



S&P Says 'Time Is Running Out' for Argentina as Economy Slows

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By Bill Faries

July 8 (Bloomberg) -- Argentina's economy is deteriorating due to a high rate of inflation, lack of access to international credit markets and unpredictable government, which could pressure its credit ratings, Standard & Poor's said in a report.

Under the most likely scenario, South America's second- largest economy will "continue its process of slow deterioration with negative implications on the country's sovereign credit rating," S&P economist **Sebastian Briozzo** said in the e-mailed report. The agency said Argentina's gross domestic product will contract 1.6 percent this year.

President **Cristina Fernandez de Kirchner** is struggling to avoid a recession after the economy grew at least 6.8 percent a year for each of the past six years. On June 28, candidates for the ruling coalition were defeated in the country's most populous provinces during mid-term elections, costing Fernandez her majorities when the new lawmakers take office in December.

"The election results provide a warning and therefore an opportunity for the government coalition to review its positions," S&P said. "Perhaps the biggest risk for Argentina's rating is that the government might not use the limited capacity it still enjoys for changing economic policies in the coming months."

S&P rates Argentina's long-term foreign currency debt as B- , six levels below investment grade, the same as Bolivia and Jamaica. Briozzo said in an interview July 2 that the current rating is "quite low" and unlikely to face a downgrade barring a default. Moody's rates the country's debt B3.

Cabinet Changes

President Fernandez shook up her cabinet last night, replacing her economy minister and cabinet chief. The country's health minister and transport secretary stepped down last week.

Amado Boudou, who oversaw the nationalization of \$24 billion in private pension funds last year, was named economy minister, replacing **Carlos Fernandez**. Justice Minister **Anibal Fernandez** will become Cabinet chief after **Sergio Massa** stepped down, the government said.

Siobhan Morden, an economist with RBS Securities Inc. in Greenwich, Connecticut, described the changes as "cosmetic."

Economists including Briozzo say the government's statistics agency, known as Indec, isn't accurately reporting economic data, making it hard to have a precise snapshot of inflation, industrial production and other key variables. Fernandez's Vice President **Julio Cobos** also criticized the lack of accurate data in a January interview with Bloomberg News.

Fernandez vowed in a May 15 news conference that the economy won't fall into recession this year. In another news conference on June 29, she defended earlier comments that the statistics agency is in the best position to measure the economy.

Export Demand

Economic growth in Brazil, China and India will help cushion the country's recession by boosting demand and prices for exports such as wheat, soybeans and automobiles, the S&P report said. Export taxes accounted for about 12 percent of government revenue in 2008, the report said.

Argentina has relied on growing tax revenue to finance spending increases since a 2001 default on \$95 billion of debt excluded the country from international credit markets. The primary budget surplus, which doesn't include interest payments, fell 85 percent in May to 915 million pesos (\$240 million).

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