

COUNTRY PROFILE:**ARGENTINE REPUBLIC****DATED:****SEPTEMBER 2008****CREDIT GUARANTEE:**

IES/02: ATTACHMENT A

	<i>Country Rating</i>	<i>U/W Method</i>
<i>Short-term</i>	3C	Case-by-case-(Refer to Exp Ops)

Recent Political Highlights

- ❑ Chief of state since December 2007 has been President Christina Fernandez de Kirchner. The next election is scheduled for 2011.
- ❑ The president's popularity has been plummeting due to the conflict with farmers over export taxes and rising inflation.

Recent Economic Highlights

- ❑ Argentina has a population of 40.7m with a population growth rate of 1% in 2008.
- ❑ The economy has rebounded from its deep recession in 1999-2002 driven by expansionary policies and high commodity prices. The closing of the output gap, bottlenecks and a recession in the US in 2008-09 will cause GDP growth to slow towards a medium term rate below 4.5%. The Economist warns that a failure to adopt more consistent economic policies and control inflation raises the risk of a hard landing in the medium term. Inflows from foreign direct investment are likely to amount to only 2% of GDP, owing to interventionist policies in energy and infrastructure.
- ❑ GDP growth averaged 8% between 2002 and 2007. Production of agricultural goods such as grains and cattle provide the backbone to Argentina's export economy. The Economist forecasts economic growth to average 6% in 2008 and 3.5% in 2009 and 2010 from 8.7% in 2007. Real GDP grew by 8.4% in the first quarter of 2008 on the back of strong growth in investment (20.5%), but indications that the economy is slowing are evident. The Economist forecasts inflation at 9.5% in 2008, 10.6% in 2009 and 8.7% in 2010 from 8.8% in 2007. Officials put inflation at 25% at present.
- ❑ Argentina's public debt is 55% of GDP. The country's foreign debt rating was cut by Standard & Poor's from B+ to B, five levels below investment grade and in line with countries such as Jamaica and Paraguay. The credit rating agency cited concerns over slower economic growth, lower tax revenue and mounting investor mistrust in inflation data which erodes confidence in the Government, as reasons for the downgrade.
- ❑ Argentina sent alarm bells ringing with investors last month when it unexpectedly sold a costly bond to Venezuela. The 15% interest rate was considered excessive and made Argentina look desperate. Venezuela paid \$1bn for the bonds taking its total purchase of Argentinian bonds to \$7bn.
- ❑ Argentina has announced that it will pay off its \$6.7bn debt to the Paris Club of international creditors as the country slowly regains its footing. The business community hailed the announced debt payoff as a welcome bid to put the country's financial house right. The payment will tap a sixth of the country's \$47bn in foreign currency reserves.
- ❑ The Senate has voted to bring the national airline carrier Aerolineas Argentinas back under Government control, reversing the trend of privatizing a number of state carriers. According to legislation, Aerolineas Argentinas cannot be reprivatised. The airline is reported to have debts of \$900m and is behind with staff salaries. Together with its subsidiary Austral, it operates 80% of the country's domestic flights.
- ❑ The president is promising to help build a 23km tunnel through the Andes into Chile. The tunnel and railway will cost \$3bn. The new tunnel would be at an altitude of 2,500 meters – almost 800 meters lower than the existing highway pass often blocked by snow. The Chilean president supports the project.
- ❑ Brazil-based Integrated Biodiesel Industries Ltd announced that it has acquired a new biodiesel process unit as part of the company's second Argentine facility. Ground is scheduled to be broken on the plant by October. The unit uses a second-generation biodiesel production technology that has no reactors or moving parts and is a considerable breakthrough in biodiesel production. The new facility will cost \$1m and is expected to add \$65m per annum in revenues to IBI.

Latest Trade Developments

- ❑ Major exports: soybeans and derivatives, petroleum and gas, vehicles, corn and wheat.
- ❑ Major imports: machinery, motor vehicles, petroleum and natural gas, organic chemicals, plastics.
- ❑ Main trading partners: Brazil, China, US, Chile, Spain, US and Germany.
- ❑ South African exports to Argentina totaled R701m in 2007 from R686m in 2006 and R272m in the year to March 2008. Imports from Argentina total R7.2bn in 2007 from R5.8bn in 2006 and R2bn in the year-to-March 2008.