

Argentina: waiting for the elections

General Information



GDP	USD540.197bn (World ranking 24, World Bank 2014)
Population	41.8mn (World ranking 32, World Bank 2014)
Form of state	Republic
Head of government	Cristina FERNANDEZ DE KIRCHNER (FPV - PJ)
Next elections	2015, presidential and legislative



Strengths

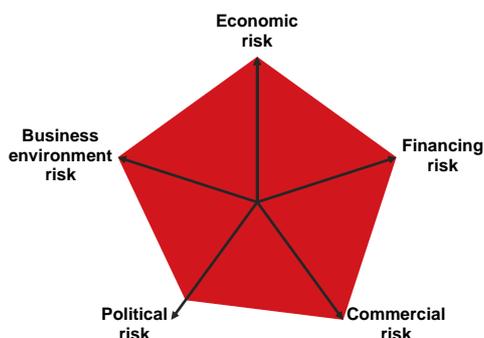
- Abundance of natural resources (agricultural, energy and minerals)
- Developed and dynamic agricultural sector
- Stable, democratic political system
- High education level compared to the regional average and skilled workforce

Weaknesses

- Strong state interventionism, including prices, imports and capital controls
- Risk of expropriation and nationalization
- Lack of data transparency, especially inflation
- Lack of access to international financial markets (due to the 2002 default) and poor relations with the IMF and the Paris Club of creditors
- Unbalanced policy mix (high inflation and loose fiscal policy)
- Rapid deterioration in international reserves
- Very weak business environment

Country Rating

D4



Source: Euler Hermes

Trade Structure

By destination/origin (% of total)

Exports		Rank		Imports	
Brazil	20%	1	22%	Brazil	
China	10%	2	16%	China	
United States	6%	3	14%	United States	
Chile	4%	4	5%	Germany	
Venezuela	3%	5	4%	Bolivia	

By product (% of total)

Exports		Rank		Imports	
Animal Food	14%	1	11%	Cars And Cycles	
Cereals	12%	2	8%	Natural Gas	
Other Agricultural Prod	10%	3	8%	Refined Petroleum	
Fats	9%	4	6%	Vehicles Components	
Commercial Vehicles	6%	5	5%	Engines	

Source: ITC, Chelem

Economic Overview

Significant economic distortions

The economic situation remains very worrying in Argentina. Inflationary pressures persist due to the monetization of the fiscal deficit, weighing on consumer confidence and domestic demand. Moreover, despite an easing for importers since February, currency controls remain in place. This greatly constrains industrial production and value chains (especially in the car industry) and generates shortages of some consumption goods, thus putting additional upward pressures on consumer prices.

The access to foreign capital remains blocked as no agreement has been reached with the “vulture funds”, and as a result Argentina remains isolated from global financial markets. Consequently, it relies increasingly on Chinese assistance. Following last year's currency swap that granted Argentina access to USD11bn from China's Central bank, the two countries signed in February a strategic agreement to provide external funding for aerospace technology, agriculture, infrastructure, and telecom projects in Argentina. At the same time Chinese companies will have privileged access to the Argentinian building sector. Given the uncertain outlook for Chinese activity, financing the external deficit could prove challenging amid low agriculture prices and Brazil's recession.

After a -25% fall vs the USD between November 2013 and February 2014, the ARS has depreciated by only -1% per month since March 2014 despite massive capital flight thanks to the implementation of FX and import controls. However, a collapse of the currency cannot be ruled-out in coming months as downward pressures are strengthening and international reserves remain low (below 4 months of imports). After +0.5% in 2014, we expect real growth to remain depressed at +0.3% in 2015 and +0.4% in 2016.

The elections could be the salvation?

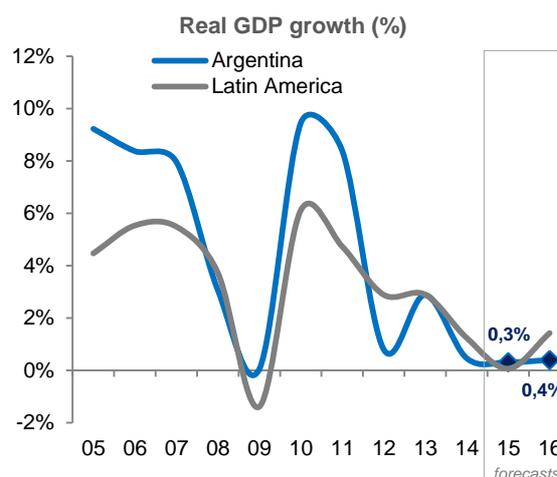
Social unrest is expected to intensify ahead of the October 2015 elections. Kirchner's administration already had to face several strikes in land and maritime transport at the end of March, and some protest actions against government policies (namely export limits and high taxes) lead by agricultural associations. The key event to watch is the general election that will be held in October 2015, since Cristina Kirchner is ineligible to run after completing two terms in a row. We do not expect an improvement of the country's economic situation before the elections as international investors are on “waiting mode” until they know if the new President will be more business friendly.

Key economic forecasts

	2013	2014	2015	2016
GDP growth (% change)	2.9	0.5	0.3	0.4
Inflation (% , yearly average)	10.6	21.4	16.4	19.9
Fiscal balance* (% of GDP)	-2.0	-2.7	-4.1	-4.0
Public debt* (% of GDP)	40.2	48.6	52.7	56.7
Current account (% of GDP)	-0.7	-1.0	-1.6	-2.2
External debt (% of GDP)	25.2	31.2	31.9	32.4

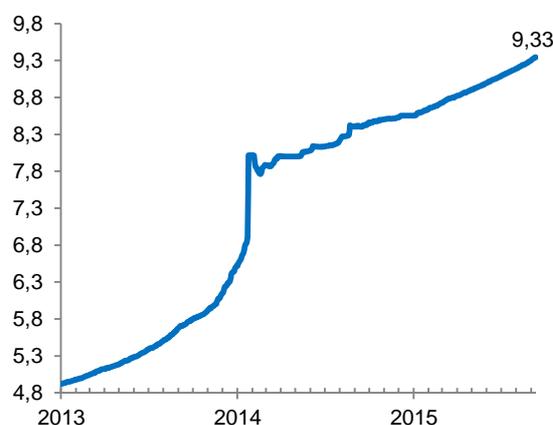
*Includes Local Government; Non-financial Public Corporations; Social Security Funds; State Governments

Sources: National sources, IMF-WEO, IHS, Euler Hermes



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ARS/USD



Sources: IHS, Euler Hermes

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