TESOURO NACIONAL

Checking On Brazil's Tool Box To Avoid The Recession

MEDELLÍN

March 2009

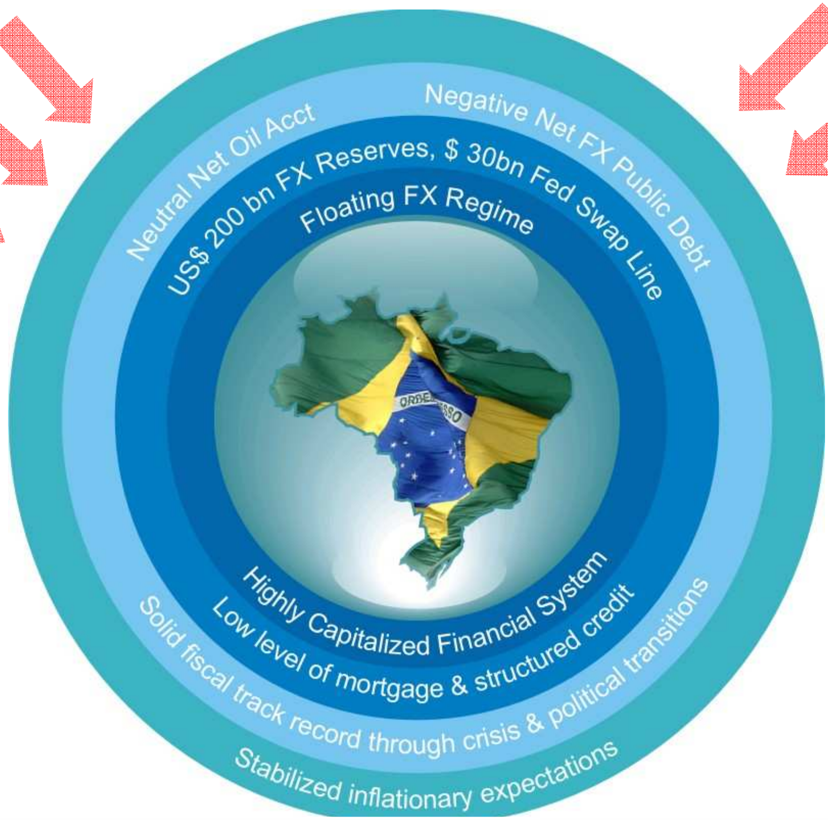
Macroeconomic Overview

Public Debt Management

Brazil on the Crisis

Falling Commodity Prices

Global Deleveraging



BNDES | Public Banks **BCB's measures to boost credit**

Falling Investment

Negative Spillover on GDP Growth

Reduced Credit

Initiatives to Inject Liquidity in Foreign Currency Market

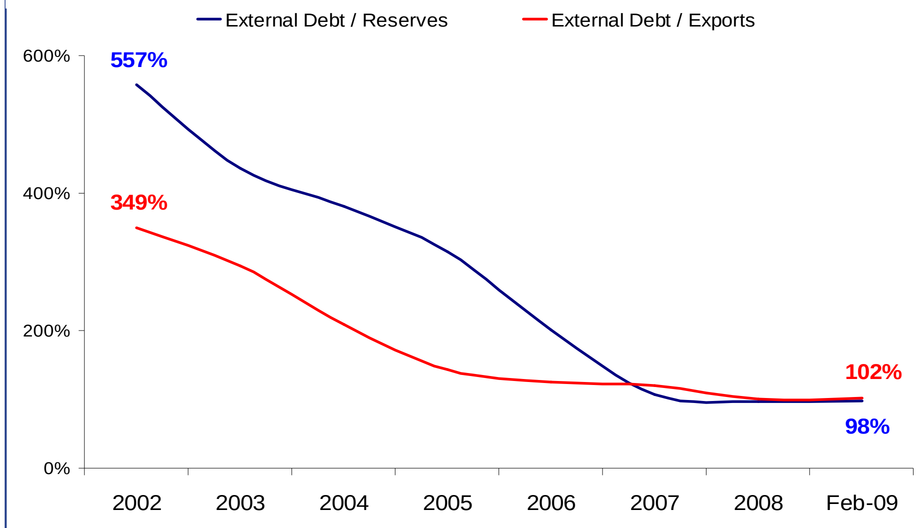
(through March 18th in US$ billion)

	Sales	Repayment	NET
Export financing + repos	20.3	8.0	12.3
Spot (Impact on reserves)			14.5
Currency Swaps			32.4
TOTAL			59.2

Source: Central Bank

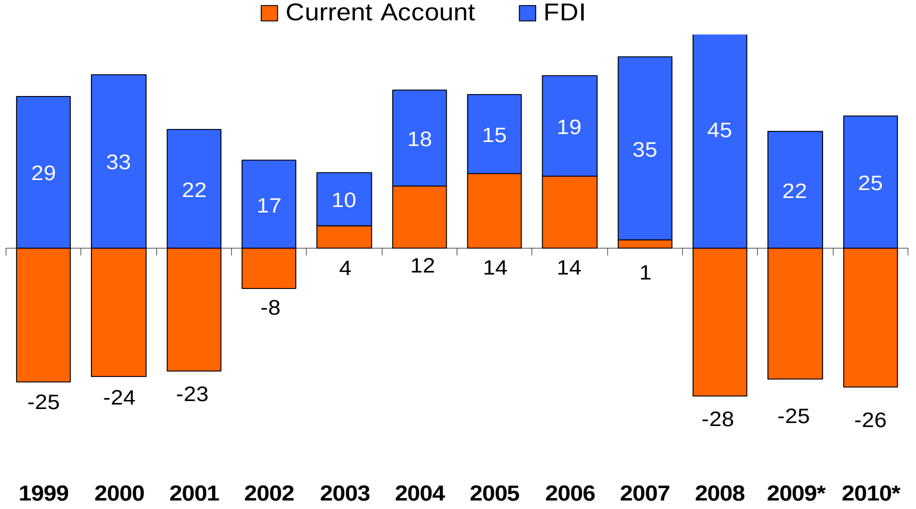
Macroeconomic Overview – Reduction in the External Vulnerability

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



Source: Central Bank

Current Account Balance x FDI (12-m accumulated - US$ bn)



Source: Central Bank

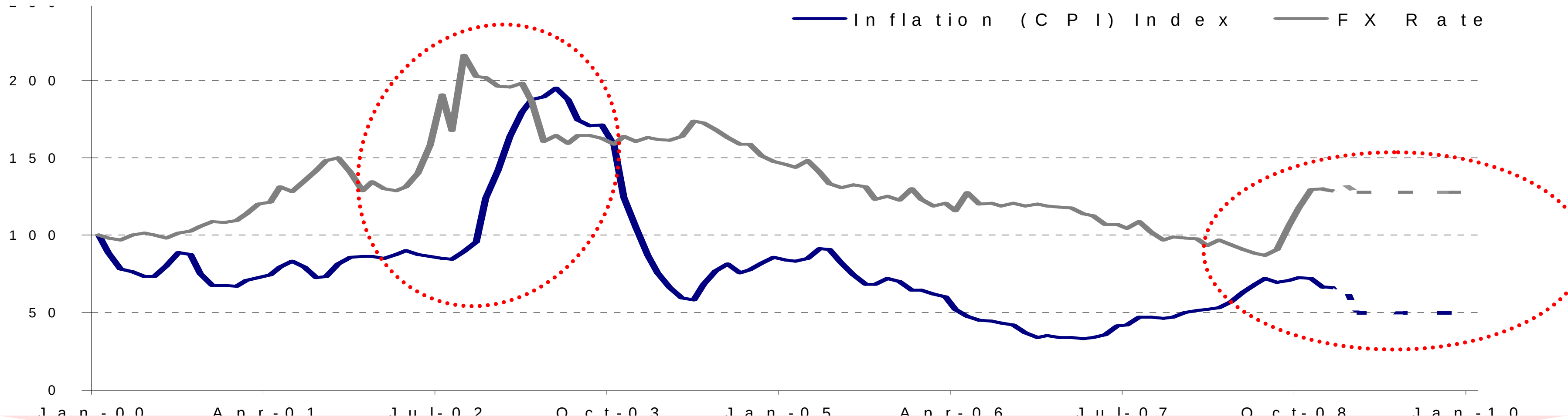
*Market Expectations (Focus of 03/20/2009)

- The Non-Financial Public Sector External Debt/ FX-Reserves ratio fell from 292% in December 2002 to 32.10% in December 2008.
- The External Debt (US$ 199.8 Bn) / Reserves (public and private*) ratio reached value below 1.
- Brazilian Net External Debt is negative in U$ 22.7 bn (Feb-09).

Macroeconomic Overview - Taming inflation

- Central Bank operational autonomy and long-term commitment to inflation targeting has reduced the risk of significant pass-through from FX volatility into inflationary expectations

BRL vs. Inflation Expectations



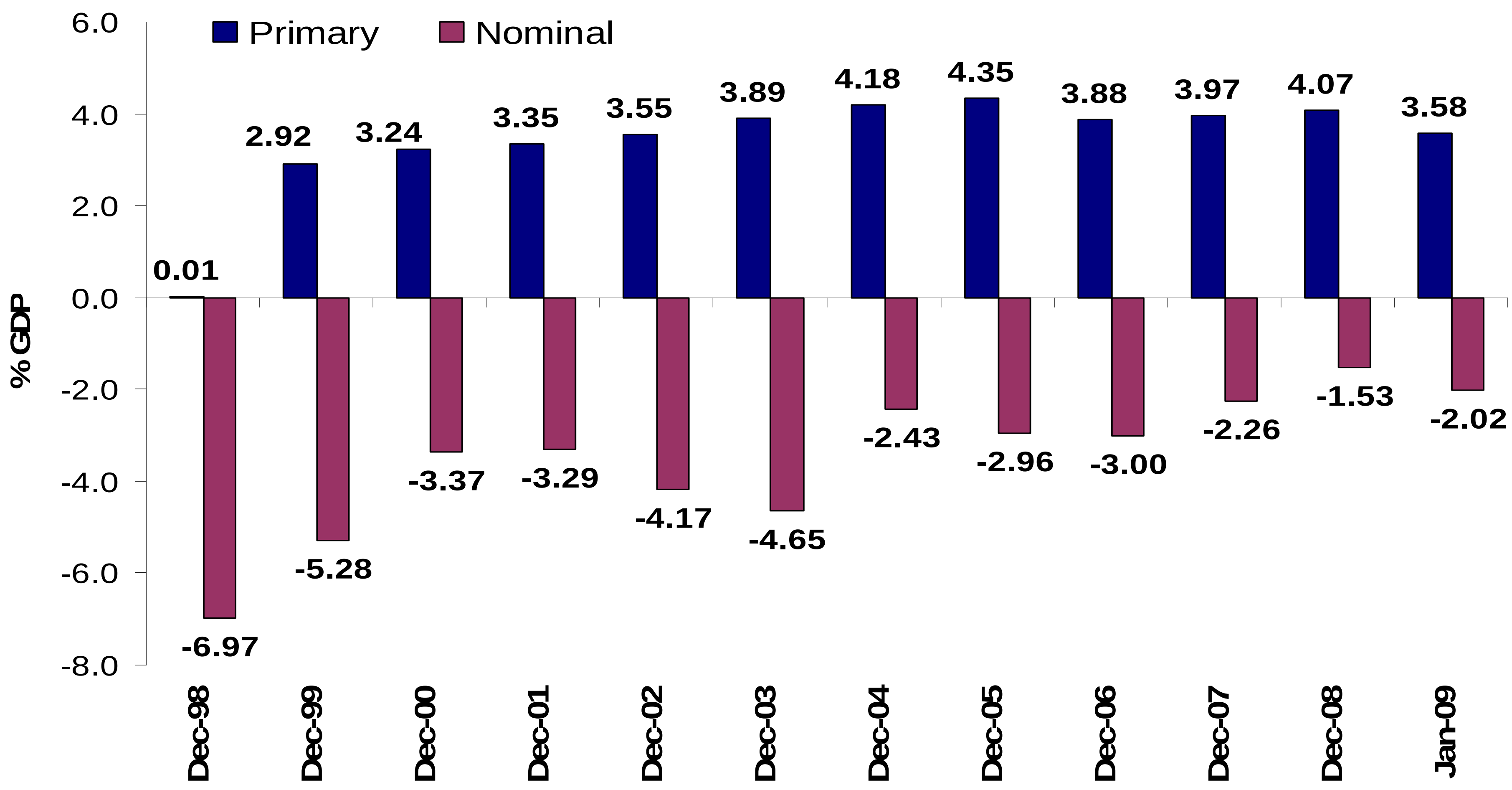
Source:Central Bank

For Apr-09/Jan-10 Market Forecast (Focus)

- The elimination of the risk of FX volatility pass-through has additional benefits, such as:
  - Increase Brazilian exports competitiveness in international markets
  - Gives Central Bank flexibility for counter-cyclical interest rate moves
  - Significantly less disruptive for GDP growth and overall economic fundamentals

Macroeconomic Overview – Fiscal Commitment

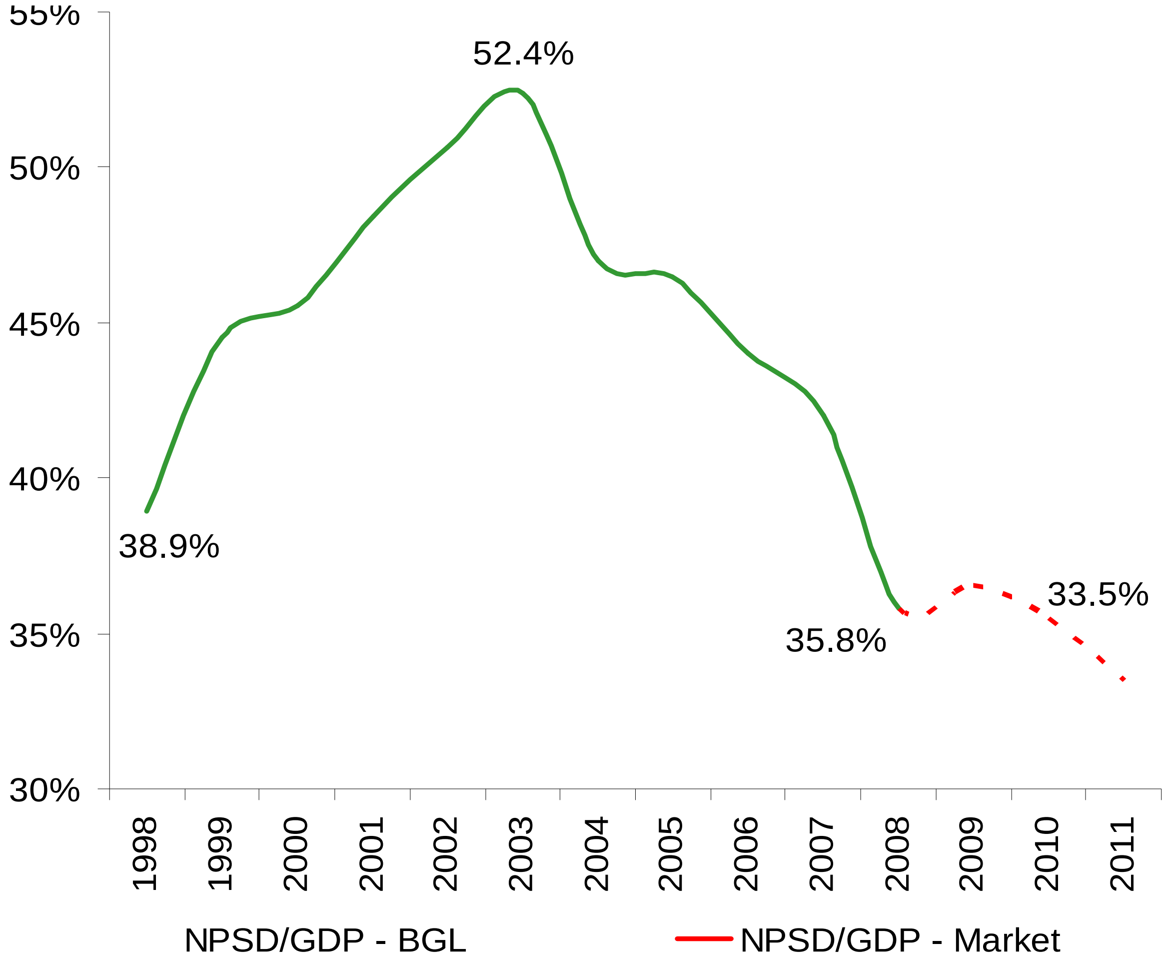
Public Sector Balance (in 12 months)



Source: Central Bank

Macroeconomic Overview – Fiscal Commitment

Net Public Sector Debt / GDP

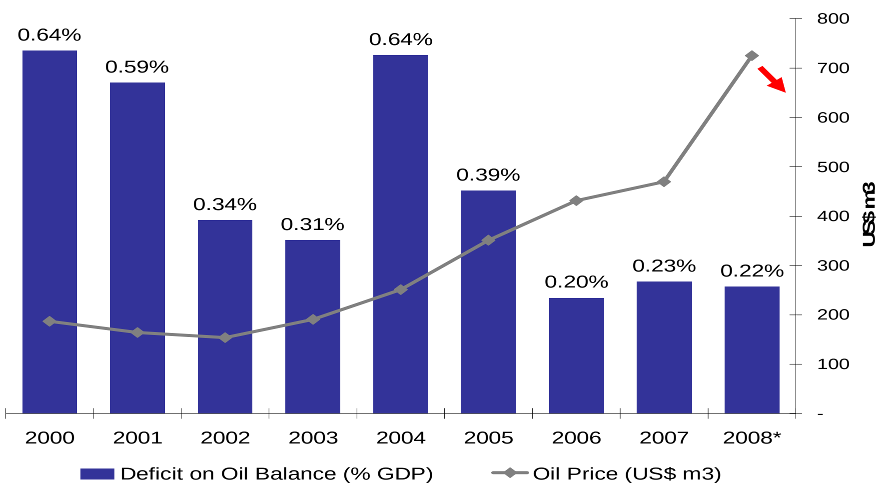


- Downward trend in NPSD/GDP ratio in the last 5 years.
- The NPSD/GDP ratio reached in 2008 is the lowest since August 1998.
- According to Draft BGL* 2009, the Primary Balance of 3.8% of GDP would result in NPSD / GDP of 31.0% in 2011.

Source: Up to 2008, Central Bank. From 2009 on Market Expectations (Focus of 03/20/2009)

*Budgetary Guideline Law

(Oil imports - Oil exports) as % of GDP



Oil Balance as October

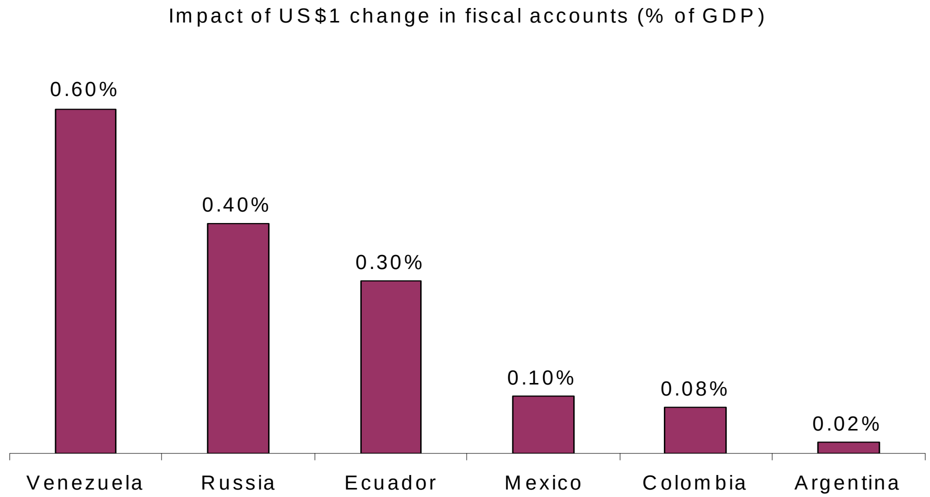
* 2008 GDP - Forecast

Source:ANP

- In net terms Brazil has become oil-independent (production vs consumption).
- In the 1990's, net oil imports reached as high as 4.0% of GDP against 0.22% in 2008.

- While Brazil still imports "light" oil and exports "heavy" oil, it is mildly affected by price volatility.

Impact of USD1 Oil Price Change in Fiscal Accounts as % of GDP



Source: JPMorgan Note: Brazil is not a net oil exporter yet

Brazil shows a more diversified export bundle than it's peers in Latin America.

Latin America: % of each country's exports - 2007

	% of each country exports				
	Commodities		Oil	Metals	Agricultural & other
	as % of GDP	as % of total exports			
Chile	32.2	77.3	0	54.4	22.9
Venezuela	29.4	96.8	93.1	3.7	0
Ecuador	24.5	77	59.8	0	17.2
Peru	19.7	76.9	8	62	6.9
Argentina	12.8	59.9	12.1	2.7	45.2
Colombia	8.2	55.7	24.4	17.3	14
Brazil	6.5	53.5	8.3	17.7	27.5
Mexico	6.4	21	16.5	0.8	3.7

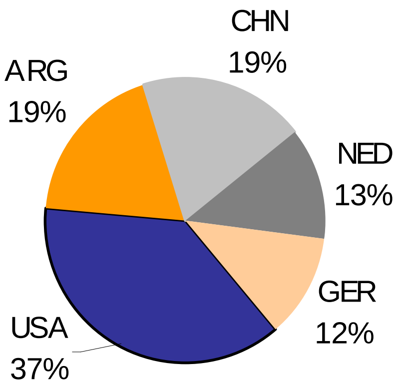
Source: JPMorgan, WTO,IMF, Moody's, Citigroup

- Brazil's mitigants to downturn in global commodity prices:
  - The cumulative terms of trade gains have been far from massive (just 5 percent in the six years to 2007)*;
  - The trade linkage is moderate, as merchandise exports account for 15% of GDP;
  - The country has accumulated substantial international reserves to ease pressure on the BRL (Real), if necessary;
  - The potential pass-through of a depreciation of the local currency to inflation will be limited by the fundamental changes in inflationary expectations.

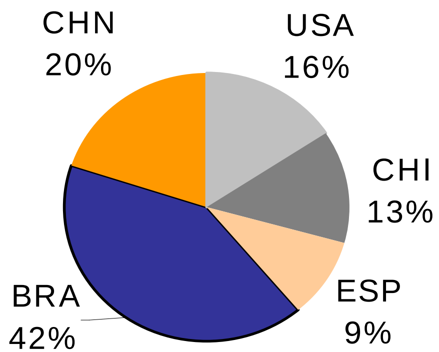
* IIF report. Trade gains defined by exports prices - imports prices

Top 5 Export Partners – 2008

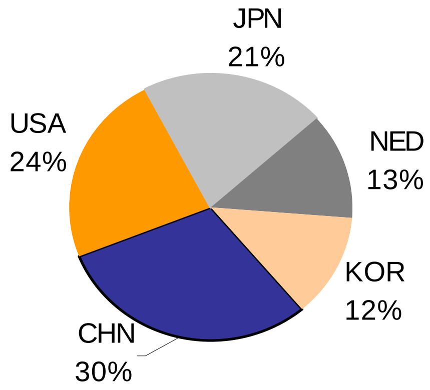
Brazil



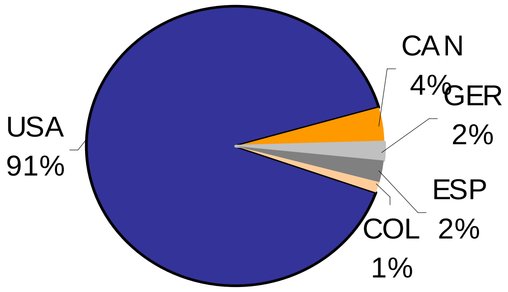
Argentina



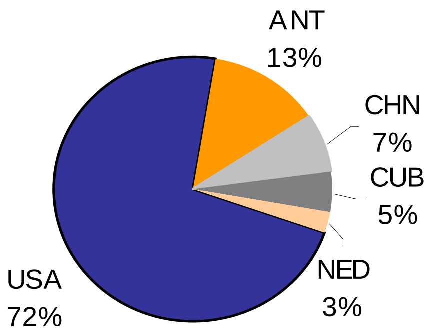
Chile



Mexico



Venezuela

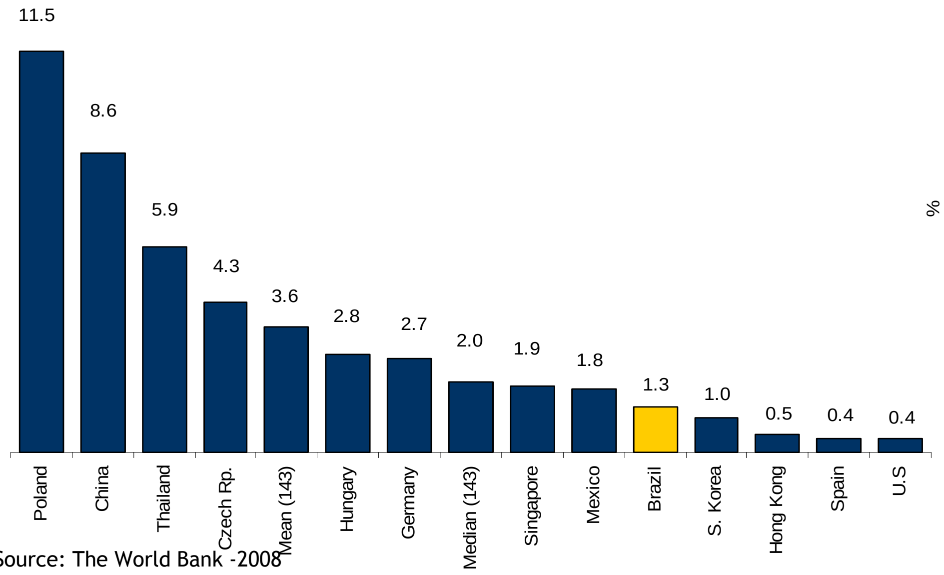


Source: MDIC, DB

The Brazilian banking system is well capitalized:

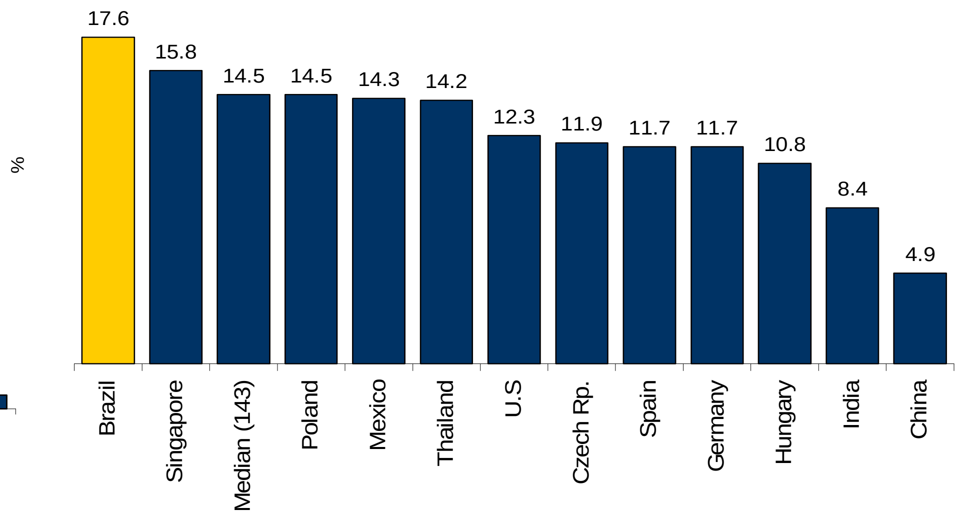
- Brazil sets a minimum requirement for capital ratio of 11%, higher than Basel's (8%)
- **Brazilian financial institutions have, on average, 18% BIS ratio (2008)**
- Among commercial banks, none is below 11% of capital ratio

Average Non-Performing Loan Ratio (% Portfolio)



Source: The World Bank -2008

Basel Capital Ratio – 2007

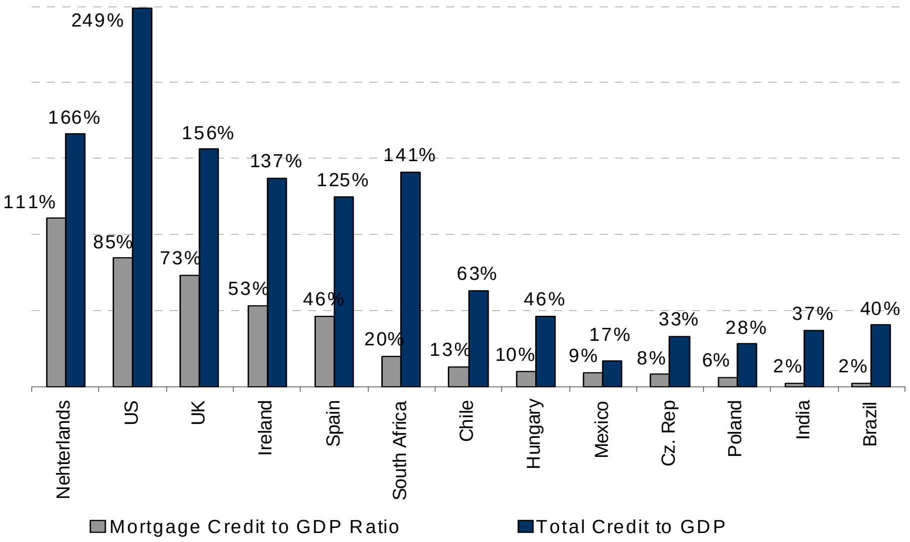


Source: The World Bank -2008, Central Bank

Note: Brazil's ratio was at 16% as of Sep-08

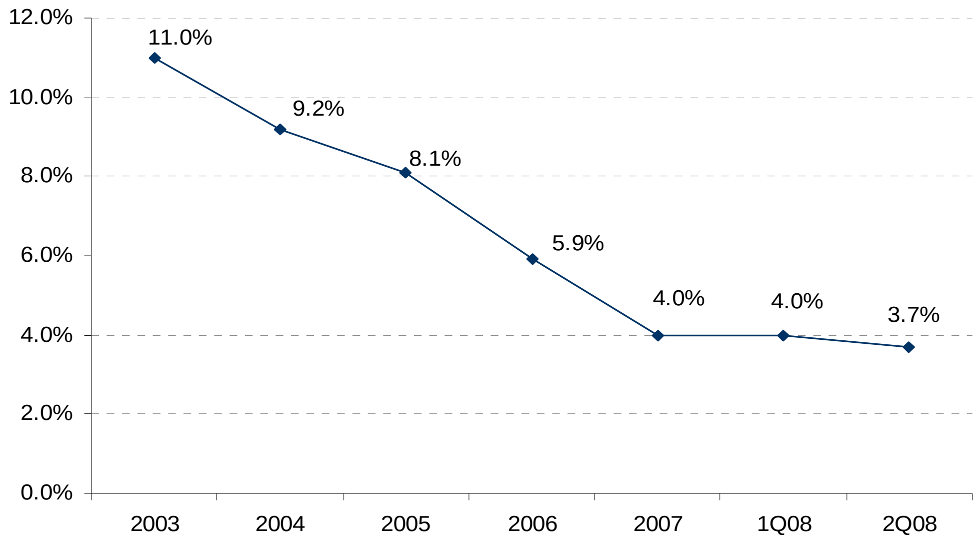
- The boom in the Brazilian mortgage market in the recent years was based on structural improvements, such as:
  - Change in regulation to facilitate the recovery under tenant default
  - Increase in general savings enabled more money to be channeled to this market
  - Lower real interest rate environment and stable inflation outlook
- However, mortgages are still a small percentage of GDP (2%)

Credit and Mortgage (% of GDP) 2008



Source: Global Property Guide, Central Banks

Mortgage Default Ratios (Brazil)



Source: ABCIP

Macroeconomic Overview

Public Debt Management

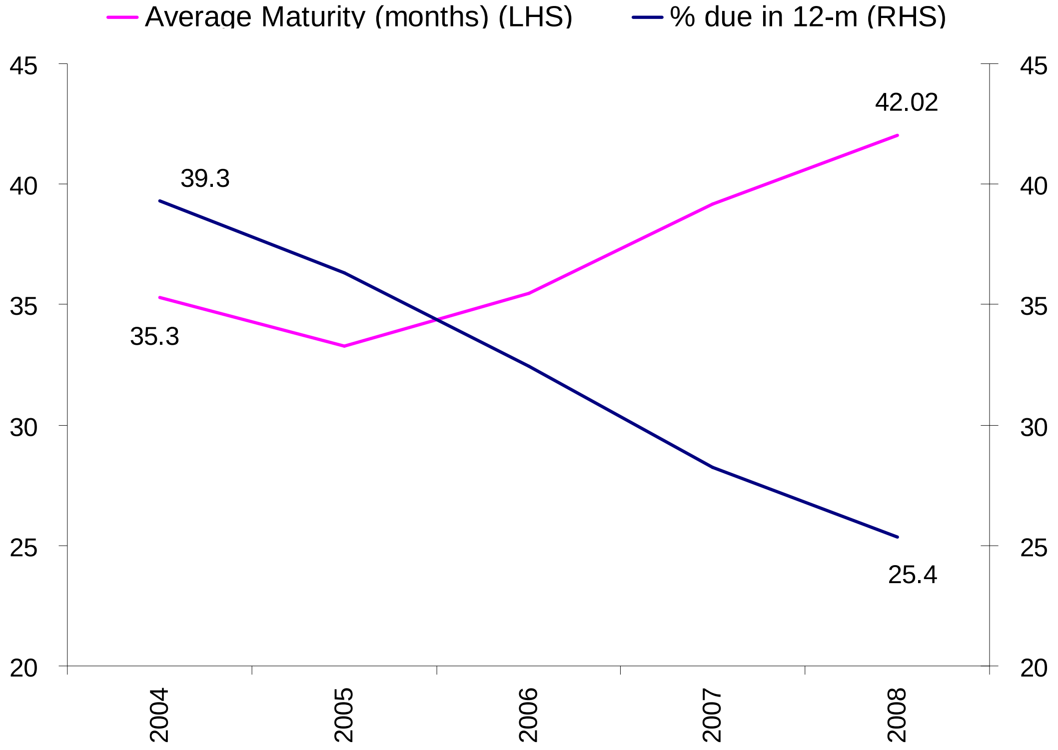
Brazil on the Crisis

Results Achieved

Evolution of the Average Maturity and of the % Due in 12 Months

- As a result of the strategy adopted by the National Treasury in the last years, there's been an increase in the Federal Public Debt average maturity and a reduction in the percentage due in 12 months.

FPD Average Maturity and % Due in 12 months

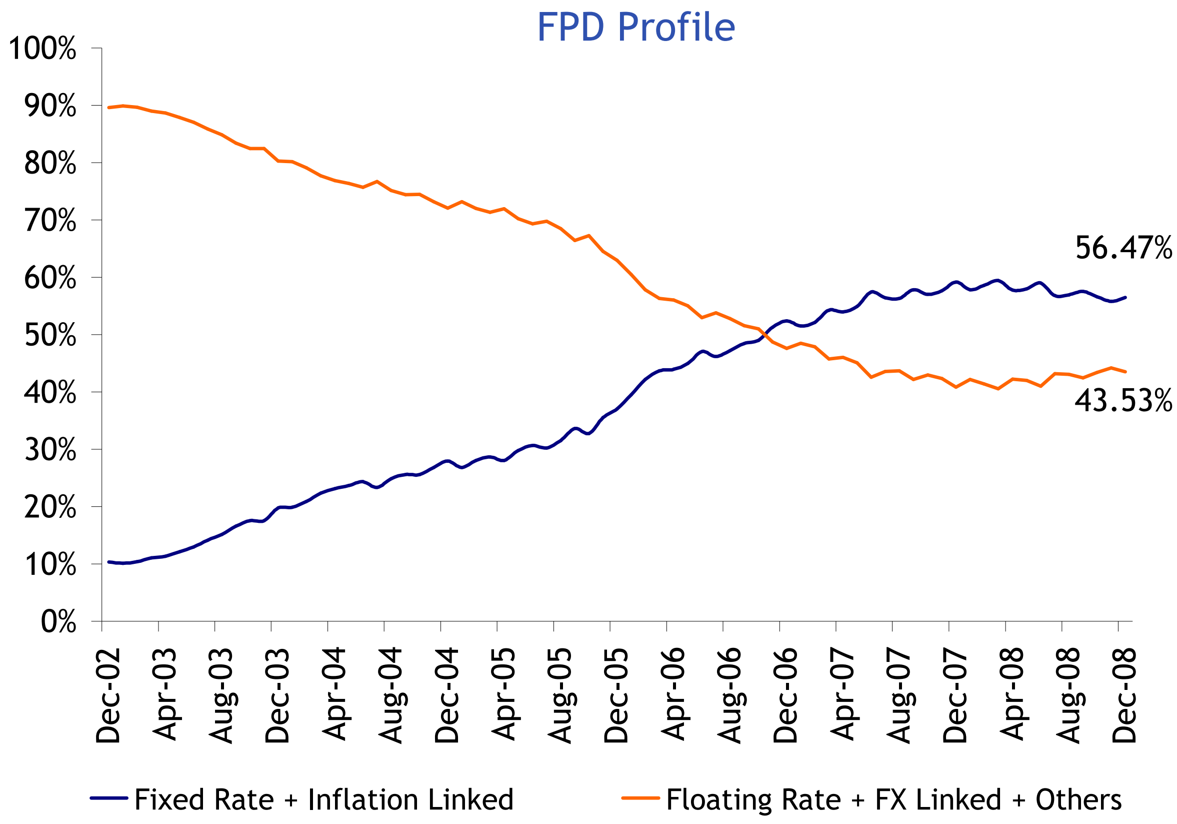


Source: National Treasury

Results Achieved

Evolution of Federal Public Debt Profile

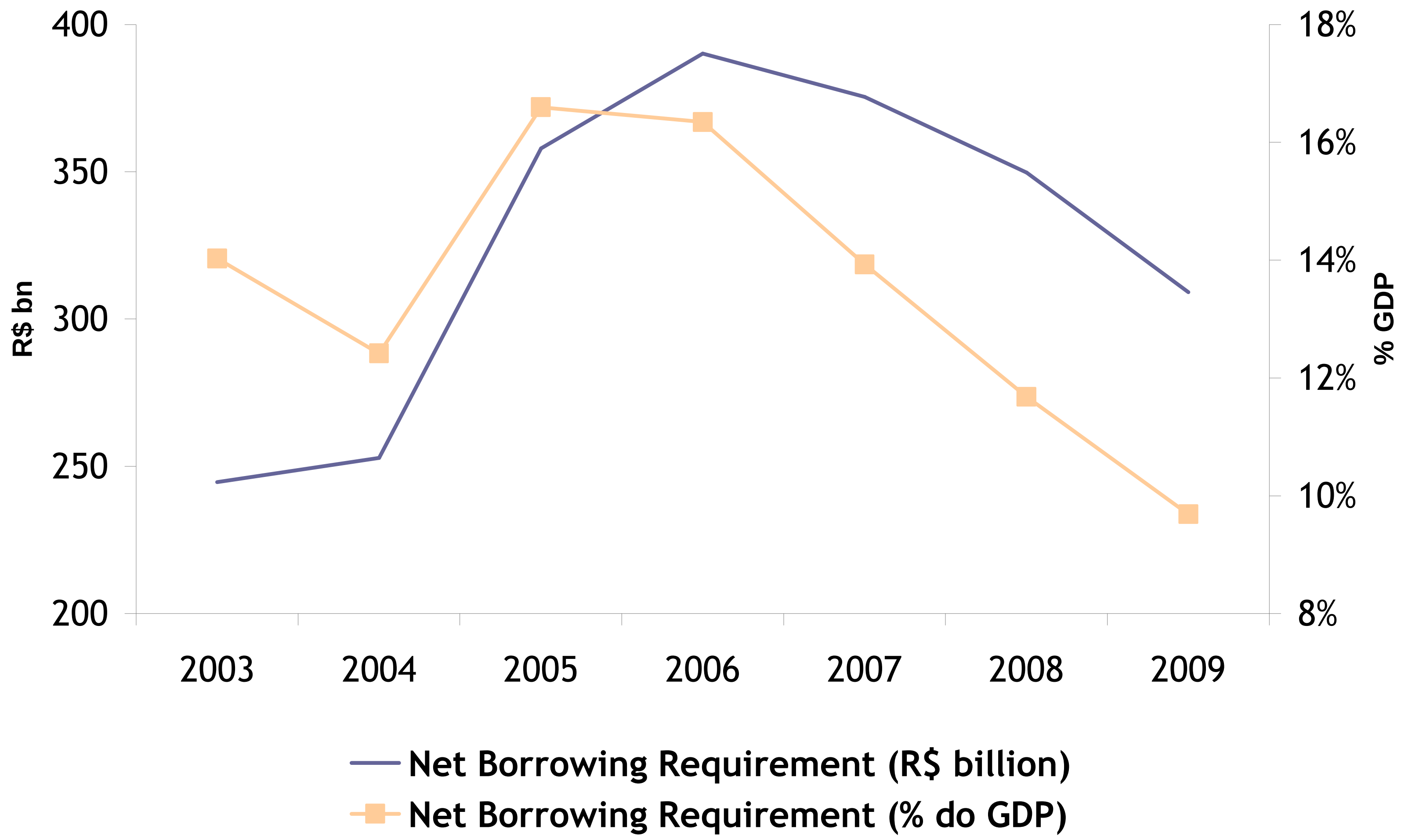
- Gradual change in the FPD profile since 2002, maintaining the fixed rate and the inflation linked shares higher than FX linked and floating rate shares (which are subjected to greater volatility).



Source: National Treasury

Annual Borrowing Plan - 2009

Evolution of Borrowing Requirement



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[1]
External Public Debt in Bonds	**21.5**
C-Bond call (Oct-05)	1.1
Brady Bonds call (Apr-06)	6.5
Tender Offer (Jun-06)	1.3
Early Redemption Program[2]	12.6
2006	6.0
2007	5.4
2008	1.2
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[3])	1.7
Total	**43.6**

[1] It captures the impact of the operations on the outstanding public debt

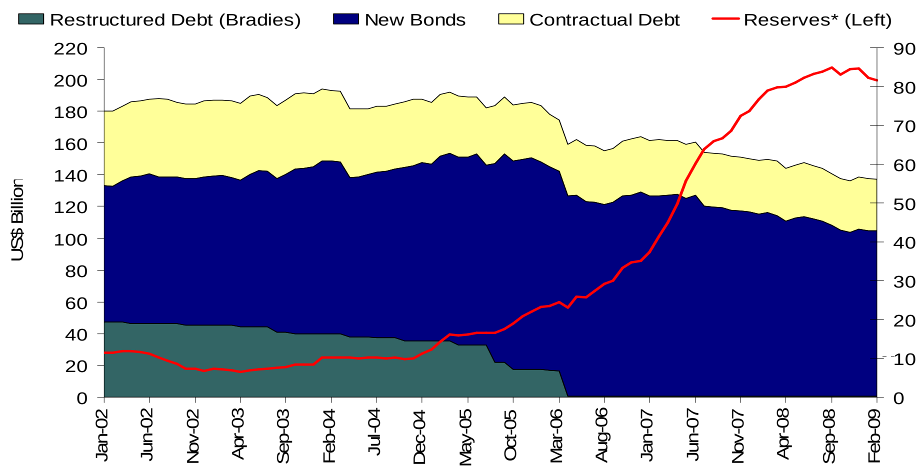
[2] The program started in Jan/06. For 2008, value repurchased up to 09/30/2008.

External Public Debt - Indicators

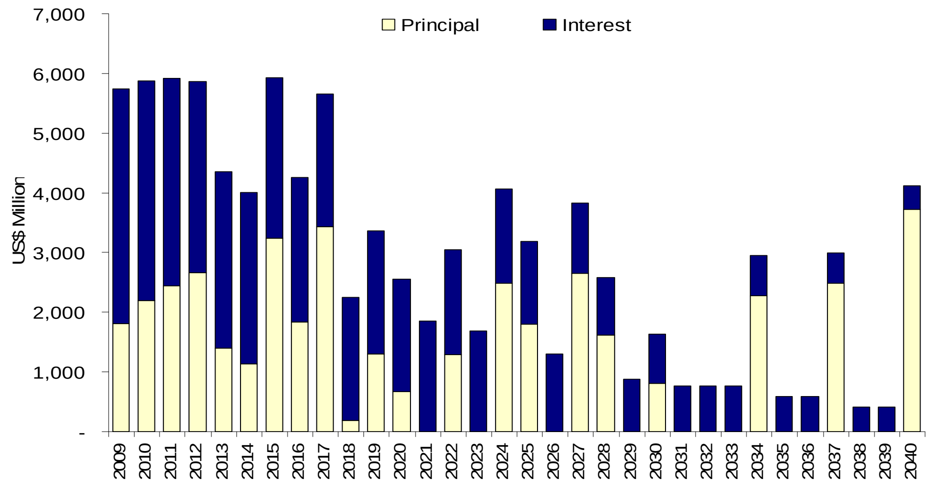
Effects of the Early Redemption Program

- With the Early Redemption Program of the External Debt, initiated in 2005, the volatility of the FPD service has decreased considerably, reducing market and refinancing risks, also improving the interest curve profile.
  - For 2009, the National Treasury has already acquired **76%** of the need of foreign currency to fulfill the maturity flow of the external debt for the year.

External Debt – National Treasury



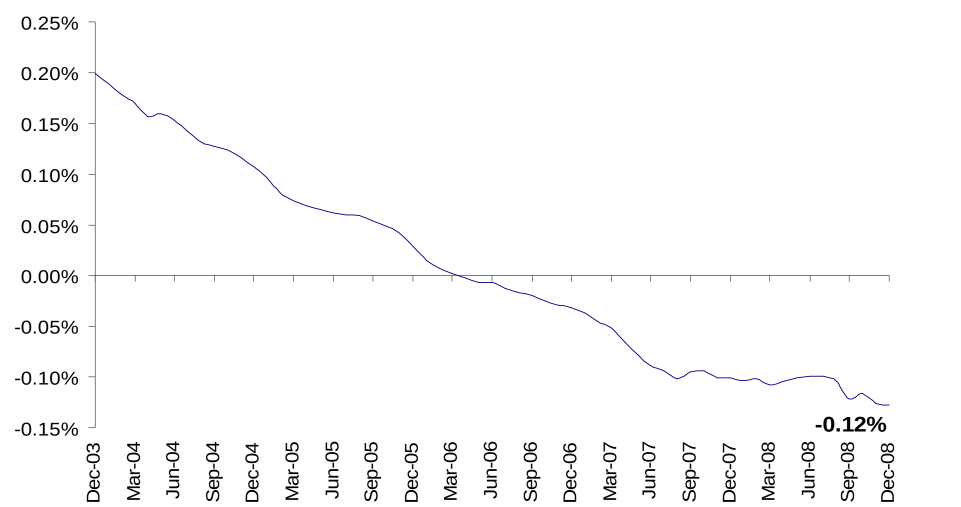
External Public Debt Profile



Source: National Treasury * Liquidity Concept

The improvement on the Public Debt composition has reduced risks

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

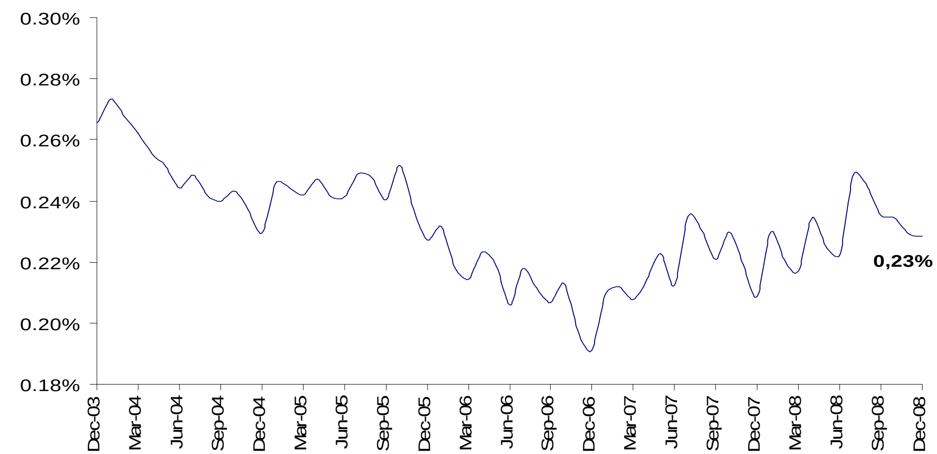


Source: Central Bank

- Considering the reduction on the sensibility of the NPSD to variations on exchange and floating rates, a stress scenario (overshooting of **56.6%** on exchange rate, followed by an increase of **7.8 pp** on the SELIC rate - three standard deviations in both), in December 2002 would **increase the Net Debt to GDP in 16.5%**. On December 2008, this same scenario would **decrease the debt in 5.4%,** being the increase of 1.7% on interest rates compensated by the reduction of 7.1% caused by the currency.

- The risk of NPSD/GDP not only was reduced in **20.5%** 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.

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



Source: Central Bank
In 12 months

PUBLIC DEBT MANAGEMENT

Annual Borrowing Plan - 2009

Federal Public Debt Planning (FPD)

To minimize long-term financing costs, ensuring the maintenance of prudent risk levels and contributing to the well functioning of the public bond market.

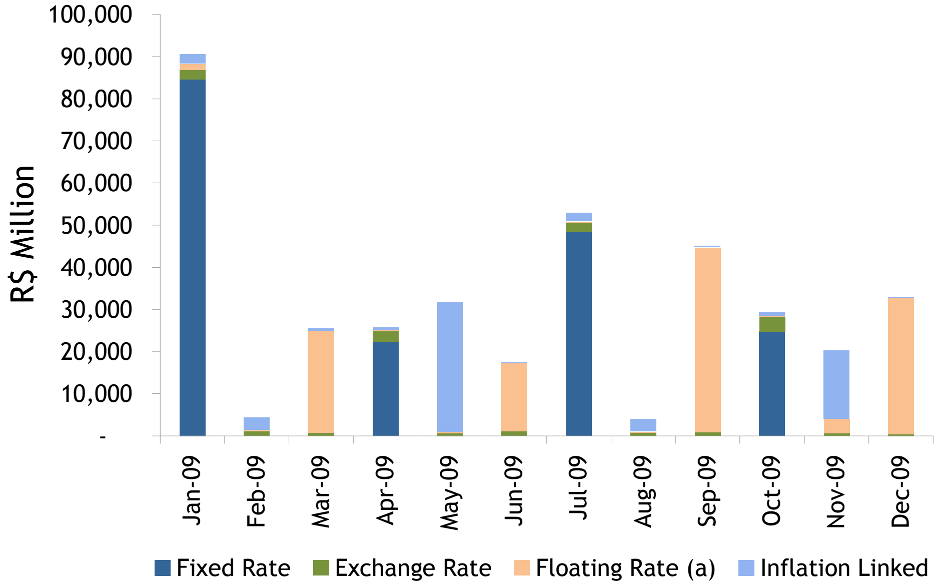
Guidelines

General guidelines that direct FPD management, given the market conditions:

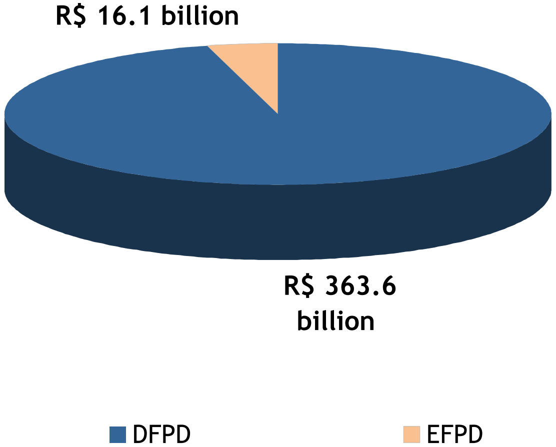
- ✓ Lengthening of average FPD maturities and reducing the percentage of FPD maturing in 12 months;
- ✓ Gradual substitution of floating-rate securities for fixed-rate or inflation-linked securities;
- ✓ Improvement of the external debt profile through issuance of benchmark bonds, early redemption program and structured operations;
- ✓ Incentives to the development of the term structure of interest rates for federal public securities on domestic and external markets; and
- ✓ Expansion of the investor base.

Annual Borrowing Plan - 2009

FDP Maturities (Total = R$ 379.7 billion)



Source: National Treasury



Source: National Treasury

R$ billion

	Principal	Interest	Total
FDP	**301.1**	**78.6**	**379.7**
DFPD	294.7	68.9	363.6
EFPD	6.4	9.7	16.1

Source: National Treasury

Annual Borrowing Plan - 2009

National Treasury Borrowing Requirement

Estimated Redemptions
R$ 400.5 billion

-

Budgetary Resources*
R$ 91.3 billion

=

Financing Requirements
R$ 309.2 Billion

External Debt
R$ 16.1 billion

+

Domestic Debt Held By the Public
R$ 363.6 billion

+

Interest due to Central Bank
R$ 20.8 billion

* Values approved in the Budget 2009 Bill (Law n º 11,897 -30/12/08). Do not include the resources from Central Bank positive balance sheet and the 2008 Budget Surplus.

Annual Borrowing Plan - 2009

Expected Results - FPD

Indicators	2008	Feb-09	Limits to 2009	
			Minimum	Maximum
Outstanding (R$ Billion)				
	1,397.3	1,381.0	1,450.0	1,600.0
Profile (%)				
Fixed Rate	29.9%	26.4%	24.0%	31.0%
Inflation Linked	26.6%	27.3%	26.0%	30.0%
Floating Rate	32.4%	34.9%	32.0%	38.0%
Exchange Rate	9.7%	9.9%	7.0%	11.0%
Others	1.4%	1.4%	1.0%	2.0%
Maturity Structure				
Average Maturity (Years)	3.5	3.6	3.4	3.7
Percentage Maturing in 12 Months	25.4%	27.8%	25.0%	29.0%

- ✓ Expectation of maintenance of the FPD current composition, consolidating the gains in terms of refinancing and market risk reduction;
- ✓ Percentage of fixed rate securities + inflation linked securities above SELIC + Exchange Rate;
- ✓ Percentage maturing in 12 months below 30% and stable average maturity; and
- ✓ The upper limit for outstanding debt includes the possibility of specific issuances to assist the supply of the local credit and the maintenance of government's strategic investment programs.

Macroeconomic Overview

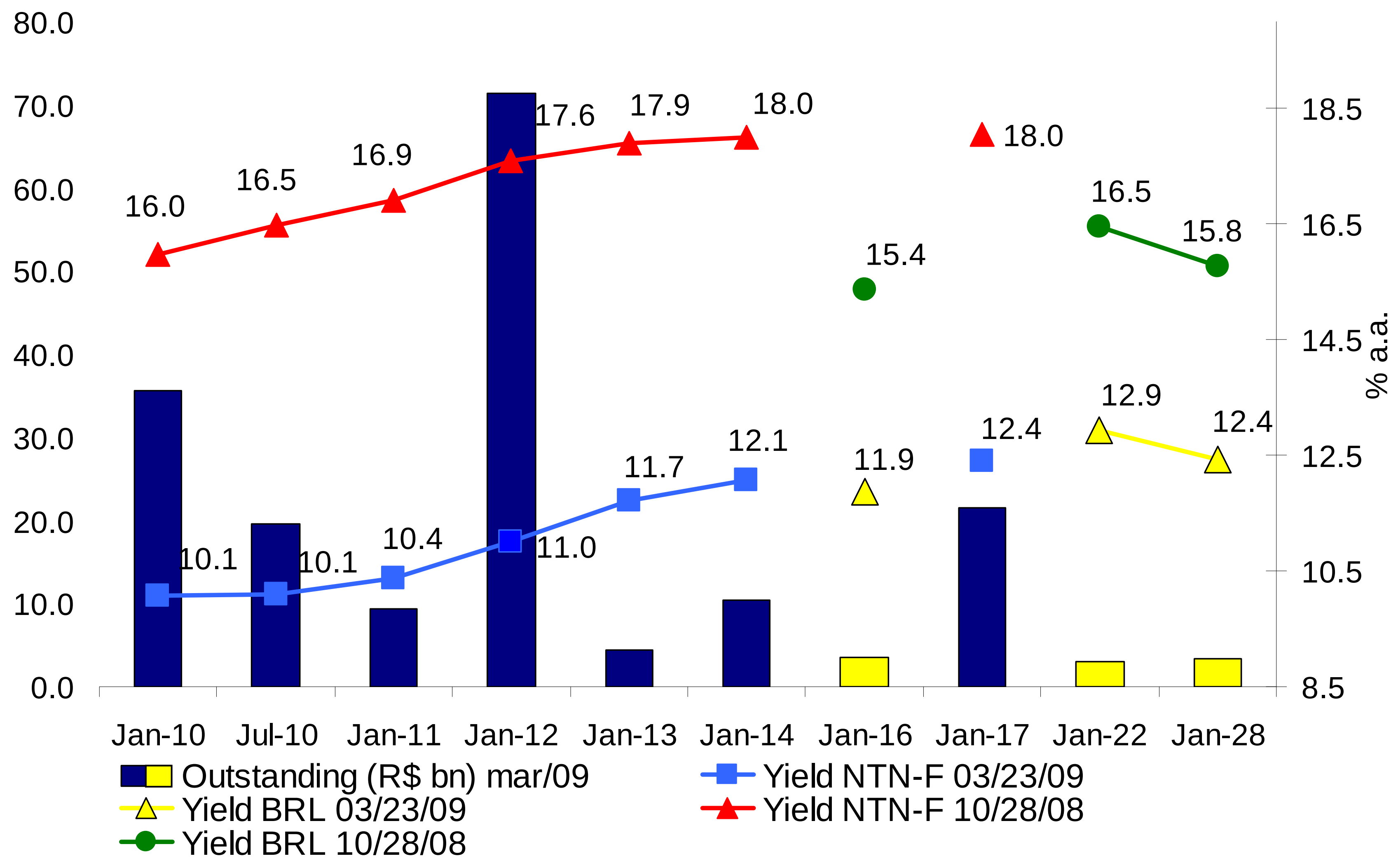
Public Debt Management

Brazil on the Crisis

TesouroNacional

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

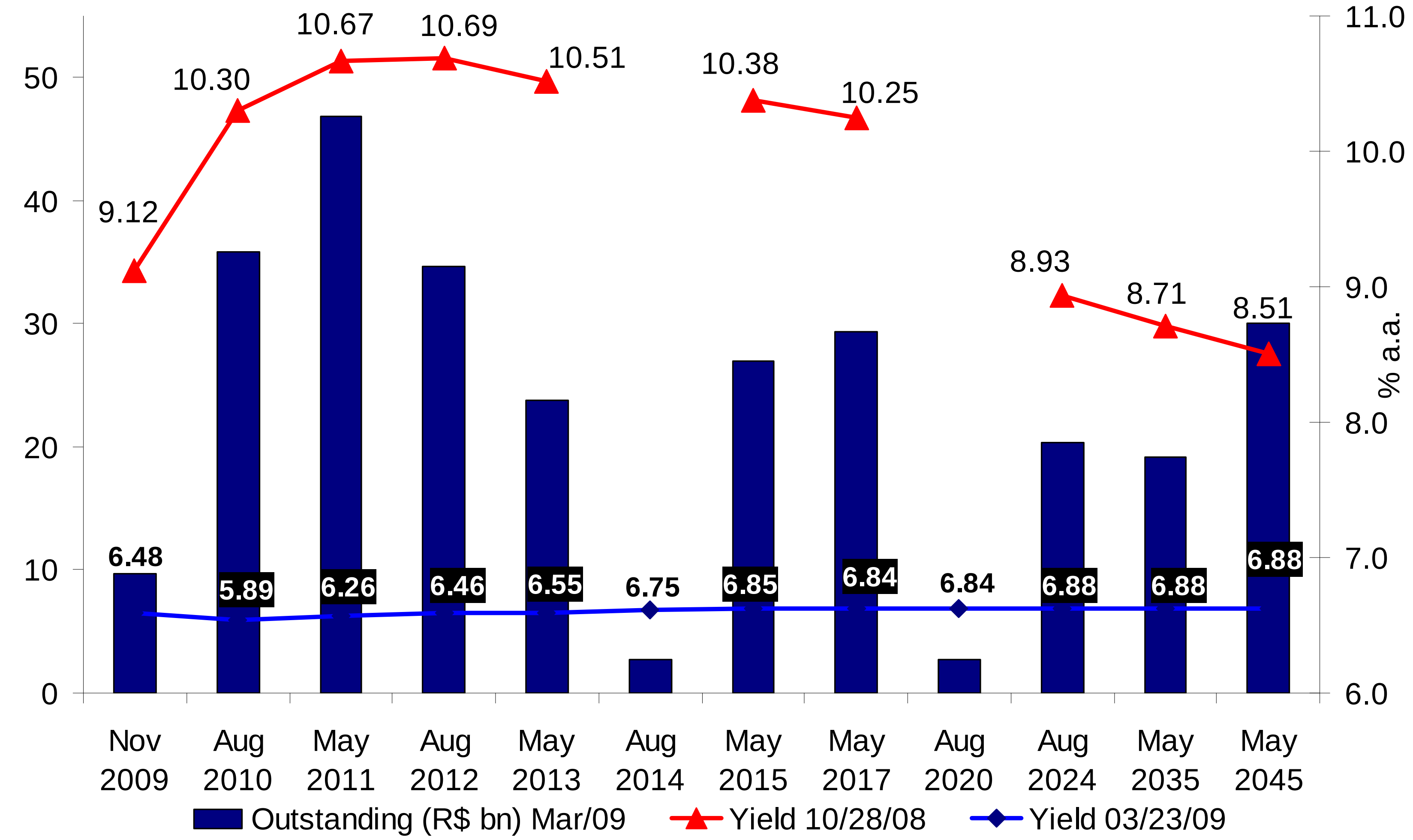
NTN-F and BRL's - Outstanding and *Yields* at the peak of the crisis (10/28/08) and at the present (03/23/09)



Source: Bloomberg, Andima and National Treasury

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

Inflation linked bonds (NTN-B) - Outstanding and yields at the peak of the crisis (10/28/08) and at the present (03/23/09)



Source: ANDIMA

Note 1: The Nov/09, Aug/10, May/11, May/13, May/15 and May/17 NTN-B are not issued anymore.

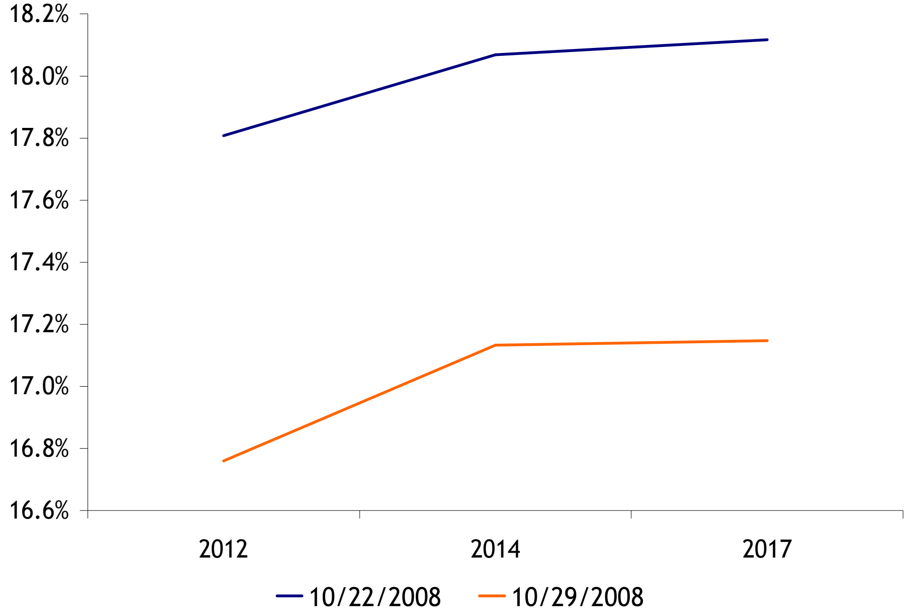
Note 2: There are NTN-Bs with other maturities.

Events in Public Debt Management

NTN-F (fixed rate) Spread auctions

- The Treasury performed four simultaneous auctions amidst the high volatility in the financial market;
- The purpose was to assure, to market participants, price parameters and avoid the deterioration of the correlated bond markets due to increasing premium at the time.
- Early redemption of R$ 206 mn, R$ 1.14 bn and R$ 228.7 mn respectively in the first three auctions and R$ 309.8 mn in the last auction.
- The overall result was a net redemption of R$ 1.78 bn in four auctions.

NTN-F yield curves before and after the auctions

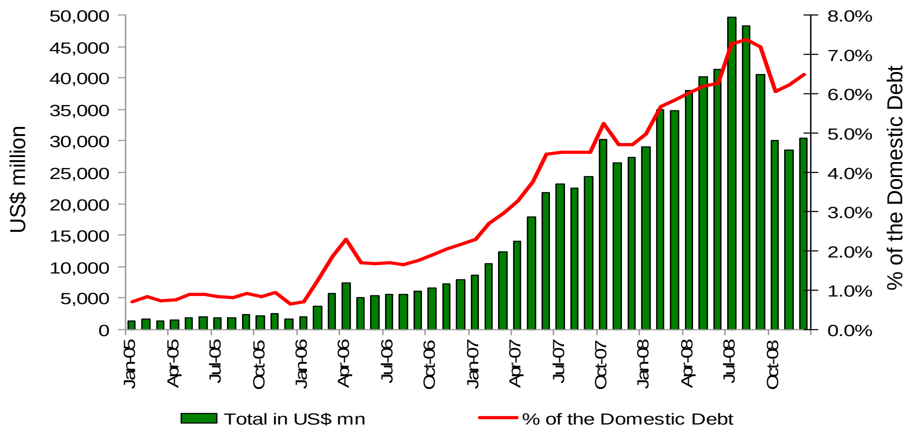


Source: Andima

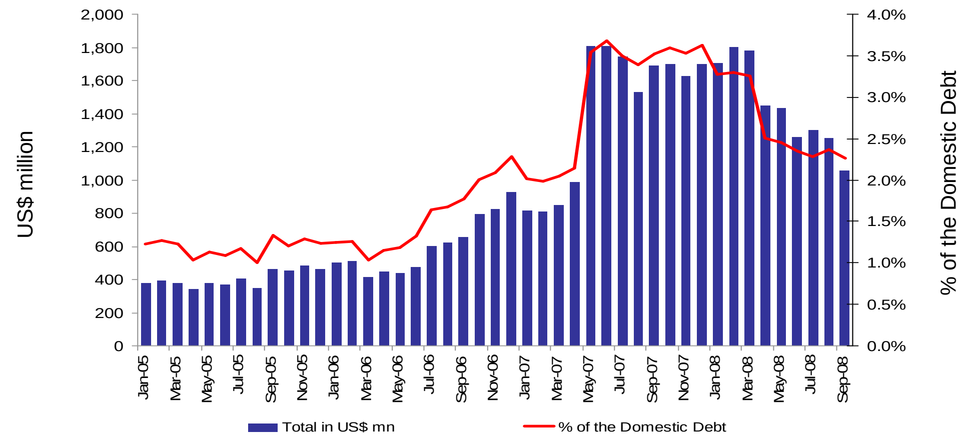
- This allowed few investors to unwind their positions without compromising the portfolio of those who intended to hold their securities.

Share of Foreign Investors on the Domestic Debt

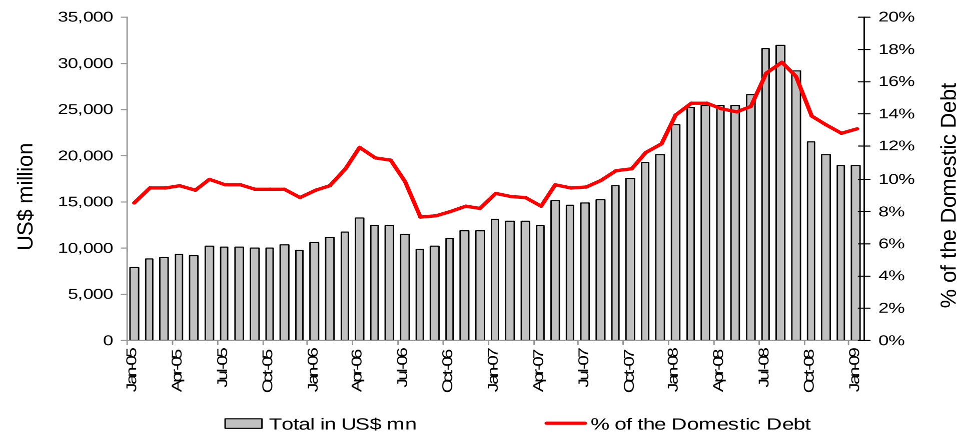
Brazil



Colombia



Mexico

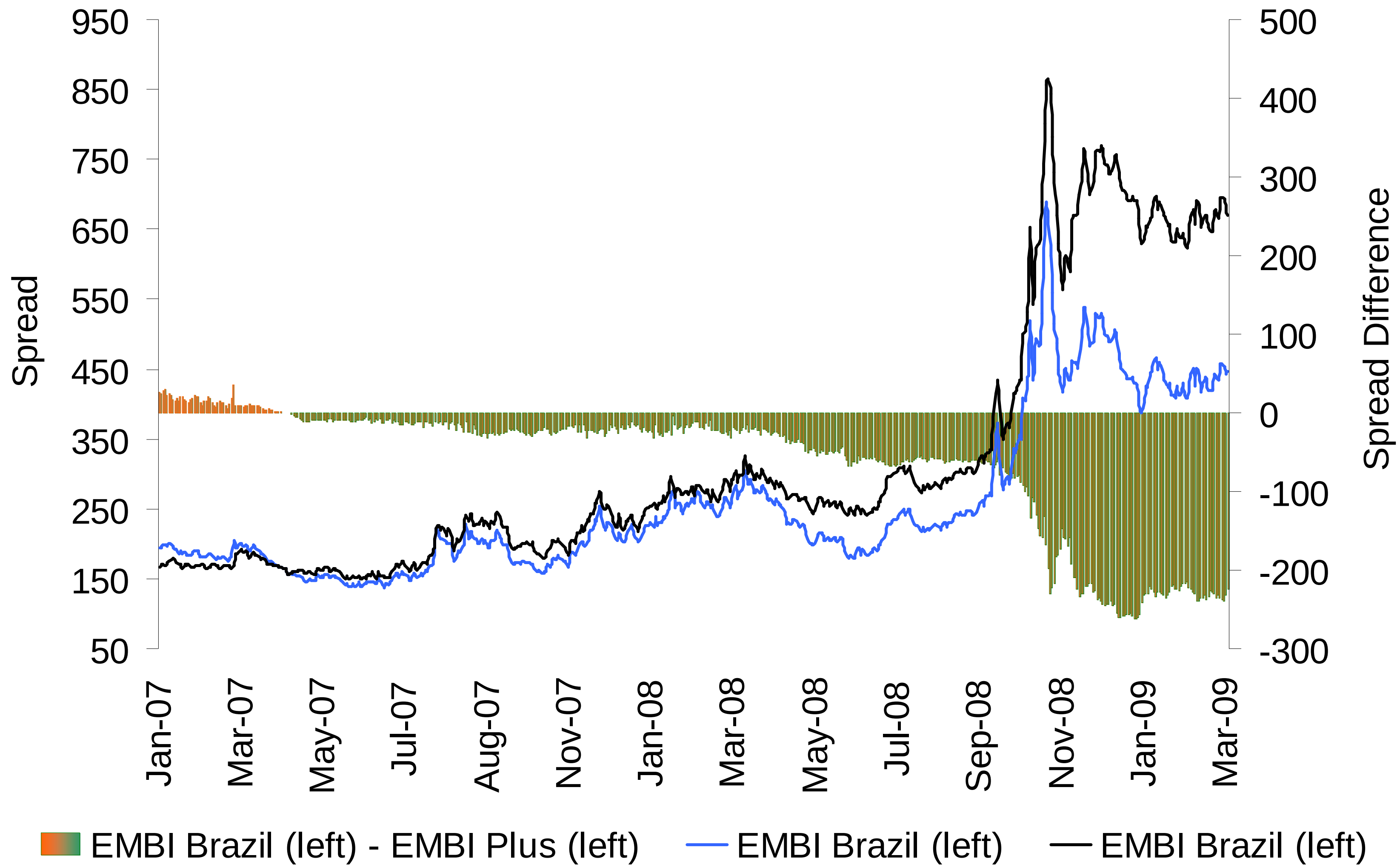


- The share of foreign investors that wished to leave the country already did it (especially hedge funds). For 2009, we expect a consolidation and eventually an increase, with the entrance of real money, after this moment of higher risk perception;

- In February, for instance, BM&FBovespa has registered a positive foreign investor trading of R$544 million into the Brazilian equity market.

Brazilian Performance in the International Market

EMBI Brazil X EMBI +

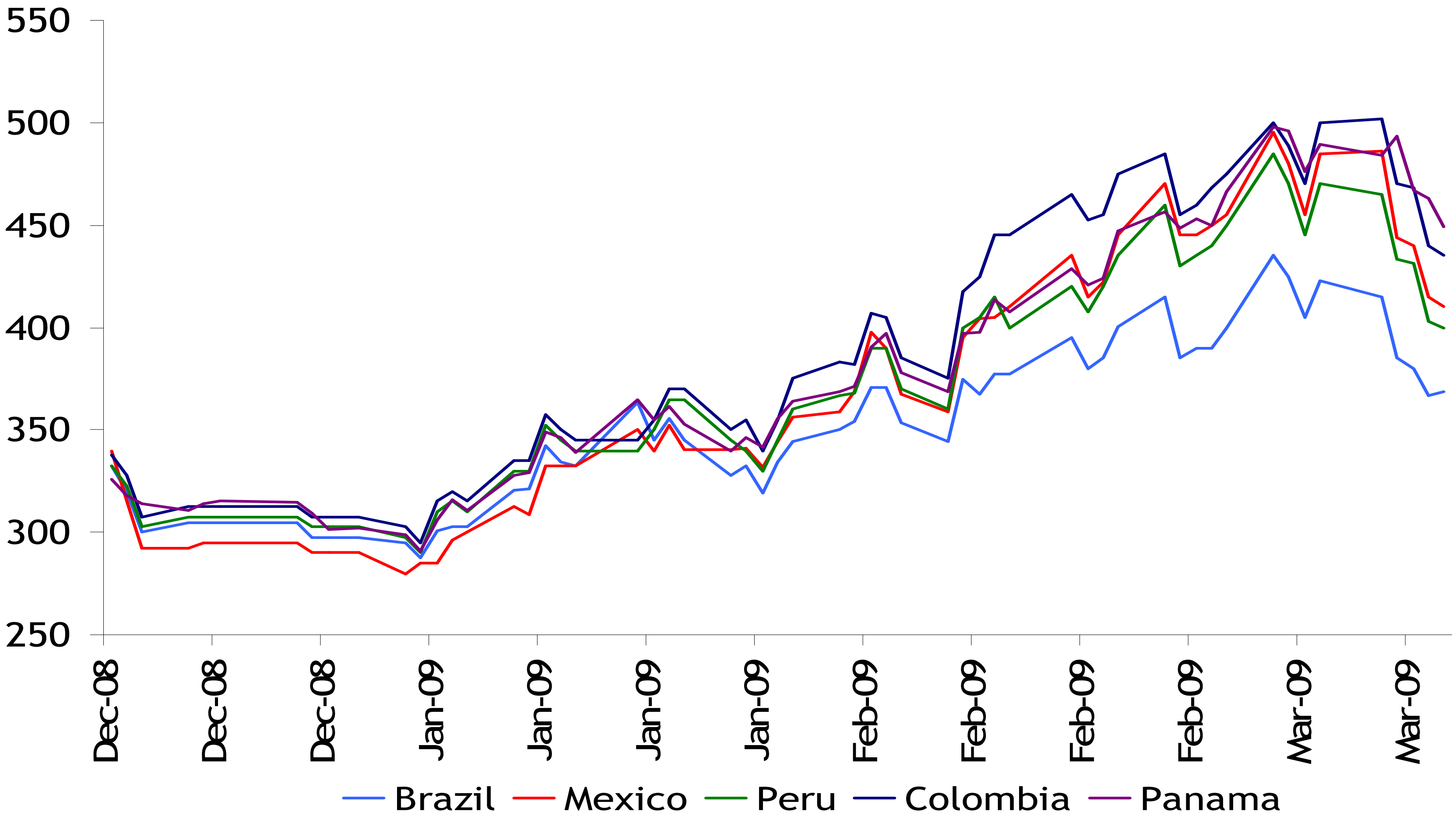


Source: Bloomberg

Brazilian Performance in the International Market

Credit Default Swap (CDS)

- Since the beginning of the year, Brazilian CDS shows a positive performance, decoupling from its peers. The graph below shows the 5 year CDS of Latin American countries in the last three months.

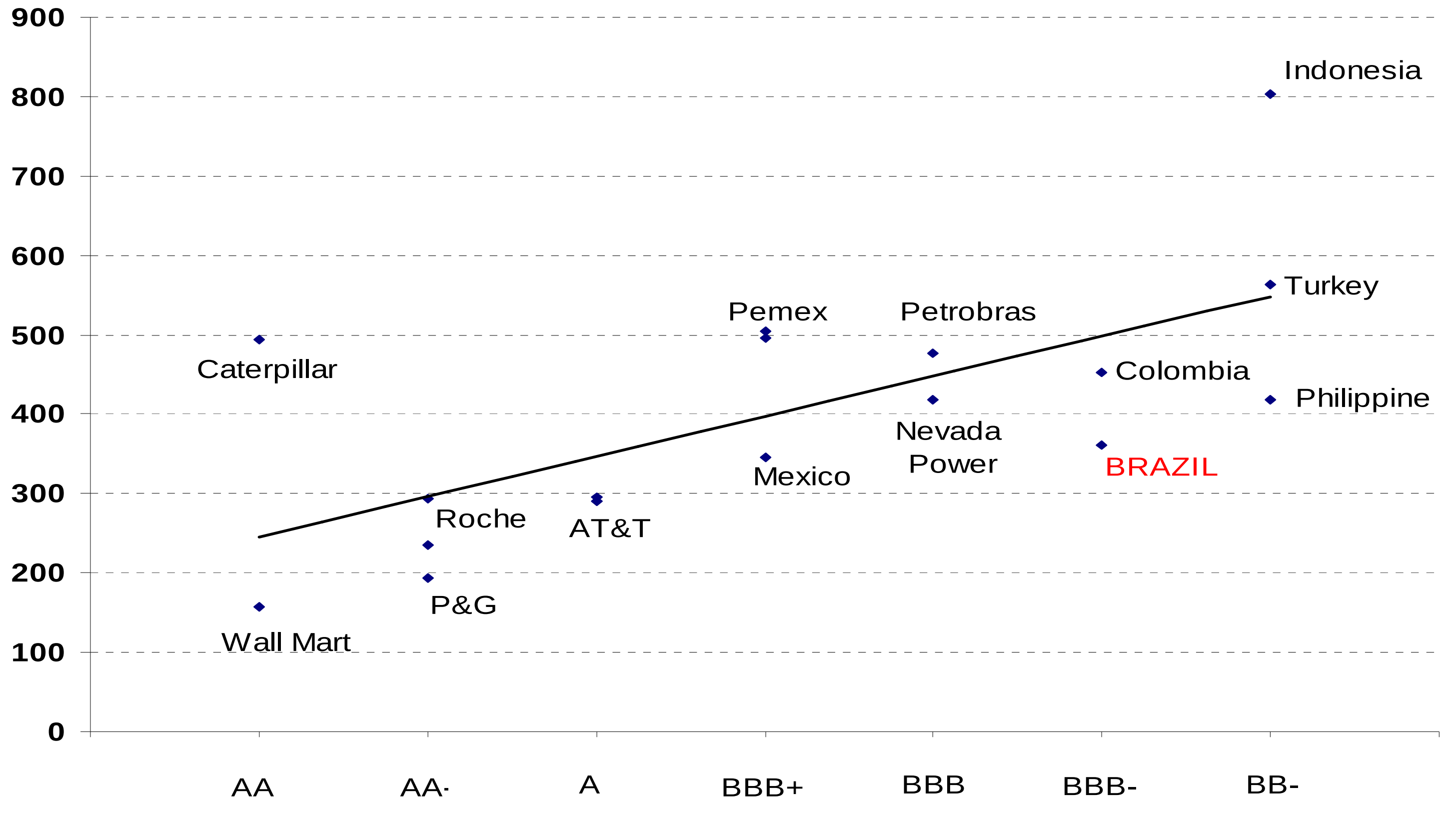


Source: Bloomberg

Brazilian Performance in the International Market

Spreads over Treasury in 03/18/09

- The graph below shows the spread over Treasury of 10 year maturity bonds. The issuers are classified according to its S&P rating. The Brazilian spread is below its peers and equivalent to higher rating issuers levels.

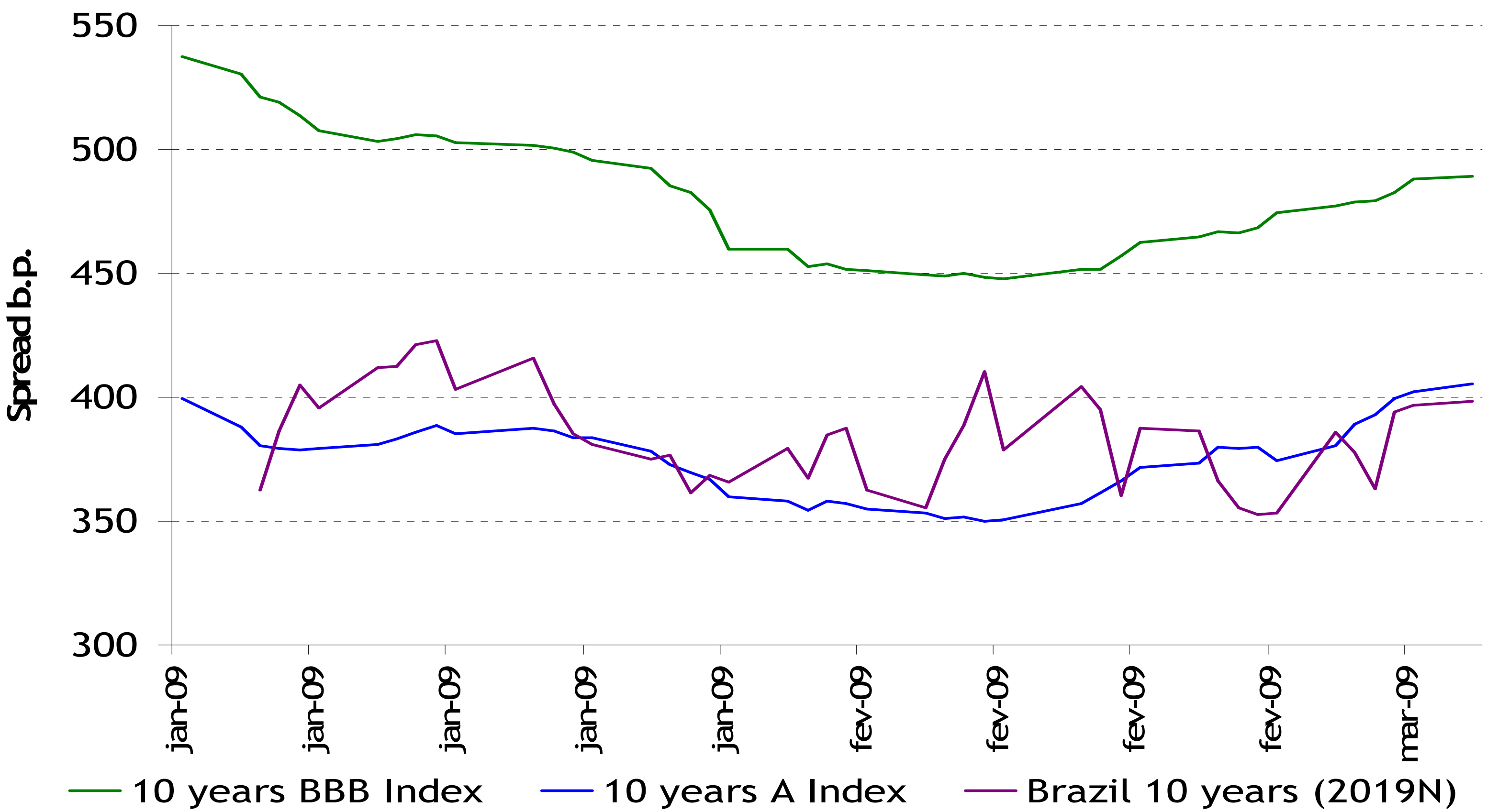


Source: Bloomberg

Brazilian Performance in the International Market

JP Morgan Spread Index by S&P Rating Category

- The Brazilian 10 year benchmark spread is equivalent to spreads of companies with a rating four notches higher (A). Companies with one notch above the Brazilian (BBB) show spreads up to 100 basis points highers than Brazil's.

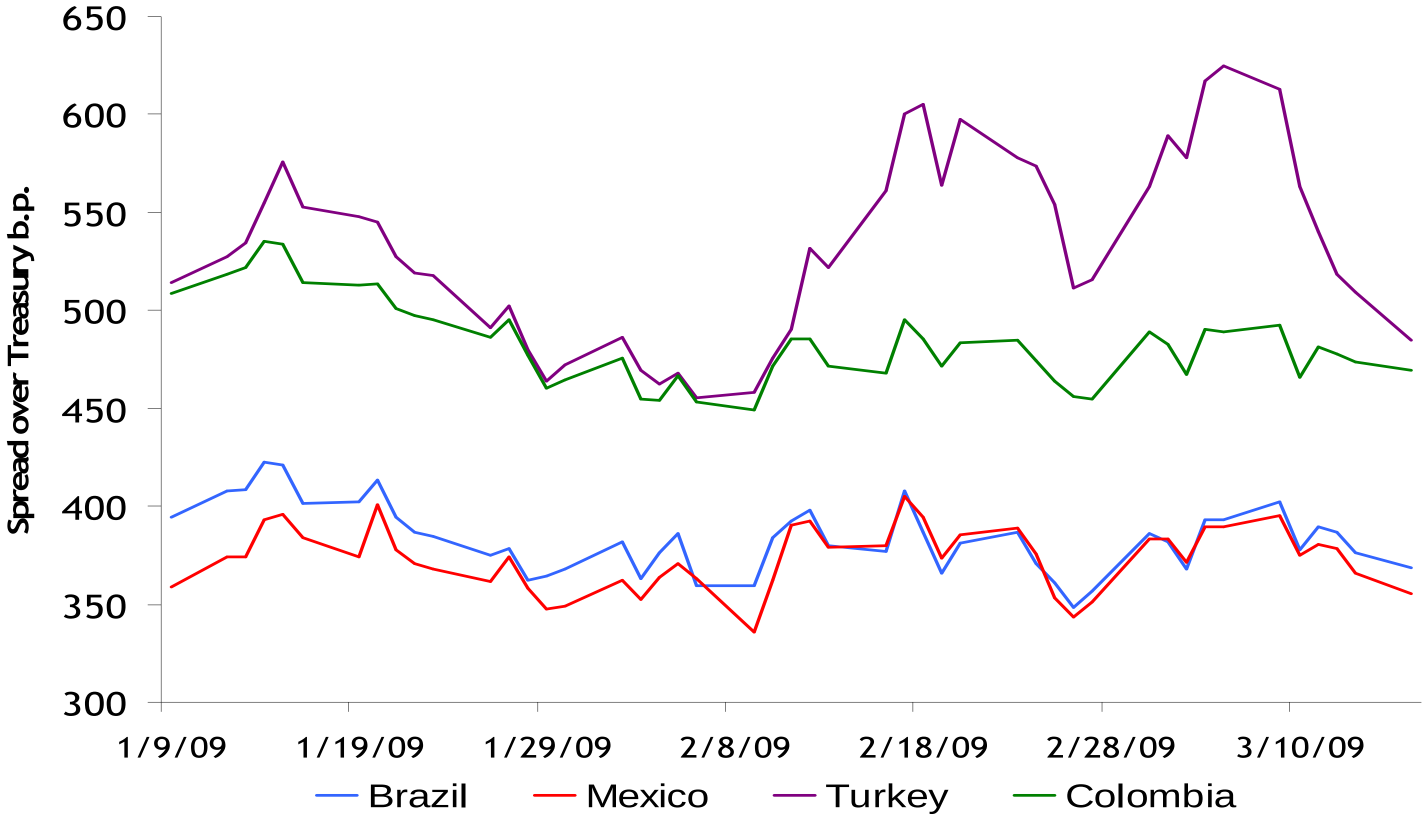


Source: Morganmarkets

Brazilian Performance in the International Market

10 years Benchmarks

- After the reopening of the external market for emerging issuers, in December 2008, Brazil, Mexico and Colombia have issued bonds maturing in 2019. Turkey has issued a bond maturing in 2017. The graph below shows the evolution of the spreads over Treasury of these bonds over the year.

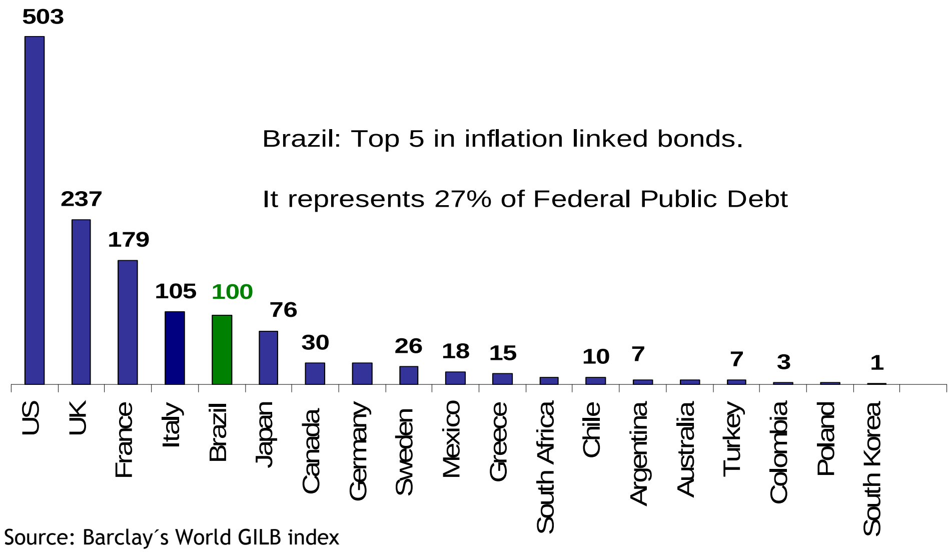


Source: Bloomberg

TesouroNacional

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

GILB index - Domestic Inflation linked Bonds

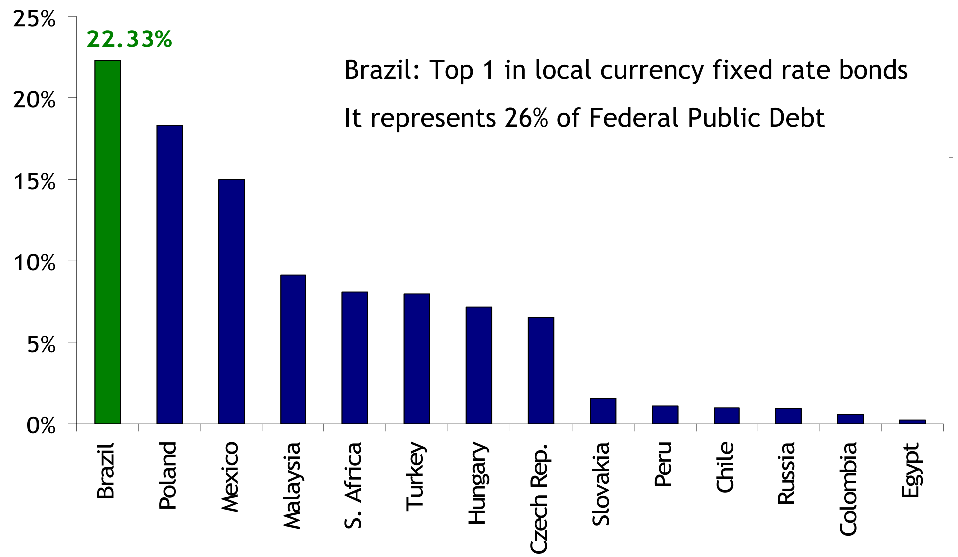


Source: Barclay´s World GILB index

- Brazil represents about 7.3% of world's total market cap in domestic inflation-linked bonds, according to Barclay's World GILB index.

- Brazil represents 22.3% of EMs total market cap in local currency fixed rate bonds, according to JP Morgan's GBI-EM Index.

GBI-EM Index



Source: JPMorgan

How has Brazil been affected by the crisis?

S&P and Fitch granted the Investment Grade Status for Brazil on April and May 2008, respectively

- Brazil´s kept its positive economic path amidst the external turmoil. Stability and pragmatism are values widespread across society. Rating Agencies reaffirmed the BRA outlook among global ratings reviews.

Brazil	2003	2004	2005	2006	2007	2008
S & P	B+	BB-	BB-	BB	BB+	BBB-
Fitch	B+	BB-	BB-	BB	BB+	BBB-
Moody's	B2	B1	Ba3	Ba2	Ba1	Ba1

- Strengths
  - Track record of policy continuity through political transitions based on a inflation-targeting regime and floating FX-regime;
  - Remarkable reduction on external vulnerabilities
  - Improving debt profile

- According to one of the 3 biggest rating agencies, since September 2008 there were:
  - 19 downgrades;
  - 30 outlook changes to negative and;
  - 5 outlook changes from positive to stable.

- In the same period Brazil had it's Investment Grade and outlook (stable) reaffirmed.

Source: Rating Agencies

For additional information access Brazilian National Treasury site:

www.tesouro.fazenda.gov.br

Or contact Institutional Relations area:

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