



BRAZIL: MACROECONOMIC MONITOR AND REFORM AGENDA

October 21, 2019

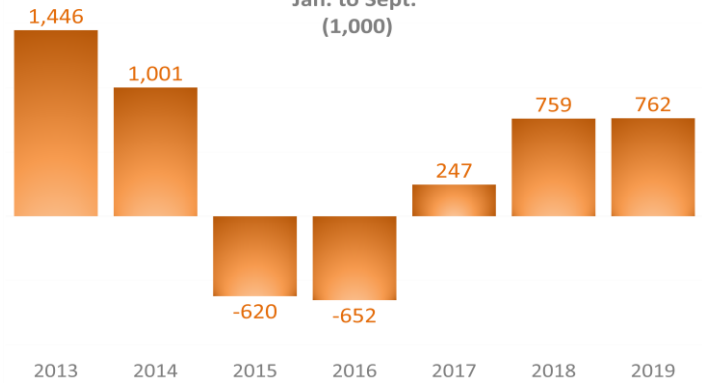
Week Highlights

- Government simplified immigrant registration as an Individual Microentrepreneur. Foreigners will only need to inform the country of origin and one of the registration documents: National Migration Registration Card, Provisional Document National Migration Registry or Refugee Request Protocol.
- Formal Employment as measured by CAGED posted the best September figure since 2013.

THE LAST PAGE

Legal certainty for foreign investors in Brazil

CAGED - Net Formal Job Creation  
Jan. to Sept.  
(1,000)

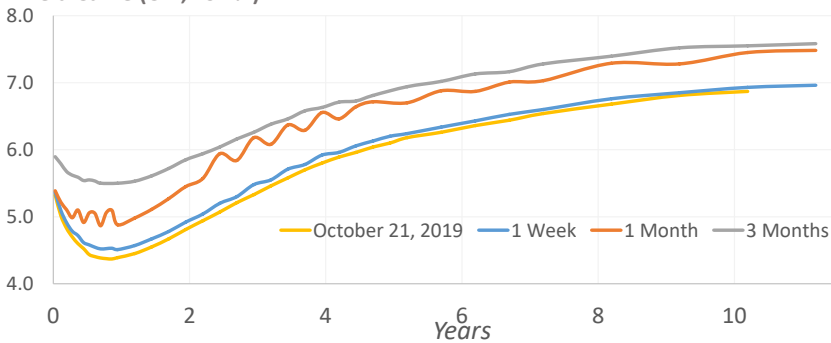


	2014	2015	2016	2017	2018	2019	2020
GDP (% YoY)	0.50	-3.55	-3.30	1.06	1.12	0.88 (*)	2.00 (*)
Consumer Inflation IPCA (% YoY)	6.41	10.67	6.29	2.95	3.75	3.26 (*)	3.66 (*)
Current Account (USD bi)	-101.4	-54.5	-24.2	-15.0	-21.9	-31.3 (*)	-37.0 (*)
Foreign Investment in the Country (USD bi)	87.7	64.7	74.3	68.9	76.8	80.0 (*)	80.0 (*)
International Reserves (USD bi)	364	356	365	374	375	373 (17 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	19.3 (ytd)	-
CDS 5 years (year average)	189	475	293	165	208	156 (Oct 19)	-
Interest rate (Selic Target) (% eop)	11.75	14.25	13.75	7.50	6.50	4.50 (*)	4.75 (*)

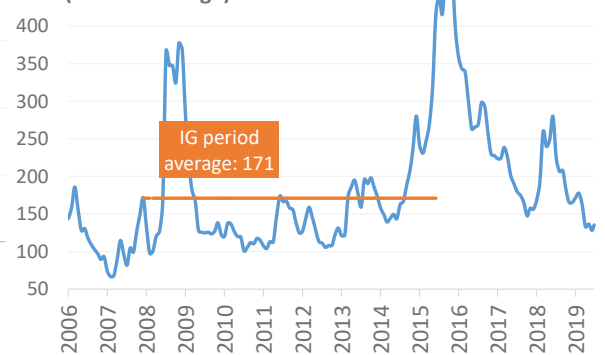
Estimates: (\*) Focus Survey, Central Bank of Brazil, Oct. 18, 2019); (\*\*) Prisma Fiscal, Oct. 2019

MARKET WATCH

Yield Curve (CDI, YoY %)



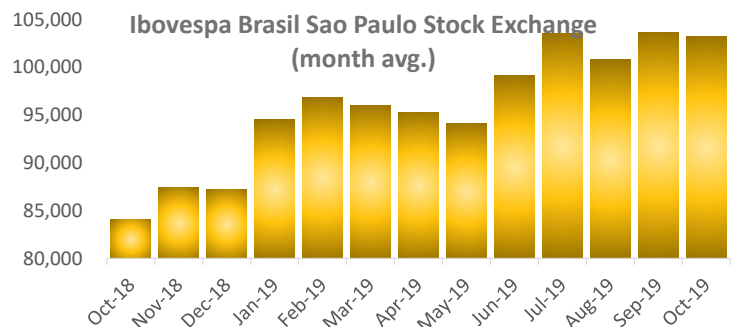
Brazil 5-year CDS  
(month average)



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

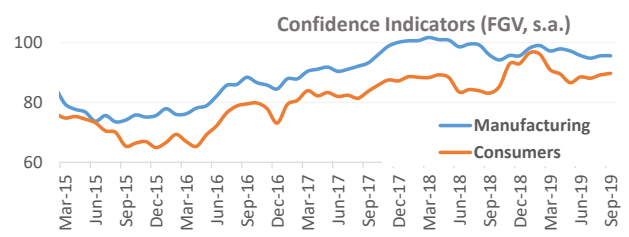
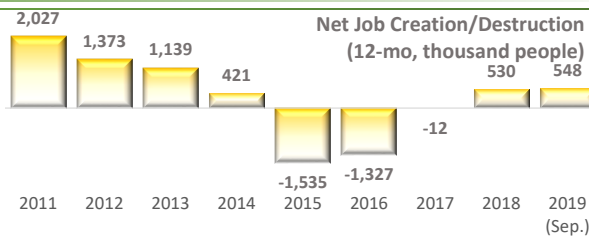
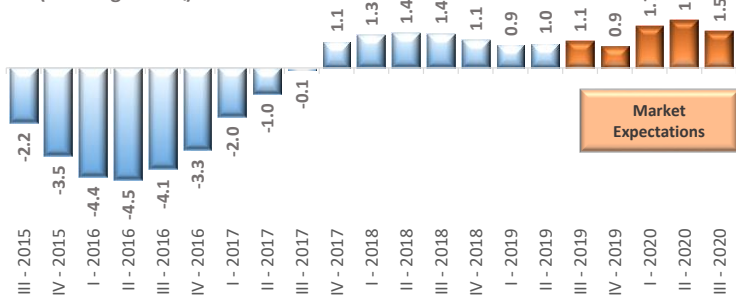
Sources: BCB, Min. of the Economy, Bloomberg



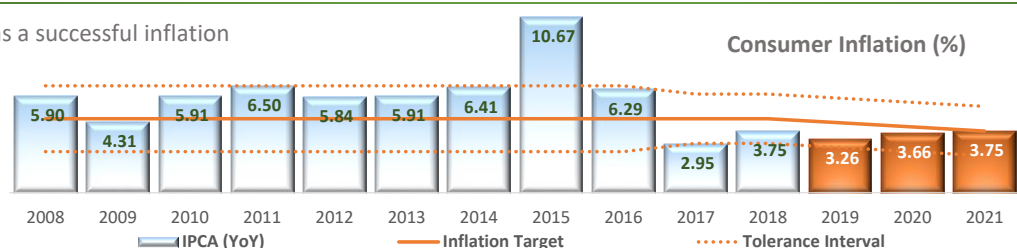
ECONOMY WATCH

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

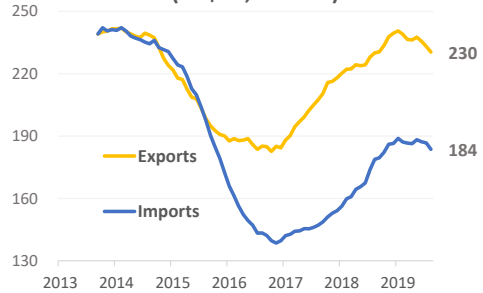
Gross Domestic Product  
(% change in 4Q)



The country runs a successful inflation target regime

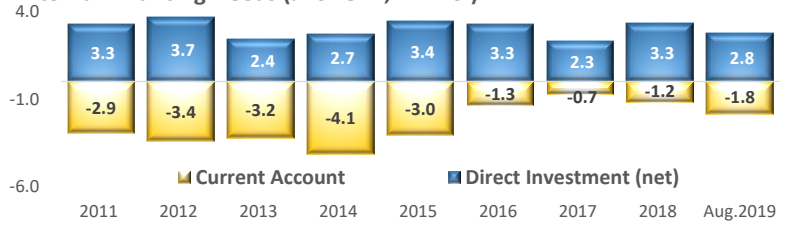


Trade Balance (US\$ bi, 12-mo.)



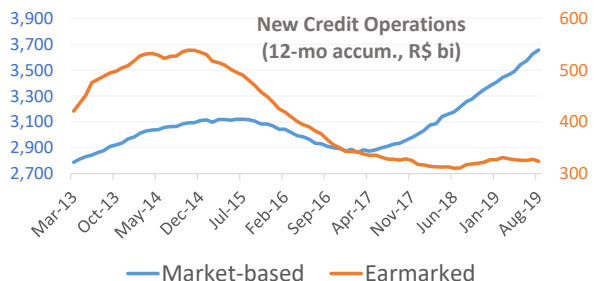
The external accounts are one of the main pillars of the Brazilian economic stability

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

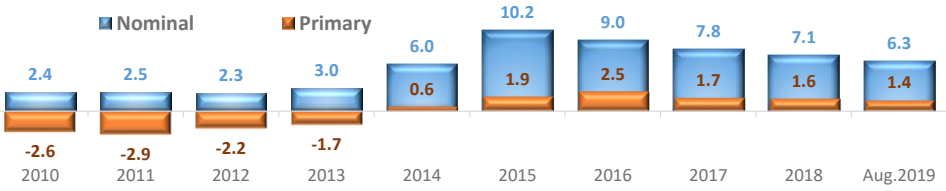


The credit market went through an adjustment process and now favors market-based operations

Household Debt Service ratio (% YoY)



Public Sector Fiscal Deficit (% of GDP)



Brazil is working to improve its fiscal sustainability

Sources: BCB, Bloomberg



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.
- 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"> <li>Privatization of 7 Distributors (CELG, CEAL, CEPISA, CERON, Eletroacre, 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>, 15<sup>th</sup>, 16<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>	
<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>

### 118 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>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>	
<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, ABGE, EMGEA, Correios, Dataprev, Serpro, CEITEC, Telebrás, BB shares</li> <li>Concession of LOTEX and PPP for COMAER</li> </ul>		
<ul style="list-style-type: none"> <li>10 Concessions</li> </ul>	<ul style="list-style-type: none"> <li>Concessions of Iguazu, 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>



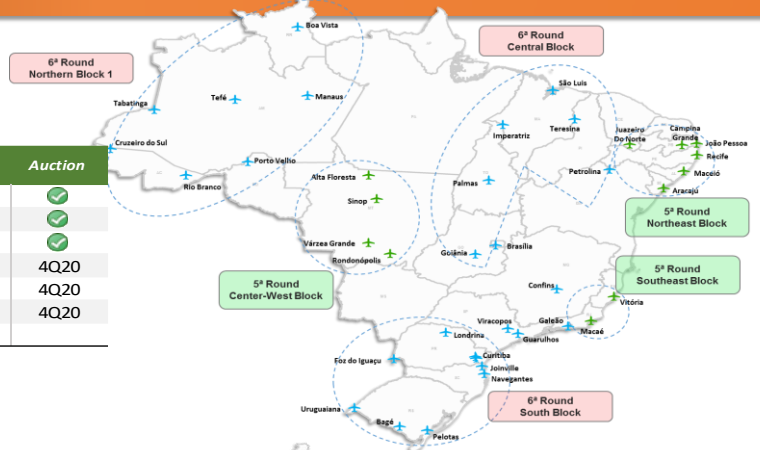
### Airports

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 (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	✓	✓	✓	✓	✓
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

### Legal certainty for foreign investors in Brazil

- The Presidential Office released a presentation on the regulatory and legal improvements aiming to bring more legal certainty to current and future investors in Brazil.
- Investments in Brazil are ruled by contracts that are respected and guaranteed in all instances. Several initiatives have been taken to create a more favorable business environment.

- Foreign or non-resident investors are recognized as the individuals or legal entities, funds or other collective investment institutions residing, based or domiciled abroad. Before initiating operations in Brazil, a non-resident investor must: a) Retain a representative body in the country; b) Submit their credentials to the Central Bank of Brazil; c) Initiate the registration process at the Brazilian Securities Commission; and d) Register at the general taxpayers' register from the Brazilian Internal Revenue Service.

### Legal framework of principles, institutions and measures for coordinating privatization policies in Brazil

#### Constitution

Private property, free competition and free enterprise are enshrined in the Constitution. It ensures the economic-financial balance in contracts signed by the Brazilian Government with private stakeholders.

**Law 13.334/2016**

Determines that assets and development policies qualified in the PPI become national priorities

**Law 13.874/2019**

Establishes rules for the protection of free enterprise and the free exercise of economic activity, institutes the declaration of economic freedom

#### Privatizations and partial-sale of State-owned Companies

**Law 9.491/1997 and Decree 2.594/1998**

Create the Destatization National Program and provides for different models to ease shareholding and public services transfer to the private sector

**Decree 9.188/2017**

Sets forth the special regime for easing assets transfer of part ally state-owned companies

**Investment in State-owned Companies**

The Supreme Court authorized the sale of subsidiaries and controlled state-owned companies without the requirement of prior authorization from the

#### Delegation of formal remit to provide public services

**Laws 8.987/95, 9.074/95 and 11.079/04**

Sets forth the general regime for concessions and permits for the public services, provides for procedures to engage private and puts forward

**Law 13.848/2019**

General Law on Regulation Agencies

**Decree 8.428/2015**

Sets forth the formal procedure to express interest to draft projects to structure assets to be offered to the

**Law 12.431/2011 and Law 11.478/2007**

Establishes the special tax regime for debentures issued by specific purpose companies, the certificates for real state yields and the credit rights shares for investment, and provides for creating an investment fund on infrastructure shareholding and on R&D shareholding

### Special regimen on public services and economic activities

**Laws 10.233/2001, 12.815/2013 and Decree 8.033/2013**

Policy for water and land transportation; economic exploitation of ports

**Laws 9.472/1997 and 13.879/2019**

General Law on Telecommunications and the model for economic exploitation of telecom services

**Law 9.478/1997**

National Energy Policy

**Law No 12.351/2010**

Regime for the exploitation of oil, natural gas, hydrocarbons and biofuels

**Presidential Decree 227/1967 and Law 13.575/2017**

Mining Code

**Law 9.427/1996**

Electric power public services

#### Settling disputes

**Law 9.307/1996 and Decree 10.025/2019**

General regime of arbitration. The decree specifically rules over arbitration regarding logistics assets in the fed-level

**Chamber of Mediation within the Fed-level Government**

Allows settling disputes between the investor and the Govt. through mediation

#### Combating corruption and promoting integrity and transparency

**Law 13.303/2016**

The State-owned Enterprises Act requires companies controlled by the Brazilian Government to adopt transparency rules and compliance programs

**Legal Ordinance 57/2019 of the Controller General's Office**

Requires the Federal Public Administration of Brazil to adopt compliance programs as a way to prevent, detect and punish corruption practices

**Law 12.846/2013 and Decree 8.420/2015**

Regulation of Leniency Agreements. The company commits itself to collaborate with investigations, pay the due amounts and adopt an integrity program. In return, it guarantees its regular operation in the Brazilian market

