Argentina Economic Outlook

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Closing date: 11 July 2017

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1. Summary

The Argentine economy entered its third consecutive quarter of recovery, achieving a growth 1.1% QoQ in seasonally adjusted terms in the first quarter of 2017, driven mainly by investment. This confirms our growth forecasts of 2.8% for 2017 and 3% for 2018 in a scenario where the parliamentary election results of October 2017 will not imply great changes in economic policy.We expect that the combination relatively loose fiscal policy and a relatively tight monetary policy will be maintained, but the reduction of electoral uncertainty and inflation will drive the growth of investment and employment.

After rising by an average of of 2.5% per month due to the impact of increased energy rates for 3 months, inflation fell to 1.4% in June, with core inflation at 1.5%, according to the Gretater Buenos Aires (GBA) CPI. We believe that this gradually decreasing trend in core inflation will be maintained in the coming months under a monetary policy that will remain relatively tight. Considering that energy rate increases are resumed in 4Q17, inflation as measured by INDEC's GBA CPI will reach 19.5% y/y at the end of 2017 (22.4% as measured by CABA), still above the BCRA’s target of 12-17% YoY. Judging by its comparative evolution in 1S17, the new national CPI (IPC Nacional), which will be used to assess the attainment of inflation goals from July on, will not generate significant changes in the feasibility of achieving the Central Bank targets.

The Central Bank will be cautious in its reduction of the monetary policy rate (MPR) after having recognised its haste in lowering it at the beginning of 2017. In line with our inflation forecast, which points to a downward trend in the second half of the year, we estimate that the MPR will be cut gradually, reaching 21% in December 2017, maintaining a rate still high in real terms during the disinflation process. While this level of interest rates will continue to attract short-term capital inflows, it is expected that in the rest of the year the excess supply of foreign exchange will moderate. The demand for imports will begin to grow and the proximity of the elections will encourage hedging by companies and add volatility. In this context, the exchange rate will depreciate at a higher rate than in the first half of the year, but without changing the peso's medium-term trend, which is one of real appreciation.

The fiscal target of 1H17 will be easily met with the help of the fiscal amnesty, giving room for a greater seasonal expansion of spending in 4Q17, without jeopardising the annual primary deficit target of 4.2% of GDP in 2017. Achieving the primary deficit target of 3.2% of GDP in 2018 looks more ambitious as it implies a 1% of GDP reduction in spending to be achieved basically through the reduction of energy and transport subsidies since, on a path of disinflation, pensions and social subsidies will continue to increase in real terms due to their indexation to past inflation. The government has committed itself to a tax reform in 2018 but with these demanding goals, it is unlikely that the reform will involve a substantial decline in taxes in the short term.

We believe that the trade balance will continue to deteriorate gradually over the next few years basically due to the recovery of growth and investment, while a stronger expansion of exports will depend on the maturity of improvements

in transport infrastructure and productivity. The deficit in real services (largely, tourism) will remain above 1% of GDP in 2017 and 2018 reflecting the appreciation of the real exchange rate, with the current account deficit at around 3.5% of GDP. The gradual reduction of external vulnerability will depend on improving the competitiveness of exports since the economy will need to maintain a certain level of imports to continue growing. Despite the lifting of foreign exchange restrictions and a favourable business climate, foreign direct investment is still less than 2% of GDP, below the average for the region.

The parliamentary elections in October can be considered a milestone for the 2018-19 scenario. There are still no reliable polls, but the composition of forces in Congress is unlikely to change significantly and the administration will continue to need the support of opposition parties to get key laws passed. The outcome of the senatorial elections for the Province of Buenos Aires will have a significant influence on the political strength of the government and the management of economic policy. A strongly adverse result for Cambiemos (very unlikely) could increase the cost of financing and force the government into carrying out a more rapid fiscal adjustment, with a possible negative impact on the level of economic activity. On the other hand, a resounding victory would give the administration greater political capital to carry out structural reforms and improve the productivity of the economy. A substantial drop in country risk would allow for a larger deficit to be financed and for quicker progress to be made regarding the elimination of distorting taxes at national and provincial levels, boosting medium-term growth.

2. International context: Stable growth in 2017-18, with risks still on the downside

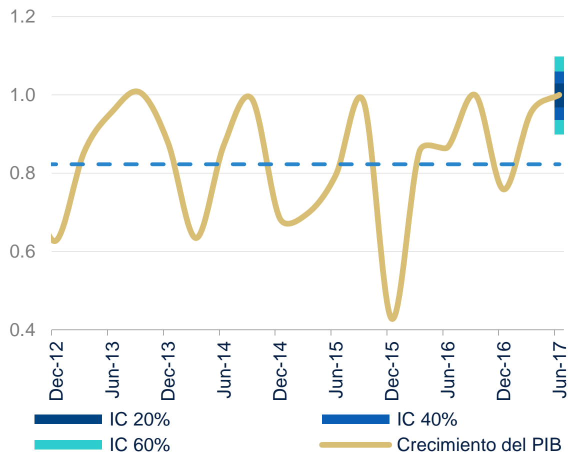
The world economy has been picking up in recent quarters and has approached growth rates of 1% QoQ (Figure 2.1), although it is trending towards stabilisation. In global terms confidence figures are clearly positive, above all in the advanced economies, and they seem to have moved into readings at the high end. World trade has recovered quickly from very weak levels in the middle of last year. All of this has also led to a rekindling of industrial activity and investment globally.

This positive dynamic is attributable to the prime factor behind expansion of late, namely the spurs provided by economic policy in China, which have driven growth in its economy and led to a knock-on affect among other Asian countries as well as the rest of the world economy. Other factors supporting good cyclical behaviour, such as extremely accommodative monetary policies in most advanced countries, a fiscal policy that has been recently neutral or expansive, or relatively modest commodity prices have helped the global recovery, in an environment of quiet financial markets.

The improvement, which has especially affected the advanced economies, has been accompanied by a certain rebalancing from the United States to Europe. On the other hand, the emerging economies have performed less promisingly and heterogeneously, with a slower than expected exit from the recession in LatAm, and in a more diverse way, due to differing levels of dependence on commodity revenues.

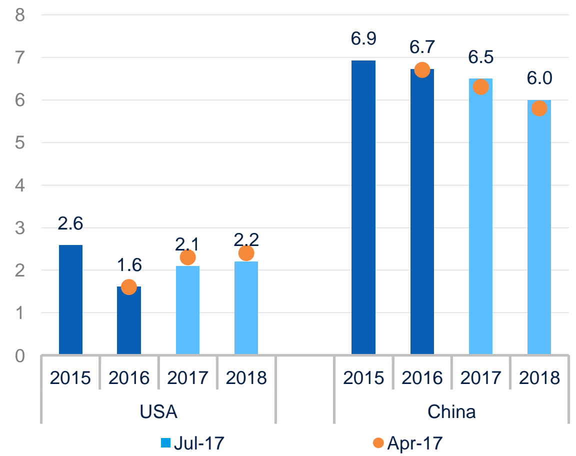
The tone in the financial markets has been upbeat, with volatility at historic lows in spite of the persistent economic, political and geo-political uncertainty, as well as the correction to expectations of a fiscal boost in the United States. This has meant that long term interest rates have remained anchored and corrected a portion of the rises in previous quarters, while the dollar has broken off from its firming course. The big question is whether the markets are being too lenient, particularly bearing in mind that the major central banks are making inroads into the normalisation process. The tone of monetary policy is still accommodative, but in the last quarter, in parallel with the economic improvement, additional steps have been taken in this process.

Figure 2.1 World GDP growth. Forecasts based on BBVA-GAIN (% QoQ)



Source: BBVA Research

Figure 2.2 GDP growth forecasts in USA and China (%)



Source: BBVA Research

We maintain our vision of increasing global growth, from 3.1% in 2016 to 3.3% in 2017 and 3.4% in 2018

Our new forecasts imply that growth at the global level will remain at 3.3% for 2017 and 3.4% for 2018. In China, we revised growth upwards by 0.2pp in 2017-18, which means the authorities achieving their target of 6.5% in 2017, although we still predict a slowdown to 6% in 2018 (Figure 2.2). Also in Europe, we revised the forecast for growth by three tenths in 2017, to 2%, along with exports and investment, with a certain slowdown for 2018 to 1.7%. On the contrary, we slightly lowered the forecast for the US to 2.1% in 2017 and 2.2% in 2018 (Figure 2.2), owing to lower than expected performance in the first quarter and to greater difficulties regarding the adoption of expansionary fiscal measures and reforms. In LatAm, ebbing commodity prices this year and heightened domestic uncertainty in several countries have meant that emerging from recession is taking longer than had been foreseen. These forecasts indicate that in the coming quarters emerging economies should make up ground on the advanced countries and China, which have spearheaded the recent upturn.

3. Argentina: the pace of economic recovery strengthens

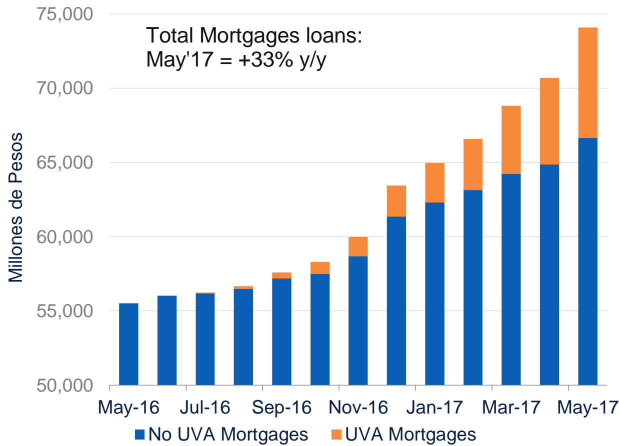
At this rate of quarterly increase, the economy will grow 2.8% in 2017

The economy is continuing to affirm the pace of expansion, with an increase in GDP of 1.1% QoQ, in seasonally adjusted terms, and 0.1% YoY in the first quarter of 2017. This growth was higher than expected (BBVAe: 0.6% QoQ), but since the partial data for 2Q17 indicate somewhat weaker growth than expected, we are maintaining our estimate for the year. The April EMAE monthly activity indicator registered an increase of 0.6% YoY, while construction (ISAC) increased 10.4% YoY in April-May, and industry (EMI) although recovering in May only averaged 0.9% YoY growth in the two months. On the basis of this differing behaviour, where some sectors have not yet taken off, we revised our growth forecast for 2Q17 slightly downwards to 1% QoQ seasonally adjusted. We believe that the economy will maintain a similar rate of growth in 3Q17 and 4Q17, to close the year with an increase in GDP of 2.8%.

With regard to aggregate composition, in line with our expectations, all components of domestic demand rose quarter-over-quarter, reversing the negative behaviour of the majority in 4Q16 in which only exports grew significantly. In the first quarter of 2017, due to stronger investment (1.7% QoQ), growth began to take hold more firmly and private consumption also recovered (+1.4% QoQ). Both construction activity and investment in machinery and equipment contributed positively to capital formation in 1Q17. We believe that this trend will continue over the rest of the year, being driven by public works and to a lesser extent residential construction, which we expect will begin to take off along aided by the appearance of mortgage credit in indexed units of purchasing power (UVA) (Figure 3.1). In this sense, we also maintain our view on the relative performance of the components of aggregate demand (Figure 3.2) for 2017, with a slight downward revision of the increase in exports given their performance in 1H17, offset by somewhat more dynamism in domestic consumption.

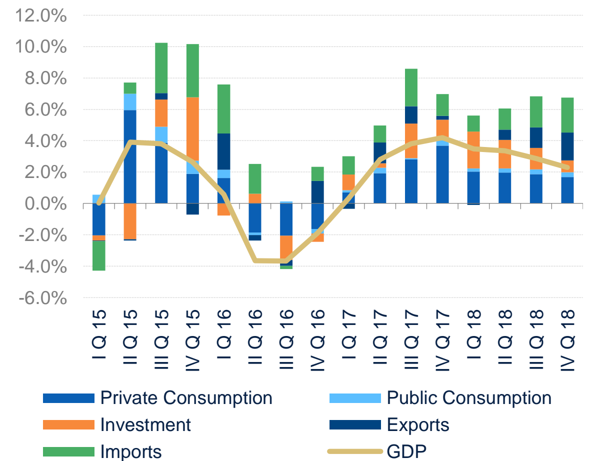
Registered employment shows signs of improvement, with an accumulated increase of 1.1% YoY to April driven basically by employment in the public sector and in the self-employed because employment in the formal private sector contracted by just 0.1% during this period. With agreements having been reached in more than half the sectors of the collective bargaining process and considering the statistical carryforward of the 2H16 increases, we believe that wages in the formal sector will grow at around 28.8% on average and the wage bill will increase by about 2-3 pp in real terms, without recovering 2016’s loss of purchasing power. Despite these improvements in the labour market, indicators of actual sales in supermarkets and shopping centres continue to fall YoY, possibly reflecting in part changes in consumer habits with regards to points of sale and also a greater propensity of higher-income sectors to save encouraged by the change in monetary policy.

Figure 3.1 Mortgage market: total and indexed credit



Source: BBVA Research based on BCRA data

Figure 3.2 Contribution to growth by sector of aggregate demand



Source: BBVA Research based on INDEC data

The growth path we estimate for 2017 leaves a positive statistical carryforward of 1.6% for 2018 that will help to support the GDP increase of 3% next year. Our forecasts envisage a slowdown in quarterly growth to an average of 0.6% QoQ after the strong expansion of infrastructure investment in 2017 following the sharp drop in 2016. However, if after the elections, uncertainty falls strongly and private investment in both infrastructure and other sectors is strengthened, the slowdown could be lower than the current estimate and lead to higher growth in 2018.

Slight upward bias in 2018 growth forecasts, if private investment takes off after the elections.

The result of the October 2017 parliamentary elections will undoubtedly impact on the confidence of both consumers and businessmen and, therefore, affect economic policy decisions. Our base scenario for 2018 assumes that there will be no major changes in economic policy, rather that the combination of relatively loose fiscal policy and relatively tight monetary policy will be pursued, while moving forward with structural reforms but without radically breaking with what has been observed up to the present. However, the reduction of electoral uncertainty and the fall in inflation will drive growth in investment and employment in the coming years.

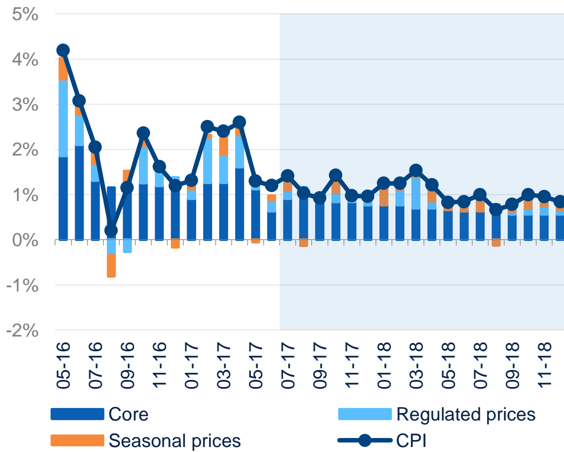
4. Inflation begins to ease after a quarter of negative data

We maintain our inflation forecasts slightly above the BCRA targets for 2017 and 2018

The inflation rate fell to 1.3% in May and 1.4% monthly in June, after having averaged 2.5% MoM during the previous 3 months. The fall in inflation reflects not only the end of the schedule of increases in regulated prices, but also a fall in the core inflation rate (which fell from 2% per month to 1.55% MoM on average in the first two months) and a slowdown in food price increases (Figure 4.1). We believe that this decreasing trend in core inflation will be maintained in the coming months to achieve an average of 1.1% per month in 3Q17 on the basis of a monetary policy that will remain tight. Considering that energy rate increases are resumed in 4Q17, inflation measured by INDEC's Greater Buenos Aires (GBA) CPI will reach 19.5% by the end of 2017 as reported in our previous Economic Outlook. We also maintain unchanged the forecast of 12.9% for 2018 that foresees a stabilisation of inflation at around 0.9% per month and an impact on headline inflation of increase in energy rates of 1.9 pp.

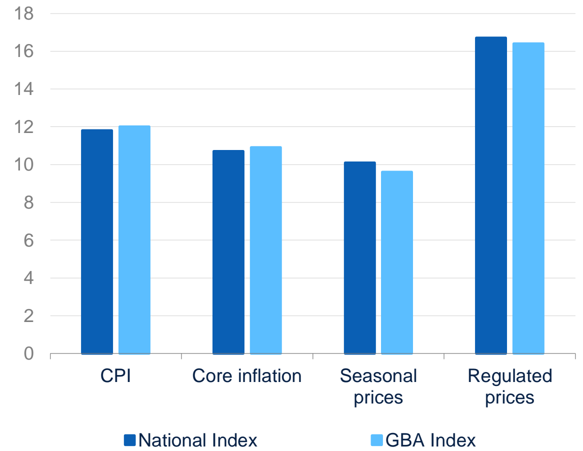
Despite the tightening of monetary policy since April, consensus inflation expectations of analysts surveyed by the Central Bank (BCRA) remain at around 21.6% YoY for December 2017 (and have remained above 21% since March) although they are expected to drop to 17.1% is expected over the next 12 months. However, public expectations (according the Di Tella University survey) have been corrected downward in the last quarter from 25% in March to 20% in June. Wage agreements are progressing slowly, averaging increases between 21-23% YoY that do not add to inflation pressures. Until mid-May, exchange-rate stability contributed to sustaining downward inflation expectations and it is to be expected that recent episodes of volatility will not be greatly passed through to prices, since a higher rate of depreciation was expected in the second half of the year. The exception could be the increase in fuel prices set for July due to the adjustment formula that takes into account both the increase in the international price of oil and the exchange rate and which will have an incidence of close to 0.2 pp in inflation for that month.

Figure 4.1 Inflation INDEC GBA per month, incidence of regulated prices, core and seasonal prices



Source: BBVA Research based on INDEC data

Figure 4.2 Cumulative inflation in 1H17 by components - GBA CPI and National CPI



Source: BBVA Research based on INDEC data

The new national inflation index (National CPI/IPC Nacional) that will be used to assess the attainment of inflation targets, which the INDEC published on 11 July, will not generate significant changes in the feasibility of fulfilling BCRA targets as it will continue to have a strong weighting in the Greater Buenos Aires area. The first measurement for June registered an inflation rate of 1.2% per month, slightly below the 1.4% registered by GBA CPI (which was the previous benchmark as the index with the widest coverage computed by INDEC) and also a slightly lower core inflation of 1.3% MoM. However, in the accumulated inflation for the first half of the year, the national CPI showed an inflation rate of 11.8% just under the 12% measured by the GBA CPI, and very similar increases both in regulated prices and core inflation (Figure 4.2).

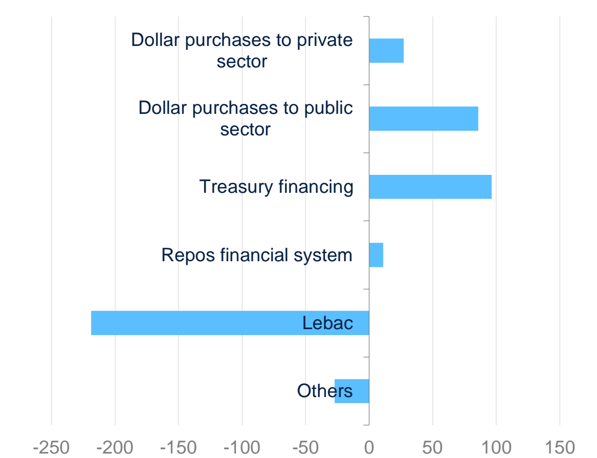
5. The tightness of the monetary policy continues

But we expect pressures on the exchange rate to moderate in the 2nd semester

Due to the strong monetary stringency of the first quarter of last year in which the Central Bank sterilized the "monetary overhang" of the previous administration, if compared in inter-annual terms, the Monetary Base rose by 29% in June, but grew only minimally by 1.3% between June 2017 and December 2016. This is due in part to the reduction of 2 percentage points in bank reserve requirements, which the BCRA implemented from March 2017, and which led to a fall in bank accounts at the Central Bank.

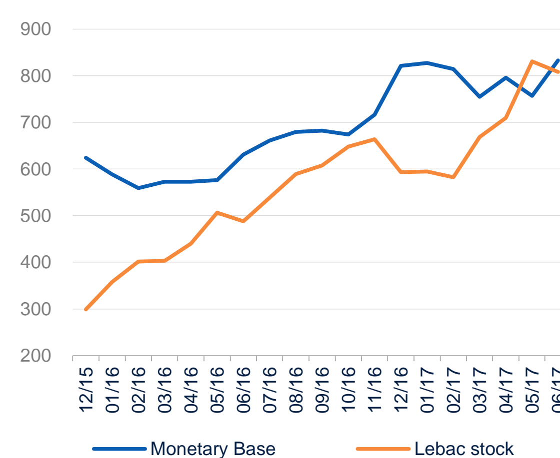
Apart from these statistical effects, monetary policy remained tight given that the creation of pesos from purchases of foreign currency (mainly from the placement of public sector debt) of ARS104.5 billion and from short term loans to the Treasury of ARS 96.5 billion were mostly sterilized by Central bank sales of short term bills, Lebac, (ARS109.5 billion) and reverse Repos (Figure 5.1). In this context, deposits in pesos from the private sector increased by 10.3% between June and December 2016 and loans by 15.7%, while Lebac stock grew by 43.3% in the same period (Figure 5.2). In addition, anticipating a 150 bp increase in Monetary Policy Rate in April, the BCRA had been actively pushing up the Lebac rate in secondary market since March, so as to bring it closer to the monetary policy rate (Figure 5.3).

Figure 5.1 Factors of Expansion and Contraction of the Monetary Base (Jan to June 2017, ARS billion)



Source: BBVA Research based on BCRA data

Figure 5.2 Monetary Base and Lebac stock (ARS billion)



Source: BBVA Research based on BCRA data

The BCRA will be cautious in its reduction of the monetary policy rate after having recognised its haste in lowering it at the beginning of 2017. In line with our declining inflation forecast of the second half of the year, we estimate that it will gradually cut the Monetary Policy rate (MPR) at around 100 bp per month from August to reach 21% by December 2017. This results in a rate which is still high in real terms (about 8%) compared to expected inflation of the next 12 months and is in line with the Central Bank's intention to sustain positive real rates for the duration of the disinflation process.

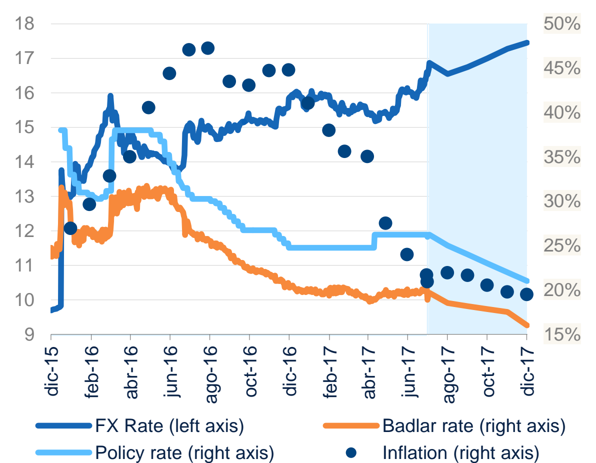
While this level of interest rates will continue to attract short-term capital inflows, it is expected that in the rest of the year the excess supply of foreign exchange will shrink compared to the first half of the year. Despite the fact that the flow of exports in 2H17 may remain a lilltle above the usual seasonality, due to the delay observed in the settlement of the soybean crop, national public sector debt placements planned for the year are practically already 95% complete. The demand for imports will begin to grow, as the proximity of the elections will encourage hedging by companies and add some volatility. In this context, the exchange rate will depreciate at a higher rate (8.2%) in the second half of the year (even slightly above expected inflation), unlike the first half of 2017 in which the FX only weakened by 1.8% between the average of December 2016 and the average of June 2017.

Recent episodes of rapid depreciation in exchange rates (spreading from Brazil because of the political scandal affecting President Temer and market disappointment regarding the non-recategorisation by the MSCI of Argentina as an emerging market) were followed by partial reversals, without altering the medium-term trend, but they contributed to reducing the certainty of outcomes on carry trade strategies in a context where lower interest rates and more FX volatility are expected in the second half of the year. From mid-June, this trend deepened after the announcement of the lists of candidates for the primary elections of August, and the peso depreciated 5% in 2 weeks moving forward the weakening we were expecting in the months leading up to the October elections. For the moment, we maintain our forecast of ARS17.5/USD for December 2017 and ARS18.8/USD for December 2018 although, beyond the fundamentals, in the second half of the year the value of the peso will continue to move at the pace of electoral surveys and political scenarios (Figure 5.4).

Figure 5.3 Monetary Policy Rate and Lebac in %

Source: BBVA Research and BCRA

Figure 5.4 Exchange rate forecasts (ARS/USD) and interest rates (%)



Source: BBVA Research and BCRA

6. The fiscal deficit reduction targets will be met

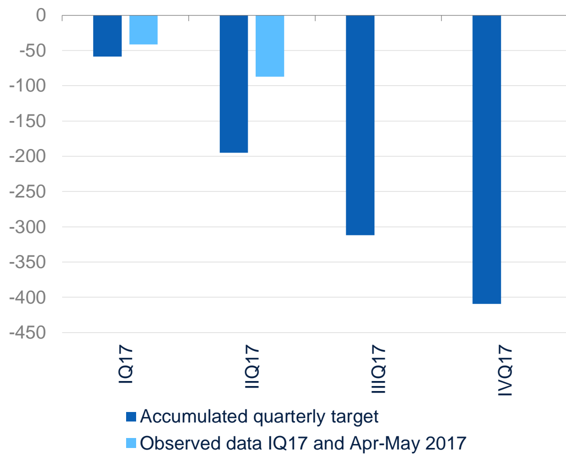
Although they leave little room for an integral tax reform

In the first five months of 2017, total fiscal revenues grew by 33.7% YoY, almost 10 pp more than inflation, as did tax revenues (+31% YoY). This improvement in collections is basically explained by an increase of 35.8% YoY in social security contributions (representing 37% of revenues) and the collection of penalties due to the fiscal amnesty that have amounted to more than 10% of the total fiscal income so far this year. However, we estimate that for the rest of 2017, the effect of the tax amnesty will be diluted so that fiscal revenues will increase by only 27% YoY for the full year, still above the increase in primary spending estimated to be at 24.7% YoY in 2017.

In the first 5 months of the year, public expenditure excluding interest grew at a rate of 33% YoY driven mainly by Pensions and social benefits. The latter will increase this year in real terms due to their indexation to past inflation and because of the "Historical Reparation" program that promises to adjust pensions vis-a-vis their past shortcomings regarding adjustment for inflation. Transfers to provinces for the restitution of Social Security funds also climbed above the average, the latter driven by a Supreme Court ruling at the end of 2015. In contrast, economic subsidies fell sharply in real terms, in particular those for energy sectors due to the increase in electricity and natural gas tariffs. These trends will continue in the second half of the year but the year-on-year increase in spending in the last quarter will be much lower than the current one due to the fact that the steep increase in expenditure (cancellation of floating debt and advanced transfers to the provinces using the extraordinary income from the fiscal amnesty) that took place at the end of 2016 will not be repeated. In this scenario, we believe that there will be no difficulties in meeting the primary deficit target of 4.2% of GDP this year. In fact, the first semester’s target will be easily complied with since the accumulated deficit over the first 5 months of the year amounts to only 45% of the first half-year target, allowing more space for the seasonal expansion of end-of-year spending without putting the annual target at risk (Figure 6.1).

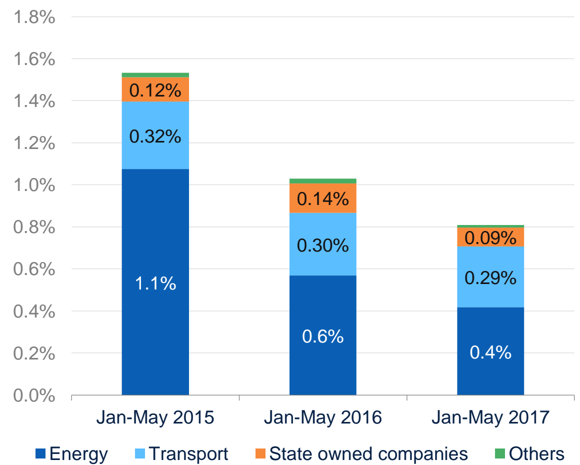
Instead, the 2018 target of reducing the primary deficit to 3.2% of GDP looks more ambitious as it implies a reduction in spending of 1% of GDP to be achieved basically through the reduction of energy and transport subsidies because, on a disinflationary path, due to the Law of Mobility that indexes them to past salary increases, pensions and social subsidies will continue to increase in real terms. The government is committed to moving a tax and social security reform forward in 2018 in order to reduce tax pressure on formal sectors of the economy and to improve competitiveness. The reform aims to be comprehensive but gradually applied and focused on reducing tax distortions such as lowering the Tax on Bank Debits and Credits that discourages banking penetration or lowering non-wage payroll taxes to encourage formal employment. However, with these demanding fiscal consolidation goals, it is unlikely that the reform will involve a substantial decline in taxes in the short term unless the 2016-17 fiscal amnesty results in a great expansion of the tax base. At the same time, an initial agreement not to increase provincial expenditure in real terms was signed by the majority of governors, but the negotiation of the provincial fiscal responsibility Law in Congress will take time and, in the short-term, will not enable a significant decline in provincial taxes that also generate great distortions (as in the case of Gross Income Tax).

Figure 6.1 Fiscal performance accumulated to May 2017 and fiscal targets ($ billion)



Source: BBVA Research on data from the Ministry of Economy

Figure 6.2 Subsidies to economic sectors (% of GDP)



Source: BBVA Research based on ASAP and Ministry of Economy data

The public sector financial needs of USD 40 billion for 2017 have practically been complete covered by debt issues to date. With the recent placement of USD 2.75 billion in a 100-year bond in international markets and a USD 4.5 billion adjustable- MPR rate bond, it would only be necessary to complete the USD short-term Letes issuance program and issue USD 2.4 billion in the domestic market to fulfill the financial program for the year. The MSCI's recent decision to keep Argentina within the category of frontier (rather than emerging) market did not have a major impact on the bond market and it is to be expected that Argentina's debt spreads will continue to decline gradually after any electoral uncertainties have been cleared. This means that we do not foresee financing problems in 2018 when international debt repayments will be lower and the total financing needs, excluding the short-term Letes maturities, will be similar to those of 2017 even assuming less assistance from the BCRA to the Treasury.

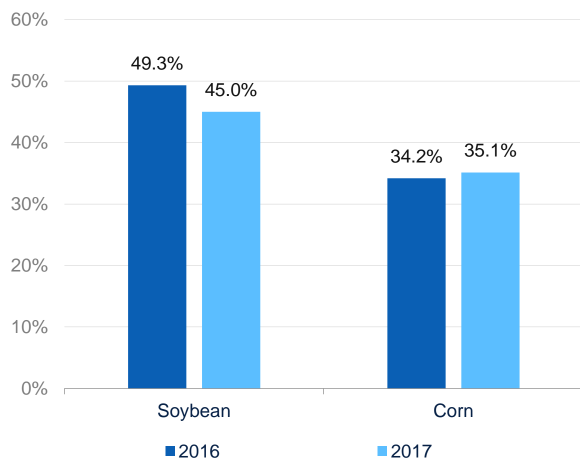
7. The greater external imbalance will not be reversed until reforms that improve competitiveness begin to mature

In line with expectations, imports have begun to expand at a rate more in keeping with the pace of growth and registered an increase of 12.4% YoY in the accumulated period from January to May 2017, of which 9.4% corresponds to an increase in the quantities imported. In contrast, exports have grown only by 1.6% YoY in the same period with a fall of 4.1% in the volumes exported. Although part of this contraction is due to the fact that in the first half of 2016 exports retained during the period of the currency exchange control were settled for USD 2 billion, exports of primary products and manufactured goods of agricultural origin in the key months of April and May still show strong declines in 2017, despite the fact that the harvest is expected to be similar to that of 2016. Exchange rate stability, the recent fall in the price of soybeans and the availability of funding at low rates in dollars could also have contributed to the fact that producers of corn and soybeans have not settled exports in the same proportion as in other years, waiting for better conditions (Figure 7.1).

Despite the fact we believe that this delay will be compensated in part in the second half of the year, exports will be less dynamic than expected over the whole year, leading us to revise the trade balance downward to a deficit (FOB-CIF) of USD 2550 million. We continue to expect that the terms of trade will not favour Argentina's external balance in 2017 (-2.7%), taking into account the expected recovery in import prices (oil-driven) in the second half of 2017 and the mildly downward outlook for prices of soybeans and derivatives.

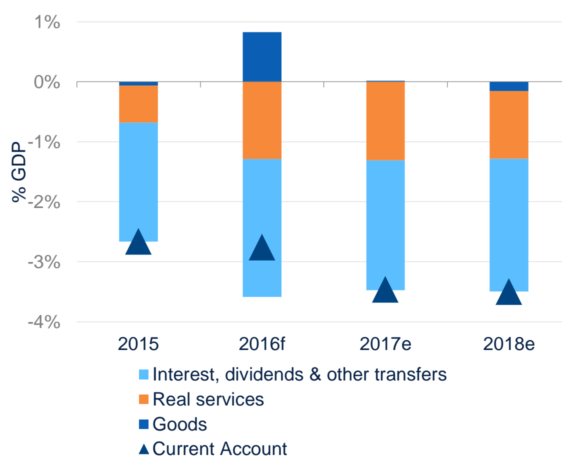
We believe that the trade balance will continue to deteriorate gradually over the next few years basically due to the recovery of the economy. Linked to this, investment will lead to a greater need for capital goods and inputs that are not produced in the country, while the pace of growth of exports will recover more slowly as it depends on the improvements in transportation infrastructure and productivity coming to maturity. We do not expect a significant reduction in the deficit in real services (in large part due to outbound Tourism) that will remain above 1% of GDP in 2017 and 2018, reflecting the appreciation of the real exchange rate. Adding the interest burden and remission of dividends, the current account deficit will be at 3.5% of GDP this year and next (Figure 7.2). Its gradual reduction to levels of lower future vulnerability will depend crucially on improving the competitiveness of exports, in both goods and services, since the economy will need to maintain a certain level of imports in order to support a strong growth rate. Despite the lifting of foreign exchange restrictions and a favourable business climate, foreign direct investment still stands at 1%, well below the rest of the region and the levels reached during Convertibility in which it averaged 2% of GDP.

Figure 7.1 Purchases of grains from exporters and industry as a % of the total harvest



Source: BBVA Research based on Ministry of Agro-Industry data

Figure 7.2 Current account balance by components (% of GDP)



Source: BBVA Research based on INDEC data

8. The result of the October parliamentary elections will be key to the continuity of economic policy

Growth in Brazil is still weak and the engine that is China has lost momentum, which sets a limit to the possibility of rapidly improving exports and international commodity prices. However, an international scenario in which ample liquidity prevails and the withdrawal of monetary stimuli by the central banks of the developed countries takes place without any major tensions remains a relatively favourable scenario for Argentina. This is because it allows the country to finance its fiscal and external imbalances during the transition to becoming a more competitive economy.

In this context, October's parliamentary elections become a key milestone at the time of designing scenarios for 2018-19. Although there are still no reliable polls because of the recent presentation of the lists of candidates, it is unlikely that after the elections, the composition of forces in Congress will change noticeably taking into account the amount of senators and representatives whose seats will be at stake for each political party. In this sense, and as up to now, the ruling coalition will continue to need the support of the other opposition parties and of the provincial governors to obtain the approval of key laws.

However, the outcome of the senatorial election for the Province of Buenos Aires, to the extent that it is indicative of the possible outcome of the 2019 presidential race, will have an important influence on the political capital of the government and on the management of economic policy. A strongly adverse result for Cambiemos (which has a very low probability) could increase political and social unrest and the country risk premium. The consequent increase in the cost of external financing would force the government to conduct a more rapid fiscal consolidation and to postpone the tax reform, with a possible negative impact on the level of economic activity and further depreciation of the exchange rate. Conversely, a resounding victory for Cambiemos in the October elections would give greater political capital to the government to carry out structural reforms and improve the productivity of the economy. In this case, a substantial drop in country risk would allow a larger deficit to be financed at a lower cost and more rapid progress could be made with the elimination of distorting taxes at the national and provincial levels, enhancing competitiveness and medium-term growth.

9. Tables

Table 9.1 Annual macroeconomic forecasts

	2015	2016	2017f	2018f
GDP INDEC Baseline 2004 (% y/y)	2.6	-2.2	2.8	3.0
Inflation CABA (% y/y, eop)	26.9	41.0	22.4	12.9
Exchange Rate (vs. USD, eop)	11.4	15.8	17.7	18.8
Monetary Policy Rate (%, eop)	33.0	24.8	21.0	16.5
Private Consumption (% y/y)	3.5	-1.4	3.1	2.6
Government Consumption (% y/y)	6.8	0.3	2.0	2.0
Investment (% y/y)	3.8	-5.1	8.0	7.0
Fiscal Balance (% GDP)	-5.2	-5.9	-5.9	-5.0
Current Account (% GDP)	-2.7	-2.8	-3.5	-3.5

(f): Forecast
Source: BBVA Research

Table 9.2 Quarterly macroeconomic forecasts

	GDP INDEC (% y/y)	Inflation CABA (% y/y, eop)	Exchange Rate (vs. USD, eop)	Monetary Policy Rate (%, eop)
Q1 16	0.6	35.0	15.0	38.0
Q2 16	-3.7	47.1	14.1	30.8
Q3 16	-3.7	43.1	15.1	26.8
Q4 16	-1.9	41.0	15.8	24.8
Q1 17	0.3	35.0	15.5	24.8
Q2 17	2.8	23.6	16.1	26.3
Q3 17	3.8	25.0	17.2	24.0
Q4 17	4.2	22.4	17.7	21.0
Q1 18	3.5	18.7	18.2	19.8
Q2 18	3.4	15.1	18.1	18.6
Q3 18	2.9	14.0	18.3	17.5
Q4 18	2.3	12.9	18.8	16.5

Source: BBVA Research

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