

## **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.

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