



Improving Economic Outlook for Argentina

JULY 2017



Pampa
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Country Overview

- Abundant natural resources combined with combined with growth-oriented economic initiatives and responsible fiscal policy auger for Argentina once again becoming a strong regional economic engine.
- Argentina is the third largest Latin American economy in GDP terms (after Brazil and Mexico).
- The eighth largest country in the world (in terms of territory), Argentina boasts a wide variety and availability of natural resources: 53% of agricultural land; abundant reserves of oil, gas, minerals and water; and optimal conditions for the development of wind, solar, biomass and hydro power among others.
- Argentina ranks first in Latin America's Human Development and Education Index.
- With the recent issuance of more than USD 2.5 billion Century bonds, it is clear Argentina has returned to favor in the capital markets

Optimistic Macro-Economic Outlook

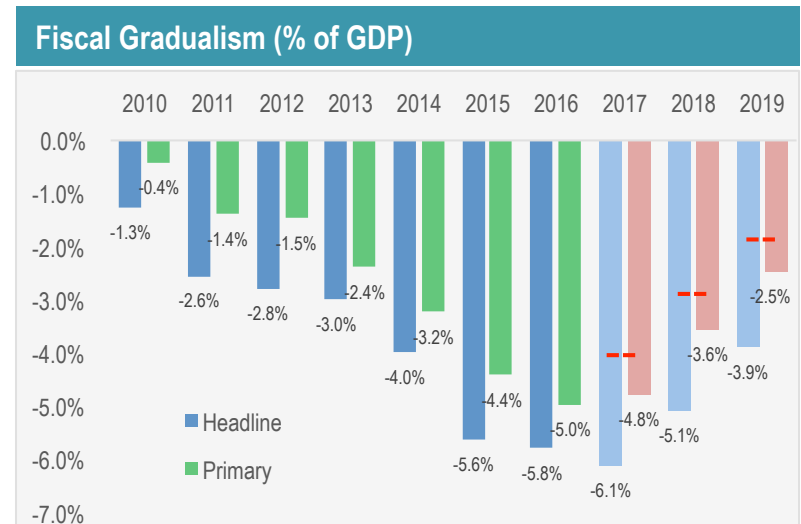
- Positive activity momentum has already kick-started in 2017 - 1Q17 GDP growth accelerated by 1.1% qoq and 0.3% yoy, posting the third consecutive increase (+0.1% in 3Q16, +0.7% in 4Q16). Following a 2.3% yoy contraction in FY 2016 and lingering stagnation since 2011, the market consensus calls for a 2.6% yoy growth in real GDP growth in FY 2017 (IMF estimates 2.2%).
- Gradualism remains the dominant fiscal policy – The core economic policy challenge facing the Macri administrations is to institute macroeconomic discipline while delivering on private-sector led job creation and improving productivity. That is against a backdrop of inheriting an unsuccessful state-led, closed economy in recession with 30% poverty all during a time of economic havoc in its largest trading partner, Brazil. Still, early fiscal adjustments to reduce the comparatively high tax burden and broad-based subsidies were put in motion, but the government's more deliberate approach is necessary to avoid stoking social unrest and gaining sufficient political traction in Congress to pass much-needed institutional reforms. Fiscal tightening is resuming progressively, and a focus on more productive use of spending in the near-term will have a greater impact on growth, particularly direct infrastructure spending via public-private partnerships. The Government aims to narrow the primary fiscal deficit to 2.2% of GDP by 2019, or 1% annually from the current 4.2% target for FY 2017.
- New dirty-float FX regime has translated into a stable monetary equilibrium – the Government established an independent Central Bank Board with a hawkish bias pursuing real interest rates to contain inflationary pressures. In addition, the Macri administration swept away barriers-to-entry for private investors, such as capital controls and foreign trade restrictions. An ambitious inflation target in the 12%-17% range and a renovated statistics office have conveyed new credibility to market participants. As a result, inflationary pressures have commenced to abate, running at 23% as of May after touching 28% in FY 2016 and forward-looking expectations have pierced the 20% level. Hence, new investment dynamism via capital inflows and access to international debt markets have reinvigorated FX reserves back to record high levels.
- Low leverage is the country's main structural advantage. Unlike its subsidy-laden emerging market peers, Argentina has a low debt-to-GDP ratio running at 51% versus 57% for the Latam region, that will allow to finance its temporary fiscal imbalance through issuance of debt combined with a capital repatriation program, efficient tax reforms and a well-laddered initiative to cut subsidies. Notably, the successful settlement of the ten-year holdouts saga in April 2016 and the subsequent \$16.5 billion jumbo bond deal have allowed the country's risk premium to compress interruptedly, now standing only 140bp above Brazil.
- The mid-term legislative election is the most important political event in 2017. Although no major change is expected to take place in the Congress as the Senate will remain under Peronist control and the Lower House fragmented, an electoral success will set the base for structural reforms and increase the likelihood of a more aggressive fiscal adjustment in 2018, instrumental for elevating potential GDP growth, and consolidate public confidence in the sustainability of the pursued changes by Macri's administration.

Source: Infrastructure as an Engine for Growth, Ministerio de Transport

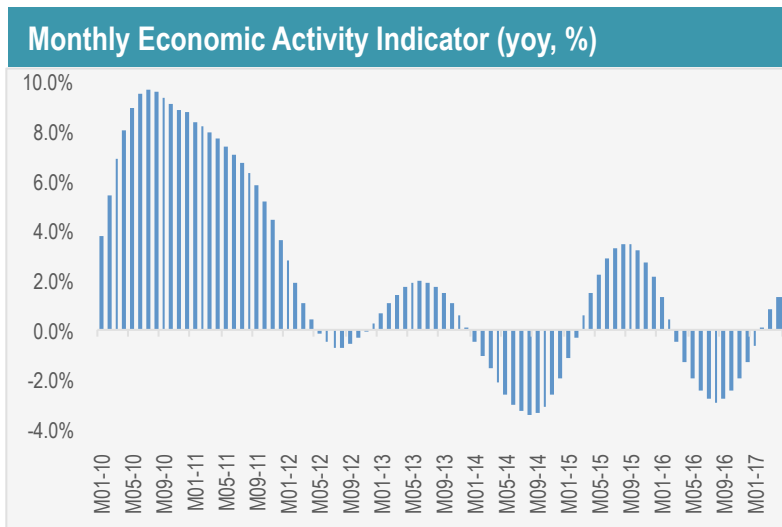
Optimistic Macro-Economic Outlook



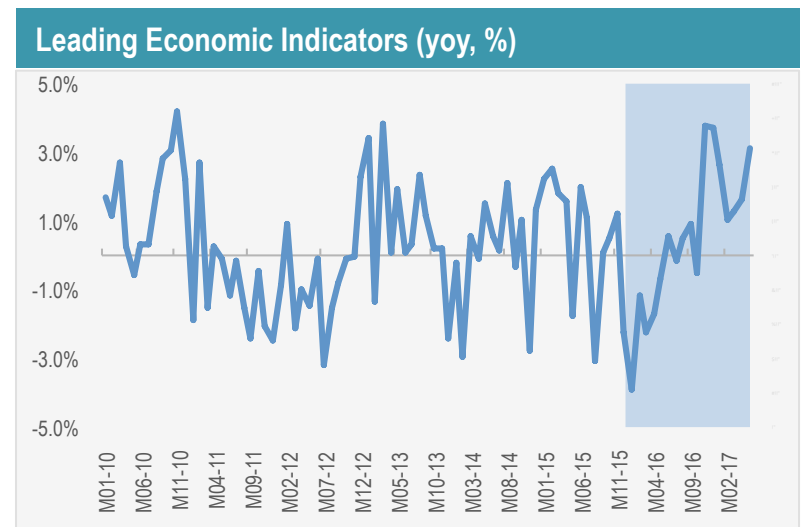
Source: INDEC, IMF estimates.



Source: Finance Ministry, INDEC. Government fiscal targets in red. IMF estimates.

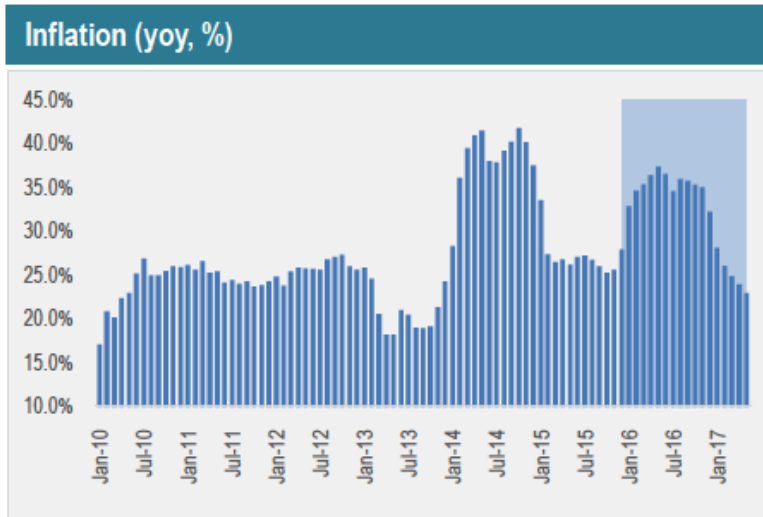


Source: INDEC.

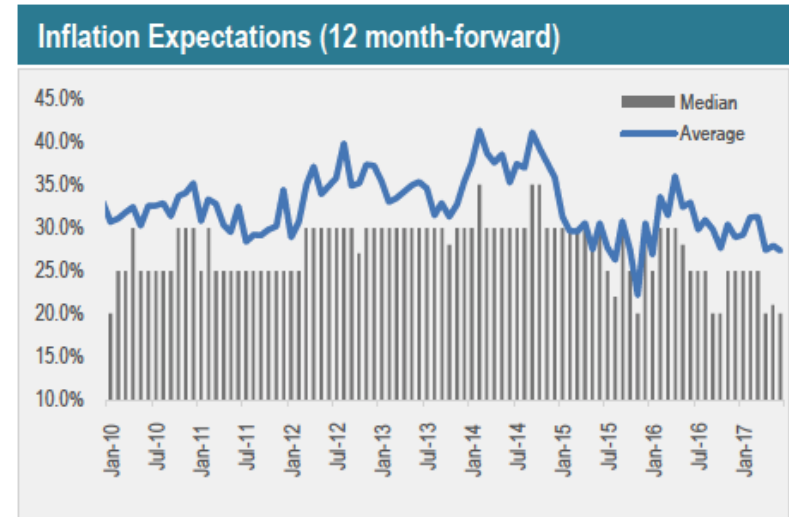


Source: UTDT.

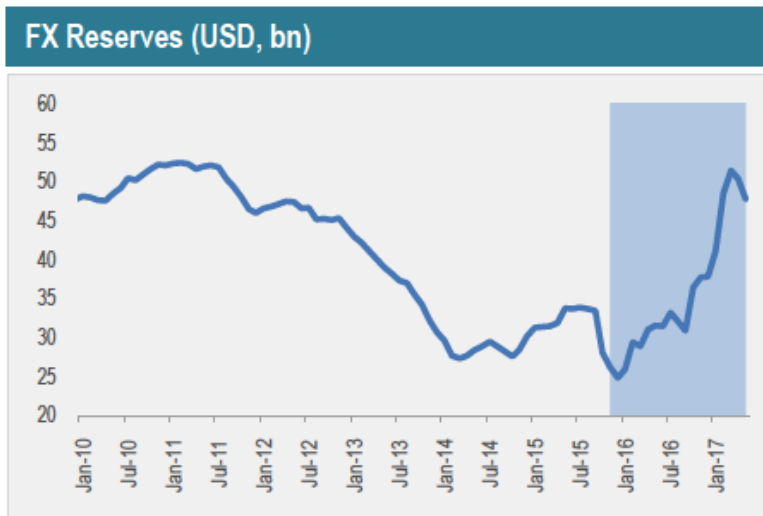
Moderating Inflationary Pressures and Recovering FX Reserves



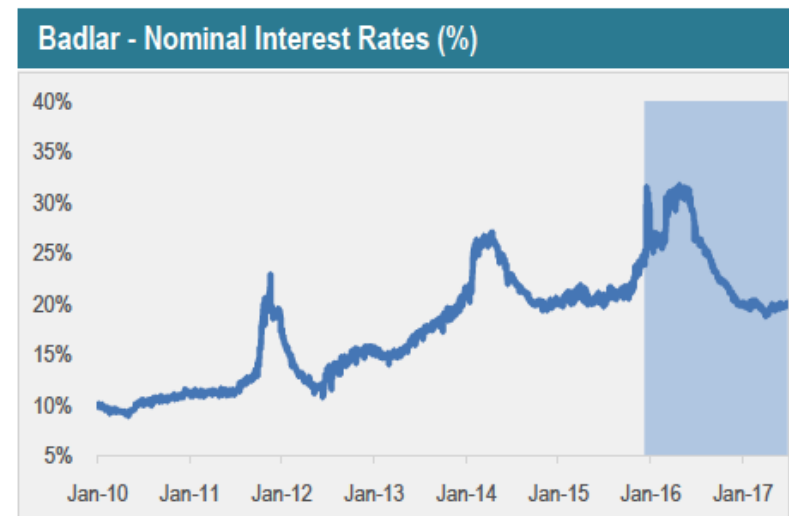
Source: INDEC.



Source: UTDT.



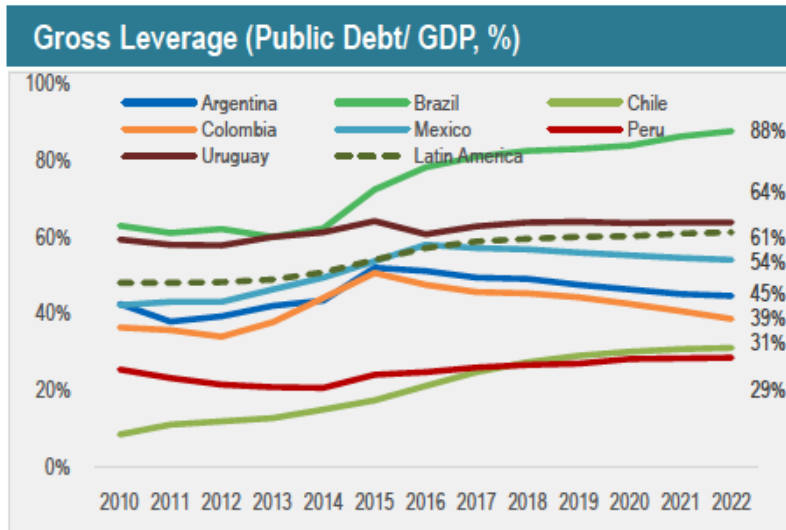
Source: BCRA.



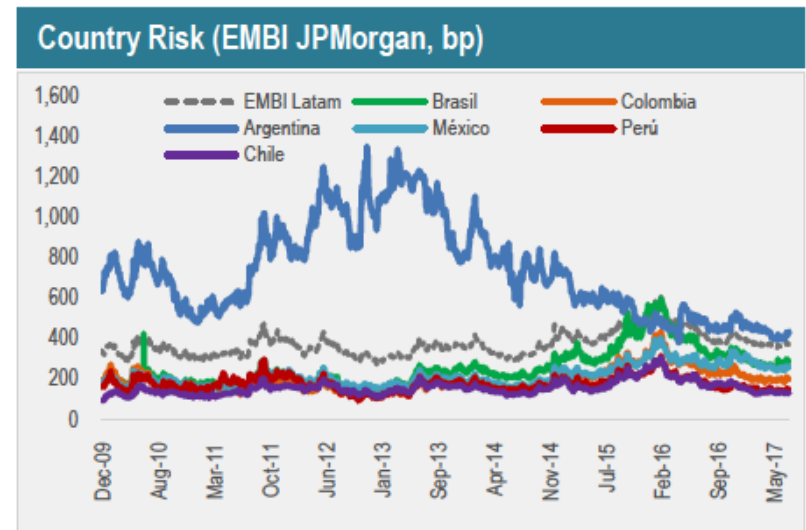
Source: BCRA.

Contained Leverage and Improving Funding Costs

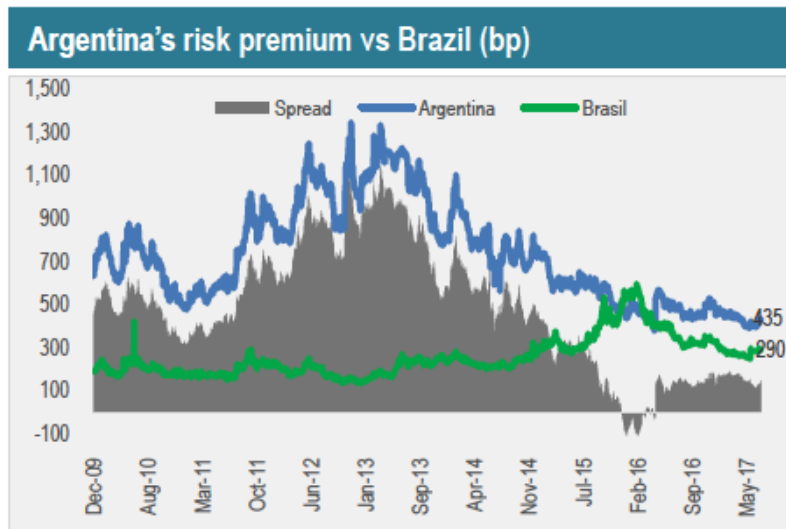
IMPROVING ECONOMIC OUTLOOK FOR ARGENTINA



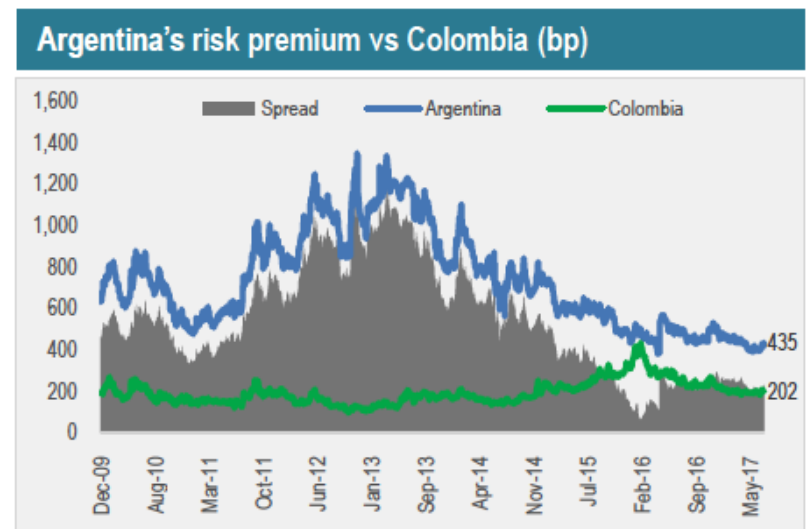
Source: IMF.



Source: Bloomberg, JPMorgan.



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