

BRAZIL: MACROECONOMIC MONITOR AND REFORM AGENDA

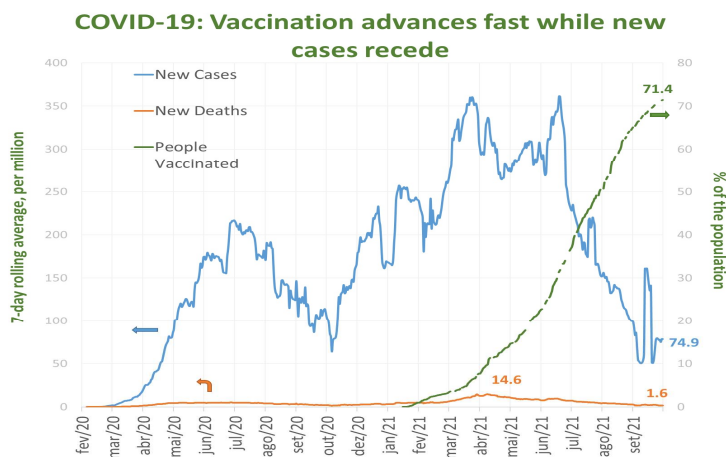
October 8, 2021

Highlights

- The House of Representatives approved the basic text of the bill that changes income tax rules. The text cuts rates charged to companies, provides the taxation on dividends and removes the income limit for individuals to request a simplified 20% discount. The proposal was sent to the Senate.
- In the last three years, Brazil was, among the members of the G20, the third country that advanced the most in the Global Ranking of Digital Competitiveness, only behind China and Saudi Arabia.
- Law 14.195/2021 was sanctioned. It seeks to simplify the opening and operation of companies in the country.
- The federal senate approved the text that deals with new licensing instruments for railways in the private regime, with minimal State participation, both at the federal, state and municipal levels, and also contains technical definitions to harmonize the sector's legislation.

THE LAST PAGE

Brazil's Track Record in Fighting Covid-19 Reforms carried out since 2019



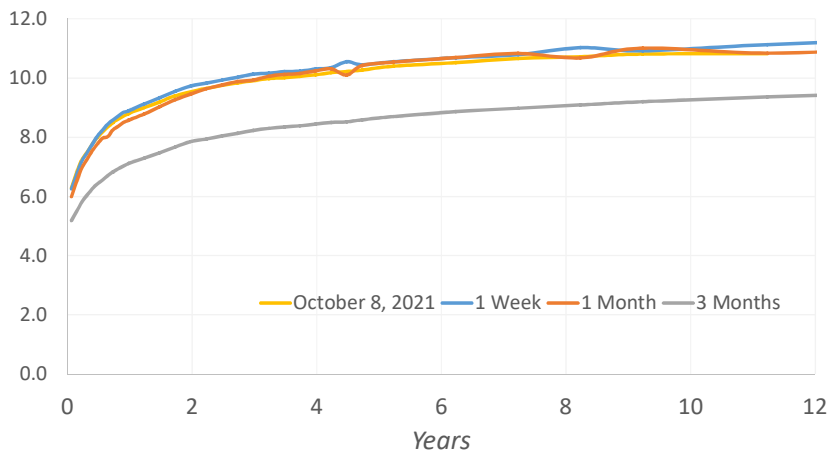
Source: Our World in Data, Ministry of Health

	2015	2016	2017	2018	2019	2020	2021
GDP (% YoY)	-3.55	-3.28	1.32	1.78	1.41	-4.06	5.04 (*)
Consumer Inflation IPCA (% YoY)	10.67	6.29	2.95	3.75	4.31	4.52	8.51 (*)
Current Account (USD bi)	-54.8	-24.5	-22.0	-51.5	-65.0	-25.9	-2.0 (*)
Foreign Investment in the Country (USD bi)	64.7	74.3	68.9	78.2	69.2	44.7	50.5 (*)
International Reserves (USD bi)	356	365	374	375	357	356	369 (06 Oct)
Unemployment rate (%)	8.9	12.0	11.8	11.6	11.0	13.90	13.7 (Jul)
General Government Gross Debt (% GDP)	65.5	69.8	73.7	75.3	74.3	88.8	81.4 (**)
Ibovespa Index (BRL, % chg.)	-13.3	38.9	26.9	15.0	31.6	2.9	-1.9 (ytd)
CDS 5 years (year average)	475	293	165	208	108	151	181
Interest rate (Selic Target) (% eop)	14.25	13.75	7.50	6.50	4.50	2.00	8.25 (*)

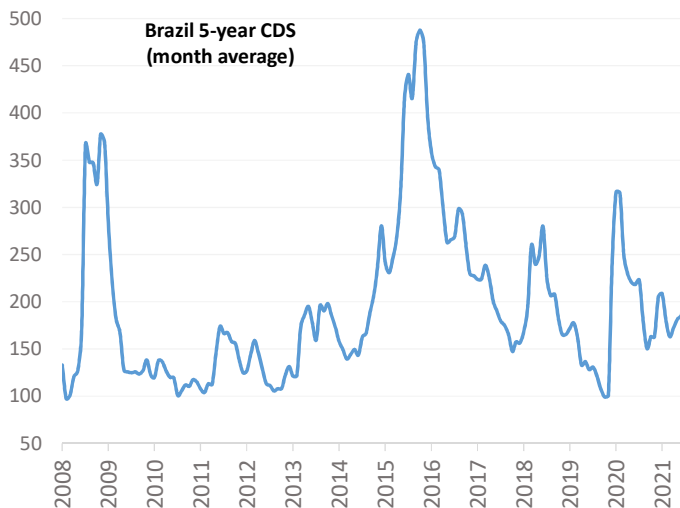
Estimates: (*) Focus Survey, Central Bank of Brazil, Oct. 8, 2021; (**) Prisma Fiscal, Oct. 2021

MARKET WATCH

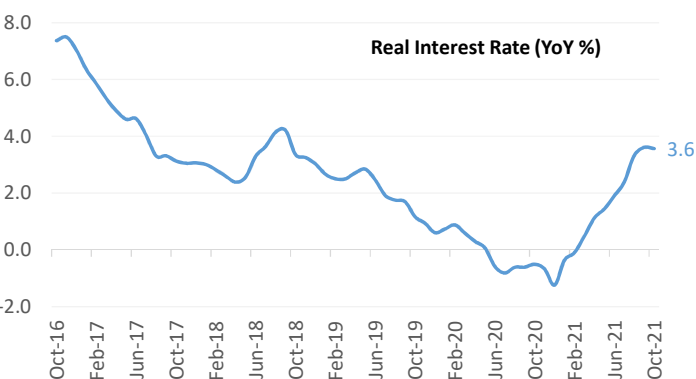
Yield Curve (CDI, YoY %)



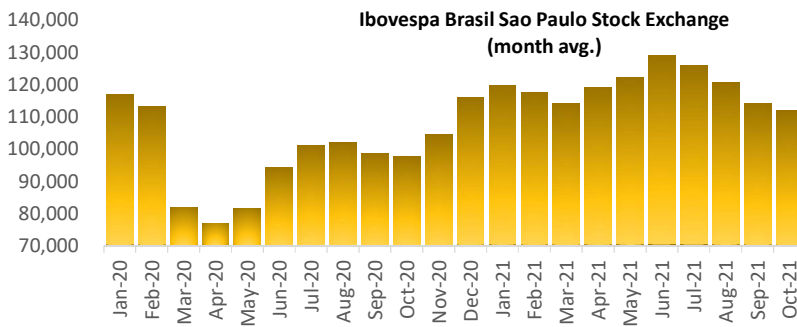
Brazil 5-year CDS (month average)



Real Interest Rate (YoY %)



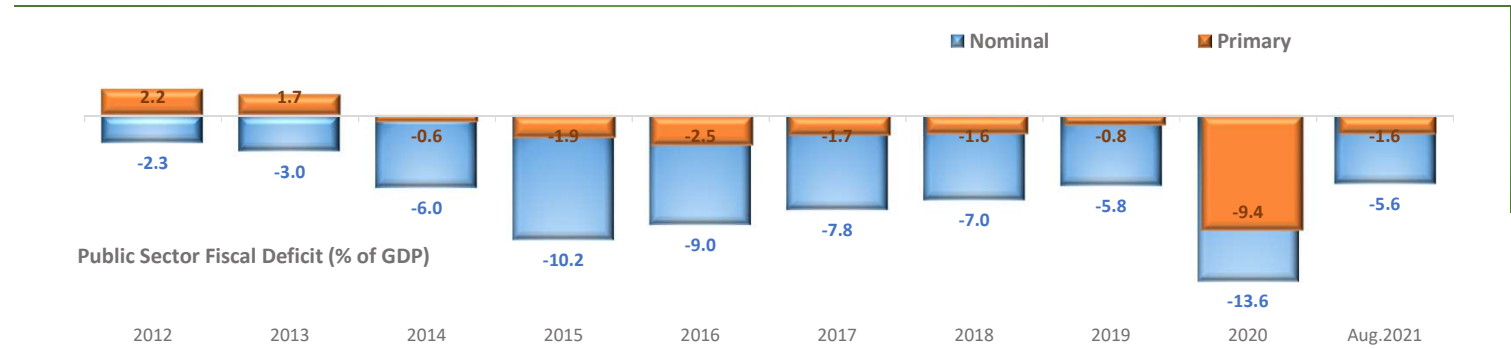
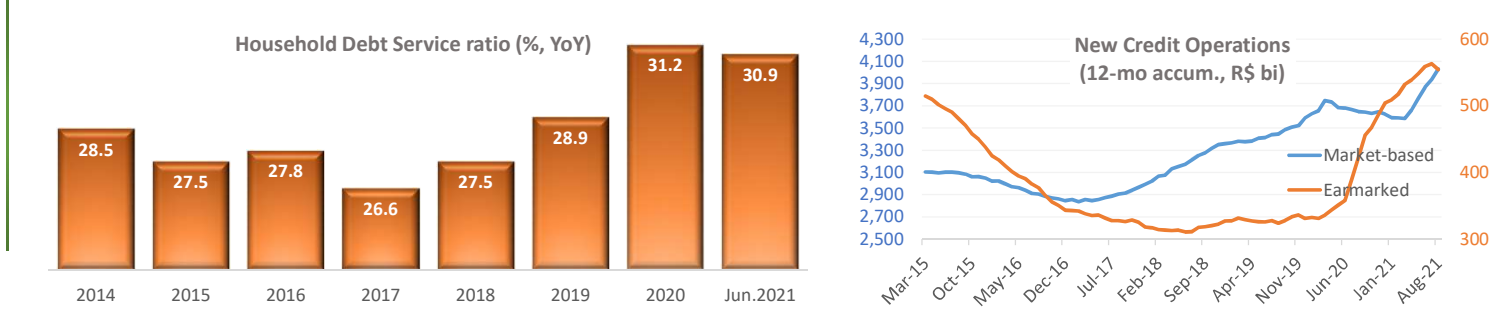
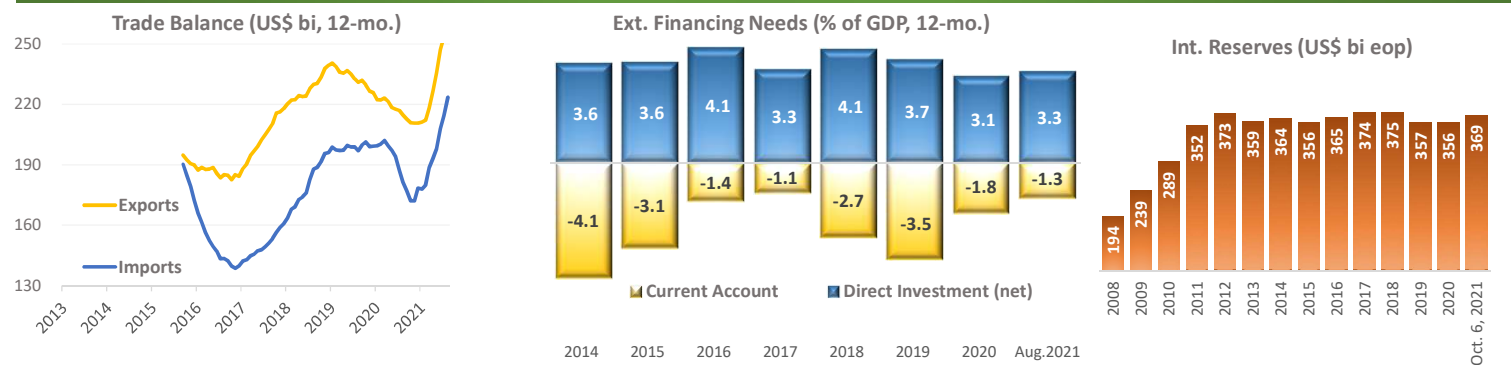
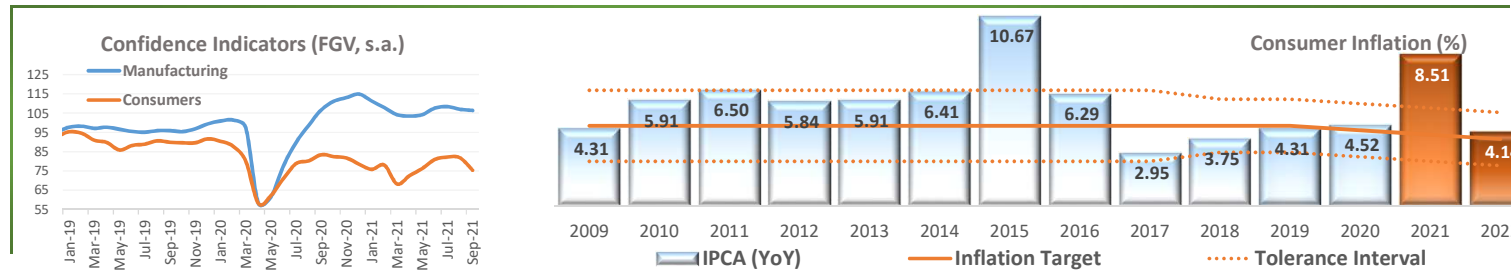
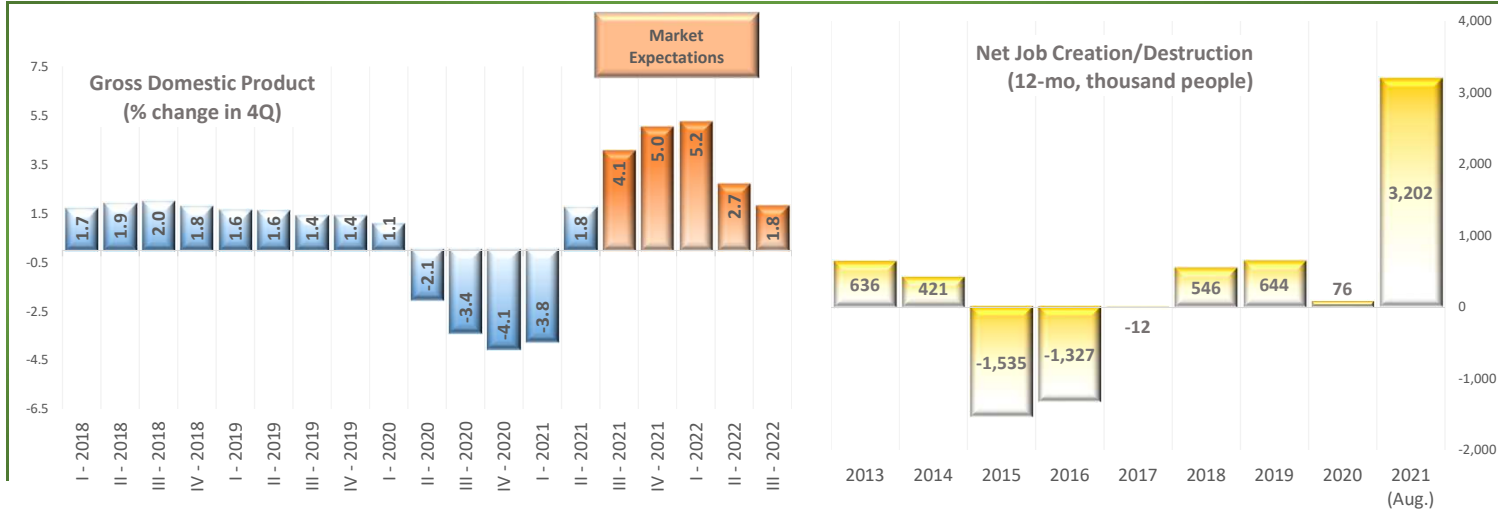
Ibovespa Brasil Sao Paulo Stock Exchange (month avg.)



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

Sources: BCB, Min. of the Economy, Bloomberg

ECONOMY OUTLOOK





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.

Priority Agenda for 2021

As of October 08, 2021

Chamber of Deputies				
Legislation	Title	What is the main change?	Relevance for the country's economy	Current Situation
PEC 45/110	Tax reform	Simplify the tax system by streamlining taxation on the production and sale of goods and services.	Improvement of the tax system transparency and accessibility and reduction of the cost of red tape on taxpayers and economic sectors.	Ready for Plenary Agenda (PLEN).
PEC 32/2020	Administrative reform	Change provisions on civil servants, public employees and administrative organization.	Transformation of the Brazilian state with a view to providing more efficiency to the services offered by the government to citizens.	Ready for Plenary Agenda (PLEN).
PL 5,518/2020	Forest concessions	Make the bidding process faster, more flexible contracts and attractiveness to the business model of forestry concessions.	Offers a model of legal timber production while the forest is preserved and green jobs are created.	Awaiting the Report of the Rapporteur at the Committee on the Environment and Sustainable Development (CMADS)
PL 2,633/2020	Land regularization	Establish criteria for land tenure regularization of federal buildings, including settlements.	Benefits 300 thousand families installed in federal lands for at least five years.	In the Federal Senate - awaiting Public Hearing
PL 2,646/2020	Infrastructure debentures	Encourage the use of debentures to raise private funds for infrastructure projects in the telecommunications sector.	Increase of private participation in financing infrastructure projects in the country.	At Federal Senate Plenary
PL 5,877/2019	Privatization of Eletrobras	Enable the privatization of Eletrobras, the state-owned company responsible for 1/3 of the country's electricity production.	Expansion of the supply of electric power generation and transmission and improve efficiency in resource allocation and the energy sector management.	Awaiting dispatch by the President of the Chamber of Representatives.
PL 5,387/2019	Foreign Exchange Market Legal Framework	Simplify foreign currency operations, favoring competition and the supply of services in the foreign exchange market, reducing thereby costs for the user.	Improvement of the business environment by modernizing the foreign exchange market and favoring foreign investments in Brazil and Brazilian investments abroad.	At Federal Senate Plenary
PLP 191/2020	Mining on indigenous lands	Establish conditions for the exploitation of mineral resources, the extraction of hydrocarbons and the use of water resources for the generation of electric energy in Indigenous Lands with the appropriate compensation.	Make the use of these areas more flexible for economic exploitation, whether by agribusiness, mining, tourism and water resources.	Awaiting creation of a Temporary Committee by Standing Board.
PL 3,729/2004	Environmental licensing	Establish clearer rules for the environmental licensing of federal public works, in addition to facilitating and guiding the regulation of the subject in the Brazilian subnational states.	Planned public works and activities will be implemented quickly, socially inclusive and environmentally safe.	In the Federal Senate - awaiting Public Hearing

SENATE				
Number	Title	What is the main change?	Relevance for the country's economy	Current Situation
PL 6,726/2016	Wage ceiling	Regulate the wage limit for civil servants referred to in the Federal Constitution.	Reduction of public spending by curbing the payment of civil servants' wages above the established ceiling.	At Federal Senate Plenary
PEC 187/2019	Funds PEC	Set up a reserve of complementary law to create public funds and extinguish those that are not ratified by the end of the second financial year following the promulgation of this Constitutional Amendment.	Guarantee the Congress and the Executive branch more flexibility to allocate money in priority public policies.	Federal Senate Plenary
PEC 188/2019	Federative Pact PEC	Give more autonomy to states and municipalities through the deployment of resources and their allocations, increasing the accountability of managers in caring for public accounts.	Decentralize, deindex and untie fiscal resources between the three spheres of government in Brazil based on a new federative compact.	at the CCJ - Committee on Constitution, Justice and Citizenship. Subject with the Rapporteur.
PLP 137/2020	Use of public funds for the pandemic	Allow for that during the period of public calamity declared because of Covid-19 outbreak, the balance of the financial surplus of 29 sectoral funds, can be used to face the pandemic and its social, economic and financial effects.	Making resources available on a temporary and emergency basis to deal with the effects of the pandemic.	Awaiting the rapporteur's appointment
PL 3,178/2019	Changes in oil sharing regime	Allow block auctions under the concession regime in the pre-salt area where contracting by the production sharing regime is mandatory.	Implementation of a more suitable concession model for the country with a view to contracting new exploitation areas in the country.	Subject with the Rapporteur.
PLS 232/2016	Electricity sector modernization	Introduce changes in the format of energy auctions, in low-voltage consumer pricing, in their access to the Free Market, among other points.	Implementation of a more efficient electricity sector, with positive impacts on the entire energy market with positive spillovers to all the stakeholders.	Submitted to the Chamber of Representatives. Awaiting dispatch by the President of the Chamber of Representatives (Bill 414/2021).
PLS 261/2018	Rail transport in private infrastructure	Authorize the indirect exploitation by the Federal Union of rail transport in infrastructure of private property, disciplining traffic and transport through this mode and seeking to incorporate the best available practices.	Revitalization and expansion of the railway infrastructure nationwide, contributing to eliminate bottlenecks in logistics and lowering costs in the flow of production.	At Chamber of Representatives
PL 4,199/2020	BR do Mar (cabotage Law)	Create the Cabotage Transport Stimulus Program - which comprises navigation between Brazilian ports.	Increase of the supply and quality of transport of cargo. More competition and competitiveness in the sector. Expansion of fleet availability.	Awaiting the rapporteur's appointment



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.

Priority Agenda for 2021

As of October 08, 2021

Pro-Investment Bills				
Legislation	Title	What is the main change?	Relevance for the country's economy	Current Situation
Bill 591/2021	Correios [The National Post Service]	The bill implies breaking the postal monopoly of Correios and opening the market to other companies.	Puts an end to the state's postal monopoly and provides dynamism to the sector.	Waiting appreciation of the Federal Senate
• Bill 232/2016	Modernization of the Electric Power Sector	Introduces changes in the format of energy auctions, in low-voltage consumer pricing, in their access to the Free Market, among other points.	Implements a more efficient electricity sector, with positive impacts on the entire energy market with positive spillovers to all the stakeholders.	Submitted to the Chamber of Representatives. Awaiting dispatch by the President of the Chamber of Representatives (PL 414/2021)
• Bill 3178/2019	Oil and Gas Production-Sharing Agreement (PSA)	Allow for block auctions under the concession regime in the pre-salt area where contracting by the production sharing regime is mandatory.	Implements a more suitable concession model for the country with a view to contracting new exploitation areas in the country.	Subject with the Rapporteur.
• Bill 7063/2017	Concessions and PPPs	Amends Law no 11,079, of December 30, 2004, to reduce the minimum value of public-private partnership contracts (PPPs) signed by states, the Federal District and municipalities.	The proposal authorizes all federated entities to enter into partnerships with the private sector in contracts above R\$ 5 million (or R\$ 1 million for municipalities with less than 100,000 people). This will increase the number of projects that can be partnered.	Ready for entering Plenary Agenda
• Bill 261/2018	Railways Authorization	Provides for the indirect exploitation, by the Union, of rail transport in privately owned infrastructures; authorizes railway self-regulation; disciplines traffic and rail transport; and amends several legal provisions among other arrangements.	Increased investments in the sector, expanding the offer of cargo transport, reducing costs and promoting greater competitiveness in industry and agriculture	Report with the Rapporteurship
• Bill 3729/2004	Environmental Licensing	Establishes clearer rules for the environmental licensing of federal public works, in addition to facilitating and guiding the regulation of the subject in the Brazilian subnational states.	Planned public works and activities will be implemented quickly, socially inclusive and environmentally safe.	Awaiting Senate appreciation
• Bill 4199/2020	Cabotage	Increases of the supply and quality of transport of cargo. More competition and competitiveness in the sector. Expansion of fleet availability.	Increase of the supply and quality of transport of cargo. More competition and competitiveness in the sector. Expansion of fleet availability.	Ready for deliberation by the Senate
• Bill 2646/2020	Infrastructure debentures	Encourages the use of debentures to raise private funds for infrastructure projects in the telecommunications sector.	Increase of private participation in financing infrastructure projects in the country.	Ready for deliberation by the House of Representatives
• Bill 5387/2019	Currency Exchange Market	Simplifies foreign currency operations, favoring competition and the supply of services in the foreign exchange market, reducing thereby costs for the user.	Improvement of the business environment by modernizing the foreign exchange market and favoring foreign investments in Brazil and Brazilian investments abroad.	Ready for deliberation by the House of Representatives



PPI Public-Private Partnerships

Source: PPI, www.ppi.gov.br/ppi-english

PPI Main deliveries 2019/2021

Expected Investments	Concession fees
USD 109 bi	USD 25 bi

113 auctions/projects

Sector	Investments	Transportation modes	Investments	Sectors	Investments
Fishery terminal (1)	USD 46 million	Port terminals (27) <i>Solids, liquids, general and containerized cargo</i>	USD 568 million	Oil and gas (5)	USD 83.88 billion
Parks for visitation (3)	USD 85.4 million	Airports (34)	USD 1.9 billion	Transfer of rights (Búzios and Itapu)	USD 46 billion
Public lighting (9)	USD 248 million	Highways (5)	USD 4.5 billion	6th sharing round	USD 29.34 billion
Basic sanitation (4)	USD 6.7 billion	Railways (5)	USD 5.8 billion	16th concessions round	USD 8.3 billion
Total	USD 7.08 billion	Total (71)	USD 12.76 billion	Open Acreage auctions	USD 96.2 million
				Energy - Generation (7)	USD 3.49 billion
				Energy - Transmission (14)	USD 2.58 billion
				Mining (5)	
				• CPRM (2)	USD 89.2 million
				• ANM (3)	
				Total (26)	USD 90 billion

Current PPI portfolio

<p>Ports (44)</p> <ul style="list-style-type: none"> 5 Concession (3 privatizations) 36 Port Terminals 2 Waterway works (env. permits) 1 Port access channel 	<p>Oil and gas (5)</p> <ul style="list-style-type: none"> 17th Bid round under the concession regime Fracking pilot project (env. permit) 2nd Round of transfer of rights surplus 3rd Cycle of open acreage 	<p>National Forests and Parks (28)</p> <ul style="list-style-type: none"> 19 Concessions of parks and forests for visitation 9 Forest concessions for sustainable use 	<p>Urban mobility (2)</p> <ul style="list-style-type: none"> CBTU + Line 2 – Belo Horizonte subway Trensurb
<p>Highways (22)</p> <ul style="list-style-type: none"> 14 projects for concession 8 Environmental permits 	<p>Energy (12)</p> <ul style="list-style-type: none"> 1 New energy generation auction (A-5) 1 Transmission line auction 2 Privatizations (Eletrobras and Nuclep) Transmission Line Manaus-Boa Vista (env. permit) 7 Hydroelectric power plants (env. permit) 	<p>Tourism (8)</p> <ul style="list-style-type: none"> 8 Concessions of historical and touristical sites (CE, MG, PB, PE, SP and RJ) 	<p>Defense and Security PPPs (3)</p> <ul style="list-style-type: none"> 1 Air force Communications 1 Police Communications 1 Vehicle impoundment – Federal Highway Police
<p>Airports (26)</p> <ul style="list-style-type: none"> 16 Infraero Airports 8 regional airports 2 airports rebidding 	<p>Mining (11)</p> <ul style="list-style-type: none"> 6 CPRM's mineral rights 5 ANM bid rounds of available areas 	<p>Fishery Terminals (7)</p> <ul style="list-style-type: none"> 7 Concessions of Public Fishery Terminals 	<p>ICT (4)</p> <ul style="list-style-type: none"> 3 Privatizations (Telebras, Correios and EBC) 5G
<p>Railways (8)</p> <ul style="list-style-type: none"> 3 Contract renewals 4 Concessions 1 Privatization with concession 		<p>Supply (2)</p> <ul style="list-style-type: none"> 1 Privatization (Ceasaminas) 1 CONAB Project (148 warehouses / real state + 2 markets/RJ) 	<p>Economy (6)</p> <ul style="list-style-type: none"> 4 Privatizations (ABGF, EMGEA, Serpro and Dataprev) 2 Lottery (Fixed odds and Lotex)

190 Projects

48 auctions carried out in 2021

<p>Port Terminals (8)</p> <ul style="list-style-type: none"> 4 in Itaqui/MA (IQI 03, 11, 12 and 13).....<i>apr/09</i> 1 in Pelotas/RS (PEL01).....<i>apr/09</i> 1 in Santana/AP (MCP02).....<i>aug/13</i> 1 in Mucuripe/CE (MUC01).....<i>aug/13</i> 1 in Salvador/BA (SSD09) ..<i>aug/13</i> <p>Investments USD 122.4 million Concession fee USD 43.26 million</p>	<p>Highway (2)</p> <ul style="list-style-type: none"> BR-153/080/414/GO/TO...<i>apr/08</i> BR-163/230/MT/PA.....<i>jul/08</i> <p>Investments USD 1.94 billion Concession fee USD 64 million</p>	<p>Airports (22)</p> <ul style="list-style-type: none"> 6 Round of Airports Concession (south, north and central blocks).....<i>apr/07</i> <p>Investments USD 1.22 billion Concession fee USD 660 million</p>	<p>Railroad (1)</p> <ul style="list-style-type: none"> East-West Integration Railroad (FIOL).....<i>apr/08</i> <p>Investments USD 1 billion Concession fee USD 6.5 million</p>	<p>Fishery Terminal (1)</p> <ul style="list-style-type: none"> Cabedelo/PB.....<i>jan/28</i> <p>Investments USD 46 million Concession fee USD 37,209</p>
<p>Parks and Forests (2)</p> <ul style="list-style-type: none"> Canela/RS.....<i>jul/12</i> São Francisco de Paula/RS.....<i>jul/29</i> <p>Investments USD 33 million Concession fee USD 148.2</p>	<p>Energy (6)</p> <ul style="list-style-type: none"> Generation(5): <ul style="list-style-type: none"> Isolated Systems.....<i>apr/30</i> Existing Energy(LEE A-4 and A-5).....<i>jun/25</i> New Energy (LEN A-3 and A-4).....<i>jul/08</i> 1^o auction of electricity transmission 2021.....<i>jun/30</i> <p>Investments USD 1.14 billion</p>	<p>Mining (4)</p> <ul style="list-style-type: none"> 2nd, 3rd and 4th Round of Available Areas – ANM.....<i>mar/29 and jun/30</i> Phosphate-Miriri(PE/PB).....<i>jun/10</i> <p>Investments USD 38 million Concession fee USD 47.6 million</p>	<p>Water and wastewater services (2)</p> <ul style="list-style-type: none"> CEDAE-Rio de Janeiro.....<i>Apr/30</i> Amapá State.....<i>Sep/02</i> <p>Investments USD 6.12 billion Concession fee USD 4.72 billion</p>	<p>Expected Investments</p> <p>USD 11.72 bi</p> <p>Concession fee/Bonus</p> <p>USD 5.56 bi</p>



THE LAST PAGE

Brazil's track record in fighting Covid-19

- The situation of Covid-19 in Brazil is in clear decline, both in the number of new cases and in new deaths.
- In accumulated terms, there have been 21.5 million people infected since February 2020 and 599.8 thousand deaths (position of Oct. 8, 2021).
- Contagion reached the most recent peak in June, registering 361.1 new confirmed Covid-19 cases per million in the 7-day moving average. New cases showed a steady decline since then, reaching 83.6 per million on Oct. 06.
- The number of new confirmed deaths followed suit. From a peak of 14.6 new deaths per million, in the end of April, in the same 7-day moving average metric, this figure has been falling continuously.
- The progress of vaccination coincides with the reduction in the number of new cases and deaths. Brazil has been playing its part in the fight against Covid-19: since January 2021 we have already immunized with at least one dose of Covid-19 vaccine 153.3 million people (95.8% of the adult population and 72.3% of total population, a rate that exceeds, for instance, that of the United States, 64.0%) and 96.4 million people fully vaccinated (59.8% of adults and 45.4% of total population).
- The Brazilian government has rolled so far out 301.0 million vaccine doses to all subnational governments in charge of immunization campaigns. Funding of R\$ 194 billion (US\$ 37.3 billion) has been set aside for the national immunization program in 2021.
- At the recent meeting with the G20 Health Ministers (Sept, 05), the World Health Organization (WHO) congratulated Brazil for the good results of the vaccination program against Covid-19 in the country. WHO also felicitated Brazil on the prospect of transitioning from a vaccine importing country to an immunizing exporter.

Reforms carried out since 2019



Reforms advancing still in 2021

- Tax reform;
- Administrative Reform;
- PL 232/2016 - Modernization of the Electric Sector;
- PL 3,178/2019 - Change of the sharing regime for concession;
- PL 7,063/2017 - Concessions and public-private partnerships (PPP);
- PL 2,646/2020 - Infrastructure Debentures;
- Modernization of the Regulatory Standards for Health and Safety at Work;
- PL 3,729/2004 - Environmental License (approved by the House of Representatives);
- BR do mar (New Cabotage Law) (approved by the House of Representatives);
- Foreign Exchange Bill (approved at the House of Representatives);
- PL 6,726/16: limits civil servants' wages (approved by the House of Representatives);
- Provisional measure for Post Office Privatization (approved by the House of Representatives).