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ARGENTINE ECONOMIC OVERVIEW

The performance of economic activity exceeded all expectations during 2004, with annual growth of 9.0%, higher than the 6.5% p.a. expected by analyst consensus at the beginning of last year and than the 8.8% of 2003. Therefore, GDP accumulated ten consecutive quarters of expansion, almost reaching the historic maximum of the second quarter of 1998. Furthermore, GDP per capita exceeded US\$ 3,800, with a 42% increase with respect to the minimum of 2002 after devaluation and the strong fall of economic activity.

The strong expansion of last year left a statistical drag effect of near 4% for this year (the rate of growth that the Argentine economy would reach if it were to stagnate at the level of the last quarter of 2004) which led to growing optimism as regards economic performance in 2005, with successive upward reviews of growth projections, currently at 6.5% according to private sources. Furthermore, the economy continues to show a good dynamism in January. Industrial activity increased 0.4% (seasonally adjusted) compared to December and 7.1% in annual terms, driven mainly by: automobiles, construction materials, chemicals (mainly industrial gas, agrochemicals and cleaning products), white meat, dairy products, yerba mate (Argentine infusion) and beverages. On its part, consumption also showed a good performance in the first month of the year, with sales in supermarkets and malls growing 0.4% and 2.9% monthly (seasonally adjusted), respectively, and 9.8% and 15.7% compared to the same month of 2004, respectively.

The good performance of economic activity was reflected in public accounts. In 2004 the Argentine Public Sector (Nation and Provinces) registered a record primary surplus of 6% of GDP, an amount which doubles the target agreed with the IMF. Besides, economic expansion and the systematic improvement in tax administration allowed an increase of 23% in annual tax collection in January. Consequently, the National Public Sector continued to show, in the first month of the year, a surplus (1.6bn pesos -US\$ 561 million-), after the remarkable negative imbalance of December (2.1bn pesos -US\$ 709 million-, resulting from earnings deferral, advance of annual bonus payments for civil servants and pensioners and the one-time allowance for pensions and social plans).

Furthermore, the financial system continues to normalize, with a gradual improvement in the profitability of banking institutions. Since December last year, the growth of private sector deposits and credit accelerated. In February, both reached annual expansion rates of 14% and 30%, respectively, within a context of lowering interest rates, in particular lending rates. In the case of loans, the increase in short-term credit persisted (document discount, personal loans and credit cards), although long-term credit, such as secured loans, also increased; the incipient expansion of mortgage loans shown in February is also remarkable.

At the beginning of this year there has been a significant increase in retail inflation, with 1.5% monthly in January, the highest in the last 29 months, and 1% in February. This recent acceleration of prices is basically due to end-of-year shopping and tourism, which have an important seasonal impact, and due to increases in cigarettes, taxi rates and prepaid medical care plans in January. Furthermore, the expansionary monetary policy and the measures to enhance consumption decided by the Government at the end of last year may have favoured the increase of domestic

demand and generated pressure on some prices. Within this context, inflation prospects for this year have been revised upwards as from mid-December, from annual 6.9 % p.a. to 8.1% p.a., also promoted by the expectation of greater salary pressures and the adjustment of public utility rates.

In the medium and long term, the key variable in order to sustain economic expansion over time without creating inflationary pressures will be investment, both from the point of view of capital stock increase and in relation to the incorporation of new technology. In this regard, overcoming default is a concrete step towards normalization of the business environment in order to attract genuine investments. Private analysts consensus foresees actual growth of expenditure in investment at an annual rate of 17% for this year, which would mean an investment ratio on GDP of 19%, a level which would reflect the growth in the stock of capital of the economy.

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FINANCIAL SECTOR

Debt restructuring process – final results:

Thirty-eight months after halting payments on almost one half of its public debt, Argentina has regularized relations with its private creditors. Bearing in mind the unprecedented complexities of the Argentine case compared to other past processes, the end of the restructuring process has been remarkable. The operation comprised 152 bonds in 7 currencies under 8 different legislations, with the participation of 40 actors in the operation (law firms, local and international banks, local and international regulatory bodies, bondholders, exchange and clearing systems agents), in which no fresh funds were received from multilateral lending agencies. Quite the contrary, between 2002 and 2004 the government actually made around US\$ 10 billion in payments of net capital and interest to these bodies.

After the high expectations and numerous predictions, the acceptance level for the debt swap operation reached 76.15% of the defaulted bonds. Of the US\$ 81.8bn of debt eligible for inclusion in the operation (without considering overdue interest payments), creditors exchanged bonds for a value of US\$ 62.3bn while receiving new bonds worth US\$ 35.3bn from the Argentine government.

With figures such as these, total public debt fell from a record US\$ 191.2bn to US\$ 125.3bn, including US\$ 24bn (of capital and overdue interest payments) corresponding to creditors who decided not to participate in the operation, meaning that the reduction was of 65% (the result of comparing US\$ 35.3bn in new bonds against US\$ 101.2bn in defaulted bonds: US\$ 81.8bn of capital plus the overdue interest).

The quotas for the Par and Quasi Par Bonds were completely covered by the offers made by the creditors, so the surplus was assigned to the Discount Bond, which has the highest capital reduction (66%, while the Par has no reduction and the Quasi Par has 33%). Acceptance levels were particularly high in Argentina (98%), USA and Japan, while they were lower in Europe, especially in Italy and Germany.

The reduction obtained allows a significant fall in the debt burden on the economy, from 130% of GDP in 2004 to 72%, a percentage which is still high compared to

2001 when it was 54%. However, the characteristics of the new bonds offer considerable relief in the public sector cash flow and provide an excellent opportunity to consolidate the fiscal situation:

The end of the swap favoured resumption of IMF negotiations. A review of the agreement signed last September and the discussion over a new agreement for 2005 are pending. Likewise, the operation is an important step in normalizing Argentina's access to international capital markets due to its positive effect on confidence in the country, thus favouring the climate for investment. Henceforth, the challenge will be to maintain fiscal prudence so as to ensure sustained primary surpluses and to be able to meet the commitments contained in the new debt structure.

For more information about the debt swap, please visit www.mecon.gov.ar/basehome/comunicados_prensa/press_re3-18-05.pdf (English version of the March 18th press release)

Debt restructuring process - legal challenges:

Some bondholders, represented by hedge funds which favoured a judicial claim, had initially obtained from a US district judge an embargo on 7bn of the defaulted debt. However, few days later the same judge ruled in favour of the Argentine government's position that the defaulted bonds do not belong to the government but to the private creditors, and decided to lift the embargo. Nevertheless, and taking into account the intention of the affected creditors to appeal this latest ruling, the judge finally decided to postpone his decision until a US appeals court had studied the case, potentially delaying the government's issue of the new debt (replacing the old bonds), scheduled for 1st April, for few more days.

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ARGENTINE TRADE

The 2004 year-end trade figures reveal Argentine exports reached an all-time record with sales of nearly US\$ 34.5bn in value, a rise of 17% over 2003 sales.

Although a number of exogenous factors can explain this good performance (record international prices for agricultural goods and fuels, and the recovery of industrial sales to Brazil due to the rise in domestic demand) one fact that certainly helps to explain the rise in Argentine foreign sales is the entry into the export business of a growing number of companies.

There was significant growth in the exporting base, i.e. in the number of companies selling to foreign markets in 2004. While 9,770 enterprises made shipments abroad in 2003, this figure exceeded 11,245 last year. So, in just one year, the total number of enterprises shipping abroad increased 15%, some 1,475 more than in 2003.

One fact to highlight is that the vast majority of companies that entered the exporting base in 2004 are in the SMEX segment (micro, small and medium-sized companies - 1,446 enterprises-), a 16% year-on-year increase of the number of companies making sales abroad of less than US\$ 5 million.

Moreover, the SMEX segment is the one that showed the greatest trade growth with an increase in foreign sales of 17% versus growth of 7% by large enterprises. The

structure of SMEX exports is predominantly industrial and this sector returned the highest growth. So, in 2004, sales of industrial products by this segment amounted to US\$ 1.7bn, a year-on-year increase of 23%. Agricultural manufacturing goods recorded foreign sales of US\$ 746 million, with a year-on-year increase of 11%. Thus, they accounted for 80% of foreign sales by the SMEX segment, of which 56% corresponds to industrial goods and 24% to agricultural manufacturing products.

As regards SMEX industrial exports, the main export activity is the production of Foodstuffs and beverages, with sales of US\$ 628 million in 2004, followed by chemical products and substances, which returned sales of US\$ 280 million in the same period. However, these activities were not the best performers in 2004.

In contrast, it is worth highlighting the marked dynamism of foreign sales of office, accounting and information equipment, which amounted to US\$ 85 million, more than quadrupling their 2003 exports, becoming one of the most important products in the medium exporting segment. Mention should also be made of the significant growth in rubber and plastics exports which, with sales of US\$ 192 million and a year-on-year variation of 113%, is one of the main export products whatever the segment of the SMEX universe considered. Exports from the production of clothing and furs sectors also had a very good performance, with growth of 105% over 2003, being one of the main export products of smaller companies.

Other industries which also experienced good export growth were the radio, television and communications equipment (+78%); coke and oil refining (+60%); furniture (+57%); printing and publishing (+52%); production of base metals (+48%); transport equipment (+30%); and medical, optical and precision instruments (+24%).

In 2004, shipments to the South American market amounted to US\$ 1.6bn, with MERCOSUR taking a 31% share, Chile 12% and the Andean Community (CAN) 8%. As a destination, the CAN also saw remarkable growth with 2004 sales recording a 50% year-on-year increase.

Outside South America, the European Union with its 18% share became the main customer for Argentine SMEX products, although it lost ground as a destination compared to 2003. NAFTA took second place, recording a 16% share of purchases.

Among the destinations with lower specific weight, the Asian market was especially dynamic. Sales to China were up 72%, while exports to ASEAN rose 70%.

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Argentine GDP grew by 9.1% in January 2005:

According to official data, the GDP grew by 9.1% in January 2005, being close to the record level reached in 1998. Officials from the Argentine Ministry of Economy are beginning to believe that taking into account this figure as well as the GDP growth of 9.0% in 2004 (instead of the 8.8% that was previously estimated -see February Newsletter-), the economy could easily grow by 6% in 2005. Notwithstanding, and for the time being, they are not changing the official forecast for the current year, which consider that the GDP will grow by a “moderate” 5.5%.

Primary fiscal surplus of 1.4bn pesos in February 2005:

The national public sector recorded a primary fiscal surplus of 1.4bn pesos in February 2005 (US\$ 470 million), representing a growth of 39% in comparison with the surplus of February 2004. Therefore, the accumulated primary fiscal surplus of the first two month of the current year reached 3bn pesos (US\$ 1bn), implying an increase of 17.1% in comparison with the period January-February 2004 and representing 21.3% of the total primary fiscal surplus that the government has established as a target for the whole year 2005 (14.2bn pesos -US\$ 4.8bn-).

Tax collection rose by 29.8% in February 2005:

Tax collection was 29.8% higher in February 2005 than in February 2004, reaching 8.2bn pesos (US\$ 2.8bn). This good performance was due again, basically, to VAT (+18.2%) and Income Tax (+75.3%).

Unemployment rate decreased in the fourth quarter of 2004:

According to a recent survey from INDEC (national statistics office), the unemployment rate was 12.1% in the fourth quarter of 2004, decreasing from the one recorded in the third quarter of that year (13.2%) and affecting 1.8 million peoples. In one year, 546,000 jobs have been created. The unemployment rate would be 16.2% if social plans implemented by the government were not taking into account. Furthermore, 2.1 million peoples are underemployed (working less than 35 hours per week), representing 14.3% of the economically active population.

Argentine social situation:

According to a recent INDEC report, that compares the second half of 2004 with the same period of 2003, 2.7 million people are no longer under the poverty line in Argentina, while the number of people living in extreme poverty has been reduced by 2 million. If the comparison takes place with the first half of 2004, the number of people living under the poverty line was reduced by 1.4 million and those in extreme poverty condition by 750,000. Even though these numbers are positive, the situation is not better in all provinces and cities and there are still 15.1 million people under the poverty line (40.2% of the total population), of which 5.6 million are living in extreme poverty conditions (15% of the total Argentine population), meaning that they do not earn enough income to have access to basic food. Anyhow, these figures are an improvement regarding the worst period of the Argentine social crisis (October 2002), when these percentages were 57.5% (under the poverty line) and 27.5% (extreme poverty).

Fiscal responsibility law:

In august 2004, the Fiscal Responsibility Law was approved by the national government (see August Newsletter), establishing limits on provincial and national governments spending. The new fiscal regime started in 2005, with the adherence of 16 provinces (Buenos Aires, Catamarca, Corrientes, Chaco, Chubut, Entre Ríos, Formosa, Jujuy, La Rioja, Mendoza, Misiones, Río Negro, San Juan, Santa Cruz, Santiago del Estero, Tucumán). The application or enforcement entity, with authorization to apply sanctions, will be the Federal Council for Fiscal Responsibility, composed by Economy Ministers from the national and provincial

governments and located in Buenos Aires city. It will hold meetings in the different jurisdiction of the country.

Capital flight stopped in 2004:

According to official data (INDEC), after three years of continuing capital flight, for a total amount of US\$ 31.3bn, the tendency changed in 2004. The non-financial private sector balance of payments registered last year a surplus of US\$ 291 million. In 2003, that BoP recorded a deficit of US\$ 4.6bn.

Argentine steel companies increased their profits in 2004:

A report from a private research institute states that, due to the increase in international oil prices and industrial activity, steel companies such as Acindar and Tenaris have recorded the highest profits in Argentina during 2004. It also mentions that Oil companies have also had a good performance, closing last year with important profits, but that in their case these profits were reduced by export duties (“retenciones”) and the negotiations with the government to limit the increase in domestic prices. Other sectors that registered highest profits in 2004, according to this study, were food and construction, due to domestic market recovery. Banks and utilities companies (with the exception of the telecommunication sector), instead, have registered the worst performance, even though in general they are not having negative figures as they used to have just after the currency devaluation, they are still far away from the level of profits that they had during the 90s.

Argentine private external debt has been reduced in US\$ 954 million:

According to a report from the Argentine Central Bank (BCRA), the Argentine private sector reduced its external debt during the third quarter of 2004 in US\$ 954 million. With these payments, the total private sector external debt was reduced to US\$ 56.4bn in September 2004, representing near 50% of GDP. This normalization process has implied the coming of fresh funds to finance, basically, activities in the mining and oil sectors.

Argentina, a leading country in compressed natural gas (CNG) technology:

Argentina, with twenty-years of experience, 35% of the total natural gas vehicles (NGV) worldwide and growing exports to 40 foreign markets, is considered a leading country in CNG technology. There are in Argentina around 1.3 million converted vehicles and around 1,300 NGV service stations. The Argentine industry is composed by 74 companies and 2,000 garages that register 25,000 monthly conversions. The national government adopted in 1984 the strategic decision of substituting liquid fuel vehicles by natural gas vehicles, through financing and several incentive programmes, taking advantage of an abundant natural resource such as gas. The industry exports include compressors and dispensers, cylinders, conversion kits, garages and refuelling stations. The main destinations are Brazil and Pakistan, but Argentina is also exporting to countries such as Spain, Portugal, Colombia, Korea, China, Egypt, Thailand, India, Bolivia, Bangladesh, Ukraine, Mexico, Uruguay, Chile, Iran, Venezuela, Turkey, Ecuador and Australia.

For further information about this growing industry, visit www.gnc.org.ar (Argentine Chamber for CNG).

Two gas companies would withdraw from the ICSID their claims against Argentina:

Due to important progress in its negotiations with the Argentine government, regarding its concession contract (including rates), Gas Natural BAN (www.gasnaturalban.com), a gas distribution company whose main shareholders are the Spanish companies Repsol YPF and La Caixa, recently announced that they will withdraw the claim submitted in 2003 to the International Centre for Settlement of Investment Disputes (ICSID / CIADI) against Argentina for freezing public utility rates. Few days later, a gas production company, Pioneer Natural Resources (www.pioneernc.com) also announced the withdrawal from ICSID of a similar claim against Argentina. This is considered a positive step that the government is hoping other utilities companies will follow.

British footwear company willing to do business in Argentina:

The British footwear company Gola reached an agreement with the Argentine company "Etiqueta Negra" to commercialize and distribute its products in South America, targeting a very exclusive consumer segment. "Etiqueta Negra" will have the license to commercialize and distribute Gola products not only in Argentina, but also in Chile, Uruguay and Paraguay. The objective of the British company is not to compete with such well-known brands as Adidas or Nike, but to concentrate the effort in the casual clothing market, excluding the sport segment.

Trade mission from the Argentine fishing sector will visit UK in April/May 2005:

Representatives of Argentine fishing companies, willing to explore and open new markets for their products, will participate in the European Seafood Exposition in Belgium and will visit fishing ports and facilities in France and UK between the 23rd of April and the 4th of May.

For further information about this mission, please contact secom@btconnect.com or 0207 318-1334.

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Investment opportunity in the Argentine wine (and tourism) sector:

The company Charles Leblon S.R.L. (Mendoza) is looking for investors willing to participate in a project to build a state-of-the-art winery of 5,600sqm with handcrafted handling concepts supplemented with the latest technology. The target will be to obtain a maximum annual sale of 850,000 litres of wine, maintaining the excellence in quality and image. Currently, Leblon is producing wine in another winery's facilities, through an agreement that will end once the first stage of the investment plan is finished (2005), and is exporting to Brazil 12 containers of 20'. The estimated sales for 2005 are US\$ 1.5 million. With this investment project, Leblon plans to develop and target 25 new markets, with the strategy of placing four containers per market, seeking profitability on the basis of exclusivity. Leblon's maximum sales capacity by reason of quality policies is of 85 containers per year. Furthermore, the Argentine company is also proposing to build in their properties a hotel offering: high-level accommodation and gastronomy, combined with recreational activities and services

intended to provide a relaxed environment for body and mind. For all these reasons, they are looking, basically, for foreign investors with expertise in the wine and delicatessen/gourmet sector (i.e.: importers) or hospitality / food sector.

For further information, please contact Charles Leblon at juancarlos@charlesleblon.com.ar or visit www.charlesleblon.com.ar.

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