

**AFIP External Note No. 1/2009 (published in the Official Gazette on 27/01/2009) Income tax. Decree N° 1207/08. Financial trusts. Explanatory Norm.** It is established that the limitation on the benefit of deductibility from income tax of the amounts in any denomination that are to be allocated to distribution of profits applies solely to the financial trusts created as from August 1, 2008.

**AFIP External Note No. 5/2008 (published in the Official Gazette on 04/08/2008) Personal Property Tax. Shares and equity interests.** With respect to the treatment accorded to shares and equity interests held by residents of the Signatories to the 1980 Montevideo Treaty, it is stated that:

- The most favored nation clause shall not apply to the taxable transaction or item (Section 48 of the Treaty).
- Shares and equity interests shall be subject to taxation as from the effective date of the regime established by the article added after Article 25 of the Personal Property Tax Law.

**Law 26476 (published in the Official Gazette on 24/12/2008) Tax Amnesty, Development and Protection of Registered Employment, Reporting and Repatriation of Capital Regime.**

A regime for tax amnesty, regularization of unregistered employment, and development and protection of registered employment is established.

The most significant issues are the following:

a. Tax amnesty

- Past due tax and social security obligations (except for employee withholdings and employer contributions towards union health care organizations) and the infringements committed at December 31, 2007 may be included in installment payment plans.
- Obligations under installment payment plans which have lapsed at the effective date of the Law are also encompassed in this regime, and existing plans may be reformulated.
- The benefit granted consists of an exemption and/or waiver of fines and other penalties that have not become firm, as well as a reduction of compensatory interest.
- Adherence to this regime may occur only once between the first calendar month following publication in the Official Gazette of the decree of implementation of the regime and the sixth calendar month following that date. Exemption from interest is set at a percentage scale, depending on the date of adherence.

- To pay off the sums due, a payment plan of up to 120 installments is established, which shall accrue interest at a monthly rate of 0.75%. Initially, a payment on account of 6% of the debt is to be made.

b. Regularization of unregistered employment

- The registration under the terms of Section 7 of Law 24013, the rectification of the actual remuneration or the actual date of commencement of employment relationships existing at the effective date of this Law releases the employer from the infringements, fines and penalties envisaged in various Laws (Nos. 11683, 17250, 22161, 24769, 25212, 25191 and 22250).
- For the first 10 workers being regularized, the debt (principal and interest) generated by the failure to pay employee withholdings and employer contributions towards the social security, union health care and Workers' Compensation Insurers subsystems and union dues are extinguished.
- From the 11th worker onwards, only the debt for Workers' Compensation Insurers and union dues are extinguished.

c. Development and protection of registered employment

- An employer contribution abatement benefit is established for 2 years in respect to new employees or regularization of pre-existing unreported employees.

- Section 6 of Law 25877 is repealed.

The provisions of points b. and c. do not impair workers' rights envisaged in current regulations. All the benefits mentioned in this Law shall be maintained as long as the total number of workers in the payroll is not reduced after 2 years have passed from expiration of the benefit system.

d. General provisions

- None of the provisions of this regime shall release financial institutions or other obligors, be they financial institutions, notaries public, accountants, syndics, auditors, directors or other officers,

from the obligations envisaged in the legislation on the prevention of money laundering, financing of terrorism or other crimes foreseen in non-tax laws, except for tax evasion or participation in tax evasion.

- The sums of money derived from behaviors requiring analysis by the Financial Information Unit –as envisaged in Section 6 of Law 25246- shall be outside the scope of this Law.

- Pension Fund Managers shall be released from the obligation to file criminal proceedings regarding the crimes envisaged in the Criminal Tax Laws –Laws Nos. 23771, as amended, and 24769-, where applicable, provided that the taxpayers involved regularize their tax obligations pursuant to the provisions of this Law.

- Be it suspended in general –for all taxpayers adhering to the benefits of this regime – for a term of one year the period of limitations on the action for determining or demanding payment of the taxes whose application, collection and control is in charge of the AFIP, and for imposing fines in relation thereto, as well as the termination of an action by lapse of time in tax enforcement lawsuits or judicial appeals.

- It is established that taxpayers that are employers subject to the provisions of this Law shall continue to enjoy the benefits established thereby, provided that they do not reduce the total number of workers in their payroll after 2 years have passed from expiration of the benefit system.

- Taxpayers encompassed in this regime shall be concurrently entitled to all the benefits established –Titles I, II and III-.

- The terms for adhering to this regime, to regularize employment relationships and to declare holdings of foreign currency, included in articles 1, 14 and 26, respectively, may be extended for equal periods by the National Executive Branch.

- Section 6 of Law 25877 is repealed, which had established an employer Social Security contribution abatement benefit for companies that employed up to 80 workers, with annual billings not in excess of the amount established by regulations, and that produced a net increase in the number of workers included in their payroll, for a term of 12 months, in relation to each new worker employed until December 31, 2008. This provision shall apply as from December 24, 2008.

Effective date: December 24, 2008.

## 4. Outlook

Legislative elections will take place in October 2009, where half of the members of the House of Representatives and a third of the members of the Senate will be running for re-election. Several political analysts agree that these elections could strengthen the opposition in the Congress and threaten the absolute majority that President Cristina Fernández de Kirchner currently holds.

On the other hand, the economic perspective for 2009 is conservative. The National Budget forecasts a 4% growth of the GDP, the maximum projection available in the market, and significantly lower than the expansion achieved in recent years. This slowdown is the result of the negative impact produced by the fall in commodity prices due to the international crisis, the weakening of the high exchange rate policy and the decline of the growth rate of domestic demand, which was the essential determinant of economic growth from 2003 to 2008.

Forecasts show that the trend towards lower commodities prices will continue throughout next year, causing a decline in exports and the consequent decrease in tax revenue. Both combined effects will lead to a dollar shortage in the economy that the Central Bank shall have to manage in order to maintain the exchange rate.

The lower level of economic activity correlates with minor inflationary pressure and with a potential drop in demand for imports, which could counteract the negative impact on the balance of trade after the decline in exports and the potential increase in imports, as a consequence of the depreciation of Argentina's main trade partners. Lastly, the lower level of activity and increases in tariffs may reduce the subsidies given out by the Government, a factor that could dampen the negative impact on the fiscal balance due to the reduction of export duties.

In this context, it is expected that efforts in 2009 will focus on boosting domestic demand without ignoring inflation, managing a possible dollar shortage containing capital outflows and normalizing the financial situation taking into account the insufficient access of Argentina to external financial markets.

## 5. Principal economic indicators

	2007***	2008***	Variations %	Sources
GDP*	812.5	1,038.2	27.8	MECON
GDP**	260.7	328.5	26.0	MECON
GDP* (1993)	359.2	384.2	7.0	MECON
GDP (per capita US\$)	6,487.1	8,087.1	24.7	MECON
CPI Var (%)	8.5	7.2		INDEC
PPI Var (%)	14.6	9.0		INDEC
Exports**	55.8	70.6	26.5	MECON
Imports**	44.7	57.4	28.4	MECON
Balance of trade**	11.1	13.2	19.0	MECON
Fiscal Balance*	9.3	14.7	57.6	MECON
Gross Fixed Domestic Investment*	196.6	240.6	22.4	MECON
Investment as % of GDP	24.2	23.2		MECON
Foreign Debt**	124	136.1	9.8	EIU
Foreign Debt as % of GDP	47.6	41.4		EIU
Foreign Debt in years of exports	2.2	1.8		EIU
International reserves of the Argentine Central Bank**	46.2	46.4	0.5	BCRA
International reserves as a % of the foreign debt	37.2	34.1		BCRA/EIU

\* In billion of current Ar\$

\*\* In billion of current US\$

\*\*\* Last Available Data

MECON Ministry of Economy and Public Finance  
 INDEC National Institute of Statistics and Census  
 EIU Economist Intelligence Unit  
 BCRA Argentine Central Bank

pwc.com/ar  
 ar-marketing@ar.pwc.com

©2009 Price Waterhouse & Co. S.R.L., Price Waterhouse & Co. Asesores de Empresas S.R.L., PricewaterhouseCoopers Jurídico Fiscal S.R.L. and PricewaterhouseCoopers Asesores Gerenciales S.R.L. All rights reserved. PricewaterhouseCoopers refers to the argentinian firms of Price Waterhouse & Co. S.R.L., Price Waterhouse & Co. Asesores de Empresas S.R.L., PricewaterhouseCoopers Jurídico Fiscal S.R.L. y PricewaterhouseCoopers Asesores Gerenciales S.R.L. or, as the context requires, the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

## Highlights of Argentina

### A wrap-up of 2008 and a forecast for 2009



# 1. Overall Context

The Argentine economy achieved its sixth consecutive year of growth. However, it has not been immune to the negative impact of the international financial crisis on the real economy.

Even though all the components of the aggregate demand experienced positive variations, they were lower than the average changes of previous years, a fact that encouraged the implementation of government policies in an effort to drive consumption and investment.

The depression in domestic demand and the decline in activity levels eased the pressure on the general price level, which remained below the index of the previous year. However, the methodology used by the National Institute of Statistics and Census (INDEC) is still being questioned, thus showing a discrepancy between the official inflation rate and private consultant’s estimates.

The trade balance was positive, largely as a result of the extraordinary increase in commodity prices of Argentine exports in the first half of the year. Imports grew, but to a lesser extent than exports. This expansion was due to economic growth, and in part, as a result of the depreciations of Argentina’s main trade partners.

The fiscal balance continued to show both a primary and a financial surplus, mainly supported by income from the external sector and the funds obtained through the reform of the social security system, which involved the transfer of the Retirement and Pension Fund to Government System. Spending patterns showed a decrease in transfers to the private sector since the Government allowed increments in both energy and transportation tariffs.

The pillars that supported the expansion during the period following the crisis that took place in 2001 weakened in 2008. Despite of this, a considerable growth was achieved, justified among other factors, by the increase in domestic demand as well as an increase in commodities’ prices in the first part of the year. However, as of August 2008, the potential negative impact of the international financial crisis led to a substantial decline of those prices and furthermore in 2008, domestic demand began to show signs of deceleration. These events urged the implementation of policies aimed at continuing in the growth path of the upcoming years.

# 2. Economic Indicators

**GDP**

In 2008, the GDP increased by 7% at constant prices. In spite of this significant growth, the rate of expansion of the Argentine economy declined as a result of the impact of both external and internal factors.

Even if the current positive trend still support's itself on private consumption, which represented 65.3% of the GDP, there was a 2.3 % fall in its growth rate compared to last year. With the objective of countering this slowdown, the Government articulated a Public Works Project for approximately USD 30 million that seeks to maintain employment and activity levels in the construction sector. Similarly, a varied mix of credit lines has been announced, ranging from credits to consumption, automobile purchase and loans to small businesses, with lower rates of interest than those prevailing in the market.

The other components of the demand continued to show positive variations, but again less pronounced than those of 2007. Fixed gross domestic investment grew 9%, while public consumption and exports of real goods and services only increased by 7% and 1.1% respectively.

**Trade balance and payment balance**

Exports grew by 26.5% reaching a level of USD 70.6 billion. Due to the fact that the quantity of exported goods remained practically constant, this increase can be justified by the favorable prices of commodities experienced until June 2008. Since then, the international context and the consequent reduction of external demand for domestic products have contributed to reverse this trend, causing prices to fall, like the case of a 51% drop for wheat, 40% for soybean and 43% for corn between July and December 2008.

Imports increased by 28.4%, reaching a total of USD 57.4 billion. This increase in the rate of expansion can be attributed to economic growth, the current weaker high exchange rate policy and the depreciation of Argentina’s main trade partners, caused by the international context in the last half of the year.

Therefore, the trade balance surplus was USD 13.2 billion, 19% greater than the prior year. As mentioned above, this increase is essentially explained by the extraordinary prices of Argentine exported commodities in the first half of the year.

However, in spite of recording a positive balance, reserves only rose by 0.45%, accumulating a total of USD 46.4 billion. The lower growth rate can be attributed to the significant increase in the demand for dollars by the private sector and an approximate capital outflow of USD 20 billion, augmented by both the international crisis and internal policies, such as the Social Security reform and the conflict between the Government and the rural sector.

**Public and external debt**

The total external debt at the end of June 2008 was estimated at USD 128 billion, an 8.4% more than calculated in the same period of last year. This trend can be attributed to an increase in the external debt of the Non-Financial and Financial (excluding Central Bank) private sector, of 14.8% and 11.3%, respectively.

The external and domestic public debt until September 2008 rose to USD 145 billion, an increase of USD 7 billion compared to the same month of the previous year. This increase was based on the adjustments of the CER (Reference Stabilization Ratio) and the exchange rate, the placement of new bonds and interest capitalization.

In September 2008, the Government announced the local tranche exchange of the bonds denominated “Guaranteed Loans”. These are public securities adjusted by the CER Coefficient (Reference Stabilization Index) and delivered in November 2001 included in the debt restructuring, and that were partly held by international investors and local companies. The exchange involved the offer of a bond in pesos, under Argentine law, due in 2014, with a yield of 15.4 percent in the first year, and then determined at a 2.75 percent premium over the Badlar rate. The policy was well accepted, achieving a restructuring of approximately 95 percent of the debt. Additionally, during February 2009, the international tranche of the exchange has been initiated, where the same bond as the one exchanged on the local tranche was offered.

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

**Industrial activity**

Similarly to last year, the Monthly Index of Industrial Output grew at a rate below the average of previous years, at about 5%.

The sectors that experienced higher growth were those related to the basic metal industry (8.4%), tobacco products (7.7%), automotive (11.2%) and non-metallic minerals (7.1%). While the rate of expansion for the first two accelerated, the evolution of the others was the opposite, growing at lower rates than those of last year.

Specifically, the activity of the automobile industry showed an interannual decrease of 14.2% in its activity indicator, and between the period October-December there was a decline of approximately 50%.

**Unemployment and poverty**

From December 2007 up to the third quarter of 2008, the unemployment rate rose approximately 0.3%, reaching 7.8%, if those who are recipients of the Households’ Heads Plan are considered employed.

If, however, these beneficiaries were excluded from this computation, the unemployment rate would have risen to 8.1% of the economically active population, the same rate as that of December 2007.

In the first half of 2008, the segment of the population below the poverty line reached 17.8%, 2.8% less than December of last year.

**Inflation and exchange rate**

The Official Consumer Price Index showed a growth rate of 7.2% in 2008, mainly driven by a price increase related to spending on education, health and recreation. This figure represented a decrease of 1.2% in respect to the 2007 index, due to the slowdown of domestic demand.

The methodology and the procedures of the National Institute of Statistics and Census (INDEC) continue to be as questioned as in 2007, an issue that drove private consultants to search for more realistic estimates. In this sense, the inflation rate published by the INDEC was one-third of

that estimated by the majority of the private analysts, with its minimum result around 20%.

The Domestic Wholesale Price Index, published by the INDEC, showed a growth of 9%, which represented a decrease of 5.6% compared to last year’ figure.

Although the average exchange rate was AR\$/USD 3.16, the exchange rate rose at the end of the year to AR\$/USD 3.45. In spite of this, the currency showed evidence of a real appreciation with respect to the main trade partners. More precisely, while the annual depreciation of the Chilean Peso and the Real with respect to the US Dollar were 28.1% and 31.4% respectively, the Argentine Peso’s was only 9.8%.

**Interest rate**

The principal reference rates of the financial market showed a considerable increase, whose primary objective was to generate an incentive to limit capital flights.

The deposit rate in pesos rose 67.2%, going from 9.62% in December 2007 to 16.8% in December 2008. The lending rate for leading companies rose from 15.98% to 27.76%, within the same period. For the first time since abandoning convertibility, positive real interest rates were observed.

**Fiscal account**

In 2008 the primary fiscal surplus topped AR\$ 32.5 billion, equivalent to 3.5% of the GDP, achieving the sixth consecutive year of primary surplus. Incomes grew by 35%, while expenses did by 37%.

The fiscal solidity of the National Public Sector still relies on resources derived from international trade. Nevertheless, the current downward trend of commodities’ prices and the difficulties in accessing international financial markets have led the National Government to implement policies with the purpose of finding new sources of income, in order to meet debt maturities and, in parallel, articulate a series of programs intended to motivate spending and investment.

Within this context, the Government continues to pursue approving the following regulations:

- Setting up the Argentine Integrated Social Security System (SIPA)**, financed by a single distribution system. The resources that made up the individual capitalization accounts of the members within the privately funded system were transferred to the National Administration of Social Security (ANSES). This mechanism involved relocating the Retirement and Pension Fund, which represented 10% of the GDP (USD 30 billion), and 9.5 million affiliates and 450 thousand beneficiaries to the state system.

- Payroll and tax amnesty**, up to December 31, 2007, that covers all companies and individuals who owe to the AFIP. An amnesty of interest due was proposed, that involves as much as 70% for those who take part in it within its first two months and then decreases to 50% for those



entering it by the sixth month. The requirements are to maintain the workforce volume and pay 6% of capital due.

- Reduction of contributions for small businesses** that hire new personnel or regularize those already employed.

- Repatriating funds from abroad** by charging taxes between 1% and 8% of the undeclared capital from abroad that is returned.

The financial surplus experienced a positive result of AR\$ 14.6 billion, which represents 1.6% of GDP.

# 3. Tax

**Law 26334 (published in the Official Gazette on 03/01/2008) – Biofuels - Bioethanol Production Promotion Regime.** A promotion regime applicable to taxpayers producing bioethanol is established. The bioethanol produced shall not be subject to the hydraulic infrastructure rate, to the tax on liquid fuels and natural gas, or to the tax on the transfer of diesel oil. In addition, the beneficiaries of the regime may opt for the early refund of VAT on the assets or infrastructure works included in the investment project or, as an alternative, for the accelerated depreciation of those assets and works for income tax purposes. The assets involved shall not be included in the minimum notional income tax base. This regime shall apply for a term of 15 years. The Executive Branch may extend application of this regime.

**Law 26360 (published in the Official Gazette on 09/04/2008) – Investments in New Capital Goods and Infrastructure Works. Early VAT Refund. Accelerated amortization for income tax purposes.** A temporary regime is established for the tax treatment of investments in new capital goods, except for automobiles, which qualify as depreciable movable property for income tax purposes destined for industrial activities, as well as infrastructure works, except for civil works. Furthermore, the taxpayers encompassed by this regime may seek early refund of value added tax on goods and infrastructure works included in the investment project proposed, or proceed to the accelerated depreciation of those goods and works for income tax purposes. However, taxpayers may be entitled to the two benefits at the same time when investment projects whose production is destined exclusively for the export market and/or sustainable Industrial Reconversion or Clean Production projects are concerned.

Effective date: April 10, 2008.

**Notice by the Argentine Department of Foreign Affairs, International Trade and Worship (published in the Official Gazette on 22/07/2008) - Convention to Avoid Double Taxation on Income and Capital signed with Austria.** It is announced that the Convention to Avoid Double Taxation on Income and Capital entered into between Argentina and Austria was unilaterally terminated by Argentina on June 26, 2008; said termination will be effective January 1, 2009 (Section 29).

**AFIP External Note No. 6/2008 (published in the Official Gazette on 28/08/2008) International Conventions. Convention to Avoid Double Taxation on Income and Capital entered into between Argentina and Austria. Its termination.** It is stated that the provisions of the said Convention shall no longer be valid for taxes applicable for any fiscal year commencing after December 31, 2008.

**Decree 1207/2008 (published in the Official Gazette on 01/08/2008) Income tax. Closed-end Mutual Funds and Financial trusts. Differential treatment.** The differential tax treatment of closed-end mutual funds and financial trusts that are not related to the performance of infrastructure works for the provision of public utility services is eliminated. This treatment, as envisaged in the second article added after article 70 of the decree of implementation of the tax, consisted in the possibility of determining the taxable net income, by previously deducting the amounts allocated to the distribution of profits.

Effective date: August 1, 2008.

**AFIP External Note No. 9/2008 (published in the Official Gazette on 16/10/2008) Tax on financial and other transactions. Decree N° 1207/08. Financial trusts. Explanatory Norm.** The exemption from the Tax on Financial Transactions of financial trust accounts used exclusively in their specific activity still applies.