



Highlights and Key Issues

- The seasonally adjusted economic activity indicator (a proxy for GDP) rose 0.2% on the month in September after a 1% increase in August. Together with encouraging data for manufacturing and construction, this suggests a positive trend that could lead to a sustained recovery. In year-on-year terms, economic activity in Q3 fell 0.7% compared with an annual rise of 0.4% in Q2.
- Meanwhile, seasonally adjusted industrial output in September rose 1.5% (although it was still down 0.5% on the year), beating expectations and consolidating the gains registered in the previous two months. Q3 overall showed a year-on-year output fall of 1.2% after a 0.8% drop in 2009Q2.
- In response to the Q3 performance, we now forecast a 0.2% rise in GDP this year compared with a 0.3% decline seen previously, not far from the official forecast of 0.5%. As for 2010, we expect growth of 2.1%. The improvement in the outlook is supported by the acceleration in Chinese growth, helping Argentina via increased demand for grains, and the robust outlook in Brazil leading to increased opportunities for export manufacturers.
- Consumer prices rose 0.8% in October, up from a 0.7% rise in September and lifting annual inflation to 6.5%. After months of accusations of under-reported inflation, the recent figures have been broadly in line with private analysts' expectations.

Forecast for Argentina						
(Annual percentage changes unless specified)						
	2008	2009	2010	2011	2012	2013
Domestic Demand	8.8	-1.7	3.2	5.0	5.5	4.2
Private Consumption	6.5	-0.5	1.9	4.1	5.0	4.3
Fixed Investment	9.1	-9.2	3.8	6.3	7.0	5.3
Stockbuilding (% of GDP)	0.6	0.4	0.4	0.9	1.3	1.1
Government Consumption	6.9	8.5	8.8	3.2	2.8	2.8
Exports of Goods and Services	1.2	-4.0	4.5	8.4	9.5	6.5
Imports of Goods and Services	14.1	-16.9	13.8	11.4	11.1	7.5
GDP	6.8	0.2	2.1	4.6	5.2	4.0
Industrial Production	5.0	-0.6	3.8	7.3	5.5	5.2
Consumer Prices	8.6	6.2	7.2	5.4	4.7	4.7
Government Budget (% of GDP)	1.4	-1.1	-0.5	0.2	0.9	1.1
Trade Balance (\$bn)	12.6	15.8	13.9	14.7	13.5	13.3
Current Account (\$bn)	7.1	8.8	6.8	6.0	4.3	3.7
Current Balance (% of GDP)	2.2	2.9	2.2	1.7	1.2	1.0
Short-Term Interest Rates (%)	11.05	11.53	9.68	10.01	9.70	9.38
Exchange Rate (Per US\$)	3.14	3.73	3.88	3.93	4.04	4.19

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Overview

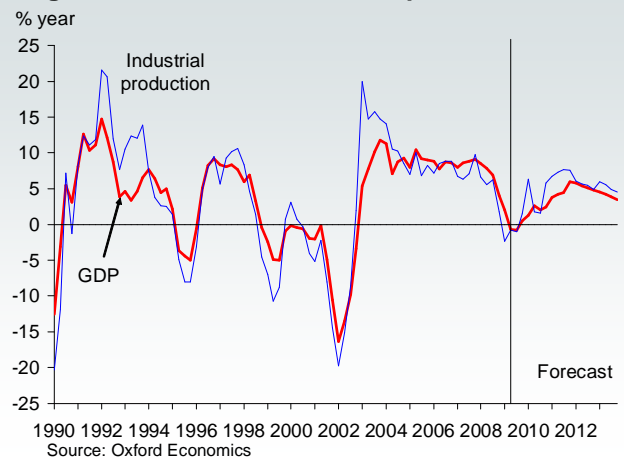
Signs of recovery get stronger

- Although the impact of the outbreak of the swine virus during the winter (affecting private consumption and tourism) is still relatively recent, sectors such as construction, steel and automobiles are starting to show signs of improvement. And the likelihood that this trend will be consolidated, leading to the start of a sustained recovery, was supported by September's index of economic activity (which tracks GDP closely). The latter rose a seasonally adjusted 0.2% on the month after a strong 1% increase in August. In year-on-year terms, economic activity was down 0.7% in Q3 compared with an annual gain of 0.4% in Q2. One reason for optimism is that a stronger performance in Brazil, the main export market, should result in more dynamic manufacturing activity in the coming months.
- Seasonally adjusted industrial production rose 1.5% in September (but was down 0.5% on the year), beating expectations and consolidating the increases seen in the previous two months. Q3 showed a 1.2% fall on the year following a 0.8% drop in Q2. Meanwhile, the indicator of construction activity in September rose 0.3% (but was down 1.8% on the year) after a 1.8% jump in August. And the indicator of sales volumes in supermarkets rose 3.7% on the month in September, after 3.3% fall in the previous month. Although the latter indicator is subject to significant volatility, it provides some information about the health of private consumption.

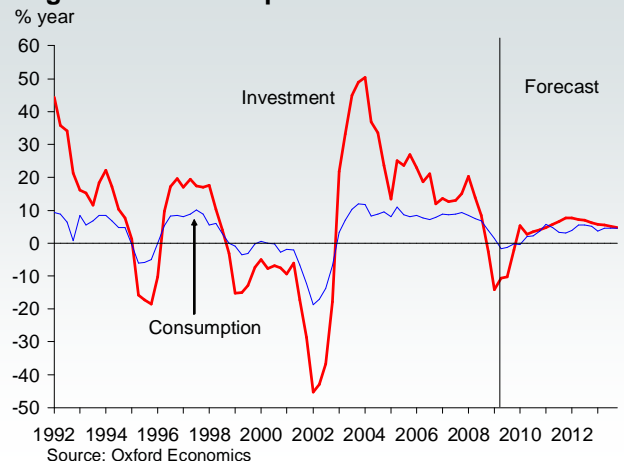
Moderate GDP pick-up likely in 2010

- In response to the better-than-expected results in industrial production and economic activity in Q3, we now expect GDP to grow 0.2% this year, compared with our previous forecast of a 0.3% fall, with a pick-up beginning in Q4 (with a 0.5% rise on the year). This still implies a worse result in H2 (a decline of 0.2%) than in H1 (which rose 0.6%), driven by weaker domestic demand, with fragile confidence hindering consumption and investment in Q3. The improvement in the economic outlook is supported by two factors. First, the acceleration in Chinese growth is likely to benefit Argentina via increased demand for grains and other commodities. Second, a better performance in

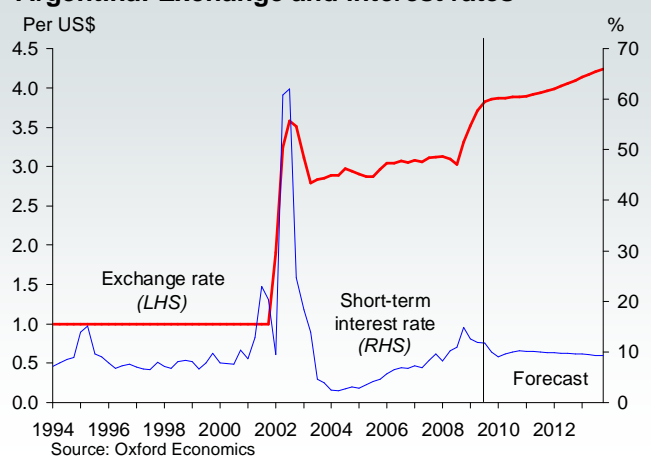
Argentina: GDP and industrial production



Argentina: Consumption and investment



Argentina: Exchange and interest rates



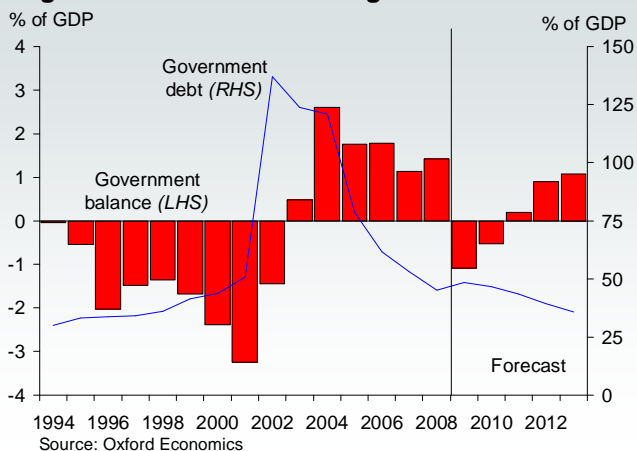
Brazil (where we now expect its GDP to fall 0.4% this year but to expand by over 4% in 2010) should benefit activity in the hitherto struggling manufacturing sector.

- Our central growth forecast for 2009 GDP is still below the latest official figure of 0.5% growth but significantly above the consensus, which sees a fall of around 2% (but will be revised upwards following the release of the economic activity figure for September). The consensus implies a H2 contraction of 4% or so, a much deeper deterioration than the evidence indicates and at odds with the improving outlook in the world economy.
- As to 2010, we now see the economy growing by 2.1% (up from 1.9% previously), but still slower than the official forecast of 2.5% assumed in next year's budget. Although the recovery in farm production from this year's drought and the pick-up in global trade will support activity, the government may need to rein in spending to bring the budget under control. We expect an overall fiscal deficit of about 1.1% of GDP this year before shrinking to 0.6% in 2010 (helped by improved tax collection as economic activity starts to recover). In our view, a full recovery will not take place until 2011, when we expect GDP growth of 4.6%, followed by 5.2% in 2012.

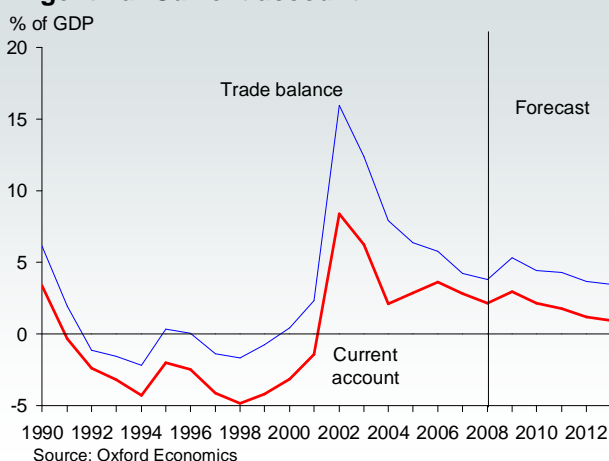
Inflation rises slightly in October

- According to official figures, consumer prices rose 0.8% in October, slightly above the 0.7% rise in September, lifting the annual inflation rate to 6.5% from 6.2%. After months of accusations that the government was under-reporting inflation, the recent official figures have been broadly in line with private analysts' expectations.
- This is the fourth consecutive month that INDEC (the statistical office) has reported an annual inflation rate that is slightly higher than in the preceding month. Some analysts believe this suggests that the government is trying to narrow the gap with private estimates (which on average put current inflation at about 15%). We now expect officially reported inflation to end the year at about 6.6%, before moving to over 7% in Q4 2010.

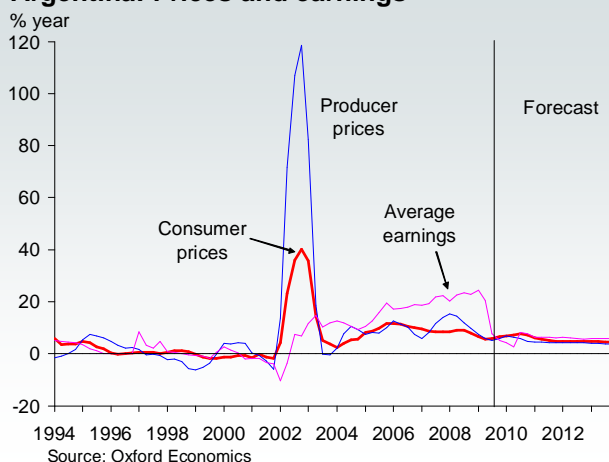
Argentina: Government budget balance & debt



Argentina: Current account



Argentina: Prices and earnings



Key Indicators: Argentina

Percentage changes on a year earlier unless otherwise stated

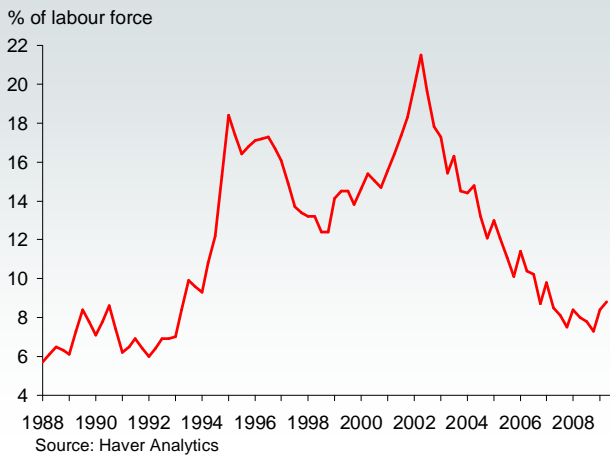
	Industrial production (INE)	CPI	Wholesale prices	Unemployment %	Export value in \$	Construction activity	Trade balance US\$ m	Retail sales
Oct	2.6	8.4	11.2	-	11.3	0.1	1018	33.0
Nov	0.0	7.9	9.8	-	-9.6	-6.9	745	36.2
Dec	2.6	7.2	8.8	7.3	-26.9	1.6	699	22.6
2009								
Jan	-4.5	6.8	7.9	-	-35.9	-2.9	971	26.8
Feb	-1.5	6.8	7.0	-	-24.5	-2.4	1278	17.4
Mar	-0.9	6.3	7.1	8.4	-16.0	0.5	1307	13.2
Apr	-1.2	5.7	6.3	-	-12.7	-5.5	2299	22.4
May	-1.7	5.5	5.6	-	-17.6	-6.1	2478	16.2
Jun	0.6	5.3	5.6	8.8	-4.5	5.5	1528	13.6
Jul	-1.5	5.5	6.1	-	-30.2	-7.0	1315	19.9
Aug	-1.4	5.9	6.3	-	-40.4	-3.0	1155	12.2
Sep	0.0	6.2	6.8	-	-33.9	-1.9	926	15.1
Oct	-	6.5	7.2	-	-21.3	-	1182	-

Key Financial Indicators: Argentina

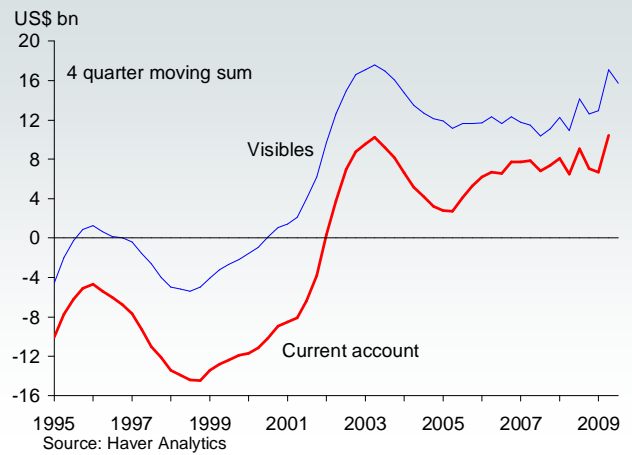
Percentage changes on a year earlier unless otherwise stated

	Prime rate (in US\$) %	Short rate (in Pesos) %	Money supply (M1)	Money supply (M3 in Pesos)	Exchange rate Peso/\$	Exchange rate Peso/Real	Share price (IPC)	Reserves (m-end) US\$bn
Oct	1.50	16.5	20.3	17.1	3.24	1.49	68,851	43.0
Nov	1.56	21.4	17.5	14.7	3.33	1.46	60,729	44.1
Dec	1.66	19.1	24.0	11.3	3.43	1.43	61,211	44.4
2009								
Jan	1.52	18.1	19.8	9.0	3.46	1.50	63,405	45.0
Feb	1.40	14.8	17.9	6.9	3.51	1.51	61,324	45.0
Mar	1.36	14.4	13.2	3.7	3.66	1.58	58,840	44.5
Apr	1.20	14.4	12.7	2.5	3.69	1.68	67,935	44.3
May	1.00	14.5	11.0	3.3	3.72	1.80	81,702	44.4
Jun	0.94	14.6	13.4	5.3	3.77	1.92	87,066	43.9
Jul	0.89	14.6	10.6	2.8	3.81	1.97	88,483	44.0
Aug	0.81	14.3	13.2	2.7	3.84	2.08	97,126	42.9
Sep	0.69	13.6	11.0	3.0	3.84	2.11	104,475	43.1
Oct	0.63	13.1	11.4	4.1	3.83	2.20	117,025	-

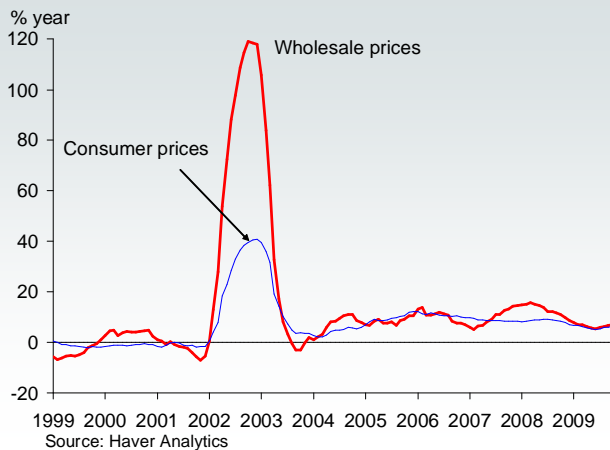
Argentina: Unemployment



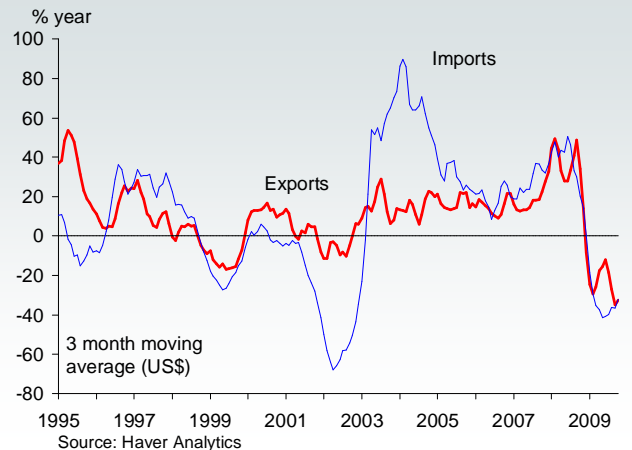
Argentina: External balances



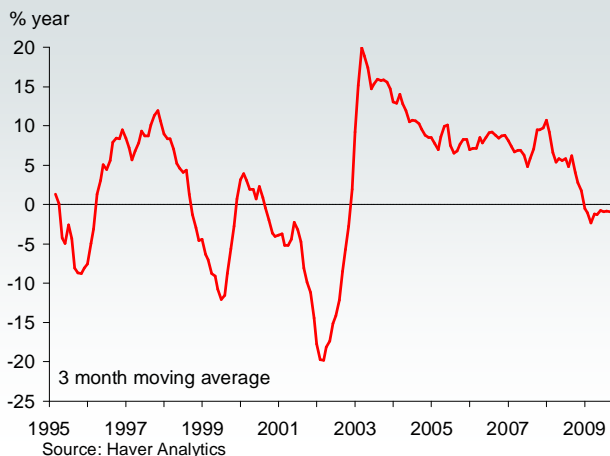
Argentina: Inflation (Indec)



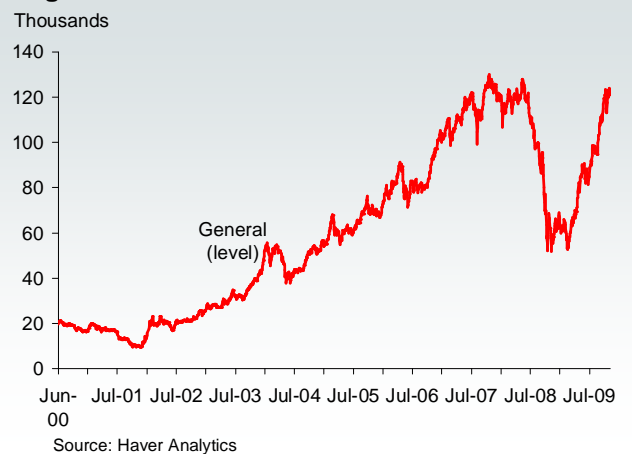
Argentina: Exports & imports



Argentina: Industrial production (Indec)



Argentina: Stockmarket



ARGENTINA
TABLE 1 SUMMARY ITEMS

Annual Percentage Changes, Unless Otherwise Specified

	CONSUMERS EXPENDITURE	TOTAL FINAL EXPENDITURE	TOTAL FIXED INVESTMENT	REAL GDP	INDUSTRIAL PRODUCTION	UNEMPLOYMENT RATE (%)	AVERAGE EARNINGS	WHOLE ECONOMY PRODUCTIVITY	COMPETITIVENESS (200=100)	PRODUCER PRICES	CONSUMER PRICES
	(C)	(TFE)	(IF)	(GDP)	(IP)	(UP)	(ER)	(GDPIET)	(WCR)	(PPI)	(CPI)
YEARS BEGINNING Q1											
2007	8.97	9.65	13.65	8.65	7.52	8.48	20.64	6.07	95.84	10.01	8.83
2008	6.54	7.88	9.07	6.76	4.95	7.88	22.37	5.52	99.99	12.85	8.59
2009	-0.53	-1.94	-9.23	0.19	-0.60	8.86	13.82	-1.24	98.00	6.04	6.15
2010	1.93	3.34	3.83	2.11	3.81	8.69	5.74	-0.58	94.90	6.08	7.24
2011	4.14	5.40	6.26	4.61	7.34	7.86	6.37	2.19	97.59	4.42	5.42
2012	4.99	5.96	6.96	5.24	5.51	7.80	6.02	3.66	96.79	4.23	4.75
2013	4.27	4.46	5.30	4.01	5.20	7.78	5.90	2.50	95.30	3.87	4.70
2007											
I	8.95	9.31	13.66	7.95	6.76	9.80	18.68	4.34	102.57	6.01	9.47
II	8.70	8.63	12.65	8.65	6.29	8.50	19.20	6.07	93.01	8.17	8.82
III	8.91	9.95	12.98	8.82	7.06	8.10	21.99	5.73	95.48	11.65	8.62
IV	9.31	10.65	15.18	9.10	9.80	7.50	22.36	8.03	92.28	14.02	8.45
2008											
I	8.35	10.13	20.34	8.53	6.62	8.40	20.25	6.69	99.75	15.33	8.50
II	7.45	10.71	13.80	7.82	5.59	8.00	22.63	7.26	91.17	14.52	9.08
III	6.80	7.72	8.45	6.94	6.21	7.80	23.35	6.64	101.08	11.98	8.94
IV	3.80	3.45	-2.58	4.05	1.73	7.30	23.00	1.82	107.97	9.95	7.84
2009											
I	1.50	-1.39	-14.19	2.04	-2.31	8.40	24.36	0.33	117.01	7.33	6.61
II	-1.80	-3.93	-10.72	-0.77	-0.79	8.80	20.51	-0.80	98.08	5.82	5.49
III	-1.36	-2.34	-10.31	-0.80	-1.00	9.03	7.75	-3.39	89.97	5.18	5.87
IV	-0.32	-0.02	-2.16	0.49	1.52	9.21	4.95	-0.88	86.94	5.88	6.63
2010											
I	-0.39	3.21	5.39	1.27	6.32	9.08	4.19	-1.09	100.25	7.05	6.97
II	2.00	4.61	2.53	2.64	1.77	8.86	2.86	-1.29	91.55	6.54	7.17
III	2.23	2.56	3.48	2.08	1.55	8.62	8.33	0.16	93.87	5.94	7.69
IV	3.75	3.00	4.19	2.38	5.75	8.19	7.63	-0.21	93.92	4.86	7.10
2011											
I	5.65	4.66	4.77	3.75	6.75	8.00	6.40	1.06	105.01	4.49	6.12
II	4.67	5.05	5.68	4.22	7.25	7.82	6.50	1.57	94.81	4.44	5.65
III	3.28	5.24	6.68	4.45	7.67	7.82	6.35	2.06	96.32	4.39	5.06
IV	3.08	6.54	7.55	5.92	7.61	7.81	6.23	3.97	94.19	4.34	4.87
2012											
I	3.79	6.41	7.71	5.73	6.07	7.81	6.54	4.00	105.13	4.30	4.71
II	5.50	6.07	7.15	5.39	5.72	7.80	6.02	3.85	94.14	4.25	4.75
III	5.45	5.87	6.94	5.13	5.47	7.80	5.79	3.60	95.17	4.21	4.79
IV	5.16	5.54	6.22	4.77	4.87	7.79	5.74	3.24	92.72	4.17	4.74
2013											
I	3.76	5.06	5.84	4.50	5.90	7.79	5.80	2.98	103.12	3.99	4.79
II	4.43	4.66	5.59	4.21	5.60	7.78	5.87	2.69	92.58	3.91	4.72
III	4.43	4.34	5.20	3.90	4.90	7.78	5.93	2.39	93.78	3.83	4.68
IV	4.43	3.87	4.70	3.50	4.50	7.78	5.98	1.99	91.70	3.75	4.62

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ARGENTINA
TABLE 2 SUMMARY ITEMS

	TRADE BALANCE (\$ BN)	CURRENT ACCOUNT (\$ BN)	CURRENT ACCOUNT (% OF GDP)	GOVERNMENT FINANCIAL BALANCE (PESO BN)	GOVERNMENT FINANCIAL BALANCE (% OF GDP)	SHORT-TERM INTEREST RATE	SPREAD OVER US SHORT-TERM RATE (RSH - RSH US)	REAL SHORT-TERM INTEREST RATE (Note 1)	EQUILIBRIUM EXCHANGE RATE PER US DOLLAR (RXEQUIL)	EXCHANGE RATE PER US DOLLAR (RXD)
	(BVIS/1000)	(BCUS/1000)	(BCUR%)	(GB)	(GB*100/GDP)	(RSH)			(RREQUIL)	(RXD)
YEARS BEGINNING Q1										
2007	11.1	7.4	2.7	9.3	1.1	8.0	2.7	-0.9	2.77	3.10
2008	12.6	7.1	2.2	14.7	1.4	11.0	8.1	2.5	2.67	3.14
2009	15.8	8.8	2.9	-12.2	-1.1	11.5	10.8	5.4	3.04	3.73
2010	13.9	6.8	2.1	-6.3	-0.5	9.7	9.2	2.4	3.36	3.88
2011	14.7	6.0	1.7	2.7	0.2	10.0	7.4	4.6	3.62	3.93
2012	13.5	4.3	1.1	13.4	0.9	9.7	4.3	4.9	3.85	4.04
2013	13.3	3.7	0.9	17.4	1.1	9.4	3.7	4.7	4.12	4.19
2007										
I	2.0	1.0	1.8	1.2	0.7	7.2	1.8	-2.3	2.81	3.08
II	3.5	2.4	3.5	6.7	3.2	6.9	1.5	-1.9	2.79	3.06
III	1.7	0.8	1.2	4.5	2.2	8.3	2.9	-0.3	2.77	3.12
IV	4.0	3.2	4.4	-3.0	-1.3	9.5	4.5	1.0	2.72	3.13
2008										
I	3.2	1.7	2.4	4.8	2.2	8.3	5.0	-0.2	2.66	3.13
II	2.1	0.8	0.9	8.6	3.1	10.2	7.5	1.2	2.65	3.10
III	4.8	3.3	3.8	8.1	3.1	10.9	8.0	2.0	2.63	3.03
IV	2.5	1.2	1.5	-6.8	-2.5	14.8	12.0	6.9	2.73	3.31
2009										
I	3.6	1.4	1.9	1.0	0.4	12.5	11.3	5.9	2.85	3.53
II	6.3	4.5	5.6	-2.7	-0.9	11.9	11.0	6.4	2.97	3.71
III	3.4	1.7	2.4	-3.4	-1.2	11.7	11.3	5.8	3.14	3.83
IV	2.6	1.2	1.6	-7.0	-2.4	10.0	9.7	3.4	3.21	3.87
2010										
I	1.3	-0.2	-0.3	-4.0	-1.5	9.0	8.7	2.0	3.26	3.87
II	2.3	0.3	0.4	0.7	0.2	9.5	9.2	2.3	3.35	3.87
III	4.6	2.6	3.3	-0.1	0.0	10.0	9.6	2.3	3.40	3.89
IV	5.7	4.1	5.0	-3.0	-0.9	10.2	9.3	3.1	3.45	3.89
2011										
I	0.9	-1.1	-1.5	-3.5	-1.2	10.1	8.7	4.0	3.53	3.90
II	2.2	-0.1	-0.1	3.6	1.0	10.1	7.9	4.4	3.59	3.92
III	5.6	3.2	3.8	3.2	0.9	10.0	7.0	4.9	3.65	3.94
IV	6.0	4.0	4.5	-0.5	-0.2	9.9	6.0	5.0	3.70	3.96
2012										
I	0.9	-1.3	-1.6	-1.0	-0.3	9.8	5.2	5.1	3.75	3.99
II	2.1	-0.5	-0.5	7.4	1.8	9.7	4.4	5.0	3.81	4.03
III	5.0	2.6	2.9	5.6	1.5	9.7	4.0	4.9	3.88	4.06
IV	5.5	3.5	3.8	1.5	0.4	9.6	3.7	4.8	3.95	4.10
2013										
I	0.7	-1.6	-1.8	-0.9	-0.2	9.5	3.6	4.7	4.02	4.14
II	1.8	-0.9	-0.8	8.6	2.0	9.4	3.5	4.7	4.09	4.17
III	5.1	2.6	2.7	7.0	1.7	9.3	3.6	4.7	4.15	4.21
IV	5.6	3.6	3.7	2.7	0.6	9.3	3.9	4.6	4.22	4.25

Note 1: REAL INTEREST RATE = Nominal interest rate (RSH) - % change in CPI

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Background

- The economic development of Argentina has become one of the great puzzles for economic historians. The country seemed set to join the selective club of wealthy nations at the start of the twentieth century: its richness of natural resources and growing prosperity was a magnet for European immigration (dominated by Italians and Spaniards) up to the 1950s. Living standards in Argentina were comparable to those in France and Germany before World War I. However, while countries of similar characteristics such as Australia and Canada succeeded in their development efforts, Argentina's GDP per capita has diverged from those of the leading developed economies and has even lagged behind that of some of its neighbours (eg Chile). During the period 1950-80, the Argentine economy grew by an average annual rate of 3.5% (less than half Brazil's 7.4% rate), and only by 1.7% in per capita terms (compared to 4.3% in Brazil).
- Agriculture and agro-industries have traditionally dominated economic activity in Argentina. Meat and grains (eg wheat and soya) are the traditional products. However, in the last decade or so the country has become a net exporter of oil and natural gas (though partly due to the late-1990's recession). Oil output rose by 66% between 1990 and 2001 to 800,000 b/d before falling back subsequently. Manufacturing saw significant development during the period of state-led Import Substitution Industrialisation (ISI) undertaken during the middle decades of the last century, and at its peak in 1975 accounted for 32% of GDP (although by 2005 it had fallen to 16.6% of GDP). However, prolonged protection and limited economies of scale made it largely uncompetitive.
- Agriculture also dominates the export sector. Primary products accounted for 59.8% of total exports in 2006, while manufactures represented 27.3% with most of the remainder consisting of commercial and travel-related services. In terms of markets, MERCOSUR is the leading destination for Argentine exports with a 22.9% share in 2008 (though down from a high of 32% in 2000), followed closely by the EU with 18.8% and NAFTA with 10.4%.
- The adjustment to the debt crisis and the consolidation of democracy were the government's priorities during the 1980s. Two main inter-related problems facing policymakers were out-of-control public finances and hyperinflation. The Plan Austral was launched in June 1985 – with the support of the IMF – to stabilise the economy. This plan relied on foreign exchange controls and wage and price freezes. The measures initially succeeded in containing inflation, but they failed to rein in the public sector deficit, particularly that part generated by public enterprises, the social security system and the provincial governments. Two years later, inflation was rising again. And in 1989 capital flight forced the central bank to devalue the peso and Argentina sank once again into hyperinflation.
- A new Peronist government under Carlos Menem was inaugurated in 1989 and soon embarked on a far-reaching programme of structural reforms, giving priority to privatisation, deregulation, and trade and financial liberalisation. An unorthodox stabilisation plan was implemented in April 1991 that had at its core the adoption of a currency board (the Convertibility Law). Price stabilisation created the conditions for a rapid economic recovery and improved fiscal accounts (partly through privatisation receipts). Within a few months, the economy was transformed from being heavily regulated and protected to one largely driven by market forces. Real GDP expanded at an average annual rate of 7.7% during the period 1991-94. However, the government largely left the reform of the public sector untouched (in particular the tax-sharing mechanism with the provinces and inefficient spending). This would prove to be a costly mistake.
- The 1994/95 Mexican "Tequila Crisis" and the subsequent emerging market crisis badly affected the Argentine economy, exposing its vulnerability to external shocks and the dangers of its increasing external debt. This debt had been built up during the mid 1990s when Argentina with its fixed exchange rate, low inflation and high growth appeared to be a major success story and therefore had little problem in attracting vast amounts of foreign capital at relatively low interest rates. Total external debt rose from US\$61bn in 1991 to US\$111bn in 1996 and US\$140bn in 2001 (63% of which was owed by the public sector). However, the accumulation of debt (a significant part of which was contracted directly by the provinces) was largely used to finance consumption

rather than increase investment. So it is little wonder that the economy started to unravel when the lenders demanded repayment.

- At end-1998 the economy entered a prolonged recession caused by a combination of factors. Prices for Argentina's commodities began to weaken at a time when the cost of capital for emerging economies was rising. Then Brazil's floating of its exchange rate in January 1999 compounded pressures on the trade front. In addition, the currency board meant that improvements in the country's competitiveness had to come primarily via deflation, of itself a painful mechanism with adverse affects on consumption. On the internal front, the lack of fiscal discipline introduced a fundamental weakness incompatible with the sustainability of the currency board. The collapse, widely expected once investors started to believe that the government could do nothing to get the economy out of recession, came in slow motion at the end of 2001 after the IMF decision to suspend a US\$1.26bn payment due in December that year. A massive run on US dollar deposits prompted the introduction of limits on cash withdrawals (the infamous "corralito"), the announcement of debt default and, finally, the scrapping of the convertibility regime. This led to widespread economic dislocation with a prolonged breakdown of the credit and payments system. GDP sank by 10.9% in 2002, following a 4.4% fall in 2001.
- However, contrary to prevailing pessimism about the likelihood of a quick recovery, the economy has experienced a vigorous rebound since 2003. Real GDP grew by about 8-9% a year throughout the period 2003 to 2007 and the unemployment rate dropped from a peak of 24.1% in 2002Q2 to under 8% in 2008Q3. Meanwhile, private consumption per capita in 2005 had already reached its 1998 level and investment had experienced a robust recovery (though, unsurprisingly, FDI inflows have remained modest compared to late 1990s levels). Despite the strength of the recovery the official inflation rate was estimated at around 8-10% between 2005 and 2008, helped by a relatively stable peso and government delays in raising petrol prices and utility tariffs. However, many analysts have serious doubts about the accuracy of these data.
- The Kirchner administration had a major success in renegotiating the country's public external debt. After more than three years in default, in 2005 the government completed its debt swap to restructure US\$102.6bn of sovereign debt – of which US\$20.8bn was past due interest. The move resulted in an exchange of US\$62bn of debt - involving more than 70% of bondholders – for new debt worth over US\$35bn. It also meant longer maturities and a larger share of peso-denominated bonds (linked to domestic inflation). The ratio of foreign debt to GDP went down from 113% at the end of 2004 to 73% after the swap. Ending the default and regaining access to foreign capital was a major step on the path to securing growth over the medium term.
- The new economic model adopted since the 2001 collapse is meant to deliver export-led growth, though import substitution was a main driver during the recovery period. The 70% drop in the value of the peso has created the required price incentives for boosting exports. But despite these strong incentives, exports have been relatively slow to respond. In 2005 export volume growth finally took off, at 13.5%, the fastest rate since 1995. In addition, favourable commodity prices and healthy conditions in external markets for Argentine products made possible the generation of high surpluses on the external accounts during 2005-08 despite robust import growth. Moreover even in 2009 when external conditions and commodity prices have been much weaker, the trade balance has remained in surplus owing to a very sharp drop in imports.
- However, despite recent progress we remain cautious about the longer-term potential of the economy. One obstacle to re-establishing investor confidence – and with it the return of foreign capital – is the lack of a satisfactory pricing agreement with foreign utility and energy companies. Another main source of concern is the capacity of the export sector to provide a sustained driver of activity. This will, to a great extent, depend on keeping the competitive advantage given by the real exchange rate depreciation. But this has been eroded by an acceleration in domestic inflation. In addition, higher exports are likely to increase the country's reliance on natural resources and, as a result, its exposure to cycles in commodity prices. Finally, there is still no clear signal of the government's willingness to embark on the long-overdue reform of public finances.

Key Facts

Politics

Head of state: President Cristina FERNÁNDEZ
 Head of government: President Cristina FERNÁNDEZ
 Political system: Democracy
 Date of next presidential election: October 2011
 Date of next legislative election: 2011
 Currency: Argentine peso (ARS); floating exchange rate

Long-term economic & social development

	1975	1985	1995	2007*
GDP per capita (US\$)	2013	2918	7407	6643
Inflation (%)	182.9	672.2	3.4	8.8
Population (mn)	26.0	30.2	34.8	39.5
Urban population (% of total)	81.0	85.0	89.0	92.0
Life expectancy (years)	-	71.0	73.0	75.0

Source : Oxford Economics & World Bank

Structure of GDP by output

	2006
Agriculture	8.0%
Industry	36.0%
Services	56.0%

Source : World Bank

* 2007 or latest available year

Long-term sovereign credit ratings & outlook

	Foreign currency	Local currency
Fitch	Restricted default	B- (Stable)
Moody's	B3 (Stable)	B3 (Stable)
S&P	B- (Stable)	B- (Stable)

Structural economic indicators

	1990	1995	2000	2007*
Current account (US\$ billion)	4.55	-5.10	-8.95	7.38
Trade balance (US\$ billion)	8.28	0.84	1.17	11.07
FDI (US\$ billion)	1.84	4.11	9.52	4.97
Debt service (US\$ billion)	6.16	8.85	26.84	2.38
Debt service (% of exports)	37.0	30.1	69.3	3.9
External debt (% of GDP)	44.0	38.2	49.6	47.4
Oil production (000 bpd)	483	715	761	679
Oil consumption (000 bpd)	413	453	511	580

Source : Oxford Economics / World Bank / EIA

Destination of goods' exports (2007)

Brazil	18.8%
European Union (27)	17.6%
China	9.3%
United States	7.8%
Chile	7.5%

Source : WTO



Source : CIA Factbook

Location : Southern South America, bordering the South Atlantic Ocean, between Chile and Uruguay (CIA Factbook)

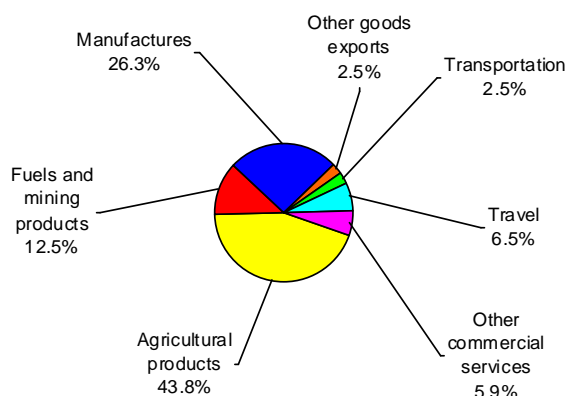
Corruption perceptions index 2008

	Score
Developed economies (average)	7.73
Emerging economies (average)	3.44
Argentina	2.90
Western Hemisphere	3.87

Source: Transparency International

Scoring system 10 = highly clean, 0 = highly corrupt

Composition of goods & services exports, 2007



Source : WTO