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With the advancement of the global recovery and the continuation of the accommodative fiscal and monetary policies in most economies, August was another positive month for global markets, also supported by optimistic news regarding vaccines to the SARS-CoV-2 virus. Despite the delay in negotiations on the new stimulus package that would guarantee the extension of support policies in the US, and the new surge of infections in many European countries, the main economies in the world managed to advance in their recovery processes.

The recovery pattern becomes has become clearer with time, be it China or the US and European countries: demand is being directed towards goods, while the consumption of services is recovering more slowly. Programs to support income, as well as higher savings and limitations of access to services (such as tourism and entertainment) have led to a faster bounce back in industrial production and retail sales, while services remain well below their pre-crisis levels. A more complete recovery depends on the large-scale supply of vaccines, which will probably happen only next year.

The Brazilian economy is trailing the same recovery pattern described above, thanks in a big part to the countercyclical measures taken since the start of the epidemic – being the Emergency Aid and the Employment Maintenance Program the main highlights. Industrial production has advanced almost 29% since its through in April, and ended July only 6% below its pre-pandemic level, while retail sales posted only a small 0.9% decline in June relative to one year ago. High frequency indicators suggest that the recovery gained pace throughout August. Data for Q2 GDP showed a 9.7% decline over Q1, slightly above our expectation, leading us to revise upwards our GDP forecast for 2020 from 5.4% to 5%, followed by 3.3% growth in 2021. The recently announced extension of the Emergency Aid until the end of the year should continue to support demand through a period of still elevated unemployment.

Despite these favorable developments on the economy side, attentions remain directed at the reform agenda and fiscal consolidation measures. Both topics are necessary conditions to guarantee the sustainability of public accounts, the improvement of productivity and the continuity of a low interest rate scenario. With a debt/GDP ratio of 95%, Brazil stands out negatively in comparison to other emerging markets, and therefore the sustainability of the debt trajectory and its acceptance depend on strong signals of consistent decline of fiscal deficits over the next decade. But recent noise surrounding the spending ceiling of the public budget as well as possible strategies to circumvent it, in order to open space for social programs and public investments, have served only to increase the uncertainty over the medium-term and to raise the fear of an increase in taxes.

One positive sign was the overdue unveiling of the administrative reform. The reform is limited to future public servants of the Executive branch, and therefore will have little fiscal impact in the next few years but is nevertheless an important step and could serve as a north to reforms in the employment structure of the other powers. We also continue to believe that the Tax reform being discussed by Congress will advance this year, even if it is not completely approved by yearend.

ECONOMIC FORECASTS	2016	2017	2018	2019	2020F	2021F
GDP Growth (%)	-3.3%	1.3%	1.3%	1.1%	-5.0%	3.3%
Inflation (%)	6.3%	2.9%	3.7%	4.3%	1.8%	3.1%
Unemployment Rate, SA (eoy, %)	12.6%	12.4%	12.2%	11.7%	14.8%	12.5%
Policy Rate (eoy, %)	13.8%	7.0%	6.5%	4.5%	2.0%	4.0%
External Accounts						
Trade Balance (US\$ bn)	48	67	53	39	56	43
Current Account Balance (US\$ bn)	-23	-10	-42	-51	5	-16
Current Account Balance (% of GDP)	-1.3%	-0.7%	-2.2%	-2.8%	0.4%	-1.0%
Fiscal Policy						
Fiscal Primary Balance (% of GDP)	-2.5%	-1.8%	-1.6%	-0.9%	-12.2%	-3.0%
Government Gross Debt (% of GDP)	69.4%	73.7%	77.2%	75.9%	94.5%	95.5%

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