

The long and winding road back to normal

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	Mauricio Macri
Next elections	2017, legislatives and 2021, presidential



Strengths

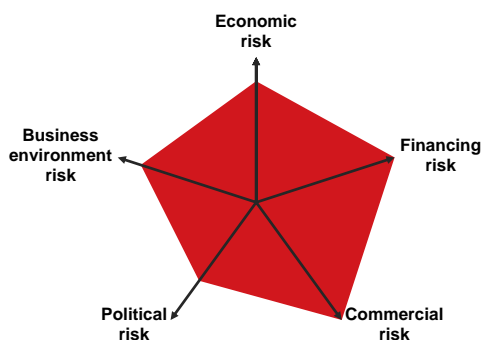
- Abundance of natural resources (agricultural, energy and minerals)
- Developed and dynamic agricultural sector
- Stable, democratic political system
- High education level compared to the regional average and skilled workforce
- Strong private industrial sector

Weaknesses

- Vulnerable to changes in agriculture prices
- Important macroeconomic imbalances after years of policy mismanagement (high inflation, external deficit, low level of FX reserves, fragile fiscal accounts)
- Relatively weak business environment

Country Rating

C4



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

Political change has brought an air of optimism

Mauricio Macri, from the center-right party 'Cambiamos' won the Presidential elections last December with 51.6% of the vote. This marks an important political shift for the country after 12 years of a Kirchner-led government. The new President has vowed to address the economy, plagued by fiscal monetization, soaring inflation and blocked access to capital markets.

The government has a 5-step strategy to get the economy back on its feet: **(i) Easing capital controls** - Payment for imports can now be executed without restrictions. The minimum required permanence of foreign capitals in the country was reduced from 365 days to 120 days. The mandatory 30% deposit, or 'Encaje', was abolished. **(ii) Paving the way back to capital markets** - As soon as it took office, the new government began active negotiations to solve Argentina's conflict with 'holdout' creditors. An agreement should be reached soon, allow to return to international capital markets. **(iii) Finding funds to meet external commitments**- Argentina sealed a USD5bn loan from international private banks in late-January. Moreover, the government plans to issue USD15bn bonds in 2016. **(iv) Setting responsible economic policies** - Fiscal and inflation targets have been set. The government has committed to reducing the fiscal deficit from an estimated -10% in 2015, to -4.8% in 2016 and -3.3% in 2017. It also aims to ease inflation from above 40% in 2015 to 20-25% in 2016 and around 5% by 2019. **(v) Building credible economic statistics** - "Statistical emergency" was declared. The development of new indicators (notably for CPI and GDP) is underway.

The adjustment will be long and painful

Although necessary, these adjustments will be painful in the short-term. 2016 will be marked by recession, strong depreciation and still high inflation. Private consumption will be one of the major victims, although investment and exports should fare better. All in all, we expect the Argentine economy to contract by -1.2% in 2016, after +1.3% in 2015. Economic activity should remain depressed in 2017 with limited GDP growth of +0.6% only.

Against this background, financing the still - significant twin deficits will be challenging. This is especially true given adverse external conditions: US monetary normalization, economic recession in Brazil, and economic slowdown in China. Financing risk remains strong given that import cover is less than 3 months. Moreover, Mr. Macri's coalition does not hold an absolute majority in the Congress. Thus, enacting the most ambitious reforms could prove challenging.

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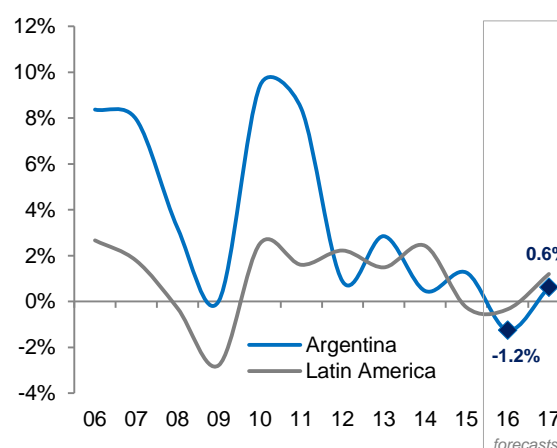
Key economic forecasts

	2014	2015	2016	2017
GDP growth (% change)	0.5	1.3	-1.2	0.6
Inflation (% , yearly average)	21.4	16.0	48.0	34.4
Fiscal balance* (% of GDP)	-2.7	-10*	-5.2	-3.7
Public debt* (% of GDP)	45.3	52.1	58.3	65.
Current account (% of GDP)	-1.6	-2.0	-2.5	-1.9
External debt (% of GDP)	32.3	38.3	64.8	71.6

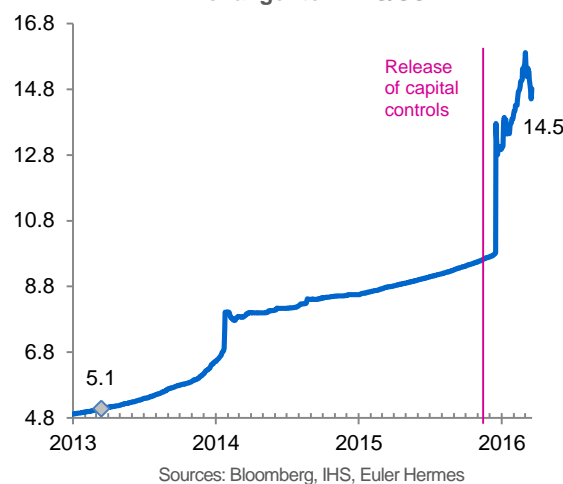
*Estimates of the new government. The figure does not match with the initial data published by the former government. Includes Local Government; Non-financial Public Corporations; Social Security Funds; State Governments

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

Real GDP growth (%)



Exchange rate : ARS/USD



Sources: Bloomberg, IHS, Euler Hermes