

Market intelligence report - Argentina

Overview:

Argentina is a very promising market that is re-launching itself to worldwide trade and commerce. Under Macri's administration, who came into power in December 2015, Argentina is now aiming to improve its economic and investment climate as part of a macroeconomic approach to make its big comeback to international markets.

Some of the most important measures that have been already taken into this direction are:

- a) Lifting restrictions to capital inflow/outflow (including repatriation restrictions).
- b) Moving from an exchange control regime to a free floating currency system.
- c) Gradually reducing subsidies on utilities tariffs.
- d) Removing export taxes.
- e) Reaching an agreement with holdout creditors.
- f) Gradually removing import restrictions.
- g) Tax amnesty program (USD 116,800 million in assets were declared, most of which were held abroad)
- h) Deepening and strengthening relations with countries that have traditionally been Argentina's business and political partners (such as Mercosur) and working on building new strategic alliances (as with the Pacific Alliance countries, for example).

As a result, the country risk declined from 620 points in September 2015 to 462 points in September 2016 and the volume of inbound foreign investments is progressively increasing. According to figures by the Central Bank (Banco Central de la República Argentina - BCRA), in March 2017, it was worth USD 908 million, almost doubling February's. Even though the value of outbound foreign currency during that same period was higher – USD 986 million –, it registered a considerable decrease compared to previous months – USD 1,865 million in February and USD 1,945 million in January.

Also, the estimated GDP growth for Argentina is 2.2% for 2017 and 2.5% for 2018, according to the IMF, all of which shows that the economic environment is steadily improving in the country.

Since Mauricio Macri became President, on December 11, 2015 until May 31st 2017, a total of 478 projects worth USD 61,056 million were announced.

Another important factor to take into consideration is that Argentina opens doors to other markets as it is already interconnected with the region and the world – it currently is a member of several multilateral organizations (such as MERCOSUR and the G20). The current administration is also aiming to increase and deepen these links as demonstrated by the numerous high-rank visits conducted to Argentina (such as the Canadian Prime Minister's and the Swiss President's) and from Argentina (such as the joint Government-businessmen recent visits to Spain and the Netherlands).

Other factors to take into consideration include:

- Argentina is the third largest economy in the region with a GDP of USD 586 billion, according to the IMF, after Brazil and Mexico.
- It has the fourth largest population size in the region, with 43 million inhabitants, making it a big market for enterprises to explore.
- It has the second largest proportion of middle class population in the region.
- There are negotiations between Mercosur and the EU for the signature of a FTA between the two blocs. When this happens, trade relations will be more dynamic so Irish companies should consider to be one step ahead and start positioning themselves in the mind of new potential buyers.

Challenges:

The current administration is well aware of the remaining challenges in the economic atmosphere that are of concern for foreign investors, and has repeatedly committed to take measures to eliminate them. These are the most important ones to keep in mind when thinking about Argentina as an investment destination:

- Inflation:

Inflation is still in the low double-digit, which is a common concern for investors. For the first trimester of the year, accumulated inflation is of 6%.

However, the government has committed itself to keep inflation levels for 2017 between 12 and 17%, and to reach a low single-digit inflation of 5% by 2019. The IMF forecasted between 22 and 26% for this year, 17% in 2018, 13% in 2019, 11% in 2020 and 9.5 in 2021.

- Tax regime¹:

Argentine tax system is very intricate and an important burden, especially when it comes to taxes related to labour activities. It is divided between:

Federal taxes

Income tax
Value added tax
Minimum presumed income tax
Personal assets tax
Excise tax
Tax on financial transactions
Customs duties

Provincial and municipal taxes

Turnover tax
Real estate tax
Stamp duty
Tax on vehicles
Tax on public advertising

¹ Because of its complexity and specificity, it is advised to consult tax-related issues with a professional.

At the same time, there are some tax incentives for specific activities such as:

Mining promotion	Software industry
Training institutions	Biofuel industry
Research & Development projects	Modern biotechnology
Capital assets and infrastructure projects	Projects on Tierra del Fuego

It is important to mention that a more favourable tax regime was one of the main goals set by the Government during their campaign, and they are already preparing a new bill to be sent to the Congress after this year's mid-term elections – moreover, they are legally obligated to present it to the Parliament no later than March 2018. At the same time, a more favourable tax regime is strictly linked with a more disciplined public spending (and therefore, with fiscal deficit), so this will be a progressive transition following the improvements that the administration continue to takes with regards to these issues.

- Unions:

Argentina is a very syndicalized country, where unions have a lot of weight and, unfortunately, their actions tend to respond mostly to political interests; however, the situation is different depending on each sector, so it is advisable to explore it beforehand.

Other important events:

In October, mid-term elections will take place in Argentina which means that some members of the Parliament will be elected. In total, 24 Senators and 127 Congressmen will be renewed.

This election will serve two other purposes: a) measure the current government's popularity and, b) accelerate or slow-down the Government's plans, by strengthening or weakening their overall influence.

At the moment, many bills (such as a Tax System reform) have not yet been sent to the Congress as the government does not have a majority, so many discussions in Parliament have been blocked due to political reasons. As such, every seat the government wins will make negotiations simpler and help consolidate their plans for the country.

Opportunities for Ireland:

After 12 years of a protective government and hostile economic measures, Argentina now has unlimited opportunities in almost every productive sector for foreign companies to participate in the local market. The government is pushing hard for Argentina's economic recovery and in order to do so, the demand for investments in public projects are numerous.

The government has identified investment opportunities adding up to approximately USD 260 billion in a wide variety of areas, specifically:

- Infrastructure, construction and engineering
- Power & renewable energies
- Mining
- Oil & Gas
- Real Estate and Urban Development
- Agribusiness
- Telecommunications and high technology
- Tourism

Of specific interest to Ireland, are those related to the following sectors and sub-sectors:

Infrastructure, construction and engineering:

According to the latest Global Competitiveness Report, prepared by the World Economic Forum, Argentina is currently in the 122nd position for its infrastructure, reason why the current government has made of public works one of their priorities, therefore creating many opportunities for Irish enterprises in this sector. As such, there are many ongoing projects as well as plans to invest most of their funds into tangible and concrete solutions to improve the lives of Argentinians.

Considering Ireland's industrial capabilities, there are several subsectors that might be especially appealing to Irish companies:

- Transportation infrastructure:

The government has set out a plan that is the most ambitious of its history, planning to invest over USD 95 billion in the upcoming years, especially in projects related to road constructions, freight & passenger rails and subway expansion and renewals.

Currently, Argentina has less than 35% of paved roads (which is very low considering the region's average) so the government has big plans for over 40,000 km. Equipment providers, engineering and audit companies are required.

Another area that presents opportunities for USD 1.4 billion, is a project to construct a new subway line and modernize other ones, for which the government is seeking to install top-notch technology.

- Ports and airports

There are several plans to improve, expand, repair and incorporate new technology in several ports and airports across the country, amounting approximately USD 1.5 billion, including an additional USD 1.5 billion project for the modernization and new concession for operating Buenos Aires Port, that Irish companies might be interested on pursuing.

- Health and education facilities

There are approximately 500 different projects valued in USD 20 billion USD to build and renovate different health and education facilities across the country.

- Real estate and touristic complexes

The main focus of the government for touristic complexes is hotel developments, especially winter/skiing facilities, and winery related projects, to be located in different parts of the countryside, including Iguazú, Mendoza and Patagonia. These opportunities add up to approximately USD 2 billion.

Regarding real estate opportunities, the government has identified opportunities mainly for residential and multipurpose constructions, aiming to improve urban development, as well as private-public partnerships for housing projects that will allow the government to close the deficit of 1.5 million new houses. This will happen all over the country but mainly in the provinces of Buenos Aires, Santa Fe and Córdoba.

- Water sanitation and land irrigation systems

Nowadays, Argentina's waste water treatment penetration is very low (estimated at 20%), especially if compared to other countries of the region such as Brazil or Chile (70% and 96% respectively), so there are projects worth USD 22 billion to build over 85,000 km of water pipelines and improve waste management systems, though public-private partnerships.

The government has set waste-to-energy projects as a priority, including the creation of 3 power generation plants using waste as a fuel source in several parts of the country, one of which includes an electricity generation plant in Buenos Aires to treat 1,730 tons of waste daily with a 12 MW generation capacity, using the latest incineration technology.

They also have planned to eliminate landfills by 2021, extend aqueducts for drinking water and improve sewages across the country.

Argentina also presents many opportunities in the irrigation field as only 33% of potential land is currently irrigated (compared to 100% in the US and Europe), an amount the government is aiming to triple – from 2.1 to 6.2 million hectares - with projects worth USD 30 million in order to increase the country's agricultural productivity.

Telecommunications and ICT products:

Argentina has a population of over 40 million people who are very eager when it comes to consumption, innovation, technology and a modern lifestyle.

Mobile penetration levels in Argentina are very high (around 140% in 2016) as well as broadband penetration (around 65% in 2016), the third highest in Latin America after Uruguay and Chile. In spite of that, there are opportunities to increase the coverage and speed of connection (average download speed is of 5.5 Mb/s approx.).

In order to do so, the government expects to have installed 30– 50 K cell towers, worth around USD 3,000 - 5,000 million (looking for dedicated cell tower builders/operators), as well as expanding its fiber-optic network to 1,200 localities in Argentina over the next 2 years (public-private partnership), worth approximately USD 300 million.

The banking system in Argentina is also facing much needed improvements – FinTech companies have opportunities to explore in this market that is now starting to boost online banking and encouraging the use of products to replace the well-extended cash transactions. For example, the first 100% online bank was authorized and will start operating in the next upcoming months.

At the same time, Argentina's current government is fostering entrepreneurship so FinTech's expansion will only continue in the times to come. It is important to highlight that most of Latin America's tech unicorns are Argentinian: Mercado Libre, OLX, Despegar and Globant, so this also represents opportunities in terms of ICT solutions.

Green energy or Cleantech:

One of Argentina's focus for the upcoming years is power generation, as the demand is growing but there hasn't been any significant investment in the sector in the last years. There is a law in place that establishes that by the end 2017, 8% of the electric consumption nationwide must come from renewable sources, increasing to 20% by 2025. This opens up many opportunities in this sector, worth approximately USD 35 billion, in order to install an additional 21 GW of capacity by 2025.

Their focus is mainly to take advantage of the country's wind and solar conditions, but there are also opportunities in the hydroelectric and thermal subsectors. For the latter, there will be several tendering processes during 2017 which include: 3 GW for high efficiency thermal generation plants, 1 for renewable energy projects and several tenders to expand the high voltage transmission grid.

Pharmaceutical and biotechnology industry:

Currently, 80% of all the active principles are imported and 45% of the sector's industries in Argentina are foreign companies. More importantly, this is the sector that currently accounts for the largest amount of imports from Ireland, with an already well-recognized leadership and therefore making it easier for Irish companies to access the market.

Agrifood:

The main reason behind the irrigation projects is to boost food production in Argentina. The government is aiming to increase it by 50% - which means going from producing food for 440 million people to 650 million, in the next 4 years.

Argentina is a world leader in this sector so there are opportunities to improve productivity, systematize processes and incorporate technology to agricultural processes.

Aerospace industry:

As part of the internationalization plan of the Government and the efforts to improve competitiveness, there is a plan to modernize airports across the country and, at the same time, there will be more and more opportunities opening up in this sector and its various subsectors.

Recently, a partnership was signed between Ryanair and Air Europa, making the Irish airline to have an important footprint on the region.