

Argentina: waiting for the elections

General Information



GDP	USD609.89 bn (World ranking 21, World Bank 2013)
Population	41 mn (World ranking 32, World Bank 2013)
Form of state	Republic
Head of government	Cristina FERNANDEZ DE KIRCHNER
Next elections	2015, Presidential



Strengths

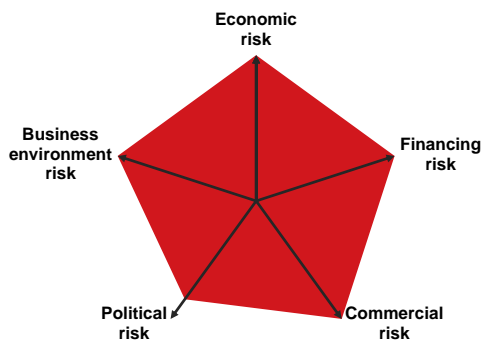
- Abundance of natural resources (agricultural, energy and minerals)
- Developed and dynamic agricultural sector
- Durable, democratic political system
- High education level compared to the regional average and skilled workforce

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



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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 constraints greatly 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 capitals 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 telecoms projects in Argentina. At the same time Chinese companies will have privileged access to the Argentinian building sector. Despite Chinese support, financing the fiscal and external deficits could prove challenging in coming months.

Against this background, capital flight has understandably been massive putting downward pressures on the ARS. However, after a -25% fall vs the USD between November 2013 and February 2014, some level of control was introduced to the currency's depreciation (-1% per month since March 2014). A further collapse in the currency cannot be ruled-out in coming months as downward pressures on the currency are strong, and the FX system could disintegrate, especially as international reserves are worryingly low (below 4 months of imports). After a sharp slowdown of GDP in 2014 to +0.5%, Euler Hermes expects a recession of -1.5% in 2015 and a minimal recovery in 2016 (+1%).

The elections could be the salvation?

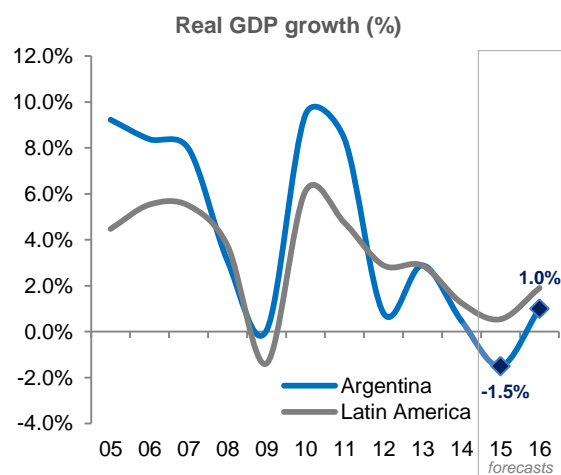
Social unrest is expected to intensify ahead of the October 2015 elections. Kirchner's administration already had to face several strikes in land and maritime transport at the end of March, and some protest actions lead by agricultural associations against government policies (namely export limits and high taxes). The key event to watch is the general elections 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

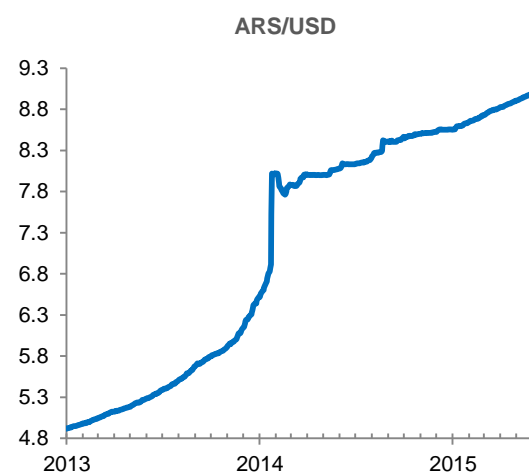
	2013	2014	2015	2016
GDP growth (% change)	2.9	0.5	-1.5	1.0
Inflation (% , yearly average)	10.6	21.4	17.1	21.5
Fiscal balance* (% of GDP)	-2.0	-2.7	-4.5	-4.0
Public debt* (% of GDP)	40.2	48.6	53.1	57.1
Current account (% of GDP)	-0.8	-0.9	-2.0	-2.5
External debt (% of GDP)	25.2	31.3	33.3	35.8

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

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



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