

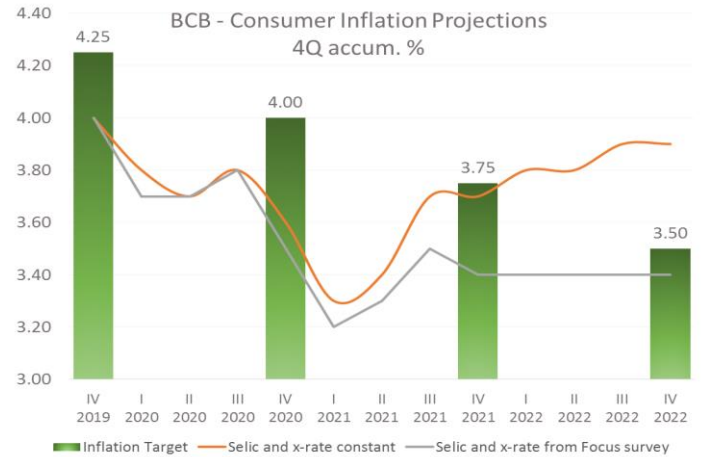


BRAZIL: MACROECONOMIC MONITOR AND REFORM AGENDA

December 23, 2019

Week Highlights

- The formal labor market took a positive turn in November, with 99,200 openings, almost doubling the figure expected by the market (50,000) and the best result for November since 2010. The civil construction sector is one of the main positive highlights in the generation of new formal jobs.
- Industrial confidence, in December, reached the highest level in 17 months, according to the preview of the Industry Survey from FGV. There were signs of improvement both in current assessment and in expectations.
- The Central Bank has raised its expectations for the Gross Domestic Product (GDP) in 2020 in the Quarterly Inflation Report released on Dec. 19, from 1.8% to 2.2%. If confirmed, the result will be approximately double that recorded in 2019.



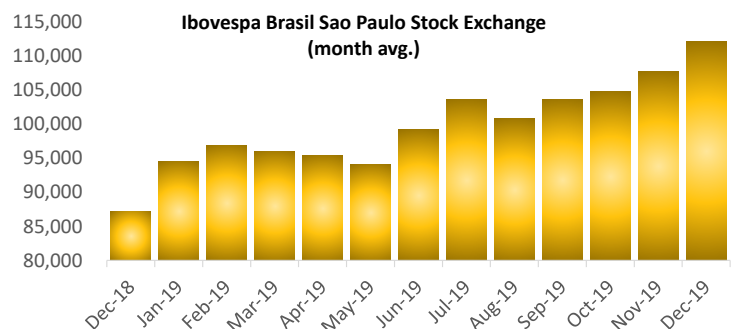
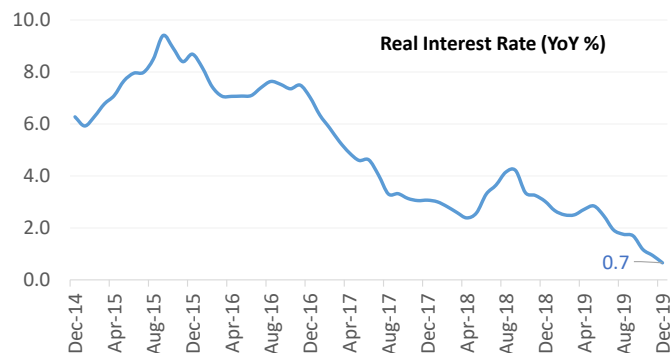
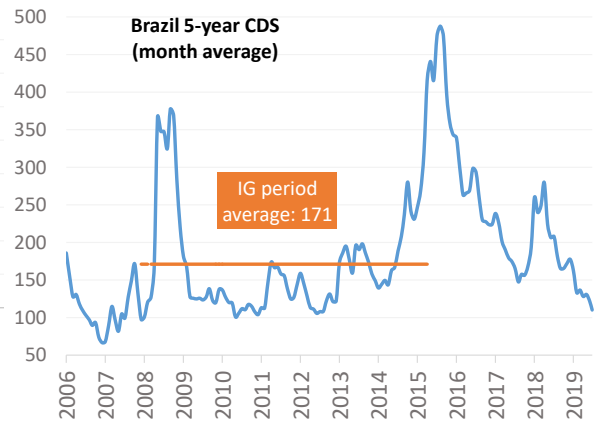
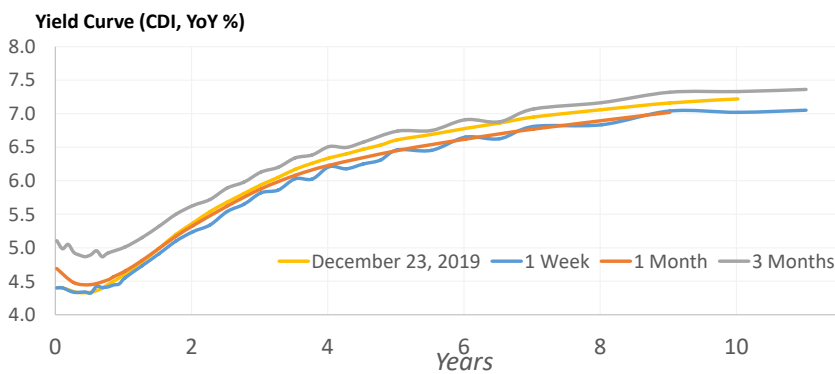
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BNDES Triennial Plan 2020 - 2022

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY)	0.50	-3.54	-3.28	1.32	1.32	1.16 (*)	2.28 (*)
Consumer Inflation IPCA (% YoY)	6.41	10.67	6.29	2.95	3.75	3.98 (*)	3.60 (*)
Current Account (USD bi)	-101.4	-54.5	-24.2	-15.0	-41.5	-50.0 (*)	-53.7 (*)
Foreign Investment in the Country (USD bi)	87.7	64.7	74.3	68.9	78.2	76.1 (*)	80.0 (*)
International Reserves (USD bi)	364	356	365	374	375	358 (19 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	30.9 (ytd)	-
CDS 5 years (year average)	189	475	293	165	208	149 (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. 20, 2019); (**) Prisma Fiscal, Dec.2019

MARKET WATCH



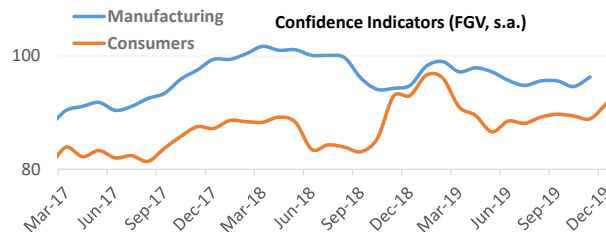
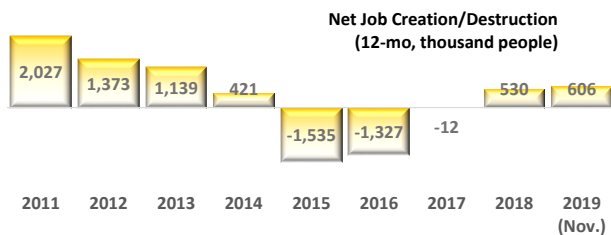
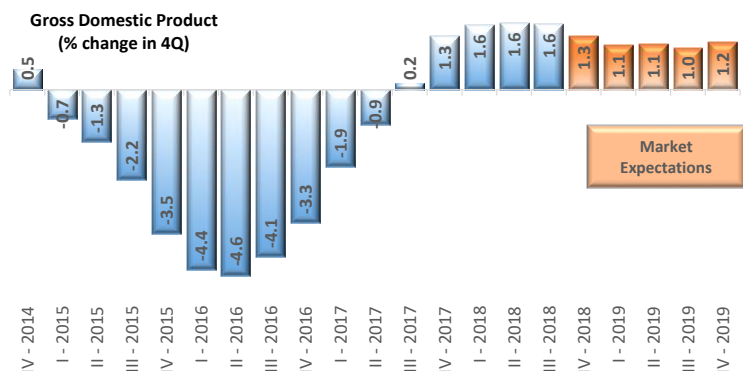
Swap Pre x Di 360 days discounted of the IPCA Expectation for the next 12 months

Sources: BCB, Min. of the Economy, Bloomberg

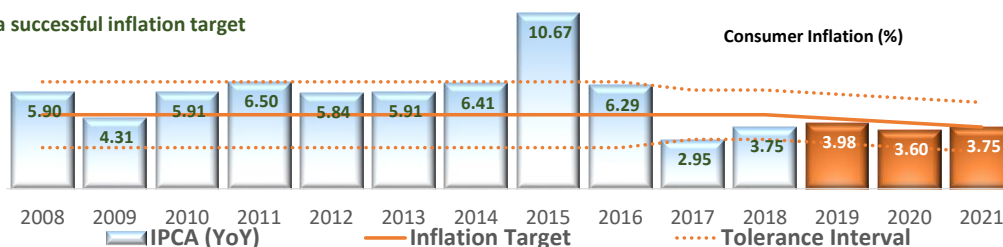


ECONOMY WATCH

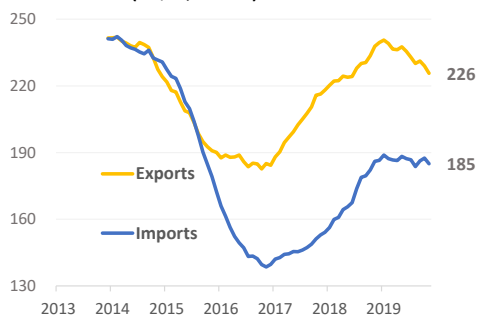
A robust recovery is dependent on the advances of the reform agenda



The country runs a successful inflation target regime



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

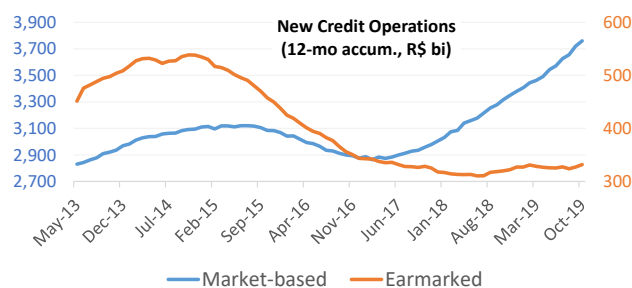
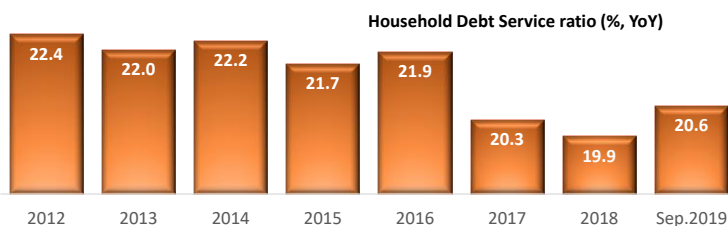


The external accounts are one of the main pillars of the Brazilian economic stability

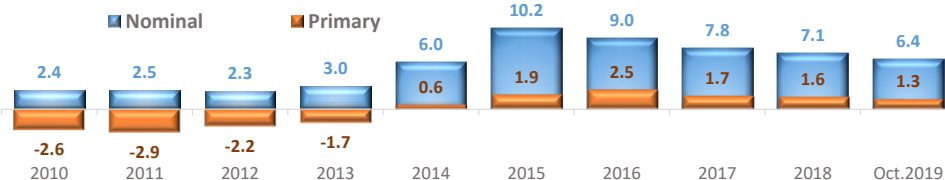
External Financing Needs (% of GDP, 12-mo.)



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

Ongoing PPI Projects

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



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					

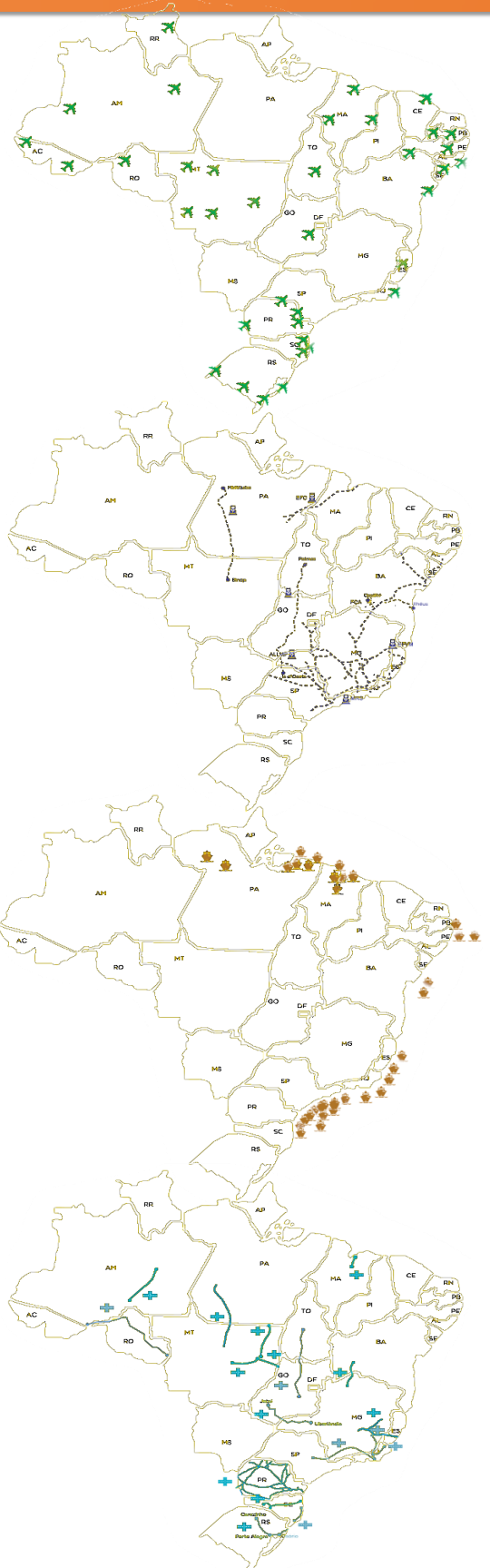
Highways

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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BNDES Triennial Plan 2020 - 2022

- The Triennial Plan sets BNDES strategic agendas for the next three years, announcing major deliveries to society by 2022.
- According to the bank, financial sustainability must be guaranteed, but profits will not be a priority.

What the bank plans to achieve

An open bank serving the Brazilian society

A project factory for the country

A financial and non-financial services platform for MSEs

Supplier of new credit instruments

Promote the recycling of mature investments

Expand the funding supply

Attract diverse sources of capital

A more agile and flexible structure

Strategic Guidelines

Infrastructure

Develop and support projects to increase productivity, expand access and promote integrated and sustainable infrastructure

Productive Structure

Supporting increased productivity, competitiveness and employment by integrating innovation, exports, entrepreneurship and decarbonization

Education, Health and Safety

Improve the quality and efficiency of education, health and safety provision

Credit and Capital Markets

Broadening MSEs' access to credit and capital markets

Technological diffusion and innovation

Promoting transformation for the knowledge-based economy and the digital society

Sustainability

Promoting the transition to a resilient, low carbon economy and supporting the protection and restoration of forests

State Modernization and Territorial Development

Promoting public sector efficiency and reducing territorial inequalities

Privatization (PPPs, Concessions and Privatizations)

Attracting private investors to improve public service delivery and public capital allocation

Deliveries for Society

Credit Areas

Energy: Increase of renewable energy installed capacity (2.0 GW) and expansion of natural gas distribution network (1,600 Km)

Logistics: 2,500 km on railways and 5,000 km on highways deployed, duplicated or modernized sections

Urban Mobility: Demand met by new medium and high capacity systems: 1 million users per business day

Sanitation: Increase in the number of inhabitants with access to: i) sewage networks: 5.5 million; and ii) water: 900,000

ICTs: New fixed broadband access to 2.5 MM residences and 8 MM people

Education: 1 million students in Basic and Vocational Education benefited from financial instruments prepared by BNDES

Health: 150 health units related to SUS constructed or modernized

Security: 20 projects aimed at improving the efficiency of public security intelligence services in the country's most violent municipalities

Employment: 1.2 million direct and indirect jobs generated and/or maintained on average per year

MSEs: Supporting 450,000 MSEs and Individuals

Services and Project Factory

Sanitation: Structuring projects that will give access to sanitation to 20 million people not currently served by the system

Street Lighting: Structuring projects that will bring efficient street lighting service to 14 million people

Logistics: Structuring projects that promote: i) private management in public ports, covering 30% of the national trade; and ii) extension of granted

highways: 20 thousand km, of which a 16 thousand km are new

Sale of Companies: 15 state-owned enterprises from the states and 15 state-owned federal companies from the Federal Government

Real Estate Funds: Structuring of 5 real estate funds/portfolios

