6. The announced fiscal targets are modest and achievable

Except for subsidies to the energy sector, primary spending is not expected to drop in real terms

The government decided to adopt a gradualist fiscal policy and, in 2016, less headway than expected was made in reducing the deficit due to political restrictions. The fiscal deficit remained almost constant in GDP terms last year. Access to debt markets contributed to financing the imbalances without major difficulties given that, additionally, one of the few solid legacies of the previous administration was the low level of debt with private sector creditors. Nevertheless, fiscal consolidation continues to be one of the government's and investors' main concerns in the medium term.

The Economy Minister, Nicolás Dujovne, announced quarterly targets for the fiscal deficit in 2017 and also targets for annual revenues, expenditures and deficit until 2019. He also improved the methodology to measure the deficit by completely excluding revenues from the Central Bank and interest on intra-public sector debt from the calculation. Although this method of calculating the deficit is more accurate, it is worth pointing out that it is not fully comparable to the previous measurement, as can be seen by comparing the results for 2016 using both methodologies (see Figure 6.1), above all when looking at the total deficit. Apart from this, another of the initiatives in the move towards greater transparency is that there is greater break-down of income and expenditure items.

Both the quarterly and annual targets are defined in terms of the primary outcome (see Figure 6.2). The primary fiscal results targets for 2017, 2018 and 2019 are -4.2%, -3.2% and -2.2% of GDP, respectively. A gradual reduction of subsidies to energy and transport is implicit to these targets while the Treasury plans to maintain the rest of expenditure constant in real terms. The government expects to begin a more complete tax reform in 2018 (changes to taxes on exports and on income tax have already been made). The idea is to reduce the tax burden though not affecting the level of revenues will remain stable in terms of GDP due to the expected effect of greater economic activity and a decrease in informality and tax evasion.

The targets appear to be reasonable, but it is not yet guaranteed that they will be reached. In spite of this, Argentina still has a certain margin to increase indebtedness in the medium term and will continue to depend on debt markets in the coming years. Financial needs for 2017 are USD 40 billion, according to the Financial Programme for the year, and they will be mostly covered by domestic sources taking advantage of the increase liquid assets declared by the private sector as a result of the the tax amnesty. The government has shown itself to be highly active on this market throughout the year, with issues in pesos and dollars. Additionally, a repo agreement with private banks for USD 6 billion was announced and debt placements were made in the international market for USD 7 billion and CHF 0.4 billion, thus covering a large part of the financial needs of the year. In this scenario, the S&P rating agency hiked

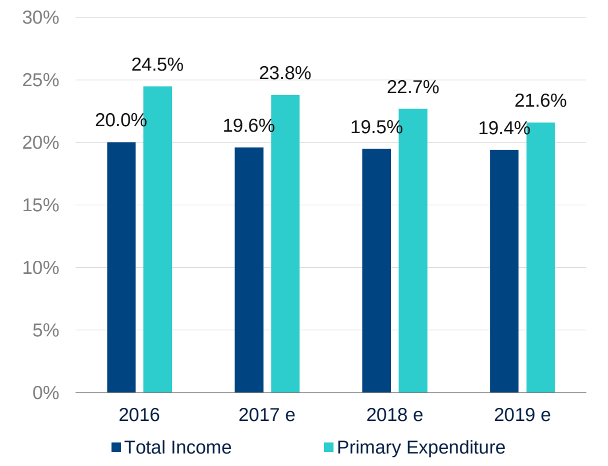
Argentina's sovereign debt rating from B- to B with a stable outlook, given that it saw improvement to the country's economic conditions after the policies applied by the government, although it warned that the political scenario could affect the government's ability to complete the reforms needed to sustain growth in the medium term.

Figure 6.1 Fiscal results comparison between current and previous methodology (ARS billion)

	2016	
	Previous	**Actual**
Total income	1,613	1,629
Primary expenditure	1,973	1,973
Primary result	**-359**	**-344**
% of GDP	**-4.5%**	**-4.3%**
(-) Interest private sector debt	131	131
(-) Interest public intra-sector debt	54	0
(+) Central Bank and other income	179	0
Financial result	**-365**	**-475**
% of GDP	**-4.5%**	**-5.9%**

Source: BBVA Research and Economy Ministry

Figure 6.2 Fiscal income and primary expenditure (% of GDP)

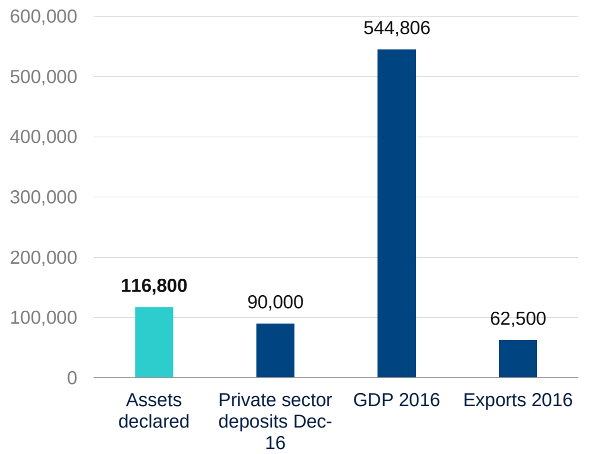


Source: BBVA Research and Economy Ministry

The last phase of the tax amnesty ended on 31 March and the total amount of assets declared was USD116,800 million. The second phase had previously ended with a balance of USD 97,842 million. The result is highly significant, although an influencing factor was the increase in the exchange of tax information between countries increasing the risk of holding overseas assets without declaring them for tax purposes. The tax collection arising from payment of fines was around ARS 140,000 million although this is one-off income and will be used to finance the increase in pensions. Due to the increase in assets declared, the tax base for the tax on personal assets abroad increased to USD 110,527 million, an increase of more than 300% compared to the the base prior to the tax amnesty. Private sector deposits in dollars increased by more than USD 7,000 million because of the effect of the tax amnesty and, although almost 80% of the newly declared assets remain abroad, they are a potential source of investment and growth if the economic conditions in Argentina consolidate, taking into account that the total newly declared assets exceed the stock of deposits in the private sector at the end of 2016 (Figure 6.2).

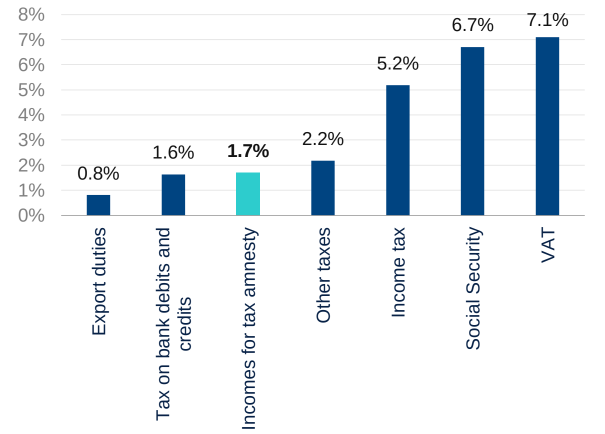
The extra income from the tax amnesty will finance the inertial increase to pensions and social benefits

Figure 6.3 Comparison of assets declared (USD million)



Source: BBVA Research, INDEC, Argentinian Central Bank and the Ministry of Economics

Figure 6.4 Comparison of collections under the tax amnesty (% of GDP)



Source: BBVA Research, INDEC, Argentinian Central Bank and the Ministry of Economics

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