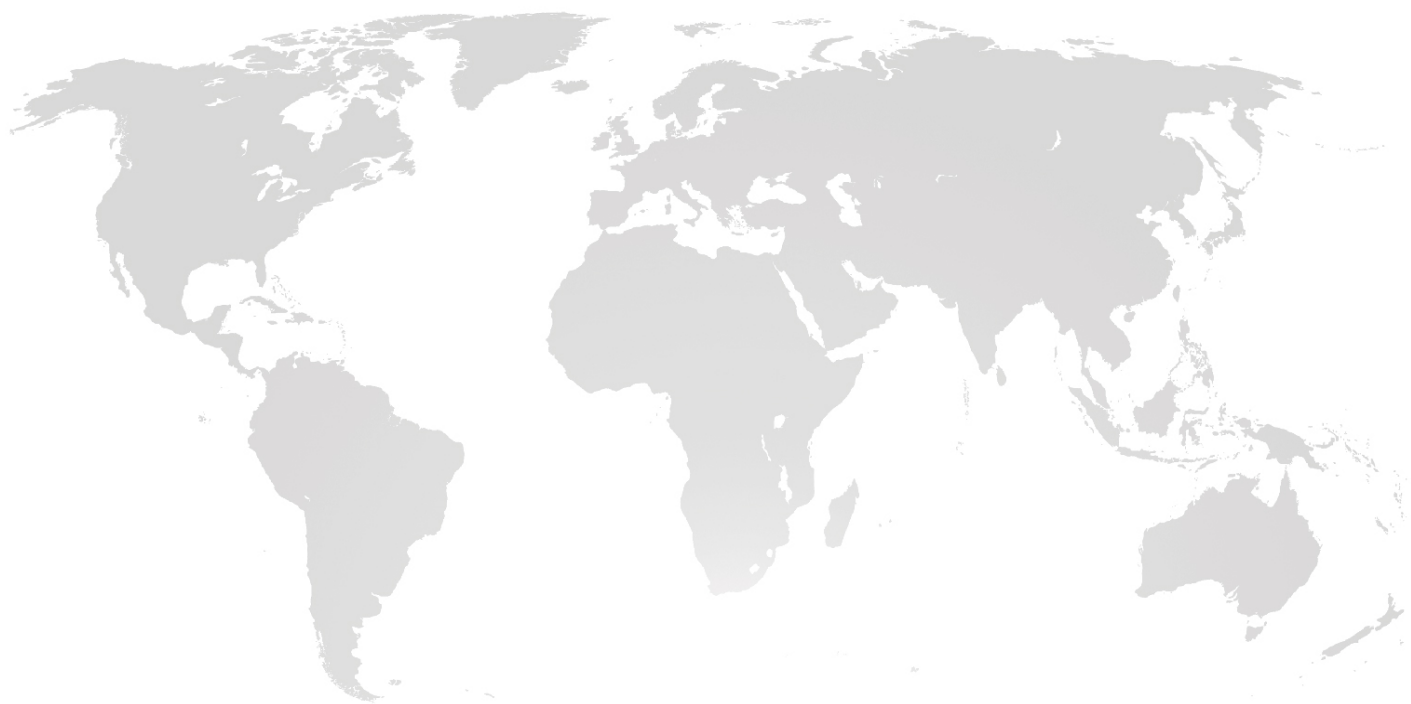




# D&B Country Insight Snapshot: Argentina

*May 2015*



Written 8 May 2015



**Overview**

**Overall Country Risk Rating: DB6d**



**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.

**Rating Outlook:** Stable →

**Core Outlook**

- + The labour force will continue to be relatively well-educated by regional standards.
- Private long-term investments could be subject to a high degree of expropriation risk.
- Barring a radical policy shift to a pro-investor stance, business confidence will remain low.
- Falling real household disposable incomes will drag on domestic demand.

**Key Development**

February sees a return to growth following a flat January, as agriculture, construction and private consumption drive growth, but risks remain tilted to the downside.

Credit Environment Outlook

Key Development has had a positive impact on the outlook.

Supply Environment Outlook

Key Development has had a neutral impact on the outlook.

Market Environment Outlook

Key Development has had a positive impact on the outlook.

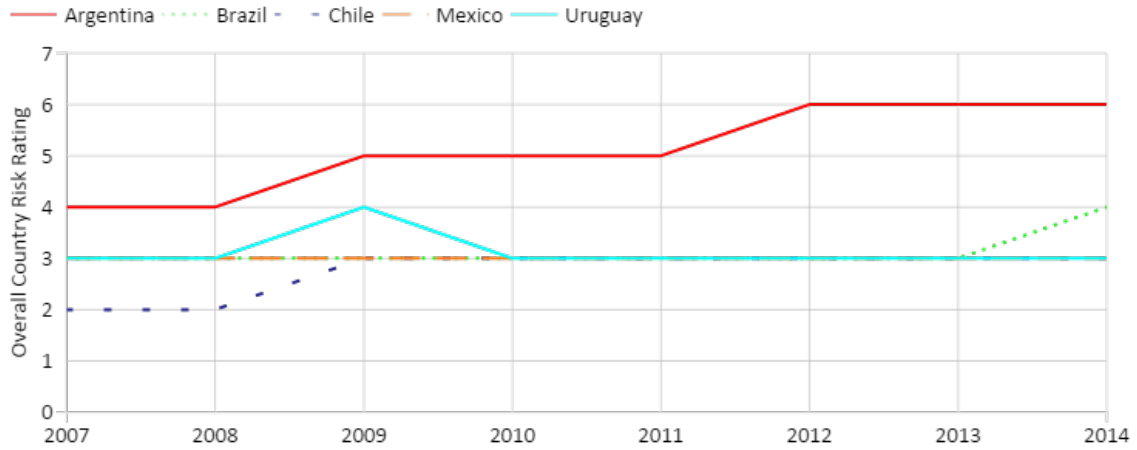
Political Environment Outlook

Key Development has had a neutral impact on the outlook.



## Key Indicators

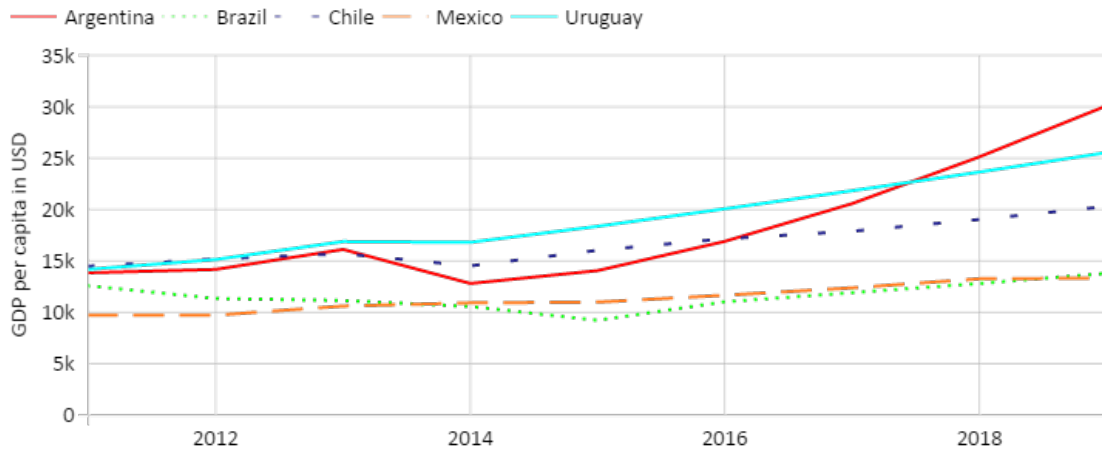
### Rating History and Comparison



Source : D&B

Note: 1 = Low Risk, 7 = High Risk

### Regional Comparisons



Source : D&B

### Chart of the Month



Source : Haver Analytics/D&B

## Economic Indicators

Indicator	2012	2013	2014e	2015f	2016f	2017f	2018f	2019f
C/A balance % GDP	0	-1	-1.9	-1.2	-1.1	-1	-0.9	-0.9
Govt balance, % GDP	-4.3	-2.4	-2.8	-2.8	-2.6	-2.5	-2.4	-2.3
Inflation, annual avge %	25	28	40	38	36	30	30	30
Real GDP Growth, %	0.9	2.9	-0.4	-1	1.5	1.9	2	2.2
Unemployment, %	7.5	7.6	8.8	9	9.1	9.3	10	10.1

Source : Haver Analytics/D&B

## Trade and Commercial Environment

In March, FX reserves stayed stable at USD31.49bn, as tight import controls were retained. Negatively, the relationship between government and soybean farmers remains tense as farmers hoard the country's main export commodity to avoid a 35% export tax. Notably, forecasts for record high global soy supplies in 2015 will constrain prices. Consequently, we expect firms to continue to face challenges procuring US dollars to facilitate transactions. The peso continued to weaken against the dollar to trade at ARS8.9004:USD on 29 April, and 11.25% weaker than one year earlier. In mid-March, the peso's forward rate rose, with non-deliverable pesos due in a year up to ARS13.09, as traders anticipate a devaluation soon after the October presidential election.

## Trade Terms and Transfer Situation

### Minimum Terms: LC

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

### Recommended Terms: CLC

*D&B'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

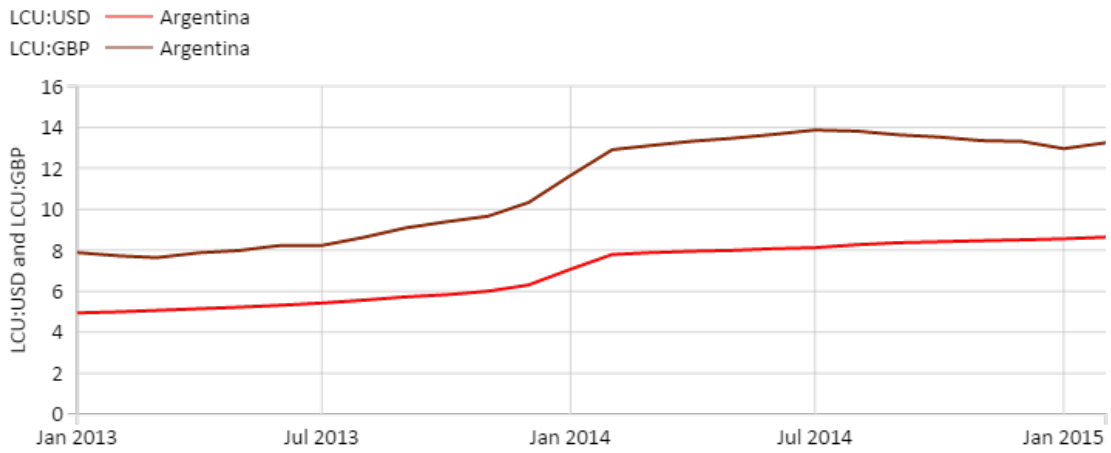
*The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.*

### 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.*



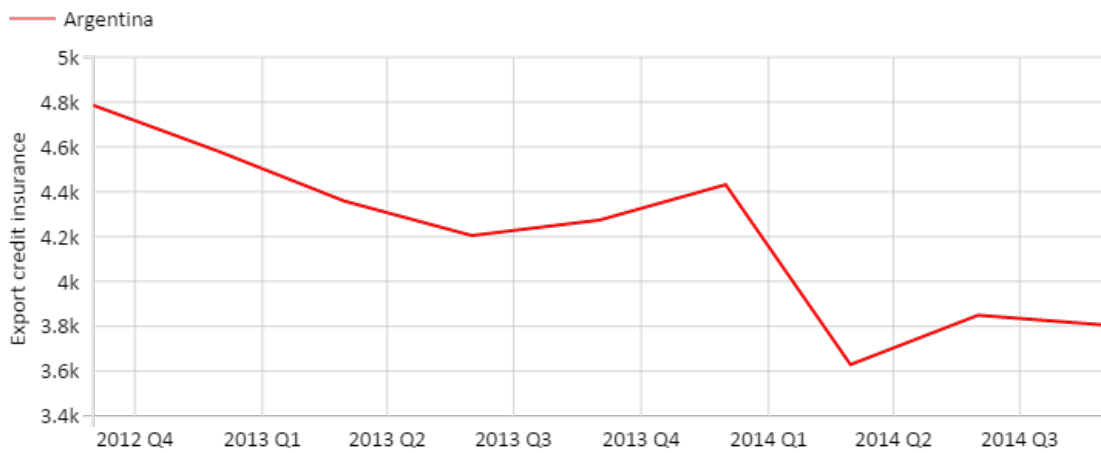
## Exchange Rate



Source : IMF International Financial Statistics, National Statistical Offices

*LCU = Local Currency Unit*

## Credit Conditions



Source : Haver

*Insured export credit exposures, USDm*

## Risks and Opportunities

### Short-Term Economic Outlook

*Return to growth seen in February*

Economic activity grew by 1.42% y/y in February following flat growth in January, according to the INDEC economic activity indicator. Agriculture, construction and private consumption were the primary drivers of the uptick in output, however the manufacturing sector continued to decline. The 1.9% fall in industrial production in February was the 20th consecutive monthly decline and contributed to the sector's 2% contraction in Q1. Positively, retail sales grew by 30% y/y in February on account of increased credit availability; the expansion of the agriculture sector is consistent with official forecasts of a record soybean season. The construction sector similarly recorded higher output of 1.9% in February as construction costs declined and public works projects were implemented. Although tax revenue growth (due to a 21.5% y/y increase in income tax receipts) outstripped official inflation figures, thereby signalling a possible improvement in the economy, our near-term outlook remains guarded on account of continued international uncompetitiveness, soft commodity prices and deceleration in Brazil, which is a major importer of Argentinian manufactured goods. Further, recently-released data confirmed a widening of the current account deficit in 2014 by 8% to USD5.1bn, as the trade surplus fell by 15% to USD9.5bn despite the fall in the price of imported oil. We are projecting real GDP growth of -0.3% in 2015, with risks tilted to the downside.

### Business Environment Quality

*Government plans to sue Citibank*

In early April, Economy Minister Axel Kicillof announced that his government plans to sue Citibank. This follows Argentina's security regulator's suspension of Citibank Argentina from conducting capital market operations last month. According to the regulator, the bank's agreement not to appeal a US court ruling that blocked payment of interest on restructured bonds if the bank is allowed to make two one-off payments is in violation of local laws. The government believes that the agreement between Citibank and the US hedge funds at the centre of the 'hold outs' impasse will impede the government from making additional interest payments on restructured bonds. Given the most recent development, we hold to our view that in the stand-off between Argentina and so-called 'bond-holdouts' there is no apparent solution in sight.

### Insecurity/Civil Disorder Risk

*Political tension will persist until October election*

Tensions will remain high in the political arena in the lead-up to the October general elections. In a move aimed at minimising the possibility of further workers' protests and diffusing discontent against the ruling party's presidential candidate (President Fernandez is ineligible for a third term), the government agreed to reduce income tax for workers earning between USD1,700 and USD2,800/month. In March, trade unions, which are currently in union negotiations, staged simultaneous protests in major cities, demanding changes to income tax brackets for low-income earners.

## Country Profile and Statistics

### Overview

Located in the south of South America, Argentina borders five countries, including Brazil and Chile. The Andes 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.

Since the restoration of democratic rule in 1983, the political environment has been characterised by a lack of government transparency, populist political rhetoric and policy-making, and weak political institutions. A combination of Argentina's inefficient government, a weak balance of payments position, ongoing government intervention in the economy and recurrent problems funding its public debts have led to the economy performing erratically. Despite improvements after the 2001 economic crisis, the country is facing new challenges in meeting its sovereign debt commitments, with dwindling FX reserves and adverse legal rulings.

### Key Facts

Key Fact	Detail
Head of state	President Cristina FERNANDEZ de Kirchner
Capital	Buenos Aires
Timezone	GMT -03-00
Official language	Spanish
Population (millions)	41.8
GDP (USD billions)	272.8
GDP per capita (USD)	6,526
Life expectancy (years)	76
Literacy (% of adult pop.)	97.2
Surface area (sq km)	2,780,400

Source : UN / Haver Analytics / D&B

### Historical Data

Metric	2010	2011	2012	2013	2014
Real GDP growth (%)	9.1	8.6	0.9	2.9	-0.4
Nominal GDP in USDbn	472.22	527.56	455.63	436.24	272.81
Nominal GDP in local currency (bn)	1,840	2,163	2,164	2,225	2,292
GDP per Capita in USD	11,696	12,953	11,089	10,526	6,526
Population (year-end, m)	40.37	40.73	41.09	41.45	41.8
Exchange rate (yr avge, USD-LCU)	3.9	4.1	4.75	5.1	8.4
Current Account in USDbn	1.33	-2.32	0.05	-4.33	-5.1
Current Account (% of GDP)	0.28	-0.44	0.01	-0.99	-1.87
FX reserves (year-end, USDbn)	49.73	43.23	39.92	28.14	31.4
Import Cover (months)	9.89	7.38	6.19	3.98	4.07
Inflation (annual avge, %)	30	32	25	28	40
Govt Balance (% GDP)	-1.4	-3.5	-4.3	-2.4	-2.8

Source : D&B

## Forecasts

Metric	2015	2016	2017	2018	2019
Real GDP growth (%)	-1	1.5	1.9	2	2.2
Nominal GDP in USDbn	592.4	718.2	881.6	1,084.9	1,309.4
Nominal GDP in local currency (bn)	5,035.5	6,176.9	7,582	9,221.3	11,130
GDP per Capita in USD	14,053	16,899	20,580	25,127	30,096
Population (year-end, m)	42.2	42.5	42.8	43.2	43.5
Exchange rate (yr avge, USD-LCU)	8.5	8.6	8.6	8.5	8.5
Current Account in USDbn	-9.7	-10.1	-11.1	-10.5	-10
Current Account (% of GDP)	-1.63	-1.41	-1.26	-0.97	-0.77
FX reserves (year-end, USDbn)	31.3	32.2	33.9	35.6	35.6
Import Cover (months)	3.72	3.51	3.38	3.25	2.98
Inflation (annual avge, %)	38	36	30	30	30
Govt Balance (% GDP)	-1.6	-1.4	-1.4	-1.3	-1.2

Source : D&amp;B

## Comparative Market Indicators

Indicator	Argentina	Brazil	Chile	Mexico	Uruguay
Income per Capita (USD)	12,803	10,563	14,518	10,917	16,809
Country Population (m)	41.8	203.2	17.8	123.8	3.4
Internet users (% of population)	59.9	51.6	66.5	43.5	58.1
Real GDP Growth (% p.a., 2015 - 2024)	2.8 - 4.5	2.5 - 4.5	4.5 - 5.5	3.5 - 5	4 - 4.5

Source : D&amp;B



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