dun & bradstreet

Country Insight Snapshot
Argentina
January 2018

Written 05 January 2018

OVERVIEW

OVERALL COUNTRY RISK RATING: DB6a

Very high risk : Expected returns subject to large degree of volatility. A very high expected return is required to compensate for the additional risk or the cost of hedging such risk.

R

Rating Outlook: Improving

CORE OUTLOOK

+ The labour force will continue to be relatively well-educated by regional standards.

+ Economic reforms will progress under the centre-right government, with increased opportunities for private sector participation.

+ Business and consumer expectations are improving and will boost consumption and investment in the short term.

- The government's ambitious pro-market reform agenda could be stymied by its lack of congressional majority - despite its impressive performance in mid-term elections.

KEY DEVELOPMENT

The government's pro-market reform agenda gets a boost with the passage of tax and fiscal pact measures, plus the approval of FY2018 budget.

CREDIT ENVIRONMENT OUTLOOK

A

Trend: Improving

Key Development has had a positive impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

A

Trend: Stable

Key Development has had a positive impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Improving

Key Development has had a positive impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

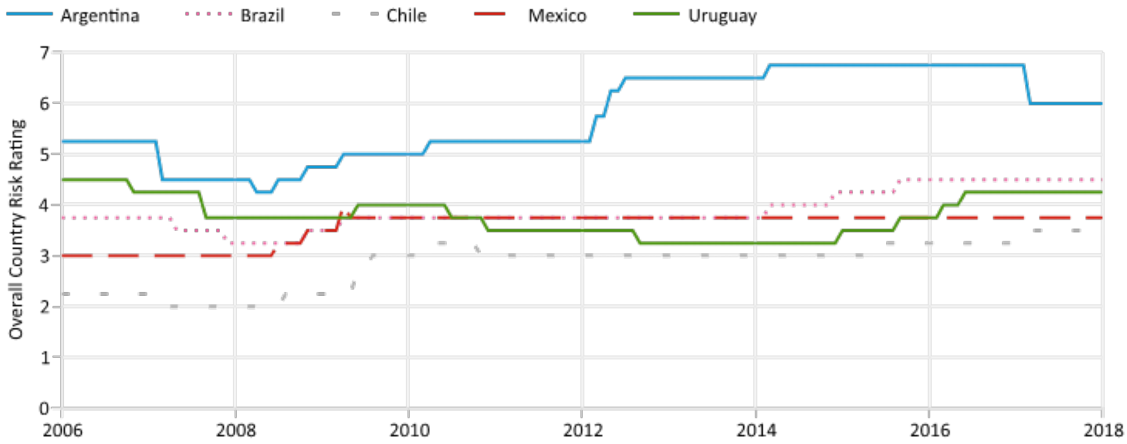
A

Trend: Stable

Key Development has had a neutral impact on the outlook.

KEY INDICATORS

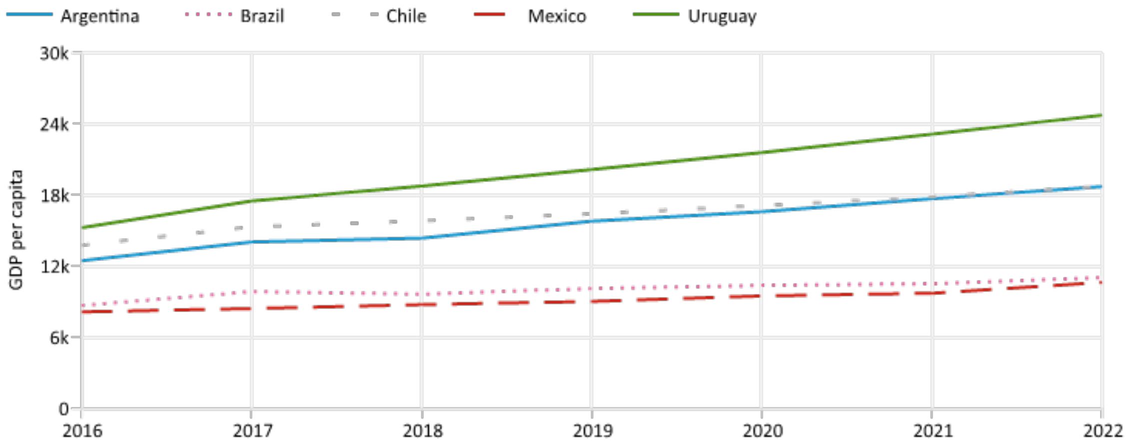
Rating History and Comparison



Source : Dun & Bradstreet

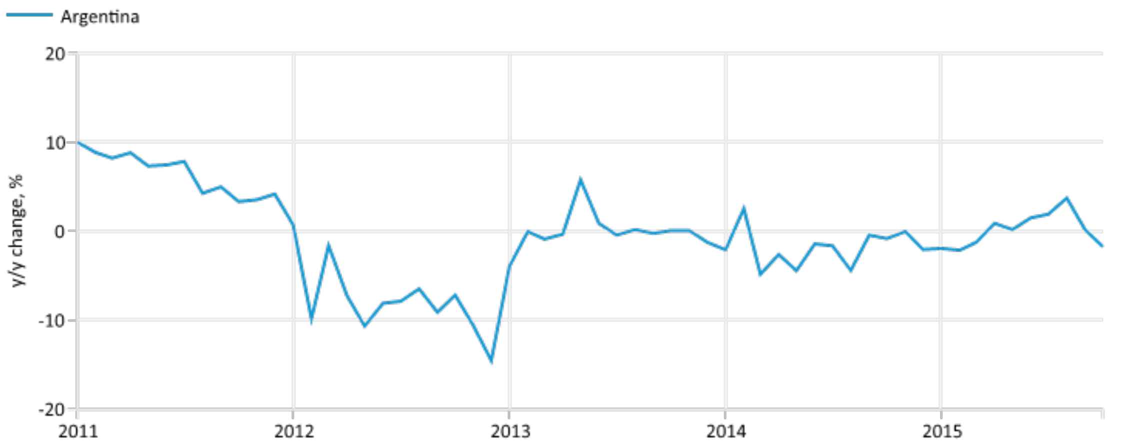
Note: 1 = Low Risk, 7 = High Risk

Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

Industrial Production Growth (Monthly)



Source : Haver Analytics/Dun & Bradstreet

Economic Indicators

Indicator	2015	2016	2017e	2018f	2019f	2020f	2021f	2022f
C/A balance % GDP	-2.8	-2.7	-4.3	-4.4	-4.4	-4.5	-4.6	-4.7
Govt balance, % GDP	-4.8	-5.9	-6.2	-6.3	-6.1	-5.3	-3.3	-3.2
Inflation, annual avge %	35.0	42.6	25.1	18.7	14.8	11.7	10.1	9.1
Real GDP Growth, %	2.5	-2.2	2.8	2.5	2.7	2.9	3.2	3.3
Unemployment, %	7.1	8.5	8.1	7.7	7.2	6.8	6.4	6.1

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

On 26 December the central bank held its benchmark seven-day interbank lending rate at 28.75% despite an annual inflation rate of 22.4% in mid-month (as price pressures remained significantly above the 2017 inflation target of 12-17%). Moreover, the bank signalled a greater tolerance for inflation in coming quarters and lifted expectations of a rate cut in Q1 with an easing of the 2018 inflation target to 15% from its previous target range of 8.0-12%. Elsewhere, FX reserves (including gold) continued on an upward path to reach USD55.73bn on 2 January, from USD51.81bn on 31 October 2017 and roughly USD47bn one year earlier. Consequently, Argentina's currency protection remains fair and its import cover is currently around six months – above the IMF's recommended minimum of 3 months of cover. Nevertheless, Dun & Bradstreet continues to recommend CLC terms for export trade with local counterparties.

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.

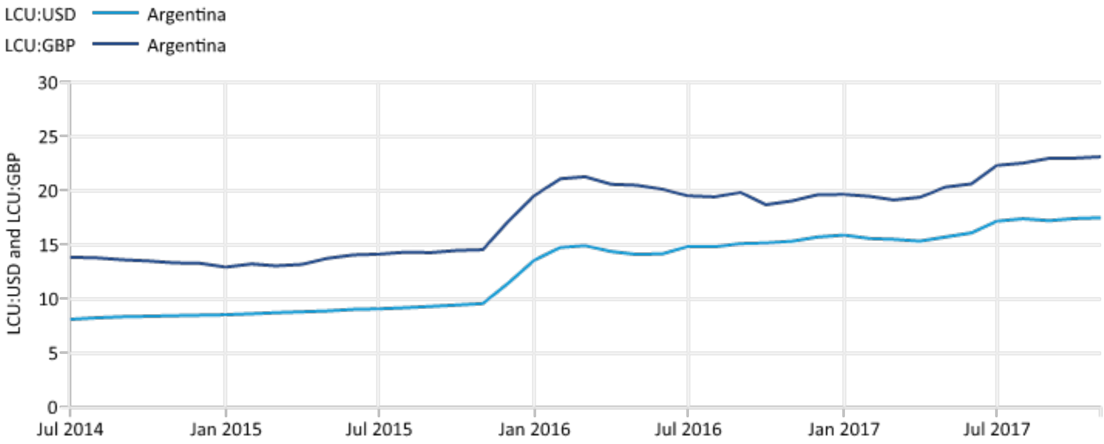
Local Delays: 0-1 month

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.

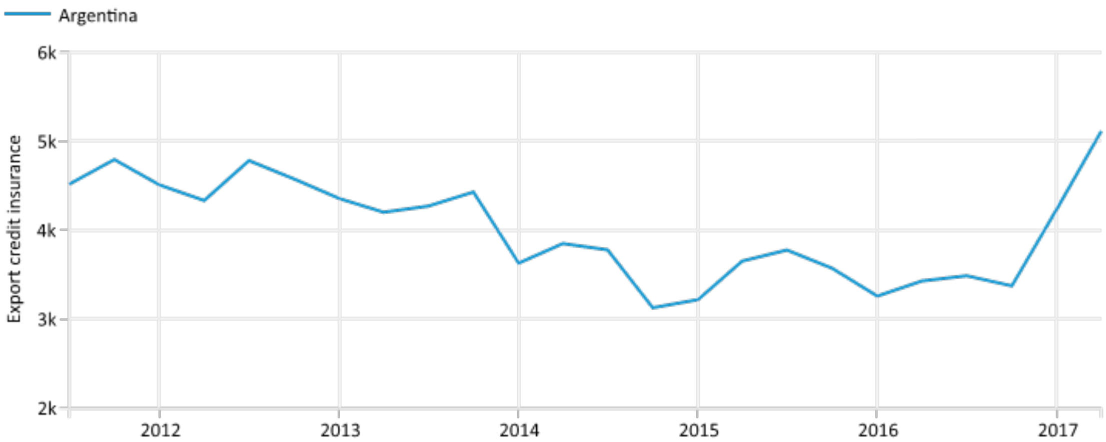
Exchange Rate



Source : International Monetary Fund/Dun & Bradstreet

LCU (local currency unit) = Argentine peso

Credit Conditions



Source : Export Credit Agencies

Insured export credit exposures, USDm

RISKS AND OPPORTUNITIES

Business Regulatory Environment

Reform measures passed

Congress passed several key pieces of legislation in December, providing a major boost to the government's structural reform agenda. Specifically, tax reform - with some amendments to its previous version - is intended to stimulate private sector investment, while the fiscal pact with provinces to rein in expenditure and the approved FY2018 budget are crucial to meeting the government's target of primary deficit of 3.2% this year. Argentina's competitiveness is expected to be enhanced with the reduction of corporate tax burdens, in addition to a simplified tax code and greater transparency that are in alignment with international standards. Notably, taxes on certain bank transactions will be kept until 2022 (a reversal from the draft proposal) in addition to a 5% tax on profits earned by foreign investors in central bank notes. The anticipated reduction in the tax burden by 1.5% of GDP is projected to contribute between 0.5% and 0.8% to annual real GDP for the next five years.

The recently-approved measures closely follow the passage of a pensions bill and capital market reform. The latter is designed to invigorate Argentina's capital market (which lags its peers Brazil and Chile) while the former seeks to reduce the burden of pension obligations. It includes provisions to change the methodology for calculating quarterly state pension increases. It is anticipated that the government will focus next on reducing labour market rigidities and judicial reforms. The government is expected to struggle to get new reforms through Congress, given that the ruling coalition still does not have a congressional majority and has expended much of its political capital on passing unpopular pension reforms (which sparked violent public protests in December).

Business Continuity

Bonds issued for FY2018 financing

Part of the proceeds from the sale of USD9bn in bonds - which were oversubscribed by 2.4 times - will fund capital works projects in 2018. The sale included USD1.75bn in 5-year bonds with a 4.625% yield, USD4.25bn of 10-year bonds at 6%, and USD3bn in 30-year bonds at 7%. The government has estimated financing of USD30bn in FY2018, part of which will underwrite infrastructure projects. Railway infrastructure projects were recently included in the government's USD26bn PPP programme under which USD916m in railway projects have already been awarded. Three-and-a-half decades of under-investment and inadequate maintenance led to a deterioration in Argentina's rail network. Consequently, Argentina is ranked at 66 out of 160 countries in the 2016 World Bank's *Logistics Performance Index* (LPI) with an overall score of 2.96 on a scale of 1 to 5 (5 being best) and a score of 2.83 in the sub-category of logistics quality and competence. In addition to plans for a USD14bn regional express network for the rail system in Buenos Aires - which includes three new rail viaducts - the government plans to upgrade the country's freight transportation system.

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 has 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 is 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.

Key Facts

Key Fact	Detail
Head of state	President Mauricio MACRI
Capital	Buenos Aires
Timezone	GMT -03-00
Official language	Spanish
Population (millions)	44.3
GDP (USD billions)	622.7
GDP per capita (USD)	14,066
Life expectancy (years)	76.3
Literacy (% of adult pop.)	98.1
Surface area (sq km)	2,780,400

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2013	2014	2015	2016	2017e
Real GDP growth (%)	2.3	-2.6	2.5	-2.2	2.8
Nominal GDP in USDbn	609	565	616	548	623
Nominal GDP in local currency (bn)	3,348	4,579	5,854	8,050	10,337
GDP per Capita in USD	14,311	13,153	14,193	12,490	14,066
Population (year-end, m)	42.5	43.0	43.4	43.8	44.3
Exchange rate (yr avge, USD-LCU)	5.5	8.1	9.5	14.7	16.6
Current Account in USDbn	-13.1	-8.7	-17.2	-14.5	-27.0
Current Account (% of GDP)	-2.2	-1.5	-2.8	-2.7	-4.3
FX reserves (year-end, USDbn)	28.1	29.0	23.4	36.3	45.2
Import Cover (months)	3.8	3.6	2.7	3.8	4.3
Inflation (annual avge, %)	28.0	40.0	35.0	42.6	25.1
Govt Balance (% GDP)	-1.9	-2.7	-4.8	-5.9	-6.2

Source : Haver Analytics/Dun & Bradstreet

Forecasts

Metric	2018f	2019f	2020f	2021f	2022f
Real GDP growth (%)	2.5	2.7	2.9	3.2	3.3
Nominal GDP in USDbn	643	714	757	814	868
Nominal GDP in local currency (bn)	12,543	14,701	16,872	19,125	21,533
GDP per Capita in USD	14,393	15,823	16,625	17,725	18,748
Population (year-end, m)	44.7	45.1	45.5	45.9	46.3
Exchange rate (yr avge, USD-LCU)	19.5	20.6	22.3	23.5	24.8
Current Account in USDbn	-28.2	-31.4	-33.9	-37.2	-40.8
Current Account (% of GDP)	-4.4	-4.4	-4.5	-4.6	-4.7
FX reserves (year-end, USDbn)	48.1	50.4	52.6	53.7	54.3
Import Cover (months)	4.2	4.0	3.9	3.6	3.6
Inflation (annual avge, %)	18.7	14.8	11.7	10.1	9.1
Govt Balance (% GDP)	-6.3	-6.1	-5.3	-3.3	-3.2

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Argentina	Brazil	Chile	Mexico	Uruguay
Income per Capita (USD)	14,393	9,665	15,857	8,787	18,785
Country Population (m)	44.7	209.2	18.2	132.0	3.5
Internet users (% of population)	70.2	59.7	66.0	59.5	66.4
Real GDP Growth (% p.a., 2018 - 2027)	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

LINKS

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Please click here to visit our online user guide.

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