

REPUBLIC OF ARGENTINA
JUNE 2008

CREDIT GUARANTEE COUNTRY PROFILE:

IES/02: ATTACHMENT N

Country Rating	S/T Business Cycle Indicator	S/T Political Indicator	Debt Recovery
3C	→/↓	→/↓	Debt recovery may prove more successful when utilising a good collection agent.

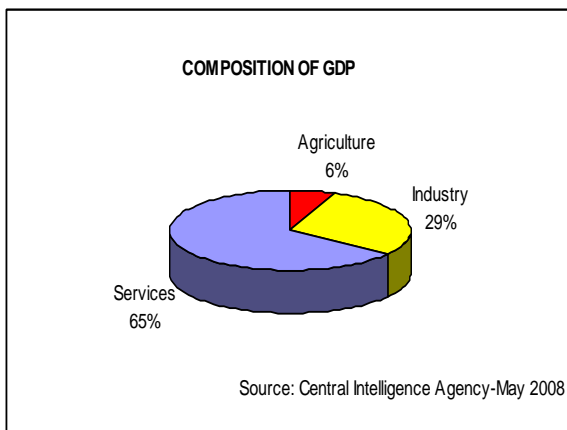
Credit Guarantee Experience

We are open for cover on a case-by-case basis in this market without any restriction. Our exposure has continued to increase after the country emerged from its currency crisis, however exporters should not throw caution to the wind when dealing on unsecured terms in this market and as such they should ensure that they have taken the necessary measures in adequately protecting themselves against the non-payment risk that faces them. It is advised that exporters source reliable credit risk information and conduct regular reviews and some form of payment protection is paramount.

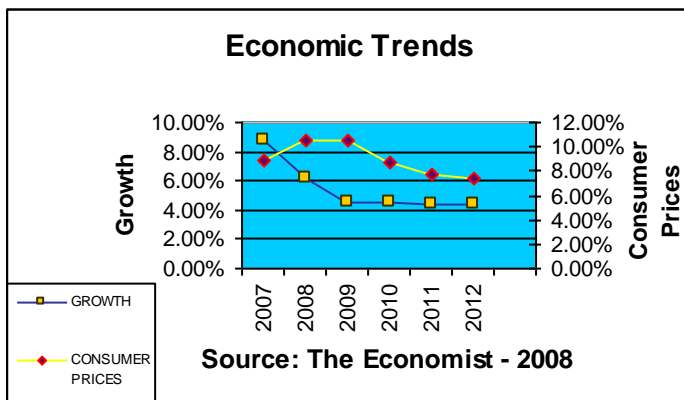
Political Highlights

- ❑ Argentina is a federal republic that is governed by newly instated President Cristina Fernandez De Kirchner who was appointed in December 2007. President Kirchner will be in power for a four-year term and will be eligible for a second term. The next election is planned for 2011. The president is expected to continue her husband's (former President Nestor Kirchner), domestic policies of striving for high growth rates while containing inflation.
- ❑ The first signs of trouble have emerged within the new cabinet between the new economy minister Martin Lousteau and the interior commerce minister Guillermo Moreno, a survivor from Mr Kirchner's administration. Mr Lousteau has subsequently resigned over a policy disagreement.

Recent Economic Highlights



- ❑ Argentina is well endowed in natural resources, and with a well-educated workforce, it forms one of South America's largest economies. It has a population of 41m with an expected growth rate of 1% in 2008.
- ❑ The economy began a vigorous recovery from a financial collapse earlier in the decade to post GDP growth levels over 8% since 2003. Record prices for farm exports coupled with an undervalued currency helped to boost the economy further, but The Economist forecasts that GDP growth will slow to 6.2% in 2008 and to 4.5% in 2009. The economy grew 8.7% in 2007 – marking the fifth straight year of growth above 8%. It warned that failure to address price misalignments and if other distortions were to lead to faster than expected deceleration of investment growth, this would result in a hard landing.
- ❑ Inflation is expected to ease back to single digits by the end of 2009 but there is a risk that price caps increase inflation above expectations by providing a disincentive to domestic production. The National Statistics Institute said that inflation was 8.8% in March from 8.4% in February this year but unofficial calculations claim that it soared to 27%. Government has strongly denied that inflation data from the Institute had been manipulated. Economists and politicians have stated that the Institute had become less reputable since January 2007 after President Nestor Kirchner removed personnel in charge of tracking inflation and replaced them with political appointees. According to the unions in Argentina, inflation was 22.3% in 2007 as opposed to the official figure of 8.5%.
- ❑ Although former President Nestor Kirchner (who still seems in charge of economic policy), stated his disagreement with a cooling of the economy as this would result in unemployment and poverty, overheating and inflation are already bringing Argentines some of these woes. The statistics agency has stopped releasing poverty data, but independent estimates show that the figure rose from 27% in 2006 to 30% last year with 1.3m citizens descending into poverty in 2007. Government needs to allow the peso to appreciate, curb spending growth and energy subsidies and raise interest rates.



- ❑ The new Government has sought to restore the fiscal surplus to rein in inflation by raising the already high export taxes it levies on most agricultural commodities. The rate of soybeans has been hiked from 27% last year to 40% currently. Mr Lousteau's earlier announcement of the rise in export taxes on grains and oilseeds, intended to boost fiscal revenue has prompted protests by farmers, which resulted in food shortages such as milk and beef. Farmers have hit back with a campaign of strikes and roadblocks across the country by blocking products from highways and ports for 21 days. This led to higher prices for vegetables, dairy and poultry. Farmers say they cannot afford to back down, as Government charges income tax in addition to export levies so about 44% of soybean revenue will now wind up in state coffers. After planting, harvest, transport, etc, farmers are left with just 6c on the dollar in profits. The strikes have left an estimated 44m tonnes of grains and oilseeds (valued at \$12bn) unsold. The 44m tonnes represent 45% of the 2007/08 harvest which is forecast to be Argentina's second record with 96.8m tonnes equivalent to \$25bn. Of the 44m tonnes, 75% is soybeans. Non-exported grains will inevitably have an impact on the Government coffers since it would have limited access to collecting the export tax if farmers hold on to their crops. Farmers have plastic silos that can store huge amounts of grains for a year so they only need to sell sufficient crop to cover their expenses. This year could see an historic level of crop retention. Argentina is the world's second-largest corn exporter (after the US), and the world's third-largest soybeans exporter (after the US and Brazil) and as such a strike would reduce global food inventories and increase prices for countries that import grain from South American countries.
- ❑ Bad weather is expected to reduce the 2008 soybean crop below previous forecasts. Later planted soybeans have not developed well, particularly those planted after wheat, while other crops have been reduced by very dry conditions as well as frost. Output is expected at 46m tonnes compared to the previous estimates of 48m tonnes. Corn and soybean July 2009 futures have gone up 19c and 39c respectively.
- ❑ Government is finding it difficult to cope with the problem of insecure energy supplies. Attempts to get Brazil to agree to divert some of the natural-gas supplies it receives from Bolivia was not successful. This together with the shortages of electricity has impacted negatively on the country's petrochemicals industry. Although demand is growing in an increasingly buoyant economy, so are costs and risks, resulting in companies holding back investments and keeping them to a minimum. While companies have identified demand opportunities and expansion projects, they are waiting for greater energy sector certainty before forging ahead. But the tide is turning from Argentina being an exporter to soon becoming a net petrochemicals importer.
- ❑ Argentina could soon pay part of its \$7bn in defaulted debt to Paris Club creditors in exchange for their support in acquiring additional loans elsewhere. The Paris Club is an informal association of creditors who work to bail out troubled debtors. It lent Argentina \$6.3bn in 2001 prior to the country's default on \$95bn in debt.
- ❑ The country's car manufacturing industry posted a 31.5% increase in April 2008 from a year earlier with the total number of units manufactured at 54,622. For the first four months of the year, production reached 179,078 – 29% higher than a year ago and exports in April increased 24% over March and 62.4% over April 2007. This industry has been one of the main boosters of the Argentine economy.

Trade Developments

- ❑ Main exports: soybeans and derivatives, petroleum and gas, vehicles, corn and wheat.
- ❑ Main imports: machinery, motor vehicles, petroleum and natural gas, organic chemicals and plastics.
- ❑ Major trade partners: Brazil, Chile, US, China and Germany.
- ❑ Fisheries exports dropped 15% in the first quarter of this year. Output was valued at \$177m - \$31.7m less than the same period last year. The sector's poor performance was attributable to smaller hake quotas and poor prices for squid and shrimp. Hubbsi hake remains its main export product earning \$74m alone, with squid earning \$11m. Argentina's main fisheries client is Spain followed by Brazil, Italy and the US.
- ❑ SA's exports to Argentina totaled R559m in 2005, R687m in 2006, R701m in 2007 and R85m in January 2008. SA imports from Argentina totaled R2.8bn in 2005, R6.6bn in 2006, R7.3bn in 2007 and R936m in January 2008.

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