

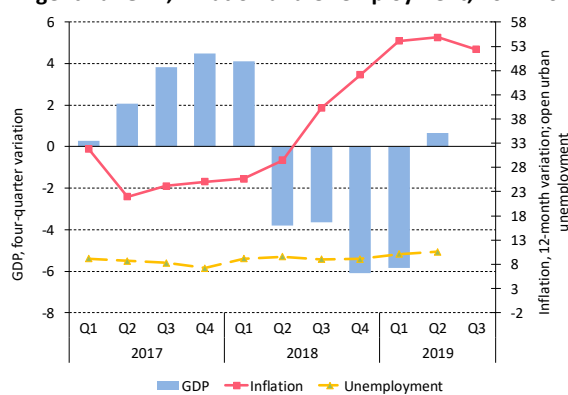
## Argentina

In 2019 the Argentine economy contracted further, having already done so by 2.5% in 2018. Inflation climbed to 49.7% year-on-year (cumulative to October) from 33.7% on average in 2018. This performance was attributable to a continuation of the exchange-rate and financial tensions of 2018 —entailing a sharp depreciation of the peso, high interest rates and a drop in real family incomes— and to the contractionary fiscal policy implemented under the financing agreement with the International Monetary Fund (IMF). Based on this trend, which caused public and private consumption and investment to decline, GDP at year-end is expected to show a fall of 3%. A slight recovery in real household income is expected in 2020, linked to an upturn in real wages and a rise in social protection spending, boosting private consumption. Nonetheless, the slow growth of regional trading partners is expected to continue, hurting exports. Against this backdrop, and given the high negative statistical carry-over from 2019, GDP is projected to fall by 1.3%. This estimate is subject to no new exchange and financial tensions arising.

Fiscal policy adopted a contractionary stance in 2019. Primary expenditure fell 10.7% year-on-year in real terms in the cumulative period to October, significantly more than the real fall in total revenues (2.6%), in a context of surging inflation and the financing programme agreed upon with IMF. As a result, the primary balance showed a surplus of 0.1% of GDP for first 10 months of 2019, compared with a deficit of 1.2% of GDP for the prior-year period. The components of total revenues included a notable increase in export duties, owing to a recovery in agricultural exports (following a drought the previous year) and increased or reintroduced export duties. Capital revenues also grew, on the back of the sale of two thermal power plants and transfers from the Sustainability Guarantee Fund (FGS) to the National Social Security Administration (ANSES). The increase in these two items accounted for 30% of the nominal rise in total revenues. On the expenditure side, there was an increase in social benefits, which accounted for 65% of the nominal rise in primary spending. In real terms, however, social benefit spending fell by 7.6%. After debt interest payments, the fiscal balance for the cumulative period from January to October 2019 showed a deficit of 2.4% of GDP, down from 3.2% of GDP in the prior-year period. Owing to these financing needs, the central government's stock of public debt grew in the first half of 2019, and by June it was equivalent to 80.7% of GDP.

In response to the financial tensions seen prior to the presidential elections and the suspension of the sixth instalment of IMF credit scheduled for September, the Ministry of Finance decided to partially extend the maturities of short-term debt held by legal entities (reprofiling) and undertook to submit to Congress a proposal for voluntary rescheduling of maturities of other long-term bonds. For short-term debt, the arrangement was payment of 15% at the original maturity date, 25% three months later and the remaining 60% at six months. Later, the authorities introduced the option of using these securities to settle pension obligations.

**Argentina: GDP, Inflation and Unemployment, 2017-2019**



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

In 2019, central bank policy has focused on exchange-rate stabilization, in response to the tensions seen in the first half of the year, which intensified in August following the “simultaneous and mandatory open primary” elections (known by their acronym, PASO). Despite the central bank’s increased intervention in the foreign-exchange market, and although it kept interest rates high (in accordance with the very tight monetary programme agreed with IMF), the nominal exchange rate increased by 58% in the year to October, from 37.8 pesos per dollar to 59.7. Indeed, from August onward, the central bank adopted a net selling position on the foreign-exchange market, for a total of US\$ 7.3 billion between August and October. This selling by the central bank, combined with a sharp fall in dollar deposits and payments of public debt in foreign currency, together explain the slump in international reserves of US\$ 24.6 billion between August and October.

Faced with persistent exchange-rate pressure and plummeting international reserves, the government and the central bank opted to establish capital controls to curb the outflow of financial capital and accelerate settlement of exports (Decree 609/2019 and Central Bank of the Argentine Republic communiqué A-6770). Firstly, a limit of US\$ 10,000 per month was established for purchases of freely usable foreign currency by individuals, and companies’ access to the foreign-exchange market was restricted for foreign-currency purchases to repatriate profits and dividends, and for freely usable currency. These regulations were not applied to transfers abroad to accounts held by the same person or entity or withdrawals from deposits in branches. After the presidential elections at the end of October, in view of the continued high demand for foreign currency, the central bank cut the purchase limit for freely usable currency for individuals to US\$ 200 a month. Secondly, the central bank also reinstated a measure that had been removed in 2017, requiring exports to be settled in the local exchange market within a maximum of 5 working days after collection or 180 days after the shipping permit date (15 days for primary commodities).

Monetary policy was contractionary in 2019, with the aim of stabilizing the foreign-exchange market. The policy interest rate stood at a nominal annual average of 66% for the first 10 months of the year, and reached a nominal annual high of 86% in September. In the cumulative year to October, the nominal annual interest rate on business (signature) loans climbed 314 basis points to 67.7%, and the rate on consumer (personal) loans rose 1,166 basis points to 75.6%. In 2019, the country’s monetary authority increased the fraction of fixed-term deposit reserve ratios that banks are allowed to integrate with Liquidity Bills (LELIQ) by 3 percentage points from July onward (Communiqué A-6738), with the aim of improving the pass-through of the policy interest rate. It also limited the option to integrate reserve ratios with LELIQ solely for fixed-term deposits from November onward (Communiqué A-6817), to increase their appeal over demand deposits. Lastly, in 2019 the central bank also changed the monetary aggregates target, to prevent excessive monetary contraction, in a context of quickening inflation, and because of the changes to the integration of reserve ratios.

#### Argentina: main economic indicators, 2017-2019 <sup>a</sup>

	2017	2018	2019 <sup>a</sup>
	<b>Annual growth rate</b>		
Gross domestic product	2.7	-2.5	-3.0
Per capita gross domestic product	1.7	-3.4	-3.9
Consumer prices <sup>b</sup>	25.0	47.1	49.7 <sup>c</sup>
Money (M1)	29.4	23.6	9.9 <sup>d</sup>
Terms of trade <sup>e</sup>	-2.9	1.3	0.5
	<b>Annual average percentage</b>		
Open urban unemployment rate	8.4	9.2	10.4 <sup>f</sup>
Central government			
Overall balance / GDP	-5.8	-5.6	-3.9
Nominal deposit rate <sup>g</sup>	19.1	32.0	32.0 <sup>h</sup>
Nominal lending rate <sup>i</sup>	26.8	47.7	67.5 <sup>h</sup>
	<b>Millions of dollars</b>		
Exports of goods and services	73 391	76 354	79 549
Imports of goods and services	89 002	86 503	69 492
Current account balance	-31 598	-27 479	-9 451
Capital and financial balance <sup>j</sup>	46 154	10 426	-13 082
Overall balance	14 556	-17 052	-22 533

**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 August.

e/ Economic Development Division, calculations for Preliminary Overview 2019.

f/ Figures as of first semester.

g/ Fix term deposit rates.

h/ Figures as of September.

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

j/ Includes errors and omissions.

In the first half of 2019, the balance-of-payments current account deficit shrank to 3.4% of GDP (cumulative four quarters), owing to a reversal in the balance of goods (in surplus by 2% of GDP), and a smaller deficit for services (1.4% of GDP). The improvement in the balance of goods was attributable to a 28% year-on-year decrease in imports in the first half of the year, and 2.4% growth in exports. Imports classified by economic uses declined across the board, including year-on-year falls of 58.7% in of passenger motor vehicles and of 38% in capital goods. Meanwhile, exports expanded, driven by commodities (up 14.5% year-on-year) and by fuels and energy (up 12.3% year-on-year). The growth in commodity exports is a result of the low basis of comparison in 2018 caused by the drought that affected the agricultural sector, and the rise in fuels and energy is attributable to increased hydrocarbon production. The services deficit shrank in the first half of the year, mainly owing to a 55% year-on-year reduction in the travel deficit. Meanwhile, the income account deficit grew up to 4.2% of GDP (cumulative four-quarter figure), driven by interest payments on portfolio investments, which climbed 13.5% year-on-year.

The capital and financial account posted a cumulative four-quarter surplus of 4.2% of GDP in the first half of the year, mainly owing to general government and central bank debt (cumulative four-quarter 6% of GDP), linked to inflows from the IMF Standby Credit Facility and expansion of the currency swap with China. Demand for foreign currency driven by hoarding partially offset this surplus, with a cumulative four-quarter deficit equivalent to 3.4% of GDP. Meanwhile, foreign direct investment (FDI) fell 37.1% year-on-year in the first half of 2019, reaching a cumulative four-quarter level equivalent to 2.1% of GDP. The capital and financial account surplus was slightly larger than the current account deficit, and international reserves increased by 0.6% of GDP over the cumulative year through to the first half of 2019 (last four quarters).

October data show that the cumulative trade surplus in goods for the year widened, owing to a year-on-year fall in imports of 25.6%, and a year-on-year increase in exports of 5.4%. Demand for foreign currency remained high, as a result of hoarding and non-residents unwinding portfolio investments recorded in the central bank's foreign-exchange balance sheet, and totalled US\$ 31.4 billion for the cumulative first 10 months of the year, against a backdrop of ongoing exchange and financial tensions. In the same period, the central bank's international reserves shrank by 34.3% (US\$ 22.5 billion).

Economic activity contracted by 2.5% year-on-year in the first half of 2019, explained by a fall in private consumption (8.8% year-on-year), public consumption (1.1%) and investment (21.3%). This trend was offset by an increase in exports (8% year-on-year) and a fall in imports (23.9%). On the supply side, the fall in GDP was mainly explained by a contraction in the commerce (11% year-on-year), manufacturing (8.7%) and financial intermediation (11.5%) sectors. According to the Monthly Estimator of Economic Activity (EMAE), an indicator that shows how GDP may be expected to perform, economic activity was down 2.3% year-on-year in September. Meanwhile, according to the manufacturing Index of Industrial Production (IIP), the sector declined by a cumulative 7.2% year-on-year to October, and according to the synthetic indicator of construction activity (ISAC) the construction sector fell 8.3% in the same period.

Inflation quickened in 2019, reaching 53.7% year-on-year in the cumulative period to October (compared to an average of 34.3% in 2018), mainly as a result of the rapid pass-through of peso depreciation to domestic prices and the increase in public service rates. In this context of rapid inflation, the wage index prepared by the National Institute of Statistics and Censuses (INDEC) fell by 10.4% year-on-year in real terms in the cumulative period to August. In particular, wages in the registered private sector declined by 9.7% in real terms in the cumulative period to August, while wages in the public sector fell by 9%, and those of unregistered private workers dropped by 14%. In October, the minimum pension stood at 12,937 pesos (US\$ 221), and the minimum wage was 16,875 pesos (US\$

288). In October, minimum retirement benefits were down by 9.2% year-on-year in real terms and the minimum wage was down by 12.9%.

The unemployment rate stood at 10.6% in the second quarter of 2019, one percentage point higher than in the prior-year period. This increase occurred against the background of a 1.3 percentage point increase in the labour force activity ratio. The increase in joblessness affected women and young people of both sexes the most. The highest levels of unemployment are found in Greater Buenos Aires (excluding the Autonomous City of Buenos Aires; 12.7%), Mar del Plata (13.4%), Salta (12.7%) and Greater Córdoba (13.1%).