

Brazilian Federal Public Debt

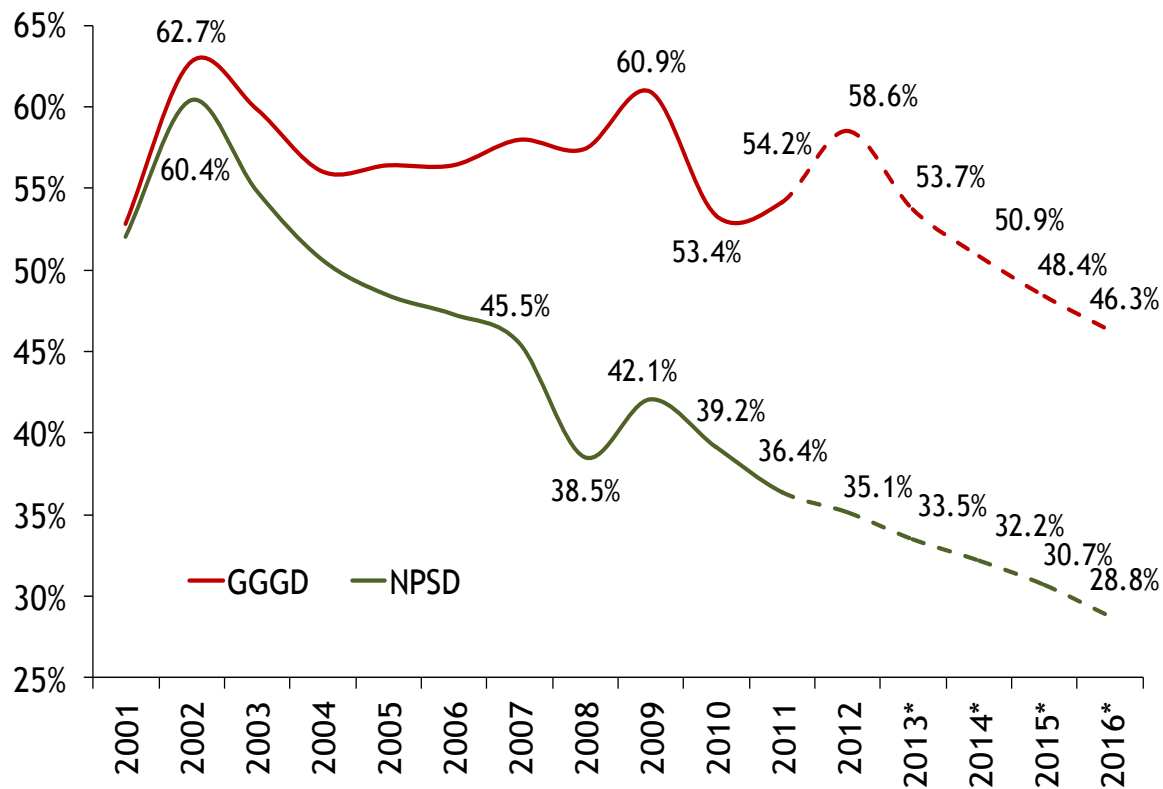
The evolution of local and global debt markets infrastructure: what is ahead?



April 3rd , 2013

Downward Trend of the Public Debt / GDP ratio

Gross General Government Debt, Net Public Sector Debt as % GDP

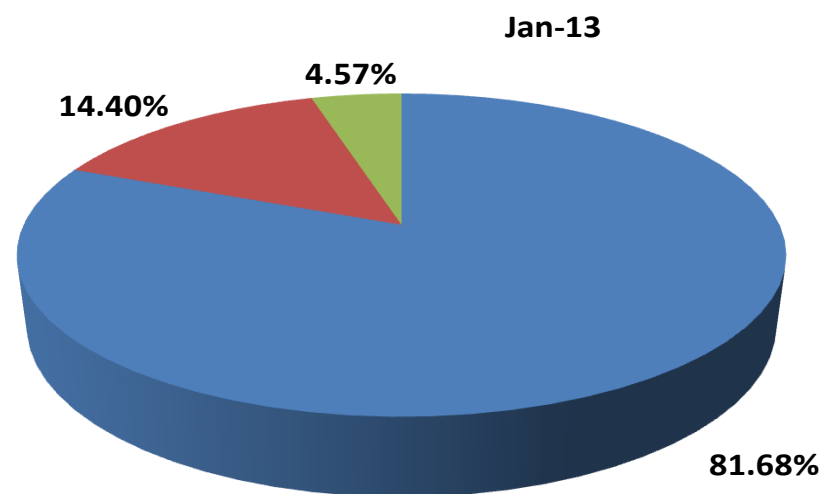
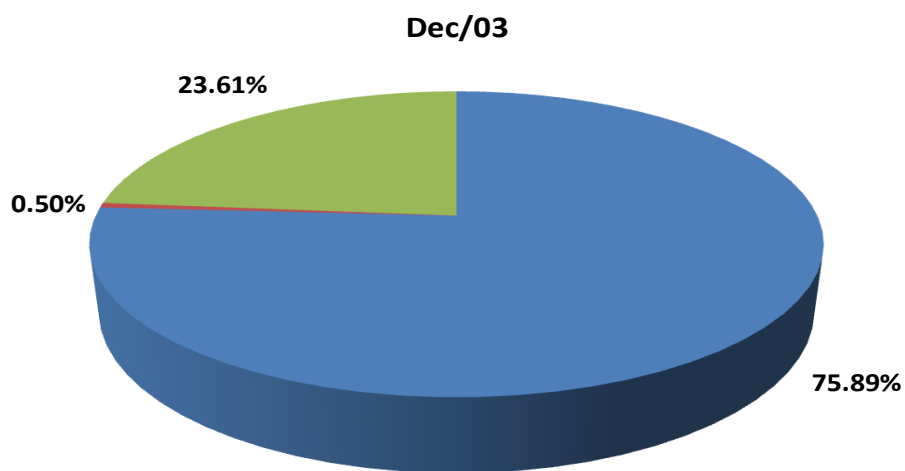


Source: Brazilian Central Bank (Inflation Report – Mar13 / Projections based on market parameters).

- » Reduction in Gross Debt from 62.7% of GDP in 2002 to 58.6% in 2012.
- » Net Debt reduced from 60.4% of GDP to 35.1% in the same period.
- » Brazil might reduce its Net Debt / GDP ratio to a level below 30% up to 2014.
- » Net creditor in foreign currency in USD 88 bn, due to USD 377 bn in international reserves.

We have seen a shift from the External Debt to Domestic

Recent Evolution (as % of FPD)



■ Domestic Debt held by Residents

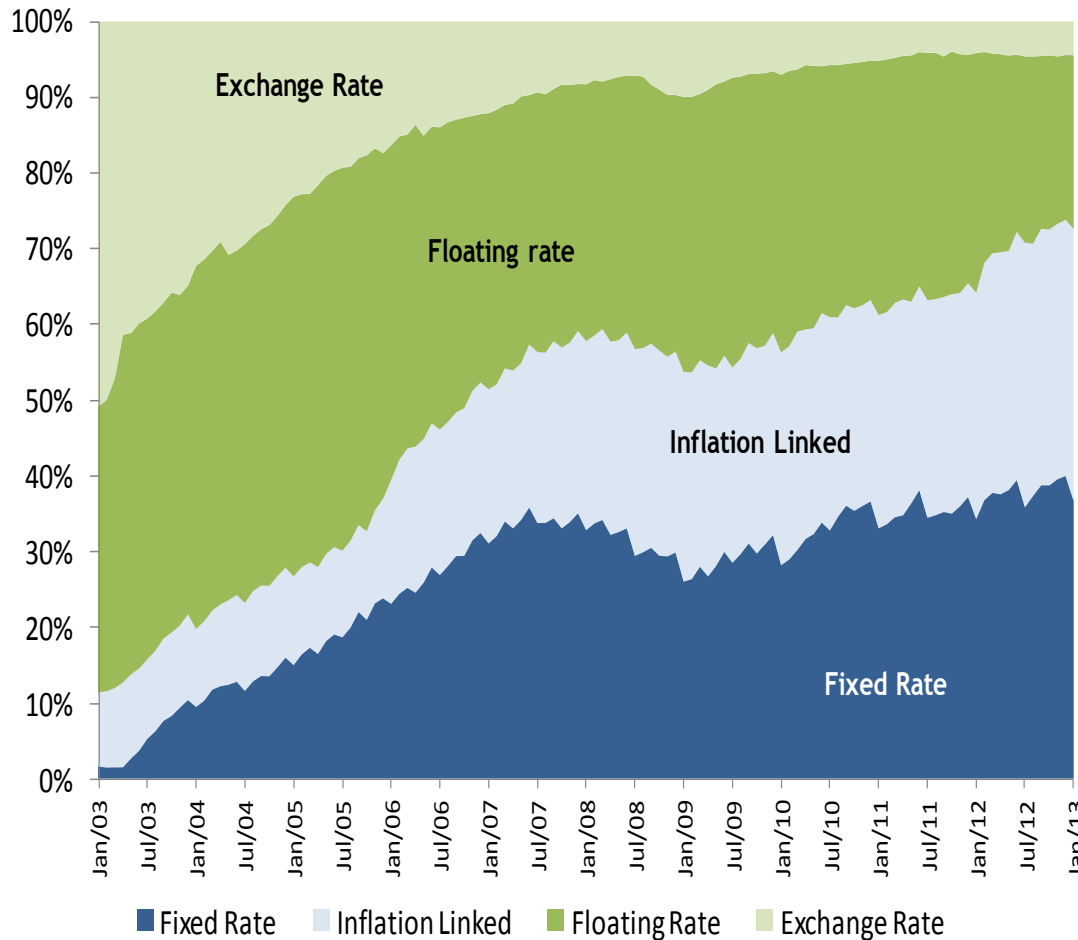
■ Domestic Debt - held by Non Residents

■ External debt

Source: National Treasury

Strategy of the Brazilian Public Debt Management

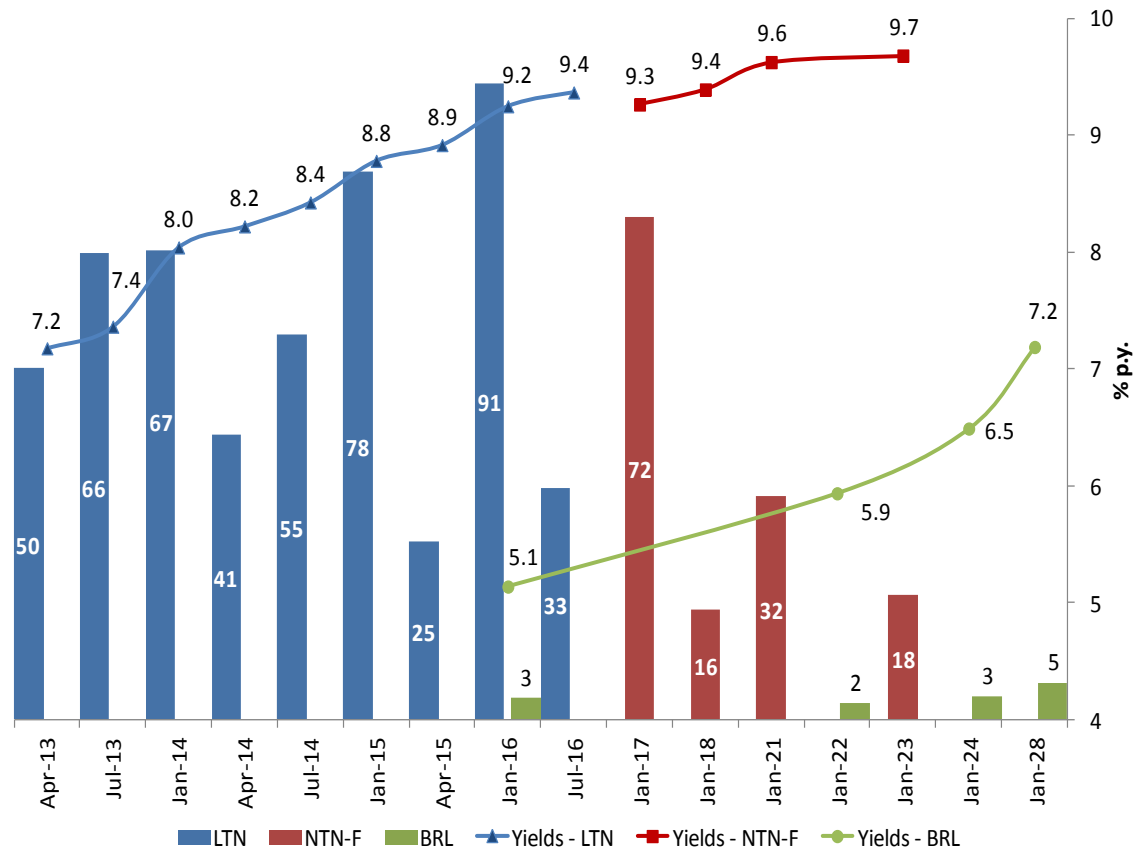
95% of the Brazilian Public Debt is Domestic



- » Improving the Composition. Replacement of floating and exchange rate bonds for fixed rate and inflation-linked bonds.
- » Lengthening the average maturity.
- » Developing the domestic yield curve:
 - » Fixed rate (up to 2023)
 - » Inflation-linked bonds (up to 2050)
- » Developing the External yield curve:
 - » Global USD (2023 e 2041)
 - » BRL bonds (up to 2028)
- » Broader investor base. The participation of the foreign investor in the Domestic Debt represents 14%.

Opportunities: Brazilian Fixed Rate Yield Curves

Fixed Rate Bonds - Outstanding and Yields (03/04/13)



- » Benchmarks with a high outstanding improve the liquidity of the secondary market.
- » Yields remain attractive in the domestic market
- » Average daily turnover around USD 300 millions in the main benchmarks.
- » Monthly buyback auction in the domestic market and daily buyback program in the external market increase the liquidity.

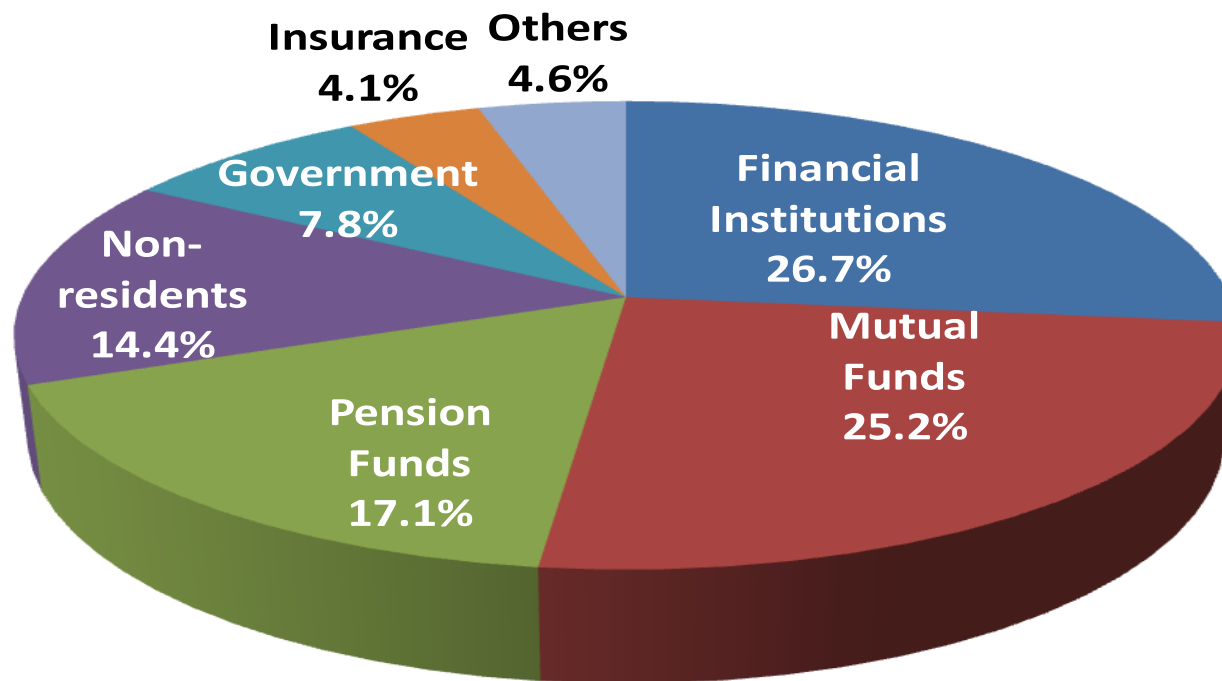
Source: Bloomberg, Andima (Yields) and National Treasury (Outstanding)

Note 1: Currently, only the NTN-F Jan/19 and Jan/23 are issued.

Note 2.: The yield of the NTN-F is based on the 252-d standard while the yield of the BRL is based on the 360-d standard.

Investor Base in Domestic Debt

Holder's (Jan 2013)



Source: National Treasury

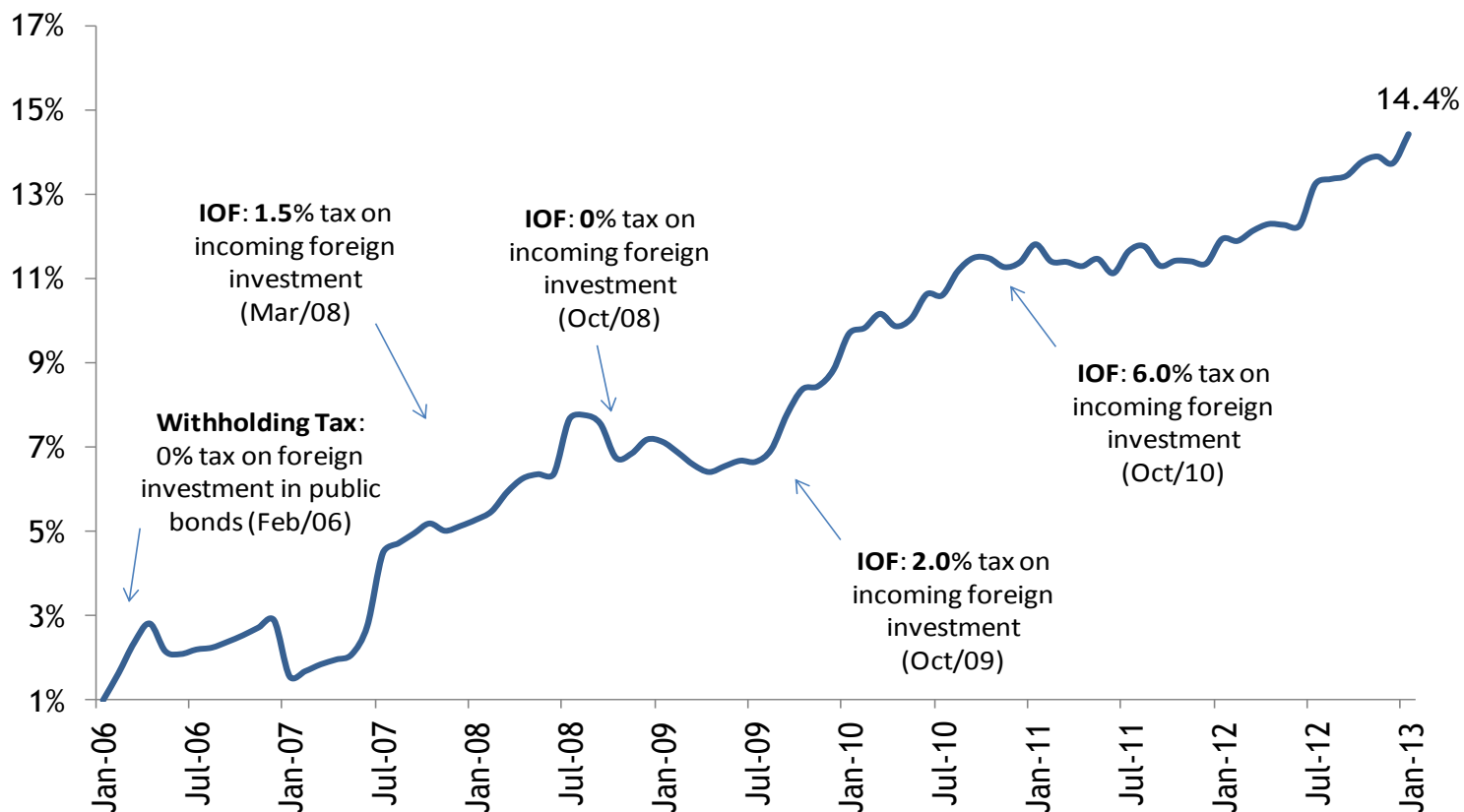
"Pension Funds" includes both open and closed pension funds.

"Government" comprises funds that are managed by the public sector, including those whose assets are not public.

Source: National Treasury

Non Residents has increased their participation in Domestic Debt...

Holder's (Jan 2013)

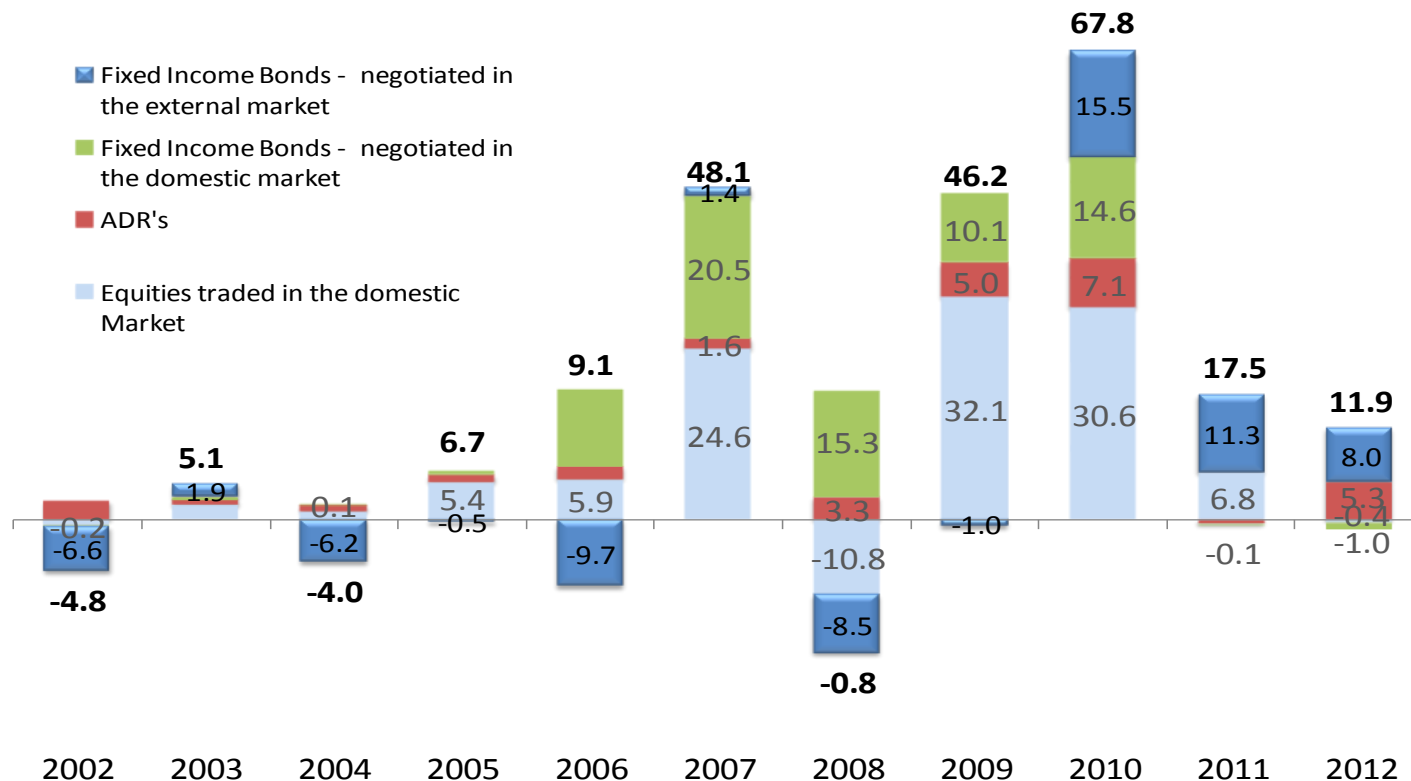


Source: National Treasury

- » Exemption of withholding tax for foreign investors (2006) .
- » Financial Tax (IOF) to foreign investors (2008, 2009 and 2010)

... However Portfolio Investment Decreased after the Regulatory Tax (IOF) ...

Foreign Investment in Portfolio – US\$ bn



Source: Central Bank

» In 2011 and 2012, the net inflow of portfolio investment was considerably lower than previous years. For 2013, this trend is expected to continue.

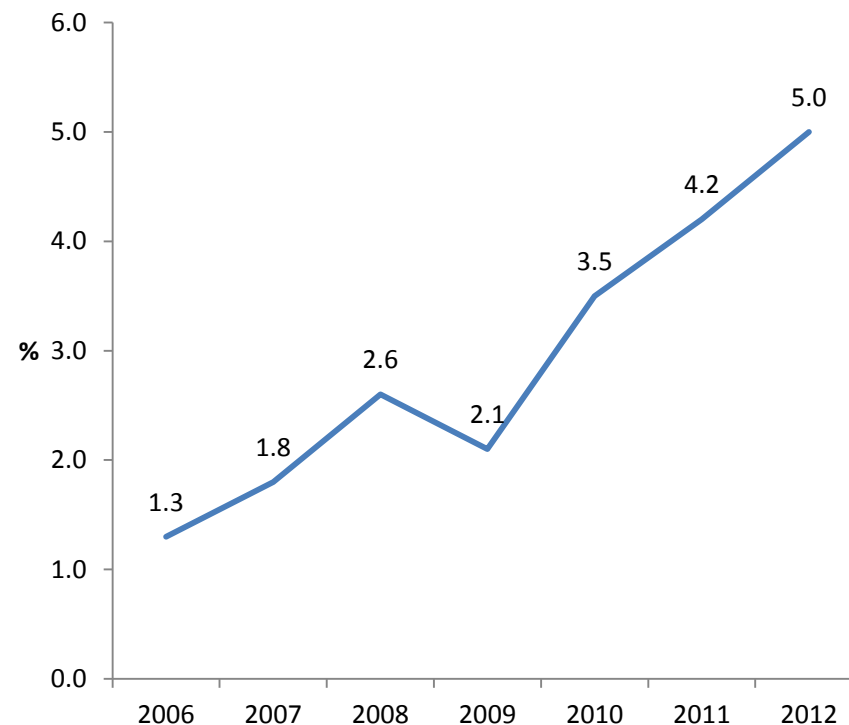
... while the FDI continues impressive.

Selected EM FDI's evolution (USD bn)

Country	2011	2012
CHINA	116	111.7
HONG KONG	96.1	72.5
BRAZIL	66.7	65.3
SINGAPORE	64.0	54.4
RUSSIA	52.9	44.1
INDIA	31.6	27.3
CHILE	17.3	26.4
INDONESIA	19.2	19.0
SAUDI ARABIA	16.3	18.8
MEXICO	20.8	17.4

Source: CSFB, UNCTAD, Central Bank

Brazilian share on world's FDI (%)



Source: Central Bank- Press Release –External Sector – table 18d

Lessons Learned

Macro Environment

- » Maintenance of clear fiscal targets for the following years, assuring the sustainability of the public debt in the medium term;
- » Close monitoring of contingent liabilities;
- » Sound financial and banking systems, keeping strict rules.

Public Debt

- » Diversified investor base;
- » Development of the local currency bond market;
- » Maintenance of a comfortable cash position, which allows the issuer not to access the market in turbulent moments or even open buy back auctions.
 - » The Brazilian National Treasury maintains a liquidity-cushion in BRL equivalent to at least three months of the FPD service (principal plus interest)

For additional information access the National Treasury website:

www.tesouro.fazenda.gov.br

Or contact Institutional Relations area:

brazildebt@fazenda.gov.br

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