

Country Insight Snapshot

Argentina

December 2016



Written 02 December 2016

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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.

R

Rating Outlook: Stable →

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.
- While fiscal reforms will facilitate economic rebalancing in the short- to medium-term, the immediate impact on prices and jobs will keep public discontent high.
- Lower real wages and subdued consumer confidence will drag on private domestic consumption in the near term.

KEY DEVELOPMENT

Economic activity declines in the third quarter as the recession continues, although there are tentative signs that the contraction might be nearing its bottom.

CREDIT ENVIRONMENT OUTLOOK

R

Trend: Stable →

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK

R

Trend: Stable →

Key Development has had a neutral impact on the outlook.

MARKET ENVIRONMENT OUTLOOK

A

Trend: Stable →

Key Development has had a neutral impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK

A

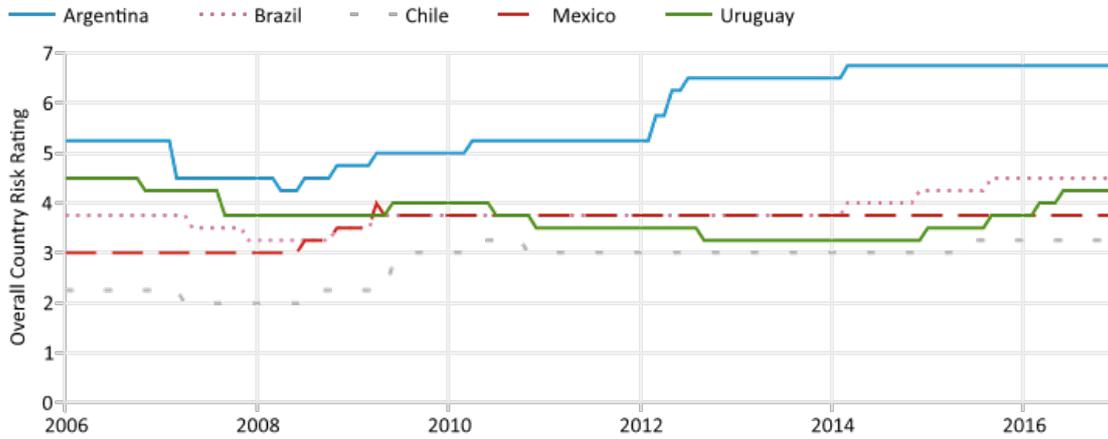
Trend: Stable →

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

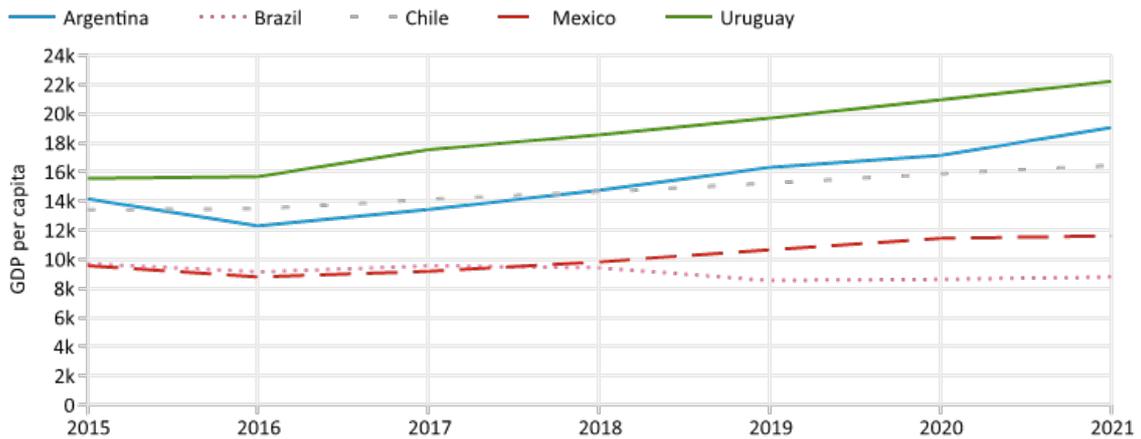
Rating History and Comparison



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	2014	2015	2016f	2017f	2018f	2019f	2020f	2021f
C/A balance % GDP	-1.4	-2.6	-2.6	-2.1	-1.9	-1.7	-1.6	-1.5
Govt balance, % GDP	-2.5	-5.0	-5.0	-4.9	-3.0	-2.8	-2.4	-2.2
Inflation, annual avge %	40.0	35.0	42.6	23.6	14.3	10.4	8.2	7.9
Real GDP Growth, %	-2.6	2.5	-2.8	0.7	2.4	2.9	3.1	3.5
Unemployment, %	7.3	7.6	8.9	8.6	8.1	7.5	7.3	7.1

Source : Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

On 29 November, the central bank cut its 35-day Lebac interest rate by 50bp. This was the 4th consecutive weekly cut which brings the benchmark rate to 24.75%; in all, the rate has been slashed by 200bp for the month. The bank replaces its reference rate currently tied to the 35-day Lebac notes with a seven-day inter-bank lending rate from January, as it seeks to reduce inflation to its target range of 12-17% in 2017. The Buenos Aires CPI annual rate jumped to 40.93% in October from 17.36% in September, as housing, water, electricity and other fuel sky-rocketed by 168% in October (due to a partial cut in fuel subsidies). Elsewhere, the peso traded at ARS15.8860:USD on 1 December while FX reserves stood at USD37.38bn at end-November from USD37.20bn in October.

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

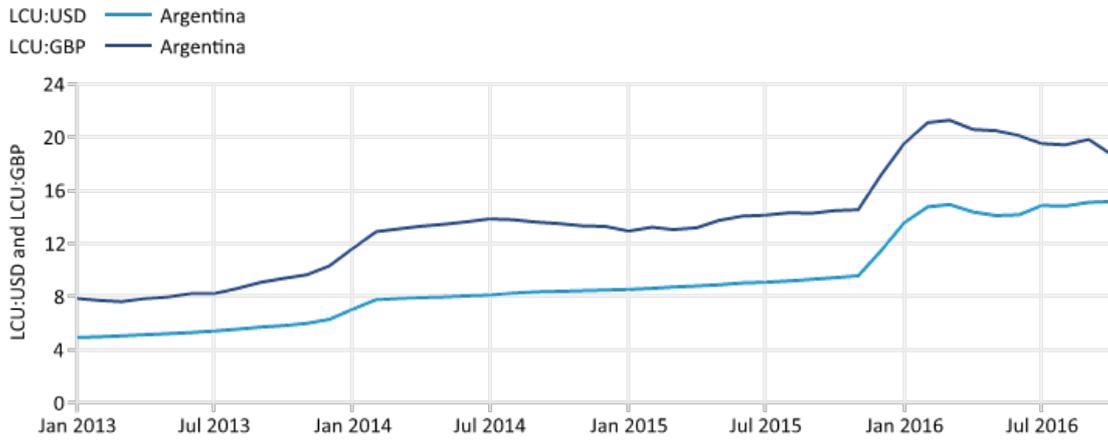
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

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.



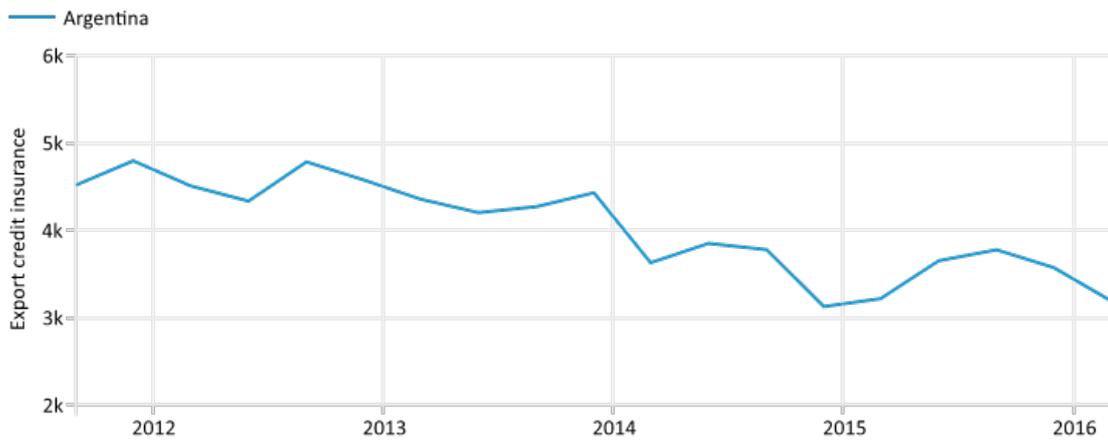
Exchange Rate



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

Short-Term Economic Outlook

Economy activity declined in Q3

The recession extended into Q3 as the INDEC economic activity indicator, a good proxy for GDP, fell by 3.8% in the third quarter following contraction of 3.4% in Q2. According to the indicator, output shrunk by 3.7% y/y in September, having deteriorated from a fall of 2.1% in August. Industrial production was down by 8.0% in October, deteriorating from a contraction of 7.3% in September. In October, in y/y non-seasonally adjusted terms, significant declines were recorded for major industries including motor vehicles (-19%), base metal (-16.2%) and non-metallic minerals (-11.8%) while smaller contractions were registered in petroleum refining (-1.7%) and food and beverages (-3.5). All of these sectors had contracted in Q3, but in a possible early sign of the economy nearing the bottom of the recession, the fall in output in motor vehicles and petroleum refining was lower than in the previous month.

The government is seeking to reduce the fiscal deficit in part by lowering (and eventually removing) subsidies on water, gas and electricity which are estimated to cost the state nearly 3% of GDP annually (see Trade and Commercial section). On the retail side, supermarket sales contracted by 2.6% m/m in September, up from a decline of 3.6% m/m in August. Unsurprisingly, consumer confidence waned in November as the UTDT index slid to 43.9 from 46.0 in October. Notably, it remains below 50, which means that consumer confidence is firmly in the pessimistic territory. Added to this, commodity prices and demand for Argentina's main exports contributed to the fall in output in Q3. In 2017, the government's pro-market reforms should boost inward investment, while disinflation will support higher household spending. In addition, more capital projects will be brought on stream under the new PPP model, particularly as the country heads to mid-term elections in October 2017. Added to this, external demand from key importers such as Brazil is expected to improve as commodity prices strengthen. We therefore expect growth to return to positive territory in 2017.

Business Regulatory Environment

PPP bill passed by lower house

The government's Public Private Partnership (PPP) legislation was passed by the lower house on 2 November, and has been sent to the senate for final approval. The bill stipulates local supply content of 33%, and the setting up of a congressional commission to oversee PPP contracts. While total PPP contracts are to be capped at 5% of the public sector budget, the cost of PPP contracts will also be publicised in the annual national budget, in accordance with the law. Elsewhere, the government has submitted proposals for income tax reforms designed to lower the tax obligations of lower income earners. Under the proposed reform, the minimum rate on taxable income falls to 2%. However, the maximum rate has been kept at 35%; the non-taxable minimum income will rise by 15%. The government is hoping for passage of the bill by December.



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.

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. A combination of Argentina's inefficient government, a weakening balance of its payments position, ongoing government intervention in the economy, and recurrent problems funding its public debts, has led to the economy performing erratically. This occurred most recently under former President Cristina Fernandez de Kirchner's leadership from 2007-15. Positively, Argentina has been making progress in settling its outstanding sovereign debt commitments and liberalising its economy since Mauricio Macri became president in December 2015.

Key Facts

Key Fact	Detail
Head of state	President Mauricio MACRI
Capital	Buenos Aires
Timezone	GMT -03-00
Official language	Spanish
Population (millions)	43.4
GDP (USD billions)	615.1
GDP per capita (USD)	14,167
Life expectancy (years)	76
Literacy (% of adult pop.)	98
Surface area (sq km)	2,780,400

Source : Various sources/Dun & Bradstreet

Historical Data

Metric	2012	2013	2014	2015	2016f
Real GDP growth (%)	-1.1	2.3	-2.6	2.5	-2.8
Nominal GDP in USDbn	586	609	565	615	540
Nominal GDP in local currency (bn)	2,638	3,348	4,579	5,843	8,043
GDP per Capita in USD	13,926	14,312	13,153	14,167	12,310
Population (year-end, m)	42.1	42.5	43.0	43.4	43.8
Exchange rate (yr avge, USD-LCU)	4.5	5.5	8.1	9.5	14.9
Current Account in USDbn	-1.4	-12.1	-8.0	-16.0	-14.3
Current Account (% of GDP)	-0.2	-2.0	-1.4	-2.6	-2.6
FX reserves (year-end, USDbn)	39.9	28.1	29.0	23.4	31.2
Import Cover (months)	6.2	4.0	3.8	2.8	3.4
Inflation (annual avge, %)	25.0	28.0	40.0	35.0	42.6
Govt Balance (% GDP)	-2.0	-1.9	-2.5	-5.0	-5.0

Source : Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2017f	2018f	2019f	2020f	2021f
Real GDP growth (%)	0.7	2.4	2.9	3.1	3.5
Nominal GDP in USDbn	595	660	736	781	875
Nominal GDP in local currency (bn)	10,173	12,466	14,801	17,016	19,259
GDP per Capita in USD	13,438	14,758	16,325	17,148	19,062
Population (year-end, m)	44.3	44.7	45.1	45.5	45.9
Exchange rate (yr avge, USD-LCU)	17.1	18.9	20.1	21.8	22.0
Current Account in USDbn	-12.4	-12.5	-12.9	-12.3	-12.7
Current Account (% of GDP)	-2.1	-1.9	-1.7	-1.6	-1.5
FX reserves (year-end, USDbn)	37.5	40.3	44.2	45.5	46.1
Import Cover (months)	3.7	3.7	3.7	3.5	3.2
Inflation (annual avge, %)	23.6	14.3	10.4	8.2	7.9
Govt Balance (% GDP)	-4.9	-3.0	-2.8	-2.4	-2.2

Source : Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Argentina	Brazil	Chile	Mexico	Uruguay
Income per Capita (USD)	14,167	9,717	13,416	9,579	15,572
Country Population (m)	43.4	208.8	17.9	121	3.4
Internet users (% of population)	69.4	59.1	64.3	57.4	64.6
Real GDP Growth (% p.a., 2017 - 2026)	1.5 - 2.8	1 - 2	2.2 - 3.2	2.5 - 5	1.2 - 2.5

Source : Various sources/Dun & Bradstreet



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