

Atradius Country Report

Argentina – February 2010



Overview

General information

Capital:	Buenos Aires
Government type:	Republic
Currency:	Argentine peso (ARS)
Population:	40.9 million
Status:	Upper middle income country (GDP/capita: US-\$ 7,823 in 2010)

Most important sectors (2008, % of GDP)

Services:	57 %
Industry:	33 %
Agriculture:	10 %

Main import sources (2008, % of total)

Brazil:	31.3 %
China:	12.4 %
USA:	12.2 %
Germany:	4.4 %

Main export markets (2008, % of total)

Brazil:	18.9 %
China:	9.1 %
USA:	7.9 %
Chile:	6.7 %

Main expenses of foreign exchange

Intermediate products (38 %), capital goods (26 %)

Main sources of foreign exchange

Agricultural origin exports (52 %), industrial exports (48 %)

Key indicators

	2007	2008	2009*	2010**	2011**
GDP (US-\$ million)	262,451	330,196	308,043	317,000	322,222
Real GDP growth (%)	8.7	6.8	0.6	1.9	2.7
GDP per capita (US-\$)	6,646	8,280	7,653	7,823	7,878
Inflation p.a. (%)	9.0	9.0	6.3	8.4	8.2
Fiscal balance (% of GDP)	1.2	1.4	-1.3	-0.5	0.3
Total foreign debt (US-\$ million)	127,758	125,953	109,778	112,505	112,347
Foreign debt/GDP (%)	49	38	36	35	35
Foreign debt/XGS (%)	175	144	156	143	134
Short-term debt/inter. reserves (%)	88	73	50	58	60
Debt service ratio (%)	13	16	17	14	14
Current account balance (US-\$ m.)	7,412	7,035	11,525	7,990	3,788
Current account/GDP (%)	2.8	2.1	3.7	2.5	1.2
Nom. exchange rate to US-\$ (average)	3.10	3.14	3.73	4.00	4.32
International reserves (US-\$ million)	43,373	46,112	44,200	46,497	47,795
In months of merchandise imports	11.6	9.6	12.5	10.4	9.2

*estimate ** forecast

Source: Economist Intelligence Unit (EIU), International Monetary Fund (IMF)

Political situation: Less stable

Head of government: President Cristina Fernández de Kirchner (since December 2007)

Form of government: Government of the Partido Justicialista (Peronist umbrella organisation)

Internal situation

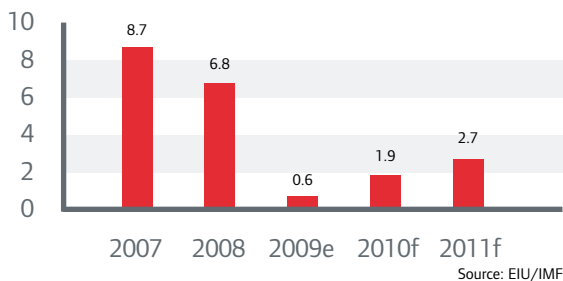
The presidential election on 28 October 2007 delivered a clear victory for Cristina Fernández de Kirchner, who succeeded her husband Néstor Kirchner on 10 December 2007 as Argentinian president. Since mid-2009 she has suffered several political setbacks, facing mounting opposition from within her own party ranks and decreasing popularity. After the mid-term elections in June 2009, Fernández finally lost her legislative majority in Congress, making governance more complicated. The next presidential elections are due in 2011.

International relations

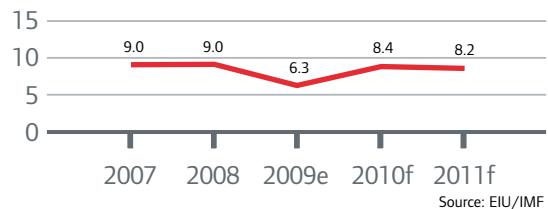
There are tensions with neighbouring Uruguay over the construction of two cellulose plants at the Río de La Plata, as Argentina fears the environmental damage that the plants might cause. This conflict has hampered regional cooperation within Mercosur. Economic and political relations with Venezuela have become remarkably closer (Venezuela bought Argentine bonds in order to help Buenos Aires to pay back its debt to the International Monetary Fund).

Internal economic situation: Weak, but avoided recession in 2009

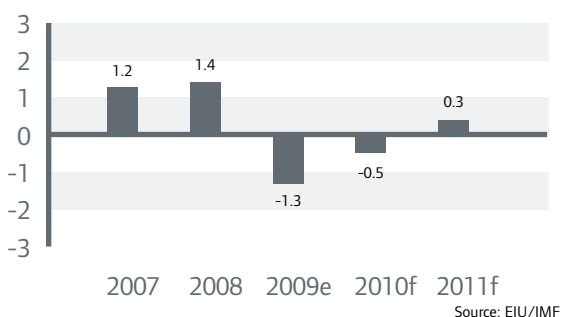
Real GDP growth (%)



Inflation p.a. (%)



Fiscal balance (% of GDP)



General situation

After the deep recession of 1998–2002, the Argentinian economy exceeded expectations thanks to favourable external conditions (high commodity prices and demand from Asia), a mix of very expansive budgetary and monetary policies and a soft peso. Real GDP-growth averaged 8.5 % p.a. in 2003–2007, underpinned by virtually all sectors. But, beginning in the second half of 2008, falling commodity prices and the global recession put an abrupt end to this unsustainable growth.

GDP-growth plunged to 0.6 % in 2009, with a positive contribution from net exports and government consumption. Private consumption declined because of increased unemployment and lessening household borrowing, and fixed investment has also plummeted. Inflation was lower in 2009, but there's little doubt that the 'official' inflation figure is far more positive than the real figure of about 15 %. In fact, the official figures have become unreliable since former president Néstor Kirchner sacked the head of the official statistical office INDEC in 2007, for publishing inflation figures that, while accurate, were unpalatable.

The Argentine banking sector is not exposed to toxic assets, but general confidence in banks is weak. Despite adequate provisioning and capitalisation, savers still clearly remember the peso-crisis of 2001. Deposit and credit growth slowed in 2009, and the non-performing loans (NPL) ratio rose to 4 %. There is a growing divergence between public and private banks, with state banks generally in a poorer state because of increasing exposure to public sector debt.

Economic policy

Argentina's interventionist and pro-cyclical policy has led to increased state control and the current inflationary climate. Like her husband and predecessor, president Fernández de Kirchner has pursued a policy of robust public spending (public-sector wages and pensions) and subsidies to consumers to bolster economic growth, relying on taxes from agricultural exports. But those tax revenues deteriorated sharply as the world price of farm products (notably soya beans) plunged at the beginning of the credit crisis, and this has put the government under financial pressure.

The fiscal/budgetary situation worsened in 2009. The budget deficit increased to 1.3 % of GDP and public sector debt is high (50 % of GDP). Because of adverse international investors' sentiment and the still unresolved issue with bondholders who boycotted a debt restructuring in 2005, the government cannot borrow freely on the international markets. To bolster public finances, government and Congress approved the nationalisation of a private pension fund worth US-\$ 30 billion in 2008. In January 2010, President Fernández de Kirchner ordered the central bank to transfer US-\$ 6.6 billion of their foreign reserves to a fund to service the public debt. This was refused by the central bank governor, who argued that such a move requires authorisation from Congress. As a consequence, the government ordered the governor to resign.

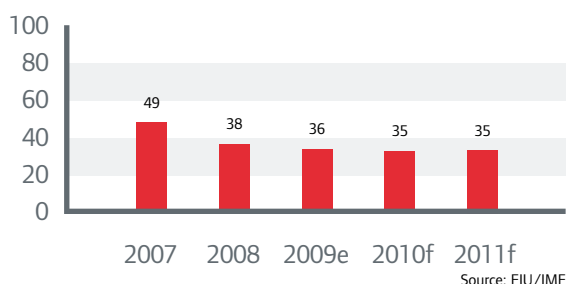
So far, structural reforms have remained minimal (banks, pension funds, energy sector, provincial/local governments). Price controls cover 70 % of items in the consumer basket, and foreign investors had already turned their back on Argentina before the credit crisis because they were not allowed to raise prices to consumers. Energy and utility companies are in the same position due to conflicts over prices, which led to underinvestment and hence bottlenecks in supply.

Energy situation

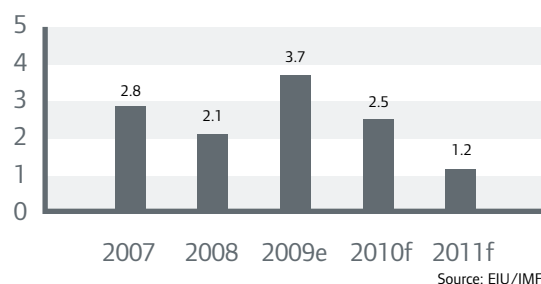
Reasonable: oil and gas deposits

External economic situation: No liquidity problems yet

Foreign debt/GDP (%)



Current account/GDP (%)



Foreign debt

- Level:** Strongly declined since 2004, but still high (in 2010 US-\$ 113 billion - 35 % of GDP and 143 % of exports of goods and services)
- Structure:** 24 % short-term debt in 2010
- Debt service ratio:** Declined to less than 14 %, including short-term obligations (arrears) approximately 43 % in 2010

Remarks:

At the end of 2001, Argentina defaulted on US-\$ 94.3 billion public sector debt - mostly sovereign bonds - and in June 2005 an involuntary debt restructuring with the bondholders was completed. US-\$102.6 billion old debt (including interest due) was turned into US-\$ 35.2 billion new debt after 76 % of the creditors accepted the deal. By prepaying the entire US-\$ 9.8 billion IMF-debt by the end of 2005, Argentina terminated its links with the organisation. But there is still no solution for the other 24 % of bondholders (US-\$ 30.6 billion) and Paris Club arrears (US-\$ 6 billion), and this still blocks Argentina from access to international financial markets. Without such access and without IMF-funds, Argentina faces ongoing problems in covering its external financing requirement.

As a result, the Argentine government is showing an increased willingness to settle those outstanding issues as a way of regaining access to capital markets and avoiding a new sovereign default, but a solution is not yet certain. In 2010 more than US-\$ 11 billion of external public debt becomes due and has to be rolled over. The nationalisation of the private pension funds (worth US-\$ 30 billion of assets) has circumvented the short term risk of a debt default.

Balance of payments

- Trade balance:** Positive with US-\$ 15 billion (4.7 % of GDP) in 2010
- Current account:** Surplus of US-\$ 8 billion (2.5 % of GDP) in 2010
- Capital account:** Negative in 2010 as a consequence of the unreliable business environment and the global crisis
- Total account:** Positive in 2010-2011

Remarks:

Imports decreased more sharply than exports in 2009, leaving the trade and the current account in surplus. Because of a poorer capital account, with less foreign direct investment, substantial net outflows of the non-financial private sector (US-\$ 11 billion in H1 of 2009) and lack of access to commercial credit, international reserves declined and the peso exchange rate depreciated. The gross financing requirement amounts to US-\$ 22 billion in 2010. Argentina continues to be a highly dollarized economy.

International reserves

In months of imports (cif): Comfortable with US-\$ 47 billion (more than 10 months of import cover) in 2010

Outlook: Uncertain

Political situation

The premature resignation of President Fernández de Kirchner ahead of the October 2010 presidential elections cannot be ruled out. With a history of social upheaval, the risk of social unrest remains if the economic situation worsens.

Internal economic situation

An economic recovery in 2010 is very uncertain and depends mainly on external factors. Looking optimistically, real GDP could grow 2 %, generated by domestic demand and rising exports, as Argentina may profit from the good prospects for its main export markets of Brazil and China. The budget deficit will decrease to 0.5 % of GDP, and inflation will remain at 8 %. However, the sustainability of debt is still doubtful, with the possibility of a run on deposits the main risk factor for banking sector. The Argentine peso is expected to depreciate further in 2010 by 8 % (2009: 21 %).

External economic situation

Argentina's sizeable international reserves (including the pensions takeover) are a cushion against short-term rollover risks in 2010. But the country is still in arrears: US-\$ 6 billion Paris Club debt and US-\$ 25.3 billion claims held by bondholders who did not participate in the 2005-debt exchange. Until a definite agreement with those bondholders has been reached, Argentina will continue to lack access to global financial markets.