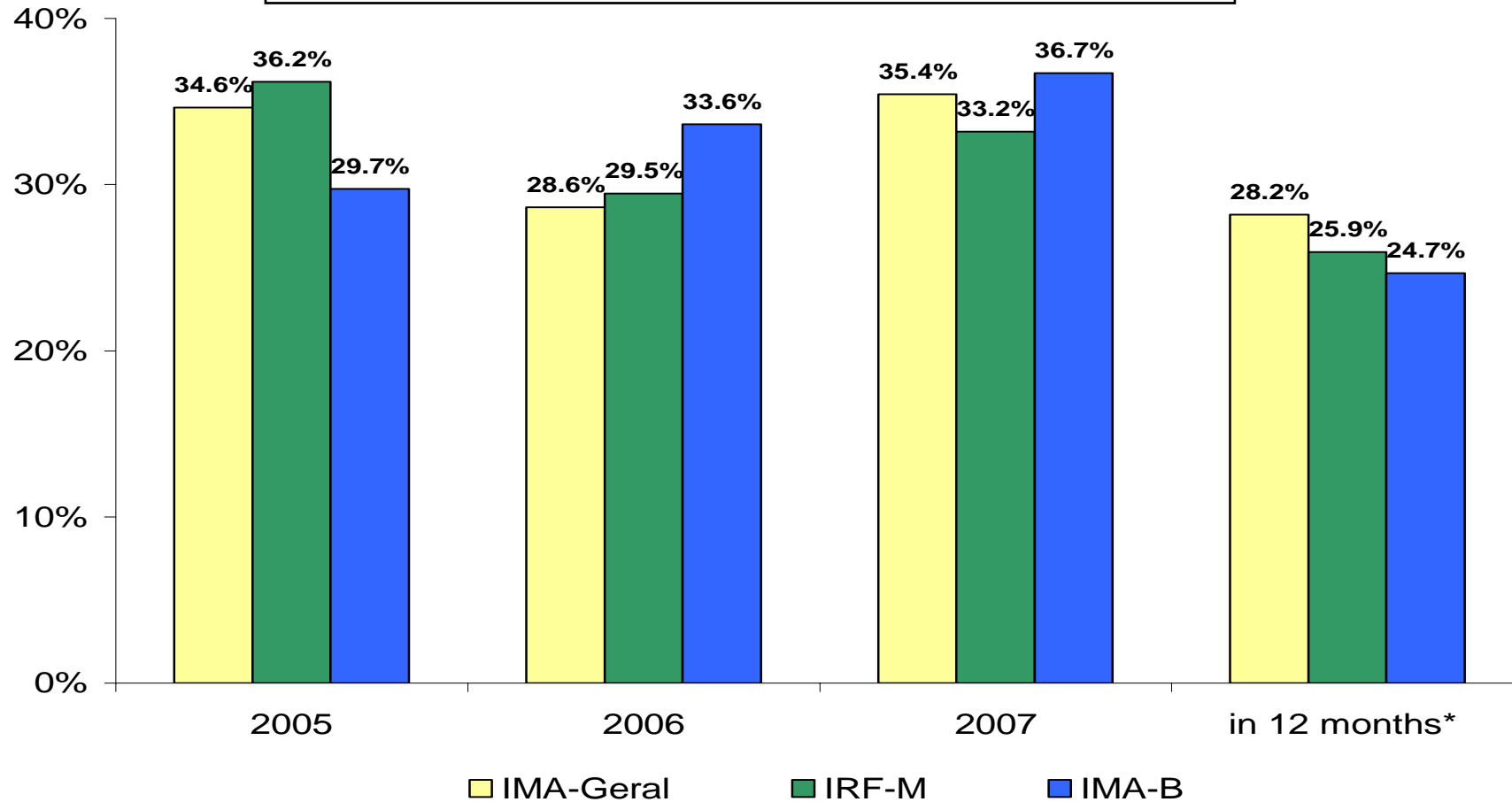
¹ Global Aggregate, US Aggregate and US Credit Index



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

IMA - Open Market Index: Public bonds return - in USD

In absolute terms, domestic returns have been very attractive.



RECENT EVENTS

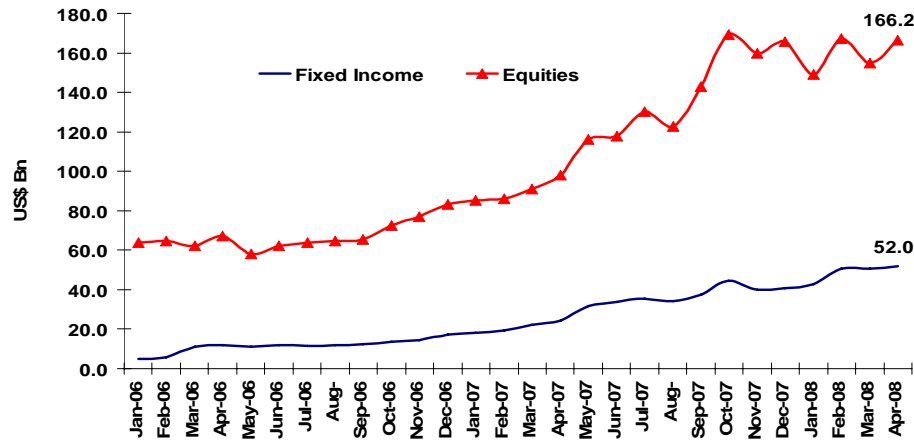
Source Andima *As of May/08

- The IMA-Geral index replicates the whole domestic public debt portfolio.
- The IRF-M index replicates the fixed rate domestic public debt portfolio.
- IMA-B index replicates the inflation linked domestic public debt portfolio.



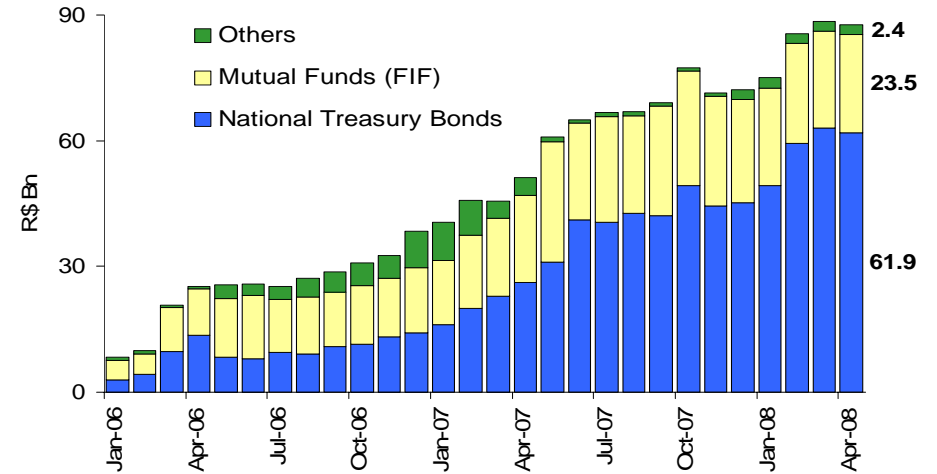
Foreign investors stance in domestic market

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



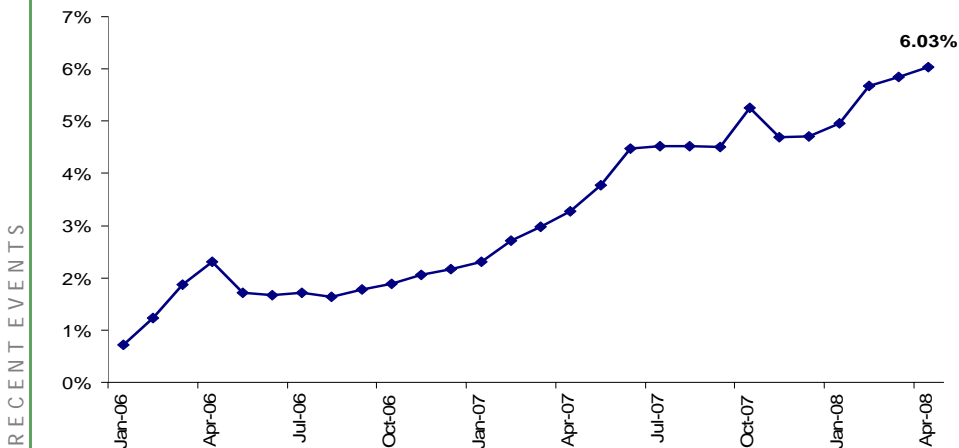
Source: CVM

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



Source: CVM

Foreigner's Investors: Domestic Debt Participation



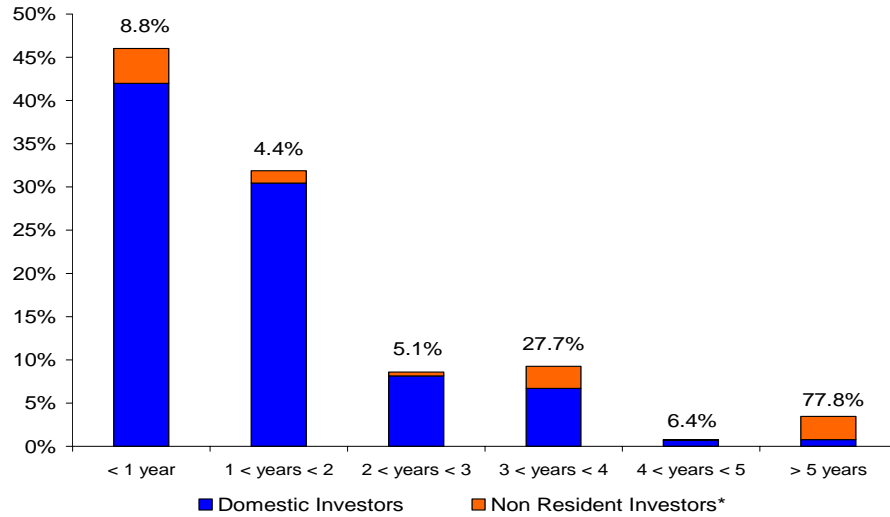
Source: CVM and SELIC

RECENT EVENTS



Foreign investors stance in domestic market

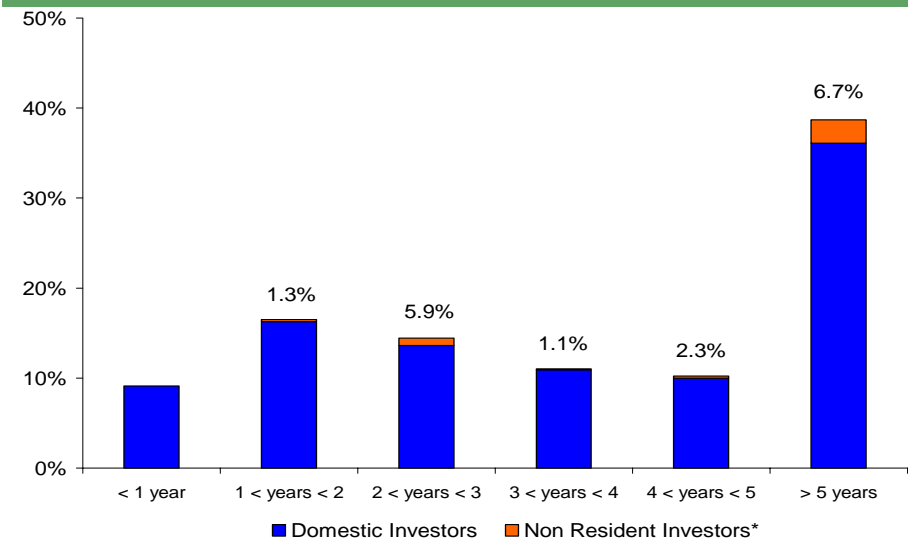
Maturity Distribution of Fixed Rate Bonds



Source: SELIC Apr - 08

* Estimated

Maturity Distribution of Inflation Linked Bonds



Source: SELIC Apr - 08

* Estimated



Measures to Improve the Market

Stimulating Primary and Secondary Markets

■ Dealers

- Additional performance targets for specialist dealers.
- Specialist dealers will have to post daily, twice a day, bid and ask proposals for each one of the negotiated bonds.
- Participants will have greater knowledge of prices and offered bonds, providing more transparency and improving the pricing of the bonds in the primary and secondary markets.

■ Improving Liquidity and Transparency

- Screen Trading and the COMPARE system.
- Disclosure, by Andima, of the deals set in SISBEX, with delay of just 15 minutes.

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.

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

www.tesouro.fazenda.gov.br

Or contact Institutional Relations area:

brazildebt@fazenda.gov.br

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