



Federal Public Debt Management

Annual Public Debt Report 2011

Annual Borrowing Plan 2012



March, 2012

B R A S Í L I A

Annual Public Debt Report – 2011

Annual Borrowing Plan – 2012

Results

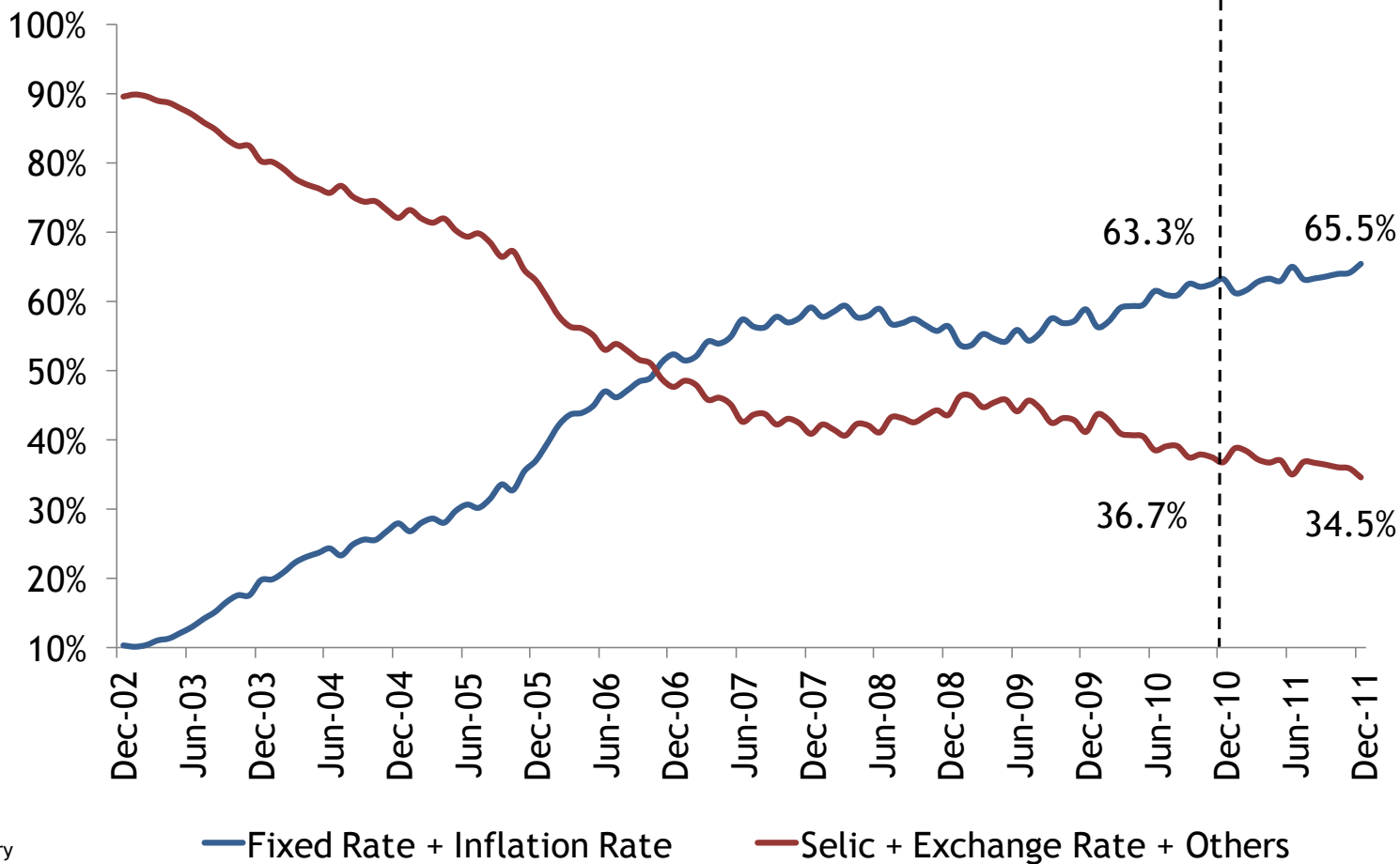
Evolution of the Federal Public Debt (FPD) - Main Indicators

- » In 2011, the country strengthened its resilience to bear the ongoing turmoil.
- » Under consistent macroeconomic policy and enhanced debt management policy, the National Treasury efficiently financed Federal Government needs.
- » **All 2011 Annual Borrowing Plan targets were met.**

| Indicators | Dec-08 | Dec-09 | Dec-10 | Dec-11 | PAF-2011 | |
|---|---------|---------|---------|---------|----------|---------|
| | | | | | Minimum | Maximum |
| Stock of FPD* held by the public (R\$ Bi) | 1,397.3 | 1,497.4 | 1,694.0 | 1,866.4 | 1,800.0 | 1,930.0 |
| FPD Profile (%) | | | | | | |
| Fixed Rate (%) | 29.9 | 32.2 | 36.6 | 37.2 | 36.0 | 40.0 |
| Inflation Linked (%) | 26.6 | 26.7 | 26.6 | 28.3 | 26.0 | 29.0 |
| Floating Rate (%) | 33.9 | 34.5 | 31.6 | 30.1 | 28.0 | 33.0 |
| Exchange Rate (%) | 9.7 | 6.6 | 5.1 | 4.4 | 4.0 | 6.0 |
| FPD Maturity Structure | | | | | | |
| Average Maturity (years) | 3.5 | 3.5 | 3.5 | 3.6 | 3.5 | 3.7 |
| Percentage Maturing in 12 Months | 25.4 | 23.6 | 23.9 | 21.9 | 21.0 | 25.0 |

Results

Improved Debt Profile

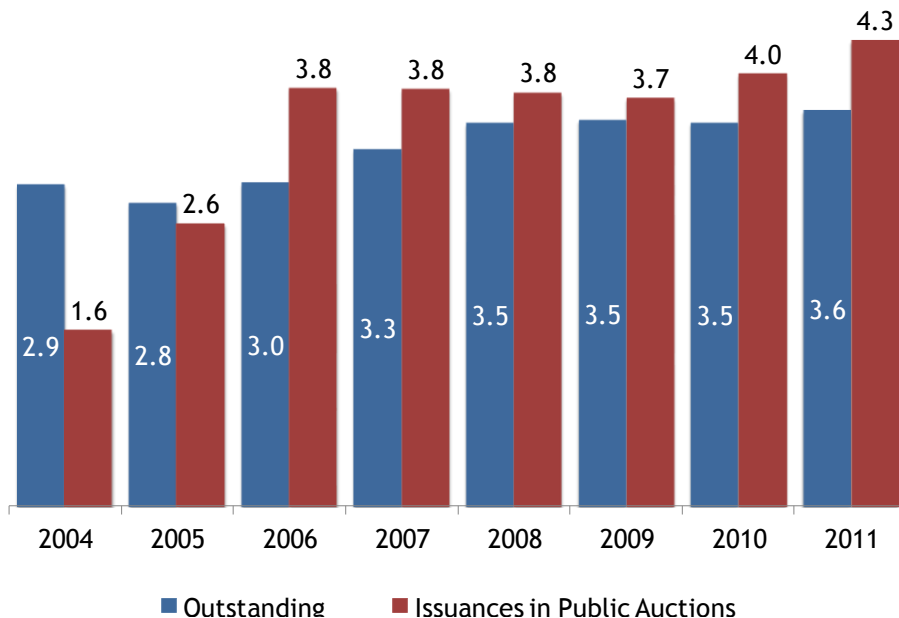


Source: National Treasury

» Increased share of inflation linked and fixed rate securities on Federal Public Debt – FPD, which moved from 63.3% in 2010 to 65.5% in 2011, the new historical record.

Results

Lengthened Average Maturity (years)



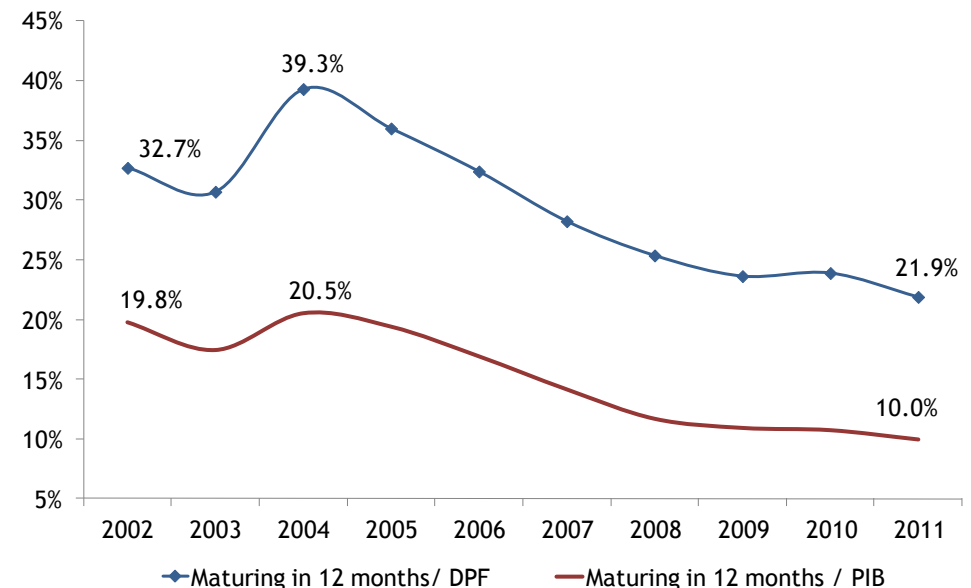
Source: National Treasury

» In 2011, FPD maturing in 12 months/GDP reached 10.0%, in comparison with more than 20% in 2004.

» Meanwhile, FPD maturing in 12 months/FPD dropped to 21.9%.

» In 2011, average maturity reached 3.6 years, the highest value since 2002.

Lengthened Average Maturity (years)

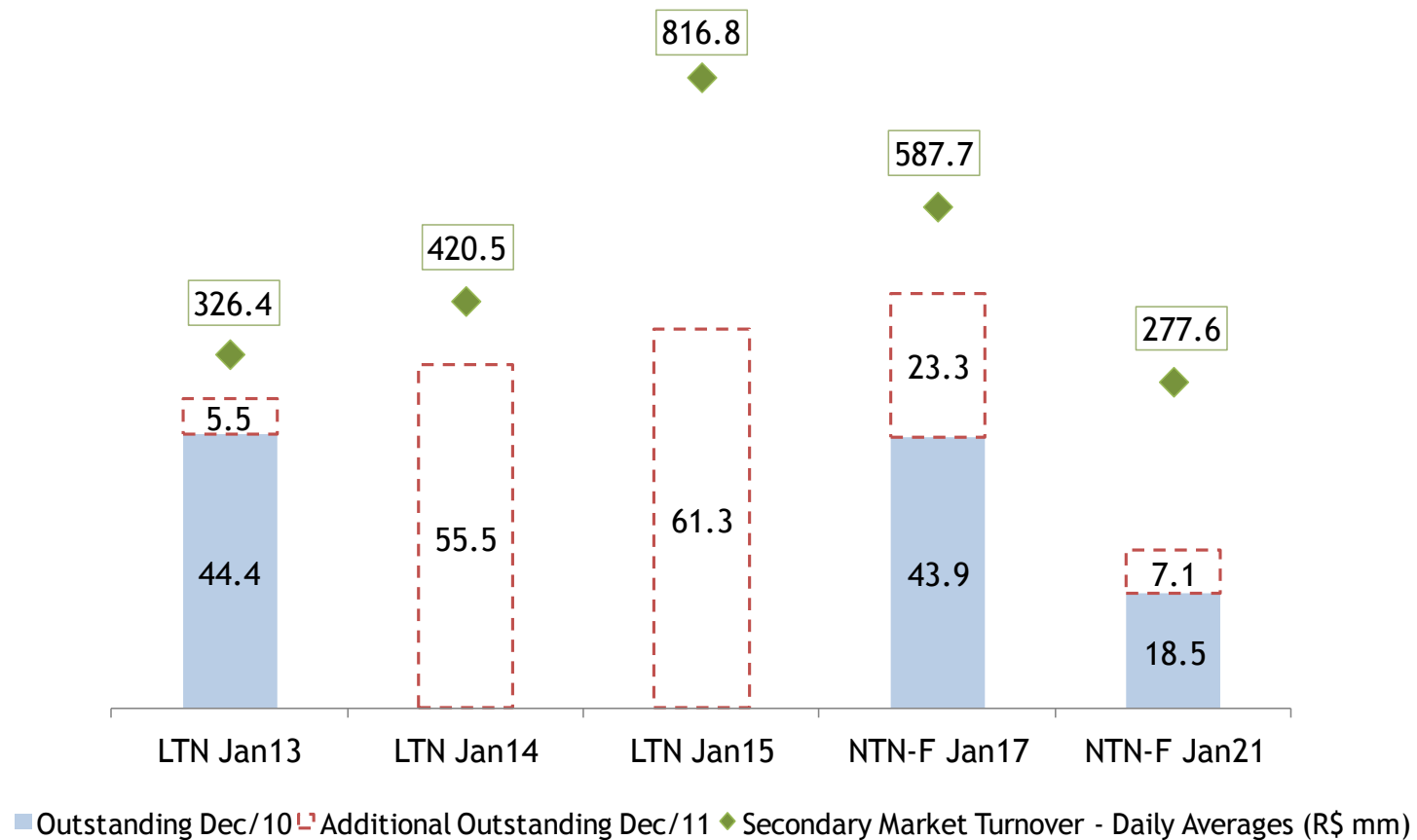


Source: National Treasury

Results

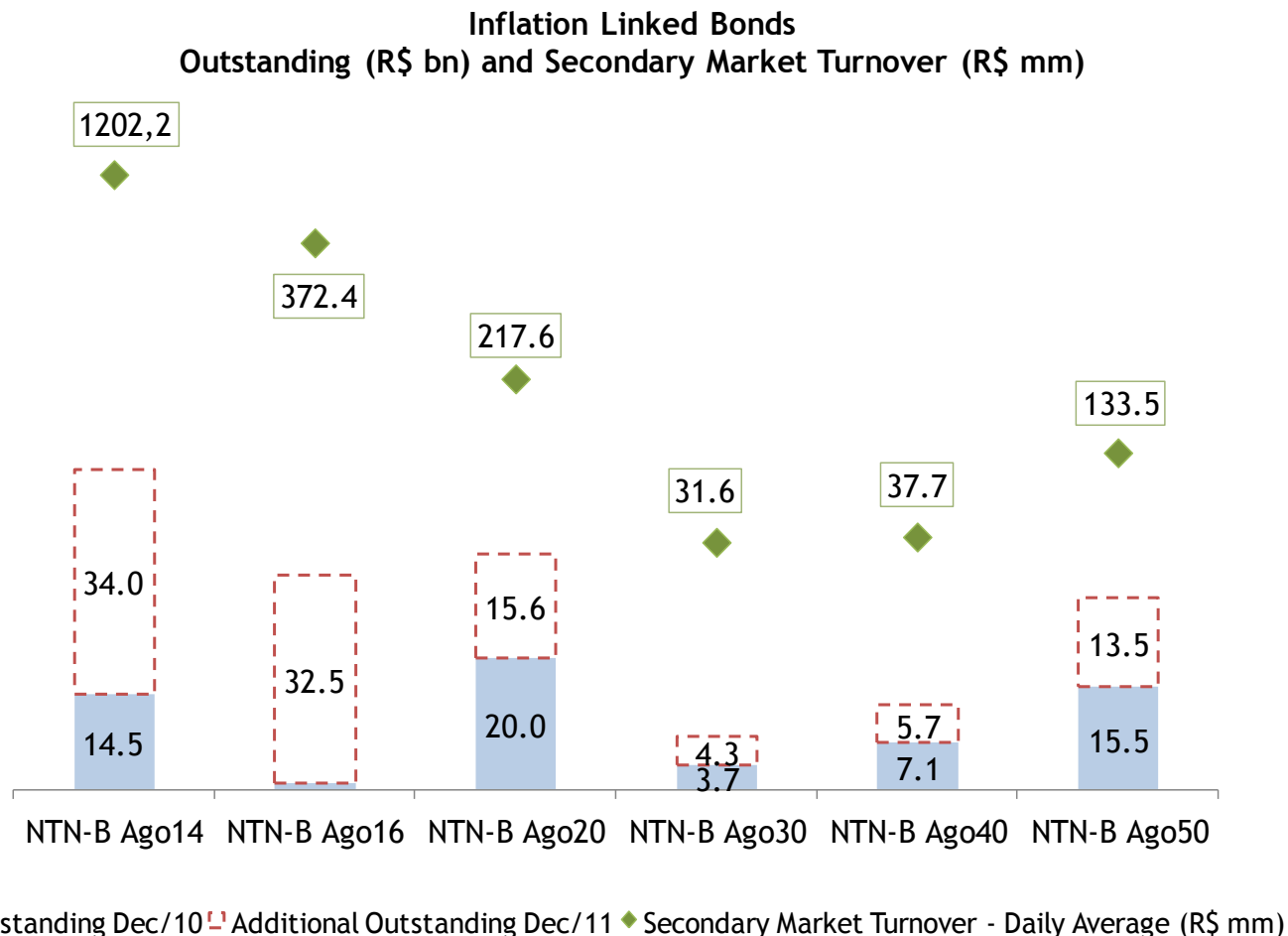
Developing the Domestic Yield Curve

Fixed Rate Bonds
Outstanding (R\$ bn) and Secondary Market Turnover (R\$ mm)



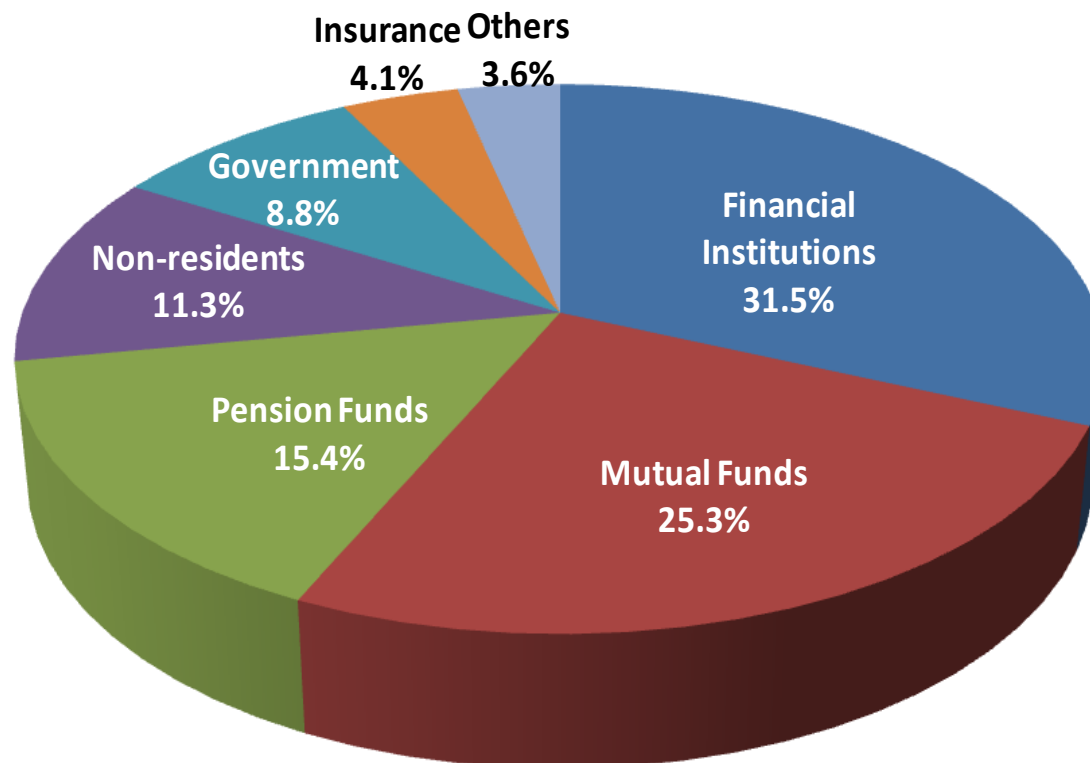
Results

Developing the Domestic Yield Curve



Results

Federal Public Debt Holders



Source: National Treasury

Note: "Government" comprises funds that are managed by the public sector, including those whose assets are not public owned.

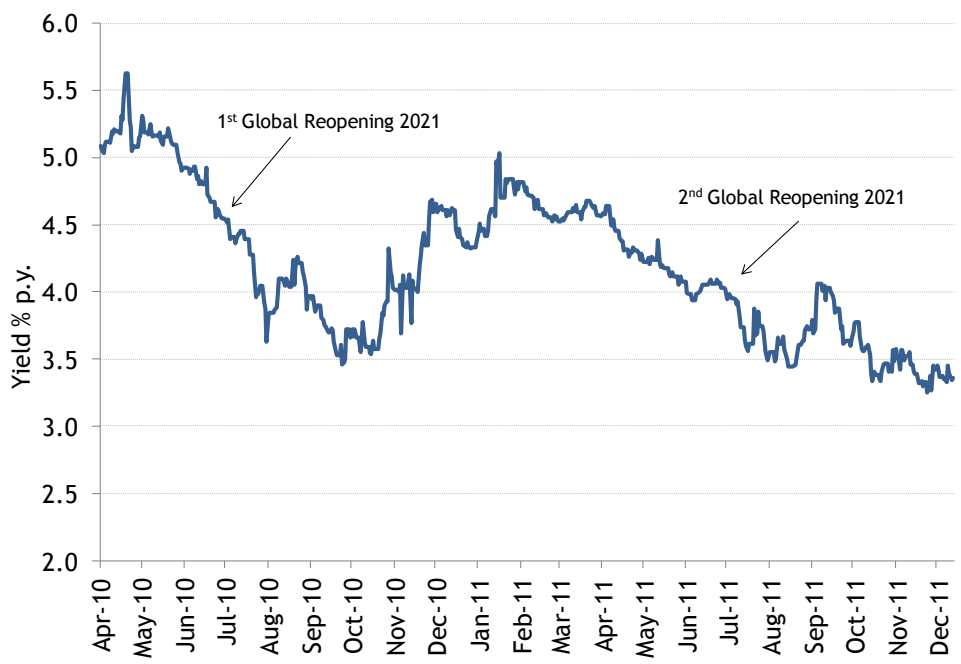
» The main Domestic Federal Public Debt (DFPD) holders have kept their participation throughout 2011.

Results

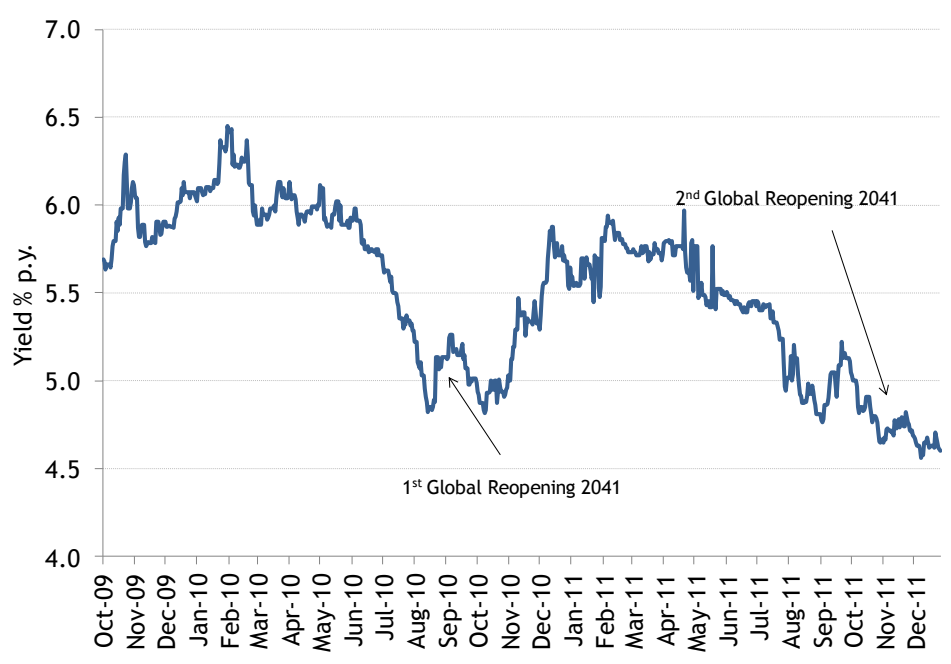
External Operations

- » In 2011, the National Treasury reopened its 10 and 30 years benchmark bonds, raising US\$ 1.65 bn.
- » Besides registering the lowest historical yields*, 4.188% and 4.694% p.y., the 10y benchmark also held the lowest spread among all Global bonds, with just 105 bps over reference US Treasury

Global 2021 Yields



Global 2041 Yields



Source: Bloomberg *for 10 and 30 years bonds, respectively

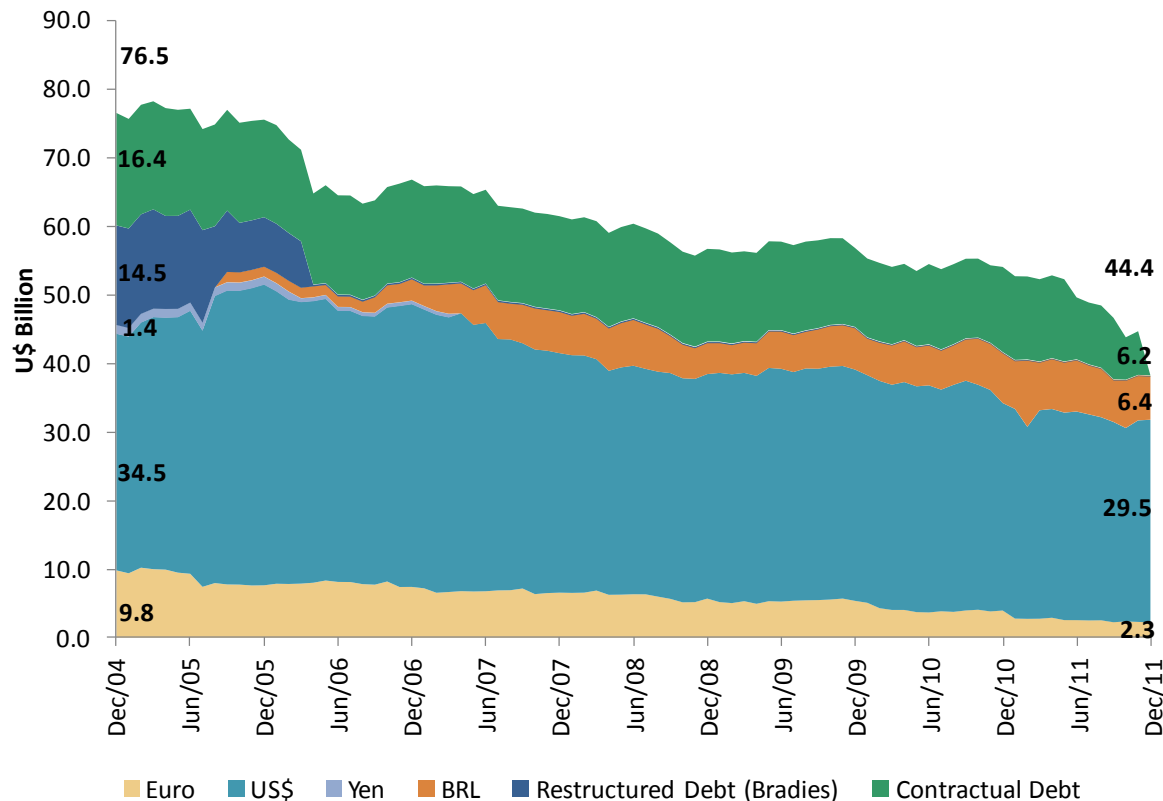
Results

External Debt Management

- » The country gathered US\$ 2.6 billion, US\$ 1.7 billion in securities and US\$ 0.9 billion in contractual debt, and paid US\$ 7,5 billion (principal and interest) that matured throughout 2011. With these two operations, there were **net redemptions of 4.9 billion.**
- » In 2011, the Buyback Program was maintained, with **early redemption of US\$ 2.9 bn.**
- » **US\$ 5.9 bn** was redeemed in advance regarding contractual debt with **the World Bank.**
- » **All the described operations above reduced the External Federal Public Debt outstanding at approximately US\$ 13.7 billion, allowing better conditions to new issuances in the international market, not only by the Republic but also by the private sector.**

Results

Outstanding External Federal Public Debt (EFPD)



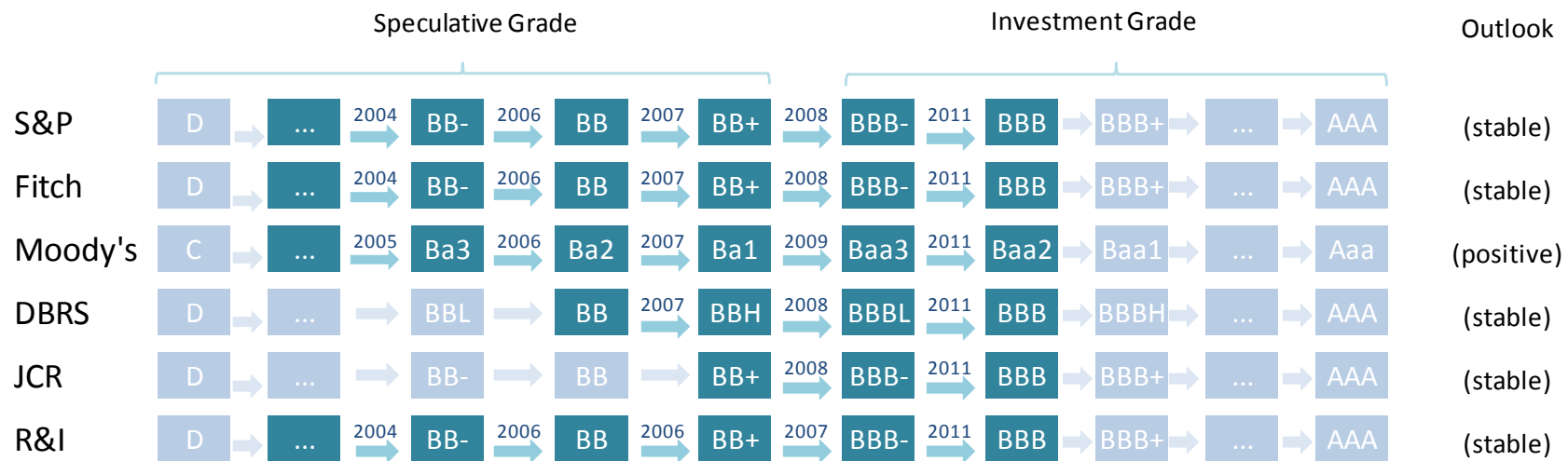
Source: National Treasury

» As a result of a successful strategy adopted by the National Treasury throughout the last years, the outstanding EFPD has been systematically shrinking in the past years, reaching US\$ 44.4 bn in 2011 (in contrast with US\$ 55.0 bn, in 2010) and representing only 4.5% of total FPD.

Advances in Public Debt Management

Rating Agencies Upgrades

- » In contrast with the crisis that split up in the global financial markets in 2011, Brazil's credit rate was raised by the main international Credit Rating agencies.
- » The long-term debt in local currency, that represents more than 95% of the DPF, was qualified as A- by S&P.



- » For the 6th consecutive year, Brazil fulfilled all the requirements defined by the International Institute of Finance (IIF) on its “Relations with Investors and Transparency Practices’ Ranking”. The document analyzes 30 emerging countries, amongst China, Russia and Mexico.

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Annual Borrowing Plan – 2012

Objective and Guidelines of Federal Public Debt Management

Objective

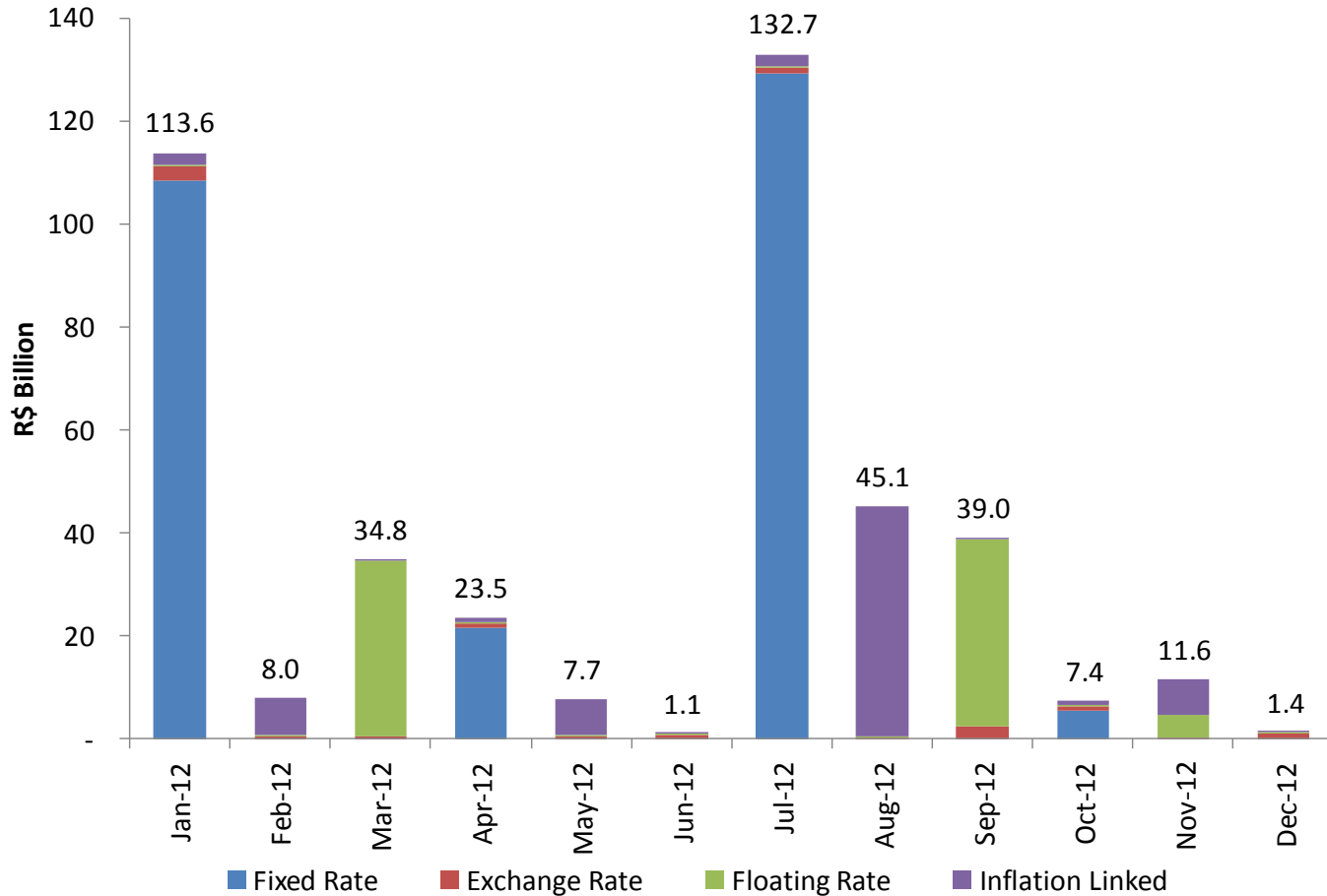
» The objective of the Federal Public Debt Management is that of efficiently meeting the National Treasury Borrowing Requirements, at the lowest possible long-term financing costs, while ensuring the maintenance of prudent risk levels. Additionally, the aim is to contribute to the smooth operation of the Brazilian government securities market.

Guidelines

- » Gradual replacement of floating-rate securities by fixed-rate and inflation-linked instruments;
- » Increase the average maturity of the outstanding debt;
- » Smooth the maturity profile, with special attention given to short-term maturities;
- » Development of the yield curve on both domestic and external markets and growth in the liquidity of federal government securities on the secondary market;
- » Broadening of the investor base; and
- » Improvement of the External Federal Public Debt (EFPD) profile through issuance of benchmark securities, buyback program and structured operations.

Assumptions and Guidelines

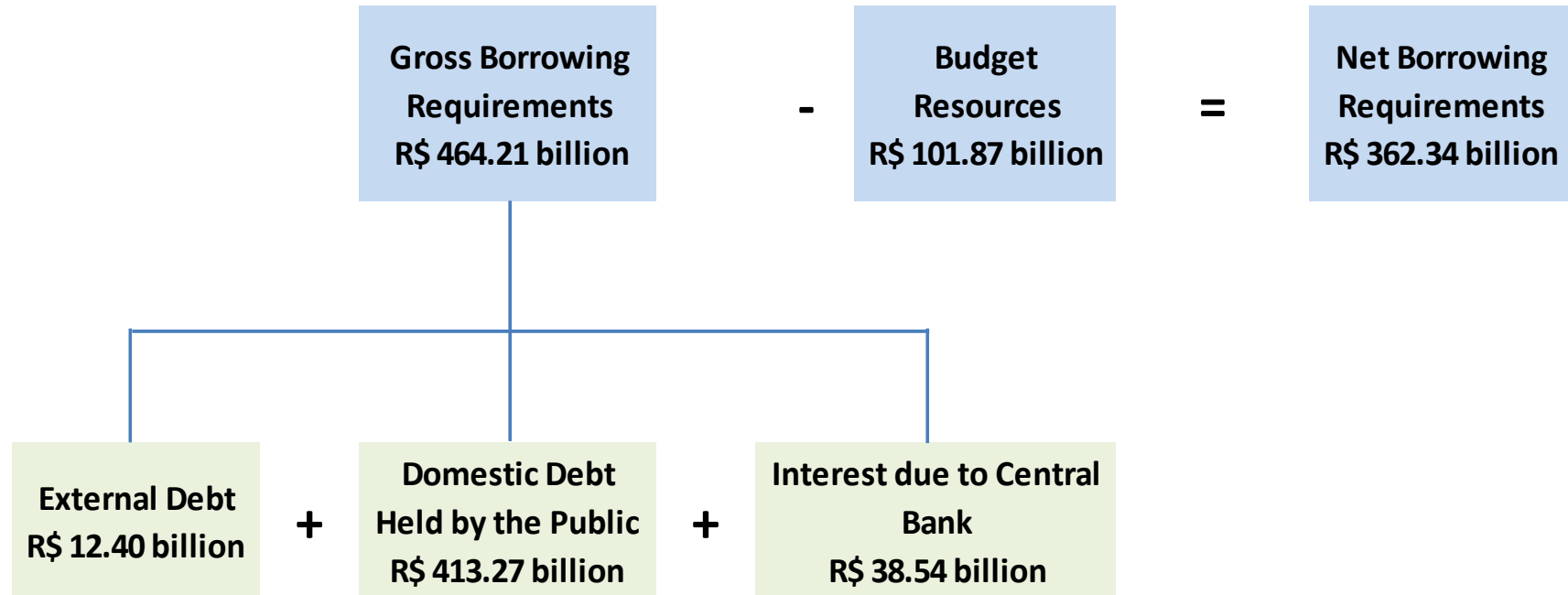
FPD Maturing Debt in 2012 (Total = R\$ 425.67 billion)



» In January, the outstanding debt was R\$ 113.58 billion, representing 26,68% of the 2012 FPD maturity.

Assumptions and Guidelines

National Treasury Borrowing Requirements



The National Treasury has two “liquidity cushions” to manage the Federal Public Debt efficiently:

- » **In foreign currency: US\$ 7.4 billion** already purchased, enough to cover **49%** of the external debt maturing until 2015.
- » **In domestic currency:** a liquidity-cushion equivalent to approximately **six-months** of the Federal Public Debt – FPD service (principal and interest).

Strategy and Expected Results

Frequency of the Auctions

| Bond | Type of Auction | | |
|-------|-----------------|--------------|----------|
| | Traditional | Exchange | Buy Back |
| LTN | Weekly | Semiannually | - |
| NTN-F | Twice monthly | - | Monthly |
| LFT | Monthly | - | - |
| NTN-B | Twice monthly | Monthly | Monthly |

- » **Traditional auctions:** have the principal function of refinancing the Federal Public Debt through issuance of fixed rate, floating rate and inflation linked bonds;
- » **Exchange auctions:** consist primarily of exchanges of bonds with shorter maturities for other longer-term bonds, with the overriding objective of lengthening the debt profile; and
- » **Buy Back:** to provide investors with higher liquidity.

The official schedule of auctions for the following month is published every month end at the web site: http://www.stn.fazenda.gov.br/divida_pública/leiloes.asp.

Strategy and Expected Results

Expected Results - FPD

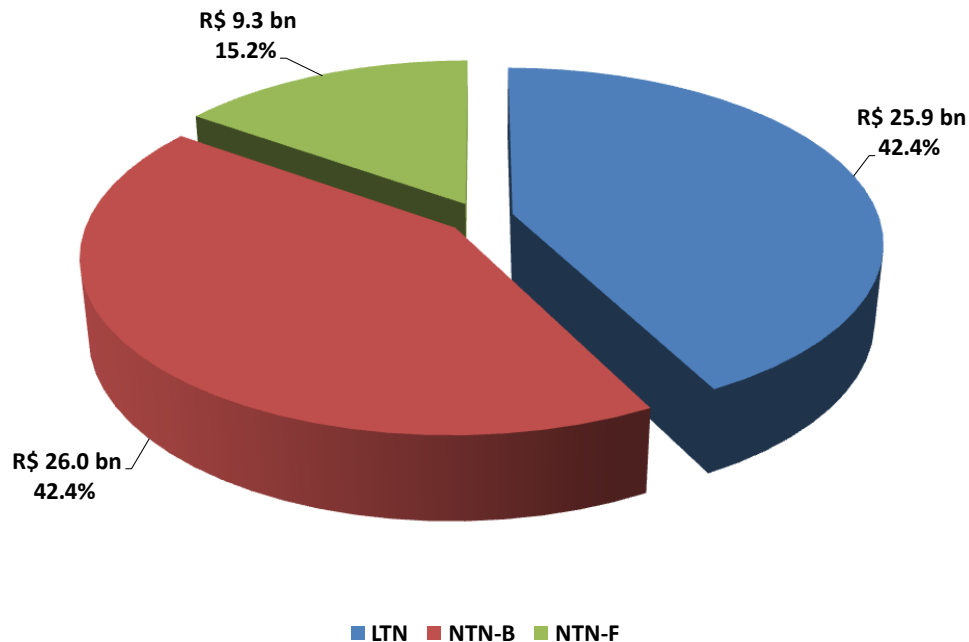
| Indicators | Limits for 2011 | | 2011 | Limits for 2012 | |
|-----------------------------------|-----------------|---------|---------|-----------------|---------|
| | Minimum | Maximum | | Minimum | Maximum |
| Stock of FPD (R\$ Billion) | | | | | |
| | 1,800.0 | 1,930.0 | 1,866.4 | 1,950.0 | 2,050.0 |
| Profile (%) | | | | | |
| Fixed Rate | 36.0 | 40.0 | 37.2 | 37.0 | 41.0 |
| Inflation Linked | 26.0 | 29.0 | 28.3 | 30.0 | 34.0 |
| Floating Rate | 28.0 | 33.0 | 30.1 | 22.0 | 26.0 |
| Exchange Rate | 4.0 | 6.0 | 4.4 | 3.0 | 5.0 |
| Maturity Profile | | | | | |
| Average Maturity (years) | 3.5 | 3.7 | 3.6 | 3.6 | 3.8 |
| % Maturing in 12 months | 21.0 | 25.0 | 21.9 | 22.0 | 26.0 |

» Percentage of fixed rate securities + inflation linked securities above 65% of the outstanding, even with a more conservative strategy, and over 70% with a optimistic strategy.

» Percentage maturing in 12 months below 26% and steady average maturity.

Measures already implemented in 2012

Extramercado Funds/Exchange Operations: New Bonds Profile

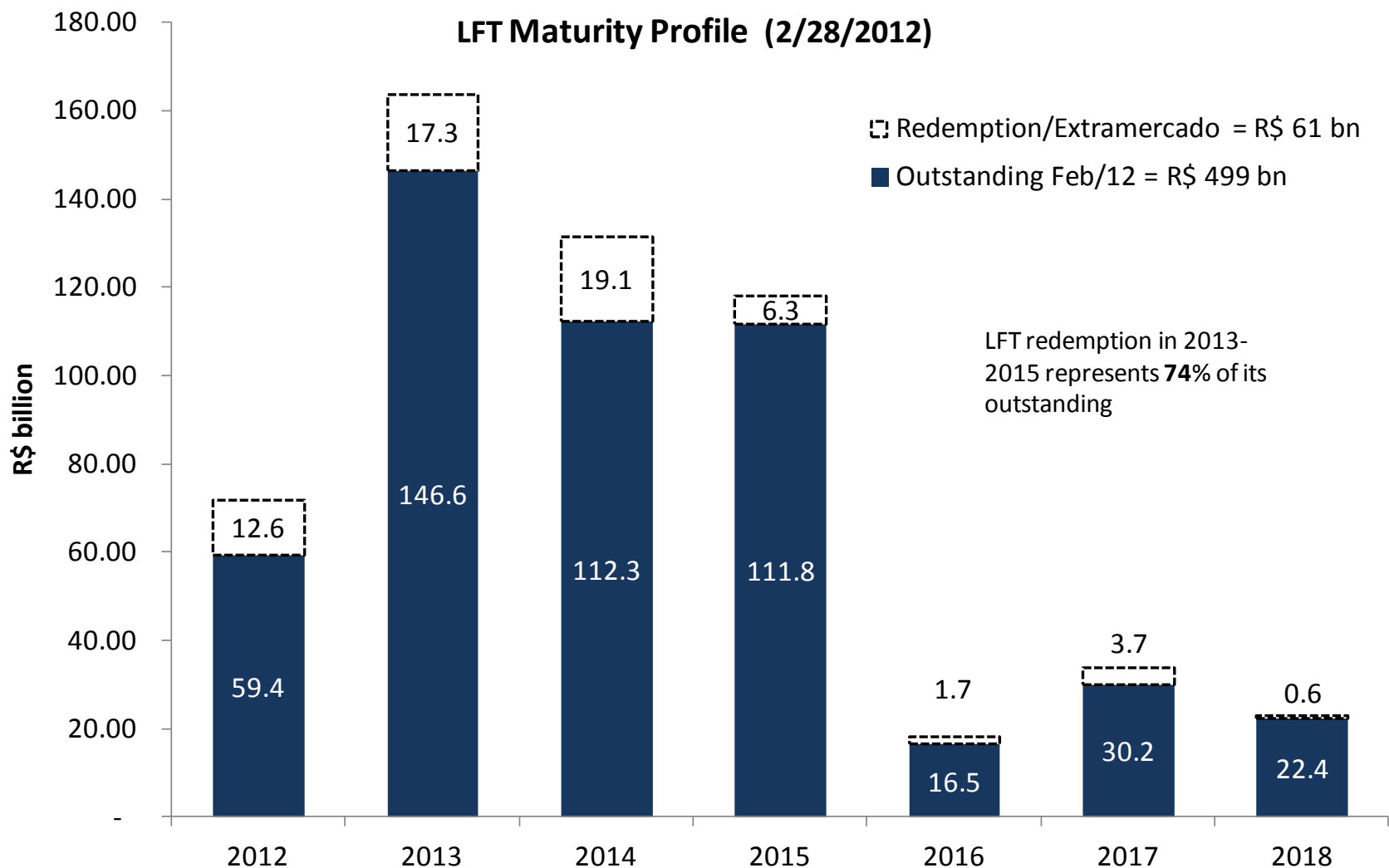


The bond exchange operations in Extramercado Funds occurred along February and resulted in a redemption of R\$ 61.2 billion in securities linked to the Selic overnight rate (LFT):

- » The impact of these operations on the Federal Public Debt (FPD) is equivalent to a decrease of around 3.3 pp in the share of securities linked to Selic overnight rate (considering the outstanding as of January 2012) or 11% of the LFT held by the market. For more information click [here](#).

Measures already implemented in 2012

LFT redemption in the securities exchange operations with Extramercado Funds



For additional information, please access:

www.tesouro.fazenda.gov.br

Or contact Investors Relations area:

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