

## Argentina

The Argentine economy again performed well in 2011, driven by all the components of aggregate demand. This is similar to what happened in 2010, which saw growth at 9.2%. Several of the expansionary policies introduced in response to the international crisis were maintained in 2011, resulting in an annual GDP growth rate of 9.5% for the first half of the year. Even though this pace is expected to slow in the second half of the year, GDP will expand by at least 8.5% in 2011. Including a 1.5% carry-over effect, the economy is projected to grow by about 5% in 2012.

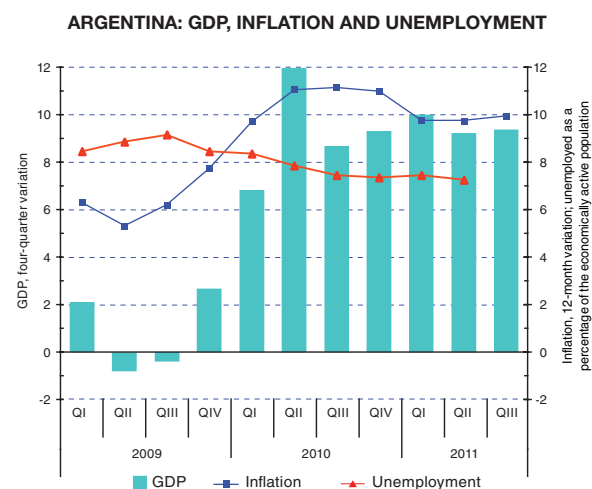
The unemployment rate fell in the first part of the year; in the third quarter it was 7.2%, slightly lower than the 7.4% recorded in the first quarter. During the same period the employment rate went up by almost 1 percentage point. Thus, the employment elasticity of GDP rebounded somewhat compared with 2010 but remains below pre-crisis levels.

On the fiscal level, the government again opted to use public-sector resources to meet the funding needs of the national treasury, especially those of the central bank and the National Social Security Administration (ANSES). Between January and September, the central bank transferred US\$ 6.9 billion (approximately 1.6% of GDP) to the national treasury to service the public external debt; external payments were expected to total US\$ 9.678 billion in 2011. During 2010, external public debt obligations were met through a drawdown of international reserves totalling US\$ 6.569 billion (1.8% of GDP). Besides these funding operations, transfers of central bank profits were also considerable in 2011, at 0.2% of GDP, but were lower than in 2010 when they represented 1.4% of GDP.

The government maintained an expansionary fiscal policy in 2011. Through September, primary spending rose by an annual rate of 35.3% and outpaced the 28.7% increase in revenues during the same period.

In the first nine months of the year, rising public sector tax revenues essentially kept pace with the expansion of nominal GDP (30%). Revenues from social security contributions rose by 33.2% during the same period, mainly owing to wage increases and a higher employment rate.

Current expenditure grew by 34.3% year-on-year between January and September. Some of the largest increases were seen in social security benefits and current transfers to the private sector, which went up by annual rates of 36.7% and 36.8%, respectively, during the same period. In terms of current transfers to the private sector, the largest increases in spending went to subsidies for public transport and household gas and electricity consumption, especially in the metropolitan area of Buenos Aires. Towards the end of the year, the



Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

government announced cuts in these subsidies, starting with certain branches of economic activity and residential areas with the highest purchasing power.

Changing revenue and expenditure patterns have driven the public sector financial balance down from a positive 0.2% of GDP in 2010 to a deficit in the area of 0.3% of GDP in 2011.

According to figures from the end of March, the debt-to-GDP ratio went up by 1 percentage point compared with the end of 2010, to 46.3%. With public sector resources being used as a source of funding, the proportion of public debt held by the private sector fell by 1.2 percentage points in the same period. Treasury debt held by other public sector bodies represents approximately half of the total owed by the national treasury.

Inflation, while remaining above the regional average, stabilized in 2011 after increasing in 2010 compared with 2009. This can be attributed in large part to the easing of international food prices. While the high level of economic activity and aggregate demand persisted throughout 2011, the nominal exchange rate and, fundamentally, international food prices (which had helped fuel inflation in 2010), remained relatively stable or trended down in 2011. The nominal devaluation rate of the peso (5.0% between January and October 2011) was similar to the same period in 2010. And the food price index fell by 6.5% during the same period, according to data from the Food and Agriculture Organization of the United Nations (FAO). By contrast, wage negotiations led to a 27.4% jump in average wages between January and September 2011, which was greater than the 21.2% rise recorded in 2010.

In the first nine months of 2011, the registered private sector wage increase outstripped the rise for unregistered workers. Public-sector wages rose 10 percentage points less than the average wage did, going up by 16.6% versus the 25% minimum wage hike during the same period.

In contrast with the pattern seen in the recovery of activity in 2010, in the first six months of 2011, the services sectors showed stronger growth than the goods-producing sectors (9.2% and 8.4%, respectively).

Of the goods-producing sectors, those that are natural-resource-intensive (agriculture and mining) were the only ones that saw a year-on-year decline in the first half of the year. Soybean production in the 2010/2011 growing season was 7.2% lower than for the previous season, when production reached a record high following an intense drought that had hit all crops in 2009. The drop in soybean production can also be explained, in part, by a dramatic increase (68%) in wheat production in the last growing season.

Manufacturing grew by 7.7% in the first three quarters of the year. All branches of economic activity

#### ARGENTINA: MAIN ECONOMIC INDICATORS

	2009	2010	2011 <sup>a</sup>
<b>Annual growth rates</b>			
Gross domestic product	0.9	9.2	9.0
Per capita gross domestic product	-0.2	8.1	8.0
Consumer prices	7.7	10.9	9.5 <sup>b</sup>
Real average wage <sup>c</sup>	11.7	12.9	20.0 <sup>d</sup>
Money (M1)	15.9	32.7	51.8 <sup>b</sup>
Real effective exchange rate <sup>e</sup>	2.4	-1.4	2.8 <sup>f</sup>
Terms of trade	-4.6	-0.4	6.8
<b>Annual average percentages</b>			
Urban unemployment rate	8.7	7.7	7.2 <sup>g</sup>
National public administration overall balance / GDP	-0.8	-0.1	-0.7
Nominal deposit rate <sup>h</sup>	11.8	9.4	10.0 <sup>i</sup>
Nominal lending rate <sup>j</sup>	21.3	15.1	15.8 <sup>i</sup>
<b>Millions of dollars</b>			
Exports of goods and services	66 710	81 246	99 360
Imports of goods and services	49 375	67 942	86 644
Current account balance	11 085	3 016	1 103
Capital and financial balance <sup>k</sup>	-11 462	1 142	-7 248
Overall balance	-377	4 157	-6 145

**Source:** Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.

<sup>a</sup> Preliminary estimates.

<sup>b</sup> Twelve-month variation to October 2011.

<sup>c</sup> Manufacturing sector. Registered workers in the private sector.

<sup>d</sup> Estimate based on data from January to October.

<sup>e</sup> A negative rate indicates an appreciation of the currency in real terms.

<sup>f</sup> January to October average, year-on-year variation.

<sup>g</sup> Estimate based on data from January to September.

<sup>h</sup> Fixed-term deposits, all maturities.

<sup>i</sup> January-November average.

<sup>j</sup> Local-currency loans at fixed or renegotiable rates, signature loans of up to 89 days.

<sup>k</sup> Includes errors and omissions.

flourished, except oil refining, which declined by 5.2%. The automotive industry expanded by 20% during the aforementioned period, on top of the 40% growth it recorded during the recovery in 2010. As a result of the increase, 23% more vehicles were produced. Sixty-two percent of total output was exported (similar to the proportion exported in 2010); Brazil was the leading destination, receiving more than 80% of exports. Even excluding the automotive industry, the mechanical engineering field saw substantial growth of 13.9%.

The balance-of-payments current account posted a surplus for the first half of the year, but it fell almost US\$ 2 billion short of the surplus for the same period in 2010. The leaner current account surplus is attributable above all to the sharp upturn in imports (which showed cumulative growth of 36% in the first nine months of 2011 compared with the same period in 2010), although a certain decline in the GDP elasticity of imports is expected. Exports grew by 25% during the same period. Investment payments, in particular profit and dividend remittances by foreign companies to their parent corporations (which held steady at about 10% of the value of exports), also contributed to reducing the current account balance.

Capital outflows, which had been fluctuating since mid-2007, picked up during 2011. External asset formation by the private sector averaged about US\$ 7 billion in the first half of each year during the period 2007-2010; outflows during the first half of 2011 totalled nearly US\$ 10 billion. Outflows were particularly heavy in the third quarter, leading the authorities to implement measures to restrict them during the fourth quarter of 2011. These measures, which at first led to exchange market tensions, included eliminating the mining and oil companies' exemption from the obligation to sell the foreign-currency proceeds of their exports in the local market. They also required that all citizens seeking to exchange currency provide the Federal Public Revenue Administration (AFIP) with proof of the origin of the money.

Capital outflows impacted monetary policy. With a view to checking the decline in demand for local

financial assets, the monetary authority raised the monetary policy rate. Central bank bills went up by 200 basis points between the second and third quarters of 2011 and topped 13%; the rates on time deposits by individuals rose by 300 basis points during the same period.

By late November 2011, the lower balance-of-payments current account balance, the use of international reserves to pay external public debt and rising capital outflows had driven international reserves down by about 10%, to some US\$ 46 billion (10.6% of GDP), which is still considerable in relation to the main economic aggregates. In fact, by mid-2011, total external debt (public and private) was equivalent to 32.2% of GDP, representing a drop of 4.3 percentage points compared with the same period the previous year —the lowest level in the past 15 years.