



ECOLATINA

## OUTLOOK 2017

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WE PRESENT OUR VISION ABOUT THE POLITICAL AND ECONOMIC CONTEXT FOR 2017 AND FOR THE LONG TERM.

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**01**  
**POLITICAL OVERVIEW**

The challenge of midterm elections.



**02**  
**ECONOMIC OUTLOOK**

The economy in an electoral year and perspectives for the long term.



## POLITICAL OVERVIEW

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# POLITICAL OVERVIEW

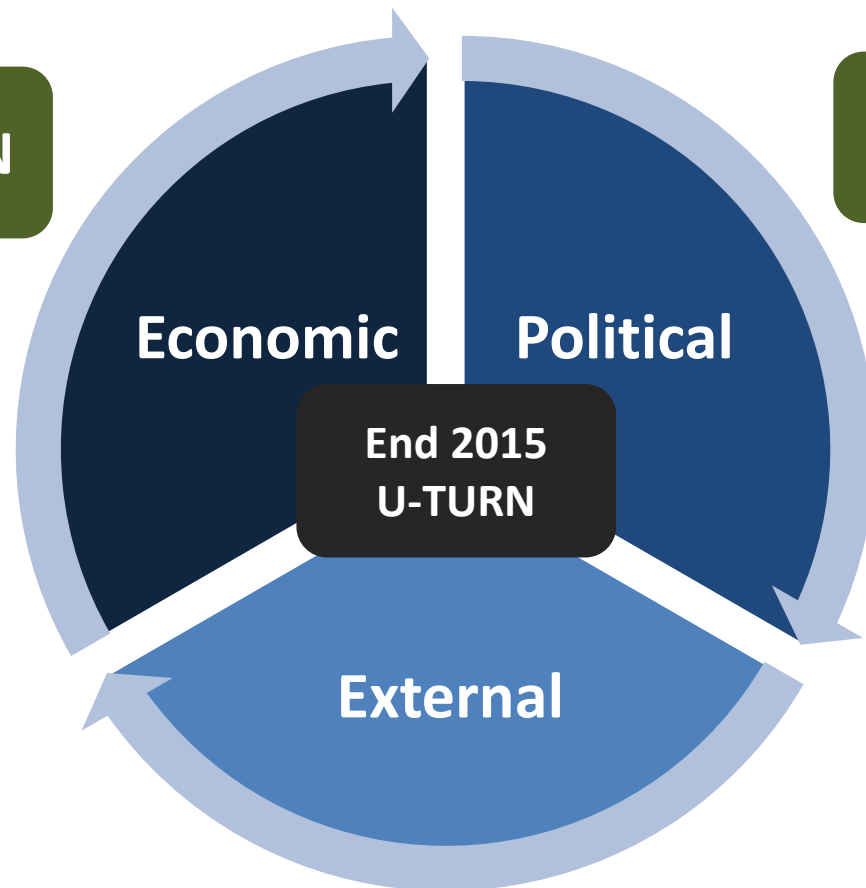
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## Argentina Is Going Through A U-Turn

**NORMALIZATION**

**RATIONALITY**



**OPENNESS**



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### Cambiemos Challenge



#### » Argentina elected a new President in 2015: Macri (Cambiemos)

*Former businessman and former mayor of Buenos Aires City (2007-2015)*

- » *Main opposition to kirchnerist government*
- » *Allied with Radicals (traditional party) & Civic Coalition*
- » *Believes in efficient public sector management & market friendly*

### The Challenge of governability:

- » **Management** experience
- » Controls **80% of consolidated public budget**
- » Disorganized **opposition (Peronist party)**
- » Good relationship with **firms and foreign governments**
- » **Positive image: 36% (Jul. 2017)**

- » Dispersed **electoral base**
- » **Legislative weakness**
  - » *35% of Chamber of Deputies*
  - » *20% of Senate*
- » 19 provinces governed by **opposition**
- » Costly **economic measures in 2016**
- » **Negative image: 40% (Jul. 2017)**



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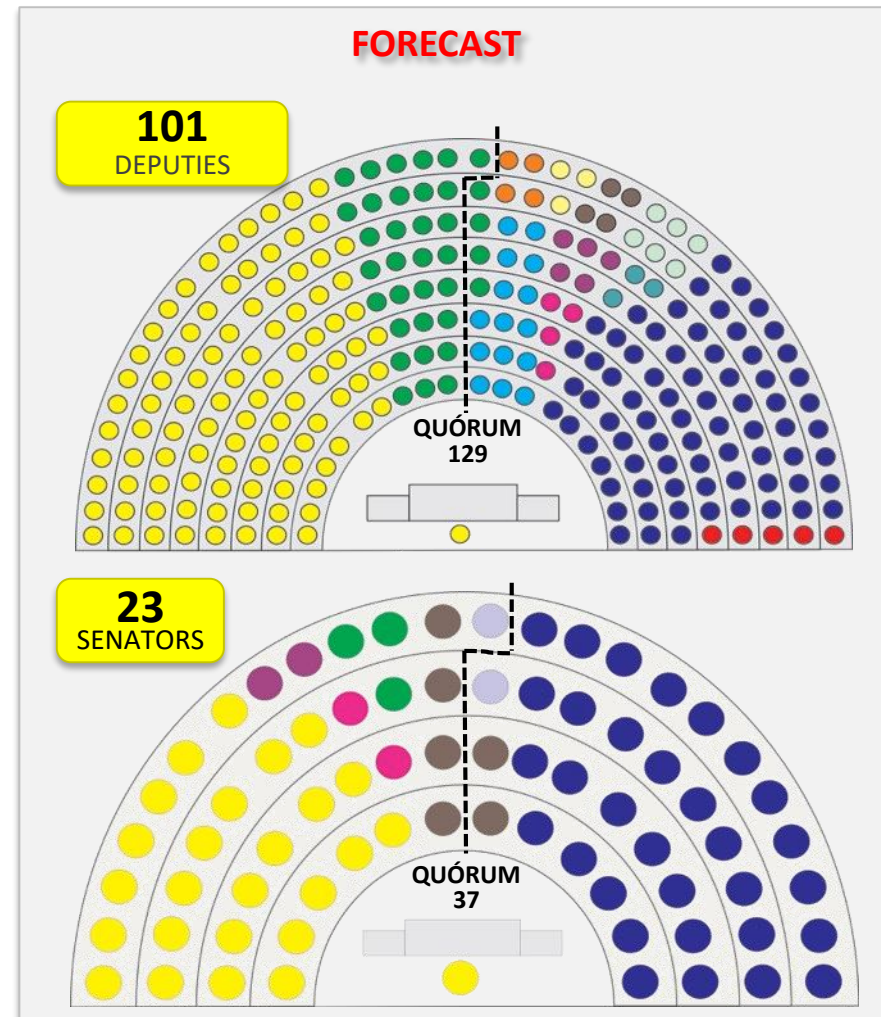
## The Election Challenge Of Cambiemos In 2017

**OBJECTIVE 1:** WIN AT NATIONAL LEVEL (BE THE MOST VOTED FORCE OF ARGENTINA)

**OBJECTIVE 2:** ACHIEVE AS MANY AS POSSIBLE SEATS AT THE CONGRESS

**OBJECTIVE 3:** GOOD PERFORMANCE IN IMPORTANT DISTRICTS (BUENOS AIRES CITY, SANTA FE, CÓRDOBA AND MENDOZA)

**MOST IMPORTANT OBJECTIVE:** WIN THE BUENOS AIRES PROVINCE ELECTIONS





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## The Election Challenge Of Cambiemos In 2017

**MOST IMPORTANT OBJECTIVE: WIN THE BUENOS AIRES PROVINCE ELECTIONS**

**1. ELECTORAL WEIGHT**

Prov. Buenos Aires = **37%**



**SUBURBS = 25%**



**2. THE OPOSITION CANDIDATES**



**Cristina Fernández de Kirchner | Florencio Randazzo | Sergio Massa**  
**(They all have presidential intentions towards 2019)**



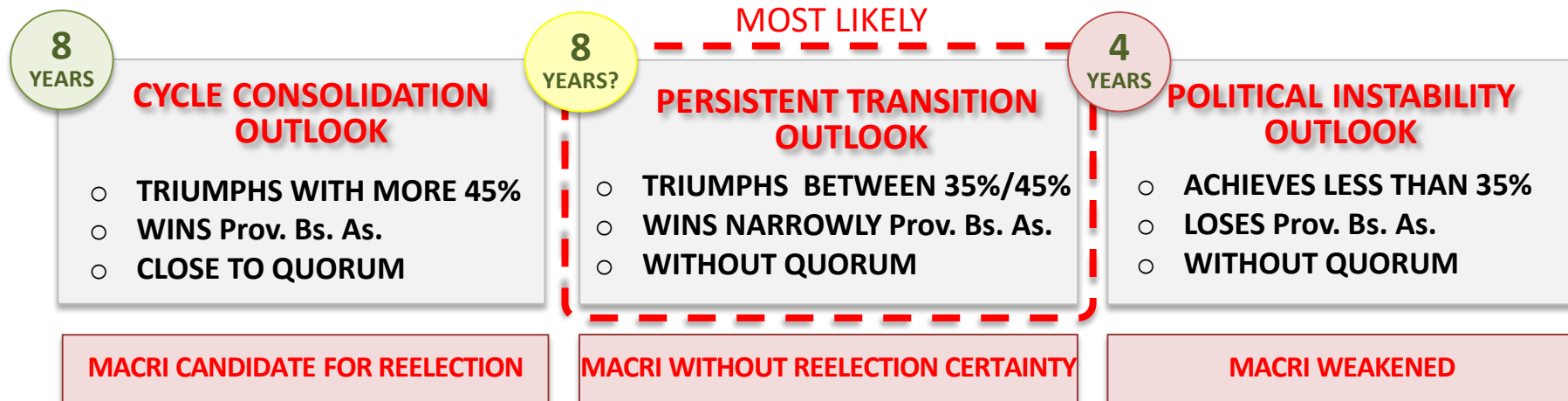
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## What Can We Expect About The Election?

### POLITICAL OUTLOOKS AFTER-2017







# ECONOMIC OUTLOOK

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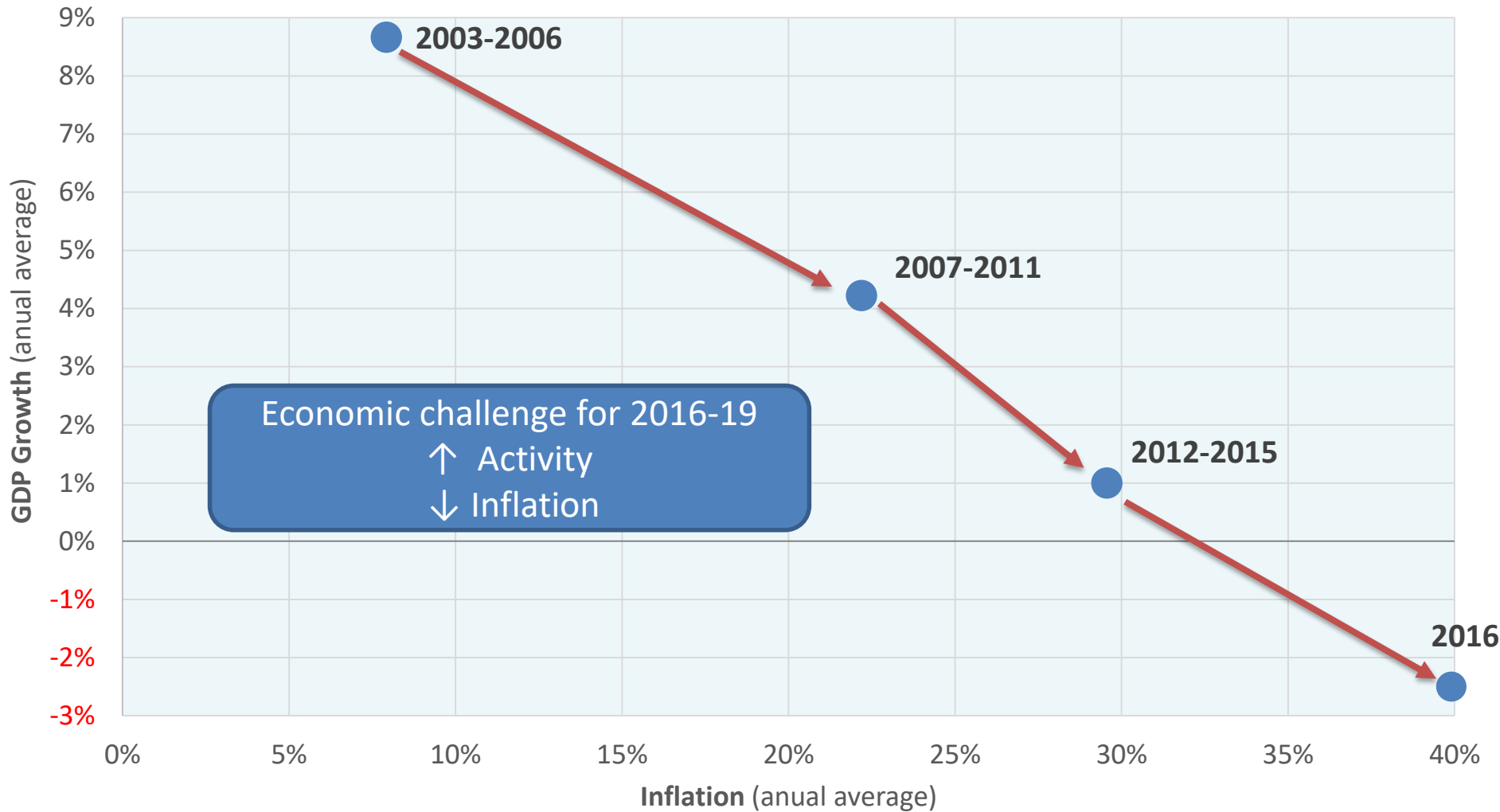


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## A New Path



Source: Ecolatina



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## Economic Goals For An Electoral Year

### 2016

### 2017

Results  
2016

Inflation  
40%

Déficit  
-4.3%

GDP  
-2.2%



Exchange Rate and Public Service  
Tariff Correction



Slowdown Inflation



Reduce Tax Burden



Reduce Primary Deficit



Solve the Default



Reactivate



Slowdown Inflation



Reduce Primary Deficit



Reactivate

Government  
Goals

Inflation  
12/17%

Deficit  
-4.2%

GDP  
3.5%

Ecolatina's  
Forecast

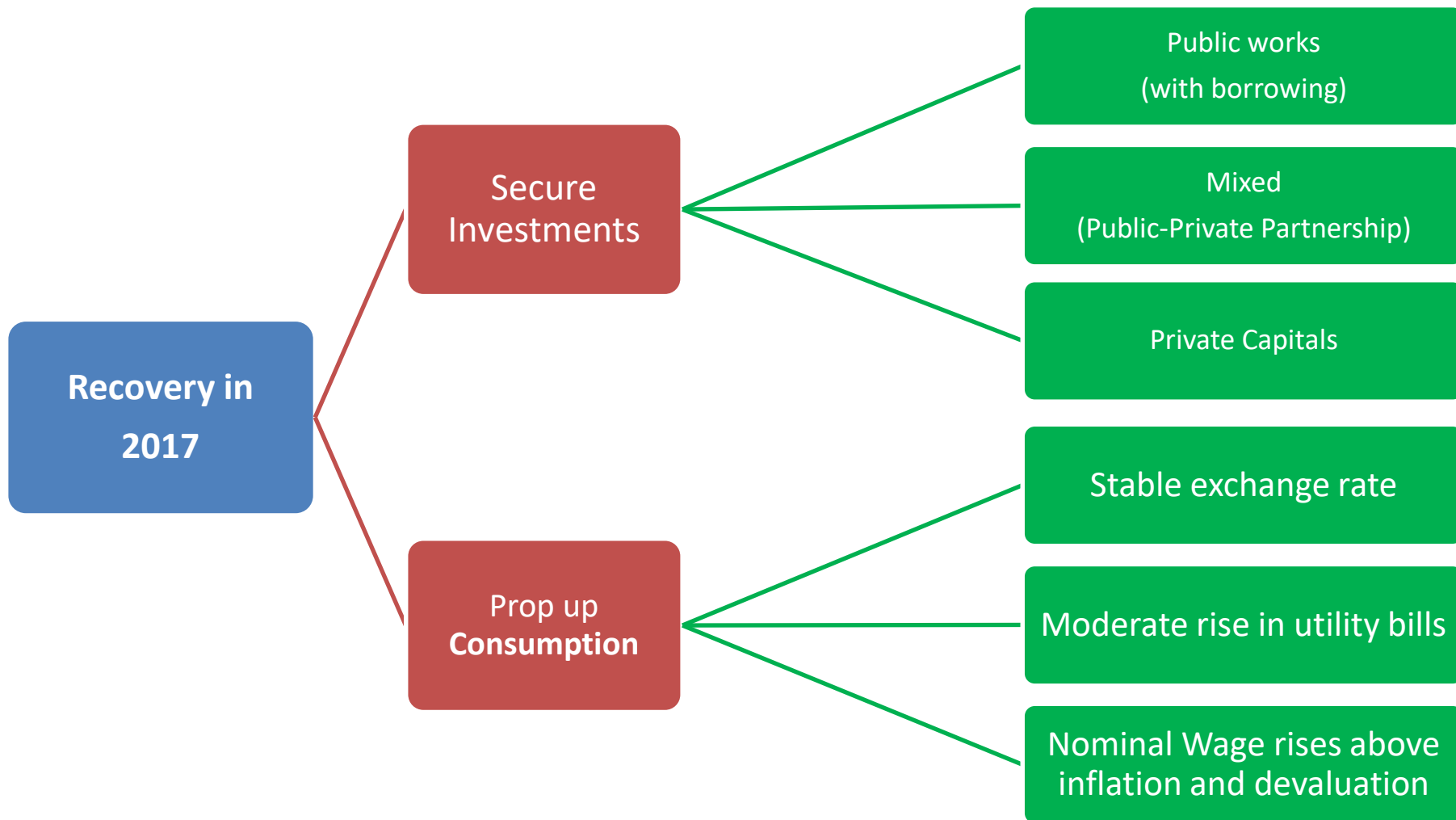
Inflation  
24%

Deficit  
-4.1%

GDP  
2.5%



## The Official Economic Strategy For Mid Term Elections



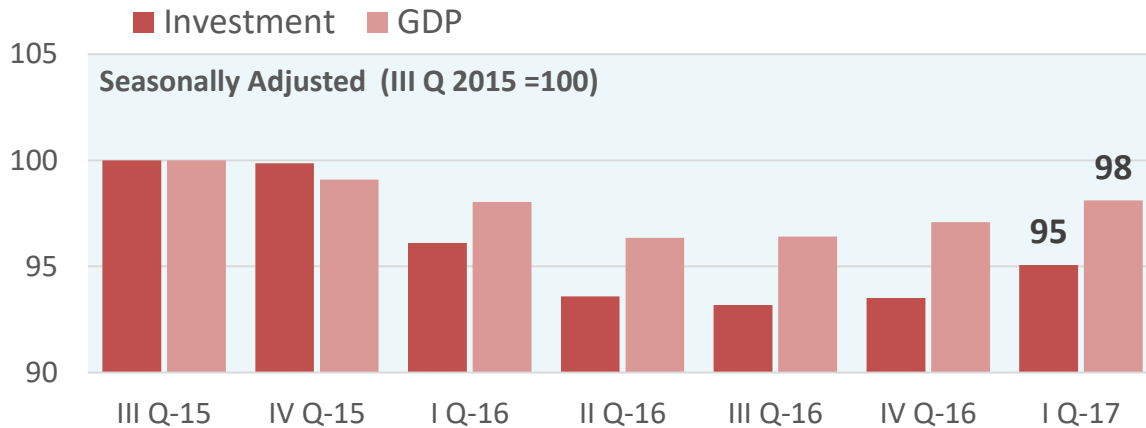


# ECONOMIC OUTLOOK

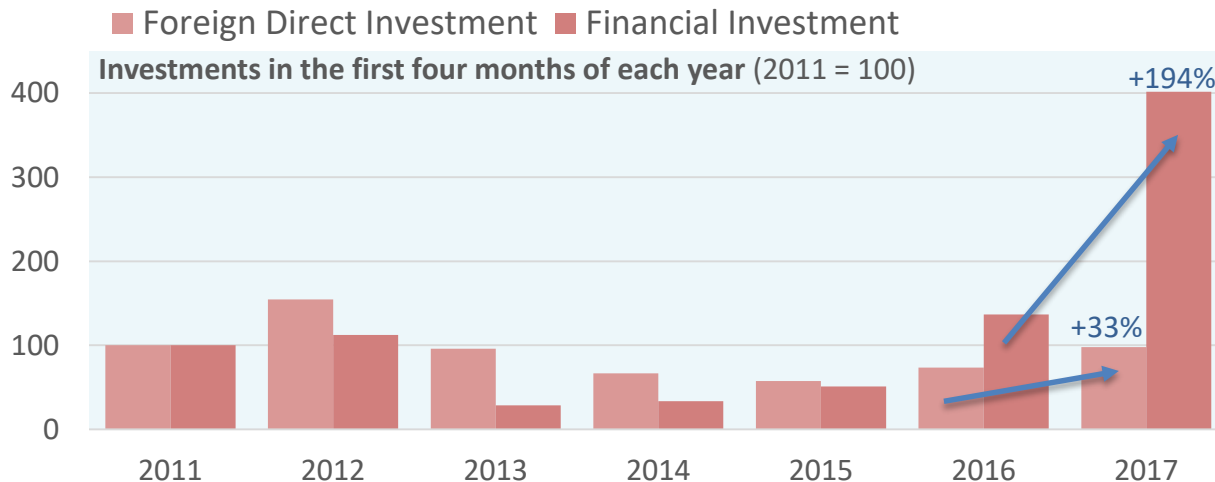
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## Investment Performance: Far From Official Expectations



- ✓ Investment GDP and recover at the end of 2016.
- ✓ Investment is 5% below III Q 2015 levels & GDP is 2% below III Q 2015

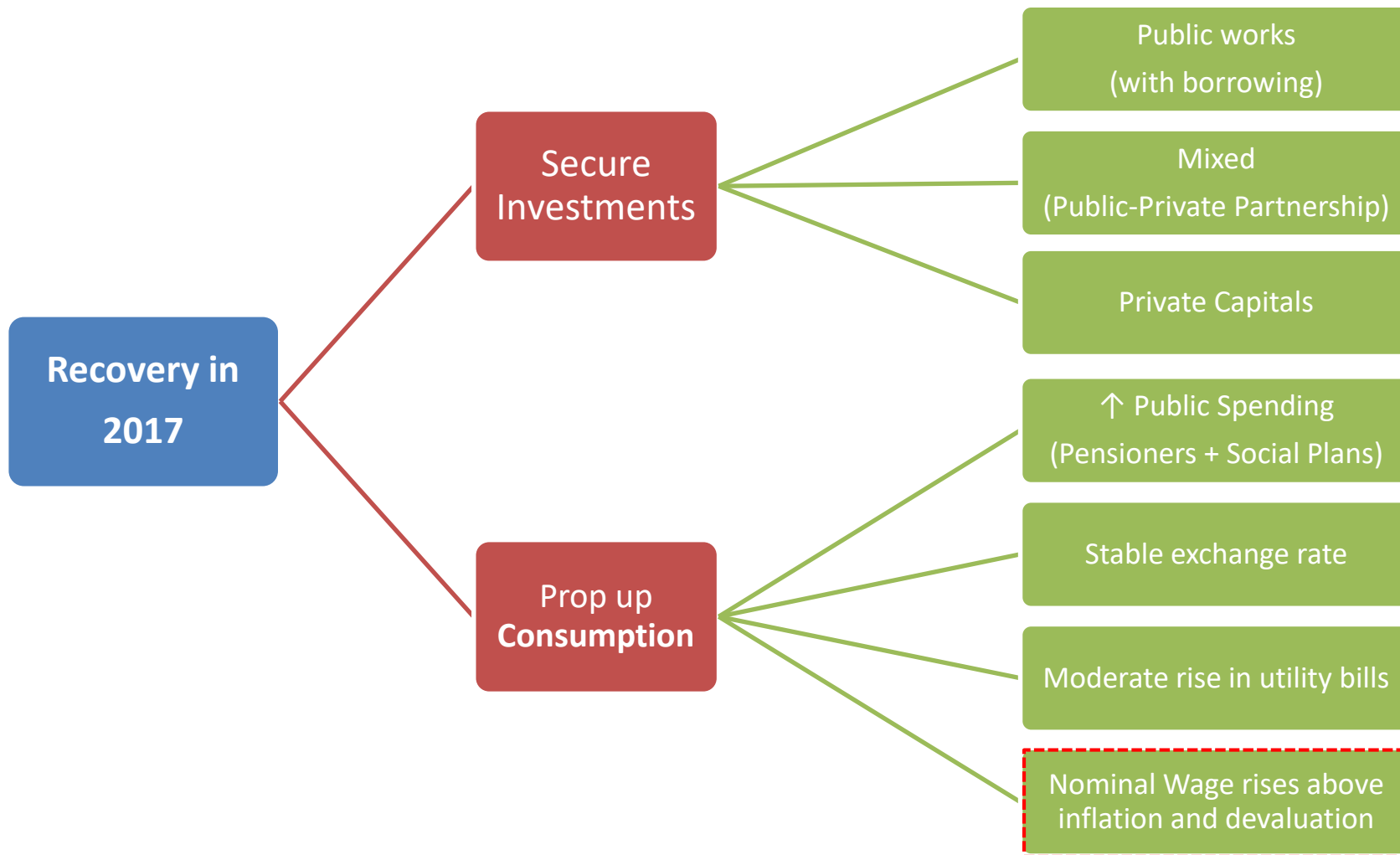


- ✓ Significant Financial inflows
- ✓ In the first four months of 2017 FDI reached USD 1 bn. but financial investment surpassed USD 10 bn.
- ✓ **Investment boom?:** Wait & see attitude: mid term election result.

Source: Ecolatina based on BCRA & INDEC



## The Official Economic Strategy For Elections

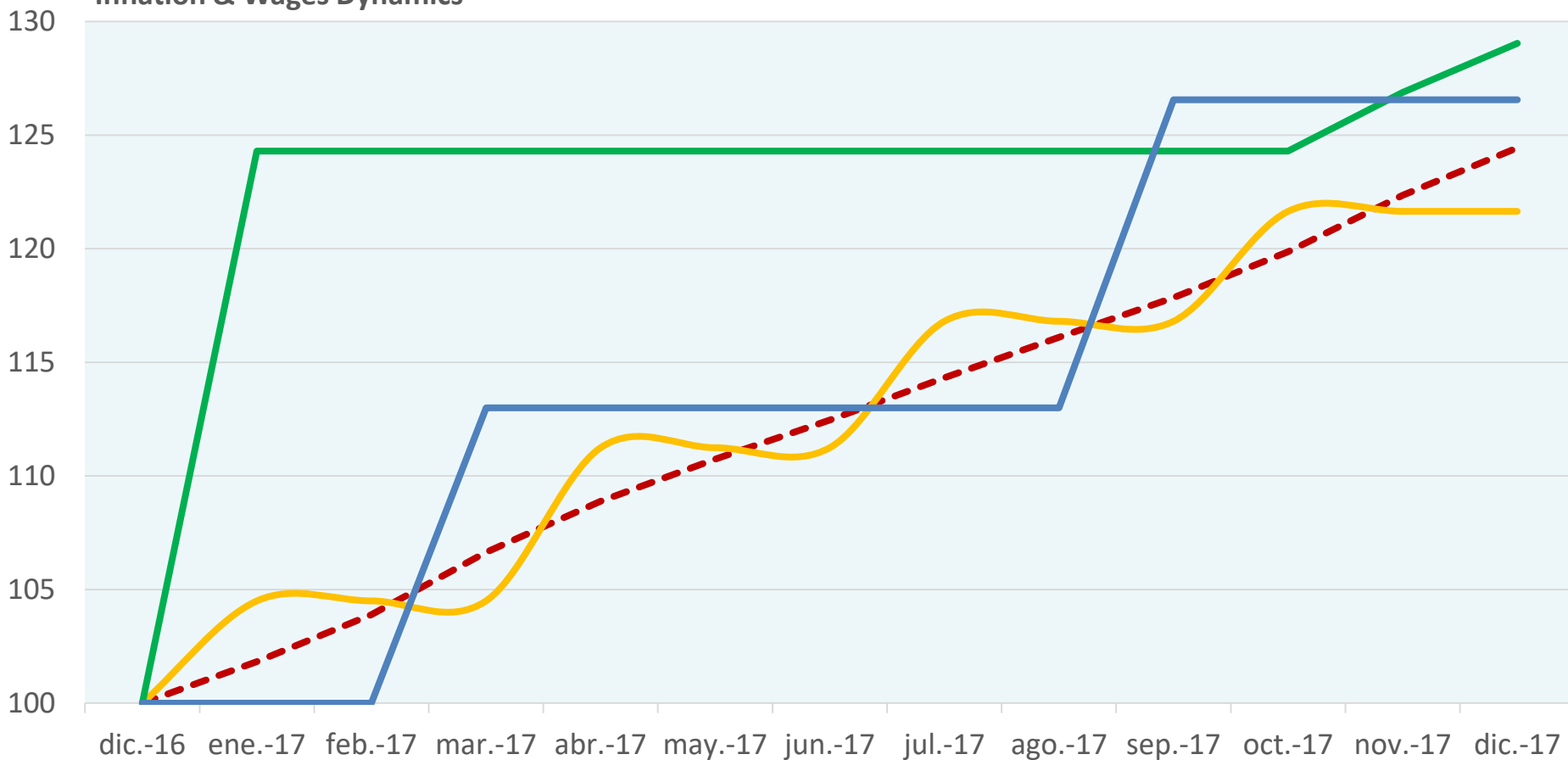




## Nominal Wage Rises Crucial For Consumption (& Inflation)

--- Ecolatina's CPI    — UPCN Prov. Bs As.    — Bank employees    — Retired & Social plans

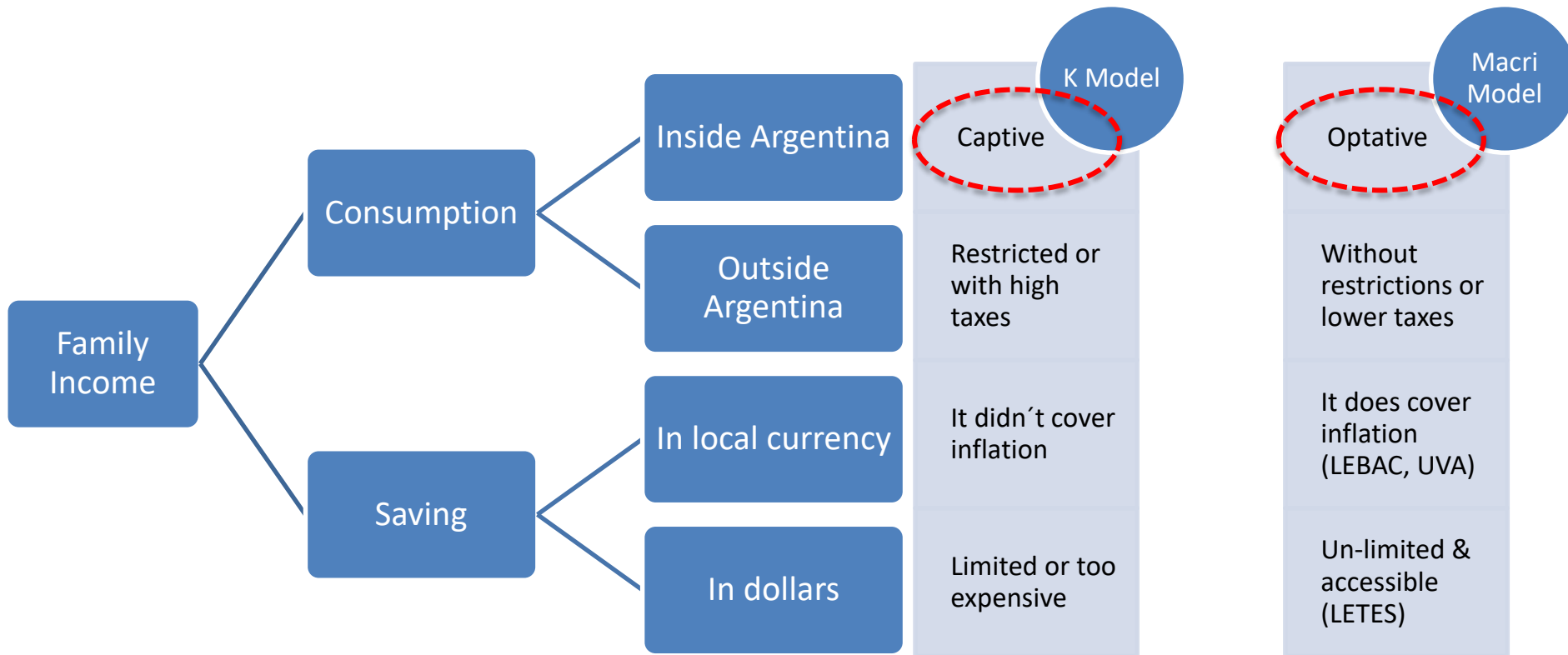
Inflation & Wages Dynamics



Source: Ecolatina



## New Alternatives For Using Family Income







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## Projections 2017

	2016	Ecolatina 2017	National Budget 2017
<b>GDP</b> (year-on-year change)	-2.2%	2.5%	3.5%
<b>Consumption</b> (year-on-year change)	-1.2%	2.1%	3.5%
<b>Investment</b> (year-on-year change)	-5.1%	7.5%	14.4%
<b>Inflation</b> (year-on-year change)	40.1%	24%	17%
<b>Salaries</b> (Dec/Dec change)	35%	25-26%	17%
<b>Exchange Rate</b> (ARS/USD Dec. average)	15.85	18.0-18.5	Aprox. +20%
<b>Exports</b> (USD billion)	57.7	59.1	64.3
<b>Imports</b> (USD billion)	55.6	61.6	66.1
<b>Balance of Trade</b> (USD billion)	2.1	-2.5	-1.8
<b>International Reserves</b> (USD billion; EoP)	43.0	50.5	N/A
<b>Primary Fiscal Deficit</b> (as % of GDP)	-4.3%	-4.1%	-4.2%



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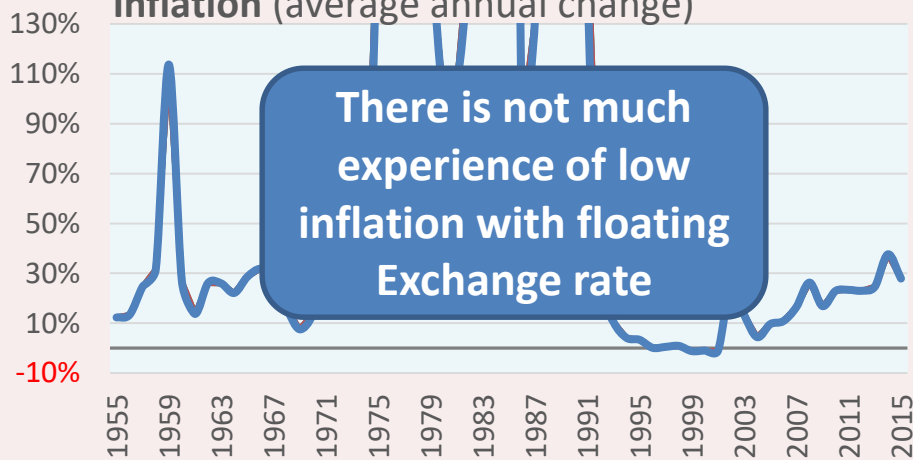
## Argentina 2016-2019: A Normalized Economy?

### GPD (year on year change)



Source: BCRA hasta 1992, INDEC from 1993 to 2007, Ecolatina 2008-2015

### Inflation (average annual change)



Source: INDEC until 2006, later Ecolatina

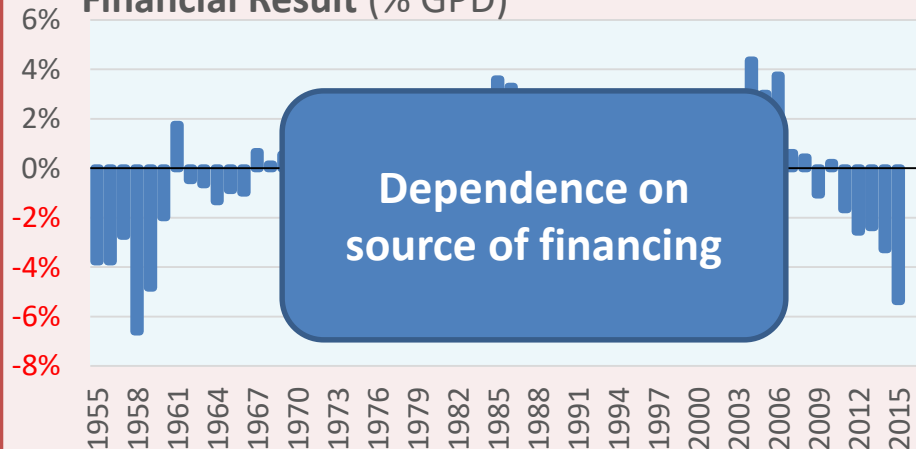
### Real Exchange Rate

(Competitiveness exchange | 2001=1)



Source: BCRA and Ecolatina

### Financial Result (% GPD)



Source: Ecolatina based on MECON



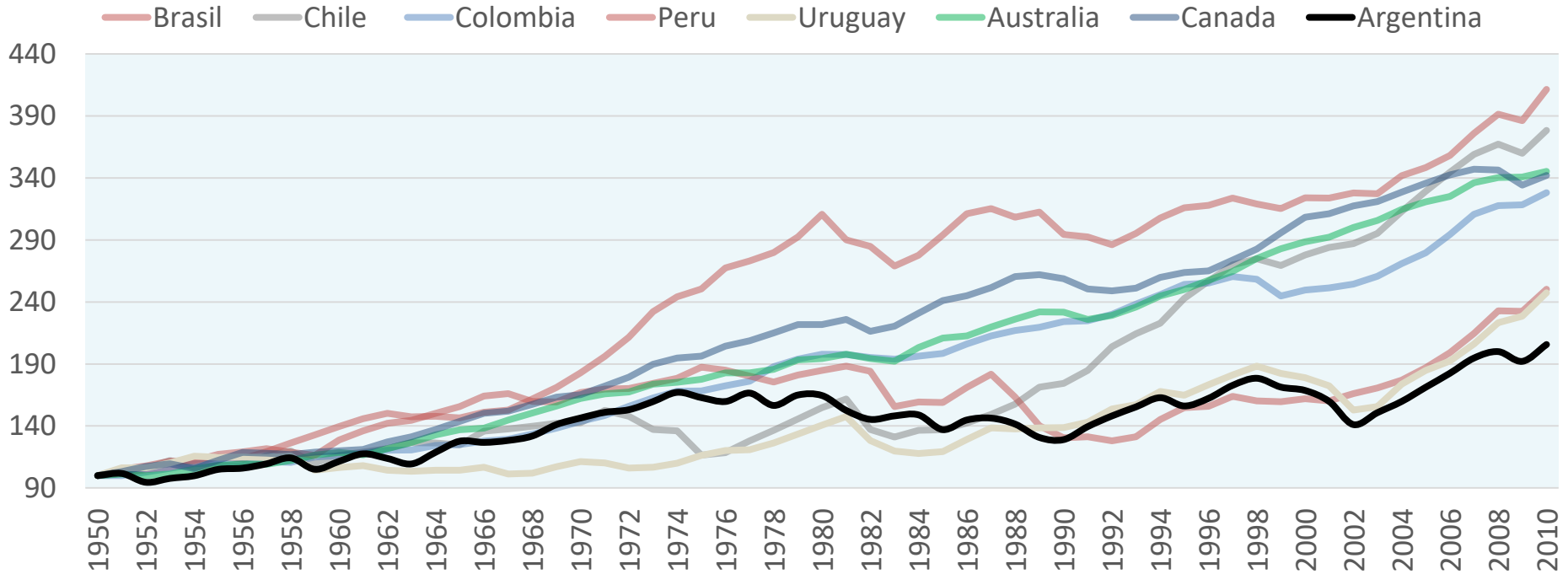
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## Key #1: Reduce Volatility & Increase Growth Rate

Per Cápita GPD in PPP dollars (1950=100)



Argentina is the country that grew less of sample (loses weight in the region)

	1950-2010							
	Argentina	Brazil	Chile	Colombia	Perú	Uruguay	Australia	Canada
Average growth	1.2%	2.4%	2.2%	2.0%	1.5%	1.5%	2.1%	2.1%
Multiplied its GPD	2.1	4.1	3.8	3.3	2.5	2.5	3.5	3.4
Recessive years	22	15	13	7	18	17	8	9
% Recessive years	36%	25%	21%	11%	30%	28%	13%	15%



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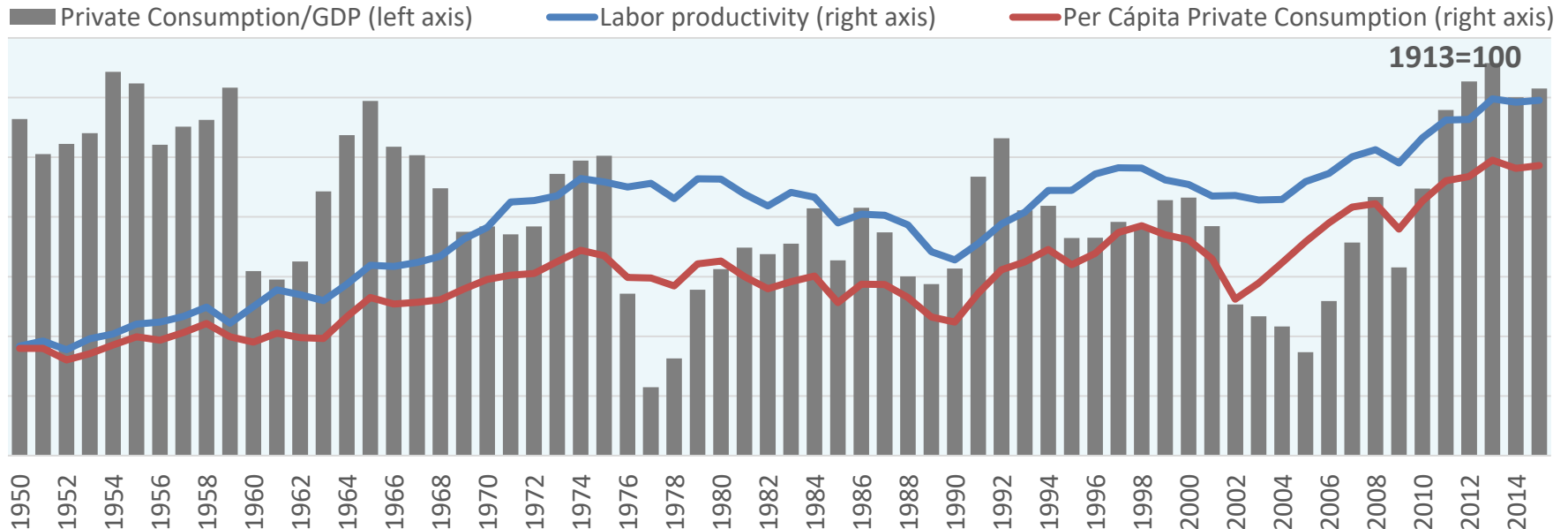
## Key #2: Investment Is Crucial For a Sustainable Growth Path

More Investments

More labor productivity

More real wage

More consumption



Private Consumption / GDP

UE  
56%

OCDE  
61%

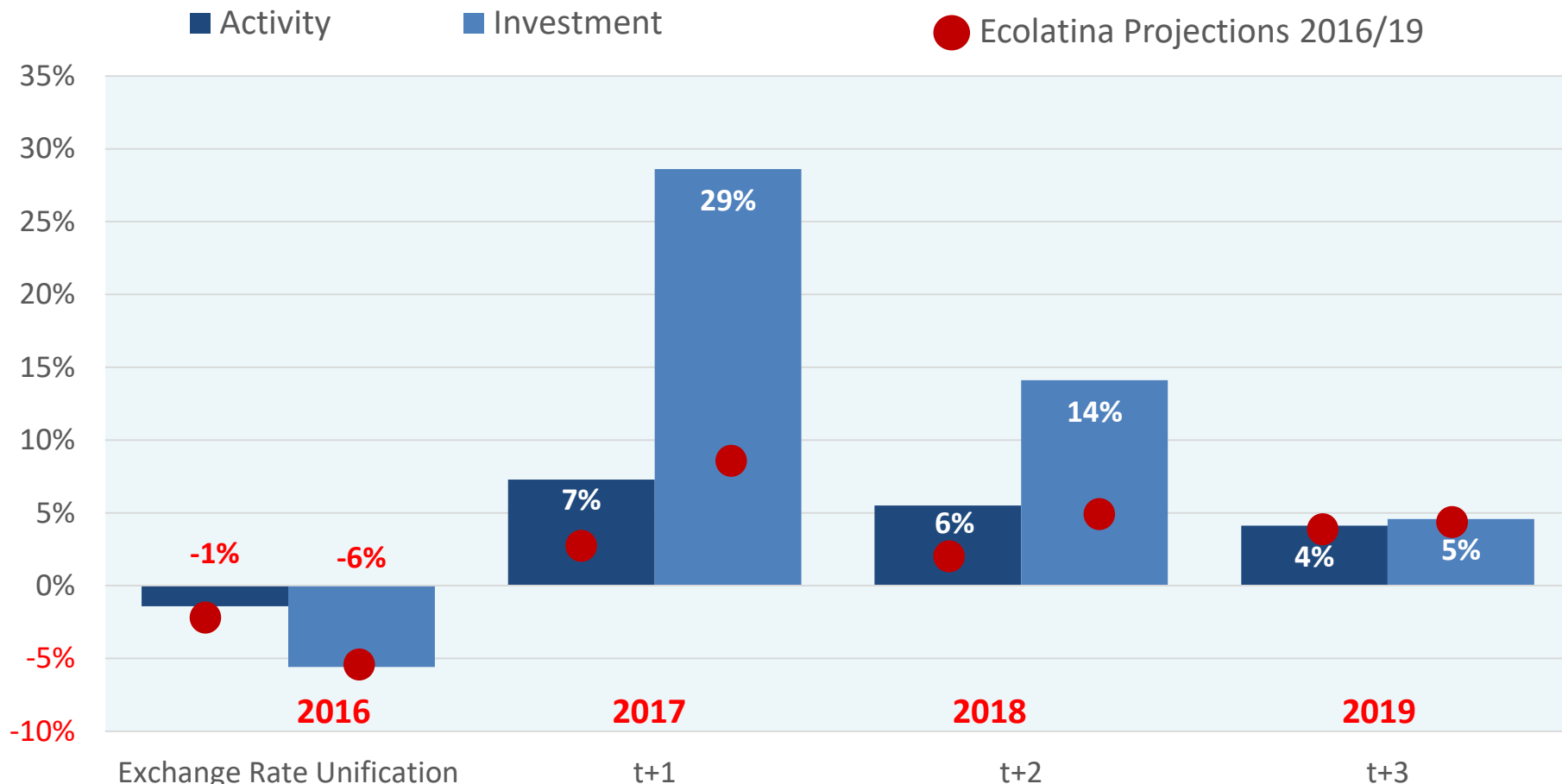
Latam  
65%

Arg.  
72%



## Key #3: What Does Post-Exchange Rate Unification History

Average from five past experiences



Source: Ecolatina



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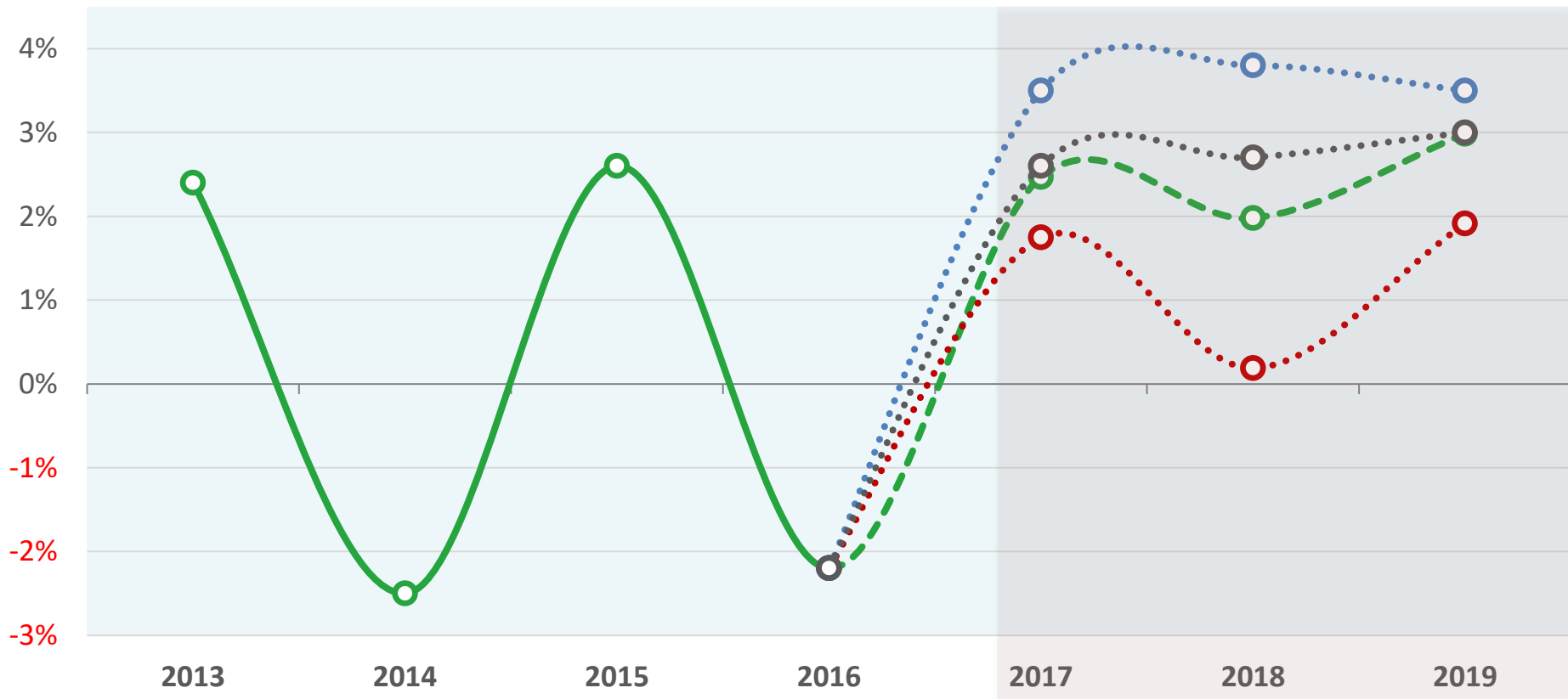
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## Long Term Forecast

GDP Growth (annual variation)

● Ecolatina's Projection (Baseline)    ● Stress Scenario    ● GDP (PN-17)    ● Consensus



Source: Ecolatina

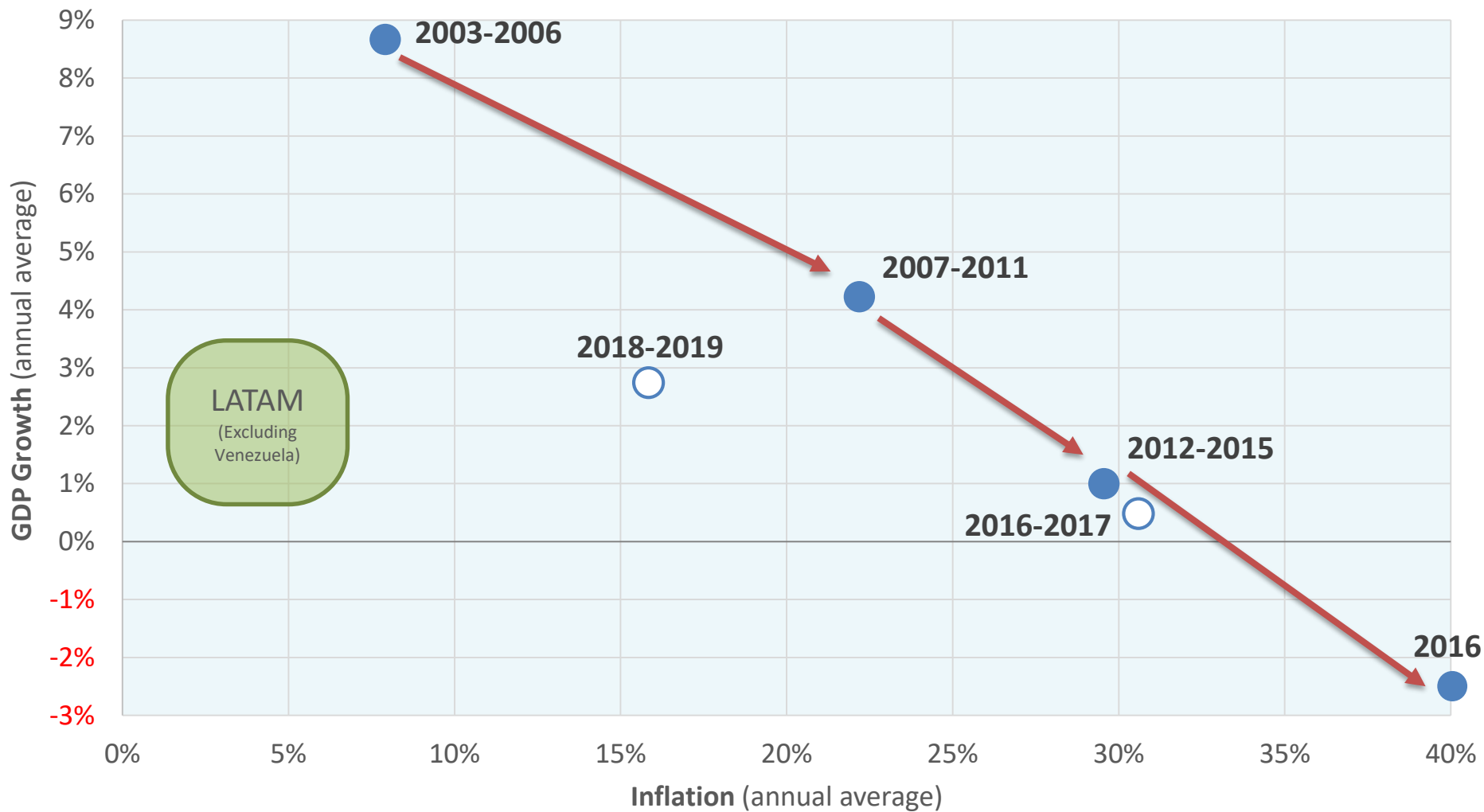


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## Towards A Normalized Economy



Source: Ecolatina



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## Argentina 2018-2019: Economic Facts and Recommendations



- ✓ GDP growth ( $\approx$  3% per year)
  - ✓ Main propeller: Investment
  - ✓ Drivers:
    - ✓ Fiscal incentives
    - ✓ Productivity plans
    - ✓ Access to financing
    - ✓ Infrastructure works



Identifying sectors with postponed investment  
Selecting sectors whose performance exceeds GDP growth  
Taking advantage of financial and fiscal stimuli



- ✓ Decreasing, yet high inflation
- ✓ Nominal Exchange rate stability
  - Less external competitiveness for Argentine products



Investing in exportable sectors with comparative advantages (agricultural)



- ✓ Fiscal balance towards 2019
- ✓ Moderate domestic consumption



Ruling out sectors depending on the domestic market



- ✓ Favorable foreign front
- ✓ Institutional strengthening



Taking advantage of the upside of undervalued Argentine assets





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## Argentina 2016-2019: Winning Sectors

Agricultural Machinery



Agrochemicals and Petrochemicals



Agro-industry



Infrastructure



Electricity



Mining



Banks



Telecommunications



Shale Oil & Gas



### Criteria for Sector Selection

- ✓ Growth potential
- ✓ They improve GDP performance
- ✓ Exportability
- ✓ High domestic and external demand
- ✓ Resistant to drops in selling price
- ✓ Undervalued or with postponed investment compared to Lat. Am.
- ✓ Benefited from public policies
- ✓ Belonging to developed clusters
- ✓ Positive returns throughout time



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