

The country risk categories are arranged on a scale from 0 to 7.

The lower the figure, the better the country's creditworthiness.



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BASIC FACTS

Population	44 million (2016)
Nominal GDP	USD 544 billion (2016)
GDP/capita	USD 14 061 (2016)

COUNTRY CLASSIFICATION HISTORY



Source: EKN

Improved economic conditions

When President Macri took power two years ago, it marked a change following decades of Peronist rule (the dominant political movement in Argentina). Under Macri's leadership, a number of economic reforms have been implemented with largely positive results. Macri's policies have resulted in improved relationships with the international capital market, while relationships with the trade union movement have deteriorated. At a political level, Macri has received increased support in parliament, but his political party is in the minority. Macri's position is helped by the fact that the Peronist party has become increasingly fragmented. Even though there has been a positive trend for Macri's party, his parliamentary support is still fragile. But the growth rate is rising, while there is the challenge of an increasing current account deficit and double-digit inflation. A controlled development of the country's current account problem will therefore be needed in order to maintain the positive economic trend, and the continued support of parliament will also be decisive. A high level of uncertainty is persisting, but the trend is moving in a favourable direction for Macri.

THE COUNTRY'S STRENGTHS AND WEAKNESSES

STRENGTHS

- + Mature economy and high educational level
- + High per capita income
- + Relatively well-developed institutions

WEAKNESSES

- Imperfect payment behaviour
- Poor regulatory environment
- High inflation and large budget deficit

SWEDISH EXPORTS TO ARGENTINA, MSEK

	MSEK
2017	2 436
2016	2 461
2015	2 063
2014	1 552
2013	1 738

Source: SCB

EKN'S EXPOSURE

	MSEK
Guarantees	417
Offers	1 613

EKN'S POLICY

EKN has placed Argentina in country risk category 6 – an assessment made in collaboration with the OECD countries. EKN has no particular, general limitations for transactions with buyers in the private sector (banks, companies), but each transaction is assessed on its own merits. This applies regardless of whether the transaction has a short credit period (less than one year) or a longer credit period. Transactions with public debtors require a letter of credit, bank guarantee or state guarantee.

EKN'S EXPOSURE AND EXPERIENCE

EKN's outstanding guarantees total SEK 417 million and comprise primarily export transactions to the energy and paper sectors.

In 2017, 94 transactions were guaranteed to a value of SEK 408 million. The number of offers was 138 and totalled SEK 1,655 million in value. The figures reflect the increase that there has been in demand for guarantees for Argentina following the change in direction resulting from the economic policy in the country. Of those 94 transactions, 4 were class A or class B. Most of the transactions relate to the tissue paper and energy sectors, where background information on the management of risks relating to the environment and human rights was satisfactory. There is, however, evidence of conflicts in how federal and local legislation should be interpreted, for example with regard to lumbering.

The outstanding claim totals SEK 113 and relates in the most part to the debt that was renegotiated during the 1980s within the framework of the Paris Club's activities. After the financial crisis in Argentina in the early 2000s, the agreement was mismanaged and no payments were made. The agreement was re-negotiated in 2014, since when it has been managed in an exemplary manner. At present, outstanding late payments total SEK 16 million and are of a commercial nature. Payment experiences in general have been good in recent years.

WHAT MIGHT CAUSE A CHANGE IN THE COUNTRY POLICY

LESS RESTRICTIVE

- Increased political support for current policy reforms
- Strengthening of public finances, not least through better tax collection
- Increased diversification of the export sector

MORE RESTRICTIVE

- Continued major deficits in both budget and current account
- A return of the interventionist economic policy
- Reduced parliamentary support for the government

GDP GROWTH (% PER ANNUM)



Source: IMF WEO 2017

CURRENT ACCOUNT (% OF GDP)



Source: IMF WEO 2017

COUNTRY ANALYSIS

BACKGROUND

Since the late 1940s, the political stage in Argentina has been dominated by Peronism – a movement named after the former President Juan Peron. Peronism has a very vague ideology and can scarcely be classified in the traditional left/right scale. But the philosophy has strong elements of populism, nationalism and corporatism.

Peronism has pervaded much of the thinking around economic policy, and the nationalist approach has made relationships with foreign investors difficult. This was true not least during the deep economic crisis in the early 2000s, when foreign lenders were forced to perform major write-downs of the sovereign debt. Added to this is the interventionist economic policy, which has to a large extent complicated the opportunities for foreign companies to operate in the Argentinian market. Peronism is also strongly rooted in the Argentinian trade union movement.

RECENT TRENDS

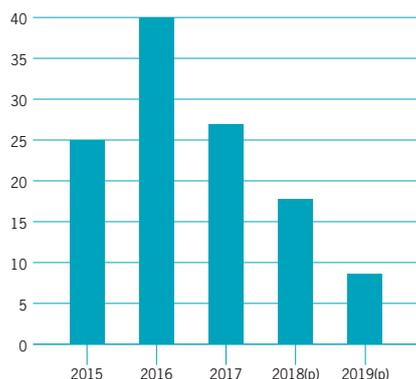
After the Peronist party had been in power since 2001, there was a change of regime in 2015 when Mauricio Macri was elected as President. Macri's free-market policy was to result in a change of direction for the Argentinian economy. He started to phase out the tangle of price and currency regulations, safeguards, export taxes and subsidies that his predecessor had created. The President's intention is to tackle the high level of inflation and the budget and current account deficits.

Following a downturn during President Macri's first year in power, Argentina's GDP increased by 2.8 per cent in 2017, a trend that is expected to continue in 2018. The Argentinian economy is, however, wrestling with challenges – persistent inflation combined with significant deficits in the central government budget balance and current accounts. Inflation is tackled, but is still just under 25 per cent.

At the same time, the current account deficit (4.6 per cent) needs to be reduced, not least through an adjustment of the over-valued exchange rate. On the other hand, this would increase the already strong inflationary pressure in the economy. An additional complication is the fact that the deficit in the current account is being financed primarily via short-term capital flows (rather than foreign direct investments), which is increasing vulnerability. The increased level of indebtedness that this entails is not sustainable in the long term.

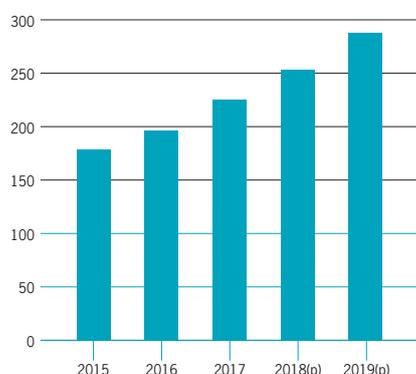
On the positive side, the government did receive increased support through the results of the congressional elections in October 2017. This has enabled a pension reform and an agreement with the provinces to bring down their indebtedness. Macri's political position is also benefiting from the fact that the Peronist opposition is currently very fragmented. There is no clear leadership figure to follow the former President Cristina Fernandez de Kirchner.

INFLATION (%)



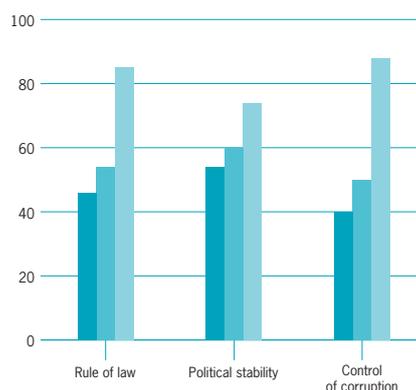
Source: IMF WEO 2017, EKN est.

EXTERNAL DEBT (% OF GDP)



Source: IMF Article IV 2017

BUSINESS ENVIRONMENT



■ Argentina
■ Latin America
■ High-income OECD

Ranking between 0 (worst) and 100 (best)

Source: World Bank

LONG-TERM TRENDS

The Macri government is facing a difficult challenge in trying to change the negative image of the country that has been built up during the series of Peronist governments. The country's willingness to pay has come into question following two government defaults since 2001. But it has been possible to discern a clear improvement. In recent years the debt to both the Paris Club and private creditors has been settled. At the same time, economic policy has moved in more of a free-market direction, which has resulted in the overall view of the country changing in a positive direction, not least from the financial market's perspective.

In terms of domestic policy, some more pragmatic elements of the opposition have shown a desire to support the government's reform initiative, but it may be difficult to maintain the current course in the longer term. The Macri government must therefore try to continue to strike the difficult balance between reforms that secure public finances and incentives that maintain a favourable economic trend during 2018. At the same time, the President must strive to build a political consensus while also minimising the unavoidable social tensions and conflicts with the trade union movement that the reforms entail. It is also a matter of being able to handle the strong stakeholder groups in the country that have for decades benefited from the policy that was pursued. This will require very astute political skills, which Macri has so far shown that he possesses.

BUSINESS ENVIRONMENT

Private buyers generally have good access to financial information. Imports on open credit are common and EKN has had relatively good experiences. Letters of credit are unusual, but do exist. The Argentinian business sector has displayed a very strong ability to survive in a political environment that has been characterised by interventions and changing conditions for business.

When it comes to the business environment in general, the World Bank's Governance Indicators confirm that Argentina has a negative ranking compared with peers in the region. This relates to the inclination of previous Peronist governments in some respects to micro-manage the way companies operated. It was, for example, necessary at times to have the right political contacts in order to be granted import licences. Another example is the export ban on meat that was introduced during a previous Peronist government in order to reduce the domestic price trend. These kinds of measures create uncertainty around the way companies operate. Control of corruption is also assessed by the World Bank as being worse than in the rest of Latin America. Under the current government, however, the direction of economic policy has changed and it is likely that the business environment indicators will improve in due course.

Another tool used to measure the regulatory environment is what is known as the Doing Business Index, which is compiled by the World Bank. Argentina is in the lower half of the 190 countries covered by the index. The country is ranked 117, just ahead of neighbouring Brazil and seventh of the major Latin American countries. In many of the underlying indexes – including the one that measures opportunities to start up a business – the ranking is, however, very unfavourable for Argentina (ranked 157 out of 190).

The Argentinian banking system is small. The banking system's proportion of Argentina's GDP is just over 16 per cent, while the average for Latin America is just under 40 per cent. This low proportion is due to the fact that faith in the banking system was eroded during the years of high inflation and when bank balances were frozen for a period. Private banks account for 58 per cent of the banking system, but the biggest bank, Banco de la Nación, is public and accounts for 24 per cent of the banking system's total assets. The banks are well capitalised and non-performing loans total two per cent. But in view of the strong increase in the granting of credit in the country, there is reason to believe that non-performing loans may increase in volume. The institutional framework around the banks' activities has been weak, but has been improved by the reform measures being carried out by the government.