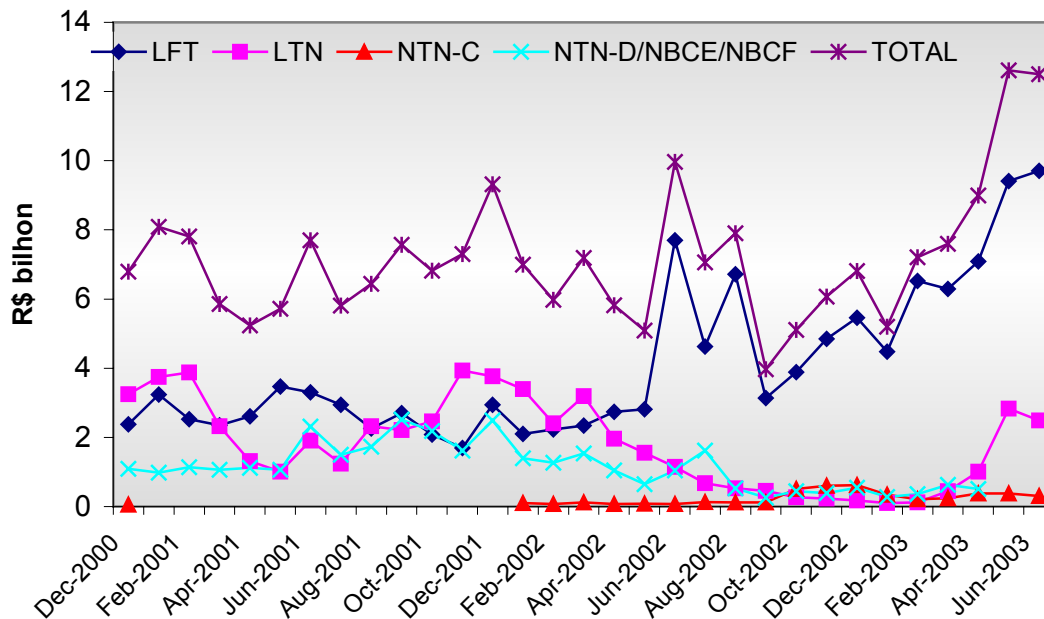


**THE RECENT PERFORMANCE OF THE
SECONDARY MARKET OF GOVERNMENT SECURITIES**

The volume of trade of government securities in the secondary market rose significantly in 2003. The average daily trade exceeded R\$ 10 billion, the high mark reached in June 2002, before the market of government securities became beset by turbulence.

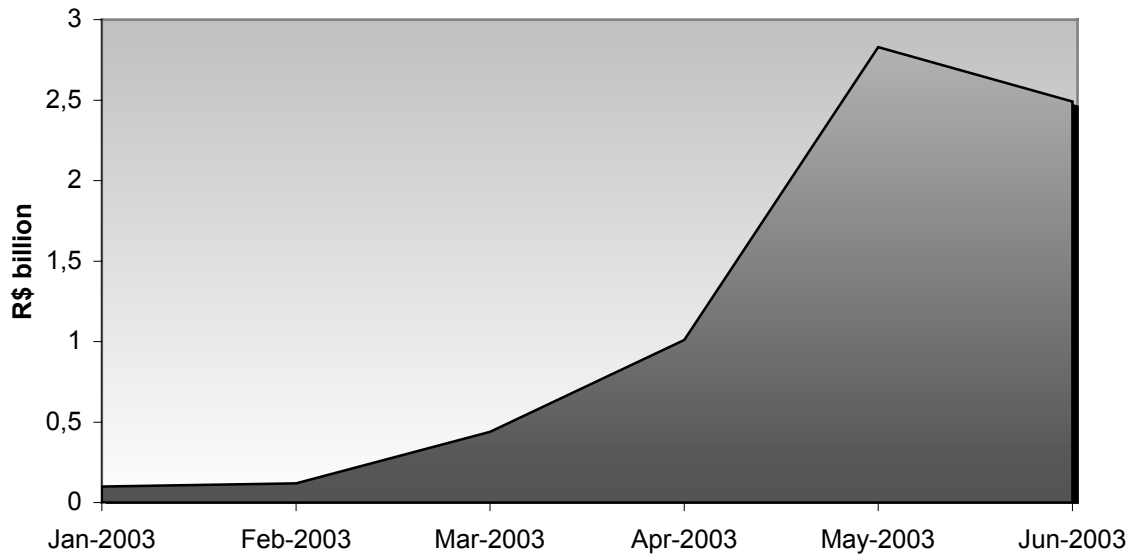
Trading in the secondary market (daily average)



Overall trade on LFTs (floating-rate securities) has remained higher than on LTN (fixed-rate securities), keeping with the pattern observed since March 2002 and reflecting the much higher outstanding amount of LFTs. The decline in trade on LTNs in 2002 was triggered by growing uncertainty in the futures interest rate market from the first half of the year, which led to a sharp reduction in the issuance of fixed-rate instruments throughout 2002. Issuance was ultimately halted in latter 2002, resulting *inter alia* in a contraction in the outstanding stock of LTNs.

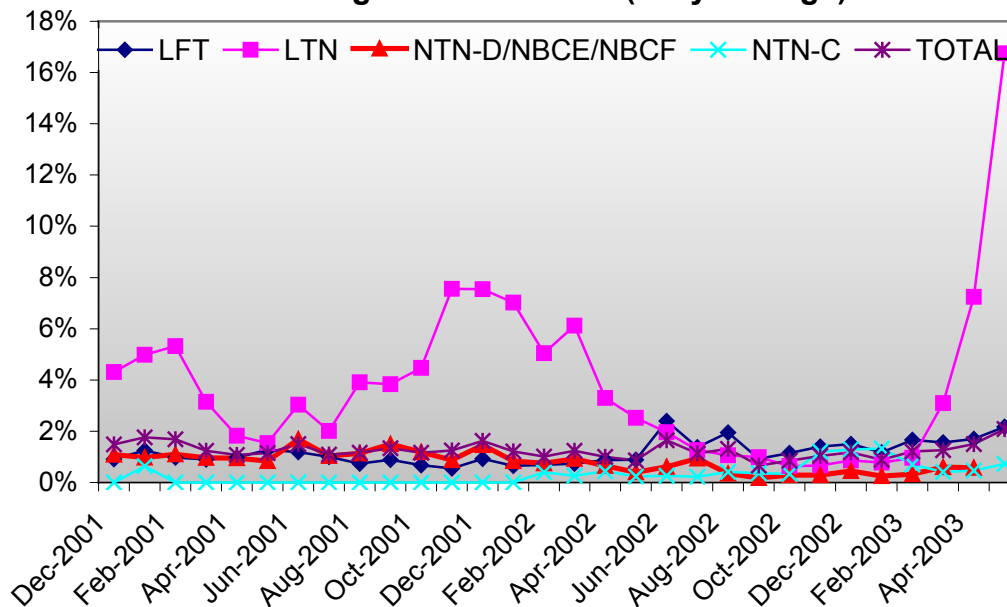
Since March 2003, the increasing stability of the Brazilian economy has offered room for the National Treasury to resume the issuance of LTN. Issuance conditions have improved steadily since March, with growing volumes auctioned at lower discounts. Indeed, while the first issuances were at rates above 28%, by July, LTNs were auctioned at rates close to 22%. The National Treasury also stuck to a disciplined schedule of auctions and defined maturities, helping increase the predictability of offered volumes. The combination of these factors has been translated in a ten-fold increase in the volume of trade of LTNs in the secondary markets, which raised from around R\$ 300 million a day to about R\$ 3 billion a day from January 2003 to June 2003.

LTN trading amount in secondary market (daily average)



The increase in trade on LTNs was more than proportional to the increase in the outstanding volume, reflecting a more liquid market. Indeed, daily turnover rose to 16% of the outstanding volume, well above, the proportion, for instance, of LFTs traded relative to the LFT outstanding stock. Of course, this is what to be expected from a well-functioning market, where trading of risky securities are essential for a correct and transparent price setting.

Percentage of trading per bond relating to its outstanding stock at market (daily average)



The liquidity of the LTN market has also been helped by the policy of the Treasury to concentrate maturities in specific months (first month of each quarter), helping also the operation of futures markets, as well as the lengthening of maturities (up to October 2004). In this environment, the Treasury and the Central Bank look forward to the implementation of the recently-announced enhancements in the rules to be applied to primary and secondary dealers, with a view to increase competition and trade in the market of public securities.