



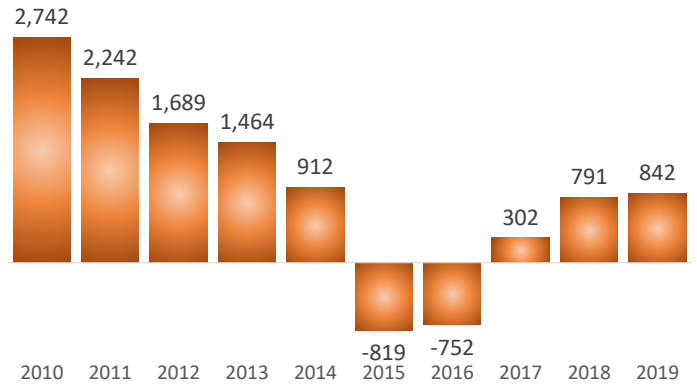
BRAZIL: MACROECONOMIC MONITOR AND REFORM AGENDA

November 25, 2019

Week Highlights

- The GDP Monitor (FGV) pointed to growth of 0.3% in economic activity in September compared to August, favored by the resumption of investments and rising household consumption. The investment rate stood at 18.6%, the highest level for the 3Q since 2015. Household consumption grew by 1.9% in the 3Q19 compared to 3Q18.
- Formal jobs expanded for the 7th consecutive month in October, with the creation of 70,900 jobs were created. Of note is the job creation in commerce (almost 44,000), and construction (7,294 vacancies, the 7th consecutive positive month). Year-to-date, net hiring was 841.6 thousand, the highest result since 2014.

Net Formal Jobs Creation
Jan-Oct, (1,000)



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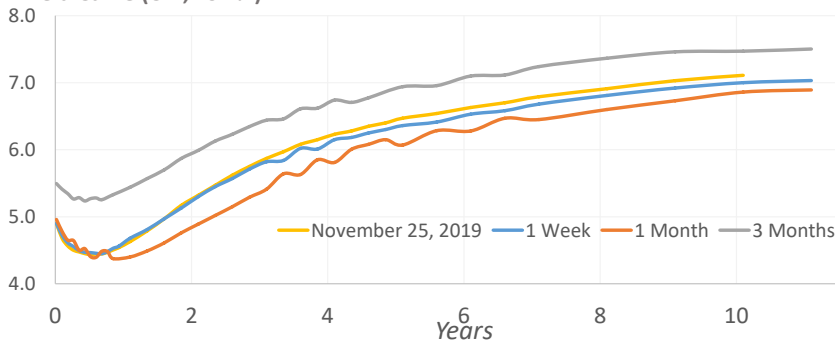
The #GreenYellow Program

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY)	0.50	-3.55	-3.30	1.06	1.12	0.99 (*)	2.20 (*)
Consumer Inflation IPCA (% YoY)	6.41	10.67	6.29	2.95	3.75	3.46 (*)	3.60 (*)
Current Account (USD bi)	-101.4	-54.5	-24.2	-15.0	-41.5	-36.8 (*)	-38.0 (*)
Foreign Investment in the Country (USD bi)	87.7	64.7	74.3	68.9	78.2	77.0 (*)	80.0 (*)
International Reserves (USD bi)	364	356	365	374	375	368 (21 Nov)	-
Unemployment rate (%)	6.5	8.9	12.0	11.8	11.6	11.8 (Sep)	-
General Government Gross Debt (% GDP)	56.3	65.5	69.9	74.1	77.2	78.6 (**)	79.5 (**)
Ibovespa Index (BRL, % chg.)	-2.9	-13.3	38.9	26.9	15.0	23.7 (ytd)	-
CDS 5 years (year average)	189	475	293	165	208	153 (Nov 19)	-
Interest rate (Selic Target) (% eop)	11.75	14.25	13.75	7.50	6.50	4.50 (*)	4.50 (*)

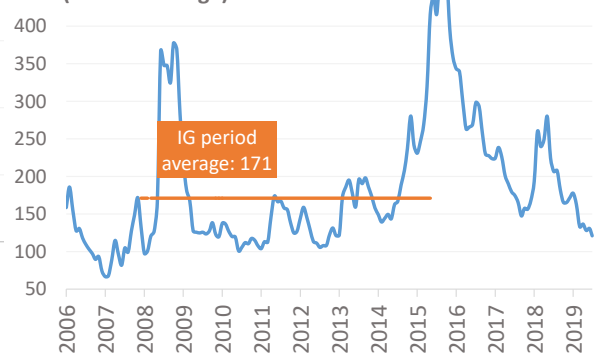
Estimates: (*) Focus Survey, Central Bank of Brazil, Nov. 22, 2019); (**) Prisma Fiscal, Nov.2019

MARKET WATCH

Yield Curve (CDI, YoY %)



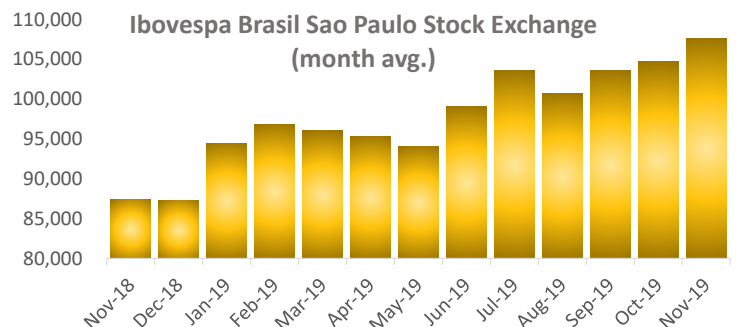
Brazil 5-year CDS (month average)



Real Interest Rate (YoY %)



Ibovespa Brasil Sao Paulo Stock Exchange (month avg.)



Swap Pre x DI 360 days discounted of the IPCA Expectation for the next 12 months

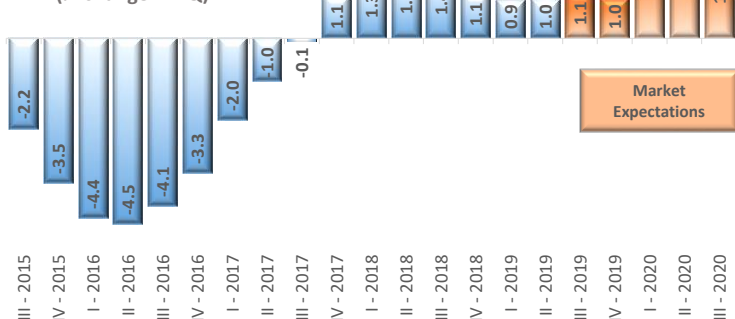
Sources: BCB, Min. of the Economy, Bloomberg



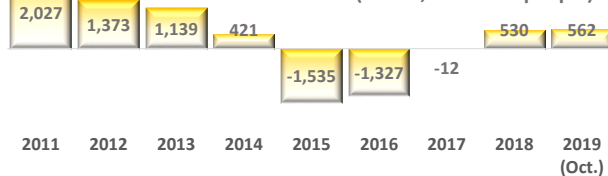
ECONOMY WATCH

A more robust recovery is still dependent on further advances in the reform agenda

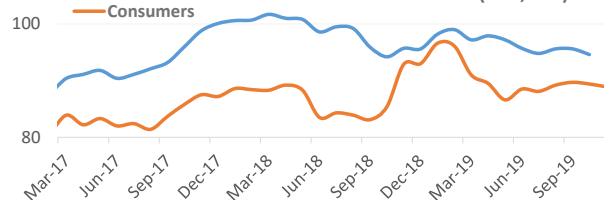
Gross Domestic Product
(% change in 4Q)



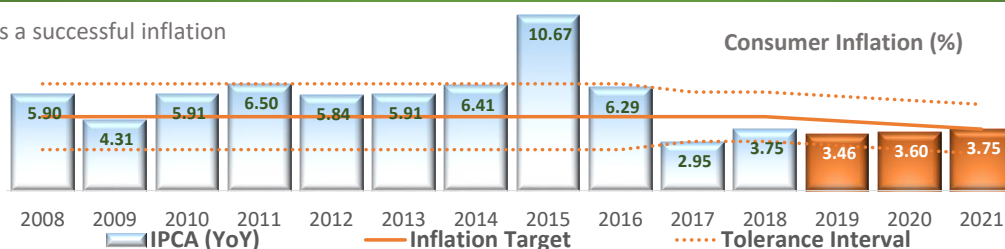
Net Job Creation/Destruction
(12-mo, thousand people)



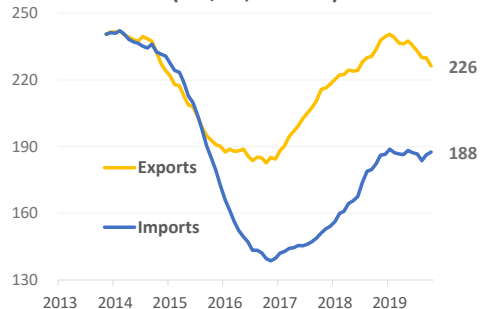
Confidence Indicators (FGV, s.a.)



The country runs a successful inflation target regime

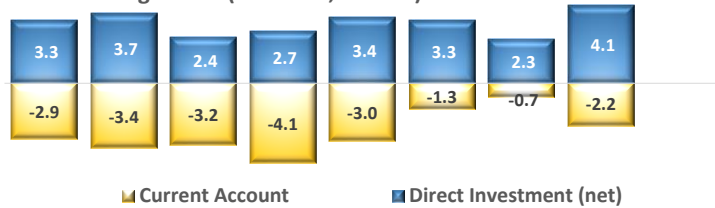


Trade Balance (US\$ bi, 12-mo.)

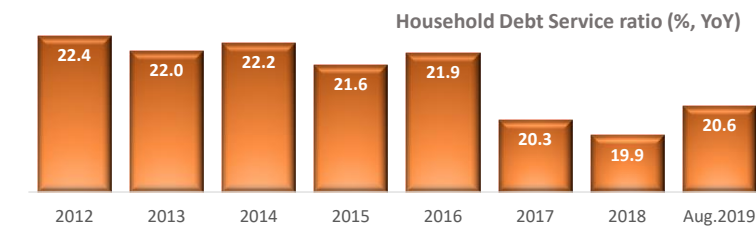


The external accounts are one of the main pillars of the Brazilian economic stability

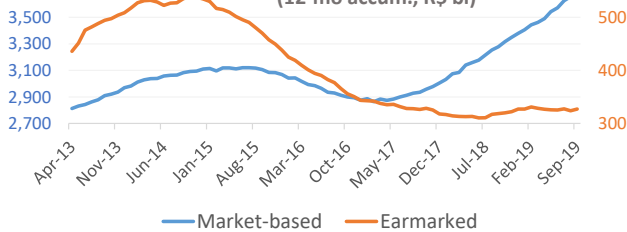
External Financing Needs (% of GDP, 12-mo.)



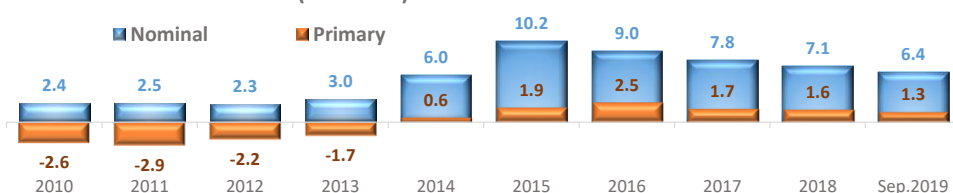
The credit market went through an adjustment process and now favors market-based operations



New Credit Operations
(12-mo accum., R\$ bi)



Public Sector Fiscal Deficit (% of GDP)



Brazil is working to improve its fiscal sustainability



Fiscal consolidation and productivity increase are crucial inputs for Brazil to grow strongly and sustainably. The new government is going forward to put in place a set of reforms for speeding up growth and increasing potential output.

Main Measures

Social Security

- Brazil had been spending more than half of the Federal budget on social security and benefits. Gen. Govt. Gross Debt projections pointed to an unsustainable path.
- The reform approved in October increases the time to retire, limits benefits, raises the rates of contribution for those who earn above the INSS ceiling and establishes rules of transition.
- The reform will stabilize social security expenditures in 8.5% of GDP from 2022 on. Its impact is projected as around BRL 0.8 trillion in 10 years.
- Law 13,846/19 reviews benefits and proceedings with suspected irregularities, and changes rules for granting benefits, such as reclusion allowance, death pension and rural retirement. The goal is to save about R\$ 9.8 billion in the first year.

Next Steps

- Bill 1,646/19 creates measures to facilitate the collection of debt with the Social Security.
- PEC 133/19 extends the reform for States and Municipalities. Senate's second round of voting is scheduled for Nov. Savings of R\$ 0.4 trillion.

Tax Reform

- Brazil needs to simplify the tax system and to reduce the tax burden on companies, the legal insecurity and the excessive legal dispute
- Instrument: PEC and infra constitutional measures.

Next Steps

- Legislation being prepared

Trade Liberalization

- The EU-Mercosur Free Trade Agreement was announced by both parties on June 28. The Free Trade agreement is to be ratified by all Parliaments involved.
- Aims at increasing the openness degree (exports plus imports over GDP) from 22% to 30% of GDP in four years.
- 2019 initiatives include: the end of quantitative restrictions on the free trade agreement of autos with Mexico; Free trade agreement with the European Free Trade Area (EFTA); modernization of tax agreements; agreement with Sweden to end the double taxation of income tax; import tax reduced to zero on over 1,000 industrial machines and equipment not produced domestically; reduction of the import tax for inputs and products of the chemical sector.

Next Steps

- Expand the Agreement for Economic Supplementation with Mexico
- Trade agreement with the US
- Trade agreement talks with South Korea, Japan, Canada
- Instruments: Government decrees and resolutions

Economic Freedom

- Economic Freedom Law: reduces red tape and Government intervention, facilitating the opening of new businesses.
- Eliminates the need for low-risk activities to obtain any type of license; limits restrictions on working hours for commerce, services and industries; prevents laws to define prices; establishes a binding and isonomic treatment for similar situations; overrules outdated legislation; eliminates license requirements for testing, developing or implementing a product/service that does not pose high risks; impedes judicial changes in business contracts; establishes that unanswered license requests are automatically granted; extends higher court decisions to all cases; creates the "regulatory abuse" situation; among others issues.

Digital Government

- The Brazilian government transformed 400 public services and made them 100% digital.
- Four key goals to be achieved by the end of 2020: i) launch a new digital identity, based on biometrics, for over 100 million Brazilians; ii) ensure that 70% of the over 3,000 services are digital; iii) consolidate government digital channels; iv) simplify business registration.
- Current initiatives include The Digital Citizenship Platform (access and provision of digital public services); GovData (main official databases); and ConectaGov (connection of govt. systems).

Next Steps

- Broader digital integration, services provision, and database unification; Changes in the legal framework; among others.

Fight corruption, criminal organizations and violent crimes

- Changes to the Code of Criminal Procedure, Criminal Code, Criminal Law, Electoral Code, and others;
- Measures will help reduce costs of doing business. Include the provisional execution of a criminal conviction after second instance sentences; the criminalization of irregular funding in elections; tighter sentences and penalties increase.

Next Steps

- Submitted to Congress on Feb.
- 3 Infra constitutional instruments (PL-881/2019, PL-882/2019 and PLP-38/2019)

Ombudsman for Direct Investments

- Provide consultation for foreign investors about legislation or administrative procedures related to investments in Brazil.



Main Measures

Employment

- The registers of the unemployed were opened to private recruitment companies, extending the use of the national employment system dataset.
- The "GreenYellow Employment Contract" targets first job hires of people aged 18-29, exempting employers from social security contributions. It will be funded by social security contribution on unemployment insurance installments. The goal is to generate 1.8 million jobs by Dec. 2022.
- Bill of Law replaces labor appeal deposits with the employment insurance (injecting into the economy R\$ 65 billion) and align readjustment rates of labor debts with the current level of interest rates (saving R\$ 37 billion for state-owned companies in five years).

Next Steps

- Emprega Mais: new workforce training strategy.

Central Bank Independence (Senate PLP 19/19)

- Bill establishing formal independence to the Central Bank of Brazil. It comprises a four- to eight-year term for the directorate of the institution, with no overlapping with the presidential mandate; and the end of ministerial status given to the president of the Bank.

Next Steps

- Congress appreciation
- Instrument: Supplementary Bill.

Subsidies reduction

- Reduction and streamlining of subsidies granted by the Government, which amount to around 4.7% of GDP in the 2019 budget.

Next Steps

- Congressional approval

Fiscal sustainability of subnational entities (PLP 149/2019)

- The Fiscal Balance Plan will aid States and Municipalities in financial distress to achieve fiscal adjustment, allowing the access to loans guaranteed by the Federal Government. Entities must provide the counterpart of recovering their payment capacity.

Next Steps

- Congress appreciation

Public administration overhaul (Decree 9.725/19)

- 21,000 commissioned positions eliminated; limitations for creating collegiates and elimination of unnecessary collegiates; restrictions for hiring civil servants and rules for hiring senior officials.

Next Steps

- Congressional approval

Privatization

- As of Aug. 1st, there are 130 companies owned by the Fed. Govt.
- On June 06, 2019, the Supreme Court ruled that subsidiaries (which comprise more than half of the companies) do not need Congress approval to be sold.

INVESTMENTS, CONCESSIONS AND PRIVATIZATIONS

PPI Projects Auctioned or Renewed

<ul style="list-style-type: none"> • Privatization of 7 Distributors (CELG, CEAL, CEPISA, CERON, Eletroacre, Amazonas, Boa Vista) • Concessions of 2 Hydroelectric Plants (Jaguara, UHE) and 2 Small Plants • Transmission Lots and Stations 	<ul style="list-style-type: none"> • Marginal Fields Rounds • 14th, 15th, 16th Exploratory Blocks Bidding Round • 2nd to 6th Pre-Salt Production Sharing Bidding Rounds • Auction of Assignment Agreement 	<ul style="list-style-type: none"> • 5 Extensions and 1 Concession (Norte-Sul) 			
<ul style="list-style-type: none"> • 16 Concessions 	<ul style="list-style-type: none"> • 20 Projects (leasing, extension or assignment agreement) 	<ul style="list-style-type: none"> • 2 Concessions • 2 environm. licenses 	<ul style="list-style-type: none"> • 1 Mining Right 	<ul style="list-style-type: none"> • Privatization of CASEMG 	<ul style="list-style-type: none"> • Concession of Lotex

Ongoing PPI Projects

<ul style="list-style-type: none"> • Transmission Lots • Auctions of New Energy • 6 Hydroelectric Plants (concession/env. license) 	<ul style="list-style-type: none"> • Angra 3 Plant • Nuclebras 	<ul style="list-style-type: none"> • 4 Mining Rights • 1 sale of assets 	<ul style="list-style-type: none"> • 17th Exploratory Blocks Bidding Round 	<ul style="list-style-type: none"> • 5G Auction 	<ul style="list-style-type: none"> • São Francisco River, Rio Tocantins • Irrigation PPP in Bahia (study)
<ul style="list-style-type: none"> • 6th Round (North I, South and Central) 	<ul style="list-style-type: none"> • 17 Leasings • 3 Privatizations • 2 New Investments • 1 Privatization Study 	<ul style="list-style-type: none"> • 12 Concessions • 4 environm. license 	<ul style="list-style-type: none"> • 2 PPP studies 	<ul style="list-style-type: none"> • Privatization: Casa da Moeda, CEASAMINAS, Infraero shareholdings, Eletrobras, CEAGESP, ABGF, EMGEA, Correios, Dataprev, Serpro, CEITEC, Telebrás, BB shares • PPP for COMAER, EBC (study) 	
<ul style="list-style-type: none"> • 9 Concessions 	<ul style="list-style-type: none"> • Concessions of Iguaçú, Lençóis Maranhenses, Jericoacoara and Aparados da Serra 	<ul style="list-style-type: none"> • PPPs for prisons and for police comm. • Studies for street lighting against violent crimes and for socioeducational measures 	<ul style="list-style-type: none"> • Studies for universalization and urban solid waste energy recovery 	<ul style="list-style-type: none"> • CBTU • Trensurb 	<ul style="list-style-type: none"> • Study: child education



Airports

Investments of US\$ 2.1 bi

Signature bonuses of US\$ 0.6 bi

Airports	Studies	Public Hearing	TCU Assessment	Bidding Documents	Auction
6th round - South Block (9)	●			3Q20	4Q20
6th round - Northern Block 1 (7)	●			3Q20	4Q20
6th round - Central Block (6)	●			3Q20	4Q20
Disposals of Infraero shares (4)	●				

Railroads

Investments of US\$ 14.8 bi

Extension of 15,107 km

Signature bonuses of US\$ 0.7 bi

Railroads	Studies	Public Hearing	TCU Assessment	Bidding Documents	Auction
EF-334 – FIOEL	✓	●		1Q20	2Q20
EF-170 – Ferrogrão	✓	●		2Q20	3Q20
EF-354 – Integração Centro-Oeste	●				
North Branch - Ferroanel - São Paulo	●				

Railroads	Studies	Public Hearing	TCU Assessment	Legal Opinion	Subscription
Contract Extension Malha Paulista	✓				3Q19
Contract Extension Carajás (EFC)	✓				4Q19
Contract Extension Vitória-Minas (EFVM)	✓				4Q19
Contract Extension MRS	✓				2Q20
Contract Extension FCA	✓				2Q20

Ports

21 terminals and 2 ports

Investments of US\$ 1.1 bi

Signature bonuses of US\$ 0.2 bi

Ports	Studies	Public Hearing	TCU Assessment	Bidding Documents	Auction
Port of Suape/PE (SUA05)	✓	✓	✓	● 4Q19	1Q20
Port of Itaquí (IQI 03, 11, 12, 13)	✓	●		1Q20	2Q20
Port of Santos/SP (STS 14, 14A)	✓	●		1Q20	2Q20
Port of Paranaguá/PR (PAR12)	●			2Q20	3Q20
Rental of Solid Bulks in Port of Aratu/BA (ATU 12)	●			2Q20	3Q20
CODESA Privatization	●			4Q20	2Q21
São Sebastião Privatization	●			1Q21	2Q21
Studies for the Destatization of Port of Santos	●			3Q21	4Q21
Port of Suape/PE (SUA01)	✓	●			
Port of Paranaguá/PR (PAR07, 08, XX)					
Terminal - Port of Santana (MCP1)					
Cabling Stimulation Policy					

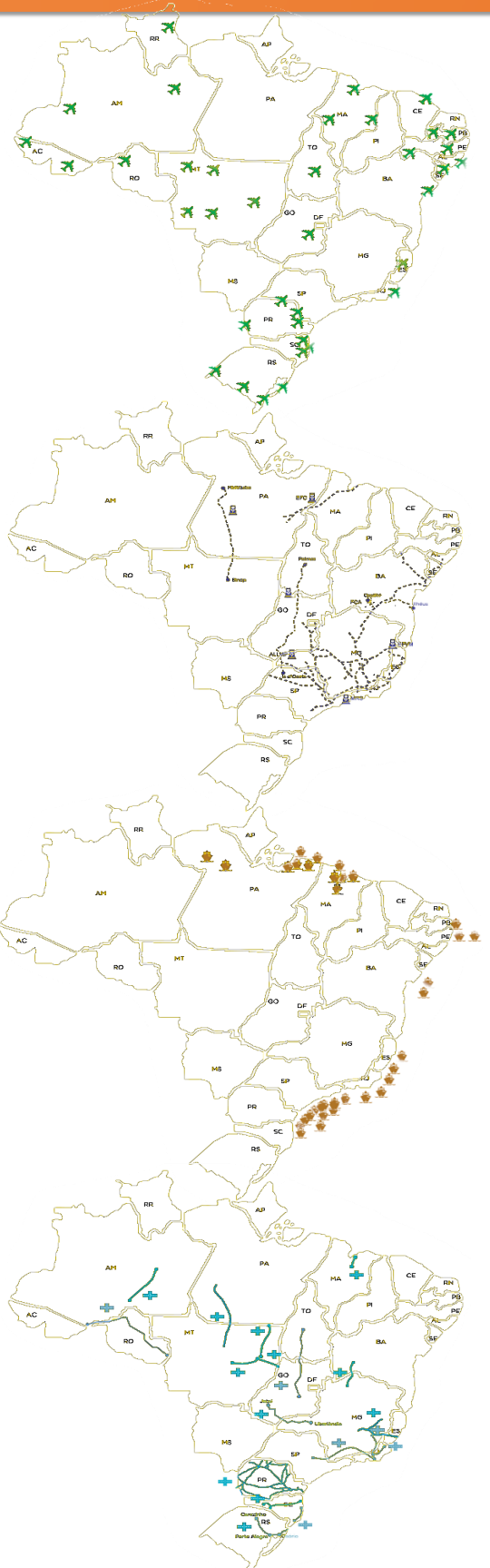
Highways

Investments of US\$ 34.9 bi

Extension of 16,574.82 km

Highways	Studies	Public Hearing	TCU Assessment	Bidding Documents	Auction
BR-364/365/MG/GO	✓	✓	✓	✓	✓
BR-101/SC	✓	✓	●	4Q19	1Q20
BR-381/262/MG/ES	✓	●		2Q20	3Q20
BR-163/230/MT/PA	✓	●		2Q20	3Q20
BR-153/080/414/GO/TO	✓	●		2Q20	3Q20
BR-040/495/MG/RJ (Concer)	●			3Q20	4Q20
BR-116/465/101/SP/RJ (Dutra)	●			3Q20	4Q20
BR-116/493/RJ/MG (CRT)	●			3Q20	4Q20
Integrated Highways of Paraná	●			2Q21	3Q21
BR-153/282/470/SC e SC-412	●			4Q20	1Q21
BR-158/MT					
BR-364/RO/MT					

✓ Completed
● In progress





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The #GreenYellow Program

Green Yellow

- Mechanisms to increase employability, to improve labor market placement and to expand credit for micro entrepreneurs.

- Legal certainty in terms of profit sharing, tipping and the labor debt adjustment index
- Simplification and reduction of bureaucracy
- Streamlined procedures involving enforcement and labor relations.
- More work and business opportunities to improve income and life quality.

The GreenYellow Employment Contract

1.8 million new hires until Dec/22

- New work contract with payroll exemptions and a reduction between 30% and 34% in labor costs.
- Simplifies hiring, reduces hiring costs and introduces more flexibility in the employment contract.
- Targets first formal job hires of young people aged 18-29.
- Reduces rigidity in the payment of obligations, allowing for the advance payment, monthly or otherwise, of vacation pays, of the additional payment made annually (*13º salário*) and the FGTS termination penalty. This flexibility will allow employers and employees to find the best arrangement.
- To avoid deviations from its objectives, the proposal foresees controls to prevent the replacement of existing employees with those who are eligible for the GreenYellow contract.
- The GreenYellow contract will have a fixed term of 24 months, after which it can be converted into a traditional indefinite contract provided for in the Consolidation of Labor Laws (CLT).
- Additionally, the employee hired under the contract will have priority in professional qualification actions. Thus, long-term effects on the working life of these workers are expected.
- In addition to unemployment, informality also affects young people more intensely, and such occupations are generally less productive and do not provide access to any social protection. The GreenYellow contract will allow better training for these workers, bringing better perspectives in terms of reduction of job turnover and qualification.

Labor debt readjustment index

Savings of R\$ 37 billion for state companies in 5 years

- Today the labor debt readjustment index is approximately 16% p.y, while the basic interest rate is at 5% p.y.
- The new index will align readjustment rates of labor debts with the current level of interest rates.
- There are R\$ 120.8 billion in labor debts, with an average term of 4 years.
- State-owned liabilities have R\$ 58.7 billion of labor debts. With the current index, in five years labor debts of State-owned companies would grow by R\$ 64 billion. The new index reduces the cost growth to \$26 billion.

Jobs on Sundays and Holidays

500,000 jobs in the industry and retail sectors up to Dec/22

- Regulation to improve productivity and competitiveness

Reorganization of Labor Inspection

Today there are about 2,000 embargoes and interdictions, which generate an economic loss of R\$ 6.5 billion per year. The measure reorganizes the entire appeal and inspection system of the country, with regionalization of proceedings, longer deadlines and more transparency.

- Instead of hundreds of types of fines, 4 levels will be set, with variations according to number of employees and revenue.
- In situations of light infringements, opening of establishments, micro and small companies and demonstrative inspections, fines will only be applied in case of recurrence.

Rehabilitation

1 million rehabilitated by 2022

- Less than 2% of people receiving disability benefits are rehabilitated in Brazil. Many end up turning away to the informal market and receive the benefit irregularly.
- Physical rehabilitation and professional qualification to reinsert injured workers and people with disabilities.

More inclusion for people with disabilities

- Training and rehabilitation actions. Measures to encourage hiring.
- Intercompany agreements for one company to offset another's quota (important for sectors or locations where it may be difficult to hire people with disabilities).
- People with severe disabilities will count double to fill vacancies.
- Temporary and outsourcers enter the quota of the employer.
- Exclusion from the calculation base of dangerous jobs, such as security companies.

Microcredit

10 million contracts and R\$ 40 billion granted up to Dec/22

- Aimed at workers with low qualification, people out of the banking system and small formal and informal entrepreneurs.
- Differentiation of microcredit operations from banking operations.
- Incentives for banks, fintechs, development agencies and credit unions to invest in this market.
- Funding from an increase of the share of demand deposits destined to microcredit (CMN resolution).

