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9B19N010

Bajaj Auto Limited: Trouble with the Argentine Peso**[[1]](#endnote-1)**

Ganesh Kumar Nidugula and Rashmi Shukla wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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On December 10, 2015, the new conservative government of President Mauricio Macri assumed office in Argentina. The new government initiated several steps to revive the country’s economy, which was facing a declining gross domestic product (GDP) growth rate and a rising inflation rate (see Exhibit 1). As one of its initiatives, the new government lifted currency controls, anticipating a larger pool of investors. On December 17, 2015, the day after parity with the US dollar had been abandoned, the exchange rate for Argentina’s peso weakened during the early trading session, falling more than 30 per cent, from 9.8 to 13.9 pesos per US dollar. It was the biggest percentage decline for the peso since January 2002, bringing back memories of the financial crisis Argentina suffered then.

This fall in the peso raised alarming concerns for multinational companies that were exporting to the Argentine market. One such company was Bajaj Auto Limited (Bajaj Auto), an Indian company exporting to 62 countries. Bajaj Auto was the leader in exports of motorcycles and three-wheelers from India. In 2015, it had a 67.6 per cent market share in motorcycle exports (in numbers) and a 69.8 per cent market share for three-wheelers. It held first or second positions in 20 of the countries that received its exports. In fiscal year (FY) 2014–15, its exports contributed 46.2 per cent of its net sales, bringing in revenue of US$1.524 billion.[[2]](#endnote-2) The Latin American market contributed almost 20 per cent of Bajaj Auto’s exports in FY 2014–15.[[3]](#endnote-3)

Argentina was an important export destination for Bajaj Auto, which was the market leader in motorcycles there, with a 30 per cent market share. On December 18, 2015, Bajaj Auto’s share price tumbled in the Indian stock market following the devaluation of the Argentine peso.[[4]](#endnote-4) Its shares dropped 1.61 per cent on December 18, 2015.[[5]](#endnote-5) The stock fluctuated between ₹2,502.85 and ₹2,470.25[[6]](#endnote-6) that day. It had hit a 52-week high of ₹2,655 on July 23, 2015, and a 52-week low of ₹1,913.80 on April 30, 2015.[[7]](#endnote-7)

S. Ravikumar, president of business development for Bajaj Auto India,[[8]](#endnote-8) was facing a difficult time and needed to answer some challenging questions: Why had the Argentine peso depreciated so sharply? What impact would this have on Bajaj Auto and other firms exporting to or investing in Argentina? How should Bajaj Auto respond? What had caused the Argentine government to lift currency controls in the first place and float the peso? What was the future course of the peso? Was the ghost of the 2002 financial crisis and sharp depreciation of the peso back to haunt Argentina?

Argentina’s Background

Argentina had one of the richest economies in the world in the early twentieth century; it was behind Australia, Britain, and the United States but ahead of France, Germany, and Italy. Its per capita income had been 92 per cent of the average from among 16 rich economies.[[9]](#endnote-9)

Argentina had a history of military coups and dictatorships, as did some other Latin American countries, such as Chile. The country’s political uncertainty was illustrated by the average tenure of presidents in office, which from 1930 to 1983 was two years, and the average tenure of ministers of economic affairs, which was one year.[[10]](#endnote-10) By 2014, Argentina was one of the worst performing countries in Latin America, with low GDP growth and high inflation. Based on these parameters, Argentina’s performance was only one better than Venezuela’s (see Exhibit 2).

Despite moving to democratic rule in 1983, Argentina had yet to experience political and economic stability. For instance, its inflation rate reached 5,000 per cent in 1989, and the political parties and presidents in power continued to change frequently (see Exhibit 3). An article in the *Economist* described the scenario:

Argentines reach for the metaphor of the “pendulum” to describe the swings of the past three decades: from loose economic policies in the 1980s to Washington-consensus liberalisation in the 1990s and back again under the presidency of Néstor Kirchner and now his widow, Cristina Fernández de Kirchner. But the image of a pendulum does not do justice to the whiplashing of the economy . . . —the repeated recessions of the 1970s and 1980s, the hyperinflation of 1989–90, the economic crisis of 2001 and now the possibility of another crisis to come.[[11]](#endnote-11)

Considering the peculiarities of Argentina, the economist Simon Kuznets remarked, “There are four kinds of countries in the world: developed countries, undeveloped countries, Japan and Argentina.”[[12]](#endnote-12)

Argentina’s Convertibility Plan of 1991 and Financial Crisis of 2002[[13]](#endnote-13)

Argentina faced hyperinflation in 1989. Carlos Menem, then president, introduced drastic market-oriented economic reforms, including deregulation, reduction of trade barriers, and privatization of state-owned enterprises, to bring down inflation and structurally transform the economy.[[14]](#endnote-14) Then in 1991, Argentina introduced a bold convertibility plan, which involved pegging the peso to the US dollar (i.e., one peso equalled one US dollar) and providing convertibility of pesos to US dollars at this rate under a currency board–like system.[[15]](#endnote-15) This was expected to bring down inflation induced by higher cost of imports and lend credibility to the parity system.

The period following the convertibility plan saw rapid economic growth of 6.1 per cent per annum from 1991 to 1997,[[16]](#endnote-16) followed by a series of events that led to a financial crisis in 2002. The Southeast Asian financial crisis of 1997–1998[[17]](#endnote-17)led to a loss of confidence in emerging markets. The Russian currency crisis of 1998 further affected emerging markets, including Argentina.[[18]](#endnote-18) Brazil decided to stop pegging its currency to the US dollar in 1998. As the US dollar gained against the currencies of emerging markets, the pegged Argentine peso also appreciated, and this led to a loss of export competitiveness and a rising current account deficit in balance of payments for Argentina. While Argentina was able to keep its central deficit under control, it was not able to control fiscal deficits at the provincial level.[[19]](#endnote-19) As the current account deficit continued, it spooked foreign investors, and Argentina was shut out of international financial markets.

Argentina had to eventually give up its parity with the US dollar and drop convertibility. As the country’s currency depreciated (see Exhibit 4), banks defaulted on liabilities, and Argentina defaulted on international loans worth US$93 billion on December 23, 2001.[[20]](#endnote-20)

Argentina after the 2008 financial Crisis

Argentina suffered from the 2008 financial crisis that hit the United States and other economies. Its real GDP growth stagnated in 2009. However, Argentina’s economy recovered quickly in 2010, and inflation remained high, rising to 37.5 per cent in 2014 (see Exhibit 1).

As rising inflation ate into the competitiveness of Argentina’s exports, its current account deficit widened. This resulted in capital flight and dwindling foreign exchange reserves, and the government imposed foreign exchange controls (called *el cepo*) in November 2011. These foreign exchange controls resulted in a black market for US dollars, called the “blue dollar rate.” The blue dollar rate was much higher than the official exchange rate for US dollars. For example, in December 2015, the blue dollar rate was 14.5 pesos per dollar, while the official exchange rate was 9.9.[[21]](#endnote-21)

On December 16, 2015, the finance minister, Alfonso Prat-Gay, removed the capital controls, or *el cepo*,and let the currency float freely. The overvalued exchange rate had made exports less competitive; the government was finding it difficult to defend the fixed exchange rate; and capital controls were becoming ineffective against the rising blue dollar rate. A headline in the *Guardian* exclaimed, “Newly elected president Mauricio Macri makes what economists say is bold move in order to increase exports and spur economic growth.”[[22]](#endnote-22)

Prat-Gay said, “He who wants to import will be able to do so, and he who wants to buy dollars will be able to buy them.” He also mentioned that the economy had observed eight years of interventionism under the previous president, Cristina Fernández, but that the Macri government intended to normalize the economy.[[23]](#endnote-23)

Following the lifting of capital controls and flotation of the currency in December 2015, the peso depreciated sharply, by approximately 30 per cent (see Exhibit 5). The government also introduced a slew of other measures, including tax reforms, the elimination of most farm export taxes, a reduction in personal income taxes, the reformation and re-staffing of a statistics agency, and the appointment of a new president to the central bank.[[24]](#endnote-24)These fiscal, structural and institutional reforms were expected to improve efficiency in the working of the economy and boost investor confidence in Argentina.

The depreciated peso proved to be a boon for exporters in Argentina. The *Guardian* noted, “Farmers in Argentina, a grains-exporting powerhouse, have been waiting for the peso to weaken before selling stockpiles of soybeans. Manufacturers have argued for controls to be lifted so they can import crucial parts for production.”[[25]](#endnote-25)

The government looked to shore up the country’s dollar reserves. On December 15, 2015, the central bank raised interest rates on short-term fixed deposits by eight percentage points, to 38 per cent,[[26]](#endnote-26) to retain capital and tame inflation. The government was also expected to follow fiscal consolidation and reduce the budget deficit.

Effects OF LIFTING CAPITAL CONTROLS AND FLOATING the PESO

Lifting capital controls and floating the peso had both macroeconomic effects and implications for Argentinian and foreign corporations.

Macroeconomic Effects

Jorge Mariscal was the chief investment officer for emerging markets at UBS Wealth Management in New York. According to the *Guardian*, “Mariscal said there was a chance the peso could weaken more than 30% at the start, ‘but there is also a significant chance that it comes back rather quickly. There is a lot of Argentine money outside waiting to come back once the new team builds some credibility.’”[[27]](#endnote-27) The depreciation of the peso was expected to encourage exports and bring in much-needed dollars. Further, multinational companies might be encouraged to bring in investments as controls on repatriation of profit were loosened.

However, there was a risk of hyperinflation returning should the peso depreciate sharply following its floatation. Raising interest rates and reducing the deficit were expected to slow the growth of the economy, which was already on a downward trend.

Alejo Costa, the chief strategist at Puente, an investment bank, described the policy move as “bold,” with “good chances of succeeding,” according to the *Guardian*. Costa was reported to expect “an initial exchange rate of 14–14.5 pesos per dollar,” which, he said, “sent the correct message, that they have the strength to defend the currency at certain levels, and conveyed the confidence needed to anchor expectations.”[[28]](#endnote-28)

A Bloomberg report said that the new president’s decision to devalue the currency was an important step in overhauling the Argentine economy, which had been suffering from low growth and high inflation. Devaluation, along with other pro-investment policies, was expected to attract investment to support growth.[[29]](#endnote-29)

Effects on Argentinian and Foreign Corporations

Depreciation of the peso would be beneficial for domestic companies exporting from Argentina because they stood to realize more revenue from their foreign currency-denominated exports. On the other hand, importers would find imports more expensive. Foreign companies doing business in Argentina using local inputs would repatriate lower profits in terms of their reporting currencies. Argentinian companies that had foreign currency-denominated debt would see a rise in their liability in terms of the Argentine peso.

As the peso tumbled, companies exporting to Argentina were also affected. One such company from India was Bajaj Auto, a new entrant to Argentina in FY 2012–13. By 2015, Bajaj Auto had captured a significant market share in Argentina, increasing its share from a single digit in 2014 to 30 per cent in 2015; Bajaj expected to close 2015 at 45 per cen.[[30]](#endnote-30)

As Argentina lifted foreign exchange controls and the peso depreciated sharply, the market worried about the effects on Bajaj Auto’s exports. Bajaj Auto’s stock price on Indian exchanges dropped rapidly as investors sought to sell the stock (see Exhibit 6). However, Bajaj Auto had sound financials (see Exhibit 7).

Ravikumar sought to cool the market reaction to the news. He argued that the depreciation of the Argentine peso was unlikely to have an impact on the landed cost of Bajaj Auto’s products: “Our distributor in Argentina had anticipated this situation and this depreciation was fully factored in.”[[31]](#endnote-31) He agreed that the landed cost of the company’s bikes would not change since the local distributors priced them based on the blue dollar rate.

Future course of the Argentine peso

Market analysts and politicians speculated about the future of the peso. José Luis Machinea, Argentina’s economy minister from 1999 to 2001, said:

I don’t expect to see strong pressures on the local currency over the short term, as an adjustment in the exchange rate to 14 or 15 pesos per dollar has been already assimilated. . . . A lot will depend on inflationary pressures over the next two months, as the government has implemented several policy measures at once that could have a strong impact on prices, just as unions prepare for wage negotiations early next year.[[32]](#endnote-32)

One of the factors that would moderate the movement of the exchange rate was the central bank’s ability to manoeuvre the exchange rate. While Argentina’s foreign currency reserves had taken a beating—dropping from $52.2 billion in 2010 to $25.6 billion in 2015 (see Exhibit 8) due to capital flight and a declining current account balance (see Exhibit 9)—Prat-Gay hoped to raise $15 billion to $25 billion from international banks, grain exporters, and China’s central bank.[[33]](#endnote-33)

Why had the peso depreciated so sharply? What had caused Argentina to lift currency controls and float the peso? What was the future course of the peso? Was the ghost of the 2002 financial crisis and the sharp depreciation of the peso back to haunt Argentina? Moreover, what impact would this have on Bajaj Auto and other firms exporting to and investing in Argentina, and how could Bajaj Auto handle the crisis?

Exhibit 1: Argentina’s Macroeconomic Indicators

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Indicators** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** |
| Real GDP Growth | 3.08 | 0.05 | 9.45 | 8.39 | 0.80 | 2.89 | 0.45 | 1.80 |
| Inflation (based on CPI) | 12.37 | 17.22 | 22.87 | 24.42 | 25.29 | 20.71 | 37.58 | 27.40 |
| Growth of Broad Money (M2) | 8.06 | 17.00 | 33.11 | 26.03 | 34.82 | 27.06 | 29.85 | 31.30 |
| Growth of Imports | 13.30 | −19.10 | 34.80 | 22.60 | −6.10 | 3.60 | −12.60 | — |
| Growth of Exports | 1.10 | −9.40 | 14.00 | 5.60 | −5.60 | −4.00 | −7.50 | — |
| Import Volume of Goods and Services (per cent change p.a.) | 13.99 | −23.61 | 40.32 | 22.14 | −6.85 | 2.63 | −11.42 | 0.30 |
| Export Volume of Goods and Services (per cent change p.a.) | −0.91 | −10.65 | 13.98 | 3.42 | −6.63 | 3.54 | −9.99 | 0.70 |

Notes: Figures for 2015 were estimates. CPI = consumer price index; p.a. = per annum.

Source: Compiled by the case authors based on “Argentina: Macroeconomic Indicators,” Economist Intelligence Unit (EIU), accessed December 15, 2017, http://country.eiu.com/Argentina; “Economic and Financial Indicators,” *Economist*, accessed March 20, 2018; and “Argentina,” World Development Indicators, World Bank, accessed December 15, 2017, http://databank.worldbank.org/data/country/ARG/556d8fa6/Popular\_countries.

Exhibit 2: Comparison of Macroeconomic Indicators for Latin American Countries

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** |
| **Brazil** |  |  |  |  |  |  |  |  |
| GDP Growth Rate | 5.10 | −0.10 | 7.50 | 3.90 | 1.90 | 3.00 | 0.10 | −3.76 |
| Per Capita GDP | 5,305.30 | 5,246.60 | 5,587.30 | 5,750.60 | 5,806.20 | 5,926.90 | 5,880.60 | NA |
| Inflation Rate | 5.7 | 4.9 | 5.0 | 6.6 | 5.4 | 6.2 | 6.3 | 9.0 |
| Interest Rate | 35.4 | 34.8 | 29.1 | 32.8 | 26.7 | 18.6 | 23.5 | NA |
| Exchange Rate | 1.83 | 2.00 | 1.76 | 1.67 | 1.95 | 2.16 | 2.35 | 3.33 |
| Current Account Balance | −1.7 | −1.5 | −2.1 | −2.0 | −2.2 | −3.3 | −4.3 | −3.3 |
| **Mexico** |  |  |  |  |  |  |  |  |
| GDP Growth Rate | 1.40 | −4.70 | 5.20 | 3.90 | 4.00 | 1.40 | 2.20 | 2.64 |
| Per Capital GDP | 8,275.50 | 7,758.50 | 8,037.90 | 8,231.70 | 8,444.50 | 8,446.80 | 8,521.90 | NA |
| Inflation Rate | 5.1 | 5.3 | 4.2 | 3.4 | 4.1 | 3.8 | 4.0 | 2.7 |
| Interest Rate | 2.5 | 3.6 | 0.8 | −0.4 | 1.5 | 2.6 | −1.1 | NA |
| Exchange Rate | 11.13 | 13.51 | 12.64 | 12.42 | 13.17 | 12.77 | 13.29 | 15.85 |
| Current Account Balance | −1.8 | −0.9 | −0.5 | −1.1 | −1.3 | −2.4 | −1.9 | −2.5 |
| **Argentina** |  |  |  |  |  |  |  |  |
| GDP Growth Rate | 3.075 | 0.050 | 9.452 | 8.386 | 0.802 | 2.885 | 0.454 | 1.800# |
| Per Capital GDP | 6,596.60 | 6,532.50 | 7,076.30 | 7,590.10 | 7,571.00 | 7,708.30 | 7,663.70 | NA |
| Inflation Rate | 12.369 | 17.218 | 22.872 | 24.418 | 25.292 | 20.707 | 37.576 | NA |
| Interest Rate | 1.5 | 5.3 | 5.7 | 3.1 | 3.9 | 2.1 | 4.1 | NA |
| Exchange Rate | 3.14 | 3.71 | 3.90 | 4.11 | 4.54 | 5.46 | 8.08 | 9.23 |
| Current Account Balance | 1.70 | 2.20 | −0.38 | −1.00 | −0.39 | −2.37 | −1.74 | −2.96 |
| **Colombia** |  |  |  |  |  |  |  |  |
| GDP Growth Rate | 3.50 | 1.70 | 4.00 | 6.60 | 4.00 | 4.90 | 4.60 | 3.05 |
| Per Capital GDP | 3,855.20 | 3,874.40 | 3,984.30 | 4,202.10 | 4,327.80 | 4,497.20 | 4,657.80 | NA |
| Inflation Rate | 7.0 | 4.2 | 2.3 | 3.4 | 3.2 | 2.0 | 2.9 | 5.0 |
| Interest Rate | 8.9 | 9.3 | 5.3 | 4.2 | 9.3 | 8.9 | 8.9 | NA |
| Exchange Rate | 1,967.71 | 2,158.26 | 1,898.57 | 1,848.14 | 1,796.90 | 1,868.79 | 2,001.78 | 2,741.88 |
| Current Account Balance | −2.6 | −2.0 | −3.0 | −2.9 | −3.1 | −3.3 | −5.2 | −6.5 |
| **Peru** |  |  |  |  |  |  |  |  |
| GDP Growth Rate | 9.10 | 1.00 | 8.50 | 6.50 | 6.00 | 5.80 | 2.40 | 3.25 |
| Per Capital GDP | 3,332.60 | 3,325.80 | 3,561.20 | 3,741.70 | 3,912.00 | 4,082.60 | 4,123.60 | NA |
| Inflation Rate | 5.8 | 2.9 | 1.5 | 3.4 | 3.7 | 2.8 | 3.2 | 3.6 |
| Interest Rate | 21.3 | 19.2 | 12.2 | 12.8 | 16.8 | 16.4 | 12.3 | NA |
| Exchange Rate | 2.92 | 3.01 | 2.83 | 2.75 | 2.64 | 2.70 | 2.84 | 3.18 |
| Current Account Balance | −4.4 | −0.6 | −2.5 | −1.9 | −2.7 | −4.2 | −4.4 | −4.8 |

Exhibit 2 (Continued)

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| [**Chile**](https://en.wikipedia.org/wiki/Chile) |  |  |  |  |  |  |  |  |
| GDP growth rate | 3.3 | -1 | 5.8 | 5.8 | 5.5 | 4.2 | 1.9 | 2.25 |
| Per Capital GDP | 8,475.60 | 8,296.00 | 8,677.90 | 9,085.20 | 9,477.90 | 9,773.20 | 9,853.50 | NA |
| Inflation Rate | 8.7 | 0.1 | 1.4 | 3.3 | 3 | 1.8 | 4.4 | 4.3 |
| Interest Rate | -6 | 11.2 | -18.9 | 5.6 | 9.1 | 7.2 | 2.5 | NA |
| Exchange Rate | 522.46 | 560.86 | 510.25 | 483.67 | 486.47 | 495.27 | 570.35 | 654.12 |
| Current Account Balance | -1.8 | 2 | 1.6 | -1.2 | -3.6 | -3.7 | -1.7 | -1.9 |
| [**Venezuela**](https://en.wikipedia.org/wiki/Venezuela) |  |  |  |  |  |  |  |  |
| GDP growth rate | 5.3 | -3.2 | -1.5 | 4.2 | 5.6 | 1.3 | -4 | NA |
| Per Capital GDP | 6,510.40 | 6,204.40 | 6,019.90 | 6,179.30 | 6,433.60 | 6,429.20 | 6,088.00 | NA |
| Inflation Rate | 31.4 | 27.1 | 28.2 | 26.1 | 21.1 | 40.6 | 62.2 | 121.7 |
| Interest Rate | -6 | 11.2 | -18.9 | -8.6 | 2 | -14.5 | NA | NA |
| Exchange Rate | 2.15 | 2.15 | 2.58 | 4.29 | 4.29 | 6.05 | 6.28 | 6.28 |
| Current Account Balance | 10.2 | 0.7 | 2.2 | 7.7 | 2.9 | 1.2 | 1.0 | NA |

Notes: Current Account Balance = percentage of GDP; Exchange Rate = official exchange rate (local currency unit per USD, period average); Inflation Rate = consumer prices (annual percentage); Interest Rate = real interest rate (percentage); Per Capita GDP = constant 2005 USD; # = estimate.

Source: Compiled by the case authors based on data from “Brazil,” “Mexico,” “Argentina,” “Colombia,” “Peru,” “Chile,” and “Venezuela,” World Development Indicators, World Bank, accessed December 15, 2017, http://databank.worldbank.org/data/country/ARG/556d8fa6/Popular\_countries#.

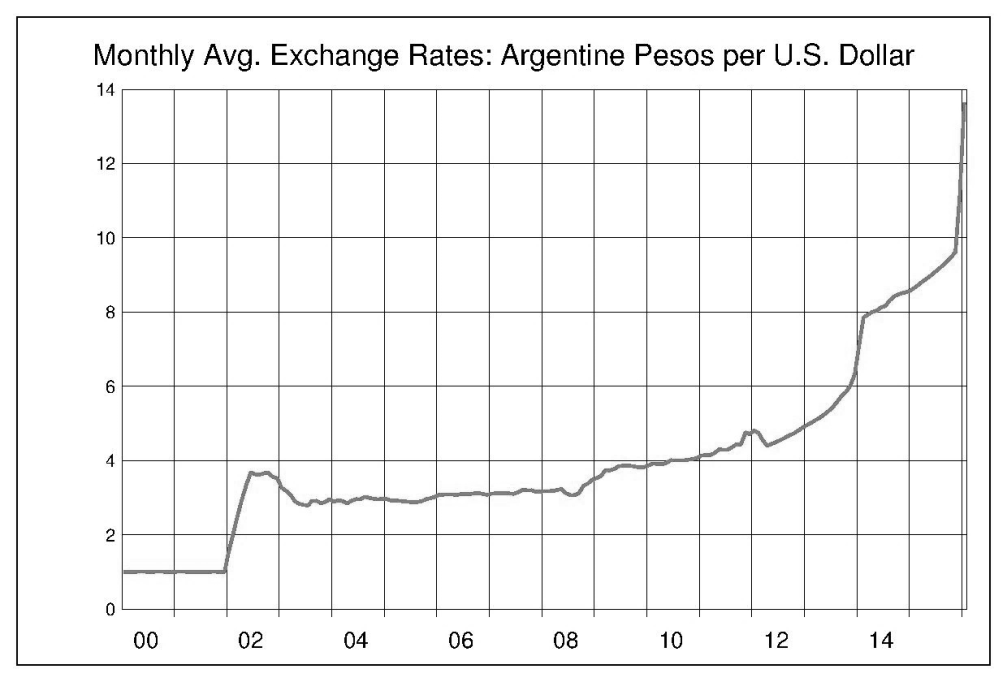
Exhibit 3: Argentina’s Presidents and Political Parties/Alliances, 1983–2015

|  |  |  |  |
| --- | --- | --- | --- |
| **President** | **From** | **To** | **Party/Alliance** |
| Raúl Alfonsín | December 10, 1983 | July 8, 1989 | UCR |
| Carlos Menem | July 8, 1989 | July 8, 1995 | PJ |
| July 8, 1995 | December 10, 1999 |
| Fernando de la Rúa | December 10, 1999 | December 20, 2001 | UCR – Alianza |
| Ramón Puerta | December 20, 2001 | December 22, 2001 | PJ |
| Adolfo Rodríguez Saá | December 22, 2001 | December 30, 2001 | PJ |
| Eduardo Camaño# | December 30, 2001 | January 2, 2002 | PJ |
| Eduardo Duhalde | January 2, 2002 | May 25, 2003 | PJ |
| Néstor Kirchner | May 25, 2003 | December 10, 2007 | PJ – FPV |
| Cristina Fernández de Kirchner | December 10, 2007 | December 10, 2011 | PJ – FPV |
| December 10, 2011 | December 9, 2015 |
| Mauricio Macri | December 10, 2015 | Incumbent | PRO – Cambiemos |

Notes: Alianza = Alliance for Work, Justice, and Education; Cambiemos = Let's Change; FPV = Front for Victory; PJ = Justicialist Party; PRO = Republican Proposal; UCR = Radical Civic Union. # Eduardo Camaño was an acting/caretaker president of the executive branch of government from December 30, 2001, to January 2, 2002.

Source: Compiled by the case authors based on Benjamin Elisha Sawe, “Presidents of Argentina Since 1990,” World Atlas, April 25, 2017, accessed June 3, 2018, www.worldatlas.com/articles/presidents-of-argentina-in-the-20th-and-21st-centuries.html.

Exhibit 4: Argentine Peso to US Dollar Exchange Rate, 2000–2015

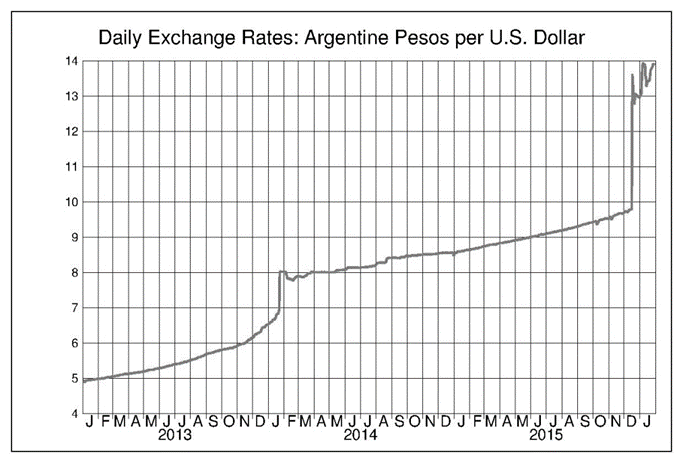


Argentine pesos per USD

Year (2000–2015), monthly frequency

Source: Compiled by the case authors based on data from Werner Antweiler, Pacific Exchange Rate Service, accessed June 3, 2018, http://fx.sauder.ubc.ca.

Exhibit 5: Trend in Exchange Rate of Argentine Peso (2013-2015: ARS per one US $)



Argentine pesos per USD

January 2013 to December 2015, daily frequency

Source: Compiled by the case authors based on data from Werner Antweiler, Pacific Exchange Rate Service, accessed June 3, 2018, http://fx.sauder.ubc.ca.

Exhibit 6: Bajaj Auto Ltd., Adjusted Closing Price for shares on Bombay Stock Exchange, June 2015 to December 2015 (daily frequency)

Source: “Adjusted Closing Price of Bajaj Auto Ltd.,” Bombay Stock Exchange database, accessed March 18, 2018, www.bseindia.com/stock-share-price/bajaj-auto-ltd/bajaj-auto/532977.

Exhibit 7: Bajaj Auto Ltd., STATEMENT OF STANDALONE FINANCIAL RESULTS FOR THE YEAR ENDED MARCH 31, 2015 (IN ₹ MILLIONS)

|  |  |  |
| --- | --- | --- |
|  | **Particulars** | **FY 2014–15** |
|  | **Sales in Numbers** | 3,811,201 |
| **1** | **Income from Operations** |  |
|  | (a) Gross Sales | 220,132.1 |
|  | Less: Excise Duty | 9,092.8 |
|  | Net Sales | 211,039.3 |
|  | (b) Other Operating Income | 5,080.8 |
|  | **Total Income from Operations (Net)** | 216,120.1 |
| **2** | **Expenses** |  |
|  | (a) Cost of Materials Consumed | 137,527.9 |
|  | (b) Purchases of Stock in Trade | 11,545.7 |
|  | (c) Changes in Inventories of Finished Goods, Work in Progress, and Stock in Trade | −575.6 |
|  | (d) Employee Benefits Expense | 8,973.0 |
|  | (e) Depreciation and Amortization | 2,674.0 |
|  | (f) Other Expenses | 18,084.1 |
|  | (g) Expenses Capitalized | −600.5 |
|  | **Total Expenses** | 177,628.6 |
| **3** | **Profit from Operations before Other Income, Finance Costs, and Exceptional Items (1 − 2)** | 38,491.5 |
| **4** | **Other Income** | 5,824.2 |
| **5** | **Profit from Ordinary Activities before Finance Costs and Exceptional Items (3 + 4)** | 44,315.7 |
| 6 | Finance Costs | 64.9 |
| **7** | **Profit from Ordinary Activities after Finance Costs but before Exceptional Items (5 − 6)** | 44,250.8 |
| **8** | **Exceptional Items** | 3,402.9 |
| **9** | **Profit from Ordinary Activities before Tax (7 − 8)** | 40,847.9 |
| 10 | Tax Expense | 12,710.5 |
| **11** | **Net Profit from Ordinary Activities after Tax (9 − 10)** | 28,137.4 |
| 12 | Add: Share of Profit after Tax of Associates | — |
| 13 | Less: Minority Interest in Net Income of Subsidiaries | — |
| **14** | **Net Profit after Tax, Minority Interest, and Share of Profit of Associates (11 + 12 − 13)** | 28,137.4 |

Source: Bajaj Auto Limited, *8th Annual Report: 2014-15* (2015), accessed May 14, 2018, www.bajajauto.com/-/media/bajaj-auto/Investors/quarter-reports/q4-results\_bal\_2014-15.ashx

Exhibit 8: Argentina—Selected Indicators

|  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Indicator** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015#** |
| GDP at Market Prices (US$ billion) | 408.35 | 380.45 | 464.76 | 562.51 | 609.57 | 623.93 | 548.05 | 598.40 |
| Broad Money (ARS billion) | 270.09 | 316.01 | 420.63 | 530.13 | 714.73 | 908.13 | 1179.2 | 1,548.00 |
| Gross Domestic Savings/GDP Ratio | 22.678 | 18.339 | 19.39 | 19.333 | 16.817 | 17.816 | 18.471 | 17.20 |
| Gross Domestic Investment/GDP Ratio | 19.793 | 17.536 | 17.972 | 18.462 | 17.122 | 16.969 | 17.11 | 17.00 |
| Fiscal Deficit/GDP Ratio | 1.141 | -0.505 | 0.169 | -1.326 | -2.009 | -1.893 | -2.479 | -5.20 |
| Total Foreign Exchange Reserves (US$ million) | 46,369.00 | 48,025.00 | 52,231.00 | 46,354.00 | 43,246.00 | 30,532.00 | 31,404.00 | 25,620.50 |
| Total External Debt (US$ million) | 122,987 | 127,743 | 120,791 | 132,743 | 133,042 | 136,272 | 139,556# | 134,756 |
| Gross National Savings/Investment | 107.730 | 117.692 | 98.348 | 96.657 | 98.774 | 96.052 | 94.513 | 92.30 |
| Public debt (ARS billion) | 502.00 | 557.07 | 651.22 | 768.01 | 968.85 | 1,319.58 | 1,890.34 | 2,586.30 |
| Capital flight (US$ million) | −17,851.10 | −6,089.00 | 2,692.8 | −20,897.20 | −13,498.70 | −12,439.50 | −1,247.20# | −6,814.70 |
| Stock market index\* | 1079.66 | 2320.73 | 3523.59 | 2462.63 | 2854.29 | 5391.03 | 8579.02 | NA |

Note: # = estimates; \* Composite stock market index (June 30, 1986 = 0.01) in local currency; ARS = Argentine peso.

Source: “Argentina: Macroeconomic Indicators,” Economist Intelligence Unit, accessed December 15, 2017; and “World Development Indicators: Argentina,” World Bank, accessed December 15, 2017, http://databank.worldbank.org/data/country/ARG/556d8fa6/Popular\_countries.

Exhibit 9: Argentina—Balance of Payments (In US$ millions)

|  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015Q1** | **2015Q2** |
| **Current Account (Excludes Reserves and Related Items)** | 6,755.9 | 8,337.6 | 1,359.6 | −2,271.0 | −1,169.7 | −4,568.2 | −5,876.8 | −3,740.8 | −2,083.4 |
| Goods, Credit (Exports) | 70,148.6 | 55,790.8 | 68,154.1 | 83,995.6 | 80,242.5 | 81,676.0 | 71,992.7 | 13,379.0 | 16,826.8 |
| Goods, Debit (Imports) | 54,596.2 | 37,146.1 | 53,867.7 | 71,125.8 | 65,088.3 | 70,540.6 | 62,520.1 | 12,664.6 | 15,058.2 |
| Balance on Goods | 15,552.4 | 18,644.7 | 14,286.4 | 12,869.7 | 15,154.2 | 11,135.4 | 9,472.6 | 714.3 | 1,768.5 |
| Services, Credit (Exports) | 11,840.0 | 10,677.4 | 13,463.3 | 15,456.2 | 15,038.4 | 14,661.7 | 13,842.4 | 3,545.1 | 3,243.6 |
| Services, Debit (Imports) | 13,254.0 | 12,081.4 | 14,643.4 | 17,647.6 | 18,086.3 | 18,446.9 | 17,002.4 | 4,779.1 | 4,070.9 |
| Balance on Goods and Services | 14,138.4 | 17,240.6 | 13,106.3 | 10,678.4 | 12,106.3 | 7,350.2 | 6,312.5 | −519.6 | 941.3 |
| Primary Income, Credit | 5,620.4 | 3,523.2 | 2,762.7 | 3,249.4 | 2,351.3 | 2,678.0 | 2,630.8 | 504.5 | 565.0 |
| Primary Income, Debit | 13,172.7 | 12,478.7 | 14,104.3 | 15,651.4 | 15,109.4 | 13,704.2 | 14,650.9 | 3,678.4 | 3,487.5 |
| Balance on Goods, Services, and Primary Income | 6,586.2 | 8,285.1 | 1,764.8 | −1,723.7 | −651.8 | −3,676.1 | −5,707.6 | −3,693.5 | −1,981.2 |
| Secondary Income, Credit | 1,867.3 | 1,883.7 | 1,972.8 | 2,298.4 | 2,133.5 | 2,171.2 | 2,044.1 | 465.0 | 485.3 |
| Secondary Income, Debit | 1,697.6 | 1,831.3 | 2,378.0 | 2,845.7 | 2,651.4 | 3,063.3 | 2,213.3 | 512.2 | 587.5 |
| **Capital Account (Excludes Reserves and Related Items)** | 180.9 | 74.0 | 89.0 | 62.3 | 47.8 | 33.3 | 58.2 | 9.6 | ... |
| Capital Account, Credit | 202.2 | 82.1 | 103.3 | 71.3 | 72.2 | 55.3 | 70.9 | 26.5 | ... |
| Capital Account, Debit | 21.2 | 8.1 | 14.2 | 9.0 | 24.3 | 22.0 | 12.7 | 16.9 | ... |
| **Balance on Current and Capital Accounts** | 6,936.8 | 8,411.6 | 1,448.7 | −2,208.7 | −1,121.8 | −4,534.9 | −5,818.6 | −3,731.3 | −2,083.4 |
| **Financial Account (Excludes Reserves and Related Items**) | 11,298.5 | 8,522.4 | −9,831.3 | 4,526.5 | -671.3 | 5,559.1 | −2,604.9 | −4,128.6 | −3,492.8 |
| Direct Investment, Assets | 1,390.9 | 711.5 | 964.8 | 1,488.0 | 1,054.8 | 890.0 | 1,789.1 | 252.4 | 196.1 |
| Equity and Investment Fund Shares | 1,390.9 | 711.5 | 964.8 | 1,488.0 | 1,054.8 | 890.0 | 1,789.1 | 252.4 | 196.1 |
| Debt Instruments | ... | ... | ... | ... | ... | ... | ... | ... | ... |
| Direct Investment, Liabilities | 9,725.6 | 4,017.2 | 7,845.7 | 10,719.9 | 15,323.9 | 8,916.7 | 6,055.3 | 2,760.2 | 2,541.8 |
| Equity and Investment Fund Shares | 4,948.9 | 5,027.0 | 5,239.0 | 8,120.4 | 12,203.8 | 9,699.7 | 5,881.3 | 2,760.2 | 2,541.8 |
| Debt Instruments | 4,776.6 | −1,009.8 | 2,606.7 | 2,599.6 | 3,120.1 | −783.0 | 174.0 | ... | ... |

Exhibit 9 (continued)

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | **2008** | | **2009** | | **2010** | **2011** | **2012** | **2013** | **2014** | **2015Q1** | **2015Q2** |
| Portfolio Investment, Assets | | 11.6 | | 1.5 | −1,261.4 | 9.4 | 14.9 | 19.1 | 9.5 | 7.4 | 2.5 |
| Equity and Investment Fund Shares | | −0.6 | | ... | ... | ... | ... | ... | −2.9 | 4.2 | −0.7 |
| Debt Instruments | | 12.2 | | 1.5 | −1,261.4 | 9.4 | 14.9 | 19.1 | 12.5 | 3.2 | 3.2 |
| Portfolio Investment, Liabilities | | −7,062.1 | | −3,156.5 | 9,175.0 | −1,891.5 | −319.0 | −212.0 | 5,161.8 | 898.4 | 634.7 |
| Equity and Investment Fund Shares | | −530.6 | | −211.9 | −207.5 | −174.0 | 876.2 | 461.8 | −688.1 | 18.1 | 94.9 |
| Debt Instruments | | −6,531.5 | | −2,944.6 | 9,382.5 | −1,717.5 | −1,195.2 | −673.9 | 5,849.9 | 880.3 | 539.9 |
| Financial Derivatives (other than Reserves) and Employee Stock Options | | 934.7 | | 1,248.3 | −712.3 | 2,356.2 | 2,908.2 | −32.4 | −157.2 | −12.2 | −5.4 |
| Fin. Derivatives and Employee Stock Options, Assets | | ... | | ... | ... | ... | ... | ... | ... | ... | ... |
| Fin. Derivatives and Employee Stock Options, Liabilities | | −934.7 | | −1,248.3 | 712.3 | −2,356.2 | −2,908.2 | 32.4 | 157.2 | 12.2 | 5.4 |
| Other Investment, Assets | | 14,384.5 | | 6,825.4 | 9,760.3 | 15,963.5 | 8,429.0 | 10,704.9 | 4,615.3 | 1,450.3 | 2,149.3 |
| Other Equity | | ... | | ... | ... | ... | ... | ... | ... | ... | ... |
| Debt Instruments | | 14,384.5 | | 6,825.4 | 9,760.3 | 15,963.5 | 8,429.0 | 10,704.9 | 4,615.3 | 1,450.3 | 2,149.3 |
| Other Investment, Liabilities | | 2,759.7 | | −596.3 | 1,561.9 | 6,462.1 | −1,926.7 | −2,682.2 | −2,355.5 | 2,167.9 | 2,658.7 |
| Other Equity | | ... | | ... | ... | ... | ... | ... | ... | ... | ... |
| Debt Instruments | | 2,759.7 | | −596.3 | 1,561.9 | 6,462.1 | −1,926.7 | −2,682.2 | −2,355.5 | 2,167.9 | 2,658.7 |
| **Balance on Current, Capital, and Financial Account** | | −4,361.7 | | −110.9 | 11,279.9 | −6,735.2 | −450.6 | −10,094.0 | −3,213.7 | 397.3 | 1,409.4 |
| **Net Errors and Omissions** | | 1,076.9 | | −355.1 | −553.0 | −4,181.4 | −3,179.1 | −3,641.9 | 2,363.9 | −1,432.2 | 834.0 |
| **Reserves and Related Items** | | −3,284.8 | | −465.9 | 10,727.0 | −10,916.6 | −3,629.7 | −13,735.9 | −849.8 | −1,034.8 | 2,243.4 |
| Reserve Assets | | 23.7 | | 1,326.7 | 4,212.3 | −6,095.4 | −3,307.5 | −11,830.3 | 1,382.7 | 516.3 | 2,244.5 |
| Net Credit and Loans from the IMF (Excluding Reserve Position) | | ... | | ... | ... | ... | ... | ... | ... | ... | ... |
| Exceptional Financing | | 3,308.6 | | 1,792.6 | −6,514.6 | 4,821.2 | 322.1 | 1,905.6 | 2,232.5 | 1,551.2 | 1.2 |

Notes: This data report uses the BOP Standard Presentation format as defined in the 6th Edition of the Balance of Payments Manual (BPM6); (-) indicates that a figure is zero; (...) indicates a lack of statistical data that can be reported or calculated from underlying observations.

Source: Compiled by the case authors based on data extracted from “Balance of Payments Statistics (BOP),” IMF Data Warehouse, accessed March 14, 2018, http://data.imf.org/regular.aspx?key=61468205.

Endnotes

1. This case has been written on the basis of published sources only. Consequently, the interpretation and perspectives presented in this case are not necessarily those of Bajaj Auto Ltd. or any of its employees. [↑](#endnote-ref-1)
2. Bajaj Auto Limited, *8th Annual Report: 2014–15*, 14–16, accessed May 14, 2018, www.bajajauto.com/report/bajaj-auto-annual-report2014-15.pdf. All amounts are in US$ unless otherwise stated. [↑](#endnote-ref-2)
3. Ibid., 17. [↑](#endnote-ref-3)
4. Nasrin Sultana, “Bajaj Auto Dips 2 Per Cent on Export Woes as Argentina's Peso Tanks,” Moneycontrol, December 18, 2015, accessed May 15, 2018, www.moneycontrol.com/news/buzzing-stocks/bajaj-auto-dips-2export-woes-as-argentinas-peso-tanks\_4637301.html. [↑](#endnote-ref-4)
5. “Bajaj Auto Drops on Worries over Export to Argentina after Slump on Its Currency,” *Business Standard,* December 19, 2015, accessed May 15, 2018, www.business-standard.com/article/news-cm/bajaj-auto-drops-on-worries-over-export-to-argentina-after-slump-in-its-currency-115121800626\_1.html. [↑](#endnote-ref-5)
6. ₹ = INR = Indian rupee; ₹1 = US$0.0151 as of December 2015. [↑](#endnote-ref-6)
7. “Bajaj Auto Drops on Worries over Export to Argentina after Slump on Its Currency,” op. cit. [↑](#endnote-ref-7)
8. Sultana, op. cit. [↑](#endnote-ref-8)
9. “The Tragedy of Argentina: A Century of Decline,” *Economist*, February 17, 2014, accessed May 15, 2018, www.economist.com/news/briefing/21596582-one-hundred-years-ago-argentina-was-future-what-went-wrong-century-decline. [↑](#endnote-ref-9)
10. Sarah Marsh and Brian Winter, “Chronology: Argentina’s Turbulent History of Economic Crises,” Reuters*,* July 30, 2014, accessed May 15, 2018, www.reuters.com/article/us-argentina-debt-chronology-idUSKBN0FZ23N20140730. [↑](#endnote-ref-10)
11. “The Tragedy of Argentina: A Century of Decline,” op. cit. [↑](#endnote-ref-11)
12. Ibid. [↑](#endnote-ref-12)
13. Iris van de Wiel, “Economic Report: The Argentine Crisis 2001/2002,” Rabobank*,* August 13, 2013, accessed June 3, 2018, https://economics.rabobank.com/publications/2013/august/the-argentine-crisis-20012002-/. [↑](#endnote-ref-13)
14. Ibid. [↑](#endnote-ref-14)
15. In a currency board system, an independent monetary authority made decisions about the valuation of a nation’s currency and managed the exchange rate and money supply. This authority made decisions about actions such as pegging the value of the local currency to that of a foreign currency, an equal amount of which was held in reserves. [↑](#endnote-ref-15)
16. “Argentina’s Collapse: A Decline Without Parallel,” *Economist,* February 28, 2002, accessed June 3, 2018, www.economist.com/node/1010911. [↑](#endnote-ref-16)
17. Charles W. L. Hill, “The Asian Financial Crisis,” Tran Huu Dung, Wright State University (blog), accessed June 3, 2018, www.wright.edu/~tdung/asiancrisis-hill.htm. [↑](#endnote-ref-17)
18. van de Wiel, op. cit. [↑](#endnote-ref-18)
19. Ibid. [↑](#endnote-ref-19)
20. Ibid. [↑](#endnote-ref-20)
21. “Argentina Lifts Controls on the Peso,” *Economist,* December 17, 2015, accessed June 3, 2018, www.economist.com/news/americas/21684487-floating-currency-government-has-moved-step-closer-normalising-troubled. [↑](#endnote-ref-21)
22. Reuters, “Argentina Lifts Currency Controls, Floats Peso in Bid to Boost Economy,” *Guardian,* December 17, 2015, accessed October 3, 2018, www.theguardian.com/world/2015/dec/17/argentina-lifts-currency-controls-floats-peso-in-bid-to-boost-economy. [↑](#endnote-ref-22)
23. Ibid. [↑](#endnote-ref-23)
24. Taos, op. cit. [↑](#endnote-ref-24)
25. Reuters, op. cit. [↑](#endnote-ref-25)
26. Ibid. [↑](#endnote-ref-26)
27. Ibid. [↑](#endnote-ref-27)
28. Ibid. [↑](#endnote-ref-28)
29. Carolina Millan, “Peso Drops 30% as Macri Propels Argentina into New Currency Era,” Bloomberg*,* December 17, 2015, accessed October 3, 2018, www.bloomberg.com/news/articles/2015-12-17/argentine-peso-plunges-29-as-macri-fulfills-free-float-promise. [↑](#endnote-ref-29)
30. CNBC-TV18, “Argentine Peso Slump Factored In; No Hit on Sales: Bajaj,” Moneycontrol*,* December 18, 2015, accessed June 3, 2018, www.moneycontrol.com/news/business/argentine-peso-slump-factored-in-no-hitsales-bajaj\_4637341.html?utm\_source=ref\_article. [↑](#endnote-ref-30)
31. Sultana, op. cit. [↑](#endnote-ref-31)
32. Taos, op. cit. [↑](#endnote-ref-32)
33. Ibid. [↑](#endnote-ref-33)