



Monthly Economic Newsletter

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KEY DATA

Exchange rate. Yesterday the USD quoted above AR\$ 30. New Gov't announcements intended to decrease the current fiscal deficit and the central bank (BCRA) liabilities may stabilize currency markets in the short-term.

HIGHLIGHTS

The Gov't and the crisis. The currency crises reappeared last Friday. High LEBAC interest rates kept the exchange rate under control, but Gov't announced that private banks' LEBACs will be exchanged for Central Bank bills (7-day LELIQ) or notes (1-year NOBAC), and the outstanding LEBACs will be gradually cancelled.

Inflation: June CPI increased 3.7% (16,0% in six months). Current and expected increases in public utility charges, oil & energy, and administered prices, market expected inflation rate is approximately 32,0%, the upper bound for the 2018 inflation target agreed between the Gov't and the IMF.

GDP, on the downside. Official INDEC indicators show a decline in both manufacturing activity and construction. The recent currency crises contributed to lower imports, but Argentina posted a USD 382 M trade deficit in June.

Investment in decline. The USAL Monthly Indicator of Fixed Capital Accumulation is falling from last March, and such dynamics is expected to continue for several months.

The American trade war: The Trump Administration trade war escalation remains unchanged, with particular focus on the People's Republic of China and other countries. The US GDP remains on the upside, without a huge increase in interest rates. However, the long term negative impacts on the global economy growth, international trade and peaceful foreign relations are unavoidable.

Decelerating China: The Chinese real GDP grew 6.9% in 2017, and such growth rate is expected to decelerate to 6.6% in 2018, and 6.4% in 2019 due to the tightening of internal credit and the trade war with the USA.

LOOKING AHEAD

Argentina and the IMF. The Gov't is expected to pass the IMF September review of the agreed policy targets. However, the expected USD 3 Bn disbursement from the IMF appears as insufficient to stabilize expectations.

2019 Budget bill. Gov't and opposition leaders might not reach any agreement on a 2019 Budget bill, in line with the Gov't policy targets agreed with the IMF. The negotiations will be subject to the current currency crisis, the ongoing stagflation, and the political scandal known as "Cuaderno-Gate".

Presidential election in Brazil. The campaign is entering into the last stage. It is uncertain whether the electoral authorities will allow Lula Da Silva (currently in prison) to present his candidacy. He leads the opinion polls, followed by the alt right candidate Jair Bolsonaro, and the leftist Marina Silva.

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