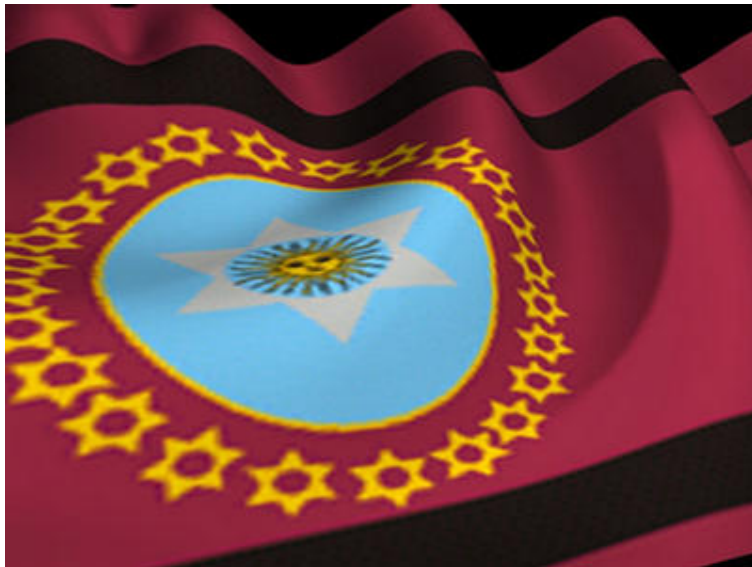


SALTA
- ECONOMIC PROFILE -



September 2010

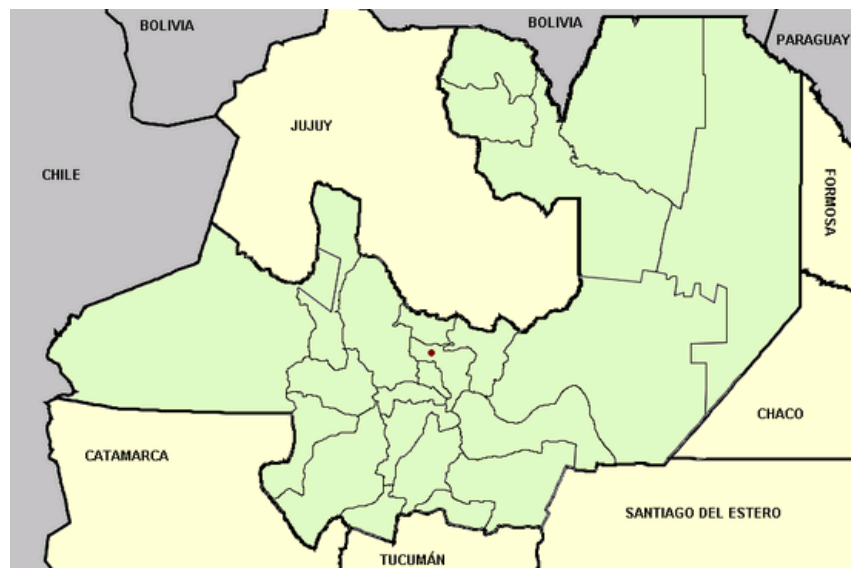
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Physical Characteristics

Salta is one of the 23 provinces (states) that make up the Republic of Argentina. It is located in the northwest of the country. To the north it has international borders with Bolivia and Paraguay and to the west with Chile.

It covers a total surface of **155,488 km²** equivalent to some 60,034 square miles (roughly the size of the state of Georgia or half the size of the State of New Mexico).



Demographics

According to the national census total population was at 1,079,051 in 2001. We estimate a population growth of 1,9% per year leading to some **1,3 million inhabitants by the end of 2011** (some 8,4 inhabitants per km²).

One third of the population is younger than 18 years old and another third is between 18 and 34 years old.

Its namesake capital is the city of Salta with an estimated population of 600,000; making it Argentina's eighth largest city. Population is distributed unevenly throughout the state, with almost half concentrated in and around the city of Salta.

General Information

Local currency is the Argentine peso, which trades between 3,91 and 3,96 pesos / USD as of August 22, 2010. The Argentine Central Bank is following a general policy of bolstering the Argentine peso; intervening constantly in the exchange market.

Economic Structure

Salta province represents roughly 3% of the national population but accounts for only 1% of national GDP. Informal employment is usually blamed for this difference. However, according to our estimates this explains only some 20% of the gap. The rest is largely due to a lack of local industrial production and a strong focus on primary products (mostly mineral and agricultural). Salta province is generally considered as one of the least industrialized provinces of Argentina.

Local economy is based on

- **agriculture** (tobacco, soy beans, corn, sugar cane, bananas, citrus fruits, beans, vine, potatoes and cotton)
- **cattle breeding** (mostly bovine and some caprine and camelids in mountain areas)
- **mining** (gold, copper, silver, lead, tin, lithium, borax, niter, potassium, etc.) **and hydrocarbon resources** (crude oil, butane and natural gas)

The existing industrial production is largely based on processing local agricultural products (*f.ex. sugar refinery, wine production*), directly related to livestock farming (*f.ex. dairy production*) or manufacturing based on natural resources (*f.ex. oil refinery, detergent production*).

Especially in the capital city there is a wide array of general services and commerce as well as financial products activity. Tourism is shaping up as a potential main pillar for the local economy. Salta province is ideally located for generation of solar energy.

Based on our estimates local wine production is expected to reach some 15 millions liters by 2011 (about 1% compared to the wine produced in the Argentine state of Mendoza or 0,5% when compared to California's production in 2009).

Business Climate

Since 2007 the main indicator of the local business climate (“Índice de Confianza Económica”) is compiled by our foundation. It is based on a highly representative poll with some 250 local businessmen from all economic sectors.

Overall business confidence in Salta took a dive during the world-wide financial crisis. A sharp fall from July 2008 to November 2008 occurred followed by several months of stagnation at low level. Recuperation of local business confidence started one year ago, in July 2009.



Since then the outlook has generally improved and pessimism receded. Business confidence has reached pre-crisis levels again by the beginning of 2010. However, by mid 2010 the index started dropping again. Main reasons for this are growing concerns over the inflation, fiscal pressure, continued difficult access to credit and a lack of policies for economic development. The only sector with a highly positive development in July 2010 has been Tourism (and related services). All other sectors have seen a decrease in business confidence. In the Commerce, Construction and Health Care sector it is as low as it was during the financial crisis (November 2008 / March 2009).

Income Structure

Aggregate monthly wages were at 328 million pesos by the end of 2009 (some 86 million USD, based on an December 2009 exchange rate of 3,80 pesos / USD).

Almost 45% of aggregate wages correspond to the public sector. This represents a strong growth over the last three years and we expect this trend to continue (especially with national and state elections ahead in 2011).

SWOT analysis

This analysis focuses on current (as of August 2010) internal and external factors that are favorable and unfavorable to foreign investments in Salta province.

Strengths:

- Abundance of natural resources
- Well-developed transportation infrastructure
- Good availability of skilled labor
- Strategic location
- Low crime rate

Weaknesses:

- High labor costs (and average productivity)
- Uncertain economic data (inflation, GDP, etc.)
- Insufficient local policies for economic development
- Bureaucratic public authorities
- High transport costs

Opportunities:

- Hot spot for natural resources and energy
- Good availability of farmland
- Great assets and infrastructure for Tourism
- Lack of industrialization
- Low competitiveness

Threats:

- Challenges to foreign ownership of land
- Strong price increases (PPP) and inflation
- Growing legal insecurity

Sectors

Looking at individual sectors of the local economy we make the following observations / recommendations:

Agriculture (and Cattle Breeding) Overall very good outlook for agriculture products despite high export duties. However, uncertainties remain concerning operations set-up by foreigners and overcoming of high bureaucratic hurdles for creation of arable land. *Good business confidence.*

Commerce Generally high prices (by US standards) for consumer goods provide opportunities in this sector. On the downside there are high import duties and triple taxation (national, state and municipal level). *Overall low business confidence.*

Construction Being strongly dependant on public works this sector has been through two difficult years. Activity in the private sector is mostly small scale operations. High barriers of entry. *Overall low business confidence.*

Financial Services Private sector loans are growing and high interest rates make up for default risks and taxation. Low barriers of entry but strong competition. *Average business confidence.*

Tourism Very few professional big players with some national firms starting to set-up shop. Good outlook in terms of available assets but short average duration of stay. Services mostly geared towards national tourists. *Good business confidence.*

**Industrial
Production**

Opportunities exist due to undersized local development and abundant offer of raw materials. However, local demand is limited due to low population density and transport costs are high. *Average business confidence.*

**Legal
Services**

Abundant offer of legal services provided by small groups of lawyers with a wide area of specialization. No big law firms like in Buenos Aires. *Average business confidence.*

Mining

Great potential due to large quantities of natural resources. Changing state and national politics make long-term planning difficult. High barriers of entry. *Average to good business confidence.*

Health Care

Highly developed sector with well trained professionals but growing tendency towards general health-care make private endeavors more difficult; the only exception being cosmetic surgery. *Overall low business confidence.*

Transportation

Sector of strategic importance dominated by land based freight forwarding companies especially as long-distance train services are missing; high labor costs and extremely vocal trade-union. *Average business confidence.*

Internet

Please check our Spanish web-site for further information

[http:// WWW.FEDECAR.ORG](http://WWW.FEDECAR.ORG)

