

Argentina Business Forecast Report Q1 2015

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Abstracts

Core Views

Tepid private consumption and a weaker net exports position will weigh on Argentine real GDP growth in 2015. A negotiated settlement allowing for the resumption of coupon payments on sovereign bonds in early 2015 will improve investor sentiment somewhat, but a substantial uptick in investment is unlikely while the current administration remains in power.

Pre-election spending and rising interest payments will see Argentina's primary and nominal budget deficits widen in 2015. The Argentine government will tap its foreign reserves in order to finance the budget shortfall, exacerbating the country's weak external account position. The Argentine government will allow the peso to depreciate over the coming months, as a drop in foreign currency reserves keeps downwards pressure on the exchange rate. We expect a more substantial devaluation to occur after the October 2015 presidential election, as political pressure will preclude a major currency adjustment ahead of the poll.

Major Forecast Changes

We revised down our 2016 exchange rate forecast, as we believe that an easing of capital controls under a newly-elected government will drive a sharp depreciation in the peso.

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BMI Political Risk Index

Domestic/Short-Term Politics

Local Election Result A Blow To FPV

A deteriorating economy, rising crime and a lingering debt standoff will weigh on political support for the ruling Frente Para la Victoria (FPV) ahead of Argentina's next presidential election in October 2015. A poor showing by the FPV in a recent local election has reinforced this view.

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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 October 2015 general election is set to usher in a more reform-minded government, we highlight several risks that could threaten the country's multiyear political outlook.

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Tepid private consumption and a weaker net exports position will weigh on Argentine real GDP growth in 2015. A negotiated settlement allowing for the resumption of coupon payments on sovereign bonds in early 2015 will improve investor sentiment somewhat, but a substantial uptick in investment is unlikely while the current administration remains in power.

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The Argentine government will allow the peso to depreciate over the coming months, as a drop in foreign currency reserves keeps downwards pressure on the exchange rate. We expect a more substantial devaluation to occur after the October 2015 presidential election, as political pressure will preclude a major currency adjustment ahead of the poll.

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Balance Of Payments

Wider Trade Surplus Will Not Prevent Drop In Reserves

A rebound in soy bean prices will drive a modest widening of Argentina's goods trade surplus in 2015, leading to a narrower current account deficit. However, rising interest payments on external debt will see foreign currency reserves continue to fall, underpinning our view that another peso devaluation will occur after the October 2015 presidential election.

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Pre-election spending and rising interest payments will see Argentina's primary and nominal budget deficits widen in 2015. The Argentine government will tap its foreign reserves in order to finance the budget shortfall, exacerbating the country's weak external account position.

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