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FEATURED Q&A

Is Argentina Set to Break From Its Boom-Bust Cycle?



Argentina's central bank would raise interest rates if inflation does not fall "a lot" beginning in May to a level consistent with its 2018 target, central bank Governor Federico Sturzenegger (R) said on Monday. // File Photo: Argentine Government.

Q Economists raised their expectations for inflation in Argentina while shaving growth forecasts in a monthly central bank poll released on April 4, Reuters reported. The poll found median inflation expectations for this year rose to 20.3 percent, up from 19.9 percent last month and above the government target of 15 percent inflation this year. Meanwhile, economists' median GDP growth forecast for 2018 fell to 2.5 percent from 2.7 percent previously. In more positive news, state statistics agency INDEC said last month that Argentina's poverty rate fell to 25.7 percent in the second half of 2017, down from 28.6 percent in the first half of the year and 30.3 percent in the second half of 2016. What do recent economic indicators say about the outlook for Argentina's economy? Why has the country's inflation rate been so difficult to bring down? Are Argentine citizens feeling the benefits of President Mauricio Macri's pro-business economic policies?

A Alberto Ramos, managing director and head of Latin America economic research at Goldman Sachs in New York: "We hold a constructive view of Argentina's macro financial outlook, but that hinges critically on further tangible progress towards fiscal consolidation, for that is key to guarantee medium-term domestic (low and stable inflation) and external (moderate current account deficit) balance. Large fiscal deficits alongside high and sticky inflation remain the key macro imbalances of the Argentine economy. They are interconnected and combine to keep the currency misaligned

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Canada Recalls Families From Embassy in Cuba

At least 10 Canadians, including some minors, are suffering from unexplained brain symptoms such as dizziness, nausea and difficulty concentrating.

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PDVSA Refineries Working at Only 31% Capacity

Employees say a lack of spare parts, insufficient supplies of light oil for the facilities and staff departures have been behind the fall in output.

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BUSINESS

Carlos Slim Weighs in on Mexico's Election

Mexican businessman Carlos Slim said he would be "concerned and afraid" if leftist candidate Andrés Manuel López Obrador becomes president. Slim referred to López Obrador's pledge to cancel a \$9 billion airport in Mexico City, a project in which the billionaire holds financial interests.

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Slim // File Photo: Brazilian Government.

POLITICAL NEWS

Canada Recalls Families From Embassy in Cuba

Canada's government has recalled the families of its diplomatic staff in Havana amid continued health concerns, BBC News reported today. At least 10 Canadians, including some minors, are suffering from unexplained brain symptoms such as dizziness, nausea and difficulty concentrating, government officials said. Doctors have suggested a new type of brain injury may be the cause of the mysterious illness. Canada says it has dismissed theories about covert sonic attacks being the cause of the illnesses. The United States pulled out its diplomatic staff in Havana in September and warned its citizens not to visit Cuba, asserting that 21 embassy employees had been injured with concussion-like symptoms. The following month, the U.S. State Department expelled 15 Cuban diplomats from Washington in protest of what it said was Cuba's failure to protect American envoys in Havana. The United States also reduced the size of its embassy in Havana by 60 percent. Cuba has denied involvement in the cases. Foreign Minister Bruno Rodríguez said U.S. claims were a "political manipulation"

aimed at damaging bilateral relations. The fact that staff have been affected from Canada, which has better relations with Cuba than the United States, has puzzled analysts. [Editor's note: See related [Q&A](#) in the Oct. 11 issue of the Advisor.]

ECONOMIC NEWS

Venezuela Refineries Working at Only 31 Percent Capacity

Venezuela's oil refineries operated at only 31 percent of their combined capacity in the first three months of this year, Reuters reported Monday, citing an internal document from state-run oil company PDVSA. The Amuay, Cardon, Isla, Puerto la Cruz and El Palito refineries processed 510,000 barrels of crude per day (bpd) in the first quarter, down sharply from a 631,000 bpd average in all of 2017, the document said. Employees interviewed by the news service say a lack of spare parts, insufficient supplies of light oil for the facilities and staff departures have been behind the fall in output. About 25,000 workers resigned between the start of January 2017 and the end of January 2018, said union leader and government critic

NEWS BRIEFS

Cloud Services to Reach \$7.4 Bn in Latin America

Cloud services in Latin America are expected to generate \$7.4 billion in the year 2022, up from \$1.8 billion in 2017, a 32 percent compound annual growth rate, according to new research by Frost & Sullivan. The growth will be fueled partly by companies that are increasing investments in "hybrid infrastructures" that combine multiple configurations, such as on-premise private cloud, public cloud, hosted private cloud, and bare-metal cloud, the San Antonio-based consulting firm said.

Guatemalans Vote to Send Belize Border Dispute to International Court

On Sunday, Guatemalans overwhelmingly voted to send their long-running border dispute with Belize to the International Court of Justice, the Associated Press reported. More than 95 percent of the votes were cast in favor of the Hague court settling the dispute over the land area, which makes up just under half of the territory administered by Belize, though less than 25 percent of voters participated, Deutsche Welle reported. Belize has yet to hold its own referendum, which is required under a 2008 agreement between the two countries.

Brazil's Neoenergia Makes Offer for 26 Percent Stake in Eletropaulo

Neoenergia, one of Brazil's largest utilities, has made an offer for a 26 percent stake in power distributor Eletropaulo Metropolitana, Reuters reported. The company said in a securities filing today it plans to make a full takeover bid worth up to \$1.7 billion. The bid is at a 16 percent premium to Eletropaulo shares' closing price on Monday. Controlled by Brazilian pension funds and Spain's Iberdrola, Neoenergia currently serves an area in Brazil with a population of over 34 million people.

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(overvalued) and the external accounts out of balance. The authorities are expected to continue to embrace an orthodox market- and investment-friendly policy approach but are in the short term challenged to get a grip on the inflation dynamics and reinforce the credibility of the young inflation-targeting framework as the main nominal anchor for the economy. The stickiness of the inflation dynamics is first and foremost a reflection of inertial forces, pervasive indexation mechanisms, and the authorities' effort to strengthen the public finances by reducing costly budgetary subsidies. Cutting subsidies has led to sizable increases in regulated prices/

tariffs, pushing the annual inflation rate for regulated prices up to a high 38 percent. We expect the inflation outlook to improve going forward, supported by the fading impact from the large increase in regulated prices, a tight/conservative monetary stance, and further gradual progress on fiscal consolidation. Disciplined, market-friendly and pro-investment policies are expected to support growth, employment and economic opportunity, and a stronger macroeconomic performance (solid growth and moderate inflation) should trickle down from the economic to the social sphere by empowering larger segments of the population."

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Iván Freites, citing internal company data. PD-VSA board member and pro-government union representative Wills Rangel acknowledged the flight of talent is a serious problem. "The massive resignations are worrying," Rangel said in a Reuters interview. "In refinery operations, many have left." This week Citigroup raised its forecast for oil prices for this year in part due to supply losses from Venezuela, Bloomberg News reported. International sanctions may also be taking a toll. The U.S. Treasury in January warned businesses and investors to approach Venezuela's "petro" digital currency with caution, saying the oil-backed currency may conflict with U.S. sanctions against the Venezuelan government. [Editor's note: See related [Q&A](#) in the Feb. 16 issue of the weekly Energy Advisor.]

BUSINESS NEWS

Carlos Slim Weighs in on Mexico's Presidential Race

Business magnate Carlos Slim on Monday weighed in on Mexico's presidential election, saying that he would be "concerned and afraid" if leftist presidential candidate Andrés Manuel López Obrador wins, the Associated Press reported. Slim specifically referred to the potential for López Obrador to cancel a \$9 billion Mexico City airport, in which his companies have major contracts. "I would be concerned and afraid for what comes after, because if this is going to be the way things are done, I think mistakes will be made in public administration," Slim said. López Obrador has pledged to cancel the airport if he wins the July 1 presidential vote, saying the project is poorly sited and too expensive. "This isn't a good deal for the country, for Mexicans. It is for a small group of contractors, they are going to make a lot," López Obrador said. Construction of the new airport was launched in 2014 to replace Benito Juárez airport, which serves 47 million passengers, almost 50 percent over its design capacity of 32 million, according to the International Air Transport Association.



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and to register, click [here](#)

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A **Claudio Loser, senior fellow of the Inter-American Dialogue and former head of the Western Hemisphere Department at the International Monetary Fund:** “The new projections for GDP resulting from the pro-growth policies of President Macri for 2018 are debatable. Projections of 2.5 percent growth for the rest of the year are plausible, in part due to an ongoing drought. However, local economists usually tend to be too pessimistic. Inflation is another story. Inflation expectations are higher than the Central Bank indicates (20 percent vs. 15 percent), but still show a decline in the medium term. The main culprits are the pressures of the powerful government and transportation

“**The government has lost popularity, but views about the Peronists are even more negative.**”

— Claudio Loser

unions, the necessary correction of public prices, but most importantly, the large fiscal deficit. Public finances have improved, but even with a high foreign borrowing component, the high deficit puts pressure on inflation. Clearly, the economy is in a growth mode, with investment increasing. However, Argentines, particularly the middle class, have been hit by a sizable reduction in subsidies for electricity and gas, even if prices (at an over-valued exchange rate) remain below comparable values abroad. The resulting discomfort does not take into consideration the previous dismal quality of service, and the sharp increase in investment in and output of these products. The government has lost popularity, but views about the Peronists are even more negative, and at election time even those that are unhappy would not vote for the opposition. Still a lot of work lies ahead for this government if they want to

succeed in getting out of the 75-year boom and bust cycle that characterizes the Argentine economy.”

A **Miguel Kiguel, executive director of EconViews in Buenos Aires:** “The most recent figures indicate that the economy continues to move at a good pace despite the worst drought in decades, but that inflation remains high and will end this year well above the official target. Last year started with just green shoots, but towards the third quarter it was clear that the growth process was consolidating and that most sectors were benefiting. The biggest winners were construction, agriculture, energy and financial services, while the losers were some industries (especially textiles) and the retail sector. The initial figures indicate that growth continues unabated. True, it has been running at around 2.9 percent per annum, but there is a good chance that it will be sustained over many years, and in contrast to previous expansions investment is going to have a leading role in this process (last year it increased by 13 percent). The news on the inflation front has not been so positive. During the first quarter it reached 6.7 percent, slightly higher than last year and, more worrisome, core inflation in March was 2.6 percent which was above the 2.3 percent headline rate of inflation. In April, we expect that inflation will remain above 2 percent due to the increases in some regulated prices and the tail effects of the depreciation in the currency. The central bank will maintain a tight monetary stance, and now it is unlikely to lower interest rates till June. May will be the critical month to evaluate the effectiveness of the fight against inflation because we don't anticipate further increases in regulated prices nor a sharp depreciation of the currency. If inflation follows last year's pattern and it drops to the 1.5 percent range, it could mark a clear turning point in the fight against inflation. If it does not happen, the government will probably need to re-think its stabilization policy.”

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