



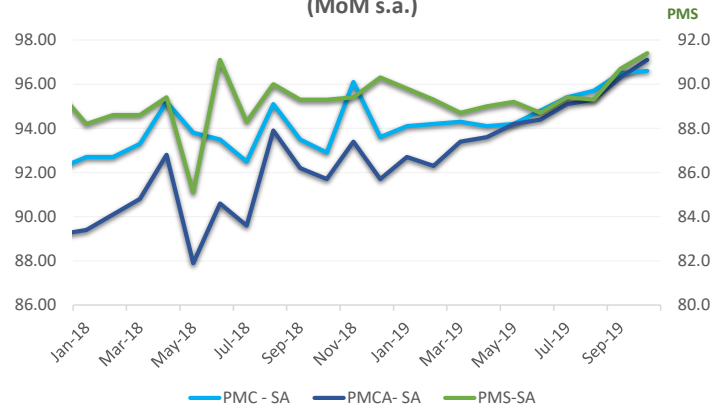
BRAZIL: MACROECONOMIC MONITOR AND REFORM AGENDA

December 16, 2019

Week Highlights

- The federal government has exceeded by 20% the goal of digital transformation of public services this year. The Ministry of Economy's Digital Government Secretariat added 503 new online services since January. The goal by 2022 is to have 100% of federal government services turned digital, annual savings of R\$ 7 billion.
- The real estate sector is recovering. In October, sales of new properties in Sao Paulo grew 23.2% YoY. In the year, growth is 62.6%. Favorable lending conditions for real estate and the recovery of the labor market are important factors for the sustained recovery of the sector.
- Economic activity indicators of October showed new signs of recovery. The Monthly Services Research (PMS) grew 2.7% YoY. In the 12-month accumulated, the index grew 0.8% YoY. The Retail Sales Index (PMC) started the last quarter of the year accelerating, growing 4.2% YoY in October after 2.2% in September. Retail is expected to keep gaining traction in the last two months of the year and throughout 2020.

Economic Activity Indicators  
(MoM s.a.)



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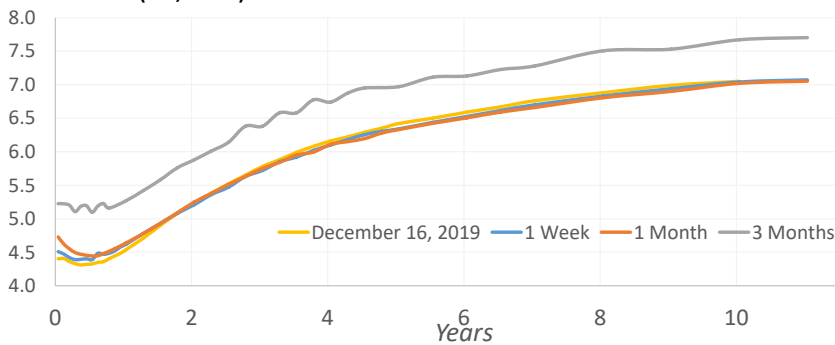
How government data can enable new businesses

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY)	0.50	-3.54	-3.28	1.32	1.32	1.12 (*)	2.25 (*)
Consumer Inflation IPCA (% YoY)	6.41	10.67	6.29	2.95	3.75	3.86 (*)	3.60 (*)
Current Account (USD bi)	-101.4	-54.5	-24.2	-15.0	-41.5	-47.5 (*)	-51.0 (*)
Foreign Investment in the Country (USD bi)	87.7	64.7	74.3	68.9	78.2	75.6 (*)	80.0 (*)
International Reserves (USD bi)	364	356	365	374	375	362 (12 Dec)	-
Unemployment rate (%)	6.5	8.9	12.0	11.8	11.6	11.6 (Oct)	-
General Government Gross Debt (% GDP)	56.3	65.5	69.9	74.1	77.2	78.2 (**)	79.0 (**)
Ibovespa Index (BRL, % chg.)	-2.9	-13.3	38.9	26.9	15.0	28.5 (ytd)	-
CDS 5 years (year average)	189	475	293	165	208	150 (Dec 19)	-
Interest rate (Selic Target) (% eop)	11.75	14.25	13.75	7.50	6.50	4.50 (*)	4.50 (*)

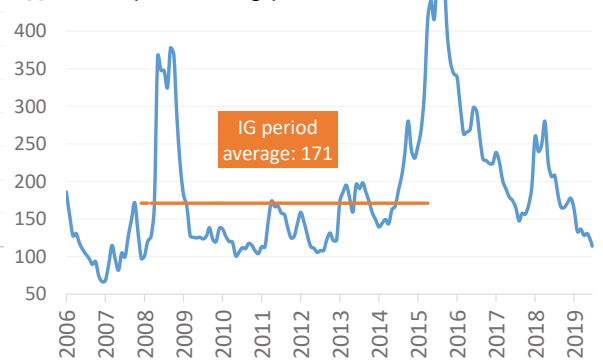
Estimates: (\*) Focus Survey, Central Bank of Brazil, Dec. 13, 2019); (\*\*) Prisma Fiscal, Dec.2019

MARKET WATCH

Yield Curve (CDI, YoY %)



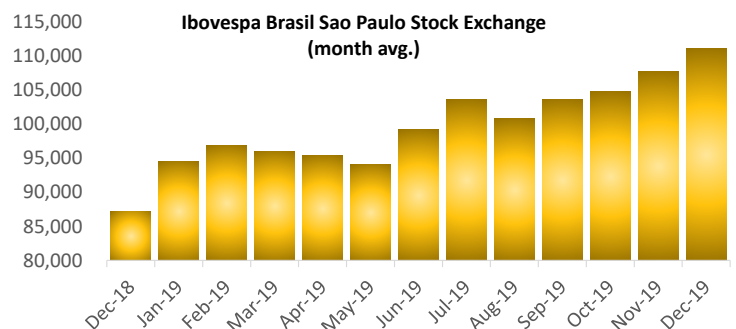
Brazil 5-year CDS (month average)



Real Interest Rate (YoY %)



Ibovespa Brasil Sao Paulo Stock Exchange (month avg.)



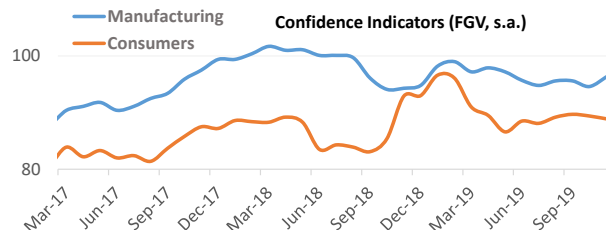
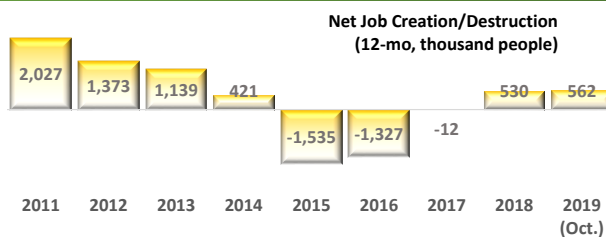
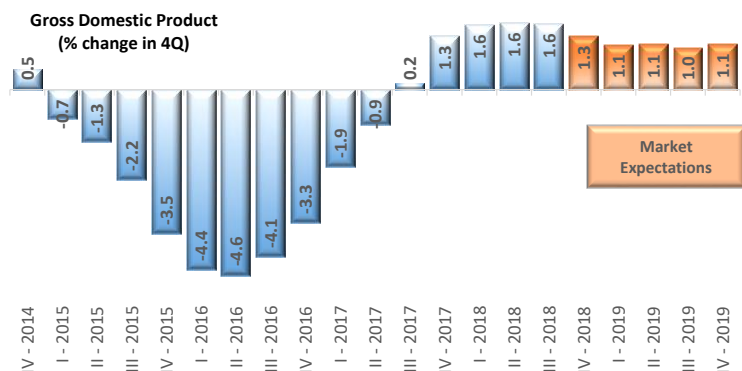
Swap Pre x Di 360 days discounted of the IPCA Expectation for the next 12 months

Sources: BCB, Min. of the Economy, Bloomberg

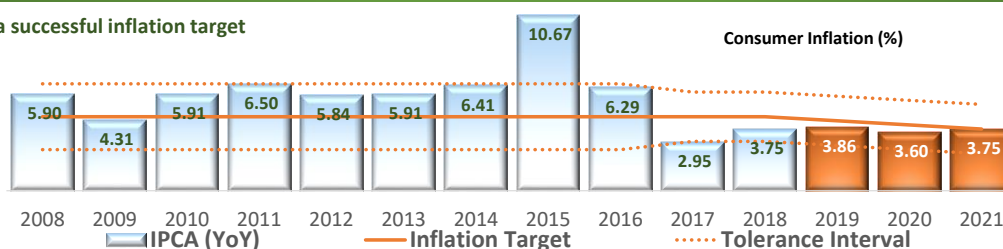


ECONOMY WATCH

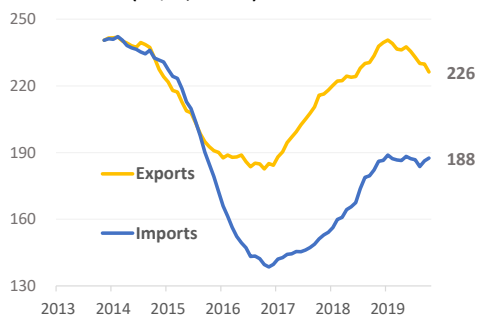
A robust recovery is dependent on the advances of the reform agenda



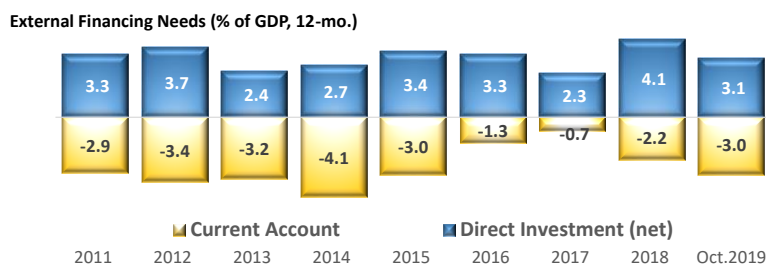
The country runs a successful inflation target regime



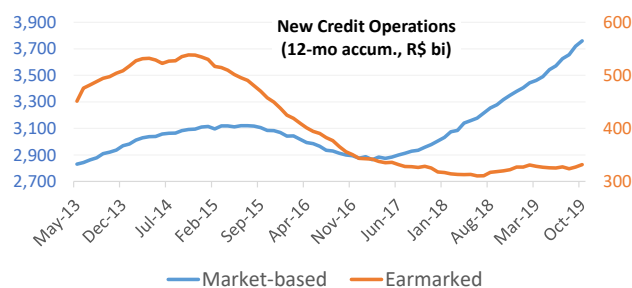
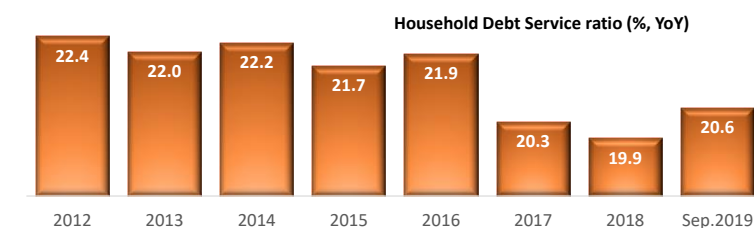
Trade Balance (US\$ bi, 12-mo.)



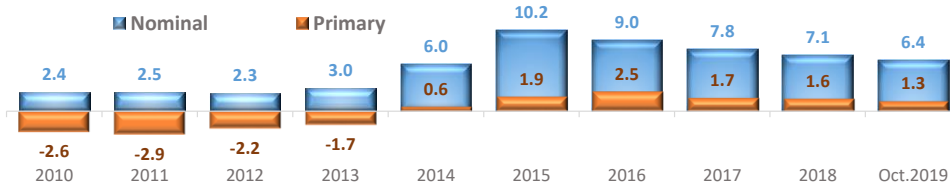
The external accounts are one of the main pillars of the Brazilian economic stability



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



Public Sector Fiscal Deficit (% of GDP)



Brazil is working to improve its fiscal sustainability



Fiscal consolidation and productivity increase are crucial inputs for Brazil to grow strongly and sustainably. The new government is going forward to put in place a set of reforms for speeding up growth and increasing potential output.

## Main Measures

### Social Security

- Brazil had been spending more than half of the Federal budget on social security and benefits. Gen. Govt. Gross Debt projections pointed to an unsustainable path.
- The reform approved in October increases the time to retire, limits benefits, raises the rates of contribution for those who earn above the INSS ceiling and establishes rules of transition.
- The reform will stabilize social security expenditures in 8.5% of GDP from 2022 on. Its impact is projected as around BRL 0.8 trillion in 10 years.
- Law 13,846/19 reviews benefits and proceedings with suspected irregularities, and changes rules for granting benefits, such as reclusion allowance, death pension and rural retirement. The goal is to save about R\$ 9.8 billion in the first year.

#### Next Steps

- Bill 1,646/19 creates measures to facilitate the collection of debt with the Social Security.
- PEC 133/19 extends the reform for States and Municipalities. Senate's second round of voting is scheduled for Nov. Savings of R\$ 0.4 trillion.

### Tax Reform

- Brazil needs to simplify the tax system and to reduce the tax burden on companies, the legal insecurity and the excessive legal dispute
- Instrument: PEC and infra constitutional measures.

#### Next Steps

- Legislation being prepared

### Trade Liberalization

- The EU-Mercosur Free Trade Agreement was announced by both parties on June 28. The Free Trade agreement is to be ratified by all Parliaments involved.
- Aims at increasing the openness degree (exports plus imports over GDP) from 22% to 30% of GDP in four years.
- 2019 initiatives include: the end of quantitative restrictions on the free trade agreement of autos with Mexico; Free trade agreement with the European Free Trade Area (EFTA); modernization of tax agreements; agreement with Sweden to end the double taxation of income tax; import tax reduced to zero on over 1,000 industrial machines and equipment not produced domestically; reduction of the import tax for inputs and products of the chemical sector.

#### Next Steps

- Expand the Agreement for Economic Supplementation with Mexico
- Trade agreement with the US
- Trade agreement talks with South Korea, Japan, Canada
- Instruments: Government decrees and resolutions

### Economic Freedom

- Economic Freedom Law: reduces red tape and Government intervention, facilitating the opening of new businesses.
- Eliminates the need for low-risk activities to obtain any type of license; limits restrictions on working hours for commerce, services and industries; prevents laws to define prices; establishes a binding and isonomic treatment for similar situations; overrules outdated legislation; eliminates license requirements for testing, developing or implementing a product/service that does not pose high risks; impedes judicial changes in business contracts; establishes that unanswered license requests are automatically granted; extends higher court decisions to all cases; creates the "regulatory abuse" situation; among others issues.

### Digital Government

- The Brazilian government transformed 400 public services and made them 100% digital.
- Four key goals to be achieved by the end of 2020: i) launch a new digital identity, based on biometrics, for over 100 million Brazilians; ii) ensure that 70% of the over 3,000 services are digital; iii) consolidate government digital channels; iv) simplify business registration.
- Current initiatives include The Digital Citizenship Platform (access and provision of digital public services); GovData (main official databases); and ConectaGov (connection of govt. systems).

#### Next Steps

- Broader digital integration, services provision, and database unification; Changes in the legal framework; among others.

### Fight corruption, criminal organizations and violent crimes

- Changes to the Code of Criminal Procedure, Criminal Code, Criminal Law, Electoral Code, and others;
- Measures will help reduce costs of doing business. Include the provisional execution of a criminal conviction after second instance sentences; the criminalization of irregular funding in elections; tighter sentences and penalties increase.

#### Next Steps

- Approved in the Lower House. To be appreciated By the Senate.
- instruments: PL-881 and 882/2019; PLP-38/2019

### Ombudsman for Direct Investments

- Provide consultation for foreign investors about legislation or administrative procedures related to investments in Brazil.



## Main Measures

### Employment

- The registers of the unemployed were opened to private recruitment companies, extending the use of the national employment system dataset.
- The "GreenYellow Employment Contract" targets first job hires of people aged 18-29, exempting employers from social security contributions. It will be funded by social security contribution on unemployment insurance installments. The goal is to generate 1.8 million jobs by Dec. 2022.
- Bill of Law replaces labor appeal deposits with the employment insurance (injecting into the economy R\$ 65 billion) and align readjustment rates of labor debts with the current level of interest rates (saving R\$ 37 billion for state-owned companies in five years).

#### Next Steps

- Emprega Mais: new workforce training strategy.

### Central Bank Independence (Senate PLP 19/19)

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

#### Next Steps

- Congress appreciation
- Instrument: Supplementary Bill.

### Subsidies reduction

- Reduction and streamlining of subsidies granted by the Government, which amount to around 4.7% of GDP in the 2019 budget.

#### Next Steps

- Congressional approval

### Fiscal sustainability of subnational entities (PLP 149/2019)

- The Fiscal Balance Plan will aid States and Municipalities in financial distress to achieve fiscal adjustment, allowing the access to loans guaranteed by the Federal Government. Entities must provide the counterpart of recovering their payment capacity.

#### Next Steps

- Congress appreciation

### Public administration overhaul (Decree 9.725/19)

- 21,000 commissioned positions eliminated; limitations for creating collegiates and elimination of unnecessary collegiates; restrictions for hiring civil servants and rules for hiring senior officials.

#### Next Steps

### Privatization

- As of Aug. 1st, there are 130 companies owned by the Fed. Govt.
- On June 06, 2019, the Supreme Court ruled that subsidiaries (which comprise more than half of the companies) do not need Congress approval to be sold.

## INVESTMENTS, CONCESSIONS AND PRIVATIZATIONS

### PPI Projects Auctioned or Renewed

<ul style="list-style-type: none"> <li>• Privatization of 7 Distributors (CELG, CEAL, CEPISA, CERON, Eletroacre, Amazonas, Boa Vista)</li> <li>• Concessions of 2 Hydroelectric Plants (Jaguara, UHE) and 2 Small Plants</li> <li>• Transmission Lots and Stations</li> </ul>	<ul style="list-style-type: none"> <li>• Marginal Fields Rounds</li> <li>• 14<sup>th</sup>, 15<sup>th</sup>, 16<sup>th</sup> Exploratory Blocks Bidding Round</li> <li>• 2<sup>nd</sup> to 6<sup>th</sup> Pre-Salt Production Sharing Bidding Rounds</li> <li>• Auction of Assignment Agreement</li> </ul>	<ul style="list-style-type: none"> <li>• 5 Extensions and 1 Concession (Norte-Sul)</li> </ul>			
<ul style="list-style-type: none"> <li>• 16 Concessions</li> </ul>	<ul style="list-style-type: none"> <li>• 20 Projects (leasing, extension or assignment agreement)</li> </ul>	<ul style="list-style-type: none"> <li>• 2 Concessions</li> <li>• 2 environm. licenses</li> </ul>	<ul style="list-style-type: none"> <li>• 1 Mining Right</li> </ul>	<ul style="list-style-type: none"> <li>• Privatization of CASEMG</li> </ul>	<ul style="list-style-type: none"> <li>• Concession of Lotex</li> </ul>

### Ongoing PPI Projects

<ul style="list-style-type: none"> <li>• Transmission Lots</li> <li>• Auctions of New Energy</li> <li>• 6 Hydroelectric Plants (concession/env. license)</li> </ul>	<ul style="list-style-type: none"> <li>• Angra 3 Plant</li> <li>• Nuclebras</li> </ul>	<ul style="list-style-type: none"> <li>• 4 Mining Rights</li> <li>• 1 sale of assets</li> </ul>	<ul style="list-style-type: none"> <li>• 17<sup>th</sup> Exploratory Blocks Bidding Round</li> </ul>	<ul style="list-style-type: none"> <li>• 5G Auction</li> </ul>	<ul style="list-style-type: none"> <li>• São Francisco River, Rio Tocantins</li> <li>• Irrigation PPP in Bahia (study)</li> </ul>
<ul style="list-style-type: none"> <li>• 6<sup>th</sup> Round (North I, South and Central)</li> </ul>	<ul style="list-style-type: none"> <li>• 17 Leasings</li> <li>• 3 Privatizations</li> <li>• 2 New Investments</li> <li>• 1 Privatization Study</li> </ul>	<ul style="list-style-type: none"> <li>• 12 Concessions</li> <li>• 4 environm. license</li> </ul>	<ul style="list-style-type: none"> <li>• 2 PPP studies</li> </ul>	<ul style="list-style-type: none"> <li>• Privatization: Casa da Moeda, CEASAMINAS, Infraero shareholdings, Eletrobras, CEAGESP, ABGF, EMGEA, Correios, Dataprev, Serpro, CEITEC, Telebrás, BB shares</li> <li>• PPP for COMAER, EBC (study)</li> </ul>	
<ul style="list-style-type: none"> <li>• 9 Concessions</li> </ul>	<ul style="list-style-type: none"> <li>• Concessions of Iguazu, Lençóis Maranhenses, Jericoacoara and Aparados da Serra</li> </ul>	<ul style="list-style-type: none"> <li>• PPPs for prisons and for police comm.</li> <li>• Studies for street lighting against violent crimes and for socioeducational measures</li> </ul>	<ul style="list-style-type: none"> <li>• Studies for universalization and urban solid waste energy recovery</li> </ul>	<ul style="list-style-type: none"> <li>• CBTU</li> <li>• Trensurb</li> </ul>	<ul style="list-style-type: none"> <li>• Study: child education</li> </ul>



**Airports**

Investments of US\$ 2.1 bi

Signature bonuses of US\$ 0.6 bi

Airports	Studies	Public Hearing	TCU Assessment	Bidding Documents	Auction
6th round - South Block (9)	●			3Q20	4Q20
6th round - Northern Block 1 (7)	●			3Q20	4Q20
6th round - Central Block (6)	●			3Q20	4Q20
Disposals of Infraero shares (4)	●				

**Railroads**

Investments of US\$ 14.8 bi

Extension of 15,107 km

Signature bonuses of US\$ 0.7 bi

Railroads	Studies	Public Hearing	TCU Assessment	Bidding Documents	Auction
EF-334 – FIOEL	✓	●		1Q20	2Q20
EF-170 – Ferrogrão	✓	●		2Q20	3Q20
EF-354 – Integração Centro-Oeste	●				
North Branch - Ferroanel - São Paulo	●				

Railroads	Studies	Public Hearing	TCU Assessment	Legal Opinion	Subscription
Contract Extension Malha Paulista	✓				3Q19
Contract Extension Carajás (EFC)	✓				4Q19
Contract Extension Vitória-Minas (EFVM)	✓				4Q19
Contract Extension MRS	✓				2Q20
Contract Extension FCA	✓				2Q20

**Ports**

21 terminals and 2 ports

Investments of US\$ 1.1 bi

Signature bonuses of US\$ 0.2 bi

Ports	Studies	Public Hearing	TCU Assessment	Bidding Documents	Auction
Port of Suape/PE (SUA05)	✓	✓	✓	● 4Q19	1Q20
Port of Itaquí (IQI 03, 11, 12, 13)	✓	●		1Q20	2Q20
Port of Santos/SP (STS 14, 14A)	✓	●		1Q20	2Q20
Port of Paranaguá/PR (PAR12)	●			2Q20	3Q20
Rental of Solid Bulks in Port of Aratu/BA (ATU 12)	●			2Q20	3Q20
CODESA Privatization	●			4Q20	2Q21
São Sebastião Privatization	●			1Q21	2Q21
Studies for the Destatization of Port of Santos	●			3Q21	4Q21
Port of Suape/PE (SUA01)	✓	●			
Port of Paranaguá/PR (PAR07, 08, XX)					
Terminal - Port of Santana (MCP1)					
Cabling Stimulation Policy					

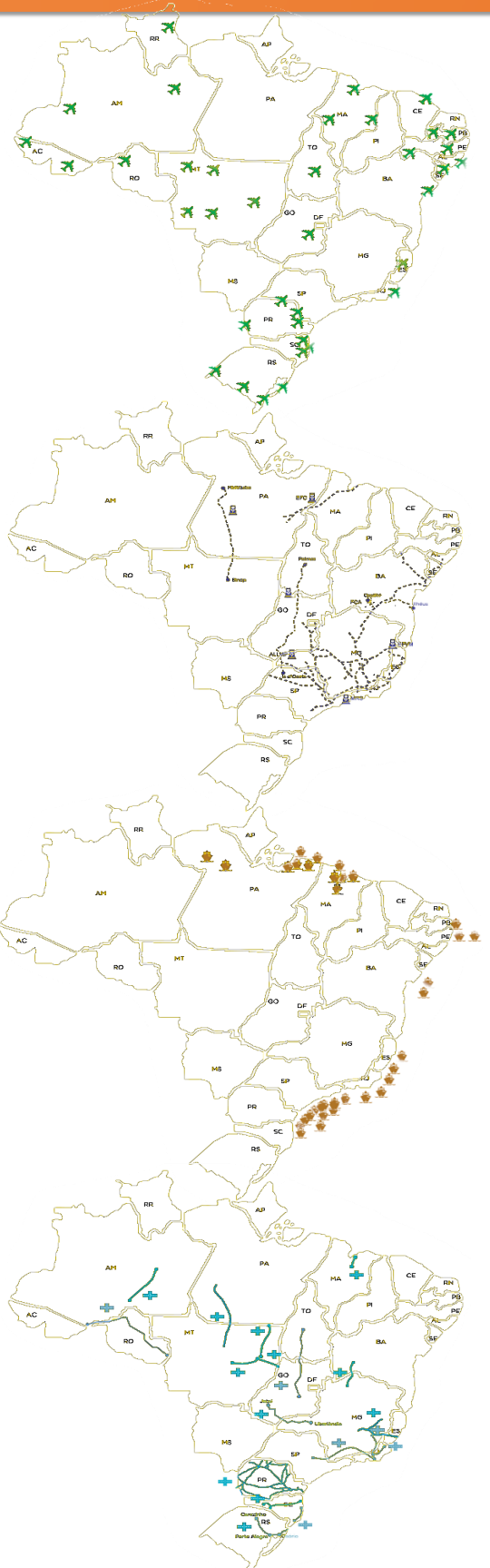
**Highways**

Investments of US\$ 34.9 bi

Extension of 16,574.82 km

Highways	Studies	Public Hearing	TCU Assessment	Bidding Documents	Auction
BR-364/365/MG/GO	✓	✓	✓	✓	✓
BR-101/SC	✓	✓	●	4Q19	1Q20
BR-381/262/MG/ES	✓	●		2Q20	3Q20
BR-163/230/MT/PA	✓	●		2Q20	3Q20
BR-153/080/414/GO/TO	✓	●		2Q20	3Q20
BR-040/495/MG/RJ (Concer)	●			3Q20	4Q20
BR-116/465/101/SP/RJ (Dutra)	●			3Q20	4Q20
BR-116/493/RJ/MG (CRT)	●			3Q20	4Q20
Integrated Highways of Paraná	●			2Q21	3Q21
BR-153/282/470/SC e SC-412	●			4Q20	1Q21
BR-158/MT					
BR-364/RO/MT					

✓ Completed  
● In progress





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### How government data can enable new businesses

The Government studies sharing data with companies to expand service offerings. The core of the project is to encourage the private sector to build applications that the government has not yet considered or cannot afford. The idea is that the Government would provide data as infrastructure and the companies would create services from it that will benefit the society, which would translate into social and economic development of the country.

With this in mind, the Ministry of Economy's Digital Government Secretariat conducted a survey in July 2019 involving Brazilian companies.

The questionnaire was sent to trade associations, which disseminated the research among member companies. Of the 151 companies that participated, 75% are small or micro, most from the service industry.

To access government data, 41% of companies responded that they would pay to get the information in a timely manner. There are several topics of interest pointed out in the research. These include information on business registration and billing data; the population degree of schooling; students enrolled in rural schools; adoptions; registration data of citizens and residences; energy consumption; government public works; drivers, vehicles and fines; government procurements; educational diplomas and education certificates; weather and georeferenced data.

It is worth noting that not all of this information can be shared with the private sector, due to its confidentiality.

The Digital Government Secretariat team is planning to offer 'APIs' - technological applications that allow electronic exchange of information between systems - as a way to enable access to the requested data. To this end, it is in contact with the managing bodies and holders of the information to analyze the legal and financial viability of offering data access services to the market.

This can only happen as long as the limits of information secrecy legislation and the protection of personal data are guaranteed, as per the General Personal Data Protection Act (Law No. 13.709 / 2018) and the Access to Information Act. (Law No. 12.527 / 2011).

#### THE SURVEY INVOLVED

**151 BRAZILIAN  
COMPANIES**

IN 18 STATES



OF THE SURVEY RESPONDENTS ARE WILLING TO PAY FOR THE HIGH-FREQUENCY DATA



OF THE SURVEY RESPONDENTS ARE SMALL OR MICRO COMPANIES



OF THE SURVEY RESPONDENTS WERE NOT AWARE THAT SOME OF THE DATA IS ALREADY AVAILABLE

#### Company Distribution by State

