BRIEFING DIPLOMÁTICO

ECONOMIC OVERVIEW AND REFORM AGENDA

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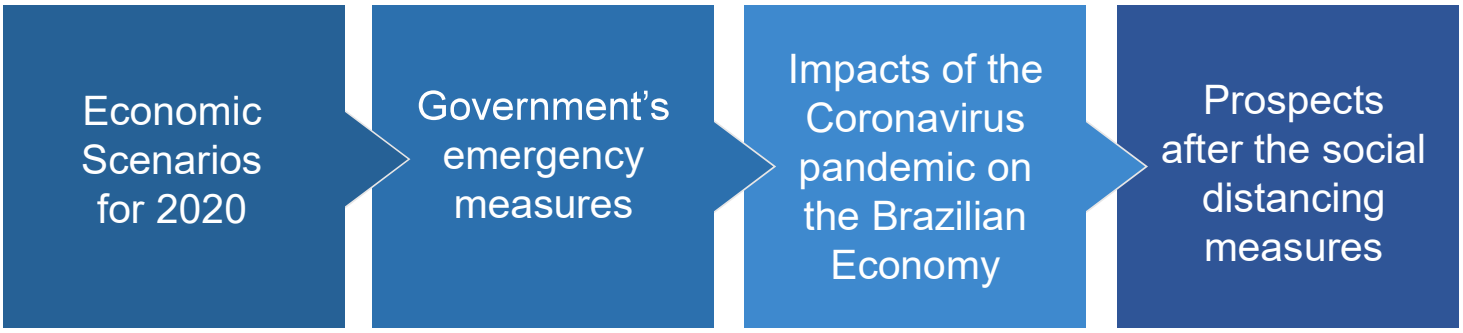
Video conference :: June 26th, 2020

CNI
Confederação Nacional da Indústria
PELO FUTURO DA INDÚSTRIA

Economic Overview and Reform Agenda



Economic Overview and Reform Agenda

Economic Scenarios for 2020

Government's emergency measures

Impacts of the Coronavirus pandemic on the Brazilian Economy

Prospects after the social distancing measures

Economic Scenarios for 2020

OPTIMISTIC

GDP declines by **0.9%**

- Government measures have high effectiveness
- They prevent a significant fall in employment and income and the disruption of the economic supply structure

Quick recovery starting in June

BASELINE

GDP declines by **4.2%**

- Government measures have a good effectiveness
- They prevent widespread bankruptcy of companies and a major disruption of the productive system; household income falls moderately

Moderate recovery starting in June

PESSIMISTIC

GDP declines by **7.3%**

- Government measures have low effectiveness
- They fail to avoid a major disruption of the productive system; unemployment rises and income falls; social restrictive measures are relaxed at a later time

Slow recovery starting in July

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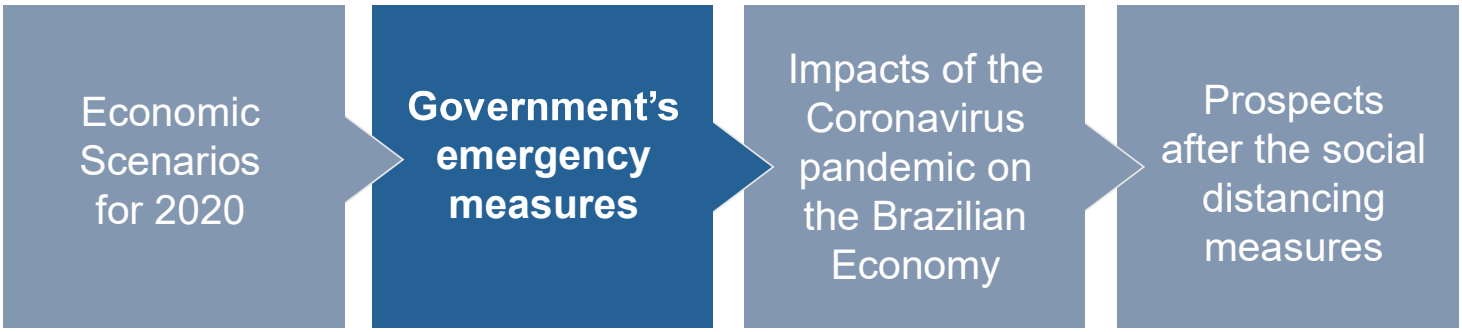

Creating a safety net for families and companies

Providing more funds for the HEALTHCARE SYSTEM

Providing financial support to the most VULNERABLE GROUPS of the population

E.g.

Emergency aid of R$600 per month for the most vulnerable households

Alleviating the COSTS OF COMPANIES

E.g.

Postponement of the payment of taxes and loan repayments to public banks

Making LABOR LEGISLATION more flexible

E.g.

Permission for a proportional reduction in working hours and wages or suspension of employment contracts with government support to reduce the impact on the income of workers

Preventing CREDIT RESTRICTIONS

E.g.

Central Bank adopted measures to increase liquidity in the credit market and the government created emergency lines of financing and restructured the guarantee funds

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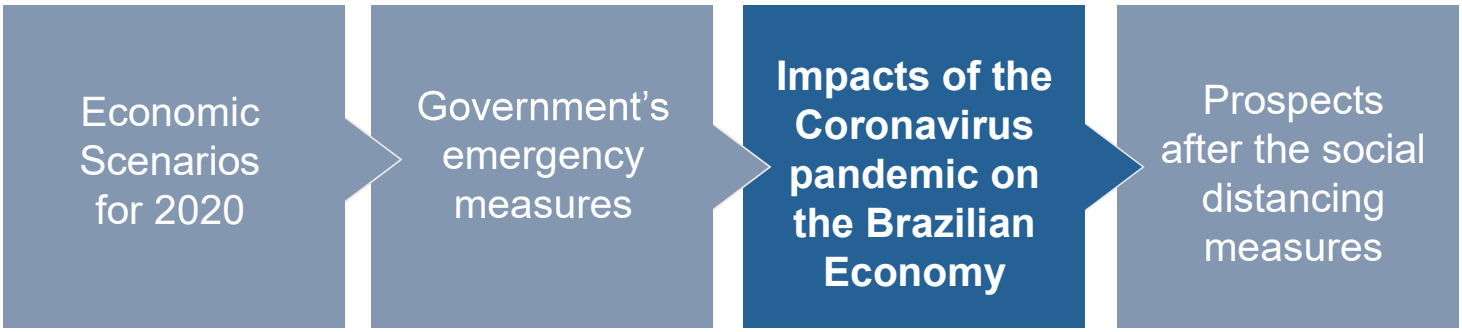
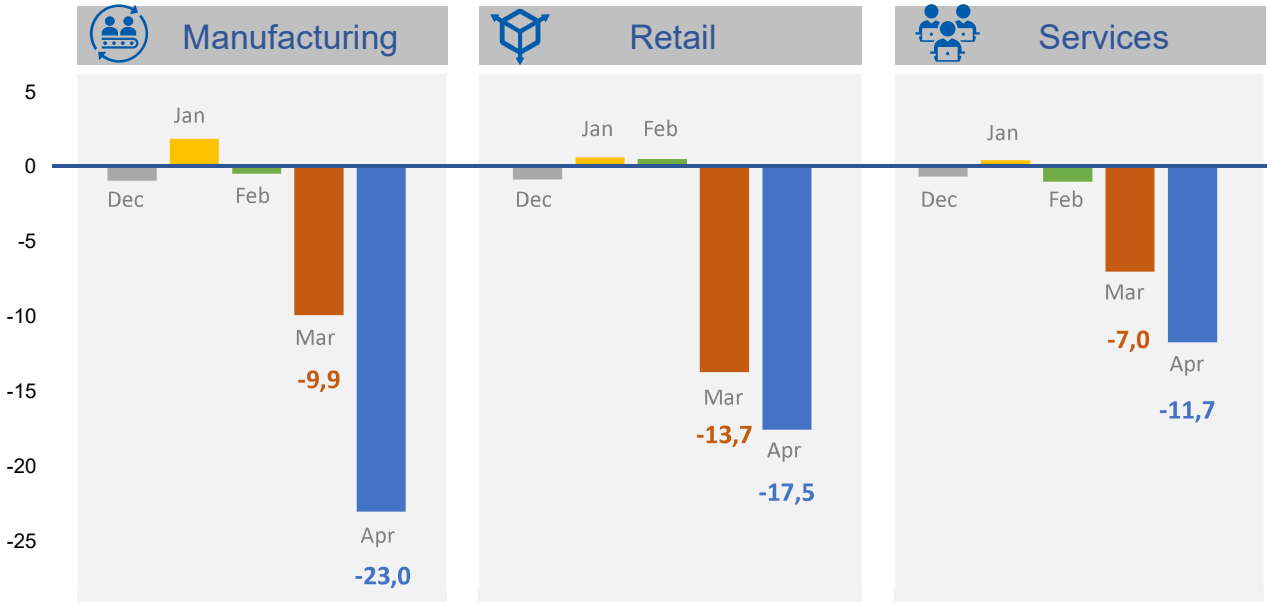


Impacts on the Brazilian Economy

Production and Sales

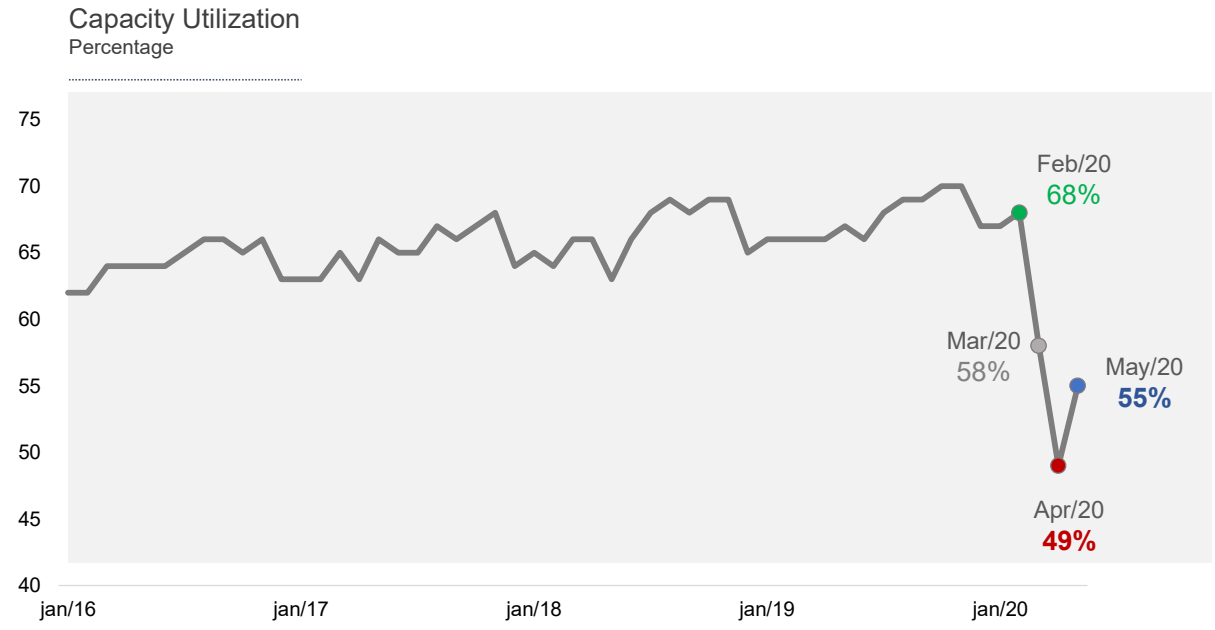
Monthly Seasonally adjusted change in percentage points



GDP felt by **1.5%** in the first quarter, but **the fall will be greater in the second quarter**

Source: IBGE.

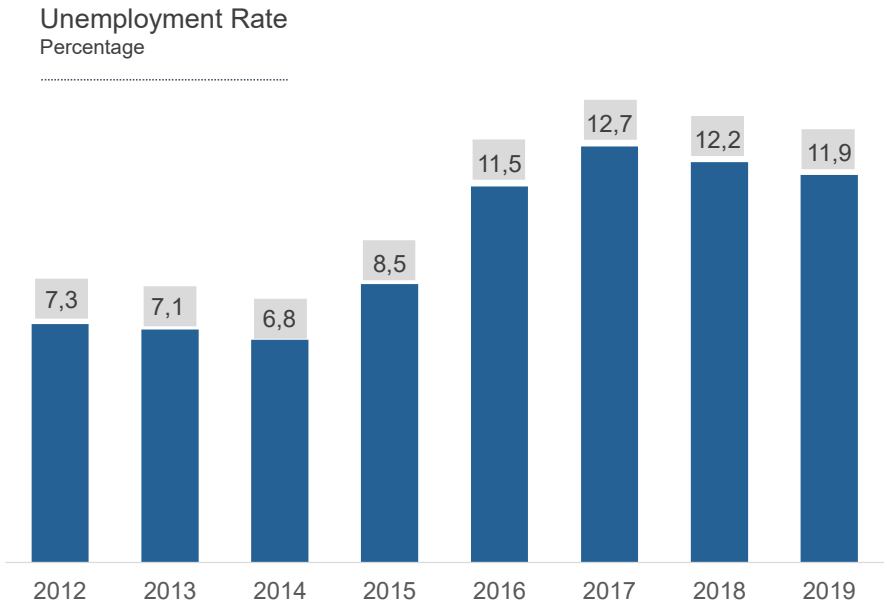
Manufacturing park idleness has reached 50%



The worst of the economic crisis seems to have happened in April

Source: CNI.

The impact on formal employment was moderate



Source: IBGE.

MAY

11.4% | **10.9** million

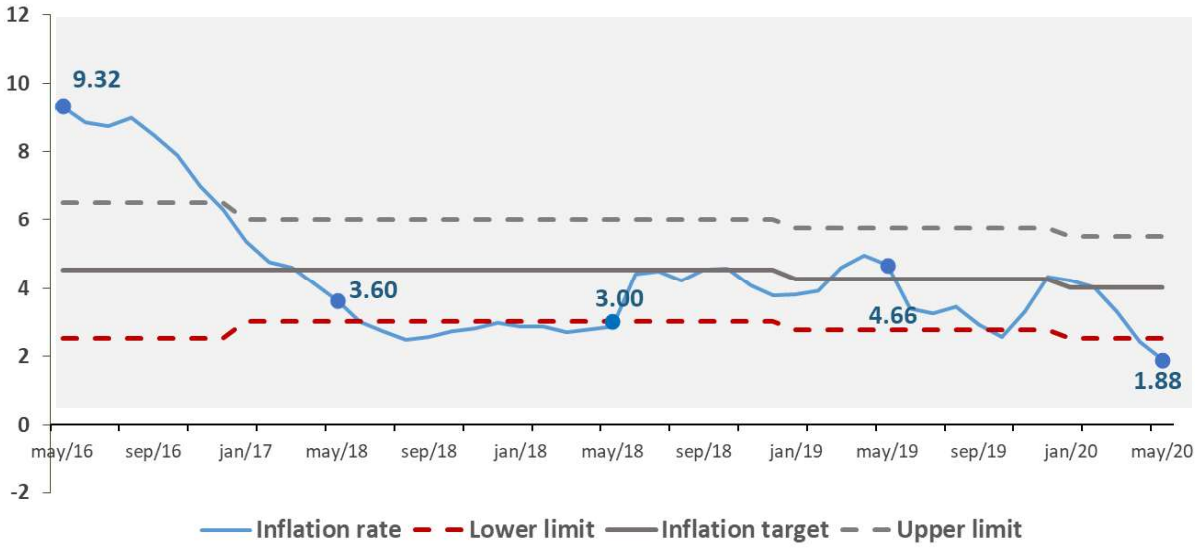
- But **25.7** million workers did not look for a job, but would like to find one
- **17.7** million did not look for a job because of the pandemic

UP TO MAY

- **8.1** million workers had working hours reduction or contract suspension
- **1.1** million lost their formal jobs

Inflation is not a problem

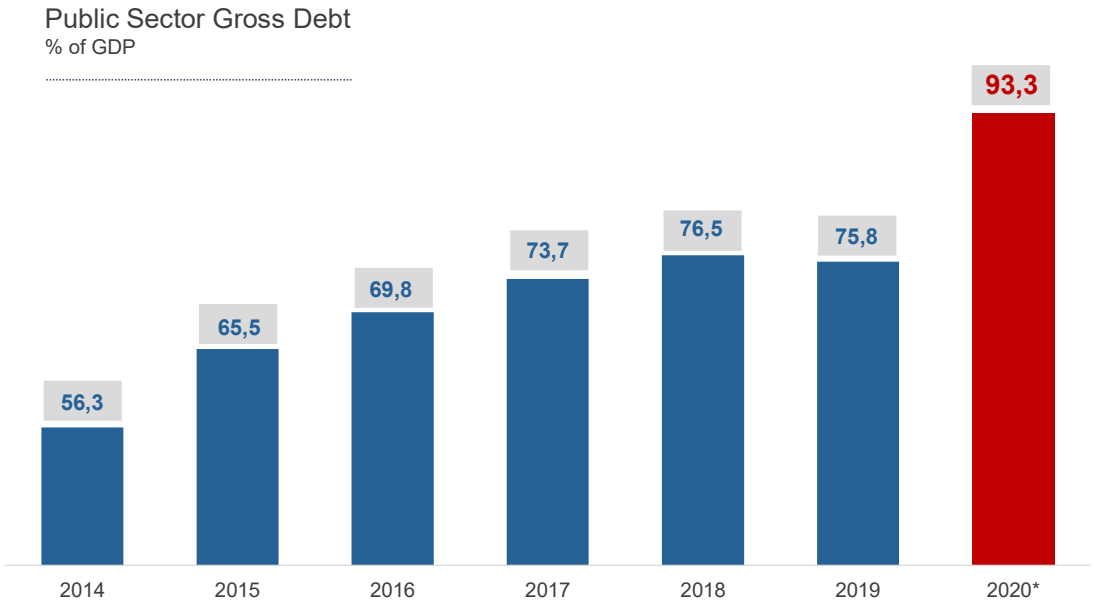
Inflation Rate and Inflation Target Range
12-month figure (%)



The use of expansionary monetary policy is an option

Source: IBGE and BACEN.

Public sector deficit is a problem



The use of an expansionary fiscal policy is limited

Source: Central Bank of Brazil. *CNI estimate.

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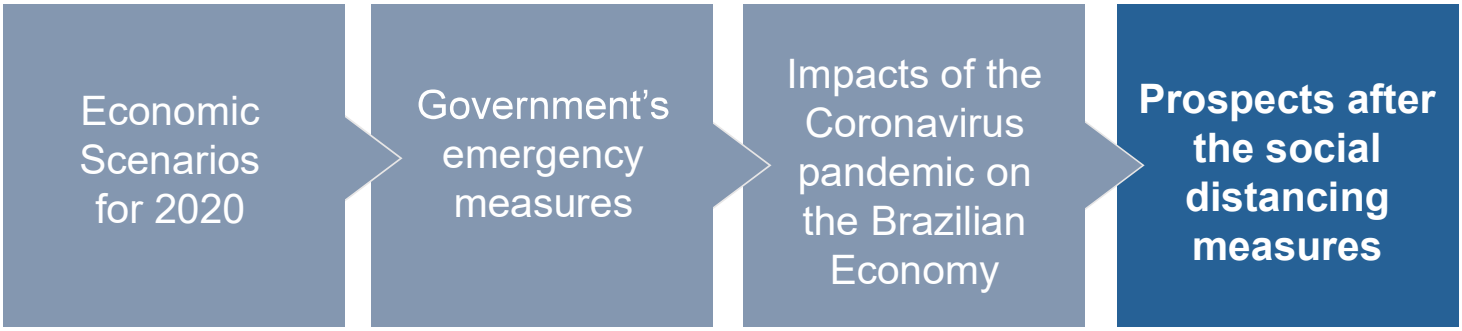

Challenges after social distancing measures

The pandemic crisis hit Brazil while it was still recovering from the 2014-16 crisis

Both the public and private sectors will reach the end of the crisis without strength

- On the public side, there are major fiscal restrictions
- On the private side:
  - companies are financially debilitated and lacking the financial muscle to invest
  - households do not have sufficient consumption capacity to lead the recovery

International trade has also been negatively affected by the pandemic, hampering export growth, and perspectives are not good

The way out of will be led by the competitiveness agenda

More than ever, Brazil needs to eliminate the so-called Brazil Cost

The Tax Reform should lead the agenda, followed by infrastructure and international relations

- The new legal frameworks for the natural gas, electricity sector and basic sanitation
- Concessions and privatizations
- Good regulatory practices and less legal uncertainty
- Greater international integration

The government must continue to strive to reduce public debt, but also have to help pull the economy out of the crisis

- Although it may seems paradoxical, it is necessary to reconcile the search for fiscal balance with an expansionary fiscal policy, because the private sector alone does not have the strength to remove the economy from this situation

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