

Argentina

The Argentine economy once more expanded noticeably during 2008 as a whole, although there was a slowdown especially in the last few months of the year. In a context of historically low unemployment rates, towards the end of the year there were signs of falling labour demand, which became a focus of public attention. Despite the surge in import volumes, the average rise in international export prices recorded during the year helped to maintain a significant trade surplus, which in turn generated a current account surplus. At the same time, however, there were massive outflows of private capital, which at times caused tension on the foreign-exchange market and prompted the central bank to use reserves to support the exchange rate. The price of the United States dollar fluctuated, with a moderate cumulative increase for the year as a whole. Variation in the consumer price index in Greater Buenos Aires was less than 10%, but measurements in some provinces showed much more rapid movement. Price hikes appear to have been particularly rapid in the middle of the year, before slowing subsequently. Tax receipts swelled considerably, thanks to domestic activities but especially exports. This sustained the Government's primary surplus, in spite of soaring expenditure in the form of transfers made to the private sector in an attempt to curb energy, transport and food prices.

Macroeconomic performance was affected by strong external forces and various economic policy measures. At the beginning of the year, amidst rapid increases in activity and domestic spending and inflationary patterns, international prices for agricultural export products shot up. The Government responded by applying a sliding scale of export duties, so as to channel resources into the public sector and prevent the increases from being transferred to domestic prices. The measure caused a strong reaction in the agricultural and urban sectors of society, which in turn not only generated political tensions but also had a negative impact on supply (owing to road blocks) and demand. In this context of increased uncertainty, there was a rise in purchases of foreign exchange and bank deposit withdrawals. This forced the central bank to intervene decisively. Lastly, the bill on withholdings was not approved by parliament.

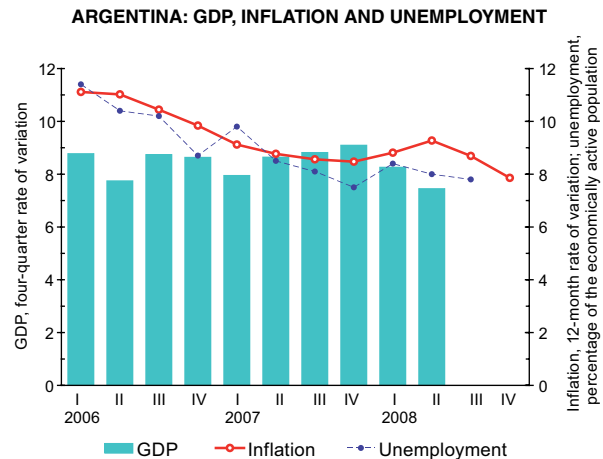
The impact of the international macroeconomic crisis on Argentina manifested itself in falling export prices (thereby reversing the price rises observed between mid-2007 and the recent highs for main export products such as soya) and sharp drops in share and bond prices, whose levels had already been affected by domestic uncertainty. The prospects for exports suffered as a result, particularly given the smaller grain harvest predicted for the forthcoming growing season. The reduced supply of credit slowed down the demand for goods in an economy that still has relatively low levels of credit. Meanwhile, there are growing doubts about the public sector's ability to face principal and interest payments due on the public debt in 2009. The international financial turmoil has also been hampering the Government's attempts to regain access to external credit by negotiating debt forgiveness with the Paris Club and reopen the bond swap introduced in 2005 to

include parts of the debt that had remained in dispute (holdouts). Another source of debate is the reform of the retirement system proposed by the Government at the end of October, which includes plans to eliminate the capitalization system and transfer to the public sector the account balances of pension system contributors who opted into the State pay-as-you-go segment. In addition, in late November the Government set up the Ministry of Production and proposed schemes to standardize tax and social security obligations and promote outsourcing and the entry into the country of funds held abroad by residents. The Government also announced measures to cut labour costs, as well as plans for large investments in public works to support the demand for labour and goods.

In the first nine months of the year, fiscal management resulted in an improved primary result (which had dropped as a proportion of GDP in 2007), with a nominal increase of almost 100%, representing a level of 3% of GDP. The financial surplus also widened. Current revenues and primary expenditure both climbed considerably (by around 35% each). With international prices and taxable quotas higher than in the previous year, export duties were the fastest growing tax category, as receipts more than doubled. Other taxes grew in line with aggregate growth. The moderate slowdown in the growth rate of expenditure (which had been 46% in 2007) represented a departure from the pattern seen in previous years when outlays had exceeded income. Within expenditure, current transfers to the private sector (driven by higher transport and energy subsidies) showed the largest percentage increase (54%), despite the marked slowdown observed in the third quarter.

Monetary and financial conditions varied throughout the year, with moments of tension in the second quarter and in October, related to drains on international reserves and private-sector bank deposits. Despite this, in the first 10 months of the year private deposits grew by almost 9% and banking credit to the private sector rose even more, by around 22%. In the second part of the period, there were restricted movements on the credit markets, as seen in rising interest rates and tumbling prices for financial assets, shares and bonds. In particular, implicit yields on public bond prices shot up to levels comparable to those recorded at the beginning of the decade.

The year-on-year increase in GDP (7.8 % in the first half of the year) was driven by hikes in various components of internal demand. Private consumption continued to grow impressively, in line with GDP. The growth rate of public consumption also quickened its pace, although this remained below the rate of increase in GDP. In aggregate terms, national saving easily covered investment requirements. Construction spending remained buoyant, although it was far from regaining levels seen in years gone by. Investment



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

in durable equipment showed increases that were more moderate, but nonetheless considerable on average for the year. In the final part of the period, however, there were signs of a visible slowdown in aggregate expenditure, with investment being especially affected.

The average increase in economic activity throughout the year was spearheaded by services, while merchandise production sectors also grew significantly but to a lesser degree. Grain production in the 2007-2008 growing season maintained the high levels of the previous year (95 million tons). The forthcoming harvest had been expected to suffer from the lower international prices and the repercussions of the dispute on export retentions. In the first 10 months of the year, industrial activity posted a year-on-year increase of 5.8%, mainly thanks to basic metal industries (primary aluminium production) and automotive production for the domestic market and the export market. Within services, transport and communications continued to grow rapidly.

The consumer price index in Greater Buenos Aires registered a 6.5% variation in the first 10 months of 2008, whereas some calculations for provinces and private entities showed a greater variation. The wholesale price index rose by 9.4% in 10 months (12.7% in the year-earlier period). The cumulative growth rate of commodities fell from 14.1% in 2007 to 1.9% in 2008, owing to lower domestic prices for crude petroleum and gas, and a slowdown in wholesale agricultural prices. Industrial prices climbed by 11.4% in the period concerned, while growth for prices of import products rose to 14.3%. In the first 11 months of the year, the nominal exchange rate posted a moderate nominal depreciation (of around 8%) against the United States dollar. This resulted in a 7% appreciation against

the euro and an appreciation of around 20% in relation to the Brazilian real.

The ratio of urban employment to urban population was 42.1% in the third quarter of 2008, which is 0.3 percentage points lower than in the same period of 2007. However, the open unemployment rate dropped by 0.3 percentage points to stand at 7.8%, as economic activity declined by around half a point. On average, the first nine months of the year saw wages in the formal private sector grow by almost 15% year on year, while wages rose by almost 30% in the informal sector. Public sector wages posted an intermediate growth rate of approximately 20%.

In the first six months of 2008, the current account surplus was almost US\$ 1 billion smaller than in the previous year. Although the merchandise trade surplus was considerable (US\$ 6.5 billion) and similar to 2007, the income account deficit (profits, dividends and interest) swelled by over US\$ 800 million, while the real services deficit expanded by around US\$ 350 million. Capital movements in the non-financial private sector chalked up a deficit of just under US\$ 3.3 billion, partly owing to net outflows of almost US\$ 5 billion in the second quarter. From this second quarter, foreign-exchange market performance was characterized by hefty outflows associated with the private sector, which offset the surplus resulting from trade operations.

In the first 10 months of 2008, the value of merchandise exports grew by 37% compared with the year-earlier period. This impressive increase is attributable to higher international prices. In the case of industrial manufactures, there was a considerable increase in volumes. In terms of value, a striking performance was turned in by commodities, while sales of fuels and energy displayed the lowest growth (as volumes plummeted). International conditions

ARGENTINA: MAIN ECONOMIC INDICATORS

	2006	2007	2008 ^a
Annual growth rates			
Gross domestic product	8.5	8.7	6.8
Per capita gross domestic product	7.4	7.6	5.8
Consumer prices	9.8	8.5	7.9 ^b
Average real wage ^c	8.9	9.1	8.7 ^d
Money (M1)	20.0	26.8	15.0 ^e
Real effective exchange rate ^f	2.3	2.1	5.1 ^g
Terms of trade	5.7	3.7	11.6
Annual average percentages			
Urban unemployment rate	10.2	8.5	8.0 ^d
National public administration overall balance / GDP	1.0	0.6	1.0
Nominal deposit rate	6.5	7.9	10.1 ^h
Nominal lending rate	8.6	11.1	17.3 ^h
Millions of dollars			
Exports of goods and services	54 547	66 100	85 455
Imports of goods and services	41 120	53 371	68 839
Current account	7 712	7 113	10 406
Capital and financial account	6 800	4 660	-10 766
Overall balance	14 513	11 772	-360

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 2008.

^c Manufacturing sector. Registered workers in the private sector.

^d Estimate based on data from January to September.

^e Twelve-month variation to September 2008.

^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.

strongly altered the outlook for exports throughout the year, as buoyancy faltered.

Merchandise imports grew by 37% year on year for the first 10 months of 2008, on the strength of larger quantities and, to a lesser extent, higher prices. Imports of capital goods posted above-average expansion, with even higher increases for imports of fuel (owing to higher prices) and consumer goods (mainly motor vehicles).