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**External dimension of the internal market and financial services**

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**ARGENTINA**

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## Introduction

GDP in Argentina reached 255 bn ARS (ECU<sup>1</sup> 229 bn) in 1993. Real GDP growth was 5%. With a population of 33.5 mn this represented 7,622 pesos per capita (ECU 6,850).

## Overview

In 1991, the Argentine government began to pursue a clear policy of stabilisation of the economy and launched the Convertibility Plan, which included setting a fixed exchange rate with the US dollar coupled with 100% complete backing in reserves. The success of the Convertibility Plan has been underwritten by sufficient capital inflows mitigating the effects of an increasingly overvalued peso.

In 1992, Argentina joined The Brady Plan which signalled its return to the international financial community. Since 1991, the overall economy has significantly strengthened both in the private and public sectors.

## CREDIT INSTITUTIONS

Argentina has made considerable efforts to restore international confidence in its banking industry following the period of economic mis-management in the 1980's. The Central Bank adopted appropriate prudential requirements including revised minimum capital requirements which exceed Basle recommendations in some instances.

Forty-six percent of deposits in Argentina are held by the public sector banks. These are heavily regulated vis-à-vis the private sector banks which remain relatively modest in size, with an average share of deposits of around 6%. Public sector banks enjoy significant advantages in the form of exclusive rights to public sector deposits as well as the right to administer public funds.

The market structure in Argentina is concentrated, as can be seen in the statistic that 40% of deposits are held by three public sector banks. The total number of banks in Argentina is 169.

The result of the government's policy on re-negotiation and normalisation of its external debt, combined with privatisations, have resulted in a structural fiscal surplus of the consolidated public sector, although considerable provincial debt remains. The public sector has therefore ceased to be a major user of new credit.

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<sup>1</sup> Exchange rates :  
At 1993 year end 1 ECU = 1.114 ARS  
Annual average 1 ECU = 1.169 ARS

**Table 1 Banking sector indicators - Year 1993**

	Assets (bn ARS)	Deposits (bn ARS)
Total private banks of which :	48,3	28,5
. Total foreign owned banks	12,9	7,8
Total state owned banks :	36,4	18,5

Source : Central Bank of the Argentina Republic (BCRA)

**Table 2 Banking sector indicators. Number of banks - Year 1994**

Total private banks (domestic and foreign) of which :	135
. Investment banks	1
. Commercial banks	134
Total foreign owned banks	31
Total state owned banks of which :	34
. National banks	2
. Provincial banks	5
. Municipal banks	23
. Banco Nacional del Desarrollo	1
. Banco Hipotecario Nacional	1
. Banco de Inversiones de Santa Fe	1
. Caja Nacional de Ahorro y Seguro	1

Source : Central Banks of the Argentine Republic (BCRA)

Source : Central Bank of the Argentine Republic (BCRA)

### Foreign banks

In 1994 there were 31 foreign banks established in Argentina. Foreign bank overall held 16% of all bank deposits and 15% of all bank assets at the end of 1993.

## **MARKET ACCESS AFFORDED TO EU CREDIT INSTITUTIONS**

### **Establishment**

In 1994, the Argentine Central Bank reversed a ten year policy and withdrew the ban on issuing new bank licenses. In addition, the legal differences between domestic and foreign banks were eliminated, allowing foreign banks to set up either branches or subsidiaries. No legal restrictions subsist, since 1994, in respect of establishment, branching or acquisitions of foreign banks.

### **Activity**

Lending transactions are limited, for prudential reasons, to the capital of Argentinean branch but there are no restrictions other than prudential on foreign banks on funding activities or their introduction of new financial products.

Once established in Argentina, a foreign bank becomes eligible to apply to the Central Bank to open branches in other parts of the country.

The overall effect of the changes has allowed greater competition to be introduced into the market notwithstanding a high level of concentration. Most EU owned or controlled credit institutions report that the conditions for operation in Argentina allow administrative and management flexibility and are generally fair and transparent, but note nonetheless that the public sector banks enjoy privileges and rights not available to private sector banks.

## **INSURANCE**

### **Introduction**

At the end of 1993 there were 195 insurance companies operating in Argentina, of which 11 were foreigners. Life premiums amounted to ARS 672 mn (0.2% of GDP) and non-life premiums to ARS 3261 mn (1.2% of GDP). Total premiums per head amounted to ARS 1167 (105 ECU).

**Table 3 Indicators of Insurance Business - Year 1993**

	Life	Non-life	Total
Total premiums (mn ARS) of which	672.2	3261.9	3934.2
· Premiums underwritten by foreign insurance companies	15.04	17.49	32.53
· Premiums as % of GDP	0.26	1.28	1.54
· Premiums per capita (in ARS)	19.9	96.8	116.7
Number of insurance companies of which	n.a.	n.a.	195
· Foreign insurance companies	n.a.	n.a.	11
Total assets of insurance companies (mn ARS) of which	n.a.	n.a.	4465.5
· Assets of foreign insurance companies (mn ARS)	n.a.	n.a.	52.7

Source : Superintendencia de Seguros

### MARKET ACCESS AFFORDED TO EU INSURANCE UNDERTAKING

Foreign insurance companies have non-discriminatory treatment on new establishment of subsidiaries and branches. However, full national treatment is granted for those companies already established.

### SECURITIES

#### Introduction

The securities sector in Argentina is relatively modest in comparison to the banking sector. Companies turn more frequently to bank borrowing rather than securities issues. Public sector securities issues are more frequent and tend to dominate the market in the absence of significant private issues. There are several stock markets in Argentina (La Plata, Cordoba, Mendoza y Rosario) of which the principal is located in Buenos Aires, the Bolsa de Comercio (BDC). In addition to the Bolsa de Comercio, there is an OTC securities market, the Mercado Abierto Electronico (MAE). It was agreed between the MAE and the BDC in 1993 that the MAE will trade exclusively in bonds leaving the stock market to trade principally in stocks. There are, in addition, a few small futures markets in currencies, stocks and commodities.

Argentina's recent economic growth, privatisation programme and economic deregulation have combined to produce a boom in the Buenos Aires Stock Exchange. Market capitalisation rose from \$ 3.3 bn as of the end of 1990 to \$ 44 bn by the end of 1993.

### MARKET ACCESS AFFORDED TO EU INVESTMENT FIRMS

In 1994, there were 197 licensed brokerage houses and securities firms.

Foreign investors may purchase shares in firms quoted on the stock exchange without prior government approval and with no limits on volume.

	1992	1993
Turnover in equity shares (ARS bn)	15.7	49.6
Turnover as % of GDP	6.9	19.4
Capitalisation equity shares (ARS bn)	18.6	43.9
Number of listed companies	170	165

Source : FIBV

### Establishment

In the evolving markets of bond issuance, mutual funds and pension fund management, there are no restrictions on access ; no distinction is drawn between domestic and foreign firms.

### Activity

In bonds, the Argentine market is dominated by public sector securities. The 1993 applications for corporate bonds totalled \$427.8 million from 19 companies. Argentina places no restrictions on the bonds which may be sold or underwritten.

Private pension funds began operations in August 1994 and the annual inflow currently amounts to 2.5 to 3.0 million pesos. Private pension fund management companies may be set up by banks, securities firms, life insurers and other financial institutions on the basis of an license granted from the Argentine Superintendancy. On September 1994 there were 25 licensed private pension fund managers.

The Argentina financial services sector is largely open and transparent with no market access restrictions. The privileges of the public sector banks inevitably distorts the competitive structure of this sector, however.