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## News Alert – December 18, 2015

### Macri unveils key economic reforms

During his first week in office, President Mauricio Macri demonstrated his commitment to the pro-business, open-market economic agenda promised pre-election. The new administration unveiled three key changes as part of their economic reform. Currency restrictions imposed by the previous government in 2011 were lifted. The peso devalued by 30 percent, from 9.9 pesos, floating to 13.95 pesos to the US dollar on the first day of trading. In addition, export taxes were lifted or reduced and barriers on imports have been removed.

#### KEY CHANGES

##### Currency Controls

US dollars can now be freely bought on the exchange market in Argentina. However, individuals and companies cannot access or repatriate more than USD 2 million per month. Additionally, individuals can only buy USD 500 in cash per month; any more must be purchased through the banking system. While prohibited, the unofficial "blue" market now trades five percent above the official exchange rate. The banking system was not initially able to cope with the high demand, with long lines of citizens queuing to purchase dollars. Financial institutions can freely swap currency with their clients.

##### Peso Devaluation

The managed float of the peso aimed to unify Argentina's official and "blue" rate of exchange. The exchange rate is already much closer to the unregulated and unofficial rate of ARS 14.5. If fluctuations overshoot, Argentina's Central Bank is authorized to buy or sell dollars. Inflows of USD 15-25 billion in the coming weeks are expected to boost foreign reserves. The financing will come from four key sources: (1) the Central Bank will convert USD 3.1 billion worth of Chinese Yuan into dollars; (2) credit lines from US banks are expected within 10 days; (3) daily injections of USD 400 million from grain exporters are expected

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over the next three weeks; (4) farmers are expected to cash in the crops they have kept from previous seasons (see below). To control already high inflation, the Central Bank is also on standby to raise interest rates further. A hike earlier this week saw the rate lifted on short-term fixed deposits by eight percentage points to 38 percent.

### Trade Liberalization

Export duties have been removed for the vast majority of agricultural and industrial exports. Export permits for agricultural products have also been eliminated. Taxes on soybeans, a cash crop which accounts for 85 percent of total export taxes, have been reduced by five points to 30 percent. Import permits were lifted although this was a given following a ruling by the World Trade Organization against Argentina on the matter earlier this year. Automatic licenses on a list of 11,000 commodity classifications have been introduced instead. Around one thousand require non-automatic licenses. Importers can now choose to receive bond payments in place of US dollars.

### IMPLICATIONS

While Macri campaigned on a platform of sweeping economic reforms, he was quicker to act than anticipated. These expeditious changes mean the economic environment will remain uncertain in the short term. The new government is confident that removing market distortions will be positively received by markets. They hold the belief that the measures will pave the way for increased stability, foreign investment and economic growth in the long term.

Banking system adjustments skewed real demand with fluctuations in the coming week likely. This may put pressure on the Central Bank to buy or sell more dollars. The depreciation in the exchange rate will benefit exporters who will now receive almost 50 percent more for their dollars. The removal and reduction of export duties is also likely to promote greater trade. Farmers are expected to start selling the USD 4 billion in grains they have been keeping in silo bags. The lifting of barriers to import means Argentina is a more attractive place to do business. While foreign investment is likely to increase, it is not without challenges. The US Federal Reserve's increase of the benchmark for short-term interest rates (the first in eight years) could exacerbate volatility in Argentina in the months ahead.

It remains to be seen how these changes impact on debt, real salaries and inflation, particularly at a time when the government is considering reducing subsidies. A comprehensive economic plan has yet to be announced, and without one, the country's economic recovery will be hindered.

We will continue to monitor the implications of these changes. Any significant developments to the floated exchange rate and economy will be reported as they occur.

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