1. Summary

Economic growth more widespread and at a faster pace. GDP posted growth of 0.7% QoQ in 2Q17 and would reach 4Q at 4% YoY, in line with our estimated increase of 2.8% for 2017. There was widespread growth in most sectors, including manufacturing; confidence brightened and there was increased growth in lending. A confirmation of the **government's positive political momentum** in October elections would dispel doubts about continuity in the reform agenda and give a greater boost to private investment, putting a positive bias on our estimated growth of 3% for 2018.

Although 3Q17 inflation was down from the average figures registered in 1H17, it fell more slowly than expected. Hence, due to this and the higher than expected impact which regulated prices had on National CPI, **we have revised our inflation estimates to 22.2% YoY for 2017 and 15.6% for 2018**, above the Argentinian Central Bank’s targets. **The Central Bank of Argentina will continue with its contractionary monetary policy**: as inflation and expectations have not been brought down to levels consistent with the target of 12-17% for 2017. Monetary policy became more contractionary in 3Q17, and we do not expect a reduction in the monetary policy rate until there is specific evidence that inflation is heading towards the expected values, probably towards the end of the year.

Fiscal targets for 2017 will likely be met and budget discussions for 2018 will be focused on the Nation/Provinces relationship: In the 2018 Budget bill, the primary deficit is estimated to fall by 1% of GDP through an adjustment in primary spending, but the proposal does not include the effects of the announced tax reform, which is not expected to be very deep. The government will refinance debt maturing in 2018 and issue new debt to cover the fiscal deficit with a total net bond issue of around USD 18.7 bn. The Fiscal Responsibility Act is aimed at improving the fiscal solvency of the provinces, and it is the first step in the important debate between the Nation and the Provinces.

In 2018, the trade deficit is expected to reach USD 8.8 billion against a background of higher domestic growth and a slight fall in the terms of trade. The deficit in real services and interest will keep the current account deficit above 4% until 2020. **Argentina will be able to finance the higher deficit with external savings in the short term without running into sustainability problems** but it needs to carry out reforms to make exports more competitive. **The real appreciation of the peso will put some upside pressures on the nominal exchange rate** and thus we have slightly increased our depreciation estimates for 2017-18, but kept them below expected inflation and below consensus.

A favourable election result would be expected to increase the government's political capital, allowing it **to launch a cycle of structural reforms to resolve long-standing problems in Argentina.** This process **is not exempt from political risks** as the Provinces will have to agree to reduce fiscal pressure, and seek alternative sources of income. Political skills will also be needed to make changes to improve the competitiveness of the economy as it entails addressing Argentina's problems of labour productivity and its role in the international trade; bringing with it a larger scale for domestic production but also a potentially negative impact on less competitive sectors.

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