

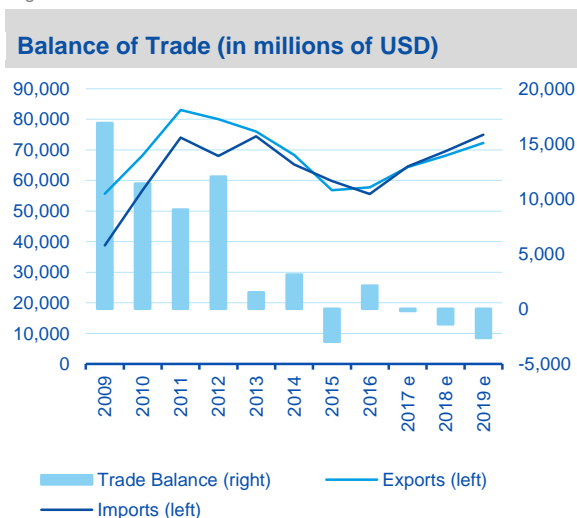
7. External deficit set to rise due to increasing debt burden

The current account deficit will deteriorate more than expected (from the previously expected -2.5% to -2.8% of GDP in 2017, and -2.4% to -2.6% of GDP in 2018). This is essentially due to the greater interest burden on the public sector because of the debt emissions to finance the fiscal deficit.

The trade balance, meanwhile, will remain in line with previous forecasts (see Figure 7.2), with a deficit of USD 200 million in 2017 and around USD 1.4 billion in 2018, following the surplus of USD 2.1 billion in 2016. This being due to the deterioration in the terms of trade and to a growth in the quantities exported, which was less than those imported, which will be driven by the recovery in GDP. In any case, exports will show greater momentum than in 2016 - excluding the effect of extraordinary grain settlements following the lifting of the “exchange rate trap” - due to an expected increase of 12% in the harvest of the 4 main grains in 2017, and the moderate recovery in growth that we expect in Brazil.

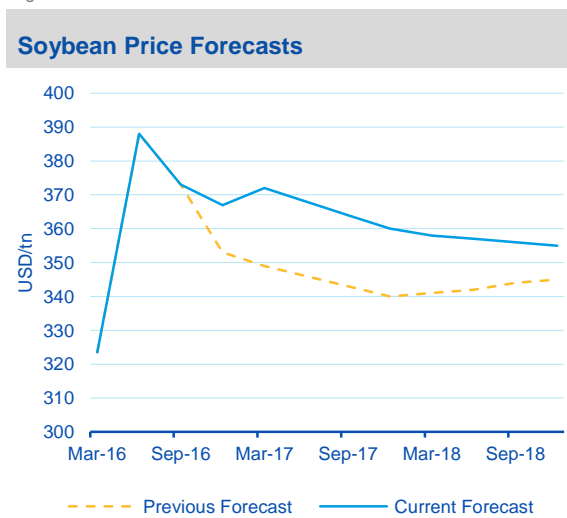
Expectations of an increased harvest could be somewhat frustrated if climate problems in Argentina’s core zone persist. In the same vein, the South American climate supports short term prices due to the possible delay in the harvest in Brazil and delayed sowing in Argentina due to excess rainfall. In this context (see Figure 7.2), we corrected the price of soybean to USD 360 for December of this year (+6% YoY) in view of the climatic factor and the strength shown by the demand during recent months, which adds a positive differential to China’s growth with respect to the previous review. In a market that is very close to the balance in terms of inventories, speculative positions purchased validate a more toned price scenario for 2017-2018 (+2.7% YoY). In the medium and long term, the stronger dollar, lower growth rate in China and a marginal increase in Argentina’s offer due to fiscal improvements lead to a slightly downward convergence for the price of soybeans at around USD 353 per tonne.

Figure 7.1



Source: BBVA Research

Figure 7.2



Source: BBVA Research

DISCLAIMER

This document has been prepared by BBVA Research Department, it is provided for information purposes only and expresses data, opinions or estimations regarding the date of issue of the report, prepared by BBVA or obtained from or based on sources we consider to be reliable, and have not been independently verified by BBVA. Therefore, BBVA offers no warranty, either express or implicit, regarding its accuracy, integrity or correctness.

Estimations this document may contain have been undertaken according to generally accepted methodologies and should be considered as forecasts or projections. Results obtained in the past, either positive or negative, are no guarantee of future performance.

This document and its contents are subject to changes without prior notice depending on variables such as the economic context or market fluctuations. BBVA is not responsible for updating these contents or for giving notice of such changes.

BBVA accepts no liability for any loss, direct or indirect, that may result from the use of this document or its contents.

This document and its contents do not constitute an offer, invitation or solicitation to purchase, divest or enter into any interest in financial assets or instruments. Neither shall this document nor its contents form the basis of any contract, commitment or decision of any kind.

In regard to investment in financial assets related to economic variables this document may cover, readers should be aware that under no circumstances should they base their investment decisions in the information contained in this document. Those persons or entities offering investment products to these potential investors are legally required to provide the information needed for them to take an appropriate investment decision.

The content of this document is protected by intellectual property laws. It is forbidden its reproduction, transformation, distribution, public communication, making available, extraction, reuse, forwarding or use of any nature by any means or process, except in cases where it is legally permitted or expressly authorized by BBVA.

This report has been produced by the Argentina Unit

Chief Economist for Argentina

Gloria Sorensen
gsorensen@bbva.com

Marcos Dal Bianco
marcos.dalbiano@bbva.com

María Celeste González
celeste.gonzalez@bbva.com

Adriana Haring
aharing@bbva.com

Jorge Lamela
jorge.lamela@bbva.com

Juan Manuel Manias
juan.manias@bbva.com

Andrea Savignone
asavignone@bbva.com

BBVA Research

Group Chief Economist

Jorge Sicilia Serrano

Macroeconomic Analysis

Rafael Doménech
r.domenech@bbva.com

Global Macroeconomic Scenarios

Miguel Jiménez
mjimenezg@bbva.com

Global Financial Markets

Sonsoles Castillo
s.castillo@bbva.com

Global Modelling & Long Term Analysis

Julián Cubero
juan.cubero@bbva.com

Innovation & Processes

Oscar de las Peñas
oscar.delaspenas@bbva.com

Financial Systems & Regulation

Santiago Fernández de Lis
sfernandezdelis@bbva.com

Countries Coordination

Olga Cerqueira
olga.gouveia@bbva.com

Digital Regulation

Álvaro Martín
alvaro.martin@bbva.com

Regulation

Maria Abascal
maria.abascal@bbva.com

Financial Systems

Ana Rubio
arubiog@bbva.com

Financial Inclusion

David Tuesta
david.tuesta@bbva.com

Spain & Portugal

Miguel Cardoso
miguel.cardoso@bbva.com

United States of America

Nathaniel Karp
Nathaniel.Karp@bbva.com

Mexico

Carlos Serrano
carlos.serrano@bbva.com

Middle East, Asia & Geopolitics

Álvaro Ortiz
alvaro.ortiz@bbva.com

Turkey

Álvaro Ortiz
alvaro.ortiz@bbva.com

Asia

Le Xia
le.xia@bbva.com

South America

Juan Manuel Ruiz
juan.ruiz@bbva.com

Argentina

Gloria Sorensen
gsorensen@bbva.com

Chile

Jorge Selaive
jselaive@bbva.com

Colombia

Juana Téllez
juana.tellez@bbva.com

Peru

Hugo Perea
hperea@bbva.com

Venezuela

Julio Pineda
juliocesar.pineda@bbva.com

CONTACT DETAILS: BBVA Research – BBVA Banco Francés: Reconquista 199, 1st floor. C1003ABC - Buenos Aires (Argentina). Tel.: (+54) 11 4346 4000 / Fax: (+54) 11 4346 4416 - bbvaresearch@bbva.com www.bbvaresearch.com