

## BRAZILIAN NATIONAL TREASURY REVISES THE 2020 ANNUAL BORROWING PLAN

The National Treasury announces the revision of the indicative limits defined in the 2020 Annual Borrowing Plan (2020 ABP) for the Federal Public Debt (FPD) outstanding volume, profile and maturity structure, to be met at year-end, as shown in the table below.

**Table 1 – Indicative limits for the FPD in 2020**

Indicators	2019	2020 ABP ranges		2020 ABP revised ranges	
		Minimum	Maximum	Minimum	Maximum
<b>Outstanding volume (BRL billion)</b>					
FPD	4,248.9	4,500.0	4,750.0	<b>4,600.0</b>	<b>4,900.0</b>
<b>Composition (% of FPD)</b>					
Fixed-rate	31.0	27.0	31.0	<b>30.0</b>	<b>34.0</b>
Inflation-linked	26.0	23.0	27.0	23.0	27.0
Floating-rate	38.9	40.0	44.0	<b>36.0</b>	<b>40.0</b>
FX	4.1	3.0	7.0	3.0	7.0
<b>Maturity structure</b>					
% maturing in 12 months	18.7	20.0	23.0	<b>24.0</b>	<b>28.0</b>
Average maturity	4.0	3.9	4.1	<b>3.5</b>	<b>3.8</b>

Source: National Treasury/Special Secretariat of Finance/Ministry of Economy

The increase in federal government borrowing needs, detailed below, represents the main impact on the FPD arising from the COVID-19 pandemic and its unfolding effects on the Brazilian economy. The ABP borrowing strategy was, therefore, adjusted to admit room for an increase in total issuances' volume, leading to an upward shift of the indicative ranges for FPD outstanding volume.

Issuances profile has also changed<sup>1</sup> mainly due to an increase in the volume of short-term fixed-rate bonds' issuances, in order to partially cover for extraordinary public expenditures, created to mitigate COVID-19 pandemic effects. For this reason, the FPD profile indicators now point to an expected increase in the share of fixed-rate bonds, reducing the share of floating-rate bonds.

The change in FPD profile ranges also reflects an increasing trend in the share of FX-linked bonds, due both to a larger volume of external issuances (compared to previous years' average) and to the

<sup>1</sup> In addition to this 2020 ABP revision report, the National Treasury announced on June 19, 2020 a new auction schedule, adherent to the revised issuance strategy, available at: <https://www.gov.br/tesouronacional/en/federal-public-debt/domestic-market/auctions>

# Debt Report

exchange-rate variation impact on outstanding external debt. However, adjustments to the indicative limits for the share FX-linked debt were not necessary.

The most significant alteration in the 2020 ABP revision is shortening debt maturity structure, stemming mainly from larger public sector borrowing needs. Thus, **while indicative ranges for the share of debt maturing in 12 months increased, average maturity indicators were lowered, due to higher concentration of debt maturing in the short term.**

From an issuance profile perspective, the revision reflects the debt management strategy followed by the Treasury in past few months, characterized by (i) larger volumes of issuances, (ii) increase proportion of fixed-rate bonds instead of floating rate bonds, and (iii) issuances with shorter maturities, in line with the context of increasing risk aversion and liquidity preference by investors that characterizes crisis as the one currently inflicting global and Brazilian economy.

## 2020 BORROWING NEEDS

The 2020 ABP revision considers the borrowing needs forecasted to occur from August to December 2020, according to Table 2.

**Table 2 – Federal Government borrowing needs, in BRL billion**

Breakdown	2020 ABP	Jan-20 to Jul-20*	Aug-20 to Dec-20	2020 ABP revision
A) FPD maturities (A = a1 + a2 + a3)	928.3	722.8	293.1	1,015.9
a1) DFPD	808.2	628.4	260.1	888.4
a2) EFPD	11.5	10.4	3.5	14.0
a3) Service for bonds in BCB portfolio	108.7	84.0	29.5	113.5
B) Primary expenditures	376.3	146.9	528.0	675.0
C) Guaranteed debt payments	11.8	5.7	7.4	13.1
D) Budget revenues**	248.6	211.8	39.6	251.4
<b>E) Net borrowing needs (excludes BCB result transfer) (E = A + B + C - D)</b>	<b>1,067.8</b>	<b>663.7</b>	<b>788.9</b>	<b>1,452.6</b>
F) Transfer of BCB positive result reserve	0.0	0.0	325.0	325.0
<b>Net borrowing needs (including BCB result transfer) (G = E - F)</b>	<b>1,067.8</b>	<b>663.7</b>	<b>463.9</b>	<b>1,127.6</b>

\* Values paid

\*\* Includes BCB operational result transfer amounting BRL 24.8 billion



# Debt Report

Source: NT/SSF/ME. As of July 31, 2020.

On the expenditures side, FPD maturities throughout 2020 amount to BRL 1,015.9 billion, most of which (BRL 722.8 billion) has already been paid, remaining BRL 293.1 billion to be paid during the remainder of the year. Additionally, there is a budget forecast for BRL 675.0 billion in primary expenditures to be covered by government bonds issuances proceeds. Of this total, BRL 146.9 billion have already been paid and the remaining BRL 528 billion represents the forecast for the rest of the year. Finally, there is a forecast for BRL 13.1 billion in guaranteed debt payments in 2020, BRL 5.7 billion of which have already materialized.

On the revenues side, budgetary resources allocated to debt payments total BRL 251.4 billion, of which, the major part, amounting to BRL 211.8 billion, has already been used, remaining a forecasted value of BRL 39.6 billion for the rest of the year. Additionally, the transfer of a part of the reserve of results on the balance sheet of Brazilian Central Bank (BCB) to the National Treasury, in the terms of Law 13.820/2019, art. 5, as deliberated by the National Monetary Council in August, will increase the availabilities to pay Domestic Federal Public Debt (DFPD) by BRL 325.0 billion.

The difference between total expenses, mentioned above, and the budget revenues allocated to debt payment corresponds to the net borrowing needs. *Ex ante* to the transfer of BCB result reserve, net borrowing needs was amounting to BRL 1,452.6 billion, a value which reduced to BRL 1,127.6 billion after the transfer.

As highlighted in the 2020 ABP, net borrowing needs should be interpreted as the amount that the National Treasury should issue in order to maintain constant the liquidity reserve (cash cushion) available to pay debt. This is an *ex ante* view of borrowing needs, which considers only revenues originated in 2020. In other words, this indicator does not include, by definition, revenues from the financial surplus, obtained in previous years, which are part of the cash availabilities to debt payments<sup>2</sup>.

---

<sup>2</sup> This interpretation only applies to the portion of the borrowing needs still to be met, i.e. during the period comprised from August to December 2020. For executed values, it is considered the total volume used from budget sources. In particular, among the budget sources that derived from previous years financial surplus, the National Treasury used in 2020 BRL 144.0 billion in resources from BCB results that were originated in 2018 and 2019. This value was used in the second half of 2020 to cover the borrowing needs described above.

In addition to new issuances proceeds, the National Treasury holds a liquidity reserve (cash cushion), which can be used to cover part of the borrowing needs, granting more flexibility to manage government bonds issuances, especially in volatility contexts, avoiding excessive pressure to debt refinancing.

The liquidity reserve is an instrument to mitigate refinancing risk, which is reflected in the increase in the share of FPD maturing in 12 months. **This reserve is maintained at a level equivalent to at least 3 months of domestic public debt maturities, which is considered a prudential level.** In recent years, the liquidity reserve was kept at a level above 6 months of maturities. With the pandemic in 2020, naturally, there will be a reduction in the liquidity reserve due to the increasing federal government borrowing needs. However, the National Treasury has the means to maintain the reserve systematically above the prudential level.

In this regard, the transfer of the reserve of results on the BCB's balance sheet is important to reinforce the debt cushion. The crisis caused by the pandemic deteriorated debt indicators, especially outstanding volume, average maturity and share of debt maturing in 12 months. The unexpected increase in public spending entailed FPD shortening, consequently increasing refinancing risk. To revert this scenario fiscal consolidation process continuity is fundamental.

## MACROECONOMIC CONTEXT FOR THE ABP REVISION

The global crisis resulting from the new coronavirus pandemic significantly changed expectations for global and Brazilian economy in the year. Recent IMF projections point to a contraction of 4.9% for the global economy and 9.1% for the Brazilian economy in 2020, against an expectation, at the beginning of the year, for global GDP growth at 3.3% and at a 2.2% rate for Brazil. In the same direction, the latest Focus Report<sup>3</sup> projections point to a 5.66% drop in the Brazilian GDP in 2020, compared to a projection for 2.3% growth at the beginning of the year.

In response to the crisis developments, several measures with fiscal impact were taken. The sense of urgency and exceptionality of these measures was necessary to ensure financial support to the population, companies and subnational governments. The measures are in line with those adopted in other countries, contemplating (i) expansion of health care; (ii) deferment of tax collection; (iii)

---

<sup>3</sup> According to the median expectations on 07/31/2020 (Consultation held on August 5).

income transfer to vulnerable households, (iv) employment protection and (iv) credit support to companies vulnerable to cashflow shock.

Simultaneously, Central Banks have been stimulating the economy through quantitative easing policies and the adoption of credit policies directed to companies, while interest rates converge to historical minimum levels. In Brazil, the Selic interest rate dropped from 4.5% in January to 2.0% in August, and the BCB adopted a series of measures aimed at maintaining markets functionality, expanding financial system liquidity and supporting credit channel flow. Fiscal and monetary policy responses have been robust and essential to avoid an even more significant drop in household consumption and a larger number of companies shut down.

Increase in spending combined to drop in revenues, due to the economic activity slowdown, led primary public sector deficit forecasts in 2020 to rise to 11.3% of GDP, compared to a 1.5% of GDP projection early in year. Public debt reached 85.5% of GDP in June 2020, and should reach over 95% of GDP at the year-end. So far, measures to mitigate COVID-19 crisis amount to BRL 505.4 billion, most of which will be paid with resources raised through bond issuances, increasing federal government borrowing needs.

Regarding federative relations, the main measure was the BRL 60 billion transfer from the federal government to states and municipalities, established by Complementary Law 173/2020. This law also establishes conditions for restructuring subnational governments debt with the federal government, generating an additional benefit of BRL 22 billion, which represent a drop by the same amount in the correspondent federal government revenue source, which is earmarked to debt payments.

## **GUIDELINES FOR DEBT MANAGEMENT**

The general guidelines for FPD management expressed in the 2020 ABP remain orienting National Treasury actions. Thus, the long-term benchmark for increasing the share of fixed-rate and inflation-linked bonds has been maintained, as well as for reducing the share of bonds linked to the Selic rate. In addition, the National Treasury seeks to lengthen average maturity of the debt and to reduce the concentration of short-term maturities. However, the strategy execution will always observe market

# Debt Report

conditions, with the possibility of temporary adjustments in the convergence path to long-term objectives.

The National Treasury maintains permanent monitoring of debt indicators performance and market conditions. The ABP revision provides to debt management the flexibility required to face the current scenario and to define the more adequate bond issuances strategy in order to meet federal government borrowing needs and to ensure the proper functioning of the Brazilian fixed-income market.



SECRETARIA ESPECIAL DE  
FAZENDA

MINISTÉRIO DA  
ECONOMIA

