

NOVEMBER 2007



Brazilian Federal Public Debt



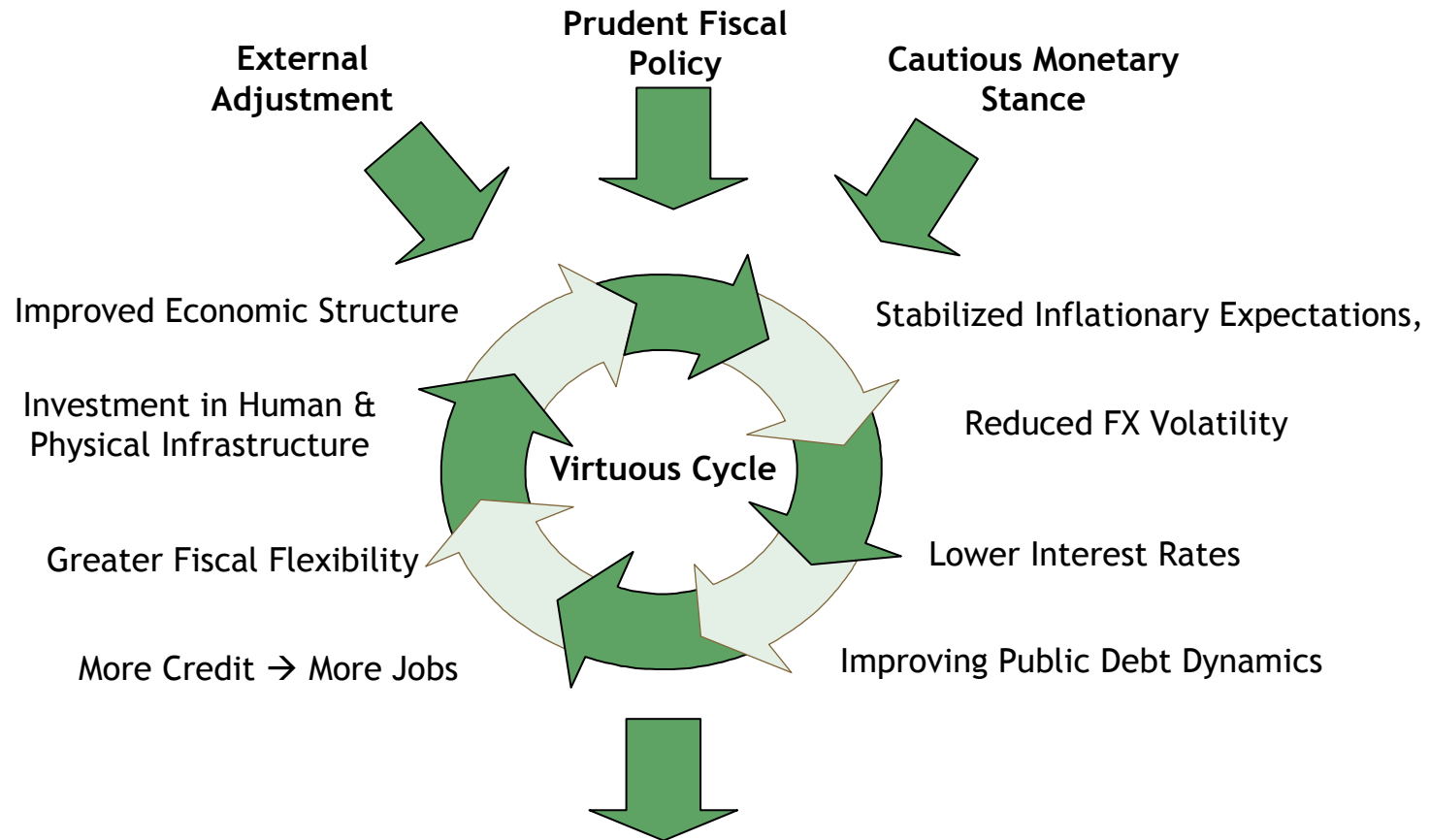
Brazilian Federal Public Debt

Macroeconomic Overview

Brazil's Performance during the Crisis

On the path to sustainable growth

Economic Policy Mix Provides Buffer Against External Shocks

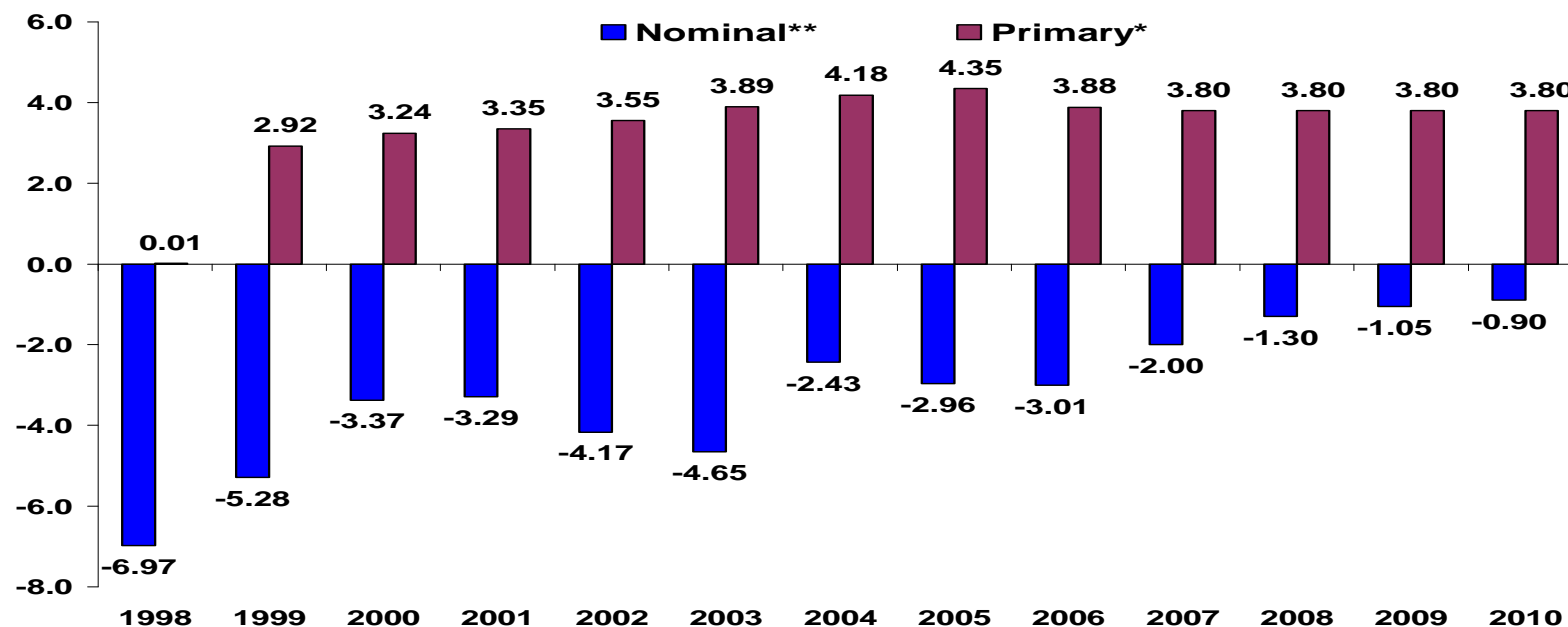


Sustainable Economic Growth & Improving Social Conditions

Keeping the Primary Balance for the next years

■ In 2008 BDL sent to the Legislative (Aug 31st), the Federal government restated its commitment setting a primary balance of 3.8% of GDP to the public sector (PS), which guarantees the Net PS Debt downward trend.

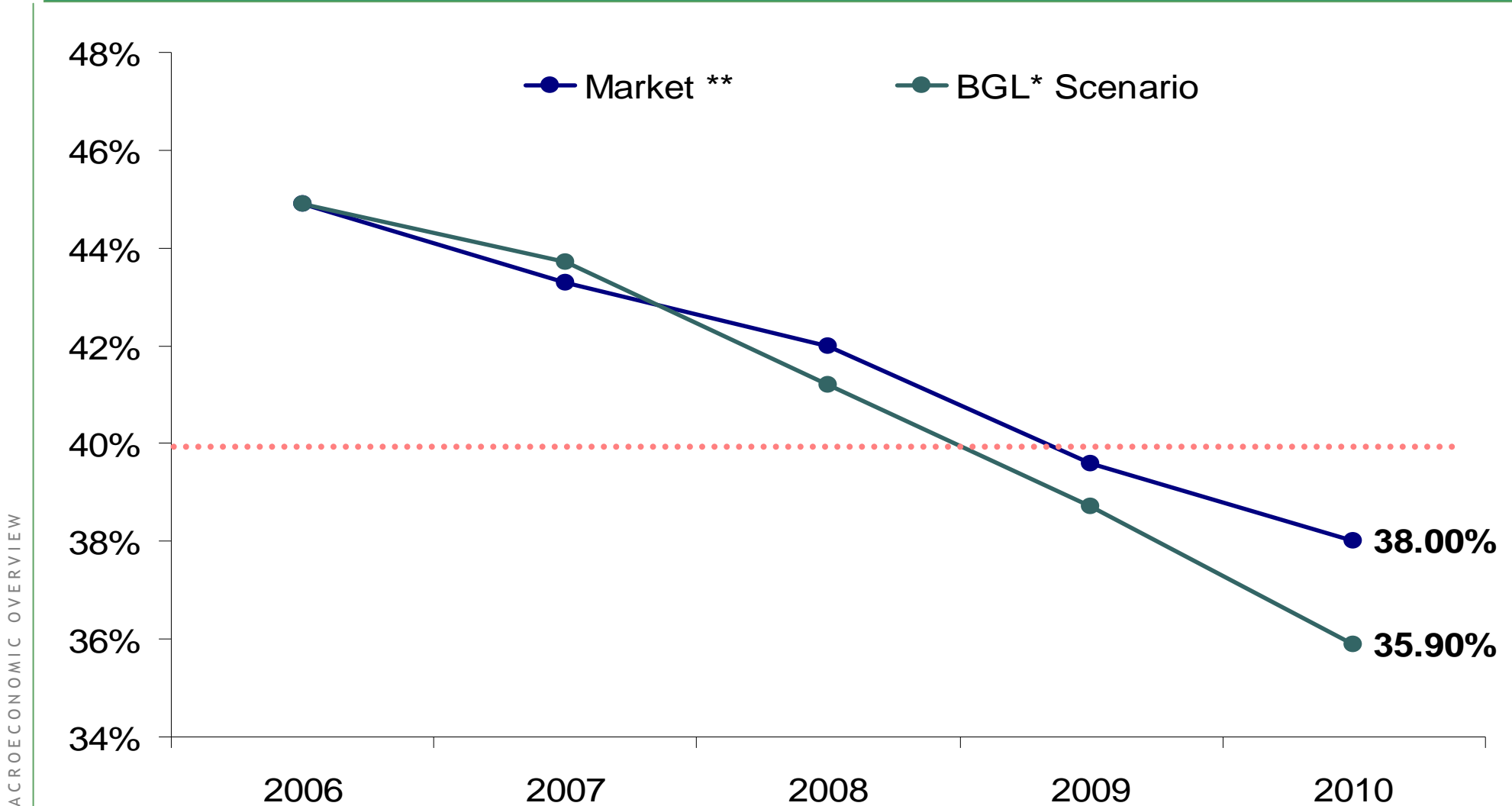
Primary* and Nominal** Balances (%GDP)



Source: Up to 2006 - Central Bank * As from 2007 - Budget Draft Law ** As from 2007 - Market Expectations

Macroeconomic Overview - Fiscal Commitment

Net Debt / GDP scenarios based on market expectations**



Source: National Treasury * Budgetary Guideline Law'08 ** Central Bank/FOCUS 10/26/2007

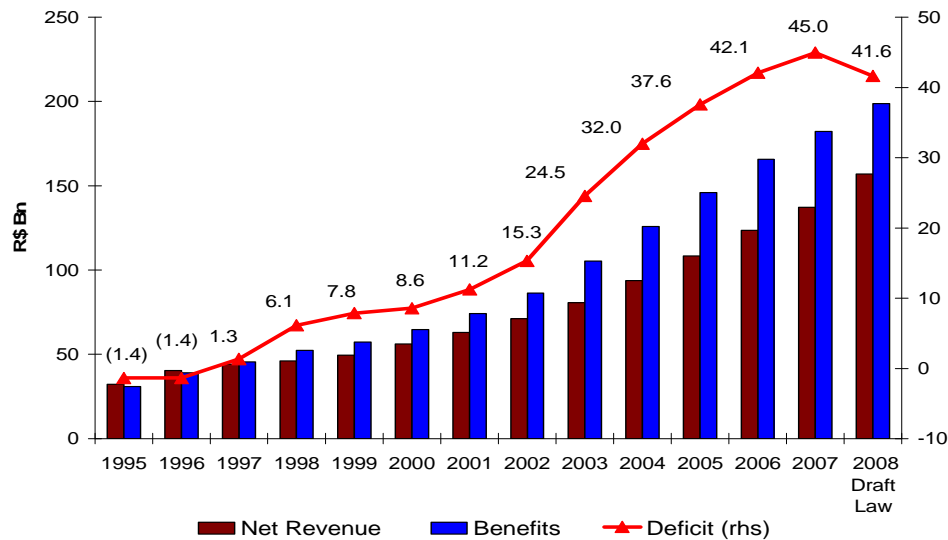
MACROECONOMIC OVERVIEW

Fiscal Perspectives - Budget Draft Law (BDL) 2008

■ In 2008 BDL sent to the Legislative, in August 31st, the Federal government restated its commitment setting a primary balance of 3.8% of GDP to the public sector (PS), which guarantees the Net PS Debt downward trend. Additionally::

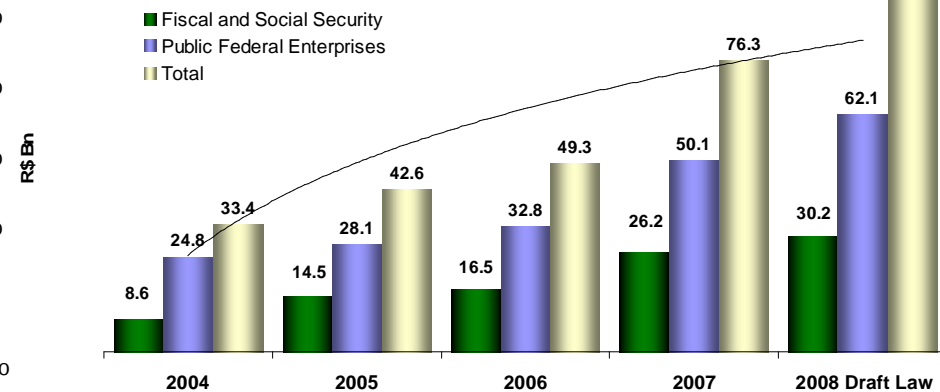
- It presents better perspectives to the public sector social security, reflecting the 1998 and 2003 reforms, which extended the retirement age and taxed the retirees.
- It amplifies public investment under the Growth Acceleration Package. Ports, airports, highways, sanitation, housing and water sources are examples of priorities..

Social Security Deficit - 2008 Budgetary Draft Law



Source: Ministry of Planning

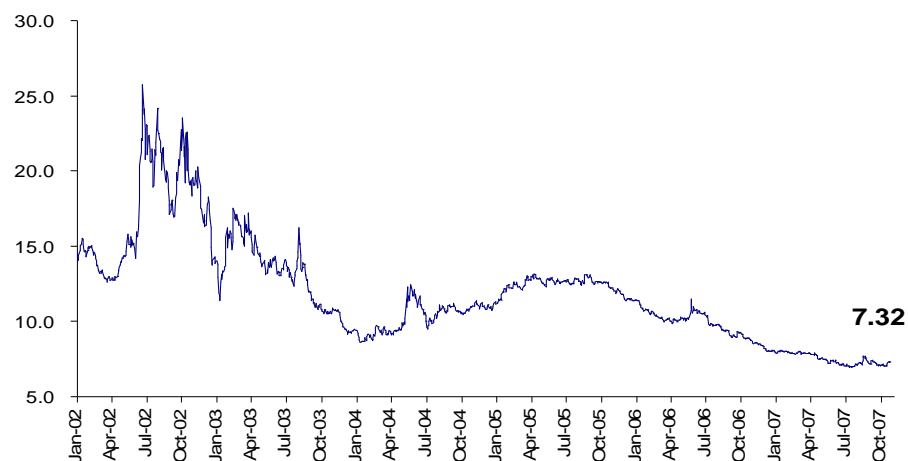
Public Investments - 2008 Budget Draft Law - R\$ Bn



Source: Ministry of Planning

Macroeconomic Overview - Inflation under control and the economy stability

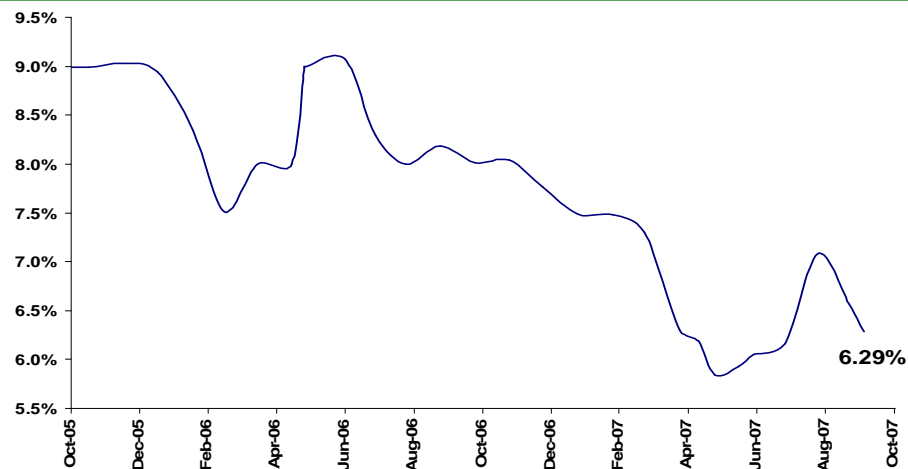
Real Interest Rate (Swap 360 vs 12-month CPI forecast)



Source: Central Bank and Bloomberg

The improvement on economical conditions reduced dramatically the real interest rate on the short term from over 25% p.y. in 2002 to around 7% p.y. in 2007...

Medium and Long Term Real Interest Rate on inflation linked bonds* - Average rate of auctions



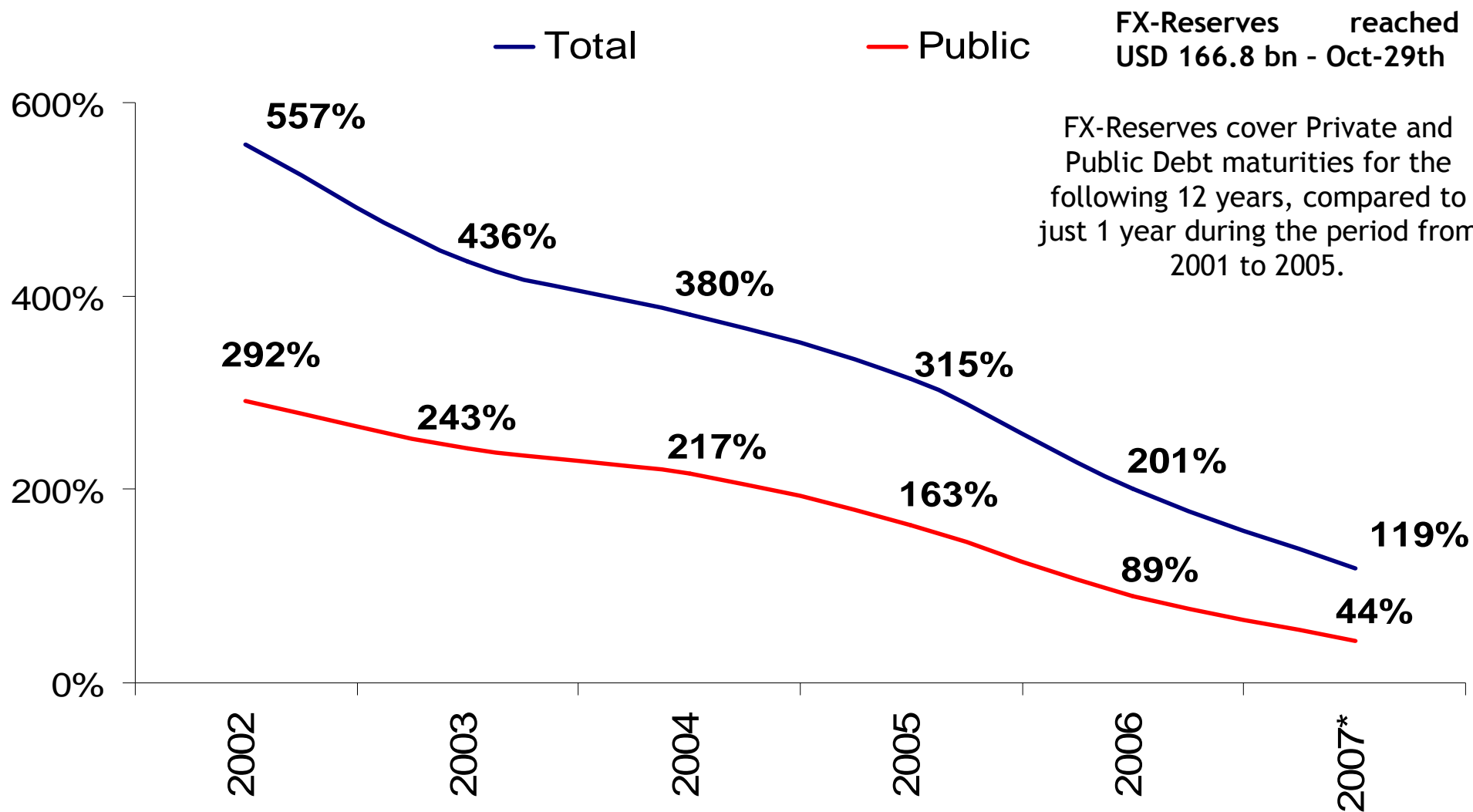
Source: National Treasury

* NTN-B: CPI indexed bonds, maturing in 2024, 2035 and 2045.

...and also the medium and long term real interest rate that fell over 120 bps only in 2007.

Macroeconomic Overview - Reduction in the External Vulnerability

External Debt / FX-Reserves (%)



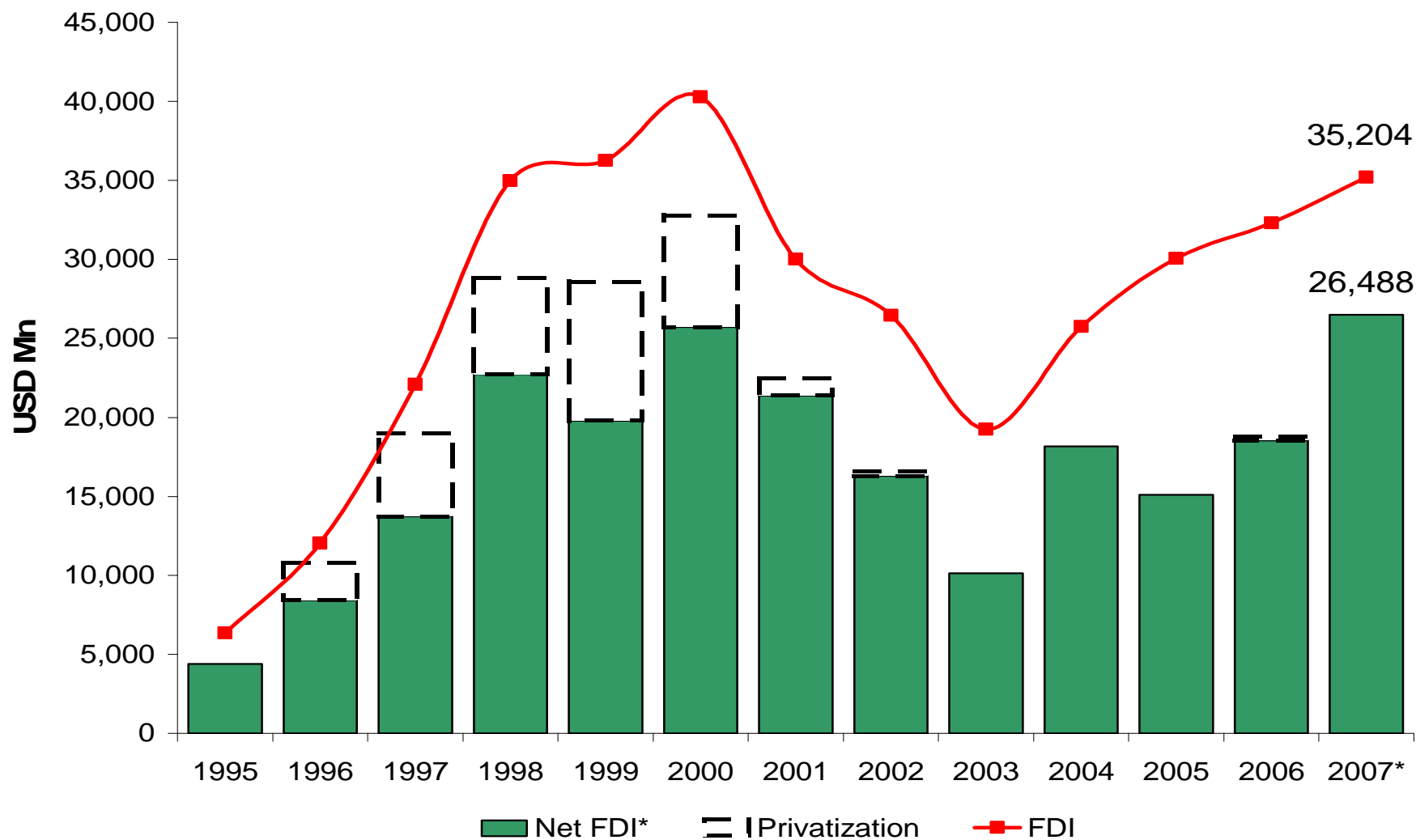
MACROECONOMIC OVERVIEW

* Until September-07
Source: Reuters and Central Bank

Public: Non-financial Public Sector

Macroeconomic Overview - Reduction in the External Vulnerability

FDI have recently reached record levels

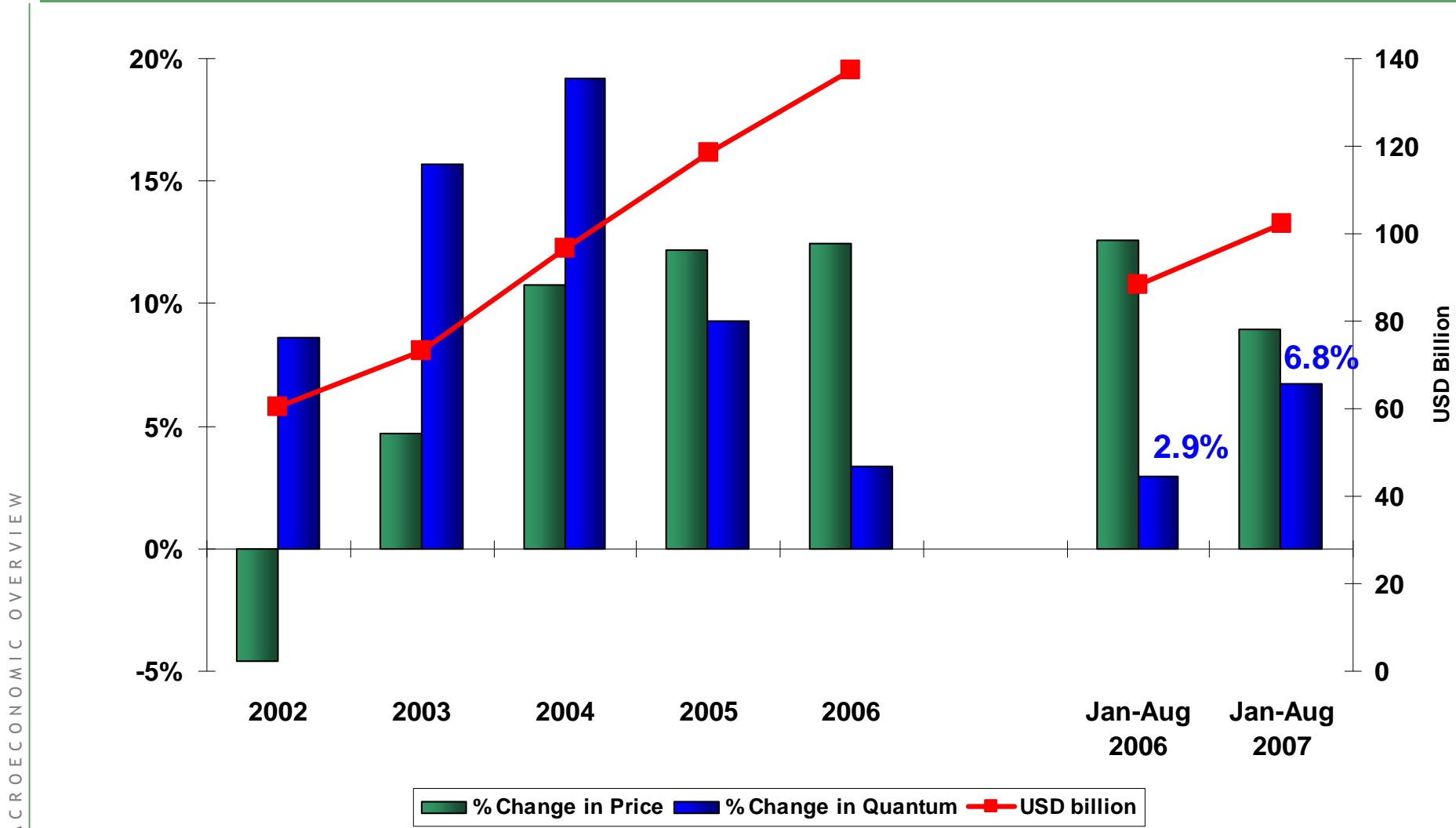


Source: Central Bank *Does not include FDI to privatization

* Until August/07.

Macroeconomic Overview - Reduction in the External Vulnerability

Brazilian Exports



Source: FUNCEX *January to August % change compared to the same period of the previous year



Beyond the 3 Pillars - ... and by countries

Brazilian exports are also diversified across countries

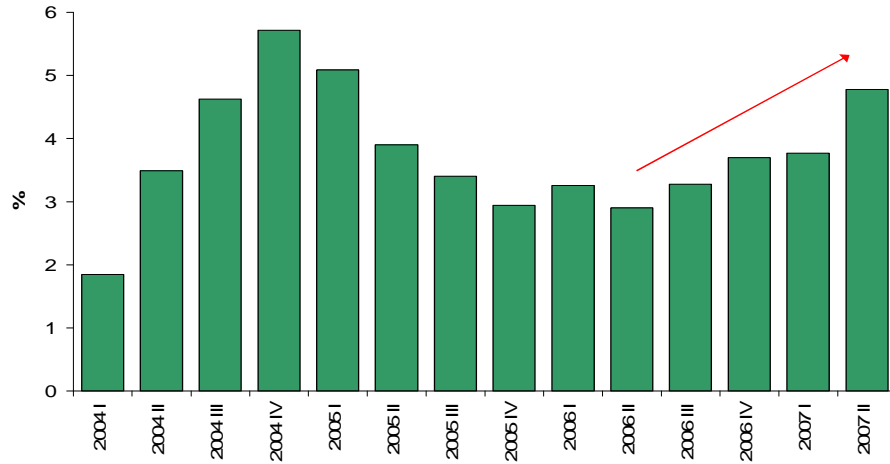
	2000			2006		
	US\$ bn	%	Accum. %	US\$ bn	%	Accum. %
European Union	14.8	26.8	27	30.5	22.2	22
USA	13.4	24.3	51	24.4	17.8	40
Argentina	6.2	11.3	62	11.7	8.6	48
China	1.1	1.1	64	8.4	6.1	55
Mexico	1.7	3.1	68	4.4	3.2	58
Chile	1.2	2.3	70	3.9	2.8	61
Japan	2.5	4.5	74	3.9	2.8	63
Venezuela	0.8	1.4	75	3.6	2.6	66
Others	13.4	25	100	46.7	34	100
Total	55.1			137.5		

Source: MDIC



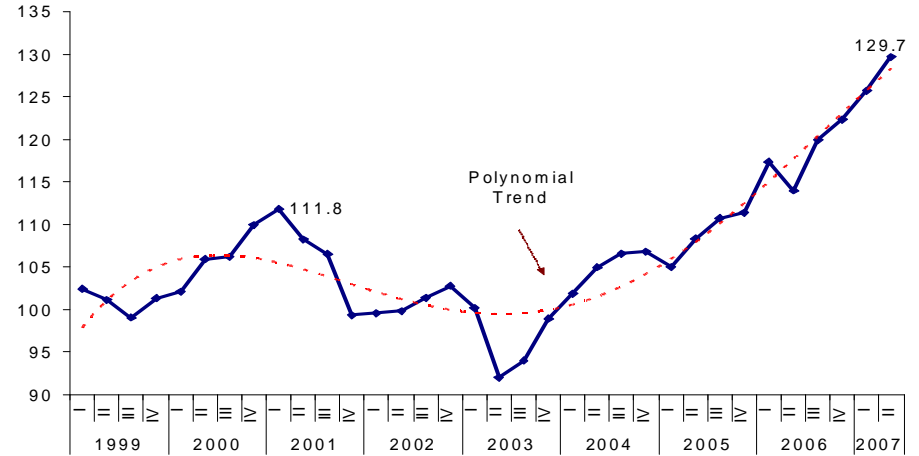
Sustainable Growth

GDP Growth (Q-o-Q accumulated)



Source: Ipeadata

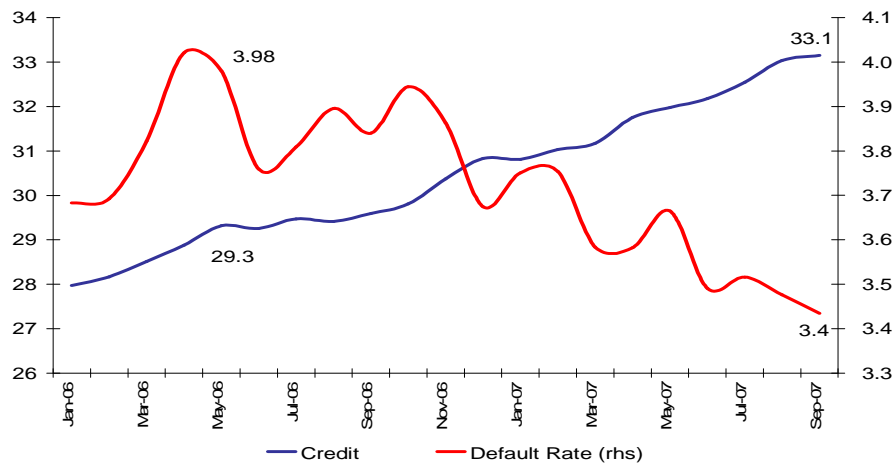
Investment Growth - Seasonally Adjusted (1995=100)



Source: IBGE

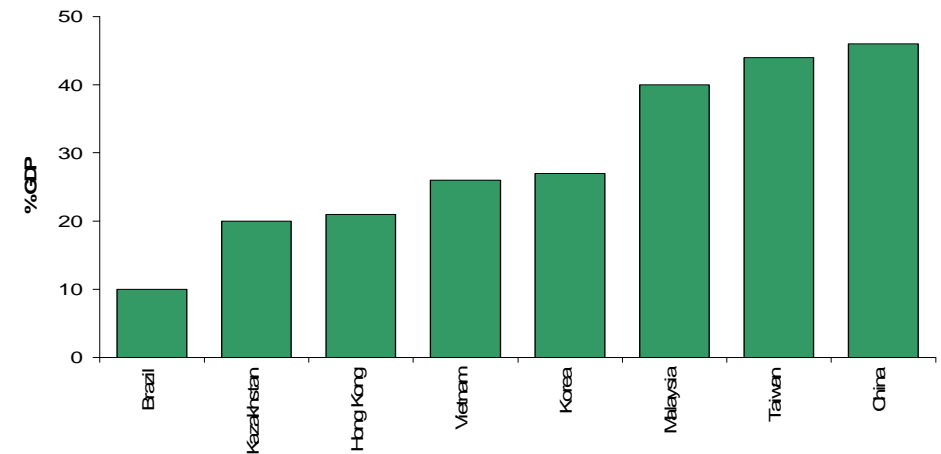
Note: Gross Fixed Capital Formation (GFCF)

Credit (% GDP) and Default Rate (% Credit)



Source: Central Bank

Financial System Contingent Liability: Upper Bound*



* Potential fiscal cost of banking system crisis in a deep recession.

Source: Standard & Poor's



What else are we building?

Main achievements

- Brazilian exports are diversified across countries and by products;
- Brazil is **self-sustainable in oil** since 2006;
- In 2006, roughly **45%** of Brazilian domestic energy supply came from **renewable sources**;
- Sugar cane ethanol - **top productivity in ethanol fuel**;
- Brazil has the 10th largest bond market in the world - USD 800 Bn (84% of GDP).
- Brazilian Stock Market Value reached 89% of GDP in September;
- 115 stock public offering until October 31st.

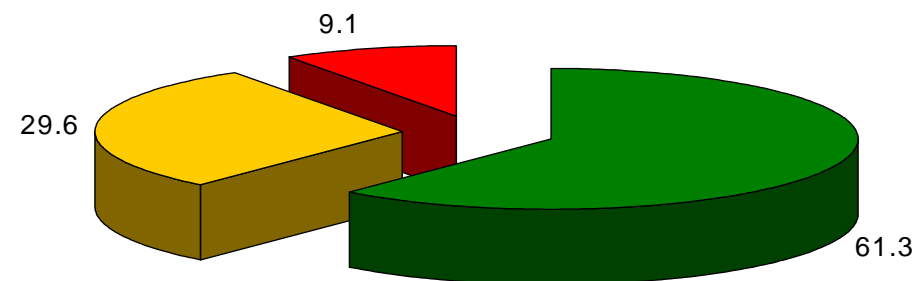
Program of Growth Acceleration: 2007-2010

Investment - R\$ 503.9 bn forecasted for the next 4 years

- **Logistic:** 970 Actions/Projects => **69%** on the pipeline
 - Highways: 612 ongoing projects
- **Energy:** 459 Actions => **39%** on the pipeline
 - Electric power plants: 70 ongoing projects
- **Social and Urban Structure:** 217 Actions => **28%** on the pipeline
 - “Light for Everyone”: 26 ongoing projects

Actions Performance - as % o Total Financial Programming

% of Actions Financial Programming



■ Adequate ■ Moderate ■ Delayed

Source: Presidency



Infrastructure - What's going on?

Investments - Round of Actions

- **Electric power auction (Santo Antônio - Rio Madeira hydroelectric plant)**
 - Investments: R\$ 9.2 billion - auction legally approved in Oct-30
- **Transmission lines auction (1,930 km):**
 - Investments: R\$ 1.8 billion
- **North-South railway:**
 - Investments: R\$ 1.4 billion
- **Federal Highway Public Concessions**
 - Investments: R\$ 20 billion during 25-year concession
 - 7 highways (2,600 km) were auctioned to the private sector through long-term contracts
 - *BRL 8.6 billion* are expected to be invested in the next years, transferring it to the private sector;
 - Several other concessions are expected in the following months.



What's in the Government Agenda?

Main Reductions Affecting Tax Revenue

LEGISLATION		PERIOD: 2004 A 2006	SUM
Law nº 10.925/04	•	Reduction to zero of PIS/COFINS contributions on agribusiness sales and credit;	(3,596)
	•	Reduction to zero of PIS/COFINS contributions on rice, beans and cassava flour;	
Law nº 10.996/04	•	Exclusion of R\$100 from the personal income tax calculation base of overall salary income;	(492)
Law nº 11.033/04	•	Rates based on duration of application and reduction of rates for investment funds from 20% to 15%;	(1,897)
	•	Expansion of IPI-Others incidence period from bi-weekly to monthly	
	•	Reduction to zero of PIS/COFINS rates on books in general;	
Law nº 11.051/04	•	Capital good depreciation credit discounted from net profit; reduction of PIS/COFINS credit use period for capital goods from 48 to 24 months;	(2,739)
	•	Reduction to zero of PIS/COFINS contributions on corn meal and milk;	
Law nº 11.053/04	•	Taxations of retirement loans upon redemption or when benefits are paid;	(183)
Law nº 11.196/05	•	Export incentive (*) RECAP-Special Regime for the Purchase of Capital Goods for Exports Companies (Cofins/PIS)	(5,320)
	•	Digital Inclusion Program-Retail sales of PCs (Cofins/PIS)	
	•	Technological Innovation - Deduction from corporate income tax and net profit of basic tech research expenditures	
	•	Tax collection period	
	•	Retention of PIS/Cofins for car parts	
	•	Zero PIS/Cofins rate for powder milk and cheese	
	•	Petrochemical nafta. PIS/Cofins at 5.6% and credit at 9.25%	
•	Increase of the Simples limits		

What's in the Government Agenda?

Main Reductions Affecting Tax Revenue

Law nº 11.119/05	•	10% correction of personal income tax rate	(2,245)
Law nº 11.311/06	•	8% correction of personal income tax rate	(2,210)
Decree nº 4.902/03	•	Extension of automobile agreement to Feb/04	(77)
Decree nº 5.058/04	•	Reduction of IPI-Automobile rates	
Decree nº 4.955/04	•	Reduction of average IPI rate on capital goods from 5% to 3.5%;	(1,384)
Decree nº 5.173/04	•	Reduction of average IPI rate on capital goods from 3.5% to 2%	
Decree nº 5.468/05	•	Reduction of average IPI rate for capital goods	
Decree nº 5.164/04	•	Reduction to zero of PIS/COFINS rates on financial revenue obtained by businesses, subject to non-cumulative incidence of said taxes	(266)
Decree nº 5.172/04	•	Reduction of IOF rates on life insurance policies	(432)
Decree nº 5.697/06	•	Reduction of IPI rates on construction inputs	(1,060)
CAMEX Resolutions	•	Reduction of import tax	(907)
SUBTOTAL [A]			(22,809)



What's in the Government Agenda?

Other PAC measures are under discussion in the Legislative

	PAC MEASURES - 2007/2008		
Law nº 11.482/07 na Law nº 11.434/07 (MP nº 340/07)	2.1.	4.5% correction of corporate income tax base; Extension of accelerated depreciation mechanism with CSLL credit; Extension of the inclusion of the civil construction sector in the PIS/COFINS cumulative regime Taxes involved: IRRF-Labor, IRPF, CSLL, CPMF, PIS/PASEP and Cofins	(6.231)
Complementary Law 123/06	2.2.	Introduction of national <i>Simples</i> regime, promoting a comprehensive change in tax calculation and payment Taxes involved: IRPJ, CSLL, PIS/PASEP, Cofins, Social Security Contributions and IPI	(3.873)
Law nº 11.488/07 (MP nº 351/07)	2.3.	Elimination of PIS and COFINS for buildings and infrastructure with the creation of the Special Infrastructure Development Incentives Regime - REIDI Taxes involved: PIS/PASEP and Cofins	(3.397)
Decree nº 6.024/07	2.4.	Elimination of IPI for the purchase of steel slabs Taxes involved: IPI	(63)
Decree nº 6.023/07	2.5.	Creation of the Digital Inclusion Program, with the increase of the PIS/COFINS exemption limit on PCs from R\$ 2,000 to R\$ 4,000 Taxes involved: PIS/PASEP and Cofins	(244)
SUBTOTAL [B]			(13.808)
GRAND TOTAL			(36.617)



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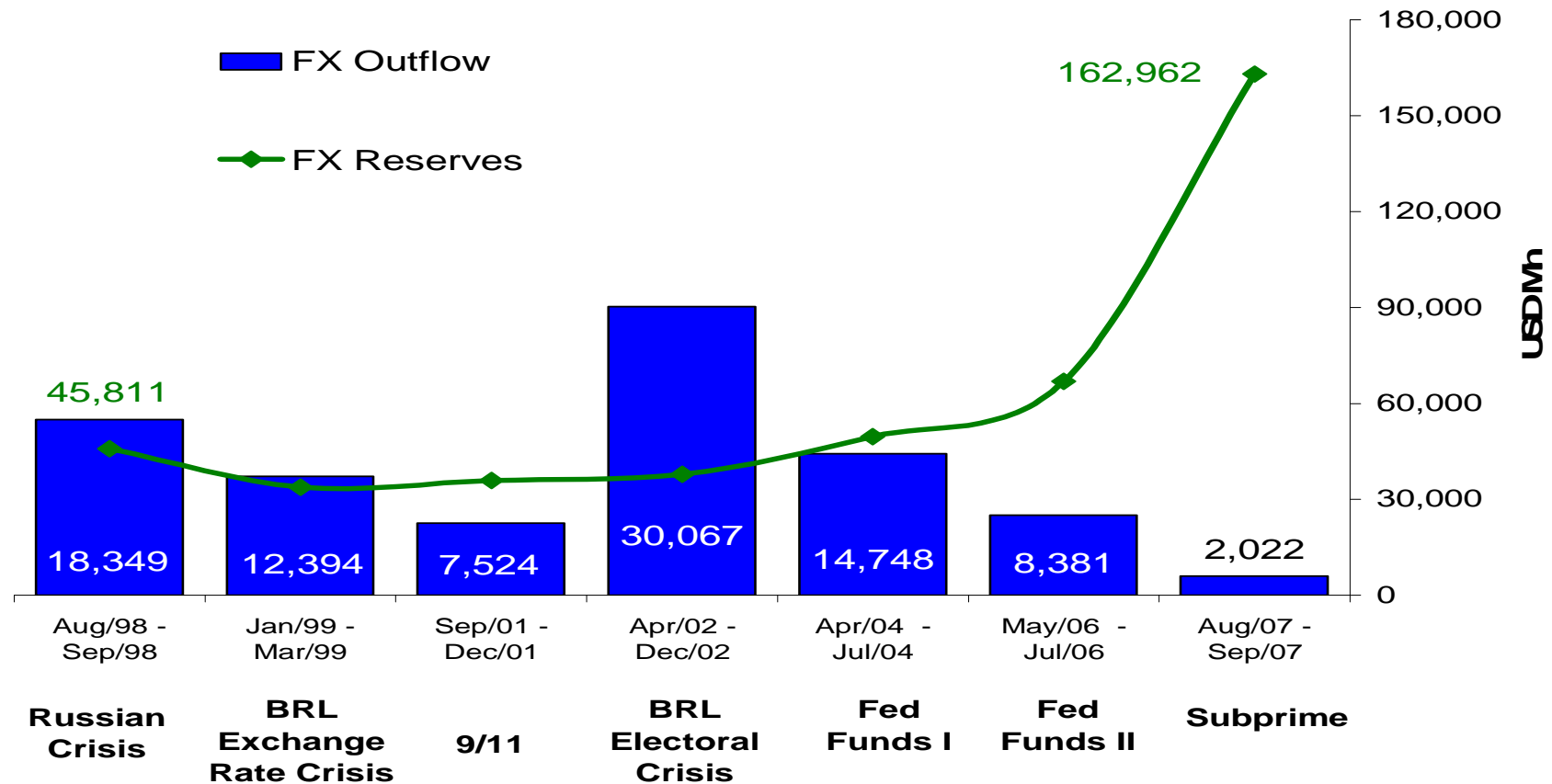
Macroeconomic Overview

Brazil's Performance during the Crisis

How did Brazil perform during the crisis?

Net FX outflow in the financial sector (US\$ mn)

- Compared with past recent turmoil, subprime credit crisis has had little impact on FX flow, which demonstrates a better risk perception on Brazilian economic fundamentals.

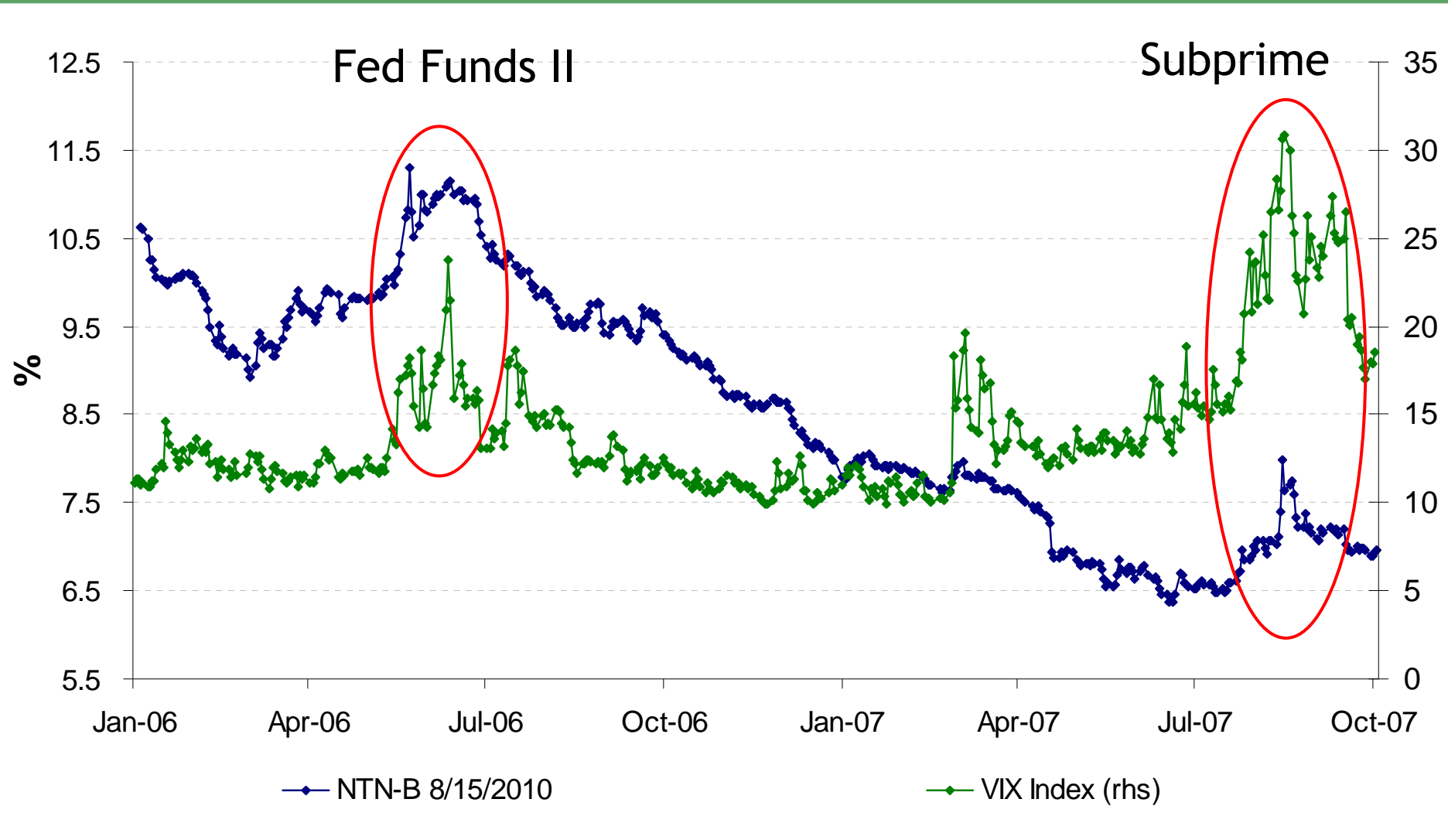


BRAZILIAN PERFORMANCE



How did Brazil perform during the crisis?

VIX Index vs. NTN-B 8/15/2010

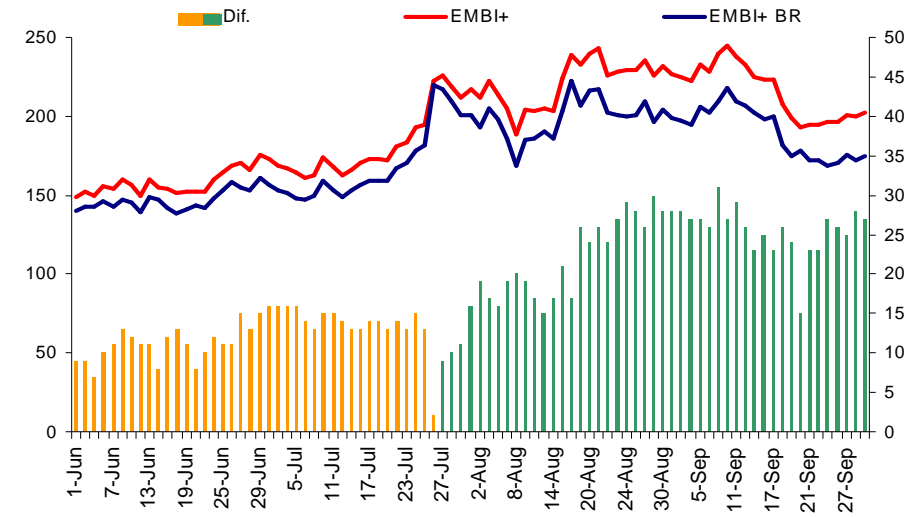


Source: Bloomberg and National Treasury



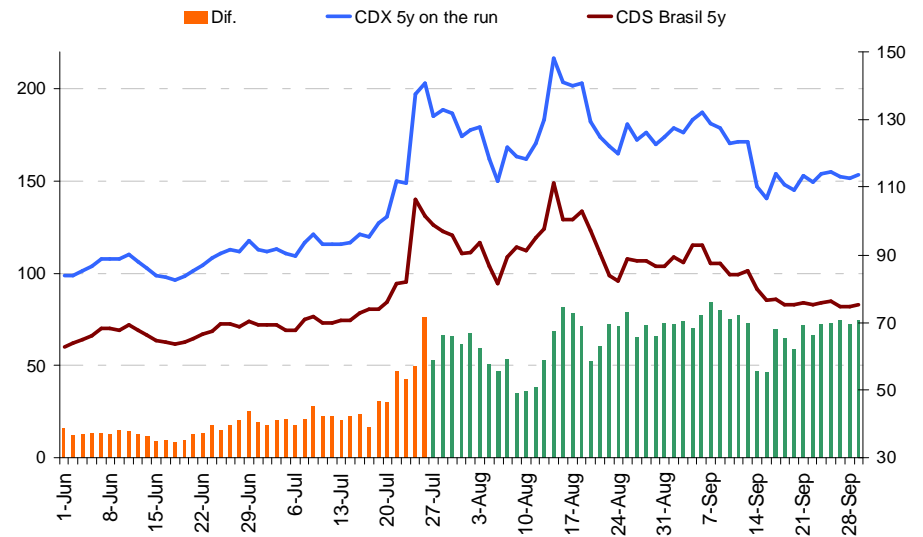
How did Brazil perform during the crisis?

Embi



Source: Bloomberg

Credit Default Swap - CDS

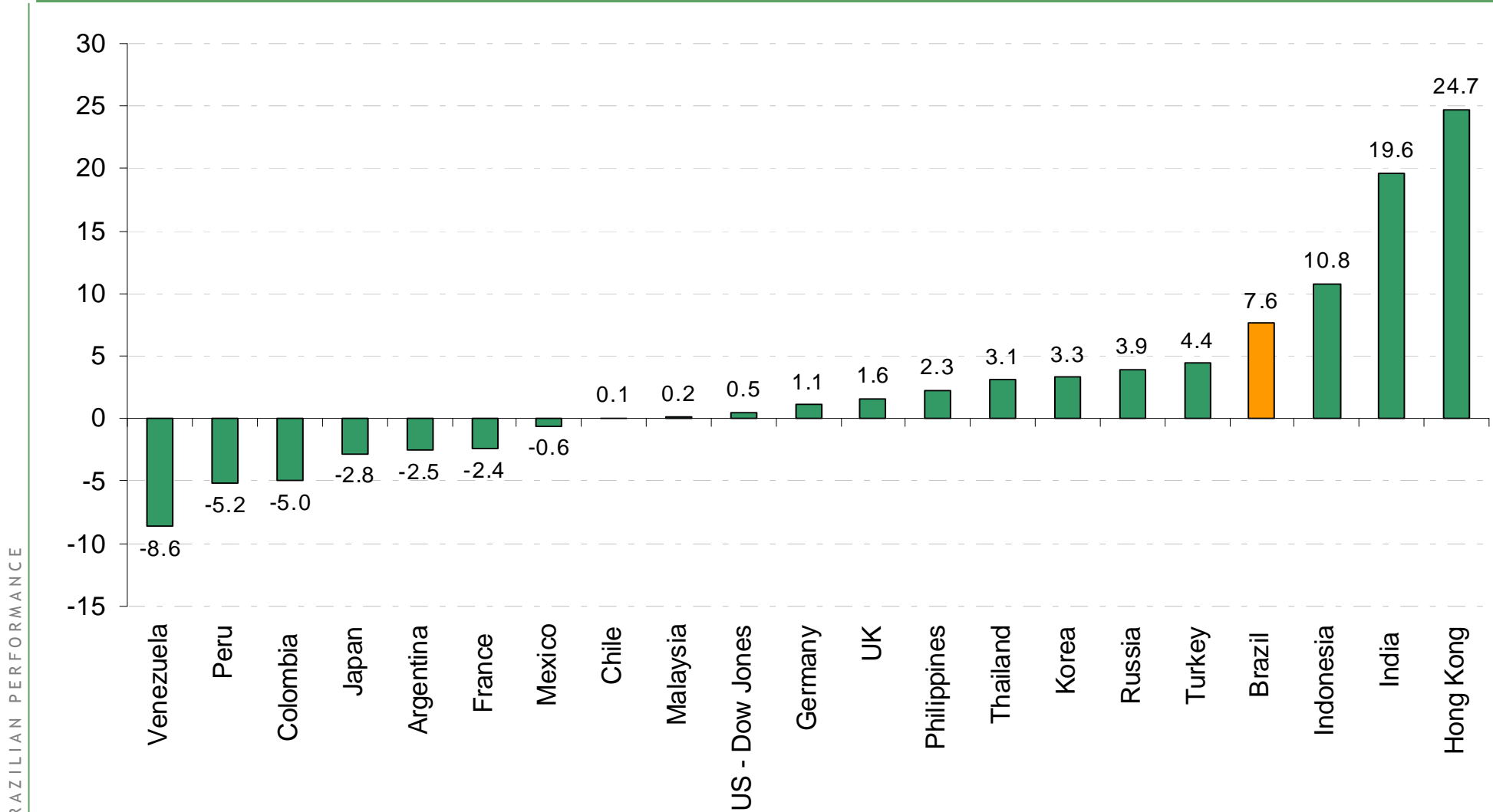


Source: Bloomberg



How did Brazil perform during the crisis?

Effect on Stocks Exchange - % change between (23rd Jul-07 and 11th Oct-07)



BRAZILIAN PERFORMANCE

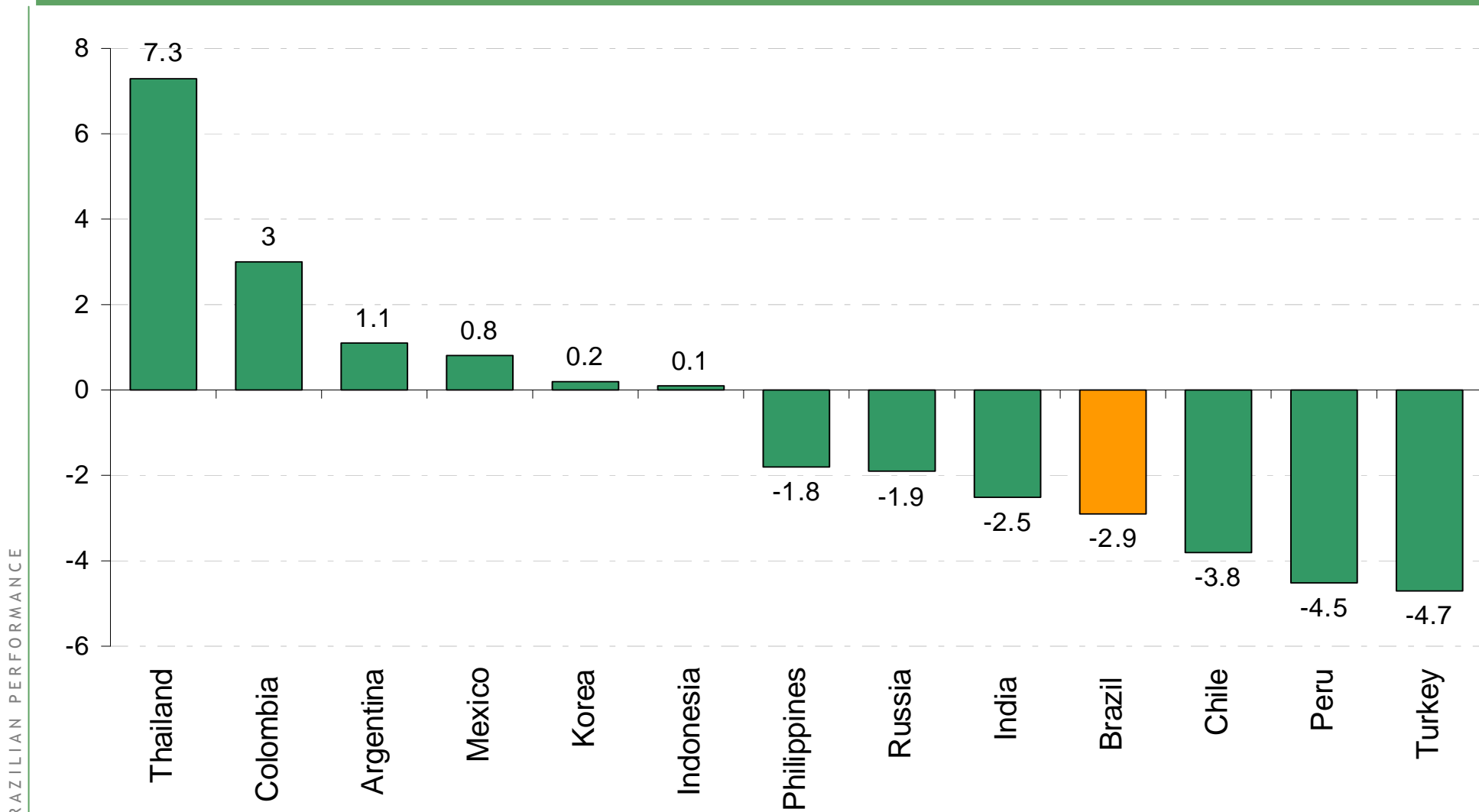
Source: Valor Econômico and Bloomberg.

Elaborated by SPE.



How did Brazil perform during the crisis?

Effect on FX-rate - % change between (23rd Jul-07 and 11th Oct-07)



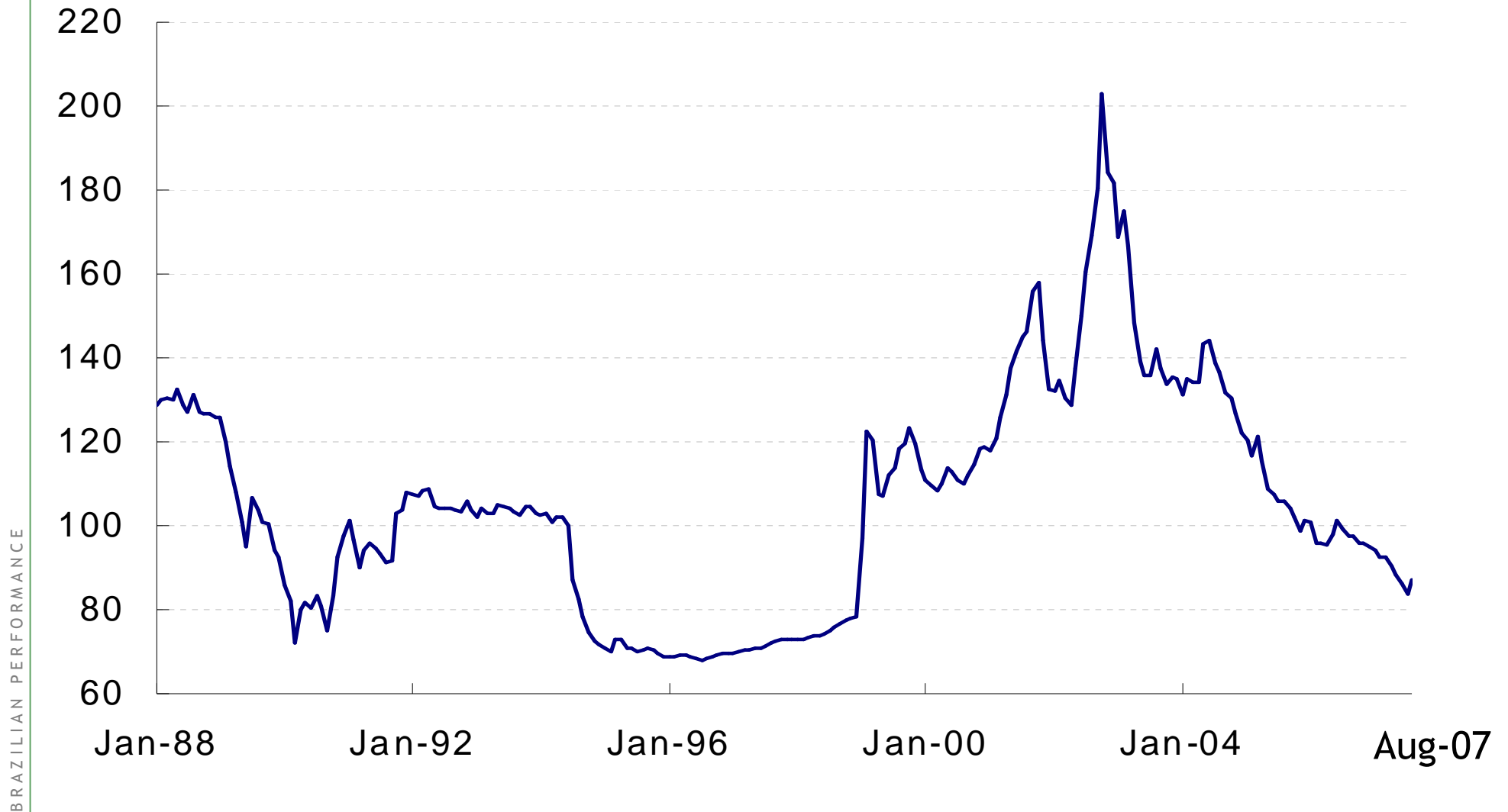
Source: Valor Econômico and Bloomberg.

Elaborated by SPE.



How did Brazil perform during the crisis?

Brazilian Effective FX-Rate* (Jan-99=100)

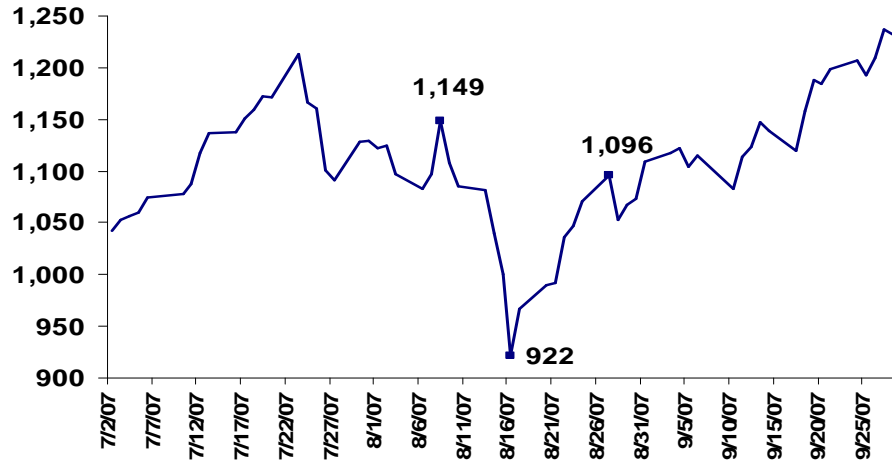


Source: Central Bank. * Deflators: INPC for Brazil and IPA -other countries



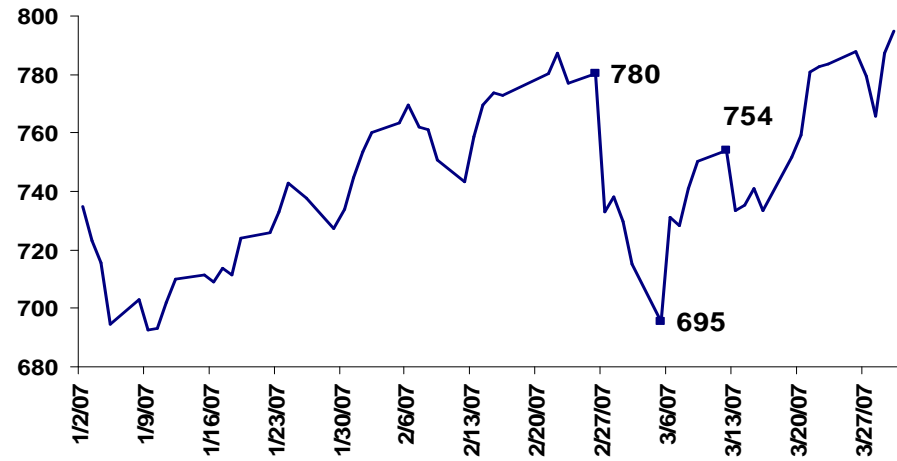
Capital Market Response to Recent Crisis

Bovespa Market Value - US Dollar Billion (Jan to Mar)



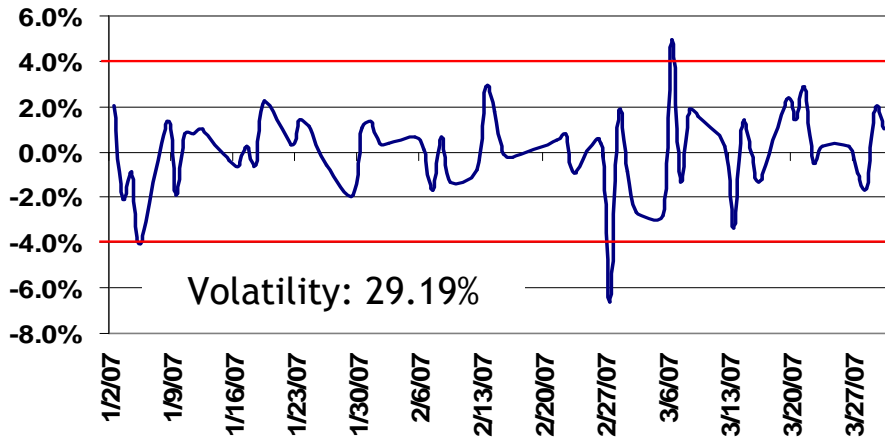
Source: Bovespa

Bovespa Market Value - US Dollar Billion (Jul to Sep)



Source: Bovespa

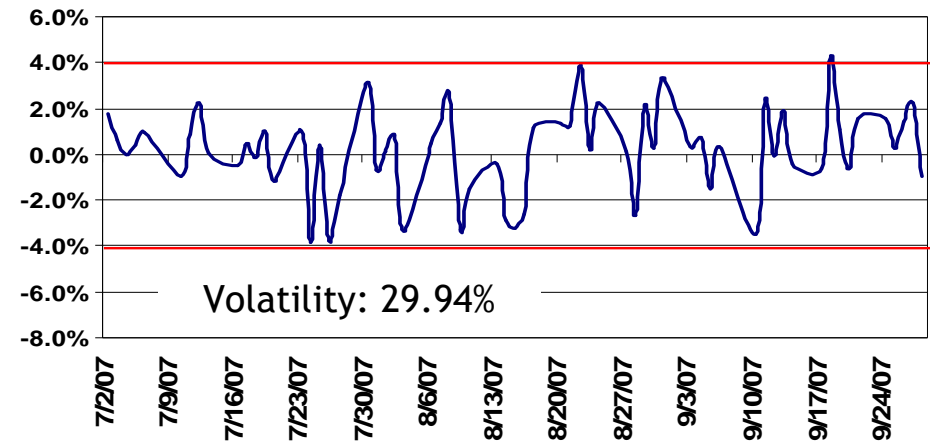
Bovespa Index Volatility - January to March



Source: Bovespa

The volatility is defined as the standard deviation of the Bovespa Index daily variations (in index number) from 01/02/2007 to 03/30/2007, annualized for 250 trading sessions.

Bovespa Index Volatility - July to September



Source: Bovespa

The volatility is defined as the standard deviation of the Bovespa Index daily variations (in index number) from 07/02/2007 to 09/28/2007, annualized for 250 trading sessions.



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Brazilian National Treasury site:**

www.tesouro.fazenda.gov.br

Or contact Institutional Relations area:

brazildebt@fazenda.gov.br

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