

General Political Environment:

In October 2007, Senator Cristina Fernández won the presidential election and so replaced her husband, former President Néstor Kirchner. Her victory was made possible in large part because of Kirchner's popularity and fractures in the opposition. Kirchner continues to have a very active role in policy and decision-making and is currently president of the Partido Justicialista ("Peronist"). President Fernández's Victory Front, a group comprised of Peronists and UCR politicians that supported her husband, now has majority status in Congress. This change has considerably reduced the aptitude of dissident Peronists and center-left parties to obtain concessions from the government in exchange votes. The Supreme Court passed two laws granting additional powers, including the power to impose decrees without legislative approval, and greater discretionary powers over the budget approval process. President Fernández opposed this practice while she was a Senator, but as President voted to extend it. The government has stymied legislation that would allow increased access to government information.

Fernández is pursuing the same mix of heterodox and populist policies that guided her husband's presidency. As the global financial crisis develops, this mix is having a negative impact on the country's economy and ability to sustain the growth that made Kirchner so popular during his term as President. There are serious concerns among private-sector and outside experts that the government is manipulating official data such as inflation figures, which has also damaged confidence in the government's ability to successfully navigate the global crisis.

Scandals and mishandling of agricultural protests have drained Fernández's popularity at home, and stop-and-go signals on payment of outstanding Paris Club and private bondholder debt has weakened her image abroad. Splits in the Peronist party significantly reduced Fernández's strength in the legislature at the October 2009 elections, and her husband Nestor Kirchner's failure to garner the most votes in Buenos Aires has diminished his power a great deal.

Investment Environment:

Currency restrictions imposed during the December 2001 economic crisis have since been relaxed considerably. Businesses are required, however, to advise the Central Bank of intended transfers of hard currency out of the country.

On paper, Argentina's foreign investment regime remains one of the world's most liberal for the establishment and operation of foreign-owned entities. Nonetheless some sectors remain at elevated risk for government intervention. Companies in the utility and energy sectors in particular had serious disputes with the government over Kirchner's decision to freeze tariff rates. There has also been persistent strike action by the agriculture sector following the government's March 2008 decision to raise export taxes. Several foreign mining companies are pursuing legal action to challenge the government's December 2007 decision to rescind a previous export tax exemption granted to mineral exporters.

Nearly three dozen cases against the Government of Argentina have been registered at the World Bank's International Center for Settlement of Investment Disputes by investors seeking compensation related to government action after the 2001 economic crisis. The judicial system in Argentina is considered vulnerable to political influence, and a major corruption scandal in May 2007 highlighted practices that siphon funds into the hands of government officials.

As a result of the protracted utility price freeze, there has been a lack of investment in the energy sector causing a serious strain on supply and there is a high risk of shortages in the near term.

Political Violence:

Widespread poverty and unemployment caused by the 2001 crisis led to the emergence of radical groups called *Piqueteros*, that stage large protest marches and demonstrations to pressure for jobs and benefits. The actions of these groups have caused business disturbances but the number of such protests has declined in recent years. Other episodes of political violence occur sporadically but are usually limited to the very occasional detonation of homemade bombs with limited destructive capability outside foreign companies and banks.

Political

Political Structure

Federal Republic

President

Cristina Fernández de Kirchner

Vice President

Julio Cobos

Legislative Bodies

- National:
Chamber of Deputies (257 seats); Senate (72 seats)
- Regional: 23 states and one autonomous federal district – each has its own governor and legislature

Major Parties

- Victory Front (Kirchner)
- Partido Justicialista (Peronist)
- Unión Cívica Radical (UCR)
- Propuesta Republicana (PRO)
- Afirmación para una Republica Igualitaria (ARI)
- Right of center parties

Last Elections

Presidential - October 2007
Congressional - (½ Chamber of Deputies and 1/3 of Senate) – June 2009

Next Elections

- Presidential - 2011
- Congressional (½ Chamber of Deputies and 1/3 of Senate) – June 2011

Press Freedom Survey:

- 2008 Score: 47 Partly Free (0: Free; 100: Not Free)

freedomhouse.org

Control of Corruption Index:

- 2007 Score: -0.45 (-2.5: Worst; +2.5: Best)

worldbank.org

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Political Outlook

The impact of the Kirchners' heavy losses in the July 2009 mid-term elections will likely produce a significant re-alignment within the ruling Peronist Party. President Fernández may be able to pass legislation until the new Congress and Senate are in place in December, but governing will be extremely difficult thereafter unless the Kirchner's move well away from their top-down, heavy-handed approach. Challengers for the 2010 Presidential elections are lining up. Unless the opposition can make strong gains in producing a unified front and coherent policy platform, jockeying amongst the various parts of the Peronist party will likely dominate political activity over the next two years as Fernandez limps to the end of her mandate.

Economy

Nominal GDP (2008)
330.2 bil USD

Population (2008)
40.5 million

Total Trade/GDP (2008)
37.9 %

Currency
Argentine Peso (ARS)

Exchange regime
Managed float

Merchandise imports from Canada (2008)
223.2 million

Main sources of foreign exchange (excl. FDI)
Processed agricultural products

Largest merchandise export destination (2008)
Brazil (17.4 %)

Main imports
Intermediate goods
Capital goods

Sovereign Ratings
MLT external debt

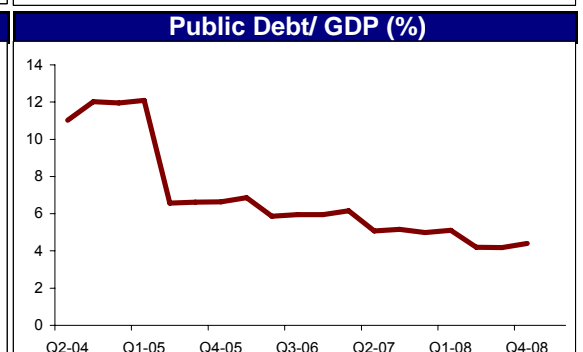
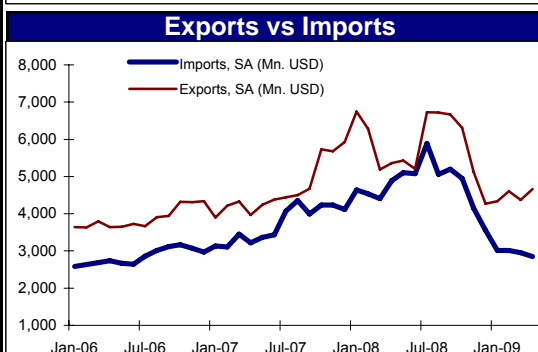
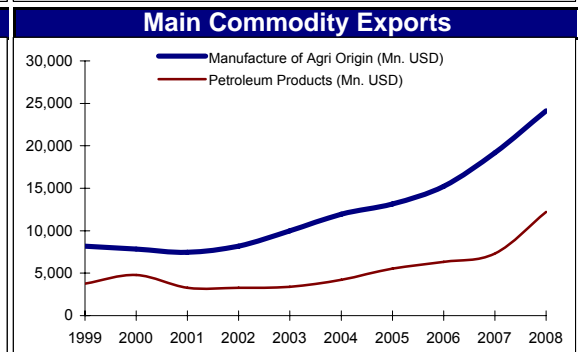
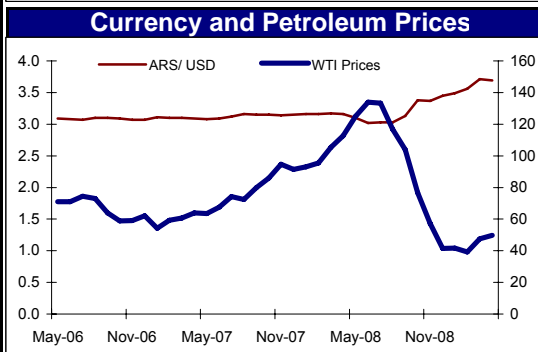
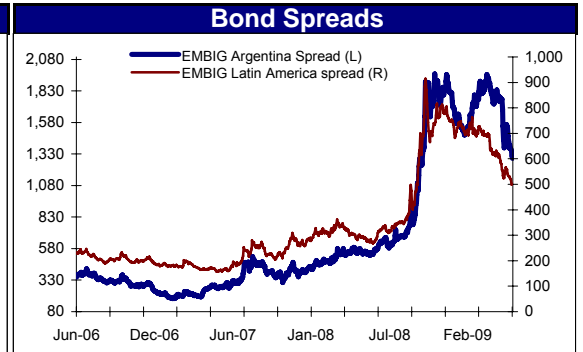
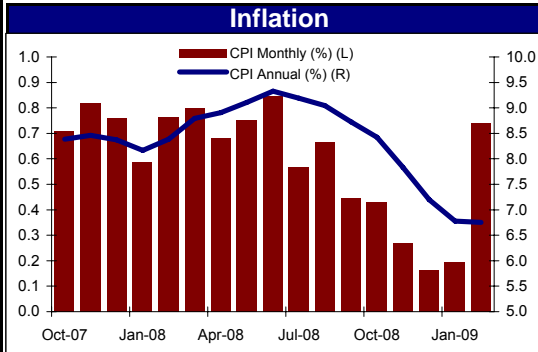
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| Fitch | RD |
| S&P | B- |
| Moody's | B3 |

Risks to the outlook

- Agreement with the Paris Club and bondholders.
- Rising inflation
- Prolongued risk aversion

June/09
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- **Real Sector:** In the face of growing economic uncertainties, consumer confidence is eroding and consequently adversely impacting economic activity. We forecast a recession hitting the country this year.
- **External Sector:** On the back of lower imports, the trade surplus increased substantially in April. As imports contract more than exports, we expect the trade balance to maintain its surplus this year. There are no signs of payment to either the Paris Club creditors or the bond holdouts.
- **Fiscal:** As a result of slower economic activity, export and import growth, tax revenues are already shrinking. We expect that fiscal accounts will deteriorate further and the government won't be able to meet its 3.3% primary surplus target this year.
- **Debt:** Given recent debt swaps and the nationalization of the Pension funds, we do not see any imminent risk of default over the next 12-18 months.



Economic Indicators

| | 04-08 avg. | 2008 | 2009 | 2010 |
|-----------------------------------|------------|------|-------|------|
| GDP (% growth, real) | 8.8 | 6.0 | 0.5 | 1.0 |
| Inflation (% chg, pa avg.) | 9.4 | 8.6 | 6.0 | 5.0 |
| Fiscal Balance (% of GDP) | 1.6 | 1.3 | -0.8 | -1.8 |
| Exports (% comp. annual growth) | 16.8 | 28.3 | -28.3 | 5.4 |
| Imports (% comp. annual growth) | 38.1 | 30.1 | -17.2 | 4.3 |
| Current Account (% of GDP) | 3.5 | 2.8 | -0.8 | -0.5 |
| Reserves (months of curr. debits) | 6.7 | 6.8 | 6.0 | 6.0 |
| External Debt (% of GDP) | 83.0 | 44.2 | 45.5 | 52.6 |
| Debt Service Ratio (due) | 41.7 | 16.4 | 18.7 | 17.6 |
| Exchange Rate (to USD; eoy) | 3.0 | 3.4 | 3.9 | 4.2 |

Canadian Exports and CDIA (\$-M)

