

7. Argentina will continue to attract foreign capital

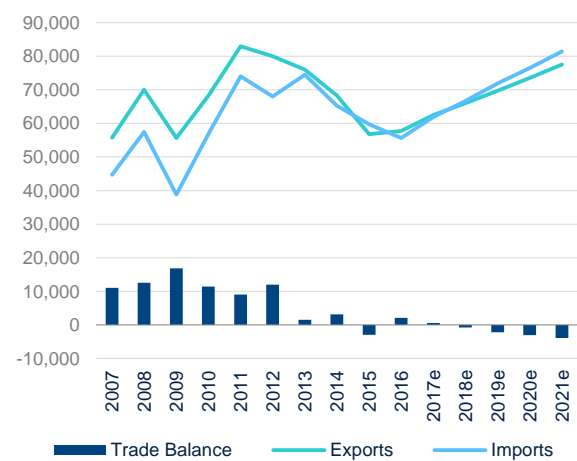
The current account in deficit but will remain stable at -3% of GDP

Although we expect a slight surplus in the balance of trade this year (USD 550 million), it will fall compared to 2016 due to a stronger rise in imports than in exports. The current account will continue to show a deficit in the medium term due to the negative balance on Real and Financial Services. We also expect the trade surplus to be eroded as economic activity recovers (see Figure 7.1).

The cash-base exchange balance data for the first quarter of 2017 present a current account deficit of USD 1913 million, partly related to expenditures on outbound tourism. This deficit was financed with capital inflows mainly from issued of public sector debt abroad, although private sector capital flows remained. During the 1st quarter of the year there was a strong build up of international reserves (USD11.7 billion) as a result of these debt issues, which were partly reduced in April after the payment of USD7 billion for the principal amortization of Bonar X sovereign bond. We believe that these flows from the external sector will continue this trend for the rest of the year (see Figure 7.2), as well as in the medium term, as Argentina will continue to attract portfolio and direct foreign capital investment.

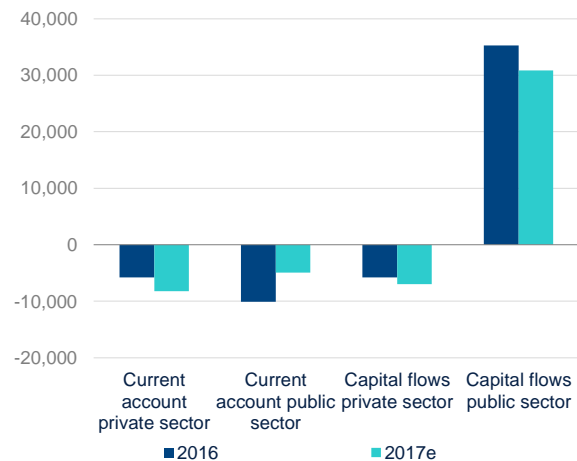
During the rest of the year the accumulation of international reserves from public sector debt placements will be lower, given that almost 80% of the foreign currency issues abroad planned by the government have already been accomplished. Nevertheless, the question remains as to whether there will be a new “surge” of hard currency inflows in the medium term as a result of the tax amnesty which ended in March. If uncertainty wanes and some proportion of the newly declared assets abroad are repatriated seeking higher returns, this would create an increase in international reserves which would exceed historic highs, but at the cost of greater pressure on the interest rate and on the Central Bank’s need for monetary sterilisation.

Figure 7.1 Trade balance
(USD millions)



Source: BBVA Research and Indec

Figure 7.2 Cash-base exchange balance
(USD millions)



Source: BBVA Research, and Central Bank

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