

Argentina

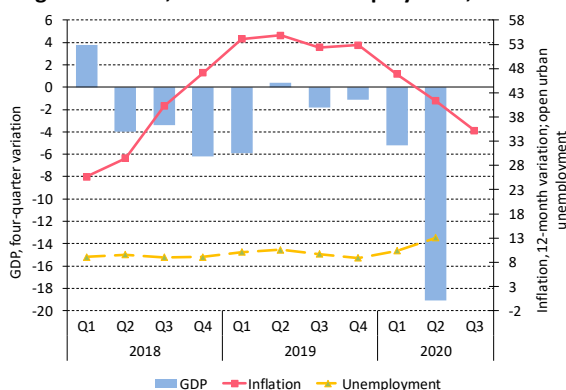
In 2020, the Argentine economy shrank for the third consecutive year, this time owing to the impact of the crisis caused by the coronavirus disease (COVID-19) pandemic, which hit private consumption, investment and exports hard. By the end of the year, GDP is expected to have fallen by 10.5% —more than the 2.1% contraction recorded in 2019. With this backdrop, and based on a smaller depreciation of the official exchange rate and a freeze on a set of regulated prices, inflation eased to 43.5% year-on-year cumulatively to October, compared to the previous year's average of 53.5%. In 2021, the economy is expected to recover by 4.9%, thanks to the gradual reopening of the sectors affected by the pandemic. This is expected to generate an improvement in labour incomes and boost private consumption, while also increasing international export demand. This estimate is contingent on the spread of the pandemic, which in turn depends largely on the widespread availability of the COVID-19 vaccine.

Fiscal policy had an expansionary bias in 2020. Real primary expenditure increased by 17% year-on-year in the first 10 months, driven by a comprehensive package of economic measures aimed at protecting jobs, businesses and the most vulnerable sectors in the context of the COVID-19 crisis. With a 14% year-on-year reduction in real revenues in the first ten months of 2020, the primary deficit was equivalent to 5.1% of GDP, following a surplus of 0.1% in the year-earlier period. In contrast, interest expenses were down by 41% year-on-year in real terms in that period, because payments were suspended while the public debt was being renegotiated. As a result, the overall fiscal deficit widened to 6.8% of GDP in the first ten months of the year, compared to 2.4% in the same period in 2019.

The measures adopted by the national government to confront the health and economic crisis include the emergency assistance programme for work and production (ATP), which involved the postponement or reduction of employers' social security contributions, payment by the State of 50% of the wages of registered private sector workers (with a minimum payment equal to the minimum wage and a maximum of twice that amount), the updating of unemployment insurance by between 6,000 and 10,000 pesos (US\$ 80–US\$ 130), and a subsidy to cover the financial cost of loans to self-employed workers; and the emergency family income (IFE), a programme that consists of a cash transfer of 10,000 pesos (US\$130) to informal workers and self-employed workers in the lowest single-tax brackets, under which three payments had been made by October.

The package of measures impacting primary expenditure also included an additional bonus for health and security system workers, a bonus for the lowest pensions, an extra payment for beneficiaries of the Universal Child Allowance (AUH), Pregnancy Allowance for Social Protection, Hacemos Futuro, Complementary Social Wage and Alimentar programmes, an increase in the budget appropriation for capital expenditure on infrastructure works, education and tourism; and a financial assistance programme for

Argentina: GDP, Inflation and Unemployment, 2018-2020



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

provinces and municipalities, and the freezing of utility rates with national government subsidies (gas, electricity and piped water).

A key part of economic policy in 2020 was the foreign currency debt swap with private creditors, which, thanks to the high rate of acceptance by the creditors and the activation of collective action clauses, made it possible to restructure 99% of the liabilities in question. The terms and conditions of the debt swap involved a reduction in the interest rate (from 7.0% to 3.0%), debt relief in the next few years (the burden will be US\$ 42.5 billion lighter in the first 5 years and US\$ 37.7 billion in the next 10 years) and a principal haircut of 1.9%. In addition, the Argentine government started negotiations with the International Monetary Fund (IMF) to amend the conditions of the loan requested in 2018, under which the country faces approximately US\$ 45 billion in principal falling due in the next five years. According to the Ministry of Economy of Argentina, in the second quarter of 2020, before the completion of the debt swap with private creditors, the central government gross debt amounted to 95.4% of GDP.

Monetary policy was expansionary in 2020, based on the set of measures implemented to address the health and economic crisis. Firstly, the supply of credit lines to the private sector under better-than-market conditions was expanded, and the policy interest rate (7-day LELIQ) was lowered to 36% per year (in nominal terms) in October 2020 (down from 55% at end-2019). The central bank also provided financial assistance to the national treasury to enable it to meet the additional expenditure arising from the fiscal package, compounded by the fall in revenue and the public debt restructuring process. The expansion of credit included working-capital credit lines for micro, small and medium-sized enterprises (MSMEs); a line of credit for the production of essential goods; financing for technological equipment needed for telework; loans for industrial park infrastructure; the relaunch of the Procrear mortgage loan facility for building and renovating houses, and the renewal of the Ahora 12 programme for credit card purchases at below-market interest rates. It also provided for postponement of the payment of debts which the beneficiaries had with the National Social Security Administration (ANSES), and froze mortgage loan payments. The central bank's financing to the National Treasury was channelled through temporary advances and profit transfers. The combination of these two instruments provided the main factor driving an expansion of the monetary base, which had grown in real terms by 10% year-on-year as of October.

The central bank also took steps to stabilize the foreign exchange market. These included a policy of gradually raising the official exchange rate, which by October had risen by a cumulative 29.5%, slightly more than cumulative inflation of 26.9% up to that month. The central bank's exchange rate interventions involved foreign currency sales totalling US\$4.5 billion up to October; and this explained a fall in international reserves by a similar amount (US\$5 billion) to a level of US\$39.9 billion (equivalent to 10.3% of GDP) at the end of that month.

Argentina: main economic indicators, 2018-2020

	2018	2019	2020 ^a
	Annual growth rate		
Gross domestic product	-2.6	-2.1	-10.5
Per capita gross domestic product	-3.5	-3.0	-11.4
Consumer prices ^b	47.1	52.9	35.2 ^c
Money (M1)	23.6	16.9	80.5 ^d
Terms of trade	0.9	-0.7	-1.9
	Porcentaje promedio anual		
Open urban unemployment rate	9.2	9.8	11.8 ^e
Central government			
Overall balance / GDP	-5.6	-4.0	...
Nominal deposit rate ^f	32.0	47.3	28.5 ^c
Nominal lending rate ^g	47.7	66.9	36.3 ^c
	Millones de dólares		
Exports of goods and services	77 074	79 290	32 856 ^h
Imports of goods and services	86 783	66 278	24 930 ^h
Current account balance	-27 049	-3 997	3 076 ^h
Capital and financial balance ⁱ	9 997	-33 585	-4 958 ^h
Overall balance	-17 052	-37 582	-1 882 ^h

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 September.

d/ Figures as of August.

e/ The figures in the last column correspond to the measurement of the first semester.

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/ Cumulative figures to the second quarter of 2020.

i/ Includes errors and omissions.

As a result of heavy private sector capital outflows, in September, the national government and the central bank imposed tighter restrictions on access to the freely disposable monthly quota of US\$ 200 (targeted on the beneficiaries of certain official programmes) and imposed a 35% tax on foreign currency purchases, as an advance payment of personal income and property taxes. The foreign exchange package was supplemented in October by a rise in the interest rate floor on 30-day fixed-term retail deposits for individuals (which in November stood at 37% nominal per year); a temporary reduction in export duties on soybeans and derived products (by 3 percentage points) and on industrial products (0% in the case of final goods); an increase in the amount of export drawbacks according to value added; and the establishment of a compensation and incentive scheme for small-scale soybean producers and cooperatives. In view of the persistent tension in the parallel foreign exchange markets, where the exchange rate rose to more than twice the official rate in late October, the national government issued a bond with a yield linked to the official exchange rate and reduced the minimum holding period for the purchase and sale of foreign-currency bonds. At the time of this publication, the spread between the official exchange rate and the parallel rate is about 73%.

In addition to the fiscal and monetary measures adopted to combat the health and economic crisis, other policies were implemented to alleviate the situation in the hardest-hit sectors. This set of measures included the launch of the *El Barrio Cuida al Barrio* programme, which seeks to establish health and food protection mechanisms for vulnerable segments of the population; the *Potenciar Trabajo* programme, which aims to stimulate employment activities linked to food production, construction, care, recycling activities and clothing production; the prohibition of layoffs and suspensions for reasons of force majeure or owing to a lack of work; the establishment of maximum reference prices for a range of essential products; a freeze on rents, public service tariffs (gas, electricity, piped water, telephony, Internet and pay television) and on other regulated prices (including private health services); and a moratorium on cutting off public services for failure to pay among the users most affected by the crisis.

In the first half of 2020, the current account of the balance of payments posted a surplus of 0.8% of GDP, in contrast to a deficit of 1.2% recorded a year earlier. This is explained by an increase in the merchandise trade surplus (which grew to 2.3% of GDP), together with a reduction in the deficits on services trade and on the current income and transfers account (up to 0.3% and 1.3% of GDP, respectively). The improvement in the merchandise trade balance reflected a slump in imports (-23.5%), which outweighed the 10.9% drop in exports. Imports, classified by economic uses, fell across the board, owing to reductions in both prices (-4.2%) and volumes (-19.9%), as a result of the sharp contraction in activity. In the case of exports, primary products were the exception, growing by 14.4% in value terms, owing to a quantity increase of 18.1% which was only partially offset by a 3.3% drop in prices. The services trade deficit narrowed in the first half of the year, largely owing to a 55% year-on-year fall in travel expenses, in the wake of restrictions on movements due to the health crisis. Meanwhile, the deficit on the current income and transfers account narrowed to 1.3% of GDP, owing to the temporary suspension of interest payments on the public debt, as part of the debt restructuring process.

The capital and financial account posted a deficit of 1.1% of GDP in the first half of 2020, mainly because of private sector capital outflows. This represented 1.2% of GDP, but was lower than in the year-earlier period (when it had reached 1.7% of GDP). Foreign direct investment (FDI) slipped back to 0.5% of GDP from 0.7% in the same period in 2019. The fact that the deficit on the capital and financial account (net of errors and omissions) was larger than the current account surplus explains the fall in international reserves equivalent to 0.5% of GDP in the first half of 2020.

Economic activity contracted by 12.6% year-on-year in the first half of 2020, owing to reductions in investment (-28.7% year-on-year), private consumption (-14.5%), exports (-8.7%) and public consumption (-5.5%) in the context of the COVID-19 pandemic. The latter engendered a high degree of uncertainty and led to restrictions on movement being imposed, which undermined both

supply and demand. This dynamic was offset by a reduction in imports (-23% year-on-year). On the supply side, falls were widespread, the only exception being the electricity, gas and water sector, which maintained the previous year's levels. The sectors hit hardest by the health and economic crisis were hotels and restaurants (down by 40.6% year-on-year in the first half of 2020), other community, social and personal activities (-37.2%), construction (-35.7%), fishing (-22.6%) and domestic service (-19.4%). According to the Monthly Estimator of Economic Activity (EMAE), which is a leading indicator of the trend of GDP, economic activity decreased by 11.9% year-on-year cumulatively to September.

The pace of inflation slackened in 2020 relative to the 2019 average of 53.5%, to post a cumulative rate of 43.5% year-on-year to October. The lower inflation rate reflected the freeze on regulated prices, the gradual rise in the official exchange rate and the contraction in the level of activity. Nonetheless, inflation remained at high levels, given the inertia of the previous year. In this context, the wage index calculated by the National Institute of Statistics and Censuses of the Argentine Republic (INDEC) was down by 4% year-on-year in real terms as of September. In October, the minimum retirement pension was 18,130 pesos (US\$ 230) and the minimum wage was 18,900 pesos (US\$ 240). In the year to October, the minimum pension rose by 2.7% year-on-year while the minimum wage fell by 9.7%, both in real terms.

The unemployment rate rose to 13.1% in the second quarter of 2020 compared to 10.6% in the year-earlier period. Joblessness expanded most among young people aged between 14 and 29 years — year-on-year increases of 5.1 percentage points among women and 4.1 points among men in this age bracket. There were sharp falls in the activity rate (-9.3 percentage points) and in employment (-9.2 percentage points), with the number of people in employment falling by 20.9% year-on-year in the second quarter of the year. Labour market indicators are expected to improve in 2021 as the sectors affected by the pandemic reopen.