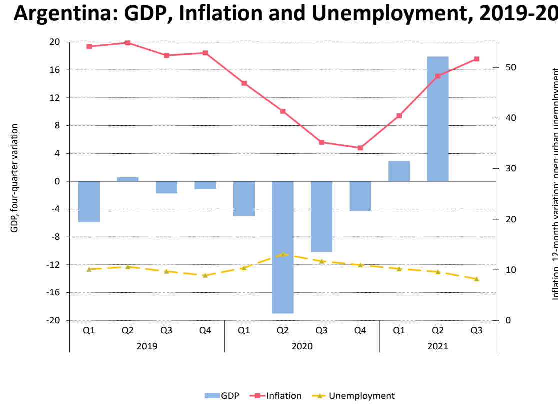
Argentina

In 2021, the Argentine economy recovered after three consecutive years of contraction. This performance was linked to the improving health situation and the progress of the vaccination campaign, which enabled a relaxation of the restrictions on mobility imposed owing to the coronavirus disease (COVID-19) pandemic. GDP is forecast to close the year with growth of 9.8%, compared to a 9.9% drop in 2020. In that context, inflation rose to 48.1% in year-on-year terms cumulatively to November, compared to the average of 42.0% recorded the previous year. For 2022, the recovery is expected to be sustained with 2.2% growth; this will be driven by private consumption, investment and exports, provided that the sectors most affected by the pandemic return to full operation and international demand remains unchanged. This estimate is subject to no new pandemic-related restrictions on movement, the outcome of the negotiations with the International Monetary Fund (IMF) —which remained ongoing at the time of writing— and unchanged growth expectations among the country's trading partners.

The primary fiscal deficit fell in 2021 on account of the economic recovery, higher international prices for the main export products and an improved targeting of assistance policies to the sectors most affected by the health crisis. In the first 11 months of the year, the primary deficit stood at 2.5% of GDP, compared to a deficit of 5.2% in the same period the previous year. This performance resulted from a 14% increase in central government revenues and a 1% drop in primary spending, both measured in real terms. Given the real-term 15% drop in debt interest made possible by the 2020 restructuring of foreign-currency liabilities, the overall fiscal deficit stood at 4.0% of GDP in the first 11 months of 2021, down from 7.2% during the same period in 2020. Including revenues from the Solidarity and Extraordinary Contribution (a one-time levy introduced on net worth exceeding US$2.4 million to cover emergency pandemic spending) and the allocation of Special Drawing Rights (SDR) by IMF, the primary deficit fell to 1.1% of GDP —and the overall deficit to 2.6%— for the year to November.

In 2021, the national government made changes to its assistance policies for the sectors hardest hit by the pandemic to ensure they were more accurately targeted. The Emergency Employment and Production Assistance Programme (ATP) was replaced by Productive Recovery Programme 2 (REPRO 2), under which the State covers a portion of the wage bills of companies that have experienced a drop in invoicing and which also includes own-account workers. At the same time, the Emergency Family Income (IFE) was replaced by the *Potenciar Trabajo* ("Boost Work") National Programme for Socio-Productive Inclusion and Local Development, which aims to encourage participation in productive projects and the completion of formal education, and under which the State pays beneficiaries one half of the minimum wage in exchange for four hours of work per day.

Argentina: GDP, Inflation and Unemployment, 2019-2021



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

During 2021, the amounts transferred by the *Alimentar* programme were also increased and its coverage was expanded; bonuses were applied to the lowest pensions to compensate for declining purchasing power; early retirement was implemented for unemployed people with 30 years of contributions and who were five years or fewer away from retirement; the *Registradas* programme was launched, to register and formalize domestic workers and to promote their employment in private homes by granting subsidies to their employers; a supplementary benefit was added to family allowances; and a set of changes to alleviate the income tax burden on individuals was announced. A new formula for the automatic updating of pensions and retirement benefits approved by Congress also came into effect during 2021; its calculation is based on the evolution in registered workers' wages and the revenues of the National Social Security Administration (ANSES).

Argentina: main economic indicators, 2019-2021

	2019	2020	2021 [a]
	Annual growth rate		
Gross domestic product	-2.0	-9.9	9.8
Per capita gross domestic product	-2.9	-10.7	8.8
Consumer prices [b]	52.9	34.1	51.7 [c]
Money (M1)	16.9	82.0	48.0 [d]
Terms of trade	-0.7	0.6	14.4
	Annual average percentage		
Open unemployment rate	9.8	11.5	9.8 [c]
Central government			
Overall balance / GDP	-4.0	-3.8	...
Nominal deposit rate [e]	47.3	29.4	33.6 [c]
Nominal lending rate [f]	66.9	36.8	40.7 [c]
	Millions of dollars		
Exports of goods and services	79 921	64 345	79 231
Imports of goods and services	66 558	51 954	70 809
Current account balance	-3 710	3 313	-2 045
Capital and financial balance [g]	-33 872	-11 040	...
Overall balance	-37 582	-7 727	...

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
a/ Estimates.
b/ As from 2017, the data are matched with those corresponding to Gran Buenos Aires; in order to make an interannual comparison.
c/ Figures as of September.
d/ Figures as of August.
e/ Fix term deposit rates.
f/ Local-currency loans to the non-financial private sector, at fixed or renegotiable rates, signature loans of up to 89 days.
g/ Includes errors and omissions.

With regard to the central government public debt, the Government of Argentina and the Paris Club reached an arrangement to defer some of the payments scheduled for 2021 (about US$ 2 billion out of a total amount of US$ 2.4 billion falling due) until 31 March 2022, while negotiations continue between the parties to restructure the debt Argentina owes to the group's member countries. At the time of writing, the Government of Argentina and IMF were negotiating an extended service agreement to repay the US$ 43.2 billion debt that the country owes the Fund for the loan requested in 2018, with maturities mostly spread over 2022 and 2023. The government aims to reach an agreement for a 10-year term, with a grace period of at least four years before payments of principal, which will provide greater external and fiscal space to sustain the economic recovery. In the second half of 2021, the government used the SDRs allocated in August 2021 to make payments to IMF that had fallen due.

Monetary policy was expansionary in 2021. The central bank kept its policy rate unchanged at a nominal annual interest rate of 38%, below the year-on-year inflation of the first 11 months of the year (48.1%). During that period, the central bank provided financial assistance to the Treasury to meet the expenses arising from the fiscal package to shore up the economic recovery, mainly through the transfer of revenues. At the end of 2021, the monetary base posted a nominal year-on-year increase of 47.9%.

Since the beginning of the pandemic crisis, the government and the central bank have expanded the supply of lines of finance for the private sector at conditions more favourable than those of the market. This expansion included a series of Ministry of Productive Development programmes through which new loans, borrowing cost subsidies and credit guarantees were granted, financed by the National Fund for Productive Development (FONDEP) and the Argentine Guarantee Fund (FoGAr). The central bank also launched the Productive Investment Financing Line (LFIP), under which banks must reserve a certain minimum balance for loans sought by micro-, small and medium-sized enterprises (MSMEs) to use as working capital and for the acquisition of capital goods.

The central bank's policy was also intended to curtail the rate of increase in the official exchange rate and thus reduce inflationary pressures. Over the first 11 months of the year, the nominal exchange rate rose by 21.4%, which was lower than the inflation rate during the same period (45.4%). As a result, the real multilateral exchange rate fell by 15.6%, even though inflation in the country's trading partners also accelerated. The central bank made net foreign currency purchases of US$ 5 billion in 2021 and —after the payment of maturing debt, the crediting of SDRs from IMF and the inclusion of other accounting factors— international reserves posted a slight increase of US$ 200 million to reach US$ 39.6 billion at year's end. During 2021, the central bank and the National Securities Commission (CNV) also implemented a set of measures to reduce pressures on the parallel exchange rates (where the differential with respect to the official exchange rate reached 100%), including such provisions as changes in the settlement terms of foreign-currency bond transactions. Significantly, restrictions on the purchase of freely available foreign currency remained in place during 2021.

Another set of productive and social policies was implemented in 2021. Among these was the capitalization, by the federal government and the Mendoza provincial government, of IMPSA, a company that manufactures equipment for the hydroelectric, wind, nuclear and hydrocarbon industries. The elimination of export duties for services produced in the country and consumed abroad was also announced, to start in 2022; the industrial promotion regime for the Province of Tierra del Fuego was renewed until 2038; Congress passed into law the "cold zones" bill, which extends the residential gas rate benefit to low-temperature provinces and localities; and the *Previaje* programme —a subsidy for purchases of tourist services in domestic destinations— was launched to support the recovery of that sector.

As of the third quarter of 2021, the balance-of-payments current account was in surplus by 1.3% of GDP, up from 1.2% the same period the previous year. This slight improvement in the current account balance was on account of a lower income deficit, which fell from 2.1% to 1.6% of GDP because of the reduced public debt interest burden resulting from the restructuring carried out in the second half of 2020. The lower goods surplus —down from 3.4% to 3.1% of GDP— partially offset and was associated with higher growth of imports (50% year-on-year) compared to exports (38%). The increased goods imports included rises in both volumes (35%) and prices (13%). All imports classified by economic uses increased in value and volumes in the cumulative total up to the third quarter of 2021, in line with the economic recovery. Exports also grew by value (26%) and volume (10%), driven mainly by agriculture and industrial manufactures. At the same time, the services deficit remained stable at 0.4% of GDP, as pandemic-related restrictions on cross-border passenger mobility continued, which had a negative impact on tourism flows. Finally, the current transfer surplus remained at 0.2% of GDP.

The financial account (discounting the variation in reserve assets) recorded an accumulated deficit of 0.4% of GDP up to the third quarter of 2021; this was because of the deficit from portfolio and other investments (1.2% of GDP), but it was partially offset by the direct investment surplus (0.9%). In particular, cumulative foreign direct investment (FDI) as of the third quarter of 2021 (1.1% of GDP) improved in comparison to the prior-year period (0.7%). The higher current account surplus relative to the deficit in the aforementioned financial account items, together with the adjustment for errors and omissions, explains the increase in international reserves equal to 0.7% of GDP accrued as of the third quarter of 2021.

Economic activity recovered 10.8% in year-on-year terms up to the third quarter of 2021, due to higher investment (up 41.9% year-on-year), private consumption (9.8%), public consumption (6.7%) and exports of goods and services (5.0%). In particular, the recovery of investment was on account of increased spending on transportation equipment (up 56.9% year-on-year), machinery and equipment (40.6%) and construction (40.2%). This dynamic was offset by an increase in imports of goods and services (up 21.8% year-on-year). On the supply side, four sectors in particular outperformed the levels recorded in the corresponding period of the year prior to the onset of the pandemic (2019): electricity, gas and water; manufacturing industry; wholesale and retail trade; and real estate, business and rental activities. These benefited from changes in consumption patterns during the pandemic, official policies and, later on, the improvement of the health situation. Noteworthy among the remaining sectors was the rapid recovery of the construction sector, which posted a 37.1% year-on-year increase in activity in the third quarter of 2021. According to the Monthly Estimator of Economic Activity (EMAE) —an indicator that helps predict the evolution of GDP— economic activity grew 10.4% year-on-year through October, and the seasonally adjusted figure for that month was 2.1% higher than in February 2020 (before the impact of the pandemic).

Inflation accelerated in 2021 over its 2020 average (42.0%) to reach 48.1% in year-on-year terms in November. This higher inflation was because of rising international food prices, the recovery of economic activity and the elimination of a series of price controls. The impact of the official exchange rate on inflation tended to decrease as its rate of increase slowed. The wage index prepared by the National Institute of Statistics and Censuses (INDEC) fell by 4.2% in year-on-year real terms as of October. In November, the minimum retirement pension was 25,922 pesos (US$ 260) and the minimum wage stood at 32,000 pesos (US$ 320). In the year to November, the minimum retirement benefit fell by 7.9% in year-on-year real terms and the real-term minimum wage rose by 1.2%.

The unemployment rate fell to 8.2% in the third quarter of 2021, down from 11.7% in the year-earlier period. This drop in unemployment occurred alongside a labour participation rate of 46.7% in the third quarter of 2021, up from 42.3% in the same period the previous year, but still below the 47.2% recorded in the third quarter of 2019. In the first 10 months of 2021, registered employment increased by 1.8% in year-on-year terms, driven mainly by own-account workers registered as sole proprietors under the simplified single tax regime (7.4%) and public sector employees (2.2%). Notable among registered waged employees in the private sector were the increases in employment in the construction sector (7.4% year-on-year in the year to October) real estate, business and rental activities (3.6%) and manufacturing (2.4%), in keeping with the upticks in those sectors' levels of activity.