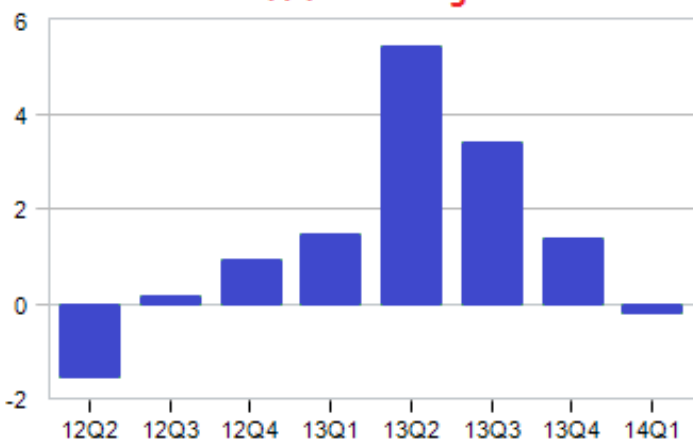


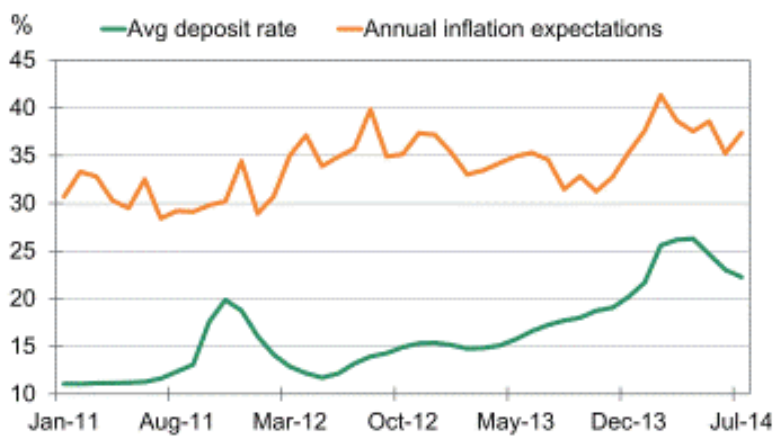
## Argentina's Economic Outlook

### Argentina Real GDP Y/Y % Change



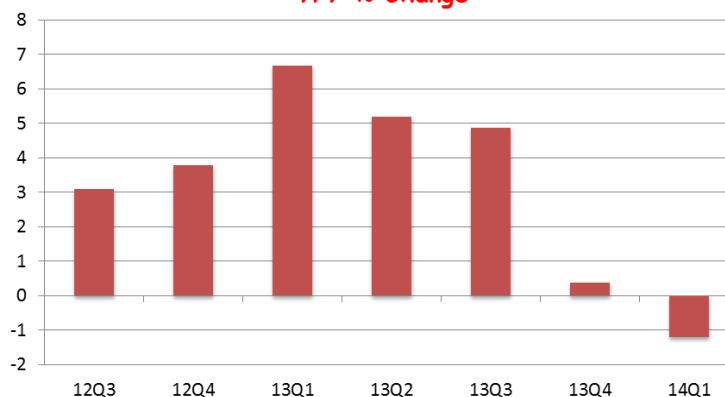
Source: Instituto Nacional de Estadística y Censos, Moody's Analytics

### Argentina Inflation and Interest Rates



Sources: Central Bank of Argentina, Moody's Analytics

### Argentina Household Consumption Y/Y % Change



Sources: Instituto Nacional de Estadística y Censos, Moody's Analytics

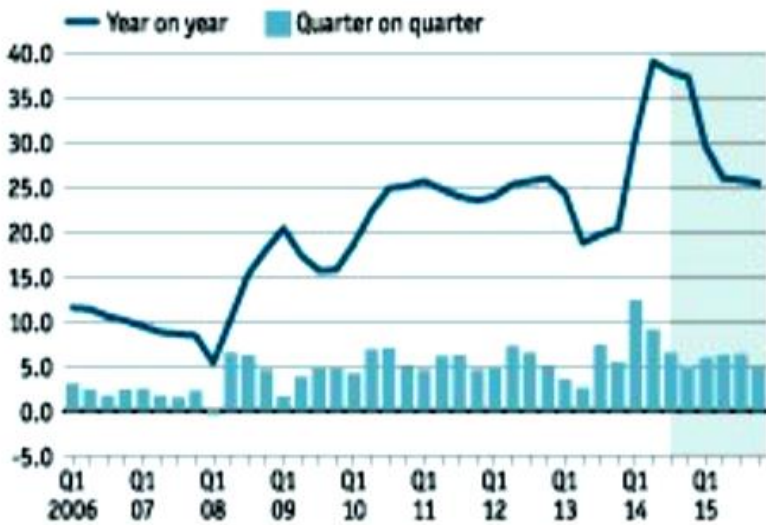
Argentina, Latin America's third largest economy, is experiencing a significant slowdown. Tighter monetary policy, declining exports, high inflation and a depreciating currency have all weighed on demand. Amid the weakening economy, Argentina's government recently defaulted on the repayment of restructured bonds. The default is expected to increase the cost of public and private debt and raise inflation, crimping the already-weak domestic demand.

To help keep the economy afloat, the central bank unexpectedly cut interest rates. While this move may help stimulate the economy, it resulted in the Argentine peso falling to a record-low and will add to the existing price pressures. Further, as the widening fiscal deficit reaches dangerous levels, the government will be forced to reduce its fiscal stimulus. Overall, economic growth this year is expected to be very weak with GDP contracting by around 1%.

Private consumption, which accounts for about 70% of Argentina's GDP, has been a main driver of economic growth. Government policies over the last decade, including negative real interest rates, subsidies, and an overvalued currency have helped boost spending. While these policies were successful, they created major imbalances for the government. By mid-2013, the government was forced to increase interest rates and devalue Argentina's currency. As a result, private consumption experienced negative annual growth for the first time in over 12 years.

Although interest rates have declined since their peak in April and the Argentine peso has stabilized, private consumption will remain weak in the coming months as a result of low consumer confidence levels and high inflation. The recent government default is expected to cause inflation to increase further and the scarce holdings of foreign reserves will place additional downward pressure on the Argentine peso. As a result, Argentina's households will likely reduce spending substantially in the coming months.

## Argentina Consumer Price Inflation (%)

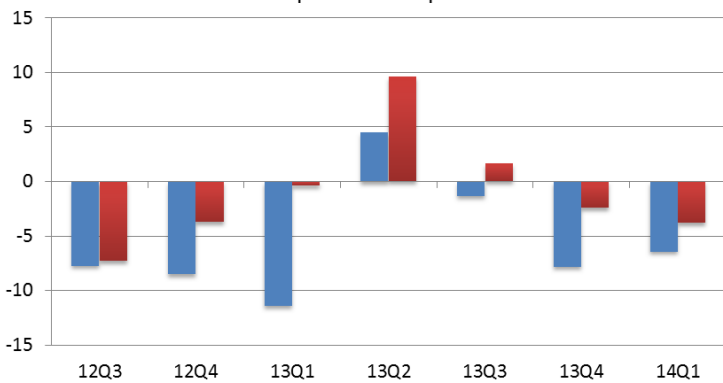


Source: The Economist Intelligence Unit.

## Argentina Foreign Trade

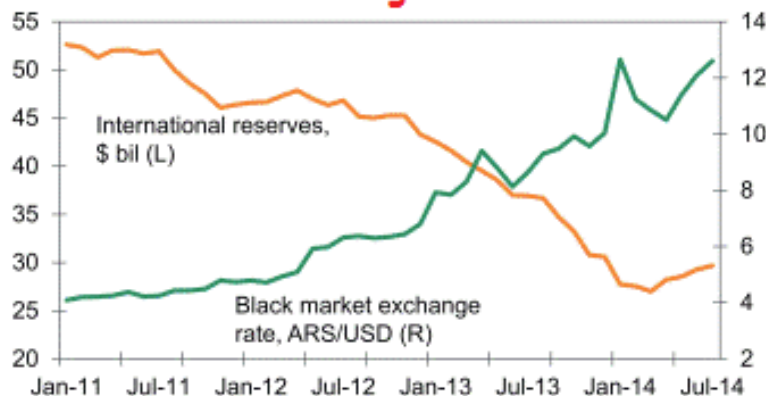
Y/Y % Change

Exports Imports



Sources: Instituto Nacional de Estadística y Censos, Moody's Analytics

## Argentina International Reserves and Exchange Rate



Sources: Central Bank of Argentina, Moody's Analytics

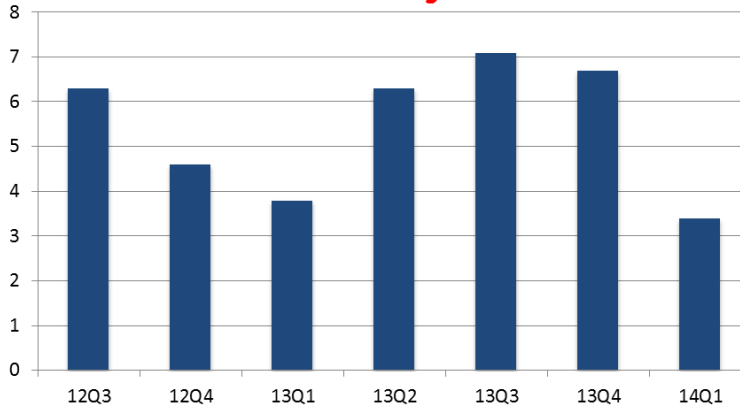
Argentina's exports have also been struggling. Agriculture is the backbone to Argentina's economy and makes up more than half of its exports. Unfortunately, the agricultural industry is hurting due to this year's record-high corn harvest in the United States, which has pushed the price of corn down significantly. Argentina is the world's third largest corn supplier and the new prices, along with high inflation and dry conditions, have resulted in a significant decline in corn production. While many farmers have switched to producing soy, which costs less for fertilizers and other chemicals, soybean shipments are subject to a 35% export tax.

Exports have also been hit as a result of lower demand from Argentina's largest export market, Brazil, which is facing weaker growth and a depreciating currency. Exports will continue to be hurt by the ever-expanding government regulations in the coming months. There is hope, however, that improving global demand will provide some relief through the rest of the year. Also, the scarce holdings of foreign reserves are expected to place additional downward pressure on the Argentine peso which should gradually have a positive impact on exports.

Meanwhile, Argentina's imports have also been on a downward trend due to the depreciation of the Argentine peso and weak domestic demand. Currency controls, imposed by President Kirchner in an effort to stem the depletion of international reserves and strengthen the Argentine peso, have also curbed imports since they have made it difficult to access hard currency. Argentina's reserves of foreign currency reached a 7-year low at the beginning of the year as a result of people seeking refuge from the government and trading their pesos for dollars.

While the currency controls have stabilized the holdings of foreign reserves, foreign direct investment in Argentina has been hurt since investors have difficulty bringing money back to their domestic country. This makes it so that Argentina relies heavily on exports and loans for its foreign reserves, making the economy very vulnerable to sudden shifts in external demand.

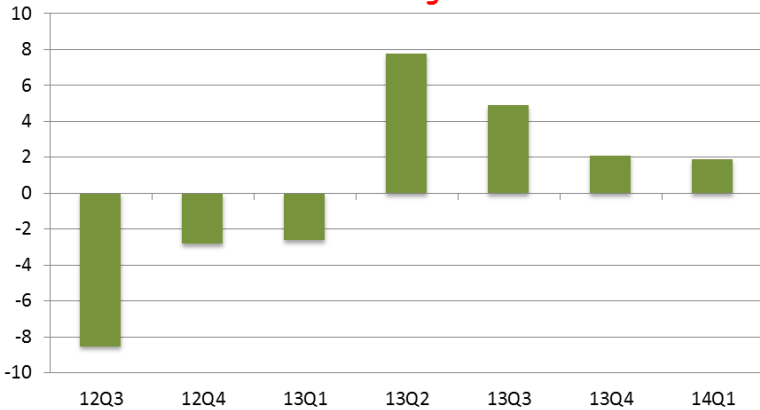
## Argentina Government Spending Y/Y % Change



Sources: Instituto Nacional de Estadística y Censos, Moody's Analytics

Argentina's government continues to increase spending despite the nation's widening fiscal deficit. The expansionary fiscal policy currently on hand, which includes subsidies and other outlays, has driven private spending over the last few years and reduced the size of the economy's contraction. Given that the fiscal deficit is approaching dangerous levels, however, it will not be long before the government is forced to tighten its fiscal policy. The reduction in government spending will hurt private spending and growth in the near term.

## Argentina Fixed Investment Y/Y % Change



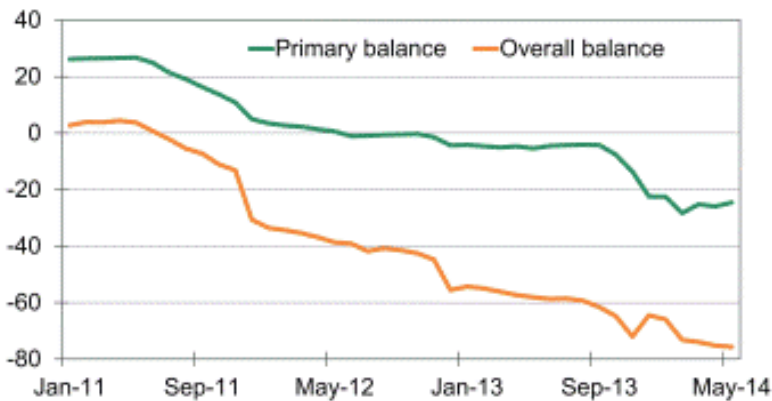
Sources: Instituto Nacional de Estadística y Censos, Moody's Analytics

Argentina's fixed investment growth rate has been on a downward trend for about a year. Businesses are struggling as a result of higher interest rates and wide-spread government regulations. Meanwhile, high inflation has increased the cost of inputs used to produce goods and services.

The recent unexpected drop in interest rates may help to bolster fixed investment in the coming months. However, as inflation picks up, the central bank will be pressured to perform another round of interest rate hikes. The ever-expanding government regulations will also continue to hurt investment in the near term.

## Argentina Fiscal Balance

12-mo rolling sum, ARS bil



Sources: Ministry of Economy, Moody's Analytics

Overall, we see that Argentina's economy is experiencing a slowdown. GDP is contracting as a result of tighter monetary policy, declining exports, high inflation and a weakening currency. While the recent decline in interest rates may help keep the economy afloat, it will add to the existing price pressures. The government's recent default is also expected to raise inflation and put pressure on the central bank to pursue interest rate hikes.

Argentina's economy has been supported by unsustainable levels of government spending; however, the widening fiscal deficit is reaching dangerous levels and will cause the government to reduce its fiscal stimulus. Further, the scarce holdings of foreign reserves will place additional downward pressure on the Argentine peso. Economic growth this year is expected to be very weak with GDP contracting by around 1%.