Twenty-first OECD Global Forum on Public Debt Management

Session 2: Bond exchanges (switches) and buyback operations

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National Treasury of Brazil

Paris, January 2012
Domestic Debt (95% of total public debt)

External Debt (5% of total public debt)
Fixed-rate securities:

- Maturities defined in a way to coincide with dates of maturity of contracts in the futures market;

Floating - Rate Securities

- Longer maturities concentrated in different months from those established for fixed-rate securities;

Public Debt Cash Reserves

- Cash reserves enhance the reliability on the government’s capacity of debt payment.
Domestic Debt Maturity Profile

BRL million

-10,000
-10,000
110,000
90,000
70,000
50,000
30,000
10,000
JUL-12
JAN-13
JAN-14
JAN-15
JAN-17
JAN-21

Domestic Debt Maturity Profile
Why should DMO conduct switches and buybacks?

- To reduce market risk exposure;
- To mitigate refinancing risks;
- To concentrate liquidity on benchmark bonds;
- To act as buyer of last resort in the long part of the curve;
- To obtain NPV savings;

Caution: Buybacks and switches should not affect negatively secondary market activities.
Domestic Debt Maturity – Precautionary Maturity Bound

BRL Million

Current Maturity Profile  Projected Issues  Monthly Limits
## Switch and Repurchase Auctions (R$ bn)

<table>
<thead>
<tr>
<th>Other Special Operations</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Switch Auctions</td>
<td>112.80</td>
<td>134.65</td>
<td>79.22</td>
<td>66.97</td>
<td>29.78</td>
<td>50.88</td>
</tr>
<tr>
<td>Early Redemption</td>
<td>20.98</td>
<td>23.95</td>
<td>13.25</td>
<td>12.05</td>
<td>5.23</td>
<td>0.04</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>133.78</strong></td>
<td><strong>158.60</strong></td>
<td><strong>92.47</strong></td>
<td><strong>79.02</strong></td>
<td><strong>35.01</strong></td>
<td><strong>50.92</strong></td>
</tr>
</tbody>
</table>

![Graph showing Switch and Repurchase Auctions (R$ bn)](chart.png)
Simultaneous Repurchase and Sell Auctions

- **Rationale:** Provide price parameters during periods of volatility unusually high and avoid irrational deterioration in the fixed income markets;

- **Lates Auctions:** October 2008 (4 auctions)

- **Outcome:**
  - Lower bid/ask spreads
  - Lower yields
  - Net redemption of BRL 1.8 billion

**NTN-F yield curves before and after the auctions**

- Source: Andima, National Treasury
Domestic Debt (95% of total public debt)

External Debt (5% of total public debt)
External Debt Guidelines

- Issuance of benchmark bonds (only two tenors: 10 years and 30 years)
- Buyback program: Discrete secondary market trades
  - Liquidity concentration
  - NPV savings
  - More cost efficient than traditional LM operations
- Outcome (USD billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>Maturity</th>
<th>Buyback</th>
<th>Issuance</th>
<th>Net Redemption</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>12.2</td>
<td>3.22</td>
<td>2.76</td>
<td>6.24</td>
</tr>
<tr>
<td>2011</td>
<td>7.6</td>
<td>2.28</td>
<td>1.65</td>
<td>3.64</td>
</tr>
</tbody>
</table>
# External Debt Strategy

<table>
<thead>
<tr>
<th>Bond</th>
<th>Taxa % a.a (Dez/11)</th>
</tr>
</thead>
<tbody>
<tr>
<td>10,25% 13</td>
<td>11,00%</td>
</tr>
<tr>
<td>10,50% 14</td>
<td>11,25%</td>
</tr>
<tr>
<td>7,875% 15</td>
<td>7,125%</td>
</tr>
<tr>
<td>8,00% 17</td>
<td>8,25%</td>
</tr>
<tr>
<td>A-Bond 8,00%*</td>
<td>8,75%</td>
</tr>
<tr>
<td>5,875% 19 N</td>
<td>8,875%</td>
</tr>
<tr>
<td>8,875% 19</td>
<td>8,875%</td>
</tr>
<tr>
<td>12,75% 20</td>
<td>10,125%</td>
</tr>
<tr>
<td>4,875% 21</td>
<td>12,25%</td>
</tr>
<tr>
<td>8,875% 24 B</td>
<td>12,75%</td>
</tr>
<tr>
<td>8,875% 24</td>
<td>12,75%</td>
</tr>
<tr>
<td>8,75% 25</td>
<td>12,75%</td>
</tr>
<tr>
<td>10,125% 27</td>
<td>8,25%</td>
</tr>
<tr>
<td>12,25% 30</td>
<td>8,75%</td>
</tr>
<tr>
<td>8,25% 34</td>
<td>8,75%</td>
</tr>
<tr>
<td>7,125% 37</td>
<td>8,75%</td>
</tr>
<tr>
<td>11,00% 40 C15**</td>
<td>8,25%</td>
</tr>
<tr>
<td>5,625% 41</td>
<td>8,75%</td>
</tr>
</tbody>
</table>

**Estoque - Jan/12  Resgate Antecipado  Emissões de Benchmarks  Taxa % a.a (Dez/11)**
For additional information access Brazilian National Treasury site:

www.tesouro.fazenda.gov.br

Or contact Institutional Relations area:

brazildebt@fazenda.gov.br

Thank You!

Obrigado!