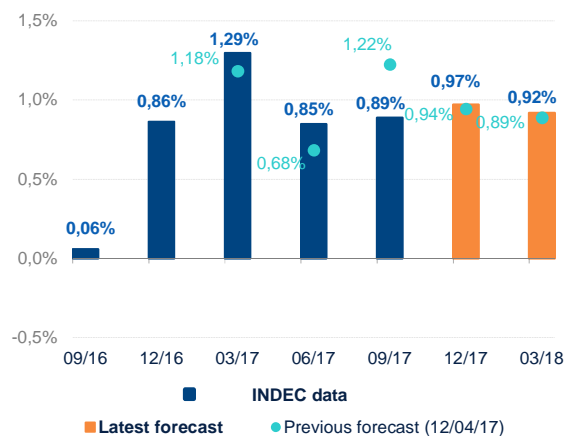


3. Argentina: in the wake of the elections, growth has picked up and the reform programme is making headway

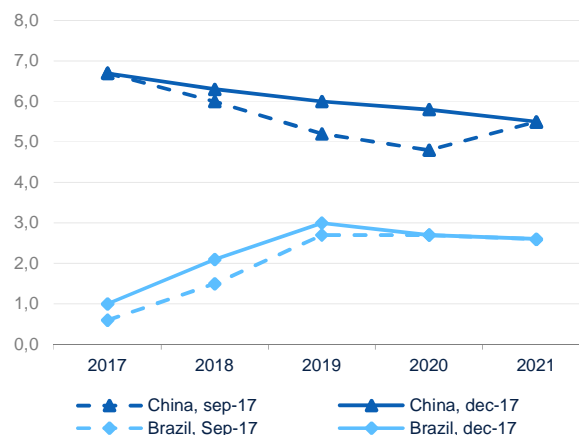
In the parliamentary elections of October 2017 government supporters managed to obtain almost 42% of votes nationally, while they also won first place for senator of the crucial Buenos Aires province, leaving former president Cristina Fernández de Kirchner in second place, who will represent the leading minority group. This electoral victory surpassed prior expectations and leaves president Mauricio Macri well-placed to win a second term from 2019. *Cambiemos* grew in numbers in both the Senate – adding nine more senators – and in the Chamber of Deputies (an extra 21 members), although it fell short of obtaining a majority in either of them. As we anticipated, the greater political capital allowed it to announce a raft of prompt structural reforms, some even already put through Congress and approved, although full approval of the package of laws has required, and will likewise call for, consensus to be reached with the opposition, as well as no small measure of political astuteness.

Confidence, both in the government's management and on the part of consumers, showed a marked upturn from June which, together with the pick-up in credit, accounts for an improvement in the economy's activity levels, as it grew by 0.9% QoQ in 3Q17. In YoY terms GDP grew by 4.2%, while investment (spearheaded by construction) surged ahead by 13.9% YoY in the period, which led to strong growth in imports (+18.7% YoY) and the negative contribution by the external sector, hiving 4.8% off growth in the quarter.

Our MICA nowcasting model estimates that the economy will continue growing at rates of over 0.9% QoQ in the quarters to come (see Figure 3.1), as supported by the partial figures from the Monthly Economic Activity Estimator (EMAE). In this context, our estimate of GDP growth of 2.8% for 2017 is ticking upward, given how it implies growth of only 0.6% QoQ (3.7% YoY) in 4Q17. For 2018 and 2019, we have revised our growth forecasts slightly upwards to 3.3% based on both domestic and international factors. The better-than-expected election results for the government serve to allay doubt over the continuity of changes after 2019 and spur investment, while an upward revision of close to 0.5pp for growth in Brazil and of 1pp from 2019 in China (Figure 3.2) suggests an improvement in demand from abroad. Fiscal policy will continue to target a gradual narrowing of the deficit, which will help to sustain access to international financing at falling rates, without prompting any sharp drop in economic activity.

Figure 3.1 MICA model GDP forecasts (% var. YoY)


Source: BBVA Research based on INDEC, FIEL and Contruya data

Figure 3.2 Revised growth in Brazil and China


Source: BBVA Research

The negative contribution from the external sector will diminish thanks to export recovery in 2018-19

As in 2017, investment will be the economy's most dynamic factor in 2018 and 2019, growing by 11.4% and 6.6% YoY respectively, both due to the road infrastructure programme underway and to higher private investment flows, which will become a reality to the extent that the horizon for the foreseeability of market-friendly policies has been pushed further out and that the reforms in progress lead to productivity improvements. Private consumption is also expected to continue growing at a rate on a par with GDP thanks to a gradual increase in employment, real wages and credit. Thanks to an improved export growth rate, on account of both increased supply and greater demand, the negative contribution from the external sector will fall in both 2018 and 2019 despite the fact that imports will continue to rise at a high rate.

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This report has been produced by the Argentina Unit

Head Economist Argentina

Gloria Sorensen
gsorensen@bbva.com

Marcos Dal Bianco
marcos.dalbianco@bbva.com

Juan Manuel Manias
juan.manias@bbva.com

María Celeste González
celeste.gonzalez@bbva.com

Andrea Savignone
asavignone@bbva.com

Adriana Haring
aharing@bbva.com

Jorge Lamela
jorge.lamela@bbva.com

BBVA Research

Group Chief Economist

Jorge Sicilia Serrano

Macroeconomic Analysis

Rafael Doménech
r.domenech@bbva.com

Global Economic Situations

Miguel Jiménez
mjimenezg@bbva.com

Global Financial Markets

Sonsoles Castillo
s.castillo@bbva.com

Long term Global Modelling and Analysis

J. Julián Cubero
juan.cubero@bbva.com

Innovation and Processes

Oscar de las Peñas
oscar.delaspenas@bbva.com

Financial Systems And Regulation

Santiago Fernández de Lis
sfernandezdelis@bbva.com

International Coordination

Olga Cerqueira
olga.gouveia@bbva.com

Digital Regulation

Álvaro Martín
alvaro.martin@bbva.com

Regulation

María Abascal
maria.abascal@bbva.com

Financial Systems

Ana Rubio
arubiog@bbva.com

Spain and Portugal

Miguel Cardoso
miguel.cardoso@bbva.com

United States

Nathaniel Karp
Nathaniel.Karp@bbva.com

Mexico

Carlos Serrano
carlos.serranoh@bbva.com

Turkey, China and Big Data

Álvaro Ortiz
Alvaro.ortiz@bbva.com

Turkey

Álvaro Ortiz
alvaro.ortiz@bbva.com

China

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

Perú

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