Should Argentina be Welcomed Back by Investors?

Arturo C. Porzecanski

After a relatively brief interruption in access to the world's financial markets in late 2008 and early 2009, Latin America has been experiencing a renewed wave of capital inflows – so much so that the issue of how best to ride this wave has become a major policy concern (Eyzaguirre *et al*. 2011). The intensity of investor interest in the emerging markets generally, and in Latin America in particular, has been heightened by the prospect of continued lax monetary conditions in the United States, and thus by the outlook for persistently low interest rates and bond yields in the world's leading financial centres. The search for fixed-income returns higher than the 1–4% range that prevails in much of Europe, as well as in Japan and North America, has prompted bond investors to venture into increasingly risky territory, such as single-B-rated credits – Argentina among them, the country involved in the largest sovereign default in history (Moody's 2010a).

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municipality of Buenos Aires, have been able to issue international bonds in 2010 and so far this year, raising more than $6 billion in the 16 months to the end of April 2011 at yields mostly in the range of 8% to 12%.[1] In October 2010, an Argentine property developer (TGLT) completed the first initial public offering of shares in Buenos Aires in more than two years, with two-thirds of the $56 million in stocks sold to foreign investors as global depositary receipts. And, recently (April 2011), Arcos Dorados Holdings, the Buenos Aires-based operator of McDonald's Corp. restaurants in Latin America and the Caribbean, raised $1.25 billion (one-third more than it expected) in an initial share sale, listing itself on the New York Stock Exchange. Evidently, even equity investors are jumping on the bandwagon.

The return of Argentina to the world capital markets is a watershed event worth noting and analysing. After all, this is one of the few emerging-market countries characterised by nearly a decade's worth of capital flight measured in the many billions of dollars per annum – namely, a place from which most investors had been fleeing for safer and more attractive destinations elsewhere, much like investors have been doing (on a larger scale) in Venezuela under the populist and increasingly arbitrary President Hugo Chávez.[2] It is also a country whose national government has defaulted on its loan and bond obligations numerous times in recent decades, and, despite having failed to fully cure its 2001 default to official and private creditors, has stated its intention of returning to the international markets to issue a sovereign bond as soon as it finds it sufficiently attractive to do so. Thus, the question of whether financial intermediaries and institutional investors should welcome Argentina back to the global capital markets the way some are certainly doing is certainly relevant – especially for those with short or partial memories, who may be tempted to rush in without a full understanding of the credit, market and political risks involved.

[1] Argentine issuers raised $676 million abroad during 2009, $4.1 billion in 2010, and $2.1 billion during January–April 2011. Banks and corporations accounted for 57% of the total raised. These data were kindly provided by Bloomberg, and are available upon request.

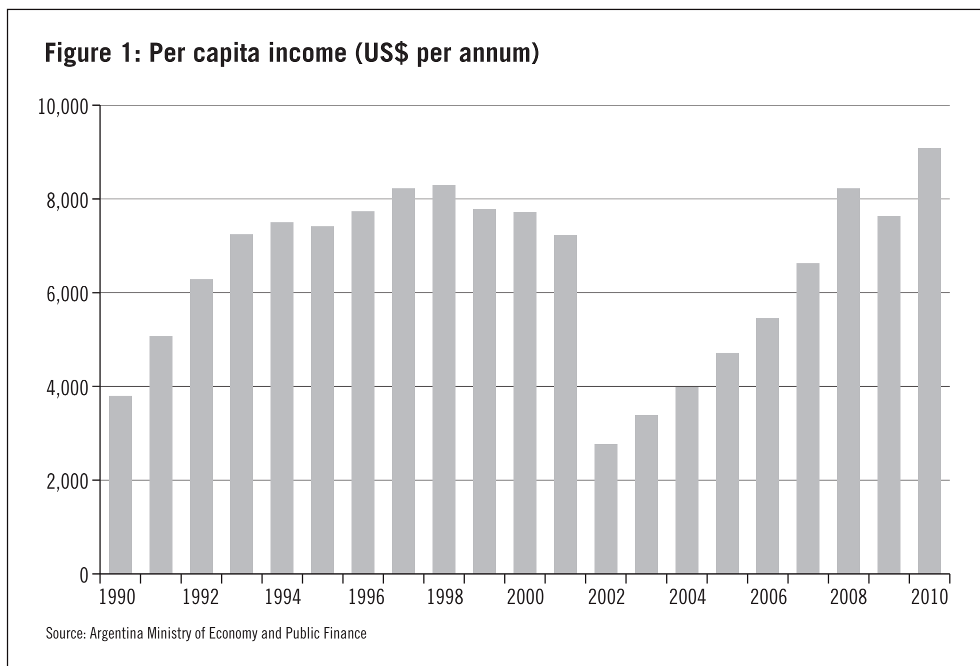
[2] This author's estimates, based on official balance of payments data, are that net capital outflows excluding government and central bank transactions, and errors and omissions, averaged over $8 billion per annum in Argentina during 2004–2009. The Institute of International Finance estimates that capital flight ('net resident lending abroad') averaged nearly $7 billion per year during the same period. Estimates are available upon request.

At first sight

A bird's eye view of Argentina could easily lead some to believe that it has come such a long way from its troubled past that its creditworthiness might be underappreciated by the rating agencies, and that its riskiness in fact may be exaggerated by the bond markets. After all, Argentina is a member of the G20 club of leading nations; it ranks among the top 30 economies in the world; it is a stable and peaceful democracy; and many of its main economic indicators look very healthy.

For example, Argentina's per capita income measured in current dollars, a variable that usually correlates quite well with sovereign ratings because it is a general measure of capacity to pay foreign-currency obligations, has recuperated strongly in recent years. It now stands at about $9,000 (Figure 1), such that Argentina currently fits comfortably within the range of per capita incomes of developing countries that are rated BBB/Baa1–Baa3 (Moody's 2010b, p. 11).[3]

Figure 1: Per capita income (US$ per annum)



Source: Argentina Ministry of Economy and Public Finance

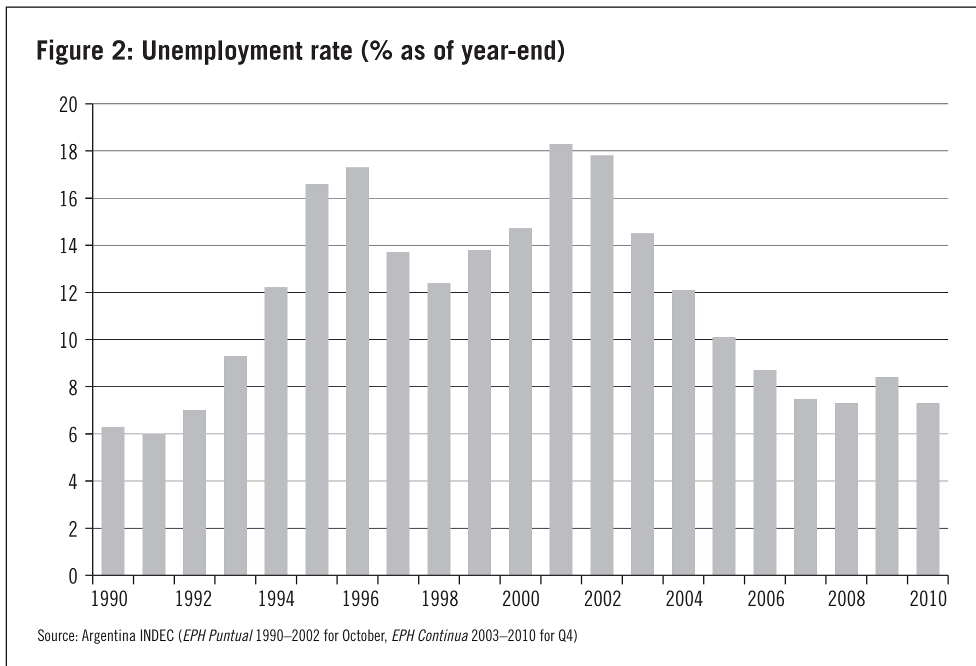
[3] The mean per capita income for Baa1–Baa3 developing countries was $8,100 in 2009; Argentina's per capita income is much higher on a purchasing-power-adjusted basis (around $14,000), and also falls within the Baa1–Baa3 range as per Moody's (2010b, pp. 16–18).

Argentina's vigorous economic recovery from the protracted and deep recession of 2000–2002 is reflected in the steady drop in urban unemployment, which has come down from above 20% and has averaged below 8% during the past three years (Figure 2). These are very good levels, last seen in the early 1990s before the economy was restructured and many low value-added jobs in inefficient companies disappeared. This is another achievement that normally supports a country's creditworthiness, because it correlates with higher private-sector incomes and government revenues.

Argentina's economy has been helped by a boom in the prices of its commodity exports, stimulating greater investment and output, particularly in export-orientated agriculture. Indeed, export prices and volumes each averaged about 60% higher during 2008–2010 than in 1999–2000 (Figure 3), and the country's terms of foreign trade (incorporating the evolution of both export and import prices) during 2008–2010 were the most favourable in nearly three decades.

As a result, the country's merchandise export earnings have more than doubled, from around $25 billion per annum a decade ago to a yearly average of over $60 billion during 2008–2010 (Figure 4). This is the kind of

Figure 2: Unemployment rate (% as of year-end)



Source: Argentina INDEC (*EPH Puntual* 1990–2002 for October, *EPH Continua* 2003–2010 for Q4)

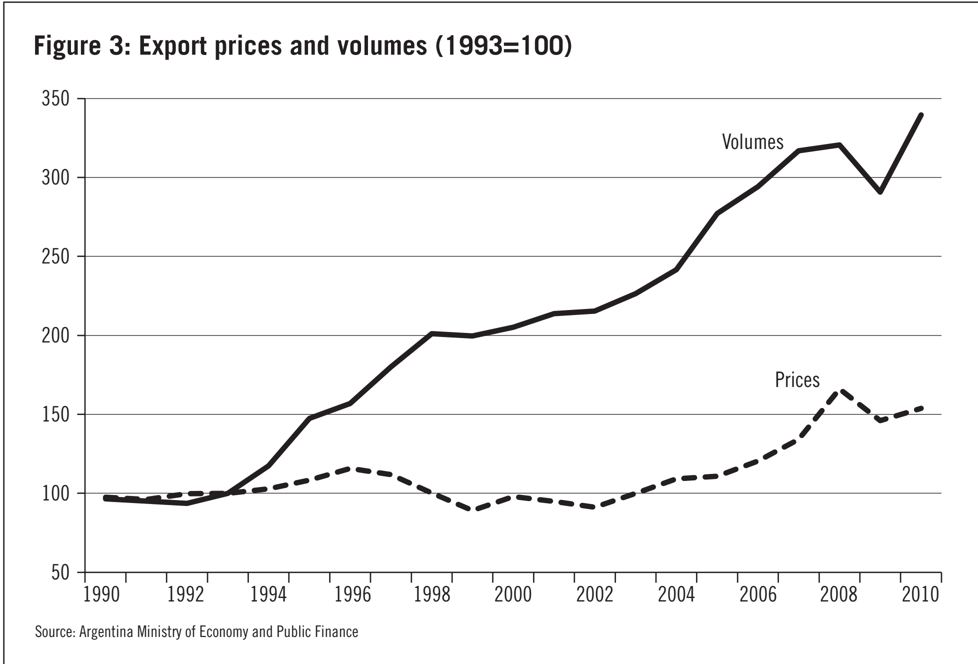


Figure 3: Export prices and volumes (1993=100)
350
300
250
200
150
100
50
Volumes
Prices
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
Source: Argentina Ministry of Economy and Public Finance

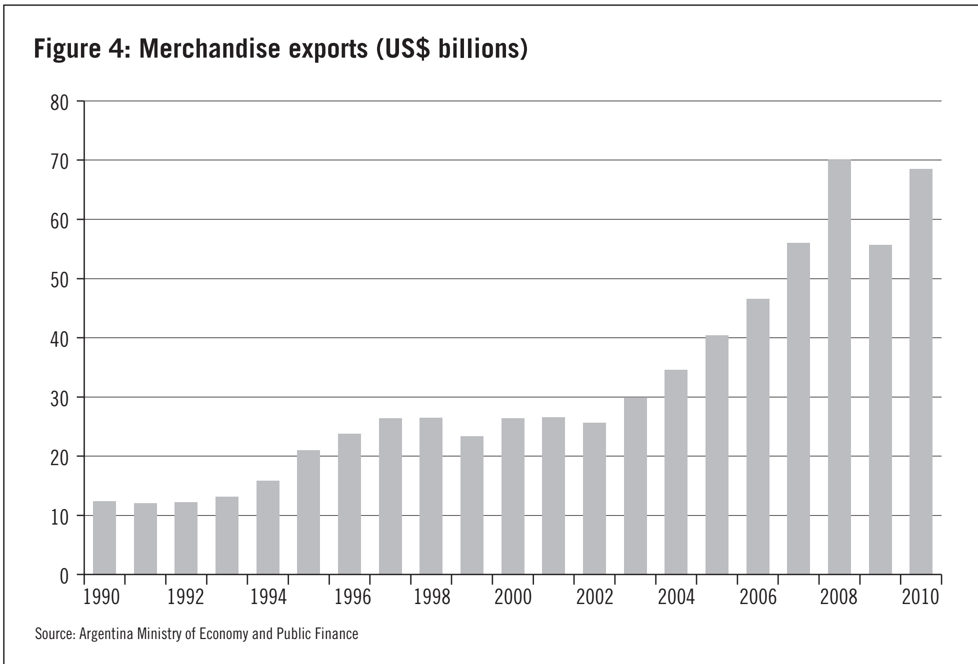


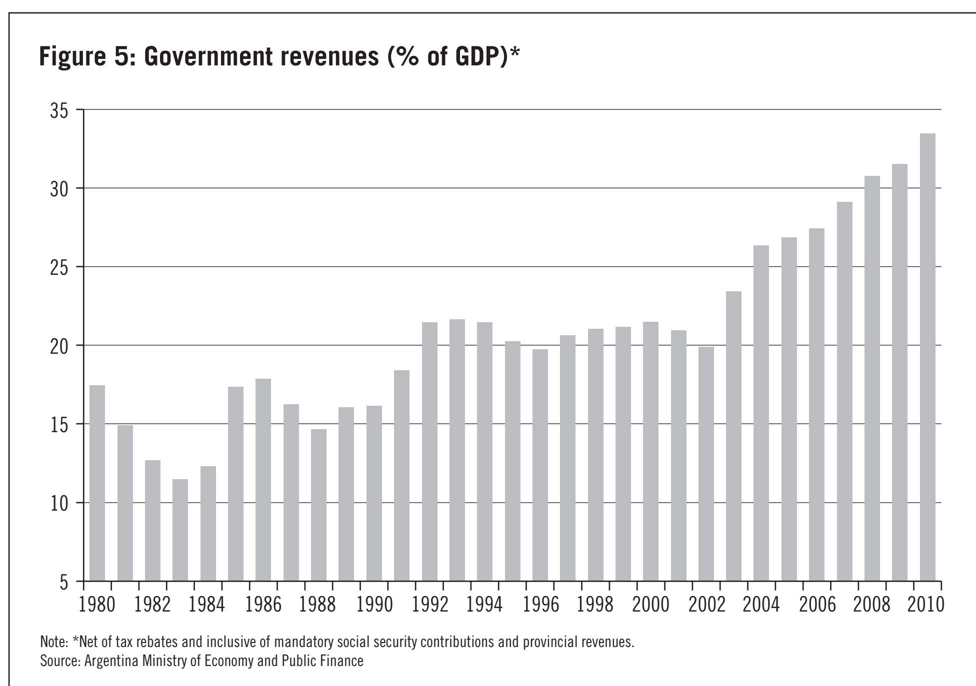
Figure 4: Merchandise exports (US$ billions)
80
70
60
50
40
30
20
10
0
1990
1992
1994
1996
1998
2000
2002
2004
2006
2008
2010
Source: Argentina Ministry of Economy and Public Finance

noteworthy expansion in hard-currency earnings that improves several of the ratios (e.g. external debt to exports) that are usually calculated to help assess a country's creditworthiness.

The export boom has generated a significant expansion of government revenues, because commodity exports have been taxed directly, and once the export-led recovery trickled down to urban consumers, a virtuous cycle of higher private-sector incomes and enlarged government revenues and spending ensued. Indeed, Argentina has never before seen as great an expansion of government income as in recent years, such that revenues have grown to the equivalent of more than 33% of GDP from an average of around 21% of GDP in the late 1990s (Figure 5).[4]

The fast pace of revenue growth has allowed for a massive reduction of the burden that government obligations – whether paid or in arrears – imposed on the government's revenue base (Figure 6). This sovereign creditworthiness indicator, which has now dropped to around 150% from a peak of over 800% in 2002, is actually below the levels prevailing in the

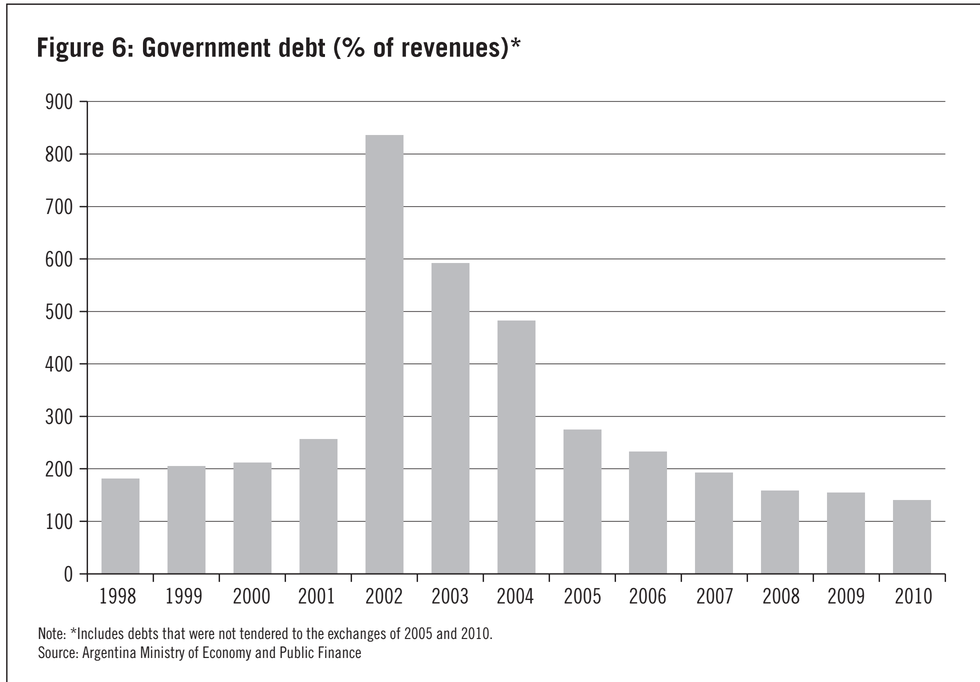
Figure 5: Government revenues (% of GDP)*



Note: *Net of tax rebates and inclusive of mandatory social security contributions and provincial revenues.
Source: Argentina Ministry of Economy and Public Finance

[4] The revenue figures include pension contributions from employers and employees, but the renationalisation of the pension regime in late 2008 probably accounts for less than one-fifth of the ten-percentage-point increase in the ratio of revenues to GDP.

Figure 6: Government debt (% of revenues)*



Note: *Includes debts that were not tendered to the exchanges of 2005 and 2010.
Source: Argentina Ministry of Economy and Public Finance

late 1990s, when the government's foreign-currency obligations were rated BB/BB/Ba3.[5]

The export bonanza, which has made it possible for Argentina to run substantial surpluses in its foreign trade (averaging in excess of $15 billion per annum during 2002–2010), despite a surge in imports, has more than compensated for the previously mentioned net capital outflows. If Argentina had had a market-based exchange-rate regime, the resulting net influx of foreign exchange would have led to a meaningful appreciation of the Argentine peso. However, it has been government policy to have the Central Bank of Argentina (BCRA) intervene frequently in the currency market in order to keep the peso (ARS) weaker than otherwise. In the period from the start of 2006 to the end of April 2011, the ARS has depreciated in nominal terms by 35%, from ARS 3.03/US$ to ARS 4.08/US$, a time during which most emerging-market currencies, including those of Argentina's neighbours, have appreciated.[6]

[5] Sovereign foreign-currency ratings as per Standard & Poor's, Fitch and Moody's, respectively. Moody's downgraded Argentina to B1 in October 1999; the others first downgraded it in late 2000 (Standard & Poor's) and in early 2001 (Fitch).

[6] During this same time period, for example, the Brazilian real (BRL) appreciated in nominal terms by 26%, and the Chilean peso (CLP) by 10%, versus the US$.

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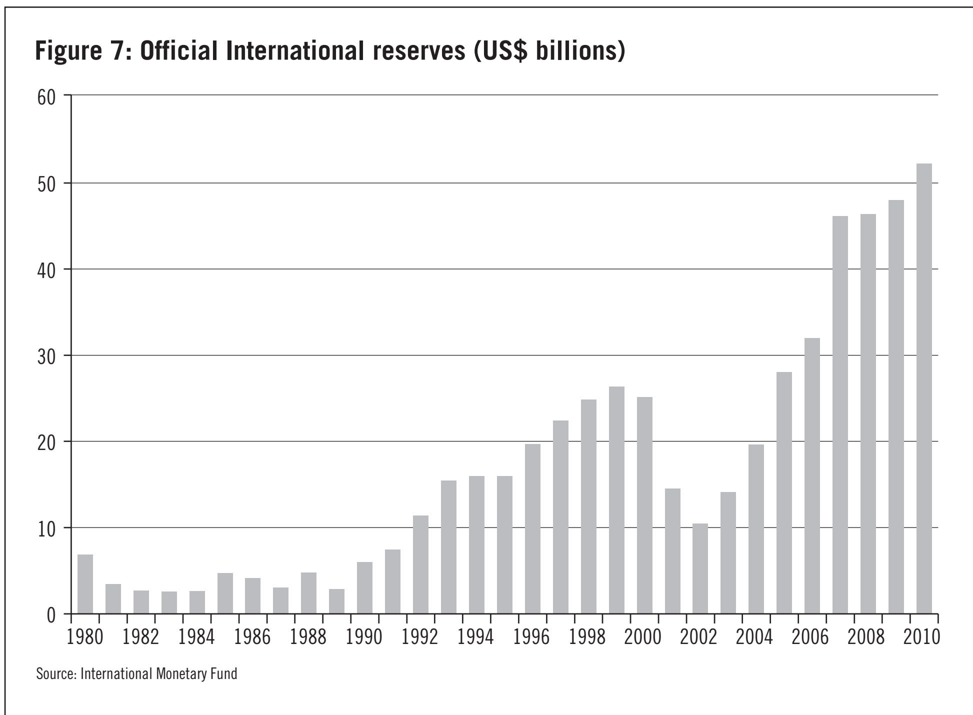
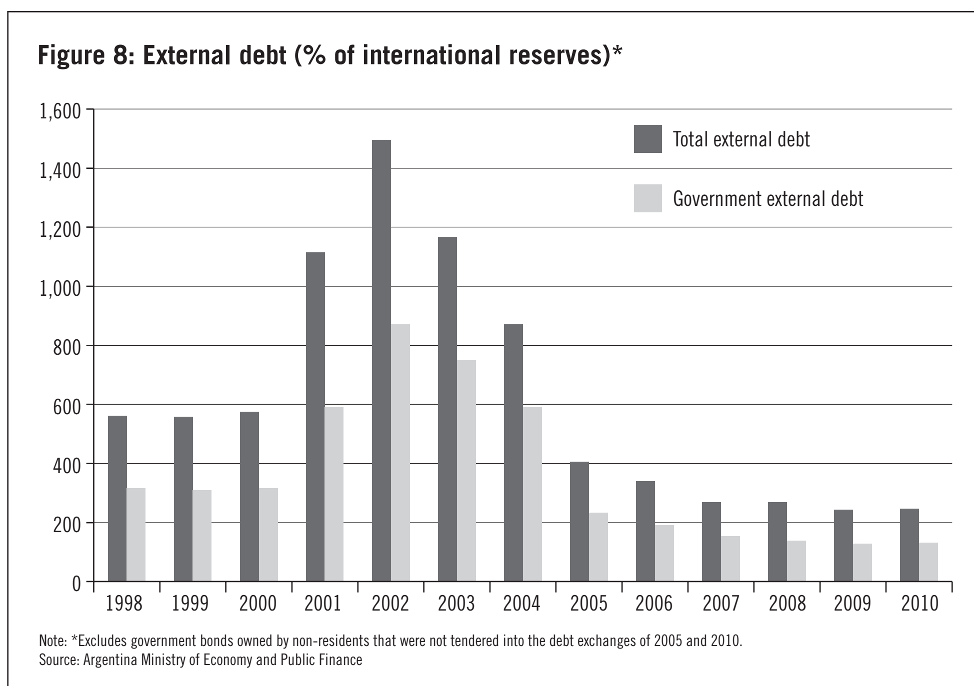
One result of frequent central bank intervention to mop up excess dollars coming into Argentina has been a major accumulation of official international reserves. Despite having had to transfer periodically many billions of dollars out of reserves to the government, the central bank has seen its hoard of foreign exchange boosted to more than $50 billion since mid-2010, up sharply from less than $20 billion prior to 2005. As can be seen in Figure 7, and as is true about its fiscal revenues, Argentina's official international reserves have likewise reached their highest point in contemporary history.

Until recent years, the country's total foreign debt, and the government's own obligations to non-resident investors, used to be a huge multiple of the central bank's international reserves. Now the country's external debt liabilities are two and a half times the level of reserves, a fraction of their magnitude even in the late 1990s (nearly six times the level of reserves), when Argentina was deemed to be a much better credit (Figure 8). At

Figure 7: Official International reserves (US$ billions)



Source: International Monetary Fund



these levels, the country's foreign debt is once again compatible with higher sovereign credit ratings.[7]

A closer look

There is a great deal of country risk that is not captured by these indicators, however, so it would be naive to rush to the conclusion that Argentina is a creditworthy or relatively safe place in which to invest.

First, the government has been spending all its enormous revenue windfall, such that in fact there are hardly any extra, genuine resources available to support the existing – or any new – public indebtedness. The Argentine authorities have not been publishing comprehensive data on the public-sector accounts, but whatever statistics they do release for the central government show, despite the windfall, a string of only modest fiscal surpluses during 2002–2008 and again in 2010, with a small deficit for 2009, when the economy and tax revenues went through a temporary downturn.

[7] According to Moody's, the mean ratio of external debt to official international reserves for Baa1–Baa3 developing countries was 300% in 2009, and for Ba1–Ba3 countries it was 259% (see Moody's 2010b, pp. 201–202).

However, the International Monetary Fund (IMF) has been publishing a more comprehensive data set that includes provincial government finances, and where spending is recorded on an accrual, rather than cash, basis – namely, it includes all payments that are contractually due to be made by the government (IMF 2011). As can be seen in Table 1, the IMF's figures show a string of operating deficits and no surpluses. This is consistent with the fact that the public debt has grown from mid-2003 until mid-2010 by the equivalent of $37 billion (net of all debt forgiveness), which is equivalent to around 15% of average GDP during that seven-year period.[8]

Therefore, the impressive trend in tax revenues to GDP, or in the ratio of government debt to revenues highlighted previously, paints a completely misleading picture of Argentina's renewed capacity to pay its domestic or foreign obligations. The growth in spending apparently has been channelled as follows: the civil-service headcount in the central government has increased by one-third from the 1999–2002 average; subsidies to consumers (mainly on energy) have increased by at least three percentage points of GDP; and other forms of social spending have likewise risen by over three percentage points. This has happened during a period of rapid GDP growth, such that all spending categories have increased to a greater or lesser extent, and government expenditures as a whole have tripled in nominal terms from 2005 through 2010.[9]

Table 1: Fiscal accounts (% of GDP)

	2006	2007	2008	2009	2010
As per IMF:					
Public sector revenues	29.9	31.5	33.4	36.1	38.9
Public sector spending	31.0	33.6	34.2	39.9	40.6
Overall balance	–1.1	–2.1	–0.8	–3.8	–1.7
As per Argentina:					
Overall balance*	1.8	1.1	1.4	–0.6	0.2

Note: * Non-financial public sector, excluding provinces and municipalities.
Source: International Monetary Fund; Argentina Ministry of Economy and Public Finance

[8] Perspectiv@as, 'La dinámica de la deuda pública en la era K', 24 September 2010, available upon request.
[9] Current and capital outlays at the level of the non-financial public sector, excluding provinces and municipalities, was ARS 117 billion in 2005 and reached ARS 347 billion in 2010. See Argentina Ministry of Economy and Public Finance (2011), Public Finance, Table A6.1.

The provincial and municipal governments that have issued bonds abroad, or might do so in the near future, are all rated single-B, and all indications are that their financial situation is precarious, indeed. As a group, their financial performance has tended to deteriorate: they ran a collective overall budgetary surplus equivalent to 1% of GDP in 2004, then moved to a balance in 2006–2007, and they have been in deficit ever since. It is troubling to see them printing dollar-denominated bonds with double-digit coupons when there is no reasonable assurance that their revenues measured in dollars will grow at double-digit rates during the life of those bonds.[10]

Second, serious allegations have been made in recent years about the accuracy and integrity of official inflation data in Argentina, casting doubt on all kinds of economic indicators that use price indexes as a deflator, as in the case of real GDP, real wages, real interest rates and real exchange rates. Numerous private-sector estimates of inflation, as well as official inflation measures computed by several provincial governments, point to a much higher inflation rate than calculated and published by the national statistical agency. The agency, known by its acronym INDEC, was purged of key staff in early 2007, allegedly for the individuals' unwillingness to keep fudging the numbers to keep reported inflation down. Numerous economic consultants, universities and business groups have started a veritable cottage industry sampling consumer prices and calculating alternative inflation figures, although they have been persecuted and fined by the government as of late for allegedly providing misleading information. The credibility gap has become so large that, in the IMF's leading publication, the *World Economic Outlook*, Argentina is the only country in the world whose inflation and GDP statistics are accompanied by a footnote explaining that the numbers cited have been challenged by private analysts.

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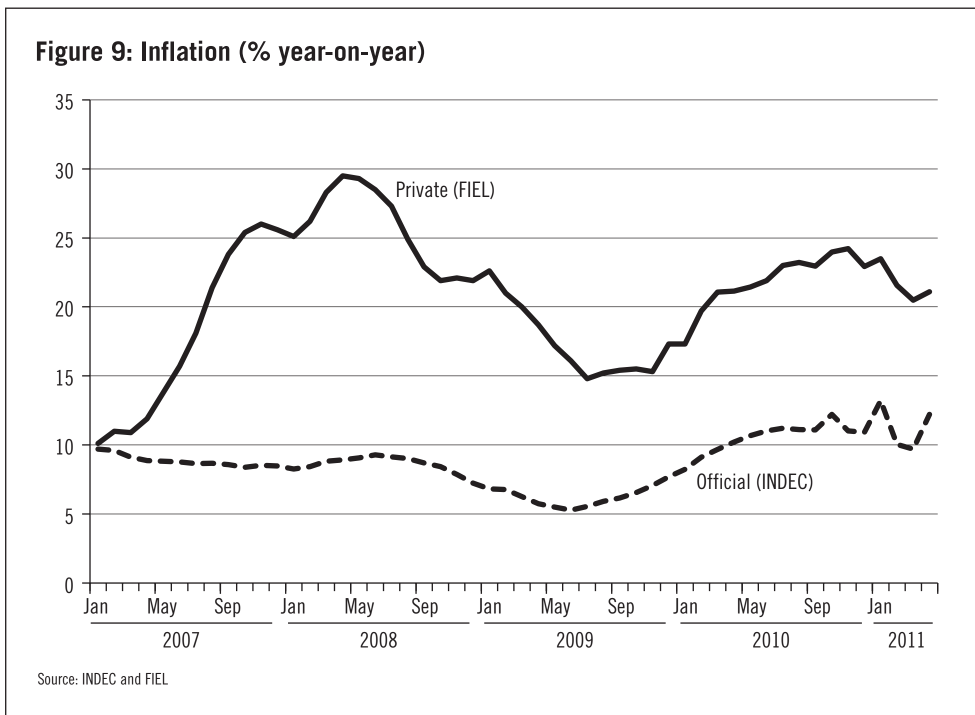
[10] For example, in 2010 the Province of Córdoba issued nearly $600 million of dollar-denominated bonds with a coupon of 12.375%, the Province of Buenos Aires raised $800 million via bonds with a coupon of 11.75%, and the City of Buenos Aires sold $475 million of debt with a coupon on 12.5%. These data were kindly provided by Bloomberg, and are available upon request.

According to the government's figures, inflation in Argentina (using year-on-year monthly figures) has averaged less than 9% per annum during the period from January 2007 through April 2011. In contrast, according to the Fundación de Investigaciones Económicas Latinoamericanas (FIEL), for example, which is a highly reputable, business-sponsored economic research institute, inflation during that period has averaged more than 20% per year – a time-and-a-half difference. As can be seen in Figure 9, the gap between the two measures of inflation has been persistently large, and other independent estimates of inflation produced in the capital city and in distant provinces yield a statistical discrepancy that is of the same order of magnitude.

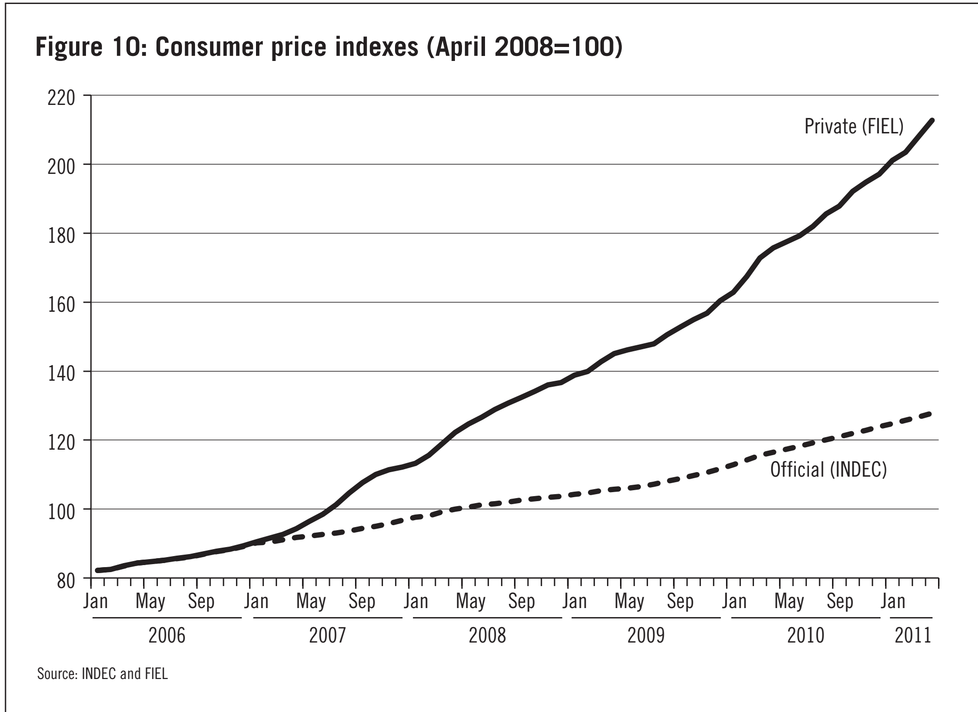
The passage of time means that the cumulative difference in inflation statistics has grown very large: according to the government, prices have gone up by less than 50% since the beginning of 2006, but as reckoned by FIEL and several other alternative sources, prices have actually skyrocketed by almost 130% (Figure 10).

The implications are serious. The Argentine authorities believe that their fiscal and monetary policies are sound and appropriate; the great

Figure 9: Inflation (% year-on-year)



Source: INDEC and FIEL



majority of independent economic analysts and the IMF itself, on the other hand, disagree, and think that these policies have been highly expansionary and downright imprudent (IMF 2011, October 2010 issue, pp. 29–30). Clearly, inflation measured in single digits tends to support the government's position, whereas inflation measured continuously in double digits provides ammunition to its critics. If annual inflation is indeed running above 20%, it suggests that the government would be well advised to slow down the growth of public spending, and that the central bank should tighten monetary policy by moving away from an informal exchange-rate target, because its purchases of dollars have contributed – despite costly sterilisation operations – to an excessive monetary expansion. Indeed, the monetary aggregates (from the narrow monetary base to the wide M2 measure) have been growing at year-on-year rates of over 30% since late 2010, well beyond what anyone would deem consistent and prudent if inflation is indeed running at the relatively slower pace the government says it is (BCRA 2011).

Inflation running at close to 10%, never mind at close to 25%, also undermines the case for regarding Argentina as creditworthy. Inflation

rates have historically correlated quite well with sovereign credit ratings; in general, the higher the inflation, the lower the ratings, especially in years past when the worldwide dispersion of inflation rates was much greater than nowadays. Still, the mean annual inflation rate for investment-grade developing countries was 4% in 2009, whereas for single-B countries it was 6%; indeed, the single-B category is the only one that encompasses half a dozen countries with double-digit inflation, Argentina and Venezuela among them (Moody's 2010b, pp. 30–32). They probably belong there, because high-inflation countries are usually characterised by imprudent fiscal and monetary policies, feature unsustainable exchange rates, and tend to engender costly distortions and even social and political unrest – sooner or later.

Moreover, higher-than-officially-recognised inflation in Argentina has cheated domestic and international investors who held inflation-adjusted (so-called CER-indexed), peso-denominated bonds, large quantities of which were issued in 2002–2004 paying 2% plus the inflation adjustment. In 2005–2006, before inflation allegedly escaped out of control, these inflation 'protected' securities accounted for more than 40% of Argentine government debt outstanding, but by late 2010 the proportion has fallen to less than 25% of the total, as investors shunned them because they realised that they would not be compensated appropriately. As investor appetite for CER-indexed debt dried up, government bonds, which pay a floating interest rate (BADLAR), have taken their place.

Third, investors must be mindful of the implications of Argentina having yet to fully cure its massive default to private and official creditors. In early 2010, the government reopened its punishing debt exchange of 2005 and a number of holdout bondholders capitulated and accepted the steep losses and new long-term bonds offered by Argentina. They had held out in the understandable hope that the country's strong economic recovery of recent years, and the government's historic revenue bonanza, would have led to an improved offer such that they would not have to renounce up to two-thirds of their principal claim.

By now, about 92% of bondholders have tendered their old, defaulted bonds, either in 2005 or in 2010, but the remainder, who are owed more than $15 billion (including accrued and penalty interest), now constitute a hard core of unpaid creditors. Many of them have won court judgments worth billions of dollars against Argentina, and are pursuing every remedy

legally available to enforce them. Should the government decide to come back to the international bond markets, the creditors could conceivably attempt to block any such issuance until Argentina satisfies its outstanding judgments and, failing that, the creditors probably would try to attach any of the proceeds from the sale of new securities before they reach the government's pockets.

Argentina is also in protracted arrears to certain foreign commercial banks and suppliers, in excess of $700 million, and it has not paid on several awards for nearly $1 billion entered against the government as a result of arbitrations under the International Centre for Settlement of Investment Disputes (ICSID). Moreover, there are a number of additional cases making their way through ICSID that could result in multi-billion-dollar awards. As of early 2011, there were 27 cases pending against Argentina. They represented more than one-fifth of all cases currently before ICSID, and a whopping 84% of all cases brought against any of the G20 member nations. All of these claims against Argentina constitute actual or contingent liabilities that could cause complications for new investors down the road, and which eventually will have to be settled one way or another.

A related concern is the fact that Argentina has not cured its default on debts to the Paris Club of official bilateral lenders (export credit and foreign aid agencies, typically), who are owed more than $7 billion, of which over $5 billion is in arrears. Indeed, Argentina is the only G20 member government that is in default on its loan obligations to its fellow club members – and it has been in default to them for nearly a decade. The Argentine authorities have repeatedly stated their intention to negotiate with the Paris Club and to reach a rescheduling agreement. Until this becomes a reality, however, investors contemplating purchasing a new global bond issued by Argentina should be mindful that, if and when the Argentine government and its creditor counterparts negotiate a restructuring of these past-due amounts, the Paris Club is likely to apply its principle of 'comparable treatment' to private creditors.

For instance, when countries as diverse as Indonesia (1998), Pakistan (1999), Russia (1999) and the Dominican Republic (2004) encountered financial difficulties and reached out to their official creditors, the debt relief they obtained from the Paris Club was conditional on securing comparable relief from their bankers and bondholders. This was true even when debt to private creditors was small or was not yet falling due, as in

the cases of Pakistan and the Dominican Republic.[11] Therefore, potential foreign investors in (and lenders to) the government of Argentina may well become embroiled in a restructuring of their claims as a concession to any future accord between the country and its official creditors. For all practical purposes, in sum, new creditors to the government of Argentina have a target on their back.

Fourth, the controversy over the true rate of inflation is part of a larger picture of lack of transparency in Argentina. Argentina is also the only member of the G20 that refuses to abide by its treaty obligations to the IMF, which include allowing the IMF to inspect its books and evaluate the country's economic performance and policies – especially its exchange-rate policies under a so-called Article IV Consultation. The IMF is supposed to hold bilateral discussions with its member governments usually every year, but Argentina has not hosted the IMF since 2006. Apparently, the authorities in Buenos Aires do not wish to be questioned on their economic statistics – a contentious issue because countries are obligated to furnish reliable data to the IMF under Article VIII, Section 5 of its Articles of Agreement – nor to be criticised for their economic policies – including their manipulation of the exchange rate.

The country is also the only member of the G20 that was recently put on probation by the Financial Action Task Force (FATF), an inter-governmental body whose purpose is the development and promotion of policies, both at national and international levels, to combat money laundering and terrorist financing. In late 2010, the FATF plenary meeting 'expressed its disappointment and serious concern regarding Argentina's failure to implement an adequate and effective AML/CFT [anti-money laundering and counter-terrorist financing] system and will engage closely with Argentina to ensure that it quickly rectifies the identified deficiencies' (FATF 2010a). Argentina has either failed to comply, or has complied only partially, with 46 out of the 49 standards recommended by the FATF. The FATF complete report denounces corruption and impunity in Argentina, and is the harshest ever published by that high-level group on any of its member governments (FATF 2010b).

[11] In return for a Paris Club debt rescheduling of payments due in 1999–2000 (along Houston terms), Pakistan was forced to reschedule three Eurobonds maturing during 1999–2000 even though the amounts involved were relatively small. And, in exchange for a Paris Club debt rescheduling of some arrears and payments due in 2004 (along Classic terms), the Dominican Republic was required to reschedule a Eurobond maturing in 2006 and another one falling due in 2013 (see Porzecanski 2007, p. 202).

Part of the problem may be related to Argentina's protracted default on its foreign obligations, its ongoing effort to prevent state funds from falling into the hands of disgruntled creditors, and its non-compliance with court judgments and arbitral awards. As a result, the government has had to minimise its bank accounts abroad, make payments in cash (e.g. to its own diplomats abroad), move money in roundabout ways through the international financial system, and keep as little a paper trail as possible. However, for the most part, the problems noted by the FATF are probably explained more by the spread of corruption in government ever since Mr and Mrs Kirchner have been in the presidential palace.

Indeed, many stories of official corruption and maladministration, or of suspected illicit or improper activities on the part of government officials, have come to light in recent years in Argentina. This is something else for potential investors to consider, particularly since neither the government nor the judiciary has been keen to investigate – never mind prosecute – them. To recall just two of the most prominent episodes, the late President Néstor Kirchner used to boast that, while he had been the governor of the province of Santa Cruz in the 1990s, he had 'safeguarded' hundreds of millions of dollars of provincial funds by moving them into Swiss banks ahead of the peso's devaluation in 2002. However, there has never been any disclosure of how much was shifted overseas, how much has been repatriated to Santa Cruz, or what happened to the earnings on those deposits abroad. In early 2010, a former vice governor of that province denounced that Mr Kirchner had stolen a portion of those funds, but various petitions for an investigation of the matter have come to nothing.

The late President Néstor Kirchner used to boast that, while he had been the governor of the province of Santa Cruz in the 1990s, he had 'safeguarded' hundreds of millions of dollars of provincial funds by moving them into Swiss banks ahead of the peso's devaluation in 2002.

The 2007 presidential campaign of the incumbent head of state, Ms Cristina Fernández de Kirchner, was marred by the 'suitcase scandal,' which involved the arrival into Argentina of nearly $800,000 in cash carried in a suitcase by someone flying in from Venezuela on a jet chartered by an Argentine state-owned company. Several individuals connected

to the episode were later charged in the US with various crimes, and were tried and sentenced to prison. The authorities in Argentina and Venezuela did not pursue an investigation, perhaps because a member of President Kirchner's cabinet, who remains in that post until now under Mrs Fernández-Kirchner, was allegedly linked to secret money transfers from Venezuela to Argentina.

Fifth, key institutions of relevance to foreign investors have been undermined by recent governments in Argentina. Beyond the aforementioned interference with the official statistical agency (INDEC), an intimidation campaign against the country's two largest newspapers (*Clarín* and *La Nación*), and more recently the persecution of private economic consultants who are divulging higher inflation estimates, the central bank and the state-owned Banco de la Nación have been manhandled and the country's privately managed pension funds have been nationalised – all illustrating prominent instances of abuse of executive authority. For instance, in early 2010, President Fernández de Kirchner signed an executive order telling the central bank to transfer $6.6 billion to the government, and when the bank's president, Martín Redrado, refused because his legal counsel advised him that the central bank charter allowed him to transfer funds only with congressional approval, he was fired. A judge later reinstated Mr Redrado, because, according to said charter, President Fernández de Kirchner likewise did not have the power to dismiss a central bank president without congressional authorisation. In the end, the legislature approved the transfer of funds and Mr Redrado's dismissal, but the whole episode demonstrated vividly how institutions relevant to the country's financial stability and creditworthiness have been intimidated or trampled.

The country's private pension funds were nationalised in late 2008 under the guise of 'saving' them from losses related to the downturn in world financial markets in the wake of the collapse of Lehman Brothers. The government's initiative was duly passed by the legislature, but ever since then the pension funds have become buyers of first resort of the government's obligations, such that nearly two-thirds of their holdings consists of government bonds. The bonds they purchase carry very low interest rates, which is an expedient solution for the government, but a money-losing proposition for would-be pensioners. The nationalisation of the pension funds has therefore undermined the development of Argentina's capital markets and promises to impoverish pensioners over time.

A final element is to consider where Argentina ranks according to various criteria that have some relevance to the assessment of a country's creditworthiness. For example, according to the World Bank's *Doing Business 2011* report, Argentina ranks in 115th place in the 'Ease of Doing Business' category, out of a total of 183 economies. The country comes out in 87th place in the World Economic Forum's *Global Competitiveness Report 2010–2011*, out of a total of 139 economies. Argentina ranks in 105th place out of 178 countries in Transparency International's *2010 Corruption Perceptions Index*, and in the Heritage Foundation–Wall Street Journal *2011 Index of Economic Freedom*, Argentina is in 138th place, out of 179 countries.

The message conveyed by the uniformly low rankings obtained by Argentina – as can be seen in Table 2, on average it ranks in the bottom third of countries as per these four surveys – is that the country is a relatively unfriendly, uncompetitive, opaque and repressed place in which to invest or carry out other business.

Table 2: Argentina's ranking as per different surveys

	Argentina's rank	Total number of countries	Rank on 0–100 scale*
Doing business	115	183	39
Competitiveness report	87	139	37
Corruption perceptions	105	178	41
Economic freedom	138	179	25
Average			35

Note: * On this scale, 100 is the highest (best) score and 0 is the lowest (worst) score.
Source: World Bank, World Economic Forum, Transparency International and Heritage Foundation

Conclusion

In sum, does Argentina deserve to be welcomed back by investors in Europe, North America and beyond? All things considered, our answer is negative. Despite the allure of high yields, investors and financial intermediaries are well advised to approach Argentine fixed-income and equity investment and trading opportunities with extreme caution, because they still embody substantial market and default risks. Notwithstanding an impressive economic recovery, the country's ability to service its financial obligations remains quite limited, and the government's attitude towards official and private creditors, as well as towards court judgments and

arbitral awards, remains one of contempt. The country is ranked uniformly low in various measures of the business climate, competitiveness, transparency, corruption and economic liberty. Therefore, Argentina – including its sovereign, sub-sovereign and most corporate issuers – is classified correctly as a very risky, single-B credit by the leading rating agencies.

Moreover, Argentina remains an outlier in the community of nations. It is the only nation in the G20 group of countries that is in protracted default on its financial obligations to its fellow club members. It is the only country in the G20 that refuses to abide by its treaty obligations to the IMF, under Articles IV and VIII. It is the only member of the G20 to have received a 'thumbs down' from the leading governmental organisation that sets and monitors standards to combat transnational financial crimes. It is the G20 member with by far the most investor claims against it in the world's premier dispute resolution centre, ICSID. Argentina is, in conclusion, a risky rogue nation.

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