



THE ARGENTINE EMBASSY IN THE UNITED KINGDOM

ECONOMIC & COMMERCIAL SECTION

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ARGENTINE ECONOMIC OVERVIEW

Recent official macroeconomic data

- **Economic growth (y.o.y.) of 2% in April 2009**

According to the latest Economic Activity Monthly Estimate (EMAE) released by INDEC (the National Statistics Institute), the economy grew by 2% in April 2009 compared with the same month of 2008. Compared with March 2009, April's EMAE showed an increase of 1.3%. (Note: the EMAE index shows the progress of economic activity on a monthly basis, while the GDP figures are released quarterly).

- **Industrial activity down by 0.2% in May 2009**

INDEC's preliminary figures of the Industrial Monthly Estimate (EMI) showed a decrease of 0.2% in May 2009 compared with April and of 1.7% compared with the same month of 2008. In the first five months of 2009 industrial activity fell by 1.8%. The figures for each major industrial sector in May are:

food and beverages: -6.8% (monthly) and +11% (y.o.y);
textile industry: +3.2% (monthly) and -12.2% (y.o.y);
paper and cardboard: +5% (monthly) and +6.8% (y.o.y);
oil refining: +2.1% (monthly) and -5.4% (y.o.y);
chemical industry: +0.9 % (monthly) and +12.7% (y.o.y);
non-metallic minerals: +3.7% (monthly) and +1.6% (y.o.y);
metallic basic industries: -5.1% (monthly) and -35.2% (y.o.y);
car industry: +16.3% (monthly) and -20.7% (y.o.y).

- **Primary fiscal surplus of 914 million pesos in May 2009**

The Ministry of Economy announced that the primary fiscal surplus (the difference between public revenue and public spending before debt payments) in May 2009 amounted to 914.4 million pesos (approximately US\$ 247 million), which represents a fall of 85% compared with the same month of 2008. The primary fiscal surplus for the first five months of 2009 reached 6.2bn pesos (US\$ 1.6bn).

- **Tax collection up by 12.5% in May 2009**

According to AFIP (the Federal Agency of Public Revenue), total public revenue in May amounted to 29.1bn pesos (approximately US\$ 7.8bn), while net tax collection (meaning what AFIP collects for public sector spending) increased by 12.5% on a y.o.y. basis, reaching 27.2 bn pesos (US\$ 7.3bn). The y.o.y. tax collection growth is a consequence of good VAT and Income Tax figures, as well as social security receipts.

- **Inflation rate at 0.3% in May 2009**

The Consumer Prices Index (CPI) for the city of Buenos Aires and the

Metropolitan area showed an increase of 0.3% in may compared with April and of 5.5% compared with the same month of 2008. The Wholesale Prices Index increased by 0.4% and the Construction Costs Index by 0.6% in April.

- **Unemployment rate at 8.4% in the first quarter of 2009**

According to INDEC's Permanent Households Survey (EPH), which is conducted in 31 major cities throughout the country, urban unemployment in the first quarter of 2009 was 8.4%. This figure shows an increase of 1.1% compared with the previous quarter and remains unchanged compared with the first quarter of 2008.

<p>For further official figures, please visit the following websites: Ministry of Economy and Production www.mecon.gov.ar National Statistics Institute www.indec.gov.ar Federal Administration of Public Revenue www.afip.gov.ar</p>
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Highlights of the latest Inflation Report by the Central Bank of the Argentine Republic

- **Economic activity**

"As observed in other emerging countries, since the fourth quarter of last year the effects of the global crisis began to have a material impact on the domestic economy, reducing the dynamism that activity levels had been showing. The main demand component affected was capital goods expenditure, which was already showing signs of contraction at the end of 2008. The uncertainty in the global economy and the decline in exports have led companies to review their expansion programmes, particularly in certain tradable goods segments of the economy. Investment in construction has been less volatile, as it is expected to receive support in 2009 from the government's infrastructure programme and the completion of the private works that are currently being carried out. At the same time, households continue to increase spending, although at a lower rate, as individuals are increasing precautionary savings and cutting back on their borrowing. This lower rate of household spending growth is reflected in fewer durable and luxury goods purchases, while basic goods consumption continues to rise. Trade transactions have contracted abruptly around the world, and this will be seen in a lower openness of the economy in terms of output. The largest drop can be seen in imports, as the demand for intermediate goods for industry and durable consumer goods is more elastic in output terms than the demand for our exports. Within this framework, net exports are currently making a positive contribution to economic expansion. On the supply side, a reduction in goods production dynamism is being recorded, linked to the build-up of manufactured goods stocks to higher than desired levels and lower investment in new construction, combined with farm sector output levels

that have been affected by drought. On the other hand, services display greater growth although with some deterioration in the margin, derived from lower demand from goods-producing sectors and households, reflecting the increase taking place in precautionary saving”.

- **Employment and wages**

“Following the strong creation of jobs in previous years, the worsening of the international economic outlook would have led companies to revise future plans for expansion. This change in expectations, in turn, has been reflected in the stagnation of formal employment at the margin, in a context of increasing lay-offs mainly concentrated in those economic sectors that were more affected, such as construction and industry. On the other hand, participation in the labour market could increase slightly throughout the year, as it occurred in late 2008. This would be explained by a more active participation of families due to a lower expected growth in income”.

- **External sector**

“The deterioration of the global economy strongly impacts on the volumes of world trade. In this context, Argentine exports of goods follow the general trend and began the year with a significant contraction, extending the worsening shown over the last months of 2008. For 2009, foreign sales are expected to show a decline associated largely with the fall in shipments of agricultural products due to the lower harvest of cereals and oilseeds. The outlook for industrial exports, including automotive, are not positive either, affected by the sharp reduction in demand for goods in the countries of destination of our external sales. Also, a fall in prices compared to the all-time high reached in 2008 would also occur. However, the drop in the volume of imports would exceed the decrease in the volume of exports, particularly in the case of manufacturers of industrial origin (tending to level the bilateral balance with Brazil, our largest trading partner), and this would contribute to limit the contraction of the trade balance surplus which would remain therefore at significant levels (about US\$ 8.5 bn, which implies higher levels than those expected in the previous Inflation Report)”.

- **Public finances**

“National public accounts continued to record a primary surplus, although somewhat lower than previously, reflecting the effects of the deepening global crisis and its impact on the local economy. National fiscal revenue rose 16% year-on-year (y.o.y) between January and March, growing at a slower rate than in previous quarters, driven mainly by social security receipts. Export duties registered a contrary effect, in response to falling export volumes and prices. During the rest of 2009 the tax burden is expected to rise slightly. Export duties are amongst the taxes most affected by the negative external context and the consequent lower dynamism of economic activity. Nevertheless, these effects will be offset by increased social security receipts following the setting up of the

Integrated Argentine Social Security System (SIPA). The primary surplus will therefore continue to be significant during 2009, although it will have to overcome a difficult challenge if it is to achieve the 3.27% of GDP target in the 2009 national budget, drawn up before the resurgence of the global crisis at the end of last year”.

- **Monetary policy**

“The Central Bank continued adopting measures that tend to offset the adverse effects that the greater uncertainty of the international situation imposes on credit and economic activity. For this purpose it retained control over the net injection of funds carried out through open market operations, in order to avoid interest rates being at inadequate levels. It also continued with the managed floating exchange rate strategy, avoiding excessive fluctuations that might cause uncertainty and affect both consumption and investment decisions as well as the purchasing power of wage earners. The Central Bank and the People’s Bank of China signed a currency swap agreement amounting to an equivalent of US\$ 10 billion. This is a stand-by contract so that both central banks have liquidity available in the other country’s currency, and will only be used when it is necessary and appropriate. The possibility of access for a significant number of years in practice is equivalent to strengthening Argentina’s financial position, a factor that contributes to strengthen confidence and the perception of solidity that the Argentine external situation has”.

- **Inflation**

“In early 2009 the various price and cost indexes continued to show declining growth rates, with increases in general taking place at a slower rate than 2008. At retail level, this phenomenon is partly a reflection of the moderation in the development of goods prices that has been taking place since mid-2008. Wholesale prices continue to display the moderation seen over approximately the last 12 months, and are currently recording y.o.y changes that are lower than those recorded in 2008. Primary products price rises in particular have slowed, in line with the behaviour of international commodity prices, while the rate of increase in manufactured goods prices has also shown deceleration. At the same time, the construction cost index (ICC) has remained steady, in line with the lower dynamism shown in this sector. One broader price indicator, the GDP implicit price index (IPI GDP) also evidenced a deceleration, a situation that will intensify during the current year. Indeed, according to the market expectations survey (REM) the IPI GDP will record an average rise of around 8.6% in 2009”.

The complete Inflation Report can be downloaded from the BCRA website:

www.bcra.gov.ar



ARGENTINE TRADE

- **Trade balance up by 139%**

According to INDEC figures, May trade balance recorded a surplus of US\$ 2.5bn, marking an increase of 139% compared with May 2008. Exports totalled US\$ 5.1bn, which represents a decrease of 18% compared with the same period of 2008, while imports fell by 49% over the same period, reaching US\$ 2.6bn. The decrease in exports was driven by the fall of export prices (-13%) and volumes (-6%). The fall in imports was also the result of a decrease in volumes and values of most imported items. The trade balance for the first five months of the year was US\$ 8.3bn, 63% higher than in the same period of 2008.

- **Beef exports continue growing trend**

Argentine beef exports increased by 19.8% in value in the period January-May 2009 compared with the same period of 2008, reaching US\$ 588 million. The volume exported also increased by 42% to 140,800 tonnes, according to the National Agrifood Health and Quality Service (SENASA). The predominant export was fresh meat, amounting to US\$ 374 million and 110,400 tonnes, which represents a rise of 13.5% in value and of 35.7% in volume. The main importer of this item was Russia, with purchases of US\$ 83 million, followed by Chile, with US\$ 45 million. Exports of high-quality commercial cuts to the European Union (Hilton quota) increased by 22% in value and 82% in volume, to US\$ 165 million and 17,150 tonnes. Germany was the main importer, with US\$ 83.8 million. Sales of processed meats in the period January-May totalled 13,200 tonnes, for US\$ 49.2 million, representing a y.o.y. increase of 61.1% in volume and 87.1% in value. The largest importer of processed meats was the United States, with US\$ 16.9 million and 3576 tonnes.



INVESTMENTS

- **New Law on Investment Promotion in force**

On 16 June President Cristina Fernandez de Kirchner signed a Decree to put into force the new Law 26360 on Investment Promotion, which had been approved by Congress in April. She said that this step is giving a very clear signal to consolidate grain and meat production in the country, and in turn to promote exports. The Minister of Production, Debora Giorgi, said that Small and Medium Enterprises (Pymes) are the main beneficiaries of the new law, which promotes investment in capital goods and infrastructure. The full text of Law 26360 (Spanish only) is available on line at www.infoleg.gov.ar

- **Argentina at the World Investment Conference**

The Head of the National Agency of Investment Development (ProsperAr),

Beatriz Nofal, took part in the 7th World Investment Conference, held earlier this month in La Baule, France, where she stressed Argentina's comparative and competitive advantages in various sectors such as agribusiness, food and beverages, wine, biotechnology and pharmaceuticals, software and information technology, outsourcing and value-added professional services, energy, biofuels and tourism, all of them having received significant investment in recent years. She made a presentation on specific investment opportunities offered by Argentina at a roundtable for European executives, potential investors and government officials involved in the development of European investments. She said that these sectors would suffer the least impact of the crisis and hence investment opportunities in them would be low risk, even in the current global context. Investment in Argentina grew steadily in recent years, becoming the most dynamic component of demand and achieving record levels for the last 30 years. Foreign direct investment (FDI) reached US\$ 7.9 bn in 2008, which represents an increase of 23.3% compared with 2007. According to UNCTAD, in 2008 Argentina ranked as the sixth fastest growing destination for FDI amongst emerging countries, and 10th worldwide.

- **YPF announce US\$ 348 million investment**

YPF, the Argentine oil company controlled by Spanish Repsol-YPF, will invest US\$ 348 million in their refineries in Argentina to improve the production of petrol and diesel. YPF's investment aims to produce better octane fuel to replace low quality fuels. The improvement works will be completed in 2012. The technology to be introduced will increase by 18% the oil refining capacity in Argentina. YPF, Argentina's largest energy company, said the works will also produce hydrogen, which will be used to produce diesel with low sulphur content.

- **Renault to invest 500 million pesos**

French car maker Renault announced its investment plan in Argentina for 2009-2011, which includes 500 million pesos (over US\$ 130 million) to produce a new car and to modernise the company's plant of Santa Isabel, in the outskirts of Cordoba. Most of the investment will be allocated to the development of a new model for the medium-high sector of the market, which according to media reports, is thought to be the Megane III. Production of the new car will start in September 2010 and its commercial launch is projected for early 2011. Renault is planning to produce around 32,000 of this new model per year, 80% of which will be exported.



OTHER NEWS

- **World Bank approves US\$ 840 m loan for Riachuelo sanitation**

The World Bank approved a loan for US\$840 million in support of the Matanza-Riachuelo Basin Sustainable Development project. The loan will support the government's Integrated Basin Clean-up strategy to progressively eliminate discharges to the M-R River, thereby improving water quality and environmental conditions. It is the largest sanitation operation in Latin America to be supported by the World Bank. The Matanza-Riachuelo River is polluted by industrial discharges, sewage from households not yet connected to sewerage systems, overflows from contaminated storm drainage systems and other sources. In order to address these, the Matanza-Riachuelo Basin Sustainable Development Project will: improve sewerage services in the M-R River Basin and other parts of the Province and City of Buenos Aires by expanding transport and treatment capacity; support a reduction of industrial discharges to the M-R River, through the provision of industrial conversion grants to small and medium enterprises; promote improved decision-making for environmentally-sustainable land use and drainage planning, and pilot urban drainage and land use investments, in the M-R River Basin; and strengthen the basin agency's (ACUMAR) institutional framework for ongoing and sustainable clean-up of the M-R River Basin. Further information on this operation can be found at www.worldbank.org.



EMBASSY'S ACTIVITIES

- **Argentine Ambassador's Polo Cup 2009**

On 7 June the Embassy hosted the Argentine Ambassador's Cup Day, one of the quarter-finals games of the Queen's Cup, at Cowdray Park. About 400 special guests joined the Embassy's staff at a reception with Argentine beef supplied by local firm Pampas Plains (www.pampasplains.com) and Argentine wines from Marta's Vinyard (www.martasvinyard.com). The catering and a "paella" were provided by the main sponsor Melia White House Hotel of London (www.melia-whitehouse.com).

- **Argentine Village in the 2009 polo season**

For the sixth consecutive year the Embassy is organising and coordinating the participation of Argentine companies, products and services at the traditional "Argentine Village". This year the Village was opened at the Queen's Cup Final (14 June) and will be deployed at the Cartier International Polo Day (26 July), both events taking place at the Guards Polo Club. At the Queen's Cup, next to the Embassy's marquee, Estancia Los Patos (www.estancialospatos.com.ar) presented their own special

tourist packages which include polo, horse riding and hunting in luxury country accommodation in the province of Buenos Aires. Should you wish to receive further information on these activities, please contact trade@argentine-embassy-uk.org.

- **Argentine Pavilion at the Royal Agricultural Show**

Argentina will participate again, for the fourth consecutive year, in the Royal Agricultural Show (www.royalshow.org.uk) which takes place from 7-10 July at Stoneleigh Park, Warwickshire. At the Argentine Pavilion, visitors will have the opportunity to gather information about Argentine agriculture, food and wine, and collect tourism information as well. Wine tastings coordinated by Wines of Argentina (www.winesofargentina.com.ar) will take place daily at the Argentine stand, as well as Argentine beef tastings provided by the Institute for the Promotion of Argentine Beef (www.ipcva.com.ar). Other traditional products like "dulce de leche" and "mate" will also be available for tastings, presented by Building Bridges (www.buildingbridgesltd.com) and Estancia Las Marías (www.lasmarias.com.ar). Other activities include tango and folklore music shows.

If you wish to sign up to receive this monthly Newsletter in your mailbox, please contact trade@argentine-embassy-uk.org. If you also wish to receive the Embassy's Cultural Bulletin, which includes a list of Argentine cultural activities in London and the UK, please send an e-mail to culture@argentine-embassy-uk.org.

