



BRAZIL: MACROECONOMIC MONITOR AND REFORM AGENDA

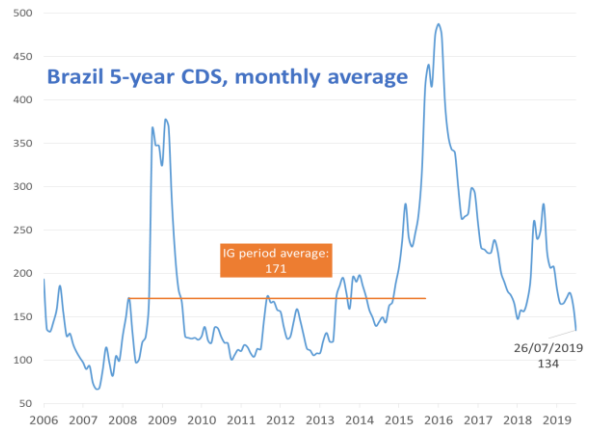
July 30, 2019

Weekly Highlights

- The IMF concluded the Article IV Consultation with Brazil, with staff and Executive Directors appraisal
- Brazil's country risk, measured by the 5-year CDS, reached 125 points, the lowest since Sep. 2014
- BR Distribuidora was privatized, granting US\$ 2.5 billion to Petrobras
- The Govt. announced the injection of R\$ 40.0 bi in FGTS resources and R\$ 23.2 bi in PIS/PASEP into the economy from Sep.19 to Mar.20
- The yield curve declined broadly as stakes of a 50-bps Selic rate cut intensify

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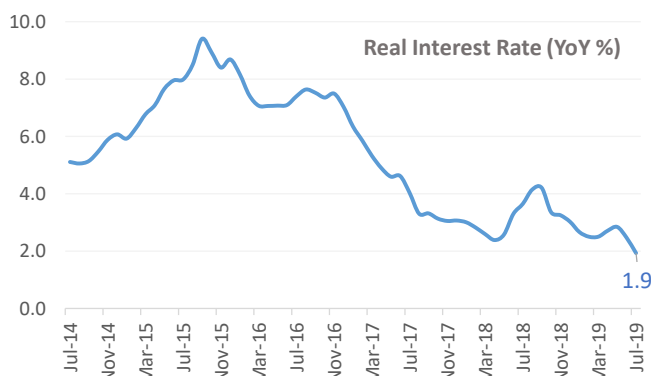
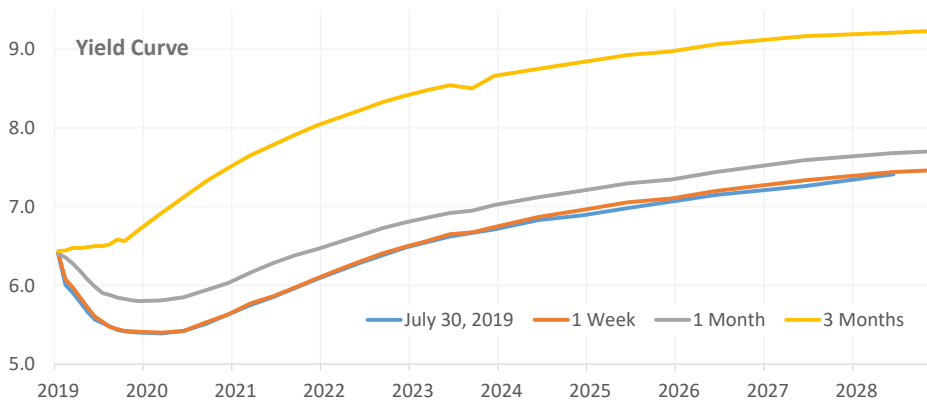
The New Framework for the Natural Gas Market in Brazil



	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY)	0.50	-3.55	-3.30	1.06	1.12	0.82 (*)	2.10 (*)
Consumer Inflation IPCA (% YoY)	6.41	10.67	6.29	2.95	3.75	3.80 (*)	3.90 (*)
Current Account (USD bi)	-101.4	-54.5	-24.0	-7.2	-14.5	-22.0 (*)	-32.5 (*)
Foreign Investment in the Country (USD bi)	87.7	60.3	73.4	70.3	88.3	85.0 (*)	85.3 (*)
International Reserves (USD bi)	364	356	365	374	375	386 (26 Jul)	-
Unemployment rate (%)	6.5	8.9	12.0	11.8	11.6	12.3 (May)	-
General Government Gross Debt (% GDP)	56.3	65.5	69.9	74.1	77.2	78.8 (**)	80.2 (**)
Ibovespa Index (BRL, % chg.)	-2.9	-13.3	38.9	26.9	15.0	17.1 (ytd)	-
CDS 5 years (year average)	189	475	293	165	208	166 (Jul 19)	-
Interest rate (Selic Target) (% eop)	11.75	14.25	13.75	7.50	6.50	5.50 (*)	5.50 (*)

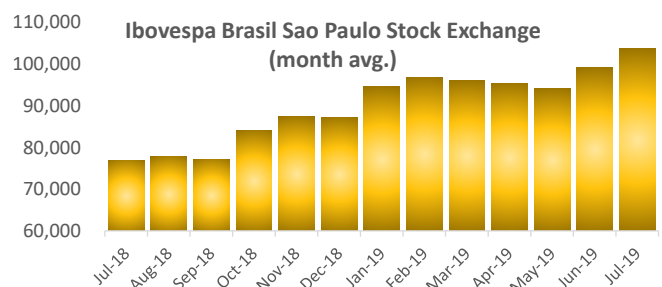
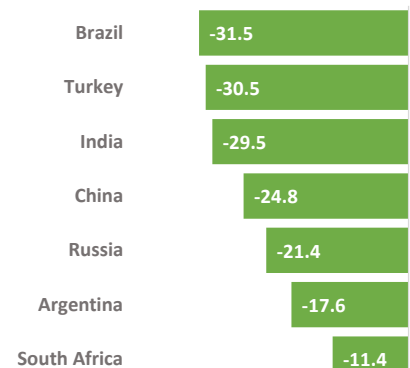
Estimates: (*) Focus Survey, Central Bank of Brazil, Jul. 26, 2019); (**) Prisma Fiscal, Jul.2019

MARKET WATCH



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

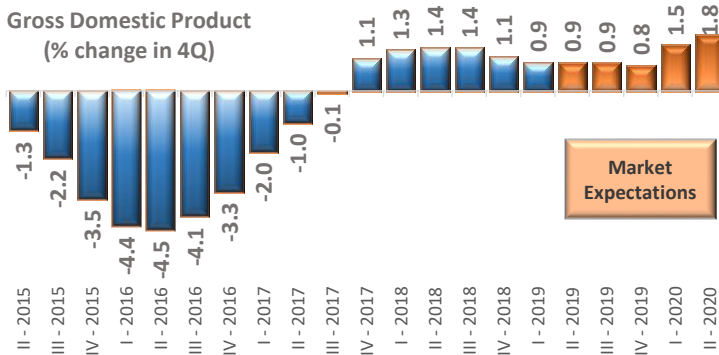
5- CDS year (% change in the last 2 months)



Sources: BCB, Min. of the Economy, Bloomberg

ECONOMY WATCH

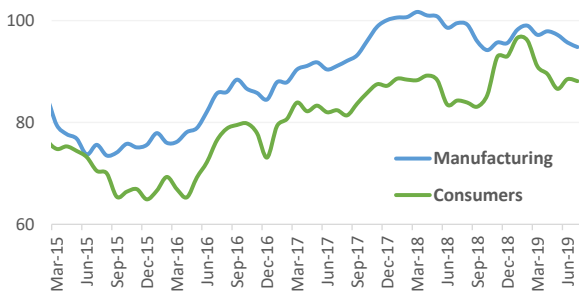
Gross Domestic Product
(% change in 4Q)



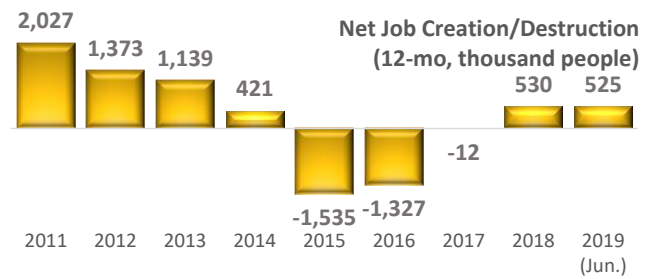
Consumer Inflation (%)



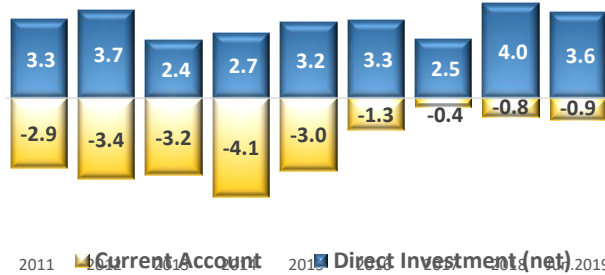
Confidence Indicators (FGV, s.a.)



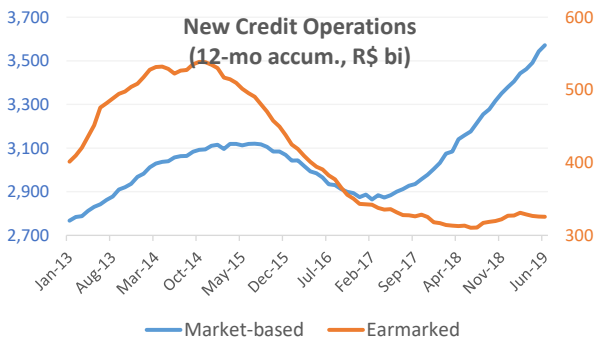
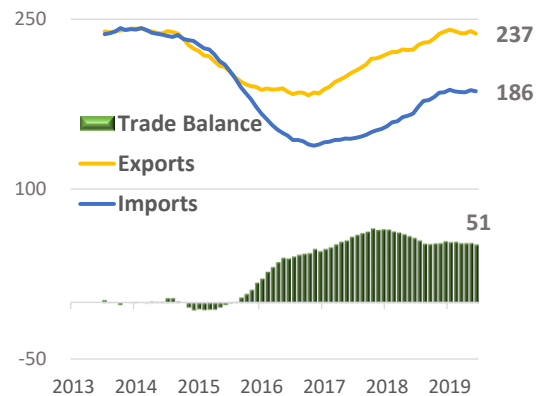
Net Job Creation/Destruction
(12-mo, thousand people)



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



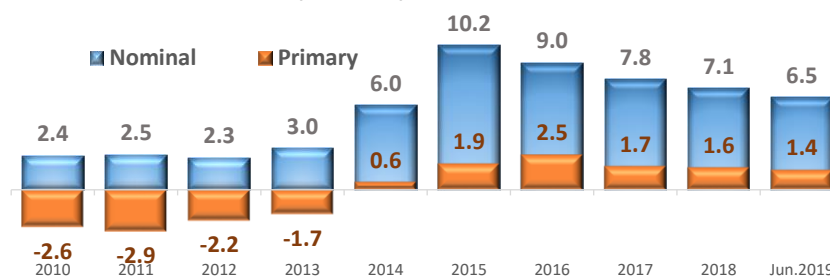
Trade Balance (US\$ bi, 12-mo.)



Household Debt Service ratio (% YoY)



Public Sector Fiscal Deficit (% of GDP)





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	Description	Next Steps
Social security reform (PEC 06/2019)	<ul style="list-style-type: none"> 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 in the first of the two necessary rounds. 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: estimated savings of around BRL 0.9 trillion in the ten years (improving the primary balance in around 1.9 p.p. of GDP by 2027). 	<ul style="list-style-type: none"> Second voting round in the House of Representatives on Aug. 06th. Needs 308 of the 513 votes. Analysis of its constitutionality by a Senate commission. Two voting rounds in the Senate. Needs 49 of the 81 votes. Changes made at this point must be sent to the House of Representatives. Expected to be approved in 2019.
Combat embezzlement of social security benefits (MPV 871/19)	<ul style="list-style-type: none"> Revision of 6.4 million benefits granted, with expected savings of R\$ 9.8 billion in 12 months; stricter rules for the concession of new benefits. New rules to simplify and make more efficient the judicial collection of debt due and unpaid to the Social Security, focused on big debtors. 	<ul style="list-style-type: none"> Presidential approval.
Tax reform	<ul style="list-style-type: none"> Aims at simplifying the tax system and at reducing the tax burden on companies, legal insecurity and excessive legal dispute Includes the merger of federal taxes (PIS/COFINS, IPI, CSLL and IOF) into the Federal Single Tax. 	<ul style="list-style-type: none"> Legislation being prepared by the Government Instrument: PEC and infra constitutional measures
Subsidies reduction	<ul style="list-style-type: none"> Reduction and streamlining of subsidies granted by the Government, which amount to around 4.7% of GDP in the 2019 budget. 	<ul style="list-style-type: none"> Instrument: Congressional approval
Trade liberalization	<ul style="list-style-type: none"> The openness degree (exports plus imports over GDP) is targeted to increase 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 449 industrial machines and equipment not produced domestically; reduction of the import tax for inputs and products of the chemical sector. The EU-Mercosur Free Trade Agreement was announced by both parties on June 28th. The Free Trade agreement is to be ratified by all Parliaments involved. 	<ul style="list-style-type: none"> Expand the Agreement for Economic Supplementation with Mexico are underway. Instrument: Government decrees and resolutions
Central Bank Independence (Senate PLP 19/19)	<ul style="list-style-type: none"> On April 11th, the Government sent to Congress a 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. 	<ul style="list-style-type: none"> Congress appreciation Instrument: Supplementary Bill.
Fight corruption, criminal organizations and violent crimes (PL-881/2019, PL-882/2019 and PLP-38/2019)	<ul style="list-style-type: none"> Changes to the Code of Criminal Procedure, Criminal Code, Criminal Law, Electoral Code, among others; Criminal law enforcement measures will 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. 	<ul style="list-style-type: none"> Proposal submitted to Congress on February 19th Instrument: 3 Infra constitutional
Digital Government	<ul style="list-style-type: none"> Initiatives such as <i>The Digital Citizenship Platform</i> (access and provision of digital public services); <i>GovData</i> (crossing and information analysis of the main official databases); and <i>ConectaGov</i> (connection and exchange of information between government systems). 	<ul style="list-style-type: none"> Broader digital integration, services provision, and database unification; Changes in the legal framework; among others.
Extreme poverty reduction	<ul style="list-style-type: none"> On April 11th, the Brazilian president enacted a fast track bill granting one additional allowance per year for the 14 million households covered by conditional cash transfers (Bolsa Família Program). There is no fiscal impact, due to the relocation of public expenditures. 	<ul style="list-style-type: none"> Interim order must be issued in Oct. 2019
Private Credit	<ul style="list-style-type: none"> On June 27th the Ministry of Economy announced the release of more than R\$100 billion in reserve requirement on deposit liabilities to private banks. The goal is to allow financial institutions to extend credit to individuals and companies. 	<ul style="list-style-type: none"> Reduction of bank's compulsory rate from 33% to 31%.
Employment	<ul style="list-style-type: none"> The registers of the unemployed were opened to private recruitment companies, extending the use of the national employment system dataset. 	<ul style="list-style-type: none"> New Work Booklet (<i>Verde e Amarela</i>) to ease access to the labor market. <i>Emprega Mais</i>: new workforce training strategy.



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

Main Measures	Description	Next Steps
Business Facilitation (MP 881/19)	<ul style="list-style-type: none"> Economic Freedom Bill: reduces red tape and Government intervention, facilitating the opening of new businesses. It eliminates the need for low-risk activities to obtain any type of license, regardless of the company size; limits the restrictions on trading hours, service and industry; 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 business contracts to be changed judicially; establishes that license requests unanswered are automatically granted; simplifies the access of small and medium-sized companies to the capital market; extends higher court decisions to all cases, without the need to appeal; creates the “regulatory abuse” situation; makes the analysis of regulatory impact mandatory for any new legislation; among others issues. 	<ul style="list-style-type: none"> <i>Simplifica</i> : Set of 50 measures to reduce red tape to production. Brazil 4.0: Encourage companies' digitization and modernization. <i>Pró-mercado</i> : regulatory changes to end barriers to market operation and competition.
Positive Credit Registry	<ul style="list-style-type: none"> Law that includes individuals and companies in a database with information on their credit track record, aiming at broadening and easing credit opportunities for those with a good payment record. 	
Ombudsman for Direct Investments	<ul style="list-style-type: none"> Provide consultation for foreign investors about legislation or administrative procedures related to investments in Brazil. 	
National Tourism Policy (Decree 7.763/19)	<ul style="list-style-type: none"> Bill to develop and promote the tourism segments related to the World Cultural and Natural Heritage of Brazil, within the scope of the National Tourism Policy. 	
Public administration overhaul (Decree 9.725/19)	<ul style="list-style-type: none"> 21,000 commissioned positions eliminated. Limitations for creating collegiates. Elimination of unnecessary collegiates. Restrictions for hiring civil servants and rules for hiring senior officials. 	
Restrictions to public banks	<ul style="list-style-type: none"> Bill provides that the Central Bank must approve the appointment of directors and administrators of public financial institutions, in accordance to the technical criteria established by the National Monetary Council. 	<ul style="list-style-type: none"> Congress appreciation
Fiscal sustainability of subnational entities	<ul style="list-style-type: none"> Federal support to states with some counterparts, such as fiscal adjustment measures and opening of regional markets for gas distribution. Sharing resources from the pre-salt with states and municipalities. 	<ul style="list-style-type: none"> Launch of the Financial Equilibrium Plan and elimination of the Federal exclusivity to the Social Fund.
Auction of Assignment Agreement	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Auction scheduled for Oct. 28th, 2019
Privatization	<ul style="list-style-type: none"> The sale of state-owned companies and Voluntary Dismissal Programs are under preparation. There are 134 companies owned by the Fed. Govt. (being 88 subsidiaries), with more than 450,000 employees. 	<ul style="list-style-type: none"> On June 6th, 2019, the Supreme Court ruled that subsidiaries do not need Congress approval to be sold.

INVESTMENTS, CONCESSIONS AND PRIVATIZATIONS

52 PPI Projects Auctioned or Renewed

<ul style="list-style-type: none"> Privatization of 7 Distributors (CELG, CEAL, CEPISA, CERON, Eletoacre, Amazonas, Boa Vista) Concessions of 2 Hydroelectric Plants (Jaguara, Ubatuba) 2 Small Plants Transmission Lots 	<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"> 22 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

47 ongoing PPI Projects

<ul style="list-style-type: none"> Transmission Lots 2 Auctions of New Energy 	<ul style="list-style-type: none"> Angra 3 Thermonuclear Plant 	<ul style="list-style-type: none"> 4 Concessions of CPRM Mining 	<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"> 6th Round (North I, South and Central) 	<ul style="list-style-type: none"> 12 Leasing Projects 1 Privatization 	<ul style="list-style-type: none"> 4 Concessions 	<ul style="list-style-type: none"> 11 Concessions
			<ul style="list-style-type: none"> Privatization - Casa da Moeda, CEASAMINAS, Infraero shareholdings and Eletrobras Concession of LOTEX PPP for COMAER

Project Portfolio

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	✓	✓	✓	2Q19	4Q19
BR-101/SC	✓	✓	●	3Q19	1Q20
BR-381/262/MG/ES	●	●	●	2Q20	3Q20
BR-163/230/MT/PA	●	●	●	1Q20	2Q20
BR-153/080/414/GO/TO	●	●	●	4Q19	1Q20
BR-470/282/153/SC	●	●	●	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
Highways Integradas do Paraná	●	●	●	2Q21	3Q21
Highways 7200 km	●	●	●	2Q22	3Q22



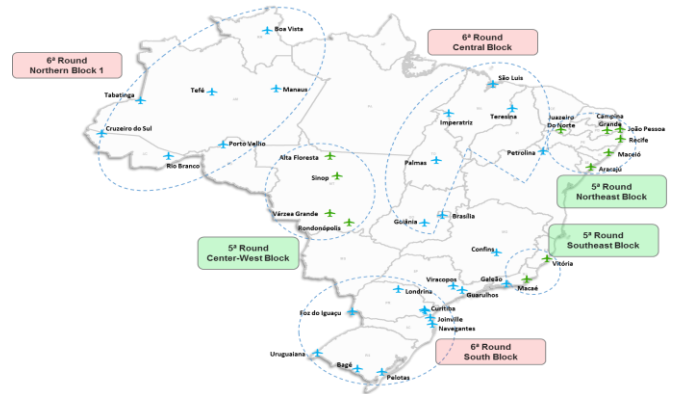
Airports

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)	●	●	●	●	●
6th round - Northern Block 1 (7)	●	●	●	●	●
6th round - Central Block (6)	●	●	●	●	●
Disposals of infraero shares (4)	●	●	●	●	●



Railroad

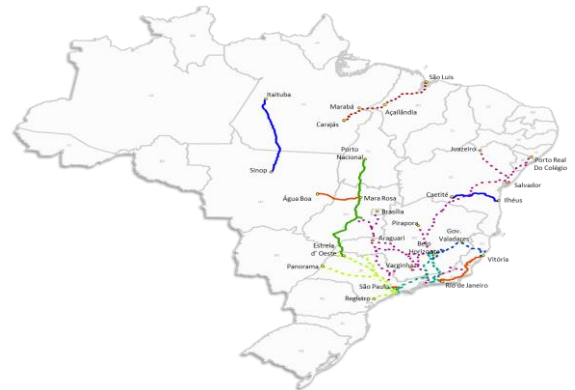
Investments of US\$ 14.8 bi

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 – FIOB	✓	●	●	3Q19	4Q19
EF-170 – Ferrogrão	✓	●	●	4Q19	1Q20

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



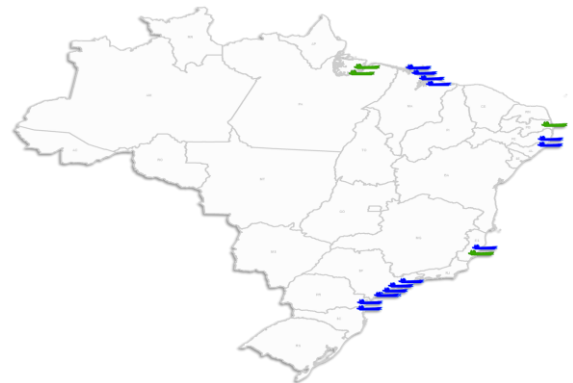
Ports

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, AI01)	✓	✓	✓	✓	✓
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	4Q19
Port of Santos (STS 14)	●	4Q19	4Q19	1Q19	2Q19
Port of Itaquí (IQ 03, 11, 12, 13)	●	3Q19	3Q19	4Q19	1Q20
CODESA Privatization	●	2Q20	3Q20	4Q20	1Q21
São Sebastião Privatization	●	3Q20	1Q21	1Q21	2Q21
Port of Paranaguá/PR (PAR12*)	✓	✓	✓	✓	✓
Port of Suape/PE (SUA01*)	✓	✓	✓	✓	✓



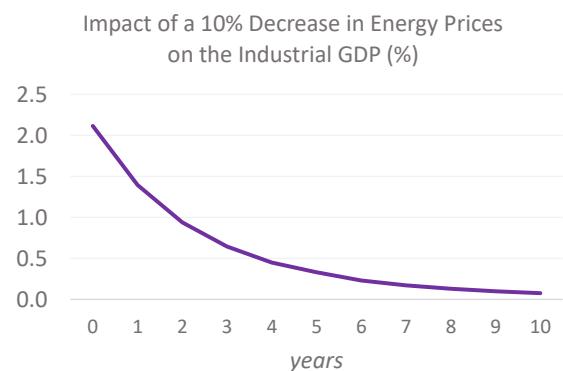
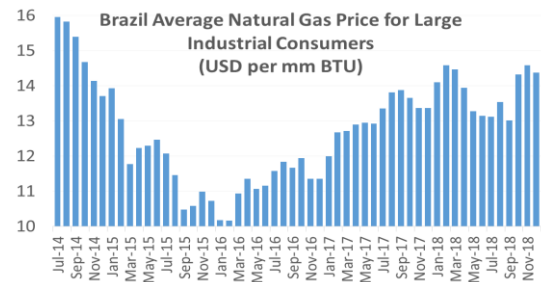
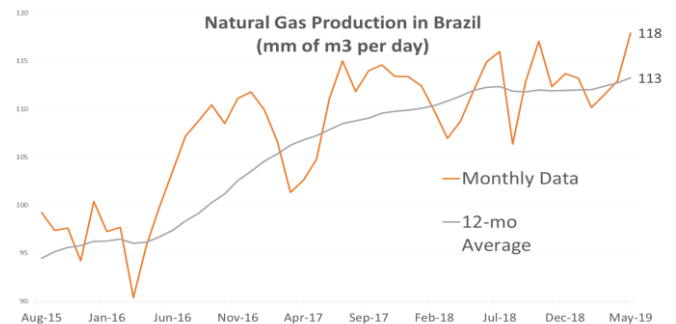
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● In progress



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The New Framework for the Natural Gas Market in Brazil

- The New Gas Market program was launched on July 23rd, aiming at promoting competition, attracting domestic and foreign investments and reducing energy prices.
- The program foresees the effective breaking of Petrobras' monopoly in the natural gas market and the improvement in the regulation of natural gas transportation and distribution in the country, ensuring competition and competitiveness for the sector. The government's main objective with the measure is to reduce the costs of energy and of all industrial production in the country, boosting industrial activity.
- Brazil is experiencing a highly anticipated momentum for growth in natural gas production in the coming years, driven by the pre-salt exploitation.
- After being treated and processed, natural gas has a high-energy content and is commonly used for energy generation and as raw material in the most diverse industrial segments, such as petrochemical, steel and food, and is used to produce glass, plastics, fertilizers, beauty products and building materials, among others.
- The government expects the competitive supply of natural gas to play a fundamental role to promote economic growth, stimulating investments and ensuring competitiveness for the Brazilian manufacturing industry.
- Today, Brazil has the most expensive price of natural gas in Latin America, according to the Energy Research Company (EPE). While in Brazil the industrial companies pay \$14 per million BTU, in Europe - where many countries do not even have production and rely on imported gas - the price is around \$7 to \$8 per million BTU, while, in the US, it is less than \$4 per million BTU. In addition, as around 20% of the total cooking gas (LPG) originates from natural gas, the measure has the potential to reach cylinder gas and the price of energy, as there are thermal plants that use natural gas as fuel for energy production.
- To implement an open and competitive natural gas market for the country, the Monitoring Committee for the Opening of the Natural Gas Market was created. It is composed of representatives of the Ministries of the Economy, Mines and Energy, the Presidency's Civil Cabinet, the National Petroleum, Natural Gas and Biofuels (ANP), Administrative Council for Economic Defense (Cade) and the Energy Research Company (EPE).
- The Committee will coordinate the actions of the various State agents that act to effectively break the natural gas monopoly, monitor its implementation and propose new measures to the National Energy Policy Council (CNPE).
- As a background for the new program, Cade and Petrobras signed, on July 8, a Commitment Agreement in which Petrobras pledged to free access to the country's gas pipelines and all infrastructure essential to the natural gas sector. Petrobras also pledged to give up its stake in 19 of the 27 state distributors, companies that have the exclusive concession for the distribution of natural gas to the final consumer. In Brazil, this distribution is a natural monopoly, granted by state governments.
- Prior to that, in the end of June, the National Energy Policy Council (CNPE) issued Resolution 16/2019, which established the regulatory guidelines for opening and promoting competition in the natural gas market that should be adopted in this process during the next few years.



Source: MECON/SECAP

Latest Stats May 2019

- Natural Gas Production was 5.4% higher than in May 2018 and set a record high
- Offshore fields represented 83.8% of the natural gas production
- Petrobras produced 98.2% of the Natural Gas
- The Pre-Salt region was responsible for 68.7 mm m3/d