Country Insight Snapshot

Argentina

January 2019

Written 04 January 2019

OVERVIEW

OVERALL COUNTRY RISK RATING: DB5a

High risk : Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high return transactions only.

R

Rating Outlook: Deteriorating

CORE OUTLOOK

+ The labour force will remain relatively well-educated by regional standards.

- The government's request for additional support from the IMF has led to heightened political risk amid stringent fiscal conditionalities and the public's deep suspicions of the Fund.

- The gradualist approach to reform has been replaced by plans for a balanced budget in 2019 and a surplus in 2020.

- Despite a receding risk of default on the government's USD-denominated debt obligations, the peso remains under pressure.

KEY DEVELOPMENT

Political tension will rise, and remain elevated, in the run up to the general elections on 27 October 2019.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Deteriorating

Key Development has had a neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

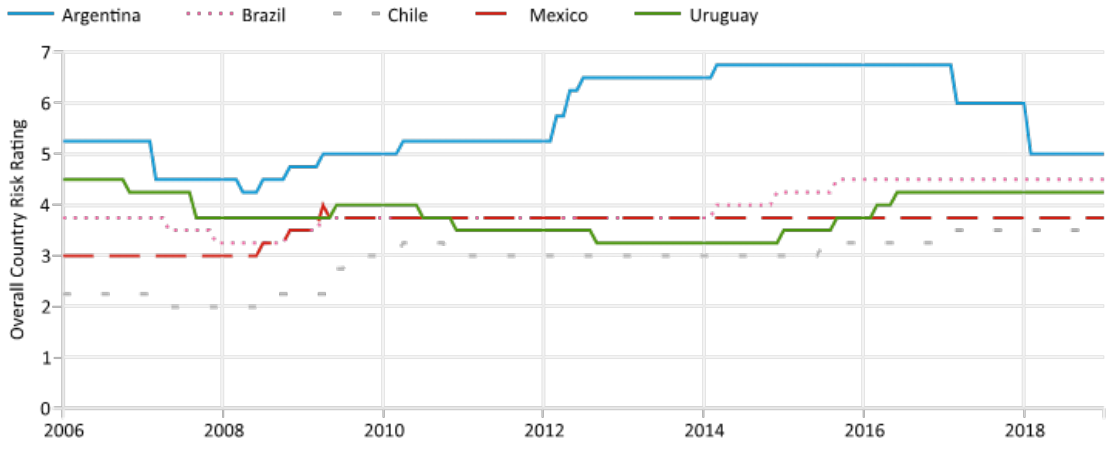
A

Trend: Stable

Key Development has had a negative impact on the outlook.

KEY INDICATORS

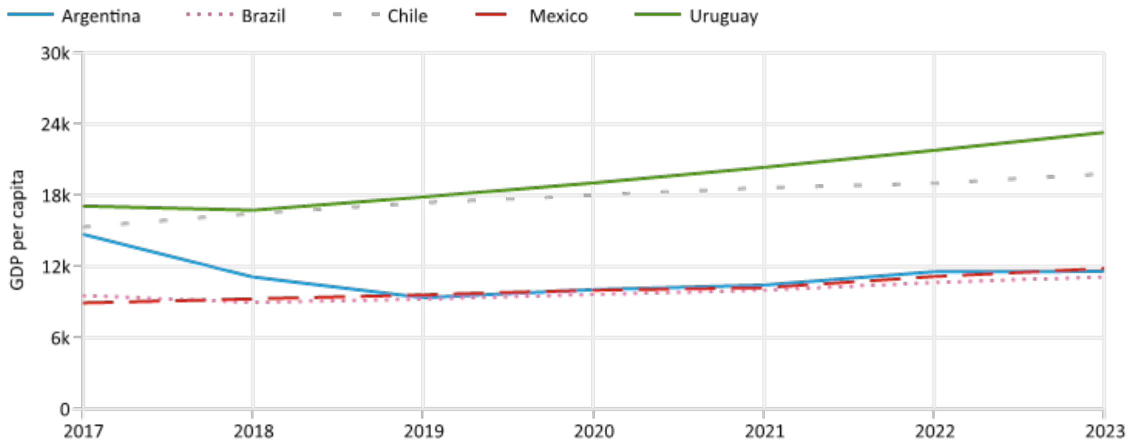
Rating History and Comparison



Source : Dun & Bradstreet

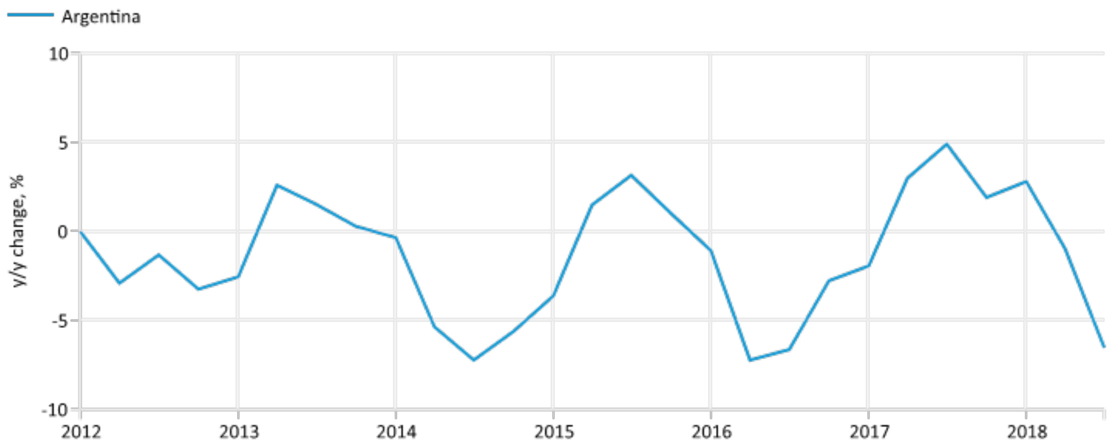
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Monthly)



Source : Haver Analytics/Dun & Bradstreet

Economic Indicators

Indicator	2016	2017	2018e	2019f	2020f	2021f	2022f	2023f
C/A balance % GDP	-2.7	-4.8	-5.8	-1.3	-0.5	0.1	0.5	0.9
Govt balance, % GDP	-5.9	-6.0	-5.5	-3.1	-2.7	-2.8	-2.9	-2.7
Inflation, annual avge %	42.6	25.1	34.5	37.0	19.5	15.5	9.2	7.3
Real GDP Growth, %	-1.8	2.9	-2.4	-1.0	1.8	2.2	2.3	2.5
Unemployment, %	8.5	8.4	9.4	9.1	8.2	8.1	8.1	8.0

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

Recently-announced changes to the central bank's monetary policy framework regarding inflation and exchange rate management are now in effect. The floor on the benchmark policy interest rate, which had been set at 60% as part of the bank's former inflation-targetting programme, was removed. Inflation-targetting was replaced by a policy of managing the nominal money supply to allow market forces to determine interest rates. The central bank governor, Guido Sandleris, has agreed to keep the rate at 60% until inflation expectations fall sufficiently. The bank has a target of 0% growth to end-H2 2019 from September 2018. According to the new exchange rate framework, from 1 January 2019 the non-intervention range was ARS37.1 to ARS48.00:USD1. A fall in the ARS:USD rate below the lower limit will trigger daily USD purchases up to USD50m per day in conjunction with an increase in the target for the monetary base. Conversely, a rise in the ARS:USD rate above the upper limit will trigger central bank sales of up to USD150m per day.

TRADE TERMS AND TRANSFER SITUATION

Minimum Terms: LC

The minimum form of documentation or trading method that Dun & Bradstreet advises its customers to consider when pursuing export trade with the stated country.

Recommended Terms: CLC

Dun & Bradstreet's recommended means of payment. The use of recommended terms, which are generally more stringent than minimum terms, is appropriate when a customer's payment performance cannot be easily assessed or when an exporter may wish to limit the risk associated with a transaction made on minimum terms.

Usual Terms: 30-90 days

Normal period of credit associated with transactions with companies in the stated country.

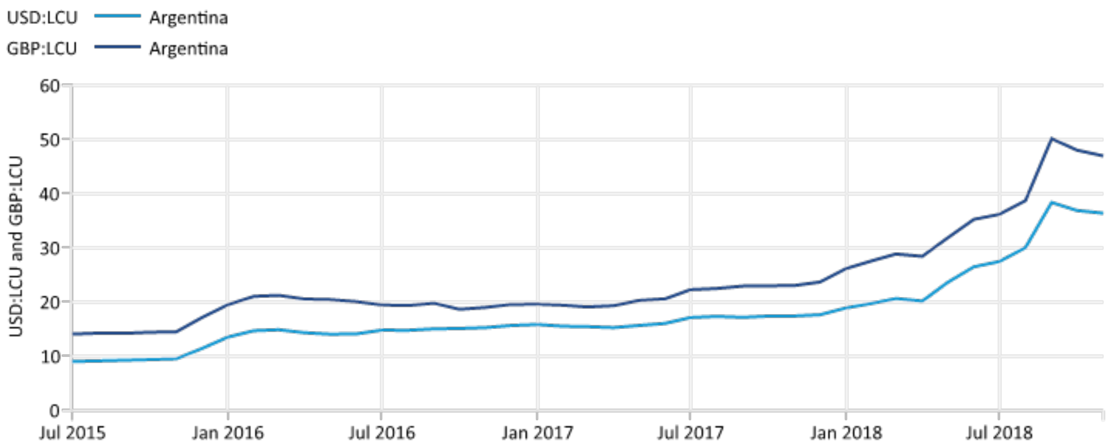
Local Delays: 0-1 month

The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-2 months

The average time between the placement of payment by the importer in the local banking system and the receipt of funds by the exporter. Such delays may be dependent on FX controls, FX availability and the efficiency of the local banking system.

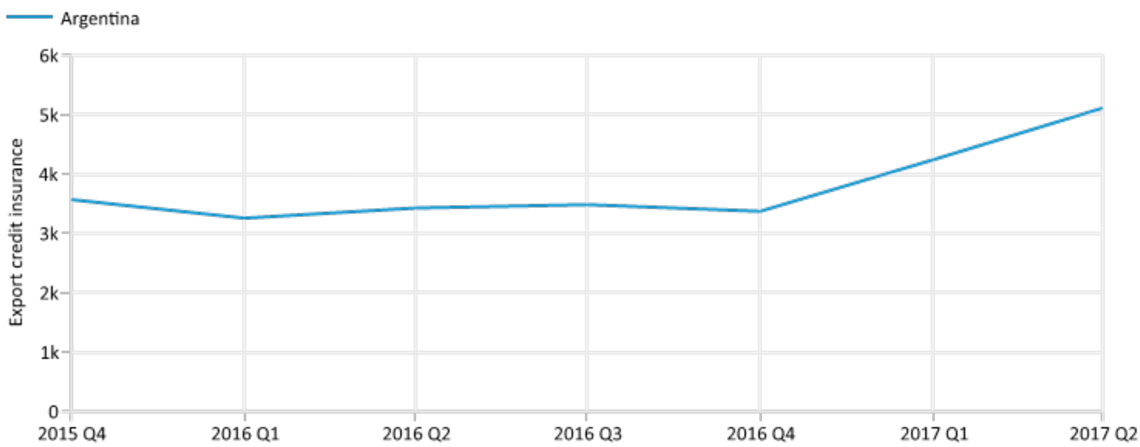
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Argentine peso

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm; increase going into 2017 is partly due to methodology changes.

RISKS AND OPPORTUNITIES

Political/Insecurity Risk

Political tensions to rise

The frequency and intensity of public demonstrations will rise - and keep political tensions high - in the quarters leading to presidential elections this year. On 27 October 2019, Argentines will head to the polls to elect their president for a four-year term. President Mauricio Macri, at the time of writing, is expected to seek re-election on the centre-right ruling coalition Cambiemos ticket. Though the coalition performed creditably in the October 2017 elections, significant portions of the party's and president's political capital have been expended in dealing with the currency crisis, the economic recession of 2018 and the public's objection to austerity measures that were necessitated by the USD57bn IMF bailout package.

At present, the opposition remains fragmented - which is in Macri's favour, albeit still early. There is much speculation that two-term former-president Cristina Fernandez de Kirchner (2007 - 2015), a very divisive and controversial figure, will run for the presidency. Markets view the re-election of Macri as the best chance for the implementation of important economic and structural reforms required to make the economy business friendly and competitive while achieving fiscal discipline through narrowing of the twin deficits. Neither Macri nor de Kirchner have, as yet, confirmed their intention to run.

Short-Term Economic Outlook

Recession continues

Argentina will remain in recession in 2019. Private consumption and public investment will continue to be constrained by high interest rates, a weaker peso, resilient inflation and austerity measures designed to close the fiscal gap. The contraction in industrial production eased in October to 6.8% y/y from a decline of 11.5% y/y in September due to multi-sectoral contractions led by automobile production at -12% y/y; conversely fuel output rose by 8.9% y/y as a result of a marked rise in oil refining. In mid-November the senate approved the FY2019 budget which includes pension reform, in which single-system taxpayers over 65 who are without a retirement plan will be allowed to receive the PUAM loan. Export taxes will be temporarily reintroduced, with a rise in the previously-proposed cap of 12% (free on board prices) to 33%, if needed. Total tax revenue is projected to rise from 25.2% of GDP in 2018 to 26.2% in 2019.

As the worst drought in 30 years exacerbates the economic situation, we are now estimating a contraction of 2.4% in 2018, and negative growth of -1.0% in 2019. Meanwhile, an additional USD7.1bn in IMF support and accelerated disbursement of USD35bn of the USD57.1bn credit line by end-2019 have diminished near-term default risk, and eased - but not eliminated - investor concerns. The government is not expected to return to capital markets until 2020. Elsewhere, consumer price inflation rose by 3.2% m/m in November, down from 5.4% m/m in October, with the 12-month rate increasing to 48.5% in November, from 45.9% in October. We expect the ARS:USD rate to remain stable in coming months, although a resumption in peso weakening has not been ruled out.

COUNTRY PROFILE AND STATISTICS

Overview

Located in the south of South America, Argentina borders five countries, including Brazil and Chile; the Andes mountains run along its western border. The country boasts vast natural resources that have historically been the main driver of its economy. Argentina has one of the world's lowest population densities, and half of its population lives around Buenos Aires, the capital.

After the restoration of democratic rule in 1983, the political environment was characterised by a lack of government transparency, populist political rhetoric and policy-making, and weak political institutions. This occurred most recently under former President Cristina Fernandez de Kirchner's leadership from 2007-15. However, under centre-right President Mauricio Macri, who took office in December 2015, Argentina made considerable strides in addressing the structural imbalances in the economy and liberalising it, with a notable return to international capital markets in 2016 (after 15 years' absence). This was a marked reversal from a position of government inefficiency, a weakened balance of payments position, a high level of government intervention in the economy, and recurrent problems funding its public debts that contributed to the economy performing erratically under Cristina Fernandez de Kirchner. Negatively, Macri's reform programme has been facing increased opposition from trade unions and civil society groups, since the passage of pension reforms in December 2017, with large anti-austerity demonstrations in June 2018 after the government sought and secured IMF assistance.

Key Facts

Key Fact	Detail
Head of state	President Mauricio MACRI
Capital	Buenos Aires
Timezone	GMT -03-00
Official language	Spanish
Population (millions)	44.7
GDP (USD billions)	498.0
GDP per capita (USD)	11,144
Life expectancy (years)	76.5
Literacy (% of adult pop.)	98.1
Surface area (sq km)	2,780,400

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2014	2015	2016	2017	2018e
Real GDP growth (%)	-2.5	2.7	-1.8	2.9	-2.4
Nominal GDP in USDbn	565	647	553	653	498
Nominal GDP in local currency (bn)	4,579	5,955	8,189	10,838	13,894
GDP per Capita in USD	13,153	14,907	12,619	14,748	11,144
Population (year-end, m)	43.0	43.4	43.8	44.3	44.7
Exchange rate (yr avge, USD-LCU)	8.1	9.2	14.8	16.6	27.9
Current Account in USDbn	-9.2	-17.6	-14.7	-31.3	-28.9
Current Account (% of GDP)	-1.6	-2.7	-2.7	-4.8	-5.8
FX reserves (year-end, USDbn)	29.0	23.4	36.3	55.1	58.8
Import Cover (months)	3.6	2.7	3.8	5.3	5.1
Inflation (annual avge, %)	40.0	35.0	42.6	25.1	34.5
Govt Balance (% GDP)	-2.7	-4.7	-5.9	-6.0	-5.5

Source : Haver Analytics/Dun & Bradstreet

Forecasts

Metric	2019f	2020f	2021f	2022f	2023f
Real GDP growth (%)	-1.0	1.8	2.2	2.3	2.5
Nominal GDP in USDbn	424	459	480	537	543
Nominal GDP in local currency (bn)	16,455	18,400	20,124	22,533	23,221
GDP per Capita in USD	9,403	10,082	10,460	11,584	11,616
Population (year-end, m)	45.1	45.5	45.9	46.3	46.7
Exchange rate (yr avge, USD-LCU)	38.8	40.1	41.9	42.0	42.8
Current Account in USDbn	-5.5	-2.4	0.7	2.5	5.0
Current Account (% of GDP)	-1.3	-0.5	0.1	0.5	0.9
FX reserves (year-end, USDbn)	60.2	60.8	62.2	63.4	64.1
Import Cover (months)	4.8	4.5	4.2	4.3	4.3
Inflation (annual avge, %)	37.0	19.5	15.5	9.2	7.3
Govt Balance (% GDP)	-3.1	-2.7	-2.8	-2.9	-2.7

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Argentina	Brazil	Chile	Mexico	Uruguay
Income per Capita (USD)	9,403	9,285	17,408	9,640	17,887
Country Population (m)	45.1	210.7	18.3	125.9	3.5
Internet users (% of population)	70.2	59.7	66.0	59.5	66.4
Real GDP Growth (% p.a., 2019 - 2028)	1.5 - 2.8	1.0 - 2.0	2.2 - 3.2	2.5 - 5.0	1.2 - 2.5

Source : Various sources/Dun & Bradstreet

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