



FUNDACION DE
I NVESTIGACIONES
ECONOMICAS
L ATINOAMERICANAS

Argentina's Economic Outlook

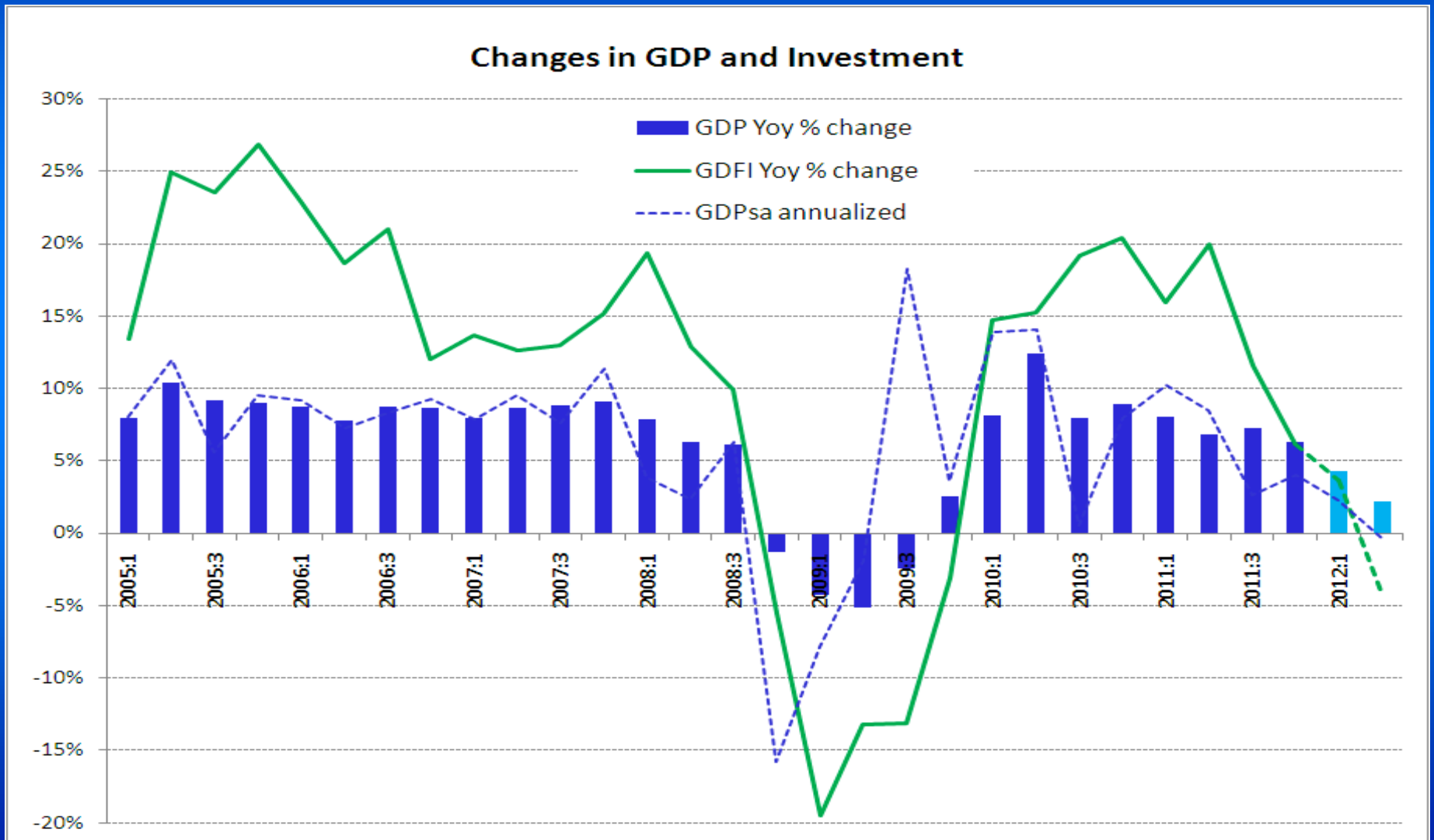
Slowdown

Juan Luis Bour

Council of the Americas

New York, April 25th, 2012

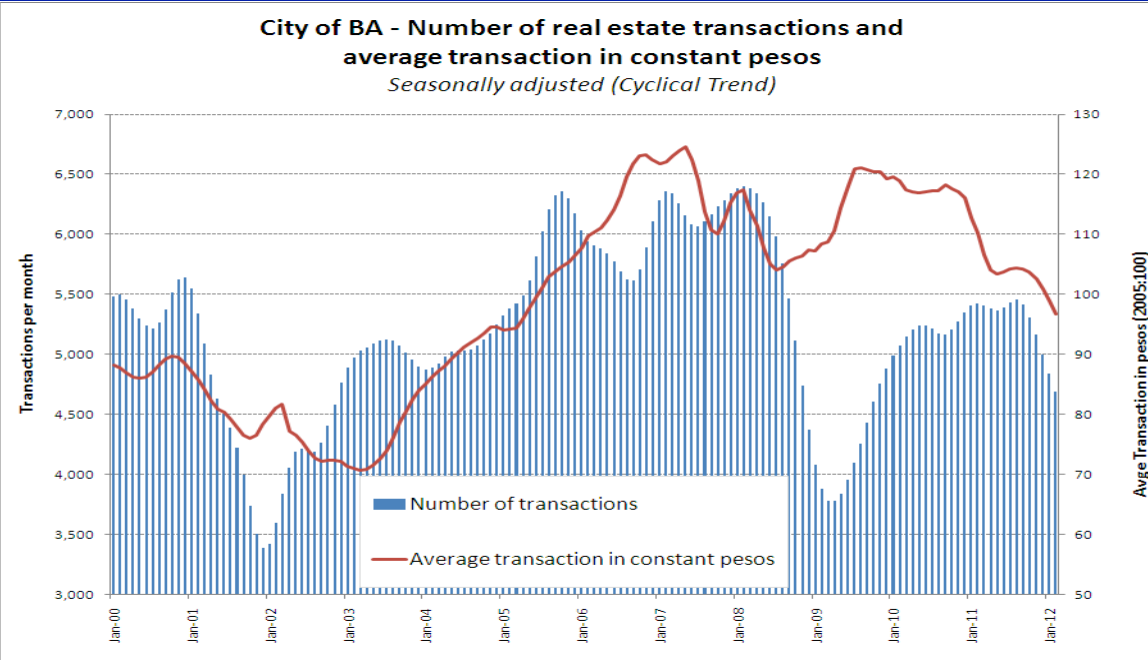
During 2011 GDP growth decelerated from 9.4% (H1 annualized) to 3.3% (H2)
Chances of zero/negative reading in Q2 (sa)



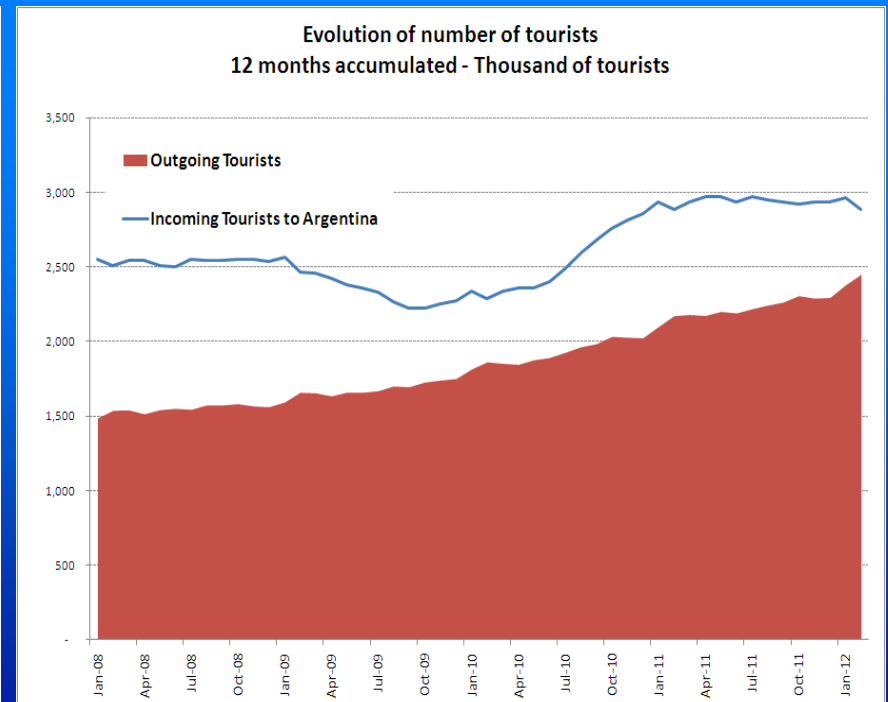
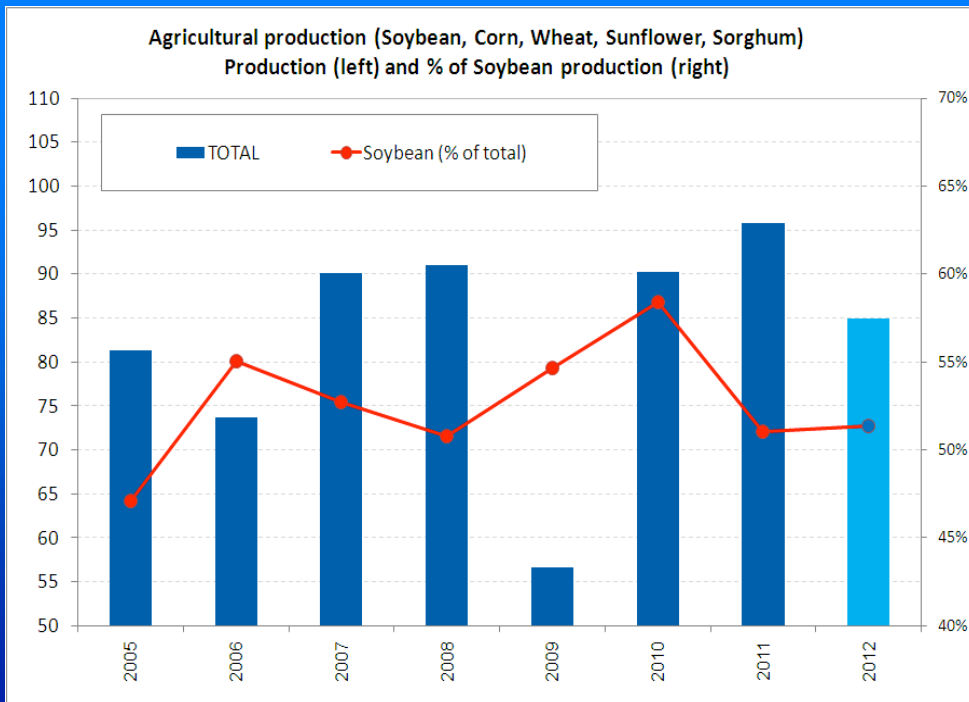
- Slump in Investment (Machinery) since late 2011
- Strong impulse through Public Consumption (employment)
- Slump in imports in late 2011 & 2012

ARGENTINA - Supply and Demand						
Yoy % change, unless stated	2011				2012	
	Year	Half 1	Q3	Q4	Q1	Q2
GDP	7.1%	7.4%	7.3%	6.3%	4.3%	2.2%
<i>GDPsa annualized</i>	-	9.4%	2.8%	3.8%	2.4%	-0.5%
GDFI (Investment)	13.0%	17.9%	11.6%	6.2%	3.6%	-4.4%
<i>Construction</i>	8.9%	8.2%	11.4%	7.7%	3.5%	0.8%
<i>Equipment</i>	18.7%	29.3%	11.7%	4.5%	3.7%	-9.1%
Consumption	7.1%	7.6%	6.7%	6.7%	4.2%	2.7%
<i>Public</i>	10.9%	10.9%	10.3%	11.3%	8.2%	7.0%
<i>Private</i>	6.4%	6.9%	6.0%	5.7%	3.5%	1.8%
Exports (G&S)	4.3%	3.8%	3.4%	7.1%	7.8%	1.1%
Imports (G&S)	17.8%	22.7%	17.7%	9.8%	1.3%	1.8%

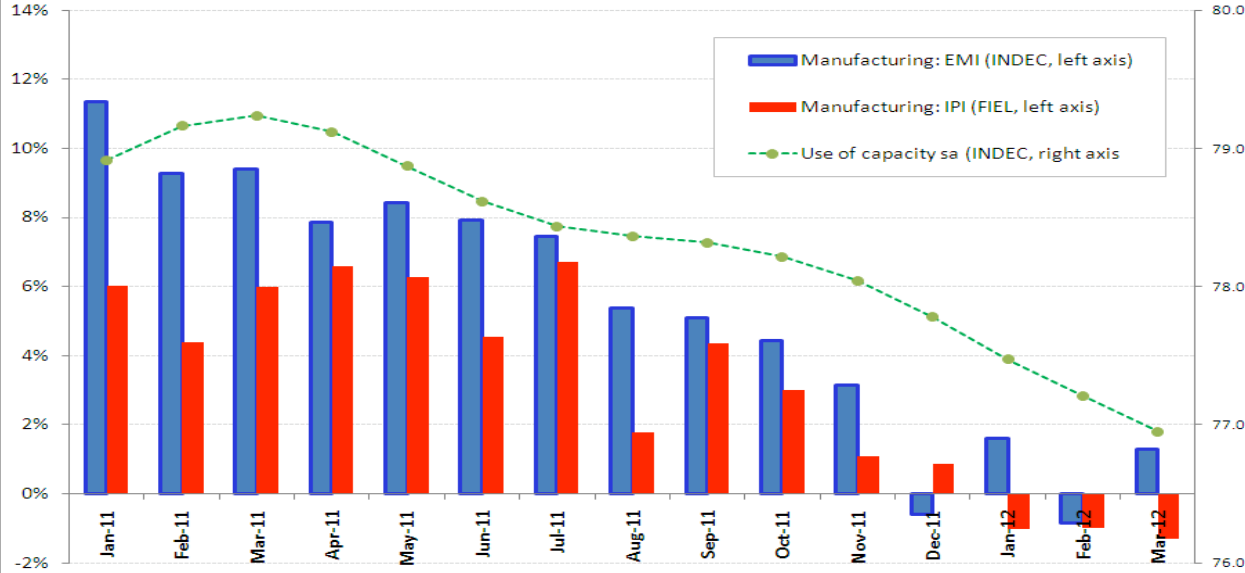
SOURCE: FIEL (FMF-FIEL Macro Forecasts)



- ### Other developments
1. Construction and real estate transactions
 2. Agriculture (drought)
 3. Tourism (inflation and the RER)

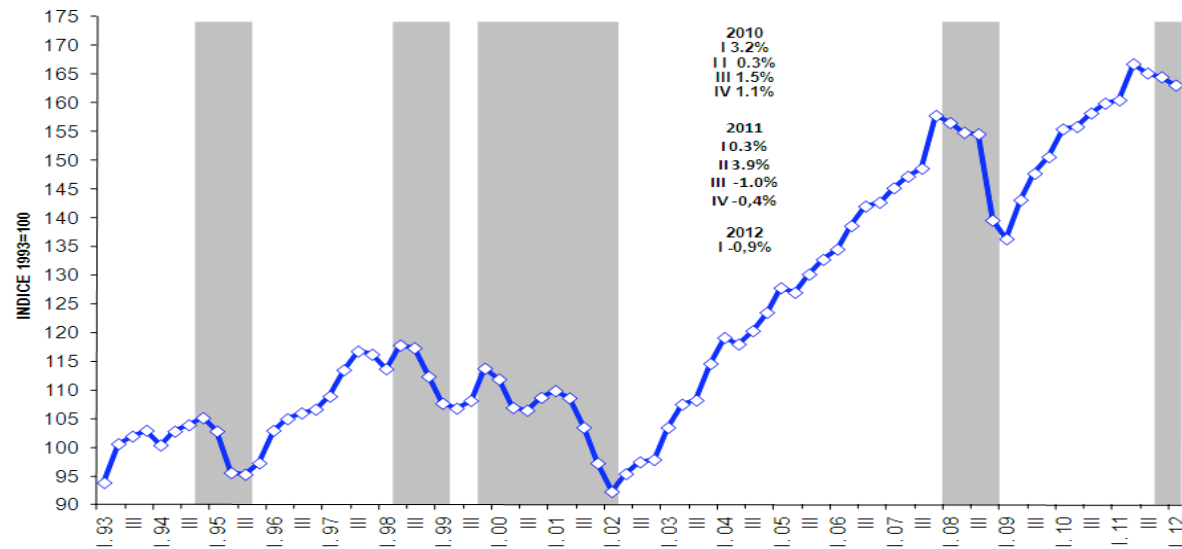


Manufacturing
Year on Year % change (sa) and Use of capacity



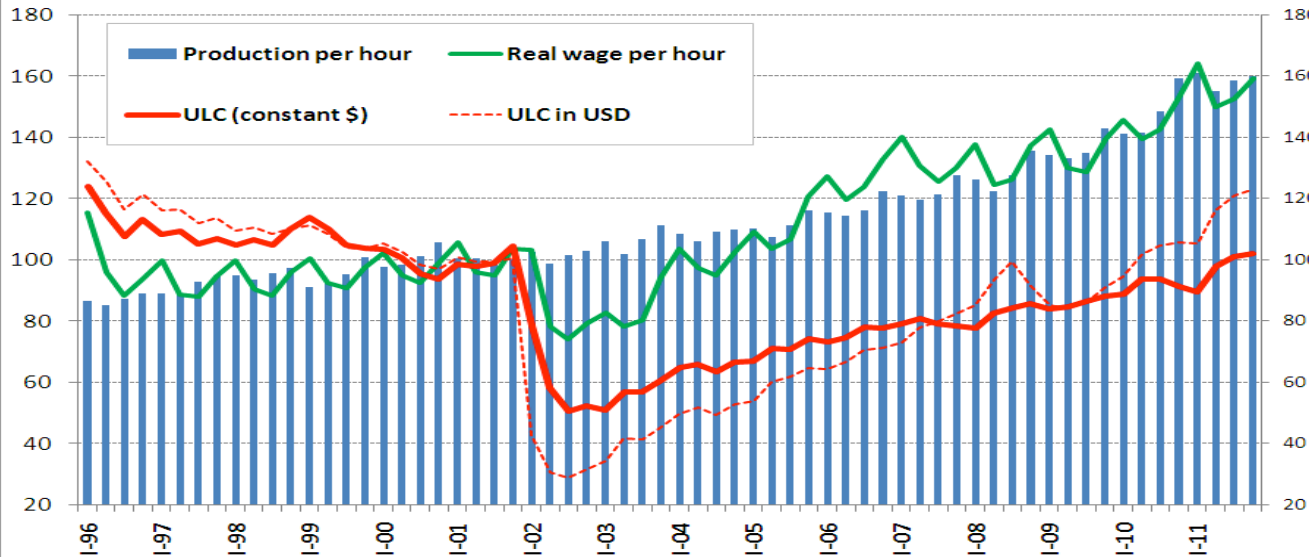
Signs of recession in Manufacturing

IPI SA TRIMESTRAL: CICLOS INDUSTRIALES



FIEL manufacturing index IPI: turning point in third quarter (three negative quarters sa)

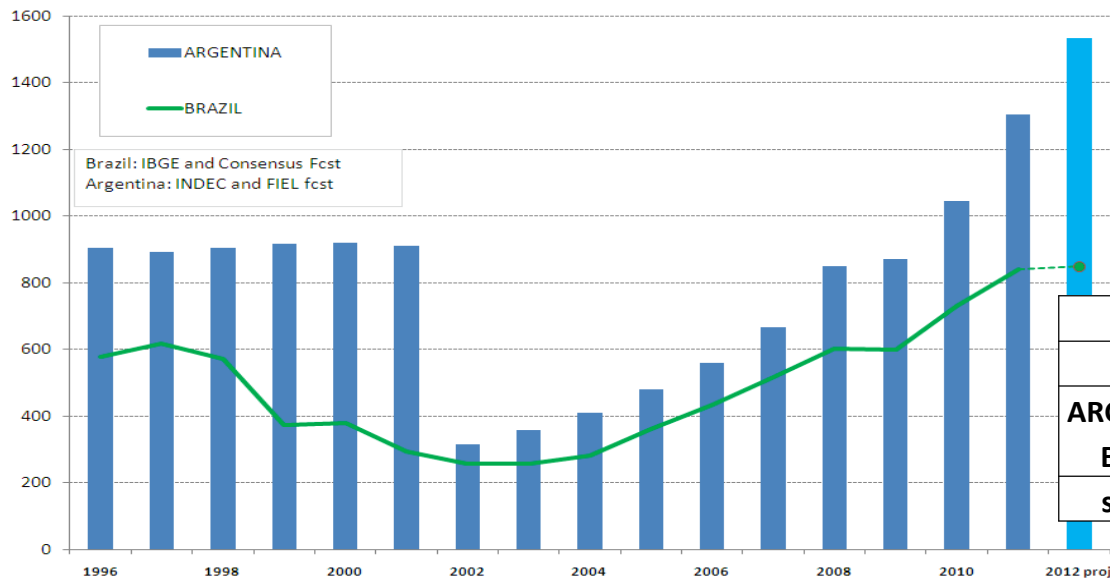
MANUFACTURING (INDEC - Indicadores Industriales)
Real wage per hour, Productivity and Unit Labor Costs
(base 2001:100)



Productivity increase (60% in the past 10 years) was fully transferred to wages/labor costs

ULC: back to late Convertibility levels

Wages in current USD
Argentina and Brazil

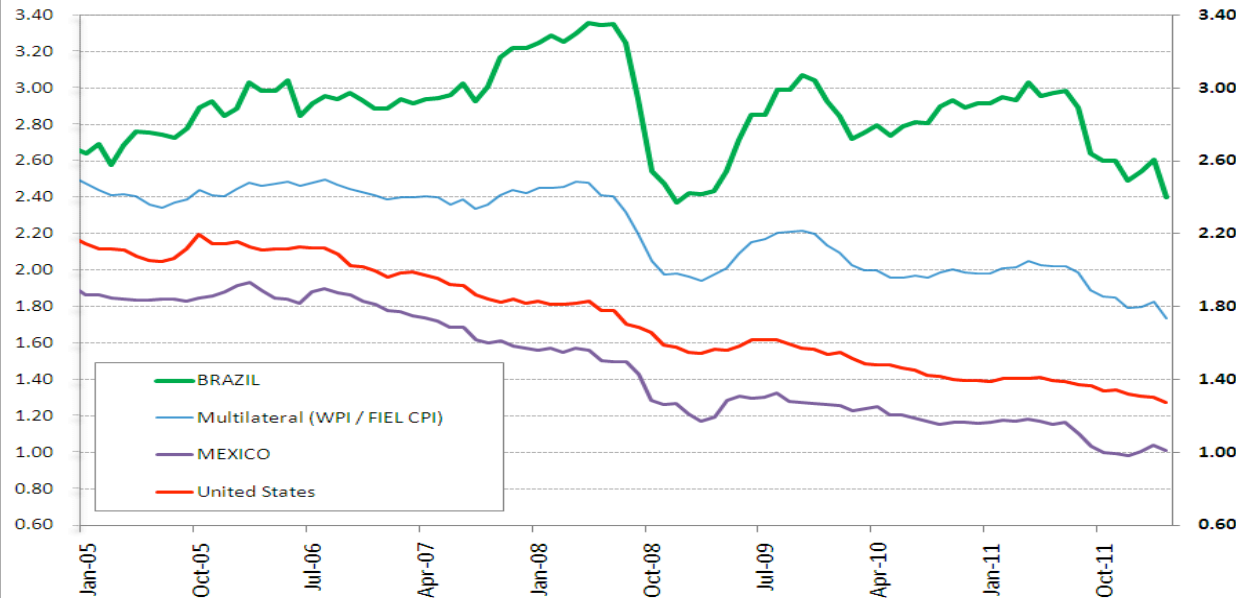


In spite of strong Brazilian Real appreciation, rising wage spread between Brazil and Argentina

Average wages in current USD				
	1997	2002	2007	2012
ARGENTINA	893.4	316.1	667.6	1531.6
BRAZIL	619.1	257.3	517.6	851.5
spread	44.3%	22.9%	29.0%	79.9%

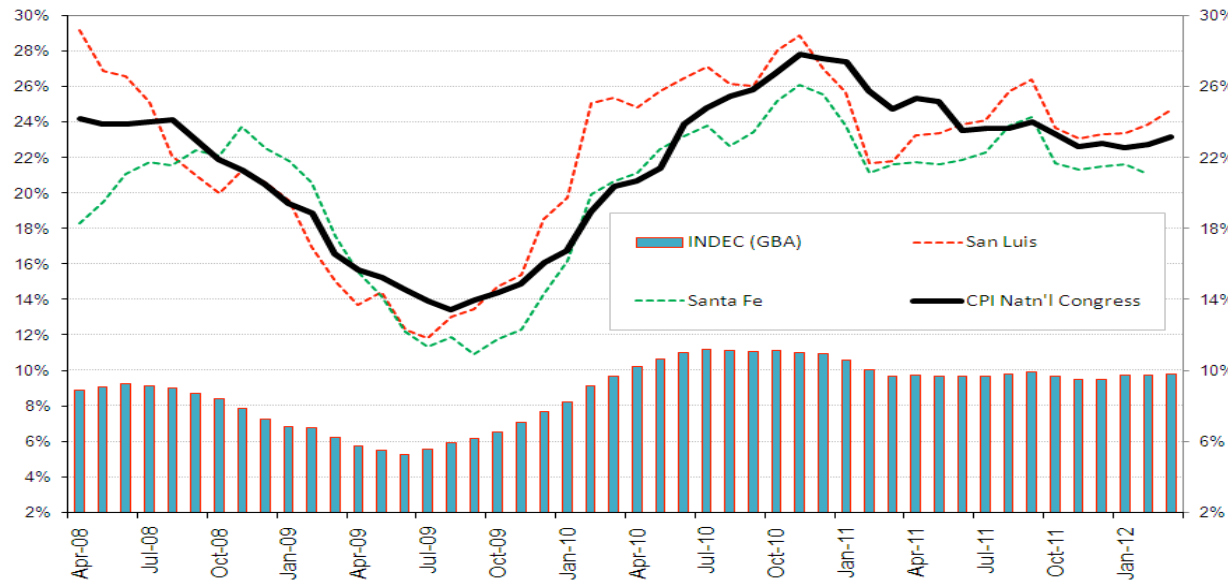
Bilateral and Multilateral Real Exchange Rates

(ARGS/foreign currency) - Dec 2001:1



Currency appreciation accelerated with domestic inflation and recent devaluation (vis-à-vis the USD) of LATAM currencies

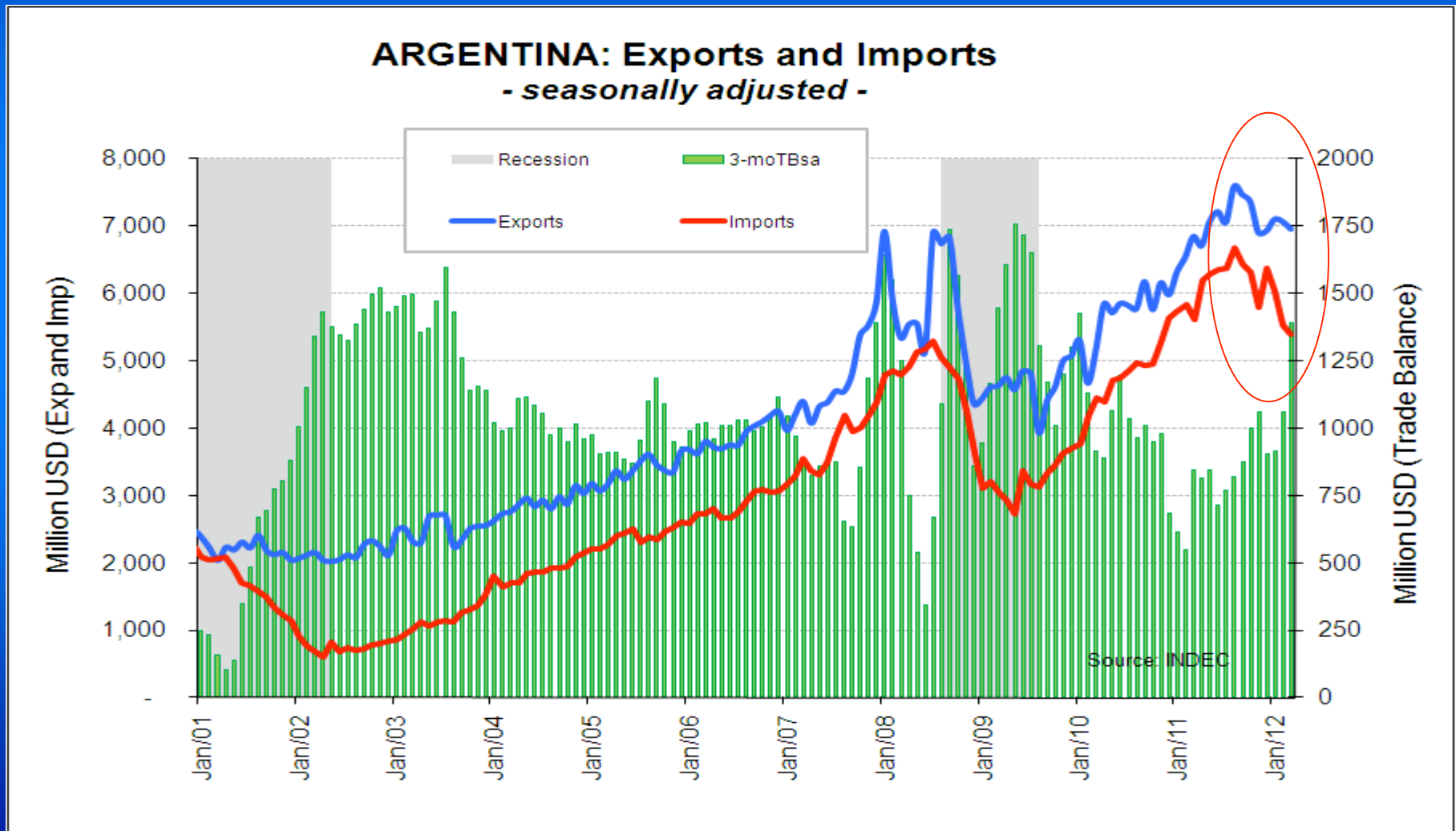
INFLATION: INDEC, Provinces, Private sources



Inflation picked up in 2012 (23% relative to 21% in 2011)

Tariff hikes
Fiscal expansion
Monetary policy
Trade restrictions

Falling imports: from 6.7 BUSD/month (August) to 5.4 BUSD (March).
To address dollar scarcity (capital flight / vanishing trade balance) new strict administrative restrictions since early 2012



Argentine imports: billion USD and Yoy % change

	2011					Jan/March 2012
	Billion USD	% ch	Jan-June	Jul-Dec	Nov-Dec	% change
Capital goods	14.5	24%	36%	15%	1%	-5%
Intermediate	21.8	23%	30%	18%	3%	-3%
Energy & Oil	9.4	110%	102%	117%	95%	-3%
Spare Parts	14.4	26%	35%	19%	7%	9%
Vehicles	5.6	25%	33%	19%	30%	9%
Consumption (& Rest)	8.2	22%	27%	18%	6%	-4%
TOTAL	73.9	31%	38%	25%	11%	0%

Source: based on INDEC

From import deceleration in late 2011 to a slump in 2012 (imports and investment)

Consumption goods: imports (BUSD) and Yoy % change

	2011		Jan/March 2012
	Billion USD	% ch	% change
<i>Durable</i>	0.9	-6%	-31%
<i>Semi-Durable</i>	2.5	33%	-7%
<i>Non Durable</i>	2.9	20%	5%
<i>Food & Bev for households</i>	1.2	23%	-14%
<i>Non industrial vehicles</i>	0.6	39%	-5%
<i>Rest</i>	0.2	44%	92%
TOTAL Consumption & rest	8.2	22%	-4%

Source: based on INDEC

Consumption goods are a minor fraction of imports. No alternative but to extend restrictions



FUNDACION DE
INVESTIGACIONES
ECONOMICAS
LATINOAMERICANAS

Argentina's Economic Outlook
Macro Burden of the Energy-Crunch

Fernando Navajas

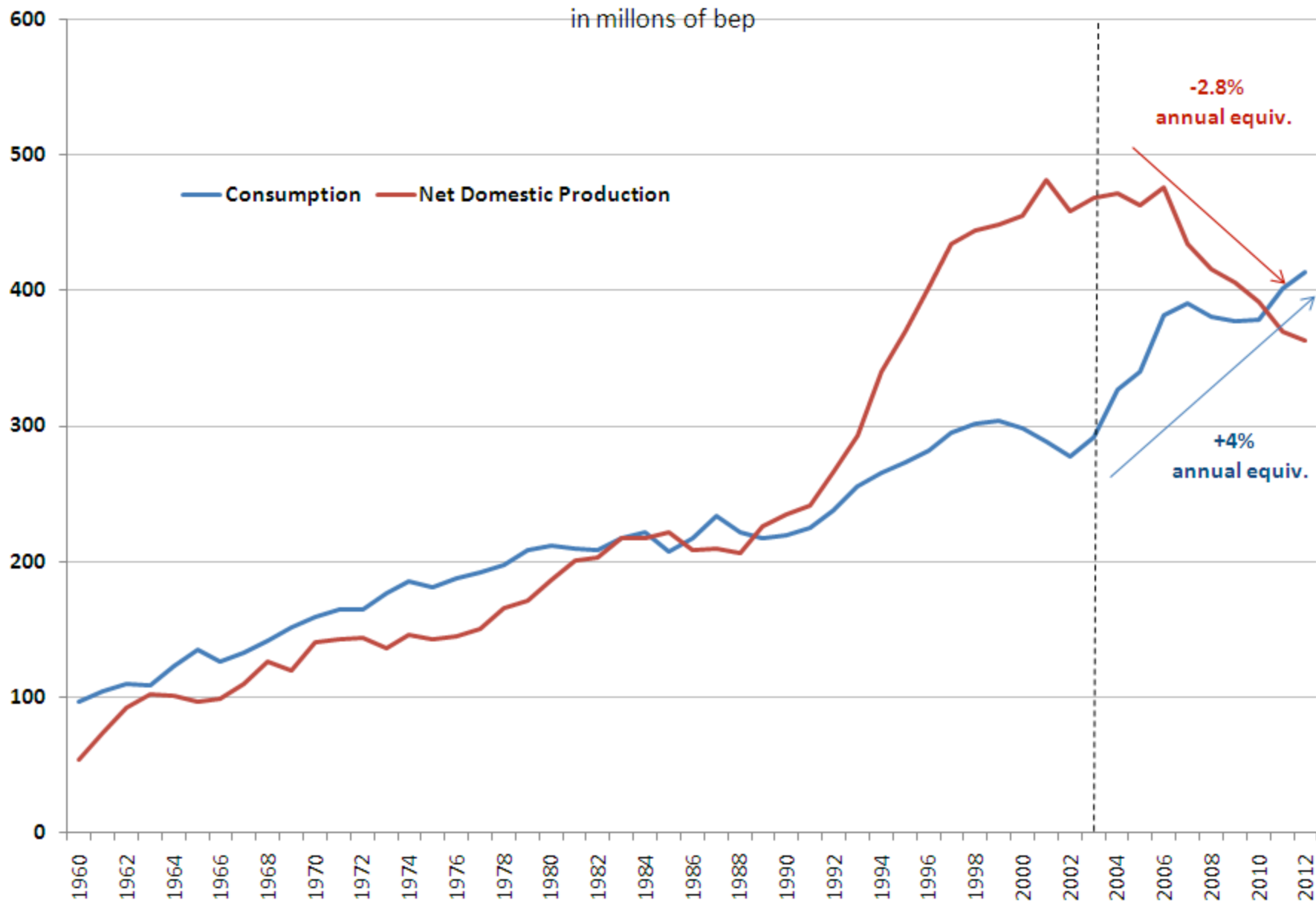
Council of the Americas
New York, April 25th, 2012

Summary

- Demand and Supply imbalances after a decade of energy populism finally created a formidable burden to the economy.
- Fiscal and external balances experienced shocks of 3% and 5% of GDP, respectively.
- Both are deepening, unless subsidies are reduced and energy supply recovers. The status quo has finally revealed itself as unsustainable.
- Natural gas is the main driver of the dynamics and will continue being so in the near future.
- The seizure of YPF will not solve the problem unless it helps at delivering a U-turn in production dynamics. This collides with keeping prices low.

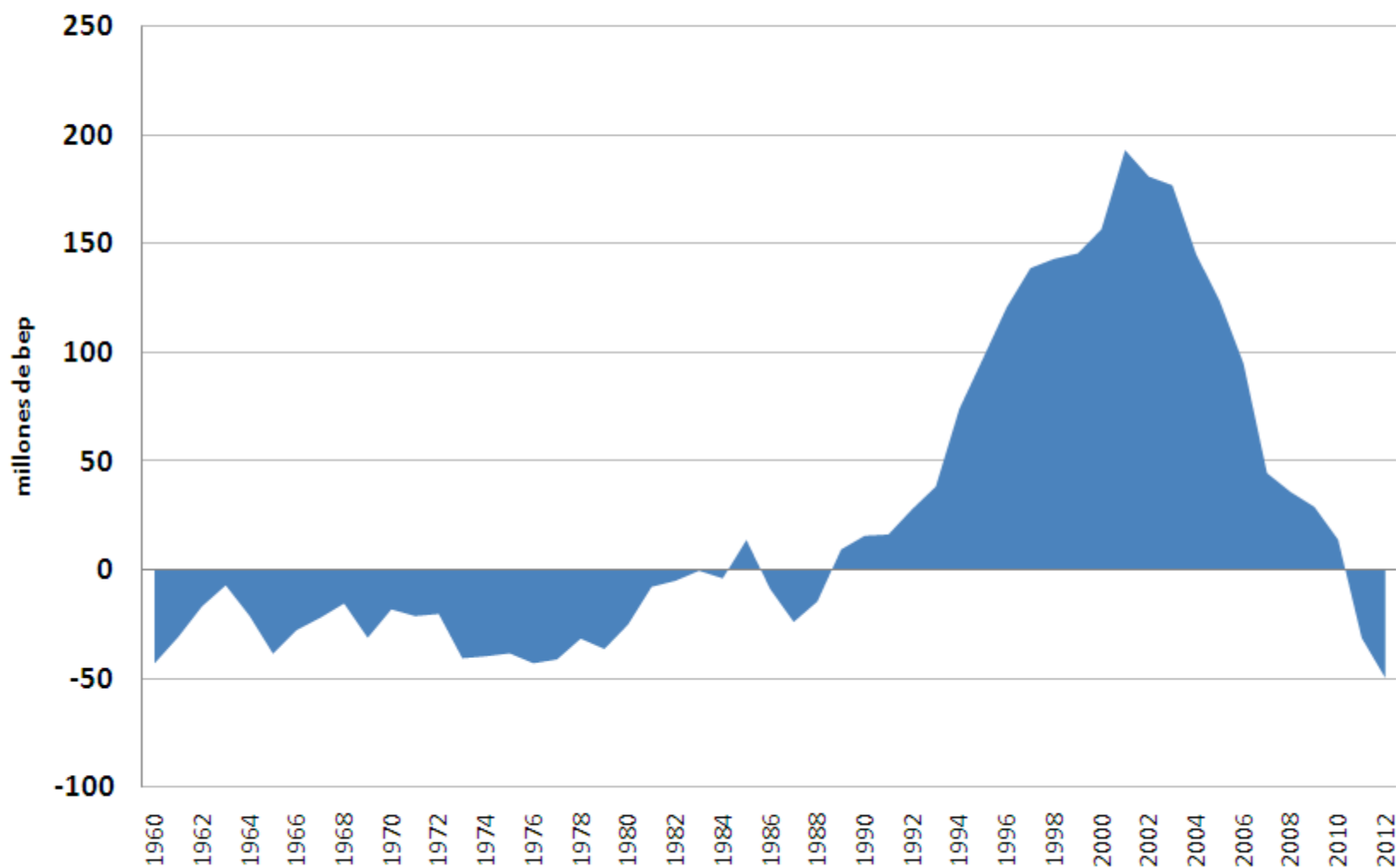
Argentina: Domestic Supply and Demand of Energy History 1960-2012

in millions of bep



Argentina: Energy Trade Balance History 1960-2012*

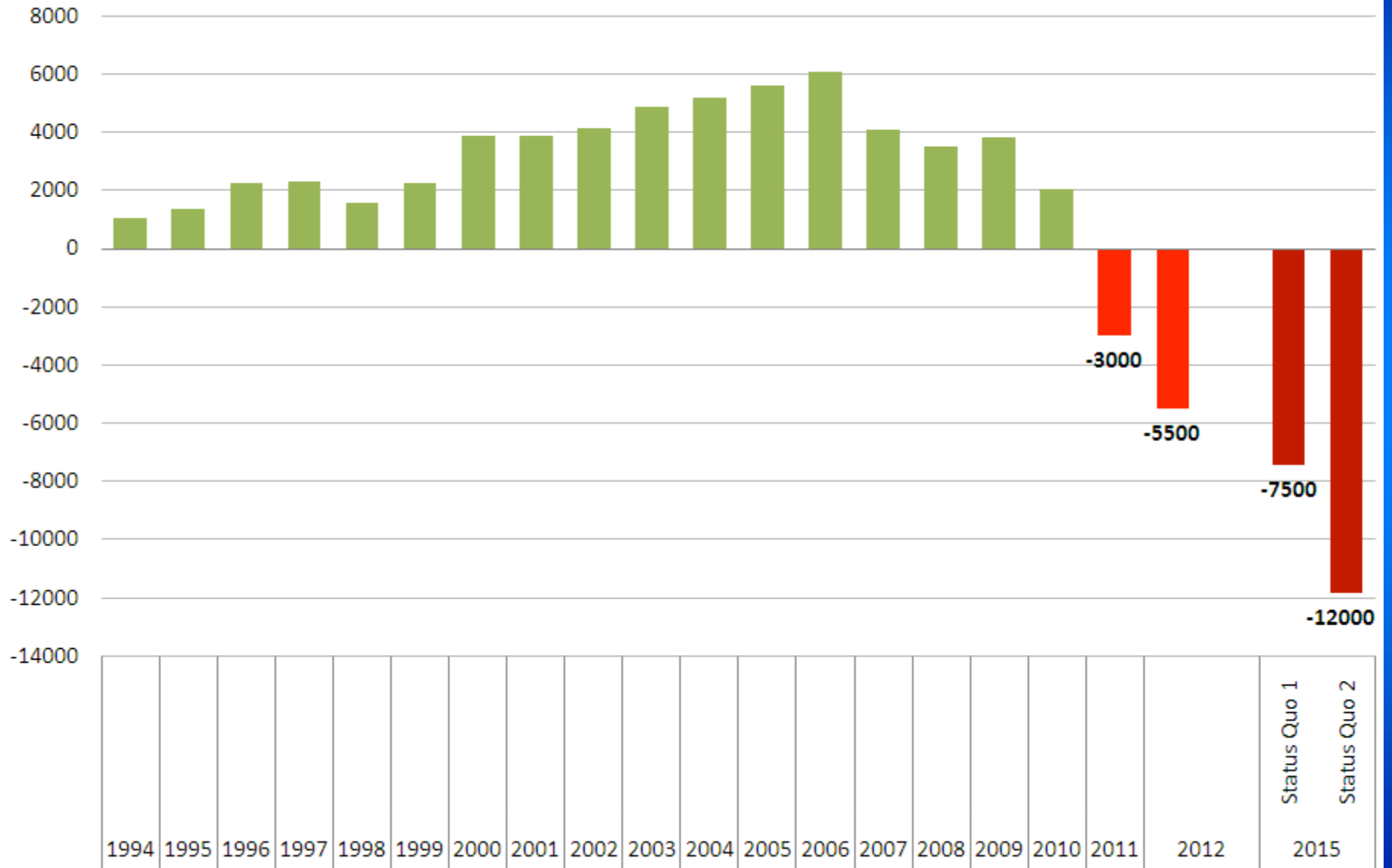
In millions of Barrel Equiv of Oil



Source : Balance Energético Nacional (Secretaría de Energía), BP Statistical Review of World Energy 2011 and INDEC

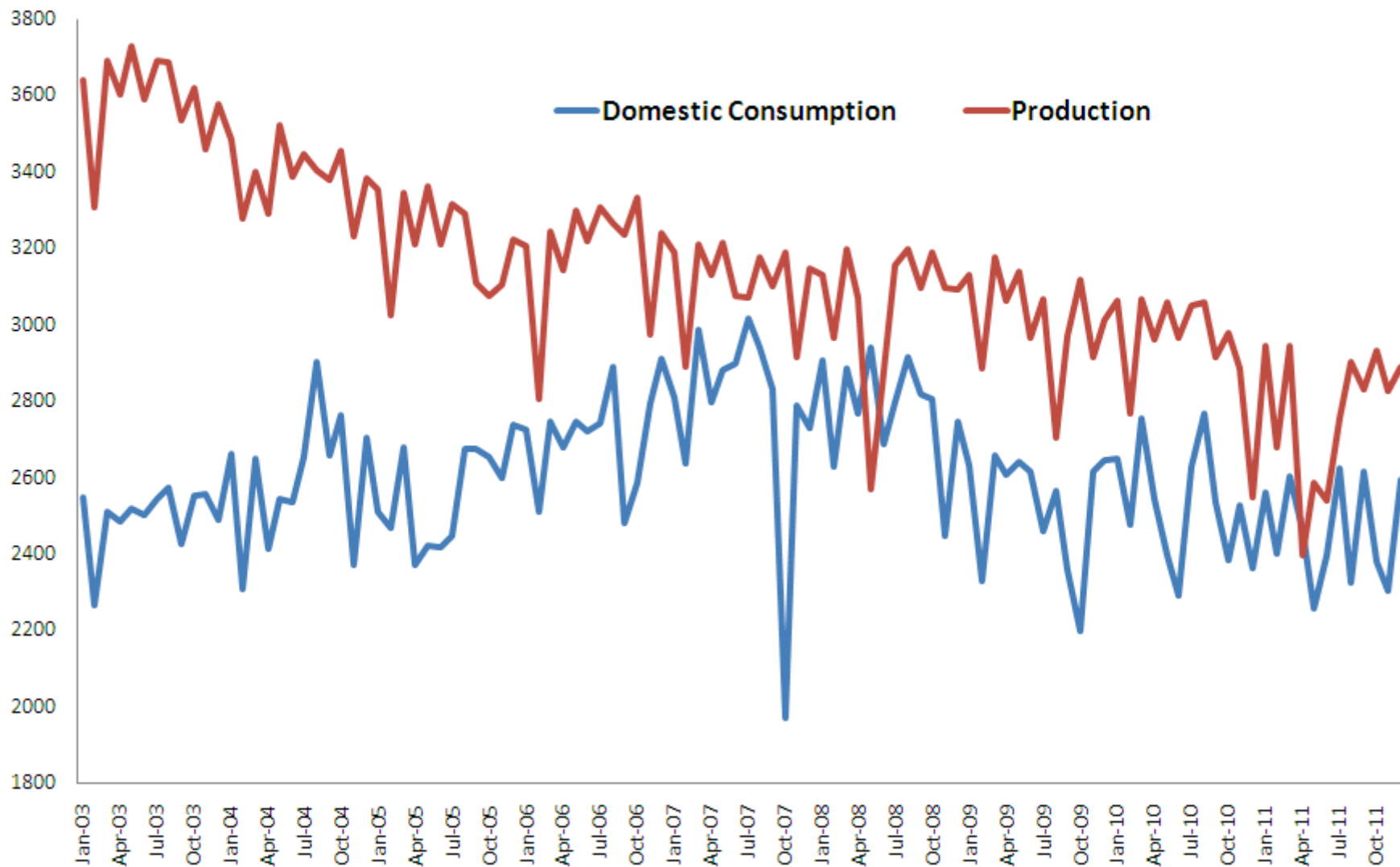
Energy Trade Balance under the Status Quo

in millions of US dollars



source: INDEC, estimate for 2012 and simulations for 2015

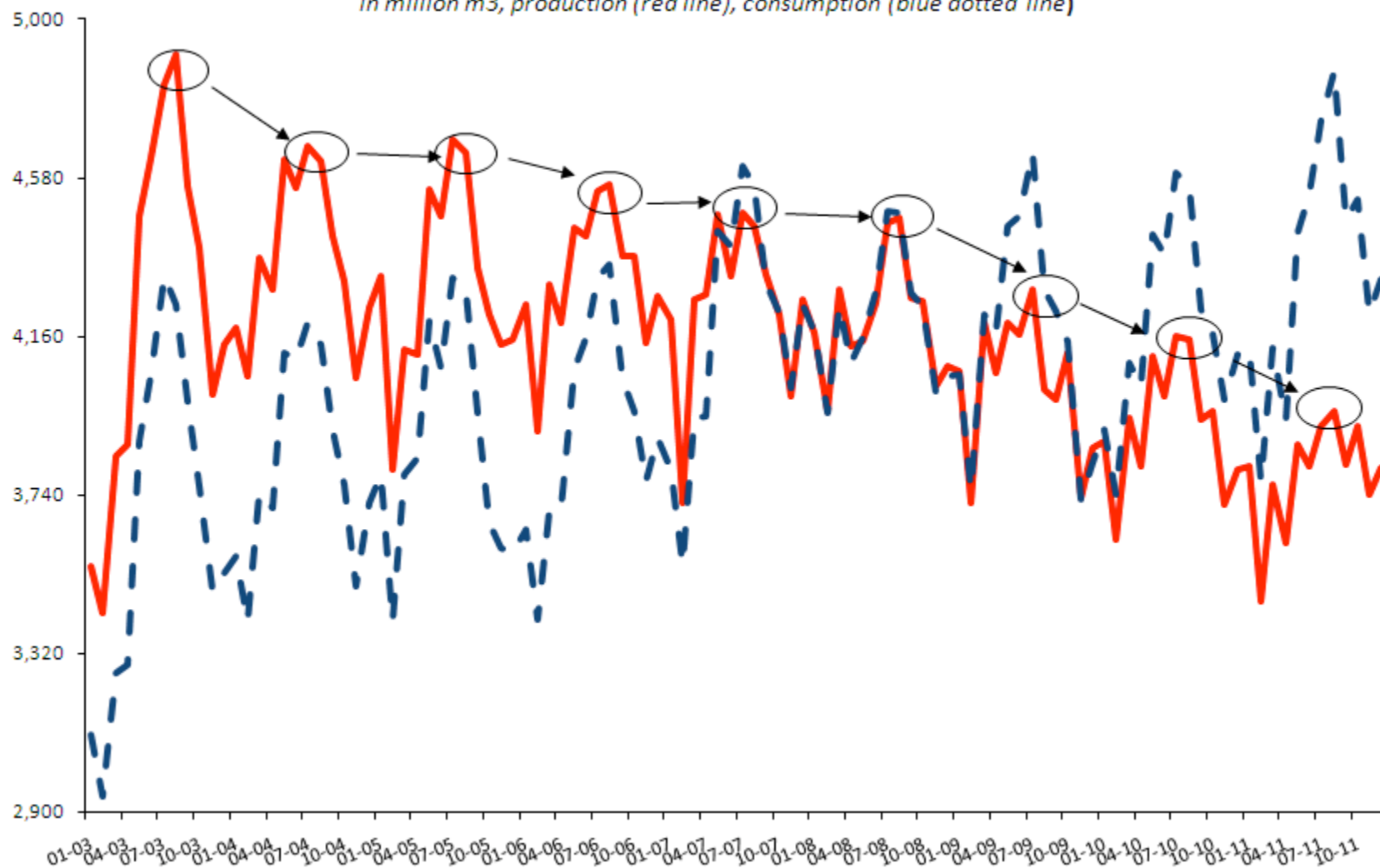
Oil Production and Domestic Consumption January 2003 - December 2011 *in Thousand of m3*



Argentine: Natural Gas Production and Consumption 2003-2011

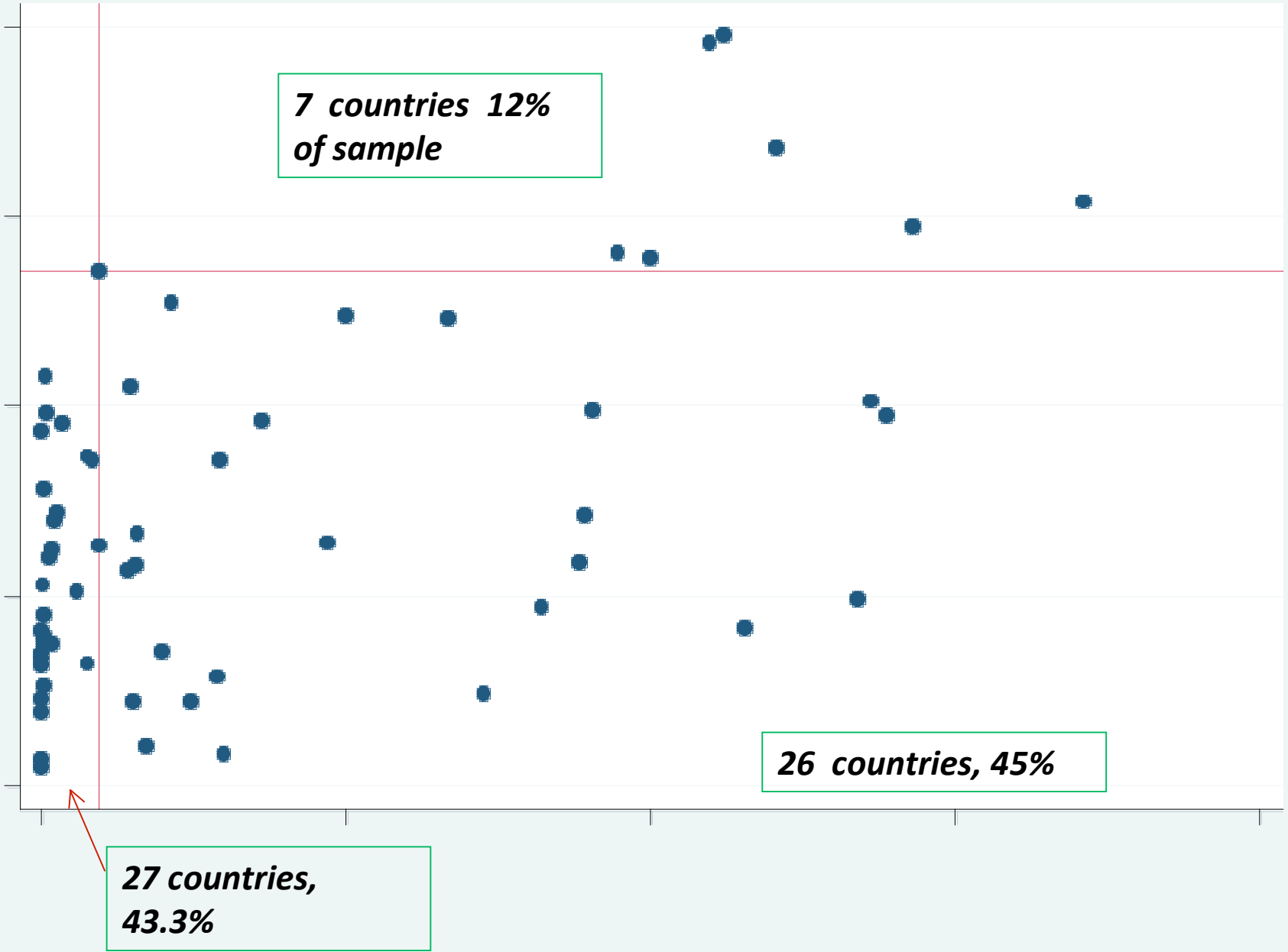
Source: IAPG and Enargas

in million m3, production (red line), consumption (blue dotted line)



Energy and external performance

- In 2011 alone energy added an effect of -5 billion dollars to the trade balance. 4 out of 5 came –in almost equal parts- from natural gas and diesel.
- From 9.6 billions of energy imports (2011) diesel accounts for almost 4 billion and natural gas for 3.2 billion.
- However, about half of the imported diesel is made by the wholesale electricity market operator and is explained by the “structural” shortage of natural gas. Thus, NG explains about 60% of the effect on trade accounts.
- ¿What can be expected in 2012?
 - ¿Could we see another 5 billion jump? NO.
 - An increase between 1.5 and 2.5 billions looks more likely.



The drop in production is a systemic, incentive-driven, phenomenon

Oil Production by Firm			
in thousand of cubic meters			
Firm	2011	2010	% Var.
YPF S.A.	11,251	12,133	-7.3%
PAN AMERICAN	6,518	6,583	-1.0%
PETROBRAS ARGENTINA S.A.	2,256	2,310	-2.3%
CHEVRON ARGENTINA S.R.L.	2,071	2,424	-14.6%
PLUSPETROL S.A.	1,581	816	93.8%
SINOPEC ARGENTINA EXPLORATION INC	1,892	2,274	-16.8%
TECPETROL S.A.	1,432	1,472	-2.7%
TOTAL AUSTRAL S.A.	1,120	1,180	-5.1%
PETROLERA ENTRE LOMAS S.A.	849	829	2.4%
PETRO ANDINA RESOURCES LTD.	827	1,702	-51.4%
RESTO	3,435	3,590	-4.3%
TOTAL	33,231	35,313	-5.9%
Natural Gas Production by Firm			
in millions of cubic meters			
Firm	2011	2010	% Var.
TOTAL AUSTRAL S.A.	13,674	13,251	3.2%
YPF S.A.	10,604	11,727	-9.6%
PAN AMERICAN	5,686	5,952	-4.5%
PETROBRAS ARGENTINA S.A.	4,188	4,273	-2.0%
PLUSPETROL S.A.	2,988	3,392	-11.9%
APACHE ENERGIA ARGENTINA S.R.L	1,646	1,350	22.0%
PETROLERA LF COMPANY S.R.L	1,556	1,595	-2.5%
RESTO	5,182	5,570	-7.0%
TOTAL	45,524	47,109	-3.4%

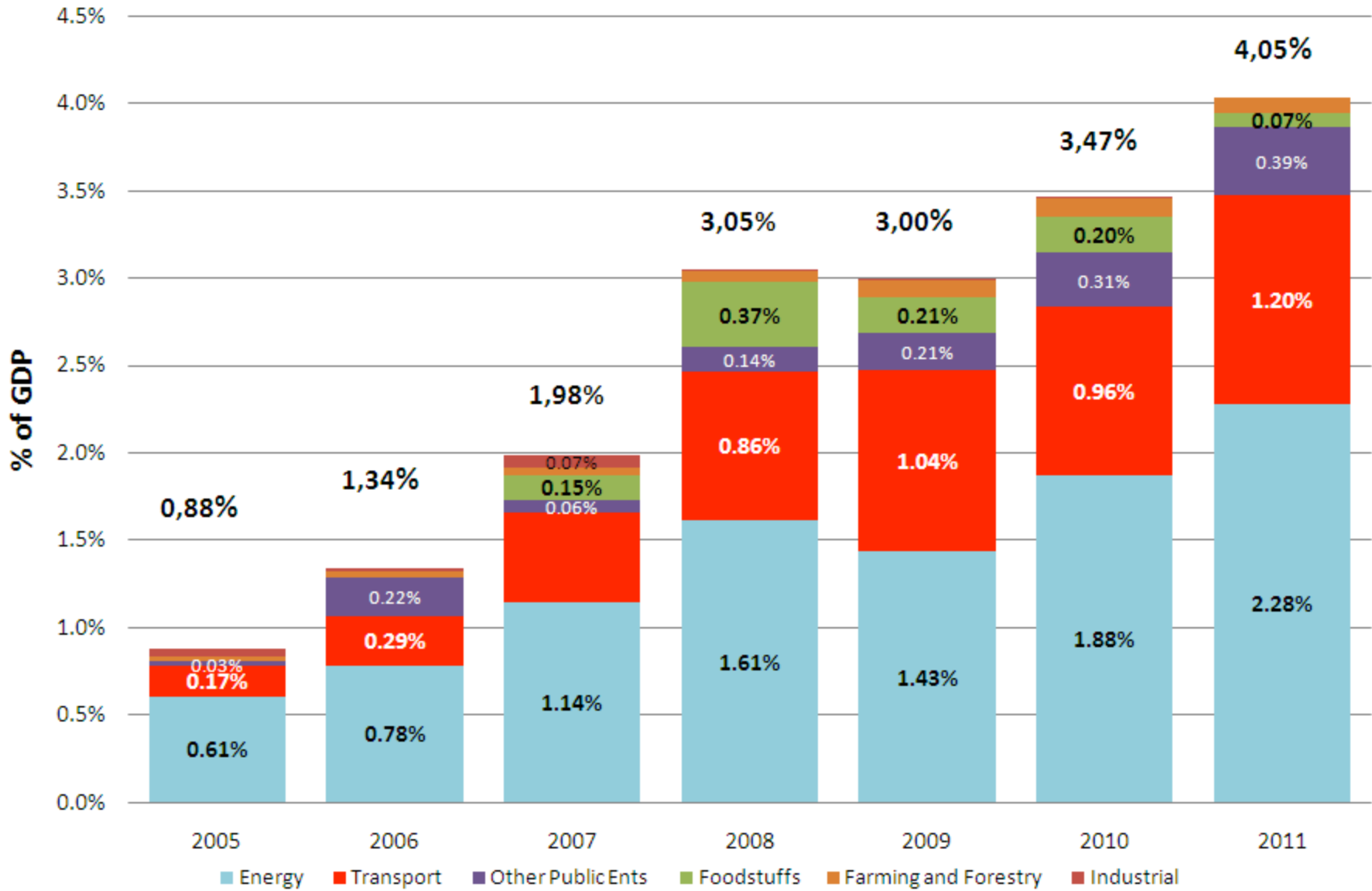
Source: IAPG

Barril and Navajas (2011) "What Drove Down Natural Gas Production in Argentina?" <http://mpr.ub.uni-muenchen.de/35726/>

Energy and fiscal performance

- In 2011 direct energy subsidies account for 50% of total subsidies, i.e. close to 40 billion ARS (2.3% of GDP).
- Electricity explains 23 billion and NG 13 billion.
- In December, the government announced a new policy of targeting reduction in subsidies to some firms and households.
- This new policy is now being frozen on the basis that it will hurt activity.
- But the status quo is inconsistent with the prices required for new energy and with fiscal sustainability.
- A return to a program of dismantling subsidies is unavoidable.

Subsidies and Loans (% GDP)



Fiscal burden is endogenous to NG production fall

NG imports (and diesel too !) have NG production fall as a main “driver” .

Imported quantities = Demand – Production (1)

Import cost in ARS = border (world) price * exchange rate * imported quantities (m3) (2)

Import costs are “covered” with fees on total demand (consumption). Revenues = avg. fees * Demand (3)

“Zero Deficit ” → Revenues = Import costs (4)

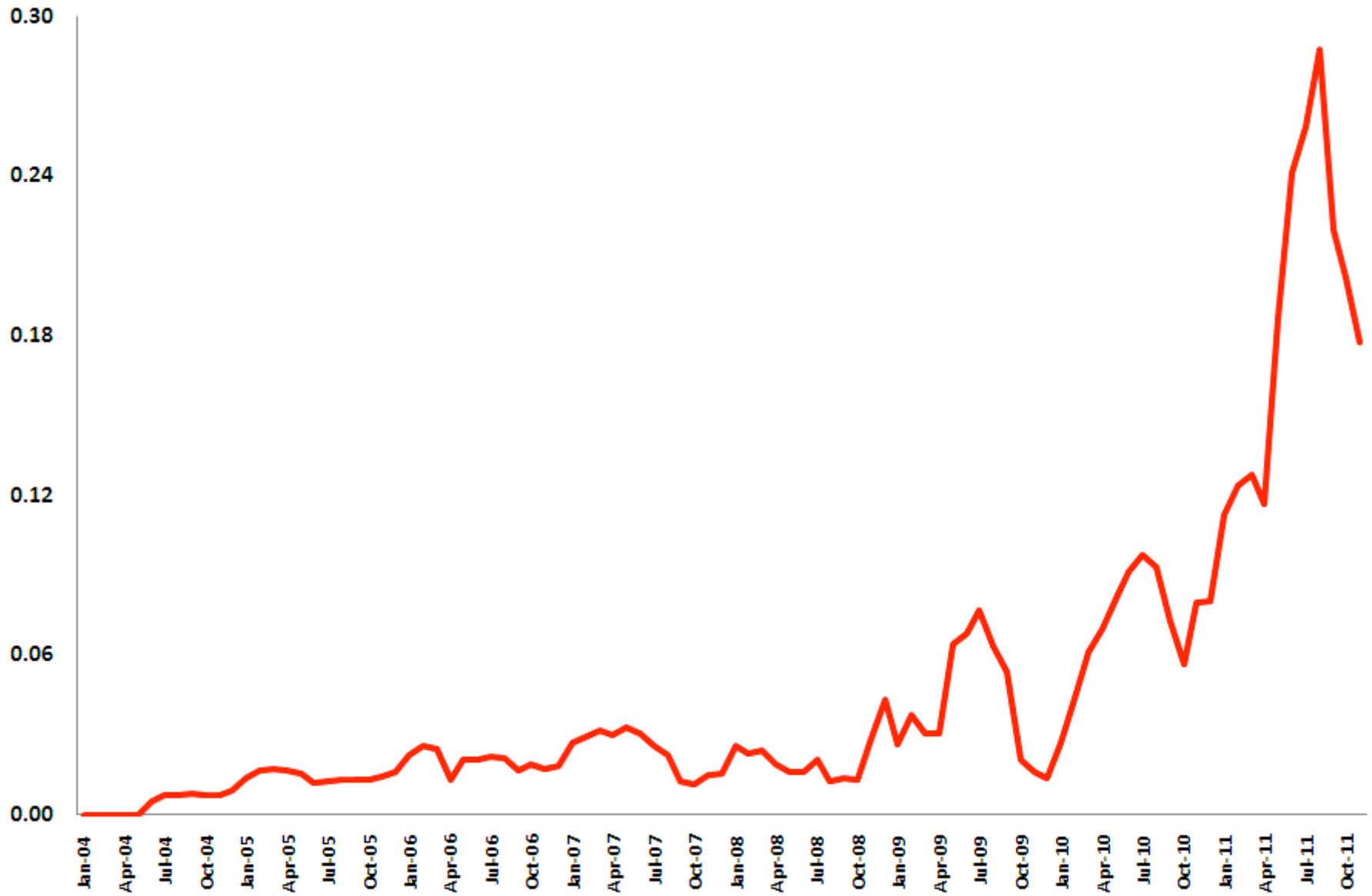
“Avg. break-even fees (zero deficit)”=

world price * exchange rate * (import quant. / total demand) (5)

- Drivers: a) world prices ; b) exchange rate; c) Demand; d) Domestic Production

Average "Break-even" Charge to Demand that covers Natural Gas Imports

January 2004 - Diciembre 2011 en \$/m³





FUNDACION DE
INVESTIGACIONES
ECONOMICAS
LATINOAMERICANAS

Argentina's Economic Outlook

Macroeconomic Inconsistencies

Daniel Artana

Council of the Americas

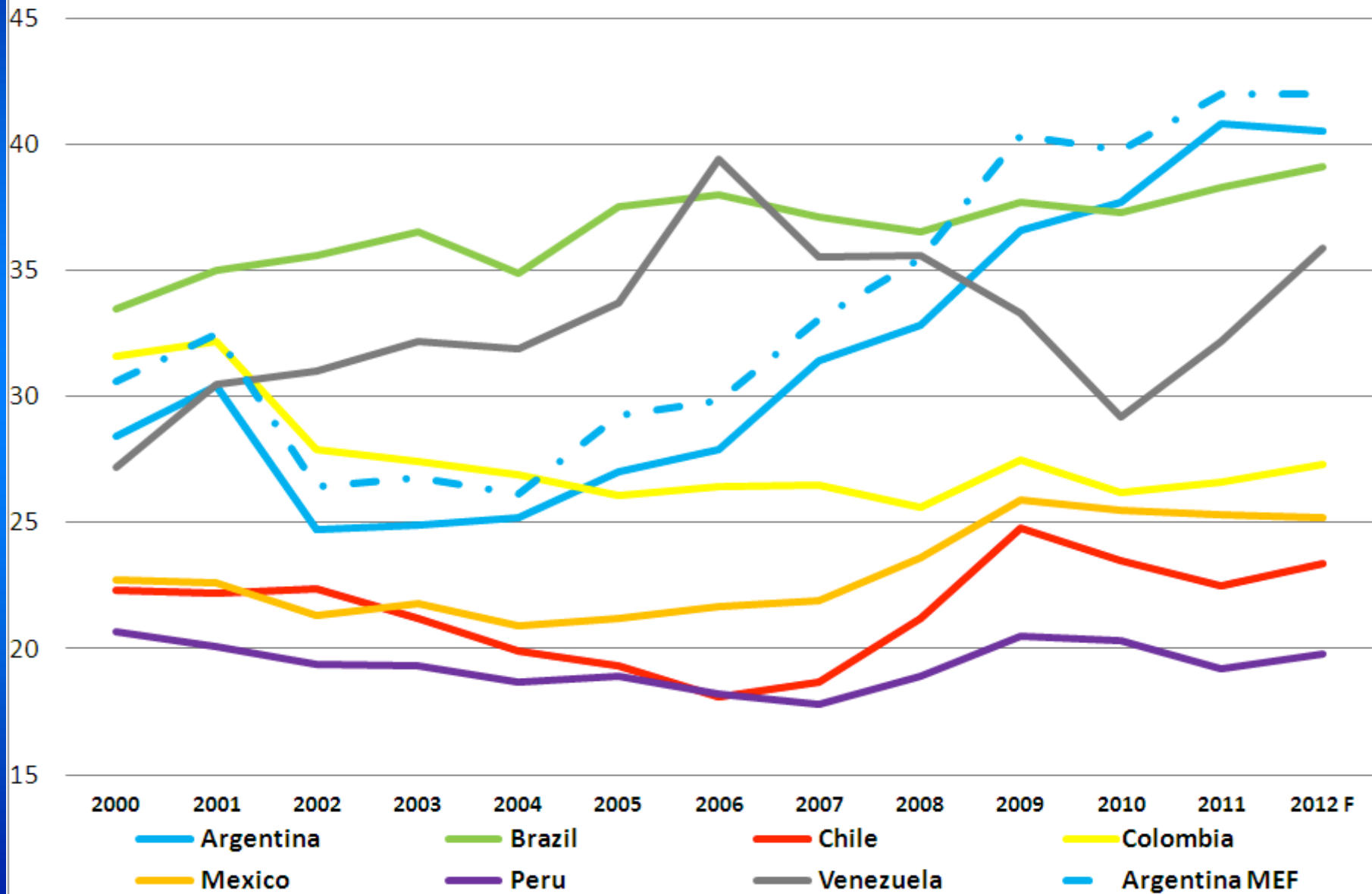
New York, April 25th, 2012

Short-term challenges

	Year on Year % variation until:					
	Dec 10	Oct-11	Average Nov 11 - Dic 11	Jan 12	Feb-12	Mar-12
Nominal Variables						
Primary Public Expenditures	33%	39%	22%	34%	28%	na
Private Sector Wages	29%	33%	35%	35%	35%	na
Money Supply (M1 private)	33%	33%	32%	30%	29%	30%
"True" inflation	23%	21%	21%	21%	21%	22%
Nominal Exchange Rate	5%	7%	8%	8%	8%	8%
Utilities' prices for residential users	0%	0%	0%	0%	na	na

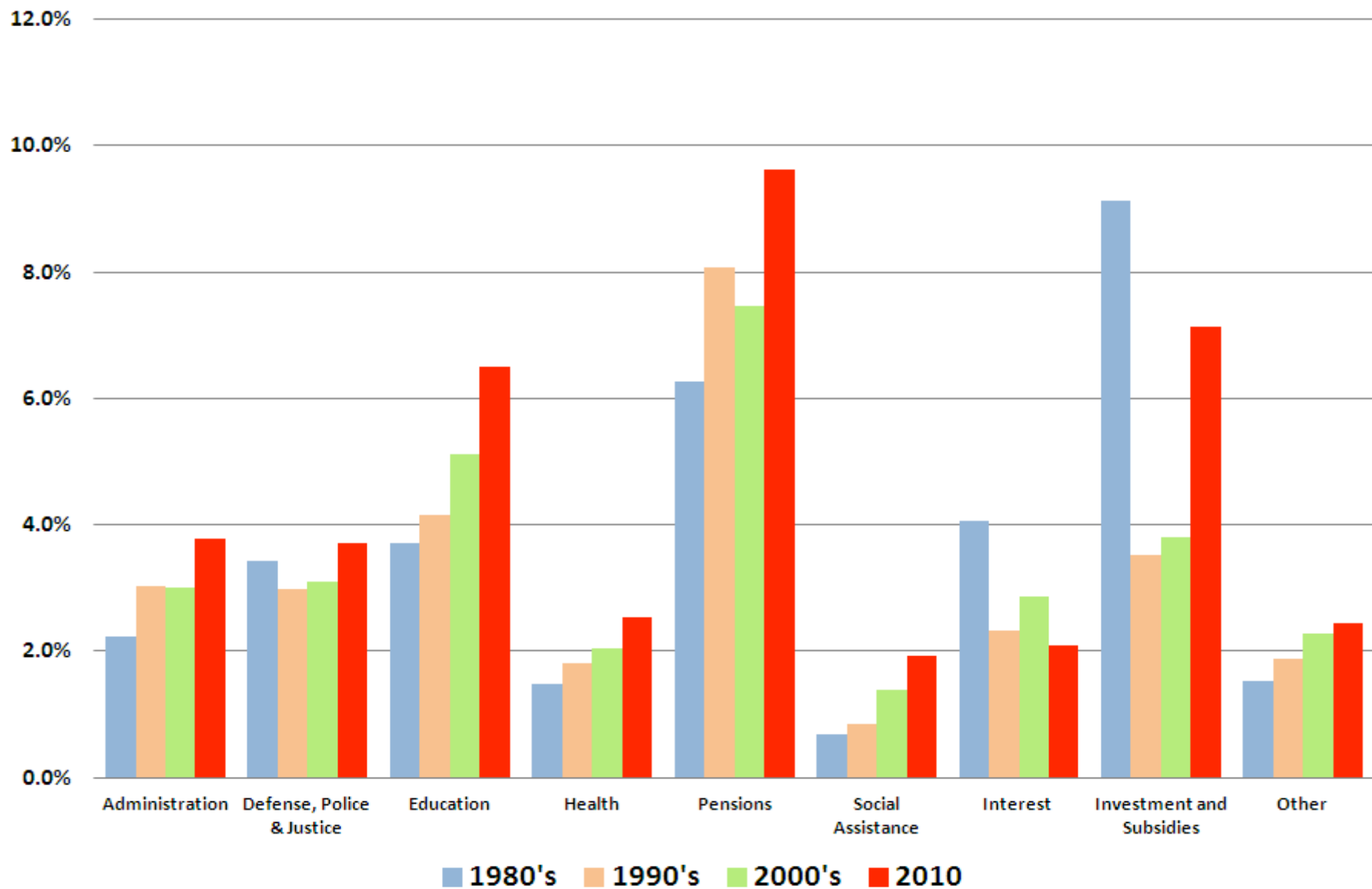
Medium-term concerns

General Government Expenditure (% of GDP)



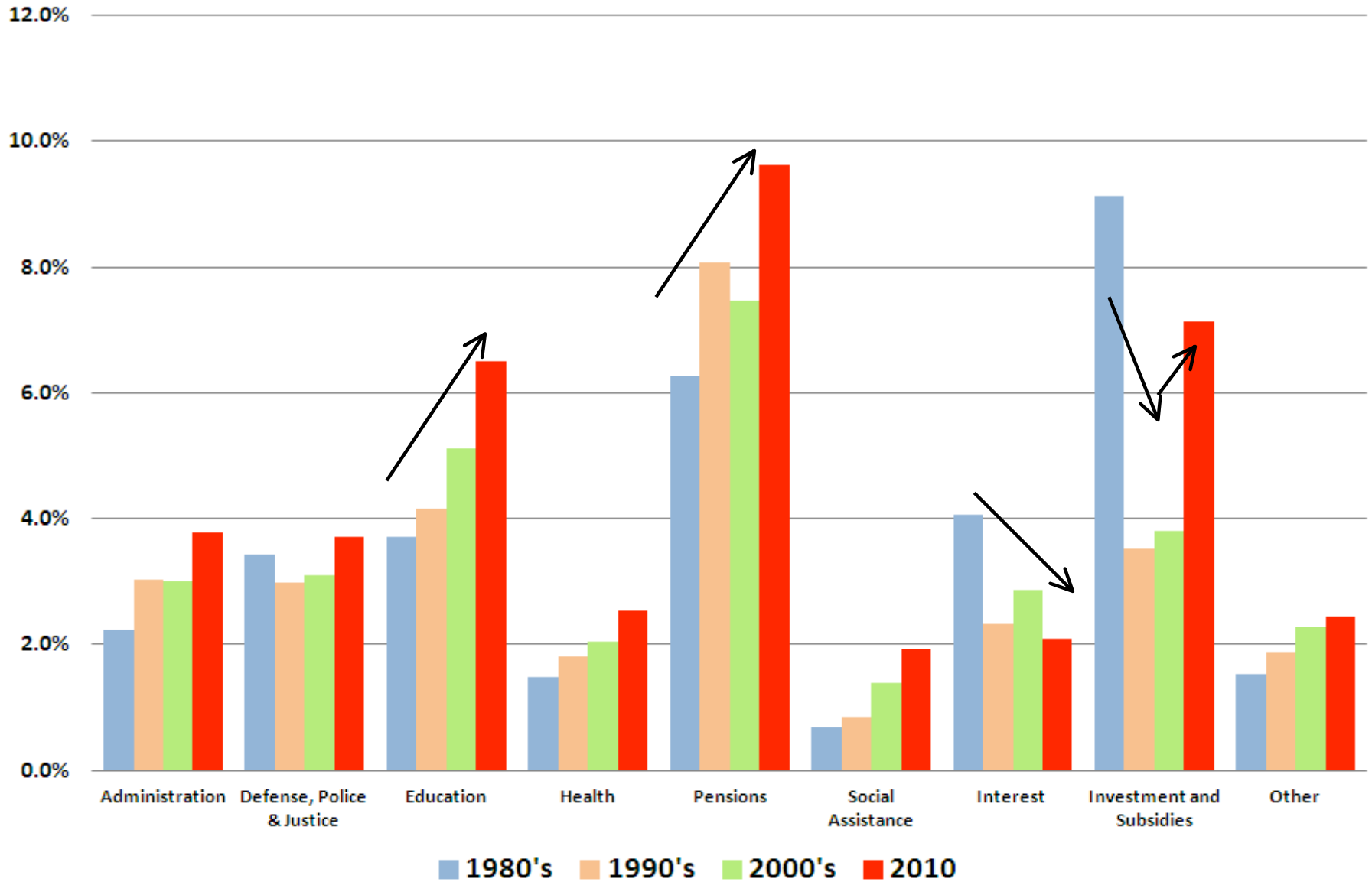
Medium-term concerns

Public Expenditures (% of GDP)



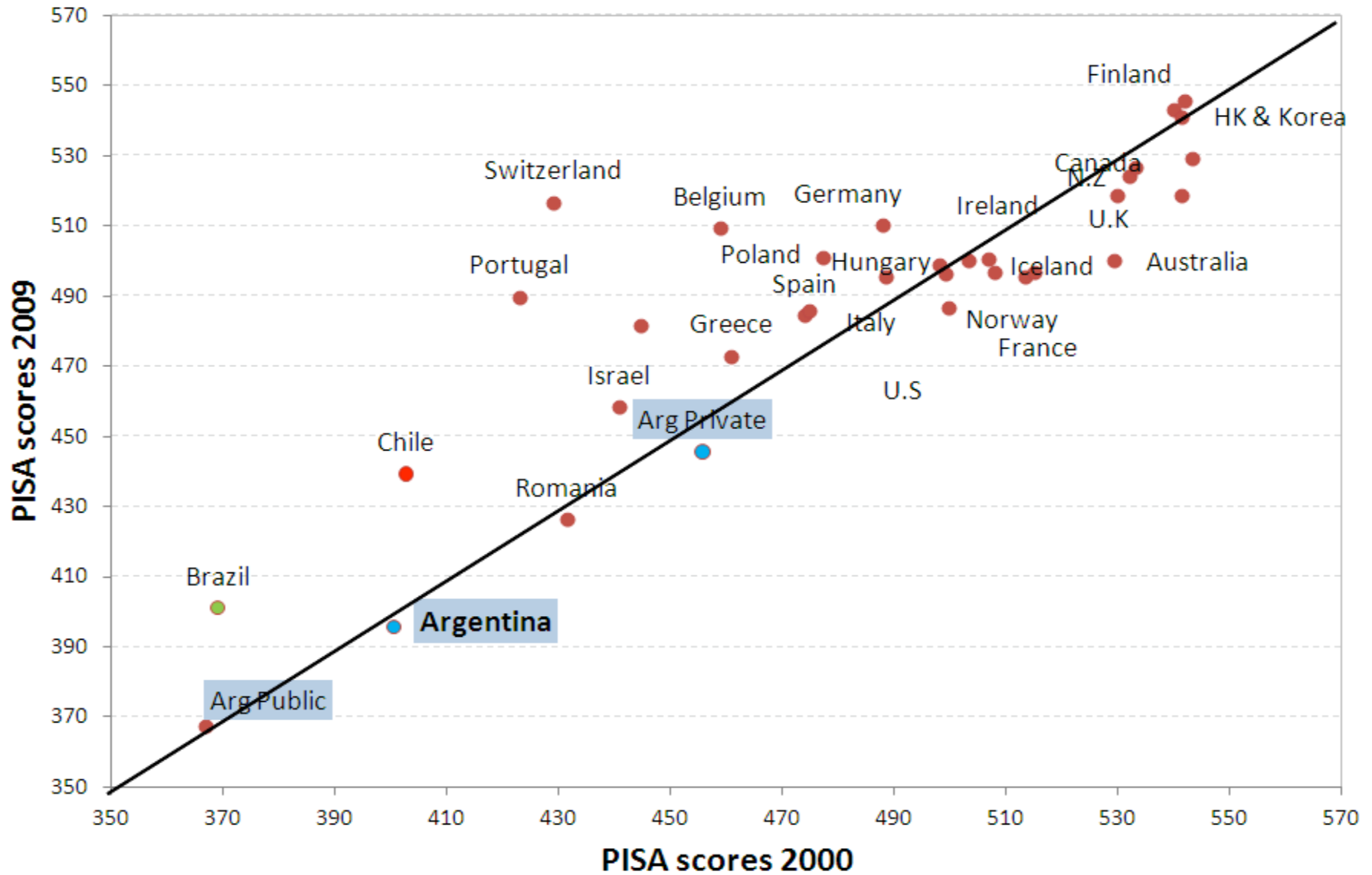
Medium-term concerns

Public Expenditures (% of GDP)

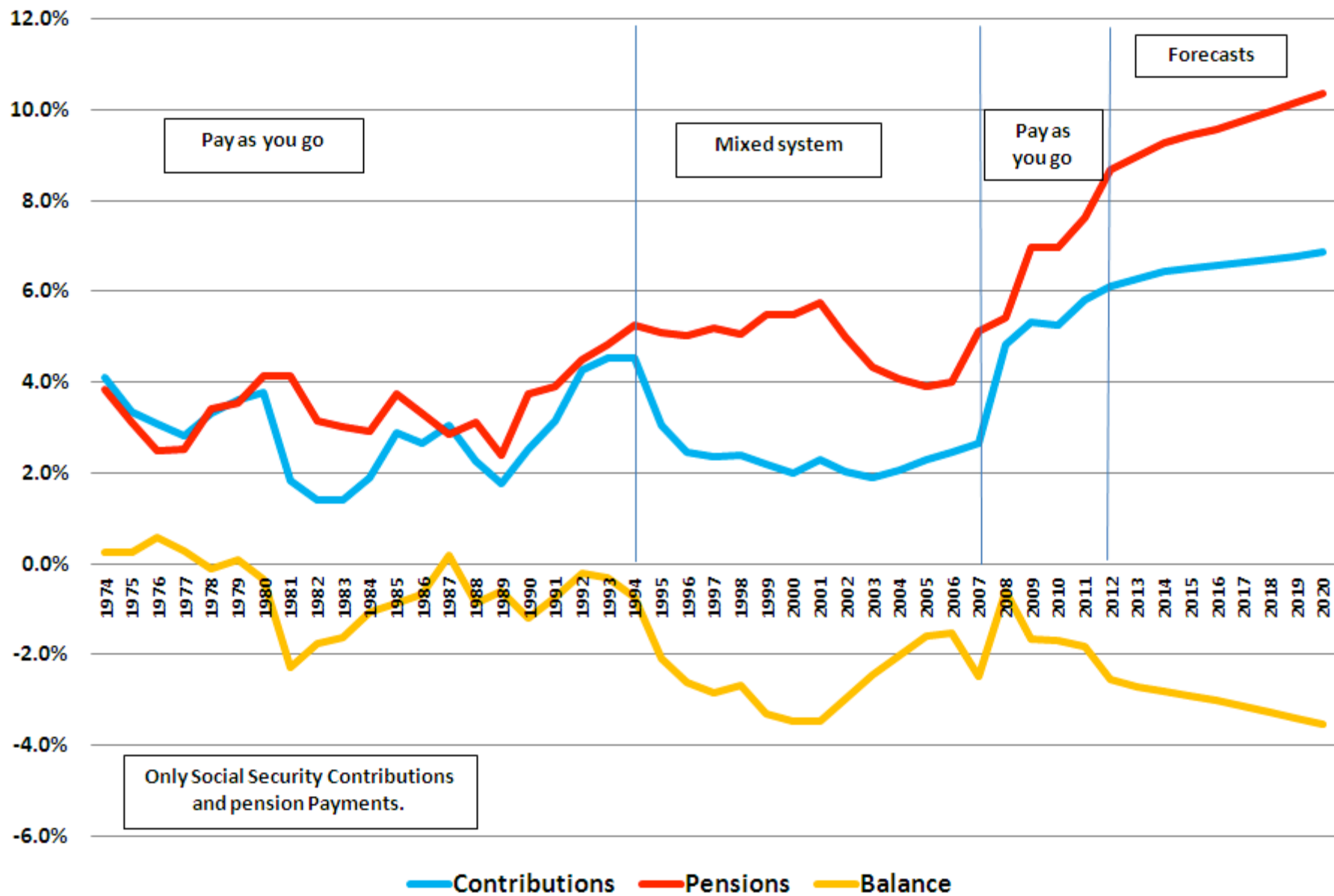


Medium-term concerns

PISA scores 2000 and 2009



Pension System (% of GDP)



Federal Borrowing Needs are relatively low

Federal Government Debt Service				
(In US\$ billion)	2012	2013	2014	2015
TOTAL Debt Service	18.3	20.6	18.6	21.0
Roll over of Central Bank & public agencies	-5.8	-7.3	-7.4	-6.5
New Financing from IFIs	-2.2	-2.3	-2.5	-2.8
Borrowing Needs net of IFIs	10.2	10.9	8.7	11.8
"Genuine" Primary Deficit & Assistance to provinces	5.3	6.5	6.2	7.4
Borrowing Needs	15.5	17.4	14.9	19.2
Borrowing Needs net of GDP coupon		12.9	14.9	19.2

- Net Federal Public Debt is only 24% of GDP (about US\$ 113 billion)
- Provinces' debt with IFI's and private investors is only 3% of GDP
- Inflationary tax and Seignorage cover about 80% of the borrowing needs
- If growth is lower than 3.3% interest payments are reduced in US\$ 4 billion in 2013

Has the nationalization of YPF a significant fiscal impact?

