Argentina

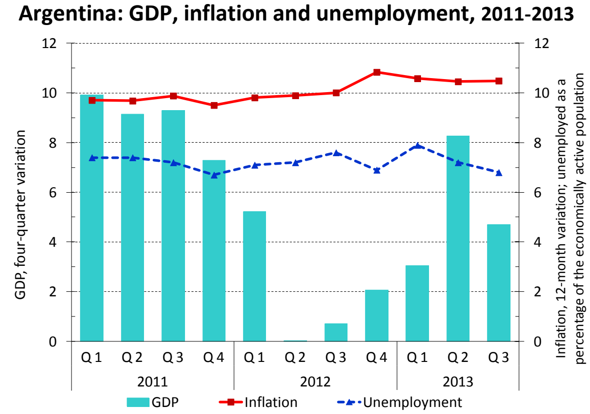
The Argentine economy rallied in 2013, following a sharp slowdown in 2012, and GDP growth is expected to average 4.5%. While economic activity results were good, the external sector appears more vulnerable: a deeper current account deficit, coupled with limited access to external credit, caused international reserves to plunge from US$ 43.29 billion at year-end 2012 to around US$ 31 billion at the end of October 2013. Growth is expected to slow to around 2.6% in 2014.

The external sector was the direct and indirect focus of economic policy measures in 2013. Still under a managed-float regime, the government stepped up nominal devaluation of the peso, which depreciated by 24% against the dollar between October 2012 and the same month of 2013, versus nominal devaluation of 12% in 2012, and raised interest rates slightly (the return on bills and paper issued by the central bank increased by 237 basis points between October 2012 and October 2013). These actions were complemented by administrative measures. For example, to mitigate the impact of consumer spending abroad by Argentine residents, the surcharge applicable to online purchases of foreign goods using a credit or debit card was increased from 15% to 20% (and more recently to 35%) and a law was enacted to allow previously unreported foreign-currency inflows to enter the formal economy.

Steps were also taken to curb the price uptrend, the most important of which was a freeze on the price of 10,000 items in the family shopping basket, reduced to 500 products in June 2013. To prevent a domestic market contraction, the personal income tax threshold was raised and a series of measures were implemented to encourage lending to the private sector, including a change to banks' minimum cash requirement.

On the fiscal front, the administration adopted an expansionary policy stance, on the basis of growth in primary expenditure that, at 32.7%, outpaced the 32.2% and 25.8% rises in revenue and nominal output, respectively. Current spending posted year-on-year growth of 31% owing mainly to expanding social security benefits (up 32% during the same period) after the number of beneficiaries increased and contribution amounts were updated. Current expenditure includes, in particular, subsidies for the use of public services, especially in the metropolitan area of Buenos Aires, which could amount to 3.8% of GDP in 2013, somewhat below previous years' figures (4.2% in 2011 and 4.3% in 2012). Capital spending, meanwhile, surged by 43% year-on-year, driven by real direct investment, including the financial investment to fund the Bicentennial Argentine Mortgage Programme, and capital transfers to provincial and municipal governments. National public sector tax revenue grew by a cumulative 25% year on year to September, that is, by less than expenditure; revenue from social security contributions rose 34% on the back of an increase in the maximum tax base for calculating contributions.[1] To August, this generated a cumulative primary surplus of close to 0.3% of GDP for the public sector and an overall deficit of around 1.1% of GDP, similar to that of the year-earlier period.

Argentina: GDP, inflation and unemployment, 2011-2013



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

[1] Other significant developments during the same period include a jump of 61% in non-tax revenues associated with transfers from the sustainability warranty fund (FGS) of the National Social Security Administration (ANSES) and central bank profits.

As in 2012, the administration once again opted to draw on public sector resources to meet treasury funding needs, mainly the central bank and the social security system's sustainability warranty fund. The central bank, in addition to the usual transfer of profits, transferred international reserves to fulfil national treasury external commitments and raised the ceiling for temporary advances from the bank to the treasury. These temporary advances rose from 5.7% of GDP in September 2012 to 7.7% of GDP in September 2013. According to data at end-June, the national public-debt-to-GDP ratio was down from year-end 2012 and stood at 43.6%. Because of the sources of funding (public sector agency resources), the proportion of debt held by the private sector fell by 3.4% during the same period, to 12.3% of GDP. An amount equivalent to 9.3% of GDP is denominated in foreign currency.

Argentina: main economic indicators, 2011-2013

	2011	2012	2013 [a]
	Annual growth rate		
Gross domestic product	8.9	1.9	4.5
Per capita gross domestic product	7.9	1.0	3.6
Consumer prices	9.5	10.8	10.5 [b]
Money (M1)	32.4	33.3	30.6 [c]
Real effective exchange rate [d]	0.5	-4.0	8.4 [e]
Terms of trade	6.7	-0.4	-2.5
	Annual average percentage		
Open urban unemployment rate	7.2	7.2	7.1
Central government			
Overall balance / GDP	-2.3	-2.3	-1.7
Monetary policy rate	11.8	12.8	14.4 [e]
Nominal lending rate [f]	17.7	19.3	21.1 [e]
	Millions of dollars		
Exports of goods and services	99 721	96 003	98 429
Imports of goods and services	88 930	84 213	90 380
Current account balance	-2 173	-57	-2 971
Capital and financial balance [g]	-3 935	-3 248	-7 087
Overall balance	-6 108	-3 305	-10 058

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 August.
[d] A negative rate indicates an appreciation of the currency in real terms.
[e] Figures as of October.
[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.

In terms of monetary policy, the main market reference rates increased during the third quarter of 2013 compared with the year-earlier period. Monetary base expansion outstripped nominal GDP growth, but at a lower rate than the previous year. While primary money creation occurred mainly through central bank operations with the treasury, national-currency-denominated lending to the private sector continued to fuel most of the growth in the money supply (M3), which posted a nominal increase of 37.5% between September 2012 and September 2013 and represented 15% of GDP. This jump was due in large part to the credit line for productive investment, introduced by the central bank in 2012, and the Bicentennial Programme to Finance Production, launched in 2011.

The external sector has been under strain since mid-2011, owing to a reversal in the energy trade balance (which went from a surplus of US$ 6 billion in 2006 to a deficit of US$ 2.8 billion in 2011), an appreciating real exchange rate, and a strong demand for foreign assets, as tends to occur in countries with a dual currency system in these circumstances.

In this context, the balance-of-payments current account posted a deficit of US$ 1.72 billion (0.7% of GDP) for the first half-year, compared with the breakeven point reached during the same period of 2012. Faster economic growth[2] contributed to this deterioration, but it can also be attributed to several other converging factors, including an extremely large, ongoing energy trade deficit (US$ 5.8 billion to October 2013), a widening deficit on the tourism account, and looser restrictions on profit and dividend remittances.

Currency outflows owing to "hoarding", which stood at US$ 21.5 billion in 2011, dropped to US$ 3.4 billion in 2012 and had no direct impact on reserves in 2013[3] since the controls imposed by the government since 2011 on access to the foreign-exchange market remained in place, and in some cases

[2] The increase in economic activity resulted in an expansion of 7.2% in the volume of (non-energy) goods imports over the first 10 months of the year. During the same period, exports were up 4.1%.
[3] Only US$ 67 million left the country for this purpose to June 2013.

were tightened. However, maintaining these restrictions fed an illegal exchange market whose rates differed substantially from the official exchange rate throughout 2013. Tempering these outflows failed to halt the steep decline in the international reserves, 70% of which was used to service external public debt.

To June 2013, total external debt (public and private) stood at 27.5% of GDP, 3.6 percentage points less than in the year-earlier period, and the lowest figure for 18 years. A lower level of external debt suggests that the economic tensions seen over the past two years in connection with the balance of payments have more to do with liquidity than external solvency. The way in which the government restores foreign-exchange liquidity will be one of the defining factors of the country's macroeconomic performance in 2014.

Stronger growth in 2013 may be attributed to the combined effect of an expansionary fiscal policy and to sustaining the domestic absorption associated with real wage trends and higher social security payments (chiefly, increases in the amounts of retirement benefits, pensions and the Universal Child Allowance for Social Protection).[4] Among the components of aggregate demand, private consumption was again the main driver of the economy, rising by 7.7% during the first half-year, while investment grew by 9.0%.

On the supply side, the figures available for the first half of 2013, disaggregated by economic sector, show a 7.2% gain for service-producing sectors versus a 4.1% increase for goods-producing sectors over the year-earlier period. Among the latter, the agricultural sector recorded year-on-year growth of 18.5%, thanks to the corn and soybean harvests and to livestock production. Manufacturing saw modest growth (1.8%) while construction posted a 0.5% year-on-year decline. Noteworthy among the services sectors, as in the previous two years, was 23.1% growth in financial intermediation during the first half-year, boosted by peso-denominated private sector time deposits and by credit to the private sector, and wholesale and retail trade (10.6%) driven by buoyant consumption.

Inflation held at a rate similar to 2012 and exceeded the regional average. According to official figures (based on the consumer price index) published by the National Institute of Statistics and Censuses (INDEC), the cumulative inflation rate to October for the previous 12 months was 10.5%. The cost of construction index rose by 18.6% and the wholesale price index by 13.9% during the same period, while to the first half of the year the implicit GDP and private consumption price indexes showed year-on-year variations of 18.1% and 16.9%, respectively. Other official estimates (issued by provincial statistical institutes) showed a higher rate of inflation.[5] All in all, price dynamics remained relatively stable in 2013, despite factors that could have caused inflation to climb, including sharper nominal devaluation of the peso, a significant increase in domestic fuel prices (between 20% and 25% year-on-year) and a revision of nominal wages, which rose on average by around 25% (data for the month of September). Workers' purchasing power was preserved thanks to this wage increase, while the unemployment rate, as an average for the first three quarters of the year, stood at 7.3%, the same as the year-earlier period. The employment rate also remained stable year-on-year. Wage rises and this relative employment stability helped sustain aggregate demand, although formal job creation is showing some signs of weakness.

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[4] Retirement benefits and pensions increased by 15.2% in March and 14.4% in September. The Universal Child Allowance for Social Protection went up 35.3% from June.

[5] The average cumulative consumer price index increase in the provinces that conduct a monthly survey (Neuquén, San Luis, Santa Fe and Tierra del Fuego) stood at around 20% to September.