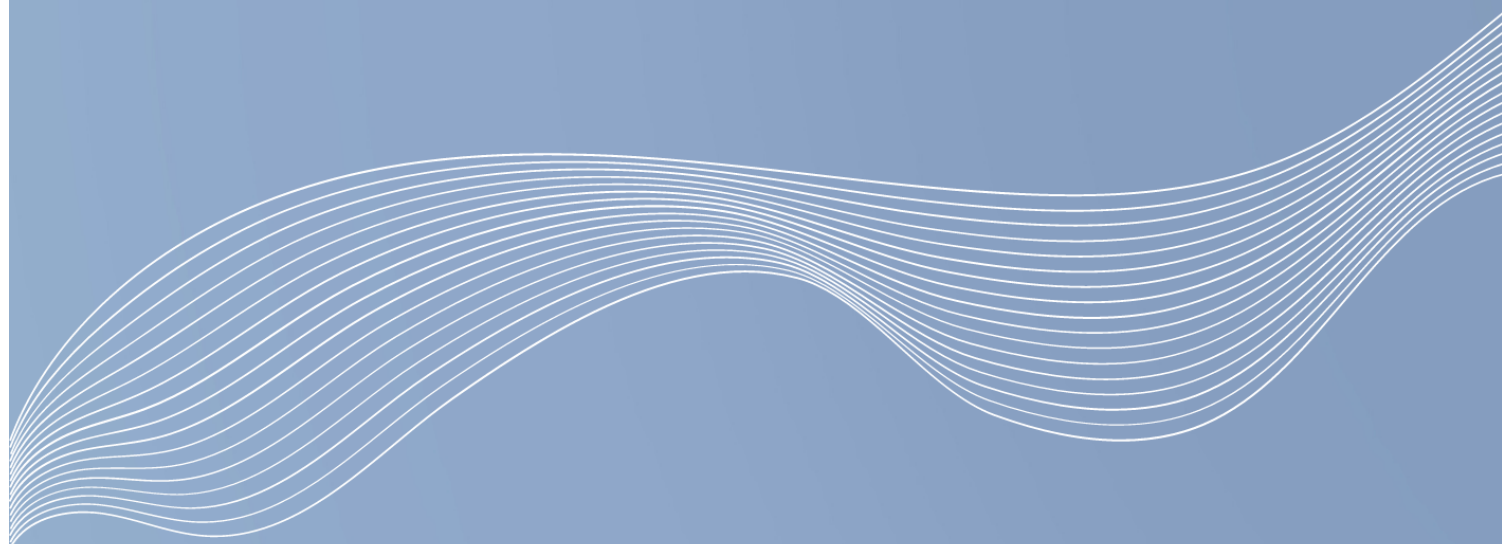


NOVEMBER 2022

ARGENTINE ECONOMIC OUTLOOK

CEI Centre for
International
Economy



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Argentina in the world

With a Gross Domestic Product (GDP) of US\$ 486.8 billion¹, Argentina is the third largest economy in Latin America, following Brazil and Mexico. It is ranked in the sixth position in terms of per capita GDP (US\$ 10.628), in this case, following Uruguay, Cuba, Chile, Panama and Costa Rica. In addition, its more than 46 million² inhabitants place it as the fourth most populated country in the region.

Its high agricultural productivity has helped Argentina become one of the main food producers in the world, with large-scale agricultural and farm industries. Argentina is among the leading exporters of soybean and its by-products, and one of the main producers of lemons, vegetable oils and milk, only to mention some examples. Likewise, the quality of the Argentine beef is recognised worldwide, and the sector has succeeded in recovering its traditional positioning, adding new destinations, like the United States, Canada, China, Japan and, more recently, Ukraine³ and Malaysia.

Argentina also has an important mining wealth. It is ranked in the third place as global lithium reserve, tenth in gold, and it comes among the first ten silver producers. Apart from possessing important conventional oil and gas reserves, it is positioned fourth at world level in shale oil reserves and second in shale gas reserves.

It has dynamic industrial complexes, as is the case of the automotive industry, which, with preferential access to the main markets in the region, has become the most relevant sector concerning manufactured goods exports. There are also other rapidly growing industries such as renewable energies, biotechnology, and knowledge-based services, among others. Thirteen of the Latin American unicorns⁴ are based in Argentina.

Moreover, it has highly skilled labour, acknowledged for their technical capabilities, creativity and versatility, and it is ranked second in Latin America in the Human Development Index produced by the United Nations Development Programme⁵.

State of the real economy

- *The recovery of the Argentine economy that started in 2021 continued in 2022. In the first half of the year, it reached its sixth semester of consecutive growth and in the second quarter, it grew 6.9% year-on-year.*
- *The investment rate in the second quarter of 2022 has been the highest in the last 29 years (the Investment/GDP ratio was 22.3%⁶), and it increased 18.8% with relation to the same quarter in 2021.*
- *Mining stands out among the sectors with the highest growth rate, which went up 15.5% in the second quarter, followed by construction (9.9%), services (8.4%) and industry (7.7%).*

¹ Year 2021, according to data from the Ministry of Economy.

² 46,234,830 people according to 2022 estimates by INDEC.

³ Before the Russian invasion.

⁴ Companies with a stock market value of over US\$ 1 billion. Until 2020 these were five: Mercado Libre, Despegar, Globant, OLX and Auth0. In 2021, six more companies joined: Vercel (software), Aleph (digital media marketing and advertising), Tienda Nube (e-commerce), Ualá (fintech), Mural (teleworking solutions), Bitfarms (cryptocurrency mining), Satellogic (geospatial analytics company) and, most recently (2022), Technisys (technology for banks and fintech).

⁵ 2020 ranking.

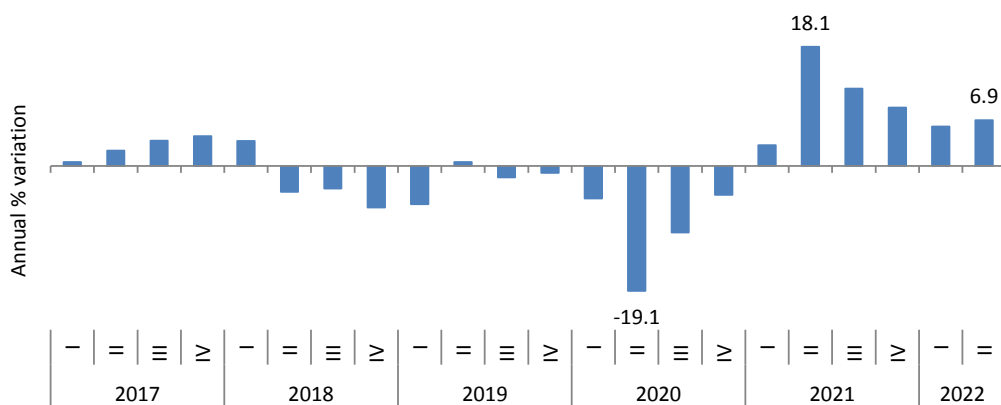
⁶ With relation to GDP at constant prices (seasonally adjusted).

- According to the Monthly Estimator of Economic Activity (EMAE), the activity peaked in May, although it continued growing year-on-year until August (latest data available) and in the first eight months of the year it has accumulated a 6.4% year-on-year growth.
- In September, however, some economic activity indicators started to show negative values in their month-on-month variations: the September Industrial Production Index (IPI) registered a -0.2% variation with respect to August, while the Synthetic Indicator of Construction Activity (ISAC) fell 2.9% in the same period.
- The industry installed capacity utilization level hit 69.5% in August, the highest figure since late 2015.
- Employment followed the growth of the economic activity. The number of registered workers (12.8 million) is the highest in, at least, that last ten years (period covering the series) with 19 months of consecutive growth. In turn, the unemployment rate in the second quarter of 2022 fell to 6.9% and it is the lowest in the series published by INDEC, which starts in the second quarter of 2016.
- During the first six months of 2022, poverty fell 4.1 p.p. year-on-year, and extreme poverty did so by 1.9%. As a consequence, Argentina's proportion of population below the poverty line accounts for 36.5%, out of which 8.8% live in extreme poverty.
- In the first nine months of the year, exports of goods set a historical record for this period (US\$ 67.1 billion) and accumulated a year-on-year rise of 15.2%. Imports totalled US\$ 64.5 billion in January-September (a 40.4% increase), also hitting a record. The trade balance showed a surplus of US\$ 2.6 billion.
- According to the values exported in the first nine months of the year, it is projected that in 2022 total goods exports could reach US\$ 90 billion, meeting a new all-time high.

Level of activity

In the first half of the year, the Argentine economy experienced its sixth quarter of consecutive growth. In the second quarter of the year (latest data available), GDP hit a year-on-year (y-o-y) variation of 6.9% (Graph 1) and accumulated a 6.5% growth in the first six months of 2022.

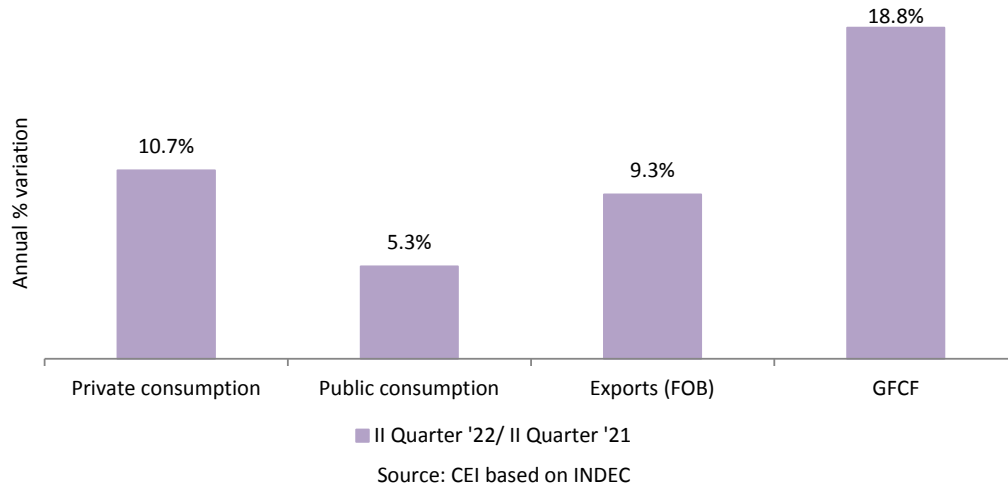
Graph 1
Annual growth rate of GDP, in %
GDP in \$ at 2004 constant prices



Source: CEI based on INDEC

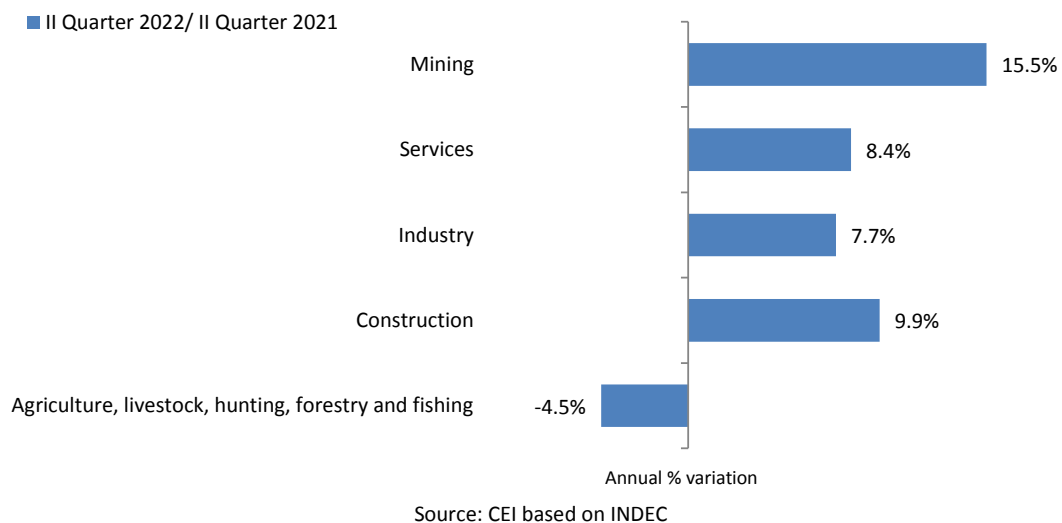
Investment (gross fixed capital formation) was a key component in explaining the growth of the last two years and a determining factor for the recovery of employment after the effects of the pandemic. In the 2nd quarter of 2022, it recorded an 18.8% y-o-y rise, being the highest in the last 29 years (the Investment/GDP ratio reached 22.3%⁷).

Graph 2
Annual growth rate of GDP components, in %
GDP in \$ at constant 2004 prices



At the sector level, the highlights for the second quarter of the year include year-on-year growths in mining (15.5%), construction (9.9%), services (8.4%) and industry (7.7%); whereas the agriculture, livestock, forestry, hunting and fishing sector fell 4.5% (Graph 3).

Graph 3
Growth of gross added value per activity sector, in %
GDP in \$ at 2004 constant prices



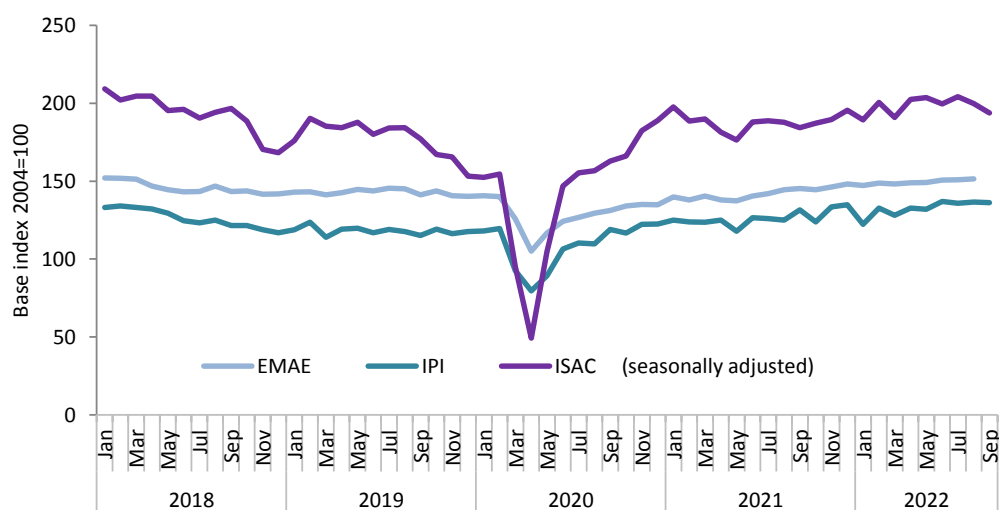
⁷ With relation to GDP at constant prices (seasonally adjusted series).

The branches of activity of the manufacturing industry with the highest year-on-year growth in the second quarter of the year were leather tanning (60.7%), transport equipment (46.5%) and clothing (33.4%). Among the services, the hotel (276.0%) and restaurant (31.1%) activities stand out, sectors which were particularly hit by the pandemic.

According to the Monthly Estimator of Economic Activity (EMAE), the activity reached its peak of the year in May, although it continued growing year-on-year until August (latest data available). The EMAE increased 6.4% y-o-y in August and in the eight months it has accumulated a 6.4% y-o-y growth.

In turn, in September the Industrial Production Index (IPI) increased 4.2% y-o-y, while construction – measured by the Synthetic Indicator of Construction Activity (ISAC)– expanded 5.2% y-o-y. These indicators, however, started to show negative values in their monthly variations: the IPI for September registered a -0.2% variation compared to the previous month, while the ISAC fell 2.9% compared to August 2022, in both cases the seasonally adjusted series were used.

Graph 4
Evolution of EMAE, IPI and ISAC indexes
(seasonally adjusted)



Source: CEI based on INDEC

The use of the installed capacity in the industry peaked 69.5% in August, the highest value since late 2015 and 5.1 percentage points (p.p.) above the level of the same month last year. The sectors with a use of installed capacity higher than the general level are: non-metallic mineral products (83.8%), basic metal industries (82.3%), oil refining (80.7%) and paper and cardboard (77.6%). While the sector blocs with the lowest use of installed capacity are: textile products (64.5%), tobacco products (64.1%), metal-mechanics except automotive (61.9%) and rubber and plastic products (57.0%).

Social indicators

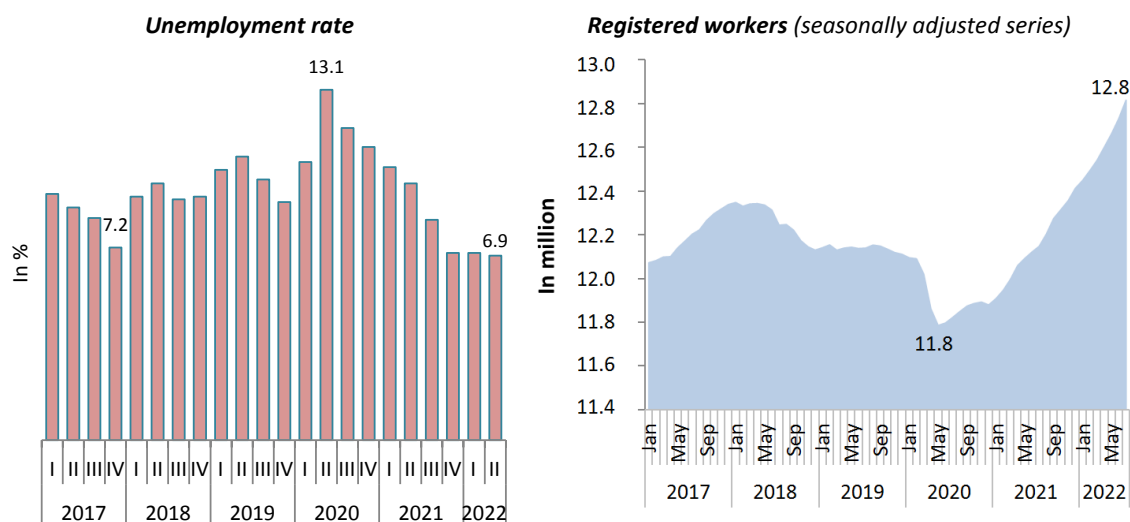
Employment followed the performance of the economic activity. The number of registered workers (12.8 million) in July exceeded the figure recorded in the same month of 2021 by more than 662,700.

It is the highest value in, at least, the last 10 years (period covered by the series) and represents a 5.5% y-o-y growth.

Private formal employment accumulates 19 months of consecutive growth. During this period, it was possible to recover all the jobs lost during the pandemic, in 2019 and at the end of 2018. The number of workers with private registered employment (6.2 million) is at a level similar to that of October 2018.

In turn, the unemployment rate in the second quarter of 2022 fell to 6.9% of the economically active population, 2.7 p.p. below that registered in the same period of 2021 and 0.1 p.p. less than in the first quarter of this year. The rate is the lowest in the series published by INDEC, which starts in the second quarter of 2016 (Graph 5).

Graph 5
Labour market



Source: CEI based on INDEC and Ministry of Labour, Employment and Social Security

Likewise, in the first half of the year (latest data available) there was a decrease in the values of poverty and extreme poverty. The percentage of poor people decreased 4.1 p.p. compared to the first semester of 2021 and that of extremely poor people fell 1.9 p.p. In said period, 36.5% of the population of our country was below the poverty line, while within this group 8.8% of people were in a situation of extreme poverty.

Prices

In a global context of rising inflation, Argentina also showed acceleration in its price indices, on an already high base. The highest monthly value (7.4%) was registered in July, and then it fell to a monthly variation of 6.2% in September. Accumulated inflation in the first nine months of the year was 66.1% and the year-on-year rate in September reached 83.0% (Table 1).

Table 1
Price index and nominal exchange rate – % variation

Year	IPC National total		Nominal exchange rate (\$ per US\$)	
	Cumulative, twelve months	Cumulative, first nine months	Cumulative, twelve months	Cumulative, first nine months
2019	53.8%	37.7%	58.4%	52.2%
2020	36.1%	22.3%	40.5%	27.2%
2021	50.9%	37.0%	22.1%	17.3%
September 2022	83.0%	66.1%	49.2%	43.4%

Source: CEI based on INDEC and the Central Bank of the Argentine Republic

Likewise, the monthly depreciation of the peso with respect to the dollar accelerated in 2022. The rates of said depreciation have been growing on a monthly basis and they have ranged from 2.2% in January to 6.2% in September, the highest figure after the 34.7% in August 2019. If the accumulated sum of the first nine months of the year is taken into consideration, the peso underwent a 43.4% depreciation, 26.0 p.p. higher than the one registered in the same period of 2021.

Foreign trade

In the first nine months of the year, exports totalled US\$ 67.1 billion, a record level for that period, exceeding the previous maximum value of January-September 2011 by almost US\$ 4.4 billion. They accumulate a 15.2% y-o-y rise, which is explained by an increase in prices (18.9%), and a decrease in quantities (-3.2%).

Imports amounted to US\$ 64.5 billion in January-September, (40.4% growth), also reaching a record. They were driven by higher prices and quantities of fuels and lubricants, by increases in the prices of intermediate goods and by the quantities of capital goods and their parts.

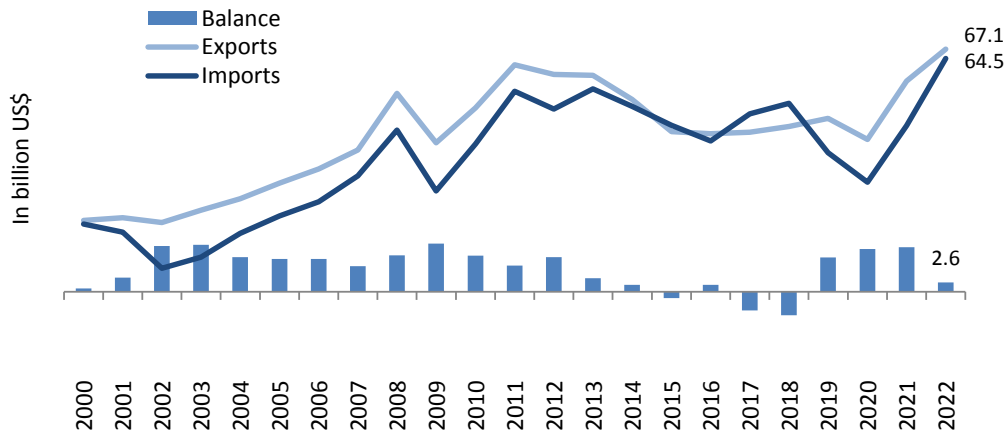
The trade balance achieved a surplus of US\$ 2.6 billion, US\$ 9.7 billion less than the positive result of January-September 2021, due to the higher growth rate of imports than of exports.

The increases in the exports of wheat (US\$ 1.8 billion), crude petroleum oils (US\$ 1.6 billion), maize (US\$ 802 million) and frozen, boneless beef (US\$ 645 million) stand out. The largest drop corresponds to soybeans (-US\$ 1.1 billion).

The three main partners, Brazil, China and the United States, together absorbed 29.4% of the exports, and they supplied 53.4% of the imports from January-September 2022. In turn, the European Union concentrated 12.0% of the shipments and 13.3% of the purchases.

In September, exports reached US\$ 7.4 billion. They decreased 2.2% compared to September 2021, due to a 12.5% fall in the quantities that was not offset by the 12.0% increase in prices. While imports totalled US\$ 7.0 billion, the historical record for the month of September, higher than that registered in 2011. They increased 18.8%, due to a 7.6% rise in quantities and 10.5% in prices

Graph 6
Trade in goods – First nine months of each year
Exports, imports and balance



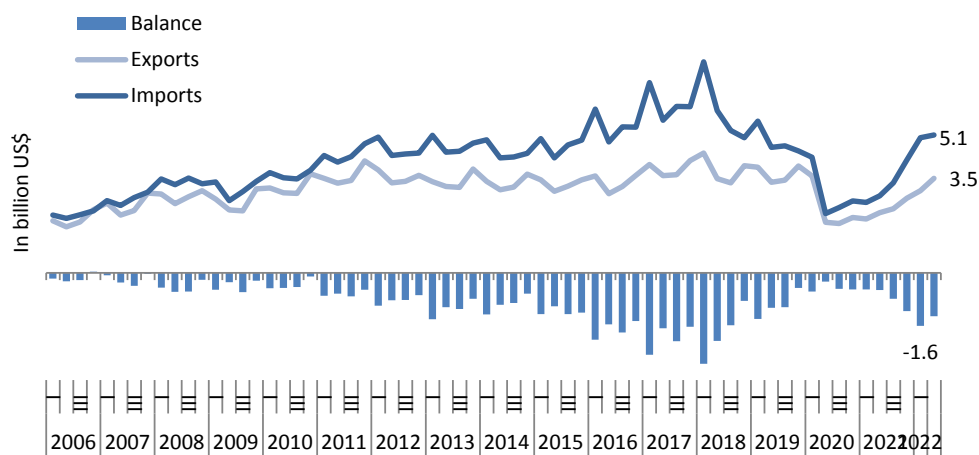
Source: CEI based on INDEC

Foreign trade in services has been more affected by the pandemic than that of goods and shows a slower recovery. Exports, which in the second quarter of 2022 amounted to US\$ 3.5 billion, are at levels below those prior to the COVID-19 outbreak, while imports have accelerated with the consequent growth of the external deficit, which in the second quarter of the year amounted to US\$ 1.6 billion, 154% above the figure for the second quarter of last year, but 18% less than that of the first quarter of 2022 (Graph 7). The main cause of this deficit comes from the transportation sector, which increased its negative balance by US\$ 693 million year-on-year to reach a US\$ 1.1 billion deficit in the second quarter of the year.

In the first six months of the year, the exports of services amounted to US\$ 6.6 billion with a 55% y-o-y growth, the imports reached US\$ 10.2 billion (85.1% higher than those of the first half of 2021) and the trade balance resulted in a US\$ 3.6 billion deficit (in the first six months of 2021, the deficit had been US\$ 1.3 billion).

Among exports, knowledge-based services stand out, which amounted to US\$ 2.1 billion in the second quarter, with a 22.6% y-o-y growth, accounting for 58% of the total of services exports in said period. In the first half of the year, this type of exports reached US\$ 4.0 billion, with a 23% y-o-y growth.

Graph 7
Trade in services (quarterly)
Exports, imports and balance



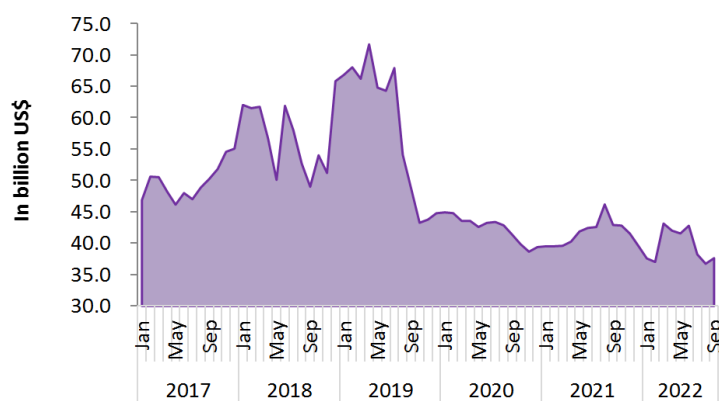
Source: CEI based on INDEC

International accounts

The net flow of foreign direct investment (FDI) totalled US\$ 4.6 billion in the second quarter of the year (2.8% of GDP). This value exceeded that of 2021 by 155% and is the highest value in the series published by INDEC, starting in 2016. In the first six months of the year, FDI reached a total of US\$ 8.5 billion (2.8 % of GDP), 86.2% more than in the first half of 2021

In the second quarter of the year, the current account balance again showed a deficit (US\$ 894 million, 0.5% of GDP), although 41% lower than that of the first three months of the year. In turn, the international reserves of the Central Bank of the Argentine Republic ended September 2022 with US\$ 37.6 billion, 891 million (2.4%) more than the level recorded at the end of August.

Graph 8
International reserves

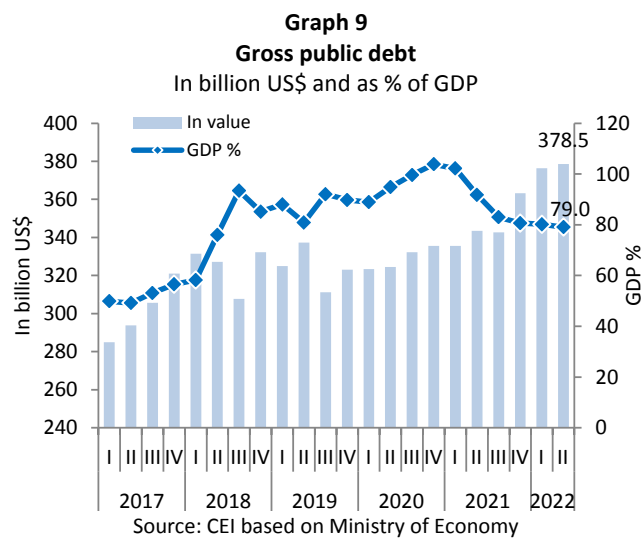


Source: CEI based on INDEC

Fiscal sector

In September 2022, the primary surplus was \$ 80.6 billion (after 12 months with a negative balance) and accumulated a total deficit of \$ 887.3 billion in the first nine months of the year. In turn, the financial surplus was \$ 4,444 in September (in the same month of 2021, a deficit of \$ 237.2 billion had been registered), which accumulates \$ 1,751 billion in the first nine months (in January-September 2021 the financial deficit had reached \$ 1,108 billion).

Public debt⁸ for the second quarter of 2022 amounted to US\$ 378.5 billion (79.0% of GDP⁹), which represents a 0.6%¹⁰ increase compared to the first quarter of the year. Of this total, the debt in foreign currency fell 0.4% and accounts for US\$ 258.9 billion (54.0% of GDP¹¹). External debt, in turn, represents 30.5% of GDP (1 p.p. less than in the previous quarter).



⁸ Gross central government debt value.

⁹ In accordance with the methodology of the Secretariat for Finance of the Ministry of Economy, the data on debt as a percentage of GDP uses the GDP average for the last four quarters, expressed in dollars based on the end-of-period exchange rate.

¹⁰ With relation to GDP, it represents a 1.2p.p. fall.

¹¹ 1.4 p.p. lower than the GDP in the first quarter of 2022.

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