Argentina

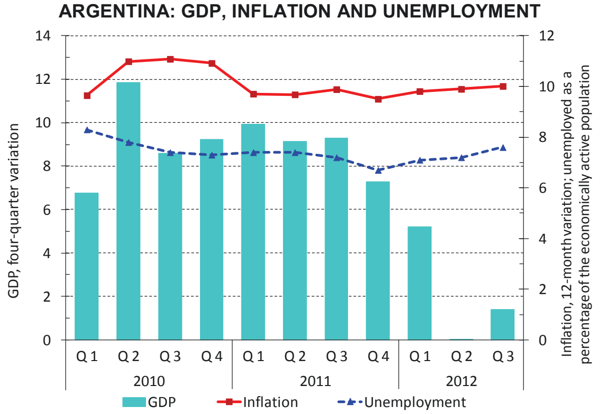
Argentina's economy slowed in 2012, largely because of the contracting global economy (especially the cooldown in Brazil, which impacted Argentina's manufactured exports) and falling agricultural output because of the drought. Among the components of aggregate demand, the external sector declined and investment recorded a slight gain; public and private consumption were the main drivers of the economy. As of September, cumulative annual GDP growth stood at 2.1%. For 2012 as a whole, GDP growth is expected to be in the area of 2.2%. Growth is expected to recover in 2013, to some 3.9% for the year, thanks to improved agricultural output (chiefly, soya and corn), an upturn in Brazil and the consistently expansionary fiscal policy stance.

On the economic policy front, the impact of structural measures implemented in 2012 extends beyond the short term in the fiscal and monetary spheres and the external sector of the economy. The more significant actions include renationalizing a majority holding (51%) in the oil company Repsol YPF, introducing a set of measures aimed at curbing foreign currency hoarding by residents and restricting the use of foreign currency in local commercial transactions (real estate sector), and making changes to the central bank charter that, by broadening the scope of monetary authority objectives, allowed the implementation of policies for regulating and channelling lending and raising the ceiling on transfers of funding to the national treasury.

On the fiscal front, the administration maintained an expansionary policy stance throughout 2012, based on cumulative annual growth in primary spending that, at 29% to September, outpaced the 26.2% rise in revenue during the same period. National public sector tax revenue grew by a cumulative annual 24%; revenue from social security contributions rose 30.1% on the strength of wage hikes and a higher employment rate. Current expenditure posted a year-on-year increase of 31.6% owing mainly to expanding wages and social security benefits (up by an annual 28.7% and 40.8%, respectively, during the same period). Transfers to the private sector (which had soared during the past few years) slowed during the first nine months of 2012 and increased by just 18% as subsidies (especially for public transport and residential gas and power consumption) were cut back. The 2013 budget message lays out a nominal 11.4% decrease in government transfers to private companies.

National public sector revenue and expenditure patterns were a drag on the financial balance: the deficit went from a cumulative 0.4% of GDP as of September 2011 to the equivalent of nearly 1.0% of GDP for the same period in 2012. However, data from the 2013 budget message point to a deficit of 1.6% of GDP at year end. This figure is very similar to the one for the previous year and would mean an even larger increase in the deficit for the fourth quarter of the year. As it did in 2011, the administration once again drew on public sector resources (mainly from the social

ARGENTINA: GDP, INFLATION AND UNEMPLOYMENT



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

assistance sustainability warranty fund and the central bank) to meet national treasury funding needs. The central bank, in addition to the usual transfer of profits, transferred international reserves to meet external national treasury commitments and raised the ceiling for temporary advances from the bank to the treasury. These temporary advances reached a cumulative total equivalent to 5.3% of GDP in October 2012, compared to 3.4% of GDP in October 2011.

According to data as of late June, the national public-debt-to-GDP ratio was down from year-end 2011 and stood at 41.5%. Because of the sources of funding (public sector agency resources), the proportion of debt held by the private sector fell by 0.9 percentage points during the period, to 13% of GDP. An amount equivalent to 9.4% of GDP is denominated in foreign currency.

On the monetary policy front, the main market reference rates fell during 2012 compared with the levels seen in the closing months of 2011 (a period of exchange rate tension). Monetary base expansion, at a cumulative annual 34% to October and 38.2% year-on-year between October 2011 and October 2012, outstripped nominal GDP growth. Among the factors driving monetary base expansion were currency purchases and, to a lesser extent, public sector funding. Monetary aggregates M2 and M3 rose at an average yearly rate of 31% and 30%, respectively, during the same period and grew by 34.3% and 33.5%, respectively, between October 2011 and October 2012.

National-currency-denominated lending to the private sector continued to fuel most of the growth in the money supply, posting a nominal increase of 37.5% between October 2011 and October 2012 to reach the equivalent of 14% of GDP. This jump was due in part to the credit line for productive investment announced by the central bank, which requires that financial institutions allocate, at least, an amount equivalent to 5% of the monthly average of daily peso-denominated non-financial private sector deposit balances as of June 2012 for medium- and long-term productive lending at an interest rate not to exceed 15% per annum. Fifty percent of this funding must be channelled to micro- small and medium-sized enterprises. Foreign-currency loans to the private sector, which primarily go to the export sector, declined by 38.6%, largely because of the drop in dollar deposits in the financial system. As for exchange-rate policy, the pace of nominal depreciation of the peso speeded up slightly between September 2011 and September 2012, with a loss of 11% against the United States dollar. In real terms, though, the exchange rate continued its appreciation trend.

ARGENTINA: MAIN ECONOMIC INDICATORS

	2010	2011	2012 [a]
		Annual growth rates	
Gross domestic product	8.2	7.9	1.3
Per capita gross domestic product	10.9	9.5	10.2
Consumer prices	12.9	20.3	18.2 [b]
Real average wage [c]	27.1	58.6	31.5
Money (M1)	-0.8	1.0	-5.5 [d]
Real effective exchange rate [e]	-0.4	6.7	-3.5 [f]
Terms of trade			
		Annual average percentages	
Open urban unemployment rate	7.7	7.2	7.3
Central government overall balance / GDP	-0.1	-2.3	-1.6
Monetary police rate	12.3	11.8	12.7 [g]
Nominal lending rate [h]	15.2	17.7	19.4 [g]
		Millions of dollars	
Exports of goods and services	81 689	99 431	97 591
Imports of goods and services	68 571	88 464	85 319
Current account balance	2 791	-307	1 487
Capital and financial balance [i]	1 367	-5 801	-2 721
Overall balance	4 157	-6 108	-1 234

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Estimates.
[b] Twelve-month variation to October 2012.
[c] Registered private-sector workers.
[d] Year-on-year average variation, January to September.
[e] A negative rate indicates an appreciation of the currency in real terms.
[f] Year-on-year average variation, January to October.
[g] January-October average.
[h] Local-currency loans at fixed or renegotiable rates, signature loans of up to 89 days.
[i] Includes errors and omissions.

The figures available for the first half of 2012, disaggregated by economic sector, show a 5% gain for service-producing sectors and a 2% decline for goods-producing sectors. Among the latter, manufacturing and construction saw modest growth (1.2% and 0.5%, respectively) while agriculture posted a 16% year-on-year decline that explains the lower figures for this sector. Agricultural output was lower than in 2012, with soya down by 18%, corn off by 12%, wheat declining by 13% and sunflower seeds down by 9%. Noteworthy among the service-producing sectors was the 21% growth in financial intermediation during the first half of the year, boosted by peso-denominated private-sector time deposits and by lending to the private sector.

Manufacturing fell by 1.3% during the first three quarters of the year. Among the subsectors with year-on-year increases were tobacco products and chemicals (both up by 3.8%); the latter was boosted by the 7.5% gain in pharmaceuticals. The base metal and automobile industries saw declines of 7.6% and 11.7%, respectively. The drop posted by the latter was due to a 28% slide in exports and a cumulative 6% decline in the domestic market to September.

Inflation held at a rate similar to 2011 and was above the regional average. Average wages climbed by nearly 25%, reinforcing the uptrend in real wages.

Private sector wages posted above-average gains between September 2011 and September 2012; public sector wages grew at a below-average pace. The employment rate for the third quarter of 2012 was similar to the level for the same period in 2011. The unemployment rate ticked up by 0.4 percentage points during the same period, to 7.6% of the economically active population.

As for the external sector of the economy, the balance-of-payments current account posted a surplus of nearly US$ 1 billion for the first half of the year, topping the surplus for the same period in 2011. The main reason was the sharp decline in imports, which were down a cumulative 8% for the first nine months of 2012 compared with the same prior-year period. Exports fell by 3%. Investment payments (especially profit and dividend remittances by foreign firms to their parent companies), which held in the area of 8% of the value of exports, also helped push up the current account balance.Capital outflows were down sharply in 2012, measured by non-financial private sector external asset formation. The restrictions on currency purchases aimed at curbing hoarding by residents sparked a cumulative outflow of nearly US$ 6.534 billion to the third quarter of 2012. Measures to stem this outflow began to be rolled out during the fourth quarter of 2011 when exchange-market tensions arose. They include a special procedure for buying dollars for foreign travel, a ban on purchasing dollars for hoarding, a 15% tax on online purchases of foreign goods using a credit or debit card and a ban on using peso-denominated mortgages to buy dollars.

Despite the higher balance-of-payments current account balance and substantially lower capital outflows, international reserves at the end of November stood at US$ 45.238 billion. This figure is US$ 1.138 billion less than at year-end 2011, chiefly because central bank international reserves were used for net principal and interest payments to service foreign-currency denominated public-sector debt. By June 2012, total external debt (public and private) was equivalent to 31% of GDP, which is 0.9 percentage points less than during the same period the previous year and the lowest in 19 years.