

3. Argentina: Quickening and more widespread growth

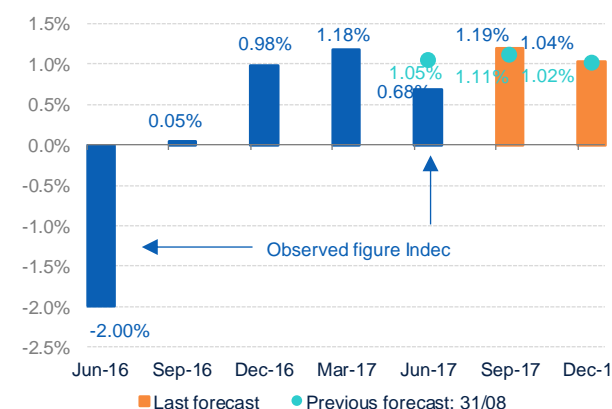
Positive political momentum for the government

According to the latest surveys regarding the legislative elections to be held on 22 October, driven by the buoyant economy, the results for the government will show an improvement over the primary elections held in August, which if confirmed would consolidate the government's positive political momentum, and would dispel doubts about the continuity and the depth of the current government's reform agenda. This is crucial for the economic scenario in coming years, especially in stimulating both local and foreign investment, and the consumption of durable consumer goods, which could be significantly boosted if the planning horizon of more stable macroeconomics and market friendly policies is extended for a prolonged period. These results would introduce a positive bias for the macroeconomic scenario which we are presenting in this outlook report, which has relatively conservative assumptions regarding the potential political capital that the government could obtain in the October 22nd parliamentary elections.

By the end of 2017 the economy will be growing by 4% YoY

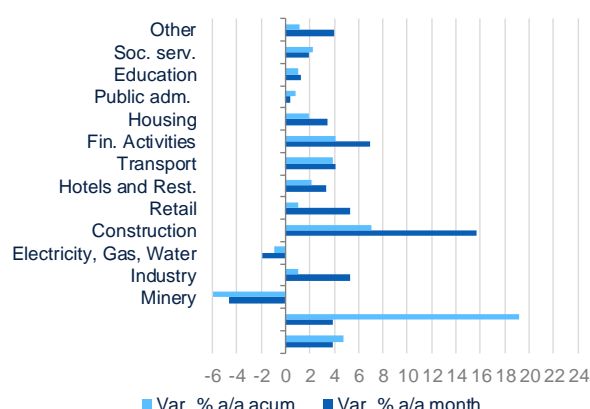
It was confirmed that GDP increased 0.7% QoQ seasonally adjusted in 2Q17 (Figure 3.1), growing for the fourth consecutive quarter, although the rate for 2Q17 was lower than expected (BBVA Research (e): 1%). In turn, there was, generally speaking, growth across all sectors (Figure 3.2), coupled with the recovery in the industrial sector, which showed year-on-year growth in all branches except for Oil and Gas, which was hit by the fall in international prices. Furthermore, from August on both consumer confidence and confidence in the government improved (Figure 3.3), while growth in lending also paced up considerably, strongly driven—albeit from very low levels—by mortgage lending. This suggests, as do our nowcasting models, that growth will continue at a slightly higher rate than was expected in the second half of the year.

Figure 3.1 Forecasts GDP MICA model (chg. % QoQ)



Source: BBVA Research based on INDEC data

Figure 3.2 EMAE: growth by sectors to July 2017 (%)



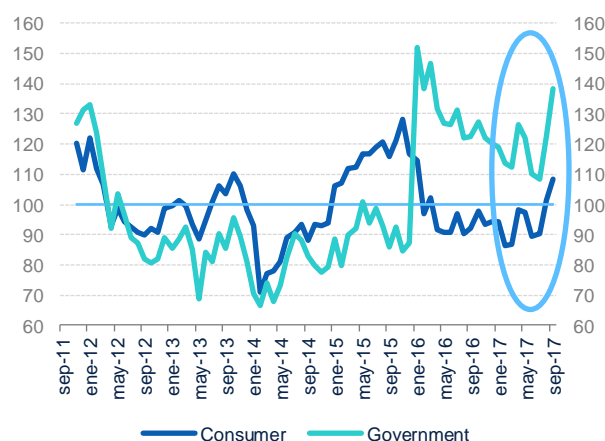
Source: BBVA Research based on INDEC data

This could put an upward bias on our forecast of 3% growth for 2018, but according to the budget, 50% of investment in infrastructure will be funded by PPP, making dynamic investment less certain, while monetary policy could maintain the contractionary bias for a longer time. However, the economy would be able to grow more buoyantly if the October elections confirm the perception that there is little risk of a return to more populist economic policies in 2019, and as growth in private investment gains traction. Hence, as we consider the risk balance is still balanced, we prefer to maintain our former estimates for the time being, which are in general without changes both for 2017 and for the following years.

Slight upward bias in 2018 growth, if private investment takes off after the elections.

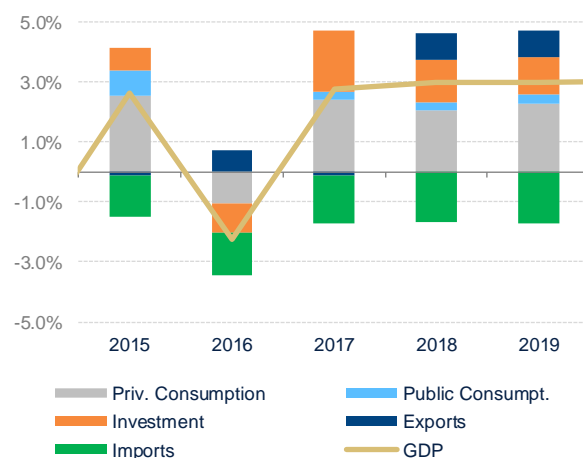
In 2018, growth in investment will strongly outpace the other components of aggregated demand (Figure 3.4). However, compared to our estimates last quarter, private consumption will be much more buoyant due to the improved confidence and growth in lending, while, given the higher imports, the negative contribution by the external sector will be higher than that formerly estimated.

Figure 3.3 Confidence in government and consumer confidence (Base: average 100)



Source: UTDT and BBVA Research

Figure 3.4 GDP: contribution to growth (%)



Source: BBVA Research based on INDEC data

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