



ARGENTINA

ECONOMIC DEVELOPMENTS

February 2016

This document on economic developments and policies was prepared in the context of an informal Executive Board briefing on Argentina under the procedures for members with excessive delays in Article IV consultations. Under these procedures, IMF staff prepares an assessment of the member's economy and policies based on information that is publicly available and without consultation with the member. The document, which constitutes the views of IMF staff, is aimed at keeping the Board informed about developments in the country. Given the absence of a more complete set of information, and a more thorough policy dialogue with authorities, this document should not be characterized as an IMF Article IV staff report nor should it be portrayed as representing the views of the Executive Board. Similarly, the associated informal Executive Board briefing does not constitute an Article IV consultation with the member.

This document is based on the information available at the time it was completed on February 27, 2014.

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INTERNATIONAL MONETARY FUND

ARGENTINA

Economic Developments¹

Approved by the Western Hemisphere Department

February 27, 2014

This report has been prepared under the Fund's framework for addressing excessive delays in the completion of Article IV Consultations (Decision No. 15106-(12/21), 2/29/2012). The previous (and first) such report on Argentina was discussed informally by the Board on January 29, 2013. The report presents staff's analysis based on publicly available information through end January 2014. Staff's analysis is hampered by inaccurate official consumer price and GDP data and by the absence of a dialogue on economic policies with the Argentine authorities. Argentina's last Article IV Consultation was concluded on July 28, 2006.

On February 1, 2013, the Board issued a Declaration of Censure against Argentina for its breach of obligation under the Articles of Agreement for the provision of inaccurate CPI and GDP data. On December 9, 2013, the Board considered Argentina's progress in implementing remedial measures and called on Argentina to implement an initial set of specified actions by end March 2014 and further actions by end-September 2014 and end-February 2015. In that context, the authorities released the new national urban CPI on February 13, 2014 and they are scheduled to release the revised GDP estimates at end March 2014.

On July 12, 2013, the Board discussed the Financial System Stability Assessment for Argentina. The authorities have not yet authorized the publication of the FSSA report.

¹ This report was prepared by a team comprising Mr. Erickson von Allmen (head), Mr. Nicholls, Ms. Singh, and Mr. Ortiz Villafañe (all WHD). It was approved by Mr. Savastano (WHD) and reviewed by LEG, MCM, SPR, and STA.

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I. BACKGROUND

This report presents staff's analysis based on publicly available information through end-January 2014. Staff's analysis is hampered by inaccurate official consumer price and GDP data and by the absence of a dialogue on economic policies with the Argentine authorities.

1. Economic backdrop:¹ Following its 2002 financial crisis, Argentina experienced a strong economic recovery, helped by an expansionary policy stance, an undervalued exchange rate, high and rising international prices for its key exports (soy, corn), and lower debt service payments. During this recovery Argentina achieved notable improvements in social indicators—a reduction in poverty, income inequality, and unemployment (Attachment 1). From 2007 onward, as the recovery momentum petered out, the government sought to prolong the growth spell and the improvements in income distribution through expansionary domestic demand policies. Government spending surged, sizeable primary fiscal surpluses turned into deficits, and interest rates became highly negative in real terms. Over time, these policies fueled inflation, distorted relative prices and caused mounting pressures on the balance of payments. In response, the authorities adopted several administrative measures and programs (e.g., price freezes, import and foreign exchange measures), but maintained an expansionary policy stance.

2. Political developments: The Congressional elections of October 2013 marked the start of the electoral cycle for the 2015 Presidential elections. The President's party and its allies maintained a majority in the two chambers, but did not obtain the number of seats needed to be able to change legislation that would have allowed the President to run for a third consecutive term. Following the October elections, several groups and movements have started forming alliances in support of possible candidates for the Presidency. In addition, in November, the President made several changes to her economic team, including the Minister of Finance, the President of the Central Bank, and the Commerce Secretary.

II. ECONOMIC DEVELOPMENTS IN 2013

A. Macroeconomic Outcomes

In 2013, balance of payments pressures intensified amid continuing high inflation.

3. Economic growth recovered in 2013, though weakened sharply in the second half of the year. For 2013 as a whole, staff estimates real GDP growth at 4¼ percent, up from 1.9 percent in 2012. Three sectors led the recovery in the first half of the year: agriculture, car production, and construction. Agricultural output (soy bean and corn, mainly) bounced back from the drought-afflicted 2012. Similarly, car production came back from a slump in 2012 as

¹ See the 2013 Economic Developments paper for a fuller discussion of economic developments and policies in Argentina during 2007–2012.

exports to Brazil (which purchases 86 percent of Argentina's car exports; Box 1) recovered, albeit temporarily. Construction activity also picked up, partly owing to government programs. On the demand side, private consumption was strong, in particular for imported durable goods, and public spending also rose sharply ahead of the Congressional elections. However, economic activity stalled in the second half of the year. According to official data, real GDP contracted (0.2 percent q/q s.a.) in the third quarter, while high frequency indicators show a very sharp contraction in the fourth quarter, especially in auto production (a decline of 16 percent (y/y)).

4. Inflation remained high. The official estimate of annual inflation (the 12-month change in the CPI of Greater Buenos Aires) closed the year at 10.9 percent – similar to the inflation recorded at end 2012. Other estimates of inflation, such as the 'Congress CPI' (a simple average of private analysts' estimates of inflation) point to an annual increase in consumer prices of about 28 percent at end-2013 (up from about 26 percent at end-2012). In addition, wages (overall national wage index) grew by close to 26 percent (y/y) by the end of 2013, compared with 24.5 percent the year before.²

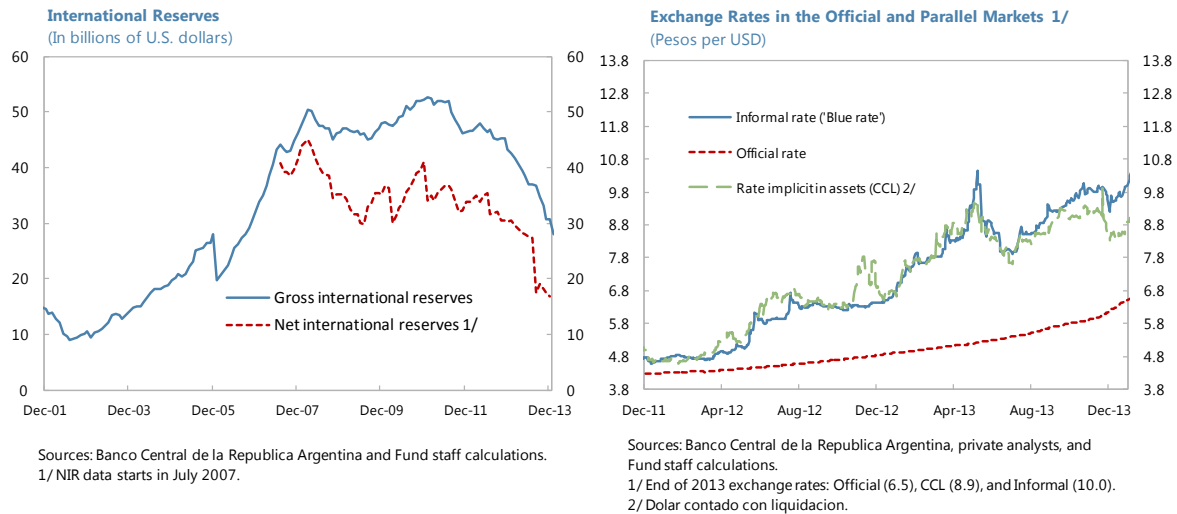
5. The balance of payments weakened significantly during the year. Both the current and financial account deteriorated.

- **Current account.** In spite of a recovery in export volumes and still favorable international export prices, the surplus on the trade balance continued to shrink as the demand for imports (especially of durables goods and energy) picked up strongly (Box 2). The deficit in the balance of services and income also widened. As a result, the external current account balance recorded a deficit estimated at 0.9 percent of GDP (compared to near balance in 2012).
- **Financial account.** Net capital outflows picked up during 2013 and the financial account deficit is estimated to have risen to 1.4 percent of GDP (US\$7 billion), from less than 0.5 percent of GDP (US\$2billion) in 2012. Net private capital outflows increased sharply, despite the tightening of foreign exchange controls (see paragraph 13), and inflows of FDI also declined.

6. In the context of a managed floating exchange rate, the balance of payments pressures resulted in a large loss of international reserves and pushed up the price of the U.S. dollar in the parallel market. Losses of international reserves rose from below US\$3 billion in the first quarter of 2013 to more than US\$4 billion in the fourth quarter. As a result, as of end-2013, gross international reserves had fallen to US\$30.6 billion, the lowest level since 2007—and well below the lower bound of the Fund's recommended reserve adequacy threshold (Box 3). The domestic demand pressures also pushed up the price of the dollar in the various parallel

² On February 13, 2014, the National Statistical Institute (INDEC) released data for a new, national CPI. The monthly inflation rate for January was 3.7 percent.

markets for foreign exchange that emerged in Argentina following the introduction of foreign



exchange controls in 2011 (see text chart).

7. Financial deepening increased somewhat and financial stability was preserved despite the high inflation and growing external imbalances. Argentine banks continued benefiting from ample liquidity and high intermediation spreads. Deposits in the financial system rose above 20 percent of GDP for the first time since the early 2000s, and the ratio of dollar deposits to total deposits fell below 5 percent in response to the tightening of foreign exchange controls. Overall, however, the Argentine financial system continued to be small, mostly transactional in focus and unable to provide long-term financing; also, large banks and the Sustainability Guarantee Fund (FGS) continued to play a dominant role (Box 4).³

B. Macroeconomic and Price Policies

The root cause of Argentina's inflation and balance of payments pressures is an expansionary policy mix, which continued in 2013.

8. Fiscal policy in 2013 was more expansionary than in the previous year. Although total revenues of the federal government rose by close to 2 percentage points of GDP (on account of higher social security contributions and transfers from the social security administration and the central bank), primary expenditures increased by more, to close to 36 percent

Federal Government (In percent of GDP)		
	2012	2013
Revenues	33.2	35.0
o/w Tax revenues	23.0	23.3
Primary expenditures	33.4	35.9
o/w Private sector transfers (incl. pensions)	15.0	15.9
Primary balance	-0.2	-0.8
Interest	3.4	2.5
Overall balance	-3.6	-3.3
Gross financing needs 1/	10.5	11.7
o/w Amortization	6.9	8.4
Financing	10.5	11.7
o/w Domestic financing	10.1	11.3
<i>Memorandum items:</i>		
Subsidy expenditures	4.6	5.0
Central bank profit transfers to the Treasury	0.4	1.3

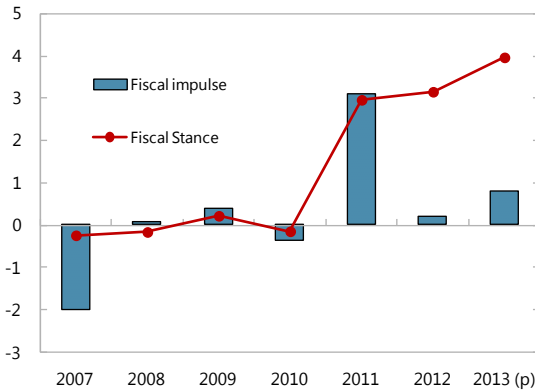
Source: Fund staff calculations based on data from the Ministerio de Economía y Finanzas Públicas.

1/ Gross financing needs is defined here as overall balance plus amortization.

³ The FGS holds all the assets that were being managed by private pension funds in 2008. It is managed by the social security administration.

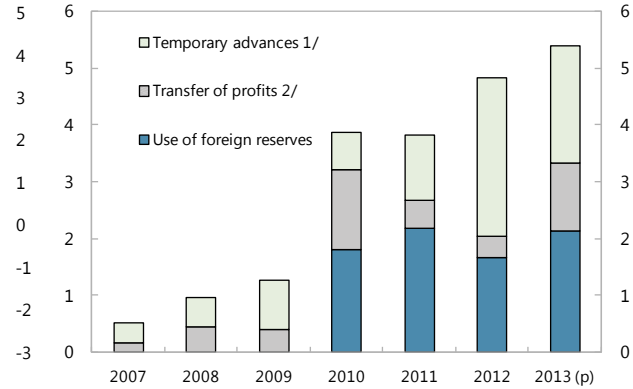
of GDP, driven by transfers to the private sector (mainly subsidies—see Box 5, pension payments, and wages). As a result, the federal government's primary deficit rose to 0.8 percent of GDP (from 0.2 percent in 2012), imparting a positive fiscal impulse to the economy. Because interest payments linked to GDP warrants were not triggered in 2013 (as GDP growth in 2012 was below the 3.26 percent threshold implied by the warrant), the higher primary deficit did not translate into a larger overall deficit for the federal government (which staff estimates at 3.3 percent of

Fiscal Stance and Fiscal Impulse
(In percent of potential GDP)



Source: Fund staff calculations based on data from the Ministerio de Economía y Finanzas Públicas.

Central Bank Transfers and Lending to the Government
(In percent of official GDP)



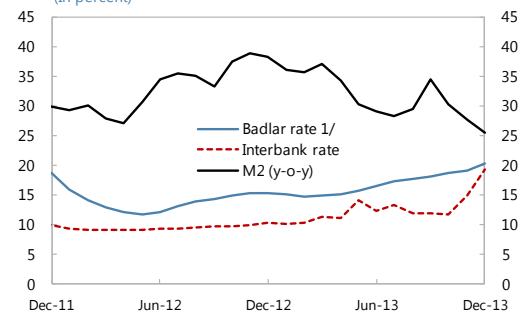
Sources: Banco Central de la República Argentina and Fund staff calculations.
1/ The central bank charter reform of 2012 increased the upper limit on temporary advances to the federal government.
2/ Include valuation effects.

GDP). For the consolidated public sector (comprising the federal government and the provinces), the picture is broadly similar to that of the federal government—i.e., the primary deficit was higher and the overall deficit lower (Table 3).

9. The federal government's gross financing needs continued to rise and were covered by higher borrowing from the central bank. Despite the lower overall deficit, the gross financing needs of the federal government rose to over 11.7 percent of GDP in 2013 owing to higher debt amortization payments. With virtually no net external financing available, the government had to resort to domestic sources and it increased its reliance on central bank lending. During 2013, staff estimates that central bank net lending to the government exceeded 4 percent of GDP (up from 3 percent of GDP the year before); including the transfers of profits (recorded above the line in the fiscal accounts), the central bank is estimated to have provided more than 5 percent of GDP of resources to the government in 2013. By end 2013, total public debt is estimated to have declined somewhat to about 47 percent of GDP; private sector holdings of public debt remained broadly stable at about 27 percent of the total (Table 7).

10. Bank credit continued to grow fast, but money growth rates declined owing to the loss of international reserves. Total bank credit grew by more than 40 percent in nominal terms during the first half of 2013 (similar to the rate of expansion of the previous year), but the unsterilized sales of foreign exchange in the official market lowered the

Interest Rates and M2 Growth
(In percent)



Sources: Banco Central de la República Argentina and Fund staff calculations.
1/ Badlar is the interest rate on deposits for amounts exceeding one million pesos for 30 to 35 day period.

annual rate of monetary expansion to below 30 percent by year end. Interest rates on central bank bills and short term bank deposits rose gradually during the year but remained negative in real terms (including after the large increase in the last two months of the year).

11. New directed-lending programs were adopted. In late 2012, the central bank launched a new program (*Líneas de Crédito para la Inversión Productiva*) that requires banks to lend a fraction of their deposits to investment projects at a below-market interest rate for a period of at least three years. The current tranche of the program, to be completed in the first half of 2014, has a size equivalent to about 5 percent of private sector deposits and makes loans at an interest rate of 17.5 percent. As of end 2013, lending under this program had reached US\$8.5 billion, or 2.1 percent of GDP. Although this lending program exposes the private banking system to increased risks, there are no indications, as yet, that these have materialized.

12. The authorities allowed a faster rate of depreciation of the official exchange rate. In the first half of 2013, the official peso/dollar exchange rate was allowed to depreciate by about 1.5 percent per month (up from an average of 1 percent per month in 2012). The monthly rate of depreciation increased further in the second half of the year, reaching 6.2 percent in December. The faster depreciation of the official rate was passed-through almost one-for-one to the parallel market rates; as a result, the differential between the most depreciated parallel market rate (the “blue” rate) and the official exchange rate hovered around 50–60 percent throughout the year (see chart on page 5).

13. The complexity of Argentina’s foreign exchange system increased in 2013.⁴ New measures were introduced through the year (see text table). In November, for example, the authorities imposed new restrictions on the amount that local banks can lend to large grain trading companies, thus increasing these companies’ reliance on foreign credit lines. In addition, the authorities have created instruments to induce exporters and other recipients of U.S. dollars to channel foreign exchange to the official market. In July 2013, they introduced two dollar denominated instruments (the *Certificado de Depósito para Inversión* and the *Bono Argentino de Ahorro para el Desarrollo Económico*) that offered tax amnesties to individuals and corporations that purchased them, and in late December the central bank launched a new exchange-rate linked dollar-denominated bond to induce farmers to liquidate their export earnings.

⁴ Staff continues to monitor developments in Argentina’s exchange system. Staff’s preliminary review of Argentina’s foreign exchange system suggests that there may be foreign exchange restrictions and multiple currency practices subject to Fund jurisdiction under Article VIII, sections 2(a) and 3. Amongst the areas that may give rise to exchange restrictions and/or multiple currency practices include (i) the broad limitations on access to the local foreign exchange market (including BCRA preapproval requirements and ceilings) in order to make payments and transfers for current international transactions, as well as limitations on access to foreign exchange for certain invisible transactions; (ii) the deviation between the official exchange rate and parallel market rate that results in a spread of more than 2 percent between rates for current international transactions; and (iii) the imposition of a tax on certain foreign exchange transactions.

Selected Foreign Exchange Measures Introduced in 2013

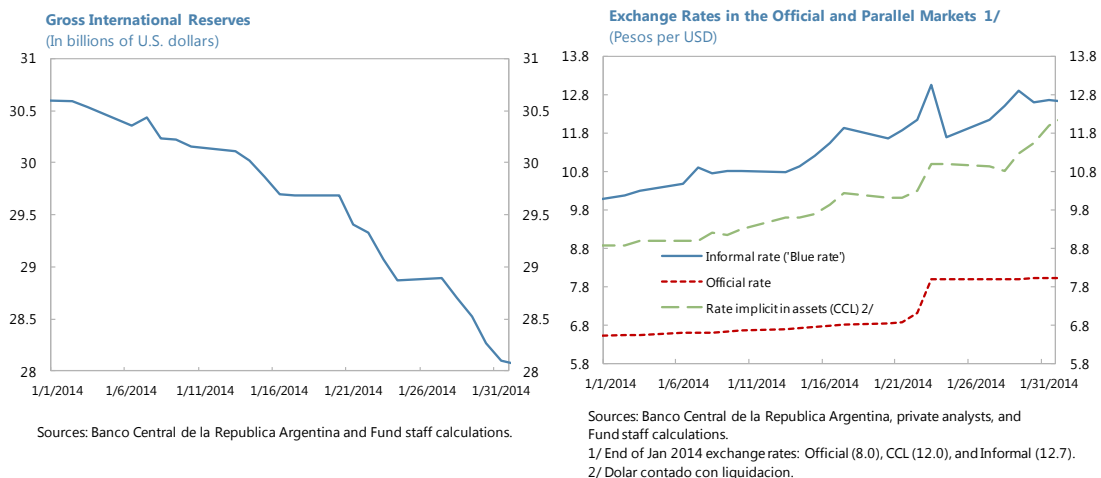
Month	Measures	Agency
March	Tax surcharge on credit card purchases abroad raised from 15% to 20%.	AFIP
May	Monthly limit on cash advances with credit cards abroad (US\$50 for neighboring countries and Peru, US\$800 for others).	AFIP
June	BCRA approval required for FX purchases of importers above US\$300,000.	BCRA
October	BCRA approval required for FX purchases of importers above US\$200,000.	BCRA
November	Restriction on peso loans to grain exporters.	BCRA
December	Tax surcharge on credit card purchases and certain other transactions carried out abroad raised from 20% to 35%.	AFIP

Source: Banco Central de la Republica Argentina.

14. Price controls remained in effect. In February 2013, prices of some goods sold in large supermarkets and appliance stores were frozen until the end of May. In April 2013, the authorities also froze prices of gas and diesel for the final consumer for a period of six months. In June 2013, the authorities launched a new price freeze program on 500 staples; the program was initially scheduled to be phased out in October, but was later extended to December. Towards the end of the year, the authorities announced a new price agreement covering 194 basic consumer goods that came into effect in January 2014.

III. DEVELOPMENTS IN JANUARY 2014

15. In January 2014, the losses of international reserves accelerated. Gross reserves of the central bank declined by US\$1.5 billion in the first two weeks of January (compared to US\$200 million in all December 2013) without any obvious trigger—such as a bunching of external payments or a policy announcement.



16. To stave off the drainage of reserves the central bank stopped its sales of dollars in the official exchange market for two days, changed some foreign exchange regulations, and raised some policy interest rates. Without central bank intervention during January 22-23, the official exchange rate depreciated by 16 percent (from AR\$6.89 to AR\$8.01 per dollar). The unexpected change in exchange rate policy increased uncertainty and pushed the premium in

the parallel market above 70 percent for a brief period. On January 24, the central bank resumed its sales of foreign exchange in the official market. On January 28, the central bank raised the interest rate on its bills (LEBACs) from 19 to 25 percent, and eased the controls on the purchase of dollars for savings purposes (introduced in June 2012).

17. In the last week of January, the official exchange rate remained broadly stable and the premium in the parallel market narrowed, though the losses of reserves continued.

From January 23 to January 31 the official exchange rate remained at about AR\$ 8.02 per dollar, the parallel market premium returned to the 50-60 percent range, and gross reserves of the central bank declined by an additional US\$1 billion. At end-January 2014, gross international reserves stood at US\$27.7 billion (US\$2.9 billion below the end-December level).

IV. NEAR TERM OUTLOOK

18. The near term outlook is very uncertain. More episodes of intense balance of payments pressures such as those observed in Argentina in January 2014 cannot be ruled out. The authorities' response to these episodes of intense pressure will be critical for the near term outlook. If responses succeed in containing the losses of international reserves without major disruptions in domestic financial markets and economic activity, the monetary and exchange regime currently in place in Argentina may be sustained, though overall uncertainty will be high. Conversely, if the authorities' policy response does not manage to stop large losses of international reserves, these will eventually fall to a level that would make it increasingly difficult to maintain a managed exchange rate system. The effects of this scenario on economic activity and macroeconomic stability, including public and external debt sustainability, are likely to be large.

19. Even assuming that intense balance of payment pressures do not reappear and that there are no adverse external shocks, output growth is likely to be low in 2014. Agriculture and agro-based manufacturing sectors would probably keep aggregate economic activity in positive territory but energy shortages, other supply bottlenecks, heavily distorted relative prices and a complex web of administrative controls (which place Argentina below the average of Latin American countries in doing business indicators) are likely to stifle private investment and growth. At the same time, without substantive corrections in the stance of macroeconomic policies, the external position and private sector confidence will continue to weaken, which will have additional adverse effects on investment and growth. Against this backdrop, illustrative medium-term scenarios are provided in Box 8.

20. External factors add downside risks to the outlook. As Argentina is only weakly integrated to international capital markets, the external shocks that will have the largest impact on its external position are current account shocks, especially terms of trade shocks (e.g., a lower world price of soybeans). The table below illustrates this, showing that even moderate shocks to the world prices of Argentina's export products (scenario A) would increase the external current account deficit by about US\$10 billion (more than 2 percent of GDP) compared to the baseline scenario. Given Argentina's weak balance of payments position, additional pressures of this

magnitude from the current account may trigger a wave of private capital outflows similar to that observed in January 2014. As discussed in previous paragraphs, the authorities' policy response to these shocks will be critical for the sustainability of the exchange rate regime and macroeconomic stability.

Three Current Account Scenarios

(In billions of US dollars, unless otherwise specified)

	Baseline	Alternative Scenarios 1/		
	2014	A	B	C
Current account balance	-2.2	-11.8	-2.7	-22.4
o/w Merchandise Exports	82.3	72.7	82.8	56.6
Merchandise Imports	-68.9	-68.9	-69.8	-63.4
<i>Memorandum items:</i>				
Current account balance (percent of GDP)	-0.5	-2.9	-0.7	-5.6
Gross Reserves (eop)	24.0	14.4	23.6	3.9

Source: Fund staff calculations.

1/ These alternative scenarios are based on the following commodity price scenarios:

Scenario A: Assumes that agricultural prices are 20 percent lower than in the baseline.

Scenario B: Assumes that oil prices are 10 percent higher than forecast in the baseline.

Scenario C: Assumes that commodity prices revert to their 2005 levels.

21. An additional risk relates to wages and inflation, and the possibility of a wage-price-depreciation spiral. A recent wage agreement included a wage increase of about 50 percent and upcoming wage rounds may entail negotiations involving even higher wage demands. A wage-price-depreciation spiral would have a destabilizing macroeconomic impact, including on the capitalization of banks from rising non-performing loans.

Box 1. Argentina: Cross-border Linkages and Spillovers

Two key cross-border linkages in Argentina are commodity prices and trade with Brazil. Argentina is also a source of outward spillovers to its neighbors via imports, tourism, and investment.

Argentina is a relatively closed economy, partly reflecting trade and foreign exchange restrictions.

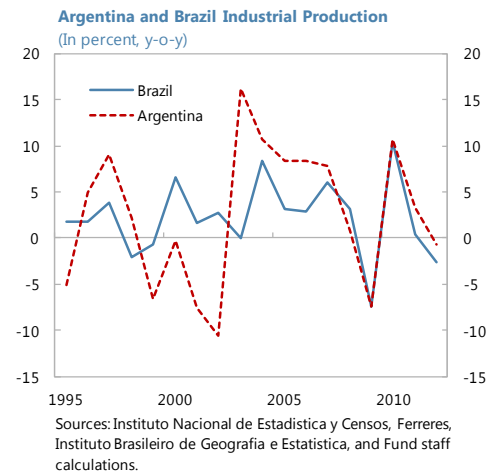
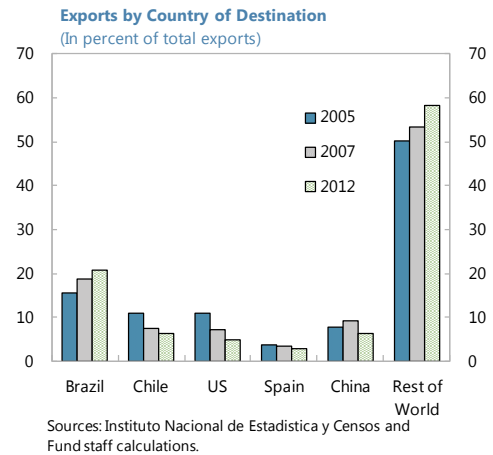
Trade to GDP averaged about 40 percent of GDP during 2005 to 2012, about half the average for emerging market economies.

Brazil is Argentina's largest trading partner, especially in manufacturing. Brazil buys about 40 percent of Argentina's exports. Since the creation of Mercosur in 1991, which broadened the market for local manufacturing, integration between the two countries' industrial sectors has increased. Most important is car production (vehicle exports represent about 40 percent of Argentina's total exports to Brazil), which has benefited from a sector-specific arrangement to achieve a balanced bilateral trade.

While manufacturing exports link Argentina to Brazil, commodity exports—two thirds of total exports—expose Argentina to swings in global commodity prices. These exports (primary and natural resource-based products) are sold mainly to Asia, Europe and the U.S.

Foreign direct investment, another channel of transmission, is concentrated in the manufacturing sector. Brazil has become Argentina's fourth largest source of foreign investment, after Spain, the U.S., and the Netherlands. Almost 60 percent of Brazilian investment in Argentina is in industrial activities—mainly automobile production.

Argentina's outward spillovers to the region are not large, but may be important for some countries. In particular, Uruguay, Paraguay, and Bolivia have important tourism, trade, and investment links to Argentina.



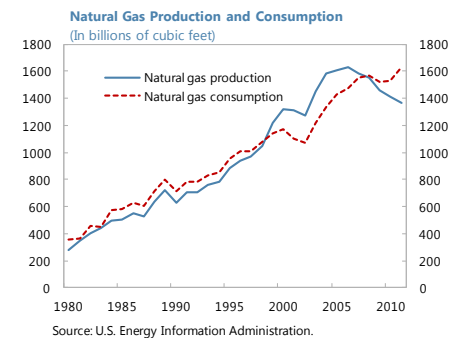
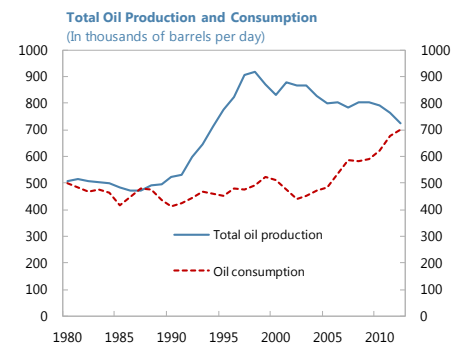
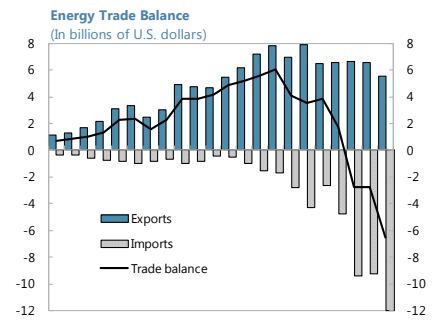
Box 2. Argentina's Energy Trade Balance: From Surplus to a Deficit

Argentina is a large producer of oil and gas. However, faltering investment in the sector and growing domestic energy consumption have led to a sharp decline in net energy exports.

Argentina is South America's largest natural gas producer, a large producer of oil, and has substantial undeveloped shale gas and oil resources. In 2012, Argentina's crude oil production reached 551,000 barrels and natural gas output totaled 1.4 trillion cubic feet. In addition to conventional hydrocarbon resources, Argentina holds the world's second-largest shale gas reserves (802 trillion cubic feet) and fourth-largest shale oil reserves (27 billion barrels). Large-scale investments are needed to utilize these resources.

Despite this rich endowment, Argentina's energy trade balance has deteriorated sharply in recent years. Net energy exports peaked in 2006, with a recorded surplus of US\$6 billion (2.8 percent of GDP). From then on the surpluses started to fall and the balance turned into a deficit in 2011.

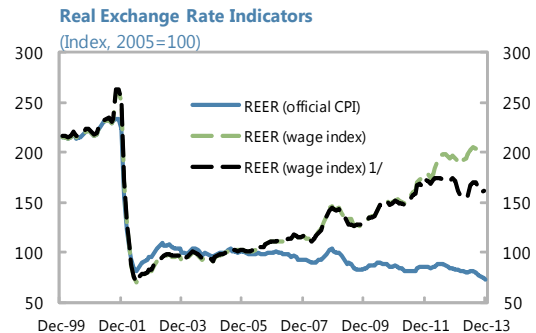
Policies that have discouraged investment and exports, and boosted consumption are the main factors behind the fall in net energy exports. Following the 2002 crisis, the government started to regulate the pass-through to energy prices. A decade later, in February 2013, electricity prices in Argentina were about one-third the average price of electricity in neighboring countries; prices for natural gas were even lower (about one-fifth of the average price in neighbors). The growing difference between the market price and the consumer price has been covered by the government with rising subsidy expenditures (Box 6). To meet the growing demand for energy, the government restricted gas exports to Chile in 2004, and scaled up gas imports from Bolivia. From 2006 to 2013, energy exports declined by 36 percent in U.S. dollar terms, while imports increased almost six fold. These policies have also taken a toll on private investment and output. Foreign direct investment into the sector has dropped from 0.6 percent of GDP in 2005 to virtually zero in 2011; Argentina's total oil production has shrunk by one-third since its 1998 peak, and gas production has fallen by about 15 percent from its 2004 peak.



Box 3. External Stability and International Reserve Coverage

Staff's assessment is that the peso is overvalued and that external stability risks are elevated amid deterioration in the current account and a persistent loss of international reserves..

In staff's view, Argentina's real exchange rate is overvalued. Assessing whether the peso is overvalued using conventional methodologies (as those used in the Fund's External Balance Assessment) is not straightforward. For instance, it is difficult for these methodologies to incorporate limited or nil access to foreign borrowing. In Argentina, at the present juncture even a modest current account deficit can be unsustainable because of lack of access to international capital markets. Extensive controls on foreign exchange transactions are another problematic feature for standard methodologies. Staff's judgment of overvaluation is therefore based on other indicators, including the large real appreciation in recent years, the deterioration in the current account, the persistent loss of reserves, and the existence of unofficial parallel exchange rates that are significantly more depreciated than the official rate.



1/ The real exchange rate is calculated using the wage index for Argentina and the average of the unofficial and official exchange rates for the Argentine peso.

Argentina has experienced a substantial loss of reserves. Since end-2012, Argentina's gross international reserves have fallen sharply. Gross reserves fell by US\$12.7 billion in 2013 to US\$30.6 billion at end-December 2013. As of end-January 2014, gross reserves had declined by an additional US\$2.5 billion. Net international reserves, defined as reserve assets net of predetermined short-term reserves-related liabilities, have also fallen and stood at US\$18.1 billion at end December. With limited recourse to alternative sources of external liquidity, international reserves represent Argentina's main buffer against external shocks.

Gross reserves are considerably below the threshold suggested by the reserve adequacy metric recently developed by Fund staff. According to this metric, the 'adequate' level of precautionary reserves in Argentina

in 2013 was somewhere between US\$57 billion and US\$85 billion. Argentina's gross reserves at end December 2013 (end January 2014) were 46 percent (50.5 percent) below the lower threshold. The level and evolution of Argentina's international reserves contrasts sharply from its regional peers (see Figure below). In terms of other metrics, the picture is somewhat more favorable. For example, gross reserves at end January were equivalent to about four months of imports (rule of thumb: three months) and over 1/3 of broad money (rule of thumb: 20 percent).

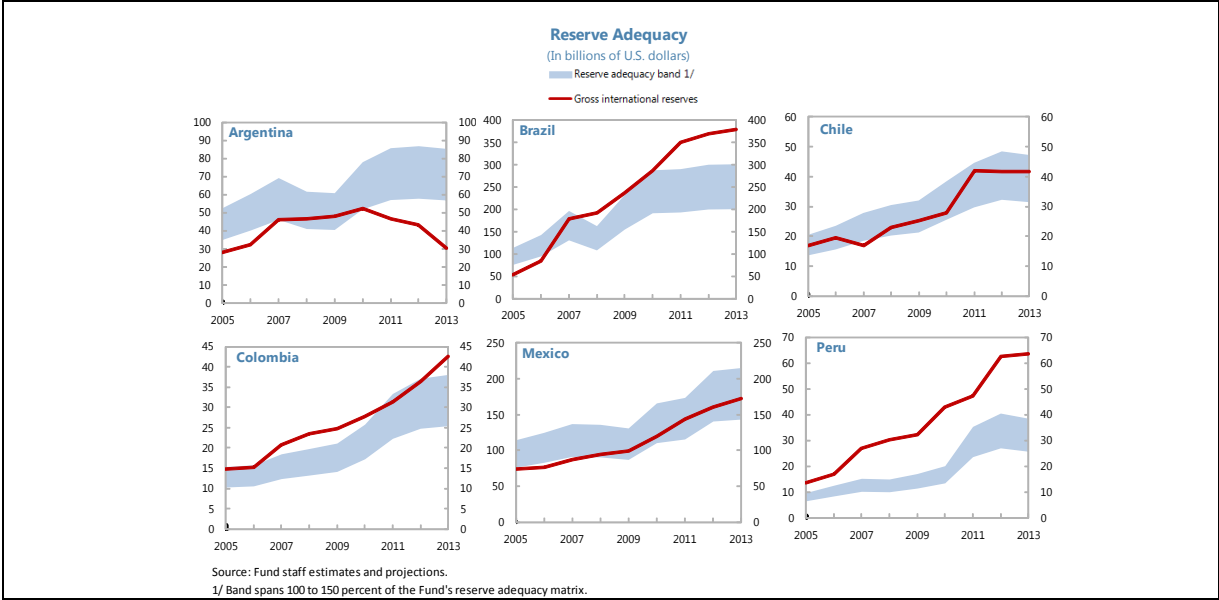
Gross International Reserves

In billions of U.S. dollars (1/31/14)	28.1
In months of imports (2012)	4.0
In percent of:	
GDP (2012)	5.9
ST external debt r.m. (2013)	39.2
M2 (1/14)	36.6

Memorandum items

IMF Reserve Adequacy Metric (US\$ billions)	
Lower band	56.8
Upper band	85.2

Sources: Banco Central de la Republica Argentina and Fund staff calculations.



Box 4. FSAP Recommendations and Authority Responsible for Implementation⁵	
Banking Oversight	Time^{1/}
Develop capital plans with banks to ensure compliance with the new Basel standards, and in conjunction, remove the limit restriction on dividend payments and transform it to the capital distribution constraints under Basel III (BCRA).	NT
Cap <i>Lineas de Credito</i> program at 10 percent of bank deposits and phase out this program as the loans are repaid (BCRA).	I
Use the bank-level panel supervisory dataset with detailed information on the balance-sheet and profit and loss (P&L) statements for the modeling part of stress testing (BCRA).	I
For regulatory capital, restore risk weights on lending to levels for other credit (BCRA).	I
Develop a comprehensive database of the assets as well as the liabilities, and the debt service, of corporate and households (BCRA).	NT
Continue improving the satellite models of the top-down (TD) stress testing for profits (BCRA).	NT
Strengthen rules to nominate and remove members of the BCRA board and the Superintendent, and financial autonomy; eliminate the ability of the Ministry of Economy and Public Finances (MECON) to overrule BCRA's decisions (BCRA).	I
Move to a forward looking provisioning rule (BCRA).	NT
Raise the threshold for lawsuits to gross negligence for BCRA staff's legal protection (BCRA).	MT
Public Pension Fund and Insurance Oversight	
Auction fixed-term deposits in banks on a market price return base. Increase the maturity of these deposits to provide stable funds to the banking system (FGS).	NT
Discourage unsupervised direct credit activities. Register all credit and debtor information from FGS loan programs in the credit bureau (FGS).	NT
Establish a limit of 5 percent for the FGS exposure to banks in equity (FGS).	NT
Adopt a single mandate as a pension reserve fund, and make investment decisions driven by a strong and independent governance structure (MECON).	I
Strengthen independence of the FGS, preferably by creating a separate legal structure with recognition of actuarial liabilities, and with an independent Board (MECON).	NT
Apply technical premiums and efficiency, disallow more than two months of unpaid premia (SSN).	I
Lift the recent investment guidelines for insurances and allow risk-transfer reinsurance (SSN).	I
Adopt a risk-based supervisory approach (SSN).	I
Enhance operational independence and increase legal protection to SSN's staff (SSN).	MT
Financial Safety Net	
Maintain surveillance over activities of non-bank financial companies to detect emergence of systemic liquidity risks. (BCRA, in conjunction with CNV).	NT
Establish a contingent funding mechanism for the Deposit Insurance Fund, FGD (MECON, FGD).	MT

⁵Table reproduced from the 2013 Financial System Stability Assessment.

Box 4. FSAP Recommendations and Authority Responsible for Implementation (Concluded)	
Clarify in the norms the resolution framework in case of a systemic crisis (BCRA).	MT
Enhance the prompt corrective action scheme. (BCRA).	MT
Establish a high-level systemic committee comprising all players of the safety net to monitor and plan for crisis coordination (BCRA, MECON, CNV, SSN, FGD).	MT
Extend legal protection to Seguro de Depósitos Sociedad Anónima, SEDESA (BCRA).	MT
Securities Market Oversight	
Strengthen legal protection for CNV staff (CNV).	MT
Strengthen independence and resources of CNV (CNV, MECON).	I
Rescind article 20 of the capital markets law so that the CNV cannot veto decisions approved by the boards of listed companies (CNV).	I
Financial Infrastructure	
Improve the legal and regulatory framework and oversight on payments and settlement systems and credit reporting; modernize the secured transactions framework (BCRA).	NT
1/ "I-Immediate" is within one year; "NT-near-term" is 1–3 years; "MT-medium-term" is 3–5 years.	

Box 5. Subsidies in Argentina

Subsidies have grown steadily since 2006—mainly for energy and transportation—and are a key factor behind the deterioration of the fiscal accounts.

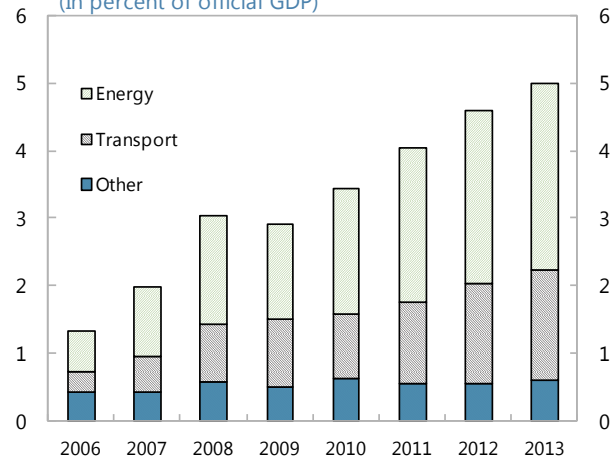
Federal subsidies have grown steadily in recent years. In 2006, subsidy expenditures were 1.3 percent of GDP (5.4 percent of total primary expenditure); by 2013, they had risen to about 5 percent of GDP (14 percent of total primary expenditure). In 2013, spending on subsidies was twice the size of total government investment. If spending on subsidies had been zero, *ceteris paribus*, Argentina's primary surplus would have averaged 4.0 percent of GDP during 2006–13 compared to the observed 0.7 percent of GDP.

Subsidies are concentrated in energy and public transportation. For example, in 2013, energy subsidies represented about 3 percent of GDP (0.6 percent in 2006), while transport subsidies represented about 1.3 percent of GDP. All other subsidies (including to state enterprises) represented about 0.7 percent of GDP.

The rise in energy subsidies is the consequence of having kept domestic energy prices essentially fixed since 2001. For example, as of 2013, the cost of natural gas imported from Bolivia was US\$12 per mBTU, but the cost for residential consumers was only 50 US cents.

Subsidies are not targeted, and many poor segments of the population do not have access to the subsidized products. According to some studies, about 40 percent of the poorest households, do not have access to the natural gas network, and must buy liquefied petroleum gas at prices that double or treble the cost of natural gas.⁶ In 2008, the government introduced the 'garrafa social' (social LPG cylinder) at a lower, subsidized, price but it is not widely available. Studies estimate that, for electricity and natural gas, the richest 20 percent of households receive double the share of subsidies of the poorest 20 percent.

Subsidies Expenditure
(In percent of official GDP)



Sources: Banco Central de la Republica Argentina and Fund staff calculations.

⁶ Alejandro D. Gonzalez. (2009) "Energy Subsidies in Argentina lead to inequalities and low thermal efficiency"; *Energies* 2009, 2, 769-788. www.mdpi.com/journal/energies.

Box 6. Argentina's Recent Relations with External Official Creditors

Since mid-2013, the government of Argentina has approached external creditors to discuss settlement alternatives; net lending from the World Bank and IADB has continued.

In October 2013, the Argentinean government reached an agreement with five foreign companies that had brought claims against Argentina to the World Bank's International Center for Settlement of Investment Disputes (ICSID) and the United Nations arbitration tribunal (UNCITRAL). Under the terms of the agreement, the companies received payment of US\$677 million in dollar-denominated government bonds, and agreed to invest \$68 million in Argentine infrastructure bonds.

At end November 2013, the Argentine government and Repsol (a Spanish oil company) reached a preliminary compensation agreement over the April 2012 seizure of the company's 51 percent stake in the state-owned oil and gas company (YPF). Final terms of the deal are still under negotiation, but according to press reports, Repsol will receive around US\$5 billion in the form of public bonds with coupons of 8.25 to 8.75 percent.

In January 2014, the Argentinean authorities presented a proposal to the Paris Club laying out potential guidelines for the repayment of Argentina's debt arrears to the Club.

Argentina owes Paris Club members a total amount of about US\$6.5 billion, including principal, interest, although this amount could be significantly higher when late interest is included. Paris Club members are considering the proposal.

The World Bank's country strategic partnership (CSP) with Argentina continues to support projects totaling US\$6.2 billion in the areas of health, social protection, infrastructure and the environment. As at end-September 2013, Argentina owed US\$5.9 billion to the Bank. Discussions of a new CSP to support education, healthcare and rural development were initiated in late 2013.

The Inter-American Development Bank (IADB) remains Argentina's main partner on development projects, with annual disbursements averaging US\$2.5 billion from 2009–12.

Almost two-thirds of the IADB's funding to Argentina is dedicated to projects in productive sectors, while the remainder is allocated to social development and governance issues. As at end-September 2013, Argentina owed US\$10.7 billion to the IADB. Annual disbursements from the IADB are projected to be around US\$1.5 billion in 2014–15.

Box 7. Status of Sovereign Debt Litigation

Argentina restructured most of its defaulted external debt in two operations in 2005 and 2010. A subset of hold-out creditors, with debt holdings of about US\$1.3 billion, remain in litigation.

Following its default on external debt payments in 2002, Argentina undertook two debt exchange operations (in 2005 and 2010) that restructured 91 percent of its external debt.

However, creditors holding the remainder of the debt did not participate in the exchanges.

In 2011, a subset of the holdout creditors, representing about US\$1.3 billion in bond holdings, filed a case against Argentina with the Southern District Court of New York. The

case was filed on the grounds that Argentina had violated the *pari passu* clause in the bond contracts.

The case, which is still in litigation, led to the following rulings by the Court:

- Pari Passu.*** In December 2011, the Southern District Court of New York ruled in favor of the holdout creditors, finding that Argentina had violated the *pari passu* clause in its defaulted bond contracts and holding that the *pari passu* clause required that Argentina make ratable payments to both the holdout creditors and the holders of Argentina's restructured debt. Argentina appealed the decision but in October 2012 the Second Circuit Court of Appeals upheld the lower court's decision. In June 2013, Argentina filed a petition with the United States Supreme Court to consider the case but the request was denied on October 7.
- Injunction requiring "Ratable Payment."*** In February 2012, the Southern District Court issued an injunction requiring Argentina to make "ratable payments" to the litigants the next time it made a payment on restructured bonds and issued a parallel injunction prohibiting Argentina from servicing its restructured debt if the holdout creditors were not paid in full. The injunction also applied to certain third party intermediaries through which Argentina made payments on restructured bonds. The Second Circuit upheld injunctive remedy in October 2012, but remanded back to the lower court to clarify the meaning of "ratable payment." In response, the District Court defined "ratable payment" as requiring Argentina to pay 100 percent of the amount currently due to the holdout creditors on the defaulted bonds (i.e., the total amount of unpaid principal and accrued interest) whenever the holdout creditors were paid. That is, according to the ruling, when Argentina made its next payment to restructured bondholders, it would have to pay the litigant holdouts the entirety of what they were owed (US\$1.3 billion). Argentina appealed this ruling but it was upheld by the Second Circuit Court in August 2013 (albeit with a stay on implementation), and a subsequent rehearing petition was also denied in November. On February 18, 2014, Argentina filed a petition with the Supreme Court to overturn the lower court's injunction ruling. The stay on implementation of the injunction will remain in place until the Supreme Court makes a decision.

Restructured and Unrestructured Debt

(In billions of U.S. dollars)

Defaulted debt (2002) 1/	81.8
Amount restructured in 2005 1/	62.3
Amount restructured in 2010 1/	12.9
Unrestructured debt (2013) 2/	11.5
Current <i>pari passu</i> litigation 2/	1.3

Sources: Banco Central de la Republica Argentina and Fund staff calculations.

1/ Including principal and unpaid interest up to Dec. 2001.

2/ Including principal and accrued interest up to Dec. 2012.

Box 8. Illustrative Medium-Term Scenarios, 2014-2018

Argentina's macroeconomic imbalances are not too large, but are growing. Feasible options to narrow these imbalances hinge critically on the availability of external financing.

To illustrate the impact of alternative paths for macroeconomic policies on medium-term prospects, staff prepared two simple scenarios.

- **The first scenario assumes the continuation of present policies.** In this scenario the fiscal primary balance would remain at the level of 2013 (a deficit of 0.9 percent), and the external current account balance will remain in deficit (of about 0.5 percent of GDP). With no international market access, the capital account will also remain in deficit, a gradual drainage of international reserves will lower the reserve coverage to less than two months of imports by end 2018, and external vulnerabilities will become increasingly acute. In the absence of an external crisis, output growth in this scenario would average 1.5 percent per year over the five year period.

Argentina: Illustrative Medium-Term Scenarios, 2014-2018

	Unchanged Policy Scenario						Demand Restraint Scenario				
	2013	2014	2015	2016	2017	2018	2014	2015	2016	2017	2018
(In percent of official GDP; unless otherwise specified)											
Savings-Investment balance											
Gross domestic investment	22.3	22.0	22.0	22.0	22.0	22.0	23.6	24.8	25.0	25.0	25.0
Gross national savings	21.4	21.4	21.5	21.5	21.5	21.5	23.7	25.5	25.7	25.7	25.7
of which: public sector	1.7	0.8	1.9	2.2	2.3	2.5	1.9	4.3	4.6	4.8	4.9
Current account balance	-0.9	-0.5	-0.5	-0.5	-0.5	-0.5	0.1	0.7	0.7	0.7	0.7
Public sector											
Primary balance	-0.9	-0.9	-0.9	-0.9	-0.9	-0.9	0.4	1.6	1.6	1.6	1.6
External sector											
Gross international reserves (US\$bns)	30.6	24.0	20.5	17.6	14.9	12.2	31.1	33.7	36.3	39.2	42.1
(in months of imports)	4.1	3.3	2.8	2.4	1.9	1.5	4.6	4.8	5.0	5.1	5.2
Real GDP (Annual percentage change)	4.3	0.5	1.0	1.5	2.0	2.0	-0.5	1.5	2.5	3.0	3.5

Source: Fund staff estimates and projections.

- **The other scenario incorporates strengthened policies.** The fiscal primary balance is assumed to move from a deficit of 0.9 percent to a surplus of 1.6 percent over a two year period and stabilize at that level thereafter. The higher public saving would help turn the deficit in the external current account into a surplus of about 0.7 percent of GDP by end 2015, The adoption of policies consistent with external sustainability is also assumed to improve confidence, increase investment and allow Argentina to regain access to external financing. As a result, international reserves coverage would increase to about five months of imports by end 2018 and medium-term growth will increase.

Illustrative Fiscal Measures

	Yield % of GDP
Total	2.4
Revenue measures	-1.0
Reversal of BCRA transfers	-1.0
Expenditure measures	3.4
Reduction in subsidies	2.5
Reduction in pensions	0.7
Reduction in wages	0.2

Source: Fund staff estimates and projections.

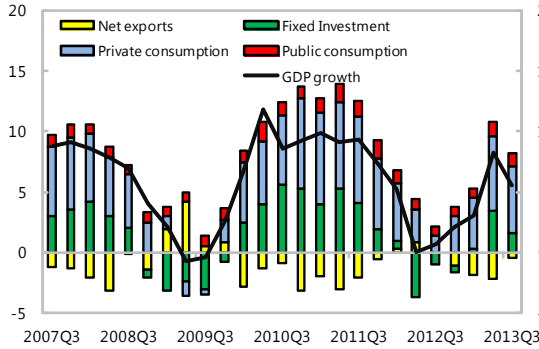
- **Many combinations of measures may yield an improvement in the fiscal primary balance as that contained in the strengthened policies scenario.** One such combination would consist of reducing subsidies to their 2007 level in terms of GDP in two years, and keeping public sector wages and pension payments unchanged in terms of GDP at their 2012 level. In addition, to keep domestic demand in check real interest rates would need to rise and remain positive and the peso would need to depreciate in real terms.

Figure 1. Argentina: Real Sector Developments, 2007-13

After a decade of robust expansion, economic growth has slowed but inflation remains high and rising.

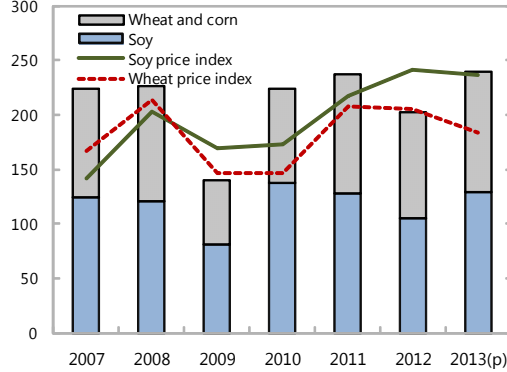
After a solid first half recovery, economic activity stalled in the second half of 2013...

Official Real GDP Growth and Contributions
(y/y, percent change)



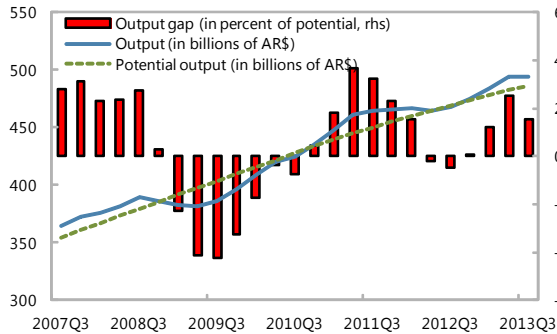
... a rebound in agricultural output, supported by still favorable prices...

Agricultural Production and Commodity Prices
(Index, 2005=100)



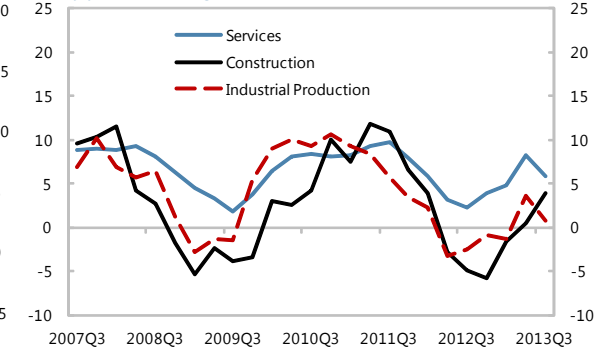
Output remains above potential...

Official GDP Level: Actual and Potential



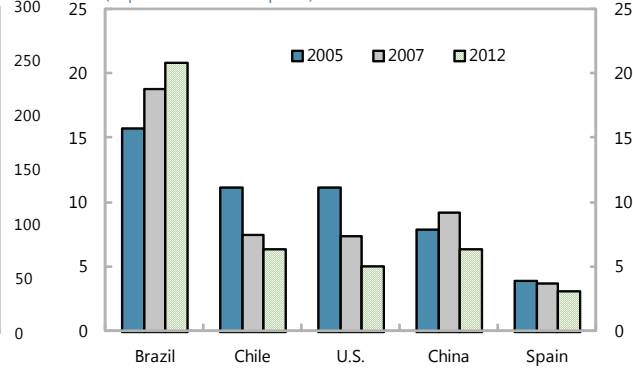
Output developments in 2013 reflected fluctuations in industrial production and services...

Official GDP Growth by Sectors
(y/y, percent change)



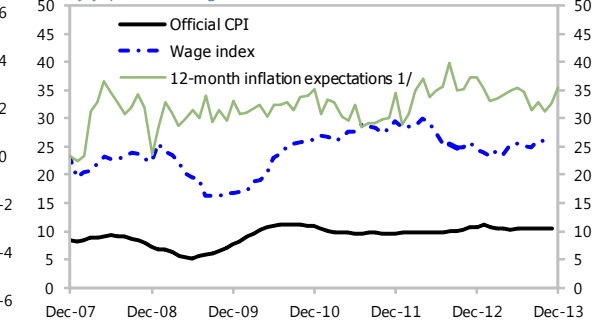
...and strong and growing trade links with Brazil.

Exports by Country of Destination
(In percent of total exports)



...and inflationary pressures remain.

Consumer Price Index
(y/y, percent change)



Sources: Instituto Nacional de Estadística y Censos (INDEC), Ministerio de Economía y Finanzas Públicas, Ministerio de Agricultura, Universidad Torcuato Di Tella, private analysts, provincial statistical offices, and Fund staff calculations.

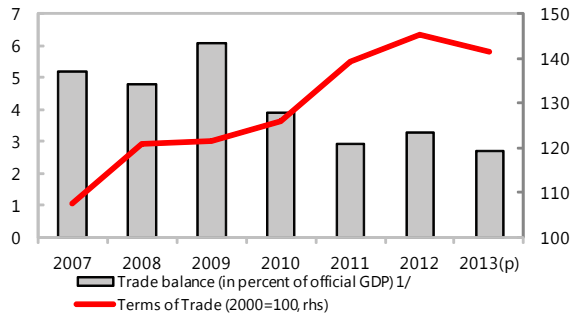
1/ The source of inflation expectation data is the Universidad Torcuato Di Tella.

Figure 2. Argentina: External Sector Developments, 2007-13

Despite still favorable terms of trade and growing controls on foreign currency transactions, the external position continued to weaken in 2013.

Terms of trade remains favorable but the trade surplus keeps shrinking...

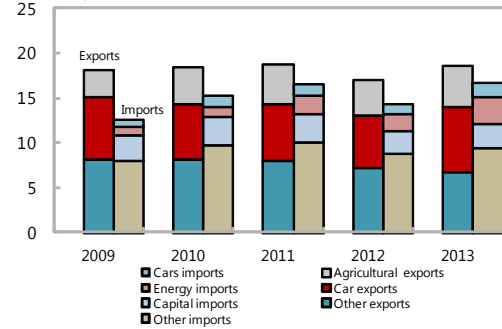
Trade Balance and Terms of Trade



...as the demand for imports of energy and durables has not abated.

Imports and Exports of Goods

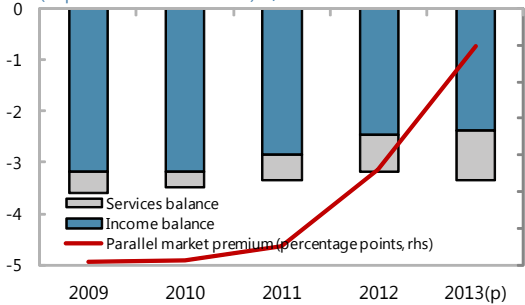
(In percent of official GDP) 1/



Rising controls have contained net payments of services and income, but the parallel market premiums has increased steadily.

Balance of Income and Services

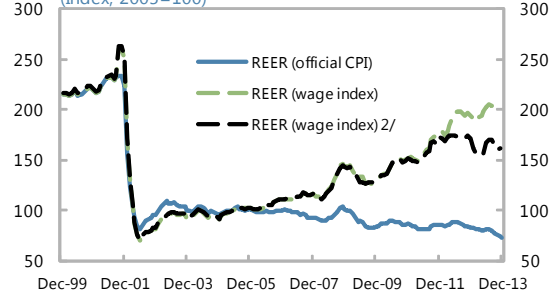
(In percent of official GDP) 1/



Competitiveness gains from the early 2000s are being eroded...

Real Exchange Rate Indicators

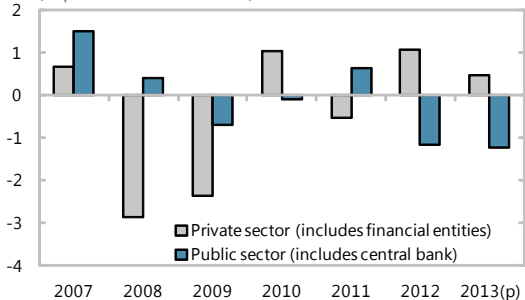
(Index, 2005=100)



The deficit in the financial account is rising...

Financial Account by Sector

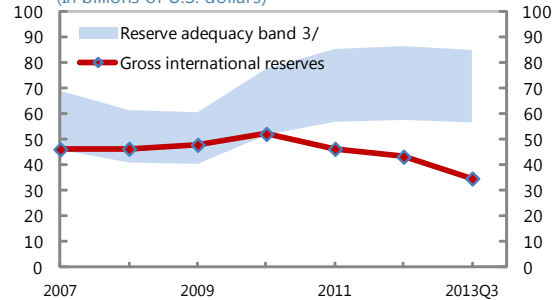
(In percent of official GDP) 1/



...and the loss of international reserves has accelerated.

International Reserves

(In billions of U.S. dollars)



Sources: Instituto Nacional de Estadística y Censos (INDEC), Banco Central de la Republica Argentina (BCRA), private analysts, provincial statistical offices, and Fund staff calculations.

1/ The ratios to GDP would be lower than those reported in the figure if they were computed using private estimates of nominal GDP.

2/ The real exchange rate is calculated using the wage index for Argentina and the average of the unofficial and official exchange rates for the Argentine peso.

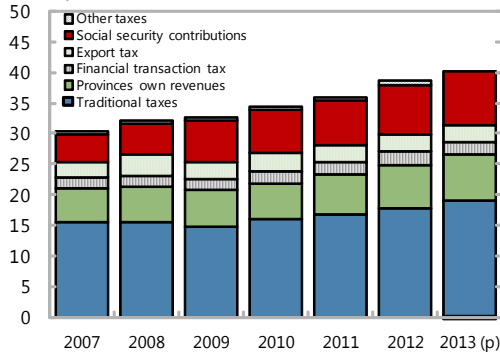
3/ Calculated based on the international reserve metric proposed by IMF staff. As a rule of thumb, actual reserves within 100-150 percent of the adequacy metric are considered adequate.

Figure 3. Argentina: Fiscal Developments, 2007-13 1/

The primary balance continues to deteriorate as higher revenues have been offset by rapid growth in expenditures. The government is increasingly dependent on funding from the central bank. Debt dynamics have been favorable.

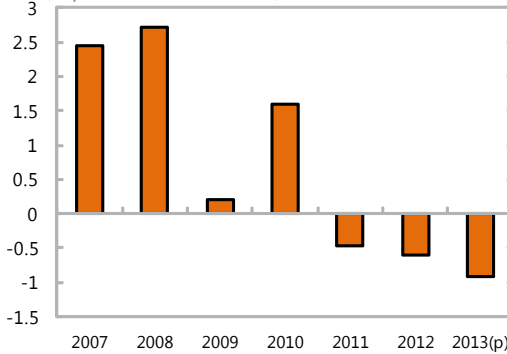
Revenues are large and have continued to increase, especially social security contributions...

Consolidated Government Revenues 2/
(In percent of official GDP)



As a result, the primary balance position keeps weakening...

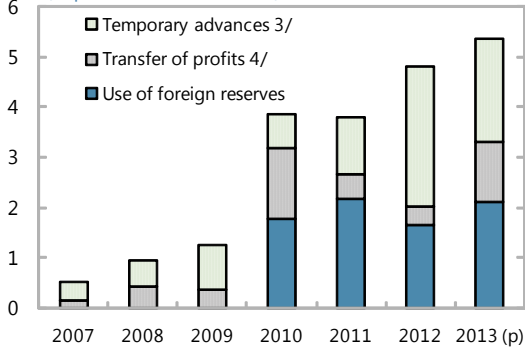
Primary Balance
(In percent of official GDP)



Source: Ministry of the Economy and Public Finance

The deficit is being financed mostly by the central bank...

Central Bank Lending to the Government
(In percent of official GDP)

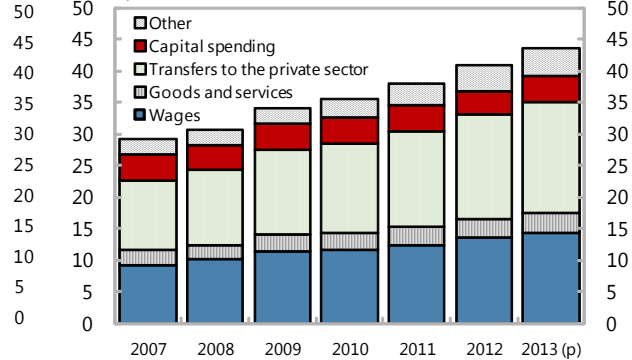


Sources: Instituto Nacional de Estadística y Censos (INDEC), Banco Central de la República Argentina (BCRA), World Economic Outlook (WEO), and Fund staff calculations.

1/ The ratios to GDP would be lower than those reported in the figure if they were computed using private estimates of nominal GDP.
2/ Consolidated government includes the federal government and provincial governments.
3/ The central bank charter reform of 2012 increased the upper limit on temporary advances to the federal government.
4/ Include valuation effects.

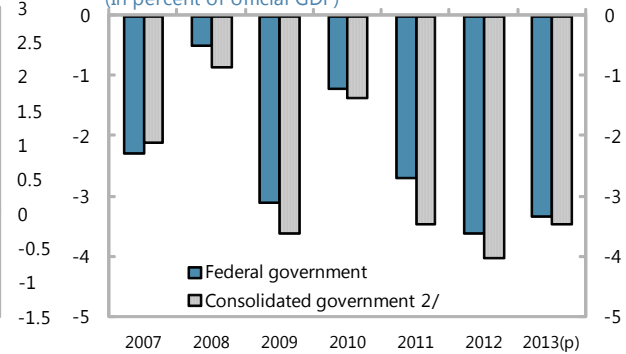
...but the increase in primary spending has been larger, especially on transfers to the private sector.

Consolidated Government Primary Expenditures 2/
(In percent of official GDP)



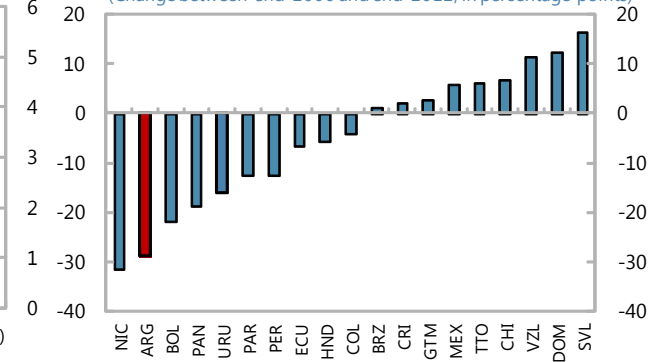
...and the overall fiscal deficit has exceeded 3 percent of GDP since 2011.

Overall Balance
(In percent of official GDP)



...but favorable debt dynamics have helped reduce public indebtedness.

Public Debt to Official GDP
(Change between end-2006 and end-2012, in percentage points)



Sources: Instituto Nacional de Estadística y Censos (INDEC), Banco Central de la República Argentina (BCRA), World Economic Outlook (WEO), and Fund staff calculations.

Figure 4. Argentina: Monetary Developments, 2007-2013

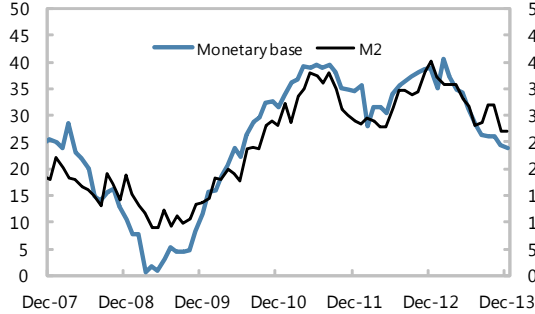
Financial conditions tightened somewhat during 2013, but monetary policy remains expansionary.

In 2013, the pace of growth in monetary aggregates slowed...

...as losses of official reserves partly offset the increased lending to the government.

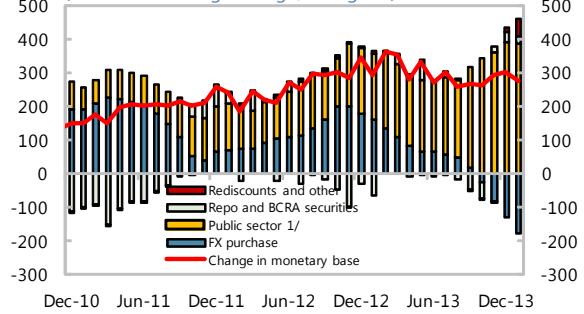
Monetary Aggregates

(y/y percentage change, monthly averages)



Contributions to Changes in Base Money

(12-month moving average, in Arg\$bn)

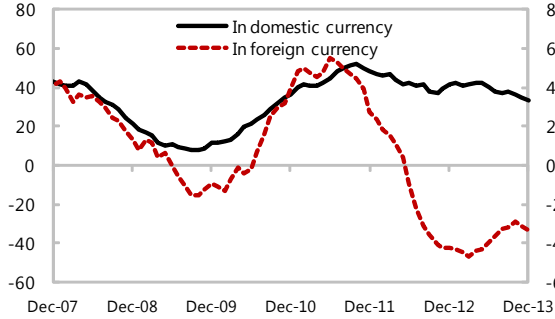


Bank credit in pesos to the private sector continues to grow fast...

...fueled by persistently negative real interest rates.

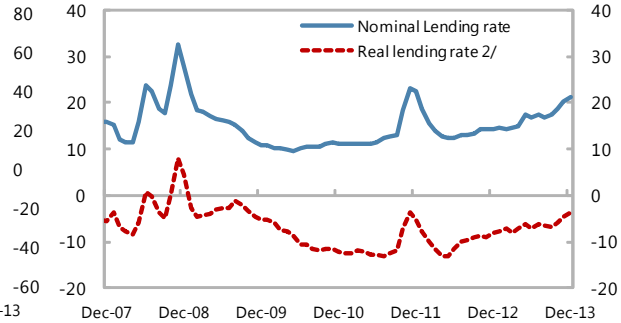
Bank Credit to the Private Sector

(y/y nominal growth, in percent)



Interest Rates

(Percent)

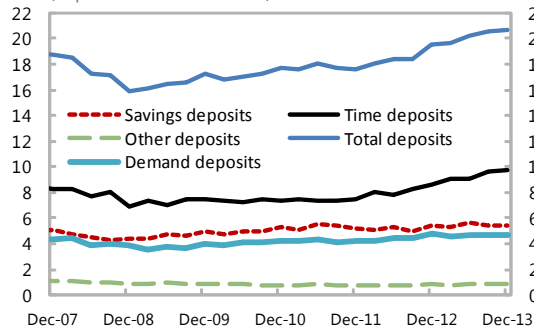


Financial deepening is rising but remains low.

The tightening of capital controls has lowered financial dollarization.

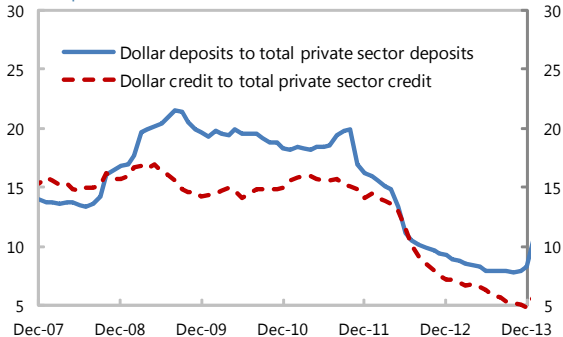
Private Sector Bank Deposits 3/

(In percent of official GDP)



Dollar Deposits and Dollar Credits

(In percent)



Sources: Banco Central de la Republica Argentina (BCRA) and Fund staff calculations.

1/ Includes loans and other public sector operations.

2/ The real lending rate is deflated using the nominal wage index.

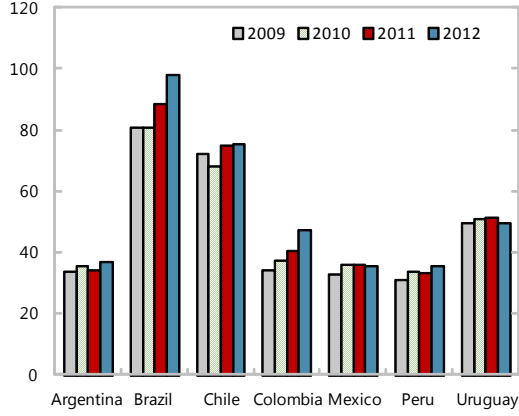
3/ The ratios to GDP would be lower than those reported in the figure if they were computed using private estimates of nominal GDP.

Figure 5. Argentina: Financial Sector, 2009-2012

The banking system, while small compared with regional peers, has stayed on a solid footing.

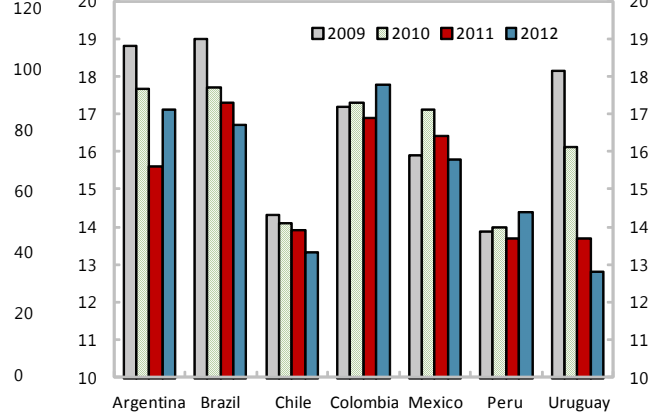
Argentina's banking sector is not big...

Bank Assets to Official GDP 1/
(In percent)



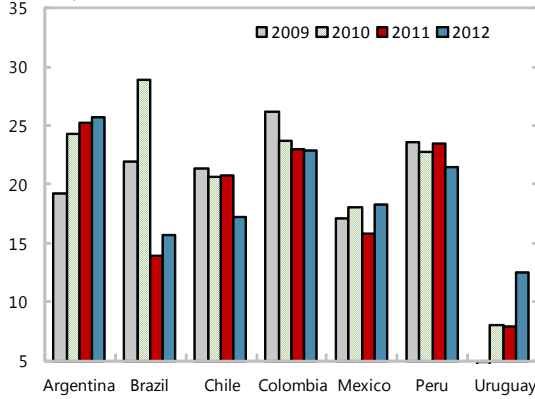
... but is relatively well capitalized...

Capital Adequacy Ratio
(In percent)



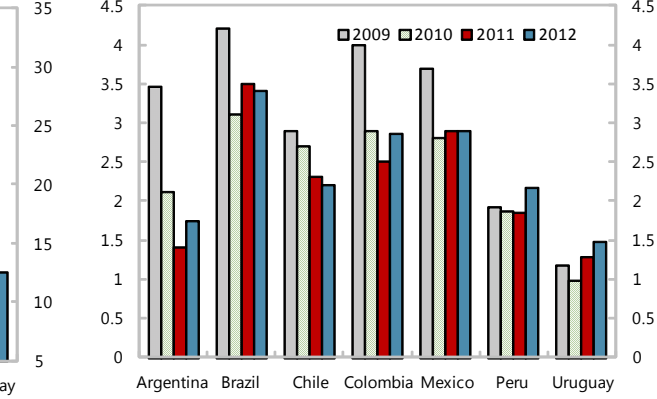
...profitable...

Bank Returns on Equity
(In percent)



...and has low NPLs.

NPLs to Total Loans
(In percent)



Sources: Banco Central de la Republica Argentina (BCRA), Financial Soundness Indicators (IMF), and World Economic Outlook.
1/ The ratios to GDP (for Argentina) would be lower than those reported in the figure if they were computed using private estimates of nominal GDP.

Table 1. Argentina: Selected Economic and Financial Indicators, 2004-14

Population (2012): 41.0 million	Per capita GDP (2012): US\$11,582						
Quota (current; millions SDR / % total): 2,117 / 0.89	Gini coefficient (2011): 0.45						
Main products and exports: soybeans, automobiles, corn							
	Average	Average				Est.	Projections
	2004-06	2007-09	2010	2011	2012	2013	2014
(Annual percentage changes; unless otherwise indicated)							
National income, prices and labor markets 1/							
GDP at constant prices	8.9	5.4	9.2	8.9	1.9	4.3	0.5
Domestic demand	10.3	5.9	11.3	10.7	1.9	4.3	-0.6
Nominal GDP (Arg\$bns)	544.1	996.1	1,441.8	1,839.9	2,163.0	2,673.4	3,353.3
Nominal GDP (US\$bns)	181.9	296.7	367.6	444.6	475.2	488.2	402.9
CPI inflation (average)	8.3	7.9	10.5	9.8	10.0	10.6	...
CPI unofficial private inflation (average)	...	19.9	22.9	23.4	23.0	24.7	30.0
GDP deflator (average)	10.5	14.5	15.3	17.2	15.4	18.6	24.8
Unemployment rate (percent)	11.8	8.3	7.8	7.2	7.2	7.1	7.6
(In percent of official GDP; unless otherwise indicated) 2/							
External sector							
Trade balance in goods	7.5	5.3	3.9	2.9	3.2	2.5	3.3
Exports f.o.b. (goods, US\$bns)	40.5	60.6	68.1	84.1	80.9	83.0	82.3
Imports f.o.b. (goods, US\$bns)	-27.1	-44.8	-53.9	-71.1	-65.6	-70.8	-68.9
Terms of trade (percentage change)	2.7	6.3	3.5	10.6	4.3	-4.0	-7.2
Total external debt	85.1	53.1	38.8	35.5	34.5	34.2	34.4
Savings-Investment balance							
Gross domestic investment	21.3	22.8	21.9	22.5	21.7	22.3	22.0
<i>of which: public sector</i>	3.1	4.0	4.2	4.2	3.9	4.3	4.3
Gross national savings	23.8	25.1	22.2	22.0	21.7	21.4	21.4
<i>of which: public sector</i>	4.9	3.6	4.1	1.7	0.8	1.7	0.8
Current account balance	2.6	2.3	0.3	-0.6	-0.1	-0.9	-0.5
Public sector							
Primary balance	4.6	1.8	1.6	-0.5	-0.6	-0.9	-0.9
<i>of which: federal government</i>	0.9	2.0	1.7	0.3	-0.2	-0.8	-0.8
Overall balance	-1.9	-2.2	-1.4	-3.5	-4.0	-3.5	-5.3
Revenues	29.4	33.1	37.2	37.4	40.3	42.6	42.6
Primary expenditure	24.7	31.3	35.6	37.9	40.9	43.5	43.5
Total public debt	96.9	61.5	49.2	44.9	47.7	46.9	53.2
<i>of which: share of FX denominated debt</i>	59.4	60.9	62.0	62.9	61.7	61.8	65.5
Money and credit							
Monetary base (percentage change)	21.2	15.3	31.1	39.0	37.9	22.7	22.6
M2 (percentage change)	25.5	18.6	34.9	30.8	40.1	30.0	22.4
Short-term deposit rate (BADLAR)	7.0	12.0	10.1	13.4	13.8	17.0	23.8
Credit to the private sector (percentage change)	27.7	22.4	36.5	44.3	31.3	33.4	25.4
Memorandum items							
Gross international reserves (US\$bns)	26.6	46.8	52.2	46.4	43.3	30.6	24.0
Exchange rate (average, Arg\$/US\$)	3.0	3.3	3.9	4.1	4.6	5.5	8.3

Sources: Ministerio de Economía y Finanzas Públicas, Banco Central de la República Argentina (BCRA), and Fund staff calculations.

1/ The IMF has called on Argentina to adopt remedial measures to address the quality of the official GDP and the consumer price index (CPI-GBA) data. The table presents the official estimates for CPI inflation and GDP. It also presents alternative measures inflation which have shown considerably higher inflation figures than the official data since 2007. The ratios to GDP would be lower than those reported in the table if they were computed using private estimates of nominal GDP.

2/ The ratios to GDP would be lower than those reported in the figure if they were computed using private estimates of nominal GDP.

Table 2. Argentina: Summary Balance of Payments, 2004-14							
	Average	Average				Est.	Projections
	2004-06	2007-09	2010	2011	2012	2013	2014
(In billions of U.S. dollars)							
Current account	4.8	6.8	1.0	-2.5	-0.3	-4.5	-2.2
Trade balance	13.4	15.8	14.3	12.9	15.4	12.2	13.4
Exports f.o.b.	40.5	60.6	68.1	84.1	80.9	83.0	82.3
Primary products	21.3	12.6	15.1	20.2	19.2	19.4	...
Manufactures of agricultural origin	...	21.4	22.7	28.2	27.7	30.0	...
Manufactures of industrial origin	...	19.4	23.8	29.0	27.6	28.6	...
Energy	19.2	7.1	6.5	6.6	6.9	5.0	...
Imports f.o.b.	-27.1	-44.8	-53.9	-71.1	-65.6	-70.8	-68.9
Capital goods	-11.2	-18.1	-21.9	-27.8	-25.1	-27.0	...
Intermediate goods	-9.6	-15.1	-16.8	-21.0	-19.1	-18.7	...
Consumer goods	-4.9	-8.5	-10.9	-13.3	-12.4	-14.2	...
Fuels and lubricants	-1.4	-3.1	-4.2	-9.1	-8.9	-10.9	...
Services, income and transfers	-8.6	-9.0	-13.3	-15.4	-15.7	-16.7	-15.6
Services balance	-0.9	-1.0	-1.2	-2.2	-3.4	-4.8	-4.1
Earnings and dividends, net	...	-6.0	-8.6	-9.2	-8.2	-8.1	-7.8
Interests, net	-4.4	-2.2	-3.1	-3.5	-3.5	-3.5	-3.3
Other flows and transfers	...	0.1	-0.5	-0.6	-0.5	-0.3	-0.4
Capital and financial account	0.4	-4.8	1.1	-1.3	-2.0	-7.1	-5.7
Capital account	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Portfolio investment, net	-0.2	-2.3	11.1	-4.3	-3.2	-2.4	-5.0
<i>of which:</i> public sector	...	-1.5	10.9	-3.8	-3.2	-1.8	-4.7
Foreign direct investment, net	3.5	5.5	6.9	9.2	11.1	9.6	9.1
Other investment, net	-3.0	-8.1	-17.0	-6.3	-9.9	-14.3	-9.9
Errors and omissions	0.6	0.3	-0.6	-4.2	-2.7	-1.9	0.0
Overall balance	5.9	2.3	1.4	-8.0	-5.0	-13.5	-7.9
Financing	-5.3	-2.3	-1.4	8.0	5.0	13.5	7.9
Change in gross reserves (increase -)	-6.0	-5.3	-4.2	5.8	3.1	12.7	6.6
Valuation changes and arrears	0.6	3.1	2.8	2.2	1.9	0.8	1.3
(In percent of official GDP; unless otherwise indicated) 1/							
Current account	2.6	2.3	0.3	-0.6	-0.1	-0.9	-0.5
Trade balance	7.5	5.3	3.9	2.9	3.2	2.5	3.3
Exports, f.o.b.	22.3	20.4	18.5	18.9	17.0	17.0	20.4
Imports f.o.b.	-14.8	-15.1	-14.7	-16.0	-13.8	-14.5	-17.1
Capital and financial account	0.5	-1.4	0.3	-0.3	-0.4	-1.4	-1.4
Portfolio investment, net	-0.6	-0.6	3.0	-1.0	-0.7	-0.5	-1.2
Foreign direct investment, net	2.0	1.9	1.9	2.1	2.3	2.0	2.3
Other investment, net	-1.0	-2.7	-4.6	-1.4	-2.1	-2.9	-2.5
Memorandum items:							
Non-interest current account balance (US\$bns)	9239.0	8.9	4.0	0.9	3.2	-1.0	1.1
Non-interest current account balance (% of GDP)	5.2	3.0	1.1	0.2	0.7	-0.2	0.3
Exports volumes (percent change)	6.3	-1.9	14.0	3.4	-6.3	4.6	8.0
Imports volumes (percent change)	11.4	4.2	40.3	22.1	-6.3	5.3	-1.7
Terms of Trade (Index, 2000 = 100)	99.5	116.5	125.8	139.2	145.1	139.3	129.2
REER (2005=100, provincial CPI)	99.5	105.8	114.8	120.8	142.9	147.4	125.3
Gross international reserves (US\$bns)	26.6	46.8	52.2	46.4	43.3	30.6	24.0
(in months of imports of goods and services)	9.1	10.1	9.1	6.3	6.2	4.1	3.3
Net international investment position	-10.8	9.6	7.9	5.7	5.2	7.3	...
Assets	91.3	72.5	64.4	55.9	54.3	51.8	...
Liabilities	102.1	62.8	56.4	50.2	49.0	44.5	...

Sources: Instituto Nacional de Estadística y Censos (INDEC) and Fund staff calculations.

1/ The ratios to GDP would be lower than those reported in the figure if they were computed using private estimates of nominal GDP.

Table 3. Argentina: Consolidated Public Sector Operations, 2004-14 1/

	Average 2004-06	Average 2007-09	2010	2011	2012	Est. 2013	Projections 2014
(In billions of Argentine pesos)							
Revenues	160.0	331.1	535.8	687.8	870.9	1,138.3	1,427.8
Tax revenues	125.7	246.5	375.8	489.6	618.3	799.4	1,002.5
Social security contributions	19.6	55.8	101.0	133.7	174.4	229.9	288.5
Other revenues	14.7	28.8	59.1	64.6	78.2	109.0	136.7
Primary Expenditures	135.3	314.3	512.9	696.5	883.8	1,162.7	1,458.5
Wages	45.5	104.0	167.5	227.5	293.7	382.5	479.8
Goods and services	12.7	24.4	40.0	53.1	63.7	85.5	107.3
Transfers to the private sector	47.8	121.0	202.9	277.2	356.1	466.3	584.8
<i>Of which: federal pensions</i>	26.7	66.1	107.1	147.1	204.6	272.1	341.3
Capital spending	17.5	40.2	60.4	77.3	83.5	114.7	143.9
Other	11.8	24.7	42.0	61.3	86.8	113.8	142.7
Primary balance	24.7	16.8	22.9	-8.7	-12.9	-24.5	-30.7
Interest cash	9.6	20.1	22.8	36.4	52.3	43.6	82.4
Accrued interest 2/	24.9	19.0	19.7	18.8	21.8	24.3	65.9
Overall balance	-9.7	-22.4	-19.6	-63.9	-87.0	-92.4	-179.0
(In percent of official GDP) 2/							
Revenues	29.4	33.1	37.2	37.4	40.3	42.6	42.6
Tax revenues	23.1	24.7	26.1	26.6	28.6	29.9	29.9
Social security contributions	3.6	5.5	7.0	7.3	8.1	8.6	8.6
Other revenues	2.7	2.9	4.1	3.5	3.6	4.1	4.1
Primary expenditures	24.7	31.3	35.6	37.9	40.9	43.5	43.5
Wages	8.3	10.3	11.6	12.4	13.6	14.3	14.3
Goods and services	2.3	2.4	2.8	2.9	2.9	3.2	3.2
Transfers to the private sector	8.8	12.0	14.1	15.1	16.5	17.4	17.4
<i>Of which: federal pensions</i>	4.9	6.6	7.4	8.0	9.5	10.2	10.2
Capital spending	3.1	4.0	4.2	4.2	3.9	4.3	4.3
Other	2.2	2.5	2.9	3.3	4.0	4.3	4.3
Primary balance	4.6	1.8	1.6	-0.5	-0.6	-0.9	-0.9
Interest cash	1.7	2.0	1.6	2.0	2.4	1.6	2.5
Accrued interest 3/	4.8	2.0	1.4	1.0	1.0	0.9	2.0
Overall balance	-1.9	-2.2	-1.4	-3.5	-4.0	-3.5	-5.3
Sources: Ministerio de Economía y Finanzas Públicas and Fund staff calculations.							
1/ The consolidated public sector includes the federal government and provincial governments.							
2/ The ratios to GDP would be lower than those reported in the figure if they were computed using private estimates of nominal GDP.							
3/ Includes capitalized interest, the adjustment on inflation-indexed bonds, and interest arrears.							

Table 4. Argentina: Federal Government Operations, 2004-14

	Average 2004-06	Average 2007-09	2010	2011	2012	Est. 2013	Projections 2014
(In billions of Argentine pesos)							
Revenues	129.5	273.1	450.4	567.6	717.9	936.7	1,174.9
Tax revenues	103.3	202.2	307.1	396.8	497.1	623.3	781.6
Social security contributions	19.6	55.8	101.0	133.7	174.4	229.9	288.5
Nontax revenues	6.6	15.1	42.4	37.2	46.5	83.6	104.8
Primary Expenditures	126.2	254.2	426.2	562.7	723.0	959.2	1,203.1
Federal expenditures	67.0	169.6	291.9	394.9	517.8	689.3	864.6
Wages	14.1	31.6	57.8	74.3	96.0	122.6	153.8
Goods and services	4.9	10.1	17.8	24.0	29.3	41.0	51.4
Pensions	26.7	66.1	107.1	147.1	204.6	272.1	341.3
Transfers to private sector	14.9	42.0	75.9	103.6	119.5	154.1	193.3
Capital	5.7	16.4	24.6	30.5	37.2	54.3	68.1
Other	0.6	3.4	8.7	15.5	31.3	45.3	56.8
Transfers to provinces	59.2	84.6	134.3	167.8	205.1	269.9	338.5
Automatic	31.6	61.0	100.8	123.2	156.7	204.1	256.1
Discretionary	27.6	23.6	33.5	44.5	48.4	65.7	82.5
Primary balance	3.2	18.9	24.3	4.9	-5.0	-22.5	-28.2
Interest cash	9.2	19.6	22.0	35.6	51.2	42.0	79.7
Accrued interest 1/	24.9	19.0	19.7	18.8	21.8	24.3	65.9
Overall balance	-30.8	-19.7	-17.4	-49.5	-78.0	-88.8	-173.7
(In percent of official GDP) 2/							
Revenues	23.7	27.3	31.2	30.8	33.2	35.0	35.0
Tax revenues	19.0	20.3	21.3	21.6	23.0	23.3	23.3
Social security contributions	3.6	5.5	7.0	7.3	8.1	8.6	8.6
Nontax revenues	1.2	1.5	2.9	2.0	2.1	3.1	3.1
Primary expenditures	22.9	25.3	29.6	30.6	33.4	35.9	35.9
Primary expenditures (excluding provinces)	12.3	16.8	20.2	21.5	23.9	25.8	25.8
Wages	2.6	3.1	4.0	4.0	4.4	4.6	4.6
Goods and services	0.9	1.0	1.2	1.3	1.4	1.5	1.5
Pensions	4.9	6.6	7.4	8.0	9.5	10.2	10.2
Private sector transfers	2.7	4.2	5.3	5.6	5.5	5.8	5.8
Capital	1.0	1.6	1.7	1.7	1.7	2.0	2.0
Other	0.1	0.3	0.6	0.8	1.4	1.7	1.7
Transfers to provinces	10.6	8.5	9.3	9.1	9.5	10.1	10.1
Automatic	5.8	6.1	7.0	6.7	7.2	7.6	7.6
Discretionary	4.8	2.3	2.3	2.4	2.2	2.5	2.5
Primary balance	0.9	2.0	1.7	0.3	-0.2	-0.8	-0.8
Interest cash	1.7	2.0	1.5	1.9	2.4	1.6	2.4
Accrued interest 1/	4.8	2.0	1.4	1.0	1.0	0.9	2.0
Overall balance	-5.6	-2.0	-1.2	-2.7	-3.6	-3.3	-5.2
Sources: Ministerio de Economía y Finanzas Públicas and Fund staff calculations.							
1/ Includes capitalized interest, the adjustment on inflation-indexed bonds, and interest arrears.							
2/ The ratios to GDP would be lower than those reported in the figure if they were computed using private estimates of nominal GDP.							

Table 5. Argentina: Summary Operations of the Financial System, 2004-13						
(In billions of Argentine pesos, end of period, unless otherwise indicated)						
	Average	Average				Est.
	2004-06	2007-09	2010	2011	2012	2013
Central Bank						
Net international reserves 1/	45.5	134.6	168.4	174.9	171.2	154.8
Net domestic assets	16.9	-24.3	-8.0	48.0	136.1	222.4
Credit to the public sector (net)	55.5	67.5	119.8	191.5	311.7	472.2
Credit to the financial sector (net)	13.7	2.3	1.5	2.1	3.7	3.7
Central bank bonds (LEBACs)	33.1	54.9	88.6	84.2	99.9	90.3
Official capital and other items (net)	19.3	39.1	40.7	61.4	79.4	163.3
Monetary base	62.4	110.4	160.4	222.9	307.4	377.2
Currency issued	48.4	85.7	124.5	173.1	237.0	300.0
Bank deposits at the Central Bank	14.0	24.7	35.9	49.9	70.3	77.2
Consolidated Financial System						
Net foreign assets	38.8	136.4	168.8	171.0	174.0	159.2
Net domestic assets	106.6	110.5	200.3	304.7	459.4	662.1
Credit to the public sector (net)	113.8	95.4	147.1	205.0	311.1	476.2
Credit to the private sector	63.1	132.9	204.4	295.0	387.5	517.1
Net capital, reserves, and other assets	-70.4	-117.8	-151.2	-195.3	-239.2	-331.2
Liabilities with the private sector	145.4	247.0	369.1	475.7	633.3	821.2
Currency outside banks	43.8	75.7	113.6	151.3	210.0	266.6
Local currency deposits	90.5	142.0	209.0	272.1	384.1	513.0
Foreign currency deposits	11.1	29.2	46.6	52.3	39.2	41.6
(In percent of official GDP) 2/						
Net domestic assets	20.4	11.0	13.9	16.6	21.2	24.8
Credit to the public sector (net)	21.9	9.6	10.2	11.1	14.4	17.8
Credit to the private sector	11.5	13.4	14.2	16.0	17.9	19.3
Liabilities with the private sector	26.7	25.0	25.6	25.9	29.3	30.7
Monetary base	11.4	11.2	11.1	12.1	14.2	14.1
(Percentage change, 12-month basis)						
Credit to the private sector	27.7	22.4	36.5	44.3	31.3	33.4
Liabilities with the private sector	20.1	17.5	30.3	28.9	33.1	29.7
(Contribution to changes in base money, 12-month basis)						
Monetary base	21.2	15.3	31.1	39.0	37.9	22.7
Net international reserves	62.7	22.4	19.4	4.1	-1.7	-5.4
Credit to the public sector, net	-7.1	12.4	25.9	44.7	53.9	52.2
Other items, net	-34.4	-19.4	-14.2	-9.8	-14.4	-24.1
Memorandum items:						
Net international reserves (US\$ billions)	14.9	38.9	42.3	40.8	35.1	24.5
Gross international reserves (US\$ billions)	26.6	46.8	52.1	46.5	43.6	30.6
M2 (percent change) 3/	25.5	18.6	34.9	30.8	40.1	30.0
M3 (percent change) 4/	21.8	17.2	37.8	25.5	32.6	28.5
Short-term nominal lending rate	7.2	15.4	10.6	14.1	14.1	17.1
Real short-term lending rate 5/	-1.0	-3.7	-10.1	-7.6	-7.3	-6.0
Short-term deposit rate (BADLAR)	7.0	12.0	10.1	13.4	13.8	17.0
Real short-term deposit rate (BADLAR) 5/	-3.4	-6.5	-10.4	-8.1	-7.5	-6.2
Real credit to the private sector (percent change) 5/	17.8	2.4	11.0	17.0	6.8	7.0
Sources: Banco Central de la Republica Argentina (BCRA) and Fund staff calculations.						
1/ Excludes foreign currency deposits of the banking system.						
2/ The ratios to GDP would be lower than those reported in the figure if they were computed using private estimates of nominal GDP.						
3/ Currency in circulation outside banks, plus demand and savings deposits, excluding in foreign currency.						
4/ M2 plus time, foreign currency and other deposits.						
5/ Real variables are calculated using alternative estimates of inflation.						

Table 6. Argentina: External Debt, 2004-13

	Average 2004-06	Average 2007-09	2010	2011	2012	September 2013
	(in billions of U.S. dollars)					
Total external debt (gross; includes holdouts)	147.8	150.9	140.6	152.3	153.1	144.8
in percent of GDP	85.1	53.1	38.8	35.5	34.5	34.2
By maturity						
Long-term	75.6	73.0	75.1	77.0	78.1	75.3
Short-term (includes arrears)	72.3	77.9	65.4	75.4	74.9	69.6
Of which: Public sector	43.0	42.8	22.7	27.3	25.2	21.8
By type of creditor						
Debt to official creditors	32.7	29.0	28.4	34.0	32.1	31.5
Debt to banks	9.0	9.0	9.0	9.3	8.8	8.3
Debt to other private creditors	106.1	112.8	103.2	109.0	112.1	105.0
By type of debtor						
Official debt	97.3	94.9	80.7	84.4	83.2	79.5
Bank debt	6.0	4.9	3.1	3.9	3.1	2.5
Non-financial private sector	44.4	51.1	56.7	64.0	66.8	62.8
Sources: Instituto Nacional de Estadística y Censos (INDEC), Banco Central de la República Argentina (BCRA), and Fund staff calculations.						

Table 7. Argentina: Public Debt, 2004-13

	Average 2004-06	Average 2007-09	2010	2011	2012	June 2013
(In billions of U.S. dollars) 1/						
Gross federal debt (includes holdouts)	157.8	175.2	178.1	192.7	211.5	210.3
Gross federal debt performing 2/	128.2	139.9	158.0	172.7	191.4	190.3
By currency:						
In domestic currency	8.8	19.2	29.7	34.4	45.9	47.0
In foreign currency	93.9	106.7	110.4	121.3	130.5	130.0
In CPI-indexed units	55.0	49.3	38.1	37.1	35.1	33.2
<i>of which: held by public sector agencies</i>			22.8	25.2	24.2	22.9
By creditor:						
Holdings by national public sector agencies 3/	...	69.5	76.3	94.2	114.4	113.5
Private sector	...	53.5	63.3	58.8	57.5	57.5
Multilateral and bilateral agencies	22.5	16.8	18.4	19.3	19.2	19.2
Paris club 3/	...	5.5	8.9	9.2	9.0	8.6
Holdouts	24.8	29.2	11.2	11.2	11.5	11.5
By residency:						
Held by external residents 4/	83.4	86.8	75.0	74.4	74.3	72.5
Held by domestic residents	74.4	88.3	103.2	118.4	137.3	137.8
(In percent of official GDP) 6/						
Gross federal debt (includes holdouts)	81.8	61.5	49.2	44.9	47.7	46.9
Gross federal debt performing 2/	...	49.2	43.6	40.3	43.2	42.2
By currency:						
In domestic currency	4.6	6.6	8.2	8.0	10.4	10.5
In foreign currency	48.7	37.5	30.5	28.3	29.4	29.0
In CPI-indexed units	28.5	17.5	10.5	8.6	7.9	7.4
<i>of which: held by public sector agencies</i>			6.3	5.9	5.5	5.1
By creditor:						
Holdings by national public sector agencies 3/	...	23.0	21.1	22.0	25.8	25.3
Private sector	...	17.7	17.5	13.7	13.0	12.8
Multilateral and bilateral agencies	12.0	5.9	5.1	4.5	4.3	4.3
Paris club 4/	0.0	1.9	2.5	2.1	2.0	1.9
Holdouts	12.8	10.3	3.1	2.6	2.6	2.6
By residency:						
Held by external residents 5/	43.4	30.6	20.7	17.3	16.8	16.2
Held by domestic residents	38.4	30.9	28.5	27.6	31.0	30.7
Sources: Ministerio de Economía y Finanzas Públicas and Fund staff calculations.						
1/ Debt in AR\$ pesos converted to US\$ dollars using the using the end of period official exchange rate.						
2/ Excludes holdouts and arrears.						
3/ Held mainly by the central bank, the National Social Security Administration (ANSeS) and Banco Nación.						
4/ Figures for 2010, 2011 and 2012 include penalty interest.						
5/ Includes holdout creditors.						
6/ The ratios to GDP would be lower than those reported in the figure if they were computed using private estimates of nominal GDP.						

Attachment 1. Inclusive Growth and Social Policies

Argentina's real growth performance over the last decade has been accompanied by a reduction in poverty, income inequality, and unemployment. These favorable social outcomes partly reflect increased public spending on social programs, including through direct cash and in-kind transfers. The sustainability of these welfare gains, however, is at risk.

1. Argentina's real GDP growth performance since the early 2000s has been quite

inclusive. From 2005–12 Argentina's GDP per capita, measured in current US dollars, more than doubled (surpassing pre-crisis levels) on the back of an average annual growth rate of about 6.7 percent, second only to Peru in Latin America. This growth performance was accompanied by a reduction in poverty, income inequality, and unemployment (see Table A1).

2. Official data suggests that urban poverty declined, but income inequality remains high.

Urban poverty declined to about 6.5 percent of the population in 2012 from 33.8 percent in 2005 (Table A1). This level of urban poverty is significantly lower than in neighboring countries. Some private analysts, however, have warned that the decline in poverty rates is smaller than suggested by the official data, once the poverty line is adjusted for distortions in the official inflation rate. In terms of income distribution the Gini coefficient declined to 44.5 at end-2012 from 49.3 at end-2005 in line with a general trend in the region. Argentina now has lower income inequality than the average of its regional peers, but is still some distance away from the OECD average.

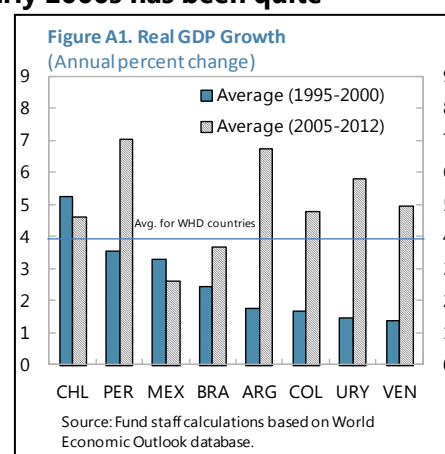


Table A1. Socio-Economic Indicators in Argentina and Comparators

	Argentina			LA-5 1/ 2/	OECD 2/
	1998	2005	2012	2012	2012
GDP per capita (in current U.S. dollars)	8,279	4,740	11,558	10,254	39,953
Income inequality (Gini index, lower value=less inequality) 3/	50.7	49.3	44.5	51.6	32.9
Human Development Index ranking (169 countries: lower value=better ranking)	45.0	48.0	45.0	70.8	22.2
Unemployment (average)	14.8	11.6	7.2	6.8	8.7
Population (in millions)	35.3	37.9	41.0	82.0	37.9
Poverty (percent of urban population below poverty line) 3/	54.7	33.8	6.5	27.2	15.8
Illiteracy (percent of population age 15 years and over) 3/	...	2.8	2.2	5.5	1.5
Life expectancy at birth (years, average) 3/	73.3	74.7	75.8	75.7	79.8
Share of Population 65+ (percent)	9.8	10.2	10.8	7.1	15.6

Sources: UNDP Human Development Report, World Bank Development Indicators, CIA World Factbook, IMF World Economic Outlook, and Instituto Nacional de Estadística del Uruguay.

1/ Brazil, Mexico, Chile, Colombia, and Peru.

2/ Simple averages.

3/ Latest survey.

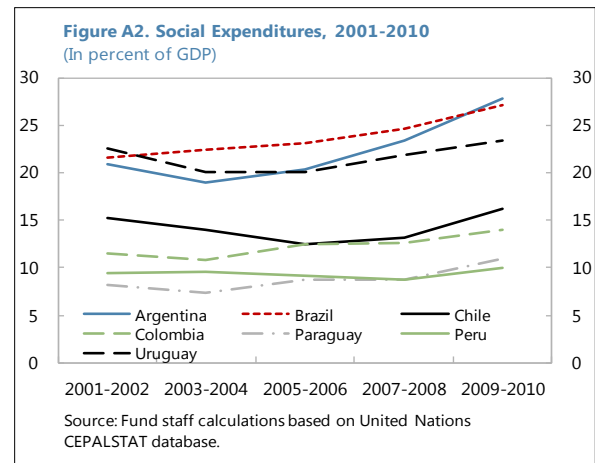
3. Unemployment also has fallen to historic lows, on the back of a strong increase in formal employment. Unemployment fell to 7.2 percent in 2012, from 18 percent in 2003 as 500,000 new jobs were created each year in the formal sector. Manufacturing, construction and services recorded the strongest employment gains. In line with this, the number of workers with a formal job paying social security contributions increased by 92 percent during this period. As a result, the population segment considered the 'middle class' has doubled (to about 18.6 million people) between 2003 and 2009.

4. The notable improvements in social indicators in this decade are explained by the labor intensive re-industrialization strategy, large increases in minimum wages, and increased public spending on social programs, as well as the rebound from the severe crisis of 2002.

- Following the 2002 crisis, the large real exchange rate depreciation, combined with many government programs to support local industries provided a boost to the manufacturing sector, particularly automobile production.
- Minimum wages rose twelve-fold (from 250 pesos to 3,300 pesos per month) between 2003 and 2012, helping to boost incomes of lower income households. Nominal and real wages rose steadily during the period. Nominal wages rose, on average, by about 23 percent per year during 2005–12; adjusting by unofficial estimates of inflation yields an average increase in real wages of about 4 percent per year.
- Social expenditure increased from 19.4 percent of GDP in 2004–05 to almost 28 percent in 2009–10, the largest increase in Latin America during this period (Figure A2). The social programs financed by these expenditures included:

- Direct cash transfers schemes such as: the Universal Child

Allowance Program ("*Asignación Universal por Hijo*"), which provided coverage for more than 1.7 million families and 3.3 million vulnerable children; the Universal Pregnancy Allowance Program ("*Asignación Universal por Embarazo*") for vulnerable mothers without health insurance; "*Argentina Trabaja*", which provided work with a component oriented to women; "*Manos a la Obra*", which initiated productive projects for families and the self-employed; and the Food Security Plan (*Seguridad Alimentaria*), which improved the subsistence of more than one and a half million families. In addition, the *Plan Federal de Viviendas* – a house



construction and renewal program—built almost one million houses¹, while the government also implemented rural investment programs to provide technical assistance, financial aid and basic infrastructure to improve productivity.

- Pension schemes: social security coverage of the elderly, has increased to about 94 percent in 2012, from 66 percent in 2005. In addition, old-age pensions are now adjusted twice a year based on a formula that guarantees pensioners' purchasing power. Social spending on noncontributory pensions has been increased.
- In-kind transfers: education spending increased to more than 6 percent of GDP (from 4.8 percent of GDP in 2005 to 6.7 percent in 2009), in line with the Education Law. Health spending also rose to about 6 percent of GDP in 2009 from 4.5 percent in 2005.

5. The weakening of macroeconomic fundamentals observed in recent years raises concerns about sustainability of these social programs. In addition, the long-term effects of some of these programs on labor force participation and productivity are not clear and should be assessed.

¹ The authorities have recently launched PROCREAR, a new program to finance the construction and renewal of four hundred thousand houses.

