

**Law 26522 (published in the Official Gazette on 10/10/2009) - Audiovisual Communication Services.** Established the regulation of audiovisual communication services in Argentina, which includes all broadcasts originating in Argentina, as well as those originating overseas that are rebroadcast or distributed in Argentina. The tax, from a tax viewpoint, established that all investments in advertising to be disseminated through radiobroadcast services not meeting the conditions of the National signal will not be entitled to any deduction rights provided for in Section 80 of the Income Tax Law (restituted text, 1997) and its amendments.

**Law 26525 (published in the Official Gazette on 10/28/2009) The Convention on Social Security between Argentina and Chile.** The Convention on Social Security signed by Argentina and Chile on April 26, 1996 was approved.

**Law 26526 (published in the Official Gazette on 10/28/2009)** The Agreement to Amend the Convention on Social Security between Argentina and Chile approved on April 26, 1996 was signed into law on September 25, 2008.

**Law 26539 (published in the Official Gazette on 11/23/2009) - Technological Products: Excise Tax Law Amendment; VAT rate increase.** Schedule in Annex II to subsection b) of Section 70 was replaced and Section 71 added to the Excise Tax Law, establishing that excise taxes shall be levied on certain common-use home appliances and electronic products. Furthermore, the indicated Mercosur Common Nomenclature tariff positions were eliminated from the Schedule in the Annex to subsection e) of paragraph four of Section 28 of the Value Added Tax Law making certain electronic products now subject to Value Added Tax at the general rate. The provisions of this Law shall take effect on taxable events occurring as of December 1, 2009.

**Law 26545 (published in the Official Gazette on 12/02/2009) Extension. Personal Property Tax; Income Tax; Duty on Cigarettes; Tax on Financial Transactions; Educational and Cooperative Promotion Fund; Tax on Minimum Notional Income; Monotributo or Single Tax System (STS).** The extension of application of these taxes was established. In addition, Income Tax exemption on export refunds (currently suspended), pursuant to Section 20, subsection I), of the Law on this tax has been left without effect.

**Law 26565 (published in the Official Gazette on 12/21/2009) Special STS Tax; Special Regime for Social Security for Domestic Personnel. Replacement of Section 17 of Law 26063.** A new integrated and simplified tax regime was established for Income Tax, Value Added Tax and the Social Security System and applicable to small taxpayers (Simplified Regime for Small Taxpayers).

## 4. Outlook

In June 2009 legislative elections to renew one half of the members of the Chamber of Deputies and a third of the Senate took place. Those elections strengthened the opposition, as the ruling party lost the absolute majority it had held in the two Chambers.

The economic outlook for 2010 is considerably conservative. Various economists estimate a GDP growth between 2% and 5%, largely helped by the growth projected in Brazil, China and India, a few of the main trading partners of Argentina.

As a result of this curbed expansion, the unemployment rate is expected to decrease a few points and inflation will possibly increase. The main domestic factors that could increase prices are wage increases and the renegotiation of public utility rates, which lag behind the rest of Latin America.

The external sector, the main source of foreign currency of the present model, would preserve its surplus thanks to the recovery of external demand for national products and to the favorable prices of commodities in international markets. Under this scenario, no significant fluctuations would be expected in exchange rates, except for those accompanying inflation.

The revival of the world economy and of local harvest levels would positively impact the level of activity, thus leading to a recovery in tax revenues. However, there are no indications of a greater fiscal surplus because the positive result will possibly be offset by higher public spending.

In summary, the outlook for 2010 is more optimistic than that of 2009, although it will largely rely on the political developments that take place throughout this year.



## 5. Main Economic Indicators

	2008 *	2009 *	Variations %	Source
GDP (current Ar\$)	1.032,8	1.145,5	10,9	MECON
GDP (current US\$)	326,9	307,1	-6,1	MECON
GDP (Ar\$ 1993)	383,4	386,7	0,9	MECON
GDP	8.047,0	7.450,4	-7,4	MECON
CPI	7,24%	7,69%	6,2	INDEC
PPI	7,64%	11,47%	50,1	INDEC
Exports	70,0	54,6	-22,0	MECON
Imports	57,4	38,8	-32,4	MECON
Balance of trade	12,6	15,8	25,0	MECON
Primary Fiscal Balance	32,5	17,3	-46,8	MECON
Fixed Gross Domestic Investment (Current Ar\$)	240,5	239,6	-0,4	MECON
Investment	23,30%	20,90%	-10,3	MECON
Foreign Debt **	129,6	121,1	-6,5	MECON
Foreign Debt **	37,31%	39,69%	6,4	MECON
Foreign Debt **	6,1	9,0	47,5	MECON
International reserves of the Argentine Central Bank	46,4	48,0	3,4	BCRA

\* Latest available information

\*\* As of the third quarter of 2009

MECON Argentine Ministry of Economy and Public Finance

INDEC National Institute of Statistics and Census

BCRA Argentine Central Bank

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## Highlights of Argentina

### A wrap-up of 2009 and a forecast for 2010



# 1. General Context

After six years of steady increase in the level of activity, the Argentine economy underwent a sharp slowdown, which can be explained by the negative impact of the international crisis on the local economy, as well as by internal factors that maximized its effect, such as adverse weather conditions and significant flights of capital due to deteriorating macroeconomic conditions.

However, as of the third quarter of 2009, the economy began to recover slightly, driven by the following factors: 1) a worldwide economic revival in primarily emerging markets; 2) depreciation of the US dollar, which facilitated a moderately competitive exchange rate; and 3) an increase in public expenditure over profits to stimulate aggregate demand, economic activity and employment, despite eroding the primary fiscal result even further.

Private consumption, a component of aggregate demand and the principal engine of Argentina's economic development, recorded negative monthly growth rates until the first quarter of 2009, which was then reversed, although at a slower pace than in previous years. Fixed gross domestic investment, defined as the addition of investment in construction and in durable goods, fell 10% on a year-on-year basis, while exports decreased by 6.4%.

The trade balance still remains in surplus, despite the fact that exports decreased significantly. This was mainly due to an even greater fall of imports in response to the economic slowdown and the measures implemented by the Government aimed at directing domestic demand towards products of national origin. The Capital and Financial Accounts were in deficit as a result of a significant flight of capital on record until the third quarter of 2009.

The funds from the reform of the capitalization system generated a positive fiscal balance. While income grew 18% p.a., expenses increased 27% as a result of the expansive fiscal policy carried out by the Government. The primary fiscal surplus was 47% lower than that recorded in 2008, and for the first time since 2002, the financial fiscal result was negative.

Consequently, the year 2009 ended showing signs of recovery; however, certain measures have not yet been implemented to correct internal imbalances and therefore restore trust: a fundamental cornerstone of sustainable long-term growth.

# 2. Economic Indicators

**Gross Domestic Product (GDP)**

GDP at constant prices increased 0.9% year-on-year, 7.6% lower than the average recorded in the 2003-2008 period. In particular, the productive sector suffered a loss of 3.5%, whereas the service sector recorded an increase of 3.2% year-on-year.

The aggregate offer in 2009 decreased 1.6% compared with that in 2008 mainly due to the decline of imports of goods and services (-19%). There was a decrease of 10.2% in fixed gross domestic investment and of 6.4% of exports of goods and services.

Public consumption continued to contribute positively to growth (7.2%), in spite of an economic slowdown, while private consumption only contributed 0.5%.

**Balance of Trade and Payments**

Exports decreased 22% in 2009 on a year-on-year basis, by an approximate USD 55 billion, within a context of generalized worldwide contraction in trading activity and fewer grain shipments due to a poor harvest in 2008/09.

Imports reached USD 39 billion, marking a decrease of 32% year-on-year. The fall in foreign purchases was related to a decrease in the level of domestic activity, which mainly affected the import of capital and intermediate goods, as well as the restrictions imposed by the Government.

The balance of trade ended the year with a surplus of USD 16 billion, where the fall in exports was offset by a decrease in imports.

In the third quarter of 2009, the Capital and Financial Account recorded a deficit of USD 938 million largely due to an important flight of capital, which had an accumulated value of USD 7.1 billion at that date. This decline has resulted in negative values since the second quarter of 2008, although it slowed down significantly in the third quarter of 2009 to USD 286 million, the lowest level in the past year and a half.



International reserves increased only by 3%, to USD 48 billion, which is largely correlated with an increase in the demand for dollars by the private sector and the flight of capital as mentioned above.

**Public and foreign debt**

Total foreign debt amounted to USD 121.1 billion at the end of the third quarter of 2009, with a year- on-year reduction of USD 6.5 billion, due to the decrease in foreign debt in the private sector; whereas foreign debt in the public sector increased in the third quarter of 2008 by allocation of Special Drawing Rights.

The Public Debt totaled USD 147.1 billion in 2009, increasing by USD 1.1 billion compared to the balance recorded at the end of 2008. This was basically due to valuation adjustments made to the obligations indexed for the Reference Stabilization Index (CER), Exchange Rate and the capitalization of interest on Government Securities, and to a lesser extent to net financing operations.

Lastly, the negotiation of approximately USD 6 billion owed to the Club de Paris is still unresolved.

**Industrial activity**

The Monthly Industrial Estimator for 2009 was around 0.4% - the lowest growth achieved since the 10% fall of 2003; however, in December 2009 signs of recovery were seen.

Those industries that suffered the most significant decreases were Basic Metals (-19%), Automotive (-11.3%), Oil Refining (-6.7%), and Textile Products (-4%). However, the Chemical Products and Substances (10.2%), Food and Beverages (7.9%), Rubber and Plastic (7.4%), and Paper and Cardboard (6%) industries were highly dynamic.

Further, the Synthetic Indicator of Construction Activity ended 2009 with a year-on-year decrease of 1.6%.

**Unemployment and Poverty**

In the fourth quarter of 2009, the unemployment rate increased 1.1 percentage points on a year-on-year basis, reaching 8.4%, which includes those persons receiving the Government subsidy granted under the *Beneficiaries of the Unemployed Heads of Household Welfare Program* as employed persons. Unemployment increased due to the substantial reduction in the level of economic activity in Argentina.

If the beneficiaries of this program had been excluded, the unemployment rate would have amounted to 8.6% of the economically active population.

By the first half of 2009, the population below the poverty line fell to 13.9%, 1.4% less than December of the previous year.

**Inflation and exchange rates**

The official Consumer Price Index increased 7.7% in 2009, mainly driven by an increase in Education (14.3%), Clothing (12.6%), Transport and Communication (11.7%) and Health Care (9.6%).

As in the past two years, the inflation rate published by the National Institute of Statistics and Census (INDEC) was half of that calculated by private consultants, who estimated it to be between 13.5%-15.3%.

Wholesale prices increased 11.5% p.a., representing an increase of almost 4 percentage points compared with the previous year, mainly due to an increase in the prices of primary products.

In 2009 the exchange rate continued to depreciate and closed at AR\$/USD 3.807, 11% higher than that recorded at the end of 2008.

**Interest rates**

In October 2009, the Argentine Central Bank agreed to a 0.25% reduction in its interest rates for repos, in order to keep them stable throughout the quarter.

The main short-term interest rates on deposits decreased during the quarter in line with the reduced reference rates of the Argentine Central Bank. Likewise, most lending interest rates fell during the last quarter of 2009. The average interest rates paid by private banks to the wholesale sector and for deposits of up to 35 days (BADLAR) was 9.8% in December 2009, with a decrease of 2.3% compared to the average in September of the same year. The average interest rate for

bank overdrafts was 10.7% in December for commercial loans granted by private banks within the City of Buenos Aires and Greater Buenos Aires, with a 3.2% decrease during the quarter, reducing its margin in relation to the BADLAR.

**Fiscal accounts**

In 2009 the tax revenue growth rate was 18% in nominal terms, a variation considerably lower than the (27%) average over the last 6 years. The increase was driven by Social Security resources (48%) and Value Added Tax (22%). In addition, Export Tax revenue decreased 11% per annum due to the fall in prices and lower quantities exported.

Likewise, spending grew at a rate of 27% per annum, basically due to the expansion of Consumption and Operating Expenses, which include Public Employee Remunerations (38%), Property Income (37%), Social Security Benefits (29%) and Current Transfers to the Private Sector (16%).

Thus, primary surplus in 2009 stood at USD 17.3 billion (1.5% of GDP), representing a decline of 47% compared to results in 2008. This amount includes as income the transfers of Special Drawing Rights by the IMF to all member countries and the profits of BCRA and ANSES. However, the financial result (primary result less interest payments on the debt) showed a deficit of USD 7.1 billion, for the first time since 2002.

# 3. Tax

**Law 26439 (published in the Official Gazette on 01/08/09) Agreement on Commercial and Economic Cooperation between Argentina and Guyana.** The Agreement on Commercial and Economic Cooperation entered into between Argentina and Guyana was approved on February 24, 2006 to promote trade and economic cooperation. Both parties agreed to reduce and gradually remove obstacles to the trade of goods and services, in accordance with each country's respective laws and regulations.

**Law 26465 (published in the Official Gazette on 01/16/2009)** Convention on Social Security entered into between Argentina and Slovenia was approved on April 12, 2007.

**AFIP External Note 1/2009 (published in the Official Gazette on 01/27/2009) Income Tax. Decree 1207/08. Financial Trusts. Explanatory norm.** Limitation was established on the benefit of deductibility from Income Tax of the amounts that under any denomination are to be allocated as distribution of profits: they shall apply only to financial trusts set up as of August 1, 2008.

**Decree 252/2009 (published in the Official Gazette on 04/13/2009) Excise Taxes. Electric and/or Electronic Products manufactured in the Special Area of Tierra del Fuego. Tax rate. Reduction.** The Excise Tax rate levied on electric and/or electronic products manufactured by companies that are beneficiaries of the regime envisaged in Law 19640, provided that they prove origin in the Special Customs Area, is set at 38.53% of the general rate. Likewise, if a reduction were to be verified in the Value Added Tax rate on the sale of those products, the Excise Tax rate would be reduced in proportion to the reduction in the Value Added Tax rate. In no case shall the said reduction generate balances in favor of the person liable for depositing Excise Taxes. The provisions of this norm will have effects for taxable events occurring as of December 1, 2009.

**DGA External Note 52/2009 (published in the Official Gazette on 06/05/09) Preferential Trade Agreement between the MERCOSUR and the Republic of India.** Rules of procedure were established for the use and application of the preferential benefits determined by this Agreement.

**AFIP General Resolution 2622 (published in the Official Gazette on 06/11/2009) Tax on Financial Transactions. Exempt taxpayers under international conventions, treaties or agreements.** AFIP General Resolution 2111 was amended, establishing the manner in which the exempt taxpayers under international conventions, treaties or agreements, signed by the Nation and approved by Law, shall provide evidence of their condition before the tax computation and collection agents.

**AFIP General Resolution 2681 (published in the Official Gazette on 10/05/2009) - Income Tax. Exempt Entities. Replacement of AFIP General Resolution 1815.** Changes were introduced to the applicable procedure to obtain recognition of the exemption benefit establishing a periodical evaluation of compliance with the aspects envisaged by the provisions of the Income Tax Law, effective as from the first day of the third month following its publication in the Official Gazette.