

Argentina

In 2007, the country's economy once again turned in an excellent performance. GDP growth was similar to the previous year's, at more than 8%, thus continuing the remarkable expansionary phase which followed the crisis of the early 2000s. Economic activity was almost 25% above the peak recorded in 1998. There were large increases in domestic demand –especially for durable goods– and in private investment and government spending. The investment-to-GDP ratio (at constant prices) is expected to stand at 23%, surpassing the record levels of the 1990s. Employment continued to grow strongly. In late 2007, the unemployment rate was down to about 8%, and growth was also being reflected in rising wages. In the first half of 2007 poverty and indigence rates continued to decline, falling to 23.4% and 8.2% of the population, respectively, compared with 54% and almost 28% four years earlier. ECLAC projects growth for 2008 at 6.5%.

International financial fluctuations affected the value of Argentine assets. The external situation remained favourable in terms of trends in export prices, but there were also rises in import prices. The impact of the prices and volumes of external sales contributed equally to the aggregate value of exports, which is estimated to have risen to almost US\$ 64 billion. Services exports were particularly buoyant. Despite the strong rise in imports, the country once again posted a large trade surplus. The rising current-account surpluses caused by the economy's strong expansion over several years was a characteristic feature of the period. Capital flows posted a positive net balance, despite the outflows from the private sector at certain times of year in response to worldwide financial uncertainties and the upcoming presidential election. At other times, the central bank intervened by purchasing large amounts of foreign exchange (sterilizing a large part of its monetary impact), which led to a major increase in reserves, and the peso depreciated somewhat against the dollar and more so against other trading partners' currencies.

Higher prices for exported goods and the marked increase in domestic demand affected the inflation rate, in an economy where the margins of idle resources had already narrowed. The measurement criteria for price indices, especially for the calculation of the consumer price index (CPI) for Greater Buenos Aires, were the object of some debate during this period. The published CPI estimate showed a fall compared to the previous year, with a cumulative variation of 6.6% for the first 10 months of 2007 (8% for the same period in 2006). Data collected in localities in the interior of the country showed higher increases, however, and much bigger rises were reported in other price aggregates such as the wholesale price index (WPI) –12.7% over 10 months, compared with 6.7% in 2006– and the construction cost index, up 20% as against 16.7% in 2006.

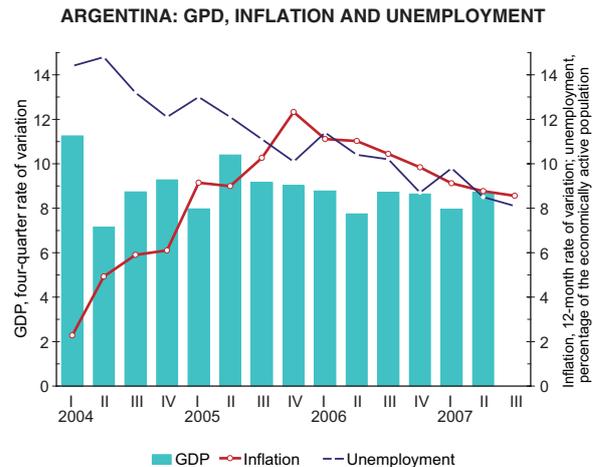
Despite a sustained upward trend in receipts, fiscal surpluses experienced a significant slowdown in 2007 in GDP terms. Reforms to the pensions system adopted in 2007 were designed to allow contributors to fully-funded pension plans to transfer to the state

pension system, which then received not only additional contributions but also the funds accumulated by the contributors. Current income in the domestic public sector rose by almost 31% in the first nine months of the year if those funds are not included, or 40% if they are. Primary spending soared by almost 45%. As a result, the primary surplus is estimated to have fallen to about 1.9% of GDP during the period (2.7% if the transfer of accumulated funds is included), compared with 3.5% for 2006 as a whole. The national government's financial balance was about 0.7% of GDP (1.4% including the transfers).

In the first 10 months of 2007, tax receipts rose by 32.5%. All categories of taxation showed appreciable increases. The largest sources of revenue continued to be taxes on value added, profits and wealth (55% of the total). In order to boost fiscal revenue, in early November 2007 the authorities increased the rates of export duties on the principal grains and their by-products (by between 5 and 10 percentage points) and on oil and petroleum products. There were considerable upturns in the main components of spending: social security benefits (up 58% in nine months), transfers to the private sector (which rose by 57%, and which include subsidies on energy and transport prices, among other things) and capital spending (40%).

The central bank continued its policies of accumulating reserves and sterilizing the resulting expansion through the placement of long-term bonds and rediscount loan recovery. Up to mid-2007, against the background of international financial fluctuations, there was some pressure on interest rates and foreign-exchange demand. The government reacted by seeking to prevent exchange-rate instability and by supporting liquidity. Interest rates climbed gradually throughout the year. While means of payment (M1) and fixed-term deposits which are not adjusted for inflation grew at a pace similar to that of 2005 (about 25% and 30% year-on-year, respectively), deposits indexed to the CPI again dropped significantly. Bank lending to the private sector soared by almost 30% year-on-year.

Internal and external aggregate demand rose sharply. Consumption is estimated to have risen by a figure similar to or slightly above GDP growth, but investment posted a substantially larger increase. In the first half of 2007, investment in construction grew sharply, by 7.7%, although that was well below the 2006 figure of 18.5%. Investment in durable construction equipment expanded rapidly (over 20% in the first semester), boosting the trend in volume imports of capital goods, up 25% in the first nine months of 2007. If these figures are extrapolated to the year as a whole, the equipment investment ratio for 2007 may exceed the records of the 1990s, at over 9% of GDP.



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

GDP growth was equally strong in goods and services sectors. Agriculture was prominent among the goods sectors, mostly thanks to a boom in the production of grains. The harvest for the 2006/2007 season was around 94 million tons, 22.5% above the previous season. There was outstanding growth in the harvests of soybean (up 17.5%, to 47.6 million tons), maize (up 50% to almost 21 million tons) and wheat (up 16%). As for the livestock sector, economic policy continued to emphasize internal supply of beef rather than exports, on which certain restrictions were retained. The number of animals slaughtered rose considerably in 2007, with a growing proportion of females, which suggests that the producers saw little incentive to increase their stocks. Mining was a clear exception to the wide growth of output, as a result of falling volumes in oil and natural gas extraction.

The automotive industry once again distinguished itself among manufacturing sectors with a steep rise in its output, helped by a boom in both internal and external sales. This in turn boosted the metal-working segments dedicated to manufacturing auto parts. There were significant rises in the production of agricultural machinery and consumer durables. Some branches of the chemical industry were held back by problems with supplies of gas, but the subsector managed a year-on-year increase of nearly 6.5% in the first three quarters of 2007. Growth in the food and textile industries was more moderate. The secondary sector hired more workers (5% more in the first three quarters of 2007 than in 2006), and wages were higher.

Among services, the swift growth of the transport and communications branches continued, with a particularly strong performance by mobile telephony.

There was more modest progress in the output of the electric power, gas and water sectors. At certain times in the year, the supply of gas was insufficient to meet demand, in which case domestic supply was given priority. Demand for electric power also strained generation capacity, and the largest users resorted to generating power for their own use. Regulation, prices and investment in the energy sectors are issues that require attention in terms of growth prospects.

Labour demand was on the increase. The urban employment rate for the second half of 2007 (42.4%) was 0.6 points above the previous year's figure and almost five points higher than the figure for the same semester in 2003, at the beginning of the recovery. Also in the second semester of 2007, the unemployment rate fell by almost two percentage points. If those whose main occupation comes from an official welfare programme are included, the unemployment rate rose by 0.5 points to 9.0%, compared with 3.2 points in the same period in 2003. In the first three quarters of 2007, the aggregate wage index rose by 17%. The highest increases were in the public sector (23%) and the informal private sector (18%). The cumulative increase in incomes since the early 2000s, however, was significantly lower in those sectors than in the formal private sector.

The balance of payments current-account surplus in the first half of 2007 was somewhat smaller than in 2006, owing to a smaller trade surplus in goods, but it nonetheless exceeded US\$ 6 billion. As for real services, there were considerable increases in inflows from business and professional services (which exceeded US\$ 1 billion in the first half of 2007) and tourism (US\$ 2.1 billion during the same period). The improvement in real services compensated for increased spending on foreign travel. The income account posted a deficit of some US\$ 2.7 billion for the semester. Net capital inflows for the year were plentiful, leading to a major increase in reserves (US\$ 11 billion in the first 10 months of 2007), mostly in the first half of the year.

Export values rose on the back of almost all product categories, with the notable exception of fuels.

ARGENTINA: MAIN ECONOMIC INDICATORS

	2005	2006	2007 ^a
Annual growth rates			
Gross domestic product	9,2	8,5	8,6
Per capita gross domestic product	8,1	7,4	7,5
Consumer prices	12,3	9,8	8,5 ^b
Average real wage ^c	6,0	8,7	10,2 ^d
Money (M1)	26,8	24,2	25,3 ^e
Real effective exchange rate ^f	0,2	1,8	0,7 ^g
Relación de precios del intercambio	-2,1	5,7	2,9
Annual average percentages			
Urban unemployment rate	11,6	10,2	8,4 ^d
National administration overall balance / GDP	0,4	1,0	0,7
Nominal deposit rate	3,9	6,6	7,5 ^h
Nominal lending rate	6,2	8,7	10,1 ^h
Millions of dollars			
Exports of goods and services	46 813	54 150	63 971
Imports of goods and services	34 925	41 138	51 972
Current account	5 690	8 097	6 500
Capital and financial account	1 705	5 182	3 500
Overall balance	7 394	13 279	10 000

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

^a Preliminary estimates.

^b Twelve-month variation to November 2007.

^c Manufacturing sector.

^d Estimate based on data from January-September 2007.

^e Twelve-month variation to September 2007.

^f A negative rate indicates an appreciation of the currency in real terms.

^g Year-on-year average variation, January to October.

^h Average from January to October, annualized.

There was also a large rise in the volume and value of imports. Exports of primary goods rose by 40% in the first nine months, in both volume and value. Among manufactures of agricultural origin (where the impact of prices was most significant), sales of vegetable oils rose steeply; meat exports were also lively, despite the restrictions in force. The increase in manufactures of industrial origin (14%) was to a great extent due to the increase of volume sales. Of particular note were exports of metal products, machinery and, above all, of vehicles. MERCOSUR and the Asian countries absorbed an increasing share of the country's exports. Total import values swelled by almost 30%, with increases of 24% for capital goods and 28% for intermediate goods.