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THE INTERNATIONAL BOND MARKET AND BRAZIL'S INSERTION AS SOVEREIGN PARTNER

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INTRODUCTION

During recent years, the international capital market, especially the securities market, has been increasing in importance in the global context. This change results from significant financial innovations, technological developments, and the economic globalization process. It has offered new opportunities for the borrowers and more attractions for the investors.

The objectives of this paper are to identify and to explain the main characteristics and rules of the more representative international bond markets by identifying risks, attractions, regulations, tax considerations, and trends, taking into account domestic features of each market.

On the other hand, Brazil, having implemented its debt restructuring agreement ("Brady Plan") with the international financial community and having introduced an economic stabilization plan ("Real Plan"), has returned to the international financial market, as a sovereign issuer, ending an absence of 15 years.

This work describes the Brazil insertion into the international bond market, as sovereign issuer and the perspectives for Brazil in this market, considering the opportunities for reducing Brazil's total public debt.

1- THE BOND MARKET

1.1- AN OVERVIEW

The international capital market, especially the securities market has been active at relatively modest levels since the early 1950s, with issuing activities concentrated in a few markets, such as the United States, Germany, the United Kingdom and Switzerland. In subsequent years issues took place in a growing number of national and supranational markets.

These markets have shown remarkable growth since then with new products appearing and with the importance of different market components shifting over time. The main instruments available in the early 1960s were straight bonds (a typical "plain vanilla"). However, in the 1970s other products such as floating rate notes, convertible bonds, zero coupons bonds and bonds with equity warrants began to be widely used.

In addition, foreign countries have liberalized their bond markets and have eliminated or reduced the withholding taxes, making them more liquid and more accessible to international borrowers and investors. New financial innovations as futures, derivatives, forwards, swaps, and options, have been developed in several major countries, permitting the more effective implementation of hedging and arbitrage strategies.

The rapidly growing world bond market is comprised of both the domestic bond markets and the international market. The size of the world bond market was estimated at around US$16 trillion at the start of 1994. This amount does not include private placements, those bonds which are placed directly among the clients of the underwriting bank and are not offered publicly. Bonds denominated in dollars currently represent roughly half the value of all outstanding bonds. Yen bonds represent roughly 20% of the world bonds, and European currencies, about 30%. The largest share of the market is represented by government bonds (central and agencies government, states and municipalities), which are responsible for two thirds of all bonds issued in the world. Other domestic publicly issued bonds represents 14.3% and the international bond market responds by 10.5% of the securities outstanding at year end 1993.

1.2- CLASSIFICATION OF THE MARKETS

The world market can be divided into two broad groups: domestic bond market and international bond market. The first one, the domestic bond market is comprised of all securities issued in each country by the government entities and the corporates. In this case, issuers are domiciled in the country where those bonds are traded. On the other hand, the international bond market consists of the Foreign market and the Eurobond market.

The Foreign market includes the bonds issued into the domestic market of the currency of denomination, but they are issued by foreign borrowers (nonresident borrowers). What makes foreign bonds different from domestic bonds is that regulatory authorities in the country where the bond is issued impose certain legal distinctions between them. These distinctions may include different taxation, restrictions on the bond structures, timing or amount that may be issued, including different requirements as to the type of information that the borrower has to disclose to investors prior to the issuance, a minimum credit rating, different registration requirements, and restrictions on who can buy or underwrite the bonds. The Table 1 show the amount of Foreign bonds issued by market.

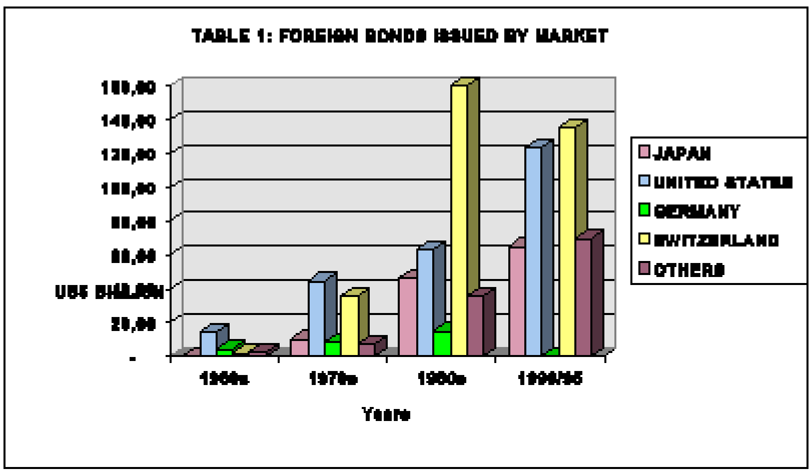


TABLE 1: FOREIGN BONDS ISSUED BY MARKET

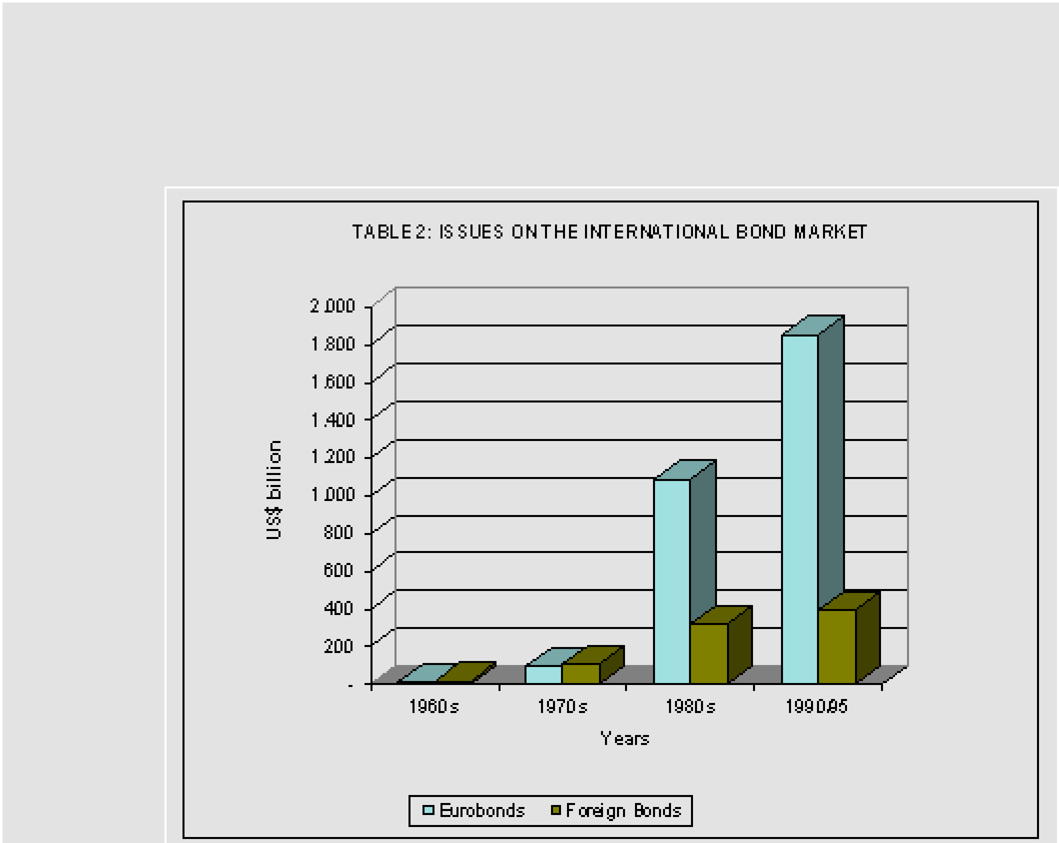
The most important foreign bond markets are Zurich, New York, and Tokyo. Bonds traded in the foreign market in general have a nickname as Yankee Bond in the United States, Matador bonds in Spain, Rembrandt bonds in the Netherlands, Samurai bond in Japan, and Bulldog bonds in the United Kingdom.

Foreign bonds can also be included foreign-currency issue in a denominated domestic bond market. For instance, Shogun bonds consist of foreign-currency bonds issued in Tokyo in currencies other that Japanese yen, and Yankee ECU bonds issued in New York.

The Eurobond market involves bonds issued and sold simultaneously in more than one market, in general in a jurisdiction outside the country of the currency of denomination. Hence, the market is free of certain constrains that are applicable in the domestic markets. Underwriter and sell of the Eurobonds, in general, are making by an international syndicate of banks or securities houses, in order to provide better distribution of the securities.

Since the early 1980s, the volume of business in the Eurobond market has exceeded of the Foreign bond market by a growing margin. The reason for this growth lie in the fact that the Eurobond market is external and a supranational market by nature and is not subject to the restrictive regulatory constrains of those in the domestic markets. Restrictive measures increase cost of the transactions and made domestic market less competitive than the supranational market. Besides, as consequence of the technological developments and the economic globalization process, the creation of financial centers around the world has contributed to strengthen the Euromarket position.

The Table 2 compares the amounts of bonds issued in the Eurobonds market and in the Foreign bonds market since 1960.



In the last few years, other important segment, called Global Bond Market has been developed as a consequence of the globalization process of the bond market, both in terms of investors base and currency of denomination, in order to overcome the constrained barriers between the markets. The Global Bond is comprised of the bonds registered with the Securities and Exchange Commission-SEC in the United States, and issued and traded in North America, Europe and Asian. The World Bank issued the first "true"global bonds in 1989 and still remains the leading issuer of this kind of bonds, although a number of sovereigns have also issued global bonds. These bonds were issued in U.S. dollars, Japanese yen and Deutsche mark[6].

1.3- PRINCIPAL FEATURES OF BONDS

A bond is a medium or long-term debt instrument requiring the issuer, also called the debtor or borrower, to pay to the lender or investors the amount borrowed plus interest over

a specified period of time. A classical bond, called a "plain vanilla" specifies a fixed date when the amount borrowed (the principal) is due, and the contractual amount of interest, which typically is paid every six or twelve months. The date on which the interest rate is paid is called the interest payment date and the date on which the principal is required to be paid is called the maturity date. Assuming that the issuer does not default or redeem the issue prior to the maturity date, as investor holding this bond until the maturity date is assured in a known cash flow pattern.

Despite the classic structure of the bonds, since the early times, several innovations have been made in the structure of the securities, which provide increased flexibility to the issuer and to the investors. The mains characteristics of the bonds are:

Bearer and Registered: most bonds are bearer bonds. In the bearer bond your ownership is evidenced by the fact that you have the bond. In contrast, registered bonds have an ownership name assigned to the bond's serial number, and the bond can be transferred to a new owner only through a formal transfer of the ownership name in the issuer's book. In general, Eurobonds are bearer forms and Yankee bonds are registered. This fact made Eurobonds more attractive investment for people who wished to remain anonymous, whether they wanted to avoid taxes or for any other reason.

Straight bonds: this kind of bond pays a fixed interest rate (coupon) at periodic intervals, usually semiannually, without any other additional feature. In case of Eurobonds the payments occur annually. The choice of annual payments as opposed to the more common interval of six months in domestic issues, is a simple reaction to the higher cost of disbursing interest payment to investors around the world.

Floating-Rate Notes (FRNs): by contrast with the straight bonds, FRN has more frequent payments -- every quarter or semiannually. The interest on floating rate notes is stated in terms of a spread over some reference rate, usually London Interbank Offered Rate-LIBOR, appropriate for the currency. The rollover pricing feature of floating rate notes is, of course, a reaction to interest rate uncertainties.

More frequently the interest rate is updated, more the interest payment on the note will reflect current money market rates. The first floating rate notes appeared in 1969 and 1970, emerging as a consequence of an increase uncertainty surrounding inflation and money market conditions into the international market.

If the bond has a minimum coupon rate (called floor), the coupon rate cannot fall below this minimum rate and if it has a maximum coupon rate (called cap), the coupon rate cannot rise above of the rate established. If a security has both, a floor and a cap, it is known as collared bond. There are some issues that grant the borrower the right to convert the floating coupon rate into a fixed coupon rate at some time or when the interest rate achieves a previously agreed level. Other issues, called drop-lock bonds, automatically change the floating coupon rate into a fixed coupon rate under certain circumstances.

A floating-rate note issue will have either a stated maturity date, or it may be a perpetual, also known as an undated issue. For floating-rate notes with maturity, the term is usually greater than five years, with the typical maturity being between seven and twelve years. There are callable and putable floating-rate notes and some issues are both callable and putable.

Callable or Putable Bonds: callable is a term used when the issuer of the securities, after a certain period of time, the issuer has the option to redeem the securities at a predetermined price guaranteeing a reasonable return to the investors. Thereby, the issuer has increased flexibility to pay the debt before or at the maturity date, depending upon the market conditions. Putable is a security which the investors have the option to sell back the bond after a certain time at a predetermined price. Such conditions make it easier to place longer-term committed funding arrangements among investors at reasonable rates. On the other hand, for the issuer, the more favorable interest rate is in contrast with the greater uncertainty concerning the long-term funding commitment.

Zero Coupon Bonds: this is the name given to bonds that do not pay any coupons during their lifetime. These are pure discount securities that are sold at a fraction of their face value but they are redeemed at face value. The return is the difference between the purchase price and the repayment price. Because Zero Coupon Bonds bear no cash interest, they are the most volatile of all fixed-income securities. Then, prices of the "zeros" fall more dramatically than bonds paying out interest on a current basis when interest rate rises. However, when interest rates fall, "zeros" rise more rapidly. Additionally, the greater the number of years that a zero coupon bond has until maturity, the less an investor has to pay for it, and the more leverage is at work for him. Zero-coupon bonds have proven to be very popular with Japanese investors, because the increase in the bond's price as the bonds matured was treated in Japan as capital gain and were not taxed. There are many types of Zero-coupon securities but, although U.S. Treasury bills and commercial paper do not pay coupons either, they are not referred to as "zero-coupon".

Dual-currency bonds: these bonds are purchased in terms of one currency with coupons paid in the same currency but the principal can be paid in a different currency. These bonds represent a combination of an ordinary bond with a forward contract. Some types of dual currency bonds are: the first type is when the exchange rate used to convert the principal and coupon payments into an another currency is specified at the time the bond is issued. The second type, the applicable exchange rate is the rate that prevails at the time a cash flow is made, i.e., at the spot exchange rate at the time a payment is made. The third type is one that offers either to the investors or to the issuer the choice of currency. In this case, the bonds are commonly referred to as option currency bonds.

Convertible bonds: these are bonds that can be converted into other types of assets. The most common type of conversion feature is one that allows the bond to be exchanged at its face value for shares of common stock in the company issuing the bonds. Bonds have also been issued that allow conversion into other assets such as gold or oil or into other bonds with differing payment characteristics. For instance, such as bond paying floating rate interest that is convertible, under certain circumstances, into bond paying fixed rate interest, or vice versa.

Bonds with attached warrants represent a large part of the Eurobond market. A warrant grants to the owner of the warrant the right to enter into another financial transaction with the issuer if the owner will benefit as a result of exercising this choice. Most warrants are detachable from the host bond. In this case, the bondholder may detach the warrant from the bond and sell it.

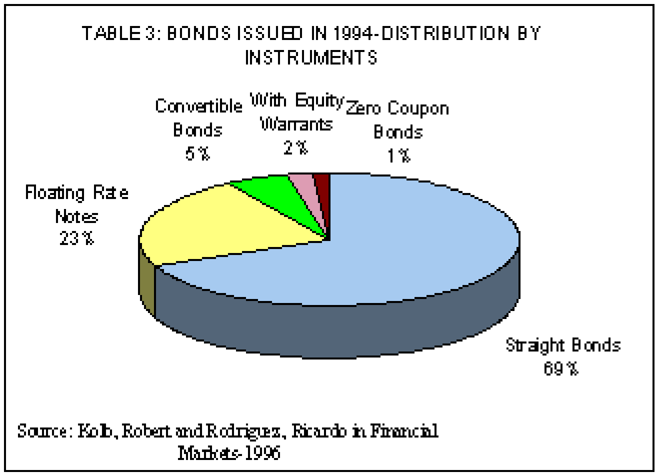
There is a wide array of bonds with warrants that include: equity warrants, debt warrants, and currency warrants. An equity warrant permits the warrant owner to buy the common stock of the issuer at a specified price. A debt warrant entitles the warrant owner to buy additional bonds from the issuer at the same price and yield as the host bond. The debt warrant owner will benefit if interest rate decline because a bond with a higher coupon can be purchased from the same issuer.

A currency warrant permits the warrant owner to exchange one currency for another at a set price, i.e., a fixed exchange rate. This feature protects the bondholder against a depreciation of the foreign currency in which the bond's cash flows are denominated.

Multiple Tranche Issue: this feature enables the issuer to match periodic liquidity needs. The issuer might initially distribute only part of the securities on an underwritten basis, but open up the possibility within the same syndicate to offer a second tranche on a best effort basis at a later date. If the distribution of the initial tranche is wide enough, the second tranche should also be successful and would provide the issuer with some cost saving.

Deferred Purchase Bond: this type of bond provides the issuer with more flexibility. For example, only half of the proceeds would be payable by the investors at closing date. Whereas the remaining 50% could be payable after, in predefined period such as six months or one year after. This structure could be adapted to match such special cash flows as those in connection with construction financing arrangements. The investors are committed to pay outstanding debts at predetermined future dates. Deferred Purchase Bonds have been issued in U.S. dollars, Sterling pounds, and Canadian dollars. This technique has been extensively used in the United Kingdom gilt market since the late 1970s and has been adapted by the Euromarket.

The Table 3 shows the composition of the International Bond Market, by type of bonds issued in 1994:



1.4- POTENTIAL INVESTORS IN BONDS

The most important financial investors in the market are institutional investors, particularly in the large industrial countries. These include pension funds, insurance companies, investment funds, and trust department of commercial banks[7].

Pension funds are the most important institutions, with total assets estimated at US$5.2 trillion at the end of 1991, of which US$ 2.7 trillion was held in U.S. pension funds. The proportion of foreign investments in total securities holdings by pension funds have increased substantially since 1980. Private pension funds in the United States increased their share of foreign securities in total assets from 1 percent in 1980 to about 5 percent or US$125 billion in 1991, of which about 80 percent was held as equity. In the United Kingdom, the proportion of foreign securities in total securities rose from 18 percent in 1985 to 24 percent in 1990.

The trend of increasing foreign investments by pension funds is projected to continue as they seek out new, more profitable markets in which to invest in order to satisfy greater pension claims. InterSec Research Corporation, which tracks the investments of pension funds worldwide, project that by 1996, global pension fund assets will have risen to approximately US$7.2 trillion of which US$800 billion, or 12 percent, will be invested abroad. In the United States, the share of foreign securities in total assets is projected to double to 10 percent, while the other countries' share of foreign assets will increase less.

Insurance companies are the second most important class of institutional investors. Life insurance in the United States had total assets in 1991 of US$ 1.9 trillion, but information on their holdings of foreign securities is unavailable. In Japan, Sweden andin the United Kingdom, where data are available, the figures show that insurance companies' participation in foreign securities increased from 1980s to 1990s.

Investment funds, such as mutual funds and hedge funds, have been growing in importance. At the end of September 1992 investment funds managed assets approaching US$3 trillion. Of this amount, US$1.533 billion (54 percent) was held by the United States based funds. In German and British, these funds invested the highest proportion of their assets in foreign securities, 34.9 percent and 39.2 percent, respectively, while the much larger French and U.S. funds invested smaller proportions abroad, only 4.3 percent and 6.6 percent, respectively.

Trust Departments of Commercial Banks are the fourth group of institutional investors. These departments manage funds on behalf of, and subject to the conditions imposed by, the clients who initiate the trust account. In the United States, bank trust departments managed assets of US$785 billion at end 1990.

Retail Investors are non institutional investors and represent a very strong sector in some markets, especially in the Japanese domestic markets where the assets held by the retail sector is estimated in Yen 1.1 trillion. This group is constituted by private business corporations (middle and small size), private schools, religious foundations, local or regional small mutual funds and householders. In the Euromarket, an important group of retail investors is formed by Belgian dentists, who intended to preserve their savings from the attentions of the tax law. Because retail investors do not have a team of sophisticated analysts, familiarity with the product and the name recognition of the borrower are crucial, associated with lower risk and short maturity securities. In general, retail investors held the securities until the maturity date.

1.5- SECONDARY MARKET

The primary market is where the capital is actually provided, i.e., where the bonds are first sold to investors. The secondary market is where bonds are traded, after the new issue period is over, for the remainder of their life. Neither, the primary nor the secondary markets have physical location, because they are not a place, but a process.

The function of the secondary market is to provide liquidity to the market. It is particularly important that markets are able to provide liquidity in times of stress, when there is an increase in the number of orders to buy or to sell bonds. Liquidity is the key problem in any secondary market. This market is very variable. Bonds issued by well-known borrowers, issued in large amounts and held by many investors tend to result in active trading. This encourages investors to buy them, and so the process becomes self-feeding.

Once new bonds have been formally offered on offering day in the primary market, the bonds then begin to trade in the secondary market. In general, the more recent an issue is, the more liquid it is. After a certain period, bonds tend to settle into the hands of investors planning to hold them to maturity, making them disappear from the market.

The principal center of Eurobond trading is the over-the-counter (OTC) market in London, although other centers such as Amsterdam and Zurich are also considered important. Deutsche mark Eurobonds are an exception: most secondary market trading takes place on the German stock exchanges.

The main components of any market are its participants, the rules of the market and the settlement system. Participants in the secondary market consist of investors, market-makers and other securities firms, and brokers, who are responsible by the intermediate process. The rules of the system are mainly set by the Association of International Bond Dealers (AIBD). The settlement systems are provided by Euroclear and Cedel.

In different countries, authorities supervise the secondary market in order to prevent systemic risk that might arise from the failure of firms operating in the market. Authorities may also wish to ensure that the market is liquid and to protect the investors from deceptive or unfair practices.

1.6- CLEARING SYSTEMS

Global financial markets require an effective and smooth system for the settlement of transactions. Otherwise, participants face escalating credit risks and financing costs. The primary goal in clearing procedures is to reduce the costs associated with bond transaction. This means that actual physical bonds should be moved around as little as possible. But the buyers must receive the securities purchased, and sellers must receive cash payment. This became complicated when the buyer and the seller may be in two different countries. Moreover, the broker or dealer firms involved in a transaction may also be in different parts of the world from the buyer or seller. Geographical separation of parties increases the potential of fails.

In response to such problems, two clearing systems have been developed to handle international transactions: Euroclear and Cedel. The first one, Euroclear (Euroclear Clearance System Limited) was created in December 1968 by Morgan Guaranty Trust Company of New York is located in Brussels and Cedel (Centrale de Liveraison of Valeurs Mobilières) started in September 1970, in Luxembourg, under Luxembourg's laws.

The original objective of both, Euroclear and Cedel clearing systems, was to handle Eurobond transactions, which currently handle a wide variety of securities and settle international primary and secondary equity transactions. Transactions may now be settled in any of 28 currencies, using a wide range of securities as Eurobonds, foreign bonds, domestic bonds, certificates of deposit, debt and equity warrants, registered and bearer securities. In recent years Euroclear has expanded into international equity settlement and processes more than 2.500 stocks. Nowadays, both systems cover around 10.000 differents instruments.

The systems hold securities for its participating organizations and facilitates the clearance and settlement of securities transactions between participants through electronic book-entry changes in accounts of participants, thereby eliminating the need for physical movement of certificates. Each of the clearing systems has a group of depositary or custodian banks in which physical bonds are stored. Members, who are participants maintain bond and cash accounts with the systems. When bonds are purchased or sold, book entry settlements are made, transferring the ownership of bonds or cash between the two members. The bonds themselves are seldom, if ever, moved. The settlement period was shortened from five business days (seven calendar days) to three business days in 1995.

German Banks prefer to deposit their Deutsche mark Eurobonds in a domestic group of depositary banks, the Kassenverein, which have direct links with Euroclear and Cedel. Similarly, most Swiss franc bonds are deposited in Switzerland, usually with the local clearing system SEGA. The whole clearing system is highly efficient because there are electronic bridges between Euroclear and Cedel, as well as between the various domestic clearing systems as for instance, NECIGEF in the Netherlands, CIK in Belgium, SICOVAM in France, and others.

Both, Euroclear and Cedel collect a transaction fee for each book entry, as well a custody fee for holding the securities. The custody fees are a function of the client’s transaction volume: if the member bank maintains a large bond turnover, the custodial fee probable will be nil.

Euroclear and Cedel can also be used to distribute new Eurobonds from the borrower issuing the bonds to syndicate members and final investors who have purchased the bonds. The printed bond certificates are delivered in bulk to the clearing system. The clearing system then collects the subscription payments, gives book-entry credits to the new owners of the bonds, and remits the funds to the underwriting syndicate. Similarly, a clearing system can be used to distribute coupon payments from a borrower.

1.7- CREDIT RATING

Rating represents a formal evaluation of a securities investment and credit risk by rating agencies as Duff & Phelps, Fitch Investors Services Inc., Moody’s Investors Services and Standard & Poor’s Corporation, in the United States, IBCA in Europe and Japanese Credit Rating Agency (JCRA), in Japan.

Only Moody’s and Standard & Poor’s are fully accepted as rating agencies in the Eurobond market. Moody’s and Standard & Poor’s have been rating securities since 1909 and 1923 respectively. Moody’s rates securities to provide a simple means of comparing the credit worthiness of that security with another. It grades the investment quality of a bond or a credit risk by country by nine symbols, which range from the highest investment quality to the lowest, as shown in Table 4.

Table 4: Moody’s - Credit Rating

Rating	**Explanation**
Aaa	Best quality
Aa	High quality
A	Upper medium grade

Baa	Medium grade
Ba	Possess speculative elements
B	Generally lack characteristics of desirable investment
Caa	Poor standing; may be in default
Ca	Speculative in a high degree; often in default
C	Lowest grade; very poor prospects.

Source: Horne, James C.Van in Financial Market Rates & Flows-1994

Standard & Poor’s debt ratings provide an assessment of the credit worthiness of the issuer with regard to a specific security. They apply ten different ratings, from the highest to the lowest rank. The Table 5 describes the ratings and definitions used by Standard & Poor’s.

Table 5:Standard & Poor’s - Credit Rating

Rating	**Explanation**
AAA	Highest grade
AA	High grade
A	Upper medium grade
BBB	Medium grade
BB	Lower medium grade
B	Speculative
CCC-CC	Outright speculation
C	Reserved for income bonds
DDD-D	In default, with rating indicating relative salvage value.

Source: Horne, James C. Van in Financial Market Rates & Flows-1994

In both, Moody’s and Standard & Poor’s, the first four grades are considered to represent investment-grade securities. The remaining grade rated are considered speculative securities. In case of the Moody’s rating from Aa to B may be modified by 1, 2 or 3, with 1 being the high raking, 2 the mid ranking and 3 the low ranking within the rating. Standard & Poor’s rating AAA to B may be modified by a symbol of "+" or "-" to show relative standing within the rating.

Ratings can change from time to time, up or down, depending on the prosperities of the issuer. Ratings are not a recommendation to buy or to sell a particular security but only an indicator about the quality of the security or the issuer. The quality of the rating will affect the size of funding that can be raised by the issuer and the coupon that the security will bear.

2- MAJOR BOND MARKETS

2.1- THE EUROBOND MARKET

The Eurobond market is comprised for all bonds issued and sold in a jurisdiction outside the country of the currency of denomination. Differently from the Foreign bonds, Eurobonds are usually sold simultaneously in the market of several nations. However, when the bonds are registered with the SEC in the United States and traded in North America, Europe and Asia, simultaneously, they are called Global Bonds. The role of the Eurobond market is to provide capital for borrowers from all parts of the world in a wide ranger of currencies and instruments.

During the 1950s and early 1960s the U.S. capital market was the primary source of funds for international borrowers. In 1963 the United States imposed an Interest Equalization Tax (IET) on foreign securities held by U.S. investors. The tax forced non-U.S. corporations to pay a higher interest rate in order to attract U.S. investors. These measures made the U.S. bond market less attractive to foreign borrowers and led to the development of the Eurobond market. The Subscription Agreement signed in July 1963 for a loan of US$15 million for Autostrade (Concessioni e Construzioni Autostrade), from Italy and the bankers S.G. Warburg & Co. is considered the first international syndicated Eurodollar bond, distributed to investors throughout Europe[8].

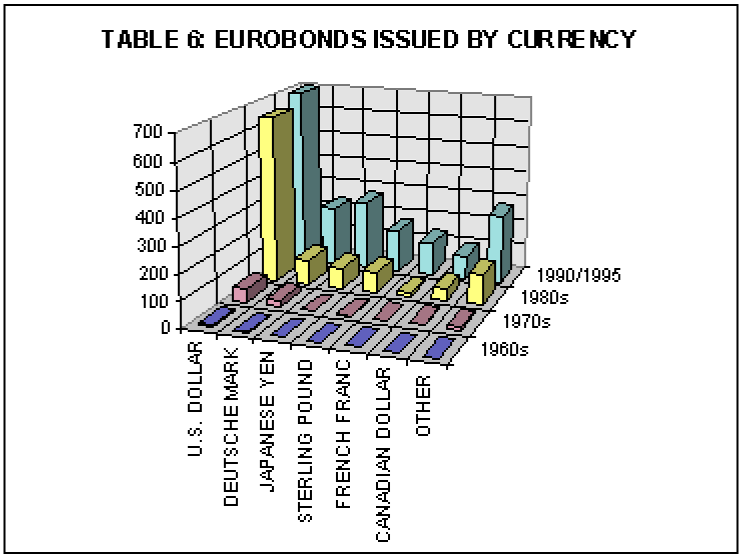
Since then, the Eurobond market has increased continuously as shown on the Table 2. Although the U.S. Government has repealed of the IET in 1974, as well as various other measures taken to attract foreign issuers and borrowers to the U.S. domestic market, these measures did not slow the growth of this new market. New techniques were introduced in the Euromarket in order to provide the issuers with the best possible terms. The *bought deal,* a procedure for a new bond issue whereby the lead manager buys the total issue from the borrower on previously agreed fixed terms, including coupon level and issue price, was created in 1979 and is now a standard practice in the market.

The most important characteristic of a Eurobond offering is the composition of the underwriting by an international financial institutions syndicate. Eurosyndicates include institutions able to place securities in various markets, simultaneously. A Eurobond is not regulated by the single country whose currency is used to pay bondholders. Regulators of other countries whose currencies are used in Eurobond issues have closely supervised such offerings. Their power to regulate Eurobond offerings comes from their ability to impose foreign exchange and/or capital restrictions.

Other feature is a fixed-price-reoffer technique in placing new issues introduced in 1989. This technique, standard in U.S. public bond offering, attempts to guarantee underwriters a return on a transaction. Participants of the syndicate agree not to sell the bond at below the offer price until such time as the syndicate has formally "broken". From the borrower’s point of view the advantage is that the fees can be lower. The book-runners and co-managers have a contractual obligation not to discount fees by selling bonds cheaply to investors even before the distribution of the bonds has been completed.

Informally, the Eurobond market might be divided into sectors, in accordance with the currency in which the issue is denominated. Therein, Eurobonds denominated in the Japanese Yen are called Euroyen bonds. Securities issued in U.S. dollars are referred as Eurodollar bonds.

The currency most used in this market is U.S. dollar, although there are stronger demand for others currencies, as Deutsche mark, British pound, Japanese Yen, French franc and Canadian dollar, as shown on the Table 6[9]. These currencies were introduced to the Euromarket due to the various restrictions in the domestic markets. The less restrictive requirements in the Euromarket made issues both faster and more economical than similar domestic issues, representing an additional advantage for the borrowers.



The Euromarket is accessible to sovereign borrowers, supranational institutions, financial institutions, and international corporations classified as best credit quality names. There aren't fixed limits for the size of the issues, although the market does not prefer amounts smaller than US$ 50 million. Dependent on the market conditions and the credit quality, it can take a size up to US$500 million or more.

Nowadays, Euromarket normally requires a rating for a successful issue, but the practice was not observed during the 1970s years. Standard & Poor's and Moody', are only rating agencies fully accepted in the Eurobond market, although there is a rating agency in European: IBCA. When the Japanese currency gained importance in the international market, three Japanese rating agencies of credit were introduced in the market: 1) Japanese Credit Rating Agency (JCRA); 2) Nippon Investors Credit Service (NICS); and, 3) Japan Bond Research Institute (JBRI). These agencies have not the same recognition of the Moody's and Standard & Poor's in the Euromarket.

Eurobonds are registered on a stock exchange. The most common is in Luxembourg Stock Exchanges to satisfy the requirement of obtaining a public quotation at least once a year or quarter and because some institutional investors who are prohibited from purchasing

securities that are not listed on a stock exchange. However, there are very few transactions that go through the stock exchange. The bulk of all trading in Eurobond is in the over-the-counter market (OTC market). The settlement of Eurobonds typically takes place through two international clearing agencies, Euroclear and Cedel.

Because the instruments are issued in bearer form, is virtually impossible to identify the investors in this market. This procedure makes it difficult for the authorities to monitor and tax the holders of the securities. Both, individual and institutional investors have always played a significant part in the market. In general, most Eurobonds are privately placed or traded briefly following initial issuance and then closely held by individual or institutional investors. Some, particularly, when an Eurobond is issued in large amount and the borrower is well-known, these bonds are then traded actively in a secondary market. Prices are quoted and transactions are executed on a "net" basis, free of commissions. The market-maker quotes a bid price and an offer price.

Issuers whose bonds are trading actively include sovereign borrowers, supranational institutions, major banks and corporations. Some of these bonds, such as certain World Bank issues, will become "benchmark" Eurobonds, which are used as key indicators for the pricing of other, comparable bonds.

When the Eurobond is denominated in U.S. dollars they are quoted in relation to the U.S.Treasury Bond, meaning their yields are seen as a spread over the benchmark U.S. Treasury bond of comparable maturity. The U.S. Treasury Bond is taken as the reference point for other U.S. dollar denominated bonds for two reasons: a) U.S. Treasury bond have the lowest risk of default of all the U.S. dollar bonds; b) the U.S.Treasury market is the most liquid U.S. dollar bond market. Yields in the Eurobond market are conventionally quoted in terms of yield to final maturity assuming annual payment, because Eurobond coupons are paid once a year. In this case, to compare them with Treasuries, therefore, one has to convert the yield to a semiannual basis.

2.2- THE U.S. BOND MARKET

This is the largest market in the world, including federal government issues, which include securities issued directly, such as treasury notes and bonds, as well as those issued by federal agencies, state and local government issues, corporate and foreign issues, and Eurodollar issues.

Bonds issued by foreign borrowers in the U.S. domestic market are known as Yankee bonds. For years the Yankee bond market was the largest and most important foreign bond market. This sector of the American market was the only compartment ever subject to any sort of capital controls, until 1963 when the U.S. Government introduced the Interest Equalization Tax of 1963 (IET). These measures made the U.S. bond market less attractive to foreign borrowers. After 1974, the market became again active when the IET was lifted. Since then, the U.S. domestic market for foreign borrowers has divided attractively with Eurobonds market.

Yankee bonds are registered securities under the U.S. Securities Act of 1933. This act requires that all public issues of new securities in the United States must be registered, which involves meeting the disclosure requirements of the U.S. Securities and Exchange Commission (SEC). In general the registration process is six or eight-weeks long. This period can be speeded up by a process known as shelf registration, on which the borrower files a prospectus that covers all anticipated issuances within the coming year. When the borrower decides to do a new issue, he has to add a supplement prospectus, which takes only a week to be approved. If the bonds are listed in the stock exchange (the most usual is on the New York Stock Exchange-NYSE), the issue must be registered under the Securities Exchange Act of 1934.

Yankee bonds are, in general, rated by a bond rating agency such Moody’s and Standard & Poor’s. A rating is necessary if the issuer intends to sell the bonds to certain U.S. institutional investors. Interest coupons are paid semiannually. There is no withholding tax on coupon payments to foreigners who purchase Yankee bonds, but American investors are subject to pay taxes, under the Tax Equity and Fiscal Responsibility Act (TEFRA).

Eurobonds in dollars are denominated and referred as Eurodollar bonds. The U.S. authorities make no special attempt to control issues in Eurodollar by foreigners. There are, however, some regulations that affect the management and sale of Eurodollar for American investors.

The SEC imposes a seasoning period of ninety days from the date of issue of a Eurodollar, during which time the bonds may not be sold to U.S. citizens on the primary market. However, such bonds can be purchased in the secondary market, after the seasoning period is over, although the bulk of these securities tend to be held outside of the United States.

The prohibition on sales to U.S. nationals on the primary market is waived for so-called "private placement" Eurodollars. In this case, bonds do not have to be registered if they are privately placed rather than publicly distributed. A "private placement" is an issue purchased by one, or a restricted group of investors. The private placement exemption from registration and disclosure is valid to Eurodollars as long as the U.S. investors meet the following requirements: 1) they are large, have its own team of sophisticated analysts which has access to information and analysis similar to that which would ordinarily be contained in a registered offering prospectus; 2) they are able to sustain the risk of losses, in cause of issuer’s "default"; and, 3) they intend to purchase the bonds for their own investment portfolios not for resale.

2.3- THE JAPANESE BOND MARKET

Japanese bond market included the domestic bond market, called Samurai and the international bond market, known as Euroyen. Samurai bonds are yen-denominated bonds issued by non-Japanese residents and sold to investors in Japan under the Japanese regulations. This differentiates Samurai bonds from Euroyen bonds, which are issued in the international offshore market, usually in London. There are also yen-denominated bonds issued by nonresident through private placements in Japan, called Chubbiest bonds. The volume of these bonds are not large.

The Japanese bond market is already the second largest in the world, and with its large domestic saving base, Japan easily has the potential to make Tokyo a leading international capital market. For years, however, foreigners have had only limited access to Japan's bond market. The first yen Eurobond (by the European Investment Bank) did not appear until 1977, and strict regulations prevented much subsequent growth. From its inception in 1977 until 1984, the Euroyen market was limited because of restrictions on issuers. After that, a period of gradual deregulation process had taken place by Ministry of Finance of Japan (MoF), resulting in a great expansion of this market.

The Samurai market began earlier, at the end of 1970, by Asian Development Bank, but access was limited mostly to international organizations and foreign governments. The first sovereign issue occurred in 1972 by the Commonwealth of Australia and the issued by a foreign corporation, Sears Roebuck, did not occur until 1979.

With the exception of the oil crisis years, the number of Samurai issues increased steadily until 1984 when Samurai market declined due to the growth of the Euroyen market. Then, through the subsequent years, the Japanese MoF sought to increase the attractiveness of the Samurai market by gradual deregulation. The last deregulation, occurred in January 1996, eliminated the minimum credit rating requirement by the issuer ("investment grade-BBB"), simplified the Securities Registration Statement (SRS) requirements, and introduced more flexibility in terms of features of bonds.

As mentioned before, MoF is responsible for the regulation of the Japanese financial markets. All bonds issued must be approved by the MoF, which plays a role similar to the SEC in the U.S.. Although there are more than 200 securities companies in Japan, four dominate the domestic market: Nomura, Daiwa, Nikko, and Yamaich. These four firms are referred to as the "Big Four", or Yondai Shoken. In 1994 they were responsible for 96 percent of the Samurai market issues[10].

Other considerations about the Japanese market are with references the costs, that is interest payments, investors bases, benchmark, and listings. In terms of costs, the underwriting fees and other issuance costs are nearly three times higher in the Samurai market compared with the Euroyen market. First, because the domestic market is dominated by the "Big Four" securities houses, while in the Euroyen banks are free to compete. Second, because issues in the domestic market must have a Commissioned Company participation and other specific fees not usually charged in Euroyen.

Investors bases are different too: Euroyen is exclusively an institutional investor base, while the Samurai market has a large retail investor base. Interest payments in Samurai bonds are on a semi-annual bases (annually bases in Euroyen). In terms of listings, although this procedure does not constitute mandatorium, Euroyen bonds are usually listed in Luxembourg or London while Samurai bonds are listed on the Tokyo Stock Exchange. Bonds issued in Japanese market take the Japanese Government Bond (JGB) as a benchmark in both, domestic and Euroyen market.

Japanese yields are calculated on a different basis from that employed in most other financial markets. The United States market, for example, use the yield to maturity to quote bond yield. This method is controversial because it assumes that the coupon payments can be reinvested at the calculated yield to maturity. In Japan, interest is not compounded in the yield determination. The bond yield are quoted on a "simple yield" basis. This method, although less sophisticated, can be more appropriate to forewarn the investor that the yield measure may leave a great deal to be wished as a measure of relative value[11].

2.4- THE GERMAN BOND MARKET

The German bond market, the third largest in the world, is one of the most liberal markets. Apart from some tailor-made securities available only to German investors, there are no restrictions on foreigners purchasing German securities. Deutsche Mark Foreign Bond (DM Foreign Bond) is not legally different from a Eurodeutsche bond (DM Eurobond). The difference is that if the banking syndicate selling international DM bonds is composed of only German banks, the bonds are classified as DM "foreign" bonds, while if the syndicate includes non-German banks, the bonds are called DM "Eurobonds". The market is dominated by the major German banking institutions, which operate as universal banks, because there is not separation between investment banking and commercial banking. As showed in Table 1 the number of the Foreign bonds issued in Germany market is not significant.

The first DM bond issue occurred in 1958. Since then, the DM bond market has expanded into one of the major segments of the international bond market. This growth can be attributed to the steady progress made in the deregulation of the DM bond market and the increasing desire of investors to diversify risks from the U.S.dollar to a stable currency such as the Deutsche Mark.

Since the early 1980s numerous steps have been taken to implement the liberalization of the German market. Further, a number of new financial instruments have been introduced. The major elements of this process were:

- the concession to subsidiaries of foreign banks to lead manage Euro DM bond issues;
- the abolition of the Stock Exchange Turnover Tax, which was a major constraint for the development of the secondary market;
- the consent to issue instruments such as floating rate notes, zero-coupon bonds, dual currency bonds, bull and bear bonds (equity-indexed bonds), and various types of warrants;
- the abolition of the queue system. Currently, is necessary to have a simple report to the Bundesbank on the day of launching;
- the abolition of certain legal restrictions regarding domestic bond issues, particularly paragraph 795 of the German Civil Code, which determined previous approval for domestic issues; and,
- the reduction of the minimum lifetime of DM bond issues from 5 years to 2 years made possible to offer DM Medium Term Notes as a new financing instrument to the borrowers.

The consent to issue floating-rate notes led the German commercial banks to reach a consensus on the creation of a FRN reference rate: the Frankfurt Interbank Offered Rate (FIBOR). In this system, twelve banks report their three-and-six months offered rates each day between 11:00 and 11:30 A.M. to the Privat-Diskontbank, which eliminates the lowest and highest quotes and publishes an average of the remainder as the offered rate.

The DM bond market allows the issue of public offerings as well as private placements. The difference between these types of securities are that private placements which are not listed on the stock exchange, but are placed with a limited number of investors and are issued only in the short term maturity. Public offerings are listed and placed with a broader investor base and generally have a long lifetime. Due the general buying restrictions applicable to some institutional investors, who may only buy listed securities, and to the reluctance of many other investors to buy issues that they perceive will have a low trading liquidity (no transaction in secondary market), the private placement are rare in the DM bond market.

Traditionally, the DM bond market has been most utilized by public borrowers from Western industrialized countries and by supranational organizations. However, a growing number of borrowers from the private sector and the development countries, as a consequence of the regularization of the external debt problems, have utilized this market. Since 1994 Latin American countries, as sovereign borrowers, have issued several bonds in DM market as Uruguay (DM 200 million,) Argentina (DM 2 billion) Brazil (DM 1 billion), Mexico ((DM 1 billion) Venezuela (DM 500 million) and Colombia (DM 150 million),

Due to the discretion which bankers disclosing information about their clients, only the status of the initial purchaser (financial institution, non-bank or foreigner) and the country from which subscriptions originate can be determined. However, the countries mentioned indicate the operational base of the intermediary banks and brokers only, and do not necessarily represent the areas of actual investor demand. The major distinction between types of investors in the European capital market is between the institutional and private investors.. The retail investor in Germany is particularly keen to invest in DM bond market given the bearer characteristics of the paper.

Traditionally the maturity of issues has been between five and ten years for straight bonds and five and fifteen years for floating rate notes. Since July 1, 1989, when the Bundesbank (German Central Bank) reduced the minimum maturity allowing two years DM issues, the market has been open to the medium term securities.

Interest is payable on an annual basis for fixed-rate bonds and a quarterly or semi-annual basis or floating-rate note issues. Interest payments are made free of withholding taxes or any other duties. As a consequence, there is no reporting requirements for coupon payments and the bond are usually issued in bearer form.

All public offerings are listed on at least one of the eight German stock exchanges. The most commonly chosen exchange is located in Frankfurt. Over 70% of the total turnover in debt instruments on the German stock exchanges is traded there. Clearing is made through the Effektengiro System, a special clearing system established in Frankfurt. The listing procedure is handled by the Stock Exchange Admission Board, and typically the bank lead manager of the issuance is responsible for file the application on behalf of the issuer. The application for listing and official quotation has to be published in a mandatory newspaper designated by the stock exchange. The bank filing the application must also submit a Listing Prospectus in the German language as well as various other documents of the issuer and, if any, of the guarantor.

3-BRAZIL: INSERTION INTO THE INTERNATIONAL BOND MARKET, AS SOVEREIGN ISSUER

3.1- THE BRAZILIAN ISSUES

On April 15, 1994, Brazil implemented its Brady-style debt restructuring agreement ("Brady Plan") with the international financial community, which involved repackaging roughly US$44 billion of its old debt[12]. Besides, having introduced an economic stabilization plan ("The Real Plan"), on June 01, 1994, Brazil was preparing to return to the international financial market, as a sovereign issuer, after an absence of 15 years.

The strategy drown by the National Treasury Secretariat and by the Central Bank of Brazil, as the agent of the National Treasury, aimed: a) to reinsertion of Brazil into the financial market; b) to create a new benchmark for Brazilian securities; and c) to create and broaden the investor base interested in Brazil’s risk. The volume of the resources was not important, because the Brazil international reserves at a were in high level[13]. Extra inflow of foreign capital, would result in expansion in the monetary basis and, in consequence, macroeconomic disequilibrium. However, the first issue in the procedure of re-entry, must have great volume, in order to impact in the market.

During the year of 1994, several other events occurred in order to permit the return of Brazil to the international market. As determined by Federal Constitution, the Federal Senate approved the Resolution # 87/94, authorizing Brazil to issue securities in the international market up to US$2 billion. In accordance of the Ministry of Finance proposal, the Resolution determined that all the resources from the external issues should be used to reduce the domestic public debt, because the difference between domestic and external interest rates. Furthermore, Moody’s and Standard & Poor’s released an "upgrade"for Brazil’s risk. But uncertainty in the international market as consequence of Mexico’s political and financial crisis in the end of December 1994 temporarily frustrated efforts to issue a U.S. dollar Global Bond.

However, in June of 1995 Brazil made its first venture into the international capital markets, launching Yen 80 billion in Euroyen market. The offering was the country’s largest ever international bond issue and the largest ever borrowing by a Latin American countries credit in the Euroyen market. This launch, lead by Nomura Securities, signaled that the market was opening again to Latin American issuers despite the impact of the Mexican crisis. Securities were sold to Japanese investors of different profiles, as banks (41%), private corporations (31%), public and financial institutions (7%) and others (16%). Private banks and Corporations in United Kingdom and Asian funds bought roughly 5% of the bonds offered.

Considering the overwhelming success of this first issue, Brazil decided to try the Deutsche mark bond. On July of 1995 a three-year bond was issued, having the Deutsche Bank as lead manager. The deal, initially planned in the amount of DM 500 million, had increased the amount to DM 750 million and closed in DM 1 billion, because the strong demand in advance of the launched. From the point of view of the some bankers, the deal marked Brazil's rehabilitation as an international borrower[14]. The purchases of these bonds in the primary market were investment managers (47%), funds (25%), insurance companies (13%), private banks and retail (13%), and central banks (2%). The Table 7 shows more details about both, Euroyen and Eurodeutsche:

Table 7:Main characteristics of the issued made by Brazil in 1995

Characteristics	EUROYEN	EURODM
Issue Date	June 19, 1995	July 20, 1995
Amount	Yen 80 billion	DM 1 billion
US$ equivalent (*)	US$ 945 million	US$ 723 million
Maturity	2 years - bullet	3 years - bullet
Coupon / Periodic	6% a.a.- Annual payments	9% a.a. - Annual payments
Spread (over US Treasury)(*)	481 bases points	410 bases points

(*) in the issue date. Source: National Treasury Secretariat-Ministry of Finance-Brazil

In early 1996, after receiving new authorization from the Federal Senate, through the Resolution # 57/95, permitting to launch bonds in a total amount up to US$ 5 billion, Brazil decided to continue its issue program, denominated Medium Term Note Program.

The new approach sought to take advantage of the deregulation package effective since January 01, 1996 in the foreign bond market in Japan and the favorable financial conditions prevalent in yen market. Brazil's re-entry into the Samurai market, in March 1996, offering Yen 30 billion in a five-year instrument. The issue, led by Nomura Securities, had strong demand and was sold to financial institutions, corporations and individuals, who represent an important part of the Japanese domestic market. Some syndicate members, meanwhile, indicated that they would have preferred a larger allocation, as they identified strong demand from corporations. Brazil, however, preferred to keep the initial approach, considering that to get best price was better that a huge volume.

In May, Brazil became the first non-European sovereign issuer in Portuguese escudos, launching PTE 12 billion in a three-year floating rate note in the Navigator market. This was the first FRN issued by Brazil after its had returned to the international financial market. Although the syndicates for Navigator bonds usually have been supported almost always by domestic institutions, when launching occurred, a significant demand came from nonresident banks. The final distribution resulted in a balance between domestic and foreign institutions. Banco Finantia and Banco Cisf, as joint lead, were responsible by the transaction. The buyers were predominantly institutional investors.

The third movement from Brazil in the financial market this year occurred in the United Kingdom, where Brazil made its debut in June. Lead by Hong Kong Shanghai Bank Corporation, the issue was GBP100 million large and a three years maturity. The deal had more than 20% sold for Asian investors and the remainders distribute between investors in the United Kingdom and the rest of the Europe. The Table 8 provides additional features of each bond launched by Brazil in 1996:

Table 8: Main characteristics of the issued made by Brazil in 1996

Characteristics	Samurai	Navigator	Eurosterling
Issue Date	March 04, 1996	May 15, 1996	June 12, 1996
Amount	Yen 30 billion	PTE 12 billion	GPB 100 million
US$ equivalent (*)	US$ 285 million	US$ 76 million	US$ 151 million
Maturity	5 years - bullet	3 years - bullet	3 years - bullet
Coupon	5,5 % a.a.	Lisbor+2,4% a.a.	9,875% a.a.
Periodic	Semiannual	Semiannual	Annual
Spread (over US Treasury)(*)	320 bases points	262 bases points	250 bases points

(*) in the issue date Source: National Treasury Secretariat-Ministry of Finance-Brazil

3.2- BRAZIL'S BENCHMARK IN THE BOND MARKET

Brazil's issues can be considered modest in terms of volume (less that US$3.5 billion, in total), in contrast with Mexico and Argentina, other Latin American countries with recent reinsertion into the international bond market. Both, Mexico and Argentina, have a more ambitious program. This year, from January to August 17, the external financing program developed by Mexico achieved US$ 11.2 billion, while Argentina obtained US$ 5.8 billion[15].

Despite this point, Brazilian insertion into the international bond market can be classified as a success. As mentioned, maintained huge volume was not important because the high level of the international reserves. The most important goal for Brazilian Government, have been to make a new benchmark for Brazilian securities and to broaden the investor bases interested in Brazil's risk.

In this context, "roads shows" were promoted in London, Tokyo, Lisbon, Edinburgh, Geneva and Frankfurt for the purpose of to present Brazil to a increasing number of investors. The issues established a benchmark for Brazilian securities up to five years maturity in some markets. After this CESP (*Centrais Energéticas do Estado de São Paulo*), an electric power state company issued bonds in the Eurodeutsche market and BNDES (*Banco Nacional para o Desenvolvimento Economico e Social*) , a Brazilian bank that answers for the financial assistance in economic and social area made launching in Samurai and Eurodeutsche market. In these examples, BNDES and CESP paid a "spread" more favorable than Brazil. Furthermore, recently, CESP released its intention to launch bonds in Portugal, following the way opened by Brazil.

3.3- THE SECONDARY MARKET FOR BRAZILIAN BONDS

Brazilian Brady bonds have shown strong demand and movement in the secondary market. The huge amount of these bonds (roughly US$ 51 billion, considering IDU Bonds and Exit Bonds, other Brazilian restructuring debt bond) and the expectation of a high yield from these papers have put Brazil on the top of the Brady transactions. According to Emerging Markets Traders Association, Brazilian Brady bonds answered by 36% of all transaction evolving Brady bonds in the secondary market in 1995, followed by Argentina (26%) and Mexico (12.1%).

The behavior of the market with the new Brazilian bonds has been different from Brady bonds. Euroyen and Eurodeutsche have had a reasonable number of transactions in the secondary. In contrast, bonds issued in Navigator and Samurai market have shown fewer transactions. In relationship the Navigator the follows reasons can be identifying: first, bonds were issued in Portuguese domestic market as opposed to the Euro-Escudo market. This point became more difficult and with less interesting swap transactions evolving this bond. The second point is the small volume of the latching, when compared with the international market pattern. The amount of the deal reduces the liquidity of the paper.

Samurai market is characterized by a strong demand in the retail sector. In this sector, in general, bonds are hold by householders until the maturity date, which avoid transaction in the secondary market. Besides, the amount of the issuance can be considered small in terms of the Japanese market.

Eurosterling bonds in the secondary market is sightly different from the Samurai market. Since the launching of the bonds, some transactions have been registered in the secondary market evolving this security. Again, the small portion of this bond is a considerable factor for this performance.

3.4-BRAZIL’S RISK EVOLUTION

For the agencies of evaluation of country risk credit, grades above rating "BB" are considered as investment grade, i.e., no speculative investment. Brazil’s risk has been under constant evolution. In November 1994, Moody’s got an "up grade" for Brazil, elevating it rating from "B1" to "B2". Standard & Poor’s released a rating "B+" and a "Positive Outlook" for Brazil in July 1995. IBCA, an European rating agency qualified Brazil as "B+" in August and Duff & Phelps changed Brazil’s rating from "B+" to "BB-" in November 1995.

The implementation its external debts restructuring agreement and the satisfactory performance of the Brazilian economic stabilization plan ("Real Plan") are being responsible for this evolution. The complement of the Brazilian privatization program and the conclusion of the Constitutional reform will be important contribution to improve Brazil’s rating.

From the point of view of some market professionals, Latin Americans rating are undervalued and Brazil could be upgraded[16] .

3.5- THE PERSPECTIVES FOR BRAZIL

Because the high level of international reserves, Brazil has been conservative in the international capital market. In 1996 Brazil has made only three small issues in Japanese yen, Portuguese escudos and Sterling pounds, to keep its name alive in the market. However, several other procedures must be implemented to achieve the strategy drew by the National Treasury and by the Central Bank.

First, Brazil needs to establish a benchmark for U.S. dollar bonds, a market still unexplored by Brazil. The lack of a dollar benchmark from the sovereign has forced market participants to make the Bradys Bonds, especially the IDU and C-Bond, as benchmark substitutes. In this case, as the Brady Bonds have a higher spread in terms of U.S. Treasury Bonds, the result is not good for Brazil.

Second, a benchmark for ten year bonds must be explored. After this, a long-term global bond, linked with a debt restructuring Brady bonds exchange, could be structured. In September, the Brazilian Federal Senate authorized that Brazil make a debt swap involving all of its US$51 billion in Brady Bonds, an important tool to management of the external debt.

The performance of the interest rates in countries such as United States, Japan and German will be the key-point to determine the behavior of the bond market for the next year. Once Brazil continues to improve its macroeconomic fundamentals, as a consequence of the process the management of the Real Plan the capital inflow will continue to be steady. These facts will permit that the Federal Government to continue the strategy to access the international bond market, and improve the administration of the Brazilian public debt.

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