Argentina

1. General trends

The Argentine economy once more expanded noticeably during 2008 and rising investment drove the capital formation ratio to 20.8%. There was a strong slowdown in the course of the year, however, reflecting the impact of the international crisis as well as a number of domestic factors. In the first few months of 2009, construction and manufacturing showed signs of a downturn, especially in sectors affected by consumption of durable and production goods, and agriculture was hit by a severe drought and uncertainty over prices and profits. Nevertheless, official indexes of aggregate economic activity continued to show positive year-on-year variations, in the first quarter. According to ECLAC projections, economic growth will be 1.5% in 2009. Unemployment remained historically low, although labour-market conditions continued to worsen and the manufacturing employment rate dipped towards the end of 2008 and into the early months of 2009. Variation in the consumer price index was estimated by the National Institute of Statistics and Censuses (INDEC) at 7.2% for 2008.

Especially early in the year, economic patterns in 2008 were driven by a strong upturn in export prices. Although this had a positive impact on national income, it also gave rise to a number of tensions over distributive issues. Terms of trade for the year overall were the best for more than five decades and up by 12.9% on the 2007 figure. As a result, even with a strong rise in import volumes (16%) and unchanged export volumes, the trade surplus swelled to some US$ 14.5 billion (representing around 3.3% of GDP). By contrast, large outflows of capital from the non-financial private sector fuelled excess demand for foreign currency as of the second quarter, which forced a drawdown of reserves. In the first few months of 2009 private-sector acquisitions of large foreign assets continued to offset the country's considerable trade surpluses, except that the goods trade surplus reflected large falls in both imports and exports.

In 2002-2008 the Argentine economy's growth relied relatively little on credit use and the country ran surpluses on the balance-of-payments current account and on the public sector accounts. As a result, when the international crisis hit the economic agents were not, as a rule, carrying high levels of debt and some sectors enjoyed strong liquidity positions. This softened those impacts that were carried through financial channels, though certain elements of uncertainty on both the external and domestic fronts fed through to the assets market and the risk premiums implicit in public security prices rose sharply in the latter part of 2008 and in March 2009. By mid-2009, risk premiums had fallen back again, but were still high compared to those seen in previous years and elsewhere.

These conditions severely constrained the public sector's access to market financing and it remained the policy not to apply to the International Monetary Fund (IMF), so the government had to find ways of raising the funds to maintain spending and meet its debt payments. One of the measures taken was to refinance obligations owed to local financial entities. Another measure, the transfer of the private component of the pension system to the public sector, which was announced in October 2008, led to a sizeable flow of resources in pension contributions and the payment of a large segment of debt.

International trade flows were badly affected by the external crisis and the poor grain harvest. In the first four months of 2009, export values were down 24% on the year-earlier period owing to the effects of both prices (-15%) and volume (-9%). The powerful drag effect of exports was accompanied by continued outflows of private capital. The real adjustment in the economy took the form of a heavy drop in investment, as noted earlier, particularly in imports of equipment goods. Sales of consumer durables, both nationally produced and imported, also declined. Current consumptions flows appear to have held steady, however.

As economic activity began to slow, the government looked for other mechanisms to sustain domestic spending. It was announced that funds from the social security system would be used to bolster public works programmes and to prop up demand for various types of consumer and capital goods through lending. The government also took steps to contain job losses, particularly in larger firms, and took steps to restrict certain imports. In addition, the central bank signed currency swap agreements with its Brazilian and Chinese counterparts, in order to strengthen the country's external liquidity position.

In the first few months of 2009 public revenues showed signs of slackening and expanded considerably more slowly in nominal terms than primary spending (15% compared with 24%). Weaker resource-generation was associated mainly with the performance of taxes on external trade and financial transactions and was offset by inflows of further funding in transfers from the social security system. Although external conditions continued to be marked by great uncertainty, the prices of Argentina's main export products returned to levels comparable to those of the last few years, before the extraordinary surges of previous months. Meanwhile, the proximity of the parliamentary elections in June rather limited the economic decision-making horizon.

2. Economic policy

(a) Fiscal policy

In 2008, the national public sector again ran a higher financial surplus than it had the previous year (1.4% of GDP measured on a cash basis, as against 1.1% of GDP). The primary surplus was around 3.1% of GDP, similar to the 2007 figure. This pattern reflected significant increases in both income and expenditure. As a percentage of GDP, primary expenditures rose by just over 1.5 points (from 21.3% to 22.9%), with the increase taking place mainly in current transfers to the private sector and such items as energy, transport and food, which were up by 0.9 GDP points (from 3.5% to 4.4%). Towards the end of the year the government adjusted utility rates, partly in order to ease the burden of subsidies. Other spending items, such as wages, social security benefits and capital expenditures, rose in line with GDP.

Receipts from national taxes rose by almost 1.5 GDP points to 26.7%. Much of this increase (one GDP point) was attributable to export duties. Income from contributions to the social security system also rose (0.6 GDP points), partly because of the incorporation of resources that would previously have gone to the system's private component. The main domestic taxes on income and economic activity (VAT and capital gains tax) remained virtually unchanged as a proportion of GDP.

Macroeconomic performance had a strong bearing on the measures taken to raise resources. In the first quarter of 2009, year-on-year figures showed receipts from external trade taxes strongly down (14%) and nominal income from VAT up by less than 10%. The pension system reform generated a surge (64%) in social security inflows and this sustained total receipts, which were up by 16%. Meanwhile, primary spending was increasing at a faster rate (25%). Transfers to the private sector during this period (15%) were heavily outpaced by other items, such as social security benefits (27%) and capital expenditures (34%), and the overall result was a sharply lower primary surplus (down by 50%). The government took steps to reduce the rates on wage taxes and created a scheme for allocating receipts from soya export duties to the provinces, some of which appeared to be struggling to cover their costs.

The public debt decreased to just under 50% of GDP. In 2008 the government considered regularizing outstanding debt owed to the Paris Club and making proposals to holdouts from the 2005 restructuring, but postponed both initiatives.

(b) Monetary and exchange-rate policies

The inflation rate came under pressure from rapidly swelling domestic demand and rising international prices in early 2008. Consequently, monetary policy was directed towards keeping the money supply growing below nominal output and managing exchange-rate variation. Conflict in the agricultural sector led to some financial turmoil in the second quarter, when deposits shrank and tensions arose in the currency market. The central bank took steps to prop up liquidity, while intervening actively in the market by selling foreign exchange. A similar approach was taken during episodes of financial tension in September-November 2008 and March 2009, although from mid-2008 onward the exchange rate was kept on a track of more rapid currency depreciation and the price of the dollar rose by almost 20% between June 2008 and June 2009. In the early part of 2009, the multilateral real exchange rate was higher than the levels recorded before the depreciation of the early 2000s, but lower than in late 2007.

In 2008 overall, monetary aggregates held by the private sector expanded by around 10%. The banks reduced their holdings in central bank papers by around 25% and, partly as a result, lending to the private sector expanded more than deposits (by some 20%). In the first few months of 2009, the nominal values of deposits and loans remained virtually unchanged.

Interest rates varied, with large fluctuations around periods of turbulence. In April 2009, yields on fixed-term deposits were around 12%, 4 percentage points higher than a year earlier, but 5 points below the figures for November 2008. Lending rates followed a similar pattern, but with much higher figures. The stock markets recorded large movements with heavy falls in the share price index (cumulatively, over 50%) throughout 2008 and a slight recovery (15%) in the first four months of 2009.

3. The main variables

(a) Economic activity

GDP rose 7% on average in 2008, which represented the continuation of an unusually long and dynamic expansionary period (with growth of 8.5% per year between the low point of 2002 and 2008, and almost 3% per year between the cyclical high 10 years ago and 2008). Investment again rose at rates above GDP growth, so the capital formation ratio was by far the highest of the series beginning in 1993. This occurred both in construction and in durable production equipment, in which investment exceeded 10% of GDP. The expansion of export volumes slowed and the slight rise recorded stood in contrast to the surges of previous years. The volume of private consumption rose approximately in line with output. The savings rate (at current prices) showed a slight increase on 2007. This is significant because the records for that year (27% of GDP) actually exceeded those of the expansionary periods of the 1990s by almost 10 percentage points.

From the perspective of merchandise supply, output growth was driven in 2008 by manufacturing and construction, although both these sectors slackened. With regard to the primary sectors, activity stood still in mining and slipped back a little in agriculture, owing to weather problems and the stand-off between the government and the farmers. Output of infrastructure services climbed strongly (10.9%) and the rise in other services was also considerable (over 7%).

Livestock farming showed downturns in slaughter volumes, meat production and exports, and the high proportion of female animals slaughtered indicated that stocks were being reduced. Government intervention in the market helped to keep farm prices stable, while consumer prices rose below the average rate. Consumption per capita remained relatively high.

Petroleum extraction continued to trend downward (this time by 1.8%) and reached a 15-year low. Gas production also dropped, by almost 1%. These developments in hydrocarbon supply were associated with dips in the volumes of fuels and energy exported.

Growth was widespread across the manufacturing sector in 2008 overall. Automobile production rose at above-average rates (approaching 600,000 units), as did output in the basic metals industries. Both these activities, however, experienced sharp downturns as of mid-year and this influenced the aggregate performance, which showed a year-on-year decline in the first four months of 2009. A similar pattern was observed in the construction industry.

(b) Prices, wages and employment

In the first few months of 2008, price movements continued to be driven by rapidly rising demand and surges in international prices, which were passed through to high inflation rates. The pace of inflation slowed notably

Table 1
ARGENTINA: MAIN ECONOMIC INDICATORS

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Annual growth rates [b]				
Gross domestic product	-0.8	-4.4	-10.9	8.8	9.0	9.2	8.5	8.7	7.0
Per capita gross domestic product	-1.8	-5.4	-11.7	7.8	8.0	8.1	7.4	7.6	5.9
Gross domestic product, by sector									
Agriculture, hunting, forestry and fishing	-1.7	1.1	-2.3	6.9	-1.5	11.1	2.6	9.8	-1.5
Mining and quarrying	6.7	4.7	-3.7	3.7	-0.4	-0.2	3.0	-0.5	1.2
Manufacturing	-3.8	-7.4	-11.0	16.0	12.0	7.5	8.9	7.6	5.0
Electricity, gas and water	6.6	1.1	-3.0	6.9	6.5	5.0	5.0	5.7	3.7
Construction	-9.3	-11.6	-33.4	34.4	29.4	20.4	17.9	9.9	3.7
Wholesale and retail commerce, restaurants and hotels	-2.4	-7.8	-16.8	11.7	12.4	9.5	7.9	10.7	7.9
Transport, storage and communications	1.7	-4.6	-7.9	8.2	13.4	14.8	13.4	13.7	12.7
Financial institutions, insurance, real estate and business services	1.3	-4.4	-9.6	-1.1	2.2	7.1	8.2	8.1	9.3
Community, social and personal services	1.7	-0.1	-3.3	2.8	4.4	5.6	5.4	5.0	4.9
Gross domestic product, by type of expenditure									
Final consumption expenditure	-0.5	-5.2	-12.8	7.0	8.3	8.5	7.4	8.8	6.7
Government consumption	0.6	-2.1	-5.1	1.5	2.7	6.1	5.2	7.6	7.0
Private consumption	-0.7	-5.7	-14.4	8.2	9.5	8.9	7.8	9.0	6.7
Gross domestic investment [c]	-6.8	-15.7	-36.4	38.2	34.4	22.7	18.2	13.6	9.0
Exports (goods and services)	2.7	2.7	3.1	6.0	8.1	13.5	7.3	9.1	1.1
Imports (goods and services)	-0.2	-13.9	-50.1	37.6	40.1	20.1	15.4	20.5	13.3
					Percentages of GDP				
Investment and saving [d]									
Gross domestic investment [c]	17.5	15.6	11.0	14.6	19.0	20.9	23.0	24.2	25.0
National saving	14.4	14.2	19.6	20.9	21.1	23.8	26.7	27.0	27.1
External saving	3.1	1.4	-8.6	-6.3	-2.1	-2.9	-3.6	-2.8	-2.1
					Millions of dollars				
Balance of payments									
Current account balance	-8 955	-3 780	8 767	8 140	3 212	5 275	7 770	7 412	7 034
Goods balance	2 452	7 385	17 178	16 805	13 265	13 087	13 958	13 456	15 464
Exports, f.o.b.	26 341	26 543	25 651	29 939	34 576	40 387	46 546	55 980	70 021
Imports, f.o.b.	23 889	19 158	8 473	13 134	21 311	27 300	32 588	42 525	54 557
Services trade balance	-4 284	-3 863	-1 460	-1 193	-1 331	-992	-501	-452	-889
Income balance	-7 522	-7 727	-7 491	-7 976	-9 283	-7 304	-6 148	-5 927	-7 651
Net current transfers	399	424	540	504	561	484	459	336	111
Capital and financial balance [e]	7 737	-17 679	-22 158	-17 177	-10 164	2 143	6 439	4 188	-10 724
Net foreign direct investment	9 517	2 005	2 776	878	3 449	3 954	3 099	4 969	7 502
Other capital movements	-1 781	-19 684	-24 934	-18 055	-13 613	-1 811	3 340	-781	-18 226
Overall balance	-1 218	-21 459	-13 391	-9 037	-6 952	7 418	14 208	11 600	-3 690
Variation in reserve assets [f]	439	12 083	4 516	-3 581	-5 319	-8 857	-3 529	-13 098	-9
Other financing	778	9 376	8 876	12 618	12 271	1 439	-10 679	1 499	3 699
Other external-sector indicators									
Real effective exchange rate (index: 2000=100) [g]	100.0	95.9	225.8	205.0	212.8	213.4	218.0	222.1	229.1
Terms of trade for goods (index: 2000=100)	100.0	99.3	98.7	107.2	109.2	106.9	113.4	117.5	132.7
Net resource transfer(millions of dollars)	993	-16 030	-20 773	-12 535	-7 175	-3 722	-10 388	-241	-14 676
Total gross external debt (millions of dollars)	155 014	166 272	156 748	164 645	171 205	113 799	108 873	124 575	128 112
					Average annual rates				
Employment									
Labour force participation rate [h]	57.7	57.3	57.2	60.1	60.3	59.9	60.3	59.5	58.8
Open unemployment rate [i]	15.1	17.4	19.7	17.3	13.6	11.6	10.2	8.5	7.9
Visible underemployment rate [i]	17.1	18.9	24.0	20.7	17.5	14.2	12.5	10.4	9.5
					Annual percentages				
Prices									
Variation in consumer prices (December-December)	-0.7	-1.5	41.0	3.7	6.1	12.3	9.8	8.5	7.2
Variation in wholesale prices (December-December)	2.4	-3.4	113.7	2.0	7.9	10.6	7.2	14.6	8.8
Variation in nominal exchange rate (annual average)	0.0	0.0	206.5	-5.3	0.8	-0.0	5.2	1.3	1.5
Variation in average real wage	2.3	-0.8	-13.9	-1.9	10.0	7.4	8.9	9.1	8.8
Nominal deposit rate [j]	8.5	16.3	39.3	10.5	2.7	3.9	6.5	7.9	11.1
Nominal lending rate [k]	11.1	26.5	53.0	19.1	6.8	6.2	8.6	11.1	19.5

Table 1 (concluded)

	2000	2001	2002	2003	2004	2005	2006	2007	2008 [a]
					Percentages of GDP				
Central national administration									
Total income	15.2	14.3	14.2	16.1	16.3	16.7	17.2	18.2	19.3
Current income	15.0	14.2	14.1	16.1	16.2	16.5	17.0	18.1	19.2
Tax income	12.9	12.9	12.1	14.5	15.4	15.8	16.0	17.2	18.1
Capital income	0.1	0.1	0.0	0.1	0.1	0.2	0.2	0.1	0.1
Total expenditure	17.3	18.3	14.8	15.9	14.4	16.3	16.2	17.5	18.8
Current expenditure	16.3	17.4	14.1	15.1	12.9	14.3	13.6	15.3	16.6
Interest	3.4	4.0	2.1	1.9	1.3	1.9	1.7	2.1	2.1
Capital expenditure	1.1	0.9	0.7	0.8	1.5	2.0	2.6	2.2	2.2
Primary balance	1.3	0.0	1.5	2.1	3.2	2.3	2.7	2.7	2.5
Overall balance	-2.1	-4.0	-0.6	0.2	2.0	0.4	1.0	0.6	0.4
National administration debt [l]	45.0	53.7	145.9	138.2	126.4	72.8	63.6	55.7	48.3
Domestic	16.4	22.3	52.8	59.4	52.7	38.3	37.4	31.8	...
External	28.6	31.5	93.0	78.8	73.8	34.5	26.1	23.9	...
Money and credit [m]									
Domestic credit	31.7	32.6	43.2	37.9	32.7	24.9	20.7	17.1	15.7
To the public sector	12.8	18.8	48.8	42.2	38.0	29.5	22.0	17.4	15.2
To the private sector	23.9	20.8	15.3	10.8	10.5	11.7	13.0	14.5	13.6
Others	-5.0	-7.1	-20.9	-15.1	-15.8	-16.2	-14.3	-14.7	-13.1
Liquidity (M3)	29.6	24.9	21.9	24.9	24.7	25.8	25.8	26.1	22.3
Currency outside banks and local-currency deposits (M2)	12.9	8.5	21.2	23.5	23.0	23.8	23.5	23.5	19.6
Foreign-currency deposits	16.8	16.5	0.7	1.4	1.7	2.0	2.3	2.6	2.7

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1993 prices.
[c] Gross domestic investment does not include changes in stocks.
[d] Based on figures in local currency expressed in dollars at current prices.
[e] Includes errors and omissions.
[f] A minus sign (-) denotes an increase in reserves.
[g] Annual average, weighted by the value of goods exports and imports.
[h] Economically active population as a percentage of the working-age population, urban areas.
[i] Percentage of the economically active population, urban areas.
[j] Fixed-term deposits, all maturities.
[k] 30-day loans to leading firms.
[l] As from 2005, this does not include unswapped debt.
[m] The monetary figures are end-of-year stocks.

towards the end of the year and in the early months of 2009, although there are still a strong pass-through to consumer prices.

Nominal wages registered a cumulative variation of 22% in 2008, with the largest wage hikes going to workers not registered in the social security. Wage rises in the public sector and the formal private sector were slightly below the average. Wages rose by some 3% in the first quarter of 2009, again driven by the informal sector.

The employment rate rose marginally in 2008 to 42.6% of the total population in the fourth quarter, compared with 42.1% in the year-earlier period. The unemployment rate in that period stood at 7.3% (7.5% a year earlier) and records for the first quarter of 2009 show no variation from first-quarter 2008 (8.4%). The downturn in manufacturing was reflected in the sector's employment indices as of the end of 2008. Year-on-year, manufacturing employment dropped by 0.5% in the final quarter of 2008 and by 2.6% in the first quarter of 2009 and the number of hours worked fell heavily, by 5.4% and 4.3%, respectively, in the two periods. These were the first negative variations observed since 2002.

(c) The external sector

The current account surplus came in at US$ 7.034 billion in 2008, as against US$ 7.412 billion in 2007. The larger surplus on the trade balance offset the rise in outflows on the income balance, which reflected both interest payments (about US$ 1.5 billion, some US$ 900 million more than in 2007) and remittances of profits and dividends (US$ 5.9 billion compared with US$ 5.2 billion the previous year). The services balance was moderately negative, with a slightly larger deficit than in 2007. There were increases in both exports and imports of items such as transport, travel and informatics and professional services (exports in this last category rose to over US$ 4.5 billion). Capital flows shifted from a strong positive net position in 2007 to a sizeable deficit. To some extent, this reflected the performance of public sector operations but the main cause was a large outflow of funds from the non-financial private sector. Activity in the currency market generated a small increase in central bank reserves over the year overall, owing to the combination of a large build-up in the first quarter and decreases throughout the rest of the year, especially in the second quarter.

Table 2
ARGENTINA: MAIN QUARTERLY INDICATORS

	2007				2008 [a]				2009 [a]	
	I	II	III	IV	I	II	III	IV	I	II
Gross domestic product (variation from same quarter of preceding year) [b]	8.0	8.6	8.8	9.1	8.5	7.8	6.9	4.1	2.0	...
Goods exports, f.o.b. (millions of dollars)	11 144	13 666	14 347	16 622	16 008	17 464	21 308	15 264	11 756	...
Goods imports, c.i.f. (millions of dollars)	9 164	10 182	12 695	12 666	12 849	15 327	16 502	12 736	8 307	...
Gross international reserves (millions of dollars)	35 876	41 938	42 931	45 711	50 039	47 918	47 072	46 198	46 933	46 026
Real effective exchange rate (index: 2000=100) [c]	215	218	224	231	235	238	229	216	224	242 [d]
Open unemployment rate	9.8	8.5	8.1	7.5	8.4	8.0	7.8	7.3	8.4	...
Consumer prices (12-month percentage variation)	9.1	8.8	8.6	8.5	8.8	9.3	8.7	7.2	6.3	5.5 [d]
Average nominal exchange rate (pesos per dollar)	3.10	3.08	3.14	3.14	3.15	3.12	3.05	3.33	3.54	3.73
Average real wage (variation from same quarter of preceding year)	8.1	8.5	9.2	10.6	6.4	8.2	9.8	10.4	15.1	...
Nominal interest rates (annualized percentages)										
Deposit rate [e]	7.2	7.0	7.9	9.5	8.4	10.2	11.0	14.9	12.5	12.1
Lending rate [f]	9.2	8.7	10.9	15.5	13.0	17.1	19.7	28.1	22.8	20.2
Interbank rate [g]	7.0	7.4	10.2	9.2	8.1	8.9	9.0	11.7	10.9	10.8
Sovereign bond spread (basis points)	209	325	398	410	581	614	953	1 704	1 894	1 291
Stock price index (national index to end of period, 31 December 2000=100)	505	526	525	516	505	506	383	259	270	381
Domestic credit (variation from same quarter of preceding year)	1.3	-2.4	4.9	2.7	12.9	34.2	33.3	17.2	3.1	-7.7 [h]
Non-performing loans as a percentage of total credit	4.1	3.9	3.5	3.2	3.3	3.1	2.8	3.1	3.5	3.8 [d]

Source: Economic Commission for Latin America and the Caribbean (ECLAC), on the basis of official figures.
[a] Preliminary figures.
[b] Based on figures in local currency at constant 1993 prices.
[c] Quarterly average, weighted by the value of goods exports and imports.
[d] Data to May.
[e] Fixed-term deposits, all maturities.
[f] 30-day loans to leading firms.
[g] Buenos Aires interbank offered rate (BAIBOR).
[h] Data to April.

The value of goods exports rose by 25% in 2008 to over US$ 70 billion. Given that volumes varied very little, this rise was attributable chiefly to prices, which pushed terms of trade to historic highs. Values rose across the spectrum of exports, but only industrial manufactures showed an increase in volumes as well (17%). In the primary goods category, cereals and oleaginous crops such as soybean, posted the largest rises in export values. In agricultural manufactures, the higher export values were driven by oil industry products, as well as meats and dairy goods. In industrial manufactures, the largest rises were in chemicals (48%) and metals, machinery and land vehicles (this group represented US$ 12.5 billion and expanded by almost 25%). Exports of fuels rose owing to the price effect, despite a 9% reduction in volumes.

Total exports continued to post high values until the last few months of the year, when that trend weakened notably. This continued into 2009 and in April export values were 22% lower than those of a year earlier, with particularly severe drops in fuels (55%) and primary products (39%), as well as industrial manufactures (18%) and agricultural manufactures (11%).

Import values were sharply up (28%) in 2008 overall, in response to the expansionary pull of domestic demand, and variations were considerable in both prices (11%) and volumes (16%). The import values of fuels and intermediate goods showed a very steep rise (52%), reflecting the price effect. Imports of capital and consumer goods rose (in both price and volume) by over 20%. At the end of 2008 and early 2009, however, the performance of imports changed drastically and they became a barometer for the shifts in macroeconomic patterns. The year-on-year decline in April was 38%, with the downturn led by capital goods imports (-43%).