

RESTRUCTURED EXTERNAL PUBLIC SECURITIES DEBT (BIB, IDU and BRADIES BONDS)

With the outbreak of the 1982 international financial market crisis, Brazil began renegotiating its external debt with private creditors. Over the course of the 1980s, the renegotiation process with external creditors went through various stages and resulted in temporary agreements designed to resolve the problem of the lack of external funding, while restructuring credit lines in such a way as to ensure recovery of the country's payment capacity.

In 1987, the concept of securitization was introduced for the first time since the external debt renegotiation process began. This process involved exchange of contractual debt for longer-term bonds with maturities and interest rates compatible with the nation's payment capacity. The 1988 Brazilian Financing Plan (more complex structure and broader in scope than previous agreements) went into effect in October of the same year and had the following characteristics:

- inflows of funding in the form of "new money";
- rescheduling of medium and long-term liabilities;
- maintenance of trade and interbank credit lines; and
- voluntary conversions of contractual debt into bonds, designated Brazil Investment Bonds (BIB, or Exit Bonds).

Following the election of President Fernando Collor de Mello, Brazil reinitiated negotiations with external creditors, resulting in an agreement aimed at normalizing interest due and unpaid for the 1989/90 period. These negotiations culminated in issue of securities denominated IDU (Interest Due and Unpaid). According to the terms of the agreement, the bonds would be issued following compliance with various prior conditions, including formalization of a restructuring agreement covering the entire Brazilian public sector medium and long-term debt (completed in July 1992).

In July 1992, Brazil and private creditors completed a second stage of negotiations that had begun in 1991, formalizing an agreement of principles on the restructuring of the medium and long-term external debt. This agreement included a series of important innovations following the general lines of the so-called Brady Plan. In April 1994, this agreement resulted in exchange of practically the entire debt for which the public sector was liable for a combination of seven bonds issued by the Republic, forming what came to be known as Brazilian Brady Bonds (Discount Bond, Par Bond, Front-Loaded Interest Reduction Bond - FLIRB, Front-Loaded Interest Reduction with Capitalization Bond – “C” Bond, Debt Conversion Bond, New Money Bond and Eligible Bond – EI). The major characteristics of this agreement were as follows:

- substituting the Central Bank of Brazil, the federal government became the debtor of all of the new instruments issued in exchange for old debt;
- the possibility of carrying out a series of different operations aimed at achieving greater flexibility in liability management, including debt buy-back operations on the market, prepayments and operations involving exchanges of securities issued for new and different securities (debt-for-debt exchanges);
- guarantee of principal and/or installments of interest coupons for three of the seven bonds issued: Par Bond, Discount Bond and FLIRBs;
- mechanism of phased delivery of guarantees, starting with issue of temporary securities (Phase-in Bonds), with constitution of a principal guarantee and the remainder in up to four successive installments. This was completed by Brazil on 10/15/95, with the final installment being delivered six months ahead of schedule.

In the Brady plan framework, on April 15, 1994, Brazil issued discount bonds in a total amount of US\$ 7.3 billion, par bonds worth US\$ 10.5 billion, both with full guarantees of principal, debt conversion bonds totaling US\$ 8.5 billion, new money bonds in the amount of US\$ 2.2 billion, interest reduction bonds equivalent to US\$ 1.7 billion, interest reduction with capitalization bonds totaling US\$ 7.4 billion and interest bonds in the amount of US\$ 5.4 billion. The objective of these issues was to substitute approximately US\$ 55 billion in public sector medium and long-term

old debt. The difference between the original debt and the volume of Bradies issued resulted from a reduction negotiated during the restructuring process.

Over the course of 2005 and first quarter of 2006, very solid economic fundamentals coupled with abundant international liquidity generated a consistent positive flow of external resources, making it possible for the federal government to replenish its international reserve position and adopt a series of measures related to external debt management.

A medium-term program was implemented with the objective of utilizing international reserves to repurchase outstanding Brazilian securities on the international market. This measure was based on the terms of Federal Senate Resolution no. 20, dated 11/16/2004, which authorized the federal government to carry out liability management operations. The preferred target of this program was the restructured debt. Between July 21 and August 1, 2005, the National Treasury carried out a partial exchange of the C-Bond stock for a new security, denominated A-Bonds, scheduled to mature in 2018. On October 15, 2005, the country took advantage of a contractual clause and effected anticipated redemption at par of C-Bonds that had not been included in the voluntary August exchange. Aside from this, on April 15, 2006, the country exercised its call option at par of the entire remaining stock of Brady bonds on the market. Since the IDU (Interest Due and Unpaid) bonds had been fully paid in 2001, there remains only a small amount of the restructured debt, denominated Brazil Investment Bonds (BIB), scheduled to mature in 2013.

More detailed information can be obtained in the following links:

Call Bradies

http://www.tesouro.fazenda.gov.br/english/public_debt/downloads/Call_Bradies_english.pdf

http://www.tesouro.fazenda.gov.br/english/public_debt/downloads/Early_Redemption_Bradies.pdf

C-Bond exchanges (in portuguese)

http://www.stn.fazenda.gov.br/hp/downloads/informes_da_Divida/Troca_CBond.pdf