G20 2016 CHINA

BRAZIL´S TEMPLATE FOR ADJUSTED GROWTH STRATEGIES FOR 2016

A. Economic Objective and Context

Between 2003 and 2008, the Brazilian economy expanded at a 4.2% pace per year. After the start of the financial crisis in 2008 and the end of the commodities super-cycle, notwithstanding great efforts to stimulate the internal demand, the Brazilian economy began to slow down and dwindled in the following years, especially in the last three.

In 2015, the Brazilian GDP contracted 3.8%, and the market predicts -3.1% for 2016 (another contraction). Due to tighter fiscal and monetary policies combined with more restrictive liquidity conditions in major economies, the Brazilian economy needs to reposition itself. A broad adjustment process is required to improve fiscal accounts and the efficiency of public programs in order to set the path for a renewed growth cycle.

In terms of inflation, the Brazilian consumer price index (IPCA) was 10.7% in 2015 and, in 2016, the IPCA should reach a level near the upper bound limit of the Central Bank target (6.5%). This expected performance is basically associated with the disinflation of administered prices as compared to 2015 and the ongoing strong recession. In 2015, administered prices increased by 15%, and, in 2016, they are expected to decelerate to 6.2%.

In line with domestic and external challenges, the Brazilian currency went through a great correction process in 2015 and 2016. As a result of this adjustment, the external deficit is undergoing a remarkable improvement. In the 12 months ended in June 2016, the current-account deficit reached 1.67% of GDP, down from 3.33% in December 2015. The current account has been improving as a result of the depreciation of the BRL and, as a consequence, the deficit should be narrowed to USD 15 billion in 2016, which represents a sustainable deficit rate of 0.8% of GDP. The trade balance is the main account responsible for this improvement and; in the first seven months of 2016, it has already accumulated a positive surplus of USD 28.2 billion, higher than an accumulated trade balance surplus of USD 4.6 billion in the same period of 2015. For 2016, it is expected a positive trade balance surplus of USD 50.4 billion.

It is noteworthy the resilience of Brazil in attracting foreign direct investment (FDI) despite the political and economic crises underway. Actually, Brazil is one of the world's main destinations of FDI, having received USD 75 billion in 2015 and is expected to receive USD 65 billion in 2016. In the first six months of 2016, Brazil had already accumulated USD 33 billion of net FDI, higher than the USD 30.9 billion net FDI accrued in the same period of 2015.

B. Macroeconomic Policy Actions to Support Growth

The fiscal consolidation underway, the adjustment of the external sector and the respective change in relative prices are bringing some benefits to the Brazilian economy in the short term, such as, for example, a lower current account deficit, weaker demand-related inflationary pressures, a revival of manufacture exports and a quicker deleveraging process for households. When this process is complete, the Brazilian economy will be ready to resume growth whilst protecting social gains from previous years.

In order to resume its path of economic growth, Brazil is pursuing a strong fiscal consolidation program. The country has rewinded a number of tax relief measures adopted in the previous years, promoted expenditure cuts and is also working to tap new revenue sources and to reform existing taxes, aiming at consolidating the fiscal adjustment program underway. Other ongoing measures are stricter rules for obtaining benefits, as it is the case in unemployment insurance and death pensions.

Identifying and proposing solutions for regulatory issues will be essential to channel private sector funds to infrastructure. Issues to be addressed may include long-term hedging, credit enhancement instruments, structured finance, standardization and liquidity of capital markets instruments, development of secondary market, attraction of pension funds and insurance companies and reserve requirement exemptions.

Public and private funding is being channeled to the concessions program through a number of actions as well as the use of new instruments such as project bonds. In the long term, a balanced budget and a stabilized debt ratio will create more adequate conditions for financing both public and private investments.

The main challenge for Brazil in the long term is to increase the total factor productivity and the capital stock as the country will not be able to add as many workers to the labor force as it did in the previous decade. To achieve that, the federal government will speed up structural reforms with measures to upgrade the educational system, improve the business environment and facilitate the access of micro and small enterprises to private capital.

C. Structural Reform Priorities

C1. Implementation of Past Growth Strategy Commitments

Find below the implementation status of challenges regarding key commitments:

1. Boost youth employment through encouraging SMEs as well as public administration to take apprentices (Pronatec Aprendiz);

2. Reduction on red tape related to opening and operating businesses – several tools have been developed to speed up and streamline the opening and closure of micro and small businesses, foster exports, among others;

3. Improvement of the business environment for Small and Medium Enterprises (SMEs) by increasing access to capital markets;

4. Advances on trade facilitation by implementing the System for Consultation on Tariff Preferences Agreements tool (CAPTA) – from January 1st to 3 May, 2016, 8,264 consultations were made to the system; among them, 7,623 were made from Brazilian terminals (92.24%) and the other ones were from 40 countries;

5. Increase the productivity of the economy through the National Education Plan (NEP), which sets 20 targets to be met over the next ten years. Among the targets are the eradication of illiteracy; increase the number of vacancies in childcare facilities, in high school, in vocational education and public universities; the availability of 100% o school care for children from 4 to 5 years; and the provision of full-time teaching for at least 25% of students in elementary education.

6. Stimulus on the infrastructure investment with 237 projects under implementation, which amount to BRL 243.56 billion (USD 72.32 billion). These projects are financed by both private and public sectors (PPPs) by means of

concessions. Most projects are financed by public-owned banks to cover part of the total cost.

7. Infrastructure Working Group. The creation of an infrastructure working group to identify market failures in infrastructure financing and propose solutions through regulatory reform.

8. Implementation of the Fiscal Consolidation Program and the Review of Fiscal Rules in order to Restore Macroeconomic Stability - Reduction of government expenditures and increase in tax collection by the government.

9. National Plan for Exports (2015 – 2018) - It has five pillars: access to markets; trade promotion; trade facilitation; reduction of the time span for exporting from 13 to 8 days and for importing from 17 to 10 days; and financing and guarantee of exports.

C2. New Structural Reform Measures

The Fiscal Consolidation Program and the Review of Fiscal Rules in order to Restore Macroeconomic Stability

The core of the Brazilian new structural reform measures is the fiscal adjustment process. The Brazilian new government has the vision that it is impossible to have a more equalitarian society in terms of income distribution, with opportunities for education and jobs for the poor, without a medium and long-term fiscal adjustment that is going to provide the environment for a sustainable economic growth. This scenario is also necessary to strengthen the confidence of the economic agents in order to uplift investments, mainly in infrastructure. Furthermore, the ongoing public concessions program, along with the revision of its regulatory framework, will contribute for the expansion of private investment in infrastructure.

Thus, in order to cope with the need for the maintenance of government debt sustainability, an improvement in the fiscal primary balance is required to provide in a sustainable fiscal way resources for investments so as to boost economic growth. Since 2015, the federal government has started to rewind the countercyclical stimulus measures, adopted after the 2008 global crisis, in order to improve the resilience of the economy to external shocks and reinforce the foundations for a new growth cycle in upcoming years. Concerning the unwinding of the countercyclical measures, some short and medium term actions were adopted for fiscal consolidation, such as:

i) reducing subsidies (e.g. by matching the TJLP rate in BNDES loans to current economic conditions);

ii) decreasing regulated price imbalances (e.g. increase fuel and electricity prices, which eliminate subsidies for consumers);

iii) streamlining some welfare programs, such as unemployment benefits and pensions entitlements, which have supported long-term and structural effects;

iv) removing some tax exemptions (e.g. Reintegra – export tax refund, and payroll tax break reduction);

v) Raising tariffs for existing regulatory taxes (Contribution on Intervention in the Economic Domain – CIDE, Industrialized Products Tax–IPI, PIS/Cofins on imports; Financial Operations Tax – IOF - on personal credit);

vi) discontinuing Treasury loans to BNDES as a policy instrument.

vii) Prepay BRL 100 billion of BNDES loans to the national Treasury in installments: BRL 40 billion (USD 10.9 billion) in 2016; BRL 30 billion (USD 7.9 billion) in 2017, and BRL 30 billion (USD 7.9 billion) in 2018.

The federal government has established an inter-ministerial working group to monitor and evaluate public spending. The goal is to improve the budgetary and financial execution of public expenditures, contributing to the achievement of the fiscal targets, the optimization of the efficiency of public spending and the enhancement of public policy and government management programs.

Besides the fiscal consolidation actions mentioned, the new administration is proposing a long term fiscal action, through a constitutional amendment which establishes a ceiling for general public spending in the following 20 years. Under this proposal, the limit to the growth of government spending will be linked to the official consumer price index (IPCA), and it can only be changed from the tenth year of the new tax regime onwards, starting in 2017.

If the different branches of power do not follow the rule to limit their expenditures according to the inflation rate of the previous year, restrictions will be applied in terms of creation of new public servant job positions and the increase in salaries, for all the government branches (federal, states and municipalities), as well as for the all the government bodies (judiciary, legislative and executive).

This measure intends: (i) to increase the predictability of macroeconomic policies; (ii) to curb the real growth of public expenditures in terms of the Brazilian GDP; and (iii) to reduce the country risk and thus make room for decreasing the structural interest rate, so as to reduce the general government debt service.

To give traction to this measure and also to help very indebted Brazilian states, the federal government concluded on August the 10th, an agreement with 23 of the 27 Brazilian states.

According to this legal commitment, which must be approved by the two houses of the Brazilian Congress, states are going to be given a two years grace period regarding the payment of their debts with the federal government.

In addition to this, these states are going to be granted a twenty years time span to pay their debts with the central government, with rules that are going to grant fiscal sustainability for these entities in the long run, since they will have to follow more strict financial and economic rules regarding their indebtedness and the hiring of public employees to work in these entities.

However, it is important to note that this measure is going to be proposed as a constitutional amendment, which requires to be voted twice in the Lower House and in the Senate, with the approval of three fifths of the votes in both houses of the National Congress.

On August 10, 2016, the government managed to approve the admissibility of this proposed constitutional amendment (PEC), which establishes a ceiling for public spending, by 39 to 18 votes. Further voting sessions are yet to follow in the House of Representatives and in the Senate, but the vast majority of votes obtained in favor of the measure is encouraging. Additionally, the Congressional Budget Commission approved, on May 25, the new fiscal target for 2016. According to that, the primary balance target for the consolidated public sector, including states and municipalities, is a deficit of BRL 163.9 billion (USD 44.9 billion or 2.65% of GDP). The central government (National Treasury + Central Bank + Social Security) primary balance may reach a deficit of BRL 170.5 billion (USD 46.7

billion) this year (2.75% of the GDP), but the states and municipalities should post a surplus of BRL 6.554 billion (0.10% of GDP), which will render the general government primary deficit to be 2.65 % of GDP.

Brazil is undergoing a period of economic slowdown mainly due to the macroeconomic adjustment in course. The following elements show why the Brazilian economy has potential to recover from this recessive cycle:

1) Capital per capita in the country is still low, which provides for high marginal capital productivity. Brazil is improving the quality of its labor force through a series of initiatives, such as the "Sciences without Borders" and the "National Program of Access to Technical Learning and Employment (PRONATEC)" program;

2) Brazil is improving the business environment through the reduction of red tape related to opening and operating a business, especially for SMEs, and this should ignite a new cycle of economic growth;

3) The fiscal adjustment and the structural reforms underway will contribute to the growth of the Brazilian Economy. The population is still growing and the improvement in education and training of the labor force has a long way to go; and

4) Income distribution policies in Brazil have resulted in a significant improvement in the last years, putting the country as the third best performer in the Sharing Prosperity indicator (a World Bank measure of economic inclusion).

The Strategy for Resuming Growth

The Brazilian approach to deal with the challenges of the current economic environment has two basic points: in the first place, swiftly restoring fiscal balance by restraining budget expenditures and putting public debt on a stable trajectory as well as rolling back countercyclical measures, including tax breaks and low-cost official credit; and, secondly, allowing for market determination of prices so as to realign them to reflect supply and demand, and providing other avenues to stimulate investment, by improving the regulatory framework for concessions and promoting the enhancement of the business environment.

In addition to fiscal consolidation, the federal government is preparing the country for a new investment cycle that will stimulate growth. Brazil's proposed agenda for the 2015-2018 period is based on four basic pillars:

i. investment in infrastructure – removal of regulatory obstacles to increase investment, especially in infrastructure, by means of the expansion of the private sector participation; concessions of roads, airports, ports and railways; integration of agriculture via logistics improvement and its strengthening by building storage capacity; setting up of a regulatory framework more appropriate for "project financing"; creation of new financial instruments, renewal of concessions in power distribution; and more efficient sharing of logistics;

ii. trade and productivity – an articulated set of policy measures for increasing competiveness in order to cope with the effects of the subdued recovery in the advanced economies and international trade. The priority is to increase the engagement of the country in world trade and financial flows, so as to better integrate Brazil in the global supply chains and generate high income jobs. In order to promote trade, the federal government has just launched the National

Export Plan, which aims at diversifying merchandises and destination markets, reduce barriers to trade and promote better inclusion in global value chains. For that to become a reality, it is imperative to advance in trade negotiations and improve the Education & Innovation systems;

iii. tax and financial reforms – streamline taxation, including on savings and sub-national VAT, and stimulate the domestic capital markets. Regarding the VAT (ICMS tax) reform, notwithstanding support from state governors and the proposed fund for compensation of states' lost revenues with the reform, the government is finding some resistance in the National Congress to approve the new tax legislation, but it is going forward.

iv. convergence of macro policies with competition – by which long-term fiscal balance will permit the convergence of inflation to the target, lowering downwards the long yield curve, extending loan terms, and providing increased funding for new companies, and smaller geographic concentration of investments.

Monetary Policy and Exchange Rate Policy

Monetary policy in Brazil has aimed at bringing back inflation to the center of the target band (4.5 +- 2%), a goal that remains valid in spite of a worsening balance of risks. After strong relative price adjustments, the inflation rate reached 10.7% in 2015. Since then, Brazil's CPI has been showing signs of deceleration. Some uncertainties regarding the fiscal outlook and the external scenario persist, but labor and credit markets have responded faster than expected. The monetary policy committee is confident that inflation will be within the target band (2.5% to 6.5%) by the end of 2016 and remains strongly committed to bringing inflation back to its mid-point (4.5%) by 2017.

The Central Bank of Brazil has raised the monetary policy rate by 7 p.p. since April 2013, and is committed to keep the rate at 14.25% as long as it remains necessary to make inflation expectations converge to the center of the target band. Such a strong monetary policy stance, in tandem with measures to ensure fiscal consolidation, is crucial for restoring confidence in the macroeconomic framework. Despite the weak economic activity this year, after the needed period of adjustment, the pace of domestic growth will build up as confidence of households and investors strengthen. In sum, ensuring price stability is key to provide more favorable conditions for growth over the medium term. This is the central contribution of the Central Bank of Brazil to the G20 Framework exercise.

Brazil has proved its commitment to a floating exchange rate regime, without jeopardizing financial and price stability. The floating exchange regime provides the first line of defense to external shocks and is working well, allowing the BRL to adjust to a new macroeconomic environment. The Central Bank of Brazil's interventions have been geared at reducing volatility and managing capital inflows, resulting in an increase in international reserves during 2006 to mid-2011 – a key tool to cope with volatility and exogenous shocks. Since then, reserves have remained broadly stable at around USD 375 billion. Furthermore, in 2015, Brazil's external position strengthened and got closer to the level consistent with medium-term fundamentals and desirable policy settings.

From August 2013 to March 2015, the Central Bank of Brazil offered foreign exchange hedge to the market through a program of FX swaps auctions, reducing excess FX and capital flows volatility. Since then, swaps have been rolled over in a manner that maintains adequate levels of foreign exchange liquidity. Notably, the swaps are settled exclusively in domestic currency, therefore they do not affect the level of FX international reserves. The program was successful in preserving financial stability in a context of high exchange rate volatility and strong nominal and real depreciation of the currency, facilitating the external adjustment of the Brazilian economy. Given the favorable exchange rate dynamics in recent months, the Central Bank of Brazil has gradually unwound its stock of swap operations (the total national value was brought down from more than BRL 100 billion to approximately BRL 65 billion). This move bolsters the rebuilding of policy buffers that may be useful in case of new bouts of volatility.

In addition, rigorous banking supervision and regulation have ensured the soundness of the Brazilian financial system over the period of the crisis and in its aftermath. The Brazilian regulation system is comprised of forward-looking provisioning rules; limits on large exposures; mandatory registration of OTC derivatives; and prudential consolidation. Financial supervision main features include a risk-based approach; contingency planning and assessment of organizational structures dedicated to risks; frequent on-site examinations; rating of supervised institutions; specific monitoring of market liquidity risks; monitoring of aggregate evolution of systemic risk over time; and periodic application of stress tests to financial institutions' statements.

In the past few years, credit growth has decelerated, even as sectors with a still relatively low level of credit and higher impact on the economy, such as housing, have gained space. The Central Bank of Brazil has detailed information about all credit operations above BRL 1,000, covering 99% of total credit operations in the country. Better risk assessment is enabled through shared information with banks. Brazilian banks are among the most capitalized, liquid and provisioned in the world, with low reliance on external resources and low exposure to foreign currencies.

Fostering Reduction in external and internal imbalances, including income inequality

The federal government is preparing the economy for a new investment cycle that will induce growth. The removal of regulatory obstacles to increase investment, especially in infrastructure, an articulated set of policy measures for increasing competiveness and concentrated efforts to improve the educational levels and skills of the labor force and the innovation capacity of our small and midsized firms will enhance the productivity of the economy and raise the potential growth of the Brazilian economy in the long term.

Since these measures will strengthen the economy, i.e., reduce internal and external imbalances, Brazilian economic growth is going to be stronger, more sustainable and balanced. Therefore, the resumption of growth will provide the secure basis to restore large-scale social spending policies to help lift more people into the ranks of the middle class and reduce the still high income inequality.

Given the threat of increased unemployment, the federal government has put in place the Employment Protection Program (EPP). The aim is stimulate the permanence of 50,000 workers in companies that are in temporary financial difficulties. The proposal provides for the reduction of working hours by up to 30%, with a supplement of 50% of lost wages by the Worker Support Fund (FAT). The EPP encourages the maintenance of formal employment, allows businesses to take time for their recovery, prevents turnover and preserves the expenditures made in training. The validity period for the use of the program is six months, but it was extended for 12 months. Six companies have already joined the EPP and 27 others are in accession process, totaling 23,971 workers.

Until March 2016, 140 enterprises have requested inclusion in the Employment Protection Program (EPP). Up to now, 54,633 workers have benefited from the Program and 3,687 requests are under analysis. In terms of values, the EPP has granted about R$ 150 million (USD 43 million) in benefits and is expected to grant R$ 8 million (USD 2.3 million) more in benefits, which are now under analysis.

Policy Actions Spillovers and Management of Spillovers Arising from Domestic Policies.

As Brazil is experiencing an economic downturn this year, the country will likely exert a drag on the South American region. Brazil is a major market for regional exports, so the main channel of transmission is through net trade.

However, policy actions to reduce infrastructure gaps and enhance competitiveness in Brazil will likely generate positive spillovers abroad in the form of imports of goods and services. Brazilian imports reached USD 172.4 billion in 2015 (down from 229.1 billion in 2014), one fifth of which are related to the purchase of capital goods. In the first seven months of 2016, Brazilian imports have already accumulated USD 78.3 billion, a figure much lower than USD 108.2 registered in the same period of 2015, but yet significant

The ongoing infrastructure investment package in the form of concessions to the private sector creates good opportunities for both national and foreign investors.

Brazil: Infrastructure Projects - concessions to the private sector: from Jan/2013 to Dec/2015

Sector	Number of projects	Contracted investments (BRL billion)	Contracted investments (USD billion)
Investment Projects in the Implementation Stage			
Railways	1	9.37	2.72
Ports	158	40.80	11.82
Highways	13	50.57	14.65
Power Generation	24	70.79	20.51
Power Transmission	8	29.40	8.52
Oil and Natural Gas Exploration and Production	7	7.02	2.03
Urban Transportation	4	10.11	2.93
Airports	8	16.28	4.72
Telecom	14	9.22	2.67
Subtotal	237	243.56	72.32
Investment Projects in the Pipeline			
Railways	21	41.20	11.94
Ports	48	11.30	3.27
Highways	5	81.50	23.62
Power Generation	3	-	-
Power Transmission	1	-	-
Oil and Natural Gas Exploration and Production	1	-	-
Urban Transportation	3	14.05	4.07
Airports	8	-	-
Telecom	-	-	-
Subtotal	90	148.05	42.90
total	**327**	**391.61**	**113.48**

Source: Ministry of Finance of Brazil (MF/SEAE).
Average exchange rate of BRL 3.4508 per USD 1.00. Exchange rate - Free - United States dollar (sale on April 29th 2016), link: https://www3.bcb.gov.br/sgspub/consultarvalores/telaCvsSelecionarSeries.paint

D. Investment Addendum

Investment Ecosystem Facilitators

The infrastructure debentures in Brazil have been divided in two types: project debentures (project bonds) and corporate debentures (corporate bonds). From January 2012 to March 2016, a total of 64 emissions have taken place, amounting BRL 21.47 billion (USD 6.22 billion).

The main original features of this instrument were: i) minimum duration of 4 years at issuance (6 years in the case of FIDC); ii) fixed rate or inflation-linked; iii) no repurchase by issuer during the first 2 years after the issuance date; iv) no resale commitment undertaken by the buyer; v) periodic interest payments (if applicable) of no less than 180 days; vi) registration in a regulated securities market authorized by the Central Bank of Brazil or the Brazilian Securities Commission; vii) simplified procedures showing the issuer's commitment to allocate raised funds in future payments or reimbursements of expenses, costs or liabilities related to investment projects; viii) these instruments are not eligible for the tax breaks; Recently, on April 11th 2016, aiming at improving the infrastructure debenture instrument, the National Monetary Council, by Resolution No. 4,476/2016, decided in an extraordinary meeting to authorize the advanced settlement for infrastructure debentures, i.e., before the rescue at the end of the period of validity, provided that they meet the following conditions:

i) closeout at the sole discretion of the issuer, provided there is expressed provision;

ii) a minimum interval of four (4) years after the issue;

iii) the early settlement will be permitted for the debentures issued until December 31, 2017.

The federal government has also changed the loans terms of the BNDES for concessions in infrastructure and has announced that this institution will finance a larger share of the projects and offer lower interest rates. In practice, the final cost of operations per year should fall by 1.3 and 2 percentage points, ranging from 9.0% to 12.4%.

The National Monetary Council has undertaken many technical changes to improve investments by pension funds in infrastructure projects. Two of them were: a) increase the cap limit from 10% to 15% of open pension funds that are allowed to invest in infrastructure debentures and b) with regards to closed pension funds, the council has included infrastructure debentures as fixed assets.

Investment Ecosystem Safeguard

Released on September 2015, the State-Owned Enterprise Governance Program, aimed at opening state companies or companies in the process of IPO, was developed with the objective of encouraging these companies to improve their practices and corporate governance structures.

The State-Owned Enterprise Governance Program is voluntary and companies that implement the twenty five (25) governance measures contained therein will be certified as Category 1 – in which all measures are mandatory – or Category 2 – in which, in addition to 6 mandatory measures, the state company should obtain 27 points out of the 37 available regarding optional measures.

Concerning Public-Private Partnerships, the PPP framework in Brazil is regulated by the federal law No. 11.079/2004, which establishes the general rule for selecting and contracting the private sector partner at both national and sub-national levels.

The Brazilian PPP legal framework defines PPP as a concession contract that may take one of two forms: “sponsored” concession; or “administrative” concession.

Brazil´s PPP contracts should have duration of at least five years (with a maximum term of 35 years) and private agents are rewarded exclusively by the government or a combination of both fees charged from users and public funds that can be established between private and public partners. The payments to the private sector must be tied to the quality of the service, and monitoring and evaluation must be based upon performance standards.

In a sponsored concession, the private partner revenues come from fees charged from the users, and financial subsidies paid by the contracting public entity as the services are delivered. For the administrative concessions, the contracting state entity pays fully for the services provided; there are no user fees.

In December 2015, the Central Bank of Brazil has changed the rules concerning reserve requirements by allowing financial institutions to use part of the resources from the savings account to finance infrastructure projects related to the Growth Acceleration Plan (PAC). An estimated amount of BRL 3 billion (USD 870 million) will be reoriented to the infrastructure sector. This rule only applies to operation signed until July 2016.

The federal government has changed the rules related to the participation of BNDES in infrastructure projects to allow greater share in the financial pool, with the margin ranging from 30% - 70% to 40% - 80% (depending on the mode), and also by offering lower interest rates, reducing the costs by 1.3 to 2 percentage points.

In March 2016, the Ministry of Finance has suggested two new measures: a) to facilitate the emission of infrastructure debenture – created by the decree 7,603/2011; and b) to allow for the capitalization of the Infrastructure Guarantee Fund (FGIE) with federal real state valued at R$ 500 million (USD 145 million).

The newly acting President of Brazil, Michel Temer, has created the Investment Partnership Program (IPP) to regulate the interaction between the Brazilian federal government and the private sector through partnership contracts for the execution of infrastructure projects.

The primary objectives of the program are to: i) boost opportunities for investment and employment; ii) encourage technological and industrial development; iii) strengthen public infrastructure investments; iv) ensure legal certainty with a minimal intervention of the Brazilian state in businesses and investments; and v) strengthen regulatory actions by way of the autonomy of the regulatory agencies. Public officials are also obliged to treat investment projects related to IPP as a national priority.

There are significant and innovative points in the program, such as: i) constant monitoring of the project phases and results; ii) elimination of bureaucratic barriers to enhance the organization´s business activities, efficiency and effectiveness in measures to encourage competition; iii) prevention and prosecution of violations of economic order; and iv) cooperation with the control authorities to increase administrative transparency.

The measure has also created two new entities. Firstly, an advisory body, called Investment Partnership Program Counsel, for monitoring the IPP projects composed of ministers from various areas related to infrastructure to advise the Brazilian President. In addition to the new responsibilities, the council has incorporated three existing councils: the Public-Private Partnerships Management Agency, the National Council for Integration Transportation Policies and the National Denationalization Council. Secondly, it was created the Supporting Fund for Structuring Partnership, which is subordinated to the Brazilian Development Bank. It will be responsible for many financial services in the IPP projects.

Regarding sustainable and clean energy in Brazil, 1 GW of energy has been contracted, in 2015 alone, using wind power with an estimated total investments amounting BRL 4.8 billion (USD 1.4 billion). According to the Brazilian Federal Energy Planning Company (EPE), between 2016 and 2018, 33 solar power projects and 20 wind power projects are expected to attract BRL 6.8 billion (USD 2 billion) in investments.

ANNEX 1. PAST COMMITMENT – BRISBANE AND ANTALYA COMMITMENTS

PRONATEC Apprentice	**1. Boost youth employment through encouraging SMEs as well as public administration to take on apprentices.**		
Inclusion of the commitment in growth strategies	Antalya Growth Strategy		
	Interim Steps for Implementation	Deadline	Status
Detailed Implementation path and status	The PRONATEC Apprentice aims to benefit adolescents over 15 years, focusing on those living in vulnerable situations or rescued from child labor. In that sense, the measures have the goal of facilitating the transition from school to work and the promotion of youth employment. In addition, the program allows small and micro firms to have access to the capacity-building of its employees. Through the PRONATEC Apprentice, thousands of young people are expected to be trained and to enter into the formal labor market, contributing to the reduction of unemployment, raising productivity and promoting a stronger economic growth. After restructuring the program, it is expected to offer 150,000 vacancies in courses through the PRONATEC Apprentice until 2018. The program is undergoing restructuring. In 2015, some classes were started in the Northeast on a pilot		

	basis. Under the PRONATEC Apprentice was created the Youth Sports Program Apprentice, a program that hires young people to work in the main sports events, such as the 2016 Olympics. With 455 vacancies, registrations have already been confirmed, and the expectation is to expand the program further in 2016 to other states. In public health, there is a project being designed to mobilize young people in the national effort to fight the Aedes aegypti mosquito.		
Impact of Measure	Improve the qualification of young employees as well give opportunity to them to enter into the job market.		

The policy action:	**2.Reduce red tape related to opening and operating business**		
Inclusion of the commitment in growth strategies	Brisbane Growth Strategy.		
	Interim Steps for Implementation	Deadline	Status
	This measure reduces the cost to start up a business in Brazil. The reduction of red tape, transaction costs and time required to comply with all regulations will encourage entrepreneurship with positive effects on employment and GDP as well as general improvement in the business environment. The features offered in other areas seek to deal with difficulties that impact more strongly the smaller companies. Thus, the SMEs can deal with red tape more quickly and painlessly, become more innovative, have more access to bank credit, capacity-building and certification and, therefore, more prepared to expand their own markets. Complying with regulations hinder SMEs' activities more than paying tax. As a result of the pilot project implemented in the Federal District the total time to open a business has fallen to 15 days, and businesses can be closed		

	automatically through the internet. Overall, opening up business in Brazil has become easier; SMEs can start up or be closed even with pending tax, social security or work legislation problems.		
Impact of the Measure	Encourage entrepreneurship with positive effects on employment and GDP, as well as general improvement in the business environment with strong impact on the smaller companies.		

The policy action:	**3. Improve the business environment for SMEs by increasing the access to capital markets**		
Detailed implementation path and status	Interim Steps for Implementation:	Deadline	Status
	1 - Preparation of legislative proposal to enable and make attractive investments in SMEs, currently affected by barriers to corporate capital composition and red tape difficulties in opening the capital of enterprises that are not incorporated in the form of joint-stock company 2 – Development of a legal provision that does not exclude the National *Simples* regime[1] to SMEs that have received investment (there is prohibition to that in the current legislation).	1 - Finished 2- Topic contained in the bill under discussion in Congress.	2- Under examination by the Special Committee in the House of Representatives.
Impact of Measure	This measure aims to increase investment in Micro and Small Enterprises (SMEs). If approved, it is expected to favour businesses with more access to bank credit. This will contribute to generate more jobs and higher economic growth.		

CAPTA	**4. Advanced trade facilitation by implementing the system for consultation of tariffs preferences agreements tool**		
Inclusion of the commitment in growth strategies	Brisbane Growth Strategy.		
	Interim Steps for Implementation	Deadline	Status

[1] The *National Simples* is a differentiated, simplified and favored tax regime for small and middle enterprises (SMEs), provided by Complementary Law No. 123/2006. It covers the participation of all government entities (federal, state and municipalities). It is managed by a steering committee composed of eight members: four from the Federal Revenue of Brazil (RFB), two from the states and two from municipalities.

	From January 1st to May 3rd, 2016, 8,264 Consultations to the system were made, among them, 7,623 were made from Brazilian terminals (92.24%) and the other ones were made from 40 countries. The second version of the system is already effectively implemented since June 2015.	Not available	It is not possible to estimate a precise number of beneficiaries.
Impact of Measure	The increase in the number of Brazilian imports and exports.		

National Education Plan	**5. Increase the productivity of the economy through the National Education Plan**		
Inclusion of the commitment in growth strategies	Antalya Growth Strategy		
	Interim Steps for Implementation	Deadline	Status
Detailed Implementation path and status	The Brazilian Chamber of Deputies concluded on June 3rd, 2014, the passing of the National Education Plan (NEP) for the next ten years. The bill was signed into law by the president of Republic on July 25th 2014. The NEP sets 20 targets to be met over the next ten years. Among the targets are the eradication of illiteracy; increasing the number of places in childcare facilities, in high school, in vocational education and public universities; the availability of 100% of school care for children from 4 to 5 years; and the provision of full-time teaching for at least 25% of students in elementary education. - These NEP policy measures are to be started in 2015 and completed in 2024. The implementation details of each one of the 20 targets will be provided later on. This program has been put on hold indefinitely due to the implementation of the Fiscal Consolidation Program, the review of fiscal rules in order to restore the country´s macroeconomic stability, budget constraints, change of government and the high decrease of the international price of oil		

Impact of Measure	Increase the level of education of the Brazilian population in order for them to get higher paid jobs.		

Infrastructure Working Group	**6. The creation of an infrastructure working group to identify market failures in infrastructure financing and propose solutions through regulatory reform regulatory reform**		
Inclusion of the commitment in growth strategies	Brisbane Growth Strategy, with incremental changes in Antalya and now.		
	Interim Steps for Implementation	Deadline	Status
	The group was launched on May 7, 2014, with a term of one year to present final recommendations. The conclusions of this working group were analysed by each regulatory agency in their respective field of responsibility and by other government institutions (Ministry of Finance and the National Development Bank-BNDES) in order to prepare specific measures to tackle the problems identified and the implementation of its proposals.		
Impact of Measure	The conclusion of this working group resulted in the creation of Investment Partnership Program (IPP), which aim is to regulate the interaction between the Brazilian federal government and the private sector through partnership contracts for the execution of infrastructure projects.		

<table>
<tr><th>Concessions Program</th><th colspan="3">7. Boost investment with 237 projects under implementation and more in the pipeline</th></tr>
<tr><td>Inclusion of the commitment in growth strategies</td><td colspan="3">Brisbane Growth Strategy, with incremental changes in Antalya and now.</td></tr>
<tr><td rowspan="2"></td><td>Interim Steps for Implementation</td><td>Deadline</td><td>Status</td></tr>
<tr><td>The number of contracted projects from January 2013 to December 2015 is 237, with a total budget of R$ 243.56 billion (USD 72.32 billion), all of them are now in implementation. In addition to this, 90 new projects with a total budget of R$ 148.05 billion (USD 42.90 billion) are in the pipeline.

The 237 projects in the implementation stage are contracted with private undertakers and investors by means of concessions. Most projects receive loans from public-owned banks to cover part of the total cost.</td><td></td><td>Therefore, Brazil has currently a global package of 327 infrastructure projects in the form of concessions to the private sector, with a total budget of R$ 391.61 billion (USD 113.48 billion)</td></tr>
<tr><td>Impact of Measure</td><td colspan="3">The economic impact of each project in the form of change in GDP and employment has to be assessed one by one.</td></tr>
</table>

<table>
<tr><th>National Plan for Exports - 2015-2018</th><th colspan="3">8. Further Diversifying Brazil's exports, reducing barriers and promoting better inclusion in global value chains</th></tr>
<tr><td rowspan="2">Inclusion of the commitment in growth strategies</td><td colspan="3">Antalya Growth Strategy</td></tr>
<tr><td>Interim Steps for Implementation</td><td>Deadline</td><td>Status</td></tr>
</table>

Detailed Implementation path and status	The National Exports Plan, announced by the federal government on June 24th, has five pillars: 1. Access to markets (negotiate agreements in bilateral, regional and multilateral fronts to open markets and remove barriers to trade); 2. Trade Promotion (32 target markets; unified trade missions calendar; export culture diffusion and capacity-building for firms to export); 3. Trade facilitation (implementation of the WTO agreement in trade facilitation; elimination of paperwork in all export and import procedures to be implemented in 2015; reduction of the time span for exporting from 13 to 8 days and for importing from 17 to 10 days, mutual certification of the Authorized Economic Operator/AEO with other countries); 4. Financing and guarantee to exports (PROEX Equalization - increase the budgetary appropriations for interest rates equalization by 30% in 2015; and BNDES EXIM - increase of post-shipment export credits from USD 2 billion to USD 2.9 billion, wider access to pre-shipment credits, improvement and enhancement of insurance and financing instruments for exporters (incentives for private banks to finance exporters; simplified rules for access to the Export Credit Insurance-SCE; performance insurance by the SCE/FGE; increase the limit for approval of new credit operations by US$ 15 billion in the Export Insurance Fund–FGE; wider access for SMEs to SCE; reduction of red tape in public financing operations and integration to the Single Window for Foreign Trade. 5. Improvement of tax regimes and mechanisms of export support: uplift of the tax environment for exporting companies through the following measures: - New DRAWBACK: With the introduction of a positive registry		

	system, benefiting companies with continuous flow of operations; - RECOF: Increased access to the tax regime by modifying the eligibility rules; - Reform of the PIS/COFINS contributions through the simplification in the calculation of credits, the increase of the speed in reimbursements and the reduction of tax residue across export supply chains; - REINTEGRA: This program allows the recovery and better operation of tax values obtained through exports. The gains from the Plan for Exports are going to be fully effective in 2016.		
Impact of Measure	In the first week of August 2016, the trade balance registered a surplus of US$ 637 million, the result of exports of USD 3,435 billion and imports of US$ 2,798 billion. In the year, exports totaled USD 110.020 billion and imports, USD 81,154 billion, with a surplus of USD 28.866 billion. (Source: MDIC)		

Fiscal Consolidation Program for 2015-2017	**9.The Fiscal Consolidation Program and the Review of Fiscal Rules in order to Restore Macroeconomic Stability**		
Inclusion of the commitment in growth strategies	This measure was included in the Antalya Growth Strategy and modified in the present Hangzhou Growth Strategy.		
Detailed implementation path and status	Interim Steps for Implementation	Deadline	Status
	The federal government emphasizes its strong commitment to sound and effective fiscal and monetary policies that have been put forward for the next years. They provide the necessary foundation for the government's actions to continue improving the quality of living of the population. In addition, the federal government proposed the review of fiscal rules in order to achieve a medium-term fiscal equilibrium. Challenges for fiscal policy remain broadly in line with the ones that guided the current fiscal framework design. The fiscal measures were detailed in the item (C).		

Impact of the Measure	Stabilization of the Brazilian Gross Debt/GDP ratio, and a subsequent reduction of this index.

Other Non-Key Commitments

Employment Protection Program (EPP)	**1. To stimulate the permanence of workers in companies that are in temporary financial difficulties and also to reduce inequality that may derive from increase in unemployment.**
Implementation path and expected date of implementation	The federal government sent to Congress on July 2015 an Interim Measure (MP) creating EPP. The aim of the proposal is to stimulate the permanence of workers in companies that are in temporary financial difficulties. The proposal provides for the reduction of working hours by up to 30%, with a supplement of 50% of lost wages by the Worker Support Fund (FAT), limited to 65% of the biggest benefit from unemployment insurance (BRL 1385.91 x 0,65 = BRL 900.84 (USD 261). For example, in a 30% reduction of the journey, a worker who receives today BRL 2,500.00 (USD 724) in salary and enters the PPE will receive BRL 2,125.00 (USD 616), of which BRL 1,750.00 (USD 507) are paid by the employer and BRL 375.00 are paid with FAT resources. The EPP encourages the maintenance of formal employment, allows businesses to take time for their recovery, prevents turnover and preserves the expenditures made in training. Companies retain skilled workers and reduce dismissal costs, hiring and training, and will have reduced spending on wages by 30%. The federal government keeps part of the revenues with social contributions on wages. Companies and employees should adopt the decision to join the EPP through a specific collective agreement in which the company must prove its economic and financial situation of difficulty. The validity period for the use of the program is six months and may be extended
Status of Implementation and Impact	Until March 2016, 140 enterprises had requested inclusion in the EPP. Up to now, 54,633 workers have been benefited by the Program and 3,687 requests are under analysis. In terms of values, the EPP has granted about BRL 150 million (USD 43 million) in benefits and is expected to grant more BRL 8 million (USD 2 million) in benefits, which are now under analysis.

The policy action:	**2. The National Export Culture Plan for SMEs (PNCE)**
Implementation path and expected date of	The PNCE was created in 2012 and its main objective is to increase the Brazilian exportable base. The Ministry of Development, Industry and Trade (MDIC) intends to support

implementation	the internationalization of SMEs through various actions such as training, workshops, business rounds, trade missions etc. Management Committees established on each of the 27 participant states are responsible for planning and organizing such actions and also setting goals, for example, the number of internationalized companies each year. The plan has a Management Committee on each of the 27 participant states which has the responsibility to plan actions and set up the goal of how many companies will be internationalized each year. Since 2012, there has been progress in two aspects: number of institutions and participating states, which increased; and the degree of coordination among the stakeholders, which has become more complex. However, the initiative has not yet resulted in a significant increase in export earnings of the firms involved. For this reason some improvements are being implemented, e.g.: i) studies about which sectors in which regions throughout the country have the greatest export potential will guide the organization of actions in each state; ii) the implementation of an "internationalization path" will allow for SMEs to receive training in a logical order, following the stages a company needs to go through in order to export; iii) individualized assistance for SMEs; iv) establishing and monitoring indicators throughout the stages of the "internationalization path"; v) creating action plans for the 27 participant states considering the level of maturity of the SMEs. The PNCE brings together, in one hand, federal, state institutions, and trade associations, which are identified as partner institutions; and on the other hand, sub-national governments. The companies are registered in a System with basic and detailed information.
Status of Implementation and Impact	In 2015 and 2016, MDIC and Foreign Trade performed 23 training sessions in 13 states. In the same period, Apex-Brazil performed 20 workshops of competitiveness, 6 businesses rounds and launched a new cycle of the PEIEX project (Extension Industrial Export Project) in 7 states. In the same period, the National Confederation of Industries (CNI) performed 20 actions linked with the PNCE (businesses rounds, missions and trade shows). There are 119 registered partner institutions from 16 states encompassing all regions of Brazil. Currently, 1,471 companies and 217 actions are registered, which can be performed in the entire country. Among these 217 actions, 150 were planned in 2016 and 30 of these have already been implemented. It is expected an increase in the Brazilian exports, mainly in the number of exports made by SMEs. It is also expected a middle–term positive impact on GDP and employment.

The policy action:	3. The National Plan for Combating Informality (PLANCITE)
Implementation path and expected date of implementation	The PLANCITE was planned in four pillars: I – Increase of fiscal presence through the improvement of labor inspection; II - Policy Integration with other government areas; III - Encouraging social dialogue; IV - Dissemination and awareness of social actors. Thus, in addition to new policies created from the plan, the numbers of Brazilian policies that generate positive impact on formalization are being integrated to expand the results. The PLANCITE provides integrated enforcement policies with other areas of the MTE and the federal government as a whole to reduce informality rates in Brazil. The first stage of the plan, up to 31/12/2014, involved the publication of regulations, adequacy of planning, and training of inspectors and adaptation of computerized systems. The second stage started on 01/01/2015 involving a monitoring campaign, integration with other agencies and entities and increase in the penalties for companies that keep maintaining informal employees. In 2016, Brazil intends to intensify inspections and adopt specific approaches by economic sectors.
Status of Implementation and Impact	In 2015, through labor inspection 244,976 workers were directly formalized. However, due to two factors, this number fell short of the target of 400,000 workers set for the year. In first place, there was a considerable reduction in the number of Tax Auditors caused by the high number of retirements without any effective replacement. Additionally, a strike movement of this working category started in the second half of the year, delaying in this way the scope of the program. For 2016, the operational strategy provides enforcement actions in regions and economic sectors with greater informality index by mapping the informality considering economic activity, the municipality, the micro and the federative unit. It has been planned 229,000 urban, rural and maritime fiscal actions at an estimated cost of BRL 1.6 billion (USD 540 million).

The policy action:	4. E-Social System. [1]
Implementation path and expected date of implementation	The site used for the payment of household employee taxes (E-Social) was established on December/ 2014 and its main objectives are: unify the information about employees and integrate the information about employees, under the umbrella of a single electronic system, managed by all agencies that need to receive information from employers about their employees. Its implementation follows this schedule: I - The conveyance of information from companies with revenues above BRL 78 million (USD 29.3 million) in 2014 will occur. II - The transmission of information for the other companies should occur. The project is still being implemented, but it is expected to bring more security to information, lower costs for companies and higher warranty rights for workers. In December/2015, the E-Social was updated to allow for the payment of tax obligations on the 13th salary. From this date onwards, employers may issue a payment form for the FGTS (Workers' Guarantee Fund for the Time of Service) on the first installment of the 13th wage, which has to be paid to domestic workers until the 30th of the three month period.
Status of Implementation and Impact	Not available.

The policy action:	5. Support to Trade Facilitation (I) - The Single Window for Foreign Trade (PORTAL)
Implementation path and expected date of implementation	The PORTAL was launched in April 2014.The program is jointly funded by the Federal Revenue Agency of Brazil (RFB) and by the MDIC´s Foreign Trade Secretariat (SECEX). The amount of funds relies on approval of budget disbursements. For the year 2015, there are BRL 15 million (USD 3 million) set aside in the budget of SECEX and BRL 9 million (USD 2.25 million) in the RFB´s budget. The PORTAL consists of a number of projects with several deliverables made available as they are designed and developed. Therefore, there is not a single schedule of implementation. The first deliverables under the PORTAL were made available in the first year of the program, as follows: - SISCOMEX PORTAL: Is a web platform which will integrate

[1] E-social is an integrated information collection system which aims to simplify the compliance of labour and social security obligations by firms. It will create a single channel for relaying information to the federal government and will help guarantee worker rights as well as improve the quality of the information conveyed.

	all Brazilian commerce systems and provide a unique interface between private and public stakeholders in the Brazilian foreign trade; - Integrated Vision System: allows the importer, the exporter and their legal representatives to access the SISCOMEX system in order to conduct consultations on their import and export operations, both in progress and already completed, indicating the current status of each operation and fully displaying all the steps without the need to check other systems; - Drawback Web Exemption: Is a systematized and automated processes for granting the Integrated Drawback Regime Exemption, allowing the replacement, free of taxes, of inputs used in the production of exported goods; - New Web Declaration of Exports System: Conveyance though web of customs export declarations; - System of Electronic Document Attachment: Allows sending scanned documents to the agencies involved in foreign trade. Deliverables are taking place within the time limits provided in the program schedule.
Status of Implementation and Impact	December, 2015 - The new Web Licensing System was launched in December, 2015. Because of the transference of a Visual Basic platform to the more updated and flexible solution of the WEB, it represents an important evolution on the current system. With the system, licensing work can be done from any internet access point and not only from dedicated machines. That enables work decentralization and improvement in the agencies human resources management. Additionally, new functionalities as the extraction of management reports are now available to the governmental bodies. Along these developments, changes were also made in the private sector web request licensing systems. In this sense, importers can register their batch solicitations using their own systems to send this request, diminishing human intervention in the process; - March, 2016 - Electronic Document Submission System, launched in December 2014 for both import and export procedures, allows documents from administrative and customs processes to be submitted electronically, making them available to all agencies that require them. By the end of March 2016, not only Brazilian Customs and Foreign Trade Secretariat, but almost all agencies involved in Brazil's foreign trade controls accept documentation through this system. At present, 96,67% of the export and 99,73% of the import operations that require administrative authorization can be concluded based on the electronic submission of documents through the new system, whenever they are required. The only remain submission in hard copy documents are due to International agreement enforcement and confidential activities; and - April, 2016 - A new query functionality will grant direct access to Import Declarations and its data needed for the purposes of

	financing and exchange operations. The functionality guarantees the documents' authenticity, without the need for its printing and physical transport and without requesting the bodies to log in the system. Therefore, these operations will gain speed and security and yet become less bureaucratic. The most important developments of the Single Window Project between June 2015 and June 2016 are: (i) the new Web Licensing System (was launched in December, 2015); the adoption by Brazilian Agencies of an Electronic Document Submission System (March, 2016); and a new Import Declarations consultation functionality (April, 2016). This system ought to increase the efficiency of government agencies and reduce cost and time for the private and public sectors to deal with international trade. The already measurable impacts of the adoption by Brazilian Agencies of the Electronic Document Submission System are: (i) reduction of document delivery time to zero, (ii) reduction on the use of more than 90 tons of paper/year and (iii) savings of over BRL 1.5 million/year with documents mailing. With the only window program for foreign trade, the objective is that by 2016 the time to export from Brazil will be reduced to only 8 days . As for imports, the objective is that by 2017 the average import period is to reach 10 days, a reduction of about 40%. Out of these time savings and cost gains, it is intended that, by 2017, Brazil should rank , at least, among the 70 best countries to carry out cross-border trade, climbing more than 50 positions in the doing business ranking.

The policy action:	**6. National Program for Access to Technical Education and Employment Worker (PRONATEC Worker)**
Implementation path and expected date of implementation	The PRONATEC Worker evaluation and its effects have not started yet, but it is expected to increase employability, decrease the job search, and increase the productivity of those already employed. The number of people qualified in 2015 was 14,307. The Ministry of Education defines the current budget of PRONATEC Worker program.
Status of Implementation and Impact	The program is ongoing. The goal of the program is to improve the qualification of the Brazilian workers, mainly the ones who are unemployed or underemployed.

INVESTMENT STRATEGY COMMITMENTS

Investment Strategy Commitments

	Facilitators	Safeguards
Investment Ecosystem	1 - Preparation of a legislative proposal to enable and make attractive investments in SMEs, currently affected by barriers to corporate capital composition, as well as red tape to open their capital. 2 - Development of legal provision that does not exclude the National Simples Regime (a preferential tax regime) to SMEs which have received investments.	Bill with similar content was submitted to the House of Representatives in early May 2015 and is still in discussion in the parliament.
Infrastructure	The first stage (PIL/1) of the National Plan of Integrated Logistics (PNLI) was launched on August 15, 2012, with the announcement of concessions for roads and railways. Between 2011 and 2014, concessions for rights to build over 5,350 kilometers were granted in seven roads and railways investments (public and private) resulted in the construction of 1,088 kilometers of new railroads. In comparison, only 909 km of railroads were built between 2003 and 2010. The airport concession program resulted in investments of over BRL 26 billion and five international airport operators in Brazil participated. The airports of São Gonçalo do Amarante (RN), Guarulhos (SP), Viracopos (SP), Brasília (DF), Confins (MG) and Galeão (RJ) have been auctioned and are now operated by private companies. With the aim to continue the process of modernization of transport infrastructure, the federal government launched in June 2016 the new phase of the Investment Program in Logistics (PIL). The new phase provides an investment of BRL 198.4 billion (USD 63.5 billion) as follows: • Road: BRL 66.1 billion (USD 21.1 billion); • Railways: BRL 86.4 billion (USD 27.5 billion); • Ports: BRL 37.4 billion (USD 11.9 billion0; and • Airports: BRL 8.5 billion (USD	The PNLI is being prepared by the Planning and Logistics Company (EPL), a state-owned enterprise created in December 2012. The preparation pathway encompasses the following activities: (1) consolidation of a database composed by traffic volume, origin and destination matrix, and service standard of the current and future infrastructure; (2) implementation of a simulation system; (3) identification of existing and projected bottlenecks; and the final product (4) ranking of projects that shall generate efficiencies in the system. EPL finished the first round of PNLI in June 2015, which has been published in the EPL website. For this first round, activities 1 and 2 were

	2.7 billion). **Infrastructure Investment update:** Regulatory measures: • Enhancing the communication strategy. The Ministry of Finance, the Ministry of Planning and the Inter-American Development Bank (IDB) have signed a joint technical cooperation (budget: USD 375,000) to develop activities aiming to close the gap between the federal government and international investors. One highlighted action is the inclusion of Brazil´s infrastructure projects in the international open platform GlobalVip Infrastructure Platform (GViP). • In March 2016, the Ministry of Finance suggested two new measures: a) to facilitate the issuance of infrastructure debenture – created by the decree 7,603/2011; and b) allow the capitalization of the Infrastructure Guarantee Fund (FGIE) with federal real state valued at R$500 million (USD 145 million). • On April 11th 2016, the National Monetary Committee issued the Decree no. 4,476/2016 authorizing early liquidation of infrastructure debentures that aims at a better management of both active and passive assets by the issuer in the Brazilian macroeconomic environment. **Airports** • On April 20th, 2016, the Federal Accounting Court of Brazil (TCU) has authorized airport concessions in the following cities: Salvador, Fortaleza, Florianopolis e Porto Alegre. The National Civil Aviation Agency (ANAC) has already confirmed the public auctions to be held in the first semester of 2016. The estimated investments are BRL 7.2 billion (USD 2.1 billion) in Salvador (BA), BRL 2.8 billion (USD 810 million) in Fortaleza (CE), BRL 1.8 billion (USD 520 million) in Porto Alegre (RS) and BRL 900 million (USD 261 million) in Florianópolis (SC).	completed and activities 3 and 4 are being executed. The federal government has announced on June 9th 2015 the new stage of the Program for Investment in Logistics (PIL/2). This is another step in the process of modernizing the country's transportation infrastructure, as part of its growth strategy. Around additional BRL 198.4 billion (USD 62 billion) in investment are estimated, of which BRL 69.2 billion (USD 20 billion) is planned to occur from 2015 to 2018, and R$ 129.2 billion (USD 37.45 billion), from 2019 onwards. Investments are clustered as follows: • Roads: BRL 66.1 billion (USD 19.2 billion); • Railways: BRL 86.4 billion (USD 25 billion); • Ports: BRL 37.4 billion (USD 10.8 billion); • Airports: BRL 8.5 billion (USD 2.5 billion).

	Ports The first auction from the Program of Investment in Logistics (PIL 2) was released on December 9th 2015 and attracted BRL 608 million (USD 176 million) to the port of Santos/SP. • In April 2016, a total of 8 contracts have been renewed by their respective private tenants amounting BRL 6.7 billion (USD 1.94 billion) in new investments. The government estimates an extra BRL 10 billion (USD 2.90 billion) in investments by renewed private tenants in nine states still this year. • In the northern state of Pará six areas are expected to be auctioned on July 10th 2016, and the investment is expected to reach BRL 1.5 billion (USD 435 million). • On May 2016, the procedure for leasing the infrastructure for the movement of passengers in the port of Recife in Pernambuco was published. This auction will take place the next August 31th, 2016. **Highways** • The Concession Plan for BR-364/365(GO/MG) was approved by the TCU. It is a 437 km highway project with estimated investments of BRL 2.7 billion (USD 782 million). The Concession Plan is one of the steps that precede the publication of the bid notice. • The Ministry of Transports issued two public notices, 01/2016 and 02/2016. The 01/2016 is related to a 332-km highway (BR-163/PA) and the 02/2016 includes 149-km highway (BR-316/PA). • The Federal Accounting Court of Brazil (TCU) has authorized the auction for the BR-476/153/282/480/PR/SC highway (called the "chicken highway") as long as it attends some requirements of the federal court. The adjustments are underway and the public auction is expected to be released soon. **Railways**	In December 2015, the Secretariat for Ports launched the latest version of the National Logistics Plan for Ports (PNLP), which provides an overview of the conditions of the port sector and showed that the cargo movement in Brazilian ports in 2015 surpassed 1 billion tons, and projections show that it is expected to reach 1.8 billion tons in 2042. The 2015 PNLP, meeting all current and future challenges, also presents 18 strategic objectives with indicators, targets, actions and portfolio investments estimated in BRL 51.28 billion (USD 13.1 billion), which include both those provided to the PIL in Ports and the Growth Acceleration Program (PAC), organized as follows: • New leases: BRL 16.24 billion (USD 4.2 billion); • New private facilities: BRL 19.67 billion (USD 5.0 billion); • Postponements of anticipated leasing contracts: BRL

	• The Ministry of Finance issued the technical Note no. 39, in November 2015, which updated the parameter related to the internal rate of return of the railway projects to be held in future concessions. The Weighted Average Cost of Capital – WACC, was defined at 10.6% per year (real expected return – discounted inflation and taxes). There are three planned projects: 1) Lucas do Rio Verde/MT – Miritituba/PA, BRL 9.9 billion (USD 2.87 billion); 2) Anápolis/GO – Estrela d´Oeste/SP – Três Lagoas/MS, BRL 9.4 billion (USD 2.73 billion); and Palmas/TO – Anápolis/GO and Barcarena/MA – Açailandia/PA, BRL 7.8 billion (USD 2.26 billion). **Power sector** On April 13th, 2016, the Brazilian Electricity Regulatory Agency (ANEEL) held an auction to expand the transmission power lines length in 3.402 kilometers. The total investment amount is expected to reach BRL 7 billion (USD 2.03 billion) and is going to increase the substation capacity in 7,265 MVA for over 12 states. • In 2015 alone, it was contracted more than 1 GW in wind power with an estimated total investment amounting BRL 4.8 billion (USD 1.4 billion). According to the Brazilian Federal Energy Research Company (EPE), between 2016 and 2018, 33 solar power projects and 20 wind power projects are expected to attract BRL 6.8 billion (USD 2 billion). • On April 29th, the auction A-5 2016 attracted R$ 9.7 billion (USD 2.81 billion) in 29 new contracts, which will add 47,600 MW from different power sources that will be operating by 2021. **Oil and Gas – Petrobras** • On February 2016, Petrobras signed a contract for BRL 10 billion (USD 2.9 billion) in loans from the China Development Bank (CDB) in exchange for supplying petroleum to Chinese companies.	11.11 billion (USD 2.8 billion); and • Public investments in dredging: BRL 4.26 billion (USD 1.1 billion).

	The state oil company Petrobras announced on June 29, 2016 Your Business Plan and Management for the period 2015-2019. The plan foresees investments of USD 130.3 billion for that period. The investment portfolio of priority exploration projects and oil production in Brazil, with emphasis on the pre-salt. The plan's key objectives the reduction of debt and the generation of value for shareholders. The amount of divestments for the period between 2015 and 2016 was revised to USD 15.1 billion. The plan also provides business restructuring efforts, asset retirement and additional divestments totaling USD 42.6 billion between 2017 and 2018. The review aims to reduce leverage, preserve cash and focus on priority investments, notably production oil and gas in Brazil in high productivity and return areas. It was also held, in June 2016, inflow of USD 2.5 billion in bonds maturing in 100 years, marking the return of Petrobras to the international capital market.	
SMEs	Reducing the red tape related to opening and operating business.	• It is expected to promote SMEs by providing them more access to bank credit. A bill with similar content was submitted at the Congress in early May 2015.

ANNEX 2: NEW AND ADJUSTED POLICY COMMITMENTS SINCE ANTALYA

More Productive Brazil Program	**A federal government program to raise SMEs productivity by at least 20 percent.**
Implementation path and expected date of implementation	Until the end of 2017, three thousand enterprises all over the country will have at their disposal 400 trained consultants to apply lean manufacturing, focusing on a production process with quick, low-cost interventions, and real possibilities to measuring results.

What indicator(s) will be used to measure progress?	For firms: productivity gain, average costs reduction and average production capacity rise. For the productive sector: competitiveness gains and setting up a positive environment for the adoption of new methodologies on productivity.
Explanation of additionality or adjustment (where relevant)	The SMEs qualified to join the program must have between 11 e 200 employees and preferably be part of local productive arrangements (LPA). In the first step of the program implementation, the industries selected for consulting services will be from metal-mechanic, clothing and footwear, furniture and foods, and beverages sectors. Apex-Brazil Agency will select 867 companies that manufacture goods with export potential to participate in the Brazil More Productive program. At the end of the training period, companies can integrate the trade promotion activities carried out by the Agency and industry representative bodies in different international markets.

ANNEX 3: PAST COMMITMENTS – ST. PETERSBURG FISCAL COMMITMENT

ESTIMATED PROJECTIONS **

	2015	**2016**	**2017**	**2018**	**2019**	**2020**
Gross Debt	66.5	73.4	76.6	78.1	78.7	n.a.
*ppt change****						
Net Debt	36.2	43.9	48.3	50.3	51.7	n.a.
ppt change						
Deficit	10.4	9.0	8.0	6.1	4.9	n.a.
*ppt change****						
Primary Balance	-1.9	-2.6	-2.1	-0.9	0.2	n.a.
ppt change						
CAPB	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
ppt change						

* Figures can be presented on a fiscal year basis, should they be unavailable for the calendar year.
** General Government including social security, and excluding state owned companies and Central Bank; compatible with numbers for the Consolidated Public Sector contained in PLDO-2016 (Budget Guidelines Law).
*** Figures adjusted for the new GDP methodology.

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions for inflation and growth:

ESTIMATED PROJECTIONS

	2015	2016	2017	2018	2019	2020
Real GDP growth	-3.8	-3.1	1.2	2.5	2.5	n.a.
*ppt change****						
Nominal GDP growth	-3.8	5.8	8.7	8.4	7.6	n.a.
ppt change						
ST interest rate****	13.4	14.0	12.0	10.5	10.5	n.a.
ppt change						
LT interest rate****	14.3	13.3	11.0	10.5	10.0	n.a.
ppt change						

* Figures can be presented on a fiscal year basis, should they be unavailable for the calendar year.
** Compatible with numbers contained in the PLDO-2016 (Budget Guidelines Law).
*** Figures adjusted for the new GDP methodology.
****For ST interest rate, year average Selic over rate. For LT interest rate, end of year Selic target rate (2016: LDO 2016, 2017-2019: LDO 2017).
Debt (gross, net) and Fiscal Balance (deficit, primary): for 2016, LDO 2016; for 2017-2019, LDO 2017.
GDP (real, nominal): “Grade de Parâmetros” , July 2016.

ANNEX 4: PRE-BRISBANE COMMITMENTS

1. Fiscal Policy	
Fiscal Policy	Commented in section (C).
Rationale for carrying forward	Brazil will pursue primary surplus and promote a lasting fiscal adjustment, with positive impacts on the domestic risk spreads and on the public sector, contributing to reduce public sector nominal deficit, and thereby increasing national savings and investment.
Update on Progress	The Congressional Budget Commission approved, on May 25, the new fiscal target for 2016. The target primary balance for the consolidated public sector, including the federal government, states and municipalities, is a deficit of BRL 163.9 billion (USD 44.9 billion) (2.65% of GDP). The government has also announced a measure to limit spending growth to the previous year inflation, contingent on Congress approval. Regarding the 2017 budget, it will be sent to Congress in

	August and needs to be based on the fiscal target set in the 2017 Bill of Budgetary Law (2017 LDO) . The 2017 LDO, sent to Congress in April 2016 set new fiscal targets for the period between 2017 a 2019, which are: a public sector primary surplus of BRL 6,7 billion (USD 1,9 billions) or 0.10% of the GDP in 2017 (0.0% for the federal government and 0.10% for sub-national governments), 0.8% of the GDP for 2018 and 1.4% of the GDP in 2019. Fiscal

2. Monetary and Exchange Rate Policy	
Structural reform/monetary & exchange rate policies ***[Select area]***	The Central Bank of Brazil has set the path to implement Basel III during the period 2013-2019. Brazil has maintained the compromise to have a flexible exchange rate. The floating exchange rate regime has allowed the Real to adjust to domestic and global conditions. The Central Bank of Brazil provided foreign exchange hedge to the market through an FX swaps auction program. The program was successful in preserving financial stability in a context of high exchange rate volatility. Macro prudential tools may be used as necessary, in line with the G20's Coherent Conclusions on Capital Flow Management.
Rationale for carrying forward	The floating exchange rate allows for currency flexibility and better alignment with fundamentals and global market conditions, helping adjustments in the external sector; while a stable financial system is a prerequisite for sustainable economic growth. The aftermath of the global crisis underscores the importance of building a resilient financial system, not only capable to provide credit to households and business throughout the business cycle, but also to avoid the accumulation of imbalances during times of prosperity.
Update on Progress	Regulation consistent with Basel III tenets on capital definition, capital requirements and capital buffers was issued by the National Monetary Council in March 1st, 2013. Implementation began in October 2013 and is on schedule to be completed by December 2019. In addition, regulation was also issued by the central bank updating the procedures to calculate risk weighted assets for credit risk, market risk and operational risk both in the standardized and in the advanced approaches. Other regulations, in line with Basel III recommendations and schedule of implementation, cover, among other issues: short-term liquidity indicator; leverage indicator; and collection of data for determining the systemic importance of financial institutions. Introduction of a long-term liquidity indicator and the methodology to establish the value of the countercyclical capital buffer are under discussion. Brazil is committed to revise regulation on prudential treatment of concentration risk in accordance with the supervisory framework for measuring and controlling large exposures, published by the Basel

	Committee in April 2014.

3. Improve quality of human capital and increase labor productivity nationwide	
Structural reform	Improve the quality of human capital and increase labor productivity nationwide through progress in education, research and innovation, particularly in universities and technical and vocational training centers. The specific programs are: i) The “Science Without Borders” Initiative has the objective to grant scholarships for undergraduate students; ii) The PRONATEC I will enable 8 million students and workers to attend technical and professional capacity-building courses; iii) The “University for all Program” (PROUNI) will continue to provide partial and total scholarships for low-income students from private higher education institutions.; iv) Establishment of New Higher Education institutions - in the period from 2016 to 2019, the primary goal of the program is to expand to 1.4 million the number of enrolments in undergraduate classroom courses in federal educational schools and provide 2,620 new undergraduate places in medicine, with an emphasis on service areas with the greatest shortage of professionals.
Rationale for carrying forward	All those programs improve the quality of human capital and increase labor productivity nationwide and thus contribute to significant, sustainable and balanced growth.
Update on Progress	i) The Science without Borders Initiative: 101,446 scholarships were granted from 2011 up to 2014, exceeding the target of 101,000. The federal government paid for 75,000 scholarships, and the private sector paid the remainder. In 2014, 42,000 scholarships were granted (including the stipends for visiting professor, young talents and foreigners in Brazilian university institutions). For 2014-2018, the target is 100,000 more scholarships for studying abroad. New goals for the program are under scrutiny. ii) PRONATEC I: From 2011 to 2014, the goal of 8 million registrations for PRONATEC I in technical and professional training courses was exceeded with 8.1 million total enrolments. The total disbursement was R$ 15 billion (US$ 5.17 billion). In 2014, 128,000 enrolments were made. In 2015, the government started PRONATEC II, which target is to increase the number of admissions to 12 million until 2018. 8Out of the total vacancies offered for 2016, 372,000 are planned to be in technical areas and 1,627 million in vocational training courses. iii) PROUNI: From 2005 to 2015, this program granted 1.7 million scholarships, of which 204,587 are full tuitions. On

	August 1st, 2016, the registration period was disclosed to the participants of the second edition of the Program (Prouni 2016). The launching of the second half of the program provided more than 200,000 scholarships for higher degrees in 1,069 institutions that adhere to Prouni. From 2015 to 2016, the total number of scholarships, including partial and total, increased by 8%

ANNEX V. KEY ECONOMIC INDICATORS

	2015	2016	2017	2018	2019	2020
Real GDP (% yoy)	-3.8	-3.1	1.2	2.5	2.5	n.a.
Nominal GDP (% yoy)	-3.8	5.8	8.7	8.4	7.6	n.a.
Output Gap (% of GDP)*	-2.7	-3.8	-1.7	-0.0	1.1	n.a.
Inflation (%, yoy)	10.7	7.2	4.8	4.5	4.5	n.a.
Fiscal (Nominal) Balance (% of GDP)**	-10.4	-9.0	-8.0	-6.1	-4.9	n.a.
Unemployment (%)***	8.5	11.1	12.0	12.3	12.5	n.a.
Savings (% of GDP)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Investment (% of GDP)	18.1	17.3	18.9	20.6	22.1	n.a.
Public Fixed Capital Investment (% GDP)	n.a	n.a	n.a	n.a	n.a	n.a
Private Fixed Capital Investment (% GDP)	n.a	n.a	n.a	n.a	n.a	n.a
Total Fixed Capital Investment (% GDP)	n.a	n.a	n.a	n.a	n.a	n.a
Current Account Balance (% of GDP)	-3.3	-0.8	n.a.	n.a.	n.a.	n.a.

*A positive (negative) gap indicates an economy above (below) its potential. These variables were estimated in accordance with “Grade de Parâmetros” of April 2016.

**A positive (negative) balance indicates a fiscal surplus (deficit). For 2016 was used the LDO 2016 and for 2017-2019 was used the LDO 2017.

***Year average of quarterly data of PNAD Contínua. This variable was estimated by Secretariat of Economic Policy from Ministry of Finance (SPE/MF) in accordance with “Grade de Parâmetros” of July 2016.

**** Indicators can be presented on a fiscal year basis, should they be unavailable for the calendar year.
Remark: forecasts for the General Government including social security and excluding state owned companies and the Central Bank; compatible with figures for the Consolidated Public Sector contained in the PLDO-2016 – Budget Guidelines Law Bill. Numbers adjusted for the new GDP methodology.

The GDP (nominal, real, gap, investment) and the inflation rate were estimated in accordance with “Grade de Parâmetros” of July 2016. Current Account Balance were estimated by Brazilian Central Bank (BCB) (Nota para a Imprensa from July 26, 2016).