




BRAZIL: MACROECONOMIC MONITOR AND REFORM AGENDA

September 2, 2019

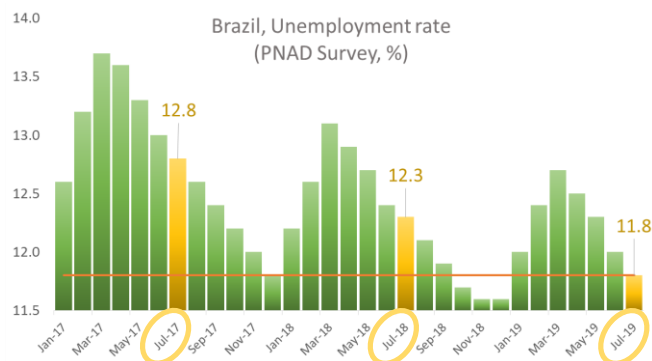
Week Highlights

- The Ministry of Economy and the British Embassy talked about the modernization of regulation in Brazil, aiming at promoting discussions on best practices and the evolution of the regulatory system.
- The *ad valorem* rates of Import Tax on certain capital goods were changed to zero until the end of 2021. To view the complete list of capital goods access the QR Code 
- The unemployment rate fell from 12.5% to 11.8% from the quarter ending April to the July quarter, with 609,000 fewer people unemployed.

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GDP Growth for the Second Quarter of 2019

The Budget Proposal for 2020

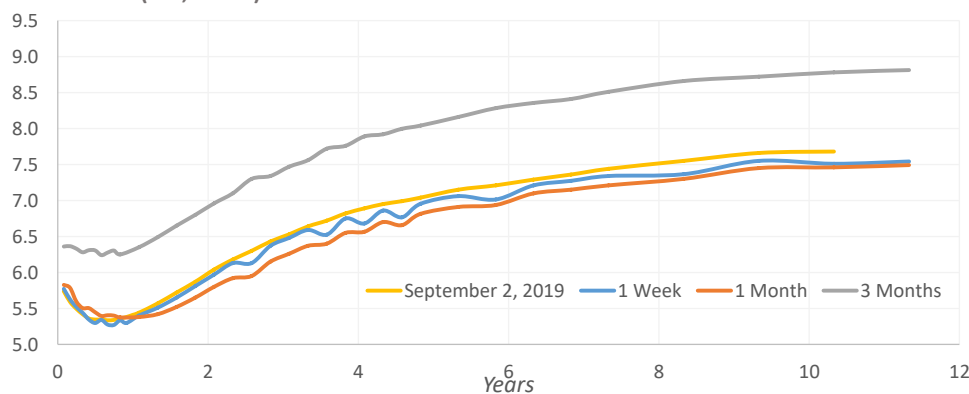


	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY)	0.50	-3.55	-3.30	1.06	1.12	0.87 (*)	2.10 (*)
Consumer Inflation IPCA (% YoY)	6.41	10.67	6.29	2.95	3.75	3.59 (*)	3.85 (*)
Current Account (USD bi)	-101.4	-54.5	-24.0	-7.2	-15.0	-22.0 (*)	-31.3 (*)
Foreign Investment in the Country (USD bi)	87.7	60.3	73.4	70.3	88.3	85.0 (*)	84.7 (*)
International Reserves (USD bi)	364	356	365	374	375	387 (29 Aug)	-
Unemployment rate (%)	6.5	8.9	12.0	11.8	11.6	11.8 (Jul)	-
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	15.2 (ytd)	-
CDS 5 years (year average)	189	475	293	165	208	161 (Sep 19)	-
Interest rate (Selic Target) (% eop)	11.75	14.25	13.75	7.50	6.50	5.00 (*)	5.25 (*)

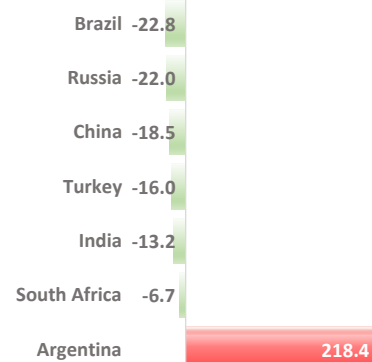
Estimates: (*) Focus Survey, Central Bank of Brazil, Aug. 30, 2019; (**) Prisma Fiscal, Aug. 2019

MARKET WATCH

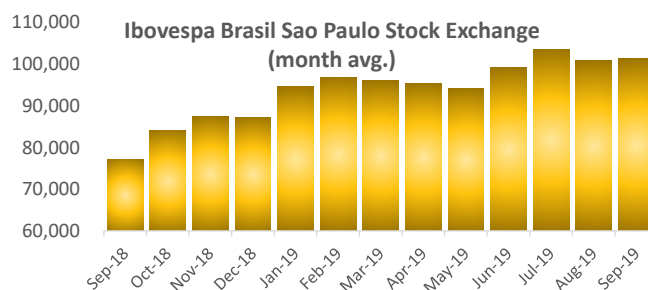
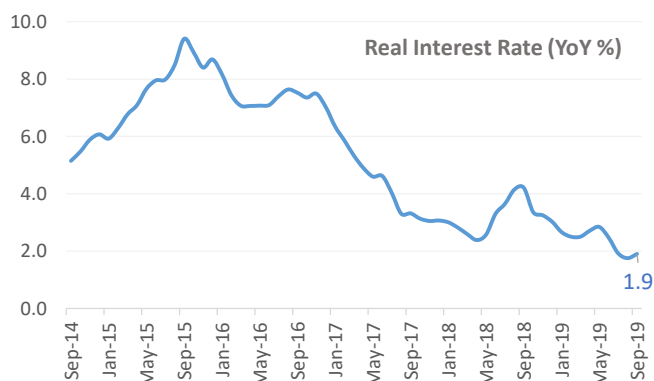
Yield Curve (CDI, YoY %)



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



Real Interest Rate (YoY %)



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

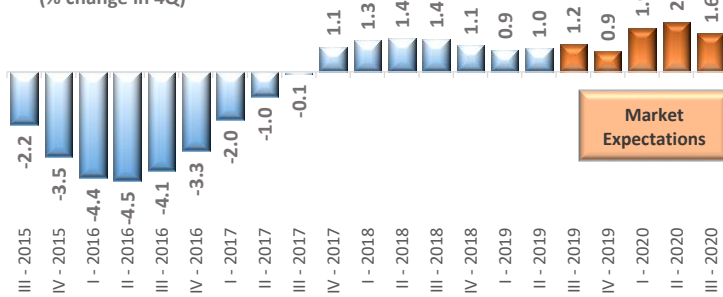
Sources: BCB, Min. of the Economy, Bloomberg



ECONOMY WATCH

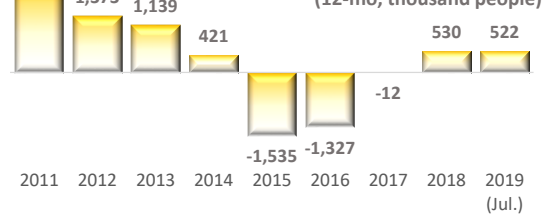
A more robust recovery is still dependent on further advances in the reform agenda

Gross Domestic Product
(% change in 4Q)

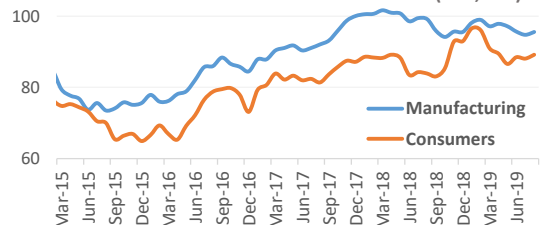


Market Expectations

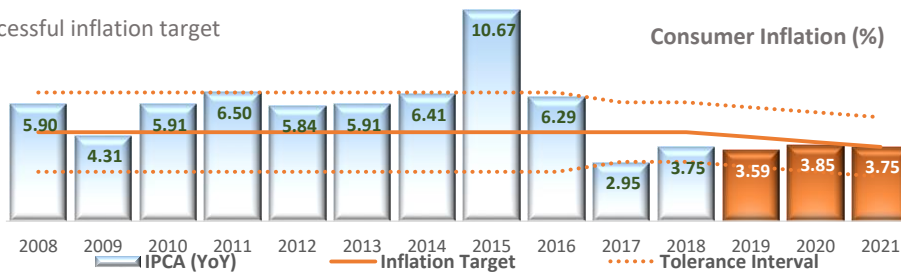
Net Job Creation/Destruction
(12-mo, thousand people)



Confidence Indicators (FGV, s.a.)

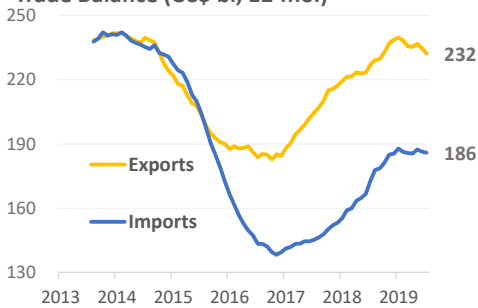


The country runs a successful inflation target regime



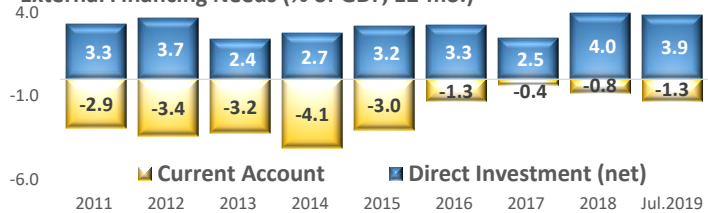
Consumer Inflation (%)

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.)

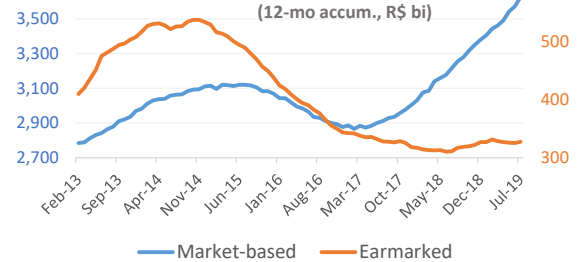


The credit market went through an adjustment process and now favors market-based operations

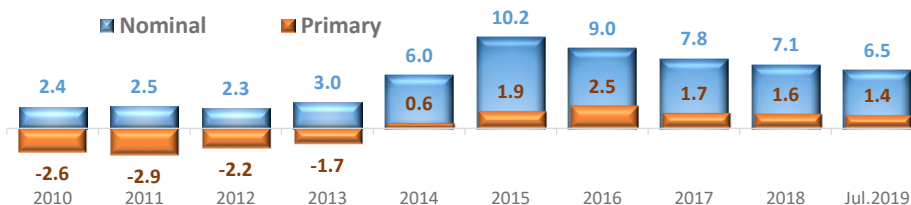
Household Debt Service ratio (% YoY)



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



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 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
- 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 (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

- 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"> • Privatization of 7 Distributors (CELG, CEAL, CEPISA, CERON, Elektroacre, Amazonas, Boa Vista) • Concessions of 2 Hydroelectric Plants (Jaguara, UHE) and 2 Small Plants • Transmission Lots and Stations 	<ul style="list-style-type: none"> • 4th Marginal Fields Round • 14th and 15th Exploratory Blocks Bidding Round • 2nd to 5th Pre-Salt Production Sharing Bidding Rounds 	<ul style="list-style-type: none"> • 5 Extensions and 1 Concession (Norte-Sul)
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<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"> • Concession of Rodovia da Integração do Sul 	<ul style="list-style-type: none"> • Privatization of CASEMG
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119 ongoing PPI Projects

<ul style="list-style-type: none"> • Transmission Lots • 2 Auctions of New Energy • 4 Hydroelectric Plants (environm. license) 	<ul style="list-style-type: none"> • Angra 3 Plant 	<ul style="list-style-type: none"> • 4 Mining Rights • 1 sale of assets 	<ul style="list-style-type: none"> • 14 Marginal Fields Areas • 16th Exploratory Blocks Bidding Round • 6th Pre-Salt Prod. Sharing Bidding Round • Auction of Assignment Agreement 	<ul style="list-style-type: none"> • São Francisco River Integration Project
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<ul style="list-style-type: none"> • 6th Round (North I, South and Central) 	<ul style="list-style-type: none"> • 15 Leasings • 2 Privatizations • 2 New Investments • 1 Privatization Study 	<ul style="list-style-type: none"> • 11 Concessions • 1 environmental license 	<ul style="list-style-type: none"> • Privatization: Casa da Moeda, CEASAMINAS, Infraero shareholdings, Eletrobras, CEAGESP, ABGF, EMGEA, Correios, Dataprev, Serpro, CEITEC, Telebrás, BB shares • Concession of LOTEX and PPP for COMAER
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<ul style="list-style-type: none"> • 10 Concessions 	<ul style="list-style-type: none"> • Concessions of Iguaçú, Lençóis Maranhenses and Jericoacoara 	<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
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PPI Project Portfolio

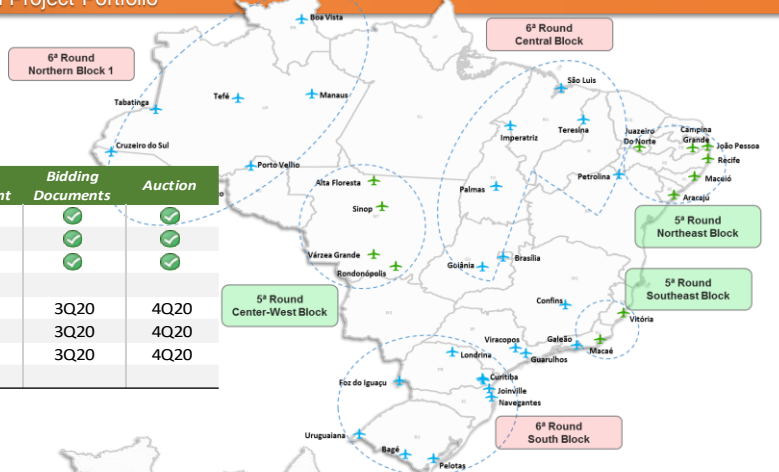
Airports

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 – FIOL	✓	●		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



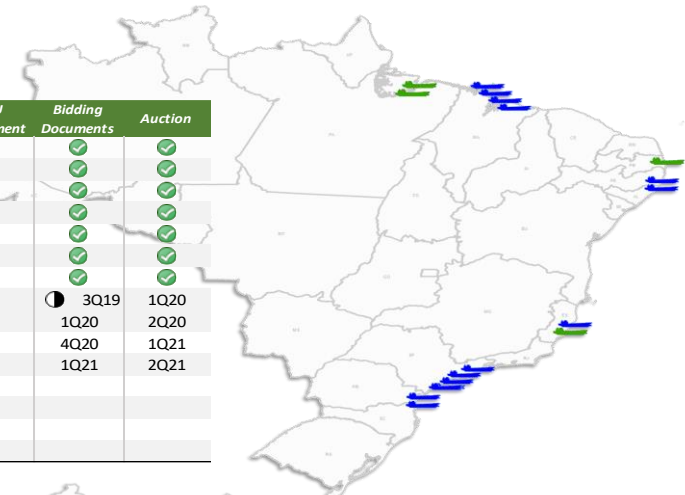
Ports

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, AI01)	✓	✓	✓	✓	✓
Port of Belém/PA (BELO2A, 02B, 04, 08, 09)	✓	✓	✓	✓	✓
Port of Vila do Conde/PA (VDC12)	✓	✓	✓	✓	✓
Port of Paranaguá/PR (PAR01)	✓	✓	✓	✓	✓
Port of Santos/SP (STS 13A)	✓	✓	✓	✓	✓
Port of Santos/SP (STS20)	✓	✓	✓	✓	✓
Port of Suape/PE (SUA05)	✓	✓	✓	● 3Q19	1Q20
Port of Itaquí (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	✓	✓	●	4Q19	1Q21
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	●			4Q19	1Q21



✓ Completed
● In progress



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GDP Growth for the Second Quarter of 2019

• Gross Domestic Product (GDP) grew 0.4% in the second quarter of this year, compared to the first three months of 2019, according to the Brazilian Institute of Geography and Statistics (IBGE). In current value, the Brazilian GDP totaled R\$ 1.78 trillion in the period.

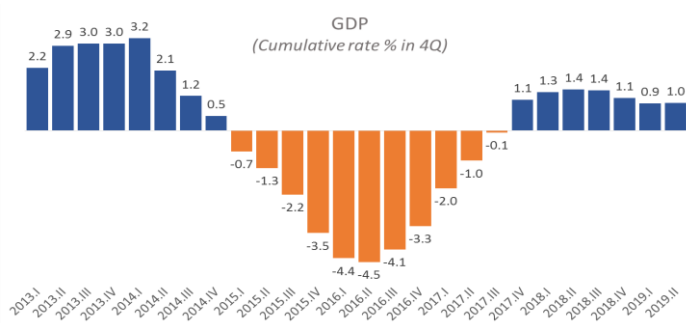
• The growth of the first half of 2019 compared to the first half of 2018 was 0.7%, and compared to the second half of 2018, 0.2%.

• In the second quarter of 2019, the investment rate was 15.9% of GDP, higher than in the same period of 2018 (15.3%).

• Highlights of the second quarter GDP

- Industry: 0.7%
- Agriculture: -0.4%
- Services: 0.3%
- Investments: 3.2%

- Government Consumption: -1%
- Household Consumption: 0.3%
- Exports: -1.6%
- Imports: 1%

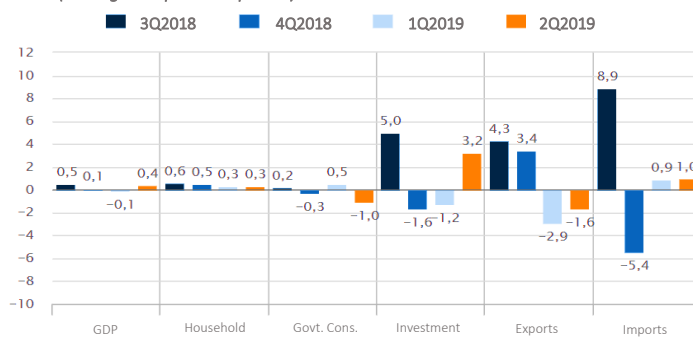


• Considering the cumulative rate for the last four quarters, GDP growth was 1.1%, unchanged from the previous quarter. The highlights were Investments (4.3%, accelerating from 3.7% in the previous quarter) and Household consumption (1.5%, unchanged from the previous quarter). The nominal GDP reached R\$ 6.99 trillion.

• The government's strategy of growth with fiscal responsibility is proving to be right. Despite the strong adjustment in public accounts, which represented a 1.0% drop in government consumption, growth in the quarter was positive and above market projections.

• The economic scenario, however, remains challenging: the ongoing fiscal adjustment, the level of productivity of the Brazilian economy and the uncertain international environment still suggest a long way to go. Despite these challenges, the economic perspectives for Brazil are more favorable than a few

GDP (% chng. over previous quarter)



The Budget Proposal for 2020

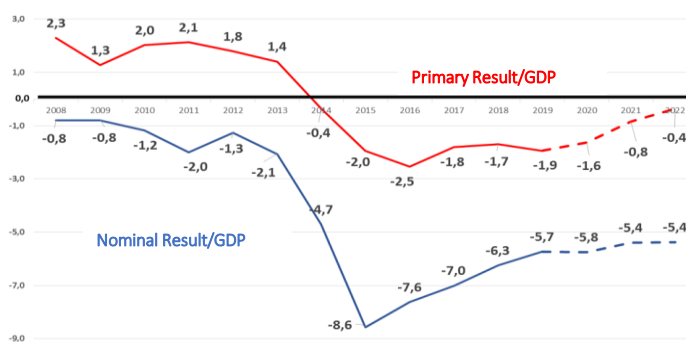
• The Ministry of the Economy presented the budget proposal for 2020 (PLOA).

• The central government will work with a primary deficit target of R\$ 124.1 billion, decreasing to R\$ 68.5 billion in 2021 and R\$ 31.4 billion in 2022. For 2019, the target is R\$ 139 billion. The Government notes that these targets are conservative, as the results from fiscal adjustment measures actions that have been taken and from others that are to come in 2019 may allow better results by 2022. Among the main measures are the Social Security reform, privatizations, the Economic Freedom Bill, the Tax Reform, the concession programs, trade liberalization measures, reduction and rationalization of subsidies granted, and the administrative reform.

• Government expenditures forecast for 2020 will be R\$1.47 trillion. Only R\$ 89.16 billion is made up of discretionary spending, i.e. those in which the Government can choose the allocation of resources. The discretionary expenses have been successively flattened over the last years, compromising, however, new investments. Only R\$ 19 billion are foreseen for public investments, the lowest level of the last ten years.

• By the end of 2019, mandatory expenses will have grown by R\$ 200 billion compared to the level of 2016, while the discretionary expenses will have fallen R\$ 40 billion in the period.

Federal Government Fiscal Results (% of GDP)



Macroeconomic Projections

	2018	2019 Mid-year evaluation	2020 PLOA
Real GDP (%)	1.12	0.81	2.17
Nominal GDP (R \$ billion)	6,827.60	7,157.80	7,614.60
IPCA (%)	3.75	3.83	3.91
INPC (%)	2.07	3.43	4.02
IGP-DI (%)	7.1	6.64	4.1
SELIC rate - Average (%)	6.43	6.16	5.62
Average Exchange Rate (R\$/US\$)	3.65	3.82	3.79
Minimum wage (R\$)	954	998	1039
Total wages (%)	2.27	5.53	6.28

