



Federal Public Debt: Annual Report 2006

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The year just passed was a period of consolidation of the fundamentals of the Brazilian economy. The strong R\$ 46.1 billion foreign trade surplus played an essential role in stabilizing the foreign exchange rate and avoiding undue inflationary pressures. An austere monetary policy demonstrated that declining interest rate and firmly controlled inflation are not incompatible and will be the hallmarks of the coming years, thus providing economic agents with an increasingly more propitious environment for investments and growth, while fostering economic development.

It is important to underscore that Brazil passed unscathed through the May crisis, when expectations of an interest rate high in the United States economy provoked a certain degree of volatility, particularly among emerging countries. This demonstrated not only unswerving international financial community confidence in Brazil, but also that the market has begun drawing a distinction between Brazil and other emerging economies. The new reality in the Brazilian economy was clearly in evidence during the recent elections which, for the first time in recent Brazilian history, caused barely a ripple in major economic indicators.

The Annual Federal Public Debt Report – 2006, a publication that has taken on increasingly greater importance as a vehicle used to inform society of measures taken by the National Treasury, analyzes the results obtained in Federal Public Debt management under the prism of the strategies set out in the Annual Borrowing Plan, released at the start of the year. It is, therefore, with a sense of satisfaction that I announce the excellent results achieved in the past year when compared to the predetermined targets. This Report makes it very clear that considerable progress has been achieved in improving the Federal Public Debt structure, primarily as a result of reductions in short-term debt and increased share on the part of fixed rate and inflation-linked debt. These measures have aided considerably in reducing the major risk factors to which the debt has historically been exposed.

In the specific case of the External Debt, the Treasury has made every effort to achieve structural improvement since 2005 when it began redeeming C-Bonds. This effort continued through 2006 and was marked, for example, by pre-payment of other outstanding Brady bonds, making it possible to eliminate the last vestiges of an episode of intense turmoil in Brazilian economic history. Another program that deserves mention is that involving buybacks of external bonds due to mature up to 2012, with the objective of smoothing payment flows in coming fiscal years. Taken together, these operations reduced the outstanding external Federal Public Debt by US\$ 16.7 billion. Coupled with growth in the nation's international reserve position, this cutback made it possible for Brazil to accumulate foreign currency resources sufficient to pay off the entire external public debt, for the first time in Brazil's recent economic history.

These results, together with others cited in this Report, demonstrate the degree of professionalism that has marked Federal Public Debt management since the National Treasury Secretariat was founded 20 years ago. The country is proud of the fact that it has unceasingly pursued steady institutional improvement, for this is the only guarantee that past progress will be consolidated and will pave the way to the future with an unswerving sense of confidence.

Guido Mantega
Minister of Finance



In 2006, we presented the fourth edition of the Annual Federal Public Debt Report. Elaborated by the National Treasury Secretariat, this document is designed to broaden public knowledge of the institution's Federal Public Debt –DPF management activities, making it possible to draw comparisons between the results obtained and the guidelines and targets set out in the 2006 Annual Borrowing Plan - PAF. Regular publication of this document demonstrates that the government is clearly seeking to establish a transparent communication channel with society.

Just as in previous years, the 2006 PAF cited the major goals to be achieved during the year: attenuation of DPF volatility and refinancing risk. With this in mind, the National Treasury sought to achieve a significant reduction in the share of foreign exchange (FX) linked and floating rate DPF, while increasing the share of fixed rate and inflation-linked bonds, lengthening average DPF maturities and reducing the percentage of short-term securities.

The measures adopted by the Treasury were resoundingly successful, as practically all of the targets specified in the PAF were attained. With respect to debt profile, reducing exposure to exchange rates and the Selic rate were achieved, as the shares of these two modalities dropped from 17.6% in 2005 to 12.7% in 2006 and from 43.9% to 33.4% in the same period, respectively. At the same time, the share of fixed rate bonds increased from 23.6% to 31.9%, while the share of inflation-linked bonds rose from 13.1% to 19.9%, sharply reducing the level of DPF market risk. Indicators focused on DPF refinancing risk showed significant improvement, as average maturity increased 3.7 months and the percentage due in 12 months dropped 4.9 percentage points.

It should be stressed that total exchange debt on the market (referenced and denominated in foreign currency) dropped steadily throughout the year, closing 2006 at a level below the international reserve position. As a result, the government closed the year with a positive foreign currency balance for the first time since the floating rate system was adopted in 1999. Among the major factors responsible for this success, two deserve special mention: the unceasing efforts made by the Secretariat to improve the external debt profile and measures adopted to attract nonresident investors to the domestic debt market.

The income tax exemption granted to nonresidents on gains on investments in the Domestic Federal Public Debt – DPMFi bonds, initially permitted by MP (provisional measure) n. 281 - later converted into law n. 11,312/06 - generated a significant increase in the participation of these investors in the domestic debt. The evident results were improvement in terms of debt profile, particularly with respect to inflation-linked bonds, and lengthening of maturities.

Insofar as external Federal Public Debt – DPFe management is concerned, the National Treasury carried out operations that had a significant qualitative impact on the debt profile. Among these, mention should be made of issuance of bonds with maturities at strategic points on the external curve (benchmarks) in both locally denominated currency (Real) and US dollars, following the new guidelines for international market operations in the 2007-2008 period. Parallel to these operations, liability management operations also contributed to the excellent results achieved in the year. In January, the government initiated a program of early redemption of loans scheduled to mature by 2010, later extended to 2012, with the objective of smoothing the flow of short-term maturities and creating a more comfortable position for the Treasury to implement its borrowing strategy. Other aspects involved calling the Brady bonds option, practically eliminating outstanding renegotiated debt, coupled with Tender Offers and Exchange Offers, aimed at redeeming bonds considered inefficient, understood as those that generated distortions in the external interest curve.

Issuance and later reopening of the Global BRL 2022 aided in consolidating and lengthening the foreign fixed rate curve in local currency (Real), already established by the Global BRL 2016, while also contributing, albeit indirectly, to reductions in the issuance cost of bonds along the entire domestic fixed rate curve. In the external interest curve denominated in dollars, Global 2037 established a new 30 year benchmark, considered a highly important factor in consolidating the external curve.

In the specific case of the DPMFi, the share held by fixed rate bonds rose from 27.9% at the end of 2005 to 36.1% at the end of 2006, while share of inflation-linked bonds increased 7 percentage points. At the same time, the share of floating rate bonds dropped from 51.8% to 37.8% in 2006. As has occurred since 2003, no issuances of FX-rate linked bonds took place as the share of these securities continued at a very low level.

The efforts made to improve the external and domestic public debt profiles played an important role in raising the classifications attributed to Brazil by the major rating agencies that monitored the nation's economy in 2006. As a result, the country's rating moved to its best position in history, just two notches below the so-called investment grade classification.

What is certain is that the steady progress achieved in Federal Public Debt management has raised the country to a position of importance on the international scenario. It is hoped that, with the ongoing fiscal adjustment, gradual cutbacks in the Debt/GDP ratio and further improvements in the debt profile, it will be possible to pave the way for a solid and long lasting resurgence of investments, coupled with wealth generation in various sectors of the economy and the consequent distribution of the resulting benefits to the population.

Tarcísio José Massote de Godoy
National Treasury Secretary

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Executive Summary

Published at the start of each year by the National Treasury, the Annual Federal Public Debt Report provides a retrospective analysis of debt management over the course of the preceding year. This edition refers to 2006 and discusses the evolution of expectations regarding macroeconomic scenarios; strategies and measures adopted for purposes of Federal Public Debt - DPF management; results achieved compared to the objectives set out in the 2006 Annual Borrowing Plan PAF; and institutional advances achieved by the National Treasury during the year.

Evolution of Expectations in 2006

When 2005 drew to a close, confidence in external sector performance and continued implementation of solid fiscal and monetary policies generated highly positive perspectives for 2006. In general, expectations evolved in line with the projected trajectories of the major macroeconomic variables. Performance of economic activity in the first quarter was highly positive, while measures adopted in the framework of DPF management in the period, coupled with solid economic fundamentals, generated a decline in Brazil's country risk perception. Though second quarter turbulence caused by monetary adjustments in the USA imposed certain liquidity restrictions on the emerging economies, it had little impact on Brazil. This can only be explained by the country's solid economic fundamentals, as evinced by firmly controlled inflation, growing international reserves, consistent foreign trade balances and the government's commitment to well-founded macroeconomic policies.

Driven by consistent world demand, trade balance results in the third quarter set new records. Viewed in the framework of inflation projections below the 2006 target center coupled with rising investments, monetary authority expectations pointed to continued economic expansion, without undue inflationary pressures. Ratifying early 2006 perceptions that macroeconomic volatility would not increase as a result of domestic pressures, market activities continued normally during the pre-election period. The steady lessening of the nation's fiscal and external vulnerabilities continued through the fourth quarter, as expectations pointed to unflinching implementation of 2007 economic policy guidelines.

Advances in Federal Public Debt Management

The National Treasury adopted a series of measures in 2006 aimed at improving DPF management. In the case of the Domestic Federal Public Securities Debt - DPMFi, the Treasury took steps to streamline domestic market operations and consolidate the process of opening the market to nonresident investors. The factor of greatest importance in this context was the approval of Law n. 11,312/06, granting nonresidents an income tax exemption on gains on investments in public domestic debt bonds. This measure brought Brazil into step with international practices, particularly among emerging countries. At the same time, just as occurred in other countries, the measure fostered cost reductions and lengthening of debt maturities as a result of greater demand on the part of nonresident investors for longer-term fixed rate and inflation-linked securities.

As far as the external market is concerned, given the highly favorable environment generated by the country's excellent external market performance and abundant international liquidity, Brazil opted for qualitative alterations in the debt structure. Among the factors that deserve special mention, one should highlight the Early Redemption Program involving External Federal Public Securities Debt - DPMFe, which is focused on redeeming securities due to mature by 2012, in order to smooth the maturity profile of the short-term debt, as well as the Tender Offer and Exchange Offer implemented according to the guidelines set down in the PAF. The overall objective in this case was to improve external debt profile while lengthening average maturity terms. Other measures that deserve mention are exercising

the call option of Brady bonds, finally eliminating all of these bonds related to the debt renegotiation process that marked the early 90s, together with anticipated payments of liabilities with the Paris Club, generated by renegotiation agreements formalized between 1983 and 1992.

Results Achieved

The major guidelines for DPF management set out in the 2006 Annual Borrowing Plan were lengthening of average maturities, reduction of the DPF percentage due in 12 months, debt profile improvements and smoothing of the external public debt profile. The targets defined on the basis of these guidelines were almost entirely attained. Among them, the most important was improved DPF and DPMFi profile, particularly with respect to increased share of fixed-rate bonds and cutbacks in the share held by floating rate bonds, as demonstrated in the tables below:

Results for Federal Public Debt – DPF

Indicators	Dec-03	Dec-04	Dec-05	Dec-06	PAF-2006	
					Minimum	Maximum
Outstanding of DPF held by the public (R\$ billion)	965.8	1013.9	1157.1	1237.0	1280	1360
Average Maturity of DPMFi (months)	39.0	35.3	32.9	36.6	35	41
Average Life (Months) *	-	-	55.4	59.4	60	70
% Maturing in 12 months	30.7	39.3	38.2	33.3	28	33
Share of DPF						
Fixed rate	9.5	16.1	23.6	31.9	25	33
Floating rate	45.5	45.7	43.9	33.4	35	43
Inflation-linked	10.3	11.9	13.1	19.9	16	22
Exchange rate	32.4	24.2	17.6	12.7	11	15
Others	1.4	2.1	1.8	2.0	1	3

* This statistic makes it possible to draw comparisons with the indicators of other countries, since it is calculated through use of a methodology commonly found on the international market.

Source: National Treasury. Elaboration: STN/COGEP

Results for Domestic Federal Public Debt – DPMFi

Indicators	Dec-03	Dec-04	Dec-05	Dec-06	PAF-2006	
					Minimum	Maximum
Outstanding of DPMFi held by the public (R\$ billion)	731.4	810.3	979.7	1093.5	1130	1200
Average Maturity of DPMFi (months)	31.3	28.1	27.4	31.1	30	35
Average Life (Months) *	-	-	40.3	46.5	44	52
% Maturing in 12 months	35.3	46.1	41.6	35.7	31	36
Share of DPMFi (%)						
Fixed rate	12.5	20.1	27.9	36.1	28	37
Floating rate	61.4	57.1	51.8	37.8	39	48
Inflation-linked	13.6	14.9	15.5	22.5	18	24
Exchange rate	10.8	5.2	2.7	1.3	1	3
Others	1.8	2.7	2.2	2.2	2	4

* This statistic makes it possible to draw comparisons with the indicators of other countries, since it is calculated through use of a methodology commonly found on the international market.

Source: National Treasury. Elaboration: STN/COGEP

Outstanding DPF and DPMFi closed the year slightly below the minimum bounds defined by the PAF. Among other factors, the underlying reasons for this result were LFT issuance in a lesser than originally forecast volume and early redemption of external debt bonds, which had not been foreseen when the PAF was elaborated. The average life trajectory of both DPF and DPMFi followed an upward curve

throughout 2006, closing the year at 59.4 months against 46.5 months, respectively. The first of these was slightly below the minimum value defined by the PAF. At the same time, average DPF and DPMFi terms closed well within the established limits, demonstrating that the public debt profile was lengthened compared to the previous year. Another important result was a reduction in the percentage of debt falling due in 12 months. Here, the final figures for the year were 33.3% for DPF and 35.7% for DPMFi, brought about by a sharp reduction in security issuance with terms of less than 12 months.

DPMFi profile indicators show the best results since the initial data were first published in 1999. Share of floating rate securities dropped sharply, falling from 51.8% in December 2005 to 37.8% in December 2006. The share held by fixed-rate bonds reached 36.1% of DPMFi, while inflation-linked securities accounted for 22.5% of the total. It is important to note that the increased share of fixed rate bonds in total debt makes public debt management considerably more predictable, while also stimulating development of the domestic interest curve.

With respect to external issues in 2006, it is important to underscore the highly successful January issuance of the Global 2037, establishing a new point on the longest segment of the dollar curve. In the framework of the National Treasury's new external borrowing strategy based on qualitative issuances designed to improve the debt profile, one should cite Global 2017, a bond that became the new 10 year benchmark on the dollar curve. The spread registered at the opening of this bond was the lowest since Brazil recommenced external market issuances in 1995. Another event of importance in the year was issuance and reopening of the second Brazilian external debt bond denominated in real, Global BRL 2022, which resulted in lengthening of the external curve of fixed rate securities denominated in the country's currency. In more recent operations, it was clear that the bond reopening rates were systematically below those obtained in previous placements, while issuance terms increased gradually over the years.

Institutional Advances

Since taking on responsibility for issuance of external debt securities, the National Treasury has introduced measures aimed at expanding the dialogue with the international financial community. Here, the overall objective is to create and maintain a transparent information flow as regards the main aspects of fiscal policy and DPF management. In this sense, the National Treasury participated in a series of meetings over the course of 2006 sponsored by the BEST Brazil group, as well as in later roadshows held in some of the world's major financial centers, with the objective of spreading information on the Brazilian market abroad, in the hope of attracting additional foreign capital to the country.

Aside from the BEST meetings and roadshows, global conference calls were organized by various financial institutions, with the share of investors from different economic segments. As of 2007, these events will become permanent and will follow a schedule to be announced at the start of each fiscal year.

Integration between the National Treasury and other government institutions charged with debt management in Latin American countries was expanded during the II Annual Meeting of LAC Debt Group Specialists, held in Colombia during the April. Based on this event, a study under Brazilian coordination was initiated with the aim of better understanding the current situation of Latin American and Caribbean public bond markets. Since the first stage has already been concluded, expectations are that the III Meeting, scheduled for 2007 in Costa Rica, will feature diagnoses of each one of the countries involved, identifying successful experiences that could be emulated by other member countries.

The year just past was also marked by improved risk ratings announced by the four major rating agencies that monitor Brazil. Current ratings are the highest since the country concluded renegotiation of its external debt in 1994. Once again, institutional transparency was the hallmark. Just as occurred in the preceding year, the Institute of International Finance – IIF classified Brazil as the emerging country with the best investor relations structure and highest level of transparency in publication of data on its public accounts and indebtedness.

Section 1 – Evolution of Expectations in 2006

The results achieved in 2005 point to a very bright outlook for 2006. The constant improvements achieved in external account sustainability conditions during the year sharply reduced the economy's susceptibility to potential shocks. Even considering the risk of a world economic slowdown and consequent restrictions imposed on liquidity, the external scenario remains positive. Confidence in continued implementation of solid fiscal and monetary policies has consolidated and growing signs of renewed economic activity clearly ratify expectations of accelerated expansion. In the political arena, expectations indicated that, for the first time in recent Brazilian economic history, the 2006 elections would not intensify market volatility in any significant manner.

The **first quarter** of the year was marked by a highly positive outlook for the international scenario, particularly as a result of the easing of the more rigid United States monetary policy. Perceptions of an imminent downturn in world economic activity became less troubling as signs of continued growth on the part of the Chinese economic juggernaut became increasingly clear, despite warnings of a possible real estate market crisis in the US. Continued strong prices for mineral and farm commodities on the international market guaranteed highly positive trade balance surpluses. Perceptions of foreign exchange rate stability acted as an additional anchor for the process of convergence of inflation to the target center, coupled with low inflationary inertia in regulated prices.

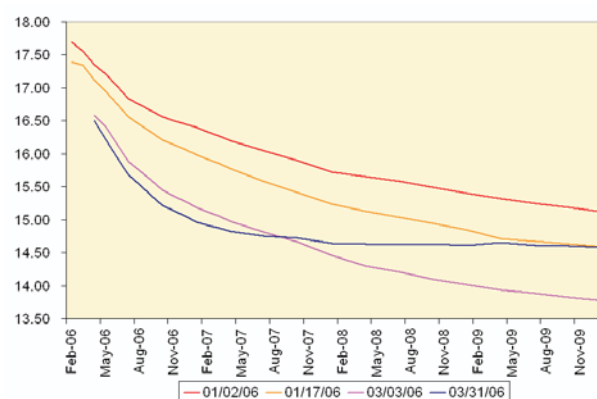
Positive labor market developments and an increasingly more dynamic flow of investments in the final quarter of 2005 underscored forecasts of more accelerated growth in 2006, based primarily on a burgeoning domestic market. In general terms, the performance of economic activity in the first quarter of the year followed positive domestic market developments, including rapidly rising demand, falloffs in the unemployment rate and higher wages, at the same time in which new data showed continued confidence on the part of economic agents.

Before the end of the first quarter, measures taken by the government contributed significantly to further improvements in the public debt profile. Among these, it is important to underscore Federal Public Debt - DPF management initiatives, such as announcement of early payment of the nation's debt with the Paris Club and the short and medium-term external debt bond buyback program, together with the withholding tax exemption granted to nonresident foreign investors on gains on domestic debt public bond investments¹. These measures, viewed together with the solid foundations of the Brazilian economy, generated a decline in Brazil's country risk perception and produced positive repercussions on financial markets, including Standard & Poor's February announcement upgrading the country's credit risk rating.

In this context, the monetary authority continued the process of reducing interest rates that began in September 2005. Copom meetings held during this period reduced interest 75 basis points on two separate occasions, closing the quarter with a basic rate of 16.50% per year.

Reflecting the positive outlook for the period, interest rate curves remained on a negative incline, with a relatively constant decline at the short point, while the long point showed a lesser incline as of mid-March (see following graph).

Graph I
Interest Curve – 1st Quarter



Source: BM&F

The **second quarter** of the year was marked by considerable turbulence on the external scenario.

¹ Exemption granted by Provisional Measure n. 281, dated February 15, 2006, later converted into Law n. 11,312, dated June 27, 2006.

Uncertainties regarding the extent and duration of the United States monetary adjustment, coupled with expectations of rising oil prices, generated significant international financial market volatility. Announcement of higher than expected inflation indicators in mid-April aided in pushing returns on 10 year United States Treasury bonds beyond 5% per year, the highest level in the last four years. As a result, the Brazilian risk premium moved to 279 points at the apex of the crisis in May, while interest curves shifted into a positive incline as of 2007.

Following a new FOMC interest rate hike of 0.25 p.p. and in line with the possibility of a longer than expected monetary squeeze in the USA, liquidity flows to the emerging economies became somewhat more restricted in May. However, Brazil managed to avoid the brunt of this impact as a result of its excellent economic fundamentals, including firmly controlled inflation, expanding international reserves, consistent trade balance surpluses and a government commitment to solid macroeconomic policies. At the same time, the National Treasury acted promptly to carry out simultaneous NTN-B purchase and sale auctions, with the objective of defining pricing parameters for market participants, while generating greater financial market liquidity in response to the increased volatility.

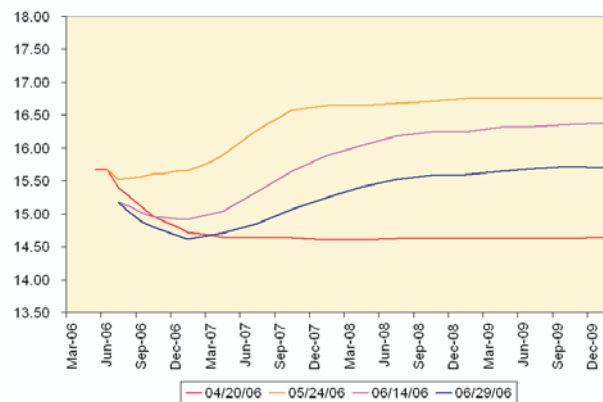
Perceptions of a reduction in world demand triggered by American economic deceleration were offset by the burgeoning Asian economies and European recovery. This outlook provided added support to already positive trade balance results, considered fundamental to preserving exchange rate stability. The May announcement of first quarter GDP, coupled with higher than expected domestic absorption (+1.4% compared to the previous quarter) led to upward revisions in 2006 growth estimates. Analysis of 2006 sectoral GDP ratifies perceptions of recovery in the pace of growth, driven mainly by rising income and monetary policy easing. Mention should also be made of strong investment growth, external sector expansion and rising consumption. On the other hand, leading and coincident indicators of the activity level suggested a certain leveling off of second quarter expansion.

With respect to fiscal policy, the restrictions imposed during the election period by the Fiscal Responsibility Law (Law 101/2000) resulted in alterations in the trajectory of public accounts compared to previous years. As a result, spending was heavily concentrated in the first half of the year, thus reducing the cumulative 12-month primary surplus. As a result, markets began to focus on the reach of the fiscal targets defined by the government for the year.

During the quarter under analysis, the Fitch rating agency upgraded Brazil's rating for long-term sovereign external debt. This decision was taken in light of the excellent trade balance performance, reductions in external vulnerability and confirmation of the government's commitment to solid macroeconomic policies. The country also exercised its call options embedded into the remaining Brady bonds, making further public debt profile improvements possible.

In May, Copom decided to reduce the pace of interest rate cutbacks by announcing a reduction of 50 basis points. This decision was taken with due consideration of the benign inflation scenario, coupled with some degree of uncertainty regarding economic activity. As a result, the basic Selic rate closed the first six months of the year at 15.25% per year. Interest curves still registered a positive incline, albeit at a much lower level than at the start of the period of volatility.

Graph II
Interest Curve – 2nd Quarter



Source: BM&F

The United States monetary squeeze ended in the **third quarter** and, coupled with the August oil price

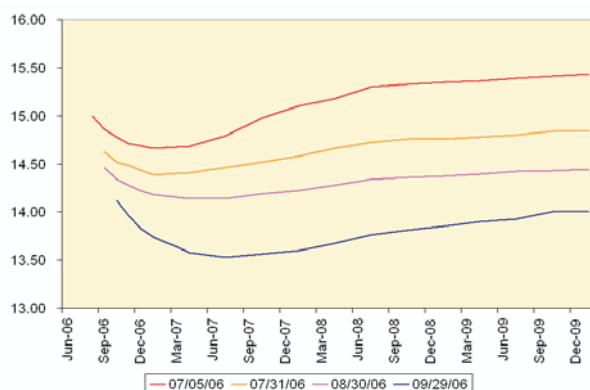
decline, aided in attenuating more pessimistic expectations. Perceptions of a leveling off of economic activity in the USA, albeit with still relatively high inflation, helped reduce market volatility. However, uncertainties remained with regard to the intensity of the deceleration and future price behavior.

Domestically, balance of payments results set new records, primarily as a result of consistent world demand. Given projections of inflation below the 2006 target center and an increasingly greater flow of investments, the monetary authority forecast continued economic expansion without undue inflationary pressures.

However, the August announcement of June industrial results and a weak second quarter GDP performance - partly attributed to one-off factors – was clearly a negative surprise and demanded revision of growth expectations for the year. On the other hand, perceptions of recovery in the pace of activity in the second half of the year improved, based fundamentally on an optimistic labor market outlook, the positive impacts of the ongoing process of monetary policy easing and an increased flow of credit operations.

The period leading up to the elections registered no increase in market volatility, thus confirming predominant expectations since the start of the year. In August, Moody's upgraded the country's sovereign rating. With this, interest curves followed Copom decisions, with successive downward shifts and a slight positive incline.

Graph III
Interest Curve – 3rd Quarter



Source: BM&F

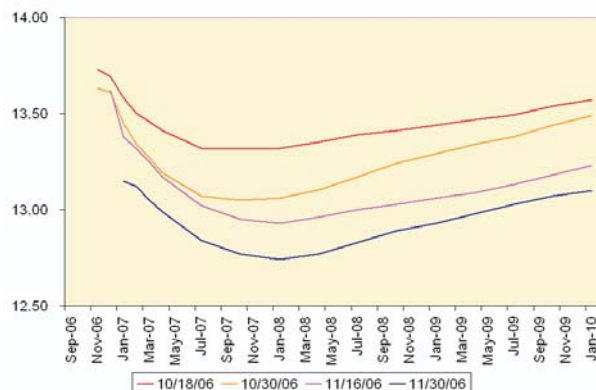
Perceptions of a macroeconomic scenario devoid of volatility were confirmed during the election period. Consequently, expectations pointed to continued implementation of economic policy guidelines in the **fourth quarter**. More specifically, projections indicated IPCA below the target center for 2007, with space for additional interest rate cutbacks, stable exchange and highly positive external accounts. The government stimulated debate regarding possible measures aimed at enhancing the economy's growth potential and restructuring public sector accounts, the major focus of market agents.

Though third quarter GDP growth announced toward the end of November was quite modest, analysis of leading and coincident indicators pointed to some degree of recovery in 4th quarter activity. One third quarter highlight was the upturn in investment flows which, combined with utilization of installed industrial capacity, suggesting that there was room for further product growth without generating inflationary pressures.

The international scenario remains favorable, with expectations of reductions in the interest rate differential among the central economies, coupled with a progressive but smooth process of deceleration in the USA. Parallel to this, there were no significant expectations of strong increases in commodity and oil prices.

In the midst of the electoral process, the steady decline in Brazil's fiscal and external vulnerability was decisive to Standard & Poor's November decision to upgrade the nation's rating outlook to positive. Interest curves continued on a downward trajectory, with positive inclines as of 2007.

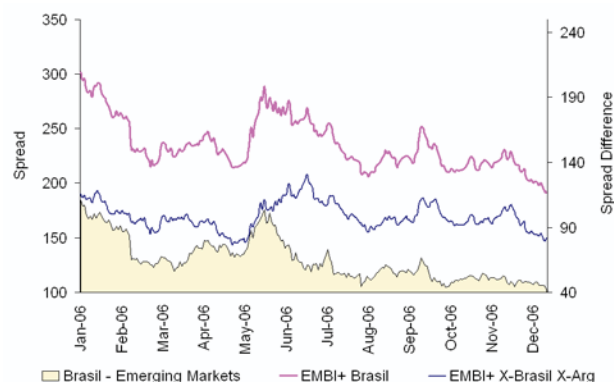
Graph IV
Interest Curve – 4th Quarter



Source: BM&F

It is important to note that, compared to other emerging countries, perceptions of Brazil's country risk improved substantially, in terms of both country risk level and the differential in relation to other emerging economies. In this context, in 2006 Brazil reached the lowest risk premium differential in history vis-à-vis other emerging countries.

Graph V
Evolution of Embi Brazil



Source: JP Morgan

In summary, one can state that expectations evolved in 2006 in a manner consistent with the projected trajectories of the major macroeconomic variables. This made it possible to elaborate and subsequently implement appropriate borrowing strategies, improving the Federal Public Debt profile and ensuring that the projected results would be attained.

Section 2 – Advances in Public Debt Management

In 2006, the National Treasury dedicated its efforts to improving Federal Public Debt - DPF management. The excellent performance registered by the external sector of the economy, coupled with abundant international liquidity, raised the nation's international reserve position to a record high, creating the conditions required for implementation of measures aimed at improving the debt profile, particularly in the case of the external debt.

On the external market, the Treasury opted for qualitative changes in the debt structure. Several measures deserve mention, since they are targeted at achieving the objectives of the Annual Borrowing Plan (PAF) of improving external debt profile and lengthening average maturities. In this framework, one should highlight the Early Redemption Program, exercise of the Brady bond call option and Tender Offer² and Exchange Offer³ operations.

In the case of the domestic debt, the Treasury acted to implement domestic market operational improvements. The success of these efforts is evident in the results achieved in terms of the profile of the Domestic Federal Public Debt - DPMFi. At the same time, the Treasury took further steps to consolidate the process of market opening to external investors. In this regard, particular mention should be made of Provisional Measure n. 281, converted into Law n. 11,312 on June 27, 2006, granting nonresident investors an income tax exemption on gains in operations with DPMFi bonds.

Following is a brief discussion of the principal measures adopted by the National Treasury on both the domestic and external markets, with the aim of streamlining DPF management.

2.1 External Market

In January 2006, the National Treasury initiated the Early Redemption Program involving External Federal Public Security Debt Bonds - DPMFe. This program consisted of utilizing international reser-

ves to repurchase outstanding Brazilian securities circulating on the international market and, in this way, improved Brazil's external liability profile by withdrawing short and medium-term bonds from the market.

Initially, the program called for buybacks of securities to mature by 2010, including Globals, Euros and Samurais, together with the so-called restructured Brady debt bonds. Later on, securities scheduled to mature through 2012 were included among those to be redeemed.

Over the course of the year, the total financial value of buyback operations came to US\$ 7.1 billion (face value of US\$ 6.1 billion⁴), reflecting market withdrawals of approximately one third of total outstanding Globals and 15% of euro denominated bonds to mature between 2007 and 2012.

2 Public purchase offer involving bonds denominated in dollars and euros.

3 Operation consisting of the exchange of external debt bonds denominated in dollars scheduled to mature in 2020, 2024, 2027 and 2030 for bonds to mature in 2037.

4 While the financial value corresponds to the volume of international reserves acquired for the operation by the National Treasury, face value reflects the impact of early redemption on DPMFe statistics.

Table I
Results of Early Redemption Program

(mn)				
	Asset	Initial outstanding amount	Buyback	
BRADIES*	EI	246.69	0.00	
	NMB	729.17	55.86	
	FLRB	326.90	33.22	
	DCB	2,871.23	59.59	
	PAR	1,488.53	333.00	
	DISC	1,285.95	19.28	
GLOBALS	BR07N	1,000.00	389.54	
	BR07	1,500.00	503.52	
	BR08N	1,250.00	645.38	
	BR08	1,250.00	234.48	
	BR09F	750.00	299.62	
	BR09	2,000.00	940.13	
	BR10	1,000.00	442.93	
	BR10N	1,500.00	470.36	
	BR11	1,250.00	337.64	
	BR12	1,250.00	97.86	
	Face Value- Total (USD)		12,750.00	4,361.46
	EUROS**	EU06	688.00	54.48
EU07		750.00	129.04	
EU07DEM		511.29	40.98	
EU08DEM		383.47	54.60	
EU09		500.00	228.99	
EU10		750.00	322.63	
EU11		1,000.00	0.00	
EU12		1,000.00	0.00	
Face Value- Total (EUR)		5,582.76	830.71	
Face Value- Total (USD)			1,029.86	
GBP	GB07	150.00	9.20	
Face Value- Total (GBP)		150.00	9.20	
Face Value- Total (USD)			16.84	
JPY**	JP07	80,000.00	17,892.00	
Face Value- Total (JPY)		80,000.00	17,892.00	
Face Value- Total (USD)			151.52	
Face Value- Total (USD)			6,060.62	
Financial Value- Total (USD)			7,068.50	

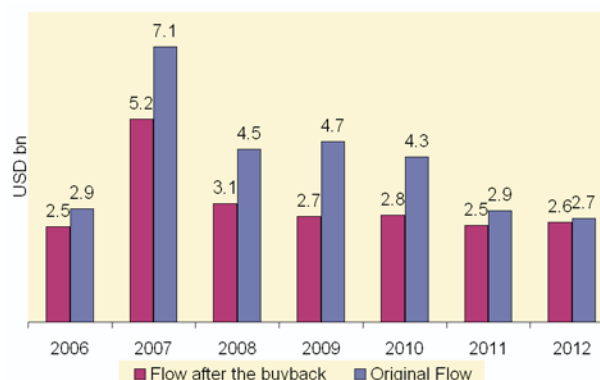
* The Treasury called those bonds on Apr-06 by exercising the embedded option.

**The Euro bonds and Samurai Bonds were converted to USD by the spot FX-rate on the operation date.

Source: National Treasury

Early redemption of these securities reduced the concentration of maturities in the coming years, while increasing average DPF term and, consequently, attenuating refinancing risk.

Graph VI
Payment Flows of Eligible Securities in Program before and after Buyback



Source: National Treasury

In April, the Treasury redeemed the totality of renegotiated Brady bonds still on the market, also aiming at improving the debt profile. In that operation, the Brazilian government exercised its call option at par value, utilizing US\$ 6.5 billion in international reserve resources.

Early redemption of Brady bonds had the dual objective of economizing interest outlays and improving the external debt profile⁵ in terms of maturities and the characteristics of the bonds involved. Since these securities originated in restructured debt, their presence within the overall external debt distorted the sovereign yield curve. Consequently, their withdrawal from the market had a highly positive impact on the external forward interest rate structure, with positive repercussions on issuances made by Brazilian companies abroad.

Box I – Bradies Call

In July 1992, Brazil and the group of private creditors formalized an external debt restructuring agreement in the general framework of the Brady Plan. The agreement called for an April 1994 exchange of public sector debt liabilities totaling approximately US\$ 55 billion for a combination of seven types of bonds, known as Brady Bonds.

Redemptions through exercise of the call option in the amount of US\$ 6.5 billion plus the

Bradies that had already been repurchased in the framework of the Early Redemption Program eliminated all of the bonds representing external debt restructured in the framework of the Brady Plan⁵. With this measure, Brazil erased the last vestiges of a highly turbulent period of Brazilian public debt management, at the same time in which it has consolidated its position as an important issuer of debt bonds on major world markets.

Another measure adopted to improve the Brazilian debt profile also deserves highlighting. Known as a Tender Offer, this operation consists of a public offer made by the National Treasury in June to purchase DPFe bonds denominated in dollars and euros. The operation was expected to result in early redemption of up to US\$ 4 billion in principal, at face value, involving 20 sovereign bonds scheduled to mature between 2007 and 2030.

The invitation was targeted to investors holding eligible securities and adherence to the program was strictly voluntary. It is important to recall that, with evolution of the Early Redemption Program, the Central Bank – acting as the National Treasury financial agent – assumed an active role on the secondary market at specific moments in time. In this context, the Tender Offer provided holders of these securities with the possibility of selling their assets in order to avoid possible losses resulting from declines in the liquidity of these securities caused by the Early Redemption Program.

The operation consisted of a modified Dutch auction (single price) carried out separately for each one of the bonds listed, with settlement in cash through the use of funds acquired by the National Treasury from the international reserves managed by the Central Bank.

With respect to medium and long-term securities (between 2012 and 2030), the strategy underlying these operations was aimed at reducing the share of the so-called “high coupon bonds” in the Brazilian external debt curve. Since these bonds have high-value coupons, their market prices are always much greater than their face value, thus provoking distortions in Brazil’s external interest curve.

The volume of DPFe bonds redeemed in the operation totaled US\$ 1.3 billion, at face value⁶. To a great extent, the difference between the projected and effective volume of the operation (US\$ 2.7 billion) can be explained by the fact that foreign investors were not willing to divest themselves of their Brazilian assets, despite the sharp volatility experienced by emerging markets as a result of expectations of a United States interest hike.

The National Treasury also carried out an Exchange Offer, consisting of the exchange of external debt bonds denominated in dollars and scheduled to mature in 2020, 2024, 2027 and 2030 for securities to mature in 2037. The exchange occurred in July and, just as in the case of the Tender Offer, it had the objective of improving the profile of future external debt payments through redemptions of securities considered “high coupon bonds”, when compared to current bonds. It is important to note that these securities have very low secondary market liquidity. Parallel to this, this strategy was fully aligned with the guideline of strengthening formation of new external debt benchmarks.

The operation involved issuance of Global 2037 bonds at US\$ 1,000 in face value for each US\$ 1,000 in face value of the securities received. The price difference and the interest generated were paid on the date of operation settlement through utilization of resources acquired by the Central Bank from the country’s international reserve position.

Initial forecasts pointed to exchange of securities worth up to US\$ 1.5 billion at face value. However, the amount effectively exchanged closed at US\$ 500 million. Just as occurred in the Tender Offer operation, the lower than originally expected volume further reinforced perceptions that foreign investors were not interested in selling off their positions in Brazilian assets, since the operation involved anticipated reception of cash payments in exchange for part of their investments.

⁵ It is important to recall that BIBs dating to the renegotiation process prior to the Brady Plan are still in circulation. These securities do not have buyback clauses and total US\$ 247 million, approximately 0.3% of total outstanding DPMFe.

⁶ In terms of financial value, the volume of the operation was US\$ 1.6 billion.

With regard to the contractual debt, the National Treasury also took steps to improve its profile, based on anticipated payment of liabilities with the Paris Club that originated in external debt renegotiation agreements between 1983 and 1992.

Box II – Changes in External Debt Profile

Since 2005, when the Treasury assumed responsibility for the totality of external debt operations, the institution has made every effort to improve its profile. Aside from exchanging part of the C-Bond for the A-Bond and later redeeming the remaining C-Bonds in 2005, the Treasury took other measures in 2006 that, when added to previous operations, brought the total reduction in outstanding DPFs to US\$ 16.7 billion. When this figure is added to anticipated Central Bank payment of the debt with the IMF, the government reduced the outstanding external debt by US\$ 37.1 billion.

Table II
Reduction in Outstanding External Debt

Operations	Face Value (US\$ bn)
External Public Debt in Bonds	15.0
C-Bond call (Oct-05)	1.1
Early Redemption Program ¹	6.1
Brady Bonds call (Apr-06)	6.5
Tender Offer (Jun-06)	1.3
Contractual Debt	22.1
IMF early payment I (Jul-05)	4.9
IMF early payment II (Dec-05)	15.5
Paris Club early payment (Jan-06) ²	1.7
Total	37.1

¹ It captures the impact of the operations on the outstanding public debt
² The program started in Jan/06. The value of US\$ 6.1 bn refers to the bonds repurchased up to 12/31/06.
³ Announcement

Source: National Treasury

The objective of these measures was to reduce the nation's external liabilities by diminishing both exchange and refinancing risk, improving the external debt interest curve profile and, consequently, curbing overall DPF financing costs.

National Treasury issuances on the external market in 2006 totaled US\$ 4.8 billion. Among these operations, one should highlight the very

successful January issuance of Global 2037, which defined a new point on the longest part of the curve in dollars⁷. Demand for this security was considerably greater than supply and attracted very significant participation on the part of Asian investors, while also registering historically low costs. Following its March reopening, this bond became one of the most important benchmarks on the aforementioned curve segment, thus ensuring that it would be used in the second half of the year as an option for the Exchange Offer operation.

After registering US\$ 1.5 billion at issuance, the reopening generated an additional US\$ 500 million as a result of the Exchange Offer operation, as outstanding Global 2037 bonds on the market reached US\$ 2 billion. With this, the Treasury reinforced the volume of these bonds on the market, providing them with greater liquidity in secondary market trading operations and improving their pricing, with the objective of transforming them into a benchmark on the Brazilian sovereign curve. In this way, these securities became a reference for new issuances by the National Treasury and by national corporations.

Another factor that deserves mention was the August announcement of a new Brazilian external debt management strategy for the 2007-2008 period. The new strategy focused on qualitative issuance, with the overriding objective of improving the debt profile⁸. It is in this context that one should view the Global 2017, which became the new 10-year benchmark on the dollar curve. In relation to US Treasury bonds with equivalent maturities, the spread at opening (159 basic points) was the lowest since Brazil recommenced external market operations in 1995. One should also underscore issuance and two reopenings of the Global BRL 2022, the second sovereign bond denominated in real, which has registered an excellent external market performance. Issuance of this instrument reveals the Treasury's

⁷ The Global 2040 does not adequately serve as the benchmark security for long-term Brazilian risk, since it has a National Treasury buyback clause, effective as of 2015.

⁸ In the previously implemented strategies, a maximum issuance value was announced for the period under consideration.

commitment to construction of a curve in real on the external market, at the same time in which the success of this operation demonstrates the enormous unwhetted appetite for this type of security among foreign investors.

Strong issuance of volumes, steady reductions in spreads and huge demand in recent external market issuances demonstrate investor interest in Brazilian assets and clearly consolidate Brazil's new position as an important international market sovereign issuer.

Box III – New 2007-2008 External Financing Strategy

In contrast to the strategy defined in the 2006 PAF which, though based on qualitative guidelines, defining external funding operations according to borrowing requirements, the new external debt financing strategy for 2007-2008 determines that, duly observing market conditions, foreign currency issues will be exclusively qualitative in nature, aiming at consolidating the external interest curve through construction and maintenance of benchmark points.

Design of the new strategy considered the country's new macroeconomic scenario in which international reserves have climbed to their highest level, exchange flows have been consistently positive and country risk has dropped to its lowest level in history. Other factors that aided in construction of the new strategy also included reductions in exchange rate exposure by accumulating reserves in amounts greater than outstanding DPFe.

Not only does the new strategy maintain the Early Redemption Program, it also allows for new issuances in Reais – depending, naturally, on market conditions - in order to construct an external curve in both local currency and dollars and, in this way, improve the foreign currency curve. The new strategy is also expected to correct possible distortions in the external interest curve. It should be underscored that the foreign currency required

to pay the external debt will be acquired by the National Treasury on local markets or, alternatively, through international reserve acquisitions by the Central Bank of Brazil.

Viewed in the context of the permanent National Treasury program of information transparency and quality, the year under analysis witnessed development of a new method for calculating average DPFe costs, which now consider the issuance yield of each bond and the exchange variation of the currency in which the security was issued in relation to the BRL (in the month). Average cost was altered in order to follow the DPMFi methodology which not only takes account of the growing importance of securities denominated in BRL in the overall context of the external debt, but also makes it possible to compare and group the different cost factors. Announcement of the numbers based on the new methodology began in December⁹.

2.2 Domestic Market

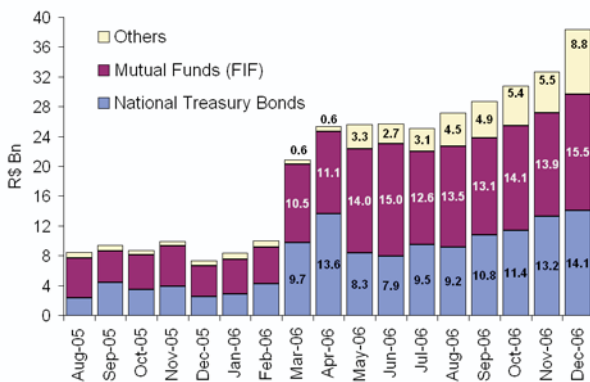
In the case of the domestic debt, it is important to highlight February edition of Provisional Measure n. 281, converted into Law n. 11,312, dated June 27, 2006. Aside from other measures aimed at developing the capital market, the new legislation granted nonresident investors an income tax exemption on gains on investments in domestic debt public securities. This measure, which brought Brazil into line with most emerging countries in terms of tax treatment, had the purpose of increasing foreign investor participation, since these investors obviously have greater demand for longer-term securities, particularly those with fixed rate or inflation-linked earnings. The exemption was clearly in line with the terms of the Annual Borrowing Plan (PAF), with regard to both increased share of these securities and to the lengthening of average public debt maturities.

Foreign participation in the domestic market increased sharply in the wake of the

⁹ For greater detail, see National Treasury Results for November 2006, available on the National Treasury site at <http://www.tesouro.fazenda.gov.br/hp/resultado.asp>.

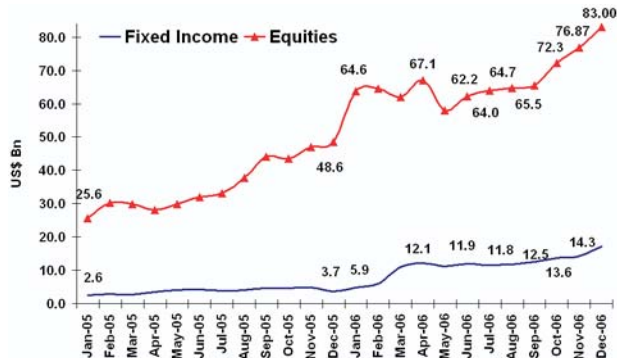
mentioned Provisional Measure. The average amount invested by foreign investors in public sector bonds spiraled from R\$ 2.7 billion between January 2005 and February 2006 to R\$ 10.7 billion between March and December 2006. At the same time, foreign investors also channeled considerable volumes of resources into Financial Investment Funds (FIF), which are almost entirely composed of public securities. Once the new legislation went into effect, the average amount invested in these funds jumped to R\$ 13.3 billion between March and December 2006, compared to R\$ 5.0 billion in the same period of the preceding year.

Graph VII
Foreign Fixed Income Investments



Source: CVM

Graph VIII
Foreign Investor Portfolio



Source: CVM

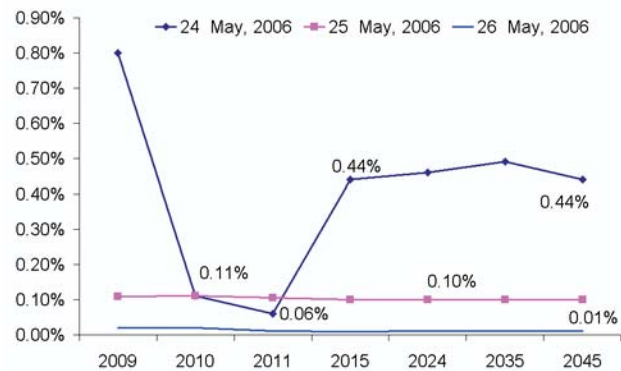
In May, the National Treasury held simultaneous NTN-B purchase and sale auctions. This was part of the Treasury's historical role of acting to stabilize the market in moments of increased volatility, as it had done in 2004¹⁰. The objective of these

auctions was to provide market participants with price parameters, while also generating increased financial market liquidity in order to cope with the volatility evident in that month.

Total Treasury redemptions came to R\$ 1.8 billion on the 24th, R\$ 1.1 billion on the 25th and R\$ 1.1 billion on May 26. The volume of sales on the first day was R\$ 687.1 million, followed by R\$ 677.8 million on the second day and R\$ 965.1 million on the third. Consequently, simultaneous NTN-B purchase and sale auctions resulted in R\$ 1.6 billion in net redemptions. In the final auction, the Treasury managed to issue net NTN-B to mature in 2045, the longest term security among all of those currently issued.

The reduction in net values redeemed and in the spreads between purchases and sales during the auction period demonstrated the correctness of the strategy aimed at stabilizing the market, at the same time in which it provided investors with price parameters for their trading operations and instilled a new sense of calm in the market.

Graph IX
Spread on NTN-B Auctions



Source: National Treasury

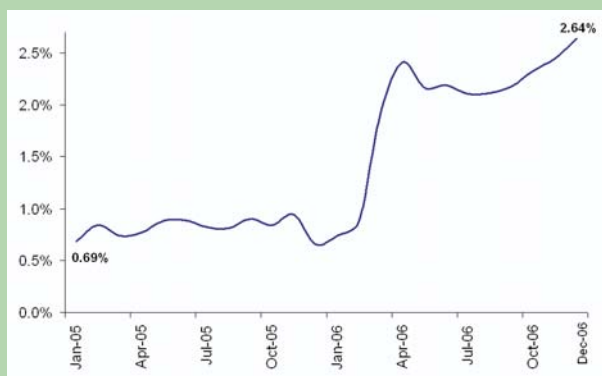
Box IV – Foreign Participation in Public Debt

The National Treasury adopted a series of measures in recent years to attract foreign participation in the domestic debt and, in this

¹⁰ In response to market turbulence in May 2004, the Treasury carried out purchase and sale auctions involving LFT and LTN with the purpose of defining price parameters for the different maturities.

way, expand the investor base. Aside from Provisional Measure n. 281, one should highlight the support given by the Treasury to simplification of the procedures involved in granting official tax recognition to nonresident corporations and to bond trading screen operations through Sisbex. At this point, one should also underline integration of the Treasury into the *BEST – Brazil: Excellence in Securities Transactions*¹¹ group, which disseminates information on the Brazilian capital market to the international investor community. The success of these measures is evident in the increased participation of foreign investors in the Brazilian debt.

Graph X
Participation of Nonresident Investors in DPMFi



Source: National Treasury

In light of their propensity to accept risk, the Treasury views foreign investors as important partners in efforts to improve the public debt profile. Foreign investors play a significant role in achieving the goals set out in Annual Borrowing Plans, since they tend to generate greater demand for fixed rate and inflation-linked longer-term securities. As a result, they aid in increasing the share of these securities in domestic debt profile, while further extending maturities. Improvements in debt profile reduce their sensitivity to exchange variations and short-term interest rates, thus diminishing market risk and broadening the impacts of Central Bank monetary policy. At the same time, longer average maturities diminish refinancing risk.

Another factor of importance that occurred in 2006 was alteration of fixed-rate bond maturities. Starting in October, the Treasury adopted new rules for fixed rate bond issuances, with the purpose of consolidating benchmark terms in domestic market issues of these securities. Based on this strategy, there will be a transition period lasting through January 2007, when the issuance structure will be defined by 6, 12 and 24 month LTN and 3, 5 and 10 year NTN-F. The latter of these securities were issued with payment of intermediate interest coupons.

The initiative was well received by the market, recognizing that it represented a process of adaptation to standard international market issuance practices, while also signaling that the Treasury was in a position to issue long-term fixed rate securities with coupon payments. Another point of importance regarding fixed-rate securities is the increasingly greater role played in recent months by NTN-F due to mature in 2010, broadening the liquidity of these bonds on the market and consolidating their position as the mid-curve benchmark security.

Among measures taken to further strengthen the secondary public securities market, the National Treasury has given its support to development of the Online Federal Public Security System – COMPARE. This system was introduced by the National Association of Financial Market Institutions (Andima) and provides investors with the possibility of consulting data and rates as related to prices and volumes traded on the secondary federal public securities market. At the same time, it is possible to draw comparisons between available information and market parameters. The possibilities offered by the system clearly foster enhanced transparency, stimulating liquidity and increasing the attractiveness of this market to investors who, for regulatory reasons, tend to be somewhat wary of secondary market bond acquisitions.

Working together with dealer institutions, electronic trading screens – Bloomberg and

¹¹ For more information, see Section IV or access <http://www.bestbrazil.org/>.

Reuters, as well as the Central Bank – the National Treasury has been studying the possibility of releasing information on transactions involving public securities registered at Selic.

The objective of these measures is to enhance the transparency of secondary market operations and, in this way, reduce the asymmetry that exists in information flows to different market participants (including pension funds, retail and foreign investors). Reduction in the asymmetric supply of information will generate increased efficiency and lesser transaction costs, while improving risk management and contributing to a more effective price formation system, with evident benefits for investors in general and, obviously, for the issuer.

Section 3 – Results Achieved

The objective of Federal Public Debt - DPF management, including federal government domestic and external debt liabilities, is to **minimize long-term financing costs, ensuring maintenance of prudent risk levels and contributing to the efficient operation of the public securities market.** In this context, the principal guidelines set down in the 2006 Annual Borrowing Plan were based on: i) lengthening of the average public debt maturity; ii) reduction of the percentage of DPF to mature in 12 months; iii) improvements in profile by prioritizing fixed-rate and inflation-linked securities, in detriment to floating rate and FX-rate linked bonds; and iv) smoothing of the external public debt profile.

For the most part, the targets that reflected these guidelines were achieved, particularly with regard to improvements in DPF and DPMFi profile. This is confirmed by the increased share of fixed rate securities and the falloff in the share held by floating rate bonds, resulting in a sharp reduction in public debt volatility. At the same time, the evolution of outstanding debt, including both DPF and DPMFi, was less intense than the target specified in the 2006 PAF.

3.1 Strategy

As presented in the 2006 PAF, National Treasury financing strategy focuses on the following hypothesis:

Domestic Issuance:

- i. Fixed rate securities – Based on issues of longer-term securities, increase the share of these bonds in the overall public debt while lengthening average maturities. LTN issues with maturities between 6 months and 3 years and maintenance of NTN-F maturities at 2010 and 2012, with the possibility of creating new points during the course of the year (this has already occurred with initial issuance of NTN-F with maturity in 2014, making them the longest term fixed-rate securities on the domestic market)¹²;

- ii. Securities with inflation-linked earnings – the largest NTN-B issuance volume compared to previous years. Maintenance of the various issuance maturities of these papers, without excluding the possibility of introducing new maturity terms;
- iii. Floating rate securities – net redemptions of LFT and longer average terms in new issues of these securities;
- iv. FX-rate linked Debt – no issues of NTN-D; and
- v. CVS¹³ - assumption of up to R\$ 13.0 billion.

External Issuance:

- i. International market issues of up to US\$ 9.0 billion (2006-2007) in external bonds, including US\$ 3.5 billion pre-financed in 2005.

In the course of 2006, the National Treasury released various measures aimed at improving the external debt profile, including the DPF_e Early Redemption Program in January 2006. In August 2006, the National Treasury announced a new external financing strategy for 2007-2008, confirming that external issues in the period will be exclusively qualitative in nature.

3.2 Strategy Implementation and Results Achieved

The tables below show the positive performances of DPF and DPMFi, as revealed in the following indicators: outstanding volume, average maturity, average life, percentage maturing in 12 months and profile by indexing factor.

¹² As already mentioned, in October 2006 the National Treasury released new rules on fixed-rate security issuances. As of 2007, NTN-F will be issued with maturities of 3, 5 and 10 years and LTN with maturities of 6, 12 and 24 months.

¹³ Securities issued by the National Treasury in the framework of the debt renegotiation originating in the Wage Variation Compensation Fund – FCVS, remaining from settlement of housing finance contracts.

Table III
Results for Federal Public Debt - DPF

Indicators	Dec-03	Dec-04	Dec-05	Dec-06	PAF-2006	
					Minimum	Maximum
Outstanding of DPF held by the public (R\$ billion)	965.8	1013.9	1157.1	1237.0	1280	1360
Average Maturity of DPMFi (months)	39.0	35.3	32.9	36.6	35	41
Average Life (Months) *	-	-	55.4	59.4	60	70
% Maturing in 12 months	30.7	39.3	38.2	33.3	28	33
Share of DPF						
Fixed rate	9.5	16.1	23.6	31.9	25	33
Floating rate	45.5	45.7	43.9	33.4	35	43
Inflation-linked	10.3	11.9	13.1	19.9	16	22
Exchange rate	32.4	24.2	17.6	12.7	11	15
Others	1.4	2.1	1.8	2.0	1	3

* This statistic makes it possible to draw comparisons with the indicators of other countries, since it is calculated through use of a methodology commonly found on the international market.

Source: National Treasury

Table IV
Results for Domestic Federal Public Debt – DPMFi

Indicators	Dec-03	Dec-04	Dec-05	Dec-06	PAF-2006	
					Minimum	Maximum
Outstanding of DPMFi held by the public (R\$ billion)	731.4	810.3	979.7	1093.5	1130	1200
Average Maturity of DPMFi (months)	31.3	28.1	27.4	31.1	30	35
Average Life (Months) *	-	-	40.3	46.5	44	52
% Maturing in 12 months	35.3	46.1	41.6	35.7	31	36
Share of DPMFi (%)						
Fixed rate	12.5	20.1	27.9	36.1	28	37
Floating rate	61.4	57.1	51.8	37.8	39	48
Inflation-linked	13.6	14.9	15.5	22.5	18	24
Exchange rate	10.8	5.2	2.7	1.3	1	3
Others	1.8	2.7	2.2	2.2	2	4

* This statistic makes it possible to draw comparisons with the indicators of other countries, since it is calculated through use of a methodology commonly found on the international market.

Source: National Treasury

Outstanding Volume

Outstanding DPF increased 6.9% in 2006, rising from R\$ 1,157.1 billion in December 2005 to R\$ 1,237.0 billion in December 2006, a level below the minimum limit defined in the 2006 PAF (R\$ 1,280.0 billion).

The Domestic Federal Public Debt - DPMFi expanded 11.6% in nominal terms, evolving from R\$ 979.7 billion in December 2005 to R\$ 1,093.5 billion in December 2006, primarily as a consequence of incorporation of interest into the public debt principal. This result is below the lower limit determined for this indicator in the 2006 PAF (R\$ 1,130.0 billion).

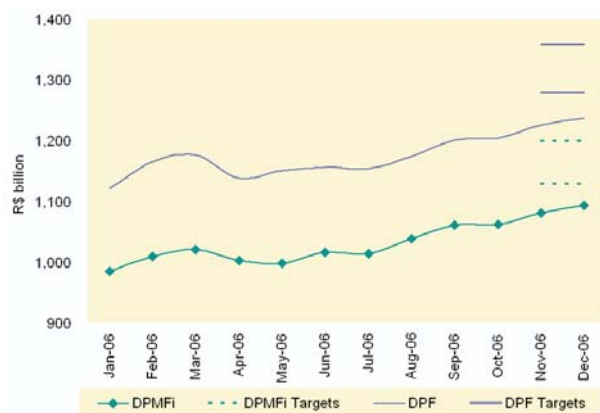
The main reason underlying the fact that outstanding DPMFi expanded at a rate below that forecasted in the 2006 PAF is that issuance of LFT, a floating rate bond, closed below the minimum forecasted. This difference was not fully offset by the issue volume of other National Treasury financing instruments.

Another factor that explains this performance is that the downward trajectory of the Selic rate was considerably more accentuated than indicated in the scenarios used in the PAF. Consequently, the sharper than forecast decline reduced the costs of these operations.

Aside from the DPMFi-related factors, analysis of

DPF must also take due account of the evolution of outstanding DPFe, which dropped 19.2% from R\$ 177.5 billion at the end of 2005 to R\$ 143.5 billion when 2006 came to a close. For the most part, this result is explained by early redemptions of external debt securities that were not foreseen when the 2006 PAF was elaborated, as well as by a steady decline in the FX-rate over the course of the year. Just as happened with the Selic rate, the downward trajectory was considerably more accentuated than originally forecasted in the PAF scenarios.

Graph XI
Outstanding DPF and DPMFi



Source: National Treasury

Note: The horizontal lines on the right refer to the upper and lower limits established at the PAF 2006.

Average Term and Average Life

As demonstrated in PAF indicators, the average term of both DPF and DPMFi closed well within the defined limits. Average DPF term closed at 36.6 months (for upper and lower limits of 35.0 and 41.0 months) while DPMFi registered 31.1 months (for upper and lower limits of 30.0 and 35.0 months).

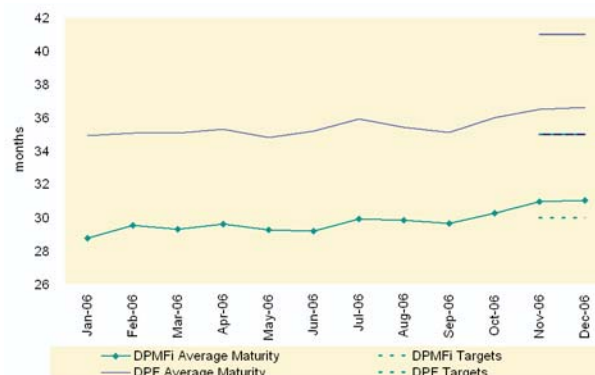
These results indicate lengthening of the public debt profile compared to the previous year, brought about by measures adopted by the National Treasury. Among these, the following deserve highlighting: i) publication of Law n. 11,312, which granted nonresident investors an income tax exemption on gains earned on investments in DPMFi public securities, resulting in longer public debt terms¹⁴; ii) record issuances of inflation-

linked bonds, which have longer maturities than other bonds; and iii) the 2006 volume of funding in dollars which traditionally has longer maturity terms, coupled with buybacks of shorter term DPF securities.

Average DPF life, which limits itself to indicating the average remaining maturity of public security principal, increased from 55.4 months in December 2005 to 59.4 months in December 2006, closing well below the range defined in the 2006 PAF (between 60 and 70 months). With the cutback in outstanding DPFe, classified as long-term debt, the reduction in the share of these securities in outstanding DPF also contributed to this result. Though this indicator was below the PAF limits, Graph XIII shows that it followed an upward trajectory during all of 2006, in much the same way as DPMFi.

With regard to DPMFi, this indicator also increased, moving from 40.3 months to 46.5 months in December 2006, well within the limits defined in the 2006 PAF.

Graph XII
Average DPF and DPMFi Maturities

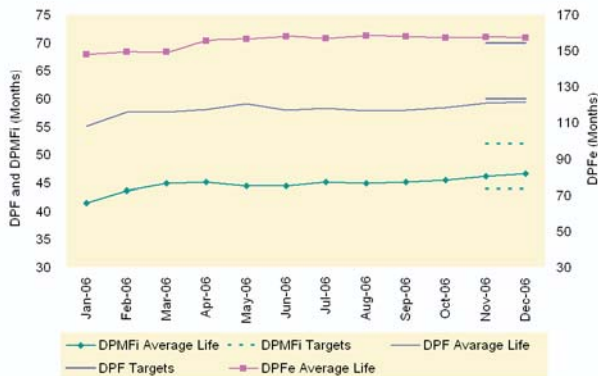


Source: National Treasury

Note: The horizontal lines on the right refer to the upper and lower limits established at the PAF 2006.

¹⁴ Lengthening of the term was generated by greater foreign demand for long-term investments.

Graph XIII
Average DPF, DPF_e and DPMFi Life



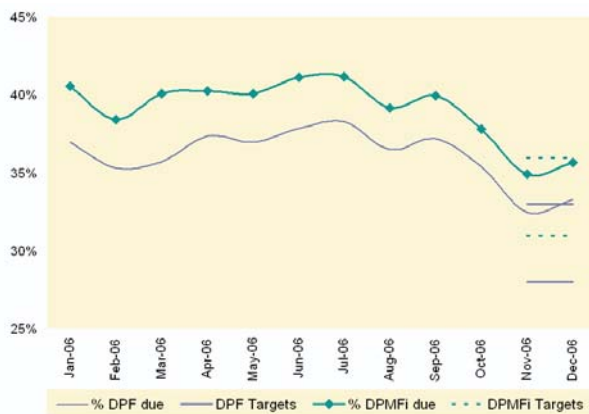
Source: National Treasury

Note: The horizontal lines on the right refer to the upper and lower limits established at the PAF 2006.

Percentage due in 12 Months

With respect to the debt due in 12 months, the results achieved at the end of 2006 were highly significant and made it possible to reduce the refinancing risk of the debt. In the case of DPMFi, this indicator reached 35.7% with 33.3% for DPF, in December 2006. The latter result was just 0.3% above the upper limit defined in the PAF. It is important to stress that this evolution was generated mainly by a sharp reduction in security issuance with maturities less than 12 months.

Graph XIV
Percentage of DPF and DPMFi due in 12 Months



Source: National Treasury

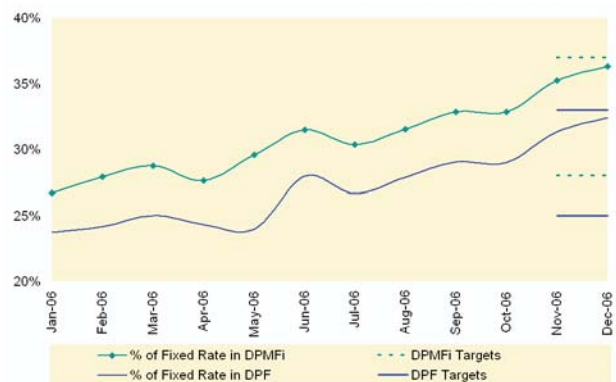
Note: The horizontal lines on the right refer to the upper and lower limits established at the PAF 2006.

Analysis of Debt Profile

Fixed-Rate Bonds

The relative share of fixed-rate bonds in total DPMFi volume expanded 8.2 percentage points, shifting from 27.9% in December 2005 to 36.1% in December 2006. In relation to DPF, growth closed at 8.3 percentage points, moving from 23.6% of total volume to 31.9%. This result is clearly in line with the limits of 28% to 37% for DPMFi and from 25% to 33% for DPF, as defined in the 2006 PAF. Growth in fixed-rate securities in the debt total makes public debt management more predictable, while also stimulating development of the domestic interest curve.

Graph XV
Share of Fixed-Rate Bonds

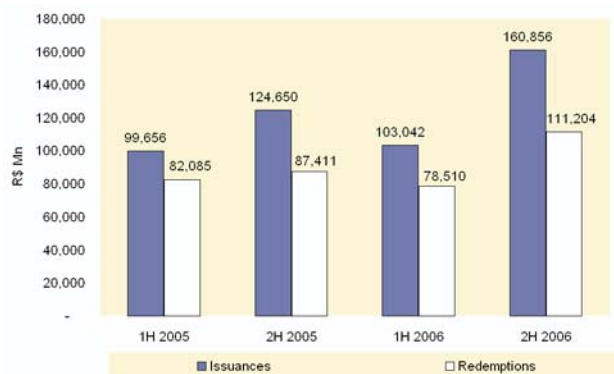


Source: National Treasury

Note: The horizontal lines on the right refer to the upper and lower limits established at the PAF 2006.

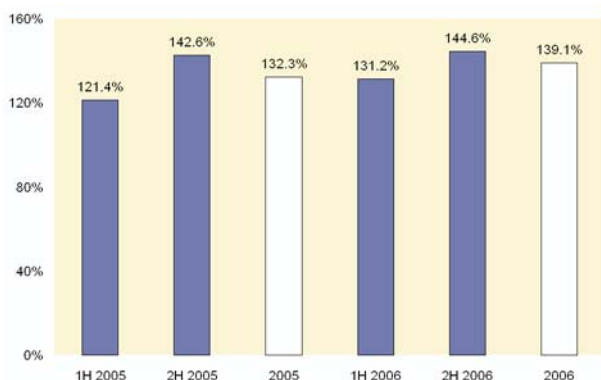
In 2006, net issuance of fixed-rate securities totaled R\$ 74.2 billion. Issues in the first half of the year totaled R\$ 103.0 billion, 3.4% more than the R\$ 99.7 billion total in the same period of 2005. In the second half of the year, overall issuance totaled R\$ 160.9 billion, 29.0% more than the R\$ 124.7 billion result for the equivalent period of 2005. Redemptions in the first six months of the year came to R\$ 78.5 billion, with R\$ 111.2 billion in the final six months of the year. These figures result in a refinancing percentage of 131.2% and 144.6%, respectively.

Graph XVI
Issuance and Redemptions of Fixed-Rate Bonds



Source: National Treasury

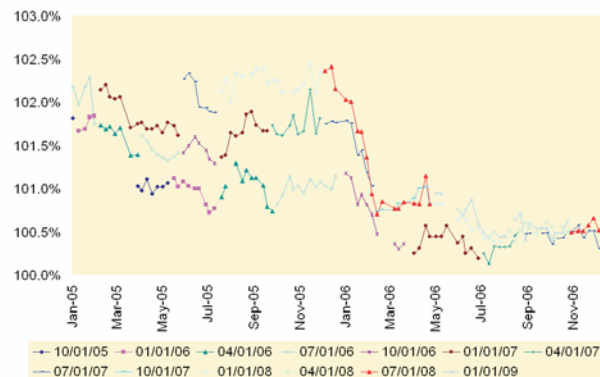
Graph XVII
Refinancing Percentage of Fixed-Rate Bonds



Source: National Treasury

Measured by the discount in relation to DI with equivalent maturities, the premiums paid over the year in auctions of both LTN and NTN-F represented reductions compared to the previous year, demonstrating that the market had easily absorbed the volumes and maturities of fixed-rate bonds.

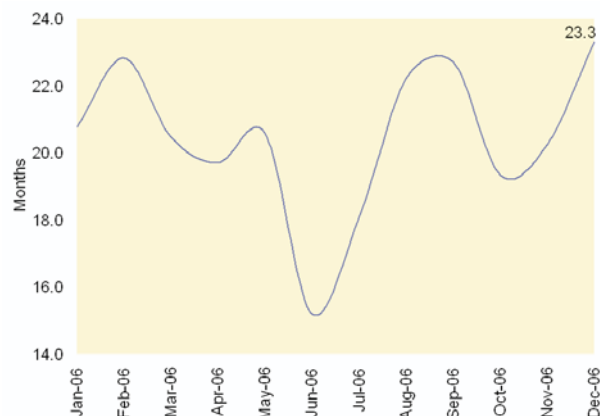
Graph XVIII
Maximum Premiums Accepted on DI Curve in Traditional LTN Auction



Source: National Treasury

The average maturity of fixed-rate bonds fluctuated in 2006. In the first half of the year, these securities remained relatively stable in the range of 20 months, with the exception of June when average maturities dropped to 15.2 months. However, in the following month, average maturities turned upward once again and closed the year at 23.3 months, the highest level since this indicator was first published. A major factor underlying this result was the gradual lengthening of maturity terms of new securities issued during the year, including LTN to mature in January 2009 and NTN-F, with maturity in January 2014.

Graph XIX
Average Issuance Term of Fixed-Rate Securities in Public Offers

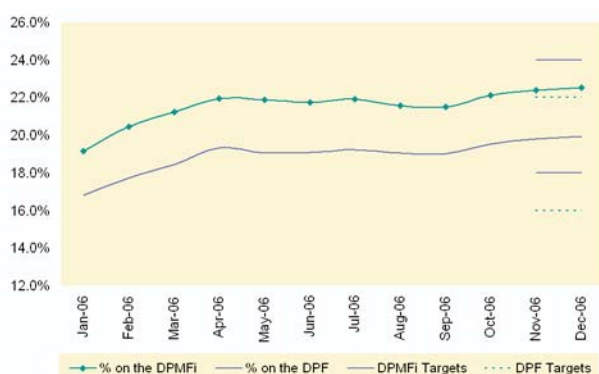


Source: National Treasury

Inflation-Linked Securities

The past year produced very positive results as regards share of inflation-linked bonds in total debt, making it possible to reduce the share held by floating-rate bonds and FX-rate linked bonds. Share of inflation-linked securities in DPF increased from 13.1% at the end of 2005 to 19.9% when 2006 drew to a close (from 15.5% to 22.5%, in the case of DPMFi)

Graph XX Share of Inflation-Linked Bonds



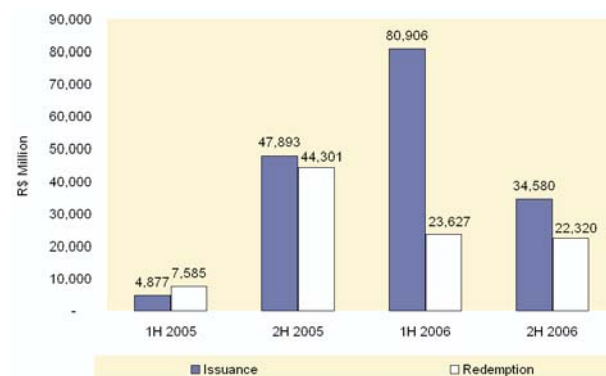
Source: National Treasury

Note: The horizontal lines on the right refer to the upper and lower limits established at the PAF 2006.

The first half of 2006 registered a new record in issues of inflation-linked securities, with R\$ 80.9 billion (average of R\$ 13.5 billion per month). Redemptions came to approximately R\$ 23.6 billion, resulting in net issues of R\$ 57.3 billion. As a result, the percentage of refinancing reached 342.4% in this period. This result is explained by both inflows from foreign investors in pursuit of inflation-linked domestic securities and by the increasingly more rapid pace of substitution of LFT by NTN-B in pension fund portfolios, as part of the effort to adjust assets to their benchmarks.

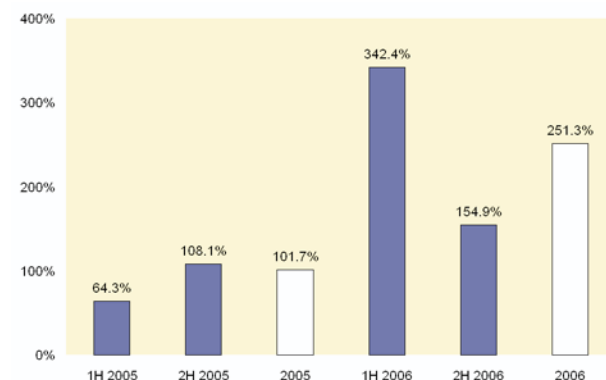
In the final six months of the year, issuance value dropped compared to the previous six months, closing at R\$ 34.6 billion. Redeemed value was R\$ 22.3 billion, resulting in R\$ 12.3 billion in net issuance and a refinancing percentage of 154.9% in the period.

Graph XXI Issuance and Redemptions of Inflation-linked Bonds



Source: National Treasury

Graph XXII Refinancing Percentage of Inflation-linked Bonds

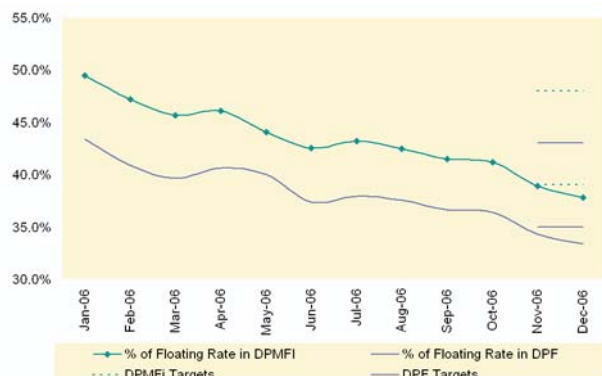


Source: National Treasury

Floating-Rate Bonds

The relative share of floating-rate bonds turned sharply downward in 2006, closing below the lower limit forecast by the PAF. Considering only DPMFi, the share of these securities reached 37.8% for upper and lower parameters of 39.0% and 48.0%. For DPF, share was 33.4% at the end of 2006 (limits of 35.0% and 43.0%).

Graph XXIII
Share of Floating-Rate Bonds



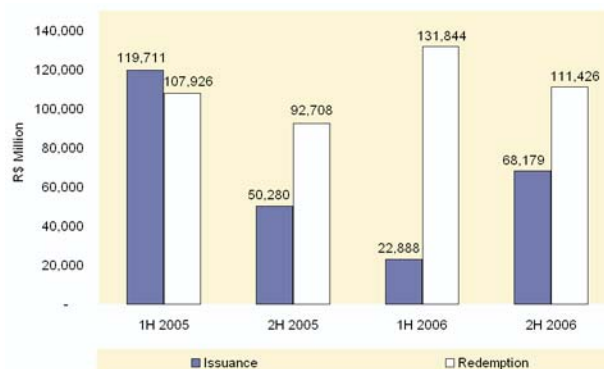
Source: National Treasury

Note: The horizontal lines on the right refer to the upper and lower limits established at the PAF 2006.

Issuance of floating-rate securities in 2006 totaled R\$ 22.9 billion in the first six months and R\$ 68.2 billion in the final six months. It should be stressed that the National Treasury carried out no issues of these securities in the period extending from February to May 2006, clearly revealing its commitment to improving public debt profile. Issuance volume ended at a level below redemptions (R\$ 131.8 billion in the first half and R\$ 111.4 billion in the second), resulting in 2006 net redemptions of approximately R\$ 152.2 billion. With this, the percentage of refinancing LFT's came to just 17.4% in the first six months and 61.2% in the latter six months.

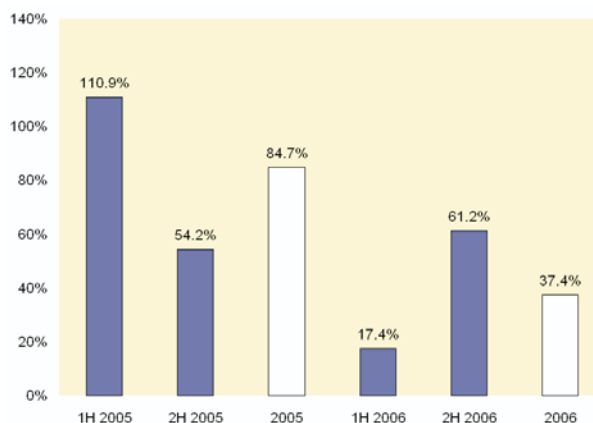
It is important to underline that the issuance cost of these securities dropped sharply in 2006. These bonds were sold with a premium of 0.11% per year in relation to the Selic rate on January 17, 2006. Following a period in which no primary issues took place, LFT were placed on the market once again on May 31, 2006 and, from that point forward, all maturities were sold at par or, in other words, with no premium.

Graph XXIV
Issuance and Redemptions of Floating-Rate Bonds



Source: National Treasury

Graph XXV
Percentage of Refinancing of Floating-Rate Bonds

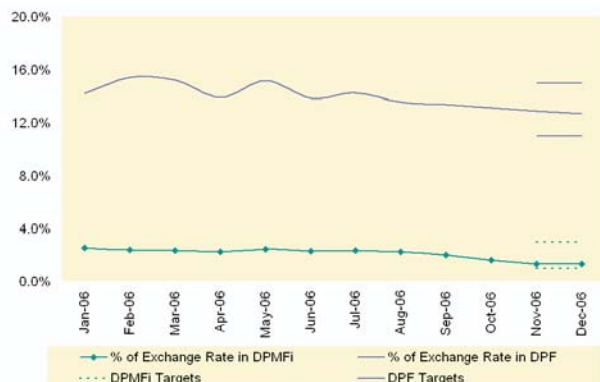


Source: National Treasury

FX-linked Debt

As an example of what's happened in the past years, the cut in FX-linked debt was significant in 2006. In Dec-06, this share reached 12.7% of DPF, within the interval set in the Annual Borrowing Plan (11% and 15%). For the DPMFi, the observed value reached 1.3%, also inside the reference interval (1% and 3%).

Graph XXVI
Share of FX-linked Bonds



Source: National Treasury

Note: The horizontal lines on the right refer to the upper and lower limits established at the PAF 2006.

The already cited DPMFi profile indicators reflect the best performance ever achieved since official data were first published in December 1999.

Going on to DPFs, the external borrowing program for 2006-2007, announced in 2005, defined external funding operations at US\$ 9.0 billion. The amount obtained through August 2006 was US\$ 5.3 billion. Of this amount, US\$ 3.5 billion were obtained in the second half of 2005. Consequently, funding needs required to close 2006-2007 accounts totaled just US\$ 3.7 billion.

Nonetheless, the National Treasury implemented a series of measures including publication of its external borrowing strategy for 2006-2007. The objective here was to reduce external liabilities, as indicated in Section 2. The new measures were designed to reduce outstanding DPFs bonds by US\$ 16.7 billion¹⁵ (at face value).

Consequently, the need for US\$ 3.7 billion in funding lost meaning in the wake of DPFs buyback operations. For this reason, the National Treasury announced a new strategy for the 2007-2008 period.

This program determined that, in the period in question, the National Treasury would not act with the objective of obtaining DPFs financing resources. Issuances in foreign currencies would, with due attention to market conditions, be strictly qualitative in nature, so as to consolidate the external interest curve by constructing and maintaining benchmark points and developing a yield curve in real on the global market. Consequently, no quantitative targets were announced for the two-year period.

¹⁵ It does not include payment of debts with the IMF (US\$ 20.4 billion).

Table V
Sovereign External Market Funding Operations

Security	Issuance Date	Settlement Date	US\$ Mn	Maturity	Yield	Spread ¹	EMBI BR at issuance
			Total				
2006/2007							
Global 2025*	09/06/05	09/13/05	1,000	20 years	8.52%	417	399
Global BRL 2016	09/19/05	09/26/05	1,479	10 years	12.75%	-	364
Global 2015*	11/09/05	11/17/05	500	10 years	7.77%	312	347
Global 2034*	11/29/05	12/06/05	500	28 years	8.31%	363	349
Global 2037	01/10/06	01/17/06	1,000	30 years	7.57%	295	280
Euro 2015*	01/30/06	02/03/06	362	9 years	5.45%	185 ²	262
Global 2037*	03/16/06	03/23/06	500	31 years	6.83%	204	225
Total			5,341				
2007/2008**							
Global BRL 2022	09/06/06	09/13/06	743	15 years	12.88%	-	218
Global BRL 2022*	10/05/06	10/13/06	301	15 years	12.47%	-	228
Global 2017	07/11/06	11/14/06	1,500	10 years	6.25%	159	212
Global BRL 2022*	12/04/06	12/11/06	346	15 years	11.66%	-	200
Total			2,890				

Source: National Treasury

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

² Spread over Deutsche Premier Bond 2015

* Reopening.

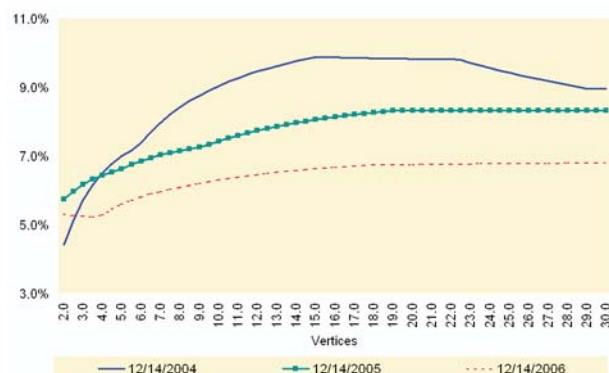
** Qualitative Issuances

In the specific case of 2006 international market issuances, one should underscore the second Brazilian external debt bond in BRL, denominated the Global BRL 2022, resulting in lengthening of the external curve of fixed-rate bonds denominated in Real. Later on, on two different occasions the Treasury reopened operations of this bond which had risen in trading value since original issuance. The National Treasury has utilized the reopening strategy for the purpose of providing bonds with greater liquidity. The effect has been further development of the secondary debt market and minimization of long-term financing costs.

Mention should also be made of reopening the Euro 2015 in early 2006. Aside from its low funding costs, this step was strategically important since it reached the minimum requirement of EUR 750 million to be negotiated in the EuroMTS - the European electronic trading platform for bonds referenced in euros. Inclusion of the Euro 2015 in EuroMTS stands as a market reference for this security, generating greater liquidity, facilitating pricing and expanding the number of investors able to access this bond.

Also with regard to the objective of improving the interest curve profile of sovereign debt denominated in dollars, it is important to mention issuance of Global 2017 and Global 2037. Over the course of the year, these issuances further strengthened important benchmark points on the dollar curve: terms of 10 and 30 years. Not only were these securities issued at a cost below the Treasury's historical standards, it is also important to note that they attained a very significant market volume, capable of ensuring a high level of liquidity on the secondary market.

More recently, security reopening rates have been systematically below those obtained in previous placements. At the same time, issuance terms have gradually increased over the years. The excellent results described above are summarized in the following table.

Graph XXVII
Zero Curve¹⁶ – Globals


Source: National Treasury

Table VI
Outstanding and Yield of Dollar Denominated Securities in DPFe

	12/30/2005		12/28/2006	
	Outstanding	Yield *	Outstanding	Yield *
Global 2007	1,500,000.00	5.47%	959,001.00	5.40%
Global 2008N	1,250,000.00	5.70%	586,077.00	5.25%
Global 2008	1,250,000.00	5.82%	992,193.00	5.28%
Global 2009	2,000,000.00	6.02%	1,031,726.00	4.98%
Global 2010	1,000,000.00	6.14%	428,831.00	5.11%
Global 2010N	1,500,000.00	6.29%	975,575.00	5.31%
Global 2011	1,250,000.00	6.46%	864,811.00	5.45%
Global 2012	1,250,000.00	6.48%	1,145,579.00	5.60%
Global 2013	1,250,000.00	6.70%	1,246,428.00	5.72%
Global 2014	1,250,000.00	6.92%	1,173,607.00	5.93%
Global 2015	2,100,000.00	6.91%	2,100,000.00	6.02%
Global 2040	5,157,311.00	6.84%	5,157,311.00	6.07%
Global 2017	-	-	1,500,000.00	6.17%
A-Bond	4,508,571.00	7.05%	4,508,571.00	6.55%
Global 2019	1,500,000.00	7.44%	1,500,000.00	6.24%
Global 2020	1,000,000.00	7.58%	760,065.00	6.32%
Global 2024	2,150,000.00	7.65%	2,060,806.00	6.45%
Global 2024B	824,702.00	7.72%	740,271.00	6.49%
Global 2025	2,250,000.00	7.68%	2,250,000.00	6.48%
Global 2027	3,500,000.00	7.65%	3,435,773.00	6.49%
Global 2030	1,600,000.00	8.03%	1,016,697.00	6.60%
Global 2034	2,500,000.00	7.72%	2,697,802.00	6.54%
Global 2037	-	-	2,000,043.00	6.56%
BRL 2016**	1,452,556.84	12.75%	1,590,271.12	10.18%
BRL 2022	-	-	1,403,180.40	10.65%

*Yield from secondary market closing rates.

** For 2005, yield refers to the issuance date.

Source: National Treasury

3.3 Risk Analysis

In general, risk represents the probability of an event occurring or not, combined with the consequent losses and gains. In the context of the Federal Public Debt – DPF, risk analysis assesses the probability of events capable of causing changes in the debt level (overall volume and flows), as well as the impact of such changes. This analysis makes it possible for the National Treasury to identify measure and minimize the risks to which DPF is exposed.

Among the major risks to which DPF is subject, mention should be made of market risk and refinancing risk. Though they involve different perspectives, both are related to the volatility of the indexing factors used to calculate earnings.

Refinancing risk corresponds to the possibility of the National Treasury having to bear heavy costs in order to be able to finance its operations over the short-term or, in a worst possible case scenario, simply not obtaining the resources needed for this purpose.

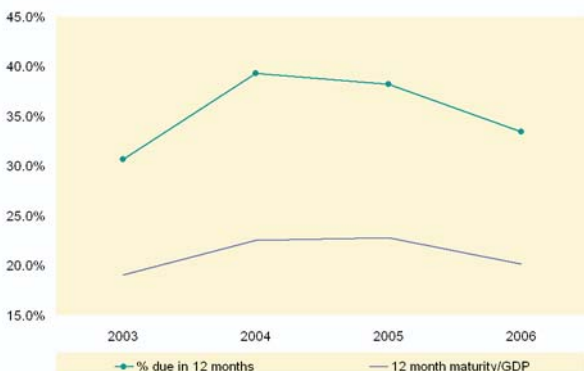
In its turn, market risk reflects the possibility of raising nominal outstanding debt as a result of changes in market conditions that impact the cost of bonds. These could include changes in short-term interest rates, exchange rates and inflation, or in the forward interest rate structure.

Refinancing Risk

One way of evaluating refinancing risk is to measure the concentration of debt maturities. The following graph shows this measurement expressed as the percentage of debt due in 12 months. One can observe that, as of 2004, the National Treasury has been increasingly successful in reducing the concentration of short-term maturities. It is also important to recognize that the same reduction was registered in the ratio between bonds due in 12 months and GDP.

¹⁶ Interest curve or forward interest rate structure for zero coupon factors or, in other words, the interest curve for the structure of securities without coupon payments.

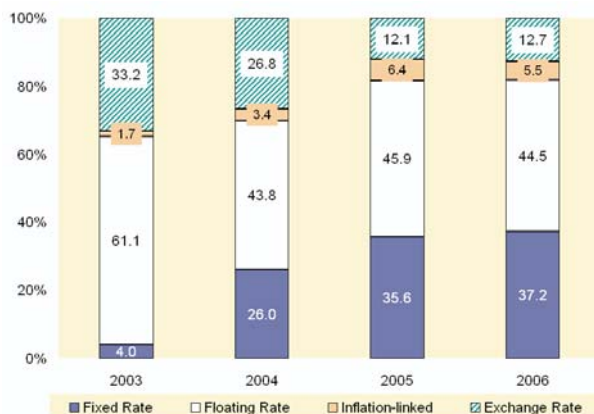
Graph XXVIII
Percentage due in 12 Months



Source: National Treasury

Aside from the reduction in the proportion of debt due in 12 months, evolution of the maturity profile has also aided in reducing risks. As demonstrated by Graph XXIX, in 2003 less than 10% of DPF maturities corresponded to fixed-rate bonds, compared to 37.2% in 2006.

Graph XXIX
DPF Maturity Profile

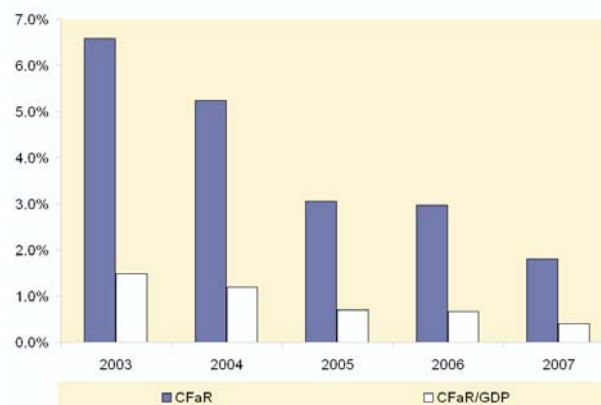


Source: National Treasury

In this framework, increased utilization of fixed-rate debt coupled with reductions in floating-rate debt and, more importantly, exchange-indexed debt, have resulted in lesser volatility in the flows of debt scheduled to mature within 12 months. This can be measured through relative Cashflow-at-risk (CfaR)¹⁷, presented in Graph XXX. This is an indicator of the magnitude of deviations in the value of expected DPF maturities caused by stochastic shocks on interest, foreign exchange rate and inflation, at a specific level of statistical significance¹⁸ of such shocks. The relative CfaR has been

dropping since 2003. In 2007, its value will correspond to 27% of the value projected in the hypothesis of a maturity profile equal to that of 2003.

Graph XXX
Cashflow-at-Risk



Source: National Treasury

Other factors that have contributed to lesser refinancing risk are maintenance of comfortable balances in the liquidity cushion¹⁹ and management of liabilities in foreign currency. In relation to the latter point, the National Treasury acquired resources in foreign currency in amounts sufficient to meet external debt service needs over the next 12 months. At the same time, the Treasury also implemented a program in 2006 for the purpose of repurchasing part of the external debt scheduled to mature between 2006 and 2012, thus smoothing the maturity profile of the external Federal Public Debt – DPF_e.

Market Risk

From the qualitative point of view, the reduction in market risk can be seen in terms of the profile of

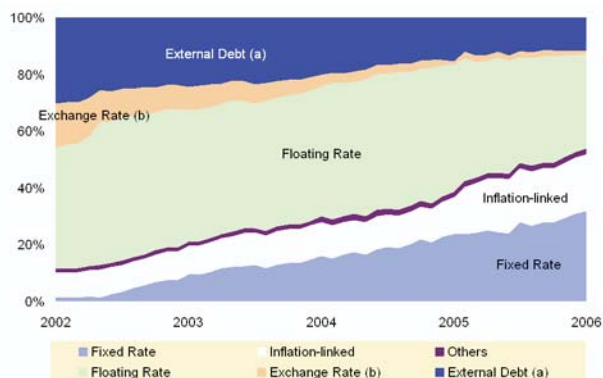
¹⁷ This exercise consists of a simulation for each DPF maturity profile hypothesis of the distribution of probabilities of these maturities at the end of each month of 2007, based on stochastic scenarios for interest, exchange and inflation. Total benchmark maturities correspond to the volume currently projected to mature in 2007 (R\$ 436.1 billion), without considering 2007 refinancing strategy. The maturity volumes of each group of bonds (fixed-rate, floating rate, inflation-linked or exchange-indexed) are given by their participation in DPF maturities in each year (from 2003 to 2006, as presented in Graph XXX) and are distributed equally among the 12 months of 2007.

¹⁸ Relative CfaR presented in this document is defined as the ratio between the percentile of 99% (1% significance level) and average simulated distribution of the value of DPF maturities over the course of one year.

¹⁹ Budget resources available exclusively for DPF payments.

outstanding debt on the market. Graph XXXI shows a process of steady changes in DPF profile, as fixed-rate and inflation-linked bonds increased in share, at the same time in which the shares held by interest and FX-rate linked securities steadily diminished.

Graph XXXI
DPF Profile



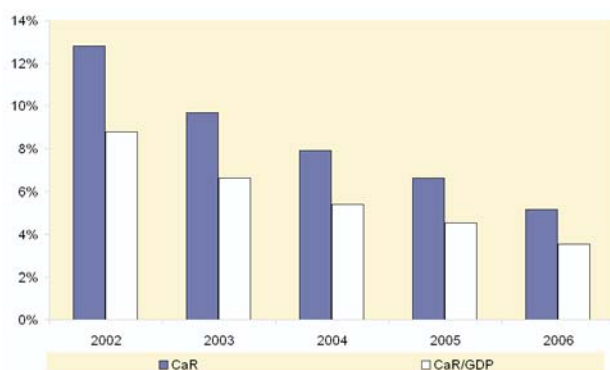
Source: National Treasury

(a) Debt denominated in foreign currency

(b) FX-linked Domestic Debt

The reduction in market risk made possible through improvements in DPF profile can be evaluated through estimation of the relative Cost-at-Risk (CaR)²⁰. The results of this exercise are shown in Graph XXXII. Relative CaR is a volatility indicator of outstanding DPF that seeks to project the amount in which, as a result of changes in the economic variables underlying its cost, outstanding debt can exceed its expected value in a specific fiscal year, at a specific level of statistical significance²¹.

Graph XXXII
Relative Cost-at-Risk of the DPF



Source: National Treasury

As shown by the simulations, relative CaR has been dropping systematically since 2002. At the end of 2006, its value was equivalent to approximately 40% of what would have been projected had DPF profile remained the same as in 2002. This represents a market risk reduction of approximately 3/5 over a five year horizon. The underlying reason for this is the increased share of fixed-rate and inflation-linked bonds in total DPF.

Aside from relative CaR, more conservative analyses also reveal the reduction in market risk. In this context, the Treasury periodically calculates the negative impact of extreme and persistent real interest and real exchange rate variations on outstanding DPF. This exercise is known as the stress test²². Table VII shows a significant reduction in DPF vulnerability in relation to sharp alterations in market variables. The expected impact due to stress scenarios dropped from R\$ 352.1 billion (22.2% of GDP), considering 2002 profile, to R\$ 124.50 4 billion (5.9% of GDP), using end-2006 profile.

Table VII
Stress Test on Interest and Exchange

Indicators	Share of DPF (%)							Stress Impact (R\$ billion)				
	2002	2003	2004	2005	2006	2007*	2002	2003	2004	2005	2006	
Floating Rate	42.4	46.5	45.7	43.9	33.4	29.0	52.7	57.8	56.8	54.6	41.5	
							(3.3%)	(3.6%)	(3.1%)	(2.8%)	(2.0%)	
Exchange Rate	45.8	32.4	24.2	17.6	12.7	11.0	299.4	211.9	158.2	115.0	83.0	
							(18.9%)	(13.3%)	(8.5%)	(5.9%)	(3.9%)	
Total	88.2	78.9	69.9	61.5	46.1	40.0	352.1	269.7	215.0	169.6	124.5	
							(22.2%)	(16.9%)	(11.6%)	(8.7%)	(5.9%)	

Source: National Treasury

On dealing with DPF exposure to exchange shocks, this situation is even more positive than suggested by the exercise above. The stress test

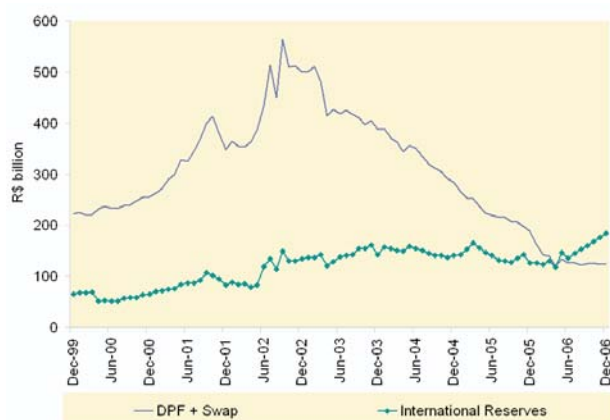
20 This exercise consists of a simulation for each DPF profile hypothesis of the distribution of probabilities of the value of the outstanding volume of this debt at the end of 2007, based on stochastic scenarios for interest, exchange and inflation. The initial outstanding volume of each group of securities (fixed rate, floating rate, inflation-linked or exchange-indexed) is given on the basis of its participation in DPF in each year (2002 to 2006). The total benchmark volume is the amount calculated at the end of 2006 (R\$ 1,237 billion).

21 Relative CaR presented in this document is defined as the ratio between the 99% bracket (significance level of 1%) and average simulated distribution for the value of outstanding DPF at the end of one year.

22 Stress represents a shock of three standard deviations on the average real Selic rate and real exchange devaluation accumulated over 12 months (January/00 and December/06), applied to outstanding DPF in December 2006 (R\$ 1,237.0 billion). The stress scenario for the one year period is applied to the debt in Selic and, instantaneously, to correction of the exchange debt.

does not consider the level of international reserves accumulated by the Central Bank. Graph XXXIII shows the evolution of the share of DPF indexed to exchange (including exchange swaps) and of international reserves. Note that, since mid-2006, the international reserve level has consistently exceeded the share of DPF indexed to exchange. With this result, one can infer that, though they generate increases in DPF value, exchange shocks would be immunized by an increase of the same proportion in the value of international reserves expressed in real.

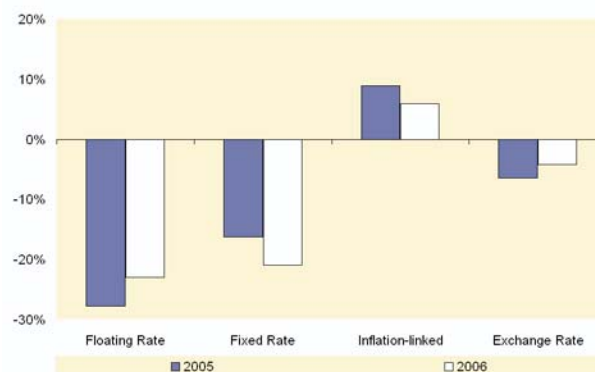
Graph XXXIII
Exchange exposure: DPF + Swap versus International Reserves



Source: National Treasury

The **Asset and Liability Management Staff – ALM**, charged with monitoring net federal government mismatches, also produced better results in 2006. In the fixed-rate Treasury debt component, the mismatch increased in the manner desired by debt management guidelines, while that registered in exchange, interest and inflation-linked liabilities dropped. The strongest reduction was registered in the inflation-linked mismatch due to strong net issuance of these securities in the first half of 2006. This means that new issuances are taking much better and more efficient advantage of the federal government asset structure.

Graph XXXIV
Mismatch between Assets and Liabilities as % of GDP



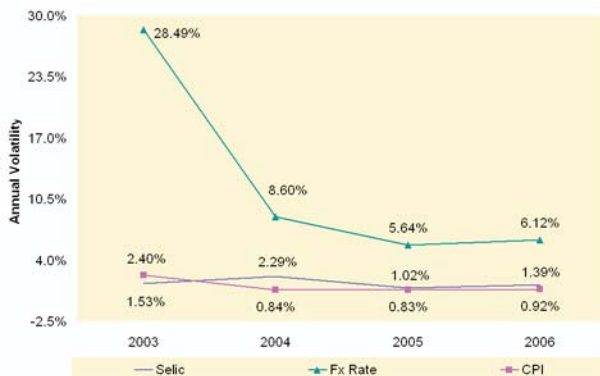
Source: National Treasury

Additional Considerations

It is interesting to stress that, in general terms, risk analysis and debt management have given due consideration to the fact that changes in the DPF structure cannot be implemented in an artificial manner, in a way that would impose a debt profile that the market is not willing to accept. In previous periods, it was obvious that such measures generate negative repercussions on other debt indicators, such as cost or average maturities. Consequently, such alterations can only be introduced when the moment is propitious, making it possible to move toward a lower risk long-term and sustainable debt structure.

The following graph suggests that macroeconomic stability has played an important role in improving debt risk perceptions. Following a virtuous cycle, the increased stability of the major DPF indexing factors has opened space for larger issues of fixed-rate securities without any significant sacrifice in terms of cost and average debt terms. In its turn, the new debt profile further attenuated perceptions of DPF risk.

Graph XXXV
Volatility of the Major Indexing Factors



Source: National Treasury

With the increase in fixed-rate security issuance, the National Treasury transfers part of the debt risk to the market. In this sense, the greater the volume of outstanding LTN and NTN-F, the greater will be the risk held by buyers of such securities.

In quantitative terms, DV01²³ and VaR²⁴ are volatility measurements of interest rate risk widely used by participants in the fixed income market holding positions in fixed-rate assets. Therefore, their evolution has direct impacts on demand for these securities.

Graph XXXVI shows the monthly evolution of DV01 for the LTN and NTN-F portfolio in 2005 and 2006. Observe that this indicator recently climbed to historically high levels, due primarily to two factors: the larger volume of outstanding fixed-rate securities and their longer average terms. Despite this, a corresponding increase in market VaR has not occurred. In other words, despite greater exposure of fixed rates to market risk, as indicated by DV01, the reduction in the volatility of interest rates has reduced effective portfolio risk, as is evident in the evolution of VaR. This fact explains the market's capacity to absorb an increasingly greater volume of securities with fixed-rate earnings.

Note also that VaR peaked between May and July 2006 as a result of external market turbulence in that time frame. Notwithstanding this, the increased volatility was more rapidly overcome than in previous occurrences, clearly demonstrating the importance of the National Treasury's ongoing efforts to improve debt profile.

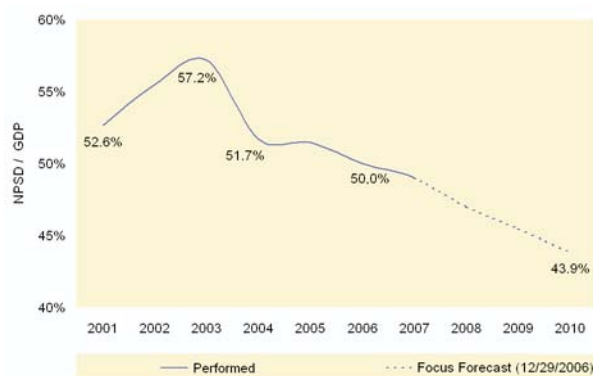
Graph XXXVI
DV01 e VaR



Source: National Treasury

Finally, viewed under the prism of fiscal policy sustainability, Graph XXXVII shows that the federal government has gradually managed to reduce the Net Public Sector Debt/GDP ratio. This fact, coupled with the gradual drop in the Selic rate, leads one to believe that, if the currently favorable external conditions are maintained, there will be still more space in the coming years for the National Treasury to improve the public debt profile.

Graph XXXVII
Net Public Sector Debt (NPSD) as a % of GDP²⁵



Source: Central Bank

23 DV01 - Dollar Value of a Basis Point - measures the loss that can occur in the value of a fixed-rate security portfolio on the market as a result of an increase of one basis point (0.01%) in the discount rate of those securities.

24 VaR - Value at Risk - is defined as the maximum expected loss for a security portfolio over a specified time horizon, at a determined level of statistical significance. Applied to the DPMFi fixed-rate security portfolio, this indicator measures the probabilistic loss that the market would have to absorb in case of a shock in the interest rates used to calculate earnings on those public securities.

25 The amount shown in the graph for December 2006 was drawn from the Focus report.

Section 4 – Institutional Advances

Over the course of 2006, the National Treasury adopted a series of measures aimed at strengthening its institutional structure and, in this way, further improve public debt management. Here, one should emphasize the work carried out in the framework of the Public Debt Management Specialist Group for Latin America and the Caribbean, implementation of the first modules of the Integrated Public Debt System – SID, establishment of regular conference calls with investors and creation of a program of domestic seminars regarding public debt.

As a result of the efforts made over the years by the National Treasury and other government entities, Brazil has been classified for the second consecutive time by the Institute of International Finance as the emerging country with the best investor relations structure. Parallel to this, the process of creating a closer bond between the Treasury and international rating agencies has made it possible to closely monitor how the progress achieved in debt management and the nation's economic fundamentals as a whole have led the four major rating agencies contracted for this purpose to raise the country's risk rating

Public Debt Management Specialist Group Latin America and the Caribbean²⁶

The II Annual Encounter of Public Debt Management Specialists from Latin America and the Caribbean (LAC Debt Group) was held on April 20 and 21. Under the presidency of the Brazilian delegation, the event was hosted by Colombia in the city of Cartagena, with representatives from more than 15 countries in the region including Chile, Costa Rica, Ecuador, Mexico, Peru and Venezuela, together with representatives from private institutions and multilateral organizations, including the Inter-American Development Bank (IADB), the World Bank and the IMF. Among the major subjects discussed during that meeting, the most important were adoption of improved practices regarding the public debt management institutional structure and development of the secondary public security market, the relation between debt management and fiscal policy and

standardization of debt statistics among the countries of the region.

With respect to the specific activities carried out by Brazil in the framework of the Group, mention should be made of a presentation on the process of developing the secondary public securities market in the region, creation of regional information systems for the public debt and derivatives market.

The aforementioned presentation was the first step in a project that began during the first encounter of the group in Brazil in 2005, during which the lead discussion was the importance of developing the secondary public security market in the region. Brazil took on the task of coordinating implementation of that project which was divided into two stages. The first of these has already been concluded and had the goal of elaborating a questionnaire on the subject to be answered by each one of the member countries.

The second stage began with consolidation of the responses submitted by the different countries. Here, the objective was to elaborate a diagnosis regarding the dimensions of the secondary market in each country of the region, together with an understanding of their fragilities and potentialities.

The III Annual Meeting will be held in April 2007 in Costa Rica and will have the task of concluding the second stage of the project. The major conclusions of the study will be presented during that event, together with proposals regarding successful experiences involving public security trading systems and organization that have occurred in countries of the region and that can be replicated in other member countries.

Conference Call with Investors

In 2006, the National Treasury held a series of conference calls with international investors, sponsored by important global financial institutions. These events seek to clarify questions often raised by foreign investors regarding fiscal

²⁶ For greater details concerning this encounter, visit the site http://www.iadv.org/lac_debt_group/event1.cfm?language=english

policy and public debt management. These events are viewed as an important instrument for ensuring a transparent flow of information to investors, while maintaining an ongoing dialogue with important international financial market agents.

The four events carried out so far had the participation of investors from various segments, including representatives of pension funds, hedge funds, international banks, with an average total of 120 participants in each conference call. In 2007, this initiative, which has been very favorably received by the international financial community (see Chart V below), will follow a schedule of events announced at the beginning of the year.

Box V – Institute of International Finance (IIF) Study on Invested Relations

In September, the Institute of International Finance (IIF) released a report in which it presented a highly detailed analysis of investor relations practices and transparency in the dissemination of information on the public accounts of those emerging country's most active on the international financial market. Just as in the original report, released in December 2005, Brazil led a ranking of 32 different countries (points jointly obtained by the National Treasury and Central Bank Investor Relations Offices), including China, Mexico, Turkey, Russia, Croatia, Hungary, Poland, South Africa and South Korea. This study revealed that Brazil was the first country to comply with all of the 20 criteria analyzed in the survey.

The report emphasized the considerable improvement that has occurred in the practices adopted by the National Treasury's Investor Relations Group which, in a very short period of time, managed to comply with five additional criteria, raising the final total from 14 in the previous evaluation to a current level of 19. Among the measures adopted and that received points in the new report, mention should be made of: i) access to investor relations teams through their websites²⁷; ii)

creation of reciprocal links among the websites of the different government entities (also done by the Central Bank); iii) possibility of registering and canceling registration for purposes of receiving Treasury publications; iv) elaboration of a regular evaluation of investor relations practices; and v) regular conference calls with investors.

Integrated Public Debt System

With regard to the activities carried out in the framework of the Project for Strengthening Fiscal and Financial Management – PROGER, development of the Integrated Debt System – SID continued and has the objective of unifying the entire federal public debt database. Implementation of the system is divided into two major phases. Phase I consists of the modules referring to Operational Core of the System, while phase II covers specific processes related to public debt management activities, such as risk management, auctions, budget and financial programming and planning and strategy definition.

The Institutional Relations module went into operation during the year. With this technological tool, the Investor Relations Office will be able to eliminate redundancies in the management of its large contact base²⁸ and, consequently, more efficiently segment its information dissemination system and thereby respond more effectively to the highly varied demands it receives.

In the same sense, though this is not within the scope of SID, November witnessed the start of the STN technological infrastructure and computer center modernization project, which includes exchanges of workstations and insertion of the system into a new network environment capable of eliminating current bottlenecks.

Course for Journalists

In order to foster a more transparent and direct dialogue with media professionals with the aim of

²⁷ http://www.tesouro.fazenda.gov.br/divida_publica/contatos.asp.

²⁸ To register in the public debt contact base, access: http://www.tesouro.fazenda.gov.br/divida_publica/formulario_inclusao.asp.

improving understanding, reception and dissemination of information on DPF, the National Treasury held its second in a series of Public Debt Courses for Journalists²⁹. These courses were held in the month of March in Brasília, Rio de Janeiro and São Paulo. The courses are given to approximately 80 professionals from the different areas of the press to provide them with the theoretical foundations of the public debt, the most important concepts to be monitored, management structure and public debt planning, major advances in domestic and external liability management, as well as basic exercises in public debt sustainability.

GEPEP Seminars

The Research and Development Management Staff (COGEP/GEPEP) organized and presented a series of domestic seminars aimed at better preparing the technical staff of the Deputy Secretariat of the Public Debt (SECAD III), while fostering debate on themes related to public finance. During the course of the year, 20 of these meetings, including lectures, discussion forums and panels were held. Among the lecturers were members of the Secretariat staff, representatives of universities and government entities, dealing with questions of importance to public debt management, fiscal and monetary policy coordination, the rating process and other matters related to debt management.

Risk Classification

Since the process of transferring the external debt began in 2004, the National Treasury has also assumed responsibility for contacts with rating agencies, making it possible to closely monitor advances in this field in 2006.

The year was marked by upgrades in the risk ratings granted by the rating agencies contracted to monitor the Brazilian situation. In February, Standard & Poor's raised the rating from BB- to BB, just two notches below the investment grade³⁰. Following the S&P example, four months later in the month of June, Fitch also raised its ratings on Brazil from BB- to BB.

In July, the Japanese agency *R&I Ratings* raised

its classification from BB to BB+ for Brazil as a sovereign external debt issuer and for long-term Samurai Bonds. With this rating, the country is just one notch below the investment grade for this agency. Finally, in August, Moody's increased its rating from Ba3 to Ba2, leaving the country two notches below the investment grade.

One point that is common to all of the agency reports is the emphasis given to the reduction in external vulnerabilities as a result of improvements in the current account balance, successful implementation of monetary policy and, consequently, inflation control and, principally, advances in public debt management. In this regard the agencies gave particular emphasis to reduction of the external debt and to improvements in its profile, achieved by curtailing exchange and refinancing risk. In the framework of the domestic debt, it is important to emphasize the steady reductions achieved in the volume of floating rate debt, coupled with growth in fixed rate and inflation-linked debt.

Mention should also be made of Brazil's current rating, the best since the country concluded the external debt renegotiation process in 1994, in the opinion of all four agencies cited above.

BEST Brazil

The National Treasury has intensified its efforts to expand the investor base. In this context, particular mention should be made of its work regarding BEST - *Brazil: Excellence in Securities Transactions*, a group dedicated to disseminating information on the Brazilian capital market, offering precise and updated information to international investors and authorities with regard to the security, efficiency and reliability of that market. Several presentations on the Brazilian public debt were made in the BEST framework in London and Frankfurt, in April, New York and San Francisco, in June, and in Singapore and Hong Kong, in September.

²⁹ The first time the National Treasury held this type of course was in April and May 2004.

³⁰ On the same occasion, Standard & Poor's raised the Brazilian domestic debt rating from BB to BB+, just one level below investment grade.

Also in the BEST framework, which the Treasury joined in 2005, lectures were presented and visits were made to government institutions, with the objective of transmitting information on the Brazilian securities market. At the same time, periodic meetings were held with participants in the group in order to discuss new legal and administrative measures designed to make the Brazilian market more attractive to foreign investors. At this point, one should recall that several important measures, including the income tax exemption granted to foreign investors, arose out of the BEST framework.

Roadshows

Following the sequence of BEST events, the National Treasury held roadshows in the same localities as those events, in an effort to attract new investors to the Brazilian market. The most important of these was held at the annual World Bank and IMF meeting in Singapore, in September. Aside from this, the Treasury played an important role in several world discussion forums. Among these, one should highlight its participation in the II World Bank Seminar on Public Debt Management, held in Washington, DC, a seminar followed by encounters with investors in New York and the 3rd Latin American Conference in Miami. Working together with other countries, the National Treasury participated in a conference on debt sustainability organized by UNCTAD in Buenos Aires, Argentina. Aside from the BEST events held in Europe, the Treasury also participated in the Euromoney event in London, Latibex, held in Madrid, and an investor event in Lisbon. Mention should also be made of the participation of National Treasury representatives in the annual meeting of the Inter-American Development Bank (IDB), held in Belo Horizonte, in the month of April.

Treasury Direct

Treasury Direct is a program that makes it possible for individuals to acquire government bonds through the Internet. Efforts to improve this program have been made with the aim of discussing, proposing and implementing measures required to reach the objectives of the

program. Among these measures, one should cite reformulation of the Direct Treasury website, in order to make it friendlier. This reformulation, launched in December, included the development of a new layout and page content.

The objective of Treasury Direct is to make investor access to federal securities more democratic, while encouraging formation of long-term savings among small-scale investors and providing information on Brazilian Federal Public Debt. With the aim of increasing available information on this subject, the National Treasury participated in the ExpoMoney investment fairs, bringing together more than 33 thousand people in the cities of Curitiba, Rio de Janeiro, São Paulo, Belo Horizonte, Porto Alegre and Foz do Iguaçu, with lectures and clarifications on the program.

During the year, invitations were received from various institutions, resulting in lectures at universities. Among these, one of the most important was that given at the University Bandeirante of São Paulo – UNIBAN, in which more than 200 people participated.

APPENDICES

- I – PROFILE OF DPMFI HELD BY THE PUBLIC
- II – AVERAGE MATURITY OF DPMFI HELD BY THE PUBLIC
- III – FEDERAL SECURITIES HELD BY THE PUBLIC DUE IN 12 MONTHS, BY TYPE OF EARNINGS – DPMFI
- IV – NET EXTERNAL NATIONAL TREASURY DEBT HELD BY THE PUBLIC
- V – AVERAGE COST AND AVERAGE TERM OF THE EXTERNAL PUBLIC DEBT

I – PROFILE OF DPMFI HELD BY THE PUBLIC¹

Month	Fixed Rate		Floating Rate		Inflation-linked		Exchange Rate		TR		Others		Total	
	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)
December-99	39.75	9.00%	251.68	57.02%	24.63	5.58%	100.71	22.82%	23.97	5.43%	0.67	0.15%	441.41	100.00%
December-00	75.40	14.76%	266.81	52.24%	30.32	5.94%	113.74	22.27%	24.07	4.71%	0.36	0.07%	510.70	100.00%
December-01	48.79	7.82%	329.46	52.79%	43.63	6.99%	178.58	28.61%	23.52	3.77%	0.10	0.02%	624.08	100.00%
December-02	13.66	2.19%	379.07	60.83%	78.17	12.54%	139.47	22.38%	12.78	2.05%	0.05	0.01%	623.19	100.00%
January-03	12.17	1.91%	397.52	62.42%	79.40	12.47%	134.89	21.18%	12.85	2.02%	0.04	0.01%	636.86	100.00%
February-03	12.80	1.98%	404.04	62.65%	82.22	12.75%	132.86	20.60%	12.92	2.00%	0.04	0.01%	644.88	100.00%
March-03	15.68	2.41%	415.34	63.93%	84.10	12.95%	121.55	18.71%	12.99	2.00%	0.04	0.01%	649.70	100.00%
April-03	12.32	1.91%	436.16	67.68%	85.55	13.28%	97.24	15.09%	13.10	2.03%	0.04	0.01%	644.41	100.00%
May-03	21.59	3.27%	444.06	67.20%	86.40	13.06%	95.37	14.43%	13.30	2.01%	0.04	0.01%	660.76	100.00%
June-03	29.99	4.48%	449.80	67.19%	85.87	12.83%	90.29	13.49%	13.45	2.01%	0.03	0.00%	669.42	100.00%
July-03	43.52	6.31%	458.57	66.46%	85.32	12.37%	88.98	12.90%	13.56	1.97%	0.03	0.00%	689.99	100.00%
August-03	51.63	7.42%	457.99	66.81%	86.29	12.40%	87.12	12.52%	12.89	1.85%	0.03	0.00%	695.95	100.00%
September-03	64.02	9.05%	457.24	64.61%	90.24	12.75%	83.24	11.76%	12.96	1.83%	0.03	0.00%	707.74	100.00%
October-03	70.97	9.89%	461.28	64.26%	93.24	12.99%	79.67	11.10%	12.67	1.76%	0.03	0.00%	717.86	100.00%
November-03	82.08	11.27%	457.36	62.80%	94.28	12.95%	81.68	11.21%	12.88	1.77%	0.03	0.00%	728.31	100.00%
December-03	91.53	12.51%	449.03	61.39%	99.07	13.55%	78.67	10.76%	13.09	1.79%	0.03	0.00%	731.43	100.00%
January-04	92.71	12.57%	451.82	61.28%	99.89	13.55%	79.64	10.80%	13.26	1.80%	0.02	0.00%	737.34	100.00%
February-04	100.97	13.59%	450.89	60.67%	102.27	13.76%	75.65	10.18%	13.35	1.80%	0.03	0.00%	743.15	100.00%
March-04	117.06	15.41%	455.73	59.98%	103.38	13.61%	70.17	9.23%	13.47	1.77%	0.03	0.00%	759.84	100.00%
April-04	121.25	15.79%	458.09	59.67%	106.74	13.90%	68.05	8.86%	13.51	1.76%	0.03	0.00%	767.67	100.00%
May-04	122.52	16.37%	433.20	57.89%	109.63	14.65%	69.36	9.27%	13.64	1.82%	0.03	0.00%	748.38	100.00%
June-04	127.55	16.82%	436.13	57.52%	113.29	14.94%	67.37	8.89%	13.82	1.82%	0.03	0.00%	758.19	100.00%
July-04	114.90	15.13%	452.25	59.57%	114.75	15.12%	63.14	8.32%	14.14	1.86%	0.02	0.00%	759.20	100.00%
August-04	126.87	16.66%	445.55	58.49%	117.04	15.36%	57.84	7.59%	14.44	1.90%	0.02	0.00%	761.77	100.00%
September-04	134.88	17.46%	449.55	58.28%	118.14	15.32%	54.27	7.04%	14.64	1.90%	0.02	0.00%	771.30	100.00%
October-04	135.16	17.41%	458.25	59.01%	118.75	15.29%	49.48	6.37%	14.84	1.91%	0.02	0.00%	776.50	100.00%
November-04	146.84	18.71%	458.12	58.36%	119.80	15.25%	45.54	5.80%	14.61	1.86%	0.02	0.00%	784.94	100.00%
December-04	162.76	20.09%	462.99	57.14%	120.71	14.90%	41.74	5.15%	22.04	2.72%	0.02	0.00%	810.26	100.00%

Source: National Treasury and Central Bank
¹ Values based on portfolio position according to securities' intrinsic yield curve prices.

I – PROFILE OF DPMFI HELD BY THE PUBLIC¹ (cont.)

Month	Fixed Rate		Floating Rate		Inflation-linked		Exchange Rate		TR		Others		Total	
	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)
January-05	154,67	18,71%	491,54	59,46%	120,38	14,56%	37,83	4,58%	22,27	2,69%	0,01	0,00%	826,70	100,00%
February-05	172,75	20,43%	493,39	59,36%	120,90	14,30%	36,98	4,26%	22,36	2,64%	0,01	0,00%	845,39	100,00%
March-05	188,02	21,52%	503,99	57,69%	122,23	13,99%	36,94	4,23%	22,43	2,57%	0,01	0,00%	873,61	100,00%
April-05	176,96	20,25%	517,01	59,17%	123,22	14,10%	34,53	3,95%	22,10	2,53%	0,01	0,00%	873,83	100,00%
May-05	195,82	22,05%	513,57	57,84%	123,63	13,92%	32,62	3,67%	22,28	2,51%	0,01	0,00%	887,93	100,00%
June-05	207,82	22,95%	517,28	57,13%	125,72	13,88%	32,16	3,55%	22,52	2,49%	0,01	0,00%	905,51	100,00%
July-05	204,84	22,37%	530,01	57,88%	125,41	13,70%	32,82	3,58%	22,59	2,47%	0,00	0,00%	915,67	100,00%
August-05	219,79	23,87%	519,36	56,40%	126,23	13,71%	32,72	3,55%	22,69	2,46%	0,00	0,00%	920,79	100,00%
September-05	240,39	25,76%	511,90	54,85%	127,24	13,63%	30,76	3,30%	22,92	2,46%	0,00	0,00%	933,22	100,00%
October-05	229,44	24,48%	528,75	56,41%	129,83	13,85%	28,64	3,06%	20,67	2,21%	0,00	0,00%	937,34	100,00%
November-05	257,88	26,88%	517,24	53,91%	138,70	14,46%	24,76	2,58%	20,92	2,18%	0,01	0,00%	959,50	100,00%
December-05	272,90	27,86%	507,16	51,77%	152,19	15,53%	26,41	2,70%	21,01	2,14%	0,01	0,00%	979,66	100,00%
January-06	263,01	26,70%	487,35	49,48%	188,59	19,15%	25,14	2,55%	20,85	2,12%	0,00	0,00%	984,93	100,00%
February-06	281,86	27,88%	476,77	47,20%	206,71	20,46%	24,14	2,39%	20,92	2,07%	0,00	0,00%	1010,20	100,00%
March-06	293,56	28,75%	466,09	45,64%	216,83	21,23%	23,75	2,33%	20,99	2,06%	0,00	0,00%	1021,22	100,00%
April-06	276,89	27,61%	462,45	46,12%	220,04	21,94%	22,39	2,23%	21,02	2,10%	0,00	0,00%	1002,78	100,00%
May-06	295,21	29,55%	440,30	44,07%	218,74	21,89%	24,60	2,46%	20,24	2,03%	0,00	0,00%	999,10	100,00%
June-06	319,59	31,45%	432,06	42,52%	220,81	21,73%	23,28	2,29%	20,36	2,00%	0,00	0,00%	1016,10	100,00%
July-06	307,79	30,36%	437,83	43,18%	222,17	21,91%	23,56	2,32%	22,58	2,23%	0,00	0,00%	1013,93	100,00%
August-06	327,23	31,49%	441,55	42,50%	224,06	21,56%	23,24	2,24%	22,94	2,21%	0,00	0,00%	1039,01	100,00%
September-06	348,62	32,83%	440,27	41,46%	228,40	21,51%	21,10	1,99%	23,47	2,21%	0,00	0,00%	1061,86	100,00%
October-06	349,17	32,85%	437,98	41,20%	235,24	22,13%	16,88	1,59%	23,77	2,24%	0,00	0,00%	1063,03	100,00%
November-06	380,32	35,16%	420,98	38,92%	242,26	22,40%	14,31	1,32%	23,79	2,20%	0,00	0,00%	1081,66	100,00%
December-06	395,04	36,13%	413,66	37,83%	246,43	22,54%	14,17	1,30%	24,19	2,21%	0,00	0,00%	1093,50	100,00%

Source: National Treasury and Central Bank
¹ Values based on portfolio position according to securities' intrinsic yield curve prices.

II -- AVERAGE MATURITY OF DPMFi HELD BY THE PUBLIC

Month	Fixed Rate	Floating Rate	Inflation-linked	Exchange Rate	TR	In months	
						Others	Total
December-99	2.00	19.88	63.02	24.71	118.58	11.27	27.13
December-00	5.15	27.61	59.11	28.50	101.82	11.04	29.85
December-01	3.45	36.39	68.45	25.36	91.43	18.21	34.97
December-02	3.06	21.83	79.18	35.47	98.46	15.27	33.24
January-03	2.41	20.68	79.60	35.79	97.56	17.73	32.43
February-03	1.67	20.49	78.80	35.99	96.80	16.80	32.27
March-03	1.59	20.25	78.52	36.17	95.83	15.77	31.83
April-03	7.44	19.98	78.58	38.17	95.01	14.77	31.79
May-03	7.44	20.62	78.56	39.16	93.91	13.73	31.92
June-03	7.34	21.41	78.35	39.24	93.39	12.73	31.94
July-03	7.14	22.00	78.23	40.37	92.55	15.27	31.77
August-03	6.76	22.10	77.51	40.52	90.51	14.24	31.40
September-03	6.64	22.38	76.00	40.95	89.61	13.24	31.21
October-03	7.11	22.49	77.25	41.02	92.09	12.20	31.37
November-03	6.95	22.81	77.33	40.67	92.37	11.20	31.31
December-03	6.50	22.74	77.88	40.51	92.75	10.17	31.34
January-04	7.83	22.59	77.90	40.16	91.87	12.85	31.37
February-04	7.38	21.97	76.68	41.15	91.10	11.89	30.71
March-04	7.57	21.06	77.57	43.37	90.11	10.85	29.95
April-04	8.44	20.14	77.75	44.52	89.34	9.85	29.68
May-04	7.37	20.33	77.67	45.64	88.37	8.82	30.20
June-04	6.38	20.07	77.07	45.90	89.37	7.82	29.84
July-04	6.95	19.20	78.08	46.94	88.87	10.97	29.85
August-04	6.02	18.64	77.18	48.90	88.05	9.94	29.26
September-04	5.38	18.35	76.82	50.01	87.33	8.94	28.58
October-04	6.17	17.82	77.23	54.12	86.38	7.91	28.50
November-04	5.88	17.69	76.94	55.42	87.32	6.91	28.01
December-04	5.63	17.49	76.74	58.03	94.95	5.87	28.13

Source: National Treasury and Central Bank

II – AVERAGE MATURITY OF DPMFi HELD BY THE PUBLIC (cont.)

Month	Fixed Rate	Floating Rate	Inflation-linked	Exchange Rate	TR	Others	In months	
							Total	Total
January-05	6.33	17.92	77.28	62.69	94.20	8.58	28.50	28.50
February-05	6.25	18.13	76.92	64.62	93.70	7.64	28.09	28.09
March-05	5.99	18.51	76.46	64.03	93.07	6.61	27.76	27.76
April-05	7.61	18.13	76.51	64.40	91.50	5.61	27.92	27.92
May-05	7.59	18.28	76.09	63.99	90.64	4.58	27.46	27.46
June-05	7.46	18.37	75.14	62.87	89.98	3.58	27.11	27.11
July-05	9.55	18.26	76.21	62.00	89.32	8.08	27.57	27.57
August-05	9.19	18.72	75.07	60.80	88.57	7.04	27.39	27.39
September-05	9.31	19.16	74.51	60.14	88.02	6.04	27.21	27.21
October-05	10.64	19.03	73.65	64.74	88.23	5.01	27.46	27.46
November-05	10.75	19.06	70.74	72.61	87.57	4.01	27.17	27.17
December-05	10.37	19.05	69.70	71.57	86.98	2.98	27.37	27.37
January-06	11.80	19.33	64.84	70.54	86.23	5.03	28.76	28.76
February-06	11.86	19.10	67.21	70.29	85.69	4.10	29.53	29.53
March-06	11.01	18.61	66.99	71.86	85.17	3.07	29.31	29.31
April-06	12.06	17.99	66.67	72.67	83.98	2.07	29.64	29.64
May-06	11.45	18.00	66.38	72.05	81.81	1.03	29.28	29.28
June-06	10.84	19.56	65.50	70.98	81.24	0.03	29.22	29.22
July-06	11.99	19.95	64.99	70.00	82.18	0.00	29.95	29.95
August-06	11.61	20.33	65.81	69.01	81.85	0.00	29.84	29.84
September-06	11.49	20.43	65.43	76.53	81.86	0.00	29.65	29.65
October-06	12.63	20.68	64.66	93.58	80.87	0.00	30.27	30.27
November-06	12.74	22.06	65.48	111.02	80.34	0.00	30.96	30.96
December-06	12.68	22.47	65.59	110.19	79.98	0.00	31.06	31.06

Source: National Treasury and Central Bank

III – FEDERAL SECURITIES HELD BY THE PUBLIC DUE IN 12 MONTHS, BY TYPE OF EARNINGS – DPMFI

Month	Fixed Rate		Floating Rate		Inflation-Linked		Exchange Rate		TR		Others		Total	
	(R\$ bn)	(%)	(R\$ bn)	(%)	(R\$ bn)	(%)	(R\$ bn)	(%)	(R\$ bn)	(%)	(R\$ bn)	(%)	(R\$ bn)	(%)
December-99	39.75	100.00%	146.48	58.20%	2.03	8.26%	53.31	52.94%	0.91	3.79%	0.02	3.35%	242.51	54.94%
December-00	72.95	96.75%	95.53	35.81%	3.65	12.03%	51.22	45.03%	1.31	5.46%	0.24	66.37%	224.90	44.04%
December-01	47.19	96.73%	35.39	10.74%	7.33	16.81%	82.20	46.03%	0.97	4.14%	0.02	23.63%	173.12	27.74%
December-02	13.22	96.77%	185.83	49.02%	6.79	8.68%	49.16	35.25%	0.91	7.11%	0.00	0.00%	255.90	41.06%
January-03	12.15	99.82%	203.83	51.27%	7.21	9.09%	45.22	33.52%	0.92	7.15%	0.00	0.00%	269.34	42.29%
February-03	12.78	99.82%	200.05	49.51%	7.72	9.38%	46.42	34.94%	0.92	7.13%	0.00	0.00%	267.90	41.54%
March-03	15.66	99.86%	186.36	44.87%	8.62	10.25%	46.84	38.53%	0.93	7.15%	0.00	0.00%	258.41	39.77%
April-03	11.53	93.57%	175.76	40.30%	8.65	10.11%	35.17	36.17%	0.93	7.10%	0.00	0.00%	232.05	36.01%
May-03	18.33	84.92%	178.66	40.23%	8.89	10.29%	34.21	35.87%	1.28	9.63%	0.00	0.00%	241.39	36.53%
June-03	24.71	82.41%	189.58	37.70%	9.03	10.51%	32.30	35.78%	0.93	6.92%	0.00	0.00%	236.56	35.34%
July-03	39.92	91.72%	149.42	32.58%	8.93	10.47%	31.21	35.07%	0.90	6.65%	0.00	0.00%	230.39	33.39%
August-03	46.64	90.34%	148.41	32.40%	9.51	11.02%	32.98	37.86%	0.92	7.11%	0.00	0.00%	238.47	34.27%
September-03	55.63	86.89%	141.05	30.85%	10.18	11.28%	32.03	36.48%	0.89	6.89%	0.00	0.00%	239.80	33.88%
October-03	61.68	86.91%	136.03	29.49%	10.34	11.09%	34.77	43.64%	0.78	6.12%	0.00	0.00%	243.61	33.94%
November-03	71.09	86.61%	132.75	29.02%	10.28	10.90%	37.36	45.74%	0.73	5.66%	0.00	0.00%	252.22	34.63%
December-03	78.69	85.97%	130.73	29.12%	10.66	10.76%	37.75	47.98%	0.67	5.12%	0.02	49.75%	258.52	35.34%
January-04	85.36	92.08%	125.05	27.68%	10.73	10.74%	41.18	51.70%	0.73	5.49%	0.02	60.32%	263.06	35.68%
February-04	92.02	91.14%	140.86	31.24%	11.06	10.82%	39.09	51.67%	0.78	5.85%	0.01	58.15%	283.82	38.19%
March-04	90.91	77.66%	163.89	35.96%	10.15	9.81%	33.71	48.04%	0.84	6.26%	0.02	60.31%	299.51	39.42%
April-04	105.70	87.18%	166.17	36.28%	10.36	9.71%	31.73	46.62%	0.84	6.23%	0.02	60.31%	314.82	41.01%
May-04	107.21	87.51%	163.42	37.72%	10.58	9.65%	30.93	44.60%	0.87	6.39%	0.02	60.31%	313.04	41.83%
June-04	111.53	87.44%	168.40	38.61%	10.83	9.55%	28.98	43.01%	0.76	5.63%	0.02	57.67%	320.53	42.28%
July-04	107.29	93.38%	168.78	37.32%	15.58	13.58%	25.59	40.54%	0.79	5.56%	0.01	57.67%	318.05	41.89%
August-04	118.69	93.55%	181.33	40.70%	16.59	14.17%	21.17	36.60%	0.90	6.20%	0.01	74.44%	338.68	44.46%
September-04	125.53	93.20%	198.27	44.10%	16.82	14.24%	18.59	34.25%	0.91	6.19%	0.01	74.44%	360.12	46.69%
October-04	122.67	90.76%	199.11	43.45%	16.70	14.06%	16.70	33.75%	1.19	8.01%	0.01	74.44%	356.38	45.90%
November-04	132.92	90.52%	188.32	41.11%	16.86	14.07%	17.86	39.22%	1.23	8.43%	0.01	74.44%	357.21	45.51%
December-04	146.98	90.30%	183.86	39.71%	25.24	21.74%	14.68	35.17%	1.56	7.07%	0.01	59.69%	373.33	46.08%

Source: National Treasury and Central Bank

¹ Values based on portfolio position according to securities' intrinsic yield curve prices.

² Percentual em relação ao total dos títulos a vencer com o mesmo tipo de rentabilidade.

III – FEDERAL SECURITIES HELD BY THE PUBLIC DUE IN 12 MONTHS, BY TYPE OF EARNINGS – DPMFI (cont.)

Month	Fixed Rate		Floating Rate		Inflation-linked		Exchange Rate		TR		Others		Total	
	(R\$ bn)	(%)	(R\$ bn)	(%)	(R\$ bn)	(%)	(R\$ bn)	(%)	(R\$ bn)	(%)	(R\$ bn)	(%)	(R\$ bn)	(%)
January-05	148.44	95.97%	176.12	35.83%	26.16	21.73%	10.90	28.82%	1.65	7.39%	0.01	79.64%	363.29	43.94%
February-05	156.64	90.67%	171.31	34.72%	26.33	21.78%	9.37	26.05%	1.65	7.37%	0.01	79.64%	365.30	43.21%
March-05	158.67	84.39%	178.16	35.35%	26.43	21.62%	10.48	28.38%	1.65	7.35%	0.01	79.64%	375.40	42.97%
April-05	150.81	85.23%	165.43	35.87%	26.71	21.68%	9.85	28.54%	1.58	7.14%	0.01	79.64%	374.40	42.85%
May-05	151.52	77.38%	199.67	38.88%	26.84	21.71%	9.22	28.26%	1.66	7.47%	0.01	79.64%	388.92	43.80%
June-05	152.66	73.46%	221.14	42.75%	25.24	20.08%	9.10	28.29%	1.68	7.46%	0.01	79.64%	409.83	45.26%
July-05	144.18	70.39%	229.27	43.26%	19.80	15.79%	9.31	28.38%	1.69	7.50%	0.00	100.00%	404.26	44.15%
August-05	145.00	65.97%	214.19	41.24%	23.04	18.26%	9.29	28.39%	1.71	7.52%	0.00	100.00%	393.23	42.71%
September-05	145.97	60.72%	200.97	39.26%	23.03	18.10%	10.95	35.58%	1.91	8.35%	0.00	100.00%	382.83	41.02%
October-05	143.91	62.72%	210.62	39.83%	23.10	17.79%	12.37	43.18%	1.09	5.27%	0.00	100.00%	391.09	41.72%
November-05	147.70	57.27%	225.44	43.59%	23.19	16.72%	11.34	45.79%	0.98	4.66%	0.01	100.00%	408.64	42.59%
December-05	149.90	54.93%	227.47	44.85%	17.38	11.42%	12.13	45.94%	1.03	4.90%	0.01	100.00%	407.91	41.64%
January-06	165.93	63.09%	201.62	41.37%	19.33	10.25%	11.61	46.20%	1.08	5.19%	0.00	100.00%	399.58	40.57%
February-06	166.74	59.20%	189.23	39.69%	20.13	9.74%	11.07	45.84%	1.09	5.21%	0.00	100.00%	388.26	38.43%
March-06	170.07	57.93%	207.14	44.44%	20.81	9.60%	10.44	43.96%	1.03	4.93%	0.00	100.00%	409.50	40.10%
April-06	170.20	61.47%	201.89	43.66%	20.93	9.51%	9.88	44.11%	1.08	5.15%	0.00	100.00%	403.98	40.29%
May-06	176.97	59.95%	179.80	40.84%	31.84	14.55%	10.79	43.87%	1.12	5.55%	0.00	100.00%	400.53	40.09%
June-06	188.45	58.97%	186.20	43.10%	32.07	14.52%	10.24	44.00%	0.99	4.88%	0.00	100.00%	417.97	41.13%
July-06	198.99	64.65%	174.83	39.93%	32.22	14.50%	10.40	44.16%	1.26	5.68%	0.00	0.00%	417.70	41.20%
August-06	203.69	62.25%	162.82	36.88%	29.09	12.98%	10.29	44.28%	1.29	5.63%	0.00	0.00%	407.18	39.19%
September-06	207.05	59.39%	180.06	40.90%	28.32	12.40%	7.95	37.66%	1.21	5.16%	0.00	0.00%	424.59	39.99%
October-06	201.41	57.68%	166.35	37.98%	28.79	12.24%	4.18	24.75%	1.34	5.63%	0.00	0.00%	402.07	37.82%
November-06	209.87	55.18%	137.10	32.57%	28.09	11.60%	1.43	9.97%	1.35	5.69%	0.00	0.00%	377.84	34.93%
December-06	208.97	52.90%	150.14	36.30%	25.62	10.40%	1.41	9.98%	3.90	16.13%	0.00	0.00%	390.05	35.67%

Source: National Treasury and Central Bank
¹ Values based on portfolio position according to securities' intrinsic yield curve prices.

² Percentage of total maturity with the same type of remuneration

IV – NET EXTERNAL NATIONAL TREASURY DEBT HELD BY THE PUBLIC

DESCRIPTION	(R\$ million)											
	Jan03	Feb03	Mar03	Apr03	May03	Jun03	Jul03	Aug03	Sep03	Oct03	Nov03	Dec03
I. SECURITIES	200,986.8	203,367.0	189,793.7	161,393.2	169,781.7	167,339.2	172,309.4	166,861.8	167,657.4	167,600.7	173,813.1	171,614.0
Bridies	66,279.6	66,972.0	62,030.1	52,310.6	53,680.6	51,986.3	53,678.8	49,810.4	49,041.2	46,778.4	48,304.8	47,318.9
Sovereign Bonds	136,707.2	137,395.8	127,763.5	57,220.7	116,101.1	115,363.9	118,630.7	117,051.4	118,616.2	120,962.3	125,500.2	124,295.1
II. CONTRACTUAL DEBT	69,171.0	69,004.9	66,188.9	31,026.2	60,119.1	56,406.1	56,659.8	55,869.2	55,879.4	55,210.3	57,119.6	54,439.2
Multilateral Organizations	39,015.3	38,547.5	36,015.0	31,026.2	33,274.5	32,300.4	31,964.9	31,340.0	31,273.2	30,747.8	31,705.0	30,947.3
Private Banks/ Governmental Agencies	11,969.0	12,080.8	11,364.0	9,792.4	9,597.2	9,283.7	9,571.7	9,559.4	9,413.2	9,201.5	9,495.5	9,298.4
Paris Club	18,186.7	18,376.7	18,809.8	16,402.1	17,247.4	14,821.9	15,123.2	14,969.8	15,193.0	15,261.0	15,919.1	14,193.5
EXTERNAL FEDERAL PUBLIC DEBT - DPFe (I + II)	270,157.7	272,372.8	255,982.6	218,613.9	229,900.8	223,745.3	228,969.2	222,730.9	223,536.8	222,971.0	230,932.7	226,053.2
III. DEPOSITED BONDS AS GARANTEES	-6,393.5	-6,697.7	-6,156.8	-5,407.5	-5,925.6	-5,615.4	-5,089.8	-5,201.9	-3,737.6	-3,522.2	-3,662.0	-3,649.4
IV. FUNDS, FOUNDATIONS RESOURCES	-1110.2	-1137.1	-1127.4	-1047.3	-968.8	-1005.6	-941.9	-974.0	-946.4	-916.7	-914.2	-869.5
EXTERNAL NET DEBT (I+II+III+IV)	262,654.1	264,538.0	248,698.4	212,159.1	233,006.4	217,124.3	222,927.5	216,555.0	218,852.9	219,532.1	226,356.5	221,534.3
EXTERNAL NET DEBT/GDP	19.3%	19.4%	17.8%	14.8%	15.7%	15.1%	15.4%	14.6%	14.7%	14.5%	14.9%	14.5%
I. SECURITIES	178,835.2	177,162.9	176,367.1	166,315.0	177,248.8	178,362.5	175,445.7	170,452.2	168,306.0	169,098.2	162,942.2	160,369.3
Bridies	48,165.2	47,721.8	47,591.6	45,444.3	48,290.0	47,956.7	46,606.5	45,174.5	43,972.3	41,278.6	39,460.7	38,368.1
Sovereign Bonds	130,669.6	129,441.1	128,995.5	120,870.7	128,968.8	130,425.9	128,839.2	125,277.7	124,333.7	127,819.6	123,481.5	122,011.2
II. CONTRACTUAL DEBT	54,463.4	53,188.0	52,296.2	52,362.3	55,487.6	52,727.3	51,473.9	49,150.1	47,822.4	48,125.6	46,554.7	43,574.2
Multilateral Organizations	30,590.6	29,618.2	28,743.8	28,950.2	30,408.1	29,969.9	29,486.0	27,737.1	26,851.9	26,930.6	25,900.3	25,456.1
Private Banks/ Governmental Agencies	9,456.4	9,336.2	9,314.9	9,405.4	9,994.2	9,915.2	9,640.2	9,324.6	9,067.9	9,059.0	8,865.2	8,415.1
Paris Club	14,416.4	14,233.6	14,239.6	14,006.7	15,086.4	12,842.2	12,347.6	12,088.4	11,902.6	12,136.0	11,989.2	9,703.0
EXTERNAL FEDERAL PUBLIC DEBT - DPFe (I + II)	233,298.7	230,350.9	228,663.3	218,677.3	232,736.4	231,093.8	226,919.6	219,602.3	216,128.4	217,223.8	209,496.9	203,943.5
III. DEPOSITED BONDS AS GARANTEES	-3,797.8	-3,867.3	-3,912.3	-3,673.0	-3,920.1	-3,935.2	-3,893.3	-3,960.4	-3,856.1	-3,933.9	-3,655.5	-3,674.2
IV. FUNDS, FOUNDATIONS RESOURCES	-364.1	-370.4	-346.7	-379.7	-407.3	-389.9	-356.7	-374.6	-462.2	-458.5	-416.0	-377.0
EXTERNAL NET DEBT (I+II+III+IV)	229,136.8	226,113.1	224,626.3	214,624.6	228,409.0	226,784.8	222,669.5	215,267.3	211,810.1	212,831.4	205,425.4	199,892.3
EXTERNAL NET DEBT/GDP	14.9%	14.7%	14.5%	13.8%	14.5%	14.2%	13.9%	13.2%	12.8%	12.4%	11.8%	11.3%

Source: National Treasury

IV – NET EXTERNAL NATIONAL TREASURY DEBT HELD BY THE PUBLIC (cont.)

DESCRIPTION	Jan05	Feb05	Mar05	Apr05	May05	Jun05	Jul05	Aug05	Sep05	Oct05	Nov05	Dec05
I. SECURITIES	157,408.0	169,960.6	167,327.2	156,421.6	148,344.5	147,373.0	142,731.4	142,485.5	139,016.0	136,989.7	134,926.1	144,155.9
Breadies	37,930.3	37,499.7	38,487.3	34,186.4	32,464.4	31,743.2	32,119.3	21,098.8	19,801.3	16,222.4	15,882.0	16,844.2
Sovereign Bonds	119,477.6	123,460.9	128,839.8	122,235.2	116,080.1	115,629.7	110,612.1	121,386.6	119,214.7	120,767.2	119,044.0	127,311.7
II. CONTRACTUAL DEBT	41,960.5	41,498.8	42,038.0	39,843.6	37,207.6	34,613.5	35,240.4	35,094.3	32,665.9	32,932.0	32,016.8	33,318.1
Multilaterals Organisms	24,307.3	23,997.2	24,237.9	22,926.9	21,431.3	21,127.4	21,554.2	21,479.6	19,988.9	20,232.1	19,675.4	22,075.8
Private Banks/ Governmental Agencies	8,309.0	8,192.7	8,397.5	7,968.4	7,569.9	7,380.2	7,501.1	7,411.1	6,955.0	6,935.3	6,764.8	7,190.4
Paris Club	9,344.2	9,309.0	9,402.6	8,948.3	8,217.4	6,105.8	6,185.1	6,203.6	5,722.0	5,764.6	5,566.6	4,051.9
EXTERNAL FEDERAL PUBLIC DEBT - DPFe (I + II)	199,368.5	202,459.4	209,365.2	196,265.2	185,752.1	181,986.5	177,971.8	177,579.8	171,682.0	169,942.9	166,942.9	177,473.9
III. DEPOSITED BONDS AS GARANTEES	-3,797.9	-3,697.2	-3,778.8	-3,740.1	-3,690.0	-3,691.4	-3,629.2	-3,723.4	-3,289.1	-3,254.6	-3,210.7	-3,524.8
IV. FUNDS, FOUNDATIONS RESOURCES	-442.0	-460.9	-443.5	-343.0	-318.7	-329.5	-340.8	-340.8	-329.6	-348.9	-454.9	-311.7
EXTERNAL NET DEBT (I+II+III+IV)	195,128.6	198,301.3	205,143.0	192,182.1	181,743.4	177,965.6	174,001.8	173,515.6	168,063.3	166,318.2	163,277.4	173,637.5
EXTERNAL NET DEBT/GDP	10.9%	11.0%	11.3%	10.5%	9.9%	9.6%	9.3%	9.2%	8.9%	8.7%	8.5%	9.0%
I. SECURITIES	134,383.7	126,618.2	126,066.1	108,177.7	119,387.7	108,906.2	109,458.9	105,997.2	109,073.5	108,361.9	109,784.4	109,076
Breadies	15,796.1	14,834.8	14,635.2	485.3	534.3	502.7	505.5	496.8	471.3	464.6	469.7	463
Sovereign Bonds	118,587.5	111,783.4	111,530.9	107,692.4	119,063.4	108,403.5	108,963.5	105,500.4	108,602.2	107,897.3	109,314.6	108,613
II. CONTRACTUAL DEBT	31,888.8	29,145.3	28,995.2	27,855.7	32,854.9	31,335.2	31,501.8	29,862.1	30,183.0	29,785.3	30,770.3	30,163
Multilaterals Organisms	21,171.0	20,404.6	20,640.3	20,032.7	25,422.1	23,928.6	24,070.7	23,720.7	23,886.7	23,784.3	24,677.1	24,367
Private Banks/ Governmental Agencies	6,806.1	6,551.6	6,655.9	6,384.3	7,427.8	7,406.6	7,431.0	6,241.4	6,296.3	6,000.9	6,093.2	5,796
Paris Club	3,911.7	2,189.1	1,898.9	1,428.6	5.0	-	-	-	-	-	-	-
EXTERNAL FEDERAL PUBLIC DEBT - DPFe (I + II)	166,272.5	155,763.6	155,061.3	136,033.4	152,442.7	140,241.4	140,960.7	135,950.3	139,256.5	138,147.2	140,554.7	139,239
III. DEPOSITED BONDS AS GARANTEES	-3,291.8	-3,205.5	-3,030.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-
IV. FUNDS, FOUNDATIONS RESOURCES	-323.0	-343.9	-308.0	-319.9	-369.8	-312.6	-328.4	-300.5	-297.1	-338.7	-347.7	-246.0
EXTERNAL NET DEBT (I+II+III+IV)	162,657.8	152,210.1	151,723.0	135,713.5	152,072.9	139,928.8	140,632.3	135,658.8	138,959.5	137,808.5	140,207.0	138,993
EXTERNAL NET DEBT/GDP	8.3%	7.7%	7.7%	6.8%	7.6%	7.0%	7.0%	6.7%	6.8%	6.7%	6.8%	6.7%

Source: National Treasury

V – AVERAGE COST AND AVERAGE TERM OF THE EXTERNAL PUBLIC DEBT

DISCRIMINAÇÃO	Jan/06	Feb/06	Mar/06	Apr/06	May/06	Jun/06	Jul/06	Aug/06	Sep/06	Oct/06	Nov/06	Dec/06
Average Maturity (Years)	6.6	6.7	6.8	6.9	6.8	6.8	6.8	6.9	6.8	6.8	6.9	6.8
Bradies	6.0	5.9	5.6	3.4	3.3	3.3	3.2	3.1	3.3	3.2	3.2	3.1
Sovereign Bonds	6.6	6.8	6.9	6.9	6.8	6.8	6.8	6.9	6.8	6.8	6.9	6.8
Globals	7.5	7.6	7.7	7.7	7.6	7.7	7.7	7.8	7.7	7.7	7.7	7.6
Euros	3.7	3.9	3.8	3.7	3.7	3.6	3.6	3.5	3.5	3.4	3.8	3.7
Reais	6.0	5.9	5.8	5.8	5.7	5.6	5.9	5.8	6.1	6.2	6.1	6.1
Others	1.1	1.0	1.2	1.2	1.1	1.0	0.9	0.8	0.8	0.7	0.6	0.5
Average Cost (% py)*	(36.6)	(35.8)	36.6	(26.2)	238.5	(45.3)	17.6	(7.5)	32.1	(4.6)	37.7	(6.8)
Bradies	(43.8)	(36.8)	26.7	(38.6)	219.6	(49.0)	13.2	(12.3)	30.4	(10.9)	21.8	(10.5)
Sovereign Bonds	(35.6)	(35.7)	37.9	(26.1)	238.6	(45.3)	17.6	(7.5)	32.1	(4.6)	37.7	(6.8)
Globals	(40.7)	(33.8)	33.9	(35.8)	234.6	(46.7)	18.4	(8.4)	36.3	(6.8)	27.2	(6.5)
Euros	(18.2)	(54.3)	65.3	11.5	294.0	(48.5)	14.5	(6.0)	18.6	(0.6)	103.3	(14.0)
Reais	13.2	13.2	13.2	13.2	13.2	13.2	13.2	13.2	13.2	13.2	13.2	13.0
Others	(32.2)	(40.9)	20.4	7.1	281.0	(56.8)	17.4	(18.3)	15.2	5.0	55.4	(30.0)

Source: Tesouro Nacional

* Average Cost in local BRL currency. The 2006 average cost data are calculated in accordance with the new methodology that considers the both the yield at issuance and the FX variation (monthly) for each bond. The average cost was modified to be in line with the DPMFI methodology, which, besides considering the increasing relevance of BRL denominated in the external debt, allows cross comparison and agrupating the costs of both debts.