



Annual Public Debt Report

2003

Number 1

Brasília
January/2004

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Annual Public Debt Report 2003 is a new yearly publication by the National Treasury Secretariat. Total or partial reproduction is permitted provided that the source is given appropriate credit. The original version of this publication is in Portuguese.

Edition: 600 issues

Annual Public Debt Report 2003. 1/Ministry of Finance, of the National Treasury Secretariat, Brasília: Department of the National Treasury, January, 2004, number 1.

ISSN

1. Public Debt 2. Annual Report 3. Management
I. Brazil. National Treasury Secretariat II. Title

FOTO

Solid fiscal policy in 2003 and its intertemporal consistency were instrumental in overcoming the 2002 crisis and the threat it posed to Brazil's economic growth outlook. By committing to responsible public accounts and by honoring contracts, the government paved the way for Brazil to weather the retreat of investors and inflationary risk that emerged in wake of the foreign-exchange-rate shock that took place in 2002. As 2004 begins, fiscal responsibility, inflation control, a floating currency, and important structural and institutional reforms that are boosting efficiency in the productive sector are the key ingredients for the recovery of economic activity and an increase in investment and savings rates. Thus, this year looks poised to be the first in several to deliver significant economic growth. We are confident that this is the way to reduce poverty and income inequality, also on a regional level, to provide all Brazilians with an adequate standard of living.

Under this strategy, the Government will continue to pursue safe economic policies, securing the fiscal conditions needed to reduce the public debt and shore up investor confidence. These measures will allow for a lasting reduction in the government's borrowing costs. The success of these efforts is essential to reduce the risk premium that has burdened the Brazilian economy for so many years.

The Annual Public Debt Report – 2003, hereby presented, reflects such confidence, which has allowed for significant improvement in the composition of the public debt while helping to reduce financial and refinancing risks. Among the achievements, the National Treasury's success in meeting targets established in the Annual Borrowing Plan - PAF 2003 deserves special attention. While these targets seemed ambitious when announced, they have demonstrated the National Treasury's firm determination to take advantage, in a professional and consistent fashion, of all opportunities brought about by the fiscal outlook for the Country and by the development of the public debt market.

The Annual Report reveals in detail the importance of the measures adopted to overcome financial and institutional obstacles to the efficient management of public finances. The National Treasury's actions, along with fiscal policy and reforms, have allowed for a reduction in the economy's vulnerability to external shocks and greatly improved the financial horizon for the public debt, for example by sharply reducing the volume of foreign-exchange-linked securities and by significantly increasing the share of fixed-rate bonds in total debt. The expansion of the Treasury Direct program, for its turn, not only provided savers with new instruments it also represented an additional step in restoring citizenship, by allowing every Brazilian to directly finance the federal Government's actions.

The achievements presented in this Report are, therefore, yet another indication that we are rebuilding confidence in the solidity of the Brazilian economy, allowing 2004 to be a year to reap the fruits of good work.

Antonio Palocci Filho
Minister of Finance

The Annual Public Debt Report is yet another effort to increase predictability and transparency of actions by Brazil's National Treasury. It proposes a retrospective analysis of the management of the Federal Public Debt – DPF in 2003 by providing inputs for the discussion of management objectives, also in terms of human and technological resources, and its results. Previously, such function was executed by the Annual Borrowing Plan – PAF, but now the PAF will exclusively present directives, planning and targets for the DPF management in the year to come.

The year of 2003 presented an important challenge for Brazil's public debt managers, for it was a year of change in government that followed a period of turbulence in the financial markets. However, the government's firm stance on the fiscal and monetary fronts and some signals in the broader economic arena laid the ground to start lengthening the horizon of investment decisions, therefore boosting demand for Brazilian public debt securities. The government's policy allowed for real interest rates to fall to their lowest level in many years, and the country's risk premium hit a five-year low, leading the country's main financial assets to outperform other emerging markets.

When reading this Report, one should bear in mind that the goal of Federal Public Debt management is to minimize long-term financing costs while keeping risk at prudent levels, and to ensure that public debt markets function well. For this purpose, by taking into account the integrated management of assets and liabilities that affect the DPF, the guidelines to keep the percentage of short-term debt at comfortable levels, reduce the share of foreign-exchange-linked and floating-rate debt, raise the share of fixed-rate and price index debt in total debt have been proved adequate.

The 2003 plan, released last February, set the strategies for the DPF taking into account these guidelines, as can be seen throughout this Report, which also brings clear evidence of the quality of the results achieved. These include the reduction of foreign-exchange-linked bonds as a share of the Federal Domestic Public Debt – DPMFi, from 22.4% in December 2002 to 10.8% at the end of 2003; and the increase in the share of fixed-rate debt from 2.2% to 12.4% in the same period. Fixed-rate National Treasury Bills - LTN were issued carrying a maturity of up to 18 months. The Treasury also launched a new series of fixed-rate notes (National Treasury Notes, series F, NTN-F) carrying a 4-year maturity – the longest fixed-rate bonds in Brazil's recent history.

The National Treasury also took steps to boost liquidity in the secondary market of public debt, by expanding investor access to the online sale program of Treasury debt (known as Treasury Direct). Separately, the implementation of a new system of dealers of public debt establishing criteria that assigns greater value to an institution's participation in the primary and secondary markets of Treasury securities helped to build sound competition in the financial sector and increase efficiency and innovation. The Treasury also strengthened contact with the complementary pension system (open and closed funds), which led to the successful placement of securities linked to the Broad Consumer Price Index – IPCA (NTN-B). The expansion of the variety of federal securities, with no detriment to the establishment of new maturity benchmarks, was another factor helping the improvement of the composition of the debt.

As the Secretary of this institution made up of dedicated, high-qualified men and women, I have great satisfaction in presenting the institutional advances of 2003 in the organizational structure, decision-making process and risk-control mechanisms. This improvement effort allows the Treasury to fully benefit from conditions offered by economic policy and international market developments. The result is a smaller burden from the public debt on the economy, and therefore a boost to economic development.

Joaquim Vieira Ferreira Levy
Secretary of the National Treasury

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Summary

The Annual Public Debt Report – 2003 provides a retrospective analysis of debt management. It addresses the evolution of market expectations regarding macroeconomic scenarios, strategies and actions taken, the achievements vis-à-vis goals set in the Annual Borrowing Plan (PAF) – 2003, and institutional advances by the National Treasury in the past year.

In 2003, public-debt management was complementary to fiscal policy, securing the right conditions for the Treasury's financing at the lowest possible cost and prudent levels of risk, with the aim to reduce the public sector's vulnerability. This goal was underpinned – as was explained in the PAF 2003 – by measures designed to boost liquidity in public debt instruments and to increase the predictability of goals associated with public-debt management.

The year 2003 was characterized by a strong change in financial-market expectations about Brazil and its fiscal performance. At the end of 2002, the high degree of uncertainty in the economic environment resulted in the proliferation of stress scenarios to which analysts were assigning significant probabilities. The new Government's firm policy stance in the beginning of 2003, however, led to a reassessment of the probability of such scenarios materializing, greatly improving the outlook for the economy. The PAF 2003 was put together during this period of transition and uncertainty about the international scenario, especially regarding the Middle Eastern crisis.

The construction of the PAF 2003 was supported on a basic scenario, to which were added different alternatives for the international environment and different degrees of investor credibility in the new Government's fiscal policy, and their respective possible impacts on interest-rate dynamics. Yet all scenarios reflected expectations that the Government would stick to its economic policy directives, particularly those aimed at stability that were announced when the new administration took power. Looking back, the expected trajectory derived from assumptions for the base-case scenario was in line with reality in 2003.

The main guidelines set in the PAF 2003 were the lengthening of the average maturity of public securities issuance, the gradual reduction in the volume of debt maturing within 12 months, additional development of the term structure of fixed-rate and price index securities, and the increase in the percentage of these type of bonds in the overall debt. There was progress in the process of harmonizing aggregate risk-control tools for the domestic and external debts, with some projections set in the PAF 2003 having focused, for the first time in a systematic fashion, on both the Federal Domestic Public Debt – DPMFi and the broader conception of Federal Public Debt – DPF, which includes domestic and external debts.

To achieve such guidelines, the National Treasury implemented measures to tackle both supply and demand issues. On the supply side, the National Treasury, being the exclusive supplier of federal securities, took advantage of this ability to directly act on the market, by consolidating maturity benchmarks, by reorganizing issuance and by offering new types of securities. It also expanded refinancing-risk controls and implemented a new system of accredited debt dealers.

On the demand side, the National Treasury does not enjoy the same degree of control and needs to coordinate its proposed actions with investors and other agents. As such, several initiatives were taken to foster an expansion in the base of investors and to encourage secondary trading of debt

instruments. In general lines, both the supply-side and demand-side measures aimed at increasing liquidity in the public debt market.

On the supply side, National Treasury sought to concentrate maturities and issue longer-term securities, observing the peculiarities of floating-rate and fixed-rate bills. The Treasury also sought to reduce the degree of indexation of the public debt, and for the first time ever, it issued fixed-rate bonds that yield a coupon that allowed for the lengthening of the maturity of this type of bond to 4 years. In addition, the Treasury's cash reserves were replenished after losses during the second half of 2002, taking into account, evidently, the budgetary restrictions imposed by the Government.

Among supply-side measures, the implementation of a new system of dealers was also important. The new system has trading volumes in the primary and secondary debt markets as criteria to select accredited agents that can operate directly with the National Treasury and the Central Bank. Two groups were created: Primary Dealers, who deal with primary debt offers and money-market operations; and Specialist Dealers, who focus on the secondary market. This separation allowed for the establishment of different quantitative and qualitative rules for each of the groups, helping to boost trading volume and the system's efficiency.

On the demand side, the National Treasury generally sought to expand and diversify the base of investors. Among the measures taken was an effort to strengthen the National Treasury contact with the complementary pension system (open and closed funds), which are traditional buyers of longer-term public debt instruments. There were a number of meetings with these institutional investors, from which emerged a set of possible measures to stimulate investments in line with the funds' goals in their asset and liability management and the government's guidelines for public-debt management. This closer contact ensured the success of an issuance program for notes linked to the Broad Consumer Price Index - IPCA (NTN-B). It also led to an effective implementation of a regular repurchase program for these securities and bonds linked to the IGP-M price index (NTN-C), aiming at increasing the liquidity in these longer-term instruments.

Another important measure was the strengthening of Treasury Direct, an online debt sales program targeting retail investors. In particular, there was a significant increase in sales and in the number of investors registered in the program following an advertisement campaign that began in September. The Treasury's communication with the press and interested parties also helped to expand the program over the course of 2003.

The specific goals of the PAF 2003 for debt composition and maturity lengthening were also met, as can be seen in the chart below. The percentage of the DPMFi debt coming due within 12 months, for example, fell from 40.7% to 35.3%, while the share of fixed-rate bonds, almost negligible in the beginning of the year, reached 12.5%, above the midpoint of the expected range of 5%-15% set in the PAF 2003. Deviations from the PAF targets, generally speaking, reflected favourable developments. The higher proportion of bills linked to the floating SELIC rate, for instance, was the result of a faster-than-expected reduction in the percentage of foreign-exchange-linked debt. The average maturity of new debt was below the low end of the expected range, but not because of market conditions, but due to smaller-than-expected issuance of CVS¹ as the process of assumption of these liabilities took longer than initially predicted.

¹ Securities issued by the National Treasury as part of renegotiation of debt from the Salary Variation Compensation Fund – FCVS, which originate in the liquidation of mortgage contracts.

With regard to the relative amount of debt due in 12 months, it is important to stress that, in the statistics available by December 2003 in DPMFi reports, figures excluded coupon payments. As the most appropriate methodology has it that such coupon payments should be included, since they also represent a financing need, the Treasury revised the figures to reflect so. From this report onwards, this new methodology will be used to present data on the percentage of debt due in 12 months.

Results for the Federal Domestic Public Debt - DPMFi (2003)

Indicators	dez/02	dez/03	PAF-2003	
			Minimum	Maximum
Stock of DPMFi held by the Public (R\$ billion)	623,2	731,4	690,0	750,0
Average Maturity of the DPMFi (months)	33,2	31,3	34,0	38,0
% due in 12 months	41,1	35,3	35,0	40 ^a
new methodology*	41,1	35,3	37,0	42 ^b
Share of the DPMFi Stock (%)				
Fixed Rate	2,2	12,5	5,0	15,0
Selic Rate	60,8	61,4	52,0	60,0
Exchange Rate	22,4	10,8	13,0	22,0
Price Indices	12,5	13,6	12,0	18,0
TR and others	2,1	1,8	2,0	4,0

* The new methodology includes interest coupons payments

^a range constant in PAF 2003

^b range recalculated by the new methodology

Source: STN/COGEP

Results for the Federal Public Debt - DPF (2003)

Indicators	dez/02	dez/03	PAF-2003	
			Minimum	Maximum
Stock of DPF held by the Public (R\$ billion)	893,3	965,8	940,0	1020,0
Average Maturity of the DPF (months)	42,6	39,0	41,0	45,0
% due in 12 months	34,6	30,7	31,0	36 ^a
new methodology*	34,6	30,7	33,0	38 ^b
Share of the DPF Stock (%)				
Fixed Rate	1,5	9,5	4,0	11,0
Selic Rate	42,4	46,5	38,0	44,0
Exchange Rate	45,8	32,4	36,0	45,0
<i>External Debt</i>	30,2	24,3	–	–
<i>Domestic Debt</i>	15,6	8,2	–	–
Price Indices	8,8	10,3	9,0	13,0
TR and other	1,4	1,4	1,0	3,0

* The new methodology includes interest coupons payments

^a range constant in PAF 2003

^b range recalculated by the new methodology

Source: STN/COGEP

To achieve the results analysed in this report, the National Treasury has made concentrated efforts in institutional development, seeking to perfect its debt management capacity. Specific training as well as general education have been stimulated and are part of the activities undertaken by staffers in this area, several of whom have master or PhD degrees in economics, finance or related fields. During the year 2003, there were important innovations in the trading desk to make Treasury's contact with the accredited dealers more dynamic and to improve the decision-making process. In addition, the broad Program for the Strengthening of Fiscal and Financial Management – PROGER was successfully developed, which involved the hiring of specialized consultants with the support from the World Bank. The program is presently at an advanced stage of implementation. Its aim is to consolidate the organizational structure and strengthen the National Treasury governance, to implement and upgrade risk-analysis mechanisms, to integrate and upgrade the existing bookkeeping system, analysis and information, and to improve the formulation of medium-term financing strategies.

Introduction

In line with the Government's guidelines for economic policy and seeking to provide greater transparency to public management, the National Treasury is launching the Annual Public Debt Report for 2003. This document aims at analysing last year's debt management. Previously, such analysis was part of the Annual Borrowing Plan - PAF, which provided retrospective analysis as well as debt planning for the following year. From 2004 onwards, analysis of the previous year will be presented in the Report, while the PAF will, at the beginning of each year, bring the outlook for the public debt for that year. The Report is split into four sections: Expectations in 2003, Public Debt Management, Achievements and Institutional Advances.

The first section analyzes the evolution of expectations over the course of 2003, taking into account the scenarios presented in the PAF for the year. The analysis of expectations in 2003 addresses the changes in investors' perception of the main fiscal and monetary indicators, which are key variables in the financing strategy of the National Treasury. Important was a continued improvement in market sentiment about the macroeconomic environment, which was fruit of austere economic policy by the new federal administration.

In the following section, the Annual Report summarizes the main measures adopted in 2003 with regard to public debt management. The section was divided in the presentation of measures which directly impact the supply of public debt, of which the National Treasury has autonomy, and measures associated with demand, over which the public sector has limited influence. On the supply-side, the highlights were the creation of benchmarks for public debt instruments, with the concentration of maturities and the introduction of a new system of public debt

dealers. From the demand viewpoint, there was an expansion in the base of investors and further stimulus to secondary debt trading.

The third section compares targets set in the PAF 2003 with the results achieved. The results show a positive performance of the management of the Federal Public Debt - DPF in 2003, in particular the reduction in the exposure to foreign-exchange risk and in the percentage of debt due in 12 months, which reflected in a significant reduction in the DPF refinancing risk. There was also a rise in the share of fixed-rate and price index securities in the overall debt, in line with the guidelines presented in the PAF. This section also presents a table with the evolution of the integrated assets and liabilities management (ALM) in 2003.

Lastly, the fourth section brings a summary of recent institutional advances by the National Treasury, with emphasis in 2003. The positive results achieved over the course of last year can be largely attributed to such advances. Highlights include the Program for the Strengthening of Fiscal and Financial Management - PROGER.

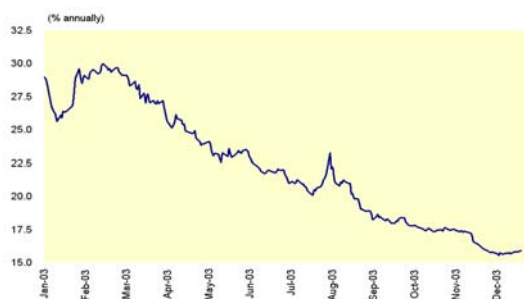
Section 1: Expectations in 2003

This section is based on scenarios used in the setting of the financing strategy year-end targets presented in the Annual Borrowing Plan - PAF. These scenarios, especially the base-case one, sought to reflect the distribution of market perceptions at the time when the PAF was being put together, perceptions as captured by the main economic variables and projections published by the Central Bank and other institutions.

The construction of scenarios for the PAF

It is interesting to note that the degree of uncertainty in the economic environment at the end of 2002 implied great dispersion in expectations, with many agents focusing on stress scenarios, which makes it hard to establish a consensus market view for 2003.

Chart I
Expectations in Interest-Rate Futures: 360-day Swap



Source: Reuters

The Government's firm policy stance at the start of 2003 with regard to fiscal austerity and sustained economic growth prompted a rapid change in the agents' perception of the economic outlook. In the first two months of the year, the number of market research reports assigning high probability to crisis scenarios reduced considerably, and analysts' expectations were positively revised – which implied a continued change in projections and, consequently, in the **yield curve**.

The scenarios used as a reference for the PAF 2003 stemmed from variations of a base-case scenario that considered different outlooks for the external environment and different degrees of investor credibility in the new Government's economic policy. Yet all scenarios incorporated the assumption that economic policy would remain sound. All scenarios also took into account the Middle East conflict, with different possibilities of duration and intensity and resulting impact on the global economy.

The base-case scenario assumed a favorable yet conservative trajectory for the main economic and financial variables. It assumed the Government's action, in line with its commitment to economic stability, would shore up credibility in economic policies. On the external front, conflict in the Middle East would be short and successful, simply causing a temporary spike in first-quarter market volatility.

The assumption of strict Government commitment to stability, including price stability, explains expectations that interest rates would remain high during the first quarter. On the other hand, an expected sharp improvement in the market's perception of economic fundamentals would allow interest rates to be cut as early as the second quarter, in a process that would intensify in the second half. Inflation would decline given the tight monetary policy conditions but would remain above target through the year's end, in line with market forecasts. The exchange rate would appreciate from levels seen in the last quarter of 2002, but would finish the year a little above R\$ 3.00/US\$.

The base-case scenario assumed that the U.S. economy would recover earlier than it did, with the Federal Open Market Committee – FOMC raising interest rates at the end of the first half. Another assumption was that oil prices would quickly start falling to converge to levels seen before 2002.

Among the scenarios considered, one contemplated the possibility that the market would view the process of interest-rate cutting as faster than desired, triggering a possible confidence crisis that would have to be reversed by adjustments in interest rates.

Another assumption reflected in certain scenarios was the possibility of an external crisis due to a prolonged conflict in the Middle East going into the second half. The resulting impact on external accounts and the increase in risk aversion would impose strong restrictions to the domestic recovery, with an impact on several variables, such as the exchange rate.

A break from the economic policy guidelines was not viewed as a possibility; all scenarios implied, to varying degrees, reactions by the Government to any adverse events, such as a rise in interest rates to levels above those indicated in the base-case scenario, for example.

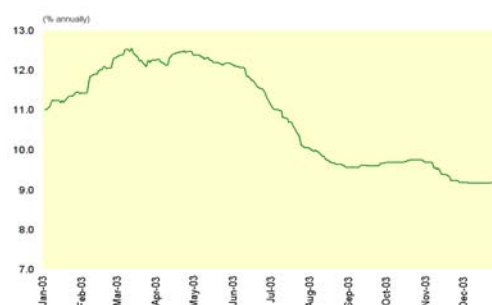
Evolution of expectations in light of actual events

The effective scenario that materialized proved better than the base scenario, both in its evolution and final values. The exception was activity indicators.

The first quarter of 2003 can be characterized by the Government's action to consolidate its commitment to fiscal austerity, the inflation-targeting regime and institutional advances. The main measures taken were an increase in the primary budget surplus target from 3.75% in 2002 to 4.25% of GDP in 2003, the increase in interest rates to up to 26.5% annually and the resumption of pension and tax reforms.

In that quarter, even with the Government's display of commitment to inflation targets, inflationary inertia stemming from the exchange-rate depreciation during the second half of 2002 resulted in a discouraging outlook for inflation. In addition, the core IPCA index remained at high levels, indicating a generalized acceleration in prices.

Chart II
Inflation expectations (IPCA) for 2003



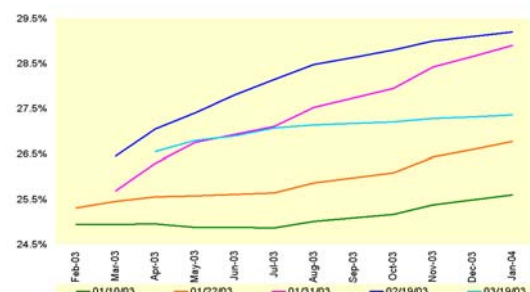
Source: BACEN

On the foreign front, a short war in Iraq was a positive outcome for the Brazilian economy, with a temporary impact on oil prices and no major negative consequences for the global economic dynamics.

With regard to reforms, the Government began mobilizing political support to pass them in February. However, by March, the lack of any significant progress rekindled doubts over whether the Government would manage to reach the political consensus needed to pass the reforms.

The mix of an adverse external scenario and volatility from the previous year - reflected in high inflationary inertia and a weak currency - and uncertainty over the political environment resulted in a steep yield curve, particularly in February.

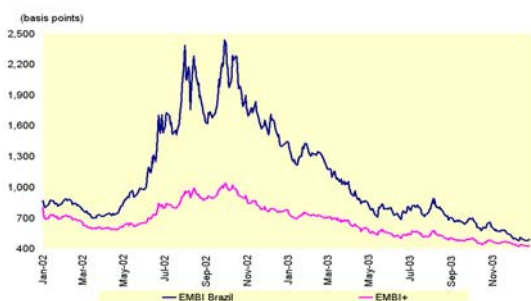
Chart III
Yield Curve



Source: BMF

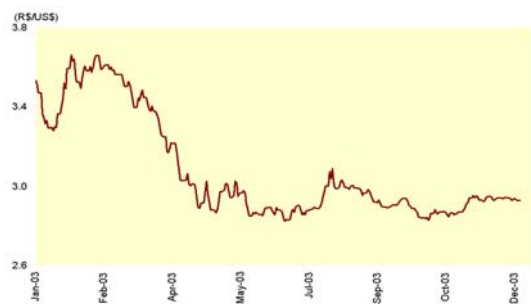
The second quarter was strongly influenced by the absence of clear signs indicating the possibility of economic recovery in the U.S., causing the dollar to depreciate against the euro and the yen and prompting policymakers to keep interest rates low in the world's major economies. The resulting abundant liquidity benefited emerging economies and contributed to a favorable perception of Brazil's external accounts in 2003, helping the country's risk premium to decline.

Chart IV
Embi+ and Embi Brazil



Source: Bloomberg

Chart V
Exchange Rate



Source: BACEN

In this period, companies managed to increase refinancing of foreign debt compared with the first quarter, and there was a net inflow of foreign capital. Market expectations for the exchange rate at the end of 2003 started to reflect, with a lag, this appreciation trend in the currency. As a result, exchange-rate expectations reached its lowest point in May 2003.

Chart VI
Foreign-exchange Flows

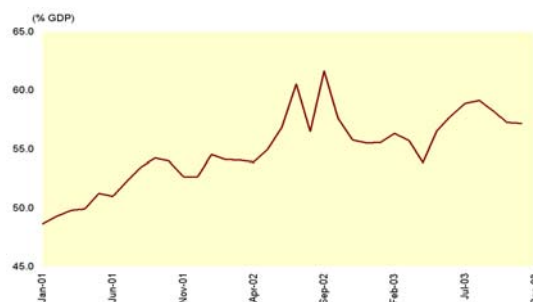


Source: BACEN

Also in the second quarter, a stronger exchange rate, the smaller impact of inertial inflation and tight monetary policy allowed for a significant decline in price indices, particularly from May. At that moment, market expectations improved markedly and bets were growing that the Central Bank would enter a rate-cutting cycle.

June saw the start of a rate-cutting cycle by the Monetary Policy Committee - COPOM. In addition, a relatively stable exchange rate helped to speed up the decline in the Net Public Debt/GDP ratio in the second quarter.

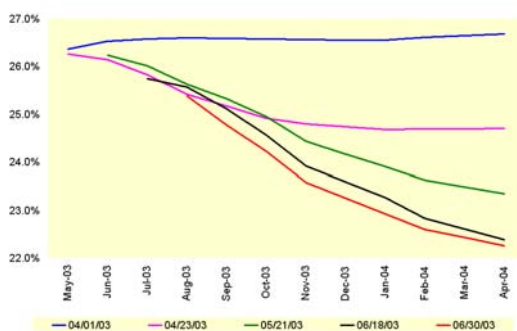
Chart VII
Net Public Debt/GDP Ratio



Source: BACEN

Consensus also grew that the Government would succeed in mustering support to pass reforms, leaving only doubts in relation to their reach and the speed of the approval process.

Chart VIII
Interest Rates



Source: BMF

Market expectations of an improved outlook in the second quarter were reflected in the yield curves. Given the significant reduction in price indices from April and the start of a rate-cutting cycle by the COPOM, the curves became inverted (negatively inclined) and maintained the shape going into the third quarter.

In the third quarter of the year, market expectations for 2003 inflation dropped to the single digits. With the continued decline in inflationary inertia, concern diminished that inflation could get out of control, consolidating credibility in the Government's commitment to the inflation-targeting regime and expectations grew that the 2004 goal would be met. From then on, agents started to view pressure on price indices as temporary, without major impact on inflation expectations.

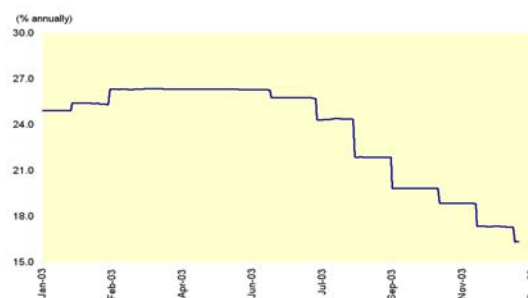
During that quarter, the exchange rate remained relatively stable as companies continued to refinance debt overseas and the trade performance improved further, consistently beating expectations. In the period, the country's risk premium declined proportionately to the exchange rate, a trend that was intensified in the last three months of the year.

The favourable perception of the macroeconomic scenario was reinforced by the approval of pension and tax reforms by the lower house of Congress in August and

September, respectively. The consensus view was that reforms would be completed before the year's end and there was a perception that even occasional delays and restrictions in their scope would not hurt their ability to improve the economic and financial environment.

Converging inflation, the economic slowdown, a stable exchange rate and falling risk premium prompted bets that the COPOM would further cut interest rates. There was a 600-basis-point reduction in the benchmark SELIC rate in the third quarter of 2003.

Chart IX
COPOM Interest Rates

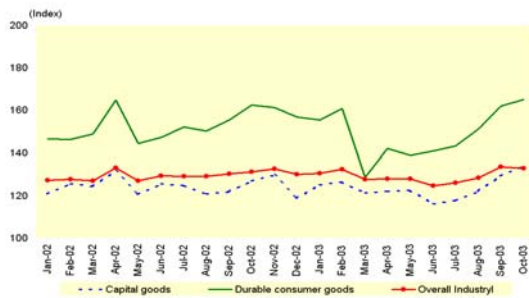


Source: BACEN

The reduction of interest rates, which began in the second quarter and was intensified in the third, started to prop up industrial production, on the supply side, and boost domestic investment, on the demand side. However, GDP growth calculated by the IBGE was below market expectations.

The fourth quarter started with the perception that the adjustment process following the volatile second half of 2002 had been successful thanks to improved indicators such as those pointing to a rebound in industrial production.

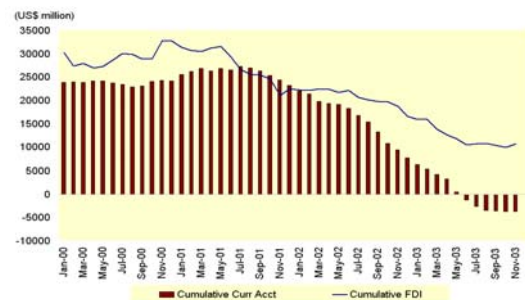
Chart X
Economic Activity: Industrial Production



Source: IBGE

In the external sector, there were clear signs of a recovery in the U.S. economy, which led to an increase in the long end of the U.S. yield curve and fueled the debate about a possible increase in interest rates by the FOMC. However, expectations that Brazil's external accounts would continue to adjust, taking into account improved global growth forecasts and better macroeconomic indicators domestically, led to the perception that there would be no pressure on Brazil's external borrowing needs, which are generally understood as an important condition to ensure stability in the real exchange rate in 2004.

Chart XI
External Accounts

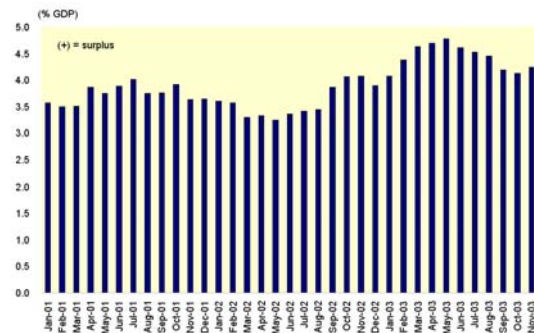


Source: BACEN

With regard to the exchange rate, it is interesting to note that the consensus forecast for the end of the year had been above the spot market since mid-February, indicating expectations that the appreciation trend would be reversed at some point over the course of 2003. Such view was based on expectations that Brazil's external borrowing needs would grow in the last quarter of the year due to seasonal

trade factors, the negative impact of domestic economic recovery on trade, and a build up of corporate foreign debt maturity. However, positive capital flow into the country and trade surpluses that consistently beat market expectations led to a smaller-than-expected depreciation of the exchange rate in the last quarter.

Chart XII
Fiscal Performance



Figures forecast for December 2003.

Source: BACEN

It is important to highlight—even because of the importance given by the market to it in the formation of prices in the debt market—the contribution of the fiscal performance to the success of monetary policy in 2003. Indeed, during most of 2003, the primary budget surplus target of 4.25% of GDP was always viewed as achievable, despite occasional concern expressed by market analysts about the fiscal performance of state-run companies and regional governments, or about a slowdown in economic activity following the external adjustment begun in 2002.

Chart XIII
Real Interest Rates



Source: STN/COGEP

The evolution of expectations over the course of 2003 largely mirrored that used in the base-case scenario set in the PAF. The continued improvement in the macroeconomic environment, the deepening of the adjustment in fiscal and external accounts, and the institutional advances posted in the year, as well as their positive effect on the perception of market analysts, were in line with the expected path of key economic variables. This helped to formulate and implement appropriate financing strategies, contributing to an improvement in the public debt profile and in the results achieved.

Section 2: Public Debt Management

In the Annual Borrowing Plan – PAF, the National Treasury stated its main guidelines to lengthen the average maturity of debt issues, to keep the percentage of debt due in 12 months at prudent levels, and to further develop the term structure of interest rates (fixed-rate and price index benchmarks). The achievement of such guidelines involved, in addition to defining an issuance policy compatible with the targets, addressing certain aspects of the market where the National Treasury trades.

In line with the favourable evolution of the macroeconomic scenario, the National Treasury adopted measures aimed at increasing liquidity in public debt trading, reducing borrowing costs, and diversifying the base of investors. Such actions strengthened the role of the PAF as an effective tool in guiding debt management.

Measures were implemented in two areas: that under direct control of the National Treasury, and another more associated with the development of the debt market, over which the institution has little control. In the first group, which we describe as **supply-side measures**, there were measures such as the creation of benchmarks for public debt instruments, improved refinancing-risk control by means of exchange auctions and debt buybacks, and the implementation of a new system of dealers. The second set of measures, known as **demand-side measures**, includes the expansion of the base of investors, an increase in liquidity and stimulus to secondary market trading.

Supply-side Measures

A first step to boost liquidity and improve the pricing of debt securities was the creation of **benchmarks**, by issuing large amounts of securities carrying the same maturity and creating new points in the long end of the yield curve.

The Treasury started to issue LTN carrying maturities that coincided with the expiry date of interbank-rate futures contracts, i.e., on the first day of each quarter (January, April, July and October). The move increased their liquidity and demand for them by allowing investors to combine them with other financial instruments. Another step that also helped to turn these bills more liquid was the concentration of maturities by means of larger-size reopenings. On floating-rate debt (Treasury Financial Bills – LFT and National Treasury Notes, series B – NTN-B), there was increased issuance of longer-term securities maturing in different months from those of fixed-rate instruments: LFT were issued to come due at the start of the third month of each quarter and NTN-B at the start of the second month. It is important to note that the idea of issuing NTN-B in those months originated in meetings with pensions funds. The decision aims at meeting their needs as well as the National Treasury's, to help both to match their respective assets and liabilities.

Also in 2003, the Treasury started to issue fixed-rate debt due in 2008 that pays coupon - the so-called National Treasury Notes, series F--NTN-F (Table 1). The fact that the coupon can be stripped helped to create, for the first time, a medium-term fixed-rate yield curve (between 3 and 4 years).

BOX 1 – Issuance of National Treasury Notes - Series F

Within the debt management strategy of the National Treasury, the NTN-F stands out as a much longer-dated instrument among fixed-rate securities. The main characteristic of this bond is that its coupons can be stripped. This allows investors to break the NTN-F down into several fixed-rate maturities, which makes pricing and secondary trading easier. Within this strategy, the Treasury will ensure that the volume of NTN-F sales, by means of reopenings, will be large enough to make them a liquid bond and will stimulate secondary trading—in a market that now effectively has a yield curve that goes as far as 4 years.

The first NTN-F auction was carried out on December 18, 2003. That day, the National Treasury successfully placed fixed-rate securities of maturities of up to 4 years, the longest in the country’s history for this type of bond. A total of R\$ 427.4 million worth of 10% coupon NTN-F bonds were placed at an average yield of 17.2 % annually.

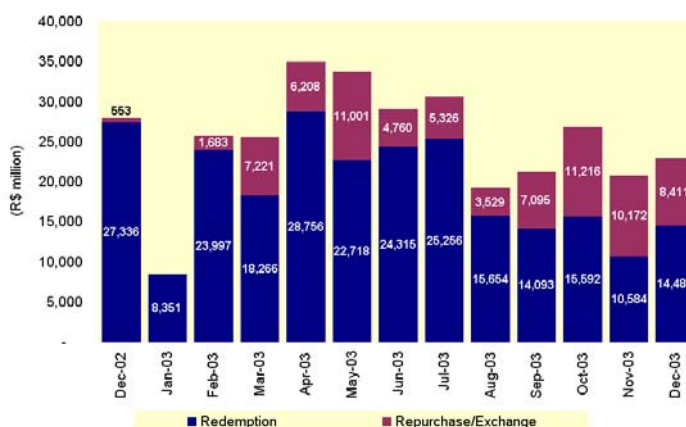
The impressive results – obtained in a single auction – point to an excellent outlook for this type of bond in 2004, which could help to reduce the exposure of the DPF to floating rates and lengthen its average maturity.

A higher level of **refinancing risk** is inherent to bond issuance designed to set new benchmarks because the strategy results in large amounts of debt carrying the same maturity. To minimize such impact on risk, the National Treasury became actively engaged in exchange auctions of short-term debt for longer-term securities and, mainly during the second half of 2003, also started a buyback program for fixed-rate debt.

Debt exchanges totalled R\$ 64 billion. They involved swaps of short-term floating-rate debt for longer-term LFT securities as well as floating-rate debt, including LFT, for NTN-B and NTN-C.

With regard to buybacks (at market prices), the main target were short-term fixed-rate bills (LTN). The aim was to reduce perceived refinancing risk by reducing the build up of LTN maturities in the short run. With regard to price index bonds, which are longer-dated, the buyback program undertaken in the second half of the year was designed to reduce transaction costs for such bonds by boosting liquidity, which is still limited in this market, and by reducing occasional costs that bondholders could face were they to sell their holdings to meet cash requirements.

Chart XIV
Redemptions and Repurchases /Exchange Auctions (in detail)



Source: STN/CODIP.

There was also an improvement in the National Treasury's cash reserves, replenishing a liquidity cushion for the public debt. By keeping such reserves, which reduce debt refinancing risks, the Treasury quells any potential market concerns about its capacity to pay back debt, helping to reduce its average cost even during favourable periods.

Also on the supply side, another noteworthy achievement was the implementation of a **new system of dealers** in the financial market in general. Under the new system, the National Treasury is more active in debt transactions. Previously, the system of dealers was exclusively used by the Central Bank, with the aim to help manage monetary policy. However, the old system was doing little to help the development of the secondary debt market,

limiting its actions to provide debt market players with increased liquidity and to helping form a term structure of interest rates in a more consistent way. This was why the National Treasury and the Central Bank teamed up to reorganize the system and implement a single, jointly-run structure to help manage both debt and monetary policy. Two groups of dealers were created, compared with just one previously:

- Primary Dealers – a group focusing on primary offers and money-market operations, comprising up to 12 institutions;
- Specialist Dealers – a group of up to 10 institutions that focuses on the secondary market.

Table I
Summary of the Main Obligations and Benefits of the New Dealers

OBLIGATIONS	BENEFITS
To keep active participation in the primary public bond issuance set by the National Treasury;	To participate in the following National Treasury special operations: <ul style="list-style-type: none"> • Sales of Federal Public Debt Securities at the "second-turn" auction at the average price set in their respective auctions; • Federal Public Debt securities repurchase, at competitive prices, previously defined as restricted to the registered institutions;
To keep active participation in the secondary public security market negotiation, through open market and repo operations ;	
To keep active participation in the open market and repo operations with the Central Bank;	
To spread all market institutions the future and past actions of the Central Bank and the National Treasury trading desk.	To participate in periodical meetings with the National Treasury and the Central Bank;
To maintain a close collaboration and relationship to the Central Bank and the National Treasury trading desk, providing data that, directly or indirectly, may affect the financial market.	

There are distinct rules governing the two groups of dealers. For example, there is a bigger weighting for participation in National Treasury public auctions for primary dealers, while specialist dealers must trade large amounts of debt in the secondary market. The introduction of specialist dealers encouraged

secondary market trading, helping to expand liquidity in the system.

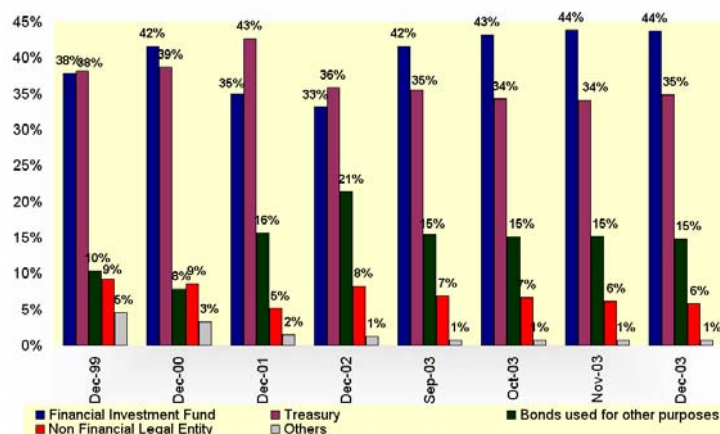
Following the implementation of the new system of dealers, the National Treasury introduced on August 15 the so-called second-turn auction. This mechanism allows both primary and specialist dealers to purchase securities at the average price of the auction

referring to which the second turn refers. Dealers were offered this benefit in exchange for their many obligations. The measure also proved a positive innovation in the relationship between financial institutions, the National Treasury and the Central Bank. In general terms, this new arrangement of obligations and benefits for accredited dealers (which are summarized in the chart) generated a marked increase in efficiency – and trading – compared with the previous one.

Demand-side Measures

Experience shows that supply-side measures, albeit extremely important, are insufficient to meet all goals of public debt management in a sustainable fashion. Structural improvements in the debt profile must be accompanied by the development of the debt market, which reduces the risk of abrupt changes in the National Treasury's refinancing conditions during periods of market volatility. Thus the diversification of the investor base plays a key role, as debt holders remain represented by a few types of investors, mainly mutual funds and banks (proprietary portfolio), as can be seen in the following Chart.

Chart XV
 Holders of Public Debt – Selected Period



Source: National Treasury/BACEN.

Among the main actions taken to expand and diversify demand for public debt was the systematic contact with government-run and private complementary pension system, which are institutional investors that naturally demand longer-term debt instruments. As was mentioned earlier, the issuance program of NTN-B largely reflected information obtained during these meetings (Table 2). Over the

course of 2003 the Treasury carried out five auctions of those bonds, obtaining excellent results such as a significant decline in the risk premium over the IPCA. The yield accepted at the auctions for the 2006 maturity, for example, dropped from 10.79% annually at the first auction to 8.99% annually at the last auction of the year.

BOX 2 – Resumption of NTN-B Issuance

The Treasury resumed issuing NTN-B bonds between September 11 and 12 after a year and a half. The move was a response to demand expressed by pensions funds, which were seeking instruments that would help them better manage their long-term assets and liabilities.

The maturities of the NTN-B (in May and August) were set in a way that holders of such bonds receive an IPCA price index payment every three months, including semi-annual coupon payments (in the second month of each quarter).

Treasury Direct, the Government's online debt sale program, was recognized as an important tool to diversify the debt holder base, particularly in the medium term, by adding investors who can adjust their own portfolios and mark their securities holdings to market. The program was expanded last year, boosted by a national advertisement campaign that started in September. This campaign resulted in a 57.3% surge in sales in the three months ended in November from the previous three months, with the number of registered investors growing by 92.9% in the same period (Table 3).

The results of these measures were tangible. In 2003, the average daily trading volume of public debt nearly doubled from R\$5.2 billion in January to R\$ 9.8 billion in December. The volume of interbank-rate futures (DI) tripled from an average 578,000 contracts daily in January to 1.7 million in December 2003.

Initially forecast to start operations in 2003, the asset clearing house and the development of an electronic trading platform for public debt will be implemented by the Futures Exchange (BM&F) in 2004. The two will complement the measures described above and will contribute to keeping momentum in the expansion of the public debt market.

As part of the same line of action, the National Treasury, Central Bank and Internal Revenue Service remain in talks for the implementation of the Investment Account. This measure will allow investors to avoid the Financial Transactions Tax – CPMF in transfers between investment funds. The aims are: (i) to offer all investment options with the same tax treatment presently given to investment funds, which are CPMF exempt; and (ii) boost competition in the investment fund industry as well as trading volume in the secondary market.

BOX 3 – Online Sales of Debt Securities - TREASURY DIRECT

On January 7, 2002, the National Treasury, in technical cooperation with the Brazilian Liquidation and Custody Company – CBLC and with the participation of the Caixa Econômica Federal as settlement bank, implemented the Treasury Direct, a program that allows retail investors to purchase debt securities over the internet. The program seeks to provide greater access to investment in federal bonds, encourage long-term savings and provide information about the management and structure of Brazil's federal public debt.

Treasury Direct provides retail investors a 24h access to federal bonds offered at traditional auctions carried out by the National Treasury (except during working days in which the market is closed between 5 a.m. and 9 a.m. for system maintenance). The minimum investment required is equivalent to 0.2 bond (approximately R\$ 200) and the maximum is R\$ 200,000 monthly. In the months when principal and coupon payments are made on the securities purchased through

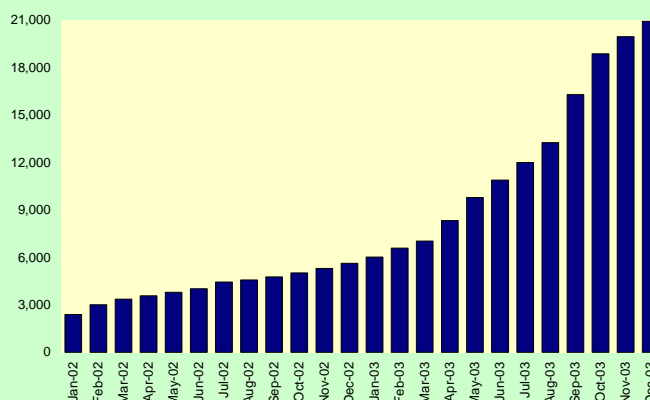
Treasury Direct, the maximum limit is expanded by the amount equal to such payments. Liquidity in these bonds is guaranteed by the National Treasury, which offers to buy them back every week between 9 a.m. Wednesdays and 5 a.m. Thursdays.

Seeking to further develop this program, a two-month advertisement campaign of Treasury Direct was launched at the start of September 2003. The campaign involved ads in newspapers and magazines, internet banners, radio commercials and direct mailing, as shown in banner below. The initiative prompted a significant increase in the Treasury Direct investor base: in 2003, approximately 15,000 investors were registered, up from 5,800 in 2002 (see Chart). Online sales in 2003 have likely exceed R\$ 235 million, three times more than in 2002 (R\$ 76 million). With regard to new issues, Treasury Direct began trading IPCA-linked NTN-B bonds last year. In the beginning of 2004, the program will also offer coupon fixed-rate NTN-F bonds.



Chart XVI

Total Number of Registered Investors in Treasury Direct from Jan/02 to Dec/03



Source: STN/CODIP

Further information about the Treasury Direct program can be found at:

<http://www.tesourodireto.gov.br>

Section 3: Achievements

The PAF 2003 set as its main guidelines, as mentioned above, the lengthening of the public debt maturities and an improved composition of the Government's liabilities, aiming at increasing the share of fixed-rate and price index debt and reduce reliance on floating-rate and foreign-exchange-linked instruments. These guidelines aimed at reducing long-term borrowing costs, by consolidating the process of debt-refinancing risk control and its exposure to fluctuations in interest rates and in the currency market.

The goals reflected by the aforementioned guidelines have been achieved. The performance of certain indicators relative to targets set in the PAF 2003 was outstanding, in particular those for the share of overall debt due in 12 months and the relative amount of the fixed-rate debt both in the Federal Public Debt- DPF as well as in the Federal Domestic Public Debt - DPMFi. There was also a noteworthy reduction in foreign-exchange-linked liabilities, which beat even the most optimistic expectations presented in the PAF 2003.

Strategy

The construction of the National Treasury's financing strategy for the year 2003 had the following assumptions: i) no issuance of foreign-exchange-linked debt, in particular NTN-D; ii) assumption of some R\$ 18.0 billion worth of CVS liabilities²; and iii) global bond issuance of US\$ 4.0 billion (revised lower to US\$ 3 billion in February).

The suspension of NTN-D issuance, as well as coordinated action between the National Treasury and the Central Bank for the latter not to sell foreign-exchange-linked debt from its proprietary portfolio into the secondary

market, were key to meet the goal of reducing public debt exposure to currency fluctuations. As part of the same strategy, the Central Bank continued to use currency swap contracts as its main foreign-exchange policy tool. These swap transactions were also cut back over the course of the year amid the improved macroeconomic environment.

External debt issuance, for its part, was guided by prudence, and no advantageous and consistent opportunities were missed. As such, total issuance in the year eventually exceeded the 2003 program by approximately US\$ 1.5 billion, meeting part of the 2004 program announced in October.

In view of these factors, the strategy reflected in the following targets:

- i. Fixed-rate debt: gradual lengthening of maturities, starting with 6 months and reaching 24 months by the end of the year;
- ii. Price index debt: net issuance over the course of 2003 of the same maturities placed in 2002 and creation of new benchmarks for the consolidation of the long-term yield curve;
- iii. Floating-rate debt (SELIC linked): net redemption in amounts determined by the capacity to place other instruments, with gradual lengthening of maturities.

Strategy Execution and Achievements

Four indicators capture the positive evolution of the debt: stock; average term; percentage of debt due in 12 months; percentage of fixed-rate and floating-rate debt.

² Securities issued by the National Treasury as part of renegotiation of debt from the Salary Variation Compensation Fund - FCVS, which originate in the liquidation of mortgage contracts.

Table II
Results of the Federal Domestic Public Debt - DPMFi (2003)

Indicators	dez/02	dez/03	PAF-2003	
			Minimum	Maximum
Stock of DPMFi held by the Public (R\$ billion)	623,2	731,4	690,0	750,0
Average Maturity of the DPMFi (months)	33,2	31,3	34,0	38,0
% due in 12 months	41,1	35,3	35,0	40 ^a
new methodology*	41,1	35,3	37,0	42 ^b
Share of the DPMFi Stock (%)				
Fixed Rate	2,2	12,5	5,0	15,0
Selic Rate	60,8	61,4	52,0	60,0
Exchange Rate	22,4	10,8	13,0	22,0
Price Indices	12,5	13,6	12,0	18,0
TR and others	2,1	1,8	2,0	4,0

* The new methodology includes interest coupons payments

^a range constant in PAF 2003

^b range recalculated by the new methodology

Source: STN/COGEP

Table III
Results of the Federal Public Debt - DPF (2003)

Indicators	dez/02	dez/03	PAF-2003	
			Minimum	Maximum
Stock of DPF held by the Public (R\$ billion)	893,3	965,8	940,0	1020,0
Average Maturity of the DPF (months)	42,6	39,0	41,0	45,0
% due in 12 months	34,6	30,7	31,0	36 ^a
new methodology*	34,6	30,7	33,0	38 ^b
Share of the DPF Stock (%)				
Fixed Rate	1,5	9,5	4,0	11,0
Selic Rate	42,4	46,5	38,0	44,0
Exchange Rate	45,8	32,4	36,0	45,0
External Debt	30,2	24,3	–	–
Domestic Debt	15,6	8,2	–	–
Price Indices	8,8	10,3	9,0	13,0
TR and other	1,4	1,4	1,0	3,0

* The new methodology includes interest coupons payments

^a range constant in PAF 2003

^b range recalculated by the new methodology

Source: STN/COGEP

Stock

In 2003, the Federal Public Debt– DPF stock grew 8.1% in nominal terms, i.e., less than the nominal GDP. In fact, the stock rose from R\$

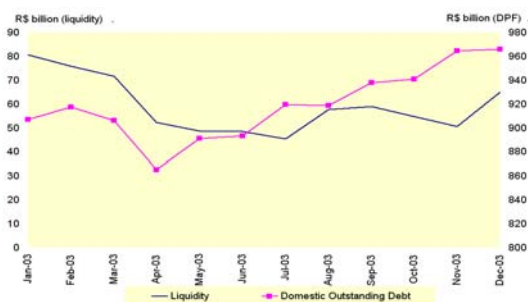
893.3 billion at the end of 2002 to R\$ 965.8 billion a year later, a result within the target range established in the PAF 2003 (between R\$ 940.0 billion and R\$ 1,020.0 billion).

The Federal Domestic Public Debt - DPMFi grew by 17.4% in nominal terms, from R\$ 623.2 billion at the start of 2003 to R\$ 731.4 billion in December. This result was also in line with the range forecast for the period (R\$ 690.0 billion to R\$ 750.0 billion).

Approximately half of the growth in the DPMFi stock stemmed from a recovery in domestic demand for public debt securities, which prompted a reduction in the volume of open-market operations carried out by the Central Bank (Chart XVIII).

Reduced liquidity in money markets, following net issuance of public securities, reversed the process started from April-May 2002.

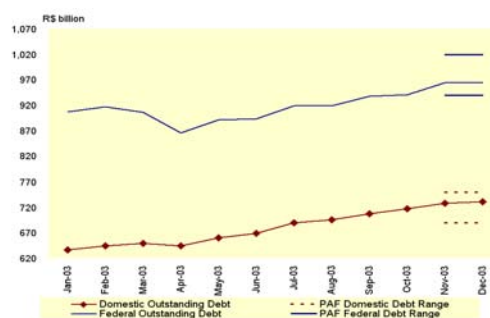
Chart XVII
Federal Public Debt (DPF) x Liquidity



Source: STN/COGEP

The Federal External Public Debt – DPFe stock, for its part, shrank by 13.2% from R\$ 270.1 billion in December 2002 to R\$ 234.4 billion a year later, thanks to the local currency appreciation as well as to maturing sovereign debt and the expiry of other contractual liabilities.

Chart XVIII
DPF and DPMFi



Source: STN/COGEP

Obs.: The horizontal lines refer to target ranges set in the PAF 2003

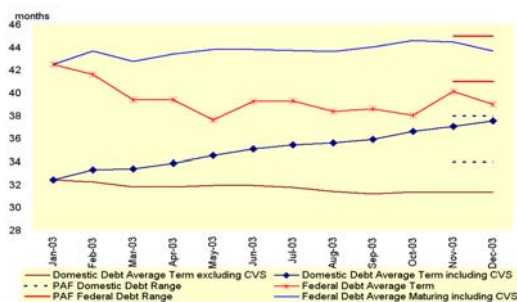
Average Maturity

As displayed in the tables of indicators in the PAF 2003, the average maturity of both the DPF and the DPMFi at the end of 2003 were below initially-set targets, at 39.0 months (target range: 41.0 months to 45.0 months) and at 31.3 months (target range: 34.0 months and 38.0 months), respectively.

The average maturity was below the expected range because the Treasury failed to issue R\$ 18.0 billion in CVS debt that was initially expected. Only R\$ 586.0 million worth of CVS was issued as the process of assumption of such contingent liabilities took longer than expected. It is important to note that these securities are long-dated instruments, due in 2027.

Had the CVS securities been issued at the originally-planned amounts, the average maturity of the DPF would have risen by around 3.5 months to 42.5 months. The average maturity of the DPMFi would have increased by around 6.3 months to reach 37.5 months in December. Both indicators would have fallen within the target range set in the PAF.

Chart XIX
Average Maturity of the DPF and DPMFi



Source: STN/COGEP

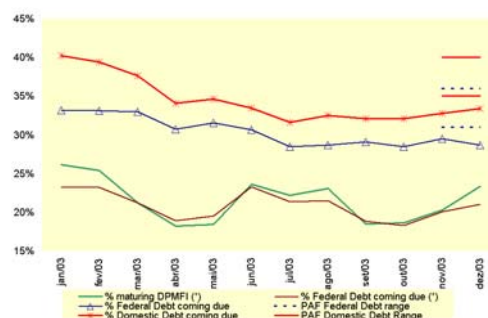
Obs.: The horizontal lines refer to target ranges set in the PAF 2003

Percentage of Debt Due in 12 Months

The achievements regarding the reduction of the share of overall debt due in 12 months were very significant. The figures – 28.7% and 33.4% (under the old methodology) for the DPF and the DPMFi, respectively – show marked improvement versus 2002, particularly taking into account the larger stock of fixed-rate debt, which is normally issued with relatively shorter maturities.

The results look even better when the analysis takes into account the Liquidity Cushion (cash reserves available exclusively for the payment of the DPF). In such analysis, the Cushion is subtracted from the amount of debt maturing in the next 12 months. So 12-month borrowing requirements equal maturities for the period minus cash reserves. This implies a conservative assumption that no new budget revenue will be brought in during the period. Under this methodology, the percentages of short-term debt are even smaller: 21.0% (DPF) and 23.3% (DPMFi). The Chart below illustrates the exercise using the old methodology.

Chart XX
Percentage of DPF and DPMFi due in 12 months



Source: STN/COGEP

Obs.: The horizontal lines refer to target ranges set in the PAF 2003

(*) Include liquidity cushion reserves

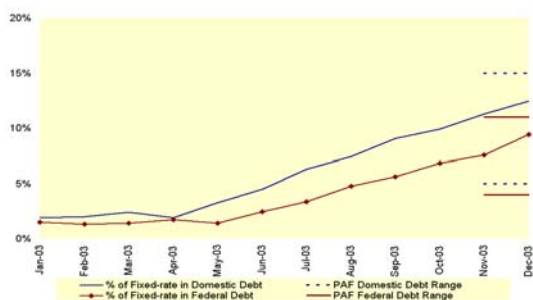
As highlighted earlier, this indicator will from now on be calculated using a new methodology that adds coupon payments to the amount of debt due in 12 months. The change obviously leads to an increase in the percentage of short-term debt. Under the new methodology, the year 2003 would finish with a share of debt due in 12 months of 30.7% for the DPF, and of 35.3% for the DPMFi, both within target ranges set at the start of the year. Were the cushion reserves taken into account, the figures would drop to 23.0% and 25.3% for the DPF and the DPMFi, respectively.

Analysis of the Debt Composition

Fixed-rate Bonds

The share of fixed-rate debt in the overall DPMFi volume surged by more than 460%, from 2.2 percentage points in December 2002 to 12.5 percentage points a year later. With regard to the DPF, the growth was even more impressive (approximately 520%), from 1.5% of total volume to 9.5%. The year 2003 ends with such percentages well in line with targets set in the PAF 2003 for the DPMFi (5%-15%) and DPF (4%-11%).

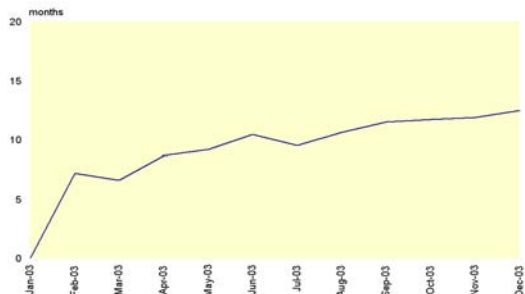
Chart XXI
Share of Fixed-rate Debt



Source: STN/COGEP
Obs.: The horizontal lines refer to target ranges set in the PAF 2003

There was a gradual lengthening of maturities in new issues over the course of the year. The high point was the December launch of four-year NTN-F bonds -- the longest-dated fixed-rate bond in Brazil's recent history (please find more details in Box1).

Chart XXII
Average Maturity of LTN Issues



Source: STN/COGEP

Lastly, there was a reduction in the premium paid by the Treasury during LTN auctions over the course of the year, not only in relation to nominal yields, but also in the spread relative to the interbank market (risk which disappeared during the first auctions of 2004 for certain maturities).

Chart XXIII
Average Rate Accepted at LTN Auctions

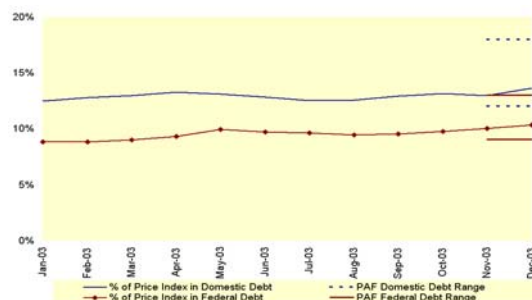


Source: STN/CODIP

Price Index Bonds

As stressed earlier, one of the main guidelines for the management of public liabilities is the increase in the share of price index bonds in the overall volume of debt, allowing for the reduction of debt linked to either the floating SELIC rate or the exchange rate. Important progress was made in 2003: besides the relative share of these securities within the targeted range, the incorporation of NTN-B, as well as the relative increase of its issuance, mainly, in the second semester of 2003, can both be highlighted.

Chart XXIV
Share of Price Index Bonds



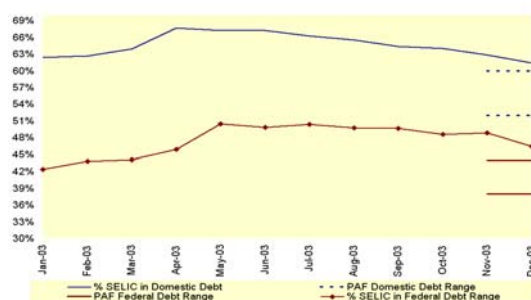
Source: STN/COGEP
Obs.: The horizontal lines refer to target ranges set in the PAF 2003

The consolidation in demand for these securities and the creation of new points along the medium- and long ends of the yield curve (August 2006 and 2024 and May 2009 and 2015), lead debt managers to expect a favourable outlook for the following years.

Floating-rate Bonds (SELIC linked)

Floating-rate bills as a share of overall debt slightly exceeded targets established in the PAF 2003 for both the DPMFi and the DPF. In the first, the percentage was 61.4% (1.4 percentage point above the upper end of the target range); in the latter, the figure was 46.5% (2.5 percentage points above target).

Chart XXV
Percentage of Floating-Rate Debt (SELIC linked)

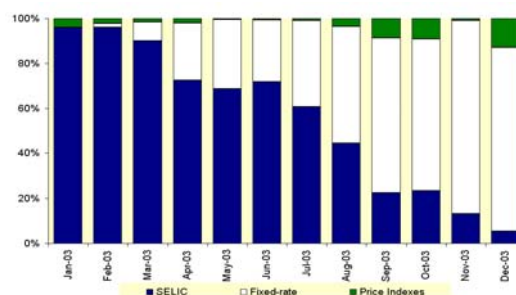


Source: STN/COGEP

Obs.: The horizontal lines refer to target ranges set in the PAF 2003

While the target limits were surpassed, these percentages continued to trend down due to less issuance by the National Treasury, as can be seen in the following Chart. Additionally, the issuance strategy for LFT in 2003 showed positive results as far as maturities and costs were concerned. With regard to maturity, LFTs of up to 56 months were issued at the end of the year, compared with 6 months in the beginning of 2003. Issuance costs fell sharply. After peaking at 2.12% annually at the end of 2002, the average premium rate accepted during 2003 auctions reached 0.23% annually in December, the lowest since June 2001 (which marked the start of the energy shortage crisis and worsening debt prices for neighbouring Argentina).

Chart XXVI
Share of bonds in National Treasury Issues

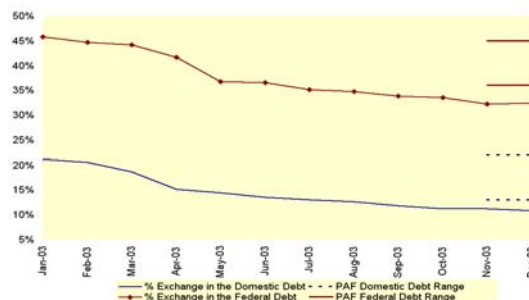


Source: STN/COGEP

Foreign-exchange-linked Bonds

One of the main achievements of 2003 was the sharp reduction in the percentage of foreign-exchange-linked debt both in the DPF and in the DPMFi.

Chart XXVII
Percentage of Foreign-exchange-linked Debt



Source: STN/COGEP

Obs.: The horizontal lines refer to target ranges set in the PAF 2003

Indeed, at the start of 2003 the percentage of foreign-exchange-linked debt was forecast to be between 36% and 45% of the DPF in a year's time. Beating even the most optimistic expectations, the percentage at the end of 2003 was 32.5%, 3.5 percentage points below the low end of the target range.

The results were also positive in the DPMFi, in which the share was 10.8% at the end of 2003, below a target range of 13% and 22%.

The successful reduction in these percentages can be attributed to the substantial appreciation of the exchange rate, as well as a net

redemption of foreign-exchange-linked debt in 2003.

Another important point was the reduction of the Federal Government's overall exposure to currency fluctuations (National Treasury and Central Bank), which includes the share of foreign-exchange linked debt in the DPMFi as well as currency swap contracts managed by the Central Bank. The overall foreign-currency exposure was 37.0% (DPMFi) in December 2002, falling to 22.1% a year later.

With regard to the currency exposure through foreign debt, the bond issuance program exceeded initial projections to total US\$ 4.6 billion. Of the total, US\$ 3.1 billion had been originally forecast and US\$ 1.5 billion refers to part of the 2004 program that executed in 2003. All bonds issued in 2003 carry Collective Action Clauses - CACs .

The Government's successful economic policy allowed for the resumption of the Republic's external bond sales. The first external issue took place in April 2003 -- a US\$ 1.0 billion global bond due in 2007. That was followed by a 2013 global bond that raised US\$ 1.25 billion.

In July, the Brazilian Government issued US\$ 1.3 billion in 2011 and 2024 bonds. The 2024 bonds were swapped for existing Brady bonds: Par bond (US\$ 452 million) and Discount bond (US\$ 848 million). The cash offer was restricted to the Global 2011, which raised US\$ 123 million.

In September, the Republic successfully reopened the Global 2011 issue with a US\$ 750 million offer that was three times oversubscribed.

Lastly, in October 2003, the Government initiated its external bond issuance program for 2004. Benefiting from a favourable domestic

scenario, abundant international liquidity, and bigger volume of investment going into emerging markets, the country issued US\$ 1.5 billion in 2013 bonds. The 2004 program totals US\$ 5.5 billion.

Asset and Liability Management

The approach aims at analyzing the net mismatch between the Federal Government's assets and liabilities from the viewpoint of types of bond indices, as well as maturity and cash flow. It is an additional reference debt managers can use for medium- and long-term planning.

For the time being, this instrument is essentially indicative, despite the process of upgrading and validation it is now going through. Bearing this in mind, it is worth noting that there has been a significant reduction in the mismatch in foreign exchange and an increase in the mismatch in fixed-rate and price index instruments. The overall net mismatch in indices was unchanged in 2003, reflecting stability in the net public debt in nominal terms (Table IV).

Taking into account the performance of price indices, the mismatch by type of index dropped not only in foreign exchange but also in assets and liabilities linked to interest rates — even though the percentage of debt linked to the SELIC rate was slightly above the targets set in the PAF-2003. It is important to note that the foreign-exchange mismatch figures do include exposure through the Central Bank's currency swaps contracts with investors, bringing yet further evidence that the public debt's exposure to foreign currency fell in 2003.

Table IV
Mismatch between Central Government's Assets and Liabilities

	Diference Asset/Liability ²					R\$ billion
	Dec/2002	Dec/2003	Dec/2003 (*)	Asset	Liability	2003 devenue
		(PAF/2003)				
Price Index	(156.5)	(169.3)	(208.5)	305.6	97.1	(39.2)
Exchange Rate	378.7	362.7	312.5	358.1	670.6	(50.2)
Floating Rate	401.0	385.8	433.2	93.3	526.5	47.5
Fixed Rate	13.7	103.7	88.2	6.0	94.2	(15.5)
Equities	(8.7)	(2.5)	(15.6)	15.6	-	(13.1)
Not Remunerated	37.9	48.0	57.0	9.5	66.5	9.0
TOTAL	666.1	728.4	666.9	788.0	1,454.9	(61.5)

Source: National Treasury and BACEN

¹ Does not include INSS.

² Net assets in parentheses.

³ Liabilities include the monetary base; open-market operations and Central Bank's proprietary funds.

(*) December 2003 figures were estimated based on November 2003 data, scenarios, strategies and expected actions by the monetary authority.

Table V
Net Mismatch (in real terms)

	R\$ billion	
	2002	2003 1
Price Index	(156.5)	(190.8)
Exchange Rate	378.7	285.9
Floating Rate	401.0	396.4
fixed Rate	13.7	80.7
Equities	(8.7)	(14.3)
Not Remunerated	37.9	52.2

¹ constant values, deflated using the IPCA index.

Source: STN/COGEP

Price Indices

The mismatch in price indices, estimated in R\$ 208.5 billion (December 2003), largely reflects the refinancing of state and municipal liabilities. Their debt was hedged against the impact of potential fluctuations in the SELIC rate and linked to a variable (IGP-DI) whose long-term average is believed to move in tandem with GDP and tax revenue.

This net mismatch was valued at R\$ 156.5 billion in December 2002, so there was a 33.2% increase over the course of 2003. The surge reflects the drastic change in the exchange rate in 2002, which has a large and well-known

impact on the IGP index and on the debt servicing payments made by states to the Federal Government. This limit allows state governments to deal with exceptional variations in debt stocks until their revenue recovers. With the stabilization of the IGP index already in 2003, higher economic growth rates in 2004 and growing market demand for NTN-B and NTN-C, the Treasury expects a gradual reversal of this trend in price-index mismatch in the coming months.

Foreign Exchange

During 2003, the mismatch in the foreign-exchange-linked liabilities fell from R\$ 378.7 billion to R\$ 312.5 billion, thanks to the domestic currency's appreciation in the period as well as a strategy to redeem foreign-exchange-linked debt in net terms.

In real terms, the reduction in the foreign-exchange mismatch was even larger, to R\$ 285.9 billion, down 24.5%.

It is important to note that this reduction does take into account the stock of currency swap contracts between the Central Bank and

investors, a fact that reinforces the good results achieved last year.

Floating Rates

In December 2002, the mismatch in the net liabilities linked to floating interest rates, particularly to the SELIC rate, was R\$ 401.0 billion. By the end of 2003, the figure had risen to R\$ 433.2 billion.

It is important to note there was a qualitative improvement in the composition of this line in the asset and liability management program. Because National Treasury floating-rate debt issues, particularly LFT, replaced large volume of open-market operations in 2003, there was an improvement in the financing terms of this part of the public liability.

In real terms, the mismatch fell by 1.1%, or R\$ 4.6 billion.

Fixed Rates

Net liability exposure to fixed interest rates grew from R\$ 13.7 billion in 2002 to R\$ 88.2 billion in 2003. This increase of R\$ 74.5 billion, or 545%, reflects an aggressive strategy to issue fixed-rate debt by National Treasury.

In real terms, the growth was R\$ 67.1 billion, or 391%, a significant amount.

Given that one of the National Treasury's guidelines is to increase the share of fixed rate debt, the results above show the strategy adopted in 2003 was in line with the proposed guidelines.

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Section 4: Institutional Advances

Since 1997, the National Treasury has sought to upgrade its institutional structure for public-debt management. It analysed the international experience related to public-debt management and studies ways to adapt them to the Brazilian reality.

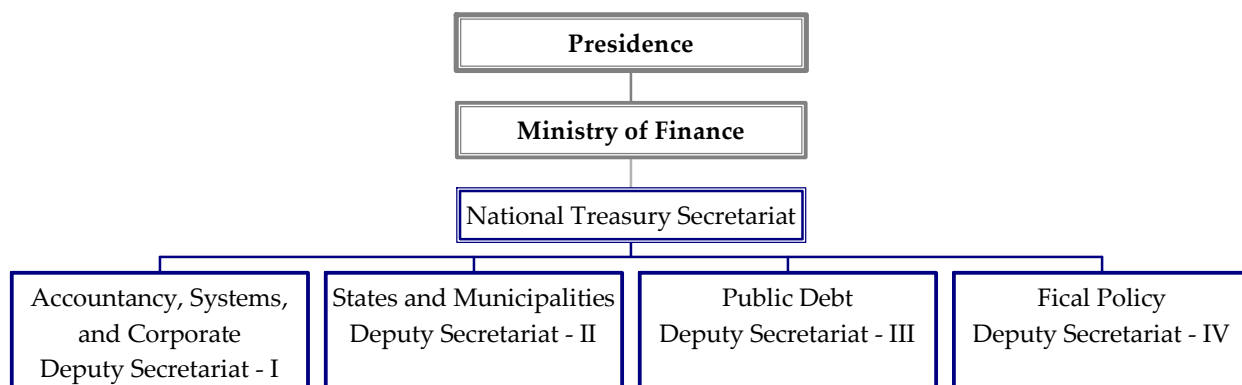
As part of this effort, the Treasury implemented in 2000 a new model of public debt management based on the concept of the DMO (*Debt Management Office*), which advocates the separation of responsibilities by functions and puts the National Treasury structure in line with the most advanced public debt management organizations in other countries, especially in the OECD, and with the financial industry as a whole.

In addition to the reorganization of its institutional structure, the National Treasury has made continued efforts to improve its capacity to manage the Federal Public Debt. Such actions include the hiring of specialist consultants, the implementation of training programs for the technical staff, and partnerships and dialogue with public and private institutions in Brazil and abroad.

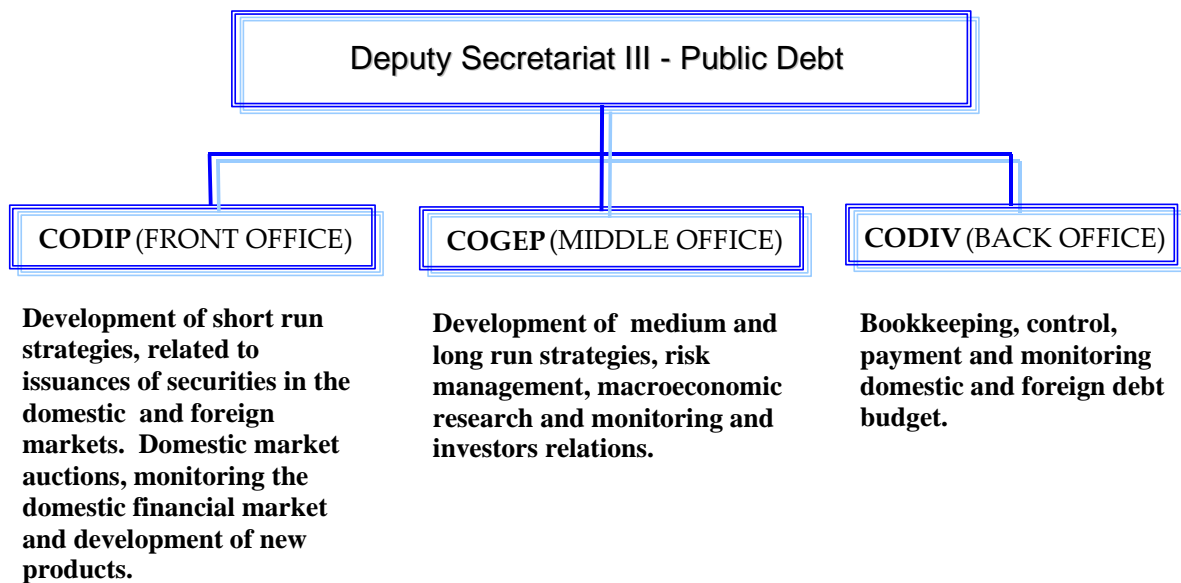
Structure of the Debt Division

The National Treasury's Sub-Secretariat of Public Debt is split into three basic divisions known as back-office, middle-office and front-office. The first is responsible for the budget proposal, financial planning, payments and bookkeeping for the domestic and external debt. The second is in charge of developing and monitoring medium- and long-term financing strategies, public-debt risk controls, economic research, market analysis and investor relations. The third is responsible for the short-term public-debt strategy, the process of debt issuance to finance the Government's deficit, and for products development and special operations³.

At the National Treasury, the Public Debt Control Division - CODIV is in charge of back-office operations; the Public Debt Strategic Planning Division -- COGEP has the middle-office function; and the Public Debt Operations Division represents the front-office. All these offices are overseen by the National Treasury Subsecretariat of the Public Debt. The structure can be seen below, displaying how the National Treasury and its Subsecretariat belong to the Government's broader structure. Additionally, there is a description of each of the three offices main responsibilities.



³ Special operations are issuance and redemption of public securities for the specific purposes specified in the law that are not carried out as public offerings.



This model results in substantial gains in the public debt management, as it has expanded the standardization of operational controls and risk monitoring, and allowed for efficient medium- and long-term (strategic) and short-term (tactic) planning.

Program for the Strengthening of Fiscal and Financial Management – PROGER

The National Treasury’s institutional progress has been supported by the Program for the Strengthening of Fiscal and Financial Management – PROGER. This project aims at modernizing the Government’s actions in the fiscal and financial areas and at improving the quality of public services with regard to: (i) the consolidation of the National Treasury’s organizational structure and governance; (ii) the implementation and upgrading of risk-analysis mechanisms and of asset and liability management tools; (iii) the integration and upgrading of bookkeeping and information systems for assets and liabilities under a single platform; and (iv) the establishment of benchmarks and improvement of medium-term financing strategy. The program, which has support from the World Bank, has three parts: information technology, governance and risk management.

Part I – Information Technology

This part mapped out the existing structure of computerized systems, identifying areas and formulating development and improvement projects for these systems. The analysis included all processes involved in public debt management, including a survey of respective requirements in terms of information systems, and compliance of all existing systems with those requirements.

This work was carried by a specialized consultancy, which recommended that asset and liability management should be integrated under the same platform. In addition, the proposed system must incorporate new needs and processes in the development of modern public debt management.

Part II – Governance, Institutional Structure and Information Flow

Two phases were established for this part. In the first, a reputable international consultant assessed the decision-making processes (governance) and the existing institutional structure within the scope of public debt management, and then issued concrete recommendations to perfect them based on the best international practices. These recommendations aimed at guaranteeing

uniformity, precision, standardization and transparency of information, to effectively meet demands from the domestic and external public.

The consultant – a former President of the Belgian Public Debt Management Agency's Executive Committee – concluded that the National Treasury responsibilities are significantly more complex and diversified than most public treasuries. However, the institution is well structured and managed, allowing for steps to be taken to guarantee the continuity of its standard of excellence in an ever-changing environment.

The suggested actions to continue improving the country's governance in public management, to make it more transparent, efficient and closer to the best debt management practices centred on the following points:

- i. allocation of responsibilities within the management structure of the public debt;
- ii. strategy for treating external debt as an item of global public debt management;
- iii. asset and liability management (ALM);
- iv. compliance mechanisms; and
- v. institutionalisation of governance mechanisms.

Following the suggestions, the Treasury continued a series of projects, including the process of formalizing governance institutions and the future creation of a superior body, under the form of a Public Debt Council, whose goal will be to discuss and set the principles that should guide the Federal Public Debt management, in line with economic policy guidelines.

Additionally, progress was made in the preparation for the implementation of a new Compliance division over the course of 2004. This area will be in charge of monitoring all processes that involve public debt management.

The second phase of the part II dealt with defining specific attributions of process and information flows and of the operational risks related to each National Treasury unit responsible for public debt management. This phase was also conducted by an international consultancy and was integrated with the definition of flows and information systems.

Part III – Risk Management

Part III focused on technical analysis of risks involved in public debt management, with emphasis on institutional, legal, technological aspects and training of the Secretariat's analysts. The goal was to (i) spread, among the members of the Subsecretariat, knowledge of the international experience in risk management in the public sector; (ii) promote technical discussions about methodological, institutional and legal issues in risk management in Brazil and other countries; (iii) implement successful international initiatives in risk management that bring innovation, productivity and efficiency to the Brazilian case; and (iv) implement concrete actions in order to strengthen the relationship with other government risk-management units overseas, establishing a permanent channel of communication with them.

The work was jointly developed by consultants Marco Bonomo (EPGE/FGV), Eduarda de La Rocque (*RiskControl*) and a team of National Treasury staff. In a first stage, there were technical discussions about the international experience, relevant concepts for the development of a risk-management, methodology, and about the indicators currently used in the corporate sector and by international debt management agencies, among other topics.

The second stage involved technical visits to a select group of international agencies known for their reputation in liability management. Agencies in Portugal, U.K., Sweden, Denmark and Belgium were visited. The discussion with experts from these countries contributed to a proposal for improvement of Brazil's debt risk

management, which was put in writing in an internal National Treasury report, with the aim to guide the next steps in this area of work.

The last stage of this **part** was a seminar with international experts, academics and leading international public-treasury leaders. The event, organized in conjunction with the OECD and the World Bank in the beginning of 2003, took place at Fundação Getúlio Vargas in Rio de Janeiro.

The main conclusion of the project was that the model used in Brazil's debt-risk management is one of the world's most modern and sophisticated. There are improvement projects currently under way to develop a macro-structural model that permits linking and simulating, in a more precise way, the effects of possible economic scenarios on the debt dynamics and its risks. This study is being now implemented.

BOX 4 – Strategic Planning and Risk Management System – GERIR

Significant progress in risk management was also achieved outside the scope of the PROGER, by means of measures taken by the National Treasury with the help of consultants. Among the highlights is the development of the Strategic Planning and Risk Management System of the Public Debt – GERIR, which was complementary to activities developed within the PROGER.

Initiated in May 2001, this system was developed by the National Treasury, with the technical support of the Getúlio Vargas Foundation - FGV and Prandini, Rabbat e Associados – PR&A. GERIR has been operational since December 2002, and its main objective is to subsidize analysis of alternative public-debt issuance strategies. As such, the system supplies indicators on cost, risk, maturity schedule and composition for each strategy. Armed with this information, debt managers can better assess different plans of action for specific scenarios.

With the development of projects already executed under the PROGER, the Treasury will likely continue to work on an Information Technology Plan. A base document for the development of an Integrated Public Debt System – SID is also being put together.

Development of the Public Debt Team

A significant share of the Public Debt Subsecretariat team has a degree in economics or finance, including PhDs, masters and other *latu sensu* diplomas. In view of the staff's technical requirements, the National Treasury ensured that 15 analysts recently completed an MBA program in public debt run by the Getúlio Vargas Foundation (FGV), in addition to the usual training for public debt managers.

Improvements in the Physical Infra-Structure

The year 2003 also saw initiatives to improve the infra-structure for debt management, which significantly improved the monitoring of domestic and external markets.

An improved infra-structure, particularly with regard to information systems (news agencies and market quotes⁴) and telephone networks, contributes to better decision making on bond auctions and other National Treasury actions, for example, information on the secondary market obtained with the dealers and other market players. The implementation of these new technologies was, in various occasions, made possible because of the public sector partnership with market institutions. This was the case, for example, of the trading desk that monitors domestic and external debt markets, and the two 42-inch plasma screen televisions that display quotes, charts and real-time news. The new desk (furniture, phone sets and call-recording systems) was donated by the Futures Exchange (BM&F), while the plasma televisions were provided by the Brazilian Association of

⁴ There is access to the internet, and news services from Reuters, Estado (Broadcast), Bloomberg and CMA.

Commercial Banks (ABBC) and by Banco Nossa Caixa S.A.

The present physical structure of the trading desk comprises ten workstations, and each analyst has two screens and telephones. The telephone system has 2 spots and 24 preferential lines (LP), which allow for quick contact with dealers and provide a security system with recording devices in all phone points. Dealers are responsible for installing their preferential line.

To reduce travel costs and increase contact between the National Treasury and the Central Bank with domestic and foreign investors, the Government is also working to improve the conference call systems and network transmission. This expansion foresees the creation of a videoconference room and counts on the support from the National Association of Financial Market Institutions (ANDIMA), by means of the Telecommunications Market Network (RTM).

Annex: Tables

I – COMPOSITION OF THE DPMFi HELD BY THE PUBLIC

II – AVERAGE MATURITY OF THE DPMFi HELD BY THE PUBLIC

III – FEDERAL SECURITIES HELD BY THE PUBLIC MATURING IN 12 MONTHS - DPMFi

I- COMPOSITION OF THE DPMFi HELD BY THE PUBLIC

Months	Fixed Rate		Floating Rate		Price Index		Exchange Rate		TR		Others		Total	
	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)
December-99	39.75	9.00%	251.68	57.02%	24.63	5.58%	100.71	22.82%	23.97	5.43%	0.67	0.15%	441.41	100.00%
January-00	42.80	9.45%	257.07	56.73%	24.73	5.46%	102.05	22.52%	25.69	5.67%	0.78	0.17%	453.13	100.00%
February-00	47.29	10.35%	258.75	56.64%	25.64	5.61%	98.57	21.57%	25.86	5.66%	0.76	0.17%	456.86	100.00%
March-00	56.68	12.21%	256.92	55.34%	25.79	5.56%	98.16	21.14%	25.96	5.59%	0.73	0.16%	464.25	100.00%
April-00	64.68	13.68%	253.50	53.60%	26.21	5.54%	101.51	21.46%	26.34	5.57%	0.71	0.15%	472.95	100.00%
May-00	61.27	12.58%	267.32	54.88%	26.72	5.48%	104.56	21.47%	26.56	5.45%	0.68	0.14%	487.10	100.00%
June-00	65.44	13.31%	268.90	54.68%	26.72	5.43%	103.65	21.08%	26.44	5.38%	0.66	0.13%	491.81	100.00%
July-00	68.62	13.86%	269.09	54.34%	27.77	5.61%	102.75	20.75%	26.38	5.33%	0.61	0.12%	495.22	100.00%
August-00	72.56	14.69%	262.57	53.15%	28.50	5.77%	104.92	21.24%	24.87	5.03%	0.58	0.12%	494.00	100.00%
September-00	77.43	15.40%	264.76	52.67%	28.93	5.76%	106.01	21.09%	24.97	4.97%	0.55	0.11%	502.65	100.00%
October-00	79.59	15.70%	263.54	51.98%	29.59	5.84%	109.87	21.67%	24.00	4.73%	0.42	0.08%	507.00	100.00%
November-00	74.54	14.70%	264.38	52.15%	29.85	5.89%	113.77	22.44%	24.01	4.74%	0.39	0.08%	506.93	100.00%
December-00	75.40	14.76%	266.81	52.24%	30.32	5.94%	113.74	22.27%	24.07	4.71%	0.36	0.07%	510.70	100.00%
January-01	74.08	14.44%	263.50	51.37%	35.50	6.92%	115.34	22.49%	24.18	4.71%	0.31	0.06%	512.92	100.00%
February-01	71.88	13.86%	265.20	51.12%	37.52	7.23%	119.72	23.08%	24.18	4.66%	0.28	0.05%	518.79	100.00%
March-01	75.47	14.07%	268.99	50.14%	38.32	7.14%	129.11	24.07%	24.34	4.54%	0.25	0.05%	536.48	100.00%
April-01	68.00	12.39%	278.49	50.76%	38.94	7.10%	135.97	24.78%	26.98	4.92%	0.21	0.04%	548.59	100.00%
May-01	63.17	11.39%	274.09	49.42%	40.94	7.38%	149.10	26.89%	27.09	4.88%	0.18	0.03%	554.56	100.00%
June-01	62.90	10.83%	291.79	50.24%	41.54	7.15%	155.66	26.80%	28.75	4.95%	0.18	0.03%	580.83	100.00%
July-01	60.66	10.16%	307.78	51.53%	40.01	6.70%	165.80	27.76%	22.86	3.83%	0.17	0.03%	597.28	100.00%
August-01	58.13	9.59%	309.23	51.01%	41.31	6.82%	174.74	28.83%	22.59	3.73%	0.17	0.03%	606.18	100.00%
September-01	57.20	9.09%	310.20	49.31%	41.78	6.64%	197.33	31.37%	22.40	3.56%	0.17	0.03%	629.09	100.00%
October-01	52.90	8.30%	310.65	48.76%	42.70	6.70%	209.29	32.85%	21.44	3.37%	0.10	0.02%	637.08	100.00%
November-01	51.19	8.17%	315.62	50.34%	43.68	6.97%	194.82	31.07%	21.52	3.43%	0.10	0.02%	626.93	100.00%
December-01	48.79	7.82%	329.46	52.79%	43.63	6.99%	178.58	28.61%	23.52	3.77%	0.10	0.02%	624.08	100.00%

Source: National Treasury and Central Bank

Note: Values computed based on the portfolio position evaluated by the price of the security curve of intrinsic yield.

I- COMPOSITION OF THE DPMFi HELD BY THE PUBLIC (continued)

Months	Fixed Rate		Floating Rate		Price Index		Exchange Rate		TR		Others		Total	
	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)
January-02	48.06	7.57%	334.10	52.61%	51.41	8.10%	186.45	29.36%	14.94	2.35%	0.14	0.02%	635.11	100.00%
February-02	47.38	7.50%	333.01	52.72%	54.14	8.57%	181.30	28.70%	15.60	2.47%	0.21	0.03%	631.64	100.00%
March-02	56.83	9.07%	320.47	51.17%	54.13	8.64%	179.60	28.68%	15.08	2.41%	0.21	0.03%	626.32	100.00%
April-02	61.90	9.77%	323.97	51.16%	56.34	8.90%	175.75	27.75%	15.11	2.39%	0.21	0.03%	633.29	100.00%
May-02	60.99	9.54%	327.13	51.16%	57.06	8.92%	179.37	28.05%	14.64	2.29%	0.21	0.03%	639.39	100.00%
June-02	56.19	8.60%	329.19	50.35%	58.24	8.91%	195.28	29.87%	14.64	2.24%	0.21	0.03%	653.75	100.00%
July-02	51.74	7.67%	357.49	53.01%	60.51	8.97%	192.15	28.49%	12.31	1.83%	0.21	0.03%	674.40	100.00%
August-02	48.17	7.73%	347.41	55.78%	61.47	9.87%	153.09	24.58%	12.42	1.99%	0.24	0.04%	622.79	100.00%
September-02	43.03	6.53%	348.50	52.90%	63.12	9.58%	191.31	29.04%	12.57	1.91%	0.26	0.04%	658.78	100.00%
October-02	41.05	6.49%	342.72	54.22%	67.50	10.68%	168.26	26.62%	12.48	1.97%	0.10	0.02%	632.10	100.00%
November-02	27.87	4.41%	364.19	57.67%	77.41	12.26%	149.32	23.65%	12.56	1.99%	0.10	0.02%	631.46	100.00%
December-02	13.66	2.19%	379.07	60.83%	78.17	12.54%	139.47	22.38%	12.78	2.05%	0.05	0.01%	623.19	100.00%
January-03	12.17	1.91%	397.52	62.42%	79.40	12.47%	134.89	21.18%	12.85	2.02%	0.04	0.01%	636.86	100.00%
February-03	12.80	1.98%	404.04	62.65%	82.22	12.75%	132.86	20.60%	12.92	2.00%	0.04	0.01%	644.88	100.00%
March-03	15.68	2.41%	415.34	63.93%	84.10	12.95%	121.55	18.71%	12.99	2.00%	0.04	0.01%	649.70	100.00%
April-03	12.32	1.91%	436.16	67.68%	85.55	13.28%	97.24	15.09%	13.10	2.03%	0.04	0.01%	644.41	100.00%
May-03	21.59	3.27%	444.06	67.20%	86.40	13.08%	95.37	14.43%	13.30	2.01%	0.04	0.01%	660.76	100.00%
June-03	29.99	4.48%	449.80	67.19%	85.87	12.83%	90.29	13.49%	13.45	2.01%	0.03	0.00%	669.42	100.00%
July-03	43.52	6.31%	458.57	66.46%	85.32	12.37%	88.98	12.90%	13.56	1.97%	0.03	0.00%	689.99	100.00%
August-03	51.63	7.42%	457.99	65.81%	86.29	12.40%	87.12	12.52%	12.89	1.85%	0.03	0.00%	695.95	100.00%
September-03	64.02	9.05%	457.24	64.61%	90.24	12.75%	83.24	11.76%	12.96	1.83%	0.03	0.00%	707.74	100.00%
October-03	70.97	9.89%	461.28	64.26%	93.24	12.99%	79.67	11.10%	12.67	1.76%	0.03	0.00%	717.86	100.00%
November-03	82.08	11.27%	457.36	62.80%	94.28	12.95%	81.68	11.21%	12.88	1.77%	0.03	0.00%	728.31	100.00%
December-03	91.53	12.51%	449.03	61.39%	99.07	13.55%	78.67	10.76%	13.09	1.79%	0.03	0.00%	731.43	100.00%

Source: National Treasury and Central Bank

Note: Values computed based on the portfolio position evaluated by the price of the security curve of intrinsic yield.

II- AVERAGE MATURITY OF THE DPMFi HELD BY THE PUBLIC

Months	In months						Total
	Fixed Rate	Floating Rate	Price Index	Exchange Rate	TR	Others	
December-99	2.00	19.88	63.02	24.71	118.58	11.27	27.13
January-00	2.53	19.28	62.88	24.35	111.78	12.72	26.45
February-00	4.37	19.39	67.65	24.90	105.17	12.24	26.58
March-00	5.79	20.70	61.42	25.06	109.52	11.76	27.02
April-00	6.38	21.58	60.12	25.22	109.60	11.34	27.30
May-00	5.94	24.25	60.33	26.39	108.56	10.78	28.97
June-00	5.05	25.07	60.02	25.83	108.66	10.31	28.94
July-00	4.96	25.61	60.84	25.54	106.77	10.17	29.02
August-00	5.53	26.79	61.44	26.52	100.46	9.71	29.30
September-00	5.31	26.54	61.10	27.20	99.96	9.33	29.02
October-00	5.48	27.04	59.62	27.80	103.36	11.04	29.32
November-00	5.56	27.51	58.94	27.94	102.66	10.97	29.78
December-00	5.15	27.61	59.11	28.50	101.82	11.04	29.85
January-01	6.70	28.97	66.82	28.21	101.09	11.64	31.59
February-01	6.91	28.28	69.56	30.66	100.20	12.16	32.20
March-01	6.09	27.49	69.10	30.19	99.18	12.82	31.35
April-01	5.79	27.39	70.03	29.29	105.10	13.84	32.02
May-01	5.52	30.25	71.19	28.59	104.21	15.40	33.62
June-01	5.21	33.57	71.68	27.61	106.67	14.43	35.24
July-01	4.50	37.80	71.37	27.28	88.83	14.61	35.69
August-01	4.12	38.85	71.21	27.52	86.67	13.58	36.23
September-01	3.40	38.85	70.85	26.75	86.83	12.58	35.66
October-01	3.30	38.27	69.64	25.50	85.64	20.24	34.86
November-01	3.43	37.47	69.01	25.64	85.16	19.24	34.85
December-01	3.45	36.39	68.45	25.36	91.43	18.21	34.97

Source: National Treasury and Central Bank

II- AVERAGE MATURITY OF THE DPMFi HELD BY THE PUBLIC (continued)

Months	Fixed Rate	Floating Rate	Price Index	Exchange Rate	TR	Others	In months
							Total
January-02	4.16	35.50	84.19	25.14	102.62	19.89	35.61
February-02	4.82	35.23	82.31	24.71	100.21	15.60	35.56
March-02	4.60	36.08	82.60	24.34	98.33	14.57	35.37
April-02	4.76	35.72	81.48	26.19	97.16	13.57	35.58
May-02	4.74	34.65	81.17	26.80	94.94	12.57	35.12
June-02	4.41	30.40	80.55	26.47	93.50	11.55	32.86
July-02	3.91	28.47	80.12	29.08	93.81	11.05	32.58
August-02	3.28	26.35	80.63	30.76	93.23	9.07	32.33
September-02	2.89	25.52	80.18	30.80	92.69	7.83	32.09
October-02	2.08	25.26	79.55	31.96	98.01	17.14	32.77
November-02	2.01	23.52	75.18	34.64	97.29	16.13	33.00
December-02	3.06	21.83	79.18	35.47	98.46	15.27	33.24
January-03	2.41	20.68	79.60	35.79	97.56	17.73	32.43
February-03	1.67	20.49	78.80	35.99	96.80	16.80	32.27
March-03	1.59	20.25	78.52	36.17	95.83	15.77	31.83
April-03	7.44	19.98	78.58	38.17	95.01	14.77	31.79
May-03	7.44	20.62	78.56	39.16	93.91	13.73	31.92
June-03	7.34	21.41	78.35	39.24	93.39	12.73	31.94
July-03	7.14	22.00	78.23	40.37	92.55	15.27	31.77
August-03	6.76	22.10	77.51	40.52	90.51	14.24	31.40
September-03	6.64	22.38	76.00	40.95	89.61	13.24	31.21
October-03	7.11	22.49	77.25	41.02	92.09	12.20	31.37
November-03	6.95	22.81	77.33	40.67	92.37	11.20	31.31
December-03	6.50	22.74	77.88	40.51	92.75	10.17	31.34

Source: National Treasury and Central Bank

III - FEDERAL SECURITIES HELD BY THE PUBLIC MATURING IN 12 MONTHS BY TYPE OF BOND INDEX – DPMFi

Months	Fixed Rate		Floating Rate		Price Index		Exchange Rate		TR		Others		Total	
	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)
dezembro-99	39,75	100,00%	146,48	58,20%	2,03	8,26%	53,31	52,94%	0,91	3,79%	0,02	3,35%	242,51	54,94%
janeiro-00	42,80	100,00%	150,64	58,60%	2,05	8,29%	54,18	53,09%	1,48	5,75%	0,10	12,21%	251,24	55,45%
fevereiro-00	47,29	100,00%	138,96	53,70%	2,13	8,30%	53,82	54,60%	1,49	5,77%	0,10	12,69%	243,78	53,36%
março-00	51,22	90,37%	115,74	45,05%	2,14	8,31%	53,85	54,86%	1,50	5,78%	0,10	13,22%	224,55	48,37%
abril-00	62,18	96,13%	99,82	39,38%	2,16	8,25%	55,77	54,94%	1,52	5,75%	0,10	13,78%	221,54	46,84%
maio-00	61,27	100,00%	104,79	39,20%	2,17	8,11%	51,53	49,28%	1,53	5,76%	0,48	70,81%	221,77	45,53%
junho-00	65,44	100,00%	108,68	40,41%	3,49	13,05%	54,64	52,71%	1,54	5,83%	0,46	69,31%	234,24	47,63%
julho-00	66,08	96,30%	120,30	44,71%	3,58	12,89%	55,22	53,75%	1,56	5,90%	0,43	70,11%	247,17	49,91%
agosto-00	69,61	95,93%	113,18	43,10%	3,79	13,30%	55,18	52,59%	1,57	6,33%	0,40	68,26%	243,73	49,34%
setembro-00	70,22	90,69%	115,39	43,58%	3,81	13,18%	55,76	52,60%	1,59	6,35%	0,36	66,31%	247,14	49,17%
outubro-00	74,15	93,17%	106,50	40,41%	3,87	13,07%	56,61	51,52%	1,31	5,45%	0,30	71,86%	242,74	47,88%
novembro-00	66,50	89,21%	99,56	37,66%	3,78	12,67%	56,60	49,75%	1,31	5,46%	0,27	69,31%	228,02	44,98%
dezembro-00	72,95	96,75%	95,53	35,81%	3,65	12,03%	51,22	45,03%	1,31	5,46%	0,24	66,37%	224,90	44,04%
janeiro-01	64,57	87,16%	84,40	32,03%	4,07	11,46%	49,05	42,53%	1,33	5,49%	0,20	65,84%	203,62	39,70%
fevereiro-01	65,10	90,57%	89,24	33,65%	4,26	11,35%	40,95	34,20%	1,31	5,40%	0,17	61,25%	201,02	38,75%
março-01	67,74	89,76%	104,55	38,87%	4,53	11,81%	42,22	32,70%	1,34	5,49%	0,14	56,40%	220,51	41,10%
abril-01	61,05	89,79%	110,24	39,58%	4,34	11,14%	43,56	32,04%	1,34	4,96%	0,10	49,04%	220,63	40,22%
maio-01	56,13	88,86%	90,21	32,91%	4,52	11,03%	56,32	37,78%	1,34	4,96%	0,07	39,47%	208,60	37,61%
junho-01	55,78	88,68%	73,59	25,22%	3,30	7,94%	56,40	36,23%	1,36	4,72%	0,07	39,50%	190,50	32,80%
julho-01	59,88	98,71%	49,44	16,06%	3,20	7,99%	62,12	37,47%	1,37	5,97%	0,07	42,84%	176,07	29,48%
agosto-01	57,34	98,64%	39,42	12,75%	3,29	7,95%	69,00	39,49%	1,37	6,07%	0,07	42,91%	170,49	28,13%
setembro-01	56,40	98,60%	34,44	11,10%	3,48	8,32%	81,59	41,35%	1,38	6,14%	0,07	42,81%	177,36	28,19%
outubro-01	52,09	98,47%	34,71	11,17%	3,42	8,01%	95,47	45,62%	0,97	4,55%	0,02	24,05%	186,68	29,30%
novembro-01	50,06	97,79%	35,00	11,09%	3,46	7,92%	88,41	45,38%	0,97	4,52%	0,02	23,79%	177,92	28,38%
dezembro-01	47,19	96,73%	35,39	10,74%	7,33	16,81%	82,20	46,03%	0,97	4,14%	0,02	23,63%	173,12	27,74%

Source: National Treasury and Central Bank

Note: Values computed based on the portfolio position evaluated by the price of the security curve of intrinsic yield.

Percentage in relation to total securities maturing of each respective type of bond index.

III – FEDERAL SECURITIES HELD BY THE PUBLIC MATURING IN 12 MONTHS BY TYPE OF BOND INDEX – DPMFi (continued)

Months	Fixed Rate		Floating Rate		Price Index		Exchange Rate		TR		Others		Total	
	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)	(R\$ bi)	(%)
janeiro-02	44,65	92,90%	35,48	10,62%	8,09	15,74%	86,08	46,17%	0,97	6,50%	0,02	16,71%	175,30	27,60%
fevereiro-02	43,27	91,32%	32,91	9,88%	8,37	15,46%	84,50	46,61%	0,98	6,25%	0,11	50,88%	170,12	26,93%
março-02	50,20	88,34%	18,36	5,73%	8,45	15,61%	84,70	47,16%	0,98	6,50%	0,11	50,75%	162,80	25,99%
abril-02	61,53	99,40%	22,45	6,93%	8,65	15,34%	85,34	48,56%	0,99	6,54%	0,11	50,57%	179,06	28,28%
maio-02	60,61	99,38%	35,30	10,79%	8,79	15,40%	86,93	48,46%	0,98	6,72%	0,11	50,43%	192,71	30,14%
junho-02	55,81	99,32%	80,63	24,49%	8,75	15,02%	98,64	50,51%	1,15	7,88%	0,11	50,46%	245,08	37,49%
julho-02	51,35	99,25%	106,63	29,83%	9,32	15,39%	95,12	49,50%	1,16	9,40%	0,11	53,08%	263,69	39,10%
agosto-02	47,78	99,18%	134,32	38,66%	9,52	15,48%	71,63	46,79%	1,17	9,43%	0,14	58,94%	264,55	42,48%
setembro-02	42,63	99,07%	143,82	41,27%	9,49	15,03%	89,86	46,97%	1,18	9,41%	0,16	60,18%	287,13	43,58%
outubro-02	40,64	99,01%	142,16	41,48%	10,39	15,39%	74,04	44,01%	1,00	8,01%	0,04	35,78%	268,28	42,44%
novembro-02	27,46	98,52%	168,43	46,25%	11,57	14,94%	56,12	37,59%	0,93	7,40%	0,04	35,74%	264,54	41,89%
dezembro-02	13,22	96,77%	185,83	49,02%	6,79	8,68%	49,16	35,25%	0,91	7,11%	0,00	0,00%	255,90	41,06%
janeiro-03	12,15	99,82%	203,83	51,27%	7,21	9,09%	45,22	33,52%	0,92	7,15%	0,00	0,00%	269,32	42,29%
fevereiro-03	12,78	99,82%	200,05	49,51%	7,72	9,38%	46,42	34,94%	0,92	7,13%	0,00	0,00%	267,89	41,54%
março-03	15,66	99,86%	186,36	44,87%	8,62	10,25%	46,84	38,53%	0,93	7,15%	0,00	0,00%	258,40	39,77%
abril-03	11,53	93,57%	175,76	40,30%	8,65	10,11%	35,17	36,17%	0,93	7,10%	0,00	0,00%	232,04	36,01%
maio-03	18,33	84,92%	178,66	40,23%	8,89	10,29%	34,21	35,87%	1,28	9,63%	0,00	0,00%	241,38	36,53%
junho-03	24,71	82,41%	169,58	37,70%	9,03	10,51%	32,30	35,78%	0,93	6,92%	0,00	0,00%	236,55	35,34%
julho-03	39,92	91,72%	149,42	32,58%	8,93	10,47%	31,21	35,07%	0,90	6,65%	0,00	0,00%	230,37	33,39%
agosto-03	46,64	90,34%	148,41	32,40%	9,51	11,02%	32,98	37,86%	0,92	7,11%	0,00	0,00%	238,46	34,26%
setembro-03	55,63	86,89%	141,05	30,85%	10,18	11,28%	32,03	38,48%	0,89	6,89%	0,00	0,00%	239,78	33,88%
outubro-03	61,68	86,91%	136,03	29,49%	10,34	11,09%	34,77	43,64%	0,78	6,12%	0,00	0,00%	243,60	33,93%
novembro-03	71,09	86,61%	132,75	29,02%	10,28	10,90%	37,36	45,74%	0,73	5,66%	0,00	0,00%	252,20	34,63%
dezembro-03	78,64	85,92%	130,49	29,06%	10,94	11,04%	38,19	48,55%	0,69	5,29%	0,00	0,00%	258,41	35,33%

Source: National Treasury and Central Bank

Note: Values computed based on the portfolio position evaluated by the price of the security curve of intrinsic yield.

Percentage in relation to total securities maturing of each respective type of bond index.