Argentina
Economic Outlook
1Q18

The economy is set to grow in excess of 3% over the coming 2 years, driven by investment and higher foreign demand

Convergence toward Argentina's targets still represents a challenge for the country's Central Bank, although inflation will continue to fall, **reaching single digit levels in 2020**

Macroeconomic context

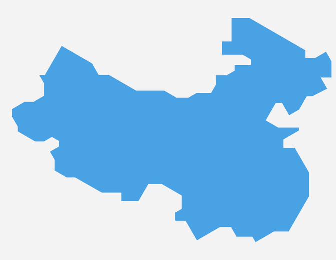
After general elections, growth has sped up, with the reform programme also progressing well

Improved foreign demand due to revised growth forecasts in Brazil and China

In 2018 and 2019, the economy will grow by **3.3%**

Election results have allayed misgivings concerning the ongoing nature of the commitment to change post-2019, encouraging investment

	Brazil	Argentina	China
2018	0.6%	0.3%	0.3%
2019	0.3%	0.3%	0.8%



Upward revision of growth (%)

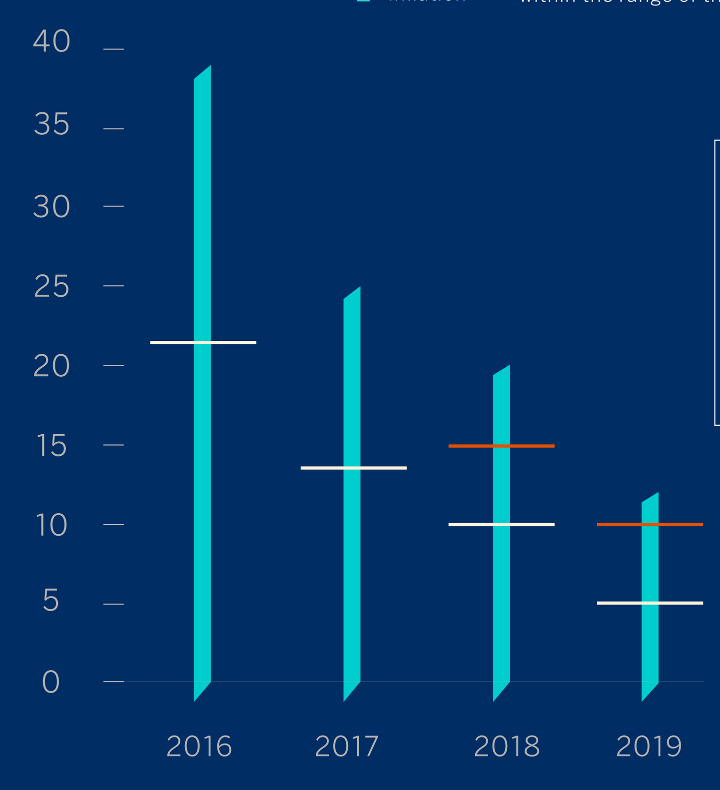
Monetary policy

A slow fall in inflation rates within a context of higher tariffs and high economic inertia, drove a recalibration inflation target in late 2017

Improved expectations, the higher depreciation rate and the indications of a more dovish mood at the Central Bank of Argentina all point to an upward revision of our inflation forecasts of **18.5% in 2018 and 12.2% in 2019**

Inflation targets (annual change)

Inflation — within the range of the previous target — New inflation target

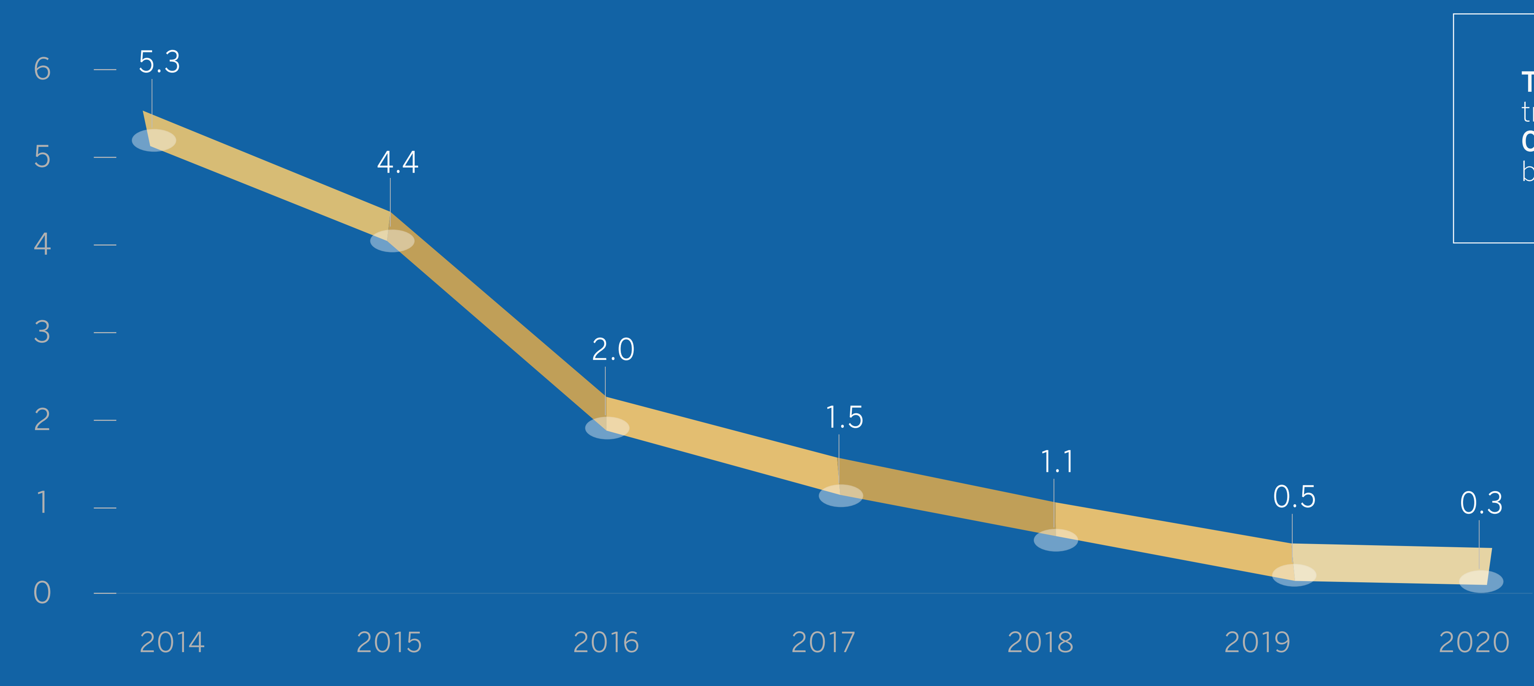


A cautious relaxing of monetary policy **until the monetary policy rate projection reaches 21% by late 2018**, still very positive in real terms

Source: BBVA Research based on Central Bank of Argentina figures

Treasury aid to the Central Bank of Argentina (% of GDP)

Central Bank of Argentina financing of the Treasury



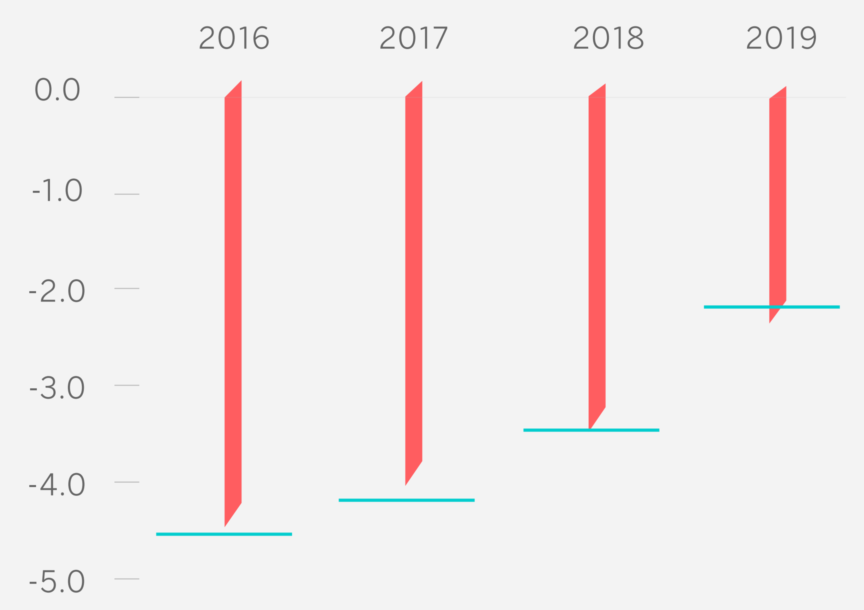
The Central Bank will gradually reduce its transfer of funds to the Treasury by around **0.5% of GDP** per year to a level of **0.3%** by 2020

Source: Treasury Department figures

The exceeding of the target in 2017 and the modification of the provisional adjustment formula will make it easier to meet 2018 fiscal targets

Primary deficit fiscal target (% of GDP)

Primary deficit — Fiscal target



Source: Treasury Ministry figures

The rapid fall in the external balance highlights the inadequacy of the domestic saving policy in ensuring the financing of sustained economic

Imports will continue to increase at a sustained rate....

.... although the reduction in tariff and labour costs will have a positive impact on the competitiveness of exports

This will allow a stabilisation of the trade deficit at around the **1.5%** of GDP mark from 2019 onward

It is crucial that the "permanent reform" programme begins to bear fruit in terms of productivity

Twin deficits (% of GDP)

Current account balance / Total fiscal balance

Source: INDEC and Treasury Ministry figures

Risks

Argentina is vulnerable external shock, meaning a sudden drop in portfolio flows to finance the current account deficit, as the **accumulation of reserves and direct foreign investment remain below the average for the region**