



Ministry of Finance



TOKYO  
NOVEMBER 2007



## Brazil : The Big Picture

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*National Treasury Deputy Secretary*



# Brazilian Federal Public Debt

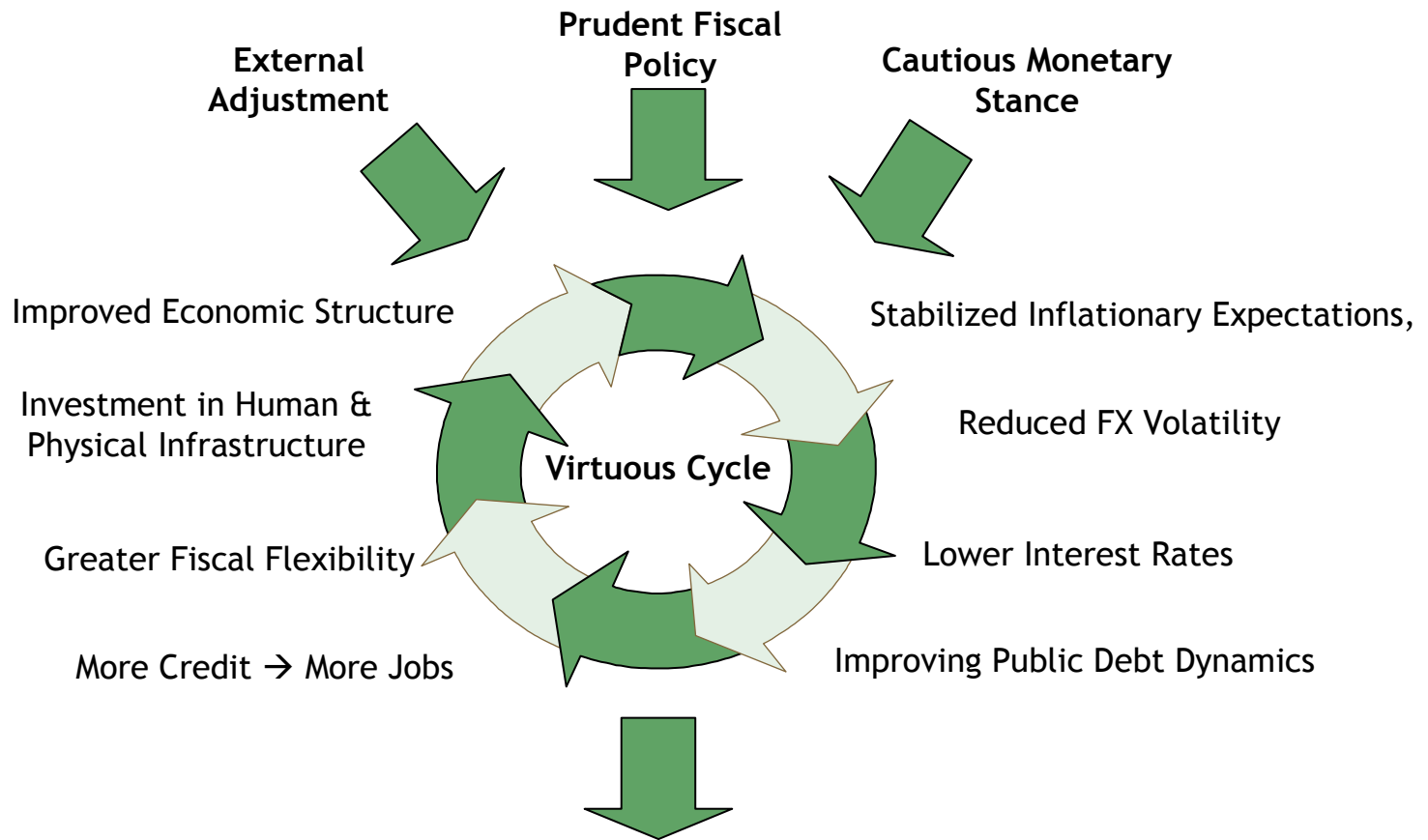
**Macroeconomic Overview**

**Public Debt Management**

**Brazil's Performance during the Crisis**

# On the path to sustainable growth

Economic Policy Mix Provides Buffer Against External Shocks

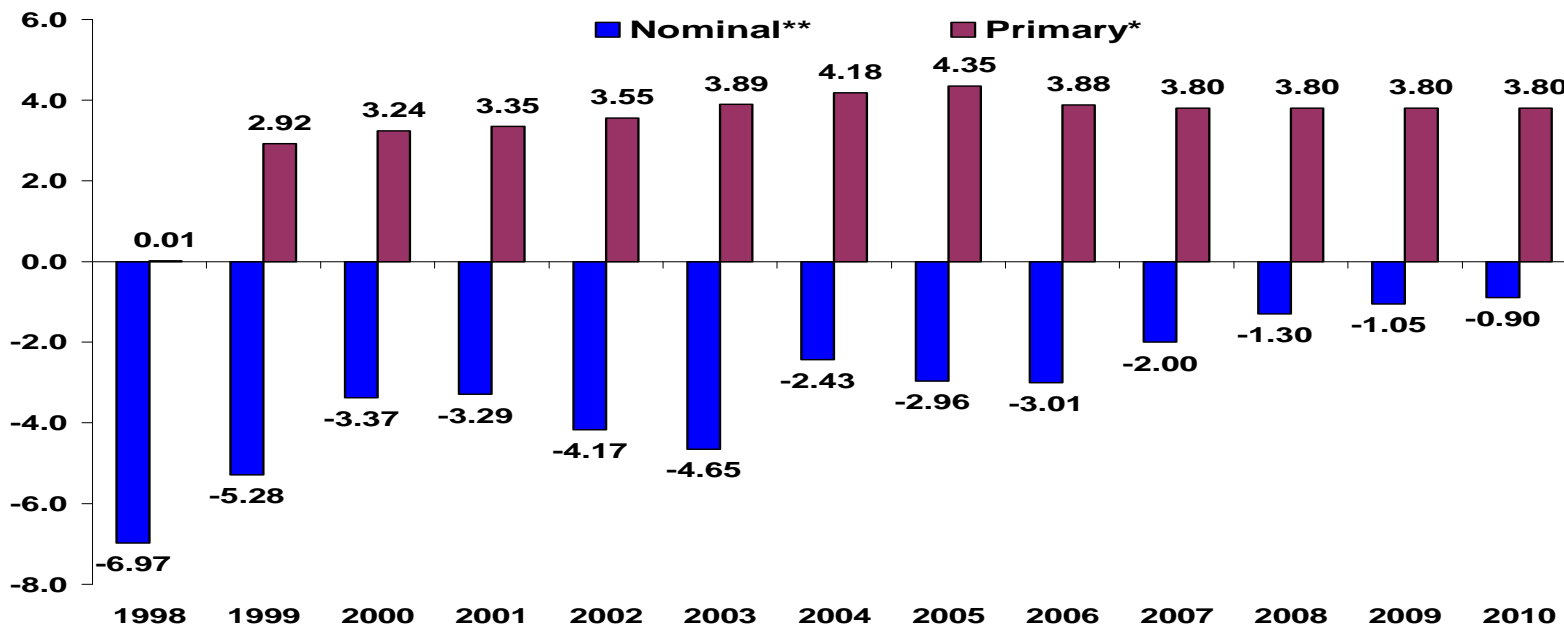


Sustainable Economic Growth & Improving Social Conditions

## Macroeconomic Overview - Keeping the Primary Balance for the next years . . .

- In the Budget Guidelines Law the Federal government restated its fiscal commitment, setting a primary balance of 3.8% of GDP until 2010 to the public sector (PS), which guarantees the Net PS Debt downward trend and a nominal deficit closer to zero

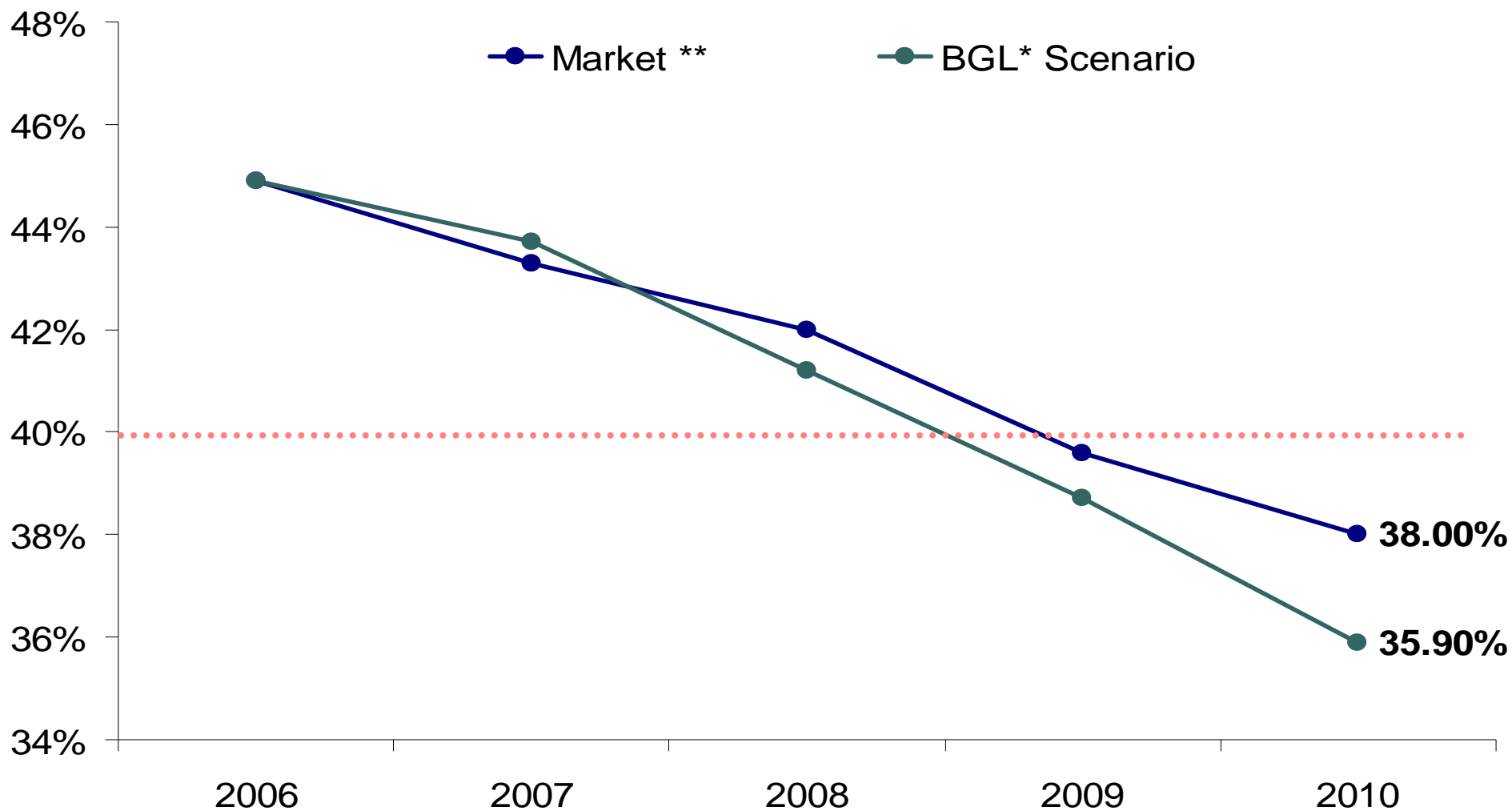
Primary\* and Nominal\*\* Balances (%GDP)



Source: Up to 2006 - Central Bank \* As from 2007 - Budget Draft Law \*\* As from 2007 - Market Expectations

# Macroeconomic Overview - . . . which guarantees the fiscal sustainability

## Net Debt / GDP scenarios

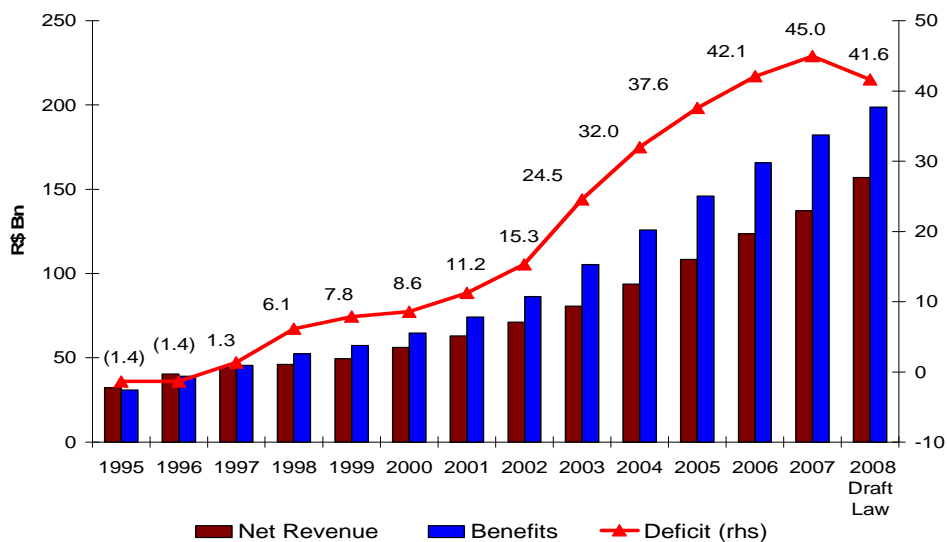


Source: National Treasury \* Budgetary Guideline Law'08 \*\* Central Bank/FOCUS 10/26/2007

## Macroeconomic Overview - Fiscal Perspectives for 2008

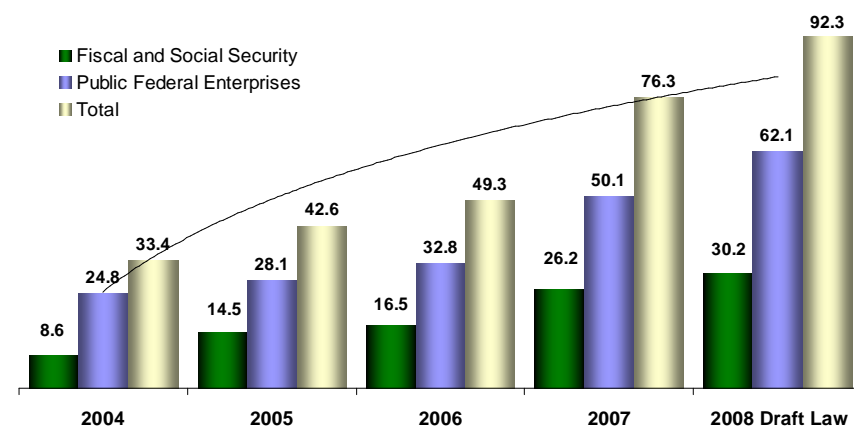
- In the 2008 Budget Draft Law sent to the Legislative (August 31<sup>st</sup>) the Federal government restated its commitment setting a primary balance of 3.8% of GDP to the whole public sector. Additionally:
  - It presents better perspectives to the public sector social security, reflecting the 1998 and 2003 reforms, which extended the retirement age and taxed the retirees.
  - It amplifies public investment under the Growth Acceleration Package. Ports, airports, highways, sanitation, housing and water sources are examples of priorities..

Social Security Deficit - 2008 Budgetary Draft Law



Source: Ministry of Planning

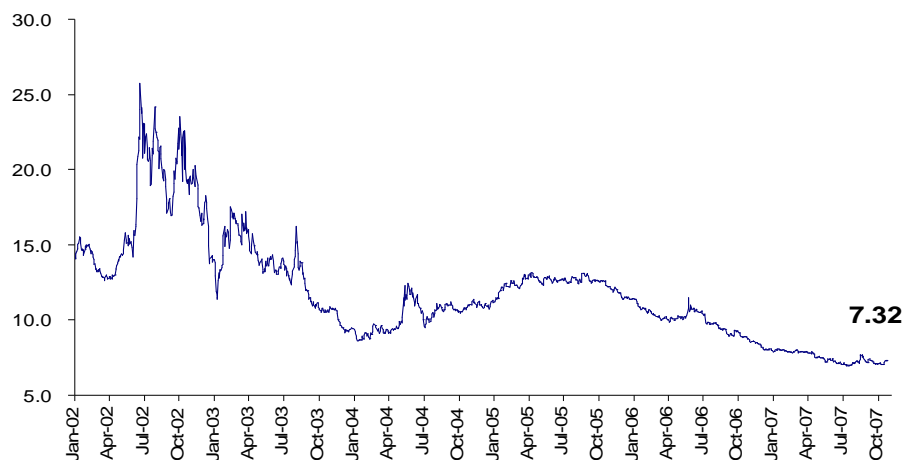
Public Investments - 2008 Budget Draft Law - R\$ Bn



Source: Ministry of Planning

# Macroeconomic Overview - Inflation under control permits lower interest rates

## Real Interest Rate (Swap 360 vs 12-month CPI forecast)

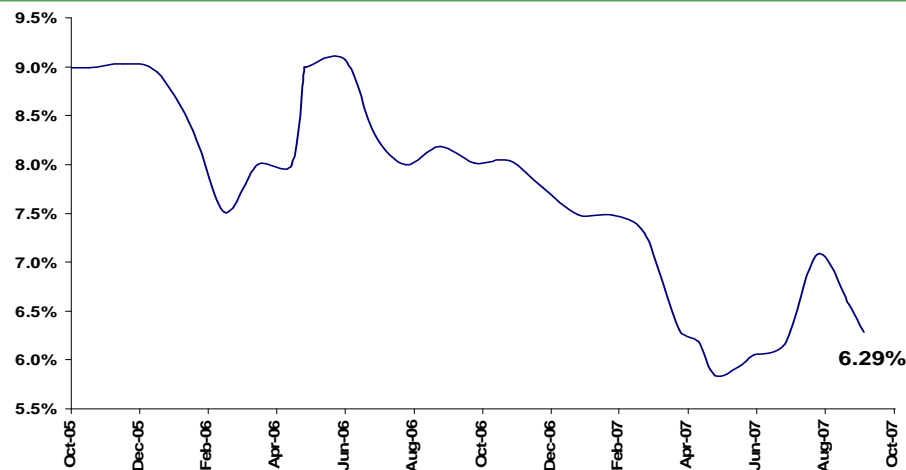


Source: Central Bank and Bloomberg

...and also the medium and long term real interest rate that fell over 120 bps just in 2007.

The improvement on economical conditions reduced dramatically the real interest rate on the short term from over 25% p.y. in 2002 to around 7% p.y. in 2007...

## Medium and Long Term Real Interest Rate on inflation linked bonds\* - Average rate of auctions

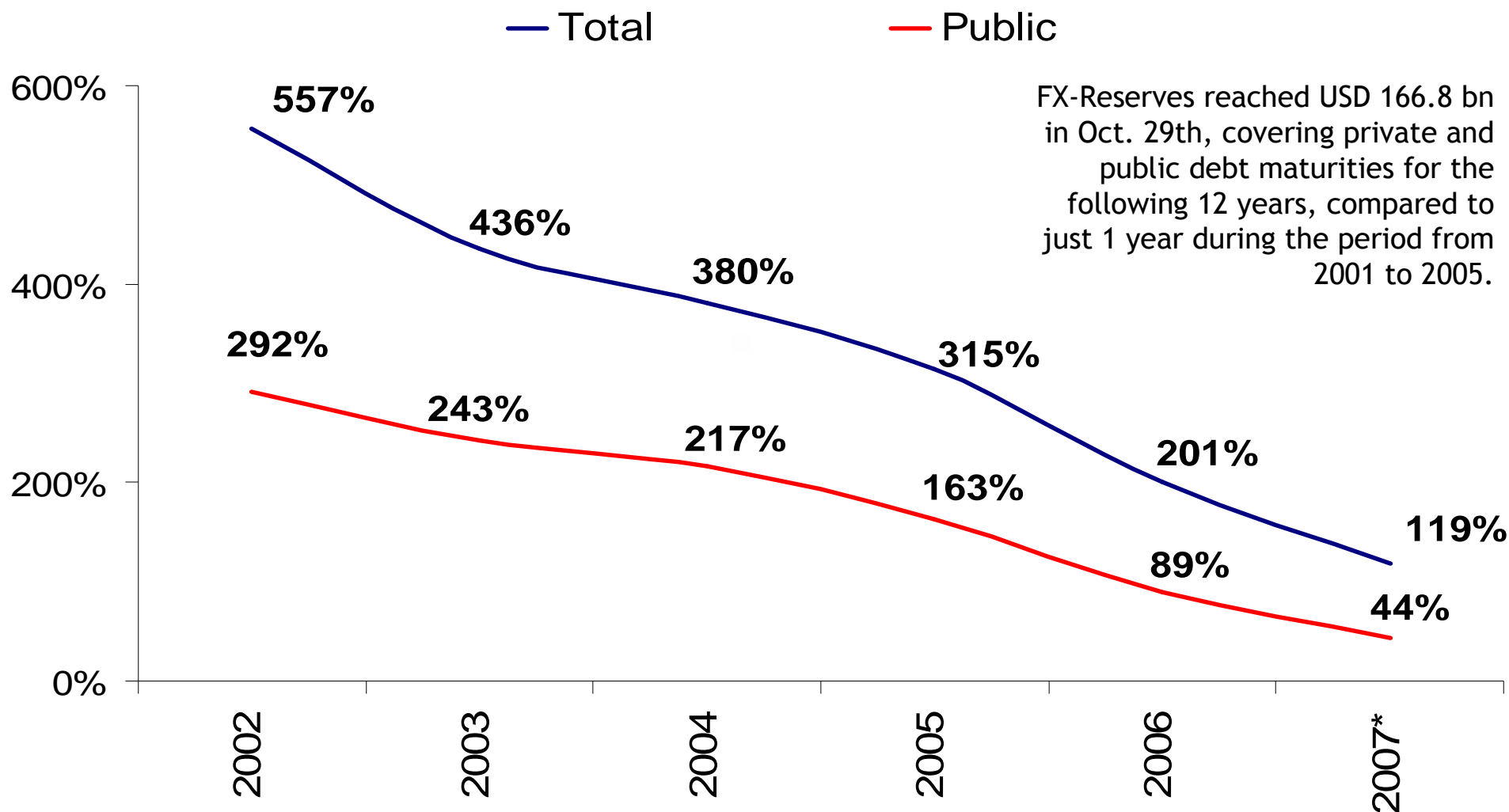


Source: National Treasury

\* NTN-B: CPI indexed bonds, maturing in 2024, 2035 and 2045.

# Macroeconomic Overview - Reduction in the External Vulnerability

External Debt / FX-Reserves (%)



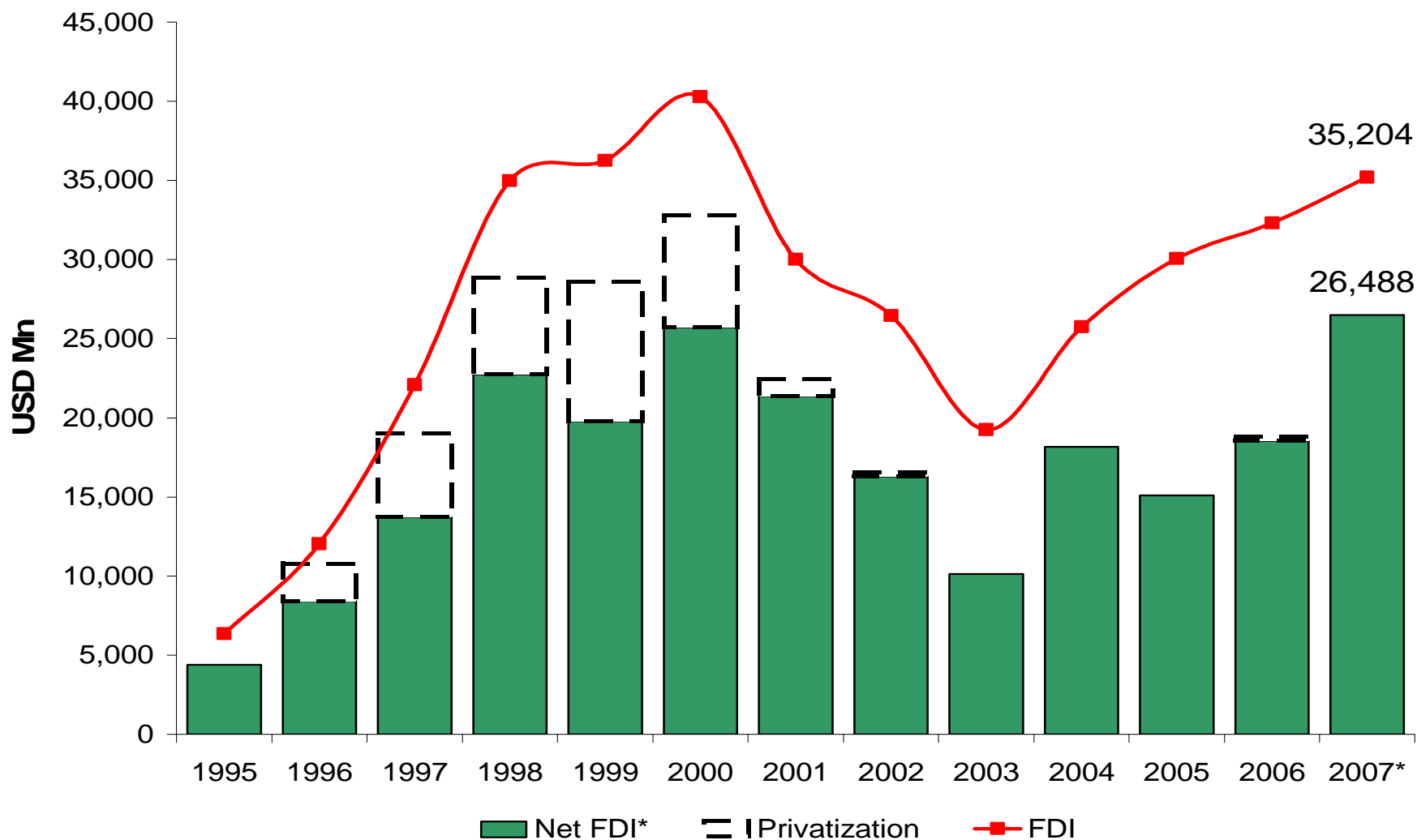
MACROECONOMIC OVERVIEW

\* Until September-07  
Source: Reuters and Central Bank

Public: Non-financial Public Sector

# Macroeconomic Overview - Reduction in the External Vulnerability

FDI have recently reached record levels

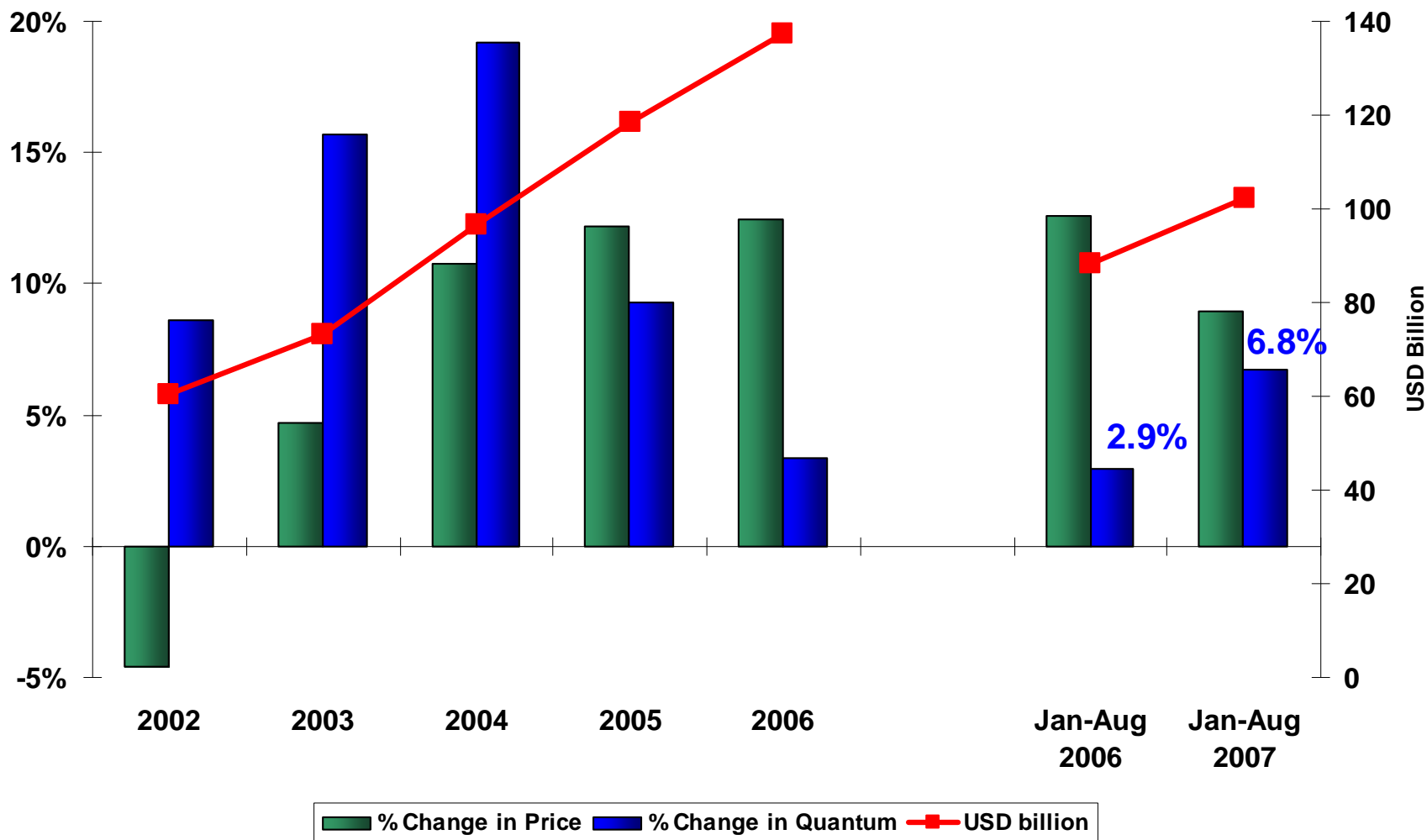


Source: Central Bank \*Does not include FDI to privatization

\* Until August/07.

# Macroeconomic Overview - Reduction in the External Vulnerability

## Brazilian Exports

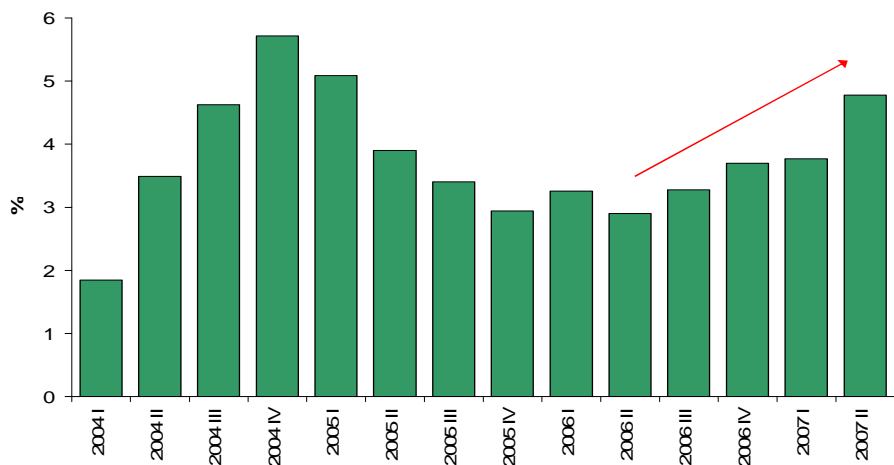


MACROECONOMIC OVERVIEW

Source: FUNCEX \*January to August % change compared to the same period of the previous year

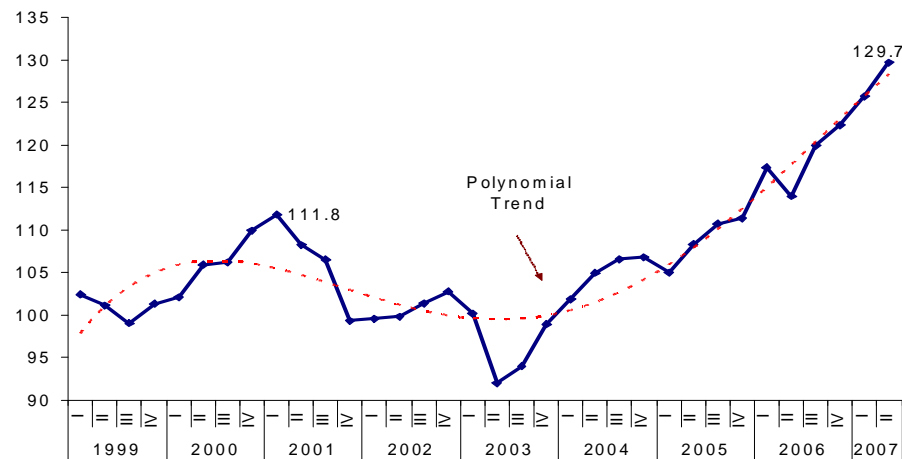
# As a result of the three main pillars ... SUSTAINABLE GROWTH

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



Source: Ipeadata

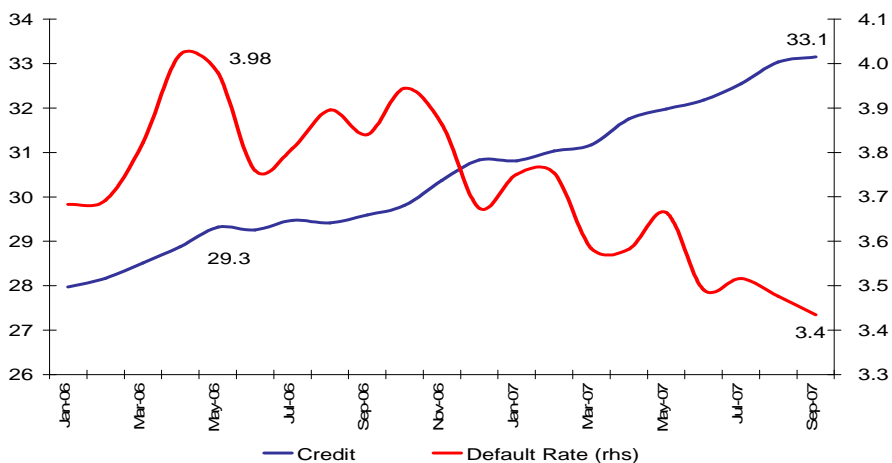
## Investment Growth - Seasonally Adjusted (1995=100)



Source: IBGE

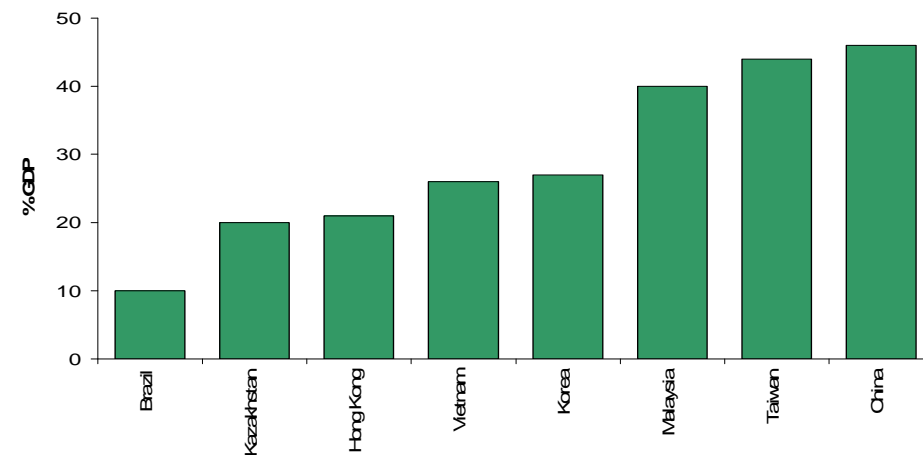
Note: Gross Fixed Capital Formation (GFCF)

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



Source: Central Bank

## Financial System Contingent Liability: Upper Bound\*



\* Potential fiscal cost of banking system crisis in a deep recession.

Source: Standard & Poor's

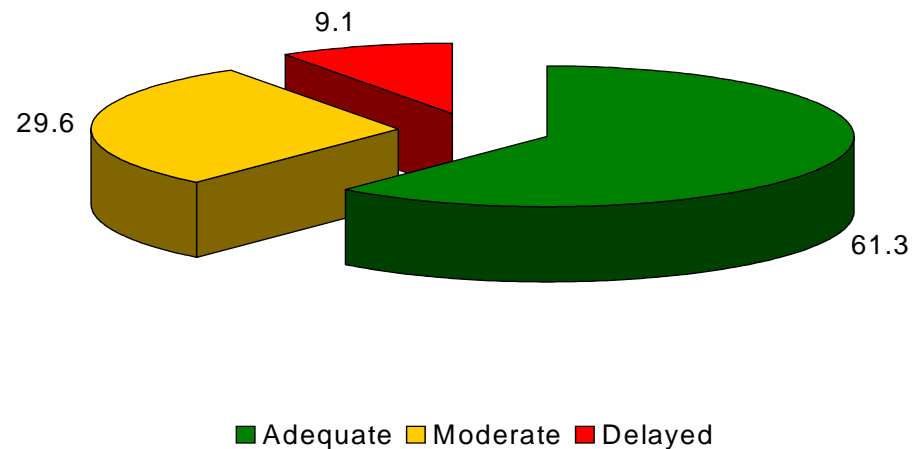
## Program of Growth Acceleration: 2007-2010

Investment - R\$ 503.9 bn forecasted for the next 4 years

- **Logistic:** 970 Actions/Projects => **69%** on the pipeline
  - Highways: 612 ongoing projects
- **Energy:** 459 Actions => **39%** on the pipeline
  - Electric power plants: 70 ongoing projects
- **Social and Urban Structure:** 217 Actions => **28%** on the pipeline
  - “Light for Everyone”: 26 ongoing projects

### Actions Performance - as % of Total Financial Programming

% of Actions Financial Programming



- **Crowding-in the private sector:**
  - Execution of public construction
  - Public licensing for private use
  - PPP's
  - Federal Enterprises Joint Ventures

Source: Presidency



# Program of Growth Acceleration - What is going on?

## Investments - Round of Actions

- **Electric power auction (Santo Antônio - Rio Madeira hydroelectric plant)**
  - Investments: R\$ 9.2 billion - auction legally approved in Oct-30
- **Transmission lines auction (1,930 km):**
  - Investments: R\$ 1.8 billion
- **North-South railway:**
  - Investments: R\$ 1.4 billion
- **Federal Highway Public Concessions**
  - Investments: R\$ 20 billion during 25-year concession
  - 7 highways (2,600 km) were auctioned to the private sector through long-term contracts
    - *BRL 8.6 billion* are expected to be invested in the next years, transferring it to the private sector;
    - Several other concessions are expected in the following months.

## Tax Burden Reduction - what the Government has done ?

### Main Reductions Affecting Tax Revenue

LEGISLATION		PERIOD: 2004 A 2006	SUM
Law nº 10.925/04	•	Reduction to zero of PIS/COFINS contributions on agribusiness sales and credit;	(3,596)
	•	Reduction to zero of PIS/COFINS contributions on rice, beans and cassava flour;	
Law nº 10.996/04	•	Exclusion of R\$100 from the personal income tax calculation base of overall salary income;	(492)
Law nº 11.033/04	•	Rates based on duration of application and reduction of rates for investment funds from 20% to 15%;	(1,897)
	•	Expansion of IPI-Others incidence period from bi-weekly to monthly	
	•	Reduction to zero of PIS/COFINS rates on books in general;	
Law nº 11.051/04	•	Capital good depreciation credit discounted from net profit; reduction of PIS/COFINS credit use period for capital goods from 48 to 24 months;	(2,739)
	•	Reduction to zero of PIS/COFINS contributions on corn meal and milk;	
Law nº 11.053/04	•	Taxations of retirement loans upon redemption or when benefits are paid;	(183)
Law nº 11.196/05	•	Export incentive (*) RECAP-Special Regime for the Purchase of Capital Goods for Exports Companies (Cofins/PIS)	(5,320)
	•	Digital Inclusion Program-Retail sales of PCs (Cofins/PIS)	
	•	Technological Innovation - Deduction from corporate income tax and net profit of basic tech research expenditures	
	•	Tax collection period	
	•	Retention of PIS/Cofins for car parts	
	•	Zero PIS/Cofins rate for powder milk and cheese	
	•	Petrochemical nafta. PIS/Cofins at 5.6% and credit at 9.25%	
	•	Increase of the Simples limits	

Source: Brazilian Legislative (CD), MoF



## Tax Burden Reduction - what the Government has done ?

### Main Reductions Affecting Tax Revenue

Law nº 11.119/05	•	10% correction of personal income tax rate	(2,245)
Law nº 11.311/06	•	8% correction of personal income tax rate	(2,210)
Decree nº 4.902/03	•	Extension of automobile agreement to Feb/04	(77)
Decree nº 5.058/04	•	Reduction of IPI-Automobile rates	
Decree nº 4.955/04	•	Reduction of average IPI rate on capital goods from 5% to 3.5%;	(1,384)
Decree nº 5.173/04	•	Reduction of average IPI rate on capital goods from 3.5% to 2%	
Decree nº 5.468/05	•	Reduction of average IPI rate for capital goods	
Decree nº 5.164/04	•	Reduction to zero of PIS/COFINS rates on financial revenue obtained by businesses, subject to non-cumulative incidence of said taxes	(266)
Decree nº 5.172/04	•	Reduction of IOF rates on life insurance policies	(432)
Decree nº 5.697/06	•	Reduction of IPI rates on construction inputs	(1,060)
CAMEX Resolutions	•	Reduction of import tax	(907)
<b>SUBTOTAL [A]</b>			<b>(22,809)</b>

## Tax Burden Reduction - Future Government Agenda

Other PAC measures are under discussion in the Legislative

	<b>PAC MEASURES - 2007/2008</b>		
Law nº 11.482/07 na Law nº 11.434/07 (MP nº 340/07)	2.1.	4.5% correction of corporate income tax base; Extension of accelerated depreciation mechanism with CSLL credit; Extension of the inclusion of the civil construction sector in the PIS/COFINS cumulative regime	(6.231)
		<b>Taxes involved:</b> IRRF-Labor, IRPF, CSLL, CPMF, PIS/PASEP and Cofins	
Complementary Law 123/06	2.2.	Introduction of national <i>Simples</i> regime, promoting a comprehensive change in tax calculation and payment	(3.873)
		<b>Taxes involved:</b> IRPJ, CSLL, PIS/PASEP, Cofins, Social Security Contributions and IPI	
Law nº 11.488/07 ( MP nº 351/07)	2.3.	Elimination of PIS and COFINS for buildings and infrastructure with the creation of the Special Infrastructure Development Incentives Regime - REIDI	(3.397)
		<b>Taxes involved:</b> PIS/PASEP and Cofins	
Decree nº 6.024/07	2.4.	Elimination of IPI for the purchase of steel slabs	(63)
		<b>Taxes involved:</b> IPI	
Decree nº 6.023/07	2.5.	Creation of the Digital Inclusion Program, with the increase of the PIS/COFINS exemption limit on PCs from R\$ 2,000 to R\$ 4,000	(244)
		<b>Taxes involved:</b> PIS/PASEP and Cofins	
<b>SUBTOTAL [B]</b>			<b>(13.808)</b>
<b>GRAND TOTAL</b>			<b>(36.617)</b>

## What else are we building?

### Main achievements

- Brazilian exports are diversified across countries and by products;
- Brazil is **self-sustainable in oil** since 2006;
- In 2006, roughly **45%** of Brazilian domestic energy supply came from **renewable sources**;
- Sugar cane ethanol - **top productivity in ethanol fuel**;
- Brazil has the 10th largest bond market in the world - USD 800 Bn (84% of GDP).
- Brazilian Stock Market Value reached **89%** of GDP in September;
- 115 stock public offering until October 31<sup>st</sup>.



# Brazilian Federal Public Debt

Macroeconomic Overview

Public Debt Management

- Annual Borrowing Plan

- Recent Events

Brazil's Performance during the Crisis



## Annual Borrowing Plan 2007

### 2007 Guidelines

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

## Annual Borrowing Plan 2007

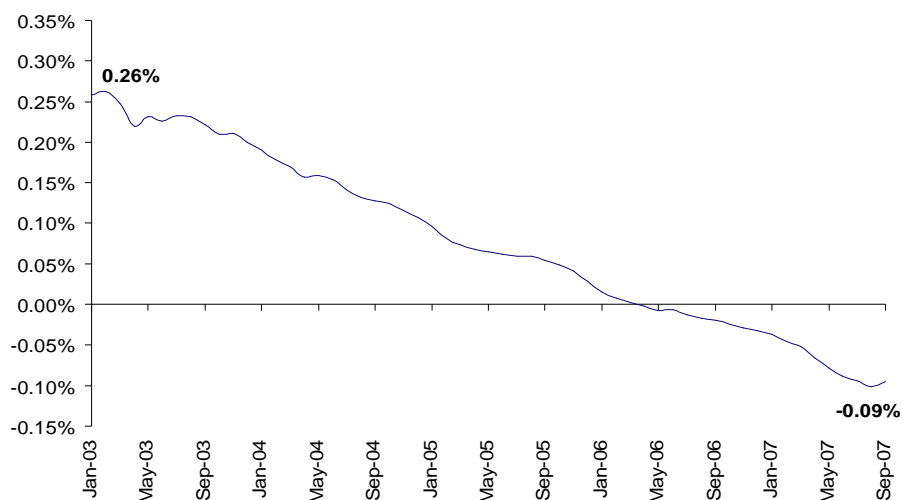
### Federal Debt (DPF) Indicators \*

Indicators	2003	2004	2005	2006	Sep-07	2007	
						Minimum	Maximum
Stock of DPF* held by the public (R\$ billion)	965.8	1,013.9	1,157.1	1,237.0	1,315.9	1,370.0	1,450.0
Average maturity - Federal Outstanding Debt (months)	39.0	35.3	32.9	35.5	39.1	37.0	42.0
% Maturing in 12 months	30.7	39.3	38.2	32.4	30.9	27.0	31.0
Share of DPF (%)							
Fixed rate	9.5	16.1	23.6	31.9	34.4	33.0	39.0
Inflation Linked	10.3	11.9	13.1	19.9	23.4	20.0	24.0
Floating rate	46.5	45.7	43.9	33.4	31.2	26.0	32.0
Exchange rate	32.4	24.2	17.6	12.7	8.9	10.0	12.0
Others	1.4	2.2	1.8	2.0	2.1	1.0	3.0

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

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

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

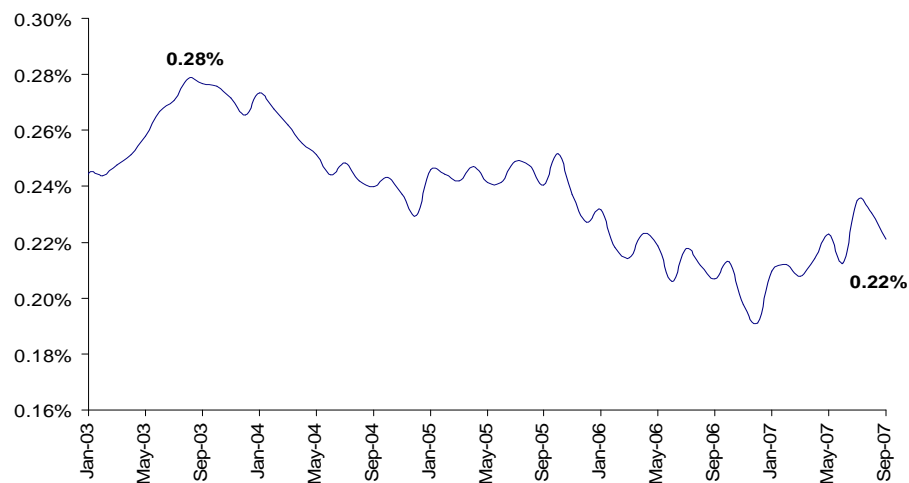


Source: National Treasury

■ The risk of NPSD/GDP not only was reduced in 17.8% of GDP in four years, but the protection created by the fact that we have more FX assets than liabilities has compensated the interest rate risk. This shielded the NPSD against market risks.

■ Considering the reduction on the sensibility of the NPSD to the variations on the currency and on the SELIC rate, in a stress scenario that generates an overshooting of **56.6%** on currency and a following increase of **7.8 p.p.** on the SELIC rate (three standard deviations), **NPSD/GDP** in December of 2002 would increase **16.5%** in one year. On march of 2007, this same scenario would represent a **decrease of 1.3%** in the **NPSD/GDP** being the increase of 1.56% on interest rates compensated by the reduction of 2.83% caused by the currency.

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



Source: National Treasury

\*In 12 months

# Brazilian Federal Public Debt

Macroeconomic Overview

Public Debt Management

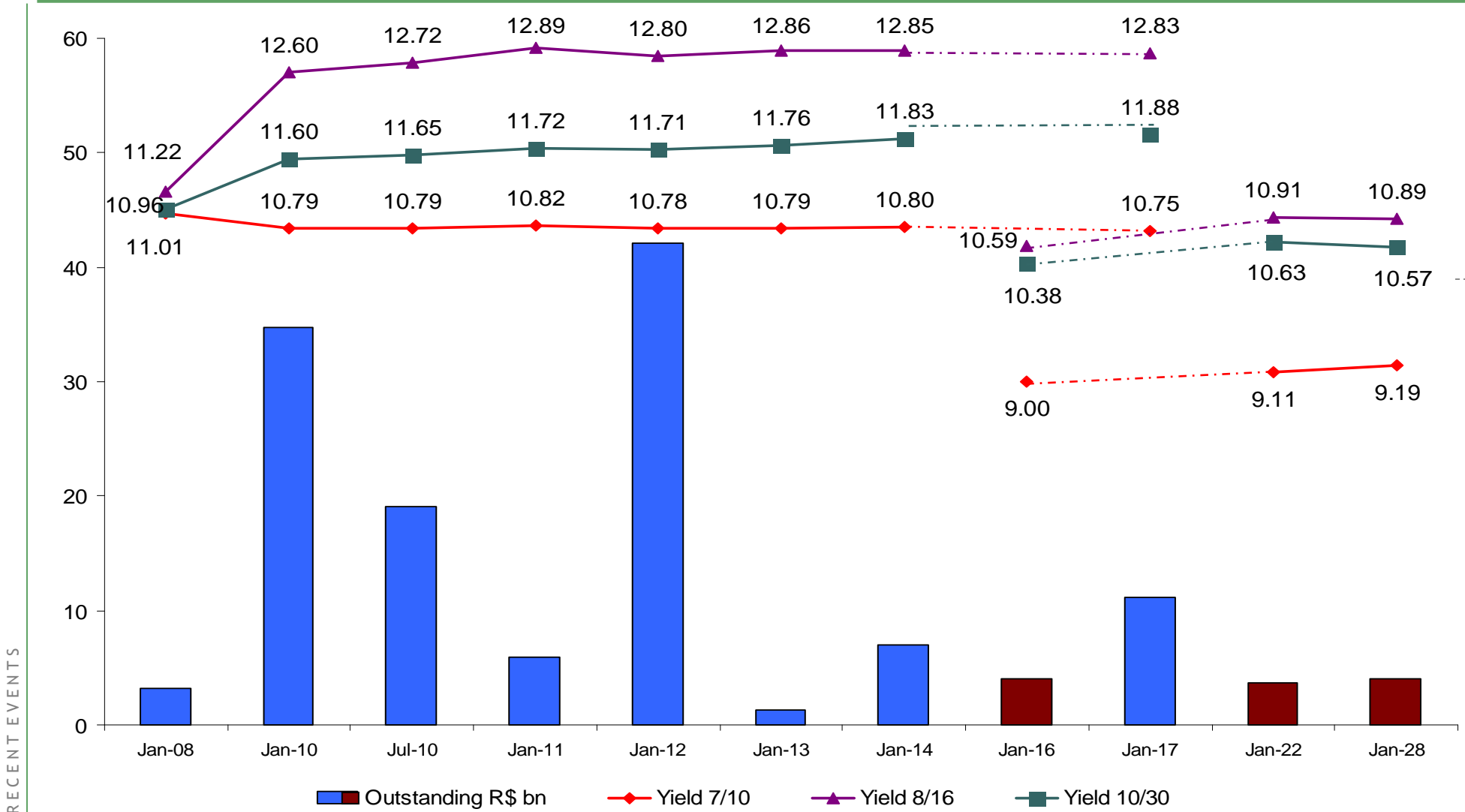
- Annual Borrowing Plan

- Recent Events

Brazil's Performance during the Crisis

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

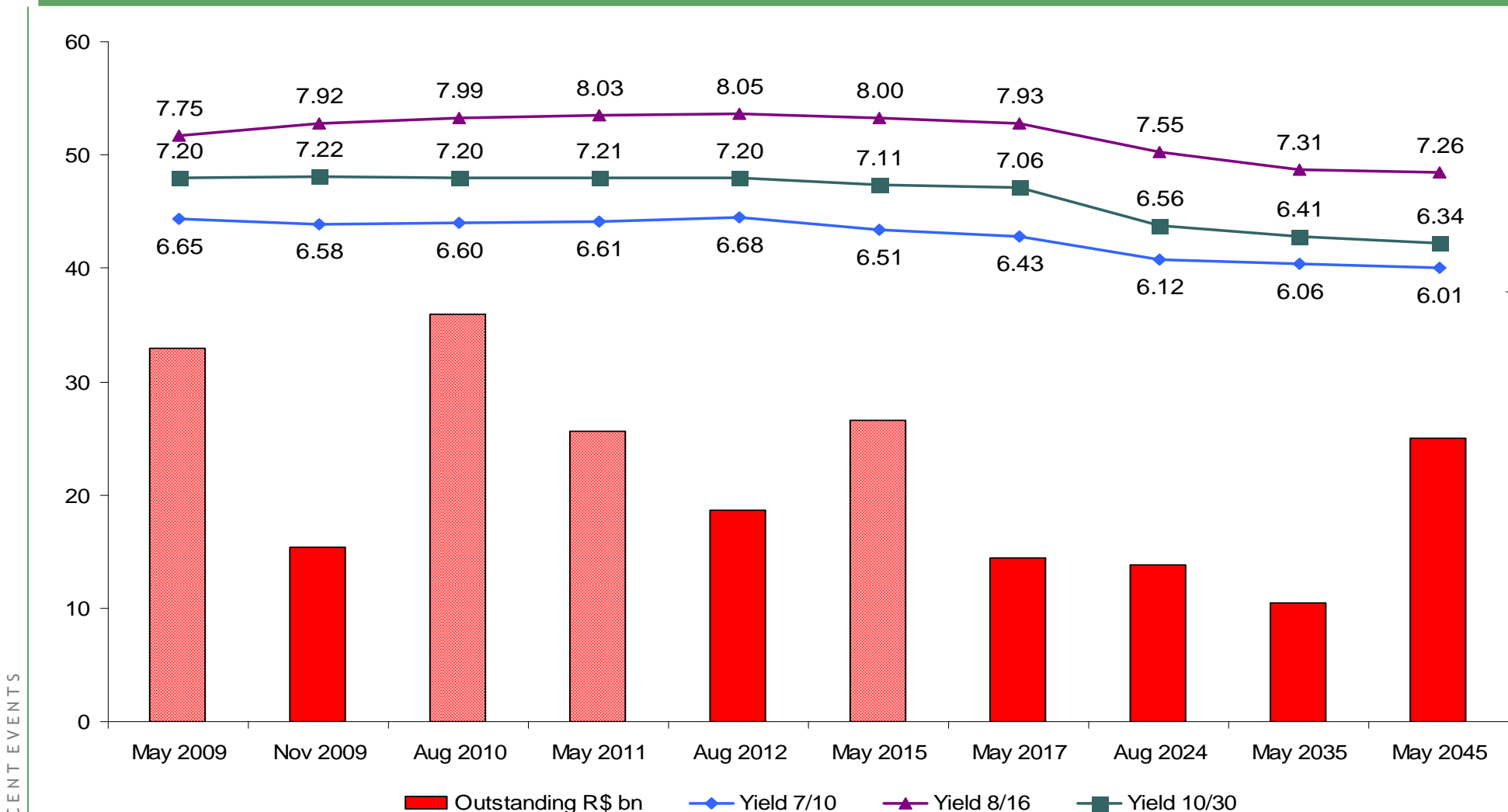
## Domestic medium term fixed rated bonds (NTN-F) - Outstanding and yields (as of Oct-07)



Source: ANDIMA and Bloomberg

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

## Inflation linked bonds (NTN-B) - Outstanding and yields (as of Oct-07)



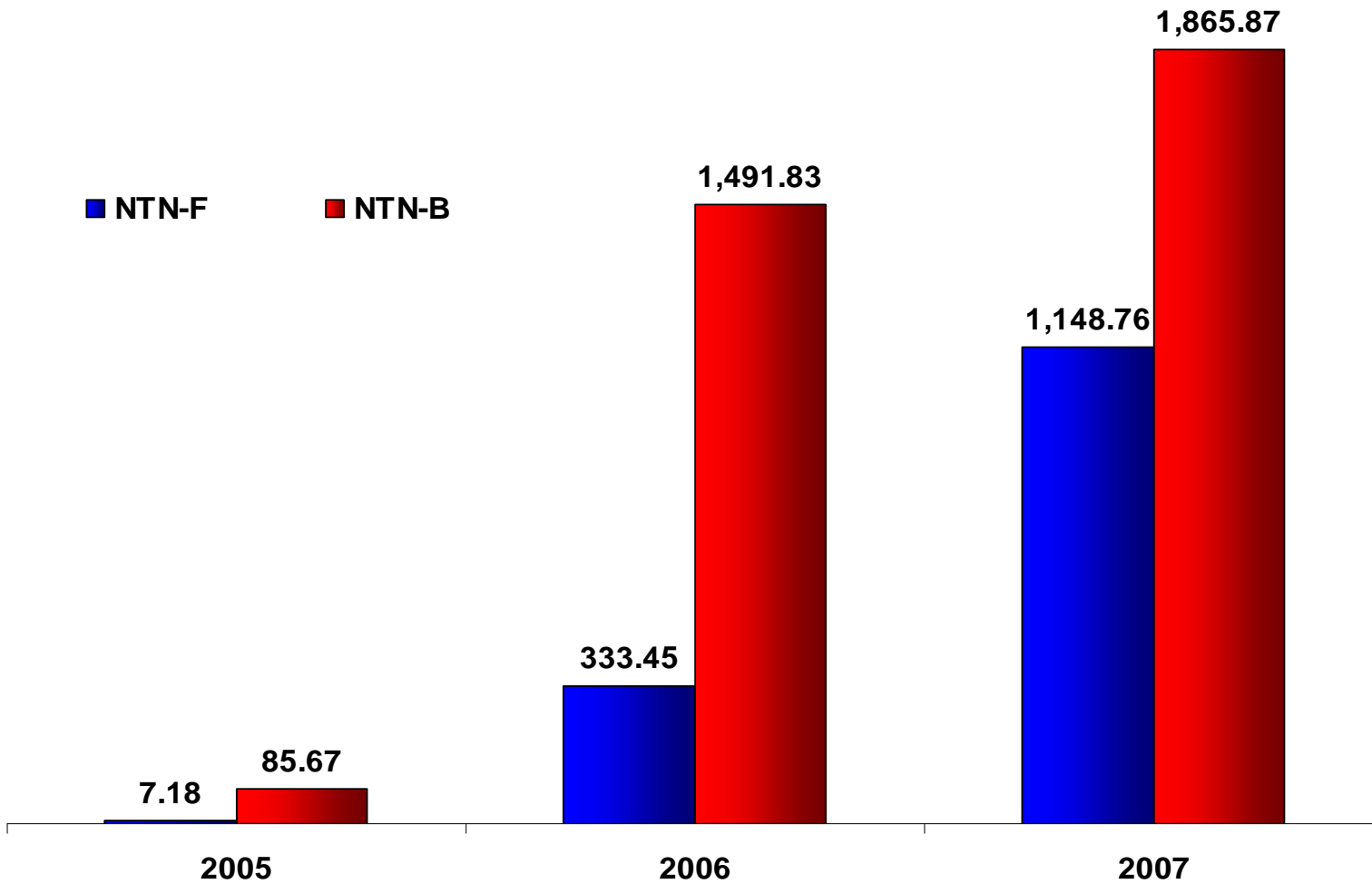
Source: ANDIMA

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

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

## Performance in Domestic Market - Liquidity Indicators

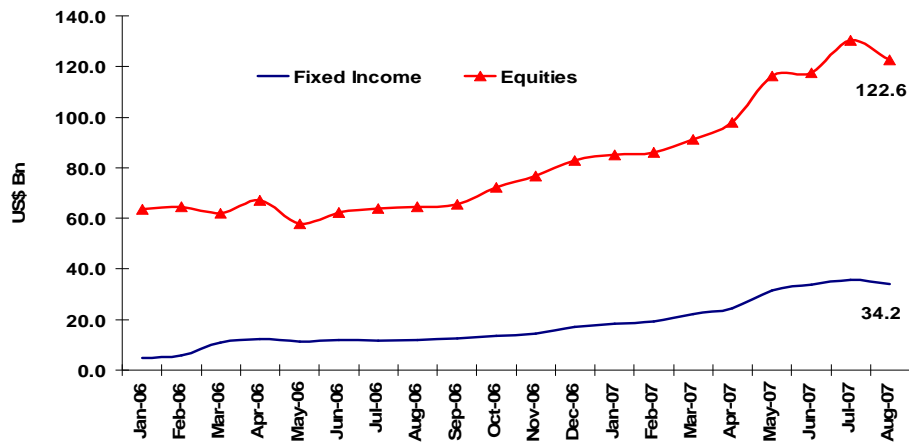
Average daily trade value - August (R\$ million)



Source: Andima

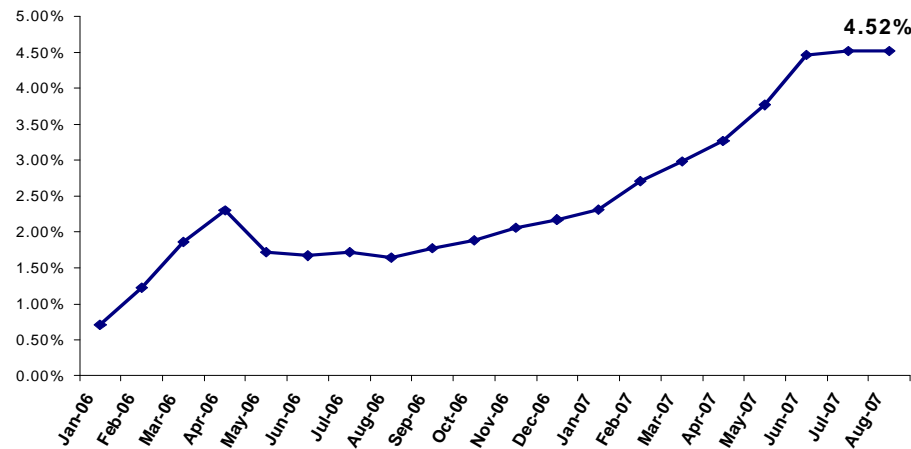
# The new frontier: increasing foreign access to the fixed income market

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



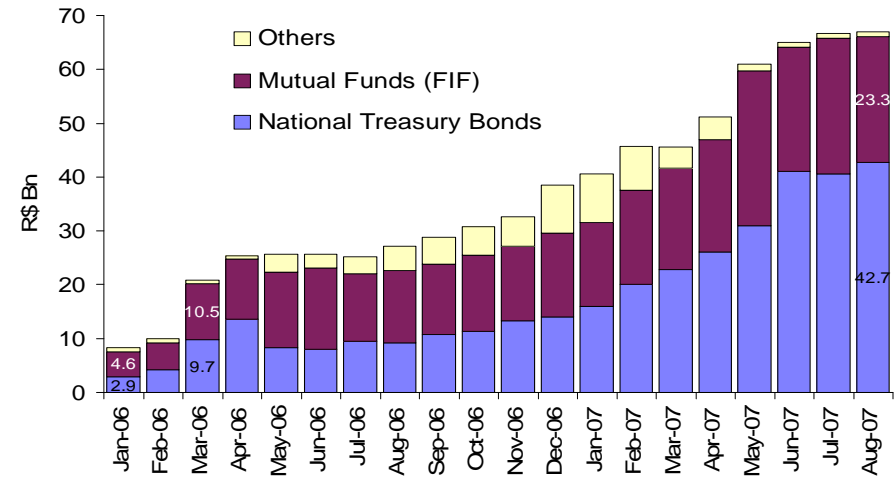
Source: CVM

Foreigner's Investors: Domestic Debt Participation\*



Source: SELIC

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



Source: CVM

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

## A steady level of public external debt with improved profile

### Impact of the “Cleaning Up” on the Federal Government External Debt from 2005 to 2007

(US\$ bn)	
Operations	Face Value <sup>1</sup>
<b>External Public Debt in Bonds</b>	<b>19.2</b>
C-Bond call (Oct-05)	1.1
Early Redemption Program <sup>2</sup>	10.3
Brady Bonds call (Apr-06)	6.5
Tender Offer (Jun-06)	1.3
<b>Contractual Debt</b>	<b>22.1</b>
IMF early payment I (Jul-05)	4.9
IMF early payment II (Dec-05)	15.5
Paris Club early payment (Jan-06 <sup>3</sup> )	1.7
<b>Total</b>	<b>41.3</b>

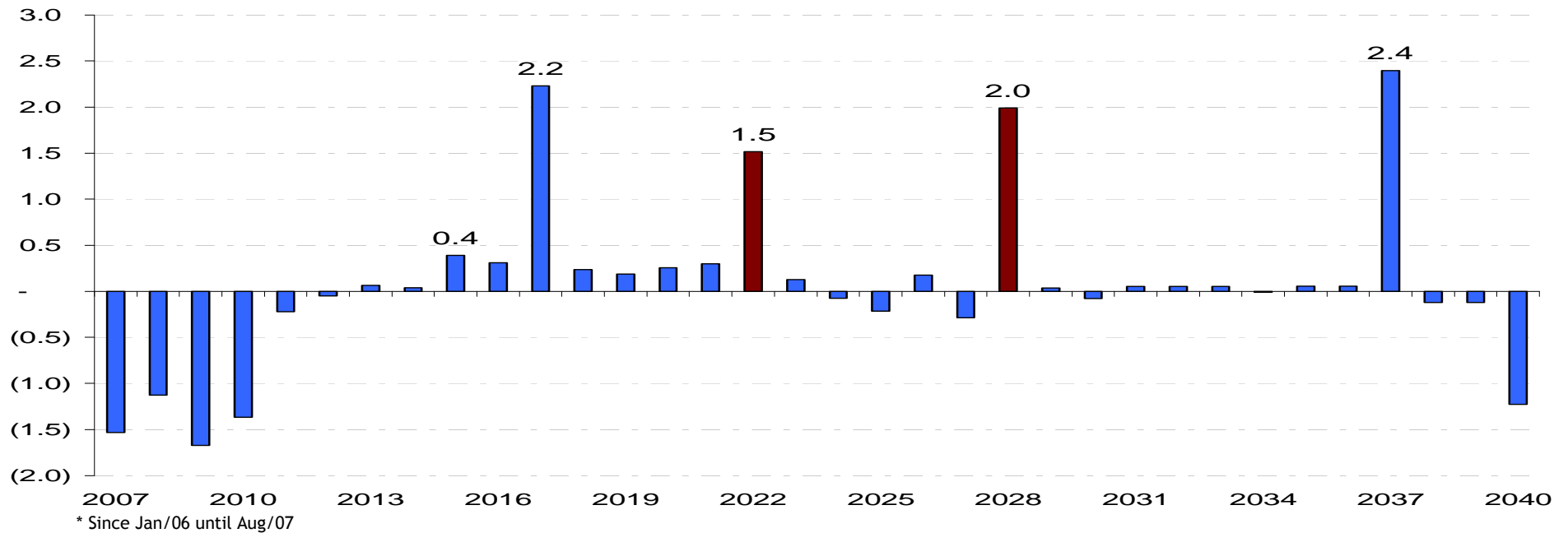
<sup>1</sup> It captures the impact of the operations on the outstanding public debt

<sup>2</sup> The program started in Jan/06. The value of US\$ 10.3 bn refers to the bonds repurchased up to 08/31/07, being US\$ 6.0 Bn repurchased in 2006 and US\$ 4.3 Bn in 2007.

<sup>3</sup> Announcement

## External Public Debt - Indicators

### Redemption Program and new issuances - Impact on External Debt's Payment Flow - 2006/2007 (US\$ mn)\*

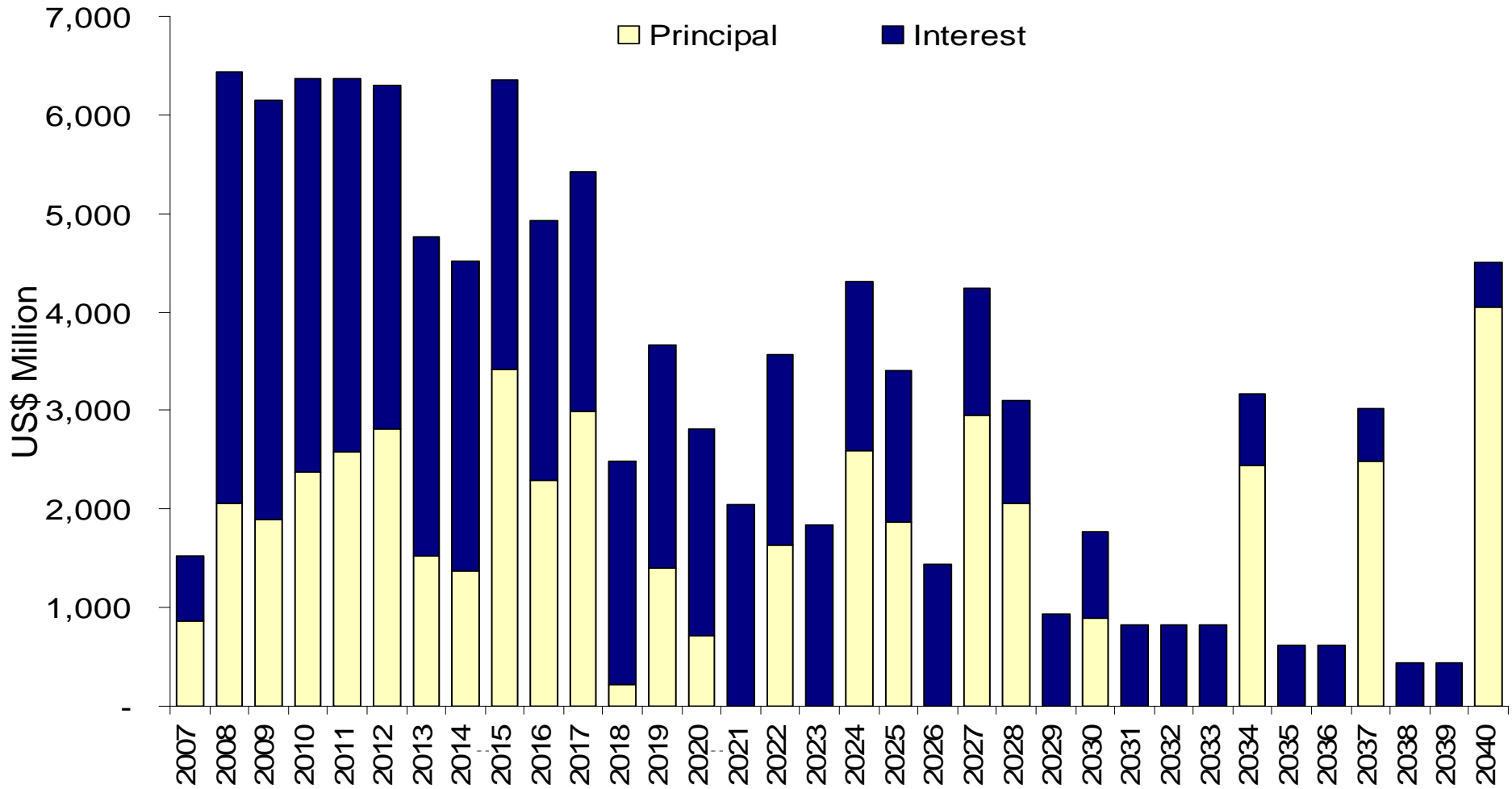


Federal External Debt*	2005		2006		2007		Federal External Debt	Dec-05	Dec-06	Aug-07
	Nominal	Financial	Nominal	Financial	Nominal	Financial				
<b>Issuances</b>	12.49	12.49	5.45	5.44	2.88	3.00	<i>Outstanding in real (%)</i>	1.95	4.68	8.42
<b>Early redemptions</b>	-	-	6.00	7.06	4.30	5.70	<i>Maturity (months)</i>	66.42	72.14	75.14
							<i>Outstanding (US\$ Bn)</i>	75.9	67.1	62.8

\* Refers to External Security Debt

# External Public Debt - Indicators

## External Public Debt Profile - New Bonds and Bradies



Source: National Treasury.

2007 - From September to December



# Brazilian Federal Public Debt

Macroeconomic Overview

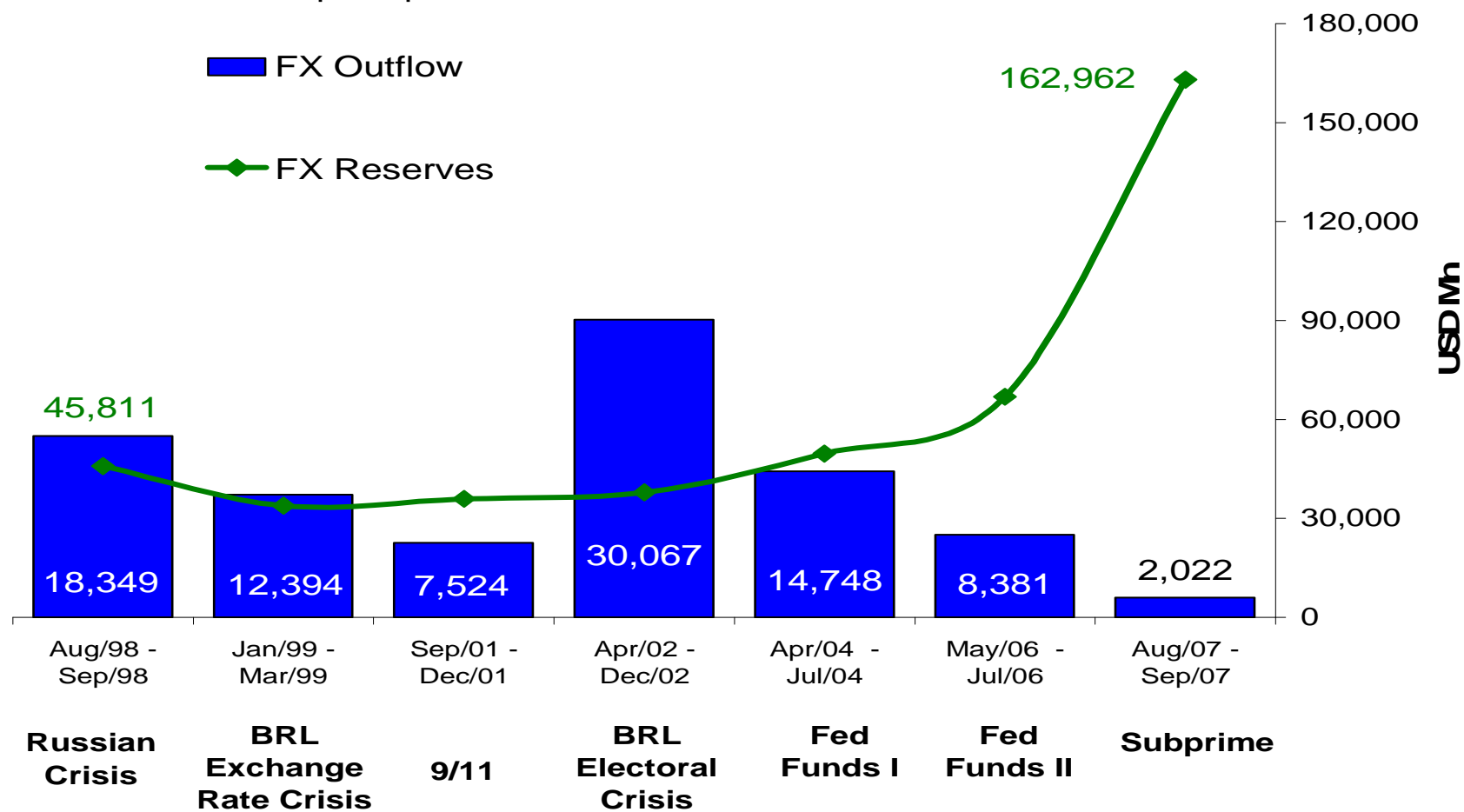
Public Debt Management

Brazil's Performance during the Crisis

## How did Brazil perform during the crisis?

### Net FX outflow in the financial sector (US\$ mn)

- Compared with past recent turmoil, subprime credit crisis has had little impact on FX flow, which demonstrates a better risk perception on Brazilian economic fundamentals.

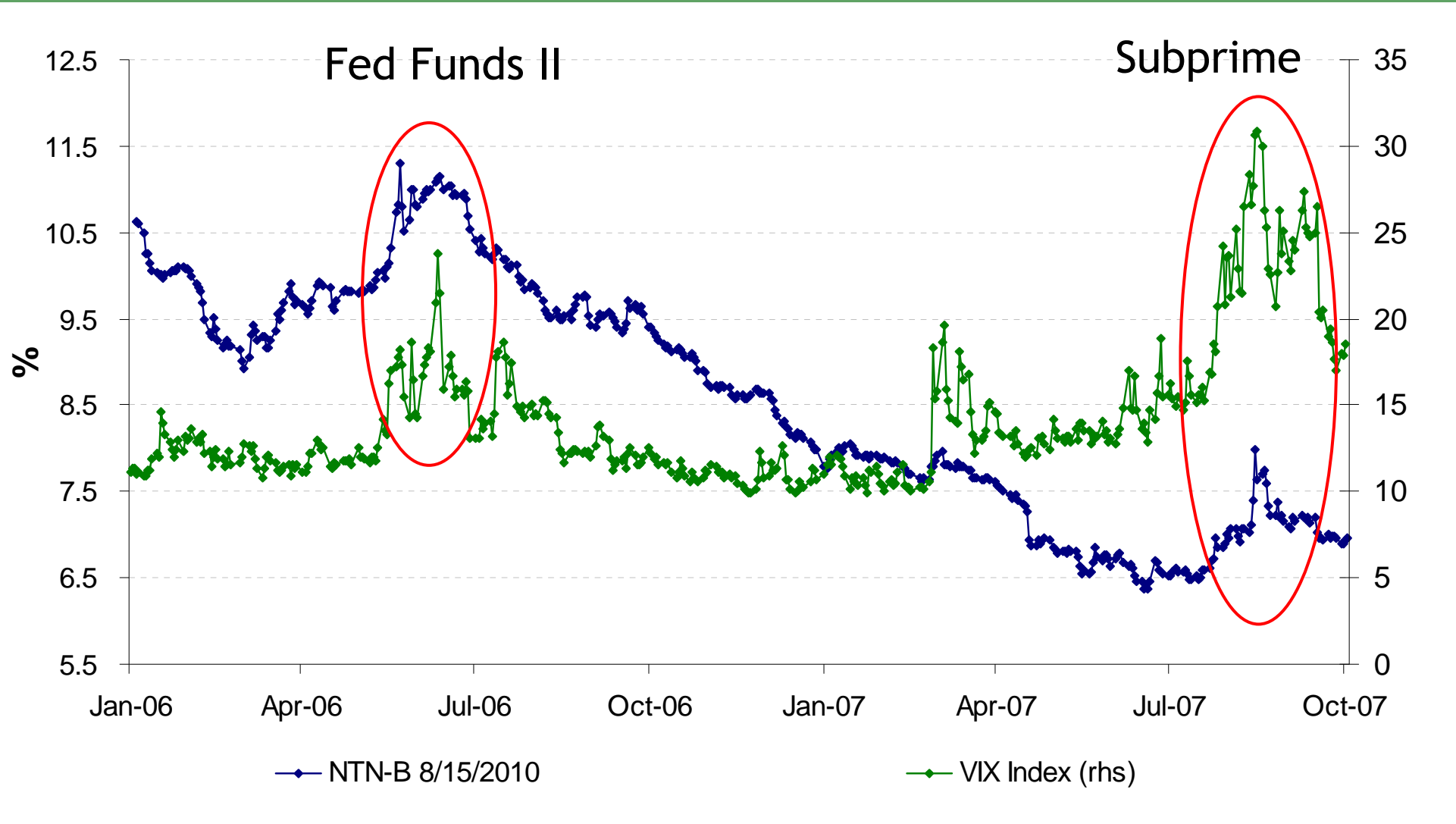


BRAZILIAN PERFORMANCE

Source: Central Bank

# How did Brazil perform during the crisis?

## VIX Index vs. NTN-B 8/15/2010

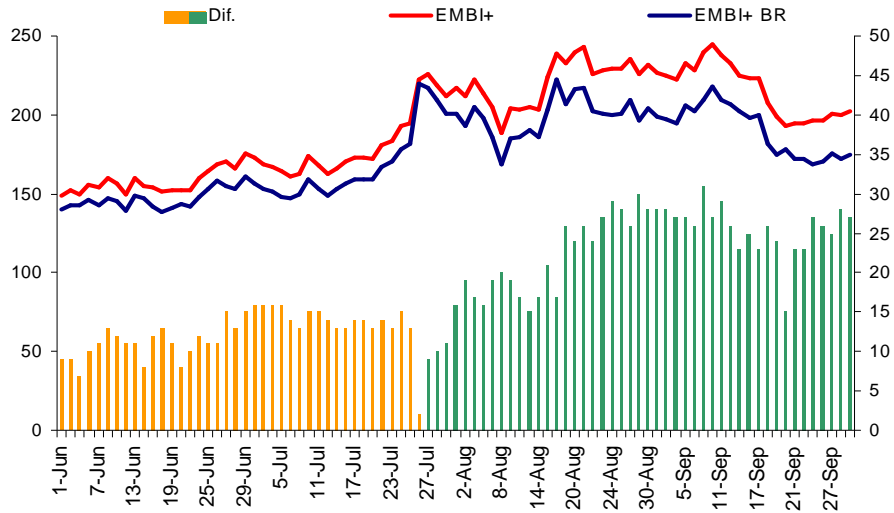


BRAZILIAN PERFORMANCE

Source: Bloomberg and National Treasury

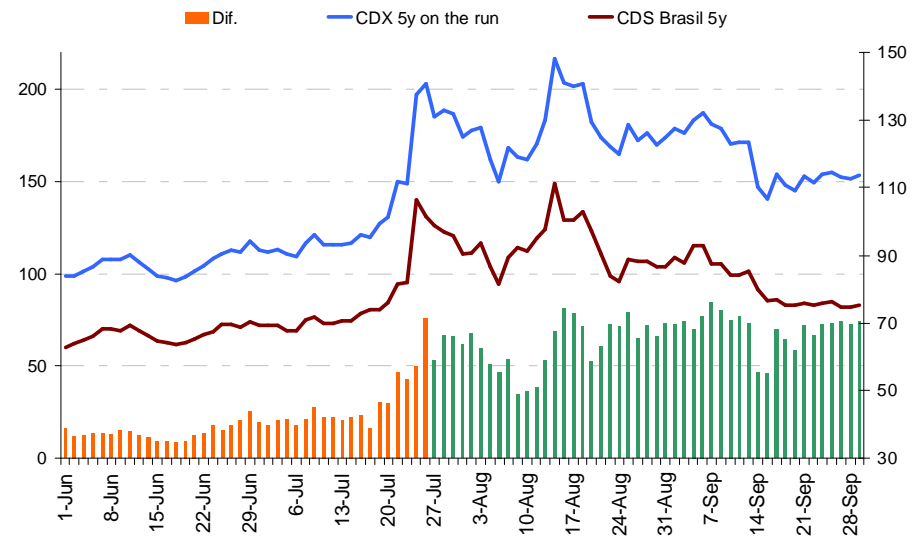
# How did Brazil perform during the crisis?

## Embi



Source: Bloomberg

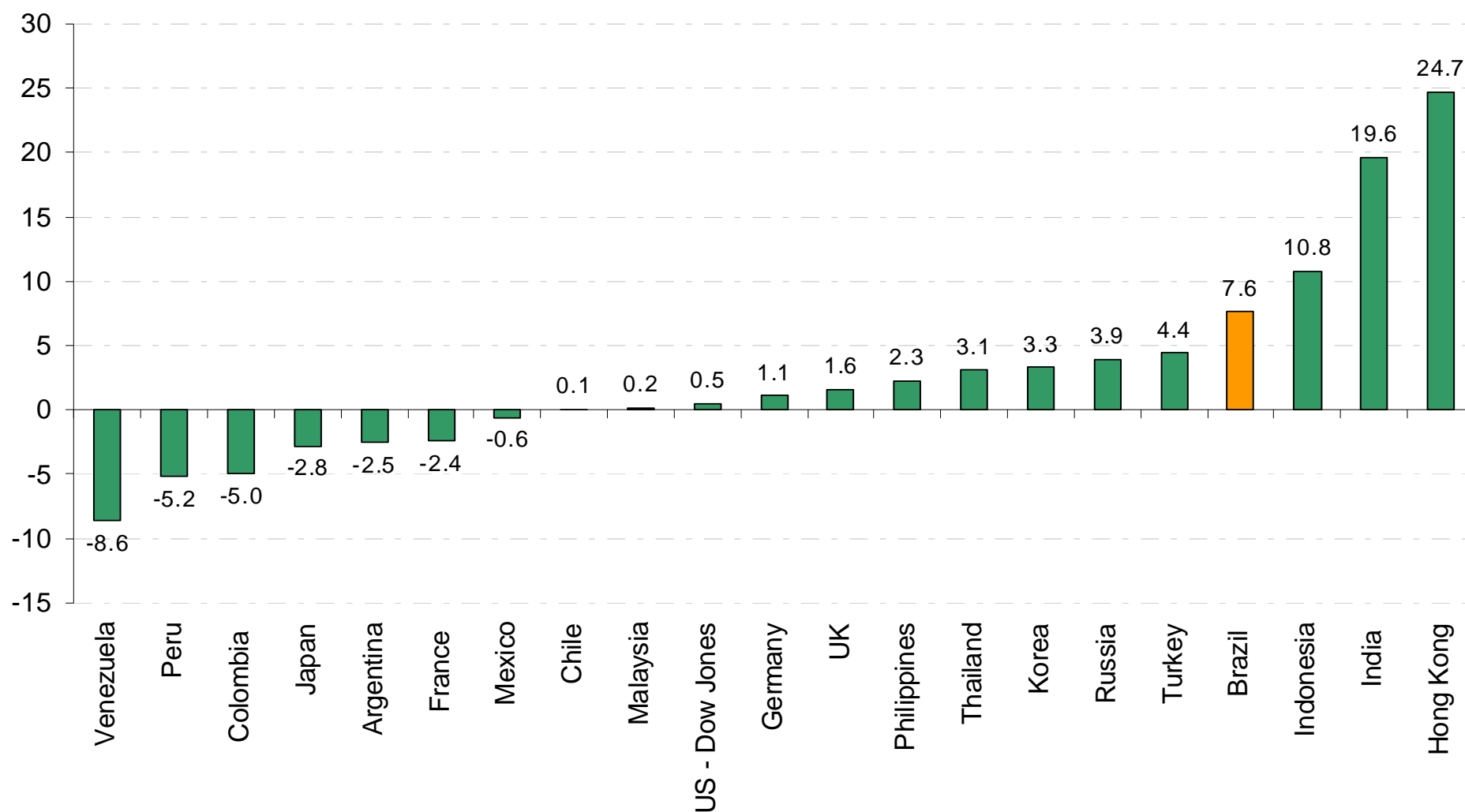
## Credit Default Swap - CDS



Source: Bloomberg

## How did Brazil perform during the crisis?

Effect on Stocks Exchange - % change between (23rd Jul-07 and 11th Oct-07)



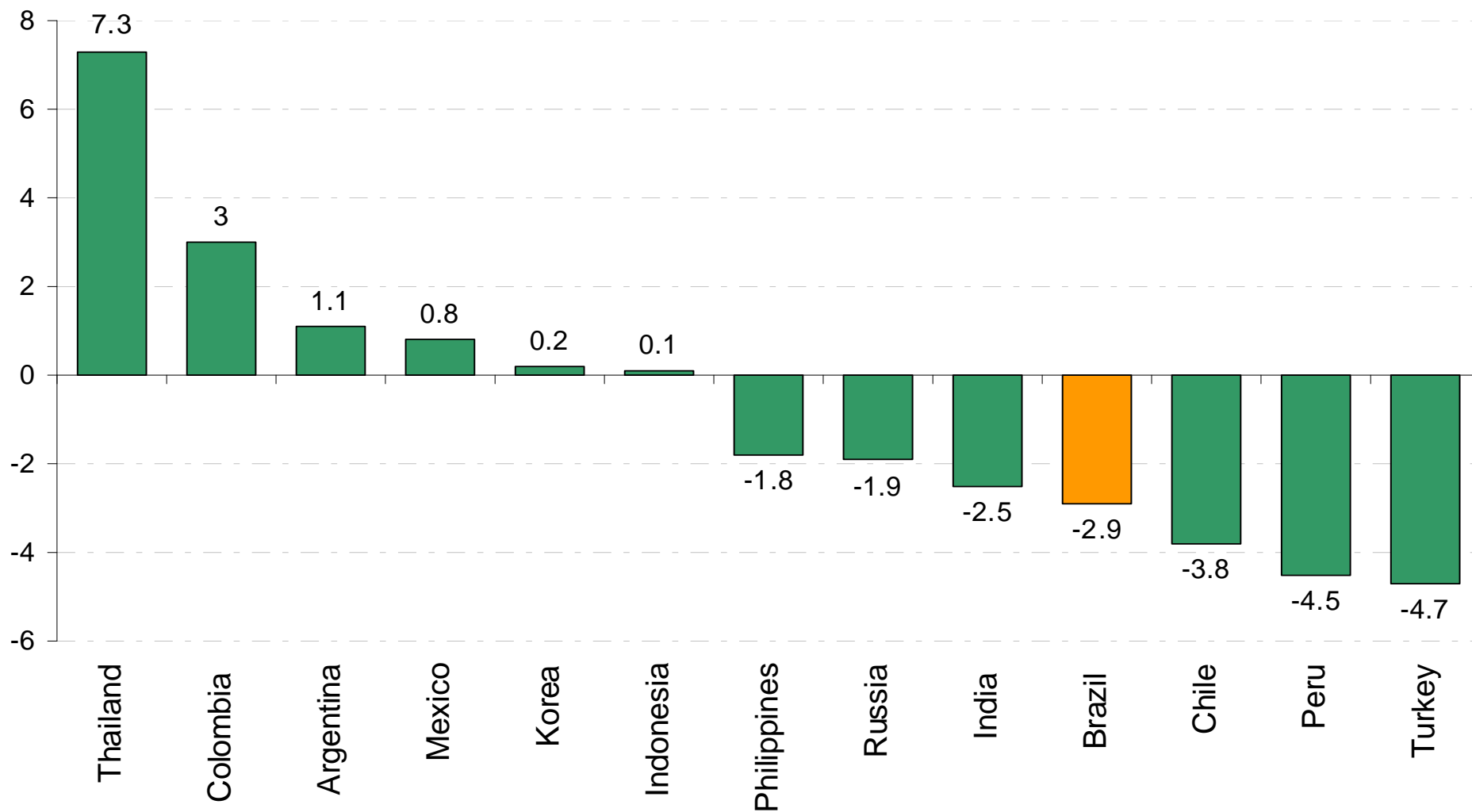
BRAZILIAN PERFORMANCE

Source: Valor Econômico and Bloomberg.

Elaborated by SPE.

# How did Brazil perform during the crisis?

Effect on FX-rate - % change between (23rd Jul-07 and 11th Oct-07)



BRAZILIAN PERFORMANCE

Source: Valor Econômico and Bloomberg.

Elaborated by SPE.



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

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

**Or contact Institutional Relations area:**

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

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