Debt Report
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Early Redemption Program of External Public Debt February 2006

Brazil starts an Early Redemption Program of External Public Debt Bonds

Considering the positive performance of Brazil's balance of payments, the positive evolution of domestic economy and also the high international liquidity, Brazilian government has been undertaking several measures to improve its external liability profile.

The latest measure undertook by both Brazilian National Treasury and Central Bank, the latter as a financial agent, is implementing a **medium term program that will employ international reserves to early redeem the government's external debt.** The program aims at early redeeming external debt due up to 2010 and Brady bonds. That early redemption program will extend until December 2006 and its gradual execution will be subject to market conditions.

The program intends to reduce the cash flow (interest coupons and principal payments) of the External Federal Public Securities Debt – DPMFe in the following years. Those actions meet the guidelines established in the National Treasury Annual Borrowing Plan since 2003, which established that both the percentage of the debt falling due in 12 months and the share of the debt indexed to exchange rate should be reduced.

Bonds purchased by the Central Bank will be transferred to the National Treasury and then, canceled. Those bonds have been purchased with resources that stem from Brazilian international reserves, which the National Treasury has been buying from the Central Bank.

That early redemption operation will reduce the external debt by the face value of the discharged bonds, in strict conformity to the value that had been accounted in the moment of the issuance. From early January until February 9 (including it), US$ 2.3 billion (financial value) have been used to discharge those bonds previously. Of this total, up to January, 31 2006, National Treasury cancelled US$ 773.9 million of the DPMFe. That amount will be revealed in January statistics related to debt stock held by the public. Monthly, the Central Bank will announce the amount employed in the program and the bonds that have been canceled as well.

The higher level of capital inflows to Brazil, which are an effect of the economic factors aforementioned, helps to improve the main Brazilian external solvency statistics, such as the share of debt service over exports and the share of gross external debt stock over exports. Those statistics have been constantly employed by rating agencies to rank Brazilian sovereign debt.

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