KPMG

cutting through complexity

Argentina

High Growth Markets country profile

Argentina is the world's eighth largest country in terms of area and the second largest economy in South America. It is a middle-income country with one of the highest levels of per capita gross domestic product (GDP) in the region. Argentina benefits from rich natural resources, a highly literate population, an export-oriented agricultural sector and a diversified industrial base. Following a period of rapid expansion up to 2013, GDP growth has diminished significantly and is expected to increase by 3.3 percent annually from 2014–2018.

Country overview

Geography and climate

- **Location:** southern South America, bordering the South Atlantic Ocean, between Chile and Uruguay
- **Climate:** mostly temperate; arid in the southeast; sub-Antarctic in the southwest
- **Regions:** 23 provinces and 1 autonomous city
- **Major cities (2011 figures):** Buenos Aires (13.53 million), Cordoba (1.49 million), Rosario (1.23 million), Mendoza (0.92 million), San Miguel de Tucuman (0.83 million)

Political system

- **Type of government:** federal republic
- **Capital:** Buenos Aires

Population, language and religion

- **Population:** 41.7 million
- **Urban population:** 92%
- **Immigration:** immigrants from throughout Europe, with Italy and Spain providing the largest percentage of newcomers between 1860 and 1930
- **Demographics:** 0–14 years: 24.9%; 15–64 years: 66%; 65 years and over: 11.3%
- **Median annual household income:** 10,776 US dollars (US$)
- **Official language:** Spanish
- **Prominant religions:** Roman Catholic, Protestant and Jewish

Currency and central banking

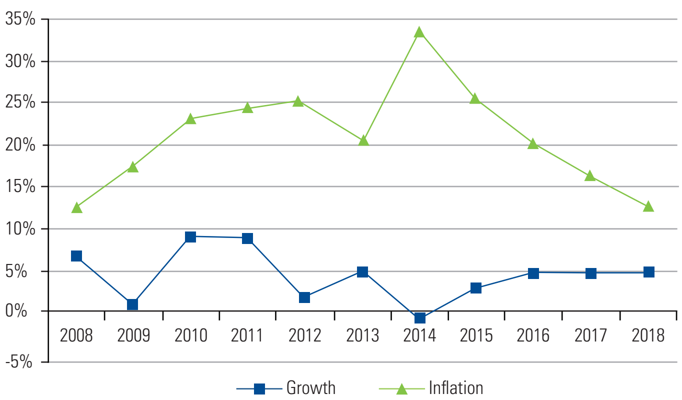
- **Local currency:** Argentine Peso (ARS)
- **Exchange rate:** 1 ARS = US$0.1246 (1 April 2014)
- **Interest rate (average annual rate):** 13.1% (2013); 9.8% (2012); 10.0% (2011); 9.1% (2010); 10.2% (2009)
- **Foreign exchange reserves:** US$33.65 billion
- **Total debt (2013):** external: US$111.5 billion; internal public debt: 45.8% of GDP (2013 estimate)

Business environment

Economic environment

- **GDP in 2013 was US$784.4 billion** and is expected to grow by 3.3 percent annually from 2014–2018. The median household income is forecast to increase to US$12,502 by 2017.
- **Foreign direct investment (FDI) (billions):** inbound: US$9.7 (2008); US$10.5 (2013); US$9.2 (2018); outbound: US$1.4 (2008); US$1.3 (2013); US$1.5 (2018 forecast)
- **Exports free on board (FOB) (billions):** US$80.9 (2012); US$83.2 (2013); US$111.9 (2018 forecast)
- **Imports FOB (billions):** US$65.6 (2012); US$70.8 (2013); US$97.0 (2018 forecast)
- **Sector breakdown:** service: 61.6%; industrial: 29.1%; agriculture: 9.3%
- **Trade balance (billions):** surplus of US$15.3 (2012); US$12.4 (2013); US$14.9 (2018 forecast)
- **Stock exchanges:** Buenos Aires Grain Exchange, Buenos Aires Stock Exchange, ROFEX, MERVAL

GDP growth and inflation (average consumer price index (CPI))



Source: Economist Intelligence Unit, 2014

Investment climate

Key considerations

- **Fiscal and monetary policy:** The government has been forced to change policy direction in response to unsustainable pressure on the peso, amid an increasingly precarious reserves position. Several years of expansionary fiscal and monetary policies have taken their toll in the form of rampant inflation, which has, in turn, caused continued real peso appreciation, deterioration in the current account, devaluation speculation and a fall in foreign reserves. The government has tried to mend fences with international creditors and investors, such as the Paris Club, the World Bank and Repsol, with a view to securing renewed access to much needed international finance. The monetary authority stopped intervening in the foreign exchange market in late January to protect the reserves, causing the peso to weaken by 15 percent in 2 days. The peso has stabilized, thanks to a combination of renewed intervention, sharp interest rate rises and stricter bank reserve requirements for holdings in dollars. The government has resorted to foreign exchange, import and capital controls, as well as ad hoc interventionism, to the detriment of the business environment.
- **Competition policy:** Argentina does not consider monopolies to be illegal. Companies with local annual revenue of at least ARS200 million (US$25 million) need special authorization from the Antitrust Tribunal before a merger. In an attempt to control rising inflation and maintain popularity among voters, the government implemented various price controls in the following areas: electricity, water and gas distribution at the retail level; local telephone services; urban transport; and tolls on highways and rivers. It has also recommended 'voluntary' price controls in some sectors.
- **FDI policy:** Although foreign direct investments are not subject to minimum-stay or deposit requirements, capital inflows to portfolio investments in debt/equity securities must remain in the country for at least 365 days. In addition, 30 percent of capital inflows must be deposited in an interest-free US dollar account with the central bank for 1 year. Offshore companies are prohibited from setting up in Buenos Aires, and all new foreign companies must provide the government with information about their shareholders. During 2014–2015, there should be increased risk of expropriation of foreign assets, while private investors are likely to be deterred by a poor track record on international dispute settlement and favoritism towards local investment. Limits on foreign land ownership are expected. During 2016–2018, foreign direct investment (FDI) should be welcome. New government should bring an improvement in settling investment disputes and greater availability of investment protection schemes.
- **Foreign trade and exchange controls:** Argentina's economy is subject to a variety of foreign exchange controls. Capital repatriation exceeding US$5 million requires authorization by the central bank. The process for central bank re-authorized profit remittances remains complicated, and all transactions with foreign counterparts must be registered. Authorization from the central bank is required to transfer royalties or other fees. Payments for imports do not need clearance from the central bank; however all export proceeds must be deposited in the banking sector within a specific period. Argentina prohibits the import of many used capital goods; those that are allowed are subject to import taxes up to 28 percent and a 0.5 percent statistical tax. Fixed and sliding export taxes are applied to certain products. During 2014–2015, deterioration in the balance-of-payments position should heighten the risk of further trade or capital controls being imposed. There may be further protectionism against trading partners, including Brazil and China. In the period 2016–2018, a new government may gradually remove some foreign exchange and import controls. Free trade agreements (FTAs) could potentially make better progress under a new government.
- **Financing policy:** Between 2014–2015, bank lending growth should be fairly solid (barring shocks), but banking penetration is forecast to remain weak and long-term credit restricted, particularly for small and medium-sized enterprises (SMEs), owing to a weak, long-term deposit base. During 2016–2018, non-bank financing should continue to be constrained by a small pool of institutional investors.
- **Taxes**: The corporate tax regime in Argentina includes income tax value-added tax (VAT), payroll tax, export and import taxes and financial transactions tax. Corporate income tax applies at a flat rate of 35 percent and VAT at a standard rate of 21 percent. Social security taxes and customs duties (levied on exports and imports) are also important generators of government revenues. In 2014–2015, continued tinkering is expected to exacerbate the complexity of the tax system. Financial transactions, tax and export levies should persist. Comprehensive tax reform remains unlikely during 2016–2018, with a continued risk of new temporary taxes.

KPMG in Argentina

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KPMG in Argentina aims to respond to complex business challenges facing customers and to take a comprehensive approach that spans professional disciplines, industry sectors and national boundaries.

For more information, please visit the KPMG in Argentina website: kpmg.com/ar/en

Sources: Economist Intelligence Unit, 2014; Central Intelligence Agency, 2014; World Stock Exchange, 2014

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