

## DEBT MANAGEMENT: HIGHER MATURITY OF INFLATION-LINKED BONDS IN MAY

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- Today, the National Treasury published its monthly debt report for May 2023. Debt issuance remained high in the month, totaling BRL140 billion, compared to BRL127 billion in March. These values are higher than the average of BRL73 billion observed in first two months of the year. The issuance was concentrated in fixed-rate (~47%) bonds. Considering this, the weekly bond issuances reached BRL27.7 billion up to May, rising from BRL26 billion up to April. For 2023, we estimate ~BRL24 billion needs to be issued per week in order to keep liquidity reserves stable until year-end. We expect these numbers to continue improving. In June, we observed a large issuance of fixed-rate bonds (with BRL23 billion only in the first week of the month) – which we see as positive, considering the higher demand for these bonds on the heels of the reduction in inflation numbers and the expectations of a reduction in the Selic rate.
- May was also marked by a higher level of redemptions (BRL215 billion). This result was led by the elevated level of maturity of inflation-linked bonds in the month (BRL212 billion – 99% of total). Moreover, net issuance was -BRL75 billion last month, amounting to -BRL200 billion in YTD terms and -BRL290 billion in the last 12 months. Considering the net issuance result, public debt liquidity reserves went down 6.7% MoM in nominal terms (-BRL70 billion from April), reaching BRL983 billion. This level of liquidity reserves covers close to 8.1 months of debt maturities (from 8.6 in April, 6.9 in February and 8.4 in December).
- The cost of new domestic issuances reduced slightly to 12.8% p.a. in May vs. 12.9% p.a. in April. The average cost of the outstanding debt accumulated in the last twelve months rose to 10.9% (+0.2 ppt). In this sense, the cost of LFT (floating rate) in the last twelve months was maintained at 13.6%.
- The debt maturing through year-end totaled BRL594 billion, while BRL1,182 billion is maturing in the next 12 months. We highlight the large maturity scheduled for September (BRL309 billion, mainly in LFT bonds – floating rate). The volume of domestic debt securities maturing in up to next 12 months dropped to 20% (-2.9 ppt).
- Non-residents registered almost no new flow in May (+BRL0.1 billion), reaching BRL17.6 billion in 2023 and BRL53.4 billion in the last 12 months. The percentage of non-resident debt holders reached 9.6% in May vs. 9.4% in December 2022 and compared to 10.6% in December 2021. Financial institutions continue to be the main holders (28.7%, -0.1 ppt in the month).
- We observed better numbers in the last three months, with increased debt issuance. For June, we expect good numbers with large issuance. We continue to believe that the liquidity debt cushion is at a comfortable level to navigate the uncertainties.
- For the medium term, the outlook for debt management remains challenging, considering the higher level of domestic debt in the context of an increase in the cost of debt and uncertainty about the fiscal consolidation ahead.

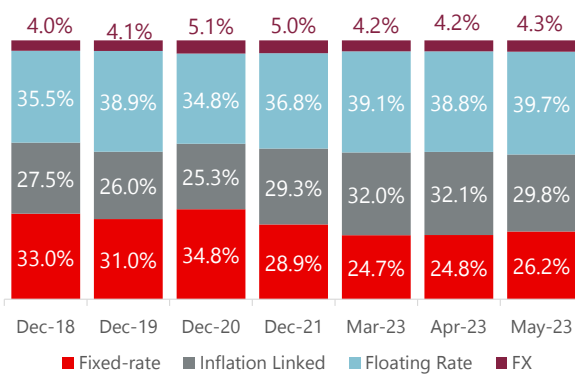


**Figure 1 – Summary – Monthly Debt Report**

Annual Borrowing Plan (PAF 2023)									
	2020	2021	2022	Apr-23	May-23	PAF 2023 range		PAF 2022 range	
						Min	Max	Min	Max
Outstanding volume (BRL billion)									
Federal Public Debt	5,010	5,614	5,951	6,032	6,014	6,400	6,800	6000	6400
Composition (%)									
Fixed-rate	34.8	28.9	27.0	24.8	26.2	23	27	24	28
Inflation-linked	25.3	29.3	30.3	32.1	29.8	29	33	27	31
Floating-rate	34.8	36.8	38.3	38.8	39.7	38	42	38	42
FX	5.1	5.0	4.4	4.2	4.3	3	7	3	7
Maturity Structure									
% maturing in 12 months	27.6	21	22.1	22.9	20	19	23	19	23
Average maturity (years)	3.6	3.8	3.0	4.0	4.1	3.8	4.2	3.8	4.2

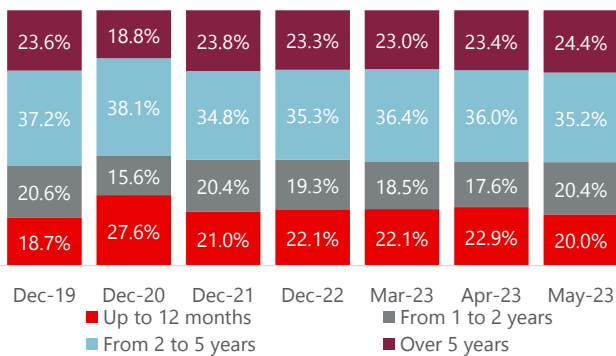
Sources: National Treasury, Santander

**Figure 2 – Debt Profile - %**



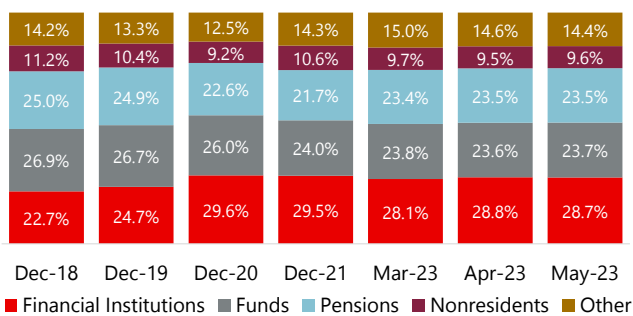
Sources: National Treasury, Santander.

**Figure 4 – Debt Maturities - %**



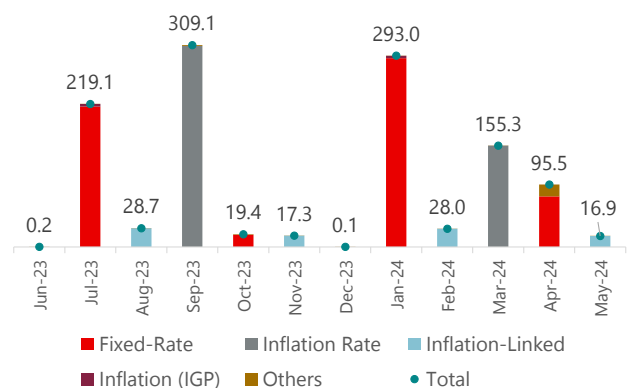
Sources: National Treasury, Santander.

**Figure 6 – Debt Holders - %**



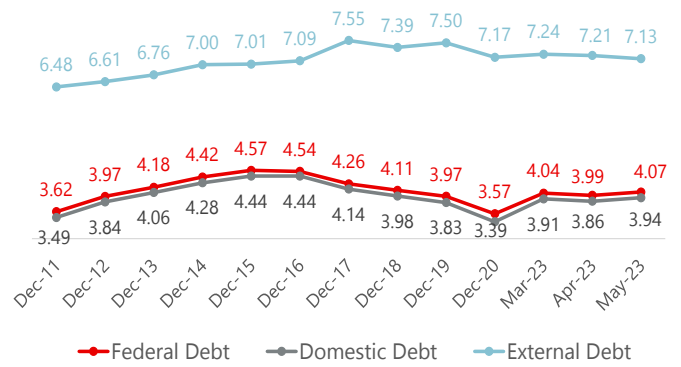
Sources: National Treasury, Santander.

**Figure 3 – Debt Maturity in the Next 12 Months (BRL bn)**



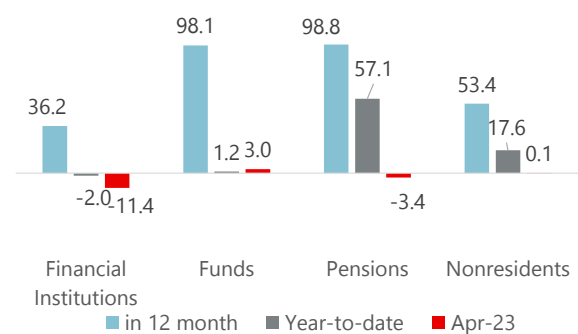
Sources: National Treasury, Santander.

**Figure 5 – Average Maturity (in years)**



Sources: National Treasury, Santander.

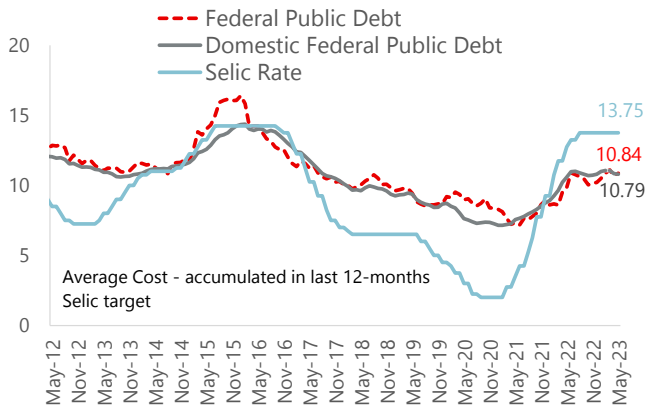
**Figure 7 – Change in Holders Debt Stock (BRL bn)**



Sources: National Treasury, Santander.

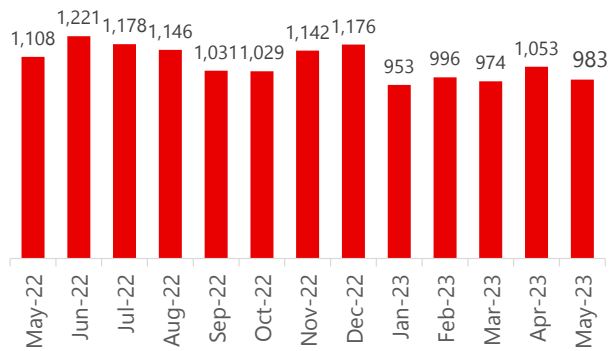


**Figure 8 – Debt Cost - %**



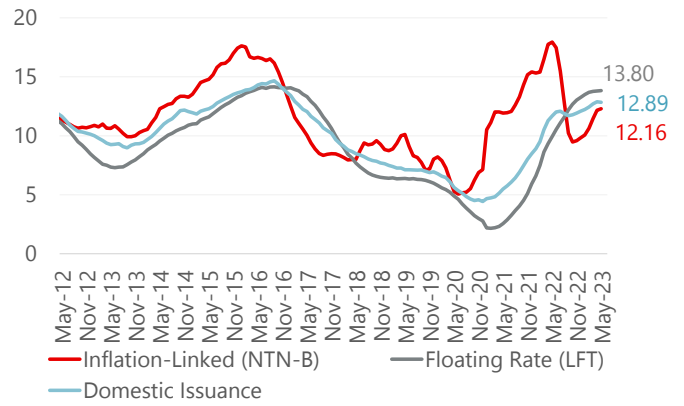
Sources: National Treasury, Santander.

**Figure 10 – Debt Liquidity Reserve (BRL bn)**



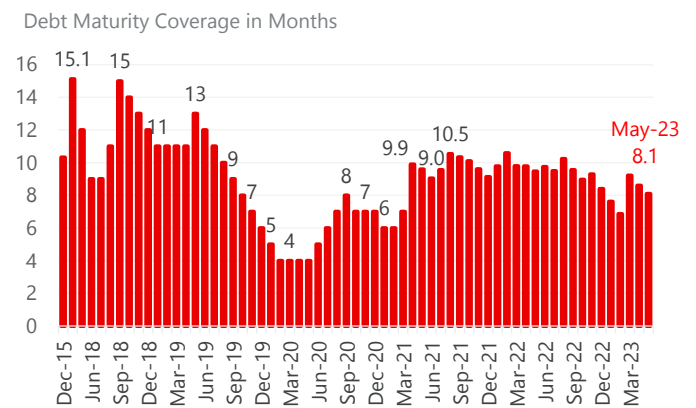
Sources: National Treasury, Santander.

**Figure 9 – Debt Cost of New Issuances - %**



Sources: National Treasury, Santander.

**Figure 11 – Liquidity Coverage of Debt Maturity (Maturity Schedule/Liquidity Reserves)**



Sources: National Treasury, Santander.

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