

**Argentina**
**October 2017**

## Economic Outlook

- **The good tone of the economy is consolidated.**

Most of the indicators show positive variations interannually, showing that the economy has definitively entered an expansion stage that, although still at moderate levels, seems sustained. Thus, the Monthly Estimator of Economic Activity (EMAE) published by the INDEC has already accumulated six months of positive year-on-year growth, standing at 4.3% in August. By sectors, the improvement is widespread, highlighting the growth of industry, a sector that suffered a significant fall in 2016, and the construction sector, which is beginning to show strong signs of recovery, driven in large part by the spending on infrastructure done by the government.

- **Inflation decreases although it continues at high levels.**

The lower growth in prices has placed average inflation expectations at their lowest level since November 2015 (around 25% for the next twelve months). Even so, the pace of deceleration is lower than initially expected, and the data is still at levels well above the BCRA's targets for 2017 (between 12 and 17%). In this context, the Central Bank kept the monetary policy rate (26.5%) in September unchanged, a level it has maintained since April, which suggests that it will maintain its contractive monetary policy, not rushing to start lowering interest rates. that inflation is heading towards lower values.

## Forecast Scenario

- **The indebtedness rate grows.** While the foundations are being laid for sustained growth with openness to the world, the interest burden of the debt is increasing at a faster rate than expected. This trend is the result of the growth recorded by public indebtedness since the opening of markets abroad in April 2016 (after fifteen years of isolation). In this context, the fiscal reform and the need to meet the goals of reducing the primary deficit become important, since the growth rate of the debt could become a problem if the fiscal situation is not fixed.

- **Continuity in the government's agenda.** After the victory of the ruling party in the October elections, the government consolidates itself politically, which will favor progress in two of the most urgent reforms: the fiscal reform, which seeks to reduce the tax burden and increase the country's competitiveness; and the labor reform, which seeks to reduce the non-labor cost assumed by employers. Even so, the political risks are still present to the extent that the approval of the reforms will require the consensus of provinces, in the case of tax reform, and unions, in the case of labor.

## Also in the news...

- Transfers and interest on debt hinder the way to reduce public spending.
- Argentina is committed to being close to achieving its membership in the Organization for Economic Cooperation and Development (OECD), which would allow to accelerate the arrival of investment.
- Two reports from private consultants warn that its difficult to reduce inflation below 1.7% per month.
- Moody's expects growth until 2019, which would be the first time, since 2008, that it has grown three years in a row.

- Mass consumption grew by 1% in the first quarter, after eight quarters of contraction.
- According to the Orlando Ferreres Center for Economic Studies, industrial activity registered positive month-on-month growth for the seventh month in a row.
- The automotive industry prepares for a year with record investments.
- Salaried employee positions grew by 0.6% in the second quarter of the year compared to the same period in 2016.

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## Main Economic Indicators

REAL ECONOMY	Latest Data		Previous	Annual Trend
GDP (% Growth)	II.17	2.7	0.4	Positive
Supermarket Sales	Aug.17	3.9	4.3	Positive
Industrial Production (EMI)	Aug.17	5.1	5.9	Positive
Consumer Price Index (IPC)(*)	Sep.17	1.9	1.4	Positive
Trade Balance (Thou.Mill \$)(**)	Sep.17	-5.1	-4.1	Negative
Reserves (Thou.Mill \$)	Sep.17	50.2	31.2	Positive
Consumer Confidence Index CCI	Sep.17	11.0	17.9	Positive
Construction Activity (ISAC)	Aug.17	22.6	18.4	Positive
GDP (% Growth)	Aug.17	13.0	20.3	Positive

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

Datos Financieros	Último dato		Crecimiento en...	
			3 meses	1 año
Stock Exchange (Merval)	25 Oct.17	22,878	30.8%	51.6%
Interest Rate BAIBAR	24 Oct.17	25.1	24.9(*)	25.6(*)
EMBI	25 Oct.17	358	436(*)	448(*)
Exchange Rate Peso/\$	26 Oct.17	17.7	0.1%	16.3%

(\*) 3 months and 1 year ago respectively.

## Economic Forecast

	2016	2017	2018
Gross Domestic Product (% Growth)	-2.2	2.7	3.1
Inflation (% end period)	38.6	22.4	14.5
Trade Balance (Thou. Mill. \$ USA)	2.1	-5.0	-6.1
Current Account Balance (% GDP)	-2.7	-4.0	-4.2
Non-Financial Pub.Sec.Balan. (% GDP)	-5.9	-5.8	-5.5
Unemployment Rate (average)	8.5	8.6	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 Km<sup>2</sup>.

**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 exchange rate maintains the depreciatory trend that has been registered since May, currently at 17,45 pesos / \$ and accumulating a depreciation of 10% since the beginning of the year. Even with everything, the entrance of currencies that registers the country, via entrance of investment, are reducing the depreciatory pressure in the last months.

### Sovereign Risk: MEDIUM

Since mid-August, the country risk indicator EMBI has registered a progressive decline, accumulating a fall of 20%, which has led it to currently fall below the barrier of 400 basis points.

### Public Sector Finance Risk: MEDIUM-HIGH

During the first eight months of the year, the accumulated primary deficit reached only 45% of the annual target, which seems to indicate that the 2017 fiscal targets will be met. The deficit reduction is expected in the 2018 budget due to an adjustment in primary spending (mainly due to the reduction of energy and transport subsidies).

### Socio-political Risk: MEDIUM

While the favorable outcome of the October elections has increased the political capital of the government, the implementation of the structural reforms that Argentina needs must have the consensus of all sectors.

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**Report Issued: 29<sup>th</sup> October 2017**

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