

# ARGENTINA: CURRENT SITUATION AND ECONOMIC OUTLOOK

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ARGENTINA: CURRENT SITUATION AND ECONOMIC OUTLOOK

- > MACROECONOMIC OUTLOOK
- > BILATERAL RELATION ARGENTINA - BRAZIL



**¿WHAT HAPPENED IN THE PAST DECADE AND HOW DID WE GET TO 2013?**



**THE EMERGIN QUESTION IS: ¿WHAT'S NEXT? IT BECOMES NECESSARY TO THINK ABOUT 2015-16 AS A TURNING POINT**

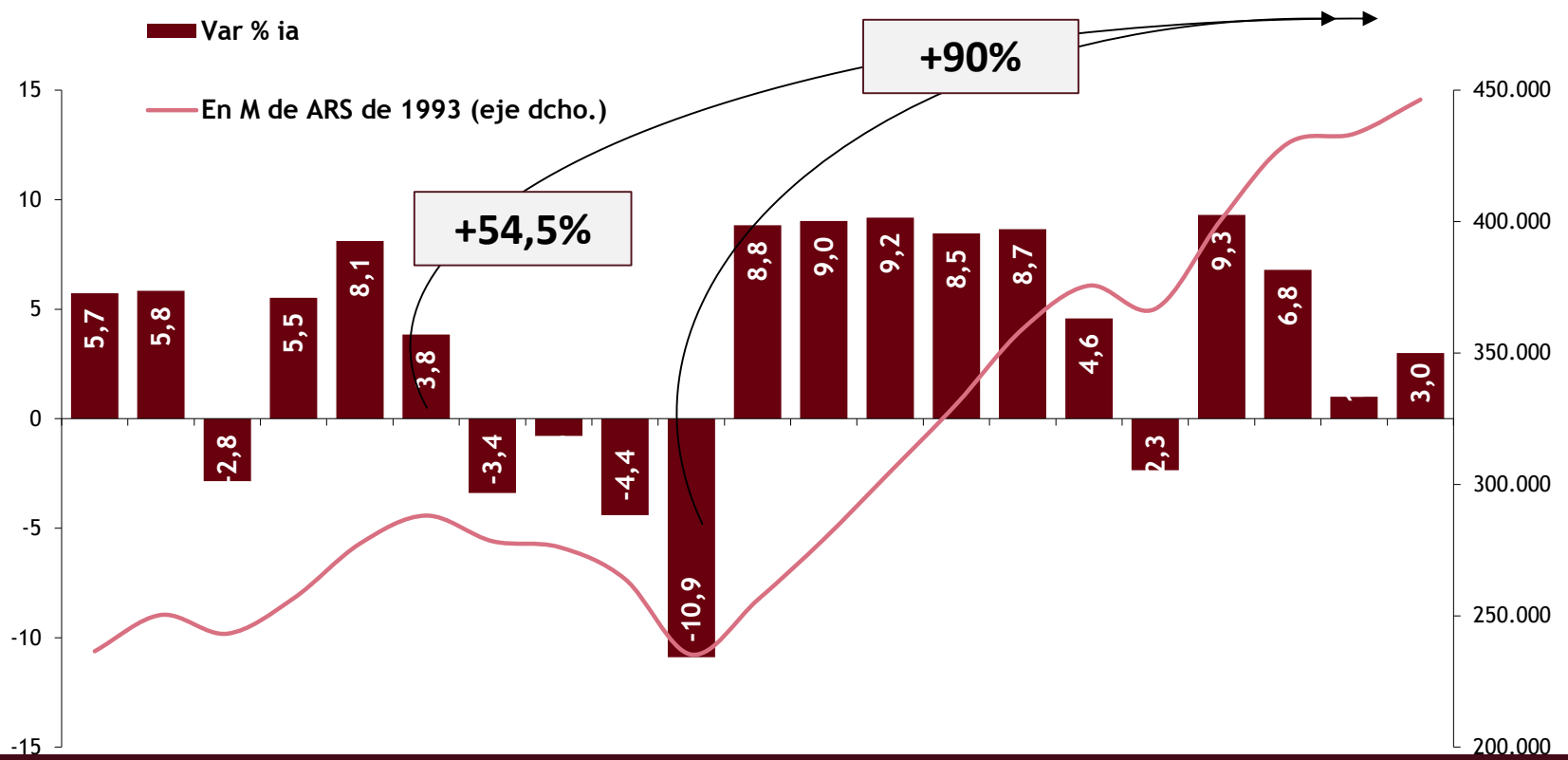


**CONCLUDING REMARKS**

# INTRODUCTION

IN THE PAST TEN YEARS, THE ECONOMY POSTED THE HIGHEST RATES OF GROWTH OF ITS ENTIRE HISTORY.

## GROSS DOMESTIC PRODUCT



ANNUAL GROWTH AVERAGED 6.0%, WITH A CUMULATIVE EXPANSION OF 90% SINCE 2001'S CRISIS. AND THIS EXPANSION WAS ACHIEVED TOGETHER WITH THE SUSTAINMENT OF AN EXTERNAL SURPLUS, AND EXCEPTION IN THE HISTORY OF OUR COUNTRY.

# TO ANALYZE THE PAST DECADE WE SHOULD DIVIDE IT IN THREE WELL DIFFERENTIATED PHASES



## THIS "CYCLE" HAD THREE PHASES

*Phase 1: 2003-2007*

**THE ABUNDANCE**  
= THE BEGINNING

*Phase 2: 2008-2011*

**JUST ENOUGH= THE**  
**TRANSITION**

*Phase 3: 2012 – 2015/2016*

**SCARCITY**  
= THE END?

### AND THE OUTCOME WAS:

**HIGH GROWTH + LOW**  
**INFLATION**

**GDP**

**8,8 %**

**INFLA-**  
**TION**

**9,7 %**

**SLOWDOWN + DOUBLE**  
**DIGITS INFLATION**

**5,1 %**

**20,4 %**

**LOW GROWTH, NEAR**  
**STAGNATION + DOUBLE**  
**DIGITS INFLATION**

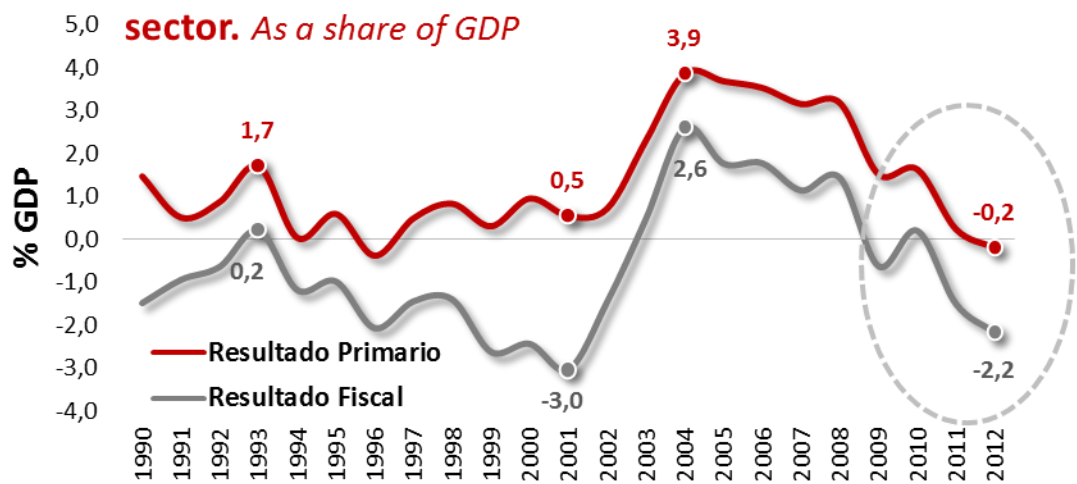
**2,0 %**

**25,0 %**

**AVERAGE**  
**2012-2013**

# THE TRANSITION FROM THE FIRST TO THE SECOND PHASE IS MAINLY EXPLAINED BY A MISPLACED ENERGY POLICY, AN ISSUE THAT HAS HAD A MAJOR IMPACT ON THE EROSION OF THE FISCAL AND EXTERNAL SURPLUSES

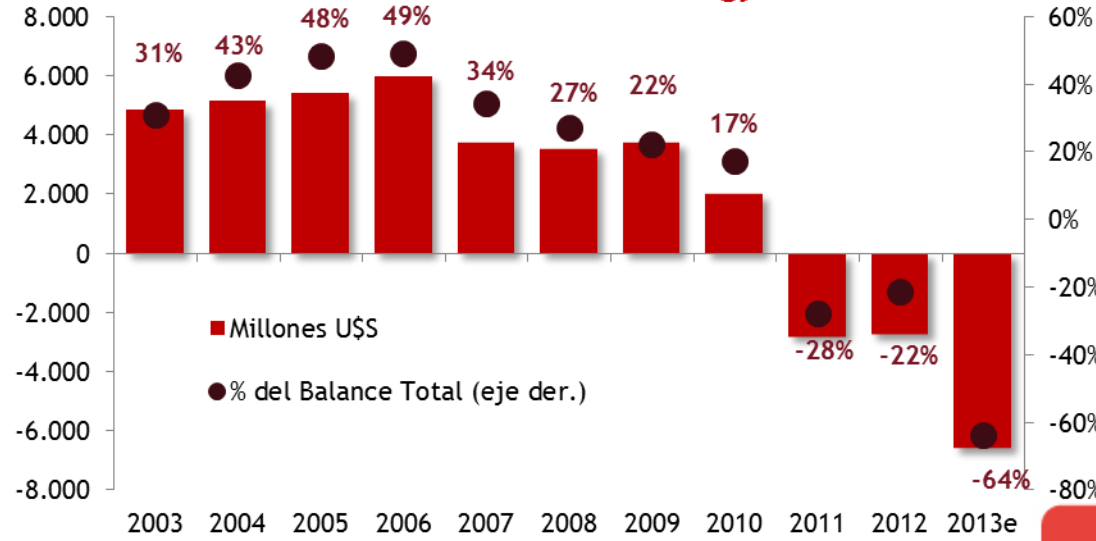
**Primary and fiscal balances. Non-financial Public sector. As a share of GDP**



**4,6% IS THE WEIGHT OF SUBSIDIES ON GDP**

**IN 2011 THE ENERGY TRADE BALANCE TURNS NEGATIVE**

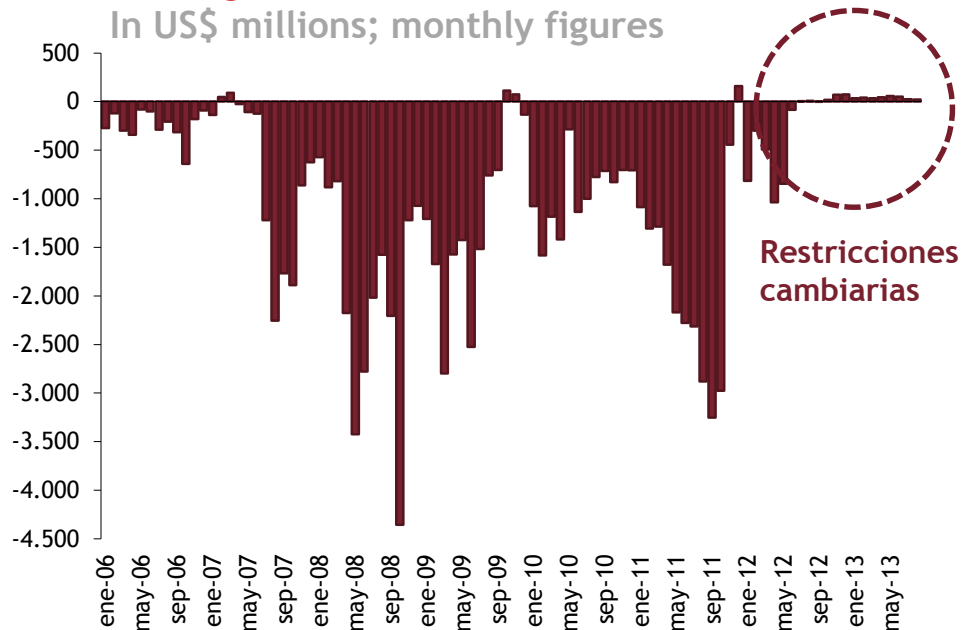
**Energy Trade Balance**



# WE ARRIVED TO NOVEMBER 2011 NOT ONLY WITH A SEVERE EROSION OF THE TWIN SURPLUSES, BUT ALSO WITH A HIGH DEMAND FOR DOLLARS

## Foreign Asset Formation

In US\$ millions; monthly figures



## International Reserves

In US\$ millions



**WITH A DETERIORATION OF THE TWIN SURPLUSES**



**HIGH DEMAND FOR DOLLARS**

**AS A CONSEQUENCE OF THE POLICY SCHEME (PERSISTENT INFLATION AND A WRONG ENERGY POLICY)**

**WHEREAS THE TRANSITION FROM THE SECOND TO THE THIRD PHASE IS MAINLY EXPLAINED BY THE ECONOMIC POLICY MEASURES TAKEN AFTER THE PRESIDENTIAL ELECTIONS OF 2011, WHICH ENTAILED A CHANGE OF POLICY REGIME**

**THE ECONOMIC POLICY RESPONSE WAS POINTING TO THE CONSEQUENCES AND NOT THE UNDERLING CAUSES OF THE UNBALANCES** !

**1 CONTROLS OVER FOREIGN TRADE**

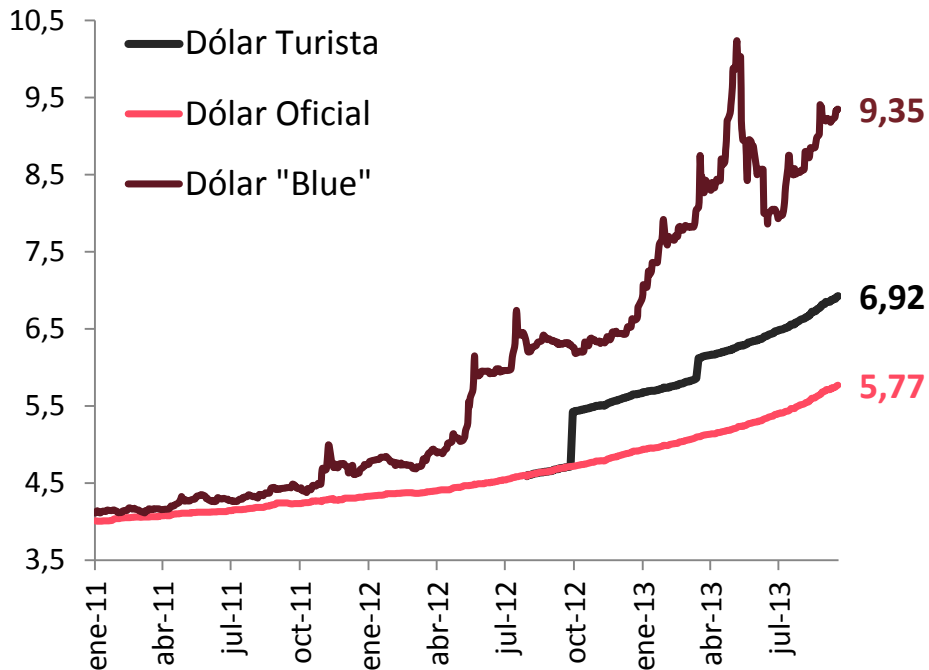
**2 FOREX MARKET RESTRICTIONS**

**3 AMENDMENTS TO THE CB'S CHART**

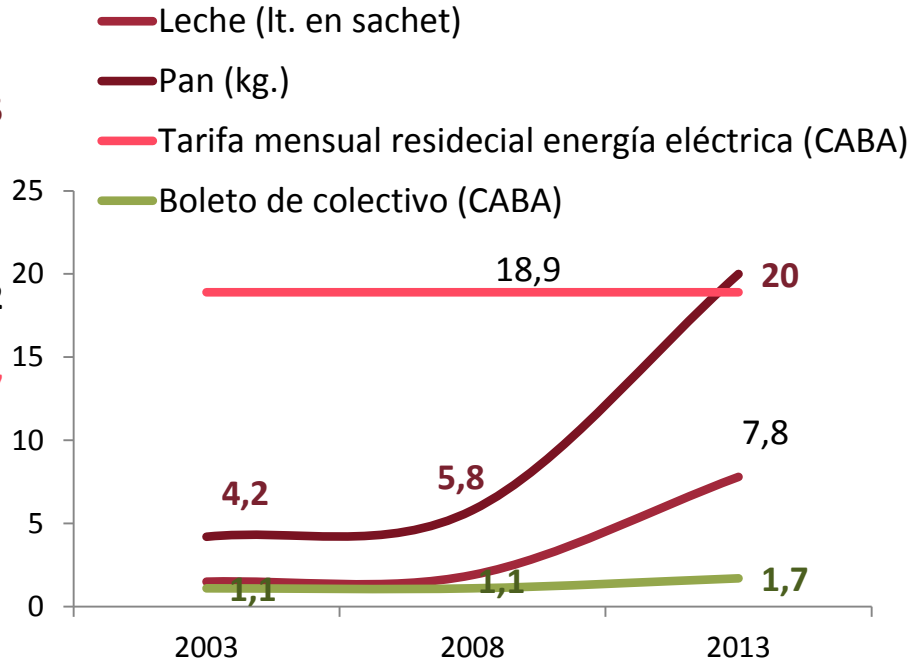
**4 PRICE CONTROL**

# BUT ACTUALLY, THE DISTORTION OF RELATIVE PRICES HAS BECOME ACUTER

## EXCHANGE RATE



## UTILITY RATES

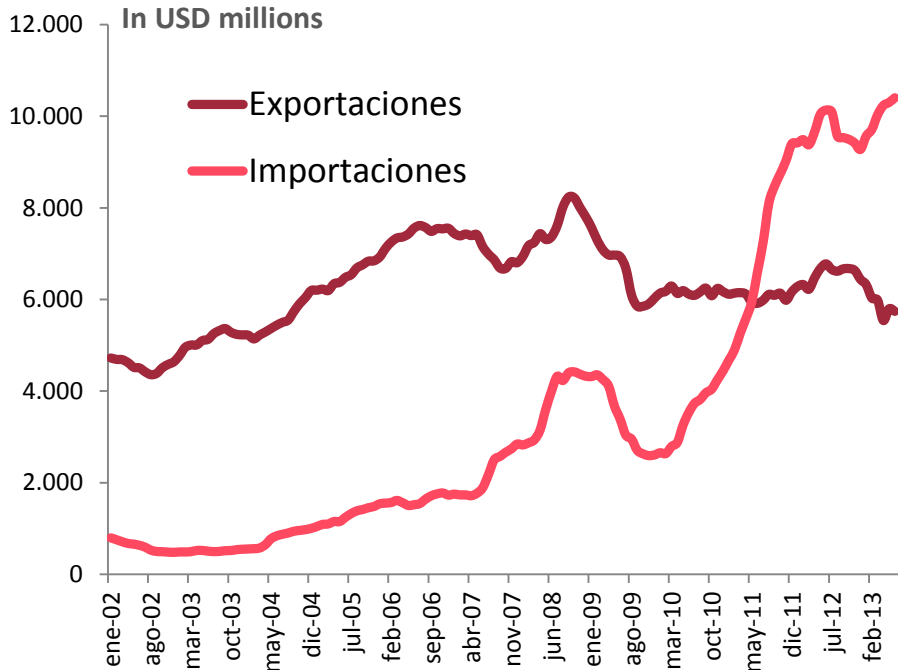


WHICH ARE NO OTHER THING THAN THE REFLECTION OF MACRO AND MICRO LONG-RUN DISTORTIONS, THAT HAVE BECOME ACUTER AFTER THE POLICY SPIN IN LATE 2011

# AND WITH IT, THE EXTERNAL RESTRICTION BECAME ACUTER TOURISM + ENERGY ARE THE MAIN EXPLANATORY FACTORS FOR THE DETERIORATION OF THE CURRENT ACCOUNT BALANCE

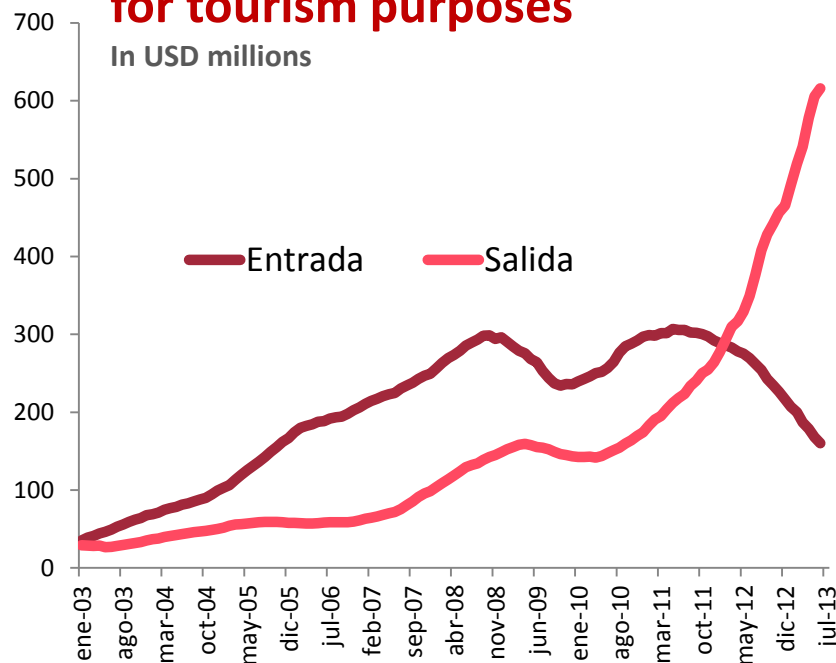
## Energy Exports and Imports

In USD millions



## Net supply and demand for dollars for tourism purposes

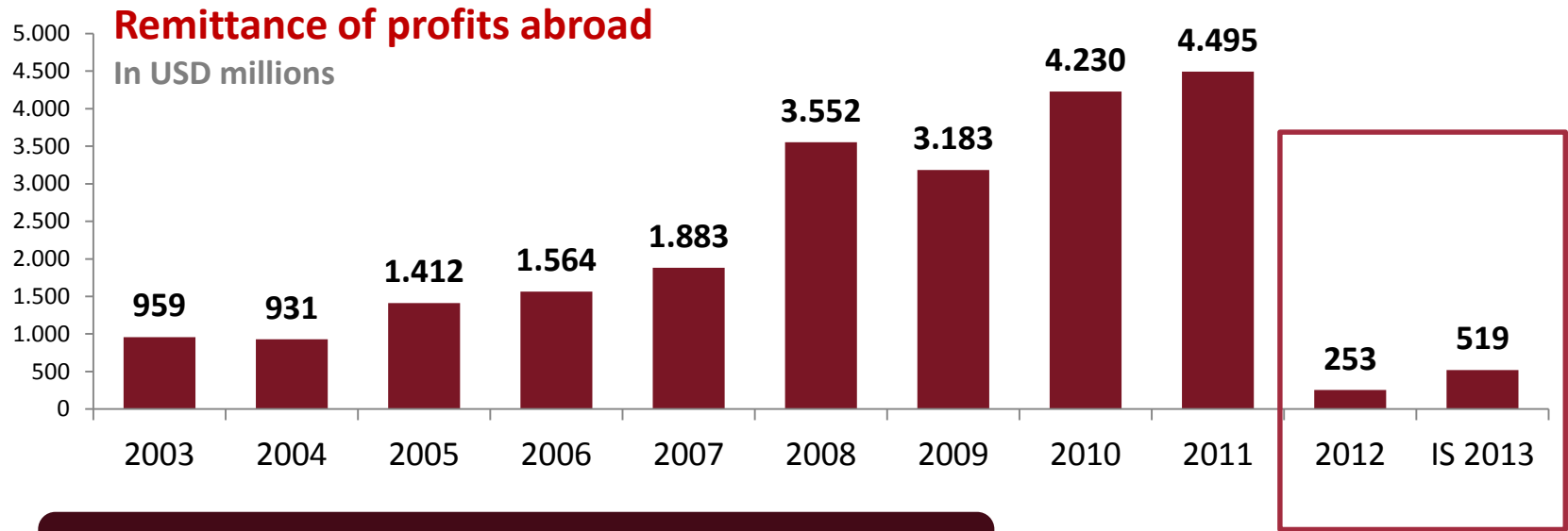
In USD millions



**IT IS QUITE UNLIKELY IT WILL BE REVERSE (NOT TO SAY IMPOSSIBLE)**

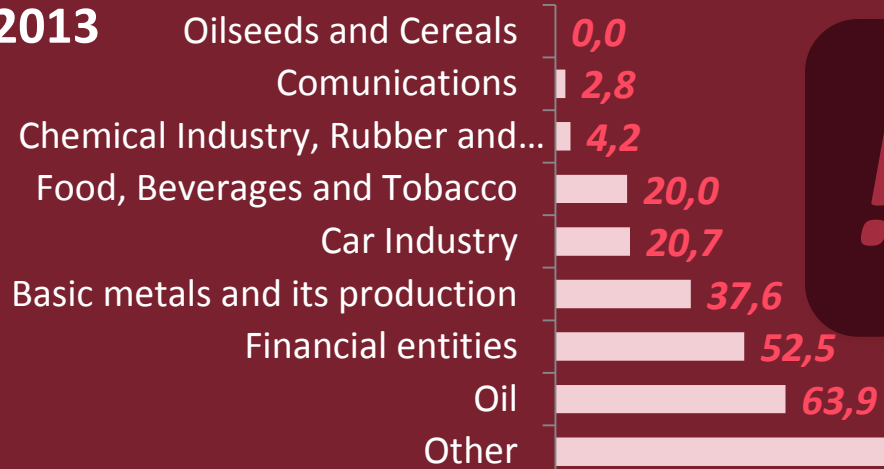
**¿MARKET SPLIT? IT WOULD NOT BE ENOUGH TO ELIMINATE THE EXTERNAL RESTRICTION**

**WITH IT, WE CAN'T EXPECT THE GOVERNMENT TO RELAX THE RESTRICTIONS THAT ARE AT THE CORE OF THE FOREIGN CURRENCY MARKET: THE PURCHASE OF FOREIGN CURRENCY BY THE PRIVATE SECTOR AND THE REMITTANCE OF PROFITS ABROAD.**



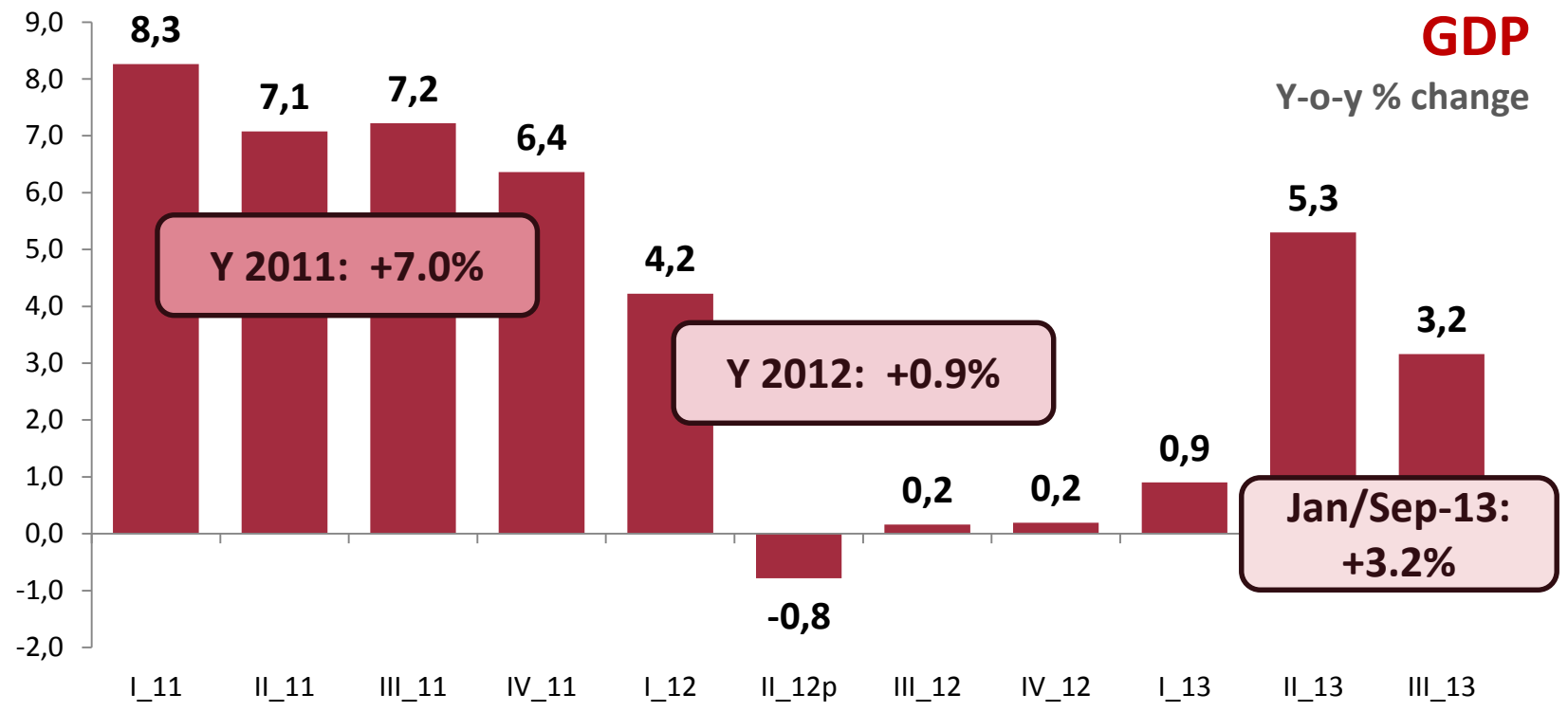
**WHAT HAPPENED AT THE INDUSTRY LEVEL?**

**I. 2013**



**IN 2012, FIRMS EXPERIENCED A FULL-BLOWN RESTRICTION. DURING THE FIRST HALF OF 2013 THE GOVERNMENT RELAXED RESTRICTIONS, BUT TO A MINIMUM EXTENT**

**THE OUTCOME IS THE BAD PERFORMANCE OF ECONOMIC ACTIVITY. IN 2013, GROWTH IS EXPLAINED BY EXTERNAL FACTORS WHEREAS DOMESTIC POLICY PLAYS AGAINST A ROBUST ECONOMIC REBOUND**



**AGRO**

**BRAZIL**

**ECONOMY POLICY**  
SOCIAL ALLOWANCES + PUBLIC WORKS  
VS RESTRICTIONS

*The economy would post a growth rate of 3.0% !*



¿WHAT HAPPENED IN THE PAST DECADE AND HOW DID WE GET TO 2013?



**THE EMERGIN QUESTION IS: ¿WHAT'S NEXT? IT BECOMES NECESSARY TO THINK ABOUT 2015-16 AS A TURNING POINT**




CONCLUDING REMARKS

THE QUESTION IS: WHAT'S NEXT?

UNDOUBTEDLY, THE EXTERNAL RESTRICTION WILL BE STRONGER NEXT YEAR

**! LOWER NET SUPPLY  
OF DOLLARS**

***External front:***

 **Lower global liquidity = Lower commodity prices =  
Currency depreciation of trading partners**

 **Brazil will not grow more than 3.0%**

# THE QUESTION IS: WHAT'S NEXT? LOCALLY, DOLLARS WILL BE SCARCE TOO

## Locally:



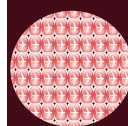
**Agro:** Slight increase of production + International commodity prices falling



**Energy Imports:** the deficit would swell in USD3.3 billions



**Cupón PIB:**  
USD2.59 Bn






**Tourism:**  
¿Restrictions?

# THE PROBLEM IS THAT THE RESULTS OF THE PRIMARIES ADDED AN ADDITIONAL RESTRICTION: THE POLITICAL RESTRICTION



! THE PARTY IN GOVERNMENT OBTAINED THE SUPPORT OF JUST **27%** OF THE ELECTORATE. THEY ARE NOW FAR FROM THE 54% OBTAINED IN 2011

How does the political scene set up for the 2013-2015 electoral process?



With no doubts, the profiles that have gained weight as unavoidable participants of the Primaries within the PJ in 2015 are **Daniel Scioli** , **Sergio Massa**    
**J.M. De la Sota**  y

**Mauricio**   
**Macri** of the PRO would go alone

The electoral system would give **Hermes Binner**  and **Julio Cobos**  a good shot to settle a potential candidacy in 2015.

# IT'S WORTH WONDERING THEN WHAT WILL THE GOVERNMENT DO AND WHAT WILL HAPPEN AFTER THE CHANGE OF ADMINISTRATION

IT IS NECESSARY TO THINK ABOUT 2015-2016 AS A TURNING POINT

## ! THE ECONOMY Up to 2015

### BEFORE 27-OCT ELECTIONS

No changes are expected before the mid-term elections

### AFTER 27-OCT ELECTIONS

Macro and micro weaknesses will be harshly felt since the external scenarion will not improve and dollar will continue to be scarce

## ! THE ECONOMY After 2015

### 2016 and forth

The change of administration leads to a confidence shock that underpins investment. The new administration has enough credibility to take up a comprehensive stabilization plan.

*Baseline scenario:*

**1 RECOVER FISCAL SPACE**  
**Utility rate adjustment**

**2 CORRECT THE STRENGTHENING TREND**  
Pickup in the pace of currency depreciation ¿Without making any effort to curb inflation? Domestic prices are the limit.

**3 BUY TIME WITH THE EXTERNAL RESTRICTION**

- ✓ *New sources of dollars*
- ✓ *More restrictive measures to already existing flight channels (i.e. Tourism!!)*

EVERYTHING INDICATES THAT THE CURRENT ACCOUNT DEFICIT IS FINANCEABLE. AND THAT THE COST OF DOING SO WOULDN'T BE TOO HIGH. THAT'S WHY WE BET ON THE BASE SCENARIO, BUT WE DON'T RULE OUT ONE OF THE ALTERNATE ONES.

### *Energy subsidies:*

**2,5%** of GDP:

✓ *This would solve the fiscal problem: fiscal deficit is close to 2% of GDP*

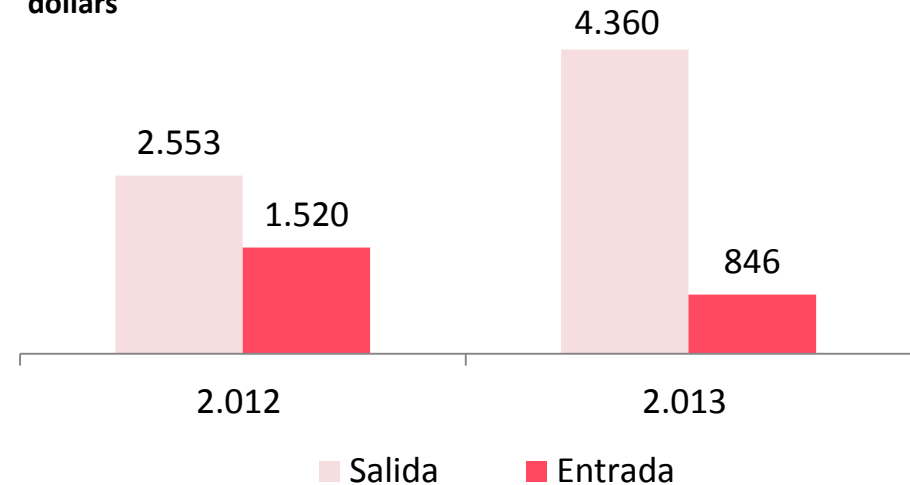
✓ *This would improve the incentives in the energy sector and therefore the commercial balance.*

### *Tourism deficit:*

**1,3%** of GDP:

#### Tourism currency settlement

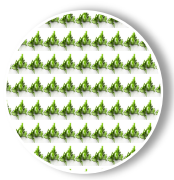
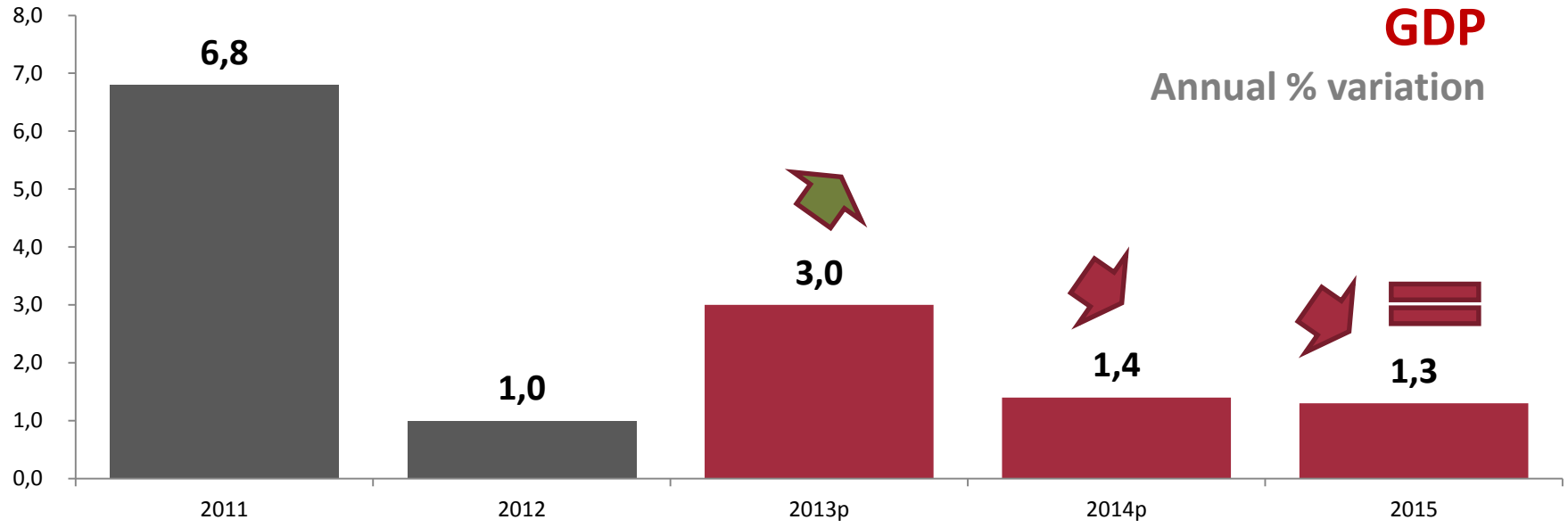
Aggregate of the first semester, in millions of US dollars



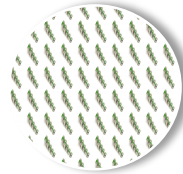
**THUS, THE ECONOMY COULD GROW AROUND 1.5% IN THE NEXT 2 YEARS.**

## ETAE estimation of GDP

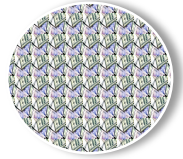
Annual % variation



**GDP**



**Reserves**



**Devaluation**



**Inflation**



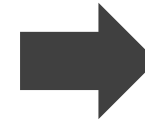
WHILE IN THE MID-TERM OUR POSITIONS LOOK GOOD. THEY PRESUPPOSE SOME CORRECTIONS IN ECONOMIC POLICY WHICH HAVE TO DO WITH MACROECONOMIC IMBALANCES AND SYSTEMIC ASPECTS.

## ! The Economy After 2015

Outlook for growth in the world and increase of the middle class



Argentina: one of the main world suppliers in the agro-food market, and holds the third Shale gas reserves in the world, among other things.



**This means Argentina has an advantage.**

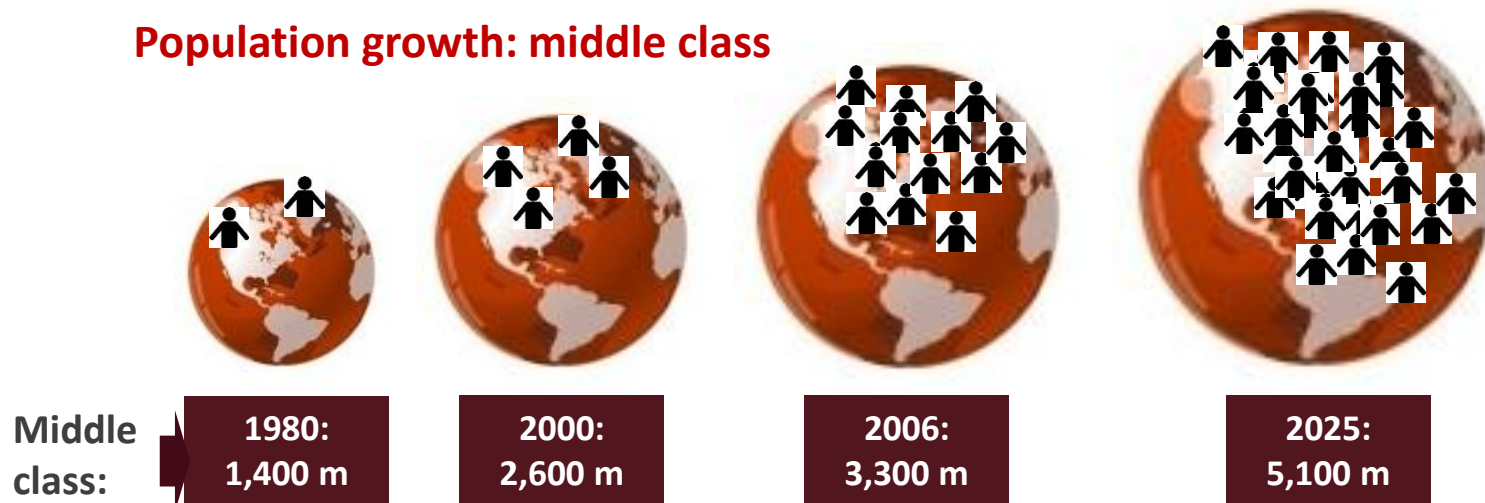
***BUT IN ORDER TO BE ABLE TO SIEZE THE OPPORTUNITY, IT IS KEY:***

**1 TO CORRECT PRICE DISTORTIONS + UNSTABLE LEGAL FRAMEWORK**

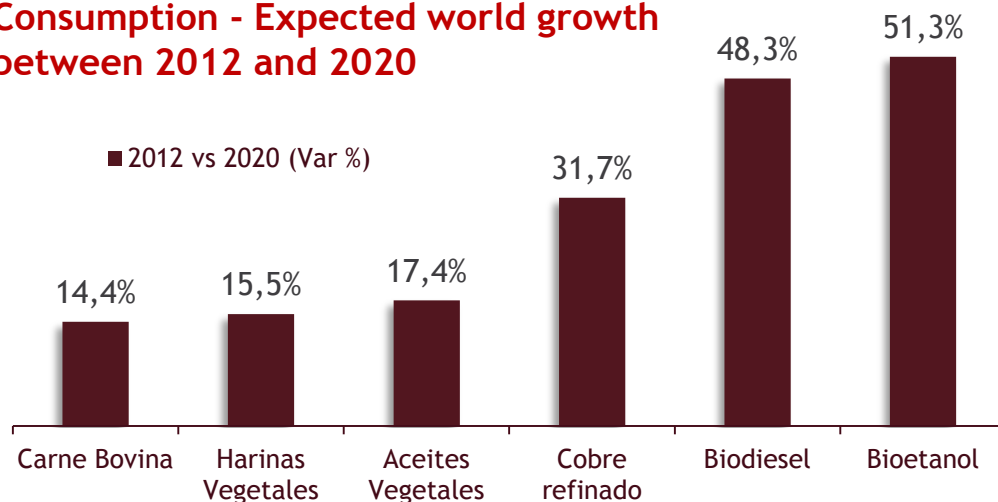
**2 TO MOVE FORWARD IN SYSTEMIC ASPECTS**

# THE WORLD POPULATION WILL KEEP GROWING AND THE DEMAND FOR FOODSTUFFS AND ESSENTIAL GOODS WILL BE SUSTAINED, WHICH GUARANTEES HIGH PRICES WILL HOLD.

## Population growth: middle class



## Consumption - Expected world growth between 2012 and 2020

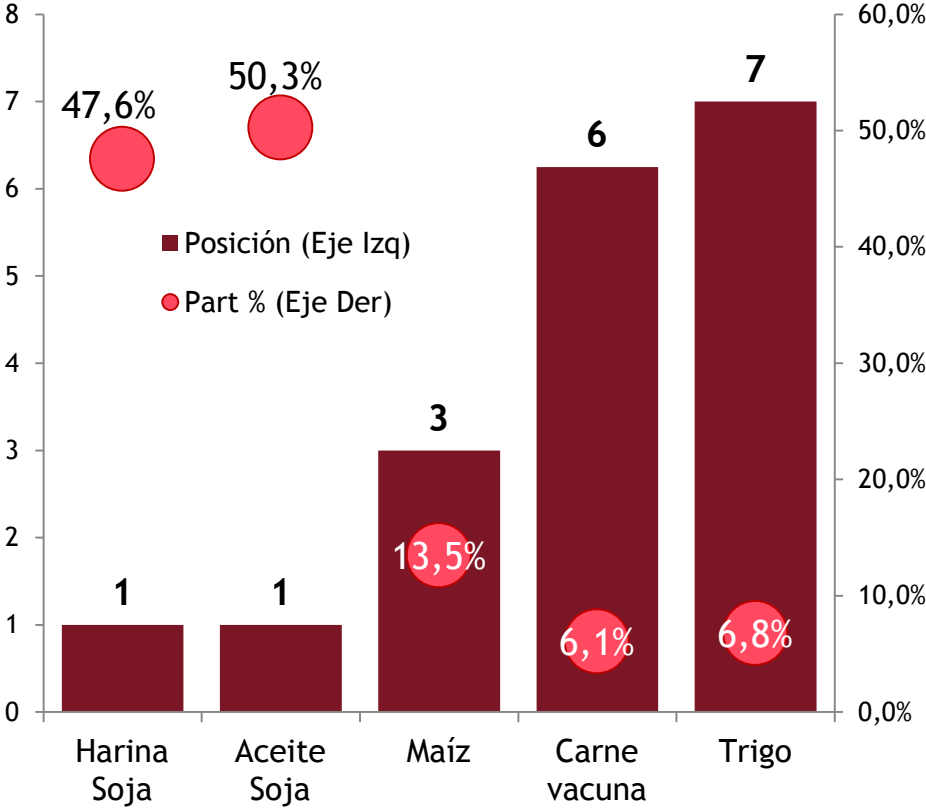


**↑ THE DEMAND OF BETTER QUALITY FOODS.**

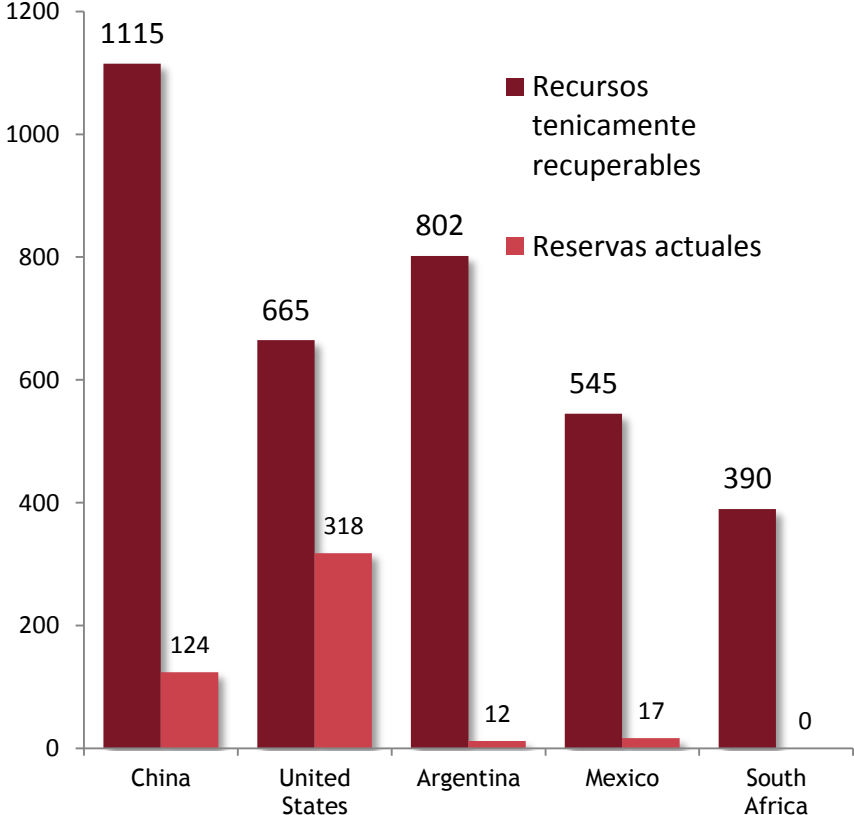
**CHINA IS MOVING TOWARDS A CONSUMER MODEL WHICH WILL BENEFIT AGRICULTURAL COMMODITIES, THOUGH WE HAVE TO KEEP AN EYE ON ITS PATH TO SUCCESS.**

**ARGENTINA: ONE OF THE MAIN WORLD SUPPLIERS IN THE AGRO-FOOD MARKET, AND HOLDS THE THIRD SHALE GAS RESERVES IN THE WORLD, AMONG OTHER THINGS.**

**ARGENTINA'S WORLD SHARE IN FOOD EXPORTS**

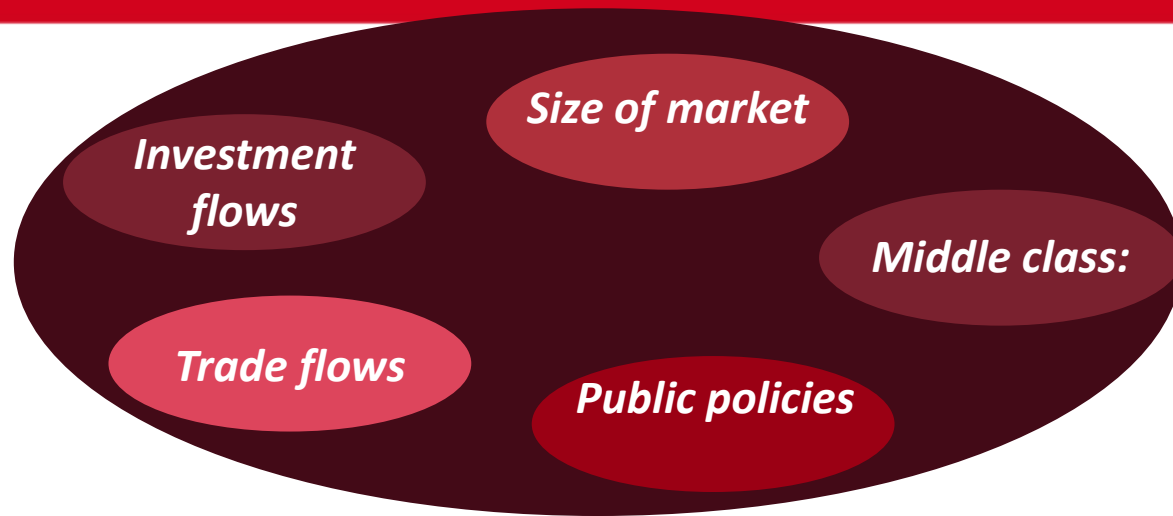


**OUTLOOK FOR WORLD SHALE GAS RESOURCES**



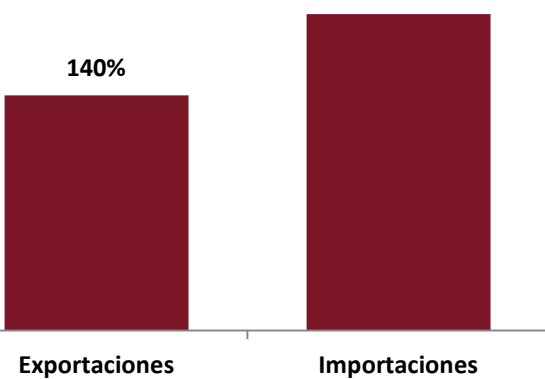
THE REGIONAL MARKET IS ALSO COUPLED WITH GROWTH, AND THUS ARRIVE OPPORTUNITIES OF MAXIMIZING SYNERGIES AND PRODUCTIVE INTEGRATIONS IN THE INDUSTRIAL FIELD.

## ARGENTINA AND BRAZIL

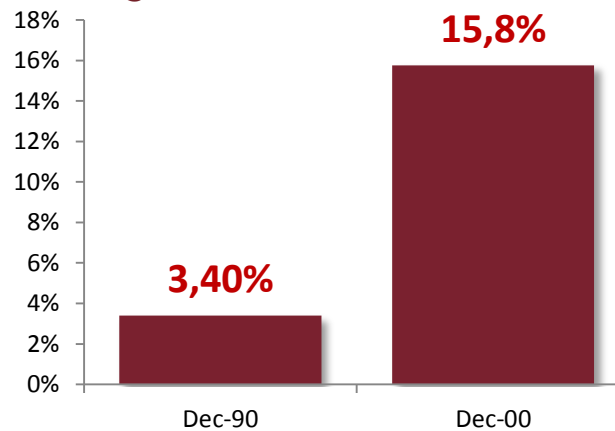


Variation of trade with Brazil

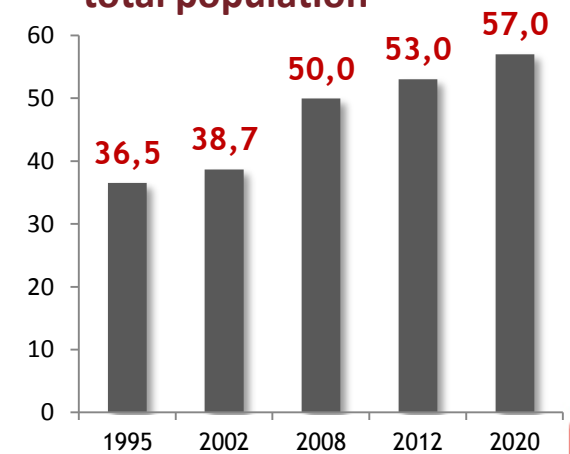
2000 vs. 2012



Brazilian IED participation in Argentina



Brazilian middle class, as % of total population



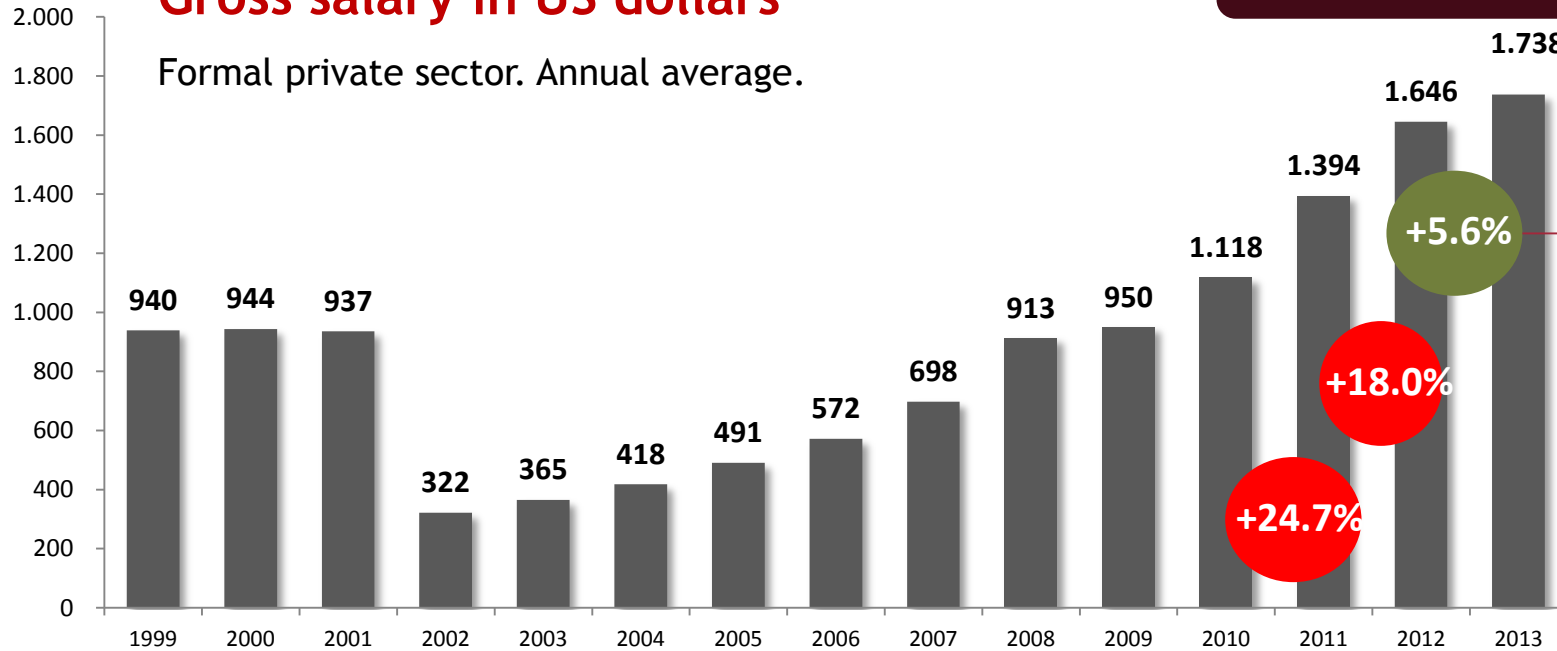
**BUT, IN ORDER TO BE ABLE TO SEIZE OPPORTUNITIES IT IS KEY TO PUT COMPETITIVENESS ISSUES IN THE AGENDA.**

**IN THE LAST YEARS, WE HAVE SEEN MAJOR GROWTH COSTS, IN US DOLLARS**

### Competitiveness prices

## Gross salary in US dollars

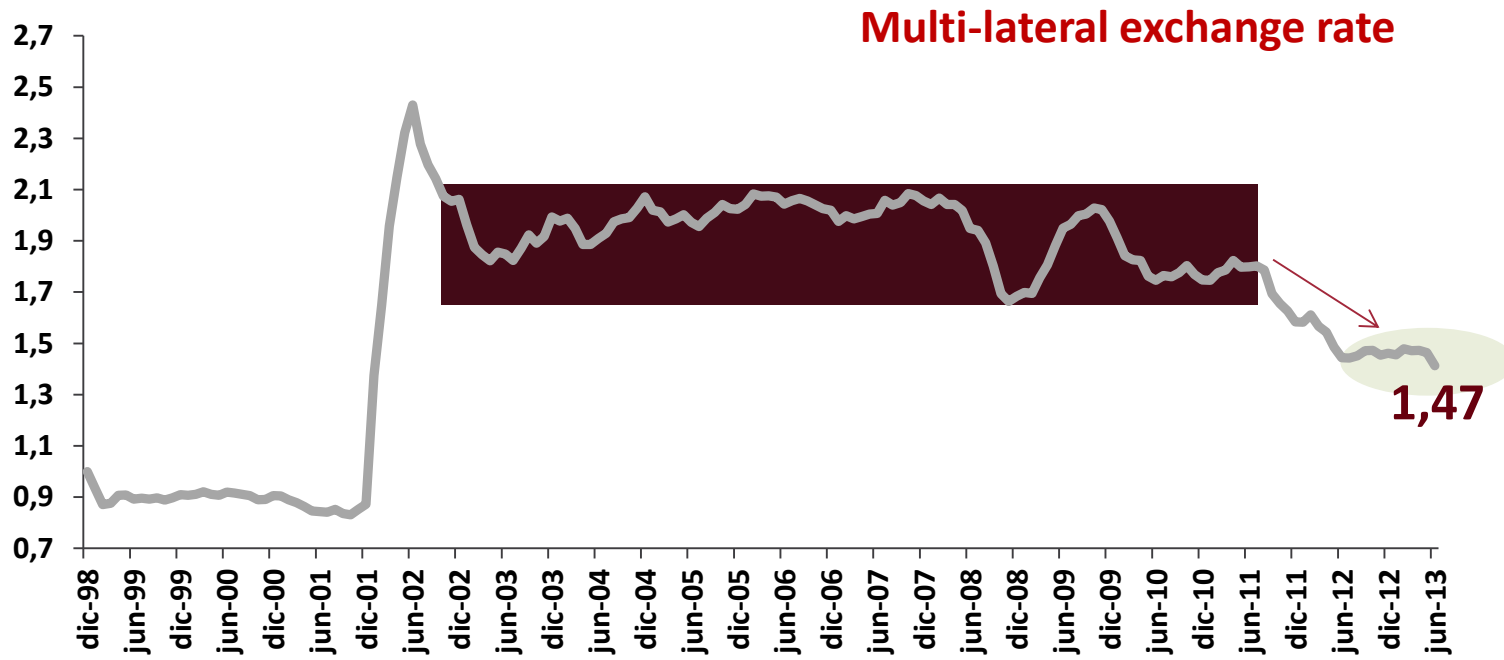
Formal private sector. Annual average.



The greater rate of devaluation has helped

***IN US-DOLLARS, SALARIES ARE 85% HIGHER THAN DURING THE 1990S.***

THIS IS REFLECTED IN THE DROP IN THE REAL EXCHANGE RATE.

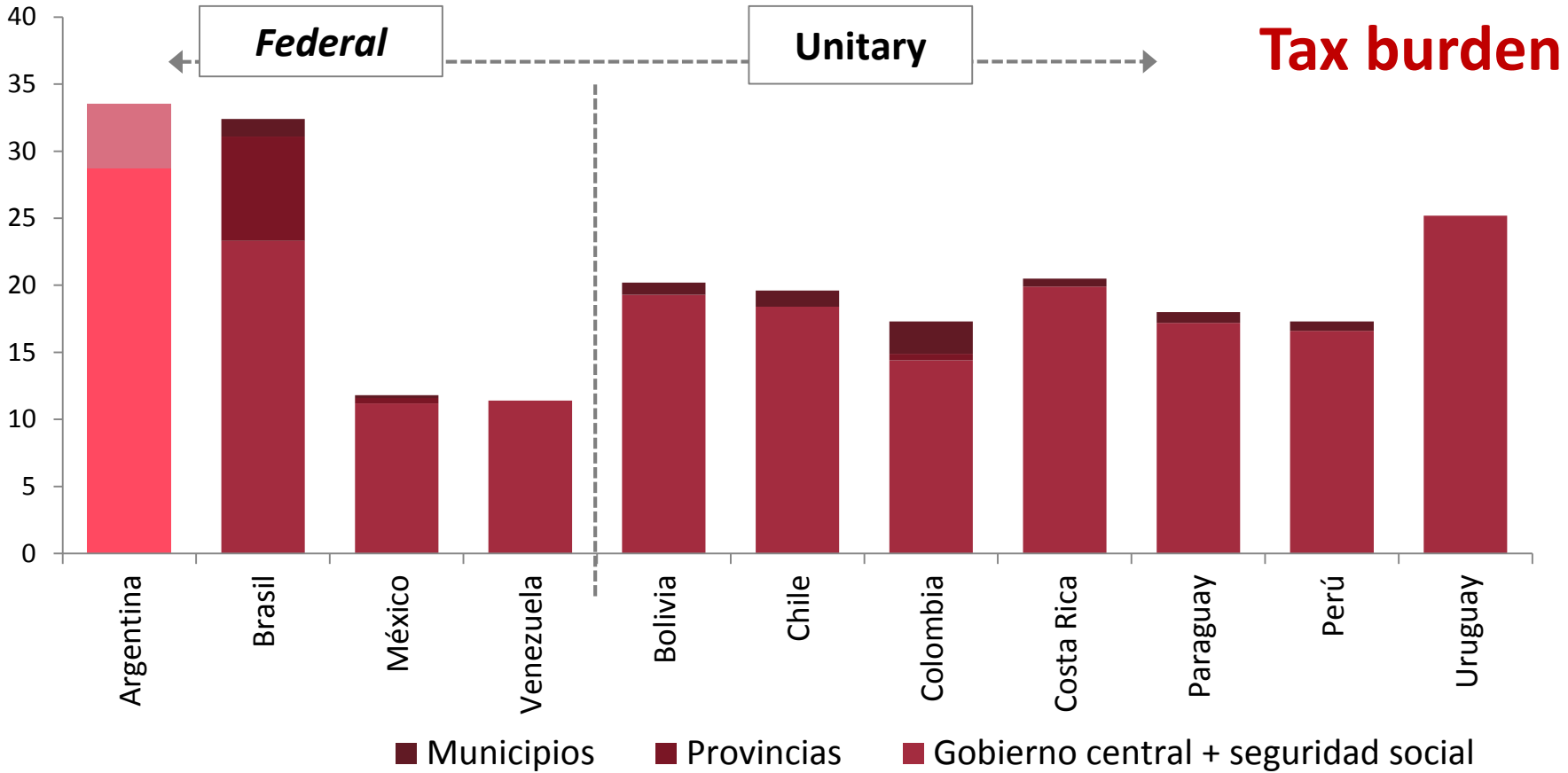


**THE GOVERNMENT  
ACCELERATED THE  
DEVALUATION RATE THIS  
YEAR  
THE PROBLEM IS THAT:**

- 1** There is still a scarcity of dollars
- 2** The currencies of neighboring countries are being depreciated
- 3** There is inflationary risk in an economy that has almost full employment

***An anti-  
inflation  
plan is  
required***

# WHILE THE TAX BURDEN IS AT AN ALL-TIME HIGH

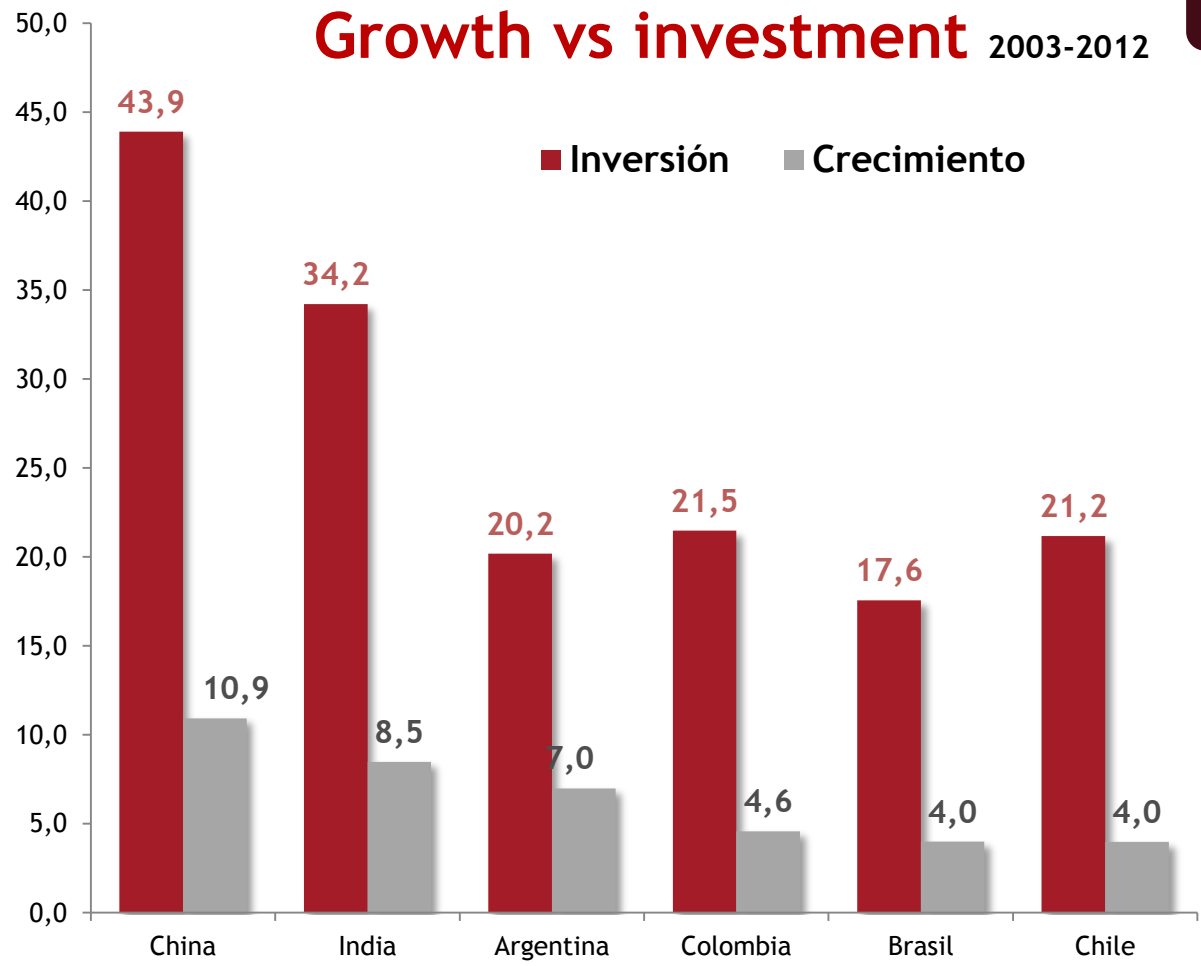


**THE TAX BURDEN IS THE HIGHEST OF ALL THE REGION  
IT HAS GROWN BY 10 PERCENTAGE POINTS IN THE LAST YEARS**

**BUT IN ORDER TO BE ABLE TO SEIZE OPPORTUNITIES IT IS KEY TO PUT COMPETITIVENESS ISSUES IN THE AGENDA. THE LEVEL OF INVESTMENT IN ARGENTINA IS TOO LOW IN ORDER TO SUSTAIN A 7% GROWTH RATE.**

**Systemic competitiveness**

**Growth vs investment 2003-2012**



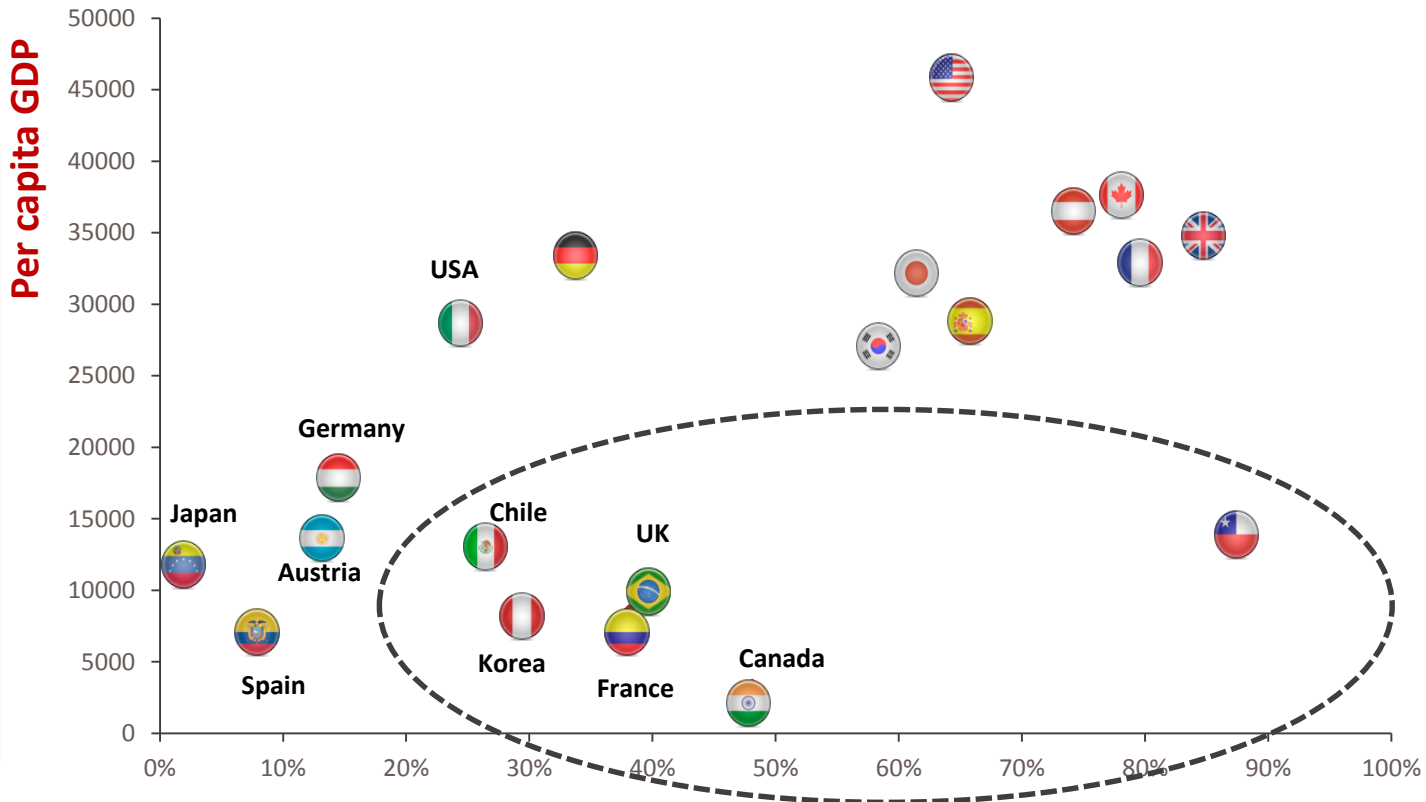
**THE LEVEL OF INVESTMENT IN ARGENTINA IS TOO LOW IN ORDER TO SUSTAIN A 7% GROWTH RATE.**

- ✓ Scarce investment in the energy sector. Result: Commercial deficit
- ✓ Scarce investment in infrastructure. Leading case: *The cost of transportation from Salta to Buenos Aires is greater than the cost of sea transportation from Buenos Aires to Rotterdam (50-60% more)*
- ✓ Industry at maximum capacity

# IT IS IMPORTANT TO DEVELOP THE FINANCIAL MARKET ALONG THESE LINES IN ORDER TO BE ABLE TO MOVE SAVINGS TO PRODUCTIVE INVESTMENTS

**! TO BE ABLE TO MOVE SAVINGS TO PRODUCTIVE INVESTMENTS IT IS NECESSARY TO DEVELOP THE FINANCIAL MARKET**

- 1** Deposits  
13.4% of GDP
- 2** Credit  
12% of GDP
- 3** Far from other emergent economies, (93% of GDP), short-term, and consumer-



Capitalization 29



¿WHAT HAPPENED IN THE PAST DECADE AND HOW DID WE GET TO 2013?



THE EMERGIN QUESTION IS: ¿WHAT'S NEXT? IT BECOMES NECESSARY TO THINK ABOUT 2015-16 AS A TURNING POINT



**CONCLUDING REMARKS**

## The Economy Until 2015

There is no doubt that the next two years will be marked by sluggish growth. Macro and microeconomic weaknesses will be felt, but a crisis situation is far from existing. A guarantee of this are a low level of debt, high social cover, an economy close to full employment, and a world which will not bring further problems.

## The Economy After 2015

The change of Administration will bring about a change of economic direction. The profiles of likely Presidents show that the new direction might be more oriented to the center-right. Also, the outlook for growth in the world (and in particular for India, China, and Brazil) places Argentina at an advantage. Argentina has the resources the world requires, and is part of a regional market that is coupled with growth. But in order to seize the opportunity given by the context, challenges must be taken into account, and solved. These challenges stem from the economic policy itself, and need to be addressed by generating a safer and more stable legal framework, which will allow the country to attract greater investment, of more quality, and which will mature in longer times.



ARGENTINA: CURRENT SITUATION AND ECONOMIC OUTLOOK

> MACROECONOMIC OUTLOOK

> BILATERAL RELATION ARGENTINA -  
BRAZIL

**BILATERAL RELATION ARGENTINA - BRAZIL  
COMMERCIAL DISPUTES AND THE DETERIORATION OF THE CLIMATE OF INVESTMENT  
ARE STUMBLING BLOCKS WHICH PREVENT THE BILATERAL RELATION FROM BEING  
MORE FLUID.**

## **BILATERAL TRADE**

- ✓ **ARGENTINE COMMERCIAL RESTRICTIONS**
- ✓ **TRADE DIVERSION TO THE DISADVANTAGE OF BRAZIL**
- ✓ **RENEGOTIATION OF THE AUTOMOTIVE AGREEMENT**

## **INVESTMENT**

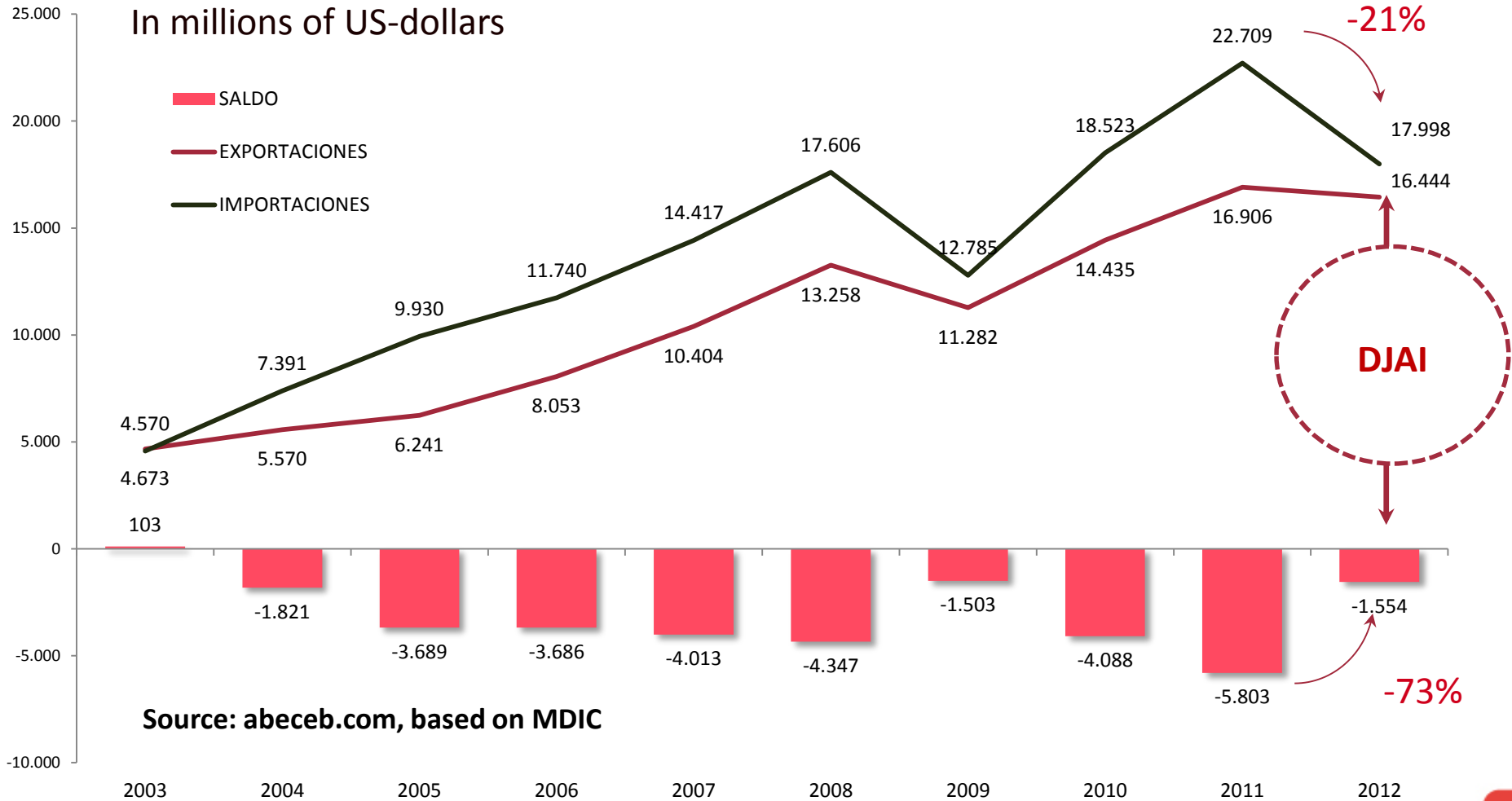
- ✓ **REGULATIONS HAVE BECOME MORE COMPLEX (PROFIT REMITTANCES, IMPORTS OF GOODS, NATIONALIZATIONS)**
- ✓ **CHANGE IN THE ARGENTINE MACROECONOMIC SITUATION (GDP, COSTS)**
- ✓ **INTERNATIONAL COMPLAINTS (ICSID, RELATION WITH THE IMF, HOLDOUTS, PARIS CLUB)**

**TOTAL TRADE WITH BRAZIL HAS GROWN IN THE LAST YEARS, WITH A TREND TOWARDS DEFICIT AGAINST ARGENTINA, WHICH HAS FOSTERED THE ESTABLISHMENT OF DEFENSIVE MEASURES.**

### BILATERAL TRADE ARGENTINA - BRAZIL

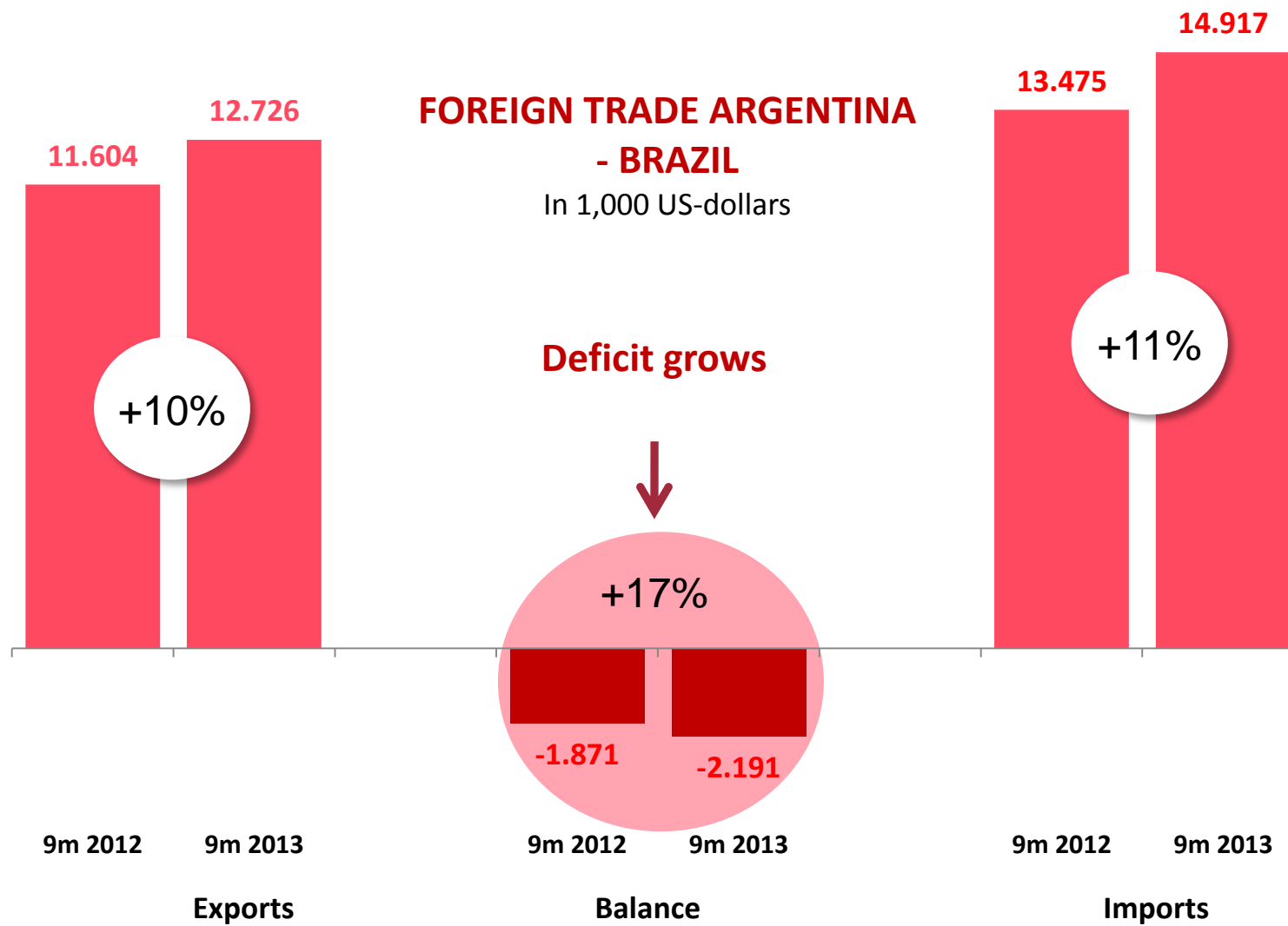
In millions of US-dollars

- SALDO
- EXPORTACIONES
- IMPORTACIONES



Source: abeceb.com, based on MDIC

IN 2013, FOREIGN TRADE RECOVERES AND THE DEFICIT GROWS 17%

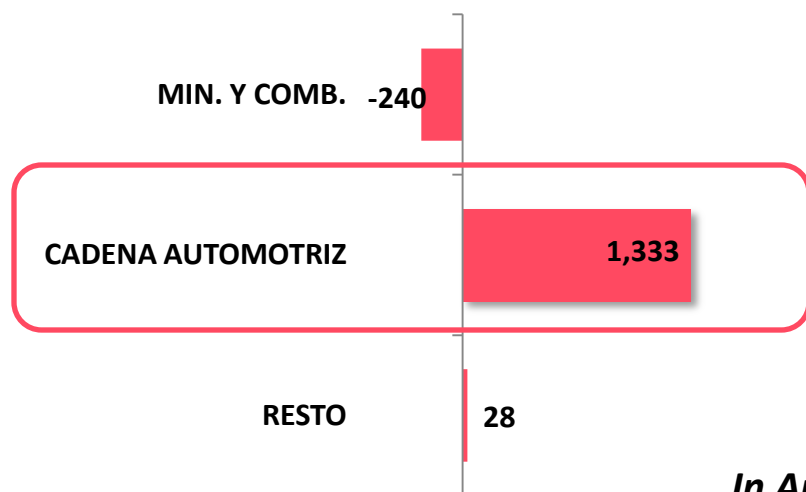


**THIS GROWTH CAN BE COMPLETELY ATTRIBUTED TO THE AUTOMOTIVE TRADE, WHILE THE REST OF THE SEGMENTS DO NOT SHOW SIGNIFICANT CHANGES.**

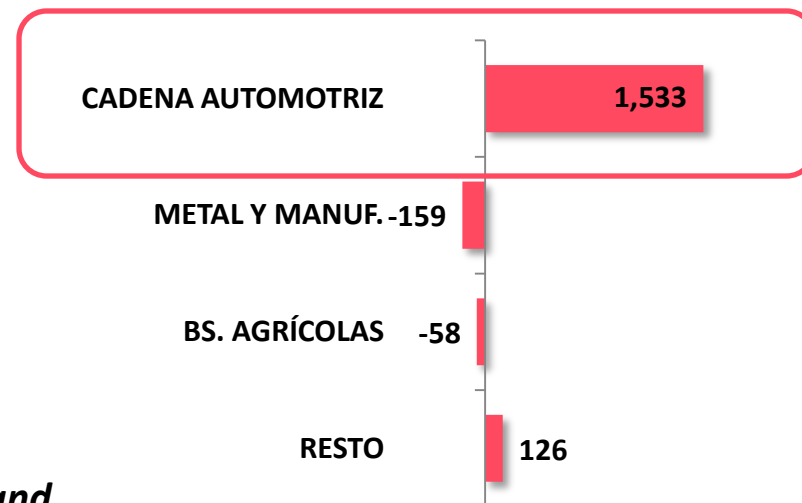
## Bilateral trade Argentina - Brazil Absolute variation

In US-dollar millions 9 m in 2012 vs. 9 m in 2013.

### EXPORTS

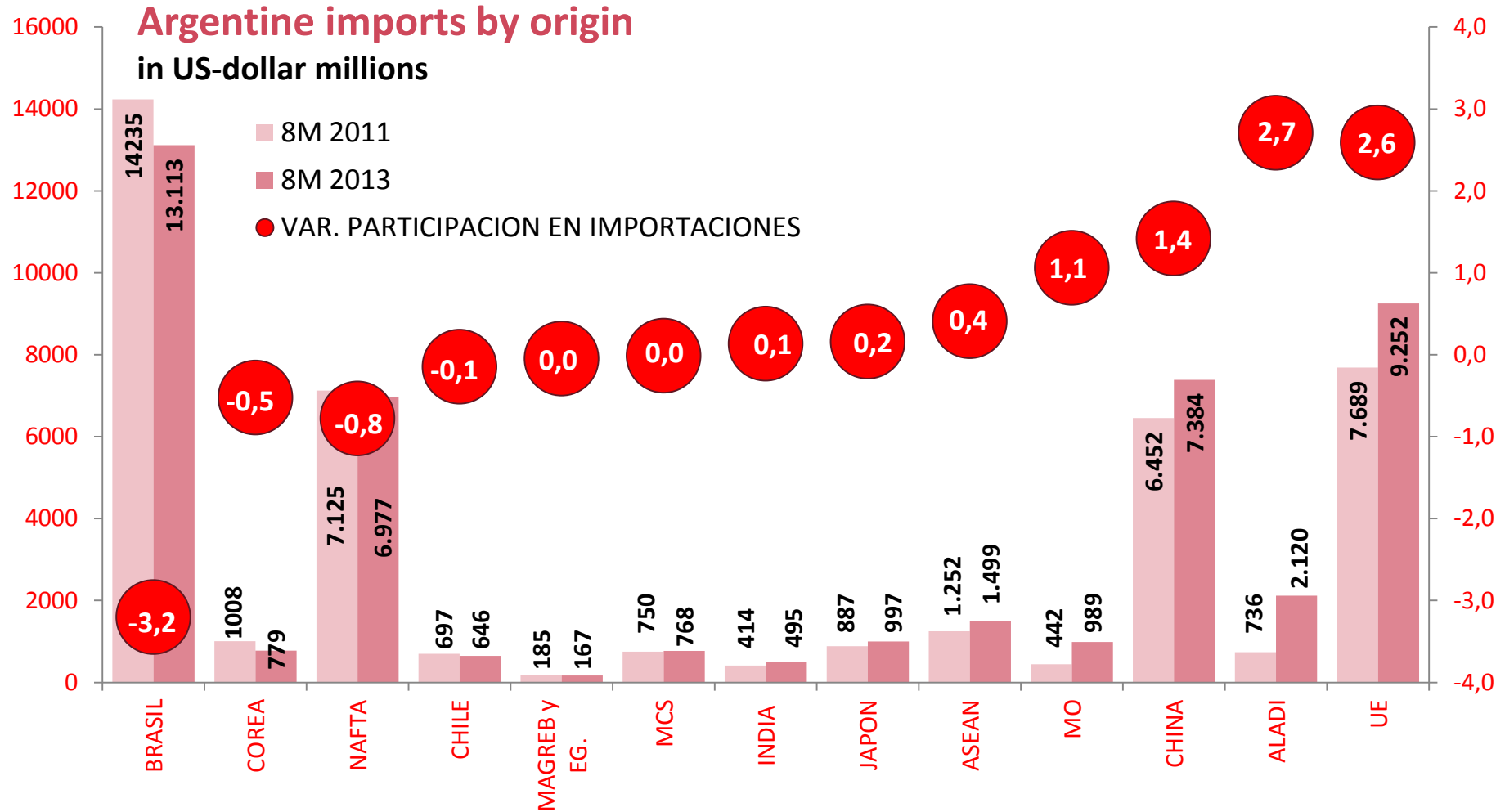


### IMPORTS



*In August and September 2013 there is a deficit in the trade of automotive vehicles*

DESPITE THE OBSERVED GROWTH, IMPORTS DO NOT NET REACH THE LEVELS OF 2011, AND BRAZIL LOSES SHARE AGAINST OTHER PARTNERS.



Source: abeceb.com, based on INDEC

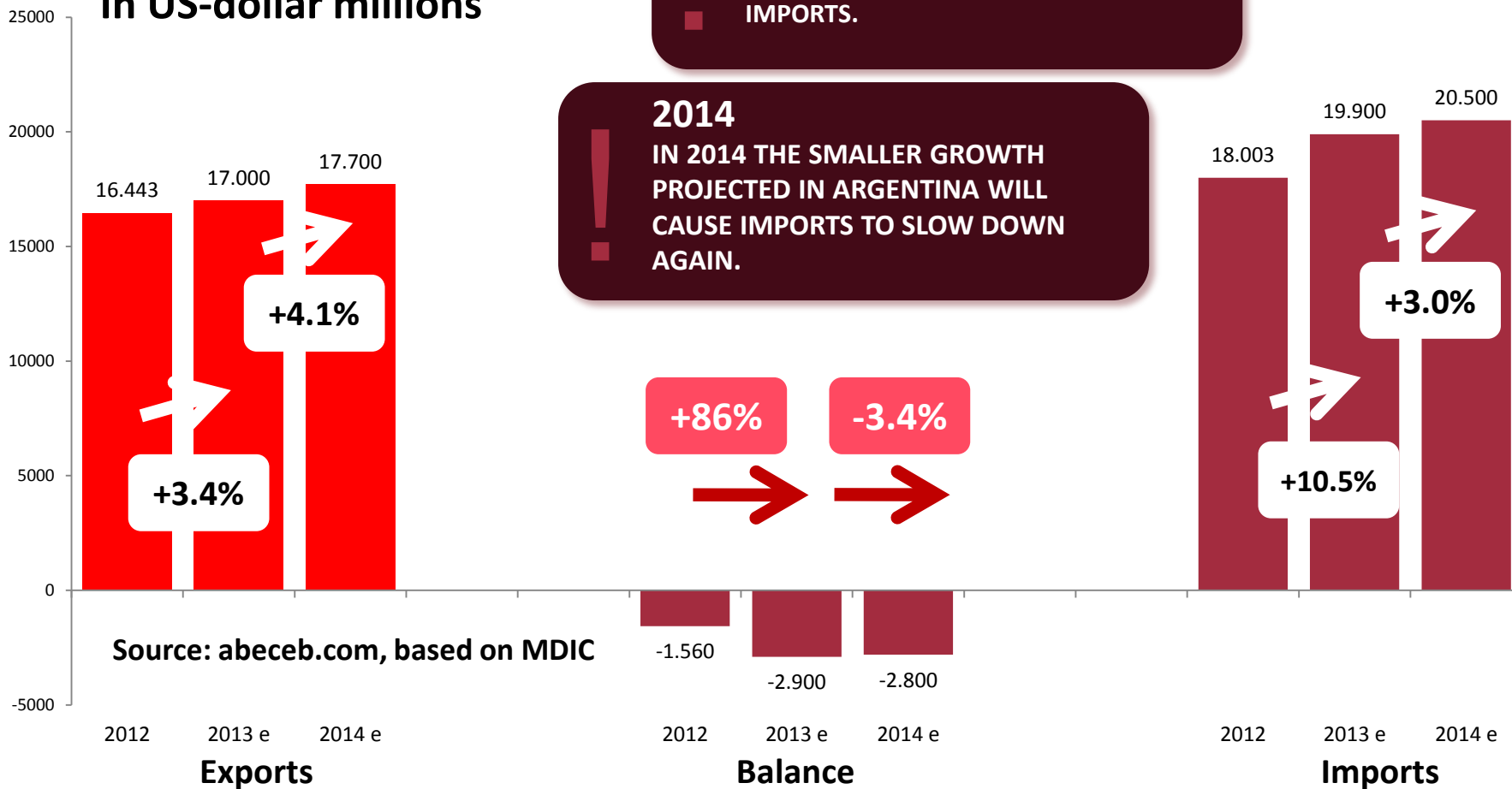
TOWARDS THE END OF 2013, IT IS EXPECTED THAT BILATERAL DEFICIT WILL DOUBLE, AND REMAIN RELATIVELY CONSTANT THE FOLLOWING YEAR.

# FOREIGN TRADE ARGENTINA - BRAZIL

In US-dollar millions

**2013**  
IN THE REMAINING MONTHS DEFICIT WILL MOVE FASTER, TOGETHER WITH A SLOWDOWN IN EXPORTS AND GROWTH IN IMPORTS.

**2014**  
IN 2014 THE SMALLER GROWTH PROJECTED IN ARGENTINA WILL CAUSE IMPORTS TO SLOW DOWN AGAIN.



Source: abeceb.com, based on MDIC

REGARDING INVESTMENT, THERE IS IN THE PAST YEARS A WEAKENING IN FACTORS THAT MOVED FOREIGN DIRECT INVESTMENT TOWARDS ARGENTINA, WHICH HAS CAUSED SEVERAL OUTFITS TO LEAVE.

2007-2008

2012



GDP GROWTH

**+6.6%**  
(Average 2007 - 2008)

**+0.9%**  
(2012e)

VALE

LABOR COSTS

**US dollars 805**  
(Average 2007 - 2008)

**US dollars 1,646**  
(2012)

ALL

PROFIT  
REMITTANCE

DAPE

**US dollars  
3,349**  
(2008)

**US dollars  
225**  
(2012)

DEKA PIAZZA

RESTRICTIONS TO  
IMPORTS

DJAI

**CONSUMER  
GOODS**

**CONSUMER GOODS  
INTERMEDIATE GOODS  
CAPITAL GOODS**

PETROBRAS  
(EDESUR)

ANDRADE  
GUTIERREZ

Mistrust because of nationalizations

IN THE LAST YEARS, ARGENTINA HAS BEEN REPLACED AS THE MAIN TARGET OF BRAZILIAN INVESTMENT IN LATIN AMERICA




Year	Amount	Number of announcements
2010	5,377	28
2011	3,112	28
2012	2,500	15



**Announcements of Brazilian investment in Argentina**  
In millions of US dollars

The foreign agenda is presented as a chance to rebuild bridges of dialogue between Argentina and Brazil, within the frame of the EU - Mercosur negotiation.

### POSITION BRAZIL




**MAIN DRIVER OF AGREEMENT WITHIN THE MERCOSUR BLOC.**

IT IS LOOKING TO IMPROVE ITS INTEGRATION IN GLOBAL VALUE CHAINS, AND TO DRIVE INVESTMENTS WITH A HIGH COMPONENT OF TECHNOLOGY.

THE PUBLIC SECTOR ANSWERS A DEMAND FROM THE PRIVATE SECTOR, AND SEEKS TO MOVE FORWARD WITH THE 2014 ELECTIONS IN MIND.

IT IS PLANNING MORE FLEXIBLE ALTERNATIVES (OF DIFFERENT SPEEDS) TO OUTWEIGH A MORE CLOSED STANCE BY ARGENTINA.

### POSITION ARGENTINA



**IT WOULD, AT LEAST, GO ALONG WITH THE DRAFTING OF THE PROPOSAL.**

IT IS DRAFTING ITS INDIVIDUAL PROPOSAL WITH PARTICIPATION OF THE PRIVATE SECTOR (IN A CONSULTIVE ROLE), BUT IT IS FORESEEN THAT IT WON'T BE VERY AMBITIOUS.

IT WOULD NEED TO MAKE ITS REQUIREMENTS COMPATIBLE WITH THE RESTRICTIVE BIAS OF THE TRADE POLICY.

### POSITION EU



**DRIVER OF THE AGREEMENT**

THE CURRENT SITUATION FINDS THE BLOC IN A MORE FLEXIBLE STANCE THAN MERCOSUR.

THEY WOULD BE IN A POSITION IN WHICH THEY COULD MAKE MORE CONCESSIONS IN AGRICULTURE, AND IT COULD ACCEPT DIFFERENT SPEEDS IN MERCOSUR'S TAX BREAKS.

IT IS LOOKING FOR EMERGING MARKETS FOR ITS PRODUCTS.

THE UNCERTAINTY FACTOR IS THE UNRESOLVED ISSUE OF THE REPSOL CASE.

