

Argentina

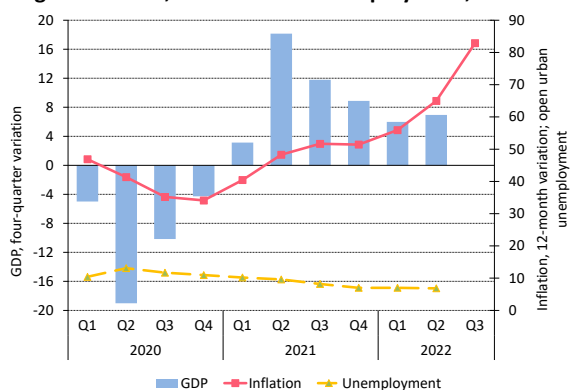
In 2022, the Argentine economy consolidated the recovery of the previous year. This performance was linked to the full reestablishment of activities after the most critical phase of the coronavirus disease (COVID-19) pandemic and to government aid policies. GDP is forecast to close the year with growth of 4.9%, following the 10.4% recovery in 2021. Average inflation for the first 11 months of the year was 70.0% year-on-year (compared to an average of 48.4% in 2021), in the context of higher international commodity prices triggered by the conflict in Ukraine and local exchange-rate uncertainty. Growth of 1% is expected for 2023, based on a slowdown in global demand and an expected negative statistical effect from 2022. This scenario is subject to there being no external disruptions to the economy.

Fiscal policy was expansionary in the first 11 months of 2022, as a result of a 1.8% year-on-year real increase in primary spending. During the same period, the primary deficit narrowed to 1.5% of GDP (down from 2.0% in the year-earlier period, excluding extraordinary revenues), owing to more growth in economic activity than spending and a slight real contraction in total revenues (1.0% year-on-year). In terms of primary spending, social benefits increased by 8.1% in real terms. Concerning revenues, higher income tax contributions, which rose by 19.9% in real terms, are noteworthy. With an increase in debt interest of 9.9% in real terms, the overall fiscal deficit stood at 2.8% of GDP for the first 11 months of 2022, down from 3.4% in the same period of 2021 (excluding non-recurring revenues).

In the last quarter of 2022, the Government of Argentina announced two fiscal measures to mitigate the effects of rising inflation on real incomes. The first was a subsidy of 45,000 Argentine pesos (US\$ 275) for vulnerable sectors not covered by social plans, which will cover close to 2 million people. The second was an adjustment to the minimum non-taxable income rate to alleviate the tax burden on approximately 380,000 registered workers. These measures accompanied other policies implemented during the year, including subsidies for retirees and pensioners who receive the equivalent of two minimum wages or less in benefits; a supplement to family allowances; income support for the unemployed, informal workers, domestic workers and the lowest categories of taxpayers under the simplified single tax system; and an increase in the amount of the Alimentar Programme benefit.

Regarding public debt, in early 2022 the Government of Argentina and the International Monetary Fund (IMF) reached an agreement for a US\$ 45 billion Extended Fund Facility to finance payment of maturing amounts of the agreement requested in 2018. The new agreement includes quarterly reviews and fiscal, monetary and international reserve policy commitments as a condition for disbursements. In October, IMF approved the second review of the agreement after end-September targets were met for monetary

Argentina: GDP, Inflation and Unemployment, 2020-2022



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

financing of the fiscal deficit and net international reserves. This approval enabled a new disbursement of US\$ 3.8 billion which, after the payment of maturities, brought the total debt with the Fund to US\$ 43.2 billion. Also in October, economic authorities announced an agreement with the Paris Club of Industrial Country Creditors to restructure around US\$ 2 billion in debt with that group of creditors, by reducing the interest rate and extending the payment period. At the end of the first half of 2022, the central government's gross public debt, including public sector liabilities, was equivalent to 79% of GDP.

In 2022, the Central Bank of the Argentine Republic raised its policy rate in response to higher inflation and growing pressure on parallel exchange rates (which were more than 100% higher than the official exchange rate). From the start of the year to November, the policy rate increased from a 38% nominal annual interest rate to 75%. The November inflation rate was equal to an effective annual rate of 107.3%, higher than projected in the central bank's market expectations survey (around 100%) for the end of 2022. Interest rates on loans and deposits to the private sector also increased: the interest rate on personal spending loans rose from an annual nominal rate of 55% to 79%, and the interest rate on private banks' wholesale fixed-term deposits (of 20 million Argentine pesos or more) increased, from an annual nominal rate of 36% to 66% in the same period. The monetary authority established a minimum yield on retail fixed-term deposits for consumers (of less than 10 million Argentine pesos) to encourage savings in local currency. Similarly, it created investment instruments tied to the official exchange rate to encourage export activity in the agricultural sector. As for private sector loans and deposits, the former fell by 8.3% and the latter rose by 4.4% over the first 11 months of the year in real terms.

The national government and central bank continued to implement policies to improve access to concessional credit. A pillar of this policy are the 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). Another is the Productive Investment Financing Line (LFIP) of the central bank, under which banks must set aside 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. As of October 2022, the balance of financing extended through LFIP represented 17.5% of total loans on average.

Exchange-rate policy during 2022 focused on attenuating local-currency appreciation in the face of rising inflation and implementing measures to favour accumulation of international reserves. In the first 11 months of the year, the nominal exchange rate climbed by 59.1%, amid an inflation rate for the same period of 85.3%. As a result, the multilateral real exchange rate fell by 11.8%. By the end of November, central bank action on the foreign-exchange market had resulted in a net purchase of US\$

Argentina: main economic indicators, 2020-2022

	2020	2021	2022 ^a
	Annual growth rate		
Gross domestic product	-9.9	10.4	4.9
Per capita gross domestic product	-10.8	9.4	4.0
Consumer prices ^b	34.1	51.4	87.8 ^c
Money (M1)	82.0	48.5	56.6 ^d
Terms of trade	0.6	9.7	-0.8
	Annual average percentage		
Open unemployment rate	11.5	8.8	6.9 ^e
Central government			
Overall balance / GDP	-3.7	-4.5	...
Nominal deposit rate ^f	29.4	33.6	47.8 ^c
Nominal lending rate ^g	36.8	40.2	53.5 ^c
	Millions of dollars		
Exports of goods and services	119 377	165 402	195 268
Imports of goods and services	92 654	131 653	179 693
Current account balance	2 004	-73 302	-109 539
Capital and financial balance ^h	10 531	122 138	...
Overall balance	12 534	48 835	...

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 October.

d/ Figures as of September.

e/ Figures as of June.

f/ Fix term deposit rates.

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

h/ Includes errors and omissions.

3.8 billion. However, the net cancellation of public sector debt, together with other operations, meant that at the end of November, international reserves had fallen to US\$ 38 billion, or 6.1% of GDP.

One notable exchange-rate measure implemented in 2022 by the national government and the central bank to facilitate the inflow of foreign currency was the “Programa de Incremento Exportador” which, during September, established a special exchange rate 39% above the official exchange rate for soybean and soybean derivative exports, which allowed the central bank to purchase US\$ 7.6 billion (a significant increase with respect to previous operations). Also aimed at increasing foreign currency supplies, a set of regulations were introduced that exempt service-sector companies and entrepreneurs from the obligation to settle a percentage of their foreign income on the official foreign exchange market, and grant credit card issuers access to the parallel financial exchange rate, above the official one, to finance foreign tourist spending in the country. The latter measure is designed to prevent foreign tourists from resorting to informal foreign-exchange markets to obtain a better rate.

The national government and monetary authorities also implemented measures to reduce demand for foreign currency. Among these are a series of regulations to limit cash payments for imports and prioritize payments for energy and production inputs, together with fiscal reform to increase the spending costs of Argentinians abroad and of the contracts of foreign artists performing in the country. Demand for foreign currency for travel by Argentinians abroad was one of the fastest growing outflows after the lifting of movement restrictions.

Other measures implemented in 2022 included the start of construction of the first section of a new gas pipeline which will connect the Vaca Muerta unconventional oil and gas field to the centre of the country with the aim of increasing domestic supplies of natural gas from mid-2023. The national government also launched the “Ahora 30” programme to offer the purchase of energy-efficient household appliances in up to thirty instalments and at below-market prices. Likewise, a set of price agreements was signed with companies producing basic necessities, and the Previaje programme, a subsidy for purchases of tourist services in domestic destinations, was extended to support the recovery of that sector.

The current account deficit stood at 0.4% of GDP in the first half of 2022, in contrast to a surplus of 0.6% of GDP in the year-earlier period. This worsening of the current account balance is the result of a smaller goods surplus, which fell from 1.7% of GDP in the first half of 2021 to 0.9% in the same period of 2022, and a larger services deficit, which went from 0.3% of GDP to 0.6% in the same period. Overall, primary and secondary income remained stable in the first half of 2022 relative to the year-earlier period with a deficit in the former of 0.9% and a surplus in the latter of 0.2% of GDP. The fall in the goods surplus is explained by a larger increase in imports than exports in terms of value (44% versus 25%, respectively, year-on-year) during a period in which the recovery of economic activity and rise in international energy prices boosted imports. The higher prices of major agricultural export products were not enough to counteract this trend. A higher net outflow from the travel and transportation subaccount (0.5% of GDP in the first half of 2022, up from 0.2% in the year-earlier period), linked to the lifting of COVID-19 related restrictions and the reestablishment of cross-border movements, pushed up the services deficit.

The financial account (excluding the variation in reserve assets) recorded a surplus of 1.4% of GDP in the first half of 2022 due to the positive contribution of direct investment (1.2% of GDP) and other investment (0.8%). In particular, foreign direct investment (FDI) increased to 1.4% of GDP, mainly owing to an increase in debt issued by branches and subsidiaries in the country and extended by their foreign parent companies. Net disbursements linked to the IMF loan provided another source of foreign currency inflow. 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 in the first half of 2022.

The recovery of economic activity in 2021 was consolidated in 2022. GDP grew by 6.4% year-on-year up to the third quarter, driven by investment (14.6% year-on-year), private consumption (10.7%), exports of goods and services (4.0%) and public spending (3.2%). The 23.5% year-on-year increase in imports of goods and services partially offset the above components. On the supply side, four sectors of activity accounted for more than half of all growth in output: (i) manufacturing, (1.1 percentage points of growth); (ii) commerce (1 percentage point); (iii) transportation (0.7 percentage points); and (iv) real estate, business and rental activities (0.6 percentage points). The commerce and manufacturing sectors grew the most from pre-pandemic levels (14.1% and 12.5%, respectively, relative to the first half of 2019). Real estate, business and rental activities include a number of modern service industries that were particularly boosted during the COVID-19 pandemic, such as computer and professional services. Hospitality, which represents a smaller percentage of GDP than the previously mentioned sectors, recorded the most growth among all activities up to the third quarter of 2022 (41.6% year-on-year), following the lifting of restrictions due to the pandemic and the improved health situation.

Inflation increased significantly in 2022. The cumulative rate for the first 11 months of the year rose to 70.0% year-on-year and in November it had risen to 92.4% compared to the same month of the previous year. This increase in inflation is linked to both external and internal factors. External factors include the rise in international food and energy prices resulting from the conflict in Ukraine. Internal factors include more rapidly-paced official exchange rate hikes, readjustments to regulated prices and local exchange rate uncertainty, which affected business profit margins. In this context, the wage index calculated by the National Institute of Statistics and Censuses (INDEC) was down by 0.2% year-on-year in real terms to August. In November, the minimum retirement pension was 43,350 Argentine Pesos (US\$ 280) and the minimum wage was 57,900 Argentine Pesos (US\$ 370).

The unemployment rate fell to 6.9% in the second quarter of 2022 compared to 9.6% in the year-earlier period, with the activity rate above pre-pandemic levels (47.9% in the second quarter of 2022, up from 47.7% in the same period in 2019). In the first nine months of 2022, registered employment increased by 4.9% year-on-year, driven by self-employed workers (10.5%), private sector wage earners (4.3%), and public sector wage earners (2.6%).