

## Argentina

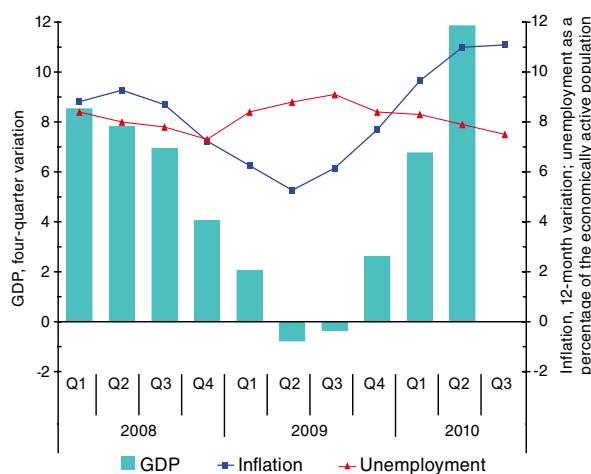
The Argentine economy recovered strongly in 2010, with GDP growth expected to be in the region of 8%, while the unemployment rate fell to about 7.5% in the third quarter. The factors holding back the economy had begun to reverse in the second half of the previous year as a result of both external and local developments. Notwithstanding lingering uncertainties in the international environment, demand for exportable goods recovered as a result of developments in agricultural product markets and the economic performance of major trading partners such as Brazil. The strong recovery in grain harvests, affected by a severe drought in the previous growing season, made a substantial contribution, together with sales of manufactures, to a considerable upsurge in exports (which did not, however, revisit the very high values of 2008). At the same time, domestic spending was stimulated by the behaviour of the private sector and by macroeconomic policies.

The absence of signs of fragility in the country's finances and currency, together with lower returns on external assets, held down demand for foreign exchange. Contrasting with the large outflow of private capital in the first half of 2009, there was a (small) net inflow in the same period of 2010, while the trade surplus remained substantial even though reduced by higher imports. In a context of low international interest rates, a gradual weakening of the nominal exchange rate against the dollar and expectations of rising domestic prices, there was a considerable increase in sales of durable goods, particularly automobiles, as activity recovered and worries about the possibility of falling incomes eased. In addition, demand resulting from transfers to poor families via the child allowance (a mechanism that began to be implemented in 2009) fed through to non-durable consumer goods markets. Taken as a whole, public spending expanded strongly. Investment more than kept pace with aggregate growth and the accumulation rate recovered as a result, although the capital stock probably grew less quickly than output.

Discussions about the inflation trend influenced wage negotiations, which were held under conditions indicative of steady future growth in demand, which in fact materialized over the course of the year. Besides macroeconomic factors, changes in price aggregates were influenced by specific developments in the food sector,

particularly a lower supply of beef resulting from a decline in the size of the cattle herd. At the same time, the rate of depreciation against the dollar slowed. The effect on the multilateral real exchange rate was moderated by the appreciation of other currencies that are important for trade. In November, the government announced a

**ARGENTINA: GDP, INFLATION AND UNEMPLOYMENT**



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

request for technical assistance from the International Monetary Fund (IMF) to prepare a nationwide consumer price index (CPI).

Economic policy was oriented towards strengthening the growth of demand and activity. In the first 10 months, national tax revenues were more than 30% up on the same period the previous year, with growth shared evenly across the main taxes. Public spending increased at a similar rate, with particularly large increases for transfers to the private sector (where the child allowance and assistance for the energy sector were major growth items) and social security benefits. The public sector had a significantly larger volume of funding than the year before, owing to the general growth in tax revenues and funds transferred by the central bank in the form of dividends on stated earnings, which were booked as current income. The primary balance of the national public sector is expected to come in at about 2% of GDP for 2010.

Growth in the monetary aggregates was stronger in 2010. In August, the central bank revised its monetary targets for the second half upward. Monetary policy focused on the use of external and local asset operations to limit fluctuations in the exchange-rate and financial variables. At the beginning of the year, a controversy arose about the use of international reserves for public debt servicing, the operations concerned having been executed following the removal of the central bank president from his post. The government put forward an offer to regularize debt whose bondholders had not taken part in the 2005 restructuring. The ensuing bond swap involved about three quarters of all liabilities in this category. At the same time, some negotiations were undertaken to regularize outstanding debts with the Paris Club. The yield spreads implicit in the prices of public bonds came down appreciably, although they remained higher than those of other countries in the region.

The economic activity indicator rose by 9% in the first nine months by comparison with the same period in 2009, and year-on-year GDP increased by 9.4% in the first half. Output in goods-producing sectors rose particularly strongly from the benchmark levels of the recession. Agricultural output growth was particularly vigorous at 44% in the first half. The grain harvest, comprising cereals, oilseeds and other crops, recovered very strongly to come in at about 93 million tons, a figure more than 50% higher than the previous period's total for a similar sown area and close to the record harvests of the 2006-2007 and 2007-2008 growing seasons, although falling short of these. Soybean production grew by some 70% and accounted for over half the total harvest. Maize output also increased greatly to a record 23 million tons.

#### ARGENTINA: MAIN ECONOMIC INDICATORS

	2008	2009	2010 <sup>a</sup>
<b>Annual percentage growth rates</b>			
Gross domestic product	6.8	0.9	8.4
Per capita gross domestic product	5.7	-0.2	7.3
Consumer prices	7.2	7.7	11.1 <sup>b</sup>
Average real wage <sup>c</sup>	8.8	11.7	12.6 <sup>d</sup>
Money (M1)	11.1	15.9	29.2 <sup>e</sup>
Real effective exchange rate <sup>f</sup>	-4.1	2.6	-0.2 <sup>g</sup>
Terms of trade	13.3	-4.6	-0.5
<b>Annual average percentages</b>			
Urban unemployment rate	7.9	8.7	7.8 <sup>d</sup>
National public administration overall balance / GDP	0.7	-1.0	0.1
Nominal deposit rate	11.1	11.8	9.3 <sup>h</sup>
Nominal lending rate	19.8	21.3	15.3 <sup>h</sup>
<b>Millions of dollars</b>			
Exports of goods and services	82 040	66 563	82 126
Imports of goods and services	67 931	48 951	67 436
Current account	6 735	11 290	4 785
Capital and financial account <sup>i</sup>	-10 052	-11 667	-1 585
Overall balance	-3 317	-377	3 200

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 2010.

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

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

<sup>e</sup> Twelve-month variation to September 2010.

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

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

<sup>h</sup> Average from January to October, annualized.

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

Conversely, the harvest of wheat, exports of which were restricted, fell to less than 8 million tons, a distinctly low figure by historical standards. Meanwhile, the reversal of the cattle cycle from a phase of stock clearance to one in which the supply of cattle for slaughter was low resulted in a 30% drop in production (year-on-year figures for the first seven months), while bullock prices more than doubled. Oil production remained at levels similar to the previous year's in the first nine months, but natural gas output was slightly down.

The manufacturing index rose by 9.3% in the first 10 months, with considerable diversity of sectoral performance. Automobile output exceeded the peaks of 2008 with a year-on-year rise of over 40%. There was also a considerable (27%) increase in the output of the basic metals industries. Conversely, cold storage plant activity contracted owing to the decline in supplies of raw material, as did the output of paper industries.

The reported year-on-year rise in the Greater Buenos Aires CPI was 11.1% in October. Wage negotiations seem to have been based on perceptions of substantially higher inflation. In any event, the general wages index (covering public- and private-sector workers, both registered and informal) rose by 25.5% in the year to September. Demand for labour mirrored the recovery in

activity. Data to the third quarter show a year-on-year increase in the ratio of employment to population, with the unemployment rate falling to 7.5% (1.6 points lower than a year earlier). Employment in manufacturing and construction grew. Official figures showed substantial falls in the indices of poverty and indigence (to about 12% and 3%, respectively).

Export volumes grew by 20% in the first 10 months of the year, reversing the large falls of 2009. Export prices rose by 3% over the period. Increases in export values were substantial for commodities (69%, with growth in prices and, chiefly, volumes) and industrial manufactures (31%, mainly because of higher volumes), while there was a smaller increase in manufactures of agricultural

origin. Fuel sales declined by 4%. Imports rose by 44% in 10 months (35% by volume), with significant rises in all the main categories (capital goods, intermediate goods, fuels and consumer goods).

Although the trade surplus declined somewhat, the current account once again showed a positive balance. The deficit on the income account in the first half was similar to that in the same period of 2009 (about US\$ 5 billion). The capital account recorded a small positive net balance, as compared to a large outflow the year before. Over the first 11 months of 2010, international reserves rose by some US\$ 4 billion (including currency transfers to the government to meet debt repayments falling due) to approximately US\$ 52 billion.