

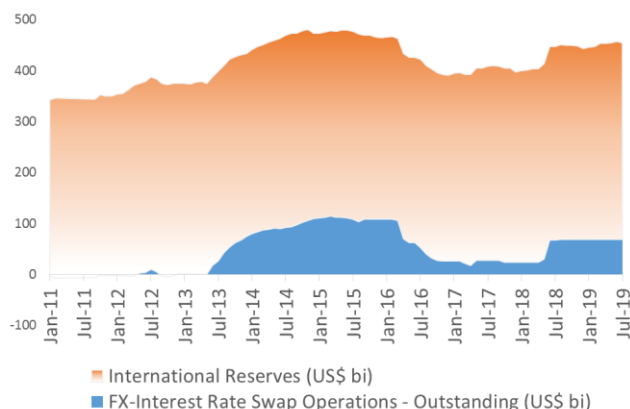


BRAZIL: MACROECONOMIC MONITOR AND REFORM AGENDA

August 19, 2019

Week Highlights

- The Lower House approved the Economic Freedom Bill. The voting rounds in the Senate are scheduled for Sep. 27 and Oct. 10.
- The Central Bank will rollover maturing swap operations selling dollars in the spot market to meet liquidity demand. As of Aug. 21, the offer will consist of daily lots of up to US\$ 550 million in cash and a concurrent reverse swap equivalent. The operation will not affect net international reserves.



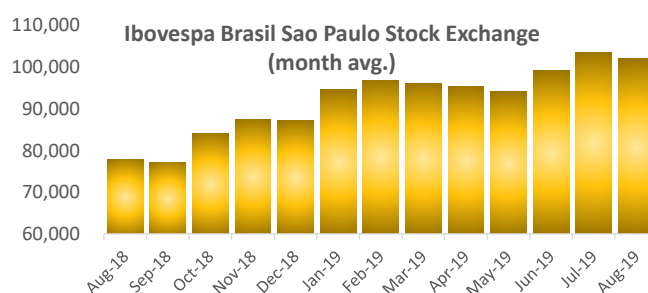
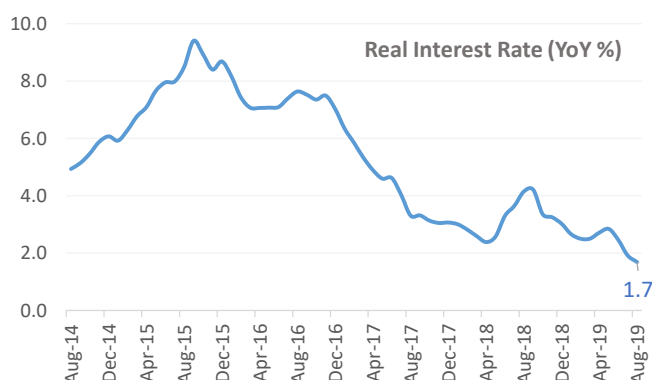
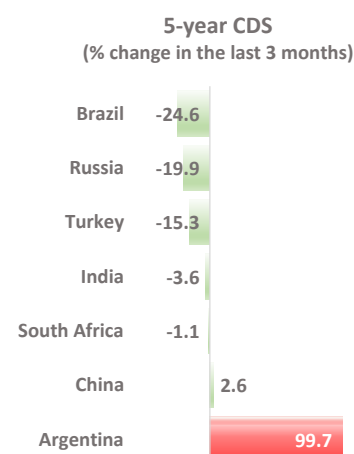
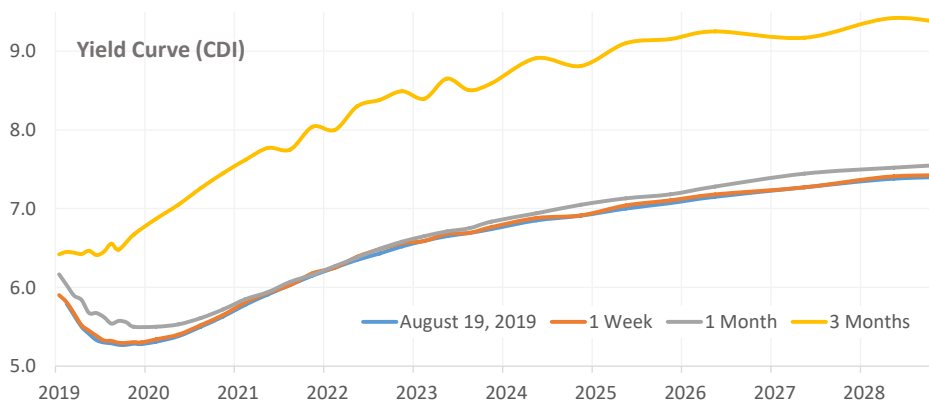
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The Economic Freedom Bill

| | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
|--|--------|-------|-------|------|-------|--------------|-----------|
| GDP (% YoY) | 0.50 | -3.55 | -3.30 | 1.06 | 1.12 | 0.83 (*) | 2.20 (*) |
| Consumer Inflation IPCA (% YoY) | 6.41 | 10.67 | 6.29 | 2.95 | 3.75 | 3.71 (*) | 3.90 (*) |
| Current Account (USD bi) | -101.4 | -54.5 | -24.0 | -7.2 | -14.5 | -21.3 (*) | -31.5 (*) |
| Foreign Investment in the Country (USD bi) | 87.7 | 60.3 | 73.4 | 70.3 | 88.3 | 85.0 (*) | 84.7 (*) |
| International Reserves (USD bi) | 364 | 356 | 365 | 374 | 375 | 389 (15 Aug) | - |
| Unemployment rate (%) | 6.5 | 8.9 | 12.0 | 11.8 | 11.6 | 12 (Jun) | - |
| General Government Gross Debt (% GDP) | 56.3 | 65.5 | 69.9 | 74.1 | 77.2 | 78.5 (**) | 80.0 (**) |
| Ibovespa Index (BRL, % chg.) | -2.9 | -13.3 | 38.9 | 26.9 | 15.0 | 14.3 (ytd) | - |
| CDS 5 years (year average) | 189 | 475 | 293 | 165 | 208 | 163 (Aug 19) | - |
| Interest rate (Selic Target) (% eop) | 11.75 | 14.25 | 13.75 | 7.50 | 6.50 | 5.00 (*) | 5.50 (*) |

Estimates: (*) Focus Survey, Central Bank of Brazil, Aug. 16, 2019); (**) Prisma Fiscal, Aug.2019

MARKET WATCH



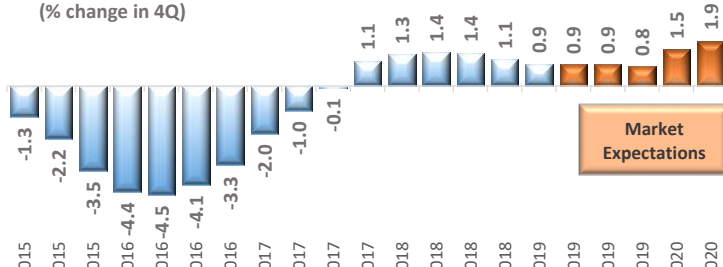
Swap Pre x Di 360 days discounted of the IPCA Expectation for the next 12 months

Sources: BCB, Min. of the Economy, Bloomberg

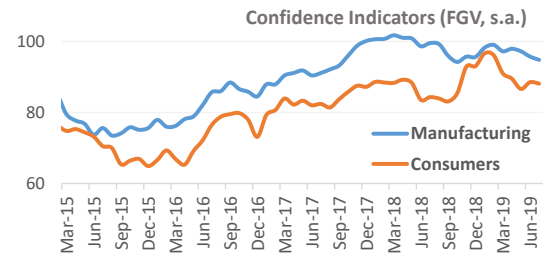
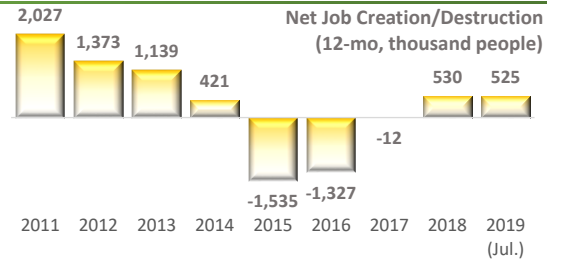
ECONOMY WATCH

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

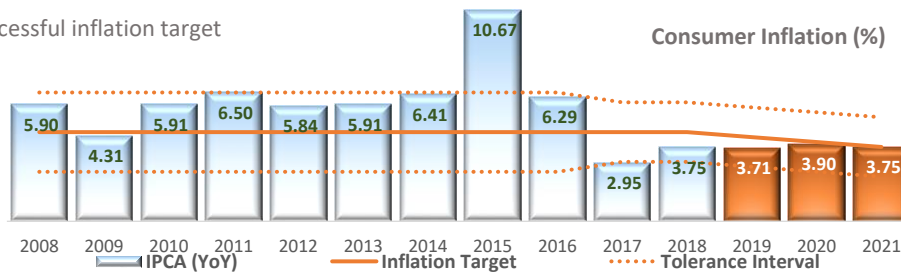
Gross Domestic Product
(% change in 4Q)



Market Expectations

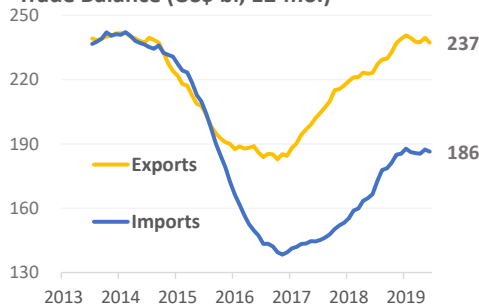


The country runs a successful inflation target regime



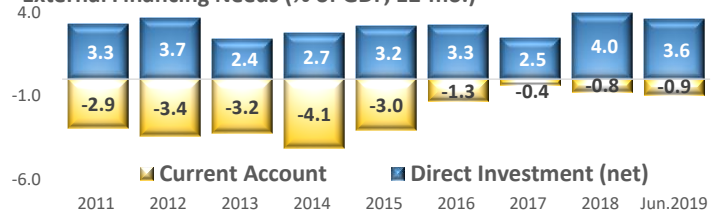
Consumer Inflation (%)

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



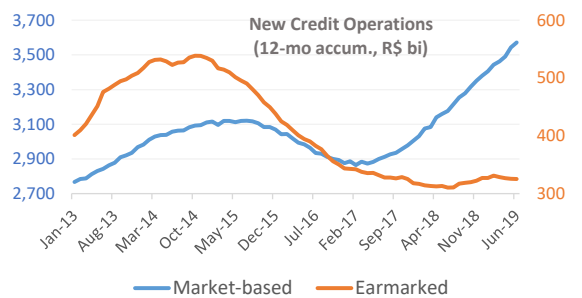
The external accounts are one of the main pillars of the Brazilian economic stability

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

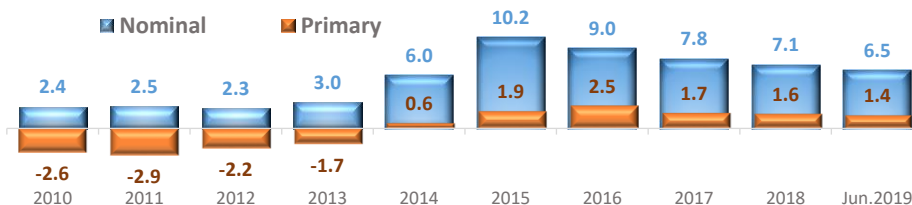


The credit market went through an adjustment process and now favors market-based operations

Household Debt Service ratio (% YoY)



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 Reform (PEC 06/2019)

- Brazil spends more than half of the Federal budget on social security and benefits. The Gen. Govt. Gross Debt is expected to climb 25 p.p. in the next 5 years.
- The reform was approved in the House of Representatives on Aug. 07.
- In general, the Reform 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 for the current contributors.
- Impact of around BRL 0.9 trillion in 10 years (improving the primary balance in around 1.9 p.p. of GDP by 2027).
- The reform will stabilize social security expenditures in 8.5% of GDP from 2022 on.

Next Steps

- Analysis of constitutionality by a Senate commission.
- Two voting rounds in the Senate. Needs 49 of the 81 votes. Changes made be sent to the House of Representatives.
- Expected to be approved in 2019.

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 by the Government
- First proposal expected to be appreciated by Oct. 2019

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; 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

Next Steps

- Expand the Agreement for Economic Supplementation with Mexico
- Free Trade agreement with the US
- Instruments: Government decrees and resolutions

Economic Freedom (MP 881/19)

- Economic Freedom Bill: 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.

Next Steps

- Voting rounds in the Senate are scheduled for Sep. 27 and Oct. 10.

Digital Government

- In the first six months of 2019, the Brazilian government transformed 311 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 (crossing and information analysis of the main official databases); and ConectaGov (connection and

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. 19
- 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.

Brazil aims at figuring among the 50 best positioned countries in the Doing Business report

Main Measures

Employment

- The registers of the unemployed were opened to private recruitment companies, extending the use of the national employment system dataset.

Next Steps

- *Carteira Verde e Amarela* to ease access to the labor market.
- *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 is a program to 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 in the current mandate (governors) or in the period of 4 years (mayors).

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

Auction of Assignment Agreement

- The auctioning of the surplus of around 5 to 6 billion barrels will result in a compensation for Petrobras of US\$ 9.0 billion. The signature bonus is estimated at around US\$ 26.5 billion.

Next Steps

- Auction scheduled for Nov. 06, 2019

Privatization

- The sale of state-owned companies and Voluntary Dismissal Programs are under preparation.
- 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.
- Until July, results amount to US\$ 19.3 billion (US\$ 12.3 bi. in destatizations, US\$ 5.0 bi. in disinvestments and US\$ 2.0 bi. in concessions). The announced target for 2019 is US\$ 20.0 billion.

INVESTMENTS, CONCESSIONS AND PRIVATIZATIONS

50 PPI Projects Auctioned or Renewed

| | | | |
|--|---|--|---|
| <ul style="list-style-type: none"> • Privatization of 7 Distributors (CELG, CEAL, CEPISA, CERON, Elektroacre, Amazonas, Boa Vista) • Concessions of 2 Hydroelectric Plants (Jaguara, UHE) and 2 Small Plants • Transmission Lots and Stations | <ul style="list-style-type: none"> • 4th Marginal Fields Round • 14th and 15th Exploratory Blocks Bidding Round • 2nd to 5th Pre-Salt Production Sharing Bidding Rounds | <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"> • Concession of Rodovia da Integração do Sul | <ul style="list-style-type: none"> • Privatization of CASEMG |

59 ongoing PPI Projects

| | | | | | |
|---|--|---|---|---|--|
| <ul style="list-style-type: none"> • Transmission Lots • 2 Auctions of New Energy | <ul style="list-style-type: none"> • Angra 3 Plant | <ul style="list-style-type: none"> • 4 Concessions of CPRM Mining Rights | <ul style="list-style-type: none"> • Concession of 14 Marginal Fields Areas • 16th Exploratory Blocks Bidding Round • 6th Pre-Salt Production Sharing Bidding Round • Auction of Assignment Agreement | <ul style="list-style-type: none"> • São Francisco River Integration Project | |
| <ul style="list-style-type: none"> • 6th Round (North I, South and Central) | <ul style="list-style-type: none"> • 12 Leasings • 2 Privatizations • 2 New Investments | <ul style="list-style-type: none"> • 9 Concessions | <ul style="list-style-type: none"> • 11 Concessions | <p>Misc.</p> <ul style="list-style-type: none"> • Privatization - Casa da Moeda, CEASAMINAS, Infraero shareholdings and Eletrobras • Concession of LOTEX • PPP for COMAER | <ul style="list-style-type: none"> • CBTU • Trensurb |



PPI Project Portfolio

Airports

39 airports

Investments of US\$ 2.1 bi

Signature bonuses of US\$ 0.6 bi

| Airports | Studies | Public Hearing | TCU Assessment | Bidding Documents | Auction |
|------------------------------------|---------|----------------|----------------|-------------------|---------|
| 5th round - Central West Block (4) | ✓ | ✓ | ✓ | ✓ | ✓ |
| 5th round - Northeastern Block (6) | ✓ | ✓ | ✓ | ✓ | ✓ |
| 5th round - Southeast Block (2) | ✓ | ✓ | ✓ | ✓ | ✓ |
| Viracopos | ● | | | | |
| 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-151 – FNS | ✓ | ✓ | ✓ | ✓ | ✓ |
| EF-334 – FIOEL | ✓ | ● | | 1Q20 | 2Q20 |
| EF-170 – Ferrogrão | ✓ | ● | | 4Q19 | 1Q20 |
| 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 Vitória/ES (TGL CAPUABA) | ✓ | ✓ | ✓ | ✓ | ✓ |
| Port of Cabedelo/PB(AE10,AE11,A101) | ✓ | ✓ | ✓ | ✓ | ✓ |
| Port of Belém/PA (BELO2A,02B,04,08,09) | ✓ | ✓ | ✓ | ✓ | ✓ |
| Port of Vila do Conde/PA (VDC12) | ✓ | ✓ | ✓ | ✓ | ✓ |
| Port of Paranaguá/PR (PAR01) | ✓ | ✓ | ✓ | ✓ | ● 3Q19 |
| Port of Santos/SP (STS 13A) | ✓ | ✓ | ✓ | ✓ | ● 3Q19 |
| Port of Santos/SP (STS20) | ✓ | ✓ | ✓ | ✓ | ● 3Q19 |
| Port of Suape/PE (SUA05) | ✓ | ✓ | ✓ | ● 3Q19 | 1Q20 |
| Port of Santos (STS 14) | ✓ | ● | 4Q19 | 4Q19 | 1Q19 2Q19 |
| Port of Itaquí (IQI 03, 11, 12, 13) | ✓ | ● | | | 1Q20 2Q20 |
| CODESA Privatization | ● | | | | 4Q20 1Q21 |
| São Sebastião Privatization | ● | | | | 1Q21 2Q21 |
| Port of Paranaguá/PR (PAR07, 08, XX) | | | | | |
| Terminal - Port of Santana (MCP1) | | | | | |
| Port of Paranaguá/PR (PAR12*) | | | | | |
| Port of Suape/PE (SUA01*) | ✓ | | | | |

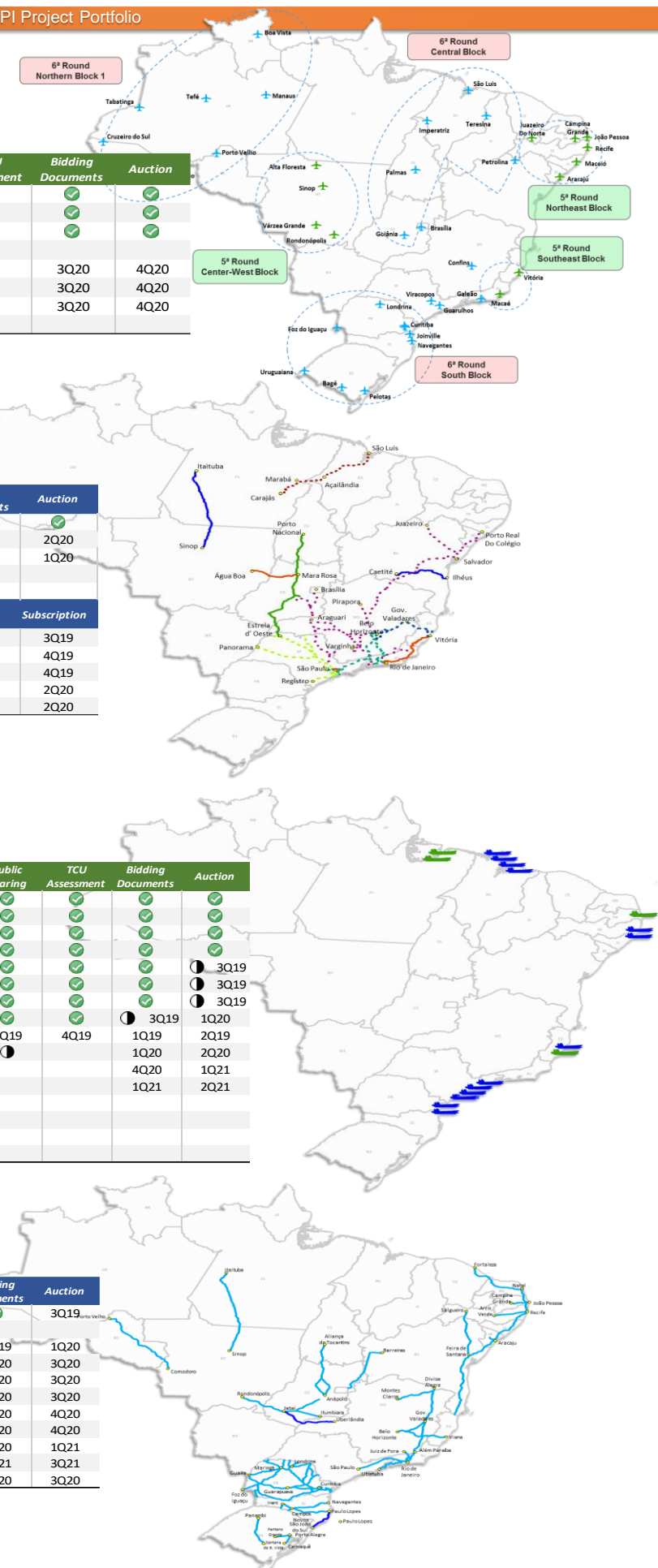
Highways

Investments of US\$ 34.9 bi

Extension of 16,574.82 km

| Highways | Studies | Public Hearing | TCU Assessment | Bidding Documents | Auction |
|-------------------------------|---------|----------------|----------------|-------------------|---------|
| BR-364/365/GO/MG | ✓ | ✓ | ✓ | ✓ | 3Q19 |
| BR-364/RO/MT | | | | | |
| BR-101/SC | ✓ | ✓ | ● | 3Q19 | 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 | 1Q21 |
| Integrated Highways of Paraná | ● | | | 2Q21 | 3Q21 |
| BR-153/282/470/SC e SC-412 | ● | | | 2Q20 | 3Q20 |

✓ Completed
● In progress





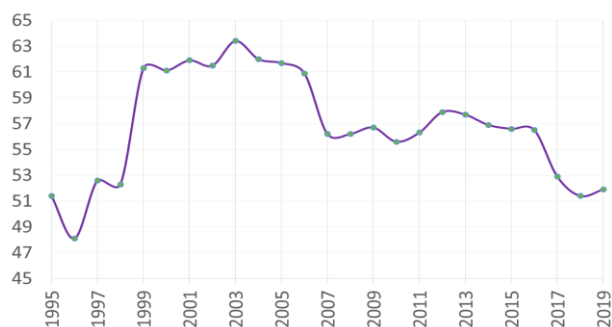
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The Economic Freedom Bill

- The plenary of the House of Representatives approved on Wednesday (8/14) the base text of Business Facilitation Bill (or Provisional Measure, MP 881/19 in the Portuguese acronym).
- In Brazil, Provisional Measure is the term for the legal act through which the President of the country enacts laws effective for the maximum period of 120 days without the approval of the Congress, based on the urgency or the relevance of the matter. The MP then needs to be approved by the Congress to be converted into law, or it expires.
- The approval by the House of Representatives is the first stage for this process of conversion into law. Now, as a Project of Law, it will be submitted to Senate's review before its final approval. The two necessary rounds of voting are scheduled for Sep. 27 and Oct. 10.
- The Economic Freedom Provisional Measure seeks to stimulate business creation by establishing guarantees for free-market economic activity, limiting state regulatory power and increasing economic freedom for businesses. The main beneficiaries will be small entrepreneurs and low-risk activities, as defined in specific regulations.
- The Brazilian Government estimates an impact of 7% on the gross domestic product per capita and 4% on employment level over a period of 10 to 15 years.



Brazil - Index of Economic Freedom



Index of Economic Freedom*
Selected Countries

| | | |
|-----|-----------|------|
| 19 | Chile | 75.4 |
| 41 | Uruguay | 68.6 |
| 44 | Peru | 67.8 |
| 48 | Colombia | 67.3 |
| 63 | Mexico | 64.7 |
| 64 | Turkey | 64.6 |
| 76 | Paraguay | 61.8 |
| 90 | Russia | 58.9 |
| 92 | China | 58.4 |
| 117 | India | 55.2 |
| 134 | Argentina | 52.2 |
| 135 | Brazil | 51.9 |
| 155 | Bolivia | 42.3 |

*The Index of Economic Freedom measures and ranks 164 countries across 10 specific freedoms (Trade, Fiscal, Government, Monetary, Investment, Financial, Property Rights, Business, Corruption and Labor). One hundred represents the maximum freedom.
Source: The Heritage Foundation

The 16 main freedoms of the MP 881

- 1 - Freedom of bureaucracy:** Withdraws any type of license (business, sanitary and environmental) for low-risk activities, regardless of the size of the company.
- 2 - Freedom to work and produce:** Restricts the hypothesis where the government and unions can impose limits on working hours for commerce, service and industry.
- 3 - Freedom to set prices:** Prevents laws from interfering in price policy for products and services, in order to foster competition and the emergence of new business models.
- 4 - Freedom from arbitrariness:** Grants all businesses isonomic treatment before all bodies of the direct and indirect Public Administration on decisions regarding the economic activity, including licenses and sanctions.
- 5 - Freedom to be presumed in good faith:** All acts regarding the economic activity will be presumed in good-faith and any doubt in the interpretation of the law must be settle respecting contracts and private acts the most.
- 6 - Freedom to modernize:** Grants the right of development, production and commercialization of new kinds of products and services when the relevant regulation becomes outdated due to technological changes.
- 7 - Freedom to innovate:** Except for specific situations established by law, no license may be required while the company is testing, developing or implementing a product or service that does not pose risk to health or national security.
- 8 - Freedom to agree:** The terms agreed in the contract will have prevalence over the public law in order to preserve the will of the parties, as long as there is their not harmful to third parties or to rights protected by the Public Administration.
- 9 - Freedom not to be left unanswered:** Every application for license or permit will have to have a maximum time to be answered, after which it will be considered approved in case there has not been an answer.
- 10 - Freedom to scan:** All papers can be scanned and discarded according to the best practices, lowering the costs of storing and complying for the companies.
- 11 - Freedom to endeavor:** Contract will be presumed symmetric and balanced unless demonstrated otherwise. Therefore, judicial decisions should not pierce the corporate veil unless bad faith is demonstrates.
- 12 - Freedom to draw up contracts with an international standard:** Courts may not proceed contractual revisions except in strict and necessary cases.
- 13 - Freedom from abuse:** Establishes the definition for regulatory abuse and establishes compensations for businesses affected by this kind of abuse.
- 14 - Freedom of economic regulation:** All new regulation from the Public Administration with major impacts on the economic activity must be preceded by an assessment of regulatory impact.
- 15 - Freedom of corporate regularization:** Single-shareholder limited liability companies will be regularized de facto in accordance with the law.
- 16 - Freedom from contractual risks:** The parties of a contract have the right to agree on the allocation of risks and the allocation must be respected.