



ARGENTINA AFTER THE MID-TERM ELECTIONS

The most relevant questions a foreign investor raises after the mid-term political elections are: Is the Government going to devalue the peso? Is it going to let inflation escalate? Will it continue to control internal prices and restriction on import and exports?

Reasons why the government will not devalue the peso:

We list the most important reasons why the Government will not change its pattern of gradually devaluating the peso as it has been implementing along the last year:

Commodity prices (soy) are still strong worldwide and it is likely that the demand for food will increase when the world gets out of the present recession. Balance of trade will continue to be favorable and generate genuine revenues to the Government.

Brazil represents close to 30% of the imports and 25% of our exports. While the peso has lost value against the dollar, the Real (Brazilian currency) has appreciated reducing the chances of a bilateral trade deficit. Some restrictions on imports from China and other Asian countries have contributed to stabilizing the trade balance in general.

The monetary policy of the Central Bank has allowed a gradual devaluation of the currency by 15% this year. The exchange rate will probably reach the \$4.10 to \$4.20 to the dollar by the end of the year, boosting exports.

The nationalization of the pension funds has provided the Government with much needed financing to carry its development projects. The National Pension Fund (ANSES) is acting as lender of last resort and this role reduces the need for the Government to print pesos and therefore trigger inflation.

Finally, Argentina will again have access to IMF lending which will allow the Government to meet its financial obligations for this and for the next year.

FDI Growth:

There is an impression, and much has been said by opposition parties, that Argentina has not received much of the foreign direct investment (FDI) allocated to development countries. There are two interesting reports that indicate the contrary:

In its April 2009 report UNCTAD informed that in 2008 Argentina received a total of 23% more FDI than in 2007; FDI grew 5 years in a row and Argentina was the 6th country among developing countries in L.A. that received more FDI and 10th in the world. The average amount of FDI in 2008 was of USD 7.979 billion.

The last May edition of FDI Intelligence of the Financial Times ranks Argentina in the 3rd place in "greenfield projects" in Latin America and 2nd in South America. The data is important as less than 10% of

such FDI is exchange of ownership, and capitalization or reinvestments just 50%. The present flow of FDI supersedes the average of the 1990's decade net of the "privatization" investments.

Other factors worth of being mentioned:

Consumption is still strong due to the fact that unemployment has not grown more than 1.5% in spite of the world financial crisis. Though the effects of the recession is beginning to be felt, labour laws and the policy of providing subsidies to companies that compromise not to dismiss employees have produced the desired effect.

The banking sector has also not been affected by the crisis as it did not participate in the practices that provoked the financial crisis (leverage, subprime, derivatives, etc.).

The real estate market is another example that globalization did not affect Argentina. Most of the transactions were in cash. Therefore, owners are not indebted.

Competitive Advantage of Argentina

Argentina is a country with no dramatic structural problems. Aside from a recurrent political instability (comparable to Italy) no critical issues confront its future. Its growth potential, although is mainly based in the agribusiness, it can be found in the following sectors: fashion and design industry; health industry (particularly pharmaceuticals); wineries, fruit (lemons, berries, pears and apples); reusable energy; software services; mining; energy and fishery. In the case of beef, although Argentina is subject to the restrictions of the Hilton quotas it has an opportunity to increase its sales to the EU to 28.000 tons this year.

*For further inquires please contact
any of the undersigned at our offices:*



OFFICES AND MAIN CONTACTS:

BUENOS AIRES: cealfaro@alfarolaw.com

NEW YORK: smatteozzi@alfarolaw.com

MADRID: vandenbroele@alfarolaw.com

www.alfarolaw.com