Monetary Policy Report

October 2017

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

Content

1 | *International context*

2 | *Economic activity*

3 | *Inflation*

4 | *Monetary policy*

Apartados del Informe de Política Monetaria

Exhibit 1 | Floating exchange rate and current account volatility

Exhibit 2 | An association between the cash use intensiveness and construction activity

Exhibit 3 | Public Private Partnership (PPP)

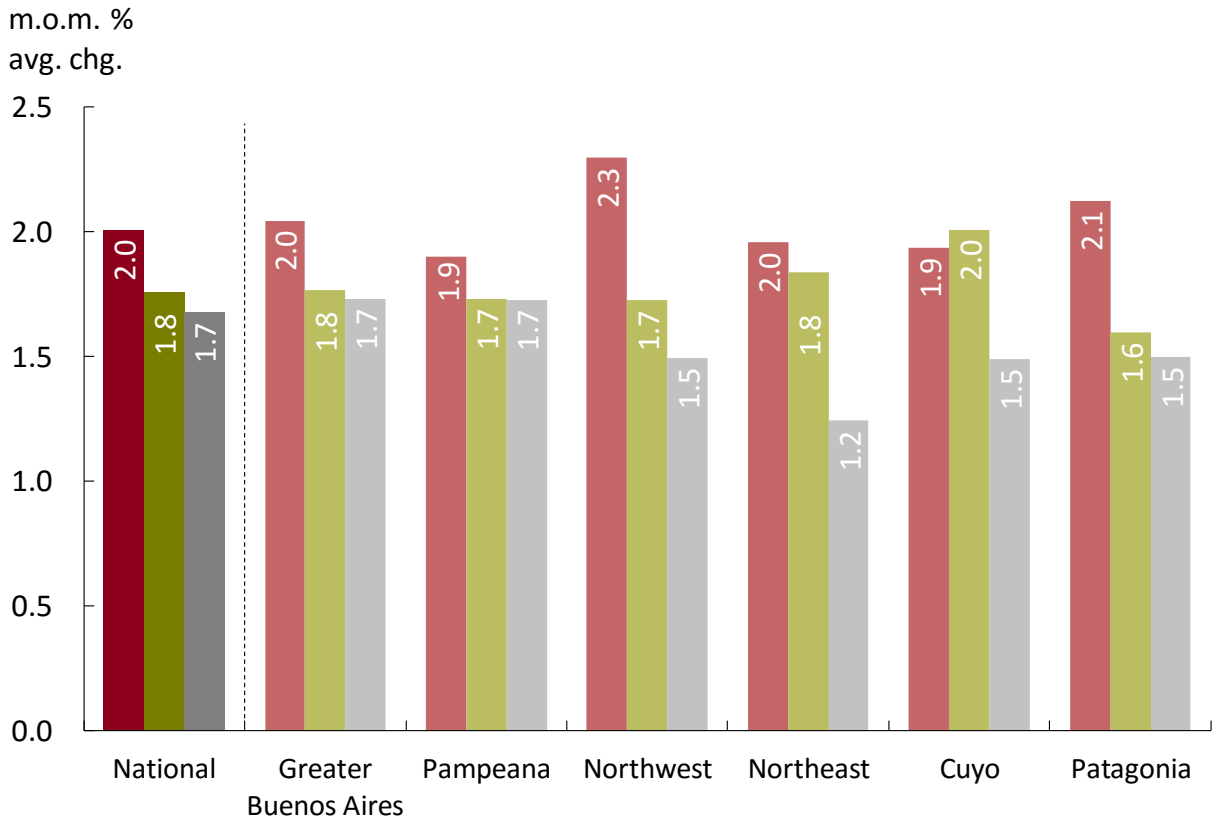
Exhibit 4 | Mixed-Frequency Model Forecasts

Exhibit 5 | Israel's Experience with Inflation Targets

Exhibit 6 | Monitoring the mortgage market through Internet searches

1. *Inflation*

Recent evolution of inflation

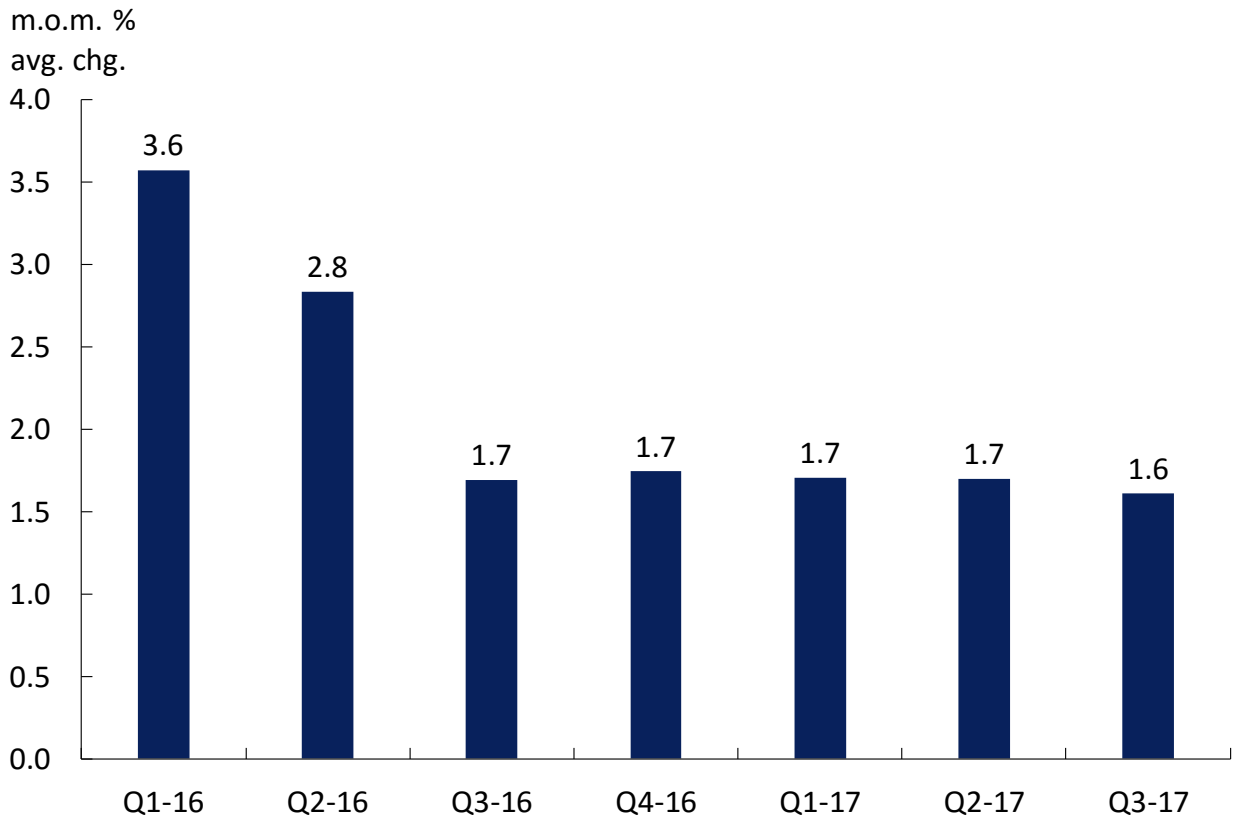


Inflation (Headline) national and regional

- Q1-17
- Q2-17
- Q3-17

Source | INDEC.

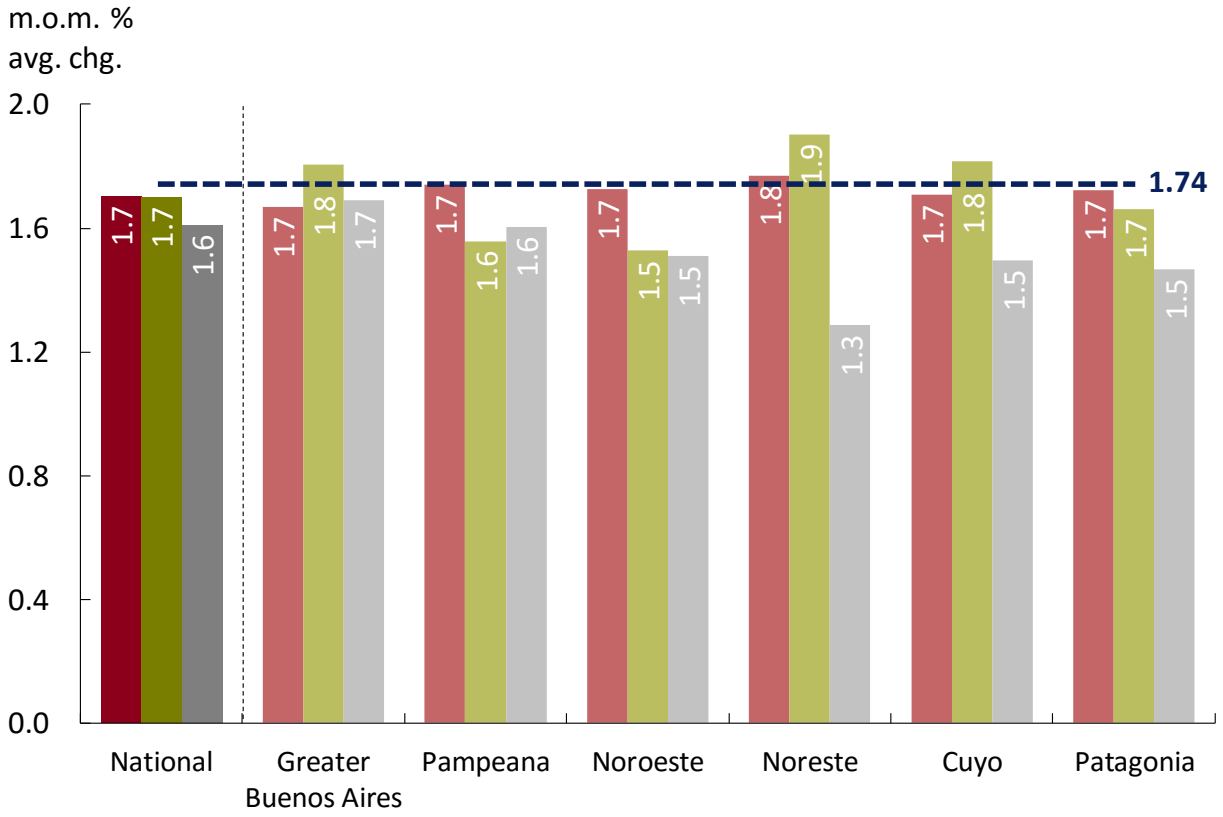
Recent evolution of inflation



Core inflation

Note | The series corresponds to the National CPI measured by National Institute of Statistics and Census (INDEC) since December 2016; it is retroactively linked to the Greater Buenos Aires Consumer Price Index (CPI GBA) up to April 2016 and then to the City of Buenos Aires Consumer Price Index (CPIBA)
Source | INDEC and General Directorate of Statistics and Census of the Autonomous City of Buenos Aires.

Recent evolution of inflation

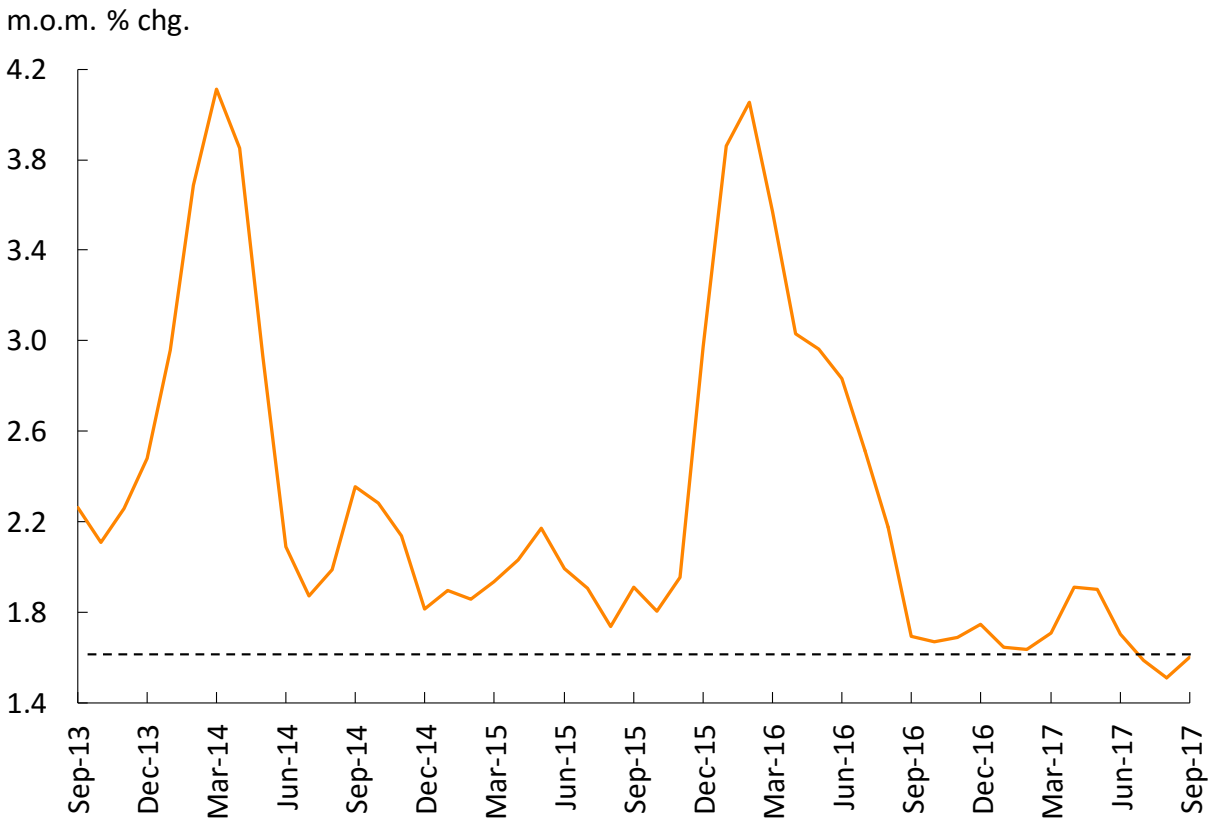


Core inflation (National and regional)

- Q1-17
- Q2-17
- Q3-17
- Q4-16 (GBA)

Source | INDEC.

Core inflation trend

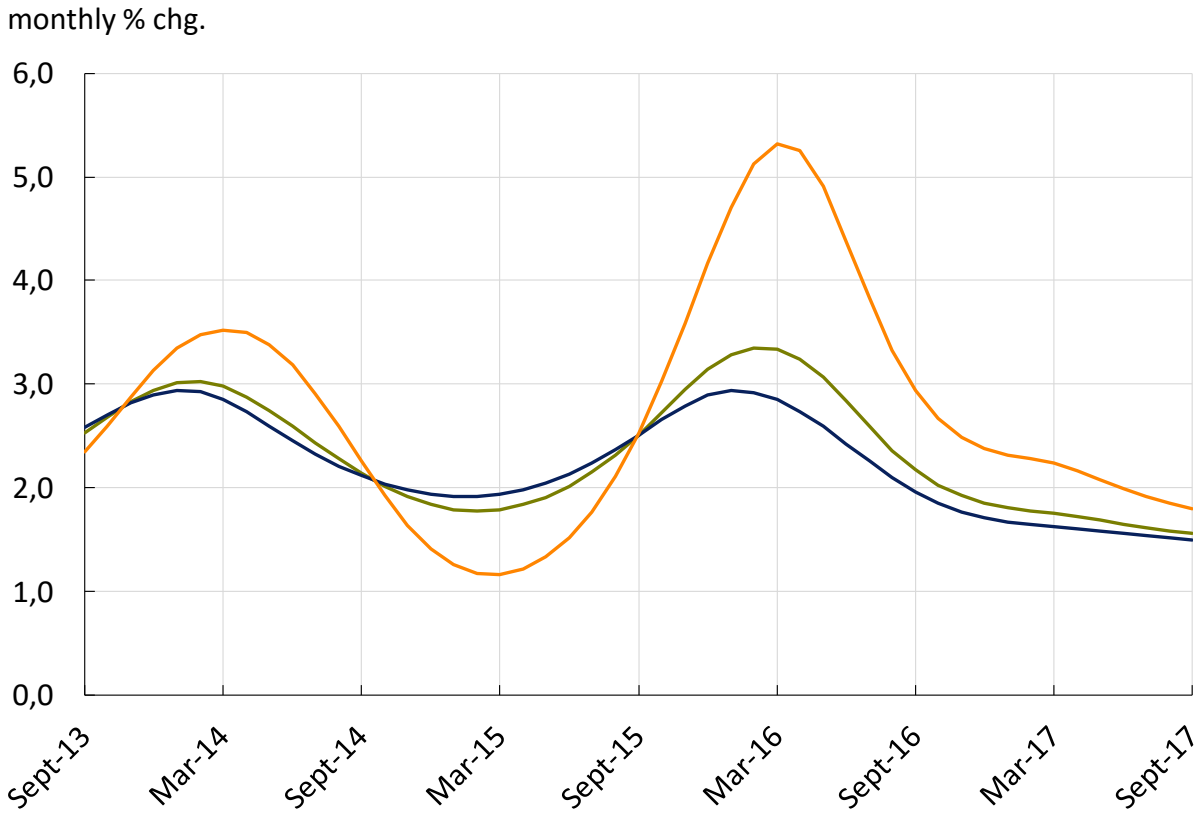


Core inflation

— 3-month m.a.

Nota | The series corresponds to the National CPI measured by National Institute of Statistics and Census (INDEC) since December 2016; it is retroactively linked to the Greater Buenos Aires Consumer Price Index (CPI GBA) up to April 2016 and then to the City of Buenos Aires Consumer Price Index (CPIBA).
Source | INDEC and General Directorate of Statistics and Census of the Autonomous City of Buenos Aires.

Regulated and non-regulated prices

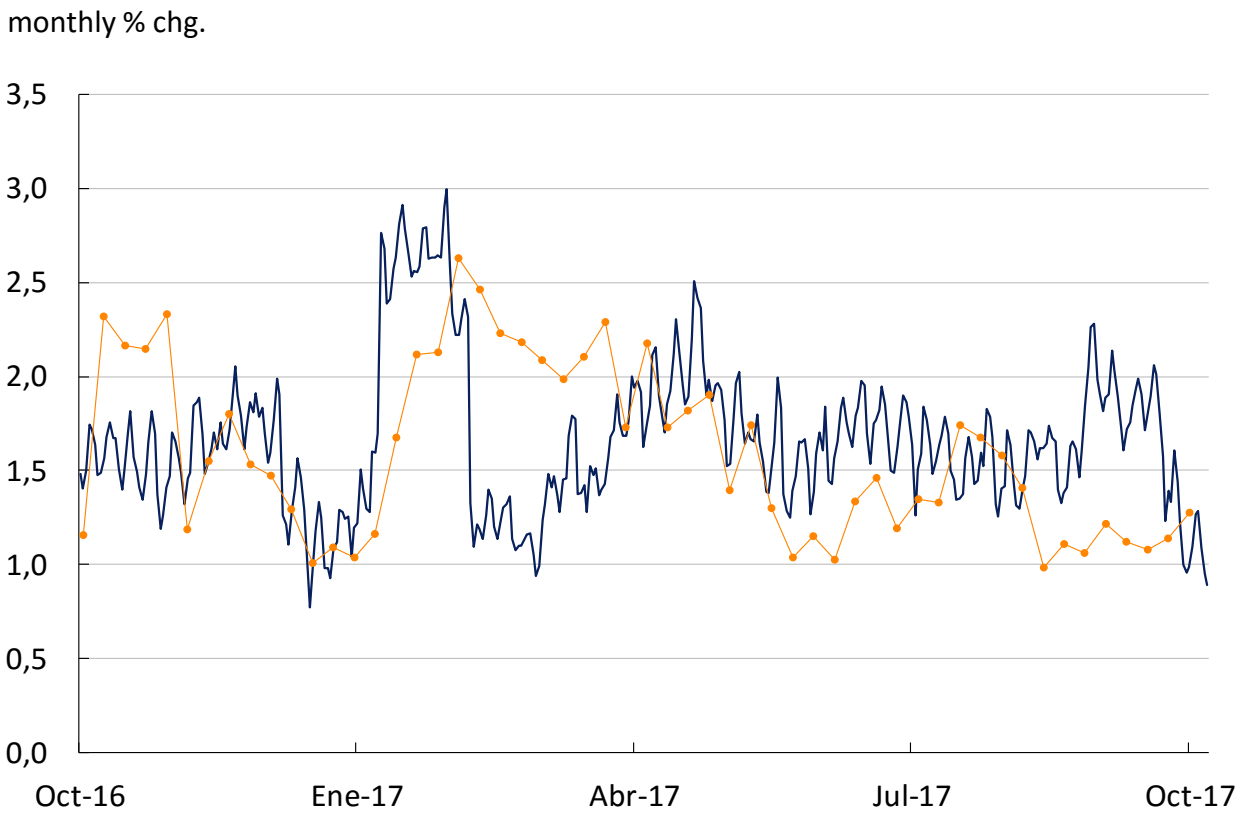


Retail prices trend

- Regulated
- Headline
- CPI excl. regulated

Nota | Hodrick-Prescott (HP) filter trend applied to the National CPI series linked to the CPI GBA and to the CPIBA. Given that the HP filter is symmetric, the series was forecasted as of December based on data from the Market Expectation Survey (REM).
Fuente | INDEC and General Directorate of Statistics and Census of the Autonomous City of Buenos Aires.

October perspectives



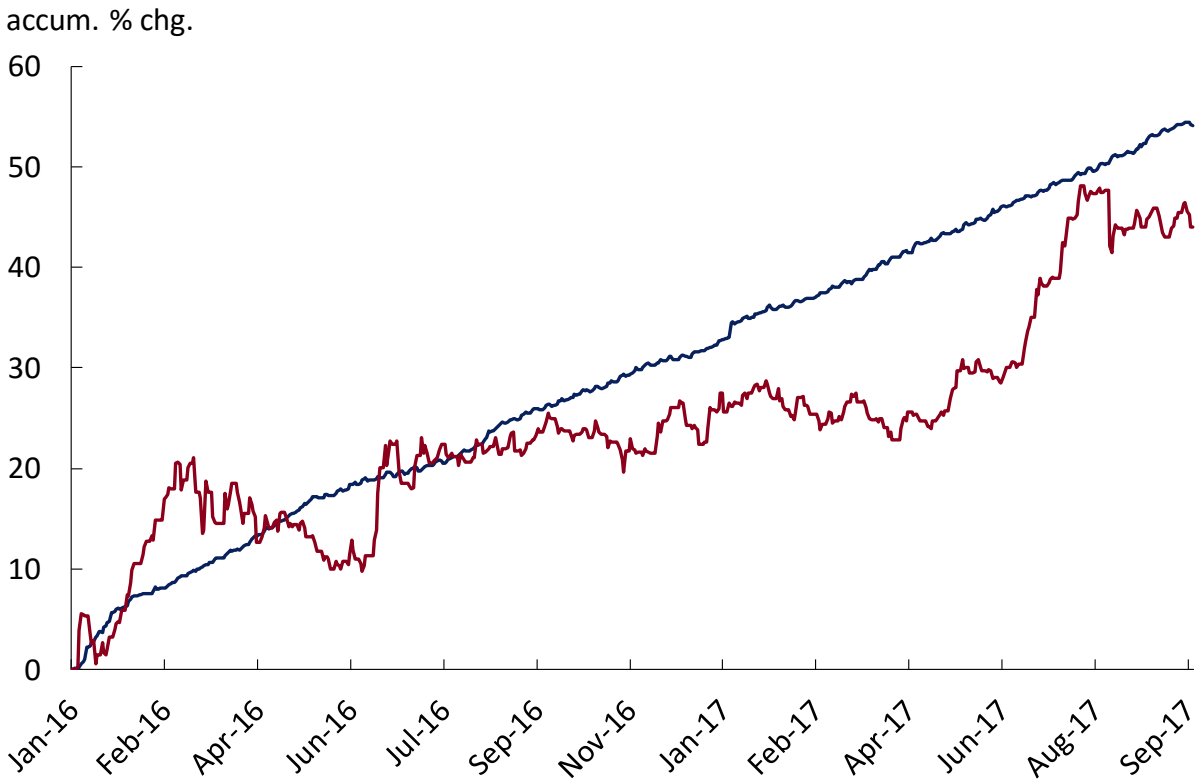
High frequency indicators for October

PriceStats m.o.m % chg. (daily data)

Elypsis m.o.m % chg.

Source | *State Street PriceStats' Aggregate Inflation Series and* Elypsis.

Pass through under floating exchange rate



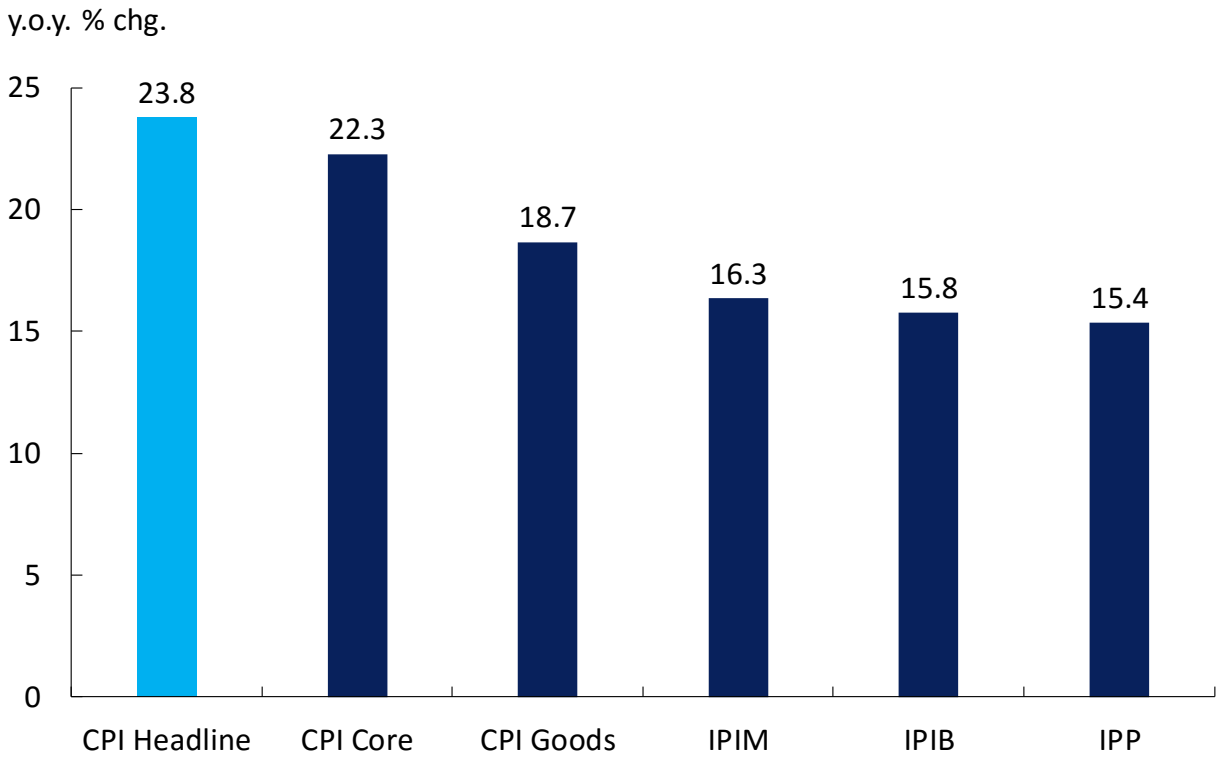
Prices and nominal exchange rate

PriceStats

ITCNM*

Note | *ITCNM: Multilateral Nominal Exchange Rate Index.
Source | *State Street PriceStats' Aggregate Inflation Series*, BCRA, INDEC and Datastream.

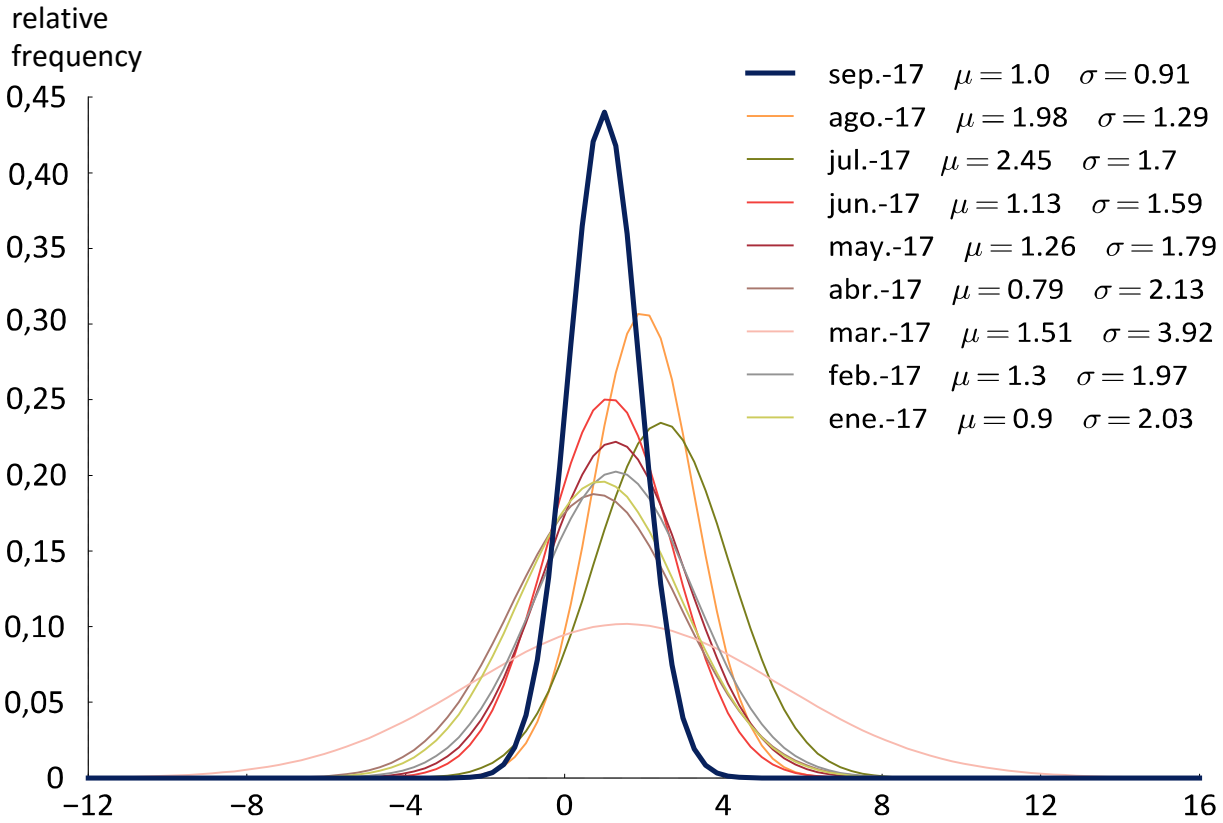
Wholesale prices



Consumer and wholesale prices (Sept-17)

Source | INDEC.

Wholesale prices

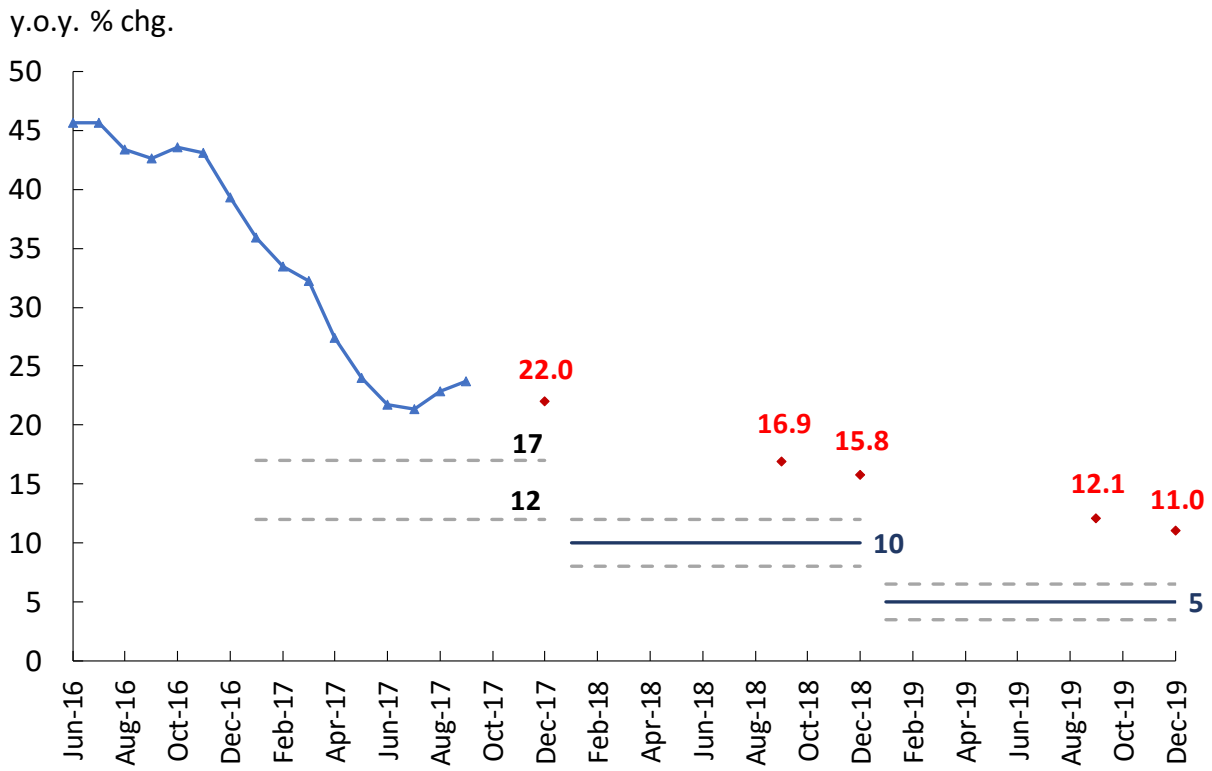


Changes in monthly distribution of IPIM components

Note | IPIM: Wholesale Domestic Price Index

Source | BCRA and INDEC.

Expectations



Inflation target and expectations

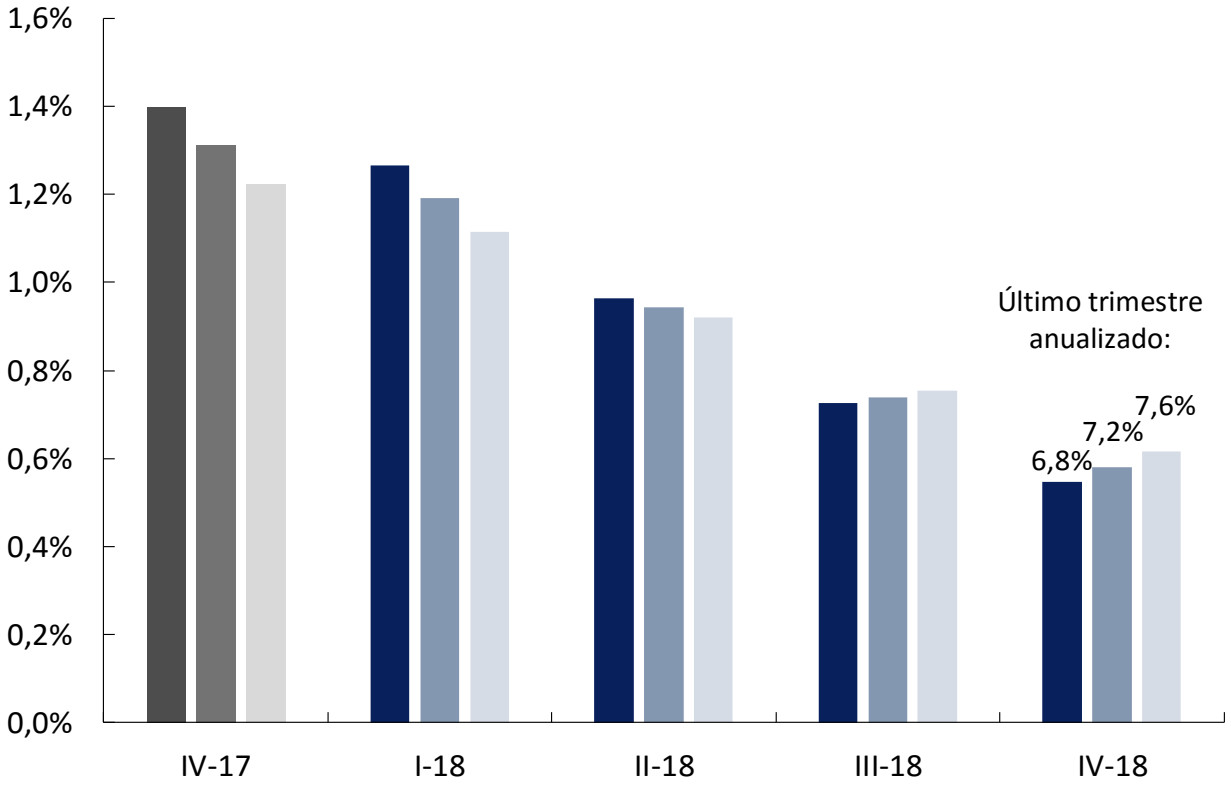
Inflation y.o.y.

REM inflation expectations

Inflation target

Note | REM – September 2017.
Source | BCRA and INDEC.

Potential disinflation scenarios in line with the target



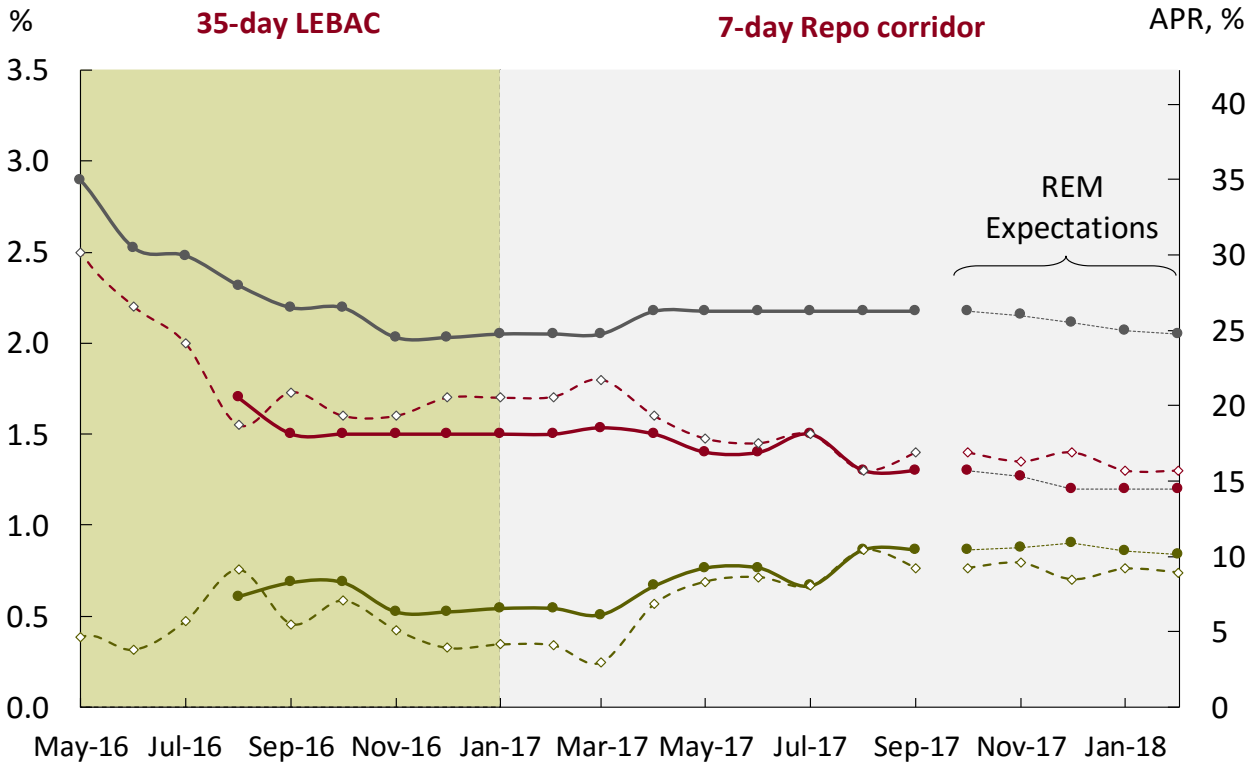
Inflation scenarios consistent with the 10% y.o.y. target in December 2018

- Q4-17 - Scenario 1.4
- Q4-17 - Scenario 1.3
- Q4-17 - Scenario 1.2

Source | BCRA.

2. *Monetary Policy*

Real monetary policy rate



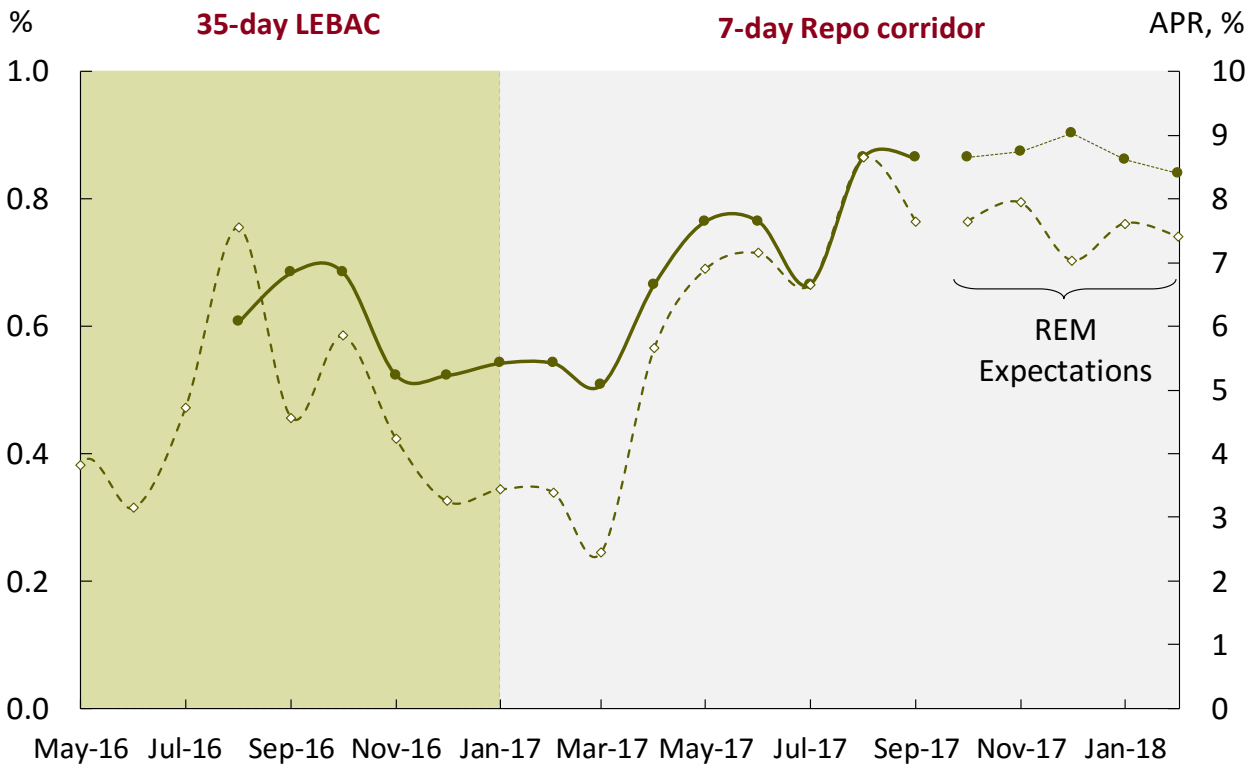
Nominal and real monetary policy rate

- Effective rate (left axis); nominal anual (right axis)
- Expected inflation – Core (GBA and National)
- Real effective rate – Core (GBA and National)
- Expected inflation – National
- Real effective rate – National

Note | Real rate estimated based on inflation expectations obtained from the Market Expectation Survey (REM) and the policy interest rate in force over the period. Rates correspond to a 30-day period.

Source | BCRA.

Real monetary policy rate



Nominal and real monetary policy rate

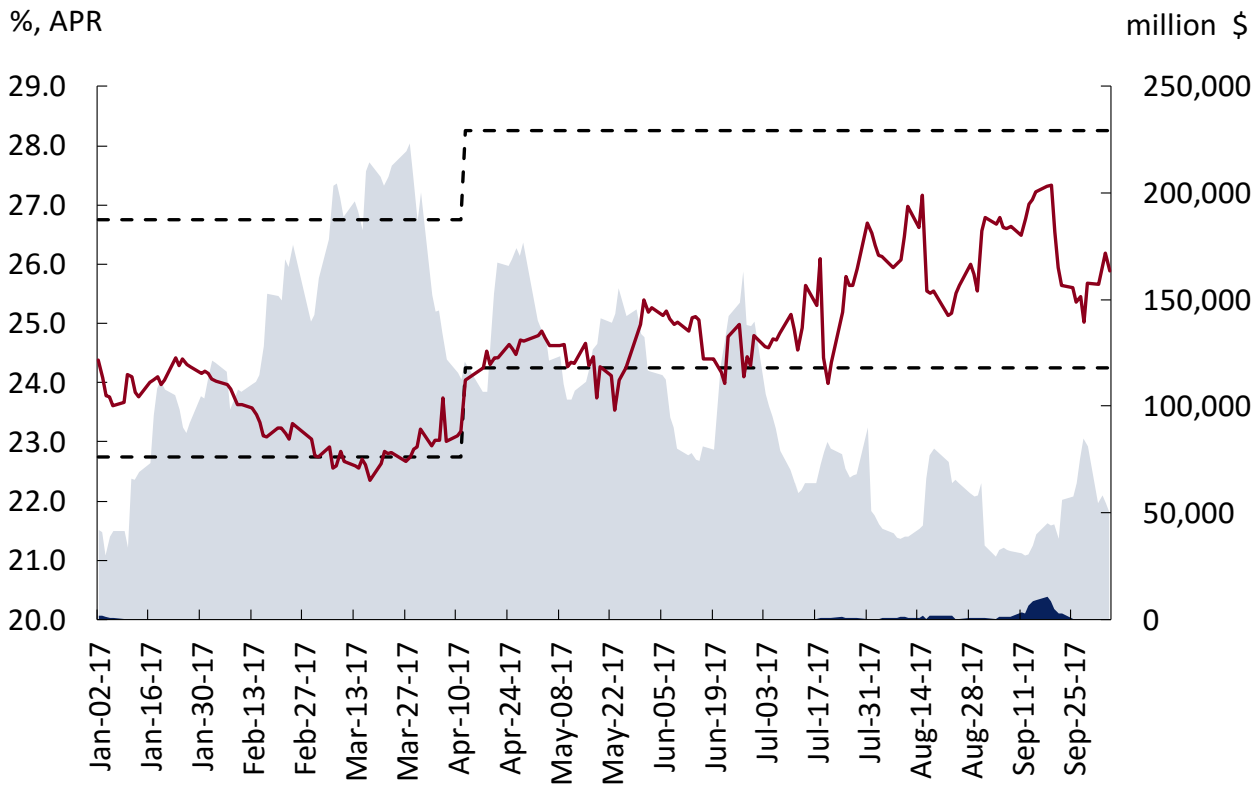
30-days real effective rate – Core (GBA and National)

30-days real effective rate –National

Note | Real rate estimated based on inflation expectations obtained from the Market Expectation Survey (REM) and the policy interest rate in force over the period. Rates correspond to a 30-day period.

Source | BCRA.

Narrowing the gap between short rates and the center of the corridor

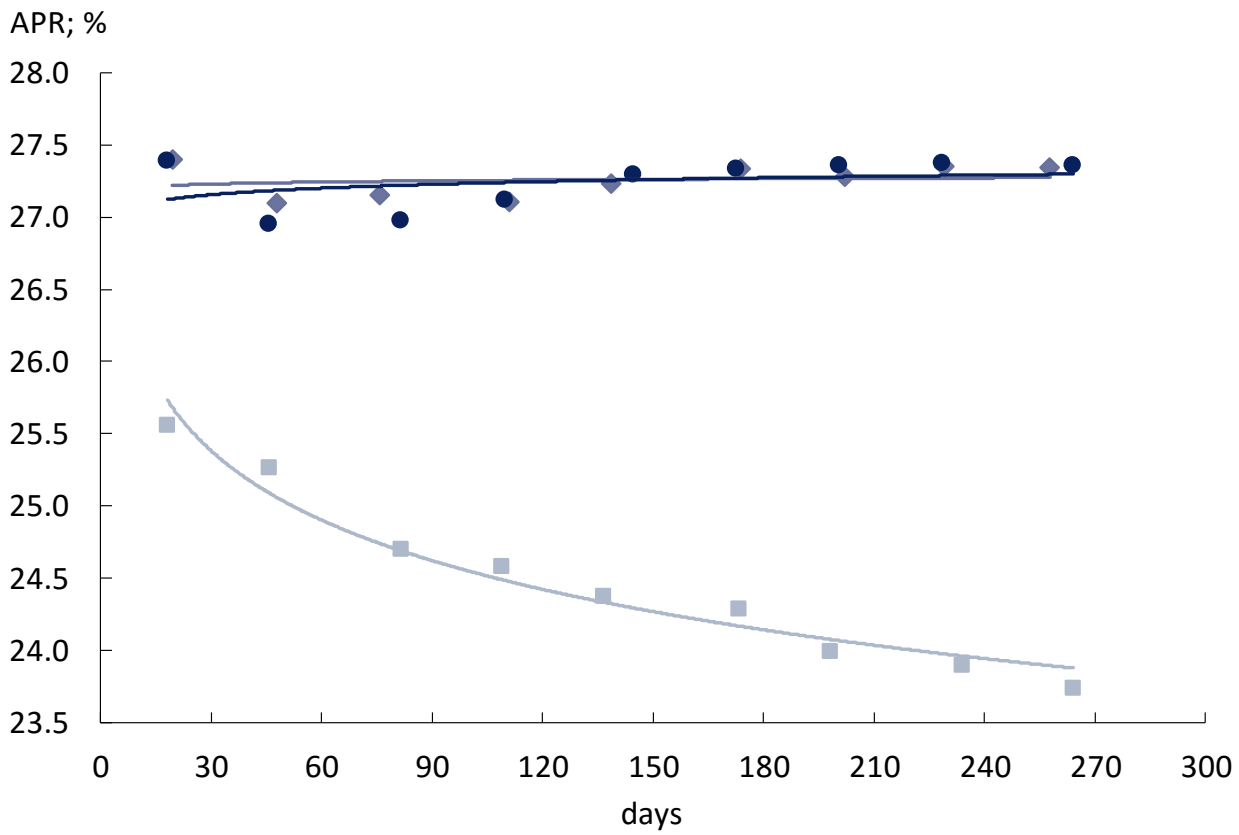


Overnight repo rate corridor and interbank interest rate

Reverse repo (right axis)
Repo (right axis)
Call
1-day repo corridor

Source | BCRA.

Change in LEBAC yield curve

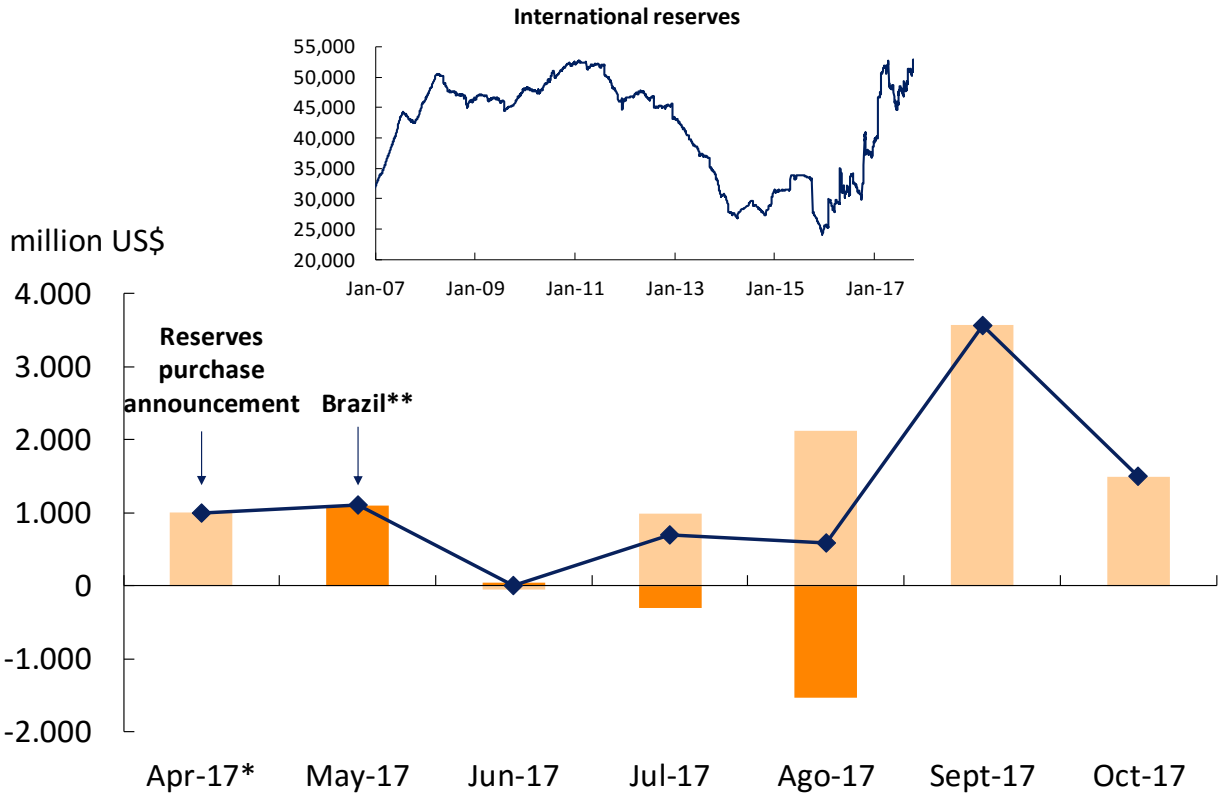


Central Bank interventions in the LEBAC secondary market

- Jun-30-17
- Aug-31-17
- Sep-29-17

Source | BCRA.

Purchase of international reserves



Net purchases of foreign currency since the announcement of the target of international reserves to GDP

- Private sector and others
- National Treasury
- Total

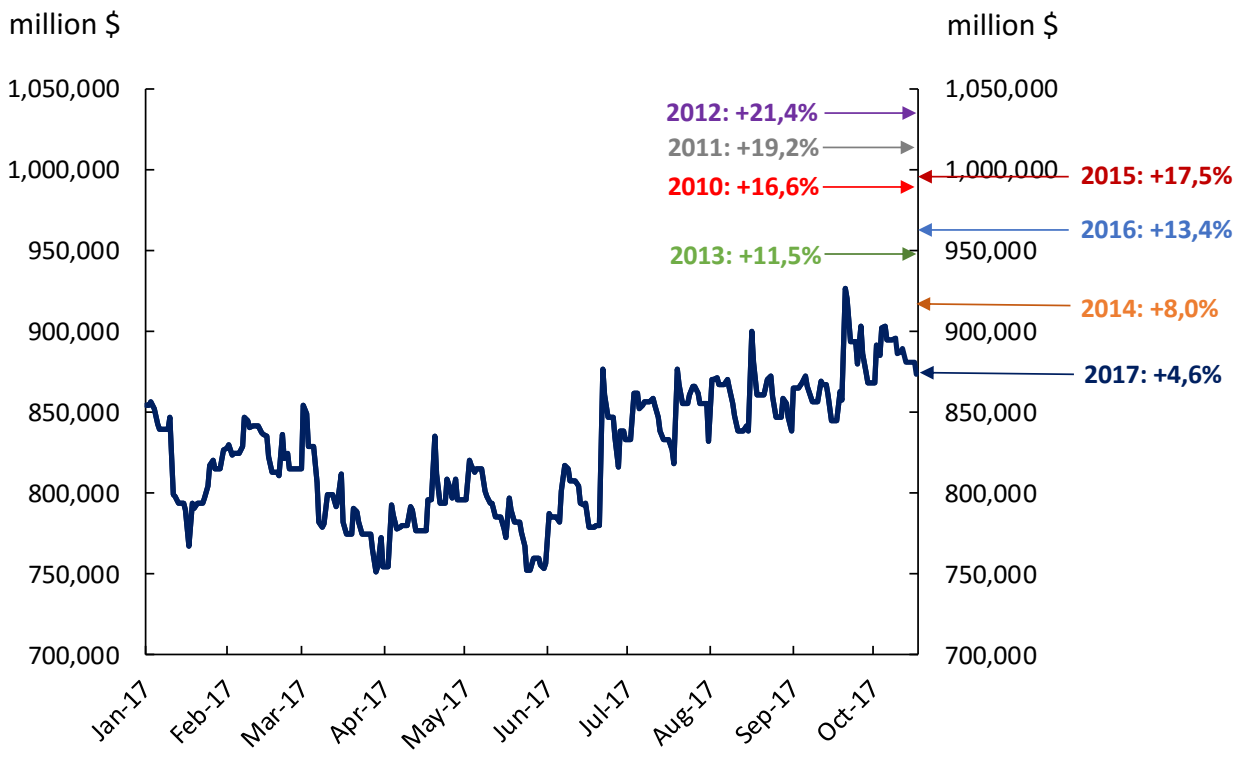
Notes | *From April, 18th. **From May, 18th. ***Up to October, 17th.
Source | BCRA.

BCRA balance sheet

	million $	% of GDP
LEBAC and Net repos up to Mar-01-2016	**453.077**	**7,2%**
LEBAC and Net repos up to Sep-30-2017 (1)	1.153.573	12,0%
Reserves purchased by the BCRA since Mar-01-2016 (2)	462.129	4,8%
LEBAC and Repos up to Sep-30-2017, net of acquired reserves (1-2)	**691.444**	**7,2%**
Difference Sep-30-2017 vs Mar-01-2016		**0,0%**

Source | BCRA.

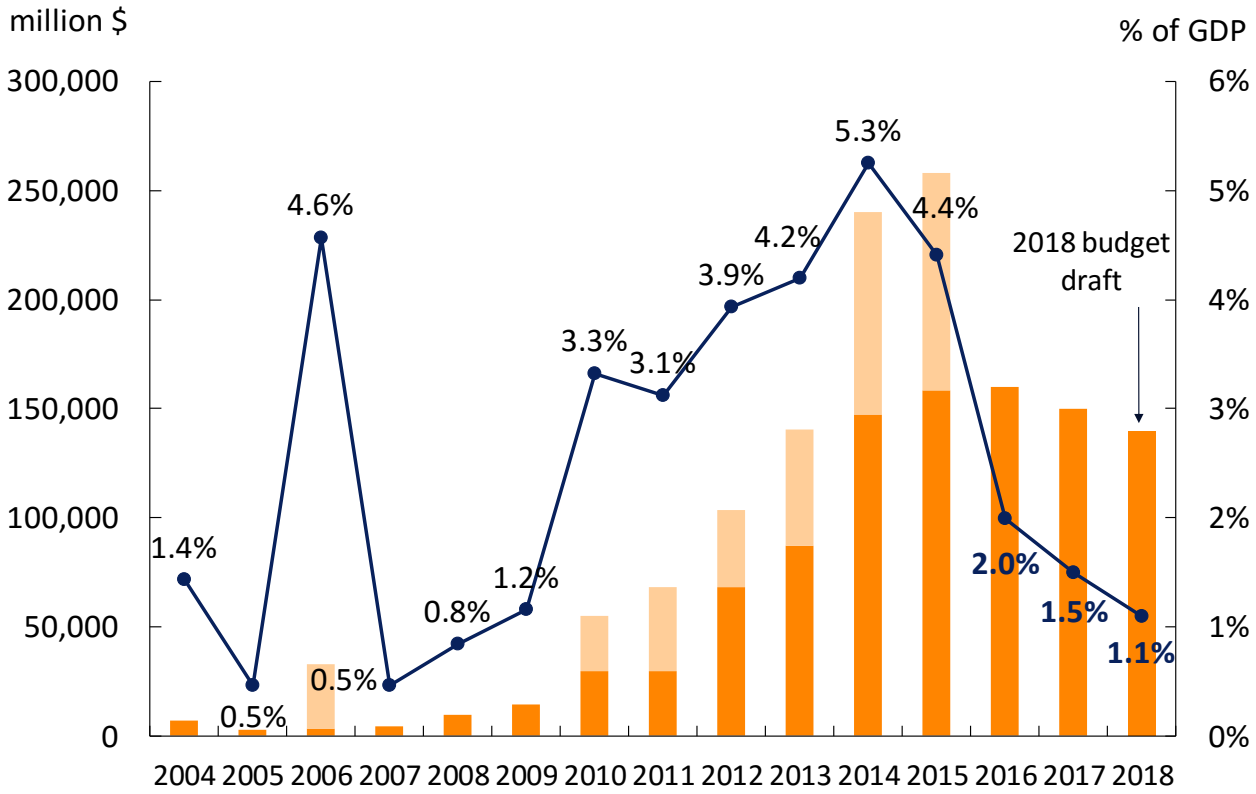
Monetary base evolution during 2017



Compared evolution of the monetary base (increase compared to the beginning of each year)

Notes | Variación acumulada entre el promedio de octubre y la primera semana de cada año. Datos al 17 de octubre de cada año.
Source | BCRA.

The Central Bank of Argentina is not alone fighting inflation



Transfers to National Treasury and use of reserves

- Use of international reserves
- Temporary advances and profit transfers
- Total in % of GDP (right axis)

Source | BCRA.

2018 Calendar

Informe de Política Monetaria
*Conferencia de prensa

Informe Monetario Mensual

Comunicado de Política Monetaria

Informe de Estabilidad Financiera
*Conferencia de prensa

Informe sobre Bancos

Objetivos y planes respecto del desarrollo de la política monetaria, financiera, crediticia y cambiaria para el año 2019

ENERO 2018

DO	LU	MA	MI	JU	VI	SÁ
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18*	19	20
21	22	23	24	25	26	27
28	29	30	31			

FEBRERO 2018

DO	LU	MA	MI	JU	VI	SÁ
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28			

MARZO 2018

DO	LU	MA	MI	JU	VI	SÁ
				1	2	3
4	5	6	7	8	9	10
11	12	13	14	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	31

ABRIL 2018

DO	LU	MA	MI	JU	VI	SÁ
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19	20	21
22	23	24	25	26	27	28
29	30					

MAYO 2018

DO	LU	MA	MI	JU	VI	SÁ
		1	2	3	4	5
6	7	8	9	10	11	12
13	14	15	16*	17	18	19
20	21	22	23	24	25	26
27	28	29	30	31		

JUNIO 2018

DO	LU	MA	MI	JU	VI	SÁ
					1	2
3	4	5	6	7	8	9
10	11	12	13	14	15	16
17	18	19	20	21	22	23
24	25	26	27	28	29	30

JULIO 2018

DO	LU	MA	MI	JU	VI	SÁ
1	2	3	4	5	6	7
8	9	10	11	12	13	14
15	16	17	18	19*	20	21
22	23	24	25	26	27	28
29	30	31				

AGOSTO 2018

DO	LU	MA	MI	JU	VI	SÁ
			1	2	3	4
5	6	7	8	9	10	11
12	13	14	15	16	17	18
19	20	21	22	23	24	25
26	27	28	29	30	31	

SEPTIEMBRE 2018

DO	LU	MA	MI	JU	VI	SÁ
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23 30	24	25	26	27	28	29

OCTUBRE 2018

DO	LU	MA	MI	JU	VI	SÁ
	1	2	3	4	5	6
7	8	9	10	11	12	13
14	15	16	17	18*	19	20
21	22	23	24	25	26	27
28	29	30	31			

NOVIEMBRE 2018

DO	LU	MA	MI	JU	VI	SÁ
				1	2	3
4	5	6	7	8	9	10
11	12	13	14*	15	16	17
18	19	20	21	22	23	24
25	26	27	28	29	30	

DICIEMBRE 2018

DO	LU	MA	MI	JU	VI	SÁ
						1
2	3	4	5	6	7	8
9	10	11	12	13	14	15
16	17	18	19	20	21	22
23 24 30 31		25	26	27	28	29

Muchas gracias