

**SUSTAINABILITY AND RISK ANALYSES OF
BRAZILIAN STATE'S DEBT REFINANCING LAW
ON STATE OF RIO GRANDE DO SUL**

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Minerva Program, Fall 2010**

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PRESENTATION SUMMARY

- Brazilian states' refinancing law – background
- RGS Debt – Datas, information and current situation
- Sustainability theory and application on RGS State Debt
- Risk Analyses
- Final Considerations

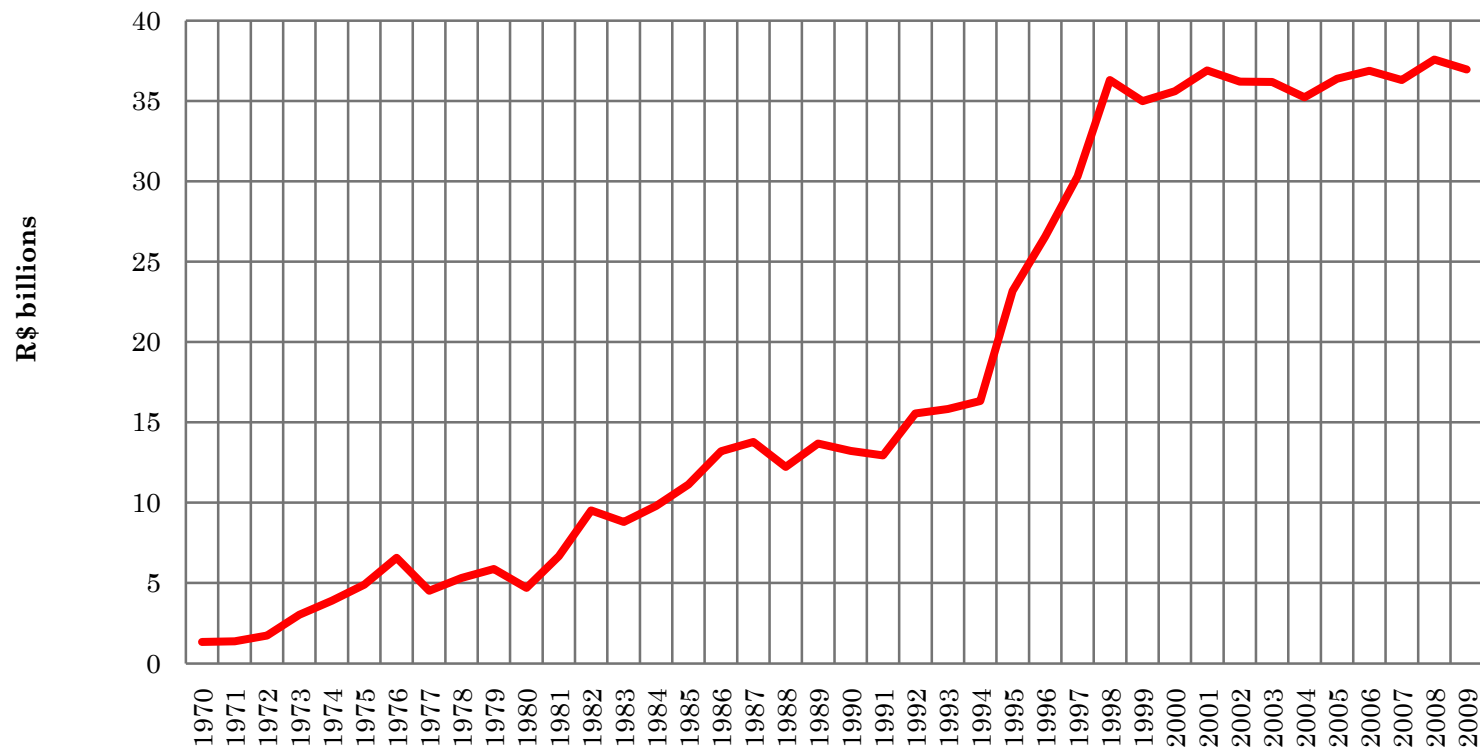


REFINANCING LAW - BACKGROUND

- **Law 9496** – “Program to Support Restructuring and Fiscal Adjustment of States” was negotiated in 1998
- **Economic Environment** - Brazil Economic Stabilization Plan and Asia Crisis (high interest rate: confront inflation and maintain capital inflow)



RGS TOTAL DEBT



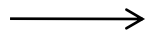
REFINANCING LAW - AGREEMENT

- Federal governments assumed all states' bonds and changed by a single contract
- Debt Burdens negotiated:

IGP-DI + 6% and 13% Real Net Revenue



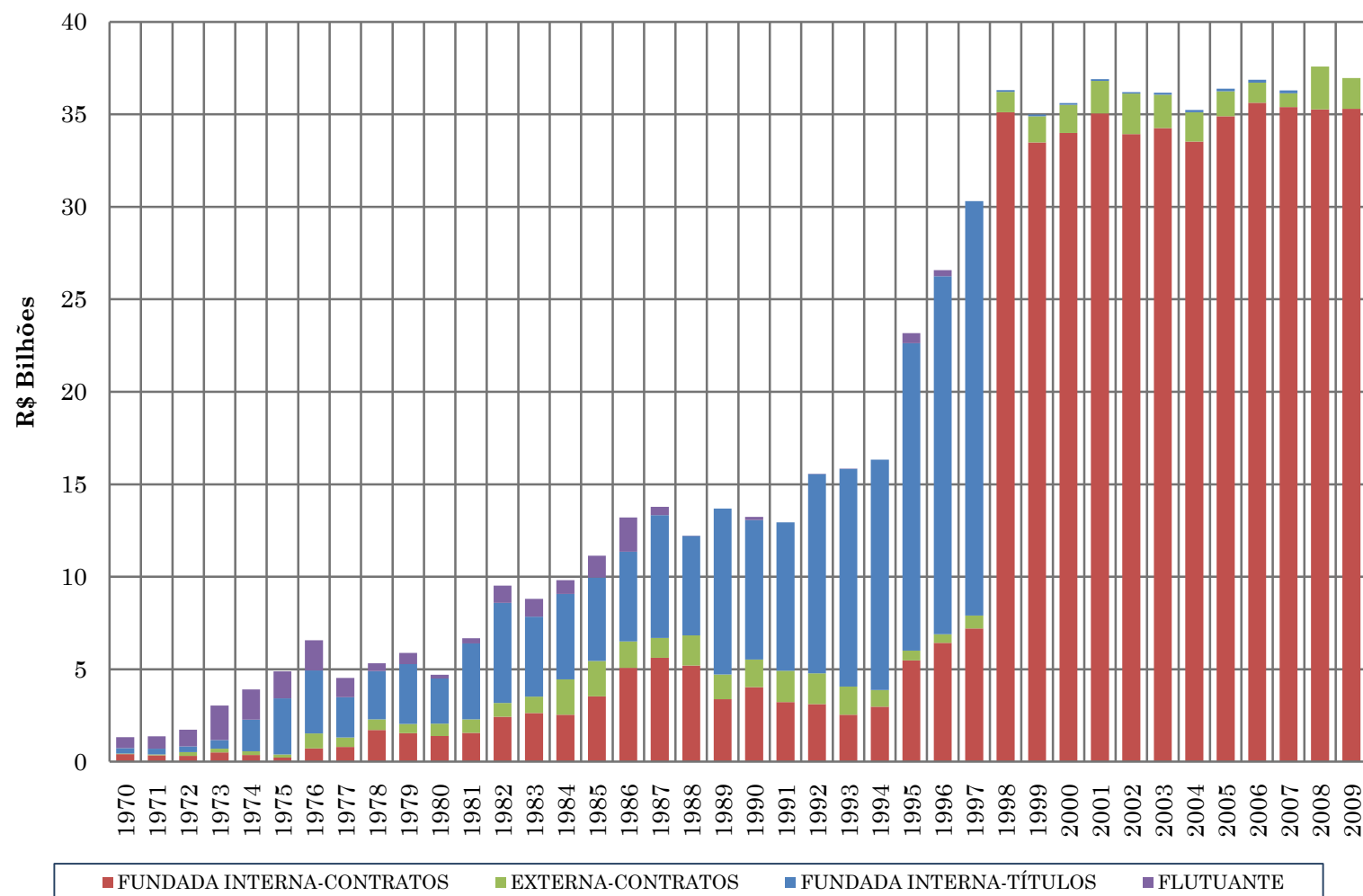
“Original Installment - OI” “Debt Payment-DP”



- $O I > D P$ Accumulate Residual



RGS STATE DEBT: BONDS X CONTRATC



REFINANCING LAW – IMPORTANT POINTS

- Rigid and concentrated control by federal government on states 'debt
- Debt limits for states
- Prohibited states to issue new bonds



RGS DEBT: DATA AND INFORMATION STOCK

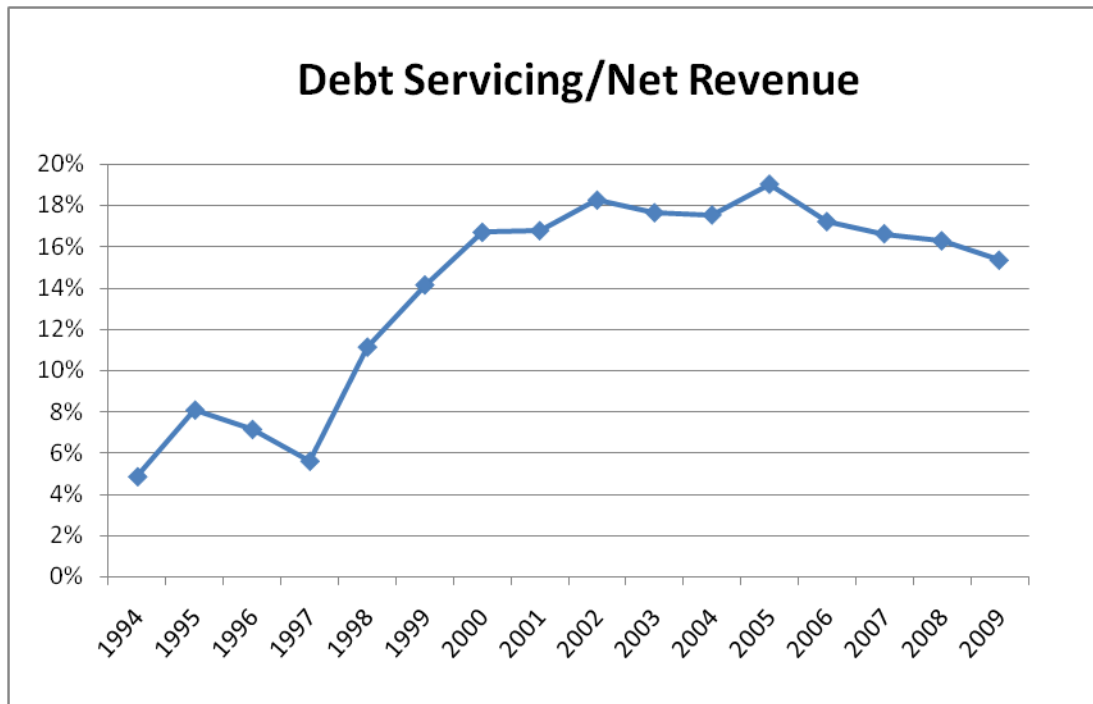
December 2009

- RGS total debt - R\$ 36,9 billions
- Refinancing law represents about 90% of total debt
- Residual represents 35% of total debt and 40 % of the refinancing law



RGS DEBT: DATA AND INFORMATION

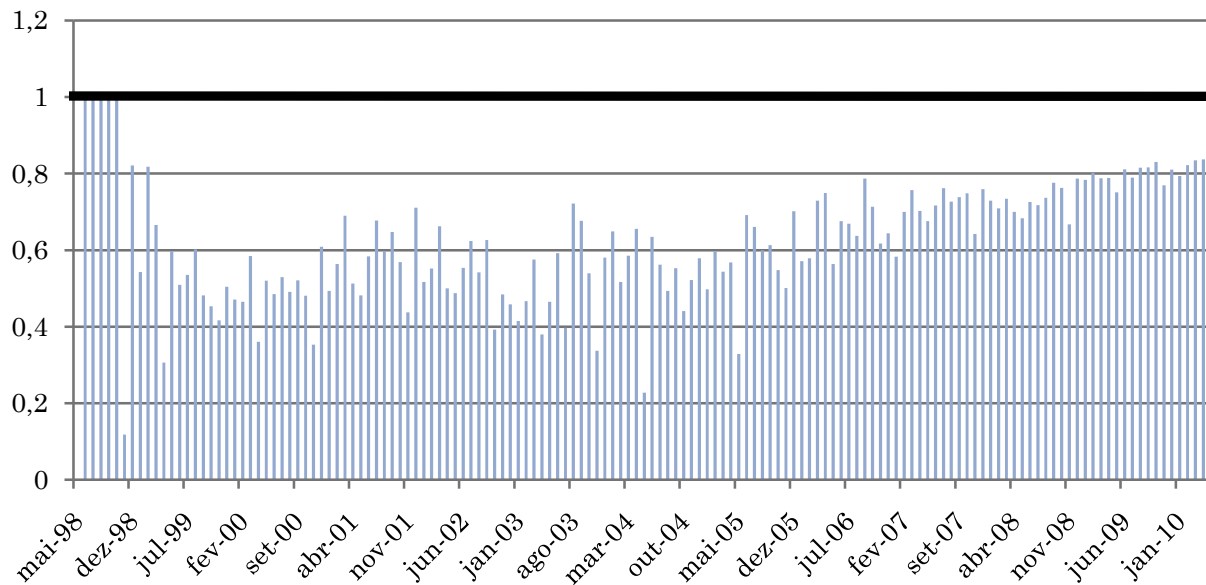
DEBT PAYMENT



RGS DEBT: DATA AND INFORMATION

CURRENT SITUATION

- Ratio Ct = $\frac{\text{Debt payment}}{\text{Original Installment}}$



SUSTAINABILITY THEORY

- At least stabilize the ratio:

$$\frac{\text{Total Debt}}{\text{GDP}}$$

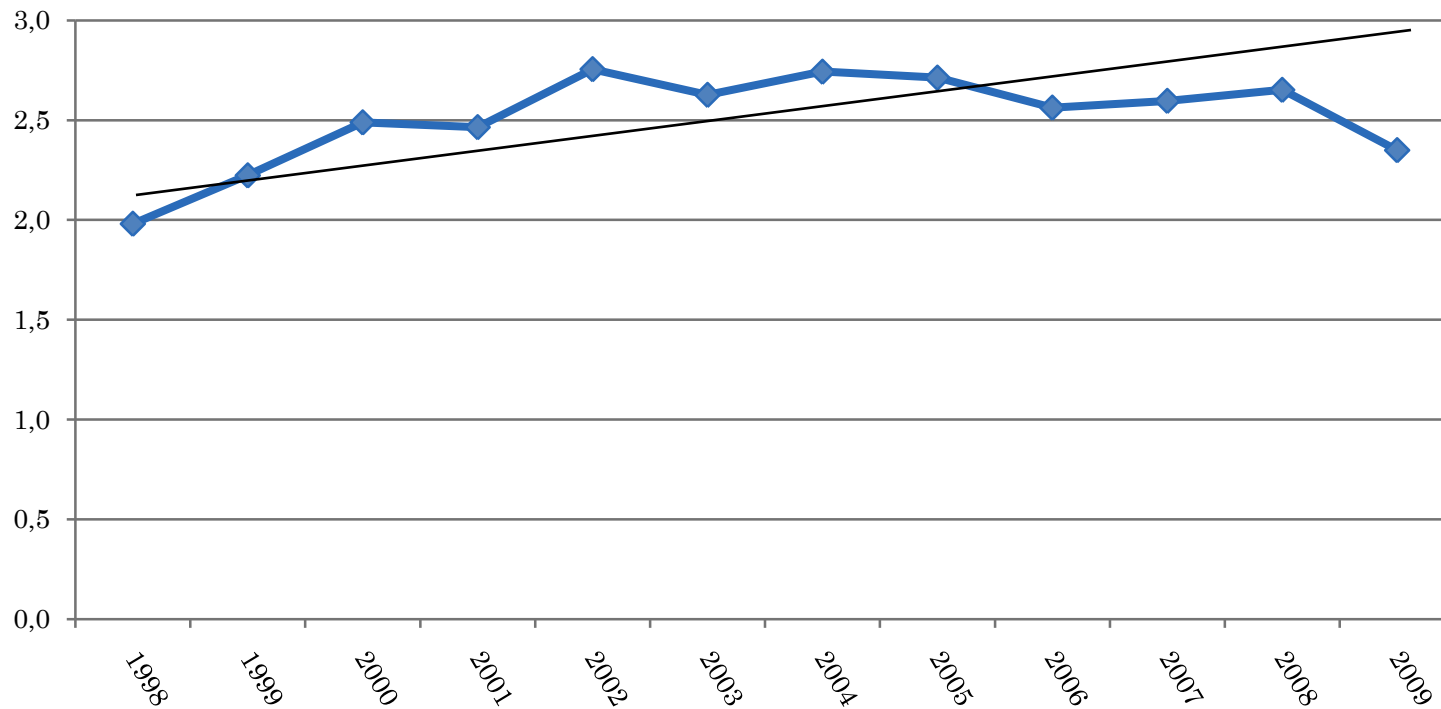
- In order to Law 9496 sustainability analysis:

$$\frac{\text{Total Debt}}{\text{Net Revenue}}$$



SUSTAINABILITY THEORY: DEBT PATH

Ratio: law 9496 total debt/Net revenue



SUSTAINABILITY THEORY

- Budget Constraint and Debt Dynamic: Having a Primary Surplus (ps) equal to Interest Payments (i) guarantees the stock of debt will remain constant.

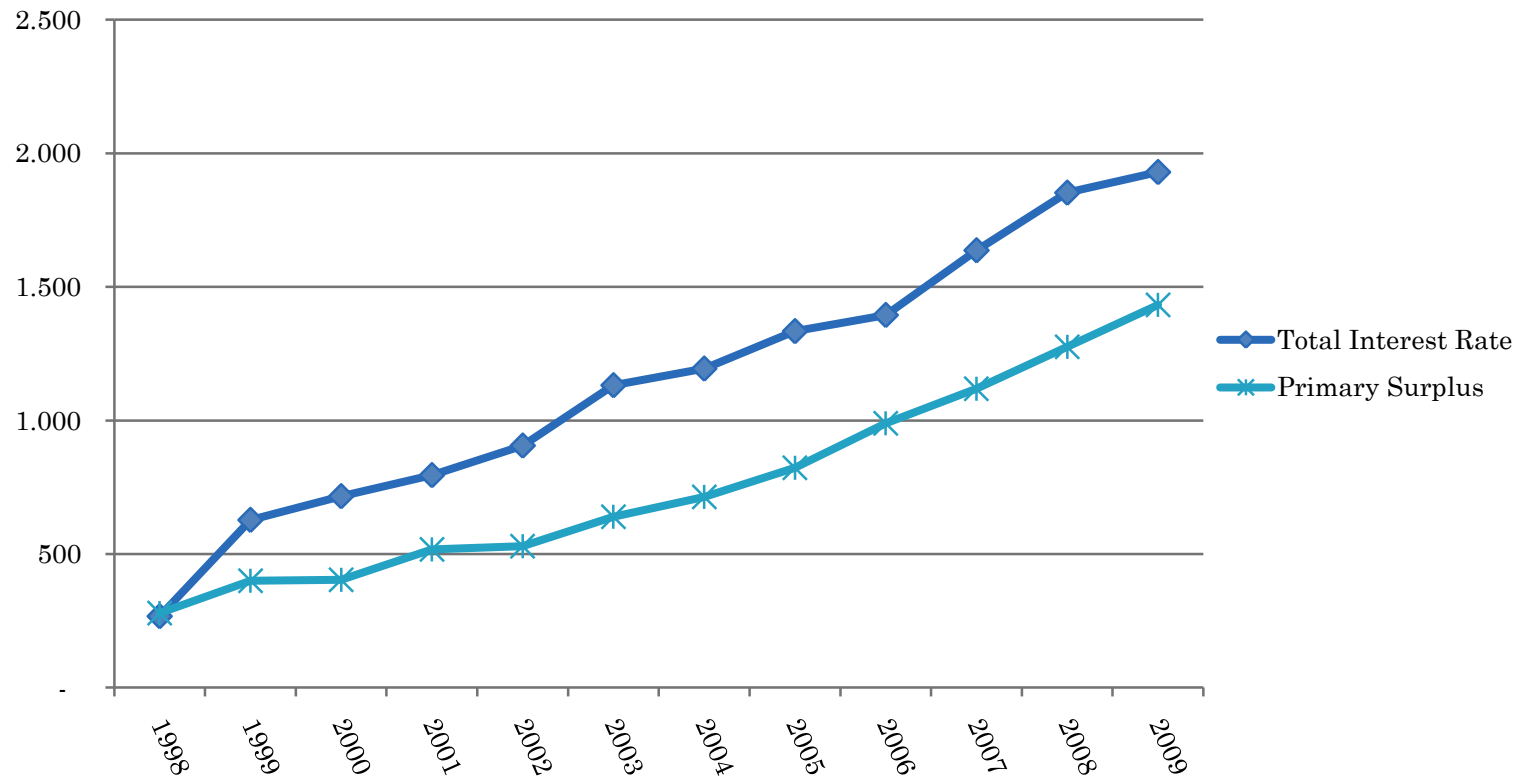
$$\begin{array}{ccc} i & = & ps \\ \downarrow & & \downarrow \\ \text{Interest} & & \% \text{ Net Revenue} \\ \text{(Original debt} & & \\ \text{plus Residual)} & & \end{array}$$



SUSTAINABILITY THEORY

R\$
Millions

Primary Surplus and Interest Rate



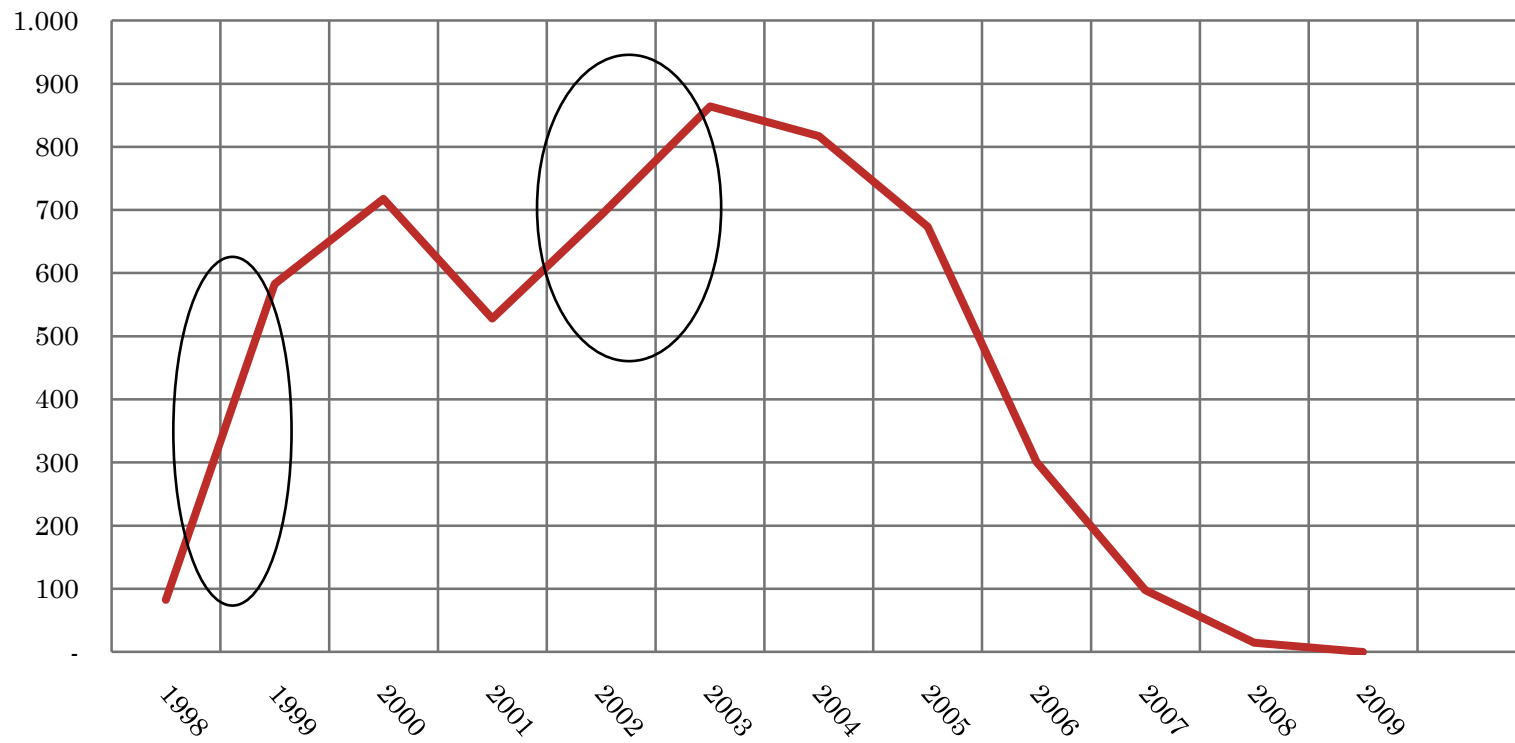
RISK ANALYSIS

- Market Risk – how much debt is sensitive to movements in prices such as interest rate, inflation index....
- RGS debt is so sensitive to IGP, which in turn is correlated with dolar and commodities.

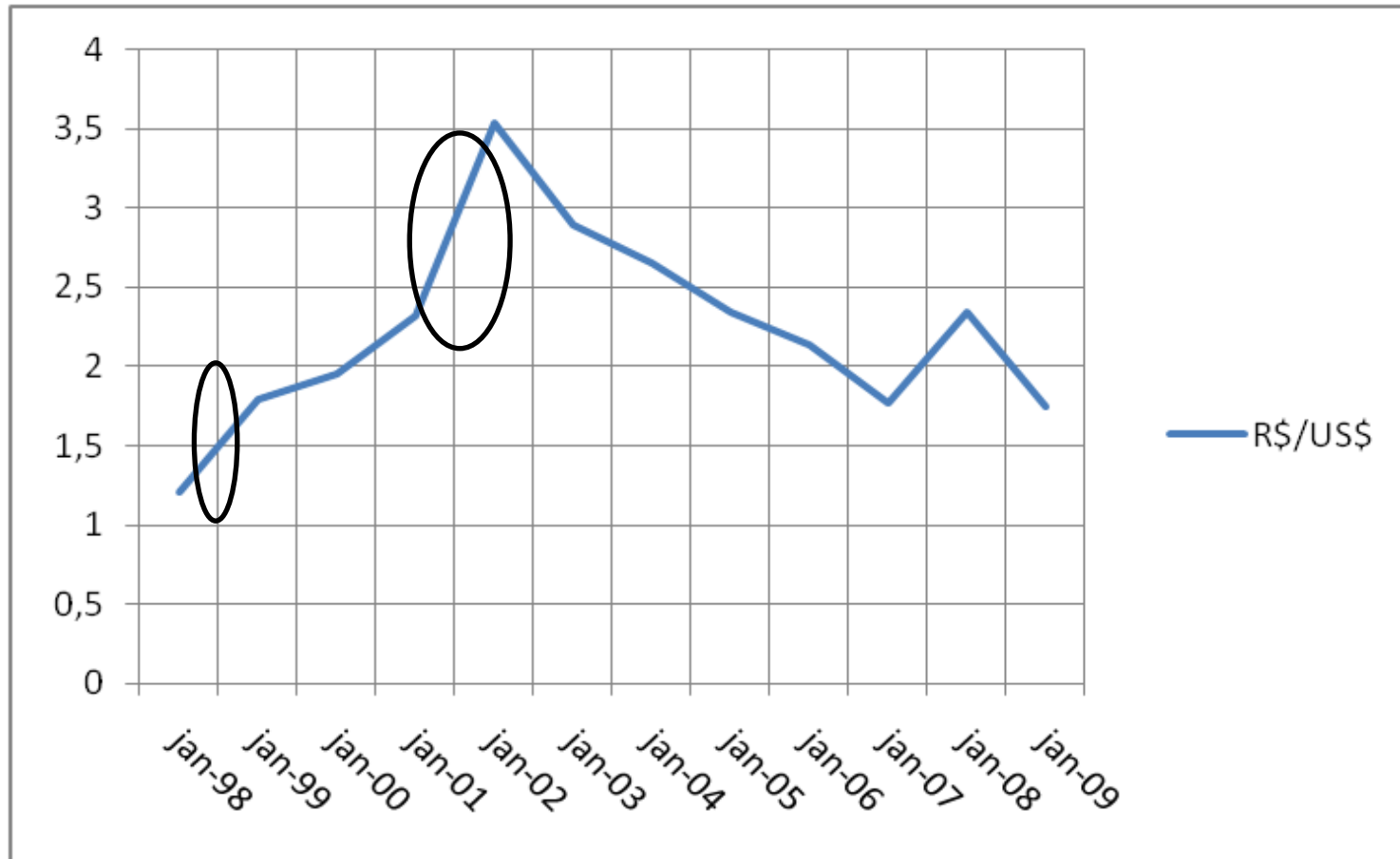


RISK ANALYSIS

No paid Interest Rate



RISK ANALYSIS



FINAL CONSIDERATIONS

- Evidences of sustainability and risk problems on RGS debt (similar situation in other States).
- Debt burdens have not changed since the beginning of the refinancing law, while financial market is so dynamic.
- Opportunity to insert the states in the federal debt management strategy.

