

2018



Federal Public Debt Annual Report

2019



Annual Borrowing Plan

Brasilia,
January 2019

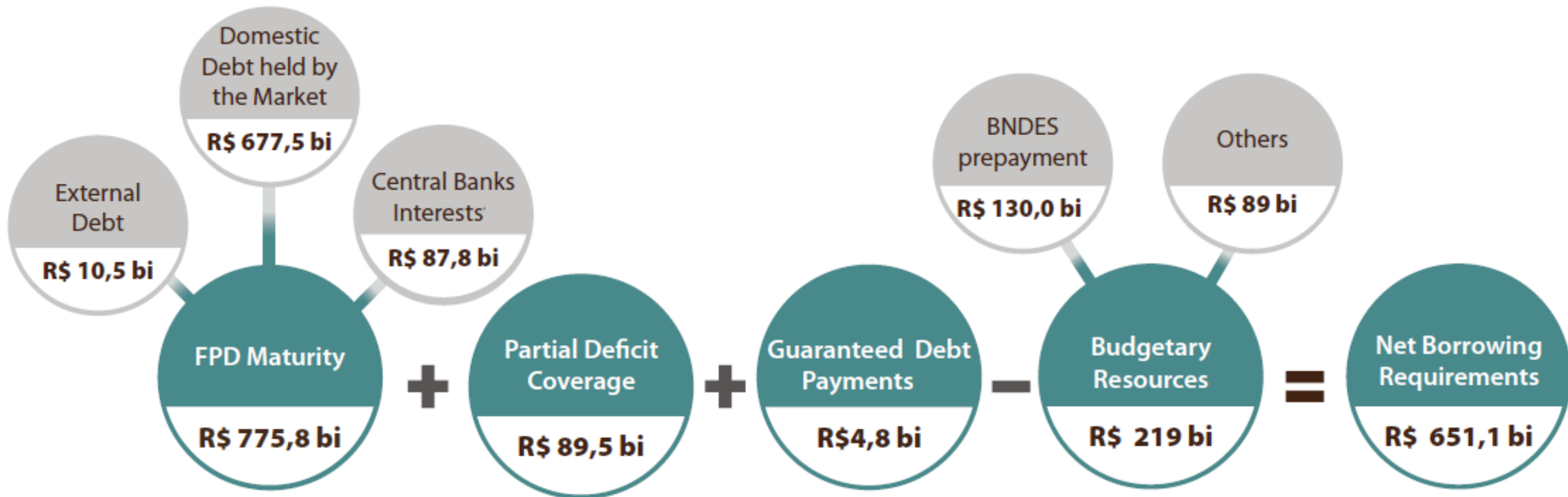


Summary of the presentation

Federal Public Debt Annual Report – RAD 2018

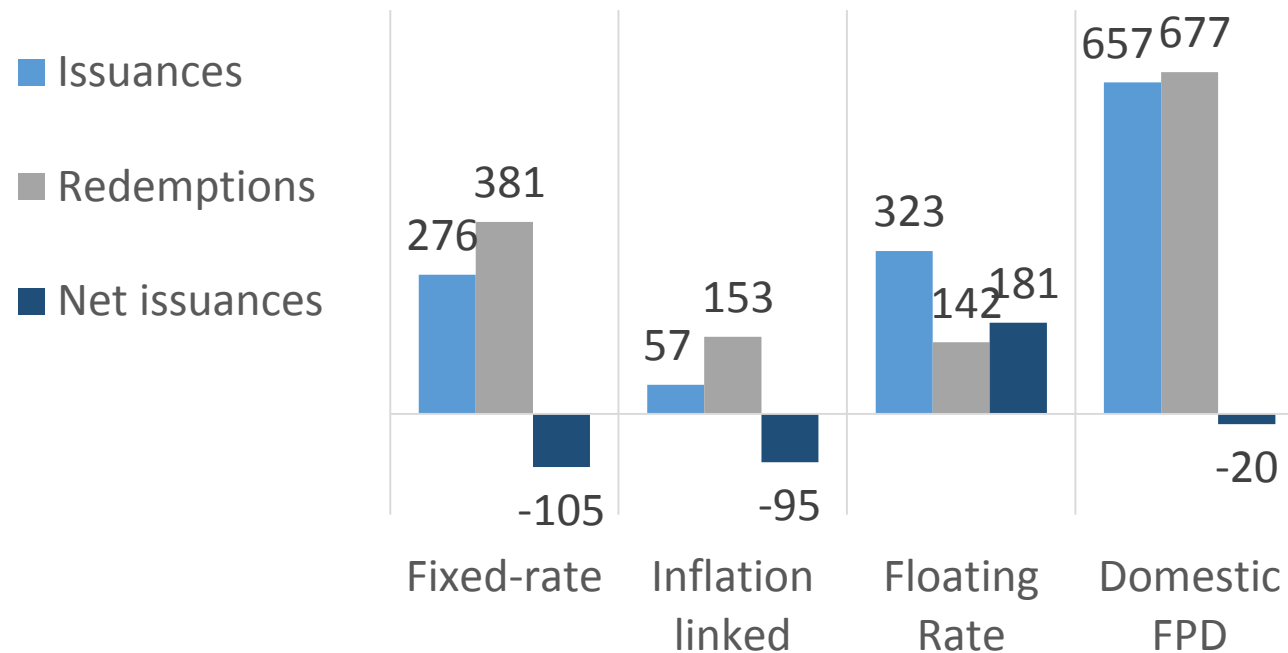
Annual Borrowing Plan – ABP 2019

Federal Government Borrowing Requirements in 2018



Issuances amount close to redemptions avoids interfering with the liquidity of the financial system

Issuances and redemptions of
domestic FPD



Rollover:

72%

38%

227%

97%

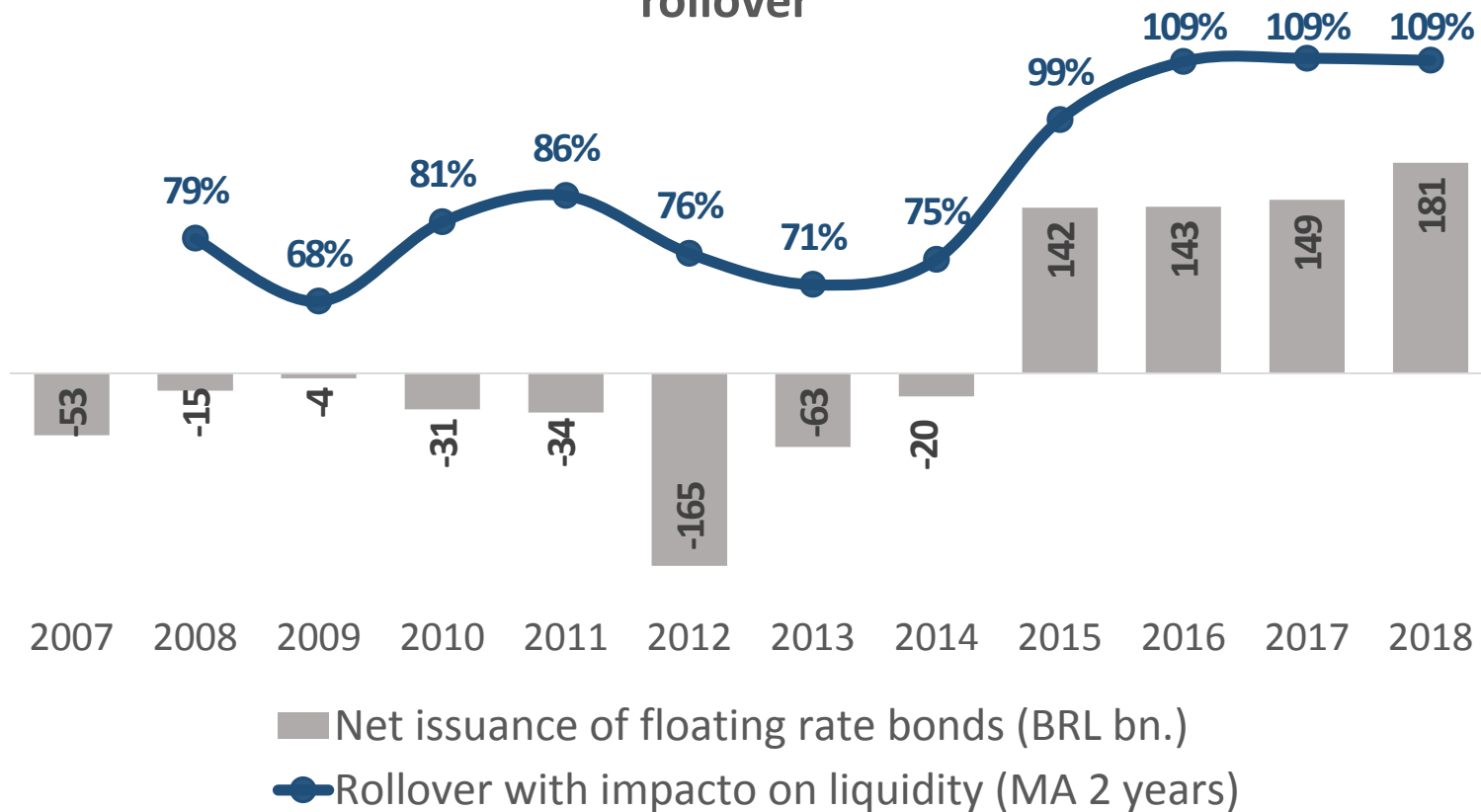
Debt Rollover

- » Issuances accounted for 97% of domestic FPD redemptions in 2018
- » Floating interest rate securities were important to fully refinance FPD

Source: National Treasury

Floating rate bonds issuances were essential to reduce impact of Treasury debt management on market liquidity

Impact of floating rate securities issuance on domestic FPD rollover



- » The net issuance of floating-rate bonds showed recovery from 2015 onwards
- » This coincided with a period of small volumes of maturity of floating rate bonds, resulting in a **change in the composition of the public debt stock**

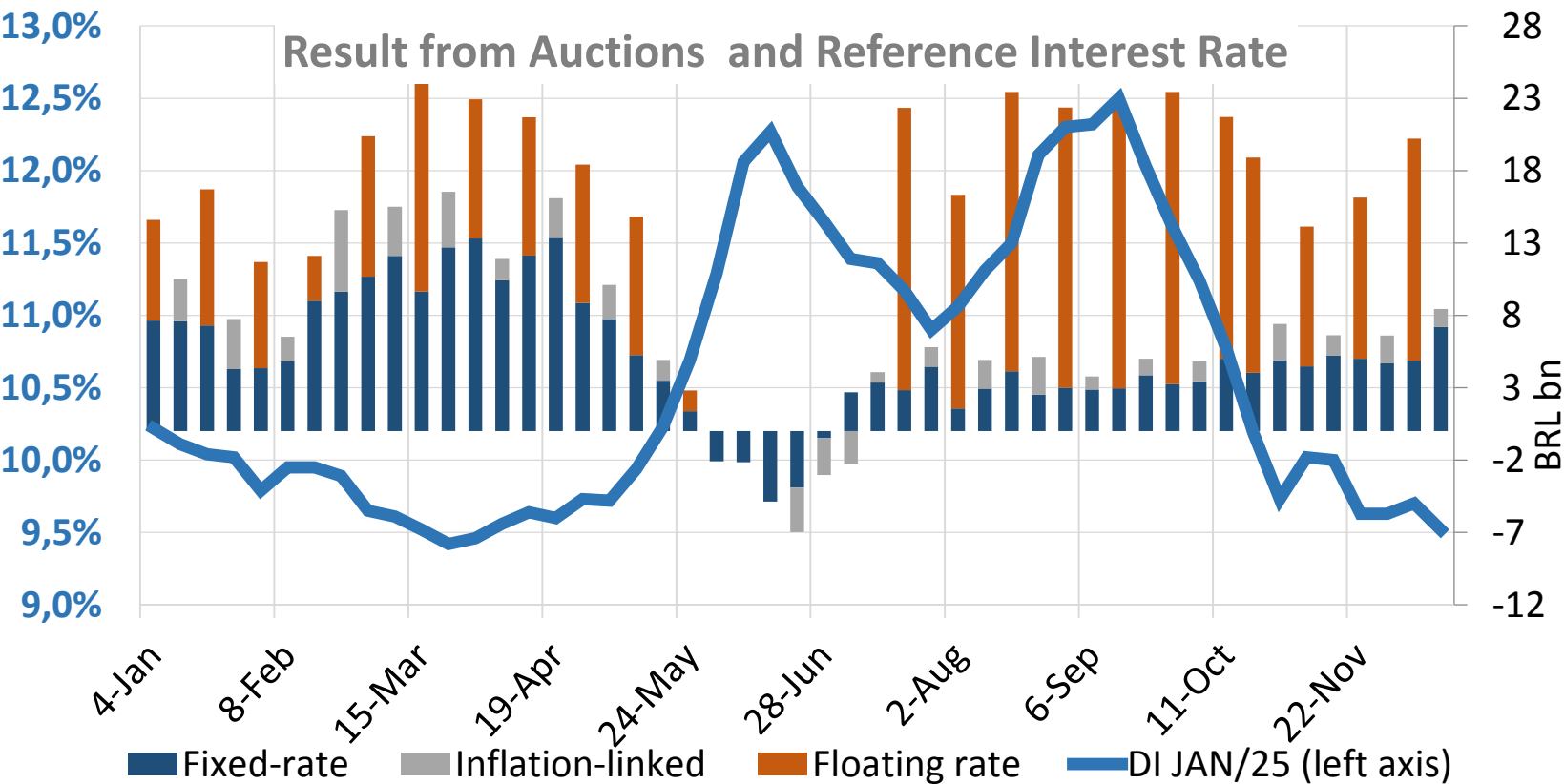
Impact of extraordinary auctions

First months of 2018:

» Favorable conditions allowed significant placement of inflation-linked and fixed-rate bonds

From May on:

- » Increased risk premiums and reduction of liquidity
- » Cancellations of regular auctions and introduction of extraordinary ones



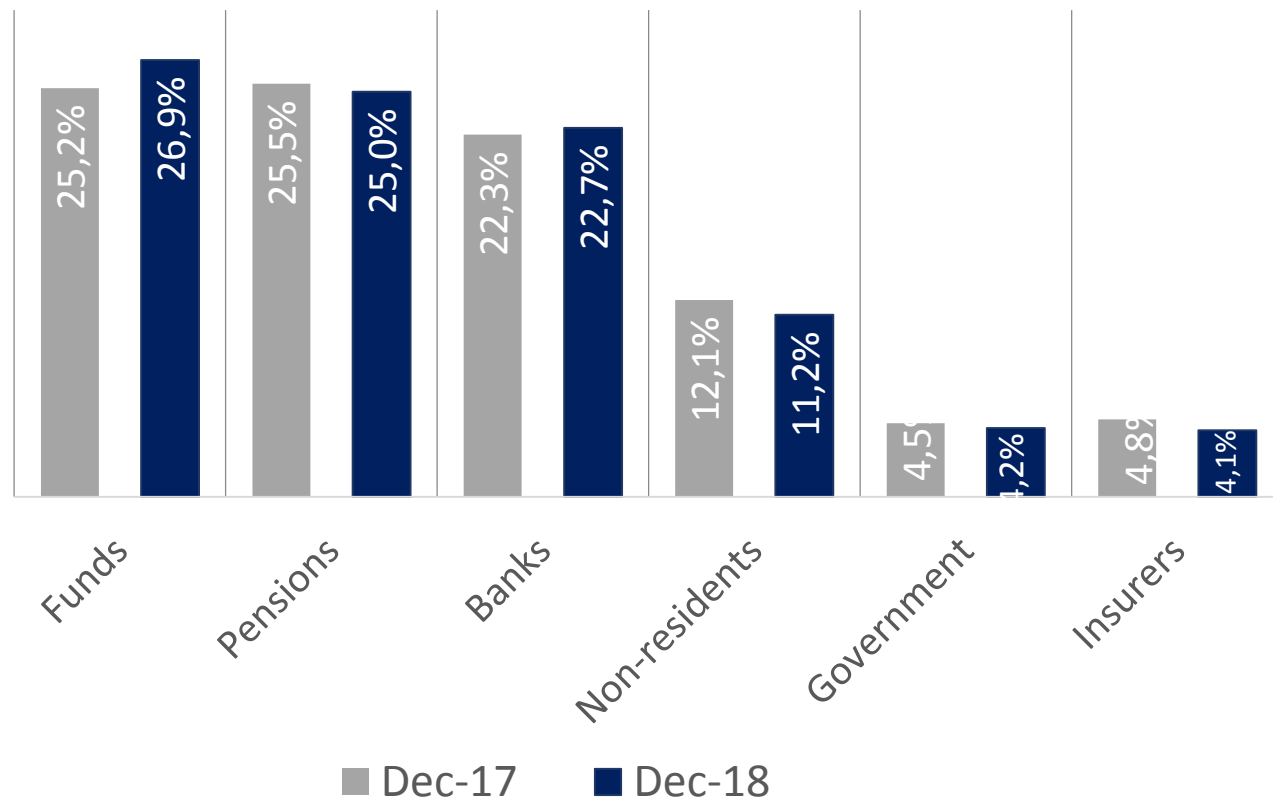
The National Treasury seeks a balanced performance, besides looking for efficiency in the management of public resources:

- Aims to avoid acute short-term fluctuations which may affect the functioning of the financial market
- Minimize distortions on the price trend

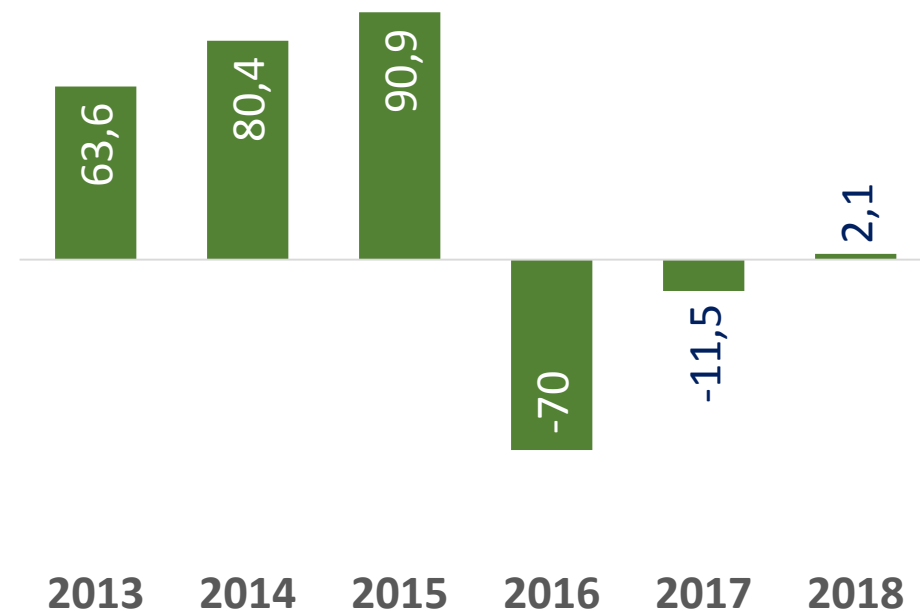
Diversified investor base

Reversion of the outflow of non-residents

Holders of the domestic Federal Public Debt



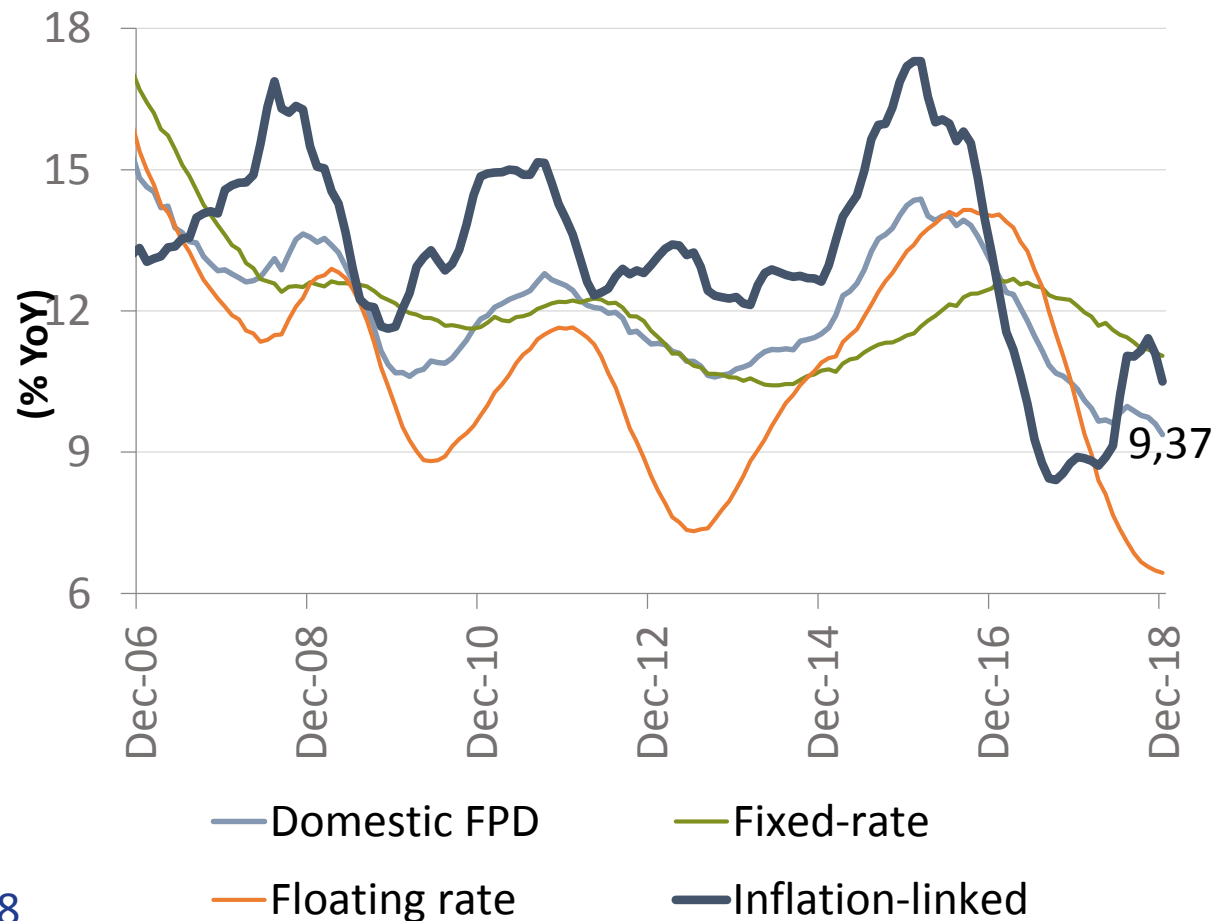
Changes in the non-residents' portfolio (BRL bn)



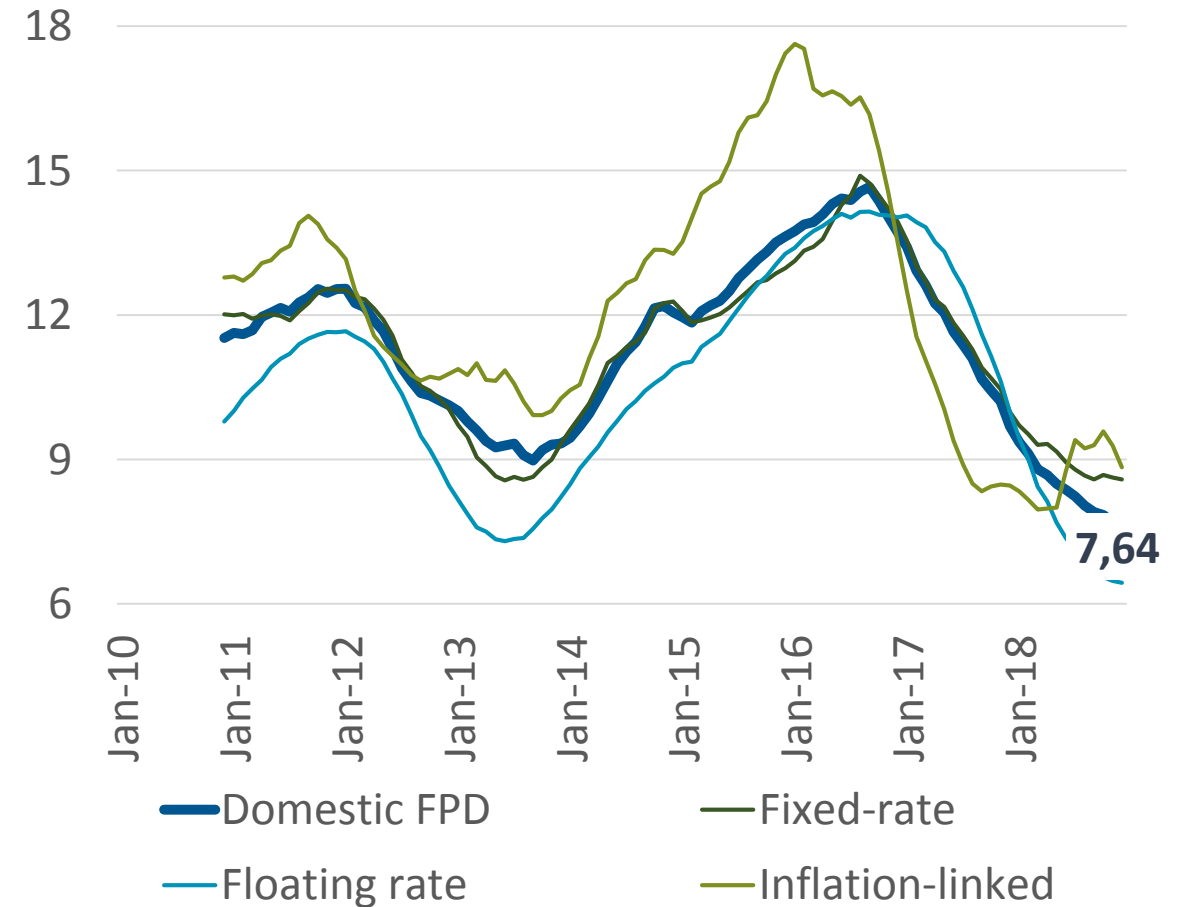
Source: National Treasury and Selic

The domestic debt cost reached a historical minimum due to the fall of inflation and the interest rate

Average Cost in 12 months



Issuance Cost



Source: National Treasury

The Treasury's operations on the external market as reference for corporate issuances

In 2018, gross borrowings on external debt came to BRL 7.8 bn, while redemptions added to BRL 10.6 bn

The National Treasury accessed the international markets only in 2018, reopening the current 30-year benchmark:

- » In the month of the operation the risk premium measured by the CDS had reached the lowest level (146 bps) since Brazil lost the investment grade in 2015



Main results for FPD

Indicators	Dec/17	Dec/18	Limits for 2018	
			Minimum	Maximum
Stock (BRL billion)				
Federal Public Debt -FPD	3,559.3	3,877.1	3,780.0	3,980, 0
Composition (%)				
Fixed-rate	35.3	33,0	32.0	36.0
Inflation-linked	29.6	27.5	27.0	31.0
Floating Rate	31.5	35.5	33.0	37.0
Exchange-rate	3.6	4.0	3.0	7.0
Maturity profile				
% maturing in 12 months	16.9	16.3	15.0	18.0
Average Maturity (years)	4.3	4.1	4.0	4.2

Revision published on September 2018

Profile - ABP 2018	Original Limits		Revised Limits	
	Minimum	Maximum	Minimum	Maximum
Floating Rate	31	35	33	37

FPD indicators closed 2018 within the limits set by the Borrowing Plan

Fixed Income Exchange-Traded Funds - ETF:

- » Aims to strengthen and promote the development of the Brazilian capital market
- » Manager already chosen with a maximum fee of 0,25%

New regulations for the Treasury's securities (Decree 9292/2018)

- » Update of regulation regarding bond characteristics
- » Exclusion of obsolete bonds

Harmonization of methodologies for calculating FPD stock

- » Improvement of conciliation of regulatory and statistical stock statistics
- » Improving the quality of information and easier understanding of debt management activities by society

Videos series on fiscal rules

- » Educational videos and articles explaining the rules that guide the fiscal policy, especially the Golden Rule

Topics under development and innovations



Innovation for investors

- » Mobile APP with all functions from the website
- » Shorter settlement time

Lower Costs

- » Reduction on the custody fee from January 2019
- » Big banks have joined the zero administration fee policy

A program closer to small investors

- » Increase in the number of new investors
- » Greater share of investments up to BRL 1,000
- » Introduction of more Brazilians to the financial market through financial education

Retail Program: *Tesouro Direto*

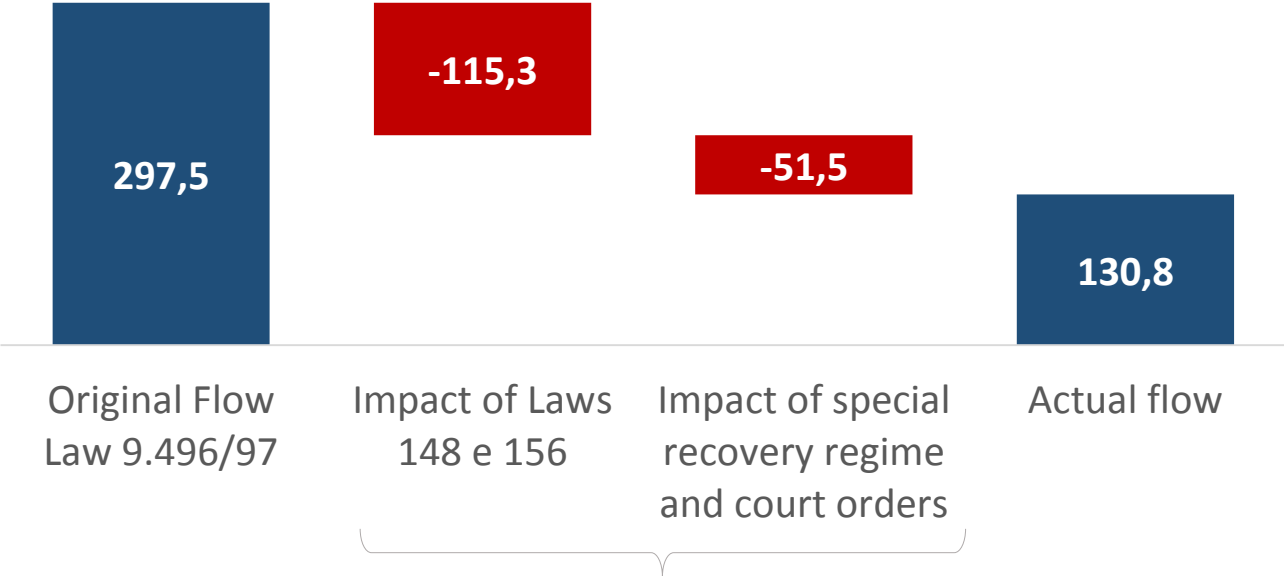


Revenues from loans to states and municipalities

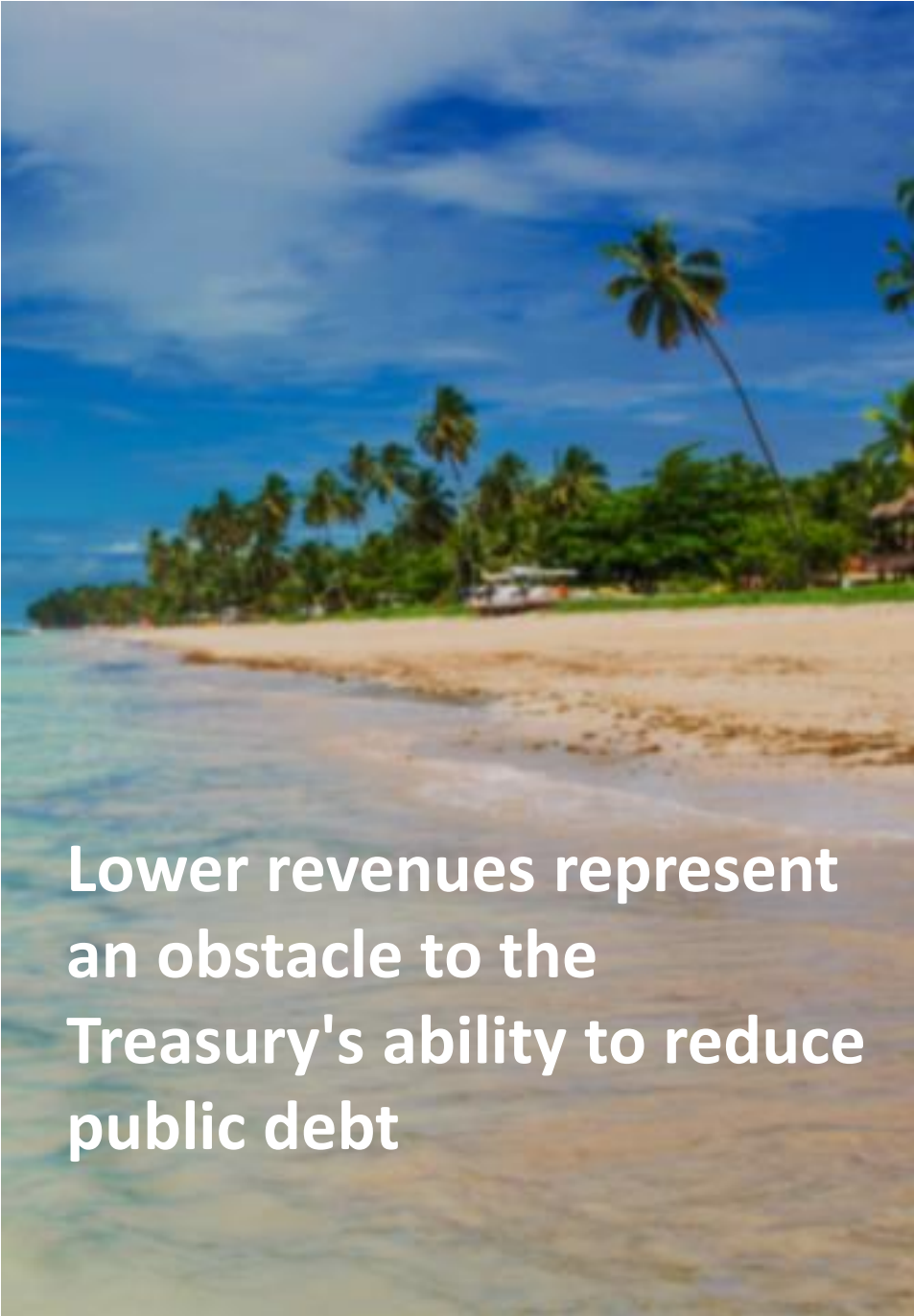
Factors that affected these revenues:

- »Change in debt indexers- Law 148/2014
- »Maturity lengthening - Law 156/2016
- »Special recovery regime -LC 159/2017
- »Preliminary court orders suspending payments

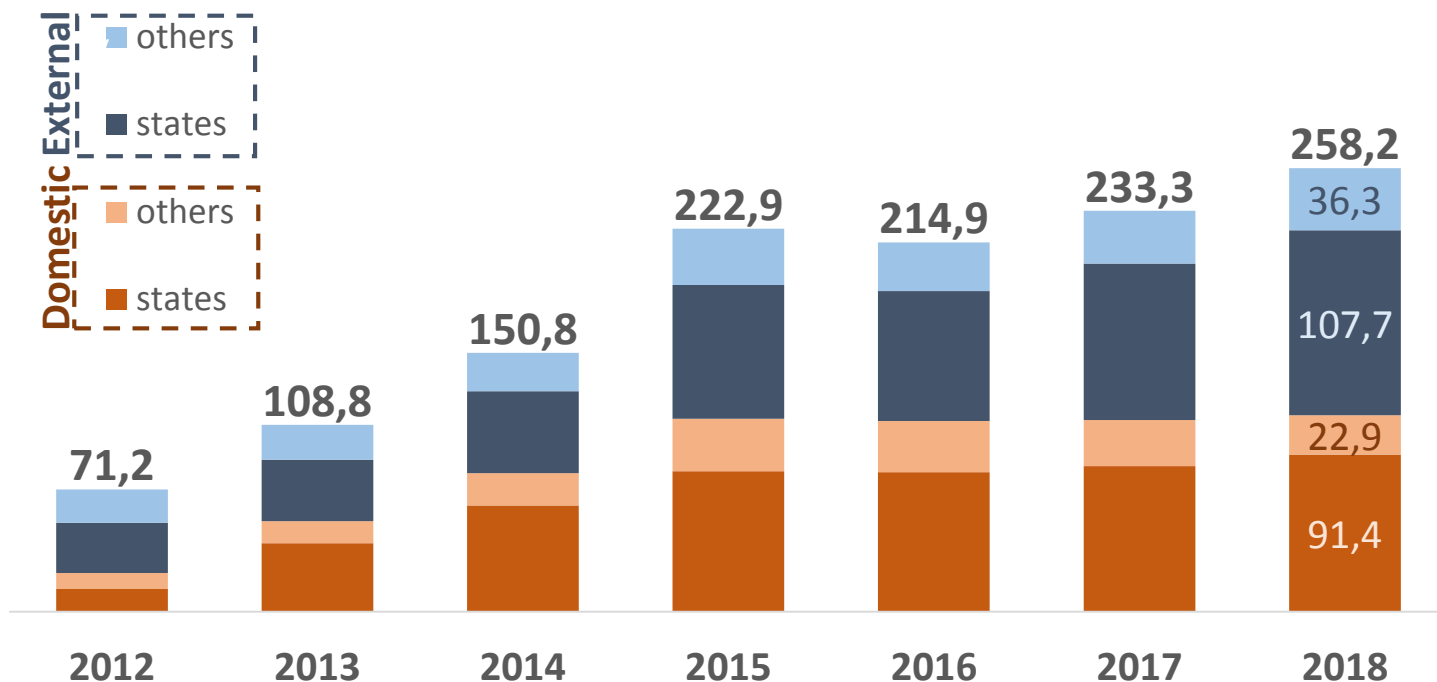
Estimate of accumulated flows 2016-2022 - BRL bn



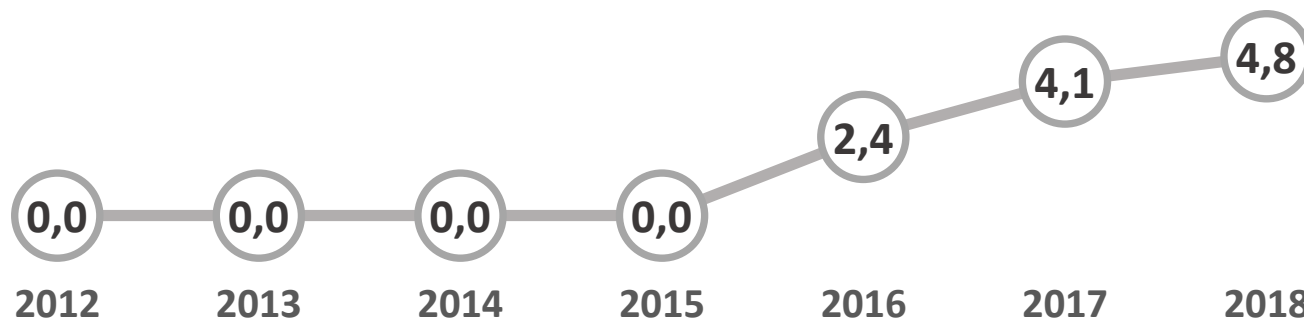
Total impact: BRL 166,7 bn



Guarantees granted by the Treasury-BRL bn



Defaults covered by the Treasury-BRL bn




The guarantees granted by the Treasury have gained relevance for the debt management due to its growth and the recurrence of delinquency



Summary of the presentation

Federal Public Debt Annual Report – RAD 2018

Annual Borrowing Plan – ABP 2019



Objectives of FPD management : cost reduction and prudent levels of risk

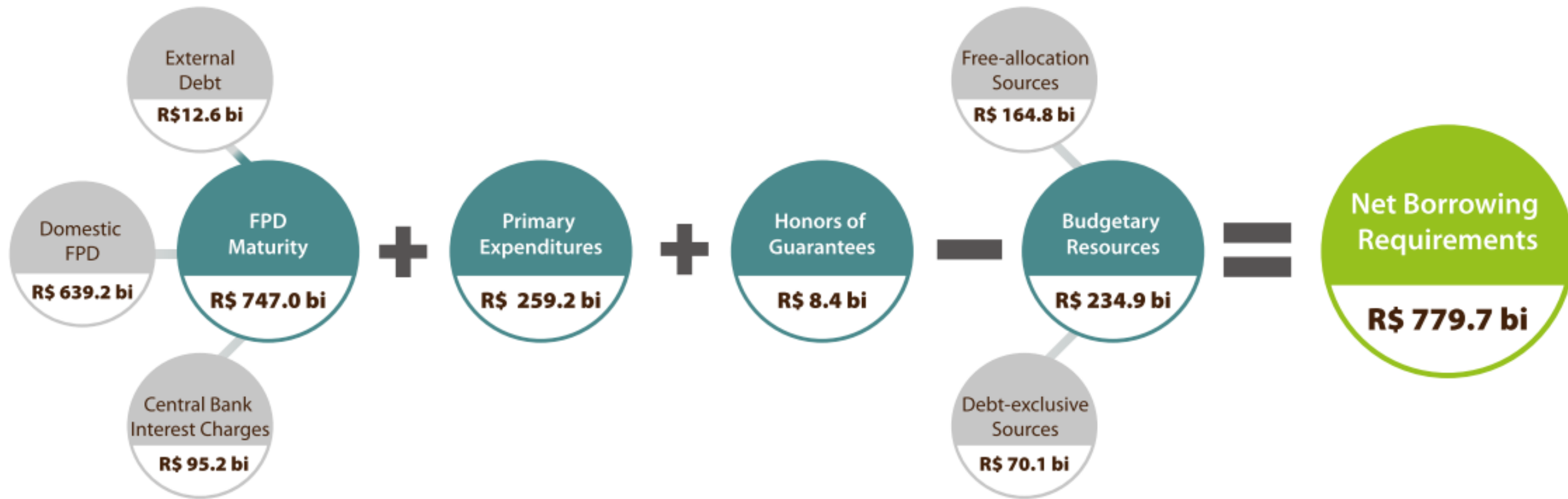
Objective

The goal of the Federal Public Debt management is to efficiently supply the borrowing needs of the federal government at the lowest cost in the long term, respecting the maintenance of prudent risk levels, and to contribute to the development of the Brazilian bond market.

Guidelines

- Gradual replacement of floating rate bonds by fixe-rate and inflation-linked bonds
- Smoother maturity profile, with particular attention to short-term maturity
- Higher the average maturity
- Development of the yield curve for the domestic and external markets
- Increasing the liquidity of the secondary market
- Greater the investor base

Federal Government borrowing requirement in 2019



Source: National Treasury and 2019 Budget Bill

Primary expenditure of FPD-BRL bn

Federal budget	Bill 2019	Expected	Conditioned
Urban workers welfare Benefits		201.7	201.7
Disability cash benefit		30.0	30.0
Compensation to the social security system		2.5	2.5
Subsidies		9.3	9.0
Exchange Family		15.0	15.0
Others		0.7	0.0
TOTAL		259.2	258.2

Social security expenses

*BRL 234.2 bn
(90.7% of the total)*

Budget resources of FPD-BRL bn

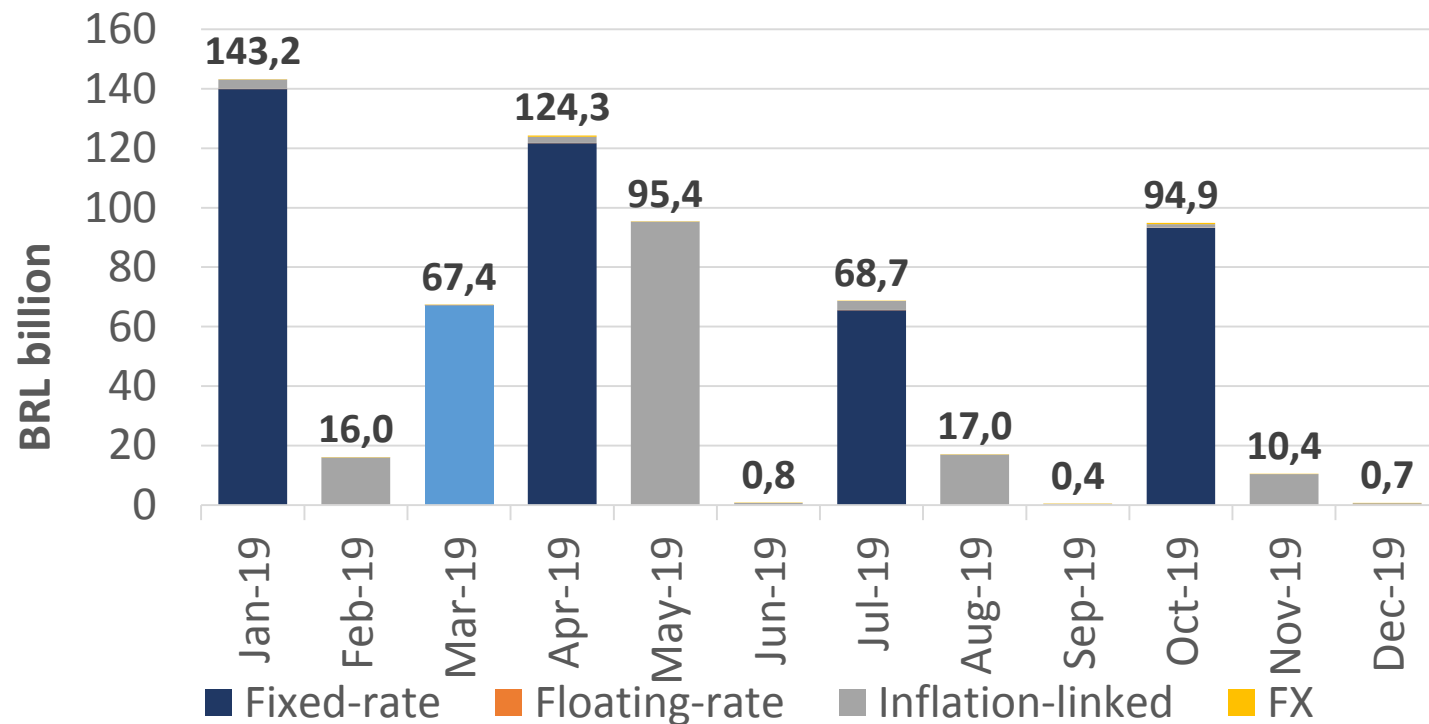
Source	Allocation	Description	BRL bn
100	Free allocation	Ordinary Resources	86.2
188	Free allocation	Remuneration of assets	67.8
929	Free allocation	Concessions and permissions	10.5
Total free sources			164.7
159	FPD exclusive	Return on loans	40.8
173	FPD exclusive	Return for regional govt. loans	21.6
197	FPD exclusive	Treasury dividends	7.5
Total of exclusive sources			70.1
TOTAL			234.9

Free allocation resources helps to maintain a liquidity reserve

Source: National Treasury and the Budget Bill 2019

The difference between primary expenditures paid with debt (BRL 259.2 bn) and the free allocation budgetary resources directed to the FPD (BRL 164.7 bn) represents the FPD partial coverage of the primary deficit (BRL 94.5 bn)

Redemptions of domestic FPD



Source: National Treasury

Domestic redemptions expected to reach BRL 639.1 billion in 2019

- » Approximately 70% of the redemptions are concentrated in the first half of the year.
- » The liquidity reserve has a coverage of over six months of domestic debt service (principal and interest)

**Reduced volume of
floating rate bonds
maturing in 2019**

Financing strategy

Bond	Indexer	Interest coupon	References and maturity	
LTN	Fixed-rate	None	Short- and Medium-term	6 months - Oct/19 and Apr/20
				12 months-Apr/20 and Oct/20
				24 months-Apr/21 and Oct/21
				48 months-Jul/22 and Jul/23
NTN-F	Fixed-rate	10% a year, paid every six months	Long-Term	7 years-Jan/25
				10 years-jan/29
LFT	Selic	None	Medium-Term	6 year Mar/25, Sep/25, and Mar/26
NTN-B	CPI	6% a year, paid six-monthly	Group I Medium-Term	5 years - Aug/24
				10 years - Aug/28
			Group II Long-Term	20 years-may/35
				40 years-may/55

» Auction schedule was published in December 2018 on the Treasury website

» After the second quarter the LTN with 4-year benchmark will have the maturity updated to July 2023

» The Treasury will also offer of three different maturity vertices for the LFTs in sequence throughout the year



EXPECTED RESULTS

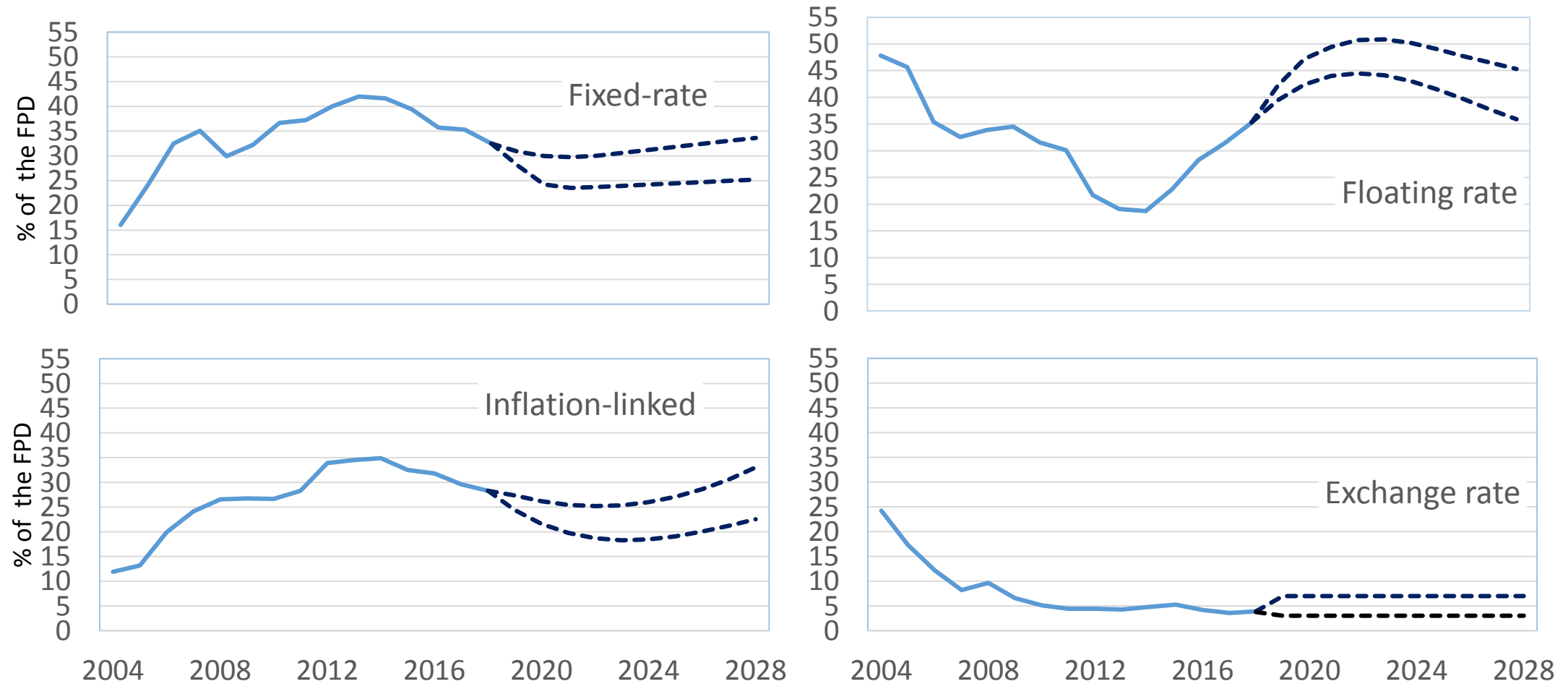
Limits for Federal Public Debt - FPD

Indicators	2018	Limits for 2019	
		Minimum	Maximum
Stock (BRL billion)			
FPD	3,877.1	4,100.0	4,300.0
Composition (%)			
Fixed-rate	33.0	29.0	33.0
Inflation-linked	27.5	24.0	28.0
Floating Rate	35.5	38.0	42.0
Exchange-rate	4.0	3.0	7.0
Maturity profile			
% maturing in 12 months	16.3	17.0	20.0
Average Maturity (years)	4.1	3.9	4.1

Source: National Treasury

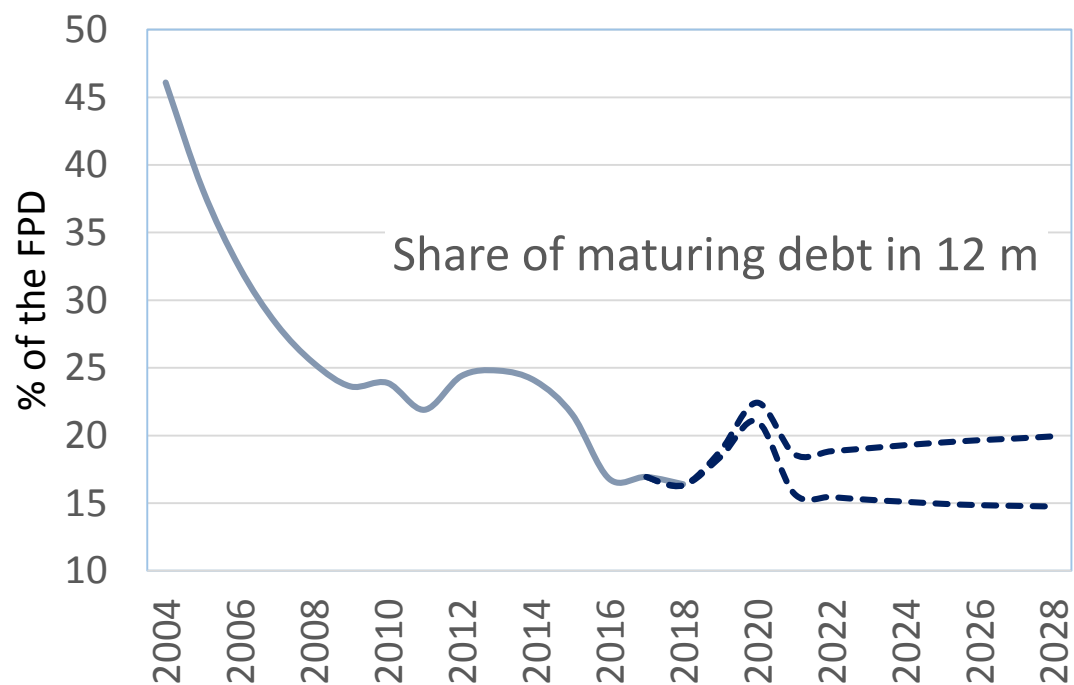
» The Treasury seeks a rollover rate of around 100% (including principal and interest) in order to prevent adding liquidity to the financial system

The share of floating rate bonds is expected to rise in the next year, but with a reversal of this trend in the medium term

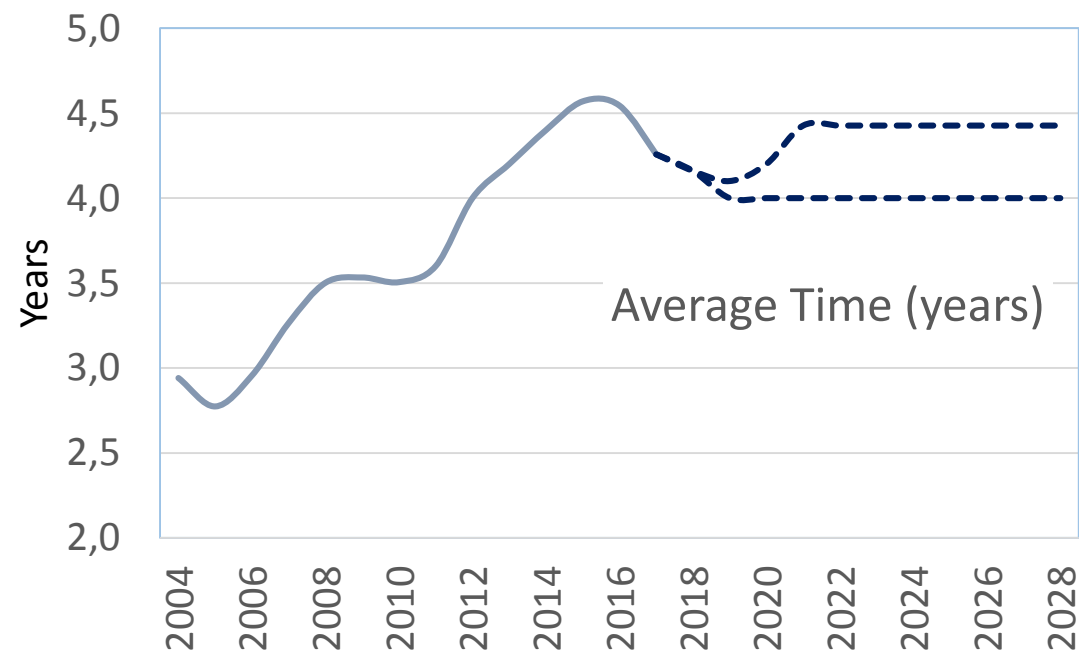


Source: National Treasury

Refinancing risk indicators show stability over the medium term, despite deviations in the short term



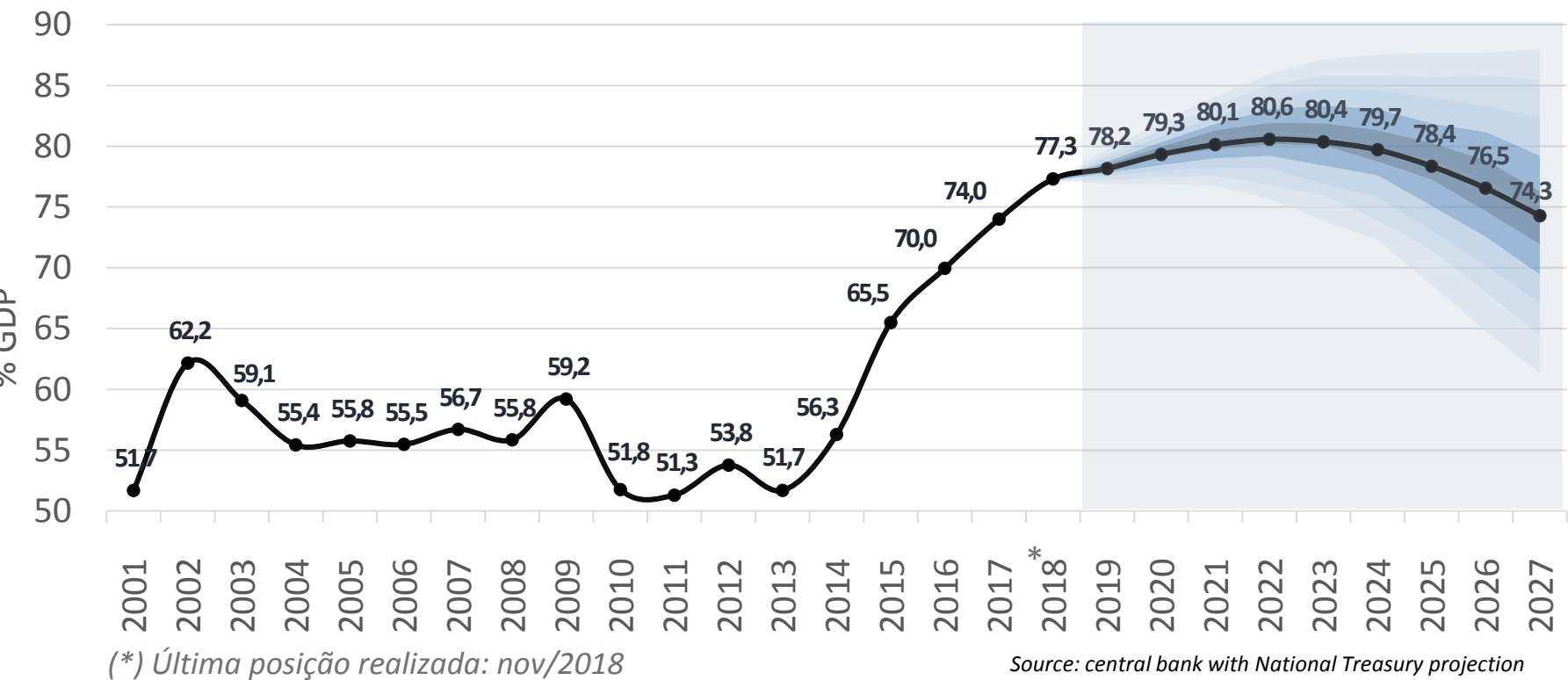
» The **share of debt maturing in 12 months** shows a desirable behavior on long-term except for an oscillation in 2020 due to an above average LFT redemption



Source: National Treasury

» The **average maturity** of FPD tends to decrease in the first half of the forecast horizon due to the restriction in demand for bonds with longer maturity, but it is expected to stabilize in around 4 years.

Debt sustainability-General Government gross debt



Scenario	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027
GDP (real)	1.3%	2.5%	2.4%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%	2.3%
Deflator	3.1%	4.9%	5.0%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%	4.8%
CPI	3.7%	3.9%	4.0%	3.8%	3.7%	3.7%	3.7%	3.7%	3.7%	3.7%
Selic bench. rate	6.5%	7.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Exchange rate	3.87	3.80	3.78	3.86	3.94	4.02	4.10	4.18	4.26	4.35

Structural reforms are urgent to revert the growth of mandatory spending and to reduce budget rigidity, and, thus, assure a sustainable debt trajectory



Check out our retail program
www.tesourodireto.gov.br

For more information:
www.tesouro.fazenda.gov.br

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