

Argentina

After growing by 2.9% in 2013, the Argentine economy slowed during 2014 because of the contractionary effect of the devaluation at the start of the year and the re-emergence of currency strains during the third quarter as a result of the judicial setback suffered by the country in its dispute with so-called vulture funds. The slowdown in the Brazilian economy, the main destination for the country's manufacturing exports, also had a negative effect. The adverse impact of these currency strains on the level of activity was particularly significant in the first quarter of the year, when there was a quarter-on-quarter contraction of 0.8% in the seasonally adjusted GDP series. Activity was 0.5%¹ higher in the second quarter than in the first against a background of greater stability in the currency market, manifested in a narrowing of the gap between the official exchange rate and the parallel rate.

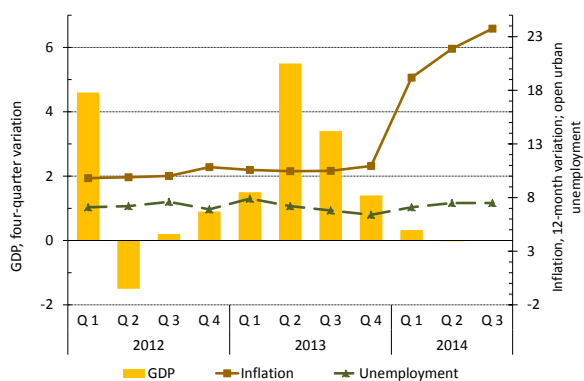
The cumulative annual change to September in the monthly economic activity estimator (EMAE) was virtually nil (-0.1%). Assuming the economic growth rate in the fourth quarter remains stable (zero quarter-on-quarter growth), the GDP growth rate in 2014 is expected to be about -0.2%.

The growth projection for 2015, when the country's treasury has large currency repayments falling due (over US\$ 10 billion in total), depends heavily on whether access to international credit markets is restored, not so much because this might trigger a large influx of capital from abroad in the short term as because of the positive effect on exchange-rate expectations, which have a strong influence on agents' spending and portfolio decisions and on the dynamics of external trade-related currency supply and demand. If some resolution of the legal dispute with the vulture funds is arrived at in the early months of 2015, a moderate recovery is expected for the rest of that year, yielding an annual growth rate of about 1% in 2015.

Where economic policy is concerned, during 2014 the authorities tried to offset the contractionary effects of the nominal peso devaluation in January 2014 (when the exchange rate depreciated by 26.3% from the previous month and by 64% from the same month in 2013) and the concomitant rise in the benchmark interest rate by implementing an expansionary fiscal policy focused on assisting the most vulnerable, particularly recipients of the Universal Child Allowance (AUH).

The currency devaluation and interest-rate rise were supplemented by other regulatory measures² that eased the strain experienced in the currency market since late 2013. This meant that in the second half of the year the currency gap narrowed and the stock of international reserves could be partly replenished.

Argentina: GDP, Inflation and unemployment, 2012-2014



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

¹ This figure is from the monthly economic activity estimator (EMAE) series. If seasonally adjusted GDP is taken, the quarter-on-quarter recovery was 0.9%.

² See Economic Commission for Latin America and the Caribbean (ECLAC), Economic Survey of Latin America and the Caribbean, 2014 (LC/G.2619-P), Santiago, Chile. United Nations publication, Sales No. E.14.II.G.3.

The setback suffered by the country in its legal dispute with the so-called vulture funds in late June once again caused currency strains, manifested in a widening of the gap between the official exchange rate and the parallel rate, which reached 75% in October after decreasing to 30% during the second quarter. The strains eased in the fourth quarter because of measures aimed at neutralizing expectations of a devaluation: closer supervision of foreign-exchange operations involving securities, implementation of part of the US\$ 11 billion currency swap agreement signed between the Argentine central bank and the People's Bank of China, specific agreements with leading exporters regarding foreign exchange settlement, issuance of securities tied to the dollar exchange rate and regulation of the deposit interest rate.

On the fiscal side, government policy in the first nine months of the year had a countercyclical bias, manifested in a rate of primary spending growth (44%) that outstripped growth in revenues (42.1%) and nominal output (about 30%). Within the primary spending category, current expenditure rose by 43.6% year on year, mainly because of increased transfers to the private sector (58.9%). Although subsidies (designed more to top up the incomes of firms than of households in this period) continued to form the bulk of these transfers, there was an effort to buttress the incomes of the most vulnerable by increasing cash transfer amounts (AUH transfers rose by more than prices, wages and pensions) and implementing a new cash transfer scheme for the low-income young.

Capital spending, which is about 12% of all primary spending, rose by 46.8% year on year as a result of increases in direct real investment and capital transfers to provincial and municipal governments, along with the boost given to financial investment (up 166% year on year) by the Argentine Bicentenary Lending Programme for Sole Family Dwellings (PROCREAR). On the revenue side, national public-sector tax receipts grew by 37.7% in the year to September and revenue from social security contributions rose by 28.1%, reflecting some deterioration in total remuneration in the formal sector of the economy. Other important factors in this period were the 150% increase in non-tax revenues in the form of transfers by the Sustainability Guaranty Fund (FGS) of the National Social Security Administration (ANSES) and the profits of the central bank. The cumulative result to September was a primary balance of virtually zero for the national public sector and an overall deficit of some 1.7% of GDP.

The government carried on using the public sector's own resources to defray the financing needs of the national treasury, essentially from the FGS and the central bank, which between them provided funding equivalent to 2.9% of GDP, more than twice as much as in the same period of 2013. In the case of the central bank, other important developments besides the remittance of profits were the transfer of international reserves to meet the country's external commitments and an increase in temporary advances to the national treasury, the stock of which rose from 4.5% to 4.9% of GDP between September 2013 and the same month in 2014.

Among other policies applied during 2014, mention should be made of the implementation in January of the Precios Cuidados price watch programme, a commitment entered into by the national

Argentina: main economic indicators, 2012-2014

	2012	2013	2014 ^a
	Annual growth rate		
Gross domestic product	0.9	2.9	-0.2
Per capita gross domestic product	0.1	2.0	-1.0
Consumer prices	10.8	10.9	24.2 ^b
Money (M1)	33.3	29.5	24.4 ^c
Real effective exchange rate ^d	0.5	-4.0	8.4
Terms of trade	-0.4	-5.8	-0.5
	Annual average percentage		
Open urban unemployment rate	7.2	7.1	7.4 ^c
Central government			
Overall balance / GDP	-1.9	-2.6	-4.0
Nominal deposit rate	12.1	14.8	21.0 ^c
Nominal lending rate ^e	19.3	21.6	29.6 ^b
	Millions of dollars		
Exports of goods and services	95,560	96,084	86,832
Imports of goods and services	83,476	89,084	80,314
Current account balance	-1,167	-4,813	-4,827
Capital and financial balance ^f	-2,138	-7,010	2,327
Overall balance	-3,305	-11,824	-2,500

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

a/ Estimates.

b/ Figures as of October.

c/ Figures as of September.

d/ A negative rate indicates an appreciation of the currency in real terms.

e/ Local-currency loans to the non-financial private sector, at fixed or renegotiable rates, signature loans of up to 89 days.

f/ Includes errors and omissions.

government, supermarkets, distributors and their main suppliers to administer the prices of a basket of mass consumption goods in order to restrain domestic price increases. The programme, which currently covers 320 products, is meant to reduce the impact of the devaluation on domestic prices and to moderate its inertial dynamic. Meanwhile, in late August the national Congress passed a new pension fund moratorium law for people who had not met all the conditions for a retirement pension. This will include about 470,000 new retirees, thus universalizing coverage for older adults. In addition, a new Hydrocarbons Act was passed in October, creating a new legal framework that provides for the exploitation of unconventional hydrocarbons with a view to attracting greater investment that will enable the country to reverse its energy deficit, one of the structural determinants of the external constraint it has faced in recent years.

During the first half of the year, the balance-of-payments current account yielded a negative balance of US\$ 2.8 billion, almost US\$ 1.4 billion more than in the same period of 2013, mainly because of a drop in goods exports (-10.1%) that was not fully offset by the decline in imports (-7.5%). With regard to the capital and financial account, the figure for foreign direct investment flows yielded a negative balance of US\$ 55 billion during the first half of 2014, some US\$ 6 billion less than the year before, owing to the inclusion in the figures of the divestment by the Spanish firm Repsol of its stake in YPF following the change of ownership resulting from the expropriation of 51% of the company's shares by the government.

In consequence of the drop in the current account balance, the use of international reserves to pay off the external public debt and rising capital outflows, international reserves dropped by about 8% in the first 10 months of 2014 to some US\$ 28 billion by late October. In mid-year, the total external debt stock (public and private) stood at 29% of GDP, a rise of 6 percentage points on the same period the year before.

As mentioned, economic activity was stagnant in the first nine months of 2014. Disaggregated information for the first half of the year shows all components of demand falling except public consumption, which rose by 4%. On the supply side, the disaggregated information available for the first half of 2014 shows an increase in services-producing sectors (1.2%) and a slight decline (-0.6%) in goods-producing sectors compared to the same period in 2013. Among the latter, manufacturing contracted by 1.1%, mainly because of a decline in vehicle-making, which fell by over 20% year on year, largely because of the drop in demand from Brazil. Construction also declined year on year (-2.1%).

With a large inertial component, the inflation rate remained above the regional average and increased from the previous year, essentially because of the accelerating depreciation of the nominal exchange rate. Official figures from the new national urban consumer price index (IPCNU) produced by the National Institute of Statistics and Censuses (INDEC) show prices rising by a cumulative 21.3% over the first 10 months of the year. With a rise of 16.4%, the food and beverages category increased by less than the overall index, something explained by the effects of the Precios Cuidados price watch programme, which mainly affects these products. Conversely, fuel prices rose by much more than the average, increasing by over 40% from January. Given that the IPCNU has only been available since 2014, using a provincial statistical index to calculate the year-on-year change yields a figure of about 30% in September 2014 relative to the same month the year before, a rise on the 22.4% figure produced by the same provincial statistics a year ago.

Pay, as measured by the INDEC wage index, rose by 32.3% year on year across the whole economy between January and September 2014, which is slightly greater than the increase in domestic prices calculated by comparing the IPCNU for the first nine months of 2014 and the provincial statistics for the same period in 2013 (about 30.9%). However, the nominal increase in private-sector pay was 29.8%, which was below the level of price rises. The adjustable living minimum wage rose to 4,400 pesos

in September 2014, 33.3% up on the figure for the same month in 2013. Retirement benefits rose by 11.3% in March and 17.2% in September to give a cumulative annual increase of 30.5%.

The unemployment rate was 7.5% in the third quarter of 2014, an increase on the 6.8% recorded in the same period of 2013, despite a drop in the participation rate from 46.1% to 44.7%. The slowdown in activity in 2014 is manifested above all in the employment rate, which fell by 1.6 percentage points, to 41.3%, from the same quarter the year before.