

BEST'S COUNTRY RISK REPORT

Argentina CRT-5

August 22, 2018

Region: Latin America

[Country Risk Criteria Procedures](#)

[Guide to Best's Country Risk Tiers](#)

- The Country Risk Tier (CRT) reflects A.M. Best's assessment of three categories of risk: Economic, Political, and Financial System Risk.
- Argentina, a CRT-5 country, has high levels of economic and political risk, and very high financial system risk.
- Argentina's economy contracted by 1.8% in 2016 but returned to growth in 2017 at a rate of 2.9%. Growth in 2018 is expected to decelerate moderately to 2.0%. Peso depreciation and cuts to subsidies for basic items has kept inflation persistently high. Improved management of inflation could require measures by the government and central bank that will likely be unpopular.
- The map depicts the countries A.M. Best evaluates in Central America, South America, and the Caribbean. The majority of Latin American countries are considered CRT-4, or CRT-5, with the exceptions of Chile, which is CRT-2, and Mexico and Peru, which are CRT-3.



- Country Risk Tier 1 (CRT-1)** Very Low Level of Country Risk
- Country Risk Tier 2 (CRT-2)** Low Level of Country Risk
- Country Risk Tier 3 (CRT-3)** Moderate Level of Country Risk
- Country Risk Tier 4 (CRT-4)** High Level of Country Risk
- Country Risk Tier 5 (CRT-5)** Very High Level of Country Risk

Regional Summary: Latin America

- Growth in the region is likely to continue in 2018 due to expanding global growth, rebounding commodity prices, and strengthening domestic demand. However, risks are tilted to the downside owing to rising domestic political uncertainty, currency volatility, growing trade protectionism, rising fiscal deficits, and negative spillover effects from international financial markets.
- Conditions are largely positive, but several countries in the region are experiencing heightened risk. Years of unsustainable social programs, higher spending, and growing corruption have led to significant challenges for Venezuela, as well as Brazil and Argentina, albeit to a lesser extent.
- So far this year, there have been several presidential elections in Colombia, Mexico, and Venezuela; Brazil's is scheduled for later this year. The election environment is complex owing to mounting social conflicts, corruptions scandals, and policy uncertainty. According to the IMF's 2017 estimates, four countries are responsible for the largest proportion of the region's economic output: Brazil at USD2,055 billion, Mexico at USD1,149 billion, Colombia at USD309 billion, and Venezuela at USD210 billion.

Vital Statistics 2017		
Nominal GDP	USD bn	637.72
Population	mil	44.1
GDP Per Capita	USD	14,467
Real GDP Growth	%	2.9
Inflation Rate	%	25.7

United Nations Estimates		
Literacy Rate	%	98.1
Urbanization	%	92.0
Dependency Ratio	%	56.5
Life Expectancy	Years	77.3
Median Age	Years	31.7

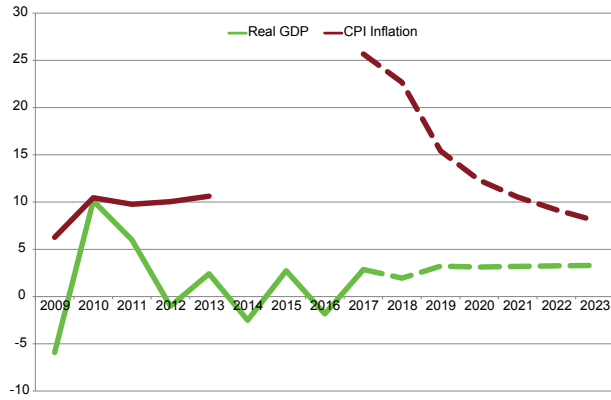
Insurance Statistics		
Insurance Regulator	Superintendency of Insurance	
Premiums Written (Life)	USD mil	2,476
Premiums Written (Non-Life)	USD mil	13,959
Premiums Growth (2016 - 2017)	%	2.2

Regional Comparison	
	Country Risk Tier
Argentina	CRT-5
Brazil	CRT-4
Chile	CRT-2
Colombia	CRT-4
Peru	CRT-3
Venezuela	CRT-5

Source: IMF, UN, Swiss Re, Axco and A.M. Best



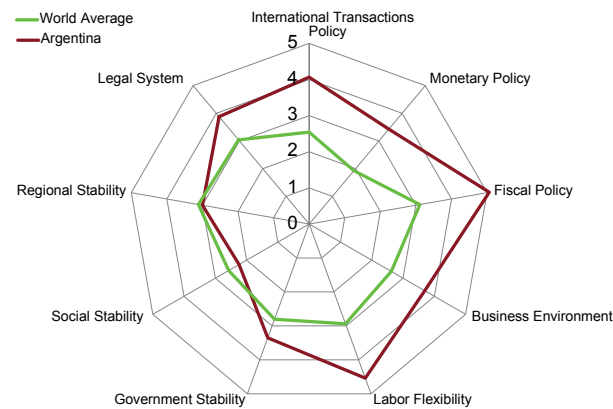
Economic Growth (%)



Source: IMF World Economic Outlook and A.M. Best

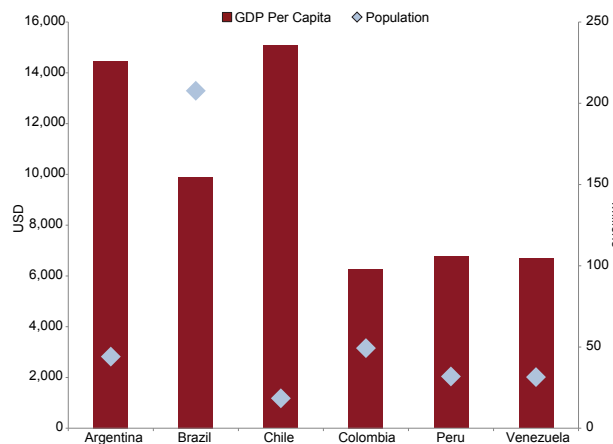
Political Risk Summary

Score 1 (best) to 5 (worst)



Source: A.M. Best

GDP Per Capita and Population



Source: IMF and A.M. Best

Economic Risk: High

- Services, industry, and export-oriented agriculture are the dominant sectors in Argentina's economy. The industrial base and the service sector are both diversified.
- The country benefits from significant natural resources, infrastructure that compares favorably with its neighbors, a low rate of violent crime, and a well-educated workforce.
- The economy is returning to growth under President Mauricio Macri's economic policies, including pension, tax, and fiscal reforms, but currency turbulence, a large fiscal deficit, and a high inflation rate will continue to burden the economy.
- The monetary policy rate has been raised temporarily, resulting in a decline in investment and private consumption, leading to a slightly lower rate of GDP growth in 2018.
- In June 2018, Argentina secured a USD50 billion stand-by arrangement (SBA) with the IMF for a three year period. The SBA will be used to support budget, restore market confidence, and minimize inflation.

Political Risk: High

- The government, led by President Macri, has undertaken measures to restore economic stability, including restoring access to the international capital markets, lowering inflation levels, lifting capital controls, and cutting government spending.
- Owing the sharp depreciation of the peso the past year, Macri's gradualist economic strategy is being questioned. The government's plan to cut spending to tackle the high fiscal deficit is likely to be unpopular, adding to existing social dissent over issues such as rising crime, environmental concerns, and wage disputes. Macri's pro-business policies will also be thwarted somewhat by subsidy cuts.
- The judiciary is inefficient and costly. Judiciary independence is below the world average and corruption is widespread. The government is trying to improve transparency to attract investment.
- Security risks increased slightly in 2018 because the country is hosting the G20 meeting.

Financial System Risk: Very High

- The Superintendency of Insurance is responsible for insurance supervision in Argentina.
- The country's liquidity is relatively strong, but a large fiscal deficit remains a concern.
- The quality of economic data has improved. The national statistics agency is being rebuilt, allowing for the publication of improved and credible statistics. Relationships with external creditors have also improved.
- Banks are well capitalized, and Argentina's financial system has a low exposure to exchange rate and credit risks. Non-performing loans are below 2%.