



Debt Report

National Treasury

The Treasury increases maturity and reduces cost with the issuance of fixed-rate five-year bonds

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The National Treasury has issued fixed-rate bonds with five-year maturities, the longest maturity period ever issued in Brazil for bonds with these characteristics. This reveals the confidence investors have in the Brazilian fundamentals, and reflects the advances in public debt management.

According to the Federal Public Debt – DPF guidelines, the National Treasury, aiming at increasing the share of fixed-rate bonds in the overall debt, as well as extending the average maturity, auctioned, on February 1st, National Treasury Notes – F series (NTN-F) with maturities in 2010, the longest period ever for bonds with these characteristics. The first NTN-F were issued as of December 2003, with maturities in January 2008 - a 4-year period.

With financial settlement on February 2nd, and maturing in January 2010, R\$ 80.8 million of five-year NTN-F were auctioned, at an average rate of 16.50% p.y., - lower than the market curve (16.70% p.y.). At this auction, the National Treasury also offered NTN-F with maturities in 2008, yielding a total of R\$ 144.6 million, at a rate of 17.70% p.y. The success of the NTN-F auction, which totalled R\$ 225.4 million, is reflected mainly in terms of cost, and together with the positive results obtained in the auctions of other bonds, consolidates the advances obtained in recent years with regard to public debt management.

Regarding the characteristics of the NTN-F, these have bi-annual interest coupons yielding 10% p.y., and allow for the stripping of the coupons. This characteristic permits investors to decompose these bonds into several fixed-rate “zero-coupon” bonds with different maturities, similar to the existing National Treasury Bills (LTN), thus making their pricing and trading easier on the secondary market. Moreover, and according to current practices for LTN offerings, the NTN-F, contributing to increase the liquidity of these bonds on the secondary market.

Initially, the NTN-F were auctioned in small monthly offerings. However, the demand for this type of fixed-rate bond led the National Treasury to consider increasing their issuance, which has taken place since November 2004, with the issuance of NTN-F maturing in 2008 and, most recently, with maturities in 2010. In fact after launching the NTN-F 2010, on February 1st, the Treasury has successfully reopened it on February 10 and 17 and intends to continue issuing this bond in order to consolidate a liquid benchmark.

These events, besides contributing towards reducing the degree of indexation and increasing the average maturity of the DPF, also lessen the financial risk, as well the refinancing risk of the Public Debt.

National Treasury: <http://www.stn.fazenda.gov.br/>