# Argentina

## Outlook

| | | | | | | | Forecasts | | |
|---|---|---|---|---|---|---|---|---|---|
| | Average 10-14 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| GDP growth (%) | 3.0 | 2.7 | -2.1 | 2.8 | -2.6 | -2.1 | -11.8 | 4.9 | 2.5 |
| CPI inflation (%)* | 25.9 | 26.4 | 39.0 | 24.8 | 34.3 | 53.6 | 42.2 | 43.4 | 33.1 |
| Fiscal balance (% of GDP) | -2.9 | -5.9 | -5.7 | -5.8 | -4.8 | -3.7 | -9.2 | -6.0 | -3.7 |
| Public debt (% of GDP) | 38.5 | 52.7 | 53.2 | 56.1 | 86.1 | 90.2 | 107.7 | 102.1 | 95.9 |
| Reference rate (%)* | 13.6 | 29.0 | 31.0 | 26.3 | 44.1 | 65.3 | 39.6 | 36.0 | 29.0 |
| Exchange rate (ARS/USD)* | 5.2 | 9.3 | 14.8 | 16.6 | 28.1 | 48.2 | 70.0 | 113.3 | 140.8 |
| Current account balance (% of GDP) | -1.1 | -2.7 | -2.7 | -4.8 | -5.2 | -0.9 | 0.7 | 1.2 | 1.1 |
| External debt (% of GDP) | 27.7 | 25.7 | 31.3 | 35.1 | 61.4 | 65.6 | 72.9 | 67.8 | 64.8 |

Note: * Annual average.
Source: BPI Research, based on data from national statistical agencies and IMF.

- **Although Argentina imposed one of the strictest lockdowns in Latin America, it is the second country with the highest number of cases in the region.** While the pandemic has significantly deteriorated the growth outlook, **the situation before the crisis was delicate due to serious macroeconomic imbalances**, such as high inflation, high fiscal deficit and unsustainable public debt. The debt restructuring, which was widely accepted by private creditors, provides some room for stabilising the economy, **but a credible fiscal consolidation plan will be needed going forward, a contractionary monetary policy and a new agreement with the IMF**. However, the need to implement structural reforms puts political and social stability at risk.

- **Real shock of COVID-19 and health strategy.** Since March, the government has implemented a strict and lengthy lockdown to contain the spread of COVID-19. Nevertheless, cases have increased rapidly in the Metropolitan Area of Buenos Aires, which generates approximately half of Argentina's GDP. Prior to the pandemic, Argentina was already in recession and, as a result, the economy was poorly prepared to withstand a shock of this size. Therefore, in Q2, GDP fell by 16.2% quarter-on-quarter (–19.8% year-on-year). Although the relaxation of social distancing measures will allow a significant upswing in activity in Q3, it seems clear that the macroeconomic imbalances the country is facing will limit the rate of recovery in the medium term.

- **Economic policy response**

  - **Monetary policy.** The Central Bank has significantly lowered its interest rate in 2020, a trend we expect to continue in the medium term. This monetary easing occurred in a context of contained inflation in the face of the deep recession and due to exchange and price controls. However, as the economy recovers and the ability to maintain price controls diminishes, inflation will rise again in 2021, meaning that the reduction in rates is likely to slow down.
  - **Fiscal policy.** In 2020, the primary fiscal deficit was expanded in the face of a sharp drop in tax collection and higher spending to contain the impact of the pandemic. This is being financed solely by monetary emission. According to the proposed budget, with a deficit target of 4.5% of GDP, the government does not appear

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**Outlook** (continued)

willing to aim for aggressive fiscal consolidation. We believe that the lack of credibility of fiscal objectives (we expect a public deficit of 6.0% of GDP in 2021) and the need for fiscal consolidation from 2021 onwards will continue to exert pressure on macroeconomic stability.

- **Evolution of the sovereign debt**. In April, the Minister of Economy announced that the government would unilaterally postpone the payment of capital and interest on dollar-denominated debt. As a result, the government began negotiations with its creditors to restructure the debt, which concluded in the acceptance of terms by 93.5% of them. The restructuring covered 99% of total eligible debt, providing the country with financial relief of 37.7 billion dollars over the next decade. It also made it possible to reduce the interest burden in the short term and, therefore, the financing needs for the 2020-2024 period.

- **Evolution of the exchange rate**. The imposition of strict capital controls, together with intermittent sales of dollars by the Central Bank, has allowed the peso to remain relatively stable in the official market. However, with the recent announcement to allow greater currency volatility, the risks would be skewed towards further depreciation, especially in the aforementioned context, which lacks an ambitious and credible fiscal consolidation strategy.

## Main risks

The balance of risks is clearly trending downward. Specifically, there are several categories:

- **Macrofinancial risk.** Dialogue between the authorities and the IMF has begun in order to expand the credit line, but the negotiation process is likely to be long, with the risk of it not being concluded in the near future. The circumstances in Argentina make external emission a real challenge. Therefore, the economic policy framework must improve substantially and the monetisation of the deficit should end before access to the external market can be restored. Government commitment is required in order to carry out structural reforms, and also to have a clear economic plan in the short term for fiscal consolidation and reducing inflation.
- **Political risk.** Peronism returned as the dominant force after the elections in 2019. As well as winning the presidency, the Justicialist Party gained control of 17 of the 23 governorships in the country. The next national elections will be the October 2021 midterm parliamentary elections. Major changes are not expected in terms of the political balance of power, although the ruling Peronists could lose some seats. However, the economic crisis complicates political stability due to the need for structural reforms that we mentioned earlier, which would be particularly unpopular.

| | Rating | Last changed | Outlook | Last changed |
|---|---|---|---|---|
| STANDARD & POOR'S | CCC+ | 07/09/20 | Stable | 07/09/20 |
| MOODY'S | Ca2 | 03/04/20 | Stable | 28/09/20 |
| FitchRatings | CCC | 10/09/20 | – | 10/09/20 |

■ Indicates that the country has "investment grade".
□ Indicates that the country does not have "investment grade".