



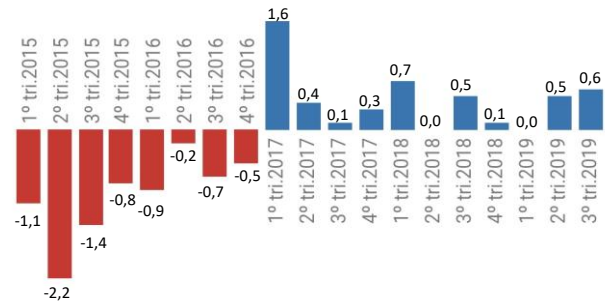
BRAZIL: MACROECONOMIC MONITOR AND REFORM AGENDA

December 3, 2019

Week Highlights

- Brazil's Gross Domestic Product (GDP) grew by 0.6% in the third quarter compared to the second quarter of 2019. The nominal GDP reached R\$ 1.842 trillion. Investments grew 2% in the third quarter of 2019, compared to the second quarter. Household consumption expenditure rose by 0.8% over the same period. Government consumption fell 0.4%.

GDP (QoQ, sa, %)



Source: IBGE

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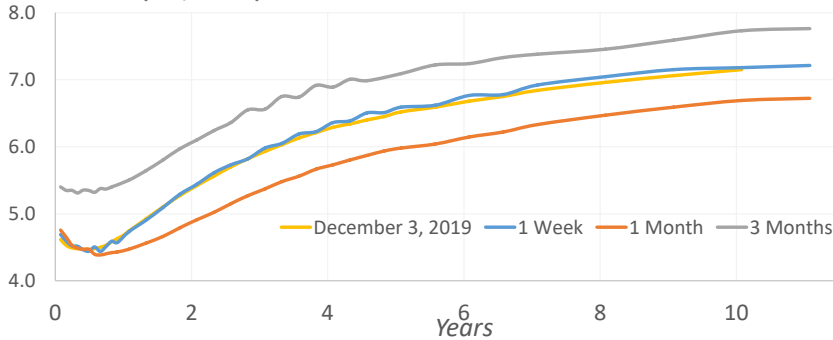
The Continuous Competitiveness Improvement Program

	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	366 (29 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 (*)

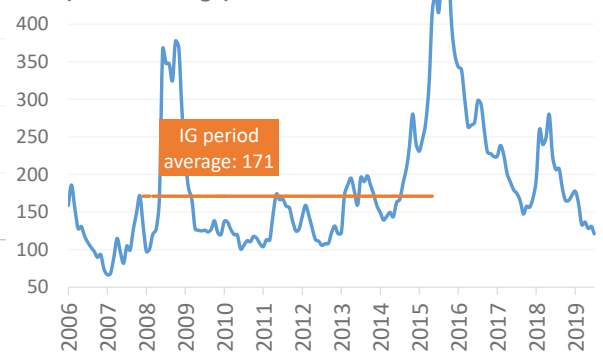
Estimates: (*) Focus Survey, Central Bank of Brazil, Nov. 29, 2019); (**) Prisma Fiscal, Nov. 2019

MARKET WATCH

Yield Curve (CDI, YoY %)



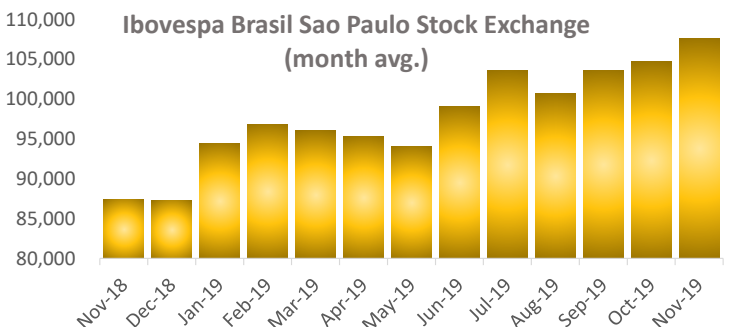
Brazil 5-year CDS (month average)



Real Interest Rate (YoY %)



Ibovespa Brasil Sao Paulo Stock Exchange (month avg.)



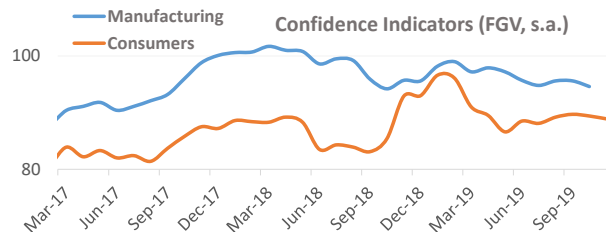
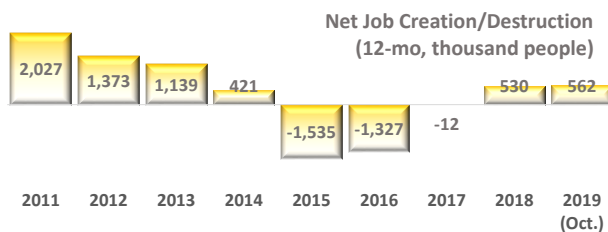
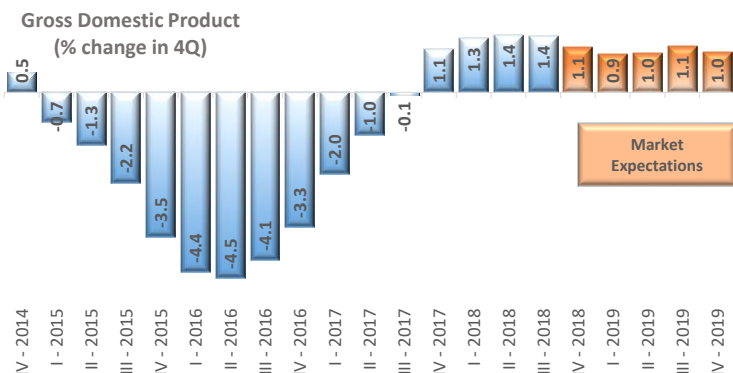
Swap Pre x Di 360 days discounted of the IPCA Expectation for the next 12 months

Sources: BCB, Min. of the Economy, Bloomberg

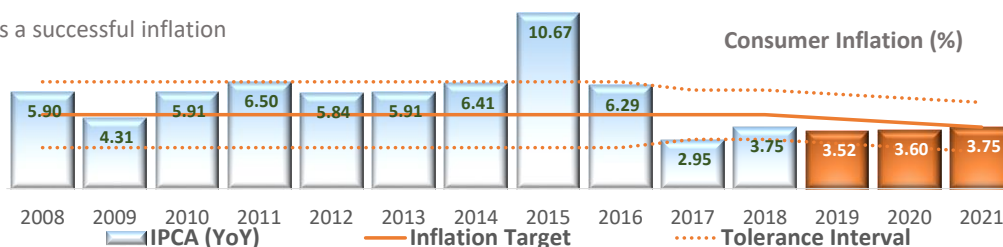


ECONOMY WATCH

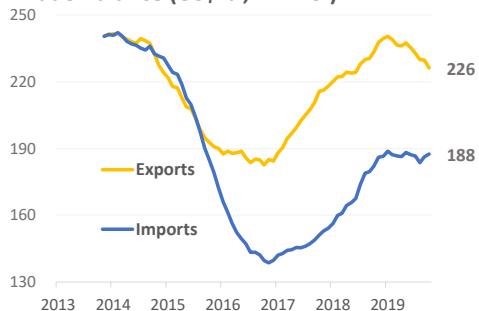
A more robust recovery is still dependent on further advances in the reform agenda



The country runs a successful inflation target regime

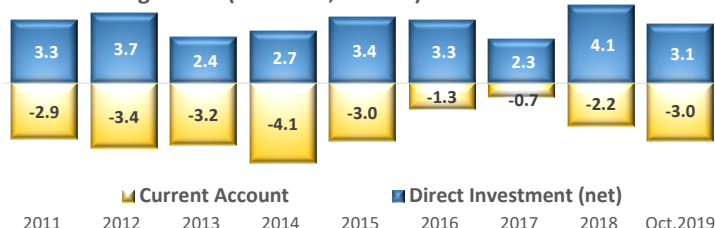


Trade Balance (US\$ bi, 12-mo.)

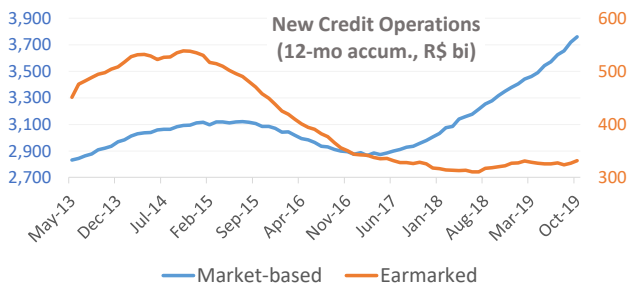
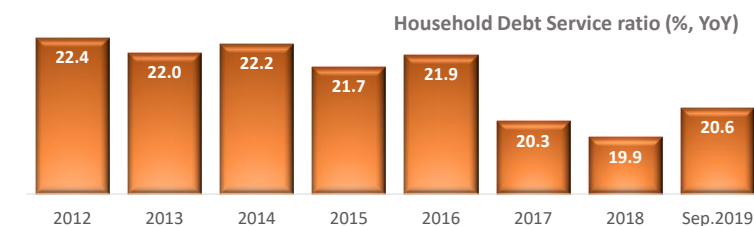


The external accounts are one of the main pillars of the Brazilian economic stability

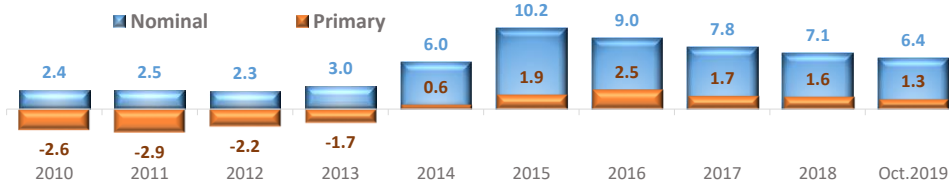
External Financing Needs (% of GDP, 12-mo.)



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



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 Iguacu, 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					

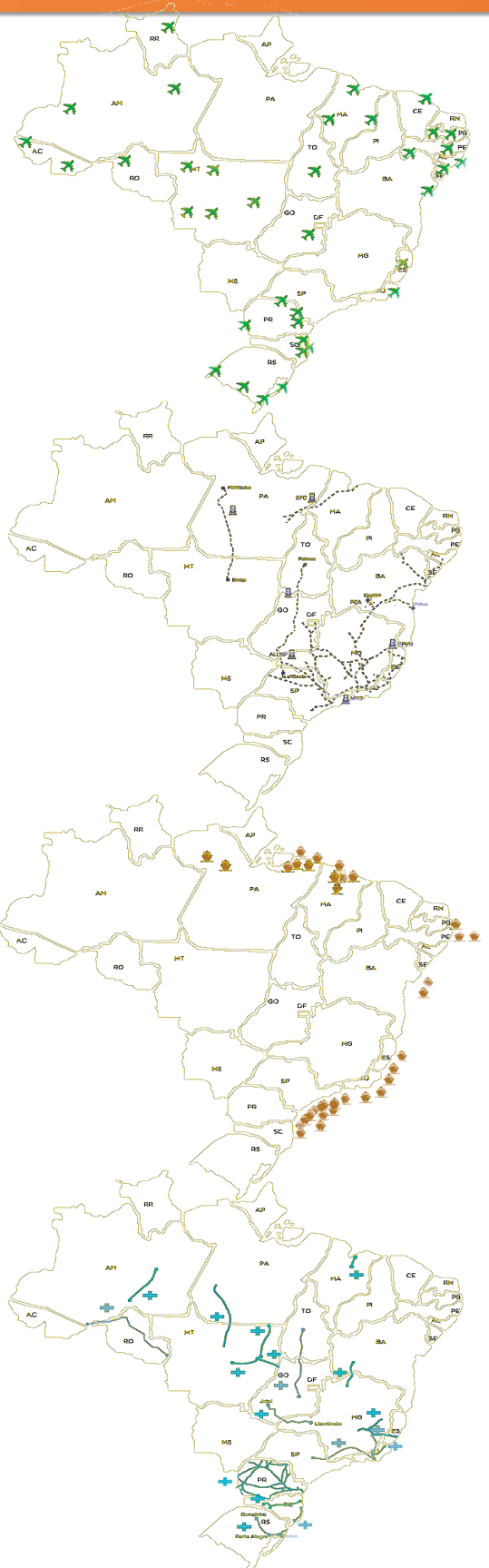
Highways

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 Continuous Competitiveness Improvement Program

- For the first time, the Federal Government was able to measure, in partnership with the private sector, the so-called Custo Brasil (Brazil Costs) - a term that describes the set of structural, bureaucratic and economic difficulties that make new investments more expensive and jeopardize the business environment.
- Per year, Brazil Costs consumes from companies about R \$ 1.5 trillion, which represents 22% of the national Gross Domestic Product (GDP). The value was estimated from a joint effort between the government and the private sector over the past four months.
- The Continuous Competitiveness Improvement Program (PMCC) implements a method of prioritizing actions, makes the interaction with the private sector more transparent and creates the Competitiveness Council that will orchestrate actions to reduce Brazil Cost.
- Brazil aims to make a major transformation in the way competitiveness is handled in the country, measuring the components and roots of each deficiency that cause the loss of competitiveness for companies. The diagnosis will guide the dialogue with the private sector, making it more objective, transparent and detailed. The process will allow the highlight of the impact, on Brazil cost, of each proposed measure or suggestion presented, with the legal or infra-legal changes necessary for this to be debated, measured and prioritized.

Brazil cost as differential compared to OECD estimated at R \$ ~ 1.5 Tri - divided into 12 elements:



The Study Methodology

- The study analyzed the main obstacles to the competitiveness of the Brazilian productive sector, having as reference the companies' life cycle. Indicators were listed in the 12 areas considered vital for the competitiveness of the business sector.
- The diagnosis presents a comparison of the cost of producing in Brazil compared to the average of the countries of the Organization for Economic Cooperation and Development (OECD).

The Solution

- The competitiveness improvement program foresees the establishment of a centralized communication channel, through a tool to be available on the Ministry of Economy's website to receive public policy proposals and solutions to improve the business environment. From this first experience, it is possible that the process will be extended to other sectors of the federal government as well.
- The work was developed by the Ministry of Economy in partnership with the Competitive Brazil Movement (MBC) and had the participation of various sectorial entities, from the need to meet the demands of the productive sector facing problems related to Brazil cost. The program allows the prioritization of initiatives that improve Brazilian competitiveness.

Some numbers in comparison to OECD averages:

In providing capital, for example, OECD countries have **63% more credit** than Brazil (source: World Bank)

In relation to labor charges, compared to OECD countries, Brazilian companies spend **11.4 percentage points** more on their total employee costs in charges (source: OECD)

Regarding the tax burden, it was found that OECD companies devote, on average, **38% less** of their profits to paying taxes than Brazilian companies (source: World Bank)

Regarding tax complexity, OECD countries spend **89% less time** than Brazil to prepare their taxes (Source: Doing Business / World Bank)

