



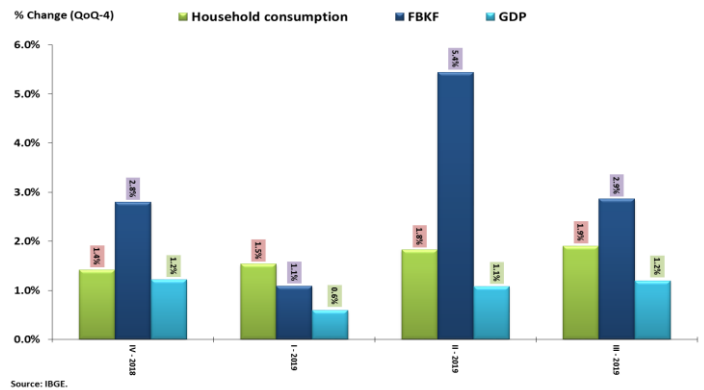
BRAZIL: MACROECONOMIC MONITOR AND REFORM AGENDA

December 9, 2019

Week Highlights

- During the 55th Mercosur Summit held in Bento Gonçalves (RS) on December 5, the following documents were signed:
 - 1) Police Cooperation Agreement Applicable to Border Spaces
 - 2) Agreement for the Mutual Protection of Originating Geographical Indications in the Territories of Mercosur States Parties.
 - 3) Montevideo Protocol on Mercosur Trade in Services
 - 4) Trade facilitation agreements and authorized economic operators
 - 5) Fiduciary Administration Agreement between Mercosur and the Silver Basin Development Fund (Fonplata).
 - 6) Mutual Recognition Agreement of Digital Signing Certificates
 - 7) Action Plan for the Development and Convergence of Digital Platforms for Consumer Conflict Resolution.

GDP Components



THE LAST PAGE

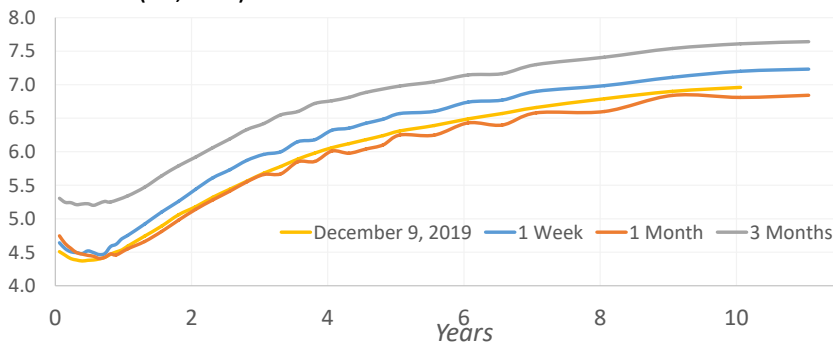
GDP growth analysis

	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	365 (05 Dec)	-
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	78.9 (**)	79.8 (**)
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 (*)

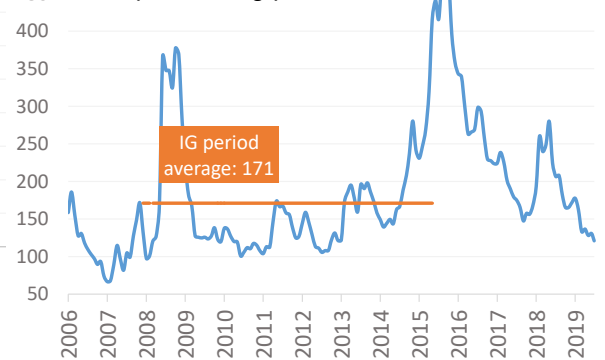
Estimates: (*) Focus Survey, Central Bank of Brazil, Dec. 6, 2019; (**) Prisma Fiscal, Nov.2019

MARKET WATCH

Yield Curve (CDI, YoY %)



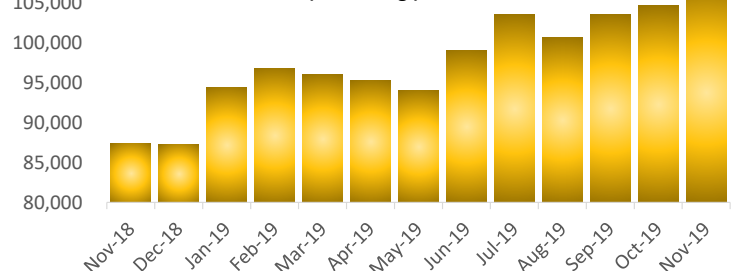
Brazil 5-year CDS (month average)



Real Interest Rate (YoY %)



Ibovespa Brasil Sao Paulo Stock Exchange (month avg.)



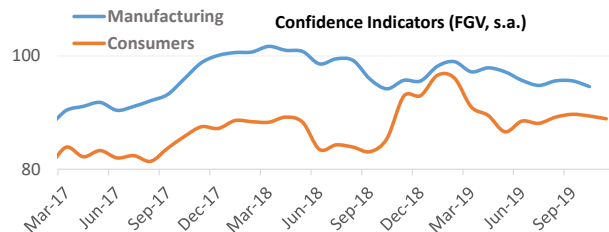
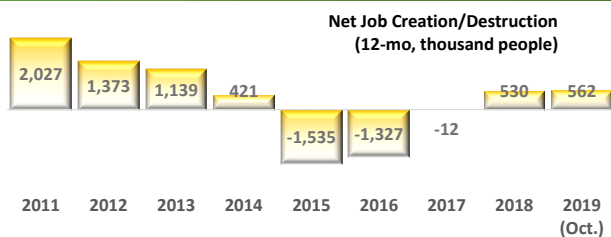
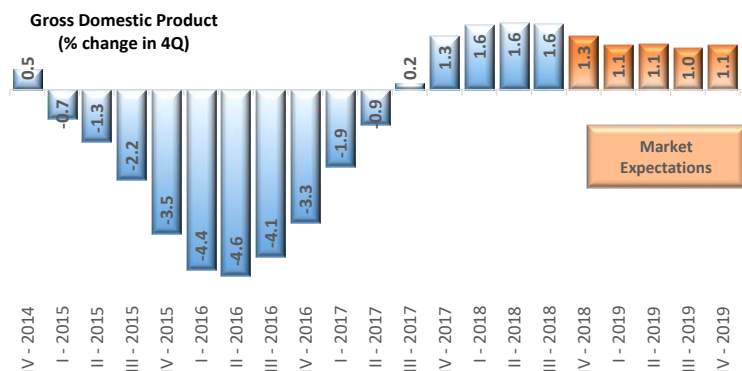
Swap Pre x Di 360 days discounted of the IPCA Expectation for the next 12 months

Sources: BCB, Min. of the Economy, Bloomberg

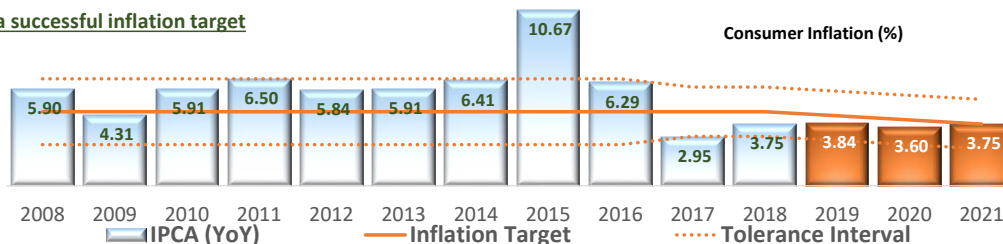


ECONOMY WATCH

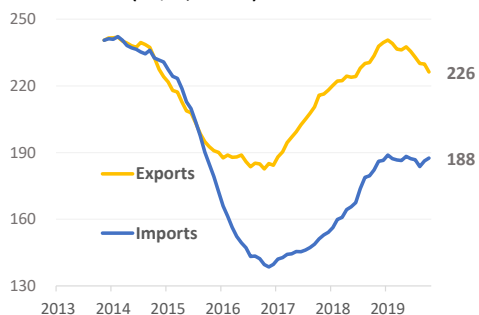
A more robust recovery is still dependent on further advances in the reform agenda



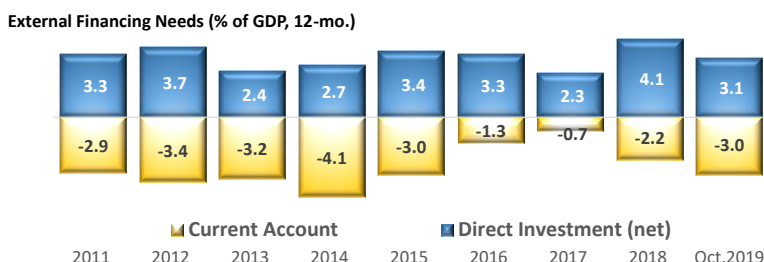
The country runs a successful inflation target regime



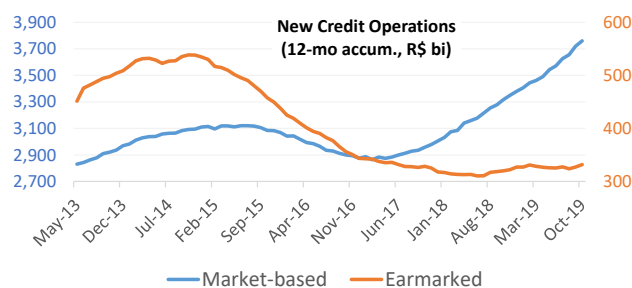
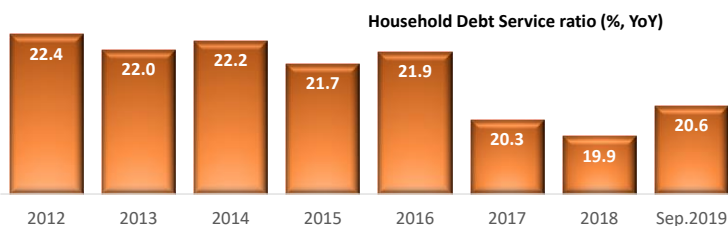
Trade Balance (US\$ bi, 12-mo.)



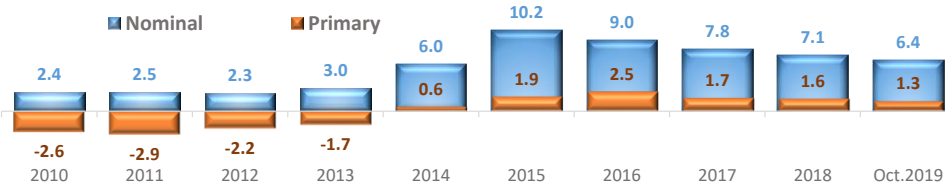
The external accounts are one of the main pillars of the Brazilian economic stability



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

- Approved in the Lower House. To be appreciated By the Senate.
- instruments: PL-881 and 882/2019; 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

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					

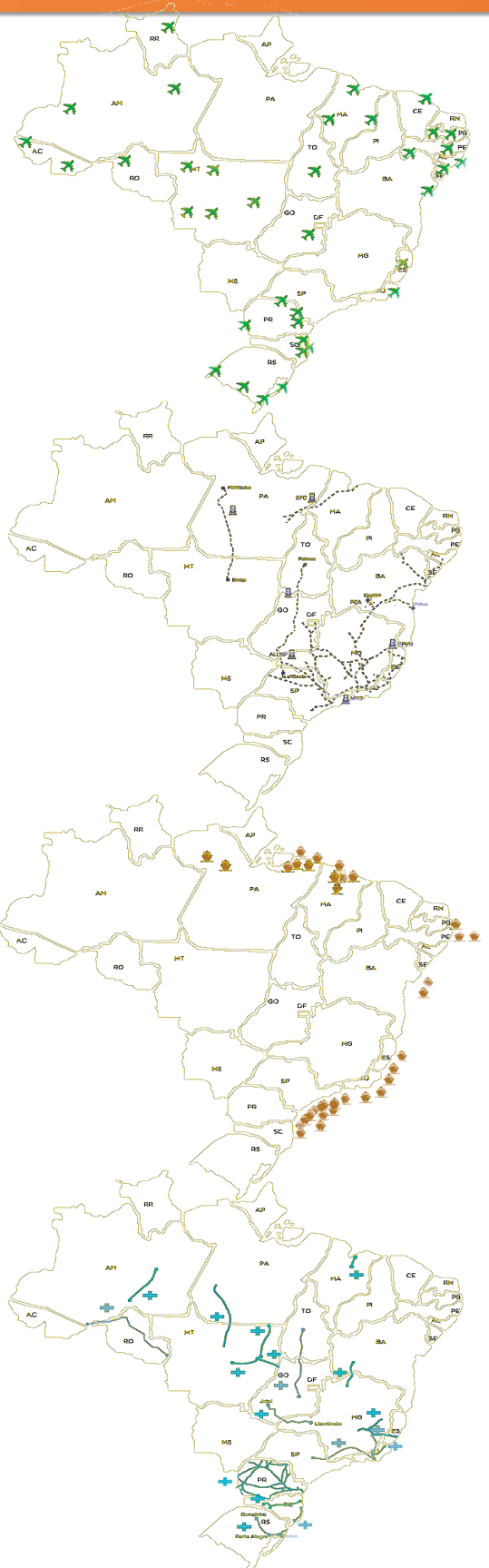
Highways

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



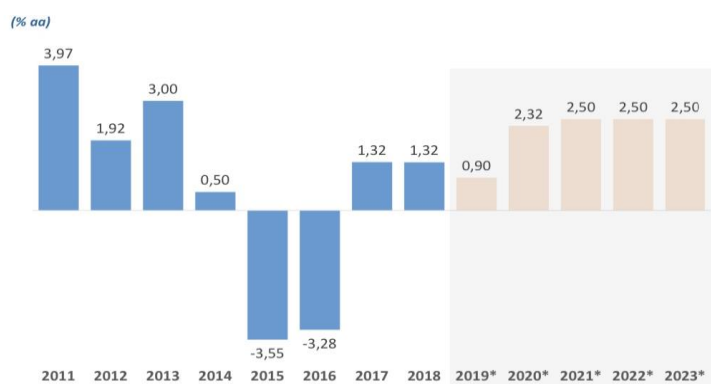


THE LAST PAGE

GDP growth analysis

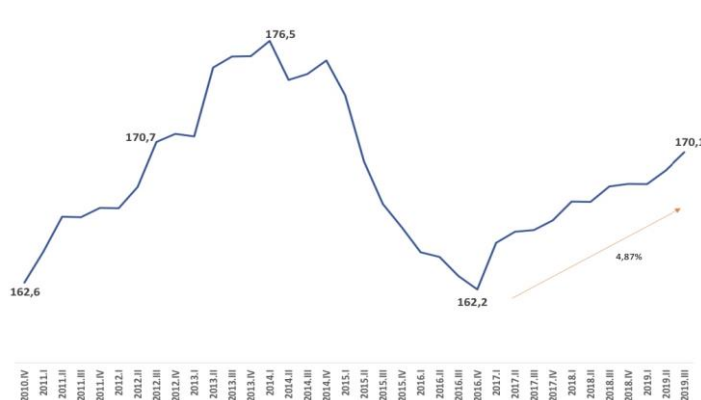
- The third-quarter GDP figures showed growth above analyst expectations, with a positive performance of consumer spending and investments on the demand side. On the supply side, the highlights were industrial activities, with especially strong expansion of the extractive industry, and agriculture, while services had a moderate growth.
- In the third quarter, the GDP grew a seasonally adjusted 0.6% from the previous quarter, accelerating from the first quarter stability and the 0.5% expansion of the second quarter. Now, most forecasts point to GDP growth of more than 1% this year and slightly more than 2% next year.
- Consumer spending, main GDP component on the demand side, with a share of more than 60%, grew 0.8%, a significant acceleration from the 0.2% of the second quarter. The expansion of credit, the decline of interest rates and the fledgling recovery of the labor market help explain this improvement, which may gather even more steam in the last quarter, with the more significant effect of the release of money from Workers' Severance Fund (FGTS) accounts. Investment also had a positive performance. It grew 2%. Meanwhile, government spending contracted 0.4% in the period, the third decline in four quarters.
- The external sector had a negative contribution to the GDP, since exports had worse performance than imports. Whereas sales to other countries shrank 2.8%, imports grew 2.9%. This means foreign trade shaved 0.8 percentage point from the third-quarter GDP, while total domestic demand contributed positively with 1.4 point, of which 0.6 refer to the variation of inventories.
- On the supply side, the most surprising performance was of industry in general, which grew 0.8% in the quarter, but with quite unequal performance of its components. The extractive industry grew 12%, after shrinking 6.1% in the first quarter and 3.1% in the second.
- Manufacturing, for its part, shrank 1%. Falling exports to Argentina and competitiveness problems for the local industry have been affecting the sector, which shrank 0.5% in four quarters. Construction, meanwhile, grew 1.3%, a reasonable performance, in spite of a slowdown from the previous quarter, when it expanded 2.4%.
- Agriculture grew 1.3%, whereas services, which account for almost three-fourths of the GDP on the supply side, grew 0.4%, accelerating from the 0.2% of the second.
- The big expectation revolves around investments, whether they will continue growing. The passage of the pension reform greatly improved the perception about the long-term sustainability of government accounts, removing an important risk from the radar.
- The slightly better performance of the economy, though, may lead companies to take some modernization and expansion projects off their shelves, since prospects for future demand have improved.
- Investments still remain well below the high of the second quarter of 2013. In the third quarter of this year, gross fixed capital formation still was almost 25% below the level reached six years ago. The investment rate stood at 16.3% of GDP, the same of the third quarter of 2018 and a far cry from the 21.1% to 21.5% between 2010 and 2013.
- According to IBGE, last year's update of the agricultural GDP, to 1.4% from 0.1%, was crucial for the upward revision of the GDP variation in 2018, which rose to 1.3% from 1.1%, a variation identical to that of 2017.
- The Institute also revised the result of the economy in the first half of this year. The performance of the first quarter went from a 0.1% increase to stability in comparison to the previous quarter, while that of the second half was changed to 0.5% from 0.4%. As a result, the 0.6% increase in the third quarter represented an acceleration of activity in relation to the first half.

Annual GDP Growth and Projection SPE / ME Parameter Grid



Source: SPE/ME

Quarterly GDP



Source: SPE/ME

