LONDON

January 2009

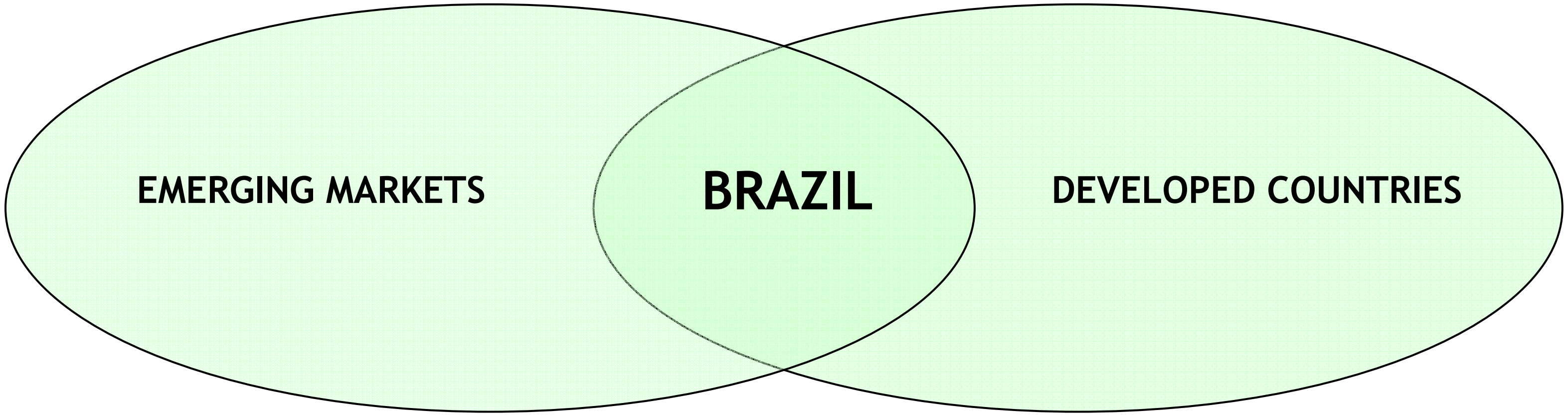
TESOURO NACIONAL

Brazil’s Strengths in a Global Credit Crunch

Agenda

Brazil: Beyond Emerging Markets

- What defines an Emerging market country?
  - Low Policy Flexibility;
  - Political Volatility (headline risk);
  - External Vulnerability;
  - Macro-economic Volatility.
- Brazil was able to address each of these variables over the past years to achieve a position of strength and weather the current financial crisis.



Brazil’s Defenses Against External Shocks

Falling Commodity Prices

Global Deleveraging

BNDES | Public Banks **BCB’s measures to boost credit**

Falling Investment

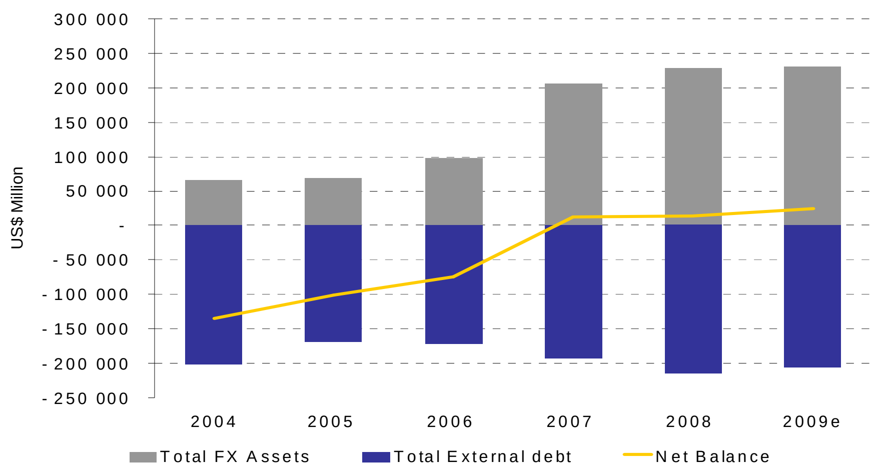
Negative Spillover on GDP Growth

Reduced Credit

Agenda

Reducing External Vulnerability

Brazil Foreign Assets* vs. External Debt



* FX assets includes FX-reserves, Brazilian Credit Abroad and commercial bank assets

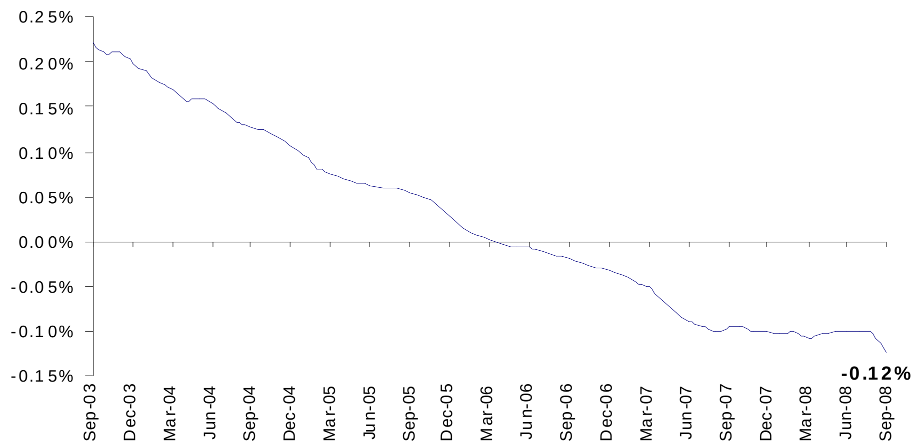
External Public Sector Debt accounts for 39.4% of Total External Debt.

Source: Central Bank

- Brazil is a net external creditor, hence, weaker BRL causes a reduction on the Net Public Sector Debt / GDP (see graph at right).
- The effective floating FX-rate regime provides an adjustment of external imbalances by largely shielding domestic monetary aggregates.
  - Current Account deficit has been financed by FDI.

- Brazil currently has USD 205 bn in FX Reserves – a buffer against external shocks.
  - CB has been active in avoiding FX-Rate volatility, mixing reserves sell off, reserves auctions with repurchase agreement and swap operations.
- US Fed could swap USD 30 bn with Brazil if needed.

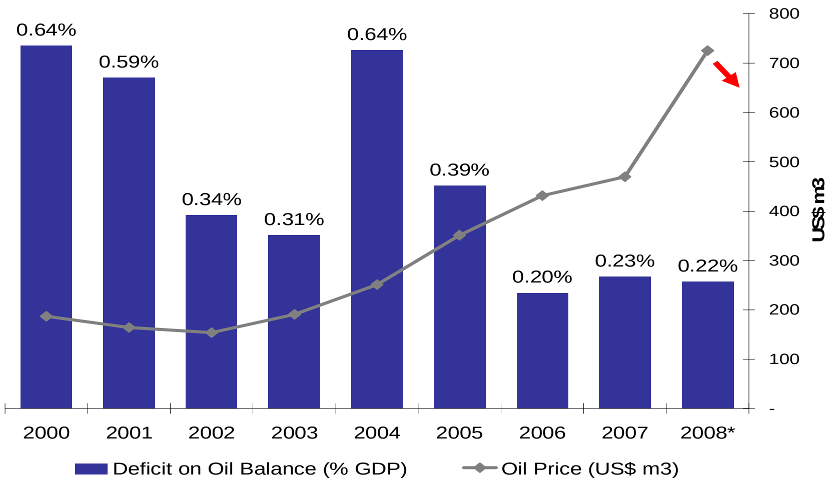
Impact of 1% FX devaluation on Net PS Debt/GDP



Source: National Treasury

Minimizing Exposure to Oil Price Volatility

(Oil imports - Oil exports) as % of GDP



Oil Balance as October

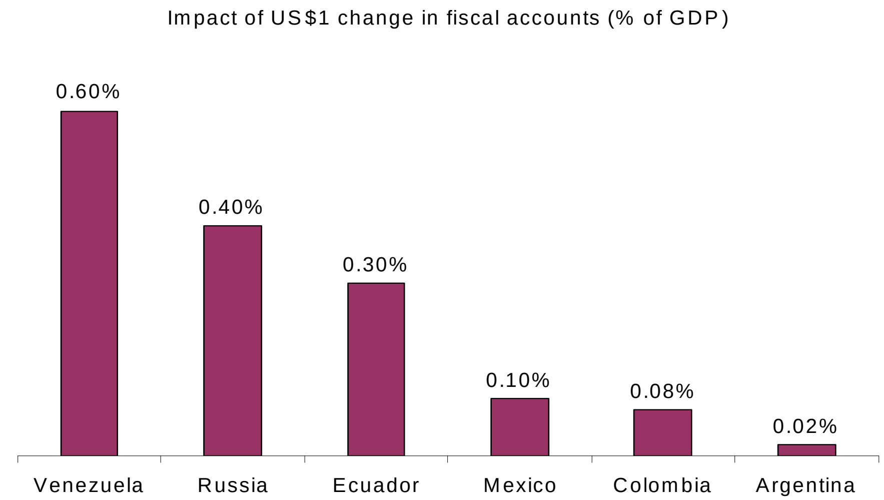
* 2008 GDP - Forecast

Source:ANP

- While Brazil still imports “light” oil and exports “heavy” oil, it is mildly affected by price volatility.
- While prices are falling, 2008 should be even more positive.

- In net terms Brazil has become oil-independent (production vs consumption).
- In the 1990’s, net oil imports reached as high as 4.0% of GDP against 0.22% in 2008.

Impact of USD1 Oil Price Change in Fiscal Accounts as % of GDP



Source: JPMorgan

Note: Brazil is not a net oil exporter yet

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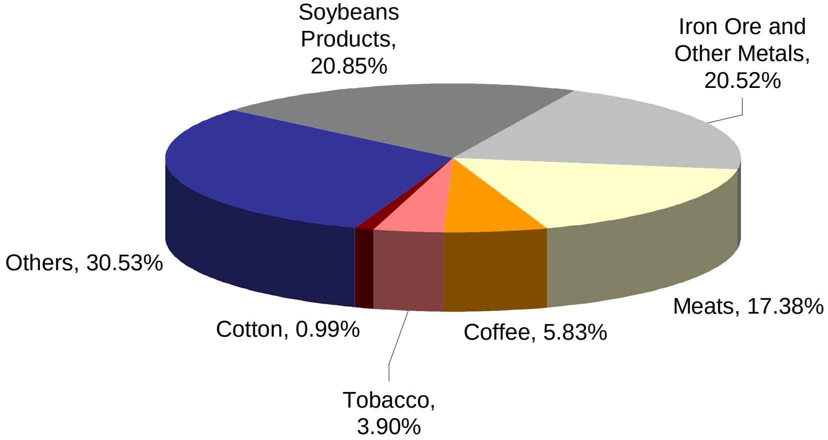
Diversifying Exposure to Commodity Prices

	Primary Products	Intermediary Goods	Manufactured Goods	Other	Total (USD Billion)
2000	22.8%	15.4%	59.0%	2.7%	55.1
2007	32.1%	13.6%	52.3%	2.1%	160.6
Nov-2007[1]	30.4%	13.8%	53.6%	2.2%	
Nov-2008[1]	35.1%	13.9%	48.9%	2.2%	

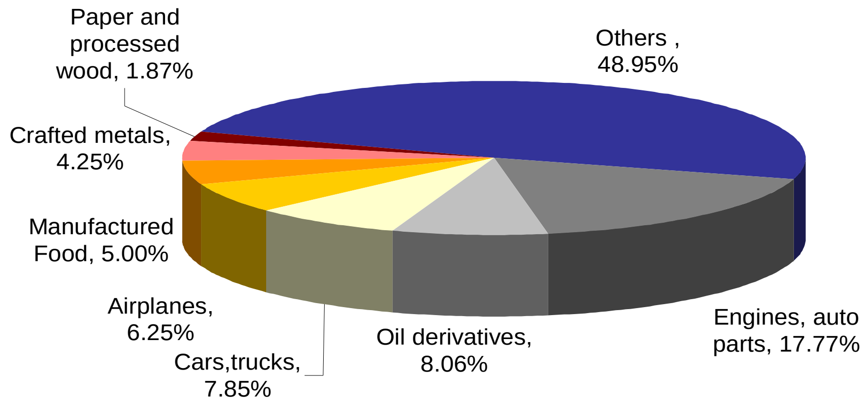
1-Source: MDIC

Primary Products (Nov/2008)



Source: Morgan Stanley

Manufactured Goods (Nov/2008)



Source: Morgan Stanley

Brazil is less exposed to commodities than its Latam peers

- Brazil shows a more diversified export bundle than it's peers in Latin America.

Latin America: % of each country's exports - 2007

	Commodities		Oil	Metals	Agricultural & other
	% of each country exports				
	as % of GDP	*as % of total exports*			
Chile	32.2	77.3	0	54.4	22.9
Venezuela	29.4	96.8	93.1	3.7	0
Ecuador	24.5	77	59.8	0	17.2
Peru	19.7	76.9	8	62	6.9
Argentina	12.8	59.9	12.1	2.7	45.2
Colombia	8.2	55.7	24.4	17.3	14
Brazil	6.5	53.5	8.3	17.7	27.5
Mexico	6.4	21	16.5	0.8	3.7

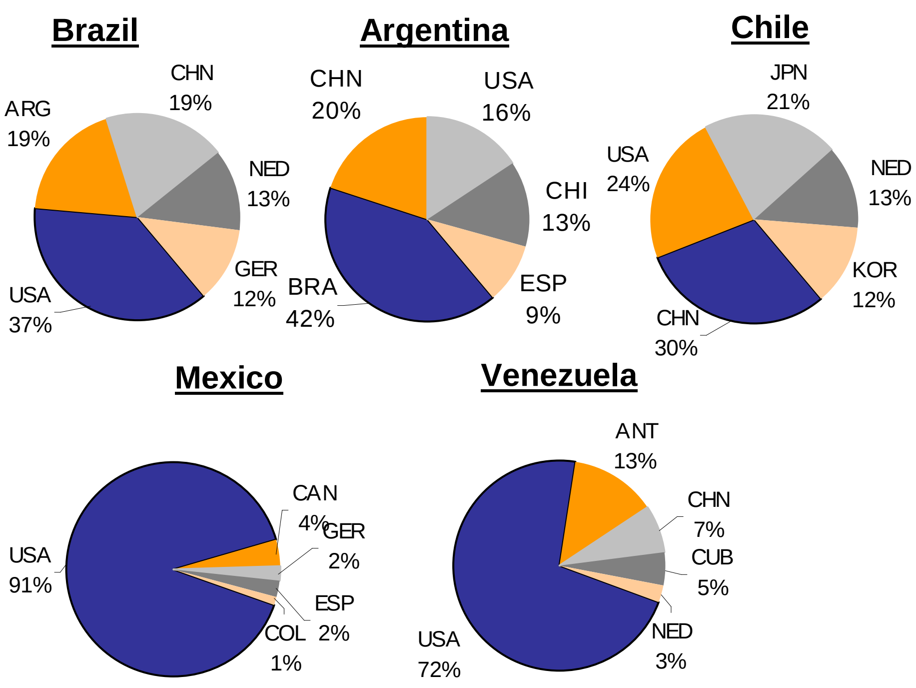
Source: JPMorgan, WTO,IMF, Moody's, Citigroup

- Brazil's mitigants to downturn in global commodity prices:
  - The cumulative terms of trade gains have been far from massive (just 5 percent in the six years to 2007)*;
  - The trade linkage is moderate, as merchandise exports account for 15% of GDP;
  - The country has accumulated substantial international reserves to ease pressure on the BRL (Real), if necessary;
  - The potential pass-through of a depreciation of the local currency to inflation will be limited by the fundamental changes in inflationary expectations.

* IIF report. Trade gains defined by exports prices - imports prices

Brazilian exports are diversified

Top 5 Export Partners – 2008



	2000		Jan/Oct 2008	
	US$ Bn (FOB)	Share (%)	US$ Bn (FOB)	Share (%)
EU*	15.35	27.84	39.84	23.52
USA	13.19	23.93	23.66	13.97
Argentina	6.24	11.32	15.43	9.11
China	1.09	1.97	15.13	8.93
Mexico	1.71	3.11	3.60	2.13
Chile	1.25	2.26	4.03	2.38
Japan	2.47	4.49	5.16	3.05
Venezuela	0.75	1.37	4.23	2.5
Others	13.03	23.71	58.29	34.41

**Between 2000 and 2008, 12 new countries joined the EU*

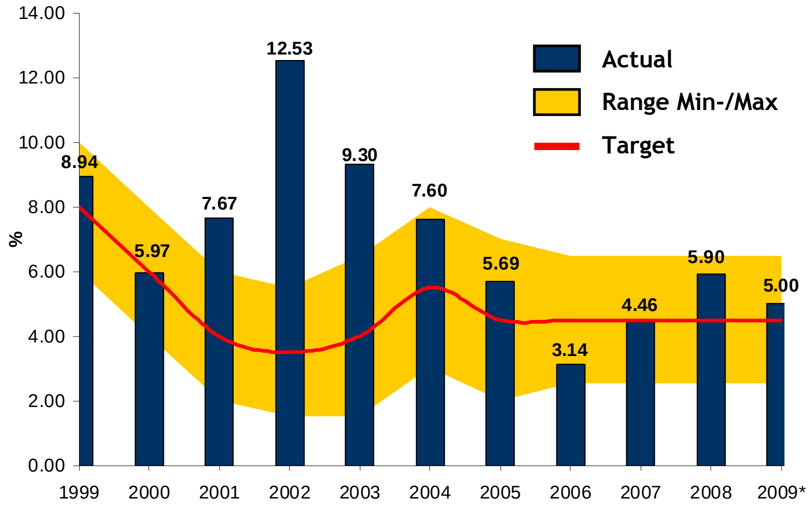
- Top 8 exports destinations have been reduced from 76% to 66% since 2000;
- In absolute terms, the export volume has increased to all of these countries

Source: MDIC, DB

Domestic Prices Stability

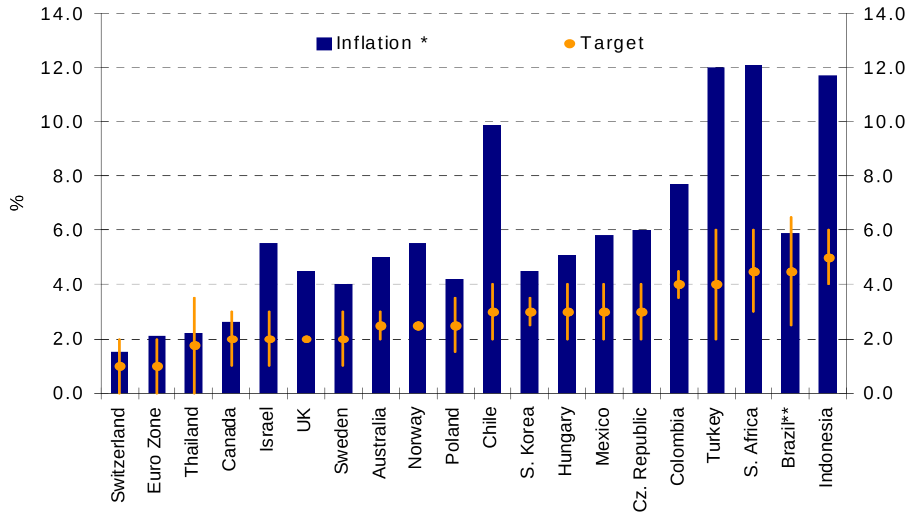
- Brazil's diligent inflation target regime has enabled the country to erase the inflationary culture of the 1980's and 1990's and create the environment for more fundamental policies.
- The country was able to maintain its inflation levels within the target bands for most of the time, even amidst very challenging global environment

Brazil's Historical Inflation Performance



Source:Central Bank * Market Expectations FOCUS

Recorded Inflation vs. Target Band

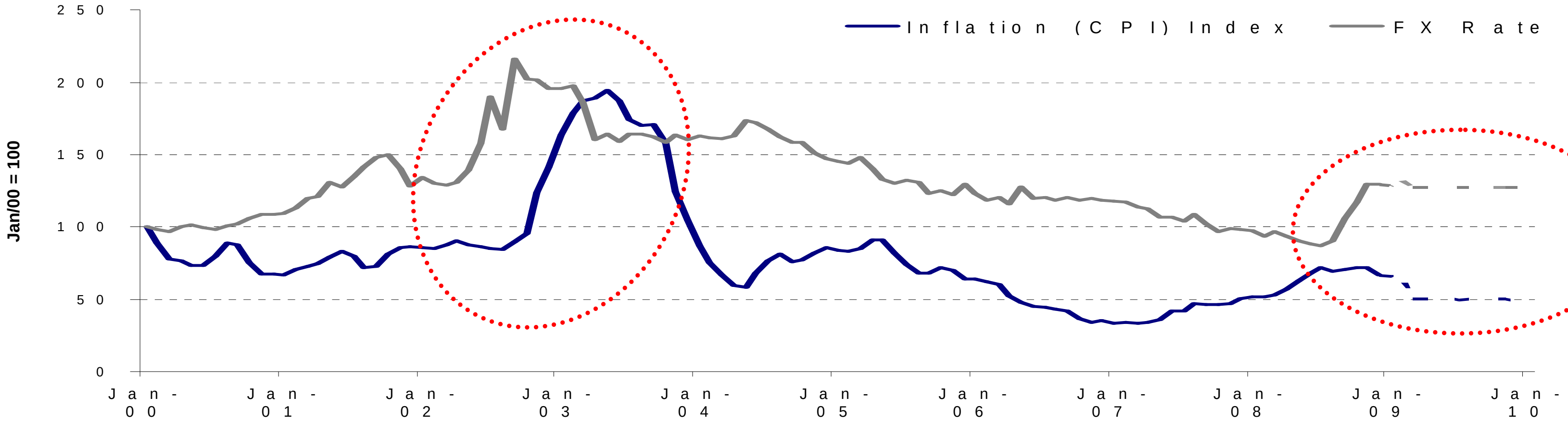


Source: The Economist As of Oct-Nov 08 * CPI, **year end

Maintaining International Competiveness

- Central Bank operational autonomy and long-term commitment to inflation targeting has reduced the risk of significant pass-through from FX volatility into inflationary expectations

BRL vs. Inflation Expectations



Source:Central Bank

For Apr-09/Jan-10 Market Forecast (Focus)

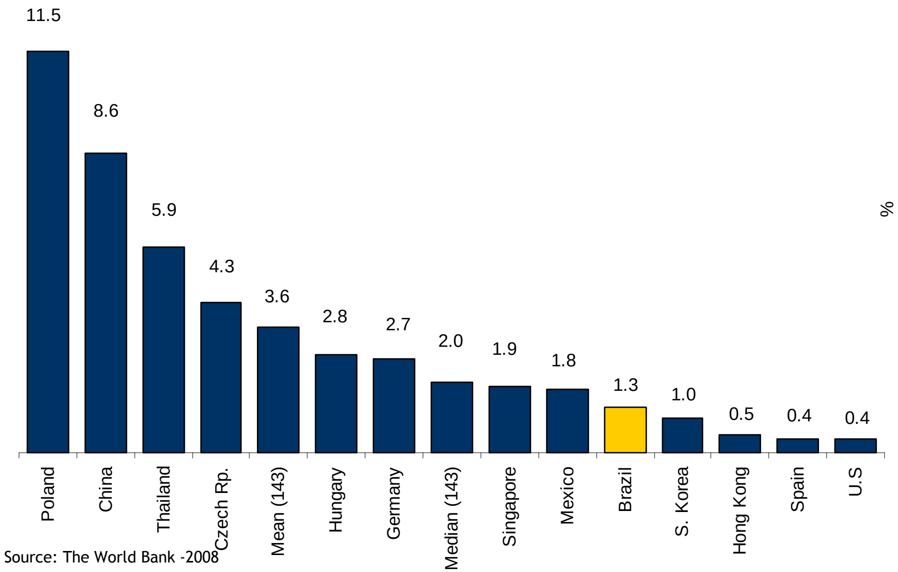
- The elimination of the risk of FX volatility pass-through has additional benefits, such as:
  - Increase Brazilian exports competitiveness in international markets
  - Gives Central Bank flexibility for counter-cyclical interest rate moves
  - Significantly less disruptive for GDP growth and overall economic fundamentals

Agenda

Solid Financial System

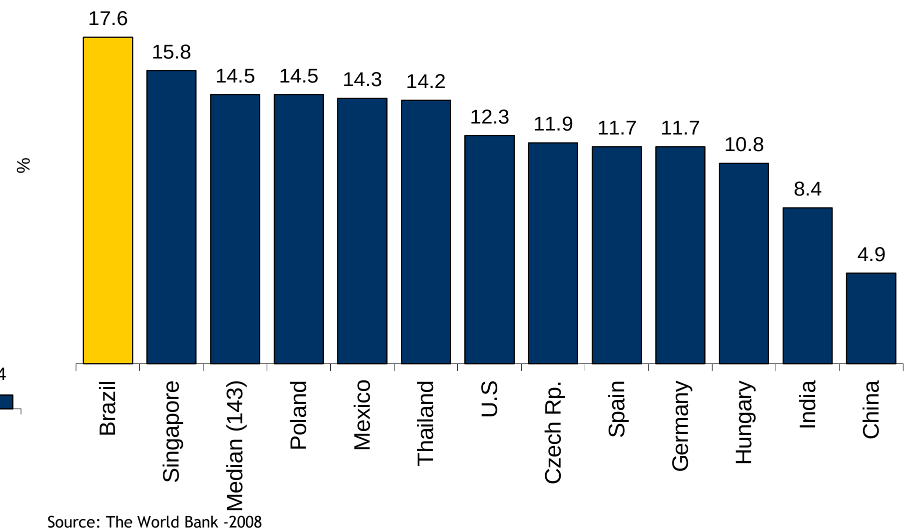
- The Brazilian banking system is well capitalized:
  - Brazil sets a minimum requirement for capital ratio of 11%, higher than Basel's (8%)
  - Brazilian financial institutions have, on average, 18.8% BIS ratio (2008e)
  - Among commercial banks, none is below 11% of capital ratio

Average Non-Performing Loan Ratio (% Portfolio)



Source: The World Bank -2008

Basel Capital Ratio – 2007



Source: The World Bank -2008

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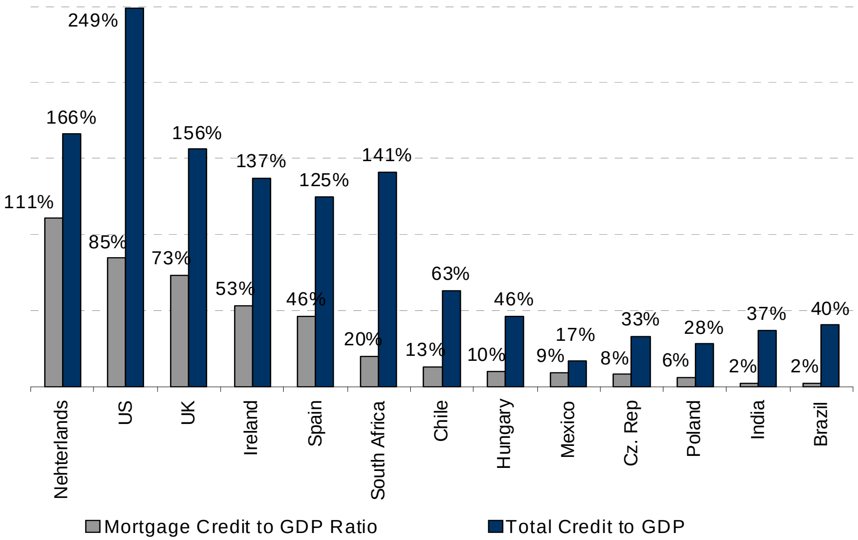
Sound Real Estate Market

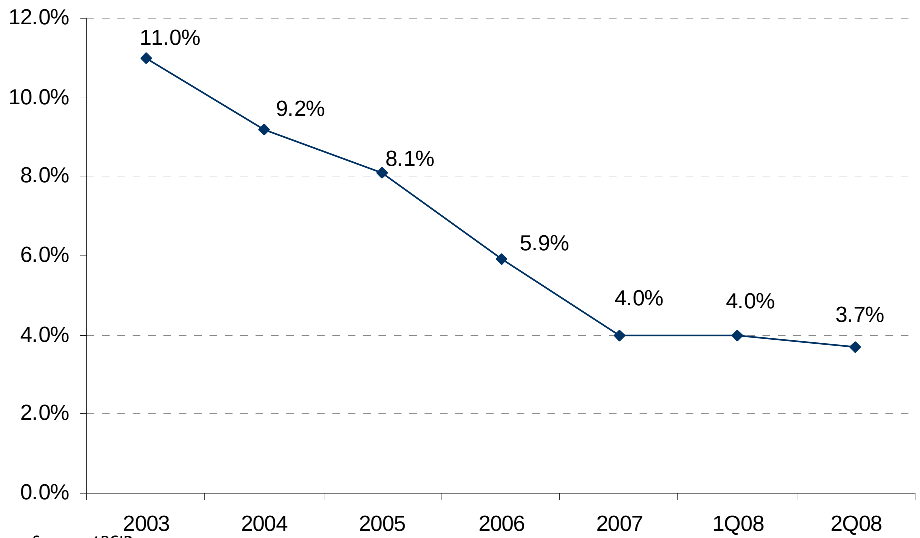
- The boom in the Brazilian mortgage market in the recent years was based on structural improvements, such as:
  - Change in regulation to facilitate the recovery under tenant default
  - Increase in general savings enabled more money to be channeled to this market
  - Lower real interest rate environment and stable inflation outlook
- However, mortgages are still a small percentage of GDP (2%)

Credit and Mortgage (% of GDP) 2008



Source: Global Property Guide, Central Banks

Mortgage Default Ratios (Brazil)



Source: ABCIP

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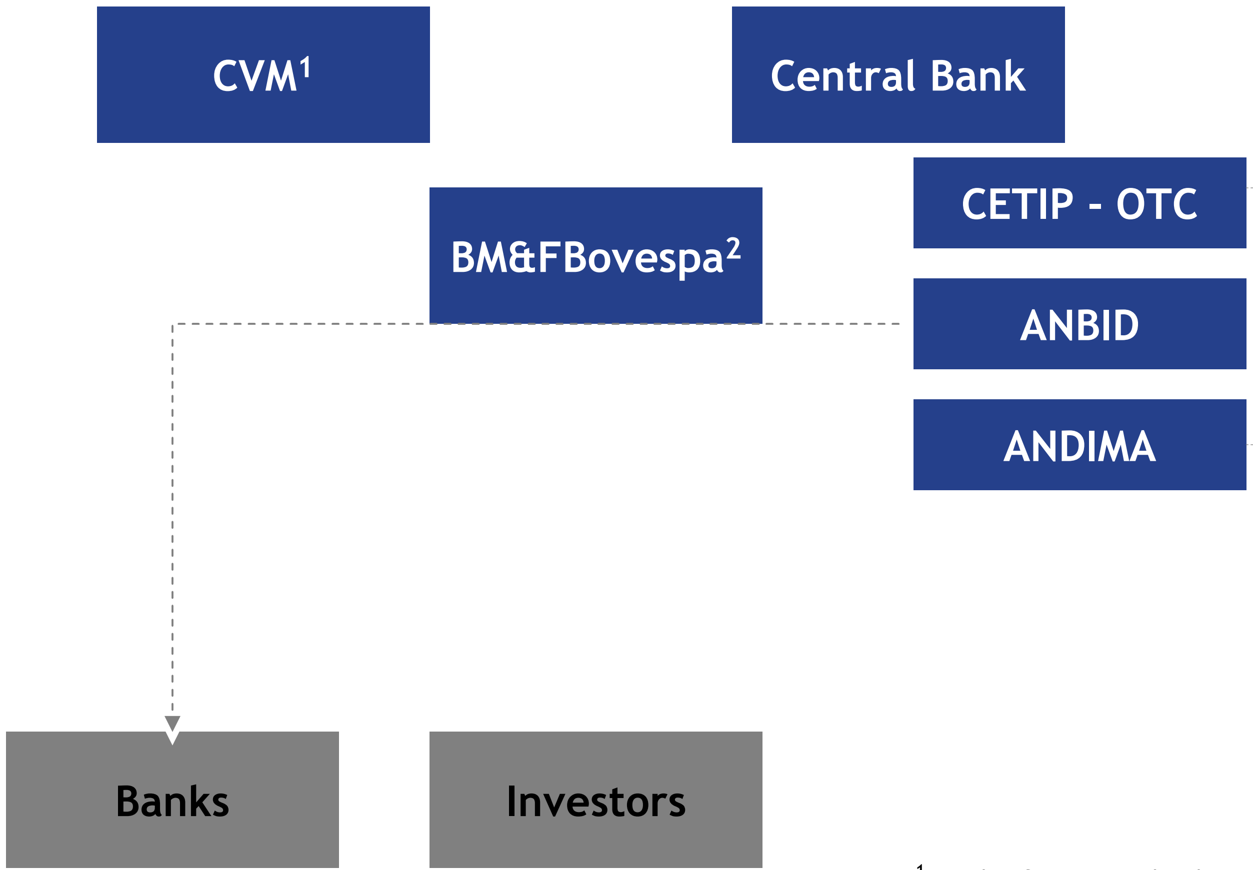
Sophisticated Regulatory Infrastructure – moving ahead

- CVM instruction # 475 (Dec-08) obliged corporate to present more detailed information on derivatives
- Through auto-regulation, local derivatives are registered in real time.
- These will be very important when G20 start to implement stronger regulation across markets



Custody: BRL 2.2 tr in **derivatives**, credit notes, fixed rate instruments

Turnover: BRL 34 bn /day

Clearing: BRL 17.3 bn /day

Self-regulated institution

Associates: 240 entities, including banks, brokers, asset managers, other

High Transparency, internet-based disclosure

[1] Brazilian Securities and Exchange Commission; [2] Stock Exchange

Source: Andima, Cetip, BM&FBovespa.

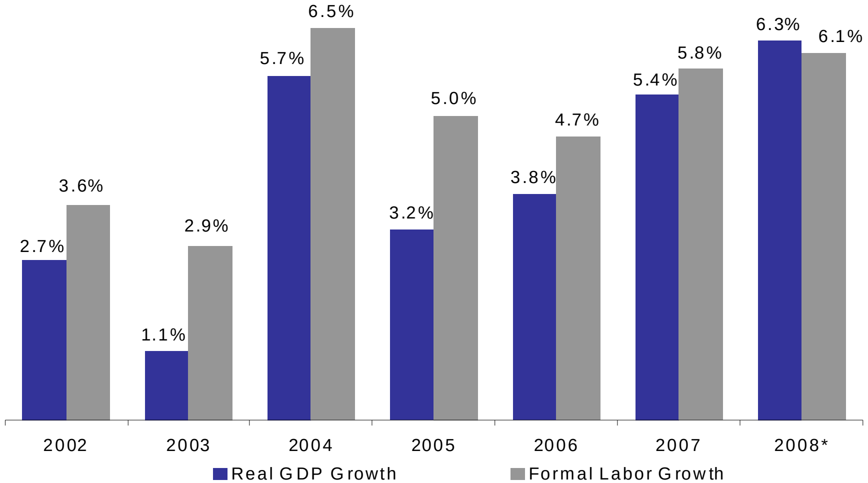
Agenda

1. Introduction
2. Enhanced External Resilience
3. Strengths of the Financial and Regulatory Systems
4. **Prudent Fiscal Policy**
5. Debt Management
6. Addressing the Challenges
7. Appendix

Fiscal Flexibility

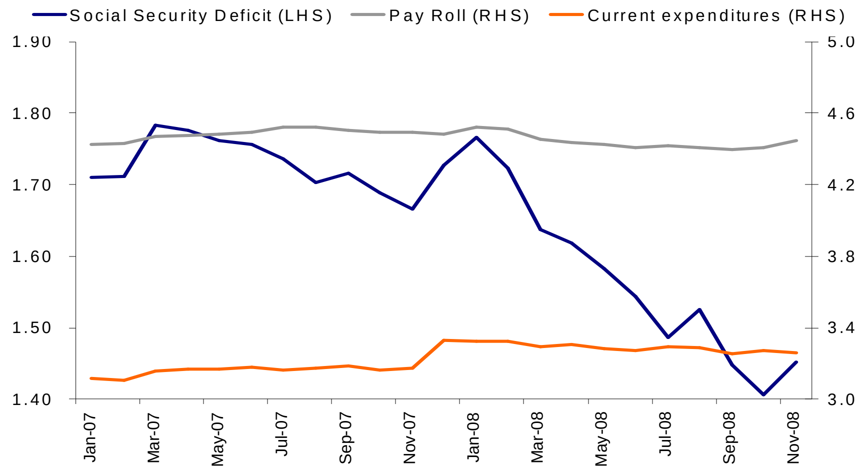
- Gov't revenues are not as cyclical as in the past due to:
  - Increased formal employment
  - Broader tax base
  - More efficient tax collection (IRS + Social Security revenues)
- In contrast to other countries, Brazil has not announced reduction on its primary surplus target
- Current expenditure is contained
  - Social security and payroll are being curbed
- Public and State-owned enterprises investments have been increasing: PAC initiatives

Formal Employment* vs. GDP (Growth rate - %)



Source: Ipeadata, Central Bank *As of Nov-08 for Labor and 3Q for GDP - 12m accumulated

Central Gov't Current Expenditures, Payroll and Social Security Deficit (%GDP)

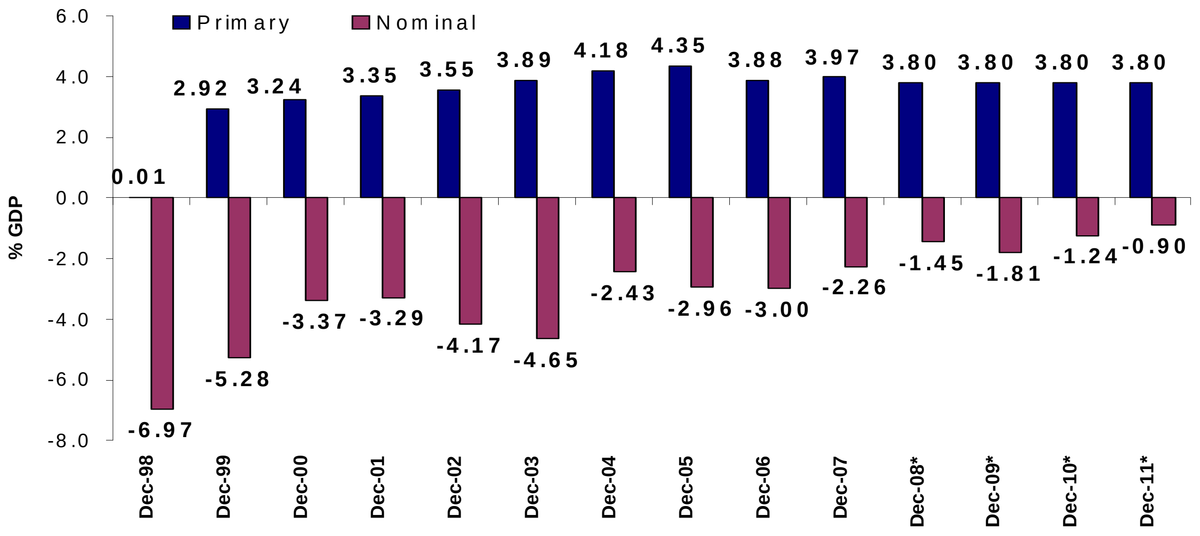


Source: National Treasury Note: 12 months accumulated

Fiscal Flexibility – a close look for 2009

- 2009 budget keeps the Primary Balance in 3.8% of GDP.
- As of Dec-08, Gov't has promoted temporary tax cuts of BRL 8.4 bn
- The Legislative already cut the budget for 2009, revising growth parameters and pointing to a reduction of **BRL 11.7 bn in overall expenditures.** After the Budget Law approval in the Congress, the Executive publishes a financing programming decree with details in expenditures cuts conditional on the revenues performance (updated and revised every two months)
- This is consistent with the downward trend in Debt/GDP ratio

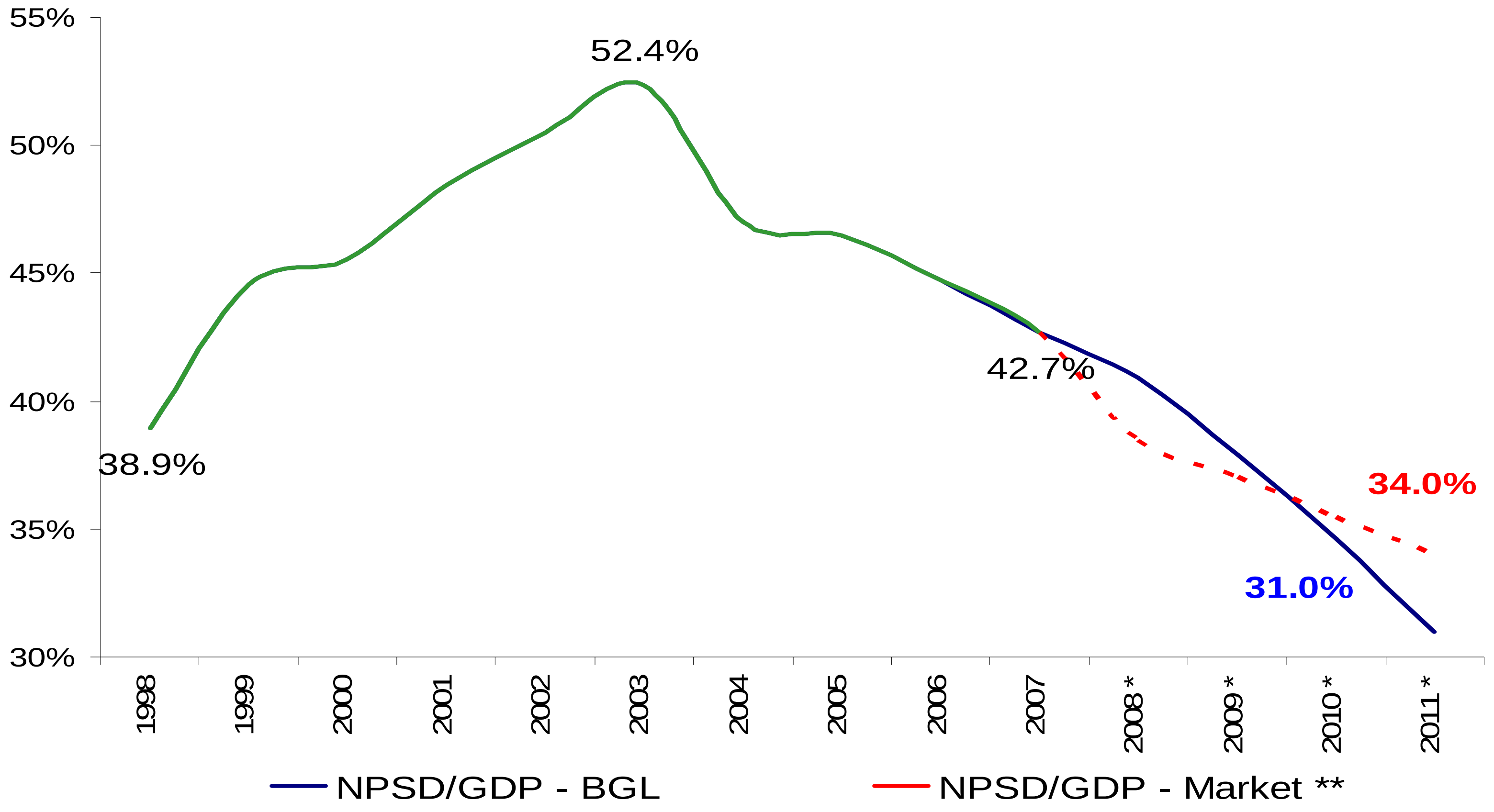
Primary and Nominal Balances (% GDP)



Source: Central Bank * Market Forecast (Focus)

Improved Debt Dynamics

Net Public Sector Debt (NPSD) / GDP



Source: Up to 2007, Central Bank. From 2008 on Draft BGL 2009 and Market Expectations (Focus of 01/02/2009) Note: BGL- Budget Guidelines Law

* Expectations. Note: As of Nov-08, NPSD/ GDP was 34.92 %

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

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Agenda

Significant Improvement in the Debt Profile

Annual Borrowing Plan

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 and 2009

Federal Debt (DPF) Indicators*

Indicators	2003	2004	2005	2006	2007	Nov-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**	**1,374.4**	1,360.0	1,420.0
Average maturity - Federal Outstanding Debt (months)	39.0	35.3	33.3	35.5	**39.2**	**42.3**	42.0	46.0
% Maturing in 12 months	30.7	39.3	36.3	32.4	**28.2**	**25.3**	24.0	27.0
Share of DPF (%)								
Fixed rate	9.5	16.1	23.6	31.9	**35.1**	**29.4**	29.0	32.0
Inflation Linked	10.3	11.9	13.1	19.9	**24.1**	**26.4**	25.0	29.0
Floating rate	46.5	45.7	43.9	33.4	**30.7**	**33.2**	31.0	34.0
Exchange rate	32.4	24.2	17.6	12.7	**8.2**	**9.7**	7.0	9.0
Others	1.4	2.2	1.8	2.0	**1.9**	**1.4**	1.0	3.0

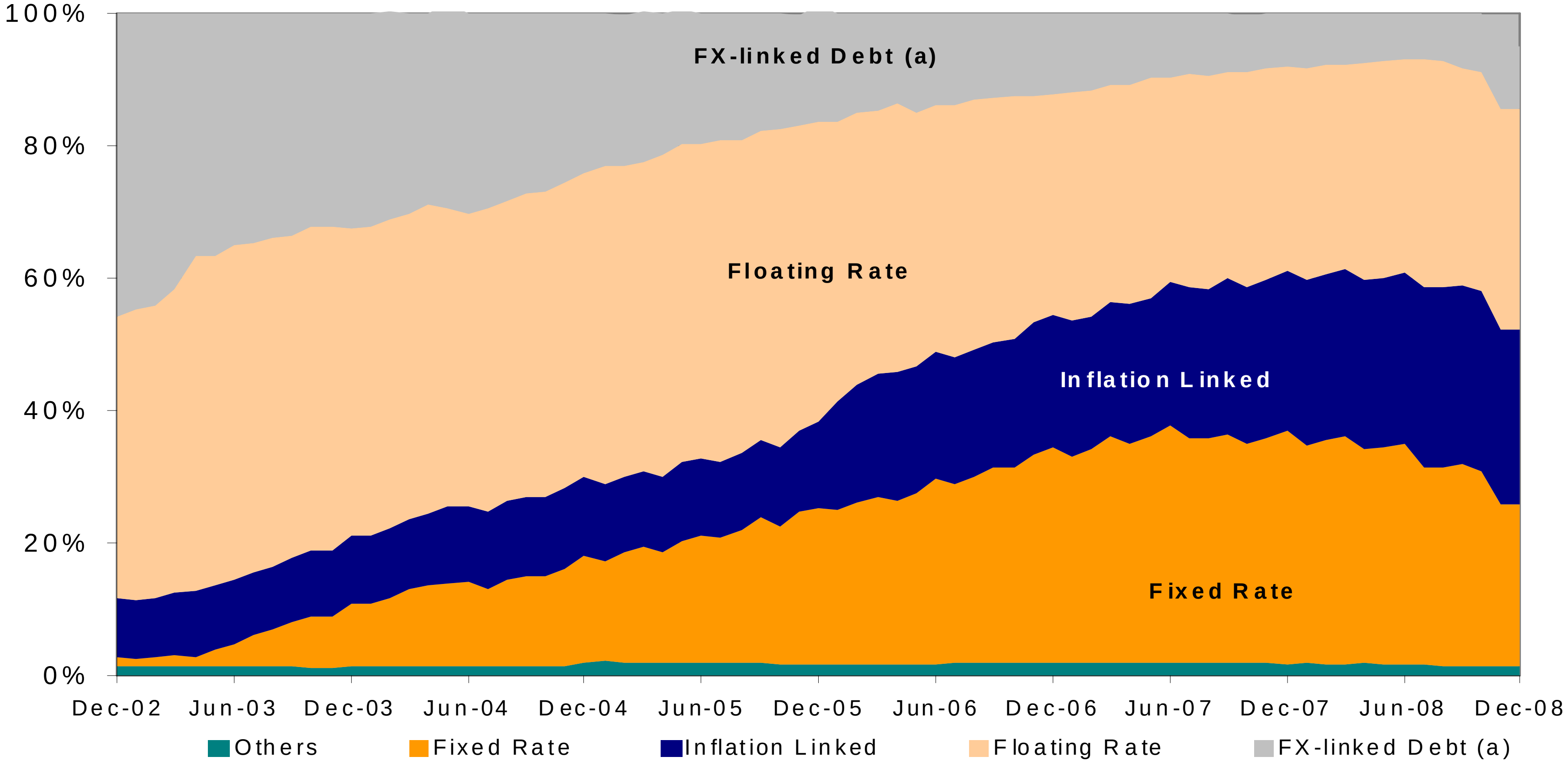
* It includes the domestic debt (R$ 1,244.4 billion - Nov/08) and the external debt (R$ 129.9 billion - Nov/08) under the National Treasury responsibility

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

Significant Improvement in the Debt Profile

Brazil Total Debt Distribution



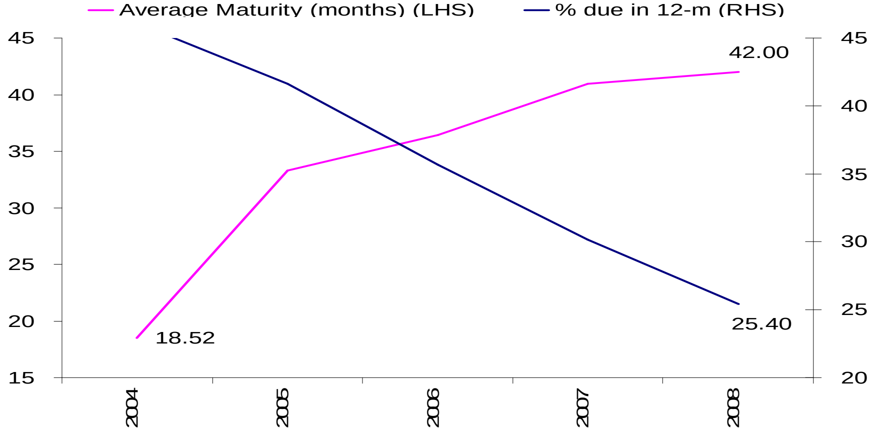
(a) Includes External Debt+ Domestic FX-linked debt

Note: Domestic FX-linked debt was 15.6% as of Dec-02 and was reduced to 1% in Dec-08

Source: National Treasury

Significant Improvement in the Debt Profile

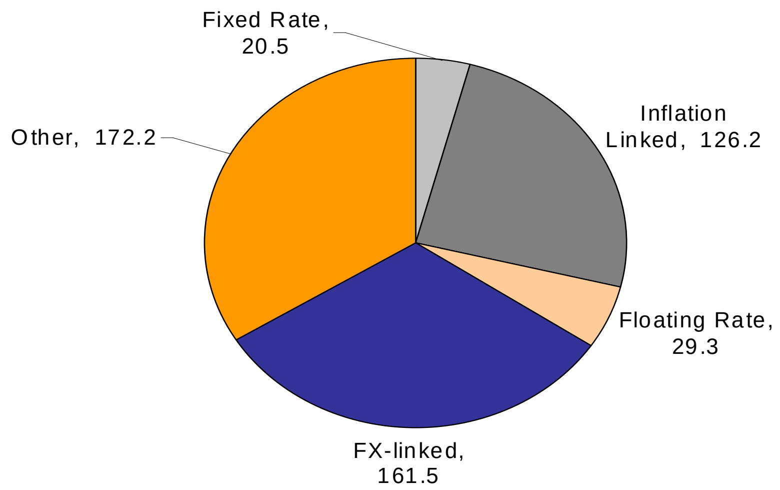
Domestic Debt Maturity Profile and Av. Maturity



Source: National Treasury

- Total Debt Average Life switched from 55 months as of Dec-05 to 68 months as of Dec-08

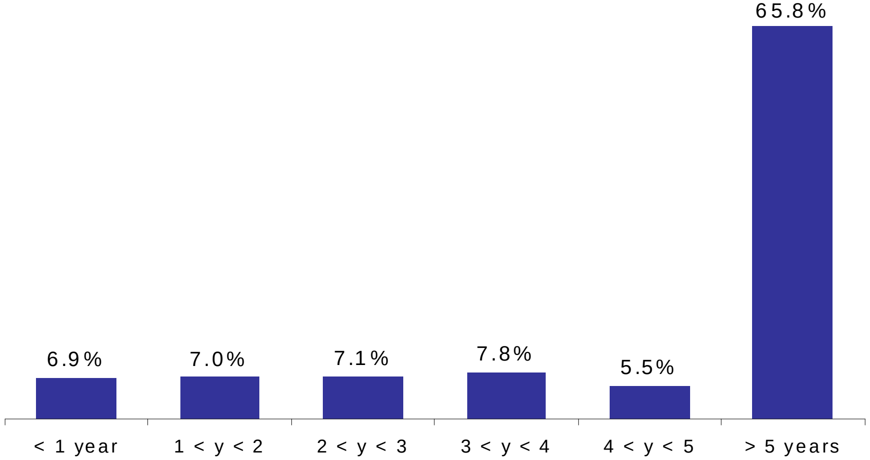
Domestic Debt Average Life (months) –Nov/08



Source: National Treasury

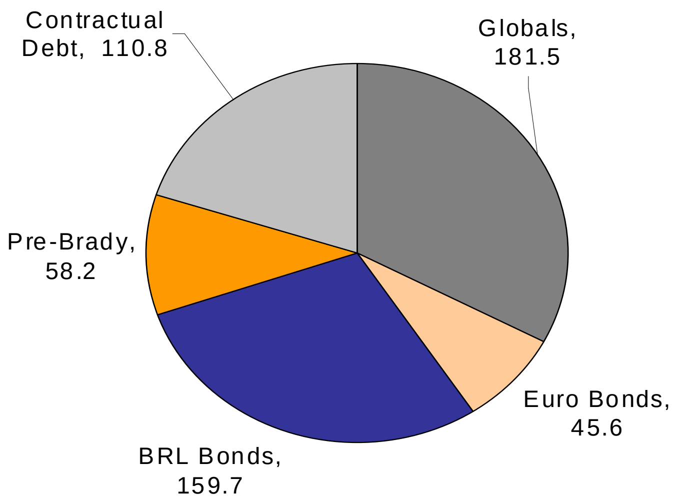
Significant Improvement in the Debt Profile

Brazil External Debt Maturity Profile – Nov/08



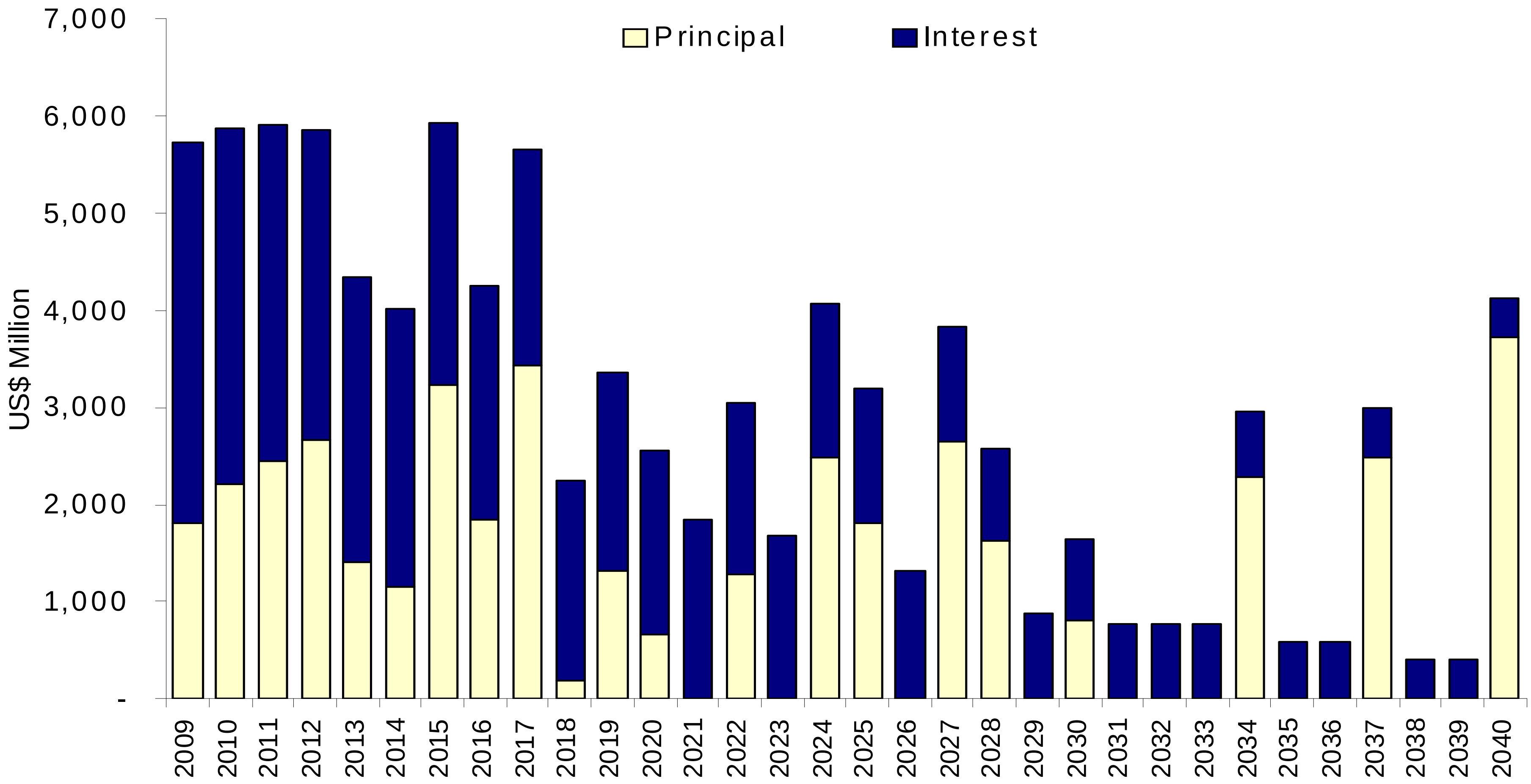
Source: National Treasury

External Debt Average Life (months) –Nov/08



Source: National Treasury

International Bond Amortizations Schedule 2009/2040



- The Treasury had already bought around 53% of foreign currency to face 2009 maturities

Source: National Treasury

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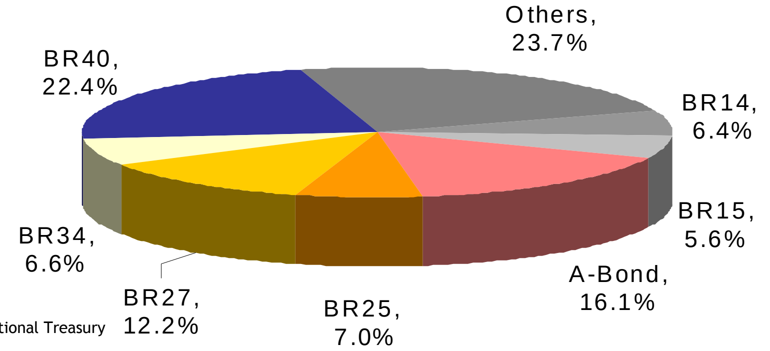
Debt Management Initiatives

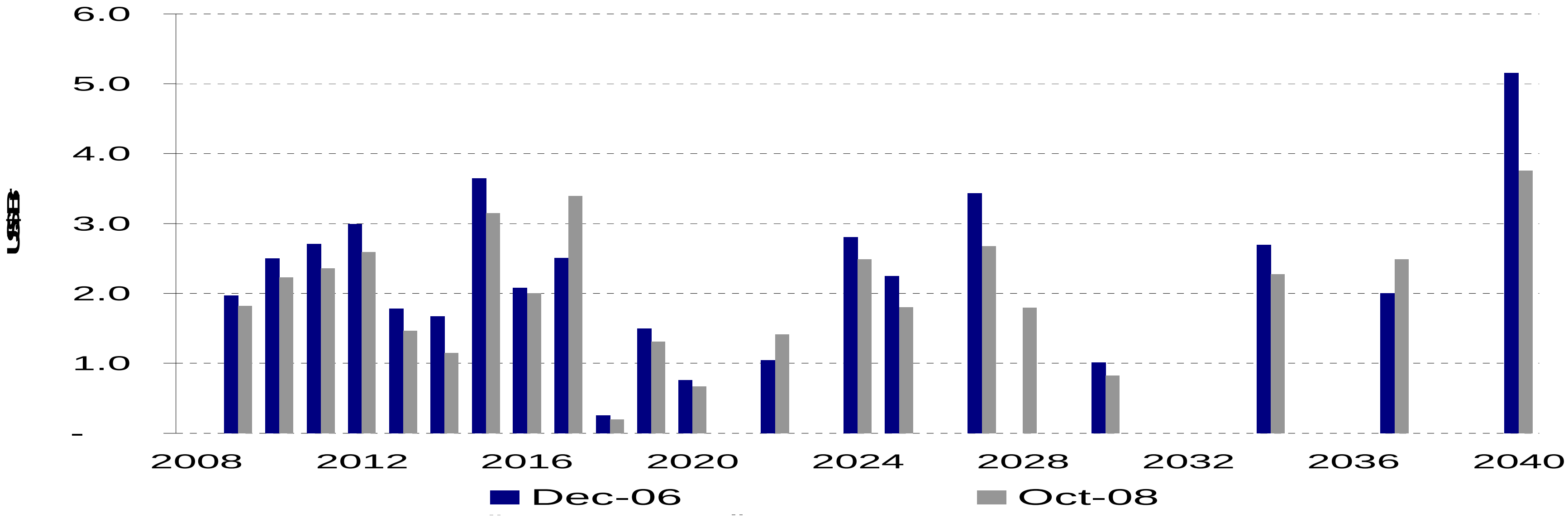
- Since 2005, Brazil was able to redeem USD 43.6 billion in the External Debt
- The buyback generated a reduction in the flow of interest payments on External Debt through 2040 of USD 11.7 billion (NPV)

Buyback - 2008



Source: National Treasury

Early Redemption Program and new issuances - Impact on the outstanding External Debt' 2007 / 2008 (US$ million)*



Source: National Treasury *From January - 2007 up to October - 2008

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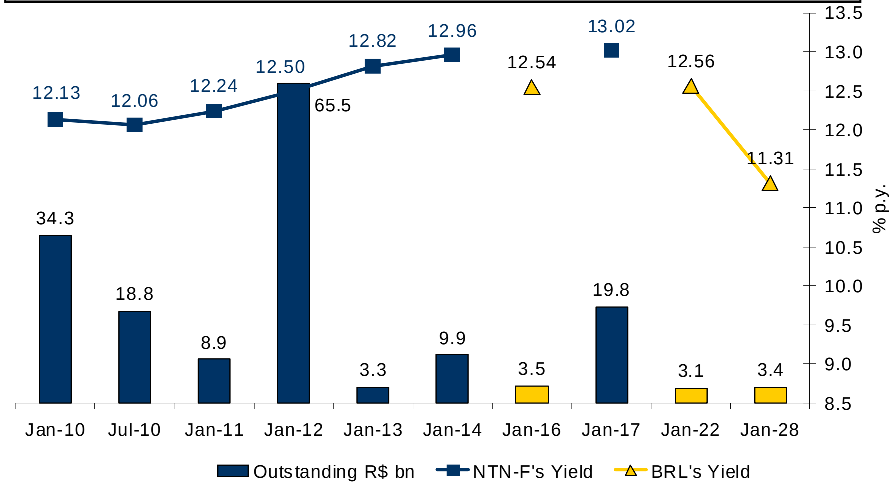
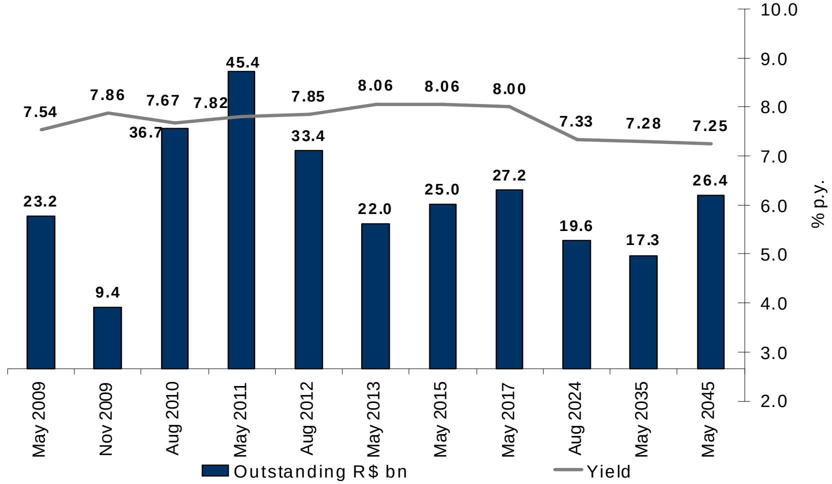
Brazil Domestic Markets

Domestic fixed rated bonds (NTN-F) and BRL's (global)

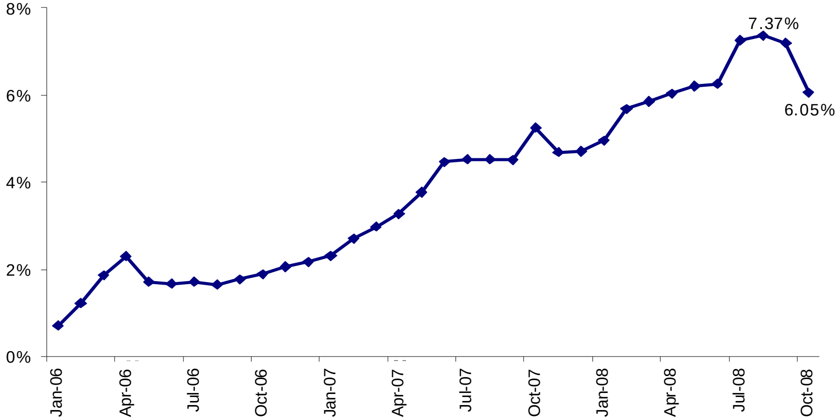


Inflation linked bonds (NTN-B)



Source: Andima, as of Jan-9th

Foreigner's Investors: Domestic Debt Participation



Source: National Treasury, CVM,Selic

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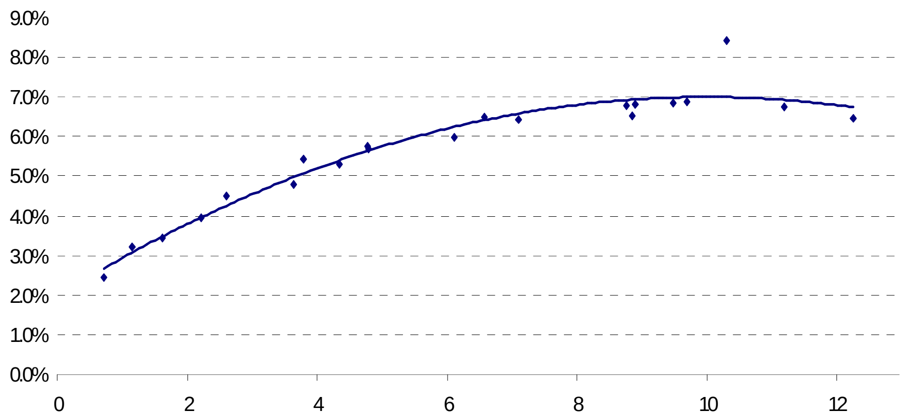
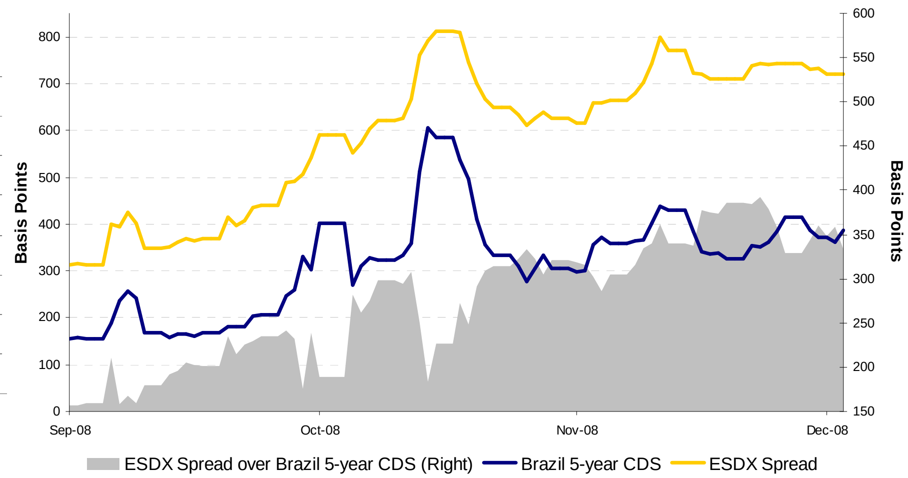
Secondary Market Performance

Brazil USD Yield Curve

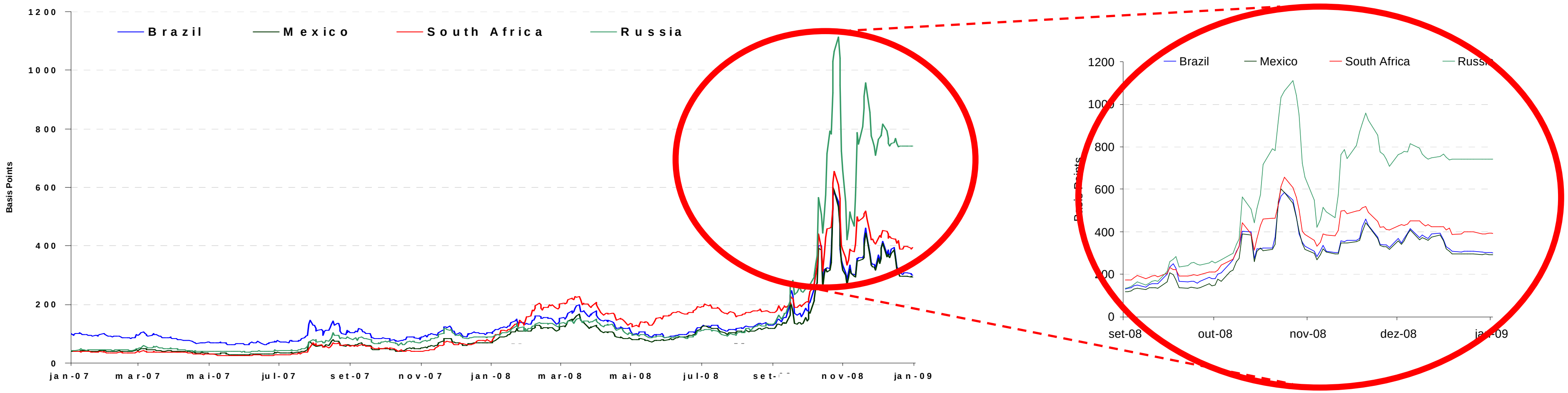


Source: National Treasury and Bloomberg

Brazil Performance vs. Emerging Markets Index



Select Emerging Markets CDS-5y Performance



Brazil's Investor Relations Initiatives

BEST[1] Event

- Created to systematically promote the Brazilian financial and capital markets to the international investor community
  - Joint effort of the National Treasury, Central Bank, BM&F, Bovespa, CVM, CBLC, Andima
  - Comprised of roadshows, seminars and other activities in the main financial centers around the world

[1] BEST- Brazil: Excellence in Securities Transactions (www.bestbrazil.org.br)

Institute of International Finance (IIF) Report

- Assessment of 30 key borrowing countries in Investor Relations and Data Transparency Practices.
- Measures:
  - Staff reachable through website
  - Reciprocal links between government agencies
  - Investors able to register for website subscription
  - Regular investor conference calls
  - Regular self-assessment of investor relations activities.
- Release (Apr-08): Based on the combined score, Brazil has individually become the first country to score 38 out of 38 in prioritized terms in both IROs.

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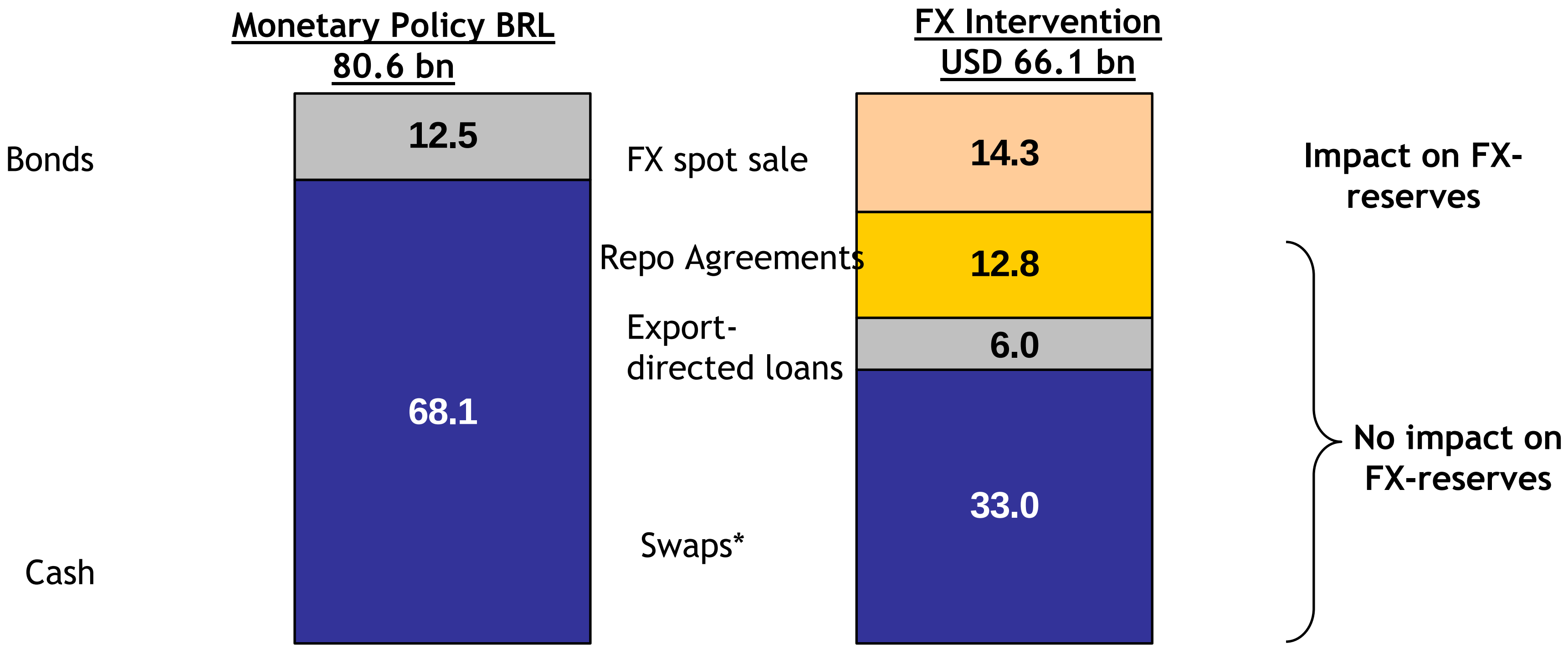
7. Appendix

Proactive Measures to Contain the Effects of the Credit Crisis

- Brazil has been successfully proactive, and yet cautious, in addressing the impacts of the global crisis. So far the Government has used monetary policy, as well as direct intervention in the FX market (From Sep-08 to Mar-09):

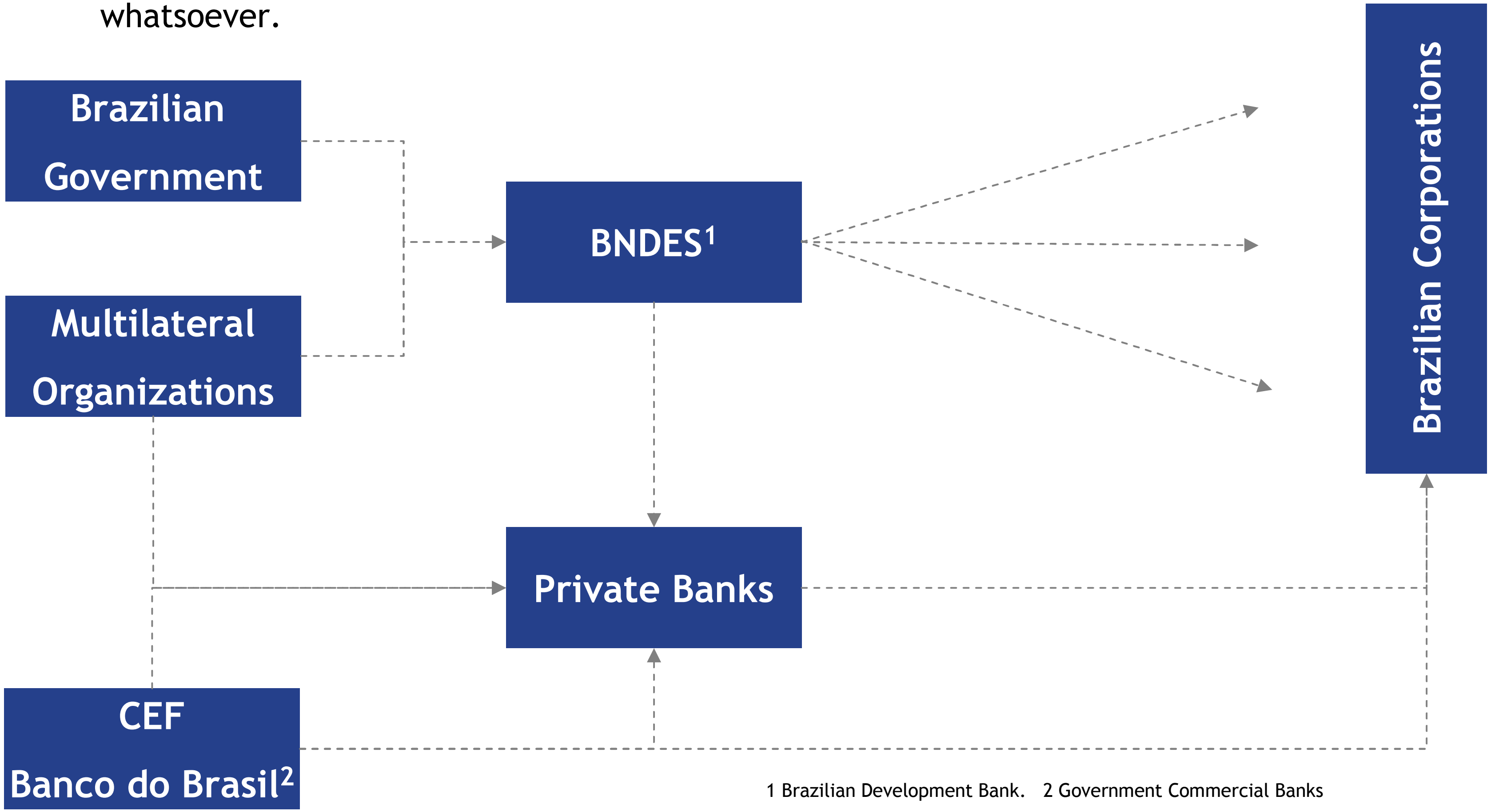


Source: Central Bank

*Swaps+ Reverse swaps not rolled over ** Reserve Requirement

The Role of Public Banks and the BNDES

- BNDES is a lender for companies that are having trouble accessing credit abroad to fulfill their investment projects and export activities
  - Gov't has signaled that no company would be bailed out from operations in derivatives whatsoever.



1 Brazilian Development Bank. 2 Government Commercial Banks

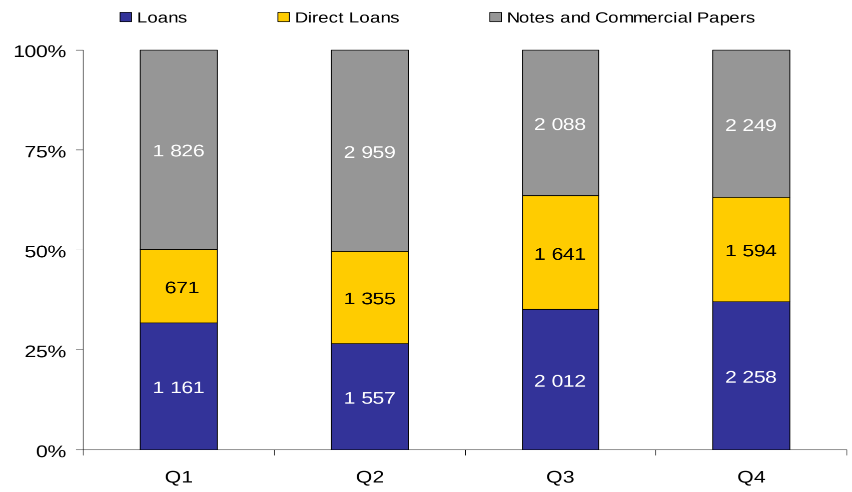
Additional Measures

- The Brazilian Government has been successfully proactive, and yet cautious, in dealing with the consequences of the crisis
- In addition to the measures already put in place, Brazil has a number of tools at hand to address any specific distress, such as:
  - Foreign exchange reserves – gradualism and parsimony
  - Public Banks
  - Some room for counter-cyclical fiscal policy given a wider than programmed primary fiscal surplus
    - Central Bank (CB) has room to cut interest rates, which is not the case for developed countries
      - Already cut 250 bps since Nov-08
    - Government has shown its capacity of cutting current expenditures during crisis in past occasions (BRL 37 bn cut in budget programming decree)
- Brazil has created the fiscal stabilization fund, which will use the excess of primary surplus relative to the targeted 3.8% of GDP for anti-cyclical purposes.
  - In 2008, an equivalent of 0.5% of GDP was transferred to this fund, designed to invest in infrastructure.

Additional Measures

- Gov´t announced a package of tax breaks aimed at alleviating the effects of the global crisis. The move seeks to spark consumption and totals BRL 8.4bn in fiscal revenue abdication
- The fiscal package comprises:
  - income tax breaks for middle class household, cut to 1.50% from 3.00%, in the tax rate on financial operations (IOF) applicable to credits for individuals, reduction in the rate of the industrial tax (IPI) levied on the sale of new motor vehicles for several auto categories
- An housing plan have been under study to ease the activity downward pressure
- Central Bank has announced that will use part of FX-Reserves (up to USD 10 bn) to open a credit line for companies that need to roll over external debt during the credit crunch.

Brazilian Corporate 2009 Maturities – USD mn



Source: Central Bank, as of Feb-09

For additional information access
Brazilian National Treasury site:

www.tesouro.fazenda.gov.br

Or contact Institutional Relations area:

brazildebt@fazenda.gov.br