

Focus on: Argentina

International Business Report 2010 – Country focus series

The recovery

The third largest economy in Latin America shrank for the first time in eight years in the second quarter as the global economic downturn hit commodity exports and curtailed domestic consumption. Weaker tax revenues and loose fiscal policy are also putting pressure on the primary surplus. Growth in the third quarter was flat, and whilst the government predicts mild expansion this year, many private experts are predicting a contraction.

The key indicators¹ are highlighted below:

- official forecasts point to growth of 0.5 per cent across 2009, but many other economists are forecasting a contraction of one per cent or more
- net exports turned negative in the final quarter of 2008, but have remained positive since; they stood at 0.6 per cent of GDP in the third quarter
- industrial activity increased by four per cent year-on-year in November, accelerating to 10.4 per cent in December
- the government-backed Productive Recovery Program has helped safeguard jobs; the official unemployment rate stood at 8.3 per cent in Q4, down from 9.1 per cent in the previous quarter.

Impact on businesses

The Grant Thornton International Business Report (IBR) 2010 surveyed the views of over 7,400 privately held businesses (PHBs) in 36 economies around the world. This report focuses on Argentina, the experiences and attitudes of its privately held businesses and how they have been affected by the economic crisis along with how they are dealing with recovery, as illustrated in figure 1.

The IBR survey tells us that businesses in Argentina are considerably more optimistic about the economy over the year ahead than they were in 2009 and over three-quarters of businesses expected to see an upturn in the global economy by the end of 2010 at the latest. Expectations for revenue, profitability and employment growth are all markedly more positive this year, but a shortage of long-term finance continues to stifle expansion.



¹ Source: International Monetary Fund, The Economist and Experian.

Looking ahead

Whilst official forecasts suggest growth of around 2.5 per cent across 2010, many economists are forecasting a contraction in the Argentine economy of around 0.9 per cent, before bouncing back to growth of 1.2 per cent in 2011.

Having recorded fiscal surpluses over more than three per cent in recent years, lower tax receipts and continued counter-cyclical spending are expected to see the budget balance fall to -0.9 per cent and -0.7 per cent across 2009 and 2010 respectively, before recovering to 0.7 per cent in 2011.

Having fallen by over 26 per cent across 2009, exports are forecast to rebound to nine per cent growth across 2010, slowing to two per cent in 2011. The current account is expected to expand to 3.5 per cent of GDP this year, before falling to 2.7 per cent in 2011. The 39 per cent drop in imports across 2009 has meant the largest trade surplus in the country's history but any knock-on effects on productive capacity are a serious risk to growth prospects moving forward.

As the economy exits recession, all businesses will need to face new challenges and take advantage of new opportunities to achieve consolidated growth and lead the way to recovery.

Figure 1: Key indicators for PHBs

Argentina compared to the Latin America average	2008 Arg	2009 Arg	2010 Arg	2010 Latin America
Outlook for the economy over the next 12 months				
Balance of optimists over pessimists	+39%	-57%	+31%	+48%
Change in employment levels				
Balance of PHBs expecting an increase over those expecting a reduction	+42%	-24%	+37%	+42%
Constraints on expansion				
Shortage of long term finance	60%	58%	57%	34%
Regulations/red tape	39%	42%	42%	39%

Source: Grant Thornton IBR 2010

Talk to us to find out how we can help you deal with the challenges of a new world economic order.



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International Business Report results

The Grant Thornton IBR 2010 reveals that privately held businesses in almost all countries are more optimistic about economic prospects for the year ahead. Argentina is no exception; the optimism/pessimism balance² has risen 88 per cent from -57 per cent in 2009 to +31 per cent in 2010.

For the first time in six years, India has been overtaken as the most optimistic country by Chile. Chile now tops the league table with a net balance of +85 per cent (-24 per cent in 2009), India comes in a very close second with +84 per cent, whilst Japan remains at the bottom with a balance of -72 per cent.

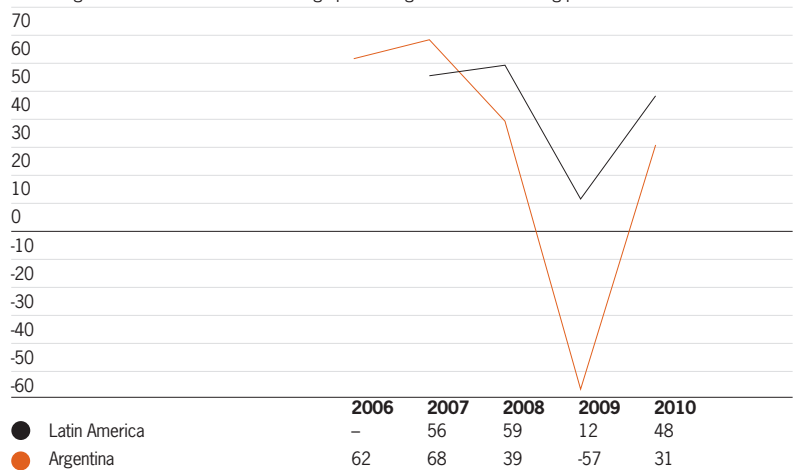
Overall optimism amongst businesses globally has risen from 2009; this year a balance of +24 per cent of businesses across all countries are positive about their country's economy – compared to a balance of -16 per cent in 2009.

Optimism/pessimism

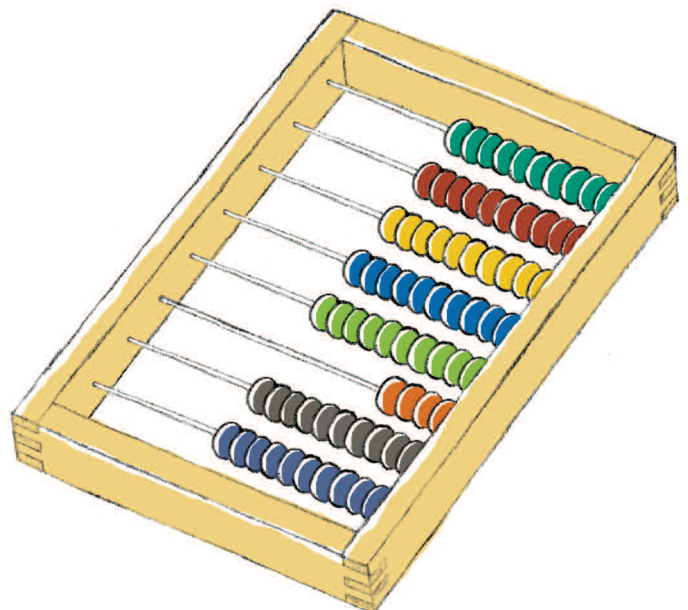
- businesses in Argentina are considerably more optimistic about their country's economic outlook (+31 per cent) compared with 2009 (-57 per cent)
- the balance of businesses in Latin America³ indicating optimism for the year ahead has risen by 36 per cent this year, from +12 per cent to +48 per cent.

Figure 2: Outlook for the economy over the next 12 months: 2006-2010

Percentage balance of businesses indicating optimism against those indicating pessimism



Source: Grant Thornton IBR 2010



² the balance is the proportion of companies reporting they are optimistic less those reporting they are pessimistic.

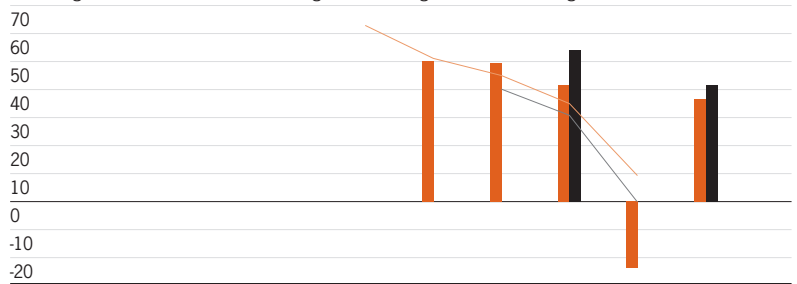
³ for the purposes of IBR, the term 'Latin America' refers to those Latin American countries covered by our survey – Argentina, Brazil, Chile and Mexico.

Employment

- a balance of +37 per cent of businesses in Argentina expect to expand the size of their workforce in 2010, compared with +42 per cent of businesses in Latin America
- actual employment growth reported by businesses in Argentina in 2009 (nine per cent) was better than expected 12 months previously (-24 per cent), and higher than the Latin American average (two per cent).

Figure 3: Employment history: 2005-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



	2005	2006	2007	2008	2009	2010*
Expected Argentina	-	50	49	42	-24	37
Expected Latin America	-	-	-	54	0	42
Actual Argentina	63	51	46	35	9	-
Actual Latin America	-	-	40	31	2	-

*actual 2010 data will be documented in IBR 2011

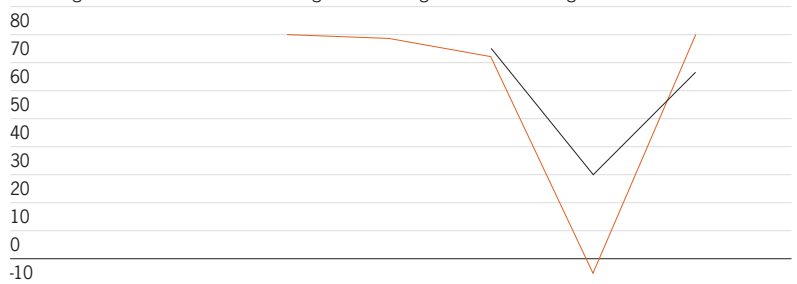
Source: Grant Thornton IBR 2010

Revenue expectations

- a balance of +80 per cent of businesses in Argentina expect their revenue to increase across 2010; this represents an 85 per cent increase from 2009
- revenue expectations of businesses in Latin America as a whole have also bounced back this year, posting a 37 per cent increase from 12 months ago.

Figure 4: Revenue expectations: 2006-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



	2006	2007	2008	2009	2010
Argentina	80	79	72	-5	80
Latin America	-	-	75	30	67

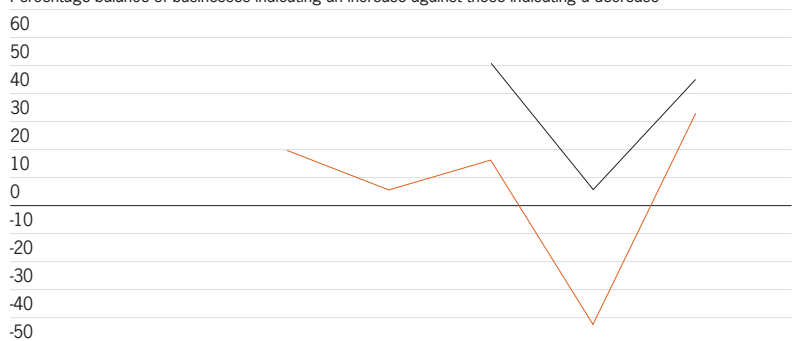
Source: Grant Thornton IBR 2010

Profitability expectations

- profitability expectations of businesses in Argentina have also risen this year; a balance of +33 per cent expect their profits to increase across 2010 compared with just -43 per cent 12 months ago
- the Latin American average has increased by 39 per cent, from just +6 per cent in 2009 to +45 per cent this year.

Figure 5: Profitability expectations: 2006-2010

Percentage balance of businesses indicating an increase against those indicating a decrease



	2006	2007	2008	2009	2010
Latin America	-	-	51	6	45
Argentina	20	6	16	-43	33

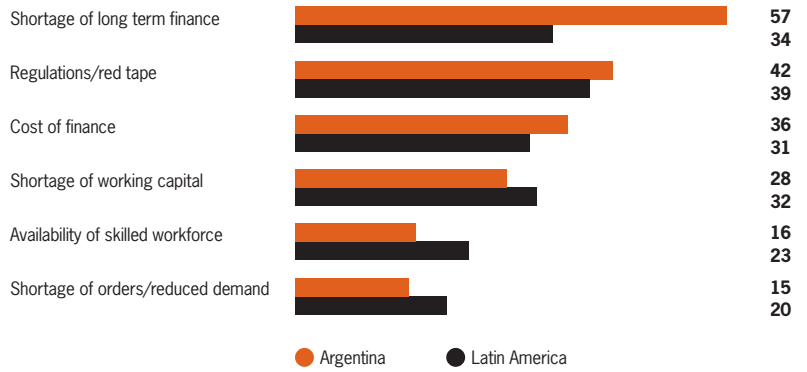
Source: Grant Thornton IBR 2010

Constraints

- a shortage of long-term finance has been cited as the major constraint restricting expansion for businesses in Argentina since 2008; this year it is cited as a major constraint by 57 per cent of businesses compared with 34 per cent of all businesses in Latin America
- regulations/red tape is viewed as the second greatest constraint in Argentina (42 per cent) but the greatest in Latin America as a whole (39 per cent).

Figure 6: Constraints on expansion

Percentage of businesses rating constraint 4 or 5 on a scale of 1 to 5 where 1 is not a constraint and 5 is a major constraint



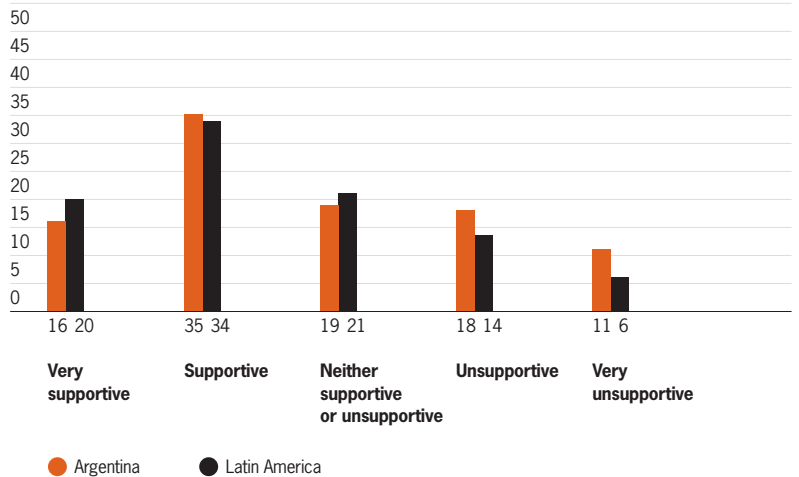
Source: Grant Thornton IBR 2010

Support of lender

- just over half of businesses in Argentina are happy with the level of support provided by lenders; 51 per cent class lenders as supportive or very supportive towards their business
- by comparison, 54 per cent of businesses across Latin America class lenders as supportive or very supportive towards their business
- 29 per cent of businesses in Argentina believe that lenders are unsupportive or very unsupportive of their business, compared to just 20 per cent regionally.

Figure 7: Level of support provided by lenders

Percentage of businesses

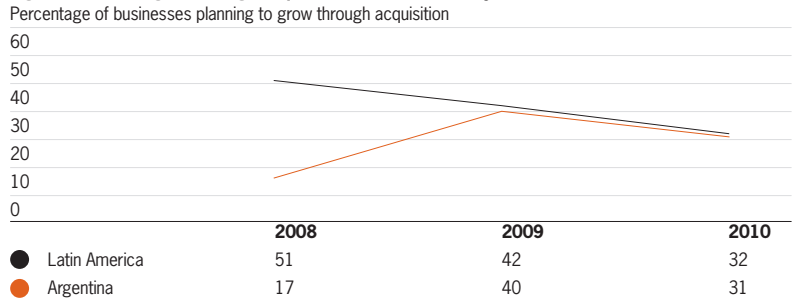


Source: Grant Thornton IBR 2010

Mergers & acquisitions

- the proportion of businesses in Argentina planning to grow through acquisition fell this year, from 40 per cent to below the regional average at 31 per cent
- however this is still well above the figure observed in 2008 (17 per cent)
- the Latin American average has fallen steadily from 51 per cent in 2008 to 32 per cent this year.

Figure 8: Plans to grow through acquisition in the next three years



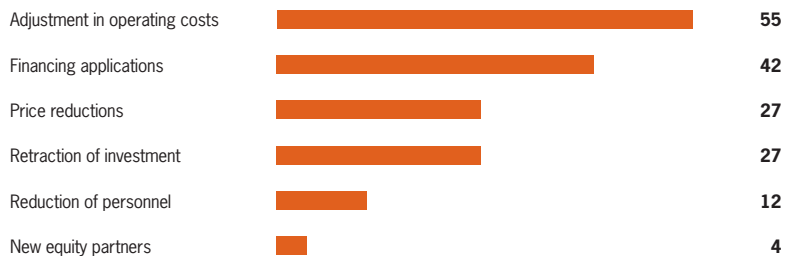
Source: Grant Thornton IBR 2010

Business strategy

- businesses in Argentina rate adjustment in operating costs (55 per cent) as the most important element of their current business strategy
- financing applications is second (42 per cent), ahead of price reductions and retraction of investment (27 per cent).

Figure 9: The most important business strategy measures

Percentage of businesses rating measure 4 or 5 on a scale of 1 to 5 where 1 is low and 5 is high



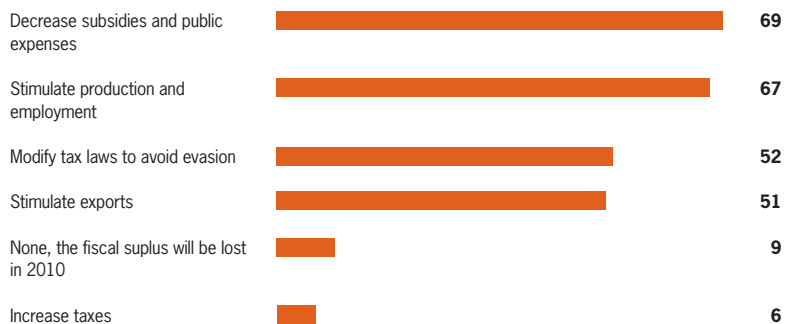
Source: Grant Thornton IBR 2010

The fiscal surplus

- two-thirds of businesses believe the fiscal surplus should be maintained by decreasing subsidies and public expenses
- a further 67 per cent believe that the fiscal surplus should be maintained by stimulating production and employment.

Figure 10: How to keep the fiscal surplus in 2010

Percentage of businesses

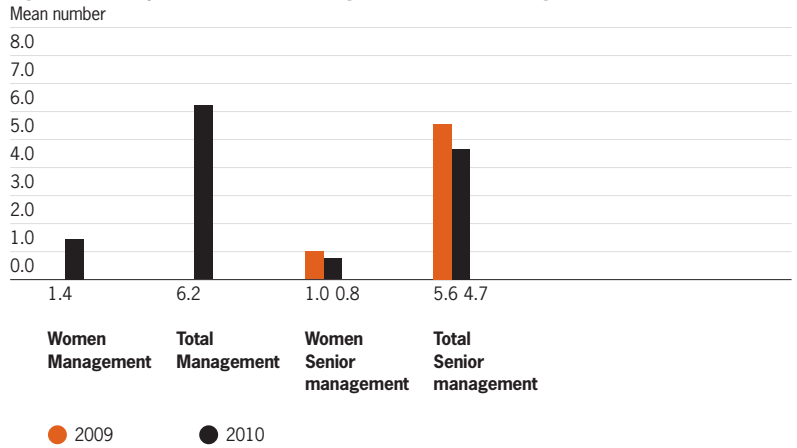


Source: Grant Thornton IBR 2010

Women in business

- the proportion of women in senior management positions within businesses in Argentina has fallen slightly this year to 17 per cent, from 18 per cent last year
- the proportion of women participating in the general management of businesses in Argentina is slightly higher at 23 per cent.

Figure 11: Participation of women in management and senior management



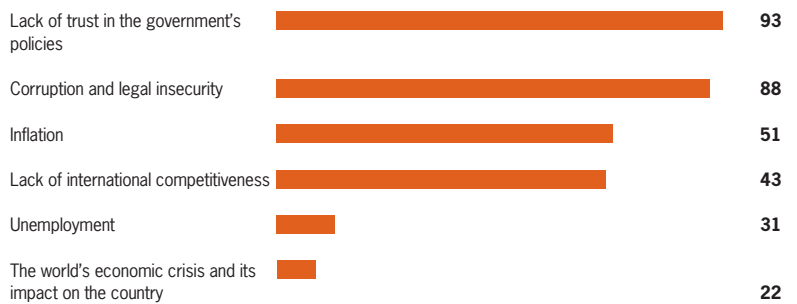
Source: Grant Thornton IBR 2010

The economy – looking forward

- a lack of trust in the government’s policy (93 per cent) is cited as the major issue facing the Argentinean economy
- this issue is rated just ahead of corruption and legal insecurity (88 per cent), whilst inflation is cited by just over half of businesses (51 per cent).

Figure 12: The major problems facing the Argentinean economy

Percentage of businesses rating problem 4 or 5 on a scale of 1 to 5 where 1 is not a problem and 5 is a major problem



Source: Grant Thornton IBR 2010

The Grant Thornton International Business Report (IBR) is an annual survey of the views of senior executives in privately held businesses (PHBs) all over the world. Launched in 1992 in nine European countries the report now surveys over 7,400 PHBs in 36 economies providing insights on the economic and commercial issues affecting a segment often described as the ‘engine’ of the world’s economy. In Argentina 150 businesses were surveyed across all industry sectors. These businesses ranged from small to large in size with total employment of 50-499.

To find out more about IBR and to obtain copies of reports and summaries visit: www.internationalbusinessreport.com. The site also allows users to complete the survey and benchmark their results against all other respondents by territory, industry type and size of business.

Participating economies

Argentina	Japan
Armenia	Malaysia
Australia	Mexico
Belgium	Netherlands
Botswana	New Zealand
Brazil	Philippines
Canada	Poland
Chile	Russia
Mainland China	Singapore
Denmark	South Africa
Finland	Spain
France	Sweden
Germany	Taiwan
Greece	Thailand
Hong Kong	Turkey
India	United Kingdom
Ireland	United States
Italy	Vietnam



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