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DATA ANALYSIS – FISCAL POLICY

Debt Report: Flat Debt Cost, High Maturity of LFT Bonds and Non-Resident Flow in September

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- On October 26, the National Treasury published the monthly debt report for September. Weekly bond issuances reached R$22.1 billion through September, higher than the ~R$16 billion per week that we estimate is needed to keep liquidity reserves stable until the end of the year. For October, fixed-rate (LTN) debt maturity is expected to reach BRL106 billion, according to the fiscal authority's data.
- Fixed rate (LTN) was the highlight last month from an issuance standpoint, totaling ~R$48.3 billion. For redemptions, the month was marked by a higher level of debt maturities at R$186.4 billion (especially floating rate (LFT) bonds, at R$181.9 billion), compared to the last-12-month average of R$119.7 billion.
- The cost of new domestic issuances remained stable at 11.7% p.a. vs. 11.9% p.a. in August. The debt cost of LFT bonds accumulated in the last 12 months increased to 11.1% (from 10.4% in August 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. The debt maturing through year-end totals R$219 billion (with the highest amount in October: R$107 billion), while R$1,353 billion is maturing in the next 12 months.
- The volume of domestic debt securities maturing in up to 12 months shifted to 24.6% in September, from 22.5% in August and higher the government Annual Borrowing Plan (PAF, in Portuguese) to maintain this level between 19% and 23% in the year.
- Non-residents registered a positive flow of R$16.6 billion in September, totaling -R$58.9 billion year to date and -R$15.3 billion in the last 12 months, raising the percentage of non-residents to 9.2% of debt holders, from 8.8% in August 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 29.4%.
- Public debt liquidity reserves dropped R$114.7 billion in August (-10% MoM in nominal terms), reaching R$1,031 billion and reflecting net issuances with a high level of bond maturities in the month. This level of liquidity reserves covers close to 9.6 months of debt maturities (from 10.2 in August).
- In our view, despite the comfortable levels of liquidity reserves to weather uncertainties in 2022 and 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, in the context of popular demand for larger outlays for social programs.

Net issuances totaled -R$76.4 billion, considering the high level of redemptions of floating-rate bonds during the month. Debt issuances reached R$110.1 billion in September, higher than the last-12-month average of R$98.4 billion. Weekly bond issuances reached R$22.1 billion through September, higher than the ~R$16 billion per week that we estimate is needed to keep liquidity reserves stable until the end of the year. For October, fixed-rate (LTN) debt maturity is expected to reach BRL106 billion, according to the fiscal authority's data. Interest appropriations totaled R$47.2 billion in September (considering the total debt), compared to R$52.9 billion in September 2021. In 2022 (YTD terms), the interest appropriations amounted to R$415 billion vs. R$419 billion in 2021 (full-year result).

Fixed rate (LTN) was the highlight last month from an issuance standpoint, totaling ~R$48.3 billion. For redemptions, the month was marked by a higher level of debt maturities at R$186.4 billion (especially floating rate (LFT) bonds, at R$181.9 billion), compared to the last-12-month average of R$119.7 billion. Considering the amount in the Annual Borrowing Plan (PAF), we could observe more issuances of floating rate bonds (LFT) in 2022, in our view. The total level of LFT in the debt is currently at 37.1%, below the minimum (38%) estimated for the year in the PAF.

The cost of new domestic issuances remained stable at 11.7% p.a. vs. 11.9% p.a. in August. The debt cost of LFT bonds accumulated in the last 12 months increased to 11.1% (from 10.4% in August 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. The debt maturing through year-end totals R$219 billion (with the highest amount in October: R$107 billion), while R$1,353 billion is maturing in the next 12 months.

The volume of domestic debt securities maturing in up to 12 months shifted to 24.6% in September, from 22.5% in August and higher the government Annual Borrowing Plan (PAF, in Portuguese) to maintain this level between 19% and 23% in the year. The average term of new issuance dropped to 4.9 years (from 5.0 years in August).

Debt liquidity fell 10% in nominal terms in August (-R$115 billion from August; totaling R$1,031 billion), reflecting net issuance. Liquidity reserves are equivalent to almost 9.6 months of debt maturities (down from 10.2 months in August),

Non-residents registered a positive flow of R$16.6 billion in September, totaling -R$58.9 billion year to date and -R$15.3 billion in the last 12 months, raising the percentage of non-residents to 9.2% of debt holders, from 8.8% in August 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 29.4%.

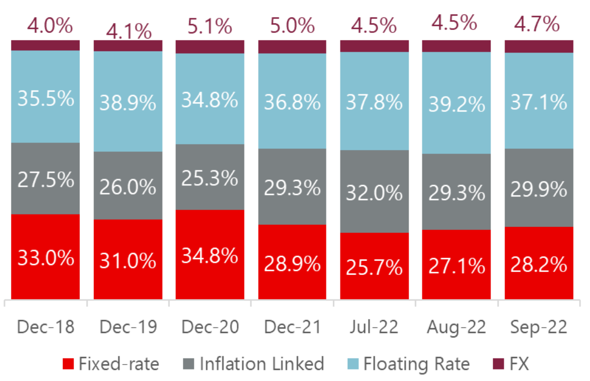
In our view, the outlook for debt management remains challenging in the medium term, especially after the increase in the debt cost. The debt management trajectory depends on maintaining the credibility of the fiscal framework, the level of liquidity reserves, and favorable market conditions. In the short term (i.e., the rest of 2022 and part of 2023), the liquidity debt cushion is at a comfortable level to support the country as it faces these uncertainties.

Figure 1 – Summary – Monthly Debt Report

Annual Borrowing Plan (PAF 2022)								
	2020	2021	Aug-22	Sep-22	PAF 2022 range		PAF 2021 Revised (May21)	
Outstanding volume (BRL billion)					Min	Max	Min	Max
Federal Public Debt	5,010	5,614	5,781	5,752	6000	6400	5,500	5,800
Composition (%)								
Fixed-rate	34.8	28.9	27.1	28.2	24	28	31	35
Inflation-linked	25.3	29.3	29.3	29.9	27	31	26	30
Floating-rate	34.8	36.8	39.2	37.1	38	42	33	37
FX	5.1	5.0	4.5	4.7	3	7	3	7
Maturity Structure								
% maturing in 12 months	27.6	21	21.9	24.0	19	23	22	27
Average maturity (years)	3.6	3.8	4.0	4.0	3.8	4.2	3.4	3.8

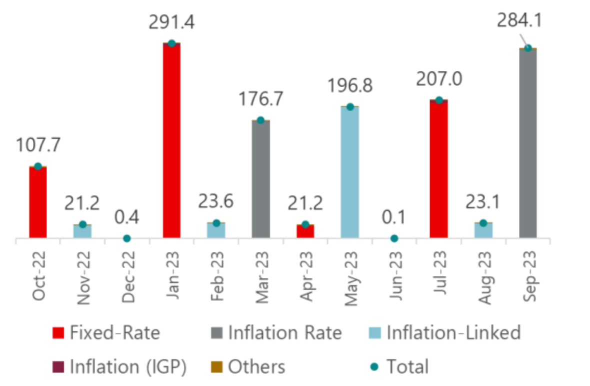
Sources: National Treasury; Santander

Figure 2 – Debt Profile - %



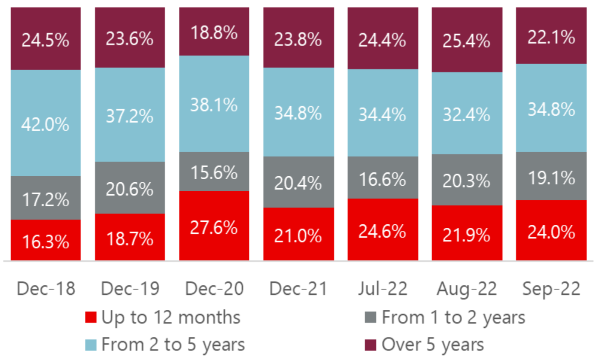
Sources: National Treasury, Santander.

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



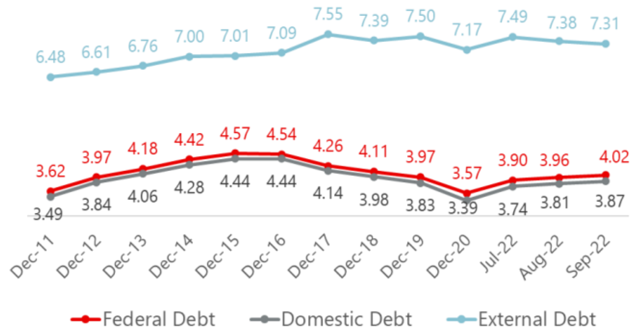
Sources: National Treasury, Santander.

Figure 4 – Debt Maturities - %



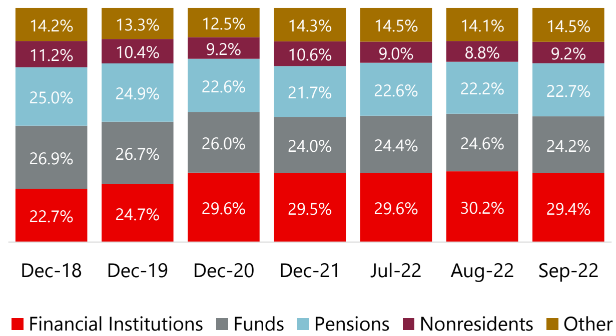
Sources: National Treasury, Santander.

Figure 5 – Average Maturity



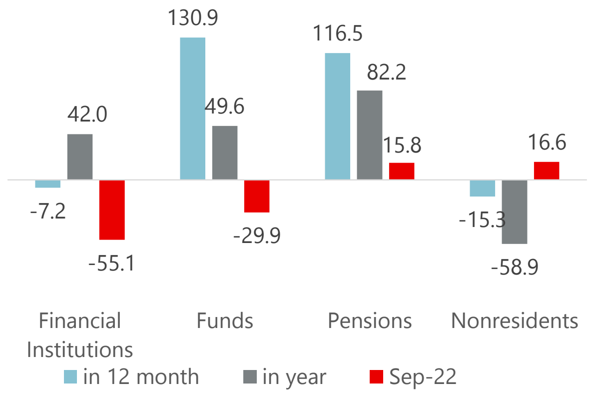
Sources: National Treasury, Santander.

Figure 6 – Debt Holders - %



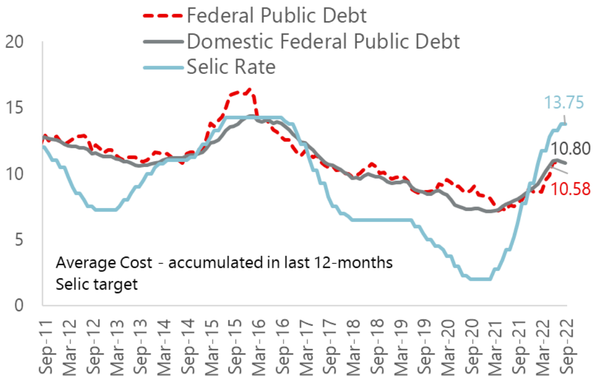
Sources: National Treasury, Santander.

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



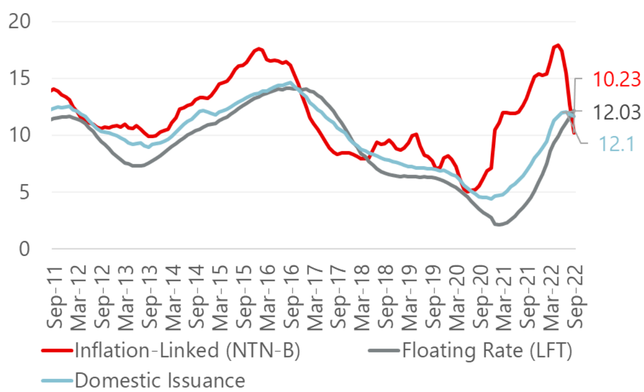
Sources: National Treasury, Santander.

Figure 8 – Debt Cost - %



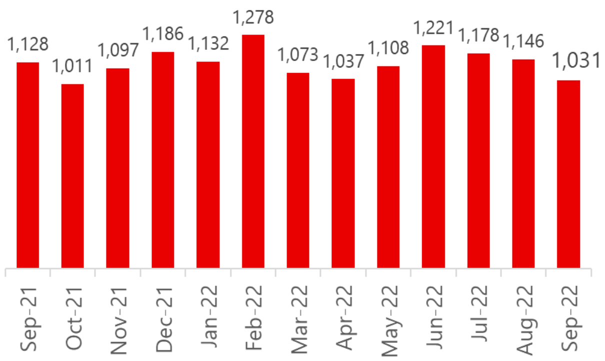
Sources: National Treasury, Santander.

Figure 9 – Debt Cost of New Issuances - %



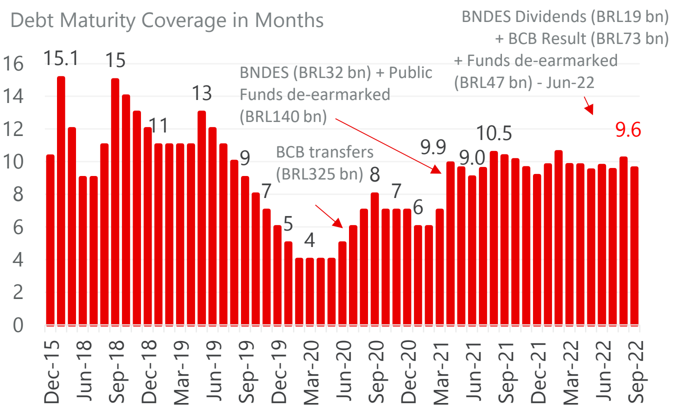
Sources: National Treasury, Santander.

Figure 10 – Debt Liquidity Reserve (BRL bn)



Sources: National Treasury, Santander.

Figure 11 – Liquidity Coverage of Debt Maturity



Sources: National Treasury, Santander.

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