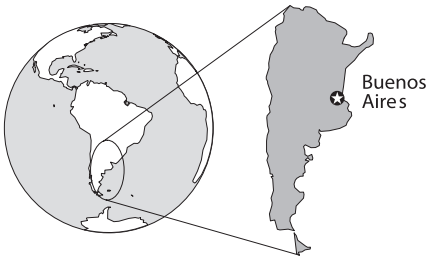


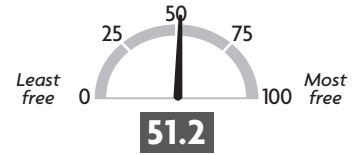
ARGENTINA



World Rank: **135**

Regional Rank: **23**

Economic Freedom Score



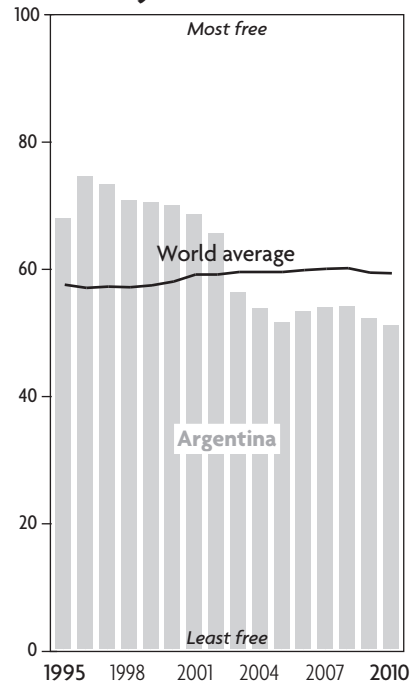
Argentina's economic freedom score is 51.2, making its economy the 135th freest in the 2010 *Index*. Its overall score has declined 1.1 points from the 2009 *Index*. Argentina is ranked 23rd out of 29 countries in the South and Central America/Caribbean region, and its overall score is below the regional and world averages.

Ten years of structural change have encouraged investment and diversified Argentina's productive structure. Public external debt has fallen to around 40 percent of GDP from 140 percent in 2003. Despite a contraction in 2009, the economy has grown by around 8 percent annually for five years.

However, institutional weaknesses, including onerous regulations, corruption, and a weak judiciary, could make the high growth rate unsustainable. The state's role in the economy has grown. Financial freedom remains constrained by government influence, political interference with an inefficient judiciary hinders foreign investment, and there are reports of official and informal obstructions to due process. The tax burden is relatively low, primarily because of avoidance and evasion. Despite efforts to reform labor regulations, non-wage costs limit flexibility.

BACKGROUND: Argentina has been politically unstable since World War II, and three democratically elected presidents in the past quarter-century have left office early. Cristina Fernandez de Kirchner succeeded her husband as president in late 2007 and retained most of his cabinet. Her popularity began a steady decline in early 2008 after attempts to impose steep export taxes on soybeans and other commodities. The global economic downturn later in the year added to resentment of heavy-handed government interventionism, illustrated by the seizure of more than \$25 billion in private pension funds to replenish the public treasury. Argentina is South America's second-largest country and has vast agricultural and mineral resources. Agriculture accounts for more than half of exports; food and beverage processing, chemicals, petrochemicals, and automotive manufacturing are the most important industrial sectors.

Country's Score Over Time



Quick Facts

Population: 39.9 million

GDP (PPP): \$571.5 billion

7.0% growth in 2008

8.3% 5-year compound annual growth

\$14,333 per capita

Unemployment: 7.9%

Inflation (CPI): 8.6%

FDI Inflow: \$8.9 billion

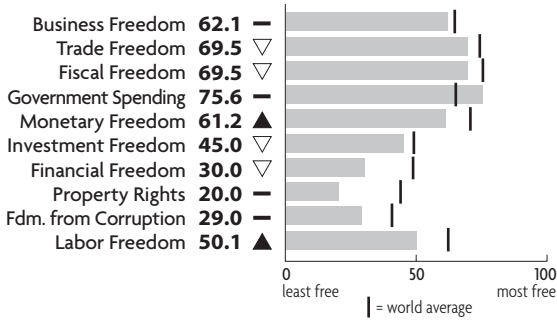
2008 data unless otherwise noted

Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

ARGENTINA'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 62.1

Argentina's regulatory environment remains burdensome, inconsistent, and not fully transparent. Starting a business takes an average of 27 days, compared to the world average of 35 days. Obtaining a business license requires more than the global average of 18 procedures and 218 days.

TRADE FREEDOM — 69.5

Argentina's weighted average tariff rate was 5.3 percent in 2008. Import and export bans and controls, restrictions on trade in services, tariff escalation, import and export taxes and fees, minimum and reference pricing, regulations and licensing provisions, sanitary and phytosanitary rules, subsidies, restrictions on ports of entry, domestic preference in government procurement, and issues involving enforcement of intellectual property rights add to the cost of trade. Twenty points were deducted from Argentina's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 69.5

Argentina has relatively high tax rates. The top income and flat corporate tax rates are 35 percent. Other taxes include a value-added tax (VAT) and a wealth tax. In the most recent year, overall tax revenue as a percentage of GDP was 24.5 percent.

GOVERNMENT SPENDING — 75.6

Total government expenditures, including consumption and transfer payments, are moderate. In the most recent year, government spending equaled 28.5 percent of GDP. In November 2008, the private pension system was nationalized. Price setting still prevails in energy and transportation, but some subsidies have been eased because of growing public debt and shrinking revenues.

MONETARY FREEDOM — 61.2

Government statistics show inflation to be relatively high, averaging 8.9 percent between 2006 and 2008; private measures put the annual rate as of mid-2009 even higher, at 10 percent–15 percent. The government subsidizes or regulates prices of electricity, water, retail-level gas distribution, urban transport, and local telephone services. It also pressures companies to fix prices and wages to contain rising inflationary pressures. Twenty points were deducted from Argentina's monetary freedom score to adjust for measures that distort prices.

INVESTMENT FREEDOM — 45

Foreign and domestic investors have equal rights to establish and own businesses, but foreign investment is prohibited in a few sectors. Foreign exchange and capital flows are subject to restrictions. Foreign companies may send profits abroad; export proceeds must be repatriated to Argentina. Inflows of foreign funds from certain private-sector debt, inflows for most fiduciary funds, and investments in public-sector securities purchased in the secondary market are restricted. Foreign and domestic institutional investors are restricted to total currency transactions of \$2 million per month; transactions by institutions acting as intermediaries do not count against this limit. Investments may be expropriated or nationalized only for public purpose and upon prompt payment of compensation at fair market value. Corruption, weak institutions, and uncertain creditor, contract, and property rights are serious deterrents to investment.

FINANCIAL FREEDOM — 30

Argentina's largest bank is state-owned and the sole financial institution in some areas. Since the 2001–2002 debt default and banking crisis, regulation and supervision have become more prudential. The banking sector has expanded faster than the overall economy since 2005 but is struggling to regain confidence and stability. Mortgages and personal loans are increasing, and non-performing bank loans are declining. International banks that have returned have not recovered their former prominence. Capital controls remain in place. The stock exchange is active, but the investor base is small. Nationalization of private pension funds in late 2008 triggered widespread outrage.

PROPERTY RIGHTS — 20

The executive branch influences Argentina's judiciary. The courts are notoriously slow, inefficient, secretive, and corrupt, and many foreign investors resort to international arbitration. In November 2008, the government seized more than \$25 billion in private pension funds to replenish the public treasury. Patent protection is problematic, and pirated copies of copyrighted products are widely available. Government manipulation of inflation statistics has caused foreign and domestic bondholders to lose billions in interest payments.

FREEDOM FROM CORRUPTION — 29

Corruption is perceived as widespread. Argentina ranks 109th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Foreign investors complain about government and private-sector corruption. Money laundering, trafficking in narcotics and contraband, and tax evasion plague the financial system.

LABOR FREEDOM — 50.1

Inflexible labor regulations continue to hinder employment creation and productivity growth. The non-salary cost of employing a worker is high, and dismissing a redundant employee can be costly.