

## Argentina

After growing by 0.5% in 2014, the Argentine economy picked up in 2015 and expanded by 2.2% in the first half of the year, following some stabilization in the foreign-exchange market. The latter also helped to slow inflation, which nevertheless remains well above the regional average. The public sector was the main driver of the economy's growth. Private consumption also rose in 2015, although at a much slower pace. In general terms, economic activity—and investment in particular—continued to be strongly affected by uncertainty in the currency markets, which worsened in the months leading up to the presidential elections. Export growth was hurt by the contraction of the Brazilian economy, the main destination for the country's manufacturing exports, and the fall in the international price of soybeans, its main export product. Average GDP growth is expected to close 2015 at 2.0%, after a likely stagnation (or contraction) towards the end of the year, as the shortage of foreign exchange worsens. Growth of 0.8% is projected for 2016, although the figure could be lower, depending on how the economy's external imbalances are resolved.

With foreign exchange in short supply, economic policy in 2015 was focused mainly on mitigating exchange-rate tensions and boosting the economy by fiscal means.

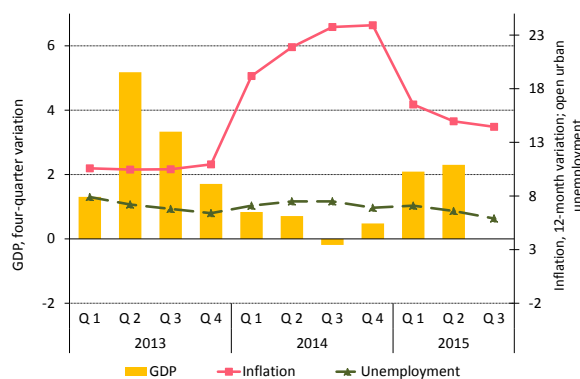
Fiscal policy was expansionary in the first nine months of 2015, with annual primary spending growth (36.5%) outstripping total revenue expansion (28.7%), which resulted in a primary deficit of 1.5% of GDP (3.5% of GDP after debt interest payments). Increased expenditure was driven chiefly by larger social security payouts, which increased by 45.7% year-on-year, and by transfers to the private sector (including public service tariff subsidies and cash transfers to households), which rose by 38.5%.

The bulk of the rise in annual revenue reflected higher tax receipts (27.8%) and social security contributions (38.5%). Revenue from the Sustainability Guarantee Fund (FGS) of the National Social Security Administration (ANSES) was equivalent to about 0.9% of GDP up to September, and the remittance of profits from the Central Bank of Argentina represented approximately 1.4% of GDP. Without the latter factor, the primary balance would be negative by 2.9% of GDP and the financial balance by 4.9%.

The national treasury also received financing in the form of 2.711 billion pesos in temporary advances from the central bank, which increased by 35% year-on-year, and from the market, which met some of its peso borrowing needs through issues of BONAR 2017 and BONAD 17 bonds, the latter linked to the dollar exchange rate. Public debt was equivalent to 43.7% of GDP in September 2015, up by 42.8% from a year earlier.

Monetary policy in 2015 was largely geared towards boosting lending, encouraging saving in pesos and financing micro, small and medium-sized companies (MSMEs). The monetary authority set ceilings on the interest rates of some credit lines, and the nominal lending rate (loans to

**Argentina: GDP, unemployment and inflation, 2013-2015**



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

the private sector) dropped to an average of 27.2% over the first nine months of the year, down more than 2 percentage points year-on-year. Minimum interest rates were set on certain deposits. The nominal deposit rate (fixed-term deposits) remained at 21%, in line with the average recorded between January and September 2014, while fixed-term deposits in the private sector rose by 37% in that same period. The monetary policy rate (the average rate on central bank bills (LEBAC) for 70- to 111-day terms) posted an average of 26.2% during the first nine months of the year, similar to the 26.6% recorded in the same period in 2014. As a result, bank liquidity remained relatively stable. In reaction to heightened exchange-rate tensions during the run-up to the presidential election, the central bank raised the LEBAC interest rate in pesos by 300 basis points in early November, which caused an equivalent increase in the rate received by savers with fixed-term deposits.

With regard to financing for production activities, the credit line for production investment (LCIP) was expanded in the second half of the year, raising the amount of available credit and lowering interest rates. Furthermore, the proportion that financial entities must earmark for loans was increased from 6.5% of deposits in the first half of 2015 to 7.5% in the second.

In the first nine months of 2015, lending to the private sector was the most significant driver of monetary expansion, owing mainly to schemes to facilitate access to consumer financing, which grew faster than production financing (35% compared with 24%). Consumer loans accounted for 54% of growth in private sector lending, commercial loans for 41% and mortgages and secured loans the remainder. Public sector financing using central bank resources held steady, contributing to a 31% expansion of the monetary base up to September. The combination of all these factors resulted in 32% year-on-year growth in M3, well above nominal GDP growth.

Although the foreign-exchange market began 2015 more stable than it had the previous year, with reserves rising thanks to a US\$ 11 billion currency swap agreement with China and other measures carried out at the end of 2014, policies remained focused on calming exchange-rate tensions. Bonds were issued in dollars (for close to US\$ 2 billion between BONAR 24 and BONAR 2020) and import control policies and certain restrictions on profit remittances remained in place.

Exchange-rate tensions resurfaced in the third quarter, owing to fears over foreign-currency shortages, following the payment of close to US\$ 6 billion in public debt maturities (plus earlier payments to the Paris Club and BONAR maturities), the intensification of some rationing measures and the proximity of the presidential elections. After this payment (which, like the previous ones, was drawn from international reserves), the reserve stock stood at under US\$ 27 billion (4.3% of GDP) in November 2015, the lowest level since July 2006.

In response to foreign-currency shortages, in November the government reduced the amount of dollars that importers could purchase without prior authorization (from US\$ 75,000 to US\$ 50,000) and

<b>Argentina: main economic indicators, 2013-2015</b>			
	2013	2014	2015 <sup>a</sup>
	<b>Annual growth rate</b>		
Gross domestic product	2.9	0.5	2.0
Per capita gross domestic product	1.8	-0.6	1.0
Consumer prices	10.9	23.9	14.3 <sup>b</sup>
Money (M1)	29.5	26.1	31.8 <sup>c</sup>
Terms of trade	-6.9	-2.2	-6.7
	<b>Annual average percentage</b>		
Open urban unemployment rate	7.1	7.3	6.3
Central government			
Overall balance / GDP	-2.6	-4.4	-2.6
Nominal deposit rate <sup>d</sup>	14.8	20.8	21.0 <sup>b</sup>
Nominal lending rate <sup>e</sup>	21.6	29.3	27.2 <sup>b</sup>
	<b>Millions of dollars</b>		
Exports of goods and services	96,494	85,998	74,449
Imports of goods and services	89,144	79,685	73,634
Current account balance	-4,568	-5,877	-11,585
Capital and financial balance <sup>f</sup>	-7,256	7,072	7,020
Overall balance	-11,824	1,195	-4,566

**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 Fix term deposit rates.

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.

between October and November the central bank used futures contracts (in pesos but updated by the exchange rate), which were then suspended by the National Securities Commission from December.

The peso continued to depreciate against the dollar by 1% per month on average in the first eight months of the year, then exchange-rate tensions peaked in September and October and depreciation climbed to 1.3% per month. As a result, the gap between the official and parallel exchange rates (which has existed since restrictions were imposed on foreign-exchange market in late 2011) widened from 45% in June to 68% in September and October.

Among other policies implemented in 2015, family allowances and universal allowances for social protection were passed into law in July; these will be updated using the same criteria as the pensions mobility law (No. 26417). In early April, the government replaced the programme *Garrafa para Todos* with a household consumption subsidy on gas canisters, delivered through a cash transfer system known as *Programa Hogar*.

In the first half of the year, the balance-of-payments current account yielded a deficit of US\$ 5.8 billion (2% of GDP), an increase on the same period in 2014 (1.3% of GDP). This widening was due to a 15.1% fall in goods and services exports —largely a result of the drop in demand from Brazil and the low prices of Argentina’s main export products— that was not fully offset by a 10.4% fall in imports which, in turn, reflected constraints imposed by trade administration policy. As well as the loss of foreign exchange reflected in the current account, another US\$ 2.8 billion was lost through sales to private individuals. The capital and financial account balance posted a surplus, thanks to the use of the various tranches of the currency swap with China and the issuance of the aforementioned government bonds denominated in dollars.

Economic activity was up slightly (2.2%) in the first half of the year, on the back of growing public consumption and investment in construction, as well as a slight rise in private consumption. The other spending categories all contracted. On the supply side, a positive performance was rendered by both the services (2.0%) and goods (3.0%) sectors, the latter of which showed significant growth in agriculture (12.3%) and construction (7.4%), while manufacturing declined slightly (-0.2%), hit by the recession in automobile production (-12%) attributable chiefly to weak demand from Brazil.

Inflation slowed from the previous year, owing largely to the government’s use of the exchange rate as a nominal anchor; nevertheless, it remained above the regional average. The national urban consumer price index (IPCNU) showed a year-on-year increase of 15.9% in the first 10 months of 2015. In particular, the food and beverages price index grew the slowest (12.3%). Reports from the provincial statistical offices, which prepare their own indexes, show year-on-year average inflation at around 26.6% between January and October, also down on the prior-year period (39.8%). The provincial reports also recorded slower food and beverage price inflation, thanks to the effects of the *Precios Cuidados* public price regulation scheme, which is focused chiefly on food items.

Despite slack economic activity since 2014, the unemployment rate continued to fall (from 7.5% in the third quarter of 2014 to 5.9% in the same period of 2015). The employment rate rose from 41.3% to 42.2%, amid stagnant labour market participation (which barely moved from 44.7% to 44.8%). Although no mass dismissals have occurred, no progress has been seen in worker registration (over 33% of wage-earners have no pension deductions).

Wages, as measured by the wage index of the National Institute of Statistics and Censuses (INDEC), posted a year-on-year increase of 30.2% between January and September, above both the INDEC and the provincial inflation estimates, representing an increase in the purchasing power of the average wage. The minimum wage rose to 5,888 pesos in August 2015, 27% higher than the year before.

The minimum pension climbed to 4,299 pesos in September, yielding a 33% increase on the previous year.

Economic growth is projected at 0.8% in 2016 but, in an adverse international context, this will depend on an upturn in investments and exports (assuming the elimination of all export duties, except the rate on soybeans, which will be reduced from 35% to 30%).