



Brazilian Federal Public Debt Investor Presentation

November - 2018

Summary

- 1** **Macroeconomic Outlook**
- 2 Fiscal Performance
- 3 **Structural Reforms**
- 4 Subnational Governments
- 5 Public Debt in Details

Brazil



The largest economy in Latin America

8th largest **GDP** in the **world**
(USD 2.1 trillion in 2017)

5th largest **population**
(207 million in 2017)

5th largest country by **area**
(8,515,767 sq km)

6th **FDI** host economy (USD 70 bn in 2017)

GDP per capita **USD 9,896** (2017, current prices)

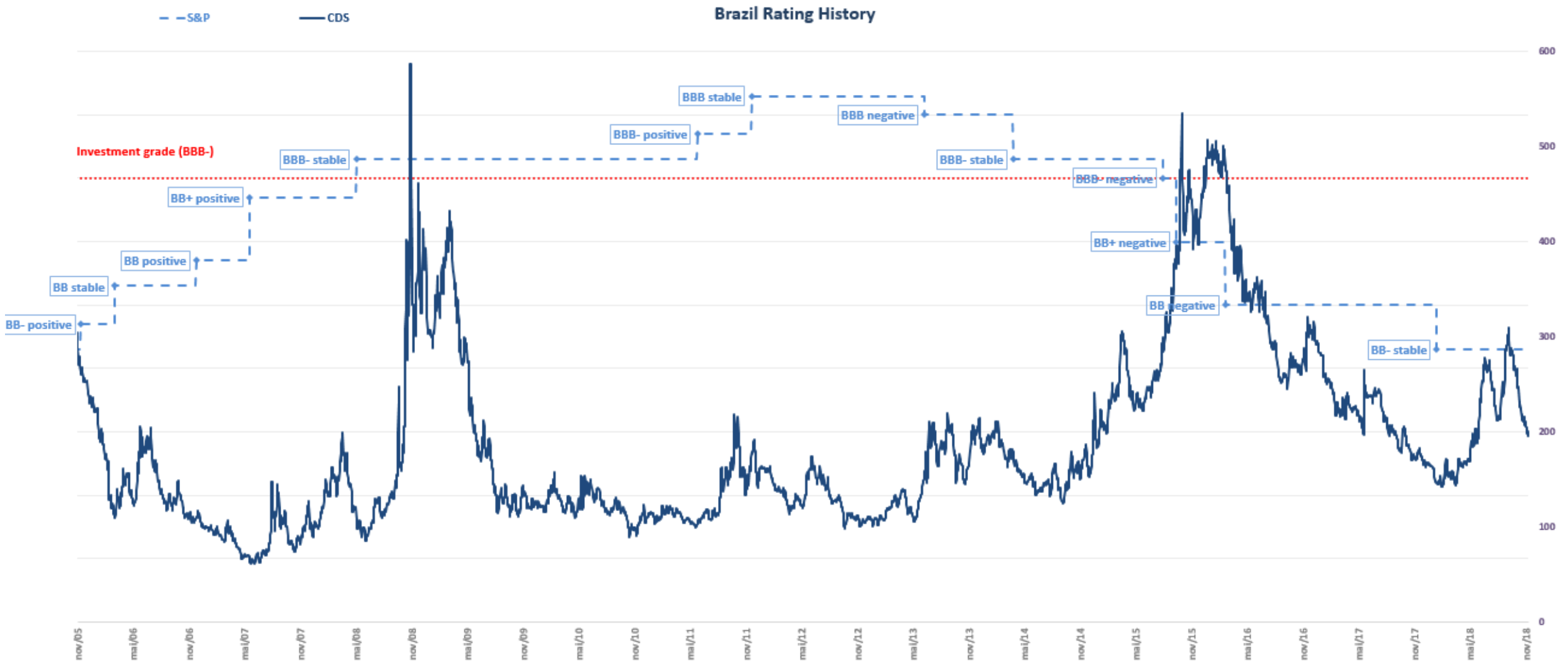
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Main Macroeconomic Figures and Market Expectations for 2018-2021

11/12/18	2016	2017	2018	2019	2020	2021
Real GDP growth (% YoY)	-3.50	1.01	1.36	2.50	2.50	2.50
Inflation - IPCA (% YoY)	6.38	2.95	4.23	4.21	4.00	3.95
CB Year-End Interest Rate (% YoY)	13.75	7.00	6.50	8.00	8.00	8.00
CB Average Interest Rate (% YoY)	14.18	10.15	6.53	7.09	8.00	8.00
Year-End Exchange Rate (BRL/USD)	3.38	3.34	3.70	3.76	3.78	3.86
Current Account Balance (USD billion)	-20.35	-9.76	-16.00	-28.00	-39.00	-47.90
Foreign Direct Investment (USD billion)	69.00	70.33	68.50	72.50	77.00	80.00
Primary Balance (% GDP)	-2.60	-2.30	-1.90	-1.50	-0.81	-0.03
Net Public Sector Debt (% GDP)	45.20	51.95	54.00	56.45	58.70	60.50
GGGD (% GDP)	69.95	74.00	77.00	78.65	81.00	82.50

Source: Central Bank. Projections FOCUS (November 9th, 2018), except for GGGD (Prisma - SPE).

Brazilian Sovereign Rating Performance and CDS



1

Monetary Policy

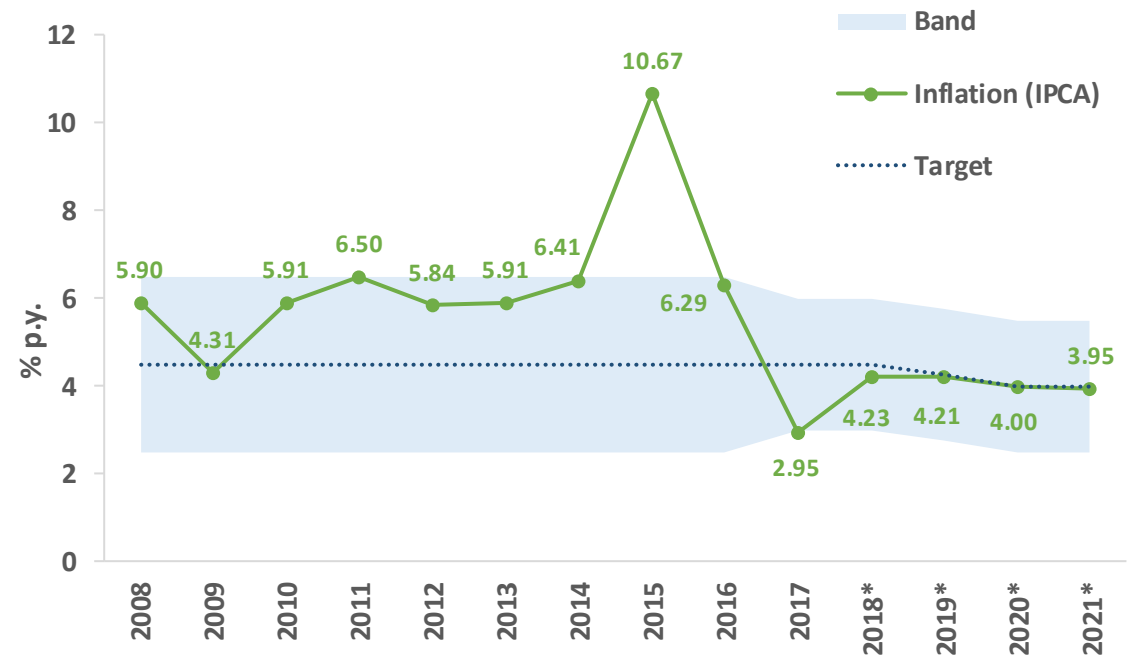
The inflation is converging to the target and expectations are anchored.



Source: National Treasury (November 9 th, 2018)

* For the real interest rate we use the long-term benchmarks of NTN-B (IPCA-linked bonds). The currently considered maturities are 2035 and 2055. For the nominal interest rate, the NTN-F 10-year benchmark is used. Currently due in 2029.

Trends on inflation and expectations



Source: IBGE (IPCA)

* Market forecasts: Central Bank (FOCUS – November 9th, 2018)

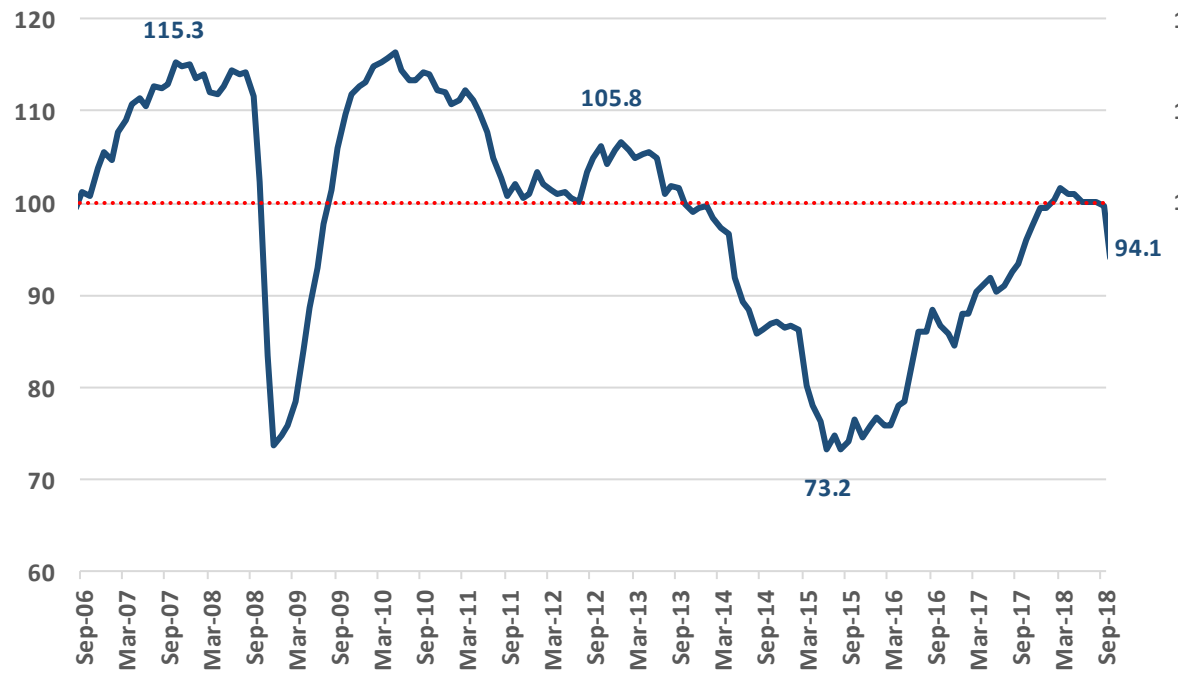
Long-term interest rate is responding to the price stabilization

1

Confidence has bounced back

Industrial Confidence Index

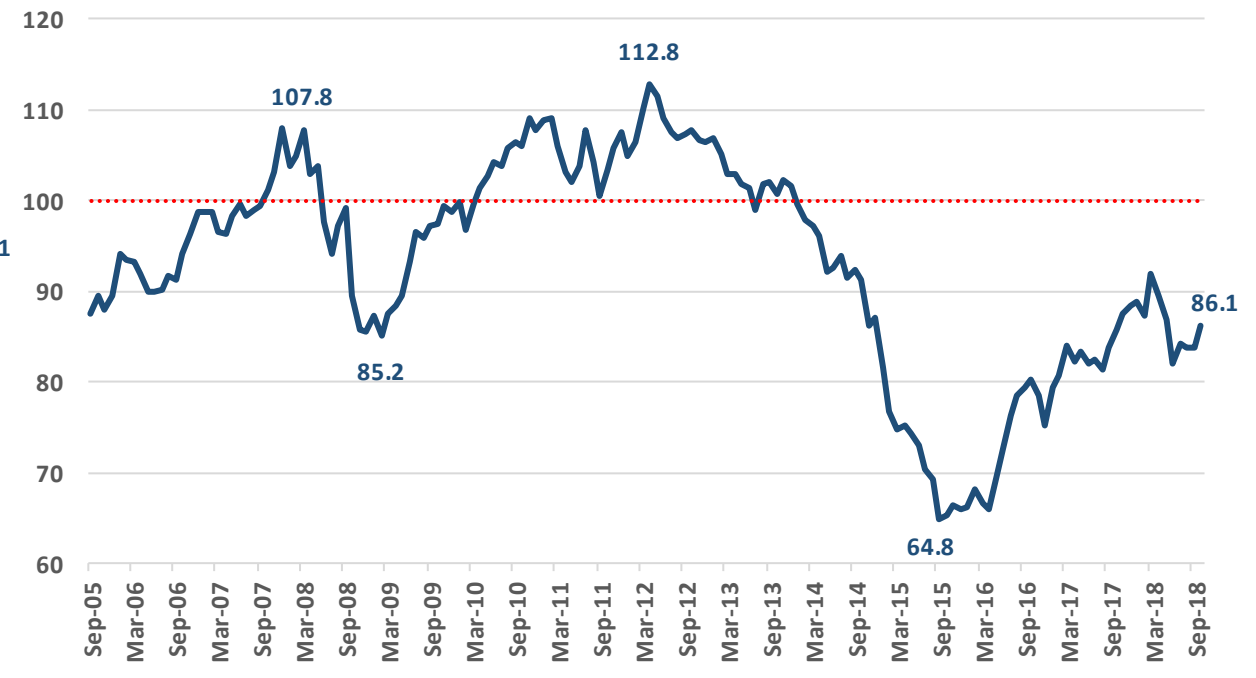
seasonally adjusted



Source: FGV (Oct)

Consumer Confidence Index

seasonally adjusted

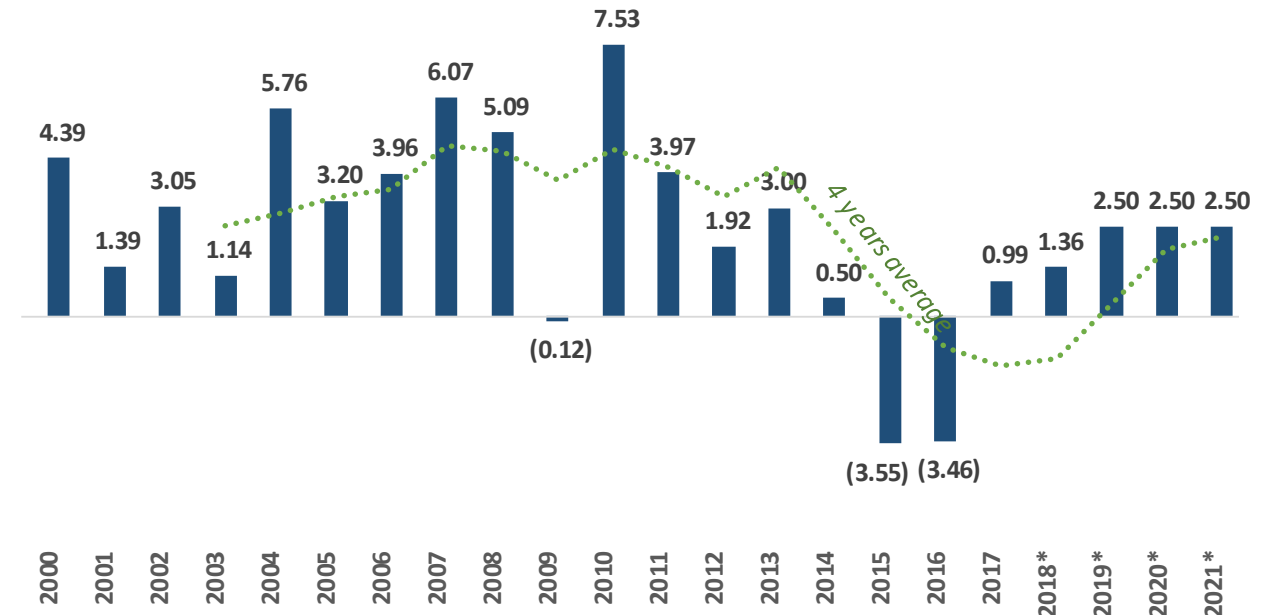


Source: FGV (Oct)

1 Market Expectations for 2018-2021

Growth is recovering since 2017 from the longest recession in our history

Real GDP Growth



Source: IBGE and Central Bank (FOCUS – November 9th, 2018).

* Market forecasts

Potential Growth

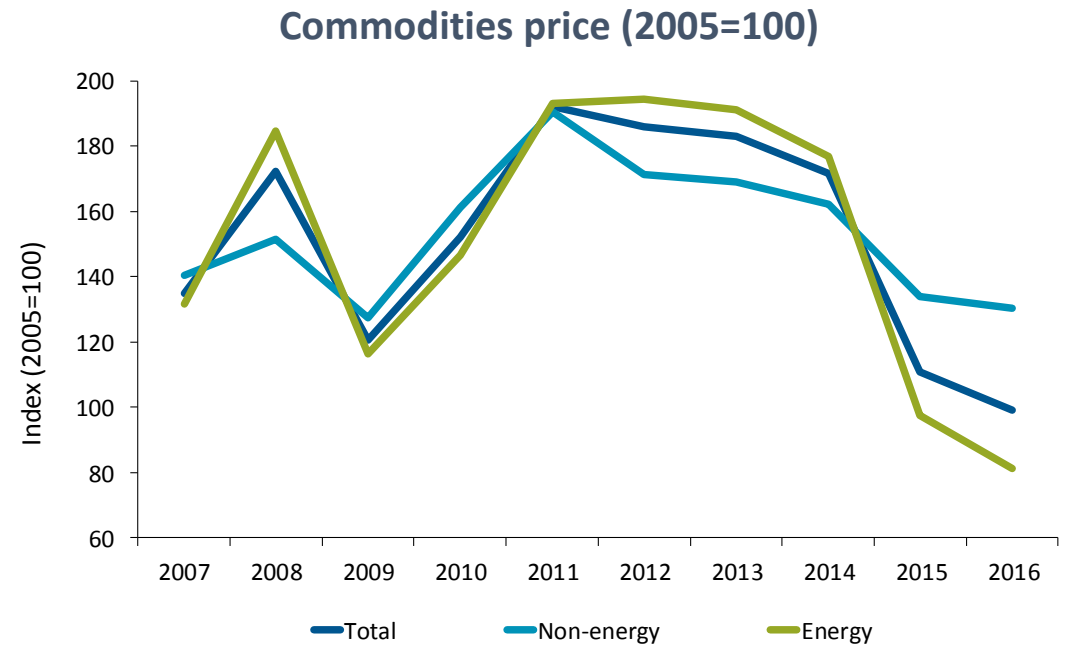
Scenario	(% GDP)
Growth over the last 20 years	3.3
Demographic and world growth effect (China)	-1.0
Potential GDP without reforms	2.3
Microeconomic reforms	+
Private sector crowding-in	+
Potential GDP with reforms	3,5-4,0

Source: Ministry of Finance (2017, July)

Agenda aiming to reduce government crowding-out effect and increase private sector investment crowding-in

1 FX-rate realignment and current deficit adjustment

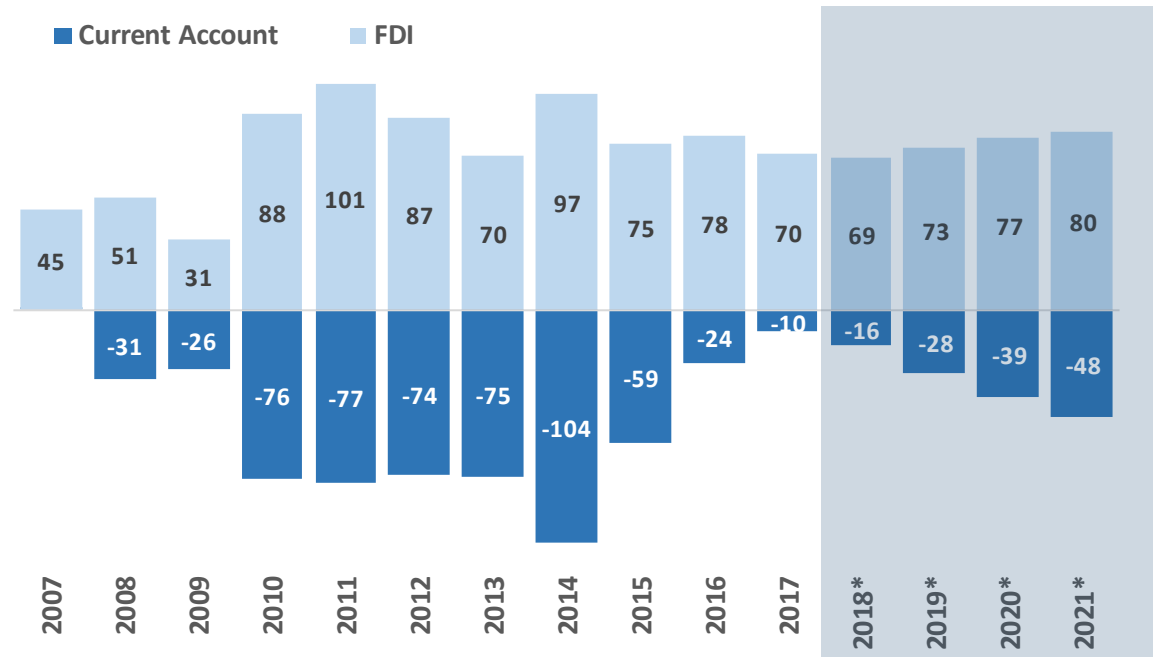
Despite the end of the commodities cycle, current account deficits have been fully financed by the flows of Foreign Direct Investment (FDI)



Source: IMF, 2017

It highlights the importance of attracting foreign capital for the consequent increase in domestic savings

Current Account Balance x FDI (USD bn)



Source: Central Bank (FOCUS – November 9th, 2018)

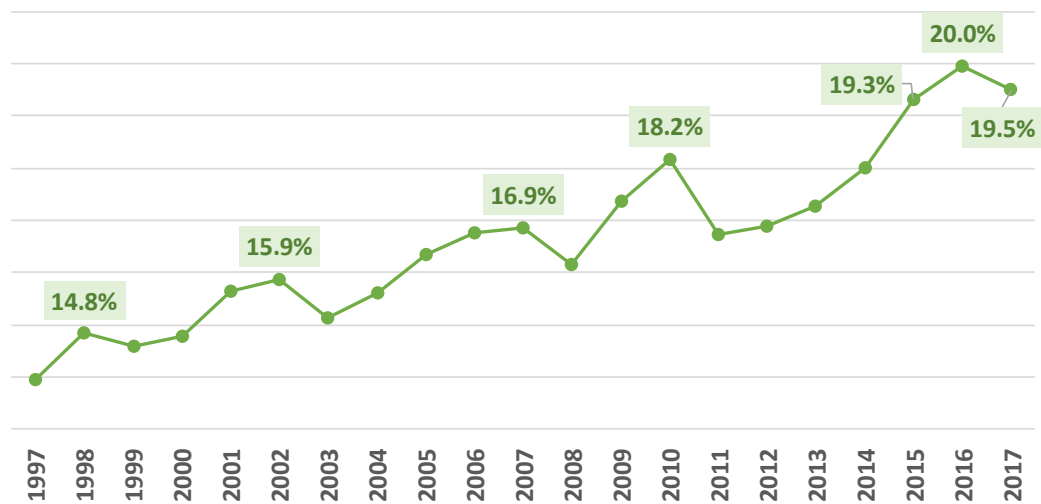
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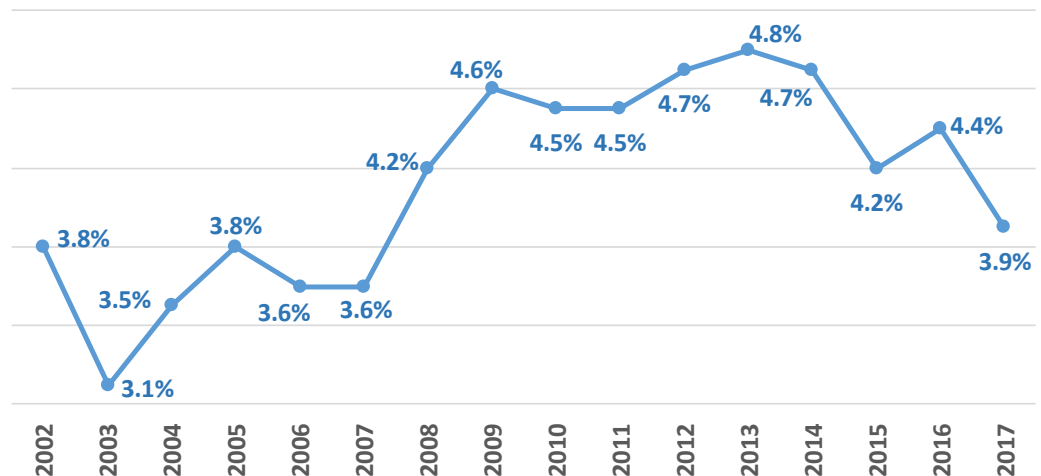
Historical Expenditure Dynamics

Primary Spending (% GDP)



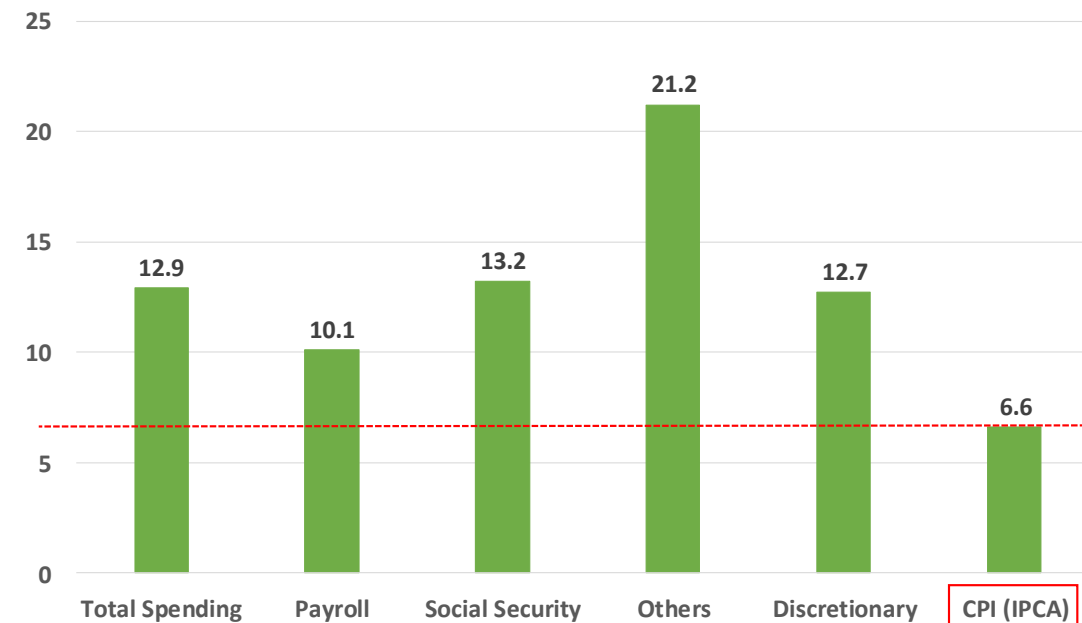
Source: National Treasury

Discretionary Spending (% GDP)



Source: National Treasury

Average Growth of Spending and Inflation % 1998-2015



Source: National Treasury

The primary spending, mostly mandatory, showed a persistent upward trend during the past years

From 1998 to 2015, the average growth of government spending exceeded the average inflation of the period.

Although discretionary spending has been reduced, this fiscal effort has been insufficient to curb the dynamics of total spending.

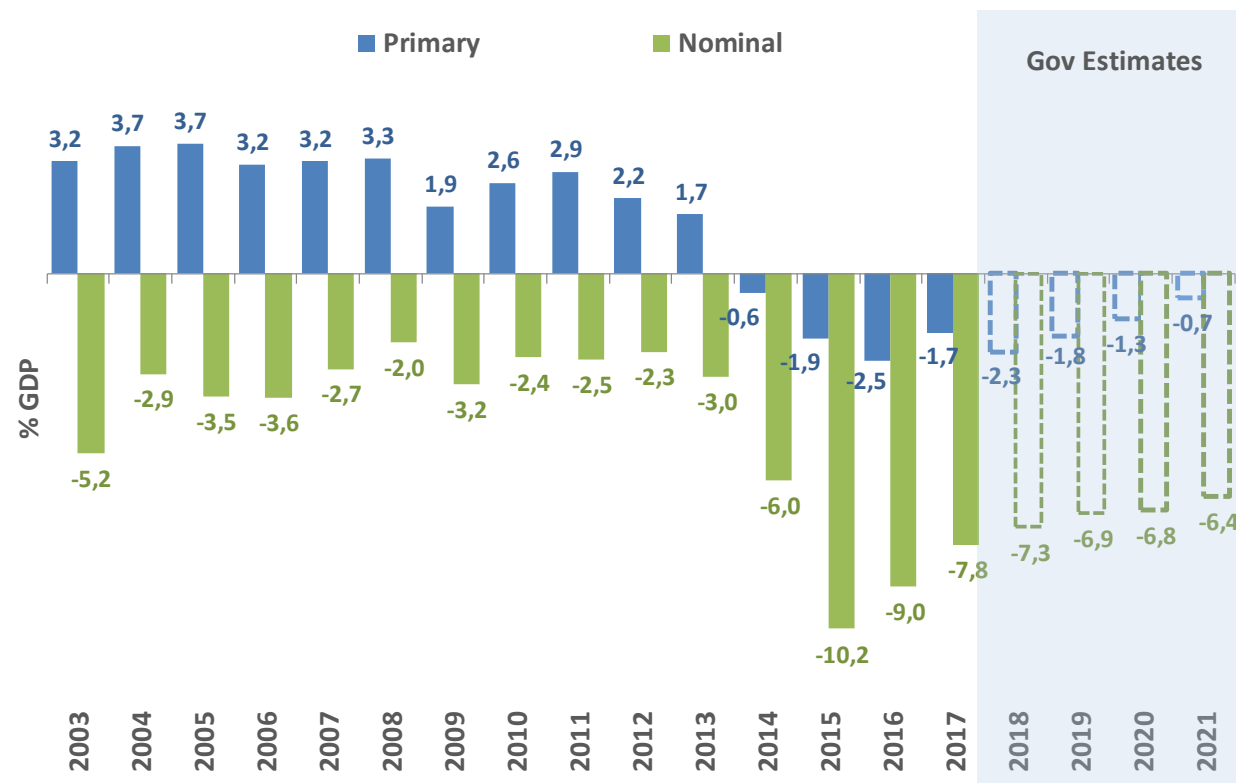
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Fiscal trend

Budget rigidity and lack of reform coupled with unfavorable business cycle led to fiscal deficit.

In 2017, the private social security deficit (INSS) was of BRL 182.4 bn representing 165% of the public sector deficit (BRL 110.6 bn).

The current reforms (detailed on the following slides) contribute to revert the trend for the fiscal balance



Source: Central Bank

Projections: 2019 Budgetary Guidelines Law (PLDO)

	2017		2018		2019		2020		2021	
	BRL bn	% GDP	BRL bn	% GDP	BRL bn	% GDP	BRL bn	% GDP	BRL bn	% GDP
Primary Balance										
Central Government	-118,5	-1,81	-159	-2,3	-139	-1,9	-110	-1,4	-70	-0,8
Subnational Government	7,5	0,11	1,2	0	10,5	0,1	14	0,2	17,5	0,2
State-owned companies	0,3	0,01	-3,5	-0,1	-3,5	0	-3,7	0	-4	0
Public Sector	-110,6	-1,69	-161,3	-2,3	-132	-1,8	-99,7	-1,3	-56,5	-0,7

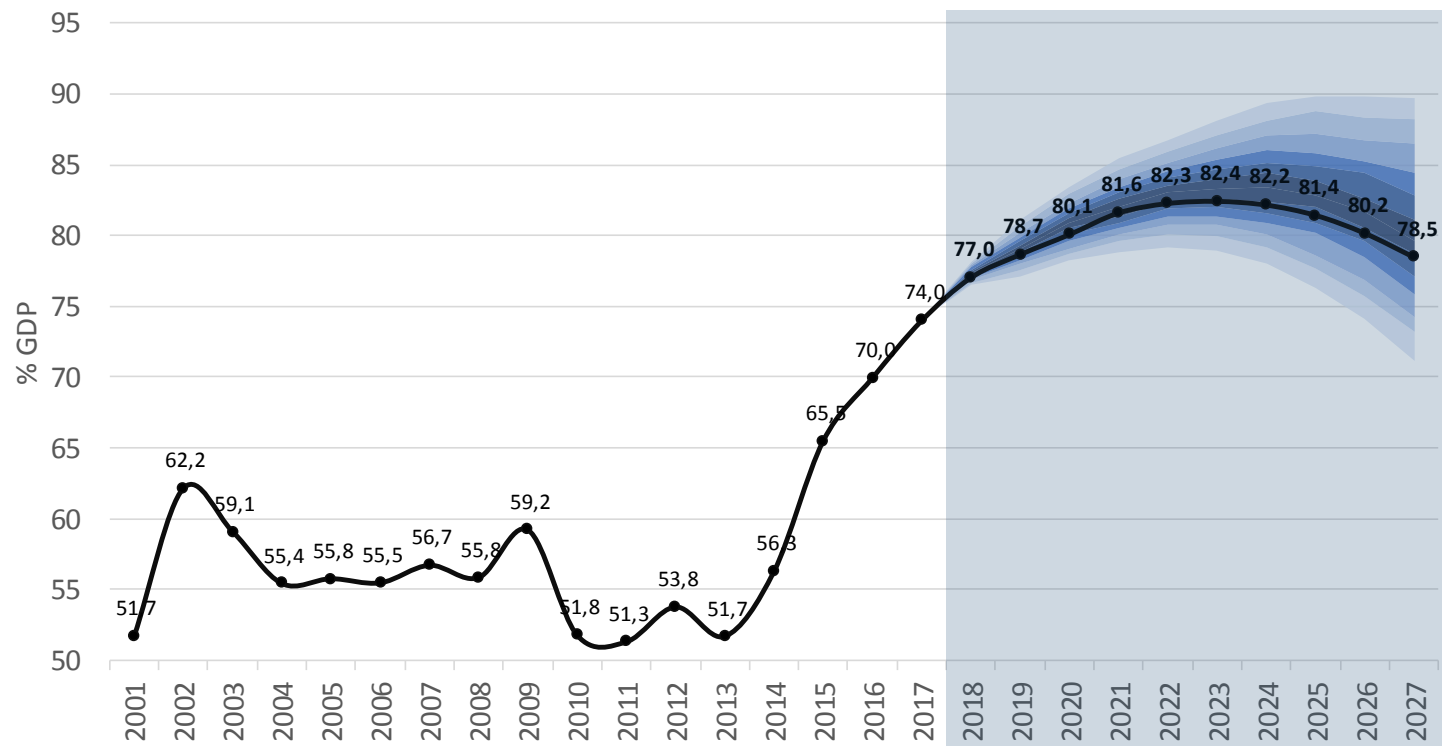
Source: 2019 Budgetary Guidelines Law (PLDO)

The projections are made based in a real GDP growth of 1.6% in 2018, 3.0% in 2019, 2.4% in 2020 and 2.3% in 2021

2

Debt Sustainability Analysis

GG Gross Debt



Source: Central Bank Forecasts: National Treasury

BNDES prepayment

Paid:

2015: BRL 30,5 bn
 2016: BRL 100 bn
 2017: BRL 50 bn
 2018: BRL 130 bn
 (BRL 30bn paid in March, BRL 30bn in June and BRL 70 bn in August)

The BNDES prepayments reduce the Gross Debt by the same magnitude of the settled amount.

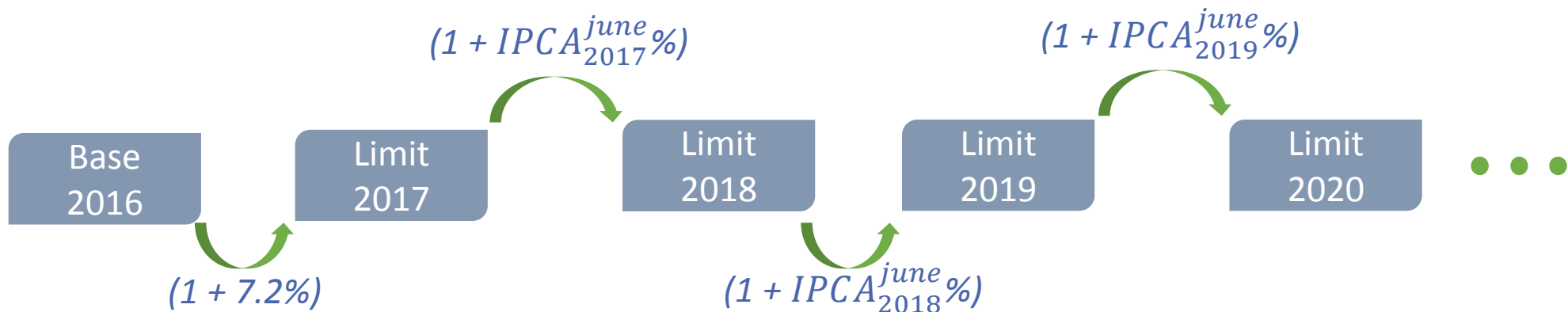
Between 2015 and 2018, BNDES will have made a prepayment to the National Treasury of BRL 310 billion, **reducing Gross Debt by 5.0% of GDP.**

The forecast for Gross Debt is sensitive to the degree of approval of the reforms under discussion in the National Congress.

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3 Spending Cap – limits the growth of public spending to the inflation, for the next 20 years



The inflation correction refers to the previous 12-month period

The Spending Cap rule starts off with a minimum spending on health and education. For 2017, these expenditures followed the previous rule (15% for Health and 18% of current net revenues). In 2018 the general rule applies to all expenditures.

Health and Education have represented 8.7% and 4.3%, respectively of the total expenditures subject to the cap in 2016.

Penalties for not complying with the cap include the prohibition to grant adjustments to civil servants wage, hire new personnel or to create additional expenditures on the budgetary process.

There are a few exceptions to expenditures that are subject to the cap that add to about 5% of the total spending:

- The regular federative transfers set by default on the Constitution referring to tax sharing;
- Transfers from taxes on water, oil, natural gas and mineral resources exploration;
- Federal District Constitutional Fund;
- Exceptional additional spending to face emergency unforeseen expenditures;
- Electoral Fund
- Capital increases in budget-independent state-owned enterprises

3 Spending Cap should anchor the fiscal policy

Goals of the Spending Cap:

- Ensure that federal public expenditures return to the 2008 levels
- Reduce the tax burden
- Reduce the level of public debt and interest payments
- Represent a reference of medium-term fiscal planning
- Increase the transparency in budget discussions
- Expand discussion about the best spending profile 16,2%
- Foster debate on further structural reforms

% of the spending cap reached

Total Expenditure in 2017

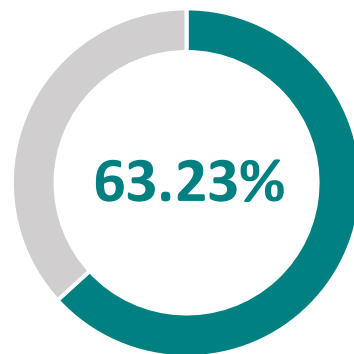
BRL 1,258.94 bn

Limit for 2018

BRL 1,347.88 bn

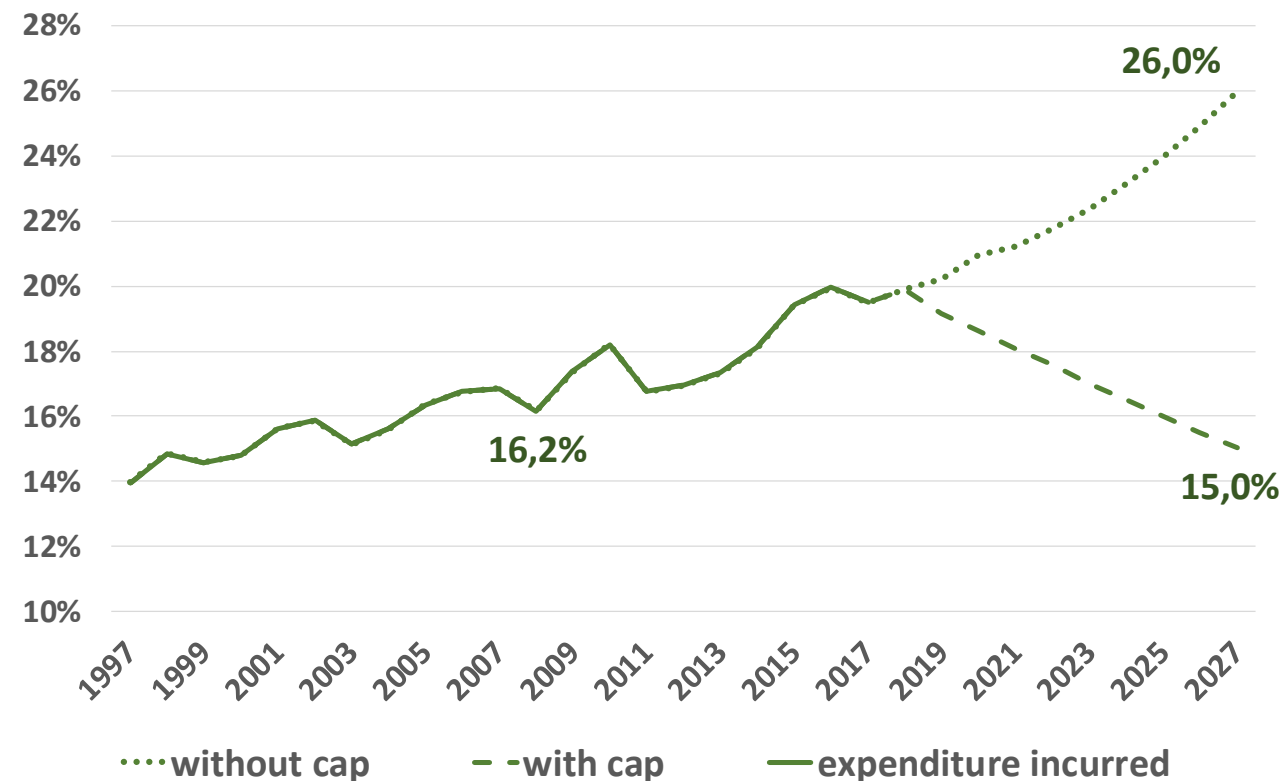
Spending in 2018

BRL 852.27 bn



Source: National Treasury - RTN

Projection of Primary Expenditures with and without Expenditures Cap (% GDP)



Source: National Treasury

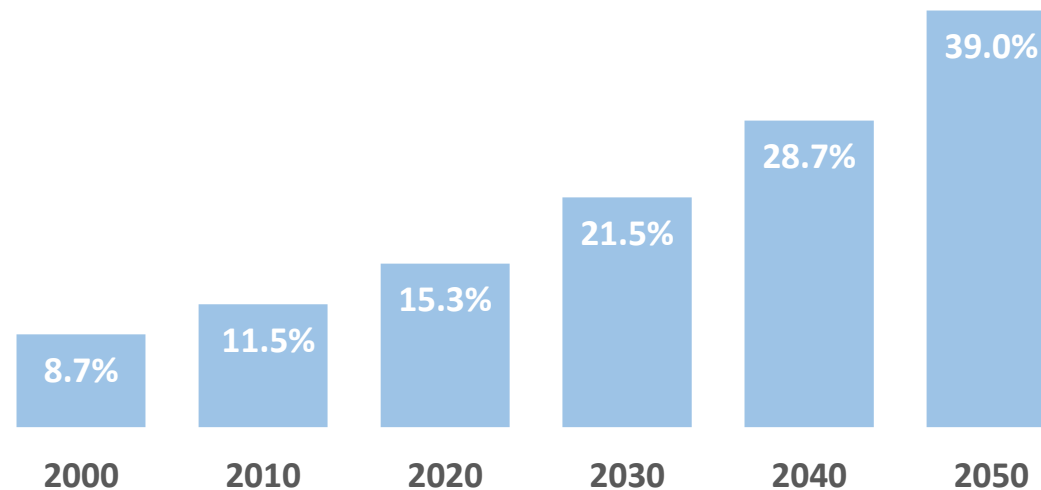
3 Social Security Reform - Justifications

- Reduction in fertility rate
- Increase in the expectation of survival at 65 years old
- Increase in the share of elderly in the total population



Brazilian demographic transition indicates unsustainability of social security spending under current rules

Ratio between population aged 65+ and 15-64 years old



Source: IBGE

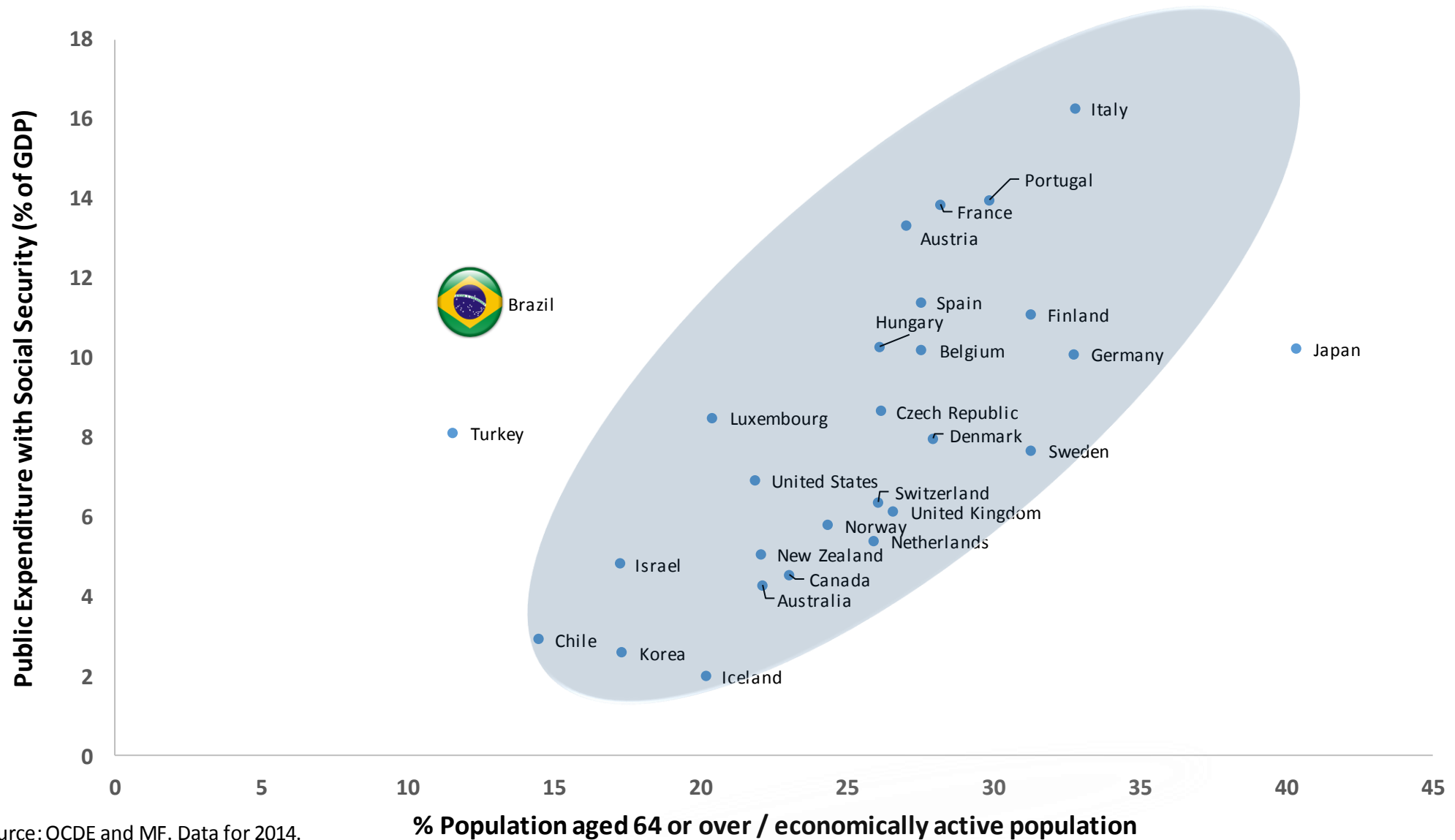
In 2015, 8 people worked for every person aged 65 years and older



In 2040, 4 people will work for each person aged 65 years and older



3 Welfare Expenditures - International Comparison



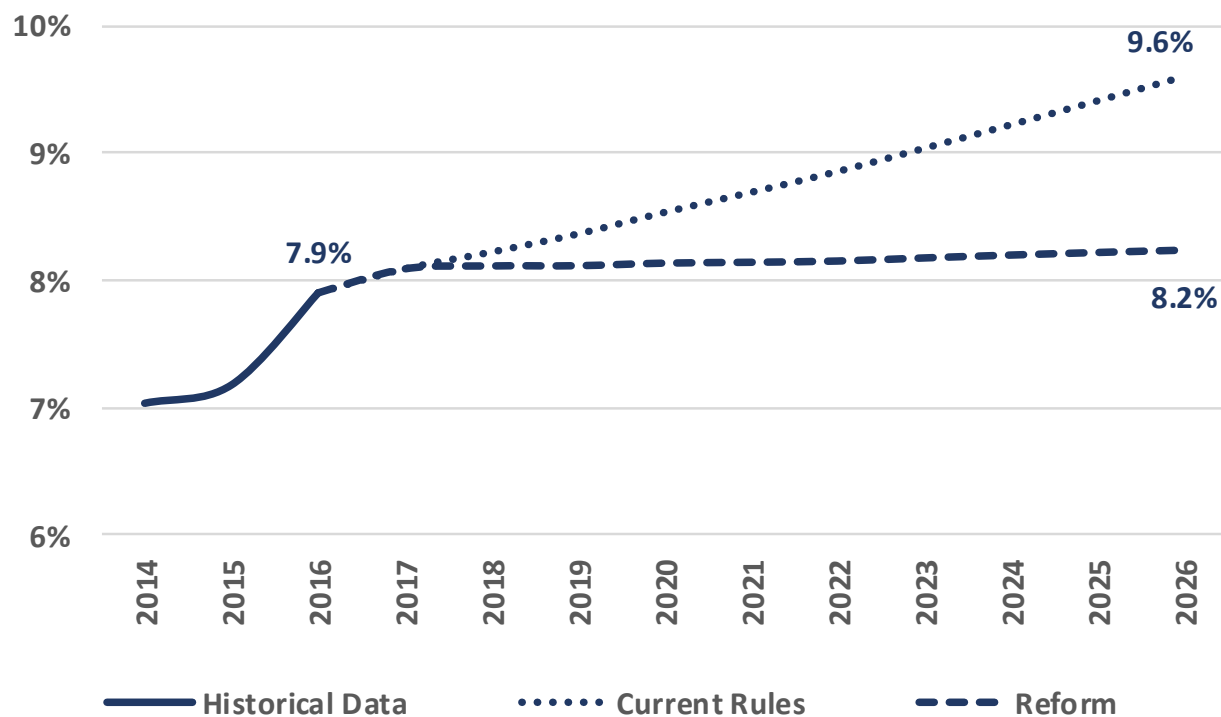
Source: OCDE and MF. Data for 2014.

3 Social Security Reform - Key Features and Positive Impacts

The proposed social security reform aims to reach a stable spending over the next ten years for private sector and a declining rate for public sector.

Social security reform savings could reach up to BRL 604 billion.

Evolution of social security expenses for private sector
(% GDP)



3 Structural reforms will increase the Brazil's productivity

Modernize Labor Legislation

- ✓ Labor Reform – Law 13467/17 (approved in July/17)
 - Collective agreements will prevail over law provisions
 - Temporary work contracts maximum period will go from 3 to 8 months
 - Creates the category of intermittent employment contracts
- ✓ Outsourcing law – Law 13429/17 (approved in May/17): lifts outsourcing restrictions

Credit Market Improvements

- ✓ Creation of Mortgage-backed security (LIG), a covered bond
- ✓ Electronic receivables system
 - Streamline Credit-Worthiness Register
 - Reform of the Bankruptcy law
- ✓ New benchmark for BNDES interest rate (TLP)

Simplification Tax System

- Federal taxes simplification (IPI and PIS-Cofins)
- Includes a series of IT system improvements to reduce red-tape costs

Energy Sector Reform

- Electric Power Sector
 - Regulatory framework revision
 - Eletrobras privatization
 - Privatization of 11 transmission lines
 - ✓ Privatization of 4 hydropower plants previously operated by CEMIG, for BRL 12 bn (done in September/17)
- Oil and gas sector
 - ✓ Public bids for exploratory oil blocks, with a total collection of BRL 3.8 bn (done in September/17)
 - ✓ Petrobras no longer holds exclusive rights over pre-salt exploitation
 - ✓ New policy: permanent offer and local content requirements reduction
 - ✓ Waiver resolution

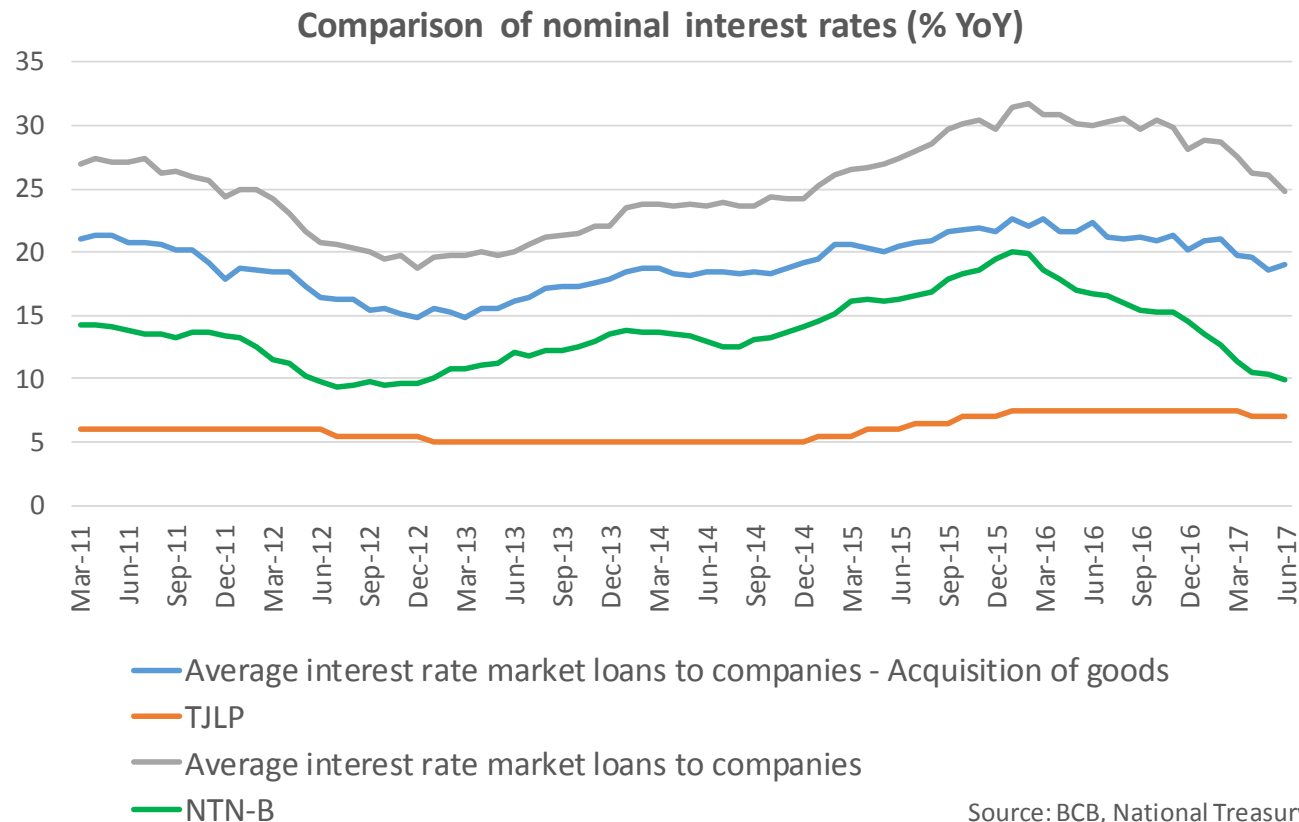
Other concessions and privatizations

- 14 airports
- 2 state highways
- 16 ports
- Lotteries, Airport Administration

3 TLP - the new benchmark long term interest rate

Congress approved the Federal Gov't reform on the benchmark rate for National Development Bank – BNDES:

- Reduces implicit subsidies
- Increases efficiency of the financed projects
- Enhances monetary policy effectiveness and potentially lowers overall interest rate
- Lower interest rates should widen the access to credit market
- Incentives to access credit persist:
 - NTN-B interest rate lower than interest rate market loans to companies
 - NTN-B interest rate in declining trend



Source: BCB, National Treasury

Summary

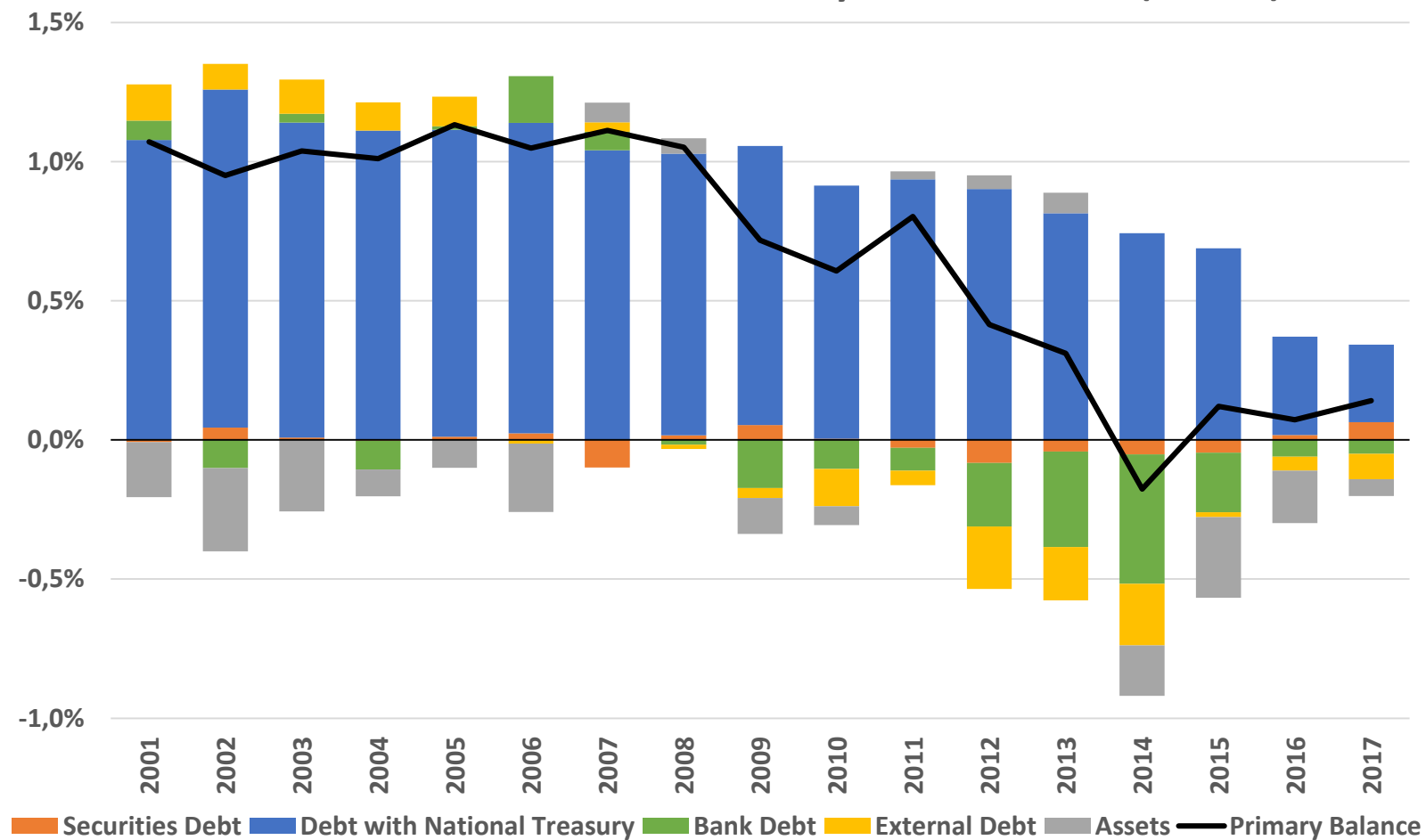
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Subnational Gov't Debt Restructuring

Economic downturn, fall in tax revenues and spending rigidities had a strong impact on the fiscal performance of regional governments

Subnational Gov't Primary Balance Profile (% GDP)



* Securities Debt includes debentures

Source: Central Bank. Graph: National Treasury

4

Subnational Gov't Debt Restructuring

Relief measures affect neither the National Treasury loans net worth nor the Federal primary balance

	Law 156/16 - approved last December	Special Recovery Regime Law 159/17 – approved in May
Benefit	20 year lengthening on federal debt and a 6 months grace period	Debt Rescheduling: grace period for 3 years; possibility on new loans if guarantees provided
Eligibility Criteria	Applies to all states willing to accept compensating measures	Net revenues < Debt Personnel expenditures and debt service > 70% of net current revenue Liability stock > cash position
Compensating Measures	24-month primary spending freeze Comply with new more strict accounting rules	Privatization program Reduction of tax benefits Freezing wages Prohibition on hiring additional civil servants
Impact on payment flows to the Federal Government	BRL 20 bn in 2017 BRL 50 bn in total	Estimated only for RJ, MG and RS: BRL 7 bn in 2017 BRL 37 bn until 2019

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Annual Borrowing Plan

Objective of Federal Public Debt Management

To provide federal government borrowing requirements efficiently and at the lowest long-term cost, respecting the maintenance of prudent risk levels and, additionally, seeking to contribute for the smooth operation of the Brazilian government bond market

Guidelines of Federal Public Debt Management

- Gradually replacing floating rate bonds with fixed rate and inflation-linked instruments
- Consolidating the current share of exchange rate-linked instruments, in accordance with their long-term indicative intervals
- Smoothing of the maturity structure, with special attention to debt maturing in the short term
- Lengthening the average maturity of outstanding debt
- Developing interest rate term structure on both domestic and external markets
- Increasing the liquidity of federal government bonds on the secondary market
- Broadening of the investor base
- Improving the External Federal Public Debt (EFPD) profile by means of issuances of benchmark bonds, buyback, and structured operations

5

Federal Public Debt (FPD) Statistics

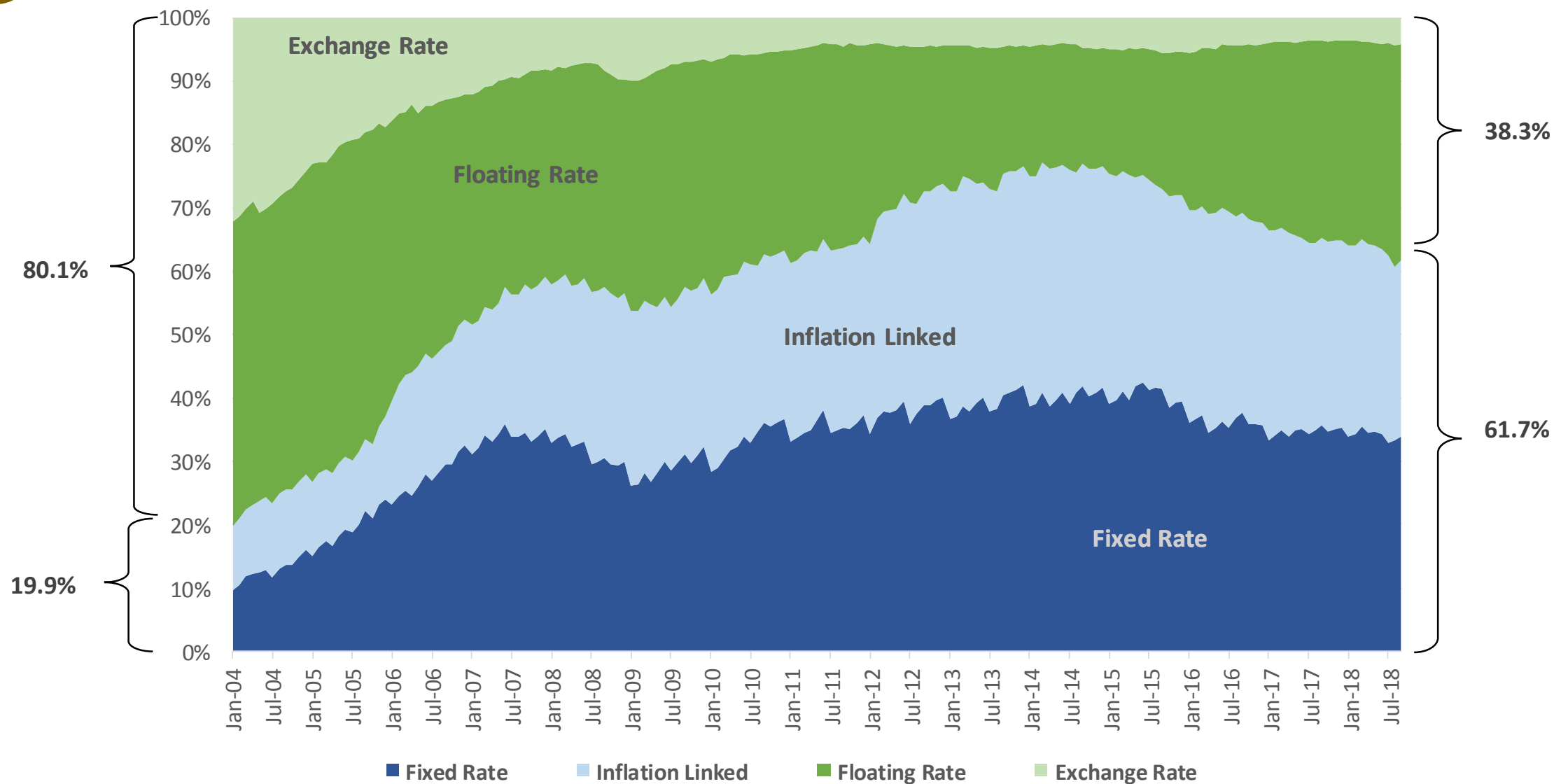
Indicators	2017	Sep-18	ABP 2018 Review		Long Term Limits	
			Minimum	Maximum	Reference	Range
Stock of FPD* held by the public (BRL Billion)						
	3,559.27	3,779.48	3,780.00	3,980.00	-	-
FPD Profile (%)						
Fixed Rate	35.30	33.88	32.00	36.00	40.00	+/- 2.0
Inflation Linked	29.60	27.84	27.00	31.00	35.00	+/- 2.0
Floating Rate	31.50	34.08	33.00	37.00	20.00	+/- 2.0
FX	3.59	4.21	3.00	7.00	5.00	+/- 2.0
FPD Maturity Structure						
Percentage Maturing in 12 Months (%)	16.90	16.28	15.00	18.00	20.00	+/- 2.0
Average Maturity (years)	4.31	4.23	4.00	4.20	5.5	+/- 0.5
Average Life (years)	5.90	5.82	-	-	-	-

*Includes domestic (BRL 3.628.36 billion - Sep/18) and external debt (BRL 151.12 billion - Sep/18) managed by the National Treasury.

Source: National Treasury (Annual Borrowing Plan 2018 and Monthly Debt Report)

5

Improving Public Debt Composition – Moving towards Fixed Rate + Inflation Linked

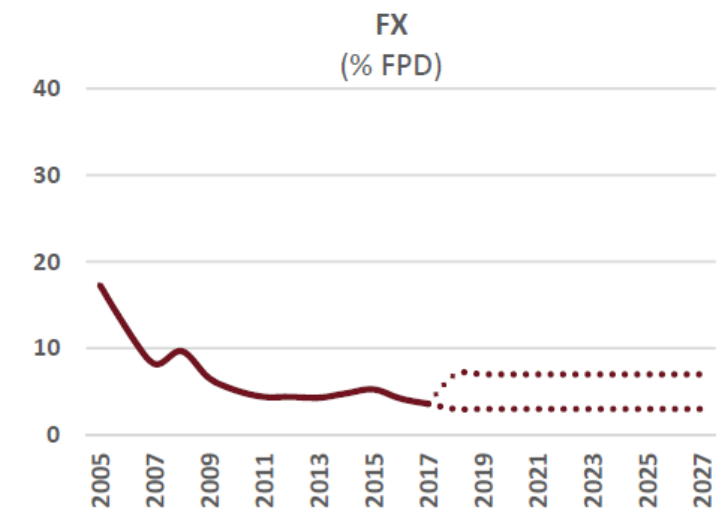
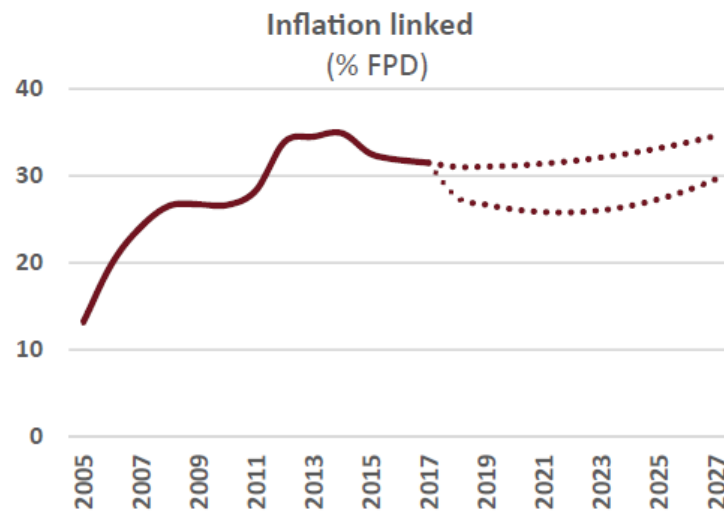
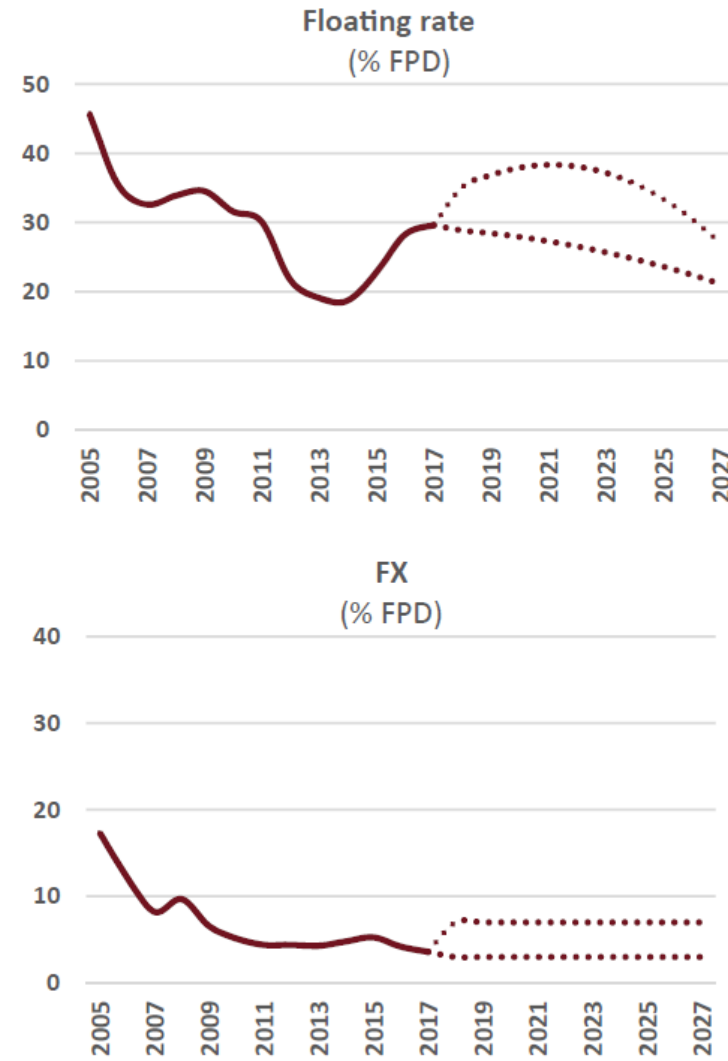
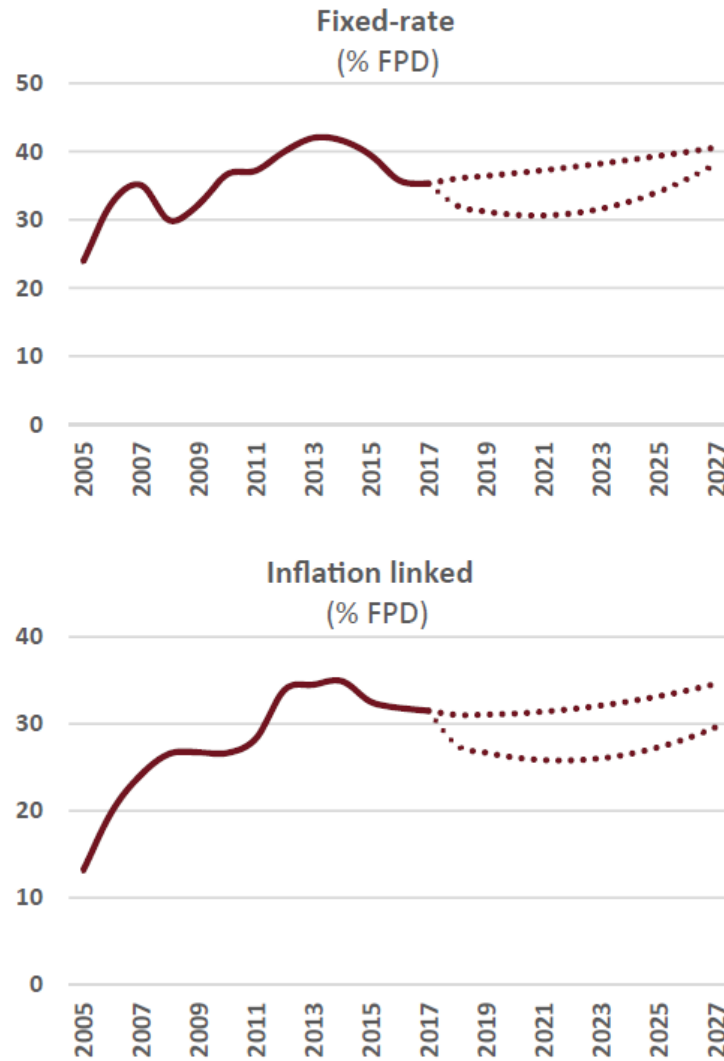


Source: National Treasury

Note1: Federal Public Debt, which includes both domestic and external liabilities.

Note2: FPD statistics can be accessed <https://www.tesouro.fazenda.gov.br/en/monthly-debt-report>.

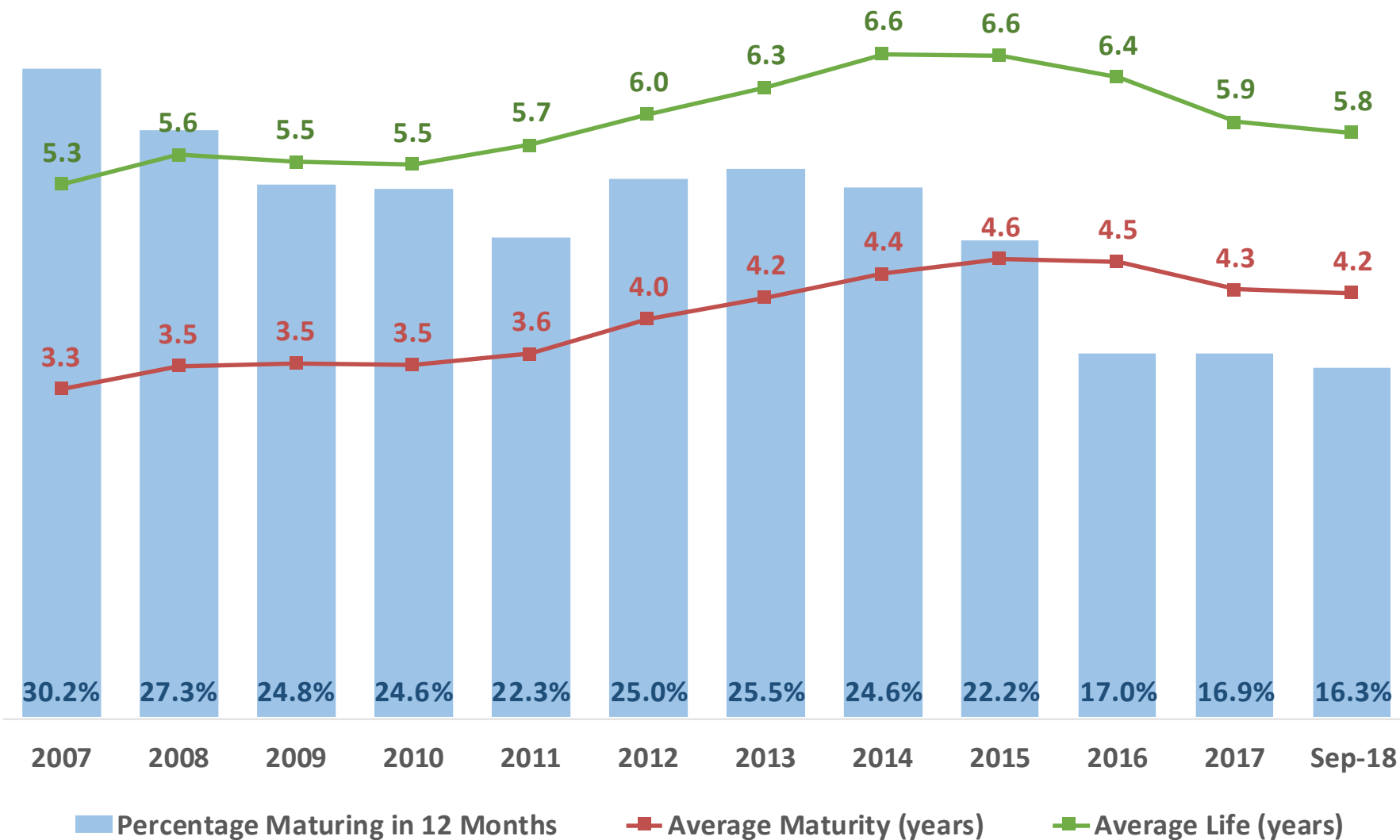
5 FPD Composition in the medium-term



Source: National Treasury (Annual Borrowing Plan 2018)

The paths indicate how the National Treasury can conduct its financing strategy, depending on the country's macroeconomic and financial conditions.

5 Improving Public Debt Maturity Structure

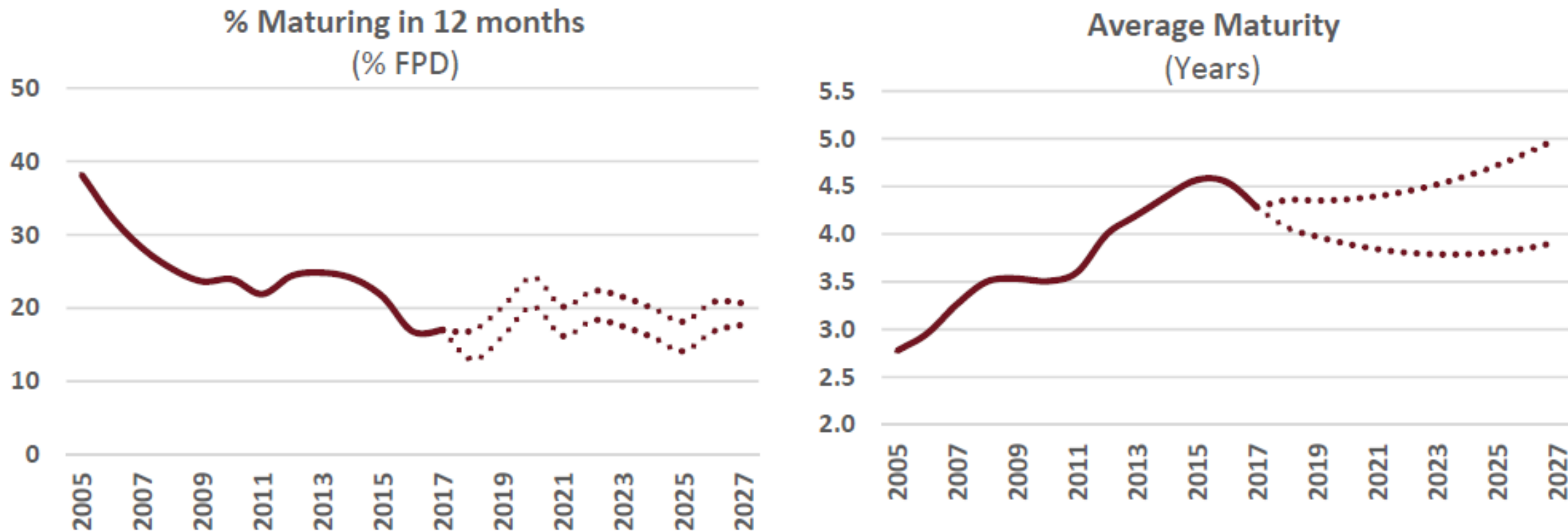


Source: National Treasury

Note: FPD statistics can be accessed https://www.tesouro.fazenda.gov.br/en/monthly-debt-report_.

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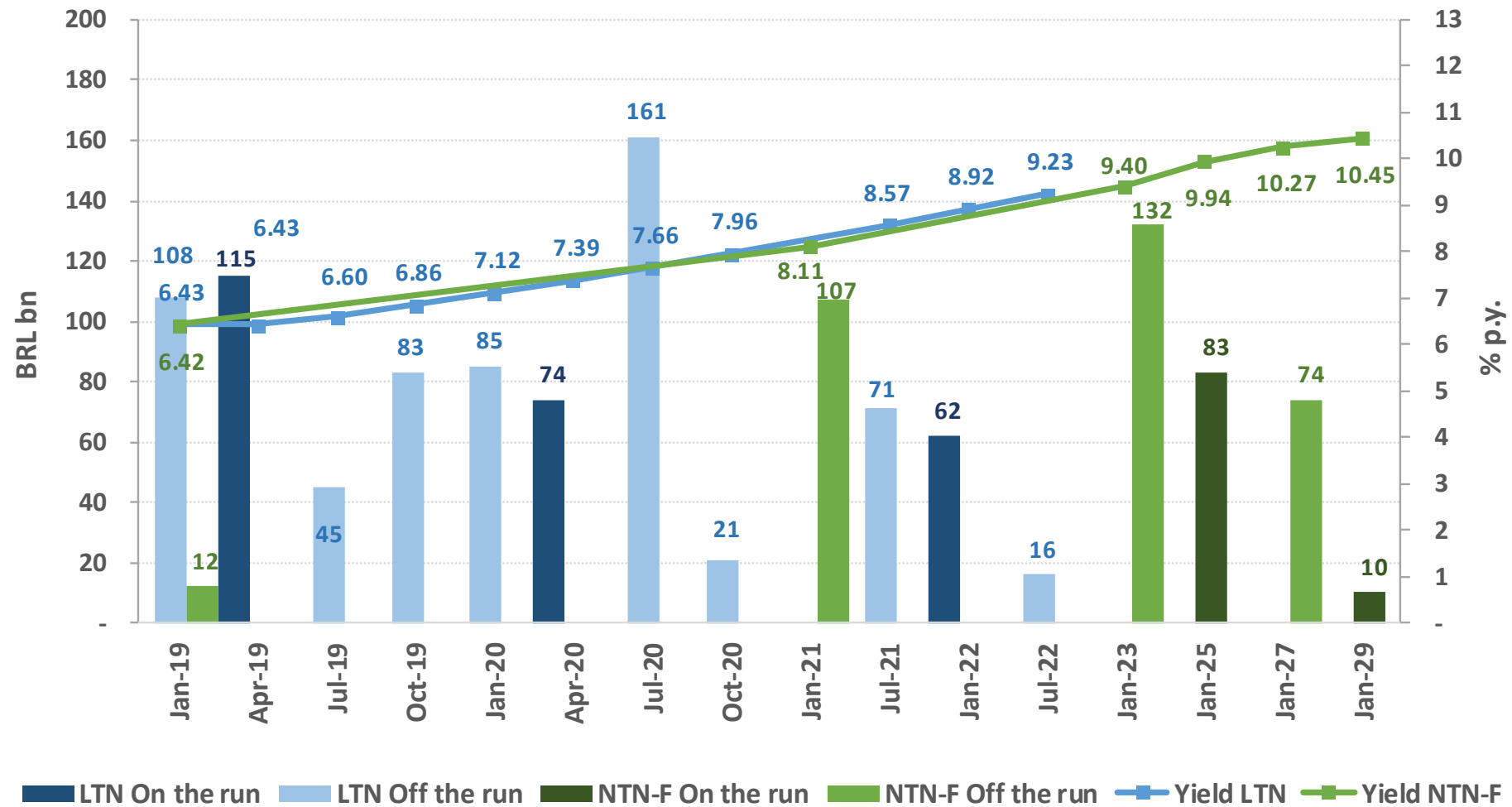
FPD Maturity Structure Statistics in the Medium-term



Source: National Treasury (Annual Borrowing Plan 2018)

The process of resumption of convergence to the optimal long-term guidelines is directly linked to the pace at which fiscal balance results are strengthened, economic agents confidence improves and economic growth is resumed.

5 Outstanding and Yields: Fixed rate bonds

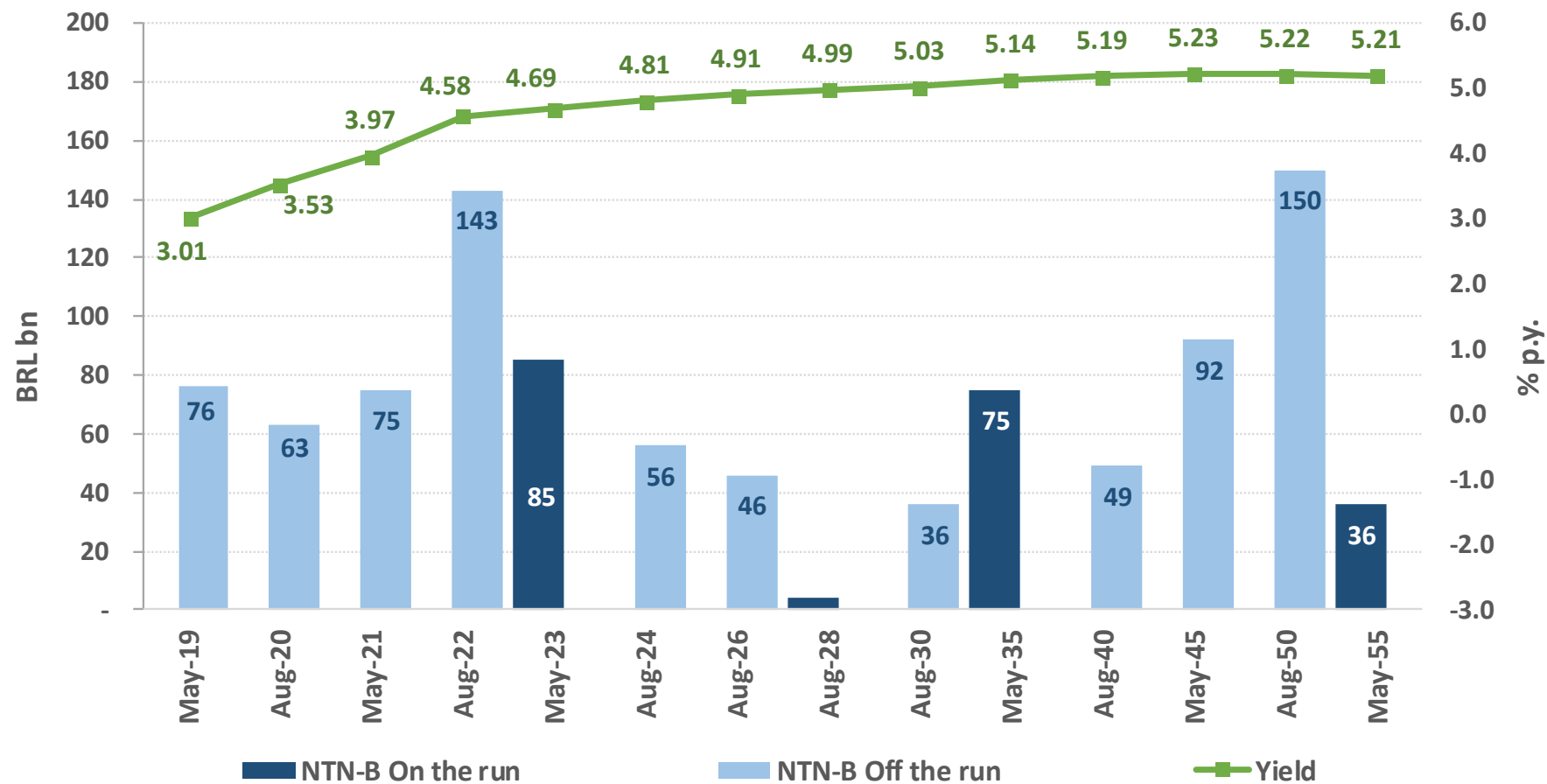


Source: Anbima and National Treasury (November 9th, 2018)

Note: The yield of the NTN-F is based on the 252-d standard.

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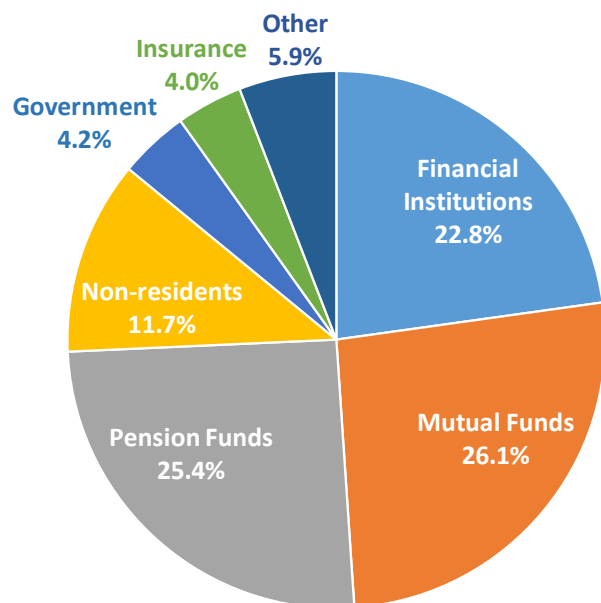
Outstanding and Yields: NTN-B



Source: Anbima and National Treasury (November 9th, 2018)

5 Domestic Federal Public Debt (DFPD) - Holders

Holder (Sep/18)



Source: National Treasury

Note1: FPD statistics can be accessed

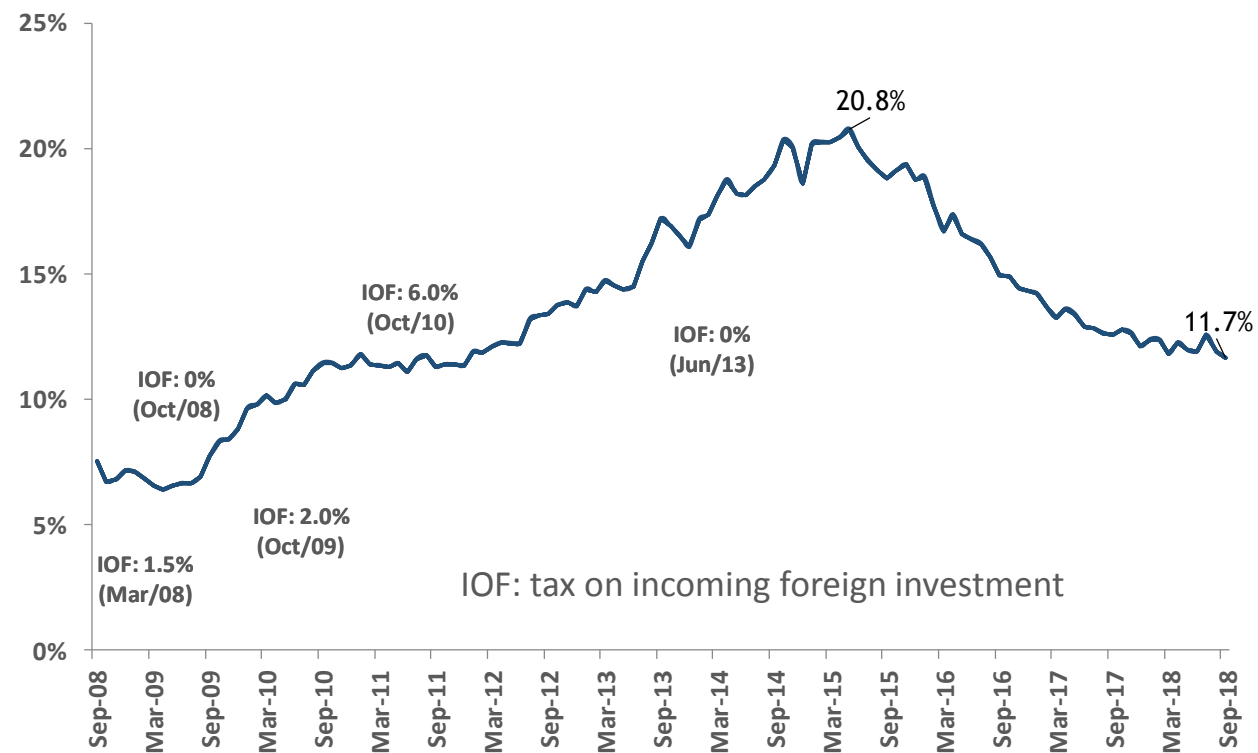
<https://www.tesouro.fazenda.gov.br/en/monthly-debt-report>.

Note2: "Pension Funds" includes both open and closed pension funds.

"Government" comprises funds that are managed by the public sector, including those whose assets are not public.

Investor base is diversified, which contributes to the reduction of risks associated with the DPF.

Share of Non-Residents (Sep /18)



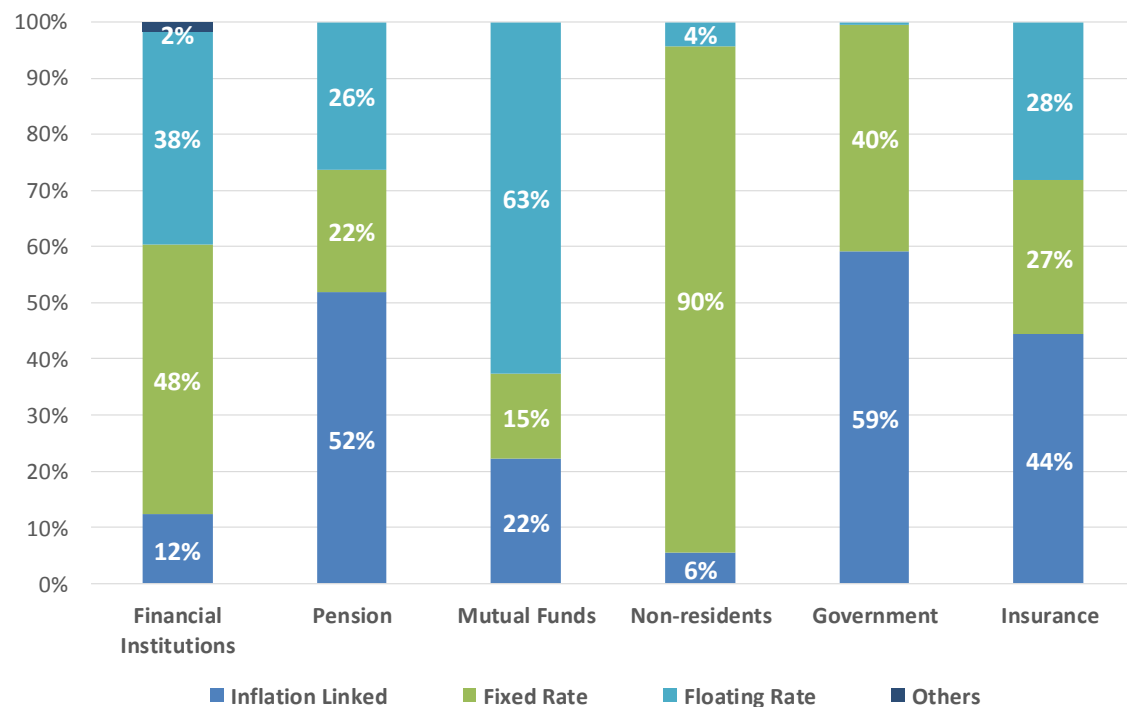
Source: National Treasury

Note: FPD statistics can be accessed

<https://www.tesouro.fazenda.gov.br/en/monthly-debt-report>.

5 Domestic Federal Public Debt (DFPD) - Holders

By Security Type (Sep /18)



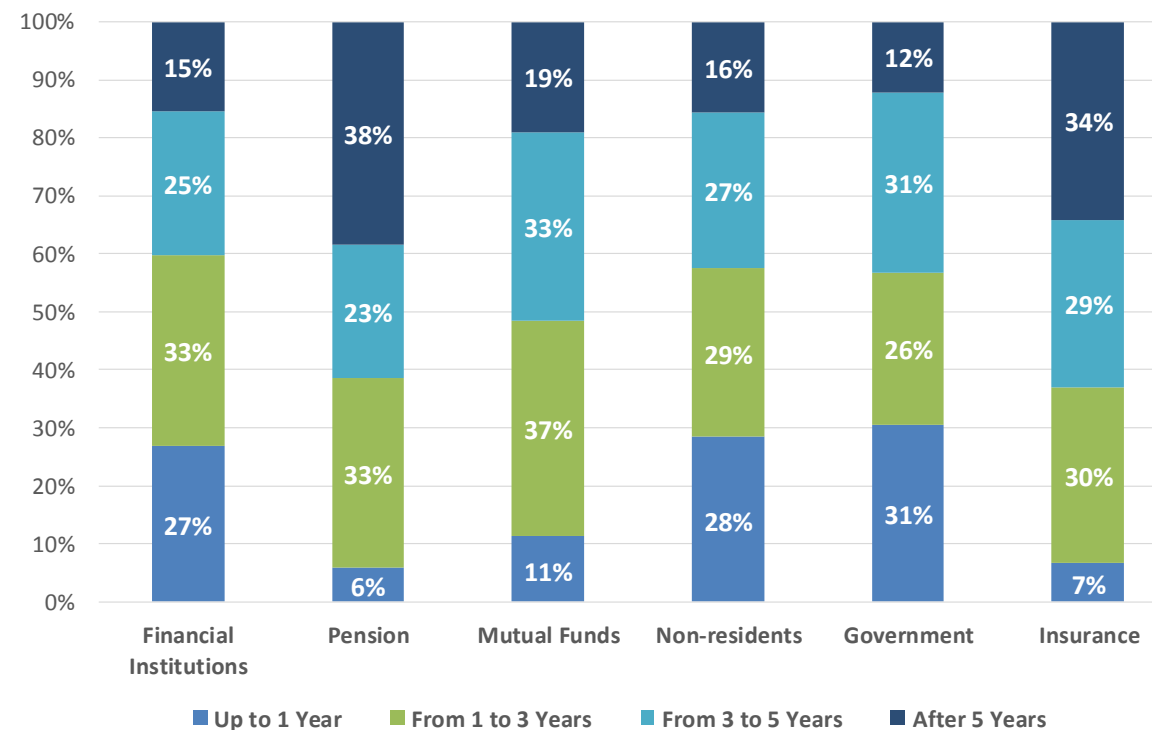
Source: National Treasury

Note: FPD statistics can be accessed

<https://www.tesouro.fazenda.gov.br/en/monthly-debt-report>.

- Financial institutions portfolio: 48% in fixed rate bonds
- Mutual Fund's portfolio: 63% in floating rate bonds.
- Pension Fund portfolio: 52 % in Inflation-linked bonds. Pension Fund portfolio have longest duration.

By Maturity (Sep /18)



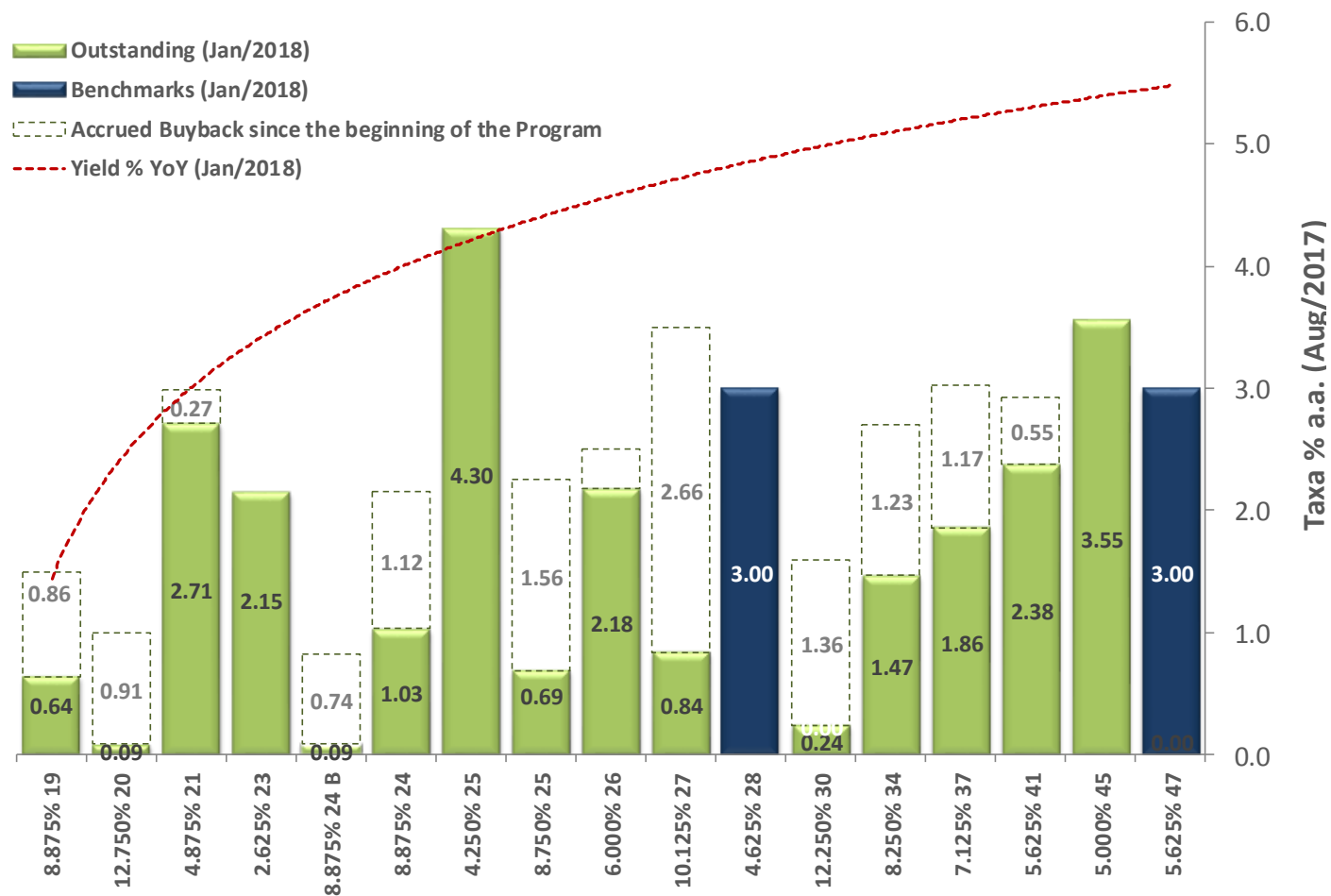
Source: National Treasury

Note: FPD statistics can be accessed

<https://www.tesouro.fazenda.gov.br/en/monthly-debt-report>

5 External Debt Strategy and Results

External debt yield curve, outstanding volumes and buyback program
(USD bn)



Source: National Treasury

The National Treasury maintains its policy of improving external debt yield curves, seeking to mitigate refinancing risks through:

- Qualitative issuances: securities issues in the foreign market aims to establish reference points for Brazilian companies wishing to access international markets;
- Buyback of old securities that are no longer benchmarks and no longer adequately reflect the cost of external financing.

For additional information access the National Treasury website:

www.tesouro.fazenda.gov.br

Or contact Institutional Relations area:

brazildebt@fazenda.gov.br

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