

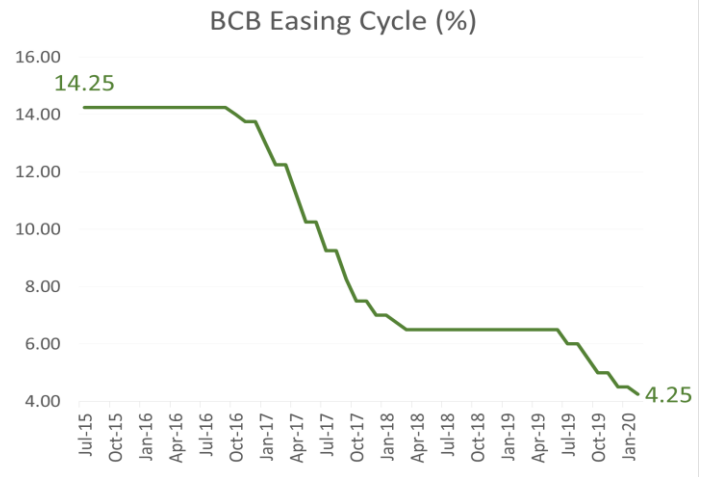


BRAZIL: MACROECONOMIC MONITOR AND REFORM AGENDA

February 11, 2020

Week Highlights

- The Monetary Policy Committee of the Central Bank reduced the basic interest of the economy to the all-time low of 4.25% per year and gave a clear signal that it should maintain the rate at this new level.
- In 2019, Petrobras consolidated itself as a relevant oil exporter. The company broke the monthly record of sales of the commodity abroad in November (767,000 b/d), and closed the year with an increase of 25.2% in exports of crude oil in relation to 2018. The numbers reflect the company's pre-salt production records.
- The risks related to the coronavirus outbreak have not altered the official GDP forecast of 2.4%, according to the Economic Policy Secretariat of the Ministry of the Economy.



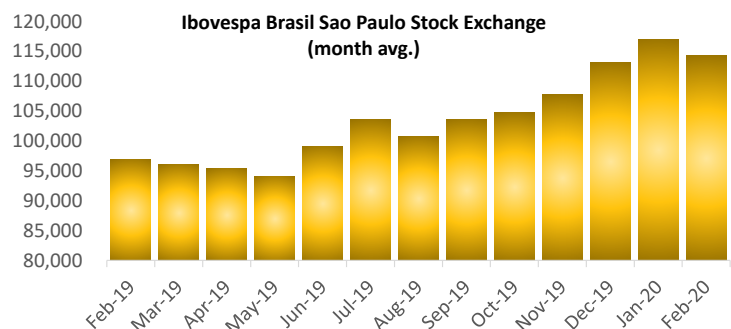
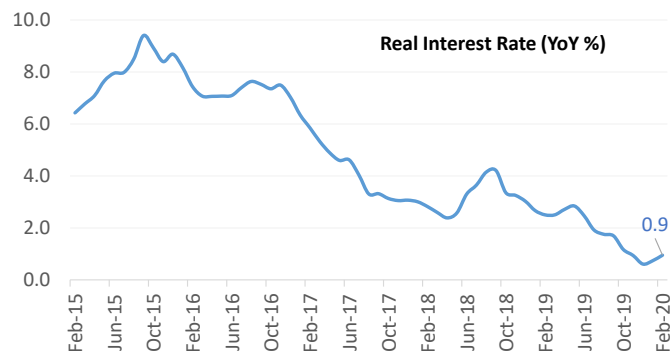
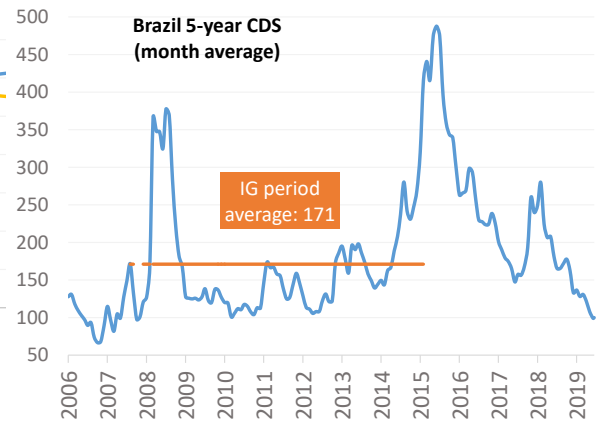
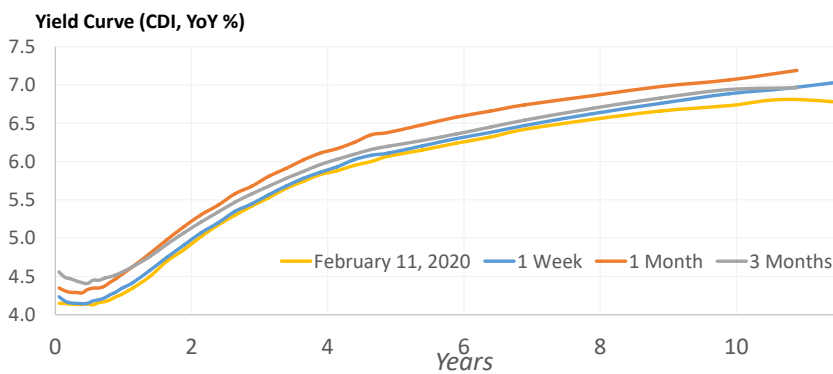
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Presidential Message to Congress

	2015	2016	2017	2018	2019	2020	2021
GDP (% YoY)	-3.54	-3.28	1.32	1.32	1.12(*)	2.30 (*)	2.50 (*)
Consumer Inflation IPCA (% YoY)	10.67	6.29	2.95	3.75	4.31	3.25 (*)	3.75 (*)
Current Account (USD bi)	-54.5	-24.2	-15.0	-41.5	-50.8	-54.2 (*)	-59.3 (*)
Foreign Investment in the Country (USD bi)	64.7	74.3	68.9	78.2	78.6	80.0 (*)	84.5 (*)
International Reserves (USD bi)	356	365	374	375	357	359 (07 Feb)	-
Unemployment rate (%)	8.9	12.0	11.8	11.6	11.0	11 (Dec)	-
General Government Gross Debt (% GDP)	65.5	69.8	73.7	76.5	75.8	78.0 (**)	78.1 (**)
Ibovespa Index (BRL, % chg.)	-13.3	38.9	26.9	15.0	31.6	-1.7 (ytd)	-
CDS 5 years (year average)	475	293	165	208	108	99 (Feb 20)	-
Interest rate (Selic Target) (% eop)	14.25	13.75	7.50	6.50	4.50	4.25 (*)	6.00 (*)

Estimates: (\*) Focus Survey, Central Bank of Brazil, Feb. 7, 2020; (\*\*) Prisma Fiscal, Jan.2020

MARKET WATCH



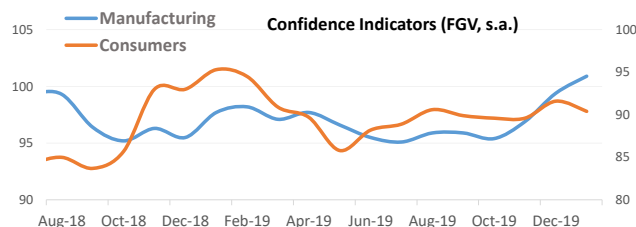
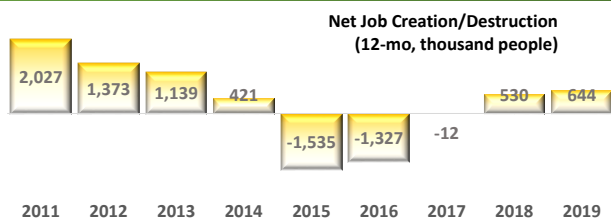
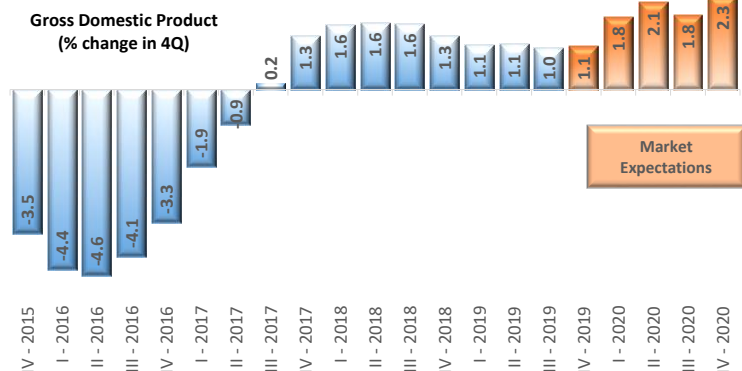
Swap Pre x Di 360 days discounted of the IPCA Expectation for the next 12 months

Sources: BCB, Min. of the Economy, Bloomberg



ECONOMY WATCH

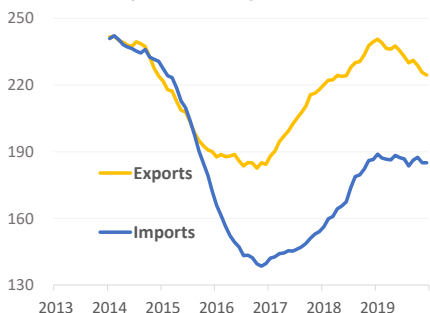
Advances in the reform agenda pave the way for a robust and sustainable recovery



The country runs a successful inflation target regime

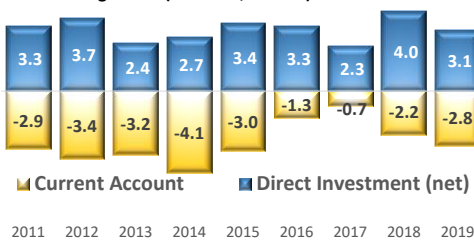


Trade Balance (US\$ bi, 12-mo.)

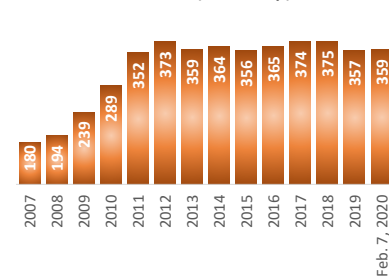


The external accounts are one of the main pillars of the Brazilian economic stability

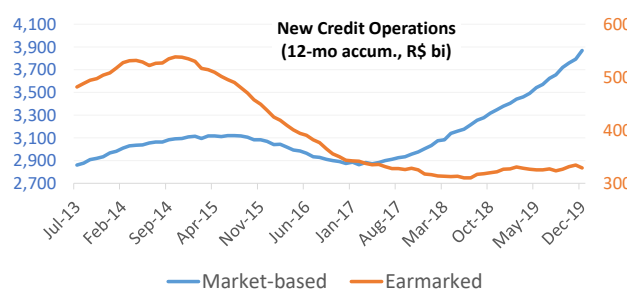
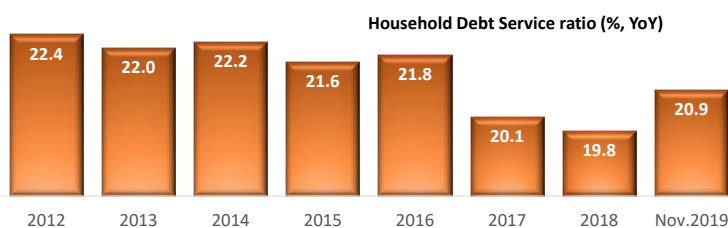
External Financing Needs (% of GDP, 12-mo.)



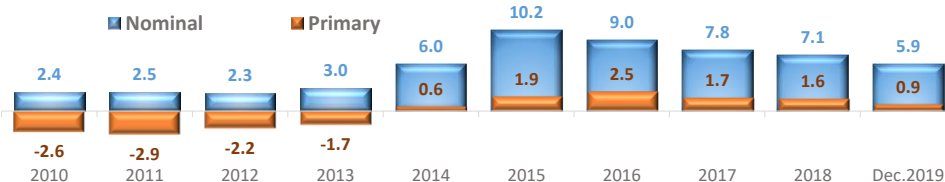
International Reserves (US\$ bi eop)



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

- 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.

#### Next Steps

- Bill 1,646/19, to facilitate the collection of debts with the S. Security.
- PEC 133/19 extends the reform for States and Municipalities. Approved by the Senate and sent to the Lower House. 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. A joint effort of the Government and the Congress aims at voting the reform at the 1st half of 2020.

### Trade Liberalization

- EU-Mercosur Free Trade Agreement: to be ratified by all Parliaments involved. Both regions represent around 25% of the global GDP, a market of 780 million people.
- 2019 initiatives include: the end of quantitative restrictions on the free trade agreement of autos with Mexico; Free trade agreement with EFTA; Free trade agreement with Argentina (autos and autoparts); modernization of tax agreements; agreement with Sweden to end double taxation of the income tax; reduction of the import taxes for several inputs and products.
- Facilitation and compliance of import, export and customs transit operations, as well as promotion of security in the international logistics chain.

#### Next Steps

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

### 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).

#### Next Steps

- Under Congress appreciation.

### Improvement of Business Conditions

- Economic Freedom Law (Law 13,874/19): reduces red tape and Government intervention, facilitating the opening 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).

### State Modernization

- Digital services: the Federal Government offers around 3,300 services to the population. At the beginning of 2020, 53% of the services can be accessed online, grouped in the portal "Gov.br".
- Contain personnel expenses: reduction of new hires and non-concession of salary readjustments (payroll growth in 2019 was 0.72% (in the last 10 years, payroll grew 8.29% per year).
- Digitalization, simplification and integration of support services to public activities, coordinated by a centralized body.
- TransformaGov, an instrument for optimizing public policies and ensure transparency in spending.
- Privatization and disinvestments to generate greater efficiency in resource allocation.

#### Next Steps

- Digitally transform 100% of the services, all available on the portal (savings of R\$ 7 billion) by 2022.
- Promote real change of the institutional framework of the federal public administration.

### Fight corruption, criminal organizations and violent crimes (PL-881 and 882/2019; PLP-38/2019)

- 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.

### 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 reduce the cost of credit in Brazil.

#### Next Steps

- 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.



## 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.

### Fiscal Balance

- Mais Brasil Plan (Emergency PEC 186/19, Fund PEC 187/19 and Federative Pact 188/19). Addresses shorter-term fiscal issues and proposes decentralization of resources and regional strengthening.
- Reduction and streamlining of subsidies granted by the Government (around 4.7% of GDP in the 2019 budget).
- Fiscal Balance Plan: will aid States and Municipalities to achieve fiscal adjustment, allowing the access to loans guaranteed by the Federal Government. Entities must recover their payment capacity as counterpart.

#### Next Steps

- Congressional appreciation

### Public administration overhaul

- Administrative reform: ends employment stability for new hires, introduces new ways of hiring, unifies carriers.
- Decree 9.725/19: 21,000 commissioned positions eliminated; rationalization of collegiates; restrictions for hiring.

#### Next Steps

- Reform PEC to be sent to Congress.

### Privatization and Public-Private Partnerships

- R\$ 105.4 billion in 2019. The Federal Government disposed of 71 state assets
- Reduction of the federal state companies workforce (14,000 voluntary dismissals, a billion dollar economy).

#### Next Steps

- Legal framework upgrade for public-private partnerships (PPPs)

### Accession to the OECD

- Brazil is the non-member nation with the highest level of participation in the working groups, councils and committees, and is in an advanced stage of adherence to the Organization's standards.
- Will contribute to improving the efficiency of the State and to the provision of quality public services.

#### Next Steps

## INVESTMENTS, CONCESSIONS AND PRIVATIZATIONS

### PPI in figures

Accomplished auctions/bids and projects

Qualified projects  
**287**

Accomplished auctions/bids and projects  
**172**

Investments  
**USD 171 billion**  
**(R\$ 699.6 billion)**

Concession fees/Bonuses  
**USD 33.5 billion**  
**(R\$ 137.1 billion)**

### Ongoing PPI Projects

<ul style="list-style-type: none"> <li>• 2 Privatizations (Eletrobras and Nuclep)</li> <li>• 7 Licensings</li> <li>• 1 Partnership - Angra 3</li> <li>• 2 Generation Auctions (A-4 and A-5)</li> </ul>	<ul style="list-style-type: none"> <li>• 1 PPP study</li> </ul>	<ul style="list-style-type: none"> <li>• 4 Mining Rights</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>• 16 Leasings</li> <li>• 3 Privatizations</li> <li>• 2 New Investments</li> <li>• 1 assessment (Santos)</li> </ul>	<ul style="list-style-type: none"> <li>• 10 Concessions</li> <li>• 7 licensings</li> <li>• 2 assessments</li> </ul>	<ul style="list-style-type: none"> <li>• Privatization of CEEASAMINAS, CEAGESP</li> </ul>	<ul style="list-style-type: none"> <li>• Privatization: Casa da Moeda, Infraero shareholdings, 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>• 7 Concessions</li> <li>• 4 investments</li> </ul>	<ul style="list-style-type: none"> <li>• Concessions of Iguaçú, 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> <li>• 2 studies</li> </ul>	<ul style="list-style-type: none"> <li>• Study: child education</li> </ul>



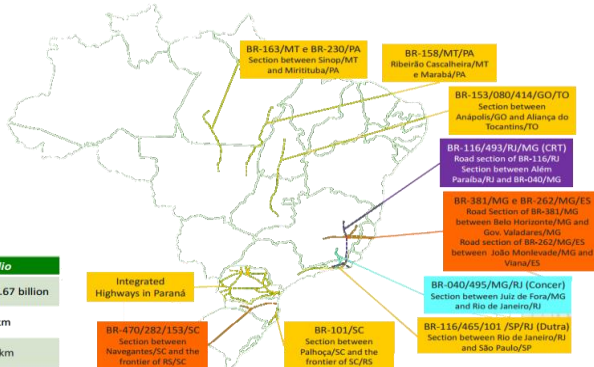
PPP auctions scheduled for 2020

2020 / 1 <sup>st</sup> Half		2020 / 2 <sup>nd</sup> Half	
Highway (1) • BR-101 (SC) (21/02)	Mining Rights (2) • Copper - Bom Jardim de Goiás (GO) • Phosphate - Miriri (PB)	Highways (6) • BR-153/080/414 (GO/TO) • BR-381/262 (MG/ES) • BR-163/230 (MT/PA) • BR-116/465/101 (RJ/SP) – President Dutra • BR-040/495 (MG/RJ) – Concer	Airports – Round 6 22 airports in 3 clusters • North 1 Cluster • South Cluster • Central Cluster • Auction on 5G technology
Port Terminals (5) • 1 in Mucuripe/CE (27/03) • 4 in Itaquí/MA	Energy/Generation (3) • Angra 3 (RJ) • Existing Energy A-4 and A-5 (30/04)	Railways (4) • Ferrogrão (MT/PA) • FIOLE (BA) • Renewal EFVM • Renewal EFC	Mining Rights (2) • Coal- Candiota (RS) • Kaolin - Rio Capim/PA
PPP – Defense (1) • Managing the integrated communication network of COMAER – Air force command (03/03)	Rairoads (1) • Renewal SP network (fev)	Port Terminals (4) • 1 in the Port of Aratu/BA • 1 in the Port of Paranaguá/PR • 2 in the Port of Santos/SP	Privatizations (6) EMGEA; ABGF; Casa da Moeda; Ceagesp; Ceasaminas; Elektrobras
	Subnational (4) • Concession of solid waste (SP, MG, GO and PI)	Subnational (11) • 9 Concessions of Street lightening (PA, ES, RS, SE, MS, 2 in SP and 2 in BA) • 1 Sanitation • 1 Solid Waste	Parks (4) • Lençóis Maranhenses (MA) • Jericoacoara (CE) • Iguazu (PR) • Aparados da Serra (RS)
		Defense (1) • PPP of Police communication	Oil and Gas (1) • Round 17 of concession regime

Highways

17.260 km

Highways Portfolio	
Investment	US\$ 34.67 billion
Concessions	4,785 km
Assessments	12,420km



Airports

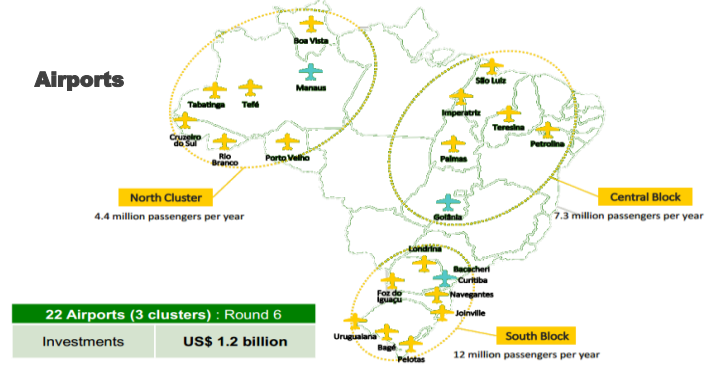
22 Airports (3 clusters) : Round 6

Investments US\$ 1.2 billion

North Cluster 4.4 million passengers per year

Central Block 7.3 million passengers per year

South Block 12 million passengers per year

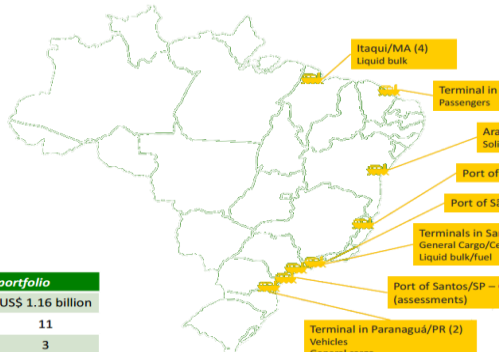
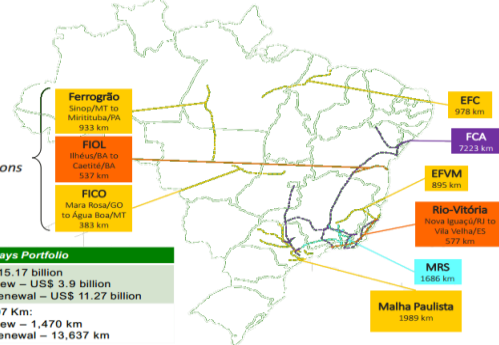


Railways

Railways Portfolio	
Investments	US\$ 15.17 billion • new – US\$ 3.9 billion • renewal – US\$ 11.27 billion
Total Length	15,107 Km: • new – 1,470 km • renewal – 13,637 km

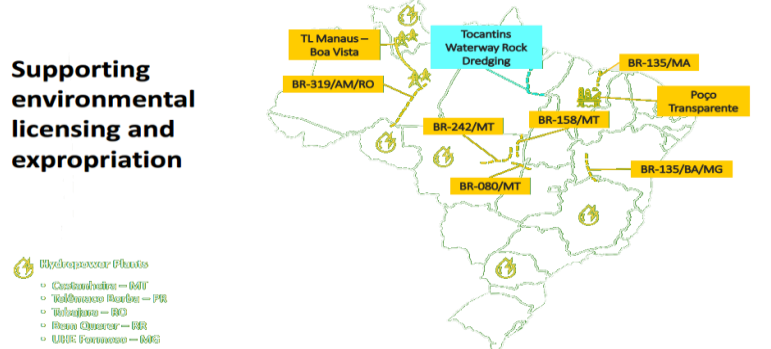
Ports

Ongoing Ports Portfolio	
Investments	US\$ 1.16 billion
Port leasings	11
Port privatizations	3



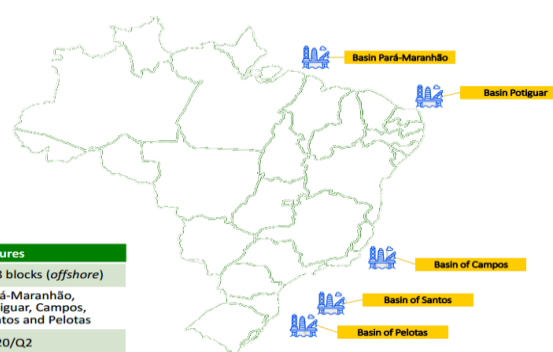
Supporting environmental licensing and expropriation

- Cascalheira – MT
- Itaipava – RJ
- Itaipava – RJ
- Rio de Janeiro – RJ
- Rio de Janeiro – RJ
- Rio de Janeiro – RJ



Oil and Gas Round 17

General features	
Capacity	128 blocks (offshore)
Basins (5)	Pará-Maranhão, Potiguar, Campos, Santos and Pelotas
Bidding Notice (estimated)	2020/Q2





## THE LAST PAGE

### Presidential Message to Congress

- The Government addressed Congress on the beginning of the legislative year. Below are some highlights of the document.

Among the various adjustments and measures taken in favor of structural and cyclical improvements in the Brazilian economy in 2019, the following stand out:

- Approval of the pension reform;
- Changes in workers' access rules to PIS, Pasep and FGTS resources;
- Reform of the positive registration legislation to spread its benefits to almost all individual borrowers;
- Rural credit guarantee mechanisms;
- Redesim, to reduce the opening, alteration and extinction of companies that carry out low risk activities;
- Facilitation and compliance of import, export and customs transit operations, as well as promoting security in the international logistics chain;
- Internalization of trade agreements (free trade in autos with Mexico; future free trade in autos and auto parts with Argentina; Mercosur-EU Agreement; free trade with EFTA);
- Creation of the Green and Yellow employment contract and restructuring of the National Oriented Productive Microcredit Program (PNMPO);
- Review of all 36 regulatory standards for health and safety at work;
- Initiation of privatization and divestment processes;
- Social security benefit analysis programs;
- Combat to persistent debtors and strengthening the collection of active debt;

Main projects to be evaluated by the Congress in 2020:

- Tax reform;
- Legal Taxpayer;
- Green-Yellow Program;
- Independence of the Central Bank;
- Privatization of Eletrobras;
- Fiscal Balance Promotion Plan;
- New legal framework for sanitation;
- Modernization of the legal framework for PPPs;
- Mais Brasil Plan (Emergency, Federative Pact and Public Funds PECs).

### A Better State

- The implementation of priority cross-cutting actions by the Government will be accelerated with the publication of the methodological framework for the development of governance units.
- The Governança System will be integrated into Agenda +Brasil, a portal that will centralize information from the Federal Government to be used in its decision-making and communication processes.
- Development of an integrated public policy evaluation system.
- A series of practices within the scope of the Action Plan for Improving Regulatory
- Continue regional integration and prioritize strategic public policies for local development.
- Proposition of new legal instruments to enable structural changes in the public service, such as modernizing the legal regime for public servants and unifying the system and the performance evaluation cycle.
- Expand the issuance of the National Identification Document as a unique Digital Identity integrated with all codes and documents that the citizen has.

### With Better Policies

#### Initiatives for 2020

- Continue Brazil's accession process to the OECD, with efforts to adhere Brazilian public policies to its best practices:
  - Studies in priority areas, such as education, health and public governance;
  - Convergence to the best international practices of the job market;
  - Carrying out OECD technical missions to Brazil;
  - Advances in regulatory updates such as new legal framework for the foreign capital exchange market in Brazil and Brazilians abroad, the modernization and progress in general bidding and contracting rules, the definition of the Central Bank autonomy, and the regulation of the acquisition, possession and registration of rural properties by a foreign individual or legal entity.
- Systemic recovery of productivity and integration between public and private sectors:
  - Progress in the regulation of Rota 2030, which encourages R&D projects of the automotive sector;
  - Regulation of social impact contracts;
  - Modernization of the legal framework for professional learning;
  - Solve the main obstacles to the economic exploitation of the land;
  - Advance in the pilot project to enable and expand the 5G network;
  - Roadmap for the implementation of Industry 4.0; and
  - Business digitalization plans and the new legal framework for entrepreneurship.
- Promote regional development based on sector programs focused on the needs of the North and Northeast regions; reinforcement of regional fiscal management; water education and security; and explore economic opportunities of the small and medium-sized municipalities network.
- Set of strategic digital transformation actions:
  - Expansion of the telecommunications and Internet access networks;
  - New advances in cybersecurity;
  - Education and professional training in digital technologies;
  - Acceleration of digital start-ups; and
  - Dissemination of digital government instruments at all levels of the Federation.
- Expand access, permanence and quality of early childhood and elementary education I.
- Simplify rules and procedures to develop various sectors, such as finance, private pension, insurance, credit, guarantees, capitalization and capital markets;
- Favor income stabilization and encourage rural producers to remain in the countryside;
- Improve the import process, aggregating activities through a single flow of information; Intensify the agenda for trade negotiations and seek greater influence in multilateral forums and international organizations; Promote the negotiation, through Mercosul, of commercial agreements;
- Promote integration and mutual recognition agreements with other countries;
- Simplify the legislation on privatization and divestment and land regularization;
- End union unicity and seek infra-constitutional regulation of the social security system;
- Identify structural measures that contribute to increasing the productivity of the financial

