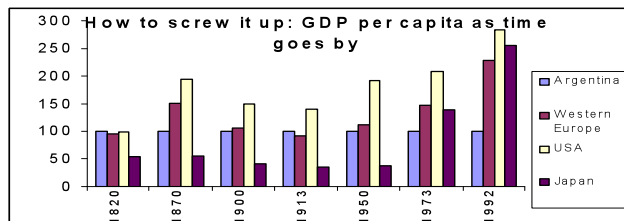


Economic and political trends for Argentina

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Managing decline

Argentina is normalised in 100. All counties measured in 1992-ppp-adjusted dollars. Source: Taylor-Della Paolera: “Straining the anchor”

Some define Argentina as the country that never misses an opportunity to miss an opportunity

Brief description of Argentina

- Argentina is the 25th economy of the world measured in dollars (a bit larger than Austria), but around the **21st measured in PPP** (purchasing power parity), roughly the size of Iran (not yet an axis of evil).
- GDP per capita is amongst the highest in the region along with Chile and Uruguay and it is roughly half of OECD average.
- Argentina is the 8th largest country in the world but has only 40 million people.
- Geopolitically it is less powerful than its economic power may suggest but its G20 membership brought a new opportunity.
- A diversified and modern economy. Key player in food & football (soccer).

A good place to do business if you have patience and some flexibility

- Good endowment of natural resources (agro, mining, energy) but also good human capital (Latin American context)
- Good demographics
- Flexible, high adaptation capacity
- 92.4% urban population
- Only Latin American country with Nobel Laureates in Science (3)
- Huge cable TV penetration, more than 1 mobile per person

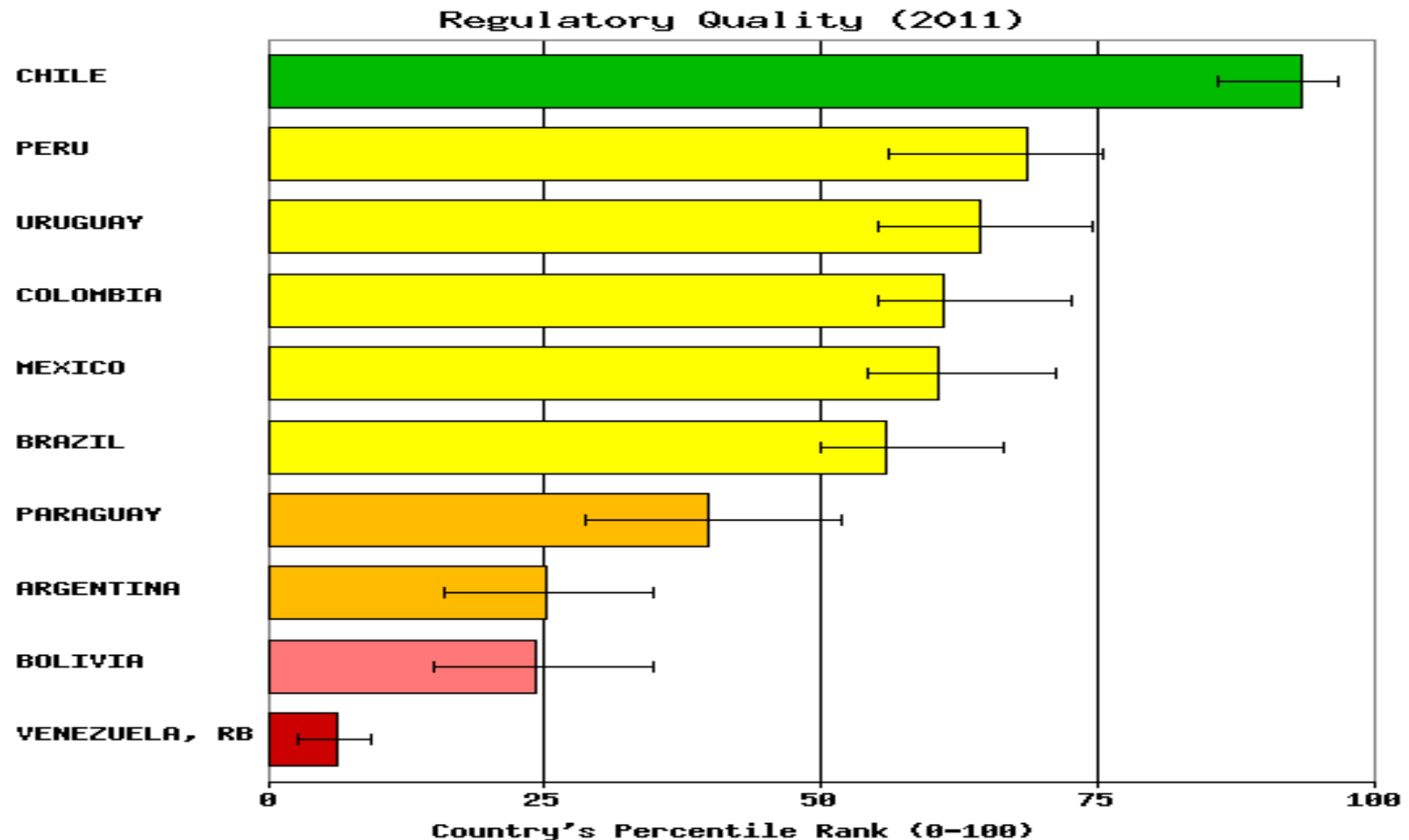
Business features

- Natural resource based economy
- Inward oriented. Exports + imports are only 35% of GDP
- Mercosur is important but not vital: trade is diversified. China is becoming critical.
- Contacts are key, sometimes better than having good products. Your external relations officer may be as important as your CEO
- Some 300 of the top 500 firms are foreign-owned
- Long term investment is a bizarre concept. Recurrent crises have eroded all long-term confidence.
- Crony capitalism or a “capitalism without markets, socialism without plan”, someone once said.
- **But there are plenty of opportunities as well. But you can't manage them with a remote control: you have to be here.**

The business climate

- It is today Argentina's weakest link
- For every solution there are 2 new problems
- Multinationals find it impossible to sell projects in Argentina to their boards. Inflation, dual exchange system, import restrictions and difficulties in remitting dividends are tough hurdles.

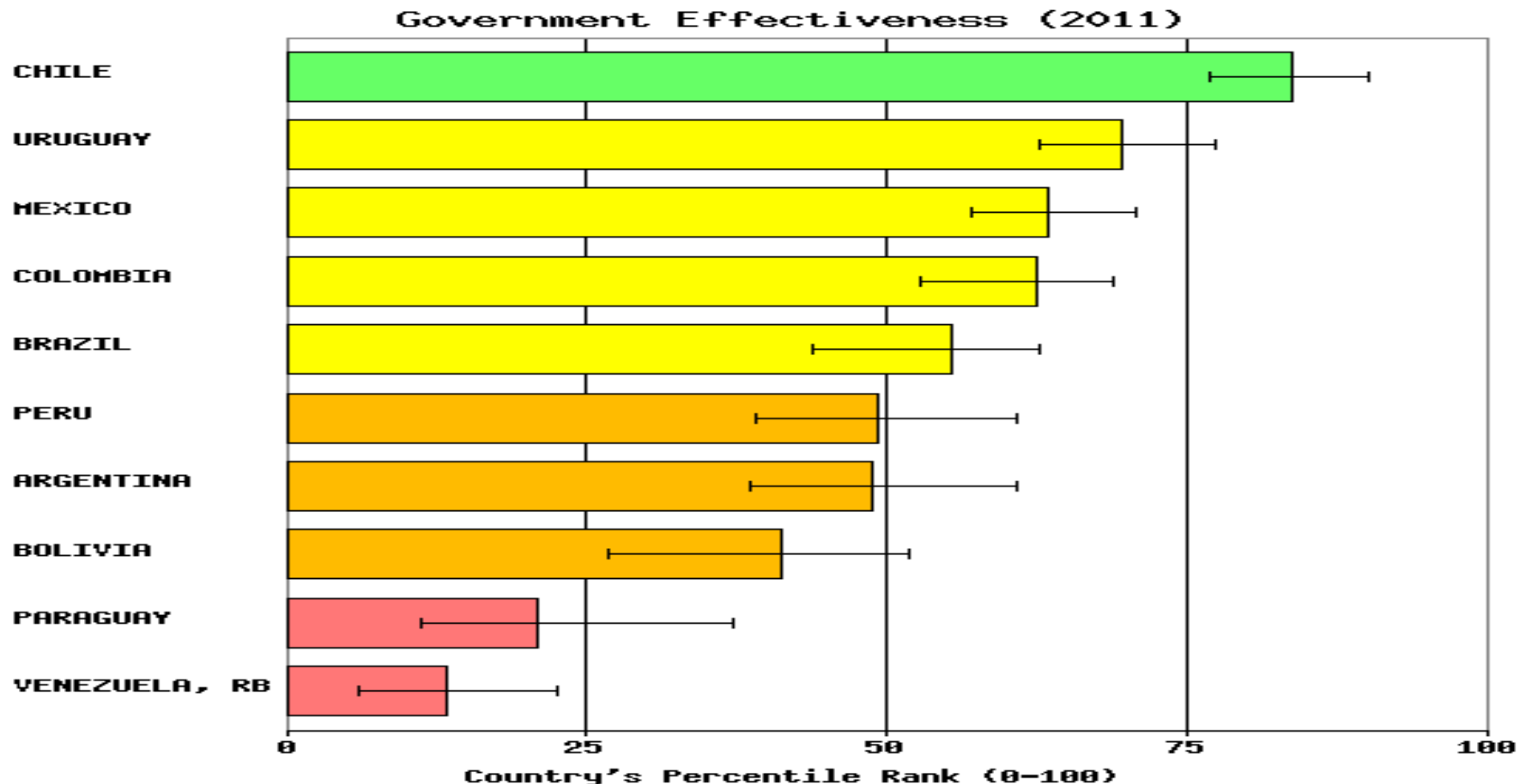
In Which league does Argentina play?



Source: Kaufmann D., A. Kraay, and M. Mastruzzi (2010), The Worldwide Governance Indicators: Methodology and Analytical Issues

Note: The Worldwide Governance Indicators (WGI) are a research dataset summarizing the views on the quality of governance provided by a large number of enterprise, citizen and expert survey respondents in industrial and developing countries. These data are gathered from a number of survey institutes, think tanks, non-governmental organizations, international organizations, and private sector firms. The WGI do not reflect the official views of the World Bank, its Executive Directors, or the countries they represent. The WGI are not used by the World Bank Group to allocate resources.

Not very effective government



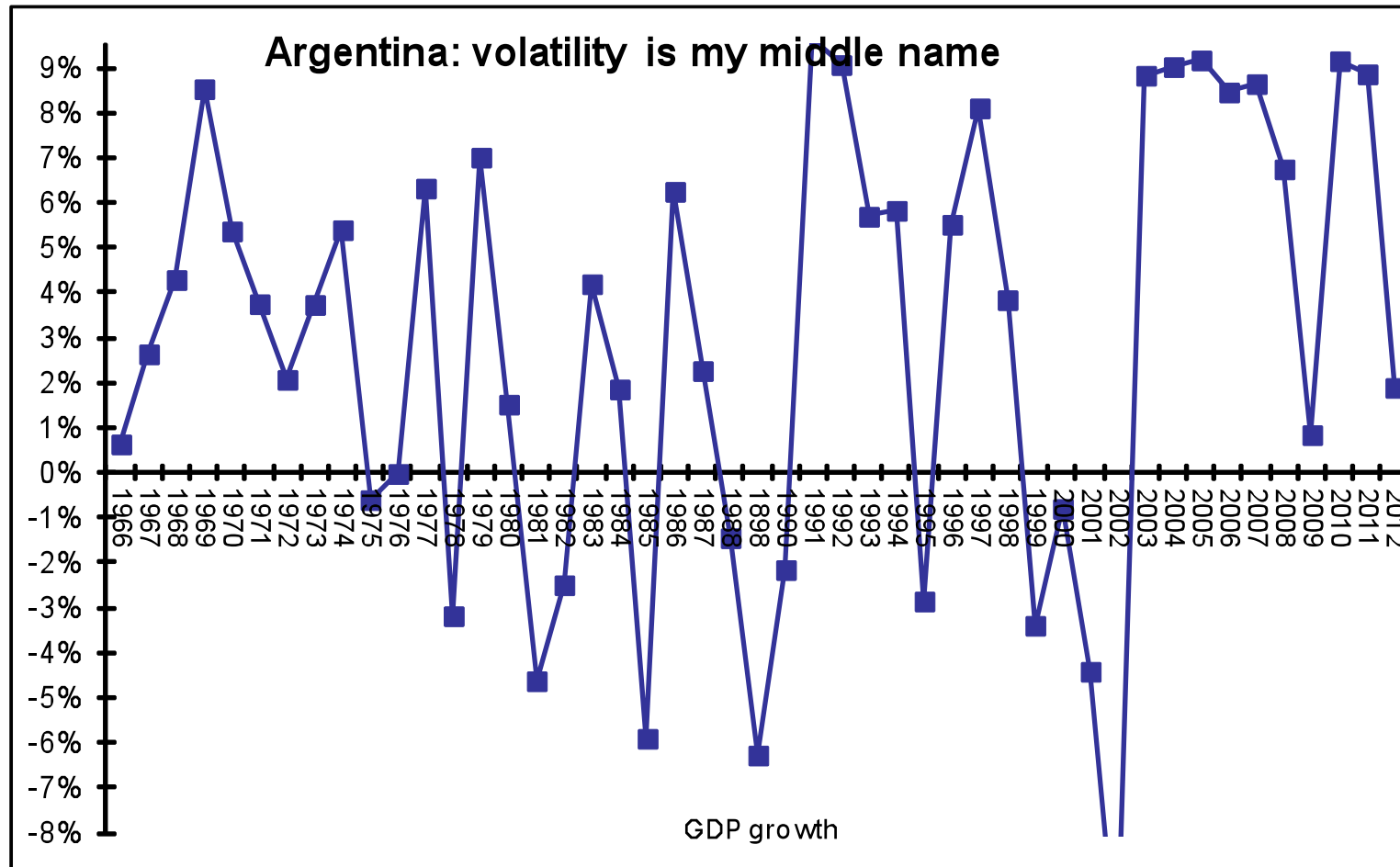
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A country that never misses and opportunity to miss an opportunity

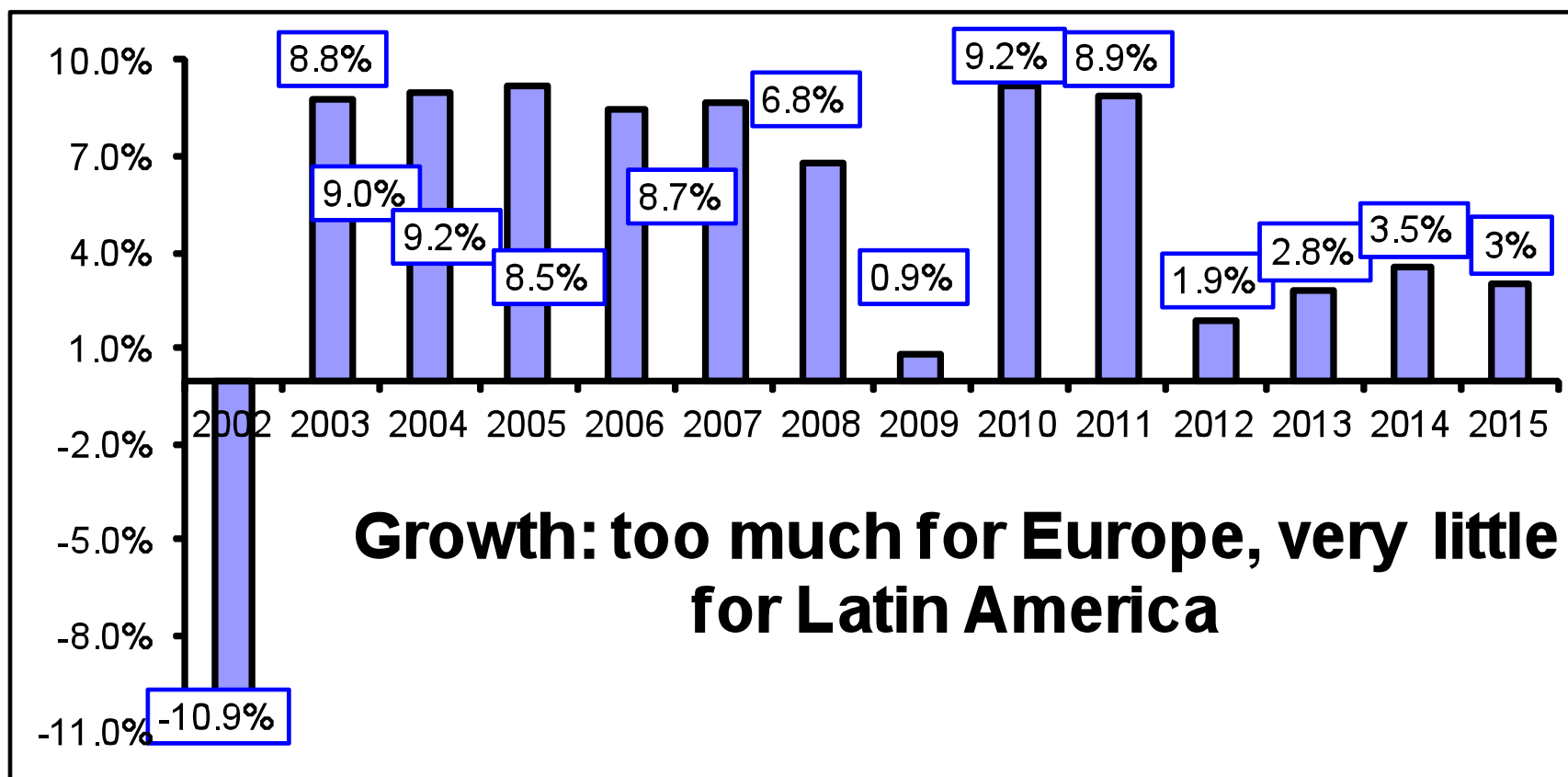
- Argentina is the 3rd most important country in Latin America but the 5th attractor of foreign direct investment in 2012. (Chile and Colombia capture more money than Argentina).
- This is a missed opportunity, mainly due to software problems (i.e. bad management)
- But given that the hardware is robust and Argentines are known for being extremely flexible, the crisis that some forecast from abroad looks highly unlikely

The roller coaster



- There are no normal years. Booms and busts are the standard. But chances are that Argentina can avoid the crisis in this super cycle.

From a bright decade to the “new normal...”



Argentina slowed down significantly in 2012. It is not going to crash but it is not rebounding very much either

Anatomy of a multiple crisis in 2001

- The Argentine meltdown recognises several sources:
 - Fiscal deficit
 - As a result debt became unsustainable
 - Banking crisis: In spite of good regulation, massive deposit withdrawals leads to illiquidity and bankruptcy. Partly related to the deficit
 - Overvalued currency, even more after Brazil devalued in 1999
 - Politics. The coalition in power was cracking and Peronism in opposition is an enemy you don't want to face.
 - Institutions did not provide a buffer for any of the problems described above.
 - **Greece does not fully show this problem. But watch this space.**

The basis of the recovery & boom were...

- Cheap peso to fuel exports and more importantly import substitution. **Gone. Inflation + strength of the dollar means that competitive devaluation's dead.**
- This in turn has generated jobs in low productivity sectors, some of which have spelt over the economy. 3.5 million new jobs in the economy since the crisis: unemployment down from 25 to 6.9%.
- Fiscal surplus. **No longer exists. Deficit. Small compared to Europe/US but no market access.**
- Re-monetisation of the economy. **Capital flight. Central Bank prints money that people don't want. Financial repression to cope with it.**
- Biased towards growth in the trade off against inflation. **But inflation generated poverty effects in consumers. Poverty inelastic to growth!!**
- Spare capacity. **Gone**
- Incredibly good external factor. Global liquidity, commodity prices and global growth have all played a key role. **The world is not paradise these days. But as long as China holds...**

The 5 key weaknesses of Argentina now

- Lack of confidence leading to capital flight. (Argentines took away USD 70 billion in 4 years. There are not enough dollars. So black market. There are 4 kind of dollars, at least.
- There is a smallish fiscal deficit but the bulk is financed through printing pesos or using Central Bank's reserves. No market access, still in default with the Paris Club and a few others. Facing sanctions in the IMF for data manipulation.
- Inflation well established in double-digits. Now around 26%,
- Worsening business climate. Over regulation of everything. A complicated web of crossed subsidies, price controls and protectionism. Difficulties to remitt dividends abroad.
- The decision of the Supreme Court in the US on sovereign debt issue.

Pros and cons in the short term

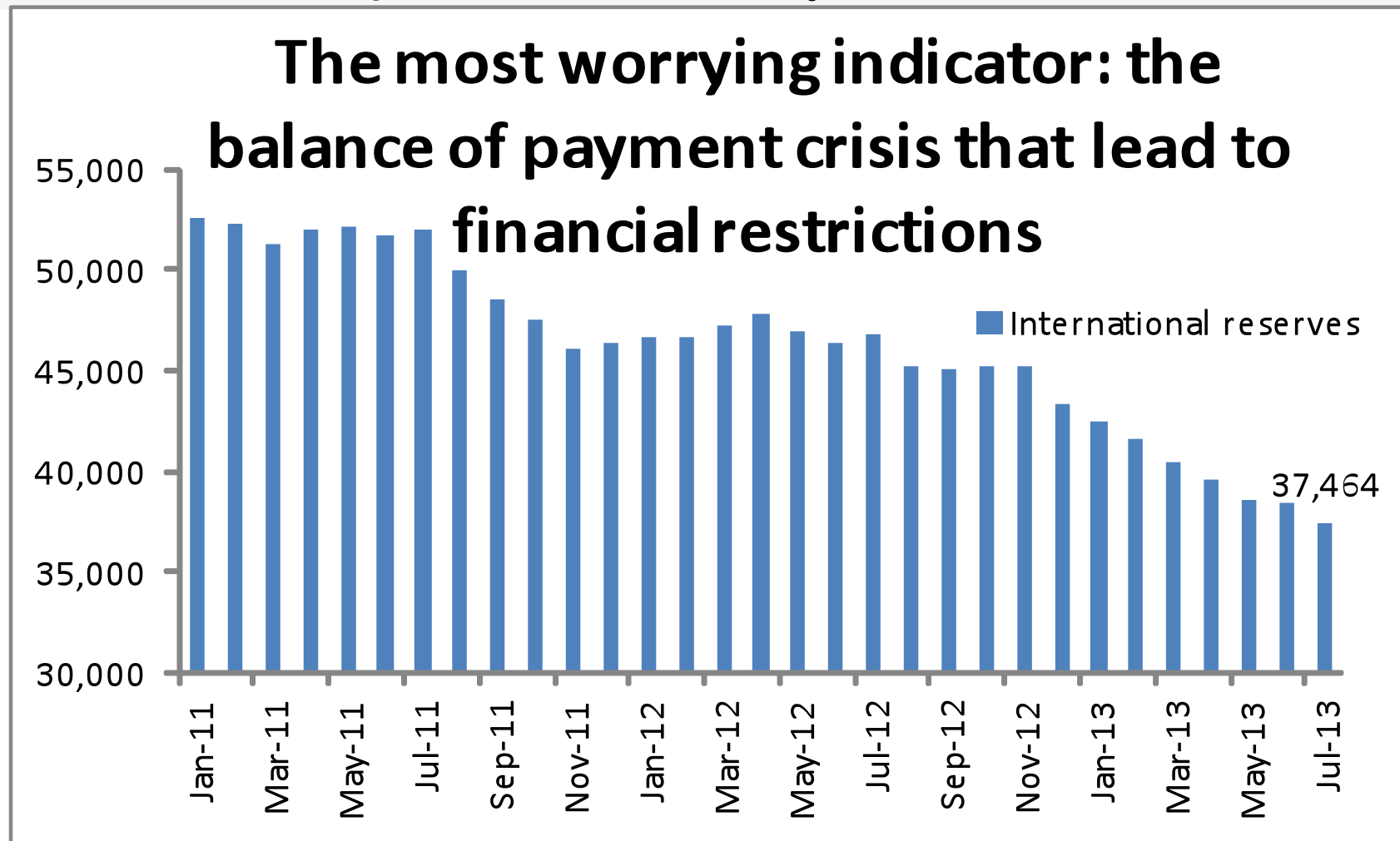
- The economy slowed down but is not headed to recession.
- Banks are liquid and willing to lend.
- Brazil's recovery creates additional demand here.
- Financial repression has jeopardised business confidence even in those doing well.
- Government actions are becoming more and more unpredictable.
- Politics is a source of downside risk with almost no upside potential.

Half empty or half full glass

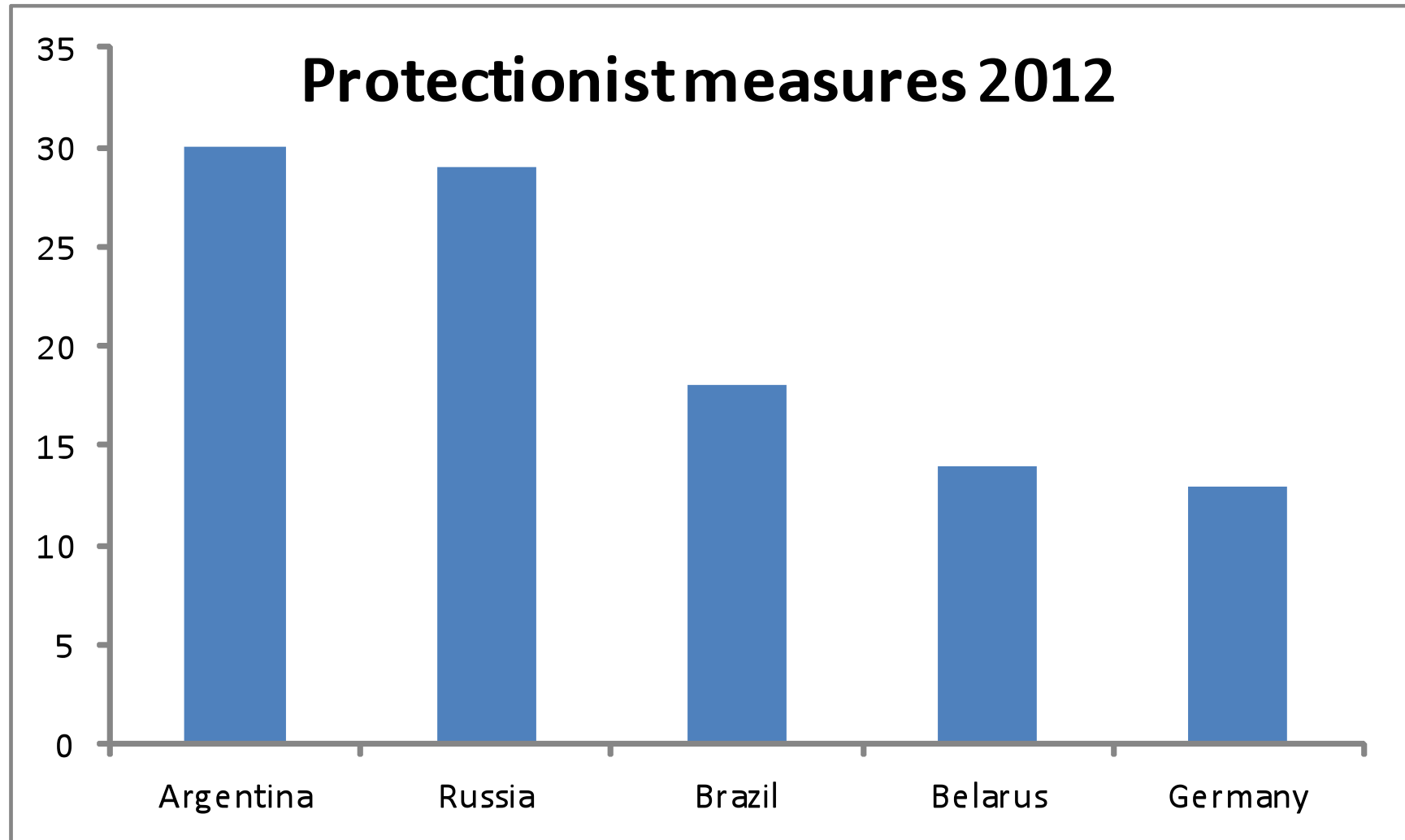
- Argentina has almost no public debt
 - Structural surplus of food, mining.
 - The world plays in its favour up to a point
 - Argentina holds a key competitive advantage in skills within the region
 - This is a society without structural conflicts. No race, religion or border conflicts. Quite open to immigration.
 - A new opportunity: 3rd world largest reserves of shale gas
 - Social inclusion improved with the exception of the bottom 10-15%
- The lack of investment during these last few years will be a drag for the future, especially in energy where the stakes are high.
 - Disentangle the structure of subsidies will be politically costly.
 - Argentina will have “eaten” a good chunk of the pension endowment.
 - The most difficult hurdle is how to include the 15% of the people who live at the margin of society to give this democracy a higher legitimacy.
 - Business climate worsens by the day

Restrictions don't really work

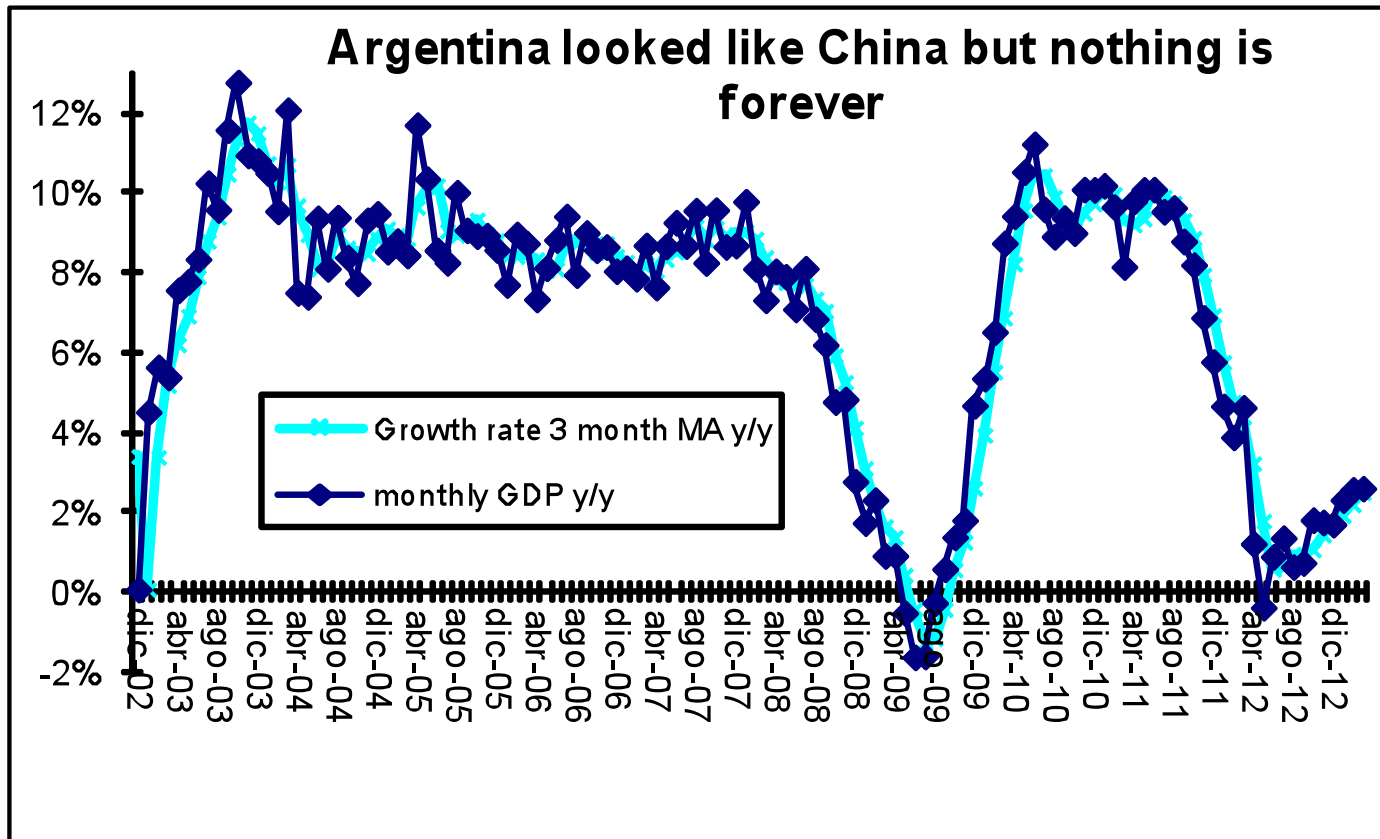
Reserves back up 63% of monetary base. End of 2010: 130%



The land of protectionism



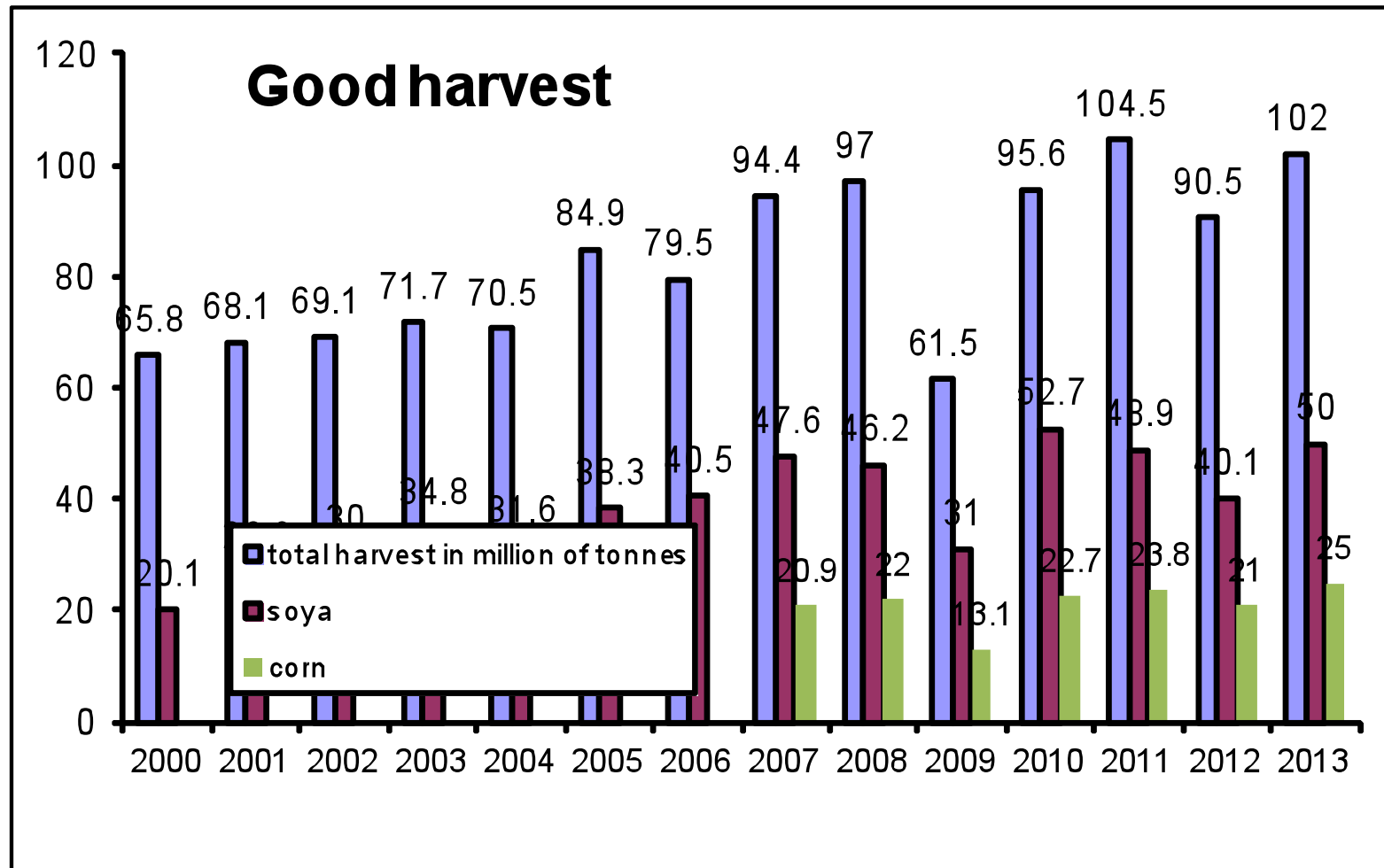
Very high growth...but there is always an end



A lot of this growth was due to “tail wind” from a fantastic world environment but there have been positive domestic elements as well. But the inconsistencies not tackled in good times are emerging such as inflation and some social issues.

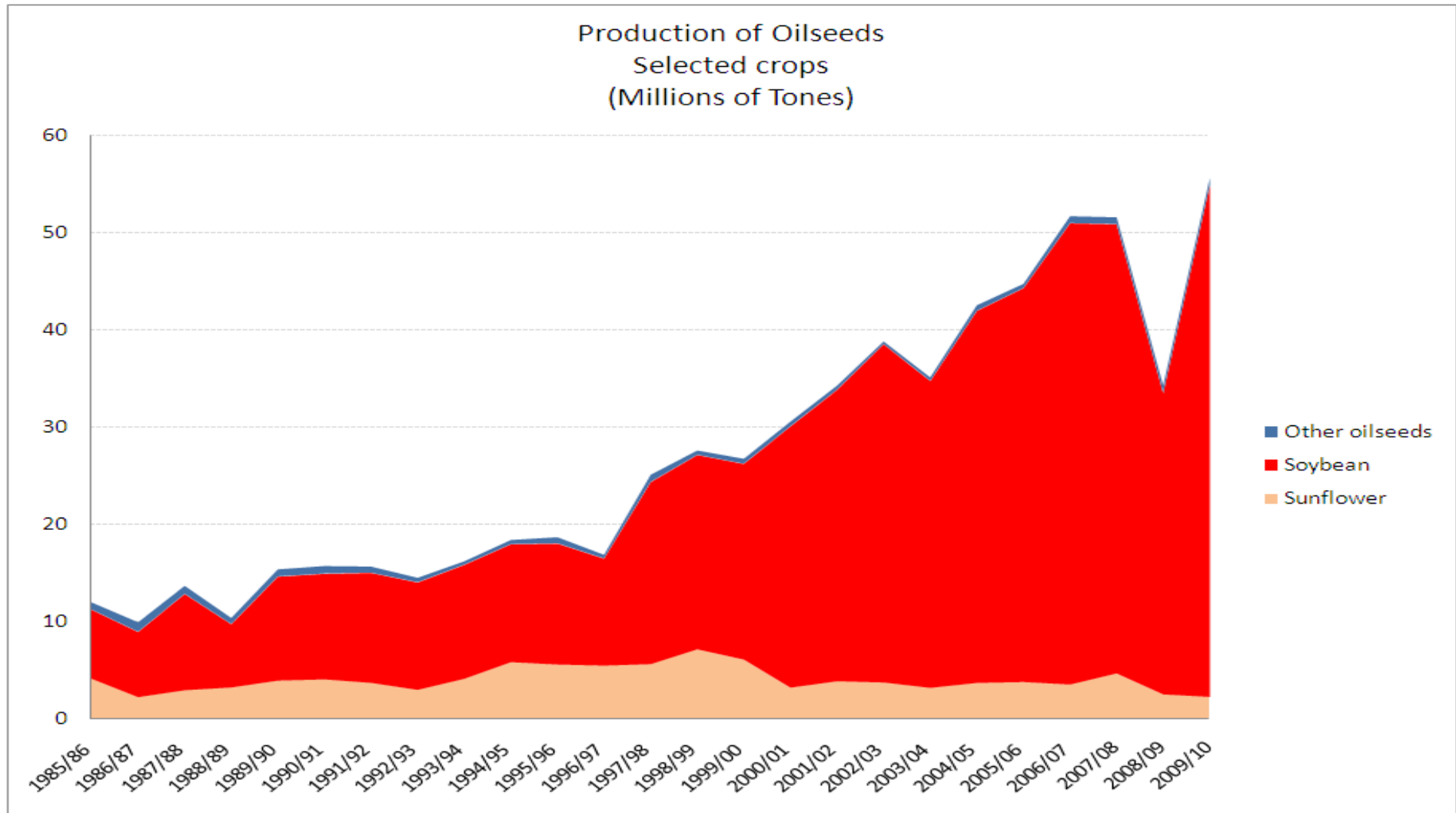
- The economy has grown by over 90% since 2002 and 250% in USD terms.
- V-shaped recovery in 2009 but not now
- **There are policy inconsistencies but not a crisis in the making!**
- **Last 12 months, growth = 1.46%**
- **Last 3 months annualised 3.8%**

The green revolution

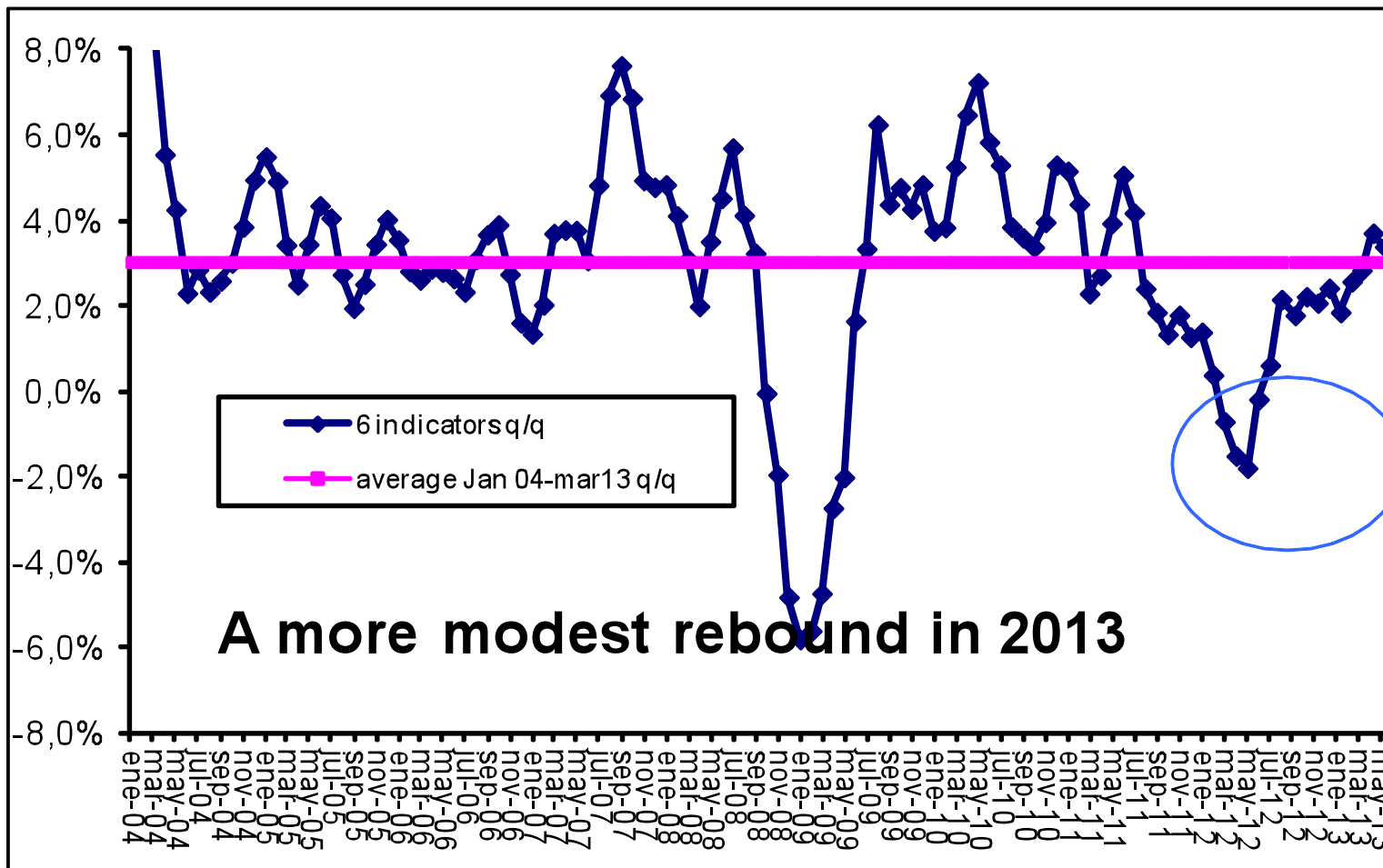


Productivity made in Argentina

The oilseed revolution

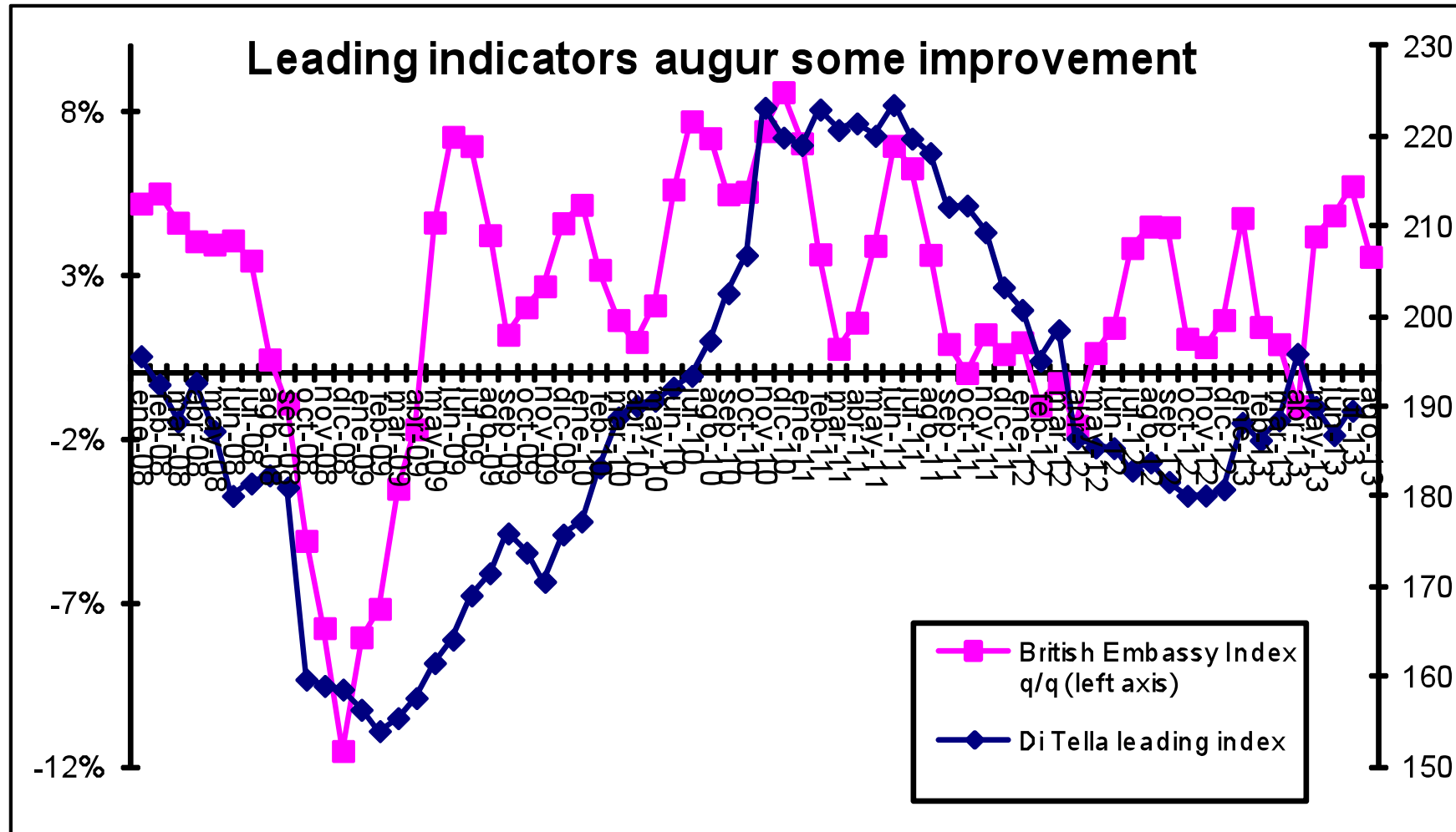


The short term roller coaster

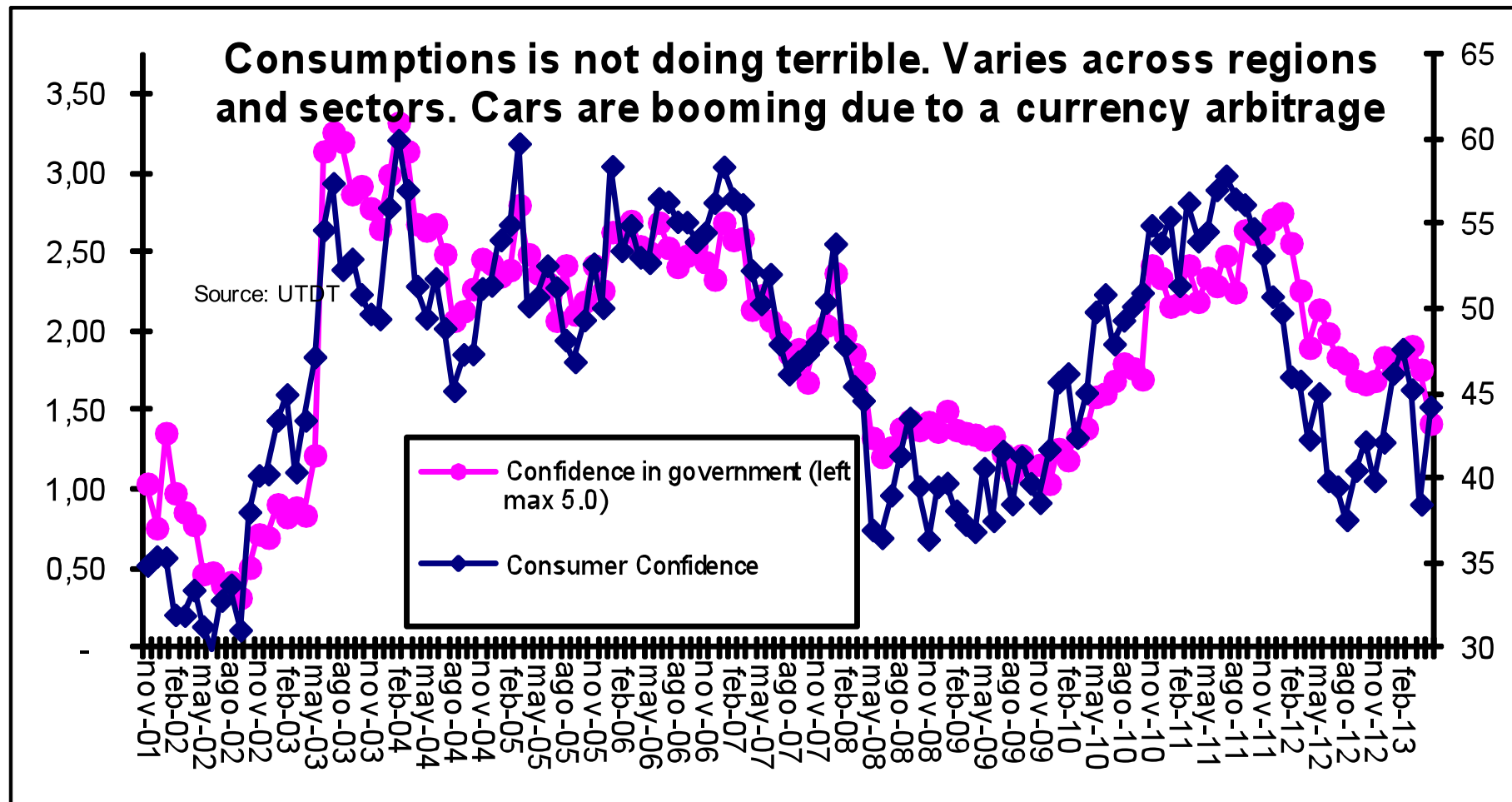


- The rebound was softer and consistent with the “new Argentine normal”.
- We are headed towards a moderate growth scenario for 2013 (3-3.5%)

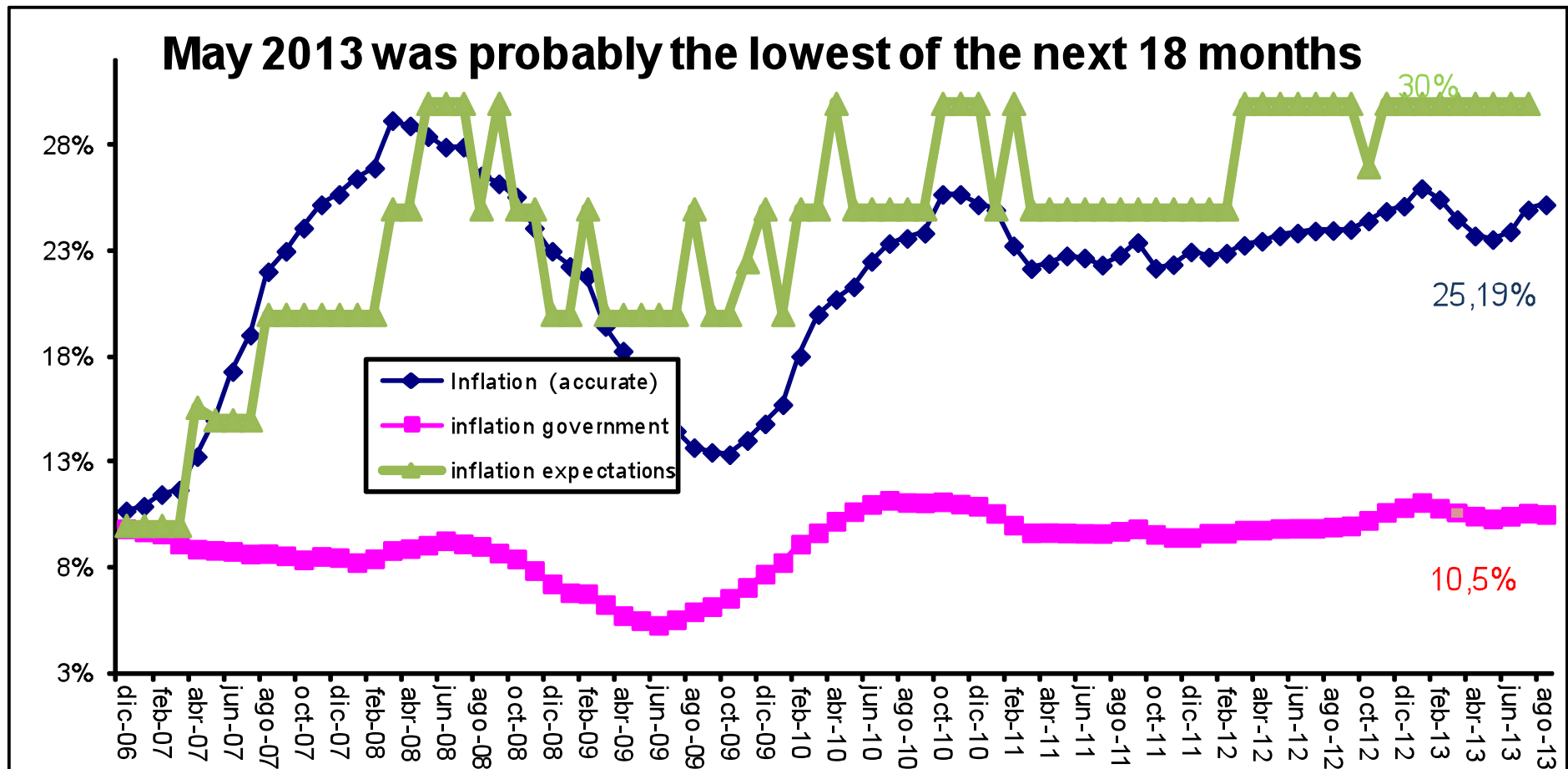
Leading indicators reflect the new normal



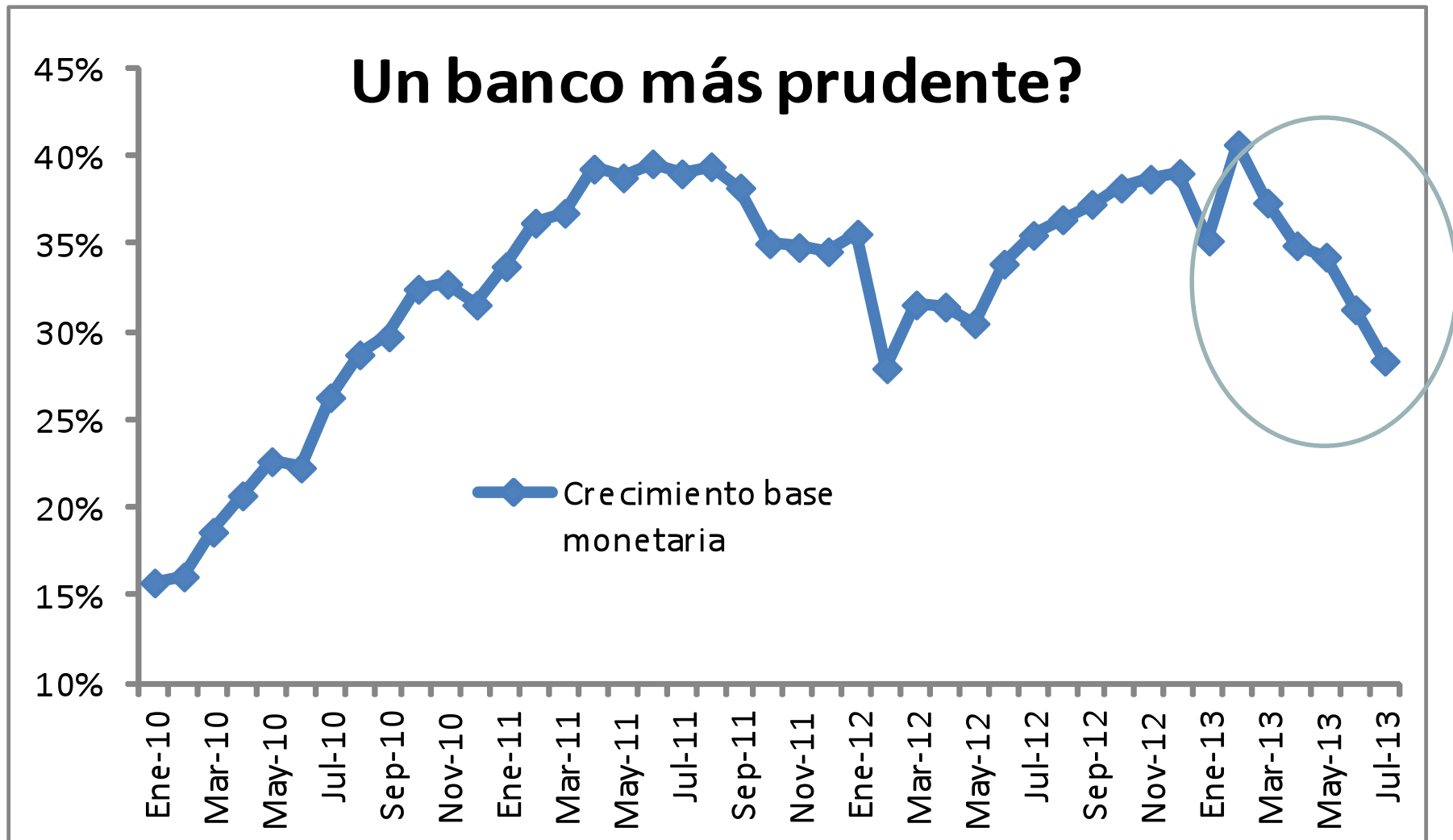
But here you see the disconnection
between the actual economic situation
and people's beliefs



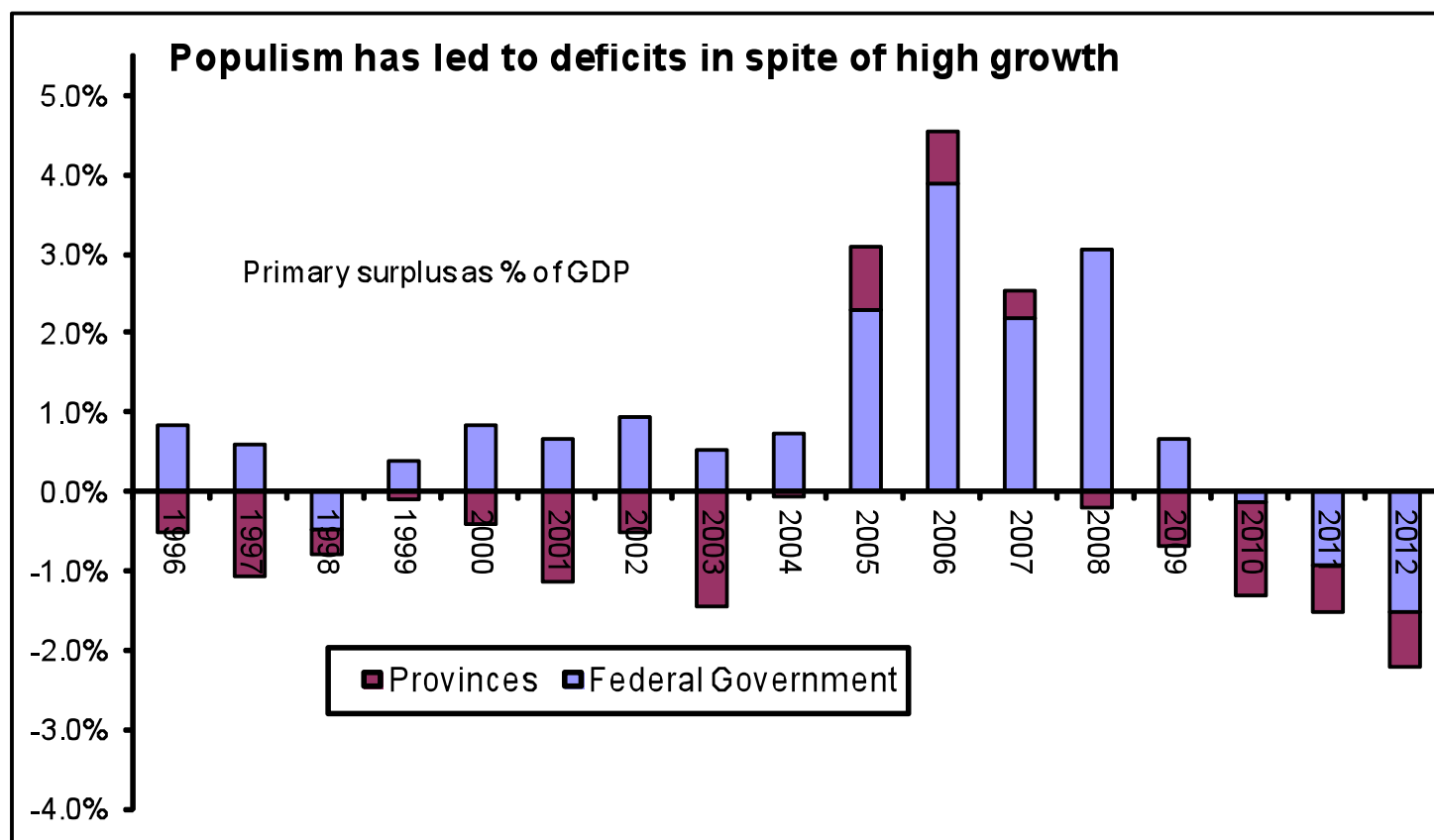
In spite of the slowdown inflation remains stubbornly high and stable in around 25%



There was some monetary moderation but...this won't last



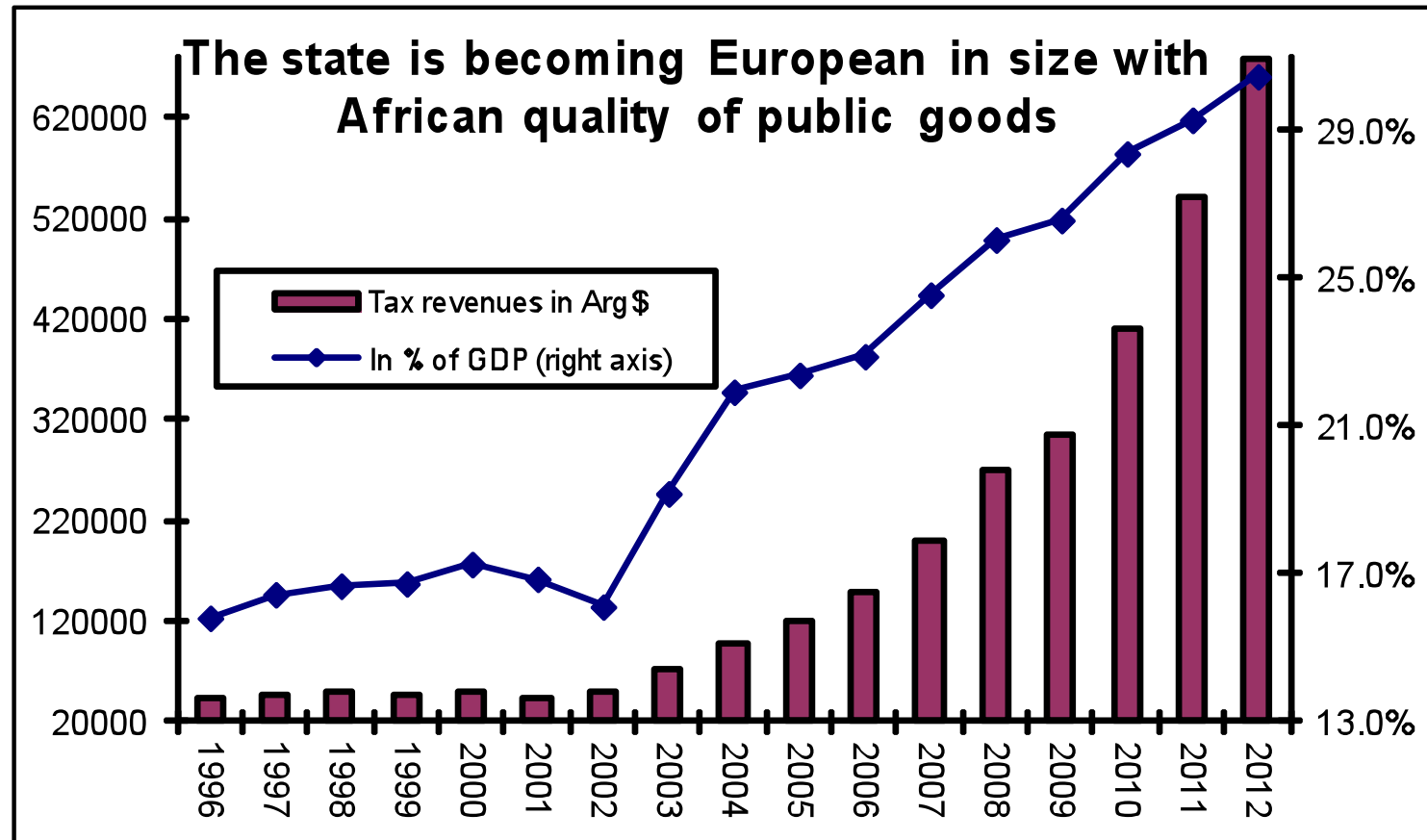
Fiscal accounts have worsened but are not terrible



Debt floating in the market is no more than 20% of GDP. Chances of default are negligible. Yet bond market and rating agencies think of Argentina as a pariah.

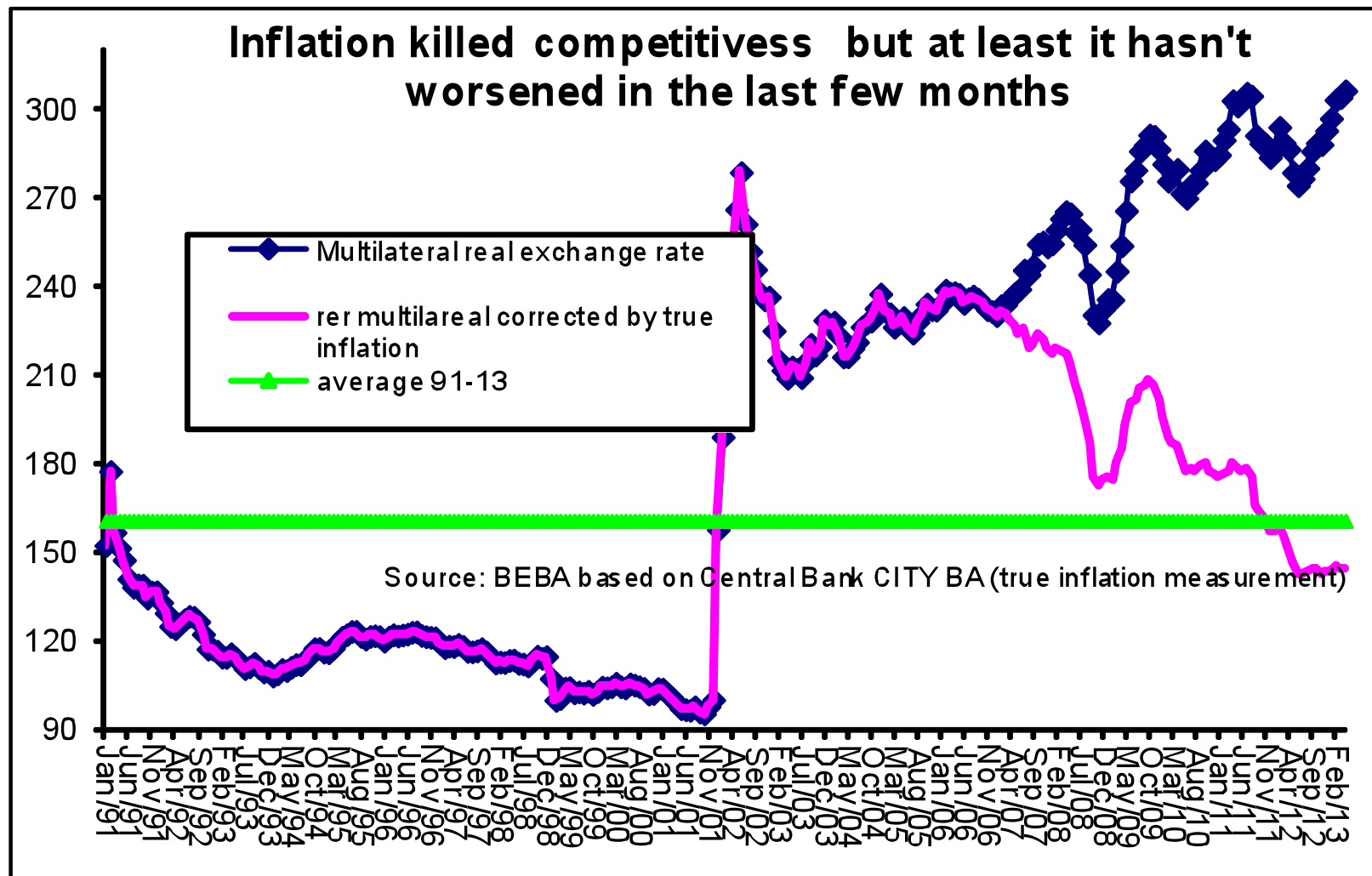
The federal government increased spending from less than 20% of GDP to over 30% in a decade

The state has become larger



- The Federal government collects almost 30% of GDP in taxes. Provinces and municipalities around 6 points more. Then you have to add royalties and public enterprises (not that many but increasing number)

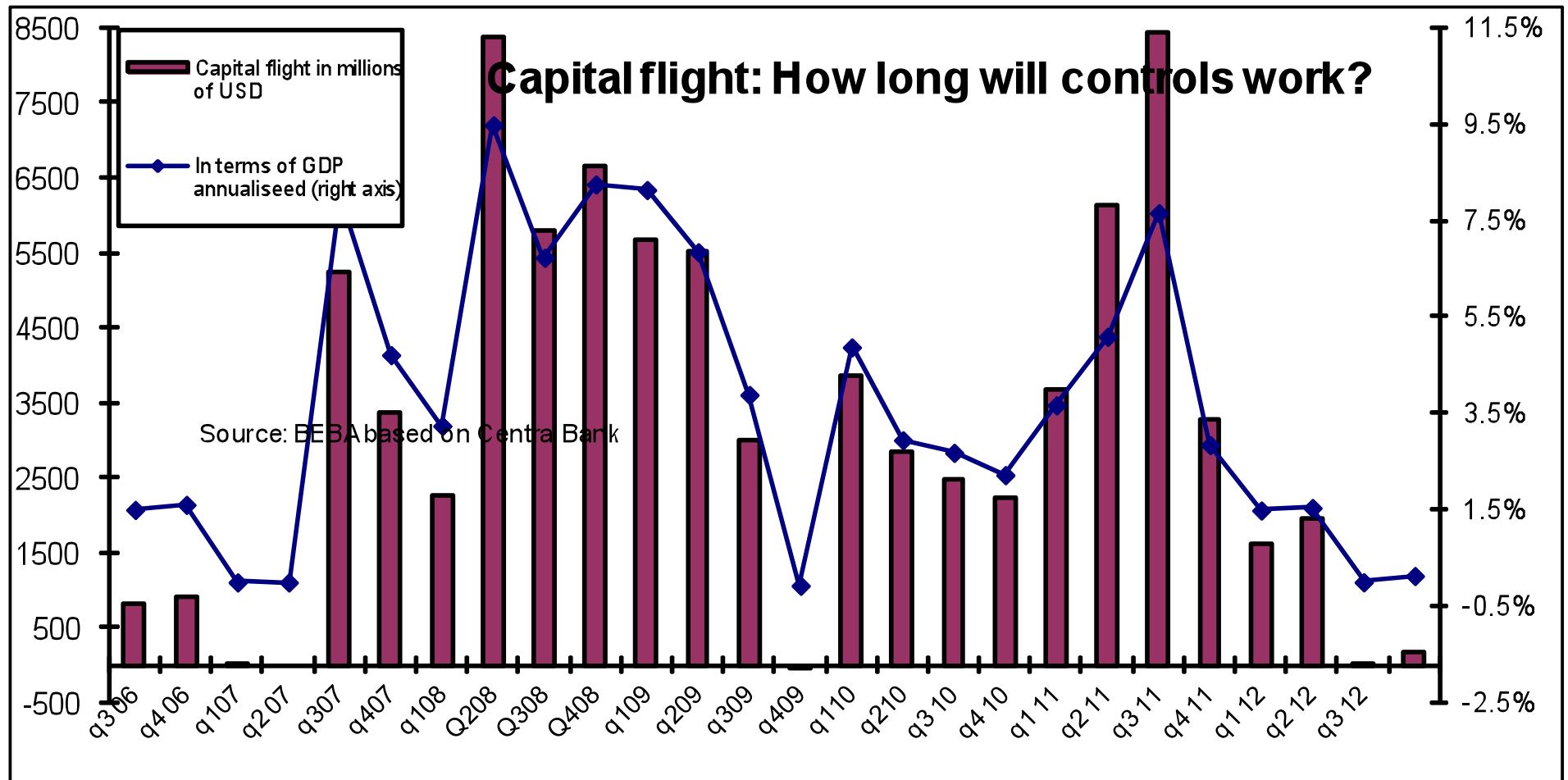
Exchange rate is not a disaster yet but it has been appreciating fast in real terms



The policy is changing to a “stability of RER”

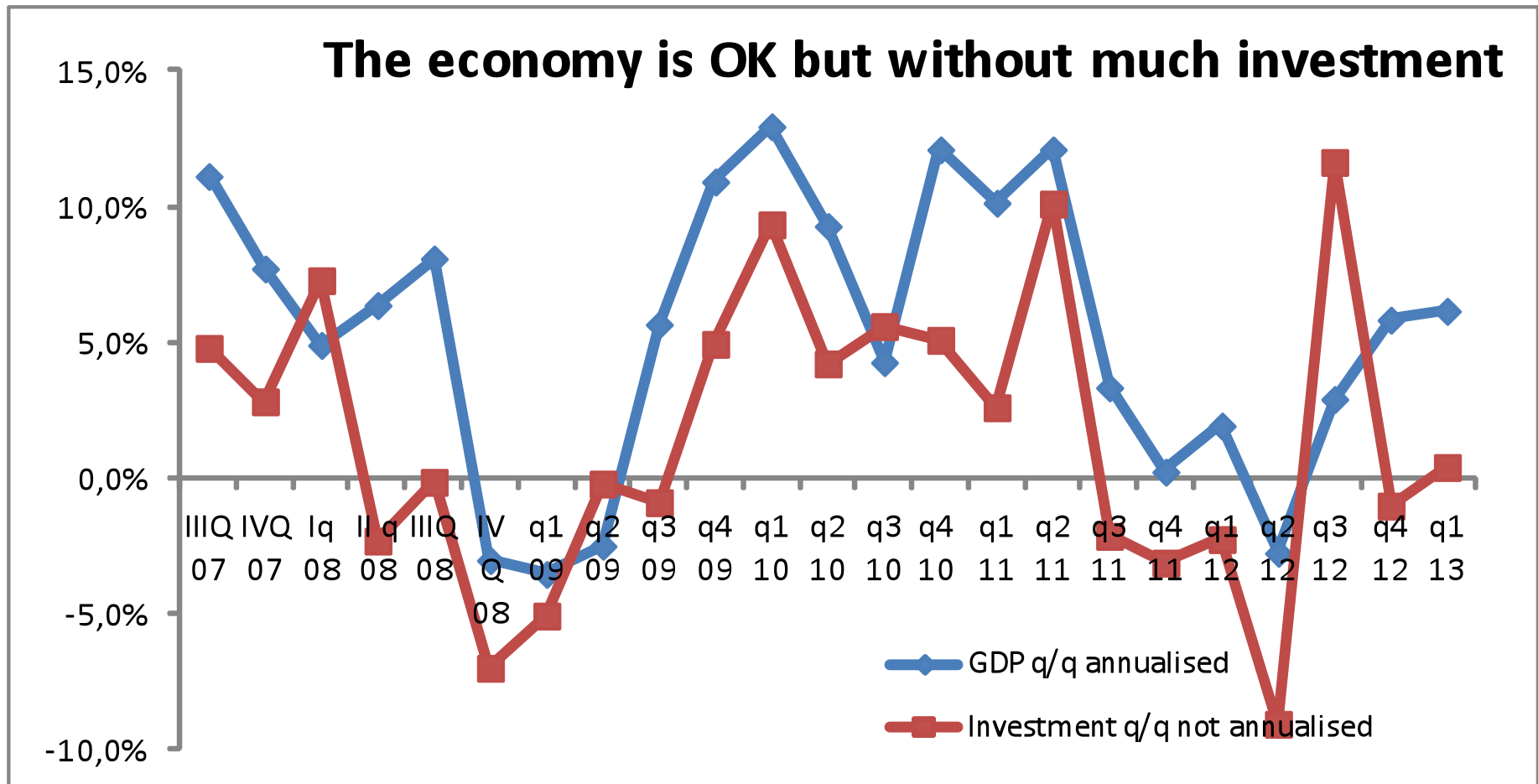
Companies cash flows suffered the strong peso, but dollar debts are more affordable

Capital outflows led by middle class households

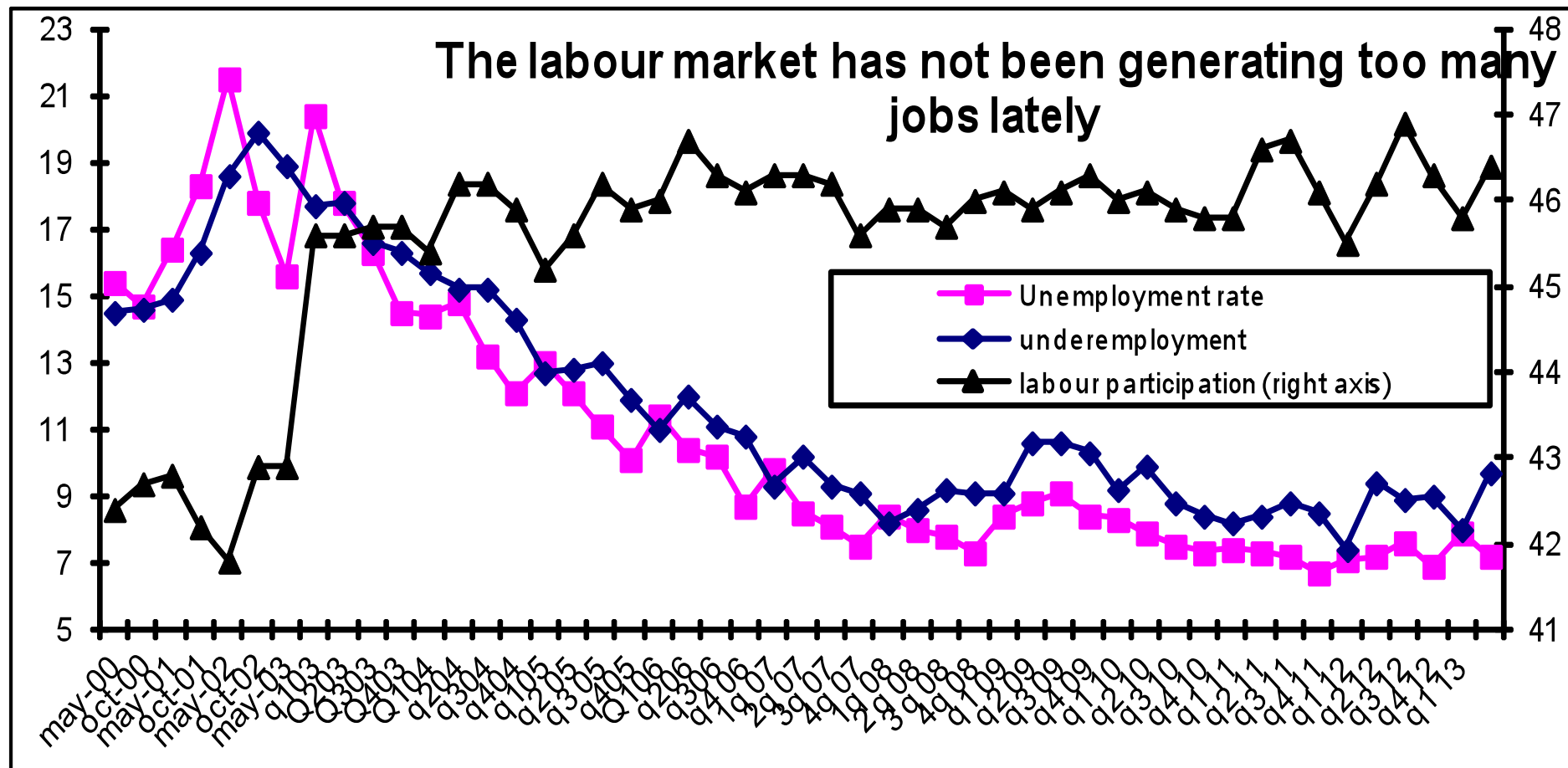


No outflows today but there is a 65% premium with the black market

Investment collapsed



Unemployment is still low but the private sectors has stopped creating jobs



The business climate

- It is today Argentina's weakest link
- For every solution there are 2 new problems
- Multinationals find it impossible to sell projects in Argentina to their boards. Inflation, dual exchange system, import restrictions and difficulties in remitting dividends are tough hurdles.

Success stories

- The Argentine economy has produced a number of success stories following the crisis. Cluster is the trendy word. Some of these clusters include
 - Wine
 - Call Centres
 - Software
 - Advertising
 - Tourism
 - Mining
 - Medicine (Buenos Aires is the world capital of lifting nowadays)
 - Clinical trials

Risks in a nutshell

- Politics
- Demand for money may not hold
- US Courts and the debt saga
- **But fundamentals continue to be sound. The sources of crises of the past are not here. Debt is low and banks profitable and liquid.**