

Country Insight Report

Argentina

February 2022





Table of Contents

HIGH-LEVEL SUMMARY

Country Insight Headlines	3
Global Insight	4
Regional Insight	5
Country Insight Headlines	6
• Credit Environment	6
• Supply Environment	7
• Market Environment	8
• Political Environment	9

DETAILED ANALYSIS

Short-Term Economic Outlook	11
Long-Term Economic Potential	12
Market Potential	12
FX Risk	14
Transfer Risk	15
Business Regulatory Environment	16
Business Continuity	17
Political/Insecurity Risk	18
Expropriation/Nationalisation Risk	19
Statistical Reference	20
• Key Indicators and Forecasts	20
• User Guide	21



Overall Country Risk Rating: DB5d

Last change: October 2021



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

Rating Outlook: Stable

WorldWatch Headline

Investor optimism improves as default concerns ease with the government reaching an understanding with the IMF, laying the groundwork for a renegotiation of USD44.5bn in debt.

Multi-Dimensional Analysis (MDA) Scores

Metric	Argentina	Brazil	Chile	Mexico	Colombia
Country Risk Score	DB5d	DB4d	DB3d	DB4b	DB4d
Short-Term Economic Outlook	DB6b	DB4c	DB4a	DB4a	DB5d
Long-Term Economic Potential	DB5a	DB4b	DB3d	DB5b	DB4a
Market Potential	DB6a	DB5b	DB4a	DB2c	DB4c
FX Risk	DB6a	DB4b	DB3b	DB2b	DB3d
Transfer Risk	DB5d	DB2b	DB2d	DB2b	DB3b
Business Regulatory Environment	DB5a	DB4c	DB3a	DB4d	DB4a
Business Continuity	DB5d	DB5b	DB4d	DB4d	DB5c
Political/Insecurity Risk	DB4c	DB4b	DB3d	DB4b	DB5d
Expropriation/Nationalisation Risk	DB6a	DB3c	DB2a	DB5a	DB2d

Low Risk: DB1 - DB2

Moderate Risk: DB3 - DB4

High Risk: DB5 - DB7

Source: Dun & Bradstreet

Recent Changes

- Note that the near-term risk of default has reduced.
- Robust demand from Brazil, Chile, China and the US helped drive an 85.9% y/y increase in merchandise exports in December 2021, keeping the merchandise trade surplus at USD0.4bn.
- Argentina plans to reduce its fiscal deficit from 3% of GDP in 2021 to 0.9% by 2024.

Events to Watch

- The Fuente de Todos, having lost its congressional majority in mid-terms, will have to rely on cross-party support for ratification of an eventual IMF agreement.
- Despite having avoided fiscal austerity as a condition of the renegotiated deal, continuing public protests against an agreement with the IMF are keeping the government in a political bind.
- Price increases for natural gas and electricity have been approved as the government pursues its goal of a smaller fiscal deficit.
- Construction of a new gas pipeline from Vaca Muerta to Buenos Aires could result in a significant boost in gas production.

Call to Action

- Engage in contingency planning to mitigate the effects of higher oil, gas and diesel prices as global markets remain tight.
- Be aware that despite price controls and other government measures to dampen price pressures, consumers' purchasing power continues to be eroded by elevated inflation.
- Note that large volume credit reviews can be conducted using [D&B Global DecisionMaker](#) to manage risk policy and deliver real-time global decisions.



Global Insight

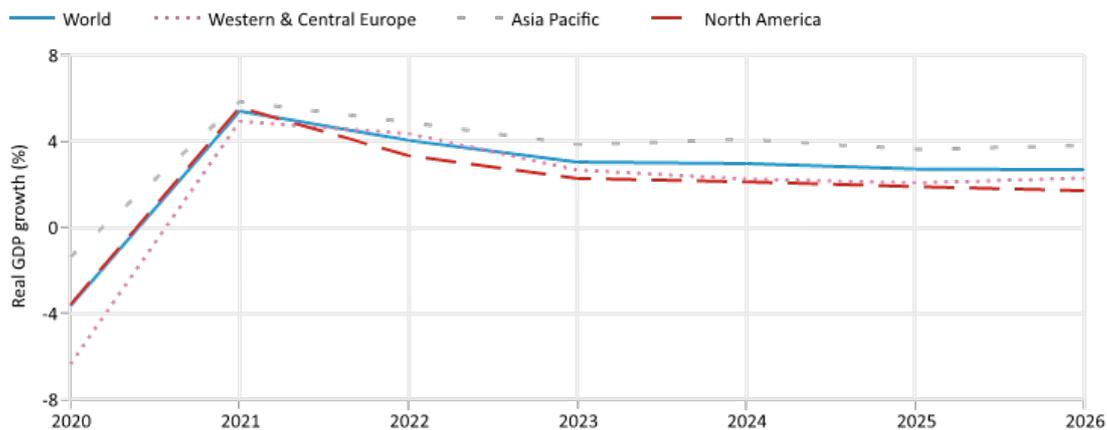
Trend: Stable

Last change: June 2021 (Deteriorating→Stable)

Recent Developments

- Global growth will slow in 2022 as surges of infections caused by new coronavirus variants pose an ongoing risk to normalisation of business, stressed supply chains, and global trade.
- Central banks, battling resilient inflation, continue monetary tightening to anchor inflation expectations and curb wage-price spirals.
- Lockdown fatigue keeps the probability of violent protests elevated, as public disenchantment with governments' handling of the pandemic rises.

Global Growth Forecast



Source: Haver Analytics/Dun & Bradstreet

Risks and Opportunities

- A stop-start cadence for normalisation, caused by mobility restrictions to combat surges in Covid-19 infections, will slow recovery of high-contact industries that are unlikely to return to pre-crisis activity levels in 2022.
- Three to four 25bps increases in the Fed Funds Rate, with the first as early as March, is our baseline forecast as unemployment dropped to 3.9% in December 2021, just above the pre-crisis rate of 3.5%.
- The global shortage of semi-conductor chips could extend to 2023 affecting the automobile and electronics industries most acutely.
- China's zero-tolerance Covid-19 policy means strict lockdowns and local and international travel restrictions are maintained, amid concerns that existing Covid-19 vaccines could have lower efficacy levels against omicron and subsequent new variants.

Call to Action

- Plan for higher financing costs in the coming months as more central banks hike policy interest rates to prevent capital outflows and anchor inflation expectations.
- If operating in a jurisdiction with a low corporate tax regime, assess the impact of the potential implementation of a global minimum corporation tax rate.
- Consider the increasing importance of environmental, social and governance activities and risk-mitigation for sustainable strategic business growth.



Regional Insight

Trend: Stable

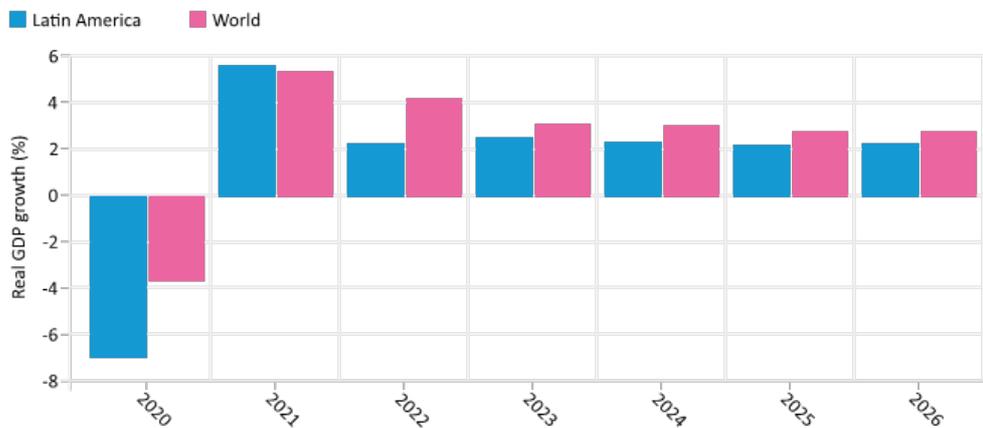
Last change: June 2021 (Deteriorating→Stable)

Recent Developments

- Central banks are combatting rising inflation with further monetary tightening: in late-January, Colombia, Chile and Paraguay hiked policy rates by 25bps to 150bps.
- Extreme weather, input shortages and logistics delays exacerbate supply-chain problems, driving inflation and weighing on consumption and growth.
- National vaccination campaigns continue, but divergence persists: as of 29 January 88% of Chile's population was fully vaccinated compared to 44% in Bolivia.
- The region will be one of the slowest growing in 2022 as stubborn inflation, political instability, US monetary tightening, and new variants weigh on growth.

Regional Outlook

Regional Growth Forecast



Source: Haver Analytics/Dun & Bradstreet

Risks and Opportunities

- Monetary tightening by the US - which could begin in March - and other advanced economies will weigh on growth.
- Projected output of major agricultural commodities in Brazil, Argentina and Paraguay, including soybeans, for 2022 is threatened by severe weather, including drought.
- Argentina, Brazil, Chile, Colombia, Costa Rica, Ecuador, Mexico and Peru are among 100+ countries to have signed a declaration at COP26 to end deforestation by 2030.
- Most commodities' prices are higher than pre-pandemic levels, boosting revenue for net exporters of industrial and agri commodities...
- ...however, elevated prices of energy and food are contributing to high and sticky inflation, eroding consumer purchasing power in the majority of countries.

Call to Action

- Some operational adjustments in businesses due to the impact of Covid-19 - including distribution and sales channels - will persist beyond the pandemic.
- Expect regional central bankers to tighten further in the coming months to anchor inflation expectations and limit capital outflows.
- Assess the impact of monetary tightening on borrowing costs in Argentina, Brazil, Mexico, Peru, and Chile in the coming months.
- Note that exporters of agricultural products and hard commodities face elevated near-term risk from an economic slowdown in China.
- Prepare for protests demanding social, political and economic change ahead of elections.



Country Insight Headlines

Credit Environment

Score: DB6c



Last change: N/A→DB6c

Rating Outlook: Stable

Risks and Opportunities

- Banco Central de la República Argentina (BCRA, the central bank) hiked its 'Leliq' benchmark interest rate by 200 basis points in January to 40% - its first hike since November 2020 - as it tightens to curb inflation of more than 50%.
- An IMF agreement to renegotiate USD44.5bn in debt will substantially ease balance of payment pressures.
- Argentina and China have agreed to remove the requirement for IMF approval for a swap deal; the Bank of China's swap line is roughly USD18bn.
- High inflation continues to erode real returns to savers.

Trade Terms

Description	
Minimum Terms	LC
Recommended Terms	CLC
Usual Terms	30-90 days

Source: Dun & Bradstreet

Note: OA: Open Account; SD: Sight Draft (Documentary Collection); LC: Letter of Credit; CLC: Confirmed Letter of Credit; CiA: Cash in Advance.

Export Credit Cover

Agency	Cover
US Eximbank	Cover on case-by-case basis
Eksport Kredit Fonden	Cover on case-by-case basis
ECGD	Cover on case-by-case basis
Euler Hermes AG	Limited cover available, conditions apply

Source: Export Credit Agencies

Call to Action

- To mitigate transfer risks, consider tight payment terms when forming new contracts with local companies.
- Use confirmed letters of credit when doing business with local firms.
- Hedge FX risks to avoid currency-related losses; the risk of currency devaluation has eased for now, but the peso will remain under downward pressure in 2022.
- Be aware that participation in the [Global Trade Exchange Program](#) - the world's largest commercial trade data network - increases insight around credit decision-making and risk management.



Supply Environment

Score: DB5d
Last change: N/A → DB5d

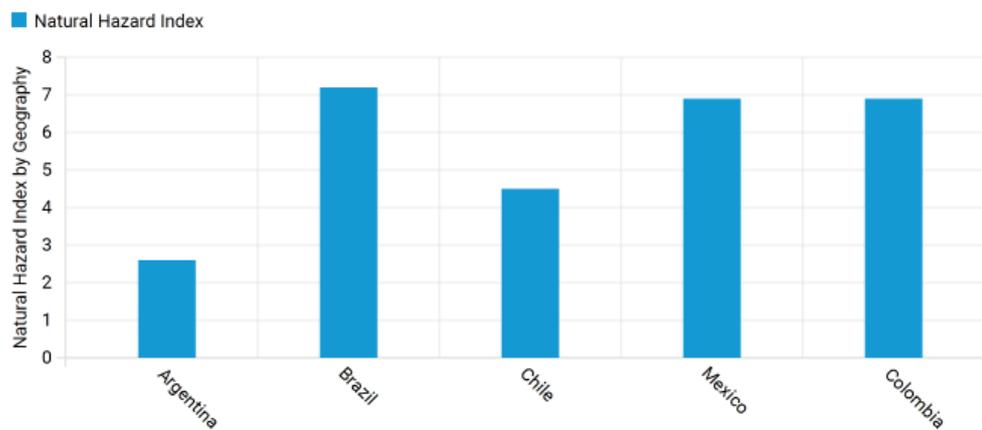


Rating Outlook: Stable

Risks and Opportunities

- Prolonged drought has led to lower crop output and heightened risk of wildfires.
- Construction of a gas pipeline from Vaca Muerta to Buenos Aires (announced in November) should significantly increase gas output.
- The probability of unexpected near-term changes in import/export bureaucracy has significantly fallen as the government renegotiates its debt with the IMF.

Risk Index: Hazard & Exposure



Source: Haver Analytics

Note: 0 = lowest risk, 10 = highest risk

Call to Action

- Note that while Argentina is in its last phase of easing Covid-19 restrictions, including looser border controls, a surge in infections could lead to measures that would hit high-contact sectors, including hospitality, retail, bars, restaurants and recreation.
- Be aware that lower water levels as a result of droughts in Brazil where the Parana River begins, has also affected energy production and the availability of water for household consumption.
- Be advised that prolonged drought will negatively affect global grain supplies, keeping already-high food prices elevated.



Market Environment

Score: DB6b
Last change: N/A → DB6b

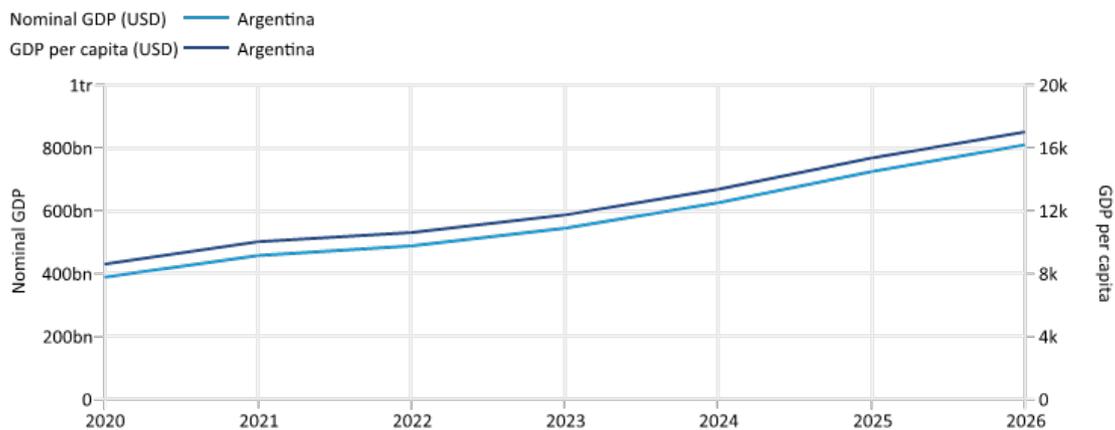


Rating Outlook: Deteriorating

Risks and Opportunities

- University of Torcuato di Tella (UTDT) consumer confidence rose to 4.01 in January, but remains in negative territory, weighing on market potential outlook.
- Increases in the national minimum wage from September 2021 to February 2022 helps to offset (but not fully compensate for) the erosion of purchasing power.
- Despite anti-price-gouging policies and price controls on essential goods, inflation will remain elevated in 2022.
- As regional trade blocs forge deeper ties intra- and extra-regionally, exporters' access to faster-growing markets such as India will expand in the medium term.

Nominal GDP and GDP per capita



Source: Haver Analytics/Dun & Bradstreet

Call to Action

- Keep abreast of short-term economic forecasts for Brazil, China, India, Chile and the US and adjust projected export demand accordingly.
- Consider the opportunities and risks presented by China's increasing importance to trade and investment in Latin America, although over the next few years the US will continue to be a source of substantial inward direct investment.
- Factor in expectations that the commercial environment will be increasingly less business-friendly under the current administration.



Political Environment

Score: DB5d
Last change: N/A → DB5d



Rating Outlook: Stable

Risks and Opportunities

- Public protests against negotiations between the IMF and Argentina for repayment of USD44.5bn puts the government in a political bind.
- The Fuente de Todos, which lost its majority for the first time since 1983 in congressional elections held on 14 November, will need cross-party support for key legislation - including an IMF deal.
- Price controls on basic consumer items will be maintained in our forecast horizon.
- Although such controls may be welcomed by households, investor sentiment has been dented by the government's intervention in markets.

Political Freedom

Location	Electoral Process	Pluralism and Particip.	Function'g of Govt.	Freedom of Express'n and Belief	Assoc. and Org. Rights	Rule of Law	Personal Autonomy and Individual Rights
Argentina	11	16	8	15	11	10	13
Latin America	9	11	7	13	8	8	10
OECD Average	11	15	10	14	11	13	14



Source: Freedom House

Note: Higher score = greater degree of freedom

Call to Action

- Changes in investment policy in the near term that may further restrict private sector participation in certain sectors is now less likely as Argentina negotiates with the IMF.
- Note that three consecutive years of economic recession, stubborn inflation, high unemployment and poverty rates have elevated public discontent.
- Recall that public disapproval of both the executive and legislative branches of government are high, suggesting a high probability of widespread public protests.



Detailed Analysis

The following sections analyse in more detail the nine core elements that influence the risks and opportunities involved when doing business in/with a given country.

The core categories that we analyse as part of our broader risks and opportunities model are as follows:

Short-Term Economic Outlook

Long-Term Economic Potential

Market Potential

FX Risk

Transfer Risk

Business Regulatory Environment

Business Continuity

Political/Insecurity Risk

Expropriation/Nationalisation Risk

Descriptions for each of these categories can be found in the User Guide.



Short-Term Economic Outlook

Score: DB6b



Last change: December 2021 (DB6a→DB6b)

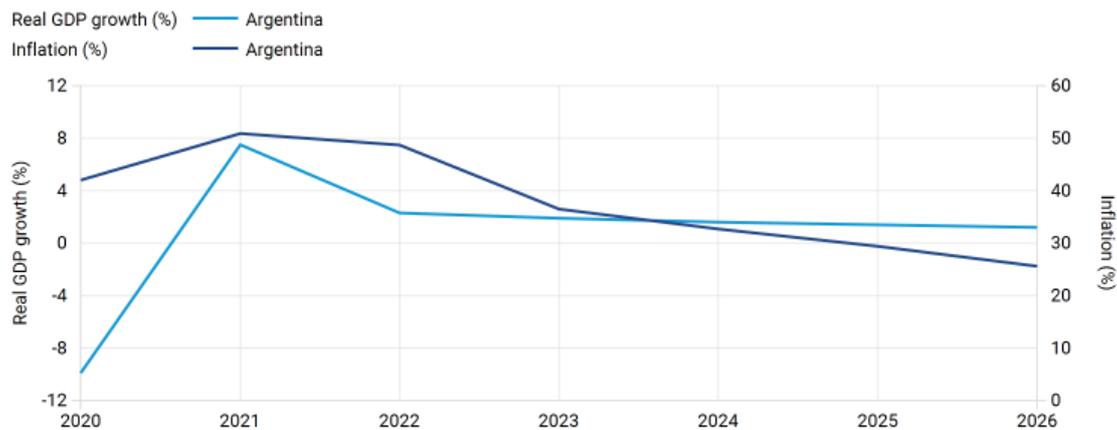
Rating Outlook: Stable

As base effects wane, growth momentum will slow in 2022. Strong export demand will support growth in Q1 on the back of solid demand from key partners, including China, Brazil and the US. However, a confluence of domestic factors weigh heavily on growth prospects: inflation remains at one of the highest levels in the world, eroding purchasing power and constraining consumer and business confidence; policy uncertainty will be exacerbated by fissures in the ruling Frente de Todos coalition, which lost its congressional majority in the last mid-terms; and pandemic-related uncertainty.

Recent Developments

- Industrial production increased by 10.1% y/y in December 2021, up from 9.9% in November; the increase was driven by increased production of food, beverages, metal and transportation equipment.
- The UTDT consumer confidence index rose to 40.1 in January from 37.8 in December but remains in pessimistic territory - below the 50-point level.

Real GDP Growth and Inflation



Source: Haver Analytics/Dun & Bradstreet

Risks and Opportunities

- Monthly inflation increased m/m in December, rising by 3.84% m/m, to take the y/y rate to 50.9%, staying significantly above the target rate of 29%.
- The biggest price gains in December were in alcoholic beverages and tobacco, transportation, and restaurants and hotels.
- Government intervention in markets and less-business-friendly regulations are expected to ease as the Fernandez administration renegotiates with the IMF.

Call to Action

- Exercise greater caution when extending credit to local parties; closely monitor business-to-business payment performance trends.
- Note that cross-border payment risks remain elevated, and there are tight capital controls in place.
- Assume that there will still be difficulty in purchasing hard currency, as the central bank's FX holdings are below the IMF's recommended minimum.
- Watch for the agriculture sector to be a notable contributor to growth as long as global commodity prices remain elevated.



Long-Term Economic Potential

Score: DB5a
Last change: N/A→DB5a



Rating Outlook: Stable

Argentina's long-term growth prospects are constrained by its low competitiveness. In the World Economic Forum's *Global Competitiveness Report 2019*, Argentina was ranked an unimpressive 88th out of 141 countries in terms of its institutions with a score of 49.9, down from 51.5 in the previous year. Its worst-performing index components were burden of government regulation, efficiency of legal framework in settling disputes, organised crime, and strength of auditing and report standards. The country's best-performing components were budget transparency and shareholder governance.

Recent Developments

- Argentina has joined China's Belt and Road Initiative, focusing on proposed infrastructure and other projects to the tune of USD30bn.
- Negotiations of an IMF agreement put a brake on implementation of anti-business policies that led to reduced inflow of foreign portfolio and direct investment in the past two years.
- As a result of increasing government spending on education since 1980, Argentina's education system has enabled growing numbers of its citizens to attain the highest levels of education when compared with regional peers.
- Negatively, a lack of professional opportunities has presented a 'brain drain' challenge that successive governments have sought to reverse.

Exports and Imports



Source: International Monetary Fund Direction of Trade Statistics/Haver Analytics

Risks and Opportunities

- Argentina has the world's second-largest shale gas reserves.
- Argentina also has the second-largest lithium reserves, at 17m tonnes.
- According to the World Economic Forum's *Global Competitiveness Report 2019*, Argentina ranks 68th out of the 141 countries surveyed in terms of infrastructure.
- Improved institutional capacity, if pursued, would enhance the country's resilience to climate-related and natural disasters.

Call to Action

- Note that Argentina's telecommunications infrastructure and penetration is relatively high in terms of mobile-telephone subscriptions per 100 population.
- However, also note that in terms of physical capital, Argentina is significantly behind regional peers, such as Chile, because of years of under-investment.
- Expect the labour force to remain relatively well educated; however, a continued lack of adequate employment opportunities could result in further 'brain drain'.



Market Potential

Score: DB6a

Last change: N/A→DB6a



Rating Outlook: Deteriorating

Argentina's domestic market potential is good, but its struggle with one of the highest inflation rates in the world is severely eroding purchasing power. Its GDP per capita lags behind those of Chile, Uruguay and Mexico. After contracting in 2014, nominal GDP (in US dollar terms) rose in 2017, but declined in 2018, mainly because of a sharp depreciation. With the economy contracting for a third consecutive year in 2020, per capita income registered its third straight year of decline. However, the rebound in 2021 and positive growth forecast until 2025 will boost per capita income.

Recent Developments

- The market outlook remains subdued because purchasing power continues to be eroded by high inflation despite price controls and limits on the export of specific beef products until the end of 2023.
- The central bank's crawling peg has helped reduce the pace of currency depreciation; however, we expect the peso to weaken at a faster clip in 2022.
- Several increases in the national minimum wage from September 2021 to February 2022 will help ease erosion of purchasing power.

Main Restrictions on Imports

Tariff Barriers	Argentina	Brazil	Chile	Mexico	Colombia
Overall Weighted Mean Tariff	7.3	8.0	0.4	1.2	2.9
Manufactures Weighted Mean Tariff	8.4	9.2	0.5	1.4	3.0
Primary Products Weighted Mean Tariffs	1.8	2.7	0.3	0.6	2.8
Overall MFN Tariff	25.6	27.9	0.0	6.0	0.5
Manufactures MFN Tariff	26.1	28.8	0.0	5.6	0.3
Primary Products MFN Tariff	15.9	15.8	0.0	11.5	2.9
Services Restrictiveness Index	17.0	22.5	23.4	29.5	18.3

Source: Haver Analytics/World Bank

Note: Tariff data displayed as %. For SRI data, 0 = completely open, 100 = completely closed

Risks and Opportunities

- The economy will continue to derive a significant portion of its revenue and export receipts from the primary sector, food crops and minerals and metals.
- Argentina, which has the world's second-largest lithium reserves (estimated at 17m tonnes) is expected to be a major producer within the next decade.
- The economic growth rate for 2022 will depend on the frequency of new Covid-19 surges, whether inflation is tamed and government policy linked to its IMF debt restructuring deal.
- Although Argentina requires few official documents to import and export goods compared with the regional average, the costs of importing and exporting are higher.

Call to Action

- Consider the opportunities and risks presented by China's increasing importance to trade and investment in Latin America, although over the next few years the US will continue to be a source of substantial inward direct investment.
- Factor in expectations that the commercial environment will be increasingly less business-friendly under the current administration.
- Expect new market opportunities from closer trade and investment ties with extra-regional and regional trade blocs if the government resolves tension with Mercosur.
- Follow developments regarding trade disputes and any relevant bilateral trade talks that involve Argentina.



FX Risk

Score: DB6a



Last change: February 2022 (DB5d→DB6a)

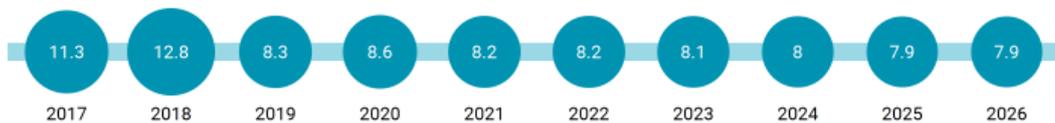
Rating Outlook: Stable

In February 2021 the central bank (BCRA) switched from a managed peg to a crawling peg to help reduce exchange-rate volatility and ease near-term FX risk. The bank was successful in using the crawling peg for pursuing its target to limit nominal depreciation by 25% until end-2021. We expect the peso to weaken to ARS167:USD in 2022.

Recent Developments

- Having hiked its benchmark 'Leliq' interest rate in January by 200 basis points (for the first time in over a year), the central bank is expected to continue on a tightening path in H1.
- Higher commodity prices, particularly for agri-exports, will help the country to accumulate reserves.
- Since August, companies and retail investors have been facing new restrictions in accessing US dollars via the purchase and sale of financial instruments through parallel foreign-exchange markets.

Import Cover (Months)



Source: Haver Analytics/Dun & Bradstreet

Risks and Opportunities

- Reserves declined by 4.9% m/m in January to USD37.6bn, below the IMF's recommended 3-month import cover.
- An IMF agreement, expected before end-March, will ease balance of payment pressures and the risk of near-term default on external debt payments due in Q1.
- A currency crisis has been ruled out for the near term, given the impact of an anticipated IMF deal on low levels of foreign reserves held by the central bank.

Call to Action

- Despite improvements in hard currency reserves, businesses should still expect challenges in procuring US dollars.
- It is advisable to engage in currency hedging to reduce FX risk and tighten payment terms with local counterparties for settlement of USD liabilities, where possible.



Transfer Risk

Score: DB5d
Last change: N/A → DB5d



Rating Outlook: Stable

The Banco Central de la Republica Argentina (BCRA, the central bank) has been aggressively tightening capital controls in recent years as FX reserves remain at worryingly low levels. The most stringent capital controls in five years were introduced in September 2019, drastically widening the gap between the official and parallel FX rates. Despite rising limits on the ability to buy and move USD out of the country, demand for dollars by investors and businesses remains strong as confidence in the peso continues to deteriorate.

Recent Developments

- On 12 August 2021, the central bank unveiled new capital controls that narrowed companies' access to USD and forced the use of alternative routes such as over-the-counter exchanges to secure dollars.
- The central bank has limited the amount of USD companies can buy in some alternative markets by extending existing caps on dollar purchases to all companies held by controlling shareholders.
- The central bank has also banned some swaps between local and US bonds - a mechanism that was used by investors to move money abroad.

Transfer Situation

Type	Delay
FX/Bank Delays	0-1 month
Local Delays	0-1 month

Source: Dun & Bradstreet

Trade Payment Restrictions

Trade Payment Restriction	Argentina	Latin America	OECD Average
Restrictions on non-Residents' Accounts	1	0.8	0.06
Restrictions on Payments for Imports	2	0.35	0.06
Restrictions on Payments for Invisible and other Current Transfers	3	0.65	0.35

Source: International Monetary Fund

Note: for a definition of the Trade Payment Restrictions please see the online [user guide](#)

Risks and Opportunities

- Contado con Liquidacion (CCL) transactions to facilitate the foreign sale of peso-denominated assets for USD can no longer be settled by third parties.
- Tighter regulations have been introduced by the National Securities Commission for trades involving local government bonds due in 2030 and some international bonds.
- Heightened transfer risk is contributing to a less predictable outlook relative to cross-border transfer regulations, thereby increasing uncertainty in the commercial sphere.

Call to Action

- Be aware that firms are encouraged to plan for stringent capital controls, which will remain in place to end-2022 given the central bank's low stock of FX.
- At the same time, note that it is advisable to tighten payment terms with local counterparties for settlement of USD liabilities, if possible.



Business Regulatory Environment

Score: DB5a

Last change: N/A→DB5a



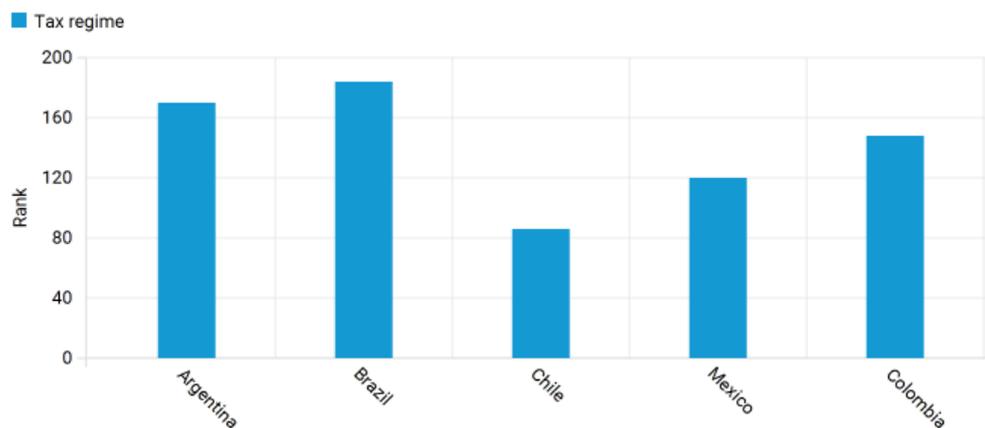
Rating Outlook: Stable

The regulatory environment is characterised by heavy and sometimes unexpected changes in government intervention that affect cross-border trade and investment including (but not limited to) export quotas, bans and duties. The Investment and Trade Promotion Agency (Agencia Argentina de Inversiones y Comercio Internacional) could help with navigating the regulatory landscape.

Recent Developments

- Argentina is set to appeal a 21 September US Court of International Trade ruling that denied its challenge to high duties on its biodiesel exported to America.
- The 5% tax on exported services will end in 2022 in a bid to boost the knowledge sector, which includes IT and professional services, sold mainly to the US and UK, which accounted for almost USD6m in export earnings in 2020.
- In the 2020 *Corruption Perceptions Index*, published by Transparency International, Argentina dropped to 72nd from 66th of 180 countries in the previous year's ranking.
- However, corruption in the public sector remains a major challenge.

Ease of Paying Taxes, 2019



Source: World Bank, 'Doing Business Report'

Ranking: Low score = best, High score = worst

Risks and Opportunities

- Argentina is ranked among countries with the most credit information, as it has the highest number of borrowers covered by credit bureaus.
- In the recent past, judicial independence has been called into question, with the perception that certain elements are subject to political influence.
- Improvements to the tax code in recent years have improved Argentina's attractiveness compared with regional leaders, such as Chile and Mexico, which it has lagged behind in the past few years.

Call to Action

- Note that Argentina's total tax and contribution rate is higher than in peer countries.
- Scrutinise cross-border tax issues, tax treaties, and new fiscal treatments and definitions well in advance to prevent difficulties.
- Note that [D&B Onboard](#) provides a single point of access to information and tools to more easily research and make compliance decisions.



Business Continuity

Score: DB5d
Last change: N/A → DB5d



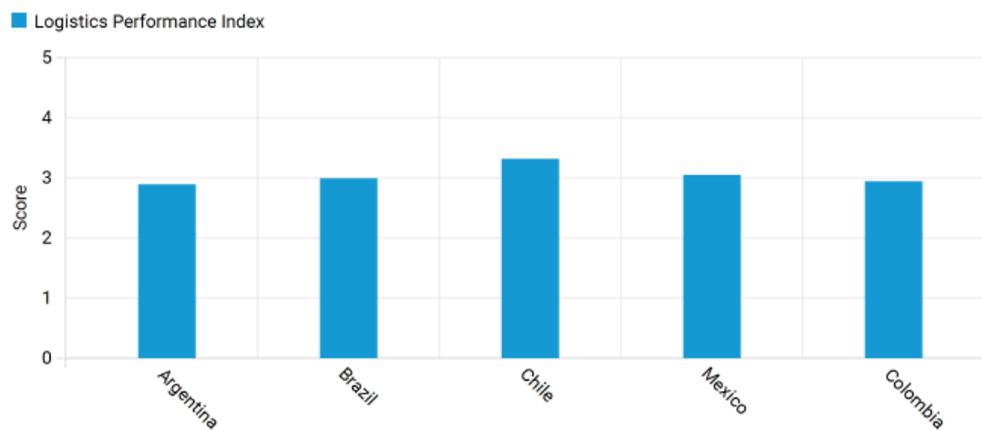
Rating Outlook: Stable

Argentina's geographic location and characteristics make it vulnerable to natural threats, including severe storms, volcanic activity and earthquakes. According to the Global Facility for Disaster Reduction and Recovery (GFDRR), climate change poses an additional threat, particularly to Argentina's agriculture sector. Overall, Argentina's infrastructure is considered relatively good, compared with that of many of its regional peers. 140 airports and seaports (mainly on the Atlantic coast) facilitate international travel and trade. However, less than 30% of Argentina's road network is paved, and its rail system is in a poor condition. Specific sectors, such as electricity and energy, suffer from inadequate maintenance and under-investment.

Recent Developments

- Argentina joined China's Belt and Road Initiative in January.
- River transportation is affected by ongoing drought, which has caused the level of the Parana River, a major means of transporting corn and soy produce from Rosario ports to the Atlantic, to fall to its one of the lowest levels in nearly eight decades.

Logistics Performance Index, 2018



Source: World Bank

Note: 1 = worst performance, 5 = best performance

Risks and Opportunities

- Argentina's participation in the Belt and Road Initiative focuses on infrastructure projects to the tune of USD30bn dollars and securing 5G technology from Huawei.
- Poor urban planning could pose physical risks and business losses, and place increasing demand on electricity supplies, which could lead to power disruption.

Call to Action

- Make contingency plans for disruption to electricity and fuel supplies; watch for new energy-related projects designed to improve supply and reliability.
- If operating in a region that is prone to floods, secure adequate and appropriate insurance coverage; expect delays in the restoration of services post-flooding.
- Take account of customs inefficiency when conducting cross-border transactions.



Political/Insecurity Risk

Score: DB4c

Last change: N/A→DB4c



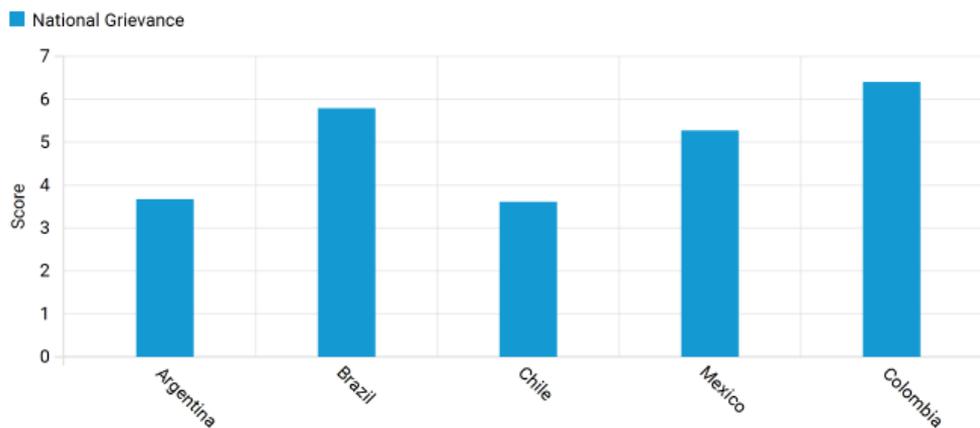
Rating Outlook: Deteriorating

Political/insecurity risks are elevated amid protests in Buenos Aires against negotiations with the IMF for repayment of USD44bn, notwithstanding a preliminary understanding that fiscal austerity will not be a conditionality of the final agreement. In the past year, public protests have been staged by social and political groups against inflation, unemployment and an increase in poverty. Since the pandemic began, the frequency of public demonstrations has risen, despite government relief programmes such as payroll subsidies for affected businesses and for households. The Frente de Todos lost its Senate majority in congressional elections held on 14 November (2021), adding difficulty to an already-challenging policymaking environment for the last two years of the Fernandez administration.

Recent Developments

- The resignation of Maximo Kirchner, the vice-president's son, as leader of the ruling party in the lower house over the government's approach to negotiations with the IMF underscores the ruling coalition's fragility.
- The government has not been able to make good on promises to tackle high levels of inflation, unemployment and poverty, keeping political risk high.
- Socio-political discontent is exacerbated by the government's perceived mishandling of its response to the coronavirus pandemic.

Level of National Grievance, 2020



Source: Fund for Peace, 'Fragile States Index'

Note: 1.0 = lowest grievance, 10.0 = highest grievance

Risks and Opportunities

- Protests against negotiations between the IMF and Argentina for repayment of USD44bn portend heightened political risk in coming months.
- Public disapproval of both the executive and legislative branches of government is high.
- Price controls on basic consumer items will be maintained for our forecast horizon.
- Although such price controls may be welcomed by households, investor sentiment has been dented.

Call to Action

- Watch for dissension between President Alberto Fernandez and Vice President Cristina Fernandez over social and economic policies implemented over the next few years.
- Note that while fiscal austerity has been avoided, the government's commitment to fiscal consolidation will call for more-targeted spending.
- Under the Fernandez administration, investment policy will continue to restrict private sector participation in certain sectors.



Expropriation/Nationalisation Risk

Score: DB6a
Last change: N/A → DB6a



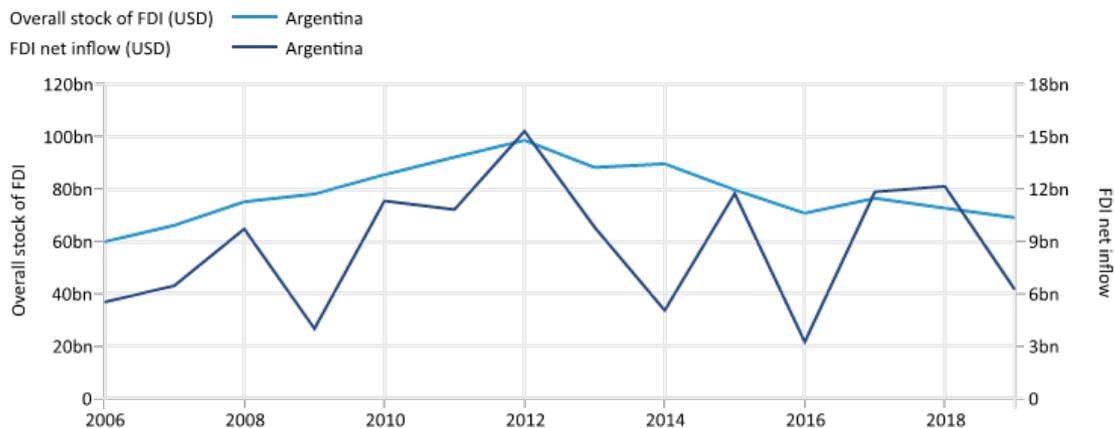
Rating Outlook: Stable

The government's negotiations with the IMF to restructure USD44bn in debt suggest a much lower risk of expropriation and nationalisation in the near term, although these have been tools used by previous Peronist administrations. An indication of the Peronist stance was evident during the administrations prior to Macri's (2015-19), when Argentina was the respondent in the highest number of arbitration cases brought to the International Centre for Settlement of Investment Disputes (ICSID). In 2015, Argentina was the respondent in as many as 18 arbitration cases before ICSID, with claimants from a range of countries, including Austria, France, Spain and the US. Expropriation disputes have also spanned several industries, including: gaming; water, sanitation and flood protection; electric power; and oil, gas and mining. Extractive industries were particularly vulnerable to expropriation or nationalisation by the state in the 12 years of the Kirchner and Fernandez leadership (2003-15).

Recent Developments

- Debt repayment negotiations with the IMF, which appear to be near a conclusion, have led to a shift in risk to 'stable' as it is unlikely the government will engage in either expropriation or nationalisation in the near term.
- Though unsuccessful, the government's attempt to seize Vicentin's assets in July 2020 discouraged foreign investors, who are already concerned about the Fernandez administration's less pro-business stance compared to the Macri administration.

Foreign Direct Investment



Source: United Nations Conference on Trade and Development

Risks and Opportunities

- The use of export bans and export quotas - to dampen inflation - as well as potential increases in export duties on agriculture products disincentivise private investors in these sectors.
- Be aware that investor disputes with the government would be more efficiently dealt with via international arbitration than through local legal processes.

Call to Action

- Seek appropriate legal advice to include effective arbitration clauses in contracts with Argentinian counterparties.
- Note that the resolution of expropriation disputes is likely to be lengthy under the current government.



Statistical Reference

Key Indicators and Forecasts

Historical Data/ Forecasts

Metric	2017	2018	2019	2020	2021e	2022f	2023f	2024f	2025f	2026f
Real GDP growth (%)	2.8	-2.6	-2.1	-9.9	7.5	2.3	1.9	1.6	1.4	1.2
Nominal GDP in USDbn	644	525	453	390	458	489	545	626	726	811
Nominal GDP in local currency	10,660bn	14,745bn	21,802bn	27,481bn	43,531bn	65,731bn	90,972bn	122.2tn	159.8tn	202.6tn
GDP per Capita in USD	14,649	11,831	10,112	8,620	10,048	10,630	11,752	13,380	15,378	17,036
Population (year-end, m)	43.9	44.4	44.8	45.2	45.6	46.0	46.4	46.8	47.2	47.6
Exchange rate (yr avge, USD-LCU)	16.6	28.1	48.1	70.5	95.0	134.4	166.8	195.1	220.2	250.0
Current Account in USDbn	-31.2	-27.1	-3.7	3.3	9.9	5.8	3.3	2.7	2.0	3.3
Current Account (% of GDP)	-4.8	-5.2	-0.8	0.9	2.2	1.2	0.6	0.4	0.3	0.4
FX reserves (year-end, USDbn)	55.1	65.8	44.8	39.4	39.6	41.2	42.8	44.5	46.3	48.2
Import Cover (months)	11.3	12.8	8.3	8.6	8.2	8.2	8.1	8.0	7.9	7.9
Inflation (annual avge, %)	25.7	34.3	53.5	42.0	50.9	48.7	36.5	32.7	29.4	25.6
Govt Balance (% GDP)	-6.7	-5.4	-4.4	-8.6	-3.1	-3.3	-3.0	-2.9	-1.8	-3.1

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Argentina	Brazil	Chile	Mexico	Colombia
Income per Capita (USD)	10,630	8,719	18,192	11,014	6,306
Country Population (m)	46.0	215.4	19.3	130.1	51.8
Internet users (% of population)	74.3	67.5	82.3	65.8	62.3
Real GDP Growth (% p.a., 2022 - 2031)	1.0 - 2.5	1.5 - 3.0	1.8 - 3.0	1.8 - 4.5	1.8 - 5.0

Source: Various sources/Dun & Bradstreet

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