BMI Research
A FitchGroup Company

Argentina

Country Risk Report

Includes 10-year forecasts to 2026

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Contents

Executive Summary

Core Views

- Argentina's economy will pick up steam over the coming quarters, driven by investment and exports.

- The ruling Cambiemos coalition's expanded legislative position will allow President Mauricio Macri's reforms to advance over the coming two years, supporting a rise in capital inflows.

- Although inflation will remain above the central bank's target, price growth will fall as the effects of utility subsidy cuts fade, central bank financing of the fiscal deficit declines and expectations fall.

- The fiscal deficit will narrow over the coming quarters, supported by cuts to public utility subsides. However, maintaining the government's anticipated fiscal trajectory will complicate tax reform efforts.

Key Risks

- Weak economic growth in key trade partners such as Brazil could weigh on Argentine export growth more than our forecasts currently anticipate.

Chapter 1:
Economic Outlook

SWOT Analysis

Strengths

- Argentina continues to be a world leader in agricultural commodity exports.
- Buenos Aires is one of South America's main trade hubs.
- Argentina has one of the highest per capita income levels in Latin America, with a robust middle class.

Weaknesses

- High inflation remains a substantial drag on consumer purchasing power.
- Two sovereign defaults since the turn of the century have undermined investor confidence in Argentina's willingness to pay its debts, driving up interest rates.

Opportunities

- Advancements in natural gas extraction technology hold the potential to make Argentina's vast shale gas reserves accessible.
- Renewed openness to foreign investment will allow firms to reverse years of underinvestment in key sectors, including agriculture, power and energy.
- President Mauricio Macri will continue to improve the country's business environment through a series of regulatory and fiscal reforms.

Threats

- Currency weakness and slow progress on fiscal consolidation will continue to drive high inflation in the coming quarters.

BMI Economic Risk Index

Argentina's Short Term Economic Risk Index score has improved substantially as its growth outlook improves. Significant economic reforms and improving investor sentiment will drive a surge of investment over the coming quarters. Nonetheless, inflation is elevated and the fiscal deficit will remain wide over the coming year, lifting risks. We see upside potential for Argentina's score as inflation falls and growth picks up.

Argentina's Short Term Economic Risk Index is 56.7.

	S-T Economic	Trend	Regional Rank	Global Rank
Chile	67.3	+	1	40
Peru	66.9	+	2	41
Mexico	66.7	+	3	43
Panama	62.7	=	4	54
Colombia	61.3	=	5	58
Costa Rica	58.8	-	6	62
Guatemala	58.5	+	7	64
Argentina	**56.7**	**+**	**8**	**70**
Uruguay	56.7	-	8	70
Bolivia	56.5	+	10	72
Honduras	56.0	+	11	74
Brazil	55.6	=	12	75
Ecuador	55.0	-	13	78
Paraguay	52.5	+	14	86
El Salvador	49.8	+	15	97
Nicaragua	43.1	+	16	127
Venezuela	26.9	+	17	182

Regional ave 55.9 / Global ave 52.6 / Emerging Markets ave 48.1

	L-T Economic	Trend	Regional Rank	Global Rank
Chile	67.2	=	1	37
Peru	66.8	=	2	39
Panama	66.3	=	3	40
Bolivia	64.7	=	4	46
Mexico	64.6	=	5	47
Colombia	63.9	+	6	49
Uruguay	62.6	=	7	52
Brazil	62.2	+	8	56
Costa Rica	58.1	-	9	65
Ecuador	57.7	-	10	69
Argentina	**57.0**	**+**	**11**	**74**
Guatemala	56.7	+	12	76
El Salvador	54.0	+	13	79
Honduras	53.0	+	14	82
Paraguay	50.7	-	15	95
Nicaragua	46.1	=	16	127
Venezuela	33.3	+	17	179

Regional ave 57.9 / Global ave 53.4 / Emerging Markets ave 49.2

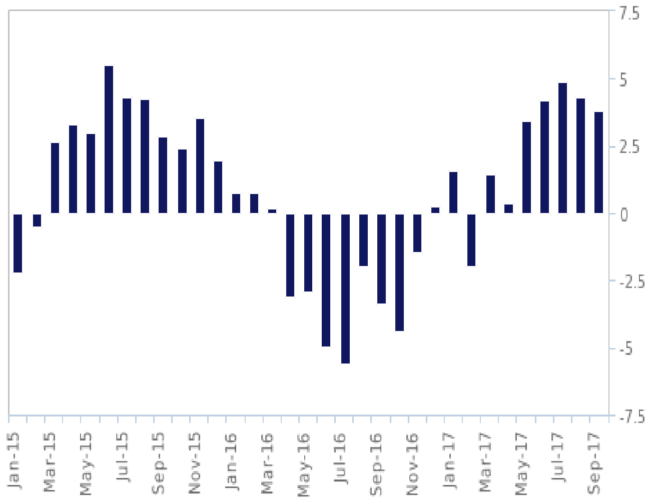
Economic Growth Outlook

Improving Confidence Supports Growth Outlook

BMI VIEW

Economic growth in Argentina will pick up over the coming quarters. Investment and exports will drive this expansion, whereas consumption will offer tailwinds as a strong reform outlook bolsters business and consumer confidence.

Growth Will Remain Robust
Monthly Economic Activity Index, % y-o-y



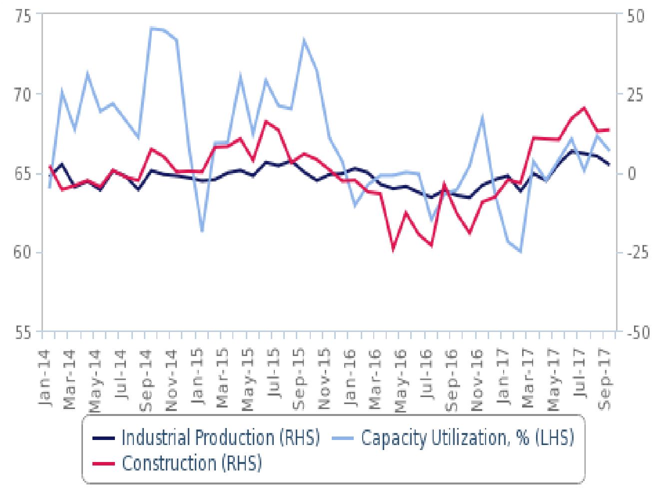
Source: INDEC, BMI

Argentina's economy will pick up steam in 2018. The economy's rebound is firmly underway, led by public infrastructure investment and early-year export growth. Monthly economic activity has expanded by an average of 2.5% through Q317, growing 3.8% in September, and private survey data suggests growth accelerated in October. President Mauricio Macri's coalition's strong performance in October's legislative elections has bolstered the prospects of pro-investment reforms (*see 'Cambiemos' Electoral Gains Will Support Reforms', October 23 2017*), which will support rising private investment and offer tailwinds to consumption.

We are maintaining our real GDP growth forecast at 2.9% in 2017 and have modestly upgraded our 2018 forecast to 3.3%, from 3.2% previously (*see 'Investment Will Drive Growth Acceleration', August 23*), reflecting a stronger private consumption outlook. We note that while our forecasts have been above Bloomberg consensus, sentiment has moved in our direction over the last quarter to 2.8% in 2017 and 3.1% in 2018.

Investment will remain the driver of growth through 2018. Fixed capital formation grew 7.7% y-o-y in Q217, up from 3.2% in Q117, and construction activity posted double-digit growth for seven consecutive months through September. Public-led infrastructure investment has been key to this growth, but over the coming quarters we believe private sector investment will pick up, as the October elections have mitigated concerns over the durability of the reforms initiated under Macri. Our Infrastructure team expects the country's nascent public-private partnerships programme to take an increasing role in driving infrastructure development (*see Infrastructure: 'Election Result Supports Infrastructure Growth Outlook', October 25*).

Construction And Industrial Production Picking Up
Sector Activity Indicators, % y-o-y



Source: INDEC, BMI

Investment will flow into a broad range of sectors outside of infrastructure, broadening the economic base of the recovery. Our industries teams have identified the agriculture, oil & gas, pharmaceuticals and food & drink sectors as holding region-leading growth and investment potential (*see 'Six Sectors To Watch In Latin America', February 1 2017 and 'Latam: Which Industries Are Most Attractive?', August 23 2017*), reflecting our view that regulatory reforms will allow sectors with strong fundamentals to rebound following years of stagnation. Reforms have focused on reducing the state's role in the economy, opening up opportunities for investors and improving access to capital.

The auto industry is also set to grow, as established firms upgrade their operations in the country in order to service rising domestic and regional demand. In October, **General Motors** became the latest to announced major facilities investments, joining **Mercedes-Benz**, **PSA Group**, **Fiat Chrysler**, **Volkswagen** and **Renault-Nissan** (*see Autos: 'GM Reinforcing Its Latin American Production Base', November 2 2017*).

Real export growth will pick up over the coming quarters (*see 'External Stability Despite Trade Deficit', November 7 2017*).

Agricultural exports will pick up as next year's harvests come to market. The agribusiness sector has been among the first to take advantage of the country's liberalisation, investing in production as export taxes were removed. Manufactured goods exports will benefit from a weaker exchange rate, rebounding demand from Brazil and expanding productive capacity.

Private consumption will play an increasingly prominent role in driving growth. In Q217, private consumption grew 3.8% y-o-y, up from 0.9% in Q1. Over recent months, consumer confidence has strengthened and retail sales growth has accelerated, reaching 24.8% y-o-y in September. Consumption will remain strong as inflation steadily trends lower, the economy's recovery becomes increasingly visible to consumers and investment leads to employment gains.

GDP By Expenditure Outlook

Private Consumption: Private consumption's share of GDP fell from 73.8% in 1999 to 66.1% in 2016 as inflation weighed on household spending. Over the coming years we expect that moderating inflation, a strengthening labour market and improving access to domestic credit will support strong growth in private consumption. However, we expect private consumption growth will gradually be supplanted by investment, leading to a modest decline in its share of nominal GDP.

Government Consumption: As private consumption has fallen over the last decade, government spending has risen to take its place, growing from 16.6% of GDP in 2012 to 18.4% in 2016. We expect that the government's share of GDP will gradually shrink over the coming decade, as the government narrows its fiscal deficits by constraining expenditures. The fall in government's share of GDP will also reflect increasing private sector activity, encouraged by a more investment-friendly regulatory environment.

TABLE: GDP GROWTH FORECASTS

	2015	2016	2017f	2018f	2019f	2020f
Nominal GDP, ARSbn	5,854.0	8,056.0	10,609.4	12,929.6	14,952.7	16,457.8
Real GDP growth, % y-o-y	2.6	-2.3	2.9	3.3	3.5	3.6
GDP per capita, ARS	134,829.9	183,727.7	239,645.7	289,325.1	331,533.2	361,627.9
	2021f	**2022f**	**2023f**	**2024f**	**2025f**	**2026f**
Nominal GDP, ARSbn	17,825.3	19,352.9	20,963.7	22,725.1	24,599.3	26,644.6
Real GDP growth, % y-o-y	3.3	3.3	3.7	3.2	3.4	3.4
GDP per capita, ARS	388,229.5	417,869.8	448,833.6	482,529.1	518,099.4	556,733.4

f = BMI forecast; Source: INDEC, BMI

TABLE: PRIVATE CONSUMPTION FORECASTS

	2015	2016	2017f	2018f	2019f	2020f	2021f	2022f	2023f	2024f	2025f	2026f
Private final consumption, ARSbn	3,831.6	5,326.9	6,942.5	8,445.0	9,768.3	10,777.8	11,656.2	12,655.1	13,686.5	14,773.2	15,946.2	17,212.3
Private final consumption, % of GDP	65.5	66.1	65.4	65.3	65.3	65.5	65.4	65.4	65.3	65.0	64.8	64.6
Private final consumption, real growth % y-o-y	3.5	-1.4	3.1	3.0	3.6	3.6	3.0	3.4	3.0	2.8	2.8	2.8

f = BMI forecast; Source: INDEC, BMI

TABLE: GOVERNMENT CONSUMPTION FORECASTS

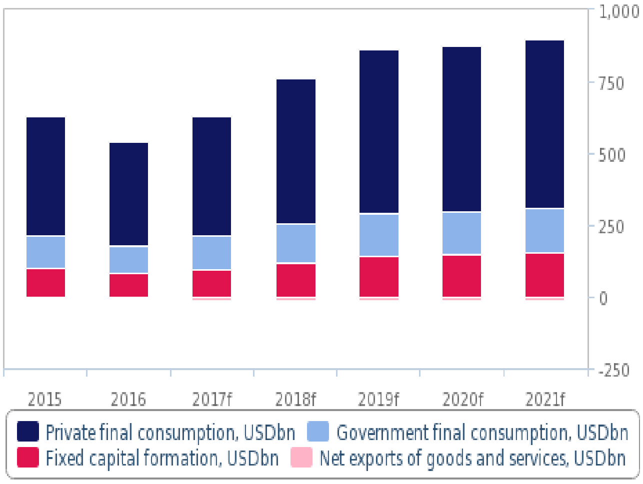
	2015	2016	2017f	2018f	2019f	2020f	2021f	2022f	2023f	2024f	2025f	2026f
Government final consumption, ARSbn	1,082.8	1,482.9	1,930.8	2,303.0	2,625.3	2,837.9	3,039.4	3,255.2	3,486.3	3,733.9	3,999.0	4,282.9
Government final consumption, % of GDP	18.5	18.4	18.2	17.8	17.6	17.2	17.1	16.8	16.6	16.4	16.3	16.1
Government final consumption, real growth % y-o-y	6.8	0.3	3.0	1.0	2.1	1.5	2.0	2.0	2.0	2.0	2.0	2.0

f = BMI forecast; Source: INDEC, BMI

Gross Fixed Capital Formation: We expect investment's share of nominal GDP will grow steadily over the coming decade. Real gross fixed capital growth will see the most significant real growth of any component of Argentina's GDP, as investors seek opportunities in numerous sectors, including agriculture, mining, energy, real estate and autos.

Private Consumption To Become Larger Driver Of Growth

Composition Of Nominal GDP By Expenditure



f = BMI forecast; Source: INDEC, BMI

Net Exports: Net exports comprise a comparatively small portion of Argentina's GDP, especially given that currency controls and large export taxes have eroded import and export volumes over the last decade. Though this will slowly reverse, net exports will still play a comparatively small role in the country's economic composition, as we expect exports of agricultural goods will be offset by imports of capital goods. We expect net exports will equal just -1.7% of GDP by 2026.

External Trade And Investment Outlook

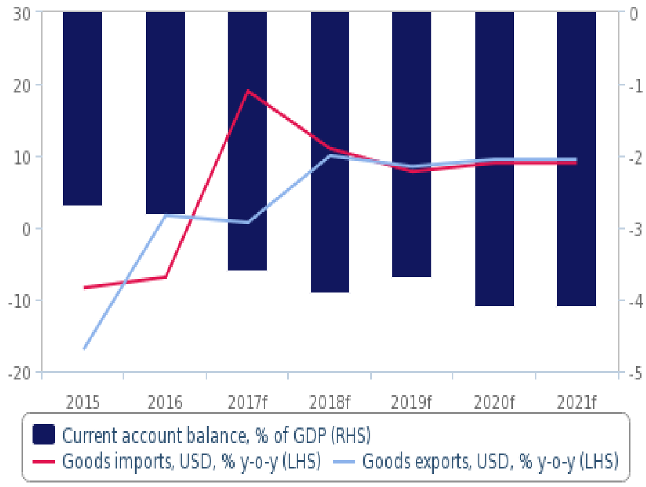
External Stability Despite Trade Deficit

BMI VIEW

Argentina's external accounts will remain stable over the coming years as capital inflows cover its current account shortfalls. Although no longer a net goods exporter, Argentina's trade position reflects its investment-led growth rebound.

Modest Deficits Will Persist

Current Account



f = BMI forecast. Source: INDEC, BMI

- Argentina will maintain modest current account deficits over the coming years, which will be financed by capital inflows.
- We have downgraded our forecast current account deficits to 3.6% of GDP in 2017 and 3.9% in 2018, from 2.6% and

TABLE: FIXED INVESTMENT FORECASTS

	2015	2016	2017f	2018f	2019f	020f	2021f	2022f	2023f	2024f	2025f	2026f
Fixed capital formation, ARSbn	927.3	1,188.5	1,604.5	2,027.5	2,415.4	2,726.8	3,037.8	3,381.0	3,763.1	4,227.8	4,705.6	5,247.2
Fixed capital formation, % of GDP	15.8	14.8	15.1	15.7	16.2	16.6	17.0	17.5	18.0	18.6	19.1	19.7
Fixed capital formation, real growth % y-o-y	3.8	-5.5	6.8	7.0	6.7	6.0	6.1	6.0	6.0	7.0	6.0	6.2

f = BMI forecast. Source: INDEC, BMI

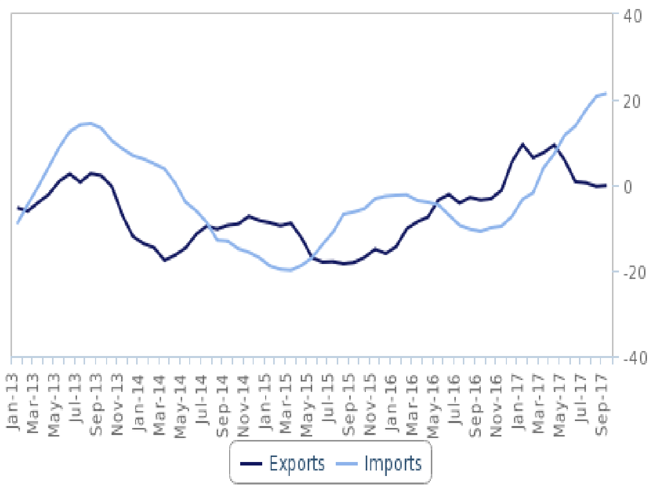
TABLE: NET EXPORTS FORECASTS

	2015	2016	2017f	2018f	2019f	2020f	2021f	2022f	2023f	2024f	2025f	2026f
Net exports of goods and services, ARSbn	-49.2	-55.8	-180.5	-204.9	-215.3	-243.6	-266.9	-297.3	-331.1	-368.7	-410.4	-456.7
Net exports of goods and services, % of GDP	-0.8	-0.7	-1.7	-1.6	-1.4	-1.5	-1.5	-1.5	-1.6	-1.6	-1.7	-1.7
Net exports of goods and services, real growth % y-o-y	11.4	17.7	7.8	10.8	6.2	6.2	9.4	1.4	7.9	2.9	4.0	1.2

f = BMI forecast. Source: INDEC, BMI

2.9%, respectively, in light of weaker than expected export growth in Q317.

Import Surge Not Yet Over
Goods Trade, % y-o-y (6mma)



Source: INDEC, BMI

- Rising capital goods imports and foreign direct investment support our expectation for robust, investment-led growth.

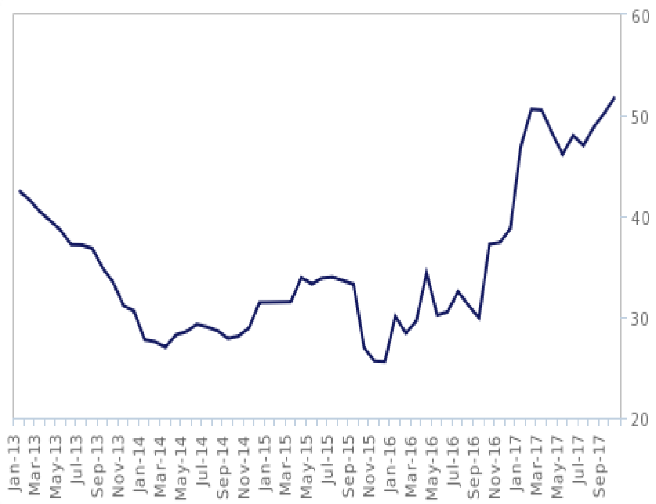
Argentina's goods trade balance will flip into a deficit in 2017 after posting surpluses for all but one year since 2000. On the back of more than a decade of suppressed access to consumer and capital goods imports, pent-up demand will drive import growth for several additional quarters, outstripping exports. In Q317, total imports grew 24.7% y-o-y, lifting year-to-date growth to 17.7%. Capital goods imports rose 36.4% in Q317, in line with the investment surge driving the economy's rebound.

While we had expected a goods trade surplus to persist through this year (*see 'External Accounts Support Growth Outlook', August 11 2017*), goods export growth weakened in Q317 against our expectations due to falling exports of the country's most important agricultural commodities. Total exports contracted 0.4% y-o-y in Q317, bringing year to date growth to 0.7% y-o-y.

Goods export growth will pick up over the coming quarters. Agricultural exports will rebound as next year's harvests come to market and manufactured goods exports, which expanded 10.8% through Q317, will benefit from a weaker exchange rate, rebounding demand from Brazil and expanding productive capacity.

Capital inflows will amply cover Argentina's external financing needs. While government external debt has been a key driver of inflows over recent quarters, we expect the private sector will draw increasing amounts of foreign investment over the coming quarters. In Q217, deposit-taking firms' external liabilities rose 321.3% y-o-y, signalling rising investor interest. Moreover, many investors have remained on the sidelines pending the results of the October 2018 elections. With the election providing an unambiguous boost to President Mauricio Macri's reform agenda, those concerns are likely to fade (*see 'Cambiemos' Electoral Gains Will Support Reforms', October 23 2017*).

Reserves Climbing Higher
Foreign Reserves, USDbn



ource: BCRA, BMI

Ample capital inflows will support reserve accumulation, a key central bank policy goal. The Banco Central de la República Argentina (BCRA) is officially pursuing a goal of accumulating reserves equal to 15.0% of GDP. While this is officially aimed at bolstering Argentina's sovereign credit ratings, it also serves to signal the bank's preference for a weaker exchange rate (*see 'ARS: Capital Inflows Will Support Strong Total Returns', August 30 2017*). In October, reserves rose to USD51.9bn, up 39.2% y-o-y, and we expect they will steadily rise to USD80.1bn by end-2018, equal to 10.3% of GDP and 10.3 months of import cover.

Outlook On External Position

Net International Investment Position: Argentina maintains a positive net international investment position, equal to 9.7% of GDP at end-2016, primarily due to its substantial holdings of private assets abroad. Over the last decade, Argentines often chose to invest or save money abroad rather than keep it in domestic banks, where it risked erosion due to high inflation, currency risk and taxes. At the same time, the country's lack of access to foreign capital markets limited direct investment and portfolio flows.

Over the coming years, Argentina's foreign liabilities will likely grow substantially. Under President Macri, the country's external accounts have been liberalised and the government has encouraged foreign investment. Direct investment liabilities, which equalled 14.6% of GDP in 2015, are likely to rise as foreign energy, mining and manufacturing firms expand operations in the country. Portfolio liabilities, equal to 7.6% of GDP in 2015, will likely rise as investors seek exposure to the country's accelerating growth. Moreover, debt liabilities have already begun to rise, as investors drawn to elevated interest rates have eagerly purchased public and private debt.

TABLE: CAPITAL & FINANCIAL ACCOUNT BALANCE

	2011	2012	2013	2014	2015
Capital account, USDbn	0.1	0.0	0.0	0.1	0.1
Financial account, USDbn	-0.9	-0.5	4.3	10.3	13.2
Capital and financial account, % of GDP	-0.2	-0.1	0.7	1.8	2.1
Net FDI inflows per capita, USD	165.6	-39.2	-27.1	89.4	208.7
Net portfolio investment, USDbn	-2.1	-3.0	0.8	5.5	-3.7
Net other Investment, USDbn	-4.8	-10.0	-11.8	-2.9	0.0

Source: National sources, BMI

TABLE: CURRENT ACCOUNT BALANCE FORECASTS

	2015	2016	2017f	2018f	2019f	2020f	2021f	2022f	2023f	2024f	2025f	2026f
Balance of trade in goods, USDbn	-0.4	4.5	-5.2	-6.3	-6.4	-6.6	-6.8	-7.4	-8.0	-8.6	-9.3	-10.1
Balance of trade in goods, % of GDP	-0.1	0.8	-0.8	-0.8	-0.7	-0.7	-0.8	-0.8	-0.8	-0.9	-0.9	-1.0
Balance of trade in services, USDbn	-5.1	-5.1	-5.7	-5.9	-6.2	-6.4	-6.7	-7.0	-7.2	-7.5	-7.8	-8.0
Balance of trade in services, % of GDP	-0.8	-0.9	-0.9	-0.8	-0.7	-0.7	-0.7	-0.7	-0.8	-0.8	-0.8	-0.8
Primary income balance, USDbn	-12.1	-12.1	-13.5	-19.3	-22.7	-24.7	-25.3	-26.1	-26.9	-27.8	-28.7	-29.6
Primary income balance, % of GDP	-1.9	-2.2	-2.1	-2.5	-2.6	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8	-2.8
Secondary income balance, USDbn	1.1	1.2	1.0	1.5	2.6	1.8	1.8	1.9	1.9	2.0	2.0	2.1
Secondary income balance, % of GDP	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Current account balance, USDbn	-16.8	-15.0	-23.4	-30.0	-32.6	-35.9	-37.0	-38.6	-40.2	-42.0	-43.7	-45.6
Current account balance, % of GDP	-2.7	-2.8	-3.7	-3.9	-3.7	-4.1	-4.1	-4.1	-4.2	-4.2	-4.3	-4.3

f = BMI forecast. Source: BMI, INDEC

TABLE: TOP FIVE GOODS IMPORTS (2016)

By Country	% Of Total Imports	By Category	% Of Total Imports
Brazil	24.5	Vehicles	17.3
China	18.8	Machiner	15.0
United States of America	12.6	Electrical equipment	12.7
Germany	5.5	Mineral fuels, etc.	8.2
Mexico	3.2	Organic chemicals	4.1

Source: International Trade Centre

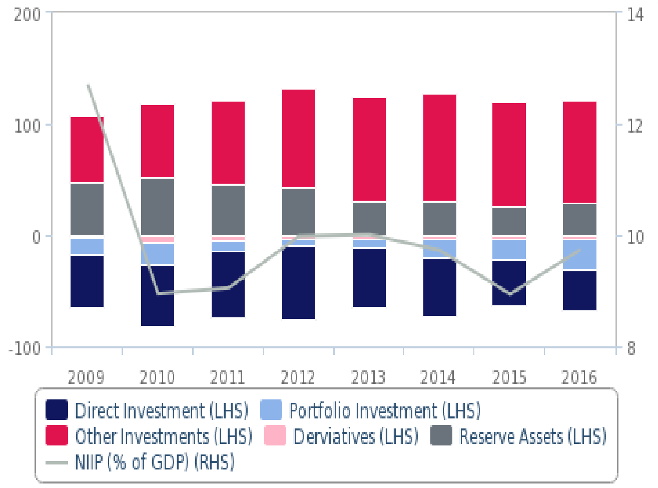
TABLE: TOP FIVE GOODS EXPORTS (2016)

By Country	% Of Total Exports	By Category	% Of Total Exports
Brazil	15.6	Residues, wastes of food industry, animal fodder	18.7
United States of America	7.8	Cereals	12.1
China	7.7	Vehicles	8.7
Vietnam	4.4	Animal products	8.6
Chile	4.0	Oil seeds, etc.	6.7

Source: International Trade Centre

At the same time, Argentina's foreign asset holdings will likely see mild declines. The government has incentivised the repatriation of capital through a tax amnesty programme that aims to expand the domestic capital base.

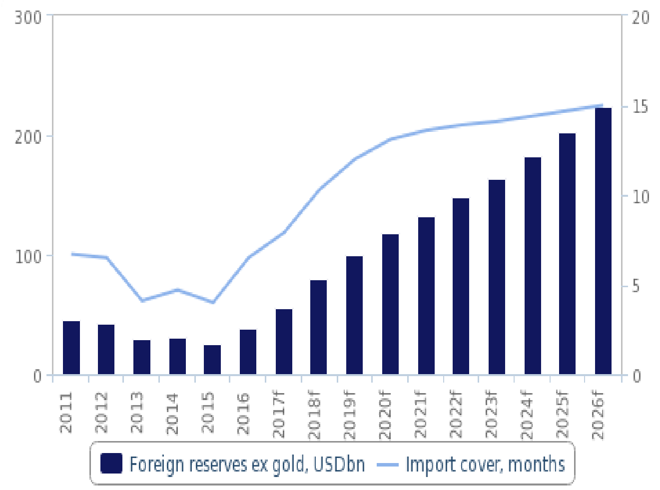
Set To Become Net Debtor
Net International Investment Position, USDbn



Source: INDEC, BMI

While the programme is specifically aimed at previously undeclared asset holdings, which would not have been registered on national accounts, foreign assets will likely fall broadly, particularly as Argentina increasingly presents attractive investment opportunities for domestic savers.

Reserves Will Rise As Inflows Pick Up
Foreign Reserves, USDbn

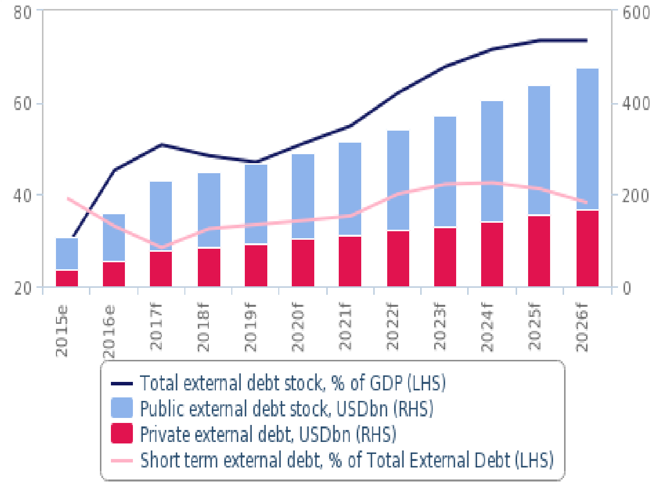


f = BMI forecast. Source: BCRA, BMI

Reserve Adequacy: Argentina's reserves fell significantly in recent years as the previous government utilised reserves to finance external debt obligations amid weakening exports and downward pressures on the currency peg.

Following the removal of most capital and currency controls, and the re-established access to international capital markets, reserves have begun rising again.

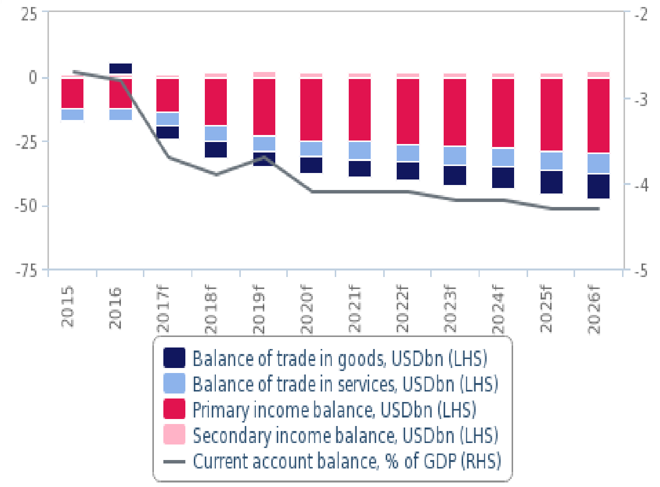
External Debt Will Remain Manageable
Total External Debt (2015-2026)



e/f = BMI estimate/forecast. Source: BMI, World Bank

From a low of 4.1 months of import cover at end-2015, we expect reserves to steadily rise over the coming years, particularly as the BCRA ramps up reserve accumulation to bolster the country's sovereign credentials. We see reserves reaching 14.8% of GDP and 13.6 months of import cover by 2021.

Inflows Will Cover Deficits
Current Account Balance (2015-2026)



f = BMI forecast. Source: BMI, INDEC

External Debt: Argentina's external debt stock is set to rise rapidly over the coming years in light of the country's return to international capital markets. With the country cut off from financial markets following its 2001 sovereign default, external debt fell, hitting a low of 22.2% of GDP in 2013.

Over the coming years, we expect total external debt to rise as the country is again issuing international debt and as large corporate firms have begun leveraging improving investor sentiment toward emerging markets broadly and as Argentina, specifically, to raise needed capital at favourable interest rates. Publicly guaranteed debt will remain sustainable, supported by robust economic growth, a widening export base and liberalised external accounts.

Balance Of Payments: Argentina will maintain modest current account shortfalls in the coming years, which we expect will be easily covered by capital inflows. While Argentina has historically run sizeable current account surpluses, underpinned by a strong goods trade surplus, this was in part a result of currency and capital controls that restricted access to imports. In the coming years, agricultural exports will grow, supported by the elimination of nearly all export taxes and rising global prices. Manufactured goods exports, particularly automobiles, will also rise as manufacturers expand capacity and reach into growing regional markets. At the same time, goods imports will rise as producers import capital goods and demand for consumer goods increases, which will limit the size of the goods trade surplus.

The services account is largely driven by tourism into and out of the country. With among the region's highest per capita income, Argentines' amount of travel abroad is a far more salient driver of services imports than in regional economies, keeping the services account in deficit. We expect the services trade shortfall to average 0.5% of GDP between 2017 and 2026, in line with its previous decade average.

Monetary Policy

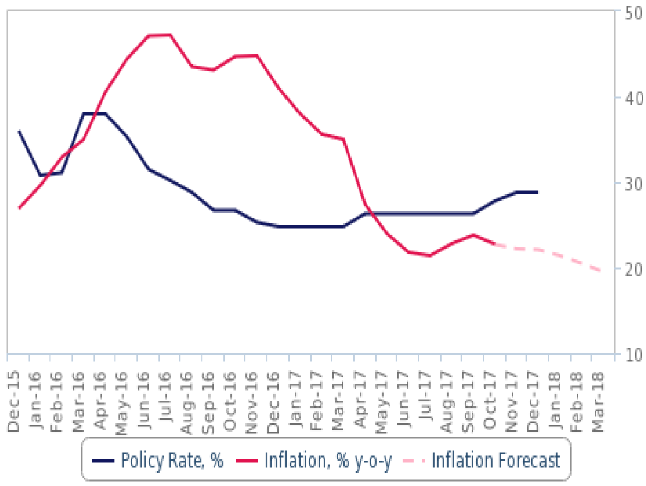
Hawkish Stance To Bring Down Inflation Expectations

BMI VIEW

The Banco Central de la República Argentina will maintain a more hawkish posture over the coming months as it attempts to lower medium-term inflation expectations. Success in doing so will see rate cuts resume in 2018.

Inflation To Decelerate Modestly

Monetary Policy & Inflation



Source: BCRA, INDEC, BMI

The Banco Central de la República Argentina (BCRA) will maintain relatively elevated interest rates over the coming months in an attempt to bring down inflation expectations. On October 24 2017, the BCRA hiked its benchmark policy rate by 150 basis points (bps) to 27.75%, against our expectation that it would hold at 26.25% through to the end of 2017 (*see 'Rate Cuts Unlikely Over Near Term', October 19 2017*). A week later, on November 7 2017, it hiked another 100bps to 28.75%. The bank primarily cited dissatisfaction with the pace of disinflation. At 22.7% y-o-y in October, inflation has risen for three consecutive months and has pushed year-to-date accumulated inflation above the bank's 17.0% end-year target.

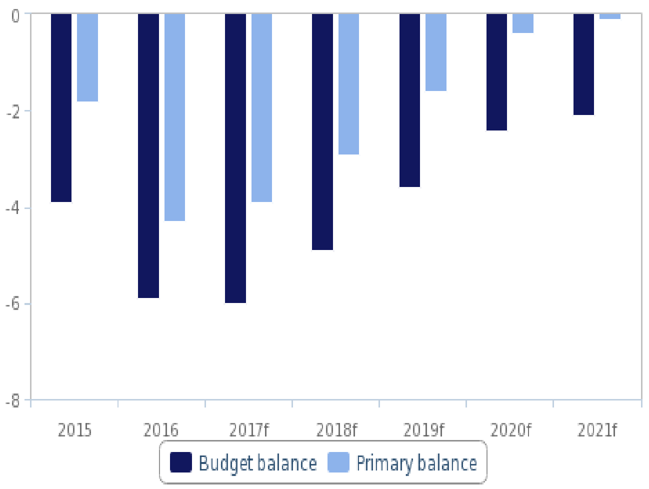
We do not expect the BCRA to raise rates again this year,

TABLE: MONETARY POLICY FORECASTS

	2015	2016	2017f	2018f	2019f
Consumer price inflation, % y-o-y, eop	26.9	41.0	22.1	15.3	8.0
Consumer price inflation, % y-o-y, ave	26.7	41.2	26.4	18.1	11.7
Central bank policy rate, % eop	27.25	24.75	28.75	20.50	12.50

f = BMI forecast. Source: INDEC, BCRA, BMI forecasting the benchmark rate to remain at 28.75% through end-2017. Inflation remains in line with our expectations, and we forecast inflation to decelerate modestly to 22.1% by end-2017. This largely reflects seasonal and base effects.

Deficit Reductions Will Continue Apace
Central Government Primary & Budget Balance, % of GDP



f = BMI forecast. Source: MECON, BMI

We believe the BCRA's surprise move is largely a response to rising inflation expectations over the coming year. The BCRA is targeting end-2018 inflation of 12.0%, but Bloomberg consensus forecasts have shifted higher over recent months as services price growth (in part reflecting wage pressures), which has underpinned persistent inflation. Bloomberg consensus now expects 16.9% inflation at end-2018.

With its more hawkish posture, the BCRA is seeking to bolster the credibility of its targets. To that extent, we expect the bank's stance will lower expectations of medium-term inflation, which will have a self-fulfilling effect as firms and unions agree to lower price and wage increases moving forward. We forecast inflation to fall to 15.3% by end-2018, averaging 18.1%.

With inflation set to decelerate, we forecast a cumulative total of 825 basis points of rate cuts in 2018, which will bring the BCRA's benchmark rate to 20.50% by the end of 2018. Based on one year expected inflation, we estimate real interest rates are approximately 12.0%, from approximately 7.0% over recent months. The BCRA is unlikely to tolerate such elevated real rates for an extended period because it would weigh on economic activity growth. While the country's relatively shallow domestic credit market likely limits the direct impact of higher interest rates on inflation and near-term activity, elevated real rates will discourage firms from seeking domestic financing. In turn, this could weigh on investment.

Fiscal Policy And Public Debt Outlook

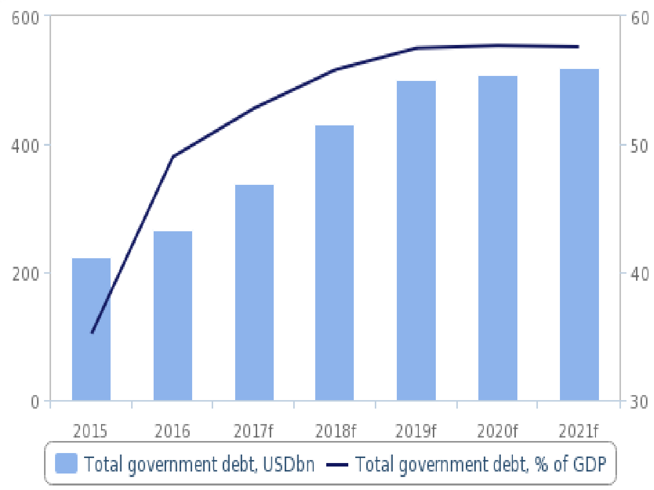
Rising Debt Suggests Less Ambitious Tax Reform

BMI VIEW

Argentina will narrow its fiscal deficit over the coming quarters through revenue growth and expenditure constraints. Rising debt load will, however, lead the government to scale back its ambitious tax reform proposals.

Argentina's budget deficit will narrow over the coming quarters. Revenue gains will remain robust, reflecting both high inflation and accelerating real economic activity growth. Expenditure growth will be contained as the government reduces public utility subsidies and cuts discretionary spending. We maintain our forecasts for a primary deficit of 3.9% of GDP in 2017, below the government's 4.2% target, and an overall deficit of 6.0%. Through Q317, the government's accumulated shortfall has come in below target as spending growth has been lower than expected. While we expect a late-year pick up in spending, in line with historical patterns, we believe risks to our forecasts are skewed to the downside.

Debt Load Likely To Rise
Total Government Debt



f = BMI forecast. Source: MECON, BMI

We have grown more constructive on the outlook for 2018. We forecast a primary deficit of 2.9%, below the government's 3.2% target and our previous 3.7% forecast (*see 'Narrower Deficits But A Challenge To Tax Reforms', August 21*). We expect an overall deficit of 4.9%. President Mauricio Macri's Cambiemos coalition's strong performance in October's legislative elections has bolstered his ability to push through reforms (*see 'Cambiemos' Electoral Gains Will Support Reforms', October 23*), which we expect will result in a faster pace of spending reductions.

Subsidy cuts will remain a lynchpin of the government's efforts to cut spending and encourage investment (*see 'Subsidy Cuts Support Narrower Deficits', May 23 2017*). In November, the government raised public utility tariffs by 27-43% on households and 45-58% on businesses, effectively reducing its subsidy costs and sticking to a schedule developed in 2015. The next increase is scheduled for April 2018, as the government continues towards its goal of eliminated subsidies by 2019. In 2016, subsidies equalled 3.6% of GDP, against a primary deficit of 4.3%.

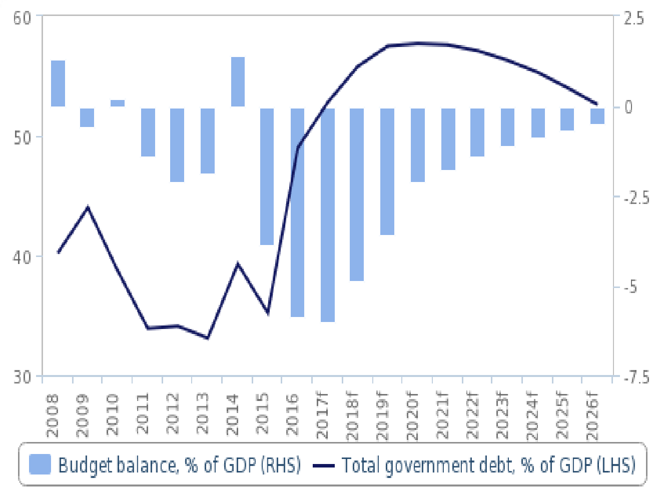
Over the near term, the government will also prioritise reducing discretionary spending and reigning in provincial spending. Through Q317, non-core current spending fell 78.2% y-o-y. Although this represents only a small fraction of spending, efforts to cut spending on the margins demonstrates the administration's dedication to shrinking the deficit. In November, the central government signed a deal with 23 of the country's 24 provinces to reduce provincial fiscal shortfalls by holding real spending constant. In addition to advancing the administration's fiscal goals by reducing future central government transfers to the provinces, the agreement demonstrated its ability to forge agreements with a broad range of the country's political actors.

Nonetheless, the government's still-wide deficits will lead to a rising debt load. Having financed its operations through the issuance of approximately USD13.4bn in bonds on foreign markets in 2017, we forecast total central government debt to rise from 49.0% of GDP in 2016 to 52.8% in 2017 and 55.8% in 2018.

Rising debt and concern over the pace of deficit reduction will lead the government to moderate the scale of some of its proposed tax reforms in order to preserve its tax base. Soon after the October elections, the administration introduced an ambitious tax reform that would cut corporate income taxes to 25% by 2021, from 35% currently. It would also lower employer social security taxes, in part to make formal employment less costly for businesses. The plan would make up for some losses through new taxes, including capital gains taxes on profits from government bonds. Political pushback has already led the government to walk back some proposed reforms, including a tax on wine and, as such, we expect the specifics of the plan to develop significantly over the coming weeks.

Long-Term Consolidation On Track

Gross Debt & Fiscal Balance (2008-2026)



f = BMI forecast. Source: National sources, BMI

Structural Fiscal Position

Government Debt: Argentina's debt burden will remain elevated over the coming years, as it leans on external debt issuance to finance its fiscal shortfalls. Lacking access to external financial markets over the last decade, the government heavily relied on domestic debt and central bank financing, which raised domestic borrowing costs and drove inflation. Although the rising importance of foreign

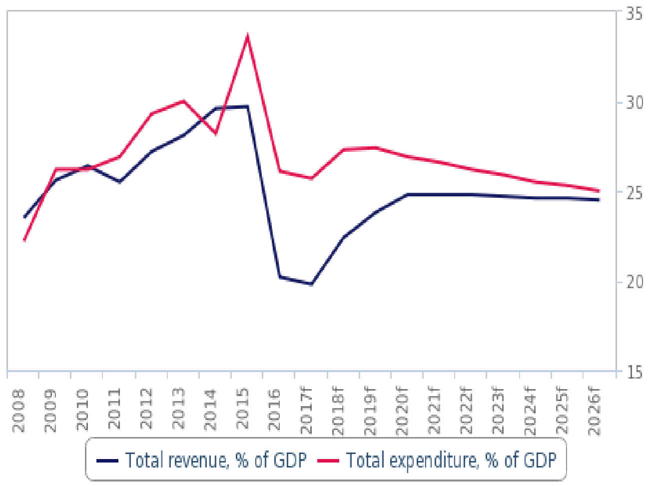
TABLE: FISCAL AND PUBLIC DEBT FORECASTS

	2015	2016	2017f	2018f	2019f	2020f	2021f	2022f	2023f	2024f	2025f	2026f
Total revenue, ARSbn	1,741.5	1,629.3	2,098.5	2,896.0	3,562.1	4,084.0	4,416.6	4,794.9	5,185.5	5,597.1	6,041.3	6,520.9
Total revenue, ARS, % y-o-y	28.7	-6.4	28.8	38.0	23.0	14.7	8.1	8.6	8.1	7.9	7.9	7.9
Total expenditure, ARSbn	1,967.1	2,104.1	2,730.8	3,529.4	4,094.1	4,422.1	4,732.8	5,065.6	5,421.8	5,803.2	6,211.6	6,648.8
Total expenditure, ARS, % y-o-y	52.3	7.0	29.8	29.2	16.0	8.0	7.0	7.0	7.0	7.0	7.0	7.0
Budget balance, ARSbn	-225.6	-474.8	-632.3	-633.4	-532.0	-338.1	-316.2	-270.6	-236.2	-206.1	-170.2	-127.9
Budget balance, % of GDP	-3.9	-5.9	-6.0	-4.9	-3.6	-2.1	-1.8	-1.4	-1.1	-0.9	-0.7	-0.5
Total government debt, EURbn	200.8	241.3	299.7	392.2	436.0	434.5	444.1	454.9	462.9	469.3	473.2	475.2
Total government debt, % of GDP	35.2	49.0	52.8	55.8	57.5	57.7	57.6	57.1	56.3	55.3	54.0	52.6

f = BMI forecast. Source: National sources, BMI currency denominated debts will expose Argentina to currency risk, we believe the gradual strengthening of the country's external accounts, the narrowing of its fiscal deficit and robust economic growth will ensure debt sustainability over the coming decade.

Government Role In Economy Will Fall

Government Spending & Revenue (2008-2026)



f = BMI forecast. Source: BMI, MECON

Fiscal Deficit: After years of substantially wider deficits, driven by costly energy subsidies, President Mauricio Macri will oversee a gradual narrowing of the fiscal shortfall. Notably, the new administration will look to temper the country's large energy subsidies, which were estimated to be close to 6.0% of the country's GDP as of end-2014. The government will gradually reduce expenditures on subsidy programmes over the coming three years, with additional cuts introduced every six months. A substantial reduction in these subsidies will ensure gradual consolidation.

Additionally, revenues will grow robustly, driven primarily by economic growth. Although we expect the government will largely avoid raising the tax burden in order to stimulate growth, strengthening business activity, private consumption and rising incomes will underpin intakes. In addition, a tax incentive programme will draw billions of previously undeclared assets into the formal economy, helping to expand the tax base.

Government Share Of GDP: Under President Macri, the Argentine government will reduce its role in the economy as it looks to encourage private enterprise to play a larger role in the country's output. In the 12 years of rule under the FpV, the government saw its share of GDP rise significantly as successive administrations increased business taxes and transfers to poorer segments of the Argentine population.

Macri is set to reduce transfer programmes, and his policies to improve the country's business climate will lead to a large increase in private sector activity, further tempering the government's role in economic output.

Currency Forecast

ARS: High Real Rates Support Modest Appreciation

BMI VIEW

The Argentine peso will likely appreciate modestly over the coming quarters as robust economic activity growth, decelerating inflation and attractive real interest rates support strong capital inflows that will buoy the unit. Over the long term, Argentina's inflation differential with the US will drive nominal depreciation, although total returns will remain strong.

Short-Term Outlook (three-to-six months)

We are relatively constructive on the Argentine peso over the

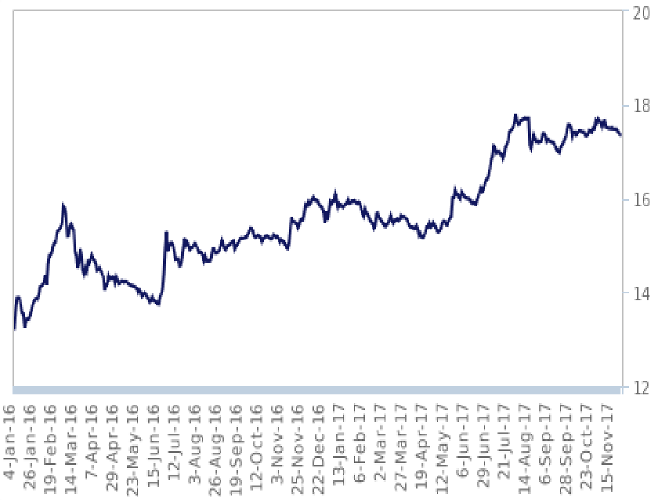
TABLE: CURRENCY FORECASTS

	Spot	2017	2018	2019
ARS/USD, ave	17.39	16.54	16.73	17.15
ARS/EUR, ave	20.68	18.69	18.40	19.73
Policy Rate, % eop	28.75	28.75	20.50	12.50

Source: Bloomberg, BMI. Last updated: November 27 2017.

short term. The unit has largely traded sideways over the last quarter, in line with our view (*see 'ARS: Capital Inflows Will Support Strong Total Returns', August 30 2017*). As a result, our forecasts are little changed, at an average of ARS16.54/USD in 2017 and ARS16.73/USD in 2018.

Floor Likely Reached
Exchange Rate, ARS/USD



Source: Bloomberg, BMI

Over the coming months, we expect the peso to appreciate modestly. President Mauricio Macri's ruling Cambiemos coalition secured a mandate to pursue reforms in October's legislative elections (*see 'Cambiemos' Electoral Gains Will Support Reforms', October 23 2017*). A supportive reform outlook will underpin strong capital inflows, particularly from fixed asset investors who had previously been concerned over the durability of Macri's reform efforts. In turn, we expect economic activity growth will continue to accelerate.

Additionally, real interest rates are set to rise. Over recent weeks, the Banco Central de la República Argentina (BCRA) surprised markets by hiking its benchmark interest rate by a total of 250 basis points (*see 'Hawkish Stance To Bring Down Inflation Expectations', November 1 2017*). The move suggests that bringing down inflation expectations outweighs the bank's preference for a weaker exchange rate, which it had previously expressed through its stated intention to increase the pace of reserve accumulation. Even as we expect nominal rate cuts in 2018, steadily decelerating inflation and accelerating economic growth will support a widening real interest rate differential with the US, underpinning the peso's carry appeal.

Long-Term Outlook (six-to-24 months)

We expect the unit will see gradual spot depreciation over the long term as Argentina's inflation differential with the US will steadily erode the peso's purchasing power vis- à-vis the dollar. In the US, we forecast inflation to average approximately 2.0% y-o-y over the next two years, while in Argentina we expect it will average 18.1% in 2018 and 11.7% in 2019. As a result, we forecast the unit to average lower from 2019.

Nonetheless, we remain broadly positive on the peso on a total returns basis. We believe robust economic activity growth, rapidly decelerating inflation and attractive real interest rates will support strong capital inflows that will buoy the unit.

Risks To Outlook

Risks to our view are weighted to the downside. Despite a strong overall economic outlook, persistently elevated inflation could keep the peso under steady downward pressure, limiting the potential for spot appreciation over the near term and leading to more significant depreciation over the long term than we currently anticipate.

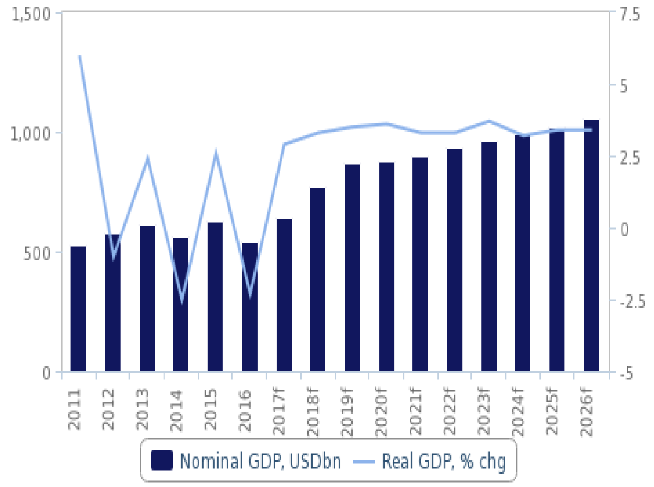
The Argentine Economy To 2026

Long-Term Growth Driven By Reform Agenda

BMI VIEW

Argentina's real GDP growth will accelerate over the coming five years under the government of Mauricio Macri. These reforms will lead to robust growth during the second half of our 10-year forecast, driven by rising natural gas production and stronger inbound investment as the policy environment evolves in a more business-friendly direction.

Gradually Stronger Growth
GDP



f = BMI forecast; Source: INDEC, BMI

The Argentine economy has significant long-term growth potential due to its natural resource wealth and highly educated labour force. However, returning to more orthodox, business-friendly economic policies and unwinding Argentina's economic imbalances will be a prolonged affair (*see 'Macri Victory Will Pave Way For Sustainable Economic Growth', November 23 2015*). Moreover, weaker external demand from key trading partners such as China, Brazil, and Venezuela will cap growth in the coming five years.

Offshore Hydrocarbons Targeted For Production
Map of Southern Argentina & Chile

Source: BMI

We anticipate a pick-up in growth as more investor-friendly policies will generate an uptick in foreign investment and rising production of oil and natural gas. Rising investment will also support a stronger Argentine consumer, further boosting the country's long-term growth potential. We forecast real GDP growth to average 3.4% from 2018 to 2026, with the risks weighted to the upside.

TABLE: LONG-TERM MACROECONOMIC FORECASTS

	2017f	2018f	2019f	2020f	2021f	2022f	2023f	2024f	2025f	2026f
Nominal GDP, USDbn	641.4	772.8	871.7	880.7	902.2	932.9	962.4	993.6	1,024.4	1,056.7
Real GDP growth, % y-o-y	2.9	3.3	3.5	3.6	3.3	3.3	3.7	3.2	3.4	3.4
Population, mn	44.27	44.69	45.10	45.51	45.91	46.31	46.71	47.10	47.48	47.86
GDP per capita, USD	14,488	17,293	19,326	19,352	19,650	20,143	20,605	21,097	21,574	22,079
Consumer price inflation, % y-o-y, ave	26.4	18.1	11.7	6.5	5.0	5.0	5.0	5.0	5.0	5.0
Current account balance, % of GDP	-3.7	-3.9	-3.7	-4.1	-4.1	-4.1	-4.2	-4.2	-4.3	-4.3
Exchange rate ARS/USD, ave	16.54	16.73	17.15	18.69	19.76	20.74	21.78	22.87	24.01	25.22

f = BMI forecast; Source: INDEC, BCRA, BMI

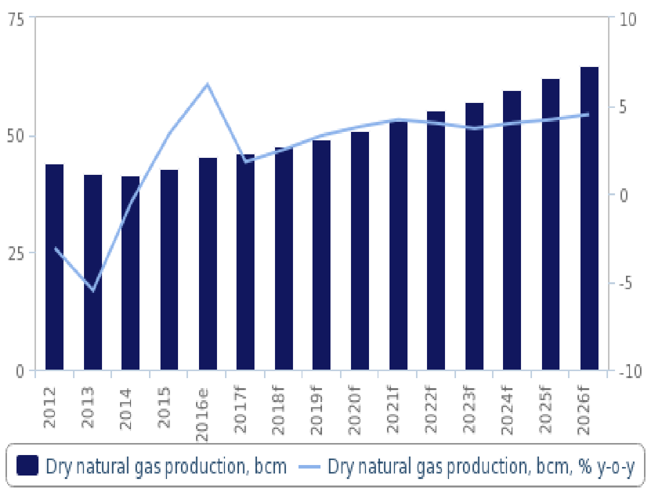
'Policy Pivot' Will Be Gradual

Argentina will pivot toward more investor-friendly policies in the years ahead, in an attempt by the government to ease the unwinding of many years of built-up macroeconomic imbalances. In the near term, the Macri government will focus on delivering business environment improvements and luring foreign investors back into the country. Normalisation of relationships with creditors has allowed the country renewed access to external capital markets, which has reduced the cost of capital and drawn substantial investor interest.

We also expect the Macri government to address the continued fiscal shortfalls and lack of export competitiveness in the domestic economy. Already, the government has free-floated the peso after years of maintaining a fixed exchange rate. A weaker currency will begin to benefit economic growth beyond 2017. Indeed, as we have previously noted, an overvalued exchange rate has contributed to Argentina real GDP growth slowdown over recent years, with import restrictions hurting manufacturers and exporters because of the higher cost of production and limited access to capital and intermediary goods. As well, to combat inflation the government will move to cut large fiscal subsidy programmes and transfers which have been funded through printing of new money.

Gas Production On The Rise

Natural Gas Production, bcm



f = BMI forecast; Source: EIA, BMI

Energy Sector Key To Long-Term Growth

Our Oil & Gas team continues to see vast potential in the country's untapped energy reserves, which will be central to Argentina's economic growth over the coming decade. In the wake of recent reforms, we believe that the Argentine hydrocarbon industry will reverse a decade of output declines, with steady increases in production over the coming years. Argentina has taken a number of steps to de-risk investment, including compensating Spanish oil and gas company Repsol for the 2012 expropriation of state-owned YPF, as well as cutting down red tape to make the investment process smoother.

Moreover, the announced extension of the Unión Transitoria de Empresas production sharing agreement between Chilean national oil company (NOC) ENAP and YPF in November 2014 to increase production of offshore oil and gas in southern Argentina underscores the high prospectivity of Argentina's proven hydrocarbon reserves and bolsters the potential productive capacity of the sector. We forecast natural gas production to rise by 47.8% from 36.2bcm at end-2014 to 53.5bcm by 2024.

Moreover, capital expenditure plans in Argentina are well positioned to withstand a lower oil price environment in the coming years, particularly in relation to other markets in the region. We calculate core shale developments in the YPF-Chevron joint venture to be commercially viable at USD52/bbl as a result of a significant drawdown in drilling costs, improving well productivity and access to pre-existing infrastructure. Macri has already begun to announce his formal energy policies, and has appointed the former head of Shell in Argentina as his oil and gas minister.

Lower Operational Risk To Bolster Investment

As Argentina solidifies more orthodox economic policies, the country's long-term economic growth will be bolstered by relatively low levels of labour market and infrastructure risk in comparison to other markets in Latin America. This will support stronger inbound foreign investment. Indeed, while Argentina scores 10th out of 17 countries in Latin America in our Operational Risk Index, this is largely due to a low score in the 'Trade and Investment' component of the index, reflecting a high degree of government intervention in the private sector. However, Argentina scores well above the regional average in the 'Labour Market' and 'Logistics' components, indicating the country's strong infrastructure and well-educated workforce.

Risks To Outlook

While our core view is that Argentina's policy pivot towards more market-friendly policies remains on track, the risks to this outlook are substantial. Macri's policy agenda could be upset by pushback from the FpV should the former ruling party remain unified against the new government's agenda. Notably, this could take the form of not approving a deal to end Argentina's ongoing default, forestalling any significant liberalisation of external accounts, given the impact of rising import demand on reserves. This would undermine the majority of Macri's economic platform as the country would be unable to attract foreign investors who would question the accessibility of their capital.

BMI's long-term macroeconomic forecasts are based on a variety of quantitative and qualitative factors. Our 10-year forecasts assume in most cases that growth eventually converges to a long-term trend, with economic potential being determined by factors such as capital investment, demographics and productivity growth. Because quantitative frameworks often fail to capture key dynamics behind long-term growth determinants, our forecasts also reflect analysts' in-depth knowledge of subjective factors such as institutional strength and political stability. We assess trends in the composition of the economy on a GDP by expenditure basis in order to determine the degree to which private and government consumption, fixed investment and the export sector will drive growth in the future. Taken together, these factors feed into our projections for exchange rates, external account balances and interest rates.

Chapter 3:

Political Outlook

SWOT Analysis

Strengths

- After the failure of the 1976-1983 dictatorship, the army no longer plays a major role in local politics.

Weaknesses

- A long-term transition towards more business-friendly policies risks political backlash from the country's strong public sector unions.
- Divides between policymakers in local and federal governments adds potential for inconsistent implementation of policies.

Opportunities

- President Maurico Macri will continue to improve the business environment through regulatory and fiscal reforms, drawing on the support of politically moderate municipal governors.

Threats

- A lack of results in dealing with double-digit inflation will continue to represent one of the key downside risks to our political rating on the country.

BMI Political Risk Index

Argentina's Short Term Political Risk Index score improved following President Mauricio Macri's successful implementation of key legislative priorities and his efforts to repair the country's relationships with its regional neighbours. Nonetheless, political risks remain elevated due to the continuing potential for legislative gridlock stemming from the opposition's strong representation in the legislature and high inflation, which will likely underpin political resistance in the coming quarter.

Argentina's Short Term Political Risk Index score is 65.8.

	S-T Political	Trend	Regional Rank	Global Rank
Panama	71.5	=	1	62
Uruguay	71.5	=	1	62
Chile	70.6	=	3	68
Colombia	66.5	=	4	83
Nicaragua	66.0	=	5	85
Argentina	**65.8**	**=**	**6**	**86**
Costa Rica	61.0	-	7	105
Peru	59.6	=	8	115
Brazil	57.5	=	9	123
Mexico	56.9	=	10	129
Ecuador	52.5	=	11	143
Bolivia	51.5	=	12	147
El Salvador	48.5	=	13	150
Paraguay	48.1	=	14	153
Honduras	46.0	=	15	161
Guatemala	40.8	=	16	170
Venezuela	30.6	=	17	182

Regional ave 56.8 / Global ave 63.2 / Emerging Markets ave 59.3

	L-T Political	Trend	Regional Rank	Global Rank
Chile	83.2	=	1	21
Uruguay	75.3	=	2	40
Costa Rica	71.8	=	3	51
Panama	69.0	=	4	70
Brazil	68.9	=	5	72
Mexico	64.7	=	6	85
Peru	62.5	=	7	92
Colombia	62.4	=	8	93
Argentina	**61.6**	**=**	**9**	**98**
Paraguay	61.1	=	10	102
El Salvador	60.4	=	11	103
Ecuador	50.1	-	12	143
Bolivia	50.0	=	13	144
Guatemala	48.9	=	14	148
Honduras	47.5	=	15	153
Nicaragua	45.2	=	16	158
Venezuela	44.8	=	17	159

Regional ave 60.4 / Global ave 62.0 / Emerging Markets ave 57.1

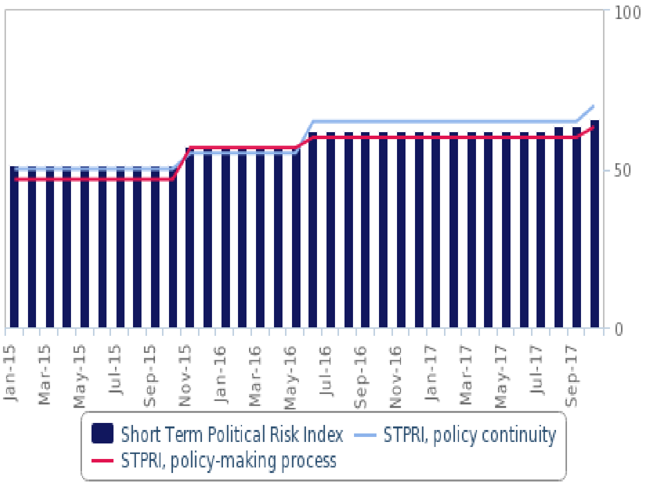
Domestic Politics

Cambiemos' Electoral Gains Will Support Reforms

BMI VIEW

A strong showing by President Mauricio Macri's Cambiemos coalition in mid-term legislative elections bolsters the country's reform outlook. In particular, reforms aimed at reducing the fiscal deficit, adjusting taxes and encouraging foreign investment are likely to advance.

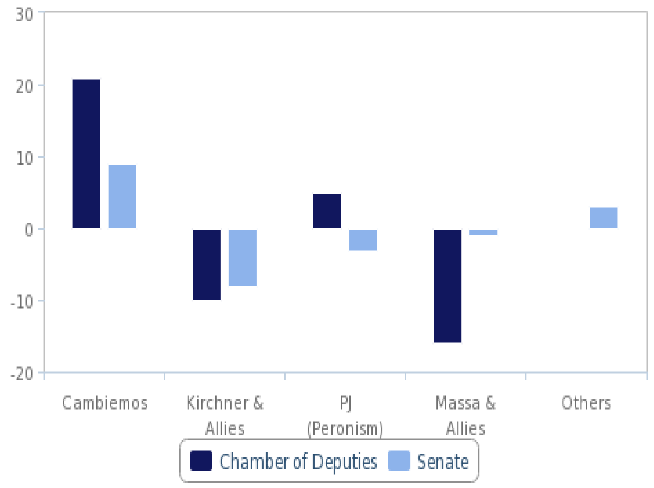
Policy-making Environment Gets A Boost
Short Term Political Risk Index, Out Of 100



Source: BMI

Argentine President Mauricio Macri will pick up the pace of reform efforts following mid-term legislative elections held on Sunday, October 22. Preliminary results show Macri's centre-right Cambiemos coalition substantially increasing its legislative representation, while the leftist-populist opposition led by former president Cristina Fernández de Kirchner lost more than a dozen seats in total. The results are in line with our expectations (*see 'Legislative Elections Will Bolster Reforms & Capital Inflows', August 22 2017*).

Cambiemos Strengthens Its Hand
Net Change In Legislative Seats By Coalition



Source: Argentina Ministry of Interior, BMI

Though still in a minority position in both chambers of Congress, Cambiemos has emerged as the country's most powerful political bloc, offering Macri a renewed mandate to pursue his agenda while undermining Kirchner's efforts to unite the Peronist movement behind a hardline opposition.

TABLE: POLITICAL OVERVIEW

System of government	Republic. Bicameral national congress: senate and chamber of deputies. Executive power is vested in the president. The president appoints, with the approval of the Senate, the judges of the Supreme Court, civil servants, members of the judiciary and senior officers of the Armed Forces and bishops. The president and vice-president are elected directly for a four-year term, renewable only once.
Head of state	Mauricio Macri – Propuesta Republicana
Head of government	Mauricio Macri
Last election	General And Presidential: October 25, 2015 (Run-off Presidential: November 22, 2015)
Key figures	Vice-President: Gabriela Michetti; Minister of Finance: Luis Caputo; Minister of Treasury: Nicolas Dujovne
Main political parties	Frente para la Victoria (FPV): centre-left political front and faction of the Partido Justicialista (Peronists, PJ). Led by former president Cristina Fernández de Kirchner.
	Propuesta Republicana (PRO): The centre-right party of Mauricio Macri that has only recent risen to national prominence following a strong performance in 2013's legislative elections.
	Unión Cívica Radical (UCR): oldest existing political party in Argentina. Traditional opposition to Peronist governments. Member of the Socialist International organisation.
	Peronist opposition parties: A number of former FPV and PJ members, including Frente Renovador politician Sergio Massa in Buenos Aires province, have formed smaller political blocs that stand in opposition to the FPV, often referred to as 'Dissident Peronists'.
Next election	Legislative: October 2017
BMI Short-Term Political Risk Index	65.8
BMI Long-Term Political Risk Index	61.6

Source: BMI

Argentine assets have risen on the results, and we expect direct investment inflows will pick up substantially following the election, supporting our constructive growth outlook (*see 'Investment Will Drive Growth Acceleration', August 23*). Although portfolio investors have largely maintained robust appetite for Argentine assets over recent quarters, fixed-asset investors have remained on the sidelines due to concerns over the durability of Macri's reform efforts. In light of Cambiemos' success – the coalition is the first to win in all of the country's five most populous provinces since 1985 – such concerns are likely to fade.

We have upgraded Argentina's score on our Short Term Political Risk Index to 65.8 out of 100, from 63.8. This reflects our improving assessment of the country's policy-making process and policy continuity. Argentina now ranks 5th out of 17 Latin American countries on the index.

Cambiemos' strong performance reflects improving economic conditions, opposition to Kirchner and division within the Peronist movement. Over recent weeks, corruption investigations implicating Kirchner and several of her former ministers, union-led strikes against the government's budget and the search for a missing indigenous-rights activist had led to shifting polling numbers in a few competitive areas, particularly the province of Buenos Aires. However, the results were far more decisive. Amid strong participation, Cambiemos outperformed its August open primary results, securing 40.6% of the vote overall. Critically, in the province of Buenos Aires, Cambiemos' senate candidate Esteban Bullrich defeated Kirchner by approximately four percentage points.

Although Kirchner will nonetheless have a seat in the Senate, her influence will be significantly diminished. Other leaders within the broader Peronist movement remain strongly opposed to her agenda, and her support is increasingly concentrated in just the suburbs of Buenos Aires and the provinces of Santa Cruz and Tierra del Fuego. According to the preliminary results, Cambiemos gained 21 seats in the Chamber of Deputies, for a total of 107 out of 257, while Kirchner's bloc lost 10 seats, falling to 67 total. In the Senate, Cambiemos gained nine seats, for a total of 24 out of 72, while Kirchner's bloc lost eight seats, falling to 10 total.

We expect significant legislation to begin moving through Congress over the coming quarters. Aiming to avoid public pushback and facing more strident opposition in the lead-up to the election, the government largely avoided pushing reforms over the last year. Key priorities will include a resumption of cuts to public utility subsidies in order to narrow the fiscal deficit, provincial budget reforms to reduce financing needs, tax reforms to improve competitiveness and capital market reforms to encourage foreign investment.

Long-Term Political Outlook

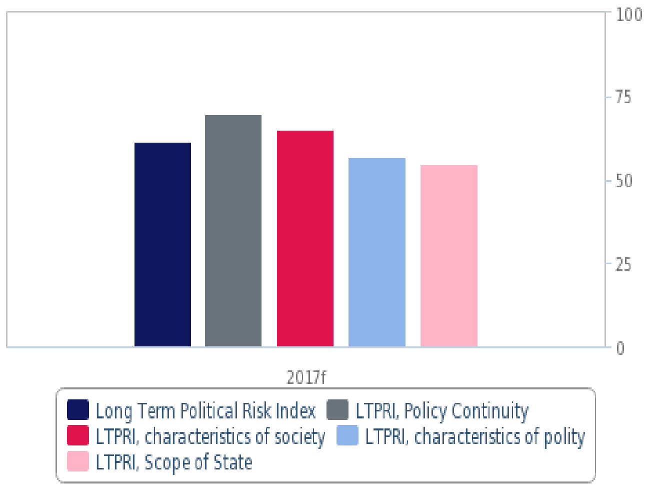
Under Macri, Discourse Moves To The Centre

BMI VIEW

Argentina scores above the Latin American average in our Long-Term Political Risk Index, but continued stability hinges on the government's ongoing policy pivot towards more market-friendly policies. While the election of Mauricio Macri is set to usher in a more reform-minded government, we highlight several risks which could threaten the country's multiyear political outlook.

Smooth Transfer Of Power Signals Political Stability

Long-Term Political Risk Index Sub-components, Out Of 100



f = BMI forecast. Source: BMI

Economic reforms will dominate the Argentine government's agenda in the coming years, as policymakers seek to bolster economic growth and address substantial external imbalances. Argentina's October 2013 midterm election marked the beginning of a shift away from the interventionist style practiced by former President Cristina Fernández de Kirchner and her Frente para la Victoria, culminating in the election of Mauricio Macri to the presidency in November 2015. While reforms will receive pushback from Fernández's political base, the electoral results indicate that the public is largely in favour of more investor-friendly policies, which will push legislators to work with Macri on reform proposals. This policy will boost growth towards the end of our 10-year forecast period, but a substantial economic adjustment is likely to weigh on social stability in the next few years.

This assessment is reflected in Argentina's score of 61.6 out of 100 in our Long-Term Political Risk Index, which places just above the Latin American average. However, should large public protests arise in response to the economic reforms, we could be encouraged to revise down Argentina's score. Such protests materialised in the early 2000s when Argentina's economy went through a significant recession as reserves dwindled and the country removed its currency peg while forcibly converting dollar-denominated bank accounts to pesos at an unfavourable exchange rate.

Opposition Victory Will Begin Political Shift

Falling public support for Fernández's Frente para la Victoria (FpV), evident in 2015's local level elections, underpin our view that Argentine politics have begun to shift away from the populist trajectory of the past 12 years. The FpV lost its majority in the lower house of the legislature and maintains a narrower majority in the senate than polls had initially predicted. This underperformance has led to more centrist members of the FpV blaming the far-left of the party for these losses, which will likely make these politicians more amenable to working alongside the Macri-led government. This shift comes amid mounting popular discontent over the failure of the government's unorthodox economic policies, and a desire to move back towards the more traditional centre-left policies from the early days of Néstor Kirchner's government.

Given this backdrop, Argentine politics are set to trend broadly towards more orthodox economic policies in the coming years. Independent far-left politicians not aligned with the FpV broadly underperformed according to initial polling data and previous election results. Sergio Massa, a more centrist dissident Peronist (a broad Argentine political ideology that has recently been dominated by the FpV's far-left policies) who broke away from the FpV in 2013, has embraced the majority of Macri's platform, supporting our view that policies will veer towards the centre. However, social issues will remain a point of contention. The FpV has long opposed Macri's policies on issues such as security and policing following scandals in his time as the mayor of Buenos Aires. With crime remaining a major issue on a new government's agenda, we believe that the FpV and Macri could clash on these security and social policies.

More Fundamental Reforms To Follow The Election

A settlement with holdout investors was negotiated in H116, after it was prioritised by the Macri government ahead of implementing other reforms in an attempt to forestall significant capital flight. A settlement will pave the way for Argentina to resume coupon payments on its external debt and attract moderately stronger inbound investment.

Other significant economic reforms include reining in Argentina's budget deficit, tightening monetary policy to control inflation, and harmonising official economic statistics with independent estimates. These reforms – in particular, a pull-back in public spending – could drive public opposition, especially from Argentina's powerful bloc of public-sector unions. Cuts to subsidies on power, which would lead to rising costs for consumers, could also lead to rising dissent as disposable incomes contract. As mentioned above, should widespread public protests occur, we would likely revise down Argentina's score in our Long-Term Political Risk Index.

Risks To 'Policy Pivot' View Loom Large

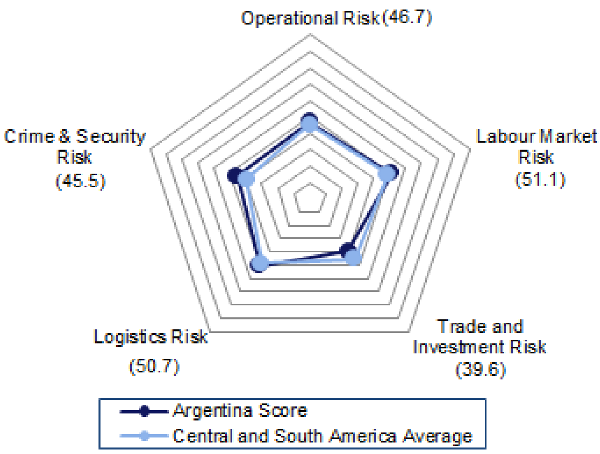
Our core view is that Argentina will maintain more business friendly policies in the coming years as Macri looks to attract foreign investment and boost economic growth. However, we acknowledge that there are significant risks to this view as the FpV maintains a majority in the country's senate. Should the FpV remain unified and rally under its more populist leadership, they could derail Macri's agenda.

Operational Risk

***BMI*'s Operational Risk report series provides a comprehensive overview of potential risks facing investors operating in a country, as well as a cross-country regional evaluation of threats and advantages. The Operational Risk service evaluates Logistics Risk, Trade and Investment Risk, Labour Market Risk and Crime and Security Risk. Below are sections from these reports.**

Structural Trade And Investment Risks Continue To Weigh On Overall Performance

Argentina & Regional Average – Operational Risk Scores



Source: BMI Operational Risk Index. 100 = Lowest Risk; 0 = highest risk

Argentina's operating environment has received a boost following the election of the moderate and pro-business president, Mauricio Macri, in November 2015. The reforms implemented by the Macri administration are allowing foreign investors greater opportunities to take advantage of Argentina's developed economy, with a broad agricultural and industrial base, regionally low crime rates, adequate transport connections to major cities and ports, and a skilled workforce. However, the absence of long-term planning in government policymaking over the last decade has undermined the operating environment, raising numerous barriers to doing businesses. These include underinvestment in logistics infrastructure, poorly implemented education reforms and interventionist economic policies that pose obstacles to international trade and foreign investment. Consequently, Argentina is placed in the middle of the pack regionally in **BMI**'s Operational Risk Index, in 10th position out of 20 Central and South American states, with a score of 46. 7 out of 100.

Trade And Investment (39.6/100): The most significant risks to investors stem from the continued effects of the previous government's protectionist economic agenda, which increased barriers to trade through import controls and more restricted access to foreign currency. The administration of President Cristina Fernández de Kirchner also intervened directly and indirectly in business operations, nationalising several private companies and entering into acrimonious arbitration processes in order to pay compensation to the firms affected. The banking sector is weak and lending has been crippled by restricted access to international financial markets. In addition, the bureaucratic and tax regimes are onerous, and corruption is widespread. These manifold issues pose considerable risks to business activities, though the barriers to foreign investors are falling following the election of business-friendly President Mauricio Macri in November 2015.

TABLE: OPERATIONAL RISK

	Operational Risk	Labour Market Risk	Trade And Investment Risk	Logistics Risk	Crime And Security Risk
Argentina Score	46.7	51.1	39.6	50.7	45.5
Central and South America Average	45.6	48.7	45.5	48.8	39.4
Central and South America Position (out of 20)	10	6	16	10	6
Latin America Average	48.5	50.3	49.8	47.2	46.9
Latin America Position (out of 42)	28	17	36	16	23
Global Average	49.7	50.2	50.0	48.7	49.9
Global Position (out of 201)	113	90	139	91	111

Source: BMI Operational Risk Index. 100 = Lowest risk; 0 = highest risk

Crime And Security (45.5/100): Argentina boasts fewer security risks than most other major economies in Latin America, with the influence of criminal gangs in particular far less pervasive than in Brazil, Mexico or Colombia. In addition, the risk from terrorism or interstate conflict is low, despite lingering tensions with the UK over the sovereignty of the Falkland Islands. Nonetheless, concerns remain over the efficacy and accountability of the security services, particularly in the aftermath of the death of prosecutor Alberto Nisman in January 2015. In addition, violent protests have occurred in recent years, causing damage to business property, and criminal gangs continue to wield some influence, mainly in the porous border region with Brazil and Paraguay. The vulnerability of businesses to cyberattacks and financial crime is also a key concern.

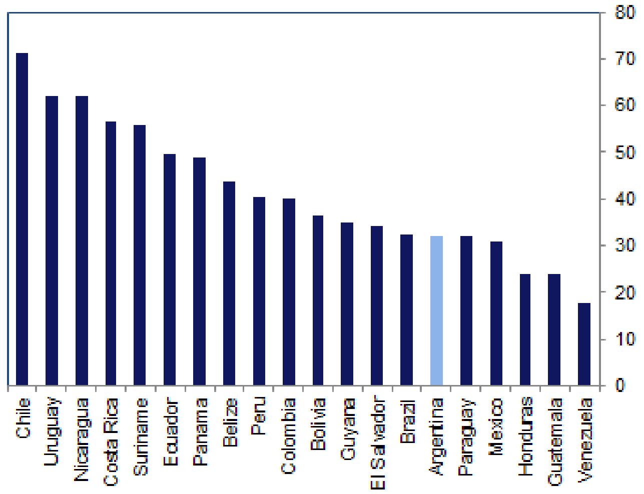
Logistics (50.7/100): Risks inherent in Argentina's logistics network further undermine the country's appeal as a location for foreign direct investment. Chief among these is a lack of investment in logistics infrastructure, including electricity networks, fuel refineries, roads, railways, ports and inland waterways. Subsidies have resulted in underinvestment in infrastructure by utilities companies, and the risk of water shortages and blackouts disrupting business operations is high. Furthermore, the lack of development in alternative freight modes means that supply chains are subject to delays caused by a poor-quality road network and fuel shortages. However, abundant natural resources, widely available internet connections and strong transport links that facilitate efficient export supply chains, mean Argentina offers some logistics advantages in comparison with regional peers.

Labour Market (51.1/100): Argentina's labour market offers yet more concerns for investors. The most pertinent risk in this regard is the exorbitant costs incurred when employing workers, due to an elevated minimum wage, extensive mandatory staff benefits and high social security contributions. In addition, elevated inflation is resulting in widespread union agitation for significant wage rises, further adding to the costs faced by businesses and increasing the risk of disruption due to strikes. The education system is also in need of reform, as piecemeal changes introduced thus far have been criticised by both students and teachers and caused more harm than good. Nevertheless, Argentina's large, urbanised and healthy workforce, which boasts a high skill level thanks to a historically strong education system, results in a wide pool of labour from which businesses can recruit.

Business Crime

Argentina is not a major target for financial or cybercrime and the presence of criminal gangs is less pervasive than in other states in Latin America. Businesses nevertheless remain somewhat exposed to criminal activity such as money laundering and smuggling of counterfeit goods. Cybercrime is a growing concern and the lack of government protection means that businesses must take precautions to ensure data is protected. The most significant security costs faced by investors will be in terms of ensuring the safety of expatriate staff and physical assets, as private securit y firms will often be required. Together, these risks act as a significant deterrent to setting up operations in Argentina, reflected in a poor score of 3 2.1 out of 100 for Business Crime, ranking the country 1 5 th out of 20 Central and South American states, just below Peru but ahead of Mexico and Colombia.

Money Laundering, Cybercrime Pose Risks To Businesses
Central & South America – Business Crime Risk



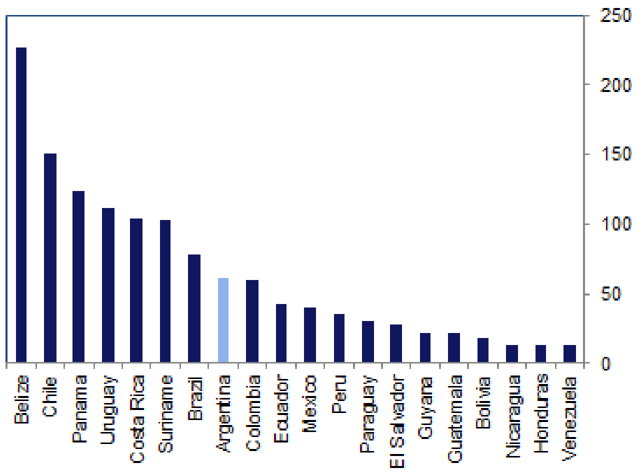
Source: BMI Crime and Security Risk Index. 100= Lowest risk; 0= highest risk

Argentina was among the countries struck by the 'Petya' cyberattack which spread from Ukraine around the world in June 2017. Ports operated by Chinese firm Cofco in the city of Rosario were allegedly disrupted by the cyberattack, which brought down the company's systems and forced operations to continue offline. This caused notable delays to the loading and unloading of cargo at the country's key grain terminals, resulting in supply chain bottlenecks. The effects of this attack were relatively isolated, but its occurrence indicates the ease with which criminals can disrupt transport networks and demonstrates potential for much wider disruption if nationwide transport services were to be brought down by a cyber incident.

Argentina has once again been listed as a 'Major Money Laundering Country' in the US State Department's International Narcotics Control Strategy Report 2017, along with almost all other Latin American states. Though the report highlights tangible improvements in anti-money laundering regulations and capabilities under the administration of President Mauricio Macri, it notes that enforcement remains weak. Improving AML compliance and bolstering the powers of the Financial Information Unit are key, but these changes will take time to implement, leaving money laundering and other financial crimes a key concern for Argentina in the medium term.

High Exposure To Cybersecurity Risks

Central & South America – Secure Internet Servers (per mn people)



Source: BMI, World Bank

A successful operation conducted by Argentine and Chinese security services in June 2016 resulted in the arrest of 40 people suspected of involvement in Chinese criminal organisations. This strikes a blow against the growing problem of organised crime in Argentina, showing that the authorities are taking a proactive stance towards tackling the issues and that cooperation between national security services can yield successful results. Chinese criminal organisations are gaining ground in Latin America as political and economic ties strengthen, so the coordination of investigations between the two national security forces could provide a blueprint for future investigations.

White Collar Crime And Organised Crime

Argentina boasts one of the most developed financial industries in Latin America and its internet infrastructure is similarly advanced, with a high penetration rate, which increases the risk that businesses will be subject to financial crimes or cyberattacks. Although Argentina is a member of the global Financial Action Task Force (FATF), there are some wide gaps in the enforcement of financial regulations that may be exploited for money-laundering purposes and this risk has increased since restrictions on access to foreign currency have driven a thriving black market for dollars. Cybercrime is also a risk to businesses and the country is one of the top targets for cyberattacks in Latin America, although the government is developing cybersecurity capabilities. Due to these considerations, Argentina scores 42.0 out of 100 for Financial Crime and Cybercrime, placing 15th out of 20 states in the Central and South America region.

The security costs faced by businesses in Argentina are primarily incurred due to the protection required for offices, production facilities and foreign workers against criminal activity, which may include 24-hour guards, electronic surveillance and gated communities. In addition, costs will be further increased due to the need for cybersecurity measures that must be taken by individual businesses. More hidden costs are likely as a result of the continuing infiltration of organised crime, which will facilitate the proliferation of black market goods and therefore undercut output of legitimate businesses, as well as foster the perpetuation of corrupt practices in the establishment. Nevertheless, the security costs posed to companies in Argentina are lower in comparison to other South American states, making it a somewhat more attractive location for investment. This is reflected in a ranking of 12th out of 20 states in the Central and South America region for Business Costs of Crime, which places Argentina ahead of Brazil, Peru, Colombia and Mexico, despite a low score of 22.3 out of 100.

Financial Crime: Although Argentina's financial industry has suffered in recent years alongside its generally poor macroeco-

TABLE: BUSINESS RESPONSE TO WHITE COLLAR AND ORGANISED CRIME

Risk	Risk Level	Business Response To Risk
Business crime	High	• Hire financial crime teams to conduct extensive due diligence and particularly in the real estate, banking and financial services sectors. • Provide in-house cybersecurity teams or outsource to dedicated firms. • Conduct regular cybersecurity training for personnel and encourage best-practices such as frequent password changes. • Investigate options for cyberinsurance or storing data in protected offshore centres. • Establish patent protection for products and be prepared for legal disputes and losses due to counterfeit items.

Source: BMI

nomic performance, it remains one of the most sophisticated and liquid in the region, drawing in a large number of investors and handling large cash transfers on a regular basis. This leaves it at a greater exposure to financial crimes, particularly as financial regulations are still in the process of being refined and tightened to match international standards. Argentina is one of the 34 member states of the global FATF, as well as the affiliated Financial Action Task Force of Latin America (GAFILAT), which are intended to foster global collaboration and standardisation of anti-money laundering (AML) laws. The country was placed under the FATF's monitoring process in 2010 due to the absence of a sufficient body of AML legislation, which meant that there were numerous legal loopholes to be taken advantage of for illicit purposes.

These deficiencies have allowed organised criminal groups to make use of the Argentine financial industry for transferring illicit funds and processing transactions involved with drug trafficking and other criminal activities. Argentina has grown in importance in the supply chain for illegal substances, with drugs grown in states such as Colombia and Mexico making their way into Argentina before being sold to the domestic market or exported to Europe and North America. This has been a contributory factor in the growing influence of transnational criminal gangs in the country, which have consequently been able to make use of legal loopholes to transfer illicit funds around the globe. This increases the risk that banks, financial institutions and real estate brokers, among other entities used to facilitate large cash transfers, will be at risk from processing illegal transactions which may result in substantial fines and reputational damage. For example, the Argentine government announced legal proceedings against HSBC in March 2013, alleging that the bank helped to facilitate money laundering and tax evasion to the value of USD77mn.

The policies of the Argentine government under former president Cristina Fernández de Kirchner have somewhat exacerbated the risk of money laundering and undermined the regulation of financial transactions. The administration introduced restrictions on access to foreign currency for both individuals and companies based in Argentina in an attempt to reduce the country's import bill and manipulate the exchange rate. The availability of foreign currency dried up due to the failure to come to an agreement with investors over repayment of the country's defaulted bonds, which left Argentina shut out of international debt markets. Consequently, a thriving black market for dollars emerged as legitimate businesses and individual consumers were forced to purchase dollars illegally in order to maintain operations and purchase imported goods. This also fuelled money laundering activities due to the profits available from selling dollars on the black market.

Significant deficiencies in financial regulation remain. Though the government has expanded the range of companies that must be compliant with international financial reporting standards (IFRS) and this now includes all publically traded firms, the number of suspicious transaction reports supplied to the authorities has varied and dropped to a relatively low 25,589 in 2014, compared to 35,705 in 2012. In addition, the effective investigation and analysis of these reports remains lacking, meaning that money laundering activities are not adequately investigated. Although there were 20 prosecutions for money laundering offences in 2013, there were no successful convictions, indicating that the legal system is not yet capable of effectively enforcing AML legislation.

Nevertheless, AML legislation has been updated in recent years, leading to the country being removed from the FATF's monitoring programme in 2014. The government response to financial crime is also improving under President Macri, not least due to the normalisation of economic policies since 2015, including liberalisation of the exchange rate regime, relaxation of restrictions on international trade, and the deal reached to allow Argentina to return to international debt markets. These reforms have reduced the incentive for illicit money flows and offshore investments, while tax information exchange agreements have been signed with several countries, including the US, helping to track undeclared assets. Further reform is needed to strengthen enforcement of AML legislation and improve communication and resources available for financial oversight mechanisms, but the overall trend towards tighter regulation is positive for investors and the reputation of the country's financial industry.

Cybercrime: As a relatively developed country with high incomes and a sophisticated, but vulnerable, internet infrastructure, Argentina is a top target for cybercrime in Latin America. Cybercriminals are more likely to target wealthy nations with a high volume of online activity than poorer countries, as though the risks and difficulties are the same, the rewards of a successful attack on a state with higher incomes are greater. Widespread access to the internet in Argentina, with internet penetration at an estimated 88.3% in 2015, the second highest regionally, means that a significant amount of activity occurs online, including monetary transactions conducted by individuals and businesses. This level of internet development means that businesses are somewhat vulnerable to cyberattacks, though they are less prevalent than in neighbouring Brazil, where they are estimated to affect up to a third of companies. Nevertheless, Argentine firms must ensure that their cybersecurity apparatus is up to standard to avoid large-scale data theft or financial losses.

Cybercrime largely takes the form of hacking of individual bank accounts and phishing, rather than industrial espionage or inter-state attacks. A 2012 survey by research firm Symantec found that Argentina ranked 18th out of the world's top 20 countries suffering from cybercrime. Symantec found that Argentina accounted for 1% of the global share of malicious computer activity, compared with 23% for the US, which ranked first for cybercrime. Despite its high level of internet penetration, Argentina lags behind many of its regional peers in terms of the number of secure internet servers available, with just 61.6 per 1mn people, behind states such as Brazil, Uruguay and Chile with lower internet penetration. This indicates that much online activity takes place using unsecured servers that do not include the encryption technology necessary to protect data and transactions from theft, increasing the potential for cybercrime activity.

Despite the focus of cybercriminals on individuals and the private sector, the response of the government thus far has largely been focused on preventing threats to the state and the military. That said, in 2008 the country passed a specific anti-cybercrime law, which established legal penalties for crimes such as hacking and data interception. In addition, in 2011 Argentina created a national cybersecurity plan, as part of which it set up a National Programme of Critical Information Infrastructure and Cybersecurity. There is also a dedicated cybercrime division of the Federal Police, which improves the capability of law enforcement to react to and investigate online criminal activity in the civilian sphere. Nevertheless, the government's focus has generally been on developing capabilities for cyberwarfare, with military officials claiming that both defensive and offensive measures should be enacted. The Argentina army recruits 'Computer Science Troops' to develop these capabilities, diverting resources and personnel from protecting the private sector. This leaves the role of cybersecurity largely the domain of individual businesses, consequently increasing costs due to the extensive preventative measures which must be taken.

Organised Crime: Argentina is not afflicted by powerful criminal groups to the same extent as some of its regional peers, such as Mexico and Brazil, with organised crime having a much lower impact on social and economic activities. However, criminal gangs exist in the country, with transnational criminal organisations from Mexico and Colombia increasingly establishing a presence in Argentina due to the easy availability of substances used in the production of cocaine and methamphetamines, a growing problem with drug addiction among the domestic population, and poorly policed borders that facilitate the movement of illicit goods and substances. In addition to local street gangs, which are involved in more low-level crime and drug trafficking, larger organisations are believed to be gaining greater influence in Argentina, including the Oficina de Envigado from Colombia and the Sinaloa Cartel from Mexico. Generally rising crime rates across central and northern Argentina suggest that organised crime groups from Brazil and Bolivia are also beginning to increase their presence in this area.

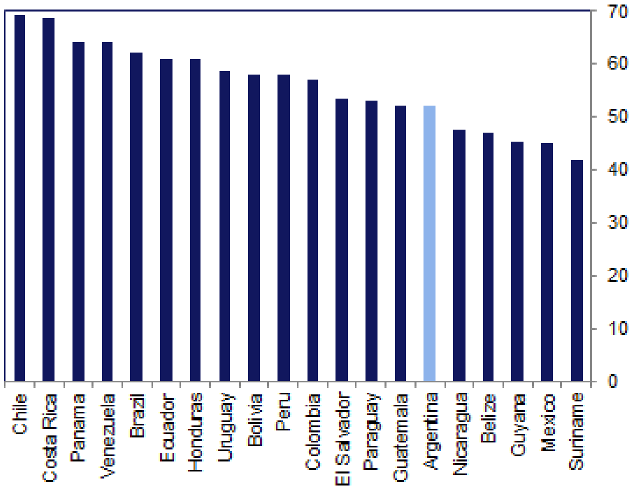
The majority of organised crime groups operate in the lawless triple-frontier region between Argentina, Paraguay and Brazil. Argentina is on the drug trafficking route from the Andean producer countries out through ports on the Atlantic coast and the presence of groups engaged in trafficking tends to produce a concomitant rise in crime rates. Moreover, a growing drug market in Argentina's cities is turning it into an end destination for drugs, rather than a transit country. Street gangs are more commonly active in urban areas and carry out crimes ranging from street theft to violent assaults. They may also be involved in low-level drug distribution but do not control territory or engage in large-scale drug trafficking, such as the criminal gangs in Rio de Janeiro and Sao Paulo in neighbouring Brazil. The city of Rosario in central Argentina is becoming particularly renowned for the prevalence of organised criminal groups, which has contributed to a significant spike in homicide rates over recent years.

In addition to an uptick in violent crime and a general deterioration in the security environment, the primary concern for businesses from organised crime is the persistence of smuggling and the proliferation of counterfeit goods. Argentina is already widely recognised for its huge black market, which manifests itself in physical form in a large open air market known as La Salada, in which counterfeit goods are easily available. Argentina has once again been listed by the US Trade Representative on the 'Priority Watchlist' for 2017, indicating significant concerns over deficiencies in the legislation and enforcement surrounding intellectual property rights. As criminal gangs continue to expand their presence in the country, activities such as smuggling will increase, leading to an even greater boom in the counterfeit goods market. This is of primary concern for businesses which rely on patent, copyright or trademark protection for their products, such as those in the pharmaceuticals and software industries, as they are more likely to face competition from cheaper imitations and therefore suffer significant loss of revenue.

Business Response: Businesses are not required to take substantial additional security measures in order to protect intellectual property and online assets from cybercrime and organised crime in Argentina, but investors must nonetheless ensure that adequate precautions are taken. Measures to reduce the risk of exposure to money laundering and cybercrime will be necessary, including establishing due diligence procedures and investing in up-to-date cyber protection, but security costs will not weigh on business profits to the same extent as in neighbouring Brazil or other major Latin American economies.

Ongoing Reform Process Leaves Short-Term Risks Heightened

Central & South America – Market Size & Utilities Risk



Source: BMI Logistics Risk Index. 100 = Lowest risk; 0 = highest risk

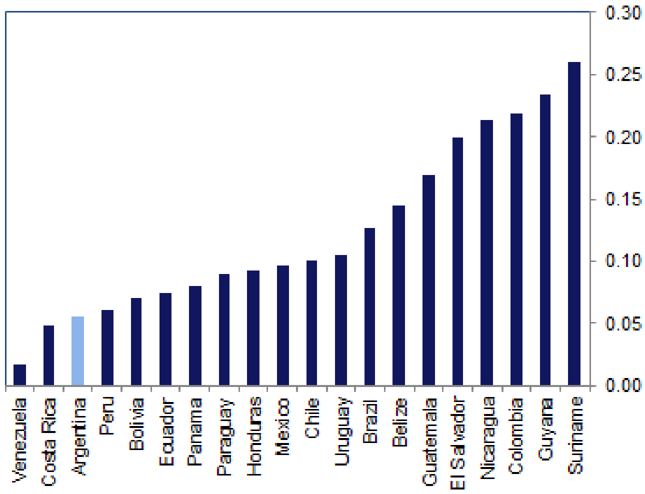
Market Size And Utilities

The utilities sector in Argentina is undergoing significant changes introduced by the new government in 2016, which will negatively impact businesses over the short term but will lead to crucial improvements in the reliability of the utilities supply over the longer term. Years of subsidies covering electricity, gas, fuel and water costs have resulted in underinvestment in production and infrastructure, leading to unreliable utilities supplies and a high risk of disruption to business activities.

The removal of these subsidies from 2016 onwards has spurred a huge increase in utilities costs, while businesses will continue to face the risk of disruption to utilities supplies. However, these risks will subside as the removal of price caps will free up funds for utilities companies and encourage foreign investment, resulting in expansion of production and upgrades to network infrastructure. Argentina's moderate score of 52.0 out of 100 for Market Size and Utilities reflects the current changes underway in the sector, placing the country in an uncompetitive 15th position out of 20 Central and South American states.

Rising Costs Will Address Reliability Issues

Central & South America – Electricity Costs (USD Per KWh)



Source: World Bank 'Doing Business' report

Latest Market Size And Utilities Analysis:

- The Argentine government launched a rapid programme of raising utilities prices at the beginning of 2016 as it aimed to reduce the burden of subsidies on the state, which have cost it an estimated USD51bn over the last 13 years. This continued in 2017, with the government raising electricity prices by between 60-90% in Buenos Aires, for example, while fuel subsidies were also been cut once again in January. In the short term, this will result in significant increases in utilities costs for businesses, adding considerably to the overall cost of business operations, weighing on profit margins for 2016, and stoking inflation. In the long term, however, the elimination of subsidies will prove beneficial for the stability of the utilities supply, by boosting the profits of utilities providers and encouraging them to reinvest in upgrading ageing infrastructure and expanding capacity.

- The potential for worker's strikes to disrupt the utilities sector will be more limited over the medium term due to a labour contract agreed in January 2017 which will provide stability to labour relations in the oil and gas industry. Strike action has been common in the sector, as indicated by a strike of 24,000 oil workers in the state of Neuquen in June 2016, and labour disputes have disrupted the fuel supply in the past. Consequently, a new labour contract which improves labour-employer relations will reduce this risk, as well as encourage investment in the sector to boost production and the reliability of the fuel supply.

Utilities Costs And Reliability

Despite benefiting from relatively abundant domestic reserves of oil and gas, Argentina has been unable to take advantage of these resources to ensure a stable utilities supply. Lack of foreign investment in the hydrocarbons industry has limited development of resources and efficiency of production, while infrastructure is ageing and unreliable. In addition, worker's strikes in the oil sector have hindered production and threatened the fuel supply in recent years. As a result, shortages of both electricity and fuel have disrupted business activities, largely displacing the benefits provided by generous government subsidies, which keep costs low. The large-scale elimination of subsidies in 2016 has seen costs rise considerably over a short period of time, but an expected increase in investment in the hydrocarbons and power sectors will lead to a more reliable energy supply over the medium term. At present, Argentina

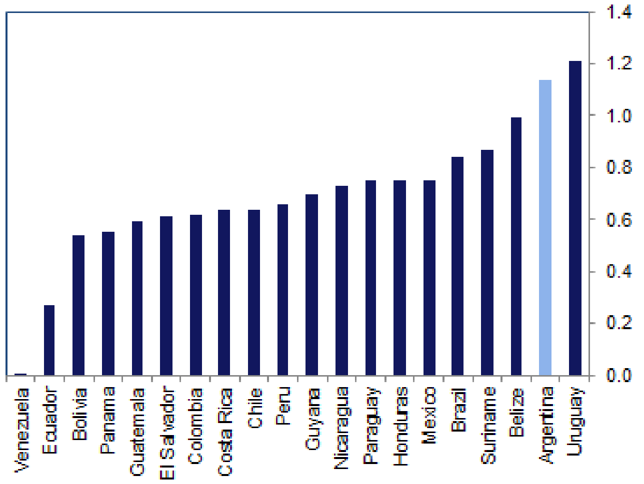
TABLE: ELECTRICITY RISKS

Source	
Energy mix (2016 BMI estimates): natural gas (59.2%), hydropower (26.3%), oil (10.7%), nuclear (4.6%), coal (3.3%), non-hydropower renewables (2.4%)	• Argentina's power generation mix is well diversified, with natural gas responsible for the majority of electricity generation, followed by hydropower, oil and nuclear. However, this does mean that the electricity supply is overly dependent on the unreliable hydropower sector, which is affected by changing climactic conditions such as droughts. This can lead to a shortfall in electricity generation, increasing the reliance on thermal fuel sources during periods of drought and heightening the risk of electricity shortages. • Furthermore, increasing demand for electricity surpasses the output of domestic reserves of oil and gas, meaning that Argentina is becoming more reliant on thermal fuel imports for power generation. Most of Argentina's oil and gas is sourced from refineries in Trinidad and Tobago and neighbouring Bolivia. • The country has also become a net importer of electricity from surrounding states with which it is connected on a larger grid, namely Brazil, Chile, Paraguay and Uruguay. The latter provided Argentina with emergency electricity supplies during a period of chronic shortages in December 2013.
Availability	
96.4% of the population has access to electricity	• Access to electricity is widespread, reaching 96.4% of the population according to the latest available data. This means business will be less restricted with regard to their location, and are less likely to require private generators in remote or rural areas. • Nevertheless, investors should be aware that they will face delays in getting connected to the mains electricity grid, which takes 92 days in comparison to the regional average of 64.6, adding to the time taken to begin operations in Argentina.
Reliability	
1.9 average monthly power outages, resulting in 3.5% of sales value lost. Transmission and distribution losses: 14.3% of output	• Problems with drought and a lack of investment in electricity production, transmission and distribution, have resulted in power shortages as generation has struggled to keep pace with demand. In 2010, blackouts affecting businesses averaged 1.9 a month, more frequent than in Chile (0.7) and Mexico (1.6), but fewer than in Guatemala (2.3). This led to businesses losing the equivalent of 3.5% of sales value, more than in Guatemala (2.8%) even though blackouts were less frequent. • Electricity shortages frequently cause blackouts at peak times during the summer months, most recently in January 2014. This seriously disrupts business activity, particularly as blackouts are not managed and will therefore be difficult to mitigate against. Consequently, businesses may have to rely on private generators to ensure a constant electricity supply, particularly during summer months. • On the positive side, reforms to the subsidy regime were announced by the new government in January 2016, leading to a reduction in consumption while supporting revenues for the power companies, allowing increased investment in infrastructure by private companies as their profit margins will be greater. Greater capacity for electricity generation will begin to come online over the medium term, to some extent addressing the shortfall issues.
Cost	
USD0.06 per kilowatt hour (KWh)	• Low prices have traditionally been the main positive for investors in Argentina in terms of the electricity supply. At present, Argentina offers businesses the sixth lowest electricity costs in Latin America, at USD0.06 per kilowatt-hour. • However, this cost-competitiveness is being eroded as the government seeks to reduce the burden of subsidies. In January 2016 it announced that electricity prices would be raised in the greater Buenos Aires region, and other areas of the country are likely to follow. • Though this will increase costs for businesses, it will result in a more stable power supply over the medium term as utilities companies are in a better position to invest in increasing production and upgrading infrastructure. Consequently, the overall impact for businesses will be positive despite a potentially significant short-term increase in costs.

Source: BMI, International Energy Agency, national sources underperforms for Electricity and Fuel, scoring 42.7 out of 100, which places the country 18th out of 20 states regionally.

Removal Of Subsidies Raising Fuel Costs

Central & South America – Cost Of Fuel (USD per diesel litre)



Source: BMI Logistics Risk Index. 100 = Lowest risk; 0 = highest risk

The water sector is affected by similar problems, as despite adequate water resources, droughts and substandard infrastructure contribute to shortages which affect industry and agriculture, jeopardising production of the country's economically vital exports, such as soybeans. Businesses in Argentina do stand to benefit from widespread internet availability and relatively high levels of broadband penetration, which ensures strong access to reliable and high-speed internet connections. Broadband download speeds do lag behind regional peers, however, limiting internet use by businesses. Argentina scores 61.4 out of 100 for Telecommunications and Water, largely on the back of its widespread internet access, ranking it seventh out of 20 countries in Central and South America.

Electricity: Although generous subsidies in the past have kept electricity costs low for businesses, they have led to a lack of investment in infrastructure. This has resulted in problems with generation and distribution, which cause frequent power shortages, particularly at peak times during summer months. Blackouts can therefore seriously disrupt business activity in Argentina, forcing businesses to rely on expensive back-up generators. This situation is unlikely to improve significantly in the short term, and businesses will be hit by rapidly rising electricity prices and subsidies are abandoned.

Over the longer term, greater investment in the power grid will

TABLE: FUEL RISKS

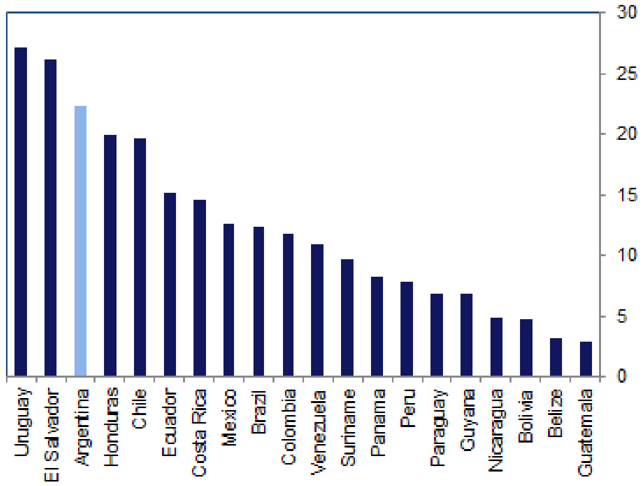
Source	
Substantial domestic reserves but a net importer of fuel.	• With around 2.4bn barrels of proved oil reserves, Argentina has considerable natural resources which are under production by a variety of oil majors. The largest player is state-owned YPF, with operations in 59 oil fields. • However, domestic refining capacity is not capable of meeting demand for fuel, and consequently the country is a net importer of refined products, entailing greater risks of disruption to the fuel supply chain.
Availability	
Refined petroleum net exports: -125,400 b/d	• Argentina benefits from large oil reserves and significant domestic refining capacity, however, this is unable to keep pace with the demand for fuel in the country. This means that refined petroleum has to be imported, which raises the price of fuel. • This is significant as refined petroleum is not sourced from nearby oil-rich Latin American countries, but mainly from the US, the Netherlands and Russia. This entails long supply chains which are at a higher risk from disruption, increasing the potential for shortages. Lengthy supply chains and reliance on refined as opposed to crude oil imports, also pushes up the price of fuel.
Reliability	
	• The dynamics of subsidised fuel, which leads to huge demand but a lack of investment in exploration and production, have resulted in dwindling reserves of refined products. • Consequently, in 2011 an oil workers strike which halted production triggered fuel shortages as the stock of refined products was quickly used up. This risk of fuel shortages remains tangible, as in January 2015 a strike by oil workers at the state-owned oil company YPF occurred in the province of Mendoza, blocking output at a refinery which supplies 20% of the country's fuel. • This highlights the potential for strike action to disrupt the fuel supply in Argentina. As the majority of supply chains in the country are road based, fuel shortages have a significant impact on freight transport and the wider economy. Businesses reliant on road freight transport must therefore be prepared to face potential disruption to their operations.
Cost	
USD1.14 per diesel litre	• The consumer has historically been shielded from fuel price rises due to government subsidies, which kept prices insulated against external shocks. Fuel costs have, however, risen sharply over the last five years, from USD0.84 per diesel litre in 2010, to USD1.14 per diesel litre in 2016, which is among the highest in the region. • Since January 1, fuel prices have risen by 30% as the government has gradually lifted costly subsidies. Argentina's dwindling oil reserves and the unsustainable subsidies mean that fuel prices will continue rising to market rates, adding further costs to businesses reliant on road-based supply chains.

Source: BMI, Global Petrol Prices

provide a more reliable supply.

Well-Established Internet Infrastructure Benefits Communications

Central & South America – Broadband Subscribers (per 100 people), 2015



Source: BMI Logistics Risk Index. 100 = Lowest risk; 0 = highest risk

Fuel: Despite large oil resources and a well-established refining sector, the domestic fuel supply in Argentina is unable to meet demand, with the country increasingly reliant on more expensive imported fuel. In addition, the domestic oil and gas sector is subject to frequent strikes which increase the risk of fuel shortages. This poses a serious risk to road-based supply chains, which are the dominant mode of freight transport in the country.

Argentina boasts widespread internet usage and a strong internet infrastructure, which improves the ease of business communications and indicates that there is significant potential in the e-commerce sector. However, neighbouring countries enjoy much faster download speeds, and business use of the internet lags behind most of its regional peers.

Water: The complicated management of the water sector in Argentina has led to a lack of investment and poor harmonisation of infrastructure, meaning the country is unable to ensure a reliable water supply. Water shortages have become a serious issue in recent years, affecting both residential property and industrial usage, and threatening to cause significant disruption to the

TABLE: TELECOMMUNICATIONS RISKS

Source	
Telecom Argentina, Telefónica, GC IMPSAT Argentina, COMSAT Argentina, numerous mobile operators.	• The Argentine telecommunication sector is well-established and consists of a wide range of players, including four operating in the fixed-line internet market. This allows for some degree of competition, which ensures prices are dictated by the market and investment in more stable and higher-speed broadband infrastructure continues.
Availability	
22.4 broadband subscribers per 100 people (BMI 2015 estimate)	• Businesses in Argentina benefit from relatively extensive fixed-line infrastructure, with 22.4% of the population enjoying a broadband internet connection. • This compares well to the country's South American neighbours, with only Uruguay boasting higher broadband penetration, meaning that there is greater access to stable and higher-speed internet connections than in many regional peers. • Nevertheless, there remains considerable scope for expansion, particularly in terms of rolling out fibre optic cables which offer the most advanced internet services.
Reliability	
	• The main risk to stable internet access in Argentina is the electricity supply, which has been plagued by blackouts in recent years, and these also bring down internet connections. This situation is expected to improve with greater investment going into the electricity sector. • Download speeds remain somewhat slow by regional standards, delaying communications and hindering smooth online operations, but further development of fibre optic infrastructure will improve this over the medium term.
Cost	
Fixed broadband internet tariffs USD34 per month	• Broadband tariffs are relatively uncompetitive compared to regional peers. Although costs are lower than in Chile and Peru, a number of South American countries offer lower tariffs, including Colombia, Mexico, Brazil and Uruguay. • Many of these countries also offer better high-speed connections than Argentina, making them more attractive locations for companies reliant on internet access and global online communication.

Source: BMI, World Economic Forum's Global Information Technology Report 2015

TABLE: WATER RISKS

Source	
Renewable internal freshwater resources per capita: 6,794 cubic metres (cu m)	• Argentina has moderate freshwater resources available for use by businesses, though its renewable internal resources lag behind peers such as Peru, Chile, Colombia and Uruguay. • Freshwater withdrawals are also the fifth highest in the region, increasing the strain on the domestic water supply and raising the risk of shortages, particularly during droughts.
Availability	
99.1% of the population has access to improved drinking water	• The vast majority of the Argentine population has access to the mains water supply, meaning that businesses do not have to rely on providing bottled water for employees, reducing expenses. The quality of the water supply is safe for drinking, though it does require extensive treatment prior to distribution.
Reliability	
	• The poor management of the water sector means that the country's limited renewable freshwater resources cannot be utilised effectively. • In addition, droughts mean that water shortages are common during summer months, with some Buenos Aires residents left without mains water for up to two weeks in 2013. Consequently, even though drinking water is widely available, businesses may find that they will face extra costs due to the need to provide bottled drinking water for employees during periods of drought. • The risks from water shortages significantly affect the economically vital agricultural industry, which requires a constant supply for the irrigation of crops. Ongoing private investment and funding provided by international agencies, such as the World Bank, should ensure that improvements continue, but BMI warns that water shortages will remain a risk to business activity over the medium term.
Cost	
	• Like other utilities in Argentina, water has traditionally been heavily subsidised by the government. While this has reduced costs for businesses, the consequent lack of investment in infrastructure has undermined the reliability of the supply. • The new government announced that it was abandoning subsidies on water tariffs in April 2016, with charges rising by as much as 279% in some cases for residential users. Consequently, businesses are likely to see significant price hikes, particularly if they use water-intensive processes. • Nevertheless, this is expected to bring benefits over the medium-long term, as utilities will have greater spending power to invest in upgrading infrastructure and treatment, reducing the risk of shortages.

Source: BMI, CIA World Factbook

Above-Trend Growth Spurs Central Banks To Act

- BMI's global real GDP growth forecasts for 2017 and 2018 raised by 0.1pp in each year, to 3.2% and 3.1% respectively.

- Growth forecast upgrades in November highlighted by improved outlook for world's four largest economies: US, China, Japan and the eurozone.

- Monetary policy set to tighten against positive macro backdrop, with US leading the way and EM central banks having less room to ease.

- Despite cyclical improvement, structural issues to weigh on growth in the long term.

We have raised our growth forecasts for the world's four largest economies: the US, China, Japan and the eurozone, and in turn this has pushed up our global real GDP growth forecasts for 2017 and 2018 by 0.1 percentage points (pp) in each year, to 3.2% and 3.1% respectively. Both our emerging and developed markets aggregate growth forecasts have risen, with the increased pace of economic activity through the second half of 2017 thus far affirming our 'good as it gets' outlook for global growth and trade. We still see structural headwinds dragging down global growth as a whole over the longer run, with 3.1% annual expansion on average over 2017-2018 to fall slightly, to 3.0%, in the ensuing five-year period. Emerging markets excluding China will buck this trend, but in general, the current pace of global growth is

TABLE: GLOBAL MACROECONOMIC FORECASTS

		2016	2017f	2018f	2019f	2020f	2021f
Real GDP Growth, % y-o-y							
	US	1.5	2.2	2.2	2.0	1.9	1.9
	Eurozone	1.8	2.2	1.8	1.6	1.5	1.5
	Japan	1.0	1.8	1.5	0.5	0.4	0.4
	China	6.7	6.8	6.5	6.2	5.8	5.4
	World	2.6	3.2	3.1	3.0	2.9	2.9
Consumer Inflation, % (ave)							
	US	1.8	2.0	2.0	2.1	2.1	2.1
	Eurozone	0.4	1.5	1.8	1.8	1.8	1.9
	Japan	-0.1	0.7	2.0	2.8	2.9	3.0
	China	1.8	1.6	1.8	2.2	2.3	2.4
	World	2.5	2.7	2.8	2.9	2.8	2.9
Interest Rates, % (eop)							
	Fed Funds Rate	0.5	1.3	1.8	2.3	2.3	2.3
	ECB Refinancing Rate	0.0	0.0	0.0	0.0	0.3	0.8
	Japan Overnight Call Rate	-0.1	-0.1	-0.1	0.0	0.3	0.5
Exchange Rates (ave)							
	USD/EUR	1.11	1.13	1.10	1.15	1.17	1.17
	JPY/USD	108.81	112.00	117.00	121.00	122.00	123.00
	CNY/USD	6.65	6.81	6.74	6.79	6.85	6.91
Oil Prices, USD/bbl (ave)							
	OPEC Basket	40.76	50.50	54.00	60.00	67.00	69.00
	Brent Crude	45.13	53.50	57.00	63.00	70.00	72.00

f = forecast. Source: BMI

likely to prove unsustainable.

Our expectations of monetary policy tightening have ratcheted up in November alongside these GDP revisions, with the low volatility, above-trend economic growth seen in most parts of the global economy providing opportunity to policymakers to normalise to varying degrees. In emerging markets, a combination of weaker exchange rates, rising commodity prices and firming economic growth will result in a modest uptick in inflation over the coming months, in our view. Accordingly, we believe that the interest rate cutting cycle has largely run its course in EMs. For instance, Brazil's central bank has cut interest rates by 625 basis points (bps) since the start of 2017, but we expect the bank to move to a neutral stance in 2018.

In the US, the announcement of Jerome Powell as the nominee to serve as the next chair of the US Federal Reserve, succeeding Janet Yellen, is unlikely to be a gamechanger for monetary policy in and of itself. Even so, clearer signs that core inflation will pick up over the coming quarters have led us to raise our end-2017 Fed funds rate forecast is up from 1.00-1.25% to 1.25-1.50%, while we still expect 50bps of hikes in each of 2018 and 2019. In total, this implies a 25bps increase to our end-2019 Fed funds rate forecast, from 2.00-2.25% to 2.25-2.50%. For 2018 and 2019, this keeps us above the futures markets but below the projections of the Fed policymakers themselves.

With the US central bank continuing on a hawkish path, it puts the contrast with the UK and eurozone in somewhat stark relief. Though the latter two have tightened policy in November, in line with the global theme, each did so in a 'dovish' way. The Bank of England (BoE), facing a weak growth outlook but an elevated inflation prognosis due to Brexit-related supply-side weakness, delivered a 'dovish hike' in the benchmark interest rate

TABLE: DEVELOPED STATES – REAL GDP GROWTH, % y-o-y

	2016	2017f	2018f	2019f
Developed States Aggregate Growth	1.6	2.2	2.0	1.8
G7	1.4	2.1	1.9	1.7
Eurozone	1.8	2.2	1.8	1.6
EU-27	1.9	2.2	1.9	1.8
Selected Developed States				
Australia	2.5	2.1	1.8	2.2
Austria	1.5	2.3	1.8	1.8
Belgium	1.2	1.6	1.5	1.5
Canada	1.5	3.1	2.0	2.0
Czech Republic	2.4	4.3	3.3	2.4
Denmark	1.7	2.2	2.1	1.9
Finland	1.9	3.0	2.0	1.6
France	1.2	1.7	1.8	1.7
Germany	1.9	2.3	1.8	1.6
Hong Kong	2.0	3.5	3.0	2.5
Ireland	5.2	4.2	3.6	3.1
Italy	0.9	1.4	1.0	0.8
Japan	1.0	1.8	1.5	0.5
Netherlands	2.2	3.0	1.8	1.7
Norway	1.1	1.7	2.0	1.7
Portugal	1.4	2.5	1.9	1.3
Singapore	2.0	3.2	3.0	2.8
South Korea	2.8	3.2	3.0	3.2
Spain	3.2	2.9	2.2	2.2
Sweden	3.2	3.1	2.5	2.5
Switzerland	1.4	0.8	2.0	1.8
Taiwan	1.5	2.7	2.5	2.8
United Kingdom	1.8	1.5	1.2	1.5
United States of America	1.5	2.2	2.2	2.0

f = forecast. Source: BMI

from 0.25% to 0.50% on November 2. However, we believe the BoE will keep its benchmark rate on hold throughout 2018, and for 2019 we have left our end-of-period rate forecast at 1.00%, contingent on our core view of a transition deal being agreed between the EU and UK, which facilitates a relatively benign Brexit outcome. The European Central Bank (ECB)'s tapering announcement in October points the way to a gradual exit from extraordinary accommodation, but its tone in delivering the news gave us no reason to change our mind that its policy will remain very easy for years. Our core view remains that the ECB will continue expanding its balance sheet into 2019 and keep its benchmark interest rates on hold until 2020, a policy mix that will keep the euro on the back foot against the US dollar.

Developed States

Developed States will expand by 2.2% on aggregate in 2017 and 2.0% in 2018, up from our previous forecasts of 2.1% and 1.8% in those years respectively, propelled by improved prospects for the Japanese, eurozone and US economies.

In Japan, the combination of surging equity prices and Prime Minister Shinzo Abe's re-election in October has given us cause to upwardly revise our real GDP growth forecast to 1.5% for 2018 from 0.5% previously (our 2017 estimate remains 1.8%). While the re-election of Abe's reform-minded government among other factors presents upside risks to long-term economic output, and we maintain our core view that Japan's real GDP growth will average just 0.4% between 2019 and 2026.

The eurozone expansion continues to hum along, and we have raised our real GDP growth forecast for 2017 to 2.2% from 2.1%. Real GDP growth in Q217 was revised up from 0.6% q-o-q to 0.7%, while the preliminary estimate of Q317 came in at 0.6% q-o-q and 2.5% y-o-y, the latter being the strongest since

TABLE: EMERGING MARKETS – REAL GDP GROWTH, % y-o-y

	2016	2017f	2018f	2019f
Emerging Markets Aggregate Growth	**4.2**	**4.6**	**4.8**	**4.7**
Latin America	-0.5	1.5	2.3	2.5
Argentina	-2.3	2.9	3.2	3.5
Brazil	-3.6	0.4	1.7	1.9
Mexico	2.3	2.0	2.1	2.2
Middle East and North Africa	2.8	1.8	2.3	2.6
Saudi Arabia	1.7	-0.5	1.3	2.0
UAE	3.0	2.2	2.9	3.4
Egypt	4.2	4.1	4.9	4.6
Sub-Saharan Africa	1.8	2.5	3.8	4.0
South Africa	0.3	0.8	1.3	1.8
Nigeria	-1.5	1.5	3.0	3.5
Emerging Asia	6.4	6.4	6.3	6.1
China	6.7	6.8	6.5	6.2
India*	7.1	6.4	6.7	6.6
Indonesia	5.0	5.1	5.3	5.4
Malaysia	4.2	5.3	5.0	4.6
Philippines	6.8	6.3	6.3	6.1
Thailand	3.2	3.4	3.4	3.6
Emerging Europe	1.7	3.1	2.8	2.6
Russia	-0.2	1.6	1.7	1.7
Turkey	2.9	4.3	3.3	2.9
Hungary	2.0	3.6	3.3	2.6
Romania	4.8	5.4	3.8	3.6
Poland	2.8	4.1	3.6	3.2

*f = forecast; *Fiscal years ending March 31 (2017 = 2017/18). Source: BMI*

2011. Subdued core inflation data, at the same time, supports the ECB's recent 'dovish taper' of asset purchases in 2018. Our 2018 real GDP forecast remains unchanged at 1.8%. The only sour note comes from Spain, where the ongoing crisis surrounding Catalonia's attempts to secede will weigh on the national economic recovery in the years ahead. We have revised down our Spanish real GDP growth forecasts from 3.0% to 2.9% in 2017 and from 2.4% to 2.2% in 2018.

Meanwhile, the US economy posted its second consecutive quarter of annualised growth of 3.0% q-o-q or above in Q317, beating both consensus and regional Federal Reserve 'nowcast' estimates, which anticipated growth of about 2.6%. While we expected the US economy to largely shrug off the impact of Hurricanes Harvey and Irma in H217, we expected Q3 to be weaker, with losses to be made up in Q4. With the economy more resilient than we expected, we have upgraded our real GDP growth forecasts for both 2017 and 2018 by 0.1pp to 2.2% in each year. While slightly more optimistic, we do not believe the current rate of growth to be sustainable, with underlying expansion (which we gauge by the 'final sales to domestic purchasers' sub-indicator of GDP) somewhere closer to 2.0% than 3.0%.

Emerging Markets

EMs continue to enjoy an acceleration in real GDP growth, on the whole, supported by relatively firm demand in the US, eurozone and China, rising commodity prices and generally positive investor sentiment towards EMs. In tune with this upbeat picture, the main revisions we have made to our growth forecasts over November have been to the upside. We have raised our projections for two EM giants, China and Russia, following better-than-expected data in both cases. That said, as outlined below, we temper our optimism, given structural challenges in both countries – and indeed, many other EMs, particularly the commodity producers.

Focusing first on China, we have revised upward our forecasts for real GDP growth on the back of the latest quarterly GDP data. In Q317, the Chinese economy grew by 6.8% y-o-y, supported by fiscal stimulus as policymakers sought to keep growth elevated in the run-up to the 19th National Congress of the Communist Party of China. Given that the figure was higher than we anticipated, we have notched up our forecasts for real GDP growth to 6.8% in 2017 and 6.5% in 2018, from 6.6% and 6.3% respectively. However, we expect growth to slow gradually over the coming quarters, as the Chinese government allows credit growth and fiscal spending to wind down. The relatively strong economic performance over the past three quarters will provide the opportunity for policymakers to tackle structural issues such as overcapacity, speculation in the property market and rising local government debt.

With regard to Russia, we have raised our real GDP growth forecast for 2017 from 1.2% to 1.6% to account for stronger than anticipated economic activity in Q217. Real GDP growth expanded by 2.5% y-o-y, following an acceleration of 0.5% in the previous quarter, and marking the strongest pace of expansion since 2012. The uptick was driven primarily by stronger household spending and a rebound in fixed investment, which suggests that the economic recovery is finally picking up steam on the back of stronger domestic demand. We have also increased our forecasts for GDP growth in 2018, albeit more moderately, from 1.6% to 1.7%. We expect growth to hover around the 1.7% mark thereafter, mirroring our long-held view that the economy will remain on a sluggish growth trajectory by historical standards, owing to structural constraints stemming from a lack of progress in much-needed reforms.

TABLE: ARGENTINA – MACROECONOMIC DATA & FORECASTS

	2016e	2017f	2018f	2019f	2020f	2021f	2022f	2023f	2024f	2025f	2026f
Nominal GDP, USDbn	545.2	641.4	772.8	871.7	880.7	902.2	932.9	962.4	993.6	1,024.4	1,056.7
Nominal GDP, EURbn	492.7	567.6	702.6	758.0	752.8	771.1	797.4	822.6	849.3	875.5	903.2
GDP per capita, USD	12,433	14,488	17,293	19,326	19,352	19,650	20,143	20,605	21,097	21,574	22,079
GDP per capita, EUR	11,237	12,821	15,721	16,805	16,540	16,795	17,216	17,611	18,032	18,439	18,871
Real GDP growth, % y-o-y	-2.3	2.9	3.3	3.5	3.6	3.3	3.3	3.7	3.2	3.4	3.4
Private final consumption, % of GDP	66.1	65.4	65.3	65.3	65.5	65.4	65.4	65.3	65.0	64.8	64.6
Private final consumption, real growth % y-o-y	-1.4	3.1	3.0	3.6	3.6	3.0	3.4	3.0	2.8	2.8	2.8
Government final consumption, % of GDP	18.4	18.2	17.8	17.6	17.2	17.1	16.8	16.6	16.4	16.3	16.1
Government final consumption, real growth % y-o-y	0.3	3.0	1.0	2.1	1.5	2.0	2.0	2.0	2.0	2.0	2.0
Fixed capital formation, % of GDP	14.8	15.1	15.7	16.2	16.6	17.0	17.5	18.0	18.6	19.1	19.7
Fixed capital formation, real growth % y-o-y	-5.5	6.8	7.0	6.7	6.0	6.1	6.0	6.0	7.0	6.0	6.2
Population, mn	43.85	44.27	44.69	45.10	45.51	45.91	46.31	46.71	47.10	47.48	47.86
Unemployment, % of labour force, eop	7.6	6.9	6.5	6.0	5.5	5.2	5.3	5.4	5.1	5.1	5.1
Consumer price inflation, % y-o-y, ave	41.2	26.4	18.1	11.7	6.5	5.0	5.0	5.0	5.0	5.0	5.0
Lending rate, %, ave	31.2	28.9	27.9	19.8	12.8	9.8	9.8	9.8	9.8	9.8	9.8
Central bank policy rate, % eop	24.75	28.75	20.50	12.50	6.50	6.50	6.50	6.50	6.50	6.50	6.50
Exchange rate ARS/USD, ave	14.78	16.54	16.73	17.15	18.69	19.76	20.74	21.78	22.87	24.01	25.22
Exchange rate ARS/EUR, ave	16.35	18.69	18.40	19.73	21.86	23.12	24.27	25.48	26.76	28.10	29.50
Budget balance, USDbn	-32.1	-38.2	-37.9	-31.0	-18.1	-16.0	-13.0	-10.8	-9.0	-7.1	-5.1
Budget balance, % of GDP	-5.9	-6.0	-4.9	-3.6	-2.1	-1.8	-1.4	-1.1	-0.9	-0.7	-0.5
Goods and services exports, USDbn	71.2	73.3	80.6	87.4	95.4	104.2	113.8	124.3	135.8	148.3	162.0
Goods and services imports, USDbn	71.2	84.2	92.8	99.9	108.5	117.7	128.2	139.5	151.9	165.4	180.1
Balance of trade in goods and services, USDbn	-0.6	-10.9	-12.2	-12.5	-13.0	-13.5	-14.3	-15.2	-16.1	-17.1	-18.1
Balance of trade in goods and services, % of GDP	-0.1	-1.7	-1.6	-1.4	-1.5	-1.5	-1.5	-1.6	-1.6	-1.7	-1.7
Current account balance, USDbn	-15.0	-23.4	-30.0	-32.6	-35.9	-37.0	-38.6	-40.2	-42.0	-43.7	-45.6
Current account balance, % of GDP	-2.8	-3.7	-3.9	-3.7	-4.1	-4.1	-4.1	-4.2	-4.2	-4.3	-4.3
Foreign reserves ex gold, USDbn	38.8	55.2	80.1	100.1	118.1	133.5	148.1	164.4	182.5	202.6	224.9
Import cover, months	6.5	7.9	10.3	12.0	13.1	13.6	13.9	14.1	14.4	14.7	15.0

e/f = BMI estimate/forecast. Source: National sources, BMI

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