Argentina

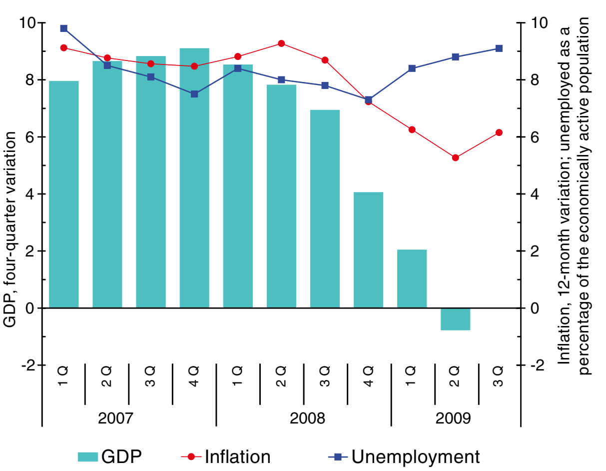
Following six years of robust growth, the Argentine economy experienced a sharp slowdown in 2009, and the growth rate for the year as a whole is expected to stand at 0.7%. Notwithstanding a strong outflow of private capital throughout the year and despite the economic and political uncertainties which, at times, impacted on financial markets, macroeconomic policymakers were able to control the foreign-exchange market and liquidity levels thanks to the substantial trade surplus (resulting from a sharper reduction in imports than in exports) and the availability of previously accumulated reserves. Thus, no severe financial tensions were generated and, in keeping with international trends, the demand for local securities recovered appreciably by the end of the period.

The central bank's foreign-currency transactions resulted in a slight variation in international reserves, and the exchange rate against the dollar increased by approximately 10% between the end of 2008 and mid-November 2009. This represented a significant nominal and real depreciation of the Argentine peso in relation to the currencies of some of the country's main trading partners (such as Brazil and the European Union), which had gained value against the dollar. The fall in tax collections, together with the substantial increase in government spending, lowered the national public sector primary surplus, while some provincial governments experienced financing constraints. Both official and private statistics attest to a reduction in the rate of inflation, which had a positive impact on poverty and indigence rates, although discrepancies in the different measurements of price levels and other variables cast doubts as to the extent of the actual improvement in these social indicators.

International conditions resulted in a deterioration in the terms of trade, although these remained at historically high levels. At the same time, agriculture, which had been buoyant in the preceding years, was hit by a severe drought and by diminished expectations in the sector. The decline in domestic and external demand observed since the end of 2008 dampened industrial output even though the consumption of non-durables (in terms of volumes) remained strong. Construction was also down slightly. Investment in production equipment for durable goods fell significantly, albeit from a high starting position.

In response to the economic recession, policymakers put in place various instruments. The government bolstered public investment and mobilized the resources transferred to the public sector (following the reform of the pension system in 2008) in order to direct credit towards durable

ARGENTINA: GDP, INFLATION AND UNEMPLOYMENT



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

goods production and the construction sector in particular. Companies willing to retain their staff were offered assistance to enable them to meet their wage obligations. Import controls were instituted in order to channel demand towards locally produced goods. Income taxes for wage-earners were lowered, and a moratorium was granted on the payment of social security and tax obligations and on the declaration of undeclared assets. Towards the end of the year, provision was made for unemployed and unregistered workers to receive a monthly allowance for each of their children.

With access to foreign credit subject to tight restrictions, the government's financial policy was geared towards enhancing expectations regarding its compliance with its debt servicing obligations and regularizing outstanding debt owed to the Paris Club and to the bondholders that had not taken part in the 2005 restructuring operation. In addition, IMF was approached with a view to reinstating economic monitoring mechanisms.

In the latter part of 2009, there were signs of an upturn in activity which could spell an incipient recovery. Notwithstanding the remaining uncertainties, the improvement in the international and regional macroeconomic climate strengthened expectations of a rally in external demand and more promising conditions on credit markets. There were no strong disturbances in the country's financial or foreign-exchange markets. Industrial activity actually picked up, thanks in part to the robust growth of the Brazilian economy. Favourable weather conditions suggested that crop volumes, in particular soya output, would rebound.

Fiscal performance in 2009 was influenced by economic policy measures and by macroeconomic developments, and their effects on tax bases. Revenues from national taxes rose slightly as a percentage of GDP, largely on account of the higher contributions to social security resulting from the unification of the pension system under the State pay-as-you-go scheme. Conversely, the proceeds of taxes on foreign trade decreased substantially. The drop in imports also had an impact on value added tax (VAT), but receipts from consumption-based taxes remained stable. Public expenditure expanded significantly more than GDP, reflecting increases in wages, social security benefits and capital expenditures. Transfers to the private sector (consisting largely of energy, transport and food subsidies) held firm at approximately 4% of GDP.

The national government primary surplus is estimated to have shrunk by 1.5 percentage points to 1.4% of GDP; provincial States, for their part, have recorded a primary deficit of close to 0.2% of GDP. In the course of the year, large amounts were disbursed in the form of capital and interest payments on the public debt, which diminished by US$ 5 billion in the first half of the year.

ARGENTINA: MAIN ECONOMIC INDICATORS

	2007	2008	2009 [a]
	Annual percentage growth rates		
Gross domestic product	8.7	6.8	0.7
Per capita gross domestic product	7.6	5.7	-0.3
Consumer prices	8.5	7.2	6.5 [b]
Average real wage [c]	9.1	8.8	11.6 [d]
Money (M1)	26.8	11.1	6.6 [e]
Real effective exchange rate [f]	1.9	3.1	5.3 [g]
Terms of trade	3.7	13.3	-4.8
	Annual average percentages		
Urban unemployment rate	8.5	7.9	8.8 [d]
National public administration overall balance/GDP	0.6	0.7	-0.8
Nominal deposit rate	7.9	11.1	12.1 [h]
Nominal lending rate	11.1	19.5	21.3 [i]
	Millions of dollars		
Exports of goods and services	66 356	82 110	66 373
Imports of goods and services	53 352	67 536	49 079
Current account balance	7 412	7 034	8 816
Capital and financial account balance [j]	4 188	-10 724	-8 323
Overall balance	11 600	-3 690	493

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary estimates.
[b] Twelve-month variation to October 2009.
[c] Manufacturing sector. Registered workers in the private sector.
[d] Estimate based on data from January to September.
[e] Twelve-month variation to September 2009.
[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.
[i] Average from January to July, annualized.
[j] Includes errors and omissions.

The yields on public bonds came down from the high levels reached at the end of 2008. Nevertheless, access by the public sector to international credit markets remained limited.

In 2009, the monetary aggregates expanded more slowly, and liquidity ratios therefore showed a moderate reduction. Monetary policy was directed towards limiting fluctuations in the financial and exchange-rate variables through operations involving both external and internal assets. The demand for bank deposits fell towards the middle of the year but subsequently picked up. Following a spike in the latter part of 2008, interest rates declined, settling, however, at higher levels than in previous years (11% for fixed-term deposits in October). In a small financial system, where the preference for liquidity and the demand for foreign exchange play an important part, credit volumes remained limited. The stock exchange rebounded, especially in the second half of the period.

Reported data on the variations in real GDP show dissimilar trends between the goods-producing sectors (which recorded a year-on-year decline of just over 5.5% in the first half) and the services sector (which expanded by 4 %). In the case of the former, the slide in agricultural output led the downturn. The grain harvest dropped from over 90 million tons to just over 60 million in 2008-2009, the lowest level in the decade. The decline in agriculture was reflected in lower demand for agricultural equipment and utility vehicles. The drop in industrial activity was due mainly to a downturn in the capital goods and consumer durables sectors. Automobile production fell by approximately 20% year-on-year in the first ten months of 2009, although it remained at historically high levels. As the year drew to a close, signs of a recovery were evident from a rally in domestic demand and the renewed buoyancy of the Brazilian market, factors that were also beginning to shape the performance of other manufacturing branches.

In October, the consumer price index (CPI) of Greater Buenos Aires was reported to show a 6.5% year-on-year increase, while the general wage index (which covers public and private, registered and informal workers) rose by 16% over the 12 months up to September. The demand for labour mirrored the slowdown in economic activity. Data for the third quarter revealed a slight decrease in year-on-year employment figures, with the jobless rate at 9.1% (1.3 percentage points higher than a year earlier). Employment fell in manufacturing and construction. Official figures point to appreciable reductions in the poverty and indigence rates (down to approximately 14% and 4%, respectively), although other sources indicate no improvement or even a rise in these rates.

The external sector witnessed sharp reductions in imports as well as exports. As a result, the already considerable trade surplus expanded, mirroring the deficit on the capital and financial accounts. In the first three quarters of 2009, private financial foreign-exchange transactions totalled US$ 13 billion in net outflows, with a peak of US$ 5.8 billion in the second quarter and a sharp slowdown (to US$ 2.3 billion) in the third. Interventions by the central bank, which bought or sold foreign exchange as circumstances dictated, enabled it to maintain the level of international reserves, which stood at approximately US$ 47 billion in mid-November, slightly higher than at the end of 2008. This position was further enhanced by an allocation of US$ 2.65 billion in special drawing rights. The central bank also concluded currency swap agreements with its counterpart institutions in China and Brazil.

Export prices plunged 18% in the first ten months of the year, offsetting in part the sharp increases recorded in 2008. Export volumes fell by 10% during this period. Export values were substantially lower than a year earlier, particularly in the case of primary products (down 47%, reflecting lower prices as well as reduced volumes) and fuels (down 30%, despite an increase in volumes) and slightly less so in the case of both agricultural or industrial manufactures. Imports were down by 33% over the first 10 months (-7% in prices), with significant decreases being recorded in capital, intermediate and consumer goods.