

Argentina
December 2017

Economic Outlook

- Generalized improvement:** The conjunctural indicators have not only been positive for months, but, in most cases, tend to accelerate their growth. For now, the recovery is based on both public and private investment, while household consumption is gaining momentum in a context in which consumer confidence grows at double-digit rates since August, while the expansion of credit accelerates and employment begins to show slight improvements. On the side of the foreign sector, the recovery of Brazil will help to alleviate the deterioration that the Argentine trade balance continues to register, as a consequence of the strong growth of imports due to the economic reactivation.
- Important progress in tax matters.** The favorable evolution of economic indicators, together with the increase of the political capital of the president after the results obtained by the ruling party in the legislative elections of October 22, have allowed Macri to obtain an important political victory by signing a historic fiscal agreement with the regional governors on November 16. The agreement aims to reduce Argentina's significant fiscal deficit, limiting public spending and eliminating the distorting taxes that reduce the country's competitiveness in foreign markets, while at the same time representing a further step in correcting macroeconomic imbalances that the country has inherited from past efforts.

Forecast Scenario

- Accelerated growth in 2018.** The good performance of the indicators suggests that the economic recovery is gaining momentum, so we estimate a growth from 2.8% in 2017 to 3.3% next year. This growth rate will be supported by greater private consumption and fixed investment, the latter backed by the improvement of business confidence. However, there is concern about the persistence of inflation, which is falling at a lower rate than expected, and which could deepen the contractionary bias of the BCRA with a negative impact on economic activity.
- The pending challenges of the government.** On the one hand, reducing the high public deficit, which grows due to the burden of interest generated by the increase in public debt since the opening of markets last year, requires the adoption of measures with very poor social acceptance. On the other hand, the improvement of competitiveness implies a negotiation with unions and companies in which each sector must be willing to relax positions. However, the social discontent and the increase of disturbances could overshadow the good moment of the Argentine economy.

Also in the news...

- The monetary base registers a year-on-year growth of 27%, which increases the government's difficulties in its goal of lowering inflation.
- This year's trade deficit, which could exceed 8,000 million dollars, could become the highest in the Argentine history.
- According to the consultancy Abeceb, the most dynamic sectors in 2018 will be: the automotive industry, construction, livestock, the sale of household appliances, the steel industry, agrochemicals, mining and hides.

- Unemployment fell to 8.3% in the third quarter.
- The public debt exceeded 307,000 million dollars in the second quarter, which represents a year-on-year growth of 19%.
- The economic activity accumulated in the first 9 months of the year a growth of 2.5%.
- The industrial sector grew 4.4% in October, the sixth consecutive year-on-year rise, with 12 sectors in expansion.
- Construction expanded by 25.3% in October compared to the same month of the previous year.

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Main Economic Indicators

REAL ECONOMY	Latest Data		Previous	Annual Trend
GDP (% Growth)	11.17	2.7	0.4	Positive
Supermarket Sales	Sep.17	4.6	3.8	Positive
Industrial Production (EMI)	Oct.17	4.4	2.3	Positive
Consumer Price Index (IPC)(*)	Nov.17	22.3	22.9	Positive
Trade Balance (Thou.Mill \$)(**)	Oct.17	-6.0	-5.1	Negative
Reserves (Thou.Mill \$)	Sep.17	50.2	31.2	Positive
Consumer Confidence Index CCI	Nov.17	16.3	11.0	Positive
Construction Activity (ISAC)	Sep.17	22.9	22.7	Positive
GDP (% Growth)	Oct.17	25.3	13.4	Positive

Annual change rates for GDP, Supermarket Sales, EMI (not seasonally adjusted), IPCNu, CCI, ISAC (not seasonally adjusted), and Public Services (not seasonally adjusted).

Financial Data	Latest Data		Growth in...	
			3 months	1 year
Stock Exchange (Merval)	14 Dec.17	27,139	14.5%	60.4%
Interest Rate BAIBAR	12 Dec.17	30.0	26.4(*)	23.5(*)
EMBI	15 Dec.17	361	394(*)	513(*)
Exchange Rate Peso/\$	15 Dec.17	17.6	3.4%	9.7%

(*) 3 months and 1 year ago respectively.

Economic Forecast

	2016	2017	2018
Gross Domestic Product (% Growth)	-2.2	2.8	3.3
Inflation (% end period)	38.4	22.7	14.2
Trade Balance (Thou. Mill. \$ USA)	2.1	-6.0	-7.9
Current Account Balance (% GDP)	-2.7	-4.0	-4.2
Non-Financial Pub.Sec.Balan. (% GDP)	-5.9	-6.1	-5.8
Unemployment Rate (average)	8.5	8.5	8.0
Exchange Rate Peso/\$ (year-end)	15.9	18.0	20.1

Argentina: general information

Official Name: Federal Republic of Argentina

Area: 2,736,700 Km².

Population: 43.6 million (2016)

Gobierno: Democracia Presidencialista.

President: Mauricio Macri. change alliance formed by Republican Proposal (PRO) and Radical Civic Union (UCR).

Next Elections: Legislative in 2021.

Finance Minister: Luis Caputo

Central Bank President: Federico Sturzenegger.

Currency: Peso.

Nominal GDP: 545 Thou.Mill.US\$ (2016).

GDP/h (ppp): 20,048 US\$ (2016).

Life Expectancy: 76.5 (2015).

Years of Schooling (average): 9.9 (2015).

Risk Evaluation: MEDIUM

Exchange Rate Instability: MEDIUM

The inflow of capital has allowed a slight appreciation of the exchange rate since the beginning of November. Even though, the exchange rate accumulates a depreciation of around 10% since the beginning of the year and, at the end of the report, stands at 17.52 pesos / \$.

Sovereign Risk: MEDIUM - LOW

The country risk indicator EMBI has continued to register a progressive decline in the recent months, reaching around 360 basis points in mid-December, levels not recorded since 2007.

Public Sector Finance Risk: MEDIUM

The primary fiscal deficit for the first ten months of the year shows a substantial improvement, with a drop of 6% compared to the same period last year, in particular due to the reduction of economic subsidies. Meanwhile, the financial deficit, which includes the payment of debt services, has increased by almost 17%.

Socio-political Risk: MEDIUM

While the favourable outcome of October elections has increased the political capital of the government, the parliamentary debate for the approval of the controversial pension reform had to be postponed on December 14 due to the social protests generated by the measure.

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