ADR – Annual Debt Report/2023 – National Treasury Secretariat | 1
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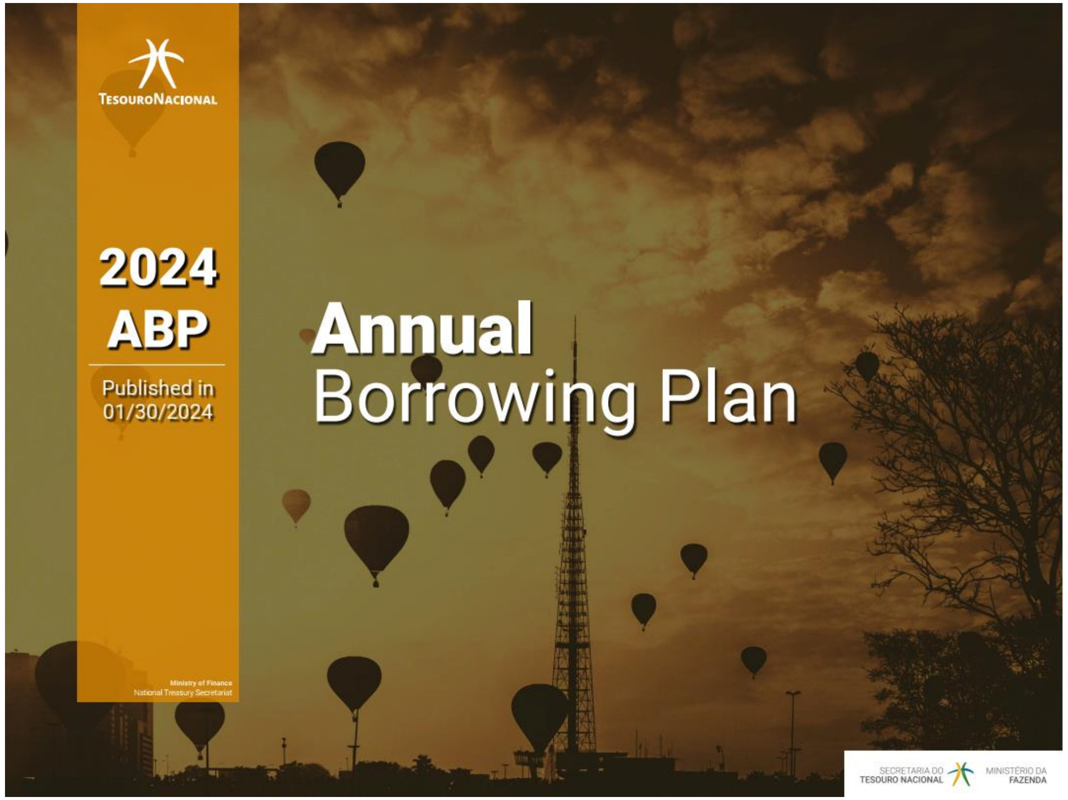
2023
ADR
Published in
01/30/2024
Annual
Debt Report
Ministry of Finance
National Treasury Secretariat
SECRETARIA DO TESOURO NACIONAL
MINISTÉRIO DA FAZENDA



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2024
ABP
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Annual
Borrowing Plan
Ministry of Finance
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Annual Debt Report – ADR 2023

Annual Borrowing Plan – ABP 2024

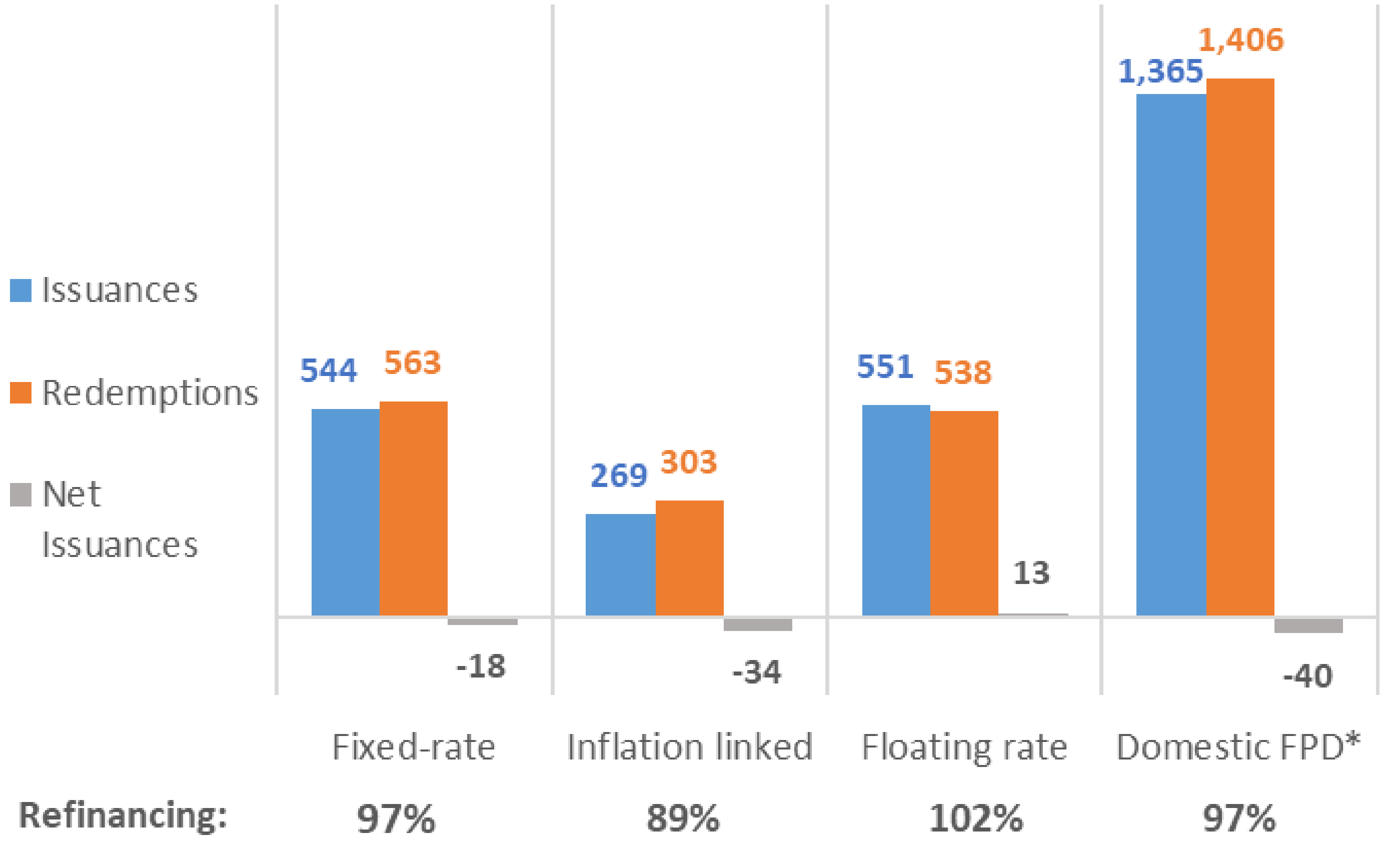
Better allocation of revenues' sources reduced expenses coverage by issuance resources

	FPD Maturity	+	Other Primary Expenditures / Primary Expenditures	+	Guaranteed Debt Payments	−	Budget Resources	=	Net Borrowing Requirements
Executed	BRL 1,503.9 bn	+	Other Primary Expenditures: **BRL 192.2 bn**	+	BRL 12.3 bn	−	BRL 178.5 bn (Free-allocation Revenues: BRL 47.0 bn; Revenues Earmarked to Debt: BRL 131.5 bn)	=	BRL 1,529.9 bn
−	−		−		−		−		−
Forecasted	BRL 1,433.2 bn	+	Primary Expenditures: **BRL 256.2 bn**	+	BRL 15.1 bn	−	BRL 216.6 bn (Free-allocation Revenues: BRL 116.1 bn; Revenues Earmarked to Debt: BRL 100.5 bn)	=	BRL 1,487.9 bn
=	**BRL 70.7 bn**		**BRL -64.0 bn**		**BRL -2.8 bn**		**BRL -38.1 bn**		**BRL 42.0 bn**

Source: National Treasury

Market issuances in an amount close to the debt maturities volume in 2023

Domestic debt net issuance and rollover rate by indexer



- The 97% rollover rate for the Domestic FPD in 2023 was above the 2022 value (83%)

* Only issuances and redemptions with liquidity effect are considered.

Source: National Treasury

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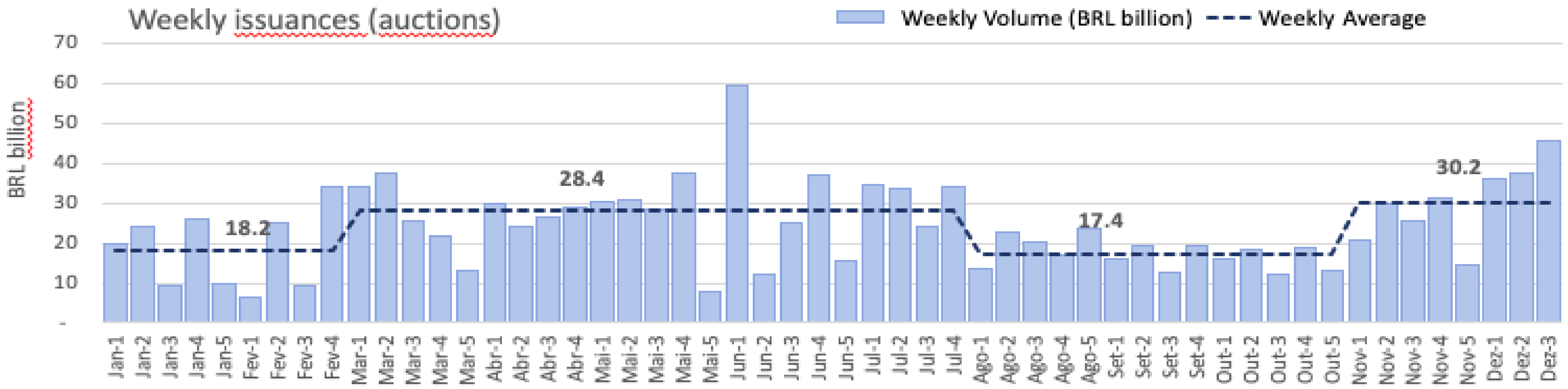
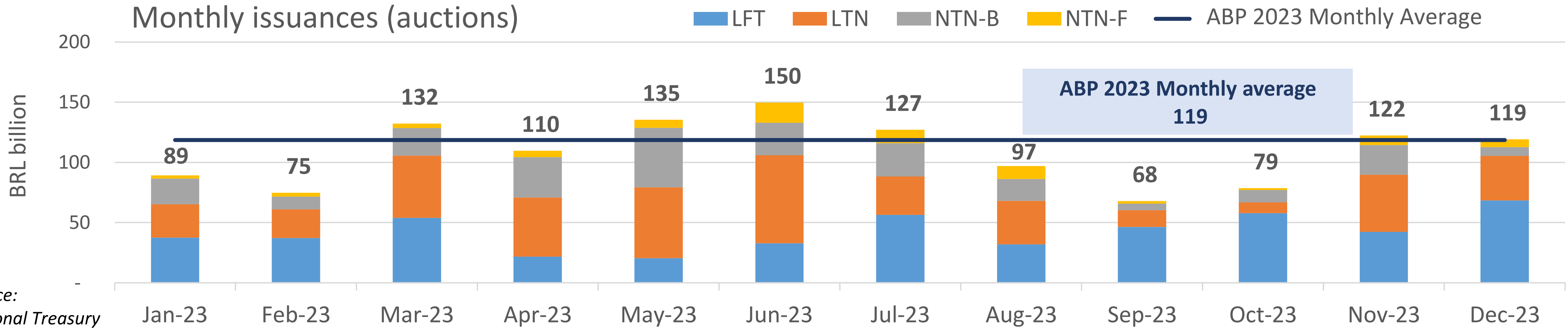
DFPD auctions issuances contributed to the maintenance of a strong liquidity cushion

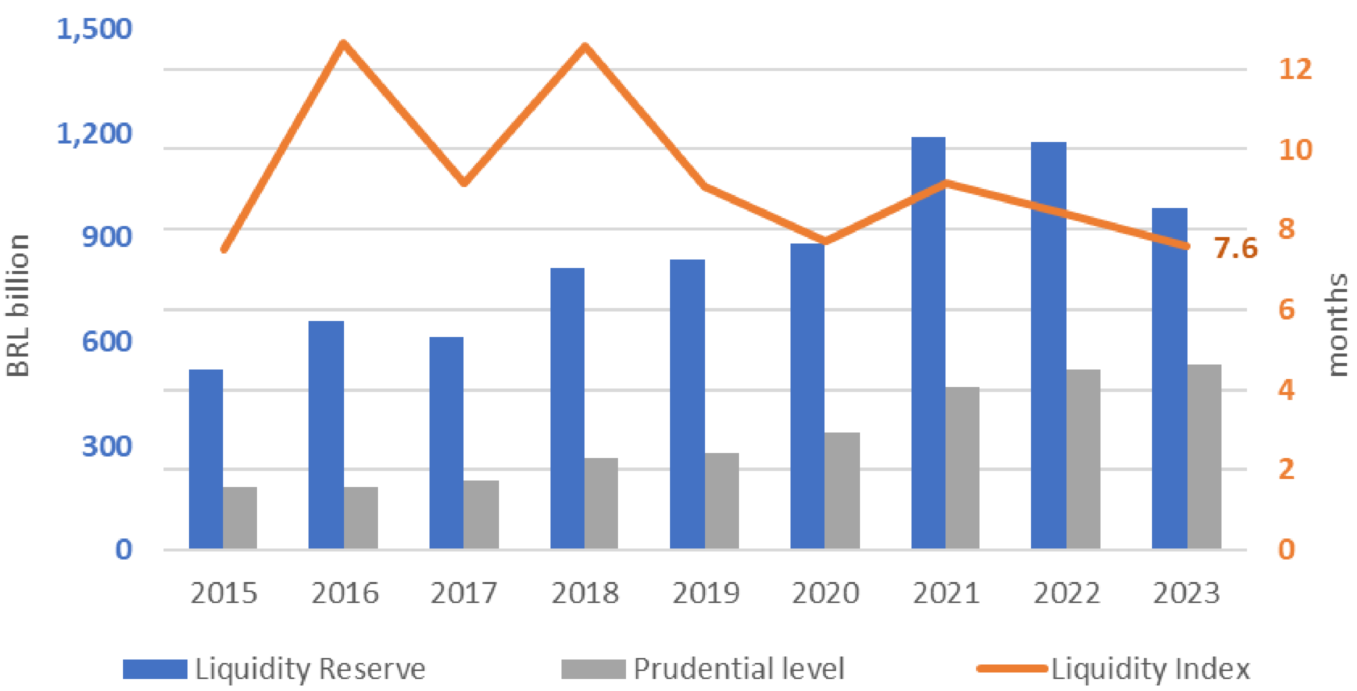




Source: National Treasury

The liquidity reserve stood above the prudential level

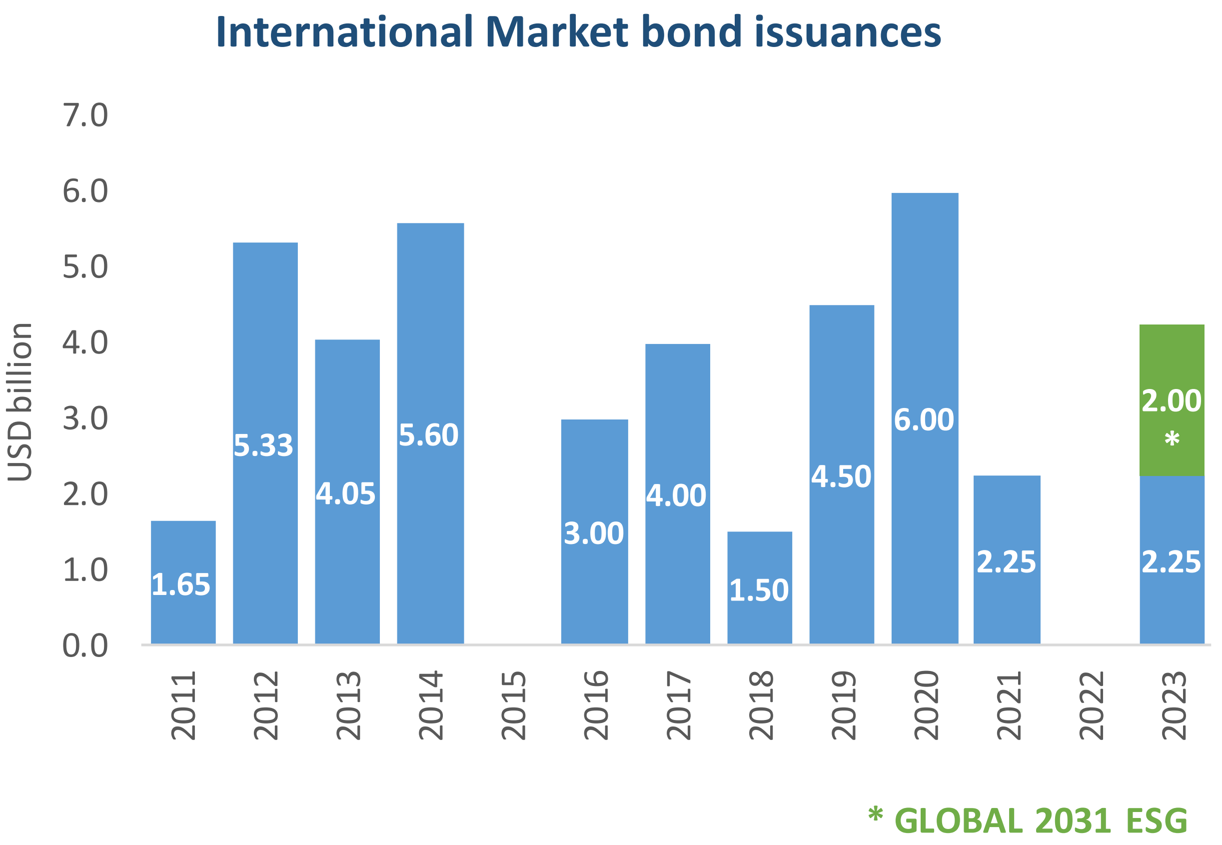
Performance of liquidity reserve and coverage of DFPD in months



- The liquidity reserve stood at a comfortable level throughout 2023, providing the National Treasury flexibility to adjust the issuances strategy to market conditions.
- The liquidity reserve reached around 9% of GDP (R$982 billion) by the end of 2023.
- This reserve is enough to cover for 7.6 months of DFPD maturities in the market, well above the Prudential level, which corresponds to 3 months of debt maturities.

Source: National Treasury

First sustainable bond issuance by the Republic of Brazil in the international markets



- The National Treasury conducted two international market operations in 2023:
  - **GLOBAL 2033**, with maturity in October 2033 (launched in April);
  - **GLOBAL 2031 ESG**, with maturity in March 2031 (launched in November): the first Brazilian sovereign sustainable bond.
- Contractual debt: disbursement of a New Development Bank – NDB contract amounting to US$ 1 billion.

Source: National Treasury

Sustainable sovereign bonds – Main developments in 2023

May-23

- Federal government established the **Sovereign Sustainable Finances Committee** (CFSS, for its acronym in Portuguese) with the main goal of planning, implementing and monitoring the Brazilian Framework for Sovereign Sustainable Bonds, as well as sustainable sovereign bonds' issuances

Sep-23

- The **Brazilian Framework for Sovereign Sustainable Bonds** was published. It established guidelines for sovereign bond issuances linked to budgetary expenses that promote sustainable development.
- **Non Deal Roadshow** occured in Europe and in the United States to present the framework and clarify investors inquiries.

Oct-23

- A **Pre-issuance Indicative Allocation Report** was published aiming at indicating the main budgetary expenses that would be treated as priority in the first sustainable Sovereign issuance of the Republic.

Nov-23

- The **first sustainable sovereign bond** of the Federative Republic of Brazil was launched.
- The operation added up to US$2.0 billion, with a a 6.50% p.a. rate of return for investors, corresponding to a 181.9 basis-points above the benchmark Treasury (the US Treasury bond), **the lowest for new issuances in almost a decade**. Previously, the GLOBAL 2025 with 11-years maturity, issued in 2013, with a 180 basis-points spread had been the lowest-spread issuance before the GLOBAL 2031 ESG.

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All the FPD indicators stood within the 2023 ABP reference ranges

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

- Highlights:
  - Fixed-rate share stood near the upper level of the range
  - Debt lengthening: reduction of the % of FPD maturing in 12 months and increase in the average maturity

Source: National Treasury

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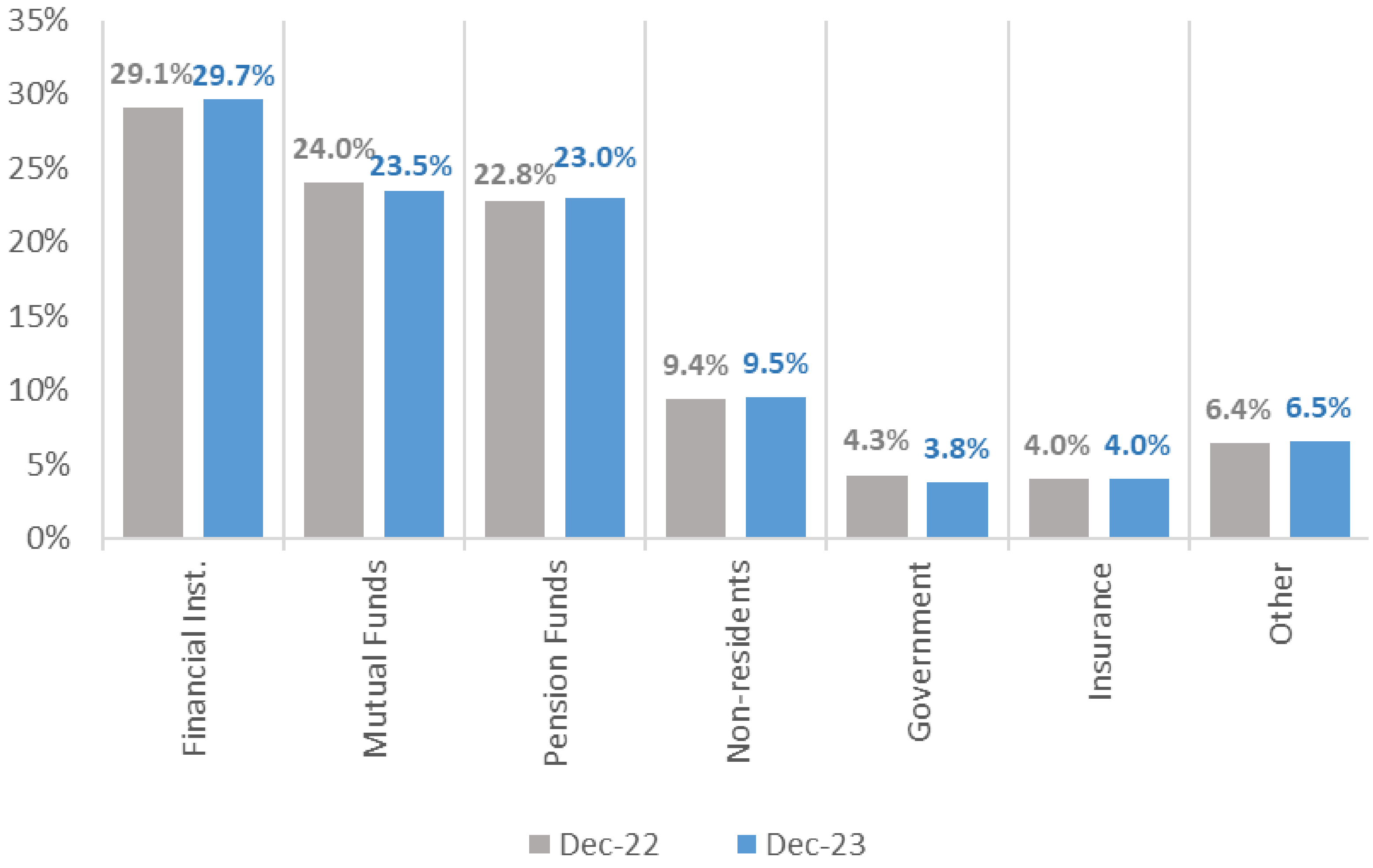
Diversified investor base, with no significant changes relative to 2022



Source: National Treasury

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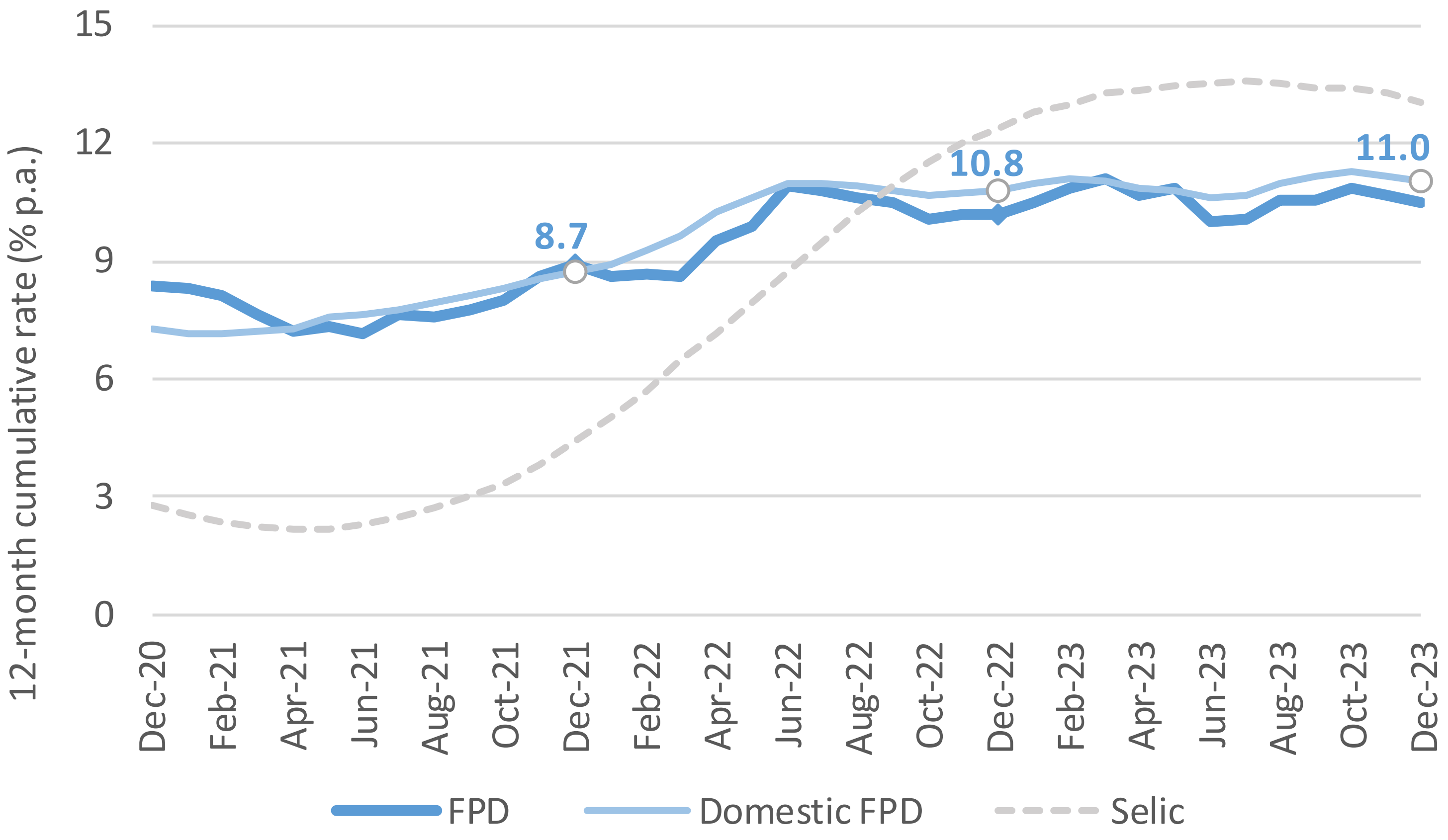
A more diversified debt structure smoothens monetary cycle effects



Source: Tesouro Nacional

Tesouro Direto (TD) government bonds retail Program achievements in 2023

- ✓ Renda+ launch: created to assist Brazilian citizens' supplementary retirement planning. The stock accumulated throughout the investment yields inflation (measured by IPCA) + real interests and are converted in monthly income for 20 years.
- ✓ Educa+ launch: a specific bond to finance expenditures with higher education. Yields IPCA + real interests and are converted into monthly income for 5 years.
- ✓ TD Coletivo launch: an instrument that enables collective investments to raise resources between friends and family to fund for children higher education.
- ✓ Educa+ Premiado: throughout 2023 Tesouro Direto held draws to encourage investments in the Educa+. The campaign rewarded investors who care about their children's educational future from an early age.
- ✓ Cad&Pag: launched at the end of 2022 and developed throughout 2023, Cad&Pag provides investors the possibility to carry out the entire investment process in Tesouro Direto retail government bonds in the TD website, from the opening of an account in the program through purchasing the bonds and settling payment via the PIX method.
- ✓ Minors' registration: tool made available on the TD website to open accounts for children and teenagers quickly and easily in partner financial institutions.

Tesouro Direto retail program performance in 2023

RendA+

70,678 investors

Educa+

38,472 investors

TESOURO DIRETO CLOSED 2023 WITH MORE THAN R$ 128 BILLION IN OUTSTANDING VOLUME

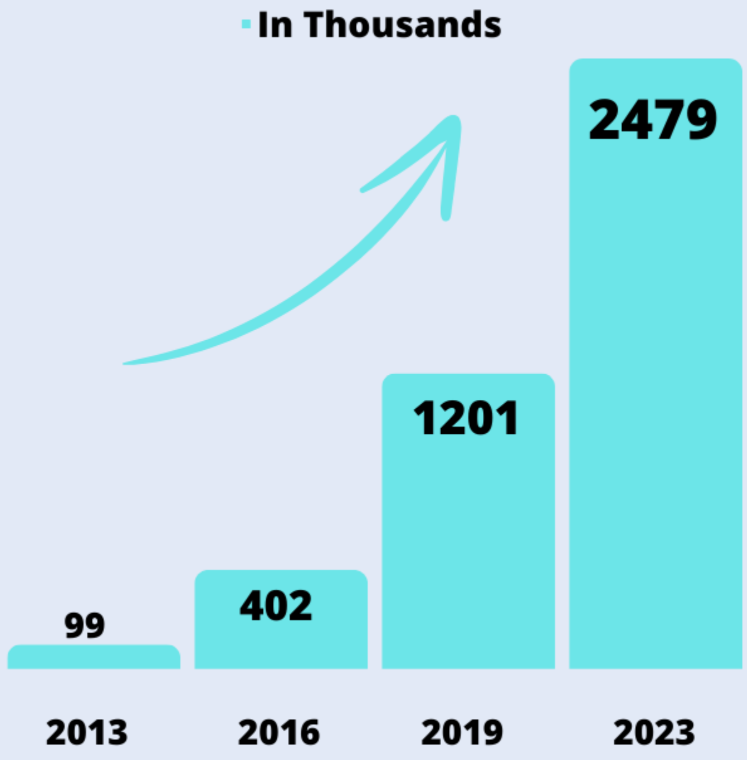
Minors' Active Accounts

INCREASE OF

83%

ON THE NUMBER OF ACTIVE ACCOUNTS OF INVESTORS WHO ARE UNDER 18 YEARS OLD, RESULTING IN 28,426 ACCOUNTS

No. of TD Investors



Annual Debt Report – ADR 2023

Annual Borrowing Plan – ABP 2024

FPD management objective: balance between cost and risk

Objective

The objective of the Federal Public Debt management is to efficiently supply the federal government's borrowing needs at the **lowest cost in the long term**, while maintaining **prudent levels of risk** and, additionally, seeking to contribute to the proper functioning of the Brazilian government bonds market.

Guidelines

- Gradual replacement of floating-rate bonds by fixed-rate and inflation-linked bonds
- Smooth the maturity structure, with special attention given to debt maturing in the short term
- Increase in the average maturity of the outstanding debt
- Incentive of the liquidity of federal government bonds in the secondary market
- Diversification and broadening of the investor base
- Maintenance of liquidity reserve above its prudent level

Federal Government Borrowing Requirements for 2024 (BRL billion)

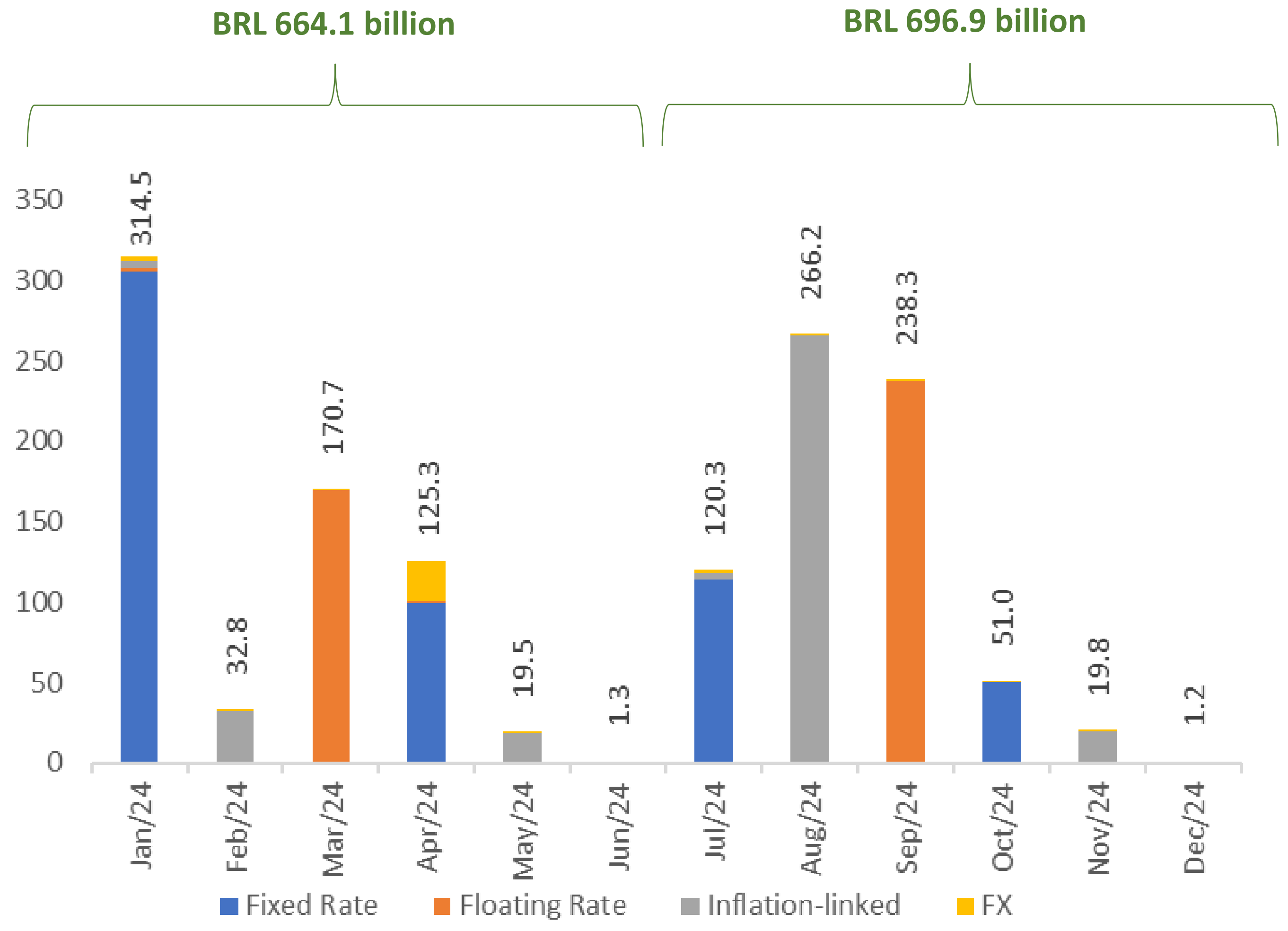
FPD Maturity 1,462.5 + Garanteed Debt Payments 13.1 + Other Budget Expenditures 214.2 - Other Budget Resources 262.4 = Net Borrowing Requirements 1,427.4

FPD Maturity: External Debt 23.2 + Domestic FPD 1,337.8 + Central Bank Interest Charges 101.4

- Liquidity reserve of BRL 982 billion, 7.6 months of DFPD maturities and interest on BCB securities.
- The Treasury holds foreign currency resources for the external debt maturities scheduled for 2024 and January 2025.

Source: National Treasury

Maturities of the Federal Public Debt Portfolio well distributed throughout the year



» Predominance of fixed-rate and floating-rate bonds

Type	FPD	
	BRL billion	% of the total
Fixed Rate	568.7	41.8%
Floating Rate	409.9	30.1%
Inflation-linked	343.8	25.3%
FX	38.7	2.8%
Total	1,361.0	100.0%

Source: National Treasury

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2024 borrowing strategy – Benchmarks

The 2024 ABP seeks to meet borrowing needs while maintaining the liquidity reserve at adequate levels, observing the objective, debt management guidelines and current financial conditions.

Benchmark bonds - Offered in the year of 2024

		6 months	1 year	2 years	3 years	4 years	5 years	6 years	7 years	10 years	25 years	40 years
LTN Fixed rate	1st semester	Oct/24	Apr/25	Apr/26		Jan/28		Jan/30				
	2nd semester	Apr/25	Oct/25	Oct/26		Jul/28						
NTN-F Fixed rate	1st semester								Jan/31	Jan/35		
	2nd semester											
LFT Floating rate	1st semester				Mar/27			Mar/30 Jun/30				
	2nd semester				Sep/27			Sep/30 Dec/30				
NTN-B Inflation-linked	1st semester				May/27		May/29		Aug/32	May/35	May/45	Aug/60
	2nd semester											

Highlights for the year 2024:

» Inclusion of the 72-month LTN.

» The auction **schedule** and the list of securities will once again be **published annually**.

Management of the external Federal Public Debt (EFPD)

EFPD strategy

The EFPD issuances strategy seeks maintaining **an efficient sovereign yield curve** with adequate pricing and liquidity. Furthermore, this curve functions as an important benchmark for **Brazilian corporate issuers seeking access to the international market.**

The current planning aims to **issue conventional and sustainable bonds.**

Specific Guidelines

- Creation and improvement of benchmarks in the yield curve
- Possibility of external liability management operations
- Monitoring of the External Contractual Debt
- Improving and diversifying of the investor base
- Support for national commitments to ecological transition

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New desired composition for FPD in the long term (New Benchmark)

Statistics	Benchmark		Intervals	
	Composition (% of FPD)	Average Maturity (years)	Composition (% of FPD)	Average Maturity (years)
Indexer				
Fixed rate	35	3.0	± 2.0	± 0.3
Inflation-linked	35	7.5	± 2.0	± 0.5
Floating rate	23	3.5	± 2.0	± 0.3
Exchange rate	7	7.5	± 2.0	± 0.5
Maturity Structure				
FPD average maturity		5.0		± 0.5
12-Month Maturity Share	20		± 2.0	

Source: National Treasury

- Main changes:
  - There was a moderate increase in the share of foreign exchange bonds (previously 5%), helping to lengthen FPD maturities and opening up space in the strategy for issuing sustainable bonds.
  - Introduction of average maturities by index group, providing for lengthening by group. This innovation helps in the debate on the tradeoffs between maturity and composition and improves the orientation of strategies.
- This debt profile should be pursued gradually over the long term (up to 2035), providing a guide for designing borrowing strategies.

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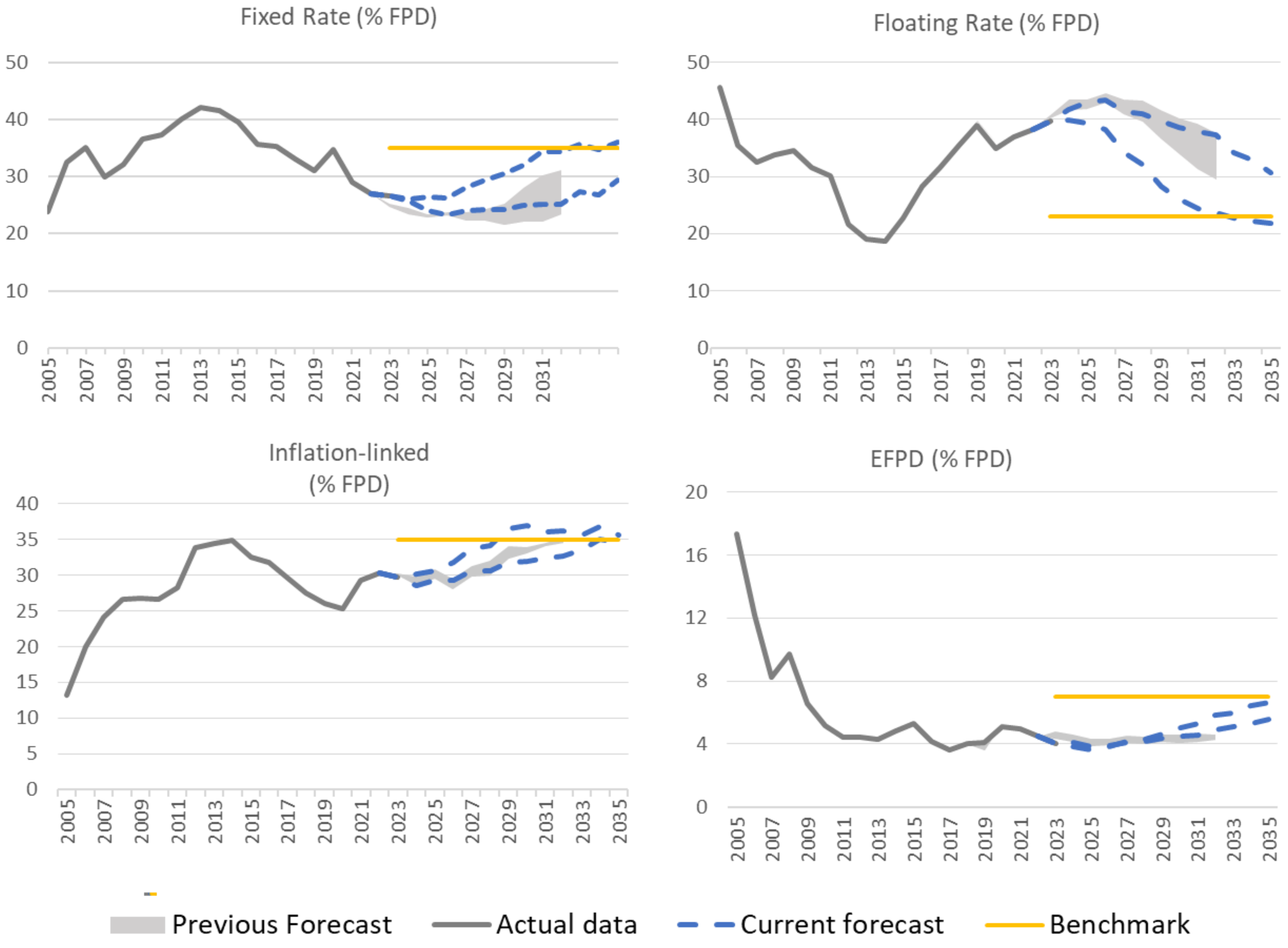
2024 ABP: expected results for FPD

Statistics	2023	Reference limits to 2024	
		Minimum	Maximum
Outstanding debt (BRL billion)			
FPD	6,520.3	7,000.0	7,400.0
Composition (%)			
Fixed rate	26.5	24.0	28.0
Inflation-linked	29.8	27.0	31.0
Floating rate	39.7	40.0	44.0
FX	4.1	3.0	7.0
Muturing structure			
% maturing 12 months	20.1	17.0	21.0
Average maturity (years)	4.0	3.8	4.2

Source: National Treasury

- Possibility of maintaining or increasing the share of fixed-rate securities
- Increase in the share of floating-rate debt
- Reduction in the percentage of FPD maturing in 12 months

Increased share of fixed-rate bonds should be gradually achieved in the medium term



- *Average maturity of the fixed-rate bonds is still low, compared to the other instruments*
- *Increased share of non-residents in the medium term will contribute to change in debt profile*

Source: National Treasury