# Economic Review of Argentina

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Made by: Mariano Dujovne –Trade Officer, Embassy of Israel, Argentina-
Victoria Akerman - Trade Officer, Embassy of Israel, Argentina-

**Part I: General**

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## Part I: General

### *1) General Information*

**Official Name:** Argentine Republic

**Capital:** Ciudad Autonoma de Buenos Aires

**Major Cities:** Ciudad Autonoma de Buenos Aires, Cordoba, Mendoza and Rosario.

**Language:** Spanish

**Currency:** Peso ($)

**Population:** 41,5 (estimated)

**Main Regions:** Argentina is grouped into six geographical regions:

*Northwest*, the fertile valleys concentrate most of the population of the area, and the economic activities. Of these, the cultivation of sugarcane, tobacco, and citrus are the most important, together with cattle and goat rising.

*Gran Chaco,* the Chaco offers soil fertility and topography that are favorable for agricultural development, but in combination with aspects that are challenging for farming : A semi-arid climate with a 6-7 month dry season and the absence of sweet ground water in large parts.

*Mesopotamia,* mate and tobacco is the most important product for the north of the region, although farmers have increasingly cultivated tea, tung trees (from which tung oil is derived), and citrus crops. Farther south, the truck-farming area supporting Buenos Aires, oranges, grapefruit, mandarins, and numerous vegetables are grown.

*Cuyo,* viticulture is one of the main activities of the area. The wine production of the region represents almost 80% of national production, and the wines are highly considered in the world. Olives, potatoes, tomatoes and some fruits are also cultivated, and there is production of sweets and preserved foodstuffs. Quarrying and oil exploitation are other important industries.

*Pampas,* is located in Central Argentina, a successful agricultural region with crops grown on the Pampas south and west of the Buenos Aires. In particular, the harvested area of soybeans is on pace to set a record, according to the Food and Agricultural Service. Much of the area is also used for grazing cattle and more recently to grow vineyards in the Buenos Aires wine region. These farming regions are particularly susceptible to flooding during heavy rainfall.

*Patagonia,* principal economic activities have been mining, whaling, livestock (notably sheep throughout) agriculture (wheat and fruit production near the Andes towards the north), and oil. Energy production is also a crucial part of the local economy. Railways were planned to cover continental Argentine Patagonia to serve the oil, mining, agricultural and energy industries

### *2) Geographic Information*

Location: is located in the South and West Hemisphere. Its relative position in South America gives the country a diversity of land and culture

Limits: To the North it is bounded by the Republics of Bolivia and Paraguay, to the south by the Republic of Chile and the Atlantic Ocean, to the east by the Federative Republic of Brazil, the Oriental Republic of Uruguay and the Atlantic Ocean and, to the West by the Republic of Chile.

General Characteristics: The vast Argentine territory has a diversity of landscapes, where ice fields contrast with arid zones; mountains with valleys or plateaus; fluvial streams and lakes with large oceans, broad grassy plains with woods and forests.

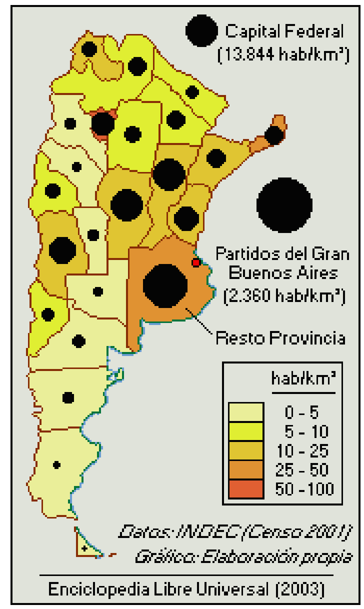
Area: 3.761.274 sq km of which 2,791,810 sq km correspond to the American Continent and 969,464 sq km to the Antarctic Continent

Climate: The main types of climate in Argentina are four: warm, moderate, arid and cold. The extension of the territory and the features of its relief determine the existence of varieties in each of the mentioned types.

Average annual temperatures range from 24°C (75°F) to 11°C (51°F) in Buenos Aires (sea level) and Córdoba (420m/1270ft), and 24°C (75°F) to 8°C (46°F) in Mendoza (820 m/2484ft).

### ***3) Demographic Information***

Argentines are a fusion of diverse national and ethnic groups, with descendants of Italian and Spanish immigrants predominant. Waves of immigrants from many European countries arrived in the late 19th and early 20th centuries. Syrian, Lebanese, and other Middle Eastern immigrants number about 500,000 to 600,000, mainly in urban areas. Argentina's population is overwhelmingly Catholic, but it also has the largest Jewish population in Latin America, estimated at between 280,000 and 300,000. In recent years, there has been a substantial influx of immigrants from neighboring countries, particularly Paraguay, Bolivia, and Peru. The indigenous population, estimated at 700,000, is concentrated in the provinces of the north, northwest, and south. The Argentine population has one of Latin America's lowest growth rates. Eighty percent of the population resides in cities or towns of more than 2,000, and over one-third lives in the greater Buenos Aires area.




***Population Distribution***

Indicators:

| | 2008 | 2005 | 2015 | 2025 |
|---|---|---|---|---|
| **Population** | | | | |
| Midyear (in thousands) | **40,482** | 39,181 | 43,432 | 47,165 |
| Growth rate (%) | **1.1** | 1.1 | 0.9 | 0.7 |
| **Fertility** | | | | |
| Total rate (births per woman) | **2.4** | 2.4 | 2.2 | 2.1 |
| Crude birth rate (per 1,000 population) | **18** | 19 | 17 | 15 |
| Births (in thousands) | **733** | 728 | 723 | 690 |
| **Mortality** | | | | |
| Life expectancy at birth (years) | **76** | 76 | 78 | 79 |
| Infant mortality rate (per 1,000 births) | **12** | 13 | 10 | 8 |
| Under 5 mortality rate (per 1,000 births) | **14** | 15 | 11 | 9 |
| Crude death rate (per 1,000 population) | **7** | 7 | 7 | 7 |
| Deaths (in thousands) | **301** | 293 | 318 | 349 |
| **Migration** | | | | |
| Net migration rate (per 1,000 population) | **-** | - | - | - |
| Net number of migrants (in thousands) | **-** | -3 | - | - |

- Represents or round to zero

Source: U.S.Census Bureau, International Data Base.

### 4) *Political Information*

*a. The Argentinean Government*

Argentina is composed of 23 provinces and one federal district (Ciudad Autonoma de Buenos Aires). It is governed by the 1853 Constitution as revised in 1898 and 1994, and has a federal system of government. The President of Argentina is both head of state and head of government. Executive power is exercised by the government. Legislative power is vested in both the government and the two chambers of parliament. The Judiciary is independent of the executive and the legislature. The president and vice president are elected by popular vote for four-year terms and can be reelected once. The popularly elected bicameral national congress is composed of 72 senators (three from each province and the federal district), who serve six-year terms, and 257 deputies (based on proportional representation), who serve four-year terms. There is a nine-member supreme court. Each province has its own elected governor and legislature and its own judicial system.

***Authorities***

President: Ms. Cristina Fernandez
Vice-President: Mr. Amado Boudou
Chief of the Cabinet: Juan Manuel Abal Medina
Minister of Foreign Affairs: Mr. Hector Timerman
Minister of Interior: Mr. Florencio Randazo
Minister of Defense: Mr. Arturo Antonio Puricelli
Minister of Economy: Mr. Hernan Lorenzino
Minister of Justice and Human Rights: Mr. Julio Alak
Minister of Labor, Employment and Social Security: Mr. Carlos Tomada
Minister of Education: Mr. Alberto Sileoni
Minister of Science, Technology and Innovative Production: Mr. Lino Barañao
Minister of Health: Mr. Juan Luis Manzur
Minister of Social Development: Ms. Alicia Kirchner
Minister of Federal Planning and Public Utilities: Mr. Julio de Vido
Minister of Industry: Ms. Débora Giorgi
Minister of Tourism: Mr. Enrique Mayer
Minister of Agriculture, Livestock and Fishing: Mr. Norberto Yahuar
Minister of Security: Ms. Nilda Garre

*b. The Economic Authorities*

**Ministry of Economy and Public Finances:** Minister Hernan Lorenzino

**Secretary of Economic Policies:** Sec. Mr. Axel Kicilof
Sub-Secretary of Economic Coordination: Sub-Sec. Mr. Augusto Costa
Sub-Secretary of Economic Programming: Sub. Sec. Mr. Hugo Andrade
Sub-Secretary of Economic Planning: Mr. Nicolas Arceo
Sub-Secretary of Macroeconomic Programming: Mr. Emanuel Antonio Alvarez Agis
**Secretary of Domestic Trade:** Sec. Mr. Guillermo Moreno
Sub-Secretary of Domestic Trade: Sub-Sec. Mr. Pablo Aldo Cerioli
Sub-Secretary of Defense for Consumer: Sub-Sec. Ms. Maria Lucila Colombo

**Secretary of External Trade:** Sec. Ms. Beatriz Paglieri

**Secretary of Finance:** Sec. Mr. Adrian Cosentino

Sub-Secretary of Financial Services: Sub-Sec. Mr. Juan Manuel Prada

**Secretary of Treasury:** Sec. Mr. Juan Carlos Pezoa

Sub-Secretary of Budget: Sub-Sec. Mr. Raul Enrique Rigo

Sub-Secretary of Provinces Relations: Sub-Sec. Ms. Nora Maria Fraccaroli

Sub-Secretary of Public Incomes: Sub-Sec. Mr. Luis Maria Capellano

**Secretary of Legal and Administration:** Sec. Mr. Andres Iturrieta

Sub-Secretary of Legal: Sub-Sec. Mr. Roberto Daniel Fernandez

Sub-Secretary of Administration: Sub-Sec: Mr. Manuel Maria Somoza

## Part II: The Argentinean Economy

### *1) General Data*

| | 2008 | 2009 | 2010 | 2011 (IIQ) |
|---|---|---|---|---|
| GDP (%) | 6,8 | 0,9 | 9.2 | 9.1 |
| GDP –in billion u.s dollar – (nominal) | 327 | 308 | 369 | 484 |
| GDP –in billion u.s dollar – (PPP) | 571 | 554 | 596 | |
| GDP per capita -u.s dollar- (nominal) | 8224 | 7643 | 9092 | 10005 |
| GDP per capita –u.s dolar- (PPP) | 14100 | 13700 | 14700 | |
| Inflation (%) –estimated by public sector- | 7.5 | 7.7 | 10.9 | 9.7 (year) |
| Inflation (%) –estimated by private sector- | 23.5 | 15.8 | 27 | 23,1 (year) |
| Unemployment (%) | 7.3 | 8.4 | 7.3 | 7.2 |
| Imports (in millions u.s.d) | 57,423 | 38,780 | 56,503 | 61,727 (Oct) |
| Exports (in millions u.s.d) | 70,023 | 55,668 | 68,133 | 70,561 (Oct) |
| Trade Balance | 12,600 | 16,888 | 11,630 | 3,998 (oct) |
| Currency Rates ($ per u.s dollar) | 3.16 | 3.73 | 3.91 | 4.30 |
| External Debt (in millions u.s.d) | 125,488 | 116.388 | 128,768 | 155,966 |
| Foreign Direct Investments (in millions u.s.d) | 9726 | 4017 | 6193 | |
| Foreign Current Reserves (in millions u.s.d) | 46,386 | 47,967 | 52,190 | 51,695 |

Source: INDEC – National Institute of Statistic and Census-

### *2) Short overview of the current situation in the Argentine Economy*

President Cristina Fernandez de Kirchner won re-election by a historic margin last October. This resulted can be analyzed as a consequence of a rapid economic growth, low unemployment, and pro-cyclical pre-election spending. The official party of Mrs. Kirchner's (Frente para la Victoria a branch of Peronismo Political Party) secured control over both chambers of Congress, solidifying the government control over the policy agenda. Analyzers expect that the government will continue relying on unorthodox policies to boost growth despite mounting imbalances. The economy is expanding at an above-trend pace, propelled by favorable external conditions (sustained demand from Brazil and high commodities prices) and overly-expansionary fiscal and monetary stimulus. Inflation is likely to end the year around 25% based on private agencies. Since the National Index Agency intervention, the opposition together with private agencies showed a different number compare on what the government says. Labor will continue to be compensated with large increases in nominal wages. Above-trend growth, high inflation, and eroding peso competitiveness increase the risk of a hard landing. Nevertheless, there is little immediate risk of a disorderly adjustment as long as favorable external conditions persist.

*a. Monetary Policy, Inflation & Budget*

Argentina’s central bank targets money supply growth to control inflation instead of using a benchmark lending rate that it can raise or lower.

The two most important topics to take into account in this area are inflation and the foreign currency.

The consumer price index in Argentina during the month of November increased 0.6% according to the official stats office Indec, which has been already mentions is less than half the percentage released by private estimations. For the controversial Indec inflation in Argentina during the last eleven months reached 8.6% and 9.5% in the last twelve months, which contrasts openly with the Congressional/ Private index which marked 1.44% in November and 22.63% in the first eleven months of the year.

Regarding foreign currency, different restrictive laws were published to limit any outgoing of foreign currency. These actions, to maintain equilibrated the balance of trade, generated a parallel market for dollars that brings two different prices to buy the American currency

Argentina’s Senate approved an annual budget bill for 2012 that includes a plan to use $5.7 billion in central bank reserves to pay debt. According to the bill, which was approved in the first week of December by the lower house of Congress, South America’s second-biggest economy will grow 5.1 percent in 2012, while the trade surplus will narrow to $8.6 billion from $9 billion in 2011. Next year’s primary surplus, which excludes interest payments, will be 2.5 percent of gross domestic product while the overall surplus will be 0.2 percent of GDP, the bill said

*b. Employment*

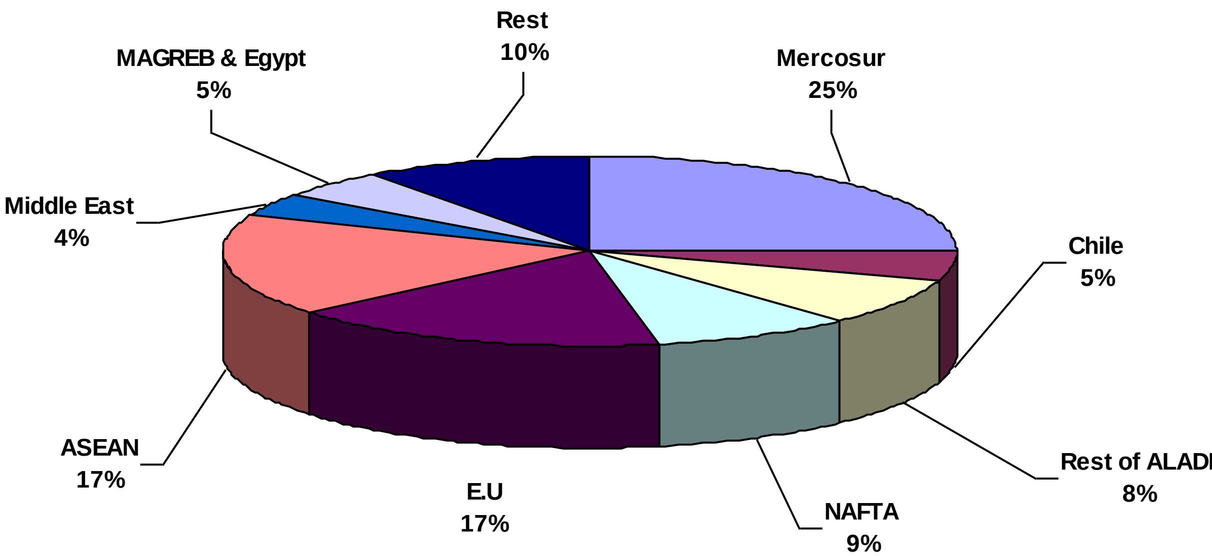
Argentina's labor market improved in the third quarter amid robust growth. According to the government's statistics office, INDEC, the unemployment rate averaged 7.2% in this period, down from 7.5% a year earlier.

The unemployment rate will not drop much further in upcoming quarters, however, as the economy moderates and businesses put expansion plans on hold. However, unemployment might rise gradually in 2012 amid the ongoing turmoil in Europe and weaker government spending at home.

Source: Moody’s

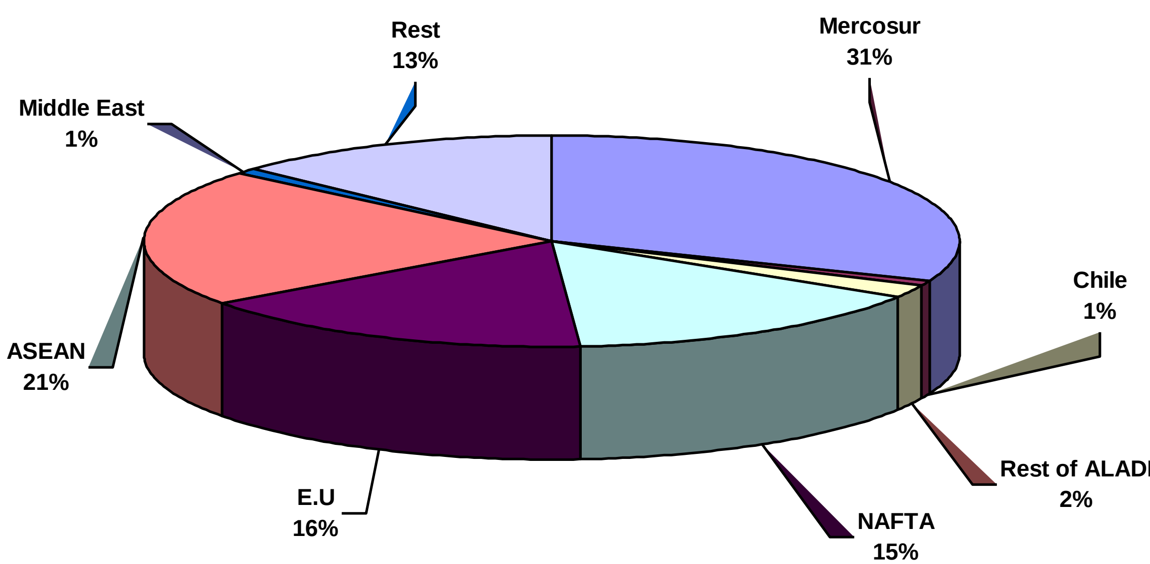
*c. Foreign Trade*

## Export by Region




Source: Indec -Jan - Oct 2011

## Import by Region




Source: Indec -Jan - Oct 2011

*d. Capital Flow*

Capital inflows to Latin America have shown resilience despite renewed concerns over the global economy and heightened risk aversion. Global appetite for regional assets has remained relatively robust, supported by the market's favorable return-to-risk assessment vis-à-vis mature economies. This shift in market perceptions has partly offset the dragging effect of the recent global equity weakness on inflows.

The Institute of International Finance plan that net private capital inflows to the region will remain broadly unchanged.
Foreign Direct Inversion inflows to the region are forecast to increase more than 30% in 2011 to $120 billion, of which about half will go to Brazil.

Regarding Argentina two factors were put downward pressure on international reserves:
1- a rapidly shrinking trade surplus driven by the appreciation of the real exchange rate
2- accelerating capital flight in the run-up to the last presidential election (end of October).
This is exacerbating the already strong chronic forces fueling the movement of capital offshore by residents. These include:

*An overly expansionary monetary policy. This is reflected in negative real interest rates and entrenchment of inflation at a high level (about 25% according to private sector estimates).

*A procyclical fiscal policy. Heavy spending ahead of the election has further weakened the fiscal position.

*Heterodox public sector financing. The government is increasingly relying on transfers from the social security system and central bank financing, thereby increasing uncertainty regarding the sustainability of public finances.

*Interventionist policies. Export taxes and other financial restrictions have contributed to undermine the trade balance and the development of a parallel foreign exchange market .

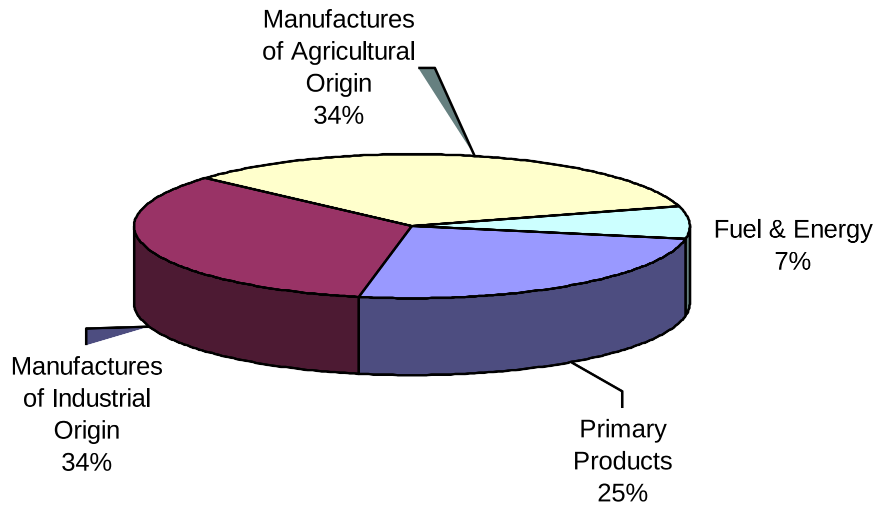
The projected shifting of the current account from a small surplus in 2011 to a deficit next year and a surge in capital flight are expected to reduce international reserves by about $4.0 billion in 2012, bolstering devaluation expectations and adding to growing imbalances. This is likely to intensify anti-market policies by the government.

Source: Institute of International Finance (IIF)

*e. Main Sectors of Industry and Trade*

In the first ten month of 2011, the rise in the export amount (25%); could explain by higher prices (19%) and export quantities (6%). The main exports were: soybean products, cereals, beef, motor vehicles and parts, chemicals and medicine. Argentine's largest exports markets were Brazil, European Union, China, United Sates and Chile.

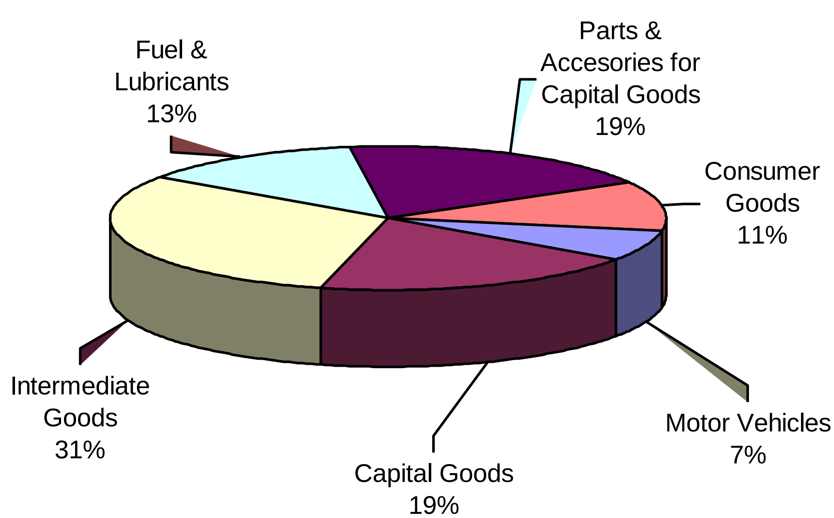
**Export Sectors** **(Jan - Oct 2011)**




Source: INDEC – Nov 2011-

In the first ten month of 2011, the main imports were: vehicles for people, liquefied natural gas, gas oil, parts and accessories for bodyworks of vehicles, parts for reception of voice, data or image; printed circuit board with electric components, gearbox, iron ore; phosphate monoamine and semi trailers tractors. Main import partners for the period were Brazil, China, United State, Germany and Mexico.

**Import Sectors** **(Jan - Oct 2011)**




Source: INDEC – Nov 2011-

*f. Exchange Rates*

Argentina's exchange rate policy is based on a managed float. The rate at the end of December 2011 was 4.31 pesos per dollar.

Since November 2011, a new measurement was taken by the Government; anyone trading Argentine pesos for foreign currencies must first show where they got the money, based on wealth or income previously declared to the tax agency. This measurement has revived a “black exchange market” where the rate at the end of December was 4.65.

### ***3) International Relations:***

*a. Current Agreements*

1- *Customs Union* : Mercosur (Argentina, Brazil, Paraguay and Uruguay)
2- *Free Trade Agreements*: Mercosur-Bolivia; Mercosur Chile; and **Mercosur -Israel**
3- *Automotive Sector*: Mexico
4- *Double Taxation*: Australia, Austria, Belgium, Bolivia, Brazil, Canada, Chile, Denmark, Finland, France, Germany, Italy, Mexico, Netherlands, Norway, Russia, Spain, Sweden and United Kingdom
5- *Promotion and Protection of Investments*: Algeria, Armenia, Australia, Belgium – Luxembourg Union, Bolivia, Bulgaria, Canada, Chile, China, Costa Rica, Croatia, Cuba, Czech Republic, Denmark, Dominican Republic, Ecuador, Egypt, El Salvador, Finland, France, Germany, Greece, Holland, Hungary, India, Indonesia, **Israel**, Italy, Jamaica, Lithuania, Malaysia, Mexico, Morocco, New Zeeland, Panama, Peru, Philippines, Poland, Portugal, Romania, Russian Federation, Senegal, South Africa, South Korea, Sweden, Switzerland, Taiwan, Thailand, Tunisia, Turkey, Ukraine, United Kingdom, Venezuela and Vietnam.

*b. Future Agreements in the Making*

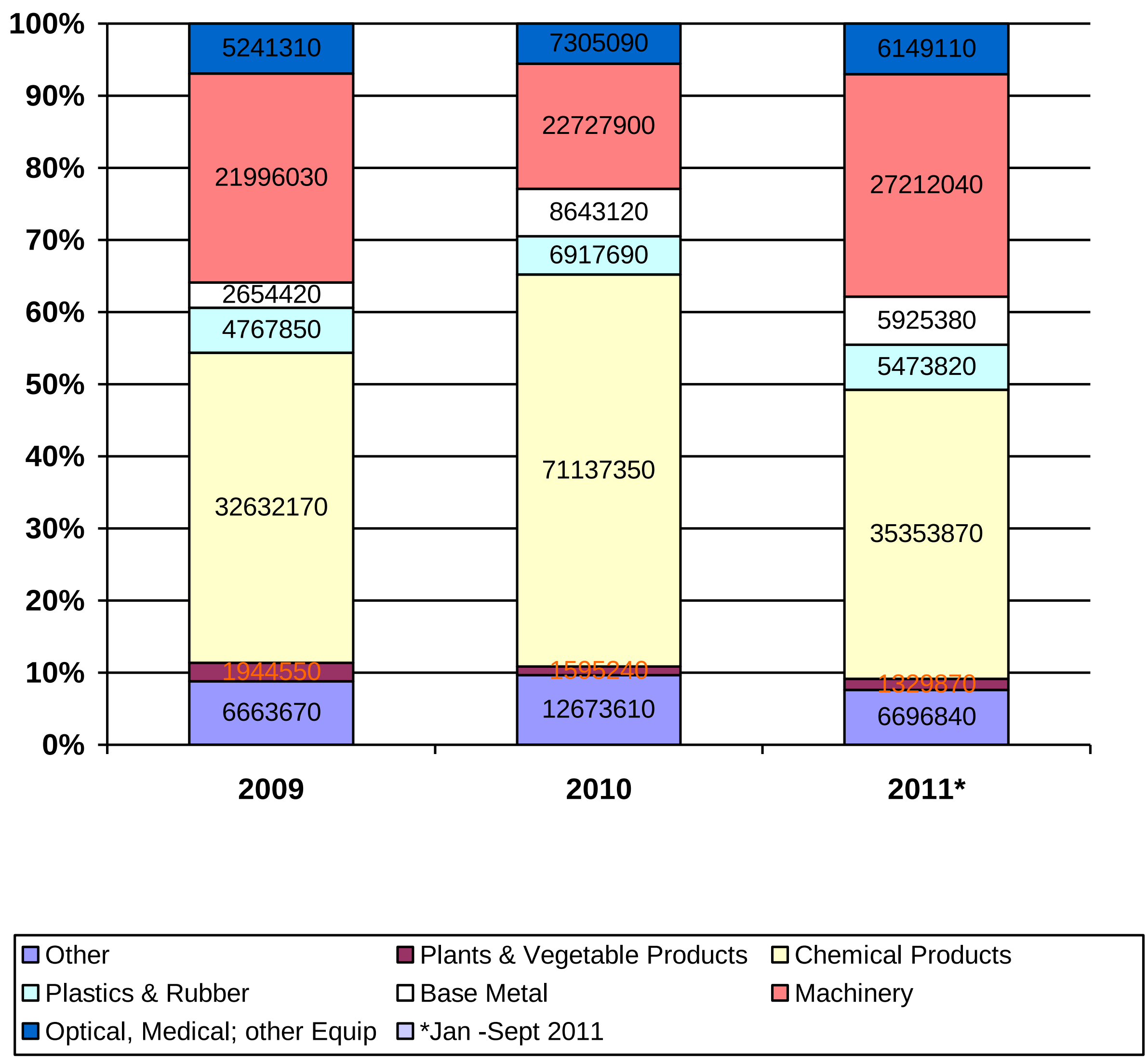
1. *Free Trade Agreement* (under Mercosur’s umbrella) with: Cooperation Council of the Gulf (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates); South Korea; Egypt; Morocco; Mexico, Dominica Republic, Jordan, Turkey, Comunidad Andina, Peru Central American Integration System (Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua y Panama); Southern African Customs Union (Botswana, Lesotho, Namibia, South Africa and Swaziland) and Caribbean Community (Antigua and Barbuda, Bahamas, Barbados, Belize, Dominica, Grenada, Guyana, Haiti, Jamaica, Montserrat, Saint Kitts and Nevis, Saint Lucia, Saint Vincent and the Grenadines, Suriname and Trinidad and Tobago.
2. *European Union* (under Mercosur’s umbrella)*:* the agreement includes/understands three areas: political dialogue, economic and commercial subjects and cooperation. Its scope was defined in the first round of negotiations (April 2000) and in the Summit of Madrid (May 2002)
3. *Canada* (under Mercosur’s umbrella): negotiation from access to the market of goods, services and investment between the parts

**4) Trade with Israel*:**

| Year | Import $ | Export $ | Trade Balance $ | Total Trade $ | % of Change |
|---|---|---|---|---|---|
| 2008 | 150,5 | 125,2 | (25,1) | 275,5 | (1,9) |
| 2009 | 147 | 75,9 | (71,1) | 222,9 | (19,1) |
| 2010 | 176,7 | 131 | (45,7) | 307,7 | 38 |
| I-XI 2010 | 167,6 | 121,9 | (45,7) | 289,5 | |
| I-XI 2011 | 204,4 | 122,2 | (82,2) | 326,6 | 12,8 |

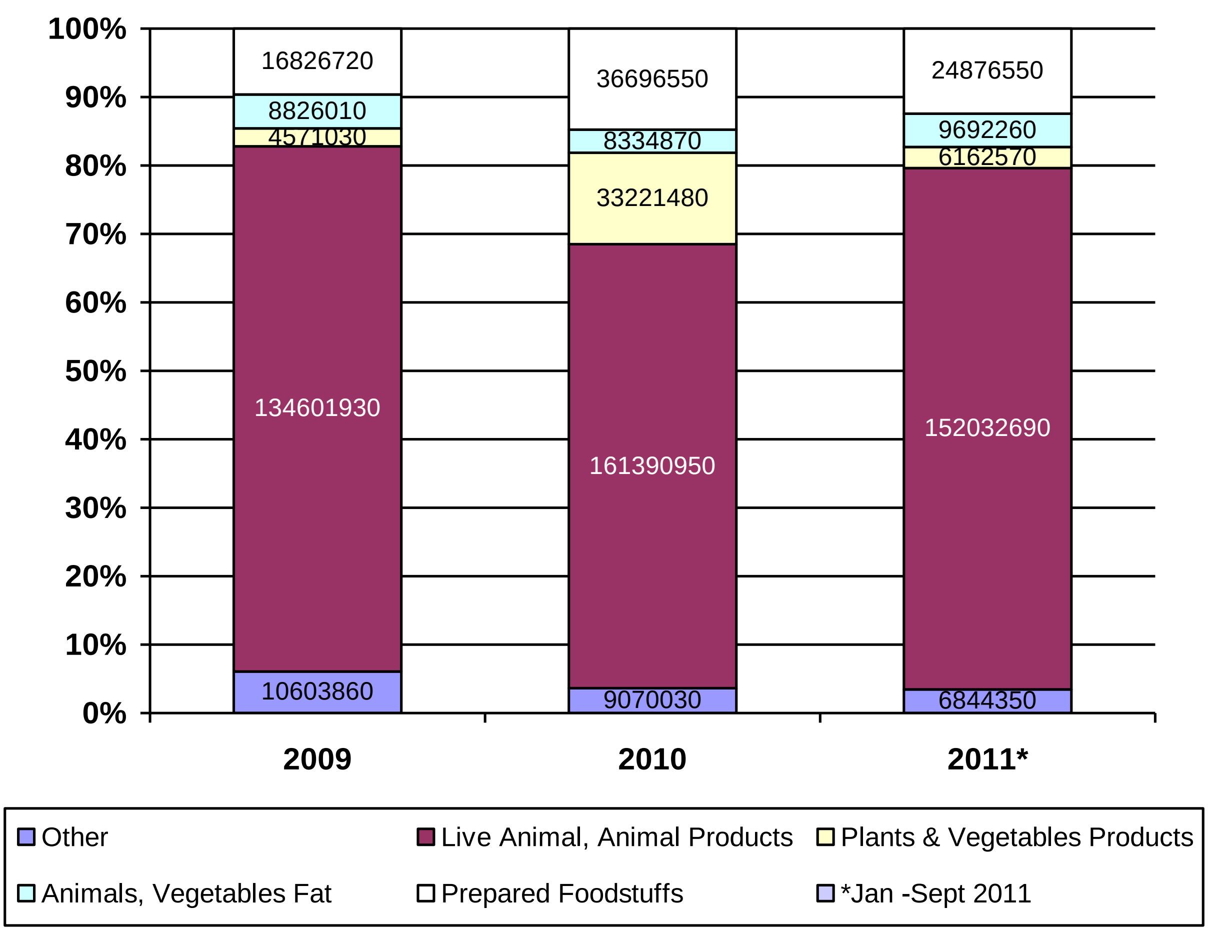
**Source: Central Bureau of Statistic –Israel – in million $*

***Main Export Sector:***



***Main Invest &Export Israeli Companies:***

***Main Import Sector:***




*Source: TAMAT*

***Main Export Argentinean Companies:***

***Opportunities for Israeli Companies:***

Even if Argentina does not figure amongst Israel's main trading partners, the Argentine market shows potential for Israeli firms to develop trade opportunities.

a- There are solid prospects across a wide range of sectors with strong opportunities. The sectors are: telecommunication; solar energy, water technologies, homeland security products, agricultural inputs and know how and; dental and medical devices.

b- Argentina – Israel Cooperation Program - The program supports joint commercially focused R&D projects between Israeli companies and Argentinean entities – more information:
http://www2.matimop.org.il/1/foreign/argentina-israel.asp

*Practical Tips to Successfully Approach Argentine Market:*

- Appoint a representative or distributor
- Have Spanish speaker in the company
- Furnish materials in Spanish
- Have a long term outlook
- Personalize your approach
- Protect your trademarks
- Frequent visits and follow – up