



## BRAZIL: MACROECONOMIC MONITOR AND REFORM AGENDA

September 9, 2019

### Week Highlights

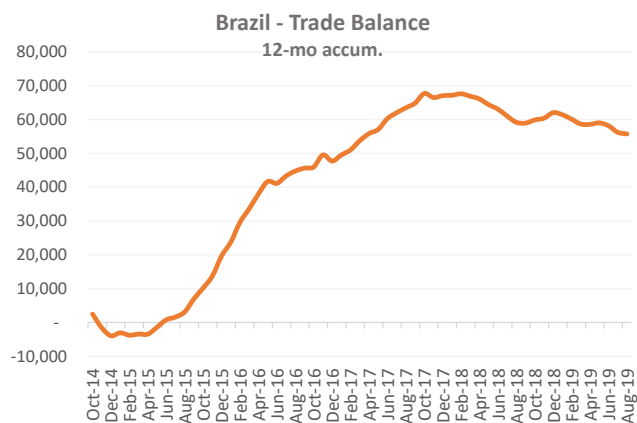
- It was announced an agreement to use the fund of Petrobras - about R\$ 2.6 billion. Under the agreement, R\$ 1.06 billion will be used to combat burning and deforestation in the Amazon.
- Brazil and Argentina signed an automotive agreement with increasing and gradual trade opening. In 10 years, the *flex* regime will increase from 1.5 to 3.0, until automatic entry of free trade in 2029, without any conditionality. The agreement also provides for the relaxation of rules of origin for cars and auto parts, with convergence to the EU-Mercosur rules.
- The Treasury launched a portal describing specifics of the 258 state-owned Brazilian companies.



### THE LAST PAGE

*IADB: Productivity without Obstacles*

*Brazil Investment Forum 2019*

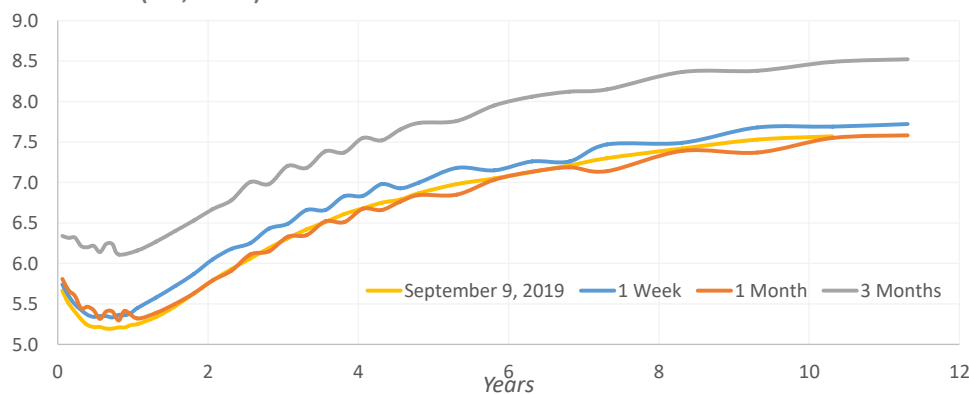


	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY)	0.50	-3.55	-3.30	1.06	1.12	0.87 (*)	2.07 (*)
Consumer Inflation IPCA (% YoY)	6.41	10.67	6.29	2.95	3.75	3.54 (*)	3.82 (*)
Current Account (USD bi)	-101.4	-54.5	-24.0	-7.2	-15.0	-22.0 (*)	-31.3 (*)
Foreign Investment in the Country (USD bi)	87.7	60.3	73.4	70.3	88.3	85.0 (*)	84.7 (*)
International Reserves (USD bi)	364	356	365	374	375	387 (05 Sep)	-
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	17.4 (ytd)	-
CDS 5 years (year average)	189	475	293	165	208	160 (Sep 19)	-
Interest rate (Selic Target) (% eop)	11.75	14.25	13.75	7.50	6.50	5.00 (*)	5.25 (*)

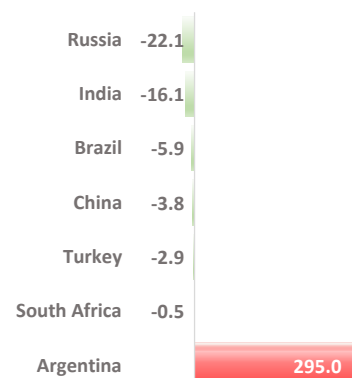
Estimates: (\*) Focus Survey, Central Bank of Brazil, Sep. 6, 2019; (\*\*) Prisma Fiscal, Aug. 2019

### MARKET WATCH

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



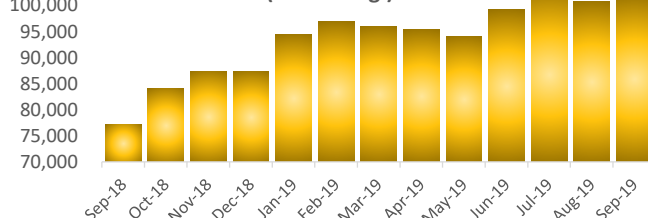
#### 5-year CDS (% change in the last 2 months)



#### 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

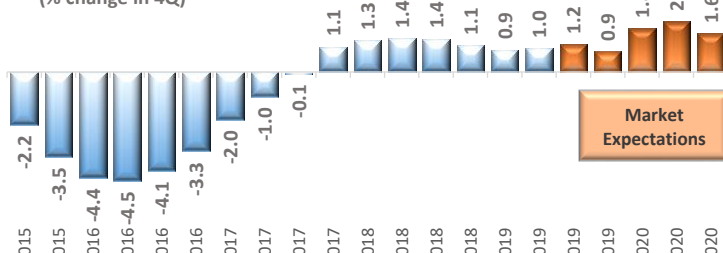
Sources: BCB, Min. of the Economy, Bloomberg



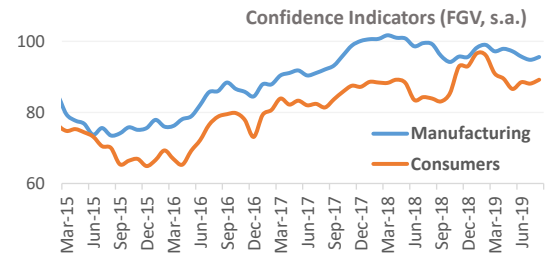
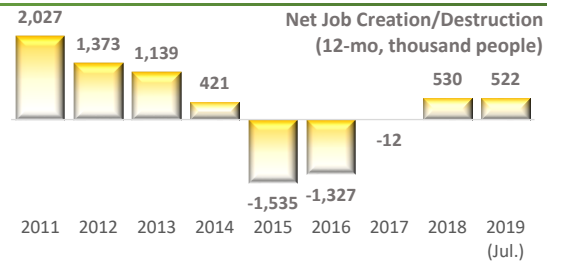
ECONOMY WATCH

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

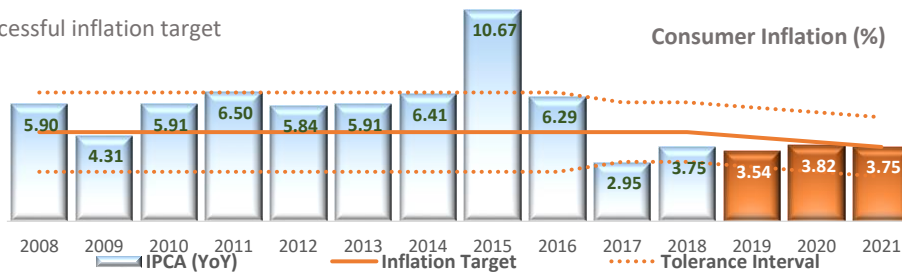
Gross Domestic Product  
(% change in 4Q)



Market Expectations

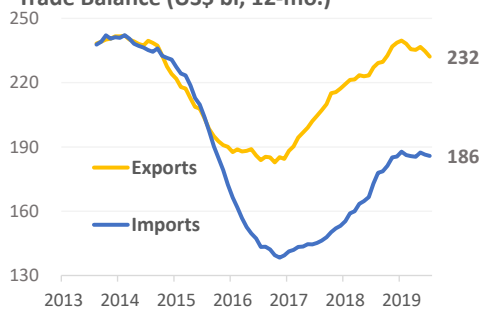


The country runs a successful inflation target regime



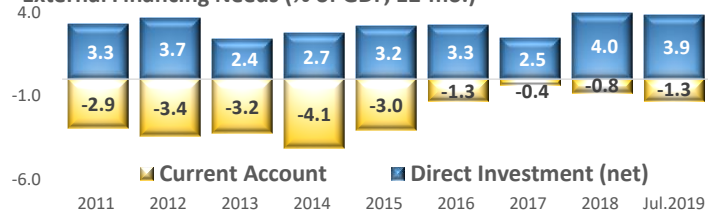
Consumer Inflation (%)

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



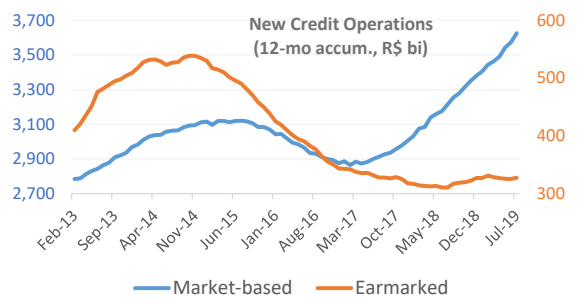
The external accounts are one of the main pillars of the Brazilian economic stability

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

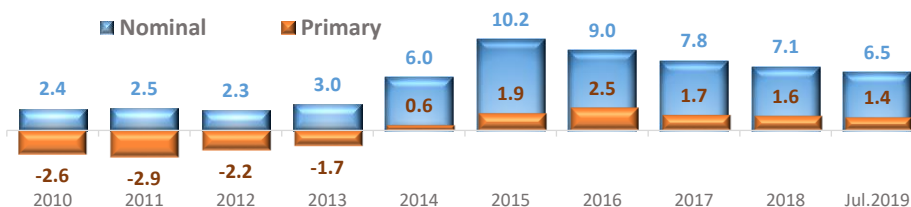


The credit market went through an adjustment process and now favors market-based operations

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 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"> <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>
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<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>
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**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>
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<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>
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<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>
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PPI Project Portfolio

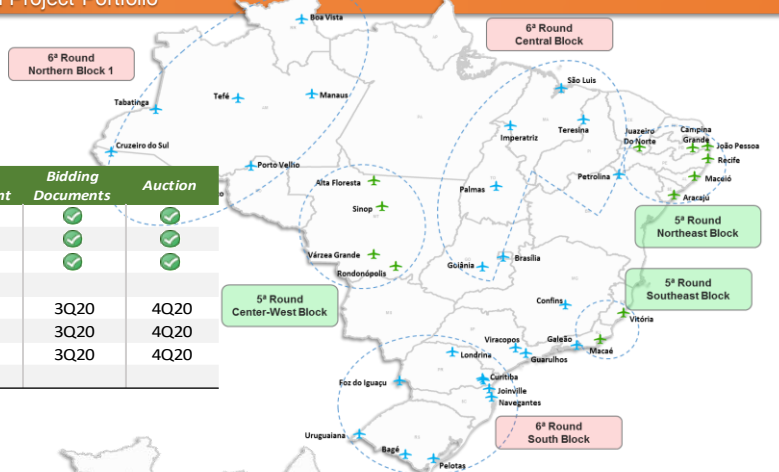
Airports

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

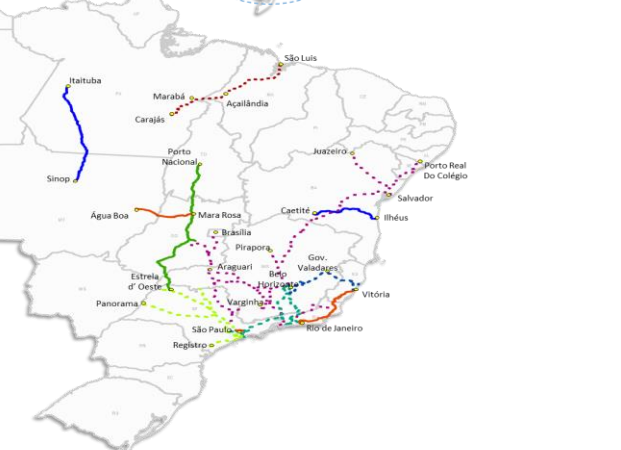
Extension of 15,107 km

Signature bonuses of US\$ 0.7 bi

Railroads	Studies	Public Hearing	TCU Assessment	Bidding Documents	Auction
EF-151 – FNS	✓	✓	✓	✓	✓
EF-334 – 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



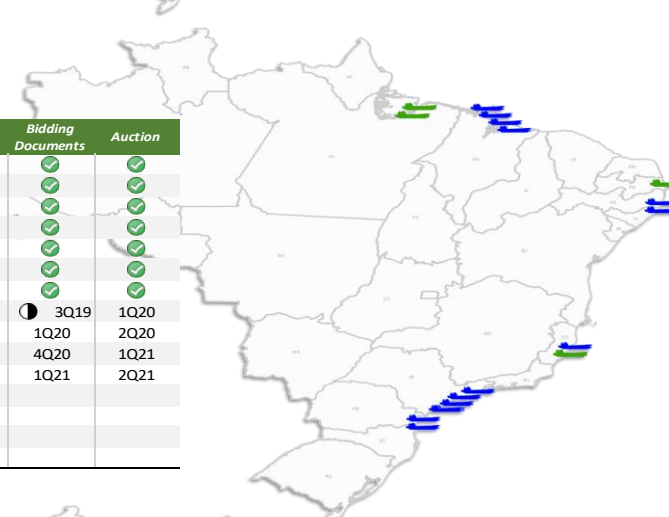
Ports

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,AI01)	✓	✓	✓	✓	✓
Port of Belém/PA (BEL02A,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-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
BR-364/RO/MT					







## THE LAST PAGE

### IADB: Productivity without Obstacles

• The Inter-American Development Bank (IADB) released the document “Productivity without Obstacles”, discussing diagnostics and policy recommendations needed to promote fiscal sustainability and to unlock productivity growth in Brazil.

• The policy recommendations are divided in four pillars.

#### Promote national and international integration

Reduce barriers to international trade	Develop the least competitive regions of the country	Develop metropolitan regions	Build sustainable and resilient infrastructure
<ul style="list-style-type: none"> <li>• Decrease commercial tariffs and reduce their dispersion</li> <li>• Focus on penetration into the largest and most competitive markets</li> <li>• Review the regional integration agenda</li> <li>• Reduce non-tariff barriers and bureaucracy in international trade</li> </ul>	<ul style="list-style-type: none"> <li>• Improve domestic infrastructure and logistics to connect the country</li> <li>• Boost the country's natural capital through regulatory reforms and incentives for innovation and research</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthen inter-municipal coordination mechanisms and promote integrated information systems to rationalize the use of resources</li> <li>• Build local institutional capacity for public policy planning and implementation</li> </ul>	<ul style="list-style-type: none"> <li>• Develop long-term and green financing instruments</li> <li>• Build institutional capacity for investment planning and execution</li> <li>• Improve the regulatory and institutional framework</li> <li>• Reform public procurement and environmental licensing processes</li> </ul>

#### Strengthen private sector participation in economic development

Improve the business environment	Promote innovation in the private sector	Improve access to finance	Promote public-private partnerships (PPPs) and guarantees
<ul style="list-style-type: none"> <li>• Reform the tax system</li> <li>• Strengthen the regulatory framework to increase competition, facilitate market entry, stimulate risk appetite and reduce incentives for rent seeking</li> <li>• Reduce regulatory compliance costs by using innovative technologies</li> </ul>	<ul style="list-style-type: none"> <li>• Improve private sector access to high quality inputs and frontier technology</li> <li>• Support the development of innovation capacity at company level</li> <li>• Promote the absorption of frontier knowledge and encourage solution adaptation by forging domestic alliances between research institutes, universities and the private sector</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce bank spreads by increasing competition and reforms to reduce administrative costs and reduce uncertainty in case of recovery</li> <li>• Boost financial technology and Fintechs</li> <li>• Reassess the role of public banks</li> <li>• Foster long-term capital market development and long-term financing</li> </ul>	<ul style="list-style-type: none"> <li>• Strengthen capacity to structure PPPs and build a high quality pipeline</li> <li>• Simplify PPP processes and improve transparency</li> <li>• Increase the use of collateral to mobilize private investment</li> <li>• Improve PPP tax management with attention to contingent liabilities</li> </ul>

#### Prepare the country for digital transformation

Prepare workers for new technologies	Build appropriate infrastructure for new technologies	Promote connections between SMEs, startups and large companies	Foster new technologies to boost traditional sectors
<ul style="list-style-type: none"> <li>• Formulate and implement training</li> <li>• Reform the vocational and technical education system</li> <li>• Support companies in worker training</li> </ul>	<ul style="list-style-type: none"> <li>• Promote private sector investment in telecommunications infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>• Encourage financing in high-risk technology projects</li> <li>• Promote innovation ecosystems and their internationalization</li> <li>• Give legal support for startups to participate in public procurement</li> </ul>	<ul style="list-style-type: none"> <li>• Facilitate the adoption and new technologies by existing companies</li> <li>• Promote strategies to implement industry models 4.0.</li> </ul>

#### Build a more effective government

Ensure fiscal sustainability	Improve public expenditure efficiency	Strengthen fiscal federalism	Use e-government and digital solutions to promote transparency, accountability and efficiency
<ul style="list-style-type: none"> <li>• Reform the social security system</li> <li>• Reduce public sector wage growth</li> <li>• Review and evaluate tax expenditures, eliminating those without positive impact</li> </ul>	<ul style="list-style-type: none"> <li>• Adopt a medium-term fiscal framework</li> <li>• Promote evidence-based public policy and results-based budgeting</li> <li>• Improve public investment</li> <li>• Strengthen public sector accountability and transparency</li> </ul>	<ul style="list-style-type: none"> <li>• Improve accountability and responsibility of subnational governments</li> <li>• Review intergovernmental transfers</li> <li>• Adopt subnational tax liability laws</li> </ul>	<ul style="list-style-type: none"> <li>• Continue to adopt digital solutions in the public sector</li> <li>• Integrate digital technologies with public spending management and public financial management</li> </ul>

### Brazil Investment Forum

• The 2019 Brazil Investment Forum will highlight investment opportunities in strategic sectors of the Brazilian economy, such as infrastructure, energy, agribusiness, technology and innovation. This will be a unique opportunity to discuss improvements in the business environment in Brazil.

• The Forum will be inaugurated by the President of the Federative Republic of Brazil, Mr. Jair Bolsonaro, and the President of the Inter-American Development Bank, Mr. Luis Alberto Moreno.

• The event will be attended by high level representatives of the Brazilian Government, the private sector, academia, media and opinion makers.



FÓRUM DE INVESTIMENTOS BRASIL 2019  
BRASIL INVESTMENT FORUM 2019

**OCTOBER 10 AND 11**  
WTC SÃO PAULO  
SÃO PAULO, SP

