Country Insight Snapshot

Argentina

October 2021

Written 08 October 2021

Overall Country Risk Rating: DB5d Last change: October 2021

R

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

Rating Outlook: Stable

WorldWatch Headline

Transfer risk rises with tighter capital controls, and policy uncertainty is elevated as fissures in the ruling coalition deepen, leading to a risk rating downgrade.

Recent Changes

- The country risk rating is downgraded from DB5c to DB5d as the political crisis triggered by the ruling coalition's surprise defeat in congressional primaries deepen fissures between competing factions.
- Commercial activity, particularly in high-contact service sectors, will be supported as the government eliminates virtually all remaining pandemic-related restrictions.

Events to Watch

- Government's policy stance is expected to become more populist and left-leaning in the lead up to mid-term elections in November.
- The fissure between the moderate and far-left factions with the ruling Frente de Todos coalition could deepen and exacerbate policy uncertainty.
- Regional energy supplies already strained by South America's historic drought could be exacerbated by the global natural gas shortage.
- Note that the Frente de Todos is entering the mid-term election in a weakened position following gains made by the opposition in primaries in September.

Call to Action

- Engage in contingency planning to deal with electricity load shedding and blackouts as the region's energy crisis is set to deepen.
- Be aware that while price controls and other government measures to dampen inflation have led to cooling price pressures in recent months, however a withdrawal of these measures and higher inflation post-election cannot be ruled out.
- Recall that large volume credit reviews can be conducted using D&B Global DecisionMaker to manage risk policy and deliver real-time global decisions.

Country Insight Headlines

Credit Environment

Score: DB6c

Last change: N/A➔DB6c

R

Rating Outlook: Deteriorating

Risks and Opportunities

- The central bank's switch to a managed exchange rate from a crawling peg eased near-term FX risk, but BCRA's ability to maintain the new regime in 2022 is doubtful.
- High inflation continues to erode real returns to savers.
- Foreign currency reserves held a the central bank remains below the IMF's recommended three-month minimum import coverage.
- The government could convert a Bank of China swap line to roughly USD18bn, but this would still not cover all external debt obligations and other hard-currency demands.

Trade Terms

Description	
Minimum Terms	LC
Recommended Terms	CLC
Usual Terms	30-90 days

Source: Dun & Bradstreet

Note: OA: Open Account; SD: Sight Draft (Documentary Collection); LC: Letter of Credit; CLC: Confirmed Letter of Credit; CiA: Cash in Advance.

Call to Action

- To mitigate transfer risks, consider tight payment terms when forming new contracts with local companies. Use confirmed letters of credit when doing business with local firms.
- Hedge FX risks to avoid possible currency-related losses; the risk of currency devaluation has eased for now, but the peso will remain under pressure in 2022.
- Recall that participation in the Global Trade Exchange Program - the world's largest commercial trade data network - increases predictiveness of insight for credit decisions and to manage risk.

Supply Environment

Score: DB5d

Last change: N/A➔DB5d

R

Rating Outlook: Stable

Risks and Opportunities

- River transportation is being negatively impacted by ongoing drought, which has caused the level of the Parana River, a major means of transporting corn and soy produce from Rosario ports to the Atlantic, to fall to its lowest level in nearly eight decades.
- The probability of unexpected changes in import/export bureaucracy as the government implements more left-wing populist government policy is elevated for the near-term.
- Despite Argentina's agreement to formulate a policy to lower Mercosur's tariffs, tensions between Argentina and some regional trade partners and trade blocs could have a negative impact on supply chains.

Call to Action

- Note that country's entered its last phase of easing Covid-19 restrictions including looser border controls, supporting business continuity for high-contact sectors including hospitality, retail, bars, restaurants and recreation.
- Recall that lower water levels, which are due to droughts in Brazil where the Parana River begins, has also impacted the production of energy and the availability of water for household consumption.
- Be advised that prolonged drought will negatively affect global grains supplies, keeping already-high food prices elevated.

Market Environment

Score: DB6b

Last change: N/A➔DB6b

R

Rating Outlook: Deteriorating

Risks and Opportunities

- Increases in the national minimum wage from September to February 2022 were announced to help blunt the erosion of purchasing power caused by persistent inflation.
- Anti-price-gouging policies have been adopted in addition to price controls on essential goods, including food and medical supplies.
- As regional trade blocs forge deeper ties intra- and extra-regionally, exporters' access to faster-growing markets such as India will expand in the medium term.

Call to Action

- Keep abreast of economic forecasts for Brazil, Mexico and Uruguay, and adjust projected export demand accordingly.
- Consider the opportunities and risks presented by China's increasing importance to trade and investment, although the US will continue in the next several years to be a source of substantial inward direct investment as well.
- Factor in expectations that the commercial environment will be increasingly less business-friendly under the current administration.

Political Environment

Score: DB5d

Last change: N/A➔DB5d

R

Rating Outlook: Stable

Risks and Opportunities

- Frende de Todos' unexpected defeat in the September primary amplified deep intra-party divisions and is likely to fuel more populist policies ahead of mid-terms.
- Public disapproval of both the executive and legislative branches of government are high, suggesting a high probability of widespread public protests.
- Price controls on basic consumer items will be maintained for our forecast horizon.
- Although such controls may be welcomed by households, investor sentiment has been dented by heightened market intervention.

Call to Action

- Under the Fernandez administration, expect changes in investment policy that may restrict private-sector participation in certain sectors.
- Note that three consecutive years of economic recession, stubborn inflation, high unemployment and poverty rates will contribute to elevated public discontent.
- Be aware that the ruling Frente de Todos party could face losses in mid-term elections in November 2021.

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