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Annual Debt Report

Ministry of Finance
National Treasury Secretariat

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Summary

We present here the 2023 Annual Debt Report (ADR), which offers a comprehensive analysis of the Federal Public Debt (FPD) management in 2023, highlighting the execution of our borrowing strategy and the performance of the FPD indicators, among other topics.

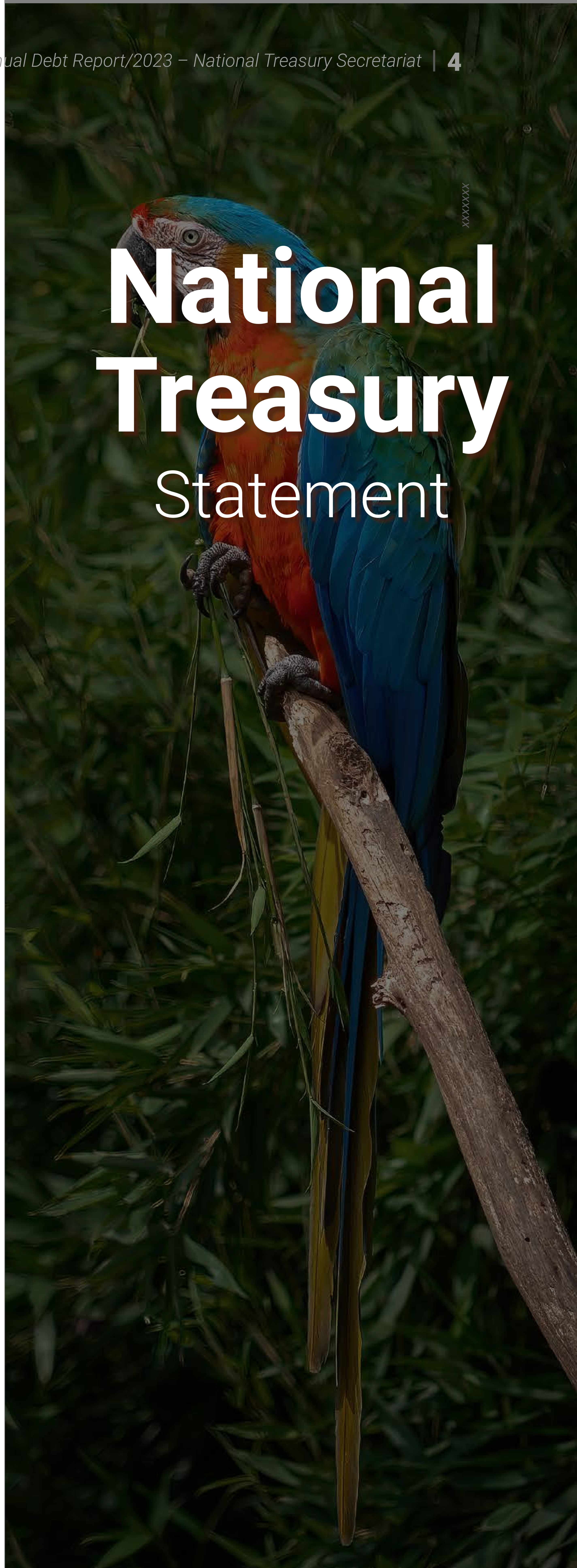
In 2023, the global economy faced challenges, such as high interest rates in response to inflation in many countries, as well as geopolitical tensions. The International Monetary Fund (IMF) estimates global growth to have been 3.1% in 2023, down from 3.5% in 2022. The slowdown in advanced economies, especially in the Eurozone, Japan and Canada, contributed to this forecast, although the United States has surpassed growth expectations for the G7 countries. In emerging markets and developing economies, despite an overall similar growth rate to 2022, the recovery of the real-estate sector in China has been disappointing, which resulted in a slower rebound for the Chinese economy, following the end of the zero-COVID policy.

Regarding the domestic scenario, Brazil has overcome initial uncertainties relating to the fiscal environment, with emphasis on the approval of the Sustainable Fiscal Regime and the continuity of reforms, such as the tax reform on consumption. In July, Fitch increased Brazil's credit rating from BB- to BB, the country's first upgrade from a main rating agency in 11 years. In December, S&P also increased Brazil's credit rating to BB. The improvement in risk perception was driven by positive economic results, with GDP growth rates for 2023 exceeding expectations, while the inflation dynamic permitted the Central Bank to reduce interest rates. The external accounts maintained a comfortable position, with a strong result in the trade balance and moderate deficits in the current account, financed by robust foreign investments.

In this context, debt management was in line with the 2023 Annual Borrowing Plan – ABP, with a small increase in the percentage of floating-rate bonds in the FPD. This outcome, however, contributed to a reduction in the proportion of short-term debt and an increase in the FPD's average maturity. The maintenance of high level of liquidity reserves remained an effecive tool for mitigating continued to be an effective tool to mitigate refinancing risk and to allow flexibility for the National Treasury to be able to adjust its actions in moments of volatility.

In the international market, the National Treasury launched the GLOBAL 2031 ESG, marking Brazil's inaugural sovereign sustainable issuance with a volume of USD 2 billion. The issuance was based on Brazil's Sovereign Sustainable Bond Framework, published in September 2023, which defines rules for the use of resources, in the amount equivalent to the net proceeds of the bonds, in budgetary expenses that promote the country's environmental and social agendas.

Finally, in the Tesouro Direto, the retail program for government bonds, we highlight the launching of two new instruments: Tesouro RendA+ and Tesouro EducA+. These innovations aim to promote financial planning for complementary pension and finance higher education for children and teenagers, while also aligning with the goals to foster financial education and to democratize access to government bonds.



1 Macroeconomic and Financial context in 2023

1.1 Macroeconomic Context

The year 2023 was characterized by high interest rates in the international markets, amid a slowing global economy and intensifying geopolitical tensions. After a global growth of 3.5% in 2022, the International Monetary Fund (IMF) estimates a 3.1% global growth for 2023, reflecting, among other factors, the effects of a globally synchronized monetary tightening[1].

In the United States, the Federal Reserve continued its monetary tightening cycle in 2023, raising the Fed Funds rate to 5.25-5.50 in July, a level at which it remained until the end of the year. Economic growth exceeded expectations, driven by strong household consumption and a resilient job market. Inflation declined, with the Consumer Price Index (CPI) falling from 6.4% year-over-year in January to 3.4% in December. This combination of falling inflation and strong economic activity has increased expectations of a "soft landing" in the American economy.

In the Eurozone, concerns about a possible recession persist despite the reduction in inflation. For example, the Harmonized Index of Consumer Prices (HICP) fell from 8.6% in January to 2.9% in December. Economic performance indicators in several countries in the region showed weaker results throughout 2023.

In China, the expectation of an acceleration of economic activity, after the end of the zero-COVID policy, was partially frustrated due to the prolonged slowdown in the real estate sector and a high unemployment rate among young people.

[1] World Economic Outlook, October 2023: Navigating Global Divergences

In Brazil, the fiscal issue dominated the economic agenda. After initial uncertainties, which contributed to higher interest rates in the first two months of the year, the Executive Branch drafted a proposal to replace the Spending Ceiling, reversing this trend throughout the first half of the year. The proposal, known as the Sustainable Fiscal Framework (Complementary Law No. 200/2023), was presented in March, sent to the National Congress in April, and sanctioned in August. The new law establishes rules for the growth of primary expenditure linked to revenue growth and is conditioned on compliance with the primary result targets established in the Budget Guidelines Law (LDO, from its acronym in Portuguese).

However, there were still uncertainties regarding the feasibility of achieving the central government's target for 2024 — a zero primary deficit, which depended on measures to increase revenue as proposed by the government. The noise regarding fiscal performance, coupled with rising interest rates in the United States, brought volatility until the end of October.

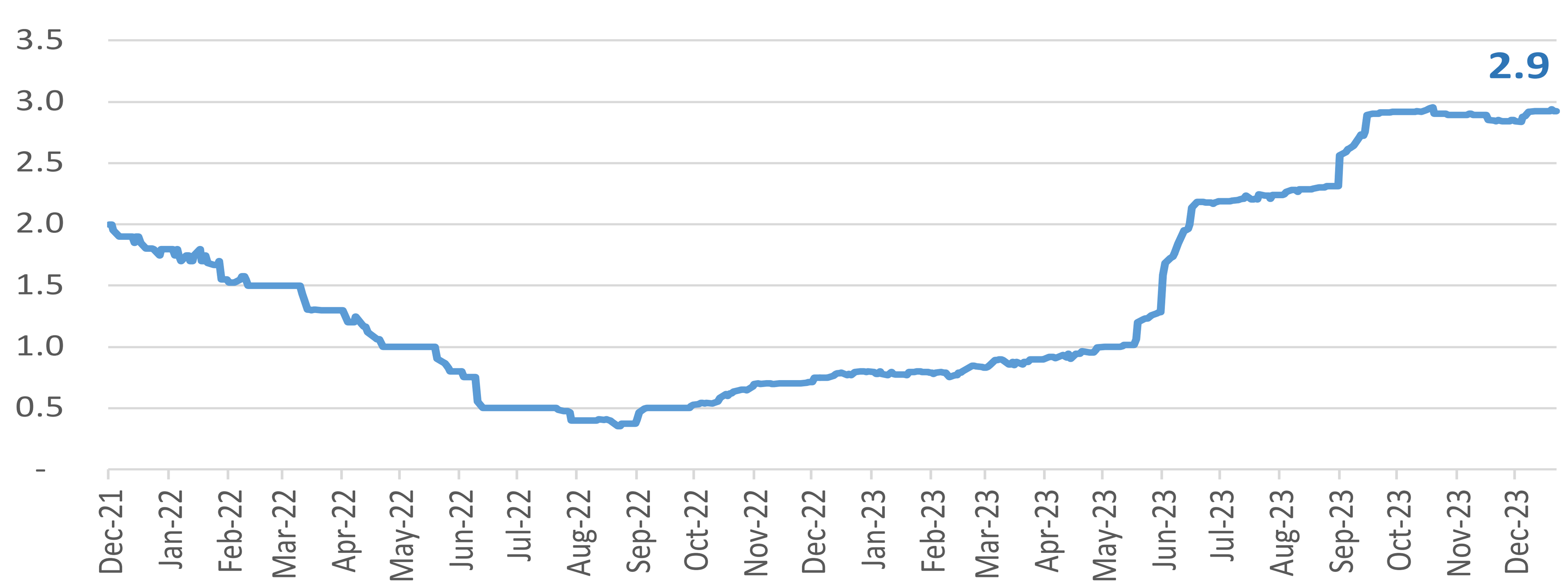
Such uncertainties were reduced following the maintenance of the zero primary deficit target in the 2024 LDO, and the progress in the approval of measures such as the return of the government's quality vote in the Brazilian Administrative Council of Tax Appeals (Carf, from its acronym in Portuguese)[2], the regulation of tax operations and special renegotiation of tax debts[3], taxation

[2] Law No. 14,689/23
[3] Law No. 14,740/23

of exclusive and offshore funds[4], changes to rules for ICMS (value added tax on the circulation of goods and services) benefits[5], and regulation and taxation of sports betting[6] , among others. Furthermore, at the end of the year, the Ministry of Finance presented a new set of measures through Provisional Measure No. 1,202/23, which essentially revoked tax benefits relating to Perse – Emergency Program for the Resumption of the Events Sector; determined a gradual reinstatement of the employer's payroll contribution over the next four years[7]; and limited the offset of credits arising from final court decisions.

Regarding activity, initial estimates indicated GDP growth close to 0.8% in 2023, contrasting with an increase of 2.9% in 2022. However, the economy outperformed expectations, recording growth rates of 1.4%, 1.0%, and 0.1% in the first three quarters, driven by the agricultural and services sectors. Despite the expansion in household consumption, which increased 1.0% per quarter on average, the economy showed signs of slowing down in the third quarter, with the agricultural sector's contribution depleting and a sharper drop in the cyclical components of the GDP. The statistical carryover resulted in a growth outlook of 2.92% for 2023, according to the latest Central Bank Focus - Market Readout of the year.

*Figure 1 – **Median of Focus* expectations for GDP growth in 2023 (% per year)****



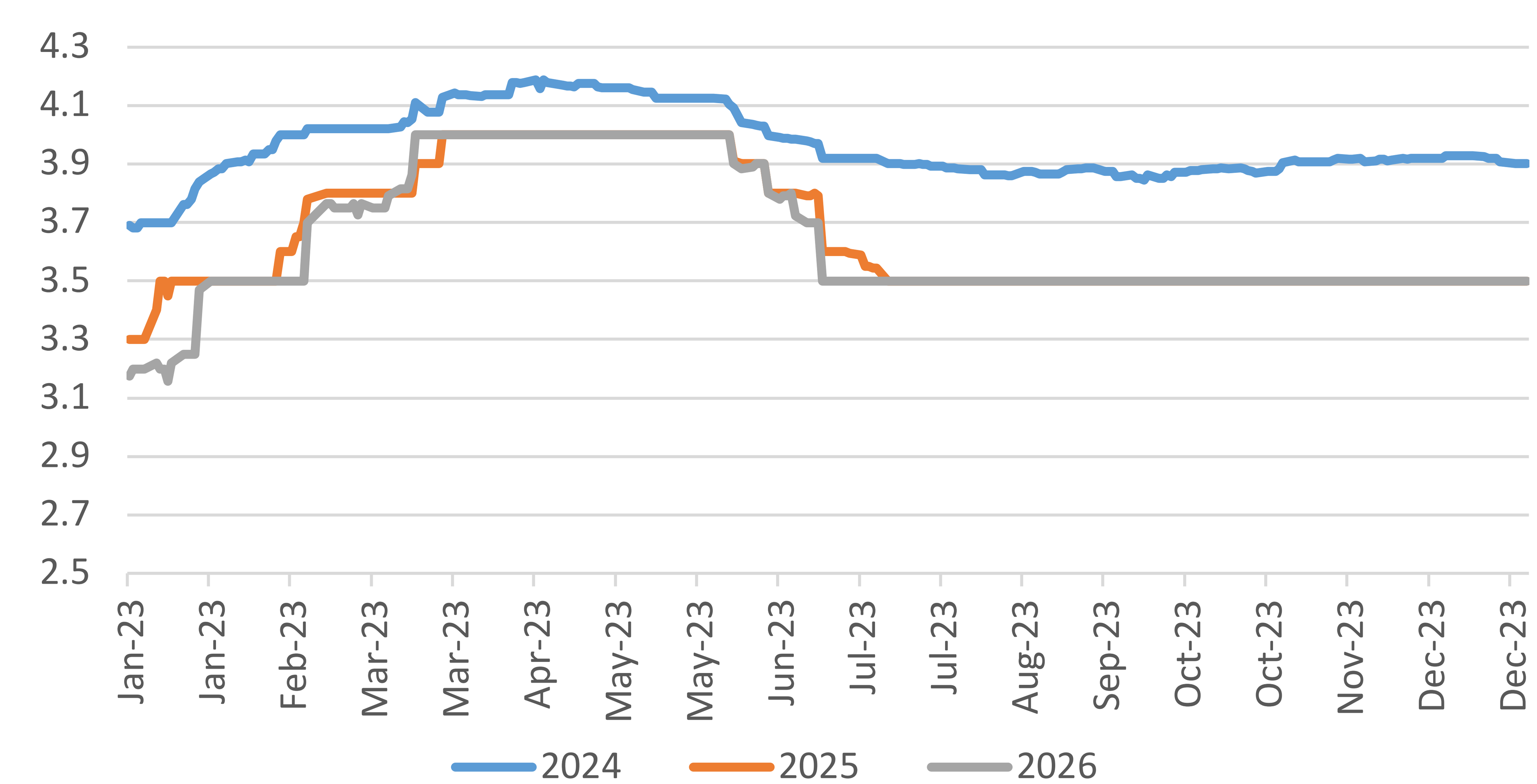
(*) Median of expectations reported in the previous five working days.
Source: *Focus – Market Readout (Central Bank).*

In monetary policy, the inflation resistance to monetary tightening (with the Selic interest rate at 13.75% from August 2022 to August 2023) was mainly noticeable in the prices of services and underlying services in the first months of the year, when inflation expectations for 2023 and 2024, as well as longer--term expectations, rose amid debates about a possible increase in the inflation target.

In the first half of the year, however, there was a buildup in the disinflation of industrial goods and food, favored by the external scenario and good domestic harvests. In the second half of the year, services inflation assumed a more benign dynamic, moving towards the center of the target, which resulted in a further drop in inflation expectations for 2023. In December, the Consumer Price Index *(IPCA*, from its acronym in Portuguese) recorded a variation of 4.62%, compared to 5.77% in January.

The decrease in inflation expectations for 2023, mainly due to the benign dynamics of food prices, allowed the outset of the process of normalization of the baseline interest rate by the Central Bank of Brazil (*BCB*) in August, with 0.50 p.p. cut, followed by three more consecutive cuts of the same magnitude until the end of the year. This positive dynamic was influenced by the anchoring of longer inflation expectations, following the maintenance of the inflation target at 3.0% for 2024 and 2025 by the National Monetary Council (*CMN*) in June 2023 (Figure 2).

*Figure 2 – **Inflation Expectations (IPCA, % per year)***



Source: *Focus – Market Readout (Central Bank).*

[4] Law No. 14,754/23
[5] Law No. 14,789/23 CDS (Credit Default Swap) is a swap contract that compensates the investor in the event of default of the specified institution in the contract. Therefore, CDS is related to the probability of an institution or country fulfilling its obligations. In this report, we use 5-year CDS contracts as a reference.
[6] Law No. 14,790/23
[7] Extended until December 31, 2027, through Law No. 14,784, of December 27, 2023.

Finally, the external accounts continued to reflect a comfortable balance of payments throughout the year, supported by the strong performance of the trade balance, providing moderate current account deficits. Furthermore, foreign direct investment (FDI) inflows remained robust, and international reserves remained at high levels (USD 355 billion).

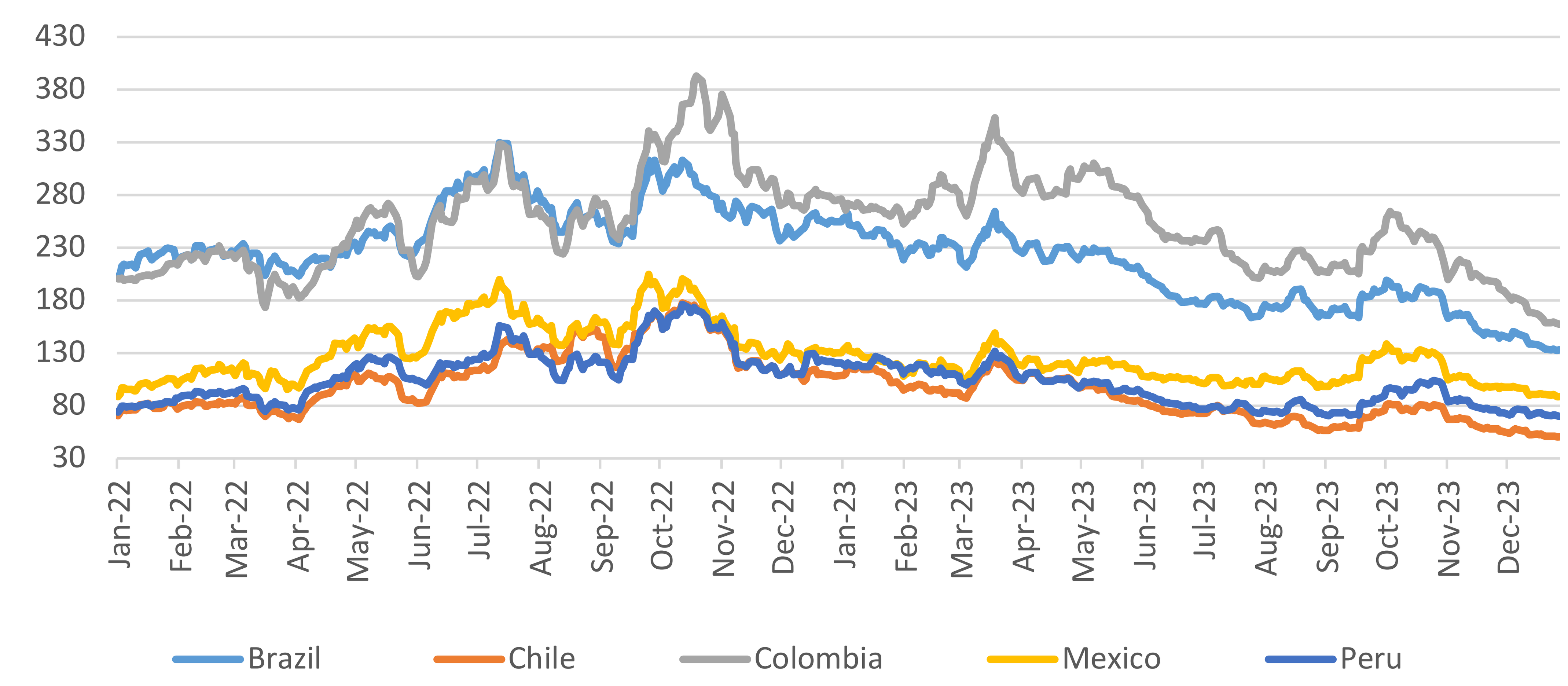
1.2 Financial Market in 2023

The scenario of inflationary decompression, in Brazil and worldwide, coupled with expectations of more vigorous global activity than previously anticipated for 2023, fostered optimism regarding the Brazilian economy, as it did with other Latin American economies throughout the first half of 2023. However, concerns over the crisis in some financial sector companies in the United States, as well as a shift in the stance of the Federal Reserve in the second half of the year, signaling the maintenance of restrictive interest rates for a longer period, altered the perspective on the global economic scenario, which ultimately impacted the risk perception of emerging countries.

In Figure 3, through the evolution of the *Credit Default Swap*[8] (CDS – 5 years), one can observe this dynamic over the year, with a trend of improvement in risk perception regarding Latin American countries, accompanied by moments of greater volatility. Brazil, in particular, showed outstanding performance due to the approval of the fiscal framework and the start of the interest rate cutting cycle by the Central Bank.

Domestically, the dynamics of the yield curve were marked by the announcement of measures in the economic and political scopes by the government elected in 2022. In this context, discussions about the fiscal framework were highly prominent and pressured interest rates until early March, when the announcement and subsequent advancement of the fiscal framework in Congress coincided with benign inflation data (IPCA) and the downward dynamics of Treasuries amid concerns about the stability of the US banking system[9]. The combination of these factors brought relief to domestic interest rates and increased expectations for the outset of the monetary policy easing cycle, which translated into greater demand for longer fixed-rate government bonds at National Treasury auctions. This movement was further favored by the upgrade of Brazil´s credit rating, from BB- to BB+, by the agency Fitch in July. The improvement of Brazil´s credit rating was also carried out by Standard and Poor´s in December.

Figure 3 ***– Credit Default Swap (CDS)5 years – selected countries (basis points)***



Source: *Bloomberg*

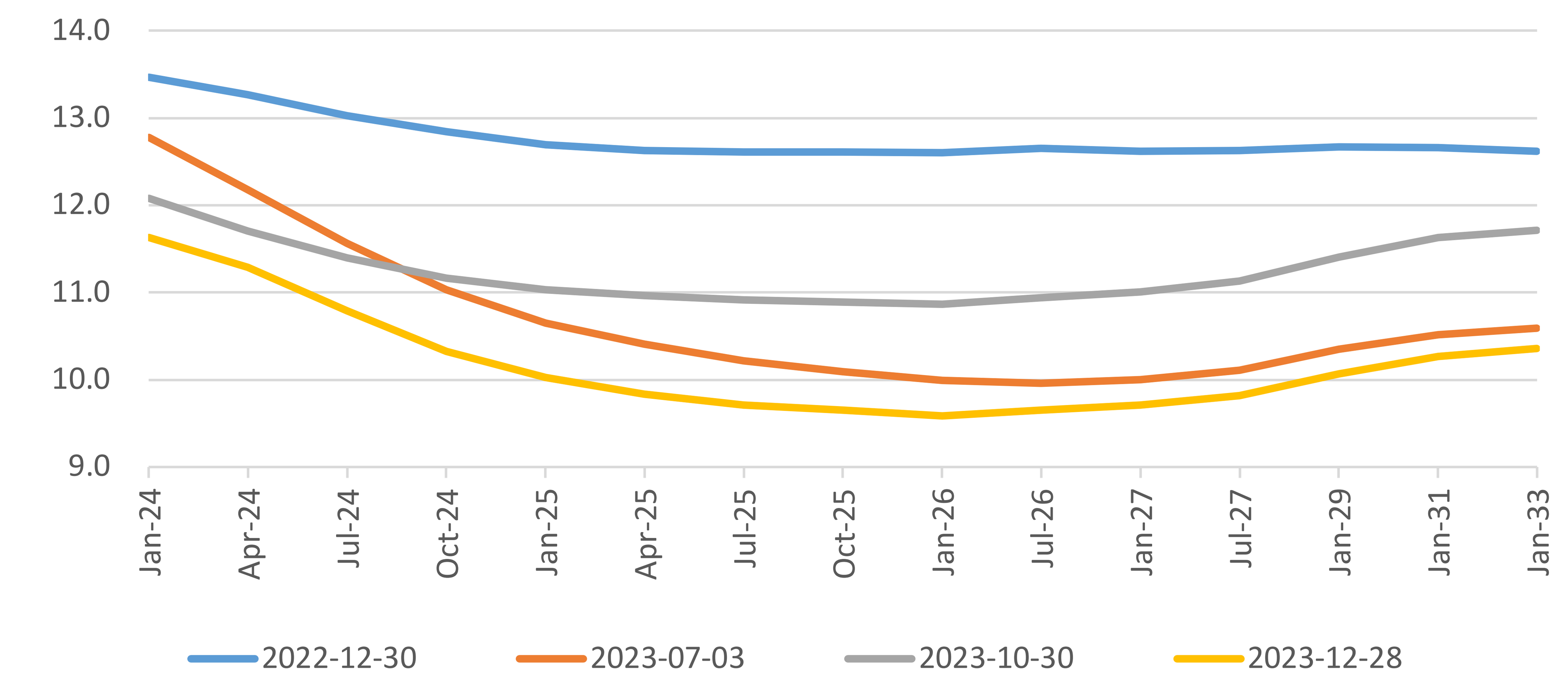
However, the beginning of Selic rate cuts in early August was followed by a reversal of the signaling of US monetary policy. Local interest rates, both nominal and real, became strongly linked to the dynamics of external interest rates. Additionally, towards the end of the year, discussions around the fiscal target for 2024 added volatility to the scenario. In this context, there was a significant reduction in domestic demand for government bonds. Thus, it can be seen in Figure 4 that the end of the third quarter was marked by an increase in interest rates which, although lower than the levels seen at the beginning of the year, began to price in the expectation of a higher terminal Selic rate, evidencing greater risk aversion. This forced the National Treasury to exercise caution in its auctions, ensuring the proper functioning of the government securities market.

In the months of November and December, with the improvement of the external scenario, the domestic yield curve shifted back down for all the maturities, surpassing the lowest levels for the year, which had occurred in July.

[8] *The Credit Default Swap (CDS) is a swap contract that compensates the buyer in the event of a debt default or other credit event related to the institution specified in the contract. Therefore the CDS is related to the likelihood of an institution of complying with its financial commitments. In this report we use the 5-year CDS contracts as the reference.*

[9] *These concerns promoted a "flight to safety", increasing demand for US government bonds and thus reducing their rates.*

Figure 4 ***– Future Yield Curve***



Source: *B3*

The movements observed in 2023 illustrate the importance of the ongoing government efforts to achieve a fiscal balance in coming years, as a critical element to mitigate external volatilities and for a relatively favorable performance of Brazil compared to its peers, with a reduction in the cost of FPD and improvement in risk perception and the environment for bond issuances by the Treasury.

1.3 Borrowing Requirements

The net borrowing requirement of the FPD verified in 2023 exceeded in BRL 42.0 billion the forecast at the beginning of the year, reaching BRL 1,529.9 billion. Figure 5 shows the deviations of its components, indicating the causes of the differences in relation to the initial estimates.

Figure 5 – ***National Treasury borrowing requirements***

		Executed	−	Forecast	=	Difference
	FPD Maturities	**BRL 1,503.9 bi**		**BRL 1,433.2 bi**		**BRL 70.7 bi**
	External Debt	BRL 25.8 bi		BRL 25.4 bi		
	Domestic Debt	BRL 1,405.5 bi		BRL 1,338.5 bi		
	Central Bank Interest Charges*	BRL 72.6 bi		BRL 69.3 bi		
+	**Primary Expenditures**	**BRL 192.2 bi**		**BRL 256.2 bi**		**BRL -64.0 bi**
+	**Guarantees Honored**	**BRL 12.3 bi**		**BRL 15.1 bi**		**BRL -2.8 bi**
−	**Budget Revenues**	**BRL 178.5 bi**		**BRL 216.6 bi**		**BRL -38.1 bi**
	Free-allocation Revenues	BRL 47.0 bi		BRL 116.1 bi		
	Revenues Earmarked to Debt	BRL 131.5 bi		BRL 100.5 bi		
=	**Net Borrowing Requirements**	**BRL 1,529.9 bi**		**BRL 1,487.9 bi**		**BRL 42.0 bi**

*By virtue of article 39 of the Fiscal Responsibility Law (Complementary Law no. 101/2000), the interest payments of the Central Brank (BCB) portfolio, net of inflation, cannot be refinanced through Treasury's direct issuances.
Source: *National Treasury*

On the expenditure side, the biggest positive difference was due to debt maturities, which were BRL 70.7 billion higher than expected, due to a greater issuance of bonds that matured in the same year[10] (BRL 33.4 billion) and early redemptions of the retail program (BRL 28.8 billion).

Primary expenditures to be covered by debt proceeds were BRL 64.0 billion lower than expected in the 2023 budget law (LOA). After calculating the financial surplus for the previous year, it was possible to reallocate sources (BRL 69.1 billion), reducing the need to use sources of bond issuance in order to cover primary expenditures. On the other hand, there was payment of expenses associated with Arrears (BRL 14.6) and court-ordered government debt (BRL 40.9 billion) with revenue from bond issuances, partially offsetting the effect of the above-mentioned rearrangement of sources.

Finally, on the expenses side, the execution of guarantees, which are further explored in section 4 of this report, were BRL 2.8 billion below the forecasted value, due to an agreement between the Federal Government and the states to compensate for the ICMS exemption in 2022, established by Complimentary Law No. 194.

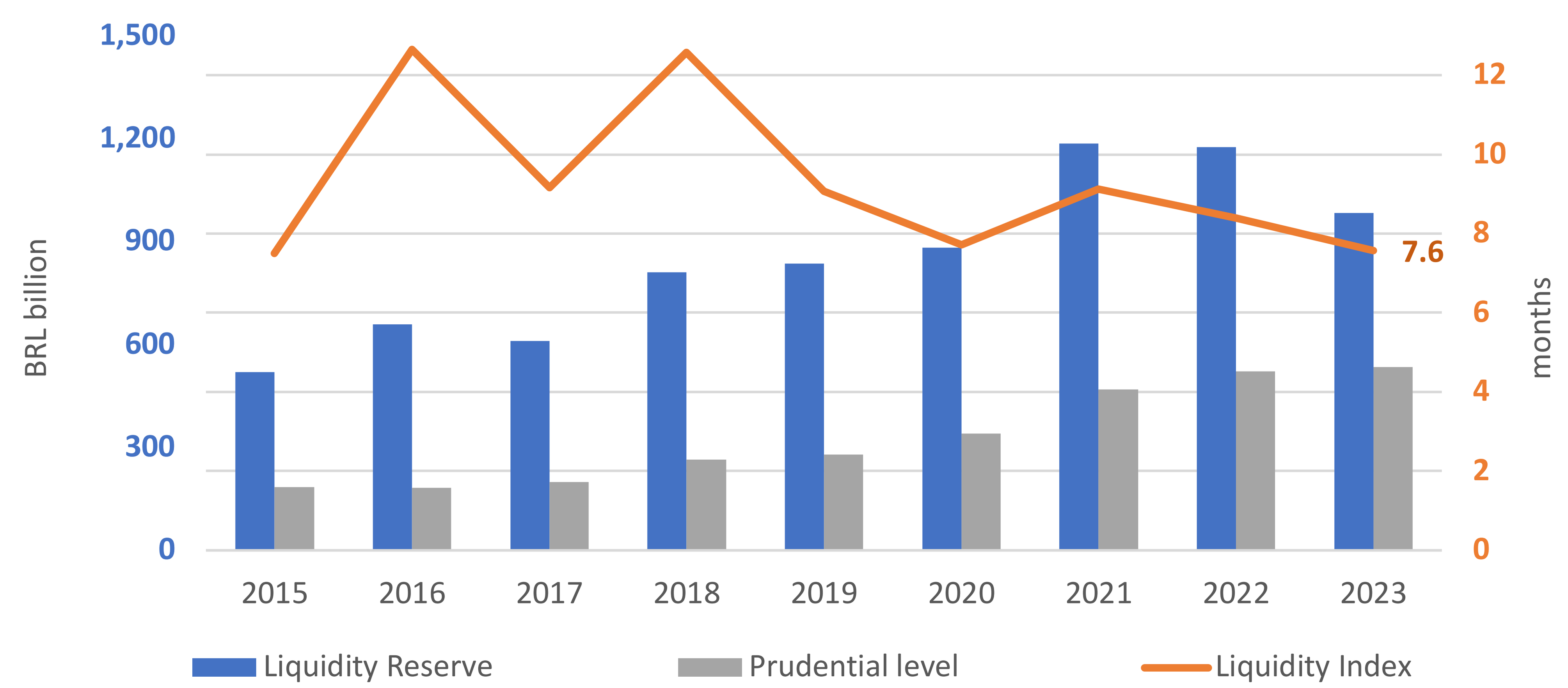
As for the revenues, budget resources other than credit operations allocated for debt service (BRL 178.5 billion) were BRL 38.1 billion below the initial forecast. This result is explained by the rearrangement of free-allocation sources to finance primary expenditures explained above (BRL 69.1 billion). In this way, the amount of free-allocation sources for debt service was reduced from BRL 116.1 billion to BRL 47 billion. Besides this, there was an increase of BRL 31 billion in the amount of earmarked sources for debt service, which went from BRL 100.5 billion to BRL 131.5 billion, considering both inflows from the current year as well as results from previous years (financial surplus).

1.4 Liquidity Reserve

The liquidity reserve, also called debt cushion, played a crucial role in 2023, providing flexibility to the National Treasury to cover maturities in moments of uncertainty, smoothing negative effects over government bonds' prices. It was notably relevant in the first months of the year, mitigating the effects of fiscal uncertainties, and in the second half, when interest rate volatility increased due to the international scenario. We highlight its importance during the maturities of fixed-rate bonds in January and floating-rate bonds in September, when there was higher volatility. The liquidity reserve is an important tool to reduce refinancing risk, a topic that will be discussed on the section 3.2 FPD Risks.

The liquidity reserve reached BRL 982 billion, comparable to around 7.6 months of debt maturities on the market plus payments of interest flows at the Brazilian Central Bank[11](Figure 6), in December 2023. It is to be expected that the reserve balance fluctuates throughout the year. Position in the year-end is quite comfortable, mainly because the National Treasury considers the maturities of 3-month ahead as the minimum parameter. This threshold has historically been sufficient to manage periods of greater uncertainty, preserving financial market stability.

Figure 6 – ***Performance of government debt liquidity reserve and coverage of domestic debt service in months – end-year balance***



Source: *National Treasury*

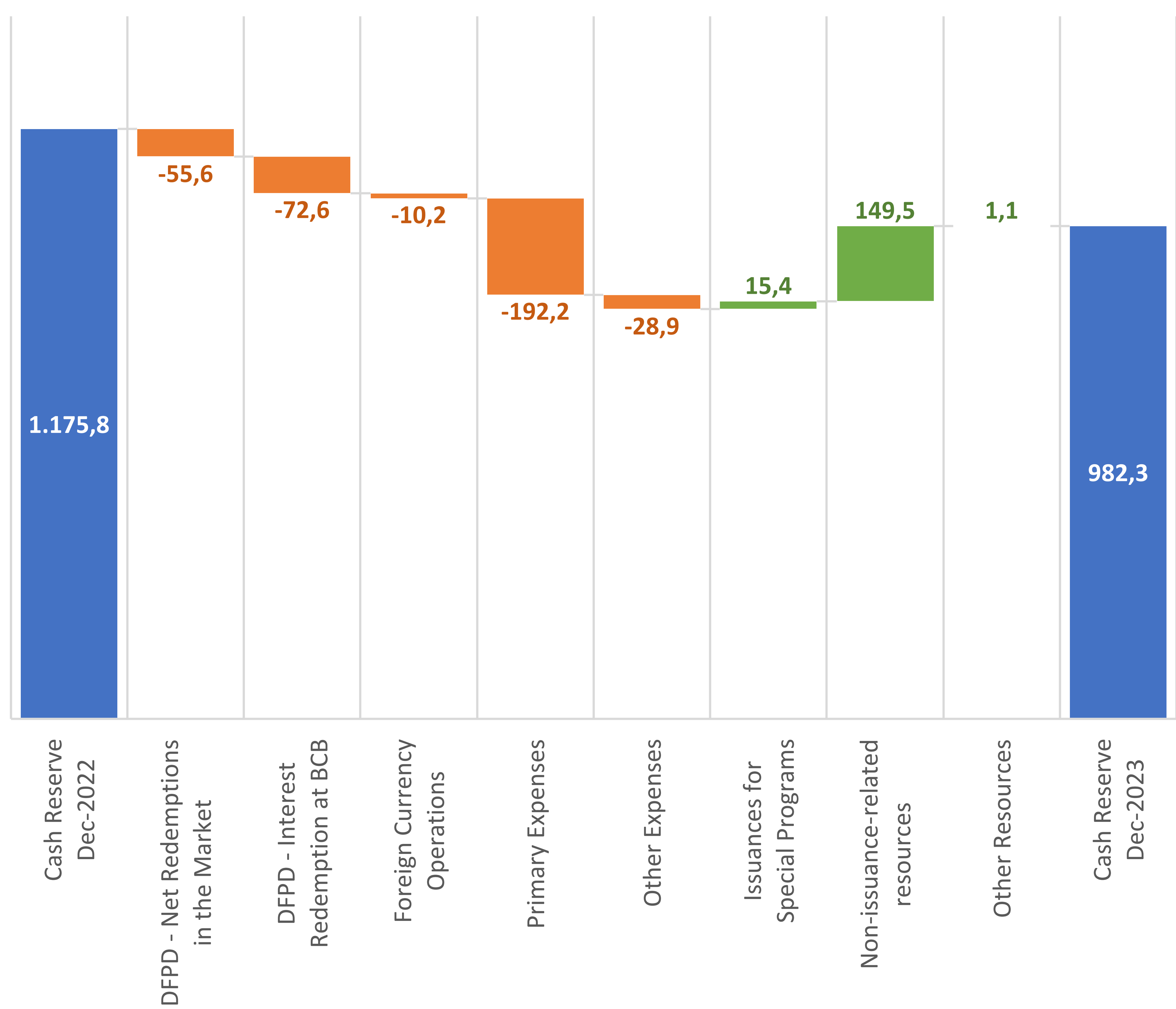
The variation in the liquidity reserve in 2023 was the result of various financial flows, as shown in Figure 7. The factors leading to its reduction included

[10] *By definition, the projection of borrowing requirements takes into account only the schedule of debt maturities for the outstanding debt on the projection date, capturing, in this way, the values in the ex post assessment.*

[11] *By virtue of article 39 of the Fiscal Responsability Law (Complementary Law No. 101/2000), the real interest rate on the Brazilian Central Bank (BCB) portfolio can not be refinanced.*

the net redemptions of the Domestic Federal Public Debt (DPFP) in the market (BRL 55.6 billion), interest redemption at the Central Bank (BRL 72.6 billion), payment of primary expenses with proceeds from bond issuances (BRL 192.2 billion), foreign currency operations[12] (BRL 10.2 billion) and other expenses (BRL 28.9 billion), including payments of guarantees and debt novation expenses. On the other hand, factors leading to an increase in the liquidity reserve came from Issuances for Government Special Programs (BRL 15.4 billion) and from Non-Issuance related resources, such as the return of credits from subnational entities (BRL 30.4 billion), of credits from public banks and dividends (BRL 67.0 billion), the allocation of free sources to pay debt (BRL 47.0 billion), among other factors.

*Figure 7 – **Sources of Variation in Liquidity Reserve in 2023 - BRL billion***



***Source:** National Treasury. (Updated on February 21, 2024)*

Table 1 presents the liquidity reserve composition by sources of funds at the end of the 2022 and its changes throughout 2023. By definition, this reserve is made up only of revenues from bond issuance and exclusive source for debt payment.

*Table 1 - **Variation in liquidity reserve by sources[13] in 2023 - BRL billion***

Source		Initial Balance	Revenues	Expenses	Final Balance
400	Return of credits from subnational entities and BCB result	86.2	30.4	-0.1	116.5
401	Return of credits from public banks and Dividends	290.3	67.0	-131.5	225.8
443/444	Resources from government bonds issuance	799.3	1,748.4	-1,912.6	635.1
448	Resources from External Loans	0.0	5.1	-0.2	4.9
Total		**1,175.8**	**1,850.9**	**-2,044.4**	**982.3**

** Income from issuances includes the refinancing of the principal of the securities that matured in the Central Bank's portfolio, in addition to issuances on the domestic market.*
***Source:** National Treasury*

[12] *Foreign currency operations considers revenues from foreign currency issuances and contracts, net of foreign exchange contracts for the future settlement of external debt and for payments of the Global BRL bond. The inflow of resources from external issuances can be allocated to the future settlement of external debt, and in this case, the inflow of foreign currency and the contracting of foreign exchange for future settlement are simultaneously recorded, having a null effect on the liquidity reserve in BRL.*

[13] *Although source 448 isn't exclusive, the disbursement related to the contract with the New Development Bank (NDB), in the amount of USD 1 billion, is tied to debt payment and, therefore, has been exceptionally included in the liquidity reserve.*

2 Borrowing Strategy in 2023

The strategy established by the ABP 2023 was developed considering the FPD management guidelines, with special attention to maintaining prudent levels for the debt liquidity reserve, helping to mitigate the refinancing risk, and preserving the functionality of the government bonds market.

In this context, the first two months of the year were marked by smaller auctions, given the remaining uncertainties surrounding the economic environment for 2023, a trend that was reversed from March onwards, reflecting the positive outlook for the new fiscal framework. There was then room for larger issuances in the auctions of the following months, up until July, when Brazil began to show clear signs of better inflation control, despite the persistence of higher price indices abroad.

The second half of the year, however, showed more volatility, mainly due to the international context. Despite the positive effects of the outset of the Selic rate cuts at the beginning of August, the market was influenced by the change in the direction of US monetary policy. Local interest rates, both nominal and real, became strongly linked to the dynamics of foreign interest rates. As a result, the third quarter of the year was marked by auctions with a low volume of issuances, especially in September, with the National Treasury deciding on a strategy of not pressuring the market, which was presenting a negative dynamic. However, this scenario evolved favorably, and the year ended with robust issuances by the Treasury.

2.1 Internal Debt

This section presents the bonds offered in 2023. In relation to fixed-rate bonds, issuances followed a similar pattern to previous years, including LTN of 6 and 12 months (short term) and 24 and 48 months (medium term), as well as NTN -F with tenors of 7 and 10 years.

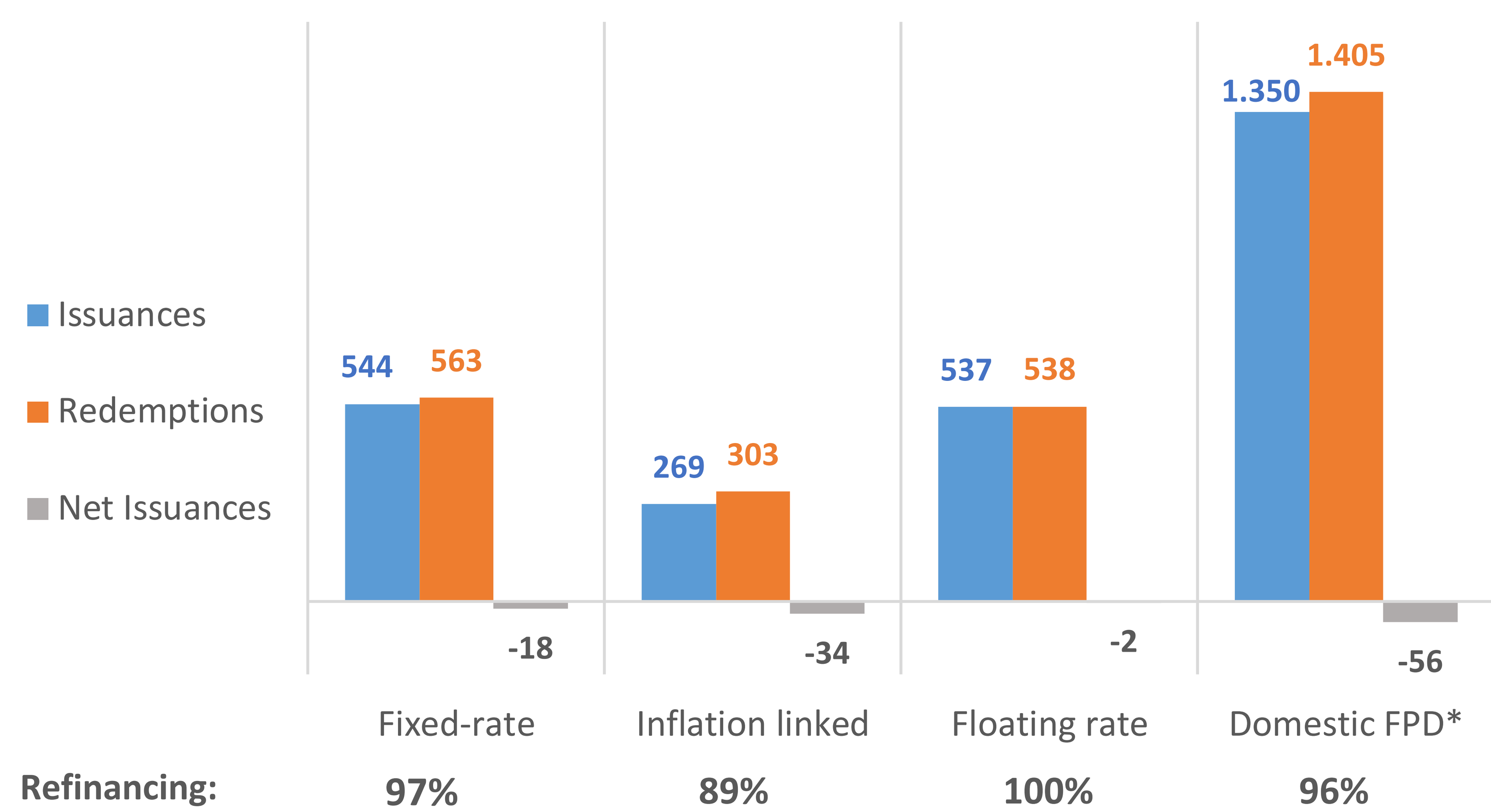
For inflation-linked bonds (NTN-B), 6 maturities were offered, with alternating weekly auctions. One week featured tenors of 3, 10 and 25 years (maturities in August 2026, May 2033 and August 2050), and another week for the 5-, 15- and 40-year tenors (maturities in August 2028, August 2040 and August 2060).

For LFT issuances, it was decided to return to offering two tenors: a shorter one, maturing in September 2026, and a longer one, with maturation term of six years, in September 2029.

In 2023, despite moments of greater volatility resulting from uncertainties already presented in the previous sections, the National Treasury understood that it was not necessary to offer exchange or early-rollover auctions, which are strategies reserved for moments of greater stress, when the market can become dysfunctional. On the contrary, despite the rise in interest rates at the beginning of the year and in some months of the second half of the year, no relevant refinancing risks were observed, and the liquidity reserve was always maintained at a level above the minimum for prudential liquidity.

In the consolidated result for the year regarding the DFPD for operations impacting liquidity, redemptions exceeded issuances by BRL 55.6 billion, representing a rollover rate of 96%, compared to 83% in the previous year. There was a net redemption of BRL 18.2 billion for fixed-rate bonds, with a rollover rate of 96.8%. Inflation-linked bonds had a lower rollover rate (88.7%), with a net redemption of BRL 34.1 billion. Floating-rate bonds, on the other hand, showed a net issuance of BRL 13.3 billion and a rollover rate of 102.5%, as shown in Figure 8.

*Figure 8 – **DFPD net issuance and rollover rate by indexer***



** Only issues and redemptions with an impact on liquidity are considered.*
***Source:** National Treasury. (Updated on February 21, 2024)*

The total raised through regular auctions for the sale of DFPD bonds was approximately BRL 1,303.3 billion in 2023, exceeding the previous year's amount of BRL 1,001.1 billion, as indicated in Table 2. The main financing instruments in 2023 were fixed-rate bonds (LTN and NTN-F). LTN reached 35.3% of issuances, with emphasis on the increase in the share of 24-month LTN, although the 48-month LTN was still the highest, with 17.6% of issuances. Another positive highlight was the increase in the participation of NTN-F. The reduction in the participation of LFT was due to a relatively lower 6-year LFT issuance. Finally, there was a reduction in NTN-B issuances, which accounted for 19.8% of total emissions in 2023.

*Table 2 – **DFPD securities issuances -- Only issuance conventional auctions****

Bonds Issued	2022		2023	
	Total (BRL billion)	%	Total (BRL billion)	%
LFT	**395.6**	**39.5%**	**506.8**	**38.9%**
LFT - 03 years	13.6	1.4%	117.9	9.0%
LFT - 06 years	382.0	38.2%	388.9	29.8%
LTN	**334.5**	**33.4%**	**460.1**	**35.3%**
LTN - 06 months	23.4	2.3%	23.4	1.8%
LTN - 12 months	21.4	2.1%	20.7	1.6%
LTN - 24 months	91.0	9.1%	186.1	14.3%
LTN - 48 months	198.7	19.8%	229.9	17.6%
NTN-F	**29.1**	**2.9%**	**78.6**	**6.0%**
NTN-F - 07 anos	16.2	1.6%	40.2	3.1%
NTN-F - 10 years	12.9	1.3%	38.4	2.9%
NTN-B	**241.9**	**24.2%**	**257.8**	**19.8%**
NTN-B - 03 years	52.3	5.2%	69.3	5.3%
NTN-B - 05 years	83.1	8.3%	90.0	6.9%
NTN-B - 10 years	35.7	3.6%	44.5	3.4%
NTN-B - 15 years	39.0	3.9%	22.1	1.7%
NTN-B - 25 years	10.5	1.1%	12.7	1.0%
NTN-B - 40 years	21.3	2.1%	19.2	1.5%
Total	**1,001.1**	**100%**	**1,303.3**	**100%**

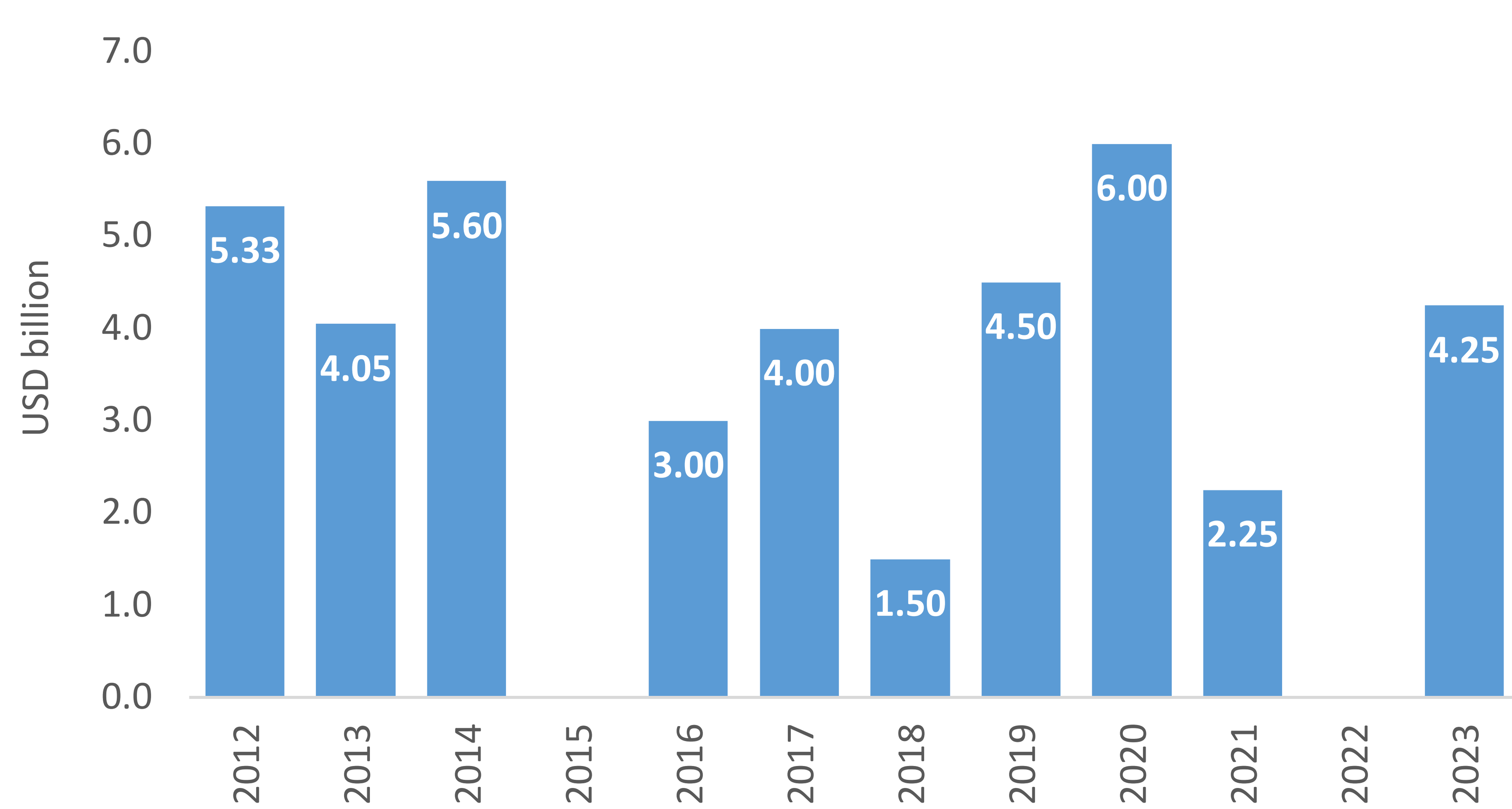
** Extraordinary exchange auctions were not considered. Bonds issued in 2023 that matured in 2023 were also not considered.*
***Sour**ce: National Treasury*

2.2 External Debt

The Federal Government borrowing needs are majorly met by issuances in the domestic market. In that sense, the External Federal Public Debt (EFPD) strategy is oriented by qualitative guidelines, that is setting and maintaining liquid and efficient benchmarks in the sovereign yield curve, which can be taken as reference for the corporate sector, in addition to contributing to the broadening and diversification of the investors base and lengthening of the FPD. In 2023, this strategy started to include the issuance of sovereign sustainable government bonds.

In April, the National Treasury, seizing a window of opportunity of relative stability and reduction of risk premia related to Brazil, issued a new ten-year benchmark sovereign bond in US-dollars, GLOBAL 2033, maturing on October 20, 2033. The issuance totaled USD 2.25 billion, with a 6.00% Y-o-Y coupon rate and a 6.15% Y-o-Y yield rate, resulting in a 285.4 b.p. spread over the Treasury of reference. The operation sealed the Republic's return to the international markets, after an absence since June 2021 (Figure 9).

Figure 9 – ***External Federal Public Debt bond issuances – USD billion, current values***



Source: *National Treasury*

On November 2023, the National Treasury issued its first sustainable bond in the international market, GLOBAL 2031 ESG, maturing on March 18, 2031 (more information in section 2.3). The operation totaled USD 2.0 billion, with a 6.25% YoY coupon rate and a 6.50% YoY yield rate. This yield corresponds to a 181.9 b.p. spread over the reference Treasury, the lowest level in new issuances of nearly a decade and close to the estimated spread for investment grade countries.

Relative to credit operations with international bodies, the National Treasury signed and got the disbursements of a loan contract with the New Development Bank – NDB of USD1 billion.

Finally, it is important to highlight that the National Treasury seeks to be prepared in advance to meet financing needs in external currency. In this sense, in addition to the liquidity reserve in BRL, the debt management already possesses resources in foreign currency in an amount enough to pay for, at least, the forecasted value of principal and interest maturing in 2024.

2.3 Sovereign Sustainable Bond Inaugural Issuance

In September 2023, Brazil launched its Sovereign Sustainable Bond Framework ("the Framework"), which establishes guidelines for the issuance of sovereign bonds tied to budgetary expenditures aimed at fostering sustainable development.[14] Developed by the Sovereign Sustainable Finance Committee (CFSS, from its acronym in Portuguese)[15] the Framework outlines guidelines regarding the selection of expense categories[16] eligible for net proceeds of the issuance of sovereign sustainable bonds[17]. Additionally, it delineates protocols for the effective management of the funds raised and mandates transparency reporting practices through the publication of allocation and impact reports.

The Framework encompasses a wide range of social and environmental expenses eligible for the allocation of funds raised through government sustainable bonds. However, it's important to note that each issuance prioritizes a specific subcategory of these expenses. In October 2023, the Brazilian government released a Pre-Issuance Report, which detailed the allocation of proceeds for

[14] The Framework is available at https://www.gov.br/tesouronacional/en/federal-public-debt/sustainable-bonds-files/FW-EN.

[15] In May 2023, the Federal Government established the CFSS, through Decree No. 11.532/23. The CFSS is a permanent committee whose objective is to plan, to implement and to monitor the Framework, as well as the issuances of sovereign sustainable bonds.

[16] Within the scope of this Framework, the term "expense category" is used to refer broadly to a general group of expenses based on their environmental and/or social benefits. Therefore, it should not be confused with the specific and different classification within the Federal Budgets of "economic category of expense".

[17] Within the scope of this Framework, the term "expense category" is used to refer broadly to a general group of expenses based on their environmental and/or social benefits. Therefore, it should not be confused with the specific and different classification within the Federal Budgets of "economic category of expense".

the inaugural issuance of sustainable bonds. In this way, it affirmed the government's dedication to directing funds towards initiatives that promote sustainability, mitigate climate change, safeguard natural resources, and contribute to social development. The report indicated the following resource allocation breakdown for the net proceeds raised during the inaugural issuance[18].

*Table 3 – **Indicative Range for Resource Allocation after the inaugural issuance (by type)***

Allocation category	Lower limit	Upper limit
Green	**50%**	**60%**
Social	**40%**	**50%**

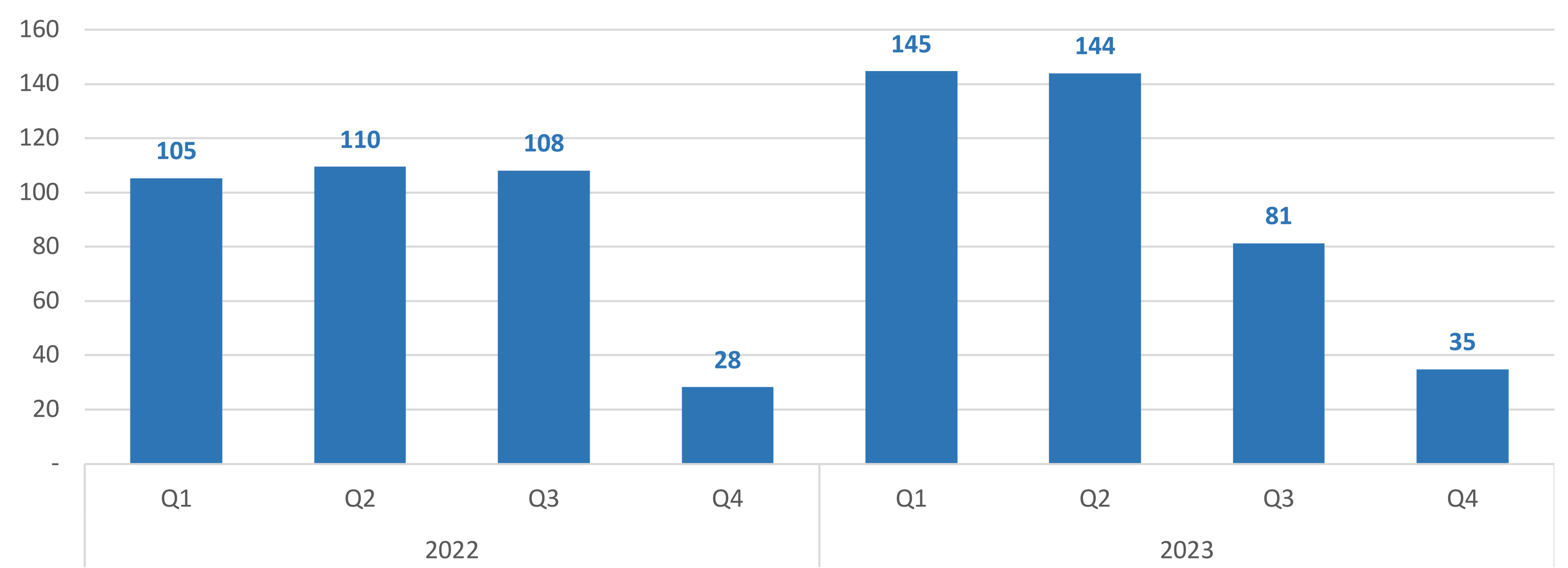
Source: *National Treasury*

On November 13, 2023, the National Treasury achieved a significant milestone by issuing its inaugural sovereign sustainable bond in the international market, in strict adherence to the guidelines outlined in the Framework. This event reinforces Brazil's commitment with sustainable public policies, aligning with the growing interest from investors and the expansion of the global market for thematic bonds. Looking ahead, the National Treasury aims to sustain a consistent presence in the market for sustainable issuances, while concurrently maintaining its commitment to the issuance of conventional sovereign bonds for the External Federal Public Debt (EFPD) in the forthcoming years.

The commitment to sustainable bond issuances by the Treasury enhances the qualitative dimension of external financing for the management of the Federal Public Debt (FPD). This strategy also seeks to bolster the private sector by creating a benchmark for corporate issuances, especially in the medium-term maturity structure. This initiative not only contributes to the diversification of the investor base and lengthening of debt maturity but also provides businesses with a reliable reference yield curve, fostering a dynamic corporate issuance market[19].

The strategy of sustainable issuances aligns with the global trend in this market. In 2023 there was an increase in thematic issuances from public institutions, encompassing both sovereign and supranational entities. Collectively, these entities issued USD 405 billion in thematic bonds in 2023, marking a 15.3% growth compared to the previous year, as illustrated in Figure 10. This amount would have been larger had it not been for the deterioration in market conditions during the second semester, which caused a reduction in issuances, as seen below:

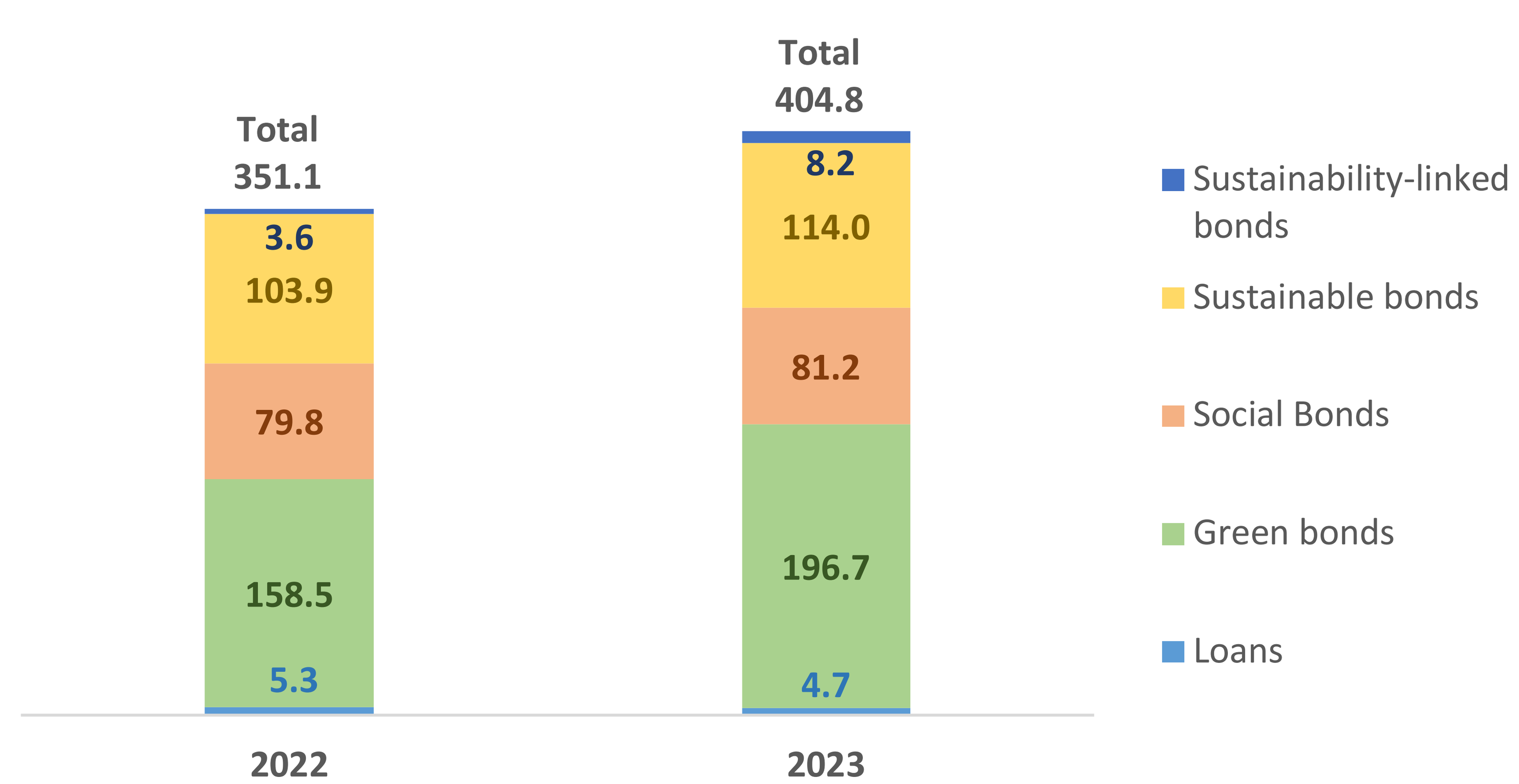
*Figure 10 – **Quarterly performance of thematic sovereign issuances (USD billion)***



Source: *Bloomberg*

In 2023, thematic bonds, such as green and sustainable bonds, played a crucial role in the financial market, driving growth in sovereign thematic issuances (Figure 11). While social bonds remained stable compared to the previous year, those tied to environmental and social issues gained prominence, highlighting the increasing importance of these themes globally and the broader commitment to sustainable finance.

*Figure 11 – **Sovereign thematic issuances by type of instrument (USD billion)***



Source: *National Treasury*

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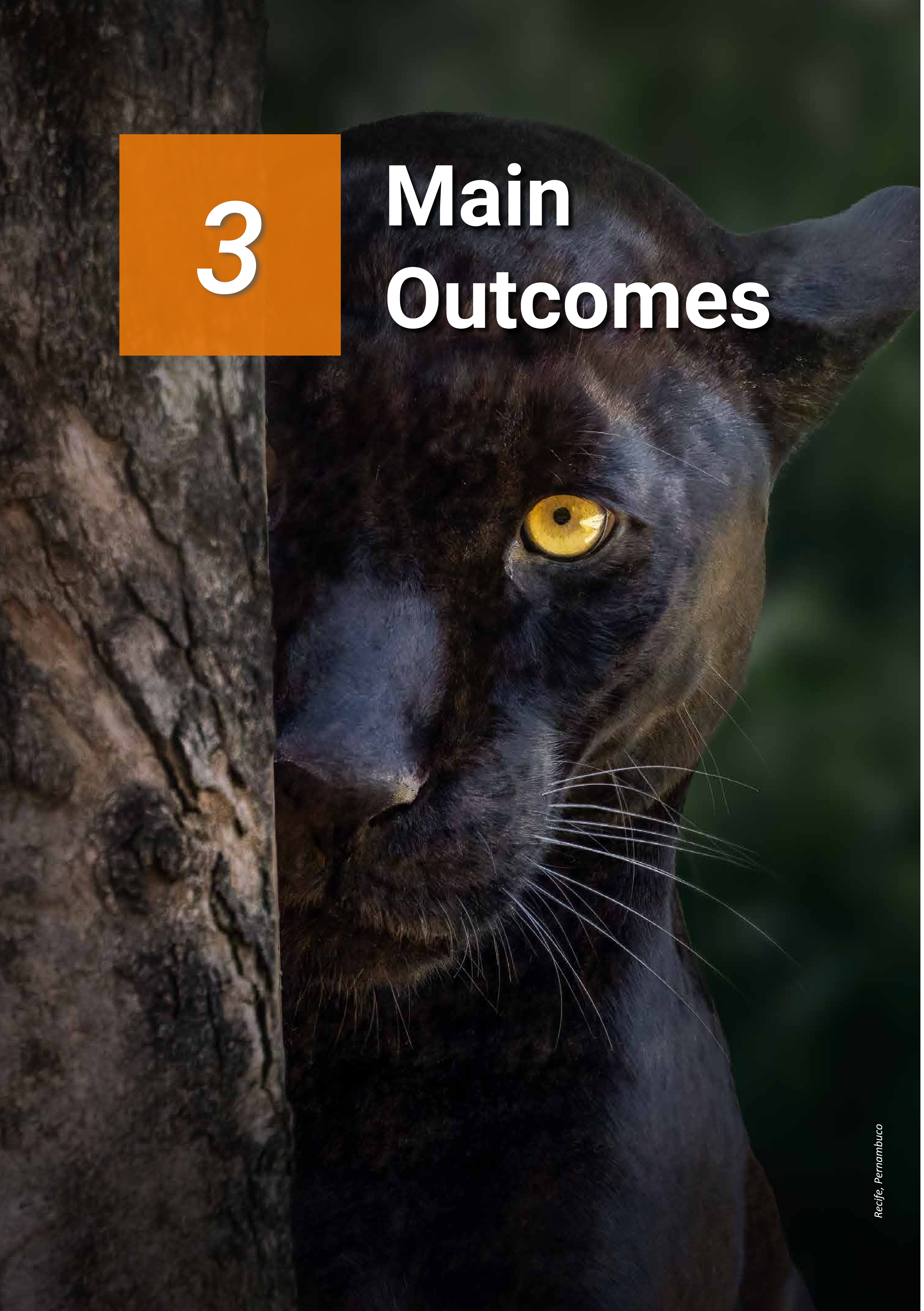
[18] For more details and the ranges for the subcategories of the prioritized expenses, please see the Pre-Issuance Report, available at https://sisweb.tesouro.gov.br/apex/f?p=2501:9::::9:P9_ID_PUBLICACAO_ANEXO:21268

[19] For an empirical analysis, see Cunha, Craveiro and Rossi (2023), "Evidence of the knock-on effect of sovereign ESG bonds on corporate ESG bonds from Latin American and Caribbean (LAC) issuers" available at: https://debtcon6.princeton.edu/sites/g/files/toruqf3611/files/documents/carvalho_cunha-updated_2023-0404.pdf

3 Main Outcomes



In 2023 the FPD indicators followed the projections outlined in the ABP 2023. The increase in the share of floating-rate bonds is noteworthy, to the detriment of shorter-term fixed-rate bonds. This composition contributed to the lowest level of debt maturing in the next 12 months by the year-end since 2019.

3.1 FPD Indicators and Risk Management

3.1.1 2023 Annual Borrowing Plan

All FPD indicators ended the year within the reference limits of the 2023 ABP, as shown in Table 4.

Table 4 ***– Main results of the Federal Public Debt***

Indicators	Dec-22	Dec-23	2023 ABP Ranges	
			Minimum	Maximum
Outstanding Volume (BRL billion)				
FPD	5,951.4	6,520.3	6,400	6,800
Composition (%)				
Fixed-rate	27.0	26.5	23	27
Inflation-linked	30.3	29.8	29	33
Floating-rate	38.3	39.7	38	42
FX	4.5	4.1	3	7
Maturity Structure				
% maturing in 12 months	22.1	20.1	19	23
Average maturity	3.9	4.0	3.8	4.2

Source: *National Treasury*

3.1.2 Outstanding Debt

In 2023, the outstanding FPD grew by BRL 568.9 billion, or approximately 9.6% in relation to the previous year. This difference is explained by an accrued interest amount of BRL 607.7 billion, which was partially offset by net redemptions of BRL 38.8 billion. Most of this result is attributed to DFPD variations, as shown in Table 5. In the EFPD case, the interest appropriation reflects the impact of fluctuations in the exchange rate on the external debt.

*Table 5 – **FPD variation factors (BRL billion)***

Indicators	Debt Outstanding			Factors of variation			
	2022	2023	Diff.	Issuances (a)	Redemptions* (b)	Net Issuances (a-b)	Appropriated interest
FPD	5,951.4	6,520.3	568.9	1,393.2	1,432.0	-38.8	607.7
DFPD	5,699.0	6,268.9	569.9	1,365.3	1,406.2	-40.9	610.8
EFPD	252.5	251.5	-1.0	27.9	25.8	2.0	-3.0

** Includes portfolio transfer operations between the market and BCB in the net amount of BRL 0.65 billion, as presented in spreadsheet 2.9 of annex to the Monthly Debt Report.*
***Source:** National Treasury*

The FPD rollover rate (issuances/redemptions)[20]) in 2023 was 97.3%, with DFPD rollover rate for DFPB at 97.1% and for EFPD at 107.9%.

More details about concepts and information related to the public debt dynamics can be obtained at the Debt Dynamic[21] web portal, which allows for a graphical visualization of the main factors that explain the annual FPD evolution.

3.2 FPD Risks

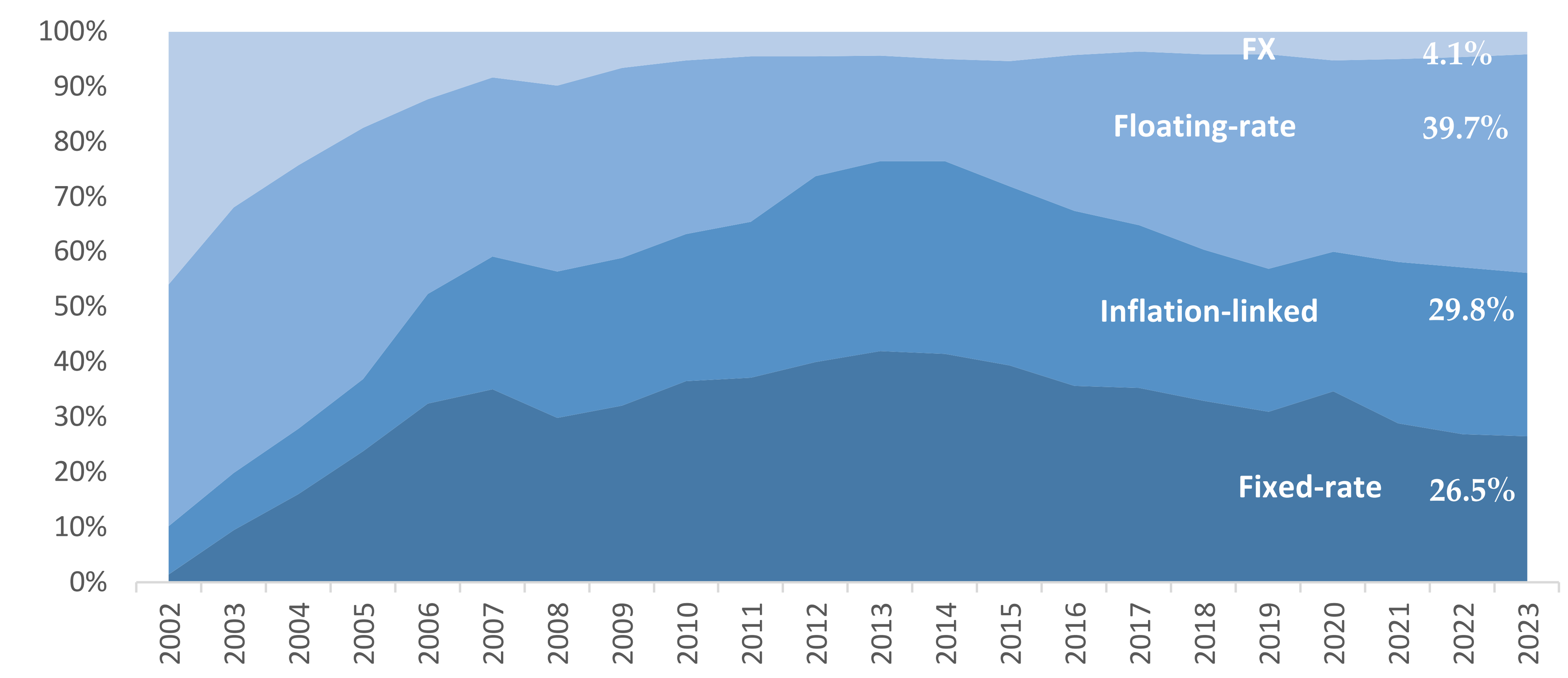
3.2.1 FPD Composition

Similar to the trend observed in the last two years, there was a decrease in the share of fixed-rate bonds, reaching 26.5% of FPD, the lowest level recorded since 2005 at year-end. This reduction was the result of a decrease in issuance of LTN with maturities of up to 12 months, in favor of increased issuance of 24-month LTN and LFT. As a result, the share of floating-rate bonds increased to 39.7% of the total outstanding FPD, marking the highest proportion for year-end since 2005, shown in Figure 12. The percentage of inflation-linked bonds remained virtually stable, concluding the year at 29.8%, compared to 30.3% in 2022.

[20] The rollover rate is equal to the ratio between issuances and redemptions (multiplied by 100), considering issuances with financial counterpart and the redemptions of principal and interest.
[21] Please visit https://tesouro.github.io/divida/

The increase in debt as a result of primary government deficits in recent years has contributed to an expansion in the share of floating-rate bonds as an alternative to issuing short-term fixed-rate bonds to cover financing needs. As far as debt risk management is concerned, increasing the share of fixed-rate bonds in the FPD is advisable, as long as it is not linked to an increase in short-term debt, since this has a negative impact on the average maturity indicator, as well as raising the refinancing risk .

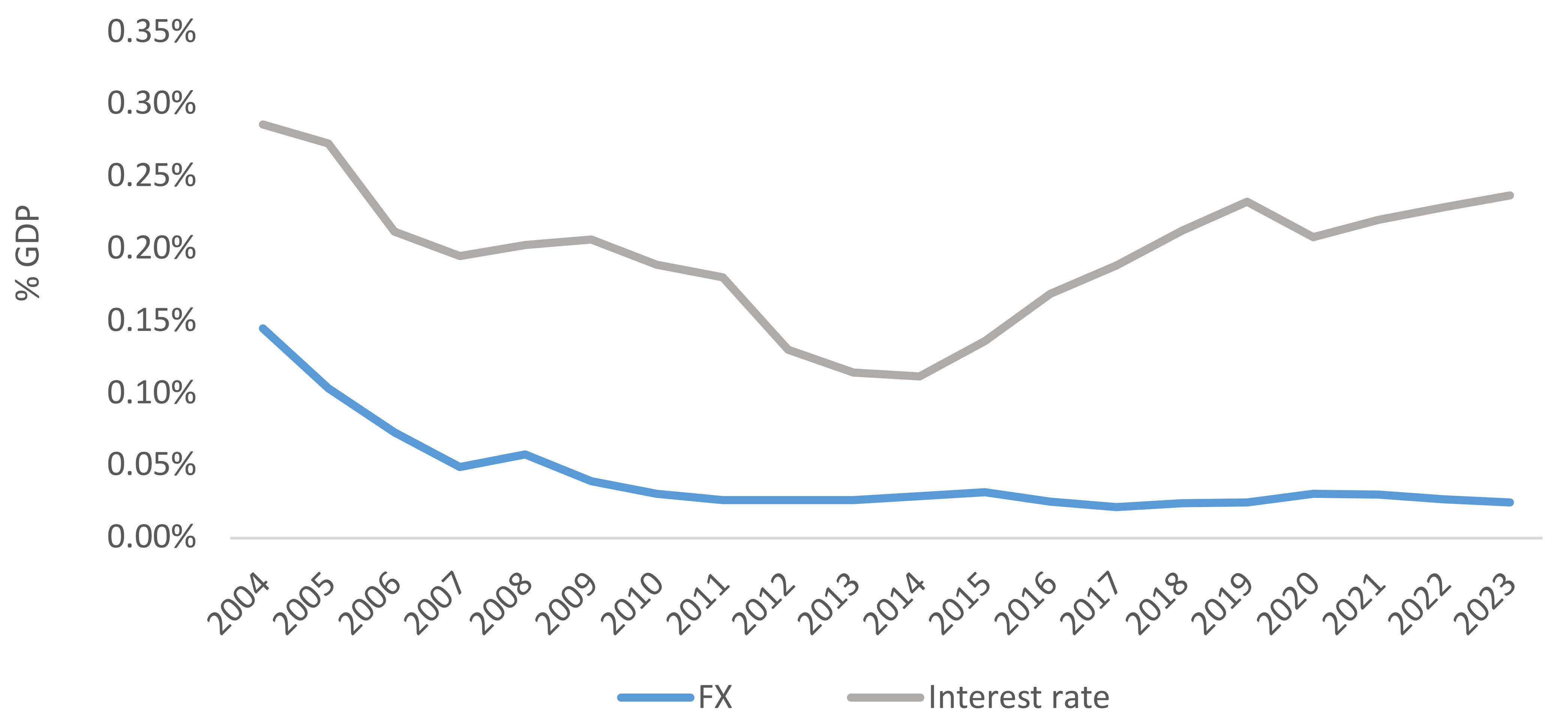
*Figure 12 – **FPD Composition***



***Source:** National Treasury*

The impact of shocks on the outstanding debt is significant, particularly in response to fluctuations in interest rates and the exchange rate. Figure 13 illustrates the sensitivity of the FPD-to-GDP ratio (FPD/GDP) to a 1 percentage point change in interest rates and the exchange rate. The analysis not only estimates the impact based on the current FPD position but also demonstrates how the FPD-to-GDP ratio would vary today, given identical shocks, if the debt composition were the same as in previous years. It can be inferred that the current composition entails an interest rate risk similar to that which would result from the FPD profile seen in 2005. The impact of an interest rate shock on the outstanding debt is less pronounced in years where the share of LFT in the FPD composition was reduced, especially during the period from 2010 to 2014, with the trend reversing from 2015 onward. Regarding exchange rate risk, it has remained stable since 2011, attributed to the decline in foreign currency-denominated debt within the FPD composition.

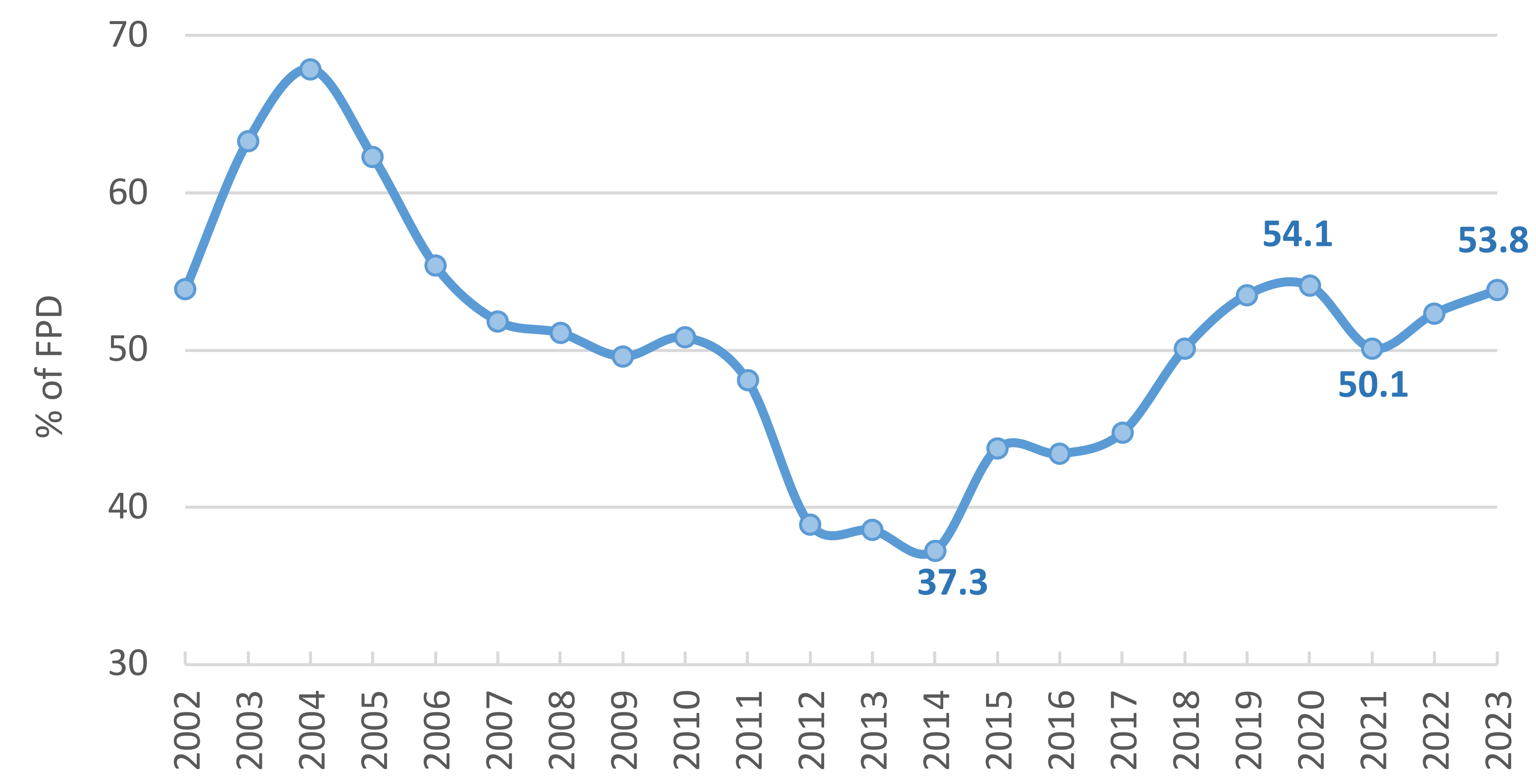
Figure 13 – ***FPD-to-GDP sensitivity to interest and exchange-rate shocks***



Note: *In this counterfactual analysis, a shift of 1 percentage point in interest rates and 1% in the exchange rate is applied to the current outstanding FPD-to-GDP (position in December 2023), with the composition being altered according to the historical share of floating-rate debt and exchange rate debt.*
Source: *National Treasury*

A more in-depth analysis of the sensitivity of debt to fluctuations in short--term interest rates can be conducted by computing the percentage of FPD's costs renewed over a 12-month period. This indicator consists of two parts: (a) the FPD that will be due within the next 12 months and will therefore have its cost redefined when it is refinanced; and (b) the FPD remunerated directly by floating interest rates that will mature in more than 12 months. This metric combines the effects of changes in both the composition and maturity profile of the debt. In Figure 14, this indicator reached 53.8% at the end of 2023, the second-highest value in the historical series for the end of the year since 2005. This value was only below that of 2020 in this period, when the context of the pandemic resulted in an increase in short-term fixed-rate bonds.

Figure 14 – ***Percentage of the renewal of FPD's cost in 12 months (% of FPD)***



Source: *National Treasury*

3.2.2 Maturity Structure and Refinancing Risks

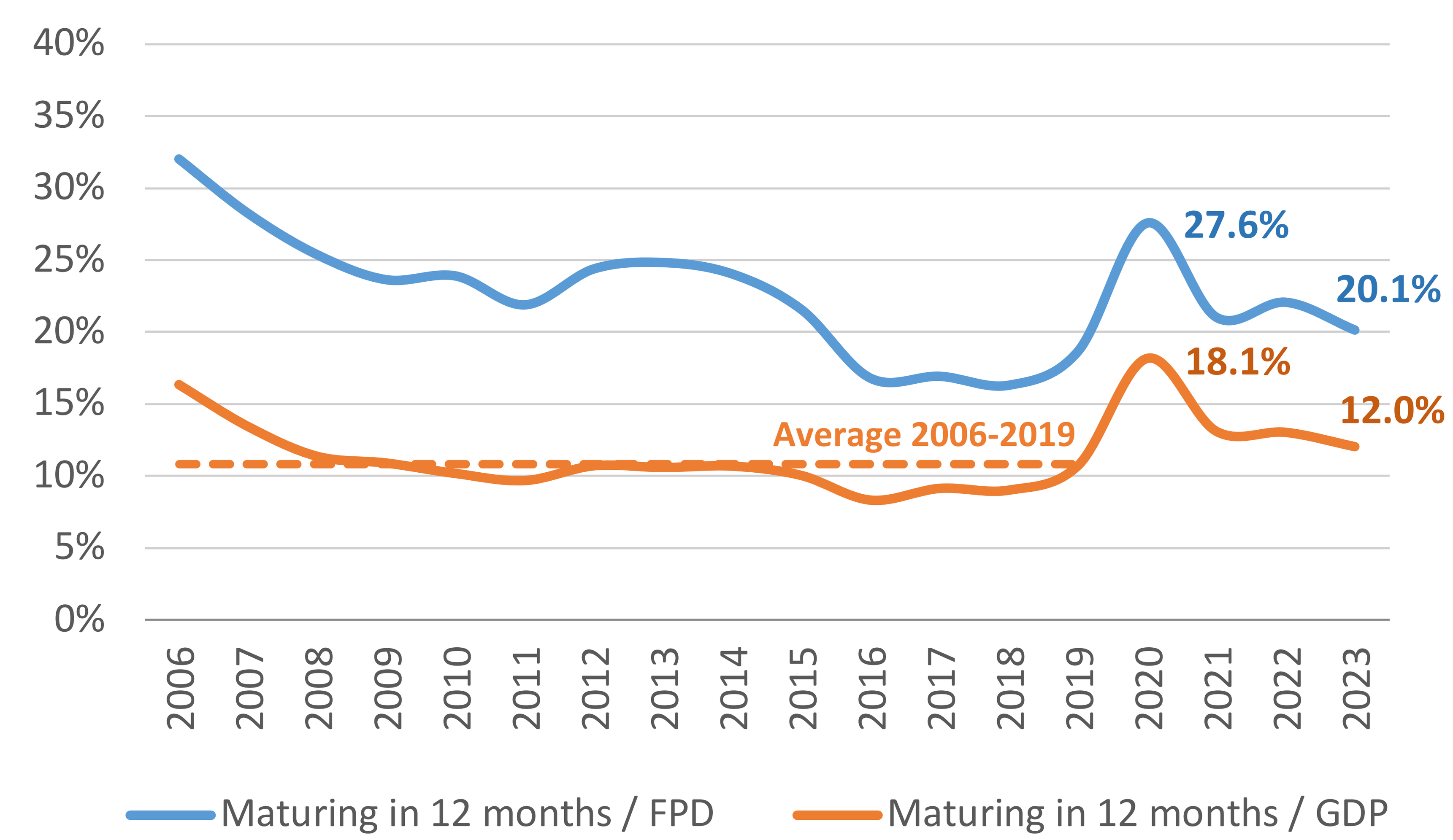
Monitoring the maturity structure of the debt provides a means to evaluate the refinancing risk. Refinancing risk pertains to the potential scenario in which the National Treasury, while refinancing maturing debt, may encounter unfavorable financial conditions that cause an increase in its issuance costs or, in extreme situations, may not be able to secure sufficient funds to meet its payment obligations.

The key indicators for assessing FPD refinancing risk include the percentage of debt maturing in 12 months, which reflects the short-term debt concentration, and the average maturity of the outstanding debt, which considers the average time remaining for debt payments. The issuance strategy adopted in 2023 maintained refinancing risks at a stable level throughout the year.

The percentage of FPD maturing in 12 months ended the year at 20,1%, down from 22.1% in the previous year, marking the lowest year-end level since the onset of the pandemic. When considered as a percentage of the FDP/GDP ratio, the debt maturing in 12 months fell from 13.4% of GDP in 2022 to 12%

of GDP in 2023. Despite the declining trend observed over the past three years, this figure still exceeds the historical average recorded between 2006 and 2019, which stood at 10.8%, as shown in Figure 15. This pattern reflects the overall increase in the FPD/GDP ratio over the recent years.

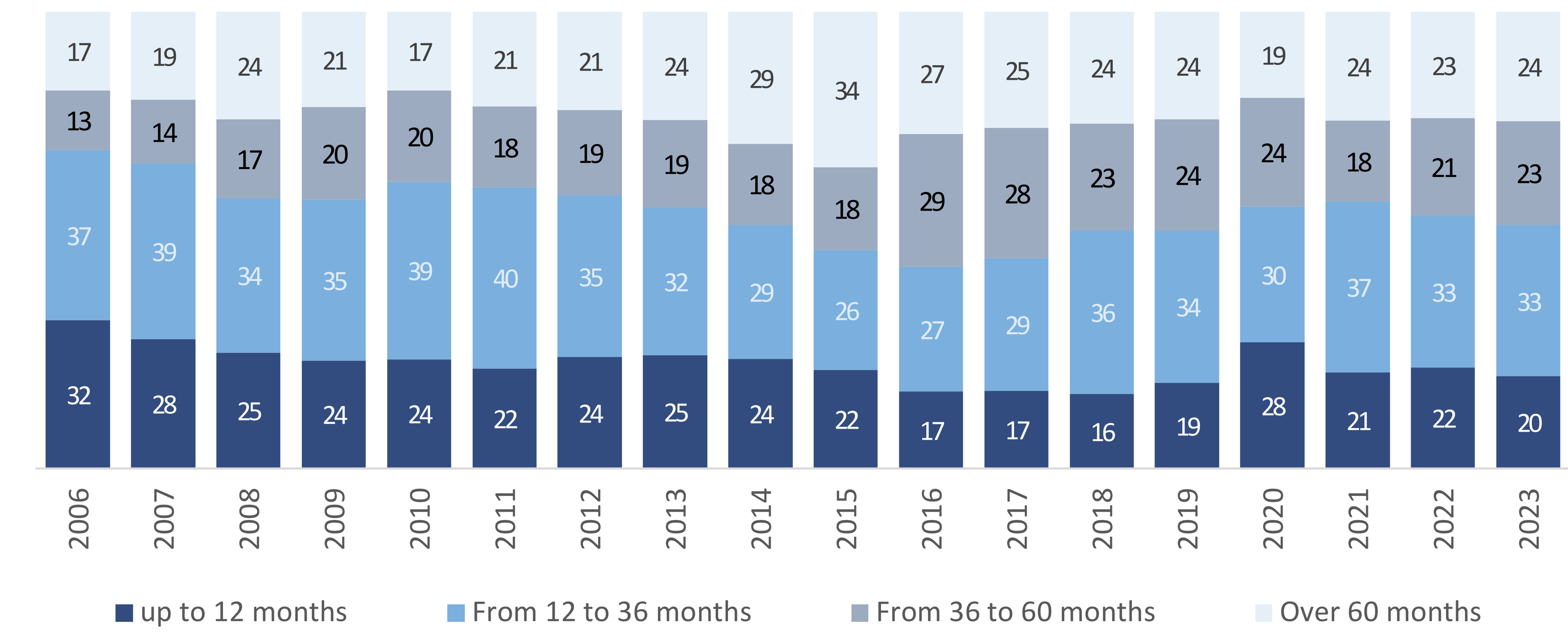
Figure 15 – ***Percentage of Debt Maturing in 12 Months – by share of FPD and by GDP***



Source: *National Treasury*

Figure 16 presents a breakdown of the FPD based on maturities across different periods. While the predominance of bonds maturing up to 36 months has reduced in the last two years, it still represents a high proportion, at 53% of the FPD. This highlights the importance of lengthening the maturity profile of the FPD, preferably with bonds with maturity of more than 60 months, such as was the case in 2015, when the composition presented its best profile, with a predominance of bonds with longer maturities.

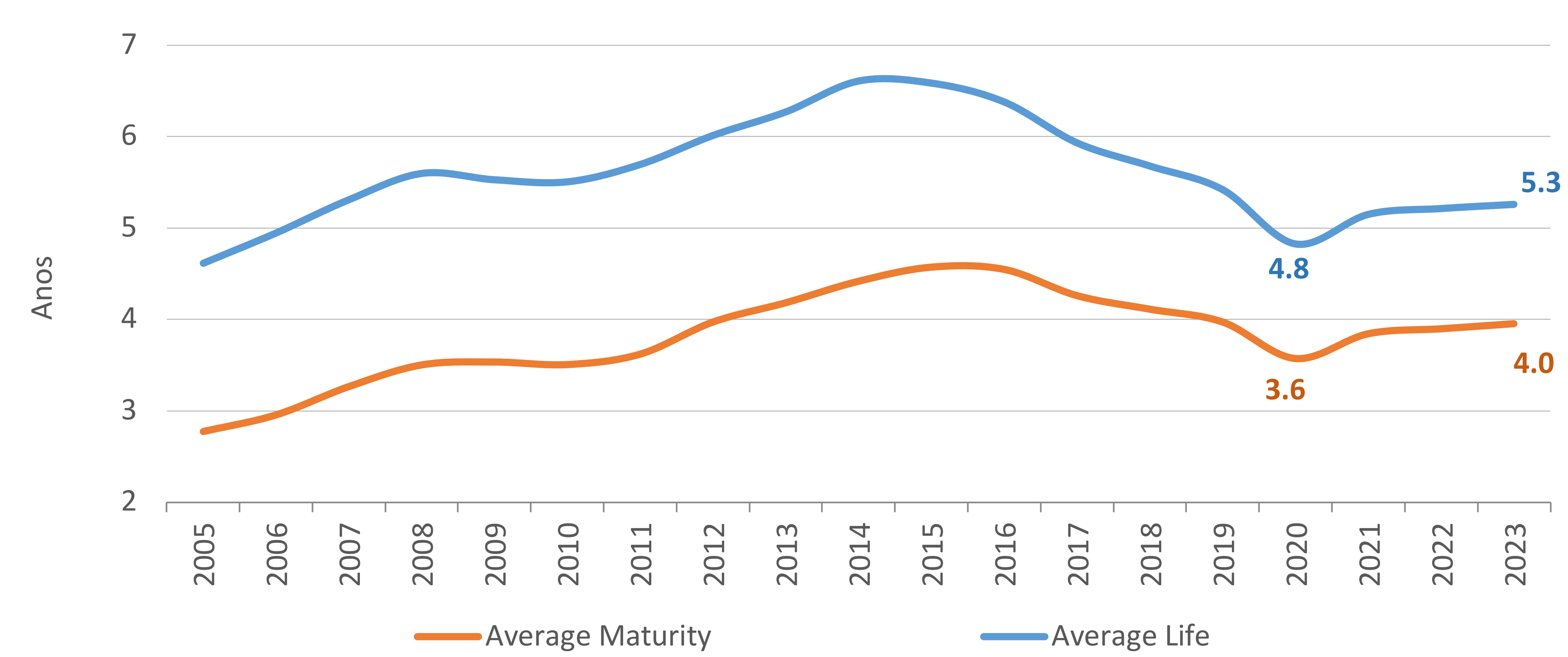
Figure 16 – ***Breakdown of FPD by maturity***



Source: *National Treasury.*

The average maturity of the FPD, in turn, increased from 3.9 years in 2022 to 4.0 years in 2023 (Figure 17[22]). Although the issuance of LFT contributes to longer maturity compared to shorter fixed-rate bonds, its average maturity is still shorter than the long-term benchmark for the FPD.

Figure 17 – ***FPD Average Maturity and Average Life***



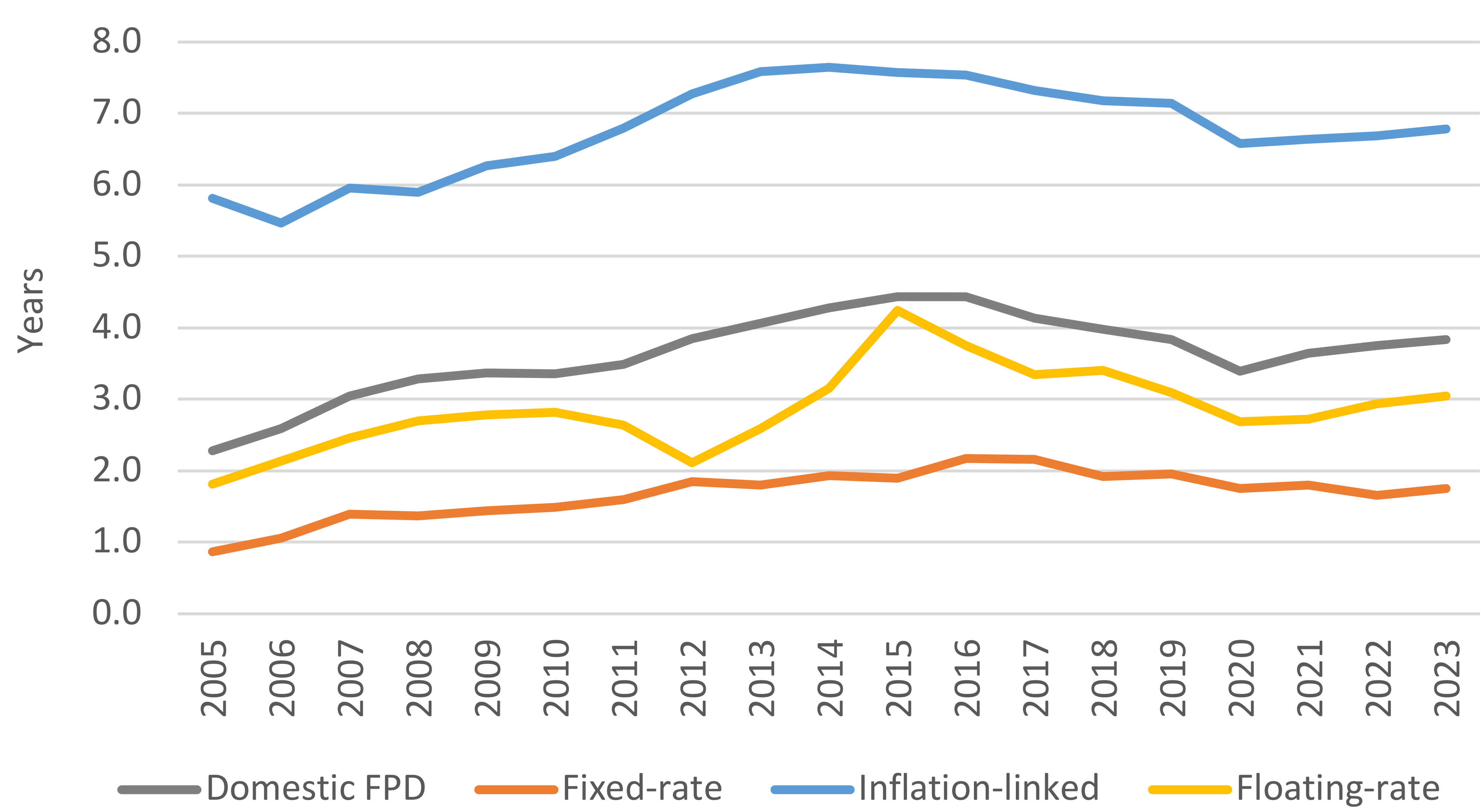
Source: *National Treasury*

[22] The average maturity of the outstanding debt reflects the average time remaining for redemptions, with these being weighted by the present values of both principal and interest flows. Meanwhile, the average life indicates only the remaining term of the public debt's principal. Brazil uses the concept of average maturity because it believes that it more accurately captures the risks to which the Federal Public Debt is exposed. However, the concept of average life is adopted by many countries as the sole indicator of the maturity of their debts, often compared with the average maturity calculated by Brazil and disclosed in its monthly reports, Annual Borrowing Plan and Annual Debt Report. Thus, the country also cites in its reports the average life indicator exclusively to enable analysts and investors to compare the indicators of Brazilian debt with those of other countries that use this indicator.

The increase in the average maturities of the FPD (Figure 17) and the DFPD (Figure 18) in 2023 is the result of both an increase in the average maturity of the floating-rate securities portfolio and an increase in the share of these securities in the composition of the DPF, at the expense of fixed-rate securities, which are characterized by shorter average maturities.

In short, the recent improvement in the maturity structure was made possible by increasing the share of 3- and 6-years LFT, while decreasing the share of short-term bonds. One of the main factors that made it possible for the National Treasury to follow this refinancing strategy in 2023 was the robustness of the liquidity reserve, associated with the deliberate choice of issuing longer bonds.

Figure 18 ***– DFPD Average Maturity by Indexer***



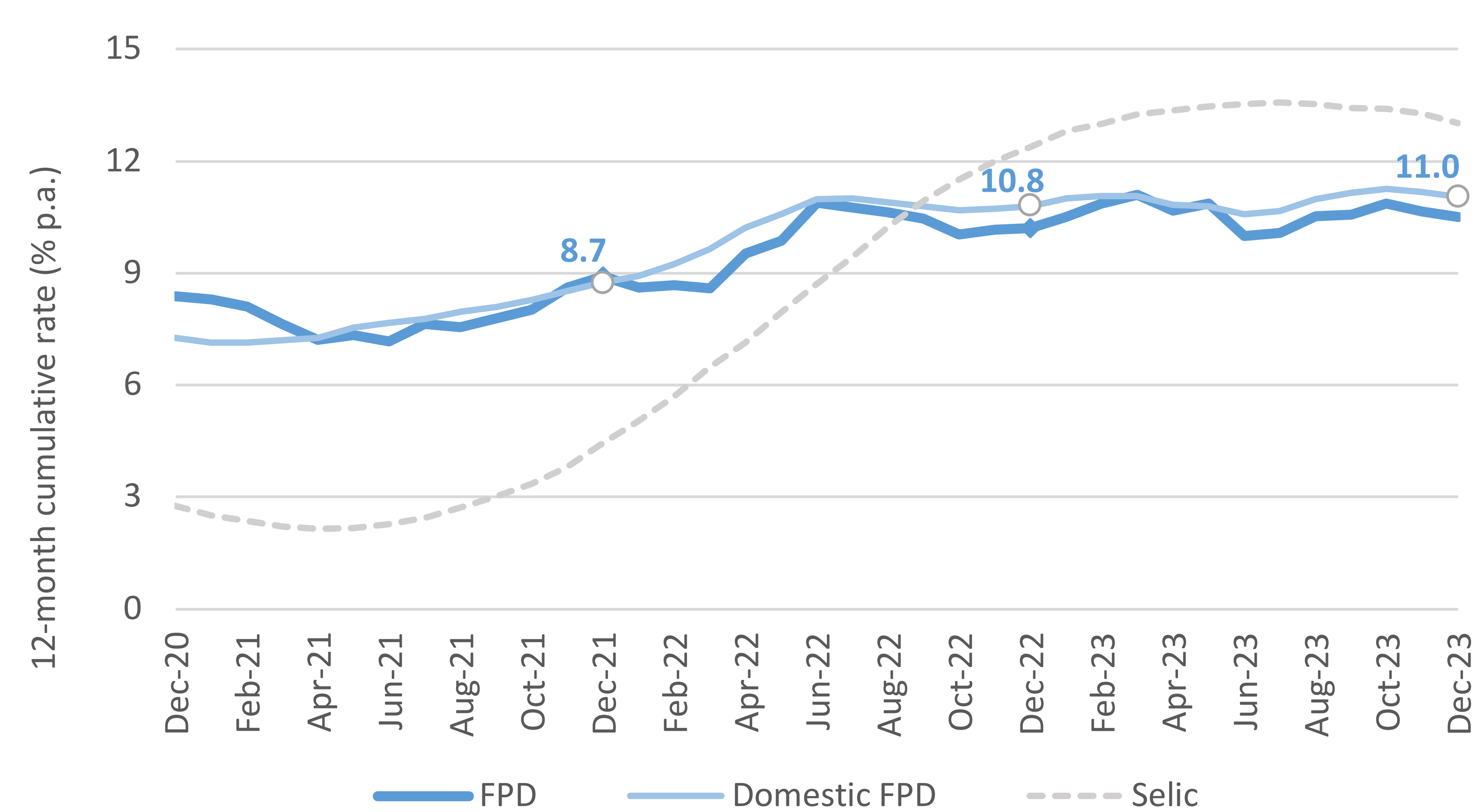
Source: *National Treasury*

A sustainable lengthening of the debt maturity requires, however, a structural change in the demand for government bonds, to one that would favor bonds such as the NTN-F, whose main holders are non-resident investors, and the NTN-B with maturities over 10 years, mostly demanded by pension funds.

3.3 Public Debt Cost

Average debt cost indicators increased throughout 2023, following the movement of the Selic interest rate and its effects on the domestic yield curve, as seen in Figure 19. After reaching the lowest value in the historical[23] series in February 2021 (7.15% per year), the average accumulated cost over 12 months of the DFPD outstanding began to rise again, reaching 11.0% per year at the end of 2023. Although it is influenced by the Selic rate, the average cost has lower volatility, given the specific composition of the FPD. This mitigates the effect of an increase or a reduction of the basic interest rate on this indicator. Thus, the accumulated Selic rate in 2023 was 13.0% per year, while the average DFPD cost was 11.0% per year.

Figure 19 ***– FPD and DFPD average cost and Selic rate (accumulated in 12 months, % p.a.)***



Source: *National Treasury*

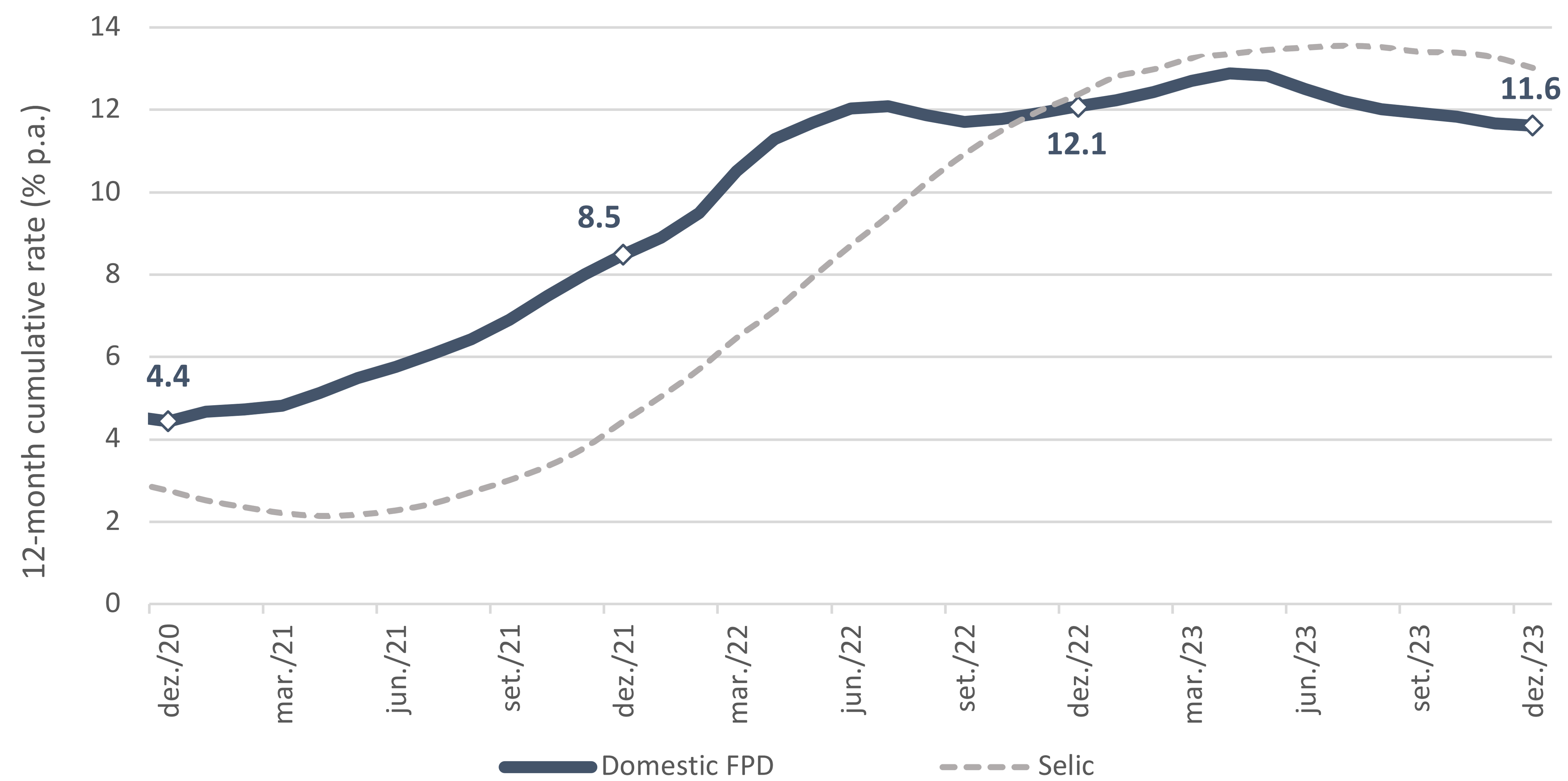
On the other hand, the average cost of issuance[24] of DFPD decreased throughout 2023, from 12.1% per year in 2022 to 11.6% in December 2023 (Figure

[23] *The monthly historical series begins in December 2005 and is available in the Monthly Debt Report.*

[24] *The average cost of issuance in a DFPD public offering is an indicator that reflects the internal rate of return – IRR of National Treasury bonds in the domestic market, plus the average variation of their indexes, considering only the placement of bonds in public offerings (auctions and "Tesouro Direto" retail program) in the last 12 months.*

20). This indicator reflects the most recent financing conditions, by weighing only the issuances carried out in the last 12 months and, thus, tends to react more quickly to changes in the Selic interest rate in the short term.

*Figure 20 – **DFPD average issuance cost and Selic rate (accumulated in 12 months, % p.a.)***



Source: *National Treasury*

3.4 Investor Base

The expansion and diversification of the investor base is one of the guidelines for the elaboration of the borrowing strategies for the FPD and also contributes to a more efficient FPD management. The existence of different risk profiles and investment horizons minimizes the effects of the behavior of a given group on government bond prices and mitigates debt risks to the extent that it contributes to increasing the liquidity of bonds on the secondary market and reduces their volatility.

The National Treasury classifies investors into six main groups:

• Financial institutions: includes the portfolio of domestic and foreign commercial banks, domestic and foreign investment banks, and brokerage houses and distributors. It also includes state-owned banks and the BNDES. The financial institutions investments in investment funds are also linked to this category.

• Funds: includes investment funds governed by CVM Instruction No. 555, of December 17th, 2014, and other funds. Exceptions are investments by banks, pension plan entities, non-resident investors, government, and insurance companies, which are allocated to their respective categories.

• Pension Funds: includes investment funds and proprietary portfolio of open and closed pension funds and RPPS.

• Non-residents: includes non-resident client accounts as stated by CVM Resolution No. 13, of November 18th, 2020. Non-resident investors are individuals or legal entities and funds or other collective investment entities with residence, headquarter or domicile abroad. These include securities held by non-residents through investment funds.

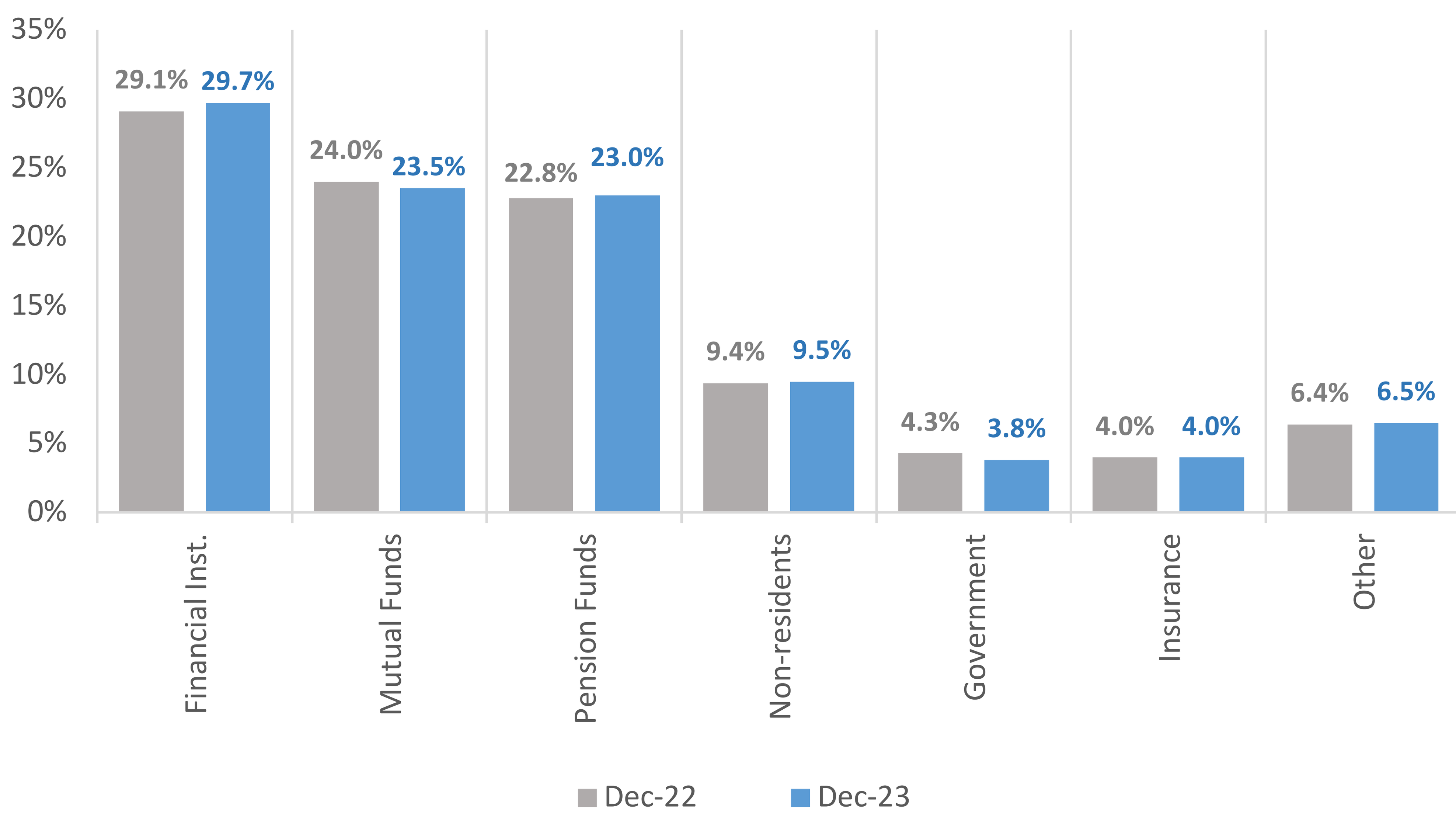
• Governments: includes funds and resources managed by the Federal Government such as FAT, FGTS, extra-market funds, sovereign fund, and guarantee funds.

• Insurance companies: includes both insurance and reinsurance companies.

• Others: includes individual resident client accounts, proprietary portfolio of foreign and national brokerage houses and distributors, capitalization companies and other types of proprietary portfolios.

In 2023, Financial Institutions remained as the main group of holders, accounting for 29.7% of the share at the end of the year, as shown in Figure 21. Next came the Funds and Pensions groups, with 23.5% and 23.0%, respectively. Finally, it is worth highlighting the group of non-residents, which increased its participation from 9.4% to 9.5% of DFPD.

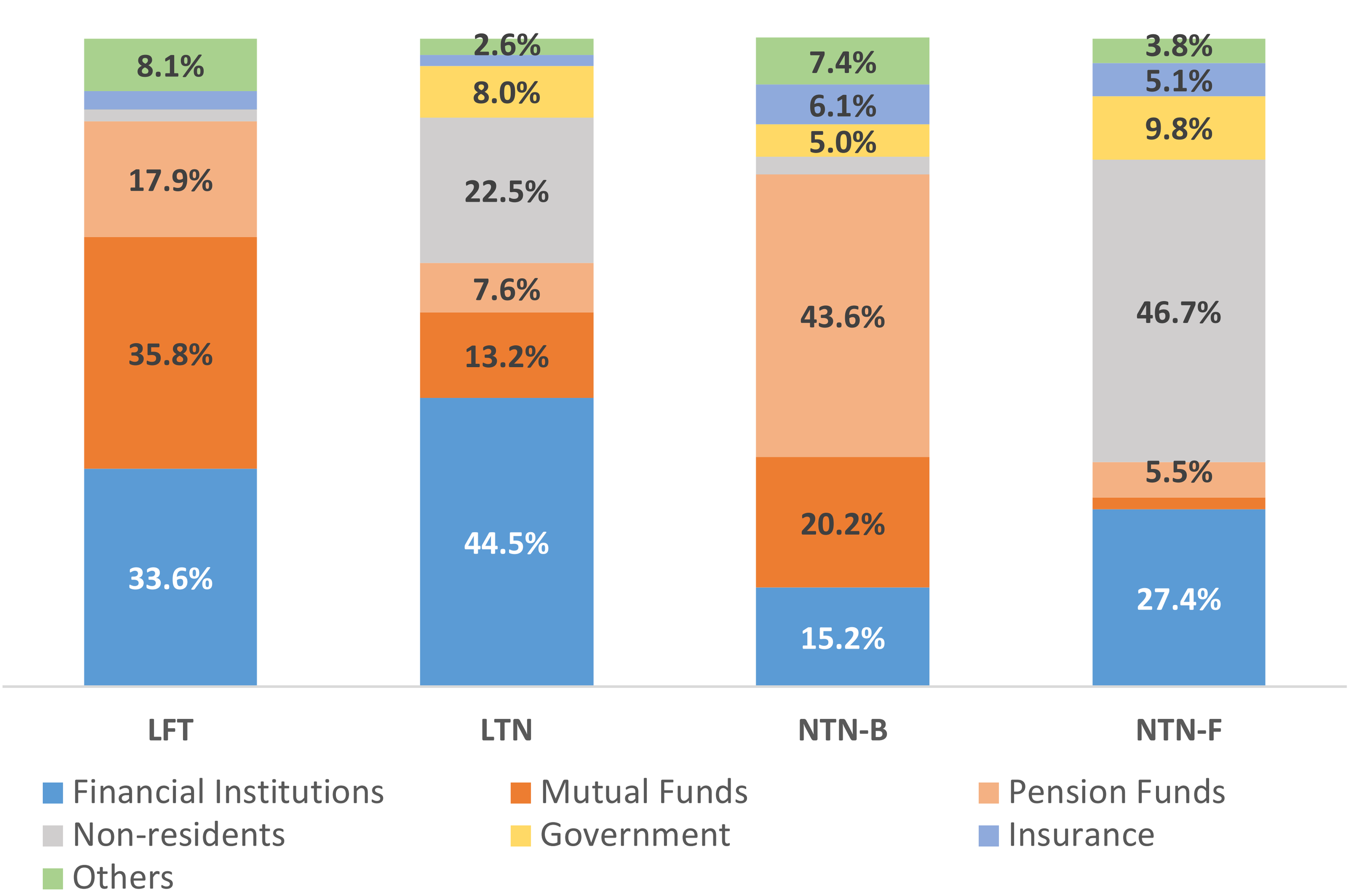
*Figure 21 – **Evolution of the DFPD's investor base (% da DFPD)***



***Source:** National Treasury and Selic*

Figure 22 shows the participation of holders by security, with the following highlights: 43.6% of the total NTN-B on the market are held by pension funds; 46.7% of NTN-F are held by non-residents; 44.5% of the LTN are in the portfolio of financial institutions and 35.8% of the LFT outstanding are held by investment funds.

*Figure 22 – **Participation of holders of the DPFD by security – (December 2023) (%)***



***Source:** National Treasury, BCB and CVM*

3.5 Tesouro Direto (Retail Program)

Following the growth trend of recent years, the "Tesouro Direto", the retail program for government bonds, expanded its base of active investors (that is, those who have investments), by 14.0%, reaching 2.4 million people. The outstanding investments in the program totaled BRL 123.4 billion, an increase of 23.5% compared to the end of 2022. Inflation-linked bonds account for the largest volume in the program outstanding, at 49.3%, followed by floating-rate bonds (36.9%), and fixed-rate bonds, with 13.7%.

The year 2023 for the "Tesouro Direto" program was marked by the launch of the "Tesouro Educa+" (savings for the educational cycle) and the start of trading in the "Tesouro RendA+" (savings for pension-reserve), both indexed to inflation (IPCA) and characterized by an accumulation period and another with monthly income payments. The "Tesouro RendA+" reached BRL 1.4 billion distributed among 67,000 investors, while the "Tesouro Educa+" reached BRL 93.5 million distributed among 27,400 investors.

With these bonds, the program aims to facilitate financial planning geared towards specific objectives, such as supplementary retirement and the financing of higher education for children and teenagers, contributing to the financial education of participants.

To encourage children and teenagers to invest in "Tesouro Direto" and to highlight the importance of investing in "Tesouro Educa+" to pay for their future studies, the program launched "Tesouro Direto Coletivo" (collective investment), a feature that allows family and friends to make contributions, including through PIX (electronic instant payment system), for the benefit of the child and teenagers. It also launched a campaign involving draws that distributed up to BRL 500,000 in prizes to participants who invested in "Tesouro Educa+" in 2023.

To make it easier for children and teenagers to register for the program, a barrier that is difficult to overcome at the main financial institutions, "Tesouro Direto" has improved the quick registration available on the program's website. Parents and guardians can create a "Tesouro Direto" account with their child's or teenager's ID (identity document which is called "CPF") in around 5 minutes and then set up initiatives in "Tesouro Direto Coletivo".

4 Guaranteed Debt

The Federal Government provides guarantees on credit loans to subnational entities (states and municipalities), federal state-owned companies and controlled entities (companies belonging to state government), to reduce their credit risk and allow them to borrow at rates lower then would be possible otherwise. In the context of the National Treasury, the Federal Guarantee System includes the provision of guarantees, the monitoring of the outstanding balance of guarantees as well as the executed guarantees and counter-guarantees. The guaranteed debt is a contingent liability of the Federal Government and is incorporated into its budgetary and financial needs, therefore being relevant to the management of the FPD.

Currently, the Federal Government has 997 credit operations guaranteed under the responsibility of the National Treasury. As shown in Table 6, by the end of 2023, the outstanding balance of guarantees for credit operations totaled BRL 269.3 billion, with BRL 110.0 billion from domestic operations and BRL 159.3 billion from foreign operations.

Table 6 ***– Historical Outstanding Guaranteed Debt and Guarantees Executed (BRL billion)***

	2016	2017	2018	2019	2020	2021	2022	2023
Domestic Guarantees	**111.1**	**111.5**	**114.3**	**109.3**	**114.1**	**112.9**	**105.4**	**110.0**
States	81.3	84.7	91.4	90.9	97.3	96.7	90.1	90.2
Municipalities	4.0	3.9	3.9	4.9	6.9	8.2	9.2	14.4
State-Owned Enterprises	24.7	22.5	18.8	13.5	9.8	8.0	6.1	5.4
State-Controlled Entities	1.1	0.4	0.2	-	-	-	-	-
External Guarantees	**103.8**	**121.8**	**143.9**	**146.6**	**181.9**	**190.5**	**171.5**	**159.3**
States	75.5	91.2	107.7	109.6	135.2	137.4	123.8	112.4
Municipalities	10.7	11.1	13.5	14.6	20.0	22.4	21.7	22.2
State-Owned Enterprises	13.9	14.0	15.3	14.7	17.2	21.5	18.4	17.2
State-Controlled Entities	3.7	5.6	7.5	7.7	9.5	9.2	7.6	7.5
Total Guarantees	**214.9**	**233.3**	**258.2**	**255.9**	**296.0**	**303.4**	**276.9**	**269.3**
Executed Guarantees	**2.4**	**4.1**	**4.8**	**8.4**	**13.3**	**9.0**	**9.8**	**12.3**

Source: *National Treasury. (Uptated on February 21, 2024)*

In 2023, the Federal Government paid BRL 12.3 billion to honor guarantees provided in credit operations. The executed guarantees referred to defaults in 8 states (with BRL 4.61 billion by the State of Rio de Janeiro, BRL 3.56 billion by the State of Minas Gerais, BRL 1.39 billion by the State of Rio Grande do Sul, BRL 919.35 million by the State of Goiás, BRL 681.40 million by the State of Maranhão, BRL 645.03 million by the State of

Pernambuco, BRL 334.22 million by the State of Piauí, BRL 61.72 million by the State of Espírito Santo) and 3 municipalities (with BRL 65.50 million by the Municipality of Taubaté, in the state of São Paulo, BRL 15.07 million by the Municipality of Corumbá, in the state of Mato Grosso do Sul and BRL 243.25 thousand by the Municipality of Santanópolis, in the state of Bahia.

At present, the states of Rio de Janeiro, of Rio Grande do Sul, and of Goiás have adhered to the Fiscal Recovery Regime (Regime de Recuperação Fiscal – RRF in Portuguese). In these cases, the execution of the states' collaterals has been suspended. Instead, part of this total is refinanced over 360 months, through a restructuring plan (as established by Art. 9º-A of Complementary Law No. 159/2017 and Art. 23 of Complementary Law No. 178/2021), and the rest is reimbursed to the Federal Government following a staggering of payments according to § 2º of Art. 9º of Complementary Law No. 159/2017.

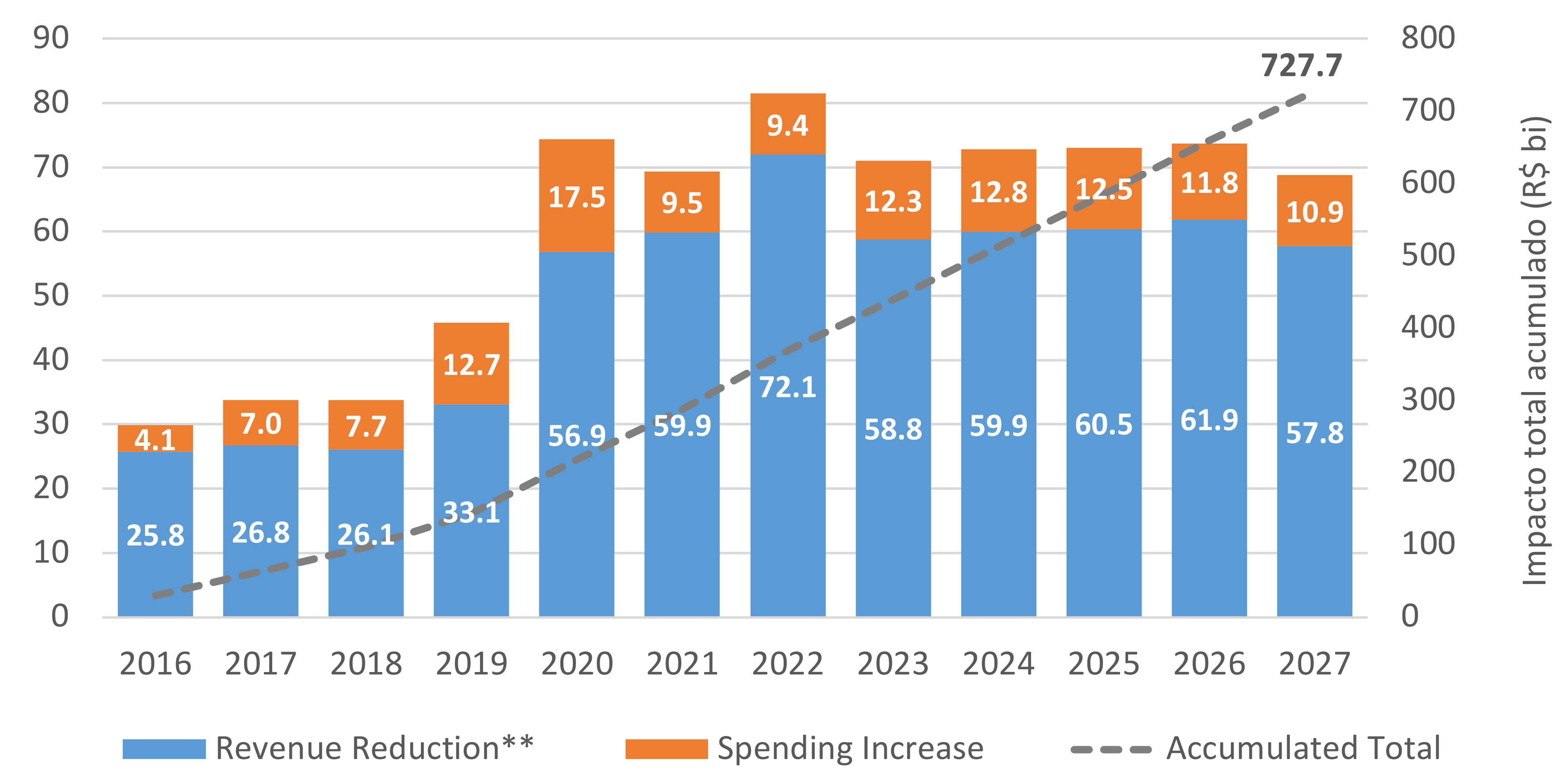
Furthermore, the Federal Government is also prevented from executing the collaterals of their contracts in the state of Alagoas, of Maranhão, of Pernambuco, of Piauí and from the Municipality of Taubaté-SP, due to court injunctions obtained by these entities before the Supreme Federal Court (STF).

The increase in the executed guarantees without the corresponding recovery of counter-guarantees has the final effect of increasing FPD, since these expenses are paid with debt issuance. In 2023, out of the BRL 12.3 billion in honored guarantees, only BRL 7.6 million were recovered through the execution of counter-guarantees, while the remaining amount directly impacted the FPD, increasing the government's financial expenses.

In addition to the impact of executed guarantees on the FPD, the Federal Government's revenue from subnational entities' debt restructuring plans has been decreasing due to renegotiations with these entities. These renegotiations were prompted by Complementary Laws No. 148/2014, No. 156/2016, and No. 178/2021, which retroactively altered correction indexes and interest rates, and extended the amortization period. These changes culminated in a reduction of the expected financial inflow to the Federal Government. Apart from affecting revenues, the RRF and court decisions increased Federal expenses due to the obligation to honor subnational entities' guarantees, without the possibility of accessing their counter-guarantees.

The total impact due to restructuring operations since 2014, including impact from both revenue reductions and increase in executed guarantees expenses, is shown in Figure 27. Adjusted by the December 2023 prices, the total impact in 2023 was of BRL 71.1 billion, of which BRL 58.8 billion are from frustrated revenues and BRL 12.3 billion from expenses with executed guarantees. This impact represents an increase of the same proportion in the Federal Government's borrowing requirements over the past year.

*Figure 23 – **Impact from subnational entities' debt restructuring and honored guarantees – BRL billion****



** In constant prices, adjusted by the December 2023 IGP-DI.*

*** In summary, the reduction in revenue is calculated by considering the difference between the projected revenue flow allocated to the Federal Government by Law No. 9,496/97 and: 1) the amount the Federal Government actually received, for values up to 2023; or 2) the projected revenue flow from Law No. 9,496/97 with the effects of Supplementary Laws No. 148, 156, 159, 173, 178, 181, 194, and 201, for values from 2024 to 2026.*

***Source:** National Treasury*

The National Treasury periodically publishes the Quarterly Report on Guaranteed Credit Operations[25], providing a comprehensive overview of this contingent liability. Additionally, the report's data is accessible on the Guarantees Stories page[26], offering an innovative and didactic explanation of guarantees granted by the Federal Government, and on the Guarantees Dashboard[27], enabling visualization of detailed guarantee data. Finally, the Honored Guarantees Dashboard[28] and the Monthly Report on Honored Guarantees[29] provide available information on guarantees honored by the Federal Government.

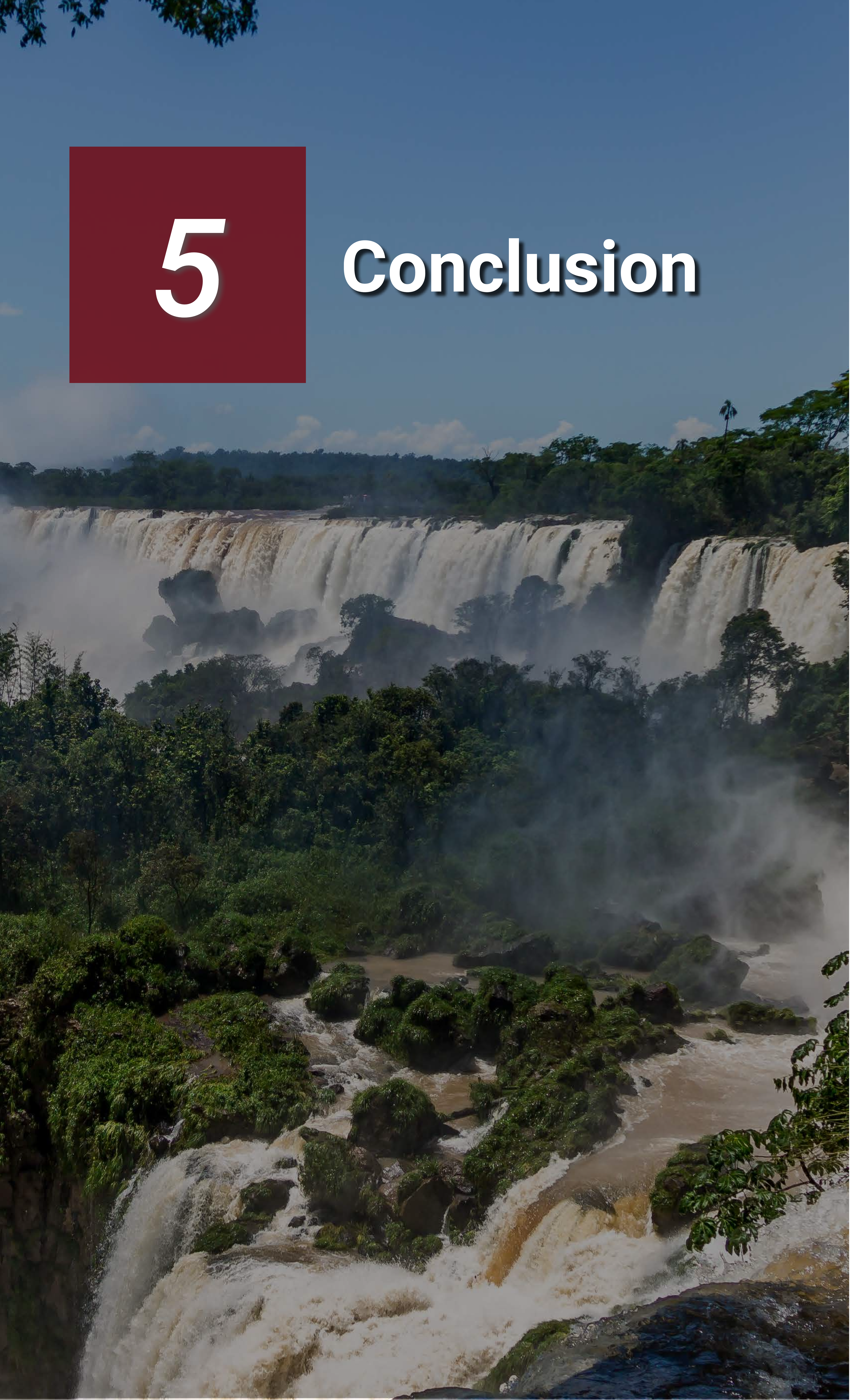
[25] *Available at https://www.tesourotransparente.gov.br/publicacoes/relatorio-quadrimestral-de-operacoes-de-credito-garantidas-rqg/2023/28*

[26] *Available at https://garantias.tesouro.gov.br*

[27] *Available at https://www.tesourotransparente.gov.br/historias/painel-de-garantias*

[28] *Available at https://www.tesourotransparente.gov.br/historias/painel-de-garantias-honradas*

[29] *Available at https://www.tesourotransparente.gov.br/publicacoes/relatorio-mensal-de-garantias-honradas-rmgh/2023/11*



5 Conclusion

The year 2023 was, on the one hand, characterized by challenges in the economic scenario, both domestically and internationally, which impacted the implementation of the FPD management strategy. On the other hand, it was also a year of important milestones and achievements for the Brazilian public debt, especially regarding the sustainability agenda.

Externally, the scenario was marked by volatility related to uncertainties about the monetary policy movements of the Federal Reserve and European Central Bank, the slowdown in the Chinese economy and geopolitical conflicts. Domestically, the passage through Congress of measures with significant potential for macroeconomic impact - in particular, the sustainable fiscal regime and tax reform - represented important institutional advances. The cooling of inflation, which allowed for the beginning of an easing process for monetary policy, contributed to the dynamics of public debt.

A positive highlight of the year was the fact that Brazil was upgraded from BB- to BB by two of the main rating agencies (Fitch and S&P). Also noteworthy was the Republic's first sovereign sustainable bond issuance on the international market, a milestone in debt management's commitment to the sustainable finance agenda.

In general, the year's results were in line with the expectations set out in the ABP 2023, bringing the FPD's composition and maturity structure indicators within the proposed limits. In particular, the financing strategy succeeded in keeping the debt liquidity reserve at robust levels and above the minimum required to mitigate refinancing risk.

The Brazilian National Treasury reaffirms the importance of the current reform agenda, with a view to promoting fiscal, social and environmental responsibility, favoring sustainable development and improving macroeconomic and financial conditions.