

Country Insight Snapshot

Argentina

January 2020





OVERVIEW

OVERALL COUNTRY RISK RATING: DB5b

High risk: Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high return transactions only.



Rating Outlook: Deteriorating

CORE OUTLOOK

- + The labour force will remain relatively well-educated by regional standards.
- The government's unilateral postponement of the payment of USD9bn on 'Letes' to 31 August 2020 maintains an elevated risk of another sovereign default (Argentina has eight defaults on its record).
- The return of Peronism and attendant left-wing populist policies are clouding the near-term outlook.
- The peso remains under extreme downward pressure, despite the tightening of currency controls in October.

KEY DEVELOPMENT

The economic contraction in Q3 is likely to have extended to Q4, with the economy seemingly on course for a third year of negative growth in 2020.

CREDIT ENVIRONMENT OUTLOOK



Trend: Deteriorating

Key Development has had a negative impact on the outlook.

SUPPLY ENVIRONMENT OUTLOOK



Trend: Deteriorating

Key Development has had a negative impact on the outlook.

MARKET ENVIRONMENT OUTLOOK



Trend: Deteriorating

Key Development has had a negative impact on the outlook.

POLITICAL ENVIRONMENT OUTLOOK



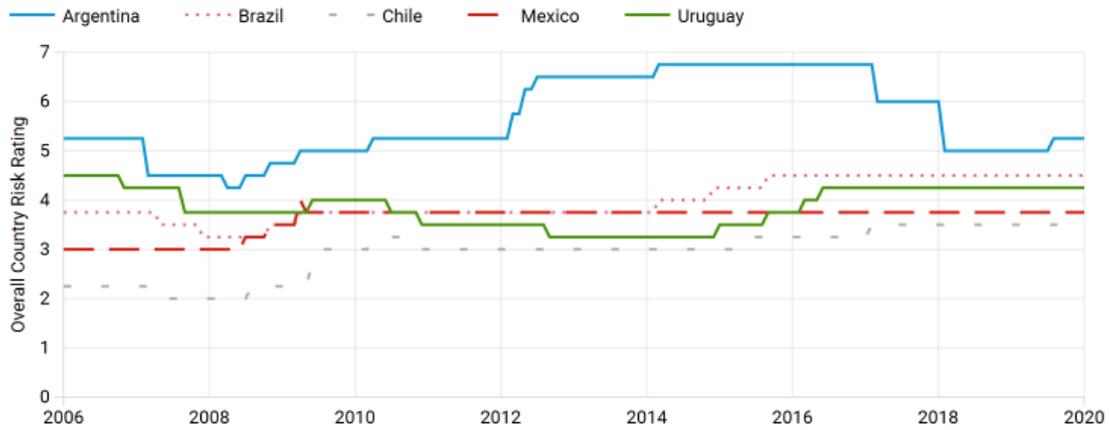
Trend: Stable

Key Development has had a neutral impact on the outlook.



KEY INDICATORS

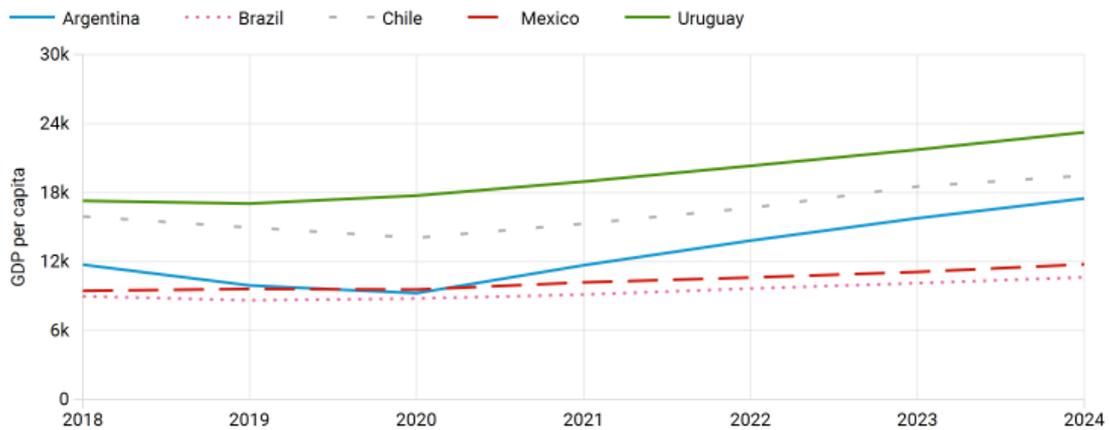
Rating History and Comparison



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	2017	2018	2019e	2020f	2021f	2022f	2023f	2024f
C/A balance % GDP	-4.9	-5.4	-1.4	-1.0	0.6	-0.6	-1.4	-2.3
Govt balance, % GDP	-5.9	-5.0	-4.3	-5.1	-5.6	-5.6	-5.5	-5.4
Inflation, annual avge %	26.1	34.5	53.8	45.5	30.2	25.5	22.6	19.0
Real GDP Growth, %	2.7	-2.5	-3.0	-2.3	1.4	1.8	2.0	2.1
Unemployment, %	8.4	9.2	11.0	10.5	9.9	8.9	8.7	8.6

Source: Haver Analytics/Dun & Bradstreet

TRADE AND COMMERCIAL ENVIRONMENT

On 19 December, the central bank (BCRA) further loosened its monetary policy with a 500-basis point reduction of the floor of the Leliq rate to 58%. Miguel Pesce, the bank's new governor, indicated that the Leliq (short-term notes) rate will continue to be the bank's benchmark rate and signalled that a key objective was to keep real interest rates positive against a backdrop of high inflation. The average Leliq rate stood at 55% on 3 January, with headline inflation at 52.1% y/y (November). The monetary policy framework of BCRA under the new leadership remains undefined, although there is speculation that it will not continue monetary-targeting. Foreign reserves remained low at USD44.78bn on 30 December, just below four months of import cover, with the risk of erosion still elevated in coming quarters, as investors' uncertainty about the policy direction of the Fernandez government persists. In December the government postponed USD9bn due on USD-denominated short-term 'Letes' to 31 August 2020. The currency is still under pressure, despite high policy interest rates. Thus, clients are advised to tighten payment terms for Argentine counterparties to mitigate payment risks. The peso's retail average selling rate stood at ARS62.98 on 3 January and we are projecting an average ARS:USD rate of 75.5 for 2020.

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

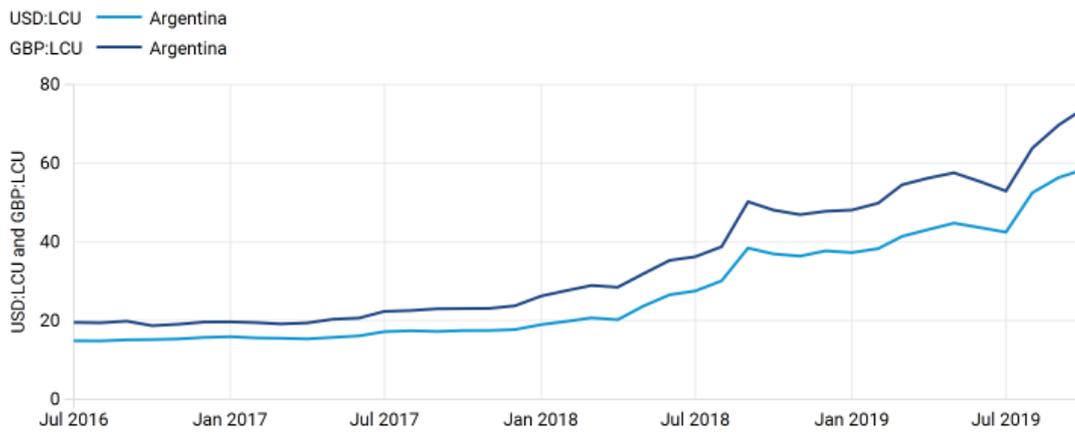
The time taken beyond agreed terms for a customer to deposit money in their local bank as payment for imports.

FX/Bank Delays: 0-1 month

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.



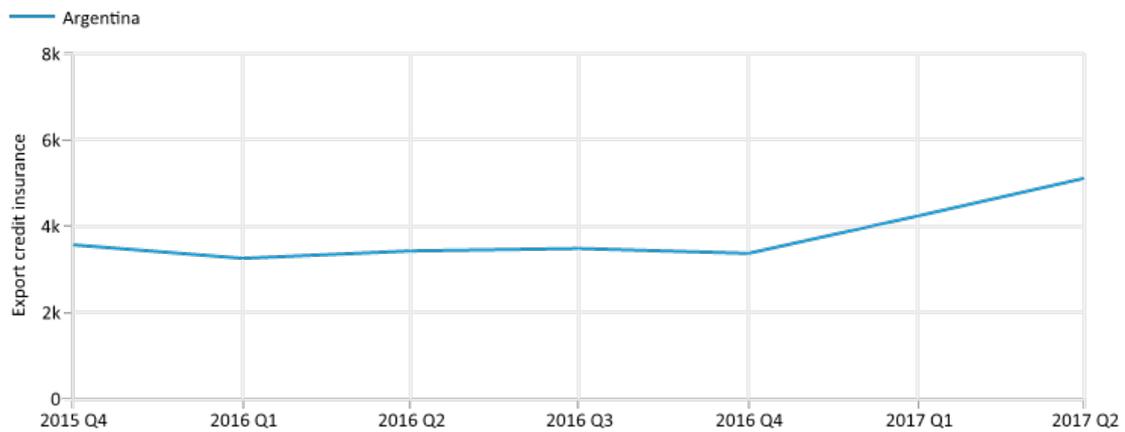
Exchange Rate



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

Short-Term Economic Outlook

Economy heading for a third year of negative growth

The economy contracted by 1.7% in Q3 2019, and appears to be heading for a third consecutive year of negative growth in 2020. In q/q seasonally-adjusted terms, the economy expanded by 0.9%, supported partially by a 2% increase in exports compared to a 1.3% rise in imports. The weak peso will continue to have a modest effect on the contribution of the external sector to the economy in H1 2020. On the demand side, private consumption rose by 0.3%, despite resilient high inflation amid price controls; new fiscal stimulus is expected to boost consumption in coming quarters, but unconstrained inflation will further erode real wages and undermine growth. A significant potential constraint to near-term growth is elevated investor caution in relation to the currently undefined policy direction of the Fernandez administration.

Meanwhile, headline inflation ticked up in November, with a 4.3% m/m rise bringing the y/y rate to 52.1%. This follows easing in October due to a combination of FX and price interventions which served to contain the effects of sharp currency depreciation. In October inflation increased by 3.3% m/m - from 5.9% in September - to bring the y/y rate to 50.5% and the 12-month rate to 48.2%. Our estimated annual average inflation rate for 2019 stands at 53.8%, while our 2020 inflation forecast of 45.5% is based on an assumption that the peso will be more tightly managed and price controls maintained by the Fernandez administration.

Notably, a package of emergency economic policies were passed in December, including tax increases on automobile sales and FX purchases. Moreover, the executive has been granted additional legal power to bring in measures related to pensions, social issues, energy, finance, taxation and healthcare. Our real GDP estimate for 2019 and projection for 2020 currently stand at -3.0% and -2.3% respectively.

Business Regulatory Environment

Severance pay and export duties rise

Workers' severance payouts have been doubled and export duties increased by executive decree in some of the earliest decisions of the new government. The 13 December executive decree that was touted to reduce unemployment - which stood at 10.6% in Q2 2019 - is more likely to trim the rate of job losses but also curb hiring. The relatively high level of joblessness is largely due to increases in new entrants to the job market. Elsewhere, on 14 December the tax schedule for exports was amended by executive decree so that a flat rate would be applied to export products. This is expected to generate as much as USD2bn in government revenue in FY2020, depending on harvests. However, farmers who have already registered their dissatisfaction with the rise in export duties may reduce agricultural production in subsequent years. Consequently, the stated objectives of these decrees, in addition to higher taxes on the purchase of foreign currencies and vehicles, might ultimately have negative consequences on the labour market, agricultural production, fixed investment and the external sector.



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 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 was 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. Negatively, Macri's reform programme faced increased opposition from trade unions and civil society groups since the passage of pension reforms in December 2017, with large anti-austerity demonstrations taking place in June 2018 after the government sought (and secured) IMF assistance.

Key Facts

Key Fact	Detail
Head of state	President Alberto FERNANDEZ
Capital	Buenos Aires
Timezone	GMT -03-00
Official language	Spanish
Population (millions)	44.8
GDP (USD billions)	444.1
GDP per capita (USD)	9,916
Life expectancy (years)	76.3
Literacy (% of adult pop.)	99.0
Surface area (sq km)	2,780,400

Source: Various sources/Dun & Bradstreet

Historical Data

Metric	2015	2016	2017	2018	2019e
Real GDP growth (%)	2.7	-2.1	2.7	-2.5	-3.0
Nominal GDP in USDbn	647	556	641	520	444
Nominal GDP in local currency (bn)	5,955	8,228	10,645	14,606	22,026
GDP per Capita in USD	15,025	12,778	14,595	11,721	9,916
Population (year-end, m)	43.1	43.5	43.9	44.4	44.8
Exchange rate (yr avge, USD-LCU)	9.2	14.8	16.6	28.1	49.6
Current Account in USDbn	-17.6	-15.5	-31.3	-28.0	-6.3
Current Account (% of GDP)	-2.7	-2.8	-4.9	-5.4	-1.4
FX reserves (year-end, USDbn)	23.4	36.3	55.1	65.8	46.1
Import Cover (months)	2.7	3.8	5.3	5.8	3.7
Inflation (annual avge, %)	35.0	42.6	26.1	34.5	53.8
Govt Balance (% GDP)	-4.7	-5.8	-5.9	-5.0	-4.3

Source: Haver Analytics/Dun & Bradstreet



Forecasts

Metric	2020f	2021f	2022f	2023f	2024f
Real GDP growth (%)	-2.3	1.4	1.8	2.0	2.1
Nominal GDP in USDbn	418	532	636	732	818
Nominal GDP in local currency (bn)	31,541	41,507	52,839	65,837	79,729
GDP per Capita in USD	9,243	11,676	13,816	15,764	17,484
Population (year-end, m)	45.2	45.6	46.0	46.4	46.8
Exchange rate (yr avge, USD-LCU)	75.5	78.0	83.1	90.0	97.4
Current Account in USDbn	-4.0	3.3	-3.7	-10.0	-18.6
Current Account (% of GDP)	-1.0	0.6	-0.6	-1.4	-2.3
FX reserves (year-end, USDbn)	50.7	53.2	54.8	56.4	58.1
Import Cover (months)	3.7	3.6	3.7	3.8	3.9
Inflation (annual avge, %)	45.5	30.2	25.5	22.6	19.0
Govt Balance (% GDP)	-5.1	-5.6	-5.6	-5.5	-5.4

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Argentina	Brazil	Chile	Mexico	Uruguay
Income per Capita (USD)	9,243	8,776	14,056	9,556	17,730
Country Population (m)	45.2	211.4	19.1	127.1	3.5
Internet users (% of population)	70.2	59.7	66.0	59.5	66.4
Real GDP Growth (% p.a., 2020 - 2029)	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

User Guide

Please click [here](#) to visit our online user guide.

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Sales

Email: countryinsight@dnb.com
Telephone
UK: +44 (0)1628 492700
US: +1 800 234 3867
Rest of World
contact your local office
or call +44 1628 492700

Publisher

Dun & Bradstreet
Marlow International
Parkway
Marlow
Bucks SL7 1AJ
United Kingdom
Tel: 01628 492000
Fax: 01628 492929
Email: countryinsight@dnb.com

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