

**ARGENTINE REPUBLIC**  
**DECEMBER 2011**

**CREDIT GUARANTEE COUNTRY PROFILE:**

IES/02: ATTACHMENT N

Country rating	S/T business cycle indicator	S/T political indicator	Debt recovery
3C	→/↓	→/↓	Suggested use of a collection agent

Country rating key - political risks: 1=low, 2=medium, 3=high

Commercial risks: A=low, B=medium, C=high

**Credit Guarantee experience**

- ❑ Cover considered on a case – by –case basis. Not a claims free market.

**Recent Political Highlights**

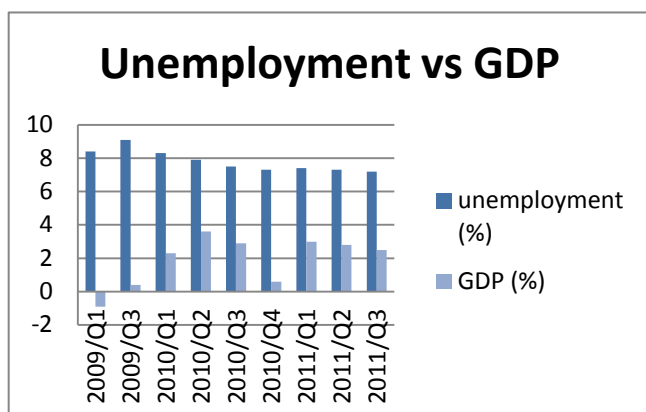
- ❑ President Christina Fernandez de Kirchner, the first female President, was re-elected on 23 October '11 as many people felt the country's economic situation had improved a great deal under her government (which began in 2007), and the previous government of her late husband, Nestor Kirchner (2003-2007). She pledged to intensify the interventionist pro-growth policies that please many Argentines but vex many farmers and business leaders.
- ❑ Hernan Lorenzino, who served as Argentina's finance secretary and who helped promote a second round of debt swaps aimed at mopping up remaining bonds unpaid since the country's \$100bn default in 2002, is the incoming Economy Minister.

**Recent Economic Highlights**

- ❑ Argentina has a population of 41.7m and 96% of the population is literate, having received free education from 6-14 years. Almost 15% of the populace drops out of high school after the age of 14 and 68% out of enrolled universities; the public university system is free of charge. The services sector employs 72% of the labour force while industry and agriculture employ 23% and 5% respectively. The country spends almost 1% of its GDP on R&D (research and development) expenditure. Unemployment is currently at its lowest in two decades due to many years of strong economic growth; however, political analysts say keeping the unemployment rate at 7.2% will not be easy as the global economic outlook worsens.
- ❑ The country has a mixed economy that has well-developed agricultural, industrial and services sectors. Agriculture remains the main component of the economy as crops and livestock provide the nation's domestic food needs and accounts for 8% of the nation's GDP. Fishing has declined over the years due to over-fishing which has limited stocks of popular catches. Industry is diversified and driven by a large and relatively affluent domestic market. It contributes 32% to GDP. The services sector is the leading component of the economy and accounts for 60% of GDP.
- ❑ The textile and apparel trade, the third largest in Latin America is experiencing difficulties, hurt by soaring Asian and other imports and a rising trade in fakes. Imports are expected to grow to \$200m in 2011 while exports will grow to a mere \$52m, hurting the sector's competitiveness. Producers need to find new export markets or they will have to re-structure the industry.
- ❑ Entrepreneurship is boosted by sound infrastructure such as internet bandwidth capacity with many believing this makes it easier to start a business locally.
- ❑ Subsidies on utility costs for profitable industries including oil, gas and mining companies, casinos, bingo parlors and race tracks, banks and insurance companies, and airports and other passenger terminals will be stopped, with the focus being on the industries that need subsidies. Poorer people may get more help from government as future subsidies will be determined more

strategically, so as to decrease income inequality and encourage job growth and industrialisation. The energy sector will still receive 100% of its subsidy; so far, this subsidy has reached \$12bn year-to-date November 2011.

- ❑ Argentina remains Latin American's 3<sup>rd</sup> largest economy; its fast growth is fuelled by government-stimulated consumer demand, grains exports and industrial output. Unfortunately, there is no correlation between economic growth and employment. Unemployment has been declining since 2002 but not at the pace at which the economy has been growing. Although the economy is



growing rapidly, there are not enough job opportunities created for unskilled workers in almost all sectors. The government will be hard pressed to bring unemployment down further with many of the unemployed operating within the informal economy. The economy, which has expanded at an average of 5.6% per year since 2007, will see growth slow to 5.1% in 2012 according to the government's draft budget.

- The country is faced with high inflation estimated at 24% and distortions that are caused by government involvement in the economy. Capital flight accelerated in the 3<sup>rd</sup> quarter as investors withdrew due to concerns about inflation and a weakening currency. Capital flight shrank central bank reserves to \$48.6bn in 3Q'11 from a record \$52.6bn in January '11.



The global financial crisis of 2008 caused Argentina's inflation rate to peak in July '08. Capital flight also soared as investors fled to safer havens. Inflation fell to a low in July '09 and capital flight also decreased over this period. However capital flight continued to decline even when inflation reached extremely high levels in 2010, indicating confidence in the country's leadership that helped the transition following the 1999-2002 economic crisis.

- The European debt crisis has seen investors embark on a flight to safety and if Argentina does not resolve its inflation problems, the current \$46.1bn central bank reserves may fall further. Fears of a major depreciation in the peso have added to the uncertainty. Capital outflows may slow next year if President Christina Fernandez succeeds in boosting investor confidence by allowing more utility price increases, improving credibility in official inflation data and reaching an agreement with the Paris Club over defaulted debt of about \$9bn. Argentines are confident in the President's capabilities in saving the economy given her track record while the rest of the world watches in anticipation.
- The government imposed new foreign exchange controls on 31 October '11. Government says these measures are aimed at money laundering and tax evasion while critics believe that the actual intent is to limit capital flight that is denting the country's international reserves. About \$1.76bn deposits left the banking system in two weeks after the inception on these controls; they have also made it difficult for individuals and businesses to obtain dollars as banks and exchange houses now have to verify income information on individuals seeking to buy dollars. This is in addition to changes made on 27 October '11 in which investors purchasing companies or real estate will be required to deposit the full amount of the sale in Argentina and individuals purchasing more than \$250 000 a year will have to reveal the origin of the funds. FDI fell to \$2.4bn from \$3.5bn in the first 6 months of 2011 and has not yet stabilised. Banks are struggling to attract savers and this is causing volatility in the peso deposit rate known as the badlar (interest rates on deposits). It climbed to a 3-year high of 22.9% on 17 November '11; it was reduced to 18.9% when Economy Minister Amado Boudou and central bank President Mercedes Marco del Pont met with bankers to discuss their concerns.
- The 2012 financial budget deficit puts government's total financing needs at \$57.4bn, which includes \$8.5bn to pay multilateral organisations and bondholders. The country is therefore issuing US dollar-denominated bonds of up to \$800m. In addition, the European Union has decided to cut its aid to Argentina and 18 other upper middle income countries from its 2014-2020 budget
- The European debt crisis has an impact on financing in Argentina as well as other Latin American countries. European and American banks which hold large stakes in Argentina will suffer losses from having to write off 50% of their debts to Greece and this may impact their operations in Latin America. The lack of financing will also have an impact on internal consumption and economic growth in Argentina and exports may suffer. Argentina relies heavily on the European Union as the largest recipient of its exports and the current austerity measures in European countries have led to a significant fall in demand.

### Latest Trade Developments

- ❑ Major exports: soybeans and derivatives; petroleum and gas; vehicles; corn; wheat.
- ❑ Major imports: machinery; motor vehicles; petroleum and natural gas; organic chemicals; plastics.
- ❑ Main trading partners: Brazil; China; US; Germany; Chile.
- ❑ SA exports to Argentina totaled R673m in 2009, R766m in 2010 and R1bn YTD September 2011.
- ❑ SA imports from Argentina totaled R7.3bn in 2009, R6.7bn in 2010 and R6.2bn YTD September 2011.

*Researched and compiled by Sibulele Zwedala, economic services – Credit Guarantee Insurance*