

# Country Insight Snapshot

## Argentina

June 2018





## 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:** Stable

## CORE OUTLOOK

- + The labour force will continue to be relatively well-educated by regional standards.
- The government's request for an IMF credit facility will keep political risk high given the populace's deep suspicions about the Fund.
- The gradualist approach to reform has been replaced by plans for a sharp narrowing of the fiscal deficit this year.
- Market confidence is tentative despite the peso's stabilisation after its recent nosedive against the dollar.

## KEY DEVELOPMENT

A fall in President Macri's popularity jeopardises planned reforms amid high public mistrust of the IMF and the opposition's exploitation of protests against austerity measures.

### CREDIT ENVIRONMENT OUTLOOK

**A**

**Trend:** Stable

Key Development has had a negative impact on the outlook.

### SUPPLY ENVIRONMENT OUTLOOK

**A**

**Trend:** Stable

Key Development has had a neutral impact on the outlook.

### MARKET ENVIRONMENT OUTLOOK

**A**

**Trend:** Stable

Key Development has had a negative impact on the outlook.

### POLITICAL ENVIRONMENT OUTLOOK

**A**

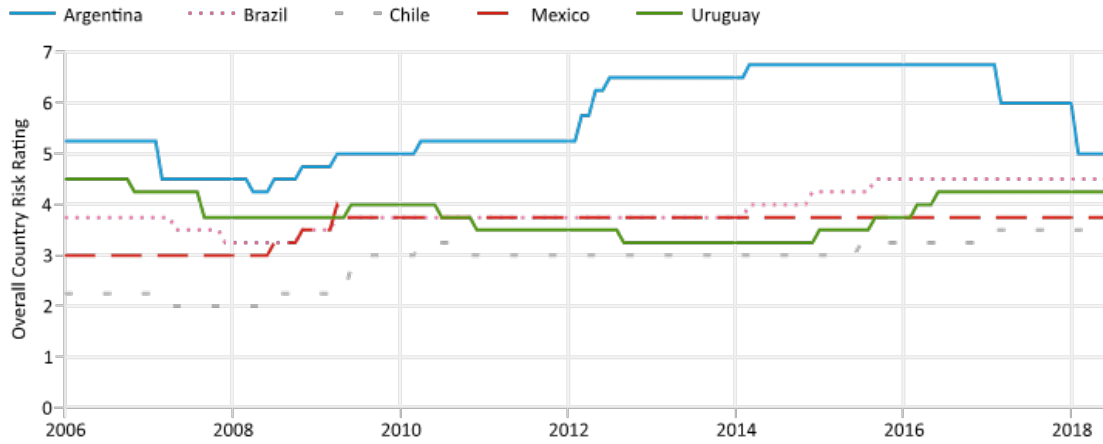
**Trend:** Stable

Key Development has had a negative impact on the outlook.



## KEY INDICATORS

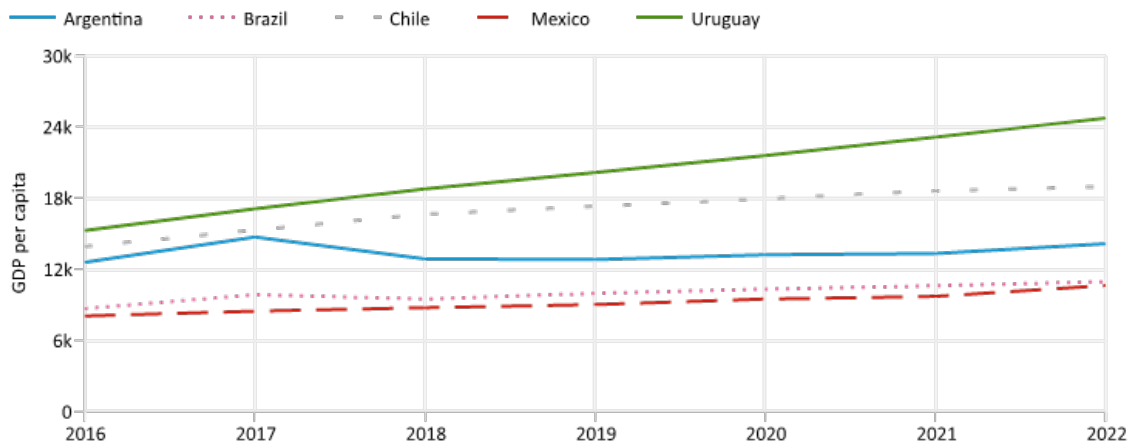
### Rating History and Comparison



Source : Dun & Bradstreet

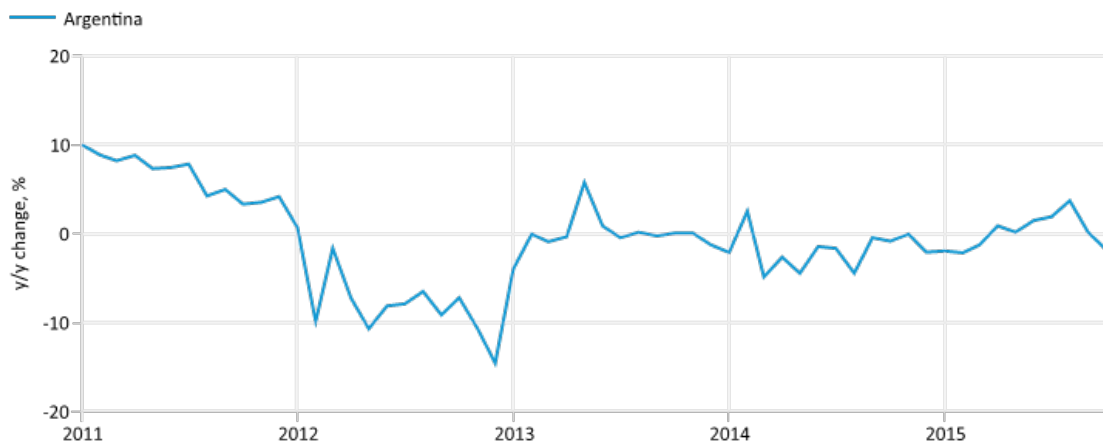
Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source : Haver Analytics/Dun & Bradstreet

### Industrial Production Growth (Monthly)



Source : Haver Analytics/Dun & Bradstreet



## Economic Indicators

Indicator	2015	2016	2017	2018f	2019f	2020f	2021f	2022f
C/A balance % GDP	-2.7	-2.7	-4.7	-5.8	-5.4	-4.8	-4.1	-3.3
Govt balance, % GDP	-4.7	-5.9	-6.0	-5.0	-4.1	-3.3	-3.0	-2.7
Inflation, annual avge %	35.0	42.6	25.1	28.2	18.1	12.3	9.4	7.1
Real GDP Growth, %	2.7	-1.8	2.9	2.0	2.3	2.7	2.9	3.1
Unemployment, %	7.1	8.5	8.4	8.0	7.5	6.9	6.6	6.1

Source : Haver Analytics/Dun & Bradstreet

## TRADE AND COMMERCIAL ENVIRONMENT

The peso stabilised and traded at ARS24.97:USD on 31 May following central bank and government interventions aimed at halting the currency's recent nosedive. The peso's sharp fall to a record-low of ARS24.99:USD on 14 May resulted in a 26% depreciation in nominal terms over the previous 12 months. The central bank's emergency policy interest rate hike to 40% on Lebac (its third rate rise between 27 April and 4 May) and dollar sales had failed to halt the currency's slide and prompted the government to turn to the IMF for support. The Fund has indicated that there will not be exchange rate conditions as a part of its negotiations with Argentina. The peso has been under pressure since December, when the government's loosening of its 2018 inflation target to 15% from the previous range of 8.0-12.0% led to higher investor caution. We expect the currency to trade close to the ARS25.00:USD mark in the near term.

## 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

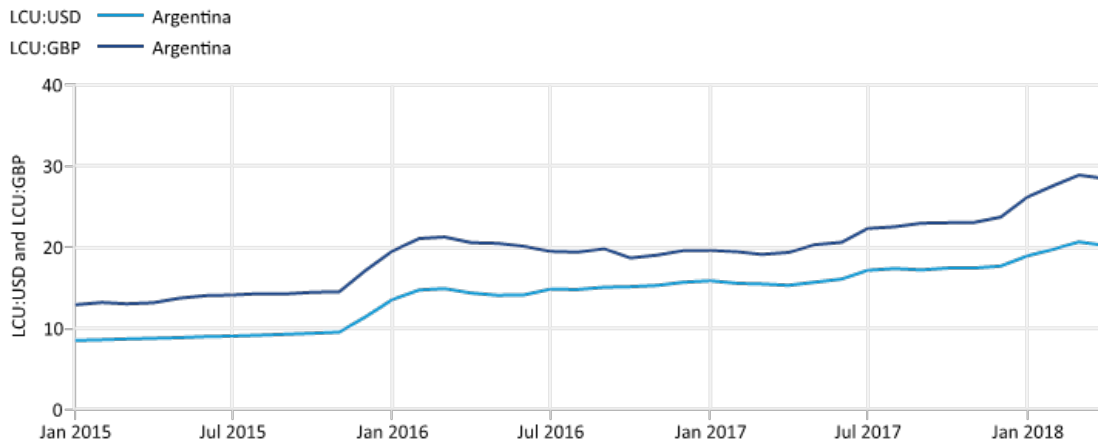
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### 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.*



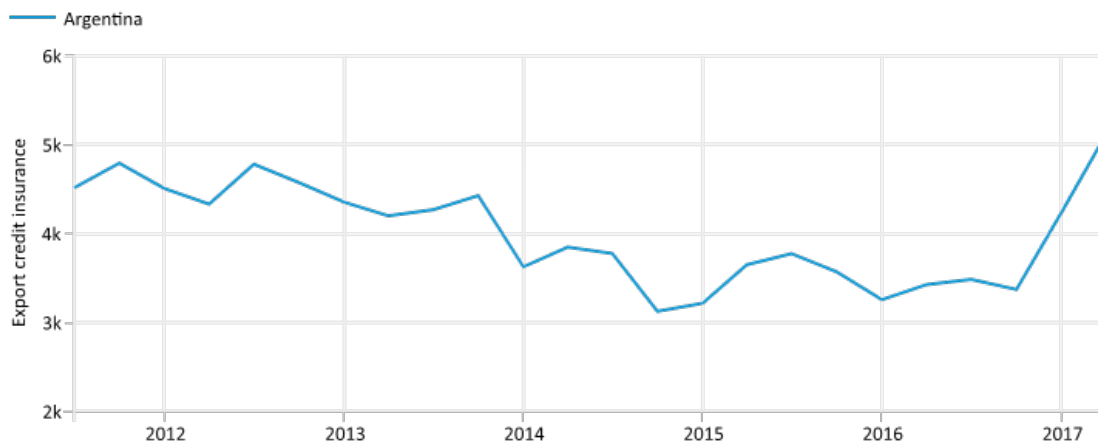
## Exchange Rate



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

#### *Deep spending cuts anticipated*

Mauricio's Macri's approval rating has fallen below 40% (from 50%) just after the ruling coalition Cambiemos' impressive showing in legislative elections last October, according to a recent poll. This fall in approval jeopardises the president's ability to implement much-needed reforms to restore and strengthen market confidence. Macri's request for IMF assistance – subsequently identified as a USD30bn flexible credit line – exacerbated already-high public dissatisfaction. Austerity measures and economic reforms have triggered demonstrations, mainly led by trade unions, in the past several months and, in recent weeks, Argentinians have recalled drastic conditionalities imposed by the Fund on assistance in previous decades. In 2016 Argentina resumed its relationship with the IMF after a decade; then-president Nestor Kirchner had cut ties with the Fund in 2006 after the country's historic USD100bn default in 2001.

Macri faced violent protests against pension reforms in December and switched to a gradualist approach to implementing his reform agenda. Indeed, the 2018 congressional session opened on 1 March without an explicit legislative agenda. It is now apparent that the government will abandon its gradualist approach and aggressively tackle its twin deficits to navigate the economy back to positive territory vis-à-vis investor sentiment/market confidence. Already, Treasury minister Nicolas Dujovne announced that the budget deficit will be reduced from 3.7% to 2.7% in 2018 (down from the previously-targeted 3.2%). Moreover, the trade deficit widened sharply to USD2.50bn in Q1, from USD1.18bn in the corresponding quarter of 2017. Adding to the government's challenges in implementing reform is the likelihood that the opposition will exploit the recent weakening of the government's popularity.

### Short-Term Economic Outlook

#### *Economic activity remains weak*

Economic activity remained weak in March, with a decline of 0.1% m/m in seasonally-adjusted terms following a contraction of 0.2% m/m in February. Our 2018 real GDP forecast is now 2.0% as the government faces stubborn twin deficits. The growth outlook is further clouded by the ongoing drought - the worst in 30 years - which is contributing to the lowest soybean and corn harvests in several years. Argentina has had to buy soybeans for the first time in two decades. Moreover, the weakening peso is driving up dollar-denominated sovereign debt and contributing to already-resilient inflation. With a potentially large negative impact on export receipts and tax revenue, this echoes 2009, when a severe drought contributed to the economy slipping into recession. The government has promised to tackle the twin deficits (which undoubtedly became more challenging with the recent currency weakness). The fiscal deficit has widened on account of higher interest payments as Argentina's debt burden expanded rapidly after its return to capital markets in 2016. The economy grew by 2.9% in 2017, just above our forecast of 2.8%.



## 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)	652.9
GDP per capita (USD)	14,748
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	2017
Real GDP growth (%)	2.4	-2.5	2.7	-1.8	2.9
Nominal GDP in USDbn	609	565	647	553	653
Nominal GDP in local currency (bn)	3,348	4,579	5,955	8,189	10,838
GDP per Capita in USD	14,311	13,153	14,907	12,619	14,748
Population (year-end, m)	42.5	43.0	43.4	43.8	44.3
Exchange rate (yr avge, USD-LCU)	5.5	8.1	9.2	14.8	16.6
Current Account in USDbn	-13.1	-9.2	-17.6	-14.7	-30.8
Current Account (% of GDP)	-2.2	-1.6	-2.7	-2.7	-4.7
FX reserves (year-end, USDbn)	28.1	29.0	23.4	36.3	55.1
Import Cover (months)	3.8	3.6	2.7	3.8	5.3
Inflation (annual avge, %)	28.0	40.0	35.0	42.6	25.1
Govt Balance (% GDP)	-1.9	-2.7	-4.7	-5.9	-6.0

Source : Haver Analytics/Dun & Bradstreet



## Forecasts

Metric	2018f	2019f	2020f	2021f	2022f
Real GDP growth (%)	2.0	2.3	2.7	2.9	3.1
Nominal GDP in USDbn	577	579	603	614	657
Nominal GDP in local currency (bn)	13,894	16,455	18,400	20,124	22,533
GDP per Capita in USD	12,901	12,847	13,256	13,363	14,185
Population (year-end, m)	44.7	45.1	45.5	45.9	46.3
Exchange rate (yr avge, USD-LCU)	24.1	28.4	30.5	32.8	34.3
Current Account in USDbn	-33.4	-31.1	-29.0	-25.1	-21.5
Current Account (% of GDP)	-5.8	-5.4	-4.8	-4.1	-3.3
FX reserves (year-end, USDbn)	63.5	69.5	74.6	81.0	81.0
Import Cover (months)	5.6	5.6	5.5	5.4	5.4
Inflation (annual avge, %)	28.2	18.1	12.3	9.4	7.1
Govt Balance (% GDP)	-5.0	-4.1	-3.3	-3.0	-2.7

Source : Haver Analytics/Dun & Bradstreet

## Comparative Market Indicators

Indicator	Argentina	Brazil	Chile	Mexico	Uruguay
Income per Capita (USD)	12,901	9,525	16,685	8,787	18,810
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





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