

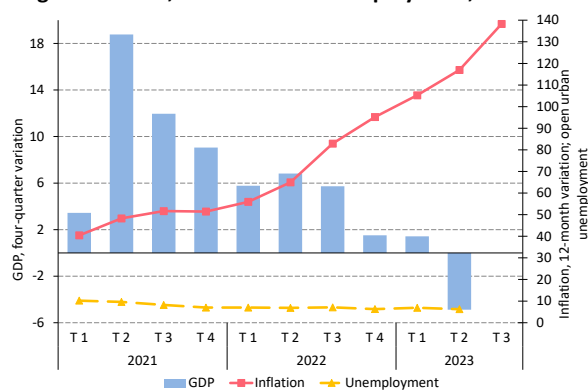
Argentina

Argentina's economy contracted in 2023 as a result of the combined impact of downturns in both investment and exports. The slump in investment was associated with mounting macroeconomic and political uncertainty, while the decrease in exports came on the back of one of the worst droughts in recent decades, which dealt a blow to the agro-export complex and exacerbated a series of extensive macroeconomic imbalances. GDP is expected to have shrunk by 2.5% for 2023 as a whole following an expansion of 5.0% in 2022. The year-on-year inflation rate as of October rose to 143% amid tensions on the external front, political uncertainty around the country's presidential elections and a persistent fiscal deficit. A contraction of 1.0% is expected for 2024, mainly as a result of the negative statistical carry-over from 2023. (At the time of writing, details about the policy measures to be adopted by the new government were not yet known.)

The primary fiscal deficit increased to 1.6% of GDP in the first 10 months of 2023, compared with 1.2% in the same period of 2022. The increase was due to a larger real decrease in total revenues (8% year on year) than in primary expenditure (5%). The reduction in revenues was mainly a reflection of a real decline in receipts from export duties (63% year on year) as a consequence of the sharp drop in agricultural exports caused by the drought. The lower level of primary expenditure was associated with the trends in two of its main components: a 30% year-on-year reduction in real terms in energy subsidies at a time when new utility rates were being set, and a 4% drop in real spending on social benefits due to the lag in the revision of benefits to keep pace with rising inflation.

In the second half of 2023, the Argentine government announced a set of measures aimed at restoring real household incomes that had an impact on public accounts. These measures include refunds of value added tax (VAT) on products in the basic food basket for workers, retirees, pensioners and beneficiaries of the Universal Child Allowance; the elimination of income taxes for workers and retirees with incomes of less than 1.77 million Argentine pesos (US\$ 5,000 at the official exchange rate); an allowance of 37,000 Argentine pesos (US\$ 106 at the official exchange rate) to be made in three payments to low-income retirees; loans at subsidized rates; tax exemptions for a period of six months for self-employed workers in the lowest income brackets who are taxed under the Simplified Regime; and increased benefits and special allowances (such as the Food Card and the benefits provided under the *Potenciar Trabajo* work programme) for persons in the most vulnerable sectors. In addition, a lump sum payment of 60,000 Argentine pesos (US\$ 171 at the official exchange rate) was announced for the lowest-paid workers, both in the public and private sectors (in the latter case, these payments were financed by the employer companies themselves).

Argentina: GDP, Inflation and Unemployment, 2021-2023



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

In August 2023, in view of the severe impact of the drought on the overall economy, the government and the International Monetary Fund (IMF) renegotiated the terms of the Extended Fund Facility (EFF) agreed upon in 2022. As a result of these negotiations, the targets for 2023 were modified, a set of policies aimed at stabilizing fundamental economic variables were agreed upon, and IMF approved US\$ 7.5 billion in disbursements corresponding to the fifth and sixth EFF reviews. In 2023, progress was also made towards the ratification of the agreement reached the previous year between the Argentine government and the Paris Club to restructure approximately US\$ 2 billion in debt with this group of countries. As of the second quarter of 2023, the gross central government debt, including public sector liabilities, was equivalent to 88% of GDP.

In 2023, the deterioration seen in the situation on the external front as a consequence of the drought's impact on agricultural exports, the increase in inflation to a year-on-year rate of 143% in October and the country's IMF obligations prompted the central bank to raise the monetary policy rate to 133% in nominal terms in October (equivalent to an effective annual rate of 255%). Higher interest rates, the instability of the financial system and the slump in economic activity were reflected in a 14% real reduction in private sector credit denominated in Argentine pesos during the first 10 months of the year. The credit lines showing the sharpest declines were mortgages (a year-on-year contraction of 39%) and personal consumer loans (down by 22% year on year). Other credit lines shrank less in real terms, thanks in part to government finance policies, such as the *Ahora 12* (now 12) credit card programme and to measures adopted by the Argentine government and the central bank to provide financing for production activities. These measures included loans financed by the National Fund for Productive Development (FONDEP), the Argentine Guarantee Fund (FOGAR) and the Productive Investment Financing Line (LFIP) offered by the central bank.

Tensions in the external sector were heightened in 2023 by the downswing in agricultural exports and the uncertainty surrounding the presidential elections at a time when the country's international reserves were low, it had little access to international debt markets and was in the process of renegotiating its obligations and the targets agreed upon with IMF. In response to this state of affairs, the central bank took steps to spur foreign exchange inflows to the formal market and to curb outflows. The former types of measures included the extension of the export incentive programme under which a differential exchange rate was set for soybean exports and for exports to some of the economies of the region which was above the official exchange rate for wholesalers. Measures aimed at dampening the demand for foreign exchange on the formal market included a series of changes to tax laws and regulations that made it more expensive to import goods and services and that restricted access to the official foreign exchange market. In addition, the central bank renewed its currency swap agreement with China for another three years. That agreement sets a US\$ 18.2 billion (130 billion yuan) quota and makes US\$ 11.5 billion readily available for yuan-denominated payments for imports and for outlays to cover financial commitments.

Argentina: main economic indicators, 2021-2023

	2021	2022	2023 ^a
Annual growth rate			
Gross domestic product	10.7	5.0	-2.5
Consumer prices	51.4	95.2	138.3 ^b
Money (M1)	48.5	56.6	72.7 ^c
Terms of trade	9.7	-0.1	-5.2
Annual average percentage			
Open unemployment rate	8.8	6.8	6.2 ^d
Central government			
Overall balance / GDP	-4.2	-4.9	...
Nominal deposit rate ^e	33.6	52.5	85.6 ^b
Nominal lending rate ^f	40.2	56.9	108.6 ^b
Millions of dollars			
Exports of goods and services	87 486	103 002	41 609 ^g
Imports of goods and service	72 392	97 558	47 913 ^g
Current account balance	6 645	-4 290	-11 730 ^g
Capital and financial balance	-6 750	11 210	-4 331 ^g
Overall balance	-106	6 920	-16 062 ^g

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

a/ Estimates.

b/ Figures as of September.

c/ Figures as of July.

d/ Figures as of June.

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/ Data for 2023 correspond to the sum of the first and second quarters.

h/ Includes errors and omissions.

Over the first 11 months of 2023, the central bank sold US\$ 1.6 billion in foreign exchange on the official currency market. These sales, along with the payment of debt maturities and other accounting factors, drew down the country's gross international reserves to US\$ 21.5 billion (3.4% of GDP), while net international reserves of short-term claims moved into negative territory (US\$ 10.6 billion). The central bank's operations in the currency market had the effect of raising the nominal exchange rate by 105% in the first 11 months of the year and causing the real multilateral exchange rate to fall by 9% during the same period.

The central bank and the Argentine government also took steps to ease the pressure on parallel financial exchange rates, as the gap between those rates and the official exchange rate had widened to as much as 190% in the week leading up to the general presidential elections. In order to get around the restrictions on purchases of hard currency for other than certain specified uses, investors buy peso-denominated government bonds and then sell them in dollars on both the local market (known as the "electronic payments market" (MEP)) and foreign markets (using the parallel (or "grey") exchange rate based on the final sale price (CCL)). In order to discourage speculation on parallel currency markets, the central bank sold international reserves for use in purchasing these bonds subject to certain parameters covered in the country's agreement with IMF. In addition, the National Securities Commission (CNV) established longer terms for these bonds (which means that it will take longer to complete the transactions used to gain access to foreign exchange).

A policy package was also launched in 2023 that provides for the completion of the works required for the first segment of the natural gas pipeline that will connect the Vaca Muerta shale formation with the central region of Argentina in order to provide the country with a domestic supply of natural gas. According to government estimates, this first segment of the pipeline will provide a savings of US\$ 4 billion per year starting in 2024. The government also called for bids for the construction of the second segment, which will connect the cities of Salliqueló (Buenos Aires Province) and San Jerónimo (Santa Fe Province) in order to increase the supply of this fuel for coastal areas of the country, and for the work involved in reversing the flow of the northern pipeline in order to transport natural gas from the Vaca Muerta formation to the north of the country.

In the external sector, the current account deficit widened by 0.4% of GDP in the first half of 2022 to 0.7% of GDP in the first half of 2023. The increase in the deficit was accounted for by the fact that the surplus on the merchandise account shrank from 0.9% of GDP in the first six months of 2022 to 0.7% of GDP in the corresponding period of 2023. All the other subaccounts tended to hold steady at their 2022 levels: the deficit on the services account was 0.6% of GDP, the deficit on the primary income account amounted to 1.0%, and the surplus on the secondary income account stood at 0.2%. The reduction in the surplus on the merchandise trade account was attributable to the sharp (-25%) year-on-year decrease in exports triggered by the impact of the drought on agricultural production, which was reflected in a 41% drop in commodity exports in the first half of 2023 and an 18% downturn in external sales of manufactures of agricultural origin. The only category of exports that displayed an increase was fuels and energy, which gathered momentum thanks to the output from the Vaca Muerta formation and the fact that the contraction in domestic demand freed up more products in this category for export.

The balance-of-payments financial account showed a surplus of 0.8% of GDP (after factoring out the variation in reserve assets) in the first six months of 2023 owing to the uptick in direct investment (1.6% of GDP), although this was partially offset by outflows of portfolio investment and other investment (0.8% of GDP). Foreign direct investment (FDI), in particular, rose by 1.7% of GDP, chiefly as a result of the debt security issues offered by Argentine-based branches and subsidiaries of parent companies based elsewhere and of their reinvestment of their profits. The fact that the above-mentioned components of the financial account ran smaller surpluses relative to the deficit on current account,

together with the adjustment for errors and omissions (-0.4% of GDP), was reflected in a decline of 0.4% of GDP in international reserves in the first half of 2023.

Economic activity contracted by a year-on-year rate of 1.9% in the first six months of 2023 as a consequence of the 7.8% year-on-year drop in exports and the 0.7% decrease in investment, along with a 4.7% increase in imports of goods and services at constant prices. The 2.7% upswing in private and public consumption partially made up for the above-mentioned declines. On the supply side, this contraction was brought about by the reductions seen in the agricultural sector (31% year on year), financial intermediation (2%) and transport and communications (2%). Fisheries, which account for a relatively small percentage of GDP, also exhibited a year-on-year decrease (-16%). Nonetheless, several sectors linked to non-agricultural commodity exports and to private-sector consumption expanded during the first half of the year: mining was up by 9% year on year; commerce and real estate, business and leasing activities expanded by 2%, and manufacturing recorded growth of 1%. The category of real estate, business services and leasing includes a number of modern services, such as computing and professional services, where growth surged in the wake of the coronavirus disease (COVID-19) pandemic. According to the monthly estimator of economic activity (EMAE), which is the leading indicator for GDP growth used by the National Institute of Statistics and Censuses (INDEC), economic activity contracted by 1.5% in the first nine months of the year.

The year-on-year inflation rate climbed to 143% in October 2023 from its December 2022 year-on-year rate of 95%. This increase was associated with mounting inflationary pressures, which were reflected in a widening gap between the official and parallel exchange rates, with the uncertainty surrounding the forthcoming presidential elections and with the country's persistent fiscal deficit. Against this backdrop, the INDEC wage index pointed to a cumulative year-on-year increase of 0.6% in real terms up to September. As of November, the minimum retirement pension (not counting the supplementary allowances provided to persons receiving this pension payment) totalled 87,460 Argentine pesos (US\$ 250 at the official exchange rate) while the minimum wage amounted to 132,000 Argentine pesos (US\$ 377 at the official exchange rate).

At 6.2%, the unemployment rate in the second quarter of 2023 was down from the 6.9% rate registered in the second quarter of 2022, with the economic activity rate also slipping slightly (from 47.9% in the second quarter of 2022 to 47.6% in the same quarter of 2023). In the first nine months of 2023, employment rose by 4.4% year on year, thanks to year-on-year increases of 9.5% for independent workers, 3.6% for private sector wage earners and 2.5% for public sector wage earners.