

AUGUST 2006
BRASÍLIA



Strategy for the Brazilian External Debt Management



External Debt

Current Guidelines

- The strategy is expressed in terms of short term issuances, according to borrowing needs, while qualitative guidelines (benchmark creation, transparent market relations, external exposure reduction) are presented.

2006 Annual Borrowing Plan

“ The external issuance program for the period 2006-2007 shows the issuance of up to US\$ 9.0 billion in bonds, which means refinancing 76% of Brady Bonds, new bonds and Paris Club principal maturing, which total USD 11.8 billion.”

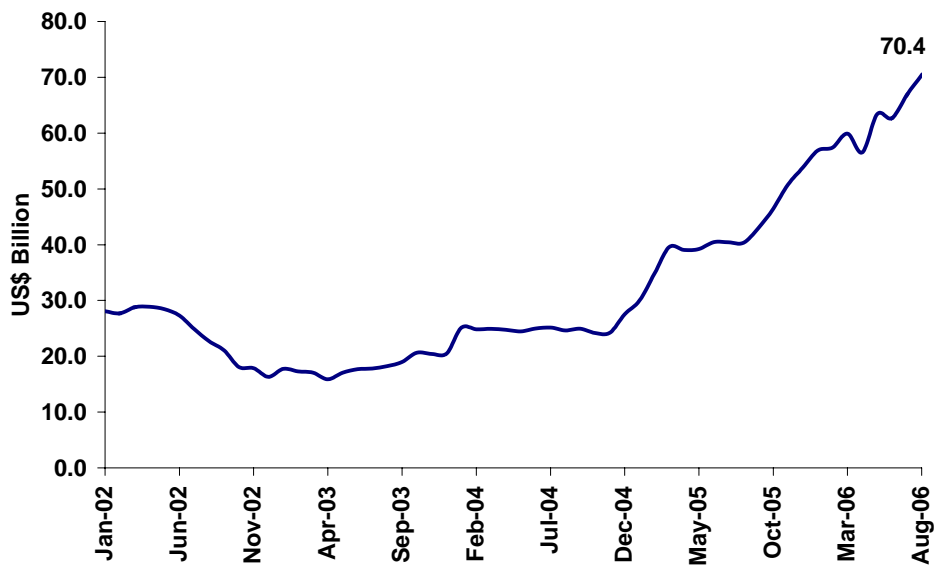


External Public Debt

New Macroeconomic Context

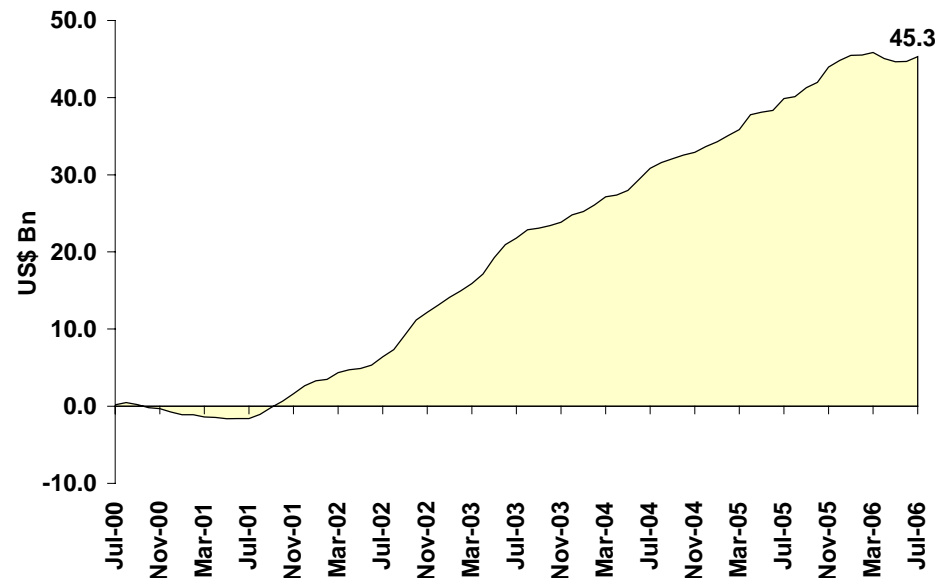
- Increasing International Reserves (US\$ 70.4 billion in 08/18/06);
- Positive Trade Balance (accumulated in 12 months until July 2006 - US\$ 45.3 billion).

Net Reserves



Source: Central Bank - 08/18/06

Trade Balance (12 months accumulated - US\$ bn)



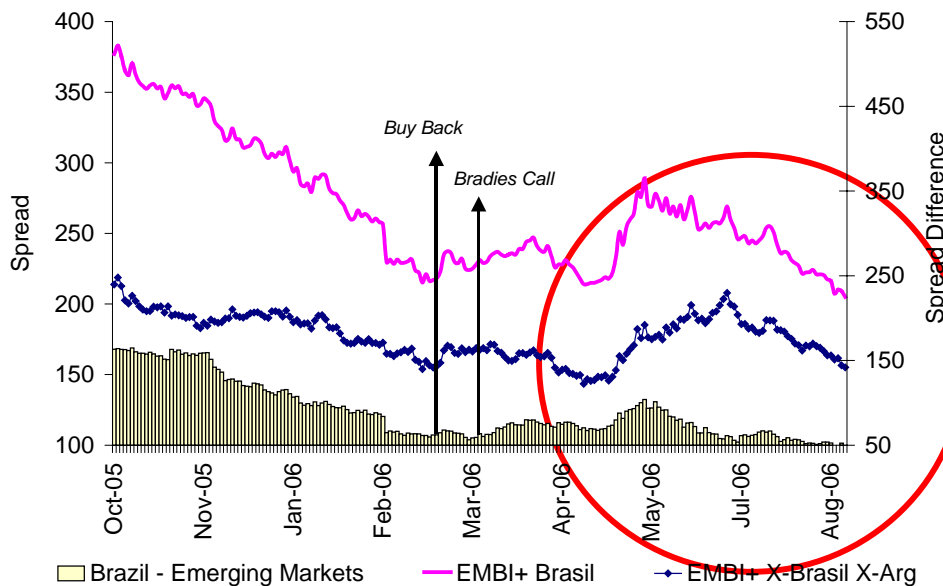
Source: Central Bank



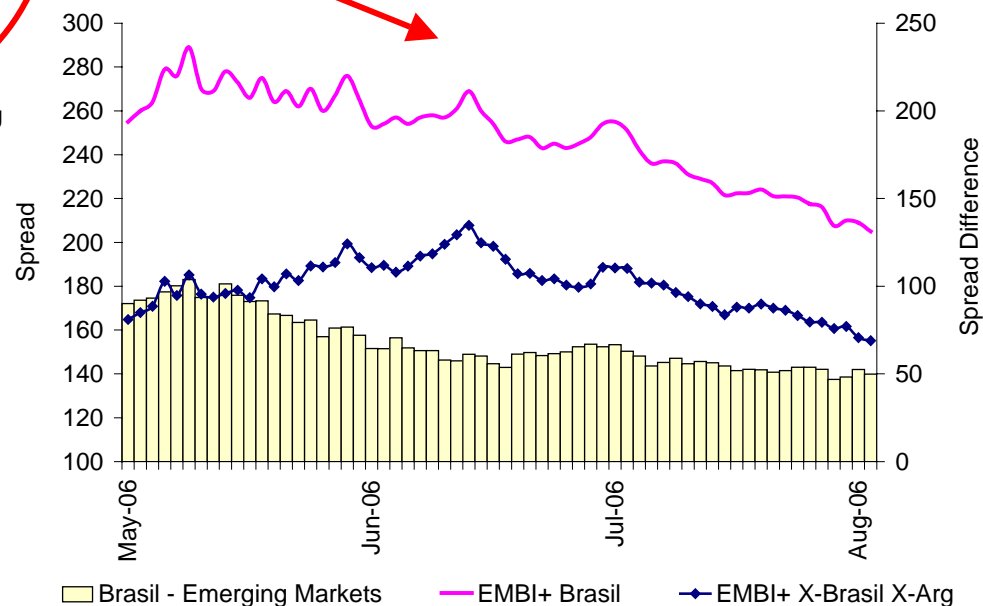
External Public Debt

New Macroeconomic Context

Country Risk reaches the lowest historical level.



Source: JP Morgan

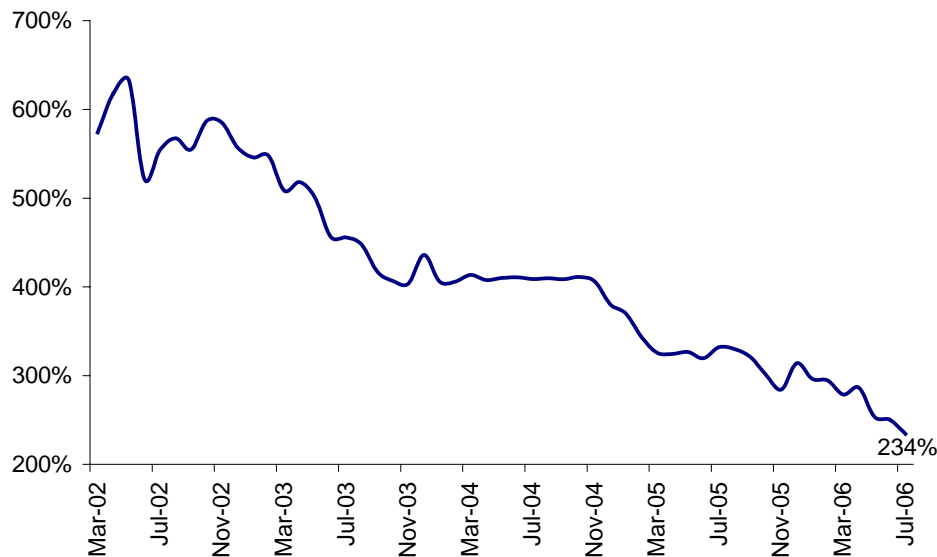


Source: JP Morgan

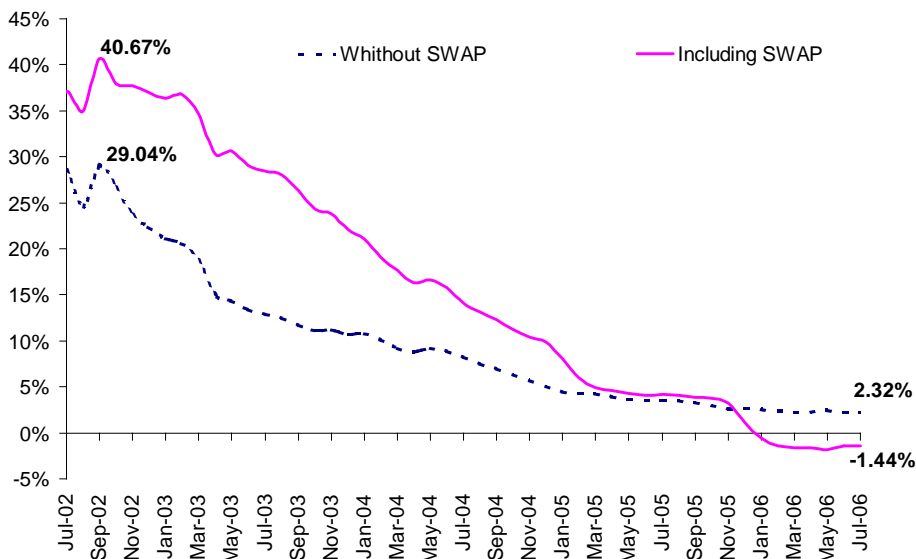


Decrease in the FX exposure: Brazil has built a sort of insurance against external turbulence...

Total External Debt as a % of Net Reserves

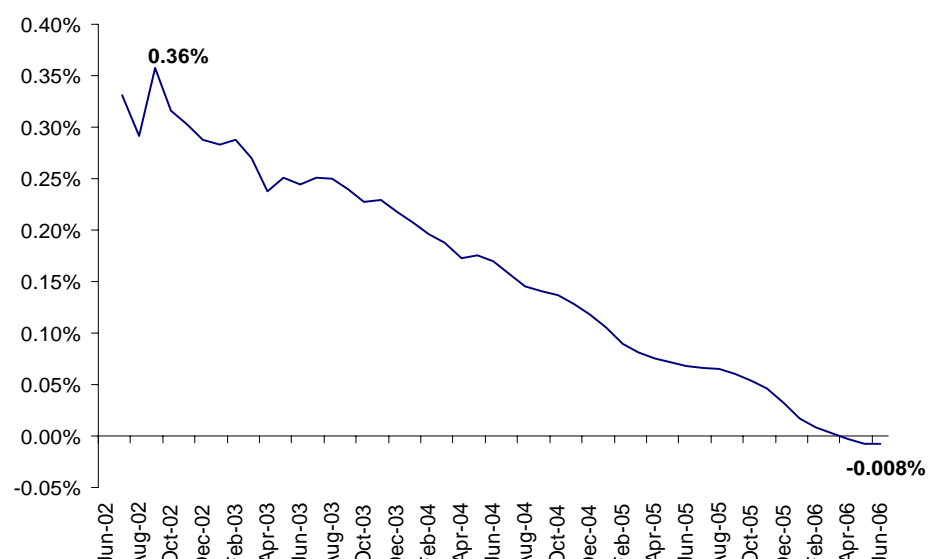


Domestic Exchange Rate Debt as % of Domestic Debt



Source: National Treasury and Central Bank

Impact of 1% FX devaluation on Net PS Debt/GDP



Source: National Treasury



... and minimizing the Federal Public Debt market risk

Stress Test over Interest and FX-Rate

Impact in the composition

Index	Share of DPF (%)					Stress Impact (R\$ bn)				
	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006
Selic	42.4	46.5	45.7	43.9	36.1	36.05	39.53	38.83	37.32	30.69
FX-Rate	45.8	32.4	24.2	17.6	11.2	362.34	256.49	191.45	139.24	88.61
Total	88.2	78.9	69.9	61.5	47.3	398.39	296.01	230.28	176.56	119.30

DPF Risk reduction:
R\$ 279.1 bn
or 13% of GDP

Impact in the outstanding

Index	Share of DPF (%)					Stress Impact (%GDP)				
	2002	2003	2004	2005	2006	2002	2003	2004	2005	2006
Selic	42.4	46.5	45.7	43.9	36.1	1.68%	1.85%	1.81%	1.74%	1.43%
FX-Rate	45.8	32.4	24.2	17.6	11.2	16.92%	11.98%	8.94%	6.50%	4.14%
Total	88.2	78.9	69.9	61.5	47.3	18.60%	13.82%	10.75%	8.24%	5.57%

Note: The tables above show the risk response of an increase in the outstanding DPF, in a scenario of great and persistent turbulence, associated exclusively with debt profile changes. Stress is represented by a 3 standard deviation shock over the average SELIC rate and over the real Fx-rate devaluation cumulated in 12-months, evaluated over the outstanding DPF (estimated for Dec-06).

DPF includes the domestic and external debt.

Source: National Treasury



External Public Debt

Major Events

- Jul-05: Prepayment of IMF obligations (USD 4.9 bn);
- Aug-05: C-Bond vs A-Bond exchange (USD 4.5 bn);
- Sep-05: Issuance in Reais - BRL 2016 (USD 1.5 bn);
- Oct-05: Exercise of the call option embedded on the C-Bonds (USD 1.1 bn);
- Dec-05: Prepayment of IMF obligations (USD 15.5 bn);
- Jan-06: Announcement of prepayment of Paris Club debt (USD 1.7 bn);
- Jan-06: Beginning of the early redemption of bonds with maturity until 2010 and Brady Bonds (USD 5.1 bn until Aug, 16th);
- Apr-06: Exercise of the call option embedded on the Brady Bonds (USD 6.5 bn);
- Jun-06: External Debt Tender Offer, repurchasing USD 1.3 bn (face value).
- Jul-06: External Debt Exchange Offer, exchanging 2020, 2024, 2024B, 2027, 2030 Global bonds by the Global 2037 (around USD 0.5 bn).

By not meeting the maximum values announced on the Tender Offer (USD 4.0 bn) and the Exchange Offer (USD 1.5 bn), investors reveal their comfortable position in holding the Gov't securities.



External Public Debt

Impact of the "Cleaning Up" on the Federal Public External Debt

	(US\$ bn)
Operations	Face Value ¹
External Public Debt in Bonds	14.0
C-Bond call (Oct-05)	1.1
Early Redemption Program ² (Jan-Aug/06)	5.1
Brady Bonds call (Apr-06)	6.5
Tender Offer (Jun-06)	1.3
Contractual Debt	22.1
IMF early payment I (Jul-05)	4.9
IMF early payment II (Dec-05)	15.5
Paris Club early payment (Jan-06 ³)	1.7
Total	36.1

¹ It captures the impact of the operations on the outstanding public debt

² The program started in January. The value of US\$ 5.1 bn refers to the bonds repurchased up to 08/16/06.

³ Announcement



External Public Debt

Impact of the "Cleaning Up" on the Federal Public External Debt in bonds (DPMFe)

DPMFe Maturity - Aug-05				USD mn
Year	Principal	Interest	Total	
2007	6,000	4,900	10,900	
2008	4,363	4,337	8,700	
2007-2008	10,363	9,237	19,600	

Maturity Net Reduction - Operations between Sep-05 and Aug-06 *

	Principal	Interest	Total	
2007	2,239	289	2,528	
2008	2,322	108	2,430	
2007-2008	4,561	397	4,958	

*C-Bond Call; Paris Club pre payment; Early Redemption Program; Brady Bond Call; Tender Offer and Exchange Offer

DPMFe New Maturity**

Year	Principal	Interest	Total	
2007	3,761	4,611	8,372	
2008	2,041	4,229	6,270	
2007-2008	5,802	8,840	14,642	

**after operations performed until Aug-16-06



External Public Debt

Borrowing Requirements until 2008

Consolidated Table - US\$ mn (as of 08/16/2006)

	2006*	2007	2008	TOTAL
a) Debt in Securities	2,230.16	8,371.44	6,270.27	16,871.87
1.Principal	828.89	3,760.82	2,041.32	6,631.03
2.Interest	1,401.27	4,610.62	4,228.95	10,240.84
b) Multilateral Organisms (contractual)	574.47	2,755.06	2,751.86	6,081.38
1.Principal - Federal Gov't	329.95	718.22	728.67	1,776.83
2.Interest - Federal Gov't	244.52	585.93	596.87	1,427.32
3. Principal Regional Gov't	-	916.76	925.76	1,842.52
4.Interest Regional Gov't	-	534.16	500.56	1,034.71
c) Private Creditors	158.34	791.65	469.22	1,419.21
1.Principal	127.98	639.73	345.08	1,112.79
2.Interest	30.36	151.91	124.14	306.42
d) Early Foreign Currency purchase **	2,962.97	-	-	2,962.97
e) Gross Foreign Currency requirement (a + b + c - d)	-	11,918.15	9,491.35	21,409.49
f) Multilateral Org. Expected resources (IADB and IBDR)	2,068.43	2,987.47	2,159.89	7,215.79
Ongoing Projects - Federal Gov't	622.11	909.08	90.09	1,621.28
Ongoing Projects - Regional Gov't and others	590.78	819.81	511.66	1,922.24
Projects to be signed - Federal Gov't (CAS)	749.45	1,095.40	1,289.00	3,133.85
Projects to be signed - Regional Gov't (CAS) and others	106.09	163.18	269.15	538.42
g) Net Foreign Currency requirement (e - f)	(2,068.43)	8,930.68	7,331.45	14,193.70

* For 2006 it corresponds to Aug-Dec period.

** It does not include the USD already purchased to face 2007 maturities.



External Debt - Strategy

New Guidelines for 2007-2008

- Foreign currency issuances will be qualitative in nature, observing market conditions, aiming at consolidating the foreign yield curve by means of construction and maintenance of benchmark points;
- This strategy might include BRL issuances in international markets, aiming at constructing a foreign yield curve denominated in Brazilian local currency;
- Maintenance of the buy-back program, observing market conditions;
- Maintaining the strategy of correcting the foreign yield curve distortions;
- Foreign currency needs for external debt payments will be acquired in the local domestic FX market or, alternatively, by means of purchasing of Brazilian Central Bank foreign reserves.