



BRAZIL: MACROECONOMIC MONITOR AND REFORM AGENDA

October 14, 2019

Week Highlights

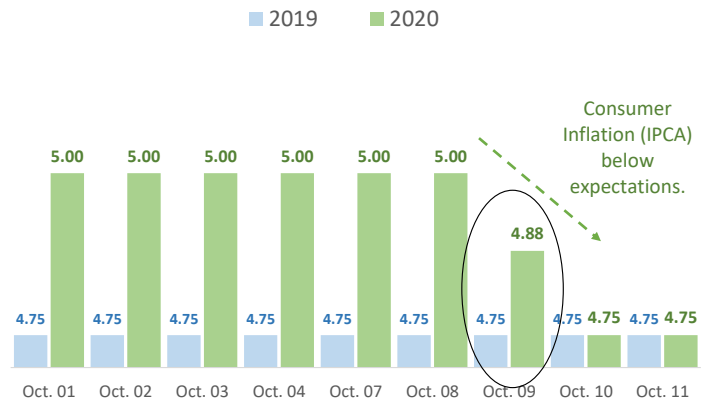
- The government submitted a proposal to simplify and reduce legal bureaucracy of foreign exchange operations. The bill paves the way for individuals to have banking accounts denominated in foreign currencies, allows fintechs to operate independently in the market and unlocks the purchase of Brazilian banks by foreigners.
- ANP held the 16th Bidding Round of Concession for the exploration and production of oil and natural gas in five sedimentary basins off the Brazilian coast. In all, 17 companies entered the auction, which yielded US\$ 8.9 bi.

THE LAST PAGE

Brazil rises in the ranking of competitiveness of the World Economic Forum

Written by the Special Secretariat for Productivity and Competitiveness

Selic Target - Market Expectations

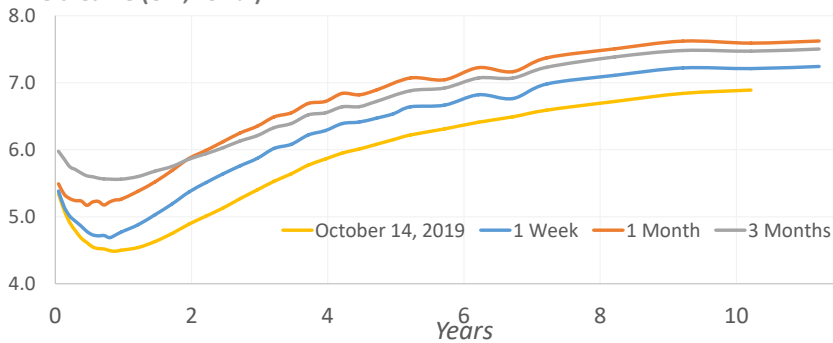


	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY)	0.50	-3.55	-3.30	1.06	1.12	0.87 (*)	2.00 (*)
Consumer Inflation IPCA (% YoY)	6.41	10.67	6.29	2.95	3.75	3.28 (*)	3.73 (*)
Current Account (USD bi)	-101.4	-54.5	-24.2	-15.0	-21.9	-27.5 (*)	-33.0 (*)
Foreign Investment in the Country (USD bi)	87.7	64.7	74.3	68.9	76.8	81.9 (*)	83.2 (*)
International Reserves (USD bi)	364	356	365	374	375	375 (10 Oct)	-
Unemployment rate (%)	6.5	8.9	12.0	11.8	11.6	11.8 (Aug)	-
General Government Gross Debt (% GDP)	56.3	65.5	69.9	74.1	77.2	78.6 (**)	79.6 (**)
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	157 (Oct 19)	-
Interest rate (Selic Target) (% eop)	11.75	14.25	13.75	7.50	6.50	4.75 (*)	4.75 (*)

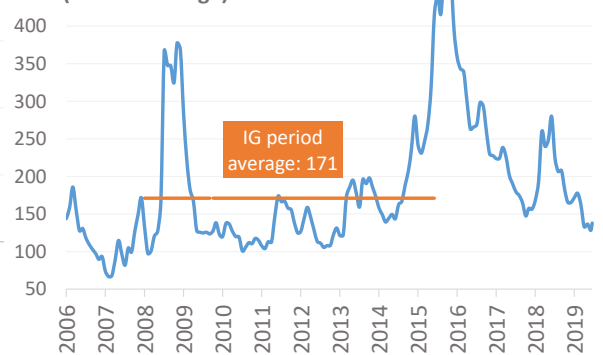
Estimates: (*) Focus Survey, Central Bank of Brazil, Oct. 11, 2019); (**) Prisma Fiscal, Sep.2019

MARKET WATCH

Yield Curve (CDI, YoY %)



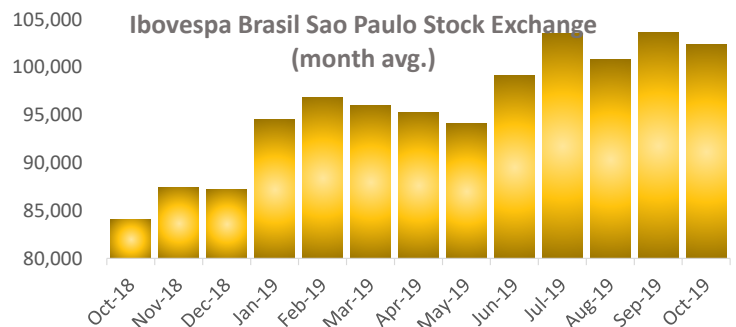
Brazil 5-year CDS (month average)



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

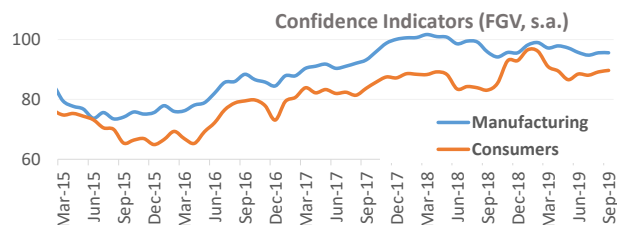
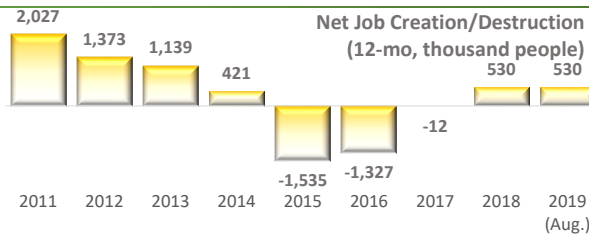
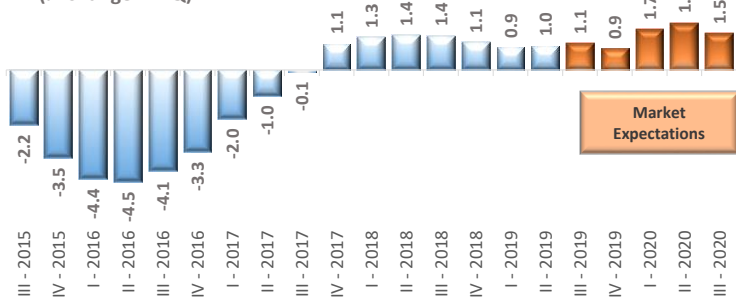
Sources: BCB, Min. of the Economy, Bloomberg



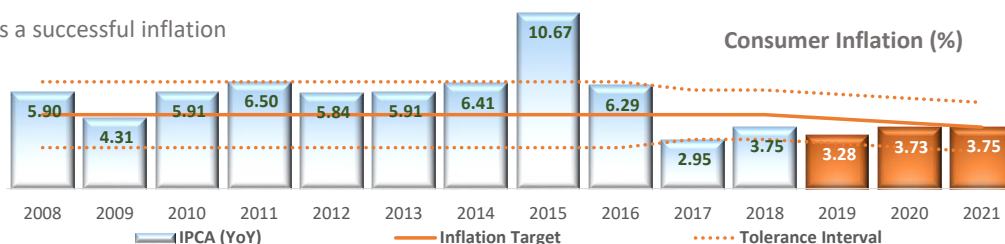
ECONOMY WATCH

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

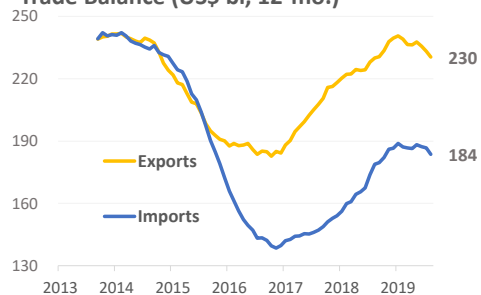
Gross Domestic Product
(% change in 4Q)



The country runs a successful inflation target regime

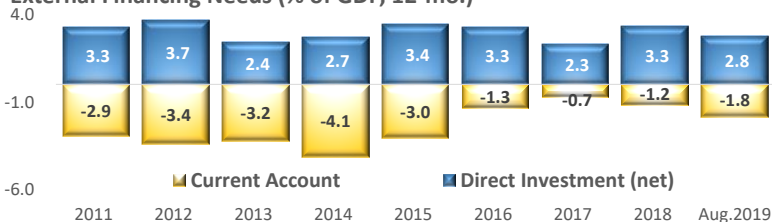


Trade Balance (US\$ bi, 12-mo.)



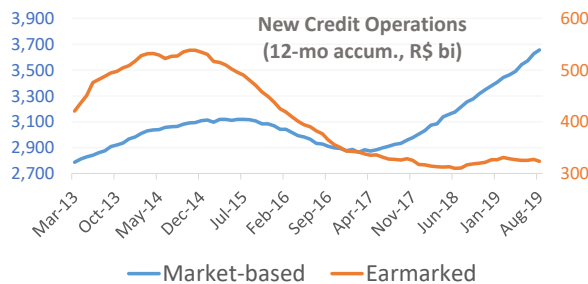
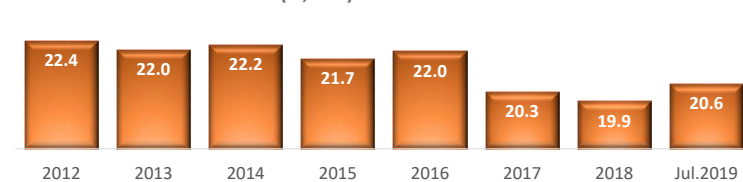
The external accounts are one of the main pillars of the Brazilian economic stability

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

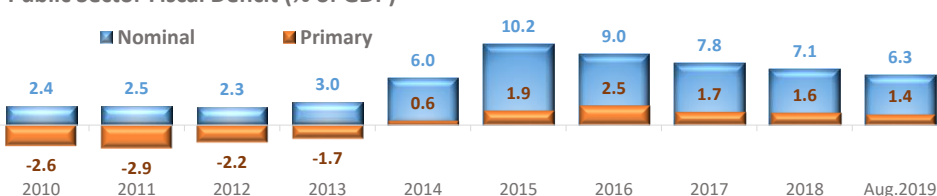


The credit market went through an adjustment process and now favors market-based operations

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

- Second voting round in the Senate. Needs 49 of the 81 votes. Changes made will 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

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

- Economic Freedom Law: 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.

Digital Government

- The Brazilian government transformed 400 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.



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 will 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.

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

51 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, 15th, 16th 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

118 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 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, ABGE, 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 – FIOL	✓	●		1Q20	2Q20
EF-170 – Ferrogrão	✓	●		2Q20	3Q20
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*)	✓				

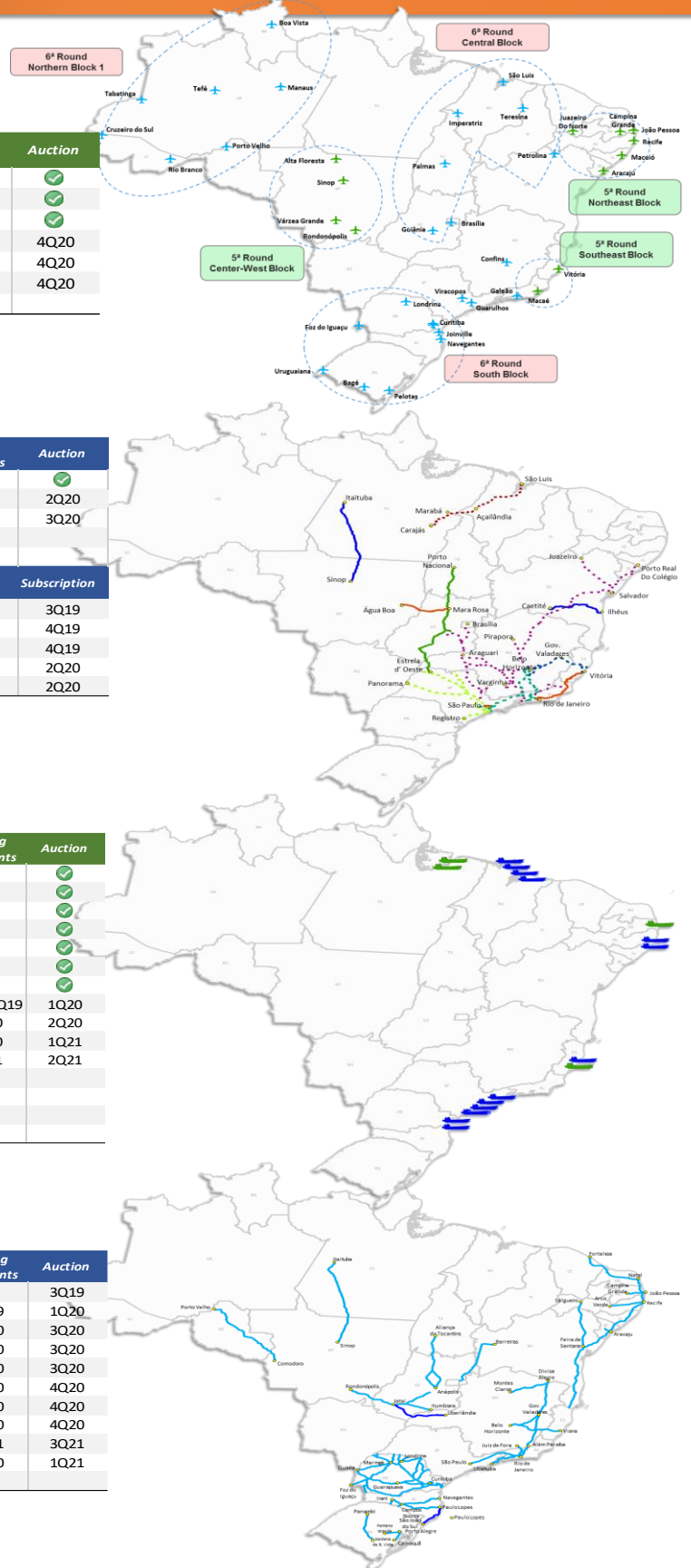
Highways

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-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	4Q20
Integrated Highways of Paraná	●			2Q21	3Q21
BR-153/282/470/SC e SC-412	●			4Q20	1Q21
BR-364/RO/MT					

✓ Completed
● In progress





THE LAST PAGE

Brazil rises in the ranking of competitiveness of the World Economic Forum

Written by the Special Secretariat for Productivity and Competitiveness at the Ministry of the Economy (SEPEC)

- Brazil has risen one notch to 71st place in the 2019 ranking of the World Economic Forum that assesses the competitiveness of 141 countries.
- The Global Competitiveness Index (GCI) was released on Wednesday (Oct. 09th) by the World Economic Forum. Singapore was named as the most competitive country in the world, ahead of the United States and Hong Kong.
- Brazil's best results were in the pillars of infrastructure, business dynamism and labor market. In infrastructure, the country moved to 78th place, advancing three notches over 2018. In business dynamism, we moved up from 108th to 67th, mainly due to the reduced time to start a business. Another improvement was registered in the labor market pillar: we were in 114th place in 2018 and moved to 105th position in 2019.
- In terms of innovation, we remain in 40th position, same performance as last year. And in qualification, we dropped from 94th to 96th place. In the product market, we went from 117th to 124th place. According to the Special Secretariat for Productivity and Competitiveness of the Ministry of Economy (Sepec), the figures mainly reflect data up to 2018, and are the result of policies practiced by previous governments, which produced several obstacles in the country's business environment. Sepec recognizes all challenges diagnosed in this ranking, but it brings a vision of the future and a work plan that will transform Brazil's productivity and competitiveness.
- Carlos Da Costa, special secretary for Productivity and Competitiveness at the Ministry of Economy, stresses that, since taking office, he has been working to put in place a plan to tackle the problems that hinder Brazil's economic growth.
- "Our strategic planning includes ambitious goals based on global performance indicators anchored in the GCI and broken down into plans aligned with the challenges we face," he says. The goal for 2022 is to reach 50th place through actions that are being developed.
- For Da Costa, Brazil still has much to improve. "With regard to the United States, our productivity has been falling since 1980 and today it represents approximately 25% of the US. The low progress in Brazilian productivity has led to the country falling in the global competitiveness rankings. We are still far from the OECD countries". International studies converge on the main productivity bottlenecks in Brazil, and we are working to tackle them one by one", he adds.

- The bottlenecks detailed in the latest GCI report had already been diagnosed by SEPEC, which finalizes a project with specific actions from 2019 to 2022.

- In the coming years, the indicators should be impacted by improvements that are beginning to be implemented through **6 priority projects**

Simplifica will remove obstacles to business productivity and competitiveness by removing regulatory and legal barriers;

Emprega + will raise the qualification of human capital and the employment rate;

Concorrência para Prosperidade aims at increasing competition and market efficiency;

Pró Infra will raise Brazilian infrastructure to international levels of price and quality;

Brasil 4.0 will promote the modernization of companies through innovation, digitization and managerial skills;

Prospera MPes will develop small and medium businesses in an innovative and sustainable way.

- For Carlos Da Costa, increasing competitiveness depends on reducing government barriers. "This is not about favoring entrepreneurs, but not hurting them. Without competitiveness there is no economic or social progress, job creation or rising income. We need to give young people hope and opportunity," he says.
- According to him, the fourth industrial revolution is already a reality, but Brazil is not yet part of it. "Innovation needs to be at the center of the development strategy. Companies need to be stimulated and supported in adopting new business models and in employing new solutions that differentiate them and bring competitiveness, towards a prosperous future full of new opportunities", adds the secretary.

