

DEBT MANAGEMENT: HIGHER WEEKLY ISSUANCES NEEDED TO KEEP LIQUIDITY RESERVES CONSTANT

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- Today, the National Treasury published the monthly debt report for December and the Annual Borrowing Plan (PAF, in Portuguese) for 2023. Regarding the PAF, net borrowing requirements rose to BRL1,488 billion for 2023, slightly higher than our forecast (BRL1,415 billion) — compared to BRL1,235 billion in 2022. Weekly issuances to keep liquidity reserves constant should be around BRL29 billion (in our calculus), compared to BRL22 billion last year. So far this year this value was at BRL17.9 billion per week through January 19.
- Last year there were some one-off positive factors that helped debt management. BNDES returned resources to the Treasury in the amount of BRL81.4 billion, of which BRL45 billion was returned in 4Q22. In addition, we saw BRL18 billion in dividend payments by the public bank. Moreover, the PEC Emergencial allowed de-earmarking about BRL47 billion in public funds.
- Regarding the monthly debt report, net issuance totaled BRL25.3 billion in December, while in 2022 net issuance was -BRL217 billion, compared to +BRL155 billion in 2021 and +BRL408 billion in 2020. For full year 2022, we observed seven months with negative issuances.
- The cost of new domestic issuances rose slightly to 12.1% p.a. in December vs. 11.9% p.a. in November. The debt cost of LFT bonds accumulated in the last 12 months increased to 12.5% (from 11.2% in November and 4.5% in December 2021), and the recent rise in the Selic rate (currently at 13.25%) could create additional pressure on debt costs in the coming months, in our view. Debt maturing in 2023 totals BRL1,288 billion. We highlight the large maturity in January (BRL293 billion, mainly in LTN bonds).
- The volume of domestic debt securities maturing in up to 12 months ended the year at 22.1% in December, vs. 20.4% in December 2021.
- Non-residents registered a positive flow of BRL2.8 billion in December, with a negative flow of BRL31.5 billion in 2022. The percentage of non-resident debt holders was 9.4% in December vs. 9.2% in September and compared to 10.6% in December 2021, 9.2% in December 2020, and 10.4% in December 2019. Financial institutions continue to be the main debt holders, at 29.1%.
- Public debt liquidity reserves rose BRL34 billion in December (+3% MoM in nominal terms), reaching BRL1,175 billion and reflecting net issuances in the month. This level of liquidity reserves covers close to 8.4 months of debt maturities (from 9.3 in November).
- In our view, despite the comfortable levels of liquidity reserves to weather uncertainties for a significant part of 2023, the outlook for debt management remains challenging in the medium term, especially given market volatility and the recent increase in debt costs.

IMPORTANT DISCLOSURES/CERTIFICATIONS ARE IN THE “IMPORTANT DISCLOSURES” SECTION OF THIS REPORT.

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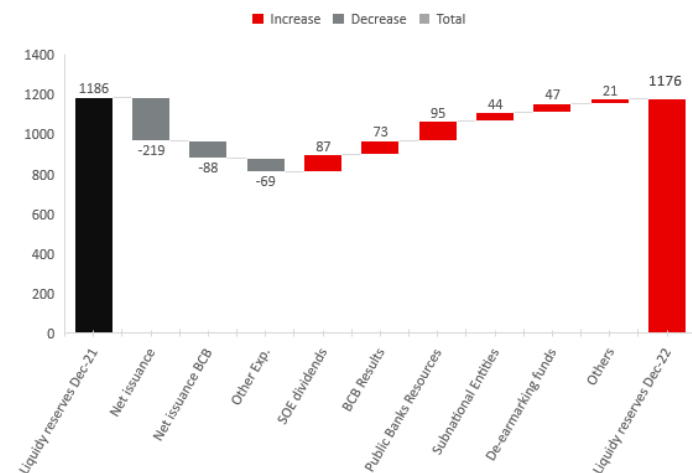
Figure 1 – Annual Borrowing Plan 2023

INDICATORS	PAF 2022		Dec-22	PAF 2023		
	Min	Max	-	Min	Max	
Outstanding Debt (BRL bn)	6,000	6,400	5951	6,400	6,800	
Average Maturity (years)	3.8	4.2	3.9	3.8	4.2	
% Maturing in 12m	19	23	22.1	19	23	
Debt Profile (%)	Fixed-rate (LTN)	24	28	27.0	23	27
	Inflation-Linked (NTN-B)	27	31	30.3	29	33
	Floating rate (LFT)	38	42	38.3	38	42
	FX	3	7	4.4	3	7

PAF - Annual Borrowing Plan

Sources: National Treasury, Santander.

Figure 2 – Debt Maturity in the Next 12 Months (BRL bn)



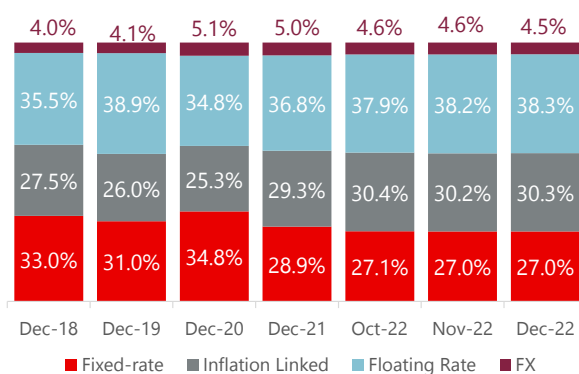
Sources: National Treasury, Santander.

Figure 3 – Summary – Monthly Debt Report

Annual Borrowing Plan (PAF 2022)										
	2020	2021	Nov-22	Dec-22	PAF 2022 range		PAF 2021		PAF 2021	
					Min	Max	Min	Max	Min	Max
Outstanding volume (BRL billion)										
Federal Public Debt	5,010	5,614	5,871	5,951	6000	6400	5,500	5,800	5,600	5,900
Composition (%)										
Fixed-rate	34.8	28.9	27.0	27.0	24	28	31	35	38	42
Inflation-linked	25.3	29.3	30.2	30.3	27	31	26	30	24	28
Floating-rate	34.8	36.8	38.2	38.3	38	42	33	37	28	32
FX	5.1	5.0	4.6	4.5	3	7	3	7	3	7
Maturity Structure										
% maturing in 12 months	27.6	21	24	22.4	19	23	22	27	24	29
Average maturity (years)	3.6	3.8	4.0	4.0	3.8	4.2	3.4	3.8	3.2	3.6

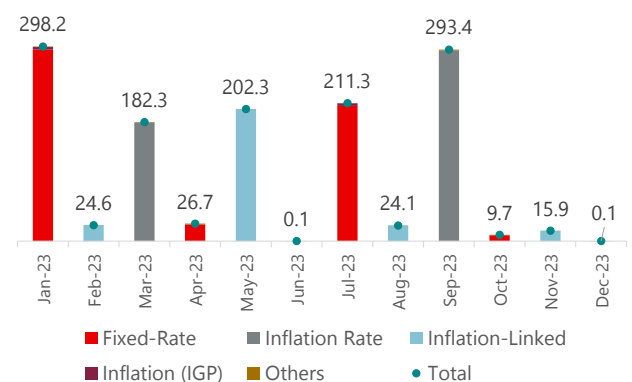
Sources: National Treasury, Santander

Figure 4 – Debt Profile - %



Sources: National Treasury, Santander.

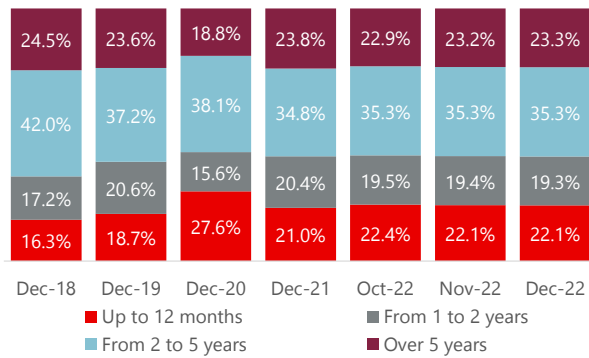
Figure 5 – Debt Maturity in the Next 12 Months (BRL bn)



Sources: National Treasury, Santander.

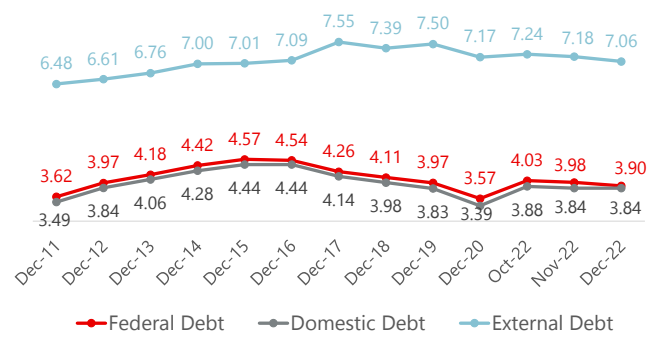


Figure 6 – Debt Maturities - %



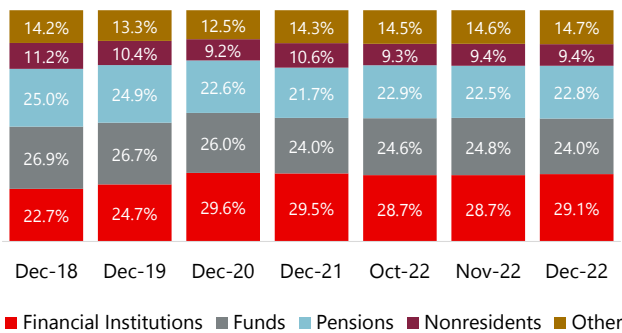
Sources: National Treasury, Santander.

Figure 7 – Average Maturity



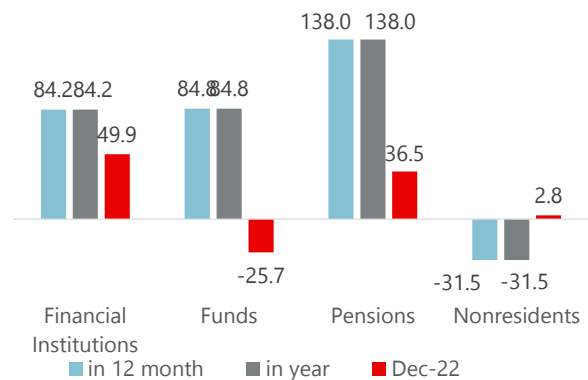
Sources: National Treasury, Santander.

Figure 8 – Debt Holders - %



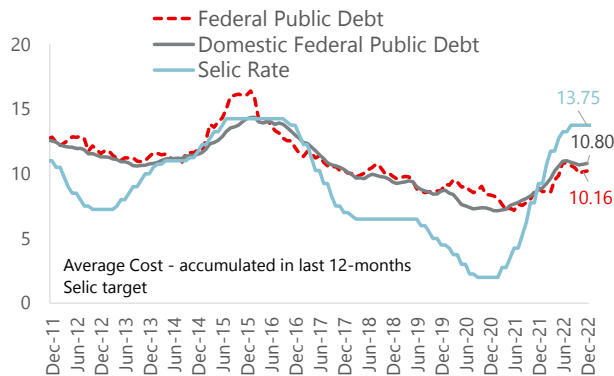
Sources: National Treasury, Santander.

Figure 9 – Change in Holders Debt Stock (BRL bn)



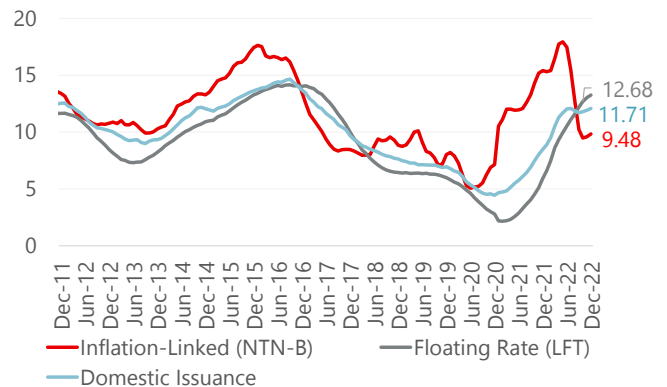
Sources: National Treasury, Santander.

Figure 10 – Debt Cost - %



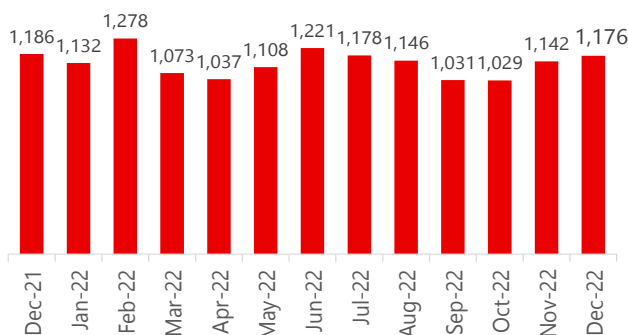
Sources: National Treasury, Santander.

Figure 11 – Debt Cost of New Issuances - %



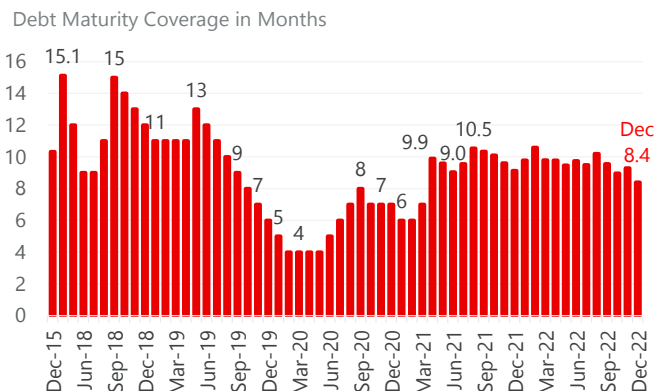
Sources: National Treasury, Santander.

Figure 12 – Debt Liquidity Reserve (BRL bn)



Sources: National Treasury, Santander.

Figure 13 – Liquidity Coverage of Debt Maturity



Sources: National Treasury, Santander.



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