

Argentina Business Forecast Report Q1 2011

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Abstracts

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Emerging From Kirchner's Shadow Argentina's economy is firing on cylinders as we head into 2011, with strong demand from China and Brazil, coupled with ongoing fiscal stimulus, helping to drive robust economic growth. However, with the government still running a distortive economic policy mix and the death of former President Néstor Kirchner throwing the 2011 presidential and parliamentary elections wide open, our cautious medium-term stance towards the economy remains firmly in place. In the Q111 Argentina Business Forecast Report we analyse the key challenges facing the Argentine economy as it moves into election year, and argue there is little chance of major policy shifts ahead of the election remains unlikely.

The death of former President Néstor Kirchner has brought to an end the career of the dominant force in Argentine politics for much of the last decade. While the ramifications of his death are likely to dominate the political landscape until the upcoming presidential and parliamentary elections in October 2011, we believe that the prospects for significant policy shifts in the short term are slim. That said, should the opposition be able to come together and identify one – or two – potential presidential candidates for next year's election over the coming months, we believe it will be in a strong position as the vote draws nearer.

For now, Argentina's economy appears to be one of Latin America's success stories, with the real GDP growth of 8.0% in 2010 set to be followed by 4.1% in 2011. While undoubtedly an impressive recovery, we believe that the headline figures disguise the massive imbalances which continue to plague the Argentine economy – namely inaccurate reporting of data, loose fiscal policy, persistent government intervention and tight control of the currency – reinforcing our view that current growth rates are unsustainable beyond the relatively short term.

The announcement by Argentine finance minister Amado Boudou that the country is to invite the IMF to provide technical assistance to improve its inflation data marks potentially the most significant shift in economic policy since former President Néstor Kirchner replaced senior figures at the national statistics agency, IN DEC , in 2007. Coming hot on the heels of the reopening of talks with the Paris Club group of outstanding creditors, the move represents the latest in a series of market-friendly government decisions in recent weeks, and raises the prospect that the country's often-criticised official data may be revamped. Nevertheless, we will be looking for more concrete signs that the government is committed to producing more accurate inflation data before altering our generally cautious medium-term stance on the Argentine economy.

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