

Argentina

Major Business Sectors

Compiled by:

Organization of author

[Place, month year]

OVERVIEW AND TRENDS

Argentina's economy is characterized by its valuable natural resources, leading the country to be one of the main producers of food, thanks to agriculture and cattle breeding. Argentina is one of the largest exporters of beef in the world and the top world producer of sunflower crops, *yerba mate*, lemons, and soybean oil. The opening of the Chinese market represents a boost in the consolidation of an exports profile.

Argentina's economic performance has historically been very uneven, in which high economic growth alternated with severe recessions. After the devaluation of the local currency that took place in 2001, the country experienced record growth within the domestic industry, particularly in the automotive, textile, and appliances industries. However, Argentina's economy has decelerated during recent years.

Since then, Argentina has experienced high inflation rates. This has reduced the citizen's purchasing power and as a consequence many industries' trade unions had gained power as key players on the salary increases demand. The impact on the commerce is also important as inflation has weakened the competitiveness of the exported products. Lastly, there has been an important demand of United States Dollars ("USD") causing the government intervention to control the exchange rate.

While inflation and demand for USD was a constant issue since the devaluation of 2001, it was often controlled by the inflow of USD mainly as a consequence of high international pricing for commodities. In recent years, this has changed. The price of soybean -one of the most important products exported by the country- has significantly decreased after years of achieving pricing records.

The decrease in the price was due to an increase in the production (mainly because of a good harvest in the United States), which was not absorbed by the demand. If the performance of the United States

economy continues along this path of improvement, it is expected that the USD will do the same and the prices of commodities in general, including soybeans, will decrease.

As mentioned before, to discourage the demand for USD and protect country's reserves, since 2013 the national government has implemented several restricting measures and controls. One of these measures was applying a tax of 35% on the purchases nominated in foreign currency (which can be taken as a credit for income tax purposes). Another measure that the government has taken was a plan to repatriate undeclared currency placed abroad. The plan first began with a period of 90 days, then extended for a longer period, but has not met the expected results.

In addition, restrictions on imported products were implemented. Moreover, the Argentinean government has also received two installments of a currency swap arrangement with China in 2014, shortly before the country entered in technical default with the bond holdouts who had not entered in the debt restructuring that took place years before.

It is important to point out that reserves are very important for the country as are needed to pay imports and debt obligations –given the fact that the country has no access to international financial markets since its default in 2001.

High inflation rates, restrictions on imports and foreign currencies and the political context that is today facing the country, among others, has not often contribute to attracting foreign investment into Argentina.

FORECAST

It is expected that 2015 will be a challenging year for Argentina as it should need to continue protecting its foreign reserves to be able to assume its debt obligations in a context in which the price of commodities (main source of foreign currency inflows) is falling and the inflation rate is not decreasing.

In addition, 2015 is a presidential elections year. The elections will take place in October 2015 and the country will choose Kirchner's successor after 12 years of shared rule by Cristina Kirchner and her late husband Nestor. While at this time there are several candidates, most of them consider that the main economic objectives to be on the agenda of their governments are:

1. Reduce inflation: Argentina suffers from high inflation rates negatively affecting the people's purchasing power and deteriorating the international competitiveness of its exports; the inflation rate increased more than the variation in the exchange rate, making products more expensive in USD. It is important to establish a plan to fight inflation in the long term replacing the current measures that are only a short-term relief.
2. Provide clear statistics: Since 2007, when former President Néstor Kirchner's office fired at least 22 employees responsible for Argentina's National Institute of Statistics (INDEC) there has been a growing gap between Argentina's official and unofficial figures in relation to consumer prices, inflation, poverty, growth or unemployment. Clarifying local statistics will be a challenge for the next president because it is essential to gain local and foreign confidence in the country.
3. Stabilize the exchange rate: "Blue," "green," "tourist," "savings" and "official" have all become familiar terms to refer to the USD in Argentina. This is one of the consequences of the foreign currency controls installed back in 2011 and reinforced in the following years, which some analysts believe should be stopped in order to open the local economy.

4. Return to the international market: The recent agreement signed between Argentina and the Paris Club seems to be the first step in its return to international credit markets. Argentina is expected to resume negotiations with the holdouts in January 2015, when the RUFO clause expires. Return to international markets is necessary for the growth of the local economy and attract foreign investments.
5. Provide targeted subsidies: Since 2003 various subsidies have been implemented in order to minimize the effects of inflation. Those subsidies were supported by a healthy economy without deficits mainly because of continuous inflow of foreign currency as a result of high commodity prices. With the prices of commodities decreasing, affecting negatively the government balances, the original subsidies need to be cut off to reduce government expenditures and have a better control of its current deficit.

Based on the above, 2015 will be a challenging year for the economy of the country and Argentina's next President must take significant steps to face the problems highlighted before. It is important to point out that there is a general optimism that the next president will change the current situation, although this might take time.

DOMESTIC

Period: 2013

BUSINESS SECTOR	% OF GDP	CHANGE FROM PREVIOUS YEAR	VALUE IN USD M
Goods Producers Sector	30.1	-2.7	183,536
Manufacturing Industry	13.0	-8.2	79,058
Agriculture, cattle breeding, hunting and forestry	5.7	-0.6	34,628
Real Estate	4.8	3.8	29,337
Other	6.6	2.7	40,512
Services Sector	54.8	1.9	334,304
Activities related to real estate, businesses and rental	11.2	3.7	68,349
Retail and wholesale trades	10.1	-3.7	61,889
Public administration and defense	6.8	5.8	41,500
Education	5.7	3.7	34,981
Transport, storage y communications	5.5	-2.3	33,513
Other	15.4	3.9	94,072
Tax and Import Duties	15.1	6.4	92,047
Total			609,886

Source: Argentina's National Institute of Statistics (INDEC)

IMPORTS

Period: 2013

PRODUCTS	% OF IMPORTS	CHANGE FROM PERVIOUS YEAR	VALUE IN USD M
Intermediate goods	26.5	-1.5	19,514
Parts and accessories for capital goods	21.7	10.9	15,958
Capital goods	16.4	2.3	12,106
Fuel and Lubricants	15.4	24.3	11,343
Consumer goods	10.1	3.6	7,440
Vehicles	9.6	31.8	7,063
Other	0.3	-24.0	230
Total			73,656

Source: Argentina's National Institute of Statistics (INDEC)

EXPORTS

Period: 2013

PRODUCTS	% OF EXPORTS	CHANGE FROM PERVIOUS YEAR	VALUE IN USD M
Primary Products	22.8	-2.0	18,655
Agricultural Manufactured Products	35.4	8.0	28,938
Industrial Manufactured Products	34.8	3.6	28,408
Fuel and Energy	6.9	-18.9	5,659
Total			81,660

Source: Argentina's National Institute of Statistics (INDEC)

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