

# CareEdge Global assigns Long Term Foreign Currency Rating of CCC (Unsolicited) to the Argentine Republic

## Credit Profile

Argentina's credit profile is weighed down by severe fiscal and external imbalances attributable to years of hyperinflation and exchange rate fluctuations. Extreme economic volatility and reliance on agriculture, makes it vulnerable to climate risk and external shocks. The country's high debt-to-GDP ratio of 156.7% and heavy reliance on foreign currency debt amplify its fiscal instability and limit its access to affordable financing from international markets. Nearly two-thirds of the government's debt is denominated in foreign currency, leading to a higher debt servicing burden. Structural issues such as weak infrastructure and low competitiveness also add to the country's concerns.

An External Fund Facility (EFF) arrangement by IMF, worth USD 44 billion, is ongoing to address Argentina's balance of payments and fiscal imbalances. Additionally, Argentina's new government under President Javier Milei has proposed several key reforms for long-term macroeconomic stability. These include devaluation of the Peso, reduction of fuel subsidies, consolidation of the cabinet ministries, and privatisation of state-owned enterprises. The implementation and impact of these measures should be closely tracked going forward in medium term.

## Strengths

- Large economy and domestic market
- Major agriculture producer, largest exporter of soybean oil
- Availability of educated and skilled workforce

## Weaknesses

- High level of inflation
- Multiple exchange rate system
- Uncertain access to international capital markets
- Low level of reserves

## Key Monitorable

- Result on economy, of Shock Therapy undertaken by Javier Milei's government
- Congressional approval of fiscal and reform legislations by Milei, since his government is in minority.
- Deregulation towards market-based economy.

## Key Rating Drivers

### Economic Structure & Resilience

Argentina's economic profile is characterized by significant growth volatility, entrenched hyperinflation, exposure to climate risks reflected by droughts, and frequent exchange rate depreciations, despite its

moderately large economic size (USD 655 billion as of 2023), a high GDP per capita (USD 21,890 in constant PPP terms in 2023), and abundant natural resources. The economy also struggles with structural issues such as lack of infrastructure, trade restrictions, low competitiveness, and relatively low GFCF level (17.9% of GDP in 2022).

The GDP is estimated to contract by 1.6% in 2023 from a growth of 5% in 2022, attributed primarily to drought. Additionally, measures announced by the newly elected government are anticipated to increase the economic difficulties in the near term, which are expected to lead to further contraction of GDP by around 2.8% in 2024.

### **Fiscal Strength**

Argentina's weak fiscal profile is reflected by high debt levels (156.7% of GDP in 2023), government's reliance on central bank financing of debt, and limited access to funding from external markets. Argentina faces significant challenges in its fiscal consolidation efforts, including high inflation and persistent unemployment, which threaten the sustainability of its recent fiscal improvements. Argentina's history of defaults has severely damaged its credibility with international investors, making it difficult for the country to access external financing on favorable terms. Argentina's 71.7% of federal government debt is denominated in foreign currency, primarily US dollars. High debt servicing costs and expenditure towards pension, salaries and subsidies (57% of total expenditure) leave less room for public spending in essential services and investments.

The fiscal deficit is expected to reach a surplus of 0.9% of GDP by 2025 from the estimated level of 4.2% in 2023 owing to current administration's austerity measures. However, improvements in the fiscal metrics will depend on the pace of implementation of these measures going ahead.

### **External Position & Linkages**

External sector risks are primarily driven by exchange rate fluctuations and dependence on exports in the agricultural sector (54.2% of total exports in 2023) and a critically low level of reserves enough to cover only 3 months of imports.

The current administration's reforms, including stringent austerity measures and steps to control hyperinflation can enhance investor confidence, if implemented effectively. The external sector challenges are partly offset by a projected current account surplus of 0.9% of GDP in 2024-25 from a deficit of 3.5% of GDP in 2023 and positive NIIP at 16.6% of GDP in 2023.

### **Monetary & Financial Stability**

The central bank's foreign currency reserves are low. Argentina's reliance on foreign currency debt has heightened its vulnerability to exchange rate fluctuations, leading to multiple exchange rate system that includes an official rate and a parallel "blue" rate amongst others. In November 2023, the central bank reactivated its crawling peg arrangement, pegged to the US dollar, thereby limiting monetary policy flexibility. Despite the devaluation of Argentinian Pesos by 54% in December 2023, the official exchange rate remains misaligned with the parallel market rate. These factors collectively reflect a precarious monetary environment. Argentina is suffering from hyperinflationary crisis, with prices soaring nearly 290%

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in April 2024 even though inflation has shown signs of slight moderation in recent months. The financial system is underdeveloped with low credit penetration.

### **Institutions & Quality of Governance**

Argentina's weak institutional framework and quality of governance has been shaped by a complex history of political dynamics and economic challenges. The current administration's ambitious reform agenda has been hampered by limited congressional power. However, use of executive orders, for implementing a "shock therapy" approach to address Argentina's economic crisis maybe unsustainable and have also resulted in nation-wide protest because of deteriorating social conditions.

Argentina– Select Indicators									
	Unit	2018	2019	2020	2021	2022	2023	2024 F	2025 F
<b>Economic Indicators</b>									
Nominal GDP	USD Billion	524	447	385	487	631	655	604	559
GDP Per Capita (Constant-PPP)	USD	22,747	22,072	19,695	21,600	22,461	21,890	21,074	21,910
Real GDP Growth	%	-2.6	-2.0	-9.9	10.7	5.0	-1.6	-2.8	5.0
GFCF/GDP	%	15.3	14.2	14.3	17.6	17.9	18.4	-	-
Gross Domestic Savings/GDP	%	14.7	17.4	17.4	21.3	19.1	17.0	-	-
Exports (G&S)/GDP	%	14.4	17.9	16.6	18.0	16.3	12.9	-	-
Working-Age (15-64) Population (% Share in Total)	%	64.3	64.5	64.6	64.8	65.0	65.2	65.4	65.6
Old-Age (65+) Population (% Share in Total)	%	11.5	11.6	11.7	11.8	11.9	12.1	12.2	12.4
<b>Fiscal Indicators – General Government</b>									
Fiscal Balance/GDP	%	-5.4	-4.4	-8.7	-4.3	-3.9	-4.2	0.0	0.9
Revenue/GDP	%	33.5	33.7	33.8	33.5	34.0	32.2	34.5	34.9
Expenditure/GDP	%	38.9	38.1	42.5	37.8	37.8	36.4	34.5	34.2
GG Gross Debt/GDP	%	85.2	89.8	103.8	80.8	84.7	156.7	86.2	79.5
GG External Debt (by Creditor)/GG Gross Debt	%	38.8	43.1	42.1	40.8	48.0	47.5	47.5	47.1
Interest/Revenue	%	16.5	18.6	11.1	7.8	10.1	10.1	9.8	10.2
<b>External Indicators</b>									
Current Account Balance/GDP	%	-5.2	-0.8	0.7	1.4	-0.7	-3.5	0.9	0.9
FDI, Net Inflows/GDP	%	2.2	1.5	1.3	1.4	2.4	3.4	-	-
Outstanding FII Liabilities/GDP	%	21.6	16.1	15.3	12.8	7.6	7.8	-	-
NIIP/GDP	%	12.4	25.2	31.9	25.5	19.5	16.6	-	-
Foreign Exchange Reserves	USD Billion	65.8	44.8	39.4	39.7	44.6	23.1	-	-
Import Cover	Months	9.09	8.08	9.03	6.57	5.48	2.99	-	-
External Debt/GDP	%	53.0	62.3	70.5	55.0	43.8	43.7	-	-
<b>Monetary and Financial Indicators</b>									
CPI Inflation	%	34.2	53.5	42.0	48.4	72.4	133.4	249.7	59.5
Exchange Rate (Average)	LC per USD	28.06	48.1	70.3	95.1	130.8	295.2	-	-
Non-Performing Loans/Total Gross Loans	%	3.0	5.7	4.2	4.3	3.1	3.5	-	-
Private debt, loans and debt securities/GDP	%	29.0	28.0	29.7	22.9	22.3	-	-	-

Sources: International Monetary Fund, World Bank, Bank for International Settlements, National Sources, CareEdge Global

Note: F - Forecast; PPP – Purchasing Power Parity; GFCF – Gross Fixed Capital Formation; Exports (G&S) – Exports of Goods and Services; GG – General Government; FDI – Foreign Direct Investment; FII – Foreign Institutional Investment; NIIP – Net International Investment Position; Data refers to fiscal/calendar year and actual/estimate as reported by the source; Where general government data is unavailable, central government data is used; Latest available data for 2023

## Rating History

Instrument	Type	Rating	Date
Issuer Rating	Long Term Foreign Currency (Unsolicited)	CCC	October 3, 2024

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## Criteria Applied

CareEdge Sovereign Rating Methodology

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CIN-U66190GJ2024PLC151103