Decide with Confidence

D&B Country RiskLine Report

ARGENTINA

Region : The Americas

Edition : May 2012

D&B Country Risk Indicator

DB6b

This "DB" Rating Indicates:

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.

Trend

Deteriorating

The country's overall risk profile is deteriorating owing to adverse political, commercial, economic and/or external developments

The 'DB' risk indicator provides a comparative, cross-border assessment of the risk of doing business in a country and encapsulates the risk that country-wide factors pose to the predictability of export payments and investment returns over a two year time horizon. The 'DB' risk indicator is a composite index of four over-arching country risk categories:

Political risk - internal and external security situation, policy competency and consistency, and other such factors that determine whether a country fosters an enabling business environment;

Commercial risk - the sanctity of contract, judicial competence, regulatory transparency, degree of systemic corruption, and other such factors that determine whether the business environment facilitates the conduct of commercial transactions;

External risk - the current account balance, capital flows, FX reserves, size of external debt and all such factors that determine whether a country can generate enough FX to meet its trade and foreign investment liabilities;

Macroeconomic risk - the inflation rate, government balance, money supply growth and all such macroeconomic factors that determine whether a country is able to deliver sustainable economic growth to provide further expansion in business opportunities.

The DB risk indicator is divided into seven bands, ranging from DB1 through DB7. Each band is subdivided into quartiles (a-d), with an 'a' designation representing slightly less risk than a 'b' designation and so on. Only the DB7 indicator is not divided into quartiles.

Key Facts

Population:	40.3m
Surface area (sq km):	2,780,400
Capital:	Buenos Aires
Timezone:	GMT -03:00
Official language:	Spanish
Head of state:	President Cristina FERNANDEZ de Kirchner
GDP (USD):	308.4
GDP per capita (USD):	7,656
Life expectancy (years):	75
Literacy (% of adult pop.):	97.2

Country 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. The country has one of the world's lowest population densities and half of its population lives around Buenos Aires, the capital.

The continued instability of the political environment since the restoration of democratic rule in 1983 reflects a lack of government transparency, populist political rhetoric and policy-making, and weak political institutions. Its over-sized inefficient government, the vulnerability of the country's balance of payments, and recurrent problems funding its government debts, have led to the economy performing erratically. After the 2001 economic crisis, the economy has recovered, assisted by a pro-export exchange rate policy, the high price of some of its commodity exports and substantial government spending.

Trade & Commercial Environment

Trade Terms

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.

Transfer Situation

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.

Trade & Commercial Environment

The government's interventionist economic policies continue to undermine the overall commercial risk environment by introducing unorthodox distortions. For example, Italian tyre-maker Pirelli agreed in March that it will export USD100m in Argentinian honey to offset its local import bill, and other multinationals will have to follow suit to ensure their imports are matched by exports. Meanwhile, the emergence of an effective parallel exchange rate, and the constant risk of appropriation by the government for firms that do not comply with its policy demands, are deeply worrying. For now D&B maintains minimum terms at LC and recommended at CLC, but we recognise that payment delay risks have risen significantly alongside recent current account and capital controls.

Export Credit Agencies

US Eximbank	Limited ST private sector cover available
Atradius	Cover on credit terms over 180 days not available
ECGD	Refer to underwriter
Euler Hermes UK	Restrictions will apply

Economic Indicators

	2009	2010	2011	2012f	2013f
Real GDP growth, %	-1.8	8.0	5.5	3.5	3.8
Inflation, annual ave, %	15.0	30.0	32.0	25.0	28.0
Govt balance, % GDP	-0.6	-0.8	-0.5	0.0	1.0
Unemployment, %	8.7	8.4	8.0	7.8	8.0
C/A balance, % GDP	3.6	2.5	1.9	2.0	2.0

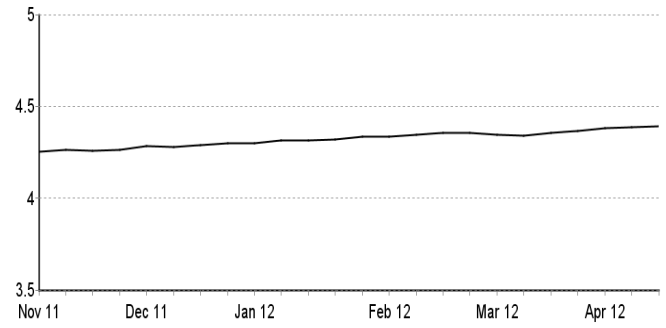
Economic Indicators: GDP data are D&B estimates or forecasts; Government balance refers to overall balance.

Currency Information

Exchange Rates (London, 16 Apr 12)	
EUR	5.7481
GBP	6.9791
JPY*	5.4257
USD	4.3935
*(x 100)	

Local Currency

(Argentine peso [ARS]: USD)

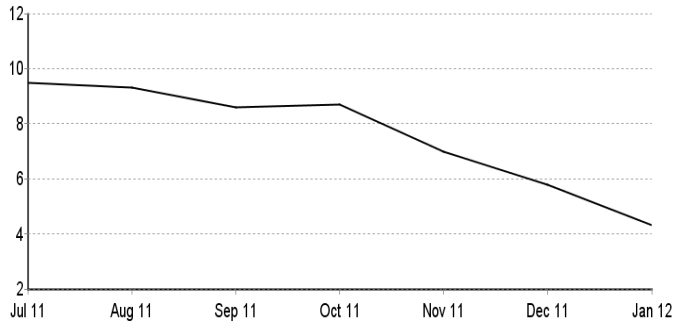


	Local Currency (Argentine peso [ARS]: USD)					
	Nov 11	**Dec 11**	**Jan 12**	**Feb 12**	**Mar 12**	**Apr 12**
Week 1	4.252	4.284	4.297	4.334	4.346	4.379
Week 2	4.261	4.277	4.316	4.346	4.341	4.386
Week 3	4.257	4.289	4.312	4.356	4.354	4.394
Week 4	4.264	4.297	4.321	4.354	4.366	
Week 5			4.336			

Economic Activity Indicator

Economic Activity Indicator

(y/y rate, %)



Data Table						
Jul 11	**Aug 11**	**Sep 11**	**Oct 11**	**Nov 11**	**Dec 11**	**Jan 12**
9.5	9.3	8.6	8.7	7.0	5.8	4.3

Risk Factor

D&B has downgraded Argentina's country risk rating from DB5d to DB6b (into our 'very high risk' category) after a significant increase in business risk stemming from the nationalisation of YPF, the county's biggest oil company. The decision by President Cristina Fernandez to seize a majority share in YPF from Repsol, the Spanish holding, without agreeing the price is likely to trigger trickle-down effects that seriously tarnish Argentina's relationships with both foreign (and national) investors and commercial partners. First, YPF's nationalisation (the latest in a list ranging from a water company to pension funds) will undermine the investment climate, as investors expect further hostile takeovers in the future (confidence in the rule of law already is extremely low). Second, Spanish companies in Argentina (Spain is the country's biggest foreign investors), are likely to reduce their investment, depriving the country of much-needed FDI (Argentina is de facto frozen out of the international financial system since defaulting on its debt in 2001). Third, Fernandez' arbitrary decision to nationalise YPF (which highlights how even the biggest companies in the country are subject to the weak regulatory environment) makes clear the inadequacy of the Argentinian legal and regulatory framework in protecting investors' property rights and promoting a healthy competitive environment, not constrained by the government's unpredictable interventionism

In the meantime, Argentina continues to be constrained by a number of inefficiencies that weigh on the country's long-term growth and that are likely to be exacerbated in the aftermath of YPF's developments. Stubbornly high inflation (9.8% in March according to official figures, above 20% according to most analysts) and the deteriorating external position (which increases the risk of further trade and capital controls being imposed). Ineffective energy policies (which discourage investment in the sector by setting domestic prices well below international levels) will not allow Argentina to fully exploit the recently discovered shale gas reserves (allegedly, the third-largest in the world), thus forcing the country to pay higher bills for imported fuel (USD9bn in 2011). Capital flight and backward infrastructure add inefficiencies to an economy that appears to be losing momentum: industrial output shrank by 1.4% month on month in February; GDP growth eased to 2.5% year on year (y/y) in Q1 2012, from 7.3% y/y in Q4 2011; and consumer confidence fell in March to its lowest-level in a year-and-a-half.

Overall, D&B believes that with the disruption caused by import and FX controls still to ripple across the economy, and the critical developments that will follow the YPF seizure, the outlook will continue to deteriorate, regardless of what questionable official data may appear to show.

Glossary & Definitions

DEFINITIONS

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Usual Terms:

Normal period of credit associated with transactions with companies in the stated country.

Local Delays:

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

F/X Bank Delays:

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C/A (current account) balance, % GDP:

Part of the balance of payments that records a nation's exports and imports of goods and services, and income and transfer payments.

DSR (debt service ratio), %:
Annual interest and principal payments on a country's external debts as a percentage of exports of goods and services.

Govt balance, % GDP:
The balance of government expenditure and receipts.

Real GDP growth, %:
GDP adjusted for inflation.

Inflation, %:
The increase in prices over a given period.

GLOSSARY

CiA	Cash in Advance
CLC	Confirmed Letter of Credit
CWP	Claims Waiting Period
FX	Foreign Exchange
LC	Letter of Credit
LT	Long term
MT	Medium term
OA	Open Account
SD	Sight Draft
ST	Short term

Customer Service & Support

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