

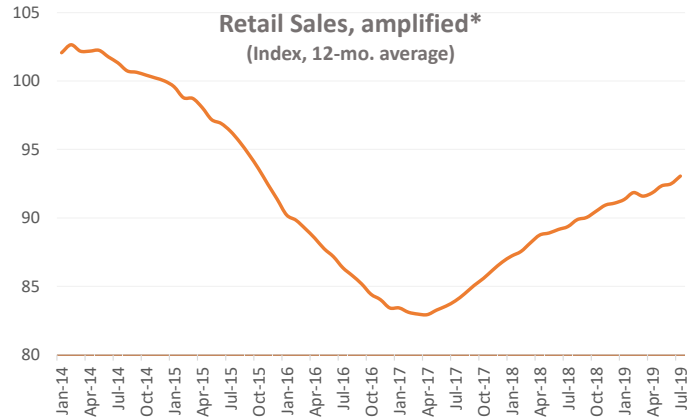


BRAZIL: MACROECONOMIC MONITOR AND REFORM AGENDA

September 16, 2019

Week Highlights

- The Senate approved the Bill (PLC 79/2016) that creates a new telecommunications legal framework. The bill now goes to President's sanction. The proposal allows traditional fixed telephony concession contracts to be amended to the authorization system, eliminating anachronistic investment obligations such as landline telephones and payphones. It also foresees the creation of a private resale market for radiofrequency between the teles, among other issues.
- Amplified retail sales rose 0.7% MoM s.a. in July, higher than market projections (-0.6%). Core retail sales climbed 1.0% (market: +0.2%). The indicators posted 7.7% and 4.4% YoY, respectively. Out of 10 activities, 8 advanced in July.



* Includes motor and construction materials

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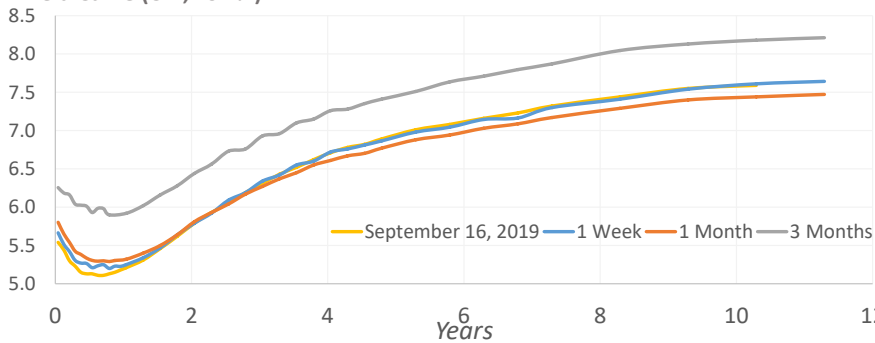
*BNDES Investment Outlook
2019-2022*

	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY)	0.50	-3.55	-3.30	1.06	1.12	0.87 (*)	2.00 (*)
Consumer Inflation IPCA (% YoY)	6.41	10.67	6.29	2.95	3.75	3.45 (*)	3.80 (*)
Current Account (USD bi)	-101.4	-54.5	-24.0	-7.2	-15.0	-22.6 (*)	-31.1 (*)
Foreign Investment in the Country (USD bi)	87.7	60.3	73.4	70.3	88.3	85.2 (*)	85.3 (*)
International Reserves (USD bi)	364	356	365	374	375	383 (12 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 (**)	79.7 (**)
Ibovespa Index (BRL, % chg.)	-2.9	-13.3	38.9	26.9	15.0	17.8 (ytd)	-
CDS 5 years (year average)	189	475	293	165	208	159 (Sep 19)	-
Interest rate (Selic Target) (% eop)	11.75	14.25	13.75	7.50	6.50	5.00 (*)	5.00 (*)

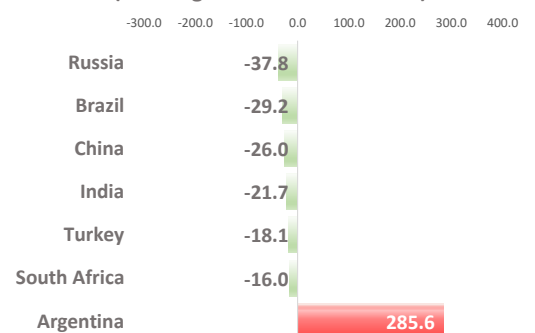
Estimates: (*) Focus Survey, Central Bank of Brazil, Sep. 13, 2019); (**) Prisma Fiscal, Sep.2019

MARKET WATCH

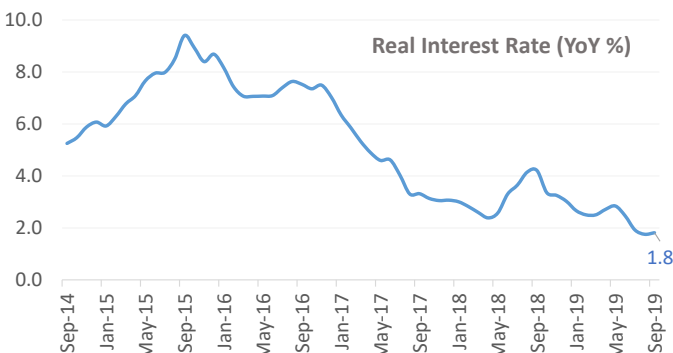
Yield Curve (CDI, YoY %)



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

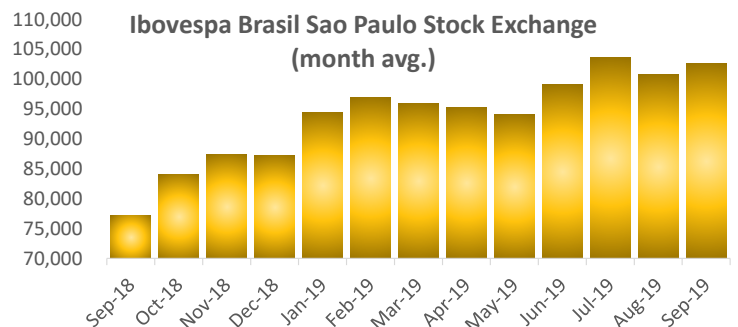


Real Interest Rate (YoY %)



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

Ibovespa Brasil Sao Paulo Stock Exchange (month avg.)



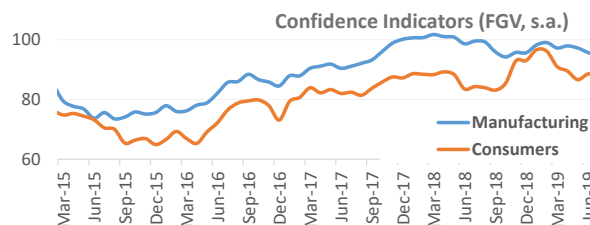
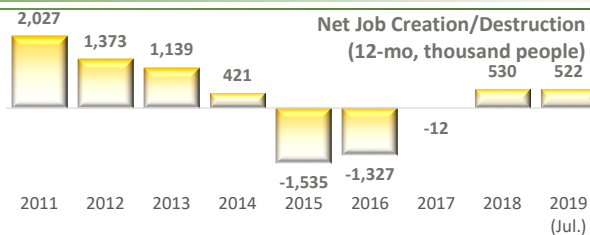
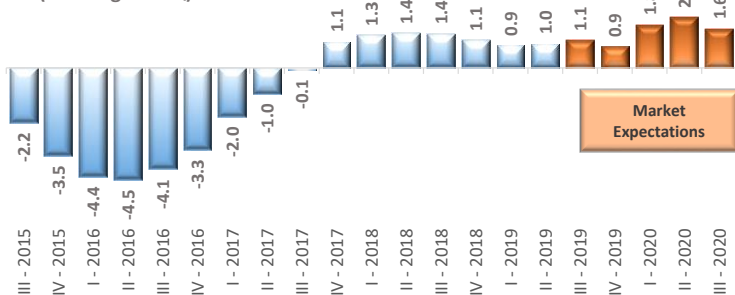
Sources: BCB, Min. of the Economy, Bloomberg



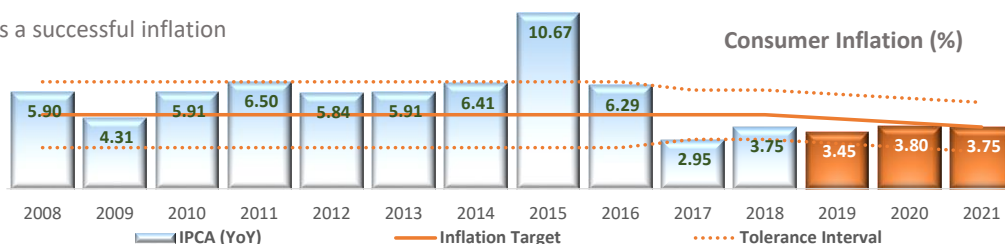
ECONOMY WATCH

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

Gross Domestic Product (% change in 4Q)

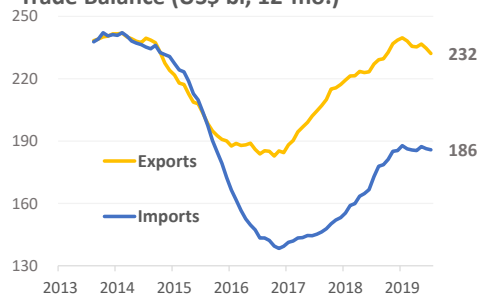


The country runs a successful inflation target regime

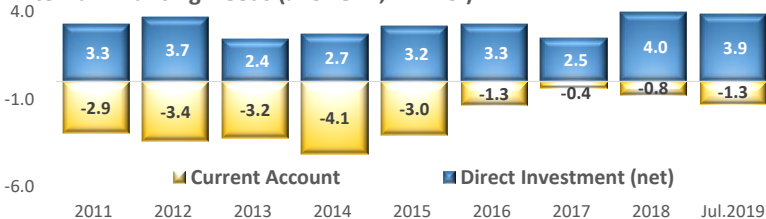


The external accounts are one of the main pillars of the Brazilian economic stability

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

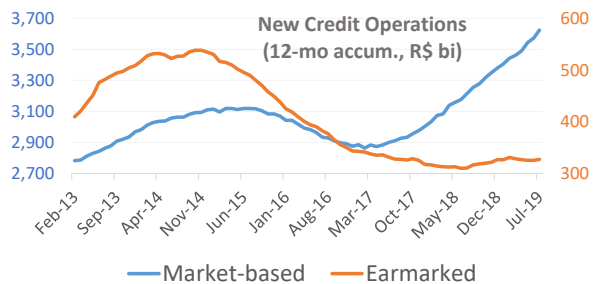
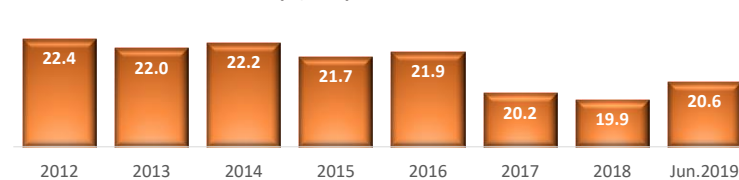


External Financing Needs (% of GDP, 12-mo.)

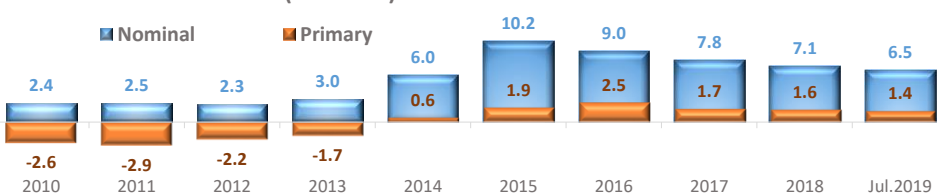


The credit market went through an adjustment process and now favors market-based operations

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.
- 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

- 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

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

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.

INVESTMENTS, CONCESSIONS AND PRIVATIZATIONS

50 PPI Projects Auctioned or Renewed

<ul style="list-style-type: none"> • Privatization of 7 Distributors (CELG, CEAL, CEPISA, CERON, Eletroacre, Amazonas, Boa Vista) • Concessions of 2 Hydroelectric Plants (Jaguara, UHE) and 2 Small Plants • Transmission Lots and Stations 	<ul style="list-style-type: none"> • 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) 	
<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

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 	
<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 		
<ul style="list-style-type: none"> • 10 Concessions 	<ul style="list-style-type: none"> • Concessions of Iguazu, 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



Airports

38 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)	✓	✓	✓	✓	✓
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 – Ferrogão	✓	●		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 (IQ1 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					



✓ Completed
● In progress



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BNDES Investment Outlook 2019-2022

• The **BNDES Investment Outlook 2019** surveys the investment plans in 19 economic sectors from 2019 to 2022. The survey includes investments supported and not supported by the Bank.



• The current survey covers 11 industry and 8 infrastructure sectors. They account for about 83% and virtually 100% of industry and infrastructure investments, respectively.

• The surveyed investments in the industry and infrastructure sectors for the period 2019-2022 reached US\$ 287 billion. Comparing with July last year survey for the 2018-2021 period, there was a real growth of 2.7% in total investments.

• Investments in the surveyed sectors, which totaled US\$ 66.5 billion in 2018, should increase to an annual average of US\$ 71.8 billion between 2019 and 2022. Due to the acceleration in investments by the end of the period, the perspective is of a real growth of 3.9% per year (p.y.) on average. This reveals an improvement in expectations compared to the 2017 and 2018 surveys, which foresaw a negative growth of 3.1% p.y. and a real growth of 1.9% p.y. on average for the 2017-2020 and 2018-2021 periods, respectively.

• In infrastructure, the comparison between the value in 2018 and the average from 2019 to 2022 shows acceleration in 2021 and 2022, suggesting that the value in 2022 will be above that registered in 2018.

• In industry, the scenario of strong expansion of investments is explained, to a large extent, by the performance of oil and gas, driven by the recovery in oil prices and the auctioning or sharing of exploratory blocks in 2017 and early 2018.

• In infrastructure, the scenario is of retraction in electricity investments until 2021, resuming from 2022. In contrast, the perspective is of a significant increase in investments in logistics and sanitation. The performances of these two sectors show a recovery in investments in the most development-deprived areas, especially from 2020 onward.

• In recent years, one of the main reasons for the retraction of investments has been the process of deleveraging of companies. The current survey is the first to show the potential termination of this process, with companies leaving this high debt and cash constraint scenario behind. This behavior was highlighted in mining. Another highlight was the steel industry, with the improvement in the sector's profit margins.

• The text also highlights the influence of public policies, changes in regulations and infrastructure concession programs on the determination of investments. Some of the initiatives with high potential impact on sectors are: the mining code's new regulation; RenovaBio, in the ethanol sector; the Avançar Cidades Program, in urban mobility; and concession rounds, especially in roads.

Investment outlook, per sector (US\$ billion, 2019 prices)

	2012	2013	2014	2015	2016	2017	2018	2019 to 2022	
								Total	Annual avg.
Metal mining	8.9	9.0	7.6	8.4	5.5	3.8	3.7	18.0	4.5
Oil & Gas	28.8	34.2	26.8	22.6	15.8	16.1	15.9	81.7	20.4
Food	4.1	3.9	3.7	3.1	2.6	2.5	2.0	9.0	2.3
Pulp and paper	3.1	2.2	2.8	2.4	2.6	2.2	2.3	9.8	2.4
Ethanol	2.5	3.2	2.2	1.1	0.8	0.7	0.7	3.0	0.8
Chemical products	1.3	1.6	1.3	0.9	0.7	0.7	1.0	4.5	1.1
Steel industry	2.3	1.6	1.8	1.3	1.2	0.6	0.8	4.6	1.1
Electronics	1.8	1.9	1.7	1.4	1.2	1.1	1.2	5.8	1.5
Health industrial complex	1.1	1.2	1.4	1.4	1.3	1.3	1.4	5.8	1.5
Motor vehicles*	7.5	7.1	6.3	5.5	4.2	3.5	2.8	10.5	2.6
Air and spacecraft	0.7	0.8	0.6	0.7	0.7	0.7	0.4	2.4	0.6
Industry	61.9	66.7	56.3	48.9	36.6	33.4	32.2	155.1	38.8
Electricity	19.6	16.2	15.0	14.7	16.2	17.0	13.1	41.7	10.4
Telecommunications	9.4	10.9	10.6	9.1	8.3	8.1	8.4	33.3	8.3
Logistics	13.1	16.4	16.2	15.9	11.9	9.8	9.5	42.2	10.5
• Roads	7.1	8.6	7.8	5.6	6.4	5.9	5.2	25.7	6.4
• Rail	2.2	2.5	2.6	2.6	2.3	2.2	2.1	7.4	1.9
• Ports	2.0	0.9	1.9	2.0	0.7	0.4	0.6	3.8	1.0
• Airports	0.9	2.4	1.3	1.0	0.7	0.4	0.6	2.3	0.6
• Urban mobility	1.0	2.0	2.7	4.7	1.8	0.9	0.9	3.0	0.7
Sanitation	3.5	3.5	3.9	3.6	3.3	3.0	3.3	14.7	3.7
Infrastructure	45.6	46.9	45.8	43.3	39.7	37.9	34.4	131.9	33.0
Total	107.5	113.6	102.0	92.2	76.3	71.3	66.5	287.1	71.8

Source: BNDES

Note: The following sectors do not consider depreciation or consider partial replacement only: aerospace, electricity, railways, ports, mobility and sanitation.

