

SOVEREIGN ISSUANCES

I. Background

Following the April 1994 conclusion of external debt renegotiations (for greater detail, see the text "Restructured External Debt – BIB, IDU and Bradies"), Brazil returned to the international financial market in 1995. The funds obtained were used initially to replenish the nation's international reserve position and to reduce the Internal Federal Public Securities Debt - DPMFi. However, the major advantages of Brazil's return to foreign capital markets were formation of a long-term investor base, consolidation of new markets and creation of a series of feasible alternatives for Brazilian public sector financing.

In 1995, the country began issuing bonds on the Japanese and German markets. At that time, these markets were considered more attractive and secure for the country's return to the international capital market. On a step-by-step basis, Brazil gained access to the Global market, making it possible for the country to build a larger and more diversified investor base. With the country's new and fruitful relations with the international financial community, the terms of these issues gradually increased while their costs declined. Parallel to this, the country's growing presence on international markets made it possible to carry out liability management operations, involving security exchanges or buybacks, aimed at improving the debt profile.

An updated listing of international market operations can be found in the spreadsheet "External Securities Debt - Funding Operations", at the following address:

http://www.tesouro.fazenda.gov.br/english/public_debt/characteristics_bonds.asp

The legal foundation for National Treasury issues abroad is a specific Federal Senate Resolution. Initially, according to Resolutions no. 57/1995 and no. 69/1996, the resources originating in external funding operations were to be used exclusively for purposes of amortization of the Internal Federal Public Securities Debt – DPMFi. National Treasury operations are currently carried out under the terms of Resolution no. 20, dated 11/16/2004, which grants the Treasury greater administrative flexibility in questions involving the debt. At the same time, this Resolution allows the Treasury to utilize the resources generated by these issues in redemptions of Federal Public Debt in general.

From the managerial point of view, it is important to stress that the Federal Public Debt – DPF is managed in an integrated manner, involving both internal and external assets and liabilities. This measure represented an important step forward in the process of external funding operations, transforming them into an instrument aimed at reducing the costs and risks implicit in the federal public debt profile as a whole.

It is also important to stress that the National Treasury's actions on the international market in 2005-2006 resulted in significant changes in the Brazilian external debt profile. In more specific terms, the entire renegotiated debt (Bradies) were redeemed through exchanges of C-Bonds for A-Bonds, while all other remaining Bradies on the market were called, as an embedded option, ahead of schedule. Coupled with other liability management operations in that period (buybacks and exchanges), these measures aided in improving the external securities debt structure. Finally, the period in question was also marked by the first issuance of government bonds on the international market denominated in local currency (Real), in September 2005.

As announced in Aug-06, the current objectives of the National Treasury's external financing strategy are more qualitative in nature, including issues classified by the market as benchmark securities, coupled with further improvements in the debt profile through withdrawals of papers with distorted prices in relation to the sovereign curve.