

April, 2008



Brazil: The Big Picture



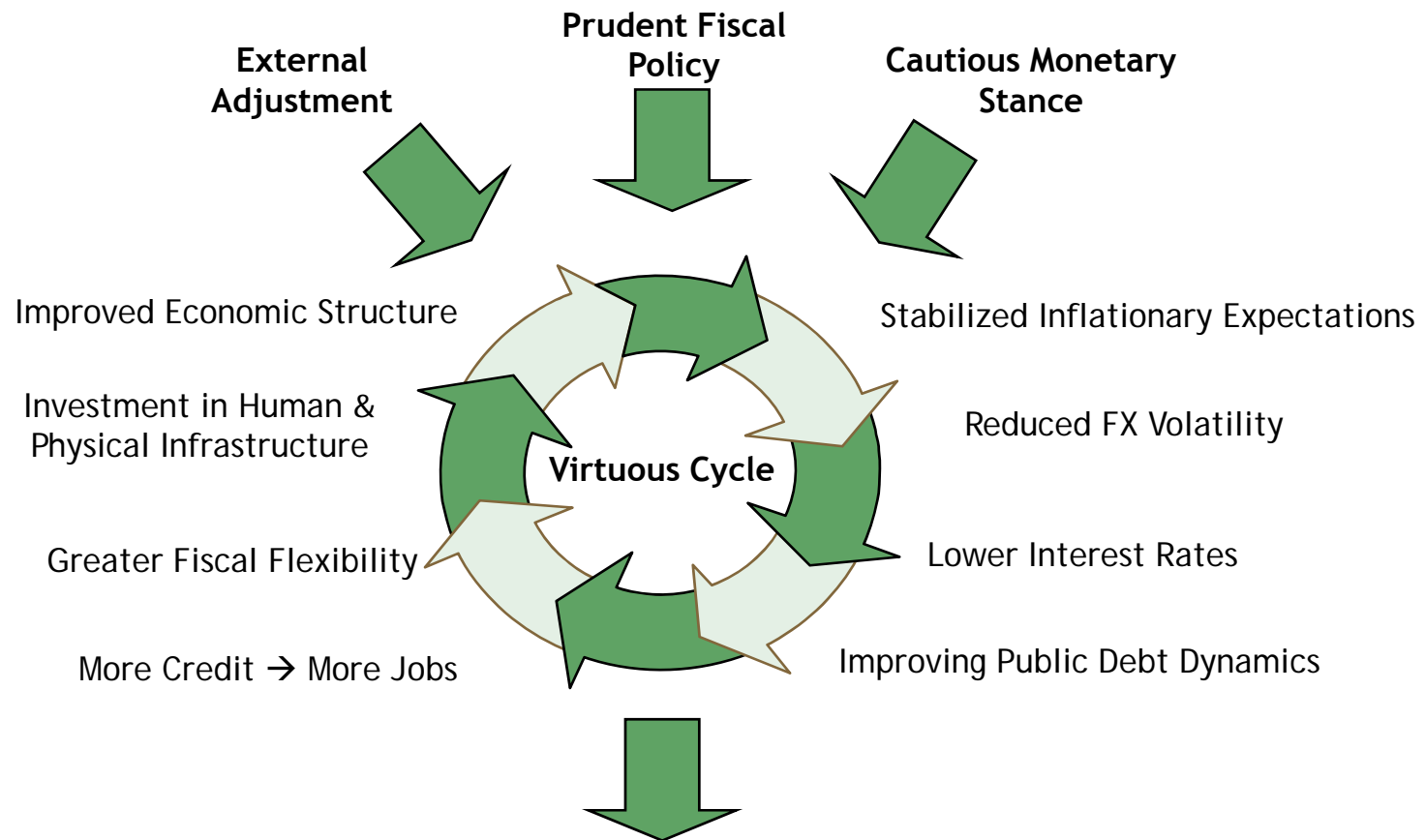
Brazil: The Big Picture

Macroeconomic Overview

Public Debt Management

On the path to sustainable growth

Economic Policy Mix Provides Buffer Against External Shocks

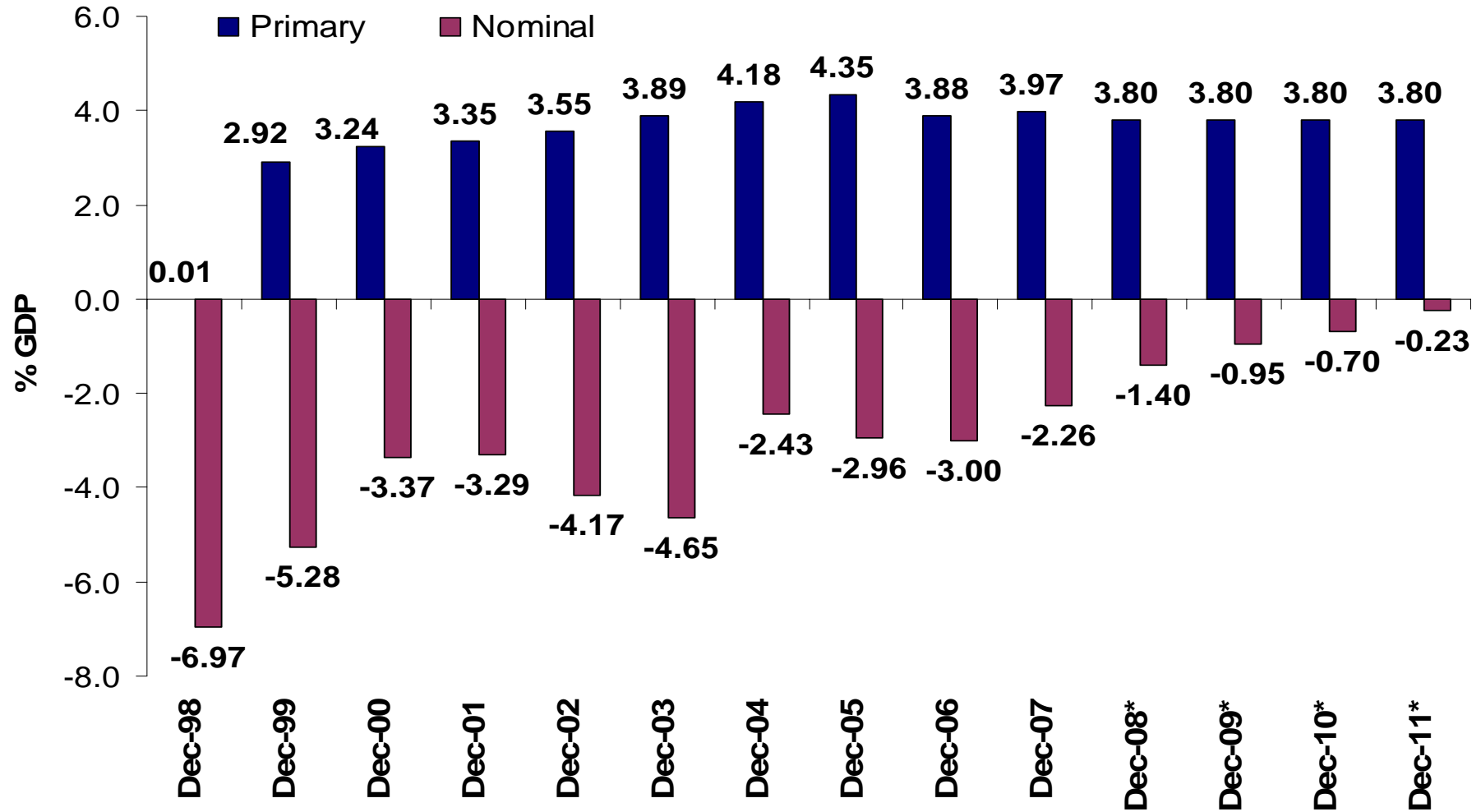


Sustainable Economic Growth & Improving Social Conditions



Macroeconomic Overview - Fiscal Commitment

Public Sector Balance (in 12 months)



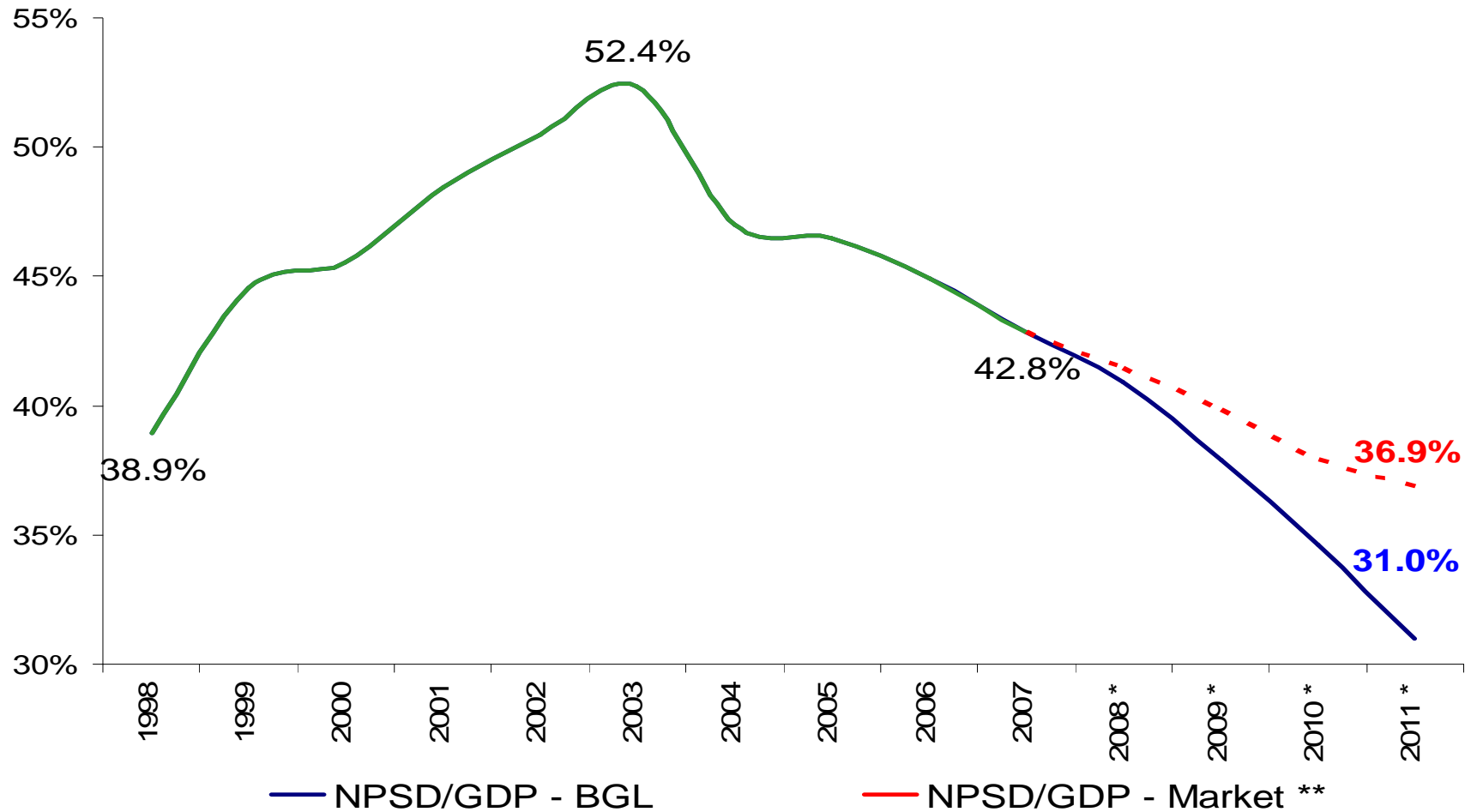
Note: In February 2008, the Primary Balance accumulated in 12 months was 4.18% GDP and the Nominal Balance accumulated in 12 months was -2.07% GDP.

Source: Up to 2007, Central Bank. From 2008, Draft Budgetary Guidelines Law 2009 project for primary and market expectations (FOCUS Forecasts) for nominal.



Macroeconomic Overview - Fiscal Commitment

Net Public Sector Debt / GDP



Source: Up to 2007, Central Bank. From 2008 on Draft Budgetary Guidelines Law 2009 project and Market survey (Focus of 04/11/2008)

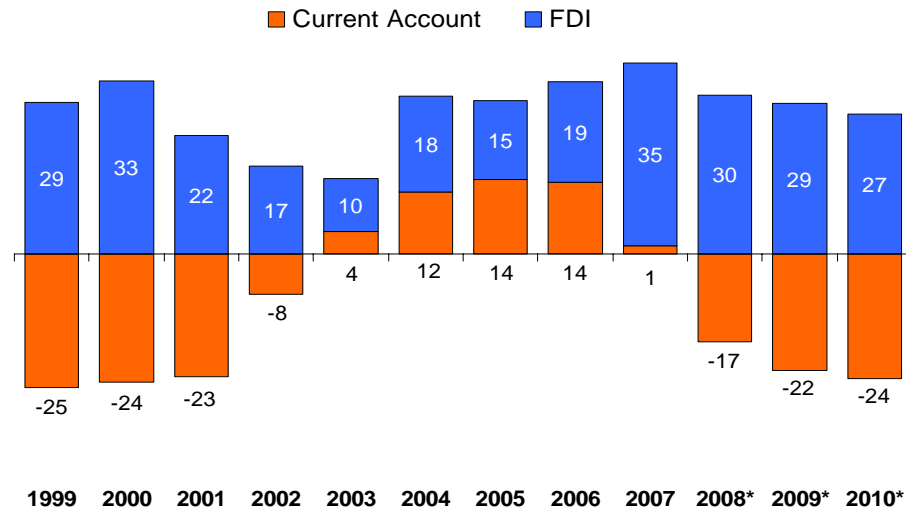
* Expectations

** NPSD / GDP according to market expectations for interests, inflation and growth.



Macroeconomic Overview - Reduction in the External Vulnerability

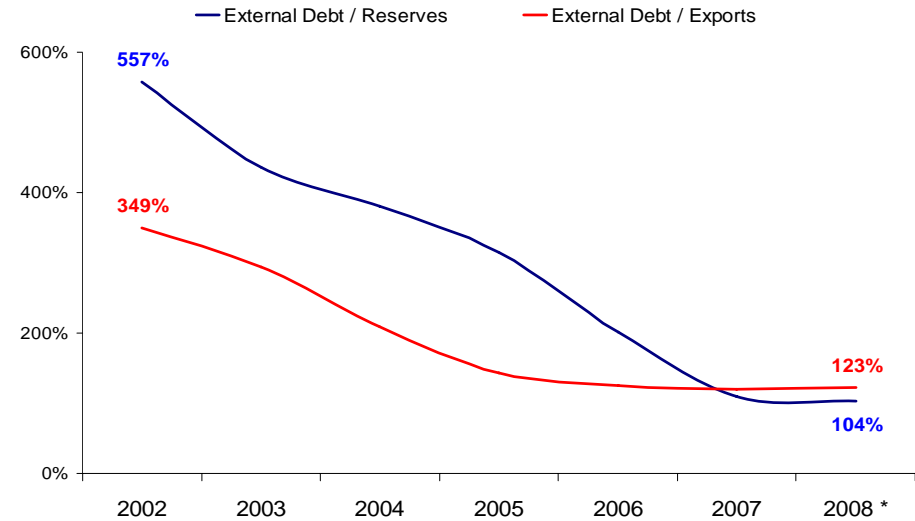
Current account x FDI (12 months accumulated - US\$ bn)



Source: Central Bank

*Market Expectations

External Debt / FX-Reserves and Ext. Debt / Exports (%)



Source: Central Bank

* Until Mar-08

MACROECONOMIC OVERVIEW

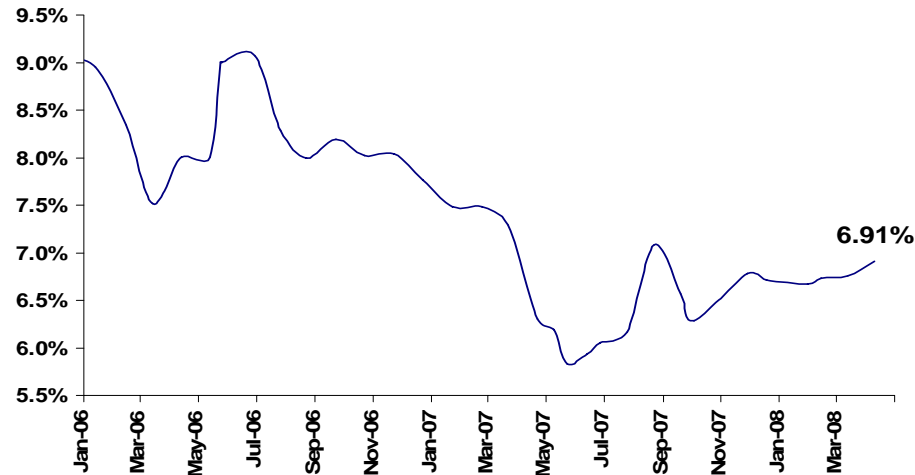
- FDI compensate the current account deficit, at least until 2010.
- The Non-Financial Public Sector External Debt/ FX-Reserves fell from 291.6% in December 2002 to 35.6% in March 2008.
- The External Debt (R\$ 202 Bn) / Reserves (public and private*) ratio reached a value below 1, thus, **Brazilian Net External Debt is negative in R\$ 15 Bn (Mar-08).**

* Commercial banks assets and Brazilian credits abroad.



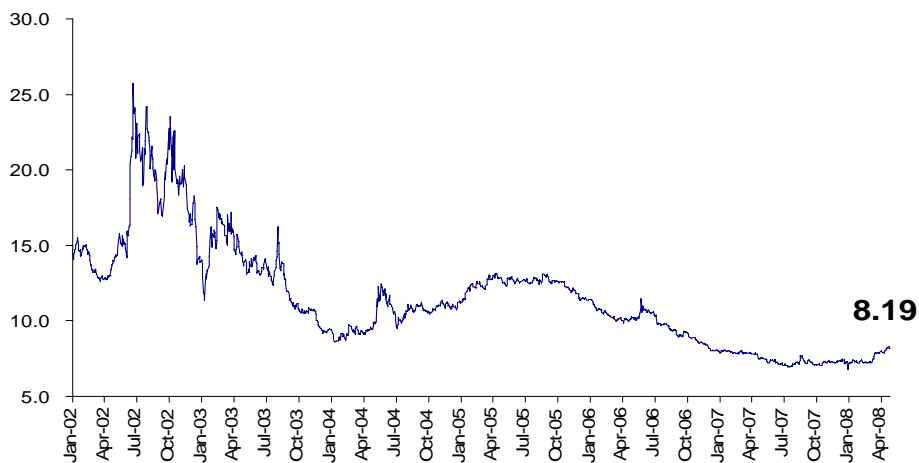
Macroeconomic Overview - Inflation under control and the economy stability

Medium and Long Term Real Interest Rate*



Source: National Treasury * NTN-B: CPI linked bonds, maturing in 2024, 2035 and 2045.

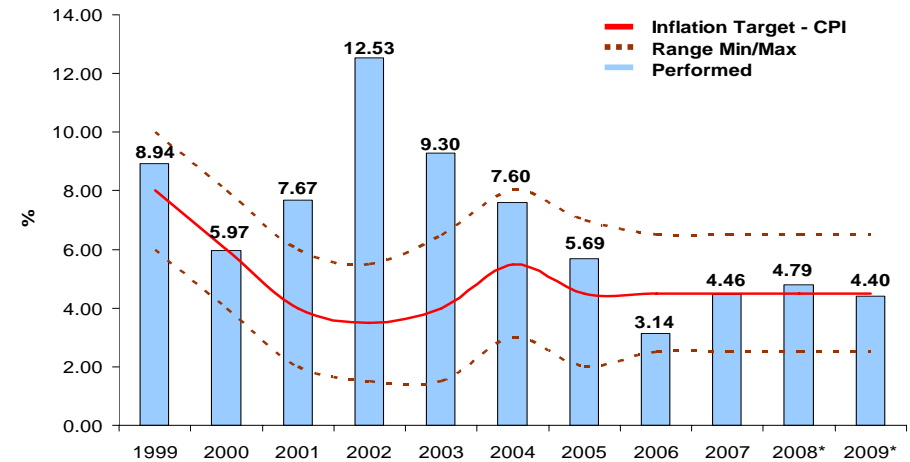
Short Term Real Interest Rate



Source: Central Bank and Bloomberg

Note: Swap 360 vs 12-month CPI forecast

Annual Inflation - Target and Performed



Source: Central Bank * Market Expectation - Central Bank/FOCUS - 04/25/08

- Inflation below the upper limit since 2004 and below the targets since 2006.
- Inflation is near the target and below the upper limit for 2008 and 2009.
- Medium and Long Term Real interest rate below 7% during 2007, against 9% in 2005 and 8% in 2006.

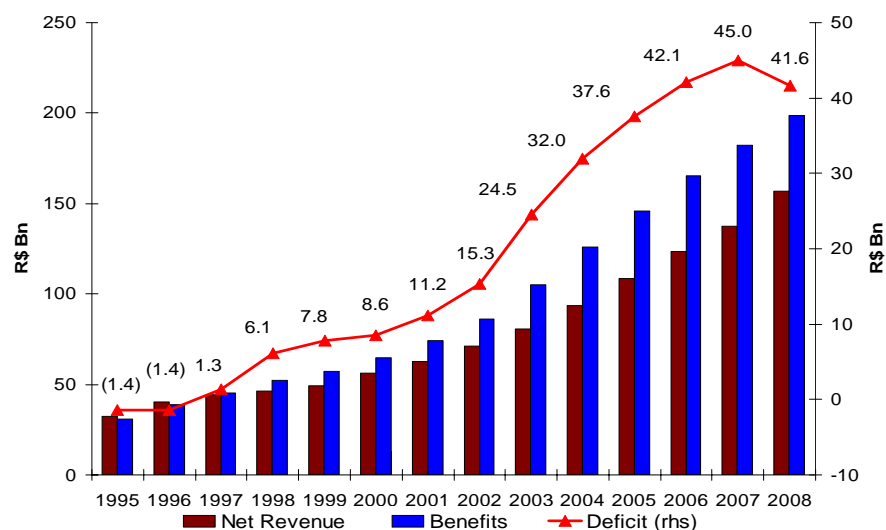
Fiscal Perspectives - Annual Budget Law (ABL) 2008

■ In 2008 ABL approved by the Legislative, 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:

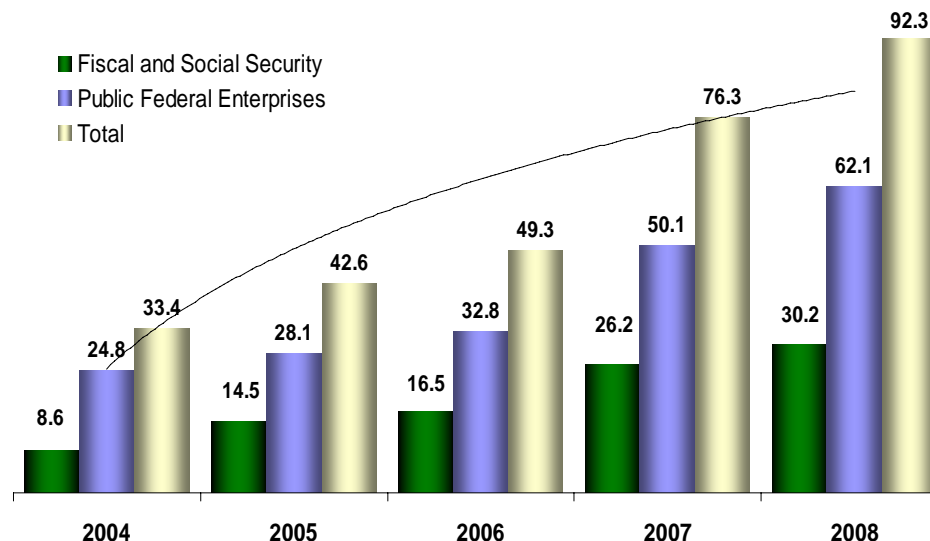
- It presents better perspectives to the public sector social security, reflecting the 1998 and 2003 reforms, which extended the retirement age and taxed the retirees.
- It amplifies public investment under the Growth Acceleration Package. Ports, airports, highways, sanitation, housing and water sources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

Social Security Deficit - 2008 Budgetary Law



Source: Ministry of Planning

Public Investments - 2008 Budgetary Law - R\$ Bn



Source: Ministry of Planning

PAC - Growth Acceleration Program

Aims for the future

- Energy (Hydroelectric, Thermonuclear and Thermoelectric power plants): 39,081 MW up to 2015
- This corresponds to an increase of roughly 40% of current electric energy installed capacity.

Main Projects in Course

TYPE	PROJECT	Investment (R\$ bn)	POWER (MW)
Hydroelectric power plant	Rio Madeira	22.30	6,500
Hydroelectric power plant	Estreito	2.3	1,087
Alternative Sources	PROINFA	9.4	2,341
Total		34.00	9,928

Main Projects until 2010

TYPE	PROJECT	Investment (R\$ bn)	POWER (MW)
Hydroelectric power plant	Belo Monte	6.60	5,681
Thermonuclear power plant	Angra 3	7.2	1,350
Transmission lines	Tucuruí-Manaus	3.4	-
Total		17.20	7,031

Forecasted Investments in Energy (R\$ bn)

2007	2008	2009	2010	2007-2010	2011	2012	2013	2014	Total
8.80	23.95	18.00	15.18	65.93	14.56	6.83	3.13	1.22	91.64

PAC - Growth Acceleration Program

Boosting Oil Production*

- These investments will increase oil production in 40% up to 2010

Forecasted Investments (R\$ bn)

Action	Untill 2010	After 2010
Petroleum - Exploration and Production	93.4	100.2
Refinery, Transport and petrochemistry	45.2	31.7
Natural Gas	40.4	6.2
Renewable fuel	17.4	27.0
Total	196.4	165.1

*Average production in 2007: 1.8 th barrels per day

Railways

- More 2.500Km railways
 - Integrating northern and southern regions
 - Northeastern region railway

Forecasted Investments (R\$ bn)

Source	2007	2008-2010	Total
Budget	558	235	793
Private and Financing	1,108	5,962	7,070
Total	1,666	6,197	7,863

Source: National Treasury (COAPI)

Civil Airports

- Investments of R\$ 3 bn from 2007 to 2010

Forecasted Investments (R\$ bn)

Source	2007	2008-2010	Total
INFRAERO	305	664	969
Budget	573	1,459	2,032
Total	878	2,123	3,001

Highways and Ports

- Ports represent 90% of external commerce
- 56% of investments in Ports focus on their main bottleneck: sea shallowness
- 21% of investments in highways focus on concession, crowding in the private sector.

Forecasted Investments (R\$ bn)

Highway	34.20
Ports	1.70
Total	35.90

2008 Tax Reform

Why is it necessary?

- Motivation: High compliance costs, low neutrality
 - High complexity: Too many taxes over the same base
 - High level of distortions and fiscal war
 - Cumulative taxes
 - Different ICMS (state-VAT) across the 27 Brazilian States and more than 40 rates.
 - Excessive taxation on payrolls: High costs for the private sector
- Brazil currently has gathered the conditions to go for the reform, namely, *Fiscal Space*
- Technological changes: Electronic invoice system (SPED) will allow the government to diminish fiscal evasion and also to better calibrate the modeling parameters for economic policy purposes.

2008 Tax Reform

Draft Law: 6 main goals

1. Simplify taxes: reduce bureaucracy and legislation
2. Vanish Fiscal War
3. Correct distortions: increase efficiency and stimulate investments
4. Diminish the tax burden: gradually cut rates of the most distortive taxes, without affecting revenues
5. Improve regional development policy instruments
6. Improve the quality of cross-state interactions

General Overview: Dual system to be gradually phased over 5 years

- Extinction of 5 Federal Taxes and creation of a Federal Value Added Tax (**VAT-F**)
 - To be implemented in the second year after legislative approval
- Extinction of 27 ICMS legislations and creation of a unified State Value Added Tax, a new ICMS
- Tax should be collected in the **final destination**, not in the original site, as we currently face.

Beyond the 3 Pillars - Export Diversification

Brazilian Exports are diversified across countries and products

	2000		2007	
	US\$ Bn (FOB)	Share (%)	US\$ Bn (FOB)	Share (%)
EU	15,35	27,84	40,43	25,17
USA	13,19	23,93	25,07	15,6
Argentina	6,24	11,32	14,42	8,97
China	1,09	1,97	10,75	6,69
Mexico	1,71	3,11	4,26	2,65
Chile	1,25	2,26	4,26	2,65
Japan	2,47	4,49	4,32	2,69
Venezuela	0,75	1,37	4,72	2,94
Others	13,03	23,71	52,45	32,64

Source: MDIC

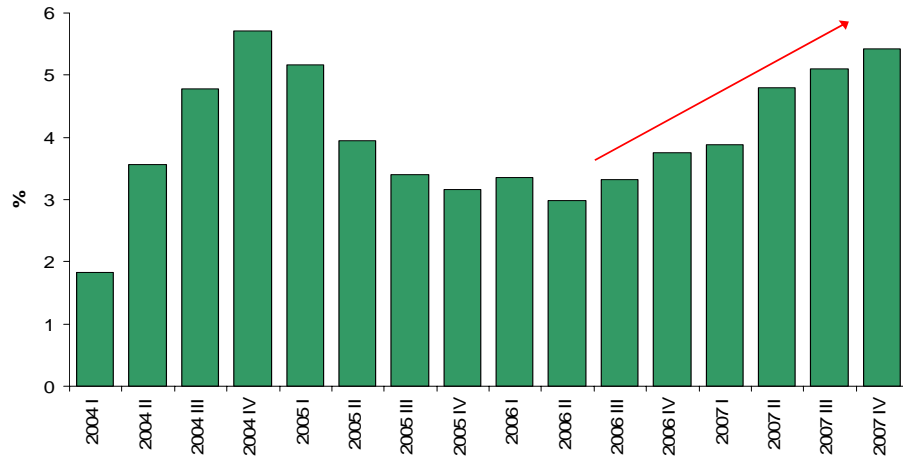
- Reduction of 76% to 67% share of the 8 main exports destinations;
- In absolute terms, the export volume has increased to all of these countries in the last years;
- Brazil shows a more diversified export bundle than it's peers in Latin America;
- Brazil: Herfindahl-Hirschman Index (2005)
 - Destination: 0.06
 - Product: 0.03

Source: OECD (2008) - data of 2005



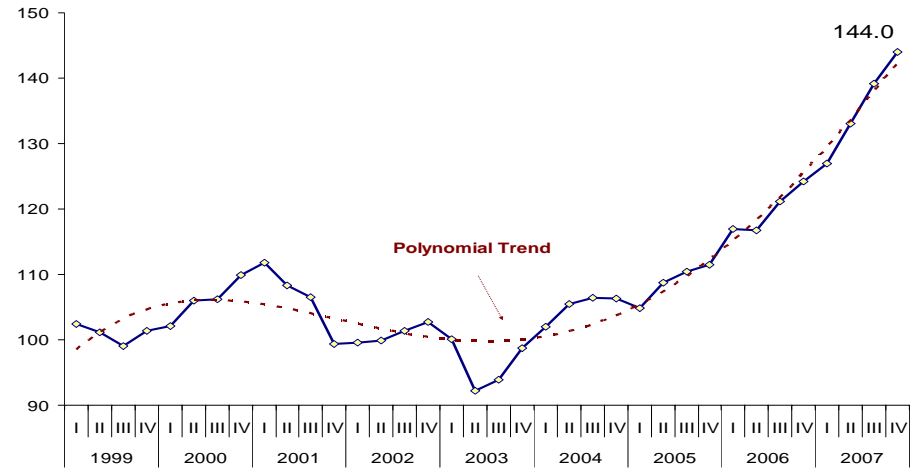
Sustainable Growth

GDP Growth (Q-o-Q accumulated)



Source: Ipeadata

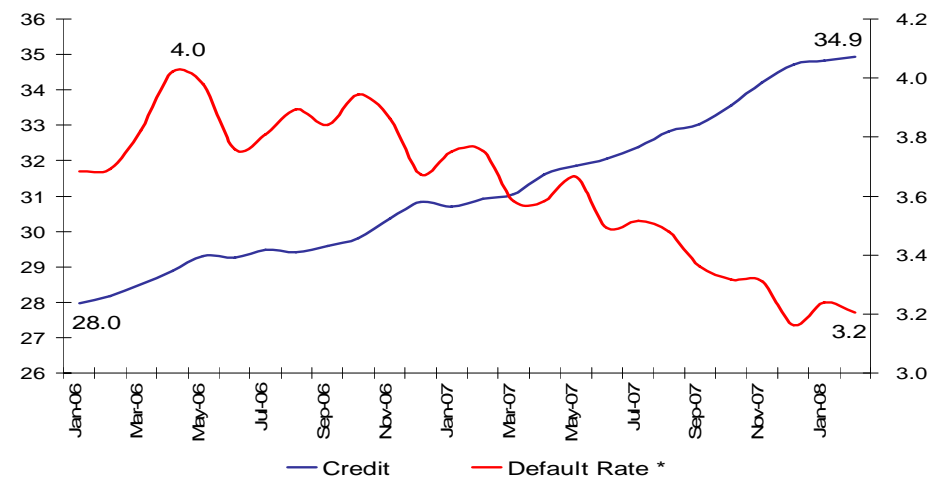
Investment Growth - Seasonally Adjusted (1995=100)



Source: IBGE

Note: Gross Fixed Capital Formation (GFCF)

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



Source: Central Bank

Total credit matured by more than 90 days

- Brazilian GDP has been growing at increased rates in the last 5 quarters.
- Average GDP growth is 4.5% in the last 4 years.
- The investment increased 13.4% in 2007, the highest level since the beginning of the series (1996).



How will Brazil be affected by the USA crises?

Latest Developments

Balance of Payments

- Even though Brazil might show in 2008, for the first time in five years, deficit in **current account**, this no longer represents a jeopardy, because:
 - **Capital and financial account are positive**: US\$ 11.5 billion just in **Jan+Feb/08** (US\$ 89.1 billion in 2007), with considerable amount of FDI: US\$ 5.7 billion.
 - **Brazil is a net external creditor since January 2008.**
 - Deficit in current account is due to import growth, caused by **domestic market expansion** (Exports still continues to increase): investments, job expansion and more credit.
 - Currently Brazil is the **10th largest market in the world**. Among developed markets, Brazil has now surpassed Italy, the Netherlands and Hong Kong.*

*Citigroup Global market - Equity Research 02/28/2008

How will Brazil be affected by the USA crises?

Latest Developments

GDP Growth

- Moody's* has forecasted that Brazil will grow 5.0% in 2008 and 5.3% in 2009, considering economic reforms;
- Quality investment has surpassed industrial production for 26 consecutive months.

Fiscal Policy

- The Government has delivered primary surpluses targeted for the public sector since 1999 (**9 years in a roll**), without any exception, even in electoral or low GDP growth years;
- The PS nominal deficit in 2007 was 2.26% GDP: **the lowest since the beginning of the series**;
- With 3.8% GDP primary surplus for the following 4 years, in 2011 the **nominal deficit will be roughly zero**;
- Even with the end of CPMF, Jan-08 and Feb-08 revenues (tax and contributions) beat a new record: real growth of 20.02% related to Jan-07 and Feb-07.

*Moody's Economy.com (Feb-27)

How will Brazil be affected by the USA crises?

Monetary Policy

- Despite higher GDP growth, inflation will be kept under control, just in line with 2008 and 2009 targets:
 - Market expectations (FOCUS survey) for 2008 show 4.79% and 4.40% for 2009 (the target for both years is 4.50%);
 - In case Central Bank needs to raise interest rates to control inflationary pressures, due to a shock in the exchange rate, the **public debt is much less sensitive to these two indexes.**

Banking Sector

- For every R\$100 borrowed by the banks, their reserve requirements amount 11%. Basel demands 8%
- Reserves covering all debt payments past due 60 days
- Central Bank register all credit operations above R\$ 5,000 (90% of the cases)
- Central Bank conducts stress tests and issue ratings for the banks

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- For every USD 100 borrowed by the banks their reserve requirements amount 8% (Basilea lower bound)
- Reserves cover only debt's share unperformed
- FED has no systems to assess the credit system as a whole. Uses private companies for that
- FED uses rating agencies to asses bank's risks



Brazil: The Big Picture

Macroeconomic Overview

Public Debt Management

- Annual Borrowing Plan
- Recent Events

Annual Borrowing Plan 2008

Objectives of Federal Public Debt Management

Minimize long-term financing costs, while ensuring the maintenance of prudent risk levels and contributing to the smooth operation of the public bonds market.

Guidelines

- Subject to market conditions, the guidelines for the DPF management are to:
 - Lengthening of average DPF maturities and reducing the percentage of DPF maturing in 12 months;
 - Gradual substitution of floating-rate bonds for fixed-rate or inflation-linked bonds;
 - Improvement of the external liability profile through issuance of benchmark bonds, early redemption program and structured operations;
 - Incentives to the development of the interest rate term structures for federal public bonds on domestic and external markets; and
 - Expansion of the investors base.



Annual Borrowing Plan 2008

Federal Public Debt - DPF Maturity Profile

	DPMFi			DPFe			DPF		
	R\$ Billion	% of Stock	% of GDP	R\$ Billion	% of Stock	% of GDP	R\$ Billion	% of Stock	% of GDP
2003	220.3	30.1%	12.6%	45.9	19.6%	2.6%	266.1	27.6%	15.3%
2004	262.0	32.3%	12.9%	48.2	23.7%	2.4%	310.3	30.6%	15.2%
2005	393.2	40.5%	18.2%	38.3	20.4%	1.8%	431.5	37.3%	20.0%
2006	444.9	40.7%	18.7%	30.1	21.0%	1.3%	475.0	38.4%	20.0%
2007	412.8	33.7%	15.7%	23.2	21.3%	0.9%	436.1	32.7%	16.6%
2008	386.7	27.7%	13.6%	13.8	11.7%	0.5%	400.6	26.5%	14.1%

Annual Borrowing Plan 2008

Federal Public Debt (DPF) Indicators*

Indicators	2003	2004	2005	2006	2007	Mar-08	2008	
							Minimum	Maximum
Stock of DPF* held by the public (R\$ billion)	965.8	1,013.9	1,157.1	1,237.0	1,333.8	1,356.3	1,480.0	1,540.0
Average maturity - Federal Outstanding Debt (months)	39.0	35.3	33.3	35.5	39.2	40.3	42.0	46.0
% Maturing in 12 months	30.7	39.3	36.3	32.4	28.2	28.7	24.0	27.0
Share of DPF (%)								
Fixed rate	9.5	16.1	23.6	31.9	35.1	34.2	35.0	40.0
Inflation Linked	10.3	11.9	13.1	19.9	24.1	25.2	25.0	29.0
Floating rate	46.5	45.7	43.9	33.4	30.7	30.7	25.0	30.0
Exchange rate	32.4	24.2	17.6	12.7	8.2	7.9	7.0	9.0
Others	1.4	2.2	1.8	2.0	1.9	1.9	1.0	3.0

* It includes the domestic debt (R\$ 1,250.03 billion - Mar/08) and the external debt (R\$ 106.25 billion - Mar/08) under the responsibility of National Treasury

- Lengthening the average maturity;
- Reducing the percentage due in 12 months;
- Consolidating the share of fixed rate bonds plus inflation linked bonds above 60%.

Note: In view of the process of full integration between the guidelines and strategies of financing in domestic and external markets the National Treasury started to disclose the limits of the Annual Borrowing Plan only for the DPF. The statistics of the DPF and its subdivisions in DPMFi and DPFe will continue to be monitored in the Federal Public Debt Monthly Report that can be accessed at http://www.tesouro.fazenda.gov.br/english/hp/public_debt_report.asp.



Annual Borrowing Plan 2008

Domestic Federal Public Debt (DPMFi) Strategy

■ Fixed Rate:

- ✓ Focusing on increasing the average issuance term of these bonds;
- ✓ Issuance of shorter term LTN, with benchmarks of 6, 12 and 24 months, while maintaining 3, 5 and 10-year NTN-F, with the possibility of longer-term operations depending on market conditions.

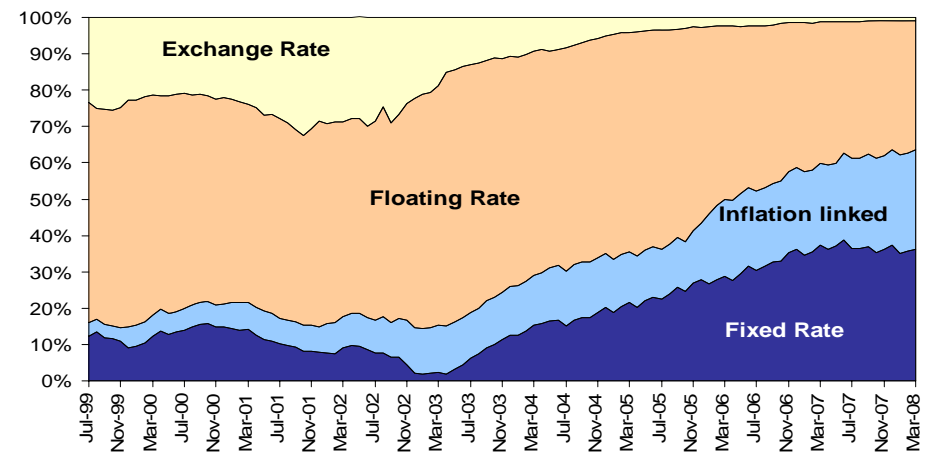
■ Inflation Linked Bonds:

- ✓ The maturities offered in 2007, with 3, 5 10, 20, 30 and 40-year terms, will be maintained. Depending on market conditions, new maturity dates may be introduced with the objective of aiding in creation of additional medium and long-term interest curve points;
- ✓ With regard to NTN-C, which are referenced to the Wholesale Price Index - IGP-M, there will be no issuance according to the 2008 borrowing strategy.

■ Floating Rate Bonds:

- ✓ Net redemptions of floating-rate bonds - LFT are forecast, with the new bonds issued maturing in the third month of each quarter;
- ✓ The average issuance term of these bonds is expected to be greater than the average 2007 term of DPF .

DPMFi Composition



Source: National Treasury

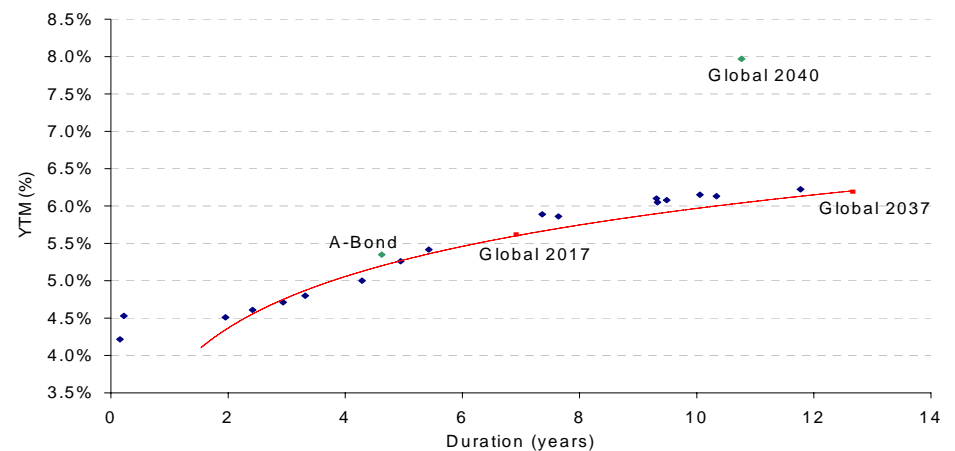


Annual Borrowing Plan 2008

External Federal Public Debt (DPFe) Strategy

- Maintenance of the early redemption program, together with structured operations, both aimed at correcting distortions in the external interest curve;
- Creation and improvement of benchmarks in the external market interest rate term structure; and
- The total issuance in dollars in 2008 will not be superior to the sum of the external debt principal maturing (approximately USD 2.8 billion) and the external debt principal repurchased in the early redemption program during the year.

Yield Curve



Source: National Treasury

Brazil: The Big Picture

Macroeconomic Overview

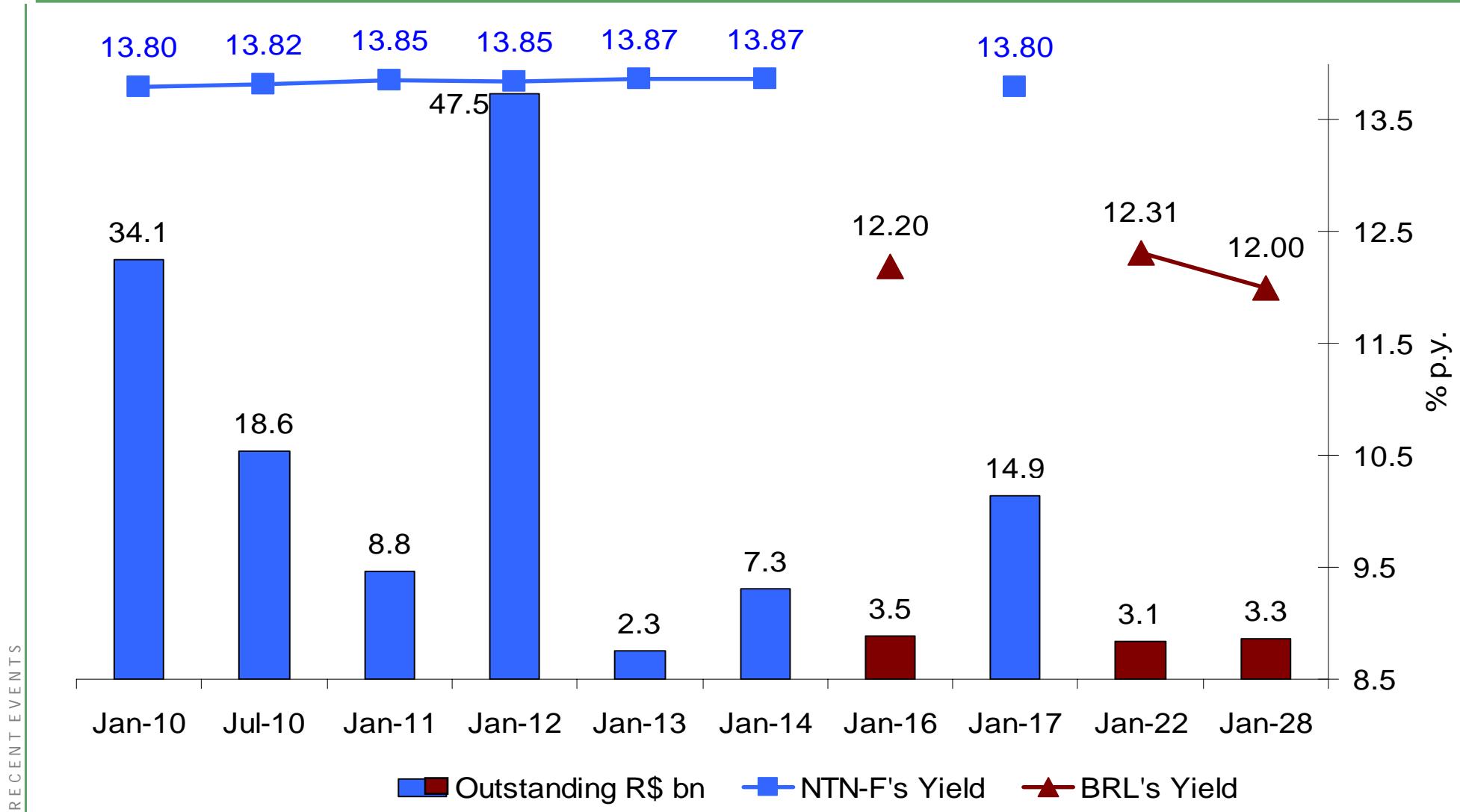
Public Debt Management

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- Recent Events

National Treasury Performance - *Big opportunities merge in the domestic market*

Domestic medium term fixed rated bonds (NTN-F) and BRL's - Outstanding and yields (as of April-08)

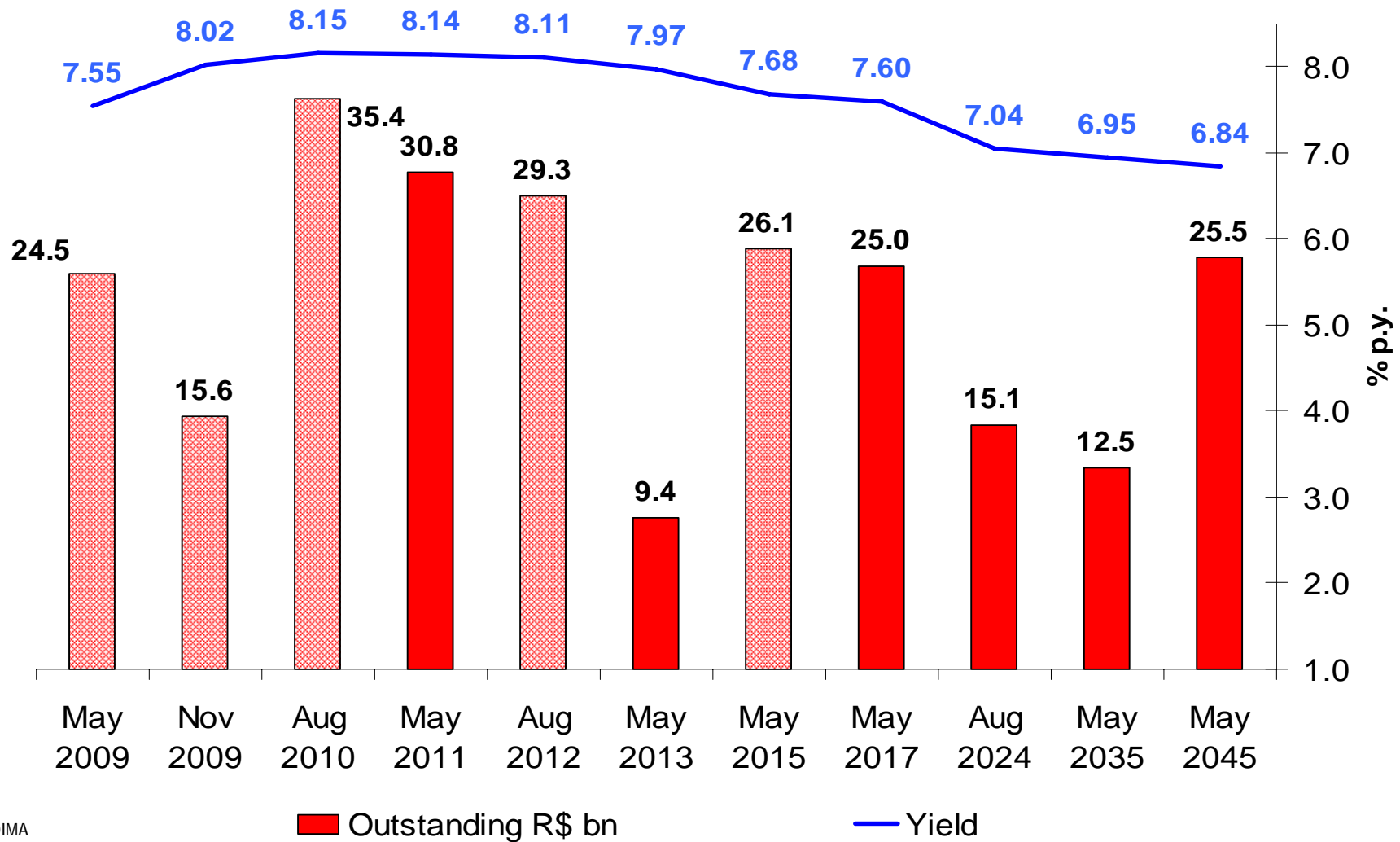


Source: ANDIMA and Bloomberg



National Treasury Performance - *Big opportunities merge in the domestic market*

Inflation linked bonds (NTN-B) - Outstanding and yields (as of April-08)



Source: ANDIMA

Note 1: The May/09, Aug/10, May/11 and May/15 NTN-B are not issued anymore.

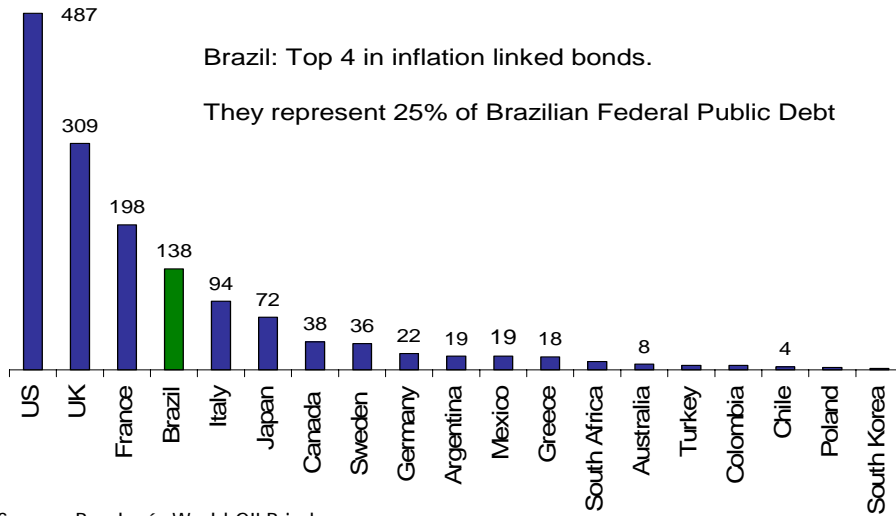
Note 2: There are NTN-Bs with other maturities.

RECENT EVENTS



National Treasury Performance - *Big opportunities in the domestic market*

GILB index - Domestic Inflation linked Bonds

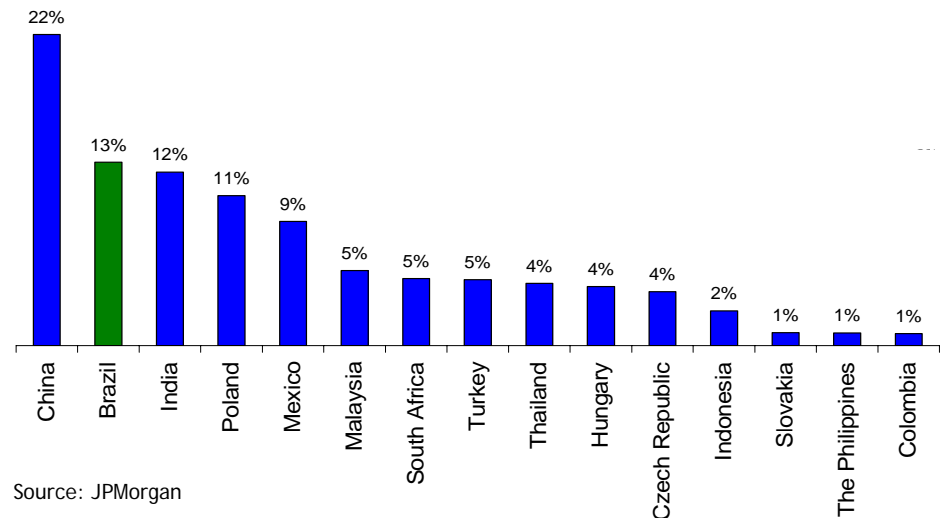


Source: Barclay's World GILB index

- Brazil represents about **13%** of EM market cap in domestic fixed rate bonds, according to GBI-EM Broad index.

- Brazil represents about **11%** of world's total market cap in domestic inflation-linked bonds, according to Barclay's World GILB index, and it is the most representative EM country, far ahead of the second one.

GBI-EM Broad Index- Domestic Fixed Rate Bonds

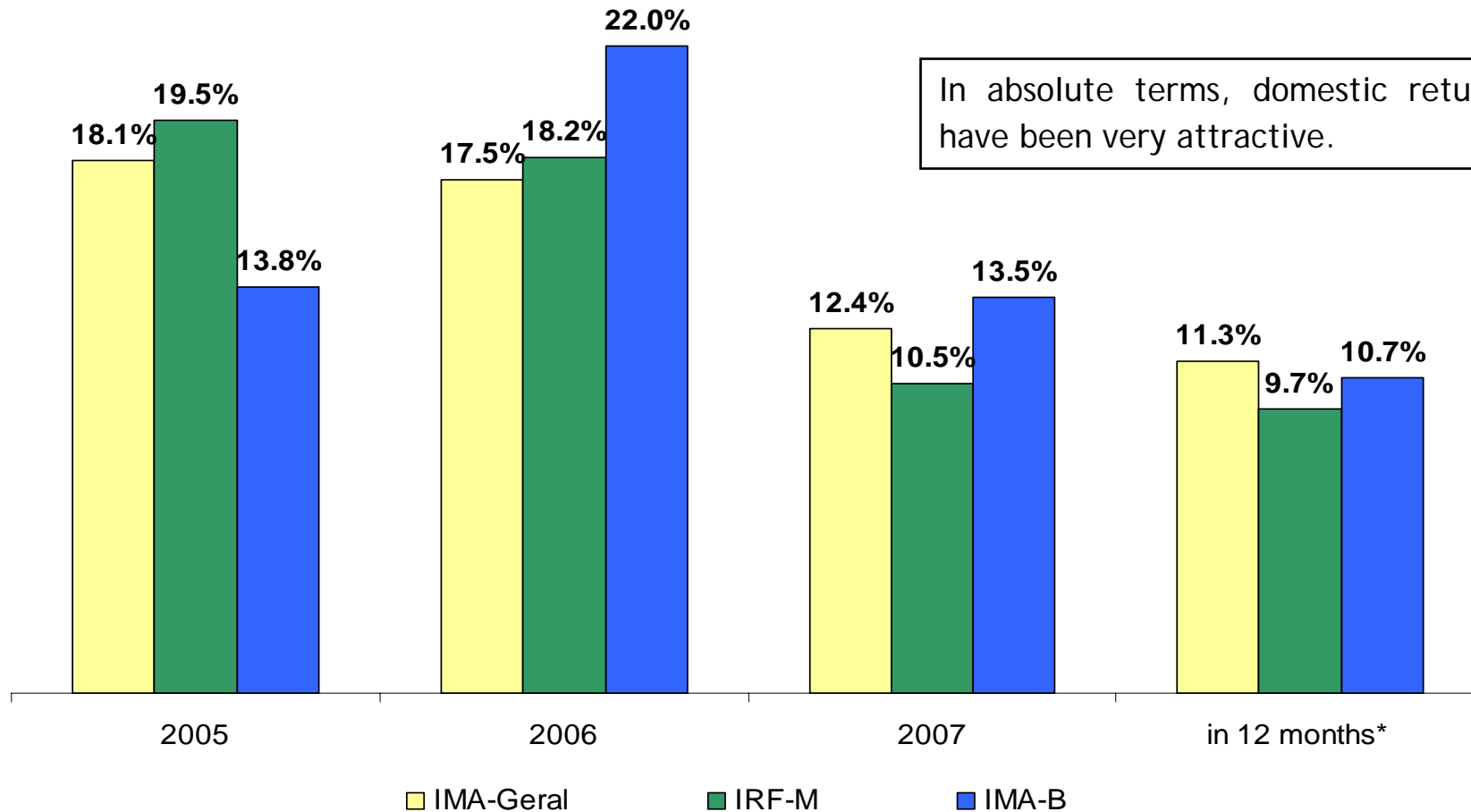


Source: JPMorgan



National Treasury Performance - *Big opportunities in the domestic market*

IMA - Open Market Index: Public bonds return - in USD



RECENT EVENTS

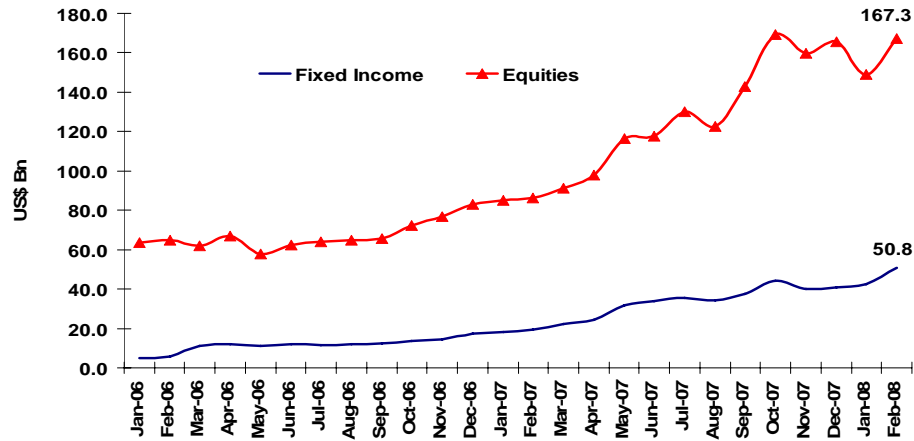
Source Andima *As of March/08

- The IMA-Geral index replicates the whole domestic public debt portfolio.
- The IRF-M index replicates the fixed rate domestic public debt portfolio.
- IMA-B index replicates the inflation linked domestic public debt portfolio.



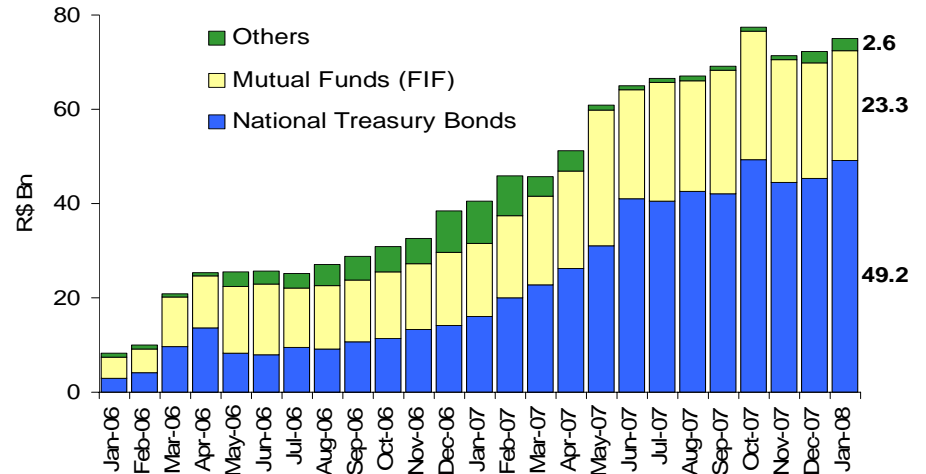
Foreign investors stance in domestic market

Foreigner's Investors: Portfolio level (US\$ bn)



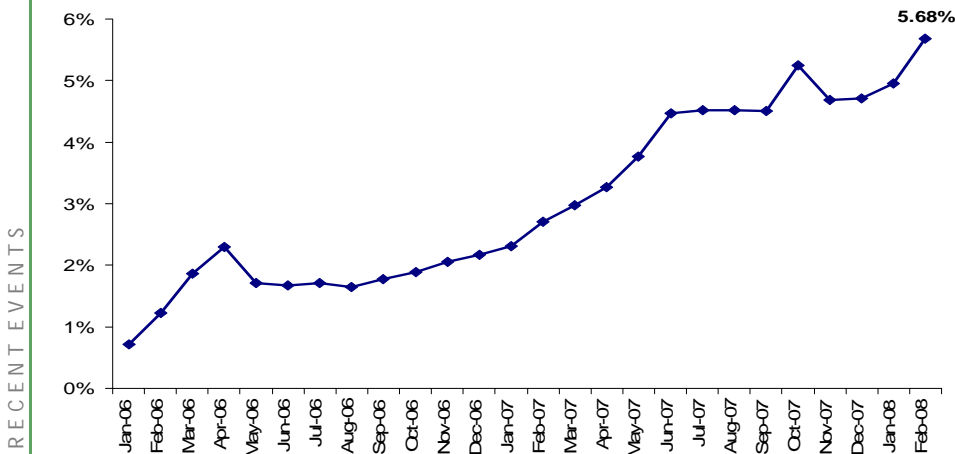
Source: CVM

Foreigner's Investors: Distribution among Fixed Income instruments (R\$ bn)



Source: CVM

Foreigner's Investors: Domestic Debt Participation



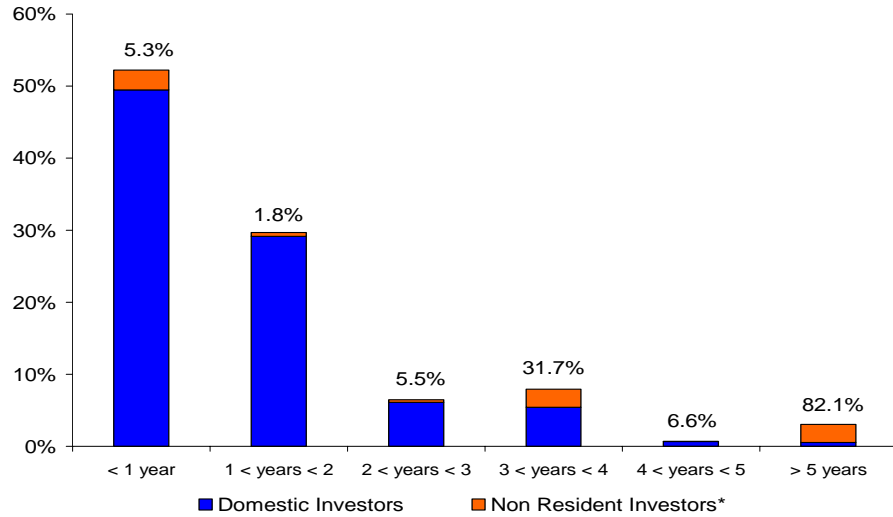
Source: CVM and SELIC

RECENT EVENTS



Foreign investors stance in domestic market

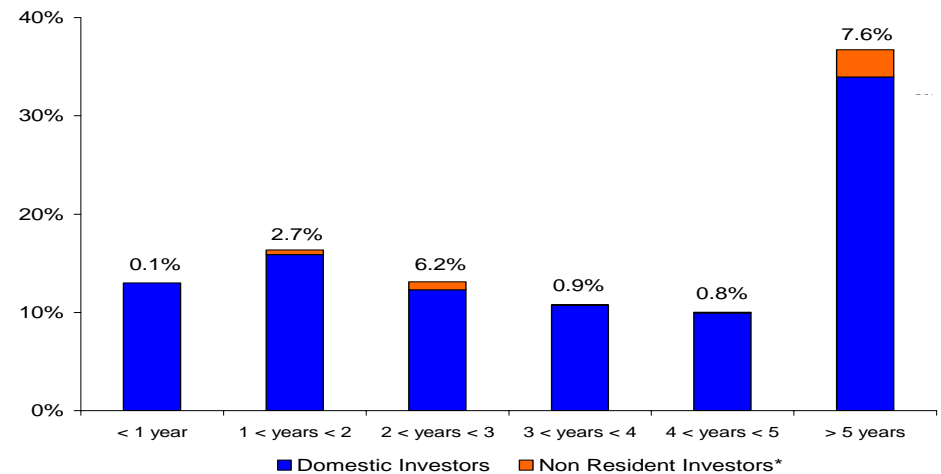
Maturity Distribution of Fixed Rate Bonds



Source: SELIC Feb - 08

* Estimated

Maturity Distribution of Inflation Linked Bonds



Source: SELIC Feb - 08

* Estimated



Measures to Improve the Market

Stimulating Primary and Secondary Markets

■ Dealers

- Additional performance targets for specialist dealers.
- Specialist dealers will have to post daily, twice a day, bid and ask proposals for each one of the negotiated bonds.
- Participants will have greater knowledge of prices and offered bonds, providing more transparency and improving the pricing of the bonds in the primary and secondary markets.

■ Improving Liquidity and Transparency

- Screen Trading and the COMPARE system.
- Disclosure, by Andima, of the deals set in SISBEX, with delay of just 15 minutes.

Recent FX Measures

IOF impact in public bonds performance

- The measures aimed at recovering part of the tax loss due to the end of CPMF;
- The 1.5% IOF tax on incoming FX transactions related to investments in the local fixed income market aimed at discouraging short-term capital;
- The impact in long-term capital is small due to the regressive IOF in time; and
- Exports are incited by the IOF exemption and the elimination of the FX coverage on exports operations.
 - The underlying idea of these set of measures is to create incentives to exports and to stimulate the trade balance.

**For additional information access
Brazilian National Treasury site:**

www.tesouro.fazenda.gov.br

Or contact Institutional Relations area:

brazildebt@fazenda.gov.br

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