

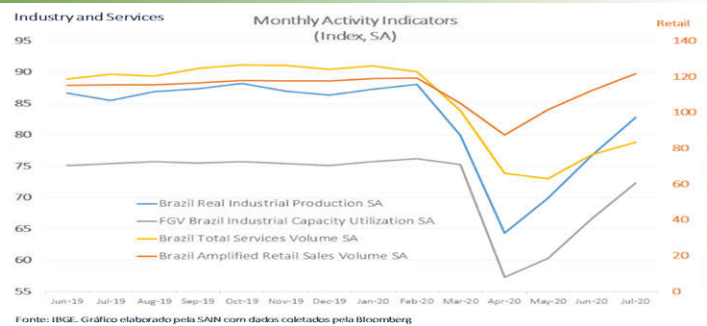


## BRAZIL: MACROECONOMIC MONITOR AND REFORM AGENDA

September 16, 2020

### Highlights

- The Brazilian economy has reacted more proactively than other emerging market economies with a “V-shape recovery and a GDP drop this year much less than expected.
- The Monetary Policy Committee of the Central Bank reduced the basic interest of the economy to the all-time low of 2.00% per year.
- The implementation of emergency aid was effective and covered part of the income of informal workers and in vulnerable conditions
- Expansion of payroll loan to workers, 760 thousand workers have already accessed loans with FGTS.
- Brazil emphasizes the structural reform agenda as a mechanism for recovery and sustained growth. Regulatory changes and concessions / privatizations are also on the agenda.
- Brazil has been strongly involved in transferring resources to the health sector, helping vulnerable populations, preserving jobs and companies, increasing liquidity to irrigate the credit market and transferring resources to states and municipalities so that they can absorb the abrupt loss of public revenue.
- After the efforts to face the spillovers of Covid-19 pandemic, fiscal consolidation and productivity increase are crucial inputs for Brazil to grow strongly and sustainably. The government is going forward



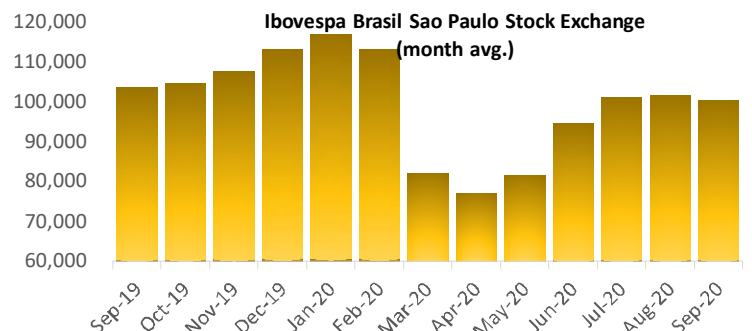
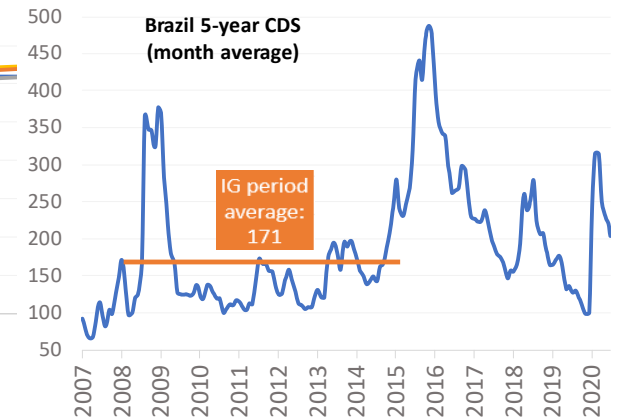
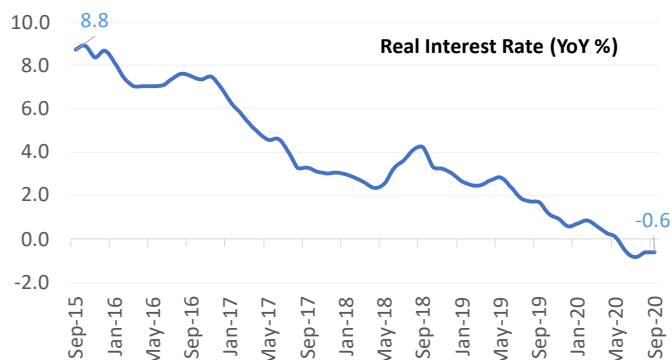
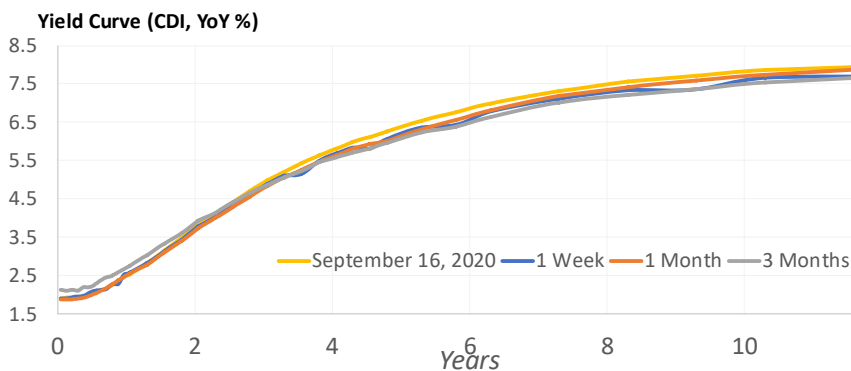
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*The Regulatory reforms in the sanitation and gas sectors*

	2015	2016	2017	2018	2019	2020	2021
GDP (% YoY)	-3.54	-3.28	1.32	1.32	1.14	-5.11 (*)	3.50 (*)
Consumer Inflation IPCA (% YoY)	10.67	6.29	2.95	3.75	4.31	1.94 (*)	3.01 (*)
Current Account (USD bi)	-54.5	-24.2	-15.0	-41.5	-50.9	-7.5 (*)	-15.1 (*)
Foreign Investment in the Country (USD bi)	62.7	71.6	76.2	69.9	81.5	55.0 (*)	66.5 (*)
International Reserves (USD bi)	356	365	374	375	357	358 (11 Sep)	-
Unemployment rate (%)	8.9	12.0	11.8	11.6	11.0	13.3 (Jun)	-
General Government Gross Debt (% GDP)	65.5	69.8	73.7	76.5	75.8	94.3 (**)	95.0 (**)
Ibovespa Index (BRL, % chg.)	-13.3	38.9	26.9	15.0	31.6	-13.2 (ytd)	-
CDS 5 years (year average)	475	293	165	208	108	221 (Sep 20)	-
Interest rate (Selic Target) (% eop)	14.25	13.75	7.50	6.50	4.50	2.00 (*)	2.50 (*)

Estimates: (\*) Focus Survey, Central Bank of Brazil, Sep. 11, 2020); (\*\*) Prisma Fiscal, Aug. 2020

### MARKET WATCH



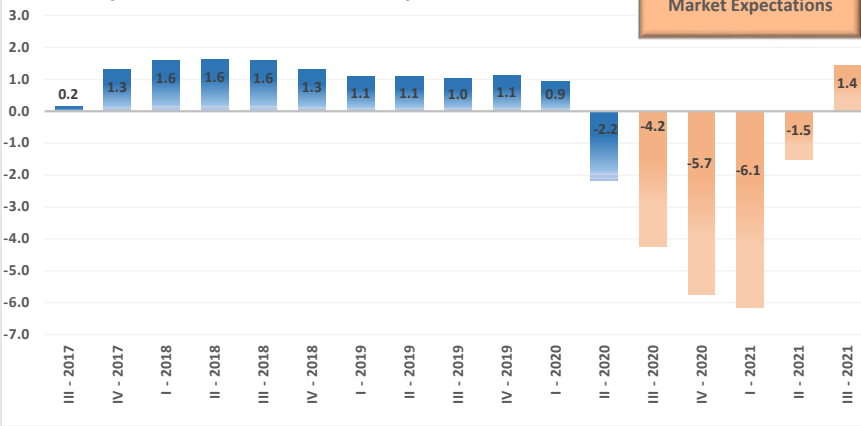
Swap Pre x Di 360 days discounted of the IPCA Expectation for the next 12 months

Sources: BCB, Min. of the Economy, Bloomberg

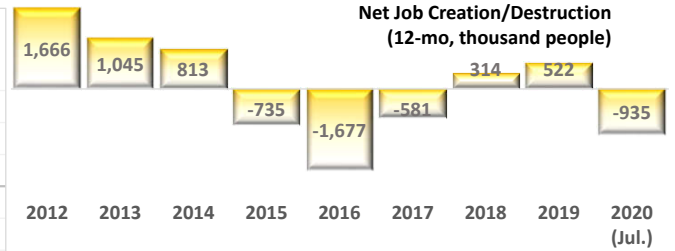


ECONOMY WATCH

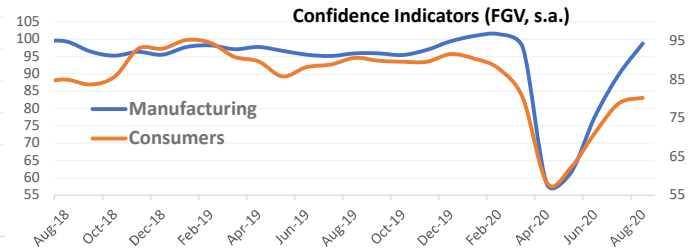
GROSS DOMESTIC PRODUCT  
(% CHANGE IN 4Q)



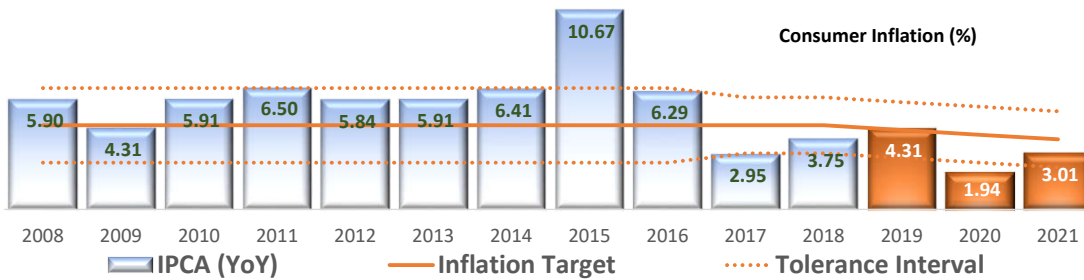
Net Job Creation/Destruction  
(12-mo, thousand people)



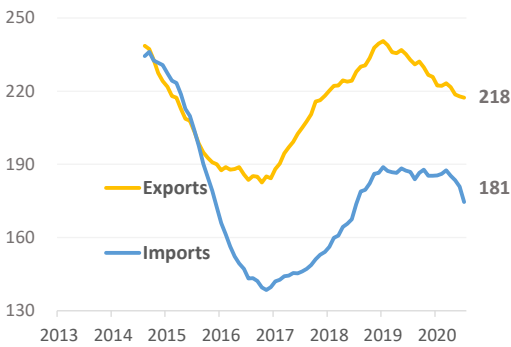
Confidence Indicators (FGV, s.a.)



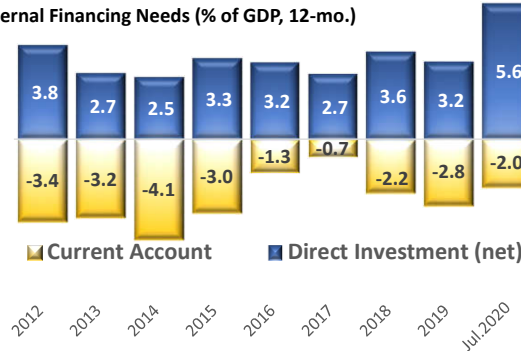
Consumer Inflation (%)



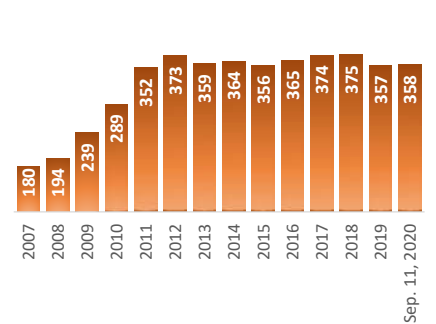
Trade Balance (US\$ bi, 12-mo.)



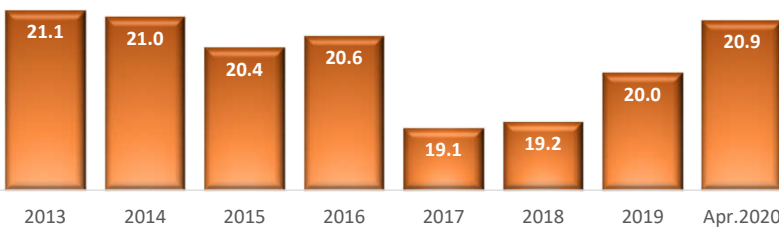
External Financing Needs (% of GDP, 12-mo.)



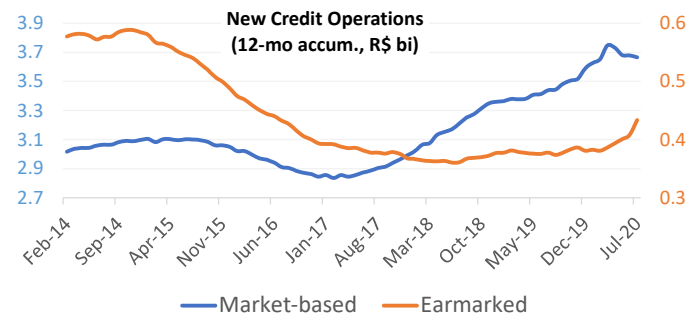
International Reserves (US\$ bi eop)



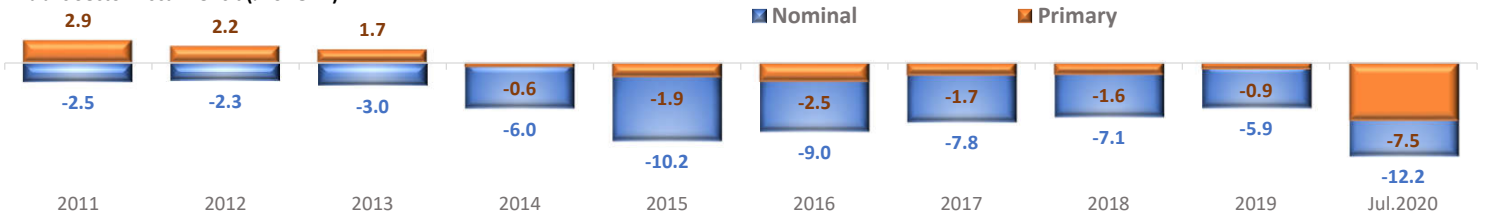
Household Debt Service ratio (% YoY)



New Credit Operations  
(12-mo accum., R\$ bi)



Public Sector Fiscal Deficit (% of GDP)





## MAIN MEASURES

### Social Security

- The reform approved in 2019 increases the time to retire, limits benefits, raises the rates of contribution for those who earn above the INSS ceiling and establishes rules of transition.
- The reform will stabilize social security expenditures relative to the GDP from 2022 on. Its impact is projected as around BRL 0.8 trillion in 10 years.
- Law 13,846/19 reviews benefits and proceedings with suspected irregularities, and changes rules for granting benefits, such as reclusion allowance, death pension and rural retirement.

### Improvement of Business Conditions

- Economic Freedom Law (Law 13,874/19): reduces red tape and Government intervention, facilitating the opening and operation of new businesses.
- *Redesim* simplifies the registry and legalization of companies and businesses. The average time for opening a company is now 4.5 days (68% of company openings are being made in up to three days).

### Tax Reform

- PEC 45/2019 merges the main taxes and eliminates inefficiencies and distortions in 4 steps: 1) Federal VAT, ending differentiated taxes and special regimes; 2) Simplification of the excise tax (called "IPI"); 3) Reduction of the weight of tax on companies and taxing dividends; 4) Decrease of taxes on companies' payroll.

#### Current Situation

- Phase 1 presented to Congress. Under consideration of a Special Committee

### Administrative Reform

- Establishes a series of measures to improve administrative organization of the federal civil service and to reduce the operational cost of the government agencies.

#### Current Situation

- Under Congress appreciation

### Central Bank Autonomy (PLP 19/2019; PLP 112/2019)

- Bill establishing formal independence to the Central Bank of Brazil. It comprises a four- to eight-year term for the board of directors of the institution, with no overlapping with the presidential mandate; and the end of ministerial status the governor of the Bank is given.

#### Current Situation

- Ready to be voted by the Lower House

### Bankruptcy Law (PL 6229/2005)

- Regulates the judicial and extrajudicial bankruptcy of the entrepreneur and the company, so as to submit all tax credits to judicial recovery. The new Law enhances the legal security for creditors, improves the business environment and increases the productivity of the private sector of the economy.

#### Current Situation

- After passing in the Lower House, the bill is

### Fiscal Emergency Plan (PEC 186/2019)

- Amends the permanent text of the Constitution and the Transitional Constitutional Provisions Act, providing for permanent and emergency measures to control the growth of mandatory expenses and fiscal rebalancing.

#### Current Situation

- Awaiting on the Senate Constitution and Justice Committee.

### Public funds Overhaul (PEC 187/2019)

- Reviews the need for public funds, brings more rationality to the allocation of public resources. Funds that already exist shall be ratified case-by-case by the respective Legislative Powers. For the Federal Government, it will initially make possible the extinction of 248 funds and the untying of around of R\$ 219 billion (US\$ 43.8 billion), which can be used in the amortization of the Federal Government's public debt.

#### Current Situation

- Awaiting on the Senate Constitution and Justice Committee.

### Federative Pact (PEC 188/2019)

- The federative pact defines how fiscal resources will be distributed among the three levels of government. The new proposal aims to decentralize, disindex and untie resources and give Federative Entities greater budgetary flexibility in their management.

#### Current Situation

- Awaiting on the Senate Constitution and Justice Committee.

### Trade Liberalization

- The EU-Mercosur Free Trade Agreement: awaiting ratification by all Parliaments involved.
- Facilitation and compliance of import, export and customs transit operations, as well as promotion of security in the international logistics chain.

#### Current Situation

- Negotiations with Mexico, the US, South Korea, Canada and Singapore
- Negotiation start with WTO for Brazil's adherence to Government Procurement Agreement (GPA)



## MAIN MEASURES

### Reduce credit bottlenecks and improve the financial system

- Positive registration reform: Supplementary Law 166/2019 spreads its benefits to almost all credit borrowers, including the part of the population that does not have access to the formal credit market. Promotes financial inclusion and reduces banking spread and credit costs.
- Rural credit guarantee tools (Temporary Measure 897/2019), simplifying processes, reducing costs and increasing transparency. Amplifies access to resources for interest rates equalization, improving competition and benefiting a greater number of farmers.
- Agenda BC # identifies structural measures that contribute to increasing the productivity of the financial system and

#### Current Situation

- i) Open banking; ii) Payments with real-time money transfers, available 24/7; iii) regulatory sandbox framework, to ease the entry of new technologies and new business models; iv) Implementation of the credit card receivables center.

### New legal framework for the exchange rate market (Bill of Law 5,387/19)

- Seeks to align the foreign exchange legislation with the best international practices. It will promote the consolidation and revocation of more than 40 regulations issued since 1920.
- This is a first step towards the convertibility of the real.
- Improvement of the mechanisms for offering foreign exchange hedge by the financial market for investments in infrastructure, an action of the Capital Market Initiative (IMK).

#### Current Situation

- Under Congress appreciation.

### Digitalization of Services

- Digitalization, simplification and integration of 100% of the Federal Government services by 2022.

#### Current Situation

- 60% of the 3,700 services offered by the Federal Government are available digitally.

### Employment

- The Labor reform (Law 13.467/17) brought a higher level of flexibility to the labor market
- The registers of the unemployed were opened to private recruitment companies, extending the use of the national employment system dataset.
- Bill of Law replaces labor appeal deposits with the employment insurance (injecting into the economy R\$ 65 billion) and align readjustment rates of labor debts with the current level of interest rates (saving R\$ 37 billion for state-owned companies in five years).

#### Current Situation

- Several measures are being discussed to reduce labor costs for companies and to increase labor demand

### Oil and Gas

- Exploitation and production of oil in the pre-salt layer (PL 3178/2019): The project aims to revoke Petrobras' preemptive right in the production sharing regime in the pre-salt areas.
- The new milestone for the gas sector (PL 6407/2013) proposal aims to bring in more dynamism and competitiveness to the sector, providing more space to expand investments, increase supply and reduce costs.
- PL 5811/2016 determines that oil and gas companies must shift half of the mandatory quota of investment in research

#### Current Situation

- Under Congress appreciation

### Electric Sector

- The Electric Sector Reform (PLS 232/2016, PL 1917/2015) addresses the commercial model of the electric sector and the concessions for electricity generation. It also addresses the portability of the electricity bills, concessions for the generation of electricity and the sale of electricity.
- Eletrobras privatization (PL 5877/2019) model provides that the process will be carried out through an operation to increase the company's share capital, with the sale of new common shares on the stock exchange, diluting the Fed. Govt.'s participation in the company's social capital (currently 60%). At the end of the process, no shareholder may hold more than

#### Current Situation

- Under Congress appreciation

### Transportation Infrastructure

- The Railways Legal Framework (PLS 261/2018) intends to incorporate best practices to develop the railway network. It standardizes rules and introduces new strategies such as the authorization of a modality of grant for exploration by the private sector and the reparceling of the soil with property owners.
- BR do Mar (PL 4199/2020) establishes the Cabotage Transport Stimulus Program.

#### Current Situation

- Under Congress appreciation

### Environment

- The Environmental Licensing (PL 3729/2004) requires a preliminary Environmental Impact Study (EIA) on any activity with potential degrading environmental effects.
- The National Dam Safety Policy (PL 550/2019) changes the National Dams Policy to define clearly those responsible for inspection and to establish more rigid preventive aspects and measures of action in emergency situations, insurance obligation and financial guarantee obligations, and criminal sanctions.

#### Current Situation

- Under Congress appreciation



## Current PPI Project Portfolio **157** PROJECTS + **13** policies



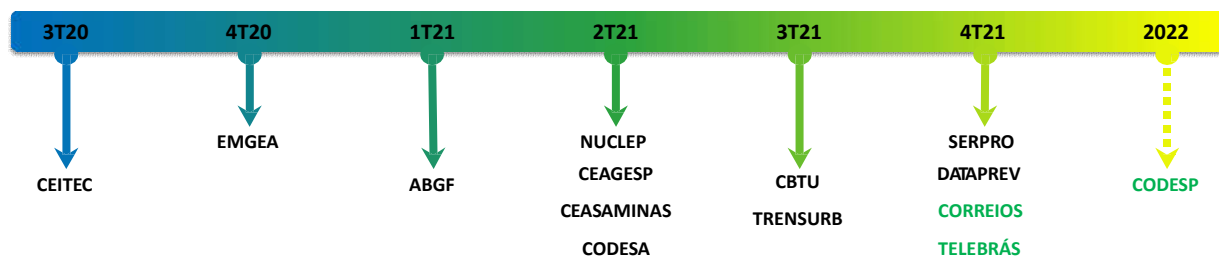
### Next PPI auctions in 2020

Source: PPI Special Secretariat

2nd Half/2020 (40 assets)		
<b>Highways (2)</b> • BR-153/080/414 (GO/TO) • BR-163/230 (MT/PA)	<b>Port Terminals (11)</b> • 4 in Itaquí/MA • 1 in Paranaguá/PR • 2 in Aratu/BA • 2 in Santos/SP • 1 in Maceió/AL • 1 in Santana/AP	<b>Sunational Levels: states and municipalities (14)</b> • 9 Public Lightening PPPs: • Aracaju/SE • Feira de Santana/BA • Belém/PA • Franco da Rocha/SP • Nova Lima/MG • Sapucaia do Sul/RS • Campinas/SP • Camaçari/BA • Cachoeiro do Itapemirim/ES • 3 Concessions of water distribution and sewage treatment • State of Alagoas • State of Rio de Janeiro • City of Cariacica/State of Espírito Santo (sewage PPP) • 2 Urban Solid Waste PPPs: • Teresina/PI • Convale consortia/MG
<b>Railways (3)</b> • FIOL (BA) • Renewal EFVM • Renewal EFC	<b>Mining Rights (3)</b> • Phosphate - Miriri (PB) • Copper - Bom Jardim de Goiás (GO) • 1st round - ANM available areas	• Obs: There is also the prospect of delivering Environmental Licensing: The Preliminary Licensing (LP) of the Pedral do Lourenço / PA waterway
<b>Energy (1)</b> • Transmission Lines 01/2020	<b>Fishery Terminal (1)</b> • Cabedelo (PB)	
<b>Oil and Gas (1)</b> • 2nd cycle of Open Acreage	<b>National Parks and Forests (3)</b> • Aparados da Serra (RS) and Serra Geral (SC) • Humaitá Forest (AM)	
<b>Privatizations (1)</b> • Ceitec - dissolution		

Source: PPI Special Secretariat

### Destatization Program



➡ Programa Nacional de Desestatização

➡ Programa de Parcerias de Investimentos

Source: Special Secretariat for Destatization, Divestments and Markets



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### The Regulatory reforms in the sanitation and gas sectors

Brazil has been implementing regulatory reforms to provide a legally safe and financially attractive environment for private investors. The regulatory changes in specific sectors are aimed at boosting productivity growth by providing incentives for incumbent firms to adopt innovative technologies, and encouraging the entry of new and innovative firms in the market place.

### THE NEW BASIC SANITATION REGULATORY FRAMEWORK

Currently, the country has a vast market to be developed, with 104 million people without adequate sewage collection and treatment and 35 million Brazilians without access to water in an acceptable quantity or quality.

Law No. 14,026/2020

- Determines that the National Water Agency (ANA) is vested with defining reference guidelines for basic sanitation.
- Makes it possible to inject more private investments in sanitation services
- Regionalizes the sanitation service provision, so that small municipalities will also be served.
- Increases competition, facilitating private investments by opening room for concession contracts and biddings and prohibiting new program contracts. The current program contracts may be maintained until their final term, as long as the companies prove their economic and financial capacity and adapt to the goals of universalizing the framework.
- Facilitates the privatization process of a state sanitation company. It eliminates the need of consent from the municipalities if there are no changes in the object and duration of their program contracts.
- Brings more regulatory stability, by strengthening ANA, and provides legal certainty for investors, in addition to contributing to the revitalization of hydrographic basins, the conservation of the hydrographic environment and the reduction of water losses.

#### Expected Outcomes

- Companies are expected to expand the supply of water to 99% of the population and the collection and treatment of sewage to 90% of the population, by the end of 2033 (with the possibility of extension until 2040).
- Between R\$ 500 billion and R\$ 700 billion (US\$ 96.5 billion and US\$ 135.1 billion) in investments will be necessary.
- For each R\$ 1.00 invested, another R\$ 2.50 is generated in the associated value chains.
- For every R\$ 1 billion invested, 60 thousand jobs will be generated.

### THE NEW GAS SECTOR REGULATORY FRAMEWORK PROPOSAL

Seeks to provide the supply of natural gas at lower prices for industry, commerce and consumers in general, to stimulate the rational use of oil and natural gas in Brazil and to guarantee legal security for investors in the sector.

#### Current Situation

- Currently, the interconnected pipeline network does not function as a transport system.
- Moving gas in this network entails to know the origin and destination of the gas, and to contract all the stretches of gas pipelines that exist on this route, paying for the stacking of the tariffs.
- Currently, gas transportation is granted to the private sector through a public bidding concession for 30 years, based on the criterion of lowest annual revenue offered in relation to the maximum limit defined in the notice. The tariff is rateable to this discount.
- The pre-salt may double the supply of natural gas in the country to 111 m<sup>3</sup>/day.

#### The Proposal

- Unbundles (when carriers, producers and traders in the gas chain form companies) and encourages competition, guaranteeing access by new producers to offshore gas transfer, treatment and transport structures, encouraging the growth of distribution, commercialization and consumption.
- The New Gas Law will transform the network into a natural gas transport system, in the form of entrances and exits. The hiring will be related only to the injection or removal of gas, regardless of its origin, destination or route in the network. This will bring freedom of choice for buyers and freedom for negotiation for sellers.
- The gas market will move from a Petrobras' monopoly model to a competition model.
- The new legal framework will guarantee the legal security of the new model.
- Maintains the primary market preference - regulated by Law 11,909/2009 - and creates a secondary market.
- Current gas transportation contracts will have to adjust to the new system within five years, allowing for compensation, through tariffs, of eventual losses. Current consumption and gas pipeline regimes to supply fertilizer and refinery manufacturers will remain the same.

#### Expected Outcomes

- A new and competitive market with lower costs, legal security, improved infrastructure and higher supply and demand of natural gas.
- Investments of R\$ 32.8 billion (US\$ 6.3 billion)
- Creation of 30,000 jobs
- Increase of fiscal revenues in R\$ 7.4 billion (US\$ 1.4 billion)

