



## BRAZIL: MACROECONOMIC MONITOR AND REFORM AGENDA

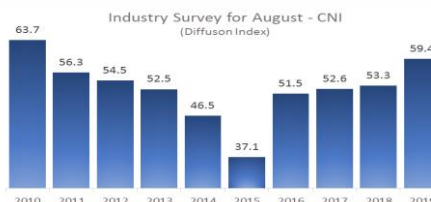
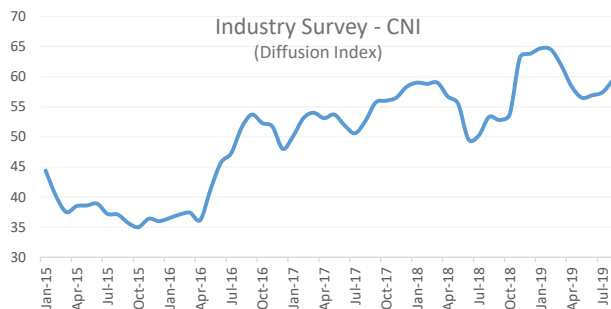
August 26, 2019

### Week Highlights

- The Senate approved the Economic Freedom Bill. The text now needs to be sanctioned by the President.
- The Ministry of Economy announced the new methodology for the National Exporting Culture Plan, to ensure that micro, small and medium companies benefit from further integration with global trade.
- Uk and Brazil signed a Memorandum of Understanding for trade facilitation projects under the Prosperity Fund. Brazil will receive up to £ 20 million to operate on five fronts: insertion of micro, small and medium enterprises into the global value chains; port efficiency; Brazil's accession to the OECD; intellectual property and regulation projects.

### THE LAST PAGE

*The Diversification of the  
Investment Partnership Program*

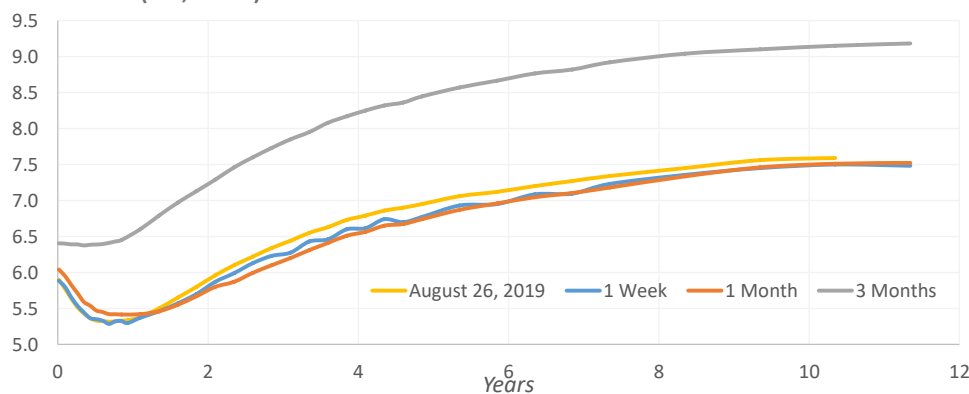


	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY)	0.50	-3.55	-3.30	1.06	1.12	0.80 (*)	2.10 (*)
Consumer Inflation IPCA (% YoY)	6.41	10.67	6.29	2.95	3.75	3.65 (*)	3.85 (*)
Current Account (USD bi)	-101.4	-54.5	-24.0	-7.2	-15.0	-20.0 (*)	-31.5 (*)
Foreign Investment in the Country (USD bi)	87.7	60.3	73.4	70.3	88.3	85.0 (*)	84.4 (*)
International Reserves (USD bi)	364	356	365	374	375	389 (22 Aug)	-
Unemployment rate (%)	6.5	8.9	12.0	11.8	11.6	12 (Jun)	-
General Government Gross Debt (% GDP)	56.3	65.5	69.9	74.1	77.2	78.5 (**)	80.0 (**)
Ibovespa Index (BRL, % chg.)	-2.9	-13.3	38.9	26.9	15.0	11.0 (ytd)	-
CDS 5 years (year average)	189	475	293	165	208	162 (Aug 19)	-
Interest rate (Selic Target) (% eop)	11.75	14.25	13.75	7.50	6.50	5.00 (*)	5.25 (*)

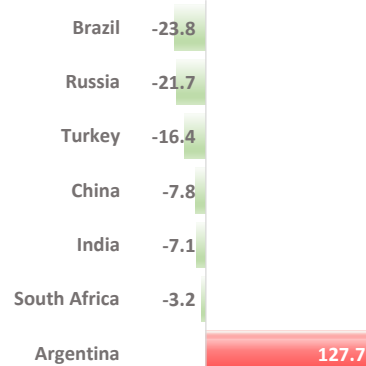
Estimates: (\*) Focus Survey, Central Bank of Brazil, Aug. 23, 2019); (\*\*) Prisma Fiscal, Aug.2019

### MARKET WATCH

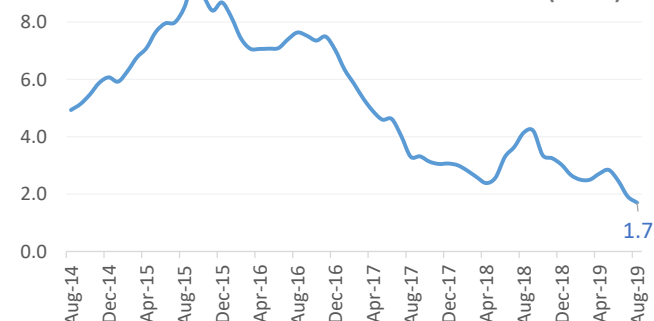
#### Yield Curve (CDI, YoY %)



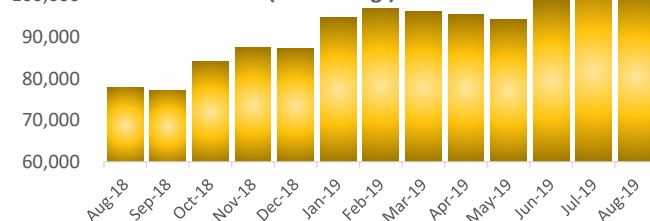
#### 5-year CDS (% change in the last 3 months)



#### 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

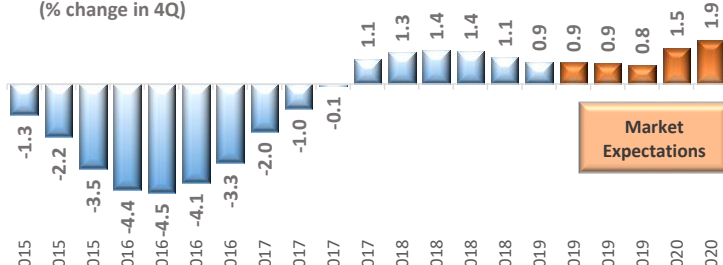
Sources: BCB, Min. of the Economy, Bloomberg



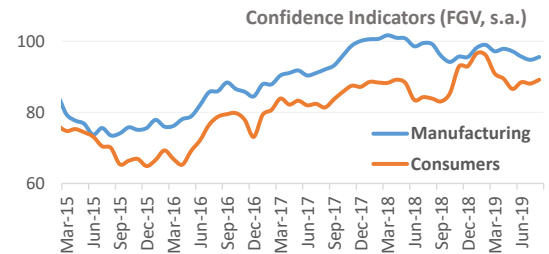
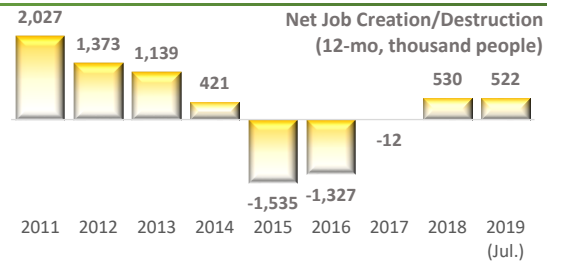
ECONOMY WATCH

A more robust recovery is still dependent on further advances in the reform agenda

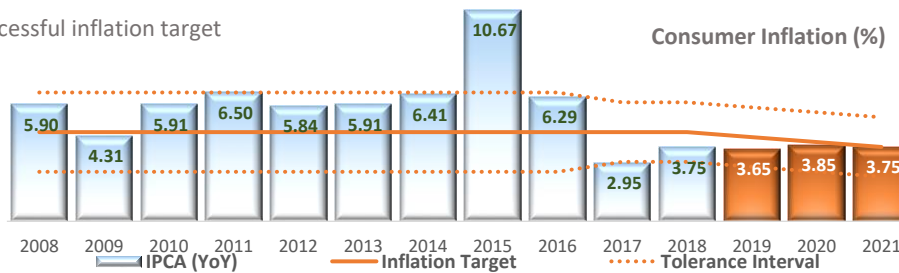
Gross Domestic Product  
(% change in 4Q)



Market Expectations

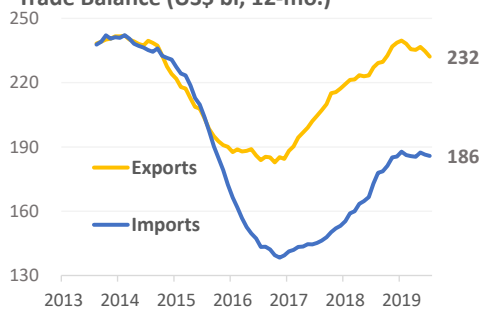


The country runs a successful inflation target regime



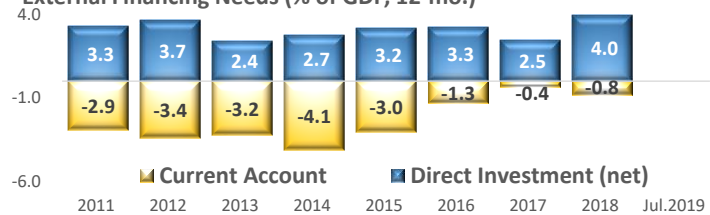
Consumer Inflation (%)

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



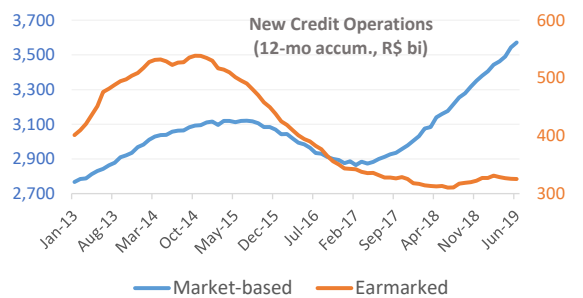
The external accounts are one of the main pillars of the Brazilian economic stability

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

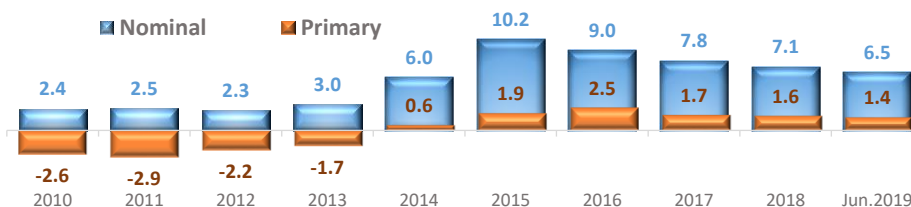


The credit market went through an adjustment process and now favors market-based operations

Household Debt Service ratio (% YoY)



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 Reform (PEC 06/2019)

- Brazil spends more than half of the Federal budget on social security and benefits. The Gen. Govt. Gross Debt is expected to climb 25 p.p. in the next 5 years.
- The reform was approved in the House of Representatives on Aug. 07.
- In general, the Reform 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 for the current contributors.
- Impact of around BRL 0.9 trillion in 10 years (improving the primary balance in around 1.9 p.p. of GDP by 2027).
- The reform will stabilize social security expenditures in 8.5% of GDP from 2022 on.

#### Next Steps

- Analysis of constitutionality by a Senate commission.
- Two voting rounds in the Senate. Needs 49 of the 81 votes. Changes made be sent to the House of Representatives.
- Expected to be approved in 2019.

### 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 by the Government
- First proposal expected to be appreciated by Oct. 2019

### 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; 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

#### Next Steps

- Expand the Agreement for Economic Supplementation with Mexico
- Free Trade agreement with the US
- Instruments: Government decrees and resolutions

### Economic Freedom (MP 881/19)

- Economic Freedom Bill: 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.

#### Next Steps

- To be sanctioned by the President

### Digital Government

- In the first six months of 2019, the Brazilian government transformed 311 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 (crossing and information analysis of the main official databases); and ConectaGov (connection and

#### 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

- Submitted to Congress on Feb. 19
- 3 Infra constitutional instruments (PL-881/2019, PL-882/2019 and PLP-38/2019)

### Ombudsman for Direct Investments

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



**Brazil aims at figuring among the 50 best positioned countries in the Doing Business report**

**Main Measures**

**Employment**

• The registers of the unemployed were opened to private recruitment companies, extending the use of the national employment system dataset.

**Next Steps**

- *Carteira Verde e Amarela* to ease access to the labor market.
- *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 is a program to 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 in the current mandate (governors) or in the period of 4 years (mayors).

**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**

- Congressional approval

**Auction of Assignment Agreement**

• The auctioning of the surplus of around 5 to 6 billion barrels will result in a compensation for Petrobras of US\$ 9.0 billion. The signature bonus is estimated at around US\$ 26.5 billion.

**Next Steps**

- Auction scheduled for Nov. 06, 2019

**Privatization**

- The sale of state-owned companies and Voluntary Dismissal Programs are under preparation.
- 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.
- Until July, results amount to US\$ 19.3 billion (US\$ 12.3 bi. in destatizations, US\$ 5.0 bi. in disinvestments and US\$ 2.0 bi. in concessions). The announced target for 2019 is US\$ 20.0 billion.

**INVESTMENTS, CONCESSIONS AND PRIVATIZATIONS**

**50 PPI Projects Auctioned or Renewed**

<ul style="list-style-type: none"> <li>• Privatization of 7 Distributors (CELG, CEAL, CEPISA, CERON, Elektroacre, 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>• 4<sup>th</sup> Marginal Fields Round</li> <li>• 14<sup>th</sup> and 15<sup>th</sup> Exploratory Blocks Bidding Round</li> <li>• 2<sup>nd</sup> to 5<sup>th</sup> Pre-Salt Production Sharing Bidding Rounds</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>• Concession of Rodovia da Integração do Sul</li> </ul>	<ul style="list-style-type: none"> <li>• Privatization of CASEMG</li> </ul>

**119 ongoing PPI Projects**

<ul style="list-style-type: none"> <li>• Transmission Lots</li> <li>• 2 Auctions of New Energy</li> <li>• 4 Hydroelectric Plants (environm. license)</li> </ul>	<ul style="list-style-type: none"> <li>• Angra 3 Plant</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>• 14 Marginal Fields Areas</li> <li>• 16<sup>th</sup> Exploratory Blocks Bidding Round</li> <li>• 6<sup>th</sup> Pre-Salt Prod. Sharing Bidding Round</li> <li>• Auction of Assignment Agreement</li> </ul>	<ul style="list-style-type: none"> <li>• São Francisco River Integration Project</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>• 15 Leasings</li> <li>• 2 Privatizations</li> <li>• 2 New Investments</li> <li>• 1 Privatization Study</li> </ul>	<ul style="list-style-type: none"> <li>• 11 Concessions</li> <li>• 1 environmental license</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>• Concession of LOTEX and PPP for COMAER</li> </ul>		
<ul style="list-style-type: none"> <li>• 10 Concessions</li> </ul>	<ul style="list-style-type: none"> <li>• Concessions of Iguaçú, Lençóis Maranhenses and Jericoacoara</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>

PPI Project Portfolio

Airports

39 airports

Investments of US\$ 2.1 bi

Signature bonuses of US\$ 0.6 bi

Airports	Studies	Public Hearing	TCU Assessment	Bidding Documents	Auction
5th round - Central West Block (4)	✓	✓	✓	✓	✓
5th round - Northeastern Block (6)	✓	✓	✓	✓	✓
5th round - Southeast Block (2)	✓	✓	✓	✓	✓
Viracopos	●				
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-151 – FNS	✓	✓	✓	✓	✓
EF-334 – FIOLE	✓	●		1Q20	2Q20
EF-170 – Ferrogrão	✓	●		4Q19	1Q20
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 Vitória/ES (TGL CAPUABA)	✓	✓	✓	✓	✓
Port of Cabedelo/PB(AE10,AE11,A101)	✓	✓	✓	✓	✓
Port of Belém/PA (BELO2A,02B,04,08,09)	✓	✓	✓	✓	✓
Port of Vila do Conde/PA (VDC12)	✓	✓	✓	✓	✓
Port of Paranaguá/PR (PAR01)	✓	✓	✓	✓	● 3Q19
Port of Santos/SP (STS 13A)	✓	✓	✓	✓	● 3Q19
Port of Santos/SP (STS20)	✓	✓	✓	✓	● 3Q19
Port of Suape/PE (SUA05)	✓	✓	✓	● 3Q19	1Q20
Port of Santos (STS 14)	●		4Q19	4Q19	1Q19 2Q19
Port of Itaqui (IQI 03, 11, 12, 13)	✓	✓			1Q20 2Q20
CODESA Privatization	●				4Q20 1Q21
São Sebastião Privatization	●				1Q21 2Q21
Port of Paranaguá/PR (PAR07, 08, XX)					
Terminal - Port of Santana (MCP1)					
Port of Paranaguá/PR (PAR12*)					
Port of Suape/PE (SUA01*)	✓				

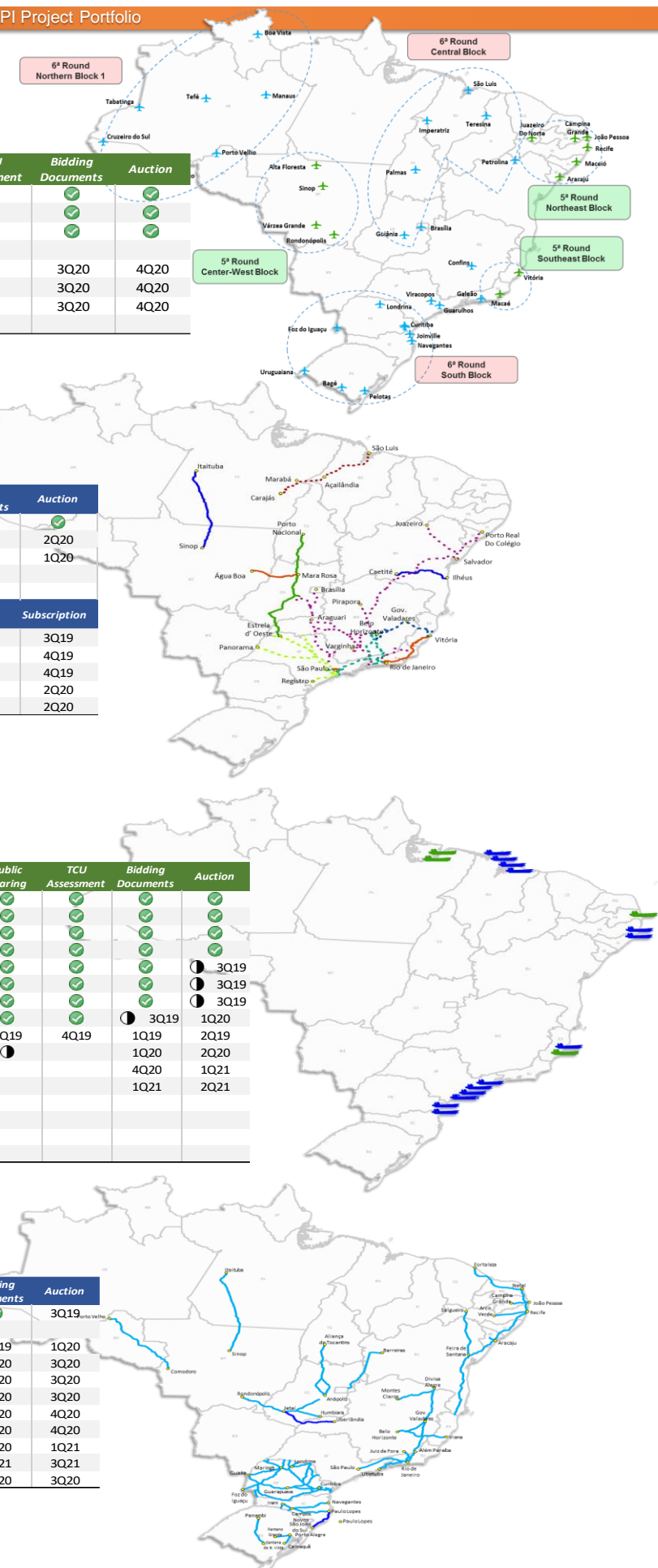
Highways

Investments of US\$ 34.9 bi

Extension of 16,574.82 km

Highways	Studies	Public Hearing	TCU Assessment	Bidding Documents	Auction
BR-364/365/GO/MG	✓	✓	✓	✓	3Q19
BR-364/RO/MT					
BR-101/SC	✓	✓	●	3Q19	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	1Q21
Integrated Highways of Paraná	●			2Q21	3Q21
BR-153/282/470/SC e SC-412	●			2Q20	3Q20

✓ Completed  
● In progress





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### 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 conducted through private partnerships. The program, so far, had been focused on the areas of transportation, logistics and energy.
- On top of that, 9 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.

#### 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 compensated by success fee, providing the auction is successful.
- Brazil wants to rise infrastructure investments from the current 1.7% to 5.0% of GDP.



#### 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.

#### 9 State-Owned Companies included



#### Already under study

