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Annual Borrowing Plan

Brazil stands out internationally in energy generation through renewable sources

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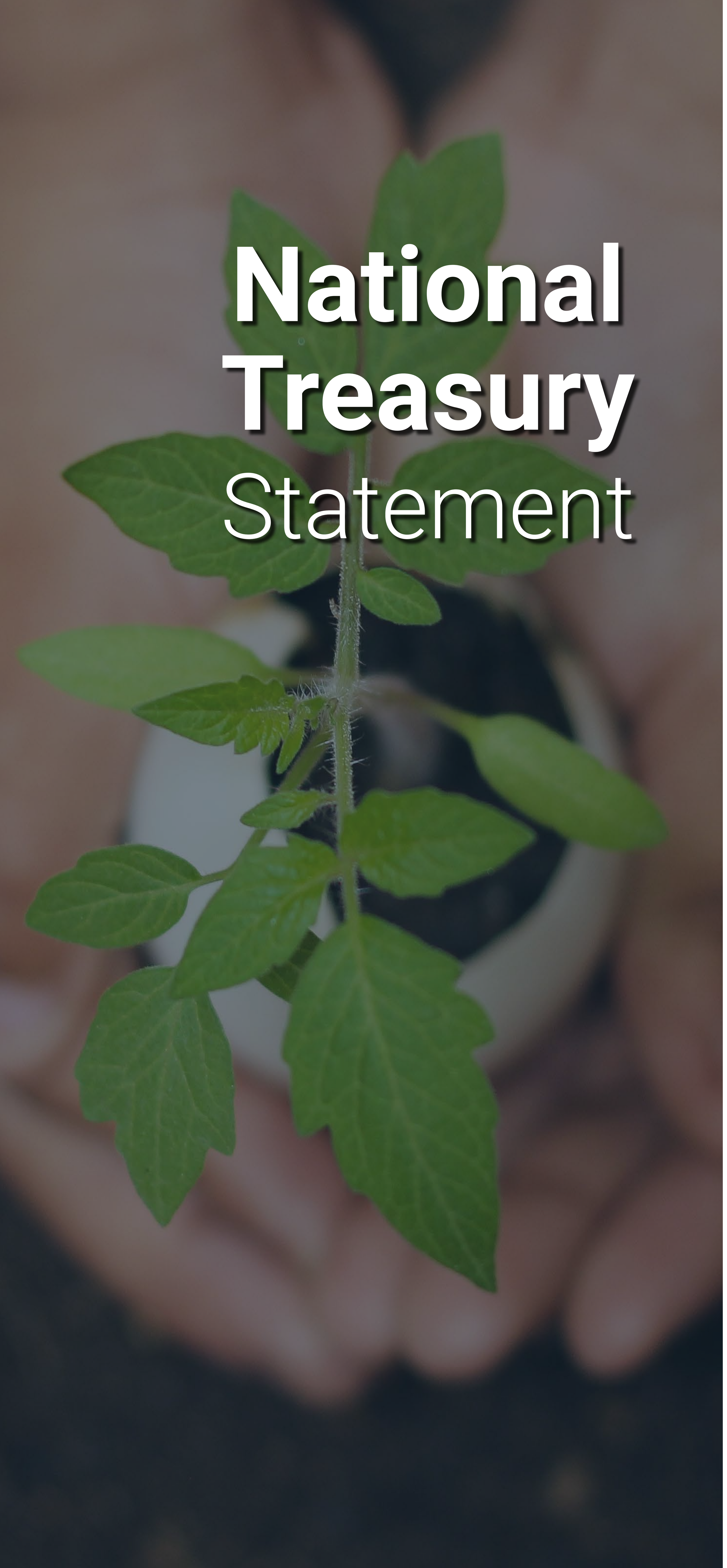
Brazil stands out internationally in energy generation through renewable sources

Summary



National Treasury Statement

The Annual Borrowing Plan (ABP) is a fundamental part of the Federal Public Debt (FPD) planning. The document sets out the objective and the guidelines for the annual strategy for the federal government's domestic and external debts in the market. The document also establishes the parameters to guide the public debt evolution during 2021, through reference limits for its main indicators. The ABP reaches its 21st edition as a traditional instrument for the National Treasury communication and transparency in the Treasury commitment to ensuring fiscal sustainability and public spending quality.

The public debt has been consistently increasing for at least a decade, a consequence of a policy of government loans to public banks, successive primary deficits, and constant financial rescue of subnational entities. The one-off drop in 2019 was drastically reversed in 2020, as a result of the COVID-19 pandemic and the necessary actions taken by the federal government to mitigate the pandemic's economic and social impacts. This movement also implied changes in the FPD issuances and outstanding profiles. In this context, the National Treasury acted to guarantee the needed resources to pay for the extraordinary expenditures, respecting market conditions, and ensuring the maintenance of its liquidity reserves at safe levels.

2021 biggest challenge is to match the short-term borrowing needs with the FPD medium and long terms goals. Therefore, 2021 ABP aims to obtain resources for financing the FPD and the primary deficit, prioritizing measures that seek to maintain the public debt liquidity reserve at prudent levels, mitigate the refinancing risk, and foster the proper functioning of the government bonds market.

Changes in the debt profile and the deterioration of the main indicators that have occurred over the past decade make it even more necessary to resume the structural reform agenda to promote fiscal consolidation and productivity enhancement in the Brazilian economy. Despite the challenges faced in 2020, the commitment to fiscal responsibility remains one of the pillars for sound public debt management. Fiscal responsibility plays a key role in keeping interest rates at low levels and inflation under control, the basis for sustainable economic growth. Therefore, a virtuous circle is created, with an improvement in the trajectory of the debt-to-GDP ratio, a flattening of the yield curve, and improvements in the FPD profile.

It is in this context that we bring forth the 2021 ABP, in which the National Treasury reaffirms its purpose of ensuring fiscal sustainability and promoting the quality of public spending, through a strategy based on the appropriate balance between public debt costs and risks, adoption of best practices in debt management, respect for sustainable finance principles, and care for the proper functioning of the fixed income market in Brazil.

Investment in education continues to grow in Brazil.

1 Introduction

The 2021 Annual Borrowing Plan (ABP) presents the annual strategy for the Federal Public Debt (FPD) on the market, mindful of the public debt management objective and guidelines. Using reference limits, the ABP will highlight the 2021 expected results for the main debt indicators.

The FPD management objective is to efficiently supply the federal government borrowing needs at the lowest cost in the long term, while maintaining prudent levels of risk, and contributing to the proper functioning of the Brazilian bond market.

In order to achieve this objective, the following qualitative guidelines guide the development of FPD borrowing strategies:

- Gradual replacement of floating-rate bonds by fixed-rate and inflation-linked bonds;
- Smoothing the yield curve, with particular attention to short-term maturity;
- Increasing outstanding debt average maturity;
- Yield curve development;
- Increasing federal public government bonds liquidity on the secondary market;
- Broadening and diversifying the investors base;
- Maintenance of the liquidity reserve above its prudent level.

This document is organized into five sections, in addition to this introduction. The next section presents the macroeconomic scenarios and the estimated borrowing requirements that guide the 2021 ABP. Section 3 discusses the borrowing strategy for 2021, highlighting the main bonds to be issued during the year. Section 4 presents the results expected by the end of 2021 for the main FPD indicators, as well as indicates the trajectories for the FPD composition and maturity profile in the medium term. Section 5 brings forth a topic whose relevance for debt management has been growing, ESG. Environmental, Social, and Governance, practices adopted by both the corporate and sovereign sectors. This section's idea is to show how debt management can get involved with this agenda, especially through investor relations (communication and transparency). Finally, section 6 presents the final considerations.

2 Macroeconomic scenarios and **borrowing requirements**

2.1 Macroeconomic scenarios

The progression of the pandemics and the development of medicines and vaccines remain decisive for the macroeconomic scenario in 2021. However, an external environment of ample international liquidity endures, with interest rates at historically low levels, and the adoption of fiscal and monetary stimulus measures to promote the economic recovery of major economies.

The international baseline scenario, to which we assign a higher probability, assumes an environment of high international liquidity favoring emerging economies. The main premises are as follows:

i. development of vaccines allows for the gradual immunization of the world population, mitigating the risk of new economic activity outages;

ii. accommodation of trade tensions, especially in the US-China relations; and

iii. moderate recovery of the economic activity.

At the domestic level, the baseline scenario is close to market forecasts for 2021. This scenario is characterized by inflation under control, economic activity recovery, and interest rates at lower historical levels. In this context, the resumption of the economic agenda of structural reforms is expected to support the fiscal consolidation process, which was in progress before the pandemic. The conditions for the balance of payments remain favorable, with a lower current account deficit, and resumption of robust foreign investment inflows, as the expected inflows for 2020 were postponed due to the pandemic.

Besides the baseline scenario, ABP strategies foresee alternative scenarios. These scenarios allow the outlining of different hypotheses for the evolution of the domestic and external economies and help to define reference ranges for the FPD indicators.

Alternative scenarios consider, on the one hand, an escalation of global uncertainties, coupled with an increase in risk aversion. In other words, there would be a risk of an adverse evolution of the pandemic, with delays in the immunization process and persistence of economic and social restriction measures. In Brazil, the combination of a more adverse international scenario and an unfavorable prospect for the public accounts may lead to a further deterioration of financial assets prices and inflation expectations. This scenario would jeopardize the economic recovery.

Another alternative scenario considers more benign political and economic conditions in 2021, especially in terms of the structural reform agenda and the resumption of fiscal discipline. This context would promote a positive shock of expectations and stimulate the confidence to intensify the economic activity recovery.

Scenarios with severe shocks or extreme situations have not been included among those used for the definition of the limits in this borrowing plan.

2.2. 2021 borrowing requirements

The definition of borrowing requirements used in the ABP follows the budget logic, and, therefore, considers only revenues that are forecasted to be collected during the current year. Thus, by design, revenues arising from the financial surplus, obtained in past fiscal years, are not included here. Such revenues compound the cash availabilities to pay the debt[1]. As the debt management has this liquidity reserve, also known as "debt cushion", the borrowing requirements indicator should not be interpreted as the volume of bond issuances to be carried out over the year, but as the amount that should be issued to maintain stable the level of liquidity reserve.

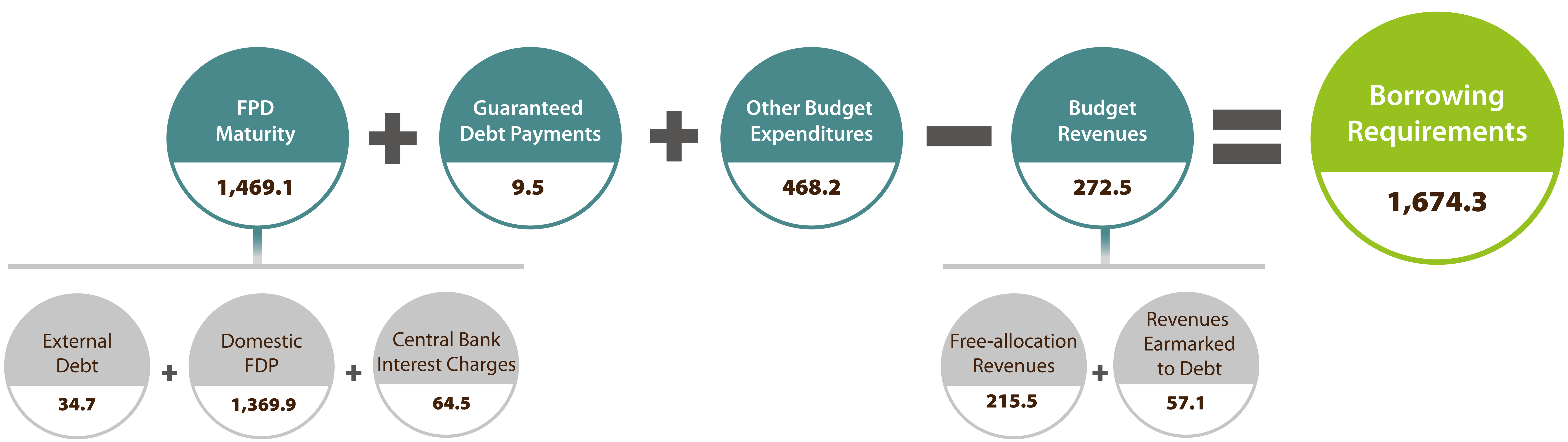
The borrowing requirements are compounded by debt expenditures, divided into FPD maturities and payments related to subnational governments' non-performing guaranteed debt, and by other budget expenditures[2] to be paid with revenues arising from government bonds issuances. On the other hand, budget resources intended to pay the debt and not derived from bond issuances proceeds are subtracted from this amount.

The estimate of federal government borrowing requirements for 2021 reaches BRL 1,674.3 billion, as shown in Figure 1. Of this amount, the BRL 195.7 billion net value of the coverage of other budget expenditures (the difference between other budget expenditures and budget resources) stands out. Considering only the free-allocation revenues (not earmarked to debt), the net coverage of other budget expenditures reaches BRL 252.7 billion. The financial volume raised through issuances throughout the year may be equal, greater, or less than borrowing requirements, depending on market conditions.

[1] *One reason for not including a forecast of the use of the financial surplus in the ex ante borrowing requirement concept is to prevent the same revenue from being considered in the estimate for more than one year. If the resource is not used in the same financial year as it was collected, it would distort borrowing requirements time series analysis. The ex post view, which is usually presented in the Annual Debt Reports, takes into account the financial surplus actually used in the year, so that the net ex post result indicates the amount of expenditure that has been paid out with resources of bond issuances, regardless of the variation in cash position.*

[2] *The largest share of other budget expenditures corresponds to budget primary expenditures.*

*Figure 1 – **Borrowing Requirements in 2021** (BRL billion)*



Source: National Treasury

Currently, the liquidity reserve for debt payments is equivalent to at least a semester of Domestic Federal Public Debt (DFPD) maturing in the market, including 2020 financial surpluses, as it will be explained in the next section. In addition to the liquidity reserve in domestic currency, the National Treasury already has enough foreign currency resources to pay off all external debt maturities in 2021.

Outstanding FPD maturing in 2021 amounts to BRL 1,469.1 billion. This amount includes both domestic and external debts maturing in the market, totaling 1,404.6, as we can see in Table 1. In addition, there are BRL 64.5 billion in interest payments relative to the bonds in the Central Bank portfolio that, by law, cannot be rolled over [3].

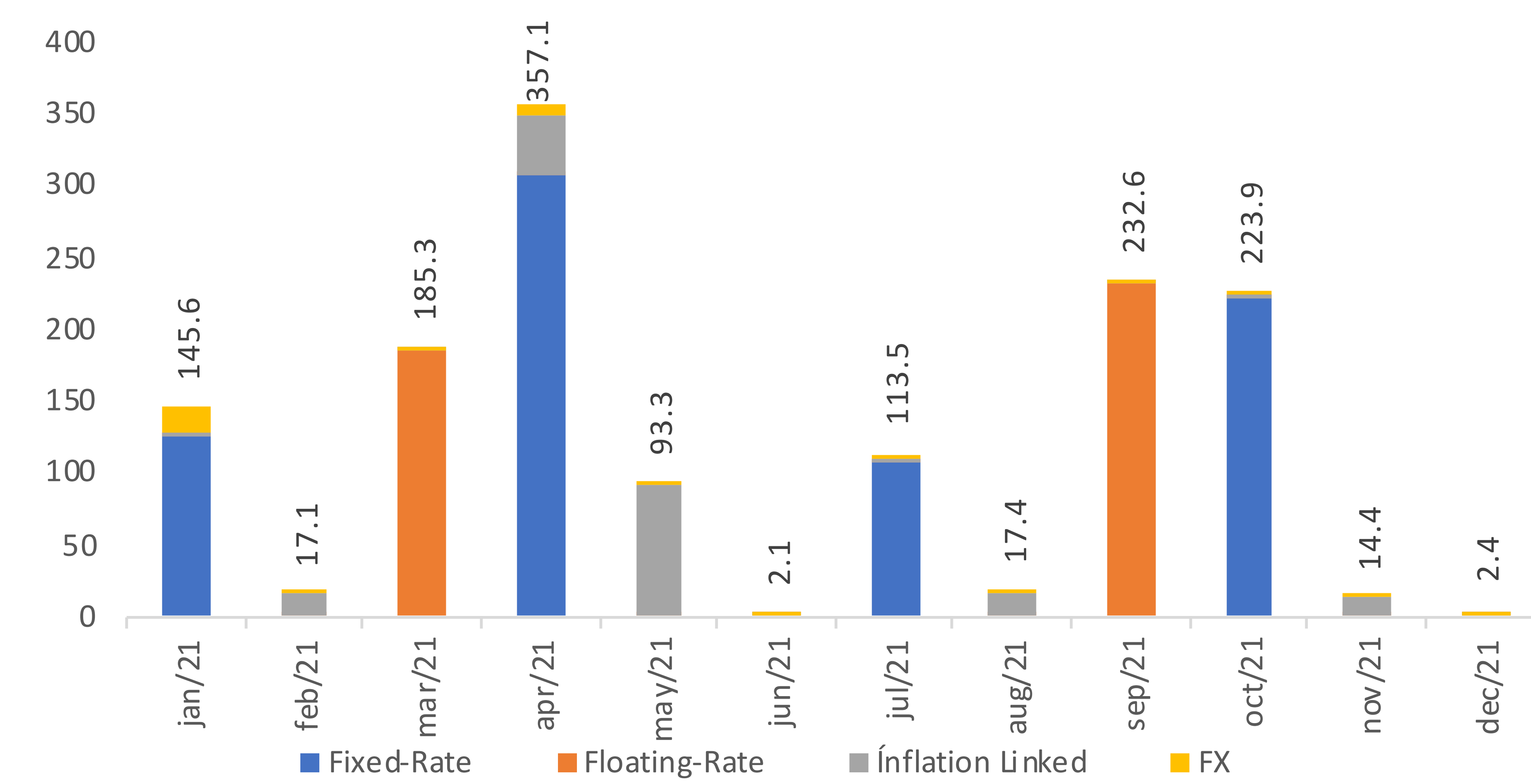
*Table 1 – **Estimated FPD maturity in the market for 2021 -** (BRL billion and % of the total)*

Type	FPD	
	BRL billion	% of the total
Fixed-Rate	758.8	54.0%
Floating-Rate	418.2	29.8%
Inflation-Linked	192.2	13.7%
FX	35.5	2.5%
Total	**1.404.6**	**100%**

Source: *National Treasury*

The largest FPD maturities are scheduled for the first four months of 2021. Until April, 50.2% of the maturities scheduled for the year will be paid. As for the composition, fixed-rate bond maturities dominate (Figure 2). DFPD maturities represent the largest share of the forecasted maturities for the year (BRL 1,369.9 billion).

*Figure 2 – **Estimated DFPD maturity in market for 2021 -** (BRL billion)*



Four-Month Period	BRL billion	%
Jan - Apr	705.2	50.2%
May - Aug	226.2	16.1%
Sep - Dec	473.2	33.7%
Total	**1,404.6**	**100.0%**

Source: *National Treasury. Posição em 31/12/2020*

Debt expenditures resulting from borrowing requirements are complemented by the forecast of non-performing guaranteed debt. Part of the non-performing guaranteed debt payments refers to payment flows in contracts of subnational governments defaulting on debts guaranteed by the federal government, which have adhered or may accede to the Fiscal Recovery Regime – FRR (Complementary Law nº 159, of 2017). The expected honors of guarantees for Rio de Janeiro defaults, the only state that officially joined the FRR, amount to BRL 3.8 billion in 2021.

[3] By § 2nd of article 39 of the Fiscal Responsibility Law, the Central Bank may only buy bonds issued by the National Treasury to roll over the principal of the bonds maturing at its portfolio.

Additionally, the budget forecast for non-performing guaranteed debt includes a margin of BRL 5.7 billion to secure the guaranteed contracts of the states of Amapá, Goiás, Minas Gerais, and Rio Grande do Norte[4]. The Federal Government has regularly honored the guaranteed contracts of these states. However, the federal government is prevented from executing the collaterals of these guaranteed contracts due to the FRR or to legal injunctions.

In addition to debt maturities, the 2021 budget foresees the use of government bonds issuances proceeds to pay for other budget expenditures totaling BRL 468.2 billion. Of this amount, BRL 453.7 billion are expenses conditioned to the approval of additional credits by an absolute majority of the National Congress, in observation of the legislation known as the Golden Rule, according to Section III of Article 167 of the Federal Constitution. A breakdown of the primary expenditures corresponding to these credits are shown in Table 2.

*Table 2 – **Other budget expenditures to be paid with government bonds issuances proceeds -** (BRL billion)*

Expenditure	Expected	Subject to Congress approval
Urban pension benefits	214.8	214.8
Federal government employees	75.7	75.7
Rural pension benefits	57.3	57.3
Other costs	41.5	41.3
Retirement and pensions (civil and military)	37.4	37.4
Court ordered credits	20.7	20.7
Tax breaks	12.8	4.8
Compensation to the private sector workers' pension system	3.7	1.9
Financial inversions	4.5	0.0
Total	**468.2**	**453.7**

Source: *Federal Budget*
Produced by: *National Treasury*

At last, as already mentioned, the 2021 budget forecasts the allocation of BRL 272,5 billion in budget revenues (sources) not arising from government bonds issuances to cover for FPD maturities. This budget forecast includes two types of resources: (i) revenue linked to FPD payments; and (ii) free-allocation revenues, i.e., resources without specific earmarking. Table 3 presents a breakdown of these sources.

*Table 3 – **Budgetary revenues for debt payment** (BRL billion)*

Budgetary Revenue (source)	
Source	2021 Draft Budget Law
(i) FPD earmarked revenues	57.1
159 – Return on Credit Operations - Financial Institutions	21.9
173 – Return of Credit Operations – states and municipalities	25.1
197 – Dividends	9.7
Others	0.3
(ii) Free-allocation revenues	215.5
100 - Ordinary Revenues	184.0
188 - Single account remuneration	31.3
others	0.1
Total	**272.5**

Source: *National Treasury*

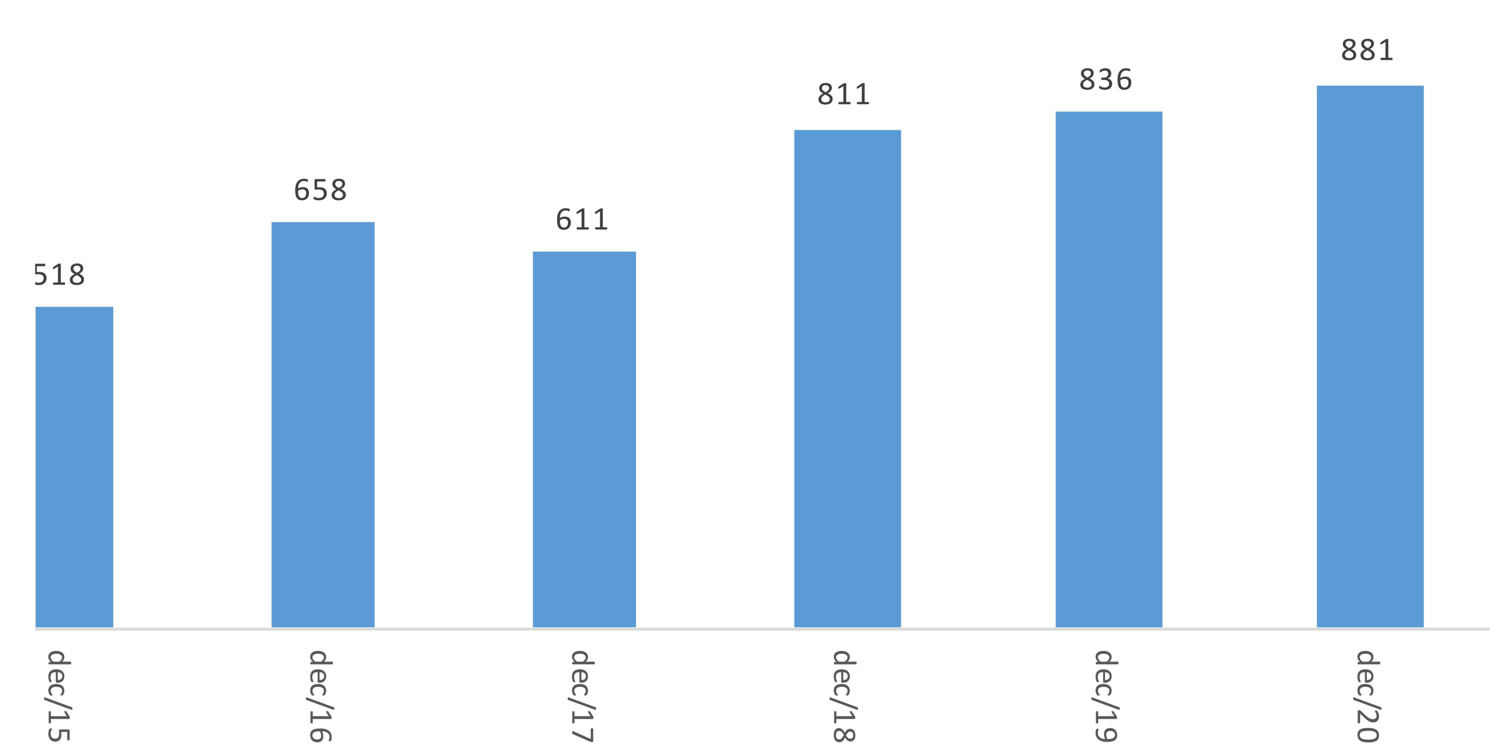
The expected borrowing requirements do not include potential expenditures related to contingent liabilities managed by the National Treasury under the recognition process, since the time to complete the regularization is unforeseeable. The 2021 Budget Guidelines Law, in its Fiscal Risks Annex, indicates a BRL 25.0 billion forecast for these liabilities, 99.9 % of which are potential liabilities under the FCVS.

[4] This forecast includes estimations for non-performing guaranteed debt in 2021. The 2021 budget foresees additional resources to ensure the payment due to new states joining the FRR and to legal injunctions.

2.3. Public debt liquidity reserve

Public debt liquidity reserve (or debt cushion) comprises cash availabilities that are earmarked for domestic debt payment and the cash balance from government bonds issuances proceeds[5]. The liquidity reserve position at the end of December 2020 was BRL 881.3 billion. In fact, in recent years, cash availabilities to honor debt have been reinforced by three factors: (a) a policy of issuing bonds in amounts higher than debt maturing in the market; (b) early settlement of BNDES debt to the National Treasury; and (c) inflow of resources from the Central Bank (BCB) balance sheet result. Figure 3 shows the recent behavior of debt liquidity reserve.

*Figure 3 – **Debt Liquidity Reserve** (BRL billion)*



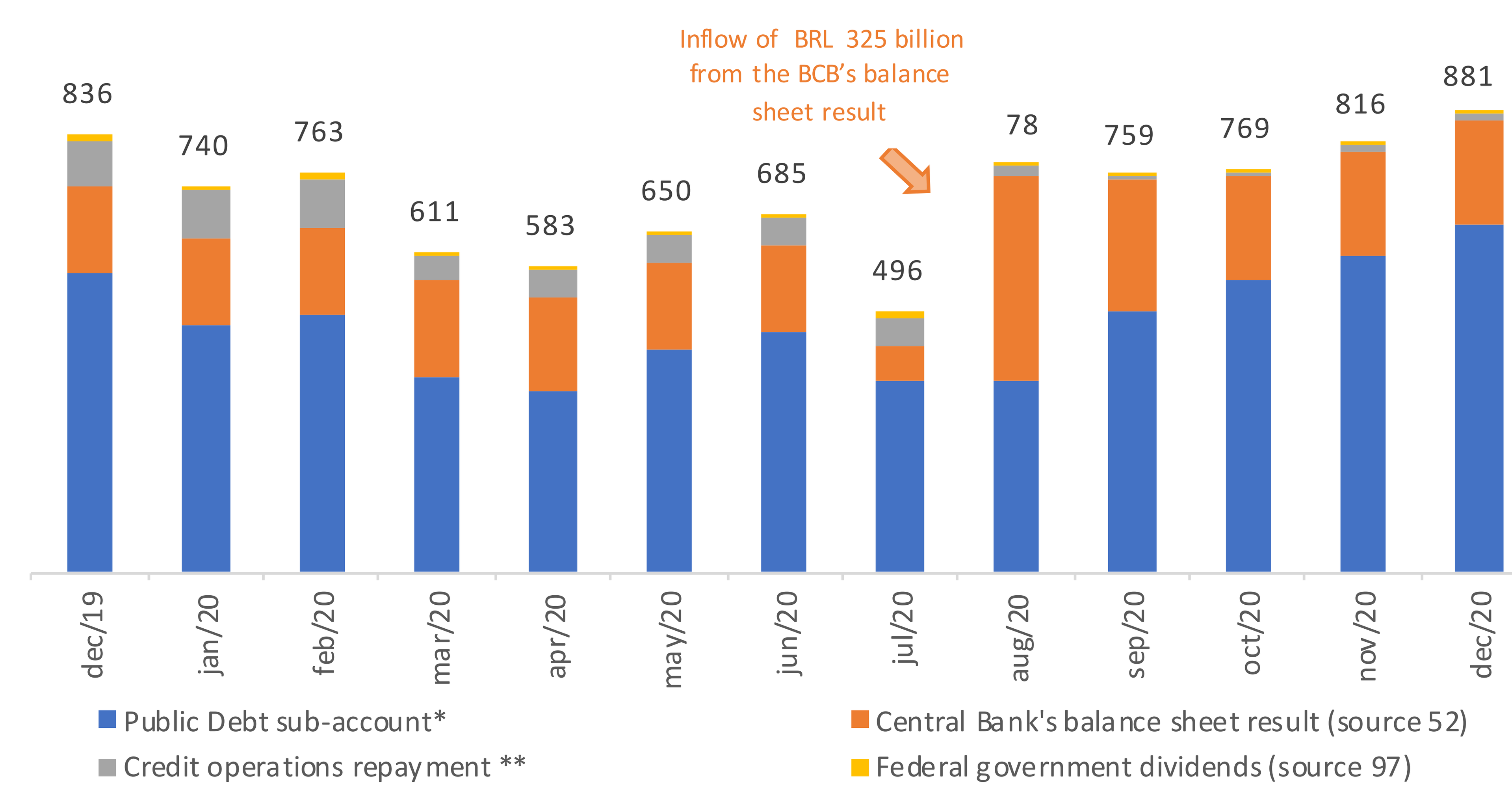
***Source:** National Treasury*

Debt liquidity reserve comprises a subset of cash availability within the National Treasury Single Account (CTU), at the Central Bank[6]. The Single Account resources are classified in budget sources, according to their origin, with some sources dedicated to debt payment. There are two groups of sources that integrate the liquidity reserve:

- Sources from government bonds issuance, which originates from resources raised on the market through government bonds;
- Sources earmarked to pay the public debt, following with each source specific legislation, which links the source's destination to the public debt maturities payment.

Figure 4 shows debt liquidity reserve position, by the source of funds, at the end of 2020. An innovation in 2021 is the disclosure of the liquidity reserve in the Monthly Debt Report, allowing analysts to monitor, with greater transparency, the evolution of the cash availabilities for public debt payments.

*Figure 4 – **Debt Liquidity Reserve by Resources Origin** (BRL billion)*



** Bonds issuances comprise as sources: 43 – FPD financing (principal) and 44 - interest and other budget expenses not related to public debt.*

*** Credit operations repayment comprises as sources: 59 – repayment of medium and long-term debt (like BNDES payments), 71 – credit operations repayment - BEA / BIB, and 73 - credit operations repayment - States and Municipalities.*

***Source:** National Treasury*

Liquidity reserve closed 2020 at R$ 881.3 billion, of which BRL 218.4 billion refers to earmarked sources for debt payment and not derived from bond issu-

[5] *The Federal Public Debt is mainly composed of DFPD, which amounts to approximately 95% of the total debt outstanding. The other 5% is the EFPD, or External Federal Public Debt. The EFPD is generally rolled over by issuing bonds on the international market.*

[6] *The federal government cash availabilities are centralized in an account at the BCB, known as National Treasury Single Account (CTU). The Brazilian Federal Constitution of 1988, in its article 164 § 3, stipulates that such cash availabilities must be deposited in the BCB. There are several reasons for custody at the BCB: allows easier control of resources; generates lower maintenance costs; ensures competitive neutrality among private sector agents, and facilitates liquidity management in the financial system; among other reasons.*

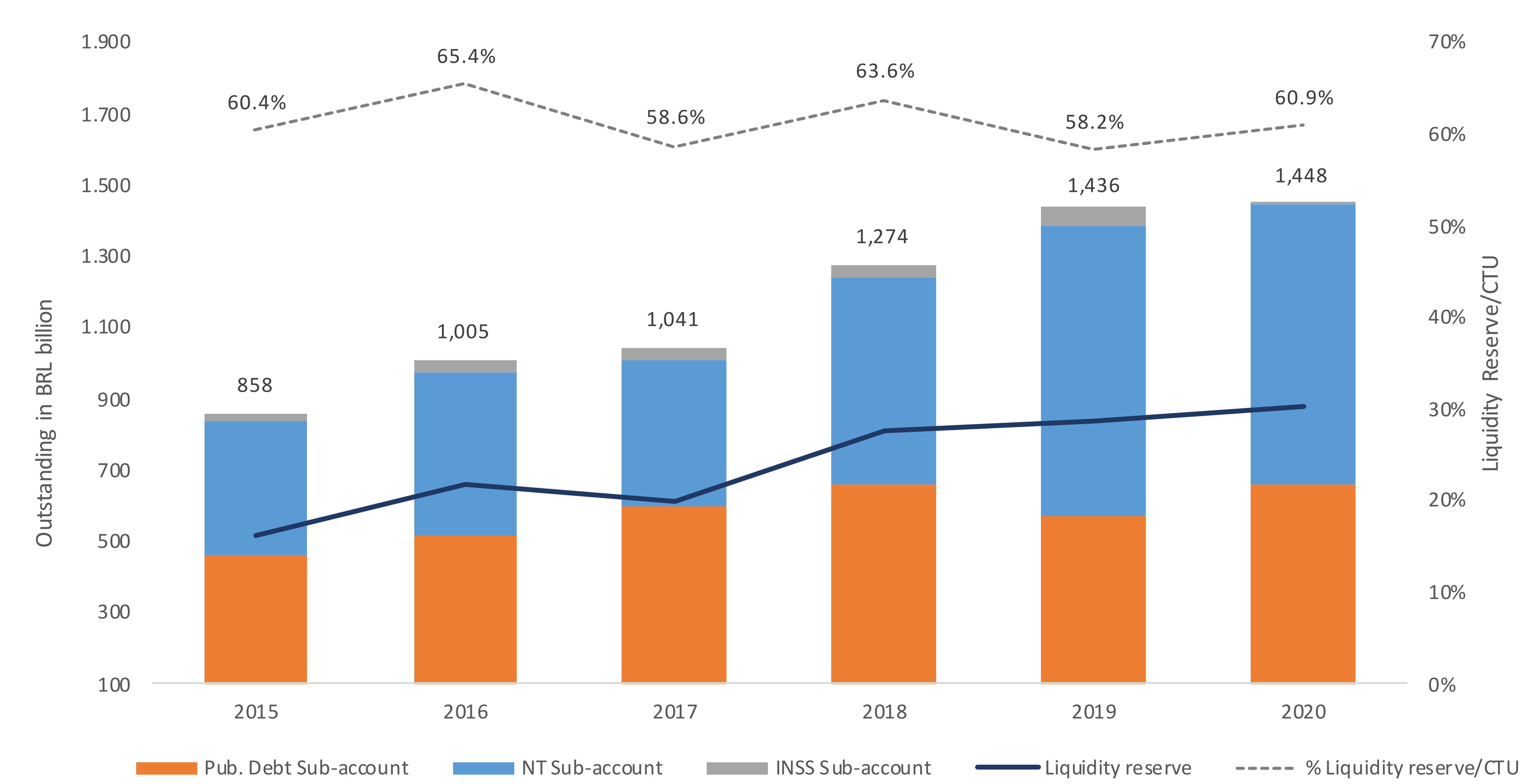
ances, and BRL 662.9 billion refers to funds raised through government bonds issuances. This amount is sufficient to pay for all expected maturities in the first half of 2021.

The National Treasury does not set a lower bound target for liquidity reserve. In managing debt refinancing risk, the Treasury aims at maintaining the liquidity reserve in amounts equivalent to at least 3 months of DFPD maturing in the market, plus the payment of interests to the Central Bank. This level of liquidity reserve is considered a prudent level. In particular, the National Treasury has been performing issuances in higher amounts than redemptions in recent years, which contributes to strengthening the debt's cash position. In 2020, despite greater borrowing needs, the Treasury was able to maintain the liquidity reserve above the prudent parameter throughout the whole period, thanks to the extraordinary inflow of BRL 325 billion from the Central Bank's balance sheet result source. Moreover, the bonds issuances average volume observed an increase in the second half of the year.

The primary objective for maintaining a liquidity reserve is to mitigate short-term refinancing risks, granting the debt issuer greater flexibility to manage issuances, especially in adverse financial market situations. Additionally, the liquidity reserve contributes to financial market stability, allowing the National Treasury to act countercyclically during periods of stress in the financial market, as occurred in September 2015 (loss of investment grade), June 2016 (Brexit referendum), March 2017 (leaked audio file by then-President Michel Temer), June 2018 (truckers' strike), and March 2020 (COVID-19). In these episodes, the National Treasury canceled traditional sales auctions and started to hold nonscheduled issuance and redemption auctions, with the objective of providing price references and removing risk from the market, through net redemptions. In the absence of a liquidity reserve, National Treasury would have been compelled to continue to raise funds at extremely high costs and, in addition, it would have acted in a pro-cyclical manner, contributing to exacerbating a stressful situation in the financial market.

The federal government's cash availabilities are broader than debt liquidity reserve. The National Treasury Single Account (CTU) consists of three sub-accounts: (i) the National Treasury sub-account, intended for the Central Government revenues and payments in general; (ii) the Public Debt sub-account, which records cash availabilities derived from government bonds issuances proceeds; and (iii) the National Social Security Institute (INSS) sub-account, intended for INSS payments and receipts. The public debt liquidity reserve consists of sub-account (ii) in its entirety, and a portion of sub-account (i). Figure 5 below shows the Single Account evolution, with its sub-accounts, and the share that corresponds to the debt liquidity reserve.

*Figure 5 – **Debt liquidity reserve as a share of the Single Account** (BRL billion)*



Source: *National Treasury.*

Brazilian agricultural sectors have sustainability as a principle

3 Borrowing Strategy

This section describes the 2021 Treasury strategy to meet the central government borrowing needs. The public debt has been growing consistently since 2015, a consequence of successive primary deficits, and the debt became even larger in 2020, following the COVID-19 pandemic. The current challenge is to match the borrowing needs with the public debt manager's mid and long-term goals. As the environment of pandemic-related uncertainty remains, the public debt manager must be responsive to adapt to the evolving scenarios. With this background in mind, the 2021 ABP strategy prioritizes measures to keep a prudent level of resources to cover expenses, mitigate the public debt refinancing risk, and ensure the proper functioning of the governmentbonds market.

3.1. Domestic Debt

As in previous years, the strategy includes issuances of fixed-rate bonds (LTN and NTN-F), inflation-linked bonds (NTN-B), and floating bonds (LFT), which are indexed to the SELIC rate. The LTN plays a relevant role in debt financing given its high liquidity in the secondary market and easiness for investors to hedge LTN's interest rate risk using derivatives. Both the NTN-F and the NTN-B support FPD average maturity lengthening and investors base diversification. The LFT is important to avoid the concentration of short-term maturities and tends to offer a lower cost.

Fixed-rate bonds have four benchmarks for LTN (6-, 12-, 24- and 48-month maturities). NTN-F now has 3 benchmarks instead of 2, with 6-, 8- and 10-year maturities. The inflation-

-linked bond, NTN-B, now has 6 benchmarks instead of 4, with 3-, 5-, 7-, 10-, 20-, and 35-year maturities. The 3-year maturity NTN-B was successfully launched in October 2020 aiming at increasing the financial volume raised through issuances and mitigating the refinancing risk in the short-term. LFT remains with 2 benchmarks (1- and 6-year maturities).

Given the high volume of debt maturing in 2021, the Treasury will perform early exchange auctions, which are important tools for mitigating the rollover risk. This tool is notably used when there is a high concentration of maturities on specific dates. Before the selected bonds mature, the Treasury will offer bond exchange auctions. In these auctions, the Treasury will offer bondholders the opportunity to buy bonds with a longer maturity, while accepting the bonds maturing in 2021 as part of the payment. Figure 2 (page 8) shows the maturity profile of the public debt for 2021. These early exchange auctions should not be mistaken for NTN-B exchange auctions, which may continue in 2021, depending on market conditions and investors' demands.

Table 4 presents expected bonds issuances during 2021 for each benchmark. The auction notices will define the bid selection criteria, which can be: (i) uniform-price auction (Dutch auction), in which all winning bids pay the same price as the minimum accepted bid; or (ii) multiple-price auction (traditional auction), in which each winning bidder pays the price submitted in their respective bid.

Table 4 – ***Benchmarks issuances in the 1st quarter of 2021***

Bond	Maturity	1st Quarter	Indexer	Coupon
LTN	6-month	Oct-2021	Fixed Rate	Zero-coupon
	12-month	Apr-2022		
	24-month	Jan-2023		
	48-month	Jul-2024		
NTN-F	6-year	Jan-2027	Fixed Rate	10% per year, payable semiannually
	8-year	Jan-2029		
	10-year	Jan-2031		
LFT	1-year	Mar-2022	Floating Rate	Zero-coupon
	6-year	Mar-2027		
NTN-B	3-year	Aug-2024	Inflation-Linked Rate	6% per year, payable semiannually
	5-year	Aug-2026		
	7-year	Aug-2028		
	10-year	Aug-2030		
	20-year	Aug-2040		
	35-year	May-2055		

Source*: National Treasury*

The National Treasury will publish, 15 days before the beginning of each quarter, the bond-issuance schedule on its website, valuing the transparency and predictability of its operations[7]. The change in the frequency of the schedule release – annual until 2020, now quarterly – allows the debt manager to promptly adjust the debt strategy to the market scenario, as many uncertainties remain due to the impacts of the pandemic.

[7] The announcements regarding the quarterly schedules are available here: https://sisweb.tesouro.gov.br/apex/f?p=2501:9::::9:P9_ID_COMUNICADO:1902.

3.2. External Debt

The federal government fulfills its borrowing needs mainly through bonds issuance at the domestic market. However, the external Federal Public Debt (EFPD) plays a relevant role in increasing FPD average maturity, diversifying indexes, and expanding the investors base. Moreover, an efficient sovereign yield curve helps the pricing of corporate bonds, allowing Brazilian companies to access international markets with a lower capital cost.

Although there is room for more external issuances in 2021, the strategy keeps resting over a qualitative base, through the design and maintenance of benchmarks on the U.S. dollar curve. Furthermore, the National Treasury intends to access once more the euro-denominated bond market, aiming to increase diversification in both the currency and investors base.

The EFPD rollover risk in the short term has been mitigated, considering that all interest and principal maturities for 2021 have already been previously financed through external issuances in 2020. External loans signed in 2020, amounting to approximately US$ 5.2 billion, are going to be disbursed in 2021. More information about these loans will be available in the 2020 Annual Debt Report.

4 Expected Results

4.1. FPD in the short term (2021)

The borrowing requirements can be met through different bonds issuance strategies, which are compatible with the different economic scenarios previously described. Table 5 presents the expected results for the main FPD indicators. Presenting the indicators in the form of ranges grants a good degree of predictability while providing the necessary flexibility for public debt management to adjust its performance to the prevailing conditions in the government bonds market.

*Table 5 – **Reference limits for FPD in 2021***

Statistics	2020	Reference limits for 2021	
		Minimum	Maximum
Outstanding debt (BRL billion)			
FPD	5,009.6	5,600.0	5,900.0
Composition (%)			
Fixed-rate	34.8	38.0	42.0
Inflation-linked	25.3	24.0	28.0
Floating-rate	34.8	28.0	32.0
FX	5.1	3.0	7.0
Maturity structure			
% maturing in 12 months	27.6	24.0	29.0
Average maturity (years)	3.6	3.2	3.6

***Sour**ce: National Treasury*

The expected range for the outstanding FPD volume at the end of 2021 reflects both the expectation of interest accrual and the balance between planned issuances and redemptions throughout the year. The strategy aims at meeting the federal government borrowing needs and at maintaining prudent levels of cash position.

Since 2015, floating-rate bonds, LFT, have been the main financing instruments for the federal government. Despite increasing the exposure of the public debt to variations on the monetary policy interest rate (Selic), LFT lengthens the public debt maturity, as LFT's maturity is of approximately 6 years. Therefore, LFT represents an alternative to short-term fixed-rate bonds. In 2020, the increase in risk perception and in preference for liquidity due to the instability of the economic-fiscal scenario made short-term fixed-rate bonds, with maturities of 6 and 12 months, to be the main instruments for financing the National Treasury. For 2021, the reference ranges for the FPD composition contemplate the continuity of a relevant share of fixed-rate bonds with shorter maturities in the issuance of public bonds. The ranges also indicate a reduction in the share of LFT, which is largely due to the high volume of maturity of this bond in 2021, compared to previous years.

Furthermore, regarding debt composition, despite the increase in external financing, mainly due to the signature of loans with multilateral organizations, foreign exchange exposure of the FPD remains limited, at around 5%. This low foreign exchange exposure is a positive fact, given the greater volatility of the exchange rate compared to other indexes.

Another dimension monitored in the ABP is the maturity profile, through the indicators of the share of debt maturing in 12 months and average outstanding debt maturity. While the former consists of a measure of short-term maturity concentration, the latter reflects the average remaining time for debt payments weighted by the present values of principal and interest flows. Debt refinancing risk, measured by these indicators, will be greater the higher the former and the lower the latter. Both indicators have deteriorated in recent years, a consequence of persistent primary deficits and greater indebtedness.

In 2021, the share of FPD maturing in 12 months will continue at a high level, mainly due to the expressive volume of short-term fixed-rate bonds issuances that occurred in 2020. The financing of these short-term bonds in 2021 tends to be done through new bonds with similar characteristics. The decline in the share of debt maturing in 12 months will occur gradually over the next few years, respecting market conditions. The financing risk in the short term is mitigated by the maintenance of a liquidity reserve at prudent levels.

Similarly, the FPD average maturity will decline in 2021. Not only the behavior of this indicator is associated with the increase in the share of short-term fixed-rate bonds, but also with the decline in the average maturity of other financing instruments, such as NTN-B.

In addition to the average maturity, the Treasury regularly publishes statistics about average life (ATM, an acronym for the average time to maturity) for the FPD[8]. This indicator is useful for international comparisons, once many countries use this measure to calculate their outstanding debt maturities rather than the average maturity (duration) concept, which is monitored according to the reference ranges determined in this ABP. FPD average life information can be found in: https://www.gov.br/tesouronacional/en/federal-public-debt/about-federal-public-debt/key-figures-of-the-federal-public-debt.

4.2. Optimal FPD long-term composition

Optimal FPD long-term composition, known as benchmark portfolio, is one of the main debt planning tools. It is obtained through a quantitative model that intends to answer which debt composition optimizes the balance between cost and risk in the long run, given the assumed demand constraints for each bond type. The purpose is to provide quantitative guidelines for debt strategic planning in line with public debt objective and qualitative guidelines.

As a long-term reference, deviations from the benchmark may occur in the short term, as the National Treasury adjusts the strategies to the prevailing macroeconomic and financial conditions to avoid pressures that result in excessive cost or risk. Table 6 presents the benchmark FPD portfolio reference limits, unaltered relative to the previous year.

[8] Average life to maturity (ATM) is an indicator less efficient than the average maturity (duration) since it ignores coupon payments and does not calculate the principal payment flows by their present value. Such drawbacks cause the indicator to show values well above the FPD average maturity which is the reason the Treasury gives less emphasis to this indicator on the Public Debt statistics in Brazil. Despite these limitations, most countries adopt an indicator similar to the average life in their maturity profile statistics, therefore direct comparisons with the measure adopted in this ABP are misleading.

Table 6 – ***Optimal FPD long-term composition***

Indicadores	Long-term limits	
	Reference	Range
Composition - %		
Fixed-rate	40.0	+/- 2.0
Inflation-linked	35.0	+/- 2.0
Floating-rate	20.0	+/- 2.0
FX	5.0	+/- 2.0
Maturity structure		
% maturing in 12 months	20.0	+/- 2.0
Average maturity (years)	5.5	+/- 0.5

Source: *National Treasury*

4.3. Reference limits for the FPD in the medium term

Medium-term simulations consist of forecasting bond issuances strategies for the following 10 years, assuming different scenarios. As a result, the model projects dynamics for the main FPD indicators. This simulation is essential to verify short-term strategy adherence to the long-term objectives.

The biggest challenge facing the FPD in the next years is to conciliate the fulfillment of the federal government borrowing needs with a debt profile that does not bring about elevated risk levels for the debt management. A strategy based on the issuance of short-term bonds tends to result in less cost, but it raises the refinancing risk in the short term since the issued bonds must be rolled over when they mature. Not only this dynamic creates a borrowing need that is larger, but it also creates a more frequent borrowing need. A borrowing strategy based on the issuance of longer-term bonds is preferable, but in a scenario of risk aversion and liquidity preference, the cost increases considerably, due to the high steepness of the yield curve.

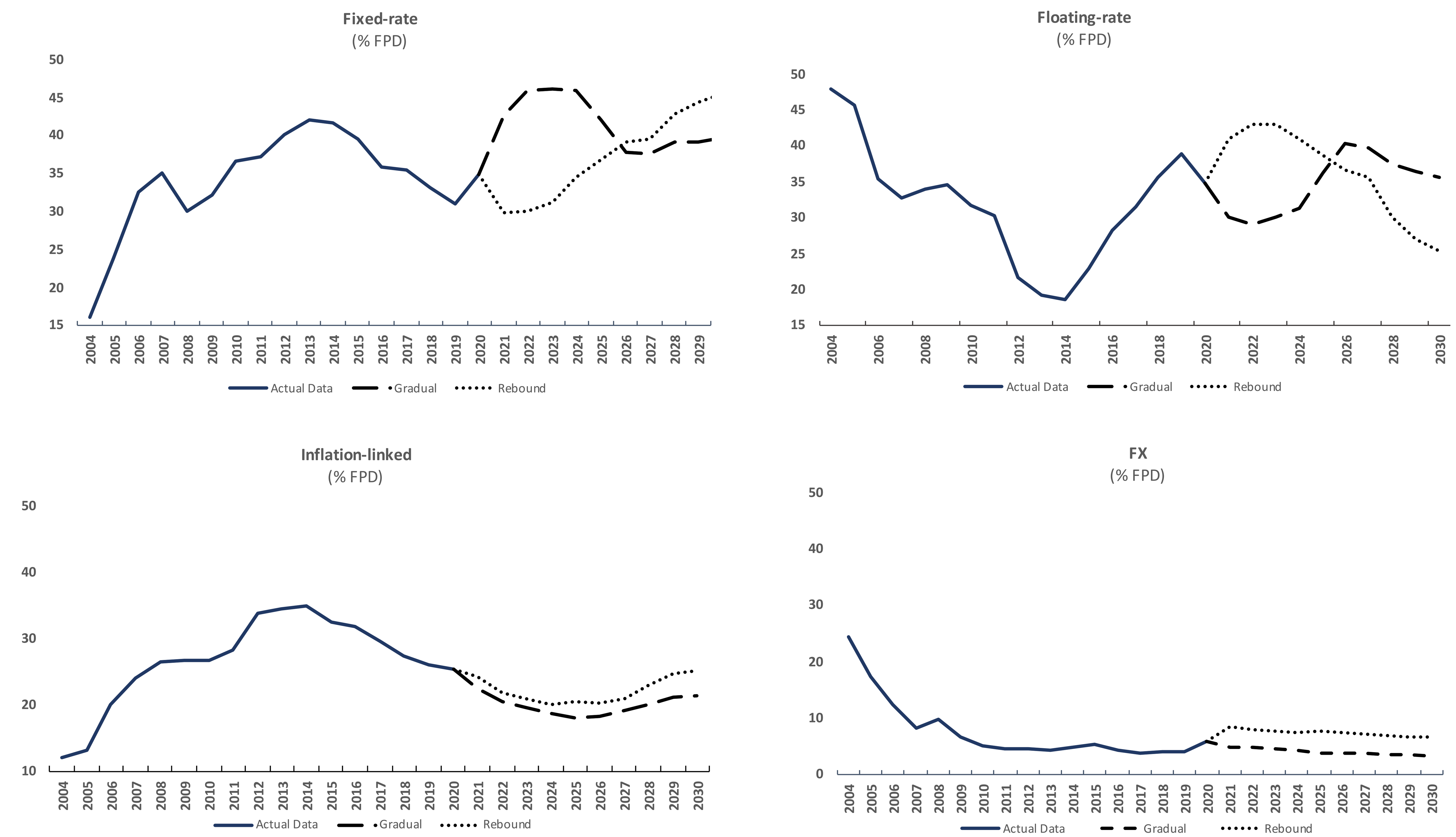
In the medium-term analyses, two scenarios stand out: rebound and gradual. The first scenario assumes consistent improvements in the macroeconomic environment with the recovery of the economic activity and advances in the agenda of structural reforms, supporting the fiscal consolidation process. In this scenario, market conditions improve to the point of sustaining a higher demand for longer-term bonds already in the short term. The gradual scenario, on the other hand, is characterized by a slower improvement in the financial conditions. Consequently, the borrowing strategy maintains a relevant share of short-term bonds on offer, but, over the years, there is a transition for the issuance of bonds of ever longer maturities.

The difference between the rebound and the gradual trajectories is thus the speed with which the National Treasury could advance in the strategy of lengthening the average maturity and reducing the share of the FPD maturing in the short term.

The persistence of primary fiscal deficits since 2014 and the resultant public indebtedness growth have constrained the possibilities to promote the convergence of FPD indicators to benchmark values. **For the FPD composition to resume its path towards the benchmark presented in Table 6, the country must resume the process of fiscal consolidation, which would enable structural primary surpluses and a consistent decline of indebtedness.**

Figure 6 presents the results of FPD composition projections for the medium term.

Figure 6 ***– FPD composition in the medium term*** *(% of FPD)*

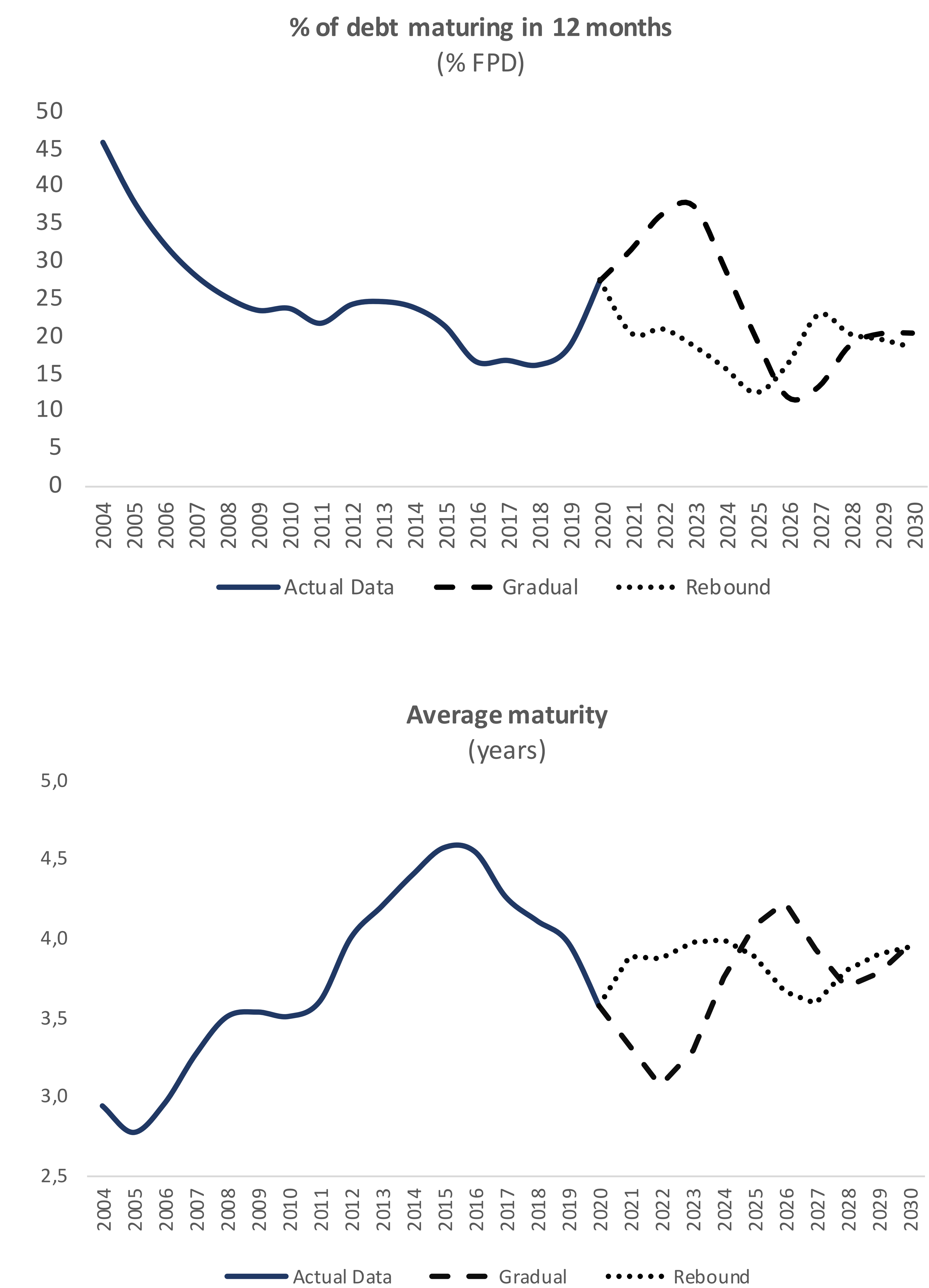


Source: *National Treasury*

The projections show two distinct scenarios for the FPD composition in the medium term. In the rebound scenario, the improvement of market conditions allows a continuous and consistent growth of the fixed-rate bonds share from 2022 on, with a strategy that also encompasses issuances of floating-rate bonds over the projection horizon. In the gradual scenario, on the other hand, the issuance strategy is centered on the short-term bonds, which quickly increases the share of fixed-rate bonds until 2025 and reduces the LFT share in the FPD. In both scenarios, inflation-linked bonds lose share in the FPD outstanding.

As for the FPD maturity profile, in Figure 7, the estimates also show two distinct scenarios. In the rebound scenario, in which market conditions improve in the short term, the share of debt maturing in 12 months and the average maturity of the FPD stay close to the average of the past years, 20% and 4 years respectively, over the projection horizon. In the gradual scenario, in which the strategy remains centered on the issuance of short-term bonds, there is an increase in the share of debt maturing in 12 months and a decline in the average maturity in the first years of the projections.

Figure 7 – ***FPD maturity structure indicators in the medium term*** *(% of FPD, years)*



Source: *National Treasury*

In summary, the results in this section reveal risks associated with the FPD composition and maturity profile. A reduction in the debt roll-over risk in the medium term would depend on a scenario that is favorable to more issuances of longer-

-term bonds, especially fixed-rate and inflation-linked bonds. **Tackling the fiscal side is a necessary condition for the macroeconomic scenario and financial conditions to allow the adoption of a strategy that is more favorable to the improvement of FPD indicators already in the first years of the trajectory.**

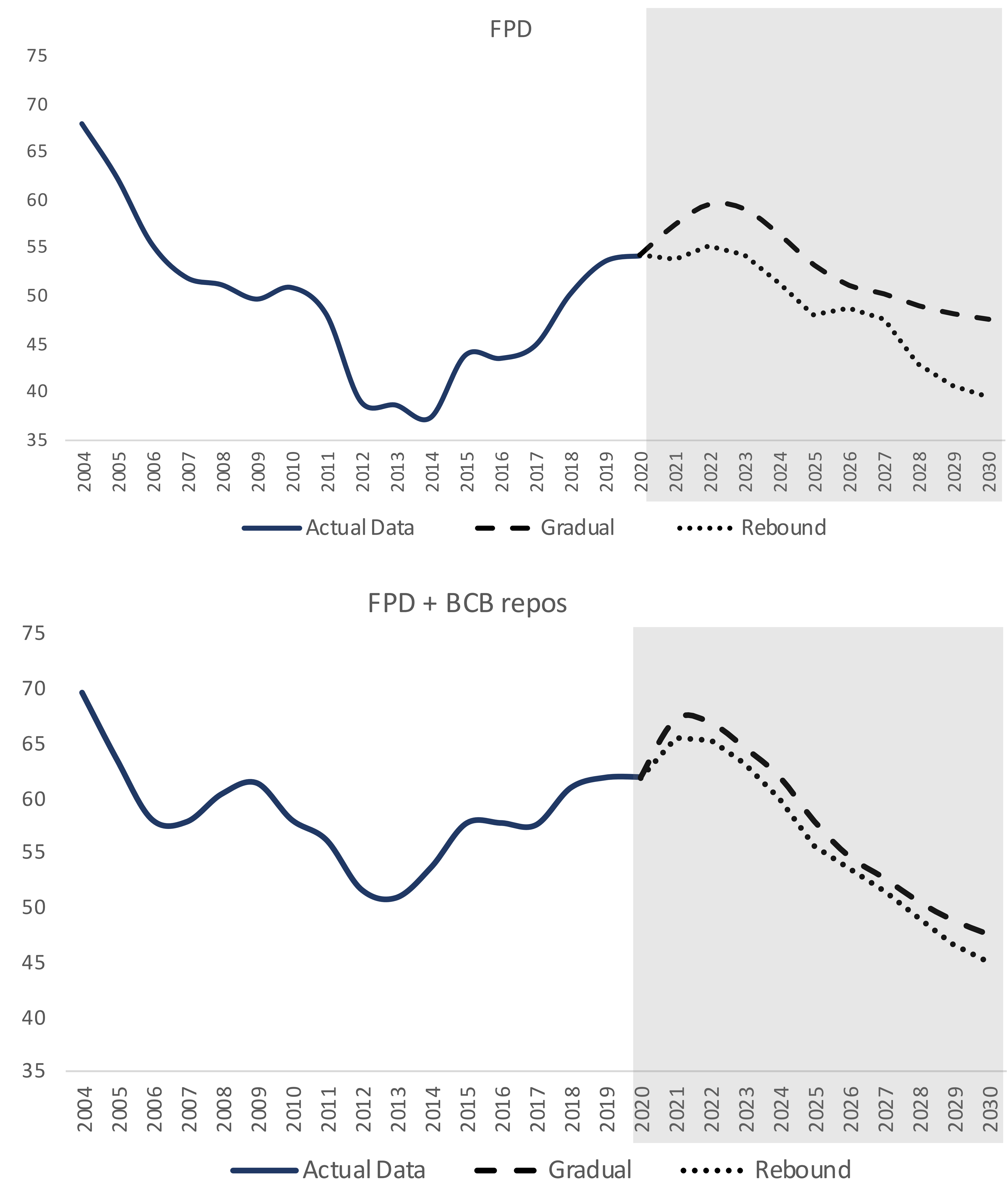
4.4. Market risk: a broader debt composition analysis

The LFT share in the outstanding debt is an indicator of debt exposure to interest rate risk, given that fluctuations in its index - the Selic rate - cause changes in the average cost proportionally to the share of these bonds in the outstanding FPD. Beyond the floating-rate bonds, the debt share that matures in the short term needs to be rolled over and, therefore, is also exposed to interest rate risks.

The FPD re-fixing risk is measured by the share of debt with interest rate re-fixing in 12 months, as shown in Figure 8. This indicator incorporates the sum of two components: (a) the share of FPD maturing in 12 months which, therefore, will have its cost redefined in the short term, and (b) the share of floating-rate bonds with maturities higher than 12 months. Thus, the indicator seeks to combine the effects of changes both in debt composition and in debt maturity profile. This risk would not change, for example, by replacing LFT with short-term fixed-rate bonds.

However, from a more comprehensive debt perspective, this analysis could be expanded to consider other instruments that are also sensitive to changes in the monetary policy interest rate. This is the case for the Central Bank repo operations, which are included in General Government Gross Debt (GGGD) and yield approximately the Selic interest rate. Figure 8 also shows the debt share to be re-fixed in 12 months that adds the repo operations to the FPD. Under this broader perspective, an increase in the LFT share in the FPD that would cause a decline in the amount of repos would be considered neutral from the standpoint of the interest rate re-fixing.

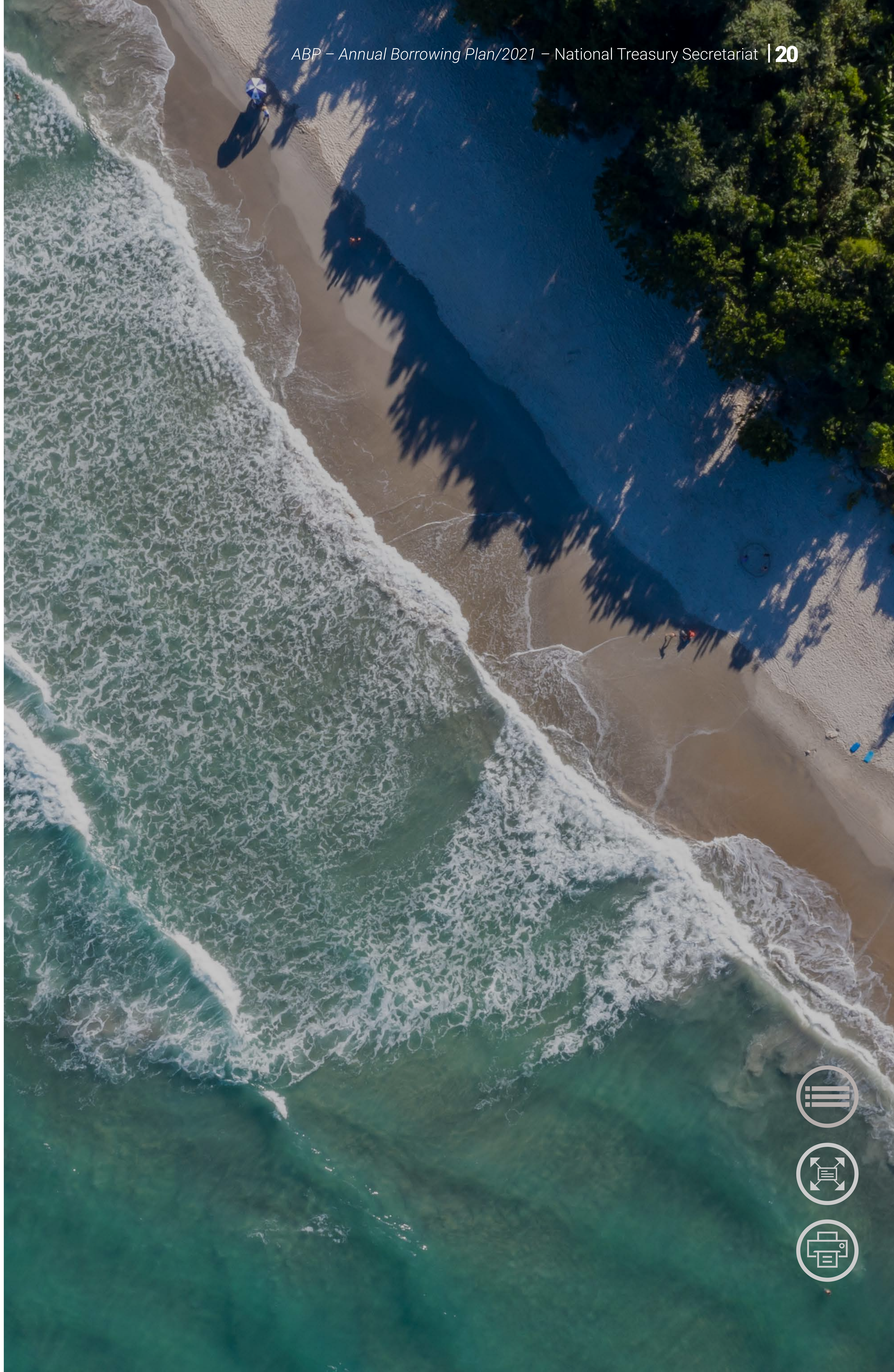
*Figure 8 – **Share of debt with interest rate re-fixingin 12 months** (% of FPD)*



Source: *National Treasury*

The guidelines for the FPD convergence to the benchmark portfolio prescribe the preference for fixed-rate and inflation-linked financing instruments, both of long-term maturities. Following this guideline means reducing the share of debt to be re-fixed in 12 months. Notwithstanding, a strategy that focuses exclusively on those kinds of bonds faces demand limits. Moreover, the strategy must avoid pressures that could potentially distort the yield curve.

The debt share with interest rate re-fixing in 12 months has shown a growth trend since 2013, both in the FPD and in the broader concept including the repo operations. This growth trend follows the debt growth trend itself. For the future, it is expected that the indicator will fall again from 2022 on, in both concepts, in a joint process that conjugates a reduction of both repos and LFTs. A key assumption in this scenario concerns improvements in the primary fiscal balance over time.



Women's share in the Brazilian labor market has been growing

5 The relevance of the agenda ESG for the public debt management

In recent years, non-resident investors have increasingly considered the sustainability aspects of sovereign assets, such as environmental, social, and governance (ESG) on their investment strategies. A clear example of this interest is the commitment of more than 3,000 institutions, which manage approximately USD 100 trillion in assets, to sustainable investment by signing the United Nations Principles for Responsible Investment (UN PRI).[9]

In 2006, the United Nations Environment Program Finance Initiative (UNEP FI), a UN partnership with the financial sector to encourage the financing of the Sustainable Development Goals (SDGs), and the United Nations-supported Principles for Responsible Investment (PRI) released a list of six principles for responsible investment that should be followed by the signatories. The six principles are:

1. Incorporate ESG themes into investment analysis and decision-making processes
2. Be proactive and incorporate ESG themes into asset ownership policies and practices
3. Always seek to ensure that the entities in which we invest disclose their actions related to ESG themes.
4. Promote the acceptance and implementation of the Principles within the investment sector.
5. Work together to increase the effectiveness in implementing the Principles.
6. Disseminate reports on activities and progress in implementing the Principles.

The responsible investment principles seek to encourage the incorporation of ESG aspects in the analysis of investments, increase openness of data related to ESG issues, among others. New regulations implemented by several countries mean that, every day, corporate institutions disclose more data on the impact of their activities on the ESG indicators. Increasing the availability of this information, in turn, increases the degree of freedom for investors to adopt strategies that consider ESG sustainability parameters in investment opportunities.

In this scenario, FPD non-resident investors, mainly, increasingly analyze the ESG characteristics in their portfolios when evaluating long-term investment opportunities, since ESG statistics assist in the risk-return assessment of these assets.

[9] *Available in: https://www.unpri.org/pri/about-the-pri*

According to a report published by the World Bank in November 2020[10], international investors' interests in the ESG agenda to shape their sovereign asset investment strategies occurs primarily for two reasons: investors believe that the ESG characteristics affect the risk-return ratio of assets; or obligations have changed as investors are receiving specific ESG mandates, either because of market regulation or by changes in the guidelines of their respective financial institutions.

Observing this movement, the main credit risk rating agencies started to internalize ESG aspects more clearly in their methodologies, with the objective of evaluating the impact of these variables on the credit risk of sovereigns. Table 7 presents the most relevant ESG indicators in the methodology of the main sovereign credit risk rating agencies.

*Table 7 – **ESG Governance Indicators used by credit rating agencies***

Indicator	Description	Source
Government Effectiveness	Government Effectiveness	WGI - World Bank
Rule of Law	Rule of Law	WGI - World Bank
Control of Corruption	Control of Corruption	WGI - World Bank
Voice and Accountability	Voice and Accountability	WGI - World Bank
Regulatory Quality	Regulatory Quality	WGI - World Bank
Political Stability and Absence of Violence	Political Stability and Absence of Violence	WGI - World Bank

Source: Moody's, Fitch and S&P

In this new context, communicating with the public debt investor base on issues related to the ESG agenda in the country becomes relevant. Not only the share of non-resident investors in the FPD is fundamental for public debt management, but also for the development of the capital market in Brazil. The expansion of the investor base could distribute risks that are inherent to financing through the issuance of bonds. Besides, a diversified investor base, in terms of investment horizons, preferences by the different indexers, and motivations for trading assets, offers a vital feature in fostering the government bond market.

[10] *World Bank Report: "Engaging with Investors on Environmental, Social, and Governance (ESG) issues: A World Bank Guide for Sovereign Debt Managers," November 2020.*

In this context, the National Treasury has been dedicating efforts to provide access to the information flow needed for investors' decision-making, that is, acting as a facilitator when providing clarifications on issues regarding the ESG agenda. This attribution of the public debt manager is observed in different public debt management departments around the world, such as Chile, Colombia, Uruguay, Mexico, which are examples in Latin America, among others, given the increased interest in ESG information.

Although it has declined over the last few years, the share of non-resident investors in the DFPD is still significant, accounting for 9.5% of the debt outstanding, which represents BRL 441 billion. When adding the EFPD, which corresponds to BRL 243 billion or 4.9% of FPD, the FPD share of non-resident investors reaches approximately 13.7%. In general, these investors prefer longer-term fixed-rate bonds, in line with the National Treasury guidelines of extending the debt average maturity and in favor of increasing the fixed-rate bonds share. The relevance of non-resident investors is even greater considering the increased borrowing needs and the shortening of the FPD average maturity over the last few years. The recovery of this class of investors is a fundamental part of the National Treasury strategy in the medium term.

The National Treasury's effort to increase the share of non-resident investors, which was 0.69% in January 2006 and increased to more than 20% in 2008, was important for the development of the domestic market for the long-term fixed-rate government bonds. In 2005, the longest fixed-rate bond issued by the Treasury had a 4-year maturity. With the increase in the share of non-resident investors, the Treasury started to issue fixed-rate bonds with a 10-year maturity. Such change not only contributed to the lengthening of the DFPD average maturity and consequent reduction of the refinancing risk, but also for the development of the fixed-rate yield curve in the country.

As of 2015, with the loss of the investment grade and the successive downgrades of the sovereign credit rate in an environment marked by uncertainties in the economic scenario, the share of the non-resident investor in DFPD decreased from approximately 20% to 9% in 2020. This fact challenges even more the placement of long-term fixed-rate bonds, with repercussions on the FPD composition and maturity structure.

The prominence of non-resident investors offers just one example to illustrate the relevance for public debt management in guiding its communication actions to improve the flow of ESG information related to Brazil. This section of the 2021 ABP is part of this initiative, opening space for the presentation of ESG data regarding Brazil.

The World Bank report (see footnote nº10) presents a list of the most relevant ESG topics for investors, among which the following ones stand out:

- **Good environmental practices:** share of fossil fuels and renewable sources in the energy matrix, CO2 emissions per capita;
- **Good environmental practices:** share of fossil fuels and renewable sources in the energy matrix, CO2 emissions per capita;
- **Governance:** political stability indicators, data transparency, freedom of the press, application of legal rights, control of corruption, the effectiveness of governance, regulatory quality.

This list of variables is not exhaustive and can be modified according to the ESG strategies adopted by investors.

Based on the data made available by the World Bank and the list of relevant indicators pointed out in the report, Brazil's relative position for each aspect – environmental, social, and governance – can be verified. In Table 8, we can evaluate some indicators related to the environmental aspect (the letter E of the ESG), such as the consumption of renewable energy, energy efficiency, and CO2 emissions. This is a dimension in which Brazil stands out positively, with better performance than most countries.

Table 8 – ***World Bank Environmental Indicators***

World Bank Indicators	Brazil	**Lower** middle income	Latin America & Caribbean	**Upper** middle income	High income	+ = The higher the value, the better the performance	— = The lower the value, the better the performance
Environment							
Energy intensity level of primary energy (energy production/GDP)	4.1	4.6	3.8	6.0	4.6		—
Renewable energy consumption (% of total final energy consumption)	43.8	40.6	27.6	14.4	11.3	+	
Fossil fuel energy consumption (% of total)	59.1	66.2	87.9	89.0	79.1		—
PM2.5 air pollution, mean annual exposure (micrograms per cubic meter)	12.7	67.8	16.7	37.1	14.7		—
CO2 emissions (metric tons per capita)	2.2	1.5	2.9	6.0	10.4		—
Population density (people per sq. km of land area)	25.1	131.1	32.0	49.3	34.8		—
Forest area (% of land area)	58.9	25.0	46.3	36.5	29.0	+	
Terrestrial and marine protected areas (% of total territorial area)	28.6	11.9	21.7	12.9	19.0	+	
Adjusted savings: net forest depletion (% of GNI)	0.1434	0.2715	0.1221	0.0289	0.0024		—
Food production index (2004-2006 = 100)	136.5	138.1	129.5	130.2	109.8	+	

Consultation held on 01/18/2021

Source: *World Bank*

Another criterion evaluated in the ESG theme is the social aspect, which uses criteria such as spending on education, life expectancy, percentage of the population in undernourished conditions, population over 65 years of age, and society's access to electricity. In this dimension, Brazil's position varies from one indicator to the other, but, in general, there is a good performance. For several indicators, Brazil stands between emerging markets with upper middle income and developed countries.

Table 9 – ***World Bank social indicators***

World Bank Indicators	Brazil	**Lower** middle income	Latin America & Caribbean	**Upper** middle income	High income	+ = The higher the value, the better the performance	− = The lower the value, the better the performance
Social							
Population ages 65 and above (% of total population)	9.3	5.6	8.7	10.0	18.3		−
School enrollment, primary (% gross)	114.0	99.7	109.3	104.1	101.6		−
Government expenditure on education, total (% of government expenditure)	16.5	16.9	17.0	13.5	12.0	+	
Life expectancy at birth, total (years)	75.7	68.4	75.4	75.3	80.7	+	
Mortality rate, under-5 (per 1,000 live births)	13.9	48.9	16.3	13.3	5.0		−
Prevalence of undernourishment (% of population)	2.5	12.7	7.4	4.6	2.7		−
Prevalence of overweight (% of adults)	56.5	26.7	59.4	41.8	57.2		−
Literacy rate, adult total (% of people ages 15 and above)	93.2	76.0	94.3	95.6	-	+	
People using safely managed sanitation services (% of population)	49.3	-	31.3	59.6	86.0	+	
Access to electricity (% of population)	100.0	86.3	98.3	99.4	100.0	+	
Voice and Accountability	58.6	42.1	60.0	48.5	87.2	+	

Consultation held on 01/18/2021

Source: *World Bank*

The Governance criterion, on the other hand, assesses aspects regarding the quality of the country's legal and regulatory environment, social stability and violence, women's participation in the legislature and labor market, among others. Here, in general, Brazil occupies an intermediate position between the emerging high-income and low-income countries and, in many cases, Brazil stays below the average for Latin America and the Caribbean. It is a dimension that poses a greater challenge to the country than the previous two, without disregarding the importance of seeking progress in all ESG aspects.

Table 10 – ***World Bank Governance Indicators***

World Bank Indicators	Brazil	Lower middle income	Latin America & Caribbean	Upper middle income	High income	+ = The higher the value, the better the performance	− = The lower the value, the better the performance
Governance							
Government Effectiveness	43.8	34.4	51.5	50.8	87.6	+	
Ease of doing business index (1=most business-friendly regulations)	59.1	60,2***	59.1	73,1**	78,4*	+	
Control of Corruption	42.3	36.9	52.9	48.4	85.3	+	
Rule of Law	47.6	34.9	49.3	48.9	87.4	+	
Regulatory Quality	48.1	34.2	52.9	49.1	88.9	+	
Proportion of seats held by women in national parliaments (%)	14.6	21.4	32.9	25.7	29.6	+	
Political Stability and Absence of Violence/Terrorism	24.8	39.5	55.4	50.0	74.8	+	
Strength of legal rights index (0=weak to 12=strong)	2.0	5.7	5.2	6.0	5.7	+	
Ratio of female to male labor force participation rate (%) (modeled ILO estimate)	73.1	47.9	68.4	73.4	78.2	+	

Consultation held on 01/18/2021

* OECD, high-income countries. ** Europe and Central Asia. *** Northern and western African continent

Source: *World Bank*

Another element that has demanded increasing attention from investors is the performance of the countries in relation to the UN's Sustainable Development Goals (SDGs). The SDG indicators assess for each country the evolution of a series of ESG aspects in relation to the targets set by the UN in 2015, through Resolution 07/01, which constitutes a broad intergovernmental agreement involving its 193 Member States. This agreement defined the basis for 17 goals to be pursued and achieved by 2030 to ensure sustainable development for the countries. The performance evaluation also considers the indicators released by the World Bank itself, among others.

Brazil is currently ranked 53rd out of 193 countries, as shown in Table 11. Each goal is represented by a subset of individually measured ESG indicators. The colors represent the country's performance in the 17 SDGs. In addition, through arrows demonstrating performance in recent years, the table presents qualitative information related to the evolution trend of each goal.

Brazil stands out in objective 7 “Clean and Affordable Energy” given the character of the Brazilian energy matrix with low CO2 emissions and the broad access of society to electricity. Objectives 4 “Quality education”, 6 “Gender equality”, 13 “Climate action,” and 17 “Partnerships for the goals” present a performance trend that may allow the country to achieve the goals defined by the UN. On the other hand, goals, such as 8 “Decent Work and Economic Growth” and 9 “Industry, Innovation, and Infrastructure” represent greater challenges, requiring greater efforts to achieve the goals by 2030.

Finally, Brazil has a relevant history of actions that permeate sustainable initiatives, such as Eco-92, Rio + 20, The Paris Agreement, among others, which demonstrates the country's engagement in the sustainable agenda. In addition, in 2017, the Brazilian Development Association (ABDE), the Inter-American Development Bank (IDB), and the CVM, plus GIZ[11], created the Laboratory of Financial Innovation – LAB. LAB[12] aims at promoting a space for discussion and improvement of sustainable finances in the country. That same year, in order to align the regulation of the Brazilian financial market with the growing demand for improved corporate governance practices, the CVM issued Instruction 586/2017. This regulation started to demand from companies information on the extent to which they conform to the IBGC[13] Code of Best Corporate Governance Practices.

In 2020, the Central Bank of Brazil launched BC# agenda, a set of social and environmental responsibility actions that range from regulatory requirements for financial institutions to the creation of a sustainable liquidity financial line. Added to this are the environmental activities of the National Council for the Legal Amazon, chaired by Vice President Hamilton Mourão, responsible for a series of initiatives for the preservation of the Amazon Forest.

The growing interest of investors in actions related to the ESG agenda makes the National Treasury constantly committed to acting as an enabler, improving transparency, and ensuring an adequate flow of information to support investor’s resource allocation decision making.

Following the principles of sustainable finance, the National Treasury will develop an ESG framework, an initial step for sovereign bonds issuance under the umbrella of this agenda.

[11] GIZ (German Agency for International Cooperation) is an institution of the German Government that seeks to encourage good practices of sustainability and knowledge development around the world.
[12] http://www.labinovacaofinanceira.com/
[13] Brazilian Institute of Corporate Governance

*Table 11 – **Brazil SDGs Indicators***

Brazil's position in the UN ranking: 53 / from 193 countries

SDGs achieved
Some challenges still remain to achieve the SDGs
Significant challenges remain to achieve the SDGs
The main challenges still remain to achieve the SDGs

1 NO POVERTY	End poverty	Stable indicators
2 ZERO HUNGER	End hunger and promote sustainable agriculture	Improvement in indicators, but still insufficient to achieve the SDGs
3 GOOD HEALTH AND WELL-BEING	Ensuring a healthy life and promoting well-being	Improvement in indicators, but still insufficient to achieve the SDGs
4 QUALITY EDUCATION	Ensuring inclusive, equitable and quality education	On the way to achieving the defined goals
5 GENDER EQUALITY	Achieve gender equality	Improvement in indicators, but still insufficient to achieve the SDGs
6 CLEAN WATER AND SANITATION	Ensure availability of water and sanitation	On the way to achieving the defined goals
7 AFFORDABLE AND CLEAN ENERGY	Ensuring reliable and sustainable access to energy	Will maintain the goals already achieved
8 DECENT WORK AND ECONOMIC GROWTH	Promote sustained economic growth	Stable indicators
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	Build resilient infrastructures, promote inclusive and sustainable industrialization and	Stable indicators
10 REDUCED INEQUALITIES	Reduce inequality within and between countries	Information unavailable
11 SUSTAINABLE CITIES AND COMMUNITIES	Making cities and human settlements inclusive, safe, resilient and sustainable	Improvement in indicators, but still insufficient to achieve the SDGs
12 RESPONSIBLE CONSUMPTION AND PRODUCTION	Ensuring sustainable production and consumption patterns	Information unavailable
13 CLIMATE ACTION	Take urgent measures to combat climate change and its impacts	On the way to achieving the defined goals
14 LIFE BELOW WATER	Conservation and sustainable use of the oceans	Stable indicators
15 LIFE ON LAND	Protect, recover and promote the sustainable use of terrestrial ecosystems	Stable indicators
16 PEACE, JUSTICE AND STRONG INSTITUTIONS	Promote peaceful and inclusive societies for sustainable development	Stable indicators
17 PARTNERSHIPS FOR THE GOALS	Strengthen the means of implementation and revitalize the global partnership for sustainable development	On the way to achieving the defined goals

Source: *United Nations, available on https://dashboards.sdgindex.org/profiles/BRA.*

Brazil has one of the largest preserved forest areas in the world.

6 Final Remarks

The Treasury designed the ABP 2021 considering an external environment marked by accommodation in the recovery pace of the global activity, and by a domestic scenario of economic recovery, with inflation under control and low interest rates. The current moment of the monetary policy cycle mitigates the debt growth dynamics through the interest account.

In 2020, the COVID-19 pandemic and its effects upon the global economy added challenges to the macroeconomic and financial scenario. In Brazil, the fiscal reform agenda has been postponed and the fight against the pandemic has considerably expanded public spending, increasing the Federal Government's borrowing needs. As a result of this fiscal challenge, the Treasury expects that the share of short-term fixed-rate bonds will continue to increase in 2021.

The short-term perspective points to a temporary detachment between the debt composition and the benchmark. The achievement of this ideal profile must be made through a sustainable trajectory, which requires respect for market conditions and their cyclical implications for the balance between costs and risks of the public debt.

The country must resume the reform agenda to reverse the changes in the debt profile that occurred in 2020 and to maintain favorable conditions for the FPD management. Despite the challenges faced in 2020, the commitment to fiscal responsibility remains strong in the Federal Government and will be fundamental for the resumption of economic growth.

To conclude, the National Treasury has been dedicating efforts to contribute to a sustainable finance agenda and to ensure that the debt management strategy is in line with the good practices consolidated in the ESG. The ESG agenda relevance is growing among investors globally, who are increasingly allocating capital in assets linked to the ESG theme. Thus, ESG is an issue of singular prominence for debt management, mainly for the development of an investor base in the country and for the enhancement of the external yield curve, including as a reference for Brazilian companies. The ABP introduces itself as a regular space for presenting ESG information about Brazil.

Willing to promote innovations that contribute to increased transparency in public debt management, the National Treasury is available for suggestions to improve this report. E-mail for suggestions: ascom@tesouro.gov.br