



The Federal Republic of Brazil  
National Treasury Secretariat

# *PUBLIC DEBT*

## *Workshop on Developing Government Bond Markets in Latin America*

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Rio de Janeiro / Brazil

June/2001

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**1. Brazilian Debt Indicators**

**2. Public Debt Strategy**

**3. Secondary Market for Govt. Securities**

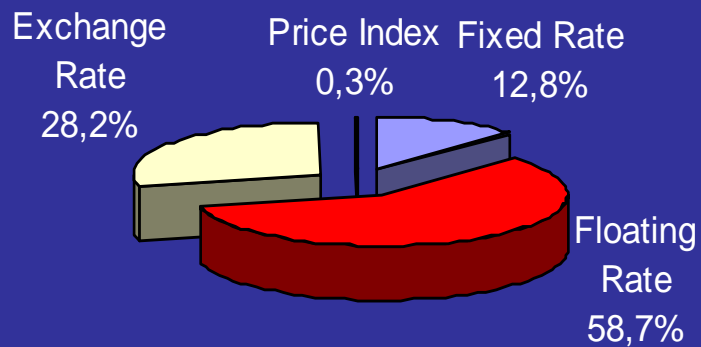
**4. Institutional Framework**

# *Domestic Securities Debt*

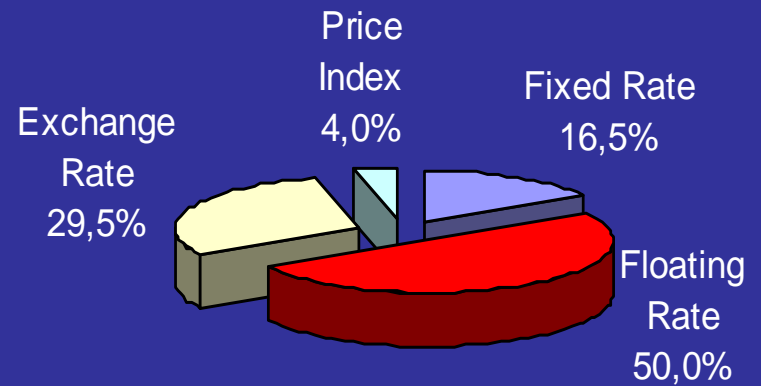
	Dec/99		Apr/01	
	R\$ billion	%	R\$ billion	%
Domestic Securities Debt	440	100%	549	100%
Non Competitive	129	29%	137	25%
Competitive	311	71%	411	75%
Fixed Rate	40	13%	68	17%
Floating Rate	183	59%	205	50%
Exchange Rate	88	28%	121	29%
Price Index	1	0%	17	4%

# *Domestic Competitive Debt*

**December 1999**

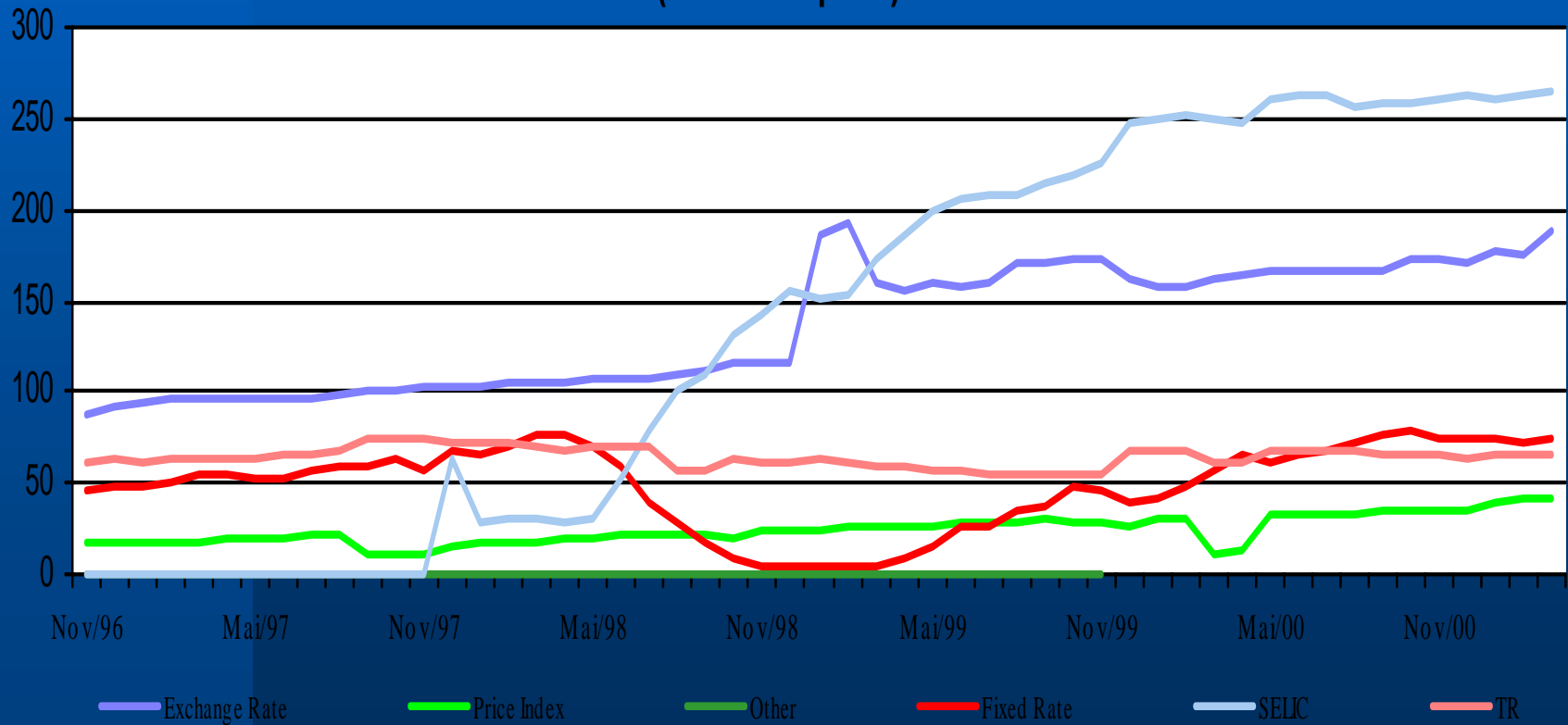


**April 2001**

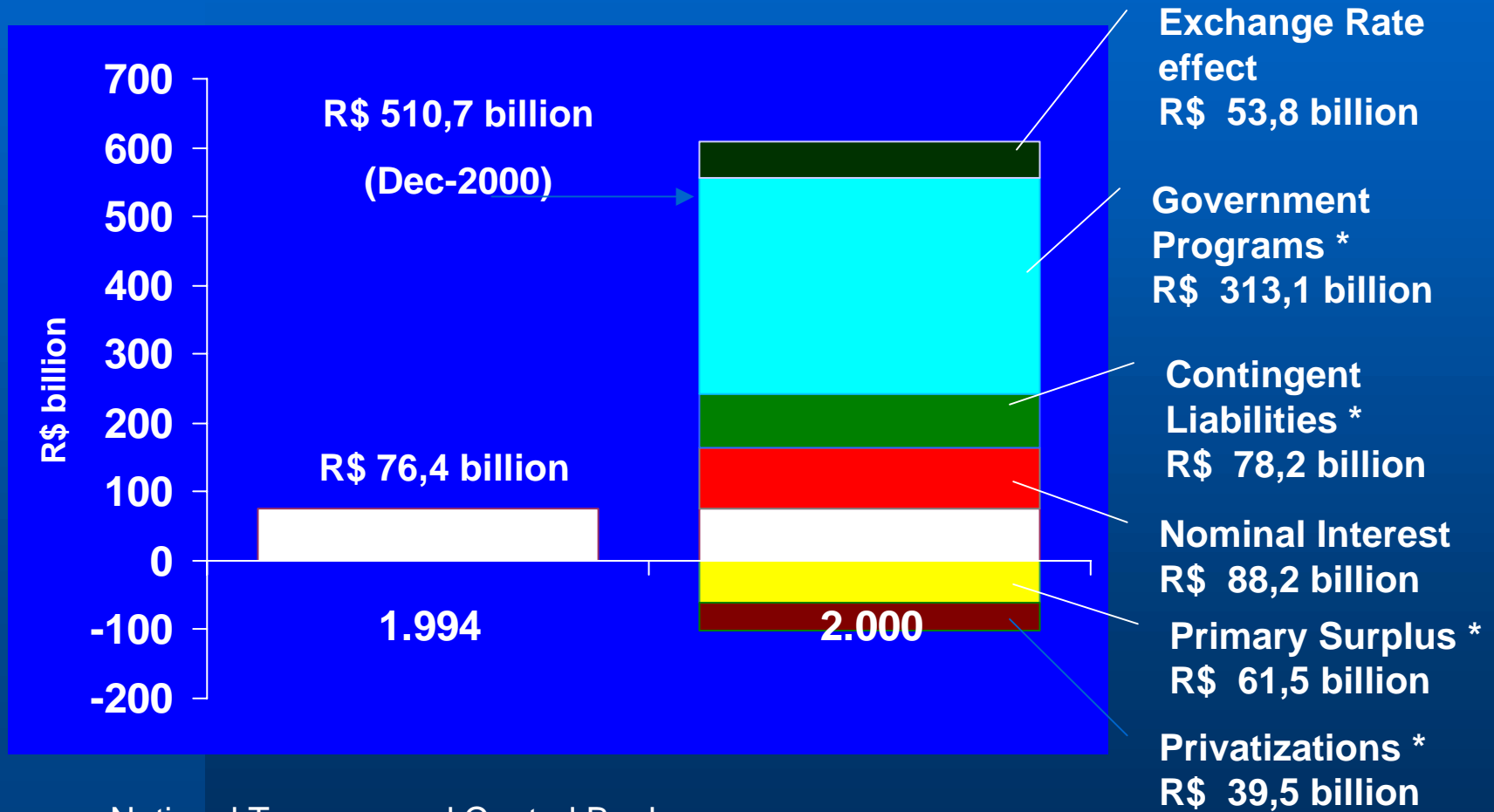


# Domestic Competitive Debt

National Treasury Debt per Index  
( nov/96 - apr/01)



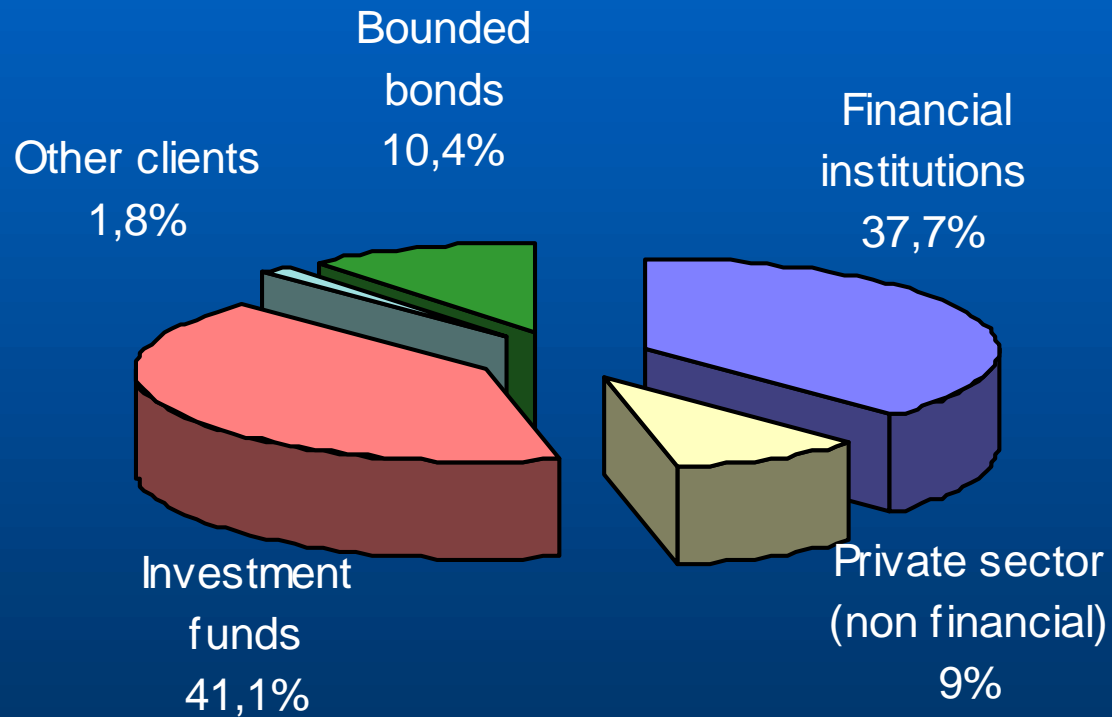
# Domestic Public Debt Evolution



Sources: National Treasury and Central Bank

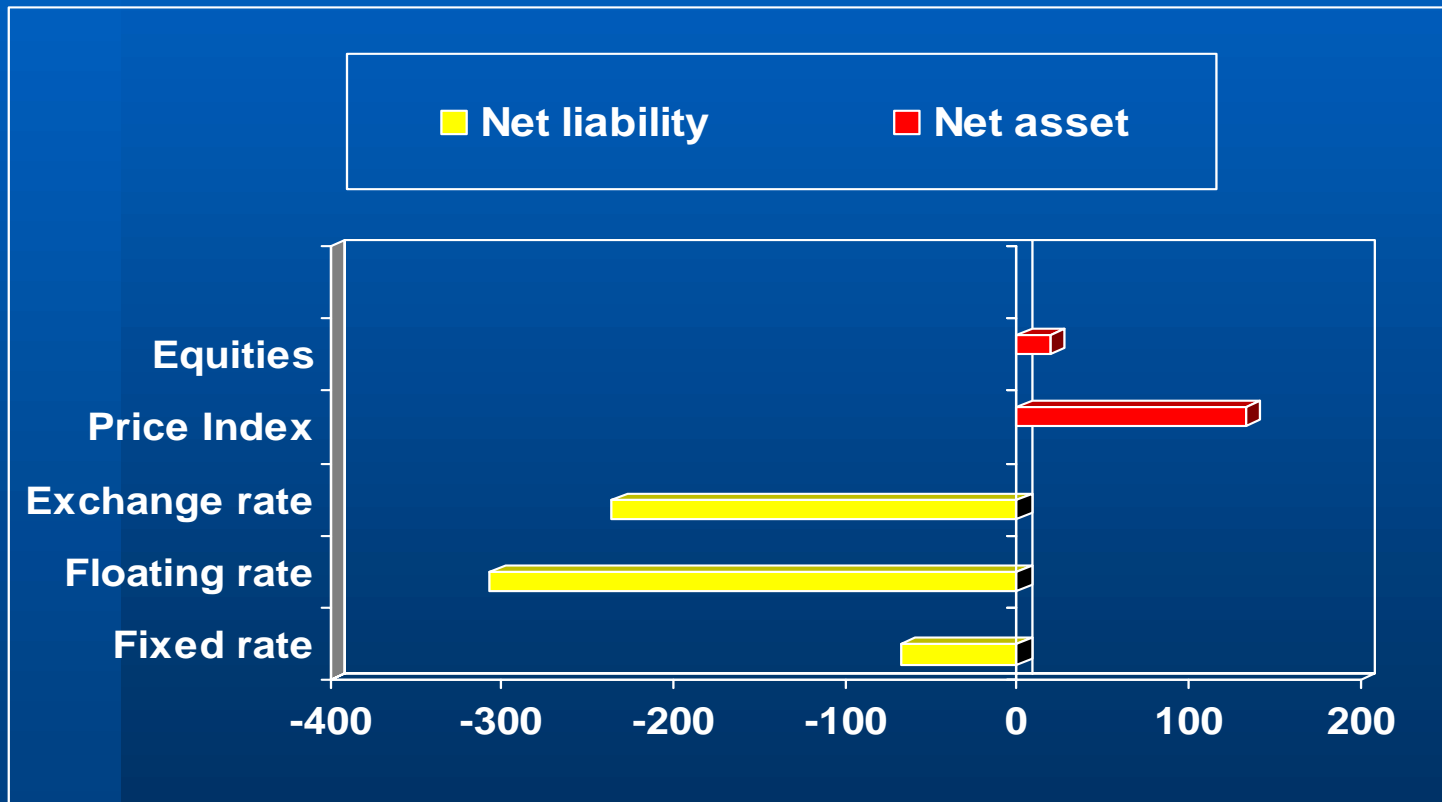
(\*) Values updated considering each opportunity cost

# Public Debt Holders - Dec/00



# National Treasury Assets and Liabilities Mismatches \* (April 2001)

R\$ billion



\* Including contingent liabilities

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# Public Debt Management Guidelines

## *DOMESTIC DEBT:*

- ✓ Maturity lengthening process: reduction of refinancing risk;
- ✓ Duration: Gradual replacement of floating-rate by fixed-rate securities;
- ✓ Rebuilding of domestic yield curve:
  - Fixed rate (LTN): short term benchmarks: up to 2 years
  - Floating rate (LFT): 5 years
  - Price-indexed bonds (NTN-C): (3,5,7,10,20 and 30 years)
- ✓ Standardization of debt instruments; fungibility for floating rate securities; re-offer;
- ✓ The Treasury presents regular calendar of auctions and provides several types of information to market players (transparency).

# PUBLIC DEBT MANAGEMENT

## Guidelines

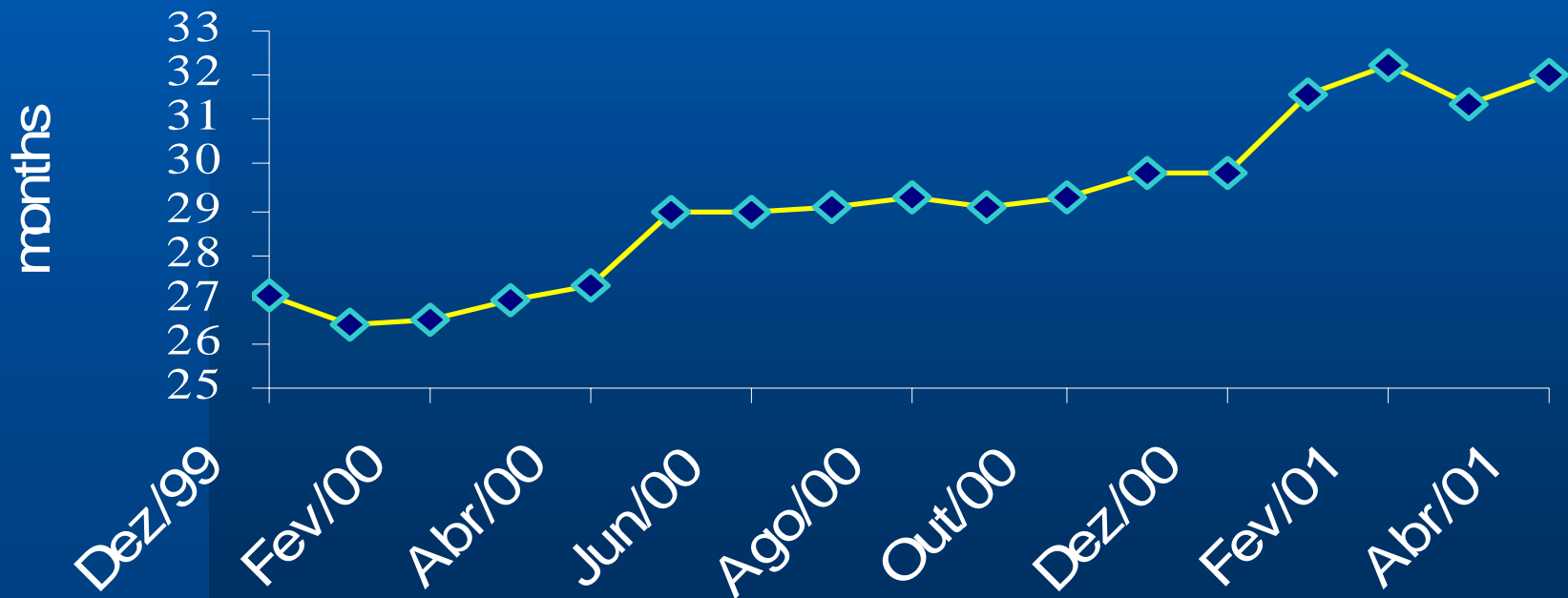
### *EXTERNAL DEBT*

- ✓ Establishment/consolidation of yield curves in strategic markets; benchmarks in dollar, euro and yen;
- ✓ Provide and enhance access for other borrowers to the international capital markets;
- ✓ Gradual substitution of restructured debt (Bradies) by market instruments;
- ✓ Broadening of the investors base in Brazilian risk.

# Recent Developments: Domestic Debt

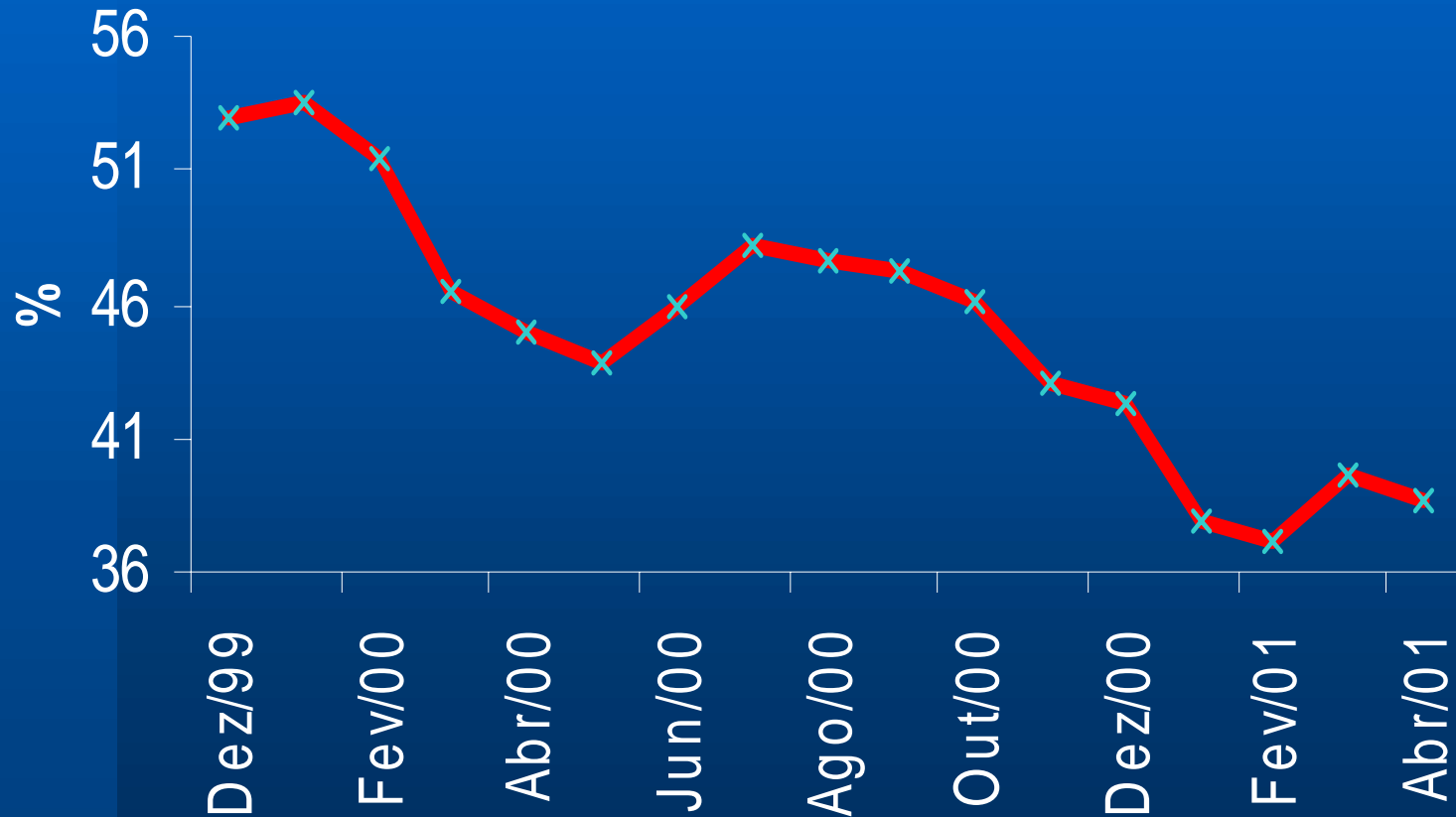
## *Lengthening of Average Maturity*

### Domestic Bonded Debt



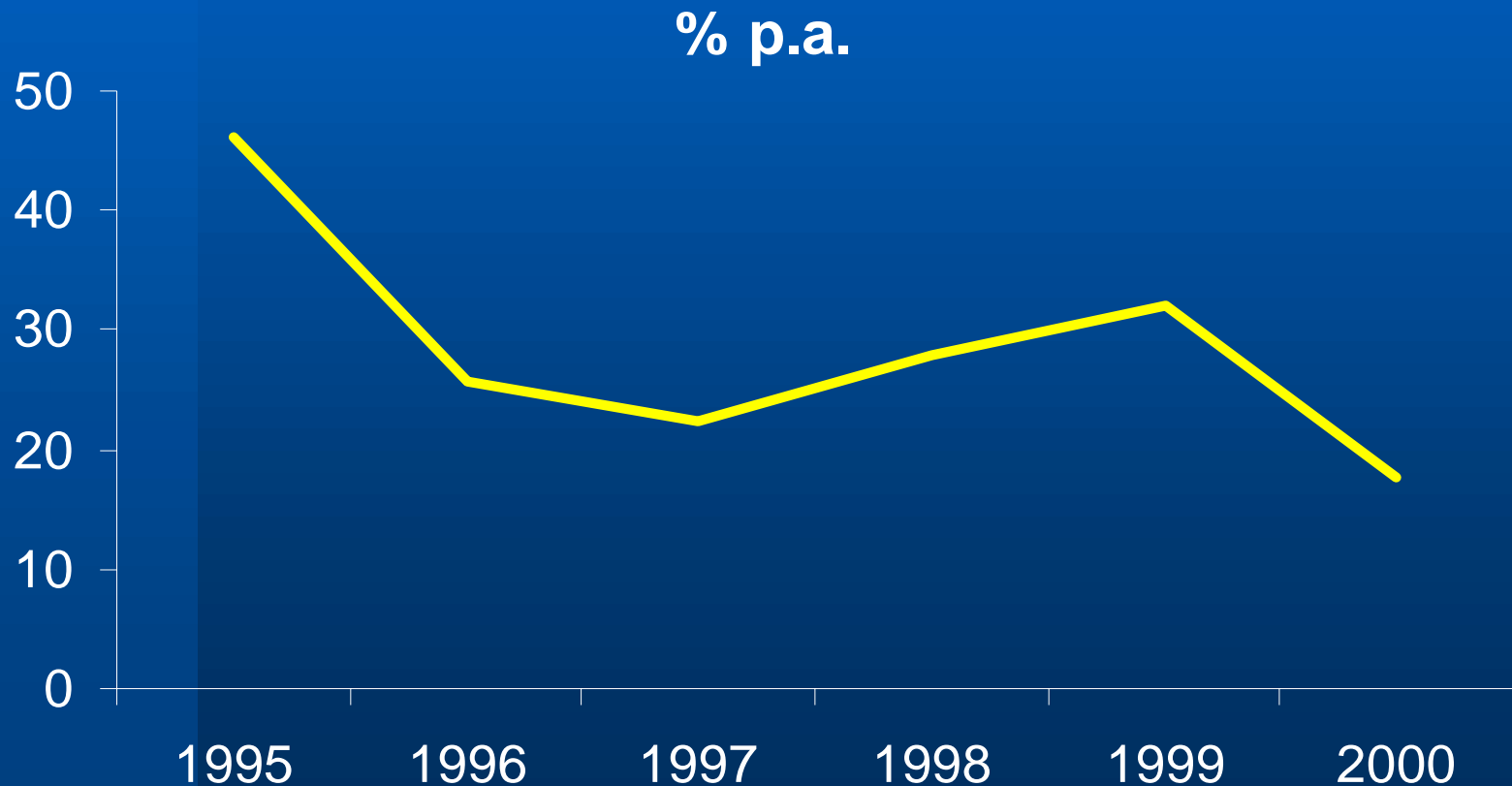
# Recent Developments: Domestic Debt

% of Total Debt Maturing in 12 months



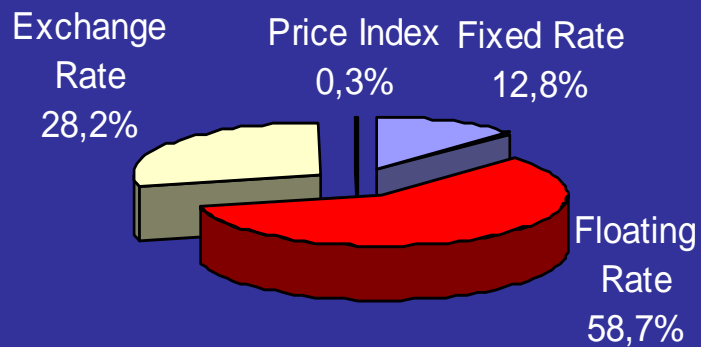
# Recent Developments: Domestic Debt

## *Reduction of Average Funding Cost - Domestic Bonded Debt*

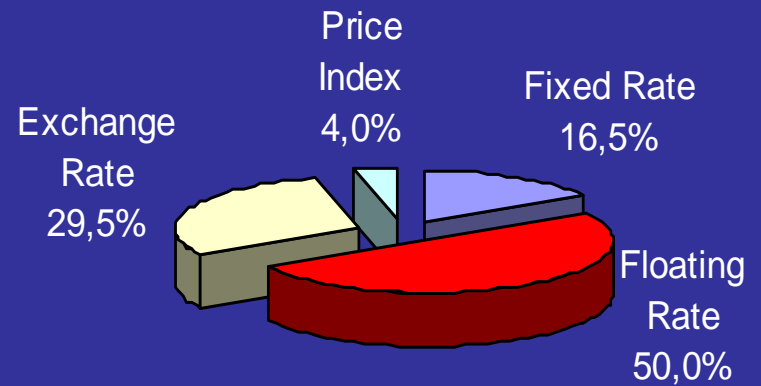


# *Domestic Securities Competitive Debt*

**December 1999**



**April 2001**



# ANNUAL BORROWING PLAN STRATEGY FOR 2001

## Basic Parameters:

- ✓ Estimated Debt Service 2001 \*: R\$ 201,8 billion
- ✓ Fiscal resources (budget): R\$ 54,4 bilhões
- ✓ Gross Borrowing Requirements: R\$ 147,4 bilhões
- ✓ Hypotheses:
  - a) 100% roll-over of dollar-linked securities; and
  - b) bond issuance in international capital markets:  
US\$ 6 billion

\* Outstanding debt in December 31, 2000

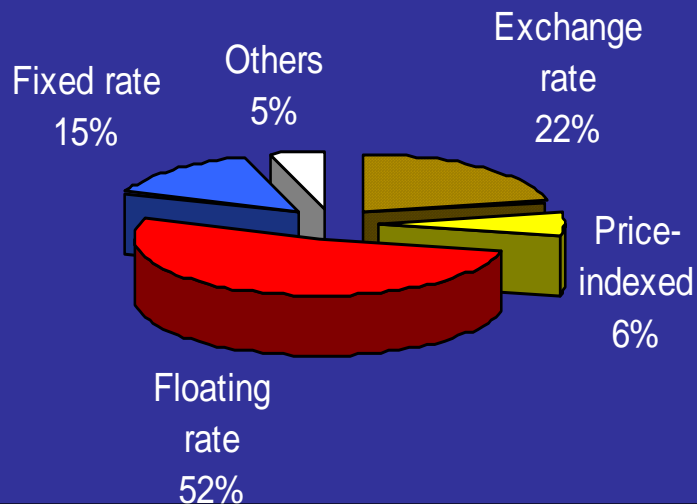
# ANNUAL BORROWING PLAN STRATEGY FOR 2001

Indicators	Dez/99	Dez/00	Dec/01 Optimist	Dec/01 Base Case	Dec/01 Conserv.
<b>Bonded Debt Outstanding (R\$ bi)</b>	441,4	510,7	543,0	548,4	568,7
<b>Average Maturity (months)</b>	27,1	29,8	43,2	42,9	44,4
<b>Bonded Debt Duration (Months)</b>	9,4	10,7	21,2	20,3	18,0
<b>% Maturing in 12 Months</b>	53,0	42,4	27,3	27,1	28,0
<b>Share in Total Bonded Debt</b>					
<b>Fixed Rate (%)</b>	9,0	14,8	23,9	22,4	15,8
<b>Floating (%)</b>	57,0	52,2	40,8	41,6	46,5

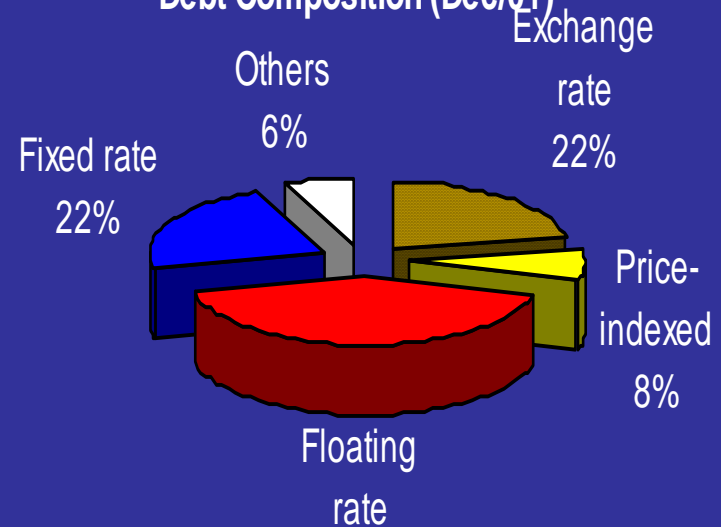
# ANNUAL BORROWING PLAN STRATEGY FOR 2001

## Estimated Results (Basic Scenario)

Debt Composition (Dec/00)



Debt Composition (Dec/01)



# ANNUAL BORROWING PLAN

## 1st. Quarter Results

Indicators	1st Quarter 01	1st Quarter 01	Dez/01
	ABP	Observed	ABP
Bonded Debt Outst. (R\$ billion)	533,7	536,5	548,4
Average Maturity (months)	31,9	31,3	42,9
Bonded Debt Duration (Months)	12,9	13,4	20,3
% Maturing in 12 Months	43,4	39,5	27,1
Share in Total Bonded Debt			
Fixed Rate (%)	16,2	14,1	22,4
Floating (%)	50,2	50,1	41,6

# National Treasury Initiatives

- ✓ New institutional arrangement, based on DMO experience;
- ✓ Statistics consolidation;
- ✓ Methodological unification;
- ✓ Regular Issuance of Public Debt Bulletins;
- ✓ Annual Borrowing Plan;
- ✓ Regular Auctions Schedule;
- ✓ Code of Conduct for Public Debt Managers
- ✓ Development of Investor Relations area.

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# *DEVELOPMENT OF SECONDARY MARKET FOR GOVERNMENT SECURITIES*

Evaluation in November 1999:

- ✓ excess of auctions
- ✓ large range of maturities
- ✓ weak performance of dealers on bonds negotiation

Some of the implemented propositions:

- ✓ decrease in the frequency and amount of offered securities, stimulating changes of position in the secondary market;
- ✓ reduction in the range of maturities, creating more specific benchmarks to increase liquidity;
- ✓ Buyback auctions, to reduce debt concentration.

# *DEVELOPMENT OF SECONDARY MARKET FOR GOVERNMENT SECURITIES*

Some of the implemented propositions (cont.):

- ✓ issuance calendar;
- ✓ periodical reports about relevant events in the period;
- ✓ change in dealers selection process, in order to strengthen their capacity of performing as market-makers: more emphasis in the quantity of negotiations and in the different types of bonds and maturities negotiated, less emphasis in the amount of bonds kept in their portfolio or in the volume negotiated in a given period;
- ✓ issuance of long term bonds: firm bid offer from dealers;
- ✓ periodical meetings with dealers, institutional investors and credit rating agencies;
- ✓ incentive for electronic trading systems: increase of transparency, incentive for new investors.

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# PREVIOUS INSTITUTIONAL STRUCTURE

The external and domestic debts used to be managed by separated areas:



The decision of rearranging CODIP and COREX was based on the international experience of Debt Management Office, and aimed at redistributing responsibilities according to macro functions (accounting, risk management / long term planning, and issuance operations / short term operations)

# NATIONAL TREASURY'S STRUCTURE REFORMULATION

## PUBLIC DEBT DEPARTMENT

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graph TD; A[PUBLIC DEBT DEPARTMENT] --> B[CODIP (FRONT OFFICE)]; A --> C[COGEP (MIDDLE OFFICE)]; A --> D[CODIV (BACK OFFICE)];
```

### CODIP (FRONT OFFICE)

development of short term strategies related to bond issuance on the domestic and international markets

### COGEP (MIDDLE OFFICE)

development and application of long term strategies aimed at risk reduction, analysis of the debt evolution and macroeconomic follow-up

### CODIV (BACK OFFICE)

registry, payment and accounting of the domestic and foreign debts (in line with the federal budget)

# *NATIONAL TREASURY'S STRUCTURE REFORMULATION*

Three new areas, derived from CODIP and COREX:

**Back Office:** registry, payment and accounting of the domestic and foreign debts (in line with the federal budget)

**Middle Office:** development and application of long term strategies aimed at risk reduction, analysis of the debt evolution and macroeconomic follow-up

**Front Office:** development of short term strategies related to bond issuance on the domestic and international markets



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