

Brazil Uses Public Bonds to Fund US\$ 6 Billion Sovereign Fund

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Brazil's Sovereign Fund (FSB) should be established, initially, using money from public bonds to be issued by the National Treasury by the end of the month. According to the joint National Treasury secretary, Cleber Oliveira, this was the way found by the Brazilian government to face the lack of money for the fund in the 2009 Budget.

The National Congress approved the creation of the fund, but not the budget for establishment of the fund. Cleber Oliveira informed that a total of 14.2 billion Brazilian reais (US\$ 6 billion) will be issued in bonds, equivalent to 0.5% of the Gross Domestic Product of Brazil.

"Up to the end of the month, we are going to make the primary savings, equivalent to 0.5% of the Gross Domestic Product (GDP), that is, 14.2 billion reais. The National Treasury is finishing preparations for the issuing of the bonds to be granted to the Sovereign Fund. This was the alternative that the National Treasury found to make possible the fiscal savings of anti-cyclic character," he said on explaining the Provisory Measure signed by Brazilian President, Luiz Inácio Lula da Silva, which regulates the fund.

The formation of the Sovereign Fund, with the issuing of bonds, should have no impact on the debt, according to the secretary. This is because this increase should be compensated by a fiscal effort of the same value with the saving of funds turned to the 2009 Budget for formation of the primary surplus. "One factor cancels the other and, with this, the impact on the debt is neutral," he explained.

The government's idea, according to Oliveira, is for Brazil to use money from the Sovereign Fund to participate in the Fiscal Fund for Investment and Stabilization (FFIE), a private fund managed by the Bank of Brazil.

The government should be the only member of the FFIE. The papers should remain in this private fund until the federal government decides how and when to invest them.

According to the joint Treasury Secretary, the main concern of the government is to have a reserve to guarantee employment. "The government is working under the hypothesis that the fund may be a fundamental instrument to guarantee conditions for the country to grow in a sustainable manner," said Cleber Oliveira.

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