Country Insight Report

Argentina

October 2022

Written 14 October 2022

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HIGH-LEVEL SUMMARY

DETAILED ANALYSIS

OVERALL COUNTRY/REGION RISK INDICATOR

Current Risk Indicator:

DB5d HIGH RISK		

High Risk (DB7) — Low Risk (DB1)

- Last change: October 2021 (DB5c → DB5d)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is DETERIORATING

HIGH RISK Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high-return transactions only.

WorldWatch Headline

Growth will decelerate sharply in 2023 as surging inflation and the weakening peso hit private consumption, while heightened uncertainty cools investment.

Multi-Dimensional Analysis (MDA) Scores

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

Low Risk: DB1 - DB2 | Moderate Risk: DB3 - DB4 | High Risk: DB5 - DB7

Source: Dun & Bradstreet

Recent Changes

- Growth is set to [illegible] 202[illegible]
- Banco Central de la República Argentina (BCRA, the central bank) hiked its 'Leliq' benchmark interest rate by 550 basis points in September to 75%.
- Inflation soared at its fastest pace since records began, reaching 79% in August; inflation expectations remain unanchored.
- We have downgraded our real GDP forecast for 2023 to 0.5% amid expectations of a broad-based slowdown domestically.

Events to Watch

- Pay attention to fiscal policy direction under the new economy minister Sergio Massa after the resignation in July of Martin Guzman who was broadly respected by markets.
- Monitor the pace at which the BCRA will permit the peso to deteriorate in nominal terms to stave off devaluation.
- Expect consumer confidence to remain firmly anchored in pessimism territory for the rest of the year: the University of Torcuato di Tella index was at 37.2 in September compared to 40.5 a year ago.

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: despite price controls and other government measures to dampen price pressures, consumers' purchasing power continues to be eroded by elevated inflation.

GLOBAL INSIGHT

Current Trend Indicator:

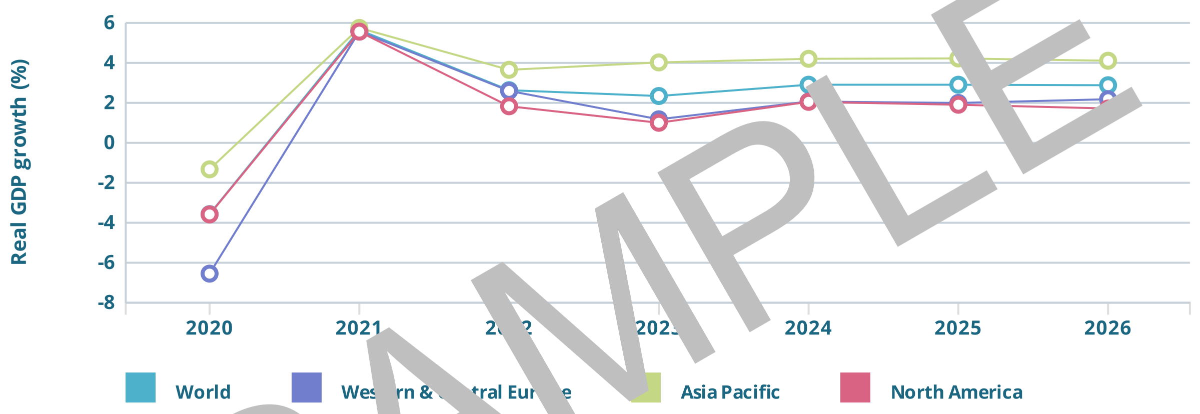
DETERIORATING RAPIDLY | DETERIORATING | STABLE | IMPROVING | IMPROVING RAPIDLY

- Current Trend is DETERIORATING
- Last Change: March 2022 (Stable ➔ Deteriorating)

Recent Developments

- The US Fed delivered a third consecutive 75 bps rate hike as core inflation remains strong.
- The Middle East's outlook moved to stable from deteriorating, to reflect healthier near-term economic prospects and an elevated geopolitical profile of several countries in the region.
- Risk to economic growth has increased across Europe, exerting additional pressure on the Euro, and prompting monetary and fiscal policy actions (e.g., the UK).
- Ukraine's counteroffensive has invoked a strong rhetoric from the Russian President, elevating risks of further escalation.
- Exports in APAC began waning; also, leading indicators suggest China's economy may see a better H2 vs. H1 2022, but overall growth prospects remain weak.

Global Growth Forecast



Source: Haver Analytics/Dun & Bradstreet

Risks and Opportunities

- Domestic political risks remain elevated globally; upcoming presidential elections in Brazil and Italy, and the US midterms remain key events to watch.
- Aggressive US Fed tightening exerts downward pressure on the currencies of developing economies.
- Due to the rising cost of debt, highly-leveraged households and debt-laden sovereigns and corporates may create pockets of distress, especially in emerging markets.
- China's reopening from lockdowns can support manufacturing, but higher Covid case numbers remain a risk to supply chain normalisation.
- The fragility of the EU's energy security has been exposed by the Ukraine war; this may test the EU's cohesion as Russia uses its leverage by reducing/stopping gas supplies.

Call to Action

- Focus on volumes, not revenues, as price rises could obfuscate underlying business strength.
- Expect further monetary tightening in the US as inflation remains the Fed's top priority.
- Establish alerts for negative changes in customers' and suppliers' viability.
- Review payment terms and ensure timely collections to minimise credit risks.
- Conduct end-to-end supply chain reviews; European businesses should specifically work to secure energy supplies before winter.

REGIONAL INSIGHT

Current Trend Indicator:

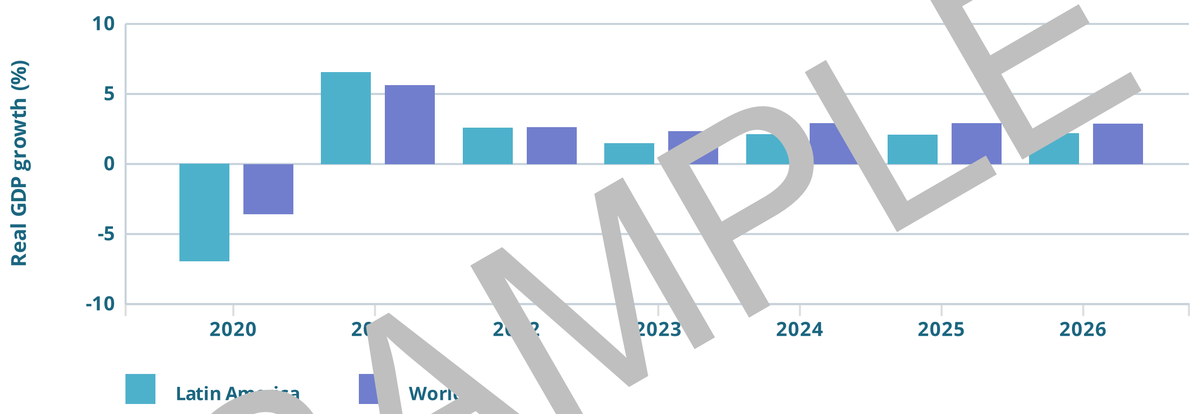
- Current Trend is DETERIORATING
- Last Change: March 2022 (Stable ➔ Deteriorating)

Recent Developments

- More downbeat growth forecasts for 2022 and 2023 for the region's largest trade and investment partners - the US, China and Western Europe.
- Global fuel and food prices have begun to ease from the highs triggered by the Ukraine war, but regional inflation forecasts for 2022 and 2023 remain far above pre-pandemic levels.
- Elevated commodity prices and recovering tourist arrivals boost foreign exchange earnings.
- Central banks in the region, which took the global lead in monetary tightening, maintain their hawkish positions to re-anchor inflation expectations.

REGIONAL OUTLOOK

Regional Growth Forecast



Source: Haver Analytics/Dun & Bradstreet

Risks and Opportunities

- With the US Fed expected to reach its peak Fed Funds Rate in Q4, faster than previously expected, USD-denominated debt servicing costs will rise.
- Weaker growth in the US and softening labour market will hit remittances; moreover, with above-target inflation and rising interest rates, private consumption will likely be depressed.
- The slowdown in the US and likely recessions in Western Europe will also cool demand for non-commodity exports and result in lower-than-previously-forecast tourist arrivals.
- As the regional slowdown extends into 2023, the probability of delayed payments and defaults grows, particularly for small businesses.
- The risk of social unrest will remain high, particularly where fiscal support is absent or inadequate to mitigate inflation; pro-environment demonstrations and protests against crime and corruption are also expected.

Call to Action

- Monitor political developments and take measures to mitigate the impact of protests on operations.
- Hedge against FX risks, where possible, as regional currencies face depreciation pressures.
- Note that the ongoing Russia-Ukraine conflict, though a boon for net exporters of crude oil, industrial metals, and agri-commodities, will keep prices elevated for net importers.
- Strengthen cybersecurity defences in light of heightened risks of attack.

COUNTRY INSIGHT HEADLINES

CREDIT ENVIRONMENT

Current Risk Indicator:

DB6c HIGH RISK

High Risk (DB7) — Low Risk (DB1)

- Last change: October 2021 (DB6a ➔ DB6c)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is DETERIORATING

HIGH RISK Expected returns subject to large degree of volatility. A very high expected return is required to compensate for the additional risk or the cost of hedging such risk.

Risks and Opportunities

- Banco Central de la República Argentina (BCRA, the central bank) hiked its 'Leliq' benchmark interest rate by 550 basis points in September to 75%. A number of secondary interest rates were increased in recent months as well.
- The BCRA is seeking to keep the benchmark rate above the inflation rate, as agreed with the IMF. As such, further tightening is expected in the coming months.
- Inflation remains a major concern - CPI came in at 79% in August and is expected to top 100% by the end of the year.
- Persistently low foreign reserves are heightening debt sustainability concerns.

Trade Terms

Description	Terms
Minimum Terms	LC
Recommended Terms	CLC
Usual Terms	30-[illegible]0 days

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

Export Credit Cover

Agency	Cover
Eksport Kredit Fonden (EKF)	Cover on case-by-case basis
US Eximbank	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

- Plan for additional rate hikes by the BCRA in H2 to bring real interest rates into positive territory.
- 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

Current Risk Indicator:

DB6a HIGH RISK		

High Risk (DB7) — Low Risk (DB1)

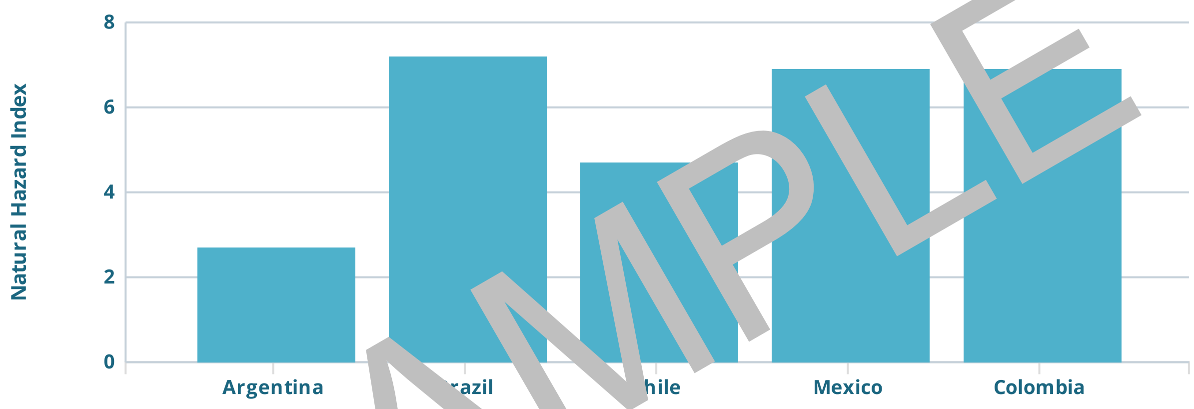
- Last change: October 2022 (DB5d ➔ DB6a)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is DETERIORATING

HIGH RISK Expected returns subject to large degree of volatility. A very high expected return is required to compensate for the additional risk or the cost of hedging such risk.

Risks and Opportunities

- A number of tax and other incentives were recently announced to attract foreign investors to the oil and gas, tourism and agribusiness industries.
- This, it is hoped, would also boost the inflow of hard currency.
- Additional changes in import/export bureaucracy is expected as the government fights soaring inflation and worryingly low international reserves.
- The government has increased the amount of diesel that could be imported tax free to keep pace with above-expected domestic demand.

Risk Index: Hazard & Exposure



Note: 0 = lowest risk, 10 = highest risk **Source**: Haver Analytics

Call to Action

- Global supply chain problems, though easing, will be a feature of the business environment in 2023, as the war in Ukraine continues and China maintains its 'zero-Covid' policy.
- Expect export controls to remain in place as the government battles record-high inflation at home.
- Be advised that the agriculture sector is facing its driest conditions in three decades, as drought remains a major threat.

MARKET ENVIRONMENT

Current Risk Indicator:

DB6c HIGH RISK		

High Risk (DB7) — Low Risk (DB1)

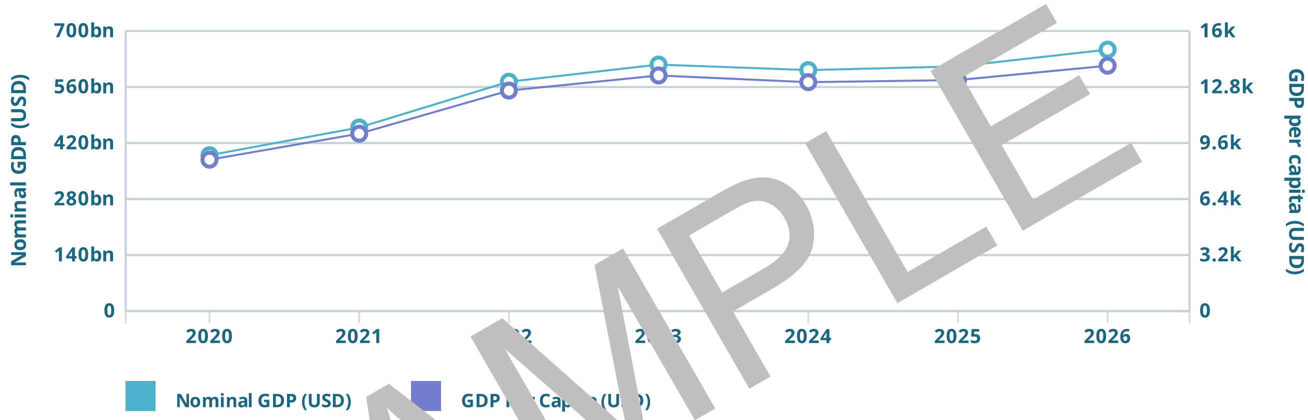
- Last change: August 2022 (DB6b ➔ DB6c)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is DETERIORATING

HIGH RISK Expected returns subject to large degree of volatility. A very high expected return is required to compensate for the additional risk or the cost of hedging such risk.

Risks and Opportunities

- Consumer confidence remained in pessimistic territory in September: the UTDT consumer confidence index rose slightly to 37.2 in August from 37.0 in July as still-soaring inflation reduced households' purchasing power and kept inflation expectations unanchored.
- Consumer price inflation is nearing 100%, despite anti-price-gouging policies and price controls on essential goods.
- 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 - Argentina



Source: Haver Analytics/Dun & Bradstreet

Call to Action

- Plan for import controls and restrictions on the remittance of profits.
- When doing business with entities in Argentina, keep abreast of, and factor in, the short-term economic forecasts for Brazil, China, India, Chile and the US.
- 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.

POLITICAL ENVIRONMENT

Current Risk Indicator:

DB5d HIGH RISK		

High Risk (DB7) — Low Risk (DB1)

- Last change: August 2022 (DB5c ➔ DB5d)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is STABLE

HIGH RISK Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high-return transactions only.

Risks and Opportunities

- The field of candidates is coming into focus in the lead-up to presidential elections in 2023; Comptroller Miguel Angel Pichetto of the newly-formed Peronist Encuentro Republicano Federal will run in primaries as part of an opposition alliance with Juntos por el Cambio.
- Divergent views on economic policy, particularly fiscal consolidation, are deepening fissures in the ruling Frente de Todos coalition.
- Price controls on basic consumer items will be maintained in the coming quarters.
- 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 & Participation	Functioning of Government	Freedom of Expression & Belief	Association & Organization Rights	Rule of Law	Personal Autonomy & Individual Rights
Argentina	11	16	8	[illegible]	[illegible]	10	13
Latin America	9	11	[illegible]	13	8	8	10
OECD Average	11	15	10	14	11	13	14

Note: Higher score = greater degree of freedom **Source**: Freedom House

Call to Action

- Prepare for strike action and public protests against rising inflation and fuel shortages, especially as elections draw near.
- Note that three consecutive years (2018-2020) 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

Current Risk Indicator:

DB6b
HIGH RISK

High Risk (DB7) Low Risk (DB1)

- Last change: October 2022 (DB6a ➔ DB6b)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is DETERIORATING

HIGH RISK Expected returns subject to large degree of volatility. A very high expected return is required to compensate for the additional risk or the cost of hedging such risk.

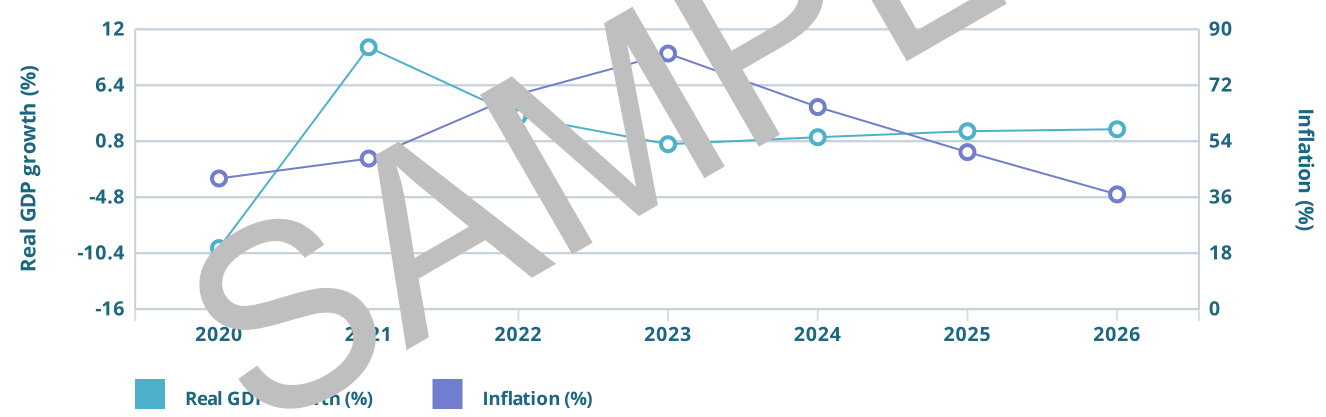
Short-Term Economic Outlook Overview

We have reduced our short-term economic outlook score by one quartile this month to DB6b and maintained the rating outlook on 'deteriorating'. Inflation remains among the highest in the world, investor sentiment has soured due to policy uncertainty, concerns about adherence to fiscal consolidation persist, while higher borrowing and financing costs due to steep monetary tightening are depressing credit demand, and a less supportive external environment is weighing on export demand. These factors added to the plunging peso will extend to 2023. As a result, we have downgraded our real GDP forecast for next year.

Recent Developments

- We now expect real GDP to grow by a meagre 0.5% in 2023 from 3.3% in 2022. Economic activity rose 6.4% y/y in June from 7.6% in May as activity in the construction and manufacturing sectors weakened.
- Industrial output weakened further in July, growing by 5.1% y/y from 7.3% y/y in June. While the production of automotive vehicles grew, output of machinery and equipment, chemical products and food and beverages weakened.
- Consumer demand is heavily constrained by the lag in wage growth vis-à-vis surging inflation. In addition, business margins continue to be threatened by rising production costs.

Real GDP Growth and Inflation - Argentina



Source: Haver Analytics/Dun & Bradstreet

Risks and Opportunities

- The outlook for the industrial sector in the coming months has weakened: in July the annual average industrial output eased to 7.4% from 8.1% in June.
- Consumer spending in real terms will continue to decline on the back of blistering inflation, which hit 71% in July.
- Government intervention in the agriculture and energy markets will continue in an effort to fight inflation, despite commitments for more market-friendly policies in the agreement 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 will be tighter capital controls in place, especially for months with lower export receipts.
- Because of the central bank's slow accumulation of FX reserves, assume that it will still be difficult to purchase hard currency.
- Watch for extended export caps on food commodities and higher export taxes, as the war in Ukraine is resulting in lower global supplies.

LONG-TERM ECONOMIC POTENTIAL

Current Risk Indicator:

DB4d
SLIGHT RISK

High Risk (DB7) Low Risk (DB1)

- Last change: June 2022 (DB5a ➔ DB4d)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is STABLE

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

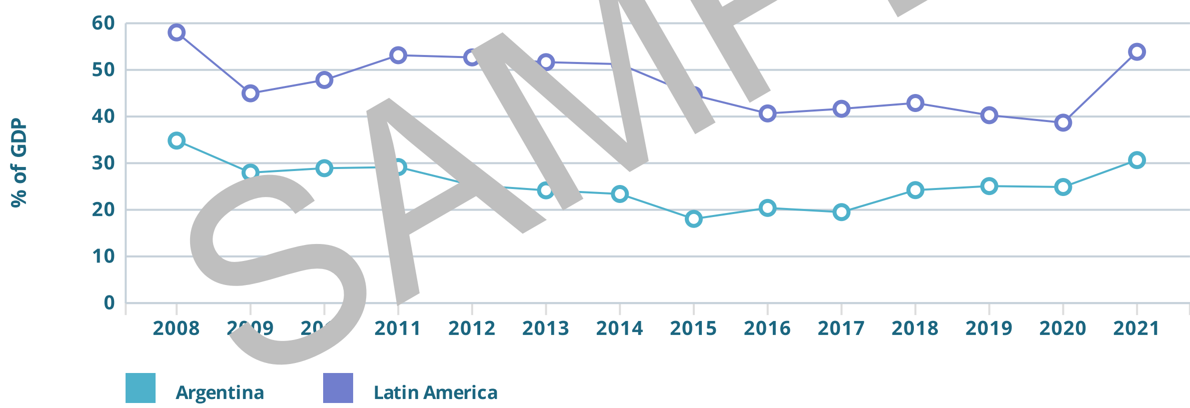
Long-Term Economic Potential Overview

Argentina's long-term growth prospects are constrained by its low competitiveness. Argentina's institutions are weak and government regulations are a major burden on businesses. The efficiency of its legal framework in settling disputes also challenges the commercial environment. Added to this are high levels of organised crime and weak auditing and reporting standards.

Recent Developments

- Agreements with Bolivia and Brazil could help ease energy-supply concerns in the short term, but structural factors such as ongoing government intervention hinder a long-term solution to the country's energy-security problems.
- Argentina has joined China's Belt and Road Initiative, focusing on proposed infrastructure and other projects to the tune of USD30bn.
- 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.
- 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

Current Risk Indicator:

DB6a HIGH RISK		

High Risk (DB7) — Low Risk (DB1)

- Last change: October 2021 (DB6c ➔ DB6a)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is DETERIORATING

HIGH RISK Expected returns subject to large degree of volatility. A very high expected return is required to compensate for the additional risk or the cost of hedging such risk.

Market Potential Overview

The growth forecast for 2023 has been revised down as domestic and internal headwinds evident in 2022 extend to the following year. GDP per capita is now forecasted to sit at USD13,460 in 2023. 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.

Recent Developments

- Inflation at 79% in August keeps the outlook for market potential at 'deteriorating' as consumers' purchasing power is rapidly eroding, despite price controls and limits on exports of beef products and grain.
- Increases in the national minimum wage, rises in transfer payments and price controls have done little to offset the steady reduction of purchasing power experienced by low-income households.

Main Restrictions on Imports

Tariff Barriers	Argentina	Brazil	Chile	Mexico	Colombia
Overall Weighted Mean Tariff	7.4	8	0.5	1.2	3.3
Manufactures Weighted Mean Tariff	8.6	[illegible]	[illegible]	1.4	3.3
Primary Products Weighted Mean Tariffs	1.8	2.5	0.5	0.6	3.2
Overall MFN Tariff	[illegible]	[illegible]	0	6	0.5
Manufactures MFN Tariff	[illegible]	29	0	5.6	0.2
Primary Products MFN Tariff	[illegible]	16.2	0	11.5	2.8
Services Restrictiveness Index	17	22.5	23.4	29.5	18.3

Note: Tariff data displayed as [illegible] data, 0 = completely open, 100 = completely closed **Source**: Haver Analytics/World Bank

Risks and Opportunities

- Market potential will continue to be narrowed by high and rising inflation in the coming months.
- The government has announced tax and other incentives to encourage private investment in several key sectors. The government 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.
- 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.
- Expect new market opportunities from closer trade and investment ties with extra-regional and regional trade blocs in the short term if the incoming government resolves tension with Mercosur.
- Follow developments regarding trade disputes and any relevant bilateral trade talks that involve Argentina.

FX RISK

Current Risk Indicator:

DB6b HIGH RISK

High Risk (DB7) Low Risk (DB1)

- Last change: August 2022 (DB5c ➔ DB6b)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is DETERIORATING RAPIDLY

HIGH RISK Expected returns subject to large degree of volatility. A very high expected return is required to compensate for the additional risk or the cost of hedging such risk.

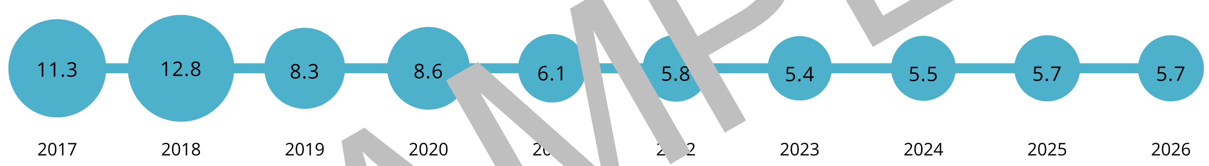
FX Risk Overview

The BCRA is adhering to a crawling peg to help reduce exchange-rate volatility and ease near-term FX risk. The bank was successful in using the peg for pursuing its target to limit nominal depreciation in 2021. However, the currency has come under strong downward pressure in 2022 amid soaring inflation and downbeat investor confidence weakening due to heightened policy uncertainty. Due to these factors, the FX risk sits at DB6b with the outlook 'deteriorating rapidly'.

Recent Developments

- Argentina has a host of policies in place - from capital controls to import restrictions - that aim to protect the government's foreign currency reserves.
- The bank will continue on a tightening path to fight inflation, anchor inflation expectations, and seek to keep the benchmark rate above inflation as agreed with the IMF; this will also help to defend the peso.
- Elevated commodity prices will help the country accumulate reserves.
- Consumers, as well as companies and retail investors are facing new restrictions in accessing US dollars.

Import Cover (Months)



Source: Haver Analytics/Dun & Bradstreet

Risks and Opportunities

- Foreign reserves will be under continued downward pressure as the peso weakens and the risk of capital flight rises.
- Lower reserves are also triggering new concerns about the government's ability to meet debt obligations.
- The IMF EFF agreement eased immediate balance-of-payment pressures, however the probability of missed targets has not completely disappeared and could affect future Fund disbursements.

Call to Action

- Note that, while a devaluation is not our central forecast, the official exchange rate will depreciate further in 2022 and, coupled with policy uncertainty fears, stoke capital flight.
- Expect ongoing challenges in procuring US dollars.
- Be aware that we advise currency hedging to reduce FX risk and tightening payment terms with local counterparties for settlement of USD liabilities, where possible.

TRANSFER RISK

Current Risk Indicator:

DB6a HIGH RISK		

High Risk (DB7) — Low Risk (DB1)

- Last change: October 2022 (DB5d ➔ DB6a)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is DETERIORATING

HIGH RISK Expected returns subject to large degree of volatility. A very high expected return is required to compensate for the additional risk or the cost of hedging such risk.

Transfer Risk Overview

We have downgraded the transfer risk to DB6a as we expect further capital controls to be implemented. The BCRA has been drastically tightening capital controls in recent years as FX reserves remain at worryingly low levels, resulting in a substantial widening of 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 consumers, investors and businesses remains strong as confidence in the peso continues to deteriorate.

Recent Developments

- Authorisations for imports will be more closely scrutinised and more carefully managed by the government to reduce fraud and protect foreign reserves.
- The central bank is increasingly restricting the amount of USD that consumers and companies can buy. The most recent measures include new taxes on foreign travel and credit-card spending outside the country.
- Low FX reserves and stronger-than-forecasted currency deprecation triggered measures to simultaneously aid importers and limit household demand for overseas tourism services.

Transfer Situation

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

Note: Length of delay for completion of local and foreign transfers **Source**: Dun & Bradstreet

Trade Payment Restrictions

Trade Payment Restriction	Argentina	Latin America	OECD Average
Restrictions on non-Resident 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

Note: for a definition of the Trade Payment Restrictions please see the online user guide **Source**: International Monetary Fund

Risks and Opportunities

- Companies will now have their request for foreign currency to buy imports verified against its financial resources, based on rules announced in October.
- Importers will have to designate a single bank account to facilitate foreign trade transactions and will be expected to carefully time their requests for currency from the BCRA.
- Overall concerns about ad hoc capital controls eased following approval of the IMF 30-month extended agreement for USD44bn.

Call to Action

- Be aware that firms are encouraged to plan for m/m fluctuations in the availability of FX, which could affect their ability to pay for imports in a timely fashion.
- 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

Current Risk Indicator:

DB5b HIGH RISK

High Risk (DB7) Low Risk (DB1)

- Last change: August 2022 (DB5a ➔ DB5b)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is STABLE

HIGH RISK Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high-return transactions only.

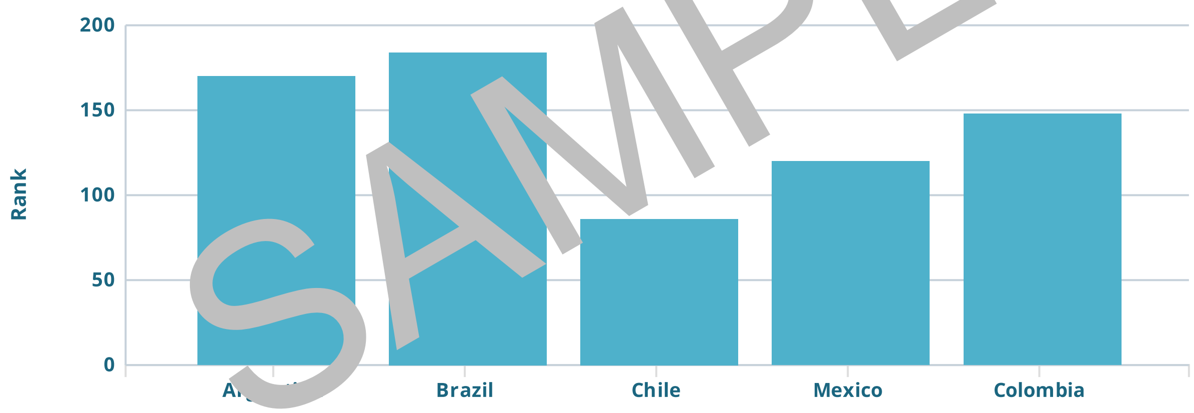
Business Regulatory Environment Overview

The business regulatory environment score sits at DB5b. 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 National Agency for Export and Investment Promotion (Agencia Argentina de Inversiones y Comercio Internacional) could help with navigating the regulatory landscape.

Recent Developments

- Exporters in certain sectors have come under regulations prohibiting investment of more than 30% of forex earnings in foreign assets.
- Despite agreeing with the IMF’s recommendation to increase competitiveness in key sectors, government bias may still give local firms an edge.
- Protectionist measures such as the suspension of soybean exports elevates regulatory risks.
- In the 2021 *Corruption Perceptions Index*, published by Transparency International, Argentina dropped to 96th of 180 countries surveyed, with an unimpressive score of 38.

Ease of Paying Taxes, 2019



Note: Low score = best, High score = worst **Source**: World Bank, 'Doing Business Report'

Risks and Opportunities

- Argentina has one of the highest corporation tax rates globally, resulting in foreign firms favouring other countries such as its neighbour Uruguay for foreign investment.
- Ranked among countries with the most credit information, Argentina has one of 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.

Call to Action

- Note that Argentina’s total tax rate and contribution rate is much higher than peer countries'.
- Scrutinise cross-border tax issues, tax treaties and new fiscal treatments and definitions well in advance to prevent difficulties.

BUSINESS CONTINUITY

Current Risk Indicator:

DB6a HIGH RISK

High Risk (DB7) Low Risk (DB1)

- Last change: October 2022 (DB5d ➔ DB6a)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is DETERIORATING

HIGH RISK Expected returns subject to large degree of volatility. A very high expected return is required to compensate for the additional risk or the cost of hedging such risk.

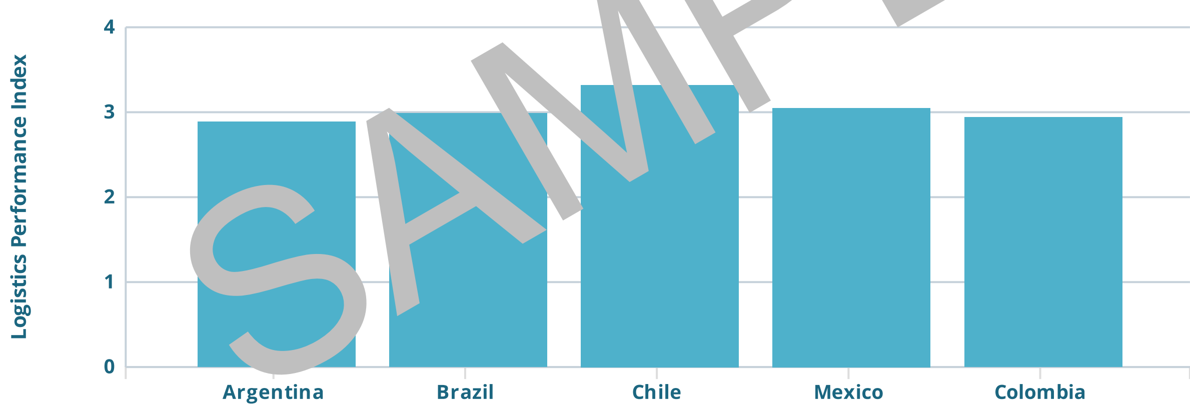
Business Continuity Overview

The Business Continuity score has been downgraded by one quartile to DB6a amid blistering inflation, aggressive monetary tightening and increasingly limited access to US dollars. From a physical standpoint, 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. A total of 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 poor condition. Specific sectors, such as electricity and energy, suffer from inadequate maintenance and under-investment.

Recent Developments

- Low reserves have heightened concerns about defaults on select corporate bonds.
- High global energy prices are keeping transportation costs elevated with a multi-sectoral impact. Some relief is expected through a government measure to increase the amount of tax-free diesel imports.
- The agricultural sector and river transportation are being affected by severe ongoing drought.

Logistics Performance Index, 2018



Note: 1 = worst performance, 5 = best performance **Source**: World Bank/Haver Analytics

Risks and Opportunities

- Despite announced government plans to import more fuel to meet domestic shortfalls, fuel shortages and soaring costs remain significant risks for business continuity in the coming months.
- 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, as well as 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, despite efforts to secure more imports.
- 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

Current Risk Indicator:

DB4d
SLIGHT RISK

High Risk (DB7) — Low Risk (DB1)

- Last change: August 2022 (DB4c ➔ DB4d)
- Amber indicates that there is a **Balanced** mixture of negative/positive factors/influences
- Rating outlook is DETERIORATING

SLIGHT RISK Significant uncertainty over expected returns. Risk-averse customers are advised to protect against potential losses.

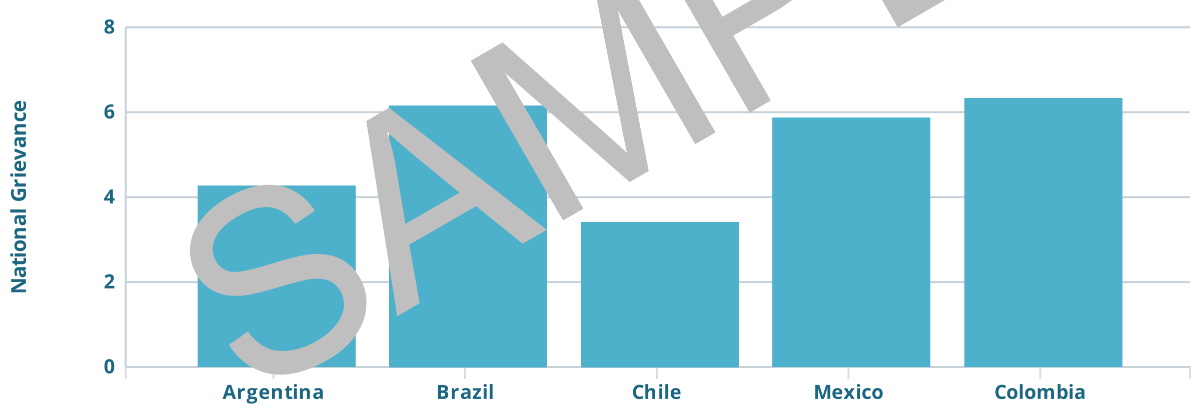
Political/Insecurity Risk Overview

Political/insecurity risks will remain elevated on the back of internal divisions in the ruling Frente de Todos coalition and public discontent over soaring inflation, which was amongst the highest in the world prior to the war in Ukraine. That is the rationale behind us keeping the political risk score at DB4d. In the past year, public protests have been staged by social and political groups against unemployment and an increase in poverty as well as inflation. The Fuente de Todos' loss of its senate majority in the last election makes an already-challenging policymaking environment more difficult for the remaining years of the Fernandez administration.

Recent Developments

- The President reshuffled his cabinet again and appointed three women to lead the labour, social development and women's ministries, as a deep economic crisis has sparked weeks of protests.
- The appointment of a second economy minister (Sergio Massa) within a month of Martin Guzman's resignation (in July) reflects deep divergence in the coalition on policy direction.
- As the war in Ukraine continues to fuel high inflation, the hard-left elements of the coalition will press President Fernandez to implement populist policies that are at odds with the EFF.

Level of National Grievance, 2022



Note: 1.0 = lowest grievance, 10.0 = highest grievance **Source**: Fund for Peace, 'Fragile States Index'

Risks and Opportunities

- Public disapproval of both the executive and legislative branches of government remain high.
- We expect price controls on basic consumer items to be maintained until at least 2024.
- Although such price controls may be welcomed by households, investor sentiment is worsening.

Call to Action

- Note that the government's commitment to fiscal consolidation is increasingly under question, given pressures from the hard-left elements of the coalition.
- Watch for dissension between President Alberto Fernandez and Vice President Cristina Fernandez over social and economic policies implemented for the duration of the administration's time in office.

EXPROPRIATION/NATIONALISATION RISK

Current Risk Indicator:

DB5c HIGH RISK

High Risk (DB7) — Low Risk (DB1)

- Last change: April 2022 (DB6a ➔ DB5c)
- Red indicates that **Negative** factors/influences dominate
- Rating outlook is STABLE

HIGH RISK Considerable uncertainty associated with expected returns. Businesses are advised to limit their exposure and/or select high-return transactions only.

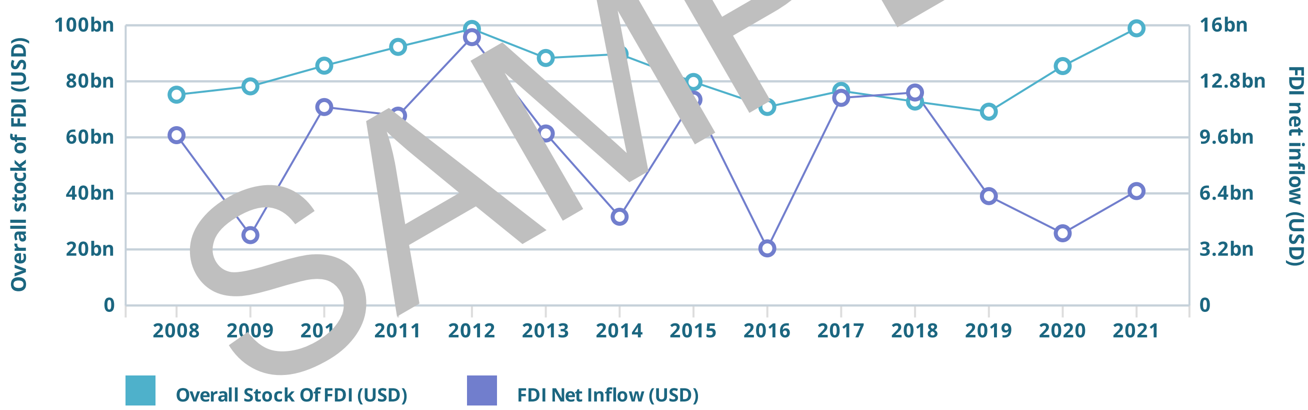
Expropriation/Nationalisation Risk Overview

In March the IMF approved a 30-month USD44bn Extended Arrangement for Argentina in a restructuring deal, which suggests 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

- The new economy minister Sergio Massa's appointment was broadly supported by investors, however he is unlikely to create a fundamental shift in the government's populist stance.
- The government’s protectionist impulses remain very strong and cannot be fully ruled out as it battles soaring inflation.

Foreign Direct Investment - Argentina



Source: United Nations Conference on Trade and Development

Risks and Opportunities

- The government's nationalist bent will result in local companies having an edge over foreign firms in some industries, leading to discouragement of foreign investment.
- The use of export bans and export quotas to dampen inflation, and increases in export duties on agriculture products, will remain a risk for private investors in these sectors.

Call to Action

- Seek appropriate legal advice to include effective arbitration clauses in contracts with Argentinian counterparties.
- Note that resolution of expropriation disputes is likely to be lengthy.
- Be aware that investor disputes with the government would be more efficiently dealt with via international arbitration than through local legal processes.

STATISTICAL REFERENCE

KEY INDICATORS AND FORECASTS

Key Indicators and Forecasts

Historical Data/Forecasts

Metric	2017	2018	2019	2020	2021	2022f	2023f	2024f	2025f	2026f
Real GDP growth (%)	2.8	-2.6	-2	-9.9	10.2	3.3	0.5	1.2	1.8	2
Nominal GDP in USDbn	644	525	453	390	459	573	616	602	612	653
Nominal GDP in local currency	10.7tn	14.7tn	21.8tn	27.5tn	43.6tn	75.1tn	137.3tn	228.2tn	347.5tn	482.7tn
GDP per Capita in USD	14,610	11,817	10,120	8,651	10,135	12,596	13,459	13,077	13,198	14,018
Population (year-end, m)	44.1	44.4	44.7	45	45.3	45.5	45.8	46.1	46.3	46.6
Exchange rate (yr avge, USD-LCU)	16.6	28.1	48.1	70.5	95	131.1	222.8	378.8	568.3	738.7
Current Account in USDbn	-31.2	-27.1	-3.5	3.1	6.7	1	-0.3	-2.7	-4.9	-7.8
Current Account (% of GDP)	-4.8	-5.2	-0.8	0.8	1.5	0.2	0	-0.5	-0.8	-1.2
FX reserves (year-end, USDbn)	55.1	65.8	44.8	39.4	39.7	41.6	[illegible]	45.5	49.1	52
Import Cover (months)	11.3	12.8	8.3	8.6	6.1	5.8	[illegible]	[illegible]	5.7	5.7
Inflation (annual avge, %)	25.7	34.3	53.5	42	[illegible]	[illegible]	82.2	65	50.5	36.9
Govt Balance (% GDP)	-6.7	-5.4	-4.4	[illegible]	[illegible]	[illegible]	-3.9	-3.3	-2.8	-2.6

Source: Haver Analytics/Dun & Bradstreet

Comparative Market Indicators

Indicator	Argentina	Brazil	Chile	Mexico	Colombia
Income per Capita (USD)	[illegible]	8,329	15,835	11,242	6,403
Country Population (m)	45.5	215.3	19.6	127.5	51.8
Internet users (% of population)	85.5	81.3	88.3	72	69.8

Source: Various sources/Dun & Bradstreet

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Publisher
Dun & Bradstreet
The Point
37 North Wharf Road
London W2 1AF
United Kingdom
Tel: +44 20 7149 5000
Email: countryinsight@dnb.com

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