

Monthly Economic Newsletter



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KEY DATA

Inflation rate. September CPI rose 6.5% (40.5 y-o-y). It was the highest monthly inflation rate since April, 2002. The 9-month cumulative inflation rate was 32.4%.

HIGHLIGHTS

New exchange rate and monetary regime. The Central Bank of Argentina (BCRA) adopted a target zone system, with sliding intervention bounds following a monthly 3% increase until the year-end. Furthermore, the BCRA will target a zero-growth rate in the monetary base until June 2019.

Skyrocketing interest rates. The BCRA pushed up domestic interest rates, reversing the domestic currency depreciation. The subsequent credit crunch had a negative impact on domestic demand. Hence, the increase in both the BCRA's quasi-fiscal deficit and in the unemployment rate emerge as a new source of risk.

Real activity. Domestic activity slowdown was further exacerbated by the recent increase in interest rates. Also, trade balance deficit remains almost unchanged, despite the recent depreciation of the Argentine peso.

Trump... talking too much. The U.S. President blamed the Federal Reserve for the recent financial volatility. However, it obeys to the US fiscal policy and to the White House protectionist initiatives.

New President for Brazil. The far-right candidate Jair Bolsonaro won first round of Brazil's presidential election. Now he is expected to win the October 28 runoff. Furthermore, the Brazilian GDP is expected to grow 1.4% in 2018, and 2.4% next year.

LOOKING AHEAD

Interest rates. Inflation rate is not expected to slow down in the short term. Hence, current high interest rates are expected to remain practically unchanged up to mid-November.

2019 Budget bill. The Government draft would be debated at the end of October. The Gov't and opposition legislators did not close the negotiations for a revised bill. Therefore, the passage of the bill is uncertain.

Fed Funds Rate. Next FOMC meeting will be held on November 7-8. The Federal Funds Rate is expected to remain unchanged until the next December meeting.