

## Monthly Economic Newsletter

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Staff: Eloy Aguirre, Héctor Rubini, Eliana Scialabba and Jorge Viñas

### KEY DATA

**Expected inflation:** Local consulting firms expect a 3% increase in May CPI, following recent hikes in public utility charges. The recent increase in the exchange rate (AR\$/US\$) will impact on June CPI. Monthly inflation rate is expected to surpass 2% in June.

### HIGHLIGHTS

**IMF reaches agreement with Argentina.** The Argentine Gov't and the IMF staff agreed to a US\$ 50 Bn Loan, subject to the IMF board approval. It will be complemented with US\$ 5.65 Bn from WB, IADB and CAF. The Argentine Gov't has committed to a rebalancing of the fiscal position until 2021, and to ensure legal independence and operational autonomy for the central bank (BCRA).

**Exchange rate regime.** The BCRA will maintain a “managed” or “dirty” float exchange rate regime and will not offer US\$ 5 Bn on a daily basis any more at a ceiling of AR\$ 25/US\$. The BCRA Chairman announced a gradual LEBAC redemption with funds from the repayment of non-transferable Treasury bills in the BCRA's portfolio.

**Prices and activity.** The Gov't abandoned the 15% inflation target, due to the current inflationary acceleration. Year 2018 CPI inflation is expected to approach to 27%-30%, coupled with an open recession for the 2<sup>nd</sup> half of this year.

**Fiscal retrenchment.** Last June 1, the Gov't announced some marginal expenditure cuts. However, a significant reduction in current fiscal deficit is required to prevent a worsening of both current account deficit and fiscal solvency ratios.

### LOOKING AHEAD

**Argentina-IMF agreement.** Next June 20 the IMF Board would approve the stand-by loan for Argentina, leading to an immediate US\$ 15 Bn disbursement.

**Rating improvement.** Morgan Stanley is expected to upgrade Argentina from “frontier” to “emergent” market on June 20. It might pave the way for foreign investments in Argentine equities for US\$ 5 Bn.

**Wage bargaining:** Gov't officers and union leaders will meet next Tuesday. Unionists expect it as decisive to call for a general strike or not.

**Brazil:** Political uncertainty is increasing due to the recent lorry drivers' strike. US dollar demand remains on the rise and the exchange rate is expected to surpass R\$ 4/US\$. Even so, GDP is expected to grow 2.4% this year, and 3% in 2019.

**United States.** The US economy remains on the upside. Interest rates are expected to remain on the upside, and the FOMC will probably increase the Fed Funds Rate 25 b.p. at next week meeting

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Research Institute Chair: Juan Massot - Editor: Héctor Rubini