SAIN

Brazil: Macroeconomic Monitor and Reform Agenda

2019 Retrospective

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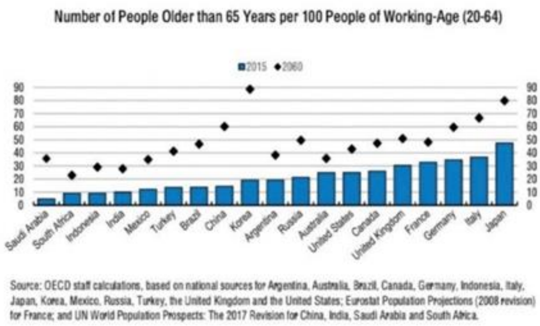
PÁTRIA AMADA BRASIL

JUNE 12 EDITION

Impacts of the approval of the Pension Reform in Brazil

The Chamber of Representatives approved, on July 10th, by 379 to 131 margin - in the first round - the main text of the Pension Reform (PEC), whose final approval will increase confidence in the economy

The expected Impacts

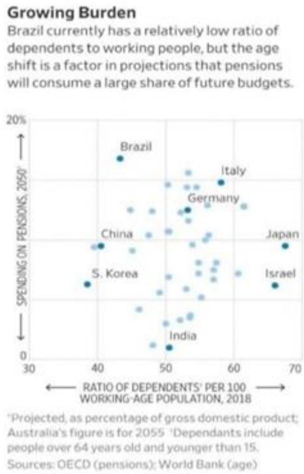


• As a direct result of the perception of risk decline, there is a rise trend in growth and a reduction in the equilibrium interest rate of the economy. In average, countries that underwent pension reform showed a 3pp increase in GDP, comparatively to the pre-reform trend, with a significant part of this effect appearing in 2 years.

• Impact: estimated savings of around BRL 0.9 trillion (USD 225 billion) in ten years (improving the fiscal primary balance in around 1.9 p.p. of GDP by 2027).

• Market reaction has been optimistic, with domestic equity finishing 1.2% higher and the real appreciating 1.0% against the US dollar (source: IMF Global Market Monitor; 07/10/2019)

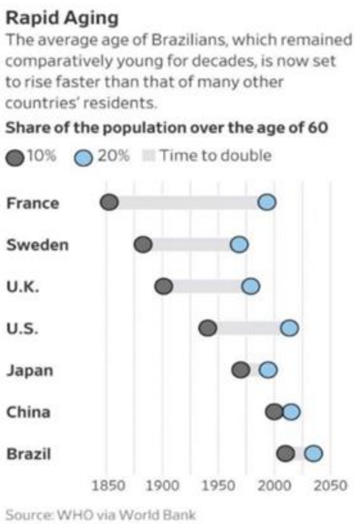
The main points of the Pension Reform



•The current reform text preservers' safety net policies to the poorest citizens, such as the BPC (a minimum wage granted to the extremely poor) and the rules for rural retirement. The subnational governments are not included in the reform (each federative entity should approve its own pension rules).

•The PEC bill maintained the minimum age proposal of 65 years old for men and 62 for women. Minimum contribution periods are of 20 and 15 years, respectively. The bill maintains the legal flexibility of social security rules, proposed originally.

Why the Pension Reform is so important



• Brazil presents a profile of pension expenditures at a level that is incompatible with its current demography, and it is clear the unsustainability of the current pension regime as the country ages.

•Brazil spends more than half of the Federal budget on social security and benefits. Without the reform, the general government gross debt is set to climb 25 p.p. in the next 5 years. The approval of the pension reform in Brazil is required for sustainability of the social security system and maintenance of the government expenditure ceiling.

•In addition to the sustainability issue, the reform is required to raise domestic savings and lower the economy's perception of risk, potentially increasing the domestic and external investment rates.

•The establishment of a minimum age for retirement is crucial for correcting significant distortions in Brazil's pension system with regard to income distribution.

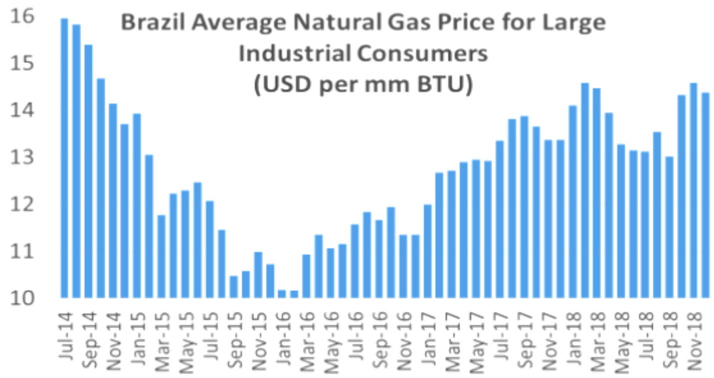
JULY 30 EDITION

The New Framework for the Natural Gas Market in Brazil

• The New Gas Market program was launched on July 23, 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.

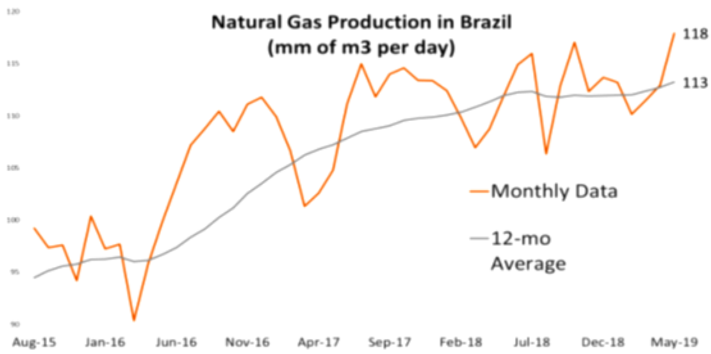
• Brazil is experiencing a highly anticipated momentum for growth in natural gas production in the coming years, driven by the pre-salt exploitation.

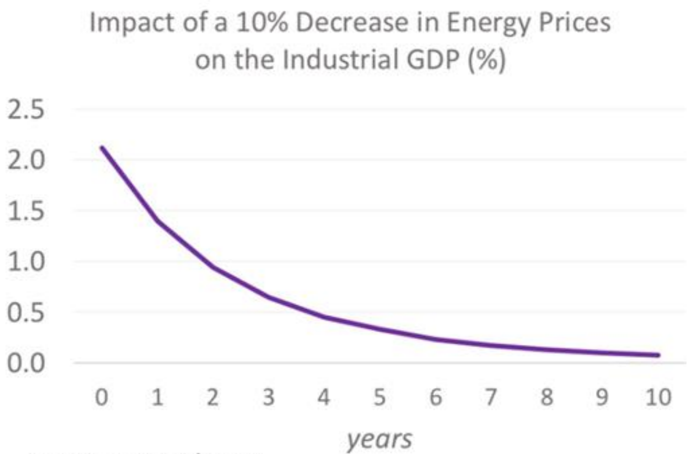


• After being treated and processed, natural gas has a high-energy content and is commonly used for energy generation and as raw material in the most diverse industrial segments, such as petrochemical, steel and food, and is used to produce glass, plastics, fertilizers, beauty products and building materials, 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 pays $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.





Source: MECON/SECAP

• 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).

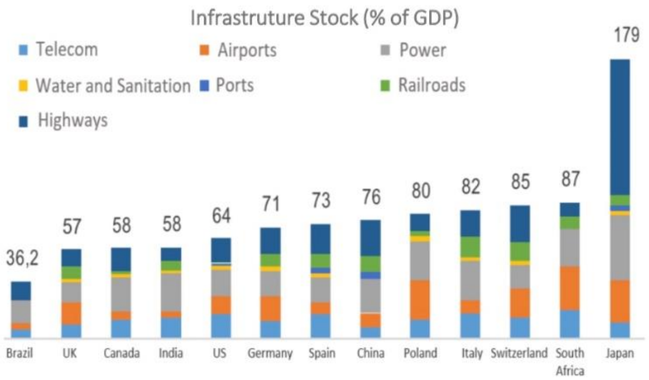
• The Committee will coordinate the actions of the various State agents that act to effectively break the natural gas monopoly, monitor its implementation and propose new measures to the National Energy Policy Council (CNPE).

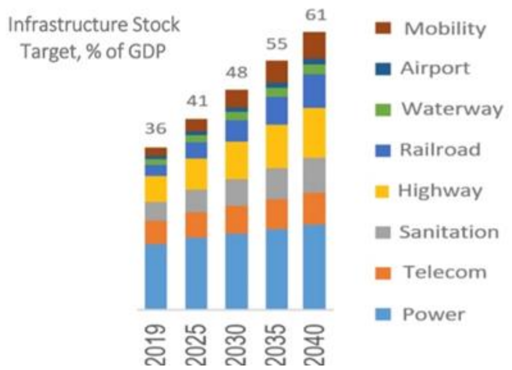
• As a background for the new program, Cade and Petrobras signed, on July 8, a Commitment Agreement in which Petrobras pledged to free access to the country's gas pipelines and all infrastructure essential to the natural gas sector. Petrobras also pledged to give up its stake in 19 of the 27 state distributors, 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.

AUGUST 6 EDITION

Pro-Infra Strategy

• On Aug. 1, the Government launched the Pro-Infra strategy, designed to further develop the economic infrastructure of the country (logistics, energy, sanitation, urban mobility, telecommunications and popular housing), increasing productivity, competitiveness and employment.
• The goal is to raise annual investment in the sector from the current 1.6% to 3.8% as a proportion of GDP by 2022.
• The strategy will rely on the attraction of private investments. Pro-Infra will also have the participation of BNDES and PPI.
• Brazil needs investments in infrastructure. The infrastructure stock is currently at 36% of GDP. As a goal, the strategy aims at reaching both developed countries and BRICS peers, with an infrastructure stock of around 60% of GDP.
• Pro-Infra will tackle issues that hinder the attraction of foreign capital for infrastructure, such as legal certainty, adequate regulatory frameworks and long-term planning.
• The strategy is based on three pillars: reducing government participation in infrastructure projects, increasing private investment and long-term planning. There is also the goal of, until 2022, making Brazil rise 10 positions in the global competitiveness ranking, made by the World Economic Forum, from 81st to 71st in the infrastructure pillar, and to be among the top 20 positions in 2040.
• The necessary investments, of around R$ 10 trillion by 2040, will bring both short-term and long-term effects, by stimulating the economy and by reducing costs and expanding the supply of infrastructure services.





Market View: Estimated impact of the new FGTS rules on the economic activity

• The Government released new FGTS rules for withdrawals, fund remuneration and its use as collateral in credit operations, and simplified the rules for withdrawal of PIS/Pasep.

• LCA Consulters estimated the impacts of the new rules as presented below.

• In the *Immediate Withdrawal* option, every citizen with a FGTS account will be entitled to withdraw up to R$ 500 per account from Sep/2019 to Mar/2020. The Ministry of Economy (ME) estimates an injection of about $40 billion (R$ 28 billion in 2019 and R$ 12 billion in 2020) in the economy. In addition, it will be available permanently to withdraw funds from the PIS/PASEP (deposits made until 1988). According to ME, PIS/PASEP amounts to R$ 22.8 billion, divided among 11.7 million quota holders but, in this case, the expectation is to release only R$ 2 billion. The joint impact in activity is 0.5 to 0.6 pp of GDP in 12 months, with maximum impact in the first half of 2020.

• The estimated impact is higher than the calculated by the ME, of 0.35 p.p. of GDP in 12 months, and consider both direct and indirect effects.

• LCA projections were based on the results from the FGTS withdrawals allowed in 2017, considering that there are reasons to believe the effects will be stronger this time:

i) the number of people contemplated (96 million) will be 4x higher than in 2017; ii) the average withdrawal per person should be close to R$ 415, therefore, with a higher consumption profile and, finally, iii) household indicators in comfortable levels, such as delinquency rates (0.6 pp lower), the income commitment (fell from 21.1% in 2017 to 20.3%), confidence (5.8 pp higher) and employment (formal jobs expanded by 640,000 between Jul/17 and Jun/19).

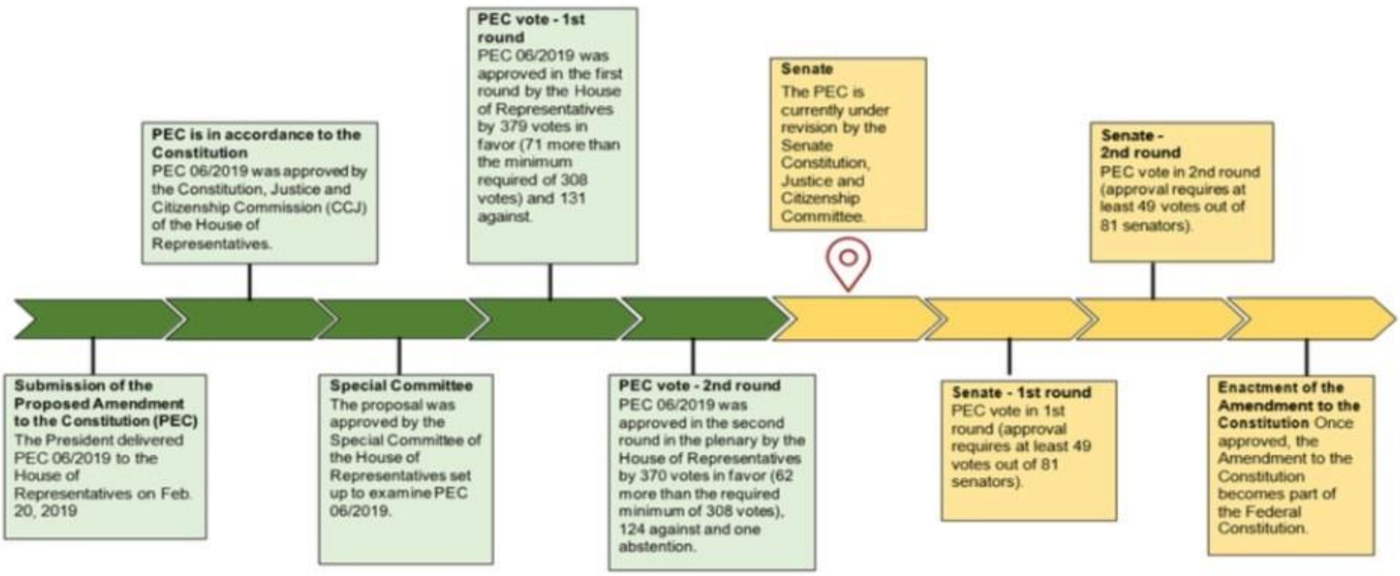
• The new *Anniversary Withdrawal* option could inject from R$ 16.6 billion to R$ 31.2 billion into the economy in 2020. Direct/indirect effects on activity are expected to be relatively minor but, if successful to reduce incentives for high labor turnover, there could be positive effects in the medium and long term to labor productivity. There are no estimates from the Government.

• Under this last option, workers will be allowed, from 2020 on, to withdraw a percentage of the resources (active or inactive) in the month of birthday. Upon entering this mode, the worker will be prevented from full withdrawal for the next two years. At any time, this choice can be reverted, always effective only two years after the change. These resources can be used as collateral in credit operations (similar to what happens today with the anticipation of the income tax).

AUGUST 12 EDITION

The New Pension System – wrote by The *Special Secretariat for Social Security and Labor*

- The House of Representatives approved a comprehensive pension reform, with estimated savings of R$ 933.5 billion over the next 10 years.
- The proposal will be appreciate by the Senate, where it will also be subject to two rounds of voting. It is expect to be approve still in 2019.
- The approved proposal streamlines the access to benefits, changes calculation rules and restructures contribution rates, among other measures. The measures will contribute to fiscal sustainability in the medium and long term, as well as to the establishment of a fairer distributive system. The New Pension System is fundamental for the structural fiscal adjustment and for containing the public debt growth trend observed in recent years.
- One change of major importance is the introduction of minimum retirement ages of 65 years old for men and of 62 years old for women, comprising both the private sector workers 'and the civil servants' pension regimens, with transition rules for those who already contributes to the system. The proposal eliminates the retirement without minimum age contribution, which allowed early retirement, since its only requirement was 35 years of contribution for men and 30 years for women. This type of pension allowed, in 2018, retirements with an average age of 54 years old. The definition of a minimum retirement age has been attempt, at least, since 1998.
- The proposal further promotes the convergence of the social security rules for the civil servants to the rules for the private sector workers. Within two years, both regimens will be subject to the same value cap for benefits. There is also a restructuring of contribution rates, to make for a more progressive system.
- There are also important changes in the death pension rules, one benefit that generates particularly high expenditures (around 3% of GDP) in comparison to other countries. There is a change in the calculation, with the benefit amount now dependent on the number of dependents, and with restrictions for benefit accrual. In the set of measures, there is also a change in the eligibility criteria for receiving the Salary Allowance (*Abono Salarial*), improving the focus of the program.
- One flagship measure is the elimination of special regimes for new elective mandate holders, who are now subject to the same criteria applied to private sector workers.
- The proposal approved by the House of Representatives, however, excluded the structural reform resulting from the change in the pay-as-you-go system to a capitalization system, as well as changes in state and municipals government rules. It is expect that this last point will be revisit by the Senate with a parallel PEC.



AUGUST 19 EDITION

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 approve 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 schedule 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: Stablishes 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.

AUGUST 26 EDITION

The Diversification of the Investment Partnership Program (PPI)

• On August 21, the 10th meeting of the PPI Council included 22 new projects and 7 development policies in the portfolio.
• For the first time, social policies were qualified to be conduct through private partnerships. The program, so far, have been focused on the areas of transportation, logistics and energy.
• On top of that, nine state-owned companies were included in the privatization pipeline, making up for *16 companies* under study for possible privatization. In addition, 20.8 mm ordinary shares of Banco do Brasil will be sold, without jeopardizing the controlling stake of the Government.

9 State-Owned Companies included

TELEBRAS, Correios, DATAPREV, CEITEC S.A, SERPRO, CEAGESP, emgea, PORTO DE SANTOS, abgf

The Investment Partnership Program (PPI)

• Law 13.334/2016 created the Investment Partnership Program (PPI), to expand and strengthen the interaction between the public and private sectors through partnership agreements and other privatization tools.
• In three years, the PPI delivered relevant results for Brazil's infrastructure and economy. Of the 277 projects qualified by the Council meetings, 151 have already been auctioned, granting signatures bonuses of about R$ 52.3 billion to the Federal Government and generating about R$ 262.5 billion of investments in the coming years.
• In the current portfolio, there are 119 projects and 9 development policies in the structuring stage.
• Willing to accelerate concessions and privatizations, the Brazilian government will grant BNDES the responsibility of the technical feasibility studies, the first and most time-consuming step for projects to get off the ground. The Development Bank will be compensate by success fee, providing the auction is successful.
• Brazil wants to rise infrastructure investments from the current 1.7% to 5.0% of GDP.

Already under study

CEASAMINAS, PORTO DE VITÓRIA, CBTU, Eletrobras, LOTEX, CASA DA MOEDA DO BRASIL, TRENSURB

PPI Objectives

- Expand investment and employment opportunities and to stimulate technological and industrial development, in line with the country's social and economic development goals.
- Ensure the quality expansion of public infrastructure, with appropriate costs for the population.
- Promote broad and fair competition in the definition of partnerships and in the provision of services.
- Guarantee the stability and legal predictability of contracts, ensuring minimal intervention on business and investments.
- Strengthen the regulatory role of the State and the autonomy of State regulators.

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SEPTEMBER 2 EDITION

GDP Growth for the Second Quarter of 2019

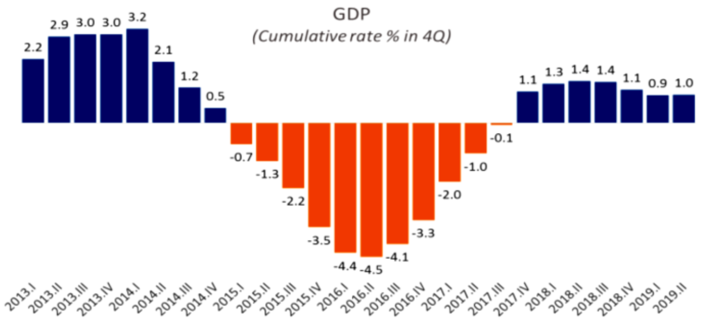
• Gross Domestic Product (GDP) grew 0.4% in the second quarter of this year, compared to the first three months of 2019, according to the Brazilian Institute of Geography and Statistics (IBGE). In current value, the Brazilian GDP totaled R$ 1.78 trillion in the period.

• The growth of the first half of 2019 compared to the first half of 2018 was 0.7%, and compared to the second half of 2018, 0.2%.

• In the second quarter of 2019, the investment rate was 15.9% of GDP, higher than in the same period of 2018 (15.3%).

• Highlights of the second quarter GDP

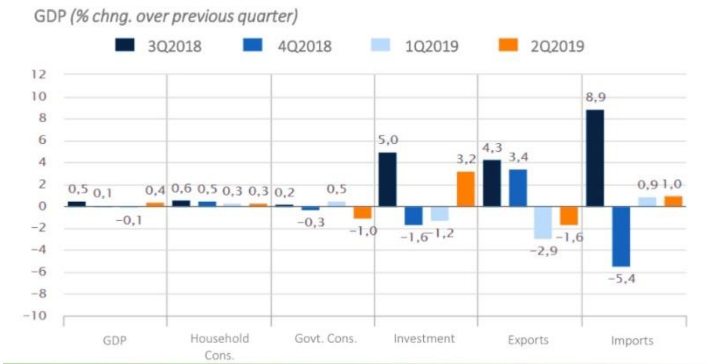
• Industry: 0.7%
• Agriculture: -0.4%
• Services: 0.3%
• Investments: 3.2%
• Government Consumption: -1%
• Household Consumption: 0.3%
• Exports: -1.6%
• Imports: 1%



• Considering the cumulative rate for the last four quarters, GDP growth was 1.1%, unchanged from the previous quarter. The highlights were Investments (4.3%, accelerating from 3.7% in the previous quarter) and Household consumption (1.5%, unchanged from the previous quarter). The nominal GDP reached R$ 6.99 trillion.

• The government's strategy of growth with fiscal responsibility is proving to be right. Despite the strong adjustment in public accounts, which represented a 1.0% drop in government consumption, growth in the quarter was positive and above market projections.

• The economic scenario, however, remains challenging: the ongoing fiscal adjustment, the level of productivity of the Brazilian economy and the uncertain international environment still suggest a long way to go. Despite these challenges, the economic perspectives for Brazil are more favorable than a few



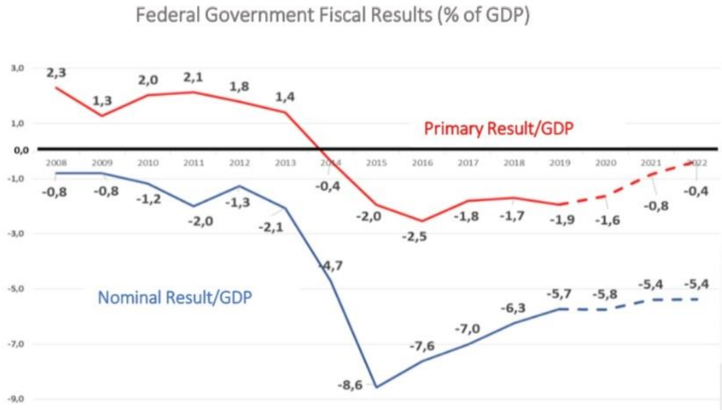
The Budget Proposal for 2020

• The Ministry of the Economy presented the budget proposal for 2020 (PLOA).

• The central government will work with a primary deficit target of R$ 124.1 billion, decreasing to R$ 68.5 billion in 2021 and R$ 31.4 billion in 2022. For 2019, the target is R$ 139 billion. The Government notes that these targets are conservative, as the results from fiscal adjustment measures actions that have been taken and from others that are to come in 2019 may allow better results by 2022. Among the main measures are the Social Security reform, privatizations, the Economic Freedom Bill, the Tax Reform, the concession programs, trade liberalization measures, reduction and rationalization of subsidies granted, and the administrative reform.

• Government expenditures forecast for 2020 will be R$1.47 trillion. Only R$ 89.16 billion is made up of discretionary spending, i.e. those in which the Government can choose the allocation of resources. The discretionary expenses have been successively flattened over the last years, compromising, however, new investments. Only R$ 19 billion are foreseen for public investments, the lowest level of the last ten years.

• By the end of 2019, mandatory expenses will have grown by R$ 200 billion compared to the level of 2016, while the discretionary expenses will have fallen R$ 40 billion in the period.



Macroeconomic Projections

	2018	2019 Mid-year evaluation	2020 PLOA
Real GDP (%)	1.12	0.81	2.17
Nominal GDP (R $ billion)	6,827.60	7,157.80	7,614.60
IPCA (%)	3.75	3.83	3.91
INPC (%)	2.07	3.43	4.02
IGP-DI (%)	7.1	6.64	4.1
SELIC rate - Average (%)	6.43	6.16	5.62
Average Exchange Rate (R$/US$)	3.65	3.82	3.79
Minimum wage (R$)	954	998	1039
Total wages (%)	2.27	5.53	6.28

SEPTEMBER 9 EDITION

IADB: Productivity without Obstacles

• The Inter-American Development Bank (IADB) released the document "Productivity without Obstacles", discussing diagnostics and policy recommendations needed to promote fiscal sustainability and to unlock productivity growth in Brazil.

• The policy recommendations are divide in four pillars.

Promote national and international integration

Reduce barriers to international trade
- Decrease commercial tariffs and reduce their dispersion
- Focus on penetration into the largest and most competitive markets
- Review the regional integration agenda
- Reduce non-tariff barriers and bureaucracy in international trade

Develop the least competitive regions of the country
- Improve domestic infrastructure and logistics to connect the country
- Boost the country's natural capital through regulatory reforms and incentives for innovation and research

Develop metropolitan regions
- Strengthen inter-municipal coordination mechanisms and promote integrated information systems to rationalize the use of resources
- Build local institutional capacity for public policy planning and implementation

Build sustainable and resilient infrastructure
- Develop long-term and green financing instruments
- Build institutional capacity for investment planning and execution
- Improve the regulatory and institutional framework
- Reform public procurement and environmental licensing processes

Strengthen private sector participation in economic development

Improve the business environment
- Reform the tax system
- Strengthen the regulatory framework to increase competition, facilitate market entry, stimulate risk appetite and reduce incentives for rent seeking
- Reduce regulatory compliance costs by using innovative technologies

Promote innovation in the private sector
- Improve private sector access to high quality inputs and frontier technology
- Support the development of innovation capacity at company level
- Promote the absorption of frontier knowledge and encourage solution adaptation by forging domestic alliances between research institutes, universities and the private sector

Improve access to finance
- Reduce bank spreads by increasing competition and reforms to reduce administrative costs and reduce uncertainty in case of recovery
- Boost financial technology and Fintechs
- Reassess the role of public banks
- Foster long-term capital market development and long-term financing

Promote public-private partnerships (PPPs) and guarantees
- Strengthen capacity to structure PPPs and build a high quality pipeline
- Simplify PPP processes and improve transparency
- Increase the use of collateral to mobilize private investment
- Improve PPP tax management with attention to contingent liabilities

Prepare the country for digital transformation

Prepare workers for new technologies
- Formulate and implement training
- Reform the vocational and technical education system
- Support companies in worker training

Build appropriate infrastructure for new technologies
- Promote private sector investment in telecommunications infrastructure

Promote connections between SMEs, startups and large companies
- Encourage financing in high-risk technology projects
- Promote innovation ecosystems and their internationalization
- Give legal support for startups to participate in public procurement

Foster new technologies to boost traditional sectors
- Facilitate the adoption and new technologies by existing companies
- Promote strategies to implement industry models 4.0.

Build a more effective government

Ensure fiscal sustainability
- Reform the social security system
- Reduce public sector wage growth
- Review and evaluate tax expenditures, eliminating those without positive impact

Improve public expenditure efficiency
- Adopt a medium-term fiscal framework
- Promote evidence-based public policy and results-based budgeting
- Improve public investment
- Strengthen public sector accountability and transparency

Strengthen fiscal federalism
- Improve accountability and responsibility of subnational governments
- Review intergovernmental transfers
- Adopt subnational tax liability laws

Use e-government and digital solutions to promote transparency, accountability and efficiency
- Continue to adopt digital solutions in the public sector
- Integrate digital technologies with public spending management and public financial management

SEPTEMBER 16 EDITION

BNDES Investment Outlook 2019-2022

• The BNDES Investment Outlook 2019 surveys the investment plans in 19 economic sectors from 2019 to 2022. The survey includes investments supported and not supported by the Bank.

• The current survey covers 11 industry and 8 infrastructure sectors. They account for about 83% and virtually 100% of industry and infrastructure investments, respectively.

• The surveyed investments in the industry and infrastructure sectors for the period 2019-2022 reached US$ 287 billion. Comparing with July last year survey for the 2018-2021 period, there was a real growth of 2.7% in total investments.

• Investments in the surveyed sectors, which totaled US$ 66.5 billion in 2018, should increase to an annual average of US$ 71.8 billion between 2019 and 2022. Due to the acceleration in investments by the end of the period, the perspective is of a real growth of 3.9% per year (p.y.) on average. This reveals an improvement in expectations compared to the 2017 and 2018 surveys, which foresaw a negative growth of 3.1%p.y. and a real growth of 1.9% p.y. on average for the 2017-2020 and 2018-2021 periods, respectively.

• In infrastructure, the comparison between the value in2018 and the average from 2019 to 2022 shows acceleration in 2021 and 2022, suggesting that the value in 2022 will be above that registered in 2018.

• In industry, the scenario of strong expansion of investments is explained, to a large extent, by the performance of oil and gas, driven by the recovery in oil prices and the auctioning or sharing of exploratory blocks in 2017 and early 2018.

• In infrastructure, the scenario is of retraction in electricity investments until 2021, resuming from 2022. In contrast, the perspective is of a significant increase in investments in logistics and sanitation. The performances of these two sectors show a recovery in investments in the most development-deprived areas, especially from 2020 onward.

• In recent years, one of the main reasons for the retraction of investments has been the process of deleveraging of companies. The current survey is the first to show the potential termination of this process, with companies leaving this high debt and cash constraint scenario behind. This behavior was highlighted in mining. Another highlight was the steel industry, with the improvement in the sector's profit margins.

• The text also highlights the influence of public policies, changes in regulations and infrastructure concession programs on the determination of investments. Some of the initiatives with high potential impact on sectors are: the mining code's new regulation; RenovaBio, in the ethanol sector; the Avançar Cidades Program, in urban mobility; and concession rounds, especially in roads.

Investment outlook, per sector (US$ billion, 2019 prices)

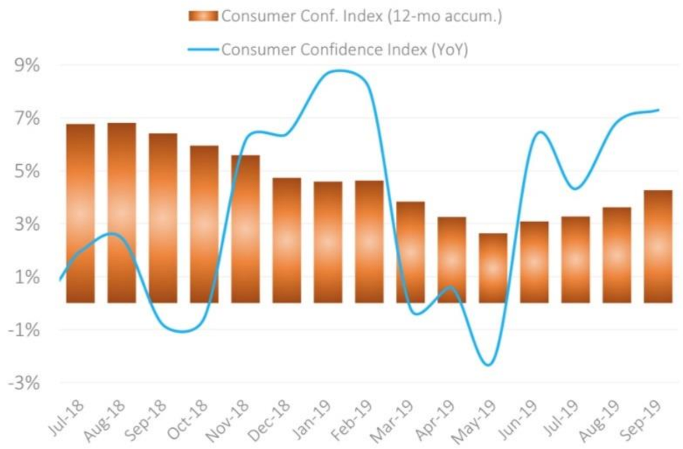
	2012	2013	2014	2015	2016	2017	2018	2019 to 2022	
								Total	Annual avg.
Metal mining	8.9	9.0	7.6	8.4	5.5	3.8	3.7	18.0	4.5
Oil & Gas	28.8	34.2	26.8	22.6	15.8	16.1	15.9	81.7	20.4
Food	4.1	3.9	3.7	3.1	2.6	2.5	2.0	9.0	2.3
Pulp and paper	3.1	2.2	2.8	2.4	2.6	2.2	2.3	9.8	2.4
Ethanol	2.5	3.2	2.2	1.1	0.8	0.7	0.7	3.0	0.8
Chemical products	1.3	1.6	1.3	0.9	0.7	0.7	1.0	4.5	1.1
Steel industry	2.3	1.6	1.8	1.3	1.2	0.6	0.8	4.6	1.1
Electronics	1.8	1.9	1.7	1.4	1.2	1.1	1.2	5.8	1.5
Health industrial complex	1.1	1.2	1.4	1.4	1.3	1.3	1.4	5.8	1.5
Motor vehicles*	7.5	7.1	6.3	5.5	4.2	3.5	2.8	10.5	2.6
Air and spacecraft	0.7	0.8	0.6	0.7	0.7	0.7	0.4	2.4	0.6
Industry	**61.9**	**66.7**	**56.3**	**48.9**	**36.6**	**33.4**	**32.2**	**155.1**	**38.8**
Electricity	19.6	16.2	15.0	14.7	16.2	17.0	13.1	41.7	10.4
Telecommunications	9.4	10.9	10.6	9.1	8.3	8.1	8.4	33.3	8.3
Logistics	13.1	16.4	16.2	15.9	11.9	9.8	9.5	42.2	10.5
• Roads	7.1	8.6	7.8	5.6	6.4	5.9	5.2	25.7	6.4
• Rail	2.2	2.5	2.6	2.6	2.3	2.2	2.1	7.4	1.9
• Ports	2.0	0.9	1.9	2.0	0.7	0.4	0.6	3.8	1.0
• Airports	0.9	2.4	1.3	1.0	0.7	0.4	0.6	2.3	0.6
• Urban mobility	1.0	2.0	2.7	4.7	1.8	0.9	0.9	3.0	0.7
Sanitation	3.5	3.5	3.9	3.6	3.3	3.0	3.3	14.7	3.7
Infrastructure	**45.6**	**46.9**	**45.8**	**43.3**	**39.7**	**37.9**	**34.4**	**131.9**	**33.0**
Total	**107.5**	**113.6**	**102.0**	**92.2**	**76.3**	**71.3**	**66.5**	**287.1**	**71.8**

Source: BNDES
Note: The following sectors do not consider depreciation or consider partial replacement only: aerospace, electricity, railways, ports, mobility and sanitation.

SEPTEMBER 30 EDITION

The Role of Household Consumption for the Brazilian Economic Recovery

• Recent data suggest a recovery in consumer behavior. In September of 2019, the Consumer Confidence Index (ICC), released by Fundação Getúlio Vargas, grew by 0.6% MoM, seasonally adjusted, following a 1.2% increase in the previous month.



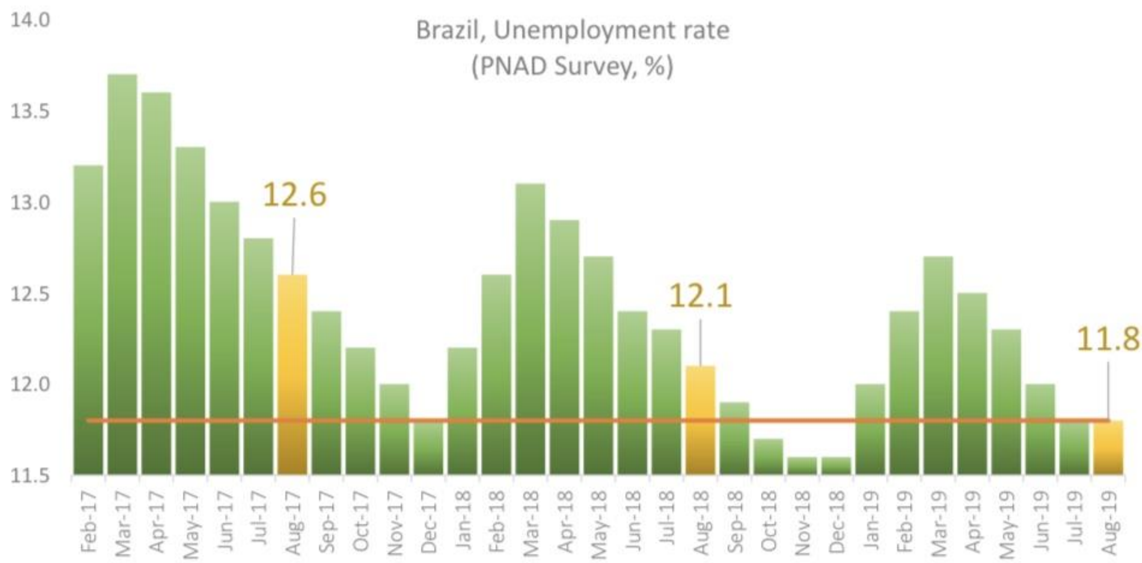
• The Consumer Expectation Survey is a monthly survey that seeks to capture consumer sentiment about the overall state of the economy and household finances.

• Since May of 2019 this index has been recovering. The movement comes after the downturn in the first months of the year, which reflected the natural uncertainty arisen from the discussions of the structural economic reforms.

• Confidence indexes have shown a strong predictive capacity for the economic activity cycle. In the quarterly analysis, the Current Situation Index (ISA), which composes the ICC, reinforces the idea that consumption may play an important role in relation to investments in the recovery of short-term economic activity.

• Several events may be influencing consumer expectations. The monetary easing in progress offer incentives for the expansion of credit to households, which increased 1.4% in August and 15.0% in 12 months, especially payroll-deductible loans and vehicle financing. Real estate financing from the Brazilian Savings and Loan System (SBPE) increased by 18.4% compared to the same month of 2018. In the year to August, credit released for the purchase and construction of real estate increased by 31.4% in comparison to the same period last year.

• In addition, unemployment shows signs of receding. The number of unemployed population decreased 3.2 % from May to August of 2019. The unemployment rate, albeit still relatively high, is 1.9 percentage point lower than its peak in March 2017 and is steadily decreasing in comparison to the same month of the previous year. In addition, the announcement and the commencement of FGTS withdrawals have a direct impact on household consumption.



OCTOBER 7 EDITION

Brazil, Argentina free-trade deal in the auto sector

•Brazil and Argentina signed a commercial agreement for the automotive industry.

• The pact outlines the free trade of auto assets starting on July 1, 2029, with no conditionalities.

• The volume traded free of tariffs is expected to gradually increase until totally free commerce is attained.

• The new agreement extends the so-called flex agreement. By its terms, Brazil currently can sell $1.5 worth of vehicles and parts exempt from import tax to Argentina for every $1 it buys from the country. Above that, the Brazilian vehicles pay 35% tariffs to enter the Argentine market. Vehicles need to have at least 60% of parts and components manufactured in Mercosur.

• The ratio will now rise to $1.70 in June 2020 and keep climbing to $3.0 in July 2028 before free trade begins a year later.

• The deal includes favorable terms for the export of hybrid and electric cars, buses and trucks, starting with a quota for 10,000 vehicles and rising by 3,000 a year over the next decade.

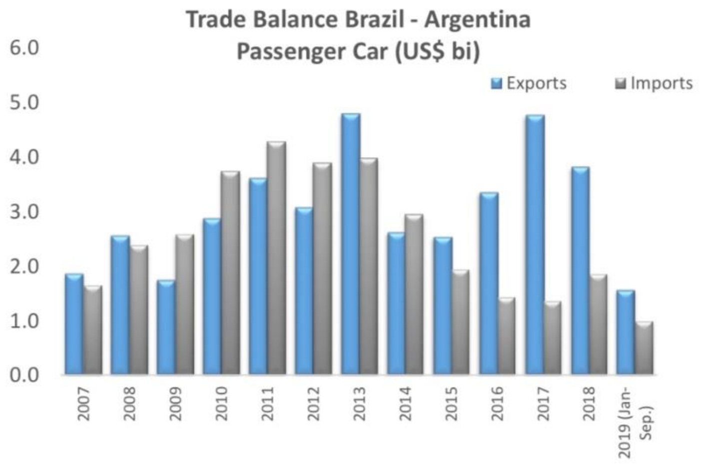
• Talks were finalized in Rio de Janeiro on September 6 by Brazil's Economy Minister Paulo Guedes and Argentina's Production and Labor Minister Dante Sica, and signed by diplomats from both countries in Montevideo, Uruguay, on Thursday (Oct 3).

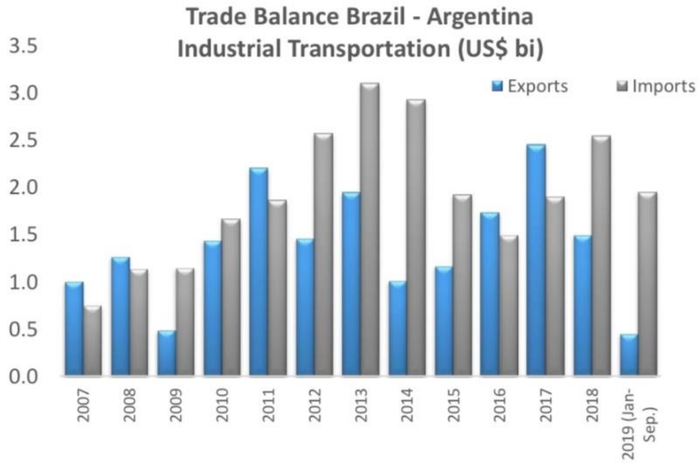
• Previous deals between Brazil and Argentina for the auto sector had been regularly renewed. The new text, however, is to be effective indefinitely.

• Car products account for half of the trade of goods between the two nations. In 2018, Brazilian exports in this sector to Argentina totaled $7.5 billion.

• In a joint statement, Brazil's Economy and Foreign Ministries report the accord brings legal security and investment predictability to a significant section of Brazil's industry.

• The treaty will also facilitate the adaptation of the car industry to the custom policies of Mercosur, where other goods circulate tariff-free and exported outside of the bloc with common external tariffs.





OCTOBER 14 EDITION

Brazil rises in the ranking of competitiveness of the World Economic Forum

Written by the Special Secretariat for Productivity and Competitiveness at the Ministry of the Economy (SEPEC)

• Brazil has risen one notch to 71stplace in the 2019 ranking of the World Economic Forum that assesses the competitiveness of 141 countries.

• The Global Competitiveness Index (GCI) was released on Wednesday (Oct. 09th) by the World Economic Forum. Singapore was named as the most competitive country in the world, ahead of the United States and Hong Kong.

• Brazil's best results were in the pillars of infrastructure, business dynamism and labor market. In infrastructure, the country moved to 78thplace, advancing three notches over 2018. In business dynamism, we moved up from 108thto 67th, mainly due to the reduced time to start a business. Another improvement was registered in the labor market pillar: we were in 114thplace in 2018 and moved to 105thposition in 2019.

• In terms of innovation, we remain in 40th position, same performance as last year. And in qualification, we dropped from 94thto 96thplace. In the product market, we went from 117thto 124thplace. According to the Special Secretariat for Productivity and Competitiveness of the Ministry of Economy (Sepec), the figures mainly reflect data up to 2018, and are the result of policies practiced by previous governments, which produced several obstacles in the country's business environment. Sepec recognizes all challenges diagnosed in this ranking, but it brings a vision of the future and a work plan that will transform Brazil's productivity and competitiveness.

• Carlos Da Costa, special secretary for Productivity and Competitiveness at the Ministry of Economy, stresses that, since taking office, he has been working to put in place a plan to tackle the problems that hinder Brazil's economic growth.

• "Our strategic planning includes ambitious goals based on global performance indicators anchored in the GCI and broken down into plans aligned with the challenges we face," he says. The goal for 2022 is to reach 50thplace through actions that are being developed.

• For Da Costa, Brazil still has much to improve. "With regard to the United States, our productivity has been falling since 1980 and today it represents approximately 25% of the US. The low progress in Brazilian productivity has led to the country falling in the global competitiveness rankings. We are still far from the OECD countries". International studies converge on the main productivity bottlenecks in Brazil, and we are working to tackle them one by one", he adds.

• The bottlenecks detailed in the latest GCI report had already been diagnosed by SEPEC, which finalizes a project with specific actions from 2019 to 2022.

• In the coming years, the indicators should be impacted by improvements that are beginning to be implemented through 6 priority projects

- *Simplifica* will remove obstacles to business productivity and competitiveness by removing regulatory and legal barriers;
- *Emprega +* will raise the qualification of human capital and the employment rate;
- *Concorrência para Prosperidade* aims at increasing competition and market efficiency;
- *Pró Infra* will raise Brazilian infrastructure to international levels of price and quality;
- *Brasil 4.0* will promote the modernization of companies through innovation, digitization and managerial skills;
- *Prospera MPEs* will develop small and medium businesses in an innovative and sustainable way.

• For Carlos Da Costa, increasing competitiveness depends on reducing government barriers. "This is not about favoring entrepreneurs, but not hurting them. Without competitiveness there is no economic or social progress, job creation or rising income. We need to give young people hope and opportunity," he says.

• According to him, the fourth industrial revolution is already a reality, but Brazil is not yet part of it. “Innovation needs to be at the center of the development strategy. Companies need to be stimulated and supported in adopting new business models and in employing new solutions that differentiate them and bring competitiveness, towards a prosperous future full of new opportunities ", adds the secretary.

OCTOBER 21 EDITION

Legal certainty for foreign investors in Brazil

• The Presidential Office released a presentation on the regulatory and legal improvements aiming to bring more legal certainty to current and future investors in Brazil.

• Investments in Brazil are ruled by contracts that are respected and guaranteed in all instances. Several initiatives have been taken to create a more favorable business environment.

• Foreign or non-resident investors are recognized as the individuals or legal entities, funds or other collective investment institutions residing, based or domiciled abroad. Before initiating operations in Brazil, a non-resident investor must : a) Retain a representative body in the country; b) Submit their credentials to the Central Bank of Brazil; c) Initiate the registration process at the Brazilian Securities Commission; and d) Register at the general taxpayers' register from the Brazilian Internal Revenue Service.

Legal framework of principles, institutions and measures for coordinating privatization policies in Brazil

Constitution: Private property, free competition and free enterprise are enshrined in the Constitution. It ensures the economic-financial balance in contracts signed by the Brazilian Government with private stakeholders.

Law 13.334/2016	Determines that assets and development policies qualified in the PPI become national priorities
Law 13.874/2019	Establishes rules for the protect on of free enterprise and the free exercise of economic activity, institutes the declaration of economic freedom rights, reducing bureaucracy in private investment

Privatizations and partial-sale of State-owned Companies

Law 9.491/1997 and Decree 2.594/1998	Create the Destatization National Program and provides for different models to ease shareholding and public services transferto the private sector
Decree 9.188/2017	Sets forth the special regime for easing assets transfer of part ally state-owned companies
Divestment in State-owned Companies	The Supreme Court authorized the sale of subsidiaries and controlled state-owned companies without the requirement of prior authorization from the National Congress for the operation

Delegation of formal remit to provide public services

Laws 8.987/95, 9.074/95 and 11.079/04	Sets forth the general regime for concessions and permits for the public services, provides for procedures to engage private and puts forward requirements for those delegation contracts
Law 13.848/2019	General Law on Regulation Agencies
Decree 8.428/2015	Sets forth the formal procedure to express interest to draft projects to structure assets to be offered to the private market, to be absorbed by public bodies, to set models for public services concessions
Law 12.431/2011 and Law 11.478/2007	Establishes the special tax regime for debentures issued by specific purpose companies, the certificates for real state yield s and the credit rights shares for investment, and provides for creating an investment fund on infrastructure shareholding and on R&D shareholding

Special regimen on public services and economic activities

Laws 10.233/2001, 12.815/2013 and Decree 8.033/2013	Policy for water and land transportation; economic exploitation of ports
Laws 9.472/1997 and 13.879/2019	General Law on Telecommunications and the model for economic exploitation of telecom services
Law 9.478/1997	National Energy Policy
Law No 12.351/2010	Regime for the exploitation of oil, natural gas, hydrocarbons and biofuels
Presidential Decree 227/1967 and Law 13.575/2017	Mining Code
Law 9.427/1996	Electric power public services

Settling disputes

Law 9.307/1996 and Decree 10.025/2019	General regime of arbitration. The decree specifically rules over arbitration regarding logistics assets in the fed-level
Chamber of Mediation within the Fed-level Government	Allows settling disputes between the investor and the Govt. through mediation

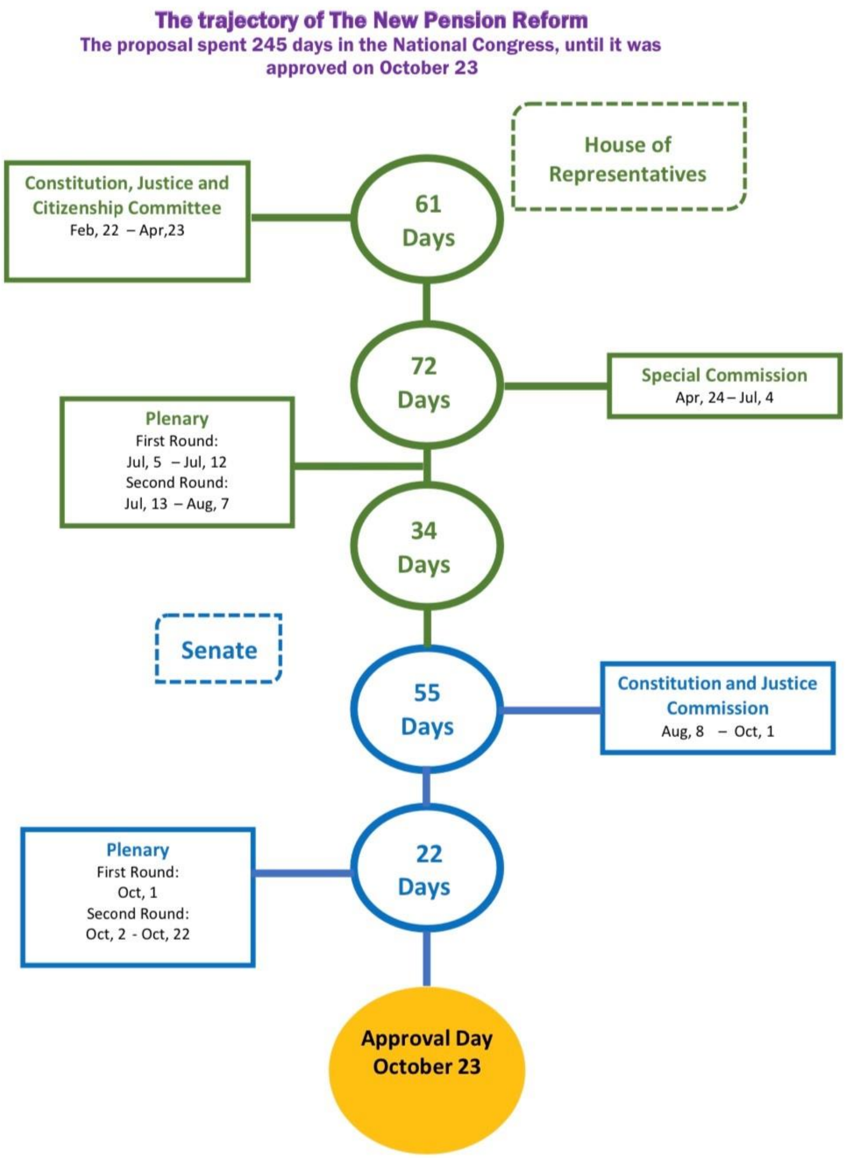
Combating corruption and promoting integrity and transparency

Law 13.303/2016	The State-owned Enterprises Act requires companies controlled by the Brazilian Government to adopt transparency rules and compliance programs
Legal Ordinance 57/2019 of the Controller General's Office	Requires the Federal Public Administration of Brazil to adopt compliance programs as a way to prevent, detect and punish corruption practices
Law 12.846/2013 and Decree 8.420/2015	Regulation of Leniency Agreements. The company commits itself to collaborate with investigations, pay the due amounts and adopt an integrity program. In return, it guarantees its regular operation in the Brazilian market

OCTOBER 29 EDITON

The New Pension Reform, the largest and most important change in the Brazilian pension system

• The New Pension Reform is the largest and most important change in the Brazilian pension system.
•The National Congress concluded on Oct. 23, 2019 the processing of the Pension reform.
• The bill, approved by 60 of 80 senators, raises retirement age to 65 from 60 for men and to 62 from 55 for women.
• The New Pension Reform will give sustainability to the Brazilian social security system, in a context of rapid and intense population aging, while maintaining the rights acquired by all workers (nothing changes for those who are already retired or who have already met all the conditions the retirement).
• The government and economists say it is the single most crucial measure to put Brazil´s public finances on a more stable footing, boost investors and business confidence, an inject life into the economy.
• “The main thing is that it creates predictability and legal certainty to demonstrate to the market that the country wi honor future commitments. And it paves the way for tax reform.” said Rogério Marinho, Special Secretary for the Social Security of the Ministry of the Economy,
• Brazil´s Bovespa stock index rose 1.1% to close at 107,19 points, breaking above 107,000 points for the first ever. Th Real rose more than 1%, touching 4.06 per dollar for the fir time in over two weeks.
Gains and Benefits
• Considering the approval of PEC 6/2019 (the New Pensio System) together with the approval of PL 2,999/2019 (collection of social contributions in lawsuits and labor agreements) and of MP 871/2019 (fight against social security fraud; converted into Law 13,846/2019), total savings for the Federal Government amount R$ 1.07 trillio over the next 10 years.
• The new rules will give sustainability to the pension syste in a context of rapid and intense population aging. Workers will be guaranteed to receive payment of their future benefits.
• Rights already granted will not change (nothing changes for those who are already retired or who have already met all the conditions for retirement).
• Transition rules are created for those already in the job market. The rules take into consideration both those workers with advanced contribution time and those close to retirement age.
• The reform promotes social justice, by lowering the rate of contribution for those who earn less and increasing the rate for those who earn more. With the New Pension Plan, the rates will be progressive and will vary from 7.5% to 22.0% of the contribution salary.



NOVEMBER 11 EDITION

More Brazil: The transformation of the Brazilian State

The More Brazil Plan of State Transformation comprises three Proposals of Constitutional Amendments (PEC)

The PEC of the Federative Pact will transfer R$ 400 bi to States and Municipalities in 15 years

Institutional Framework of the New Fiscal Order

•Representatives of the federal government, the Presidents of the Republic, the House, the Senate, Supreme Court, Court of Audit, governors and mayors will evaluate the financial sustainability of the Federation and ensure solid fundamentals.
• Normative guidance to standardize the interpretation of budget-financial concepts.
• Public programs and works get budget prediction so that resource flows are not interrupted.
Ensure that future generations do not to inherit current debts.
• Laws and court decisions that generate expenses will only be effective when budgeted.
• Tax benefits will be reevaluated every 4 years. At the federal level, as of 2026, they will not exceed 2% of GDP. If above this ceiling, there can be no new grant, extension or renewal of tax benefits.

Unbinding, Deindexing and Disengaging

• The Federal Government will not provide to subnational governments to pay judicial bonds
• The share of the Workers Support Fund (FAT) allocated to BNDES will be 14%.
• States and municipalities will receive and define the use of all salary-education funds.
• Joint management of education and healthier market resources.
• Compulsory expenditures will be relaxed in cases of emergency fiscal disarray.
Readjustments in social security benefits and BPC by the inflation index are guaranteed.
• Public revenue will not be tied to agencies, funds, or expenses, except for fees, donations, municipal and state participation funds and constitutional bindings.

Federation Strengthening

• Municipalities with less than 5,000 inhabitants and own revenues below 10% of the total revenue will be incorporated by the neighboring municipalities. It will be new restrictions on the creation of municipalities.

Autonomy with Responsibility

• Royalties and special interests will be transferred to all states and municipalities.
• The Federal Government will only provide guarantees to operations of states and municipalities with international organizations, starting in 2026.
• Credit operations between entities of the Federation, directly or through funds, local authorities, foundations or state-owned companies are prohibited.
• The Federal Government will be forbidden to provide financial aid to subnational entities, starting in 2026.

New Public Accounts Rules

• Allows public expenditure contingency for states and municipalities.
• Integration of fiscal rules (Fiscal responsibility Law, Golden Rule and Expenditure Ceilings) in all levels of government to ensure the sustainability of public debt.

Legal Security

• The transfer of royalties and special participation of oil will end the disputes between the Federal Government and the states.
• The use of pension funds and judicial deposits between individuals to cover for expenses of the entities are prohibited.

State of Fiscal Emergency

When the Golden Rule (Federal Government) is not met or current expenses are over 95% of current revenues (States), automatic adjustment triggers will come into effect, with restrictions to civil servants' payrolls, promotions, career restructuring and working time; prohibition to create new compulsory expenses and tax benefits, and suspension of FAT transfers to BNDES.

The Emergency PEC will free up to R$ 50 billion in 10 years

Automatic Adjustment Triggers

Federative Pact	Emergency
Fed. Govt., when the Golden Rule is not met	When credit ops. exceed capital expenses in 1 year
One-year period, renewable	Two-year period
States and Municipalities, when current expenses exceed 95% of current revenues in 1 year	
Cannot promote civil servantes, create new positions, change careers, make hirings and compensatory payments	
Cannot create compulsory expenses and tax benefits	
Allows the reduction of 25% of the servants´ working time and payment	
Saved values destination determined in the budget	25% for infrastructure projects
Suspends tranfers from FAT to BNDES	

Permanent Measures

Federative Pact	Emergency
Joint management of health and education resources	-
Convergence to Golden Rule can be included in the budget	
Includes pensions expenses in the limit of expenses with personnel	
Complementary Law to define indicators, sustainable debt levels and debt convergence path	
Tax benefits reviewed every 4 years from 2026 on, up to a limit of 2% of GDP	
Destination of tax collection and financial surplus to public debt amortization	

The PEC of the Public Funds will allow a decrease of R$ 220 billion in the public debt

Current Situation

• There are 281 public funds in Brazil
• There are nearly R$220 billion parked in funds while the country is in fiscal deficit

Current Issues

• Congress has no power to decide how to use funds resources
• Funds do not allow resource allocation in different areas
• Funds hinder debt management and create budgetary ridgidities
• Funds waste money on all levels of government

Measures

• Money already parked in funds will be used in the only legal way, for the payment of public debt
• New resources will be applied primarily to Poverty Eradication and national reconstruction programs
• Most funds will be terminated at the end of the second year following the approval of the PEC
• The creation of new public funds will be made by complementary law

NOVEMBER 25 EDITION

The #GreenYellow Program

• 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 (*13ºsalário*) 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.

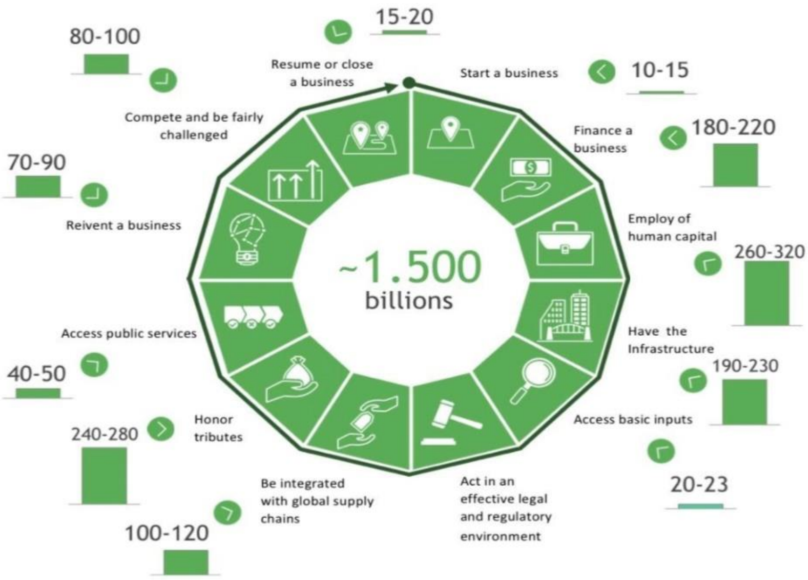
Microcredit
10 million contracts and R$ 40 billion granted up to Dec/22
•Aimed at workers with low qualification, people out of the banking system and small formal and informal entrepreneurs.
• Differentiation of microcredit operations from banking operations.
• Incentives for banks, FinTech's, development agencies and credit unions to invest in this market.
• Funding from an increase of the share of demand deposits destined to
microcredit (CMN resolution).

DECEMBER 3 EDITION

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 handle 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 extend 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)

DECEMBER 9 EDITION

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 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 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

Quarterly GDP