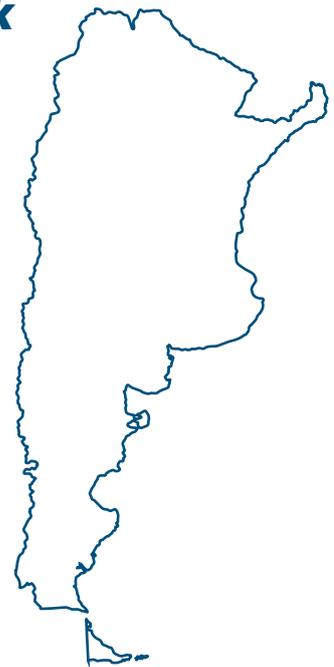




Country outlook Argentina





Argentina



Form of Government: Presidential federal republic

Capital: Buenos Aires

Official language: Spanish

Population: 44 million inhabitants (2018)

Currency: Argentinean peso (ARS)

Exchange rate: 1 EUR = 49.95 ARS (31/05/2019)
1 USD = 44.77 ARS (31/05/2019)

GDP: \$518 billion (0.6% of world GDP)

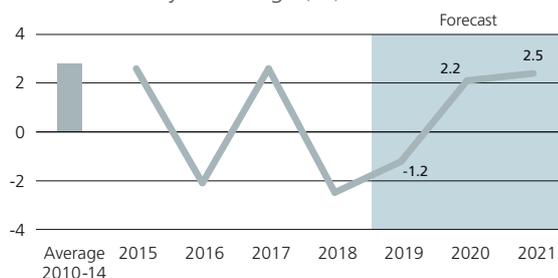
GDP per capita: \$11,627 (\$20,537 purchasing power parity)

Ease of doing business: 119th in the world out of 190 according to the World Bank (Doing Business)

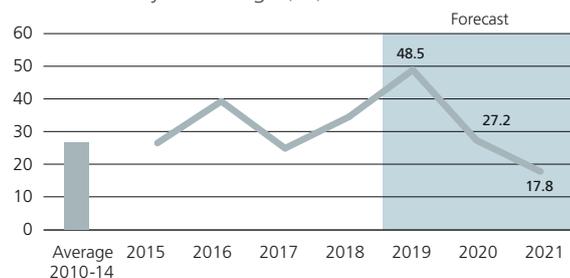
Religion: Catholic: 88%

Economic forecast

GDP. Year-on-year change (%)



CPI. Year-on-year change (%)



- Argentina is still in the midst of a difficult economic situation. After the recession in 2018, the macroeconomic adjustment being pursued by the country continues in 2019, so another economic downturn is expected. In 2020-2021, with most of the fiscal and monetary adjustments completed and the macroeconomic imbalances more contained, the economy is expected to grow again, albeit at a moderate pace. However, the situation is very uncertain, both with regard to the effectiveness of the planned adjustments and the political situation (see the following section), so there is an equal likelihood of it taking longer to exit the recession.
- Inflation is expected to fall from its current high level in the near future, due to a combination of: i) the effects of the strong monetary tightening, ii) the smaller impact of the depreciation of the peso on the prices of imported goods and iii) the contraction of consumption, reducing pressure on the demand side. Nevertheless, the levels at the end of the 2019-2021 forecast will only just be lower than the average over the last decade.

Economic policy

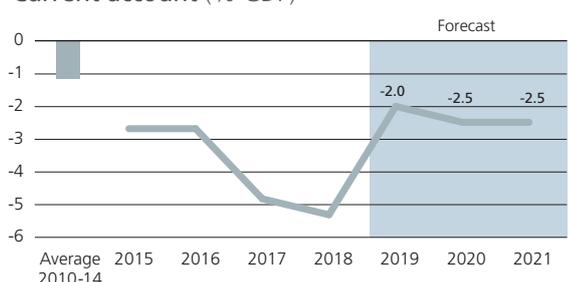
Benchmark interest rate (%) and exchange rate (ARS/USD)



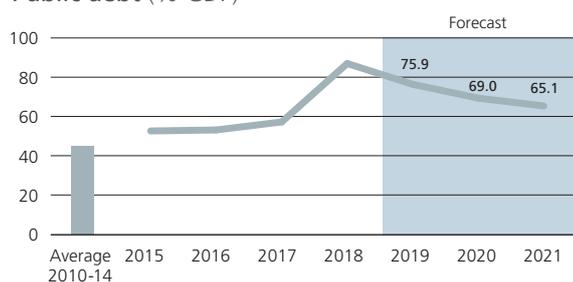
Fiscal balance (% GDP)



Current account (% GDP)

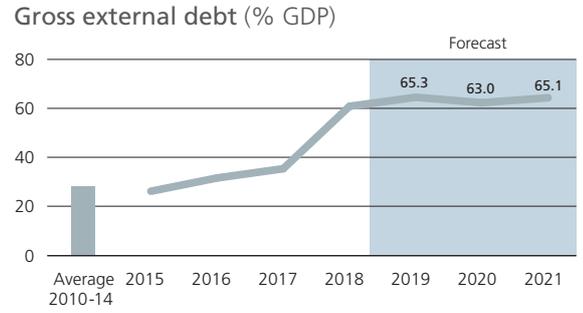
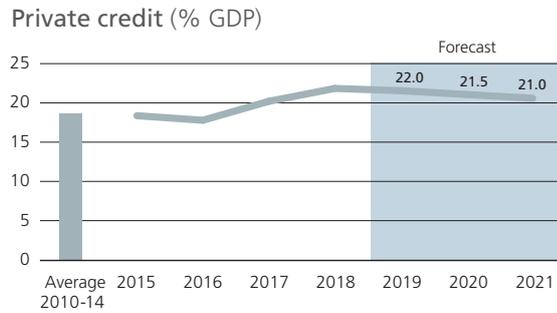


Public debt (% GDP)



- Argentina has pledged to carry out an ambitious macroeconomic adjustment, combining a significant fiscal effort and a notable tightening of monetary conditions. This adjustment is being carried out while receiving financial aid from the IMF (totalling 57 billion dollars). The fiscal consolidation achieved in 2018 was significant and this will continue in 2019, provided that the set targets are met (during past election years, there has been a tendency toward easing in this respect, so we believe that there is reasonable likelihood of deviation from the fiscal targets).
- Despite the amount of aid provided by the IMF, covering external funding needs remains an active front, as capital outflows may increase due to electoral uncertainty, especially if the doubts regarding its ability to meet the targets agreed with the IMF intensify. Given the repayment schedule with the IMF, it is virtually certain that some form of additional financial scheme will be renegotiated with the Fund, a scheme that may entail further structural reform commitments.

Financial conditions

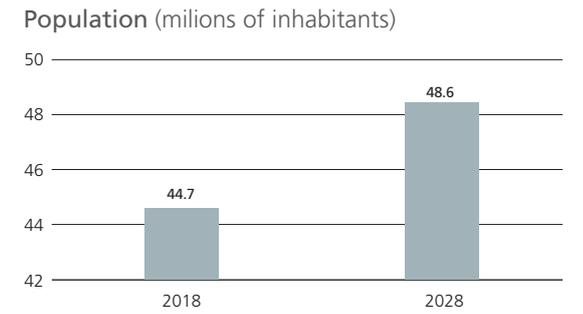
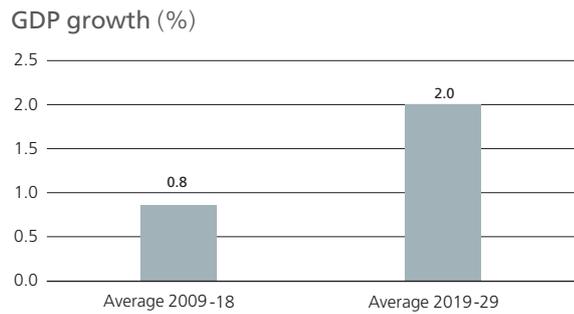


- The combination of the economic recession and high inflation has led to a significant fall in credit and a decline in NPLs (albeit starting from very low levels). Regarding the capitalisation level, following an increase in capital consumption in the middle of 2018, this has recovered, with yield following a similar pattern. Generally, the banking situation can be considered relatively stable due to a combination of ample liquidity, strong funding of the sector and the government's pledge to support the big banks if necessary.
- Ultimately, the agreement with the IMF will help to contain the government's financial needs, while helping to ensure that public debt is channelled along a sustainable path. In this context, the increase in external debt that occurred between 2015 and 2018, a period during which it doubled (as a percentage of GDP), should be followed by a period of stabilisation, albeit while still be exposed to areas considered risky for an emerging economy.

Political situation

- The presidential elections in October 2019 are still a strong source of uncertainty, given that they will occur against a backdrop of significant economic and social costs for the electorate. The available polls suggest that there will practically be a dead heat between the candidate Mauricio Macri, who is seeking re-election, and the alternative Alberto Fernández. If the anticipated fall in inflation has materialised when the vote is held, the current President's chances will improve significantly.
- After the elections, regardless of the result, the key factor will be the extent to which the resulting government will be able to gain enough credibility with the markets. This rebuilding of confidence will ultimately depend on the IMF's assistance being renewed in a non-confrontational context and on economic policy continuing along the rigorous path established in 2018.

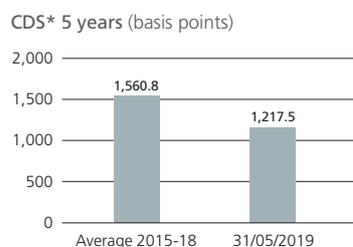
Long-term outlook



- Without meaningful structural reforms, Argentina's long-term growth will continue to be significantly lower than that of other regional players. Although the demographics are at a somewhat higher stage of maturity than the rest of Latin America (older and with less dynamic population growth), the institutional factors (essentially corruption, democratic quality, rule of law and security) are the biggest obstacle to creating long-term prosperity.
- To increase long-term growth potential, it is essential for the authorities to make strong headway in the structural reforms that will allow them to boost productivity growth, including any that improve the efficiency of the economy, promote competition in the goods and services market and increase the flexibility of the labour market. Furthermore, the country must tackle corruption, reduce the distortions in the tax system and remove the barriers to investment and international trade that still exist.

Country risk

	Rating	Last changed	Outlook
STANDARD & POOR'S	B	12/11/18	Stable
MOODY'S	B2	29/11/17	Stable
FitchRatings	B	7/11/18	Negative



OECD credit risk rating (from 0 to 7, with 0 being the best)



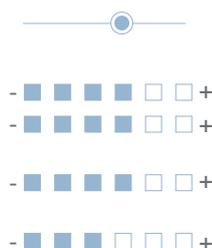
■ Indicates that the country has an "investment grade".
 □ Indicates that the country does not have an "investment grade".

*Credit default swap: measurement of country risk that reflects the cost of ensuring the non-payment of the sovereign bond.

Risks

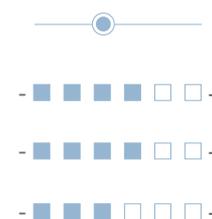
SHORT-TERM

- Tightening of global financial conditions
- Higher inflation
- Social instability due to the tightening
- Failure to meet fiscal targets



LONG-TERM

- Insufficient economic liberalisation
- Lack of institutional improvements
- Inadequate investment infrastructure



Business environment

STRENGTHS

- Potential of the domestic market.
- Large business sector.
- Solvent, liquid banking sector.

WEAKNESSES

- Low productivity growth.
- Inadequate, low-quality infrastructures.
- Low level of competition in some sectors.
- High level of corruption and political, legal and social uncertainty.
- Low financial inclusion.

Main sectors

EXPORTERS

- Waste, cereals, vehicles, vegetable and animal fats and oils, fruit, seeds and grains.

IMPORTERS

- Vehicles, machinery, electronics, mineral fuels and plastics.

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POSITION IN COUNTRY RANKING



PILLARS



SUBPILLARS

- Top**
- Investment relations with Spain
 - Labour conditions
 - Similar tastes to Spain
- Bottom**
- Easiness of operating business
 - Credit
 - Institutional stability

Taxation

In Argentina, the tax system is comprised of state, provincial and municipal taxes. At the federal level, the main taxes levied on legal entities are the income tax (IT) and the value-added tax (VAT). Meanwhile, the main provincial taxes are the turnover tax, stamp tax and property tax. At the local level, municipalities essentially levy taxes on the public services provided, as well as other minor specific taxes. Regarding corporate taxes, both residents and non-residents are subject to the same tax treatment. Non-resident companies must register for the VAT or Gross Income Tax (IIBB) if they provide taxable supplies in Argentina. The standard corporate tax rate (joint stock companies, limited liability companies, limited partnerships) is 35%. Sale taxes are levied at the provincial level, in the city of Buenos Aires and in some municipalities; generally at a rate of between 3% and 5% of gross revenue. Higher rates may be imposed on certain services in some provinces. Industrial activities are usually exempt or subject to lower rates. A financial transactions tax of 6% is levied on debits and credits in current accounts. Of the amount levied on credits, 0.2% may be taken as an advance payment of income tax or minimum presumed income tax, resulting in an effective rate of 0.4%, and thus 1% rate on a complete collection/payment cycle. A stamp tax of 1% is levied on the formal execution of public and private documents including contracts, notarial deeds and promissory notes. This rate is increased to 2.5% or 4% for real estate sales. In terms of consumption taxes, the general VAT rate is 21% on the net amount of transactions.

Certain public services such as electricity, water, wastewater treatment and telecommunications company subsidiaries are subject to a rate of 27%. Equipment or production goods, public transport, beef, fresh vegetables, accommodation, interest on loans acquired by Argentinian financial institutions, some properties and equipment, newspapers and magazines are subject to a VAT rate of 10.5%. Exports of goods and services are not taxed. The 21% VAT is not applied to foreign tourists who book their travel in Argentina with a credit card issued abroad or via a bank transfer made from outside Argentina. VAT-exempt supplies include education, books, international transportation and certain basic necessities including water and milk for qualifying buyers. The VAT rate is applied to the sales price. VAT registration is required for (a) corporations or other legal entities that commence taxable activities in Argentina, and (b) individuals that have an annual taxable turnover of over ARS 300,000 for goods and ARS 200,000 for services. VAT returns must be filed monthly. For imports, VAT is calculated and paid with custom duties. Entities must register for the gross income tax if they provide taxable supplies as part of doing business; no turnover limit applies. The gross income tax is a provincial tax applicable to self-employed individuals on their net income. The average rate is 4% in the federal capital (city of Buenos Aires), and similar rates are applied in the other provinces. Professionals who do not operate as a company are exempt from the gross income tax in the city of Buenos Aires. The tax is paid by filing monthly tax returns.

Investment

Foreign investment receives equal treatment and is subject to the same burdens and incentives as domestic companies. For the protection of foreign investors there are: bilateral agreements on investments with more than 60 countries; disputes registered by the UNCTAD; organisations offering assistance with disagreements (International Chamber of Commerce, Argentina Chamber of Commerce and the International Centre for Settlement of Investment Disputes); and Argentina has been a member of the Multilateral Investment Guarantee Agency (MIGA) since 1992. In terms of procedures related to foreign

investment, there is freedom of establishment. Foreign investors are able to invest in all sectors of the economy on equal footing with national investors. The investment regime is a liberal one. Foreign investment is not subject to any authorisation or declaration, regardless of the amount or the activity involved, even in the case of taking a majority stake in a local company. There is no obligation to declare, and there is no declaration nor specific requests for authorisations except for large projects which require the agreement of the competent ministry.

Establishment**LOCAL COMPANY**

The legal forms of companies in Argentina are: Individual Businessperson, which is a single-person company. The number of partners or shareholders is one person, there is no minimum or maximum capital, and the business owner is liable for the company's debts with their personal assets. Public Limited Company (S.A.): the number of partners or shareholders is at least two shareholders, the minimum capital is ARS 12,000, and at least

25% of the capital must be used in the creation of the company and the balance paid during the following two years. Partners' liability is limited to the amount of capital contributed. Corporations must incorporate via a registered notarial deed. There are no restrictions in terms of the residence or nationality of the shareholders; however, if the shareholder is a foreign commercial enterprise it must first register in the Companies Register.

BRANCH / REPRESENTATIVE OFFICE

A branch or representative office, which is created when a foreign company opens a branch in Argentina, does not require the creation of a new legal entity. Although a branch must be registered in the Public Companies Register corresponding to its location, the laws governing its existence and validity are mainly the laws of the company's country of origin. A branch may undertake all the activities that the company's headquarters engage in, on behalf of that headquarters, through the individual designated as the company representative. As a general rule, the assets of all foreign businesses – that is, the total capital value of the headquarters, and not just the capital that the headquarters

assigns to its Argentina branch – is liable for all the transactions carried out by the branch. The branch's account must be kept separate from the operations of the headquarters, and its financial statements must be filed regularly in the Companies Register. The branch must be managed by a legal representative granted full administrative and judicial authority – which may be limited in certain circumstances – to ensure that the business affairs and transactions of the entire branch are handled efficiently. Branches are subject to oversight from the corresponding Companies Register and must comply with the same requirements as corporations.

**Alliances
strategic****FREE TRADE ZONE**

In Argentina there are currently: nine free trade zones in operation, two of them are in a tender process, two are in a process of drawing up specifications, one has been pre-awarded,

seven have been awarded, two have been rejected and another one is in a regulatory process.

JOINT VENTURE

There are two kinds of joint ventures, or associations between two or more legal entities that share resources, know-how, interests and liabilities to develop a project:

1. Foreign company that associates with an Argentinian company to create a third company in which become shareholders through purchasing shares and which is tasked with carrying out the project in question.

2. Foreign company and Argentinian company that sign a contract under which each commits to contribute a series of resources to carry out the project in question. In this case, the joint venture does not have its own legal personality independent of that of the legal entities that comprise it.

However, it should be remembered that because there are no controls of foreign capital, there is free repatriation of capital, dividends and profits.

**Customs
conditions****FREE TRADE AGREEMENTS**

Because it is a member of Mercosur, Argentina does not have bilateral free trade treaties, but rather has free trade treaties as part of the regional block.

FREE TRADE ZONES

- Tucumán Free Trade Zone.
- Mendoza Free Trade Zone.
- Córdoba Free Trade Zone.
- Bahía Blanca Free Trade Zone.
- América Free Trade Zone.
- Comodoro Rivadavia Free Trade Zone.
- Río Negro Free Trade Zone.
- Santa Fe Free Trade Zone.
- General Pico Free Trade Zone.
- San Luis Free Trade Zone.

Customs conditions

(continuation)

Despite being a member of Mercosur, certain products like sugar, textiles, steel, cars and vehicle parts are protected with customs restrictions, quotas or high tariffs.

Companies that wish to convert local currency into foreign currency must request permission from the Federal Public Revenue Administration (AFIP).

Any imports of pharmaceutical products, insecticides and medical devices –among other items– require prior Government approval. Likewise, agricultural products, livestock and plants require public health certificates issued by a competent authority in the country of origin.

Negotiations and protocol

BUSINESS CULTURE

Argentines have a true business culture. The turbulent economic cycles that the country has experienced over the years has resulted in a short- and medium-term outlook on business. The general consensus is therefore to make quick investments.

Given that loans are practically non-existent or carry very high interest rates, local entrepreneurs prefer to use their own funds. They therefore do not have the same circumstances as exist in

Europe or the US. As they are in constant pursuit of new solutions and opportunities, Argentines are quite open and often receive foreign businessmen.

It is recommended to make an appointment at least two weeks in advance for the first meeting, and reconfirm three days prior. Avoid January and February, when people usually take their holidays.

Top fairs

- Expoagro
- ExpoMEDICAL
- INTERSEC

- AgroActiva
- SIMATEX
- FIMAR

Websites of interest

- Official website of the Argentinian State: <https://www.argentina.gob.ar>
- AFIP - Federal Public Revenue Administration: <http://www.afip.gob.ar/sitio/externos/>
- CAME - Argentine Confederation of Medium-Sized Enterprises: <http://www.cta.org.mz>
- Argentinian Chamber of Commerce: <http://www.cac.com.ar>
- Argentinian Agency for Investments and International Trade: <http://www.inversionycomercio.org.ar>
- National Statistics Institute (INE): <http://www.ine.gov.mz/>
- Invest in Argentina: <http://www.inversiones.gov.ar>
- Central Bank of Argentina: <http://www.inversiones.gov.ar>

Payment and charging methods

The Central Bank established a new standard which repeals and modifies various aspects of the red tape that existed for operating in the foreign exchange market:

1. For charging abroad. Another major change affects physical persons or companies that export services abroad. Now they can charge for those services in dollars to a local bank account, with a limit of up to two million dollars per month.

Before, it was required to “liquidate” – change to pesos – and the conversion was done using

an exchange rate set by the Central Bank, below the free-market dollar. Moreover, the operation’s supporting documentation, including a copy of the invoices, had to be submitted in person in order to get the money.

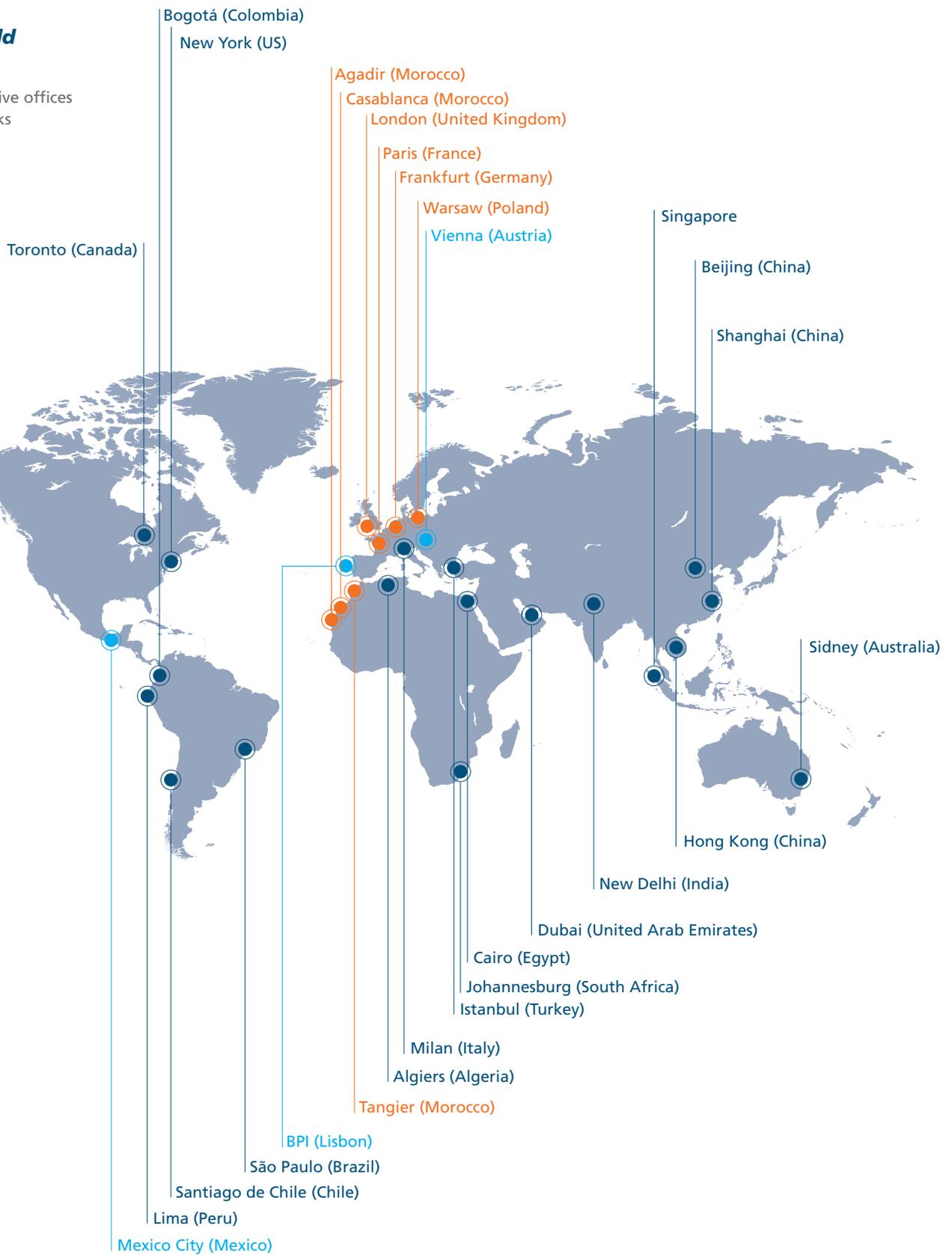
2. For purchasing real estate. The Central Bank also did away with the two million dollar per person limit for purchasing foreign currencies when being used to pay for real estate purchases. In this situation, the transaction must be done through a deposit or transfer to the seller’s bank account.

CaixaBank in the country

The nearest CaixaBank office is in Chile, which covers the South American country. We may also assist you from our Central Services Office on (+34) 934 048 269.

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